

CELEBRATING 40 YEARS OF EXCELLENCE



The Ohio Lottery Commission
An Enterprise Fund of the State of Ohio
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013

Front Cover: John Kirkland, the Ohio Lottery's first Executive Director and Shirley Gellman, pose with the tumbler to be used in the first Ohio Lottery Drawing (Photo from the Cleveland Press Collection).

The Ohio Lottery Commission

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Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013

Prepared by the
Ohio Lottery Office of Finance

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• INTRODUCTORY SECTION •

The history of the Ohio Lottery can be traced back to 1971, when Ohio State Senator Ron Mottl spearheaded a campaign to create a lottery in Ohio.

Mottl's efforts came to fruition on May 8, 1973, when Ohio voters approved State Issue 1, a constitutional amendment to allow the sale of lottery tickets, by a 2-to-1 margin, thus creating the Ohio Lottery Commission.

Governor John J. Gilligan appointed John E. Kirkland Jr., a banker from Troy, Ohio, as executive director.

By April 1974, the state had found a site for the Lottery's headquarters, and on May 1, 1974, the Ohio Lottery officially opened its offices on the 2nd floor of University Research Center on Cedar Road, in University Heights, Ohio.

On May 2, the Ohio Lottery announced that its first ticket would be ready to go on sale August 12.

Thirty million tickets would need to be sold before the drawing occurred. Based on sales estimates, the Lottery was expecting to generate \$6 million in sales per week, which would put the first official drawing some time in October.

The Lottery also embarked on its recruitment campaign. It was estimated that approximately 10,000 retail locations would be needed throughout the state for an adequate distribution.

By June 1, applications were available to any retail business that was interested in becoming a Lottery Agent.



State Senator Ron Mottl. Photo courtesy of the Cleveland Press Collection.



John E. Kirkland, Jr., the Ohio Lottery's first Executive Director. Photo courtesy of the Cleveland Press Collection.

The applications were available at state liquor stores all across Ohio and directly from one of the Ohio Lottery's seven Regional Offices. By this time, regional offices had opened in Cleveland, Canton, Cincinnati, Columbus, Dayton, Marietta and Toledo. Lottery retail outlets would also enjoy a 5 percent commission on every ticket they sold.

On Sunday June 23, 1974, Ohioans would get their first peek at the Lottery's inaugural game.



Buckeye 300 was the Lottery's first game. It cost 50 cents to play, with a top prize of \$300,000. The game also gave players who won \$20 on the ticket an opportunity to enter a drawing for a top prize of \$1 million.

Players could win by matching 5 sets of 3-digit numbers to the numbers drawn. Three of the numbers on the ticket were in blue boxes, and two were in green boxes. The drawings were to be held on a portable stage in a different city every week.

Plastic balls with 3-digit numbers ranging from 000-999 would be placed in a large drum which would rotate and turn on its end. Below the drum were 10 receiving cups, each with a number on the cup itself. One of the balls in the drum would fall into each receiving cup.

A person randomly chosen from the audience would choose one of ten sealed envelopes that contained the number of a racehorse that won in a recent race. The number in the envelope would match one of the numbers on one of the receiving cups.

That cup would be removed, and the number on the ball inside the cup would be read. That number would be the winning single 3-digit number. This would be repeated two more times to determine the winning double 3-digit numbers.



Former Ward 25 Councilman Sidney Frost operates the "slitter," which cuts the tickets into long strips for packaging. Photo courtesy of the Cleveland Press Collection.



Ohio Lottery Employees (left): Jane Trigg, Mike Dean, Audrey Cole, Ruth Popovich. (standing) Ray Fasula. Photo courtesy of the Cleveland Press Collection.

Buckeye 300 would have a top prize of \$300,000, and secondary prizes of \$60,000, \$30,000, and \$15,000, respectively.

All prizes worth \$15,000 or more would be paid out in annual installments of \$15,000. The Buckeye 300 drawing would be held the following week of each drawing.

Every 6 to 8 weeks, depending on sales, all the \$20 winners would be entered into a millionaire drawing, with 100 prizes ranging from \$1,000 to \$1 million.

The \$1 million winner would receive \$50,000 a year for 20 years. The \$100,000 winner would receive \$10,000 a year for 10 years. The \$50,000 winner would receive \$10,000 a year for 5 years. There would also be seven \$10,000 winners, ten \$20,000 winners, and eighty \$1,000 winners.

The Lottery was expecting to gross \$110 million the first year, with more than \$45 million awarded to players as prizes. The first ticket was expected to go on sale August 12, with the first Buckeye 300 drawing to occur on August 22.

The Lottery expected about 25,000 players would qualify each week for the cash prizes ranging between \$20 - \$300,000.



Ohio Lottery Employees (left): Ray Fasula, Ruth Popovich, and Vera Valavanis. Photo courtesy of the Cleveland Press Collection.



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OCTOBER 1, 2014

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, 2014. The Office of Finance of the Ohio Lottery has prepared this report in accordance with Generally Accepted Accounting Principles (GAAP). The Ohio Lottery, an agency of the State of Ohio (the State), was created in 1974 and is operated as a business enterprise within the framework of the State's laws and regulations. The Ohio Lottery's mission is to maximize revenues to provide funds for the educational system of the State by offering dignified games of chance to the public at large.

The Ohio Lottery is an enterprise of the State and is included in the State's 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 1990s. In 2002, Ohio began selling Mega Millions, a multi-jurisdictional jackpot game and now participates in the Powerball game. In August 2008, KENO was introduced in Ohio and now represents our biggest opportunity for growth. As of September 30, 2014, 43 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico operate lotteries using computer-based online games and instant "scratch off" games.

Video Lottery gaming was introduced in Ohio when the Governor signed Executive Order 2011-22K, which authorized the Lottery to amend and adopt rules necessary to implement a video lottery program at Ohio's seven (7) horse racing facilities. The Lottery's role is to regulate the program with the goal of generating revenue for the State of Ohio while maintaining integrity and transparency.

ECONOMIC OUTLOOK

According to the Bureau of Economic Analysis (BEA), personal income in the United States increased 0.8 percent during the third quarter of fiscal year 2014. The report indicates that personal income grew in 46 states and growth accelerated in 24 of those states. BEA targeted a number of special factors behind the increase in personal income, including increases to Social Security and Medicaid benefits, and several other refundable tax credits. These increases were also partly offset by a decrease in state unemployment insurance benefits. Of the industries tracked, the largest percentage increases are in the professional services, construction, and finance. All told, nineteen of twenty-four tracked industries saw earnings growth.

The US unemployment rate for June 2014 was 6.1 percent, down from a high in 2011 of 9.2 percent. The four largest sectors showing employment growth in June were professional and business services, retail trade, leisure and hospitality, and education and health care.

Ohio ended the third quarter of fiscal year 2014 with a 1.06 percent increase in personal income over the previous quarter. Ohio ranked 8th among states for change in income between the quarters. During fiscal year 2014 the unemployment figures in Ohio have trended downward, from 7.3 percent in April of 2013 to 5.5 percent as of June 2014. Ohio's unemployment rate currently sits at 0.6 percent better than the national rate.

Many factors in the national and state economies 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 to be part of their business model.

Fiscal year 2014 marked the ninth consecutive year of profit growth for the Ohio Lottery. Total revenues also increased due to the three new VLT facilities (racinos), in addition to continued strong performance from the two facilities opened in fiscal years 2012 and 2013. The implementation of the new racinos are in keeping with the Ohio Lottery's strategic plan to continually innovate in an effort to maintain player interest. Additionally, as consumers scale back on discretionary spending, Ohio Lottery games offer an affordable entertainment alternative.

LOTTERY PRODUCTS

The Ohio Lottery provides the opportunity for the public to participate in different games with two styles of play, online or draw based games and instant games. Descriptions of the games and their portion of sales are as follows:

ONLINE or **DRAW BASED 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.



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 2014 were \$339.0 million, or 12.4 percent of total Ohio Lottery sales.



PICK 4 is played similarly to Pick 3. Players select a four-digit number from 0000 to 9999 and may play it straight, boxed or in back-up bets. Sales for fiscal year 2014 were \$185.8 million, or 6.8 percent of total Ohio Lottery sales.



PICK 5 began in August 2012 and is played similarly to Pick 3 and Pick 4. Players select a five-digit number from 00000 to 99999 and may play it straight, boxed or in back-up bets. Sales for fiscal year 2014 were \$27.9 million or 1.0 percent of total Ohio Lottery sales. Pick 3, Pick 4 and Pick 5 are drawn midday and evenings Sunday through Saturday.



ROLLING CASH 5 is a lotto game in which players select five 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 2014 were \$63.4 million, or 2.3 percent of total Ohio Lottery sales. Drawings are held Sunday through Saturday evenings.



CLASSIC LOTTO is a lotto game in which players select six 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 2014 were \$54.1 million, or 2.0 percent of total Ohio Lottery sales.

KICKER is a spiel game, with a top prize of \$100,000, which may only be purchased along with Classic Lotto. KICKER was reinstated in April 2012. Sales for fiscal year 2014 were \$6.0 million, or 0.2 percent of total Ohio Lottery sales.



MULTI-STATE MILLIONS RAFFLE is a new twist on the traditional 50-50 New Year's Raffle game which the Ohio Lottery ran in previous years. The Ohio Lottery teamed up with six other states to offer a traditional raffle game with \$1.0 million prizes. The amount of top prizes available is directly connected to how many tickets were sold. The cost of a ticket is \$10, with unlimited number of tickets for sale. The sales period for the raffle was September through October, followed by the drawing on November 1. Sales for fiscal year 2014 were \$1.0 million.



MEGA MILLIONS is a multi-state, lotto game. For each wager, players select five numbers from a pool of 1 to 75 and select one Mega ball number from a second pool of 1 to 15. To win the jackpot, all six numbers must be matched. The jackpot starts at \$15 million and increases a minimum of \$5.0 million if not won.

MEGAPLIER was added to Mega Millions in January 2011. Players may select the Megaplier option for a chance to increase their winnings at the cost of \$1 for each dollar wagered on Mega Millions. The Megaplier number drawn can be 2, 3, 4 or 5, and can increase winnings by that Megaplier number drawn. Megaplier multiplies the winnings by the number drawn for prizes up to \$5,000. If a player selects the Megaplier option and then matches all five numbers but not the Mega ball, the prize is automatically \$1.0 million. Drawings are held on Tuesday and Friday evenings. Mega Millions/Megaplier sales for fiscal year 2014 were \$133.4 million, or 4.9 percent of total Ohio Lottery sales.



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 changed easily to keep the product line fresh. Sales for fiscal year 2014 were \$84.8 million, or 3.1 percent of total Ohio Lottery sales.



KENO is a draw game in which players choose from one to 10 numbers (also called spots) for a top prize of \$100,000 by matching 10 of 20 numbers drawn. The drawings are held every day starting at 6:04 a.m. and occur every four minutes, ending at 2:28 a.m. Booster was introduced by the Ohio Lottery in February 2010. Players may select the Booster option for a chance to increase their winnings at the cost of \$1 for each dollar wagered on KENO. The Booster number drawn can be 1, 2, 3, 4, 5, or 10 and can increase winnings 2, 3, 4, 5 or 10 times. Combined KENO/Booster sales for fiscal year 2014 were \$298.1 million, or 10.8 percent of total Ohio Lottery sales.



POWERBALL is a multi-state, lotto game launched in Ohio in April 2010. For each wager, players select five numbers from a pool of 1 to 59 and select one Powerball number from a second pool of 1 to 35. To win the jackpot, all six numbers must be matched. The jackpot starts at \$40 million and increases if not won. Drawings are held on Wednesday and Saturday evenings.

Players may select the **POWER PLAY** feature that allows a winner to increase the original prize amount. Powerball players winning any prize other than the jackpot will win a larger cash prize. Combined Powerball/Power Play sales for fiscal year 2014 were \$122.8 million or 4.5 percent of total Ohio Lottery sales.

INSTANT GAMES are played by scratching the latex covering off 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 2014, instant game sales equaled \$1.4 billion or 52.0 percent of total ticket sales. The Ohio Lottery has successfully sold instant games at the \$1, \$2, \$3, \$5, \$10, and \$20 price points. The Ohio Lottery continues to feature several “spotlight” instant games, which are games sold at \$10 and \$20 price points with attractive, higher prize payouts. This year, the Lottery introduced its first \$30 instant game, **40th Anniversary Millions**, in celebration of the Ohio Lottery’s 40 years of existence. This ticket, with an 80 percent payout, offers more than \$570 million in total prizes, including five top prizes of \$10 million.

VIDEO LOTTERY was introduced to the State of Ohio in 2012 when Governor Kasich signed Executive Order 2011-22K, which authorized the Lottery to amend and adopt rules necessary to implement a video lottery program at Ohio’s seven (7) horse racing facilities. On June 1, 2012, Scioto Downs in Columbus began video gaming with 1,787 video lottery terminals; as of June 30, 2014 there were 8,585 terminals at five different racetracks in Ohio. A Video Lottery Terminal (VLT) is a stand-alone device containing a random-number generator. Each VLT is connected to a centralized computer system that allows the Lottery to monitor game play and collect revenue activity. The Central Monitoring System (CMS) keeps track of money deposited in a terminal, usage, wins and payouts, machine maintenance and cash removal. Game themes are approved by Lottery Commissioners and independently tested and certified before being placed into operation. The minimum percentage payout in Ohio is 85 percent. The racetrack VLT total revenue for fiscal year 2014 was \$437.6 million, with the Lottery receiving \$146.6 million. Ohio is one of seven state lotteries to regulate video gaming at racetracks.

ACCOMPLISHMENTS

Ohio Lottery profits were specifically designated by statute in 1987 to help fund the State’s public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2014, The Ohio Lottery transferred \$904.3 million to the LPEF, making this the highest profit transfer in the Lottery’s 40 year history, surpassing transfers made the prior year by \$101.2 million. Of the profits realized, \$139.4 million represents net proceeds from the video lottery program. This represented the ninth consecutive year of profit growth. With this transfer, the Ohio Lottery has provided more than \$20.3 billion in profits to the State of Ohio. Additionally, several other milestones were achieved during fiscal year 2014.

- Presently, five of the seven racetracks/racinos are operational. Miami Valley Gaming racetrack opened in December 2013 with an estimated 1,577 Video Lottery Terminals (VLT’s). In Fiscal Year 2014, Miami Valley Gaming generated approximately \$22.1 million in net revenue for the Ohio Lottery. Hard Rock Rocksino racetrack also opened in December 2013 with an estimated 2,241 Video Lottery Terminals (VLT’s). In Fiscal Year 2014, Hard Rock Rocksino generated approximately \$31.9 million in net revenue for the Ohio Lottery. Belterra Park racetrack opened in May 2014 with an estimated 1,479 Video Lottery Terminals (VLT’s). In Fiscal Year 2014, Belterra Park generated approximately \$3.1 million in net revenue for the Ohio Lottery. Thistledown completed its first full year of VLT sales, generating \$44.3 million in net revenue. Scioto Downs completed its second full year of VLT sales, generating \$45.2 million in net revenue.
- In June 2014, a winning **Classic Lotto** jackpot ticket was sold at a retailer in Ashtabula, Ohio. This jackpot valued at \$73.3 million represented an all time record for this game. The last time a Classic Lotto jackpot was sold was during Fiscal Year 2012 in the amount of \$2.7 million.
- From September through November 2013, seven states (Ohio, New York, New Jersey, Michigan, Indiana, Oklahoma, and Iowa) participated in a new **Multi-State Millions Raffle** game, with each ticket costing \$10. In addition to two guaranteed \$1 million winners, additional million dollar prizes were awarded based on sales. Each state without a \$1 million winner was guaranteed a \$50,000 prize, ensuring a winner in every state. Ohio added to the potential winnings by offering an Ohio made vehicle, cash cards and prize packs to customers purchasing tickets from the Ohio Lottery.
- In October 2013, **Mega Millions** was modified and designed to grow the jackpot faster, by increasing the starting jackpot to \$15.0 million and providing a new \$1.0 million second-tier prize. In addition, a 5X multiplier was added creating a new \$5.0 million jackpot prize.
- The State of Ohio benefits each time a jackpot winner is drawn in Ohio since state income taxes are withheld from the prize winner’s gross proceeds. Since the inception of Mega Millions and Powerball, state tax withholdings for jackpot prize winners have totaled \$58.1 million.
- The **EZPLAY** game category grew on the strength of a full year of sales for the progressive line in fiscal year 2014. Continuing

on that strength, EZPLAY launched the \$5 progressive **Going Pro** game in May, which resulted in sales of \$3.6 million in less than two months. Additionally, the Lottery introduced its new regional style game, called **Countdown**, which sold \$1.9 million over its three games. A new game to the traditional EZPLAY line, the \$10 price point **Tens of Thousands** ticket sold in excess of \$10.2 million.

