



The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio

Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012

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Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012

Prepared by the
Ohio Lottery Office of Finance

John R. Kasich, Governor
Dennis R. Berg, Executive Director
Patrick McDonald, Commission Chairperson
Greg Bowers, Acting Director of Finance



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• **INTRODUCTORY SECTION** •



THE OHIO LOTTERY COMMISSION
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OCTOBER 1, 2013

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, 2013. 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 July 1974 and is operated as a business enterprise within the framework of the State's laws and regulations. The Ohio Lottery's mission is to maximize revenues to provide funds for the educational system of the State by offering dignified games of chance to the public at large.

The Ohio Lottery is an enterprise of the State and is included in the State's 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, 2013, 43 states, the District of Columbia and the U.S. Virgin Islands 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 decreased 1.2 percent during the third quarter of fiscal year 2013. The report indicates that 49 of 50 states had negative growth. BEA targeted a number of special factors behind the decrease in personal income, including the elimination of the "payroll tax holiday" and the acceleration of income receipts in anticipation of the payroll tax change. Of the industries tracked, the largest percentage increases are in the professional services and construction. All told, seventeen of twenty-four tracked industries saw earnings growth. Though there was negative growth during early 2013, in general, most indicators are displaying a weak, though broadly positive growth trend.

The US unemployment rate for July 2013 was 7.4 percent, down from a high in 2011 of 9.1 percent. The three largest sectors showing employment growth in July were wholesale and retail trade, hospitality and leisure, and financial and business services.

Ohio ended the third quarter of fiscal year 2013 with 0.9 percent decrease in personal income over the previous quarter. Though there was a decrease in personal income, Ohio ranked 9th among states for change in income between the quarters. During fiscal year 2013 the unemployment figures in Ohio remained fairly steady, at 7.3 percent in April of 2012 and 7.2 as of July 2013. Ohio's unemployment rate currently sits at 0.2 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 2013 marked the eighth consecutive year of profit growth for the Ohio Lottery. Total revenues also increased due to the strong performance from the two new VLT facilities (racinos). 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 2013 were \$345.2 million, or 12.8 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 2013 were \$189.8 million, or 7.0 percent of total Ohio Lottery sales. Both Pick 3 and Pick 4 are drawn midday and evenings Sunday through Saturday.



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 2013 were \$28.0 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 an online 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 2013 were \$61.5 million, or 2.3 percent of total Ohio Lottery sales. Drawings are held Sunday through Saturday evenings.



CLASSIC LOTTO® is an online 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 2013 were \$41.5 million, or 1.5 percent of total Ohio Lottery sales.

KICKER is an online game, with a top prize of \$100,000, which could only be purchased along with Classic Lotto. Kicker was reinstated in April 2012. Sales for fiscal year 2013 were \$5.1 million, or 0.2 percent of total Ohio Lottery sales.



RAFFLE is similar to a traditional 50-50 raffle, with players purchasing a single ticket worth \$20. The tickets, which have a six-digit number, are sold in sequential order. Prizes range from \$100 to \$1,000,000. The sales period for Raffle is targeted for a set period of time, followed by the drawing. Sales for fiscal year 2013 were \$9.1 million or 0.3 percent of total Ohio Lottery sales.



MEGA MILLIONS® is a multi-state, online game. For each wager, players select five numbers from a pool of 1 to 56 and select one Mega ball number from a second pool of 1 to 46. To win the jackpot, all six numbers must be matched. The jackpot starts at \$12 million and increases if not won.

MEGAPLIER was introduced to Ohio 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, and can increase winnings 2, 3 or 4 times. Megaplier multiplies the winnings by the number drawn for prizes up to \$10,000. 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 2013 were \$102.8 million, or 3.8 percent of total Ohio Lottery sales.



EZ PLAY® 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 2013 were \$68.0 million, or 2.5 percent of total Ohio Lottery sales.



TEN-OH![®] is a pick 10 draw game in which players can win a top prize of \$500,000 by matching 10 of 20 numbers drawn. There are six other prizes including \$3 for matching none of the 20 numbers drawn. Drawings were both midday and evenings on Sunday through Saturday; however the game was discontinued in August 2012. Sales for fiscal year 2013 were \$0.8 million, or 0.03 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 2013 were \$251.5 million, or 9.3 percent of total Ohio Lottery sales.



POWERBALL is a multi-state, online 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 2013 were \$166.6 million or 6.1 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 2013, instant game sales equaled \$1.4 billion or 52.9 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.

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, 2013 there were 3,229 terminals. 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 Lottery’s revenue for fiscal year 2013 was \$165.5 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 2013, The Ohio Lottery transferred \$803.1 million to the LPEF, making this the highest profit transfer in the Lottery’s 38 year history, surpassing transfers made the prior year by \$32.1 million. This represented the eight consecutive year of profit growth. With this transfer, the Ohio Lottery has provided more than \$19.4 billion in profits to the State of Ohio. Additionally, several other milestones were achieved during fiscal year 2013.

- Presently, two of the seven racetracks/racinos are operational. Thistledown racetrack opened in April of 2013 with an estimated 1,100 Video Lottery Terminals (VLT’s). In Fiscal Year 2013, Thistledown generated approximately \$9.8 million in net revenue for the Ohio Lottery. Scioto Downs completed its first full year of VLT sales, generating \$45.7 million in net revenue.
- The Lottery benefited from two record-setting Powerball jackpots offered in fiscal year 2013. Although no grand jackpots were won in Ohio, the state benefited from the increase profits derived from these record-setting jackpots. Ohio retailers posted record Powerball sales of approximately \$39.7 million for the October 6 through November 28, 2012 sequence that ended with a \$587.5 million Powerball jackpot. Ohio Lottery players shared more than \$5.3 million in total prizes. In May of 2013, the Powerball jackpot reached another milestone by surpassing the November jackpot. For the jackpot sequence that ran from April 3 to May 18, 2013, Ohio retailers generated approximately \$33.5 million in sales for the \$590.5 million jackpot. Furthermore, Ohio Lottery players won nearly \$6.7 million in total prizes.
- In March 2013, a winning Mega Millions jackpot ticket was sold at a retailer in Westlake, Ohio. The \$41 million dollar jackpot was divided between fourteen employees of a local company, also headquartered in Westlake. The retailer earned a commission on the jackpot totaling \$41,000 for selling the winning ticket.
- 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 \$57.8 million.

- The EZPlay category was bolstered by the addition of two progressive style games in fiscal year 2013. The introduction of the “Perfect Game 300” was our first attempt at a progressive jackpot and was a big success. Sales for the EZPlay category increased more than 46 percent in fiscal year 2013. EZPlay now accounts for 2.5 percent of total Lottery sales, compared to 1.7 percent last year. The second EZPlay game, “Rock’n 777s,” debuted in the spring of fiscal year 2013 and now outperforms Perfect Game 300. Sales have increased 139 percent for the category since the introduction of the progressive play-style theme.
- In August of 2012, the Ohio Lottery introduced Pick 5, joining the “numbers” style game portfolio. The top prize on the Pick 5 game is \$50,000. Pick 5 exceeded sales projections and generated \$28 million in sales in fiscal year 2013. With the addition of Pick 5, sales for the daily number games increased slightly over the prior year.
- In September 2012, the Lottery introduced “Lucky 7’s Playbook,” a \$20 specialty book of six jewel-themed instant games, proved to be a popular addition to the Lottery’s instant game portfolio. With \$59.6 million in sales during the fiscal year, Lucky 7’s Playbook was the second highest selling instant game during the fiscal year. The release of Lucky 7’s Playbook was followed by a second playbook instant game, Mega \$\$\$ Multiplier, in April 2013.
- Sales for Keno and Booster were 19.9 percent more than the previous year, due in part to the decision in April 2013 to allow traditional Lottery retailers to sell Keno, known as “Keno to Go.” In addition, successful Keno promotions have helped contribute to this growth. Total sales in fiscal year 2013 were \$41.7 million or 19.9 percent more than in fiscal year 2012.
- The Partners in Education program completed its sixth 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.
- The Lottery continues to reach out to and interact with players using digital and social media technology. The Ohio Lottery’s Facebook page, which communicates directly with consumers, is nearing 25,000 “Likes.” The Ohio Lottery added a mobile app for Android and iPhone use in the later part of 2012. In June 2013, the mobile app software was upgraded to provide players with the ability to check their draw game tickets for winners right from their smart phone.
- During fiscal year 2013, the Ohio Lottery, in conjunction with the Ohio Attorney General and the Ohio Department of Job and Family Services, recovered more than \$887,000 from 538 prize winners who owed state debt or child support.
- The Ohio Lottery expanded its commitment to responsible gambling awareness in the community in Fiscal Year 2013. The Lottery instituted mandatory training of all Ohio Lottery employees regarding the significant societal issues associated with problem gambling and how to offer help to customers in need of it. The Lottery also helped in the responsible gambling training of newly hired VLT employees. The Lottery assisted Drug Free Action Alliance, operating under a grant from the Ohio Department of Drug and Alcohol Services, in prevention training for social work professionals throughout the state. The Lottery managed the transfer of the 24/7 problem gambling helpline to a new provider, 211 Services of United Way of Napoleon, Ohio. The Lottery conducted focus groups, based on the findings of the Problem Gambling Prevention Study, in support of the development of a state-wide problem gambling public awareness campaign to be launched by the Ohio for Responsible Gambling (ORG) initiative in 2014.
- 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 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 2014, the Ohio Lottery’s energies are being concentrated on the following projects:

- As lottery games available in the industry evolve, the Lottery will continue to evaluate available game options and prize matrices. The Lottery plans to benchmark Ohio’s sales results against peer lottery states and review best practices in order to optimize Ohio’s catalog of products. From time to time during the fiscal year, the Lottery plans to adjust both its instant ticket and online gaming product mix as necessary. Collaboration with the Lottery’s primary instant ticket and online gaming vendors will enhance the Lottery’s research and benchmarking efforts.
- Fiscal year 2014 will be an exciting yet challenging year for the Lottery, as we work in conjunction with the State Racing Commission to open video lottery terminals at the State’s five remaining racetracks. These racetracks will be phased in over a period of time over the course of the biennium.
- From September through November 2013, seven states (Ohio, New York, New Jersey, Michigan, Indiana, Oklahoma, and Iowa) will participate in a new “Multi-State Millions Raffle” game, with each ticket costing \$10 and entered into the same pot. In addition to two guaranteed \$1 million winners, additional million dollar prizes will be awarded based on sales. Each state without a \$1 million winner will be guaranteed a \$50,000 prize, ensuring a winner in every state. Ohio plans to add to the potential winnings by offering an Ohio made vehicle, cash cards and prize packs to customers purchasing tickets from the Ohio Lottery. The Lottery intends to explore further opportunities for multi-state partnerships throughout the year.
- The Mega Millions states have agreed to a new game matrix to help the Mega Millions jackpot roll faster and reach greater heights. The starting jackpot for the new Mega Millions game starts at \$15 million with subsequent increases of at least \$5 million per draw. Megaplier, the add-on game for Mega Millions, will also change. Non-jackpot prizes will now be multiplied by 2X, 3X, 4X, or 5X. The new Mega Millions game is scheduled to go on sale Sunday, October 20th.

