



The Ohio Lottery Commission

AN ENTERPRISE FUND OF THE STATE OF OHIO

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2011 and 2010





LOTTERY®

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Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2011 and 2010

Prepared by the
Ohio Lottery Office of Finance

John R. Kasich, Governor
Dennis R. Berg, Interim Director
Patrick McDonald, Commission Chairperson
Dennis R. Berg, CPA, CFE, Deputy Director Finance



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{ INTRODUCTORY SECTION }



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September 30, 2011

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, 2011. 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. As of September 30, 2011, 43 states, the District of Columbia and the U.S. Virgin Islands operate lotteries using computer-based online games and instant "scratch off" games.

ECONOMIC OUTLOOK

According to the Bureau of Economic Analysis, personal income in the United States increased 1.8 percent during the third quarter of fiscal year 2011. Much of the increase can be attributed to the 2.0 percent reduction in the personal contribution rate for social security. As reported in the Federal Reserve's Beige Book, all twelve districts are reporting moderate economic growth through July 2011. Contributing to this economic growth is overall continued growth in the manufacturing sector. Auto industry production is up as disruptions in the supply chain from Japan have lessened. However, the United States is projected to confront more economic challenges in the near future.

On August 5, 2011 following the close of the markets, Standard & Poor's downgraded the United States' credit rating from AAA to AA+. Moody's and Fitch both maintained their AAA credit ratings for the United States. The impact of this credit downgrade is unknown as it is the first in United States history. The week following the downgrade, the stock market reacted with large losses followed by large gains, with losses outweighing the gains.

Ohio ended the third quarter of fiscal year 2011 with 1.9 percent growth in personal income over the previous quarter. This increase in personal income earned Ohio a top 20 ranking among states. During fiscal year 2011 the unemployment figures in Ohio trended downward from a high of 11.0 percent in March of 2010 to a low at 8.6 percent in April of 2011. This trend stalled for 2011 when May totals went unchanged from April and rose slightly to 8.8 percent in June. The steady increase in jobs can be attributed to service – providing industries with the most significant gains in educational and health services as well as leisure and hospitality.

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.

Despite the weak economy, fiscal year 2011 marks the tenth consecutive year of sales growth for the Ohio Lottery. Sales increased 4.5 percent from fiscal year 2010 to fiscal year 2011. The Ohio Lottery has taken strategic measures over the past years to keep its products fresh 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 games and instant games. Descriptions of the games and their portion of sales are as follows:

ONLINE GAMES allow the customer to pick the numbers for their wager or utilize automatic computer-generated plays. They receive a ticket with the numbers selected and must wait for a drawing to determine if they have matched the numbers and won.



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 2011 were \$364.4 million, or 14.0 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 2011 were \$209.0 million, or 8.0 percent of total Ohio Lottery sales. Both Pick 3 and Pick 4 are drawn midday and evenings Sunday through Saturday.



ROLLING CASH 5 is an online game in which players select 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 2011 were \$62.4 million, or 2.4 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 2011 were \$42.7 million, or 1.7 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 2011 were \$10.0 million or 0.4 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 2011 were \$165.0 million, or 6.3 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 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 2011 were \$30.9 million, or 1.2 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 are held both midday and evenings on Sunday through Saturday. Sales for fiscal year 2011 were \$9.2 million, or 0.4 percent of total Ohio Lottery sales.



KENO is an online game and is offered to retailers who hold a Class D liquor permit with on-site consumption in age and time controlled environments. KENO is a draw game in which players choose from 1 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 2011 were \$157.9 million, or 6.1 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 39. To win the jackpot, all six numbers must be matched. The jackpot starts at \$20 million and increases if not won. Drawings are held on Wednesday and Saturday evenings. Players may select the Power Play option for a chance to increase their winnings by 2, 3, 4, 5 times, depending on the Power Play number drawn. Power Play multiplies the winnings by the number drawn for prizes up to \$10,000. On occasion a 10X promotion is run which, if drawn, will multiply the prizes 10 times. If a player selects the Power Play option and then matches all five numbers but not the Powerball, the prize is automatically \$1.0 million. Combined Powerball/Power Play sales for fiscal year 2011 were \$76.4 million or 2.9 percent of total Ohio Lottery sales.



