

OREGON STATE LOTTERY

An Enterprise Fund of the State of Oregon

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2009



It does good things™

Oregon State Lottery

An Enterprise Fund of the State of Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2009



It does good things™

Dale Penn
Director

Kathy Ortega, CPA
Chief Financial Officer

Report Prepared by:

Finance and Accounting
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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Introductory Section



November 19, 2009

To the Honorable Governor Theodore R. Kulongoski 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, 2009. 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, 2009. The auditors used generally accepted auditing standards in conducting the engagement. Their unqualified opinion on the financial statements is the first component in the Financial Section of this report.

A narrative analysis of the Lottery's financial performance for the fiscal year can be found in the Management's Discussion and Analysis (MD&A) immediately following the independent auditor's report. This letter of transmittal complements the MD&A and should be read in conjunction with it.

Profile of Oregon State Lottery

The Oregon State Lottery was created through the initiative process in November 1984 when voters approved an amendment to the Oregon Constitution that required the establishment and operation of a State Lottery. Initially, Lottery profits were earmarked to create jobs and further economic development. In May 1995, voters approved a Constitutional amendment allowing Lottery profits to be used for the financing of public education. Similarly, voters added state parks and salmon restoration projects to the list of allowable uses of Lottery proceeds in November 1998. Oregonians have voted to use Lottery profits for things that make Oregon a great place to live.

The Lottery was established as a state agency to market and sell Lottery products to the public. Its statutory mandate requires it to operate the Lottery to produce the maximum 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 increase long-term revenues, while taking into consideration the potential impact of game decisions on problem gambling. The Lottery strives to promote responsible gambling by providing public information about problem gambling and the treatment available.

Through a network of 3,855 retailers, the Lottery offers players a broad mix of traditional games as well as Video LotterySM. Traditional Lottery games include: Scratch-itsSM Instant Tickets, Keno, Powerball®, MegabucksSM, Win for LifeSM, RaffleSM, Lucky LinesSM, and Pick 4SM. Video LotterySM is a product sold on stand-alone Video LotterySM terminals located in bar and tavern retail establishments. The Lottery has approximately 12,365 Video LotterySM terminals deployed throughout the state.

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

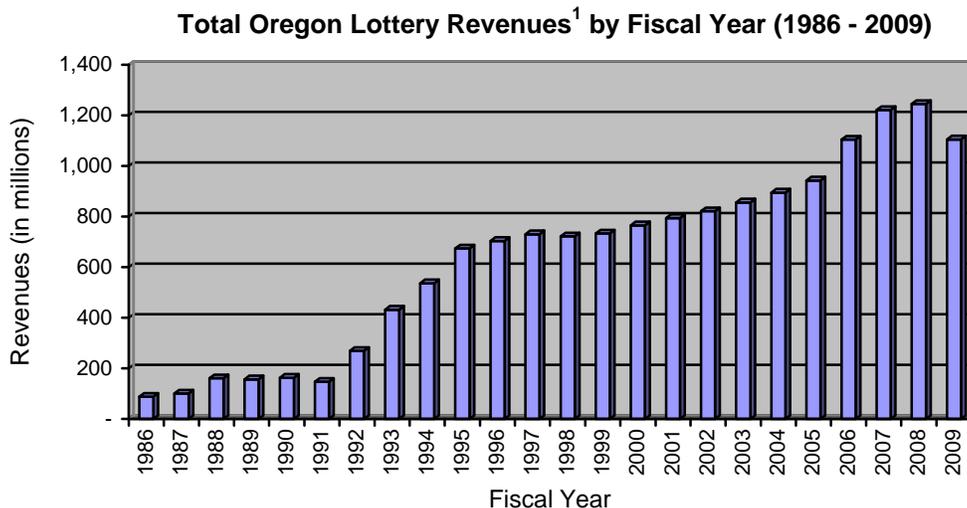
P 503 540-1000 F 503 540-1001 www.oregonlottery.org

The Lottery, which is accounted for as a single enterprise fund, is entirely self-financed through its sales. Its operations are designed to fulfill its duty to develop, produce, and market Lottery games; pay winners and operating expenses; and remit the remaining net profits to the State. These net profits are transferred to the Oregon Economic Development Fund and are then distributed by the State to finance the various uses allowed by law. Through its business units, the Lottery provides services that are necessary to operate successfully including security, marketing, retailer support, finance, management and information services. Additional information about the Lottery is available on its web site at: <http://www.oregon.gov/LOTTERY/>.

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

For budgeting purposes, the Commission adopts an annual Financial Plan based on activities identified in Lottery's annual Business Plan. The Financial Plan uses revenue forecasts prepared by the Oregon Department of Administrative Services, Office of Economic Analysis. Budgeted revenues and direct expenses (prizes, commissions, game vendor charges, and tickets) are revised quarterly for changes in revenue forecasts. Revisions to other expense items in the adopted budget must be approved by the Commission. The budget is prepared on the accrual basis of accounting. Actual expenses are monitored throughout the year for compliance with the approved budget and appropriate adjustments are approved if necessary. By law, expenses to operate the Lottery are limited to no more than 16 percent of total annual revenues.

Since the Lottery's first full year of operation in 1986 through fiscal year 2008, Lottery revenues demonstrated strong and consistent growth. Lottery revenues declined in fiscal year 2009 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.



¹Revenues based on gross receipts for traditional games and net receipts (after prizes) for video games.

Economic Condition and Outlook

According to the Oregon Office of Economic Analysis (OEA), Oregon's employment growth outpaced the national average during calendar year 2004 through 2007. During 2008, employment declined in Oregon by 0.6 percent, slightly more than the national decline of 0.4 percent. The OEA has forecasted Oregon employment for 2009 to decline by 5.1 percent from 2008. Employment is expected to decline by 0.9 percent in 2010, with job losses continuing, but at a slower rate. Job growth in 2011 is estimated to be 2.2 percent, as the economy begins to recover from an economic recession.

Oregon's personal income is projected to decline from calendar year 2008 to 2009 by 1.0 percent. For 2010, OEA estimates that personal income will increase by 2.5 percent while wage and salary income will increase by 1.4 percent. Personal income is projected to increase by 4.0 percent in 2011, which is the same as the

projected increase for the nation. Wage and salary income in Oregon is expected to grow at a faster rate than the nation in 2011, with a projected increase of 4.3 percent as compared to 4.0 percent for the nation.

To the extent that economic conditions continue to impact discretionary income, net revenues generated through Lottery sales will likely be affected. Factors currently facing Oregon are high unemployment, the housing market downturn, the national credit challenges, and the global economic downturn triggered by the U.S. slowdown.

Long-term Financial Planning

Legislatively adopted smoking restrictions in all public places went into effect January 1, 2009. In the December 2009 Economic and Revenue Forecast, the Office of Economic Analysis (OEA) projected a decrease in lottery earnings from the prior forecast in September of 2009. The OEA lowered projected Video LotterySM earnings for the 2009-2011 biennium to factor in the continued expected impacts of the economic recession and the smoking ban in bars and taverns where Lottery products are sold.

The Lottery uses a five-year Strategic Plan in conjunction with an annual Business Plan and annual budget to plan and manage its operations. Lottery's main strategic objective is to generate optimal revenue for public purposes by offering a wide variety of market-responsive games that will appeal to diverse consumer markets and support the success of a broad retailer base. In support of this objective, the Lottery plans to continue updating its game offerings by introducing three new game sets on select Video LotterySM terminals during fiscal year 2010. In addition, the Lottery will invest approximately \$25.3 million to replace outdated terminals with new Spielo ProdiGi VuTM dual-screen terminals, featuring a new set of games. This combination of refreshed games and new terminals will help to maintain the vitality and continued success of Lottery products.

In addition, the Lottery plans to expand the existing square footage of its headquarters building in Salem, Oregon. Provision for this expansion is included in the resources committed by the Commission at the end of fiscal year 2009.

Relevant Financial Policies

In order to provide resources for current operations and future investment, the Lottery Commission established a contingency reserve fund. The available cash portion of this reserve fund is \$45.0 million, as authorized by the Commission. At fiscal year end, the entire \$45.0 million of this contingency reserve was uncommitted.

Transfers of earnings to the Economic Development Fund are made quarterly. In order to assist the State with budget challenges, the Lottery transferred an additional \$37.8 million of administrative savings during fiscal year 2009 in excess of the required transfer of earnings. Normally, these resources would not have been transferred until the following fiscal year.

Major Initiatives

After a successful launch of its first ever RaffleSM game last year, the St. Patrick's Day RaffleSM, the Lottery is planning to hold two RaffleSM drawings in fiscal year 2010. One drawing will be a Thanksgiving Day RaffleSM, and the other a St. Patrick's Day RaffleSM. The Lottery hopes to build on the initial success to generate additional revenue and gain new players.

In addition, the Lottery is expanding its distribution network by opening a kiosk at the Portland International Airport which will offer the full complement of traditional products. The anticipated opening of the kiosk is in late calendar year 2009. The Lottery will also research new product offerings in the upcoming year to maintain and/or raise additional revenue.

Another major initiative being pursued is the replacement of an existing nine year old financial reporting system with an Enterprise Resource Planning (ERP) system. The goal of this project is to meet the Lottery's business needs for an integrated system that incorporates all of its major operating areas including accounting, financial reporting, human resources, inventory control, purchasing, etc. In fiscal year 2009, a thorough evaluation was conducted to develop business, functional, and technical requirements for an ERP system. The Lottery anticipates it will purchase the ERP software in fiscal year 2010. Included in the budget for fiscal year 2010 is \$1.4 million for implementation and configuration of the software. Implementation activities are expected to be on-going over the next two fiscal years.

These focused planning activities serve to guide the Lottery into the future within the competitive and evolving gaming industry.

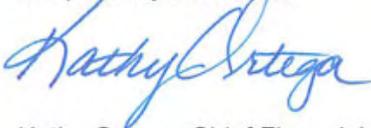
Awards and Acknowledgements

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, 2008. 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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oregon State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Principal Officials of Oregon State Lottery

Steven Ungar
Commission Chair

Bill Ihle
Commission Vice Chair

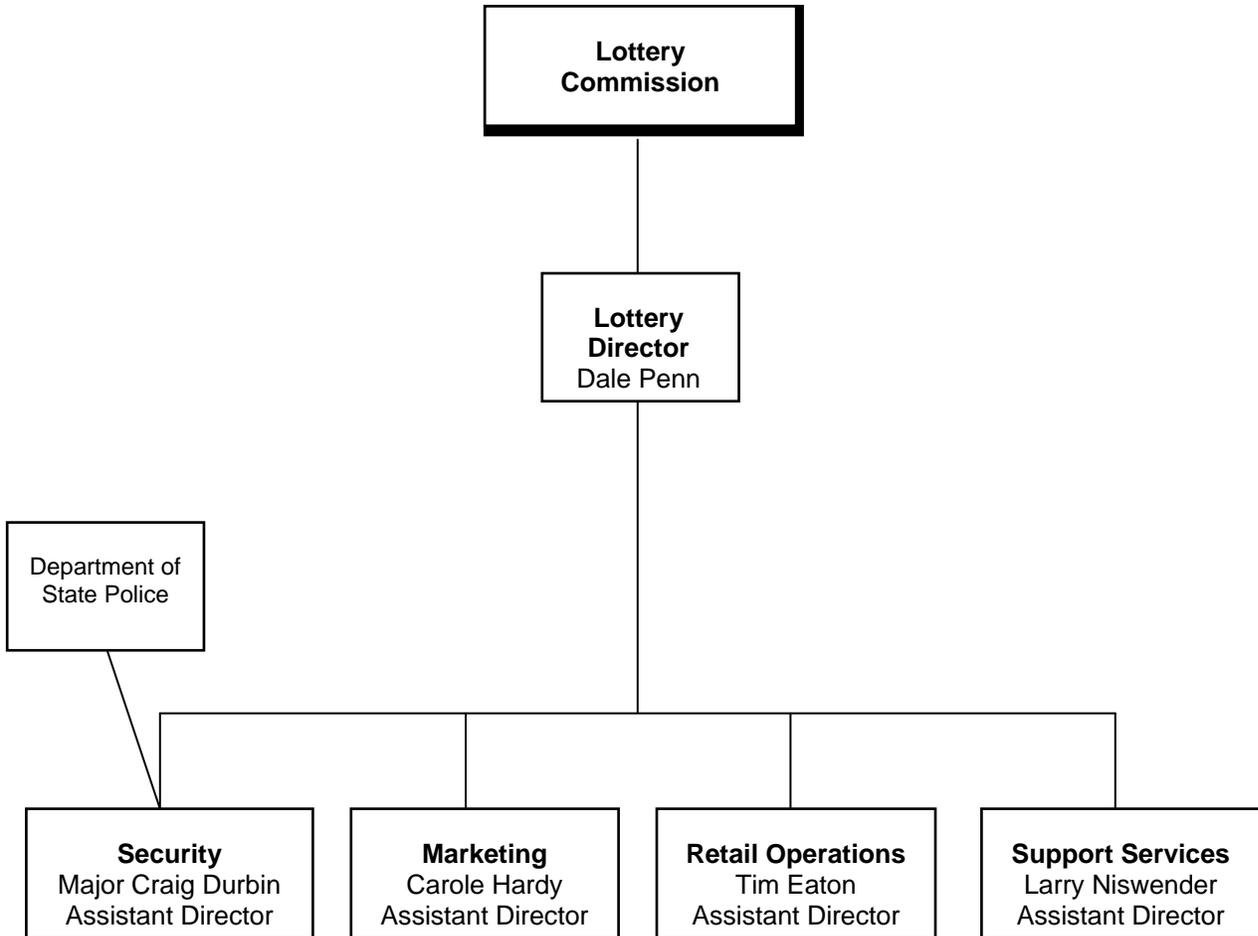
Pamela Fogg
Commissioner

LeRon Howland
Commissioner

Amy Lowery
Commissioner

Dale Penn
Director

Organization Chart



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Financial Section

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Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

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The Honorable Theodore R. Kulongoski
Governor of Oregon
160 State Capitol
Salem, Oregon 97310-4047

Steven Ungar, Chair
Oregon State Lottery Commission
500 Airport Road SE
Salem, Oregon 97301

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Oregon State Lottery, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Oregon State Lottery's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Oregon State Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Oregon State Lottery are intended to present the financial position, and the changes in financial position and cash flows that are attributable to the transactions of the Oregon State Lottery. They do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2009, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon State Lottery as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2009, on our consideration of the Oregon State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is presented separately in the Other Reports section as listed in the table of contents.