- In January 2014, the Power Play matrix will be modified to reintroduce the multiplier feature. Power Play is an add-on game that is played only with the Powerball game. Players can add Power Play for an extra \$1 per board per wager. Power Play will multiply any non-jackpot prize won by 2X, 3X, 4X, or 5X.
- The Ohio Lottery purchased 1,500 Dual Jackpot Signs that will display both the Mega Millions and Powerball game. These signs will be 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.
- A planned Player Loyalty Club would 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. Player Loyalty Club benefits may include exclusive promotions and second chance drawings, a reward catalog, coupons and an advance on Lottery game news before the general public.
- The Ohio Lottery plans on implementing a dual communications system for top-selling and strategically located retailers. The dual communications system is comprised of a second telecommunication line that would automatically kick-in if the first line would fail due to inclement weather. Essentially, it is a back-up system that allows Lottery retailers to continue selling in the event that the first telecommunications line should fail.
- The Ohio Lottery is continually exploring ways to make Lottery play more convenient for our players. In the near future, 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.

ACCOUNTING SYSTEMS AND POLICIES

The Ohio Lottery operates under two enterprise funds, each using the full accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when incurred. The two Ohio Lottery funds are the Lottery Operating Fund and the Deferred Prizes Fund.

The Ohio Lottery's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Ohio Lottery are included in the statement of net 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, 2013 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 Auditor of State for approval. Results of these internal audits have been submitted to the Auditor of State for review and consideration in its financial audit.

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

- Maintain secure Ohio Lottery facilities with limited access.
- Perform background checks on retailers, contractors and Ohio Lottery employees.
- Print Lottery tickets with special paper, inks, dyes and security codes.
- Establish and execute detailed procedures for all game drawings.

- Contract with the Auditor of State as an independent witness to further ensure the integrity of our drawings, promotions and the television game show.
- Provide a variety of access and other controls in our computer systems.

FINANCIAL INFORMATION

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

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, 2012. This was the sixteenth 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 2013 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 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
Acting Finance Director



Dennis R. Berg, CPA, CFE
Executive Director





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

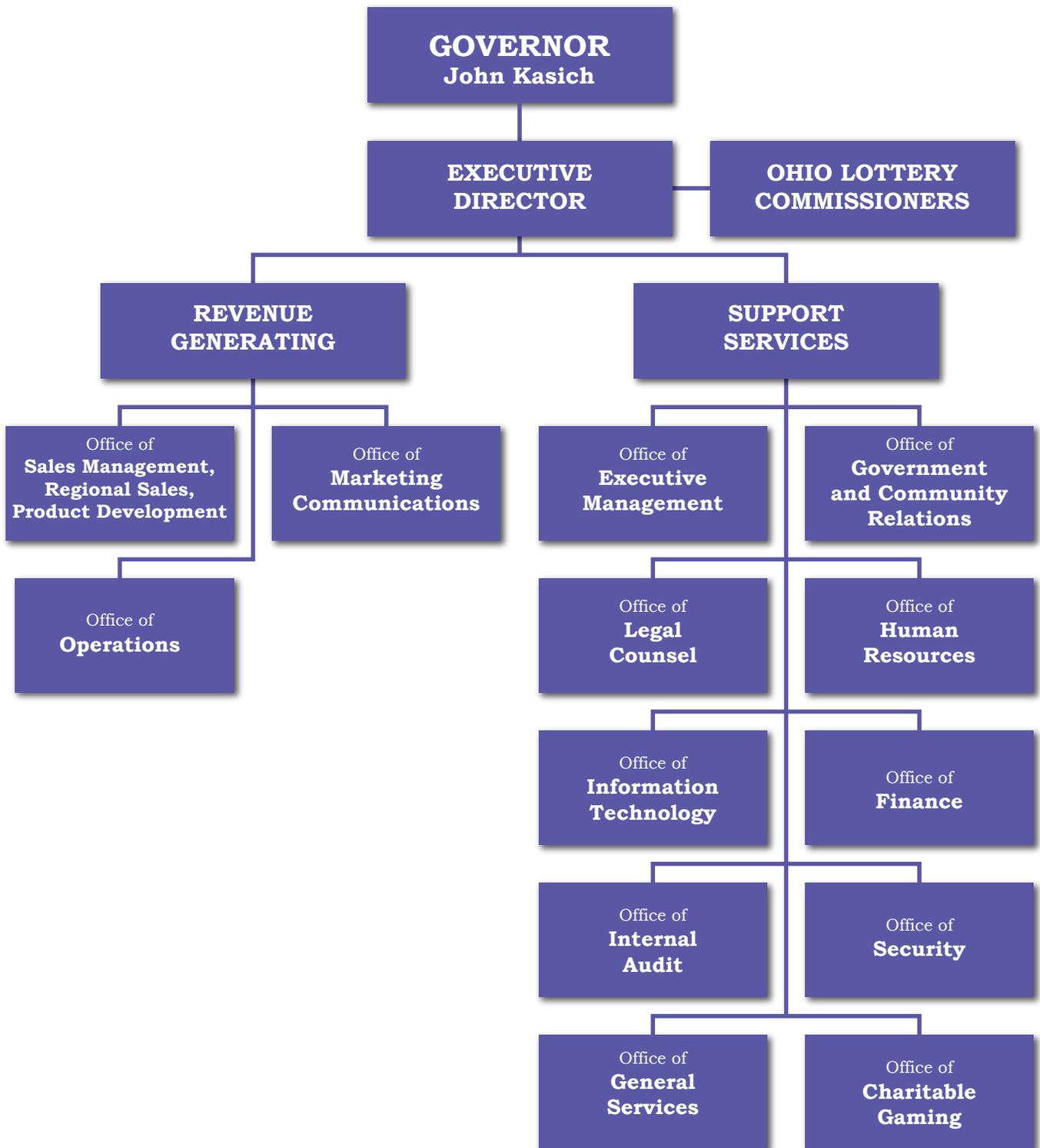
The Ohio Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

OHIO LOTTERY COMMISSION
STRUCTURE OF ORGANIZATION • FISCAL YEAR 2013



PRINCIPAL OFFICIALS

John R. Kasich

GOVERNOR OF OHIO

Dennis R. Berg

DIRECTOR

Patrick McDonald

COMMISSION CHAIR

Term ends 8/01/15

Clarence E. Mingo, II

COMMISSION VICE CHAIR

Term Ends 08/01/13

James Brady

COMMISSIONER

Term Ends 08/01/14

Allan C. Krulak

COMMISSIONER

Term Ends 8/01/15

John F. Lewis

COMMISSIONER

Term Ends 08/01/13

William Morgan

COMMISSIONER

Term Ends 8/01/15

Amy Sabath

COMMISSIONER

Term Ends 08/01/14

Elizabeth D. Vaci

COMMISSIONER

Term Ends 08/01/13

Michael G. Verich

COMMISSIONER

Term Ends 08/01/14

Resigned 05/31/13

• **FINANCIAL SECTION** •



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 of each major fund of Ohio Lottery Commission, Cuyahoga County, Ohio (the Commission), as of and for the year ended June 30, 2013, 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.

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 that 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, 2013, and the changes in its financial position and its 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, 2013, and the respective changes in financial position and, where applicable, cash flows, thereof for the Operating and Deferred 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, 2012, 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 responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these statements and schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling statements and schedules directly to the underlying 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, 2013, 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, 2013

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, 2013. 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 25.

FINANCIAL HIGHLIGHTS

- Traditional ticket sales decreased \$41.0 million, or 1.5 percent from the last fiscal year, resulting in overall sales of nearly \$2.7 billion.
- Online sales increased \$38.4 million, or 3.1 percent, over last year primarily due to strong sales for Powerball, aggressive recruitment of Keno/Booster retailers, the debut of the new Pick 5 game, and the introduction of a progressive play-style theme to the EZPlay game category.
- Instant ticket sales decreased \$79.4 million, or 5.3 percent, from fiscal year 2012 due to the proliferation of alternative gaming options throughout the State.
- Prize expense decreased \$12.8 million in fiscal year 2013 primarily due to the decrease in sales volume. Total prize expense for fiscal year 2013 represented 61.8 percent of total ticket sales compared to 61.4 percent in fiscal year 2012.
- Operating expenses increased from \$107.8 million to \$121.4 million, or 12.6 percent, from fiscal year 2012 to fiscal year 2013. This can be attributed to the costs incurred to open and regulate racinos.
- On June 1, 2012, the Ohio Lottery opened its first video lottery sales agent at Scioto Downs in Columbus. On April 9, 2013, the second video lottery sales agent was opened at Thistledown in Cleveland. Net VLT revenues totaled \$165.5 million for fiscal year 2013.
- The Ohio Lottery transferred a record \$803.1 million to the Lottery Profits Education Fund (LPEF) in 2013, \$32.1 million more than the 2012 transfer amount. This represented the eighth consecutive year of profit growth for the agency.
- The Ohio Lottery's total net position decreased \$67.4 million, or 28.3 percent, due to GASB adjustments and larger 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 ticket sales. Expenses of this fund represent primarily prize expenses (including cash transfers to the Deferred Prize Fund), operating expenses and transfers to the LPEF. Also included in this fund is activity associated with the Charitable Gaming Oversight Fund. Revenues are credited through reimbursements from the Office of the Attorney General in accordance with an agreement between the 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.

DEFERRED PRIZE FUND

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

The statement of net 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, 2013 compared to June 30, 2012.

