Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma

Financial Report
June 30, 2015 and 2014

Contents

Independent Auditor's Report

To the Board of Trustees
Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma
Oklahoma City, 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 year ended June 30, 2015; and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

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, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 of 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, 2015 and 2014, 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.

As discussed in Note 2 of the financial statements, in 2015 OLC adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition of Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. OLC recorded the cumulative effect of adopting GASB Statements No. 68 and 71 as an adjustment of net position as of July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

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.

The financial statements of OLC, as of and for the year ended June 30, 2014, were audited by other auditors whose report dated September 12, 2014, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued a report for the year ended June 30, 2015 dated November 12, 2015, on our consideration of the OLC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OLC's internal control over financial reporting and compliance. The report for the year ended June 30, 2014 was audited by other auditors and was dated September 12, 2014.

RSM US LLP

Oklahoma City, Oklahoma
November 12, 2015

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, 2015 and 2014. 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 2015 and 2014, 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 $171,633,476 and $191,127,092, respectively, for the fiscal years ending June 30, 2015 and 2014. The OLC returned $87,782,927 and $97,496,555 to winners of lottery games; paid commissions and incentives to retailers totaling $11,425,710 and $12,647,675; incurred other game related expenses of $7,271,417 and $7,798,373; and had operating expenses of $5,394,206 and $4,486,957 for each of the respective fiscal years of 2015 and 2014. The OLC's net position decreased by $745,750 in fiscal year 2015 and increased by $697,174 in fiscal year 2014 after the cumulative effect of accounting changes. Transfers made and due to the OELTF were $60,111,343 and $66,934,120, respectively, for fiscal years ending June 30, 2015 and 2014.

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

	2015	2014	2013
Current Assets	$ 22,955,061	$ 29,238,675	$ 30,815,345
Noncurrent Assets			
Capital assets, net	94,739	61,281	85,122
Deposit with MUSL	4,829,218	5,856,283	5,599,779
Total assets	$ 27,879,018	$ 35,156,239	$ 36,500,246
Deferred Outflows of Resources	$ 265,713	$ -	$ -
Current Liabilities	$ 17,410,986	$ 23,702,866	$ 26,493,129
Noncurrent Liabilities	229,307	58,316	62,445
Total liabilities	$ 17,640,293	$ 23,761,182	$ 26,555,574
Deferred Inflows of Resources	$ 608,342	$ -	$ -
Net Position			
Net position, invested in capital assets	$ 94,739	$ 61,281	$ 85,122
Restricted net position—expendable	10,309,629	11,333,776	9,859,550
Unrestricted	(508,272)	-	-
Total net position	$ 9,896,096	$ 11,395,057	$ 9,944,672

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

	2015	2014	2013
Operating Revenues:			
Gaming revenues	$171,633,476	$191,127,092	$200,208,874
Other revenues	113,220	113,250	115,485
Total operating revenues	171,746,696	191,240,342	200,324,359
Less prize expense	87,782,927	97,496,555	104,463,424
Less retailer commissions/incentives	11,425,710	12,647,675	13,114,765
Less other direct game costs	7,271,417	7,798,373	5,948,626
Less operating expenses	5,394,206	4,486,957	4,615,135
Total expense	111,874,260	122,429,560	128,141,950
Nonoperating Revenue (Expense):			
Interest income	243,157	323,723	348,277
Transfers to ODMHSAS	(750,000)	(750,000)	(500,000)
Transfers to OELTF	(60,111,343)	(66,934,120)	(70,113,527)
Net nonoperating revenue (expense)	(60,618,186)	(67,360,397)	(70,265,250)
Changes in net position	(745,750)	1,450,385	1,917,159
Net Position, beginning of year	11,395,057	9,944,672	8,027,513
Restatement—Implementation of GASB 68 and 71	(753,211)	-	-
	10,641,846	9,944,672	8,027,513
Net Position, end of year	$ 9,896,096	$ 11,395,057	$ 9,944,672

Sales decreased from fiscal year 2014 to fiscal year 2015. Online sales during this period decreased mostly because of Power Ball sales. In fiscal year 2014, there were 11 jackpots with an average jackpot amount of $209 million. In fiscal year 2015, there were 13 jackpots with an average jackpot amount of $153 million. When jackpots are lower revenue tends to be lower. There was also a decrease in overall scratcher sales from fiscal year 2014 to fiscal year 2015. The OLC slightly reduced prize payouts in fiscal 2014 to adjust to fluctuations in costs, because of this scratcher sales have continued to decline in fiscal year 2015.

