



**Mary Taylor, CPA**  
Auditor of State



OHIO LOTTERY COMMISSION  
CUYAHOGA COUNTY

TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	1

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Commission:

We have audited the financial statements of the business-type activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery) as of and for the year ended June 30, 2008, which collectively comprise the Lottery's basic financial statements and have issued our report thereon dated January 23, 2009. The prior year comparative information has been derived from the Lottery's 2007 financial statements and, in our report dated December 12, 2007, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Lottery's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lottery's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Lottery's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Lottery's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Lottery's management in a separate letter dated January 23, 2009.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Lottery's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management and the Commission. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

January 23, 2009



**OH!**

**how I want  
to be a biologist  
when I grow up**

**OH!**  
LOTTERY.

**The Ohio Lottery Commission**

An Enterprise Fund  
of the State of Ohio

Comprehensive Annual Financial Report  
for the Fiscal Years Ended June 30, 2008 and 2007

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# **The Ohio Lottery Commission**

An Enterprise Fund of the State of Ohio  
Comprehensive Annual Financial Report  
For the Fiscal Years Ended June 30, 2008 and 2007

Prepared by  
The Ohio Lottery Office of Finance

**Ted Strickland, Governor**

*Michael A. Dolan, Executive Director*

*Allan C. Krulak, Commission Chairperson*

*Dennis R. Berg, CPA, CFE, Deputy Director, Office of Finance*

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# TABLE OF CONTENTS

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## **INTRODUCTORY SECTION**

Letter of Transmittal .....	6
GFOA Certificate of Achievement.....	12
Structure of Organization.....	13
Principal Officials .....	14

## **FINANCIAL SECTION**

Independent Accountants' Report.....	16
Management's Discussion and Analysis.....	18
Basic Financial Statements:	
Statement of Net Assets –Major Funds .....	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Major Funds.....	23
Statement of Cash Flows – Major Funds .....	24
Notes to Financial Statements .....	25

## **STATISTICAL SECTION**

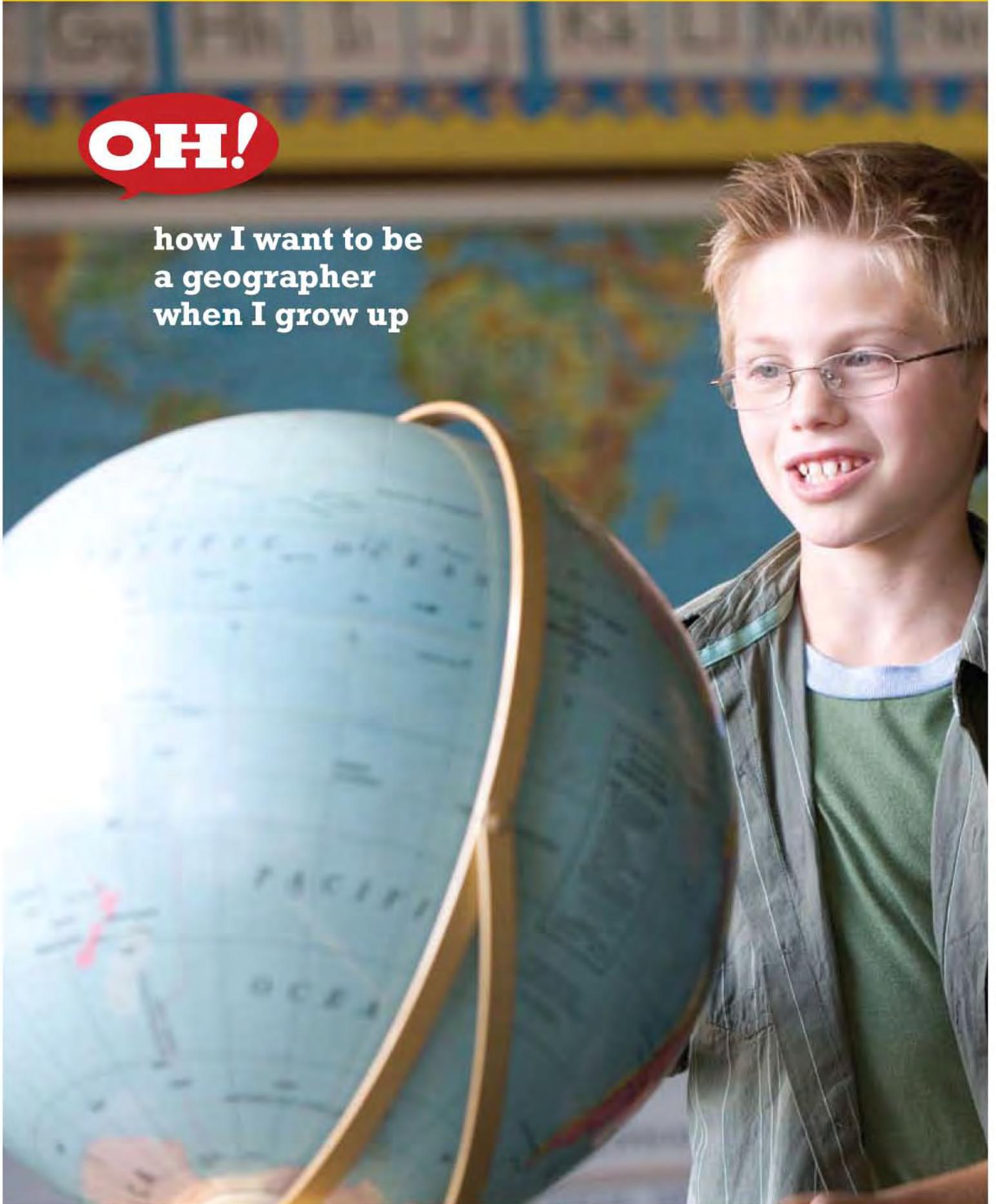
Introduction.....	36
Ohio Lottery Statistics:	
Net Assets, Revenues and Sales .....	37
Prize Payout and Expenses.....	38
History of Payments to Education.....	40
Lottery Industry Statistics.....	41
Ohio Lottery Comparative Statistics .....	42
Employee Data .....	43
Retailer Data.....	43
State of Ohio Statistics:	
State of Ohio Demographics .....	44

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# Introductory Section

**OH!**

**how I want to be  
a geographer  
when I grow up**



## THE OHIO LOTTERY COMMISSION

615 West Superior Avenue  
Cleveland, Ohio 44113-1879

1.800.686.4208

January 23, 2009

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

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Ohio Lottery Commission (“The Ohio Lottery”) for the fiscal year ended June 30, 2008. The Office of Finance 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 fund of the State and is included in the State’s CAFR. The Ohio Lottery’s 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.

### 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. Ticket sales increased significantly in the early 1990’s. As of June 30, 2008, 42 U.S. states, the District of Columbia and the U.S. Virgin Islands operate lotteries using computer-based online games and instant “scratch off” games.

### ECONOMIC OUTLOOK

The U.S. economy is being battered by a trio of crises: housing, credit, and financial, which have triggered heavy layoffs in construction, finance and related industries. The overall weakness in the economy, along with high gasoline prices, resulted in heavy layoffs in the auto industry. The Consumer Confidence Index (CCI) stands at 38.0 in October 2008, its lowest reading for the past twelve months. This index is closely monitored by economists as consumer spending accounts for two-thirds of all U.S. economic activity. Despite the housing, credit, and financial crises, the U.S. economy had continued to expand in 2008 with a 2.8 percent increase in Gross Domestic Product (GDP) from the first quarter 2008 to the second quarter 2008. In November 2008, the Bureau of Economic Analysis released preliminary third quarter data reflecting a decrease in GDP of 0.5 percent. There were two major factors contributing to the increase in GDP in the second quarter. The first was the billions of dollars in federal tax rebates that spurred consumer spending, and the second being the weakening of the dollar that has made U.S. goods cheaper and more attractive to foreign

buyers. The factors related to the decrease in the third quarter were less contributions from personal consumption expenditures, residential fixed investment, and equipment and software.

The National Bureau of Economic Research (NBER) confirmed that the United States is in a recession that started in December 2007. The NBER defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months. The financial press often states that a recession is defined as two consecutive quarters of decline in GDP, this not necessarily accurate as the latest recession in 2001 also did not include two consecutive quarters of declining GDP. The longest two recessions since the postwar era occurred in November 1973 and July 1981, both lasting 16 months. The average recession since 1900 has lasted 14 months.

High energy prices have continued to impact the labor market during the first six months of 2008. However, job losses were primarily confined to the sectors affected by the collapse of the housing bubble and the high cost of energy. The Bureau of Labor Statistics October jobs report shows a weak U.S. economy. The survey shows that unemployment has risen to a fifteen-year high of 6.7 percent, including a job loss of 533,000, the worst monthly job loss since December 1974.

Statistics have revealed that the U.S. inflation rate had hit the highest point in seventeen years. Prices in the U.S. increased by 5.6 percent in the twelve-months to July 2008 and the rate of inflation was higher than economists forecasted. Much of the rise was attributed to the increases in energy prices and food costs which were 30.0 percent and 6.0 percent higher, respectively. Since July, the inflation rate has retreated 1.9 percent with the drop in September of 1.0 percent being the largest one month decrease since publication of seasonally adjusted changes began in February 1947. Since April, the Federal Reserve (the Fed) had kept the federal funds rate stable at 2.0 percent as it battled with high inflation and possible recession. However in an attempt to bolster the U.S. and world economies, the Fed reduced the federal funds rate by 0.5 percent twice during October 2008, thus bringing the rate to 1.0 percent.

The Consumer Price Index (CPI) reported an unadjusted 12-month rate of 3.7 percent for October 2008. This rate increase has been driven by increases in energy and food costs. Cost to consumers for products and services have an impact on personal income. U.S. personal income grew in the first half of 2008, according to data released in August 2008 by the U.S. Bureau of Economic Analysis. Real disposable income, which is more significant to lottery revenue and adjusted for inflation, had also grown monthly in the first half of 2008 until reversing itself for the three month period of June through August. September and October 2008 have reversed the latest trend with a slight increase of 0.2 percent and 1.0 percent respectively.

Ohio’s economy, which plays a more significant role in relation to the Ohio Lottery’s revenue, had an unemployment rate in October 2008 of 7.3 percent compared to 5.5 percent at the beginning of the year, both higher when compared to the national average of the same period. Personal income in Ohio grew by 4.7 percent in 2007 compared to U.S. growth of 5.2 percent. Moody’s Economy.com forecasts a slow growth rate of 1.9 percent for personal income in 2008 for Ohio.

Many factors in the national and state economy have a direct impact on revenue generation at the Ohio Lottery. As smaller retail outlets close, national big box retailers and bulk consumer product warehouse clubs open in their place. The Ohio Lottery’s revenues are negatively impacted by this national and statewide trend because these retailers do not consider lottery products part of their business model. Gaming industry expansion has put downward pressure on future revenue growth. Casinos and slot machine venues are within a relatively short drive from Ohio. Michigan, New York, West Virginia, Pennsylvania,

Indiana, and Canada compete against the Ohio Lottery with casino gaming drawing disposable income and lottery revenue away from Ohio and into competing states.

Although the number of traditional retailers has declined, the Ohio Lottery's retailer base has experienced a turn around since the August 2008 inception of Keno. The new game has brought bars, restaurants and other age and time controlled social outlets into the fold as licensed Ohio Lottery retailers.

## LOTTERY PRODUCTS

The Ohio Lottery provides the opportunity for the public 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 2008, instant game sales were nearly \$1.4 billion, an increase of \$11.0 million, or 0.8 percent, from the previous fiscal year and represented 58.7 percent of total ticket sales. Instant games had little growth until multiple game strategies were introduced. As many as 60 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.

The Ohio Lottery continued to feature several \$10 and \$20 "spot-light" instant games in fiscal year 2008. These games, along with lower priced tickets, generated sales exceeding \$100 million for thirty-two (32) consecutive months as of June 2008.

**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 determine if they have matched the numbers and won.

**MEGA MILLIONS** is a multi-state, online game. For each wager, players select 5 numbers from a pool of 1 to 56 and select one Mega ball number from a second pool of 1 to 46. To win the jackpot, all six numbers must be matched. The jackpot starts at \$12 million and increases if not won. Drawings are held on Tuesday and Friday evenings. Mega Millions sales for fiscal year 2008 were \$201.0 million, or 8.6 percent of total Ohio Lottery sales.



**KICKER** is an online game, with a top prize of \$100,000, which can only be purchased along with Mega Millions. To win you must match in exact order, from left to right, the computer generated six-digit Kicker number printed on each Mega Millions ticket. Lesser prizes are awarded for 5 of 6, 4 of 6, 3 of 6, and 2 of 6 matches. Kicker sales are materially impacted by the sales volume of Mega Millions. Sales for fiscal year 2008 were \$21.4 million, approximately 0.9 percent of total Ohio Lottery sales.



**CLASSIC LOTTO** is an online game in which players select 6 numbers from a pool of 1 to 49. To win the jackpot all six numbers must be matched. The jackpot starts at \$1 million and increases if not won. Drawings are held on Monday, Wednesday, and Saturday evenings. Classic Lotto sales for fiscal year 2008 were \$41.2 million, or 1.8 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). A wheel wager can also be placed. This wager is, in essence, equivalent to a straight bet being made for each number combination. Pick 3 sales for fiscal year 2008 were \$387.1 million, or 16.7 percent of total Ohio Lottery sales.



**PICK 4** is played similar to Pick 3. 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 for fiscal year 2008 were \$198.8 million, approximately 8.6 percent of total Ohio Lottery sales. Both Pick 3 and Pick 4 are drawn midday and evenings Sunday through Saturday.



**ROLLING CASH 5** is an online game in which players select 5 numbers from a pool of 1 to 39, with overall odds of winning any prize of 1 in 9. The top prize starts at \$100,000 and increases if not won. Sales for fiscal year 2008 were \$70.5 million, approximately 3.0 percent of total Ohio Lottery sales. Drawings are held Sunday through Saturday.



**RAFFLE** was introduced to the Ohio Lottery's players for the first time in fiscal year 2007. The game is similar to a traditional 50-50 raffle, with players purchasing a single ticket worth \$20. The tickets, which have a six-digit number, are sold in sequential order. Prizes range from \$100 to \$1,000,000. The sales period for raffles is targeted for a set period of time, followed by the drawing. Sales for fiscal year 2008 were \$10.0 million or 0.4 percent of total Ohio Lottery sales.



**TEN-OH!** is an online game which was introduced in August 2007. Ten-OH! is a pick 10 draw game in which players can win a top prize of \$500,000 by matching 10 of 20 numbers drawn. There are six other prizes including \$3 for matching none of the 20 numbers drawn. Drawings are held both midday and evenings on Sunday through Saturday. Sales for fiscal year 2008 were \$18.0 million, approximately 0.8 percent of total Ohio Lottery sales.



**EZPLAY** is a game that was introduced in Ohio in April 2008. EZPlay is a hybrid instant/online game. EZPlay combines the instant win experience with an online game component. The player purchases an online ticket that is made up of two sections, a draw section followed by a play section. Players then



match the two sections to determine if they are a winner. Game themes and ticket selling prices can be easily changed to keep the product line fresh. Sales for fiscal year 2008 were \$12.3 million, approximately 0.5 percent of total Ohio Lottery sales.

