



**OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY

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Auditor of State Betty Montgomery

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

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

We have audited the financial statements of the business-type activity and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery) an enterprise fund of the State of Ohio, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 5, 2004. 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 Lottery's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Lottery in a separate letter dated November 5, 2004.

Ohio Lottery Commission
Cuyahoga County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
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This report is intended for the information and use of the audit committee, management and the 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 5, 2004



The Ohio Lottery
COMMISSION:

An Enterprise Fund of the State of Ohio

*13 billion dollars to education
and counting.*

Comprehensive Annual Financial Report
For the Years Ended
June 30, 2004 and 2003

THE OHIO LOTTERY COMMISSION

AN ENTERPRISE FUND OF THE STATE OF OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003
PREPARED BY THE
OHIO LOTTERY FINANCE DIVISION

BOB TAFT, GOVERNOR

DENNIS G. KENNEDY, DIRECTOR

SANDRA K. BARBER, COMMISSION CHAIRPERSON

MARK M. POLATAJKO, CPA, MBA, DEPUTY DIRECTOR OF FINANCE

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[INTRODUCTORY SECTION]



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

November 5, 2004

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

We are pleased to submit to you this Comprehensive Annual Financial Report of the Ohio Lottery Commission (the "Ohio Lottery") for the fiscal year ended June 30, 2004. 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 (the "State"), was created in July 1974 and is operated as a business enterprise within the framework of the State's laws and regulations. The Ohio Lottery's mission is to maximize revenues to provide funds for the educational system of the State by offering dignified games of chance to the public at large.

The Ohio Lottery is an enterprise of the State 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 Achievement for Excellence in Financial Reporting awarded for the fiscal year 2003. 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 \$0.50 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, 38 U.S. states and the District of Columbia operate lotteries using computer-based online games and instant "scratch off" games, and nearly 88 percent 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 8th Annual National Gaming Survey 2000. That survey showed that 73 percent of American adults approve of lotteries, 72 percent had played lotteries in the last year, 72 percent strongly prefer lotteries to higher taxes, 70 percent would vote in favor of continuing their lottery, and 66 percent from non-lottery states would vote for establishing a state lottery if given the opportunity in a statewide referendum. The International Gaming and Wagering Business magazine reports that in poll after poll, lotteries continue to have the highest public approval rating of any form of gaming.

ECONOMIC OUTLOOK

The U.S. economic expansion gained strength from mid-2003 through the third quarter of 2004, and will mark its third anniversary at the end of the year. Growth in real Gross Domestic Product (GDP) exceeded expectations in the second half of 2003, and that momentum carried over into 2004. The economy expanded at an annual rate of 3.8 percent during the first three quarters of 2004, close to projections at the start of the year. After declining for almost three years, total employment turned up in September 2003, and increased by 1.78 million during the year ending in September 2004. Even though hiring has been slow, layoffs have subsided and the unemployment rate has declined from 6.1 percent to 5.4 percent. In response to modest gains in employment and hourly wages, personal income increased 4.8 percent during the year ending in the third quarter of 2004. Aided by federal tax cuts but hurt by higher inflation, real disposable personal income increased 1.9 percent.

Leading the economy forward were consumption expenditures and fixed investment. Purchases of services accounted for about half of the increase in consumer spending. Investment in new equipment and software accounted for about two-thirds of the growth in fixed investment, with the remainder coming from investment in residential structures. Exports, business inventory building, and federal defense spending made additional contributions. Despite the more than 20 percent depre-

ciation in the U.S. dollar in 2002 and 2003, the market share of imported goods and services increased significantly during the past year.

Growth would likely have been stronger in 2004 if not for the near doubling in the price of oil since September 2003 to a record high. Higher energy costs subtracted as much as three-quarters of a percentage point from real GDP growth during the first three quarters of 2004, according to the Federal Reserve Board. The future course of the price of oil will play a major role in determining the pace of economic growth in the year ahead.

The Ohio economy is turning the corner. Growth in personal income has increased substantially, from near 1.0 percent at the end of the 2001 recession to 3.2 percent in 2003 and in the first half of 2004. Annual personal income growth was 0.9 percentage points faster in the U.S. than in Ohio during the decade ending in 2003. Most of the difference was due to slower population growth in Ohio. On a per capita basis, personal income growth in Ohio was within one-fifth of a percentage point of the national rate during the last ten years.

Labor markets turned up later in Ohio than on average across the nation. Total employment increased by 17,200, or 0.3 percent, from December 2003 to September 2004. Layoffs slowed markedly, the number of unemployed workers declined marginally, and the unemployment rate is little changed from a year earlier at 6.0 percent.

Exports contribute significantly to growth in the Ohio economy. In 2003, exports of goods from Ohio increased 7.4 percent to \$29.8 billion, making Ohio the nation's sixth largest exporter. Since the end of 2000, exports have grown faster in Ohio than in any other state. In rank order, the top four export markets for Ohio-made goods are Canada (57%), Mexico (7%), U.K. (4%), and Japan (4%). Recent and expected declines in the foreign exchange value of the dollar are projected to sustain the favorable exporting environment and add to growth in the Ohio economy.

The outlook is for the price of oil to decrease back to near \$40 per barrel and real GDP growth to average 3.25 percent to 3.50 percent through the end of 2005. Consistent with solid, but not rapid economic growth, the Federal Reserve is expected to raise short-term interest rates by approximately another full percentage point in the year ahead. Rebuilding from the unusually costly hurricane season is expected to add marginally to economic growth in 2005. Corporate profit growth is projected to slow sharply, as higher input costs combine with stable prices to trim margins and unit growth slows.

In this environment, growth in national employment, personal income, and per capita personal income are projected to be 1.7 percent, 4.7 percent, and 4.0 percent, respectively. The experience in Ohio is projected to nearly match the national performance, with employment, personal income, and per capita personal income growing 1.6 percent, 4.4 percent, and 4.0 percent, respectively.

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 follow:

INSTANT GAMES are played by scratching the latex covering off of a play area to reveal pre-printed 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 2004, instant game sales were nearly \$1.17 billion, an increase of \$76.9 million, or 7.0 percent, from the previous fiscal year and represented 54.1 percent of total ticket sales. Instant games had little growth until multiple game strategies were introduced. As many as 70 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, \$12 and \$20 price points.

ONLINE GAMES allow the customer to pick the numbers for their wager or utilize automatic 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 2000. 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. As expected, Super Lotto Plus sales, which realized record levels in fiscal year 2002 as a result of two record jackpot sequences of \$54 million and \$75 million, decreased significantly upon the introduction of Mega Millions in May 2002. Super Lotto Plus sales for fiscal year 2004 were \$143.8 million, approximately 6.7 percent of total Ohio Lottery sales. 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 a current population base of over 115 million within eleven states, jackpots are expected to grow to higher levels at much faster rates. The addition of Texas in December 2003 facilitated this anticipated growth resulting in two jackpot sequences that surpassed the \$200 million jackpot level during fiscal year 2004. Mega Millions sales for fiscal year 2004 were \$191.8 million, or approximately 8.9 percent of total Ohio Lottery sales. Drawings are held on Tuesday and Friday evenings.

The Kicker is an online game that can only be purchased along with Super Lotto Plus. All Super Lotto Plus tickets are printed with a six-digit Kicker number. By saying "YES" to the Kicker, a player pays \$1 and is eligible for the Kicker drawing. 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, 3 of 6, and 2 of 6 matches. Kicker sales, which were also materially impacted by the addition of Mega Millions, are the lowest of the online games. Sales for fiscal year 2004 were \$24.5 million, approximately 1.1 percent 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 2004 were \$396.8 million, or 18.4 percent 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 nearly 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 2004 were \$165.2 million, approximately 7.7 percent 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 Plus. Players select and must match five numbers to win the top prize of \$100,000. Sales in fiscal year 2003 were \$66.6 million, approximately 3.1 percent of total Ohio Lottery sales. Drawings are held Monday through Saturday.

ACCOMPLISHMENTS

Ohio Lottery profits were specifically designated by statute in 1987 to fund the State's public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2004, the Ohio Lottery transferred \$648.1 million from operations to the Lottery Profits Education Fund, bringing the total funding the Ohio Lottery has provided in support of the State's public education system to over \$13.0 billion since its inception in 1974. In addition to this rewarding accomplishment, several other accomplishments were achieved during fiscal year 2004. These include:

- The continued successful management of the Ohio Lottery's instant ticket product line has provided maximization of revenue and reduction of product cost. The effective development and organization of instant game prize payouts, while adhering to a set total instant ticket payout percentage of approximately 64.9% has been well received within the marketplace, and is evidenced by 21 consecutive months of month-to-month sales gains over the prior year comparative month. The change to printing instant tickets on paper rather than foil product stock during fiscal year 2003 yielded a savings of approximately \$513,000 in fiscal year 2004 and is expected to result in a savings of \$144,000 in fiscal year 2005.
- In fiscal year 2004, the Ohio Lottery sought to obtain better creative and more efficient media support by offering contracts for each facet of the marketing strategy rather than one single comprehensive contract. This proposal enabled the Ohio Lottery to secure the agency that was truly the best in that particular field, yet at a competitive price. With creative services, the Ohio Lottery entered into contracts with two separate agencies that compete for each project. The result has been more creative options, thus a more effective creative product. In fact, other lotteries have

called and requested some of the creative product the Ohio Lottery has produced during fiscal year 2004. The Ohio Lottery also divided the media purchasing contract into two separate contracts; radio/print/outdoor and television. Along with its radio buyer, the Ohio Lottery has better negotiated rates by scheduling the product promotions far enough in advance resulting in a lower cost per point. Additionally, the Ohio Lottery has been able to leverage these relationships to get more value-added promotions from these outlets in the form of instant ticket promotions and live remotes. With television, the Ohio Lottery and its buyer were able to save resources for more strategic media buying by reducing costs related to airing the drawings. The Ohio Lottery was able to realize a cost savings of \$500,000 from the original carrier station proposals with the decision to no longer air the midday drawings and to reduce the length of some of the evening drawings.