Sales decreased from fiscal year 2013 to fiscal year 2014. Online sales during this period decreased mostly because of Power Ball sales. In fiscal year 2013, there were two large jackpots that were almost $600 million. In fiscal year 2014, the largest jackpot was approximately $448 million. There was also a decrease in overall scratcher sales from fiscal year 2013 to fiscal year 2014. The OLC slightly reduced prize payouts in fiscal year 2014 to adjust to fluctuations in costs and to meet the minimum mandated profit of 35 percent. Instant payouts must be closely managed to ensure OLC fulfills our mandated requirement of 35 percent to education. We continually review and adjust Scratcher prize payouts to meet consumer demands and our ability to pay the prizes and transfers to education.

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 2015 and 2014, 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, 2015 and 2014, the total transfers made or due to the OELTF related to operations were $60,111,343 and $66,934,120, respectively. Since inception to June 30, 2015, total transfers made or due to the OELTF were $685,682,576. For each of the years ended June 30, 2015 and 2014, 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, 2015, total transfers to the Oklahoma Department of Mental Health and Substance Abuse Services were $5,044,600.

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

	2015	2014	2013
Cash provided by (used in):			
Operating activities	$ 62,419,502	$ 67,031,666	$ 71,378,287
Noncapital financing activities	(68,893,217)	(69,446,790)	(70,435,881)
Capital and related financing activities	(71,380)	(14,144)	(17,013)
Investing activities	252,739	329,721	353,209
Net increase (decrease) in cash	(6,292,356)	(2,099,547)	1,278,602
Cash, beginning of year	23,094,187	25,193,734	23,915,132
Cash, end of year	$ 16,801,831	$ 23,094,187	$ 25,193,734

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
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Statements of Net Position
June 30, 2015 and 2014

Assets	**2015**	2014
Current Assets		
Cash and cash equivalents	**$ 11,321,420**	$ 17,616,694
Cash—restricted	**5,480,411**	5,477,493
Retailer accounts receivable	**5,801,220**	5,890,762
Accounts receivable—Multi-State Lottery	**352,010**	253,726
Total current assets	**22,955,061**	29,238,675
Noncurrent Assets		
Capital assets, net	**94,739**	61,281
Deposit with Multi-State Lottery	**4,829,218**	5,856,283
Total noncurrent assets	**4,923,957**	5,917,564
Total assets	**$ 27,879,018**	$ 35,156,239
Deferred Outflows of Resources		
Deferred pension plan outflows	**$ 265,713**	$ -
Liabilities		
Current Liabilities		
Due to Oklahoma Education Lottery Trust Fund	**$ 9,099,421**	$ 17,131,295
Due to Multi-State Lottery	**741,878**	705,022
Prizes payable	**6,467,578**	4,736,739
Accounts payable	**577,476**	604,207
Accrued liabilities	**143,820**	163,912
Unearned revenue	**380,813**	361,691
Total current liabilities	**17,410,986**	23,702,866
Noncurrent Liabilities		
Accrued compensated absences	**63,683**	58,316
Net pension liability	**165,624**	-
Total noncurrent liabilities	**229,307**	58,316
Total liabilities	**$ 17,640,293**	$ 23,761,182
Deferred Inflows of Resources		
Deferred pension plan inflows	**$ 608,342**	$ -
Net Position		
Investment in capital assets	**$ 94,739**	$ 61,281
Restricted net position—expendable	**10,309,629**	11,333,776
Unrestricted	**(508,272)**	-
Total net position	**$ 9,896,096**	$ 11,395,057

See Notes to Financial Statements.

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Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2015 and 2014

