



**OHIO LOTTERY COMMISSION  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**



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

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**STATE OF OHIO**





**Auditor of State  
Betty Montgomery**

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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State



OHIO LOTTERY COMMISSION  
CUYAHOGA COUNTY

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**STATE OF OHIO  
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

Ohio Lottery Commission  
Cuyahoga County  
615 W. Superior Avenue  
Cleveland, Ohio 44113

We have audited the basic financial statements of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Commission) an enterprise fund of the State of Ohio, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 14, 2002, wherein we noted the Commission adopted Governmental Accounting Standards Board Statements Nos.34, 37, 38 and GASB Interpretation 6. 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 does not require inclusion in this report, that we have reported to the management of the Commission in a separate letter dated November 14, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a horizontal line extending to the right.

**Jim Petro**  
Auditor of State

November 14, 2002





The Ohio Lottery Commission: An Enterprise of the State of Ohio

Winning Ohio Over

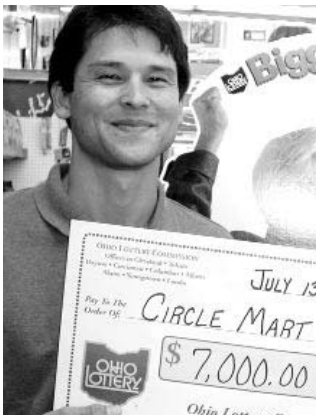
*Comprehensive Annual Financial Report  
For the Years Ended  
June 30, 2002 and 2001*

*[www.ohiolottery.com](http://www.ohiolottery.com)*



# The Ohio Lottery

## Winning Ohio Over



*...and over and over and over again!*



**Ohio Lottery Commission**  
**An Enterprise Fund of the State of Ohio**  
**Comprehensive Annual Financial Report**  
**for the Fiscal Years Ended**  
**June 30, 2002 and 2001**

*Prepared by the*  
*Ohio Lottery Commission Finance Division*

*Bob Taft, Governor • Dennis G. Kennedy, Director*  
*Sandra K. Barber, Commission Chairperson*  
*Mark M. Polatajko, CPA, Deputy Director, Finance*

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Everyone living and working in Ohio are winners with the Lottery.

Lottery retailer, Jim Powell of Pop-a-Top Carryout in Columbus makes everyone who enters his store feel like winners.

"I love it, I absolutely love it," says Jim about his job. "I don't even feel like I'm coming to work."

*Introductory Section*





**Ohio Lottery Commission**  
615 W. Superior Avenue  
Cleveland, Ohio 44113-1879  
(216) 787-3200

November 14, 2002

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, (CAFR), of the Ohio Lottery Commission (the "Ohio Lottery") for the fiscal year ended June 30, 2002. The Finance Division of the Ohio Lottery has prepared this report in accordance with generally accepted accounting principles. The Ohio 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 Ohio 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 Ohio Lottery is an enterprise fund of the State of Ohio and is included in the State's Comprehensive Annual Financial Report. Ohio 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 2001. This section is not audited because it contains subjective information.

**Financial Section** – begins with the State Auditor's report, management's discussion and analysis, the comparative basic 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's Management. 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.

## **BACKGROUND**

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 1990'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**

After several quarters of sub-par growth, the U.S. economy is slowly recovering. The current recovery is expected to be a "jobless recovery", similar to the 1991-1992 economic expansion. Economic growth is expected to be near the trend line for the near term forecast as capital spending fails to take over the lead from the consumer. Expansionary fiscal and monetary policies will keep growth near the trend, but with foreign economies weak and capital spending rising only moderately, the current recovery cannot gain momentum.

Consumer spending, which constitutes about two-thirds of the economic activity in the U.S., continues to be the main driver of economic growth. Consumers rarely retrench, but when jobs are scarce and debts are high, as is the case now, the rate of growth in consumer spending slows. Consumers are stretched about as far as they can, taking on large amounts of debt in the process. Debt-service payments are claiming a record share of disposable income despite the drop in interest rates. For the recovery to experience solid growth, investment spending and capital outlays must be revived.



The financial markets continue to reflect a combination of worries over the strength of the recovery and lack of confidence in the numbers that are released from corporate income statements. Even if the stock market has already hit bottom, the climb from the hole is expected to be very slow and gradual. Investors will once again demand a substantial risk premium on stocks and the temptation of profit taking to recover losses will keep a lid on the price of equities.

The economic outlook for the State of Ohio is consistent with the forecast of slow and moderate growth at the national level. Real Gross Domestic Product (GDP), the total value of goods and services produced in the U.S. and adjusted for inflation, is expected to grow in the range of 2.5% to 3.5% annually over the next three years.

The state forecast for inflation calls for moderate growth at the consumer level. Outside of the volatile food and energy component, producer prices for finished goods are rising at less than 0.5% per year. Core consumer prices are rising a bit faster because of the heavy weighing of services. But even with services, inflation as measured by the CPI is predicted to increase about 2.0% to 2.5% per year.

## **OHIO 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 a play area to reveal combinations. 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. For Fiscal Year 2002, instant game sales were nearly \$1 billion and represented 50.3% of total lottery sales. Instant games had little growth until multiple game strategies were introduced. As many as 50 games are now printed annually including seasonal games and special holiday games. The Ohio Lottery has successfully sold instant games at the \$1, \$2, \$3, \$5, \$7, \$10 and \$12 price points. In addition, the Ohio Lottery will market a \$20 holiday ticket beginning in late fall 2002.

*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 its introduction in April 1983. The first several versions of Lotto and subsequently Super Lotto had a game design that called for fixed increases, regardless of draw sales. As interest rates began to decline in the late 1990's and draw sales at the lower jackpot levels began to decrease, the flaw in this game design became apparent in suffering profitability. As a response to

these adverse conditions, the Ohio Lottery's current in-state lotto game Super Lotto Plus was launched in July 2001. This game has a 6/49 matrix, expanded lower tier prizes, and pari-mutuel jackpots, which allow the jackpot to increase as a product of market rates and draw sales. Super Lotto Plus sales for fiscal year 2002 were \$298 million, a 13.5% increase from the previous year, due largely in part to two record jackpot sequences of \$54 and \$75 million. Drawings are held on Wednesday and Saturday evenings.

Mega Millions, a multi-state lottery game, was successfully launched in Ohio on May 15, 2002. With the addition of New York, Ohio and Washington, Mega Millions became the biggest jackpot game in the United States. With a population base of over 93 million within ten states, jackpots are expected to grow to higher levels at much faster rates. By game design, jackpots are expected to average approximately \$85 million and could potentially exceed \$500 million. In only the third jackpot sequence, the Mega Millions jackpot rolled to \$165 million on July 16, 2002. Fiscal year 2002 Mega Millions sales in Ohio were \$16.5 million and are projected to average approximately \$200 million during fiscal years 2003 through 2005; however, sales may perform better than expected during significant jackpot sequences. Drawings are held on Tuesday and Friday evenings.

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 2002 were \$45 million, approximately 2.3% of total Ohio 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 Ohio Lottery premiered wheel wagering which allows a player to play all possible combinations of a Pick 3 wager. In order to enhance declining sales, the Ohio Lottery added midday drawings in July 1999 and has run several promotions. Pick 3 sales for fiscal year 2002 were \$409.2 million, or 20.6% of total Ohio 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 in July 1999. Sales for Fiscal Year 2002 were \$154.6 million, approximately 7.8% of total Ohio 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 currently has six 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. As a result of increased number of drawings and a promotion, Buckeye 5 sales increased for the first time since fiscal year 1993, totaling \$62.4 or 3.2% of total Ohio Lottery sales.

## 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 2002, the Ohio Lottery transferred \$610.2 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 Ohio Lottery has provided in support of the State's public education system to over \$11.7 billion since its inception in 1974. In addition to this rewarding accomplishment, several other accomplishments were achieved during Fiscal Year 2002. These include:

- With the relief granted by the State of Ohio's Legislature from the statutory requirement directing that the Ohio Lottery must transfer no less than thirty (30) percent of its total revenue to the Lottery Profits Education Fund, the Ohio Lottery effectively restructured its instant ticket product line. First, a standard prize payout schedule by price point was implemented in order to establish consistency throughout the instant product mix. Second, the prize payout percentage by price point was increased, with an expected average instant ticket prize payout of nearly 67 percent by the end of fiscal year 2003, compared to the 63 percent instant ticket prize payout realized during fiscal year 2001. Third, in response to player feedback, the free ticket prize tier was eliminated in favor of a cash prize. All of these changes have provided the Ohio Lottery with additional leverage for competing with its rivals and are consistent with management's intent to change to a volume-based business model, which has proved quite effective for other state lotteries.
- The implementation of a new, state-of-the-art gaming system through its contract with gaming services vendor GTECH Corporation has provided the Ohio Lottery with capabilities never before available. The system included 7,500 PC-based touch-screen retailer terminals, the first of their kind to be used in the U.S. In addition to improved speed and reporting capabilities, the new system provides a wide array of promotion applications, a few of which were used during fiscal year 2002 to enhance sales. Following a successful pilot program with Discount Drug Mart, the Ohio Lottery successfully launched a statewide "Buy 5 Buckeye 5 Get 1 Free" promotion from May 1 through May 31, 2002, which resulted in 890,268 free plays and yielded additional sales of over \$2 million. A recently completed raffle ticket pilot with the Food Town chain will serve as the blueprint for a fiscal year 2003 statewide program.
- On April 1, 2002, Buckeye 5, the Ohio Lottery's cash lotto game, was expanded from four to six nightly drawings, comparable to other state lotteries that offer this type of game. As a result of this change and the "Buy 5 Buckeye 5 Get 1 Free" promotion in May 2002, fiscal year 2002 sales of Buckeye 5 totaled \$62.4 million, an increase of approximately \$5.9 million from fiscal year 2001, the first increase in annual sales since fiscal year 1993.
- An Early Retirement Incentive Plan (ERIP) was implemented for the period July 1, 2001 through June 30,

2002, in which the Ohio Lottery offered to purchase two years of service credit for all eligible personnel. The plan was designed to respond to decreased staffing needs at specific salary levels as a result of departmental consolidations and operational efficiency gains. As a result of the program, 26 of 52 eligible employees exercised their right to participate in the ERIP, and only 13 of those vacancies are planned to be filled, most at a lower job classification. The Ohio Lottery will realize estimated cumulative plan savings of \$718,679 by the end of fiscal year 2004 and full buyout expense recapture, not considering the effect of interest, is expected by the fourth pay period of fiscal year 2004. Net payroll savings for fiscal years 2005 forward will be approximately \$1 million per fiscal year.

- In response to the growing concerns nationally regarding the availability of top prizes for instant games, the Ohio Lottery developed a creative manner in which to administer top prizes seeded in instant ticket games. In order to ensure that one top prize is available through the last sale date of an instant ticket game, the Ohio Lottery decided to reserve one top prize to be awarded through a Top Prize Drawing (TPD) for all instant ticket games with a price point of \$3 or more. Each instant game will be seeded with approximately 26 entries into the Top Prize Drawing, depending on print quantity. Players that obtain a winning TPD ticket win a cash award in an amount requiring the winner to complete a claim form. The information captured on the claim form will then be used to enter the player into a Top Prize Drawing after the ending of the game's validation period, ensuring that a top prize is available throughout the sales life of the instant ticket game. This concept was implemented beginning June 3, 2002 and has been well received by the players. In addition, other lotteries have been made aware of this creative method and several are contemplating the implementation of Top Prize Drawings as well.
- In order to more effectively evaluate and address the Ohio Lottery's gaming concerns within the ever-changing gaming industry environment, the Ohio Lottery's divisional structure was modified in July 2002 with the addition of a Product Research and Development (PR&D) Division. Formerly a department within the Sales Division, this newly created division is comprised of Online Product Management, Instant Product Management, Market Research, and Promotions.