- The implementation of two telecommunications initiatives by the Ohio Lottery's Information Technology Division have resulted in significant cost reduction while improving efficiency. A new PI-IVR system, which was installed in the summer of 2003, coupled with changes to the types of service provided by the toll-free service provider, have allowed the Ohio Lottery to process, on average, an additional 500,000 phone calls per month, while reducing the average monthly cost by approximately \$35,000. In addition, the Ohio Lottery assumed the responsibility over several telecommunications duties previously performed by the Department of Administrative Services, resulting in a monthly cost reduction of \$22,000. The combined effect from both of these initiatives results in an annualized cost savings of approximately \$684,000.
- In June 2003, GTECH Corp. (GTECH) (formerly Interlott Corporation) began the implementation of the new instant ticket vending machine (ITVM) contract, which is focused on growing revenue for the Ohio Lottery. Under terms of the new agreement, GTECH is compensated on an agreed-upon tiered commission rate schedule per dollar of sales as opposed to the standard lease rate per machine method that was previously used. This revolutionary compensation method provides an opportunity for the Ohio Lottery and its vendor-partner the incentive to aggressively push for greater sales through vending machines. The all-inclusive commission rate includes all production, sales and marketing services; a commitment of GTECH's full product catalogue, in all bin capacity configurations; and no limit on the types, models, and quantities of vending machines deployed. The new ITVM contract is expected to continue to generate higher sales throughout the 2004 – 2005 biennium, at a dramatically lower cost than incurred in previous years.
- In response to the Governor's Executive Order and Department of Administrative Services guidelines, the Ohio Lottery undertook a comprehensive analysis and review of its overall vehicle fleet, including vehicles exempted by the respective directives. As a result of this review process, the Ohio Lottery has been successful in developing a fleet reduction plan that resulted in an overall fleet reduction of 18 vehicles, or 10%, by the end of fiscal year 2004, yielding significant decreases in expected fuel, maintenance and replacement costs in future fiscal years.

- Mega Millions enjoyed a very successful year in Ohio, resulting in two jackpot wins and improved base sales. On December 30, 2003, the \$162 million jackpot drawing realized the first Ohio Mega Millions jackpot winner, which created significant media and advertising awareness. The Ohio player game awareness was evident as base draw sales increased dramatically, nearly 18% on the ensuing jackpot sequence, which commenced on January 2, 2004. This sequence yielded a then record jackpot of \$239 million for the February 20, 2004 drawing, which was won in Virginia, and secured nearly \$11.0 million in Ohio sales for the record jackpot drawing. The sales from this single drawing exceeded the total monthly Mega Millions sales achieved in four of the prior seven months. To further add to Ohio's Mega Millions excitement, the jackpot sequence following this record sequence resulted in the second Ohio Mega Millions jackpot winner, this time at the \$21 million level. Ohio finished fiscal year 2004 with a second jackpot sequence exceeding \$200 million. The unprecedented Mega Millions activity proved the strong sales potential of the game at the higher jackpot levels, and showed that the jackpot is winnable in Ohio at both the low and high jackpot levels.

ACCOUNTING SYSTEMS AND POLICIES

The Ohio Lottery operates under a series of enterprise funds, each using the 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 Lottery Operating Fund, the Deferred Prize Fund, and the Unclaimed Prize Fund; however, the Unclaimed Prize Fund was eliminated and liquidated during fiscal year 2004, in accordance with the provisions of Am. Sub. House Bill 95.

The Ohio Lottery's 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. A narrative overview and analysis of the Ohio Lottery's financial activities for the fiscal year ended June 30, 2004 may be found in the Management's Discussion and Analysis in the Financial Section of this document.

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 within the Ohio Lottery's funds 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 drafted a Mid-Year Review in fiscal year 2004 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; 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 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, promotions and the Cash Explosion game show.
- Provide a variety of access and other controls in our computer systems.

FINANCIAL INFORMATION

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

DEBT ADMINISTRATION

A majority of the Ohio Lottery's noncurrent liabilities are comprised of payments owed to deferred prizewinners. The payments due are fully funded by an investment portfolio managed by the Treasurer of the State of Ohio and shown as restricted assets of the Ohio Lottery on its 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' acceptances 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 8,900 retail agents on a weekly basis. Funds are collected electronically from the retail agents' designated bank accounts. Over \$1.0 billion was collected via this system in fiscal year 2004. Timely payment was made on 99.5 percent of accounts collected. Approximately \$5.0 million, or 0.5 percent, was returned unpaid and recorded as non-transfer of funds. Those retail agents were deactivated and could not sell tickets until payment was received and posted. Over \$4.6 million of the uncollected was paid and the remainder was claimed against agents' bonds and 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 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 and maximize operational efficiency and effectiveness. In fiscal year 2005, the Ohio Lottery's energies are being concentrated on the following projects:

- A replacement is currently being developed for the Super Lotto Plus game with an anticipated launch in the winter of 2005. 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 replacement game will be positioned to appeal to the current base player of Super Lotto Plus.
- A new online product, Rolling Cash 5, was launched on October 3, 2004 as a replacement for Buckeye 5. Buckeye 5 sales peaked in 1994 and have steadily declined on an annual basis, with a small increase realized in fiscal year 2003 with the expansion from four to six draws per week. Buckeye 5 sales in fiscal year 2004 have declined by nearly 5% compared to fiscal year 2003, and were expected to decrease by 3% to 5% annually in the coming fiscal years. Rolling Cash 5 offers a 5/39 matrix with overall odds of winning any prize of 1 in 9. The top prize will start at \$100,000 and will rollover if not won. Other lottery jurisdictions have realized success with these changes to their "cash-style" lotto games, and similar success is expected in Ohio.
- On July 27, 2004, Attorney General Jim Petro announced that his office signed a Memorandum of Understanding

transferring the administration and monitoring of charitable bingo licensing responsibilities to the Ohio Lottery. Ohio Revised Code Chapter 2915 charges the Attorney General with the issuance of licenses to charitable organizations, manufacturers and distributors of gambling products, as well as the regulation, investigation, audit and review of charitable gambling activity, including the respective records maintained by these entities. The licensing of charitable bingo is a natural fit for the Ohio Lottery, which has experience licensing Ohio Lottery retailers since 1974. The Ohio Lottery will draw upon its existing licensing resources and infrastructure to administer charitable bingo licenses. The change is expected to create efficiencies and allow for better overall accounting of money raised for charitable purposes. The transfer of licensing and monitoring responsibilities will occur in four phases over the course of the next two fiscal years: licensing and renewal of existing organizations; site visits; auditing of licensees; and settlement or revocation. The Memorandum of Understanding details the compensation for personal services rendered and administrative costs incurred by phase, with anticipated revenues totaling \$400,000 in fiscal year 2005 and \$1.2 million in each of fiscal years 2006 and 2007. The Attorney General will retain oversight responsibility for all of the duties assumed by the Ohio Lottery.

- A Request for Proposal (RFP) for instant ticket warehousing and distribution is currently being developed with anticipated implementation by fiscal year 2006. During fiscal year 2004, the Ohio Lottery conducted a retailer satisfaction survey regarding agency operations. A considerable number of retailers took the time to express their frustration with the instant ticket delivery system, which currently consists of a trunk-stock distribution method in which sales representatives provide instant products, sales support supplies, and sales promotion supplies to retailer locations statewide. Complaints were made regarding the two week delivery cycle, the delay in receiving products during new game issues, the "rushed" customer service by sales representatives during product issuance, and the problems faced when their inventory is depleted. These concerns caused the Ohio Lottery to review inventory distribution practices and identify methods for improvement. Based upon this review, it was determined that the retailer base would be better served if a delivery system is implemented which would provide more timely delivery to the retailers. Furthermore, with the addition of the administration over charitable gaming function, the Ohio Lottery will be able to re-deploy existing sales representatives in a hybrid role, serving the marketing and promotion needs of the retailer base, while concurrently addressing the fieldwork needs of the Ohio Lottery's charitable gaming responsibilities. Ultimately, this enhancement will allow the Ohio Lottery to more effectively manage its supply-chain, resulting in increased instant ticket sales with a gradual decrease in overall operating costs over time.
- Several initiatives are currently being examined in an effort to strengthen the relationship the Ohio Lottery has with its agent retailers. One such initiative is a tiered instant commission structure, whereby exceeding certain sales thresholds would enable agents to earn increased levels of compensation. Another initiative creates a Director's Club for agents whose sales exceed \$1 million annually. These

agents will be invited to provide input on product design, technology improvements, and long-range agency plans. In addition, Director's Club members will be given opportunities to receive special point-of-sale and sales support items, comprised of higher end merchandise (e.g. play stations, floor mats, neon signs, satellite jackpot signs, etc.).

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the seventh consecutive year that the Ohio Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Ohio Lottery published an easily readable and efficiently organized CAFR. This report satisfied 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 CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

INDEPENDENT AUDIT

Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audits of the Lottery. The fiscal year 2004 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, MBA
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, 2003