	2015	2014
Operating Revenues:		
Scratcher games	**$ 81,600,192**	$ 85,876,010
Pick 3 game	**5,250,569**	4,806,892
Pick 4 game	**-**	403,036
Cash 5 game	**4,212,739**	4,441,703
Poker Pick game	**2,040,522**	-
Hot Lotto game	**9,917,136**	8,858,804
National Millionaire Raffle game	**-**	244,131
Mega Millions game	**22,099,568**	27,674,261
Powerball game	**46,512,750**	58,822,255
Total revenue from the sale of lottery tickets	**171,633,476**	191,127,092
Retailer application fees	**105,245**	106,000
Other	**7,975**	7,250
Total operating revenues	**171,746,696**	191,240,342
Direct Costs:		
Prize expense:		
Scratcher games	**44,669,301**	47,973,892
Pick 3 game	**2,518,670**	2,297,930
Pick 4 game	**-**	161,250
Cash 5 game	**1,849,789**	2,354,971
Poker Pick game	**1,018,738**	-
National Millionaire Raffle game	**-**	102,029
Hot Lotto game	**4,621,711**	4,236,867
Mega Millions game	**10,669,022**	13,263,233
Powerball game	**22,435,696**	27,106,383
Total prize expense	**87,782,927**	97,496,555
Commissions and incentives to retailers	**11,425,710**	12,647,675
Instant and online costs	**7,271,417**	7,798,373
Total direct costs	**106,480,054**	117,942,603
Gross profit	**65,266,642**	73,297,739
Operating Expenses:		
Advertising and promotion	**2,743,837**	1,520,686
Salaries, wages and benefits	**2,129,873**	2,345,767
Contracted and professional services	**163,050**	167,068
Depreciation	**37,922**	37,985
Equipment	**18,186**	11,562
Rent expense	**166,777**	193,862
Office supplies	**17,720**	17,774
Travel	**20,171**	11,426
Other general and administrative	**96,670**	180,827
Total operating expenses	**5,394,206**	4,486,957
Operating income	**59,872,436**	68,810,782

(Continued)

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Statements of Revenues, Expenses, and Changes in Net Position (Continued)
June 30, 2015 and 2014

	2015	2014
Nonoperating Income (Expense):		
Interest income	**243,157**	323,723
Transfers to Oklahoma Department of Mental Health and Substance Abuse Services	**(750,000)**	(750,000)
Transfers to and due to Oklahoma Education Lottery Trust Fund	**(60,111,343)**	(66,934,120)
Net nonoperating income (expense)	**(60,618,186)**	(67,360,397)
Changes in net position	**(745,750)**	1,450,385
Net Position, beginning of year	**11,395,057**	9,944,672
Restatement—Implementation of GASB 68 and 71	**(753,211)**	-
Net Position, beginning of year, as restated	**10,641,846**	9,944,672
Net Position, end of year	**$ 9,896,096**	$ 11,395,057

See Notes to Financial Statements.

Oklahoma Lottery Commission
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Statements of Cash Flows
June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Cash received from retailers	**$ 160,298,299**	$ 178,073,542
Cash payments to prize winners	**(86,015,232)**	(98,216,678)
Cash payments to suppliers for goods and services	**(10,501,074)**	(10,158,048)
Cash payments to employees for services	**(2,389,556)**	(2,410,646)
Cash (payments)/receipts to fund deposit with Multi-State Lottery	**1,027,065**	(256,504)
Net cash provided by operating activities	**62,419,502**	67,031,666
Cash Flows From Noncapital Financing Activities		
Payments to Oklahoma Department of Mental Health and Substance Abuse Services	**(750,000)**	(750,000)
Payments to Oklahoma Education Lottery Trust Fund	**(68,143,217)**	(68,696,790)
Net cash used in noncapital financing activities	**(68,893,217)**	(69,446,790)
Cash Flows From Capital and Related Financing Activities;		
Purchase of capital assets	**(71,380)**	(14,144)
Cash Flows From Investing Activities;		
Interest received	**252,739**	329,721
Net change in cash and cash equivalents	**(6,292,356)**	(2,099,547)
Cash and Cash Equivalents, beginning of year	**23,094,187**	25,193,734
Cash and Cash Equivalents, end of year	**$ 16,801,831**	$ 23,094,187
Operating Activities		
Operating income	**$ 59,872,436**	$ 68,810,782
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	**37,922**	37,985
Bad debt expense	**7,105**	90,215
Changes in operating assets, deferred outflows, liabilities and deferred inflows:		
Retailer accounts receivable	**72,855**	(796,163)
Accounts receivable—Multi-State Lottery	**(98,284)**	177,073
Deposit with Multi-State Lottery	**1,027,065**	(256,504)
Deferred pension plan outflows	**(13,493)**	-
Due to Multi-State Lottery	**36,856**	(790,605)
Accounts payable and accrued liabilities	**(41,456)**	(374,520)
Prizes payable	**1,730,839**	70,482
Net pension liability	**(839,807)**	-
Unearned revenue	**19,122**	62,921
Deferred pension plan inflows	**608,342**	-
Net cash provided by operating activities	**$ 62,419,502**	$ 67,031,666

See Notes to Financial Statements.