- The Ohio Lottery purchased 1,500 Dual Jackpot Signs that displayed both the Mega Millions and Powerball game. These signs were strategically positioned at Ohio Lottery Retailers throughout the state. This will help the Lottery by maximizing the exposure of our products to our target market and therefore increase our sales.
- The Lottery introduced its first \$30 instant ticket game, **40th Anniversary Millions**, in January 2014. The game advertises a \$10 million dollar top prize, a record top prize for an Ohio instant game. 40th Anniversary Millions was designed to offer a number of eye-catching prizes in addition to the five \$10 million dollar prizes and thirty-five prizes of \$1 million, such as the 1.2 million prizes of \$100 to \$5,000. The release of the new \$30 instant ticket game was instrumental in erasing a significant deficit in the overall instant ticket category from a high of \$61 million in January to \$1.3 million by the end of the year.
- In May 2014, the Ohio Lottery added a second mobile application, called the **ePlayslip**, and allows players to prepare wagers for all their favorite online games. The app produces a QR barcode that retailers can scan via their lottery terminal and print the requested wagers.
- The **Partners in Education** program completed its seventh year honoring outstanding K-12 students and teachers from around the State. The Lottery encourages nominations from all over Ohio for the program's Academic All Star and Teacher of the Month awards.
- During fiscal year 2014, the Ohio Lottery, in conjunction with the Ohio Attorney General and the Ohio Department of Job and Family Services, recovered \$1,094,117 from 497 prize winners who owed state debt or child support.
- The Lottery continued its commitment to responsible gambling awareness in 2014. Based on the findings of the Problem Gambling Prevalence Study, in Fiscal Year 2013, the Lottery developed a public awareness campaign entitled **I Lost A Bet** geared toward the 18-24 year old demographic, found to be most at-risk for a gambling problem. The **I Lost A Bet** campaign focused primarily on social media, with television and billboard teasers to generate interest in the website, **ilostabet.org**. The campaign was a collaborative effort on behalf of Ohio for Responsible Gambling, which is a state-wide initiative of the Ohio Lottery, the Ohio Casino Control Commission, the Ohio State Racing Commission, and the Ohio Department of Mental Health and Addiction Services to promote problem gambling awareness and advocacy. This successful campaign garnered more than 160,000 visits to the website which featured the warning signs for problem gambling. It also generated over 700,000 Facebook impressions; the website distributed over 4,700 t-shirts in return for the sharing of gambling related narratives. In addition to this media campaign, the Lottery continues to require employee responsible gambling training to all lottery employees which was conducted during the All State Employee Meeting held in June, 2013. The Lottery has expanded its mandatory responsible gambling training to include all employees of racino facilities.
- The Ohio Lottery continued its successful bond reduction program. This program is designed to reward long standing Lottery retailers by reducing their bond cost while maintaining an acceptable level of protection against any non-payment of money owed to the Lottery. To be eligible, retailers must have been selling Lottery products for five or more years at their current location. In addition they must not have had more than two non-transfer fund incidents. This program benefits the Lottery by retaining long term retailers and reducing the burden of high bond rates.

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 2015, the Ohio Lottery's energies are being concentrated on the following projects:

- Fiscal year 2015 will be an enterprising year for the Lottery, as we work in conjunction with the Ohio State Racing Commission to open video lottery terminals at the State's two remaining racetracks, Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course. These racinos, operating under the name of Hollywood Gaming, are scheduled to open in August and September of 2014, respectively.
- The Lottery is introducing the Tap line of EZPLAY games as an exclusive, legal gaming option for licensed Veteran and Fraternal organizations. These games will be played on a more interactive, new style of next generation vending machines, called MPNG. This new line has a payout range of 85-90 percent, which will generate revenue for the organization's needs and charitable efforts. Distribution of profit is completely at the discretion of the organization. Veterans and Fraternal organizations will become licensed retailers and will be able to sell all lottery products.
- The Lottery is launching two KENO promotions, **Friends Night Out** and **Spring Training Getaway**, in July and September, respectively. These promotions emphasize the social nature of the game, attract new players while rewarding loyal customers, and increase overall KENO sales. Additionally, the Lottery plans to launch a KENO Expert microsite, an online tool that can be accessed using a smartphone or computer. This microsite may also be used to re-train and serve as a resource for retailer employees. The Lottery is also considering offering a progressive jackpot component to the KENO game.
- A Player Loyalty program, called **MyLotto Rewards**, is scheduled to launch in late summer. It will allow the Lottery to deepen and extend customer relationships by increasing the time a customer spends with the brand. It also gives the Lottery an opportunity to impact purchase behavior by allowing the opportunity to cross-sell products and offering rewards for purchase. MyLotto Rewards benefits may include exclusive promotions and drawings, a rewards catalog, coupons and an advance on Lottery game news before the general public.
- The Ohio Lottery is continually exploring ways to make Lottery play more convenient for our players. In September 2014, the Ohio Lottery plans on introducing a new voucher system for players. The voucher system will allow players to transfer remaining funds across various Lottery vending machines. Lottery players will have the ability to redeem any funds that have not been played in a form of a voucher. The voucher can then be used for future play or can be redeemed for cash.
- The Ohio Lottery is currently coordinating with Ohio's Department of Administrative Services to increase efficiency and effectiveness with the implementation of a Lean Ohio strategy. This program includes certification "Belts" for employees who

successfully participate and complete Lean and Six Sigma training. Belts are awarded to those who complete and report on the developments and enhancements made in their division. This is a statewide effort that the Ohio Lottery is pleased to implement. At this time we have one black belt candidate, five (5) green belt holders, and several yellow belted employees. Our entire senior staff is white belt certified and continues to grow in their understanding and engagement with the process.

- As lottery games in the industry evolve, the Ohio Lottery continues to evaluate available game options and prize matrices. The Lottery will benchmark Ohio's sales results against peer lottery states and review best practices in order to improve Ohio's current lottery products. During fiscal year 2015, the Lottery will adjust both its instant ticket and online gaming products as needed to enhance sales. Open communication with the Lottery's primary instant ticket and online gaming vendors will augment the Lottery's research and benchmarking efforts.

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 Annuity Prize 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 position. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net position. A narrative overview and analysis of the Ohio Lottery's financial activities for the fiscal year ended June 30, 2014 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. The budget includes all costs to operate the Ohio Lottery with the exception of certain prizes paid to winners and all commissions paid to retailers. Various prize tiers and commissions are funded through the sale of lottery tickets and are not included as part of the biennial budget submitted for approval. 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 Lottery and the State of Ohio Office of Budget and Management. 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 the Ohio Administrative Knowledge System 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 Office of Budget and Management 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 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.

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, 2013. This was the seventeenth consecutive year that the Ohio Lottery has received this prestigious award. To qualify for the Certificate of Achievement Award, 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 2014 has been completed in conformity with generally accepted governmental auditing standards. The auditor's unmodified opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

Preparation of this report was made possible by the efficient and dedicated efforts of our employees. A special note of thanks is given to the General Accounting Bureau comprised of Anna Callas, Mike Popadiuk, Mary Pietrick and Mary Tedeschi-Vittardi and to 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. Credit is due to Commission Chair Patrick McDonald 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,



Gregory A. Bowers, MBA
Finance Director



Dennis R. Berg, CPA, CFE
Executive Director



Government Finance Officers Association

Certificate of
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Reporting

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The Ohio Lottery Commission

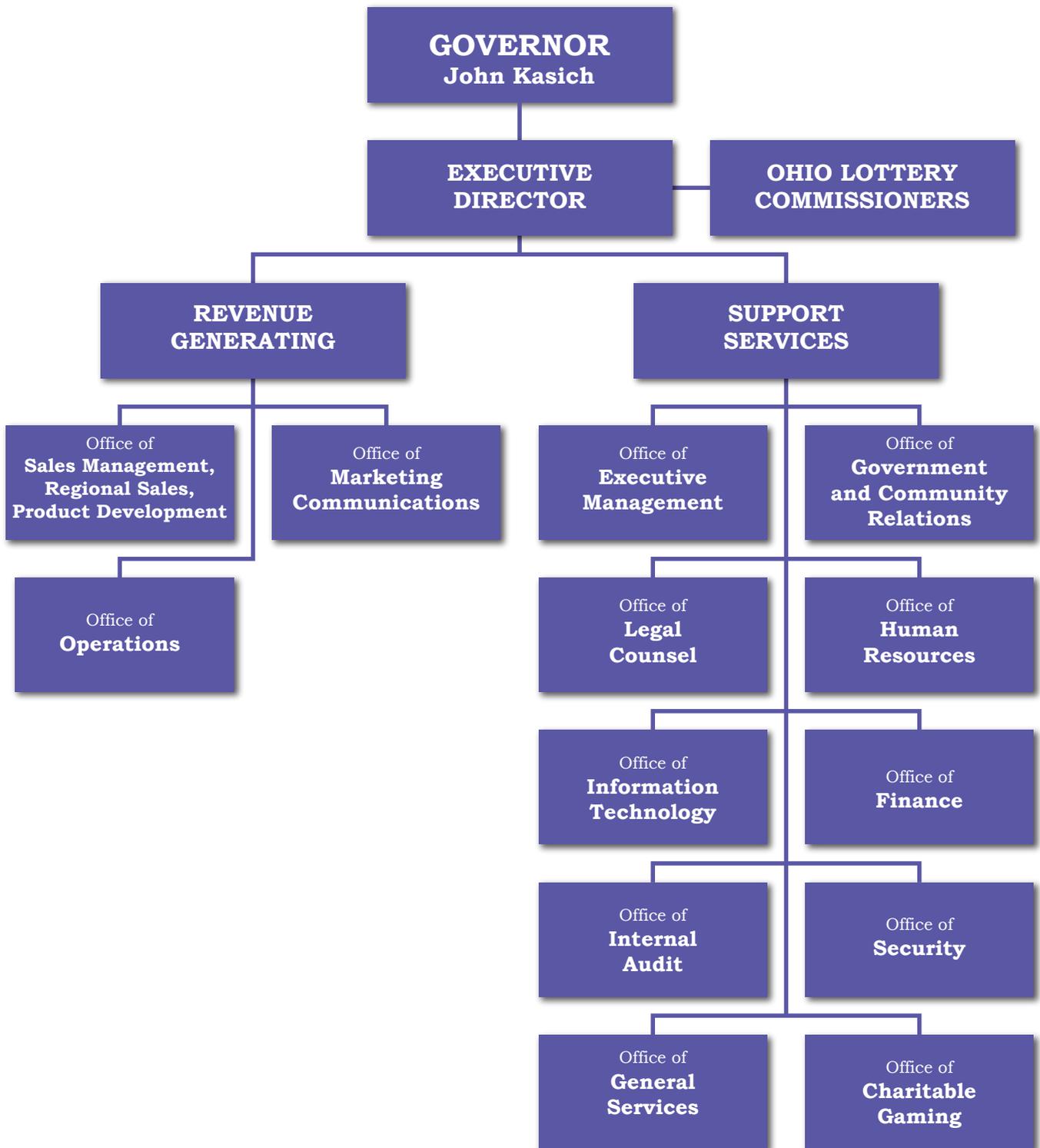
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013



Executive Director/CEO

OHIO LOTTERY COMMISSION
STRUCTURE OF ORGANIZATION • FISCAL YEAR 2014



PRINCIPAL OFFICIALS

John R. Kasich

GOVERNOR OF OHIO

Dennis R. Berg

DIRECTOR

Patrick McDonald

COMMISSION CHAIR

Term ends 8/01/15

Sean Whalen

COMMISSION VICE CHAIR

Term Ends 8/01/14

James Brady

COMMISSIONER

Term Ends 8/01/14

Allan C. Krulak

COMMISSIONER

Term Ends 8/01/15

John F. Lewis

COMMISSIONER

Term Ends 8/01/16

William Morgan

COMMISSIONER

Term Ends 8/01/15

Amy Sabath

COMMISSIONER

Term Ends 8/01/14

Elizabeth D. Vaci

COMMISSIONER

Term Ends 8/01/16

Julie Ault

COMMISSIONER

Term Ends 8/01/16

Resigned 5/14/14



• FINANCIAL SECTION •

In the early morning hours of August 22, 1974, the Ohio Lottery rolled into the parking lot of Parmatown Shopping Center, on Ridgewood Drive in Parma, Ohio.

The 30-foot tractor trailer, painted in royal blue, had a built-in platform that would drop on the side of the trailer and serve as a stage.

The Ohio Lottery was finally ready to conduct its first drawing.

Reports were mixed as to how many people showed up for that first drawing that morning, but the Parma Police Department put estimates close to 4,000.

A small ceremony preceded the drawing at 9:45 a.m. Parma Mayor John Petruska opened the event with a few remarks, followed by State Sen. Ron Mottl, and Lottery Director John Kirkland. Shortly after 10 a.m. the drawing actually began.

Jackie Urbanek, Miss Ohio-World in the 1974 Miss World-USA pageant, presided over the placing of 1,000 balls numbered from 000 to 999, into the 9-foot tumbler. Ms. Urbanek filled a large, clear pitcher with the balls, and then poured them into the nine-foot long tumbler. It would take several minutes to fill the tumbler to capacity.

Once the tumbler was finally filled and secure, it began to turn end over end. Finally, after a thunderous mixing, the tumbler stopped upright and ten balls fell into ten numbered cups that were built into one end of the tumbler. Local well-known television personalities Charles "Big Chuck" Schodowski and Bob "Hoolihan" Wells drew three envelopes from a drum that contained the results of 10 horse races.

These envelopes were then opened and contained numbers that corresponded with numbers on the cups of the tumbler. Those three cups were removed and the numbered balls inside the cups became the winning numbers of the drawing.



Lottery employees and State Auditors begin preparation for the first Lottery drawing. Photo courtesy of the Cleveland Press Collection.



The first Ohio Lottery drawing, August 22, 1974, held at Parmatown Shopping Center. The first drawing was witnessed by a crowd of about 4,000 people. Photo courtesy of the Cleveland Press Collection.

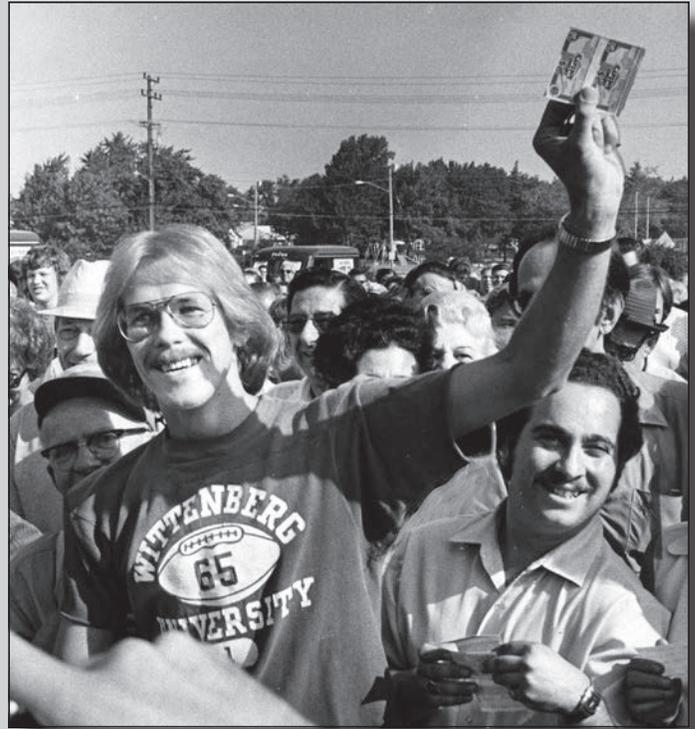
The first number drawn was 178. This number was for the \$20 winners who would also be eligible for the \$1 million drawing. Almost immediately, you could hear yelling and cheering in the crowd - already we had winners in the audience.

"I got it!" yelled Robert (Bob) Baker, of Parma. "Do you believe that?" he shouted. "I dreamt it, man. I dreamt last night that I won it."

More winners began to push through the crowd. Reporters and cameramen rushed at them to get their names and first impressions.

The double 3-digit results came up next - 264 and 002. Matching the double-digit result was an instant \$15,000 win and a chance for \$300,000 in the Buckeye 300 drawing, to be held the following Thursday at the South Portico of the Ohio Capitol Building in Columbus.