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

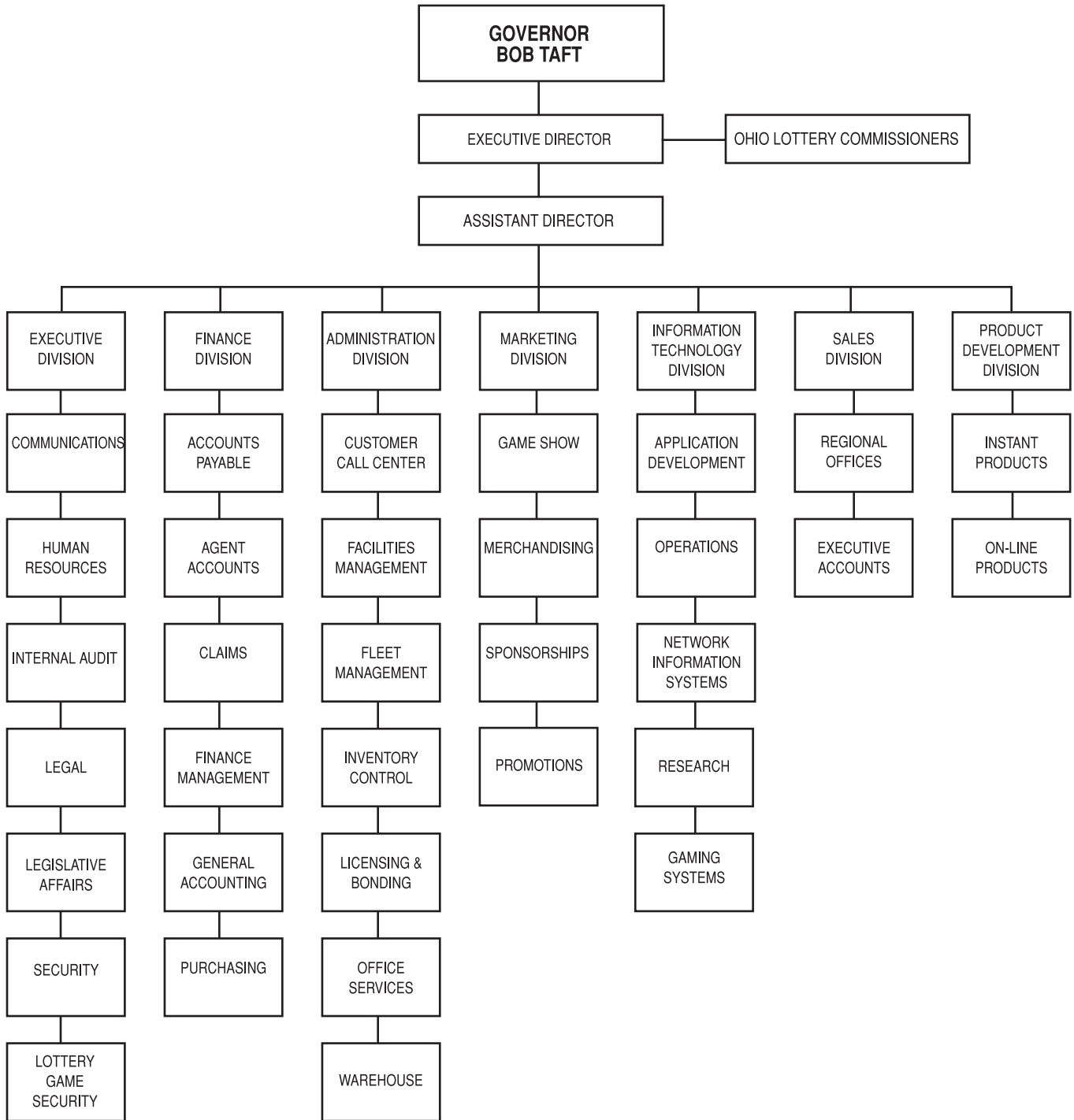


President

Executive Director

[STRUCTURE OF ORGANIZATION]

FISCAL YEAR 2004



[PRINCIPAL OFFICIALS]

Bob Taft
GOVERNOR OF OHIO

Dennis G. Kennedy
DIRECTOR

Sandra K. Barber
COMMISSION CHAIR
Term ends 8/1/05

Andrew J. Futey
COMMISSION VICE
CHAIR
Term ends 8/1/04

Erskine E. Cade
COMMISSIONER
Term ends 8/1/05

Linda S. Dotson
COMMISSIONER
Term ends 8/1/06

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

Brooke S. Hill
COMMISSIONER
Term ends 8/1/06

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

Gisela Rosenbaum
COMMISSIONER
Term ends 8/1/06

Jerry Y. Seaman
COMMISSIONER
Term ends 8/1/05

[FINANCIAL SECTION]

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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, 2004, which collectively comprise the Lottery's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2004, and the changes in its financial position and its cash flows, where applicable, for the year 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, 2004, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2004 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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions 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 additional analysis and are not a required part of the basic financial statements. We subjected the budgetary comparison schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not subject the introductory section and statistical tables to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.



Betty Montgomery
Auditor of State

November 5, 2004

[MANAGEMENT'S DISCUSSION AND ANALYSIS]

As management of the Ohio Lottery Commission (the "Ohio Lottery"), 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, 2004. 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 6-11 of this report, and the financial statements which begin on page 23.

Financial Highlights

- The Ohio Lottery's net assets decreased \$77.3 million or nearly 38.5 percent, as a result of this year's operations, predominantly due to unrealized losses of \$73.5 million recognized on the Ohio Lottery's restricted investments.
- Annual ticket sales increased \$76.5 million or 3.7 percent. The increase in ticket sales is due to the continued success of instant product line enhancements, maintenance efforts dedicated to the online products, and record Mega Millions activity as a result of two jackpot wins in Ohio combined with two jackpot sequences exceeding the \$200 million jackpot level.
- Operating expenses decreased as a percentage of sales from 4.9 percent in fiscal year 2003 to 4.5 percent in fiscal year 2004, consistent with management's efforts to reduce costs and limit controllable expenses without sacrificing service or performance.
- The Ohio Lottery transferred \$655.6 million to the Lottery Profits Education Fund (LPEF), \$14.2 million above the amount transferred in the prior fiscal year.

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:

Lottery Operating Fund

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

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.

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 transfer to fund educational purposes as directed by the State's Legislature. Effective July 1, 2003, the Unclaimed Prize Fund has been eliminated from the Ohio Lottery's fund structure. Additional information on this change may be found in Note 1 of this report.

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 Ohio Lottery's net assets at June 30, 2004 compared to June 30, 2003.

TABLE 1 - NET ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets - Unrestricted	\$ 100,521,456	\$ 82,143,054
Current Assets - Restricted	699,399,220	480,341,566
Noncurrent Assets	882,848,815	1,061,325,091
Total Assets	<u>1,682,769,491</u>	<u>1,623,809,711</u>
Current Liabilities - Unrestricted	75,911,157	59,475,261
Current Liabilities - Restricted	692,821,886	480,341,566
Noncurrent Liabilities	790,561,367	883,227,627
Total Liabilities	<u>1,559,294,410</u>	<u>1,423,044,454</u>
Net Assets		
Invested in Capital Assets – Net of Related Debt	256,549	764,274
Restricted for Deferred Prizes	90,180,424	169,822,140
Unrestricted	33,038,108	30,178,843
Total Net Assets	<u>\$ 123,475,081</u>	<u>\$ 200,765,257</u>

Total Assets increased \$59.0 million as a result of an increase in cash balances at year end and a net increase in restricted investments, which were offset by the depreciation of capital assets. Current Assets - Restricted increased \$219.1 million as a result of a significant increase in securities lending activity. Noncurrent Assets, which is comprised of investments dedicated to the payment of the Ohio Lottery's long-term annuity prizes as well as capital assets, decreased as a result of annuity prize payments, the recognition of an unrealized loss on investments of \$73.5 million and depreciation recognized on the leased gaming equipment, which is discussed following Table 3.

Total Liabilities increased \$136.3 million, mainly due to the significant increase in security lending activity. The combined effect of the payment of deferred prizes payable during fiscal year 2004 and payments made on the capital lease obligation contributed to an overall decrease of \$92.7 million in Noncurrent Liabilities, which was offset by a significant increase in Current Liabilities – Restricted as a result of an increase in security lending activity and the current obligation for deferred prizes.

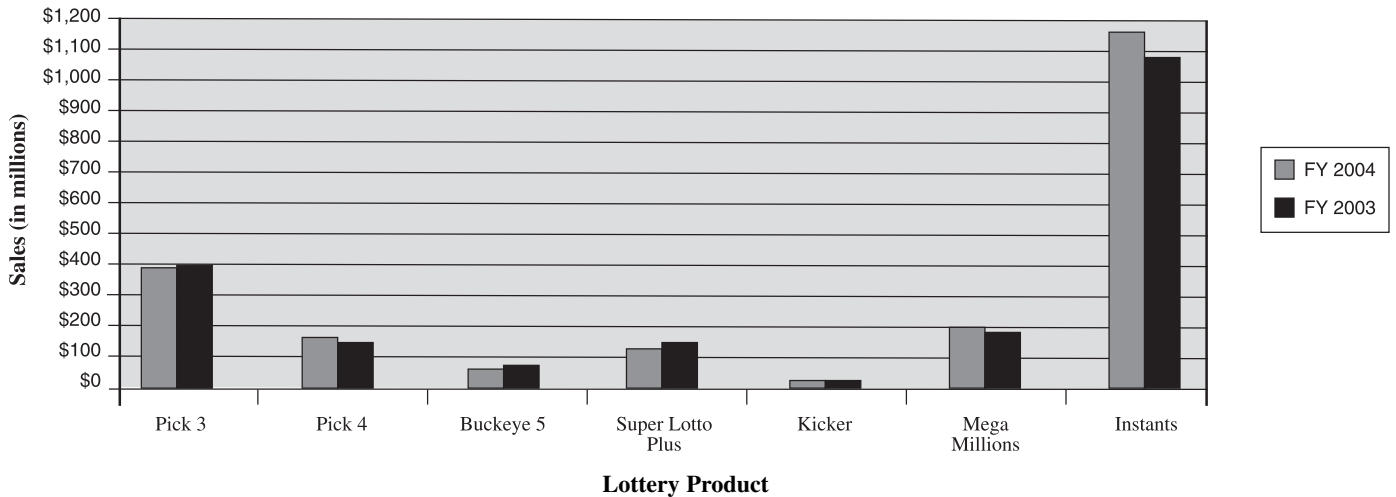
The Ohio Lottery's financial activity resulted in a \$77.3 million decrease in net assets. Net Assets Invested in Capital Assets – Net of Related Debt decreased as a result of the depreciation expense recognized during the year as well as payments made on the capital lease obligation. Net Assets Restricted for Deferred Prizes decreased \$79.6 million as a result of recognizing a fiscal year 2004 unrealized loss on restricted assets in accordance with GASB 31, as noted above. Unrestricted Net Assets realized a \$2.9 million increase, the net effect of an increase in net assets reported in the Lottery Operating Fund.

Table 2 shows the changes in the Ohio Lottery's net assets for fiscal year 2004 compared to fiscal year 2003, including revenue and expense comparisons.