TABLE 1: NET POSITION

(rounded thousands)

	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
Current Assets: Unrestricted	\$ 276,887	\$ 182,207
Current Assets: Restricted	188,182	236,832
Noncurrent Assets: Restricted	607,920	680,611
Net Capital Assets	<u>34,659</u>	<u>48,089</u>
Total Assets	1,107,648	1,147,739
Current Liabilities: Unrestricted	111,272	83,453
Current Liabilities: Restricted	283,182	236,833
Noncurrent Liabilities: Restricted and Unrestricted	<u>542,121</u>	<u>588,952</u>
Total Liabilities	936,575	909,238
Net Position:		
Invested in Capital Assets - Net of Related Debt	1,650	2,801
Restricted for Deferred Prizes	85,085	123,724
Unrestricted	<u>84,338</u>	<u>111,976</u>
Total Net Position	<u>\$ 171,073</u>	<u>\$ 238,501</u>

Total Assets decreased \$40.0 million. Current Assets - Unrestricted increased from \$182.2 million to \$276.9 million, an increase of \$94.7 million. The increase was primarily the result of VLT License Revenue. Cash and Cash Equivalents – VLT increased \$70 million, as license fees were received from VSLAs as agreed upon in the Memorandum of Understanding (MOU) between the VLT operators and the State, dated June 17, 2011. The MOU requires an applicant to deposit an initial application fee of \$10 million and an additional \$15 million upon commencement of sales; another \$25 million is due upon one year of operation. Current Assets – Restricted decreased from \$236.8 million in 2012 to \$188.2 million in 2013, a decrease of \$48.7 million. The primary reason for the decrease was a result of decreased secured lending balances. Noncurrent Assets – Restricted, which is comprised of investments dedicated to the payment of the Ohio Lottery's long-term annuity prizes, decreased from \$680.6 million in 2012 to \$607.9 million in 2013. The decrease is mainly the result of less grand prize winners selecting the annuity option as opposed to the cash option.

Total Liabilities increased \$27.3 million. Current Liabilities – Unrestricted increased by \$27.8 million primarily due to the increase in prize awards payable. Current Liabilities - Restricted increased \$46.3 million primarily as a result of a payment due to the Ohio School Facilities Commission as prescribed in House Bill 482. Noncurrent liabilities decreased \$46.8 million as a result of a combination of the decrease in capital lease payable and a decrease in prize awards payables to prize winners who selected annuities.

The Ohio Lottery's financial activity resulted in a \$67.4 million decrease in net position primarily due to GASB adjustments and larger payments to education.

Table 2 shows the change in the Ohio Lottery's net position for fiscal year 2013 compared to fiscal year 2012, including revenue and expense comparisons.

TABLE 2: CHANGES IN NET POSITION

(rounded thousands)

	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
Ticket Sales	\$ 2,697,921	\$ 2,738,975
VLT and License Revenues	235,604	36,127
Other Operating Revenues	6,248	6,635
Non-Operating Revenues	<u>-</u>	<u>79,123</u>
Total Revenues	2,939,773	2,860,860
Prize Awards	1,668,038	1,680,790
Bonuses and Commissions	166,919	172,037
Commissions - VLT	110,074	7,365
Operating Expenses	121,448	107,831
Non-Operating Expenses	137,591	34,001
Payments to the Lottery Profits Education Fund	<u>803,131</u>	<u>771,029</u>
Total Expenses	3,007,201	2,773,053
Change in Net Position	(67,428)	87,807
Total Net Position - Beginning	<u>238,501</u>	<u>150,694</u>
Total Net Position - Ending	<u>\$ 171,073</u>	<u>\$ 238,501</u>

TICKET SALES BY GAME AND VLT REVENUE: FISCAL YEARS 2013 AND 2012*(rounded thousands)*

	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
Pick 3	\$ 345,199	\$ 357,404
Pick 4	189,788	207,932
Pick 5	27,985	-
Rolling Cash 5	61,512	63,791
Classic Lotto	41,493	42,282
Raffle	9,137	10,000
Kicker	5,078	883
Mega Millions/Megaplier	102,776	179,297
EZ Play	67,996	46,481
Ten-Oh	801	8,324
Keno/Booster	251,533	209,777
Powerball/Power Play	<u>166,564</u>	<u>105,340</u>
Total Online Sales	1,269,862	1,231,511
Instant	<u>1,428,059</u>	<u>1,507,464</u>
Total Sales	<u>2,697,921</u>	<u>2,738,975</u>
VLT Revenue	165,525	11,076
VLT License Revenue	70,036	25,051
VLT Expired Voucher Revenue	<u>43</u>	<u>-</u>
Total VLT Revenue	235,604	36,127
Total Ticket Sales and VLT Revenue	<u>\$ 2,933,525</u>	<u>\$ 2,775,102</u>

The Ohio Lottery generated nearly \$2.7 billion in ticket sales in fiscal year 2013, an overall decrease of \$41.0 million or 1.5 percent as compared to fiscal year 2012. Online ticket sales increased \$38.4 million, primarily as a result of higher Powerball jackpots offered during the year, positive results from Keno, EZPlay sales and the launch of Pick 5. Mega Millions sales decreased from last fiscal year as there were no significant jackpots. Keno/Booster sales continue to perform well as the number of Keno retailers increased. EZPlay sales increased as the Lottery introduced new progressive style-themed games.

Instant ticket sales decreased \$79.4 million, while generating a \$1.4 billion in fiscal year 2013. The decrease in instant ticket sales can be attributed to the proliferation of increased gaming options throughout the State. Decreases in instant ticket sales were expected in anticipation of the opening of four new casinos and multiple racinos throughout the year. As additional racinos are planned to open in fiscal year 2014, the Lottery will continue to re-evaluate prize structures and work with its gaming vendor to analyze and provide precise initial allocations for new game releases. Other enhancements such as introducing a player loyalty club are being considered to increase instant ticket sales.

OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION: FISCAL YEARS 2013 AND 2012*(rounded thousands)*

	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
Prize Awards	\$ 1,668,038	\$ 1,680,790
Bonuses/Commissions	166,919	172,037
Commissions - VLT	110,074	7,365
Operating Expense	121,448	107,831
Payments to Education	<u>803,131</u>	<u>771,029</u>
Total	<u>\$ 2,869,610</u>	<u>\$ 2,739,052</u>

Prize awards decreased by \$12.8 million, due to lower sales volume. Bonuses/Commissions also decreased due to the lower sales volume. Commissions- VLT increased \$102.7 million due to the full year of operations for Scioto Downs and the opening of the second racino at Thistledown. Operating expenses increased by \$13.6 million due to the costs incurred to open and regulate the racinos. Payments to education increased \$32.1 million. This can be attributed to the increased in VLT Revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

Table 3 below summarizes the Ohio Lottery's capital assets at the end of 2013 and 2012.

TABLE 3: CAPITAL ASSETS (NET OF DEPRECIATION)

(rounded thousands)

	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
Equipment	\$ 33,593	\$ 46,748
Vehicles	<u>1,066</u>	<u>1,341</u>
Total Net Capital Assets	<u>\$ 34,659</u>	<u>\$ 48,089</u>

As of June 30, 2013, the Ohio Lottery had \$34.7 million, net of accumulated depreciation, in Capital Assets. The decrease in Net Capital Assets is a result of depreciation taken in 2013. 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 four 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 deferred prize awards payable, which is payable from restricted assets. Prize Awards Payable from Restricted Assets – Net of Discount decreased \$26.6 million as prior long-term annuities are being paid off at a faster pace than new annuities are being 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 Ohio Lottery's accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Ohio Lottery's Finance Director at the Ohio Lottery Commission, 615 W. Superior Avenue, Cleveland, Ohio 44113-1879. You may also access more information about the Ohio Lottery by visiting the Ohio Lottery's website at www.ohiolottery.com.

OHIO LOTTERY COMMISSION
STATEMENT OF NET POSITION - MAJOR FUNDS
JUNE 30, 2013
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2012)
(rounded thousands)

			<u>TOTALS</u>	
	<u>OPERATING</u>	<u>DEFERRED</u>	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
ASSETS:				
Current Assets - Unrestricted				
Cash and Cash Equivalents	\$ 18,169	\$ -	\$ 18,169	\$ 13,484
Cash Equity with Treasurer of State	108,561	-	108,561	92,853
Cash and Cash Equivalents Video Lottery	70,003	-	70,003	-
Collateral on Lent Securities	12,928	-	12,928	13,051
Receivables from Agents, Net	57,697	-	57,697	51,151
Due From Other State Agencies	1,518	-	1,518	1,518
Other Assets	8,011	-	8,011	10,150
Total Current Assets - Unrestricted	<u>276,887</u>	<u>-</u>	<u>276,887</u>	<u>182,207</u>
Current Assets - Restricted				
Cash Equity with Treasurer of State	-	20	20	8
Dedicated Investments	-	50,712	50,712	46,230
Collateral on Lent Securities	-	135,635	135,635	188,436
Interest Receivable	-	1,815	1,815	2,158
Total Current Assets - Restricted	<u>-</u>	<u>188,182</u>	<u>188,182</u>	<u>236,832</u>
Total Current Assets	<u>276,887</u>	<u>188,182</u>	<u>465,069</u>	<u>419,039</u>
Noncurrent Assets				
Dedicated Investments, Restricted	-	607,920	607,920	680,611
Capital Assets				
Equipment	117,953	-	117,953	110,469
Vehicles	2,777	-	2,777	3,036
Accumulated Depreciation	(86,071)	-	(86,071)	(65,416)
Net Position, Investment in Capital Assets	34,659	-	34,659	48,089
Total Noncurrent Assets	<u>34,659</u>	<u>607,920</u>	<u>642,579</u>	<u>728,700</u>
TOTAL ASSETS	<u>311,546</u>	<u>796,102</u>	<u>1,107,648</u>	<u>1,147,739</u>
LIABILITIES				
Current Liabilities - Unrestricted				
Accounts Payable	7,239	-	7,239	4,542
Prize Awards Payable	64,862	-	64,862	42,871
Obligations under Securities Lending	12,928	-	12,928	13,051
Capital Lease Payable - Current	22,587	-	22,587	19,821
Unearned Revenue	1,202	-	1,202	993
Other Liabilities	1,961	-	1,961	1,965
Due to Other Lotteries	493	-	493	210
Total Current Liabilities - Unrestricted	<u>111,272</u>	<u>-</u>	<u>111,272</u>	<u>83,453</u>
Current Liabilities - Restricted				
Due to other State Agencies	95,000	-	95,000	-
Obligations under Securities Lending	-	135,635	135,635	188,436
Prize Awards Payable - Net of Discount	-	52,547	52,547	48,397
Total Current Liabilities - Restricted	<u>95,000</u>	<u>188,182</u>	<u>283,182</u>	<u>236,833</u>
Total Current Liabilities	<u>206,272</u>	<u>188,182</u>	<u>394,454</u>	<u>320,286</u>
Noncurrent Liabilities:				
Prize Awards Payable from Restricted Assets - Net of Discount	-	527,065	527,065	557,821
Capital Lease Payable - Long-Term	10,422	-	10,422	25,468
Workers' Compensation	1,657	-	1,657	2,549
Compensated Absences	2,977	-	2,977	3,114
Total Noncurrent Liabilities	<u>15,056</u>	<u>527,065</u>	<u>542,121</u>	<u>588,952</u>
TOTAL LIABILITIES	<u>221,328</u>	<u>715,247</u>	<u>936,575</u>	<u>909,238</u>
NET POSITION				
Net Investment in Capital Assets	1,650	-	1,650	2,801
Restricted for Net Unrealized Gains on Restricted Investments	-	85,085	85,085	123,724
Unrestricted	88,568	(4,230)	84,338	111,976
TOTAL NET POSITION	<u>\$ 90,218</u>	<u>\$ 80,855</u>	<u>\$ 171,073</u>	<u>\$ 238,501</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, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)
(rounded thousands)