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, administration and operation of the OLC and other operating costs.” All expenses not meeting this definition are reported as nonoperating expenses. The only nonoperating expenses 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 reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: Revenue for Pick 3, Pick 4, Cash 5, Poker Pick, Hot Lotto, National Millionaire Raffle, 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. The majority of free tickets relate to scratcher ticket games. Revenue and prize expense are shown net of free tickets.

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

Note 2. Significant Accounting Policies (Continued)

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 2015 and 2014 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 $4,459,518 and $5,573,057 for fiscal years 2015 and 2014, respectively. Unclaimed prizes are netted against prize expense in the statement of revenues, expenses, and changes in net position.

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, 2015 and 2014, the OLC had deferred inflows of resources of $608,342 and $0, 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, 2015 and 2014, the OLC had deferred outflows of resources of $265,713 and $0, 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: This represents 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.

Unrestricted: Net position that does not meet the definition of investment in capital assets or restricted are classified as unrestricted.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the OLC's policy is to first apply the expense toward the unrestricted resources, and then towards restricted resources.

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.

Note 2. Significant Accounting Policies (Continued)

Cash and cash equivalents: The OLC's cash and cash equivalents are considered to be cash on hand and interest-bearing deposits in a governmental 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 2015 and 2014. At June 30, 2015 and 2014, no amounts were available for transfer as net proceeds. During fiscal years 2015 and 2014, $163,464 and $35,400, 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, 2015 and 2014, the balance in the fidelity fund totaled $172,576 and $229,114, respectively and appears in the accompanying statement of net position as restricted funds and expendable restricted net position.

Current unclaimed prizes in excess of $750,000 for both fiscal years 2015 and 2014, and the balance from prior years are included in restricted cash in the accompanying statement of net position and expendable restricted net position. These funds are to be utilized to enhance future OLC prizes or promotions and totaled $5,307,835 and $5,248,349 as of June 30, 2015 and 2014, 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 to substantially cover 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.

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.

Note 2. Significant Accounting Policies (Continued)

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, 2015 and 2014, bad-debt expense was $7,105 and $90,215, respectively. Receivables at June 30, 2015 and 2014 are considered fully collectible. Therefore, no provision for doubtful accounts has been recognized.

New accounting pronouncements adopted in fiscal year 2015: The OLC adopted the following new accounting pronouncements during the year ended June 30, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* (GASB No. 68) establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans, and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012. OLC recorded the cumulative effect of adopting GASB Statements No. 68 and 71, totaling $753,211, as an adjustment of net position as of July 1, 2014.

GASB Statement No. 71, *Pension transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB No. 71) amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The adoption of GASB No. 71 resulted in the recording of a deferred outflow of $265,713 for contributions made after the measurement date of June 30, 2014.

New accounting pronouncements issued not yet adopted: The GASB has issued several new accounting pronouncements which will be effective to OLC in fiscal years ended June 30, 2016, 2017 and 2018. OLC is currently evaluating the impact that these new standards will have on its financial statements. A description of the new accounting pronouncements are described below:

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72) addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

Note 2. Significant Accounting Policies (Continued)

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB No. 73) was issued June 2015 and will be effective for the OLC beginning with its fiscal year ending June 30, 2016—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the OLC beginning with its fiscal year ending June 30, 2017. The Statement establishes requirements for pensions not covered by Statement Nos. 67 and 68 which are essentially the same requirements as Statement No. 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB No. 74) was issued in June 2015 will be effective for the OLC beginning with its fiscal year ending June 30, 2017. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position but requires more extensive note disclosures and Required Supplementary Information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. The Statement also sets forth note disclosure requirements for defined contribution OPEB plans.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) was issued in June 2015 and will be effective for the OLC beginning with its fiscal year ending June 30, 2018. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust and OPEB not provided through a trust. The Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the Statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 76): The objective of GASB No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

Note 2. Significant Accounting Policies (Continued)

GASB Statement No. 77, *Tax Abatement Disclosures* (GASB No. 77) requires governments that enter into tax abatement agreements to disclose the following information about the agreements: brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; the gross dollar amount of taxes abated during the period; and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose: The names of the governments that entered into the agreements: the specific taxes being abated; and the gross dollar amount of taxes abated during the period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

Note 3. Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The OLC does not have a deposit policy for custodial credit risk.

As of June 30, 2015 and 2014, the carrying amounts of the OLC’s deposits with the OST were $16,801,831 and $23,094,187, respectively, and the bank balances were $16,848,903 and $23,202,096, respectively.