TABLE 2 - CHANGES IN NET ASSETS

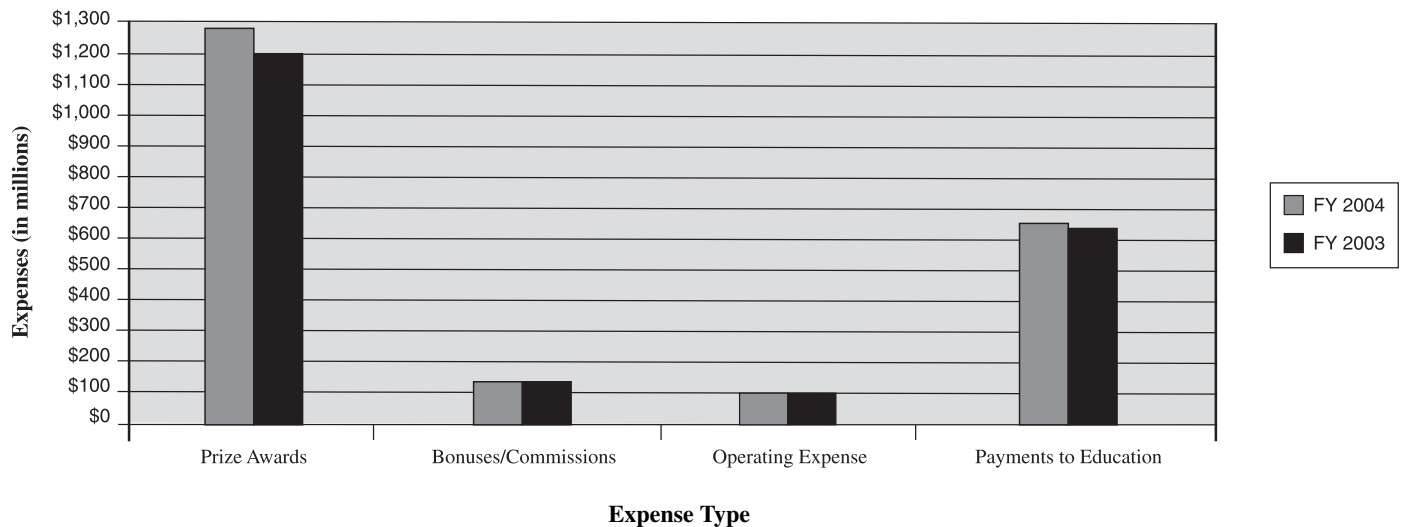
	<u>2004</u>	<u>2003</u>
Ticket Sales	\$ 2,154,715,264	\$ 2,078,254,017
Other Operating Revenues	11,796,816	4,854,225
Non-Operating Revenues	(12,294,110)	148,797,169
Total Revenues	<u>2,154,217,970</u>	<u>2,231,905,411</u>
Prizes, Bonuses and Commissions	1,408,759,937	1,345,212,129
Operating Expenses	97,671,545	100,820,852
Non-Operating Expenses	69,470,664	77,909,550
Payments to the Lottery Profits Education Fund	655,606,000	641,352,000
Total Expenses	<u>2,231,508,146</u>	<u>2,165,294,531</u>
Change in Net Assets	(77,290,176)	66,610,880
Total Net Assets - Beginning	<u>200,765,257</u>	<u>134,154,377</u>
Total Net Assets - Ending	<u>\$ 123,475,081</u>	<u>\$ 200,765,257</u>

**Ticket Sales by Product
Fiscal Years 2004 and 2003**



Total Revenues decreased by \$77.7, the result of a significant decrease in investment income. Ohio Lottery sales increased \$76.5 million, or 3.7 percent in fiscal year 2004. Instant ticket sales, which experienced an impressive increase of 9.2% in fiscal year 2003, performed extremely well, with an increase of \$76.9 million, or 7.1% percent above the prior year's sales, surpassing the \$1 billion sales mark for the second consecutive year. Online product sales experienced mixed performance by product but met the sales level achieved in the prior year. A \$15.6 million, or 8.9%, increase in Mega Millions, the result of two Ohio jackpot winners and two sequences that exceeded the \$200 million jackpot level, along with an \$11 million, or 7.1%, increase in Pick 4, offset continuing declines in the other online product offerings. Other Operating Revenues increased as a result of the receipt of \$7.0 million from the New York Lottery, representing the Ohio Lottery's share of two unclaimed Mega Millions jackpots. Non-Operating Revenues, which represent the Ohio Lottery's investment income, decreased \$161.1 million in fiscal year 2004. This decrease is the net effect of lower interest income realized from lower rates on gradually reducing investment principal, combined with a significant unrealized loss recognized on investments dedicated to the payment of annuity prizes, as noted in the analysis of Table 1.

**Operating Related Expenses and Payments to Education
Fiscal Years 2004 and 2003**



Total Expenses increased \$66.3 million, the direct result of increased sales. Prizes, bonuses and commissions increased by \$63.5 million from the prior year, in proportion with increased sales due to their variable nature. Operating Expense decreased \$3.1 million due to a concerted effort by management to manage controllable expenses given the uncertain economic environment and the

budgetary concerns raised by the Governor. As a percentage of sales, operating expenses decreased from 4.9 percent to 4.5 percent, a significant accomplishment considering the increased sales realized. Non-Operating Expenses, which are predominantly dependent on securities lending activity and the magnitude of the deferred prize liability, decreased by \$8.4 million, proportionate to the decrease in investment principal and deferred prize liability. Payments to the Lottery Profits Education Fund increased by \$14.3, the net result of the Ohio Lottery transferring \$648.1 million from its operating activities, which exceeded its budgetary commitment to the LPEF by \$10.1 million, and a one-time transfer of \$7.5 million upon the liquidation of the Unclaimed Prize Fund.

The activity described above resulted in a decrease in Net Assets of \$77.3 million, reducing the balance at June 30, 2004 to \$123.5 million from \$200.8 million.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the Ohio Lottery had \$30.5 million, net of accumulated depreciation, in Capital Assets. Table 3 below summarizes the Ohio Lottery's capital assets at the end of 2004 and 2003.

TABLE 3 - CAPITAL ASSETS (Net of Depreciation)	<u>2004</u>	<u>2003</u>
Equipment	\$ 28,904,055	\$ 43,220,816
Vehicles	<u>1,638,566</u>	<u>1,666,129</u>
Total Net Capital Assets	<u>\$ 30,542,621</u>	<u>\$ 44,886,945</u>

Total Net Capital Assets decreased \$14.3 million in fiscal year 2004 as a result of depreciation recognized on leased gaming equipment. Effective July 1, 2001, the Ohio Lottery entered into a contractual agreement with GTECH Corporation for gaming services, including leased gaming 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.

Additional information on the Ohio Lottery's capital assets may be found in Note 3 of this report.

Debt

The significant components of the Ohio Lottery's debt are deferred prize awards payable, which are payable from restricted assets, and capital leases payable. Prize Awards Payable from Restricted Assets – Net of Discount decreased \$77.9 million as a result of payments on the deferred prize obligation, and no lotto jackpots claimed with the annuity option during fiscal year 2004. Capital Lease Payable – Long-term, which as of June 30, 2004 represents only the unpaid balance on the leased gaming equipment from GTECH Corporation, decreased \$14.7 million as a result of payments made during fiscal year 2004.

Additional information on the Ohio Lottery's long-term debt may be found in Notes 4 and 6 of this report.

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 - MAJOR FUNDS
JUNE 30, 2004
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2003)

	OPERATING	DEFERRED	Totals	
			June 30, 2004	June 30, 2003
ASSETS				
Current Assets - Unrestricted				
Cash and Cash Equivalents	\$ 19,769,636	-	\$ 19,769,636	\$ 8,930,351
Cash Equity with Treasurer of State	27,601,748	-	27,601,748	17,016,127
Collateral on Lent Securities	11,135,437	-	11,135,437	7,393,858
Receivables from Agents, Net	38,032,613	-	38,032,613	45,136,277
Other Assets	3,982,022	-	3,982,022	3,666,441
Total Current Assets - Unrestricted	100,521,456	-	100,521,456	82,143,054
Current Assets - Restricted				
Cash Equity with Treasurer of State	-	\$ 625,113	625,113	16,653,561
Due From Unrestricted Assets	-	6,577,334	6,577,334	-
Dedicated Investments	-	84,664,269	84,664,269	63,140,247
Collateral on Lent Securities	-	604,622,224	604,622,224	397,732,276
Interest Receivable	-	2,910,280	2,910,280	2,815,482
Total Current Assets - Restricted	-	699,399,220	699,399,220	480,341,566
Total Current Assets	100,521,456	699,399,220	799,920,676	562,484,620
Noncurrent Assets				
Dedicated Investments, Restricted	-	852,306,194	852,306,194	1,016,438,146
Capital Assets				
Equipment	77,362,178	-	77,362,178	77,610,265
Vehicles	3,059,566	-	3,059,566	3,486,139
Accumulated Depreciation	(49,879,123)	-	(49,879,123)	(36,209,459)
Net Capital Assets	30,542,621	-	30,542,621	44,886,945
Total Noncurrent Assets	30,542,621	852,306,194	882,848,815	1,061,325,091
TOTAL ASSETS	131,064,077	1,551,705,414	1,682,769,491	1,623,809,711
LIABILITIES				
Current Liabilities - Unrestricted				
Accounts Payable	6,722,245	-	6,722,245	8,949,296
Prize Awards Payable	32,076,818	-	32,076,818	25,822,676
Obligations under Securities Lending	11,135,437	-	11,135,437	7,393,858
Due to Restricted Assets	6,577,334	-	6,577,334	-
Capital Lease Payable - Current	14,690,012	-	14,690,012	13,836,600
Deferred Revenue	2,813,331	-	2,813,331	1,929,000
Other Liabilities	1,895,980	-	1,895,980	1,543,831
Total Current Liabilities - Unrestricted	75,911,157	-	75,911,157	59,475,261
Current Liabilities - Restricted				
Obligations under Securities Lending	-	604,622,224	604,622,224	397,732,276
Prize Awards Payable - Net of Discount	-	88,199,662	88,199,662	82,609,290
Total Current Liabilities - Restricted	-	692,821,886	692,821,886	480,341,566
Total Current Liabilities	75,911,157	692,821,886	768,733,043	539,816,827
Noncurrent Liabilities:				
Prize Awards Payable from Restricted Assets - Net of Discount	-	768,703,104	768,703,104	846,616,006
Capital Lease Payable - Long-term	15,596,060	-	15,596,060	30,286,072
Accrued Workers' Compensation	4,006,745	-	4,006,745	4,143,436
Compensated Absences	2,255,458	-	2,255,458	2,182,113
Total Noncurrent Liabilities	21,858,263	768,703,104	790,561,367	883,227,627
TOTAL LIABILITIES	97,769,420	1,461,524,990	1,559,294,410	1,423,044,454
NET ASSETS				
Invested in Capital Assets - Net of Related Debt	256,549	-	256,549	764,274
Restricted for Deferred Prizes	-	90,180,424	90,180,424	169,822,140
Unrestricted	33,038,108	-	33,038,108	30,178,843
TOTAL NET ASSETS	\$ 33,294,657	\$ 90,180,424	\$ 123,475,081	\$ 200,765,257

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2004
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2003)**