## 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 2008, the Ohio Lottery transferred \$672.2 million to the LPEF, bringing the total funding the Ohio Lottery has provided in support of the State's public education system to over \$15.6 billion since its inception in 1974. The \$672.2 million transfer to the LPEF in fiscal year 2008 was \$14.3 million above the Ohio Lottery's transfer commitment amount set forth in the fiscal year 2008-2009 budget. In addition to this rewarding accomplishment, several other accomplishments were achieved during fiscal year 2008. These include:

- The Ohio Lottery underwent a comprehensive re-branding campaign, creating a new brand identity and story during fiscal year 2008, placing special emphasis on the positive and significant contributions the Ohio Lottery makes to the State's educational system. The initiative was unveiled to employees in April 2008 and to retailers in June 2008. Customers have begun seeing the new brand phased-in through various marketing elements, such as media and point-of-purchase advertising. The new brand message will be reinforced over the upcoming fiscal year.
- Academic All Stars kicked off its first year honoring outstanding students and teachers from around the state. The Ohio Lottery encourages nominations from students, teachers and parents for the student Academic All Star and Teacher of the Month awards. More than 100 schools statewide were represented in the nomination process. Random drawings are held monthly, choosing teacher and student nominations submitted from each of the Ohio Lottery's nine geographic areas. Awardees receive public recognition and an invitation to a community or sports event.
- The Ohio Lottery offered to pay the materials and enrollment fee for any school entering the Scripps National Spelling Bee. Approximately 1,300 schools took advantage of the Ohio Lottery's support for entry to this prestigious national event this past year. The event is held annually in March.
- Since May 2002 when Ohio began participating in the Mega Millions game, Ohio has realized eleven jackpot winners in which the advertised jackpots totaled more than \$1.3 billion. The State of Ohio benefits each time a jackpot winner is drawn in Ohio since state income tax withholdings are withheld from the prize winner's gross proceeds. Since the inception of Mega Millions, total state tax withholdings for jackpot prize winners is nearly \$28.2 million.
- The Ohio Lottery is an active participant in the State's implementation of the Ohio Administrative Knowledge System (OAKS) project. The system has integrated the functions of five major statewide business functions and has resulted in decreased paperwork, duplication of effort, and minimizes the potential for inaccurate information. The Ohio Lottery participated in the rolling out of the Budget module in July 2008 and will be used to help develop the fiscal year 2010-2011 biennium budget.
- Due to popular demand, the Ohio Lottery's *Cash Explosion Double Play* television show returned in October 2007. The instant ticket game, Cash Explosion, which provides cash prizes and opportunities to be a show contestant, went on sale in July

2007. Cash Explosion replaced the game show *Make Me Famous, Make Me Rich*.

- In March 2008, the Ohio Lottery expanded its bank cashing network by welcoming U.S. Bank into the bank cashing program for prize winners. A combined total of approximately 190 National City Bank and U.S. Bank branches are strategically located throughout the State of Ohio and participate in the vital program. Bank cashing allows a prize winner to immediately receive cash for prizes won between \$600 and \$5,000.
- The Ohio Lottery instituted a pilot program in January 2008 utilizing "Lottery to Go" machines. These player activated machines are designed to allow the player to purchase instant and online tickets without the direct assistance of a lottery retailer. The "Lottery to Go" machines can accept cash and carry twenty-four instant ticket games for purchase as well as any online game with the exception of KENO. The pilot machines are both located in Cleveland.
- In an effort to promote a healthy and productive workforce, Ohio Lottery employees participated in numerous health and wellness awareness programs along with free health screenings and fitness health walks throughout the year. The health programs are designed to empower employees and encourage positive living habits which in turn, help to create a productive workforce. The positive momentum and general acceptance by the Ohio Lottery's associates has continued into fiscal year 2009. Lastly, certain state programs are designed to actually reward employees monetarily as a direct result of their participation.
- The Ohio Lottery has made a concerted effort to be responsible and safeguard the environment by "Going Green". The Ohio Lottery has downsized its vehicles in both size and number, resulting in better fuel efficiency and reduced repair costs.
  - Mini vans now make up 85 percent of the fleet, compared to 62 percent last year.
  - Flex fuel vehicles have increased from 42 percent to 66 percent this year.

The Ohio Lottery is also participating in a State sponsored recycling program. In fiscal year 2008, the Ohio Lottery recycled 50,249 pounds of paper and 4,125 pounds of plastic. Aluminum cans are also recycled as part of the program.

## FUTURE PROJECTS

The Ohio Lottery continues to develop new ways to enhance its current product offerings and maximize operational efficiency and effectiveness. In fiscal year 2009, the Ohio Lottery's energies are being concentrated on the following projects:

- The Ohio Lottery, after a significant contract award process, has awarded and entered into a contract with Intralot USA to be the provider of the Ohio Lottery's gaming system beginning July 1, 2009. The contract award is for two years, with up to four, two-year renewals; the contract value is roughly \$170 million over ten years. The Ohio Lottery is projected to save nearly \$200 million under the new contract, compared to the Ohio Lottery's current contract, over a 10-year period. Expected savings are calculated on lower commission rates paid to the vendor, savings on communication services and the bundling of ticket dispensing and player activated equipment. The new gaming system will replace all existing gaming equipment to include terminals, printers, ticket checkers and communications protocols.

- The Ohio Lottery debuted **KENO** in Ohio in August 2008. Keno is restricted to retailers who hold a Class D liquor permit with on-site consumption in age and time controlled environments. Along with the Ohio Lottery's traditional retailer recruitment efforts, the Keno launch has expanded the Ohio Lottery's retailer base, as all Keno retailers may carry all Ohio Lottery products. The Ohio Lottery intends to further increase the number of retailers by continuing to recruit retail establishments eligible to sell Keno. The targeted goal for Keno retailers is approximately 2,000 retailers, with further expansion possible in fiscal year 2009 and beyond.
- In an effort to cultivate new channels of sales, the Ohio Lottery is gathering vital information on the potential use of gift cards. The gift card market has and continues to grow at an amazing pace. Today, Ohio Lottery products can only be purchased at an Ohio Lottery retailer. Gift cards are designed to increase the convenience of selling a lottery product. By placing Ohio Lottery gift cards at key non-lottery retailers, lottery products will be available to a larger audience. Placing gift cards at current retailers can also add to the convenience. Most of the larger retailers have dedicated registers for lottery sales and the Ohio Lottery desires to expand product availability by offering products at all viable check-out registers. Gift cards can fill this void by being placed in every check out lane. Lastly, gift cards may serve as the key catalyst allowing the Ohio Lottery to successfully penetrate into the big box retail market.
- The Ohio Lottery has been and continues to research the prospect of creating a Loyalty or VIP Card program. The card would be tied to a web site and allow players to gain rewards or play simulated games on the web. A Loyalty or VIP card program would allow the Ohio Lottery to gain valuable information about its players with respect to their preferences and interests. Promotional messages can be sent to the players who have shown interest in the type of game currently being promoted.
- The Ohio Lottery plans to expand the current Bank Cashing program by allowing each of the seven horse racing facilities in the State to cash Ohio Lottery tickets between \$600 and \$5,000. The expansion of the program will further compliment the 190 National City Bank and U.S. Bank branches that serve Ohio Lottery prize winners.
- As the lottery games available in the industry evolve, the Ohio Lottery will continue to evaluate available game options and prize matrices. As such, the Ohio Lottery plans to benchmark Ohio's sales results against peer lottery states and review best practices in an effort to optimize Ohio's catalog of products. From time-to-time during the fiscal year, the Ohio Lottery plans to adjust both its instant ticket and online gaming product mix as necessary. Collaboration with the Ohio Lottery's primary instant ticket and online gaming vendors will enhance the Ohio Lottery's research and benchmarking efforts.
- The Ohio Lottery plans to enhance the number of promotional offerings available to the public. Industry practices support the need for retailers to implement on-going promotional programs to stimulate the public's interest in the products being offered. There are numerous promotional programs and opportunities the Ohio Lottery plans to offer over the course of the fiscal year.
- The Ohio Lottery, in conjunction with the North American Association of State and Provincial Lotteries (NASPL), strives to



create best practice standards and initiatives within the industry. In fiscal year 2009, the Ohio Lottery will continue to streamline processes, promote industry best practices and adopt technology protocols.

### **ACCOUNTING SYSTEMS AND POLICIES**

The Ohio Lottery operates under two 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 two Ohio Lottery funds are the Lottery Operating Fund and the Deferred Prizes Fund.

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, 2008 may be found in 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 offices at the Ohio Lottery, which have responsibility for delivery of service. These offices control the funds within their program. The Finance Office monitors all accounts via OAKS and its accounting reporting system, Solomon. Additionally, the Ohio Lottery prepares periodic revisions to project revenue and expenditure trends and implements 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. 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 Information Security Manager monitors and audits automated systems. An Electronic Data Processing Audit Plan is executed annually to further improve internal controls. An internal audit team reviews all areas of operations and reports to the Director. The Office of Internal Audit prepares an annual internal audit plan and formally submits the plan to the Auditor of State for approval. Results of these internal audits have been submitted to the Auditor of State for review and consideration in its financial audit.

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

- Maintain secure Ohio Lottery facilities with limited access.
- 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 television 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 non-current liabilities are comprised of payments owed to deferred prizewinners. The payments due are 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 non-current liabilities include 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, money market mutual funds, 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 8,005 retailers on a weekly basis. Funds are collected electronically from the retailers' designated bank accounts. Over \$1.0 billion was collected via this system in fiscal year 2008. Timely payment was made on 99.5 percent of accounts collected. Approximately \$5.2 million was returned unpaid and recorded as non-transfer of funds. Those retailers were deactivated and could not sell tickets until payment was received and posted. Approximately \$4.2 million of the uncollected funds was paid and the remainder was claimed against retailers' 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. Retailers' are required to carry a bond equal to 1/26 of their annual sales.

## 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 CAFR for the fiscal year ended June 30, 2007. This was the eleventh 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.

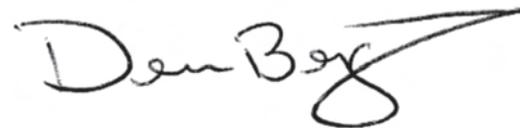
## INDEPENDENT AUDIT

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 audit of the Ohio Lottery. The Ohio Lottery's financial statements audit for fiscal year 2008 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. A special note of thanks is given to the General Accounting bureau comprised of Anna Callas, Michele Olivo-Santoriella, Mike Popadiuk, and Joe Angelillo and the entire finance staff. Thanks to Michael M. Bycko, Visual Communications Manager, for the layout and graphics support of this publication. 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 Allan C. Krulak and the members of the Ohio Lottery Board of Commissioners for their commitment to operating the Ohio Lottery in a responsible and progressive manner.

Respectfully Submitted,



Dennis R. Berg, CPA, CFE  
Deputy Director of Finance



Michael A. Dolan  
Executive Director

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# 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, 2007

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.



*Charles S. Cox*

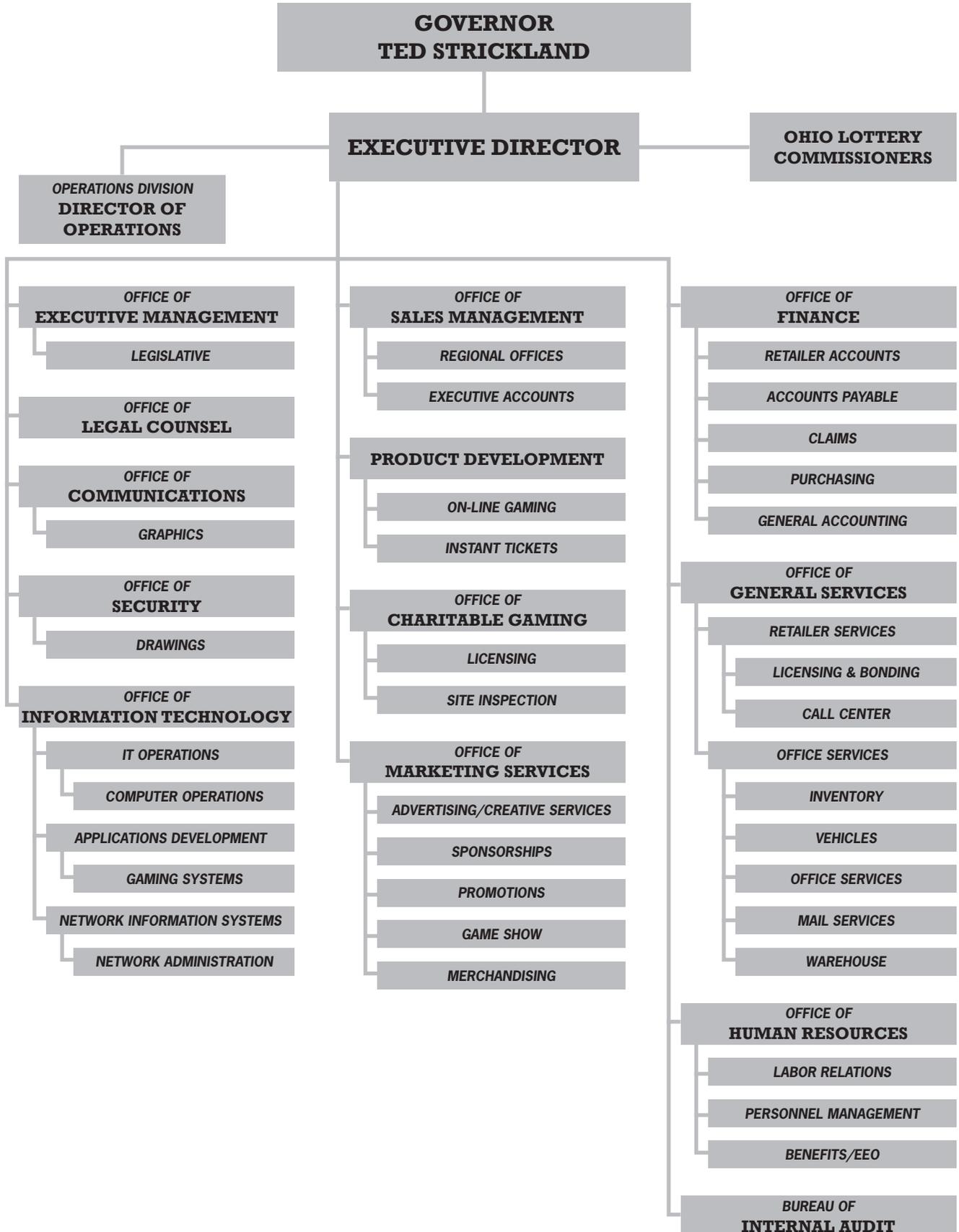
President

*Jeffrey R. Emer*

Executive Director

# OHIO LOTTERY COMMISSION

STRUCTURE OF ORGANIZATION • FISCAL YEAR 2008



# PRINCIPAL OFFICIALS

---

**Ted Strickland**  
GOVERNOR OF OHIO

**Michael A. Dolan**  
DIRECTOR

**Allan C. Krulak**  
COMMISSIONER  
Term ends 8/1/09

**Jonathan A. Allison**  
COMMISSIONER  
Term Ends 8/1/09

**Jaladah Aslam**  
COMMISSIONER  
Term Ends 8/1/10

**Otto Beatty III**  
COMMISSIONER  
Term Ends 8/1/10

**Erskine E. Cade**  
COMMISSIONER  
Term Ends 8/1/08

**Patrick McDonald**  
COMMISSIONER  
Term Ends 8/1/09

**Elizabeth Luper Schuster**  
COMMISSIONER  
Term Ends 8/1/08

**Jerry Y. Seaman**  
COMMISSIONER  
Term Ends 8/1/08

**Rudy M. Stralka**  
COMMISSIONER  
Term Ends 8/1/10

# Financial Section

**OH!**

**how I want to be  
a scientist  
when I grow up**



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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Commissioners:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery), as of and for the year ended June 30, 2008, 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. The prior year comparative information has been derived from the Lottery's 2007 financial statements and, in our report dated December 12, 2007, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

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 Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Lottery's financial statements for the year ended June 30, 2007, from which such comparative information was derived.

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](http://www.auditor.state.oh.us)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2009, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Lottery's basic financial statements. The introductory section and statistical tables provide additional information and are not a required part of the basic financial statements. 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.



**Mary Taylor, CPA**  
Auditor of State

January 23, 2009

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2008. 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 6-10 of this report, and the financial statements which begin on page 22.