## ACCOUNTING SYSTEMS AND POLICIES

The Ohio 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 Ohio Lottery funds are: the State Lottery Fund (Lottery Operating Fund); the Deferred Prize Trust Fund; and the Unclaimed Prize Fund. The Ohio 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 Ohio Lottery are included in the statement of net assets. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in

total net assets.

### **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 appropriations and the amounts expended for the Lottery Operating Fund, Deferred Prize Fund and Unclaimed Prize Fund are monitored by the State of Ohio Office of Budget and Management (OBM). The adopted budget is divided among the operating divisions at the Ohio Lottery who have responsibility for delivery of service. These divisions 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 fiscal year 2002 to show revenue and expenditure trends and implement any changes necessary to keep both within appropriation and internal management targets set by the Director.

### **INTERNAL CONTROL ENVIRONMENT**

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 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.

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 Ohio 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.

### **FINANCIAL INFORMATION**

The Ohio Lottery Commission operates as an enterprise activity, selling Ohio 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 noncurrent liabilities are comprised of payments owed to deferred prize winners. 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 statements of net assets. Other noncurrent liabilities include equipment capital lease obligations, accrued workers' compensation, and compensated absences, which will be satisfied through operating activities.

### **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 Ohio Lottery collects cash due from ticket sales from approximately 9,000 retail agents on a weekly basis. Funds are collected electronically from the agents' designated bank accounts. Over \$966.8 million was collected via this system in fiscal year 2002. Timely payment was made on 99.6% of accounts collected. Approximately \$4.2 million, or 0.4% 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 \$3.2 million of the uncollected was paid and the remainder was claimed against agents' bonds or certified to the Attorney General for collection.

### **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 Ohio Lottery continues to explore and develop new ways to enhance its current product offerings. The focus during fiscal year 2002 was to concentrate on revamping the instant product line, expanding the availability of Buckeye 5, and the successful launch of Mega Millions. In fiscal year 2003, the Ohio Lottery's energies are being concentrated on the following projects:

- A replacement or enhancement is currently being developed for the Super Lotto Plus game for sometime in late spring 2003. With the addition of Mega Millions, the cannibalization on Super Lotto Plus sales and the \$4 million starting jackpot level have affected the profitability of this game, as well as the potential to achieve substantial jackpot sequences.
- The successful launch of the Wild Card gift card, which takes advantage of the smart card reader component of the Altura gaming terminal. The Wild Card contains a thermal backing, which can be rewritten up to 500 times. The pilot project, scheduled for launch on November 11, 2002, will initially introduce the Wild Card as a gift-giving concept, and is expected to be launched statewide in February 2003. The Wild Card will offer players the opportunity to give Ohio Lottery products as a gift without the difficulty of selecting a specific product or draw date. Customers will simply ask an on-line Ohio Lottery Retailer for the Wild Card and will then be able to place value on the card up to \$50 (in \$5 increments). Receivers of the Wild Card will be able to go to an on-line Ohio Lottery Retailer and purchase any Ohio Lottery product offered. The Wild Card will be offered in 4 different designs, is rechargeable and will contain the current balance at all times on the thermal side of the card. The Wild Card may be used in the future as a player rewards program, a bet card or even as a wager itself.
- A new Play-at-Home feature for the Cash Explosion instant game, which alters both the show and the popular instant game, gives 24 more players an opportunity to participate in the weekly television game show. Entrants chosen as Play-at-Home players are partnered with game show contestants and win a cash prize from home based upon how well their contestant does on the show. To become a Play-at-Home partner, players who reveal the Play-at-Home symbol in the bonus box on the ticket may complete the back of the ticket and mail it to the Ohio Lottery for entry into a weekly drawing.
- Various statewide promotions are planned throughout the year, including Red Ball for Pick 3 and Pick 4; Buy X- Get Y for Buckeye 5; Just Say Yes raffle for Kicker; and a First Anniversary raffle for Mega Millions. In addition, several opportunities are being researched regarding regional, local; chain and independent store promotions, as well as internet possibilities.

## 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, 2001. This was the fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

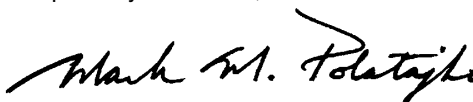
## INDEPENDENT AUDIT

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 Ohio Lottery Commission. The fiscal year 2002 audit of the Ohio Lottery's financial statements has been completed in conformity with generally accepted governmental auditing standards. The auditor's unqualified opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

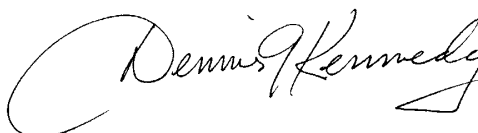
## ACKNOWLEDGMENTS

Preparation of this report could not have been accomplished without the efficient and dedicated efforts of our employees. 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 Ohio Lottery in a responsible and progressive manner.

Respectfully Submitted,



Mark M. Polatajko, CPA  
Deputy Director of Finance



Dennis G. Kennedy  
Executive Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Ohio Lottery Commission

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2001

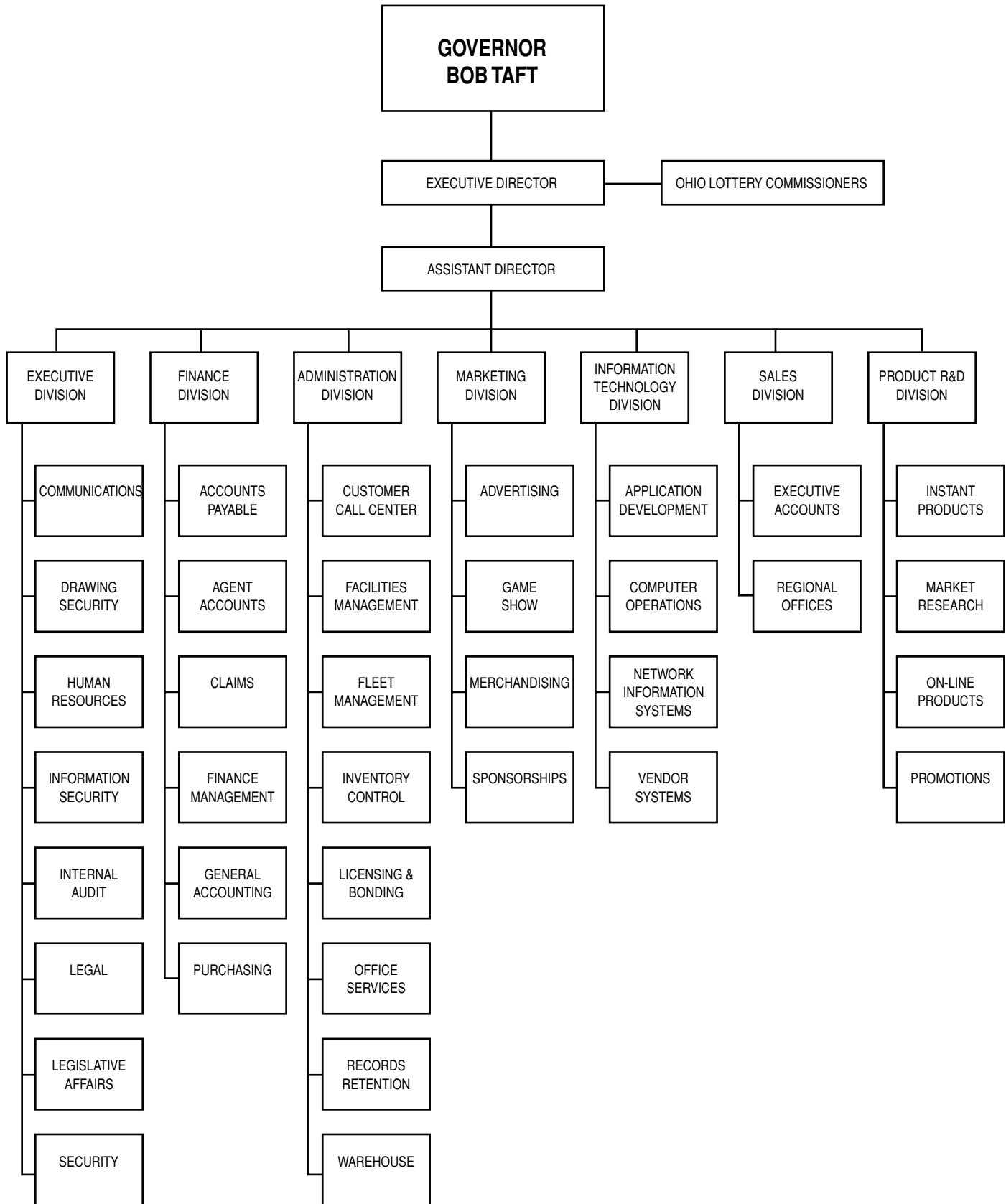
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



*William Patrick Pate*  
President

*Jeffrey L. Essler*  
Executive Director

## STRUCTURE OF ORGANIZATION FISCAL YEAR 2002



## *Principal Officials*

---

**Bob Taft**  
GOVERNOR OF OHIO

**Dennis G. Kennedy**  
DIRECTOR

**Sandra K. Barber**  
COMMISSION CHAIR  
Term ends 8/1/02

**Linda S. Dotson**  
COMMISSIONER  
Term ends 8/1/03

**Mark A. Dottore**  
COMMISSIONER  
Term ends 8/1/04

**Andrew J. Futey**  
COMMISSIONER  
Term ends 8/1/04

**Brooke S. Hill**  
COMMISSIONER  
Term ends 8/1/03

**Charles A. Nemer**  
COMMISSIONER  
Term ends 8/1/04

**Michele A. Roberts**  
COMMISSIONER  
Term ends 8/1/02

**Gisela Rosenbaum**  
COMMISSIONER  
Term ends 8/1/03

**Jerry Y. Seaman**  
COMMISSIONER  
Term ends 8/1/02

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Winning is only part of the fun.

Robert and Deborah Van Houten, owners of Van's Market in Columbus, won a new Harley-Davidson motorcycle in a Lottery retailer incentive.

"My husband owned a bike 25 years ago. I told him that he needed to find a hobby, so this must be it." -- Deborah Van Houten

*Financial Section*

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lausche Building  
615 Superior Avenue, NW.  
Twelfth Floor  
Cleveland, Ohio 44113-1801  
Telephone 216-787-3665  
800-626-2297  
Facsimile 216-787-3361  
www.auditor.state.oh.us

## REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying financial statements of the business-type activity and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery) as of and for the year ended June 30, 2002, as shown in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and each major fund of the State of Ohio that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and each major fund for the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, to the basic financial statements, the Lottery adopted Governmental Accounting Standards Board Statements 34, 37, 38 and Interpretation 6.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2002 on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ohio Lottery Commission's basic financial statements. The introductory section, the budgetary comparison information, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



**Jim Petro**  
Auditor of State

November 14, 2002

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Ohio Lottery Commission, we offer readers of the Ohio Lottery's financial statements this narrative overview and analysis of the financial activities of the Ohio Lottery for the fiscal year ended June 30, 2002. Since 2001 is the first year the Ohio Lottery has prepared financial statements following GASB Statement No. 34, comparisons to Fiscal Year 2000 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 7 of this report, and the financial statements which begin on page 18.

### Financial Highlights

- The Ohio Lottery's net assets increased \$4.7 million or nearly 3.6 percent, as a result of this year's operations.
- Annual ticket sales increased \$63.2 million or nearly 3.3 percent. The increase in ticket sales is due to several product initiatives, including increased instant ticket prize payouts, expanded Buckeye 5 drawings, record Super Lotto Plus jackpot sequences of \$54 million in July 2001 and \$75 million in April 2002, as well as the successful launch of Mega Millions on May 15, 2002.
- The addition of the Mega Millions multi-state lottery game to the Ohio Lottery's product mix provided additional sales of nearly \$16.5 million, resulting in additional net profits of \$6.3 million available for transfer to education.
- Operating expenses decreased as a percentage of sales from 5.6 percent in fiscal year 2001 to 5.2 percent in fiscal year 2002, consistent with management's efforts to reduce costs and limit controllable expenses without sacrificing service or performance.
- The Ohio Lottery transferred \$635.2 million to the Lottery Profits Education Fund (LPEF), \$1.5 million above its budgetary commitment.

### Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis, basic financial statements and supplementary information. The basic financial statements include the statements of net assets, statements of revenues, expenses and changes in fund net assets, statements of cash flows, as well as the notes to the financial statements, which disclose in detail information within the financial statements.

The Ohio Lottery's activities are accounted for within the enterprise fund type and are reported using a full accrual basis of accounting, which is comparable to the methods used by private sector entities. The Ohio Lottery manages the following major 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 Ohio Lottery games and for transfers to fund educational purposes as directed by the State's Legislature.

The statement of net assets presents information on all of the Ohio Lottery's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Ohio Lottery is improving or deteriorating. The statement of revenues, expenses and changes in fund net assets reports the revenue and expense activity of the Ohio Lottery. This statement is used to measure the success of the Ohio Lottery's operations over the given period related to sales, expenses, funding of the State of Ohio's education, and profitability. The statement of cash flows provides information about the Ohio Lottery's cash receipts and cash payments during the reporting period from operating, noncapital and capital financing, and investing activities.

### Financial Analysis

Table 1 provides a summary of the Lottery's net assets for fiscal year 2002 compared to fiscal year 2001.

**TABLE 1 - NET ASSETS**

	2002	2001
Current Assets	\$ 92,008,770	\$ 111,949,886
Restricted Assets	1,515,351,806	1,642,201,867
Net Capital Assets	59,137,689	5,185,442
<b>Total Assets</b>	<b>1,666,498,265</b>	<b>1,759,337,195</b>
Current Liabilities	64,574,163	49,601,680
Liabilities Payable from Restricted Assets	500,204,596	588,721,531
Noncurrent Liabilities	967,565,129	991,556,402
<b>Total Liabilities</b>	<b>1,532,343,888</b>	<b>1,629,879,613</b>
Net Assets		
Invested in Capital Assets	1,967,350	5,128,170
Restricted for Deferred Prizes	8,861,832	13,499,578
Restricted for Net Unrealized Gains on Restricted Investments	88,177,370	52,506,303
Unrestricted	35,147,825	58,323,531
<b>Total Net Assets</b>	<b>\$ 134,154,377</b>	<b>\$ 129,457,582</b>

Total Assets decreased \$92.8 million, largely in part to prize award activity. The payment of the current portion of deferred prizes, combined with only four lotto jackpots being claimed with the annuity option during the year, resulted in a net decrease in the assets required to meet these long term prize obligations. Net Capital Assets increased as a result of the capital lease for gaming equipment, which is discussed following Table 3.

Total Liabilities decreased proportionately with total assets, the net result of the decrease in long-term prize liabilities and the addition of the gaming equipment capital lease obligation.

The Ohio Lottery's financial activity resulted in a \$4.7 million increase in net assets. Net Assets Restricted for Net Unrealized Gains on Restricted Investments increased \$35.7 million as a result of recognizing a fiscal year 2002 unrealized gain on restricted assets in accordance with GASB Statement No. 31. Unrestricted Net Assets realized a \$23.2 million decrease due to the decreases in net assets reported in the Operating Fund of \$10.3 million and \$12.9 million in the Unclaimed Prize Fund.

Table 2 shows the changes in the Ohio Lottery's net assets for fiscal year 2002 compared to fiscal year 2001, including revenue and expense comparisons.

**TABLE 2 - CHANGES IN NET ASSETS**

	2002	2001
Ticket Sales	\$1,983,102,819	\$1,919,910,022
Other Operating Revenue	5,022,043	5,174,587
Non-Operating Revenue	119,038,635	174,996,019
<b>Total Revenue</b>	<b>2,107,163,497</b>	<b>2,100,080,628</b>
Prizes, Bonuses and Commissions	1,274,722,820	1,233,033,477
Operating Expense	103,315,231	107,820,848
Non-Operating Expense	89,304,478	100,177,728
Payments to the Lottery Profits Education Fund	635,150,066	637,035,543
<b>Total Expense</b>	<b>2,102,492,595</b>	<b>2,078,067,596</b>
Excess of Revenues over Expenses	4,670,902	22,013,032
Special Gain On Early Extinguishment of Debt	25,893	3,349,644
Change in Net Assets	4,696,795	25,362,676
Total Net Assets - Beginning	129,457,582	104,094,906
<b>Total Net Assets - Ending</b>	<b>\$ 134,154,377</b>	<b>\$ 129,457,582</b>

Ohio Lottery sales increased \$63.2 million in fiscal year 2002 as a result of the product initiatives discussed in the Financial Highlights section of this analysis. Conversely, Non-Operating Revenues, which represent the Ohio Lottery's investment income, decreased \$56 million in fiscal year 2002. The reason for this decrease is two-fold: the steady decrease in investment interest rates throughout the year and a decrease in investment principal resulting from the payment of deferred prize awards combined with fewer annuity prize claims.

As expected, the increase in sales produced an increase in expenses. Prizes, bonuses and commissions increased by \$41.7 million from the prior year proportionately with the sales increase due to their variable nature and increased instant ticket payouts. Operating Expense decreased \$4.5 million, largely in part due to a concerted effort by management to manage controllable expenses given the uncertain economic environment and the budgetary concerns raised by the Governor. Depreciation was the only component of Operating Expense that showed a material increase from fiscal year 2001 to 2002. This increase is due to the capital lease of gaming equipment, which commenced on July 1, 2001. Non-Operating Expenses, which are predominantly dependent on securities lending activity and the magnitude of the deferred prize liability, decreased by \$10.9 million, proportionate with the decrease in investment principal and deferred prize liability. Although fiscal year 2002 Payments to the Lottery Profits Education Fund decreased \$1.9 million from the previous fiscal year, the Ohio Lottery exceeded its budgetary commitment for the year by \$1.5 million.

Special Gains, which represent the economic benefit derived from the cash out of annuity prize liabilities at a date prior to the end of the original term, decreased \$3.3 million in fiscal year 2002. This decrease was expected, considering that currently only estates of deceased annuity prize winners have the ability to request a lump sum pay out of an annuity prize. During the period July 1, 1999 through December 2000, this option was available to all existing Ohio Lottery annuity winners.

The activity described above resulted in an increase in Net Assets of \$4.7 million, raising the balance at June 30, 2002 to \$134.2 million from \$129.5 million.

**Budgetary Highlights**

As an agency of the State of Ohio, the Ohio Lottery is required by the Ohio Revised Code to submit through the Governor a biennial budget in annual amounts to the Ohio General Assembly, which approves the appropriations. Once approved, increases in operating expense appropriations may only be granted by the Controlling Board, a seven member board established by Section 127.12 of the Ohio Revised Code, while increases to prize expense appropriations require only the approval of the Office of Budget and Management. The biennial budget that the Ohio Lottery is currently operating covers the period July 1, 2001 through June 30, 2003.

During the fiscal year ended June 30, 2002, the Ohio Lottery required one appropriation increase to its legally adopted budget. As a result of increased prize payouts and the increased frequency of prize winners electing to accept deferred prizes in a lump sum cash payment as opposed to annuity installments, the Office of Budget and Management approved a \$73.5 million increase to the Ohio Lottery's prize expense appropriation.

With the approval of this prize expense appropriation increase, the Ohio Lottery's actual disbursements were within appropriations with no unfavorable variances at the legal level of budgetary control. As of June 30, 2002, the Ohio Lottery closed the year with actual disbursements plus outstanding encumbrances of approximately \$74 million, or 14.1 percent, less than the approved appropriation level.

**Capital Assets and Debt Administration**

Capital Assets

As of June 30, 2002, the Ohio Lottery had \$59.1 million, net of accumulated depreciation, in Capital Assets. Table 3 below summarizes the Ohio Lottery's capital assets at the end of 2002 and 2001.

**TABLE 3 - CAPITAL ASSETS (Net of Depreciation)**

	2002	2001
Equipment	\$ 57,430,162	\$ 3,289,858
Vehicles	1,707,527	1,895,584
Total Net Capital Assets	<u>\$ 59,137,689</u>	<u>\$ 5,185,442</u>

Net Capital Assets increased \$54.0 million in fiscal year 2002. This significant increase results from the lease of gaming equipment. Effective July 1, 2001, the Ohio Lottery entered into a contractual agreement with GTECH Corporation for gaming

services, 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 \$69.4 million. The lease meets the requirements of a capital lease; as a result, the equipment was recorded at the present value of the minimum lease payments and is being depreciated over its useful life of five years.

Debt

**TABLE 4 - NONCURRENT LIABILITIES**

	2002	2001
Prize Awards Payable from Restricted Assets – Net of Discount	\$ 918,108,008	\$ 987,474,455
Capital Lease Payable – Long-term	44,122,672	14,899
Accrued Workers’ Compensation	3,397,406	1,989,933
Compensated Absences	1,937,043	2,077,115
	<hr/>	<hr/>
Total Noncurrent Liabilities	<u>\$ 967,565,129</u>	<u>\$ 991,556,402</u>

The Ohio Lottery’s Noncurrent Liabilities decreased \$24 million in fiscal year 2002. This decrease is the combined effect of prize award and capital lease activity during fiscal year 2002. Prize awards decreased \$69.4 million because of payments on deferred prize obligations, and only 19% of the Super Lotto Plus jackpot winners selected the annuity option. Capital Lease Payable - Long-term increased due to the new GTECH contract, which commenced on July 1, 2001. In addition, as a result of the implementation of GASB Statement No. 34 for the fiscal year 2002 financial statements, the Ohio Lottery is now required to report its share of the workers’ compensation coverage for its employees. In prior years, this liability was reported in the State of Ohio’s Long Term Obligations Account Group, requiring a restatement of the Ohio Lottery’s financial statements.

**Contacting the Ohio Lottery’s Financial Management**

This financial report is designed to provide the legislative and executive branches of government, the Commissioners, the public, and other interested parties, a general overview of the Ohio Lottery’s finances and to show the Ohio Lottery’s accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Ohio Lottery’s Finance Director at the Ohio Lottery Commission, 615 W. Superior Avenue, Cleveland, Ohio 44113-1879.



