



**OKLAHOMA LOTTERY**

BENEFITS OKLAHOMA EDUCATION

## **Comprehensive Annual Financial Report**

For the Fiscal Years Ended  
JUNE 30, 2018 and 2017

An Agency of the State of Oklahoma



# **Introductory Section**

For the Fiscal Years Ended  
JUNE 30, 2018 and 2017

An Agency of the State of Oklahoma

*Oklahoma Lottery Commission*  
*Comprehensive Annual Financial Report*  
*For the Fiscal Years Ending June 30, 2018 and June 30, 2017*



*Table of Contents*

<b>INTRODUCTORY SECTION</b>	
Certificate of Achievement for Excellence in Financial Reporting	1
Letter of Transmittal	2
Oklahoma Lottery Commission – Board of Trustees	18
Oklahoma Lottery Organizational Chart	19
<b>FINANCIAL SECTION</b>	
Independent Auditor’s Report	21
Management’s Discussion and Analysis	23
<i>Basic Financial Statements</i>	
Statements of Net Position	27
Statement of Revenues, Expenses and Changes in Net Position	28
Statements of Cash Flows	30
Notes to Financial Statements	31
<i>Required Supplementary Information</i>	
Schedule of OLC’s Proportionate Share of the Net Pension Liability	46
Schedule of OLC’s Contributions	47
Notes to Required Supplementary Information	48
<i>Report Required by Government Auditing Standards</i>	
Schedule of Findings and Responses	
<b>STATISTICAL SECTION</b>	
Statistical Information Section	
Financial Trends	
Net Position by Component through Change in Net Position	51
Direct Costs/Expenses by Type Charts	53
Revenue Charts	55
Interest Earned and Contributions Charts	57
Demographics and Economic Information and Charts	59
Supplementary Operating Information	
Summary of Operating Indicators	61
Schedule of Lottery Employees and Charts	62
National Lottery Statistics	64



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Oklahoma Lottery Commission**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morrill*

Executive Director/CEO

Oklahoma Lottery Commission  
3817 North Santa Fe  
Oklahoma City, Oklahoma 73118



December 31, 2018

To the citizens of Oklahoma:

The Oklahoma Lottery Commission/OLC, an agency of the State of Oklahoma, commenced operations in 2005 as a business enterprise within the framework of state laws and regulations, to implement the public's mandate to provide supplemental funds for public education. The mission of the OLC is to maximize revenues for public education through the creation and marketing of fun and entertaining products consistent with the highest levels of service, integrity and public accountability.

The OLC is pleased to provide this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. Daryl Nash, in the Executive Department of the Lottery coordinated production of this CAFR, which includes its annual financial statements prepared by the Accounting Unit, led by Greg Fields, Comptroller and presented in accordance with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America. The CAFR presents an overview of Lottery finances and operations.

The CAFR displays financial activity of the Lottery in a single enterprise fund. The report follows formal standards of the Governmental Finance Officers Association of the United States and Canada (GFOA). Governmental organizations that publish this type of report can be compared to each other because similar kinds of information are included in the three sections of the report.

This letter of transmittal complements the management's discussion and analysis that accompanies the financial statements and should be read in conjunction with it.

Management is responsible for the accuracy and completeness of the presentation, including all disclosures in the report. To the best of our knowledge, the enclosed information is accurate in all material respects and reported in a manner designed to present fairly the financial position, results of operations, and the cash flows of the Lottery. All disclosures necessary to gain an understanding of the Lottery's financial activities have been included.

## **History of the Lottery**

The citizens of the Great State of Oklahoma approved the Lottery through a voter referendum creating the Oklahoma Education Lottery Act (hereinafter the "Act" or "Lottery Act"), and establishing certain Constitutional provisions, all in November of 2004. The Act is codified as Title 3A, Section 701, et. seq., of the Oklahoma Statutes. The Legislature has amended the Lottery Act in 10 of 14 Legislative sessions in 16 separate bills, starting in the 2005 Legislature. The law changes added seven new sections to the Act and amended seven of the original statutes, some multiple times.

The Constitutional provisions regarding the Lottery, Article 10, Section 41 of the Oklahoma Constitution, do the following:

- Create the Oklahoma Education Lottery Trust Fund (OELTF);
- Establish legal purposes for use of the OELTF;
- Prohibit the Legislature from using the OELTF to supplant other funds used for education;

- Require the State Board of Equalization (BOE) to issue a report in February regarding the supplanting of funds;
- Provide that the Legislature may not make any additional appropriations of funds until the OELTF is replenished if the BOE determines that funds were supplanted.
  - *Note: in the February 21, 2017 meeting of the State Equalization Board (SEB), the SEB determined that the 2016 legislature had supplanted funds using the OELTF in the amount of \$10,144,171. The legislature subsequently appropriated that amount from the Special Cash Fund of the State Treasury to the OELTF, to replace the supplanted funds (SB860, Section 1), as required by this law. This appropriation was placed into the FY'18 OELTF by OMES and was appropriated by the legislature for FY'18 education purposes.*
  - *This “supplantation” was deemed to have happened a second time by the SEB in their February 20, 2018 meeting in the amount of \$19,892,744. This amount was appropriated by the 2018 Legislature from the Unclaimed Property Fund to the OELTF in Section 1 of SB1582.*

The Act established the Lottery as an independent state agency to market and sell Lottery products. Under the Act, the Lottery returns all profits to the State for appropriation by the State Legislature to education beneficiaries as established in Article 10, Section 41 of the Oklahoma Constitution. The Lottery uses gross proceeds to pay any debt and operating costs. The Lottery must make available at least 45% of gross proceeds for prizes. The original law also required that profit should equal at least 35% of gross proceeds (*see subsequent description of changes to this law passed in 2017 on the next page\**).

The Lottery Act specifies that the Lottery be governed by a seven (7) member Board of Trustees appointed by the Governor, with advice and consent of the Senate. Among others, duties of the Board are to review and approve budgets; review and approve major procurements; hear appeals of hearings; and promulgate rules relating to the conduct of lottery games.

An Executive Director, appointed by the Board of Trustees, directs the day-to-day operations of the Lottery. Duties of the Director are to promote the lottery; employ and compensate persons and firms as necessary; prepare budgets for review and approval by the Board and report as required by law. The Director serves at the pleasure of the Board of Trustees.

Under the Oklahoma Education Lottery Act, funds transferred to the Oklahoma Education Lottery Trust Fund are to be used as follows:  
*(Statutory, Title 3A, Section 713, changed in 2017):*

- A. **45%** - Kindergarten through twelfth grade Public Education, including but not limited to compensation and benefits for public school teachers and support employees, and early childhood development programs, which shall include but not be limited to costs associated with pre-kindergarten and full-day kindergarten programs.
- B. **45%** - Tuition grants, loans and scholarships to citizens of this state to enable such citizens to attend colleges and universities located within this state, regardless of whether such colleges and universities are owned or operated by the Oklahoma State Regents for Higher Education, or to attend institutions operated under the authority of the Oklahoma Department of Career and Technology Education; provided such tuition grants, loans and scholarships shall not be made to a citizen of this state to attend a college or university which is not accredited by the Oklahoma State Regents for Higher Education.

Construction of educational facilities for elementary school districts, independent school districts, the Oklahoma State System of Higher Education, and career and technology education. Capital outlay projects for elementary school districts, independent school districts, the Oklahoma State System of Higher Education, and career and technology education.

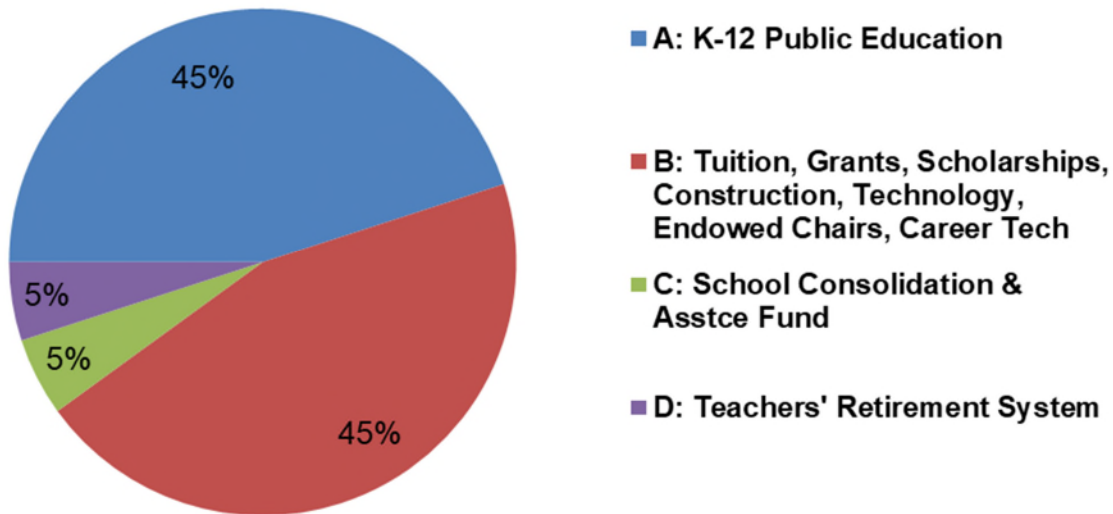
Technology for public elementary school district, independent school districts, state higher education and career and technology education facilities, which shall include but not be limited to costs of providing to teachers at accredited public institutions who teach levels kindergarten through twelfth grade, personnel at technology centers under the authority of the Oklahoma State Department of Career and Technology Education, and professors and instructors within the Oklahoma State System of Higher Education, the necessary training in the use and application of computers and advanced electronic instructional technology to implement interactive learning environments in the classroom and to access the statewide distance learning network and costs associated with repairing and maintaining advanced electronic instructional technology.

Endowed chairs for professors at institutions of higher education operated by the Oklahoma State System of Higher Education.

Programs and personnel of the Oklahoma School for the Deaf and the Oklahoma School for the Blind.

- C. **5%** - School Consolidation and Assistance Fund. When the total amount in the School Consolidation and Assistance Fund from all sources equals Five Million Dollars (\$5,000,000.00), all monies appropriated pursuant to this paragraph which would otherwise be deposited in the School Consolidation and Assistance Fund in excess of Five Million Dollars (\$5,000,000) shall be allocated by the State Department of Education to public schools based on the audited end-of-year average daily membership in grades 8 through 12 during the preceding school year for the purpose of purchasing technology equipment in order to conduct on-line testing as required by the Achieving Classroom Excellence Act of 2005. If at any time, the total amount in the School Consolidation and Assistance Fund drops below Five Million Dollars (\$5,000,000), the monies appropriated pursuant to this paragraph shall be deposited in the School Consolidation and Assistance Fund until the Fund again reaches Five Million Dollars (\$5,000,000).
- D. **5%** - Teachers' Retirement System Dedicated Revenue Revolving Fund.

### Distribution of Lottery Net Proceeds



**\*Changes to Title 3A, Section 713, (regarding ‘Minimum Mandated Profit’ passed by the 2017 Legislature, effective August 24, 2017).**

For several years, lottery officials lobbied to change the Lottery Act so that the Lottery could maximize profits for Oklahoma education programs. As noted earlier, all lottery profit goes to the OELTF to benefit education programs. Unfortunately, the law also required that the profit should be a minimum of 35%. This minimum mandated profit restricted the amount of funding that could be put into prize payouts, resulting in less popular lottery products, resulting in lower sales and profits than would have been achieved with better prize payouts.

In the 2017 legislative session, legislative sponsors accepted a concept that turned out to be appealing to a majority of the members. The Lottery promised that if the law was changed, a minimum of \$110 million more in profit could be achieved (see chart below), and that these additional funds could be used for more specific education programs that needed legislative funding. Specifically, the appeal of the change was that any additional funding collected above a \$50 million floor each year would be used to fund pre-K through 3<sup>rd</sup> grade reading intervention initiatives and Science, Technology, Engineering and Math (STEM) programs. (Title 3A, Section 713.1)

HB1837 was introduced to accomplish this and it was passed by the Legislature and signed into law by the Governor.

HB 1837 amended the law to remove the 35% minimum mandated profit. The new law establishes that the first \$50 million of funds are to be transferred to the OELTF and used by the Legislature according to the historical allocations as noted above (the 45%-45%-5%-5% allocation). All net proceeds deposited to the OELTF in excess of the \$50 million are to be appropriated as cash by the legislature and allocated by the State Department of Education to public schools based on the audited end-of-year average daily membership in grades PK-12 during the preceding school year. The funds allocated in this manner are for the purpose of implementing prekindergarten through third grade reading intervention initiatives or science, technology, engineering and math (STEM) programs.

Following is the chart that illustrates the additional \$110 million to be achieved over the five year period. This chart also shows the actual profit through FY‘18.

	Profits Without Law Change (millions)	Profits With Law Change (millions)	Actual Profits (millions)
FY‘18	\$49.5	\$58.4	\$63.2
FY‘19	\$47.3	\$65.6	
FY‘20	\$45.4	\$69.0	
FY‘21	\$43.5	\$71.2	
FY‘22	\$41.7	\$72.7	
Totals	\$227.4	\$336.9	
Difference		+\$109.5	

**Start of ticket sales and history of game additions:**

Historically and currently, the Oklahoma Lottery sells two types of lottery products, Scratchers (instant win games) and draw games. Descriptions and more detail are included under “Lottery Products”.

Ticket sales in Oklahoma started October 12, 2005 with four Scratchers. The first draw game was Pick 3, and



it started November 10, 2005. The next draw game was Powerball, Oklahoma's first multi-state Lottery game. It started January 12, 2006. Cash 5 started on September 1, 2006. Hot Lotto, a smaller multi-state draw game, started January 3, 2008 and ended October 28, 2017. Mega Millions was added January 31, 2010. Pick 4 started July 5, 2011 and ended September 15, 2013. Poker Pick started September 7, 2014 and ended February 26, 2018. Lotto America replaced Hot Lotto and began on November 12, 2017. Lucky 4 Life started February 25, 2018. New Scratchier games are introduced on a scheduled basis.

## Economic Conditions and Outlook

Oklahoma enjoys a low tax burden, a low cost of doing business and has a highly skilled and productive work force. Oklahoma lies at the crossroads of U.S. Interstates 35, 40 and 44, three of the nation's most important transportation and shipping corridors, allowing state businesses to take advantage of opportunities anywhere in the United States.<sup>(1)</sup>

Oklahoma has vibrant metropolitan areas and its two largest cities, Oklahoma City and Tulsa have been singled out in national surveys and various publications for their economic strengths and other qualities.<sup>(6)</sup> Oklahoma is one of only a handful of states to have an unemployment rate below the national average. The unemployment rate for 2017 was 4.3% and 3.9% for 2018. Over the last five years, Oklahoma had a jobless rate far below that of the country as a whole.<sup>(6,7,8)</sup>

Oklahoma is known for its abundant resources, most notably oil and natural gas. In 2015, low oil and gas prices remained a drag on Oklahoma's economy into the beginning of 2017. Between September 2014 and September 2016, energy sector job losses in Oklahoma exceeded 20,000.<sup>(9)</sup> For 2017, Oklahoma's prominent energy sector has shown a positive note with drilling rig counts and jobs in the industry starting to recover.<sup>(10)</sup> There are some encouraging signs as state industries outside the oil and gas sector have helped the state weather the prolonged energy market downturn.<sup>(9,10)</sup> Oklahoma's agriculture has been a vital part of the state's economic recovery. Oklahoma is a leading producer of agricultural products, ranking in the top ten in production of wheat, cattle and hogs, peanuts, grain, sorghum, pecans and rye. Other important industries that have experienced positive growth include aerospace and aviation, mining, construction, health care, tourism, warehousing and distribution, and food processing and packaging.<sup>(6,10)</sup>

Oklahoma boasts high quality education systems with award-winning schools. Oklahoma's Department of Career and Technology Education has developed the Oklahoma Training for Industry program. This program has been ranked one of America's best and most sophisticated training programs by delivering high quality, customized training to Oklahoma employers for free.<sup>(4)</sup> In November 2017, the governor signed an Executive Order establishing the "Earn & Learn Oklahoma" strategy as part of the Oklahoma Works Initiative with the goal of supporting 20,000 quality work-based learning opportunities per year by 2020.<sup>(10)</sup> Oklahoma has award-winning public and private colleges and universities, including schools with nationally-recognized early childhood development programs.

Oklahoma museums tell of the state's colorful history and pioneer spirit. There are many outdoor recreational opportunities and major entertainment districts located in Oklahoma City and Tulsa, both having undergone a renaissance in their downtown areas in recent years. The state is also home to nearly 40 federally recognized Indian tribes, who contribute significantly to the state's commerce.<sup>(3)</sup>

Some State Economic Highlights over the past five years

- Oklahoma's GDP was strong in 2017, with oil and gas sectors showing a positive impact along with other industry sectors in the areas of unemployment, jobs and wages.<sup>(8,10)</sup>
- The Oklahoma Medical Research Foundation (OMRF) is one of the most respected nonprofit biomedical research institutes in the world. OMRF has established strategic partnerships with scientists in China, India and Brazil to uncover the basis of diseases and to discover new treatments.<sup>(5)</sup>
- The U.S. Chamber of Commerce Foundation ranked Oklahoma for overall economic performance in its "Enterprising States 2015" report. Other top 10 rankings for the state in the report include sixth in

per capita income growth, fifth in college affordability, ninth in cost of living and tenth in long-term job growth.<sup>(8)</sup>

- Twenty-five Oklahoma companies made the 2016 Inc. top 5,000 list of the fastest growing private sector companies in the nation.<sup>(9)</sup> Twenty-eight Oklahoma companies made the list in 2017.<sup>(10)</sup>
- In 2015-2016 oil and gas and manufacturing employment had taken a hard hit; the 2016 Oklahoma rig counts averaged 128 rigs, up just more than 50% from a year earlier, but 40% less than the 2014 peak. The jobs outlook remains highly dependent on the future of energy prices.<sup>(8,9,10)</sup>
- The aerospace and aviation industries are now the second largest sector of Oklahoma's economy, generating an annual impact of about \$43.8 billion with more than 120,000 Oklahomans employed in the aerospace and defense industry.<sup>(10)</sup>
- Oklahoma's leadership has taken several steps to help its workforce diversity and meet the challenges of the energy sector slump. Efforts to diversify and increase workforce skills are still needed and being developed. The State will need other industries, such as healthcare, entertainment, and construction, to help drive economic growth.<sup>(8,9)</sup>

State government will focus on critical issues to ensure Oklahoma capitalizes on its potential for growth. Sustained efforts in creating a business friendly environment are essential for creating a bright, strong future.<sup>(9)</sup> Oklahoma's executive management will continue to lead in promoting improvement in key areas to improve the lives of all Oklahomans. Oklahoma will continue to make investments in a high quality educational system where all students can succeed and will also encourage investors to allow their money to work and grow in Oklahoma.<sup>(8,9)</sup>

### **Future Lottery Results and Challenges**

Because of the 2017 legislative change in the minimum mandated profit requirement of 35%. Lottery sales and profit for FY-2018 were significantly higher than in FY-2017. The Lottery expects revenues for FY-2019 to be more than FY-2018. Prior to that law change, revenues for future years were expected to decline. The statutorily mandated requirement limited how much could be returned to players in the form of prizes, which in turn limited the overall sales and profits of the Lottery. Removal of the restriction allows prize payouts to be improved, which will increase both sales and profits. Although not applicable to FY'17, the Lottery removed all of the older products from the field the first two weeks of July 2017, replacing them with newer products that had significantly better payouts, including the first \$10 price point offered in Oklahoma. These new and popular products significantly improved both sales and profits.

Additional challenges to growth in Lottery revenue include the increasing competition from other gaming venues, most notably Tribal casinos and horseracing / racinos. Oklahoma has entered into compacts with 34 Oklahoma tribes to direct a portion of casino gaming revenues to education. There are more than 115 tribal casinos operating in Oklahoma. These operations compete with the Lottery for limited entertainment dollars.

Other challenges still affecting the growth of Lottery sales include:

- illegal gambling
- illegal gaming machines
- restrictions on legal Lottery venues and types of games
- restrictions on advertising lottery products
- restrictions on acceptable methods of payment for lottery purchases

(The 2018 Legislature changed the Act to allow the use of Debit Cards in addition to the already allowed use of cash to make lottery purchases)

Note that the Constitutional provision that mandated liquor stores to only sell alcohol has been removed through a statewide vote. Effective October 1, 2018, liquor stores can now sell additional non-liquor products, within limits, including lottery tickets. The Lottery has pursued recruitment of viable liquor store locations as potential lottery retailers.