## FINANCIAL HIGHLIGHTS

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- The Ohio Lottery's net assets increased \$43.5 million or 48.1 percent, as a result of this year's operations, predominantly due to the Government Accounting Standards Board (GASB) adjustments directly related to the investment portfolio. The unrealized income adjustment reflects an increase in the fair market value of the Ohio Lottery's investments.
- Annual ticket sales increased \$65.7 million, or 2.9 percent. The increase in sales can be attributed in part to the introduction of two new online products, sales from Sunday draws of core products, and the continued success of instant product line enhancements.
- Online sales increased \$54.7 million or 6.0 percent with Pick 3 and Pick 4 posting increases of \$16.2 million or 4.4 percent and \$15.8 million or 8.6 percent respectively. The introduction of Ten-OH! and EZPLAY, two new online games, contributed \$18.0 million and \$12.3 million respectively. Raffle game sales decreased by \$7.8 million to \$10.0 million based on a decision to offer only one raffle during the year.
- Instant ticket sales increased \$11.0 million or 0.8 percent from last year, primarily due to the success of new games such as Deal or No Deal.
- Prize expense increased \$58.6 million for fiscal year 2008. Total prize expense for fiscal year 2008 represented 60.1 percent of total ticket sales compared to 59.2 percent in fiscal year 2007. The increase in prize percentage payout is a combination of higher online prize payouts of core games and new games with higher prize payout designs, as well as higher instant ticket prize payouts.
- Operating expenses increased by 0.5 percent, however there was fluctuation within expense categories.
- The Ohio Lottery transferred \$672.2 million to the Lottery Profits Education Fund (LPEF), \$14.3 million above our commitment in the 2008 State of Ohio budget.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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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), operating expenses and transfers to the LPEF. Also included in this fund is activity associated with the Charitable Gaming Oversight Fund. Revenues are credited through reimbursements from the Office of the Attorney General in accordance with an agreement between the Lottery and the Attorney General. Expenses for this fund represent oversight, licensing, and monitoring of charitable gaming activity. As part of the State's biennial budget process for fiscal year 2006/2007, the Office of Budget and Management (OBM) required that a separate fund be established. Effective fiscal year 2006, the Charitable Gaming Oversight Fund was established. For purposes of this financial report, all financial activity is presented within the Lottery Operating Fund. Please see Note disclosures to the financial statements for more detailed activity reported within this fund.

### 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.

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, non-capital and capital financing, and investing activities.

## FINANCIAL ANALYSIS

Table 1 provides a summary of the Ohio Lottery's net assets at June 30, 2008 compared to June 30, 2007.

**TABLE 1 - NET ASSETS**

	<u>2008</u>	<u>2007</u>
Current Assets: Unrestricted	\$ 175,096,522	\$ 164,797,481
Current Assets: Restricted	362,775,749	473,352,318
Noncurrent Assets: Restricted	735,003,091	632,221,198
Net Capital Assets	<u>4,388,921</u>	<u>2,740,053</u>
Total Assets	1,277,264,283	1,273,111,050
Current Liabilities: Unrestricted	84,873,190	85,506,067
Current Liabilities: Restricted	368,175,672	472,753,679
Noncurrent Liabilities: Restricted	<u>690,286,529</u>	<u>624,427,860</u>
Total Liabilities	1,143,335,391	1,182,687,606
Net Assets:		
Invested in Capital Assets	4,388,921	2,740,053
Restricted for Deferred Prizes	44,288,336	13,870,470
Unrestricted	<u>85,251,635</u>	<u>73,812,921</u>
Total Net Assets	<u>\$ 133,928,892</u>	<u>\$ 90,423,444</u>

Total Assets increased \$4.2 million. Current Assets - Unrestricted increased from \$164.8 million in 2007 to \$175.1 million, an increase of \$10.3 million. The increase was primarily a result of higher cash balances caused by timing differences of cash receipts to cash disbursements along with the accumulating of jackpots won but not paid by fiscal year end. Current Assets – Restricted decreased from \$473.4 million in 2008 to \$362.8 million in 2007, a decrease of \$110.6 million. The decrease was a result of reduced secured lending balances. The Noncurrent Assets – Restricted, which is comprised of investments dedicated to the payment of the Ohio Lottery's long-term annuity prizes as well as capital assets, increased mainly as a result of a Mega Millions grand prize winner selecting the annuity as opposed to cash.

Total Liabilities decreased \$39.4 million. Current Liabilities – Restricted, which decreased \$104.6 million primarily as a result of decreases to security lending activity. Noncurrent liabilities increased \$65.9 million mainly due to the Mega Millions grand prize winner selecting the annuity prize.

The Ohio Lottery's financial activity resulted in a \$43.5 million increase in net assets. The majority of the increase resides in the Restricted for Deferred Prizes line, which is a result of GASB 31 adjustments. Unrestricted Net Assets realized an increase as a result of increased cash balances in the Lottery Operating Fund.

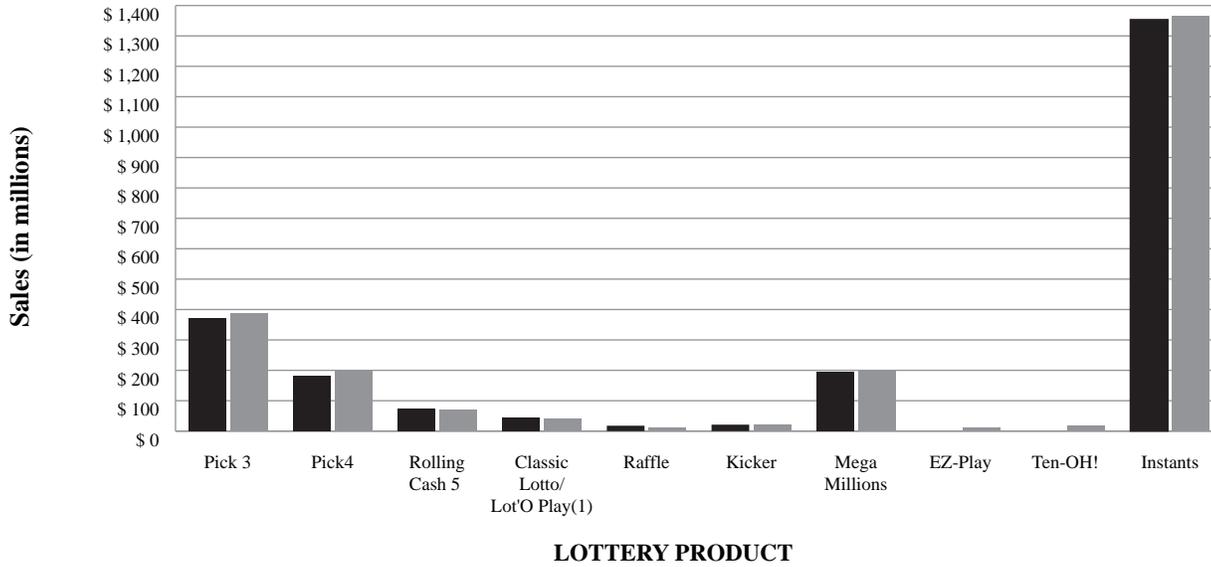
Table 2 shows the changes in the Ohio Lottery's net assets for fiscal year 2008 compared to fiscal year 2007, including revenue and expense comparisons.

**TABLE 2 - CHANGES IN NET ASSETS**

	<u>2008</u>	<u>2007</u>
Ticket Sales	\$ 2,325,140,182	\$ 2,259,396,588
Other Operating Revenues	7,725,859	7,737,403
Non-Operating Revenues	88,045,566	60,407,781
Total Revenues	<u>2,420,911,607</u>	<u>2,327,541,772</u>
Prize Expenses	1,397,019,212	1,338,366,454
Bonuses And Commissions	143,926,377	139,960,610
Operating Expenses	110,283,005	109,785,907
Non-Operating Expenses	53,993,565	109,317,018
Payments to the Lottery Profits Education Fund	<u>672,184,000</u>	<u>669,327,000</u>
Total Expenses	2,377,406,159	2,366,756,989
Change in Net Assets	43,505,448	(39,215,217)
Total Net Assets - Beginning	90,423,444	129,638,661
Total Net Assets - Ending	<u>\$ 133,928,892</u>	<u>\$ 90,423,444</u>

**TICKET SALES BY PRODUCT  
FISCAL YEARS 2008 AND 2007**

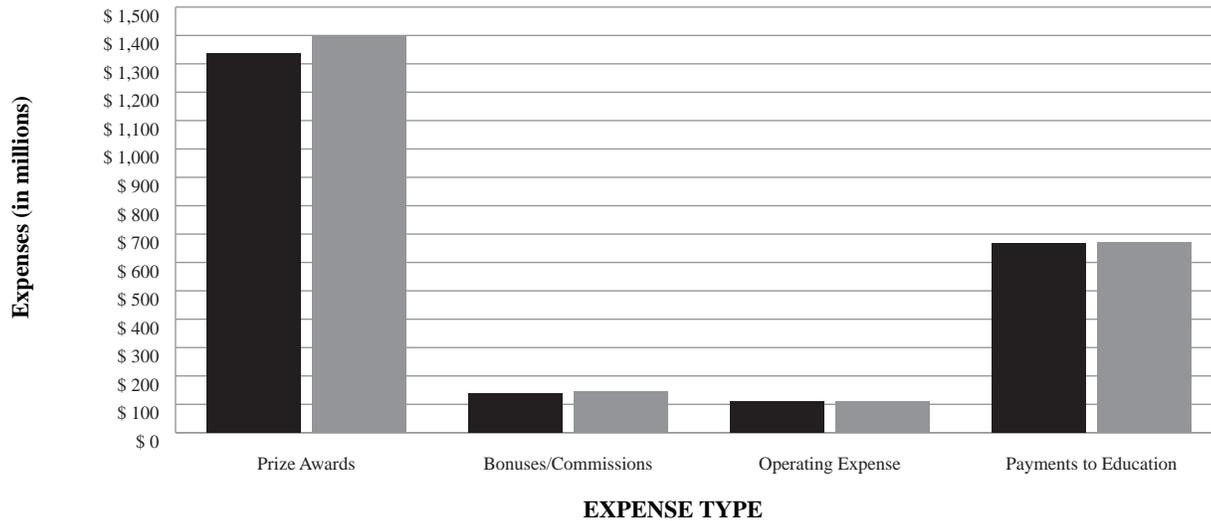
■ FY 2007 ■ FY 2008



The Ohio Lottery’s total revenues increased by \$93.4 million in fiscal year 2008. Ticket sales account for \$65.7 million of the increase with a \$27.7 million increase attributed to non-operating revenues. Online ticket sales had the largest increase as a result of two new online games and Sunday draws of core games. During the year, one (1) Mega Millions jackpot of \$196.0 million was won in Ohio, as compared to 2007 when one (1) jackpot of \$40.0 million was won in Ohio. Instant ticket sales had a modest increase and sales surpassed the \$1 billion sales mark for the sixth consecutive year. Non-operating revenue represents the Ohio Lottery’s income on investments dedicated to the payment of annuity prizes, and interest earned on all other equity balances held with the Treasurer of State.

**OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION  
FISCAL YEARS 2008 AND 2007**

■ FY 2007 ■ FY 2008



Total expenses increased \$10.6 million or less than 0.5 percent. Prizes awards increased by \$58.6 million from the prior year while bonuses, commission and payments to education expenses were relatively unchanged.

The activity described above resulted in an increase in Net Assets of \$43.5 million, increasing the balance at June 30, 2008 to \$133.9 million from \$90.4 million.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

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### CAPITAL ASSETS

As of June 30, 2008, the Ohio Lottery had \$4.4 million, net of accumulated depreciation, in Capital Assets. **Table 3** below summarizes the Ohio Lottery's capital assets at the end of 2008 and 2007.

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

	<u>2008</u>	<u>2007</u>
Equipment	\$ 2,962,091	\$ 1,429,870
Vehicles	1,426,830	1,310,183
Total Net Capital Assets	<u>\$ 4,388,921</u>	<u>\$ 2,740,053</u>

Total Net Capital Assets increased \$1.6 million in fiscal year 2008 as a result of equipment purchased and depreciation recognized on equipment and vehicles. 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 was 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 met the requirement of a capital lease; as a result, the equipment was recorded at the present value of the minimum lease payments and depreciated over its useful life.

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 increased \$59.2 million in consequence of the Mega Millions grand prize winner.

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. You may also access more information about the Ohio Lottery by visiting the Ohio Lottery's website at [www.ohiolottery.com](http://www.ohiolottery.com).

**STATEMENT OF NET ASSETS - MAJOR FUNDS**  
**JUNE 30, 2008**  
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2007)

	<u>OPERATING</u>	<u>DEFERRED</u>	<u>TOTALS</u>	
			<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>ASSETS:</b>				
Current Assets - Unrestricted				
Cash and Cash Equivalents	\$ 10,588,113	\$ -	\$ 10,588,113	\$ 12,700,707
Cash Equity with Treasurer of State	81,657,934	-	81,657,934	66,493,095
Collateral on Lent Securities	31,231,502	-	31,231,502	37,313,034
Receivables from Retailers, Net	44,431,343	-	44,431,343	41,742,768
Other Assets	7,187,630	-	7,187,630	6,547,877
Total Current Assets - Unrestricted	<u>175,096,522</u>	<u>-</u>	<u>175,096,522</u>	<u>164,797,481</u>
Current Assets - Restricted				
Cash Equity with Treasurer of State	-	105,390	105,390	273,056
Due from Unrestricted Assets	-	162,800	162,800	598,636
Dedicated Investments	-	50,467,692	50,467,692	56,551,568
Collateral on Lent Securities	-	307,739,731	307,739,731	410,718,210
Interest Receivable	-	4,300,136	4,300,136	5,210,848
Total Current Assets - Restricted	<u>-</u>	<u>362,775,749</u>	<u>362,775,749</u>	<u>473,352,318</u>
Total Current Assets	<u>175,096,522</u>	<u>362,775,749</u>	<u>537,872,271</u>	<u>638,149,799</u>
Noncurrent Assets				
Dedicated Investments, Restricted				
Capital Assets				
Equipment	80,150,377	-	80,150,377	78,094,124
Vehicles	2,568,815	-	2,568,815	2,503,096
Accumulated Depreciation	<u>(78,330,271)</u>	<u>-</u>	<u>(78,330,271)</u>	<u>(77,857,167)</u>
Net Assets, Invested in Capital Assets	<u>4,388,921</u>	<u>-</u>	<u>4,388,921</u>	<u>2,740,053</u>
Total Noncurrent Assets	<u>4,388,921</u>	<u>735,003,091</u>	<u>739,392,012</u>	<u>634,961,251</u>
<b>TOTAL ASSETS</b>	<u>179,485,443</u>	<u>1,097,778,840</u>	<u>1,277,264,283</u>	<u>1,273,111,050</u>
<b>LIABILITIES</b>				
Current Liabilities - Unrestricted				
Accounts Payable	9,348,993	-	9,348,993	11,032,774
Prize Awards Payable	39,655,187	-	39,655,187	32,566,933
Obligations under Securities Lending	31,231,502	-	31,231,502	37,313,034
Due to Restricted Assets	162,800	-	162,800	598,636
Deferred Revenue	1,579,251	-	1,579,251	993,063
Other Liabilities	2,693,551	-	2,693,551	2,639,050
Due to Other State Lotteries	201,906	-	201,906	362,577
Total Current Liabilities - Unrestricted	<u>84,873,190</u>	<u>-</u>	<u>84,873,190</u>	<u>85,506,067</u>
Current Liabilities - Restricted				
Due to State of Ohio	-	5,562,650	5,562,650	-
Obligations under Securities Lending	-	307,739,731	307,739,731	410,718,210
Prize Awards Payable - Net of Discount	-	54,873,291	54,873,291	62,035,469
Total Current Liabilities - Restricted	<u>-</u>	<u>368,175,672</u>	<u>368,175,672</u>	<u>472,753,679</u>
Total Current Liabilities	<u>84,873,190</u>	<u>368,175,672</u>	<u>453,048,862</u>	<u>558,259,746</u>
Noncurrent Liabilities:				
Prize Awards Payable from Restricted Assets - Net of Discount	-	685,314,832	685,314,832	618,949,367
Workers' Compensation	2,188,435	-	2,188,435	2,472,899
Compensated Absences	2,783,262	-	2,783,262	3,005,594
Total Noncurrent Liabilities	<u>4,971,697</u>	<u>685,314,832</u>	<u>690,286,529</u>	<u>624,427,860</u>
<b>TOTAL LIABILITIES</b>	<u>89,844,887</u>	<u>1,053,490,504</u>	<u>1,143,335,391</u>	<u>1,182,687,606</u>
<b>NET ASSETS</b>				
Invested in Capital Assets	4,388,921	-	4,388,921	2,740,053
Restricted for Deferred Prizes	-	1,003,403	1,003,403	1,603,528
Restricted for Net Unrealized Gains on Restricted Investments	-	43,284,933	43,284,933	12,266,942
Unrestricted	85,251,635	-	85,251,635	73,812,921
<b>TOTAL NET ASSETS</b>	<u>\$ 89,640,556</u>	<u>\$ 44,288,336</u>	<u>\$ 133,928,892</u>	<u>\$ 90,423,444</u>