**STATEMENT OF NET ASSETS – BUSINESS TYPE ACTIVITY**  
**JUNE 30, 2002**  
**WITH COMPARATIVE TOTALS AS OF JUNE 30, 2001**

<b>ASSETS</b>	2002	2001
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 12,082,552	\$ 9,380,760
Cash Equity with Treasurer of State	33,387,047	41,877,084
Collateral on Lent Securities	11,226,080	18,183,176
Receivables from Agents - Net	31,680,475	37,236,586
Other Assets	3,632,616	5,272,280
	92,008,770	111,949,886
<b>Restricted Assets</b>		
Cash Equity with Treasurer of State	6,439,160	19,564,795
Dedicated Investments	1,084,278,666	1,108,761,180
Collateral on Lent Securities	420,368,364	508,250,540
Interest Receivable	4,265,616	5,625,352
	1,515,351,806	1,642,201,867
<b>Capital Assets</b>		
Equipment	77,532,803	12,734,353
Vehicles	3,589,656	3,697,676
Accumulated Depreciation	(21,984,770)	(11,246,587)
	59,137,689	5,185,442
<b>TOTAL ASSETS</b>	1,666,498,265	1,759,337,195
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	11,217,190	10,196,644
Prize Awards Payable	26,103,233	19,262,672
Obligations under Securities Lending	11,226,080	18,183,176
Capital Lease Payable - Current	13,047,667	42,373
Deferred Revenue	1,487,829	766,636
Other Liabilities	1,492,164	1,150,179
	64,574,163	49,601,680
<b>Current Liabilities Payable from Restricted Assets</b>		
Obligations under Securities Lending	420,368,364	508,250,540
Prize Awards Payable - Net of Discount	79,836,232	80,470,991
	500,204,596	588,721,531
<b>Noncurrent Liabilities</b>		
Prize Awards Payable from Restricted Assets - Net of Discount	918,108,008	987,474,455
Capital Lease Payable - Long-term	44,122,672	14,899
Accrued Workers' Compensation	3,397,406	1,989,933
Compensated Absences	1,937,043	2,077,115
	967,565,129	991,556,402
<b>TOTAL LIABILITIES</b>	1,532,343,888	1,629,879,613
<b>NET ASSETS</b>		
Invested in Capital Assets – Net of Related Debt	1,967,350	5,128,170
Restricted for Deferred Prizes	8,861,832	13,499,578
Restricted for Net Unrealized Gains on Restricted Investments	88,177,370	52,506,303
Unrestricted	35,147,825	58,323,531
	134,154,377	129,457,582
<b>TOTAL NET ASSETS</b>	\$ 134,154,377	\$ 129,457,582

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – BUSINESS TYPE ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2002  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2001**

	2002	2001
<b>REVENUE</b>		
Ticket Sales	\$ 1,983,102,819	\$ 1,919,910,022
Other Revenue	5,022,043	5,174,587
Total Operating Revenue	1,988,124,862	1,925,084,609
<b>EXPENSES</b>		
Prizes, Bonuses and Commissions		
Prize Awards	1,148,125,801	1,112,823,824
Bonuses and Commissions	126,597,019	120,209,653
Total Prizes, Bonuses and Commission	1,274,722,820	1,233,033,477
Operating Expense		
Personal Services	64,977,670	73,673,216
Maintenance	22,676,792	24,042,117
Depreciation	15,518,831	10,023,109
Other Expenses	141,938	82,406
Total Operating Expense	103,315,231	107,820,848
<b>OPERATING INCOME</b>	610,086,811	584,230,284
Non-Operating Revenue (Expenses)		
Interest Income	119,038,635	174,996,019
Amortization of Discount of Prize Liabilities	(74,350,428)	(81,173,647)
Loss on Equipment Disposal	(477,160)	(288,420)
Interest Expense - Borrower Rebates	(10,518,546)	(18,428,517)
Interest Expense - Capital Lease	(3,834,983)	(121,769)
Securities Lending Agent Fees	(123,361)	(165,375)
Payments to the Lottery Profits Education Fund	(635,150,066)	(637,035,543)
Total Non-Operating Expenses, Net	(605,415,909)	(562,217,252)
<b>NET INCOME BEFORE TRANSFERS AND SPECIAL ITEM</b>	4,670,902	22,013,032
Transfers		
Transfers In	35,342,575	64,211,857
Transfers Out	(35,342,575)	(64,211,857)
Total Transfers	-	-
<b>INCOME BEFORE SPECIAL ITEM</b>	4,670,902	22,013,032
Special Gain on Early Extinguishment of Debt	25,893	3,349,644
Change in Net Assets	4,696,795	25,362,676
Total Net Assets - Beginning, as Restated	129,457,582	104,094,906
<b>TOTAL NET ASSETS - ENDING, AS RESTATED</b>	\$ 134,154,377	\$ 129,457,582

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**STATEMENT OF CASH FLOWS – BUSINESS TYPE ACTIVITY**  
**FOR THE YEAR ENDED JUNE 30, 2002 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2001**

	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Sales	\$ 1,989,380,124	\$ 1,914,548,788
Cash Payments for Prize Awards	(1,285,610,982)	(1,301,844,097)
Cash Payments for Bonuses and Commissions	(126,575,134)	(120,266,885)
Cash Payments for Goods and Services	(60,221,678)	(80,330,993)
Cash Payments to Employees	(23,285,552)	(20,759,880)
Other Operating Revenue	5,022,043	5,174,587
Other Operating Expenses	(141,938)	(82,406)
Net Cash Provided by Operating Activities	498,566,883	396,439,114
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Payments to the Lottery Profits Education Fund	(635,150,066)	(637,035,543)
Transfers In	35,342,575	64,211,857
Transfers Out	(35,342,575)	(64,211,857)
Net Cash Used by Noncapital Financing Activities	(635,150,066)	(637,035,543)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Property and Equipment	(653,755)	(1,288,308)
Proceeds from Sale of Property and Equipment	136,587	1,132,800
Repayment of Equipment Obligation	(12,318,006)	(2,223,619)
Interest Paid on Equipment Obligation	(3,834,983)	(121,769)
Net Cash Used by Capital and Related Financing Activities	(16,670,157)	(2,500,896)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income Received	36,724,105	56,178,336
Interest Expense and Agent Fees	(10,641,907)	(18,593,892)
Proceeds from the Sale and Maturity of Investments	279,954,609	400,996,627
Purchase of Investments	(171,697,347)	(239,096,912)
Securities Lending Proceeds	431,594,444	526,433,716
Securities Lending Payments	(431,594,444)	(526,433,716)
Net Cash Provided by Investing Activities	134,339,460	199,484,159
Net Decrease in Cash and Cash Equivalents	(18,913,880)	(43,613,166)
Cash and Cash Equivalents - Beginning	70,822,639	114,435,805
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$51,908,759	\$70,822,639
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	610,086,811	584,230,284
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	15,518,831	10,023,109
Amortization of Discount of Prize Liabilities	74,350,428	81,173,647
Special Gain on Early Extinguishment of Debt	(25,893)	(3,349,644)
Net Changes in Assets and Liabilities		
Receivable from Agents - Net	5,556,111	(3,761,737)
Other Assets	1,539,185	(860,567)
Accounts Payable	1,020,546	(2,142,738)
Prize Awards Payable	6,840,561	220,276
Deferred Revenue	721,193	(1,599,497)
Other Liabilities	341,985	(74,811)
Prize Awards Payable from Restricted Assets - Net of Discount	(218,650,276)	(267,064,552)
Accrued Workers' Compensation	1,407,473	(541,492)
Compensated Absences	(140,072)	186,836
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 498,566,883	\$ 396,439,114

**DESCRIPTION OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

On July 1, 2001, the Ohio Lottery acquired gaming equipment amounting to \$69.4 million by entering into a capital lease arrangement with GTECH Corporation.

Non-cash items included in investment income were \$35.7 million and \$70 million of unrealized net gains at June 30, 2002 and June 30, 2001, respectively.

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**STATEMENT OF NET ASSETS – MAJOR FUNDS**  
**JUNE 30, 2002**

<b>ASSETS</b>	<b>OPERATING</b>	<b>DEFERRED</b>	<b>UNCLAIMED</b>	<b>TOTAL</b>
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 12,082,552	-	-	\$ 12,082,552
Cash Equity with Treasurer of State	9,976,872	-	\$ 23,410,175	33,387,047
Collateral on Lent Securities	3,919,500	-	7,306,580	11,226,080
Receivables from Agents, Net	31,680,475	-	-	31,680,475
Other Assets	3,562,990	-	69,626	3,632,616
<b>Total Current Assets</b>	<b>61,222,389</b>	<b>-</b>	<b>30,786,381</b>	<b>92,008,770</b>
<b>Restricted Assets</b>				
Cash Equity with Treasurer of State	-	\$ 6,439,160	-	6,439,160
Dedicated Investments	-	1,084,278,666	-	1,084,278,666
Collateral on Lent Securities	-	420,368,364	-	420,368,364
Interest Receivable	-	4,265,616	-	4,265,616
<b>Total Restricted Assets</b>	<b>-</b>	<b>1,515,351,806</b>	<b>-</b>	<b>1,515,351,806</b>
<b>Capital Assets</b>				
Equipment	77,532,803	-	-	77,532,803
Vehicles	3,589,656	-	-	3,589,656
Accumulated Depreciation	(21,984,770)	-	-	(21,984,770)
<b>Net Capital Assets</b>	<b>59,137,689</b>	<b>-</b>	<b>-</b>	<b>59,137,689</b>
<b>TOTAL ASSETS</b>	<b>120,360,078</b>	<b>1,515,351,806</b>	<b>30,786,381</b>	<b>1,666,498,265</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	11,217,190	-	-	11,217,190
Prize Awards Payable	26,103,233	-	-	26,103,233
Obligations under Securities Lending	3,919,500	-	7,306,580	11,226,080
Capital Lease Payable - Current	13,047,667	-	-	13,047,667
Deferred Revenue	1,487,829	-	-	1,487,829
Other Liabilities	1,492,164	-	-	1,492,164
<b>Total Current Liabilities</b>	<b>57,267,583</b>	<b>-</b>	<b>7,306,580</b>	<b>64,574,163</b>
<b>Current Liabilities Payable from Restricted Assets</b>				
Obligations under Securities Lending	-	420,368,364	-	420,368,364
Prize Awards Payable - Net of Discount	-	79,836,232	-	79,836,232
<b>Total Current Liabilities Payable from Restricted Assets</b>	<b>-</b>	<b>500,204,596</b>	<b>-</b>	<b>500,204,596</b>
<b>Noncurrent Liabilities</b>				
Prize Awards Payable from Restricted Assets - Net of Discount	-	918,108,008	-	918,108,008
Capital Lease Payable - Long-term	44,122,672	-	-	44,122,672
Accrued Workers' Compensation	3,397,406	-	-	3,397,406
Compensated Absences	1,937,043	-	-	1,937,043
<b>Total Noncurrent Liabilities</b>	<b>49,457,121</b>	<b>918,108,008</b>	<b>-</b>	<b>967,565,129</b>
<b>TOTAL LIABILITIES</b>	<b>106,724,704</b>	<b>1,418,312,604</b>	<b>7,306,580</b>	<b>1,532,343,888</b>
<b>NET ASSETS</b>				
Invested in Capital Assets – Net of Related Debt	1,967,350	-	-	1,967,350
Restricted for Deferred Prizes	-	8,861,832	-	8,861,832
Restricted for Net Unrealized Gains on Restricted Investments	-	88,177,370	-	88,177,370
Unrestricted	11,668,024	-	23,479,801	35,147,825
<b>TOTAL NET ASSETS</b>	<b>\$ 13,635,374</b>	<b>\$ 97,039,202</b>	<b>\$ 23,479,801</b>	<b>\$ 134,154,377</b>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – MAJOR FUNDS  
FOR THE YEAR ENDED JUNE 30, 2002**

	OPERATING	DEFERRED	UNCLAIMED	TOTAL
<b>REVENUE</b>				
Ticket Sales	\$ 1,983,102,819	-	-	\$ 1,983,102,819
Other Revenue	4,667,569	\$ 354,474	-	5,022,043
<b>Total Operating Revenue</b>	1,987,770,388	354,474	-	1,988,124,862
<b>EXPENSES</b>				
Prizes, Bonuses and Commissions				
Prize Awards	1,123,392,526	11,752,010	\$ 12,981,265	1,148,125,801
Bonuses and Commissions	126,597,019	-	-	126,597,019
<b>Total Prizes, Bonuses and Commissions</b>	1,249,989,545	11,752,010	12,981,265	1,274,722,820
Operating Expense				
Personal Services	64,977,670	-	-	64,977,670
Maintenance	22,676,792	-	-	22,676,792
Depreciation	15,518,831	-	-	15,518,831
Other Expenses	141,938	-	-	141,938
<b>Total Operating Expense</b>	103,315,231	-	-	103,315,231
<b>OPERATING INCOME (LOSS)</b>	634,465,612	(11,397,536)	(12,981,265)	610,086,811
Non-Operating Revenue (Expenses)				
Interest Income	1,917,429	115,645,289	1,475,917	119,038,635
Amortization of Discount of Prize Liabilities	-	(74,350,428)	-	(74,350,428)
Loss on Equipment Disposal	(477,160)	-	-	(477,160)
Interest Expense - Borrower Rebates	-	(10,518,546)	-	(10,518,546)
Interest Expense - Capital Lease	(3,834,983)	-	-	(3,834,983)
Securities Lending Agent Fees	-	(123,361)	-	(123,361)
Payments to the Lottery Profits Education Fund	(610,150,066)	-	(25,000,000)	(635,150,066)
<b>Total Non-Operating Expenses</b>	(612,544,780)	30,652,954	(23,524,083)	(605,415,909)
<b>NET INCOME (LOSS) BEFORE TRANSFERS AND SPECIAL ITEM</b>	21,920,832	19,255,418	(36,505,348)	4,670,902
Transfers				
Transfers to Deferred Prize Trust Funds	(11,752,010)	11,752,010	-	-
Transfers to Unclaimed Prize Fund	(23,590,565)	-	23,590,565	-
<b>Total Transfers</b>	(35,342,575)	11,752,010	23,590,565	-
<b>INCOME (LOSS) BEFORE SPECIAL ITEM</b>	(13,421,743)	31,007,428	(12,914,783)	4,670,902
Special Gain on Early Extinguishment of Debt	-	25,893	-	25,893
Change in Net Assets	(13,421,743)	31,033,321	(12,914,783)	4,696,795
Total Net Assets - Beginning, as Restated	27,057,117	66,005,881	36,394,584	129,457,582
<b>TOTAL NET ASSETS - ENDING, AS RESTATED</b>	\$ 13,635,374	\$ 97,039,202	\$ 23,479,801	\$ 134,154,377