	<u>OPERATING</u>	<u>DEFERRED</u>	<u>TOTALS</u>	
			<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
REVENUES				
Ticket Sales	\$ 2,697,921	\$ -	\$ 2,697,921	\$ 2,738,975
VLT Revenue, Net	165,525		165,525	11,076
VLT License Revenue	70,036		70,036	25,051
VLT Expired Vouchers	43		43	-
Other Revenues	<u>6,204</u>	<u>44</u>	<u>6,248</u>	<u>6,635</u>
Total Operating Revenues	2,939,729	44	2,939,773	2,781,737
EXPENSES				
Prizes, Bonuses and Commissions				
Prize Awards	1,648,932	19,106	1,668,038	1,680,790
Bonuses and Commissions	166,919	-	166,919	172,037
VLT Commissions	<u>110,074</u>	<u>-</u>	<u>110,074</u>	<u>7,365</u>
Total Prizes, Bonuses and Commissions	1,925,925	19,106	1,945,031	1,860,192
Operating Expenses				
Personal Services	63,752	-	63,752	53,968
Maintenance and Equipment	36,106	-	36,106	33,270
Depreciation	21,576	-	21,576	20,575
Other Expenses	<u>14</u>	<u>-</u>	<u>14</u>	<u>18</u>
Total Operating Expenses	<u>121,448</u>	<u>-</u>	<u>121,448</u>	<u>107,831</u>
OPERATING INCOME (LOSS)	892,356	(19,062)	873,294	813,714
Non-Operating Revenues (Expenses):				
Interest Income	321	(8,169)	(7,848)	79,105
Amortization of Prize Liabilities	-	(32,785)	(32,785)	(31,041)
Gain (Loss) on Equipment Disposal	(24)	-	(24)	18
Interest Expense on Capital Lease	(1,656)	-	(1,656)	(2,652)
Interest Expense - Borrower Rebates	-	(267)	(267)	(284)
Securities Lending Agent Fees	-	(11)	(11)	(24)
Payments to the Lottery Profits Education Fund	<u>(898,131)</u>	<u>-</u>	<u>(898,131)</u>	<u>(771,029)</u>
Total Non-Operating Expenses, Net	<u>(899,490)</u>	<u>(41,232)</u>	<u>(940,722)</u>	<u>(725,907)</u>
INCOME (LOSS) BEFORE TRANSFERS	(7,134)	(60,294)	(67,428)	87,807
TRANSFERS:				
Transfers to Deferred Prize Trust Fund	<u>(18,360)</u>	<u>18,360</u>	<u>-</u>	<u>-</u>
Total Transfers	<u>(18,360)</u>	<u>18,360</u>	<u>-</u>	<u>-</u>
Change in Net Position	(25,494)	(41,934)	(67,428)	87,807
Total Net Position - Beginning	<u>115,712</u>	<u>122,789</u>	<u>238,501</u>	<u>150,694</u>
TOTAL NET POSITION - ENDING	<u>\$ 90,218</u>	<u>\$ 80,855</u>	<u>\$ 171,073</u>	<u>\$ 238,501</u>

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, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

(rounded thousands)

	TOTALS			
	OPERATING	DEFERRED	JUNE 30, 2013	JUNE 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Sales	\$ 2,857,109	\$ -	\$ 2,857,109	\$ 2,740,695
Cash Received from Multi-State Lottery for Grand Prize Winners	29,993	-	29,993	65,382
Cash Payments for Prize Awards	(1,655,774)	(78,498)	(1,734,272)	(1,815,895)
Cash Payments for Bonuses and Commissions	(276,993)	-	(276,993)	(179,402)
Cash Payments for Goods and Services	23,540	-	23,540	(65,148)
Cash Payments to Employees	(25,473)	-	(25,473)	(25,266)
Other Operating Revenues	76,283	44	76,327	31,686
Other Operating Expenses	(14)	-	(14)	(18)
Net Cash Provided (Used) by Operating Activities	<u>1,028,671</u>	<u>(78,454)</u>	<u>950,217</u>	<u>752,034</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payments to the Lottery Profits Education Fund	(898,131)	-	(898,131)	(771,029)
Transfers In	-	18,360	18,360	9,902
Transfers Out	(18,360)	-	(18,360)	(9,902)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>(916,491)</u>	<u>18,360</u>	<u>(898,131)</u>	<u>(771,029)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Property and Equipment	(283)	-	(283)	(1,333)
Proceeds from Sale of Property and Equipment	51	-	51	108
Repayment of Equipment Obligation	(20,217)	-	(20,217)	(18,156)
Interest Paid on Equipment Obligation	(1,656)	-	(1,656)	(2,652)
Net Cash Used by Capital and Related Financing Activities	<u>(22,105)</u>	<u>-</u>	<u>(22,105)</u>	<u>(22,033)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	321	8,485	8,806	9,688
Interest Expense and Agent Fees	-	(278)	(278)	(309)
Proceeds from the Sale and Maturity of Investments	-	164,858	164,858	143,027
Purchase of Investments	-	(112,959)	(112,959)	(83,689)
Securities Lending Proceeds	12,928	135,635	148,563	201,487
Securities Lending Payments	(12,928)	(135,635)	(148,563)	(201,487)
Net Cash Provided (Used) by Investing Activities	<u>321</u>	<u>60,106</u>	<u>60,427</u>	<u>68,717</u>
Net Increase (Decrease) in Cash & Cash Equivalents	<u>90,396</u>	<u>12</u>	<u>90,408</u>	<u>27,689</u>
Cash and Cash Equivalents - Beginning	<u>106,337</u>	<u>8</u>	<u>106,345</u>	<u>78,656</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 196,733</u>	<u>\$ 20</u>	<u>\$ 196,753</u>	<u>\$ 106,345</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 892,356	\$ (19,062)	\$ 873,294	\$ 813,714
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	21,576	-	21,576	20,575
Amortization of Discount of Prize Liabilities	-	32,786	32,786	31,041
Net Changes in Assets and Liabilities				
Receivables from Agents - Net	(6,546)	-	(6,546)	(8,580)
Other Assets	2,141	-	2,141	(1,797)
Prize Awards Payable	21,991	-	21,991	(462)
Accounts Payable	2,696	-	2,696	(2,254)
Other Liabilities	95,278	-	95,278	(74)
Unearned Revenue	208	-	208	(776)
Prize Awards Payable from Restricted Assets - Net of Discount	-	(92,178)	(92,178)	(98,936)
Accrued Workers' Compensation	(891)	-	(891)	(245)
Compensated Absences	(138)	-	(138)	(172)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,028,671</u>	<u>\$ (78,454)</u>	<u>\$ 950,217</u>	<u>\$ 752,034</u>

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

Non-Cash items included in investment income were (38.6) million and 46.6 million of unrestricted net gains/losses for the years ended June 30, 2013 and June 30, 2012, respectively. During fiscal year 2013 the Ohio Lottery acquired gaming equipment amounting to 7.9 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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The Ohio Lottery is required by law to transfer all of its net profits from the sale of lottery tickets to the Lottery Profits Education Fund (LPEF) of the State. The amounts transferred are determined by the Director of the Office of Budget and Management (OBM) 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. 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 Deferred Prize Fund and Charitable Gaming Oversight Fund. All financial activity related to the Charitable Gaming Oversight Fund is presented within the Lottery Operating Fund for purposes of this financial report.

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 Deferred Prize Trust Fund; (3) transfers to the LPEF of the State; and (4) transfers to other State agencies to support centralized services.

DEFERRED PRIZE FUND

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

CHARITABLE GAMING OVERSIGHT FUND

In fiscal year 2005, the 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 \$1,158,000 were recorded and \$1,264,000 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.

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, 2013 and 2012 of \$50,500 and \$209,000 respectively is based on an analysis of historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

RESTRICTED ASSETS

Restricted assets represent amounts restricted for the payment of deferred prize awards 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 deferred prizes. Amounts necessary to fund deferred prizes awarded shortly before the end of the fiscal year that will be used to acquire additional equity in State of Ohio general investments in the succeeding year, if any, are recorded as amounts "due from unrestricted assets" in the accompanying statement of net position. In fiscal year 2006, the Ohio Lottery adopted a new method of providing investment capital for future deferred prize payments by purchasing individual securities to fund a specific prize obligation.

CAPITAL ASSETS

Capital assets are defined as assets with an initial, individual cost of more than \$1,000, or otherwise classified as sensitive items as described in 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 deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized over the terms of the obligations using the interest method, and the amortization is recognized as a non-operating expense.

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 OPERATIONS

Video lottery operations opened at Scioto Downs in Columbus Ohio last fiscal year and in April 2013 at Thistledown in Cleveland, Ohio. As of June 30, 2013 the VLSA's had 3,229 VLTs operating. 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 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, 2013, VLT revenue was \$165.5 million with \$110.1 million paid to VLSA as VLT commission.

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

Payments to the Lottery Profits Education Fund totaled \$898,131,000. Of this amount, \$803,131,000 represents profits transferred to the Lottery Profits Education Fund. The residual \$95,000,000 represents a payment due to the Ohio School Facilities Commission, as prescribed in HB 482. This amount represents license fees collected from the VLT operators as directed in a memorandum of understanding between the State and the VLT Operators, dated June 17, 2011. The amounts 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 video lottery terminal income. The VLT terminal income is calculated as follows: credit(s) played, less value credits, less video lottery prize winnings.