*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, 2008  
(WITH COMPARABLE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)**

	<u>OPERATING</u>	<u>DEFERRED</u>	<u>TOTALS</u>	
			<u>JUNE 30, 2008</u>	<u>JUNE 30, 2007</u>
<b>REVENUES</b>				
Ticket Sales	\$ 2,325,140,182	\$ -	\$ 2,325,140,182	\$ 2,259,396,588
Other Revenues	6,983,357	742,502	7,725,859	7,737,403
Total Operating Revenues	<u>2,332,123,539</u>	<u>742,502</u>	<u>2,332,866,041</u>	<u>2,267,133,991</u>
<b>EXPENSES</b>				
Prizes, Bonuses and Commissions				
Prize Awards	1,376,865,452	20,153,760	1,397,019,212	1,338,366,454
Bonuses and Commissions	143,926,377	-	143,926,377	139,960,610
Total Prizes, Bonuses and Commissions	<u>1,520,791,829</u>	<u>20,153,760</u>	<u>1,540,945,589</u>	<u>1,478,327,064</u>
Operating Expenses				
Personal Services	75,022,135	-	75,022,135	92,074,380
Maintenance	34,216,397	-	34,216,397	16,852,473
Depreciation	1,028,640	-	1,028,640	821,987
Other Expenses	15,833	-	15,833	37,067
Total Operating Expenses	<u>110,283,005</u>	<u>-</u>	<u>110,283,005</u>	<u>109,785,907</u>
<b>OPERATING INCOME (LOSS)</b>	<u>701,048,705</u>	<u>(19,411,258)</u>	<u>681,637,447</u>	<u>679,021,020</u>
Non-Operating Revenues (Expenses):				
Interest Income	4,462,340	83,544,379	88,006,719	60,365,316
Amortization of Prize Liabilities	-	(38,592,508)	(38,592,508)	(85,343,487)
Gain on Equipment Disposal	38,847	-	38,847	42,465
Interest Expense - Borrower Rebates	-	(15,214,386)	(15,214,386)	(23,888,261)
Securities Lending Agent Fees	-	(186,671)	(186,671)	(85,270)
Payments to the Lottery Profits Education Fund	(672,184,000)	-	(672,184,000)	(669,327,000)
Total Non-Operating Expenses, Net	<u>(667,682,813)</u>	<u>29,550,814</u>	<u>(638,131,999)</u>	<u>(718,236,237)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>33,365,892</u>	<u>10,139,556</u>	<u>43,505,448</u>	<u>(39,215,217)</u>
<b>TRANSFERS:</b>				
Transfers to Deferred Prize Trust Fund	(20,278,310)	20,278,310	-	-
Total Transfers	<u>(20,278,310)</u>	<u>20,278,310</u>	<u>-</u>	<u>-</u>
<b>Change in Net Assets</b>	13,087,582	30,417,866	43,505,448	(39,215,217)
<b>Total Net Assets - Beginning</b>	76,552,974	13,870,470	90,423,444	129,638,661
<b>TOTAL NET ASSETS - ENDING</b>	<u>\$ 89,640,556</u>	<u>\$ 44,288,336</u>	<u>\$ 133,928,892</u>	<u>\$ 90,423,444</u>

*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, 2008  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)**

	<b>OPERATING</b>	<b>DEFERRED</b>	<b>TOTALS</b>	
			<b>JUNE 30, 2008</b>	<b>JUNE 30, 2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Sales	\$ 2,323,037,796	\$ -	\$ 2,323,037,796	\$ 2,257,758,271
Cash Received from Multi-State Lottery for Grand Prize Winners	7,005,679	104,146,687	111,152,366	46,584,059
Cash Payments for Prize Awards	(1,376,931,507)	(103,689,668)	(1,480,621,175)	(1,485,871,777)
Cash Payments for Bonuses and Commissions	(144,061,760)	-	(144,061,760)	(139,993,669)
Cash Payments for Goods and Services	(86,611,176)	-	(86,611,176)	(87,200,485)
Cash Payments to Employees	(25,298,344)	-	(25,298,344)	(24,019,807)
Other Operating Revenues	6,983,357	742,502	7,725,859	7,737,403
Other Operating Expenses	(15,833)	-	(15,833)	(37,067)
Net Cash Provided (Used) by Operating Activities	704,108,212	1,199,521	705,307,733	574,956,928
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payments to the Lottery Profits Education Fund	(672,184,000)	-	(672,184,000)	(669,327,000)
Transfers In	-	20,278,310	20,278,310	14,924,136
Transfers Out	(20,278,310)	-	(20,278,310)	(14,924,136)
Net Cash Provided (Used) by NonCapital Financing Activities	(692,462,310)	20,278,310	(672,184,000)	(669,327,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of Property and Equipment	(2,831,261)	-	(2,831,261)	(818,632)
Proceeds from Sale of Property and Equipment	192,600	-	192,600	165,224
Net Cash Used by Capital and Related Financing Activities	(2,638,661)	-	(2,638,661)	(653,408)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income Received	4,480,841	34,966,487	39,447,328	29,344,387
Restricted Assets Due for Investing	(435,836)	435,836	-	-
Restricted Assets Due to the State of Ohio	-	5,562,648	5,562,648	-
Interest Expense and Agent Fees	-	(15,401,057)	(15,401,057)	(23,973,531)
Proceeds from the Sale and Maturity of Investments	-	108,274,253	108,274,253	971,819,276
Purchase of Investments	-	(155,483,664)	(155,483,664)	(866,893,288)
Securities Lending Proceeds	31,231,502	307,739,730	338,971,232	448,031,244
Securities Lending Payments	(31,231,502)	(307,739,730)	(338,971,232)	(448,031,244)
Net Cash Provided (Used) by Investing Activities	4,045,005	(21,645,497)	(17,600,492)	110,296,844
Net Increase (Decrease) in Cash & Cash Equivalents	13,052,246	(167,666)	12,884,580	15,273,364
Cash and Cash Equivalents - Beginning	79,193,801	273,056	79,466,857	64,193,493
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b>92,246,047</b>	<b>105,390</b>	<b>92,351,437</b>	<b>79,466,857</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	701,048,705	(19,411,258)	681,637,447	679,021,020
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	1,028,640	-	1,028,640	821,987
Amortization of Discount of Prize Liabilities	-	38,592,508	38,592,508	85,343,487
Net Changes in Assets and Liabilities				
Receivables from Agents - Net	(2,688,575)	-	(2,688,575)	(1,688,485)
Other Assets	(658,250)	-	(658,249)	12,106,985
Prize Awards Payable	7,088,254	-	7,088,254	14,288,500
Accounts Payable	(1,844,455)	-	(1,844,455)	(552,783)
Other Liabilities	54,501	-	54,501	(20,977)
Deferred Revenue	586,188	-	586,188	50,168
Prize Awards Payable from Restricted Assets - Net of Discount	-	(17,981,729)	(17,981,729)	(213,233,275)
Accrued Workers' Compensation	(284,464)	-	(284,464)	(1,359,263)
Compensated Absences	(222,332)	-	(222,332)	179,564
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 704,108,212</b>	<b>\$ 1,199,521</b>	<b>\$ 705,307,733</b>	<b>\$ 574,956,928</b>

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

*Non-Cash items included in investment income were \$31.0 million and (\$49.5) million of unrestricted net gains/losses for the years ended June 30, 2008 and June 30, 2007, respectively.*

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2008

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### 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 twelve states: California, 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 retailer bonuses and commissions, 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 Charitable Gaming Oversight Fund. All financial activity related to the Charitable Gaming Oversight Fund is presented within the Lottery Operating Fund for purposes of this financial report.

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 retailer'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 of the State; 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, and the investment income related to those cash transfers. Expenses of the Deferred Prize Fund primarily represent payments for deferred prizes.

#### CHARITABLE GAMING OVERSIGHT FUND

In fiscal year 2005, the Lottery and the State of Ohio Attorney General's Office ("AG") signed a Memorandum of Understanding ("MOU") between the two agencies, transferring the administration and monitoring of charitable bingo licensing to the Ohio Lottery. In fiscal year 2006, a separate fund had been established as authorized by language contained in House Bill 66. In accordance with section 3770.06 of the Ohio Revised Code, the Lottery shall credit to the fund any money it receives from the AG's office under any agreement the Lottery and the AG enters into under division (I) of section 2915.08 of the Revised Code. The Lottery shall use the money in the fund to provide oversight, licensing, and monitoring of charitable gaming activities in the State in accordance with the agreement and Chapter 2915 of the Revised Code. The expenses involved with providing these services under the agreement are reimbursable from the AG's office to the Lottery. During the year, expenses of \$1,846,242 were reimbursed and recorded as other revenue in the Charitable Gaming Oversight Fund. All activity associated with providing these services are presented within the Lottery's 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. Cash flows related to the payment of prize awards are accounted for as an operating activity.

In fiscal year 2006 the Ohio Lottery established a Government Money Market Fund, through National City Bank (NCB)/Allegiant Group to invest excess cash. The money market fund invests in short term U.S. Treasury securities or repurchase agreements that are backed by U.S. Treasury securities and guaranteed by the U.S. Government.

## **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.

## **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.

## **ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The allowance for doubtful accounts at June 30, 2008 and 2007, of \$314,252 and \$230,771, 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. 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. In fiscal year 2006, the Ohio Lottery adopted a new method of providing investment capital for future deferred prize payments by purchasing individual securities to fund a specific prize obligation.

## **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 straight line 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. 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 long term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long term rate of return. The difference between the present value and gross amount of the obligations is amortized over the terms of the obligations using the interest method and the amortization is recognized as a non-operating expense.

## **DEFERRED REVENUE**

Advanced wagers may be placed for all 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 full time employees is accumulated at a rate of 3.1 hours every two weeks. Union employees who have a minimum of five years or exempt employees who have a minimum of one year of service, shall convert to cash any sick leave accrued at the employee's regular rate of pay earned at time of separation within three years of separation at the rate of fifty-five percent for retirement separation and fifty percent for all other separations.

### **BONUSES AND COMMISSIONS**

Retailers receive a commission of 5.5 percent based on their total 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 retailers if their cash-to-sales ratio is 50 percent or greater. A \$5 claiming bonus is awarded to retailers for validating a winning ticket worth \$600 to \$5,000. In addition, various selling bonuses are in place ranging from \$500 to \$1,000 per \$1,000,000 of the jackpot for the lotto style games, not to exceed \$100,000. A retailer is eligible for an instant ticket bonus, when selling the top prize of the game with top prize being \$100,000 or more. The bonus is 1.0 percent of the prize with a maximum of \$10,000.

### **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 capital 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. Upon inception, retailers are required to carry a minimum bond of \$20,000. On a yearly basis, the retailers' required coverage is based on an evaluation of their average annual sales, the minimum coverage is \$20,000 or one twenty-sixth of their annual sales. The amount of loss arising from these risks was not significant for the years ended June 30, 2008, 2007, and 2006. No significant payments were made or liabilities recorded during the years ended June 30, 2008, 2007, and 2006 due to self-insured risks.

The Office of Risk Management implemented the Blanket Bond coverage program, under which all state employees, including elected and appointed officials (other than the Treasurer of State as an individual), are covered. This policy is 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. 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.

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 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 contributed \$47.14 for single and \$129.64 for family coverage per month, while the Ohio Lottery contributed \$267.10 for single and \$734.64 for family coverage per month for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The Ohio Lottery's total contributions to the OhioMed Health Plan were \$1,693,581 and \$1,059,475 for the years ended June 30, 2008 and 2007, respectively.

The State has contracted with four 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 and commissions 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, 2008.

### **NEW ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 48. The Lottery has implemented GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." Implementation of this standard had no impact on the Lottery's financial position.

GASB has issued GASB Statement No. 45. The Lottery has implemented GASB Statement No. 45, "Accounting and Financial Reporting by employers for post-employment benefits other than pensions". Implementation of this standard had no impact on the Lottery's financial position.

GASB has issued GASB Statement No. 50, "Pension Disclosures". Implementation of this standard had no impact on the Lottery's financial position.

GASB has issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets." The Ohio Lottery will implement this GASB starting with fiscal year 2010.

### **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**

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, 2007, from which the summarized information was derived.

## **2. CASH DEPOSITS AND INVESTMENTS**

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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, through the State Treasurer, 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 of which the face value is at least 105 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**

**Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the Lottery's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the Ohio Lottery's deposits with financial institutions was \$1,288,489 and the bank balance was \$1,294,201, the difference representing normal reconciling items. Of the bank balance, \$119,642 was covered by the FDIC insurance. The remaining \$1,174,559 is covered by collateral held in the name of the Ohio Lottery's pledging financial institution, as required by State statute. The Ohio Lottery is not exposed to custodial credit risk for these bank deposits.

As mentioned earlier, The Lottery also has cash invested in a money market mutual fund, which is used to fund daily operations. These investments are not subject to interest rate risk because the underlying investments have short-term maturities, and the fund's share price remains stable.

## INVESTMENTS

Although risks exposures are minimized by complying with legal requirements and internal policies adopted by the Treasurer of State, the Ohio Lottery's investments are exposed to risks that may lead to losses of value. The Ohio Lottery's investments at June 30, 2008 consist of the following:

Investment Type	Fair Value	Credit Quality Rating	Investment Maturities (in years)			
			Less than 1	1-5	6-10	>10
U.S. Government Agency Obligations	\$ 332,319,718	AAA	\$ 58,899,963	\$ 130,183,865	\$ 143,235,890	\$ -
U.S. Government Strips	135,999,589	AAA	9,190,382	33,417,132	34,635,652	58,756,423
U.S. Government Agency Strips	309,927,386	AAA/Unrated	11,439,758	91,255,449	106,775,952	100,456,227
Total Investments	778,246,693		79,530,103	254,856,446	284,647,494	159,212,650
Investments not required to be categorized						
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)	15,238,216	AAA	15,238,216	-	-	-
Equity in State of Ohio Common Cash & Investments	81,763,324		81,763,324	-	-	-
Money Market Mutual Fund	1,285,498	AAAM	1,285,498	-	-	-
Collateral on loaned securities - Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio's Common Cash and Investments account	31,231,502		31,231,502	-	-	-
Total Lottery Commission - Structured Investments, as of June 30, 2008	\$ 907,765,233		\$ 209,048,643	\$ 254,856,446	\$ 284,647,494	\$ 159,212,650

**Custodial Credit Risk** for investments exists when a government is unable to recover the value of investments or collateral securities that are in possession of an outside party in the event of a failure of a counterparty to a transaction. Investments are exposed to custodial credit risks if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department but not in the government's name. The Ohio Lottery is not subject to custodial credit risk because the investments listed above are insured or registered in the State's name, held by the Treasurer of State or an agent in the State's name, or uninsured and unregistered with securities held by the counterparty's trust department or agent in the State's name.

**Interest Rate Risk:** An interest rate risk is the risk that an investments' fair value decreases as the market interest rate increases. Typically, this risk is higher in debt instruments with longer maturities. The States' Investment policy states that the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. The Ohio Lottery's portfolio invests in securities with a stated maturity of no more than thirty (30) years from the date of purchase. Notwithstanding these limitations, in no case will the assets be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds. The risks that the Lottery will realize material losses from its investments in government securities resulting from changes in market interest rates is mitigated by the low probability that these securities will be sold before maturity.