The OLC’s deposits with the State Treasurer are invested in OK INVEST. For financial reporting purposes, deposits with the State Treasurer that are invested in OK INVEST are classified as cash equivalents. At June 30, the distribution of deposits in OK INVEST is as follows:

	2015		2014	
OK INVEST Portfolio	Cost	Market Value	Cost	Market Value
U.S. agency securities	$ 6,764,504	$ 6,757,191	$ 10,645,195	$ 10,624,498
Money market mutual funds	2,115,211	2,115,211	1,120,239	1,120,239
Certificates of deposit	460,042	460,042	602,291	602,291
Mortgage-backed agency securities	6,609,889	6,694,372	9,531,638	9,728,317
Municipal bonds	233,617	253,321	355,960	394,222
Foreign bonds	129,735	129,734	182,273	182,274
Commercial paper	340,887	340,887	488,266	488,266
U.S. Treasury obligations	195,016	234,102	276,234	341,957
	$ 16,848,901	$ 16,984,860	$ 23,202,096	$ 23,482,064

Note 3. Cash and Cash Equivalents (Continued)

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 270 days.

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.

Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that OK INVEST will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities, or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in OK INVEST is not insured or guaranteed by the State, the FDIC, or any other government agency.

Note 4. Capital Assets, Net

The following is a summary of changes in capital assets and accumulated depreciation during the years ended June 30, 2015 and 2014:

	Year Ended June 30, 2015			
Capital Assets	Beginning Balance	Additions	Deletions	Ending Balance
Machinery and equipment	$ 788,646	$ 66,958	$ -	$ 855,604
Computers and software	405,145	4,422	-	409,567
	1,193,791	71,380	-	1,265,171
Accumulated depreciation:				
Machinery and equipment	731,197	35,398	-	766,595
Computers and software	401,313	2,524	-	403,837
	1,132,510	37,922	-	1,170,432
Total capital assets, net	$ 61,281	$ 33,458	$ -	$ 94,739

	Year Ended June 30, 2014			
Capital Assets	Beginning Balance	Additions	Deletions	Ending Balance
Machinery and equipment	$ 778,469	$ 10,177	$ -	$ 788,646
Computers and software	401,178	3,967	-	405,145
	1,179,647	14,144	-	1,193,791
Accumulated depreciation:				
Machinery and equipment	694,486	36,711	-	731,197
Computers and software	400,039	1,274	-	401,313
	1,094,525	37,985	-	1,132,510
Total capital assets, net	$ 85,122	$ (23,841)	$ -	$ 61,281

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 2015	$ 174,948	$ 113,710	$ 97,609	$ 191,049	$ 127,366
Compensated absences 2014	$ 187,335	$ 112,699	$ 125,086	$ 174,948	$ 116,632

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, 2015 or 2014. Rent expense under all operating leases was $166,777 for the year ended June 30, 2015, and $193,862 for the year ended June 30, 2014.

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. Beginning in fiscal year 2009, the OLC makes transfers to the OELTF calculated at 35 percent of the total revenue year-to-date, less amounts previously paid. The net proceeds transfer requirement percentage for years prior to fiscal year 2009 was 30 percent. All remaining net income at the end of the fiscal year is also remitted to the OELTF, unless specifically exempted by statute. 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

The following is a summary of the amounts available for transfer to the OELTF during the years ended June 30, 2015 and 2014:

	2015	2014
Net position, beginning of year	$ 11,395,057	$ 9,944,672
Change in net position before transfers to OELTF	59,365,593	68,384,505
Impact of GASB Statement No. 68 and 71	(244,939)	-
Net position available for transfer to OELTF before investment in capital assets and restricted net position	70,515,711	78,329,177
Less investment in capital assets	(94,739)	(61,281)
Less restricted net position—expendable	(10,309,629)	(11,333,776)
Transfers to and due OELTF for the year	$ 60,111,343	$ 66,934,120

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.

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.

Note 8. Retirement Program (Continued)

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 2015 and 2014, *state agency employers* contributed 16.5 percent on all salary, and *state employees* contributed 3.5 percent on all salary.

For 2015 and 2014, contributions of *Oklahoma Lottery Commission* totaled 20.0 percent of salary composed of employee contribution rate of 3.5 percent and employer contribution rate of 16.5 percent. Contributions to the pension plan from the Oklahoma Lottery Commission were $256,235 and 252,220 for the years ended June 30, 2015 and 2014, 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.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At June 30, 2015, the Oklahoma Lottery Commission reported a liability of $165,624 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. 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, 2015, the Oklahoma Lottery Commission's proportion was 0.090226546 percent.

