



**OHIO LOTTERY COMMISSION  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



OHIO LOTTERY COMMISSION  
CUYAHOGA COUNTY

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

Ohio Lottery Commission  
Cuyahoga County  
615 Superior Avenue, NW  
Cleveland, Ohio 44113

We have audited the financial statements of the Ohio Lottery Commission (the Commission), an enterprise fund of the State of Ohio, as of and for the years ended June 30, 2001 and 2000, and have issued our report thereon dated October 3, 2001. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Commission in a separate letter dated October 3, 2001.

This report is intended for the information and use of the audit committee, management and Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

October 3, 2001



**OHIO LOTTERY COMMISSION**

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AN ENTERPRISE FUND OF THE STATE OF OHIO

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**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

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FOR THE FISCAL YEARS ENDED

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JUNE 30, 2001 AND 2000





OHIO LOTTERY COMMISSION

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
YEARS ENDED JUNE 30, 2001 AND 2000  
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October 5, 2001

To the Governor of the State of Ohio  
The Ohio Lottery Commissioners and  
The Citizens of Ohio:

We are pleased to submit to you this Comprehensive Annual Financial Report of the Ohio Lottery Commission (the "Ohio Lottery") for the year ended June 30, 2001. The Finance Division of the Ohio Lottery has prepared this report. The Lottery, an agency of the State of Ohio, was created in July 1974 and is operated as a business enterprise within the framework of the state laws and regulations. The Lottery's mission is to maximize revenues to provide funds for the educational system of the State of Ohio (the "State") by offering dignified games of chance to the public at large.

The Lottery is an enterprise fund of the State of Ohio and is included in the State's Comprehensive Annual Financial Report. Lottery activity is reported as an enterprise fund type and includes all activity for which the Ohio Lottery is financially accountable. No data related to any other State agency or fund is included.

The Comprehensive Annual Financial Report presents an overview of the Ohio Lottery. The report follows formal standards of the Government Finance Officers Association. Government organizations that publish this type of report can be compared to each other, because similar kinds of information are included in the following sections:

**Introductory Section** – includes this formal transmittal letter describing the Ohio Lottery and its business activities, a list of principal officers, the Commission's organizational chart and the Certificate of Financial Reporting Excellence awarded for the fiscal year 2000. This section is not audited because it contains subjective information.

**Financial Section** – begins with the State Auditor's report followed by the comparative financial statements of the Ohio Lottery, related notes to the financial statements and certain supplemental schedules.

**Statistical Section** – contains selected financial data specific to the Ohio Lottery as well as the national lottery industry. This information has not been audited.

The accuracy of the financial data and the completeness of the presentation, including all disclosures, is the responsibility of the Ohio Lottery Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Ohio Lottery. All disclosures necessary to enable the reader to gain an understanding of the Ohio Lottery's financial activities have been included.

## THE LOTTERY INDUSTRY

In 1964, New Hampshire established a state run Lottery to raise money for education. It became the first state in the United States to enter the Lottery business. New York followed in 1967. In 1971, New Jersey introduced a computer-based \$.50 weekly game

which offered frequent drawings, inexpensive tickets, convenience of sale and a weekly prize of \$50,000. New Jersey grossed \$142.5 million in its first year and established a new paradigm for the industry. New York and New Hampshire revamped their systems and other states soon introduced lotteries using New Jersey's operation as a model. Ohio implemented its Lottery in 1974.

To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Sales of tickets increased significantly in the early 90's. Today, 37 U.S. states and the District of Columbia operate lotteries using computer-based online games and instant "scratch off" games. More than 87% of the U.S. population resides in a state operating a lottery.

Many Americans believe that lotteries are a good way to raise public funds. Support for lotteries is strong in the U.S. as evidenced by GTECH Corporation's 8<sup>th</sup> Annual National Gaming Survey 2000. That survey showed that 73% of American adults approve of lotteries, 72% had played lotteries in the last year, 72% strongly prefer lotteries to higher taxes, 70% would vote in favor of continuing their lottery, and 66% from non-lottery states would vote for establishing a state lottery if given the opportunity in a statewide referendum. The International Gaming and Wagering Business magazine reports that in poll after poll, lotteries continue to have the highest public approval rating of any form of gaming.

## **ECONOMIC OUTLOOK**

The State of Ohio has enjoyed several years of consistent growth, keeping pace with the trend set by the national economy. However, it appears that the overall economy is beginning to slow down, evidenced by the volatility of the stock market, increasing unemployment, and projections of weaker sales and earnings. By the end of calendar year 2001, the United States economy is expected to have recorded its sixth consecutive quarter of sub-par growth, averaging 1.4%. The horrific terrorist attacks in the United States on September 11, 2001 have added further unpredictability to the national economy.

The outlook for the Ohio economy has also deteriorated since the beginning of the current budget cycle in July 2001. Ohio's economy is now in a recession that has been characterized by widespread layoffs and falling corporate profits that will likely last into next year. The state's fiscal conditions have changed rapidly in recent months. In addition to increasing demands for more government spending on human service programs in response to the weakening economy, the state's revenue picture has taken a turn for the worse. As a result, the state's personal income, corporate income and sales tax revenues were under severe pressure, and unable to reach projected levels of collections.

The Ohio Lottery Commission is well managed and one of the most successful lotteries in the U.S., ranking seventh in total sales for Fiscal Year 2001. Despite its efficient and effective operation, the growth experienced during the mid-1990's could not be sustained, and sales have decreased consistently over the past five fiscal years. In order to reverse this trend, several initiatives are being implemented to enhance and boost sales in the coming years. First of all, relief from the legislation requiring that no less than 30% of sales be available for transfer to the Lottery Profit Education Fund was secured effective July 1, 2001. This relief will allow the Ohio Lottery to increase prize payouts and transform the Ohio Lottery from a margin-based to a volume-based

business operation. Secondly, the Ohio Lottery is reviewing its current product mix, which has not experienced any significant changes for several years, in an effort to revitalize current games. Finally, the Ohio Lottery is continually researching new gaming possibilities in order to add to its existing product mix and generate potential revenues that are currently being lost to neighboring states and intrastate competitors. These possibilities include participation in a multi-state lottery (PowerBall, the Big Game), pull-tab instant tickets, and others. As a result of these planned initiatives, the Ohio Lottery will hopefully reverse the decline it has experienced recently and will continue to meet and exceed budgeted transfers to education.

## **LOTTERY PRODUCTS**

The Ohio Lottery provides the opportunity to participate in different games with two styles of play, instant games and online games. Descriptions of the games and their portion of sales follows:

*INSTANT GAMES* are played by scratching the latex covering off the play area on the ticket. There are different ways to win in an instant or “scratch off” game, such as matching three like dollar amounts, symbols or letters. If the correct combinations appear, the player becomes an “instant winner” and may immediately submit a claim to cash the ticket. Instant games have been the Ohio Lottery’s dominant product since Fiscal Year 1997. In Fiscal Year 1992, instant games sold \$584.2 million, 34.7% of the \$1.685 billion in sales that year. In Fiscal Year 1997, instant games had grown so that for the first time they accounted for more than half of sales at \$1.195 billion. For Fiscal Year 2001, instant game sales were \$988.3 million, and represented 51.5% of total lottery sales. Instant games had little growth until multiple game strategies were introduced. As many as 57 games are now printed annually including seasonal games and special holiday games. Instant games are sold for \$1, \$2, \$3, \$5, \$7 and \$10. The \$3 and \$10 games were introduced in 1997 with the Ohio Lottery being the first U.S. lottery ever to market a \$10 instant game. The \$7 ticket was added in Fiscal Year 2000. In addition to the expansion of \$3 and \$10 ticket sales, the Ohio Lottery is currently testing the marketability of a \$12 ticket.

*ONLINE GAMES* allow the customer to pick the numbers for their wager or utilize automatically computer-generated plays. They receive a ticket with the numbers selected and must wait for a drawing to see if they have matched the numbers and won.

Lotto has generally been considered Ohio’s most popular online game and has been offered in different versions since it’s introduction in April, 1983. Super Lotto was introduced in 1991 and had a 6/47 matrix (6 winning numbers are selected from 47). Jackpots started at \$4 million and grew by at least \$4 million increments if there was no winner. The game had not changed in six years and sales began to decline. Super Lotto sales dropped to \$410 million in Fiscal Year 1997, then to \$384 million in Fiscal Year 1998 and still further in Fiscal Year 1999 to \$364 million. The fixed jackpots meant prize expense remained constant. This became a significant flaw in the game design in a declining sales scenario. Interest rates had also declined and additional funds were required to fund each jackpot. Profit on the game dropped from \$157 million in Fiscal Year 1996 to \$72 million in Fiscal Year 1999. In Fiscal Year 2000 sales declined further to \$336 million. Profit also continued to decline to \$56 million and the profit margin was a very unacceptable 16.7%. Consequently, a replacement game, Super Lotto Plus, was implemented at the beginning of Fiscal Year 2001. This game has a 6/49 matrix,

expanded lower tier prizes and pari-mutuel jackpots. Drawings are held on Wednesdays and Saturdays.

Super Lotto Plus was designed to generate higher jackpots which occurred with a jackpot sequence that began on June 2, 2001 and culminated in a jackpot of \$54 million on July 11, 2001, the largest in Ohio history. Super Lotto Plus sales for Fiscal Year 2001 were \$262.5 million or 13.7% of total lottery sales.

The Kicker is an online game that can only be purchased along with Super Lotto Plus. To win the top prize of \$100,000, all six numbers must be matched in exact order. Lesser prizes are awarded for 5 of 6, 4 of 6 and 3 of 6 matches. Kicker sales are the lowest of the online games. Sales for Fiscal Year 2001 were \$42.9 million, approximately 2.2% of total lottery sales.

Pick 3 was Ohio's first online game. Players select a three-digit number from 000 to 999 and can play the numbers straight (numbers in exact order), boxed (numbers in any order) or as backup bets (players can win either or both ways). In 1996, the Lottery premiered wheel wagering which allows a player to play all possible combinations of a Pick 3 wager. In the past, Pick 3 had accounted for over \$450 million in annual sales. Sales began to decline in Fiscal Year 1997; however, with the addition of midday draws and two Red•Ball promotions, sales recovered. Sales for Fiscal Year 2001 were \$419.0 million or 21.8% of total lottery sales.

Pick 4 is played like Pick 3, only players select a four-digit number from 0000 to 9999 and may play them straight, boxed or in back-up bets. Pick 4 began in 1981. Sales have increased every year since the introduction of the game and have been enhanced since the introduction of midday draws. Sales for Fiscal Year 2001 were \$150.7 million, approximately 7.8% of total lottery sales. Both Pick 3 and Pick 4 are played Monday through Saturday.

Buckeye 5 is a cash lotto game with a 5/37 matrix. Introduced in 1992, Buckeye 5 has four drawings a week. The game has better odds but a lower payout than Super Lotto. Players select and must match five numbers to win the top prize of \$100,000. Buckeye 5 sales have dropped since 1993. It generated \$56.5 million in sales in Fiscal Year 2001, down 9.2% from Fiscal Year 2000.

## **ACCOMPLISHMENTS**

Ohio Lottery profits were specifically designated by statute in 1987 to fund the State of Ohio's public education system through the Lottery Profit Education Fund, (LPEF). During Fiscal Year 2001, the Ohio Lottery transferred \$612 million to the Lottery Profits Education Fund from its operating activities plus an additional \$25 million from the Unclaimed Prize Fund. This brings the total funding the Lottery has provided in support of the State's public education system to over \$11 billion since its inception in 1974. In addition to this rewarding accomplishment, several other accomplishments were achieved during Fiscal Year 2001. These include:

- Successful launch of a newly designed Lotto game, Super Lotto Plus. This new game is pari-mutuel in nature and provides a 6/49 matrix, which was necessitated as a result of declining sales and profit margins experienced by the predecessor game.

Sales for Super Lotto Plus are expected to be lower than the game it replaced; however, profit margins increased from 16.7% to over 25% during Fiscal Year 2001. On July 11, 2001, the Ohio Lottery awarded a Super Lotto Plus jackpot of \$54 million, the largest in Ohio history.