**Concentration of Credit Risk:** The State's investment policy states that the portfolio should be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, or a specific type of security. The portfolio will be further diversified to limit the exposure to any one issuer. No more than 2 percent of the total average portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Government Obligations .....	100% maximum
Repurchase Agreements .....	5%, or \$250 million, whichever is less
Mutual Funds.....	10% maximum

The equity in State of Ohio common cash and investments, collateral on loaned securities, money market mutual fund, and an investment in Treasurer of State investment pool (STAROhio), 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, 2008. 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, 2008 categorized and disclosed in this note is \$1,216,793,453. This amount can be reconciled to the statement of net assets as follows:

	Deposits	Investments	Total
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 1,288,489	\$ 9,299,624	\$ 10,588,113
Cash Equity with Treasurer of State	-	81,657,934	81,657,934
Collateral on Lent Securities	-	31,231,502	31,231,502
Restricted Assets:			
Cash Equity with Treasurer of State	-	105,390	105,390
Dedicated Investments	-	785,470,783	785,470,783
Collateral on Lent Securities	-	307,739,731	307,739,731
Total - per Statement of Net Assets	\$ 1,288,489	\$ 1,215,504,964	\$ 1,216,793,453

## 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 Sections 135.143 and 135.47 of the 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. As of June 30, 2008, \$115,000,000 of the cash collateral reinvestment portfolio is invested in corporate repurchase agreements, \$24,984,250 is invested in U.S. Government Agency Obligations, \$15,000,000 is invested in master notes, \$124,253,700 is invested in variable rate notes and \$28,461,461 in Money Market Funds. The Ohio Lottery has been allocated \$40,320 cash collateral based on the amount of cash equity from the State's common cash and investment account.

Several investments reported as "Collateral on Lent Securities" have terms that make them highly sensitive to interest rate changes. U.S. Agency & Instrumentality Obligations and Master Notes have daily reset dates. Variable Rate Notes have daily, monthly, and quarterly reset dates.

Credit risk is calculated as the aggregate of the Treasurer's exposure to individual borrowers or on individual loans, depending on whether individual loans to the same borrower can be aggregated for purposes of offset in the event of default. A lender has exposure if the amount a borrower owes the lender exceeds the amount the lender owes the borrower.

The amount the borrower owes the lender includes the market value of the underlying securities (including accrued interest), unpaid income distributions on the underlying securities, and accrued loan premiums or fees. The amount the lender owes the borrower includes the cash collateral received, the market value of collateral securities (including accrued interest), the face value of letters of credit, unpaid income distributions on collateral securities, and accrued borrower rebates.

Borrower Owes to Lender		Lender Owes to Borrower	
MV of Loaned Securities	\$ 299,556,623	Cash Collateral	\$ 308,461,221
Unpaid Distriutions	-	Unpaid Distriutions	-
Accrued Premiums	-	Accrued Rebates	96,116
Total	\$ 299,556,623	Total	\$ 308,557,337

Since the Lender owes the Borrowers \$9,000,714 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2008.

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. Agency and Instrumentality Obligations (excluding Strips), and U.S. Agency and Instrumentality Obligation – Strips 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, 2008 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 9.1 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 2008, 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 2008 due to prior-period losses.

Investment Type	Fair Value	Credit Quality Rating	Investment Maturities (in years)			
			Less than 1	1-5	6-10	>10
Repurchase Agreements	\$ 115,000,000	A/Aa A/A-1	\$ 115,000,000	-	-	-
U.S. Government Strips	-		-	-	-	-
U.S. Government Agency Obligations	24,984,250	AAA/Aaa	24,984,250	-	-	-
Other Investments:						
Master Note	15,000,000	AA/Aa	15,000,000	-	-	-
Variable Note	124,253,700	A/Aa A/A-1	124,253,700	-	-	-
Investments Not Required to be Categorized:						
Money Marker Funds	28,461,461	AAA/Aaa	28,461,461			
Allocated Cash Collateral (1)	40,320		40,320			
Total - Investments made with Cash Collateral, as of June 30, 2008	\$ 307,739,731		\$ 307,739,731	-	-	-

(1) The Ohio Lottery has been allocated \$40,320 cash collateral based on the amount of cash equity from the State's common cash and investment account.

### 3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2008 and 2007 was as follows:

	<u>2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>2008</u>
Equipment	\$ 78,094,124	\$ 2,213,526	\$ 157,273	\$ 80,150,377
Vehicles	2,503,096	617,735	552,016	2,568,815
Total Capital Assets	<u>80,597,220</u>	<u>2,831,261</u>	<u>709,289</u>	<u>82,719,192</u>
Less Accumulated Depreciation:				
Equipment	(76,664,254)	(678,802)	(154,770)	(77,188,286)
Vehicles	(1,192,913)	(349,838)	(400,766)	(1,141,985)
Total Accumulated Depreciation	<u>(77,857,167)</u>	<u>(1,028,640)</u>	<u>(555,536)</u>	<u>(78,330,271)</u>
Net Capital Assets	<u>\$ 2,740,053</u>	<u>\$ 1,802,621</u>	<u>\$ 153,753</u>	<u>\$ 4,388,921</u>

	<u>2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>2007</u>
Equipment	\$ 77,797,423	\$ 546,486	\$ 249,785	\$ 78,094,124
Vehicles	2,758,590	272,146	527,640	2,503,096
Total Capital Assets	<u>80,556,013</u>	<u>818,632</u>	<u>777,425</u>	<u>80,597,220</u>
Less Accumulated Depreciation:				
Equipment	(76,419,000)	(478,067)	(232,813)	(76,664,254)
Vehicles	(1,270,845)	(343,920)	(421,852)	(1,192,913)
Total Accumulated Depreciation	<u>(77,689,845)</u>	<u>(821,987)</u>	<u>(654,665)</u>	<u>(77,857,167)</u>
Net Capital Assets	<u>\$ 2,866,168</u>	<u>\$ (3,355)</u>	<u>\$ 122,760</u>	<u>\$ 2,740,053</u>

The Ohio Lottery has not entered into any new contractual agreements for gaming services in fiscal year 2008. All gaming equipment was fully depreciated on June 30, 2006 ; therefore there is no related net book value. Accumulated depreciation is determined by depreciating the cost of the assets over their estimated useful lives on a straight-line basis.

In June 2005, the Ohio Lottery negotiated a contract extension with its on-line gaming systems vendor GTECH. As part of the negotiated contract, the Ohio Lottery received over \$7.8 million in optional equipment credits that can be applied towards the use of a variety of additional gaming related equipment for fiscal years 2006 through 2009. In late fiscal year 2006, the Ohio Lottery requested to apply certain equipment credits towards 500 additional gaming system terminals to support the expansion of the Ohio Lottery's retailer base along with the conversion of all conventional retailers to full service retailers who can sell all on-line games. As of the end of fiscal year 2008, the number of additional gaming system terminals requested and installed was 1,300, along with 1,996 self verifying units.

The value of the equipment credits applied is contingent upon the type of equipment obtained. Reductions in available credits are based upon a hybrid of application rates such as a percent of sales calculations and fixed amount calculations, depending on the type of equipment received by the Ohio Lottery. Generally, equipment credits are applied once the equipment is produced and available for Ohio Lottery use and installation. Credits have been applied starting in July 2006.

### 4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Current portion - face amount	\$ 95,026,344	\$ 101,955,294
Less: Unamortized discount	(40,153,053)	(39,919,825)
Current portion - present value	<u>54,873,291</u>	<u>62,035,469</u>
Noncurrent portion - face amount	970,999,036	862,168,428
Less: Unamortized discount	(285,684,204)	(243,219,061)
Noncurrent portion - present value	<u>685,314,832</u>	<u>618,949,367</u>
Total Prize Awards Payable - Net of Discount	<u>\$ 740,188,123</u>	<u>\$ 680,984,836</u>

Interest rates used to determine the present values ranged from 3.8 percent to 7.8 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2008, is summarized as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2009	\$ 95,026,344
2010	77,735,565
2011	75,015,976
2012	74,938,976
2013	74,785,976
2014 through 2018	350,127,472
2019 through 2023	195,163,429
2024 through 2028	74,346,311
2029 through 2033	47,798,667
2034 thereafter	1,086,664
Subtotal	1,066,025,380
Unamortized discount	(325,837,257)
Net Prize Liability	<u>\$ 740,188,123</u>

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Ohio Lottery is required by law to award prizes to holders of winning lottery tickets equal to at least 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 \$234.6 million and \$207.9 million for the years ended June 30, 2008 and 2007, respectively.

During fiscal year 2008, there was one Mega Millions jackpot claimed in Ohio totaling \$196 million. The annuity option was elected and the net jackpot funding received in the Deferred Prize Fund from other states in the amount of \$104.1 million was invested into our portfolio of assets restricted for the payment of deferred prizes.

## 5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Accrued Liabilities	\$ 2,131,616	\$ 1,982,166
Workers' Compensation - Current Portion	306,624	408,070
Compensated Absences - Current Portion	255,311	248,814
Total	<u>\$ 2,693,551</u>	<u>\$ 2,639,050</u>

## 6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2008 and 2007 was as follows:

	<u>2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>2008</u>
Prize Awards Payable from Restricted Assets - Net of Discount	\$ 618,949,367	\$ 170,055,133	\$ (103,689,668)	\$ 685,314,832
Accrued Workers' Compensation	2,472,899	-	(284,464)	2,188,435
Compensated Absences	3,005,594	2,304,402	(2,526,734)	2,783,262
Total Noncurrent Liabilities	<u>\$ 624,427,860</u>	<u>\$ 172,359,535</u>	<u>\$ (106,500,866)</u>	<u>\$ 690,286,529</u>
	<u>2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>2007</u>
Prize Awards Payable from Restricted Assets - Net of Discount	\$ 629,046,978	\$ 121,141,214	\$ (131,238,825)	\$ 618,949,367
Accrued Workers' Compensation	3,832,162	-	(1,359,263)	2,472,899
Compensated Absences	2,826,030	2,417,908	(2,238,344)	3,005,594
Total Noncurrent Liabilities	<u>\$ 635,705,170</u>	<u>\$ 123,559,122</u>	<u>\$ (134,836,432)</u>	<u>\$ 624,427,860</u>

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

## **7. PENSIONS – DEFINED BENEFIT PENSION PLAN**

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### **PLAN DESCRIPTION**

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

- The Traditional Pension 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.
- The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension 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.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. 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: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

### **FUNDING POLICY**

The Ohio Revised Code provides the statutory authority requiring public employees to fund post retirement health care through their contributions to OPERS. For 2007 year end, member and employer contribution rates were consistent across all three plans (TP, MD and CO). The 2007 member contribution rates were 9.50 percent for members in classifications other than law enforcement and the employer contribution rate for State employers was 13.77 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0%. OPERS increased the employer and employee contribution rate, effective January 5, 2008, to 10.00 percent and 14.00 percent, respectively.

The Ohio Lottery's required contributions to PERS for the years ended June 30, 2008, 2007, and 2006 were \$1,404,870, \$1,666,241, and \$1,672,828 respectively, equal to the required contribution for each year.

## **8. OTHER POST EMPLOYMENT BENEFITS**

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### **PLAN DESCRIPTION**

In addition to the pension benefits described in Note 7, OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. 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, under the Traditional and Combined plans, must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

### **FUNDING POLICY**

The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active employees. The 2007 employer contribution rate for State employers was 13.77 percent of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 6.00%.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan. In fiscal years 2008, 2007 and 2006, \$1,084,710, \$829,252, and \$718,634, respectively, of the Ohio Lottery's total contributions to OPERS were used for post-employment benefits. The actuarial value of the Retirement System's net assets available for OPEB was \$12.0 billion at December 31, 2006.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

## 9. LITIGATION

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

On June 17, 2008, the Ohio Lottery was named as a party defendant in litigation regarding the award of a contract for the Ohio Lottery's gaming system. While it is the opinion of management that the Ohio Lottery's positions in such litigation are valid and legally defensible, the outcome of the litigation has not been determined yet, and therefore, it cannot be determined at this time whether the outcome of such legal proceedings will have a material adverse impact on the Ohio Lottery's financial position.

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# Statistical Section

A young woman with dark hair, wearing a purple long-sleeved shirt, is playing a cello. She is looking intently at the instrument. The background is bright and slightly out of focus, suggesting an indoor setting like a music room or rehearsal space. A red speech bubble containing the text "OH!" is positioned to the right of her face.

**OH!**

**how I want to be  
a musician when  
I grow up**

# OHIO LOTTERY COMMISSION

## STATISTICAL INFORMATION SECTION

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This section of the Ohio Lottery's comprehensive annual financial report presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing the Ohio Lottery's overall financial health.

### **FINANCIAL TRENDS**

These schedules contain trend information to help readers understand how the Ohio Lottery's financial performance and position have changed over time. The information presented includes changes in net assets, sales, and transfer data specific to the Ohio Lottery as well as the lottery industry as a whole.

### **REVENUE CAPACITY**

These schedules contain information to help readers assess the Ohio Lottery's most significant revenue source. Sales information, included in the financial trends section, provides data about the various games available to the public. The Ohio Lottery's statewide retailer network determines the market exposure for the Ohio Lottery's games.

### **DEMOGRAPHIC AND ECONOMIC INFORMATION**

These schedules offer demographic and economic indicators to help readers understand the environment within which the Ohio Lottery operates.

### **OPERATING INFORMATION**

These schedules contain information about the Ohio Lottery's organization and efficiency.

*Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports or the audited financial statements for the relevant year.*

**OHIO LOTTERY - NET ASSETS  
LAST TEN FISCAL YEARS  
(In Millions)**

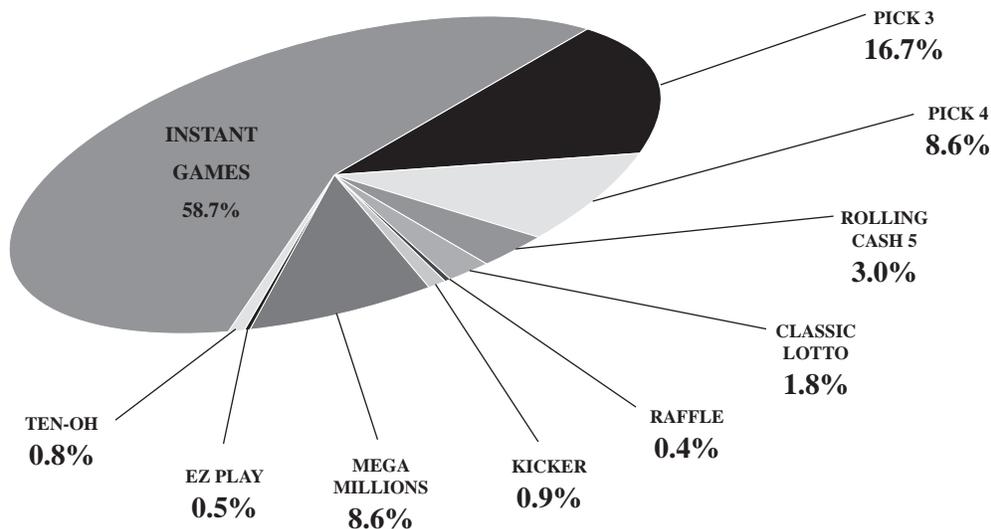
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>NET ASSETS</b>										
Invested in Capital Assets	\$ -	\$ -	\$ 5.2	\$ 2.0	\$ 0.8	\$ 0.3	\$ 0.7	\$ 2.9	\$ 2.7	\$ 4.4
Unreserved	149.1	111.3	-	-	-	-	-	-	-	-
Restricted for Deferred Prizes	25.0	13.2	13.5	8.9	2.8	(3.4)	(4.4)	5.4	1.6	1.0
Restricted for Net Unrealized Gains/(Losses) on Restricted Investments	18.5	(17.6)	52.5	88.2	167.0	93.6	116.4	61.7	12.3	43.3
Unrestricted	-	-	58.3	35.1	30.2	33.0	39.3	59.6	73.8	85.2
<b>TOTAL NET ASSETS</b>	<b>\$ 192.6</b>	<b>\$ 106.9</b>	<b>\$ 129.5</b>	<b>\$ 134.2</b>	<b>\$ 200.8</b>	<b>\$ 123.5</b>	<b>\$ 152.0</b>	<b>\$ 129.6</b>	<b>\$ 90.4</b>	<b>\$ 133.9</b>