The management's discussion and analysis, the required supplementary information and budgetary comparison schedule as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

OREGON AUDITS DIVISION



Kate Brown
Secretary of State

November 19, 2009

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, 2009. This analysis is to be considered in conjunction with information in the transmittal letter of this report.

Financial Highlights

- Sales of all Lottery products were \$1.1 billion, a reduction of 10.8 percent from fiscal year 2008.
- Video LotterySM revenue decreased by \$108.4 million and Scratch-itsSM Instant Ticket revenue decreased by \$12.6 million from fiscal year 2008.
- Net assets (equity) decreased by \$26.0 million as a result of fiscal year operations.
- The Lottery transferred \$592.8 million to Oregon's Economic Development Fund, which is \$55.6 million less than the prior year.

Overview of the Financial Statements

In addition to this discussion and analysis, the Financial Section of this annual report contains the basic financial statements, which include the fund financial statements and notes to the financial statements; 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 a Schedule of Funding Progress and accompanying notes for two other postemployment benefit (OPEB) plans in which the Lottery participates: the Public Employees Benefit Board OPEB Plan and the Retiree Health Insurance Premium Account OPEB Plan. 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 and revenue capacity as well as demographic, economic, and operating information is presented following the budgetary comparison schedule.

The Balance Sheet provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the end of the fiscal year, with the difference between assets and liabilities reported as net assets (equity).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures the results of the Lottery's operations over the past year.

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

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

Analysis of Financial Position and Operations

Total assets at June 30, 2009 were \$615.8 million, a decrease of \$85.9 million from the prior year. The change in assets consists primarily of a decrease in securities lending cash collateral, a decrease in net capital assets, and a decrease in cash and cash equivalents. Securities lending activity fluctuates based on the extent this activity is used by the Office of the State Treasurer for cash management purposes. The decrease in net capital assets is due primarily to depreciation on Video LotterySM terminals which reduced the carrying value of equipment. In order to assist the State with budget challenges, Lottery transferred additional cash during the fiscal year in excess of the required transfer of earnings to the Economic Development Fund, which resulted in a lower cash balance and a lower liability to the Economic Development Fund at year end. Normally, these resources would not have been transferred until the following fiscal year.

Total liabilities decreased by \$59.8 million from the prior year. This primarily resulted from a decrease of \$35.7 million in the amount due to the Economic Development Fund. The amount owed at year end represents the fourth quarter earnings not yet transferred to the Economic Development Fund plus administrative savings. As previously noted, the amount due for the fourth quarter this year is less than the prior year because transfers were made earlier during the fiscal year to provide resources to the State. In addition, obligations under securities lending decreased by \$29.9 million.

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

Table 1: Oregon State Lottery's Net Assets

| | 2009 | 2008 | Change |
|---------------------------------|-----------------------|-----------------------|------------------------|
| Current assets | \$ 418,914,110 | \$ 491,938,081 | \$ (73,023,971) |
| Capital assets | 95,689,630 | 109,501,992 | (13,812,362) |
| Other noncurrent assets | 101,181,108 | 100,218,207 | 962,901 |
| Total assets | 615,784,848 | 701,658,280 | (85,873,432) |
| Current liabilities | 332,107,649 | 393,070,738 | (60,963,089) |
| Noncurrent liabilities | 99,634,123 | 98,517,742 | 1,116,381 |
| Total liabilities | 431,741,772 | 491,588,480 | (59,846,708) |
| Net Assets: | | | |
| Invested in capital assets, net | 95,689,630 | 109,501,992 | (13,812,362) |
| Unrestricted | 88,353,446 | 100,567,808 | (12,214,362) |
| Total net assets | \$ 184,043,076 | \$ 210,069,800 | \$ (26,026,724) |

A large portion of the Lottery's net assets (52.0 percent) reflects its investment in capital assets, primarily gaming terminals and ticket vending machines. The Lottery has no outstanding debt associated with its capital assets.

Of the \$88.4 million in unrestricted net assets, \$25.3 million is committed for the deployment of new Video LotterySM terminals along with \$2.2 million for new games. An additional \$9.3 million is committed for an expansion of the Lottery headquarters building and \$890,949 is committed through signed contracts for the purchase of other capital assets during fiscal year 2010.

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

Table 2: Oregon State Lottery's Changes in Net Assets

| | 2009 | 2008 | Change |
|--|-----------------------|-----------------------|------------------------|
| Operating revenues: | | | |
| Video Lottery SM game sales, net | \$ 786,746,726 | \$ 895,111,696 | \$(108,364,970) |
| Scratch-its SM instant ticket sales | 112,105,703 | 124,704,686 | (12,598,983) |
| Keno sales | 99,184,396 | 109,787,942 | (10,603,546) |
| Powerball® sales | 51,836,316 | 55,969,079 | (4,132,763) |
| Megabucks SM sales | 38,065,424 | 37,149,930 | 915,494 |
| All other game sales | 12,585,752 | 11,066,363 | 1,519,389 |
| Provision for bad debts | (128,699) | (7,797) | (120,902) |
| Other income | 579,477 | 1,042,747 | (463,270) |
| Total operating revenues | 1,100,975,095 | 1,234,824,646 | (133,849,551) |
| Operating expenses: | | | |
| Retailer commissions | 213,739,988 | 240,475,998 | (26,736,010) |
| Prizes | 211,927,565 | 231,364,323 | (19,436,758) |
| Salaries and wages | 37,330,819 | 33,005,670 | 4,325,149 |
| Depreciation and amortization | 37,080,300 | 30,843,314 | 6,236,986 |
| Advertising and market research | 11,313,552 | 9,885,584 | 1,427,968 |
| Services and supplies | 10,519,566 | 8,767,744 | 1,751,822 |
| Game vendor charges | 7,716,930 | 9,371,513 | (1,654,583) |
| Public information | 5,326,746 | 5,463,575 | (136,829) |
| Tickets | 4,335,016 | 4,232,601 | 102,415 |
| Game equipment parts and maintenance | 1,850,765 | 2,485,770 | (635,005) |
| Sales support | 1,712,391 | 1,569,079 | 143,312 |
| Total operating expenses | 542,853,638 | 577,465,171 | (34,611,533) |
| Nonoperating revenues (expenses): | | | |
| Interest and investment income | 12,675,701 | 28,068,310 | (15,392,609) |
| Insurance recoveries | 61,973 | 25,570 | 36,403 |
| Gain (loss) on disposition of assets | (1,767,242) | (317,204) | (1,450,038) |
| Investment expenses - securities lending | (808,660) | (5,047,007) | 4,238,347 |
| Total nonoperating revenues (expenses) | 10,161,772 | 22,729,669 | (12,567,897) |
| Income before transfers | 568,283,229 | 680,089,144 | (111,805,915) |
| Transfers to the economic development fund | (592,846,506) | (648,408,187) | 55,561,681 |
| Transfers to the general obligation bond fund | (1,463,447) | (1,317,079) | (146,368) |
| Change in net assets | (26,026,724) | 30,363,878 | (56,390,602) |
| Net assets - beginning | 210,069,800 | 179,705,922 | 30,363,878 |
| Net assets - ending | \$ 184,043,076 | \$ 210,069,800 | \$ (26,026,724) |

The Lottery's net assets decreased by \$26.0 million as a result of fiscal year operations. This decrease is primarily attributable to Video LotterySM revenue which decreased by \$108.4 million from the prior fiscal year, a reduction of 12.1 percent. The national and local economic recession impacted the discretionary income of many people, a pattern which is reflected in fewer dollars being spent on Lottery products. In addition, a statewide smoking ban in bars and taverns went into effect during the fiscal year, contributing to the reduction in Video LotterySM revenue. Revenues from Scratch-itsSM game sales declined by \$12.6 million, and Keno sales were \$10.6 million less than the prior year. The Lottery introduced its first RaffleSM game during the fiscal year, which contributed to an increase in all other game sales. Interest and investment income decreased by

54.8 percent from the prior year as a result of a decrease in the market value of investments held at year end, lower interest earnings on cash balances during the year, more frequent transfers of administrative savings, and less investment income from securities lending activity.

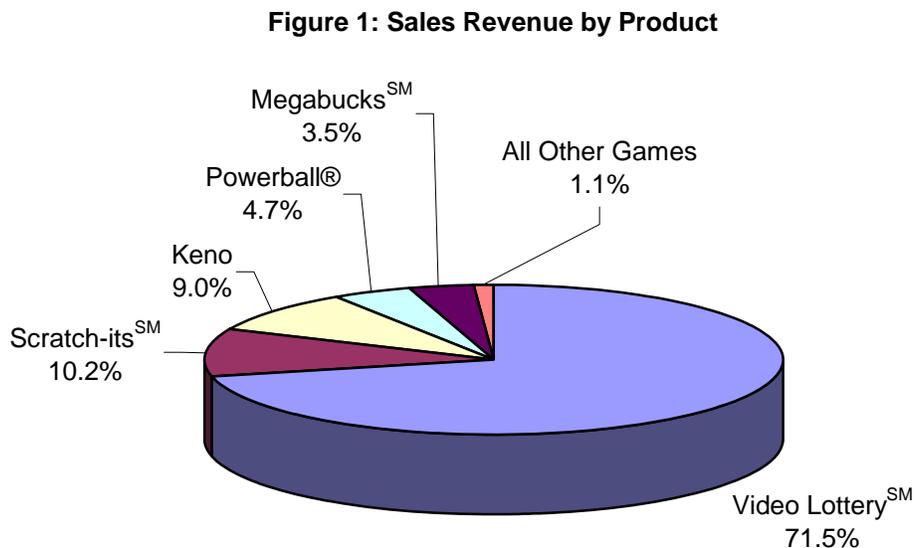
Overall, net product sales decreased by \$133.4 million, or 10.8 percent. Retailer commissions were 11.1 percent lower than the prior year, generally as a result of decreased sales. Commission rates paid by retailers vary based on the games offered (traditional, video line games, or video poker only) and the retailers' sales volume. Traditional prize expenses were \$19.4 million less than the prior year, reflecting lower sales of traditional games such as Scratch-itsSM and Keno. Since revenues for Video LotterySM are reported net of prizes awarded, the prize expenses in Table 2 include only traditional game prizes. Game vendor charges were 17.7 percent lower, corresponding with decreased sales of traditional products.

Depreciation expense was \$6.2 million higher than last year. The Lottery began to replace many of its Video LotterySM terminals in retailer establishments with new, more advanced terminals last fiscal year in an effort to stimulate player interest. As a result of this decision, the estimated useful life of Video LotterySM terminals was reduced from seven to five years. Since the change was made mid-year last year, depreciation expense for fiscal year 2009 was higher than the prior year.

Despite the impact of economic conditions on sales revenue, the Lottery transferred \$592.8 million to Oregon's Economic Development Fund during the fiscal year. This was \$55.6 million less than fiscal year 2008 which was the highest amount transferred in the history of the Lottery.

Sales Revenue

Figure 1 below shows the major sources and percentages of sales revenue for fiscal year 2009:



Video LotterySM remains the largest source of revenue and represents 71.5 percent of total sales revenue. During fiscal year 2009, approximately 1,300 Video LotterySM terminals were replaced with new terminals to offer players the latest graphics and animation technology. While Video LotterySM remains an excellent source of continuing revenue for the State, the Lottery recognizes its obligation to promote responsible gambling behavior. Consistent with its strategic objectives, the Lottery continued in these efforts by developing an

updated responsible gambling training video for Lottery retailers. The video was designed to educate retailers on the treatment available for problem gambling and to teach retailers how to talk to customers who may be in need of help.

Sales of Scratch-itsSM were the second largest source of revenue during fiscal year 2009. New features were added to Scratch-itsSM tickets to improve the look of the tickets, increase security, and protect players from potential fraud. The tickets now have a bar code that allows players to check their tickets on a Ticket Scan device to see if they have won. In addition, the Lottery continued to introduce a variety of new games at various price points in its efforts to engage new players and maximize revenues for the State.

Capital Assets

The Lottery's investment in capital assets for the current and prior fiscal year is shown in Table 3 below. The majority of capital assets used in operations are equipment such as gaming terminals and ticket vending machines.