<sup>(3)</sup> Oklahoma Office of State Finance 2012 CAFR  
<sup>(4)</sup> Oklahoma Office of State Finance 2010 CAFR  
<sup>(5)</sup> Spears School of Business 2012 Economic Outlook  
<sup>(6)</sup> Oklahoma Office of Management and Enterprise Services 2013 CAFR  
<sup>(7)</sup> Oklahoma Office of Management and Enterprise Services 2014 CAFR

<sup>(8)</sup> Oklahoma OMES 2015 CAFR  
<sup>(9)</sup> Oklahoma OMES 2016 CAFR  
<sup>(10)</sup> Oklahoma OMES 2017 CAFR  
<sup>(11)</sup> Oklahoma OMES 2018 CAFR

## Lottery Products

The Lottery offers products in two styles of play, Scratchers and draw games. The Lottery offered Oklahoma players two different raffle games in the past. The raffle games were one-time promotional options not currently available and these are not discussed in the following material.

A description of Scratchers and Draw Games follows.

**Scratchers** – Scratchers are lottery tickets that require the removal of a latex covering from a play area on the ticket to reveal if the ticket is a winner. The Lottery started Scratcher game sales on October 12, 2005.

There are different play styles for Scratcher games, such as matching two or three like symbols, your score beats their score, or your symbol matches a key symbol. The odds of winning vary by game and prize level. Information on how to play the games and the odds of winning the games are on the ticket and on the Lottery’s website. The Lottery website includes information showing the remaining winning tickets in each Scratcher game, updated from the previous day. The website also offers the game procedures for each active scratcher and shows financial information for each ended Scratcher game.



Scratcher tickets are offered in \$1, \$2, \$3, \$5, and \$10 price points. Prize payouts range from \$1-\$125,000. As of the end of FY’ 18, the Lottery has offered 498 Scratcher games since startup. New games are typically launched every month, on average about three new games per month.

**Draw Games** – Draw games are lottery games where the player selects numbers, or the system selects numbers for the player. The gaming system prints these numbers on a ticket that is given to the player. All winning draw game tickets sold in Oklahoma must be claimed within 180 days of the drawing.

At specified times, the Lottery or the entity administering the game conducts a drawing to select winning numbers. Players match the numbers on their tickets to the winning numbers. The more numbers matched the more prize money that can be won. Oklahoma Lottery draw games consist of in-state draw games and multi-state draw games. Top prizes in the multi-state games are typically referred to as “jackpots”. The multi-state games are often referred to as “jackpot games”. The Oklahoma Lottery participates in these multi-state jackpot games so that Oklahoma players have more selections available to them, including the opportunity to participate for the higher jackpots. Since the Oklahoma Lottery is a smaller lottery, it would not be possible to offer these types of high jackpot games without being able to participate with other jurisdictions.

**In-state draw games:** currently, the Oklahoma Lottery offers the following in-state only draw games:

1. Pick 3
2. Cash 5

In-state draw games that are no longer offered in Oklahoma are Pick 4 and Poker Pick

Multi-state draw games: multi-state games currently offered in Oklahoma include the following:

1. Powerball
2. Mega Millions
3. Lucky for Life
4. Lotto America

Hot Lotto is a multi-state game previously offered in Oklahoma.

**Following are descriptions of each of the draw games offered in Oklahoma.**



**Pick 3** – Oklahoma’s first draw game sales launched on November 10, 2005. In this game, players select a set of three numbers, 1 each from 0 to 9. Players can try to match the three numbers drawn in the exact order or in various combinations (see Pick 3 table below). Prizes range from \$50 - \$500.

PLAYS	EXAMPLE	IF LOTTERY DRAWS	YOU WIN	ODDS
<b>Straight</b>	7 2 4	<b>7 2 4</b> Only Exact Match Wins	<b>\$500</b>	1 in 1,000
<b>Box 3-Way</b>	1 1 3	<b>1 1 3 1 3 1 3 1 1</b>	<b>\$160</b>	3 in 1,000
<b>Box 6-Way</b>	7 2 4	<b>7 2 4 2 4 7 4 2 7 7 4 2 2 7 4 4 7 2</b>	<b>\$80</b>	6 in 1,000
<b>Front Pair</b>	7 2 ★	<b>7 2 ★</b> 72 + Any Number	<b>\$50</b>	1 in 100
<b>Back Pair</b>	★ 2 4	<b>★ 2 4</b> Any Number + 24	<b>\$50</b>	1 in 100

**Cash 5** – To play Cash 5, players select a set of five numbers from 1 to 36. Winning tickets are those that match any two, three, four, or all five of the five numbers drawn. There are four prize categories in this game. The top prize for matching all five numbers is \$34,722, which yields a \$25,000 cash payment after deducting federal and state withholding taxes. This game started on September 1, 2006 with a drawing every Tuesday and Thursday night. The Lottery added a Saturday drawing September 1, 2007. Starting July 1, 2009, the drawings increased to 7 nights a week.



MATCH	PRIZE	ODDS: 1 IN
	<b>\$25,000</b> (taxes paid)	<b>376,992</b>
	<b>\$500</b>	<b>2,432.2</b>
	<b>\$10</b>	<b>81.1</b>
	<b>Free Ticket</b> (Easy Pick)	<b>8.4</b>

The Jackpot Prize is a fixed amount of \$34,722 less applicable Federal and State Tax withholding of \$8,333. Each winner receives a prize check of \$25,000 except in the situations where there are more than five (5) jackpot winners in a single drawing: when there are six (6) or more jackpot winners in a single draw the winners will share a pre-tax total of \$200,000 equally. The holder of a winning ticket may win in only one category per \$1 play panel and is paid the prize in the highest category won. Prizes are approximately 48% of sales.



**Poker Pick** – Poker Pick, started September 7, 2014, ended February 22, 2018 and was Oklahoma’s first ever combined instant/draw game where players could instantly win a prize, then could win again in a nightly drawing. Poker Pick offered the largest Oklahoma in-state draw game top prize of \$100,000. Tickets cost \$2 each and drawings were held nightly.

Each ticket displays 5 cards from a deck of 52. Cards are selected by the gaming system. Players do not select their own cards in this game; each ticket is an “Easy Pick” from the system. Players can win up to \$10,000 in the instant win portion of this game. Prizes at all levels are awarded if the cards displayed on the player’s ticket matches one of the winning poker hands listed at the bottom of the ticket and shown in the chart to the right. If a player has a hand of “Jacks or Better”, they win a prize.

Players then have a chance to win nightly prizes if the cards on their ticket match at least two of the cards drawn in the nightly drawing. A player that matches 5 of 5 cards will win the \$100,000 prize (see chart to the right).

INSTANT MATRIX																		
	<b>ROYAL FLUSH – \$10,000</b> ACE, KING, QUEEN, JACK AND 10 OF THE SAME SUIT ODDS 1: 649,740		<b>THREE OF A KIND – \$5</b> ANY 3 CARDS OF THE SAME VALUE ODDS 1: 47															
	<b>STRAIGHT FLUSH – \$1,000</b> ANY 5 CONSECUTIVE CARDS OF THE SAME SUIT ODDS 1: 72,193		<b>TWO PAIR – \$3</b> ANY 2 PAIRS OF THE SAME VALUE ODDS 1: 21															
	<b>FOUR OF A KIND – \$100</b> ANY 4 CARDS OF THE SAME VALUE ODDS 1: 4,165		<b>PAIR OF JACKS OR BETTER – FREE TICKET (POKER PICK)</b> 2 JACKS, 2 QUEENS, 2 KINGS OR 2 ACES ODDS 1: 8															
	<b>FULL HOUSE – \$50</b> ANY 3 OF A KIND PLUS A PAIR ODDS 1: 694	<small>CARD IMAGES ARE EXAMPLES ONLY. COMBINATION OF CARDS CAN VARY BY RANK AND SUIT.</small>																
	<b>FLUSH – \$30</b> ANY 5 CARDS OF THE SAME SUIT ODDS 1: 509	<b>NIGHTLY MATRIX</b>																
	<b>STRAIGHT – \$10</b> ANY 5 CONSECUTIVE CARDS OF ANY SUIT ODDS 1: 255	<table border="1"> <thead> <tr> <th>MATCH</th> <th>PRIZE</th> <th>ODDS</th> </tr> </thead> <tbody> <tr> <td>5 OF 5</td> <td>\$100,000</td> <td>1: 2,598,960</td> </tr> <tr> <td>4 OF 5</td> <td>\$1,000</td> <td>1: 11,059</td> </tr> <tr> <td>3 OF 5</td> <td>\$20</td> <td>1: 240</td> </tr> <tr> <td>2 OF 5</td> <td>\$4</td> <td>1: 16</td> </tr> </tbody> </table>		MATCH	PRIZE	ODDS	5 OF 5	\$100,000	1: 2,598,960	4 OF 5	\$1,000	1: 11,059	3 OF 5	\$20	1: 240	2 OF 5	\$4	1: 16
MATCH	PRIZE	ODDS																
5 OF 5	\$100,000	1: 2,598,960																
4 OF 5	\$1,000	1: 11,059																
3 OF 5	\$20	1: 240																
2 OF 5	\$4	1: 16																

**Powerball** – Powerball is a multi-state game administered by the Multi-State Lottery Association (MUSL). MUSL is a “non-profit” entity governed by a board that consists of the 36 directors of each “Party” lottery, including Oklahoma’s Executive Director. The Board governs the organization. Forty seven (47) lotteries participate in Powerball (44 states, the District of Columbia, Puerto Rico and the Virgin Islands). The number of participating lotteries includes 11 “Licensee Lotteries” from the Mega Millions consortium.



The Powerball game is played by selecting 5 balls from a pool of white balls and one ball from a pool of red balls (the Powerball). The current version of the game also offers an add-on called “PowerPlay”. By paying an extra \$1 for each set of numbers on the ticket, non-jackpot prizes are multiplied by a separately chosen number (selected by an RNG). This multiplier can be: 2-3-4-5. However if the advertised jackpot is \$150 million or less, then a 10x is added to the pool of possibilities for the PowerPlay multiplier.



Jackpot prizes are won when the Player's ticket matches the five white balls and the red "Powerball". While Jackpots are advertised using the estimated annuity amount. The actual values of the jackpot is the portion of the prize pool dedicated to the Jackpot. The "Grand Prize Pool" is currently capped at 34.0066% of sales. The jackpot can be taken as a cash prize or an annuity prize paid out in 30 annual payments over a 29 year period. Payments for each year are calculated so that they increase by 4% over the prior year.

Drawings are held on Wednesday and Saturday nights, and tickets must be purchased prior to each drawing. Drawings are closed approximately one hour before the scheduled drawing, which is 9:59 pm in Oklahoma.

Players may choose their own "lucky" numbers or can have the gaming system terminal select all or some of the numbers. Tickets may be purchased for more than one drawing in advance. On the assigned drawing nights, the winning numbers are selected in a televised drawing that can be viewed in Oklahoma on the MUSL website. Under certain conditions, such as recent hurricanes in Florida where the drawings are conducted, drawings may be recorded and made available as soon as possible. Prizes are won by matching the numbers on a purchased ticket to the winning numbers drawn. The more balls that are matched, the better the prize (see prize payout schedule below).

POWERBALL			POWERPLAY®				
MATCH	PRIZE	ODDS:1 IN	2X	3X	4X	5X	10X
●●●●● + ●	JACKPOT	292,201,338	POWER PLAY DOES NOT APPLY TO THE JACKPOT.				
●●●●●	\$1,000,000	11,688,054	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
●●●●● + ●	\$50,000	913,129	\$100,000	\$150,000	\$200,000	\$250,000	\$500,000
●●●●●	\$100	36,525	\$200	\$300	\$400	\$500	\$1,000
●●●●● + ●	\$100	14,494	\$200	\$300	\$400	\$500	\$1,000
●●●●●	\$7	580	\$14	\$21	\$28	\$35	\$70
●●●●● + ●	\$7	701	\$14	\$21	\$28	\$35	\$70
●●●●●	\$4	92	\$8	\$12	\$16	\$20	\$40
●●●●● + ●	\$4	38	\$8	\$12	\$16	\$20	\$40

Oklahoma started selling Powerball tickets on January 12, 2006. The first drawing for Oklahoma was January 14, 2006.

Powerball game changes:

- 2012 marked Powerball's 20th anniversary and on Jan. 15, 2012, the game was changed to offer more millionaires, bigger starting jackpots and better overall odds of winning. The first drawing of this new game was on Wed., Jan. 18, 2012. Players chose the first five numbers from a pool of 59 numbers and then the Powerball number from a pool of 35 numbers. The new starting jackpot doubled to \$40 million (increased from \$20 million). Powerball tickets increased in cost to \$2 per game and the Power Play option cost an additional \$1. The MATCH 5 prize moved from \$200,000 to \$1 million and with the purchase of the Power Pay option for \$1, players have the chance to win \$2 million.
- Another game change was October 7, 2015, with players now playing the game by choosing the first five numbers from a pool of 69 numbers and the Powerball number chosen from a pool of 26 numbers. The prize for Match 4 + the Powerball changed to \$50,000. The Power Play option provided increased non-jackpot prizes to 10 times for Jackpot prizes of \$150 million or less. Powerball tickets remained at \$2 per game and the Power Play option was still an additional \$1. The odds of winning any prize improved to 1 in 31.85 from 1 in 35 and the odds of winning the jackpot improved to 1 in 175 million from 1 in 195 million.

**Hot Lotto** – Hot Lotto was a MUSL administered multi-state jackpot game that was similar to Powerball. Hot Lotto had better odds of winning the jackpot and the jackpot started at a lower amount. Players selected 5 numbers from a pool of white balls and one number from a pool of orange or “Hot” balls. Fourteen states and the District of Columbia participated in Hot Lotto, a game that has a progressive Jackpot starting at \$1.0 million dollars, taxes paid.



Oklahoma launched Hot Lotto sales on January 3, 2008, and the first drawing was January 5, 2008. Players picked five white numbers from 1 to 39 and one orange “HOT ball” number from 1-19. Beginning May 12<sup>th</sup>, 2013, Hot Lotto offered a “taxes paid” Jackpot, with more number choices and bigger prizes. This revamped Hot Lotto game offered a starting jackpot of \$1 million cash with State and Federal withholding taxes “paid” (money to cover the withholdings are added to the prize amount) for the winner, putting more money in the winners’ hands. Also, the number of white balls increased from 39 to 47. Players chose five numbers from 47 and one number, the Hot Ball, from a separate pool of 19 numbers (no change) to win the Jackpot. In addition to the taxes paid Jackpot, several other prize levels increased.

Shown in the chart below is the Prize Matrix for the final version of the game. Players could win one of nine cash prizes when they match enough of the Hot Lotto numbers drawn. Hot Lotto remained \$1 per play and the Sizzler option, which triples non-jackpot prizes, cost an additional \$1 per play. Hot Lotto drawings occurred twice each week, on Wednesday and Saturday evenings. The overall odds of winning in this redesigned game were now 1 in 17.22.

MATCH	PRIZE	ODDS: 1 IN	WITH SIZZLER
●●●●● + ●	<b>JACKPOT</b>	29,144,841.00	DOES NOT APPLY TO JACKPOT
●●●●●	<b>\$30,000</b>	1,619,157.83	<b>\$90,000</b>
●●●●● + ●	<b>\$3,000</b>	138,784.96	<b>\$9,000</b>
●●●●●	<b>\$100</b>	7,710.28	<b>\$300</b>
●●●●● + ●	<b>\$50</b>	3,385.00	<b>\$150</b>
●●●●●	<b>\$6</b>	188.06	<b>\$18</b>
●●●●● + ●	<b>\$6</b>	253.87	<b>\$18</b>
●●●●●	<b>\$3</b>	52.08	<b>\$9</b>
●●●●●	<b>\$2</b>	34.26	<b>\$6</b>

The Hot Lotto game was discontinued October 28, 2017. In Oklahoma, it was replaced two weeks later by another MUSL administered game, Lotto America.

**Mega Millions** – Mega Millions began on August 31, 1996 as the Big Game. The first drawing took place on September 6, 1996, with six states participating: Georgia, Illinois, Maryland, Massachusetts, Michigan and Virginia. The name of the multi-state game changed to "Mega Millions in May of 2002.



Oklahoma launched Mega Millions sales on January 31, 2010 and our first drawing was February 2, 2010. Players selected 5 out of 59 numbers from the white balls (these can be drawn in any order to win), and selected 1 out of 39 numbers for the yellow Mega Ball®. Jackpots started at \$12 million and rolled over until a player(s) matched all six numbers. Mega Millions tickets cost \$1 per game. Players could select the megaplier option, which allows non-jackpot prizes to be increased by 2, 3, or 4 times, for an additional \$1. If the megaplier option is selected by the player, the 2<sup>d</sup> level prize was \$1 million. The jackpot was offered as a cash prize or as an annuity prize paid out in 26 annual payments over 25 years.

The Mega Millions game was revised effective with the October 22, 2013 drawing. First, the game matrix changed: players selected 5 out of 75 balls and 1 out of 15 balls. This changed the odds of winning the jackpot to 1:259 million. The jackpot started at \$15 million rather than \$12 million and grew by at least \$5 million each rollover. The second level prize changed from \$250,000 to \$1 million and the multiplier option included a 5X. In addition, winning with the multiplier option multiplied the 2<sup>nd</sup> level prize. The annuity prize was changed to 30 payments over 29 years and each payment grew by 5% over the previous year. Mega Millions changed again, effective October 28, 2017. At that time, the starting jackpot became \$40 million and the price changed from \$1 to \$2 for a base Mega Millions wager. Forty-six (46) lotteries participate in Mega Millions (44 states, the District of Columbia, and the Virgin Islands).

To the right is the October 27, 2013 Prize Chart. The second chart is the prize chart currently in use as of October 28, 2017

MEGA MILLIONS			MEGAPLIER			
MATCH	PRIZE	ODDS: 1 in	2x	3x	4x	5x
○○○○○ + ●	Jackpot	258,890,850	Jackpot	Jackpot	Jackpot	Jackpot
○○○○○	\$1,000,000	18,492,204	\$2,000,000	\$3,000,000	\$4,000,000	\$5,000,000
○○○○○ + ●	\$5,000	739,688	\$10,000	\$15,000	\$20,000	\$25,000
○○○○	\$500	52,835	\$1,000	\$1,500	\$2,000	\$2,500
○○○○ + ●	\$50	10,720	\$100	\$150	\$200	\$250
○○○	\$5	766	\$10	\$15	\$20	\$25
○○ + ●	\$5	473	\$10	\$15	\$20	\$25
○ + ●	\$2	56	\$4	\$6	\$8	\$10
●	\$1	21	\$2	\$3	\$4	\$5

Current Mega Millions Chart below (since 10/28/2017)

OKLAHOMA MEGA MILLIONS			MEGAPLIER			
MATCH	PRIZE	ODDS: 1 in	2x	3x	4x	5x
○○○○○ + ●	Jackpot	302,575,350	Jackpot	Jackpot	Jackpot	Jackpot
○○○○○	\$1,000,000	12,607,306	\$2,000,000	\$3,000,000	\$4,000,000	\$5,000,000
○○○○○ + ●	\$10,000	931,001	\$20,000	\$30,000	\$40,000	\$50,000
○○○○	\$500	38,792	\$1,000	\$1,500	\$2,000	\$2,500
○○○○ + ●	\$200	14,547	\$400	\$600	\$800	\$1,000
○○○	\$10	606	\$20	\$30	\$40	\$50
○○ + ●	\$10	693	\$20	\$30	\$40	\$50
○ + ●	\$4	89	\$8	\$12	\$16	\$20
●	\$2	37	\$4	\$6	\$8	\$10





**Lotto America** - A multi-state draw game started sales in Oklahoma on November 12, 2017 with the first drawing on November 15. It replaced the Hot Lotto Game that was discontinued. Lotto America is a MUSL administered multi-state jackpot game. Players select 5 out of 52 numbers for the white balls and then select 1 out of 10 for the Star Ball. Each

play is \$1 and for an extra \$1 the player can add an all Star Bonus for a chance to multiply the winnings up to 5 times. Jackpots start at \$2 million. The drawings are held on Wednesdays and Saturdays after 10 pm.

Shown in the chart below is the Prize Matrix for the current game. Thirteen states participate in Lotto America, a game that has a progressive Jackpot starting at \$2.0 million dollars.