KICKER was an online game, with a top prize of \$100,000, which could only be purchased along with Mega Millions. In conjunction with the launch of Megaplier, the last draw for Kicker was January 2011. Kicker sales were materially impacted by the sales volume of Mega Millions. Sales for fiscal year 2011 were \$10.3 million, or 0.4 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 2011, instant game sales of \$1.5 billion increased \$83.8 million or 6.1 percent from the previous fiscal year and represented 56.2 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.

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 2011, the Ohio Lottery reached a significant milestone by setting an all-time fiscal year sales record of \$2.6 billion. The Ohio Lottery transferred \$738.8 million to the LPEF, making this the second highest profit transfer in the Lottery’s 37 year history and surpassed transfers made the prior year by \$10.2 million. This transfer brought the total funding the Ohio Lottery has provided since inception to more than \$17.8 billion since 1974. Additionally, several other milestones were achieved during fiscal year 2011.

- The Ohio Lottery enhanced the Mega Millions game in January of 2011 by adding the Megaplier feature to the game. The Megaplier feature allows players to bet an additional \$1 per dollar bet to increase their winnings by 2, 3 or 4 times. The introduction of Megaplier resulted in the retirement of the Kicker, which was paired with Mega Millions.
- Several initiatives were instituted in the past two fiscal years to bolster the sales of KENO. In January of 2010, to stimulate the recruitment of new KENO retailers, the Ohio Lottery rolled out a re-launch campaign. The campaign included intense sales training for all Lottery sales staff, a statewide, direct mail lead-generation campaign, sales conversion tools and new point-of-sale materials. The program has been successful in generating qualified leads with the goal of licensing additional KENO retailers. In February 2010, the Ohio Lottery introduced Booster. Booster allows players to take a chance to increase their winnings by multiples of 2, 3, 4, 5 and 10 times. The Ohio Lottery also extended KENO hours of play to align with liquor permit holders’ hours of operation. During fiscal years 2010 and 2011, the Ohio Lottery deployed more than 1,000 Intralot Coronis MP machines to enhance the sales of KENO. KENO retailers can elect to receive an MP machine, which is a self-service vending designed for KENO establishments. The MP allows players to place wagers without the help of retailer staff for all Ohio Lottery online games.
- The Ohio Lottery exercised the first renewal of its gaming contract with Intralot. The original contract award was for two years with up to four two-year renewals. The Ohio Lottery is projected to save upwards of \$200 million over a ten-year period under the new contract as compared with the preceding contract. Expected savings result from lower commission rates paid to the gaming system vendor, savings on communication services and the bundling of ticket dispensing and player activated equipment. The new gaming system replaced all existing gaming equipment, including terminals, printers, ticket checkers, and communications protocols.