FUND EQUITY CLASSIFICATIONS

Fund equity is classified as net position and displayed in four 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. Upon inception, retailers are required to carry a minimum bond of \$15,000. On a yearly basis, the retailers' required coverage is based on an evaluation of their average annual sales. The minimum 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, 2013, 2012, and 2011. No significant payments were made or liabilities recorded during the years ended June 30, 2013, 2012, and 2011 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 the DAS to cover motor vehicle liability related to bodily injury and property damage for a maximum of \$1,000,000 per occurrence. The Ohio Lottery retains the risk for any liability exceeding this limit.

The State provides an option to eligible Ohio Lottery employees to participate in either the Ohio Med PPO Health Plan or United Healthcare, which was established as a fully self-insured health benefit plan. The plan is administered by Medical Mutual of Ohio under a claims administration contract with the State. The Ohio Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contributed \$33.28 for single and \$96.77 for family coverage per pay period, while the Ohio Lottery contributed \$187.53 for single and \$514.60 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 OhioMed Health Plan were \$1,279,000 and \$1,267,000 for the years ended June 30, 2013 and 2012, 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 deferred prizes) are recorded when paid in cash or encumbered (budget) as opposed to when the liability is incurred (GAAP).
- The budget basis excludes depreciation and amortization, as well as gains and losses on the disposition of equipment.

The Ohio Lottery maintains budgetary control by not permitting 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. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB No. 61, "The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No.34", GASB 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred inflows of Resources, and Net Position" and GASB 65 "Items Previously Reported as Assets and Liabilities". GASB 62, GASB 63 and GASB 65 were implemented by the Ohio Lottery. GASB 60 and GASB 61 has 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, 2012, 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, 2013, 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 \$88,172,000.

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, 2013 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	\$ 159,217	AAA/Aaa	\$ 54,056	\$ 105,160	\$ -	\$ -
U.S. Government Strips	214,090	AAA/Aaa	14,669	57,633	62,299	79,489
U.S. Agency Strips	283,742	AAA/Aaa	5,093	127,005	130,398	21,246
Total Investments	657,049		73,818	289,798	192,697	100,735
Investments not required to be categorized						
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)	1,583	AAA/Aaa	1,583	-	-	-
Equity in State of Ohio Common Cash & Investments	108,581		108,581	-	-	-
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	12,928		12,928	-	-	-
Total Lottery Commission - Structured Investments, as of June 30, 2013	\$ 780,141		\$ 196,910	\$ 289,798	\$ 192,697	\$ 100,735

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.

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 Funds10% 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, 2013. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

As of June 30, 2013, the total carrying amount of deposits and investments categorized and disclosed in this note is \$1,003,948,000. This amount can be reconciled to the statement of net position as follows:

<i>(rounded thousands)</i>	<u>DEPOSITS</u>	<u>INVESTMENTS</u>	<u>TOTAL</u>
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 18,169	\$ -	\$ 18,169
Cash Equity with Treasurer of State	-	108,561	108,561
Cash and Cash Equivalents - Video Lottery	70,003	-	70,003
Collateral on Lent Securities	-	12,928	12,928
Restricted Assets:			
Cash Equity with Treasurer of State	-	20	20
Dedicated Investments	-	658,632	658,632
Collateral on Lent Securities	-	135,635	135,635
Total - per Statement of Net Assets	<u>\$ 88,172</u>	<u>\$ 915,776</u>	<u>\$ 1,003,948</u>

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.

<i>(rounded thousands)</i>			
<u>BORROWER OWES TO LENDER</u>		<u>LENDER OWES TO BORROWER</u>	
MV of Loaned Securities	\$ 132,577	Cash Collateral	\$ 135,666
Unpaid Distributions	-	Unpaid Distributions	-
Accrued Premiums	-	Accrued Rebates	2
Total	<u>\$ 132,577</u>	Total	<u>\$ 135,668</u>

Since the Lender owes the Borrowers \$3,091,000 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2013.

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, 2013 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 2013, 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 2013 due to prior-period losses.

INVESTMENT TYPE <i>(rounded thousands)</i>	FAIR VALUE	CREDIT QUALITY RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1	1-5	6-10	>10
Repurchase Agreements	\$ 65,809	AA/Aa A/A-1 BBB/Baa/A-2	\$ 65,809	\$ -	\$ -	\$ -
U.S. Government Obligation Strips	-		-	-	-	-
U.S. Agency and Instrumentality Obligations	-		-	-	-	-
U.S. Agency and Instrumentality Obligations Strips	-		-	-	-	-
Corporate Bonds and Notes	21,540	AA/Aa A/A-1	21,540			
Certificates of Deposits (Negotiable)	-		-			
Commercial Paper	34,794	A/A-1 BBB/Baa/A-2	34,794			
Other Investments:						
Master Note	-		-	-	-	-
Variable Rate Note	-		-	-	-	-
Investments Not Required to be Categorized:						
Money Market Funds	13,490	AAA/Aaa	13,490			
Allocated Cash Collateral (1)	2		2			
Total - Investments made with Cash Collateral, as of June 30, 2013	\$ 135,635		\$ 135,635	\$ -	\$ -	\$ -

(1) The Ohio Lottery has been allocated \$2,000 cash collateral bases 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, 2013 and 2012 was as follows:

<i>(rounded thousands)</i>	2012	INCREASES	DECREASES	2013
Capital Assets				
Equipment	\$ 110,469	\$ 8,131	\$ 647	\$ 117,953
Vehicles	3,036	89	348	2,777
Total Capital Assets	113,505	8,220	995	120,730
Less Accumulated Depreciation:				
Equipment	(63,721)	(21,270)	631	(84,360)
Vehicles	(1,695)	(306)	290	(1,711)
Total Accumulated Depreciation	(65,416)	(21,576)	921	(86,071)
Net Capital Assets	\$ 48,089	\$ (13,356)	\$ 74	\$ 34,659
	2011	INCREASES	DECREASES	2012
Capital Assets				
Equipment	\$ 104,322	\$ 6,147	\$ 0	\$ 110,469
Vehicles	2,825	623	412	3,036
Total Capital Assets	107,147	6,770	412	113,505
Less Accumulated Depreciation:				
Equipment	(43,450)	(20,271)	0	(63,721)
Vehicles	(1,712)	(304)	321	(1,695)
Total Accumulated Depreciation	(45,162)	(20,575)	321	(65,416)
Net Capital Assets	\$ 61,985	\$ (13,805)	\$ 91	\$ 48,089

The Ohio Lottery has entered into a capital lease for gaming services and leased equipment with Intralot. During fiscal year 2013, additional equipment acquired amounted to \$7,936,966, per an addendum, and recorded at cost. The length of the contract is two years, with four optional two-year renewals; the Lottery has exercised the first 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)

	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
ASSET		
Computer Equipment and Systems	\$ 101,413	\$ 93,476
Accumulated Depreciation	<u>(70,401)</u>	<u>(51,123)</u>
TOTAL	<u>\$ 31,012</u>	<u>\$ 42,353</u>

FUTURE MINIMUM LEASE PAYMENTS AND PRESENT VALUE OF THE REMAINING MINIMUM LEASE PAYMENTS

(rounded thousands)

<u>FISCAL YEAR ENDING JUNE 30,</u>	<u>AMOUNT</u>
2014	\$ <u>18,813</u>
Total Minimum Lease Payments	18,813
Less: Amount for Interest	<u>(597)</u>
Present Value of Minimum Lease Payments	<u>\$ 18,216</u>

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2013 and 2012 consist of the following:

(rounded in thousands)

	<u>JUNE 30, 2013</u>	<u>JUNE 30, 2012</u>
Current portion - face amount	\$ 79,646	\$ 78,439
Less: Unamortized discount	<u>(27,099)</u>	<u>(30,042)</u>
Current portion - present value	52,547	48,397
Noncurrent portion - face amount	681,470	736,697
Less: Unamortized discount	<u>(154,405)</u>	<u>(178,876)</u>
Noncurrent portion - present value	527,065	557,821
Total Prize Awards Payable - Net of Discount	<u>\$ 579,612</u>	<u>\$ 606,218</u>

Interest rates used to determine the present values ranged from 2.3 percent to 9.0 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2013 is summarized as follows:

FISCAL YEAR ENDING JUNE 30

(rounded in thousands)

	<u>AMOUNT</u>
2014	\$ 79,646
2015	78,499
2016	78,475
2017	70,987
2018	64,393
2019 through 2023	221,123
2024 through 2028	100,975
2029 through 2033	61,859
2034 through 2038	4,328
2039 thereafter	<u>831</u>
Subtotal	761,116
Unamortized Discount	<u>(181,504)</u>
Net Prize Liability	<u>\$ 579,612</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 \$319 million and \$311 million for the years ended June 30, 2013 and 2012, respectively.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2013 and 2012 is as follows:

<i>(rounded thousands)</i>	<u>2013</u>	<u>2012</u>
Accrued Liabilities	\$ 1,342	\$ 1,324
Worker's Compensation - Current Portion	147	153
Compensated Absences - Current Portion	<u>472</u>	<u>488</u>
Total	<u>\$ 1,961</u>	<u>\$ 1,965</u>

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2013 and 2012 was as follows:

<i>(rounded thousands)</i>	<u>2012</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>2013</u>
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	<u>3,114</u>	<u>2,397</u>	<u>(2,534)</u>	<u>2,977</u>
Total Noncurrent Liabilities	<u>\$ 588,952</u>	<u>\$ 58,075</u>	<u>\$ (104,906)</u>	<u>\$ 542,121</u>

<i>(rounded thousands)</i>	<u>2011</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>2012</u>
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 597,623	\$ 38,407	\$ (78,209)	\$ 557,821
Capital Lease Payable - Long-term	40,417	5,438	(20,387)	25,468
Accrued Workers' Compensation	2,794	-	(245)	2,549
Compensated Absences	<u>3,286</u>	<u>2,703</u>	<u>(2,875)</u>	<u>3,114</u>
Total Noncurrent Liabilities	<u>\$ 644,120</u>	<u>\$ 46,548</u>	<u>\$ (101,716)</u>	<u>\$ 588,952</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 \$52.5 million and \$48.3 million for the years ended June 30, 2013 and June 30, 2012, 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 2012 member and employer contribution rates were consistent across all three plans (TP, MD and CO). The 2012 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, 2013, 2012, and 2011 were \$1,713,000, \$1,636,000, and \$1,697,000 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. The 2012 calendar year employer contribution rate for State employers was 14 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). The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.1 percent during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to one 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

Active members do not make contributions to the post-employment health care plan. In fiscal years 2013, 2012 and 2011, \$709,000, \$692,000, and \$813,000, respectively, of the Ohio Lottery's total contributions to OPERS were used for post-employment benefits.