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

| | 2009 | 2008 | Change |
|----------------------------|----------------------|-----------------------|------------------------|
| Equipment | \$ 77,488,597 | \$ 94,248,972 | \$ (16,760,375) |
| Buildings and improvements | 8,024,057 | 8,013,446 | 10,611 |
| Computer software | 7,491,689 | 5,446,542 | 2,045,147 |
| Vehicles | 2,276,740 | 1,731,237 | 545,503 |
| Construction in progress | 338,796 | 60,355 | 278,441 |
| Leasehold improvements | 69,751 | 1,440 | 68,311 |
| Total | <u>\$ 95,689,630</u> | <u>\$ 109,501,992</u> | <u>\$ (13,812,362)</u> |

During fiscal year 2009, net capital assets decreased by \$13.8 million, a 12.6 percent decline. The net change is primarily attributed to the purchase of new gaming equipment and software offset by depreciation expense for the year. The Lottery plans to continue deployment of new Video LotterySM terminals next year and refresh games to stimulate player interest; \$25.3 million is committed to finalize the deployment of new terminals along with \$2.2 million for new games. Additional information on Lottery's capital assets can be found in Note 6 of this report.

Factors Relevant to Next Year's Budget

On a quarterly basis, the Office of Economic Analysis (OEA) forecasts lottery earnings and distributions. In the December 2009 Economic and Revenue Forecast, the OEA projected a decrease in lottery earnings from the prior forecast in September of 2009. The OEA lowered projected Video LotterySM earnings for the 2009-2011 biennium to factor in the continued expected impacts of the economic recession and the smoking restrictions. The Lottery's fiscal year 2010 budget, as revised for the OEA December 2009 Economic and Revenue Forecast, takes these expected impacts into consideration.

The Lottery's 2010 budget is conservative due to the issues mentioned above, but does make investments to help reduce the impact of the recession and the smoking ban. Approximately \$27.5 million in new Video LotterySM terminals and games will be deployed. In addition to the \$2.2 million committed for new games, \$4.5 million is included in the fiscal year 2010 budget for the purchase of new game sets. These purchases support the Lottery's strategy to keep product offerings fresh in order to maximize sales. Over the next two fiscal years, new game features will be investigated that will provide the ability to remotely change game content through automated downloads to terminals, offer progressive games, and implement a player loyalty program for Lottery products. These proactive steps will place Lottery in the best position possible to maximize revenues for the State.



Basic Financial Statements

OREGON STATE LOTTERY

Balance Sheet

June 30, 2009

Assets

Current Assets:

| | |
|---|----------------|
| Cash and Cash Equivalents | \$ 230,140,274 |
| Investments for Prize Payments | 13,343,738 |
| Securities Lending Cash Collateral | 147,738,751 |
| Accounts Receivable - Net of Allowance for Doubtful Accounts of \$211,020 | 24,891,287 |
| Ticket Inventory | 1,862,646 |
| Prepaid Expenses | 937,414 |

Total Current Assets

418,914,110

Noncurrent Assets:

| | |
|--|------------|
| Prize Reserves with Multi-State Lottery (MUSL) | 2,816,579 |
| Investments for Prize Payments | 98,364,529 |

Capital Assets:

| | |
|--|---------------------|
| Equipment | 148,748,157 |
| Computer Software | 13,875,065 |
| Building and Improvements | 12,002,130 |
| Vehicles | 3,796,904 |
| Construction in Progress | 338,796 |
| Leasehold Improvements | 157,233 |
| Less Accumulated Depreciation and Amortization | <u>(83,228,655)</u> |

Total Noncurrent Assets

196,870,738

Total Assets

\$ 615,784,848

Liabilities and Net Assets

Current Liabilities:

| | |
|--------------------------------------|---------------|
| Accounts Payable | \$ 15,408,494 |
| Compensated Absences | 1,809,330 |
| Unearned Revenue | 558,382 |
| Deposit Liability | 334,437 |
| Prize Liability | 32,583,322 |
| Obligations Under Securities Lending | 147,738,751 |
| Due to Economic Development Fund | 133,674,933 |

Total Current Liabilities

332,107,649

Noncurrent Liabilities:

| | |
|---|----------------|
| Deferred Prize Liability | 98,364,529 |
| Compensated Absences | 891,162 |
| Net Other Postemployment Benefits (OPEB) Obligation | <u>378,432</u> |

Total Noncurrent Liabilities

99,634,123

Total Liabilities

431,741,772

Net Assets:

| | |
|----------------------------|-------------------|
| Invested in Capital Assets | 95,689,630 |
| Unrestricted Net Assets | <u>88,353,446</u> |

Total Net Assets

184,043,076

Total Liabilities and Net Assets

\$ 615,784,848

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

OREGON STATE LOTTERY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2009

Operating Revenues

| | |
|--|----------------------|
| Sales: | |
| Video Lottery SM (Net Receipts) | \$ 786,746,726 |
| Scratch-its SM Instant Tickets (Net of Returns) | 112,105,703 |
| Keno | 99,184,396 |
| Powerball® (MUSL) | 51,836,316 |
| Megabucks SM | 38,065,424 |
| Win For Life SM | 6,654,104 |
| Raffle SM | 2,499,597 |
| Lucky Lines SM | 2,042,237 |
| Pick 4 SM | 1,389,814 |
| Provision for Bad Debts | (128,699) |
| Other Income | 579,477 |
| Total Operating Revenues | <u>1,100,975,095</u> |

Operating Expenses

| | |
|--------------------------------------|--------------------|
| Retailer Commissions | 213,739,988 |
| Prizes | 211,927,565 |
| Salaries and Wages | 37,330,819 |
| Depreciation and Amortization | 37,080,300 |
| Advertising and Market Research | 11,313,552 |
| Services and Supplies | 10,519,566 |
| Game Vendor Charges | 7,716,930 |
| Public Information | 5,326,746 |
| Tickets | 4,335,016 |
| Game Equipment Parts and Maintenance | 1,850,765 |
| Sales Support | 1,712,391 |
| Total Operating Expenses | <u>542,853,638</u> |
| Operating Income | <u>558,121,457</u> |

Nonoperating Revenues (Expenses)

| | |
|---|-----------------------|
| Interest and Investment Income | 12,675,701 |
| Insurance Recoveries | 61,973 |
| Gain (Loss) on Disposition of Assets | (1,767,242) |
| Investment Expenses - Securities Lending | (808,660) |
| Total Nonoperating Revenues (Expenses) | <u>10,161,772</u> |
| Income Before Transfers | 568,283,229 |
| Transfers to the Economic Development Fund | (592,846,506) |
| Transfers to the General Obligation Bond Fund | (1,463,447) |
| Change in Net Assets | <u>(26,026,724)</u> |
| Net Assets - Beginning | 210,069,800 |
| Net Assets - Ending | <u>\$ 184,043,076</u> |

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

OREGON STATE LOTTERY
Statement of Cash Flows
For the Year Ended June 30, 2009

| | |
|--|-----------------------|
| Cash Flows from Operating Activities: | |
| Receipts from Customers | \$ 1,103,426,608 |
| Payments to Employees for Services | (36,874,742) |
| Payments to Suppliers | (254,178,768) |
| Payments to Prize Winners | (202,793,808) |
| Other Income | 862,425 |
| Net Cash Provided (Used) by Operating Activities | <u>610,441,715</u> |
| Cash Flows from Noncapital Financing Activities: | |
| Transfers to the Economic Development Fund | (634,972,381) |
| Transfers to the General Obligation Bond Fund | (1,463,447) |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>(636,435,828)</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Acquisition of Capital Assets | (25,974,742) |
| Proceeds from Disposition of Capital Assets | 939,564 |
| Insurance Recoveries for Capital Assets | 61,973 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(24,973,205)</u> |
| Cash Flows from Investing Activities: | |
| Purchases of Investments | (7,955,079) |
| Proceeds from Sales and Maturities of Investments | 14,047,009 |
| Interest on Investments and Cash Balances | 6,096,589 |
| Securities Lending Expenses | (808,660) |
| Net Cash Provided (Used) by Investing Activities | <u>11,379,859</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(39,587,459)</u> |
| Cash and Cash Equivalents - Beginning | <u>269,727,733</u> |
| Cash and Cash Equivalents - Ending | <u>\$ 230,140,274</u> |
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities: | |
| Operating Income | \$ 558,121,457 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation and Amortization | 37,080,300 |
| Net Changes in Assets and Liabilities: | |
| (Increase) / Decrease in Accounts Receivable | 2,878,389 |
| (Increase) / Decrease in Ticket Inventory | 352,169 |
| (Increase) / Decrease in Prepaid Expenses | (28,984) |
| (Increase) / Decrease in MUSL Prize Reserves | (122,834) |
| Increase / (Decrease) in Accounts Payable | 1,809,479 |
| Increase / (Decrease) in Compensated Absences Liability | 268,301 |
| Increase / (Decrease) in Other Postemployment Benefits (OPEB) Obligation | 187,775 |
| Increase / (Decrease) in Deposit Liability | 203,524 |
| Increase / (Decrease) in Unearned Revenue | 558,382 |
| Increase / (Decrease) in Prize Liability | 9,133,757 |
| Total Adjustments | <u>52,320,258</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 610,441,715</u> |
| Noncash Investing, Capital, and Related Financing Activities: | |
| Net Change in Fair Value of Investments | <u>\$ 6,579,112</u> |
| Total Noncash Investing, Capital, and Related Financing Activities | <u>\$ 6,579,112</u> |

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

OREGON STATE LOTTERY
Notes to the Financial Statements
June 30, 2009

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) and the Financial Accounting Standards Board (FASB). FASB standards of accounting and financial reporting issued prior to December 1, 1989 are followed for the Lottery's financial statements to the extent that those standards do not conflict with or contradict GASB pronouncements. As allowed by GASB standards, the Lottery has elected not to follow subsequent FASB guidance.

The Lottery uses an enterprise fund, the Oregon State Lottery Fund, with a self-balancing set of accounts to record its assets, liabilities, net assets, 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 Assets. 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 Balance Sheet as current and noncurrent. Current assets are available, or will become available, within the next fiscal year to pay operating expenses and liabilities of the Lottery. Current liabilities are due in the next fiscal year. Noncurrent assets are not easily liquidated or are restricted for purposes other than payment of normal operations and liabilities. Noncurrent liability amounts are due in periods following the upcoming fiscal year.

Total net assets are segregated into two categories: invested in capital assets and unrestricted net assets. The Lottery has no outstanding debt associated with its capital assets. Article XV of the Oregon Constitution restricts the use of Lottery revenues for payment of prizes and administrative expenses, and remaining revenues are to be used for public purposes allowed in Article XV. Net proceeds not yet transferred are reflected in liabilities as the amount due to the Economic Development Fund. Net assets reported at year end will be used for Lottery operations.

C. Sales Revenue

Revenues for MegabucksSM, Powerball[®], Keno, Win for LifeSM, RaffleSM, Pick 4SM, and Lucky LinesSM (draw games) are recognized when the draws occur. Revenues for instant scratch ticket games are recognized when retailers activate ticket packs for sale to the public. Revenues for Video LotterySM games are recognized when sales to the public occur and are reported net of prizes awarded (refer to Note 8 for more information on Video LotterySM revenue and prize expense). All revenues are reported net of free plays, discounts, and allowances.

D. Unearned Revenue

All draw games can be purchased in advance of the drawings. When shares are sold in advance of the draw date, sales revenue is not yet earned. Unearned revenue includes revenue associated with shares that have been sold for draw dates after June 30, 2009.

E. Prize Expense

Instant ticket prize expense is recognized when ticket packs are activated and is based on the design of the game. Game designs include certain guaranteed prizes in each pack of tickets and prizes are placed randomly throughout the population of tickets by the gaming vendor. When validations for the game have ended, differences between estimated and actual prizes awarded for the randomly placed tickets are reflected in 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 at the purchase cost of investments needed to fund future prize payments. Any increase in the fair value of the investments is recognized as investment income and prize expense in the fiscal year it is earned. Video LotterySM prize expense is recognized as game play completes and prizes are known. Detailed information is in Note 8.

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, 2009 was \$245,450.

F. Prize Liability

Prize liability is recorded when the prize expense is recognized (see Note 1.E.). 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, and cash and investments held in the Oregon Short-Term Fund (OSTF). For purposes of the Statement of Cash Flows, all Lottery moneys held by the Office of the State Treasurer in the OSTF are considered to be cash equivalents. The OSTF is an investment pool that functions as a demand deposit account.

H. Investments

Investments are reported at fair value. The fair value of investments is determined using quoted market prices. Changes in the fair value of investments are recognized as investment income (loss) in the current year.

I. Securities Lending

Securities lending amounts are reported at the value of the cash collateral received. The security lending liability is reported at the cash amount received as collateral.

J. Accounts Receivable

Accounts receivable is reported net of an allowance for uncollectible accounts. Receivables primarily consist of proceeds due from Lottery retailers. Most retailers selling Lottery products are required to remit weekly proceeds (Sunday through Saturday), less commissions, on the following Wednesday. Corporate accounts, those with multiple establishments, are required to remit proceeds on the second Wednesday following the end of the business week.

K. Inventories

Inventories are valued at cost using the specific identification method. Ticket inventory consists of Scratch-itsSM instant tickets primarily stored in the Lottery warehouse. A small amount of inventory is stored at retail establishments. Ticket inventory held in the warehouse is destroyed and recorded as an expense when distributions to retailers are no longer allowed. Tickets not sold at retail establishments are recorded as an expense when activations are no longer allowed.