- Coordination of the new state-of-the-art gaming system implementation through its contract with gaming services vendor GTECH Corporation. The new contract, which is effective for Fiscal Year 2002 through 2003, with three optional two-year renewals, provides for a fully integrated online and instant gaming system including facilities management, gaming terminals, and dispatch and repair services. Over 7,000 new Altura gaming terminals, which offer PC based touch screen technology and are the first of their kind to be used in the U.S., replaced the previously used terminals. The new gaming system went into operation on July 1, 2001.
- Relief from the statutory requirements directing that the Ohio Lottery must transfer no less than 30% of its total revenue to the Lottery Profits Education Fund. This will allow for increased prize payouts and additional leverage for competing with its rivals. It also provides the latitude to change its business model from margin-based to a volume-based, which has proved quite effective for other state lotteries.

## **ACCOUNTING SYSTEMS AND POLICIES**

The Ohio Lottery Commission operates three enterprise funds, which utilize the accrual basis of accounting in accordance with generally accepted accounting principles. The Lottery manages the following funds:

### #044 Lottery Operating Fund

Revenues for this fund are provided primarily from ticket sales. Expenses of this fund represent primarily prize expenses (including transfers to the Deferred Prize Fund and the Unclaimed Prize Fund), operating expenses and transfers to the Lottery Profits Education Fund.

### #871 Deferred Prize Fund

Revenues for this fund are provided through cash transfers from the Lottery Operating Fund for the purpose of providing investment principal for funding long-term prize obligations. Expenses of the Deferred Prize Fund primarily represent deferred prize payments.

### #872 Unclaimed Prize Fund

The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month in an amount equal to the prizes unclaimed after the cashing eligibility has expired. The balances in this fund are used to enhance prize payouts for special lottery games and for transfers to fund educational purposes as directed by the State's Legislature.

## **BUDGETARY CONTROL**

Budgetary control for all state agencies is maintained through legislative appropriations and the executive branch allotment. An encumbrance system is utilized, whereby purchase orders reserve portions of applicable appropriations. The appropriation and the amount expended for #044 Lottery Operating Fund, #871 Deferred Prize Fund and #872 Unclaimed Prize Fund are monitored by the State of Ohio Office of Budget and

Management (OBM). The adopted budget is divided among the operating departments at the Ohio Lottery who have responsibility for delivery of service. These departments control the funds within their program. The Finance Division monitors all accounts via the State of Ohio Central Accounting System and its accounting reporting system, Solomon. Additionally, the Ohio Lottery conducted and published a Mid-Year Review in 2001 to show revenue and expenditure trends and implement any changes necessary to keep both within appropriation and under internal management targets set by the Director.

## **INTERNAL CONTROL ENVIROMENT**

Management of the Ohio Lottery is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft or misuse and to ensure that the accounting system allows for compilation of accurate and timely financial information. Financial information must be reported at monthly public meetings of the Ohio Lottery Commission. The structure is designed to provide reasonable, but not absolute assurance that these objectives are met.

To enhance controls over accounting procedures, the Ohio Lottery has segregated the following functions: personnel and payroll, purchasing, accounts payable and general ledger and accounts receivable processing. Additionally, a Contract Compliance Officer monitors the procurement and execution of all large vendor contracts. Data input and processing is separate from system programming. An internal audit team reviews all areas of operations and reports to the Director. The internal audit role was expanded and improved in 1997. Beginning in Fiscal Year 1997, an annual audit plan has been promulgated by the Ohio Lottery and approved by the Auditor of State. Results of these internal audits have been submitted to the Auditor of State for review and consideration in its financial audit. An Information Security Manager monitors and audits automated systems. An Electronic Data Processing Audit Plan has been established and is executed annually to further improve internal controls. The plan for Fiscal Year 2001 was approved and a contract to execute the plan was awarded.

Since the Ohio Lottery manages a valuable ticket inventory and controls the disbursement of prizes, the following steps are taken to ensure that the operations remain honest and secure:

- Maintain secure Ohio Lottery facilities and limiting access to them.
- Perform background checks on retailers, contractors and Ohio Lottery employees.
- Print lottery tickets with special paper, inks, dyes and security codes.
- Establish and execute detailed procedures for all game drawings.
- Contract with the Auditor of State as an independent witness to further ensure the integrity of our drawings and the Cash Explosion game show.
- Provide a variety of access and other controls in our computer systems.

In addition, during Fiscal Year 2000, the Lottery requested that the Auditor of State conduct a best practice review of Ohio Lottery drawing procedures and internal controls over those processes. That review was conducted, a report was delivered and the Ohio Lottery has implemented most of the recommendations made.



## **FINANCIAL INFORMATION**

The Ohio Lottery Commission operates as an enterprise activity, selling lottery tickets to the general public and funding all related support activities from funds internally generated. No general government functions or fiduciary operations are managed by the Ohio Lottery or included in this report.

## **DEBT ADMINISTRATION**

A majority of the Ohio Lottery's long-term liabilities is comprised of payments owed to deferred prizewinners. The payments due are fully funded by an investment portfolio managed by the Treasurer of the State of Ohio and shown as restricted assets of the Ohio Lottery on its balance sheets. Other long-term liabilities include equipment capital lease obligations and compensated absences, which will be satisfied through operating activities and assets.

## **CASH MANAGEMENT**

The Ohio Lottery's excess cash is invested by the Treasurer of the State of Ohio in U.S. Treasury securities, repurchase agreements, bankers' acceptance and certificates of deposit with qualified public depositories. In addition, the Ohio Lottery, through the Treasurer of State's Investment Department, participates in a securities lending program to increase its overall return on invested funds. A custodial agent bank, whereby certain securities are transferred to an independent broker/dealer in exchange for collateral (principally consisting of cash or U.S. government obligations), administers the lending program. The State Treasurer changed the securities lending policy during Fiscal Year 2000, resulting in reduced income. The changes included a reduction in the amount of securities on loan and the nature and term of the investments in which collateral may be placed.

The Ohio Lottery collects cash due from ticket sales from approximately 9,200 retail agents on a weekly basis. Funds are collected electronically from the agents' designated bank accounts. Over \$905 million was collected via this system in Fiscal Year 2001. Timely payment was made on 99.6% of accounts collected. Approximately \$3.6 million, or .004% was returned unpaid and recorded as non-transfer of funds. Those agents were deactivated and could not sell tickets until payment was received and posted. Over \$2.3 million, or 66% of that amount was paid within ten days. Claims totaling \$843,244 were made against agents' bonds in 332 cases. This amount was certified to the Attorney General for collection. Bond payments totaled \$691,140 with agents paying an additional \$369,902 at that time. The balance was forwarded to the Attorney General for collection when all other means failed.

## **RISK MANAGEMENT**

The Ohio Lottery is exposed to various risks of loss related to thefts, damage or destruction of assets, injuries and natural disasters. The State Department of Administrative Services (DAS) controls the State's risk management and insurance program. The Ohio Lottery pays a premium to DAS for professional and motor vehicle insurance. Retail sales agents are required to carry a bond equal to 1/26 of annual sales.

## **FUTURE PROJECTS**

The games offered by the Ohio Lottery have been or are under review to determine enhancements and changes needed. Changes were implemented to the Pick 3 and Pick 4 games at the outset of Fiscal Year 2000. A new lotto game, Super Lotto Plus, was introduced during Fiscal Year 2001. Additional game enhancements for all online and instant games are under review and will be considered for implementation over the next two years.

With the successful implementation of the new gaming system, the Ohio Lottery will be exploring the promotional capabilities that are available within the new system. These promotions include, but are not limited to: Buy X get Y, Every Nth, Variable Nth, Offline Coupon, and Every Nth Super Lotto Plus. Several promotions will be developed and implemented in the coming fiscal years.

In response to the ever-changing gaming industry environment, the current organizational structure of the Ohio Lottery will be examined and evaluated during Fiscal Year 2002. Changes are expected to be made in the current divisional structure through the addition of a Product Research and Development Division, which is expected to concentrate its efforts in online and instant product development and enhancement. This group will also be responsible for promotions development, which is currently an underutilized component of the Ohio Lottery's product and marketing mix.

## **GFOA CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery Commission for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. The Ohio Lottery has received a Certificate of Achievement for the last four consecutive years (Fiscal Years ended 1997 through 2000). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

## **INDEPENDENT AUDIT**

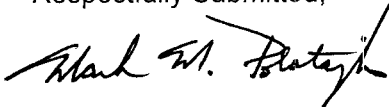
Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audits of the Lottery Commission. The Fiscal Year 2001 and Fiscal Year 2000 audits of the Ohio Lottery's financial statements have been completed in conformity with generally accepted auditing standards. The auditor's unqualified opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

## **ACKNOWLEDGMENTS**

Preparation of this report could not have been accomplished without the efficient and dedicated efforts of the entire Finance Division. A special note of thanks is given to the General Accounting Department headed by Greg Bowers, with the assistance of Michele Olivo, Mike Popadiuk, Marian Heine, Pam Schleicher and Anna Callas.

Publishing this Comprehensive Annual Financial Report reflects our commitment to meet the highest standards of accountability. The Ohio Lottery intends to continually improve financial management and clearly communicate its financial story. It is important for the public to know that the Ohio Lottery's financial condition is properly reported, including payments made to education. Due credit should be given to Commission Chair Sandra Barber and the members of the Ohio Lottery Commission for their commitment to operating the Lottery in a responsible and progressive manner.

Respectfully Submitted,



Mark M. Polatajko, CPA  
Deputy Director of Finance



Dennis G. Kennedy  
Executive Director

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## INDEPENDENT ACCOUNTANT'S REPORT

Ohio Lottery Commission  
Cuyahoga County  
615 West Superior Avenue  
Cleveland, Ohio 44113

We have audited the accompanying general-purpose financial statements of the Ohio Lottery Commission, Cuyahoga County, (the Commission), an enterprise fund of the State of Ohio, as of and for the years ended June 30, 2001 and June 30, 2000. These general-purpose financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Ohio Lottery Commission enterprise fund of the State of Ohio and are not intended to present fairly the financial position of the State of Ohio and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Lottery Commission, Cuyahoga County, an enterprise fund of the State of Ohio, as of June 30, 2001 and June 30, 2000, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2001, on our consideration of the Commission's internal control over financial reporting for this fund, and our tests of its compliance with certain provisions of laws, regulations, contracts and grants applicable to this fund. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit on the general-purpose financial statements of the Commission, taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the general-purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general-purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and therefore express no opinion thereon.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