MATCH	PRIZE	ODDS:1in	2x	3x	4x	5x
●●●●● + ●	Jackpot	25,989,600	Jackpot	Jackpot	Jackpot	Jackpot
●●●●●	\$20,000	2,887,733	\$40,000	\$60,000	\$80,000	\$100,000
●●●●● + ●	\$1,000	110,594	\$2,000	\$3,000	\$4,000	\$5,000
●●●●●	\$100	12,288	\$200	\$300	\$400	\$500
●●●● + ●	\$20	2,404	\$40	\$60	\$80	\$100
●●●●	\$5	267	\$10	\$15	\$20	\$25
●●● + ●	\$5	160	\$10	\$15	\$20	\$25
●● + ●	\$2	29	\$4	\$6	\$8	\$10
● + ●	\$2	16	\$4	\$6	\$8	\$10

**Lucky for Life** – Oklahomans joined Lucky for Life February 25, 2018. Players select 5 out of 48 white balls and then select 1 out of 18 for the Lucky Ball. Each play is \$2. A player does not just win once with Lucky for Life, top prizes are FOR LIFE. The top prize of \$1,000 per day for life is paid annually. The minimum payment period for the top prize is 20 years. Top prize winners may choose a one-time cash payment or the annuitized annual payment option.



The chart below is the Prize Matrix for the current game. The overall odds of winning a prize are 1 in 7.77.

MATCH	PRIZE	ODDS:1in
●●●●● + ●	\$1,000 per day for life	30,821,472
●●●●●	\$25,000 per year for life	1,813,028
●●●●● + ●	\$5,000	143,356
●●●●●	\$200	8,433
●●●● + ●	\$150	3,413
●●●●	\$20	201
●●● + ●	\$25	250
●● + ●	\$3	15
● + ●	\$6	50
●	\$4	32



**Prize Claim Centers** – Lottery winners are able to claim prizes up to \$600 at any Lottery retailer\*, identifiable by the Lottery “Play Here” poster shown to the left. Players can claim prizes up to \$5,000 at any of the twelve (12) Claim Centers, including Lottery headquarters, located throughout Oklahoma. Prizes that exceed \$5,000 must be claimed at the Lottery headquarters claim center, or may also be claimed by mailing the winning tickets to the Lottery. A claim form, evidence of the winner’s social security number and two forms of ID are required for all prizes greater than \$600. Evidence of lottery play is a ticket purchased at a retail location or from the Lottery. Players must present the ticket, which is the legal document required to claim a prize. By law, the Lottery withholds for state and federal taxes on all prizes greater than \$600. The Lottery also withholds for debt owed to the Oklahoma Tax Commission, Oklahoma Employment Security Commission and the Department of Human Services. The Lottery will also withhold from winnings pursuant to properly and timely served court orders (the order has to be received before the subject prize is paid to a claimant). Players have 90 days from the announced end-of-game (available on the Lottery web site) to claim Scratcher ticket prizes.

Players have 180 days after the draw date to claim draw game prizes for tickets sold in Oklahoma. The Lottery sends the winning numbers nightly after the drawings to Oklahoma media outlets. The Lottery also posts the numbers on the Lottery website and the numbers may be obtained as a message by calling the Lottery phone number.

*\* Retailers are encouraged to pay prizes in cash but are allowed to pay prizes from \$25,01 - \$600.00 with a business check or money order if disclosed in advance to the Claimant.*

## Highlights of Fiscal Year 2018

### ***Millions Contributed to Education***

The Lottery contributed \$63.2 million for education on total Lottery revenues of \$221.6 million in FY-2018. These were increases above FY-2017: Sales \$59.6 million or 87.7 %; profits \$10.2 million or 19.2%. Through November 2018 as this report is finalized, more than \$880 million has been contributed to the Oklahoma Education Lottery Trust Fund by the Lottery Commission to be used for Oklahoma education programs

### **Jackpot Winners History**

Oklahoma has had four Powerball jackpot winners winning prizes with annuitized values of more than \$325.3 million dollars since inception in 2006. The first jackpot winner made history just 5 months after Oklahoma joined Powerball, on June 17, 2006, by winning the \$101.8 million prize (annuitized value), becoming the first Powerball jackpot winner from Oklahoma. The winners were quoted as saying that “we are proof that you never know when you might win and you cannot win unless you play.”

On June 29, 2007, a couple from Muldrow, Oklahoma claimed the second Powerball Jackpot that was sold in Oklahoma. Their jackpot’s annuitized value was worth \$105.8 million. On August 22, 2008, a trust claimed the third Powerball jackpot sold in Oklahoma. The annuitized amount was \$84.9 million. The fourth Powerball jackpot ticket was sold on November 21, 2009, and claimed by a trust on January 20, 2010. The annuitized amount was \$32.8 million. In addition, through September of 2018, Oklahoma has had 5 Hot Lotto jackpot winners with prizes totaling \$14.98 million, and has awarded 57 prizes of \$1 million or more, in total.

## Financial Information

### ***Accounting System and Policies***

The Lottery operates the Oklahoma Education Lottery Revolving Fund, an enterprise fund that, like a private business, utilizes the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

### ***Budgetary Controls***

A comprehensive annual budget is prepared for and approved by the Lottery's Board of Trustees. A budget is submitted annually to the Office of Management and Enterprise Services (OMES) as required by state statutes. The budget is prepared on both a cash basis and a full accrual basis of accounting. The budget is based on sales forecasts, industry trends, program proposals, and approved action plans. The operating budget is submitted to OMES, the Governor and the legislature. Actual costs are monitored throughout the year for compliance with the approved budget and appropriate adjustments are approved if necessary.

### ***Internal Controls***

An internal control structure has been designed to ensure that assets are protected from loss, theft or misuse, and to ensure that the accounting system allows compilation of accurate and timely financial information. The internal controls are designed to provide reasonable assurance that these objectives are met. To enhance controls, management has separated responsibilities and provides approval and oversight for the following functions: personnel and payroll; purchasing and accounts payable; general ledger and accounts receivable; cash receipts and cash disbursements; retailer network management and retailer accounts receivable; and system data processing and system programming. Reviews of operations are achieved by the following procedures:

***Draw verification:*** Employees of an Oklahoma independent certified public accounting firm witness the selection of winning numbers for Oklahoma online games.

***Lottery Vendor Service Organizations (SSAE 16) Audit:*** Scientific Games International (SG) is Oklahoma Lottery's contracted vendor for instant and online games. SG Management contracted the services of an independent CPA to perform a Statement on Standards for Attestation Engagements (SSAE 16), Service Organizations, engagement with testing of identified internal controls. The SSAE 16 is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). An SSAE 16 audit examination is widely recognized because it represents that a service organization has been through an in-depth audit of their control activities, which generally include controls over information technology and related processes.

***Internal Audits:*** The Lottery contracts with an outside accounting firm to perform appropriate studies and evaluations of accounting and administrative controls, as directed by the Board of Directors, Audit and Finance Committee, one of three standing committees of the Board of Trustees.

***Other Safeguards and Controls:*** To ensure the integrity of the Lottery, the Lottery has implemented the following measures:

- Specialized security staff.
- Secured facilities and gaming equipment.
- Background checks on retailers, contractors and Lottery employees.
- Lottery tickets with special inks, dyes and security codes.
- Detailed and strict security procedures for game drawings.
- Lottery random number generators (RNG) are in stand-alone systems and are certified by an independent firm prior to installation.
- Back-up sites for gaming systems are properly maintained.

### ***Employees***

The Lottery had 28 full-time employees as of June 30, 2018.

### ***Debt Administration***

At the end of FY-2018, the Lottery had no long-term liabilities. A start-up line of credit of \$10 million was authorized by the state legislature and extended by J.P. Morgan Chase to the Lottery. The authority for the line of credit expired in August 2007. The Lottery borrowed approximately \$200,000 in 2005, and has fully repaid

this debt. The State of Oklahoma received a rating of "Aa2" by Moody's Investors Service and "AA+" by both Standard & Poor's Corporation and Fitch Investors Service general obligation bonds.

### ***Change in Accounting Policy and Reclassifications***

Effective July 1, 2008, to more closely comply with industry standard accounting procedures, the Lottery changed its accounting policy for free tickets, the majority of which are related to instant ticket games. Every instant ticket game has a predetermined number of free tickets in its prize structure. For years prior to fiscal year 2009, free tickets were included in sales and prize expense. For the year ended June 30, 2009, sales and prize expense are shown net of free tickets and prior year financials have been restated to make year-to-year comparisons more meaningful. The effect of the change in accounting policy reduces both revenues and direct costs from instant and on-line games. There is no effect on the calculation of profits to be transferred to the Oklahoma Education Lottery Trust Fund, on the Lottery's net assets, changes in net assets, or net cash flows from operations. Effective with the change to the statutory minimum mandated profit, prize payouts in all Instant games were improved and free tickets were removed as prizes in the Instant games starting 7-1-2017.

### ***Performance Target***

The Oklahoma Lottery estimates that it will transfer \$65.8 million to education in FY-2019, which will bring the total transferred by the Lottery for Oklahoma Education to approx. \$933.8 million by the end of FY-2019.

### **Independent Audit**

Oklahoma statutes require an annual financial audit by an independent CPA. The independent auditors' report on the Lottery's financial statements is included in the financial section of this report.

### **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 Oklahoma Lottery for its comprehensive annual financial reports for each of the fiscal years ending June 30, 2006 through 2017. In order to be awarded a Certificate of Achievement, a government entity 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. We believe 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 certification. This report demonstrates the professionalism and dedicated team effort of Lottery employees. We appreciate their contribution to the success of this report. The Lottery is committed to providing thorough and relevant financial information to the public. This CAFR reflects our commitment to meet the highest standards of accountability and to maintain public trust through the highest ethics and integrity. Additionally, we were notified by The Open Group, in April 2012 that we achieved certification in the NASPL National Standards Initiative for Quality Assurance Requirements Definition for Lotteries. The Oklahoma Lottery was the fifth Lottery to achieve this certification (along with Georgia, Louisiana, Missouri, and North Carolina). Credit is also given to our Board of Trustees for their responsiveness and guidance in operating the Lottery.

Respectfully submitted,



**Rollo Redburn**  
**Executive Director**

# OKLAHOMA LOTTERY COMMISSION

## Board of Trustees

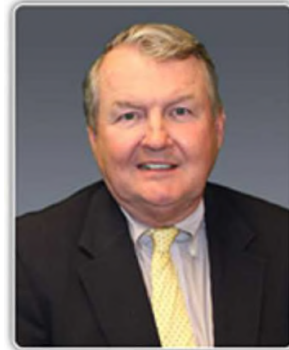
6/30/2018



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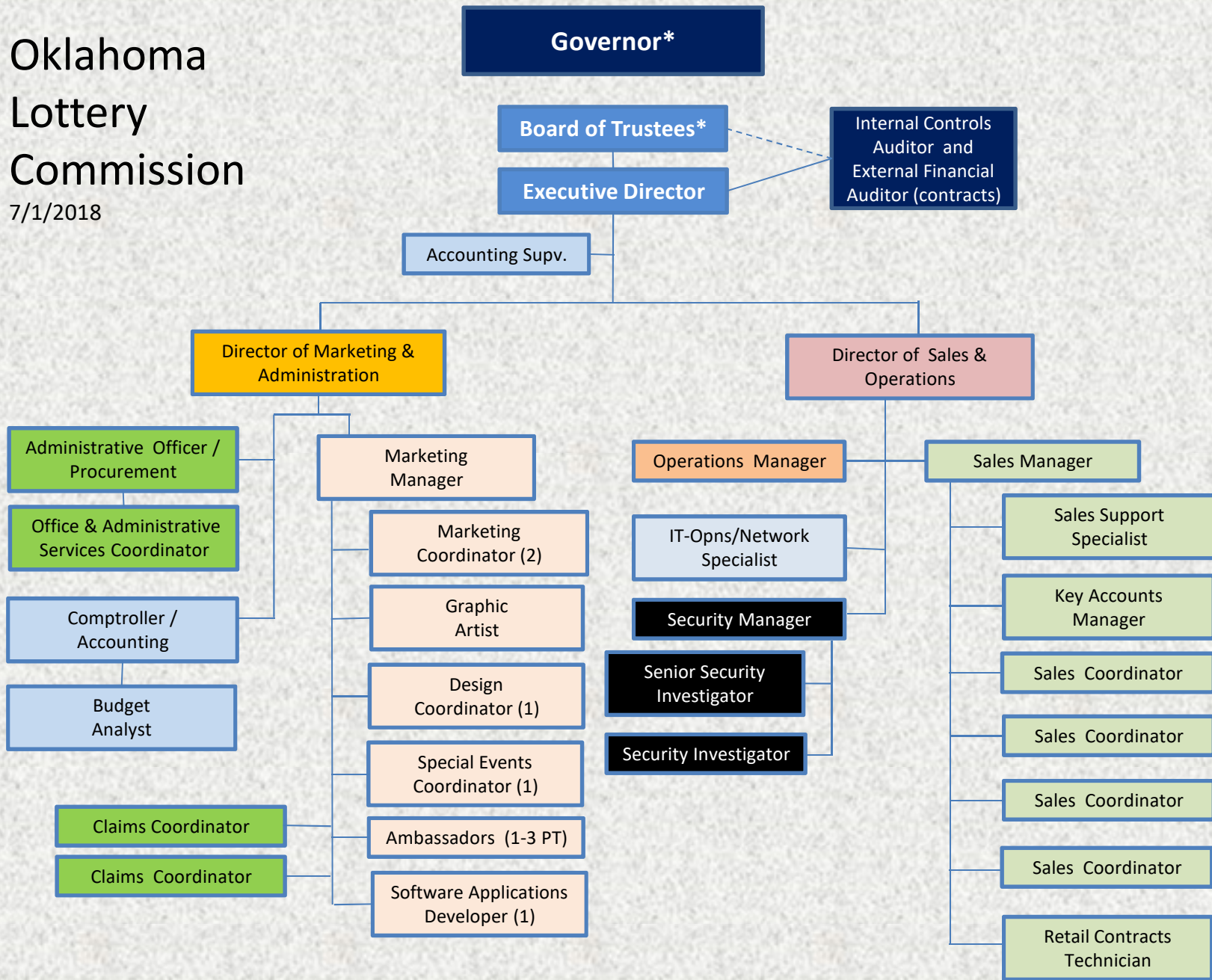


**TRUSTEE**  
Ralph E. Blodgett



# Oklahoma Lottery Commission

7/1/2018



\*Governor appoints Trustees; State Senate confirmation required.



# **Financial Section**

For the Fiscal Years Ended  
JUNE 30, 2018 and 2017

An Agency of the State of Oklahoma



RSM US LLP

## **Independent Auditor's Report**

To the Board of Trustees  
Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Oklahoma Lottery Commission (the OLC), an enterprise fund of the State of Oklahoma, as of and for the years ended June 30, 2018 and 2017; and the related notes to the financial statements, which collectively comprise the OLC's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Lottery Commission as of June 30, 2018 and 2017, and the respective changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 of the financial statements, the financial statements present only OLC and do not purport to, and do not, present fairly the financial position of the State of Oklahoma, as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of OLC's proportionate share of the net pension liability, and the schedule of OLC's contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

The accompanying Introductory and Statistical sections, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we do not express an opinion or provide any assurance on it.

*RSM US LLP*

Oklahoma City, Oklahoma  
September 17, 2018

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Management's Discussion and Analysis  
June 30, 2018 and 2017**

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Management of the Oklahoma Lottery Commission (the OLC) provides this management's discussion and analysis of their financial performance for the readers of the OLC's financial statements. This narrative provides an overview of the OLC's financial activity for the fiscal years ended June 30, 2018 and 2017. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the OLC's financial activities based on facts, decisions and conditions currently facing management.

**Understanding the OLC's Financial Statements**

The OLC, an instrumentality of the State of Oklahoma, is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with explanatory notes to the financial statements. The financial statements immediately follow this Management's Discussion and Analysis and are designed to highlight the OLC's net position and changes to its net position resulting from the OLC's operations.

The most important relationship demonstrated within the OLC's financial statements is the requirement that the OLC transfer all net proceeds, "as defined," to the State Treasurer for the Oklahoma Education Lottery Trust Fund (OELTF). Accordingly, a significant focus of these financial statements is determining net proceeds available for transfer to the OELTF.

The OLC is also required to transfer annually the first \$750,000, for both 2018 and 2017, of unclaimed prize money to the Oklahoma Department of Mental Health and Substance Abuse Services (ODMHSAS). This is discussed further on page 6 of the management's discussion and analysis.

**Financial and Activity Highlights**

Revenues from lottery games totaled \$221,110,396 and \$151,502,503, respectively, for the fiscal years ended June 30, 2018 and 2017. The OLC returned \$129,610,748 and \$73,342,027 to winners of lottery games; paid commissions and incentives to retailers totaling \$14,039,604 and \$10,042,954; incurred other game-related expenses of \$10,819,307 and \$8,665,829; and had operating expenses of \$6,169,674 and \$4,818,714 for each of the respective fiscal years of 2018 and 2017. The OLC's net position decreased by \$2,975,310 in fiscal year 2017 and increased by \$1,233,807 in fiscal year 2017. Transfers made and due to the OELTF were \$63,229,605 and \$53,063,688, respectively, for fiscal years ended June 30, 2018 and 2017.

Revenues from lottery games totaled \$151,502,503 and \$189,621,594, respectively, for the fiscal years ended June 30, 2017 and 2016. The OLC returned \$73,342,027 and \$95,517,232 to winners of lottery games; paid commissions and incentives to retailers totaling \$10,042,954 and \$12,421,019; incurred other game-related expenses of \$8,665,829 and \$7,985,458; and had operating expenses of \$4,818,714 and \$4,465,112 for each of the respective fiscal years of 2017 and 2016. The OLC's net position increased by \$1,233,807 in fiscal year 2016 and increased by \$2,528,359 in fiscal year 2016 after the cumulative effect of accounting changes. Transfers made and due to the OELTF were \$53,063,688 and \$66,406,789, respectively, for fiscal years ended June 30, 2017 and 2016.

The OLC's investment in capital assets includes machinery, equipment, computers and software. Capital assets, net of accumulated depreciation, at June 30, 2018, were \$101,011, a decrease of \$2,396 from June 30, 2017. Capital assets, net of accumulated depreciation, at June 30, 2017, were \$103,407, an increase of \$30,225 from June 30, 2016. Additional information concerning the OLC's capital assets is contained in Note 4 to the financial statements.

The OLC did not have any long-term debt at June 30, 2018 or 2017.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Management's Discussion and Analysis  
June 30, 2018 and 2017**

The following table summarizes the OLC's Statement of Net Position as of June 30:

	2018	2017	2016
Current assets	\$ 37,911,537	\$ 21,932,922	\$ 35,941,023
Noncurrent assets:			
Capital assets, net	101,011	103,407	73,182
Deposit with MUSL	4,491,364	4,435,515	4,615,654
Total assets	<u>\$ 42,503,912</u>	<u>\$ 26,471,844</u>	<u>\$ 40,629,859</u>
Deferred outflows of resources	<u>\$ 476,707</u>	<u>\$ 762,054</u>	<u>\$ 270,957</u>
Current liabilities	\$ 31,658,092	\$ 12,574,752	\$ 27,899,129
Noncurrent liabilities	549,829	954,526	385,097
Total liabilities	<u>\$ 32,207,921</u>	<u>\$ 13,529,278</u>	<u>\$ 28,284,226</u>
Deferred inflows of resources	<u>\$ 89,746</u>	<u>\$ 46,358</u>	<u>\$ 192,135</u>
Net position			
Net position, invested in capital assets	\$ 101,011	\$ 103,407	\$ 73,182
Restricted net position—expendable	10,581,941	13,554,855	12,351,273
Total net position	<u>\$ 10,682,952</u>	<u>\$ 13,658,262</u>	<u>\$ 12,424,455</u>

Net position decreased from fiscal year 2017 to fiscal year 2018 by \$2,975,310. This decrease was primarily attributable due the use of available assets to offset prize liabilities. Prize liabilities (or payouts) were increased significantly in fiscal year 2018 in an attempt to bolster sales. This initiative resulted in a significant increase in instant ticket sales. An amendment to the Oklahoma Education Lottery Act now requires OLC to transfer any remaining net proceeds to the Oklahoma Education Lottery Trust Fund.