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**STATEMENT OF CASH FLOWS - MAJOR FUNDS  
FOR THE YEAR ENDED JUNE 30, 2002**

	OPERATING	DEFERRED	UNCLAIMED	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Sales	\$ 1,989,380,124	-	-	\$ 1,989,380,124
Cash Payments from Prize Awards	(1,116,551,966)	\$ (156,077,751)	\$ (12,981,265)	(1,285,610,982)
Cash Payments from Bonuses and Commissions	(126,575,134)	-	-	(126,575,134)
Cash Payments for Goods and Services	(60,221,678)	-	-	(60,221,678)
Cash Payments to Employees	(23,285,552)	-	-	(23,285,552)
Other Operating Revenue	4,667,569	354,474	-	5,022,043
Other Operating Expenses	(141,938)	-	-	(141,938)
Net Cash Provided by Operating Activities	667,271,425	(155,723,277)	(12,981,265)	498,566,883
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payments to the Lottery Profits Education Fund	(610,150,066)	-	(25,000,000)	(635,150,066)
Interfund Transfers	(35,342,575)	11,752,010	23,590,565	-
Net Cash Used by Noncapital Financing Activities	(645,492,641)	11,752,010	(1,409,435)	(635,150,066)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of Property and Equipment	(653,755)	-	-	(653,755)
Proceeds from Sale of Property and Equipment	136,587	-	-	136,587
Repayment of Equipment Obligation	(12,318,006)	-	-	(12,318,006)
Interest Paid on Equipment Obligation	(3,834,983)	-	-	(3,834,983)
Net Cash Used by Capital and Related Financing Activities	(16,670,157)	-	-	(16,670,157)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income Received	1,985,028	33,230,280	1,508,797	36,724,105
Interest Expense and Agent Fees	-	(10,641,907)	-	(10,641,907)
Proceeds from the Sale and Maturity of Investments	-	279,954,609	-	279,954,609
Purchase of Investments	-	(171,697,347)	-	(171,697,347)
Securities Lending Proceeds	3,919,500	420,368,364	7,306,580	431,594,444
Securities Lending Payments	(3,919,500)	(420,368,364)	(7,306,580)	(431,594,444)
Net Cash Provided by Investing Activities	1,985,028	130,845,635	1,508,797	134,339,460
Net Increase/(Decrease) in Cash & Cash Equivalents	7,093,655	(13,125,632)	(12,881,903)	(18,913,880)
Cash and Cash Equivalents - Beginning	14,965,766	19,564,795	36,292,078	70,822,639
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	22,059,421	6,439,163	23,410,175	51,908,759
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income	634,465,612	(11,397,536)	(12,981,265)	610,086,811
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	15,518,831	-	-	15,518,831
Amortization of Discount of Prize Liabilities	-	74,350,428	-	74,350,428
Special Gain on Early Extinguishment of Debt	-	(25,893)	-	(25,893)
Net changes in Assets and Liabilities				
Receivables from Agents - Net	5,556,111	-	-	5,556,111
Other Assets	1,539,185	-	-	1,539,185
Accounts Payable	1,020,546	-	-	1,020,546
Prize Awards Payable	6,840,561	-	-	6,840,561
Deferred Revenue	721,193	-	-	721,193
Other Liabilities	341,985	-	-	341,985
Prize Awards Payable from Restricted Assets - Net of Discount	-	(218,650,276)	-	(218,650,276)
Accrued Workers' Compensation	1,407,473	-	-	1,407,473
Compensated Absences	(140,072)	-	-	(140,072)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 667,271,425</u>	<u>\$ (155,723,277)</u>	<u>\$ (12,981,265)</u>	<u>\$ 498,566,883</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2002 AND 2001**

**1. DESCRIPTION OF OPERATIONS**

The Ohio Lottery Commission was established in August 1974, under Section 3770 of the Ohio Revised Code (ORC). The Ohio 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 Ohio Lottery is required by law to transfer all of its net profits from the sale of Ohio Lottery tickets to the Lottery Profits Education Fund of the State. The amounts transferred are determined by the Director of the Office of Budget and Management and are to be used to help support primary, secondary, vocational, and special education within the State. As of July 1, 2001, per Amended Sub. House Bill No. 94, the State of Ohio's legislature amended the statute eliminating the requirement that the transfer amount represent no less than 30% of the total revenue earned from ticket sales.

The Ohio Lottery operates both on-line and instant games. The instant games generated 50.3% and 51.5% of the Ohio Lottery's revenue from ticket sales and on-line games generated 49.7% and 48.5% of the Ohio Lottery's revenue from ticket sales for the years ended June 30, 2002 and 2001, respectively.

On May 15, 2002, the Ohio Lottery launched Mega Millions, a jointly operated multi-state lottery comprised of nine states: Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio and Virginia. The State of Washington joined in September 2002. The net proceeds from the sale of Mega Millions in Ohio that remain after associated operating expenses, prize disbursements, Ohio Lottery sales agent bonuses, commissions, and reimbursements, and any other expenses necessary to comply with the agreements among the member jurisdictions, are required to be transferred to the Lottery Profits Education Fund of the State.

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

**Basis of Accounting**

The Ohio 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 Ohio Lottery funds are: the State Lottery Fund (Lottery Operating Fund); the Deferred Prize Trust Fund; and the Unclaimed Prize Fund.

The Ohio 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 Ohio Lottery are included in the statement of net assets. 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 Ohio 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 Ohio 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 monies 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 Ohio Lottery has adopted the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools" ("GASB 31") of the Governmental Accounting Standards Board ("GASB"). Accordingly, the Ohio Lottery's investments are stated at fair value (based on quoted market prices) in the accompanying comparative statement of net assets and the change in the fair value of the investments is recorded as investment income along with the interest earned on the investments.

The Ohio 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, 2002 and 2001, of \$320,004 and \$376,127, respectively, is 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 Ohio Lottery is either credited with 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 statement of net assets.

### **Capital Assets**

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 94% and 23% of the net book value of equipment relates to gaming equipment at June 30, 2002 and 2001, respectively. The Ohio Lottery Commission entered into a contractual agreement with GTECH Corporation for gaming services commencing July 1, 2001.

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

### **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 Ohio 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.

### **Compensated Absences**

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences" ("GASB 16") the Ohio Lottery accrues all types of leave benefits as earned by its employees.

Employees of the Ohio 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 Ohio 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.

### **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 0.5% is awarded to agents if their cash-to-sales ratio is 50% or greater. A \$5 claiming bonus is awarded to agents for validating a winning ticket worth \$600 to \$5000. In addition, various selling bonuses are in place ranging from \$500 for a Cash Explosion show entry ticket drawn to \$1,000 per \$1,000,000 of jackpot for the lotto style games.

### **Fund Equity Classifications**

Fund equity is classified as net assets and displayed in four components:

- Invested in Capital Assets - Net of Related Debt – consists of capital assets including fixed assets, net of accumulated depreciation and reduced by related debt outstanding.
- Restricted for Deferred Prizes – represents the excess of the assets restricted for payment of deferred prizes over the related liability for deferred prize awards, excluding the reserve for unrealized gains (losses) on investments.
- Restricted for Net Unrealized Gains on Restricted Investments – represents the difference between the fair



value and the amortized cost of investments restricted for the payment of deferred prize awards.

- Unrestricted – represents all other net assets that are not classified as invested in net assets or restricted.

### **Risk Management**

The Ohio 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 Ohio Lottery generally retains the risk of loss; however, the Ohio Lottery is protected for purposes of sales collections by third party surety bonds. The amount of loss arising from these risks was not significant for the years ended June 30, 2002 and 2001. No significant payments were made or liabilities recorded during the years ended June 30, 2002 and 2001 due to self-insured risks.

On December 31<sup>st</sup>, 2000 the Office of Risk Management placed the crime/bond coverage with St. Paul Insurance. The policy was written on a three-year term and is paid annually. The premium is split between all participating state agencies and is charged on a basis of number of employees. It provides a limit of \$250,000 per occurrence, subject to a \$5,000 deductible for employee theft and faithful performance. This policy covers all employees of all the participating agencies. The Ohio 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 Ohio Lottery pays a premium assessed by DAS to cover motor vehicle liability related to bodily injury and property damage for a maximum of \$1,000,000 per occurrence. The Ohio Lottery retains the risk for any liability exceeding this limit.

The State provides an option to eligible Ohio 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 Ohio 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 \$24.34 for single and \$66.98 for family coverage per month and the Ohio Lottery contributes \$219.05 for single and \$602.79 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 Ohio Lottery to record a liability for these benefits. The Ohio Lottery's total contributions to the OhioMed Health Plan were \$1,010,192 and \$790,910 for the years ended June 30, 2002 and 2001, respectively.

The State has contracted with six various types of Health Maintenance Organizations (HMO). Ohio 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 Ohio 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 Ohio 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 Ohio 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 Ohio 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, 2002 and 2001.

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

The Ohio Lottery has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund

*Accounting*" ("GASB 20"). The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Ohio 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 Ohio Lottery will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

**Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Securities Lending**

In accordance with GASB Statement No. 28, *"Accounting and Financial Reporting for Securities Lending Transactions"* ("GASB 28"), the Ohio 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 Ohio Lottery, because the Ohio Lottery does not have the ability to pledge or sell the securities without borrower default. The costs of securities lending transactions are reported as expenses in the accompanying comparative statements of revenues, expenses and changes in fund net assets.

**3. CHANGES IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2002, the Ohio Lottery has implemented GASB Statement No. 34, *"Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"* ("GASB 34"). GASB 34 creates new basic financial statements for reporting on the Ohio Lottery's financial activities. The financial statements now include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows all prepared on an accrual basis of accounting. As a result of this change, certain financial statement amounts presented for the prior year have been reclassified in order to be consistent with the current year's presentation.

As a result of implementing GASB 34, the Ohio Lottery has changed its method of accounting for workers' compensation coverage from a terminal-funding (pay-as-you-go) basis to an actuarially determined liability. The Ohio Lottery has recorded this change in method of accounting by reducing Net Assets' Unrestricted, as of June 30, 2000, by \$2,689,828, the amount of the liability at that time. A summary of the adjustment is as follows:

Net Assets - Unrestricted at	
June 30, 2000, as originally reported	\$ 106,784,734
Adjustment to record the change in	
accounting principle	(2,689,828)
	<hr/>
Net Assets - Unrestricted at	
June 30, 2000, as restated	<u>\$ 104,094,906</u>

**4. STATEMENT OF CASH FLOWS**

In accordance with the provisions of GASB Statement No. 9, *"Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting"* ("GASB 9"), the Ohio Lottery has prepared a Statement of Cash Flows for the years ended June 30, 2002 and 2001. Cash equivalents include highly liquid investments with a maturity of 90 days or less from the date of purchase. The Ohio Lottery also considers Cash Equity with Treasurer of State to be a cash equivalent. Cash flows related to the payment of prize awards are accounted for as an operating activity.