October 3, 2001

**OHIO LOTTERY COMMISSION  
COMPARATIVE BALANCE SHEET  
JUNE 30, 2001 & 2000**

<b>ASSETS:</b>	<u>2001</u>	<u>2000</u>
<b>Current Assets:</b>		
Cash	\$355,760	\$825,092
Equity in State of Ohio common cash and investments	41,877,084	84,791,914
Collateral on lent securities	18,183,176	5,633,604
Other investments	9,025,000	11,315,000
Receivables - Net of allowance for doubtful accounts	37,236,586	33,474,849
Prepaid expenses and other assets	5,272,280	4,489,280
<b>Total Current Assets</b>	<u>111,949,886</u>	<u>140,529,739</u>
<b>Restricted Assets:</b>		
Equity in State of Ohio common cash and investments	19,564,795	17,503,799
Dedicated State of Ohio investments	1,108,761,180	1,150,616,876
Collateral on lent securities	508,250,540	209,710,493
Interest receivable	5,625,352	6,774,120
<b>Total Restricted Assets</b>	<u>1,642,201,867</u>	<u>1,384,605,288</u>
<b>Equipment:</b>		
Fixed assets - Net of accumulated depreciation	5,185,442	15,341,464
<b>TOTAL ASSETS</b>	<u>\$1,759,337,195</u>	<u>\$1,540,476,491</u>
 <b>LIABILITIES AND FUND EQUITY:</b>		
<b>Current Liabilities - (Payable from current assets):</b>		
Obligations under securities lending program	\$18,183,176	\$5,633,604
Prize awards payable	19,262,672	19,042,396
Accounts and contracts payable	9,798,990	12,011,721
Due other State of Ohio entities	397,654	327,661
Other liabilities	782,940	900,945
Deferred revenue	766,636	2,366,133
Current portion of equipment capital lease obligation	42,373	1,152,740
<b>Total Current Liabilities - (Payable from current assets)</b>	<u>49,234,441</u>	<u>41,435,200</u>
<b>Current Liabilities - (Payable from restricted assets):</b>		
Obligations under securities lending program	508,250,540	209,710,493
Deferred prizes payable - Net of unamortized discount	80,470,991	73,929,930
<b>Total Current Liabilities - (Payable from restricted assets)</b>	<u>588,721,531</u>	<u>283,640,423</u>
<b>Long-Term Liabilities:</b>		
Deferred prizes payable - Net of unamortized discount	987,474,455	1,105,432,062
Long-term portion of equipment capital lease obligation	14,899	1,128,151
Compensated absences and other long-term liabilities	2,285,951	2,055,921
<b>Total Long-Term Liabilities</b>	<u>989,775,305</u>	<u>1,108,616,134</u>
<b>TOTAL LIABILITIES</b>	<u>1,627,731,277</u>	<u>1,433,691,757</u>
<b>TOTAL FUND EQUITY - Retained Earnings</b>	<u>131,605,918</u>	<u>106,784,734</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$1,759,337,195</u>	<u>\$1,540,476,491</u>

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

**OHIO LOTTERY COMMISSION  
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES,  
 AND CHANGES IN RETAINED EARNINGS  
 FOR THE YEARS ENDED JUNE 30, 2001 & 2000**

	<u>2001</u>	<u>2000</u>
<b>REVENUE:</b>		
Ticket Sales	\$1,919,910,022	\$2,150,401,326
Other Revenue	5,174,587	5,387,788
<b>Total Operating Revenue</b>	<b>1,925,084,609</b>	<b>2,155,789,114</b>
<b>EXPENSES:</b>		
<b>Prizes, Bonuses and Commission Expense:</b>		
Prize Awards	1,112,823,824	1,274,978,858
Bonuses and Commissions	120,209,653	135,002,845
<b>Total Prizes, Bonuses and Commission Expense</b>	<b>1,233,033,477</b>	<b>1,409,981,703</b>
<b>Operating Expenses:</b>		
Personal Services	74,214,708	72,751,532
Maintenance	24,042,117	22,704,690
Depreciation	10,023,109	8,123,414
Other Expenses	82,406	284,393
<b>Total Operating Expenses</b>	<b>108,362,340</b>	<b>103,864,029</b>
<b>OPERATING INCOME</b>	<b>583,688,792</b>	<b>641,943,382</b>
<b>Non-Operating Revenues (Expenses):</b>		
Interest Income	174,996,019	73,840,349
Amortization of Deferred Prize Liabilities	(81,173,647)	(85,966,881)
Loss on Equipment Disposal	(288,420)	(95,519)
Interest Expense - Borrower Rebates	(18,428,517)	(36,290,947)
Agent Fees	(165,375)	(381,203)
Interest Expense on Capital Lease	(121,769)	(174,514)
Payments to the Lottery Profits Education Fund	(637,035,543)	(686,020,217)
<b>Total Non-Operating Expenses</b>	<b>(562,217,252)</b>	<b>(735,088,932)</b>
<b>NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS</b>	<b>21,471,540</b>	<b>(93,145,550)</b>
Extraordinary Gain on Early Extinguishment of Debt	3,349,644	7,408,442
<b>INCOME (LOSS)</b>	<b>24,821,184</b>	<b>(85,737,108)</b>
<b>RETAINED EARNINGS JULY 1</b>	<b>106,784,734</b>	<b>192,521,842</b>
<b>RETAINED EARNINGS JUNE 30</b>	<b>\$131,605,918</b>	<b>\$106,784,734</b>

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



OHIO LOTTERY COMMISSION  
 COMPARATIVE STATEMENT OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2001 & 2000

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Customers	\$1,914,548,788	\$2,146,402,856
Cash Payments for Prize Awards	(1,301,844,097)	(1,532,930,127)
Cash Payments for Bonuses and Commissions	(120,266,885)	(134,986,569)
Cash Payments for Goods and Services	(80,330,993)	(69,511,338)
Cash Payments to Employees	(20,759,880)	(21,045,063)
Other Operating Revenues	5,174,587	5,387,788
Other Operating Expenses	(82,406)	(284,393)
<b>Net Cash Provided by Operating Activities</b>	<b>396,439,114</b>	<b>393,033,154</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payments to the State of Ohio (LPEF)	(637,035,543)	(686,020,217)
<b>Net Cash Used by NonCapital Financing Activities</b>	<b>(637,035,543)</b>	<b>(686,020,217)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of Property and Equipment	(1,288,308)	(1,995,996)
Proceeds from Sale of Property and Equipment	1,132,800	112,502
Repayment of Equipment Obligation	(2,223,619)	(910,750)
Interest Paid on Equipment Obligation	(121,769)	(174,514)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(2,500,896)</b>	<b>(2,968,758)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Income Received	56,178,336	80,791,127
Interest Expense (Borrower Rebates) and Agent Fees	(18,593,892)	(36,672,150)
Proceeds from the Sale or Maturity of Dedicated State of Ohio Investments	400,996,627	502,509,145
Acquisition of Investments	(239,096,912)	(304,953,526)
Cash Collateral received under Securities Lending Activities	526,433,716	215,344,096
Investment of Securities Lending Cash Collateral	(526,433,716)	(215,344,096)
<b>Net Cash Provided by Investing Activities</b>	<b>199,484,159</b>	<b>241,674,596</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(43,613,166)</b>	<b>(54,281,225)</b>
<b>CASH AND CASH EQUIVALENTS JULY 1</b>	<b>114,435,805</b>	<b>168,717,030</b>
<b>CASH AND CASH EQUIVALENTS JUNE 30</b>	<b>\$70,822,639</b>	<b>\$114,435,805</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income	\$583,688,792	\$641,943,382
Adjustments to reconcile operating income to determine net cash provided (used) by operating activities:		
Depreciation	10,023,109	8,123,414
<b>(Increase)/Decrease in Assets:</b>		
Accounts Receivable	(3,761,737)	(5,124,079)
Prepaid Expenses and Other Assets	(860,567)	1,301,714
<b>Increase/(Decrease) in Liabilities:</b>		
Prize Awards Payable	220,276	(1,034,719)
Accounts Payable	(2,212,731)	4,009,297
Deferred Revenue	(1,599,497)	1,125,610
Deferred Prize Awards Payable	(189,240,549)	(256,916,550)
Compensated Absences and Other Liabilities	182,018	(394,915)
<b>Total Adjustments</b>	<b>(187,249,678)</b>	<b>(248,910,228)</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$396,439,114</b>	<b>\$393,033,154</b>

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

Schedule of Non-Cash Investing, Capital and Financing Activities:

Non cash items included in investment income were \$70 million of unrealized net gains and \$36 million of unrealized net losses at June 30, 2001 and June 30, 2000, respectively.

**OHIO LOTTERY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

**1. DESCRIPTION OF OPERATIONS**

The Ohio Lottery Commission (Lottery) was established in August, 1974, under Section 3770 of the Ohio Revised Code (ORC). The Lottery has a nine member board of commissioners appointed by the Governor with the advice and consent of the Senate. It is classified as an enterprise fund of the State of Ohio (State) and is presented as such in the State's financial statements.

The Lottery is required by law to transfer to the Lottery Profits Education Fund of the State an amount no less than 30% of the total revenue earned from the sale of lottery tickets. The amounts transferred are determined by the Director of the Office of Budget and Management and are to be used to help support primary and secondary education within the State. As of July 1, 2001, per Amended Sub. House Bill No. 94, the State of Ohio's legislature amended the existing statute and eliminated the 30% total revenue requirement.

The Lottery operates both on-line and instant games. The instant games generated 51.5% and 52.4% of the Lottery's revenue from ticket sales and on-line games generated 48.5% and 47.6% of the Lottery's revenue from ticket sales for the years ended June 30, 2001 and 2000, respectively.

**2. BASIS OF ACCOUNTING AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Lottery operates under a series of enterprise funds each using a full accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when incurred. The three Lottery funds are: the State Lottery Fund (Lottery Operating Fund); the Deferred Prize Trust Fund; and the Unclaimed Prize Fund.

The Lottery operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Lottery are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

**Lottery Operating Fund**

Revenues for this fund are provided primarily from the sale of Lottery tickets. Receivables from ticket sales are collected on a weekly cycle, with net proceeds being equal to an individual agent's gross sales less cash prizes paid and commissions earned. The balance from the Lottery Operating Fund is reduced mainly by the following types of transactions: (1) operating expenses and all non-deferred prize payments; (2) cash transfers to the Deferred Prize Trust Fund and the Unclaimed Prize Fund; (3) transfers to the Lottery Profits Education Fund; and (4) transfers to other State agencies to support centralized services.

**Deferred Prize Trust Fund**

Revenues for the Deferred Prize Trust Fund are provided through cash transfers from the Lottery Operating Fund for the purpose of supplying investment principal for funding long-term prize obligations of the Lottery. Expenses of the Deferred Prize Trust Fund primarily represent payments for deferred prizes.

**Unclaimed Prize Fund**

The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month, in an amount equal to the prizes unclaimed after their cashing eligibility has expired. The balances in this fund are used to: (1) transfer cash to the Deferred Prize Trust Fund for the purpose of supplying investment capital for deferred prizes (in the event moneys are used to finance special games or drawings which offer deferred prizes); (2) voucher expenses for

prize or promotion payments drawn against reserves of funds accumulated for unclaimed prizes; or (3) transfer cash to the Lottery Profits Education Fund.

### **Investments**

The Lottery has adopted the provisions of Statement No. 31 “*Accounting and Financial Reporting for Certain Investments and External Investment Pools*” of the Governmental Accounting Standards Board (“GASB”). Accordingly, the Lottery’s investments are stated at fair value (based on quoted market prices) in the accompanying comparative balance sheet and the change in the fair value of the investments is recorded as investment income along with the interest earned on the investments.

The Lottery has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer’s office which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price at which the investment could be sold.

### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts at June 30, 2001 and 2000, of \$376,127 and \$338,130, respectively, are based on an analysis of historical collection experience for accounts receivable which considers the age of the receivable and current economic conditions.

### **Restricted Assets**

Restricted assets represent amounts restricted for the payment of deferred prize awards. Upon the awarding of an annuity prize, amounts equal to the present value of the future prize payments are deposited with the Treasurer of the State of Ohio (State Treasurer). The Lottery is either credited with an equity in the State of Ohio Common Cash and Investments Account equal to the amounts deposited or specific State investments are identified and dedicated to the repayment of deferred prizes. Amounts necessary to fund deferred prizes awarded shortly before the end of the fiscal year, that will be used to acquire additional equity in State of Ohio general investments in the succeeding year, if any, are recorded as amounts "due from unrestricted assets" in the accompanying balance sheets.

### **Property and Equipment**

Equipment is stated on the basis of historical cost. Accumulated depreciation is determined by depreciating the cost of the assets over their estimated useful lives on a straight-line basis.

The estimated useful life for ticket issuing equipment is five years. The estimated useful life for all other equipment can range from five to fifteen years. Approximately 23.20% and 74.59% of the net book value of equipment relates to ticket issuing equipment at June 30, 2001 and 2000, respectively.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting loss is reflected in non-operating expense in the period of disposal.