- Fiscal year 2011 showed continued success for the Retailer Compliance Inspection Program, implemented by the Ohio Lottery in 2010. This statewide program, developed by the Ohio Lottery and executed with local law enforcement authorities, is designed to protect Ohio Lottery customers by ensuring that winning tickets are not wrongfully claimed by retailers or their employees without payment to the customers.
- A new Ohio Lottery web site, which utilizes technologies to allow the Ohio Lottery to better serve its player and retailer base, launched in February of 2011. The Ohio Lottery mobile web launch followed in June.
- The Partners in Education program completed its fourth year honoring outstanding K-12 students and teachers from around the state as Academic All Stars and Teachers of the Month, respectively. The Ohio Lottery encourages nominations from all over Ohio for the Academic All Star and Teacher of the Month awards. A total of 70 schools statewide participated with nominations and were represented in a drawing for School of the Year in May, 2011.
- The Ohio Lottery offered to pay the materials and enrollment fee for any school entering the Scripps National Spelling Bee. Approximately 1,684 schools took advantage of the Ohio Lottery's support for entry to this prestigious national event this past year. The event is held annually in March.
- During fiscal year 2011, the Ohio Lottery, in conjunction with the Ohio Attorney General and the Ohio Department of Job and Family Services, recovered a total of \$727,551 from 368 prize winners who owed either state debt or child support.
- Since May 2002, when Ohio began participating in the Mega Millions game, Ohio has had 15 jackpot winners representing advertised jackpots of more than \$1.6 billion. Ohio began selling Powerball in April 2010 and in June had two jackpot winners totaling \$357.0 million. 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 \$51.9 million.
- The Ohio Lottery is committed to responsible gaming awareness in the community and was recently recognized by industry leaders with an award for Best Public Awareness Campaign at the 2011 National Conference on Problem Gambling. The Ohio Lottery provides funding for the Ohio Department of Alcohol and Drug Addiction Services, which in turn contracts with specialized agencies to provide training of counselors and outpatient treatment of problem gambling. The Lottery also provides funding for an in-state helpline service, which is provided by the First Call for Help 211 Community Resource.
- Ohio Lottery employees are very active in the philanthropic community. Each year, employees participate in several events, some of which are:
 - Combined Charitable Campaign
 - Ohio Association of Second Harvest Foodbanks
 - Harvest for Hunger
 - Operation Feed Campaign
 - Stuff the Bus
- In an effort to promote a healthy and productive workforce, Ohio Lottery employees participated in numerous health and wellness programs, along with free health screenings and fitness health walks throughout the year. The programs are designed to empower employees and encourage positive living habits which help create a productive workforce. The positive momentum and general acceptance by the Ohio Lottery's associates has continued throughout fiscal year 2011. Lastly, certain health initiative programs are designed to actually reward employees monetarily as a direct result of their participation.
- The Ohio Lottery has made a concerted effort to be responsible and safeguard the environment by "Going Green." The Ohio Lottery has downsized its vehicles in both size and number, resulting in better fuel efficiency and reduced repair costs.
 - Mini vans make up 76.3 percent of the fleet.
 - Flex fuel vehicles make up 70.0 percent of the fleet.
- The Ohio Lottery is also participating in a State sponsored recycling program. In fiscal year 2011, the Ohio Lottery recycled 58.9 tons of paper, plastic and aluminum cans.

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 2012, the Ohio Lottery's energies are being concentrated on the following projects:

- As the lottery games available in the industry evolve, the Ohio Lottery will continue to evaluate available game options and prize matrices. The Ohio Lottery plans to benchmark Ohio's sales results against peer lottery states and review best practices in an effort to optimize Ohio's catalog of products. From time to time during the fiscal year, the Ohio Lottery plans to adjust both its instant ticket and online gaming product mix as needed. Collaboration with the Ohio Lottery's primary instant ticket and online gaming vendors will enhance the Ohio Lottery's research and benchmarking efforts.
- The Ohio Lottery plans to enhance the number of promotional offerings available to the public. Industry practices support the need for retailers to implement on-going promotional programs to stimulate the public's interest in the products being offered. There are numerous promotional opportunities the Ohio Lottery plans to offer over the course of the fiscal year.

- The Ohio Lottery, in conjunction with the North American Association of State and Provincial Lotteries, strives to create best practice standards and initiatives within the industry. In fiscal year 2012, the Ohio Lottery will continue to streamline processes, promote industry best practices and adopt common technology protocols.
- In August 2011 the Ohio Lottery launched a program to recruit Keno retailers. The goal is to increase the number of establishments where Keno can be purchased. The program features the capability for a Keno retailer to place on deposit with the Ohio Lottery the amount of a surety bond. This is a deposit, not a fee and is refundable when the retailer no longer sells Keno. Another feature introduced to reduce the time it takes to become a retailer is the capability to remotely capture the information required to complete the background check of the principal officers of the retailer. This program will significantly reduce the hurdles to becoming a Keno retailer. The program will be reviewed to determine whether to expand it or not.
- As Powerball prepares to celebrate its 20th birthday in 2012, the game is being enriched to bring more value to its players. Starting jackpots will now be \$40 million and easier to win. To support these changes, the ticket price will change from \$1 to \$2 starting in January of 2012.
- The Ohio Lottery instituted a retailer pilot program in October 2009 to increase sales. The program included a number of merchandising and signage enhancements that focused on creating an Ohio Lottery “store within a store” concept. Participating retailers attended a seminar to better understand how improved product mix, point of sale material, jackpot awareness programs, second chance drawings and play centers contribute to increased revenues. As the program expands, plans are being made to introduce specialized merchandising training programs tailored for the Ohio Lottery’s sales force, along with the acquisition of premium sales support and merchandising items, including improved signage.