No one in the crowd came forward with a winning \$15,000 ticket. However, there was one man who attended the drawing - Robert Heacox of Lakewood, who had the distinction of holding two winning tickets. He had a \$20 winner, which qualified him for the millionaire drawing. However, he was also holding a second, \$15,000 winning ticket, which qualified him for the \$300,000 Buckeye 300 drawing. Heacox didn't identify himself in the crowd during the drawing, but instead went back to his office and called the Lottery's Central office.



"I dreamt it, man. I dreamt last night that I won it," yelled Bob Baker, Parma.
Photo courtesy of the Cleveland Press Collection.

By the end of the day, five winners had already contacted the Ohio Lottery and came forward to claim their \$15,000 prize. Two were from Cleveland, and three others in Columbus, Ashtabula, and Springfield.

By the next day, the Lottery's computer determined that a total of twelve \$15,000 tickets were sold and qualified for the Buckeye 300 drawing to be held the following week. Approximately 25,000 \$20 winners were sold as well, which were eligible for the \$1 million drawing.



State Sen. Ron Mottl (center), celebrates with two \$20 winners who were attending the first drawing. Albert Higley (left) and Charles Hudio, with his daughter, Carol, up on his shoulder. Photo courtesy of the Cleveland Press Collection.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio (the Commission), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Commission's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361

www.ohioauditor.gov

Emphasis of Matter

As discussed in Note 1, the financial statements of the Commission are intended to present the financial position, and changes in financial position and cash flows, of only the portion of each major fund of the State of Ohio that is attributable to the transactions of the Commission. They do not purport to, and do not present the financial position of the State of Ohio as of June 30, 2014, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted by the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof of the Operating and Annuity Funds for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Commission's basic financial statements taken as a whole.

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 Commission's financial statements for the year ended June 30, 2013, from which such comparative information was derived.

The introductory section and the statistical section information present additional analysis and are not a required part of the basic financial statements.

The statements and schedules are management's responsibilities, and derive from and relate directly to the underlying accounting and other records used to prepare the financial statements. We subjected these statements and schedules to the auditing procedures we applied to the basic financial statements. We also applied additional procedures, including comparing and reconciling statements and schedules directly to the accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, these statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not subject the introductory section and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2014, on our consideration of the Commission'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 1, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Ohio Lottery Commission (the Ohio Lottery), we offer readers of the Ohio Lottery's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6 - 11 of this report, and the financial statements which begin on page 26.

FINANCIAL HIGHLIGHTS

- Total traditional lottery sales increased \$45.2 million, or 1.7 percent from fiscal year 2013, resulting in overall sales in excess of \$2.7 billion. This represents an all-time record for traditional lottery products.
- Online sales increased \$46.5 million, or 3.7 percent over last year, as sales for Mega Millions benefitted from high jackpots offered during the year and record sales achieved from Classic Lotto, KENO and EZPLAY® games.
- Instant ticket sales decreased \$1.3 million, or 0.1 percent, from fiscal year 2013. Although sales decreased slightly, the overall trend during the second half of the year was positive. This was due in part to the introduction of the Lottery's 40th Anniversary Millions \$30 game, which helped recover a substantial portion of the large deficit from the previous year.
- Prize expense increased \$30.0 million in fiscal year 2014 primarily due to the increase in sales volume and the introduction of the \$30 price point instant ticket, which carries a higher prize payout. Total prize expense for fiscal year 2014 represented 61.9 percent of total ticket sales compared to 61.8 percent in fiscal year 2013.
- Operating expenses decreased from \$121.4 million to \$121.0 million, from fiscal year 2013 to fiscal year 2014.
- In fiscal year 2014, three (3) additional racinos opened and were added to the Lottery's gaming portfolio. Northfield Park and Miami Valley Gaming and Racing opened in December 2013 and Belterra Park opened in May 2014, joining the Lottery's existing racinos at Scioto Downs and Thistledown Park. Gross gaming revenue increased \$272.1 million, and Lottery net revenue increased from \$55.5 million to \$146.6 million or 164.4 percent in fiscal year 2014.
- The Ohio Lottery transferred a record \$904.3 million to the Lottery Profits Education Fund (LPEF) in 2014, \$101.2 million more than the 2013 transfer amount. This not only represented the ninth consecutive year of profit growth for the agency, but also the highest fiscal year transfer in Ohio Lottery history.
- The Ohio Lottery's total net position decreased \$9.9 million, or 5.7 percent, due to GASB adjustments and increased payments to education.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis, basic financial statements, and supplementary information. The basic financial statements by fund include the statement of net position, statement of revenues, expenses and changes in fund net position, statement of cash flows, as well as the notes to the basic financial statements, which disclose detailed 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 traditional ticket sales and net revenue collected from the VLT facilities. Expenses of this fund represent primarily prize expenses (including cash transfers to the Annuity 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 Ohio 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 2006/07, the Office of Budget and Management (OBM) required that a separate fund be established. Effective fiscal year 2006, the Charitable Gaming Oversight Fund (2310) was established. For purposes of this financial report, all financial activity is presented within the Lottery Operating Fund. Please see notes to the basic financial statements for more detailed activity reported within this fund.

ANNUITY 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 Annuity Prize Fund primarily represent annuity prize payments.

The statement of net position presents information on all of the Ohio Lottery's assets and liabilities, with the difference between the two reported as total net position. Over time, increases or decreases in net position 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 position 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, and funding of Ohio education. 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 position at June 30, 2014 compared to June 30, 2013.

TABLE 1: NET POSITION
(rounded thousands)

	<u>JUNE 30, 2014</u>	<u>JUNE 30, 2013</u>
Current Assets: Unrestricted	\$ 368,859	\$ 276,887
Current Assets: Restricted	225,173	188,182
Noncurrent Assets: Restricted	550,669	607,920
Net Capital Assets	<u>17,469</u>	<u>34,659</u>
Total Assets	1,162,170	1,107,648
Current Liabilities: Unrestricted	137,225	111,272
Current Liabilities: Restricted	365,925	283,182
Noncurrent Liabilities: Restricted and Unrestricted	<u>497,816</u>	<u>542,121</u>
Total Liabilities	1,000,966	936,575
Net Position:		
Net Investments in Capital Assets	2,111	1,650
Restricted for Deferred Prizes	73,751	85,085
Unrestricted	<u>85,342</u>	<u>84,338</u>
Total Net Position	\$ <u>161,204</u>	\$ <u>171,073</u>

CURRENT ASSETS - UNRESTRICTED

The Ohio Lottery's Current Assets - Unrestricted increased \$92.0 million compared to fiscal year 2013. Current Assets Unrestricted consists primarily of Cash & Cash Equivalents (including Video Lottery), Cash Equity with the Treasurer of State, Net Receivables from Agents, and other Assets such as Prepaid Assets.

Cash Equity with Treasurer of State increased \$55.7 million, while Cash and Cash Equivalents decreased \$5.8 million. Cash Equity with Treasurer of State increased primarily due to the timing of the June profit transfer posting to the Lottery Profits Education Fund.

Cash and Cash Equivalent - Video Lottery decreased by \$10.0 million due to the timing of the Video Lottery Sales Agents (VLSA) license payments received as agreed upon through a Memorandum of Understanding (MOU) between the VLT operators and the State of Ohio dated June 17, 2011. The MOU requires an applicant to deposit an initial application fee of \$10.0 million, \$15.0 million upon commencement of sales and an additional \$25.0 million due upon one year of operation. Due to the timing of Video Lottery facilities openings, license fees will continue to fluctuate over the course of the next two fiscal years.

Net Receivables from Agents increased by \$9.6 million, which is comprised of amounts due from lottery retailers from the sale of traditional lottery tickets, VLT revenue due from the VLT operators and unrecorded instant ticket sales. On a weekly basis, amounts due from retailers are collected electronically from the retailer's bank accounts for the invoices due from the prior week sales. On June 30, 2014, nine days of sales activity were waiting to be collected compared to eight days at June 30, 2013.

Other Assets increased by \$9.7 million over last fiscal year primarily due to the lottery purchasing \$8.0 million of gaming equipment that will be received in fiscal year 2015.

CURRENT ASSETS - RESTRICTED

The Lottery's Current Assets - Restricted increased \$37.0 million in fiscal year 2014 to \$225.2 million, from \$188.2 million in fiscal year 2013. Current Assets - Restricted represent investments dedicated for the payment of annuity prize awards, Obligations under Securities Lending program per GASB 28 requirements, and Interest Receivable. Dedicated Investments increased \$5.1 million, which is a direct function of the number of winner's choosing the annuity option during the year. This category also increased due to an increase in the Securities Lending program.

NONCURRENT ASSETS - RESTRICTED

Noncurrent Assets - Restricted, which is comprised of investments dedicated to the payment of the Lottery's long-term annuity prizes, decreased from \$607.9 million in fiscal year 2013 to \$550.7 million in fiscal year 2014, or \$57.2 million. This decrease is primarily the result of fewer grand prize winners selecting the annuity option over time as opposed to the cash option.

CURRENT LIABILITIES - UNRESTRICTED:

Current Liabilities - Unrestricted increased by \$26.0 million, primarily due to the accounting for GASB 28, Securities Lending Program. The amount reported as collateral on lent securities increased from \$12.9 million in 2013 to \$45.7 million in 2014, or \$32.8 million. In addition, Capital Leases Payable: Current decreased \$17.0 million. This decrease can be attributed to the expiration of the original Intralot lease in June 2014. The inception of this lease began in January of 2009.

CURRENT LIABILITIES - RESTRICTED

Current Liabilities - Restricted increased \$82.7 million, as obligations under securities lending increased \$32.5 million and a payment of \$80.7 million is due to the Lottery Profits Education Fund. This was offset by a decrease of \$35.0 million in Due to other State Agencies, represents an obligation due to Ohio School Facilities Commission from revenue earned from VLT License Fees. The majority of the increase is attributed to a timing difference from the June transfer to the LPEF. Finally, Prize Awards Payable - Net of Discount increased \$4.5 million from 2013.

NONCURRENT LIABILITIES - RESTRICTED

Noncurrent Liabilities - Restricted and Unrestricted decreased \$44.3 million. This decrease is primarily attributed to the decrease in Prize Awards Payable from restricted assets which decreased by \$43.9 million. The primary reason for this decrease is the majority of jackpot winners prefer the cash option over the annuity prize option.

The overall effect on liabilities is a decrease of \$16.4 million attributed to the combination of increases and decreases of the various accounts discussed above.

Table 2 shows the change in the Ohio Lottery's net position for fiscal year 2014 compared to fiscal year 2013, including revenue and expense comparisons.

TABLE 2: CHANGES IN NET POSITION

(rounded thousands)

	<u>JUNE 30, 2014</u>	<u>JUNE 30, 2013</u>
Ticket Sales	\$ 2,743,144	\$ 2,697,921
VLT and License Revenues	537,870	235,604
Other Operating Revenues	7,025	6,248
Non-Operating Revenues	16,953	-
Total Revenues	3,304,992	2,939,773
Prize Awards	1,698,001	1,668,038
Bonuses and Commissions	169,870	166,919
Commissions - VLT	290,986	110,074
Operating Expenses	120,987	121,448
Non-Operating Expenses	130,682	137,591
Payments to the Lottery Profits Education Fund	904,335	803,131
Total Expenses	3,314,861	3,007,201
Change in Net Position	(9,869)	(67,428)
Total Net Position - Beginning	171,073	238,501
Total Net Position - Ending	\$ 161,204	\$ 171,073

TICKET SALES BY GAME AND VLT REVENUE: FISCAL YEARS 2014 AND 2013

(rounded thousands)

<u>GAME</u>	<u>JUNE 30, 2014</u>	<u>JUNE 30, 2013</u>
Pick 3	\$ 339,045	\$ 345,199
Pick 4	185,807	189,788
Pick 5	27,867	27,985
Rolling Cash 5	63,400	61,512
Classic Lotto	54,063	41,493
Raffle	1,030	9,137
KICKER	6,014	5,078
Mega Millions/Megaplier	133,406	102,776
EZPLAY	84,810	67,996
Ten-OH	-	801
KENO/Booster	298,127	251,533
Powerball/Power Play	122,774	166,564
Total Online Sales	1,316,343	1,269,862
Instants	1,426,801	1,428,059
Total Sales	2,743,144	2,697,921
VLT Revenue	437,576	165,525
VLT License Revenue	100,107	70,036
VLT Expired Voucher Revenue	187	43
Total VLT Revenue	537,870	235,604
Total Ticket Sales and VLT Revenue	\$ 3,281,014	\$ 2,933,525

SALES ANALYSIS

Traditional sales for fiscal year 2014 were \$2,743.1 million. This was a \$45.2 million, or 1.7 percent, increase in sales from fiscal year 2013. This represents a record for traditional sales performance for the Ohio Lottery, exceeding the previous record set in fiscal year 2012 of \$2,739.0 million. The following section summarizes traditional lottery sales in fiscal year 2014 by game category.

DAILY DRAW

Sales for Daily Draw games, which consist of Pick 3, Pick 4, and Pick 5, totaled \$552.7 million for the 2014 fiscal year. This is \$10.3 million, or 1.8 percent less than sales posted in fiscal year 2013. Fiscal year 2014 sales for Pick 3 were down \$6.2 million, while Pick 4 dropped by \$4.0 million and Pick 5 finished the year down by \$0.1 million. Decreases in sales for the Daily Draw games were consistent with the Lottery's internal forecast, which attributed lower sales in the category to the proliferation of additional gaming options throughout the State.

LOTTO GAMES

Sales for Lotto games, which consist of Rolling Cash 5, Classic Lotto and KICKER, totaled \$123.5 million for the 2014 fiscal year. This is \$15.4 million, or 14.2 percent more than sales posted in fiscal year 2013. Fiscal year 2014 sales for Rolling Cash were \$1.9 million more than sales posted in fiscal year 2013, while Classic Lotto was up \$12.6 million. This increase can be attributed to a record-setting jackpot of \$73.3 million won in June 2014. This jackpot sequence grew for 2.5 years, accruing to record levels. Sales for KICKER, an add-on game of Classic Lotto, were \$0.9 million more than sales posted in fiscal year 2013.

MULTI-STATE

Sales for Multi-state games, which consist of Mega Millions, Megaplier, Power Ball, and Power Play, totaled \$256.2 million for the 2014 fiscal year. This is \$13.2 million, or 4.9 percent less than sales posted in fiscal year 2013.

Mega Millions sales in fiscal year 2014 were \$27.4 million more than sales posted the prior year, while Megaplier, the Mega Millions add-on game, increased by \$3.2 million. This increase was primarily the result of a higher average jackpot for the game, which rose from \$43 million to \$98 million in fiscal year 2014. Powerball sales in fiscal year 2014 were \$42.2 million less than sales posted the prior year, while Power Play, the Powerball add-on game, decreased by \$1.6 million. This decrease was primarily the result of a lower average jackpot for the game, which fell from \$120 million to \$117 million in fiscal year 2014.

KENO (MONITOR)

Sales for KENO games, which consist of KENO and Booster, totaled \$298.1 million for the 2014 fiscal year. This is \$46.6 million, or 18.5 percent more than sales posted in fiscal year 2013. Fiscal year 2014 sales for KENO were \$30.9 million more than sales posted in fiscal year 2013, while Booster added \$15.7 million to the positive variance in the category. Sales for Booster in fiscal year 2014 were 30.6 percent of KENO sales, which is 3.2 percent more than fiscal year 2013. Sales for Keno/Booster grew steadily as the Lottery continued its expansion in this distribution channel, as well as offering more promotions during the year.

SPECIALTY

Sales for Specialty games, which include Raffle, EZPLAY, and Ten-OH!, totaled \$85.8 million for the 2014 fiscal year. This is \$7.9 million, or 10.1 percent, more than sales posted in fiscal year 2013. Fiscal year 2014 sales for Raffle totaled \$1.0 million, which were \$8.1 million less than sales posted in fiscal year 2013. In fiscal year 2014, the Lottery transitioned from its annual in-state New Year's Raffle game to a Multi-state Millions Raffle game. In fiscal year 2015, the Lottery will revert to its traditional in-state raffle. Fiscal year 2014 sales for EZPLAY were \$16.8 million more than sales posted in fiscal year 2013. Ten-OH!, which was introduced in fiscal year 2008, was discontinued in fiscal year 2013 and replaced with the Daily Draw game Pick 5. Thus, there were no sales for the game in fiscal year 2014. Additional sales for the Specialty category were the result of the EZPLAY category, which grew again in fiscal year 2014. Sales for EZPLAY rose steadily on the strength of the Progressive line introduced in 2013 as well as additional price points offered during the year.