Property and equipment (including assets held under capital leases) at June 30, 2001 and 2000 consisted of:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Cost:		
Machinery and Equipment	\$12,734,353	\$69,454,677
Vehicles	<u>3,697,676</u>	<u>3,689,393</u>
Total Property and Equipment	16,432,029	73,144,070
Accumulated Depreciation and Amortization	<u>(11,246,587)</u>	<u>(57,802,606)</u>
Net Fixed Assets	<u><u>\$5,185,442</u></u>	<u><u>\$15,341,464</u></u>

The Lottery has entered into a capital lease for certain equipment. The assets and liabilities under the lease are recorded at the present value of the minimum lease payments. The carrying value of the capital lease assets are amortized over their estimated useful lives. In accordance with the Financial Accounting Standards Board (FASB) No. 13, the Lottery is required to disclose the following information regarding capital leases:

**Capital Leases**

**Gross Assets and Accumulated Amortization**

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Initial Carrying Value:		
Computer Equipment and Systems	\$138,270	\$5,583,500
Accumulated Amortization	<u>(59,917)</u>	<u>(3,326,350)</u>
Net Capital Leases	<u>\$78,353</u>	<u>\$2,257,150</u>

**Capital Leases**

**Future Minimum Lease Payments and Present Values of the Remaining Minimum Lease Payments**

Fiscal Year Ending	<u>June 30</u>
2002	45,423
2003	<u>15,148</u>
Total Minimum Lease Payments	60,571
Imputed Interest	<u>(3,299)</u>
Present Value of Remaining Minimum Lease Payments	<u><u>\$57,272</u></u>

A capital lease for equipment under the gaming contract expired on June 30, 2001. As a result, the machinery and equipment and related accumulated depreciation were disposed on June 30, 2001, resulting in a loss on disposal of equipment of \$13,469.

**Deferred Prize Awards**

Prize awards, that are payable in installments over future years, are recorded at their present values based upon interest rates provided to the Lottery by the State Treasurer. The interest rates represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized over the terms of the obligations using the interest method and the amortization is recognized as a non-operating expense.

**Deferred Revenue**

Advanced wagers may be placed for all on-line games. Sales relating to future draws are recorded as deferred revenue when received. Sales revenue is recognized during the month in which the related drawings occur.

**Bonuses and Commissions**

Agents receive a commission of 5.5% based on their total sales. Cashing bonuses are paid on a weekly basis and equal 1% of all redeemed tickets. An additional .5% is awarded to agents if their cash-to-sales ratio is 50% or greater. A \$5 claiming bonus is awarded to agents for completing a claim form for a prize valuing more than \$599.

Selling bonuses range from \$500 to \$10,000 and are awarded to agents for selling Super Lotto Plus, Kicker, and Buckeye 5 jackpot winners, as well as Cash Explosion Game Show winning tickets.

**Compensated Absences**

In conformity with GASB Statement No. 16, the Lottery accrues all types of leave benefits as earned by its employees.

Employees of the Lottery earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining units or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or upon other separation from the Lottery, employees are paid at their hourly rate for 100 percent of unused vacation leave and personal leave. Bargaining unit employees are also eligible to receive 100 percent of unused compensatory time.

Sick leave for all full-time employees is accumulated at a rate of 3.1 hours every two weeks. Union employees who have a minimum of five years or exempt employees who have a minimum of one year of service, shall convert to cash any sick leave accrued at the employee’s regular rate of pay earned at time of separation within three (3) years of separation at the rate of fifty-five percent (55%) for retirement separation and fifty percent (50%) for all other separations.

**Fund Equity**

The reservation of fund equity represents the portion of fund equity that is legally segregated for the payment of deferred prizes. The reserve amount represents the excess of the assets restricted for the payment of deferred prizes over the related liability for deferred prize awards. The portion of the fund equity reserve that is attributable to the unrealized appreciation on the Lottery’s restricted investments is presented separately on the table below in order to disclose the additional fund equity that has been recorded due to the implementation of Statement No.31 of the Governmental Accounting Standards Board (see the “Investments” section of this footnote).

As of June 30, 2001 and 2000, retained earnings comprised of the following:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Fund Equity - Retained Earnings:		
Unreserved	\$65,600,037	\$111,251,931
Reserved - deferred prizes	<u>13,499,578</u>	<u>13,159,445</u>
	79,099,615	124,411,376
Net unrealized gain/loss on restricted investments	<u>52,506,303</u>	<u>(17,626,642)</u>
Total Fund Equity- Retained Earnings	<u>\$131,605,918</u>	<u>\$106,784,734</u>

Fund Equity – Retained Earnings at June 30, 2000 included the following individual fund deficit: Deferred Prize Fund (\$4,467,197). The deficit is a result of the recognition of unrealized loss on restricted investments at year end as required by GASB 31.

**Risk Management**

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery generally retains the risk of loss. The Lottery also operates a self insurance program for third party liabilities. The amount of loss arising from these risks was not significant for the years ended June 30, 2001 and 2000. No significant payments were made or liabilities recorded during the years ended June 30, 2001 and 2000 due to self-insured risks.

The Lottery pays a premium to the State for workers' compensation benefits. Professional liability, excluding Commissioners, is protected with a blanket bond from Acordia Mid-Atlantic Specialty with an aggregate coverage totaling \$250,000 and a deductible of \$1,000. The Department of Administrative Services (DAS) Risk Management covers each Commissioner at a maximum of \$10,000, \$90,000 aggregate, with no deductible per Commissioner. Upon inception, Conventional Agents are required to carry a minimum bond of \$5,000 and On-Line Agents are required to carry a minimum bond of \$20,000. On a yearly basis, the agents' required coverage is based on an evaluation of their average annual sales.

The Lottery pays a premium assessed by DAS to cover potential liability related to motor vehicle damage for a maximum of \$1,000,000. The Lottery retains the risk for any liability exceeding this limit.

The State provides an option to eligible Lottery employees to participate in the OhioMed Health Plan, which was established July 1, 1989, as a fully self-insured health benefit plan. The plan is administered by Medical Mutual of Ohio under a claims administration contract with the State. The Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contribute \$19.95 for single and \$54.90 for family coverage per month and the Lottery contributes \$179.56 for single and \$494.13 for family coverage per month for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The fund balance has experienced a surplus in recent years which has reduced premiums assessed to participants and eliminated the need for the Lottery to record a liability for these benefits. The Lottery's total contributions to the OhioMed Health Plan were \$790,910 and \$631,284 for the years ended June 30, 2001 and 2000, respectively.

The State has contracted with 6 various types of Health Maintenance Organizations (HMO). Lottery employees are eligible to participate in the plans available in their geographic area of residence. HMO claims are paid for by the respective HMO without transfer of risk to the State or the Lottery. Premiums are contracted individually between each HMO and the State of Ohio's Benefits Trust Fund.

### **Budgetary Accounting and Control**

As a Department of the State of Ohio, the Lottery is required to submit through the Governor a biennial budget to the Ohio General Assembly ("General Assembly"). Biennially, the General Assembly approves the appropriations which are provided in annual amounts.

The Lottery's official budget, as adopted by the Legislature, is based upon accounting for certain transactions on the basis of cash receipts and disbursements. Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded as expenditures when the purchase commitment is made, is employed for budgetary purposes. Unliquidated encumbrances are generally canceled four months after the end of the fiscal year. Unencumbered appropriations lapse at the end of the biennium for which they were appropriated. The major differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis of accounting are:

- Prizes which are not vouchered are not budgeted;
- Revenues are recorded when received in cash (budget) as opposed to when earned (GAAP);
- Expenses (including deferred prizes) are recorded when paid in cash or encumbered (budget) as opposed to when the liability is incurred (GAAP);
- The budget basis excludes depreciation and amortization, as well as gains and losses on the disposition of equipment.

The Lottery maintains budgetary control by not permitting the total expenditures to exceed appropriations without approval of the General Assembly except for vouchered prize awards for which appropriation amendments may be approved by the Ohio Office of Budget and Management and unvouchered prize expenses which are not budgeted. Certain budget amendments were adopted during the years ended June 30, 2001 and 2000.

### **Financial and Reporting for Proprietary Activities**

The Lottery has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting." The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Lottery has elected to apply

Financial Accounting Standards Board (“FASB”) pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, provided they do not contradict or conflict with GASB pronouncements. The Lottery will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

### **Securities Lending**

In accordance with GASB Statement No. 28 “*Accounting and Financial Reporting for Securities Lending Transactions*”, the Lottery reports cash received as collateral on securities lending transactions and any investments made with that cash as assets in the accompanying comparative balance sheet. Liabilities to return the collateral to the borrower are also recognized. Securities received as collateral in connection with securities lending activities are not recorded as the assets and liabilities of the Lottery because the Lottery does not have the ability to pledge or sell the securities without a borrower default. The costs of securities lending transactions are reported as expenses in the accompanying comparative statements of revenues, expenses and changes in retained earnings.

### **3. STATEMENT OF CASH FLOWS**

In accordance with the provisions of GASB Statement No. 9, the Lottery has prepared a Statement of Cash Flows for the years ended June 30, 2001 and 2000. The Lottery considers the Equity in State of Ohio Common Cash and Investments Account and highly liquid investments, with a maturity of 90 days or less from the date of purchase, to be cash equivalents. The Ohio Lottery Commission considers all cash flows related to the payment of prize awards as operating activities.

### **4. CASH DEPOSITS AND INVESTMENTS**

The Lottery maintains cash on deposit at a commercial bank and with the State Treasurer. The Lottery is authorized by State statutes to invest its moneys in certificates of deposit, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. The Lottery may also enter into repurchase agreements with any eligible depository for periods not to exceed thirty days and is also permitted to engage in security lending transactions with qualified broker-dealers.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities the face value of which is at least 110% of the total value of public moneys on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States government, and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Lottery's name.

#### **Deposits**

As of June 30, 2001 the carrying amount of the Lottery's deposits was \$355,760 and the bank balance was \$344,544 the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$244,544 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board.

#### **Investments**

The Lottery's investments at June 30, 2001 are detailed below and are categorized to give an indication of the level of credit risk associated with the Lottery's custodial arrangements at year end. Category 1 includes investments that are insured, registered, or held by the Lottery or its agent in the Lottery's name. Category 2 includes uninsured or unregistered investments held by the counterparty's trust department or its agent in the Lottery's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the Lottery or State's name.

	Category 1	Category 2	Category 3	Total Fair Value
Investments Categorized:				
U.S. Government and agency obligations	--	--	\$617,669,416	\$617,669,416
Securities lending collateral:				
Repurchase agreements.....	\$245,000,000	--	--	245,000,000
Commercial Paper .....	100,000,000	--	--	100,000,000
Corporate bonds and notes..	49,993,459	--	--	49,993,459
	<u>\$394,993,459</u>	--	<u>\$617,669,416</u>	<u>\$1,012,662,875</u>

Investments not Categorized:

Investments held by broker-dealers under security loans-		
U.S. government & agency obligations.....		486,016,087
Equity in State of Ohio common cash and investments		
Account (including \$26,793,341 of securities lent).....		61,441,879
Collateral on loaned securities – Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio common cash and investments account.....		26,793,341
Investment in Treasurer of State investment pool (STAR Ohio).....		14,100,677
Securities lending collateral – mutual funds .....		<u>104,646,916</u>
Total Investments .....		<u>\$1,705,661,775</u>

The “Equity in State of Ohio common cash and investments,” “Collateral on loaned securities,” “Investment in Treasurer of State investment pool (STAROhio),” and mutual fund accounts have not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools’ investments and deposits by credit risk may be found in the *State of Ohio Comprehensive Annual Financial Report*, for the fiscal year ended June 30, 2001. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB Statement No. 28.

The total carrying amount of deposits and investments, as of June 30, 2001 categorized and disclosed in this note is \$1,706,017,535. This amount can be reconciled to the balance sheet as follows:

	Deposits	Investments	Total
Unrestricted Assets:			
Cash .....	\$355,760	--	\$355,760
Equity in State of Ohio common cash and investments *.....	--	\$41,877,084	41,877,084
Collateral on lent securities .....	--	18,183,176	18,183,176
Other investments * .....	--	9,025,000	9,025,000
Restricted Assets:			
Equity in State of Ohio common cash and investments * .....	--	19,564,795	19,564,795
Dedicated State of Ohio investments .....	--	1,108,761,180	1,108,761,180
Collateral on lent securities .....	--	508,250,540	508,250,540
Total carrying amount per June 30, 2001 balance sheet	<u>\$355,760</u>	<u>\$1,705,661,775</u>	<u>\$1,706,017,535</u>

\* Represents a cash equivalent.