L. Prize Reserves

Prize reserves held by the Multi-State Lottery (MUSL) are amounts held to indemnify participating lotteries for prizes that may be won. Should the Lottery decide against participation in MUSL, these amounts would be returned.

M. Capital Assets

Capital assets, which mainly include gaming equipment and related software, are reported at historical cost. Assets with a cost of \$5,000 or more and a useful life of more than one year are capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|---------------------------------|--------------|
| Buildings and improvements | 10 to 40 |
| Video lottery terminals | 5 |
| Instant ticket vending machines | 5 |
| Other machinery and equipment | 3 to 8 |
| Leasehold improvements | 5 |
| Vehicles | 5 |
| Computer hardware and software | 3 |

During the fiscal year ended June 30, 2009, the estimated useful life of vehicles was changed from three years to five years based on an analysis of past actual usage.

N. Compensated Absences

Employees earn annual vacation leave of 10 to 19.34 hours per month, depending upon length of service. All Lottery employees may accumulate a maximum of 350 hours per employee. During fiscal year 2009, employees who were subject to furloughs (about 26 percent of Lottery employees) were temporarily allowed to accumulate up to 425 hours of vacation leave from March 1 through June 30, 2009. 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 fiscal year end and

includes taxes 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.

2. Stewardship and Legal Compliance

A. Budgetary Compliance

The Oregon State Lottery is exempt from State of Oregon Budget Laws. For budgeting purposes, the Commission adopts an annual Financial Plan based on activities identified in Lottery's annual Business Plan and revenue forecasts prepared by the Oregon Department of Administrative Services, Office of Economic Analysis. Quarterly, budgeted revenues and direct expenses (prizes, commissions, game vendor charges, and tickets) are revised for changes to the revenue forecasts. Revisions to other expense items in the adopted budget must be approved by the Commission. The budget is prepared on the accrual basis of accounting. Actual expenses are monitored throughout the year for compliance with the approved budget and appropriate adjustments, if necessary, are presented to the Commission for approval. A comparison of revenues and expenses to the final revised and approved fiscal year 2009 Financial Plan is presented as supplementary information in this report.

B. Use of Revenues and Net Revenues

Article XV of the Oregon Constitution requires that all prizes and expenses of the Lottery be paid from Lottery revenues and any remaining proceeds be used to benefit the public purposes of economic development, public education, or restoring and protecting parks, beaches, watersheds and critical fish and wildlife habitats. ORS 461.500 requires that at least 84 percent of the total annual revenues be returned to the public in the form of prizes and net revenues benefiting the public purposes in the Constitution, that at least 50 percent of the total annual revenues be returned to the public in the form of prizes, and that no more than 16 percent of total annual revenues may be allocated for the payment of administrative expenses.¹ The following table shows that for fiscal year 2009 the Lottery operated within the legal limits defined by ORS 461.500:

| | Traditional Lottery | Video LotterySM | Total | |
|---|--------------------------------|-----------------------------------|--------------------------|----------------|
| Revenues | | | | |
| Sales (Net of Provision for Bad Debt) | \$ 313,762,158 | \$ 10,582,813,231 | \$ 10,896,575,389 | |
| Other Distributable Income | 366,432 | 3,463,087 | 3,829,519 | |
| Total Distributable Revenue | \$ 314,128,590 | \$ 10,586,276,318 | \$ 10,900,404,908 | |
| Distribution of Revenues | | | | |
| Revenues Returned to the Public: | | | | |
| Prizes to the Public | \$ 199,711,704 | \$ 9,795,408,628 | \$ 9,995,120,332 | 91.69% |
| Unclaimed Prizes Paid/Due to Economic Development Fund | 5,636,749 | 771,143 | 6,407,892 | 0.06% |
| Transfers Paid/Due to Economic Development Fund | 53,759,156 | 513,060,627 | 566,819,783 | 5.20% |
| Total Revenues Returned to the Public | 259,107,609 | 10,309,240,398 | 10,568,348,007 | 96.95% |
| Administrative Expenses | 55,020,981 | 277,035,920 | 332,056,901 | 3.05% |
| Total Revenue Distribution | \$ 314,128,590 | \$ 10,586,276,318 | \$ 10,900,404,908 | 100.00% |

¹ Attorney General Opinion No. 8220 advises that ORS 461.548 regarding Video LotterySM proceeds is unconstitutional and is not applicable. It is not included here.

C. Unclaimed Prizes

ORS 461.500 requires all unclaimed prizes to be allocated to the benefit of public purpose. Lottery administrative rules declare a prize as unclaimed when it is known that winning shares have been sold and have not been redeemed within one year of the end of the game, one year from the draw date, or one year from the date of issue. In fiscal year 2009, prizes in the amount of \$6,407,892 were determined to be unclaimed and were either transferred or accrued for transfer to the Economic Development Fund.

D. Contingency Reserve

ORS 461.510 (4) and Administrative Rule 177-010-0045 allows for the creation of a contingency reserve. In June 2005, the Lottery Commission approved a contingency reserve amount such that the cash available for future investment does not exceed \$45,000,000. The following table shows the liquidity detail of Unrestricted Net Assets shown on the Balance Sheet at June 30, 2009:

| | |
|--|----------------------|
| Cash Available for Future Investment (Uncommitted Contingency Reserve) | \$ 45,000,000 |
| Committed by Contract for Asset Purchases (See Note 12.A.) | 26,334,400 |
| Committed by Commission for Fiscal Year 2010 Capital Purchases | 11,402,407 |
| Inventory, Prepaid Expenses, Prize Reserves | 5,616,639 |
| Total Unrestricted Net Assets | \$ 88,353,446 |

E. Transfers to Economic Development Fund

All income remaining after Transfers to the General Obligation Bond Fund plus an additional \$26,026,724 of prior year Unrestricted Net Assets was accrued for Transfer to the Economic Development Fund. Actual cash transferred, including unclaimed prizes, during fiscal year 2009 was \$634,972,381. The remaining balance is included on the Balance Sheet in liabilities. The following schedule reconciles the amounts:

| | Balance Owed at June 30, 2008 | Amounts Accrued | Cash Paid to Economic Development | Balance Remaining at June 30, 2009 |
|------------------|--|----------------------------|--|---|
| Income | \$ 167,732,112 | \$ 592,846,506 | \$ 628,578,342 | \$ 132,000,276 |
| Unclaimed Prizes | 1,660,804 | 6,407,892 | 6,394,039 | 1,674,657 |
| Total | \$ 169,392,916 | \$ 599,254,398 | \$ 634,972,381 | \$ 133,674,933 |

3. Deposits

The Office of the State Treasurer maintains the Oregon Short-Term Fund (OSTF), an investment pool available for use by state agencies and local governments. The Lottery uses the OSTF for all deposits.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the 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 deposits in the OSTF are established by banking regulations and Oregon law.

A bank depository that holds public fund deposits in excess of amounts insured or guaranteed is required to pledge collateral with a value at least equal to its maximum liability and as otherwise prescribed in Oregon Revised Statute (ORS) 295.001 to 295.108. The maximum liability for a well capitalized bank depository is 10 percent of the greater of: all public funds held by the bank depository as shown on the most recent treasurer report; the average of the balances of public funds held by the bank depository as

shown on the last four immediately preceding treasurer reports; or an amount otherwise prescribed in ORS 295.001 to 295.108. The maximum liability for an adequately capitalized bank depository is 25 percent of the greater of: all public funds held by the bank depository as shown on the most recent treasurer report; the average of the balances of public funds held by the bank depository as shown on the last four immediately preceding treasurer reports; or an amount otherwise prescribed in ORS 295.001 to 295.108. The maximum liability for an undercapitalized bank depository is 110 percent of the greater of: all public funds held by the bank depository or the average of the balances of public funds held by the bank depository as shown on the last four immediately preceding treasurer reports. In addition, the State Treasurer may require any bank depository that holds public funds to pledge collateral with a value not less than 110 percent of the greater of all public funds held by the bank depository or the average of the balances of public funds held by the bank depository as shown on the last four immediately preceding treasurer reports.

All deposits in the OSTF are with financial institutions participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Consequently, the bank balance of the OSTF at June 30, 2009 is fully insured.

4. Investments

The State Treasurer is the Investment Officer for the State of Oregon. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Lottery does not have an investment policy.

A. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the State Treasurer will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Lottery's investments with the Office of the State Treasurer are registered in street name and held with the State Treasurer's agent in the name of the State of Oregon and segregated in the Treasurer's records in Lottery's name.

B. Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Lottery holds \$38,915,095 of investments in the Resolution Funding Corporation (RFC), a U.S. government agency. These investments are not explicitly guaranteed by the U.S. government. As of June 30, 2009, investments in RFC were not rated by the major rating agencies, but the underlying securities were rated Aaa by Moody's.

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The \$38,915,095 of investments in the RFC represents 34.8 percent of the Lottery's investment holdings.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The length of time until maturity affects the exposure of the investment to fair value fluctuations. Lottery's investments are purchased to closely match the liability stream for prize payouts and are intended to be held until maturity.

The following table shows the segmented time distribution of the fair value of all Lottery investments at June 30, 2009:

| Investment Type | Investment Maturities in Years | | | | Fair Value |
|--------------------------|--------------------------------|----------------------|----------------------|----------------------|-----------------------|
| | Less than 1 Year | 1-5 Years | 6-10 Years | More Than 10 Years | |
| U.S. Agency Strips | \$ 7,433,926 | \$ 20,918,000 | \$ 8,995,762 | \$ 1,567,407 | \$ 38,915,095 |
| U.S. Treasury Strips | 5,909,812 | 23,067,143 | 19,492,060 | 24,324,157 | 72,793,172 |
| Total Investments | \$ 13,343,738 | \$ 43,985,143 | \$ 28,487,822 | \$ 25,891,564 | \$ 111,708,267 |

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 2009, 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. Borrowers were required to deliver cash collateral for each loan equal to not less than 102 percent of the market value of the loaned securities. The State did not impose any restrictions during the fiscal year on the amount of the loans the securities lending agent made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default; however, the Lottery and the State, through the State Treasurer's Securities Lending Agreements, are fully indemnified against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

During the year, the State and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral generally did not match the maturities of the securities loans. On June 30, 2009, the State and the Lottery had no credit risk exposure to borrowers related to securities on loan.

As of June 30, 2009, the total fair value of securities on loan from the OSTF was \$3,843,361,213, the cash collateral received was \$3,923,673,246 and the fair value of invested collateral was \$3,890,281,485. 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, 2009, is presented in the following schedule:

| | Securities Lending Balances | | |
|---------------------|----------------------------------|--------------------------|-----------------------------------|
| | Fair Value of Securities on Loan | Cash Collateral Received | Fair Value of Invested Collateral |
| Lottery Share OSTF | \$ 105,095,798 | \$ 107,291,911 | \$ 106,378,821 |
| Lottery Investments | 39,681,337 | 40,446,840 | 40,102,624 |
| Total | \$ 144,777,135 | \$ 147,738,751 | \$ 146,481,445 |

6. Capital Assets

Capital asset activity for the year ended June 30, 2009, is shown in the schedule below:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|------------------------|-----------------------|----------------------|
| <u>Depreciable Capital Assets</u> | | | | |
| Equipment | \$ 145,486,419 | \$ 19,249,174 | \$ (15,987,436) | \$ 148,748,157 |
| Vehicles | 3,653,571 | 1,098,134 | (954,801) | 3,796,904 |
| Building and Improvements | 11,592,483 | 409,647 | - | 12,002,130 |
| Leasehold Improvements | 73,164 | 84,069 | - | 157,233 |
| Computer Software | 12,037,900 | 5,056,108 | (3,218,943) | 13,875,065 |
| Total Assets Being Depreciated | 172,843,537 | 25,897,132 | (20,161,180) | 178,579,489 |
| <u>Accumulated Depreciation</u> | | | | |
| Equipment | 51,237,447 | 33,808,737 | (13,786,624) | 71,259,560 |
| Vehicles | 1,922,334 | 285,063 | (687,233) | 1,520,164 |
| Building and Improvements | 3,579,037 | 399,035 | - | 3,978,072 |
| Leasehold Improvements | 71,724 | 15,758 | - | 87,482 |
| Computer Software | 6,591,358 | 2,571,707 | (2,779,688) | 6,383,377 |
| Total Accumulated Depreciation | 63,401,900 | 37,080,300 | (17,253,545) | 83,228,655 |
| <u>Capital Assets Not Being Depreciated</u> | | | | |
| Construction in Progress | 60,355 | 278,441 | - | 338,796 |
| Capital Assets, Net | \$ 109,501,992 | \$ (10,904,727) | \$ (2,907,635) | \$ 95,689,630 |

7. Long-term Liabilities

As of June 30, 2009, there were 77 Oregon Lottery game winners with long-term annual payments and three Multi-State Lottery game winners with long-term annual payments. The estimated number of years remaining for payments ranges from one to 42 years. Current prize liability shown on the Balance Sheet includes \$19,239,584 in estimated and actual prizes won that have not yet been claimed.