INSTANT TICKETS

Sales for Instant Ticket games totaled \$1,426.8 million, which is \$1.3 million, or 0.1 percent less than sales posted in fiscal year 2013. Decreases in instant ticket sales were expected, as the proliferation of more gaming options now exist in the State of Ohio. At the end of January, instant tickets were down \$61.4 million, or 7.3 percent, against the prior year. Due to the release of the \$30 "40th Anniversary Millions" ticket, sales recovered by \$60.1 million in the final five months of fiscal year 2014.

OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION: FISCAL YEARS 2014 AND 2013

(rounded thousands)

	JUNE 30, 2014	JUNE 30, 2013
Prize Awards	\$ 1,698,001	\$ 1,668,038
Bonuses/Commissions	169,870	166,919
Commissions - VLT	290,986	110,074
Operating Expense	120,987	121,448
Payments to Education	904,335	803,131
Total	\$ 3,184,179	\$ 2,869,610

PRIZE EXPENSES

Prize expense for fiscal year 2014, which totaled \$1,698.0 million, was \$30.0 million, or 1.8 percent, higher than fiscal year 2013. This was partly due to an increase in overall ticket sales and the release of a higher priced ticket, which carries a higher prize payouts in the game.

BONUSES/COMMISSIONS

Bonuses/Commissions also increased due to the higher sales volume. Commissions-VLT increased \$180.9 million due to the full year of operations for Thistledown, and the opening of Hard Rock Rocksino, Miami Valley Gaming and Belterra Park in fiscal year 2014.

Payments to education increased \$101.2 million as a result of increased traditional lottery sales and VLT Revenue.

VIDEO LOTTERY TERMINAL (VLT) GROSS REVENUE

VLT Gross Gaming Revenue represents revenue generated from VLT machines net of total payouts. Gross Revenue for fiscal year 2014 totaled \$437.6 million, an increase of \$272.1 million or 164 percent over fiscal year 2013. The increase of Gross Gaming Revenue in 2014 is credited to a full year of operations at Thistledown, and the opening of three new racinos: Hard Rock Rocksino, Miami Valley Gaming, and Belterra Park Gaming & Entertainment Center. The following table shows VLT statistics for fiscal years 2013 and 2014.

VIDEO LOTTERY TERMINAL - NET WIN

(in thousands)

<u>RACINO</u>	<u>DATE OPENED</u>	<u>2014 NET WIN</u>	<u>2013 NET WIN</u>
Scioto Downs	June 1, 2012	\$ 134,817	\$ 136,342
Thistledown	April 9, 2013	132,223	29,183
Miami Valley	December 12, 2013	66,022	-
Hard Rock Rocksino	December 18, 2013	95,164	-
Belterra Park	May 1, 2014	9,350	-
		<u>\$ 437,576</u>	<u>\$ 165,525</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

Table 3 below summarizes the Ohio Lottery's capital assets at the end of fiscal years 2014 and 2013.

TABLE 3: CAPITAL ASSETS (NET OF DEPRECIATION)

(rounded thousands)

	<u>JUNE 30, 2014</u>	<u>JUNE 30, 2013</u>
Equipment	\$ 16,105	\$ 33,593
Vehicles	1,364	1,066
Total Net Capital Assets	<u>\$ 17,469</u>	<u>\$ 34,659</u>

As of June 30, 2014, the Ohio Lottery had \$17.5 million, net of accumulated depreciation, in Capital Assets. The decrease in Net Capital Assets is a result of depreciation taken in 2014. In July 2009, the Ohio Lottery entered into a contractual agreement with Intralot for gaming services, including leased equipment. The length of the contract is two years, with five two-year renewals. The lease meets the requirements of a capital lease and, as a result, the equipment was recorded at present value and is being depreciated over its useful life of five years.

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

DEBT

The significant components of the Ohio Lottery's debt is annuity prize awards payable, which is payable from restricted assets. Prize Awards Payable from Restricted Assets – Net of Discount decreased \$39.4 million as prior long-term annuities are paid off at a faster rate than new annuities are selected by prize winners.

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 Ohio Lottery Commissioners, the public and other interested parties with a general overview of the Ohio Lottery's finances and to demonstrate the 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.

OHIO LOTTERY COMMISSION
STATEMENT OF NET POSITION - MAJOR FUNDS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2013)
(rounded thousands)

			<u>TOTALS</u>	
	<u>OPERATING</u>	<u>ANNUITY FUND</u>	<u>JUNE 30, 2014</u>	<u>JUNE 30, 2013</u>
ASSETS:				
Current Assets - Unrestricted				
Cash and Cash Equivalents	\$ 12,373	\$ -	\$ 12,373	\$ 18,169
Cash Equity with Treasurer of State	164,287	-	164,287	108,561
Cash and Cash Equivalents Video Lottery	60,000	-	60,000	70,003
Collateral on Lent Securities	45,681	-	45,681	12,928
Receivables from Agents, Net	67,308	-	67,308	57,697
Due From Other State Agencies	1,518	-	1,518	1,518
Other Assets	17,692	-	17,692	8,011
Total Current Assets - Unrestricted	<u>368,859</u>	<u>-</u>	<u>368,859</u>	<u>276,887</u>
Current Assets - Restricted				
Cash Equity with Treasurer of State	-	38	38	20
Dedicated Investments	-	55,841	55,841	50,712
Collateral on Lent Securities	-	168,146	168,146	135,635
Interest Receivable	-	1,148	1,148	1,815
Total Current Assets - Restricted	<u>-</u>	<u>225,173</u>	<u>225,173</u>	<u>188,182</u>
Total Current Assets	<u>368,859</u>	<u>225,173</u>	<u>594,032</u>	<u>465,069</u>
Noncurrent Assets				
Dedicated Investments, Restricted	-	550,669	550,669	607,920
Capital Assets				
Equipment	123,509	-	123,509	117,953
Vehicles	3,181	-	3,181	2,777
Accumulated Depreciation	(109,221)	-	(109,221)	(86,071)
Net Position, Investment in Capital Assets	17,469	-	17,469	34,659
Total Noncurrent Assets	<u>17,469</u>	<u>550,669</u>	<u>568,138</u>	<u>642,579</u>
TOTAL ASSETS	<u>386,328</u>	<u>775,842</u>	<u>1,162,170</u>	<u>1,107,648</u>
LIABILITIES				
Current Liabilities - Unrestricted				
Accounts Payable	11,221	-	11,221	7,239
Prize Awards Payable	70,944	-	70,944	64,862
Obligations under Securities Lending	45,681	-	45,681	12,928
Capital Lease Payable - Current	5,556	-	5,556	22,587
Unearned Revenue	1,447	-	1,447	1,202
Other Liabilities	975	-	975	1,961
Due to Other Lotteries	1,401	-	1,401	493
Total Current Liabilities - Unrestricted	<u>137,225</u>	<u>-</u>	<u>137,225</u>	<u>111,272</u>
Current Liabilities - Restricted				
Due to other State Agencies	140,751	-	140,751	95,000
Obligations under Securities Lending	-	168,146	168,146	135,635
Prize Awards Payable - Net of Discount	-	57,028	57,028	52,547
Total Current Liabilities - Restricted	<u>140,751</u>	<u>225,174</u>	<u>365,925</u>	<u>283,182</u>
Total Current Liabilities	<u>277,976</u>	<u>225,174</u>	<u>503,150</u>	<u>394,454</u>
Noncurrent Liabilities:				
Prize Awards Payable from Restricted Assets - Net of Discount	-	483,210	483,210	527,065
Capital Lease Payable - Long-Term	9,801	-	9,801	10,422
Workers' Compensation	1,754	-	1,754	1,657
Compensated Absences	3,051	-	3,051	2,977
Total Noncurrent Liabilities	<u>14,606</u>	<u>483,210</u>	<u>497,816</u>	<u>542,121</u>
TOTAL LIABILITIES	<u>292,582</u>	<u>708,384</u>	<u>1,000,966</u>	<u>936,575</u>
NET POSITION				
Net Investment in Capital Assets	2,111	-	2,111	1,650
Restricted for Annuity Prizes	-	-	-	-
Restricted for Net Unrealized Gains on Restricted Investments	-	73,751	73,751	85,085
Unrestricted	91,635	(6,293)	85,342	84,338
TOTAL NET POSITION	<u>\$ 93,746</u>	<u>\$ 67,458</u>	<u>\$ 161,204</u>	<u>\$ 171,073</u>

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

OHIO LOTTERY COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)
(rounded thousands)

	OPERATING	ANNUITY FUND	TOTALS	
			JUNE 30, 2014	JUNE 30, 2013
REVENUES				
Ticket Sales	\$ 2,743,144	\$ -	\$ 2,743,144	\$ 2,697,921
VLT Revenue, Net	437,576	-	437,576	165,525
VLT License Revenue	100,107	-	100,107	70,036
VLT Expired Vouchers	187	-	187	43
Other Revenues	6,873	152	7,025	6,248
Total Operating Revenues	3,287,887	152	3,288,039	2,939,773
EXPENSES				
Prizes, Bonuses and Commissions				
Prize Awards	1,687,817	10,184	1,698,001	1,668,038
Bonuses and Commissions	169,870	-	169,870	166,919
VLT Commissions	290,986	-	290,986	110,074
Total Prizes, Bonuses and Commissions	2,148,673	10,184	2,158,857	1,945,031
Operating Expenses				
Personal Services	58,726	-	58,726	63,752
Maintenance and Equipment	38,144	-	38,144	36,106
Depreciation	23,619	-	23,619	21,576
Other Expenses	498	-	498	14
Total Operating Expenses	120,987	-	120,987	121,448
OPERATING INCOME (LOSS)	1,018,227	(10,032)	1,008,195	873,294
Non-Operating Revenues (Expenses):				
Interest Income	251	16,680	16,931	(7,848)
Donation of Capital Assets	-	-	-	-
Amortization of Prize Liabilities	-	(29,988)	(29,988)	(32,785)
Gain (Loss) on Equipment Disposal	22	-	22	(24)
Interest Expense on Capital Lease	(597)	-	(597)	(1,656)
Interest Expense - Borrower Rebates	-	(70)	(70)	(267)
Securities Lending Agent Fees	-	(27)	(27)	(11)
Payments to other Government Agencies/VLT	-	-	-	-
Payments to the Lottery Profits Education Fund	(1,004,335)	-	(1,004,335)	(898,131)
Total Non-Operating Expenses, Net	(1,004,659)	(13,405)	(1,018,064)	(940,722)
INCOME (LOSS) BEFORE TRANSFERS	13,568	(23,437)	(9,869)	(67,428)
TRANSFERS:				
Transfers to Annuity Prize Trust Fund	(10,040)	10,040	-	-
Total Transfers	(10,040)	10,040	-	-
Change in Net Position	3,528	(13,397)	(9,869)	(67,428)
Total Net Position - Beginning	90,218	80,855	171,073	238,501
TOTAL NET POSITION - ENDING	\$ 93,746	\$ 67,458	\$ 161,204	\$ 171,073

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

OHIO LOTTERY COMMISSION
STATEMENT OF CASH FLOWS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

(rounded thousands)

			TOTALS	
	OPERATING	ANNUITY FUND	JUNE 30, 2014	JUNE 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Sales	\$ 3,163,354	\$ -	\$ 3,163,354	\$ 2,857,109
Cash Received from Multi-State Lottery for Grand Prize Winners	-	-	0	29,993
Cash Payments for Prize Awards	(1,680,691)	(79,545)	(1,760,236)	(1,734,272)
Cash Payments for Bonuses and Commissions	(460,856)	-	(460,856)	(276,993)
Cash Payments for Goods and Services	(22,647)	-	(22,647)	23,540
Cash Payments to Employees	(27,122)	-	(27,122)	(25,473)
Other Operating Revenues	107,166	152	107,318	76,327
Other Operating Expenses	(498)	-	(498)	(14)
Net Cash Provided (Used) by Operating Activities	1,078,706	(79,393)	999,313	950,217
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Dues to Other State Agencies	-	-	-	-
Payments to the Lottery Profits Education Fund	(1,004,335)	-	(1,004,335)	(898,131)
Transfers In	-	10,040	10,040	18,360
Transfers Out	(10,040)	-	(10,040)	(18,360)
Net Cash Provided (Used) by NonCapital Financing Activities	(1,014,375)	10,040	(1,004,335)	(898,131)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Property and Equipment	(770)	-	(770)	(283)
Proceeds from Sale of Property and Equipment	53	-	53	51
Repayment of Equipment Obligation	(23,341)	-	(23,341)	(20,217)
Interest Paid on Equipment Obligation	(597)	-	(597)	(1,656)
Net Cash Used by Capital and Related Financing Activities	(24,655)	-	(24,655)	(22,105)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	251	6,298	6,549	8,806
Interest Expense and Agent Fees	-	(97)	(97)	(278)
Proceeds from the Sale and Maturity of Investments	-	132,567	132,567	164,858
Purchase of Investments	-	(69,397)	(69,397)	(112,959)
Securities Lending Proceeds	45,681	168,146	213,827	148,563
Securities Lending Payments	(45,681)	(168,146)	(213,827)	(148,563)
Net Cash Provided (Used) by Investing Activities	251	69,371	69,622	60,427
Net Increase (Decrease) in Cash & Cash Equivalents	39,927	18	39,945	90,408
Cash and Cash Equivalents - Beginning	196,733	20	196,753	106,345
CASH AND CASH EQUIVALENTS - ENDING	\$ 236,660	\$ 38	\$ 236,698	\$ 196,753
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 1,018,227	\$ (10,032)	\$ 1,008,195	\$ 873,294
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	23,619	-	23,619	21,576
Amortization of Discount of Prize Liabilities	-	29,988	29,988	32,786
Net Changes in Assets and Liabilities				
Receivables from Agents - Net	(9,611)	-	(9,611)	(6,546)
Other Assets	(9,684)	-	(9,684)	2,141
Prize Awards Payable	6,083	-	6,083	21,991
Accounts Payable	3,982	-	3,982	2,696
Other Liabilities	45,673	-	45,673	95,278
Unearned Revenue	245	-	245	208
Prize Awards Payable from Restricted Assets - Net of Discount	-	(99,349)	(99,349)	(92,178)
Accrued Workers' Compensation	97	-	97	(891)
Compensated Absences	75	-	75	(138)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,078,706	\$ (79,393)	\$ 999,313	\$ 950,217

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

Non-Cash items included in investment income were (\$11.3) million and (\$38.6) million of unrestricted net gains/losses for the years ended June 30, 2014 and June 30, 2013, respectively. During fiscal year 2013 the Ohio Lottery acquired gaming equipment amounting to \$5.7 million, by entering into a capital lease arrangement with Intralot Inc. The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Ohio Lottery Commission (the Ohio Lottery) began selling tickets 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 (LPEF) of the State. The amounts transferred are determined and certified by the Director of the Ohio Lottery and are to be used to help support primary, secondary, vocational and special education within the State.

In fiscal year 2010 a cross-sale agreement was reached authorizing the Ohio Lottery to sell both Mega Millions and Powerball games. The net proceeds from the sale of Mega Millions and Powerball in Ohio that remain after associated operating expenses, prize disbursements, 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 LPEF of the State.

Video Lottery was introduced in the State of Ohio in 2012 when Governor Kasich signed Executive Order 2011-22K, which authorized the Lottery to amend and adopt rules necessary to implement a video lottery program at Ohio's seven (7) horse racing facilities. On June 1, 2012, Scioto Downs in Columbus began video gaming with 1,787 video lottery terminals, since then four additional VLT facilities opened. The Ohio Lottery is responsible for regulating the licensing of video lottery sales agents (VLSA), key gaming employees, VLT manufacturers, collection and disbursement of VLT revenue, as well as compliance. The Ohio Lottery receives the proceeds from the video lottery terminal income less a commission paid to the VLSA.

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 Annuity 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.

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 position. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net position. 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 selling Ohio Lottery tickets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

LOTTERY OPERATING FUND

Revenues for this fund are provided primarily from the sale of lottery tickets. Starting in June 2012, revenues from VLTs are also included in this fund. Receivables from ticket sales are collected weekly, with net proceeds 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 Annuity Prize Trust Fund; (3) transfers to the LPEF of the State; and (4) transfers to other State agencies to support centralized services.

ANNUITY PRIZE FUND

Revenues for the Annuity 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 Annuity Prize Fund primarily represent payments for annuity prizes.