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>On-line Ticket Sales</b>										
Pick 3	\$ 399.4	\$ 427.3	\$ 419.0	\$ 409.2	\$ 401.8	\$ 396.8	\$ 387.7	\$ 377.3	\$ 370.9	\$ 387.1
Pick 4	125.1	144.6	150.7	154.6	154.2	165.2	170.1	175.7	183.0	198.8
Buckeye 5 / Rolling Cash 5 (2)	69.9	62.2	56.5	62.4	68.9	66.6	74.8	72.6	72.9	70.5
Super Lotto Plus / Lot O' Play (1)	364.4	336.6	262.5	297.9	160.7	143.8	113.0	76.3	21.8	-
Classic Lotto (3)	-	-	-	-	-	-	-	-	21.8	41.2
Raffle	-	-	-	-	-	-	-	-	17.8	10.0
Kicker	57.2	52.9	42.9	45.0	27.3	24.5	19.9	21.6	21.3	21.4
Mega Millions	-	-	-	16.5	176.2	191.8	176.4	223.4	196.1	201.0
EZ Play	-	-	-	-	-	-	-	-	-	12.3
Ten-OH!	-	-	-	-	-	-	-	-	-	18.0
<b>Total On-line Ticket Sales</b>	<b>1,016.0</b>	<b>1,023.6</b>	<b>931.6</b>	<b>985.6</b>	<b>989.1</b>	<b>988.7</b>	<b>941.9</b>	<b>946.9</b>	<b>905.6</b>	<b>960.3</b>
<b>Instant Games Sales</b>	<b>1,128.7</b>	<b>1,126.8</b>	<b>988.3</b>	<b>997.5</b>	<b>1,089.1</b>	<b>1,166.0</b>	<b>1,217.2</b>	<b>1,274.0</b>	<b>1,353.8</b>	<b>1,364.8</b>
<b>Total Ticket Sales</b>	<b>2,144.7</b>	<b>2,150.4</b>	<b>1,919.9</b>	<b>1,983.1</b>	<b>2,078.2</b>	<b>2,154.7</b>	<b>2,159.1</b>	<b>2,220.9</b>	<b>2,259.4</b>	<b>2,325.1</b>
<b>Total Other Revenues (4)</b>	<b>127.3</b>	<b>79.2</b>	<b>180.2</b>	<b>124.1</b>	<b>153.7</b>	<b>(0.5)</b>	<b>96.2</b>	<b>28.7</b>	<b>68.1</b>	<b>95.8</b>
<b>Total Revenues</b>	<b>\$ 2,272.0</b>	<b>\$ 2,229.6</b>	<b>\$ 2,100.1</b>	<b>\$ 2,107.2</b>	<b>\$ 2,231.9</b>	<b>\$ 2,154.2</b>	<b>\$ 2,255.3</b>	<b>\$ 2,249.6</b>	<b>\$ 2,327.5</b>	<b>\$ 2,420.9</b>

- (1) In July 2000, the Super Lotto game was changed to Super Lotto Plus and the matrix was changed to 6/49. In October 2005 the game was changed to Lot O' Play.  
(2) In October 2004, the Buckeye 5 game was changed to Rolling Cash 5.  
(3) In January 2007, the Classic Lotto game replaced Super Lotto Plus / Lot O' Play.  
(4) Interest Income includes adjustment for unrealized gain/losses as a result of GASB 31 reporting.

**OHIO LOTTERY - SALES BY GAME FISCAL YEAR 2008**



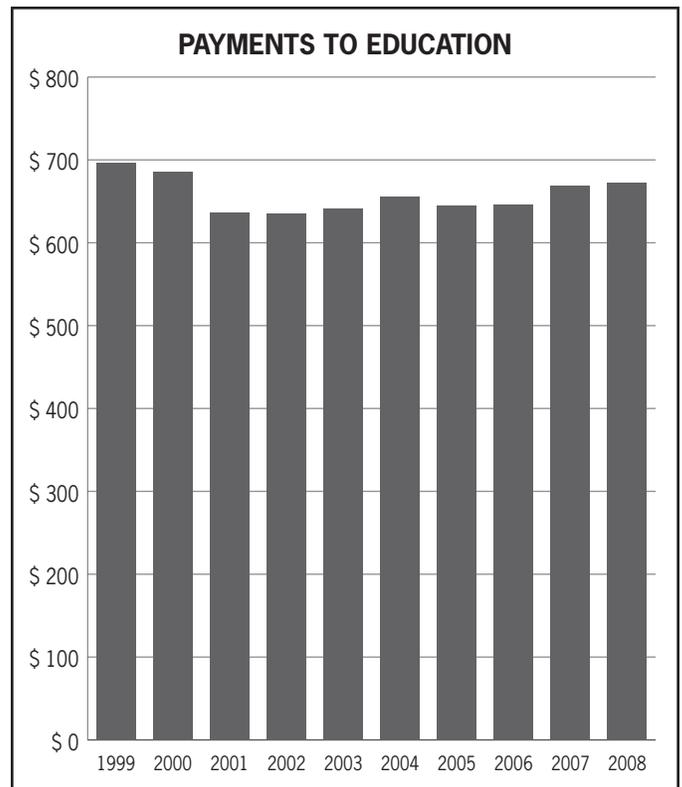
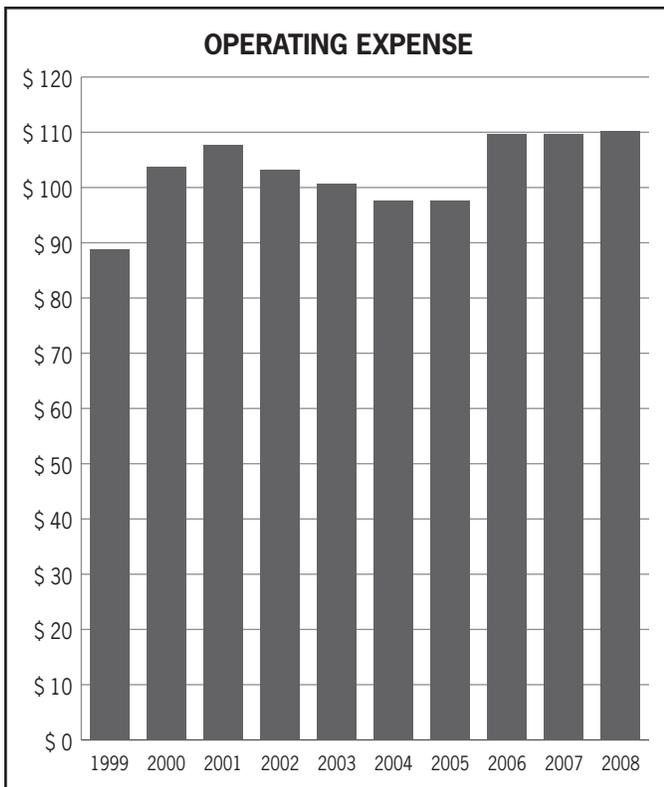
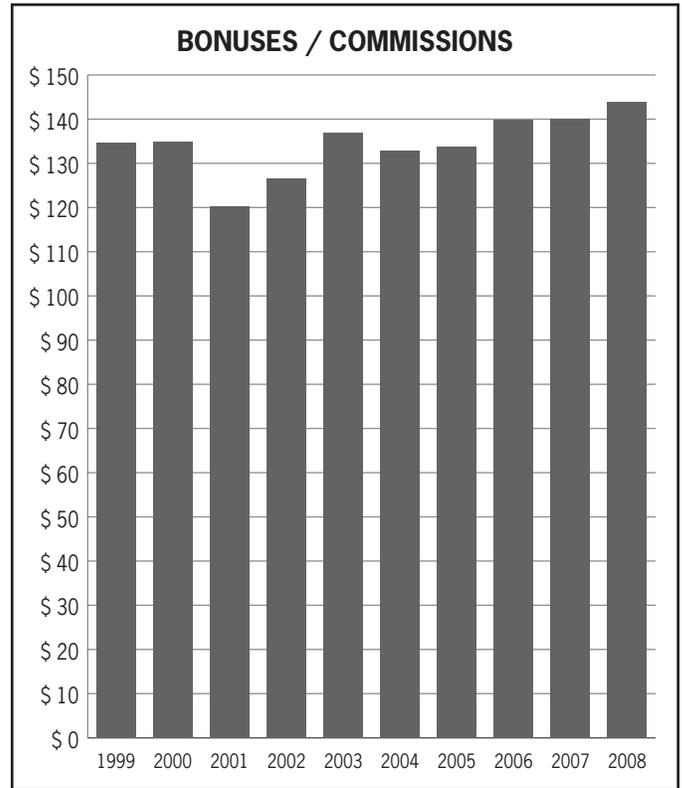
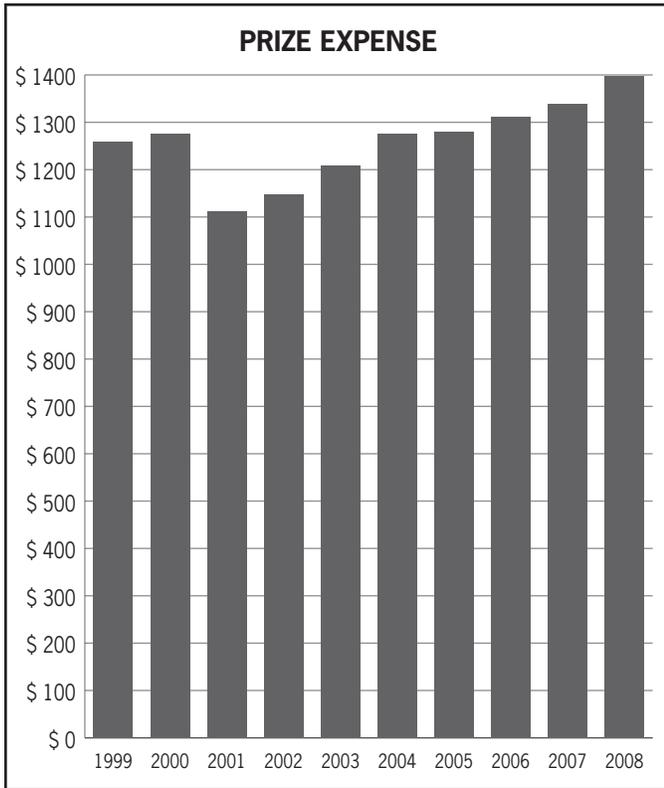
**OHIO LOTTERY - PRIZE PAYOUT AS A PERCENTAGE OF SALES  
LAST TEN FISCAL YEARS  
(In Millions)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>SALES</b>										
On-Line	\$ 1,016.0	\$ 1,023.6	\$ 931.6	\$ 985.6	\$ 989.1	\$ 988.7	\$ 941.9	\$ 946.9	\$ 905.6	\$ 960.3
Instant	1,128.7	1,126.8	988.3	997.5	1,089.1	1,166.0	1,217.2	1,274.0	1,353.8	1,364.8
Total Sales	\$ 2,144.7	\$ 2,150.4	\$ 1,919.9	\$ 1,983.1	\$ 2,078.2	\$ 2,154.7	\$ 2,159.1	\$ 2,220.9	\$ 2,259.4	\$ 2,325.1
<b>PRIZE EXPENSE</b>										
On-Line	\$ 568.9	\$ 575.0	\$ 488.4	\$ 508.0	\$ 502.9	\$ 512.3	\$ 486.2	\$ 467.7	\$ 426.7	\$ 470.3
Instant	690.9	700.0	624.4	640.1	705.3	763.7	794.6	843.5	911.8	926.7
Total Prize Expense	\$ 1,259.8	\$ 1,275.0	\$ 1,112.8	\$ 1,148.1	\$ 1,208.2	\$ 1,276.0	\$ 1,280.8	\$ 1,311.2	\$ 1,338.4	\$ 1,397.0
<b>PRIZE PAYOUT PERCENTAGE</b>										
On-Line	56.0 %	56.2 %	52.4 %	51.5 %	50.8 %	51.8 %	51.6 %	49.4 %	47.1 %	49.0 %
Instant	61.2 %	62.1 %	63.2 %	64.2 %	64.8 %	65.5 %	65.3 %	66.2 %	67.4 %	67.9 %

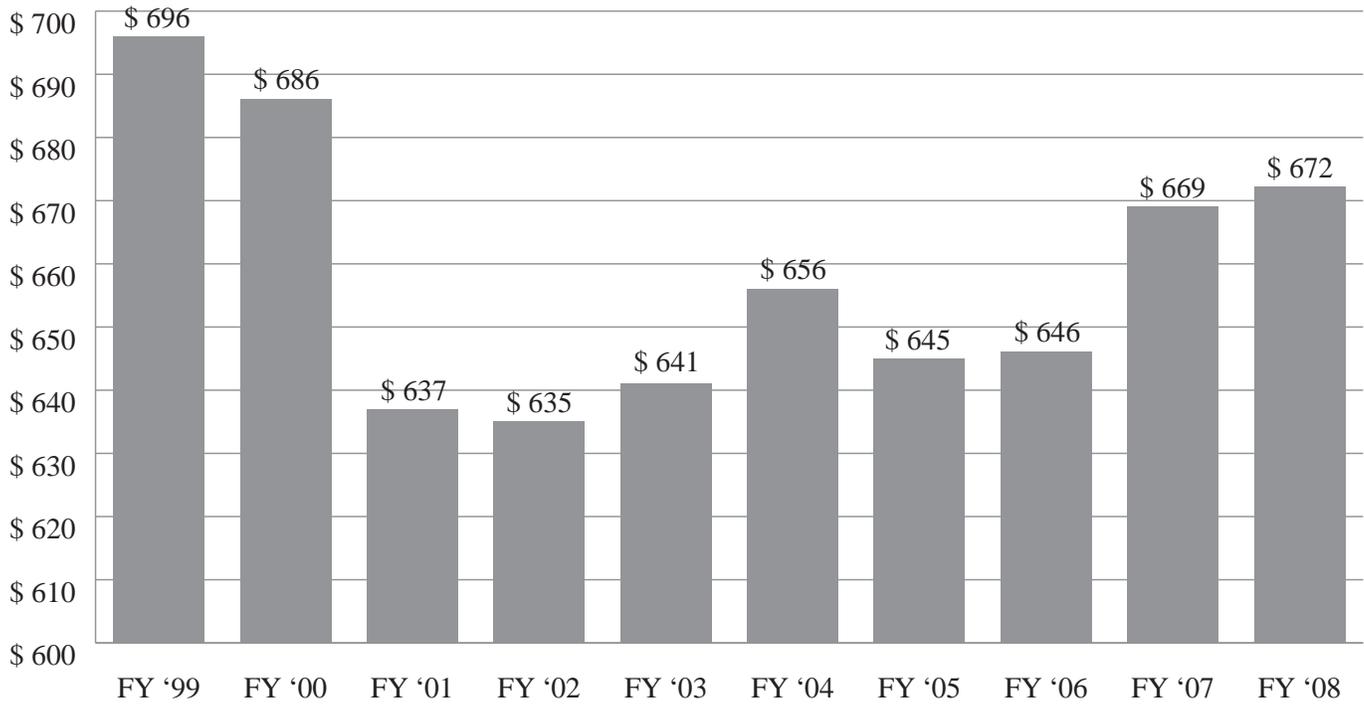
**OHIO LOTTERY - OPERATING EXPENSES AS A PERCENTAGE OF SALES  
LAST TEN FISCAL YEARS  
(In Millions)**