Net position increased from fiscal year 2016 to fiscal year 2017. The increase was primarily attributable to an increase in pension-related deferred outflows of resources and a decrease in liabilities partially offset by a decrease in assets. The decrease in assets and liabilities are due to sales decreasing 20 percent from fiscal year 2016 to fiscal year 2017.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Management's Discussion and Analysis  
June 30, 2018 and 2017**

The following table summarizes the OLC's statement of revenues, expenses, and changes in net position for the years ended June 30:

	2018	2017	2016
<b>Operating revenues:</b>			
Gaming revenues	\$ 221,110,396	\$ 151,502,503	\$ 189,621,594
Other revenues	117,431	105,145	112,090
<b>Total operating revenues</b>	<b>221,227,827</b>	<b>151,607,648</b>	<b>189,733,684</b>
<b>Nonoperating revenue, interest income</b>	<b>415,801</b>	<b>309,357</b>	<b>340,285</b>
<b>Total revenue</b>	<b>\$ 221,643,628</b>	<b>\$ 151,917,005</b>	<b>\$ 190,073,969</b>
<b>Less prize expense</b>	<b>\$ 129,610,748</b>	<b>\$ 73,342,027</b>	<b>\$ 95,517,232</b>
Less retailer commissions/incentives	14,039,604	10,042,940	12,421,019
Less other direct game costs	10,819,307	8,665,829	7,985,458
Less operating expenses	6,169,674	4,818,714	4,465,112
<b>Total expense</b>	<b>160,639,333</b>	<b>96,869,510</b>	<b>120,388,821</b>
<b>Transfers:</b>			
Transfers to ODMHSAS	750,000	750,000	750,000
Transfers to OELTF	63,229,605	53,063,688	66,406,789
<b>Total transfers</b>	<b>63,979,605</b>	<b>53,813,688</b>	<b>67,156,789</b>
<b>Total expense and transfers</b>	<b>\$ 224,618,938</b>	<b>\$ 150,683,198</b>	<b>\$ 187,545,610</b>
<b>Changes in net position</b>	<b>\$ (2,975,310)</b>	<b>\$ 1,233,807</b>	<b>\$ 2,528,359</b>
<b>Net position at beginning of year</b>	<b>13,658,262</b>	<b>12,424,455</b>	<b>9,896,096</b>
<b>Net position at end of year</b>	<b>\$ 10,682,952</b>	<b>\$ 13,658,262</b>	<b>\$ 12,424,455</b>

Sales increased from fiscal year 2017 to fiscal year 2018 fueled by a significant growth in the instant ticket product category. A 2017 legislative change allowed the Oklahoma Lottery to invest more money in prize payouts which resulted in an over 80 percent increase in product sales. Draw sales also saw an increase due to a major price point change for the Mega Millions game (\$1 per ticket changed to \$2 per ticket) and to a significant overhaul of the draw game product portfolio.

Sales decreased from fiscal year 2016 to fiscal year 2017. Online sales during this period decreased mostly because of Power Ball sales. In fiscal year 2017, the OLC had only one jackpot over \$500 million. Powerball sales are significantly down in fiscal year 2017 compared to fiscal year 2016, due to the large jackpot that occurred on January 16, 2016. The jackpot amount reached \$1.59 billion dollars. There was also a decrease in overall scratcher sales from fiscal year 2016 to fiscal year 2017. Due to the fact that the prize payout for Scratch Tickets in Oklahoma is one of the lowest payout rates in the Nation. Scratch ticket sales have continued to decrease.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Management's Discussion and Analysis  
June 30, 2018 and 2017**

Net proceeds of the OLC must be transferred to the State Treasurer for the OELTF, with the following exceptions: 1) the cost of property and equipment, net of depreciation, and related debt and 2) other assets that cannot be transferred due to statutory or other legal restriction, including restricted cash from unclaimed prizes, deposits with Multi-State Lottery (MUSL), and the Restricted Fidelity Fund. Unclaimed prizes, after required transfers to the Department of Mental Health and Substance Abuse Services, must be added to a pool from which future prizes are awarded or used for special prize promotions. Deposits with MUSL result from a set-aside of prize expenses paid to MUSL and are available for prize reserves and promotional expenses of MUSL games. The Restricted Fidelity Fund is derived from the licensing fees of new retailers, which may be retained by the OLC up to the budgeted expenses from the fund for the next fiscal year plus \$500,000, in 2018 and 2017, and used to cover losses the OLC may experience due to nonfeasance, misfeasance or malfeasance of a lottery retailer and to pay the costs of vendor, retailer and employee background investigations conducted by the Oklahoma State Bureau of Investigation and for audits conducted by the State Auditor and Inspector.

For the years ended June 30, 2018 and 2017, the total transfers made or due to the OELTF related to operations were \$63,229,605 and \$53,063,688, respectively. Since inception to June 30, 2018, total transfers made or due to the OELTF were \$8,868,382,658. For each of the years ended June 30, 2018 and 2017, the OLC transferred \$750,000 in unclaimed prize funds to the Department of Mental Health and Substance Abuse Services for the treatment of compulsive gambling disorders and educational programs related to such disorders. From inception to June 30, 2018, total transfers to the Oklahoma Department of Mental Health and Substance Abuse Services were \$7,294,600.

The following is a condensed version of the OLC's statement of cash flows for the years ended June 30:

	2018	2017	2016
Cash provided by (used in):			
Operating activities	\$ 63,971,632	\$ 51,409,831	\$ 71,403,997
Noncapital financing activities	(52,346,711)	(62,530,117)	(58,257,720)
Capital and related financing activities	(32,073)	(59,766)	(11,978)
Investing activities	391,343	323,201	322,477
Net increase (decrease) in cash	11,984,191	(10,856,851)	13,456,776
Cash at beginning of year	19,401,756	30,258,607	16,801,831
Cash at end of year	<u>\$ 31,385,947</u>	<u>\$ 19,401,756</u>	<u>\$ 30,258,607</u>

**Potential Factors Impacting Future Operations**

Future operations always have the potential to be impacted by economic factors and rising costs. The OLC strives to maximize the contribution to education, while maintaining new and entertaining games that engage players. In order to meet these goals, the OLC strives to keep costs low and introduce new games regularly. The OLC is always looking for opportunities to participate in new regional and multi-state games. The OLC is also trying to develop new local games to stay up-to-date with player demands.

**Contacting the OLC's Financial Management**

This financial report is designed to provide a general overview of the OLC's financial activity for all those interested in the OLC's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Oklahoma Lottery Commission, 405-522-7700, 3817 North Santa Fe, Oklahoma City, Oklahoma 73118.

Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma

Statements of Net Position  
June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 25,025,735	\$ 10,106,881
Cash equivalents—restricted	6,360,212	9,294,875
Retailer accounts receivable	6,173,206	2,008,613
Accounts receivable—Multi-State Lottery	352,384	522,553
<b>Total current assets</b>	<b>37,911,537</b>	<b>21,932,922</b>
Noncurrent assets:		
Capital assets, net	101,011	103,407
Deposit with Multi-State Lottery	4,491,364	4,435,515
<b>Total noncurrent assets</b>	<b>4,592,375</b>	<b>4,538,922</b>
<b>Total assets</b>	<b>\$ 42,503,912</b>	<b>\$ 26,471,844</b>
Deferred outflows of resources:		
Deferred pension plan outflows	\$ 476,707	\$ 762,054
<b>Liabilities</b>		
Current liabilities:		
Due to Oklahoma Education Lottery Trust Fund	\$ 20,914,955	\$ 9,282,061
Due to Multi-State Lottery	1,192,631	1,062,618
Prizes payable	6,256,006	1,365,318
Accounts payable	2,826,206	339,389
Accrued liabilities	302,315	141,994
Unearned revenue	165,979	383,372
<b>Total current liabilities</b>	<b>31,658,092</b>	<b>12,574,752</b>
Noncurrent liabilities:		
Accrued compensated absences	69,844	63,295
Net pension liability	479,985	891,231
<b>Total noncurrent liabilities</b>	<b>549,829</b>	<b>954,526</b>
<b>Total liabilities</b>	<b>\$ 32,207,921</b>	<b>\$ 13,529,278</b>
Deferred inflows of resources:		
Deferred pension plan inflows	\$ 89,746	\$ 46,358
<b>Net position:</b>		
Investment in capital assets	\$ 101,011	\$ 103,407
Restricted net position - expendable:		
Unclaimed prizes	6,090,577	9,119,340
Multi-state lottery	4,491,364	4,435,515
<b>Total net position</b>	<b>\$ 10,682,952</b>	<b>\$ 13,658,262</b>

See notes to financial statements.

Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma

Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2018 and 2017

	2018	2017
<b>Operating revenues:</b>		
Scratcher games	\$ 127,627,940	\$ 67,988,294
Pick 3 game	5,302,479	5,354,850
Cash 5 game	4,021,953	3,955,690
Poker Pick game	656,613	1,174,623
Lucky for Life game	1,985,662	-
Hot Lotto game	4,202,896	8,450,755
Lotto America	4,976,458	-
Mega Millions game	22,786,249	18,238,718
Powerball game	49,550,146	46,339,573
<b>Total revenue from the sale of lottery tickets</b>	<b>221,110,396</b>	<b>151,502,503</b>
Retailer application fees	111,740	100,595
Other	5,691	4,550
<b>Total operating revenues</b>	<b>221,227,827</b>	<b>151,607,648</b>
<b>Direct costs:</b>		
<b>Prize expense:</b>		
Scratcher games	82,973,686	36,133,704
Pick 3 game	2,605,230	2,509,110
Cash 5 game	1,947,064	1,818,841
Poker Pick game	334,475	563,300
Lucky for Life game	1,102,030	-
Hot Lotto game	1,833,990	4,152,268
Lotto America	2,386,544	-
Mega Millions game	11,403,738	8,768,703
Powerball game	25,023,991	19,396,101
<b>Total prize expense</b>	<b>129,610,748</b>	<b>73,342,027</b>
Commissions and incentives to retailers	14,039,604	10,042,940
Instant and online costs	10,819,307	8,665,829
<b>Total direct costs</b>	<b>154,469,659</b>	<b>92,050,796</b>
<b>Gross profit</b>	<b>66,758,168</b>	<b>59,556,852</b>
<b>Operating expenses:</b>		
Advertising and promotion	3,134,817	2,004,465
Salaries, wages and benefits	2,513,040	2,363,518
Contracted and professional services	202,902	166,427
Depreciation	34,469	29,541
Equipment	15,748	18,364
Rent expense	149,179	144,705
Office supplies	22,875	23,403
Travel	13,193	9,745
Other general and administrative	83,451	58,546
<b>Total operating expenses</b>	<b>6,169,674</b>	<b>4,818,714</b>
<b>Operating income</b>	<b>60,588,494</b>	<b>54,738,138</b>

(Continued)

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Statements of Revenues, Expenses, and Changes in Net Position (Continued)  
Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Nonoperating income, interest income	<b>\$ 415,801</b>	<b>\$ 309,357</b>
<b>Change in net position before transfers</b>	<b>61,004,295</b>	<b>55,047,495</b>
<b>Transfers:</b>		
Required payments to Oklahoma Department of Mental Health and Substance Abuse Services	<b>(750,000)</b>	<b>(750,000)</b>
Required payments to and due to Oklahoma Education Lottery Trust Fund	<b>(63,229,605)</b>	<b>(53,063,688)</b>
<b>Total transfers</b>	<b>(63,979,605)</b>	<b>(53,813,688)</b>
<b>Changes in net position</b>	<b>(2,975,310)</b>	<b>1,233,807</b>
Net position at beginning of year	<b>13,658,262</b>	<b>12,424,455</b>
Net position at end of year	<b>\$ 10,682,952</b>	<b>\$ 13,658,262</b>

See notes to financial statements.



**Oklahoma Lottery Commission**  
**An Enterprise Fund of the State of Oklahoma**

**Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	2018	2017
<b>Cash flows from operating activities:</b>		
Cash received from retailers	\$ 203,180,462	\$ 144,402,085
Cash payments to prize winners	(124,590,047)	(79,515,441)
Cash payments to suppliers for goods and services	(12,134,253)	(11,201,694)
Cash payments to employees for services	(2,428,681)	(2,455,258)
Cash receipts to fund deposit with Multi-State Lottery	(55,849)	180,139
<b>Net cash provided by operating activities</b>	<b>63,971,632</b>	<b>51,409,831</b>
<b>Cash flows from noncapital financing activities:</b>		
Payments to Oklahoma Department of Mental Health and Substance Abuse Services	(750,000)	(750,000)
Payments to Oklahoma Education Lottery Trust Fund	(51,596,711)	(61,780,117)
<b>Net cash used in noncapital financing activities</b>	<b>(52,346,711)</b>	<b>(62,530,117)</b>
<b>Cash flows from capital and related financing activities, purchase of capital assets</b>	<b>(32,073)</b>	<b>(59,766)</b>
<b>Cash flows from investing activities, interest received</b>	<b>391,343</b>	<b>323,201</b>
<b>Net change in cash and cash equivalents</b>	<b>11,984,191</b>	<b>(10,856,851)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>19,401,756</b>	<b>30,258,607</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 31,385,947</b>	<b>\$ 19,401,756</b>
<b>Operating activities:</b>		
Operating income	\$ 60,588,494	\$ 54,738,138
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	34,469	29,541
Bad-debt expense	36,230	569
Changes in operating assets, deferred outflows, liabilities and deferred inflows:		
Retailer accounts receivable	(4,176,365)	3,152,713
Accounts receivable—Multi-State Lottery	170,169	(15,876)
Deposit with Multi-State Lottery	(55,849)	180,139
Deferred pension plan outflows	285,347	(491,097)
Due to Multi-State Lottery	130,013	(364,588)
Accounts payable and accrued liabilities	2,653,687	(315,201)
Prizes payable	4,890,688	(5,808,826)
Net pension liability	(411,246)	575,258
Unearned revenue	(217,393)	(125,162)
Deferred pension plan inflows	43,388	(145,777)
<b>Net cash provided by operating activities</b>	<b>\$ 63,971,632</b>	<b>\$ 51,409,831</b>

See notes to financial statements.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

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**Note 1. Reporting Entity**

The Oklahoma Lottery Commission (the OLC), was formed by the citizens of Oklahoma upon passage of a legislative referendum authorizing the Oklahoma Education Lottery Act (the Act), codified as Title 3A, Section 701, et. seq., of the Oklahoma Statutes. The OLC is an enterprise fund of the State of Oklahoma (the State) responsible for administering lotteries in accordance with the Act. The Act established a board of seven trustees appointed by the governor to oversee operations of the OLC. The OLC transfers net proceeds as defined by the Act.

**Note 2. Significant Accounting Policies**

**Method of accounting:** The OLC is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the costs of providing lottery games to the general public on a continuing basis are to be financed through the sale of lottery game tickets. The Act requires that all costs of providing lottery games, including capital costs, be recovered from the sale of lottery game tickets.

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for accounting principles generally accepted applicable to governmental proprietary activities in the United States of America. The OLC applies all applicable GASB pronouncements.

**Basis of accounting:** The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The primary operating revenue of the OLC is ticket sales from games. Nonoperating income primarily consists of interest income. "Operating expenses" are defined under the Act as "all costs of doing business, including but not limited to prizes, commissions, and other compensation paid to retailers, advertising and marketing costs, personnel costs, capital costs, amounts held in or paid from the Fidelity Revolving Fund pursuant to Section 20 of this Act, debt service payments for the payment of initial expenses of start-up, administration and operation of the OLC and other operating costs." The transfers are statutory required transfers to the Oklahoma Education Lottery Trust Fund (OELTF) and the Oklahoma Department of Mental Health and Substance Abuse Services.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and accompanying notes. Actual results could differ from those estimates.

**Revenue recognition:** Revenue for Pick 3, Cash 5, Poker Pick, Lucky for Life, Hot Lotto, Lotto America, Mega Millions, and Powerball (collectively referred to as online games) is recognized when tickets are sold to the public by contracted retailers, except for tickets sold in advance of the draw date for which unearned revenue is recorded. Revenue for scratcher games is recognized upon activation of ticket packs for sale by the retailers.

Every scratcher ticket game has a predetermined number of free tickets in its prize structure. Revenue and prize expense are shown net of free tickets.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

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**Note 2. Significant Accounting Policies (Continued)**

**Commissions:** Retailers receive a 6 percent commission on total sales and 0.75 percent commission on prizes cashed.

**Prizes:** Prize expense for scratcher ticket games is recorded at the time the related revenue is recognized based on the predetermined prize structure for each game; periodically, the prize expense is adjusted for unclaimed prizes. Prize expense for online games is recorded at the time the related revenue is recognized based on the known prizes.

**Unclaimed prizes:** Prizes must be claimed within 90 days after the game-end (end of sales) for scratcher games and within 180 days after the draw date for online games. The first \$750,000 for fiscal year 2018 and 2017 of unclaimed prize money accruing annually must be transferred to the Oklahoma Department of Mental Health and Substance Abuse Services for the treatment of compulsive gambling disorders and educational programs related to such disorders.

In accordance with Section 724 of the Act, unclaimed prizes are added to a pool from which future prizes are awarded or used for special prize promotions. Under the Act, unclaimed prizes do not constitute net lottery proceeds and are restricted funds that are not available for transfer to the OELTF. Total unclaimed prizes amounted to \$2,774,690 and \$6,935,663 for fiscal years 2018 and 2017, respectively. Unclaimed prizes are netted against prize expense in the statement of revenues, expenses, and changes in net position.

**Pensions:** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Public Retirement System (OPERS) and additions to/deductions from OPERS and fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred inflows of resources:** Deferred inflows of resources are the acquisition of net position by the OLC that are applicable to a future reporting period. At June 30, 2018 and 2017, the OLC had deferred inflows of resources of \$89,746 and \$46,358, respectively. See Note 8 for additional discussion regarding deferred inflows of resources.

**Deferred outflows of resources:** Deferred outflows of resources are the consumption of net position by the OLC that are applicable to a future reporting period. At June 30, 2018 and 2017, the OLC had deferred outflows of resources of \$476,707 and \$762,054, respectively. See Note 8 for additional discussion regarding deferred outflows of resources.

**Net position:** The OLC's net position is classified as follows.

***Investment in capital assets:*** This represents the OLC's total investment in capital assets.

***Restricted net position, expendable:*** Net position not invested in capital is restricted by state statute. Restricted net position consists primarily of cash maintained in the OLC's restricted fidelity fund, deposits with the Multi-State Lottery (MUSL), and balance of unclaimed prizes to be used on future prizes or special prize promotions.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

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**Note 2. Significant Accounting Policies (Continued)**

**Gross proceeds:** Gross proceeds, as defined by the Act, consist of all revenue derived from the sale of lottery game tickets or shares and all other monies derived from the lottery games.

**Operating expenses:** Operating expenses, as defined by the Act, in the determination of net proceeds, consist of all costs of doing business including, but not limited to, prizes, commissions, and other compensation paid to lottery retailers, advertising and marketing costs, rental fees, personnel costs, capital costs, depreciation of property and equipment, and other operating costs.

**Cash and cash equivalents:** The OLC's cash and cash equivalents are considered to be cash on hand and on an interest in an internal investment pool held by the Oklahoma State Treasurer.

**Retailer accounts receivable:** Retailer accounts receivable represents lottery proceeds due from retailers for online ticket sales and activated ticket packs for scratcher games, less commissions due to retailers and prizes paid by the retailers. Lottery proceeds are collected weekly by the OLC from retailer trust accounts established in trust for benefit of the OLC.

**Capital assets, net:** Capital assets, which consist of machinery, equipment, computers and software, are stated at cost less accumulated depreciation. The OLC capitalizes all property and equipment purchases of \$500 or more. Depreciation is computed using the straight-line method over the following estimated useful lives: machinery and equipment—five to ten years; computers and software—three to five years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal.

**Restricted cash:** In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a retailer for the OLC. The fund is used to cover losses the OLC may incur due to misfeasance, nonfeasance, or malfeasance of retailers and to contract for investigations, reviews, or audits. At the end of any fiscal year, the OLC must transfer to the OELTF any amount in the restricted fidelity fund which exceeds the budgeted expenses from the fund for the next fiscal year plus \$500,000 for both fiscal years 2018 and 2017. At June 30, 2018 and 2017, no amounts were available for transfer as net proceeds. During fiscal years 2018 and 2017, \$73,777 and \$111,266, respectively, was used to reimburse the OLC for retailer accounts that were delinquent and in collection status and for the retailer application fees. Receipts from retailers in collection status are deposited back to the fidelity fund. The fidelity fund is held in a separate account. As of June 30, 2018 and 2017, the balance in the fidelity fund totaled \$233,734 and \$193,087, respectively and is included in the accompanying statement of net position with cash equivalents restricted and expendable restricted net position.

Current unclaimed prizes in excess of \$750,000 for both fiscal years 2018 and 2017, and the balance from prior years are included in cash equivalents restricted and expendable restricted net position in the accompanying statement of net position. These funds are to be utilized to enhance future OLC prizes or promotions and totaled \$6,126,478 and \$9,101,788 as of June 30, 2018 and 2017, respectively.