ACCOUNTING SYSTEMS AND POLICIES

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

The Ohio Lottery’s operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Ohio Lottery are included in the statement of net assets. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. A narrative overview and analysis of the Ohio Lottery’s financial activities for the fiscal year ended June 30, 2011 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. Prizes 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 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, 2010. This was the fourteenth 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.

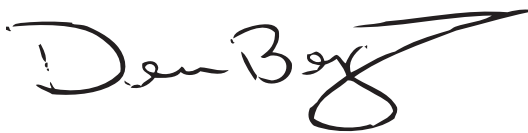
INDEPENDENT AUDIT

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 2011 has been completed in conformity with generally accepted governmental auditing standards. The auditor's unqualified opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

Preparation of this report 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, Jane Parker, Mike Popadiuk and Joe Angelillo 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,

A handwritten signature in black ink that reads "Dennis R. Berg". The signature is stylized with a large, sweeping flourish at the end of the name.

Dennis R. Berg, CPA, CFE
Interim Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Ohio Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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

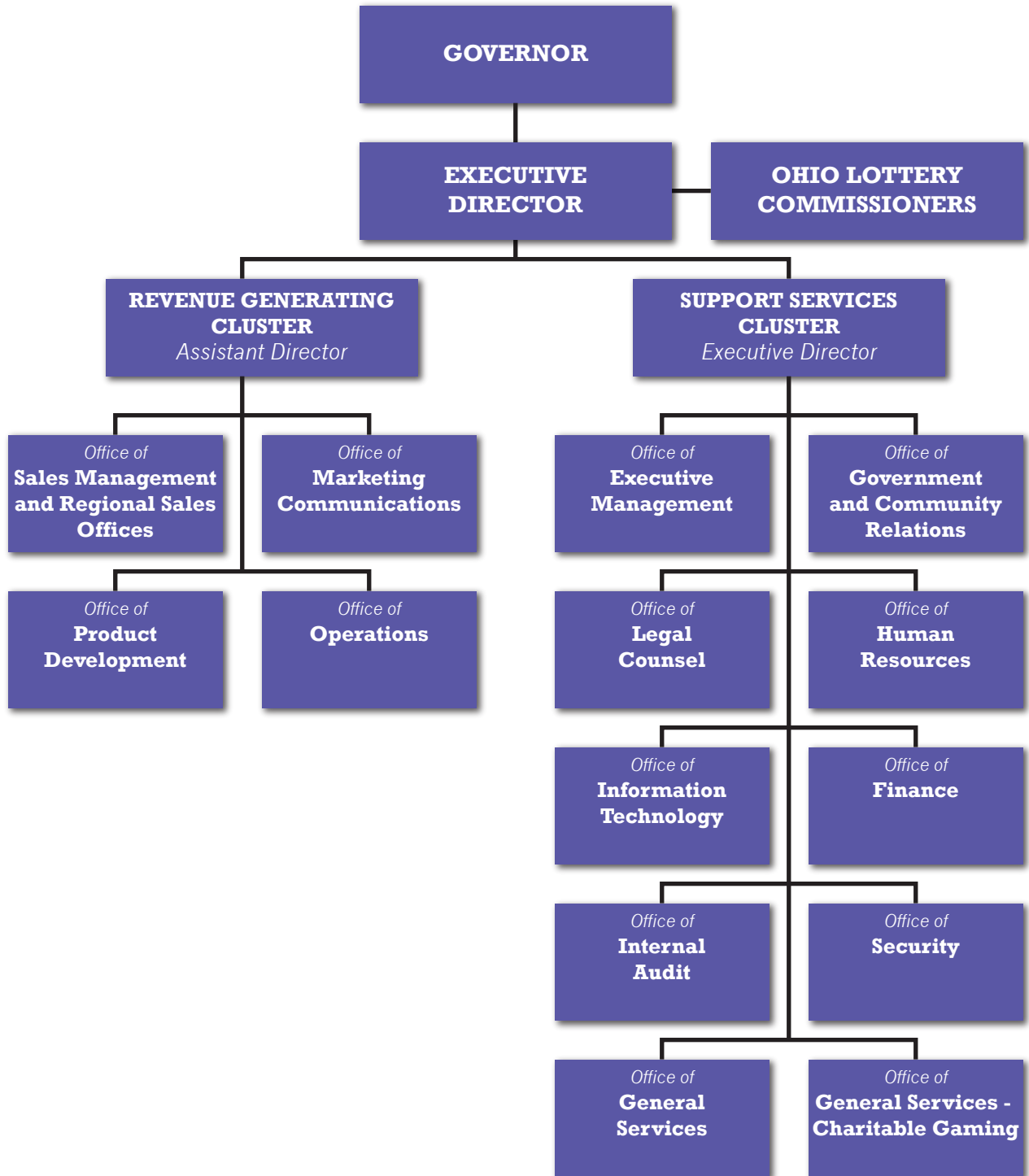


President

Executive Director

OHIO LOTTERY COMMISSION

STRUCTURE OF ORGANIZATION • FISCAL YEAR 2011



PRINCIPAL OFFICIALS

JOHN R. KASICH
GOVERNOR OF OHIO

Dennis R. Berg
INTERIM DIRECTOR

Patrick McDonald
COMMISSION CHAIR
Term ends 8/1/12

Paul M. Burens
COMMISSIONER
Term Ends 8/1/11

Erskine E. Cade
COMMISSIONER
Term Ends 8/1/11

Allan C. Krulak
COMMISSIONER
Term Ends 8/1/12

William Morgan
COMMISSIONER
Term Ends 8/1/12

{ FINANCIAL SECTION }



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Commissioners:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio (the Lottery), as of and for the year ended June 30, 2011, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Lottery's 2010 financial statements and, in our report dated October 1, 2010, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and each major fund of the State of Ohio that is attributable to the transactions of the Lottery. They do not purport to, and do not present fairly the financial position of the State of Ohio as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2011, 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 conformity with accounting principles generally accepted in the United States of America.