Fiscal Year	Total Ticket Sales	Prizes	Prizes as % of Total Sales	Bonuses/ Commissions	Bonuses/ Comm. % of Total Sales	Operating Expenses	Operating Expenses % of Total Sales	Payments to Education	Payments to Education % of Total Sales
1999	2,144.7	1,259.8	58.7 %	134.6	6.3 %	88.9	4.1 %	696.3	32.5 %
2000	2,150.4	1,275.0	59.3 %	135.0	6.3 %	103.9	4.8 %	686.0	31.9 %
2001	1,919.9	1,112.8	58.0 %	120.2	6.3 %	107.8	5.6 %	637.0	33.2 %
2002	1,983.1	1,148.1	57.9 %	126.6	6.4 %	103.3	5.2 %	635.2	32.0 %
2003	2,078.2	1,208.2	58.1 %	137.0	6.6 %	100.8	4.9 %	641.4	30.9 %
2004	2,154.7	1,276.0	59.2 %	132.8	6.2 %	97.7	4.5 %	655.6	30.4 %
2005	2,159.1	1,280.8	59.3 %	133.8	6.2 %	97.7	4.5 %	645.1	29.9 %
2006	2,220.9	1,311.3	59.0 %	139.8	6.3 %	109.8	4.9 %	646.3	29.1 %
2007	2,259.4	1,338.4	59.2 %	140.0	6.2 %	109.8	4.9 %	669.3	29.6 %
2008	2,325.1	1,397.0	60.1 %	143.9	6.2 %	110.3	4.7 %	672.2	28.9 %

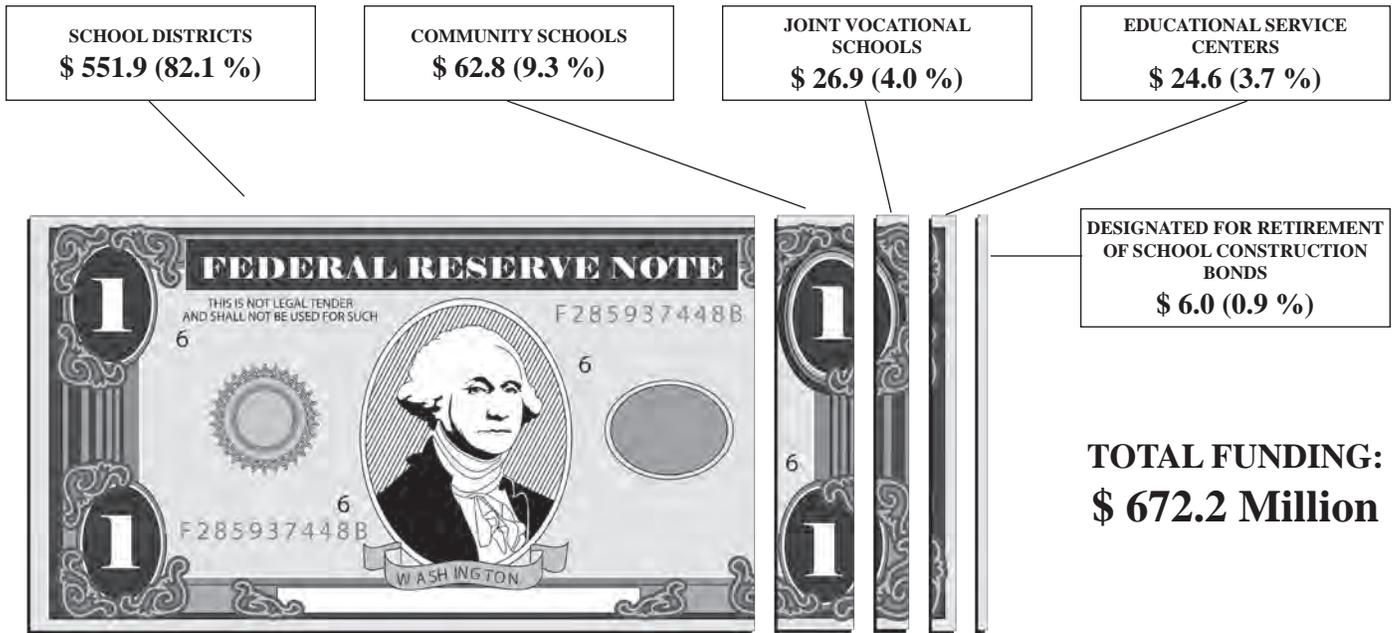
**OHIO LOTTERY - EXPENSES AND PAYMENTS  
LAST TEN FISCAL YEARS  
(In Millions)**



**OHIO LOTTERY - HISTORY OF PAYMENTS TO EDUCATION  
LAST TEN FISCAL YEARS  
(In Millions)**



**OHIO LOTTERY - PROFITS EDUCATION FUND APPROPRIATIONS  
FISCAL YEAR 2008  
(In Millions)**

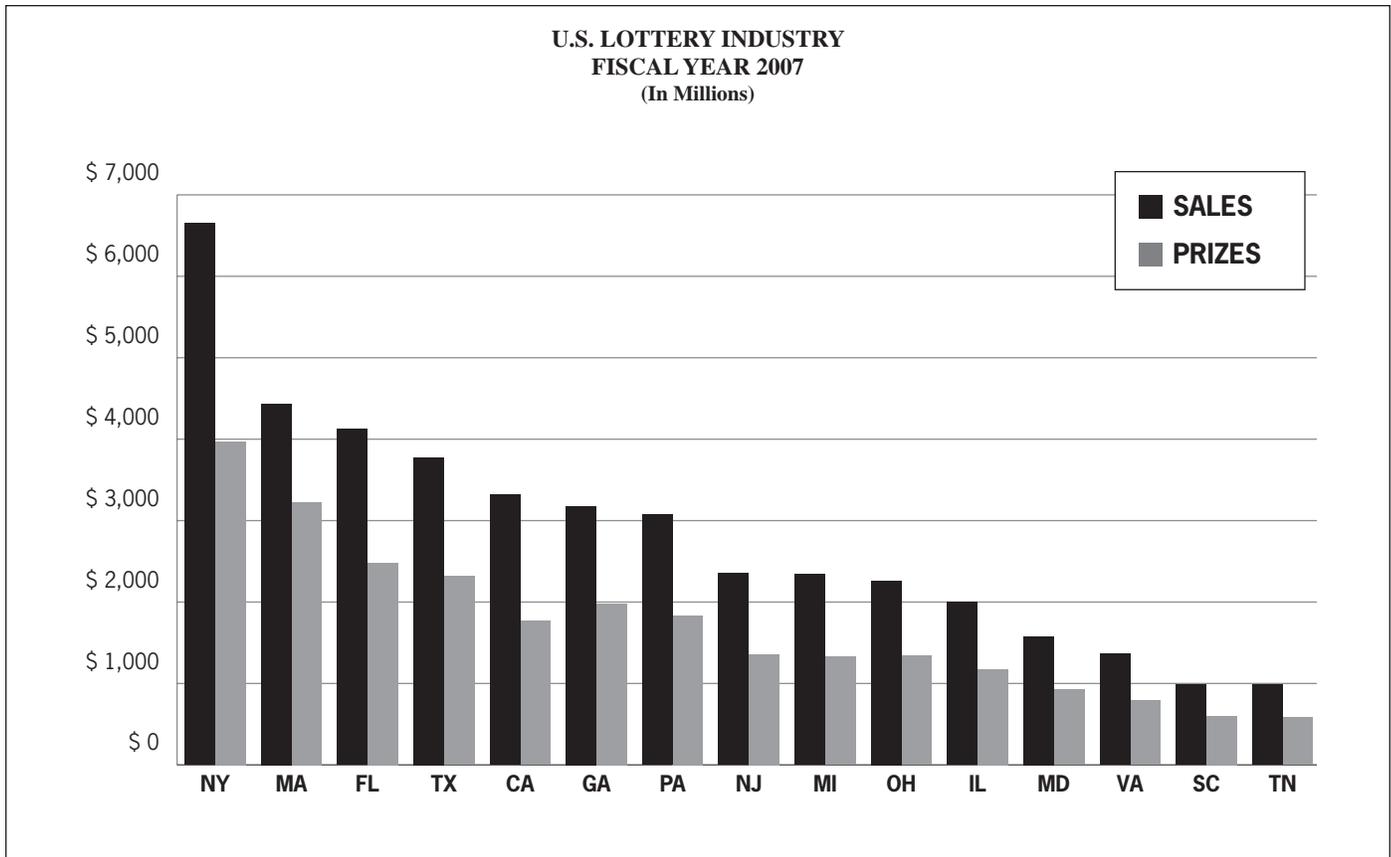


Source: Ohio Department of Education.

**LOTTERY INDUSTRY STATEMENT OF OPERATIONS**  
**RANK BY SALES (A); FISCAL YEAR 2007(B)**  
(In Millions)

Lottery	Population	Total Ticket Sales	Prizes	Bonuses / Commissions	Operating Expenses	Prizes as % of Total Sales	Per Capita Sales
1 New York	19.3	\$ 6,652.4	\$ 3,970.7	\$ 398.4	\$ 264.1	59.7 %	\$ 345
2 Massachusetts	6.4	4,436.5	3,225.0	251.7	91.9	72.7 %	689
3 Florida	18.1	4,122.1	2,484.5	234.3	151.3	60.3 %	228
4 Texas	23.5	3,774.2	2,315.3	193.2	182.6	61.3 %	161
5 California	36.6	3,318.4	1,765.6	233.8	166.5	53.2 %	91
6 Georgia	9.4	3,178.4	1,978.4	225.7	129.0	62.2 %	339
7 Pennsylvania	12.4	3,076.3	1,832.6	166.3	161.3	59.6 %	247
8 New Jersey	8.7	2,351.3	1,359.4	131.2	81.8	57.8 %	270
9 Michigan	10.1	2,342.6	1,329.1	172.7	108.3	56.7 %	232
10 OHIO	11.5	2,259.4	1,338.4	140.0	109.8	59.2 %	197
11 Illinois	12.8	1,999.0	1,177.2	100.7	110.2	58.9 %	156
12 Maryland	5.6	1,577.3	927.0	112.2	54.8	58.8 %	281
13 Virginia	7.6	1,362.3	791.8	76.5	68.1	58.1 %	178
14 South Carolina	4.3	988.2	600.1	70.0	45.7	60.7 %	229
15 Tennessee	6.0	984.9	584.9	69.2	52.9	59.4 %	163
<b>Top 15 Average U.S.</b>	\$ 12.8	\$ 2,828.2	\$ 1,712.0	\$ 171.7	\$ 118.6	60.5 %	\$ 254

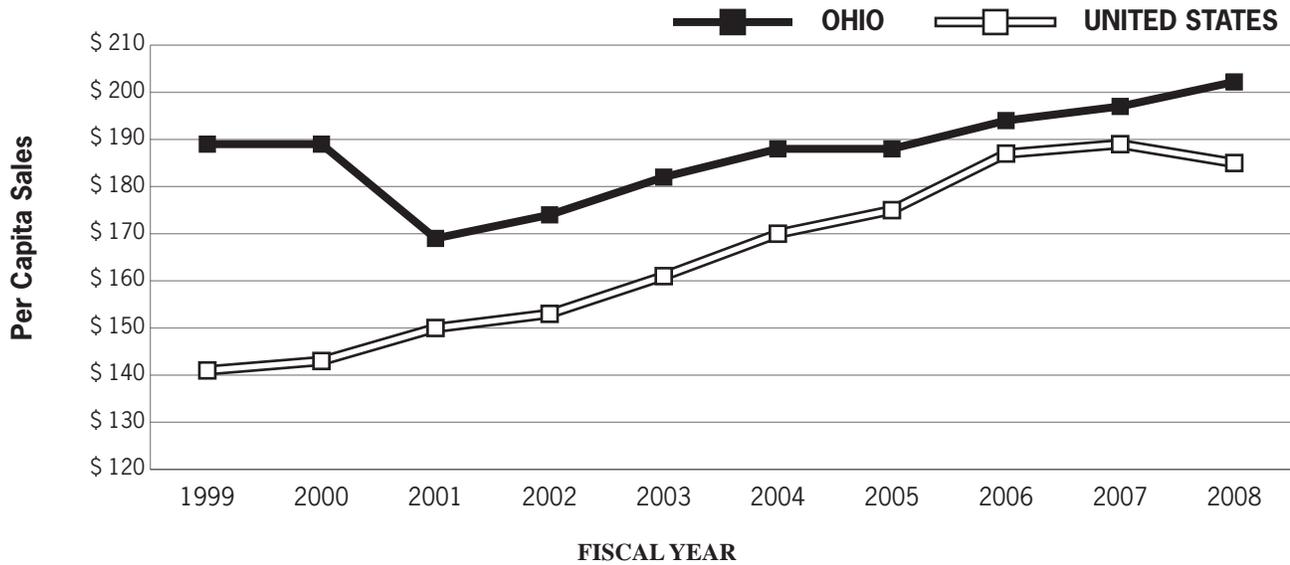
(a) does not include video lottery, (b) Latest Information Available  
The fiscal year ends June 30, 2007 for all US states except New York (March 31), Texas (August 31), and Michigan (September 30).  
The population figures used for the U.S. states were published by the Bureau of the Census on July 1, 2007.  
Source: "La Fleur's 2008 World Lottery Almanac"



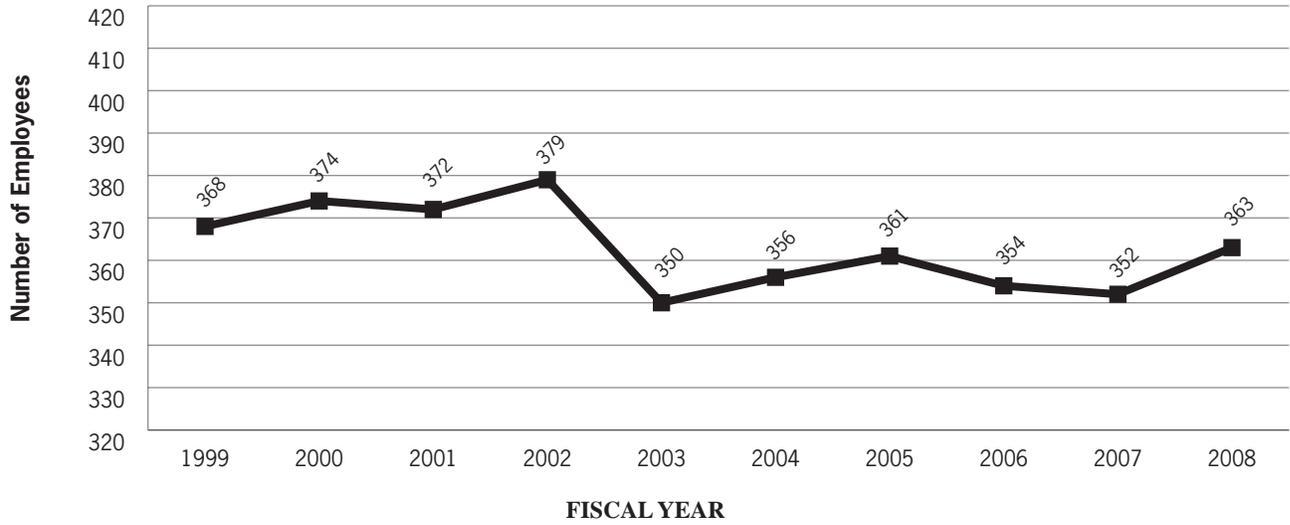
**OHIO LOTTERY - SALES PER CAPITA  
LAST TEN FISCAL YEARS**

Fiscal Year	Population (In Millions)	Ticket Sales (In Millions)	Per Capita Sales	National Average
1999	11.3	\$2,144.7	\$189.8	\$141.0
2000	11.4	2,150.4	188.6	143.0
2001	11.4	1,919.9	168.4	150.0
2002	11.4	1,983.1	174.0	153.0
2003	11.4	2,078.2	182.3	161.0
2004	11.5	2,154.7	187.4	170.0
2005	11.5	2,159.1	187.7	175.0
2006	11.5	2,220.9	193.1	187.0
2007	11.5	2,259.4	196.5	189.0
2008	11.5	2,325.1	202.2	185.0