CHARITABLE GAMING OVERSIGHT FUND

In fiscal year 2005, the Ohio Lottery and the State of Ohio Attorney General's Office (Attorney General) signed a Memorandum of Understanding between the two agencies transferring the administration and monitoring of charitable bingo licensing to the Ohio Lottery. In fiscal year 2006, a separate fund was established, as authorized by language contained in House Bill 66. In accordance with section 3770.06 of the ORC, the Ohio Lottery shall credit to the fund any money it receives from the Attorney General's office under any agreement the Ohio Lottery and the Attorney General enters into under division (I) of section 2915.08 of the ORC. The Ohio 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 ORC. The expenses involved with providing these services under the agreement are reimbursable from the Attorney General's office to the Ohio Lottery. During the year, expenses of \$1,179,000 were recorded and \$1,331,000 were reimbursed and recorded as other revenue in the Charitable Gaming Oversight Fund, with the difference representing normal timing differences. All activities associated with providing these services are presented within the Ohio Lottery's Operating Fund. On June 28, 2014 the Attorney General terminated the MOU with the Ohio Lottery.

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 (TOS) to be a cash equivalent. Cash flows related to the payment of prize awards are accounted for as an operating activity.

INVESTMENTS

The Ohio Lottery's investments are stated at fair value (based on quoted market prices) in the accompanying comparative statement of net position, 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 (STAR Ohio). STAR Ohio is an investment pool managed by the TOS, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts at June 30, 2014 and 2013 of \$344,600 and \$50,500 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 annuity prize awards and payments to other Governmental Agencies. Upon the awarding of an annuity prize, amounts equal to the present value of future prize payments are deposited with the TOS. 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 annuity prizes. Amounts necessary to fund annuity 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 position. In fiscal year 2006, the Ohio Lottery adopted a new method of providing investment capital for future annuity 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 the Department of Administrative Services' (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 three 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 (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 TOS. The interest rates represent the expected long term rate of return on the assets restricted for the payment of annuity prize awards. Once established for a particular annuity 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.

UNEARNED REVENUE

Advanced wagers may be placed for all online games. Sales relating to future draws are recorded as unearned 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 agreements 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 55 percent for retirement separation and 50 percent for all other separations.

VIDEO LOTTERY TERMINAL (VLT) OPERATIONS

Video Lottery Terminal (VLT) operations commenced at Scioto Downs in Columbus in fiscal year 2012 and in April 2013 at Thistledown in Cleveland. In December 2013, Hard Rock Rocksino in Northfield and Miami Valley Gaming in Lebanon opened. Later in May 2014, Belterra Park in Cincinnati opened. As of June 30, 2014 the VLSA's had 8,585 VLTs operating. A VLT is a stand-alone device containing a random-number generator. Each VLT is connected to a centralized computer system that allows the Lottery to monitor game play and revenue activity. The Central Monitoring System (CMS) keeps track of money deposited in a terminal, usage, wins and payouts, machine maintenance and cash removal. Each game theme is approved by Lottery Commissioners and independently tested and certified before being placed into operation.

The Ohio Lottery recognizes VLT revenue as "gross gaming revenue". Gross gaming revenue represents gross wagers, net of related prizes. The minimum percentage payout in Ohio is 85 percent. Licensed operators receive 66.5 percent of gross terminal revenue to

operate their facility, as commissions earned. Payments to the VLSA are recorded in VLT Commissions. For fiscal year ending June 30, 2014, VLT revenue was \$437.6 million with \$291.0 million paid to VLSA as VLT commission, and \$146.6 million paid to the lottery.

NON-OPERATING EXPENSE: PAYMENTS TO THE LOTTERY PROFITS EDUCATION FUND

Payments to the Lottery Profits Education Fund totaled \$1,004,335,000. Of this amount, \$764,935,000 represents profits generated from traditional lottery games, while \$139,400,000 represents profits generated from the VLT program. In addition, \$40,000,000 represented revenue collected from Video Lottery Sales Agents (VLSA) in the form of license fees, per Ohio Administrative Code 3770:2-11-01. The residual \$60,000,000 also represents license fees collected from VLSAs but is payable to the Ohio Schools Facilities Commission, as prescribed in HB 482. The license fees credited to the Lottery Profits Education Fund will be transferred to the School Facilities Commission by the Office of Budget and Management.

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 49.5 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 for online games ranging from \$500 to \$100,000. A retailer is eligible for an instant ticket bonus when selling the top prize of the game with top prize of \$100,000 or more. The bonus is 1.0 percent of the prize, with a maximum of \$10,000.

A VLSA receives a commission of 66.5% of the net win, which is defined as net revenues remaining after payout of prizes to players. The VLT terminal income is calculated as follows: credit(s) played, less credits won, less promotional credits.

FUND EQUITY CLASSIFICATIONS

Fund equity is classified as net position and displayed in three components:

- Net Investment in Capital Assets – consists of capital assets net of accumulated depreciation.
- Restricted – for Net Unrealized Gains on Restricted Investments.
- Unrestricted – represents all other net position 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 or deposits. Upon inception, retailers are required to carry a minimum bond of \$15,000 or a deposit of \$500. On a yearly basis, the retailers' required coverage is based on an evaluation of their average annual sales. The minimum bond coverage is \$15,000 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, 2014, 2013, and 2012. No significant payments were made or liabilities recorded during the years ended June 30, 2014, 2013, and 2012 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 based upon 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 DAS to cover motor vehicle liability related to bodily injury and property damage for a maximum of \$1,000,000 per occurrence. The Ohio Lottery retains the risk for any liability exceeding this limit.

The state contracts with Medical Mutual of Ohio and UnitedHealthcare to serve as the third-party administrators for the Ohio Med PPO, a fully self-insured health benefit plan. This plan allows all employees and any eligible dependents to have access to both network and non-network providers. Medical Mutual and UnitedHealthcare each serve specific regions of Ohio based upon the home ZIP codes, which determines which administrator the employee will be assigned to. 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 \$35.51 for single, \$97.13 for family Minus Spouse and \$102.90 for Family Plus Spouse per pay period, while the Ohio Lottery contributed \$200.17 for single and \$549.32 for family coverage per pay period 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 Health Plans were \$3,198,000 and \$2,682,000 for the years ended June 30, 2014 and 2013, respectively.

BUDGETARY ACCOUNTING AND CONTROL

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 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 annuity 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 total expenditures to exceed appropriations without approval of the General Assembly, except for vouchered prize awards for which appropriation amendments may be approved by Ohio OBM and unvouchered prize expenses, which are not budgeted. Certain budget amendments were adopted during the year ended June 30, 2012.

NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued GASB No. 65, "Items Previously Reported as Assets and Liabilities", GASB No. 66, "Technical Corrections-2012 (an amendment of GASB Statements No. 10 and No. 62)", GASB No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees". GASB 65 was implemented by the Ohio Lottery. GASB 66 and GASB 70 have no impact to the Ohio Lottery.

ESTIMATES

The preparation of the financial statements in conformity with GAAP 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, 2013, from which the summarized information was derived.

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 statement of net position. 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 position.

2. CASH DEPOSITS AND INVESTMENTS

The Ohio Lottery maintains cash on deposit at a commercial bank and with the TOS. The Ohio Lottery is authorized by State statutes to invest its moneys in certificates of deposit, money market accounts, the TOS investment pool STAR Ohio and obligations of the United States government or certain agencies thereof. The Ohio Lottery, through the TOS, may also enter into repurchase agreements with any eligible depository for periods not to exceed 30 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 102 percent of the total value of public moneys on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States government, and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Ohio Lottery's name.

DEPOSITS

As of June 30, 2014, the deposit accounts were not exposed to custodial credit risk; since the accounts were held in insured depositories approved by the State Board of Deposit and were fully collateralized. The financial institutions holding state deposits collateralize accounts for balances in excess of the amounts insured by FDIC as required by ORC Section 135.18. The carrying amount and bank balances of the Ohio Lottery's deposits with the financial institutions were \$72,373,000.

INVESTMENTS

Although risk exposures are minimized by complying with legal requirements and internal policies adopted by the TOS, the Ohio Lottery's investments are exposed to risks that may lead to a loss of value. The Ohio Lottery's investments at June 30, 2014 consist of the following:

INVESTMENT TYPE (rounded thousands)	FAIR VALUE	CREDIT QUALITY RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1	1-5	6-10	>10
U.S. Agency Obligations	\$ 102,227	AAA/Aaa	\$ 14,499	\$ 87,728	\$ -	\$ -
U.S. Government Obligation Strips	216,437	AAA/Aaa	7,365	28,531	31,040	149,501
U.S. Agency Obligation Strips	286,641	AAA/Aaa	42,613	134,006	98,135	11,887
Total Investments	605,305		64,477	250,265	129,175	161,388
<u>Investments not required to be categorized</u>						
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)	1,205	AAA/Aaa	1,205	-	-	-
Equity in State of Ohio Common Cash & Investments	164,287		164,287	-	-	-
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	45,681		45,681	-	-	-
Total Lottery Commission - Structured Investments, as of June 30, 2014	\$ 816,478		\$ 275,650	\$ 250,265	\$ 129,175	\$ 161,388
Total Lottery Commission - Investments made with Cash Collateral	168,146					
Total - Statement of Net Position	984,624					

Custodial Credit Risk: A 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 TOS or a TOS 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 investment's fair value decreases as the market interest rate increases. Typically, this risk is higher in debt instruments with longer maturities. The State's 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 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 Ohio 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.

Credit Risk: The Ohio Lottery does not have a separate policy relating to credit risk of investments. The Ohio Lottery follows the Treasurer of State, Statement of Investment Policy. This policy applies to the investment of all interim funds of the State Treasurer including the Ohio Lottery Annuity Prizes Trust Fund.

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 STAR Ohio has 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, 2014. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

As of June 30, 2014, the total carrying amount of deposits and investments categorized and disclosed in this note is \$1,057,035. This amount can be reconciled to the statement of net position as follows:

(rounded thousands)	DEPOSITS	INVESTMENTS	TOTAL
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 12,373	\$ -	\$ 12,373
Cash Equity with Treasurer of State	-	164,287	164,287
Cash and Cash Equivalents - Video Lottery	60,000	-	60,000
Collateral on Lent Securities	.	45,681	45,681
Restricted Assets:			
Cash Equity with Treasurer of State	-	38	38
Dedicated Investments	-	606,510	606,510
Collateral on Lent Securities	-	168,146	168,146
Total - per Statement of Net Position	\$ 72,373	\$ 984,662	\$ 1,057,035

SECURITIES LENDING TRANSACTIONS

The Ohio Lottery, through the TOS'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 ORC, is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral.

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 TOS 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.

(rounded thousands)

BORROWER OWES TO LENDER		LENDER OWES TO BORROWER	
MV of Loaned Securities	\$ 163,800	Cash Collateral	\$ 168,144
Unpaid Distributions	-	Unpaid Distributions	-
Accrued Premiums	-	Accrued Rebates	2
Total	\$ 163,800	Total	\$ 168,146

Since the Lender owes the Borrowers \$4,346,000 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2014.

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 TOS 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 TOS 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, 2014 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 3.4 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 2014, 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 2014 due to prior-period losses.

(rounded thousands)

INVESTMENT TYPE	FAIR VALUE	CREDIT QUALITY RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1	1-5	6-10	>10
Repurchase Agreements	\$ 59,522	AA/AaA/ABBB/Baa	\$ 59,522	\$ -	\$ -	\$ -
U.S. Government Obligation Strips	-		-	-	-	-
U.S. Agency and Instrumentality Obligations	-		-	-	-	-
U.S. Agency and Instrumentality Obligations Strips	-		-	-	-	-
Bonds Mutual Funds	11,682	AAA/Aaa	11,682	-	-	-
Certificates of Deposits (Negotiable)	-		-	-	-	-
Commercial Paper	35,000	A/A	35,000	-	-	-
Other Investments:						
Master Note	-		-	-	-	-
Variable Rate Note	61,932	AA/AaA/A	61,932	-	-	-
Investments Not Required to be Categorized:						
Money Market Funds	-		-	-	-	-
Allocated Cash Collateral (1)	10		10	-	-	-
Total - Investments made with Cash Collateral, as of June 30, 2014	\$ 168,146		\$ 168,146	\$ -	\$ -	\$ -

(1) The Ohio Lottery has been allocated \$10,000 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, 2014 and 2013 was as follows:

<i>(rounded thousands)</i>	<u>2013</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>2014</u>
Capital Assets				
Equipment	\$ 117,953	\$ 5,835	\$ 279	\$ 123,509
Vehicles	<u>2,777</u>	<u>624</u>	<u>220</u>	<u>3,181</u>
Total Capital Assets	120,730	6,459	499	126,690
Less Accumulated Depreciation:				
Equipment	(84,360)	(23,316)	272	(107,404)
Vehicles	<u>(1,711)</u>	<u>(303)</u>	<u>197</u>	<u>(1,817)</u>
Total Accumulated Depreciation	(86,071)	(23,619)	469	(109,221)
Net Capital Assets	<u>\$ 34,659</u>	<u>\$ (17,160)</u>	<u>\$ 30</u>	<u>\$ 17,469</u>
	<u>2012</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>2013</u>
Capital Assets				
Equipment	\$ 110,469	\$ 8,131	\$ 647	\$ 117,953
Vehicles	<u>3,036</u>	<u>89</u>	<u>348</u>	<u>2,777</u>
Total Capital Assets	113,505	8,220	995	120,730
Less Accumulated Depreciation:				
Equipment	(63,721)	(21,270)	631	(84,360)
Vehicles	<u>(1,695)</u>	<u>(306)</u>	<u>290</u>	<u>(1,711)</u>
Total Accumulated Depreciation	<u>(65,416)</u>	<u>(21,576)</u>	<u>921</u>	<u>(86,071)</u>
Net Capital Assets	<u>\$ 48,089</u>	<u>\$ (13,356)</u>	<u>\$ 74</u>	<u>\$ 34,659</u>

The Ohio Lottery has entered into a capital lease for gaming services and leased equipment with Intralot. During fiscal year 2014, additional equipment acquired amounted to \$5,689,171, per an addendum, and recorded at cost. The length of the contract is two years, with five optional two-year renewals; the Lottery has exercised the second renewal option. In addition, the lease requires repayment over 60 months. The assets and liabilities under the lease are recorded at the present value of the minimum lease payments. The carrying value of the capital lease assets are amortized over their estimated useful lives. In accordance with the FASB No. 13, the Ohio Lottery is required to disclose the following information regarding capital leases:

CAPITAL LEASES GROSS ASSETS AND ACCUMULATED AMORTIZATION

(rounded thousands)

ASSET	<u>JUNE 30, 2014</u>	<u>JUNE 30, 2013</u>
Computer Equipment and Systems	\$ 107,103	\$ 101,413
Accumulated Depreciation	<u>(91,746)</u>	<u>(70,401)</u>
TOTAL	<u>\$ 15,357</u>	<u>\$ 31,012</u>

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2014 and 2013 consist of the following:

<i>(rounded thousands)</i>	<u>JUNE 30, 2014</u>	<u>JUNE 30, 2013</u>
Current portion - face amount	\$ 81,127	\$ 79,646
Less: Unamortized discount	<u>(24,099)</u>	<u>(27,099)</u>
Current portion - present value	57,028	52,547
Noncurrent portion - face amount	614,320	681,470
Less: Unamortized discount	<u>(131,110)</u>	<u>(154,405)</u>
Noncurrent portion - present value	483,210	527,065
Total Prize Awards Payable - Net of Discount	<u>\$ 540,238</u>	<u>\$ 579,612</u>

Interest rates used to determine the present values ranged from 2.0 percent to 9.0 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2014 is summarized as follows:

FISCAL YEAR ENDING JUNE 30, (rounded thousands)	AMOUNT
2015	\$ 81,127
2016	79,044
2017	71,555
2018	64,961
2019	58,342
2020 through 2024	193,991
2025 through 2029	91,718
2030 through 2034	51,154
2035 through 2039	3,155
2040 thereafter	400
Subtotal	695,447
Unamortized Discount	(155,209)
Net Prize Liability	<u>\$ 540,238</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 50 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 \$327 million and \$319 million for the years ended June 30, 2014 and 2013, respectively.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2014 and 2013 is as follows:

(rounded thousands)	2014	2013
Accrued Liabilities	\$ 442	\$ 1,342
Worker's Compensation - Current Portion	45	147
Compensated Absences - Current Portion	488	472
Total	<u>\$ 975</u>	<u>\$ 1,961</u>

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2014 and 2013 was as follows:

(rounded thousands)	2013	ADDITIONS	REDUCTIONS	2014
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 527,065	\$ 35,696	\$ (79,551)	\$ 483,210
Capital Lease Payable - Long-term	10,422	5,689	(6,310)	9,801
Accrued Workers' Compensation	1,657	97	-	1,754
Compensated Absences	2,977	2,474	(2,400)	3,051
Total Noncurrent Liabilities	<u>\$ 542,121</u>	<u>\$ 43,956</u>	<u>\$ (88,261)</u>	<u>\$ 497,816</u>

(rounded thousands)	2012	ADDITIONS	REDUCTIONS	2013
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 557,821	\$ 47,741	\$ (78,497)	\$ 527,065
Capital Lease Payable - Long-term	25,468	7,937	(22,983)	10,422
Accrued Workers' Compensation	2,549	-	(892)	1,657
Compensated Absences	3,114	2,397	(2,534)	2,977
Total Noncurrent Liabilities	<u>\$ 588,952</u>	<u>\$ 58,075</u>	<u>\$ (104,906)</u>	<u>\$ 542,121</u>

The amounts due within one year for accrued worker's compensation and compensated absences are reported as current liabilities. Current liabilities for prize awards payable from restricted assets were \$57.0 million and \$52.5 million for the years ended June 30, 2014 and June 30, 2013, respectively.