**Risk management:** The OLC is exposed to various risks of loss related to torts, destruction of assets due to theft or damage, errors and omissions, injuries to employees, and natural disasters. The OLC has coverage that substantially covers these risks through a self-insured pool for agencies of the State of Oklahoma. This coverage is administered by the Risk Management Division of the Department of Central Services for the State of Oklahoma.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

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**Note 2. Significant Accounting Policies (Continued)**

**Compensated absences:** Employees earn the right to be compensated during absences for vacation and compensatory time. Unused leave benefits are paid to employees upon separation from service. The cost of vacation and compensatory time is accrued in the period in which it is earned.

**Bad-debt expense:** The OLC recognizes bad-debt expense when retailer account receivables are greater than 90 days old. The accounts receivable balance due to the OLC is satisfied at that time by a transfer of funds from the restricted fidelity fund. The OLC may continue its effort to collect these accounts. Any collection from a retailer balance previously charged to bad-debt expense will be deposited back to the restricted fidelity fund. For the years ended June 30, 2018 and 2017, bad-debt expense was \$36,230 and \$569, respectively.

**New accounting pronouncements issued not yet adopted:** The GASB has issued a new accounting pronouncement which will be effective to OLC in fiscal year ended June 30, 2021. OLC is currently evaluating the impact that this new standard will have on its financial statements. A description of the new accounting pronouncement is described below:

- GASB Statement No. 87, issued June 2017, establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the Commission must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The Statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments, and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-lease components embedded in lease contracts (such as service agreements), and leases with related parties.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

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**Note 3. Cash and Cash Equivalents**

The OLC's investment in OK INVEST is carried at \$31,385,947 and \$19,401,756 at June 30, 2018 and 2017, respectively. Cash equivalents are recorded at cost. The OLC obtained the fair value from the State Treasurer of their interest in the pool, which amounted to \$31,429,944 and \$19,475,037 at June 30, 2018 and 2017, respectively. Management believes the difference between cost and fair value is immaterial to the financial statements as a whole due to the short duration of investments held by the pool and information provided by the State.

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day OK INVEST management, with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day-to-day basis. OK INVEST includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. OK INVEST maintains an overall weighted average maturity of less than four years.

Participants in OK INVEST maintain interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/ default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher.

Custodial credit risk of investments is the risk that in the event of a bank failure, the government's investments may not be returned to it. OK INVEST is not insured or guaranteed by the State, the FDIC, or any other government agency.

Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma

Notes to Financial Statements

Note 4. Capital Assets, Net

The following is a summary of changes in capital assets and accumulated depreciation during the years ended June 30, 2018 and 2017:

Capital Assets	Year Ended June 30, 2018			Ending Balance
	Beginning Balance	Additions	Deletions	
Machinery and equipment	\$ 927,348	\$ 32,073	\$ -	\$ 959,421
Computers and software	409,567	-	-	409,567
	<u>1,336,915</u>	<u>32,073</u>	<u>-</u>	<u>1,368,988</u>
Accumulated depreciation:				
Machinery and equipment	824,616	33,794	-	858,410
Computers and software	408,892	675	-	409,567
	<u>1,233,508</u>	<u>34,469</u>	<u>-</u>	<u>1,267,977</u>
Total capital assets, net	<u>\$ 103,407</u>	<u>\$ (2,396)</u>	<u>\$ -</u>	<u>\$ 101,011</u>

Capital Assets	Year Ended June 30, 2017			Ending Balance
	Beginning Balance	Additions	Deletions	
Machinery and equipment	\$ 867,582	\$ 59,766	\$ -	\$ 927,348
Computers and software	409,567	-	-	409,567
	<u>1,277,149</u>	<u>59,766</u>	<u>-</u>	<u>1,336,915</u>
Accumulated depreciation:				
Machinery and equipment	796,949	27,667	-	824,616
Computers and software	407,018	1,874	-	408,892
	<u>1,203,967</u>	<u>29,541</u>	<u>-</u>	<u>1,233,508</u>
Total capital assets, net	<u>\$ 73,182</u>	<u>\$ 30,225</u>	<u>\$ -</u>	<u>\$ 103,407</u>

Note 5. Compensated Absences

The current portion of accrued compensated absences is included in accrued liabilities in the accompanying statements of net position. The following is a summary of changes in the OLC's liability for compensated absences during the year ended June 30:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Compensated absences 2018	\$ 189,883	\$ 60,155	\$ 40,506	\$ 209,533	\$ 139,689
Compensated absences 2017	\$ 207,370	\$ 116,973	\$ 134,460	\$ 189,883	\$ 126,588

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

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**Note 6. Operating Leases**

The OLC has entered into various operating leases for office space and equipment used in its daily operations. Pursuant to Oklahoma State Statutes, the OLC's operating leases are limited to terms of one year and must be renewed annually. Accordingly, the OLC has no long-term commitments under the operating leases as of June 30, 2018 or 2017. Rent expense under all operating leases was \$149,179 and \$144,705 for the years ended June 30, 2018 and 2017, respectively.

**Note 7. Education Lottery Account**

In accordance with the Act, all net proceeds of the OLC are transferred to the Education Lottery Account. Net proceeds consist of all revenue derived from the sale of lottery game tickets or shares and all other monies derived from the lottery games, less operating expenses and prizes. OLC estimates that net proceeds will approximate 35 percent of total revenue. Each month, OLC transfers the amounts necessary to satisfy appropriations made by the Legislature to Higher Education and Common Education. Each quarter, OLC transfers amounts to cover the appropriations to Career Tech, Teachers' Retirement and the Voluntary School Consolidation Fund. OLC transfers the remaining 35 percent of revenues plus any additional profits, unless specifically exempted by statute, at the end of the year. During the year ended June 30, 2018, the Act was amended. The OLC is now required to transfer to the Oklahoma Education Lottery Trust Fund the first \$50 million of net proceeds. All remaining net proceeds remaining will be transferred as well.

According to the Act, amounts transferred to the OELTF are to be appropriated by the legislature to education programs according to the parameters established in the Act. Following is an executive summary of these statutory provisions. For the full text, see Title 3A, Section 713 of the Oklahoma Statutes, available on the OLC website.

- 5 percent Teachers' Retirement System Dedicated Revenue Revolving Fund
- 5 percent School Consolidation and Assistance Fund (SCAF): If the SCAF equals \$5,000,000, this 5 percent will be allocated to public schools to purchase technology equipment to conduct on-line testing
- 45 percent Kindergarten through twelfth grade public education, including compensation and benefits for public school teachers and support employees, and early childhood development programs
- 45 percent Tuition grants, loans, and scholarships to citizens of this state for attending colleges and universities located within this state or to attend Oklahoma Department of Career and Technology Education institutions; construction of educational facilities or capital outlay projects or technology for elementary school districts, independent school districts, the Oklahoma State System of Higher Education, and career and technology education; endowed chairs for professors at institutions of higher education operated by the Oklahoma State System of Higher Education; and programs and personnel of the Oklahoma School for the Deaf and the Oklahoma School for the Blind



**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

**Note 7. Education Lottery Account (Continued)**

The following is a summary of the amounts available for transfer to the OELTF during the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Net position, beginning of year	\$ 13,658,262	\$ 12,424,455
Change in net position before transfers to OELTF	60,254,295	54,297,495
Net position available for transfer to OELTF before capital assets and assets restricted from transfer	73,912,557	66,721,950
Less capital assets, net of accumulated depreciation	(101,011)	(103,407)
Less assets restricted from transfer	(10,851,576)	(13,730,390)
Net position available for transfer to OELTF	<u>\$ 62,959,970</u>	<u>\$ 52,888,153</u>

Actual transfers to and due to OELTF for the years ended June 30, 2018 and 2017 totaled \$63,229,605 and \$53,063,688, respectively. Actual transfers exceeded amounts available for transfer due to pension activity being unknown at the time of calculation and therefore being excluded for the years ended June 30, 2018 and 2017.

For the year ended June 30, 2018, the first \$50 million transferred is appropriated based on the above allocation. The amount transferred in excess of \$50 million will be appropriated to public schools based on the audited end of year average daily membership in grades PK-12 during the preceding school year for the purpose of implementing pre-kindergarten through third grade reading intervention initiatives or science, technology, engineering and math (STEM) programs.

**Note 8. Retirement Program**

**Plan description:** The OLC contributes to the Oklahoma Public Employees Retirement System (OPERS) cost sharing multiple-employer defined benefit plan. OPERS was established in 1964 by the Oklahoma Legislature and covers substantially all employees of the State, except those covered by six other plans sponsored by the State, and also covers employees of participating counties and local agencies. The Plan provides that all eligible persons, except those specifically excluded, shall become members of OPERS as a condition of their employment. The supervisory authority for the management and operation of OPERS is its Board of Trustees.

OPERS offers retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits, and survivor benefits. The Plan's provisions are established under Title 74 of the Oklahoma Statutes.

**Benefits provided:** Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

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**Note 8. Retirement Program (Continued)**

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Benefits are determined at 2 percent of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5 percent computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

**Contributions:** The contribution rates for each member category of the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

For 2018 and 2017, *state agency employers* contributed 16.5 percent on all salary, and *state employees* contributed 3.5 percent on all salary.

Contributions to the pension plan from the Oklahoma Lottery Commission were \$238,323 and \$239,231 for the years ended June 30, 2018 and 2017, respectively.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0 percent to 2.5 percent. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91 percent which is actuarially determined.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

**Note 8. Retirement Program (Continued)**

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:** At June 30, 2018 and 2017, the Oklahoma Lottery Commission reported a liability of \$479,985 and \$891,231, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and 2016, respectively. The Oklahoma Lottery Commission's proportion of the net pension liability was based on the Oklahoma Lottery Commission's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2017 and 2016, the Oklahoma Lottery Commission's proportion was 0.08877707 percent and 0.08982094 percent, respectively.

For the years ended June 30, 2018 and 2017, the Oklahoma Lottery Commission recognized pension expense of \$155,812 and \$177,615, respectively. At June 30, 2018 and 2017, the Oklahoma Lottery Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumption	\$ 213,085	\$ -	\$ 142,481	\$ -
Differences between expected and actual experience	-	85,835	-	39,163
Difference between projected and actual investment earnings on pension plan investments	21,442	-	372,915	-
Changes in proportion and differences between OLC contributions and proportionate share of contributions	3,857	3,912	7,427	7,195
Total deferred amounts to be recognized in pension expense in future periods	238,384	89,746	522,823	46,358
OLC contributions subsequent to the measurement date	238,323	-	239,231	-
Total deferred amounts related to pension	<u>\$ 476,707</u>	<u>\$ 89,746</u>	<u>\$ 762,054</u>	<u>\$ 46,358</u>

Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma

Notes to Financial Statements

Note 8. Retirement Program (Continued)

Deferred pension outflows resulting from the OLC's Employer' contributions subsequent to the measurement date, totaling \$238,323 and \$239,231 at June 30, 2018 and 2017, will be recognized as a reduction of the net pension liability in the years ended June 30, 2019 and 2018, respectively. Deferred outflows totaling \$21,442 as of June 30, 2018 and deferred outflow of \$372,915, resulting from the difference between projected and actual investment earnings will be recognized in pension expense over five years. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense using the average expected remaining service life of the Plan members, both active and inactive. The average expected remaining service life of the Plan is determined by taking the calculated total future service years of the Plan divided by the number of people in the Plan including retirees. The total future service years of the Plan are estimated at 2.97 years as of June 30, 2018 and 3.08 years as of June 30, 2017, and are determined using the mortality, termination, retirement and disability assumptions associated with the Plan. Deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows at June 30:

	June 30, 2018 Deferred Outflows (Inflows)
2019	\$ 53,136
2020	138,003
2021	34,145
Thereafter	(76,648)
	<u>\$ 148,636</u>

**Actuarial assumptions:** The total pension liability as of June 30, 2018 and 2017, was determined based on an actuarial valuation prepared as of July 1, 2017 and July 1, 2016, respectively using the following actuarial assumptions:

**2017**

- Investment return—7.00 percent for 2017 compounded annually net of investment expense and including inflation
- Salary increases—3.5 percent to 9.5 percent per year including inflation
- Mortality rates—Active participants and nondisabled pensioners—RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
- No annual post-retirement benefit increases
- Assumed inflation rate—2.75 percent
- Payroll growth—3.5 percent per year
- Actuarial cost method—Entry age
- Select period for the termination of employment assumptions—10 years

Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma

Notes to Financial Statements

Note 8. Retirement Program (Continued)

2016

- Investment return—7.25 percent for 2016 and compounded annually net of investment expense and including inflation
- Salary increases—4.5 percent to 8.4 percent per year including inflation
- Mortality rates—Active participants and nondisabled pensioners—RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
- No annual post-retirement benefit increases
- Assumed inflation rate—3.0 percent
- Payroll growth—4.0 percent per year
- Actuarial cost method—Entry age
- Select period for the termination of employment assumptions—10 years

The actuarial assumptions used in the July 1, 2017 and 2016, valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2018 and 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	38.0%	5.3%
U.S. Small Cap Equity	6.0%	5.6%
US Fixed	25.0%	0.7%
International Stock	18.0%	5.6%
Emerging Market Stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate Anticipation	3.5%	1.5%
Total	<u>100.0%</u>	

**Discount rate:** The discount rate used to measure the total pension liability was 7.00 percent for 2018 and 7.25 percent for 2017. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

**Note 8. Retirement Program (Continued)**

**Sensitivity of the Oklahoma Lottery Commission's proportionate share of the net pension liability to changes in the discount rate:** The following presents the Oklahoma Lottery Commission's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent for June 30, 2018 and 7.25 percent for June 30, 2017, as well as what Oklahoma Lottery Commission's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	June 30, 2018			June 30, 2017		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Oklahoma Lottery Commission's proportionate share of the net pension liability	\$ 1,418,615	\$ 479,985	\$ (314,815)	\$ 1,824,392	\$ 891,231	\$ 99,057

**Pension plan fiduciary net position:** Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements, June 30, 2017 CAFR, available at <http://www.opers.ok.gov/Websites/opers/images/pdfs/CAFR-2017-OPERS.pdf>.

**Note 9. Contingencies**

The OLC is subject to litigation in the ordinary course of its operations. In the opinion of the OLC's management and its legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the OLC for the years ended June 30, 2018 and 2017.

**Note 10. Contractual Arrangements**

In August 2005, the OLC entered into a contract with Scientific Games International, Inc. (SGI) to provide, amongst other things, services and equipment to operate its lotteries. Due to Oklahoma Statutes, the OLC may not contract for a period longer than one year. However, the contract with SGI contained seven one-year renewal options, which the OLC's Board of Trustees renewed annually. In August 2013, the last one-year renewal option matured and a similar contract was entered into with SGI. This contract contains nine one-year renewal options. Under the terms of the contract, the OLC pays SGI a fee based on a percentage of the OLC's sales. For the years ended June 30, 2018 and 2017, the OLC paid SGI \$10,819,307 and \$8,665,829, respectively.

The OLC is a member of the MUSL, which operates games on behalf of participating lotteries. MUSL currently operates the Powerball, Mega Millions, and Hot Lotto games for the OLC. Under the OLC's agreement with the MUSL, the OLC must remit 50 percent of its Powerball ticket sales, 50 percent of its Hot Lotto ticket sales, and 50 percent of its Mega Millions ticket sales. This payment is to cover the OLC's share of current jackpot prizes based on the OLC's percent of sales for each drawing and the OLC share of the prize reserve fund. The OLC is responsible for paying winning tickets purchased in Oklahoma; therefore, it is able to deduct winning tickets sold from the amount due to the MUSL on its ticket sales. As of June 30, 2018 and 2017, the OLC owed the MUSL \$1,192,631 and \$1,062,618 for ticket sales, and the MUSL owed the OLC \$352,384 and \$522,553 for non-jackpot-winning tickets. The OLC has recorded these items at their gross amounts in the accompanying statements of net position.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Notes to Financial Statements**

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**Note 10. Contractual Arrangements (Continued)**

As noted above, OLC's payments to MUSL includes the OLC share of the prize reserve fund. The prize reserve fund serves as a contingency reserve to protect all the MUSL members, including the OLC, from unforeseen prize liabilities. These funds are in the possession of the MUSL and are included in expendable restricted net position.

The balances of the deposits are made up of the following:

	June 30	
	2018	2017
Set prize reserve account	\$ 587,478	\$ 656,862
Prize reserve account	3,093,211	2,807,939
Balance of unreserved account	810,674	970,714
	<u>\$ 4,491,364</u>	<u>\$ 4,435,515</u>

## **Required Supplementary Information**



**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Required Supplementary Information  
Schedule of OLC's Proportionate Share of the Net Pension Liability  
Oklahoma Public Employees Retirement Plan  
Last 10 Fiscal Years\***

	June 30		
	2018	2017	2016
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015
OLC's proportion of the net pension liability	0.08877707%	0.08982094%	0.08784744%
OLC's proportionate share of the net pension liability	\$ 479,985	\$ 891,231	\$ 315,973
OLC's covered-employee payroll	1,455,835	1,610,474	1,552,939
OLC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	32.97%	55.34%	20.35%
Plan fiduciary net position as a percentage of the total pension liability	94.3%	89.5%	96.0%

**Notes to Schedule:**

\* Only the fiscal years ended June 30, 2018, 2017 and 2016 are presented because 10-year data is not yet available.

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Required Supplementary Information  
Schedule of OLC's Contributions  
Oklahoma Public Employees Retirement Plan  
Last 10 Fiscal Years**

	June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required to contribute	\$ 238,170	\$ 240,213	\$ 265,728	\$ 256,235	\$ 252,220	\$ 260,035	\$ 289,515	\$ 295,643	\$ 317,954	\$ 295,497
Contributions in relation to the contractually required contributions	238,323	239,231	266,041	256,235	252,220	260,035	289,515	295,643	317,954	295,497
Contributions deficiency (excess)	\$ (153)	\$ 982	\$ (313)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OLC's covered-employee payroll	1,443,455	1,455,835	1,610,474	1,552,939	1,528,606	1,575,970	1,754,636	1,907,374	2,051,318	2,037,910
Contributions as a percentage of covered-employee payroll	16.51%	16.43%	16.52%	16.50%	16.50%	16.50%	16.50%	15.50%	15.50%	14.50%

**Oklahoma Lottery Commission  
An Enterprise Fund of the State of Oklahoma**

**Required Supplementary Information  
Notes to Required Supplementary Information  
Oklahoma Public Employees Retirement Plan**

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**Valuation Date**

Actuarially determined contributions are calculated as of the beginning of the fiscal year in which contributions are reported.

**Methods and assumptions used to determine contribution rates:**

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12 years
Asset valuation method	5-year moving average
Inflation	2.75 percent for 2017, 3.00 percent for 2016 and 2015
Salary increase	4.50 to 8.40 percent, including inflation
Investment rate of return	7.00 percent for 2017, 7.25 percent for 2016 and 7.50 percent for 2015, compounded annually, net of investment expense and including inflation
Retirement age	Age 65 for all members hired on or after November 1, 2011, age 62 for members hired prior to November 1, 2011
Mortality	For 2017, active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years). For 2016, active participants and nondisabled pensioners – RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)

**Other Information**

The Plan has been amended by House Bill 2630 in 2014 which states that effective November 1, 2015, OPERS shall create a defined contribution plan for most people first employed by a participating employer. Exemptions from the new defined contribution plan include hazardous duty members and district attorneys, assistant district attorneys and employees of the district attorney's office. Each employer shall send to OPERS the difference between the required employer contribution to OPERS and the amount required to match the participating employee's contribution in the defined contribution plan.

Senate Bill 2120, also enacted in 2014, amends House Bill 2630 to further exempt from the new defined contribution plan county elected officials and employees of a county, county hospital, city or town, conservation district, circuit engineering district, and any public or private trust in which a county, city or town participates. Senate Bill 2120 also states that employees who participate in the defined contribution system are excluded from the \$105 health subsidy.

New employees specifically exempted from the defined contribution plan will participate in the existing defined benefit plan.



# **Statistical Section**

For the Fiscal Years Ended  
JUNE 30, 2018 and 2017

An Agency of the State of Oklahoma

**OKLAHOMA LOTTERY COMMISSION  
STATISTICAL INFORMATION SECTION**

The statistical section of the Oklahoma Lottery Commission’s comprehensive annual financial report conveys supplemental information to the data presented in the financial statements and note disclosures to aid readers in reviewing the Lottery’s overall financial well-being.

**FINANCIAL TRENDS..... 51**

These schedules contain trend information from the current year and the prior year’s comprehensive annual financial report to explain how the financial performance and situation has changed.

**REVENUE CAPACITY..... 55**

These schedules contain information concerning revenue from the current year and the prior year’s comprehensive annual financial reports to explain how the revenue is split between games and other sources of revenue.