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 experts 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** •

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)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Change in Net Position										
Plus: Total Operating Revenues	\$2,166.6	\$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
Less: Total Prizes, Bonuses and Commissions	1,408.8	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
Less: Total Operating Expenses	97.7	97.7	109.8	109.8	110.3	124.3	109.4	109.3	107.8	121.4
Operating Income (Loss)	\$ 660.1	\$ 652.5	\$ 666.5	\$ 679.0	\$ 681.6	\$ 692.5	\$ 722.2	\$ 734.6	\$ 813.7	\$ 873.3
Plus: Non-Operating Income	(12.3)	90.5	22.3	60.4	88.0	55.8	76.3	24.1	79.1	0.0
Less: Non-Operating Expense	69.5	69.3	65.0	109.3	53.9	41.2	40.0	37.8	34.0	137.6
Less: Transfers	655.6	645.1	646.3	669.3	672.2	702.3	728.6	738.8	771.0	803.1
Change in Net Position	\$ (77.3)	\$ 28.6	\$ (22.5)	\$ (39.2)	\$ 43.5	\$ 4.8	\$ 29.9	\$ (17.9)	\$ 87.8	\$ (67.4)
Change in Net Position	(77.3)	28.6	(22.5)	(39.2)	43.5	4.8	29.9	(17.9)	87.8	(67.4)
Total Net Position - Beginning	200.8	123.5	152.1	129.6	90.4	133.9	138.7	168.6	150.7	238.5
Total Net Position - Ending	\$ 123.5	\$ 152.1	\$ 129.6	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6	\$ 150.7	\$ 238.5	\$ 171.1

OHIO LOTTERY - NET POSITION • LAST TEN FISCAL YEARS

(in millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Change in Net Position										
Invested in Capital Assets										
- Net of Related Debt	\$ 0.3	\$ 0.7	\$ 2.9	\$ 2.7	\$ 4.4	\$ 5.6	\$ 7.9	\$ 4.0	\$ 2.8	\$ 1.7
Restricted for Deferred Prizes	-	-	5.4	1.6	1.0	1.4	-	-	-	-
Restricted for Net Unrealized Gains/(Losses) on Restricted Assets	90.2	112.1	61.7	12.3	43.3	55.7	87.4	77.1	123.7	85.1
Unrestricted	33.0	39.3	59.6	73.8	85.2	76.0	73.3	69.6	112.0	84.3
Total Net Position	\$ 123.5	\$ 152.1	\$ 129.6	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6	\$ 150.7	\$ 238.5	\$ 171.1

OHIO LOTTERY - CAPITAL ASSETS

(in millions)

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

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

REVENUES • LAST TEN FISCAL YEARS

(in millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Online Ticket Sales										
Pick 3	\$ 396.8	\$ 387.7	\$ 377.3	\$ 370.9	\$ 387.1	\$ 382.5	\$ 366.7	\$ 364.4	\$ 357.4	\$ 345.2
Pick 4	165.2	170.1	175.7	183.0	198.8	205.9	201.3	209.0	207.9	189.8
Pick 5	-	-	-	-	-	-	-	-	-	28.0
Buckeye 5/Rolling Cash 5 (1)	66.6	74.8	72.6	72.9	70.5	67.2	67.1	62.4	63.8	61.5
Super Lotto Plus/Lot O' Play (2)	143.8	113.0	76.3	21.8	-	-	-	-	-	-
Classic Lotto (3)	-	-	-	21.8	41.2	43.9	42.8	42.7	42.3	41.5
Raffle	-	-	-	17.8	10.0	9.3	9.1	10.0	10.0	9.1
Kicker (5)	24.5	19.9	21.6	21.3	21.4	21.4	24.1	10.3	0.9	5.1
Mega Millions/Megaplier (5)	191.8	176.4	223.4	196.1	201.0	193.0	215.8	165.0	179.3	102.8
EZ Play	-	-	-	-	12.3	34.3	30.4	30.9	46.5	68.0
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
Powerball/Power Play (4)	-	-	-	-	-	-	23.6	76.4	105.3	166.6
Total Online Ticket Sales	988.7	941.9	946.9	905.6	960.3	1,068.3	1,111.2	1,138.2	1,231.5	1,269.9
Instant Games Sales	1,166.0	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
Total Ticket Sales	2,154.7	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
VLT Revenue	-	-	-	-	-	-	-	-	11.1	165.5
VLT License Revenue	-	-	-	-	-	-	-	-	25.0	70.0
Other Revenues (7)	(0.5)	96.2	28.7	68.1	95.8	64.0	86.6	31.4	6.6	6.3
Total Revenues	\$2,154.2	\$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

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

(2) In July 2000, Super Lotto was changed to Super Lotto Plus and the matrix was changed to 6/49. In October 2005 the game was replaced 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.

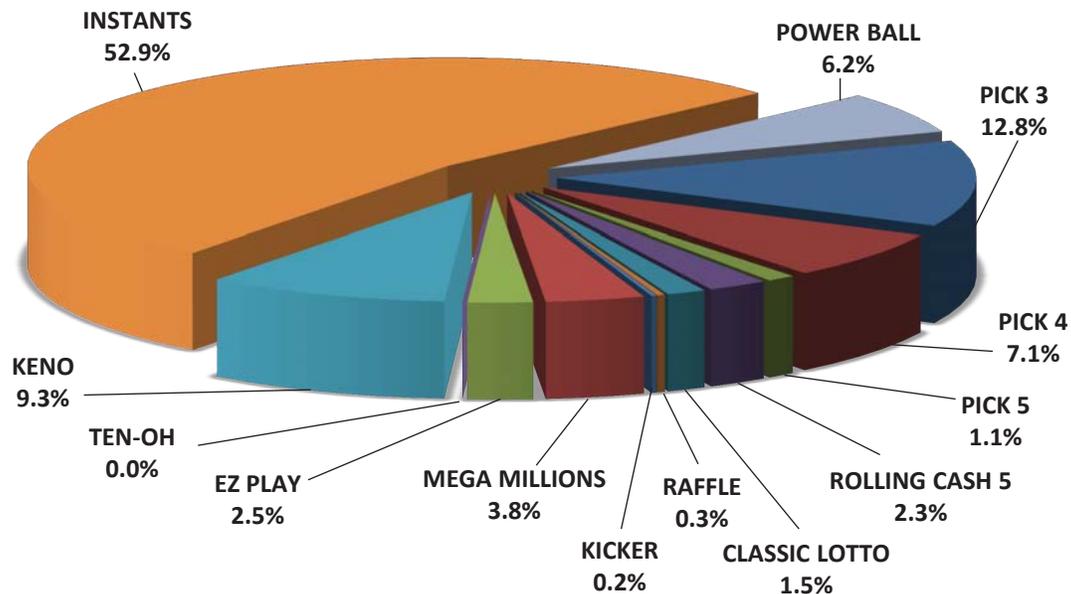
(5) The Kicker was retired from Mega Millions in 2011 and was replaced by Megaplier; Kicker was reintroduced in 2012 as a add-on feature to Classic Lotto.

(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 2013)



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

(in millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SALES										
Online	\$ 988.7	\$ 941.9	\$ 946.9	\$ 905.6	\$ 960.3	\$1,068.3	\$1,111.2	\$1,138.2	\$1,231.5	\$1,269.9
Instant	1,166.0	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
Total Ticket Sales	\$2,154.7	\$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
PRIZE EXPENSE										
Online	\$ 512.3	\$ 486.2	\$ 467.7	\$ 426.7	\$ 470.3	\$ 537.0	\$ 566.7	\$ 593.1	\$ 648.0	\$ 683.0
Instant	763.7	794.6	843.5	911.7	926.7	922.0	947.0	1,010.0	1,032.9	985.1
Total Prize Expense	\$1,276.0	\$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
PRIZE PAYOUT PERCENTAGE										
Online	51.8%	51.6%	49.4%	47.1%	49.0%	50.3%	51.0%	52.1%	52.6%	53.8%
Instant	65.5%	65.3%	66.2%	67.3%	67.9%	68.3%	68.7%	69.0%	68.5%	69.0%

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

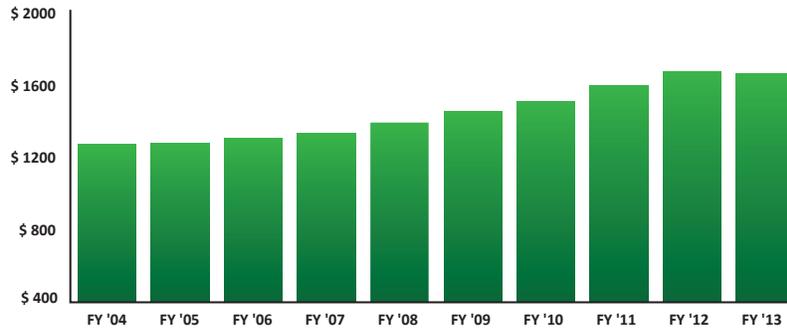
(in millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Prizes	\$1,276.0	\$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
Prizes as % Total Sales	59.2%	59.3%	59.0%	59.2%	60.1%	60.3%	60.8%	61.6%	61.4%	61.8%
Bonuses/Commissions	\$ 132.8	\$ 133.8	\$ 139.8	\$ 140.0	\$ 143.9	\$ 150.1	\$ 153.4	\$ 161.3	\$ 172.0	\$ 166.9
Bonuses/Commissions as % of total Sales	6.2%	6.2%	6.3%	6.2%	6.2%	6.2%	6.2%	6.2%	6.3%	6.2%
Operating Expenses	\$ 97.7	\$ 97.7	\$ 109.8	\$ 109.8	\$ 110.3	\$ 124.3	\$ 109.4	\$ 109.3	\$ 107.8	\$ 121.4
Operating Expenses as % of Total Sales	4.5%	4.5%	4.9%	4.9%	4.7%	5.1%	4.4%	4.2%	3.9%	4.5%
Payments to Education	\$ 655.6	\$ 645.1	\$ 646.3	\$ 669.3	\$ 672.2	\$ 702.3	\$ 728.6	\$ 738.8	\$ 771.0	\$ 803.1
Payments to Education as % of Total Sales	30.4%	29.9%	29.1%	29.6%	28.9%	29.0%	29.3%	28.4%	28.1%	29.8%
Total Sales	\$2,154.7	\$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

OHIO LOTTERY • EXPENSES AND PAYMENTS - LAST TEN FISCAL YEARS

(in millions)