**OHIO LOTTERY AND U.S. LOTTERIES  
PER CAPITA SALES  
Last Ten Fiscal Years**

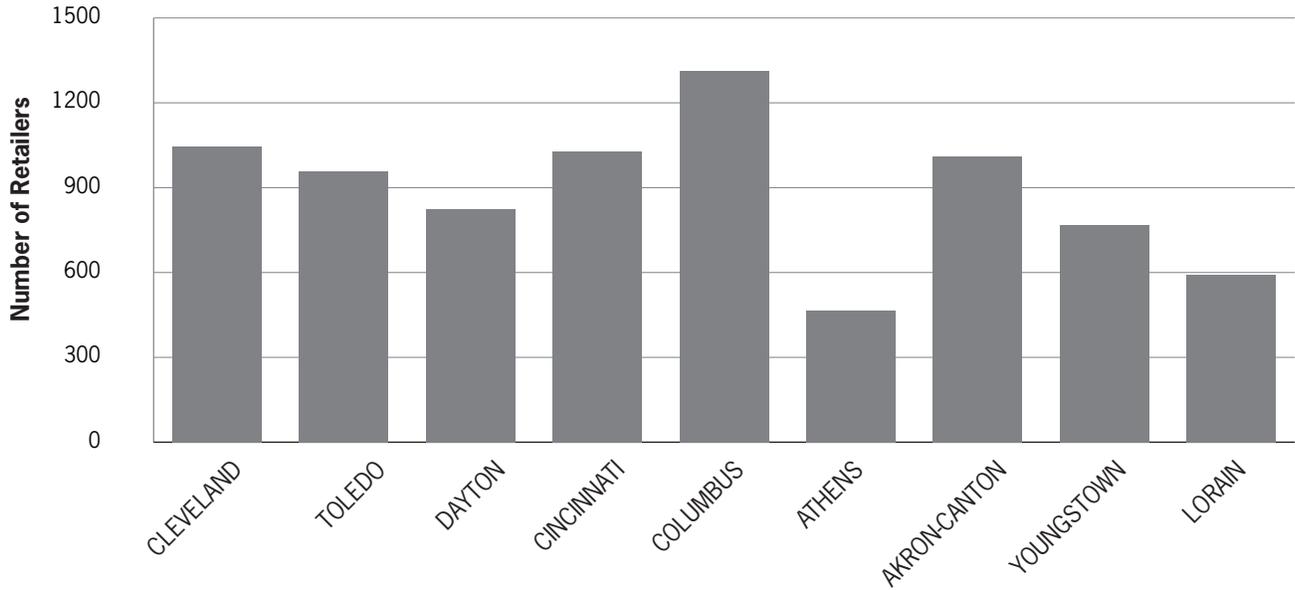


**OHIO LOTTERY - NUMBER OF EMPLOYEES  
LAST TEN FISCAL YEARS**



**OHIO LOTTERY - RETAILERS BY REGION  
as of June 30, 2008 (Active Retailers Only)**

**TOTAL LOTTERY RETAILERS: 8,005**

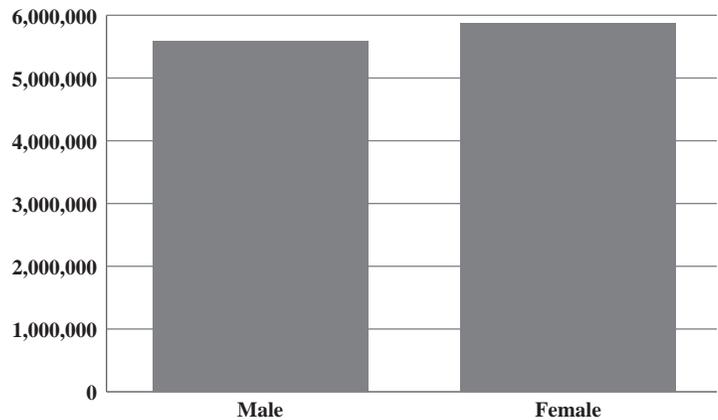


**OHIO LOTTERY - NUMBER OF RETAILERS  
LAST TEN FISCAL YEARS**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>TOTAL RETAILERS</b>	9,331	9,287	9,178	9,019	8,882	8,801	8,754	8,559	8,154	8,005

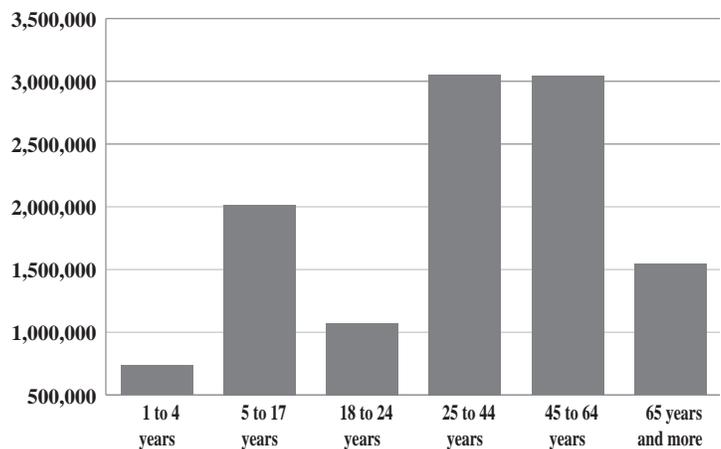
## Population by Gender

	Number	Percent
Male .....	5,591,161	48.76%
Female .....	5,875,756	51.24%
<b>Total Population .....</b>	<b>11,466,917</b>	<b>100.0%</b>



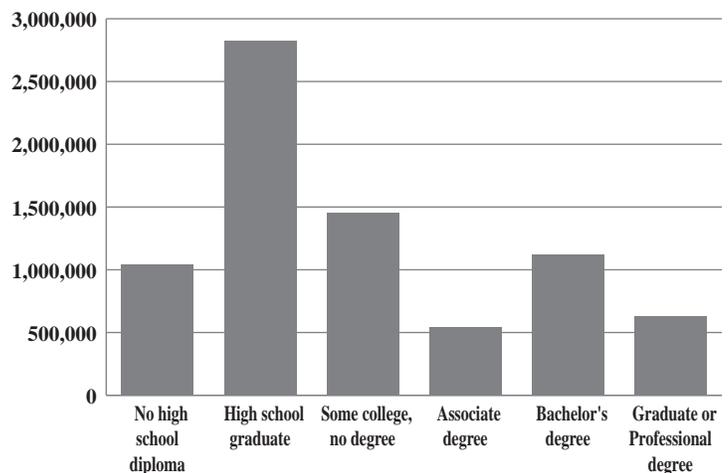
## Population by Age

	Number	Percent
1 to 4 years .....	736,416	6.4%
5 to 17 years .....	2,015,458	17.6%
18 to 24 years .....	1,075,049	9.4%
25 to 44 years .....	3,052,646	26.6%
45 to 64 years .....	3,042,263	26.5%
65 years and more .....	1,545,085	13.5%
<b>Total Population .....</b>	<b>11,466,917</b>	<b>100.0%</b>
<b>Median Age .....</b>	<b>37.9</b>	



## Education

	Number	Percent
No high school diploma .....	1,045,339	13.7%
High school graduate .....	2,820,513	37.1%
Some college, no degree .....	1,452,070	19.1%
Associate degree .....	539,775	7.1%
Bachelor's degree .....	1,117,562	14.7%
Graduate/Professional degree .....	627,203	8.3%
<b>Persons 25 years and over ...</b>	<b>7,602,462</b>	<b>100.0%</b>

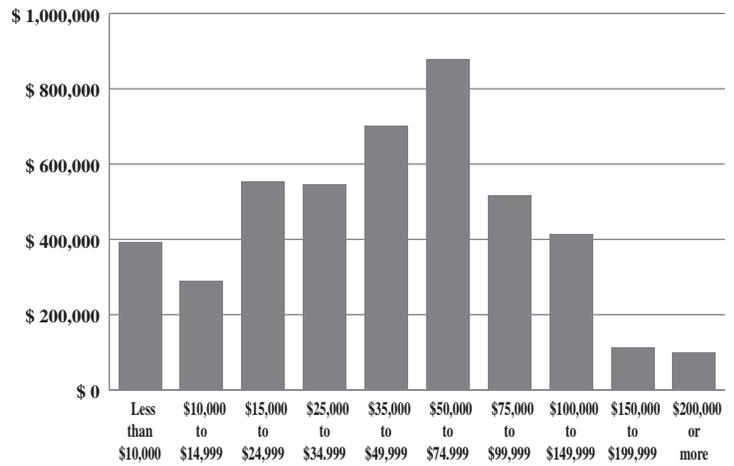


U.S. Census Bureau - 2006 American Community Survey, Ohio of Policy Research and Strategic Planning, Ohio Department of Development

Note: percentages may not add to 100% due to rounding.

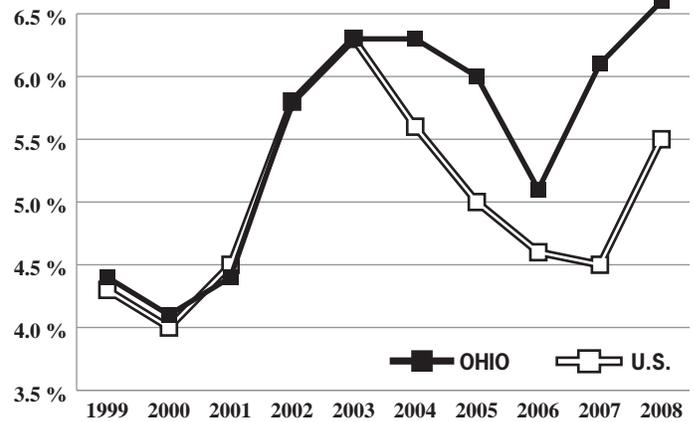
## Household Income

	Number	Percent
Less than \$10,000 .....	391,457	8.7%
\$10,000 to \$14,999 .....	287,968	6.4%
\$15,000 to \$24,999 .....	553,439	12.3%
\$25,000 to \$34,999 .....	544,440	12.1%
\$35,000 to \$49,999 .....	701,923	15.6%
\$50,000 to \$74,999 .....	877,404	19.5%
\$75,000 to \$99,999 .....	517,443	11.5%
\$100,000 to \$149,999 .....	413,955	9.2%
\$150,000 to \$199,999 .....	112,488	2.5%
\$200,000 or more .....	98,989	2.2%
<b>Total Households .....</b>	<b>4,499,506</b>	<b>100.0%</b>
<b>Median Household Income.....</b>	<b>\$44,532</b>	



## Unemployment Rates Seasonally Adjusted

Month / Year	Ohio	U.S.
Jun-1999.....	4.4%	4.3%
Jun-2000.....	4.1%	4.0%
Jun-2001.....	4.4%	4.5%
Jun-2002.....	5.8%	5.8%
Jun-2003.....	6.3%	6.3%
Jun-2004.....	6.3%	5.6%
Jun-2005.....	6.0%	5.0%
Jun-2006.....	5.1%	4.6%
Jun-2007.....	6.1%	4.5%
Jun-2008.....	6.6%	5.5%

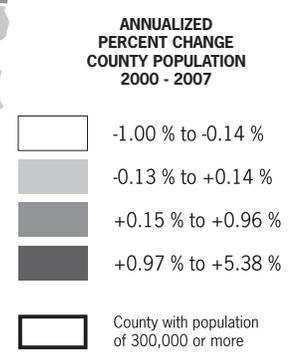
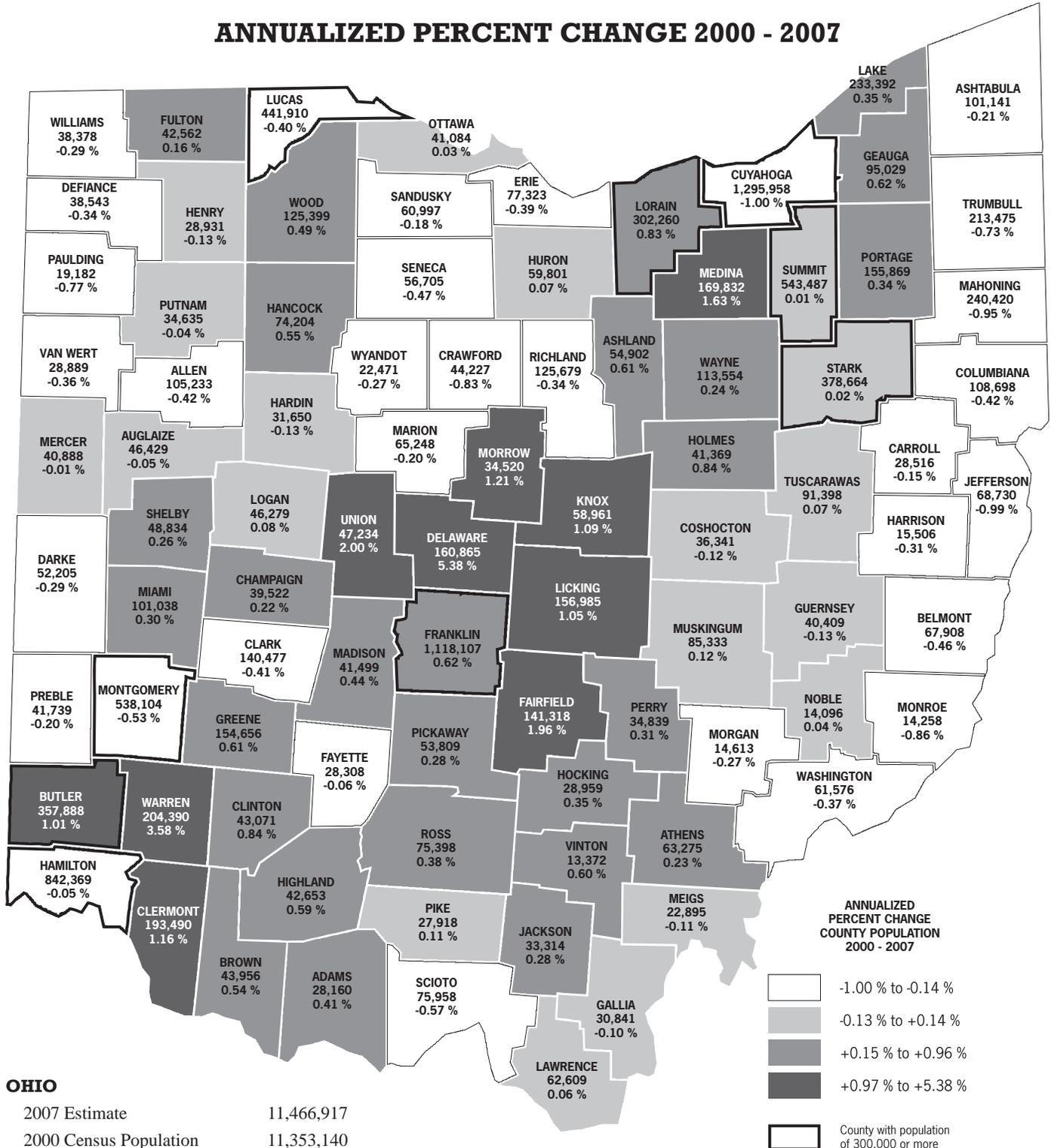


Source: Ohio Job & Family Services, Office of Workforce Development



# OHIO 2007 POPULATION ESTIMATES

## ANNUALIZED PERCENT CHANGE 2000 - 2007



### OHIO

2007 Estimate 11,466,917  
 2000 Census Population 11,353,140

Percent Change (Annualized) 2000 - 2007 +0.14 % Greater than Ohio

### U.S.

Percent Change (Annualized) 2000 - 2007 +0.96 % Greater than U.S.

Source: U.S. Census Bureau  
 Prepared by: Ohio Department of Development  
 Policy Research and Strategic Planning (March 2008)



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## **The Ohio Lottery Commission**

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Mary Taylor, CPA  
Auditor of State

**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  
OCTOBER 8, 2009**