**DEBT CAPACITY**

At this time, the Oklahoma Lottery Commission has no outstanding debt.

**DEMOGRAPHIC AND ECONOMIC INFORMATION..... 59**

This schedule contains demographic and economic data to explain the environment in which the Lottery operates.

**OPERATING INFORMATION..... 61**

This section includes a summary of the Lottery’s operating indicators as well as schedules that contain information about the Lottery’s organizational structure and financial performance in comparison to other state lotteries as available from the North American Association of State and Provincial Lotteries.

The Oklahoma Lottery Commission historical comparisons are available for ten years. All data within the Statistical section, including operating indicators and demographic data, are based on audited data where available.

# Oklahoma Lottery Commission

## Change in Net Position Operational Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenues:</b>										
Scratcher games	77,883,679	88,966,304	102,969,295	95,978,562	89,393,668	85,876,010	81,600,192	78,559,351	67,988,294	127,627,940
Online games	10,997,200	11,725,294	10,563,117	10,904,714	10,353,034	9,895,762	11,503,830	10,747,860	10,485,163	9,981,045
Mega Millions game		6,938,995	20,954,777	27,328,981	16,108,965	27,674,261	22,099,568	19,470,982	18,238,718	22,786,249
Lotto America										4,976,458
Lucky for Life										1,985,662
Hot Lotto Game	13,253,129	12,467,350	9,514,730	7,407,098	8,306,635	8,858,804	9,917,136	7,801,035	8,450,755	4,202,896
PowerBall game	91,030,676	79,649,351	54,152,013	58,235,023	76,046,572	58,822,255	46,512,750	73,042,366	46,339,573	49,550,146
Retailer application fees	111,934	115,585	112,380	112,375	108,637	106,000	105,245	105,390	100,595	111,740
Other	49,425	63,019	8,234	6,600	6,848	7,250	7,975	6,700	4,550	5,691
<b>Total Revenues</b>	<b>193,326,043</b>	<b>199,925,898</b>	<b>198,274,546</b>	<b>199,973,353</b>	<b>200,324,359</b>	<b>191,240,342</b>	<b>171,746,696</b>	<b>189,733,684</b>	<b>151,607,648</b>	<b>221,227,827</b>
<b>Total Prize Expense</b>	<b>95,922,950</b>	<b>105,092,616</b>	<b>106,600,824</b>	<b>103,052,810</b>	<b>104,463,424</b>	<b>97,496,555</b>	<b>87,782,927</b>	<b>95,517,232</b>	<b>73,342,027</b>	<b>129,610,748</b>
<b>Direct Costs:</b>										
Commissions and incentives to retailers	12,753,727	13,150,714	13,219,310	13,233,747	13,114,765	12,647,675	11,425,710	12,421,019	10,042,940	14,039,604
Instant and on-line costs	5,675,014	5,903,703	5,895,707	6,081,715	5,948,626	7,798,373	7,271,417	7,985,458	8,665,829	10,819,307
<b>Total Direct costs</b>	<b>18,428,741</b>	<b>19,054,417</b>	<b>19,115,017</b>	<b>19,315,462</b>	<b>19,063,391</b>	<b>20,446,048</b>	<b>18,697,127</b>	<b>20,406,477</b>	<b>18,708,769</b>	<b>24,858,911</b>
<b>Operating expenses</b>										
Advertising and promotion	4,133,573	3,956,565	3,023,269	1,652,640	1,623,715	1,520,686	2,743,837	1,767,255	2,004,465	3,134,817
Salaries, wages and benefits	2,991,764	3,091,050	2,888,869	2,661,825	2,419,342	2,345,767	2,129,873	2,184,676	2,363,518	2,513,038
Contracted and professional services	267,886	238,146	158,711	122,459	162,144	167,068	163,050	181,897	166,427	202,902
Depreciation	252,432	200,186	100,964	52,823	37,817	37,985	37,922	33,535	29,541	34,469
Equipment	7,767	23,096	27,449	702	17,291	11,562	18,186	12,626	18,364	15,748
Rent expense	242,114	229,973	205,136	194,901	199,791	193,862	166,777	150,092	144,705	149,179
Office supplies	41,300	62,328	33,024	35,127	34,872	17,774	17,720	18,696	23,403	22,875
Travel	21,892	27,284	15,338	22,269	17,102	11,426	20,171	19,626	9,745	13,193
Other general and administrative	150,533	166,127	143,369	118,015	103,061	180,827	96,670	96,709	58,546	83,451
<b>Total Operating Expenses</b>	<b>8,109,261</b>	<b>7,994,755</b>	<b>6,596,129</b>	<b>4,860,761</b>	<b>4,615,135</b>	<b>4,486,957</b>	<b>5,394,206</b>	<b>4,465,112</b>	<b>4,818,714</b>	<b>6,169,674</b>
<b>Operating income</b>	<b>70,865,091</b>	<b>67,784,110</b>	<b>65,962,576</b>	<b>72,744,320</b>	<b>72,182,409</b>	<b>68,810,782</b>	<b>59,872,436</b>	<b>69,344,863</b>	<b>54,738,138</b>	<b>60,588,494</b>
<b>Non-operating Income (Expense):</b>										
Interest income	592,790	440,113	304,801	281,890	348,277	323,723	243,157	340,285	309,357	415,801
Transfers to OK Department of Mental Health Services	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(750,000)	(750,000)	(750,000)	(750,000)	(750,000)
Transfers to/due Oklahoma Education Lottery Trust Fund	(69,226,501)	(69,974,064)	(69,396,091)	(69,990,674)	(70,113,527)	(66,934,120)	(60,111,343)	(66,406,789)	(53,063,688)	(63,229,605)
<b>Total non-operating income (expenses)</b>	<b>(69,133,711)</b>	<b>(70,033,951)</b>	<b>(69,591,290)</b>	<b>(70,208,784)</b>	<b>(70,265,250)</b>	<b>(67,360,397)</b>	<b>(60,618,186)</b>	<b>(66,816,504)</b>	<b>(53,504,331)</b>	<b>(63,563,804)</b>
<b>Change in Net Position</b>	<b>1,731,380</b>	<b>(2,249,841)</b>	<b>(3,628,714)</b>	<b>2,535,536</b>	<b>1,917,159</b>	<b>1,450,385</b>	<b>(745,750)</b>	<b>2,528,359</b>	<b>1,233,807</b>	<b>(2,975,310)</b>
Net Position, beginning of year	9,639,152	11,370,532	9,120,691	5,491,977	8,027,513	9,944,672	11,395,057	9,896,096	12,424,455	13,658,262
Restatement-Implementation of GASB 68 & 71							(753,211)	0	0	0
<b>Net Position, end of year</b>	<b>11,370,532</b>	<b>9,120,691</b>	<b>5,491,977</b>	<b>8,027,513</b>	<b>9,944,672</b>	<b>11,395,057</b>	<b>9,896,096</b>	<b>12,424,455</b>	<b>13,658,262</b>	<b>10,682,952</b>
Net Position - Invested in capital assets	398,509	234,050	148,503	105,926	85,122	61,281	94,739	73,182	103,407	101,011
Restricted Net position - expendable	10,972,023	8,886,641	5,343,474	7,921,587	9,859,550	11,333,776	9,801,357	12,351,273	13,554,855	10,581,941
Unrestricted assets							-	-	-	-
<b>Total of Net Position</b>	<b>11,370,532</b>	<b>9,120,691</b>	<b>5,491,977</b>	<b>8,027,513</b>	<b>9,944,672</b>	<b>11,395,057</b>	<b>9,896,096</b>	<b>12,424,455</b>	<b>13,658,262</b>	<b>10,682,952</b>

**Oklahoma Lottery Commission**

**Change in Net Position  
Net Position by Component**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Position, Invested in Capital Assets	398,509	234,050	148,503	105,926	85,122	61,281	94,739	73,182	103,407	101,011
Restricted net position - expendable	10,972,023	8,886,641	5,343,474	7,921,587	9,859,550	11,333,776	9,801,357	12,351,273	13,554,855	13,557,251
Net Position	11,370,532	9,120,691	5,491,977	8,027,513	9,944,672	11,395,057	9,896,096	12,424,455	13,658,262	13,658,262
Unrestricted net position - expendable										
Total Net Position	11,370,532	9,120,691	5,491,977	8,027,513	9,944,672	11,395,057	9,896,096	12,424,455	13,658,262	13,658,262

**Operational Fiscal Years**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Position, Invested in Capital Assets	398,509	234,050	148,503	105,926	85,122	61,281	94,739	73,182	103,407	101,011
Restricted net position - expendable	10,972,023	8,886,641	5,343,474	7,921,587	9,859,550	11,333,776	9,801,357	12,351,273	13,554,855	10,581,941
Net Position	11,370,532	9,120,691	5,491,977	8,027,513	9,944,672	11,395,057	9,896,096	12,424,455	13,658,262	10,682,952
Unrestricted net position - expendable										
Total Net Position	11,370,532	9,120,691	5,491,977	8,027,513	9,944,672	11,395,057	9,896,096	12,424,455	13,658,262	10,682,952

**Sales by Product and Other Revenues**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Scratchers	77,883,679	88,966,304	102,969,295	95,978,562	89,393,668	85,876,010	81,600,192	78,559,351	67,988,294	127,627,940
Pick 3	6,861,481	6,279,596	5,849,788	4,650,700	4,331,388	4,806,892	5,250,569	5,320,251	5,354,850	5,302,479
Pick 4				2,048,092	1,859,943	403,036				
Cash 5	4,135,719	5,445,698	4,713,329	4,205,922	4,161,703	4,441,703	4,212,739	4,105,388	3,955,690	4,021,953
Poker Pick							2,040,522	1,322,221	1,174,623	656,613
Lucky for Life										1,985,662
Lotto America										4,976,458
Raffle						244,131				0
Mega Millions	0	6,938,995	20,954,777	27,328,981	16,108,965	27,674,261	22,099,568	19,470,982	18,238,718	22,786,249
Hot Lotto	13,253,129	12,467,350	9,514,730	7,407,098	8,306,635	8,858,804	9,917,136	7,801,035	8,450,755	4,202,896
PowerBall	91,030,676	79,649,351	54,152,013	58,235,023	76,046,572	58,822,255	46,512,750	73,042,366	46,339,573	49,550,146
Total Sales	193,164,684	199,747,294	198,153,932	199,854,378	200,208,874	191,127,092	171,633,476	189,621,594	151,502,503	221,110,396
Interest Income	592,790	440,113	304,801	281,890	348,277	323,723	243,157	340,285	309,357	415,801
Retailer Application Fee	111,934	115,585	112,380	112,375	108,637	106,000	105,245	105,390	100,595	111,740
Other Income	49,425	63,019	8,234	6,600	6,648	7,250	7,975	6,700	4,550	5,691
Total other revenues	754,149	618,717	425,415	400,865	463,562	436,973	356,377	452,375	414,502	533,232
Total revenues	193,918,833	200,366,011	198,579,347	200,255,243	200,672,436	191,564,065	171,989,853	190,073,969	151,917,005	221,643,628

**Expenses by Type**

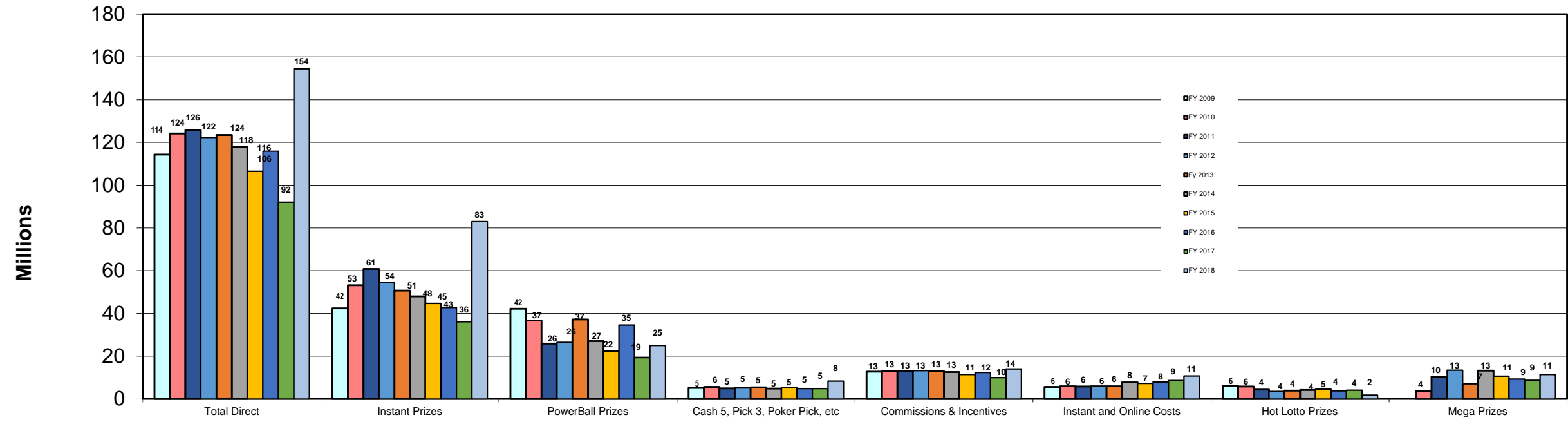
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prizes	95,922,950	105,092,616	106,600,824	103,052,810	104,463,424	97,496,555	87,782,927	95,517,232	73,342,027	129,610,748
Commissions and incentives to retailers	12,753,727	13,150,714	13,219,310	13,233,747	13,114,765	12,647,675	11,425,710	12,421,019	10,042,940	14,039,604
Instant and online game costs	5,675,014	5,903,703	5,895,707	6,081,715	5,948,626	7,798,373	7,271,417	7,985,458	8,665,829	10,819,307
Total Operating expenses	8,109,261	7,994,755	6,596,129	4,860,761	4,615,135	4,486,957	5,394,206	4,465,112	4,818,714	6,169,674
Total expenses	122,460,952	132,141,788	132,311,970	127,229,033	128,141,950	122,429,560	111,874,260	120,388,821	96,869,510	160,639,333

**Contributions**

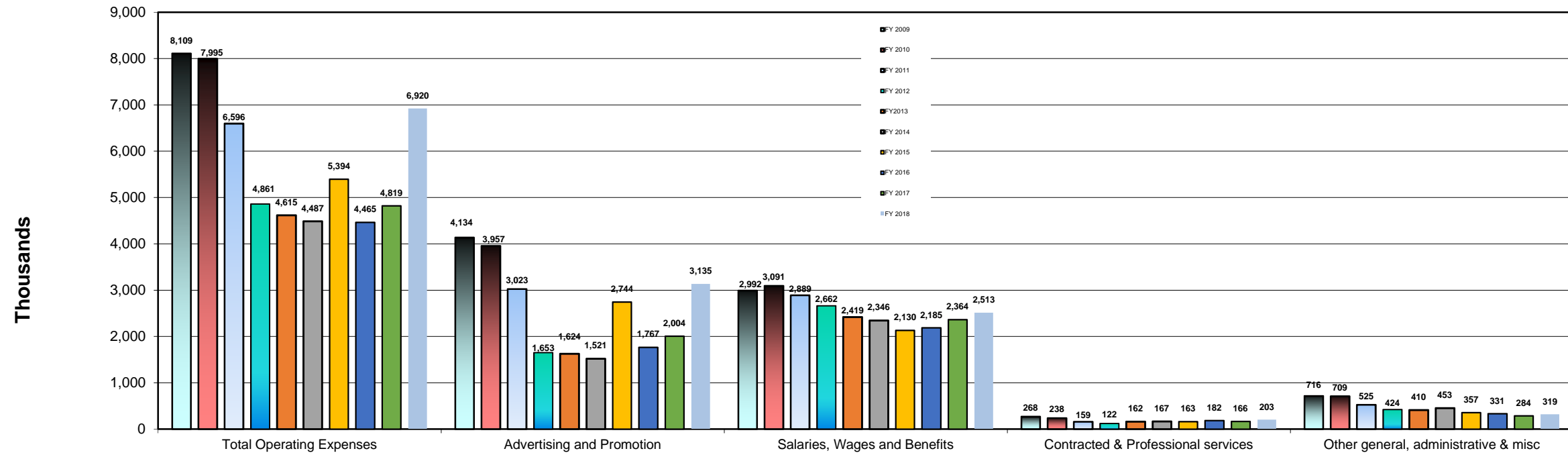
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Transfers to and due Lottery Education Trust Fund	69,226,501	69,974,064	69,396,091	69,990,674	70,113,527	66,934,120	60,111,343	66,406,789	53,063,688	63,229,605