	OPERATING	DEFERRED	UNCLAIMED	Totals	
				June 30, 2004	June 30, 2003
REVENUES					
Ticket Sales	\$ 2,154,715,264	-	-	\$2,154,715,264	\$2,078,254,017
Other Revenues	11,543,238	\$ 253,578	-	11,796,816	4,854,225
Total Operating Revenues	2,166,258,502	253,578	-	2,166,512,080	2,083,108,242
EXPENSES					
Prizes, Bonuses and Commissions					
Prize Awards	1,259,474,176	16,520,219	-	1,275,994,395	1,208,181,726
Bonuses and Commissions	132,765,542	-	-	132,765,542	137,030,403
Total Prizes, Bonuses and Commissions	1,392,239,718	16,520,219	-	1,408,759,937	1,345,212,129
Operating Expenses					
Personal Services	65,176,934	-	-	65,176,934	63,223,209
Maintenance	17,470,051	-	-	17,470,051	21,847,824
Depreciation	14,883,951	-	-	14,883,951	15,110,645
Other Expenses	140,609	-	-	140,609	639,174
Total Operating Expenses	97,671,545	-	-	97,671,545	100,820,852
OPERATING INCOME (LOSS)	676,347,239	(16,266,641)	-	660,080,598	637,075,261
Non-Operating Revenues (Expenses):					
Interest Income	575,302	(12,804,969)	\$ (64,443)	(12,294,110)	148,797,169
Amortization of Prize Liabilities	-	(62,933,527)	-	(62,933,527)	(68,940,102)
Loss on Equipment Disposal	(98,349)	-	-	(98,349)	(67,115)
Interest Expense - Borrower Rebates	-	(4,085,358)	-	(4,085,358)	(5,739,610)
Interest Expense - Capital Lease	(2,270,965)	-	-	(2,270,965)	(3,075,047)
Securities Lending Agent Fees	-	(82,465)	-	(82,465)	(87,676)
Payments to the Lottery Profits Education Fund	(648,106,000)	-	(7,500,000)	(655,606,000)	(641,352,000)
Total Non-Operating Expenses, Net	(649,900,012)	(79,906,319)	(7,564,443)	(737,370,774)	(570,464,381)
INCOME (LOSS) BEFORE TRANSFERS	26,447,227	(96,172,960)	(7,564,443)	(77,290,176)	66,610,880
TRANSFERS:					
Transfers to Deferred Prize Trust Fund	(16,531,244)	16,531,244	-	-	40,399,438
Transfers from Unclaimed Prize Fund	5,289,637	-	(5,289,637)	-	(40,399,438)
Total Transfers	(11,241,607)	16,531,244	(5,289,637)	-	-
Change in Net Assets	15,205,620	(79,641,716)	(12,854,080)	(77,290,176)	66,610,880
Total Net Assets - Beginning	18,089,037	169,822,140	12,854,080	200,765,257	134,154,377
TOTAL NET ASSETS - ENDING	\$ 33,294,657	\$ 90,180,424	\$ -	\$ 123,475,081	\$ 200,765,257

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

**STATEMENT OF CASH FLOWS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2004
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2003)**

	OPERATING	DEFERRED	UNCLAIMED	Totals	
				June 30, 2004	June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Sales	\$ 2,162,703,259	-	-	\$ 2,162,703,259	\$ 2,065,239,386
Cash Received from Multi-State Lottery for Grand Prize Winners	-	\$ 97,954,869	-	97,954,869	-
Cash Payments for Prize Awards	(1,253,019,709)	(249,731,145)	-	(1,502,750,854)	(1,346,119,926)
Cash Payments for Bonuses and Commissions	(132,662,693)	-	-	(132,662,693)	(136,993,684)
Cash Payments for Goods and Services	(62,392,629)	-	-	(62,392,629)	(62,916,216)
Cash Payments to Employees	(22,853,885)	-	-	(22,853,885)	(22,880,480)
Other Operating Revenues	11,543,238	253,578	-	11,796,816	4,854,225
Other Operating Expenses	(140,609)	-	-	(140,609)	(639,174)
Net Cash Provided (Used) by Operating Activities	703,176,972	(151,522,698)	-	551,654,274	500,544,131
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payments to the Lottery Profits Education Fund	(648,106,000)	-	\$ (7,500,000)	(655,606,000)	(641,352,000)
Transfers In	5,289,637	9,953,910	-	15,243,547	40,399,438
Transfers Out	(9,953,910)	-	(5,289,637)	(15,243,547)	(40,399,438)
Net Cash Provided (Used) by NonCapital Financing Activities	(652,770,273)	9,953,910	(12,789,637)	(655,606,000)	(641,352,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Property and Equipment	(744,940)	-	-	(744,940)	(983,440)
Proceeds from Sale of Property and Equipment	106,964	-	-	106,964	56,424
Repayment of Equipment Obligation	(13,836,601)	-	-	(13,836,601)	(13,047,667)
Interest Paid on Equipment Obligation	(2,270,965)	-	-	(2,270,965)	(3,075,047)
Net Cash Used by Capital and Related Financing Activities	(16,745,542)	-	-	(16,745,542)	(17,049,730)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment Income Received	605,492	15,707,604	(52,106)	16,260,990	22,302,802
Interest Expense and Agent Fees	-	(4,167,823)	-	(4,167,823)	(5,827,286)
Proceeds from the Sale and Maturity of Investments	-	455,162,569	-	455,162,569	635,858,419
Purchase of Investments	-	(341,162,010)	-	(341,162,010)	(503,785,056)
Securities Lending Proceeds	11,135,437	604,622,224	-	615,757,661	405,126,134
Securities Lending Payments	(11,135,437)	(604,622,224)	-	(615,757,661)	(405,126,134)
Net Cash Provided (Used) by Investing Activities	605,492	125,540,340	(52,106)	126,093,726	148,548,879
Net Increase (Decrease) in Cash & Cash Equivalents	34,266,649	(16,028,448)	(12,841,743)	5,396,458	(9,308,720)
Cash and Cash Equivalents - Beginning	13,104,735	16,653,561	12,841,743	42,600,039	51,908,759
CASH AND CASH EQUIVALENTS - ENDING	\$47,371,384	\$ 625,113	\$ -	\$ 47,996,497	\$ 42,600,039
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 676,347,239	\$ (16,266,641)	-	\$ 660,080,598	\$ 637,075,261
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation	14,883,951	-	-	14,883,951	15,110,645
Amortization of Discount of Prize Liabilities	-	62,933,527	-	62,933,527	68,940,102
Net Changes in Assets and Liabilities					
Receivables from Agents - Net	7,103,664	-	-	7,103,664	(13,455,802)
Other Assets	(358,107)	-	-	(358,107)	537,585
Accounts Payable	(2,227,051)	-	-	(2,227,051)	(2,267,894)
Prize Awards Payable	6,254,142	-	-	6,254,142	(280,556)
Deferred Revenue	884,331	-	-	884,331	441,171
Other Liabilities	352,149	-	-	352,149	51,667
Prize Awards Payable from Restricted Assets - Net of Discount	-	(198,189,584)	-	(198,189,584)	(206,599,148)
Accrued Workers' Compensation	(136,691)	-	-	(136,691)	746,030
Compensated Absences	73,345	-	-	73,345	245,070
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 703,176,972	\$ (151,522,698)	\$ -	\$ 551,654,274	\$ 500,544,131

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

Non-Cash items included in investment income were (\$73.5) million and \$78.8 million of unrestricted net (losses) and gains for the years ended June 30, 2004 and June 30, 2003, respectively.

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

**OHIO LOTTERY COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Ohio Lottery Commission (the "Ohio Lottery") 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 (the "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 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.

The Ohio Lottery participates in Mega Millions, a jointly operated multi-state lottery comprised of eleven states: Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. The net proceeds from the sale of Mega Millions in Ohio that remain after associated operating expenses, prize disbursements, 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.

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 Lottery Operating Fund; the Deferred Prize 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. The Ohio Lottery distinguishes operating revenues and expenses from non-operating items within the operating statements. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Ohio Lottery's operation of selling lottery tickets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As permitted by Generally Accepted Accounting Principles (GAAP), the Ohio Lottery has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

Lottery Operating Fund

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

Deferred Prize Fund

Revenues for the Deferred Prize 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 Fund primarily represent payments for deferred prizes.

Unclaimed Prize Fund

The Unclaimed Prize Fund received cash transfers from the Lottery Operating Fund each month, in an amount equal to the prizes unclaimed after their cashing eligibility has expired. Beginning in fiscal year 2002, free tickets were deducted from the total unclaimed prize per instant ticket game. The balances in this fund were used to: (1) transfer cash to the Deferred Prize Fund for the purpose of supplying investment capital for deferred prizes (in the event moneys are used to finance special games or drawings which offer deferred prizes); (2) voucher expenses for prize or promotion payments drawn against reserves of funds accumulated for unclaimed prizes; or (3) transfer cash to the Lottery Profits Education Fund.

In accordance with Amended Substitute House Bill 95, 125th General Assembly, the Unclaimed Prize Fund has been eliminated from the Ohio Lottery's fund structure commencing July 1, 2003. The Ohio Lottery is no longer required to execute cash transfers equivalent to the prizes unclaimed after the cashing eligibility has expired. These funds are accounted for within the Lottery Operating Fund and are used to fund the prize structures and operating expenses of specialty games as well as direct transfers to the Lottery Profits Education Fund. In order to liquidate the Unclaimed Prize Fund, the Office of Budget and Management executed a payment of \$7,500,000 to the Lottery Profits Education Reserve Fund on August 1, 2003, and transferred the remaining balance to the Lottery Operating Fund.

Cash and Cash Equivalents

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.

Investments

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, 2004 and 2003, of \$384,169 and \$455,922, 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

Capital assets are defined as assets with an initial, individual cost of more than \$1,000, or otherwise classified as sensitive items as described in DAS' Property Inventory Guidelines and Procedures, and are 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 straightline basis.

The estimated useful life for ticket issuing equipment is five years. The estimated useful life for all other equipment ranges from five to fifteen years. Approximately 87 percent and 93 percent of the net book value of equipment relates to gaming equipment at June 30, 2004 and 2003, respectively.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in non-operating revenues (expenses) 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 longterm 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 longterm 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. Cash flows related to the payment of prize awards are accounted for as an operating activity.

Deferred Revenue

Advanced wagers may be placed for all online 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

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. Vacation credit may be accumulated to a maximum of three times the annual rate of accrual. 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 fulltime 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 years of separation at the rate of fifty-five percent for retirement separation and fifty percent for all other separations.