**5. CASH DEPOSITS AND INVESTMENTS**

The Ohio Lottery maintains cash on deposit at a commercial bank and with the State Treasurer. The Ohio 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 Ohio 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 Ohio Lottery's name.

**Deposits**

As of June 30, 2002 the carrying amount of the Ohio Lottery's deposits was \$242,312 and the bank balance was \$195,546 the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$95,546 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board.

**Investments**

The Ohio Lottery's investments at June 30, 2002 are detailed

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

	Category 1	Category 2	Category 3	Fair Value
Investments Categorized:				
U.S. Government and agency obligations	-	-	\$ 674,602,559	\$ 674,602,559
Securities lending collateral:				
Repurchase agreements	\$ 200,000,000	-	-	200,000,000
Commercial Paper	119,810,325	-	-	119,810,325
Corporate bonds and notes	39,988,500	-	-	39,988,500
	<u>\$ 359,798,825</u>	<u>-</u>	<u>\$ 674,602,559</u>	<u>1,034,401,384</u>
Investments not Categorized:				
Investments held by broker-dealers under security loans- U.S. government & agency obligations				409,676,107
Equity in State of Ohio common cash and investments account (including \$13,001,135 of securities lent)				39,826,207
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				13,001,135
Investment in Treasurer of State investment pool (STAROhio)				11,840,240
Securities lending collateral – mutual funds				58,794,484
Total Investments				<u>\$ 1,567,539,557</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, 2002. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

The total carrying amount of deposits and investments, as of June 30, 2002 categorized and disclosed in this note is \$1,567,781,869. This amount can be reconciled to the statement of net assets as follows:

	Deposits	Investments	Total
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 242,312	\$ 11,840,240	\$ 12,082,552
Cash Equity with Treasurer of State	-	33,387,047	33,387,047
Collateral on lent securities	-	11,226,080	11,226,080
Restricted Assets			
Cash Equity with Treasurer of State	-	6,439,160	6,439,160
Dedicated investments	-	1,084,278,666	1,084,278,666
Collateral on lent securities	-	420,368,364	420,368,364
Total carrying amount per Statement of Net assets	<u>\$ 242,312</u>	<u>\$ 1,567,539,557</u>	<u>\$ 1,567,781,869</u>

### Securities Lending Transactions

The Ohio 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 Ohio 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.

For loaned contracts the Treasurer executes on the Ohio 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 Ohio Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2002 the collateral the Ohio Lottery had received for securities lent consisted entirely of cash, some of which had

been temporarily invested by the Ohio Lottery in various securities. The Ohio 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 2002, the Ohio Lottery did not experience any losses due to credit or market risk on securities lending activities. The Ohio 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 2002 due to prior-period losses.

## 6. CAPITAL ASSETS

Property and equipment activity for the years ended June 30, 2002 and 2001 is as follows:

	2000	Additions	Deletions	2001
Equipment	\$ 69,454,677	\$ 908,295	\$ (57,628,619)	\$ 12,734,353
Vehicles	3,689,393	380,013	(371,730)	3,697,676
Total Capital Assets	<u>73,144,070</u>	<u>1,288,308</u>	<u>(58,000,349)</u>	<u>16,432,029</u>
Less Accumulated Depreciation:				
Equipment	(56,143,856)	(9,574,609)	56,273,970	(9,444,495)
Vehicles	(1,658,750)	(448,500)	305,158	(1,802,092)
Total Accumulated Depreciation:	<u>(57,802,606)</u>	<u>(10,023,109)</u>	<u>56,579,128</u>	<u>(11,246,587)</u>
Net Capital assets	<u>\$ 15,341,464</u>	<u>\$ (8,734,801)</u>	<u>\$ (1,421,221)</u>	<u>\$ 5,185,442</u>
	2001	Additions	Deletions	2002
Equipment	\$ 12,734,353	\$ 69,711,979	\$ (4,913,529)	\$ 77,532,803
Vehicles	3,697,676	372,849	(480,869)	3,589,656
Total Capital Assets	<u>16,432,029</u>	<u>70,084,828</u>	<u>(5,394,398)</u>	<u>81,122,459</u>
Less Accumulated Depreciation:				
Equipment	(9,444,495)	(15,026,741)	4,368,595	(20,102,641)
Vehicles	(1,802,092)	(492,090)	412,053	(1,882,129)
Total Accumulated Depreciation	<u>(11,246,587)</u>	<u>(15,518,831)</u>	<u>4,780,648</u>	<u>(21,984,770)</u>
Net Capital Assets	<u>\$ 5,185,442</u>	<u>\$ 54,565,997</u>	<u>\$ (613,750)</u>	<u>\$ 59,137,689</u>

The Ohio 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 Ohio Lottery is required to disclose the following information regarding capital leases:

### Capital Leases

#### Gross Assets and Accumulated Amortization

	2002	2001
Initial Carrying Value:		
Computer Equipment and Systems	\$ 69,569,343	\$ 138,270
Accumulated Amortization	<u>(13,973,785)</u>	<u>(59,917)</u>
Net Capital Leases	<u>\$ 55,595,558</u>	<u>\$ 78,353</u>

### Capital Leases

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

Fiscal Year Ending June 30	Amount
2003	\$ 16,122,714
2004	16,107,566
2005	16,107,566
2006	<u>16,107,566</u>
Total Minimum Lease Payments	64,445,412
Imputed Interest	<u>(7,275,073)</u>
Present Value of Remaining Minimum Lease Payments	<u>\$ 57,170,339</u>

On July 1, 2001, the Ohio Lottery Commission entered into a contractual agreement with GTECH Corporation for gaming services and leased equipment. The length of the contract is two years, with three optional two-year renewals. In addition, the lease requires repayment over 60 months. The total cost of the equipment added as a result of the contract is \$69,431,073.

## 7. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2002 and 2001 consisted of the following:

	2002	2001
Current portion - face amount	\$ 145,306,739	\$ 151,125,055
Less: Unamortized discount	(65,470,507)	(70,654,064)
Current portion - present value	<u>79,836,232</u>	<u>80,470,991</u>
Long Term portion - face amount	1,437,862,313	1,567,469,392
Less: Unamortized discount	(519,754,305)	(579,994,937)
Long Term portion - present value	<u>918,108,008</u>	<u>987,474,455</u>
Total Prize Awards	<u>\$ 997,944,240</u>	<u>\$1,067,945,446</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, 2002, is summarized as follows:

Fiscal Year Ending June 30	Amount
2003	\$ 145,306,739
2004	142,228,451
2005	136,112,989
2006	126,734,977
2007	115,626,025
2008 through 2012	382,228,954
2013 through 2017	315,350,960
2018 thereafter	<u>219,579,957</u>
Subtotal	1,583,169,052
Unamortized discount	<u>(585,224,812)</u>
Net Prize Liability	<u>\$ 997,944,240</u>

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Ohio Lottery is required by law to award prizes to holders of winning Ohio Lottery tickets equal to, as nearly as is practicable, fifty percent of total revenues from the sale of Ohio Lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$157 million and \$153 million for the years ended June 30, 2002 and 2001, respectively.

In May 1999 the Ohio Lottery adopted an Administrative Rule (3770-1-8-01) which allowed 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. The Administrative Rule also allowed a discounted lump sum, cash settlement to estates and trusts of deceased prizewinners. This portion of the Administrative Rule does not expire. Special Gains on Early Extinguishment of Debt in the amount of \$25,893 and \$3,349,644 were recognized for the years ended June 30, 2002 and 2001, respectively.

## 8. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2002 and 2001 is as follows:

	2002	2001
Accrued Payroll	\$ 815,862	\$ 782,940
Accrued Bonuses	21,885	-
Accrued Workers' Compensation-Current Portion	203,650	158,403
Compensated Absences - Current Portion	450,767	208,836
	<u>\$ 1,492,164</u>	<u>\$ 1,150,179</u>

## 9. ACCRUED WORKERS' COMPENSATION

The changes in workers' compensation for the years ended June 30, 2002 and 2001 are as follows:

2000	Additions	Deductions	2001	Due within One Year
<u>\$2,689,828</u>	-	<u>\$(541,492)</u>	<u>\$2,148,336</u>	<u>\$158,403</u>
2001	Additions	Deductions	2002	Due within One Year
<u>\$2,148,336</u>	<u>\$1,687,398</u>	<u>\$(234,678)</u>	<u>\$3,601,056</u>	<u>\$203,650</u>

The amount due within one year is included in Other Liabilities.

## 10. PENSIONS - DEFINED BENEFIT PENSION PLAN

The Ohio Lottery contributes to the Public Employees Retirement System of Ohio (PERS), a cost sharing, multiple employer defined benefit pension plan. 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).

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the Ohio Lottery is required to contribute 13.31 percent. The Ohio Lottery's required contributions to PERS for the years ended June 30, 2002, 2001, and 2000 were \$2,314,248, \$1,762,512 and \$2,201,836 respectively, equal to the required contribution for each year.

## 11. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, PERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients and primary survivor 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, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employees" ("GASB 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 2001 employer contribution rate for state employers was 13.31% of covered payroll; 4.3% was the portion used to fund health care for the year. In Fiscal Year 2002 and 2001, \$747,733 and \$711,702, respectively, of the Ohio Lottery's total contributions to PERS were used for post retirement benefits. The actual contribution and the actuarially required contribution amounts are the same. At June 30, 2002 the Ohio 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. The following is a summary of assumptions:

- Actuarial Review - The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2000.
- 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 2000 was 7.75%.
- Active Employee Total Payroll - An annual increase of 4.75% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.
- Health Care - Health care costs were assumed to increase 4.75% annually.

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 \$14.4 billion and \$2.6 billion, respectively. The actuarial value of the Retirement system's net assets available for OPEB at December 31, 2000, the latest information available, was \$11.7 billion. The number of active contributing participants was 411,076.

## 12. LITIGATION

The Ohio 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 the ultimate outcome of such proceedings will not have a material, adverse effect on the Ohio Lottery's financial position. The Ohio Lottery is involved in litigation challenging the constitutionality of the new multi-state game, Mega Millions. In the event the outcome is unfavorable, there would be a material affect on the Ohio Lottery's revenue producing capabilities, but that amount cannot be determined at this time.