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

| | Long-term Liabilities | | | | |
|----------------------|------------------------------|-----------------------|-------------------------|----------------------|------------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
| Prizes | \$128,221,986 | \$ 213,561,673 | \$ (210,835,808) | \$130,947,851 | \$ 32,583,322 |
| Compensated Absences | 2,432,191 | 555,792 | (287,491) | 2,700,492 | 1,809,330 |
| Net OPEB Obligation | 190,657 | 187,775 | - | 378,432 | - |
| Total | \$130,844,834 | \$ 214,305,240 | \$ (211,123,299) | \$134,026,775 | \$ 34,392,652 |

8. Video LotterySM Net Revenue

Video LotterySM revenue is reported net of prize expense in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The following schedule reconciles cash received with actual wagering and prize activity:

| <u>Revenue</u> | | <u>Prize Expense</u> | |
|-------------------------------------|--------------------------|------------------------|-------------------------|
| Cash Received | \$ 2,537,950,774 | Cash Paid Out | \$ 1,751,204,048 |
| Dollars Won and Played | 8,044,975,723 | Dollars Won and Played | 8,044,975,723 |
| Total Revenue | <u>\$ 10,582,926,497</u> | Total Prizes | <u>\$ 9,796,179,771</u> |
| Net Revenue = \$ 786,746,726 | | | |

9. Discounts and Allowances

Revenues are reported net of discounts, free plays and allowances in the Statement of Revenues, Expenses and Changes in Fund Net Assets. For the fiscal year ended June 30, 2009, sales revenue is reported net of \$1,133,392 in discounts and free plays and net of \$128,699 in allowances.

10. 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 the operating expenses of MUSL. The Oregon Lottery's share of MUSL's operating expenses for the fiscal year ended June 30, 2009, was \$20,000.

MUSL 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. The Executive Committee carries out the budgeting and financing of MUSL, and the Board contracts annually with an independent auditor. 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 of MUSL as of June 30, 2009 and June 30, 2008 (in thousands):

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| Assets | \$ 816,490 | \$ 899,702 |
| Total Assets | <u>\$ 816,490</u> | <u>\$ 899,702</u> |
| Liabilities | \$ 815,696 | \$ 899,427 |
| Net Assets - Unrestricted | 794 | 275 |
| Liabilities and Net Assets | <u>\$ 816,490</u> | <u>\$ 899,702</u> |
| Unrestricted Revenues | \$ 4,818 | \$ 11,168 |
| Unrestricted Expenses | 4,299 | 11,090 |
| Change in Unrestricted Net Assets | <u>\$ 519</u> | <u>\$ 78</u> |

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

11. Operating Lease Commitments

Operating leases are agreements for the use of property, plant or equipment. As of June 30, 2009, there were two lease agreements in effect that had a noncancelable lease term in excess of one year. The agreements cover video system equipment and equipment for the traditional (instant and draw game) sales processing system.

The original video agreement began in fiscal year 1996, and the most recent contract amendment extended the agreement through October 4, 2010. The agreement includes all necessary equipment for a central and backup video host system and has flat monthly rates of \$147,603.

The traditional system agreement was signed on October 3, 2007 and is effective through November 22, 2015. The Lottery is allowed, through one or more amendments, to extend the contract up to ten years from the system conversion date. The Lottery currently leases 430 self-service kiosks for \$186.75 per month, per kiosk; and 3,100 monitors for \$7.50 per monitor, per month.

Lease expense for fiscal year 2009 for the video and traditional system equipment was \$2,496,104. Future minimum lease payments for these two lease agreements as of June 30, 2009 are shown in the schedule below:

| Future Minimum Lease Payments | |
|--|-------------------------|
| <u>Year Ending June 30,</u> | <u>Operating Leases</u> |
| 2010 | \$ 3,013,866 |
| 2011 | 1,833,042 |
| 2012 | 1,242,630 |
| 2013 | 1,242,630 |
| 2014 | 1,242,630 |
| 2015-2016 | 1,656,840 |
| Total Future Minimum Lease Payments | \$ 10,231,638 |

12. Other Significant Commitments and Contingencies

A. Commitments

At June 30, 2009, the Lottery had contractual commitments of \$26,334,400 for the purchase of gaming equipment and software. The purchases are expected to occur in the upcoming fiscal year. In addition, the Lottery contracts for services and the use of software associated with processing transactions for its traditional products. The contractor is paid a commission of 1.6999 percent of net sales for all traditional products. In fiscal year 2009, the Lottery had expenses of \$5,342,268 for traditional product commissions. The amount is included in Game Vendor Charges on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

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 appears to be no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Total reimbursements for unemployment benefits for the fiscal year ended June 30, 2009 were \$38,979.

13. Employee Retirement Plans

The Oregon Public Employees Retirement System (PERS) administers retirement plans for eligible Lottery employees. PERS is administered by the Public Employees Retirement Board (Board), as required by Chapters 238 and 238A of the Oregon Revised Statutes. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

A. Public Employees Retirement System Pension (Chapter 238)

Lottery employees who were plan members before August 29, 2003, participate in the Public Employees Retirement System (PERS) Pension, a cost-sharing multiple-employer defined benefit plan. The PERS retirement allowance is payable monthly for life and may be selected from several retirement benefit options. These options include survivorship benefits and lump sum payments. PERS also provides death and disability benefits. The Legislature has authority to establish and amend PERS pension benefits.

The Board establishes employer contributions based on actuarially determined rates. The funding policies provide for monthly employer contributions. The Lottery is required by statute to contribute actuarially computed amounts. The employer rate for a covered employee's salary for fiscal year 2009 was 6.07 percent. Lottery contributions for the fiscal year ended June 30, 2009, were approximately \$1,175,000. Contributions for fiscal year 2008 were approximately \$1,036,000 and \$1,330,000 for fiscal year 2007. These contributions were equal to the required contributions for each year. Beginning January 1, 2004, plan member contributions were no longer contributed to the PERS plan.

B. Oregon Public Service Retirement Plan (Chapter 238A)

The 2003 Oregon Legislature created the Oregon Public Service Retirement Plan (OPSRP), also a cost-sharing multiple-employer plan. OPSRP is a hybrid pension plan with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Lottery employees hired after August 28, 2003 participate in OPSRP after completing six months of service. The OPSRP Pension Program provides a monthly pension payable for life as well as death and disability benefits. The Legislature has authority to establish and amend OPSRP pension benefits.

The Board establishes employer contributions based on actuarially determined rates. The funding policies provide for monthly employer contributions. The Lottery is required by statute to contribute actuarially computed amounts. The employer rate for a covered employee's salary for fiscal year 2009 was 7.74 percent. Lottery contributions for the fiscal year ended June 30, 2009, were approximately \$399,000. Contributions for fiscal year 2008 were approximately \$261,000 and \$151,000 for fiscal year 2007. These contributions were equal to the required contributions for each year.

Beginning January 1, 2004, PERS members became members of the Individual Account Program (IAP) portion of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited in the IAP account rather than into the member's PERS account. All covered employees are required by state statute to contribute 6.0 percent of their salary to the IAP. Current law permits employers to pay the employee contribution, which the Lottery has elected to do. The amount contributed by Lottery on behalf of employees for the fiscal years ended June 30, 2009, 2008, and 2007 were approximately \$1,465,000, \$1,304,000, and \$1,170,000, respectively. These contributions were equal to the required contributions for each year.

14. Other Postemployment Benefit Plans

The Public Employees Retirement Board contracts for healthcare insurance coverage on behalf of members of the Public Employees Retirement System (PERS). Retirees who are eligible for PERS healthcare coverage pay their own age-adjusted premiums. PERS administers two separate defined benefit other postemployment benefit (OPEB) plans. The Public Employees Benefit Board (PEBB) also administers an OPEB plan. Lottery retirees may be eligible to participate in any of these three OPEB plans.

A. Retirement Health Insurance Account

Plan Description. The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer defined benefit OPEB plan administered by PERS. As authorized by ORS 238.420, the RHIA plan provides a subsidy payment of up to \$60 toward the monthly cost of PERS-sponsored health insurance for eligible PERS members. The Legislature has authority to establish and amend benefit provisions. PERS issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Funding Policy. ORS 238.420 provides that contribution requirements of the participating employers be established and may be amended by the Public Employees Retirement Board (Board). The Board establishes the employer contribution rate based on the annual required contribution (ARC) of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the fiscal year ended June 30, 2009, the Lottery was required by statute to contribute 0.37 percent of PERS covered payroll and 0.26 percent of OPSRP covered payroll to fund the RHIA. Actual employer contributions made by Lottery for the current year were approximately \$85,000. Contributions for fiscal year 2008 and 2007 were approximately \$77,000 and \$99,000 respectively. Contributions were equal to the required contributions for each year. Plan members do not contribute to the RHIA plan.

B. Retiree Health Insurance Premium Account

Plan Description. The Retiree Health Insurance Premium Account (RHIPA) is a single-employer defined benefit OPEB plan administered by PERS. As authorized by ORS 238.415, the RHIPA plan provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the Public Employees Retirement Board, and health insurance premiums paid by state employees who are not retired. The Legislature has authority to establish and amend benefit provisions. PERS issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Funding Policy. ORS 238.415 provides that employer contributions be established and may be amended by the Public Employees Retirement Board (Board). The Board establishes the employer contribution rate based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the fiscal year ended June 30, 2009, the Lottery was required by statute to contribute 0.1 percent of PERS covered payroll and 0.03 percent of OPSRP covered payroll to fund the RHIPA. Plan members do not contribute to the RHIPA plan.

Annual OPEB Cost. For the fiscal year ended June 30, 2009, the Lottery's annual OPEB cost (expense) was approximately \$21,000 for the RHIPA which was equal to the ARC. Fiscal year 2008 and 2007 OPEB costs were approximately \$19,000 and \$22,000 respectively, and were equal to the ARC for each year. The State of Oregon's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 and the two preceding years were as follows:

| RHIPA OPEB Plan - Annual OPEB Cost | | | |
|---|------------------|--|---------------------|
| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
| 6/30/2007 | \$ 2,400,000 | 100% | \$ - |
| 6/30/2008 | 1,791,000 | 100% | - |
| 6/30/2009 | 2,005,000 | 100% | - |

Funded Status and Funding Progress. The funded status of the RHIPA plan as of December 31, 2008, the most recent actuarial valuation, was as follows (dollars in millions):

| RHIPA OPEB Plan - Funded Status | |
|---|------------|
| Actuarial Accrued Liability (AAL) | \$ 21.3 |
| Actuarial Value of Plan Assets | 5.7 |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ 15.6 |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 26.7% |
| Covered Payroll | \$ 2,217.9 |
| UAAL as a Percentage of Covered Payroll | 0.7% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial value of plan assets is equal to the fair market value of assets on the valuation date. The actuarial assumptions include: an 8.0 percent investment rate of return; projected payroll growth of 3.75 percent; an inflation assumption of 2.75 percent; and an annual healthcare cost trend rate graded from 7.0 percent in 2009 to 4.5 percent in 2029. The unfunded actuarial accrued liability for the RHIPA plan is being amortized as a level percentage of payroll using a remaining closed amortization period of 10 years.

C. Public Employees Benefit Board Plan

Plan Description. The Public Employees Benefit Board (PEBB) plan is an agent multiple-employer defined benefit OPEB plan administered by PEBB that offers medical, dental and vision benefits to eligible retired employees. ORS Chapter 243 assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB does not issue a separate financial report.

Funding Policy. State agency employer contributions and the contribution requirements of active employee plan members who are not represented by labor unions are established and amended through a directive issued by authorized individuals for the executive branch of state government. The PEBB establishes annual premiums to be charged for various levels of healthcare coverage. The PEBB Plan funding policy provides for employer contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes.

Annual OPEB Cost and Net OPEB Obligation. The amount of contributions in relation to the ARC made by Lottery on a pay-as-you-go basis for the fiscal year ended June 30, 2009 was \$152,262 and the OPEB cost was \$340,037. The schedule below presents the components of the annual OPEB cost and the increase in the net OPEB obligation for the State of Oregon for the year ended June 30, 2009. The portion of the ending Net OPEB obligation allocated to Lottery was \$378,432, which represents 0.9 percent of the State's liability.

| PEBB OPEB Plan | |
|------------------------------------|----------------------|
| Annual Required Contribution (ARC) | \$ 36,167,609 |
| Interest on Net OPEB Obligation | 914,895 |
| Adjustment to ARC | (1,248,066) |
| Annual OPEB Cost | 35,834,438 |
| Contributions Made | (16,045,964) |
| Increase in Net OPEB Obligation | 19,788,474 |
| Beginning Net OPEB Obligation | 20,331,000 |
| Ending Net OPEB Obligation | <u>\$ 40,119,474</u> |

The State of Oregon's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 and 2008 (transition year) were as follows:

| PEBB OPEB Plan - Annual OPEB Cost | | | |
|--|------------------|--|---------------------|
| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
| 6/30/2008 | \$ 34,818,000 | 41.6% | \$ 20,331,000 |
| 6/30/2009 | 35,834,438 | 44.8% | 40,119,474 |

Funded Status and Funding Progress. The funded status of the PEBB plan as of July 1, 2007, the most recent actuarial valuation, was as follows (dollars in millions):

| PEBB OPEB Plan - Funded Status | |
|---|-----------------|
| Actuarial Accrued Liability (AAL) | \$ 323.4 |
| Actuarial Value of Plan Assets | - |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>\$ 323.4</u> |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | <u>0.0%</u> |
| Covered Payroll | \$ 2,187.2 |
| UAAL as a Percentage of Covered Payroll | 14.8% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the entry age normal actuarial cost method was used. Significant actuarial assumptions include: a 4.5 percent rate of return on the investment of present and future assets; a medical healthcare cost trend rate graded from an average of 11.2 percent in 2008 to an average of 5.0 percent in 2024; and a dental healthcare cost trend rate graded from an average of 5.3 percent in 2008 to an average of 4.0 percent for 2017 and beyond. The unfunded actuarial accrued liability for the PEBB plan is being amortized using the level dollar amortization method and an open amortization period of 30 years.