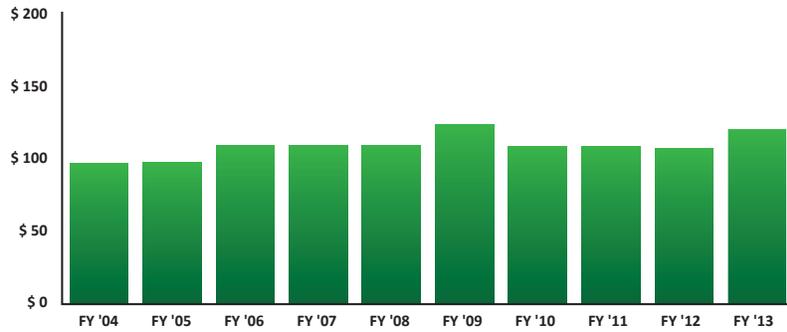
PRIZE EXPENSE



BONUSES/COMMISSIONS



OPERATING EXPENSE



PAYMENTS TO EDUCATION



U.S. LOTTERY INDUSTRY STATEMENT OF OPERATIONS
RANK BY SALES^(a) FISCAL YEAR 2012^(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	19.6	\$ 7,012.7	\$ 4,130.4	58.9%	\$ 419.9	\$ 244.3	\$ 358
2. Massachusetts	6.7	4,729.6	3,396.8	71.8%	269.7	91.1	712
3. Florida	19.3	4,449.9	2,766.1	62.2%	247.7	136.8	230
4. Texas	26.1	4,190.8	2,632.6	62.8%	306.9	88.4	161
5. California	38.0	4,371.5	2,560.3	58.6%	295.8	217.1	115
6. Georgia	9.9	3,559.9	2,289.8	64.3%	228.7	144.6	359
7. Pennsylvania	12.8	3,480.9	2,120.5	60.9%	183.9	129.4	273
8. New Jersey	8.9	2,758.9	1,617.8	58.6%	153.7	74.2	311
9. OHIO	11.5	2,739.0	1,680.8	61.4%	172.0	107.8	238
10. Illinois	12.9	2,670.4	1,675.0	62.7%	141.3	120.9	207
11. Michigan	9.9	2,413.5	1,369.8	56.8%	172.1	99.2	244
12. Maryland	5.9	1,794.9	1,065.7	59.4%	118.3	147.0	338
13. Virginia	8.2	1,616.0	962.3	59.5%	90.7	78.0	197
14. North Carolina	9.8	1,596.7	961.6	60.2%	112.2	68.1	164
15. Tennessee	6.5	1,215.9	757.5	62.3%	85.5	54.1	188

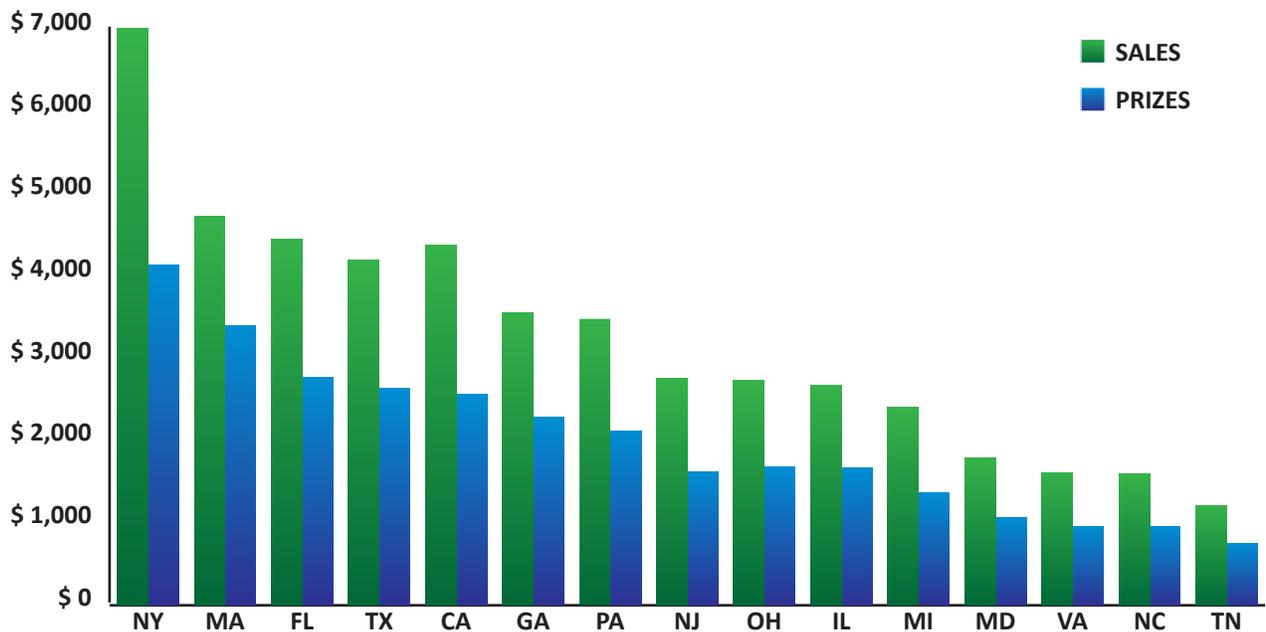
(a) Sales excludes video lottery, (b) Latest information available

The fiscal year ends June 30, 2012 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, 2012.

Source: "La Fleur's 2013 World Lottery Almanac"

U.S. LOTTERY INDUSTRY • FISCAL YEAR 2012
(in millions)

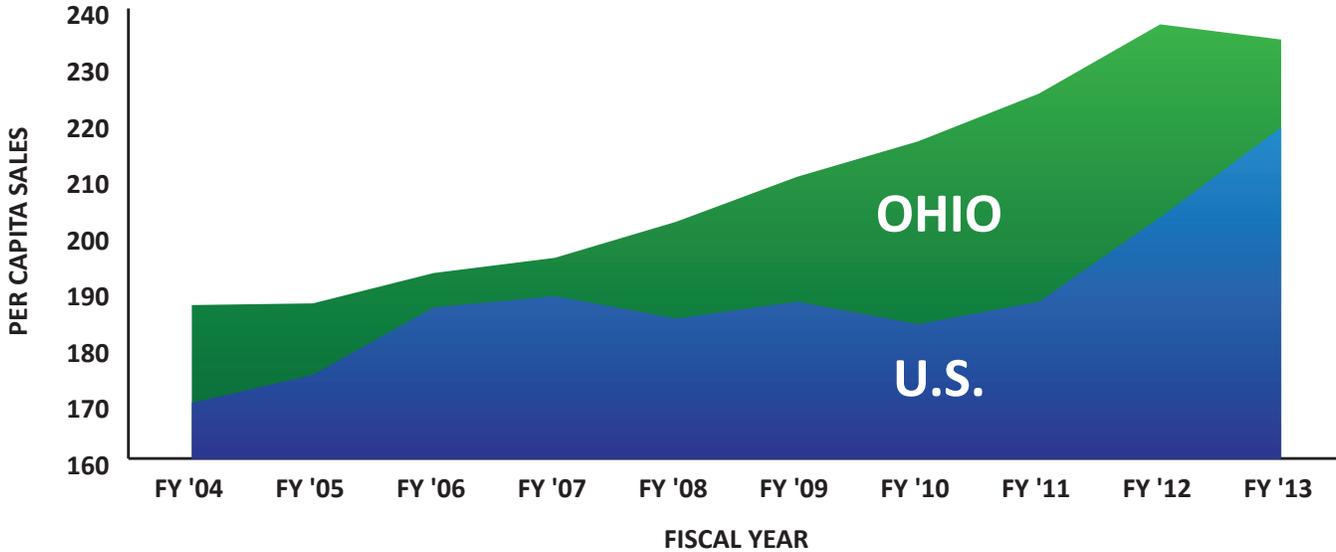


Source: "La Fleur's 2013 World Lottery Almanac"

OHIO LOTTERY • PER CAPITA SALES - LAST TEN FISCAL YEARS

FISCAL YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Ticket Sales	\$2,154.7	\$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
Per Capita Sales	\$ 187.4	\$ 187.7	\$ 193.1	\$ 195.8	\$ 202.2	\$ 210.2	\$ 216.5	\$ 225.0	\$ 238.0	\$ 234.6
National Per Capita Sales	\$ 170.0	\$ 175.0	\$ 187.0	\$ 189.0	\$ 185.0	\$ 188.0	\$ 184.0	\$ 188.0	\$ 203.0	\$ 219.0

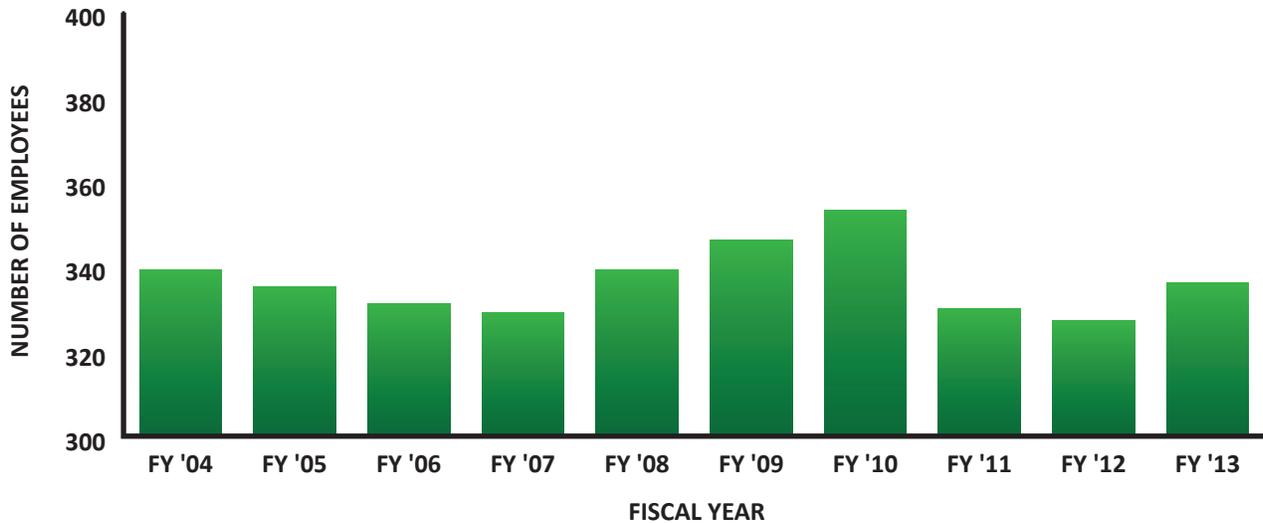
OHIO LOTTERY AND U.S. LOTTERIES • PER CAPITA SALES - LAST TEN FISCAL YEARS



Source: "La Fleur's 2013 World Lottery Almanac"