## Securities Lending Transactions

The Lottery Commission through the Treasurer of State's Investment Department participates in a securities lending program for securities included in the "Equity in State of Ohio common cash and investments" and "Dedicated State of Ohio investment" accounts. The lending program, authorized under Section 135.143, Ohio Revised Code, is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. The Lottery has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the lent securities are collateralized at no less than 102 percent of the market value. The securities lending policy was changed by the State Treasurer in Fiscal Year 2000, resulting in reduced income. The changes included a reduction in the amount of securities on loan and terms of the investments in which collateral may be placed.

For loaned contracts the Treasurer executes on the Lottery's behalf, not more than 15 percent of the State's cash and investment portfolio can be lent to a single broker-dealer.

During the fiscal year, the Treasurer lent U.S. government and agency obligations in exchange for collateral consisting of cash and /or U.S. government obligations. The Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2001 the collateral the Lottery had received for securities lent consisted entirely of cash, some of which had been temporarily invested by the Lottery in various securities. The Lottery invests cash collateral in short-term obligations, which have a weighted average maturity of 12 to 13 days and generally match the maturities of the securities loans at year end. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 2001, the Lottery did not experience any losses due to credit or market risk on securities lending activities. The Lottery did not experience any losses on securities lending transactions resulting from the default of a borrower or lending agent, therefore, there were no recoveries during fiscal year 2001 due to prior-period losses.

## **5. PRIZE AWARDS**

Prize awards payable from restricted assets as of June 30, 2001 and 2000 consisted of the following:

	<u>30-Jun-01</u>	<u>30-Jun-00</u>
Current portion - face amount	\$151,125,055	\$153,628,044
Less: Unamortized discount	<u>(70,654,064)</u>	<u>(79,698,114)</u>
Current portion - present value	<u>80,470,991</u>	<u>73,929,930</u>
Long Term portion - face amount	1,567,469,392	1,792,086,577
Less: Unamortized discount	<u>(579,994,937)</u>	<u>(686,654,515)</u>
Long Term portion - present value	<u>987,474,455</u>	<u>1,105,432,062</u>
Total Prize Awards	<u><u>\$1,067,945,446</u></u>	<u><u>\$1,179,361,992</u></u>

Interest rates used to determine the present values ranged from 4.0% to 11.69%. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2001, is summarized as follows:

Year Ending June 30,

2002	\$151,125,055
2003	145,208,749
2004	142,126,045
2005	136,014,641
2006	126,636,630
2007 through 2011	431,584,457
2012 through 2016	321,712,754
2017 thereafter	<u>264,186,116</u>
Subtotal	1,718,594,447
Unamortized discount	<u>(650,649,001)</u>
Net Prize Liability	<u>\$1,067,945,446</u>

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Lottery is required by law to award prizes to holders of winning lottery tickets equal to, as nearly as is practicable, fifty percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$153 million and \$200 million for the years ended June 30, 2001 and 2000, respectively.

In May 1999 the Lottery adopted an administrative rule (3770-1-8-01) which allows annuity prize winners an opportunity to cash out their remaining deferred prize payments at a discounted lump sum. This rule was a temporary change to the Internal Revenue Code to allow discounted lump sum cash payments to be made to certain annuity prize winners without the constraints of “constructive receipt”. The administrative rule was in effect through December 31, 2000. Extraordinary Gains on Early Extinguishment of Debt in the amount of \$3,349,644 and \$7,408,442 were recognized for the years ended June 30, 2001 and 2000, respectively.

## 6. PENSIONS - DEFINED BENEFIT PENSION PLAN

The Lottery contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple employer, public employee retirement system administered by the Public Employees Retirement Board. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand alone financial report. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the Lottery is required to contribute 13.31 percent. Contributions are authorized by State statute. The Lottery’s required contributions to PERS for the years ended June 30, 2001, 2000, and 1999 were \$1,762,512, \$2,201,836 and \$2,088,367 respectively, equal to the required contribution for each year. In Fiscal Year 2000, PERS reduced the employers’ contribution rate to 7.99%, effective July 1, 2000 to December 31, 2000, which resulted in an annualized rate of 10.65% for the fiscal year. The contribution rate is determined actuarially.

## 7. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, PERS provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Fiscal Year 2000 employer contribution rate for state employers was rolled back to 10.65% of covered payroll; 4.3% was the portion used to fund health care. In Fiscal Year 2001 and 2000, \$711,702 and \$694,899, respectively, of the Lottery's total contributions to PERS were used for postretirement benefits. The actual contribution and the actuarially required contribution amounts are the same. At June 30, 2001 the Lottery was not responsible for paying premiums, contributions, or claims for OPEB under PERS for any retirees, terminated employees, or other beneficiaries. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS. Summary of assumptions:

- ❑ Actuarial Review. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 1999.
- ❑ Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liability.
- ❑ Assets Valuation Method. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.
- ❑ Investment Return. The investment assumption rate for 1999 was 7.75%.

OPEB are advanced-funded on an actuarially determined basis. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. The actuarially accrued liability and the unfunded actuarial accrued liability based on the actuarial cost method used, were \$12.5 billion and \$1.67 billion, respectively. The actuarial value of the Retirement system's net assets available for OPEB at December 31, 1999, the latest information available, was \$10.8 billion. The number of active contributing participants was 401,339.

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding method. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

## 8. LITIGATION

The Lottery is a party to various legal proceedings. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. In the opinion of management and the Office of the Attorney General of the State of Ohio, the ultimate outcome of such proceedings will not have a material, adverse effect on the Lottery's financial position.

## 9. TRANSACTIONS WITH OTHER STATE ENTITIES

During the course of normal operations, the Lottery has numerous transactions with various other State entities. Total operating expenses recognized for services provided by other State agencies are summarized as follows for the years ended June 30, 2001 and 2000, respectively:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Department of Administrative Services (DAS) Expenditures		
Telecommunications	\$334,739	\$306,159
Computer	1,581,345	1,232,283
Rent	1,148,890	1,151,231
Printing	54,441	38,827
Miscellaneous	589,503	394,631
	<hr/>	<hr/>
Total DAS Expenditures	3,708,918	3,123,131
Other Agency Expenditures	<hr/>	<hr/>
	637,766	596,345
	<hr/>	<hr/>
Total Transactions with other State Entities	<u>\$4,346,684</u>	<u>\$3,719,476</u>

## 10. SEGMENT INFORMATION – ENTERPRISE FUNDS

The Lottery operates three enterprise funds. The Operating Fund provides the basic operating needs for the Lottery. Revenues are provided primarily from the sales of Lottery tickets and expenses are composed primarily of prize payments, administration expense and payments to the Lottery Profits Education Fund. The Deferred Prize Fund receives cash transfers from the Operating Fund for the purpose of providing investment principal for funding long-term prize obligations. The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund equal to the amount of prizes that are unclaimed after their cashing eligibility has expired. The balance in the fund is used for the payment of special higher tier prizes at the discretion of the Executive Director. Selected segment information for the years ended June 30, 2001 and 2000 is as follows:

Fiscal Year 2001	Operating Fund	Deferred Prize Fund	Unclaimed Prize Fund	TOTAL
Ticket Sales	\$1,919,910,022	-	-	\$1,919,910,022
Depreciation and Amortization	10,023,109	-	-	10,023,109
Amortization of Deferred Prize Liabilities	-	\$81,173,647	-	81,173,647
Operating Income (Loss)	626,555,922	(33,241,655)	(\$9,625,475)	583,688,792
Operating Transfers In (Out)	(64,211,857)	34,188,745	30,023,112	0
Payments to the Lottery				
Profits Education Fund	612,035,543	-	25,000,000	637,035,543
Extraordinary Gain on Early Extinguishment				
Of debt	-	3,349,644	-	3,349,644
Net Income (Loss)	(44,504,732)	70,473,078	(1,147,162)	24,821,184
Property/Equipment: Additions	1,288,308	-	-	1,288,308
Property/Equipment: Disposals	58,000,349	-	-	58,000,349
Net Working Capital	26,320,861	1,053,480,336	36,394,584	1,116,195,781
Increase/Decrease in Cash and				
Cash Equivalents	(44,523,720)	2,060,996	(1,150,442)	(43,613,166)
Total Assets	64,854,010	1,642,201,867	52,281,318	1,759,337,195
Non-Current Liabilities	2,300,850	987,474,455	-	989,775,305
Total Fund Equity	\$29,205,453	\$66,005,881	\$36,394,584	\$131,605,918
Fiscal Year 2000	Operating Fund	Deferred Prize Fund	Unclaimed Prize Fund	TOTAL
Ticket Sales	\$2,150,401,326	-	-	\$2,150,401,326
Depreciation and Amortization	8,123,414	-	-	8,123,414
Amortization of Deferred Prize Liabilities	-	\$85,966,881	-	85,966,881
Operating Income (Loss)	767,396,198	(114,161,203)	(\$11,291,613)	641,943,382
Operating Transfers In (Out)	(144,353,970)	115,379,814	28,974,156	0
Payments to the Lottery				
Profits Education Fund	661,020,217	-	25,000,000	686,020,217
Extraordinary Gain on Early Extinguishment				
Of debt	-	7,408,442	-	7,408,442
Net Income (Loss)	(32,712,398)	(47,877,280)	(5,147,430)	(85,737,108)
Property/Equipment: Additions	1,995,996	-	-	1,995,996
Property/Equipment: Disposals	1,220,261	-	-	1,220,261
Net Working Capital	61,552,793	1,100,964,865	37,541,746	1,200,059,404
Increase in Cash and				
Cash Equivalents	(27,334,688)	(21,772,201)	(5,174,336)	(54,281,225)
Total Assets	115,854,084	1,384,605,288	40,017,119	1,540,476,491
Non-Current Liabilities	3,184,072	1,105,432,062	-	1,108,616,134
Total Fund Equity	\$73,710,185	(\$4,467,197)	\$37,541,746	\$106,784,734

## 11. SUBSEQUENT EVENTS

The Ohio Lottery Commission entered into a contractual agreement with GTECH Corporation for gaming services commencing July 01, 2001 including leased equipment. The length of the contract is two years, with three optional two year renewals. The total value of the equipment added as a result of the contract is \$69,431,073.

**OHIO LOTTERY COMMISSION**  
**ENTERPRISE FUNDS**  
**June 30, 2001**

*Lottery Operating Fund* - Revenues for this fund are provided primarily from the sale of Lottery tickets. Expenses of the Lottery Operating Fund are composed mainly of operating expenses and prize payments including transfers to the Deferred Prize Fund and payments to the State Education system.

*Deferred Prize Trust Fund* - Revenues for this fund are provided through cash transfers from the Lottery Operating Fund for the purpose of providing investment principal for funding long-term prize obligations. The balance in the Deferred Prize Fund is mainly reduced by vouchered prize payments.

*Unclaimed Prize Fund* - The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month, in an amount equal to the prizes unclaimed after the cashing eligibility has expired. The balances in this fund are used for transfers or vouchered prize payments.