## 13. TRANSACTIONS WITH OTHER STATE ENTITIES

During the course of normal operations, the Ohio 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, 2002 and 2001, respectively:

	2002	2001
Department of Administrative Services (DAS) Expenditures		
Telecommunications	\$ 259,373	\$ 334,739
Computer	966,667	1,581,345
Rent	1,040,207	1,148,890
Printing	21,147	54,441
Miscellaneous	654,875	589,503
Total DAS Expenditures	2,942,269	3,708,918
Other Agency Expenditures	664,644	637,766
Total Transactions with other State Entities	<u>\$ 3,606,913</u>	<u>\$ 4,346,684</u>

#### 14. SEGMENT INFORMATION - ENTERPRISE FUNDS

The Ohio Lottery operates three enterprise funds. Selected segment information for the years ended June 30, 2002 and 2001 is as follows:

<b>2002</b>	Operating	Deferred Prize	Unclaimed Prize	Total
Ticket Sales	\$1,983,102,819	-	-	\$1,983,102,819
Depreciation	15,518,831	-	-	15,518,831
Amortization of Discount of Prize Liabilities	-	\$ 74,350,428	-	74,350,428
Operating Income (Loss)	634,465,612	(11,397,536)	\$ (12,981,265)	610,086,811
Transfers In (Out)	(35,342,575)	11,752,010	23,590,565	-
Payments to the Lottery				
Profits Education Fund	610,150,066	-	25,000,000	635,150,066
Special Gain on Early				
Extinguishment of Debt	-	25,893	-	25,893
Change in Net Assets	(13,421,743)	31,033,321	(12,914,783)	4,696,795
Property and Equipment Additions	70,084,828	-	-	70,084,828
Property and Equipment Disposals	5,394,398	-	-	5,394,398
Net Working Capital	3,954,806	1,015,147,210	23,479,801	1,042,581,817
Increase (Decrease) in Cash and				
Cash Equivalents	7,093,655	(13,125,632)	(12,881,903)	(18,913,880)
Total Assets	120,360,078	1,515,351,806	30,786,381	1,666,498,265
Noncurrent Liabilities	49,457,121	918,108,008	-	967,565,129
Total Net Assets	\$ 13,635,374	\$ 97,039,202	\$ 23,479,801	\$ 134,154,377
<b>2001</b>	Operating	Deferred Prize	Unclaimed Prize	Total
Ticket Sales	\$1,919,910,022	-	-	\$1,919,910,022
Depreciation	10,023,109	-	-	10,023,109
Amortization of Discount of Prize Liabilities	-	\$ 81,173,647	-	81,173,647
Operating Income (Loss)	627,097,414	(33,241,655)	\$ (9,625,475)	584,230,284
Transfers In (Out)	(64,211,857)	34,188,745	30,023,112	-
Payments to the Lottery				
Profits Education Fund	612,035,543	-	25,000,000	637,035,543
Special Gain on Early				
Extinguishment of Debt	-	3,349,644	-	3,349,644
Change in Net Assets	(43,963,240)	70,473,078	(1,147,162)	25,362,676
Property and Equipment: Additions	1,288,308	-	-	1,288,308
Property and Equipment: Disposals	58,000,349	-	-	58,000,349
Net Working Capital	25,953,622	1,053,480,336	36,394,584	1,115,828,542
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
Noncurrent Liabilities	4,081,947	987,474,455	-	991,556,402
Total Net Assets	\$ 27,057,117	\$ 66,005,881	\$ 36,394,584	\$ 129,457,582



**SCHEDULE OF REVENUES AND EXPENSES  
BUDGET (NON-GAAP) BASIS AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2002**

	Budgeted Amount		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Ticket Sales	\$1,978,200,000	\$1,978,200,000	\$1,989,380,124	\$ 11,180,124
Other Revenue	<u>65,537,476</u>	<u>65,537,476</u>	<u>78,055,556</u>	<u>12,518,080</u>
Total Revenue	2,043,737,476	2,043,737,476	2,067,435,680	23,698,204
<b>Expenses</b>				
Personal Services	23,990,502	23,990,502	23,715,285	275,217
Maintenance	24,167,162	24,027,162	21,735,824	2,291,338
Equipment	4,131,719	4,131,719	2,360,785	1,770,934
Game and Advertising Contracts	64,913,869	64,913,869	64,817,585	96,284
Subsidy	-	140,000	140,000	-
Prizes, Bonuses and Commissions	136,371,980	209,871,980	169,676,039	40,195,941
Annuity Prizes	185,454,636	185,454,636	156,090,003	29,364,633
Unclaimed Prize Awards	13,093,114	13,093,114	13,069,920	23,194
Payments to Lottery Profits Education Fund	<u>633,722,100</u>	<u>633,722,100</u>	<u>635,150,066</u>	<u>(1,427,966)</u>
Total Expenses	<u>1,085,845,082</u>	<u>1,159,345,082</u>	<u>1,086,755,507</u>	<u>72,589,575</u>
Excess of Revenues over Expenses	<u>\$ 957,892,394</u>	<u>\$ 884,392,394</u>	<u>\$ 980,680,173</u>	<u>\$ 96,287,779</u>

The following table summarizes the adjustments necessary to reconcile the Change in Net Assets to the Excess of Revenues over Expenses:

Change in Net Assets	\$ 4,696,795
Net Adjustments for Revenue Accruals	6,277,305
Net Adjustments for Expense Accruals	(2,246,106)
Increase in Fair Value of Investments	(46,005,122)
Loss on Equipment Disposal	477,160
Depreciation	15,518,831
Prizes Redeemed at Agent Locations	924,500,506
Prize Awards	(23,575,567)
Agent Bonuses and Commissions	126,597,019
Special Gain	(25,893)
Securities Lending Expense	10,641,907
Acquisition of Capital Assets	(2,000,000)
Capital Lease Principal Payments	(10,971,761)
Encumbrances	<u>(23,204,901)</u>
Excess of Revenues over Expenses	<u>\$980,680,173</u>

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Wining something more valuable than money.

A second chance at life.

David Howard (left), a sales representative of the Ohio Lottery's Akron-Canton office saved Kelvin Moran's life last winter when Kevin (right), manager of True North #312 in Willoughby Hills, suffered a stroke.

"He refused to leave the store and showed great concern for my welfare. Dave pretty much saved my life."

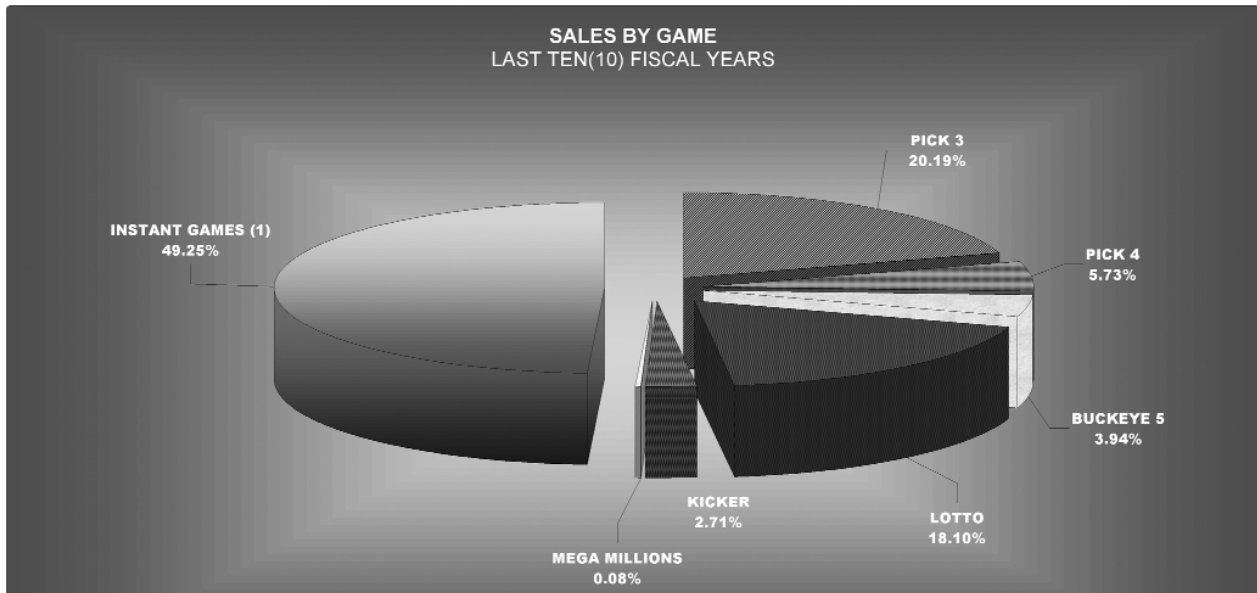
*Statistical  
Section*

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

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	TOTAL
<b>ON-LINE GAMES</b>											
PICK 3	\$428.3	\$421.0	\$446.2	\$450.6	\$435.6	\$421.1	\$399.4	\$427.3	\$419.0	\$409.2	\$4,257.7
PICK 4	91.0	91.9	102.1	108.2	116.5	124.0	125.1	144.6	150.7	154.6	1,208.7
BUCKEYE 5	122.4	118.2	100.3	87.3	78.8	73.5	69.9	62.2	56.5	62.4	831.5
SUPER LOTTO	493.5	370.6	437.8	455.8	410.6	384.9	364.4	336.6	-	-	3,254.2
SUPER LOTTO PLUS	-	-	-	-	-	-	-	-	262.5	297.9	560.4
KICKER	65.6	54.3	63.3	66.7	63.5	60.5	57.2	52.9	42.9	45.0	571.9
MEGA MILLIONS	-	-	-	-	-	-	-	-	-	16.5	16.5
<b>TOTAL ON-LINE GAMES</b>	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	985.6	10,700.9
<b>INSTANT GAMES (1)</b>	775.7	863.9	1,032.6	1,146.1	1,195.0	1,131.8	1,128.7	1,126.8	988.3	997.5	10,386.4
<b>TOTAL TICKET SALES</b>	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	1,983.1	21,087.3
<b>INTEREST INCOME/ OTHER REVENUE</b>	140.7	115.3	86.1	140.9	163.3	230.4	127.3	79.2	180.2	124.1	1,387.5
<b>TOTAL REVENUES</b>	\$2,117.2	\$2,035.2	\$2,268.4	\$2,455.6	\$2,463.3	\$2,426.2	\$2,272.0	\$2,229.6	\$2,100.1	\$2,107.2	\$22,474.8

(1) FY 96-FY 02 Instant tickets are reported as net of free tickets. In prior years, the amount of free tickets issued was recorded in ticket sales.



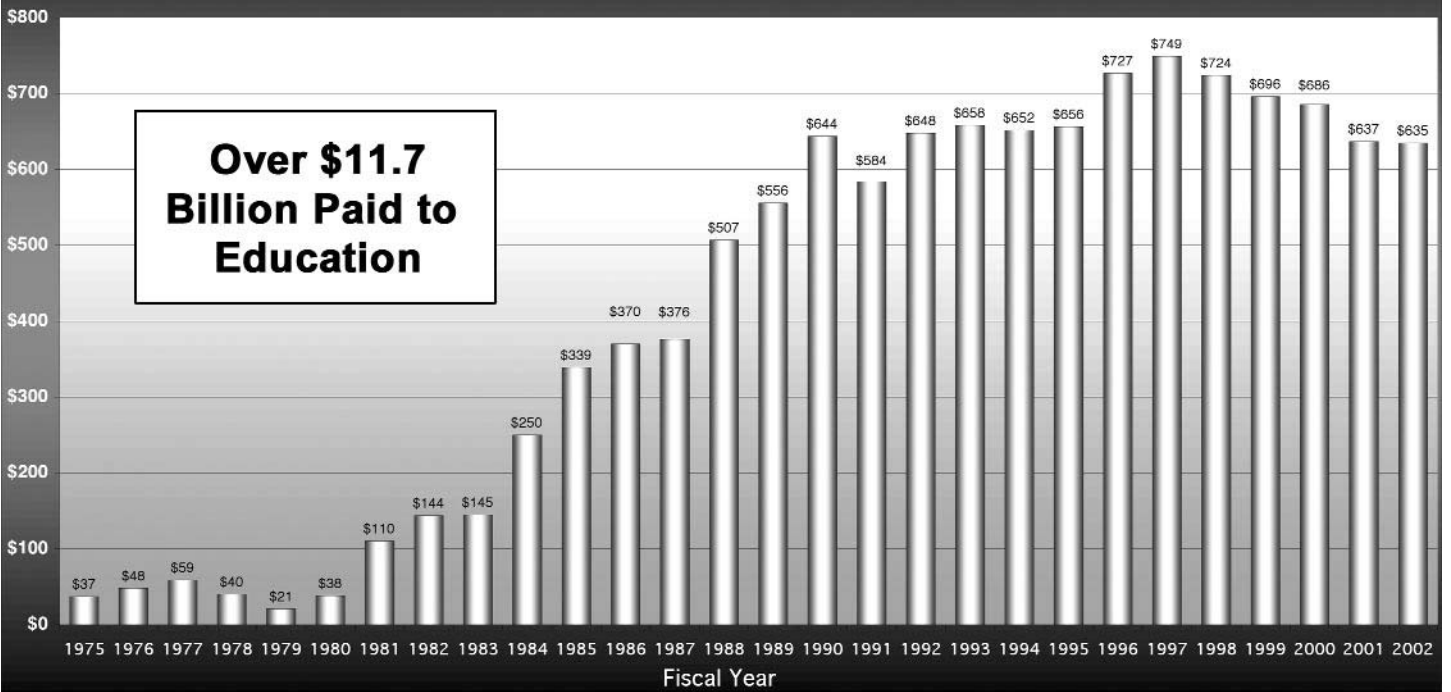
**REVENUES, EXPENSES AND PAYMENTS TO EDUCATION - LAST TEN (10) FISCAL YEARS (In Millions)**