15. 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 2009 share of the 2007-2009 biennial assessment was \$430,119. 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

**Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefit Plans**

(Dollars in Millions)

Public Employees Benefit Board (PEBB) Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 7/1/2007 | \$ 0 | \$ 323.4 | \$ 323.4 | 0% | \$ 2,187.2 | 14.8% |

Retiree Health Insurance Premium Account (RHIPA) Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 12/31/2003 | \$ 4.0 | \$ 25.0 | \$ 21.0 | 16.0% | \$ 1,711.9 | 1.2% |
| 12/31/2004 ¹ | 5.2 | 28.2 | 23.0 | 18.4% | 1,851.4 ² | 1.2% |
| 12/31/2005 | 6.1 | 27.0 | 20.9 | 22.7% | 1,827.0 | 1.1% |
| 12/31/2006 | 7.0 | 23.4 | 16.4 | 30.0% | 1,946.8 | 0.8% |
| 12/31/2007 | 7.8 | 23.3 | 15.5 | 33.6% | 2,080.2 | 0.7% |
| 12/31/2008 | 5.7 | 21.3 | 15.6 | 26.7% | 2,217.9 | 0.7% |

Notes to the Required Supplementary Information – Schedules of Funding Progress

¹ Effective with the 2004 valuation, the cost method was changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value.

² Effective with the 2004 valuation, the Oregon Public Service Retirement Plan (OPSRP) payroll was included in the amortization of the UAAL.

The Public Employees Retirement System (PERS) issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS Fiscal Services Division, 11410 SW 68th Parkway, Tigard, Oregon 97223.

The Public Employees Benefit Board (PEBB) does not issue a financial report.



Supplementary Information

Oregon State Lottery
An Enterprise Fund of the State of Oregon
Budgetary Basis Comparison Schedule
For the Fiscal Year Ended June 30, 2009
(See Note 2. A., Budgetary Compliance)
(Unaudited)

| | <u>Actual</u> | <u>Budget¹</u> | <u>Variance Favorable/ (Unfavorable)</u> |
|--|-----------------------|---------------------------|--|
| <u>Revenue</u> | | | |
| Video Lottery SM (Gross Receipts) | \$ 10,582,926,497 | \$ 10,587,167,769 | \$ (4,241,272) |
| Scratch-its SM Instant Tickets | 112,105,703 | 114,072,382 | (1,966,679) |
| Keno | 99,184,396 | 97,985,679 | 1,198,717 |
| Powerball® | 51,836,316 | 50,254,973 | 1,581,343 |
| Megabucks SM | 38,065,424 | 37,260,272 | 805,152 |
| Win For Life SM | 6,654,104 | 6,598,255 | 55,849 |
| Raffle SM | 2,499,597 | 2,500,000 | (403) |
| Lucky Lines SM | 2,042,237 | 1,987,604 | 54,633 |
| Pick 4 SM | 1,389,814 | 1,385,000 | 4,814 |
| Total Revenue | <u>10,896,704,088</u> | <u>10,899,211,934</u> | <u>(2,507,846)</u> |
| Prize Expense | 10,001,528,224 | 10,004,544,769 | 3,016,545 |
| Net Revenue | <u>895,175,864</u> | <u>894,667,165</u> | <u>508,699</u> |
| <u>Direct Expenses</u> | | | |
| Retailer Commissions | 213,739,988 | 213,102,000 | (637,988) |
| Game Vendor Charges | 7,716,930 | 8,478,236 | 761,306 |
| Tickets | 4,335,016 | 4,625,000 | 289,984 |
| Advertising | 10,760,829 | 11,851,300 | 1,090,471 |
| Sales Support | 1,712,391 | 2,036,871 | 324,480 |
| Game Equipment/Parts & Maintenance | 1,850,765 | 1,886,984 | 36,219 |
| Research | 552,723 | 2,875,113 | 2,322,390 |
| Depreciation | 34,439,845 | 42,520,628 | 8,080,783 |
| Total Direct Expenses | <u>275,108,487</u> | <u>287,376,132</u> | <u>12,267,645</u> |
| Gross Profit | <u>620,067,377</u> | <u>607,291,033</u> | <u>12,776,344</u> |
| <u>Indirect Revenue</u> | | | |
| Other Income | 3,700,819 | 14,385,002 | (10,684,183) |
| <u>Indirect Expenses</u> | | | |
| Public Information | 5,326,746 | 6,275,105 | 948,359 |
| Personal Services | 38,794,266 | 39,791,587 | 997,321 |
| Services and Supplies | 10,186,947 | 12,900,250 | 2,713,303 |
| Depreciation | 2,640,455 | 2,441,075 | (199,380) |
| Total Indirect Expenses | <u>56,948,414</u> | <u>61,408,017</u> | <u>4,459,603</u> |
| Net Profit | <u>\$ 566,819,782</u> | <u>\$ 560,268,018</u> | <u>\$ 6,551,764</u> |

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

- Net Assets by Component
- Changes in Net Assets

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 the Lottery's financial report relates to the products it provides and the activities it performs. There are many factors that impact the level of demand for Lottery products. Game themes, play-styles, price points, and prize payouts typically impact the sales of instant ticket games. For Video LotterySM, the level of demand is generally impacted by variety of game choices, entertaining and sophisticated graphics, and convenience of available retailer locations.

- Number of Employees
- Operating Indicators and Capital Asset Information

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

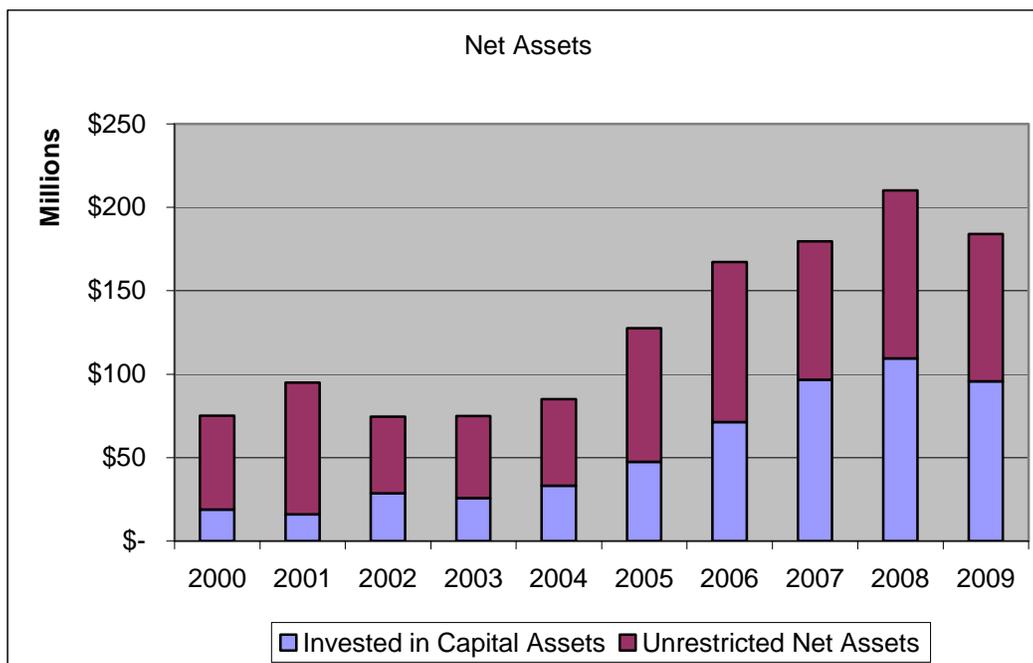
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report or the audited financial statements for the applicable year.

Oregon State Lottery

Net Assets by Component

Last Ten Fiscal Years

| Fiscal Year | Invested in Capital Assets | Unrestricted Net Assets | Total Net Assets ¹ |
|-------------|----------------------------|-------------------------|-------------------------------|
| 2000 | \$ 18,946,079 | \$ 56,128,228 | \$ 75,074,307 |
| 2001 | 15,944,190 | 78,985,396 | 94,929,586 |
| 2002 | 28,678,250 | 45,892,295 | 74,570,545 |
| 2003 | 25,748,947 | 49,251,053 | 75,000,000 |
| 2004 | 33,194,920 | 51,805,080 | 85,000,000 |
| 2005 | 47,552,216 | 80,097,104 | 127,649,320 |
| 2006 | 71,376,190 | 95,897,724 | 167,273,914 |
| 2007 | 96,675,840 | 83,030,082 | 179,705,922 |
| 2008 | 109,501,992 | 100,567,808 | 210,069,800 |
| 2009 | 95,689,630 | 88,353,446 | 184,043,076 |



¹In fiscal year 2004, net assets of \$75,000,000 at June 30, 2003 were restated to \$74,170,254 with a prior period adjustment.

Note: The Lottery does not have any outstanding debt associated with its capital assets; thus, the caption Invested in Capital Assets, Net of Related Debt is not used.

Oregon State Lottery

Changes in Net Assets

Last Ten Fiscal Years

| | 2000 | 2001 | 2002 | 2003 |
|---|----------------------|----------------------|------------------------|--------------------|
| Operating Revenues | | | | |
| Sales: | | | | |
| Video Lottery SM (Net Receipts) | \$ 436,531,650 | \$ 462,398,035 | \$ 480,201,739 | \$ 498,712,314 |
| Scratch-its SM Instant Tickets | 132,888,825 | 129,345,971 | 130,697,042 | 133,102,008 |
| Keno | 105,161,034 | 104,752,247 | 106,673,563 | 111,341,872 |
| Powerball® (MUSL) | 35,685,779 | 38,104,163 | 44,308,637 | 45,107,076 |
| Megabucks SM | 34,216,269 | 30,880,654 | 33,194,216 | 44,516,150 |
| Sports Action SM | 9,528,148 | 9,777,530 | 9,455,680 | 9,862,974 |
| Win For Life SM | - | 3,770,174 | 6,489,818 | 5,990,520 |
| Raffle SM | - | - | - | - |
| Lucky Lines SM | - | - | - | - |
| Pick 4 SM | 778,315 | 2,406,063 | 2,248,679 | 1,591,390 |
| Breakopen Instant Tickets | 4,536,362 | 4,229,395 | 3,758,870 | 3,290,487 |
| Cash Quest | 908,053 | (525) | (8) | - |
| Scoreboard SM | - | - | - | - |
| Provision for Bad Debts | (120,198) | (200,067) | (86,908) | (154,345) |
| Other Income | 322,938 | 1,373,293 | 450,565 | 414,175 |
| Total Operating Revenues | 760,437,175 | 786,836,933 | 817,391,893 | 853,774,621 |
| Operating Expenses | | | | |
| Retailer Commissions | 168,972,877 | 175,711,399 | 183,271,609 | 190,807,938 |
| Prizes | 215,023,603 | 220,472,928 | 231,498,980 | 248,666,215 |
| Salaries and Wages | 20,987,551 | 23,014,660 | 25,383,940 | 25,607,562 |
| Depreciation and Amortization | 6,981,975 | 5,495,390 | 4,566,058 | 5,123,916 |
| Advertising and Market Research | 5,260,578 | 6,629,885 | 6,052,783 | 6,294,027 |
| Services and Supplies | 11,333,743 | 15,422,658 | 15,528,284 | 11,673,527 |
| Game Vendor Charges | 17,728,955 | 17,284,108 | 14,887,737 | 14,140,775 |
| Public Information | 2,455,535 | 2,413,137 | 2,621,854 | 2,743,140 |
| Tickets | 3,857,827 | 4,444,691 | 3,981,867 | 4,372,431 |
| Game Equipment Parts and Maintenance | - | - | - | - |
| Sales Support | 3,131,129 | 1,704,981 | 1,273,782 | 1,397,075 |
| Total Operating Expenses | 455,733,773 | 472,593,837 | 489,066,894 | 510,826,606 |
| Operating Income | 304,703,402 | 314,243,096 | 328,324,999 | 342,948,015 |
| Nonoperating Revenues (Expenses) | | | | |
| Interest and Investment Income (Loss) | 11,052,175 | 17,467,649 | 12,612,329 | 16,817,879 |
| Insurance Recoveries | - | - | - | - |
| Gain (Loss) on Disposition of Assets | (47,826) | 260,125 | 97,538 | 37,825 |
| Investment Expenses - Securities Lending | (1,121,646) | (1,206,037) | (403,595) | (483,488) |
| Total Nonoperating Revenues (Expenses) | 9,882,703 | 16,521,737 | 12,306,272 | 16,372,216 |
| Income Before Transfers | 314,586,105 | 330,764,833 | 340,631,271 | 359,320,231 |
| Transfers to Economic Development Fund | (286,974,303) | (310,909,554) | (360,990,312) | (358,890,776) |
| Transfers to General Obligation Bond Fund | - | - | - | - |
| Change in Net Assets¹ | \$ 27,611,802 | \$ 19,855,279 | \$ (20,359,041) | \$ 429,455 |

¹Prior to the implementation of GASB Statement No. 34 in fiscal year 2002, Change in Net Assets was reported as Net Income (Loss).