Bonuses and Commissions

Agents receive a commission of 5.5 percent based on their total sales. During fiscal year 2003, a promotion was in effect from January 12, 2003 to March 15, 2003, in which agents received a 10 percent commission on instant ticket sales. Cashing bonuses are paid on a weekly basis and equal 1.0 percent of all redeemed tickets. An additional 0.5 percent is awarded to agents if their cash-to-sales ratio is 50 percent or greater. A \$5 claiming bonus is awarded to agents for validating a winning ticket worth \$600 to \$5,000. 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 three components:

- Invested in Capital Assets – 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, including the reserve for unrealized gains (losses) on investments, in accordance with the restrictions imposed by ORC 3770.06.
- 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, 2004 and 2003. No significant payments were made or liabilities recorded during the years ended June 30, 2004 and 2003 due to self-insured risks.

On December 31st, 2000 the Office of Risk Management placed the crime/bond coverage with St. Paul Insurance. This policy paid annually and remains in effect until terminated. 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, and commercial crime. This policy covers all employees of all the participating agencies, including each commissioner. The Ohio Lottery pays a premium to the State for workers' compensation benefits. Upon inception, instant-only 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 the Department of Administrative Services 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 \$29.94 for single and \$81.37 for family coverage per month and the Ohio Lottery contributes \$263.65 for single and \$726.55 for family cov-

erage 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 \$1,514,000 and \$1,457,182 for the years ended June 30, 2004 and 2003, 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 or workplace. 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 year ended June 30, 2004.

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.

Summarized Comparative Data and Reclassifications

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Ohio Lottery's financial statements for the year ended June 30, 2003, from which the summarized information was derived. In addition, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

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.

2. 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 percent 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, 2004 the carrying amount of the Ohio Lottery's deposits was \$19,769,636 and the bank balance was \$19,762,503, the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$19,662,503 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board.

Investments

The Ohio Lottery's investments at June 30, 2004 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	-	-	\$ 303,985,904	\$ 303,985,904
Securities lending collateral:				
Repurchase agreements	\$ 294,012,782	-	-	294,012,782
Commercial Paper	144,568,888	-	-	144,568,888
Corporate Notes	69,083,584	-	-	69,083,584
	<u>\$ 507,665,254</u>	<u>-</u>	<u>\$ 303,985,904</u>	<u>\$ 811,651,158</u>
Investments not Categorized:				
Investments held by broker-dealers under security loans-				
U.S. government & agency obligations				583,044,260
Equity in State of Ohio common cash and investments account (including \$11,387,628 of securities lent)				28,226,861
Collateral on loaned securities – Ohio Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio common cash and investments account				22,770,143
Investment in Treasurer of State investment pool (STAROhio)				49,940,299
Securities lending collateral – mutual funds				85,322,264
Total Investments				<u>\$ 1,580,954,985</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, 2004. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB Statement No. 28.

The total carrying amount of deposits and investments, as of June 30, 2004 categorized and disclosed in this note is \$1,600,724,621. This amount can be reconciled to the statement of net assets as follows:

	Deposits	Investments	Total
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 19,769,636	-	\$ 19,769,636
Cash Equity with Treasurer of State	-	\$ 27,601,748	27,601,748
Collateral on Lent Securities	-	11,135,437	11,135,437
Restricted Assets:			
Cash Equity with Treasurer of State	-	625,113	625,113
Dedicated Investments	-	936,970,463	936,970,462
Collateral on Lent Securities	-	604,622,224	604,622,224
Total Carrying Amount per Statement of Net Assets	<u>\$ 19,769,636</u>	<u>\$ 1,580,954,985</u>	<u>\$ 1,600,724,621</u>

Securities Lending Transactions

The Ohio Lottery 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, 2004 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 2004, 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 2004 due to prior-period losses.

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2004 and 2003 was as follows:

	2003	Increases	Decreases	2004
Equipment	\$ 77,610,265	\$ 218,733	\$ (466,820)	\$ 77,362,178
Vehicles	3,486,139	526,167	(952,740)	3,059,566
Total Capital Assets	81,096,404	744,900	(1,419,560)	80,421,744
Less Accumulated Depreciation:				
Equipment	(34,389,449)	(14,490,020)	421,346	(48,458,123)
Vehicles	(1,820,010)	(393,931)	792,941	(1,421,000)
Total Accumulated Depreciation	(36,209,459)	(14,883,951)	1,214,287	(49,879,123)
Net Capital Assets	\$ 44,886,945	\$ (14,139,051)	\$ (205,273)	\$ 30,542,621

	2002	Additions	Deletions	2003
Equipment	\$ 77,532,803	\$ 508,740	\$ (431,278)	\$ 77,610,265
Vehicles	3,589,656	474,700	(578,217)	3,486,139
Total Capital Assets	81,122,459	983,440	(1,009,495)	81,096,404
Less Accumulated Depreciation:				
Equipment	(20,102,641)	(14,679,604)	392,796	(34,389,449)
Vehicles	(1,882,129)	(431,041)	493,160	(1,820,010)
Total Accumulated Depreciation	(21,984,770)	(15,110,645)	885,956	(36,209,459)
Net Capital Assets	\$ 59,137,689	\$ (14,127,205)	\$ (123,539)	\$ 44,886,945

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. The assets acquired through capital leases are as follows:

	2004	2003
Asset:		
Computer Equipment and Systems	\$ 69,387,073	\$ 69,431,073
Accumulated Amortization	(42,788,695)	(27,772,429)
Total	\$ 26,598,378	\$ 41,658,644

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

Fiscal Year Ending June 30	Amount
2005	\$16,107,566
2006	16,107,566
Total Minimum Lease Payments	32,215,132
Amount for Interest	(1,929,060)
Present Value of Net Minimum Lease Payments	\$30,286,072

On July 1, 2001, the Ohio Lottery 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, the first of which was exercised on July 1, 2003. In addition, the lease requires repayment over 60 months. The total cost of the equipment added as a result of the contract is \$69,387,073, net of a partial disposal adjustment.

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2004 and 2003 consist of the following:

	2004	2003
Current portion - face amount	\$ 142,720,512	\$ 142,713,519
Less: Unamortized discount	(54,520,850)	(60,104,229)
Current portion - present value	88,199,662	82,609,290
Noncurrent portion - face amount	1,174,596,344	1,309,264,118
Less: Unamortized discount	(405,893,240)	(462,648,112)
Noncurrent portion - present value	768,703,104	846,616,006
Total Prize Awards Payable from Restricted Assets— Net of Discount	\$ 856,902,766	\$ 929,225,296

Interest rates used to determine the present values ranged from 4.0 percent to 11.69 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2004, is summarized as follows:

Fiscal Year Ending June 30	Amount
2005	\$ 142,720,512
2006	127,253,365
2007	116,166,224
2008	100,696,011
2009	85,302,114
2010 through 2014	329,870,645
2015 through 2019	280,756,990
2020 thereafter	134,550,995
Subtotal	1,317,316,856
Unamortized discount	(460,414,090)
Net Prize Liability	\$ 856,902,766

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 lottery tickets equal to, as nearly as is practicable, fifty percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$198 million and \$170 million for the years ended June 30, 2004 and 2003, respectively.

During fiscal year 2004, Mega Millions jackpots of \$162 million and \$21 million were won and claimed in Ohio. Since both jackpots were claimed with the lump-sum cash election option, the net jackpot funding received in the Deferred Prize Fund from other states in the amount of \$98.0 million was paid to the respective prize winners.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2004 and 2003 is as follows:

	2004	2003
Accrued Payroll	\$ 1,090,723	\$ 898,803
Accrued Agent Bonuses	162,660	60,006
Accrued Workers' Compensation – Current Portion	443,445	390,531
Compensated Absences - Current Portion	199,152	194,491
	<u>\$ 1,895,980</u>	<u>\$1,543,831</u>

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2004 and 2003 was as follows:

	2003	Additions	Reductions	2004
Prize Awards Payable from				
Restricted Assets – Net of Discount	\$ 846,616,006	\$ 171,818,243	\$ (249,731,145)	\$ 768,703,104
Capital Lease Payable – Long-term	30,286,072	-	(14,690,012)	15,596,060
Accrued Workers' Compensation	4,143,436	-	(136,691)	4,006,745
Compensated Absences	2,182,113	2,156,608	(2,083,263)	2,255,458
	<u>\$ 883,227,627</u>	<u>\$ 173,974,851</u>	<u>\$ (266,641,111)</u>	<u>\$ 790,561,367</u>
Total Noncurrent Liabilities				
	<u>\$ 883,227,627</u>	<u>\$ 173,974,851</u>	<u>\$ (266,641,111)</u>	<u>\$ 790,561,367</u>

	2002	Additions	Reductions	2003
Prize Awards Payable from				
Restricted Assets – Net of Discount	\$ 918,108,008	\$ 74,190,057	\$ (145,682,059)	\$ 846,616,006
Capital Lease Payable – Long-term	44,122,672	-	(13,836,600)	30,286,072
Accrued Workers' Compensation	3,397,406	746,030	-	4,143,436
Compensated Absences	1,937,043	2,506,117	(2,261,047)	2,182,113
	<u>\$ 967,565,129</u>	<u>\$ 77,442,204</u>	<u>\$ (161,779,706)</u>	<u>\$ 883,227,627</u>
Total Noncurrent Liabilities				
	<u>\$ 967,565,129</u>	<u>\$ 77,442,204</u>	<u>\$ (161,779,706)</u>	<u>\$ 883,227,627</u>

The amounts due within one year are reported as Current Liabilities.

7. PENSIONS - DEFINED BENEFIT PENSION PLAN

The Ohio Lottery contributes to the Ohio Public Employees Retirement System (OPERS) which administers three separate pension plans as described below:

- The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and cost of living adjustments to members of the Traditional

and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contributions were consistent across all three plans (TP, MD and CO). The 2003 member contribution rates were 8.5 percent for members in classifications other than law enforcement and public safety, and the employer contribution rate for state employers was 13.31 percent of covered payroll. The Ohio Lottery's required contributions to PERS for the years ended June 30, 2004, 2003, and 2002 were \$1,434,004, \$1,458,591, and \$1,566,515 respectively, equal to the payments made in each year.

8. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, OPERS provides retirement, disability, survivor, and post-retirement health care benefits to qualifying members of both the traditional and the combined plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. 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 Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for state employers was 13.31 percent of covered payroll, of which 5.0 percent was used to fund health care for the year.