7. PENSIONS – DEFINED BENEFIT PENSION PLAN

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

- The Traditional 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 but less than 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 ORC permits, but does not mandate, OPERS to provide Other Post Employment Benefit (OPEB) benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 145 of the ORC.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits,

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 or by visiting <http://www.opers.org/investments/cafr.shtml>

The ORC provides the statutory authority for member and employer contributions. For calendar year 2013 member and employer contribution rates were consistent across all three plans (TP, MD and CO). The 2013 member contribution rates were 10 percent of covered payroll for members in classifications other than law enforcement and the employer contribution rate for State employers was 14 percent of covered payroll.

The Ohio Lottery's required contributions to OPERS for the years ended June 30, 2014, 2013, and 2012 were \$2,348,000, \$1,713,000, and \$1,636,000 respectively, equal to the required contribution for each year.

8. OTHER POST EMPLOYMENT BENEFITS

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 Pension 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. The health care coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement No. 45.

FUNDING POLICY

The ORC provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2013 employer contribution rate for State employers was 14.0 percent of covered payroll. This is the maximum employer contribution rate permitted by the ORC.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0 percent during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0 percent during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0 percent for both plans, as recommended by OPERS Actuary.

The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

LOTTERY FUNDING

The approximate contributions to OPERS for post-employment benefits by the Ohio Lottery for fiscal years 2014, 2013 and 2012 were \$183,000, \$709,000, and \$692,000, respectively. Active members do not make contributions to the post-employment health care plan.

Changes to the health care plan were adopted by the OPER Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

9. LITIGATION

The Ohio Lottery is a party to 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 estimable. In the opinion of management, the ultimate outcome of such legal proceedings cannot be determined at this time. Its impact on the Ohio Lottery's financial position, therefore, is also unknown.

• STATISTICAL SECTION •

Nearly 2 months after the first drawing, the Ohio Lottery was ready for its first millionaire.

To enter, players would claim their \$20 winnings at an Ohio Lottery agent location and receive a Millionaire pool entry certificate. Of those entries, 100 finalists would be drawn and would be eligible to win prizes that ranged from \$1,000 up to the top prize of \$1 million.

The Ohio Lottery teamed up with Thistledown racetrack and created the \$50,000 *Ohio Lottery Millionaire Stakes*, a 1-1/8 mile race open to Ohio-foaled horses, three years old and up.

October 27, 1974 was designated Lottery Day at Thistledown Race Track, and the Ohio Lottery Millionaire Stakes would be the ninth race of the day. Ten finalists had already been pre-drawn; each would have a horse that represented him or her in the race. The finalist with the winning horse would walk away with \$1 million. The finalist with the second-place horse would win \$100,000, and the finalist with the third-place horse would win \$50,000. The remaining finalists would receive \$10,000 each.

Since there were 16 horses in the race, if none of the top 10 had a winning horse, the prizes would be awarded in the order of the best finishing horse.

On October 27, the day of the race, the gates of Thistledown Race Track opened at 10:30 a.m. Lottery Day featured beer and hotdogs for 25 cents each, and a special chicken boxed lunch for \$1.45. All visitors received a commemorative souvenir key chain.

Shortly before the Millionaire Stakes race, the 10 finalists drew the names of the horses that would determine their fortunes. In front of a frenzied crowd of more than 11,000, the ninth race started.

In the end, it was a horse named Grand Action, ridden by Anthony Rini who won the race by 2 - 1/4 lengths, final time was 1:51.

The finalist who picked Grand Action as his winning horse was fresh out of the hospital from his third heart attack. He was a skinny guy with thick glasses, sporting a bolo tie and an ill-fitting sport coat, when he watched Grand Action gallop to the finish line.



Omar Watts (Chief Little Fox) celebrates with Anthony Rini, the jockey who won \$1 million for Watts (Photo from the Cleveland Press Collection).



Charles Ginsburg, Ohio Racing Commission Chairman, presents Omar Watts with a plaque after Watts won \$1 million at Thistledown Race Track (Photo from the Cleveland Press Collection).

The winner's name was Omar Watts. Born on a Cherokee Reservation in North Carolina, Omar (Chief Little Fox) Watts and his third wife, Josephine, were struggling to support five children on his \$113 a week salary as a factory night watchman in Middlefield. Two other children, ages 11 and 15, were living with foster families; Watts couldn't afford to support them all in their rented, 137-year-old (at that time) farmhouse near Burton.

He had more than \$4,000 in debt from medical bills, drove a used station wagon, and sometimes lived on bologna sandwiches for weeks at a time. But Watts still had enough hope to buy about four 50-cent lottery tickets each week from the Pay Less discount store in Burton.

Watts was actually first disqualified from the Ohio Lottery Millionaire Stakes race. An Ohio Lottery Sales Agent accidentally validated his winning ticket for the wrong week, and the Lottery's computer had rejected the claim. He had rejoined the drawing only a week prior, after sorting out the ticket error with the Lottery.

When Grand Action crossed the finish line, Watts was first immobile. He didn't know he had won the \$1 million because one of the other finalists sitting next to him had a horse named Grand Dandy and his horse was named Grand Action.

"Both of us heard the announcer say 'grand' but we couldn't see the finish line too good from where we were sitting and we didn't hear the other part of the horse's name," said Watts. "I didn't know I was the winner until a guy came up behind me and tapped me on the shoulder and told me the horse I had won."



Grand Action, ridden by jockey Anthony Rini, was the name of the horse that won Watts his \$1 million (Photo from the Cleveland Press Collection).

It was only then that Watts came alive. He would receive \$50,000 each year for the next 20 years. That evening, in a decidedly low-key millionaire way, he treated the whole family to a victory dinner - at McDonald's.

With his winnings, Watts was able to bring home his two children who had been living in foster care. He bought a modest, four-bedroom house in Huntsburg and stocked it with new furniture. He paid off his debts but kept his night job, and opened a small engine repair shop in Munson Township. "We're not going to live like millionaires. I don't want to be no big shot," Watts said at the time. "After being poor for so long, it just wouldn't feel right."

Watts also said he'd "like to go back to my people" some day, but said he'd stay in Ohio for the time being because "there are some friends I want to help - people who helped me."

Watts eventually retired to Cherokee, North Carolina near the reservation on which he was born.

Periodically, health permitting, he attended Native American powwows in North Carolina and other states, where he danced with fellow members of the Warrior Society, a Native American organization for veterans.

"I enjoy them. I get to meet different tribes, learn their traditions and things. I've been studying (Cherokee) medicine and stuff here; a good friend is teaching me."

"All in all, it's been a nice ride," Watts said. "I'm getting along pretty good. I can't kick. I've been living the ordinary way. It hasn't changed me. I'm the same old guy. I figure I've been pretty lucky."

Omar Watts passed away on February 25, 1998 at the age of 81.



Omar Watts (Chief Little Fox) outside his shop on Mayfield Road, Munson Township (Photo from the Cleveland Press Collection).

OHIO LOTTERY COMMISSION

STATISTICAL SECTION

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 Lottery's overall financial health.

FINANCIAL TRENDS

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

REVENUE CAPACITY

These schedules contain information to help readers assess the 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 Lottery's statewide retailer network determines the market exposure for the Lottery's games.

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

OPERATING INFORMATION

These schedules contain information about the 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 - CHANGE IN NET POSITION • LAST TEN FISCAL YEARS

(in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Change in Net Position										
Plus: Total Operating Revenues	\$2,164.8	\$2,227.3	\$2,267.1	\$2,332.9	\$2,425.9	\$2,498.8	\$2,608.3	\$2,781.7	\$2,939.8	\$3,288.0
Less: Total Prizes, Bonuses and Commissions	1,414.6	1,451.0	1,478.3	1,541.0	1,609.1	1,667.2	1,764.4	1,860.2	1,945.1	2,158.9
Less: Total Operating Expenses	97.7	109.8	109.8	110.3	124.3	109.4	109.3	107.8	121.4	121.0
Operating Income (Loss)	\$ 652.5	\$ 666.5	\$ 679.0	\$ 681.6	\$ 692.5	\$ 722.2	\$ 734.6	\$ 813.7	\$ 873.3	\$ 1,008.2
Plus: Non-Operating Income	90.5	22.3	60.4	88.0	55.8	76.3	24.1	79.1	0.0	16.9
Less: Non-Operating Expense	69.3	65.0	109.3	53.9	41.2	40.0	37.8	34.0	137.6	30.7
Less: Transfers	645.1	646.3	669.3	672.2	702.3	728.6	738.8	771.0	803.1	1,004.3
Change in Net Position	\$ 28.6	\$ (22.5)	\$ (39.2)	\$ 43.5	\$ 4.8	\$ 29.9	\$ (17.9)	\$ 87.8	\$ (67.4)	\$ (9.9)
Change in Net Position	28.6	(22.5)	(39.2)	43.5	4.8	29.9	(17.9)	87.8	(67.4)	(9.9)
Total Net Position - Beginning	123.5	152.1	129.6	90.4	133.9	138.7	168.6	150.7	238.5	171.1
Total Net Position - Ending	\$ 152.1	\$ 129.6	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6	\$ 150.7	\$ 238.5	\$ 171.1	\$ 161.2

OHIO LOTTERY - NET POSITION • LAST TEN FISCAL YEARS

(in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Change in Net Position										
Invested in Capital Assets										
- Net of Related Debt	\$ 0.7	\$ 2.9	\$ 2.7	\$ 4.4	\$ 5.6	\$ 7.9	\$ 4.0	\$ 2.8	\$ 1.7	\$ 2.1
Restricted for Annuity Prizes	-	5.4	1.6	1.0	1.4	-	-	-	-	-
Restricted for Net Unrealized										
Gains/(Losses) on Restricted Assets	112.1	61.7	12.3	43.3	55.7	87.4	77.1	123.7	85.1	73.8
Unrestricted	39.3	59.6	73.8	85.2	76.0	73.3	69.6	112.0	84.3	85.3
Total Net Position	\$ 152.1	\$ 129.6	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6	\$ 150.7	\$ 238.5	\$ 171.1	\$ 161.2

OHIO LOTTERY - CAPITAL ASSETS

(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Capital Assets									
Lottery Equipment	\$ -	\$ -	\$ 1.6	\$ 2.0	\$ 6.1	\$ 2.3	\$ 0.5	\$ (0.3)	\$ -
Vehicles	1.5	1.3	1.4	1.5	1.1	1.1	1.3	1.1	1.4
Data / Office Equipment	1.4	1.4	1.4	2.1	0.7	0.6	1.0	0.8	0.7
Net Investments in Capital Assets	\$ 2.9	\$ 2.7	\$ 4.4	\$ 5.6	\$ 7.9	\$ 4.0	\$ 2.8	\$ 1.6	\$ 2.1
Ratio of Outstanding Debt									
Related Debt(1)	-	-	-	-	\$ 66.8	\$ 58.0	\$ 45.3	\$ 33.0	\$ 15.4
Percentage of Total Operating Revenues					2.7%	2.2%	1.6%	1.1%	0.5%

(1) The Debt will be paid by Lottery Ticket Sales.

REVENUES • LAST TEN FISCAL YEARS

(in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Online Ticket Sales										
Pick 3	\$ 387.7	\$ 377.3	\$ 370.9	\$ 387.1	\$ 382.5	\$ 366.7	\$ 364.4	\$ 357.4	\$ 345.2	\$ 339.0
Pick 4	170.1	175.7	183.0	198.8	205.9	201.3	209.0	207.9	189.8	185.8
Pick 5	-	-	-	-	-	-	-	-	28.0	27.9
Buckeye 5/Rolling Cash 5 (1)	74.8	72.6	72.9	70.5	67.2	67.1	62.4	63.8	61.5	63.4
Super Lotto Plus/Lot O' Play (2)	113.0	76.3	21.8	-	-	-	-	-	-	-
Classic Lotto (3)	-	-	21.8	41.2	43.9	42.8	42.7	42.3	41.5	54.1
Raffle/Multi-State Raffle	-	-	17.8	10.0	9.3	9.1	10.0	10.0	9.1	1.0
Kicker (5)	19.9	21.6	21.3	21.4	21.4	24.1	10.3	0.9	5.1	6.0
Mega Millions/Megaplier (5)	176.4	223.4	196.1	201.0	193.0	215.8	165.0	179.3	102.8	133.4
EZ Play	-	-	-	12.3	34.3	30.4	30.9	46.5	68.0	84.8
Ten-OH! (6)	-	-	-	18.0	11.0	9.7	9.2	8.3	0.8	-
KENO/Booster (4)	-	-	-	-	99.8	120.6	157.9	209.8	251.5	298.1
Powerball/Power Play (4)	-	-	-	-	-	23.6	76.4	105.3	166.6	122.8
Total Online Ticket Sales	941.9	946.9	905.6	960.3	1,068.3	1,111.2	1,138.2	1,231.5	1,269.9	1,316.3
Instant Games Sales	1,217.2	1,274.0	1,353.8	1,364.8	1,349.4	1,379.0	1,462.8	1,507.5	1,428.0	1,426.8
Total Ticket Sales	2,159.1	2,220.9	2,259.4	2,325.1	2,417.7	2,490.2	2,601.0	2,739.0	2,697.9	2,743.1
VLT Revenue	-	-	-	-	-	-	-	11.1	165.5	437.6
VLT License Revenue	-	-	-	-	-	-	-	25.0	70.0	100.1
Other Revenues (7)	96.2	28.7	68.1	95.8	64.0	86.6	31.4	6.6	6.3	7.2
Total Revenues	\$2,255.3	\$2,249.6	\$2,327.5	\$2,420.9	\$2,481.7	\$2,576.8	\$2,632.4	\$2,781.7	\$2,939.8	\$3,288.0

(1) In October 2004, the Buckeye 5 game was replaced by Rolling Cash 5.

(2) Super Lotto Plus was replaced in October 2005 by Lot O' Play.

(3) In January 2007, the Classic Lotto game replaced Lot O' Play.

(4) Booster option and Power Ball / Power Play added in Fiscal Year 2010.