FISCAL YEAR	TICKET SALES	PRIZE EXPENSE	% SALES	BONUSES / COMMISSIONS	% SALES	OPERATING EXPENSES	% SALES	PAYMENTS TO EDUCATION	% SALES
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%	107.8	5.61%	637.0	33.18%
2002	1,983.1	1,148.1	57.89%	126.6	6.38%	103.3	5.21%	635.2	32.03%
<b>Total</b>	<b>\$21,087.3</b>	<b>\$12,077.9</b>	<b>57.28%</b>	<b>\$1,314.3</b>	<b>6.23%</b>	<b>\$969.2</b>	<b>4.60%</b>	<b>\$6,820.4</b>	<b>32.34%</b>

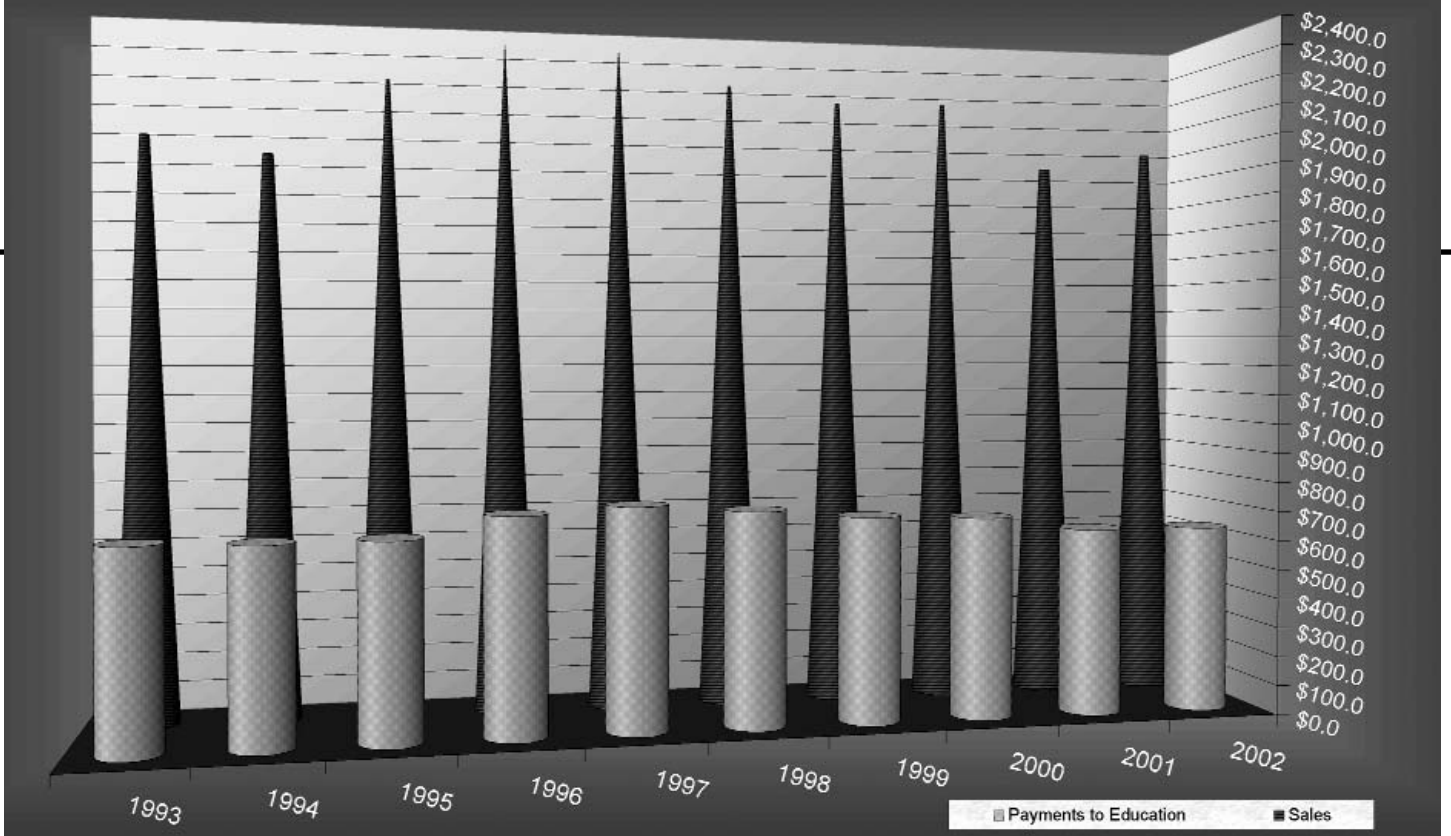
(1) Sales and Prize Expense for FY 96-02 are shown net of free tickets. In prior years, the amount of free tickets issued was recorded in both sales and prize expense.

# OHIO LOTTERY COMMISSION

History of Payments to Education  
From Inception (In Millions)



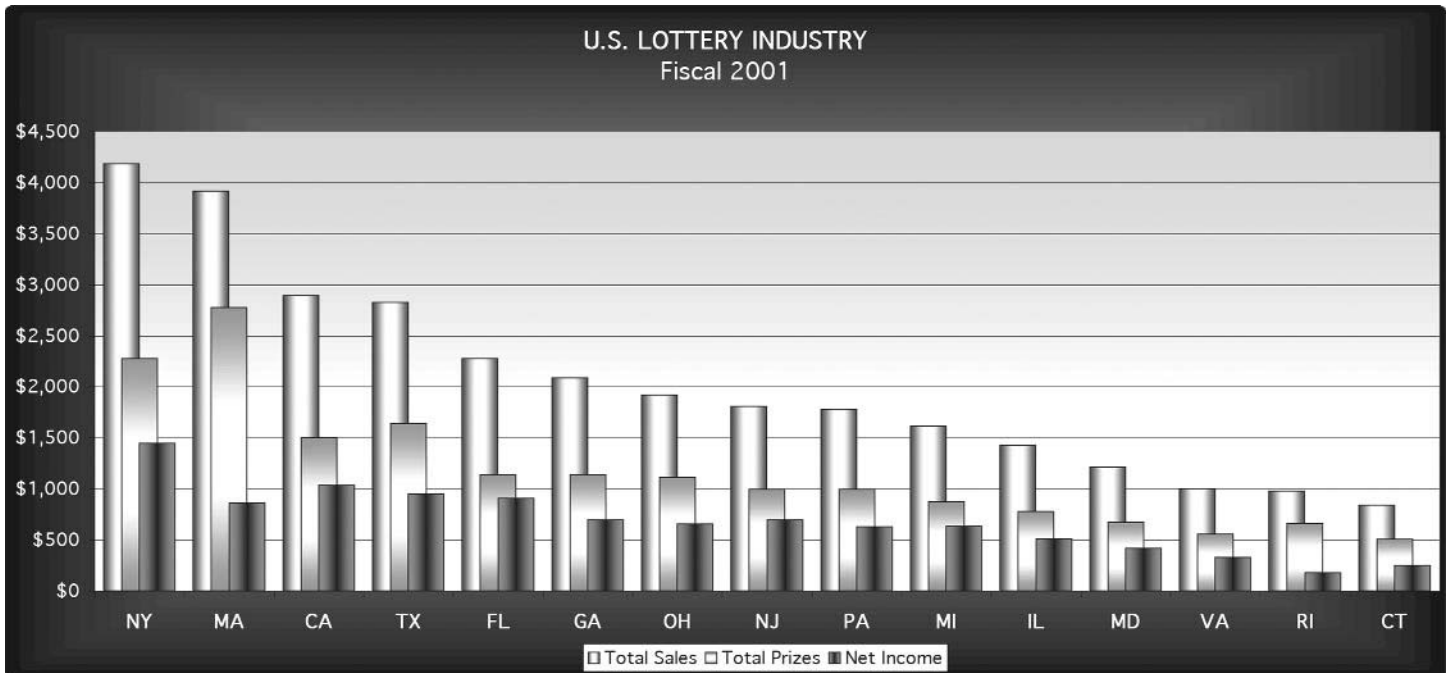
Total Sales and Payments to Education - FY 1993 to 2002



## LOTTERY INDUSTRY STATEMENT OF OPERATIONS

Rank by Sales (a)  
Fiscal Year 2001 (b)  
(In Millions)

	Total	Population	Total Ticket Sales	Prizes	Bonuses/ Comm.	Operating Expenses	Net Income (c)	Prizes as % of Total Sales	Net Income as % of Total Sales
<b>1</b> New York (2)	18.89		\$4,185.33	\$2,273.58	\$250.16	\$215.78	\$1,446.90	54.3%	34.6%
<b>2</b> Massachusetts (1)	6.35		3,916.16	2,774.11	223.19	74.14	864.46	70.8%	22.1%
<b>3</b> California (4)	33.87		2,894.84	1,503.77	196.79	188.68	1,031.98	51.9%	35.6%
<b>4</b> Texas (3)	20.04		2,825.30	1,643.18	146.35	172.80	950.92	58.2%	33.7%
<b>5</b> Florida (5)	15.98		2,274.73	1,140.55	126.58	123.80	906.94	50.1%	39.9%
<b>6</b> Georgia (6)	8.19		2,087.77	1,141.48	148.60	118.48	692.84	54.7%	33.2%
<b>7 OHIO (7)</b>	<b>11.35</b>		<b>1,919.91</b>	<b>1,112.82</b>	<b>120.21</b>	<b>107.82</b>	<b>659.05</b>	<b>58.0%</b>	<b>34.3%</b>
<b>8</b> New Jersey (8)	8.41		1,806.69	994.76	99.31	56.27	693.99	55.1%	38.4%
<b>9</b> Pennsylvania (10)	12.28		1,779.91	995.72	91.38	89.31	626.52	55.9%	35.2%
<b>10</b> Michigan (9)	9.94		1,614.67	873.32	114.93	127.49	631.84	54.1%	39.1%
<b>11</b> Illinois (11)	12.42		1,423.80	779.80	72.36	84.40	511.85	54.8%	35.9%
<b>12</b> Maryland (12)	5.30		1,212.29	671.20	76.94	49.52	414.63	55.4%	34.2%
<b>13</b> Virginia (13)	7.08		1,002.83	557.25	55.87	73.03	329.14	55.6%	32.8%
<b>14</b> Connecticut (14)	3.43		839.72	507.86	45.37	36.45	251.70	60.5%	30.0%
<b>15</b> Kentucky (NR)	4.10		590.85	349.82	36.34	48.22	159.93	59.2%	27.1%
Top 15 Average U.S.	11.84		\$2,024.99	\$1,154.61	\$120.29	\$104.41	\$678.18	57.0%	33.5%



( ) Last Years Ranking, (a) does not include video lottery, (b) Latest Information Available, (c) does not include other income, and represents net income before government payments.

The fiscal year ends June 30, 2001 for all US states except New York (March 31), Texas (August 31), and Michigan (September 30).

The population are the estimates of resident population published by the Bureau of the Census on July 1, 2001.

Source: "La Fleur's 2002 World Lottery Almanac"



**The Ohio Lottery Commission**

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*The Ohio Lottery Commission is an equal opportunity employer and service provider.*

**PLEASE PLAY RESPONSIBLY**





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  
FEBRUARY 6, 2003**