# Oklahoma Lottery Commission

## Total Direct Costs



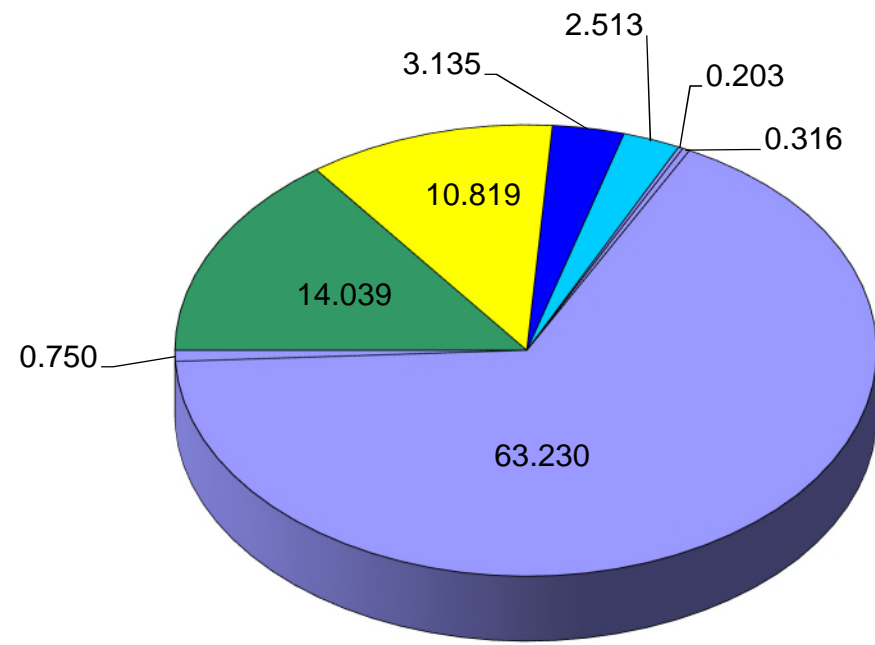
## Operating Expenses





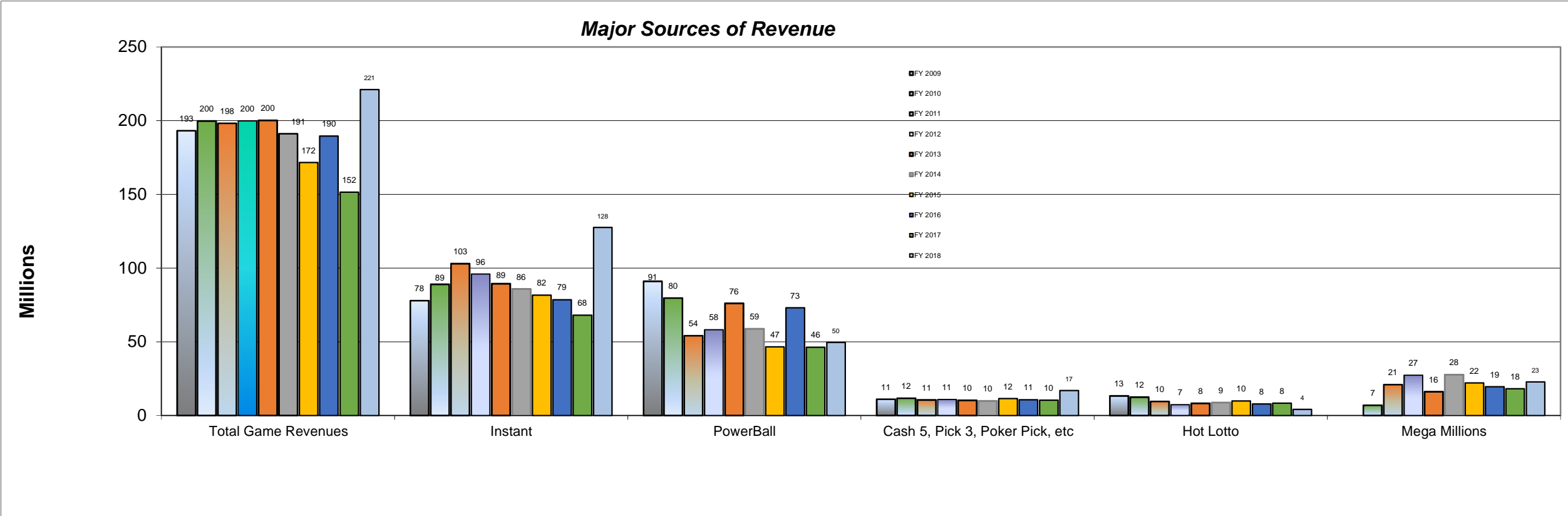
# Oklahoma Lottery Commission

## Fiscal 2018 Expenses (in Millions)

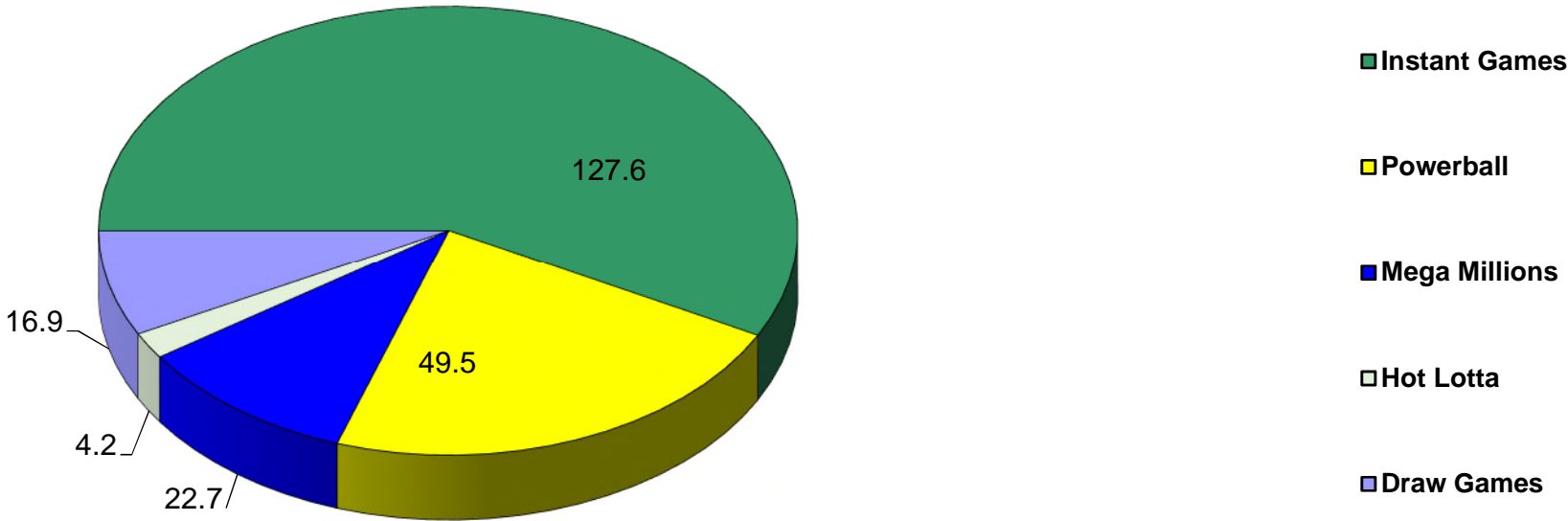


- Commissions and Incentives to retailers 14.0
- Instant and Online Costs 10.819
- Advertising and Promotion 3.135
- Salaries Wages and benefits 2.513
- Contract and Professional services .203
- Other .316
- Education Transfer 63.230
- Mental Health Transfer .750

Oklahoma Lottery Commission

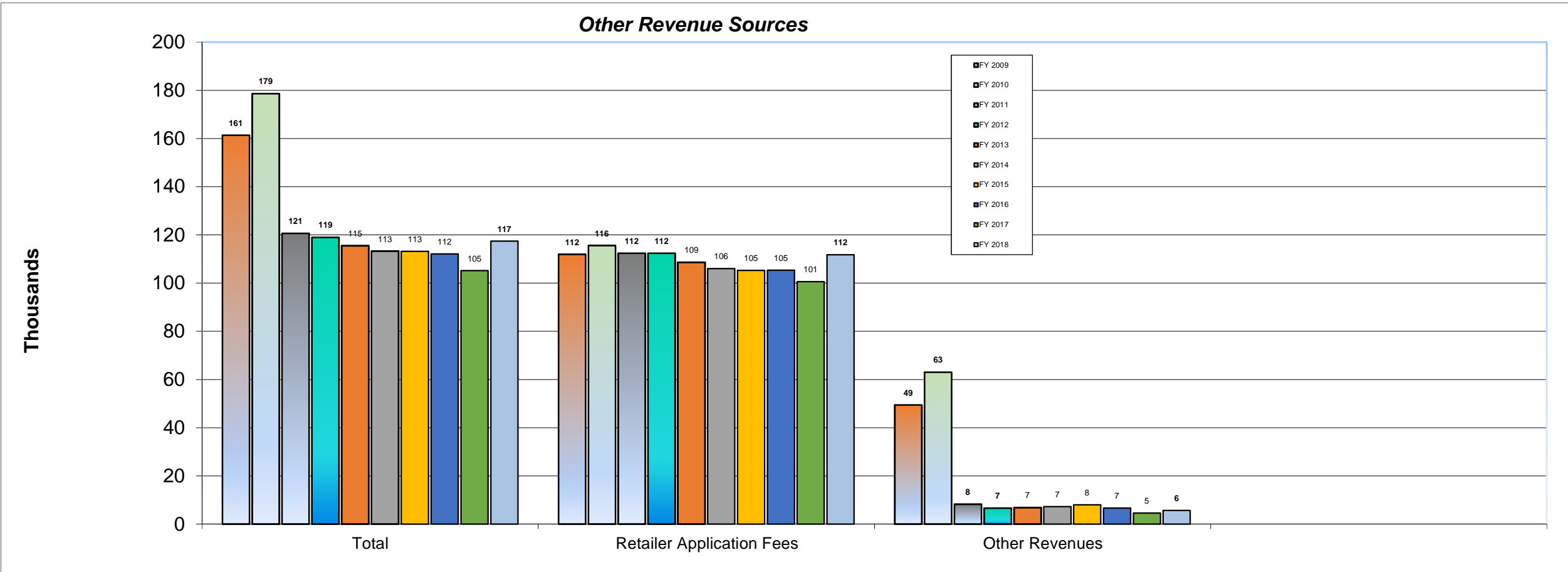
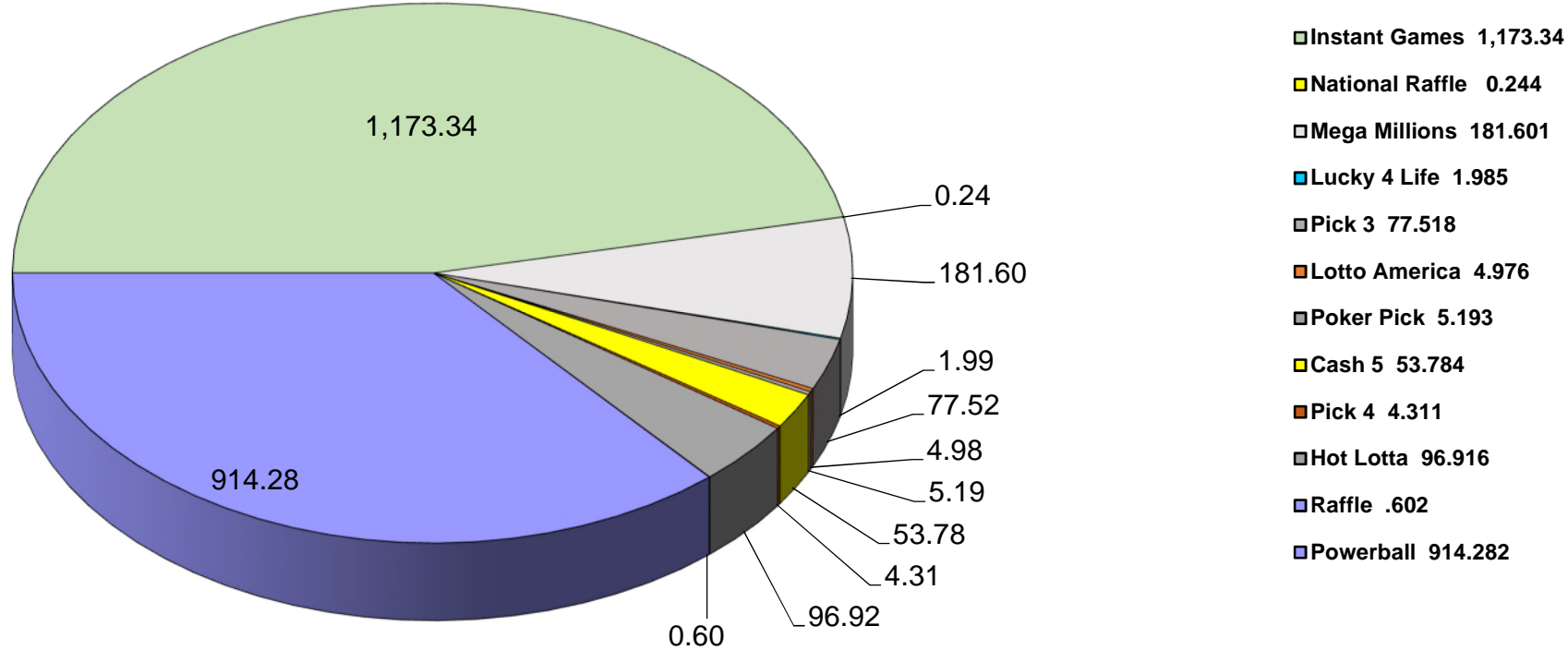


Fiscal 2018 Revenues Distribution (in Millions)

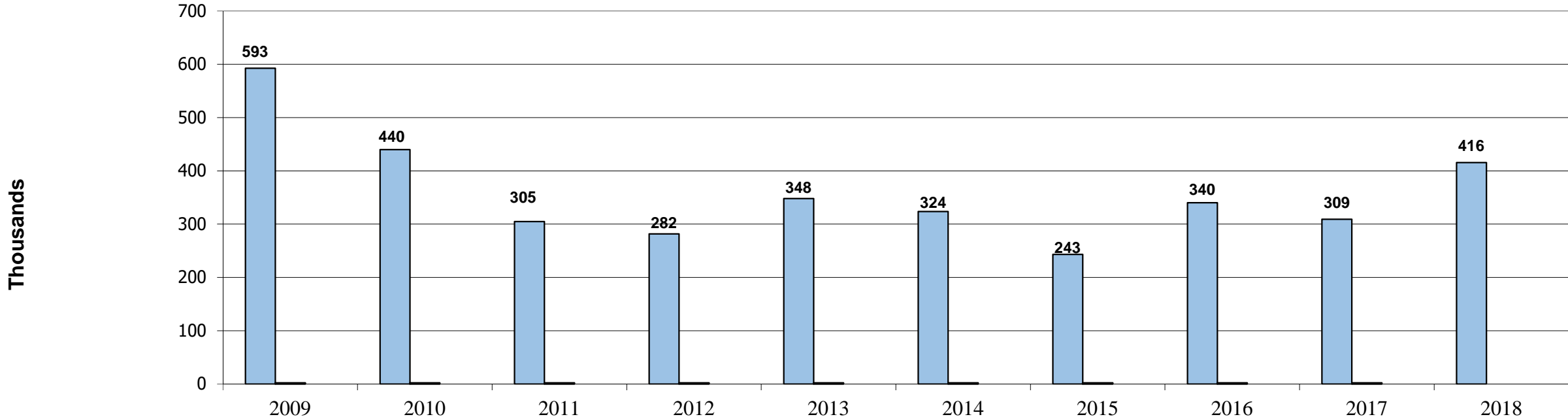


Oklahoma Lottery Commission

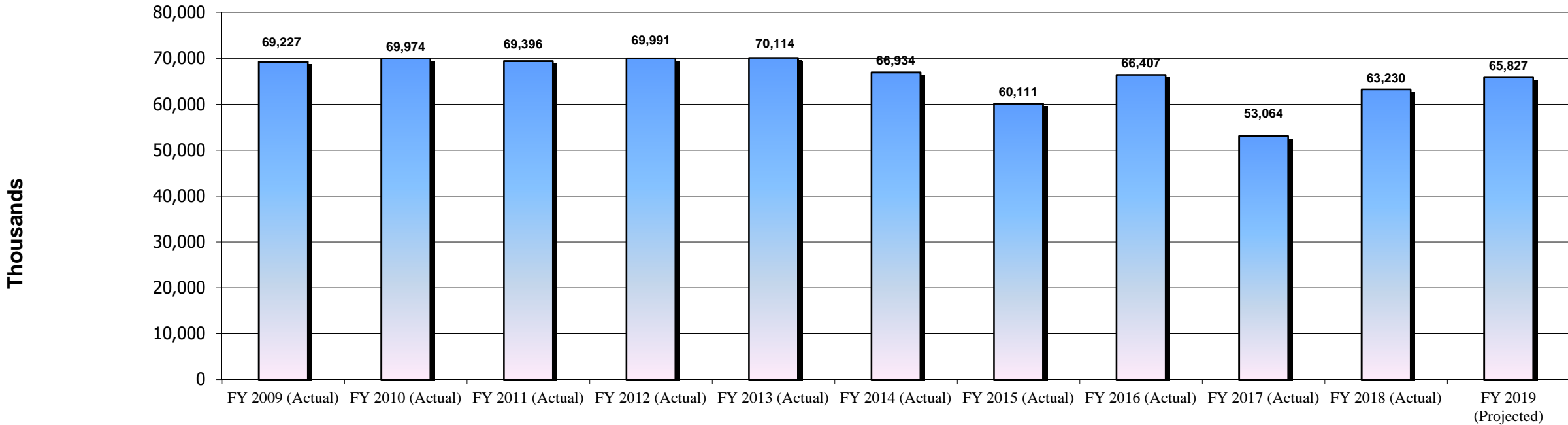
Inception Revenues Distribution (in Thousands)



**Interest Earned**

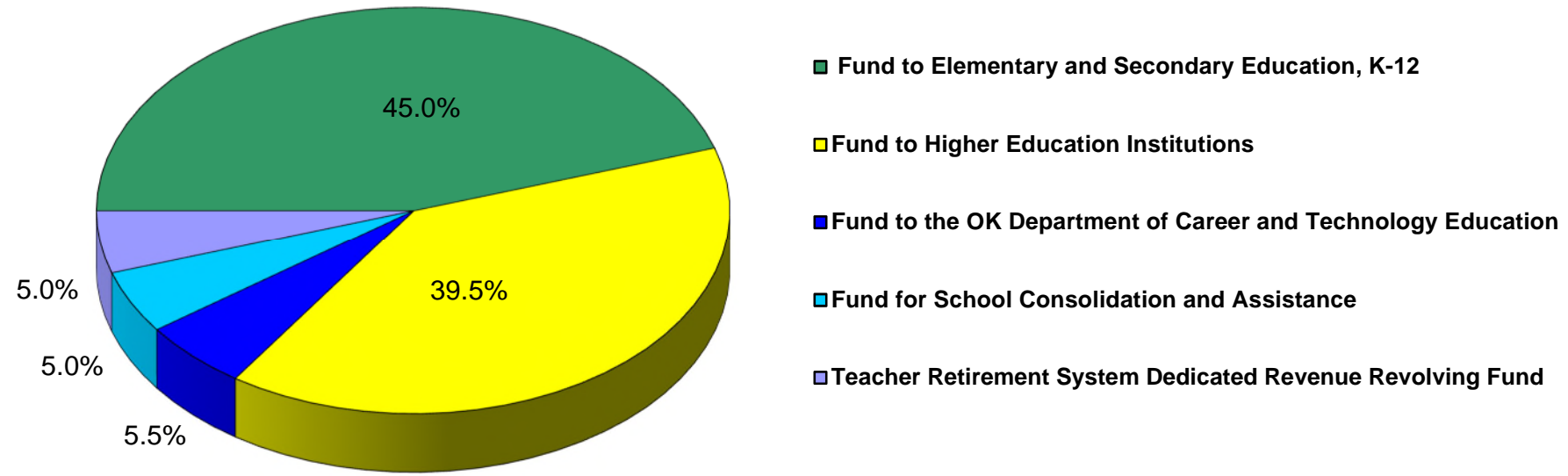


**Contributions to Education**



*Oklahoma Lottery Commission*

**Oklahoma Distribution Percentages of Contributions**



**Oklahoma Lottery Commission  
Demographics and Economic Information  
2007-2017**

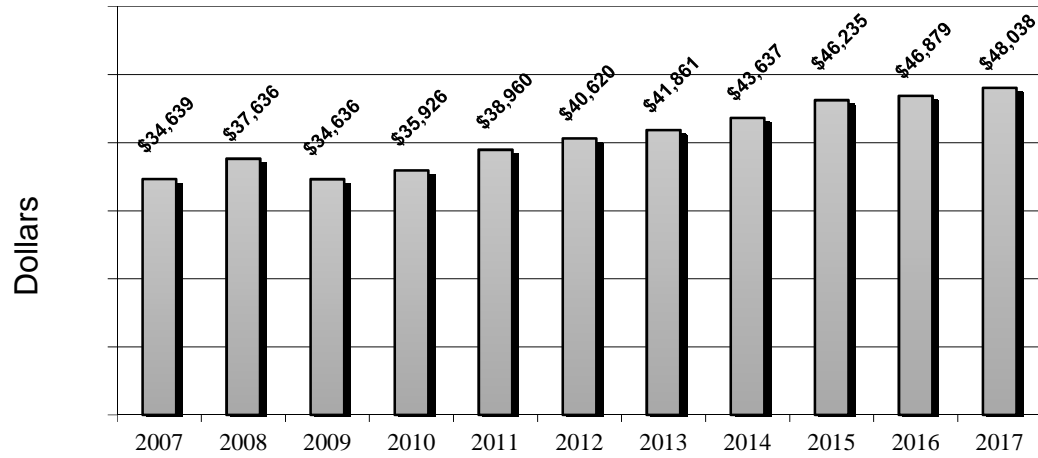
**Ten Largest Employers in the State of Oklahoma**

Business Name	Location	Ranking										
		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
American Airlines	Tulsa						10			8	8	8
Cherokee Nation of Oklahoma	Talequah							10	10			
Chickasaw Enterprises	Ada	4	5	5	5	3	6	7	7	10	10	
Choctaw Nation of OK	Choctaw		6	6								
DoD Military and Civilian	OKC	1	1	1	1	1	1					
Fort Sill	Lawton							4	4	4	4	4
Integrus Health, Inc	Statewide	3	3	3	3	4	3	6	6			10
OK Dept of Human Services	Statewide	6	4	4	4	5	4					
Oklahoma State University	Stillwater	5	7	7	6	6	5	9	9	7	7	7
OU Health Services Center	Norman	6	8	8	7	7	7					
Nercy Health	Statewide	10										
State of Oklahoma	Statewide							1	1	1	1	1
Tinker Air Force Base	OKC							3	3	3	3	3
Tulsa Puablic Schools	Tulsa				10	10				9	9	9
United States Postal Service	Statewide	6	10	10	9	8	8	8	8	5	5	5
University of Oklahoma	Norman	6	9	9	8	9	9	5	5	6	6	6
Walmart Associates	Statewide	2	2	2	2	2	2	2	2	2	2	2

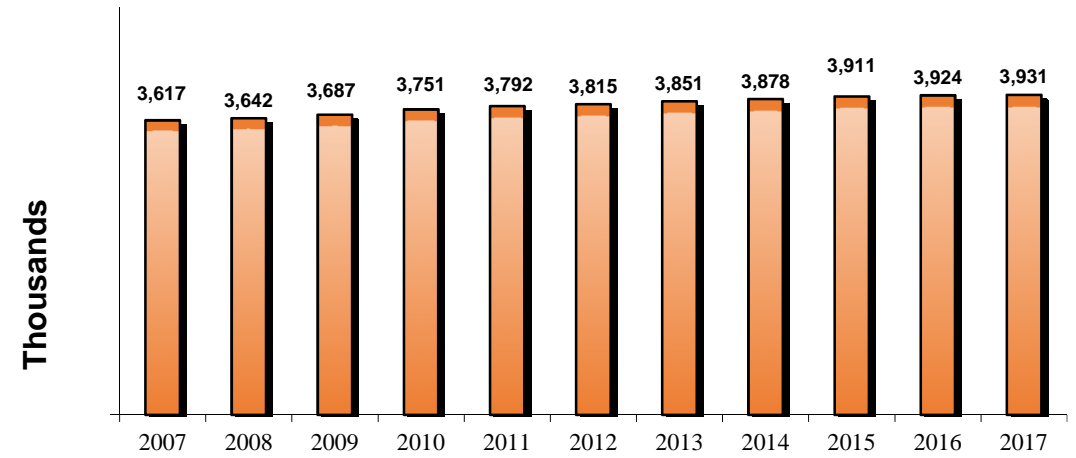
Source : Oklahoma Department of Commerce, [www.okcommerce.gov](http://www.okcommerce.gov)