OHIO LOTTERY COMMISSION  
 SUPPLEMENTAL BALANCE SHEET INFORMATION BY FUND  
 JUNE 30, 2001

ASSETS:	OPERATING	DEFERRED	UNCLAIMED	TOTAL
<b>Current Assets:</b>				
Cash	\$355,760	\$0	\$0	\$355,760
Equity in State of Ohio common cash and investments	5,585,006	0	36,292,078	\$41,877,084
Collateral on lent securities	2,296,442	0	15,886,734	\$18,183,176
Other investments	9,025,000	0	0	\$9,025,000
Receivables - Net of allowance for doubtful accounts	37,236,586	0	0	\$37,236,586
Prepaid expenses and other assets	5,169,774	0	102,506	\$5,272,280
<b>Total Current Assets</b>	<b>59,668,568</b>	<b>0</b>	<b>52,281,318</b>	<b>111,949,886</b>
<b>Restricted Assets:</b>				
Equity in State of Ohio common cash and investments	0	19,564,795	0	19,564,795
Dedicated State of Ohio investments	0	1,108,761,180	0	1,108,761,180
Collateral on lent securities	0	508,250,540	0	508,250,540
Interest receivable	0	5,625,352	0	5,625,352
<b>Total Restricted Assets</b>	<b>0</b>	<b>1,642,201,867</b>	<b>0</b>	<b>1,642,201,867</b>
<b>Equipment:</b>				
Fixed assets - Net of accumulated depreciation	5,185,442	0	0	5,185,442
<b>TOTAL ASSETS</b>	<b>\$64,854,010</b>	<b>\$1,642,201,867</b>	<b>\$52,281,318</b>	<b>\$1,759,337,195</b>
<b>LIABILITIES AND FUND EQUITY:</b>				
<b>Current Liabilities - (Payable from current assets):</b>				
Obligations under securities lending program	\$2,296,442	\$0	\$15,886,734	\$18,183,176
Prize awards payable	19,262,672	0	0	19,262,672
Accounts and contracts payable	9,798,990	0	0	9,798,990
Due other State of Ohio entities	397,654	0	0	397,654
Other liabilities	782,940	0	0	782,940
Deferred revenue	766,636	0	0	766,636
Current portion of equipment capital lease obligation	42,373	0	0	42,373
<b>Total Current Liabilities - (Payable from current assets)</b>	<b>33,347,707</b>	<b>0</b>	<b>15,886,734</b>	<b>49,234,441</b>
<b>Current Liabilities - (Payable from restricted assets):</b>				
Obligations under securities lending program	0	508,250,540	0	508,250,540
Deferred prizes payable - Net of unamortized discount	0	80,470,991	0	80,470,991
<b>Total Current Liabilities - (Payable from restricted assets)</b>	<b>0</b>	<b>588,721,531</b>	<b>0</b>	<b>588,721,531</b>
<b>Long-Term Liabilities:</b>				
Deferred prizes payable - Net of unamortized discount	0	987,474,455	0	987,474,455
Long-term portion of equipment capital lease obligation	14,899	0	0	14,899
Compensated absences and other long-term liabilities	2,285,951	0	0	2,285,951
<b>Total Long-Term Liabilities</b>	<b>2,300,850</b>	<b>987,474,455</b>	<b>0</b>	<b>989,775,305</b>
<b>TOTAL LIABILITIES</b>	<b>35,648,557</b>	<b>1,576,195,986</b>	<b>15,886,734</b>	<b>1,627,731,277</b>
<b>TOTAL FUND EQUITY - Retained Earnings</b>	<b>29,205,453</b>	<b>66,005,881</b>	<b>36,394,584</b>	<b>131,605,918</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$64,854,010</b>	<b>\$1,642,201,867</b>	<b>\$52,281,318</b>	<b>\$1,759,337,195</b>

OHIO LOTTERY COMMISSION  
 SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES, TRANSFERS  
 AND CHANGES IN RETAINED EARNINGS BY FUND  
 FOR THE YEAR ENDED JUNE 30, 2001

	OPERATING	DEFERRED	UNCLAIMED	TOTAL
<b>REVENUE:</b>				
Ticket Sales	\$1,919,910,022	\$0	\$0	\$1,919,910,022
Other Revenue	4,099,826	1,074,761	0	5,174,587
<b>Total Operating Revenue</b>	<b>1,924,009,848</b>	<b>1,074,761</b>	<b>0</b>	<b>1,925,084,609</b>
<b>EXPENSES:</b>				
<b>Prizes, Bonuses and Commission Expense:</b>				
Prize Awards	1,068,881,933	34,316,416	9,625,475	1,112,823,824
Bonuses and Commissions	120,209,653	0	0	120,209,653
<b>Total Prizes, Bonuses and Commission Expense</b>	<b>1,189,091,586</b>	<b>34,316,416</b>	<b>9,625,475</b>	<b>1,233,033,477</b>
<b>Operating Expenses:</b>				
Personal Services	74,214,708	0	0	74,214,708
Maintenance	24,042,117	0	0	24,042,117
Depreciation	10,023,109	0	0	10,023,109
Other Expenses	82,406	0	0	82,406
<b>Total Operating Expenses</b>	<b>108,362,340</b>	<b>0</b>	<b>0</b>	<b>108,362,340</b>
<b>OPERATING INCOME (LOSS)</b>	<b>626,555,922</b>	<b>(33,241,655)</b>	<b>(9,625,475)</b>	<b>583,688,792</b>
<b>Non-Operating Revenues (Expenses):</b>				
Interest Income	5,596,935	165,943,883	3,455,201	174,996,019
Amortization of Deferred Prize Liabilities	0	(81,173,647)	0	(81,173,647)
Loss on Equipment Disposal	(288,420)	0	0	(288,420)
Interest Expense - Borrower Rebates	0	(18,428,517)	0	(18,428,517)
Agent Fees	0	(165,375)	0	(165,375)
Interest Expense on Capital Lease	(121,769)	0	0	(121,769)
Payments to the Lottery Profits Education Fund	(612,035,543)	0	(25,000,000)	(637,035,543)
<b>Total Non-Operating Expenses</b>	<b>(606,848,797)</b>	<b>66,176,344</b>	<b>(21,544,799)</b>	<b>(562,217,252)</b>
<b>NET INCOME (LOSS) BEFORE TRANSFERS AND EXTRAORDINARY ITEMS</b>	<b>19,707,125</b>	<b>32,934,689</b>	<b>(31,170,274)</b>	<b>21,471,540</b>
<b>TRANSFERS:</b>				
Transfers to the Deferred Prize Trust Fund	(34,188,745)	34,188,745	0	0
Transfers to the Unclaimed Prize Fund	(30,023,112)	0	30,023,112	0
<b>Total Transfers</b>	<b>(64,211,857)</b>	<b>34,188,745</b>	<b>30,023,112</b>	<b>0</b>
<b>INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS</b>	<b>(44,504,732)</b>	<b>67,123,434</b>	<b>(1,147,162)</b>	<b>21,471,540</b>
Extraordinary Gain on Early Extinguishment of Debt	0	3,349,644	0	3,349,644
<b>NET INCOME (LOSS)</b>	<b>(44,504,732)</b>	<b>70,473,078</b>	<b>(1,147,162)</b>	<b>24,821,184</b>
<b>RETAINED EARNINGS JULY 1</b>	<b>73,710,185</b>	<b>(4,467,197)</b>	<b>37,541,746</b>	<b>106,784,734</b>
<b>RETAINED EARNINGS (DEFICIT) JUNE 30</b>	<b>\$29,205,453</b>	<b>\$66,005,881</b>	<b>\$36,394,584</b>	<b>\$131,605,918</b>

OHIO LOTTERY COMMISSION  
 SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION BY FUND  
 FOR THE YEAR ENDED JUNE 30, 2001

	OPERATING	DEFERRED	UNCLAIMED	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash Received from Customers	\$1,914,548,788	\$0	\$0	\$1,914,548,788
Cash Payments for Prize Awards	(1,068,661,657)	(223,556,965)	(9,625,475)	(1,301,844,097)
Cash Payments for Bonuses and Commissions	(120,266,885)	0	0	(120,266,885)
Cash Payments for Goods and Services	(80,330,993)	0	0	(80,330,993)
Cash Payments to Employees	(20,759,880)	0	0	(20,759,880)
Other Operating Revenues	4,099,826	1,074,761	0	5,174,587
Other Operating Expenses	(82,406)	0	0	(82,406)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>628,546,793</b>	<b>(222,482,204)</b>	<b>(9,625,475)</b>	<b>396,439,114</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Payments to the State of Ohio (LPEF)	(612,035,543)	0	(25,000,000)	(637,035,543)
Inter-Fund Transfers	(64,211,857)	34,188,745	30,023,112	0
<b>Net Cash (Used) Provided by NonCapital Financing Activities</b>	<b>(676,247,400)</b>	<b>34,188,745</b>	<b>5,023,112</b>	<b>(637,035,543)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of Property and Equipment	(1,288,308)	0	0	(1,288,308)
Proceeds from Sale of Property and Equipment	1,132,800	0	0	1,132,800
Repayment of Equipment Obligation	(2,223,619)	0	0	(2,223,619)
Interest Paid on Equipment Obligation	(121,769)	0	0	(121,769)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(2,500,896)</b>	<b>0</b>	<b>0</b>	<b>(2,500,896)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment Income Received	5,677,783	47,048,632	3,451,921	56,178,336
Interest Expense (Borrower Rebates) and Agent Fees	0	(18,593,892)	0	(18,593,892)
Proceeds from the Sale or Maturity of Dedicated State of Ohio Investments	0	400,996,627	0	400,996,627
Acquisition of Investments	0	(239,096,912)	0	(239,096,912)
Cash Collateral received under Securities Lending Activities	2,296,442	508,250,540	15,886,734	526,433,716
Investment of Securities Lending Cash Collateral	(2,296,442)	(508,250,540)	(15,886,734)	(526,433,716)
<b>Net Cash Provided by Investing Activities</b>	<b>5,677,783</b>	<b>190,354,455</b>	<b>3,451,921</b>	<b>199,484,159</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(44,523,720)</b>	<b>2,060,996</b>	<b>(1,150,442)</b>	<b>(43,613,166)</b>
<b>CASH AND CASH EQUIVALENTS JULY 1</b>	<b>59,489,486</b>	<b>17,503,799</b>	<b>37,442,520</b>	<b>114,435,805</b>
<b>CASH AND CASH EQUIVALENTS JUNE 30</b>	<b>\$14,965,766</b>	<b>\$19,564,795</b>	<b>\$36,292,078</b>	<b>\$70,822,639</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	\$626,555,922	(\$33,241,655)	(\$9,625,475)	\$583,688,792
Adjustments to reconcile operating income (loss) to determine net cash provided (used) by operating activities:				
Depreciation	10,023,109	0	0	10,023,109
<b>(Increase)/Decrease in Assets:</b>				
Accounts Receivable	(3,761,737)	0	0	(3,761,737)
Prepaid Expenses and Other Assets	(860,567)	0	0	(860,567)
<b>Increase/(Decrease) in Liabilities:</b>				
Prize Awards Payable	220,276	0	0	220,276
Accounts Payable	(2,212,731)	0	0	(2,212,731)
Deferred Revenue	(1,599,497)	0	0	(1,599,497)
Deferred Prize Awards Payable	0	(189,240,549)	0	(189,240,549)
Compensated Absences and Other Liabilities	182,018	0	0	182,018
<b>Total Adjustments</b>	<b>1,990,871</b>	<b>(189,240,549)</b>	<b>0</b>	<b>(187,249,678)</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$628,546,793</b>	<b>(\$222,482,204)</b>	<b>(\$9,625,475)</b>	<b>\$396,439,114</b>



OHIO LOTTERY COMMISSION  
 SUPPLEMENTAL SCHEDULE OF RECEIPTS, EXPENSES, AND PAYMENTS  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 FOR THE YEAR ENDED JUNE 30, 2001 (In Millions)

	<u>APPROVED BUDGET (1)</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>RECEIPTS:</b>			
Ticket Sales	\$2,152.7	\$1,919.9	(\$232.8)
Other Revenue	70.9	88.8	17.9
<b>Total Reciepts</b>	<u>2,223.6</u>	<u>2,008.7</u>	<u>(214.9)</u>
<b>EXPENSES:</b>			
Payroll and Personal Services	23.1	21.2	1.9
Maintenance and Supplies	25.3	22.7	2.6
Equipment	3.3	1.8	1.5
Contracts	64.4	63.9	0.5
Vouchered Prizes, Bonuses and Commissions	172.0	130.6	41.4 (2)
Annuity Prizes	240.5	223.6	16.9
Unclaimed Prizes	13.9	9.8	4.1
<b>Total Expenses</b>	<u>542.5</u>	<u>473.6</u>	<u>68.9</u>
<b>EXCESS OF RECEIPTS OVER EXPENSES</b>	1,681.1	1,535.1	(146.0)
<b>PAYMENTS IN (OUT):</b>			
Payments to Lottery Profits Education Fund	<u>(690.2)</u>	<u>(637.0)</u>	<u>53.2</u>
<b>EXCESS OF RECEIPTS OVER EXPENSES AND PAYMENTS</b>	<u>\$990.9</u>	<u>\$898.1</u>	<u>(\$92.8)</u>