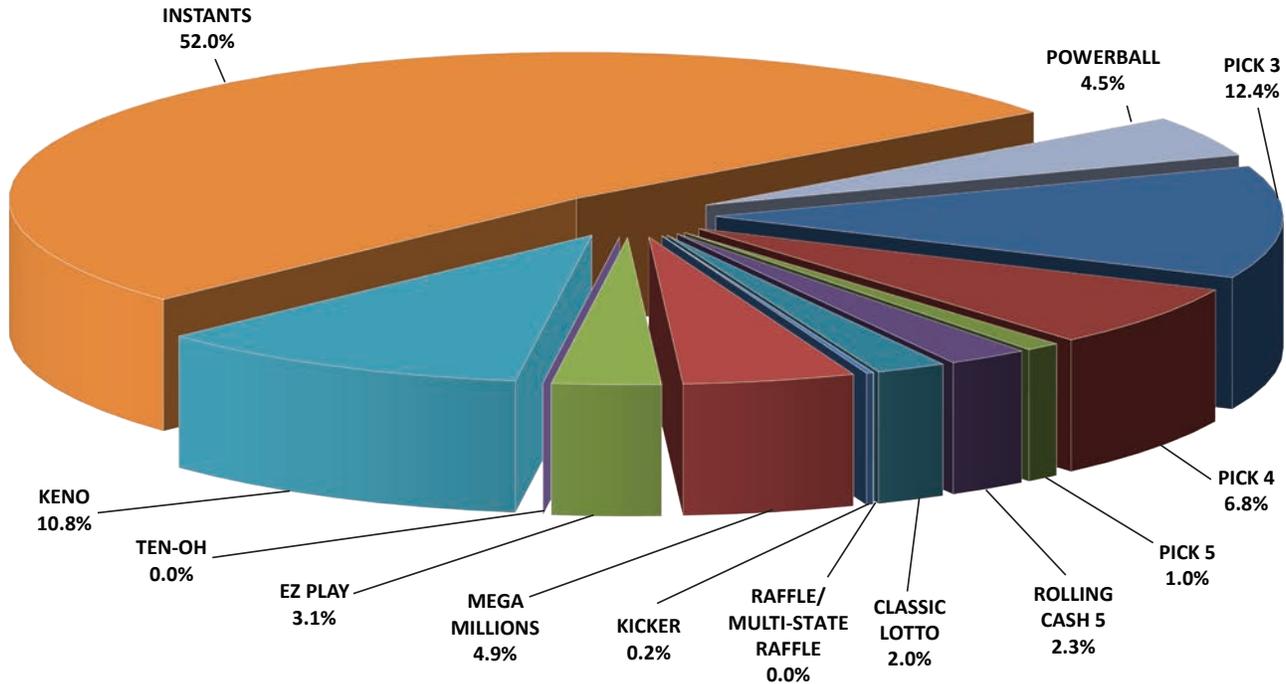
(5) The Kicker was retired from Mega Millions in 2011 and was replaced by Megaplier; Kicker was reintroduced in 2012 as a add-on feature to Classic Lotto.

(6) In August 2012, the Ten-Oh game was replaced by Pick 5.

(7) Interest Income includes adjustment for unrealized gain/losses as a result of GASB 31 reporting.

OHIO LOTTERY • SALES BY GAME

(Fiscal Year 2014)



PRIZE PAYOUT AS A PERCENTAGE OF TRADITIONAL LOTTERY SALES • LAST TEN FISCAL YEARS

(in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SALES										
Online	\$ 941.9	\$ 946.9	\$ 905.6	\$ 960.3	\$1,068.3	\$1,111.2	\$1,138.2	\$1,231.5	\$1,269.9	\$1,316.3
Instant	1,217.2	1,274.0	1,353.8	1,364.8	1,349.4	1,379.0	1,462.8	1,507.5	1,428.0	1,426.8
Total Ticket Sales	\$2,159.1	\$2,220.9	\$2,259.4	\$2,325.1	\$2,417.7	\$2,490.2	\$2,601.0	\$2,739.0	\$2,697.9	\$2,743.1
PRIZE EXPENSE										
Online	\$ 486.2	\$ 467.7	\$ 426.7	\$ 470.3	\$ 537.0	\$ 566.7	\$ 593.1	\$ 648.0	\$ 683.0	\$ 705.7
Instant	794.6	843.5	911.7	926.7	922.0	947.0	1,010.0	1,032.9	985.1	992.3
Total Prize Expense	\$1,280.8	\$1,311.2	\$1,338.4	\$1,397.0	\$1,459.0	\$1,513.7	\$1,603.1	\$1,680.8	\$1,668.1	\$1,698.0
PRIZE PAYOUT PERCENTAGE										
Online	51.6%	49.4%	47.1%	49.0%	50.3%	51.0%	52.1%	52.6%	53.8%	53.6%
Instant	65.3%	66.2%	67.3%	67.9%	68.3%	68.7%	69.0%	68.5%	69.0%	69.5%

EXPENSES AS A PERCENTAGE OF TRADITIONAL LOTTERY SALES • LAST TEN FISCAL YEARS

(in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Prizes	\$1,280.8	\$1,311.1	\$1,338.4	\$1,397.0	\$1,459.0	\$1,513.7	\$1,603.1	\$1,680.8	\$1,668.1	\$1,698.0
Prizes as % Total Sales	59.3%	59.0%	59.2%	60.1%	60.3%	60.8%	61.6%	61.4%	61.8%	61.9%
Bonuses/Commissions	\$ 133.8	\$ 139.8	\$ 140.0	\$ 143.9	\$ 150.1	\$ 153.4	\$ 161.3	\$ 172.0	\$ 166.9	\$ 169.9
Bonuses/Commissions as % of total Sales	6.2%	6.3%	6.2%	6.2%	6.2%	6.2%	6.2%	6.3%	6.2%	6.2%
Operating Expenses	\$ 97.7	\$ 109.8	\$ 109.8	\$ 110.3	\$ 124.3	\$ 109.4	\$ 109.3	\$ 107.8	\$ 116.5	\$ 113.8
Operating Expenses as % of Total Sales	4.5%	4.9%	4.9%	4.7%	5.1%	4.4%	4.2%	3.9%	4.3%	4.1%
Payments to Education	\$ 645.1	\$ 646.3	\$ 669.3	\$ 672.2	\$ 702.3	\$ 728.6	\$ 738.8	\$ 771.0	\$ 752.5	\$ 764.9
Payments to Education as % of Total Sales	29.9%	29.1%	29.6%	28.9%	29.0%	29.3%	28.4%	28.1%	27.9%	27.9%
Total Sales	\$2,159.1	\$2,220.9	\$2,259.4	\$2,325.1	\$2,417.7	\$2,490.2	\$2,601.0	\$2,739.0	\$2,697.9	\$2,743.1

OHIO LOTTERY • EXPENSES AND PAYMENTS - LAST TEN FISCAL YEARS

(in millions)

PRIZE EXPENSE



BONUSES/COMMISSIONS



OPERATING EXPENSE



PAYMENTS TO EDUCATION



VIDEO LOTTERY TERMINAL (VLT) FACILITIES IN OHIO

Fiscal Year 2014



TOTAL VIDEO LOTTERY TERMINAL (VLT) SALES

(in millions)

	SCIOTO DOWNS RACINO	THISTLEDOWN RACINO	HARD ROCK ROCKSINO	MIAMI VALLEY GAMING	BELTERRA PARK GAMING & ENTERTAINMENT CENTER	TOTAL
Net Win	\$ 134.9	\$ 132.3	\$ 95.2	\$ 66.0	\$ 9.3	\$ 437.6
Racino	89.2	87.5	63.0	43.7	6.2	289.5
Lottery	45.2	44.3	31.9	22.1	3.1	146.6
Responsible Gaming	0.5	0.4	0.3	0.2	0.0	1.5
Avg. Number of VLTs	2,103	1,151	2,265	1,595	1,471	8,585

VIDEO LOTTERY TERMINAL (VLT) SALES • BY RACINO

(in millions)

SCIOTO DOWNS RACINO

	2012*	2013	2014	TOTAL
Net Win	\$ 11.1	\$ 136.3	\$ 134.9	\$ 282.4
Racino	7.4	90.7	89.2	187.3
Lottery	3.7	45.7	45.2	94.6
Responsible Gaming	-	-	0.5	0.5

* Track was operational in June 2012

THISTLEDOWN RACINO

	2012	2013*	2014	TOTAL
Net Win	\$ -	\$ 29.2	\$ 132.3	\$ 161.5
Racino	-	19.4	87.5	106.9
Lottery	-	9.8	44.3	54.1
Responsible Gaming	-	-	0.4	0.4

* Track was operational in April 2013

HARD ROCK ROCKSINO NORTHFIELD PARK

	2012	2013	2014*	TOTAL
Net Win	\$ -	\$ -	\$ 95.2	\$ 95.2
Racino	-	-	63.0	63.0
Lottery	-	-	31.9	31.9
Responsible Gaming	-	-	0.3	0.3

* Track was operational in December 2013

MIAMI VALLEY GAMING

	2012	2013*	2014	TOTAL
Net Win	\$ -	\$ -	\$ 66.0	\$ 66.0
Racino	-	-	43.7	43.7
Lottery	-	-	22.1	22.1
Responsible Gaming	-	-	0.2	0.2

* Track was operational in December 2013

BELTERRA PARK GAMING & ENTERTAINMENT CENTER

	2012	2013	2014*	TOTAL
Net Win	\$ -	\$ -	\$ 9.3	\$ 9.3
Racino	-	-	6.2	6.2
Lottery	-	-	3.1	3.1
Responsible Gaming	-	-	0.0	0.0

* Track was operational in May 2014

U.S. LOTTERY INDUSTRY STATEMENT OF OPERATIONS

RANK BY SALES^(a) FISCAL YEAR 2013^(b)

(in millions)

U. S. LOTTERY	POPULATION	TOTAL TICKET SALES	PRIZES	PRIZES AS % OF TOTAL SALES	BONUSES/ COMMISSIONS	OPERATING EXPENSES	PER CAPITA SALES
1 New York	19.7	\$7,108.9	\$4,220.0	\$425.7	\$284.4	59.4%	\$362
2 Florida	19.6	5,013.0	3,162.9	278.5	147.9	63.1%	256
3 Massachusetts	6.7	4,839.3	3,523.9	276.5	94.3	72.8%	723
4 California	38.3	4,445.9	2,652.1	303.0	230.0	59.7%	116
5 Texas	26.5	4,376.3	2,767.4	236.8	182.0	63.2%	165
6 Pennsylvania	12.8	3,699.7	2,299.0	196.1	138.9	62.1%	290
7 Georgia	10.0	3,635.9	2,332.5	233.2	147.3	64.2%	364
8 Illinois (c)	12.9	2,841.3	n/a	160.6	n/a	n/a	n/a
9 New Jersey	8.9	2,821.4	1,670.4	157.9	71.0	59.2%	317
10 OHIO	11.6	2,697.9	1,668.0	166.9	121.5	61.8%	233
11 Michigan	9.9	2,476.4	1,461.5	178.5	108.0	59.0%	250
12 Maryland	5.9	2,316.8	1,038.5	119.8	366.4	44.8%	391
13 North Carolina	9.9	1,689.8	1,024.4	118.2	73.3	60.6%	172
14 Virginia	8.3	1,689.2	1,025.2	95.0	84.2	60.7%	205
15 Tennessee	6.5	1,275.3	794.4	89.3	57.1	62.3%	196

(a) Sales excludes video lottery, (b) Latest information available, (c) Unaudited

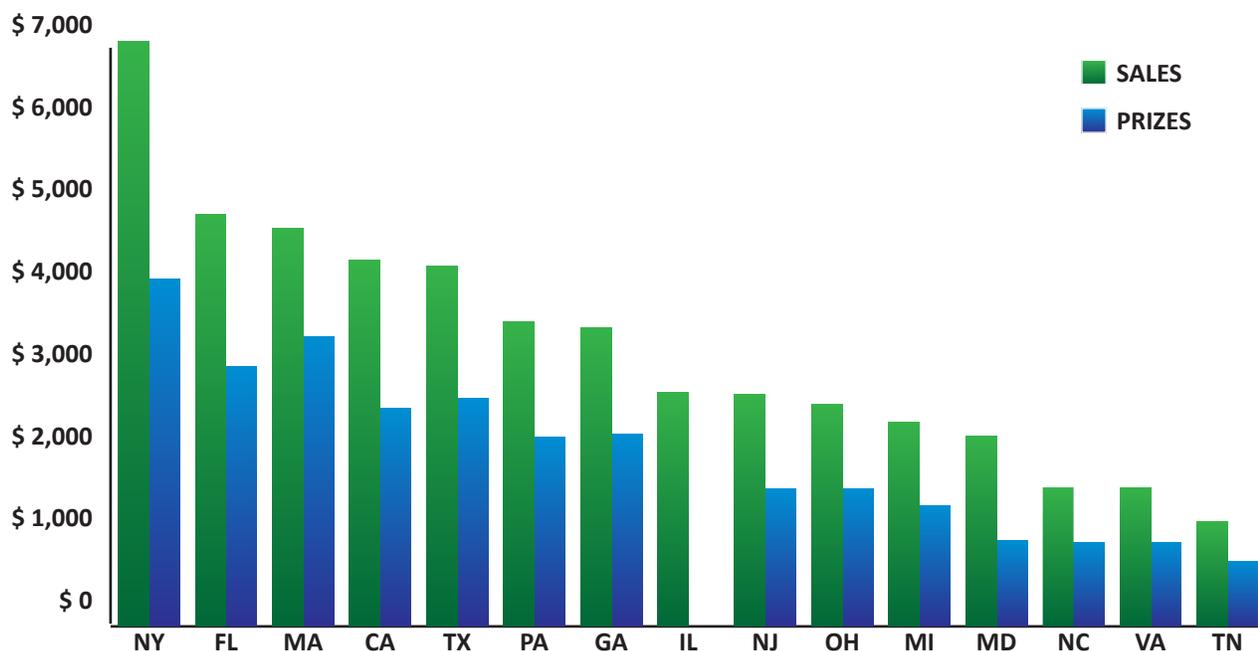
The fiscal year ends June 30, 2013 for all US states except New York (March 31), Texas (August 31), and Michigan (September 30).

The population figures used for the U.S. states were published by the Bureau of the Census on July 1, 2013.

Source: "La Fleur's 2014 World Lottery Almanac"

U.S. LOTTERY INDUSTRY • FISCAL YEAR 2013

(in millions)



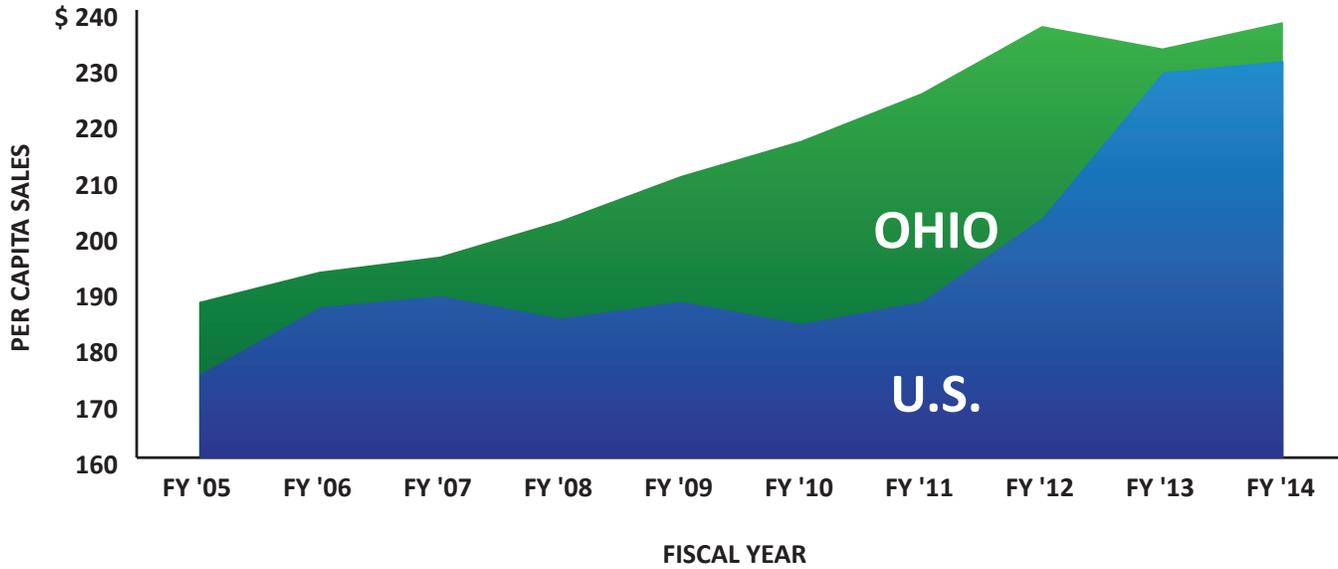
Source: "La Fleur's 2014 World Lottery Almanac"

OHIO LOTTERY • PER CAPITA SALES - LAST TEN FISCAL YEARS

(in millions)

FISCAL YEAR	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Population	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Ticket Sales	\$2,159.1	\$2,220.9	\$2,259.4	\$2,325.1	\$2,417.7	\$2,490.2	\$2,601.0	\$2,739.0	\$2,697.9	\$2,743.1
Per Capita Sales	187.7	193.1	195.8	202.2	210.2	216.5	225.0	237.0	233.0	237.7
National Per Capita Sales	175.0	187.0	189.0	185.0	188.0	184.0	188.0	203.0	229.0	231.1