# Oklahoma Lottery Commission

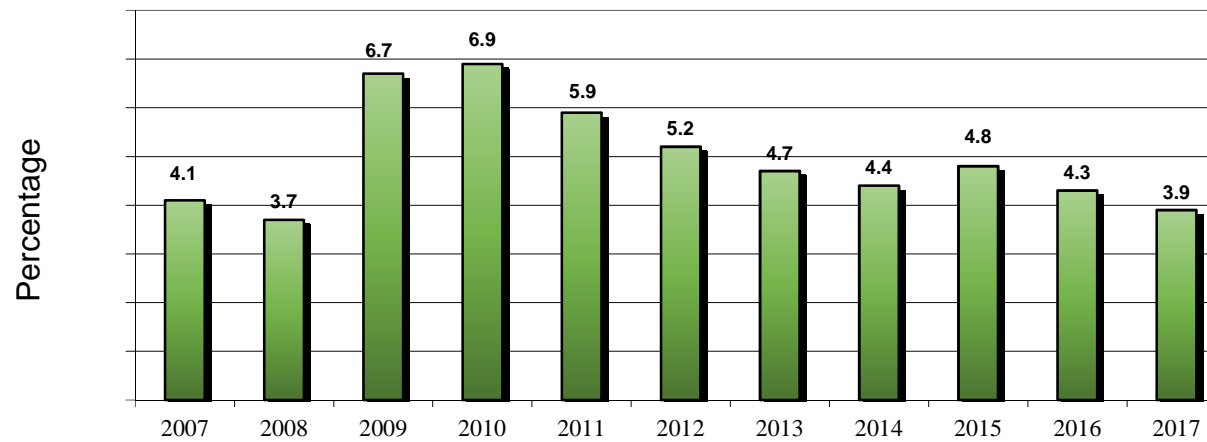
## Median Household Income



## Population 2007-2017



## Unemployment Rate



## **Oklahoma Lottery Commission Operating Information**

### **Summary of Operating Indicators**

The Oklahoma Lottery Commission began ticket sales on October 12, 2005. A phased start-up began with the sale of instant tickets (Scratchers), followed by Pick 3 in November 2005, Powerball in January 2006, Cash 5 in September 2006 and Hot Lotto in January 2008 (which ended October 28, 2017). Mega Millions was added in January 2010 and Pick 4 was added in July 2011 (discontinued September 15, 2014). The Poker Pick game was added September 7, 2014 and ended February 26, 2018. Lotto America was added November 12, 2017 and Lucky for Life was added February 25, 2018. The Lottery ended its thirteenth fiscal year, June 30, 2018 with more than \$221.6 million in sales, bringing total sales through FY-2018 to more than \$2.516 billion. Contributions to education for FY-2018 were \$63.2 million, bringing total Lottery contributions for Oklahoma education to approximately \$868 million. (Note: through November 2018, more than \$880.3 million has been provided by the Lottery to Oklahoma Education). The largest expense each year has been the payment of prizes to lottery winners.

Powerball has been the top selling online game every year, contributing 22.4% of total revenue in FY-2018. Powerball sales are mainly impacted by the value of the estimated annuity jackpot. Several high dollar winners, including Oklahoma's four Powerball grand prize winners in 2006, 2007, 2008, and 2009 have helped to promote Powerball sales in the state.

Scratchers (instant tickets) offered by the Oklahoma Lottery Commission, made up 57.7% of total sales for FY-2018. Instant ticket sales as a percentage of total sales through 2009 are as follows: FY-2017 (45%), to FY-2016 (41%), to FY-2015 (47%), to FY-2014 (45%), to FY-2013 (47%), to FY-2012 (48%), to FY-2011 (52%), to FY-2010 (45%) and to FY-2009 (40%). Instant sales revenues declined in FY-2017 because of lower payouts put into place in FY-2013 to ensure compliance with the profit requirement of 35%. Factors that influence the sale of Scratchers are the economy, competition for available entertainment dollars, game themes, price of tickets, prizes, and number of games offered. By far, the main influence on the sale of Scratchers is prize payouts. Prize payouts were limited by the previous minimum mandated profit (35% profit restriction) in the Oklahoma Education Lottery Act. The Lottery has repeatedly asked for the repeal of this restriction which would result in increased sales and profits as demonstrated by the removal of such restrictions in other state lotteries. The 2017 Legislature agreed, granting relief from the restriction. The result after the first year is a resounding success.



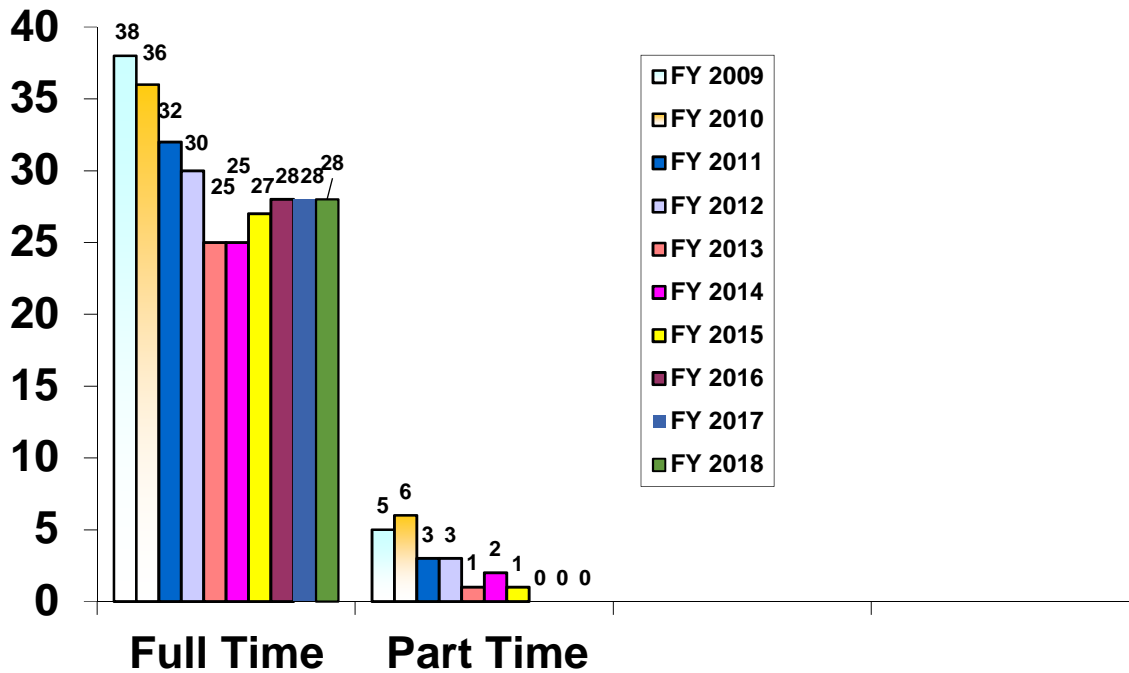
# OKLAHOMA LOTTERY COMMISSION

## Schedule of Lottery Employees

Fiscal Years Ending June 30

### Schedule of Employees by Program

<b>FY 2009</b>		<b>FY 2010</b>		<b>FY 2011</b>		<b>FY 2012</b>		<b>FY 2013</b>	
Full Time	38	Full Time	36	Full Time	32	Full Time	30	Full Time	25
Part Time	<u>5</u>	Part Time	<u>6</u>	Part Time	<u>3</u>	Part Time	<u>3</u>	Part Time	<u>1</u>
Total	43	Total	42	Total	35	Total	33	Total	26
<b>FY 2014</b>		<b>FY 2015</b>		<b>FY 2016</b>		<b>FY 2017</b>		<b>FY 2018</b>	
Full Time	25	Full Time	27	Full Time	28	Full Time	28	Full Time	28
Part Time	<u>2</u>	Part Time	<u>1</u>	Part Time	<u>0</u>	Part Time	<u>0</u>	Part Time	<u>0</u>
Total	27	Total	28	Total	28	Total	28	Total	28



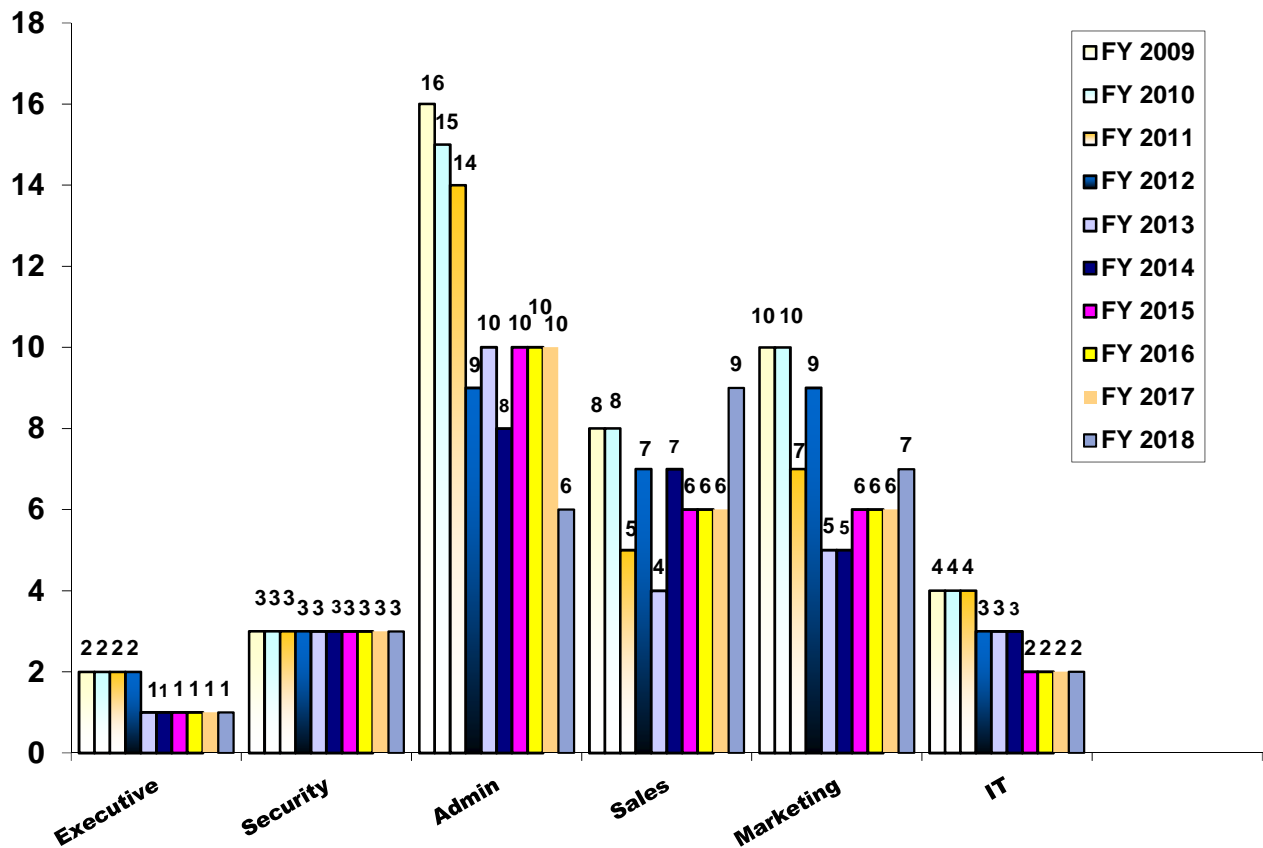
# OKLAHOMA LOTTERY COMMISSION

## Schedule of Lottery Employees

Fiscal Years Ending June 30

### Schedule of Employees by Activity Type

	Executive	Security	Admin	Sales	Marketing	IT	Total
<b>FY 2009</b>	2	3	16	8	10	4	<b>43</b>
<b>FY 2010</b>	2	3	15	8	10	4	<b>42</b>
<b>FY 2011</b>	2	3	14	5	7	4	<b>35</b>
<b>FY 2012</b>	2	3	9	7	9	3	<b>33</b>
<b>FY 2013</b>	1	3	10	4	5	3	<b>26</b>
<b>FY 2014</b>	1	3	8	7	5	3	<b>27</b>
<b>FY 2015</b>	1	3	10	6	6	2	<b>28</b>
<b>FY 2016</b>	1	3	10	6	6	2	<b>28</b>
<b>FY 2017</b>	1	3	10	6	6	2	<b>28</b>
<b>FY 2018</b>	1	3	9	6	7	2	<b>28</b>



**Oklahoma Lottery Commission  
National Lottery Statistics  
Comparative Sales by Product  
FY '18 Sales by Product (millions)**

Lottery Jurisdiction	INSTANT	PULL TAB	3 Digit	4-Digit	In State LOTTO	Small Bloc Lotto	Power Ball	Mega Millions	For Life	ITG	Quick Draw	OTHER	TOTAL SALES
Arizona	\$710.90	\$8.70	\$11.70		\$62.60		\$118.50	\$60.90		\$8.40		(\$0.30)	\$981.40
Arkansas	\$407.60		\$7.70	\$4.50	\$7.90		\$36.70	\$19.60	\$2.90	\$12.70		\$0.10	\$499.70
California	\$5,088.80		\$149.40	\$29.80	\$429.90		\$537.00	\$434.60			\$307.60	\$0.10	\$6,977.20
Colorado	\$407.50		\$12.20		\$50.00		\$88.20	\$38.40	\$15.70				\$612.00
Connecticut	\$730.70		\$121.60	\$120.90	\$56.00		\$88.10	\$42.20	\$19.60		\$86.40	\$2.10	\$1,267.60
Delaware	\$70.60		\$27.00	\$22.80	\$4.60	\$3.40	\$24.60	\$12.10	\$3.00		\$8.80	\$54.70	\$231.60
District of Columbia	\$49.10		\$40.30	\$53.30			\$11.10	\$6.80	\$2.20	\$11.80	\$15.40	\$22.10	\$212.10
Florida	\$4,652.30		\$366.10	\$259.30	\$578.60		\$474.00	\$220.60	\$59.20	\$17.80		\$72.90	\$6,700.80
Georgia	\$3,163.40		\$525.40	\$282.60	\$127.20		\$155.90	\$125.60	\$9.80	\$9.50	\$190.90	\$7.50	\$4,597.80
Idaho	\$146.90	\$45.40	\$2.40		\$3.50	\$2.70	\$33.10	\$13.60	\$3.30	\$11.10		\$3.10	\$265.10
Illinois	\$1,880.50		\$278.10	\$248.80	\$228.40		\$161.20	\$125.00				\$6.40	\$2,928.40
Indiana	\$935.00		\$36.40	\$35.00	\$89.30		\$108.10	\$45.90	\$5.40	\$11.80		\$3.20	\$1,270.10
Iowa	\$244.30	\$10.90	\$7.70	\$4.30		\$8.60	\$58.50	\$21.30	\$5.60	\$9.70		\$0.10	\$371.00
Kansas	\$171.60		\$7.40		\$11.90	\$9.60	\$40.10	\$17.30	\$6.00		\$14.20	\$6.20	\$284.30
Kentucky	\$613.10		\$149.70	\$43.50	\$17.70		\$77.90	\$39.80	\$7.80		\$82.80	\$10.20	\$1,042.50
Louisiana	\$217.20		\$52.10	\$48.70	\$34.90		\$96.20	\$41.90					\$491.00
Maine	\$219.10		\$5.60	\$4.40	\$1.50	\$15.60	\$24.10	\$8.70	\$3.70	\$6.10		\$0.10	\$288.90
Maryland	\$750.90		\$235.40	\$296.20	\$54.30		\$111.20	\$88.60	\$13.20		\$484.00	(\$0.10)	\$2,033.70
Massachusetts	\$3,651.30	\$0.70		\$325.20	\$111.20		\$127.30	\$88.90	\$24.20		\$1,011.60		\$5,340.40
Michigan	\$1,465.30	\$32.40	\$363.00	\$460.60	\$107.60		\$127.00	\$129.30	\$14.60	\$75.00	\$646.80	\$122.10	\$3,543.70
Minnesota	\$411.20		\$17.70		\$28.40	\$12.50	\$75.40	\$26.00	\$6.60	\$11.70		\$7.00	\$596.50
Missouri	\$907.30		\$78.70	\$52.40	\$58.80		\$103.60	\$48.40	\$8.00		\$57.40	(\$0.10)	\$1,314.50
Montana	\$18.60				\$7.60	\$2.70	\$13.60	\$4.90	\$2.70	\$3.80		\$3.30	\$57.20
Nebraska	\$100.80		\$5.50		\$17.30	\$1.90	\$38.60	\$15.00	\$4.30				\$183.40
New Hampshire	\$239.00		\$5.50	\$4.90		\$12.10	\$35.80	\$16.80	\$5.20	\$3.30	\$8.30		\$330.90
New Jersey	\$1,852.30		\$421.30	\$267.20	\$223.00		\$231.80	\$180.30	\$41.30	\$29.30	\$53.00		\$3,299.50
New Mexico	\$72.30		\$5.60		\$7.70	\$4.80	\$29.60	\$13.20		\$0.80			\$134.00
New York	\$4,178.50		\$887.30	\$927.00	\$309.50		\$408.10	\$311.80	\$94.00		\$793.20	\$29.40	\$7,938.80
North Carolina	\$1,782.80		\$317.10	\$145.10	\$65.40		\$168.70	\$78.60	\$19.20		\$28.50	(\$0.10)	\$2,605.30
North Dakota						\$7.50	\$14.30	\$6.30	\$3.20			\$0.00	\$31.30
Ohio	\$1,600.60		\$340.10	\$205.10	\$87.40		\$148.10	\$120.10	\$20.70	\$164.50	\$432.70	\$40.80	\$3,160.10
Oklahoma	\$127.60		\$5.30	\$0.00	\$4.70	\$9.20	\$49.60	\$22.80	\$2.00			(\$0.10)	\$221.10
Oregon	\$130.40			\$1.60	\$41.70		\$60.10	\$30.10			\$102.00	\$2.50	\$368.40
Pennsylvania	\$2,824.20		\$270.40	\$220.70	\$250.40		\$272.70	\$133.90	\$17.80	\$114.40	\$7.60	\$88.50	\$4,200.60
Rhode Island	\$98.70			\$23.20	\$4.50		\$30.20	\$13.30	\$5.00		\$82.40	\$1.10	\$258.40
South Carolina	\$1,260.60		\$213.10	\$101.10	\$23.90		\$93.20	\$45.50	\$12.70			\$0.10	\$1,750.20
South Dakota	\$30.20				\$3.30	\$2.80	\$14.40	\$4.70	\$2.60			\$0.10	\$58.10
Tennessee													
Texas	\$4,406.20		\$259.80	\$113.40	\$280.10	\$0.00	\$294.80	\$259.00	\$0.00				\$5,613.30
Vermont	\$102.00		\$1.30	\$1.20		\$5.00	\$10.10	\$4.50	\$1.70	\$6.50		\$0.10	\$132.40
Virginia	\$1,184.60		\$296.60	\$302.70	\$46.50		\$130.80	\$110.40	\$15.20	\$45.40		\$7.60	\$2,139.80
Washington	\$507.90		\$18.90		\$73.90		\$72.90	\$54.70				\$5.60	\$733.90
West Virginia	\$99.20		\$7.90	\$4.70	\$4.80	\$5.30	\$36.50	\$14.90			\$3.60	\$0.10	\$177.00
Wisconsin	\$419.40	\$1.00	\$23.90	\$13.90	\$70.70		\$98.20	\$39.50		\$0.00		\$0.80	\$667.40
Wyoming	\$0.00				\$9.80		\$10.80	\$5.30	\$2.90			\$0.00	\$28.80
<b>TOTAL (\$US)</b>	<b>\$47,930.50</b>	<b>\$99.10</b>	<b>\$5,575.20</b>	<b>\$4,624.10</b>	<b>\$3,596.50</b>	<b>\$103.70</b>	<b>\$4,940.70</b>	<b>\$3,141.10</b>	<b>\$461.30</b>	<b>\$553.60</b>	<b>\$4,417.20</b>	<b>\$497.20</b>	<b>\$75,940.20</b>

Reference: LaFluors Magazine / September/October - Fiscal Lottery Sales by Game Report





## **Oklahoma Lottery Commission**

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