For the year ended June 30, 2015, the Oklahoma Lottery Commission recognized pension expense of $11,276. At June 30, 2015, the Oklahoma Lottery Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumption	$ 9,478	$ -
Differences between expected and actual experience	-	54,834
Net difference between projected and actual investment earnings on pension plan investments	-	553,508
OLC contributions subsequent to the measurment date	256,235	-
	$ 265,713	$ 608,342

Note 8. Retirement Program (Continued)

Deferred pension outflows resulting from the OLC's Employer' contributions subsequent to the measurement date, totaling $256,235 at June 30, 2015, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Deferred inflows totaling $553,508 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 life of the Plan. 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 3.14 years at June 30, 2014 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:

	Deferred Outflows	Deferred Inflows
2016	$ 124,165	(164,000)
2017	124,165	(164,000)
2018	17,383	(141,964)
2019	-	(138,377)
	$ 265,713	$ (608,342)

Actuarial assumptions: The total pension liability as of June 30, 2015, was determined based on an actuarial valuation prepared as of July 1, 2014, using the following actuarial assumptions:

- Investment return—7.5 percent 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, 2014, valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

Note 8. Retirement Program (Continued)

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, 2014, 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%
U.S. Fixed Income	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	100.0%	

Discount rate: The discount rate used to measure the total pension liability was 7.50 percent. 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 through 2113 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.

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 7.50 percent, 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 (6.50 percent) or one percentage point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Oklahoma Lottery Commission's proportionate share of the net pension liability	$ 1,031,133	$ 165,624	$ (570,183)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements, June 30, 2014 CAFR, available at http://www.opers.ok.gov/Websites/opers/images/pdfs/CAFR-2014-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, 2015 and 2014.

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, 2015 and 2014, the OLC paid SGI $7,271,417 and $7,798,373, 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 51.5 percent of its Mega Millions ticket sales before April 1, 2014 and 50 percent of its Mega Millions ticket sales after April 1, 2014. The percentage applied to Mega Millions sales was reduced during 2014 due to the reserves reaching the ceilings. 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, 2015 and 2014, the OLC owed the MUSL $741,878 and $705,022 for ticket sales, and the MUSL owed the OLC $352,010 and $253,726 for nonjackpot-winning tickets. The OLC has recorded these items at their gross amounts in the accompanying statements of net position.

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	
	2015	2014
Set prize reserve account	$ 693,400	$ 765,076
Prize reserve account	3,112,906	3,209,153
Balance of unreserved account	1,022,912	1,882,054
	$ 4,829,218	$ 5,856,283

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*

OLC's proportion of the net pension liability		0.09022655%
OLC's proportionate share of the net pension liability	$	165,624
OLC's covered-employee payroll		1,552,939
OLC's proportionate share of the net pension liability as a percentage of its covered-employee payroll		10.67%
Plan fiduciary net position as a percentage of the total pension liability		97.90%

Notes to Schedule:

* Only the current fiscal year is 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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required to contribute	$ 256,235	$ 252,220	$ 260,035	$ 289,515	$ 295,643	$ 317,954	$ 295,497	$ 276,686	$ 255,819	$ 156,000
Contributions in relation to the contractually required contributions	256,235	252,220	260,035	289,515	295,643	317,954	295,497	276,686	255,819	156,000
Contributions deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
OLC's covered-employee payroll	1,552,939	1,528,606	1,575,970	1,754,636	1,907,374	2,051,316	2,037,910	2,049,526	2,046,552	1,356,522
Contributions as a percentage of covered-employee payroll	16.50%	16.50%	16.50%	16.50%	15.50%	15.50%	14.50%	13.50%	12.50%	11.50%

Report Required by
Government Auditing Standards

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

The Board of Trustees
Oklahoma Lottery Commission
An Enterprise Fund of the State of Oklahoma
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Lottery Commission (the OLC) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the OLC's basic financial statements, and have issued our report thereon dated November 12, 2015. Our report includes emphasis of matter paragraphs describing the adoption of new accounting standards in fiscal year ended June 30, 2015 the acknowledgement that the OLC is an enterprise fund of the State of Oklahoma and these financial statements reflect only the assets, liabilities and revenues and expenses of that enterprise fund and not the State of Oklahoma as a whole.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the OLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OLC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OLC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the OLC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Oklahoma City, Oklahoma
November 12, 2015

RSM