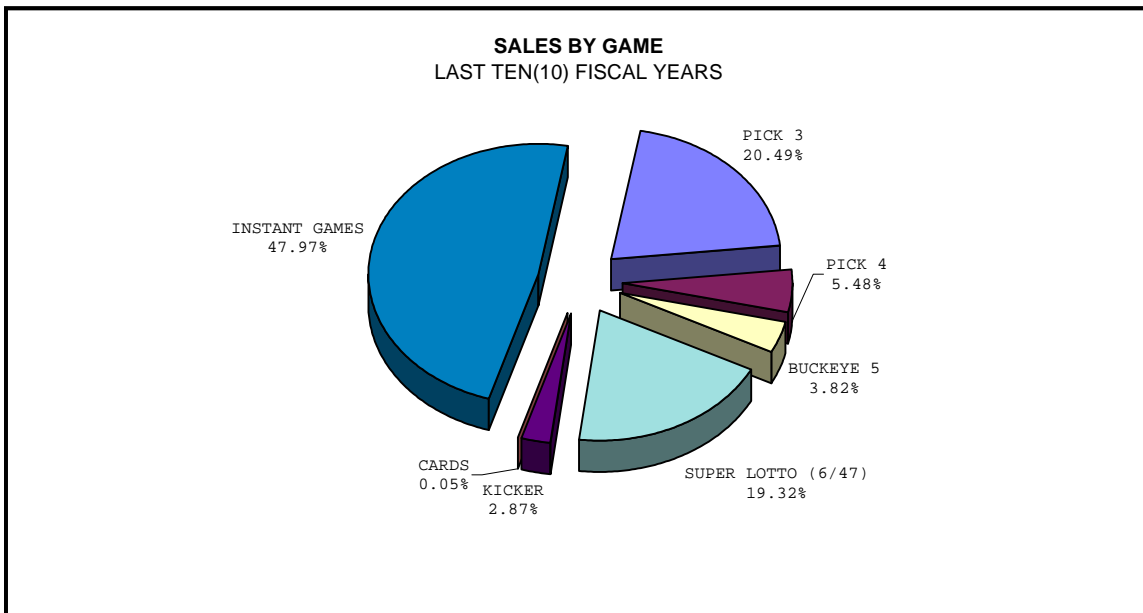
(1) Reported budgeted amounts are as originally adopted and amended by the General Assembly and the Office of Budget and Management.

(2) Vouchered prizes do not include those prizes cashed at participating agent and bank locations.

**OHIO LOTTERY COMMISSION**  
**REVENUES - LAST TEN (10) FISCAL YEARS**  
(In Millions)

	FISCAL YEAR									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
ON-LINE GAMES										
PICK 3	\$411.1	\$428.3	\$421.0	\$446.2	\$450.6	\$435.6	\$421.1	\$399.4	\$427.3	\$419.0
PICK 4	85.4	91.0	91.9	102.1	108.2	116.5	124.0	125.1	144.6	150.7
BUCKEYE 5	25.7	122.4	118.2	100.3	87.3	78.8	73.5	69.9	62.2	56.5
SUPER LOTTO (6/47)	500.0	493.5	370.6	437.8	455.8	410.6	384.9	364.4	336.6	262.5
KICKER	69.5	65.6	54.3	63.3	66.7	63.5	60.5	57.2	52.9	42.9
CARDS	9.5									
TOTAL ON-LINE GAMES	1,101.2	1,200.8	1,056.0	1,149.7	1,168.6	1,105.0	1,064.0	1,016.0	1,023.6	931.6
INSTANT GAMES	584.2	775.7	863.9	1,032.6	1,146.1	1,195.0	1,131.8	1,128.7	1,126.8	988.3
TOTAL TICKET SALES	1,685.4	1,976.5	1,919.9	2,182.3	2,314.7	2,300.0	2,195.8	2,144.7	2,150.4	1,919.9
INTEREST INCOME/ OTHER REVENUE	115.6	140.7	115.3	86.1	140.9	163.3	230.4	127.3	79.2	180.2
TOTAL REVENUES	<u>\$1,801.0</u>	<u>\$2,117.2</u>	<u>\$2,035.2</u>	<u>\$2,268.4</u>	<u>\$2,455.6</u>	<u>\$2,463.3</u>	<u>\$2,426.2</u>	<u>\$2,272.0</u>	<u>\$2,229.6</u>	<u>\$2,100.1</u>

(1) FY 96-FY 01 Instant tickets are reported as net of free tickets. In prior years, the amount of free tickets issued was recorded in ticket sales.

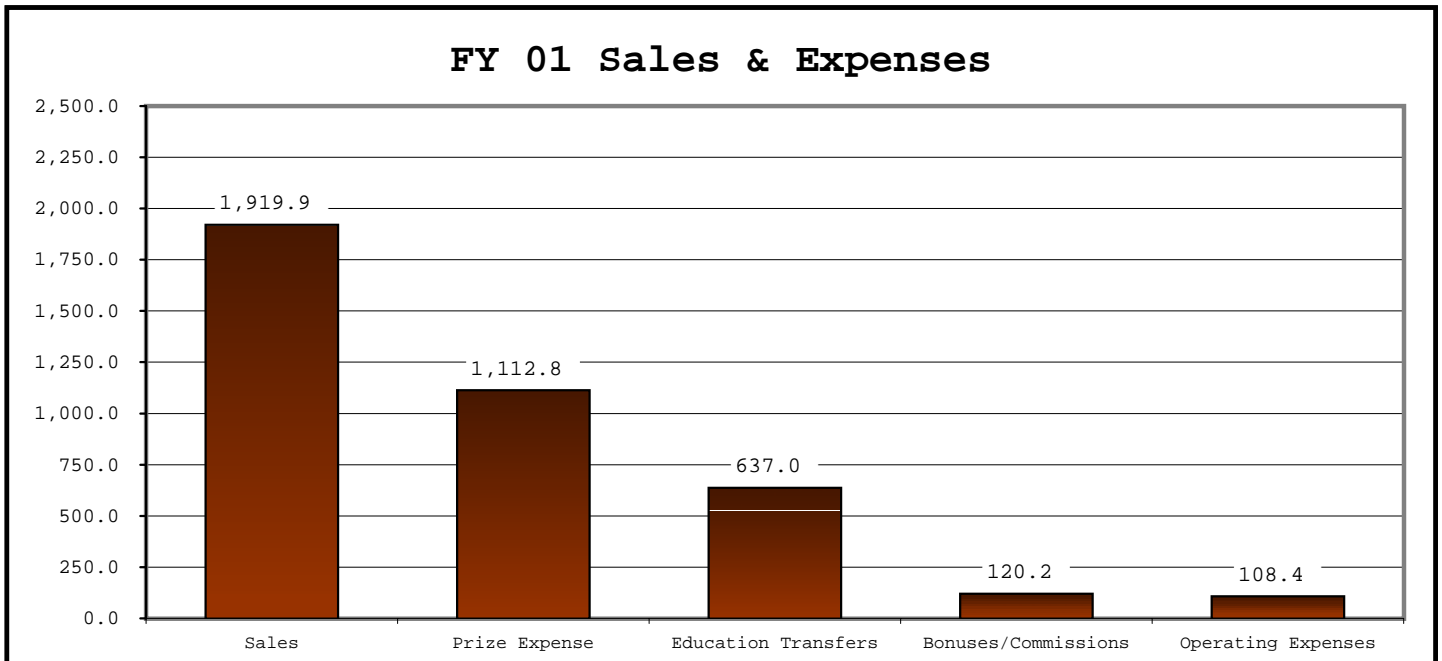


OHIO LOTTERY COMMISSION  
 REVENUES, EXPENSES AND PAYMENTS TO EDUCATION  
 LAST TEN FISCAL YEARS

(In Millions)

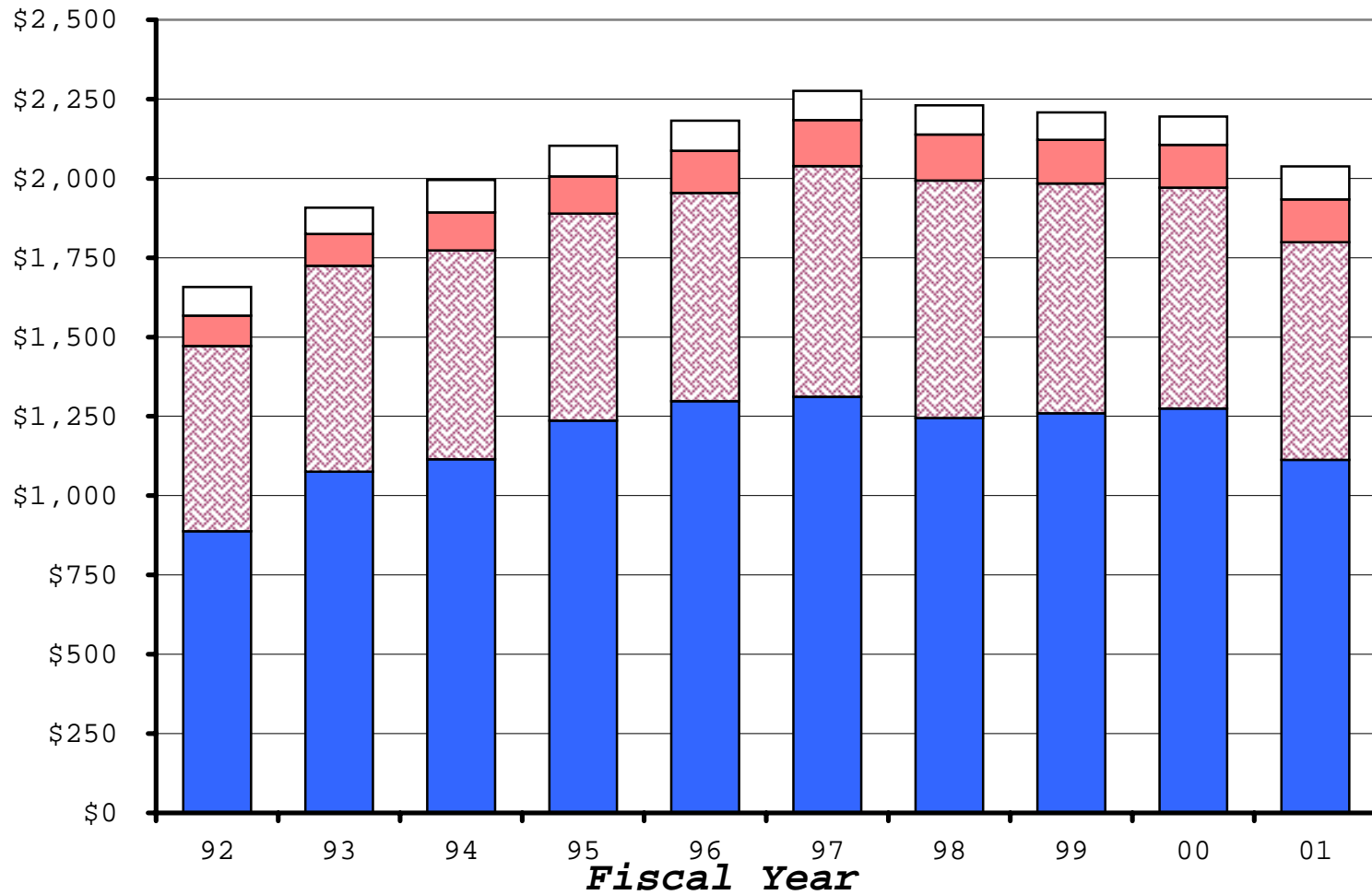
FISCAL YEAR	TICKET SALES (1)	PRIZE EXPENSE	% SALES	BONUSES/ COMMISSIONS	% SALES	OPERATING EXPENSES	% SALES	PAYMENTS TO EDUCATION	% SALES
1992	1,685.4	888.2	52.70%	100.4	5.96%	82.7	4.91%	648.4	38.47%
1993	1,976.5	1,075.9	54.43%	119.5	6.05%	102.6	5.19%	658.4	33.31%
1994	1,919.9	1,115.0	58.08%	116.9	6.09%	97.3	5.07%	652.3	33.98%
1995	2,182.3	1,236.8	56.67%	133.4	6.11%	94.4	4.33%	656.4	30.08%
1996	2,314.7	1,297.6	56.06%	145.6	6.29%	91.8	3.97%	726.5	31.39%
1997	2,300.0	1,312.2	57.05%	144.7	6.29%	92.7	4.03%	748.5	32.54%
1998	2,195.8	1,244.7	56.69%	137.8	6.28%	86.5	3.94%	723.8	32.96%
1999	2,144.7	1,259.8	58.74%	134.6	6.28%	88.9	4.15%	696.3	32.47%
2000	2,150.4	1,275.0	59.29%	135.0	6.28%	103.9	4.83%	686.0	31.90%
2001	1,919.9	1,112.8	57.96%	120.2	6.26%	108.4	5.65%	637.0	33.18%
<b>Total</b>	<b>\$20,789.6</b>	<b>\$11,818.0</b>	<b>56.85%</b>	<b>\$1,288.1</b>	<b>6.20%</b>	<b>\$949.2</b>	<b>4.57%</b>	<b>\$6,833.6</b>	<b>32.87%</b>