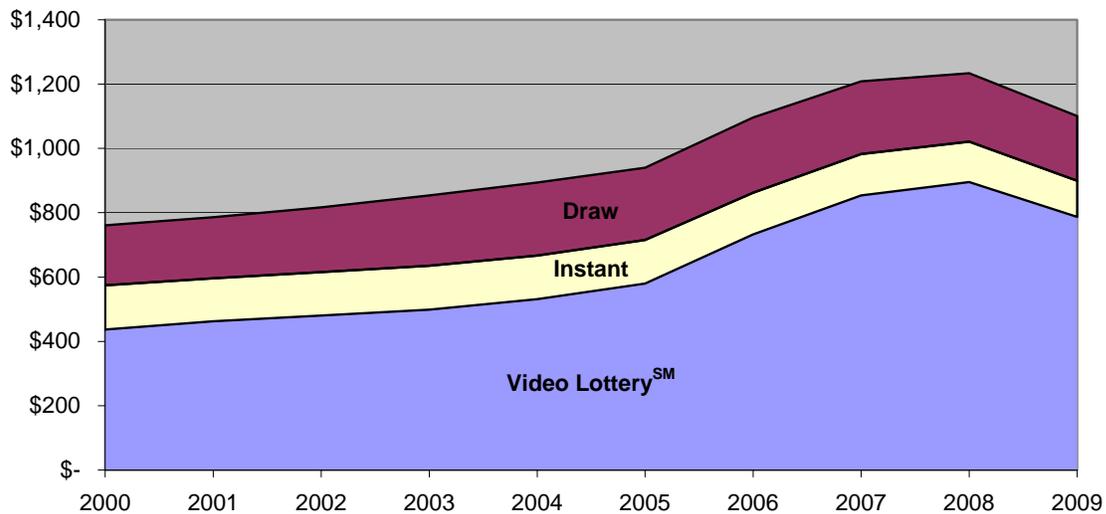
| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------|----------------|----------------|----------------|----------------|-----------------|
| \$ 530,966,187 | \$ 579,650,266 | \$ 732,888,437 | \$ 853,505,565 | \$ 895,111,696 | \$ 786,746,726 |
| 132,731,374 | 133,241,896 | 127,244,323 | 127,636,964 | 124,704,686 | 112,105,703 |
| 116,478,125 | 122,196,298 | 116,240,045 | 113,198,024 | 109,787,942 | 99,184,396 |
| 45,974,759 | 35,004,855 | 59,070,621 | 48,658,403 | 55,969,079 | 51,836,316 |
| 46,473,330 | 48,283,356 | 37,771,877 | 40,164,337 | 37,149,930 | 38,065,424 |
| 10,063,790 | 11,292,930 | 12,105,674 | 14,009,541 | - | - |
| 5,475,972 | 5,559,882 | 5,914,469 | 5,566,158 | 6,675,988 | 6,654,104 |
| - | - | - | - | - | 2,499,597 |
| - | - | 1,018,520 | 2,298,480 | 2,131,474 | 2,042,237 |
| 1,381,483 | 1,386,714 | 1,405,501 | 1,404,990 | 1,401,230 | 1,389,814 |
| 2,630,176 | 2,185,157 | 1,671,571 | 1,173,585 | 857,671 | - |
| - | - | - | - | - | - |
| 1,087,911 | 1,022,163 | 643,913 | 512,206 | - | - |
| (133,563) | (294,516) | (29,002) | (56,434) | (7,797) | (128,699) |
| 332,697 | 361,798 | 234,719 | 1,602,185 | 1,042,747 | 579,477 |
| 893,462,241 | 939,890,799 | 1,096,180,668 | 1,209,674,004 | 1,234,824,646 | 1,100,975,095 |
| 200,968,893 | 195,994,718 | 218,013,134 | 239,320,032 | 240,475,998 | 213,739,988 |
| 232,122,621 | 245,125,049 | 236,638,134 | 240,076,739 | 231,364,323 | 211,927,565 |
| 24,496,409 | 23,860,802 | 25,873,708 | 29,123,801 | 33,005,670 | 37,330,819 |
| 4,419,544 | 6,918,109 | 11,019,875 | 19,797,789 | 30,843,314 | 37,080,300 |
| 6,917,506 | 7,262,887 | 7,007,884 | 10,752,331 | 9,885,584 | 11,313,552 |
| 11,400,672 | 10,143,892 | 10,902,866 | 8,254,418 | 8,767,744 | 10,519,566 |
| 11,816,144 | 10,908,009 | 10,227,113 | 10,009,601 | 9,371,513 | 7,716,930 |
| 3,124,828 | 3,106,149 | 3,858,646 | 5,128,899 | 5,463,575 | 5,326,746 |
| 4,459,738 | 4,318,728 | 4,461,315 | 4,165,283 | 4,232,601 | 4,335,016 |
| - | - | - | 2,606,119 | 2,485,770 | 1,850,765 |
| 1,332,869 | 1,215,887 | 1,772,169 | 1,320,416 | 1,569,079 | 1,712,391 |
| 501,059,224 | 508,854,230 | 529,774,844 | 570,555,428 | 577,465,171 | 542,853,638 |
| 392,403,017 | 431,036,569 | 566,405,824 | 639,118,576 | 657,359,475 | 558,121,457 |
| (34,460) | 15,862,977 | 8,357,783 | 24,392,398 | 28,068,310 | 12,675,701 |
| 49,867 | 69,315 | 34,111 | 16,655 | 25,570 | 61,973 |
| 32,123 | (64,636) | (20,653) | (517,562) | (317,204) | (1,767,242) |
| (837,276) | (1,525,023) | (2,998,549) | (5,352,243) | (5,047,007) | (808,660) |
| (789,746) | 14,342,633 | 5,372,692 | 18,539,248 | 22,729,669 | 10,161,772 |
| 391,613,271 | 445,379,202 | 571,778,516 | 657,657,824 | 680,089,144 | 568,283,229 |
| (380,579,755) | (401,581,250) | (531,032,111) | (644,030,352) | (648,408,187) | (592,846,506) |
| (203,770) | (1,148,632) | (1,121,812) | (1,195,464) | (1,317,079) | (1,463,447) |
| \$ 10,829,746 | \$ 42,649,320 | \$ 39,624,593 | \$ 12,432,008 | \$ 30,363,878 | \$ (26,026,724) |

Oregon State Lottery
Sales by Product
 Last Ten Fiscal Years

Draw Games

| Fiscal Year | Video Lottery SM | Instant Products | Keno | Powerball® | Megabucks SM | All Other Games | Total |
|-------------|-----------------------------|------------------|---------------|---------------|-------------------------|-----------------|----------------|
| 2000 | \$436,531,650 | \$137,425,187 | \$105,161,034 | \$ 35,685,779 | \$ 34,216,269 | \$11,214,516 | \$ 760,234,435 |
| 2001 | 462,398,035 | 133,575,366 | 104,752,247 | 38,104,163 | 30,880,654 | 15,953,242 | 785,663,707 |
| 2002 | 480,201,739 | 134,455,912 | 106,673,563 | 44,308,637 | 33,194,216 | 18,194,169 | 817,028,236 |
| 2003 | 498,712,314 | 136,392,495 | 111,341,872 | 45,107,076 | 44,516,150 | 17,444,884 | 853,514,791 |
| 2004 | 530,966,187 | 135,361,550 | 116,478,125 | 45,974,759 | 46,473,330 | 18,009,156 | 893,263,107 |
| 2005 | 579,650,266 | 135,427,053 | 122,196,298 | 35,004,855 | 48,283,356 | 19,261,689 | 939,823,517 |
| 2006 | 732,888,437 | 128,915,894 | 116,240,045 | 59,070,621 | 37,771,877 | 21,088,077 | 1,095,974,951 |
| 2007 | 853,505,565 | 128,810,549 | 113,198,024 | 48,658,403 | 40,164,337 | 23,791,375 | 1,208,128,253 |
| 2008 | 895,111,696 | 125,562,357 | 109,787,942 | 55,969,079 | 37,149,930 | 10,208,692 | 1,233,789,696 |
| 2009 | 786,746,726 | 112,105,703 | 99,184,396 | 51,836,316 | 38,065,424 | 12,585,752 | 1,100,524,317 |

Sales by Product Type
 (In Millions)

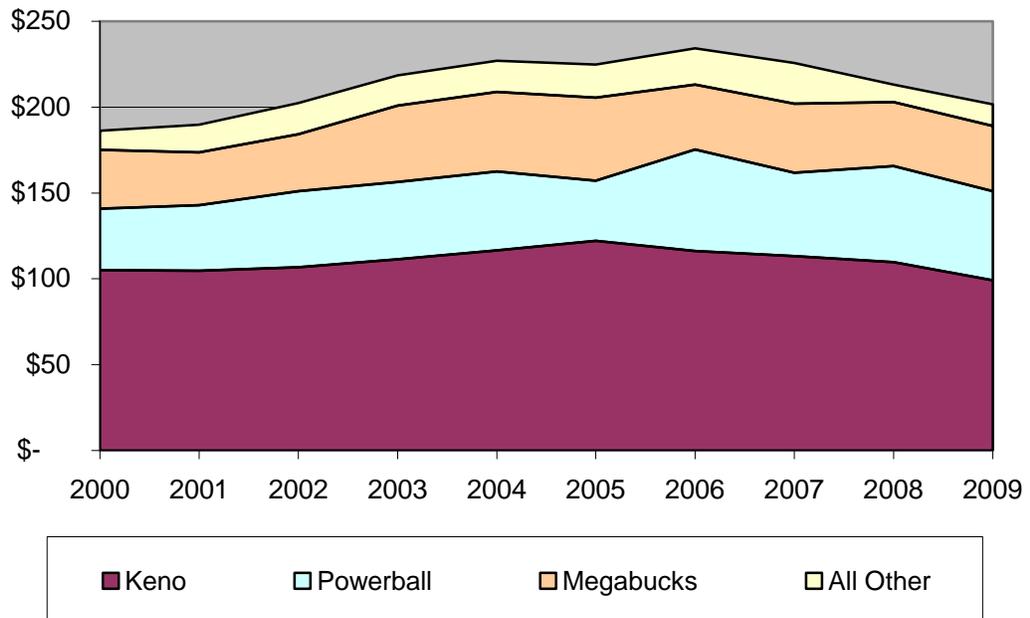


Oregon State Lottery
Product Percent of Total Sales
 Last Ten Fiscal Years

Draw Games

| Fiscal Year | Video Lottery SM | Instant Products | Keno | Powerball® | Megabucks SM | All Other Games |
|-------------|-----------------------------|------------------|-------|------------|-------------------------|-----------------|
| 2000 | 57.4% | 18.1% | 13.8% | 4.7% | 4.5% | 1.5% |
| 2001 | 58.9% | 17.0% | 13.3% | 4.9% | 3.9% | 2.0% |
| 2002 | 58.8% | 16.5% | 13.1% | 5.4% | 4.0% | 2.2% |
| 2003 | 58.4% | 16.0% | 13.1% | 5.3% | 5.2% | 2.0% |
| 2004 | 59.4% | 15.2% | 13.1% | 5.1% | 5.2% | 2.0% |
| 2005 | 61.7% | 14.4% | 13.0% | 3.7% | 5.2% | 2.0% |
| 2006 | 66.9% | 11.8% | 10.6% | 5.4% | 3.4% | 1.9% |
| 2007 | 70.6% | 10.7% | 9.4% | 4.0% | 3.3% | 2.0% |
| 2008 | 72.5% | 10.2% | 8.9% | 4.6% | 3.0% | 0.8% |
| 2009 | 71.5% | 10.2% | 9.0% | 4.7% | 3.5% | 1.1% |

Draw Game Sales by Product
 (In Millions)



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

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

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

| | | | | 2000 | | |
|-------------|------------------------------|----------------------|-----------------------------------|---------------|--|--|
| <u>Rank</u> | <u>Retailer</u> | <u>Sales</u> | <u>Percent of Total Sales</u> | <u>County</u> | | |
| 1 | Bradley's | \$ 1,850,524 | 0.24% | Multnomah | | |
| 2 | Farmhouse Restaurant | 1,736,462 | 0.23% | Multnomah | | |
| 3 | Glass House Tavern | 1,475,928 | 0.19% | Multnomah | | |
| 4 | Joseph's Café & Deli | 1,412,684 | 0.19% | Multnomah | | |
| 5 | Maverick Restaurant & Lounge | 1,411,450 | 0.19% | Multnomah | | |
| 6 | Jody's Restaurant & Lounge | 1,400,029 | 0.18% | Multnomah | | |
| 7 | Lydia's | 1,398,353 | 0.18% | Multnomah | | |
| 8 | Dotty's #7 | 1,382,247 | 0.18% | Multnomah | | |
| 9 | Purple Parrot #6 | 1,378,678 | 0.18% | Jackson | | |
| 10 | Jasper's Deli | 1,370,581 | 0.18% | Lane | | |
| | Totals | <u>\$ 14,816,936</u> | <u>1.94%</u> | | | |