The Ohio Revised Code provides the statutory authority to require public employers to fund post-retirement health care through their contributions to OPERS. 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, 2002.
- 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) becomes 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 percent of unrealized market appreciation or depreciation on investment assets annually.
- Investment Return - The investment assumption rate for 2002 was 8.0 percent.
- Active Employee Total Payroll - An annual increase of 4.0 percent, 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 4.0 percent base increase, were assumed to range from 0.5 percent to 6.3 percent.
- Health Care - Health care costs were assumed to increase 4.0 percent annually.

OPEB are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. In fiscal years 2004, 2003 and 2002, \$862,975, \$877,771, and \$747,733, respectively, of the Ohio Lottery's total contributions to OPERS were used for postemployment benefits. The actuarial value of the Retirement System's net assets available for OPEB was \$10.0 billion at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered-position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan. The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefits recipients. As of February 2004, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

9. 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 reasonable 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.

10. 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, 2004 and 2003, respectively:

	2004	2003
Department of Administrative Services (DAS) Expenditures		
Telecommunications	\$ 392,164	\$ 269,603
Computer	326,139	714,623
Rent	921,416	1,040,898
Printing	209,333	190,222
Miscellaneous	325,774	438,982
Total DAS Expenditures	2,174,826	2,654,328
Other Agency Expenditures	1,195,897	772,154
Total Transactions with other State Entities	\$ 3,370,723	\$ 3,426,482

11. SUBSEQUENT EVENTS

On July 27, 2004, the Ohio Lottery entered into an agreement with the Ohio Attorney General, transferring the administration and monitoring of charitable Bingo licensing responsibilities to the Ohio Lottery. The change is expected to create efficiencies and allow for better overall accounting of monies raised for charitable purposes. The transfer of licensing and monitoring will occur in four phases over the course of the next two fiscal years. Once fully functional, the Ohio Lottery will be compensated \$1.2 million per year for personal services rendered.

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP) BASIS AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amount		Actual	Variance with Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Ticket Sales	\$2,192,803,654	\$2,085,319,000	\$2,162,703,259	\$ 77,384,259
Other Revenue	33,174,501	33,174,501	72,954,706	39,780,205
Total Revenue	2,225,978,155	2,118,493,501	2,235,657,965	117,164,464
Expenses				
Personal Services	25,114,200	25,114,200	23,187,881	1,926,319
Maintenance	20,100,168	20,100,168	18,290,510	1,809,658
Equipment	3,067,250	3,067,250	1,947,400	1,119,850
Game and Advertising Contracts	68,683,300	68,683,300	65,476,992	3,206,308
Subsidy	335,000	335,000	305,000	30,000
Prizes, Bonuses and Commissions	166,173,455	166,173,455	154,038,413	12,135,042
Annuity Prizes	162,228,451	252,229,597	242,863,357	9,366,240
Payments to Lottery Profits Education Fund	637,900,000	637,900,000	655,606,000	(17,706,000)
Total Expenses	1,083,601,824	1,173,602,970	1,161,715,553	11,887,417
Excess of Revenues over Expenses	\$1,142,376,331	\$ 944,890,531	\$1,073,942,412	\$129,051,881

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	\$ (77,290,176)
Prizes Redeemed at Agent Locations	879,092,625
Agent Bonuses and Commissions	132,765,542
Depreciation	14,883,951
Amortization of Discount of Prize Liabilities	62,933,527
Interest Expense – Borrower Rebates	4,085,358
Interest Expense – Capital Leases	2,270,965
Securities Lending Agent Fees	82,465
Loss on Equipment Disposal	98,349
Decrease in Fair Value of Investments	73,452,000
Encumbrances	(19,575,065)
Net Adjustments for Revenue and Expense Accruals	1,142,871
Excess of Revenues over Expenses	\$1,073,942,412

[STATISTICAL SECTION]

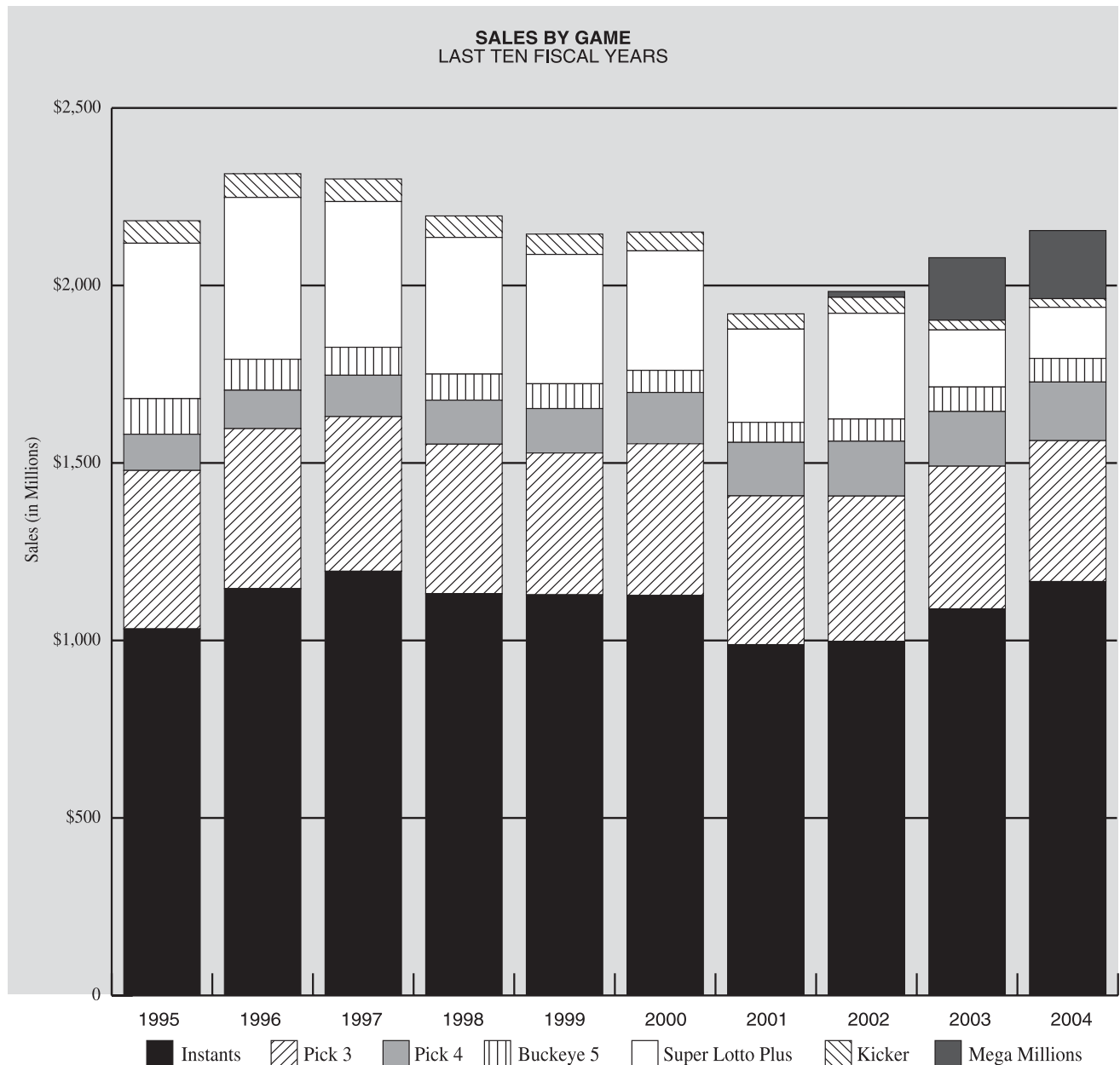
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REVENUES - LAST TEN FISCAL YEARS (In Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
ONLINE GAMES										
PICK 3	\$ 446.2	\$ 450.6	\$ 435.6	\$ 421.1	\$ 399.4	\$ 427.3	\$ 419.0	\$ 409.2	\$ 401.8	\$ 396.8
PICK 4	102.1	108.2	116.5	124.0	125.1	144.6	150.7	154.6	154.2	165.2
BUCKEYE 5	100.3	87.3	78.8	73.5	69.9	62.2	56.5	62.4	68.9	66.6
SUPER LOTTO ⁽¹⁾	437.8	455.8	410.6	384.9	364.4	336.6	262.5	297.9	160.7	143.8
KICKER	63.3	66.7	63.5	60.5	57.2	52.9	42.9	45.0	27.3	24.5
MEGA MILLIONS	-	-	-	-	-	-	-	16.5	176.2	191.8
TOTAL ONLINE GAMES	1,149.7	1,168.6	1,105.0	1,064.0	1,016.0	1,023.6	931.6	985.6	989.1	988.7
INSTANT GAMES ⁽²⁾	1,032.6	1,146.1	1,195.0	1,131.8	1,128.7	1,126.8	988.3	997.5	1,089.1	1,166.0
TOTAL TICKET SALES	2,182.3	2,314.7	2,300.0	2,195.8	2,144.7	2,150.4	1,919.9	1,983.1	2,078.2	2,154.7
INTEREST INCOME/ OTHER REVENUE	86.1	140.9	163.3	230.4	127.3	79.2	180.2	124.1	153.7	(0.5)
TOTAL REVENUES	\$2,268.4	\$2,455.6	\$2,463.3	\$2,426.2	\$2,272.0	\$2,229.6	\$2,100.1	\$2,107.2	\$2,231.9	\$2,154.2

(1) In July 2000, the Super Lotto game was changed to Super Lotto Plus and the matrix was changed to 6/49.