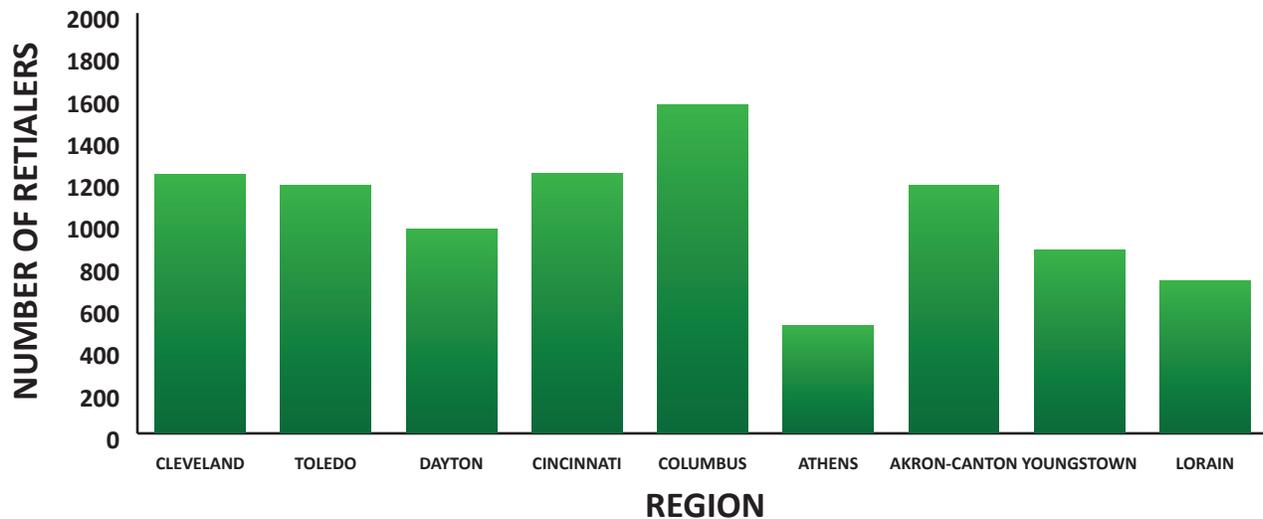
OHIO LOTTERY • NUMBER OF EMPLOYEES - LAST TEN FISCAL YEARS

(as of June 30, 2013)



OHIO LOTTERY • RETAILERS BY REGION

(as of June 30, 2013)



LOTTERY RETAILERS - LAST TEN FISCAL YEARS

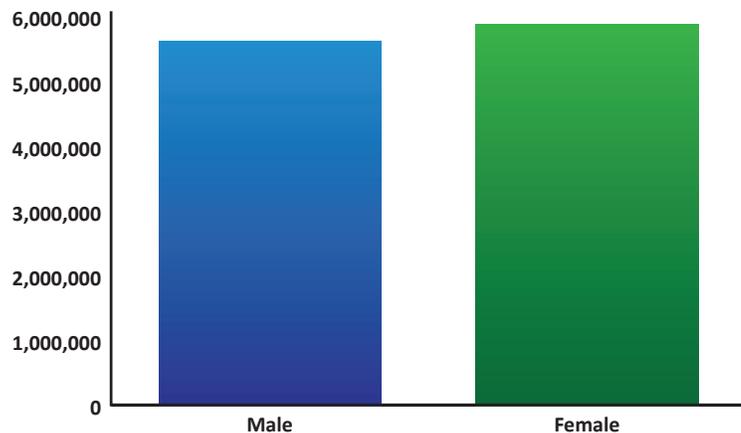
(as of June 30, 2013)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TOTAL RETAILERS	8,801	8,754	8,559	8,154	8,005	8,748	8,770	9,068	9,371	9,482
Online & Instant	7,304	7,374	7,806	8,144	8,005	8,748	8,770	9,068	9,371	9,482
Instant Only	1,497	1,380	753	10	0	0	0	0	0	0

POPULATION BY GENDER

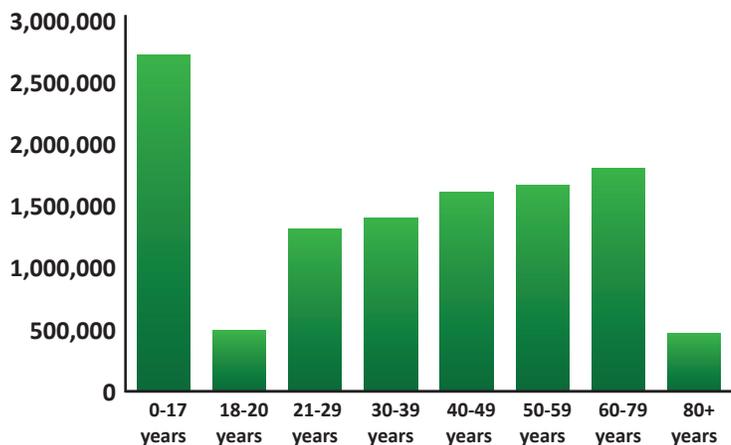
(Annual Estimates July 1, 2010)

Population by Gender	Number	Percent
Male	5,632,156	48.82%
Female.....	5,904,348	51.18%
Total Population.....	11,536,504	100.0%



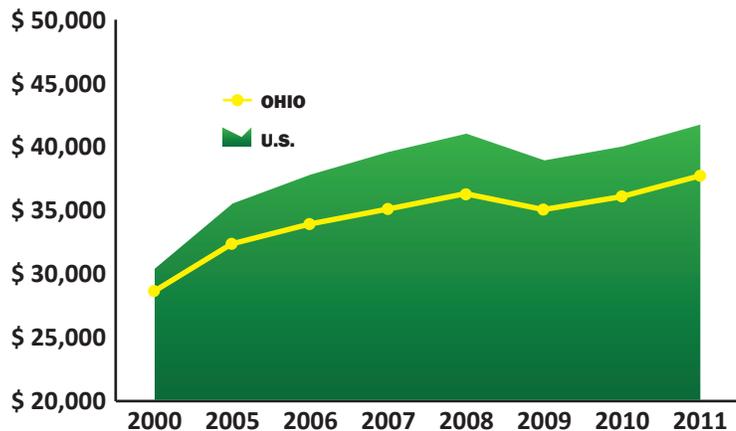
POPULATION BY AGE

Population by Age	Number	Percent
0 to 17 years	2,730,751	23.7%
18 to 20 years	500,361	4.3%
21 to 29 years	1,317,760	11.4%
30 to 39 years	1,409,791	12.2%
40 to 49 years	1,616,503	14.0%
50 to 59 years	1,673,914	14.5%
60 to 79 years	1,813,162	15.7%
80 years and more.....	474,262	4.1%
Total Population	11,536,504	100%
Median Age.....	38.8	



PER CAPITA INCOME

YEAR	OHIO	U.S.
2000.....	\$ 28,695	\$ 30,319
2005.....	\$ 32,445	\$ 35,452
2006.....	\$ 34,008	\$ 37,725
2007.....	\$ 35,183	\$ 39,506
2008.....	\$ 36,401	\$ 40,947
2009.....	\$ 35,150	\$ 38,846
2010.....	\$ 36,162	\$ 39,937
2011.....	\$ 37,791	\$ 41,663



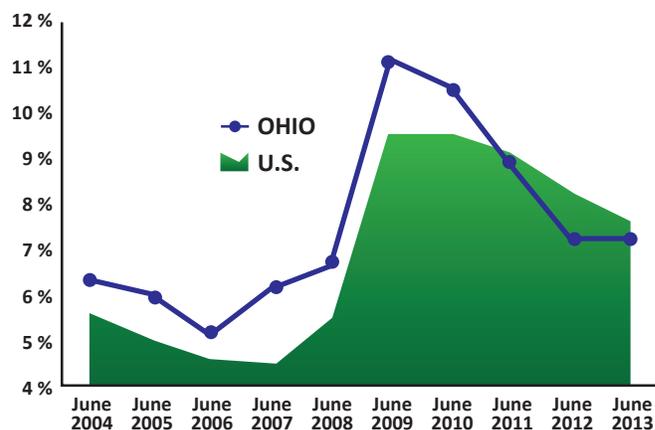
Sources:

U.S. Census Bureau - 2010, Ohio Department of Development

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

UNEMPLOYMENT RATES • SEASONALLY ADJUSTED

Month / Year	Ohio	U.S.
Jun-2004.....	6.3%	5.6%
Jun-2005.....	6.0%	5.0%
Jun-2006.....	5.1%	4.6%
Jun-2007.....	6.1%	4.5%
Jun-2008.....	6.6%	5.5%
Jun-2009.....	11.1%	9.5%
Jun-2010.....	10.5%	9.5%
Jun-2011.....	8.8%	9.1%
Jun-2012.....	7.2%	8.2%
Jun-2013.....	7.2%	7.6%



Source:
Ohio Department of Job & Family Services

STATE OF OHIO • PRINCIPAL EMPLOYERS

for Calendar Years 2011 and 2002

2011 RANKINGS

RANK	EMPLOYER	EMPLOYEES	% OF TOTAL STATE EMPLOYMENT
1	United States Government	80,543	1.24%
2	State of Ohio	52,599	0.81%
3	Wal-Mart Stores	52,275	0.80%
4	Cleveland Clinic Health System	39,400	0.60%
5	Kroger Company	39,000	0.60%
6	Catholic Healthcare Partners	30,300	0.46%
7	The Ohio State University	28,300	0.43%
8	University Hospitals Health System	21,000	0.32%
9	JP Morgan Chase & Co.	19,500	0.30%
10	Giant Eagle, Inc.	17,000	0.25%

2002 RANKINGS

RANK	EMPLOYER	EMPLOYEES	% OF TOTAL STATE EMPLOYMENT
1	United States Government	78,939	1.19%
2	State of Ohio	59,941	0.90%
3	Wal-Mart Stores	37,000	0.56%
4	Kroger Company	29,000	0.44%
5	Cleveland Clinic Health System	23,700	0.36%
6	General Motors Corporation	21,350	0.32%
7	Delphi Automotive	20,300	0.31%
8	General Electric Company	20,300	0.31%
9	Ford Motor Company	17,800	0.27%
10	University Hospitals Health System	17,070	0.26%

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





The Ohio Lottery Commission

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