(1) Sales and Prize Expense for FY 96-01 are shown net of free tickets. In prior years, the amount of free tickets issued was recorded in both sales and prize expense.



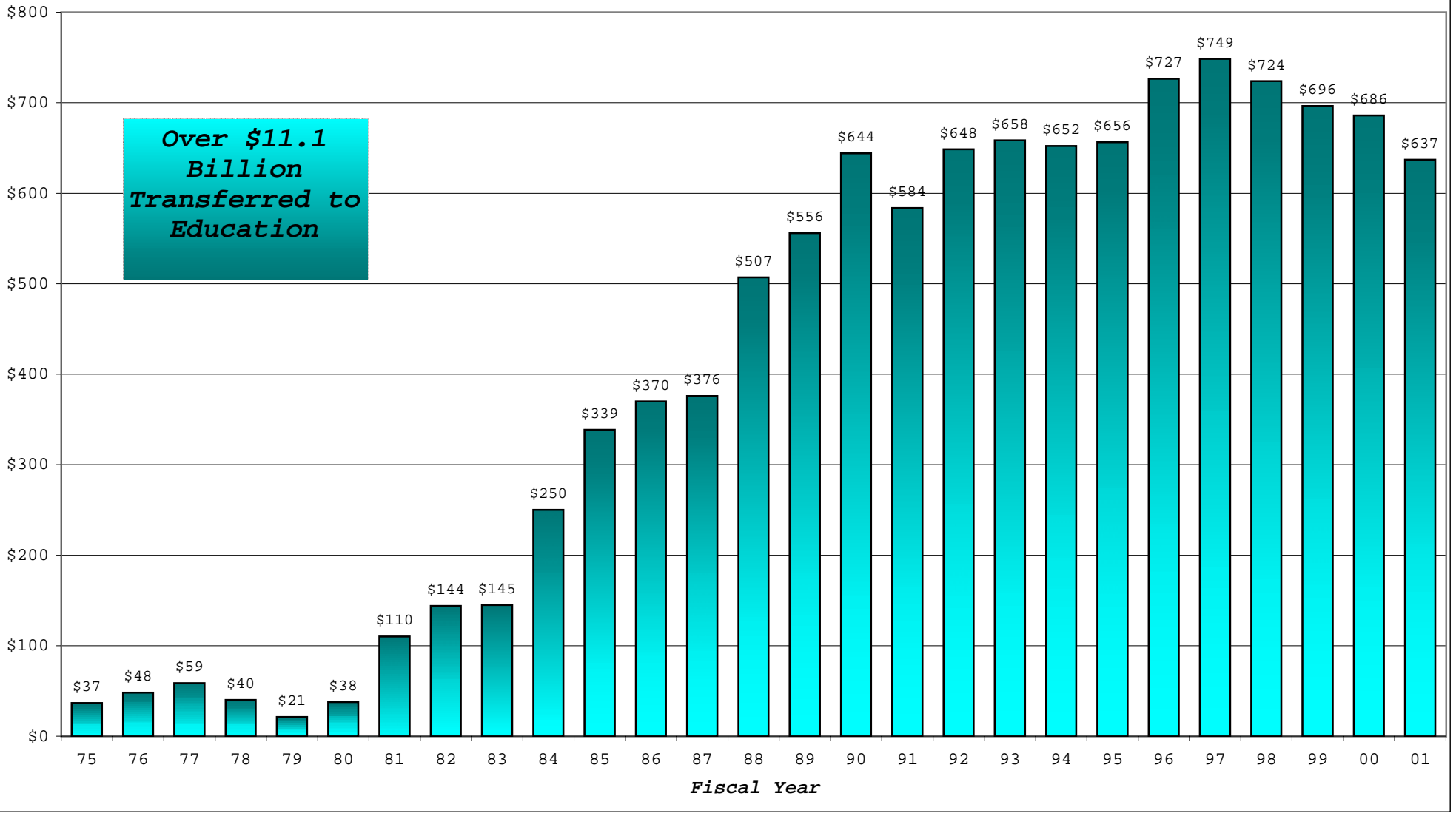
# ***Expenses And Payments***

*(in millions)*



■ Prize Expense ■ Payments to State ■ Bonuses/Commission □ Operating Expenses

**History of Transfers to Education**  
*In Millions - Source: Ohio Lottery Commission*



# U.S. LOTTERY INDUSTRY STATEMENT OF OPERATIONS

Fiscal Year 2000 - In Millions <sup>(a)</sup>

Lottery	Population	Total Sales	Instant Sales	Prizes <sup>(b)</sup>	Bonuses/ Comm.	Other Expenses <sup>(c)</sup>	Net Income <sup>(d)</sup>	Prizes as % Total Sales	Net Income as % Total Sales
1 Massachusetts (2)	6.4	3,695.18	2,472.88	\$2,583.51	\$210.56	\$68.39	\$853.22	69.9%	23.1%
2 New York (1)	19.0	3,629.26	1,005.79	1,768.16	217.43	322.87	1,365.14	48.7%	37.6%
3 Texas (3)	20.9	2,657.29	1,663.82	1,508.85	133.00	176.51	747.08	56.8%	28.1%
4 California (4)	33.9	2,598.38	1,188.19	1,369.44	179.24	163.94	907.30	52.7%	34.9%
5 Florida (6)	16.0	2,248.50	568.35	1,107.02	125.07	126.87	907.59	49.2%	40.4%
6 Georgia (7)	8.2	2,212.83	859.66	1,260.50	157.48	122.73	682.37	57.0%	30.8%
<b>7 OHIO (5)</b>	<b>11.4</b>	<b>2,150.40</b>	<b>1,126.81</b>	<b>1,274.98</b>	<b>135.00</b>	<b>103.86</b>	<b>592.87</b>	<b>59.3%</b>	<b>27.6%</b>
8 New Jersey (10)	8.4	1,838.84	597.34	989.81	100.36	52.74	719.41	53.8%	39.1%
9 Michigan (8)	9.9	1,694.75	643.27	920.80	120.38	141.89	920.80	54.3%	54.3%
10 Pennsylvania (9)	12.3	1,686.78	487.32	868.35	87.55	79.98	671.96	51.5%	39.8%
11 Illinois (11)	12.4	1,466.60	504.61	798.87	75.00	82.44	533.16	54.5%	36.4%
12 Maryland (12)	5.3	1,172.88	221.88	656.72	68.63	40.79	406.75	56.0%	34.7%
13 Virginia (13)	7.1	972.97	402.30	537.31	55.18	67.23	323.48	55.2%	33.2%
14 Connecticut (14)	3.4	837.51	516.62	502.49	45.72	36.51	254.44	60.0%	30.4%
15 Indiana (15)	6.1	582.54	333.61	336.66	37.10	47.01	165.24	57.8%	28.4%
<b>U.S. Average - Top</b>	<b>12.04</b>	<b>1,962.98</b>	<b>839.50</b>	<b>1,098.90</b>	<b>116.51</b>	<b>108.92</b>	<b>670.05</b>	<b>55.8%</b>	<b>34.6%</b>

( ) Last Years Ranking

(a) Latest Information Available

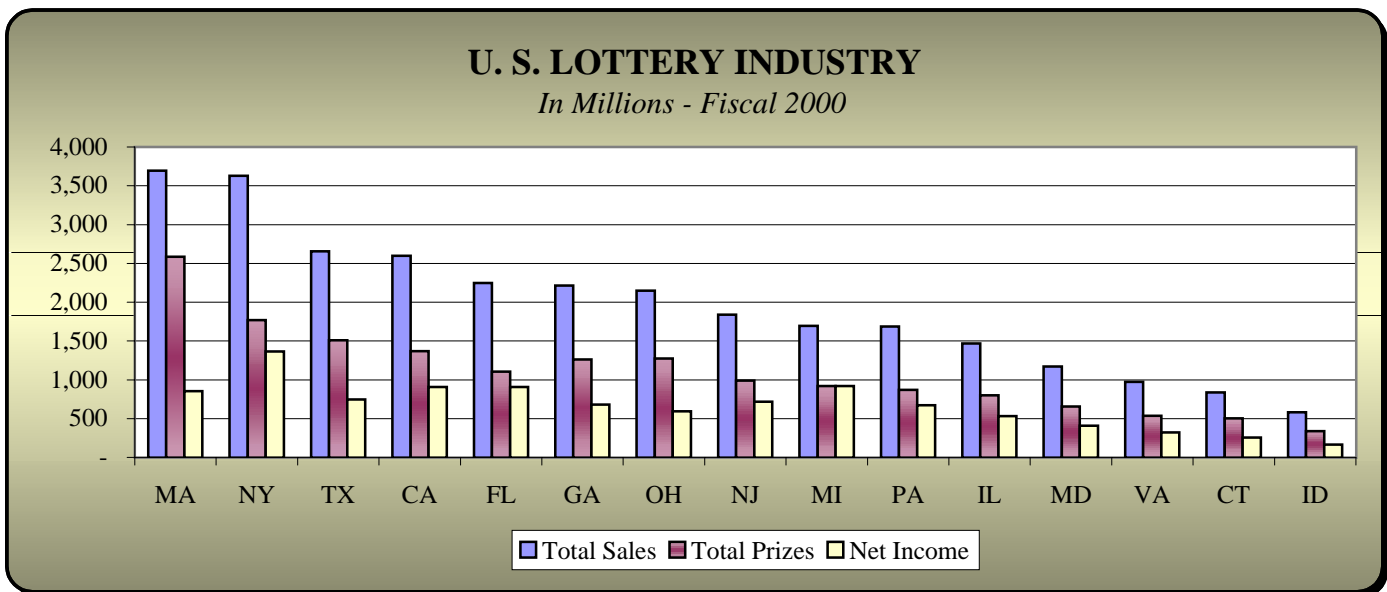
(b) Prizes do not include VLT prizes paid.

(c) Amount Includes Operating Expenses Only

(d) Before Payments to Education

The fiscal year ends June 30 for all US states except New York (March 31), Texas (August 31), and Michigan (September 30).

Information received from La fleur's 2001 Lottery Almanac and Public Gaming International





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**OHIO LOTTERY COMMISSION**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 18, 2001**