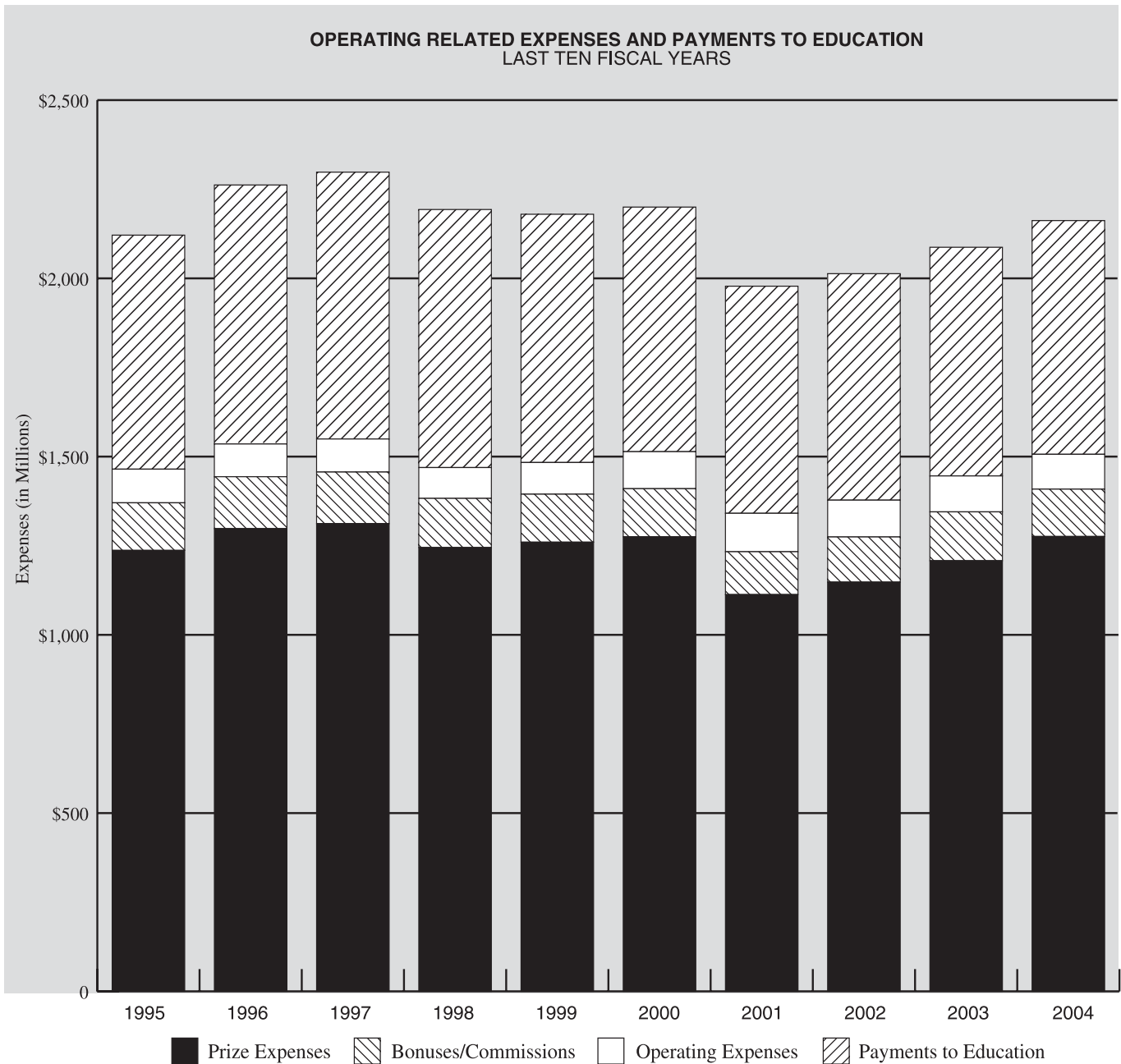
(2) FY 96-FY 04 Instant tickets are reported net of free tickets. In prior years, the amount of free tickets issued was recorded in ticket sales.



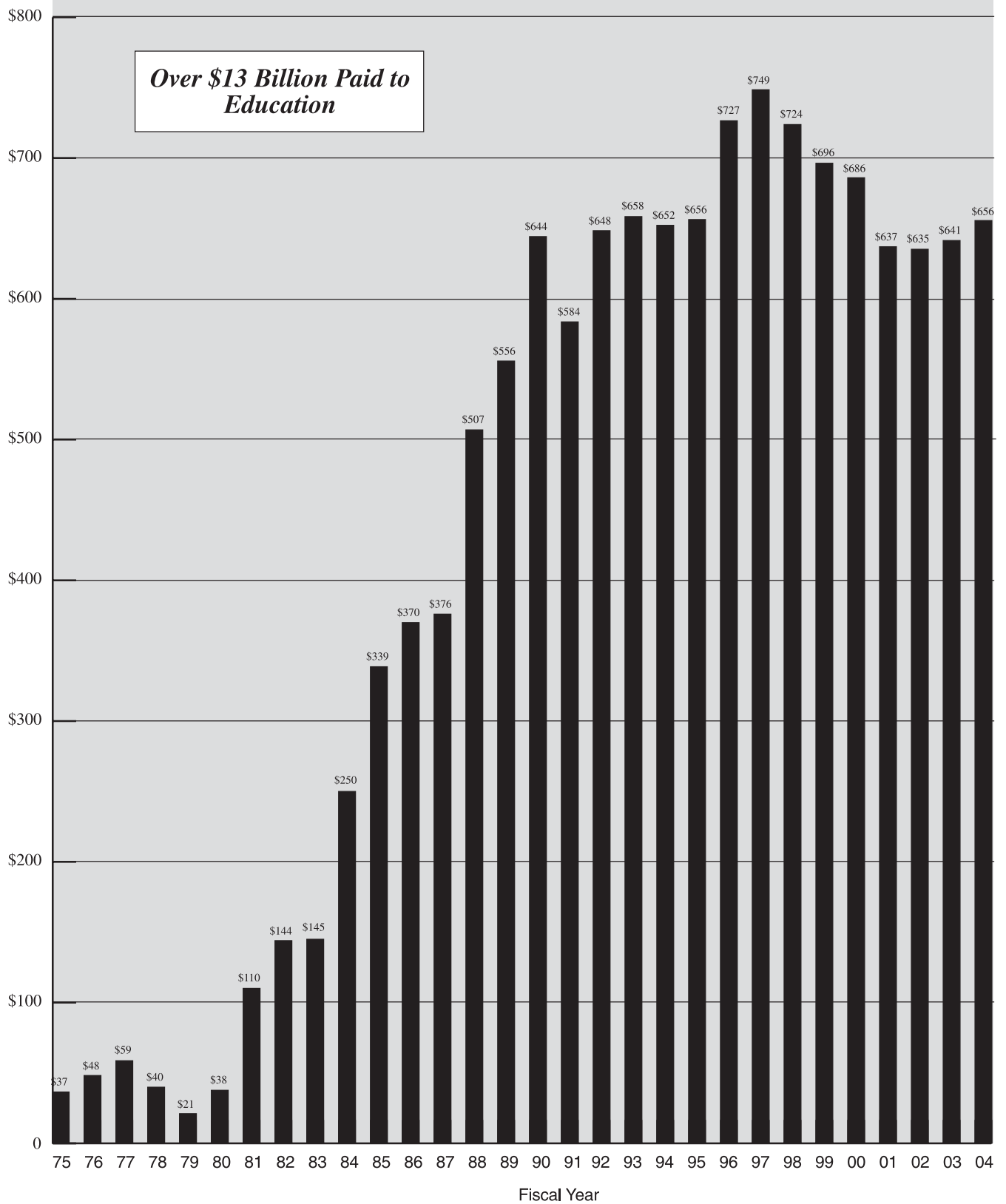
EXPENSES AND PAYMENTS TO EDUCATION - LAST TEN FISCAL YEARS (In Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
PRIZE EXPENSE ⁽¹⁾	\$1,237	\$1,298	\$1,312	\$1,245	\$1,260	\$1,275	\$1,113	\$1,148	\$1,208	\$1,276
BONUSES / COMMISSIONS	133.4	145.6	144.7	137.8	134.6	135.0	120.2	126.6	137.0	132.8
OPERATING EXPENSES	94.4	91.8	92.7	86.5	88.9	103.9	107.8	103.3	100.8	97.7
TOTAL EXPENSES	\$1,465	\$1,535	\$1,550	\$1,469	\$1,483	\$1,514	\$1,341	\$1,378	\$1,446	\$1,507
PAYMENTS TO EDUCATION	\$656.4	\$726.5	\$748.5	\$723.8	\$696.3	\$686.0	\$637.0	\$635.2	\$641.4	\$655.6

(1) Prize Expense for FY 96-04 is reported net of free tickets. In prior years, the amount of free tickets issued was recorded in prize expense.



**HISTORY OF PAYMENTS TO EDUCATION
FROM INCEPTION (in Millions)**



U.S. LOTTERY SALES ⁽¹⁾
Ranked by Sales
Fiscal Year 2003 ⁽²⁾

	Lottery	Population ⁽¹⁾ (in millions)	Ticket Sales (in millions)	Per Capita Sales
1	New York	19.2	5,395.96	\$281
2	Massachusetts	6.4	4,191.14	\$651
3	Texas	22.1	3,130.69	\$142
4	Florida	17.0	2,867.98	\$169
5	California	35.5	2,781.56	\$ 78
6	Georgia	8.7	2,451.81	\$282
7	Pennsylvania	12.4	2,132.98	\$172
8	OHIO	11.4	2,078.25	\$182
9	New Jersey	8.6	2,075.50	\$240
10	Michigan	10.1	1,681.55	\$167
11	Illinois	12.7	1,564.95	\$124
12	Maryland	5.5	1,322.24	\$240
13	Virginia	7.4	1,135.73	\$154
14	Connecticut	3.5	865.29	\$248
15	South Carolina	4.1	724.31	\$175
16	Missouri	5.7	708.05	\$124
17	Kentucky	4.1	673.49	\$164
18	Indiana	6.2	664.42	\$107
19	Washington	6.1	460.36	\$ 75
20	Wisconsin	5.5	435.05	\$ 80
21	Colorado	4.6	391.47	\$ 86
22	Oregon ⁽³⁾	3.6	354.80	\$100
23	Minnesota	5.1	351.82	\$ 70
24	Arizona	5.6	322.27	\$ 58
25	Louisiana	4.5	311.46	\$ 69
26	Rhode Island ⁽³⁾	1.1	238.99	\$222
27	D.C.	0.6	237.89	\$422
28	New Hampshire	1.3	221.20	\$172
29	Kansas	2.7	202.94	\$ 75
30	West Virginia ⁽³⁾	1.8	192.09	\$106
31	Iowa	2.9	187.83	\$ 64
32	Maine	1.3	164.63	\$126
33	New Mexico	1.9	137.01	\$ 73
34	Delaware ⁽³⁾	0.8	102.40	\$125
35	Idaho	1.4	98.17	\$ 72
36	Nebraska	1.7	80.92	\$ 47
37	Vermont	0.6	79.40	\$128
38	Montana	0.9	34.68	\$ 38
39	South Dakota ⁽³⁾	0.8	28.64	\$ 37

(1) Source: "La Fleur's 2004 World Lottery Almanac"

(2) Fiscal Year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (September 30).

(3) This data represents only revenue from traditional lottery games and does not include video lottery terminal (VLT) operations.



The Ohio Lottery Commission

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www.ohiolottery.com

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OHIO LOTTERY COMMISSION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2004**