Total Lottery Sales \$ 760,234,435

Oregon State Lottery
Number of Lottery Retailers and Sales by County
For Business Year 2009

| County | Sales | | Retailers | |
|--------------|-------------------------|------------------------|-----------------------------|----------------------------|
| | Business Year Sales | Percent of Total Sales | Number of Lottery Retailers | Percent of Total Retailers |
| Multnomah | \$ 308,523,458 | 28.04% | 961 | 24.92% |
| Washington | 129,644,448 | 11.78% | 355 | 9.20% |
| Clackamas | 109,173,237 | 9.92% | 337 | 8.74% |
| Lane | 89,968,630 | 8.17% | 352 | 9.13% |
| Marion | 89,667,030 | 8.15% | 316 | 8.20% |
| Jackson | 49,986,715 | 4.54% | 184 | 4.77% |
| Deschutes | 36,624,315 | 3.33% | 127 | 3.29% |
| Linn | 36,444,982 | 3.31% | 132 | 3.42% |
| Douglas | 24,721,854 | 2.25% | 127 | 3.29% |
| Josephine | 22,043,651 | 2.00% | 92 | 2.39% |
| Columbia | 18,867,280 | 1.71% | 55 | 1.43% |
| Umatilla | 18,215,159 | 1.65% | 75 | 1.95% |
| Clatsop | 17,516,819 | 1.59% | 71 | 1.84% |
| Yamhill | 17,433,685 | 1.58% | 72 | 1.87% |
| Klamath | 15,650,675 | 1.42% | 65 | 1.69% |
| Lincoln | 14,779,535 | 1.34% | 75 | 1.95% |
| Coos | 11,487,175 | 1.04% | 56 | 1.45% |
| Malheur | 10,844,109 | 0.99% | 35 | 0.91% |
| Tillamook | 10,367,455 | 0.94% | 40 | 1.04% |
| Polk | 10,146,859 | 0.92% | 49 | 1.27% |
| Benton | 9,112,486 | 0.83% | 44 | 1.14% |
| Wasco | 8,976,100 | 0.82% | 32 | 0.83% |
| Hood River | 6,228,267 | 0.57% | 23 | 0.60% |
| Union | 6,131,508 | 0.56% | 28 | 0.73% |
| Crook | 5,954,931 | 0.54% | 27 | 0.70% |
| Jefferson | 4,774,942 | 0.43% | 20 | 0.52% |
| Baker | 4,702,822 | 0.43% | 21 | 0.54% |
| Curry | 4,157,856 | 0.38% | 25 | 0.65% |
| Morrow | 1,704,308 | 0.15% | 13 | 0.34% |
| Grant | 1,531,259 | 0.14% | 13 | 0.34% |
| Lake | 1,424,906 | 0.13% | 7 | 0.18% |
| Sherman | 1,420,148 | 0.13% | 5 | 0.13% |
| Wallowa | 1,179,745 | 0.11% | 10 | 0.26% |
| Harney | 713,742 | 0.06% | 6 | 0.16% |
| Gilliam | 483,069 | 0.04% | 4 | 0.10% |
| Wheeler | 83,124 | 0.01% | 1 | 0.03% |
| Total | \$ 1,100,686,284 | 100.00% | 3,855 | 100.00% |

Source: Oregon State Lottery Research Department

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

| Calendar Year | Population ¹ | Personal Income ¹ (in thousands) | Per Capita Personal Income | Annual Unemployment Rate ² |
|---------------|-------------------------|--|----------------------------|---------------------------------------|
| 1999 | 3,393,941 | \$ 89,873,232 | \$ 26,480 | 5.5% |
| 2000 | 3,430,828 | 96,401,727 | 28,099 | 5.1% |
| 2001 | 3,470,716 | 99,020,013 | 28,530 | 6.4% |
| 2002 | 3,517,982 | 101,881,884 | 28,960 | 7.6% |
| 2003 | 3,551,877 | 105,160,987 | 29,607 | 8.1% |
| 2004 | 3,576,262 | 109,717,646 | 30,679 | 7.3% |
| 2005 | 3,621,939 | 114,379,155 | 31,580 | 6.2% |
| 2006 | 3,680,968 | 123,857,159 | 33,648 | 5.3% |
| 2007 | 3,735,549 | 131,277,786 | 35,143 | 5.1% |
| 2008 | 3,790,060 | 136,276,807 | 35,956 | 6.4% |

¹Source: U.S. Department of Commerce, Bureau of Economic Analysis

²Source: Oregon Employment Department

Oregon State Lottery
Employment by Industry - State of Oregon
Calendar Year 2008 and Nine Years Prior

| | 2008 | | 1999 | |
|--|---------------------|------------------|---------------------|------------------|
| | Number of Employees | Percent of Total | Number of Employees | Percent of Total |
| Retail trade | 248,349 | 10.62% | 238,549 | 11.64% |
| Health care and social assistance | 247,850 | 10.59% | 183,260 | 8.95% |
| Manufacturing | 209,639 | 8.96% | 231,801 | 11.31% |
| Accommodation and food services | 162,608 | 6.95% | 136,203 | 6.65% |
| Construction | 140,008 | 5.98% | 122,729 | 5.99% |
| Professional, scientific, and technical services | 137,468 | 5.88% | 108,521 | 5.30% |
| Other services | 124,700 | 5.33% | 107,206 | 5.23% |
| Administrative and waste services | 123,910 | 5.30% | 106,238 | 5.19% |
| Real estate, rental, and leasing | 110,235 | 4.71% | 71,510 | 3.49% |
| Finance and insurance | 91,339 | 3.90% | 82,790 | 4.04% |
| Wholesale trade | 88,713 | 3.79% | 81,455 | 3.98% |
| Transportation and warehousing | 70,083 | 3.00% | 62,233 | 3.04% |
| Farm employment | 66,102 | 2.83% | 69,093 | 3.37% |
| Arts, entertainment, and recreation | 54,142 | 2.31% | 39,853 | 1.95% |
| Educational services | 51,491 | 2.20% | 31,568 | 1.54% |
| Information | 43,408 | 1.86% | 41,665 | 2.03% |
| Management of companies | 32,679 | 1.40% | 26,017 | 1.27% |
| Forestry, fishing, and related activities | 30,760 | 1.31% | 30,314 | 1.48% |
| Utilities | 5,107 | 0.22% | 5,569 | 0.27% |
| Mining | 4,985 | 0.21% | 3,544 | 0.17% |
| Local government | 185,891 | 7.95% | 167,260 | 8.16% |
| State government | 68,322 | 2.92% | 59,003 | 2.88% |
| Federal government, civilian | 29,542 | 1.26% | 29,706 | 1.45% |
| Military | 12,157 | 0.52% | 12,601 | 0.62% |
| Total employment | <u>2,339,488</u> | <u>100.00%</u> | <u>2,048,688</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 Seven Calendar Years¹

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|------------------------|----------------|----------------|----------------|----------------|----------------|
| Number Surveyed | 1,001 | 1,002 | 1,000 | 1,000 | 1,004 |
| Player Percentage | 47.2% | 50.8% | 50.9% | 52.6% | 49.0% |
| | <u>Players</u> | <u>Players</u> | <u>Players</u> | <u>Players</u> | <u>Players</u> |
| <u>Gender</u> | | | | | |
| Male | 56% | 53% | 40% | 51% | 51% |
| Female | 45% | 47% | 60% | 49% | 49% |
| <u>Age</u> | | | | | |
| 18 - 24 | 9% | 11% | 14% | 11% | 14% |
| 25 - 34 | 21% | 18% | 18% | 18% | 20% |
| 35 - 44 | 23% | 24% | 17% | 21% | 19% |
| 45 - 54 | 22% | 21% | 24% | 18% | 22% |
| 55 - 64 | 13% | 14% | 14% | 13% | 13% |
| 65 + | 12% | 13% | 14% | 18% | 13% |
| <u>Education</u> | | | | | |
| Some High School | 3% | 5% | 3% | 2% | 6% |
| High School Graduate | 23% | 22% | 32% | 25% | 33% |
| College/Tech School | 38% | 42% | 34% | 39% | 37% |
| College Graduate | 24% | 21% | 21% | 25% | 17% |
| Graduate School/Degree | 11% | 11% | 9% | 9% | 7% |
| <u>Marital Status</u> | | | | | |
| Single | 22% | 21% | 23% | 21% | 22% |
| Married | 56% | 60% | 65% | 55% | 54% |
| Co-habiting | 5% | 4% | 3% | 7% | 7% |
| Divorced or Separated | 12% | 10% | 6% | 11% | 13% |
| Widowed | 5% | 5% | 3% | 6% | 4% |
| <u>Income</u> | | | | | |
| Less than \$15,000 | 9% | 8% | 10% | 7% | 8% |
| \$15,000 - \$49,999 | 45% | 45% | 50% | 49% | 44% |
| \$50,000 - \$74,999 | 21% | 19% | 16% | 16% | 20% |
| \$75,000 - \$99,999 | 10% | 10% | 6% | 9% | 10% |
| \$100,000 + | 9% | 8% | 7% | 7% | 6% |
| Refused/Don't Know | 6% | 10% | 11% | 12% | 12% |

Sources:

Player information from Oregon State Lottery's Tracking Study conducted by Infotek Research Group
 State information from U.S. Census Bureau, 2008 American Community Survey

¹Data for years prior to 2002 is not available.

| <u>2007</u> | <u>2008</u> | |
|----------------|----------------|------------------------------|
| 1,001 | 1,003 | |
| 43.4% | 42.2% | |
| <u>Players</u> | <u>Players</u> | <u>2008 State Population</u> |
| 52% | 54% | 49.7% |
| 48% | 46% | 50.3% |
| 9% | 8% | 9.0% |
| 19% | 19% | 13.9% |
| 23% | 22% | 13.5% |
| 22% | 23% | 14.9% |
| 15% | 18% | 12.6% |
| 11% | 11% | 13.3% |
| 7% | 8% | 8.7% |
| 29% | 26% | 27.5% |
| 38% | 36% | 37.0% |
| 16% | 20% | 17.5% |
| 10% | 10% | 9.3% |
| 21% | 17% | 28.7% |
| 57% | 56% | 50.9% |
| 5% | 9% | n/a |
| 12% | 11% | 14.6% |
| 5% | 6% | 5.7% |
| 8% | 9% | 29.7% |
| 44% | 43% | 46.0% |
| 17% | 15% | 14.0% |
| 12% | 13% | 5.0% |
| 10% | 10% | 5.3% |
| 9% | 10% | n/a |

Oregon State Lottery
Number of Employees
 Last Ten Fiscal Years

| | Employees as of June 30 | | | | | | | | | |
|-----------------------|-------------------------|-------------------|------------|------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2000 ¹ | 2001 ¹ | 2002 | 2003 | 2004 ² | 2005 ² | 2006 ² | 2007 ³ | 2008 ⁴ | 2009 ⁵ |
| Retail Operations | n/a | n/a | 211 | 215 | 209 | 202 | 211 | 214 | 222 | 218 |
| Support Services | n/a | n/a | 152 | 137 | 126 | 121 | 124 | 135 | 148 | 157 |
| Marketing | n/a | n/a | 28 | 25 | 30 | 26 | 26 | 29 | 29 | 37 |
| Director's Office | n/a | n/a | 31 | 31 | 25 | 29 | 29 | 30 | 31 | 32 |
| Security ⁶ | n/a | n/a | 11 | 8 | 9 | 11 | 11 | 12 | 17 | 19 |
| Total | 403 | 421 | 433 | 416 | 399 | 389 | 401 | 420 | 447 | 463 |

Sources: Oregon State Lottery Business Plans for fiscal year 2000 and 2001; Oregon State Payroll System for fiscal year 2002 through 2009

¹Detail by business unit is not available for fiscal year 2000 and 2001.

²During fiscal year 2004 through 2006, some vacant positions were eliminated to reduce operating expenses.

³Positions were added in fiscal year 2007 to address the growth of the Lottery, to restore some vacant positions previously eliminated, and to build the infrastructure needed to support future growth.

⁴In fiscal year 2008, positions were added to support the Lottery's business that is driven by technology, expand into web-based products, and respond to system growth.

⁵During fiscal year 2009, vacant positions in Marketing were filled and some temporary employees were hired to assist with promotional Marketing activities.

⁶Number of employees for Security excludes employees of the Oregon State Police.

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

| <u>Fiscal Year</u> | <u>Number of Lottery Retailers¹</u> | <u>Number of Video LotterySM Terminals Deployed¹</u> | <u>Per Capita Sales²</u> |
|--------------------|--|--|---|
| 2000 | 3,176 | 8,776 | \$ 224.00 |
| 2001 | 3,198 | 8,903 | 229.00 |
| 2002 | 3,300 | 9,259 | 235.41 |
| 2003 | 3,368 | 9,434 | 242.61 |
| 2004 | 3,421 | 10,194 | 251.49 |
| 2005 | 3,484 | 10,438 | 262.79 |
| 2006 | 3,579 | 11,125 | 302.59 |
| 2007 | 3,691 | 11,831 | 328.21 |
| 2008 | 3,785 | 12,205 | 330.28 |
| 2009 | 3,855 | 12,365 | 290.37 |

¹Source: Oregon State Lottery Records

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

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Other Reports

Office of the Secretary of State

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**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**

We have audited the financial statements of the Oregon State Lottery, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 19, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oregon State Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Oregon State Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon State Lottery's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon State Lottery's financial statements are free of 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*.

This report is intended solely for the information and use of the Oregon State Lottery Commission, the Oregon State Lottery's management, others within the entity, the governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION



Kate Brown
Secretary of State

November 19, 2009