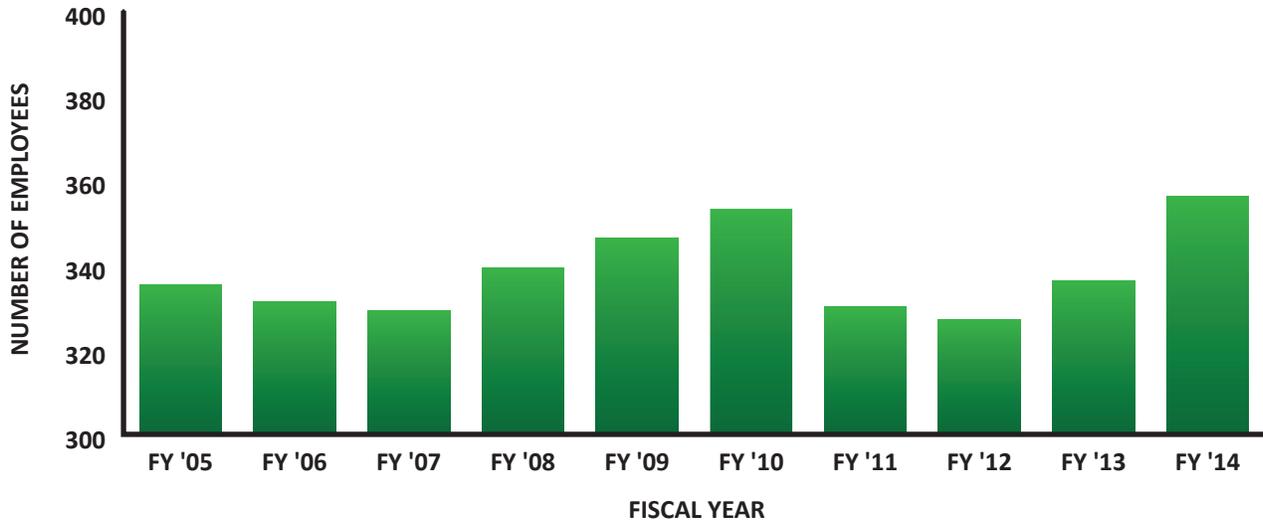
OHIO LOTTERY AND U.S. LOTTERIES • PER CAPITA SALES - LAST TEN FISCAL YEARS



Source: "La Fleur's 2014 World Lottery Almanac"
 (1) 2014 National Per Capita Sales is estimated

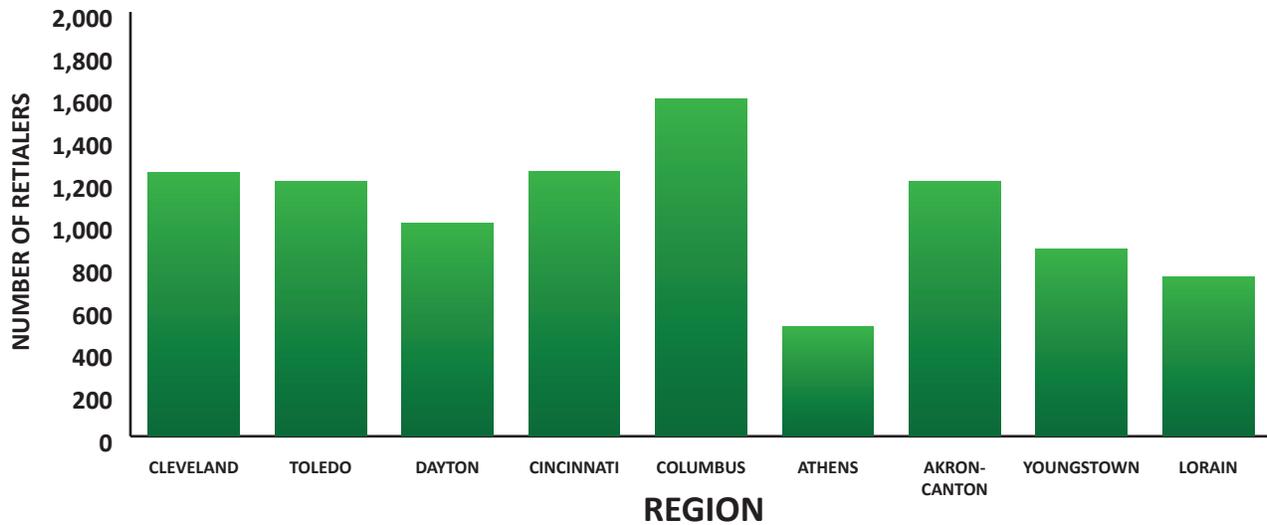
OHIO LOTTERY • NUMBER OF EMPLOYEES - LAST TEN FISCAL YEARS

(as of June 30, 2014)



OHIO LOTTERY • RETAILERS BY REGION

(as of June 30, 2014)



LOTTERY RETAILERS - LAST TEN FISCAL YEARS

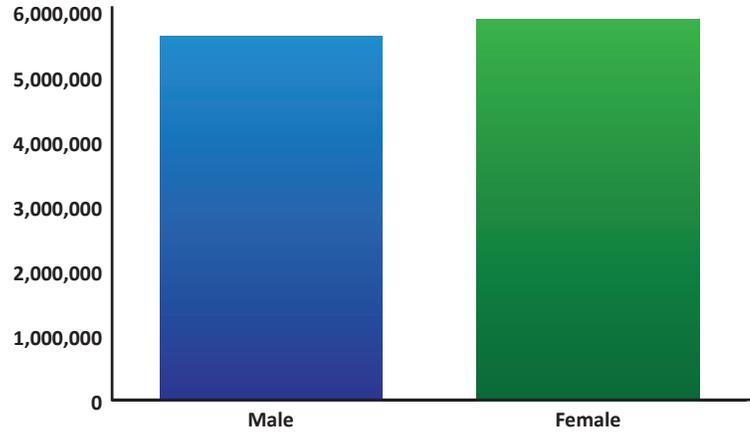
(as of June 20, 2014)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
TOTAL RETAILERS	8,754	8,559	8,154	8,005	8,748	8,770	9,068	9,371	9,482	9,636
Online & Instant	7,374	7,806	8,144	8,005	8,748	8,770	9,068	9,371	9,482	9,636
Instant Only	1,380	753	10	0	0	0	0	0	0	0

POPULATION BY GENDER

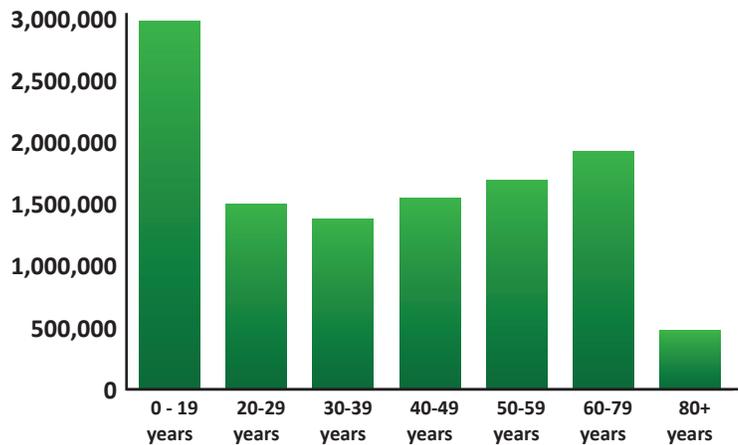
(Annual Estimates July 1, 2012)

Population by Gender	Number	Percent
Male	5,642,620	48.88%
Female	5,901,605	51.12%
Total Population	11,544,225	100.0%



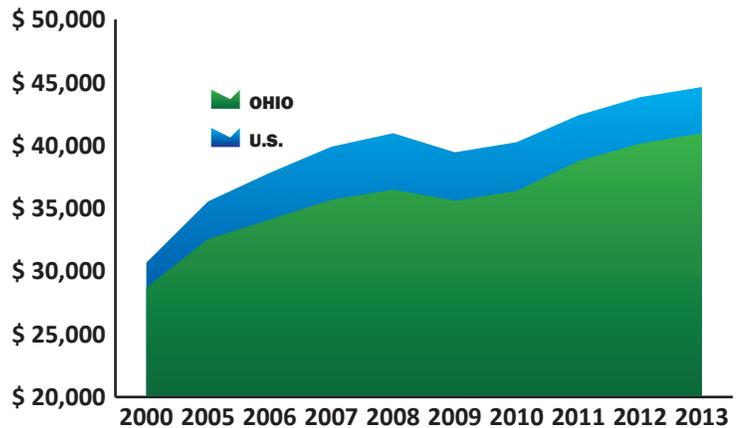
POPULATION BY AGE

Population by Age	Number	Percent
0 to 19 years	2,983,673	25.8%
20 to 29 years	1,508,567	13.1%
30 to 39 years	1,385,958	12.0%
40 to 49 years	1,554,145	13.5%
50 to 59 years	1,700,906	14.7%
60 to 79 years	1,928,180	16.7%
80 years and more	482,796	4.2%
Total Population	11,544,225	100.0%
Median Age	39.2	



PER CAPITA INCOME

YEAR	OHIO	U.S.
2000	\$28,620	\$30,587
2005	32,445	35,452
2006	34,008	37,725
2007	35,594	39,804
2008	36,386	40,873
2009	35,511	39,357
2010	36,274	40,163
2011	38,657	42,298
2012	40,057	43,735
2013	40,865	44,543



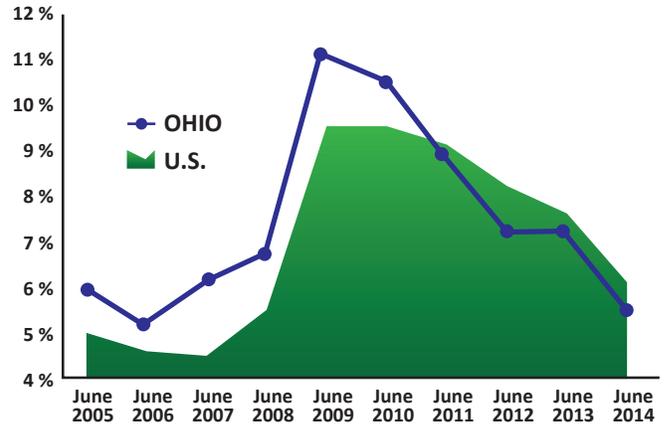
Sources:

U.S. Census Bureau - 2012, Ohio Department of Development

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

UNEMPLOYMENT RATES • SEASONALLY ADJUSTED

Month / Year	Ohio	U.S.
June 2005	6.0%	5.0%
June 2006	5.1%	4.6%
June 2007	6.1%	4.5%
June 2008	6.6%	5.5%
June 2009	11.1%	9.5%
June 2010.....	10.5%	9.5%
June 2011	8.8%	9.1%
June 2012	7.2%	8.2%
June 2013	7.2%	7.6%
June 2014.....	5.5%	6.1%



Source:
Ohio Department of Job & Family Services

STATE OF OHIO • PRINCIPAL EMPLOYERS for Calendar Years 2012 and 2004

2012 RANKINGS

RANK	EMPLOYER	EMPLOYEES	% OF TOTAL STATE EMPLOYMENT
1	United States Government	78,452	1.19%
2	Wal-Mart Stores	50,625	0.77%
3	State of Ohio	50,013	0.76%
4	Cleveland Clinic Health System	39,300	0.59%
5	Kroger Company	39,000	0.59%
6	Catholic Healthcare Partners	31,300	0.47%
7	The Ohio State University	28,300	0.43%
8	University Hospitals Health System	21,000	0.32%
9	JP Morgan Chase & Co.	20,500	0.31%
10	Giant Eagle, Inc.	19,500	0.29%

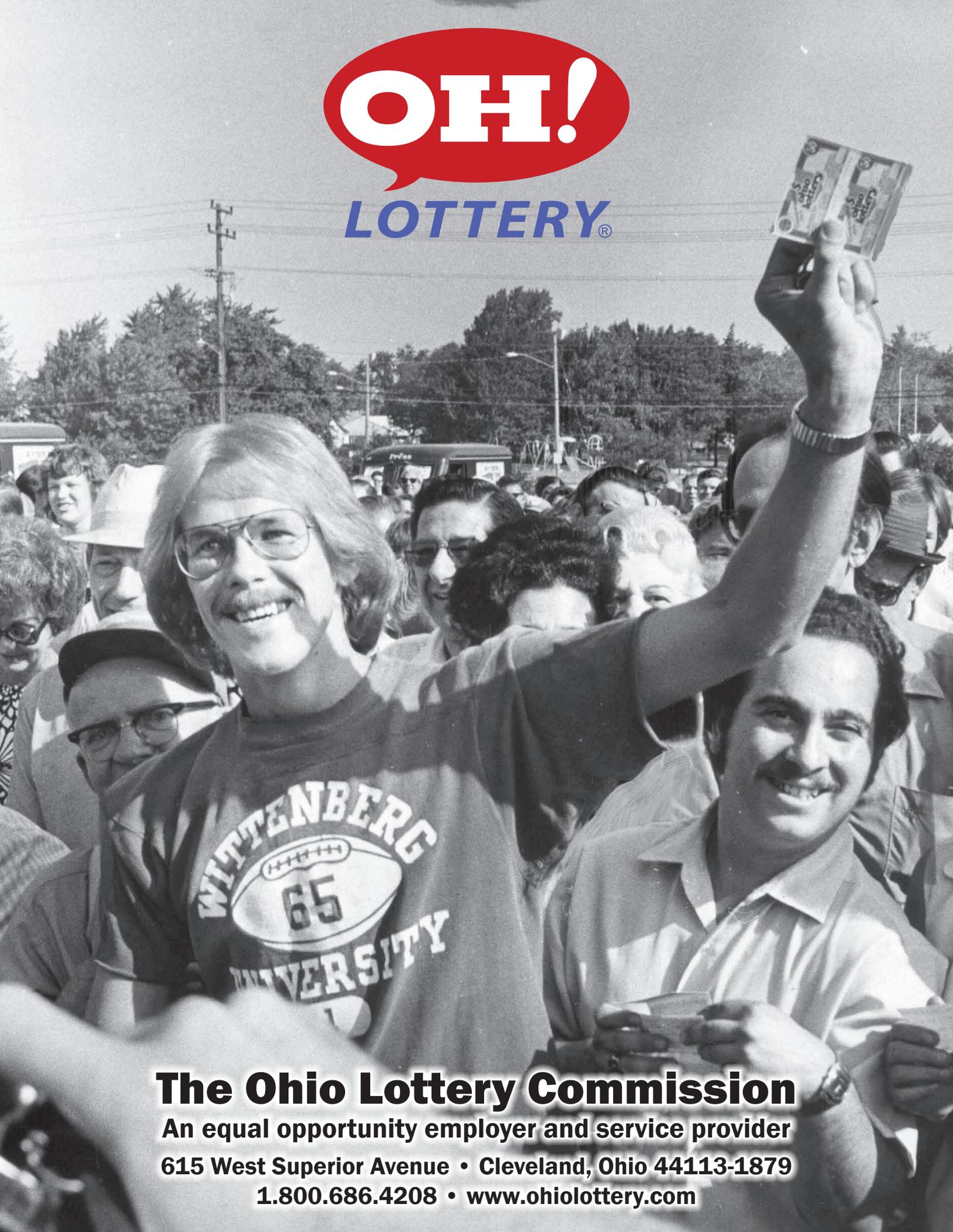
2004 RANKINGS

RANK	EMPLOYER	EMPLOYEES	% OF TOTAL STATE EMPLOYMENT
1	United States Government	78,509	1.18%
2	State of Ohio	58,965	0.89%
3	Wal-Mart Stores	42,800	0.64%
4	Kroger Company	32,700	0.49%
5	Cleveland Clinic Health System	28,950	0.43%
6	General Motors Corporation	25,000	0.38%
7	Delphi Automotive	22,100	0.33%
8	General Electric Company	21,900	0.33%
9	Ford Motor Company	20,000	0.30%
10	University Hospitals Health System	20,000	0.30%

Sources:
 U.S. Department of Commerce, Bureau of Economic Analysis
 U.S. Census Bureau
 Ohio Department of Development
 Ohio Department of Administrative Services
 The Ohio State University, University Resource Planning and Institutional Analysis
 (A) Calendar year 2004 was the most recent year for which data was available for the required nine-year comparison.



Back Cover: "I dreamt it, man. I dreamt last night that I won it," said Bob Baker, Parma, who was at the first Ohio Lottery drawing. Baker won \$20 on a Buckeye 300 ticket and was one of the first people identified as a Lottery winner (Photo from the Cleveland Press Collection).



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