The financial statements include prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Lottery's financial statements for the year ended June 30, 2010, from which such comparative information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Lottery's basic financial statements taken as a whole. The introductory section and statistical section information provide additional analysis and are not a required part of the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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. 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.



Dave Yost
Auditor of State

September 30, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which begins on page 6 of this report, and the financial statements which begin on page 22.

FINANCIAL HIGHLIGHTS

- The Ohio Lottery's net assets decreased \$17.9 million, or 10.6 percent, as a result of this year's operations, predominantly due to the Government Accounting Standards Board (GASB) adjustments directly related to the investment portfolio. These adjustments reflect a decrease in the fair market value of the Ohio Lottery's investments.
- Ticket sales increased \$110.8 million, or 4.4 percent over the last fiscal year, resulting in record sales of \$2.6 billion. Online games and instant ticket sales both had increases for the year.
- Online sales increased \$27.0 million, or 2.4 percent. In fiscal year 2011, the Ohio Lottery benefited from a full 12 months of sales of the Keno/Booster product.
- Instant ticket sales increased \$83.8 million, or 6.1 percent, from last year. Improved inventory levels and increased visibility at retailers contributed to increased sales. Lottery players have also migrated to higher price point games which increases sales.
- Prize expense increased \$89.3 million for fiscal year 2011 primarily due to higher sales volume. Total prize expense for fiscal year 2011 represented 61.6 percent of total ticket sales compared to 60.8 percent in fiscal year 2010. The increase in prize percentage payout is directly related to higher sales of online and instant games with higher prize payouts.
- The Ohio Lottery transferred \$738.8 million to the Lottery Profits Education Fund (LPEF) in 2011, \$10.2 million more than the 2010 transfer amount.

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 assets, statement of revenues, expenses and changes in fund net assets, 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 (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 2006/2007, 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 assets presents information on all of the Ohio Lottery's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Ohio Lottery is improving or deteriorating. The statement of revenues, expenses and changes in fund net assets reports the revenue and expense activity of the Ohio Lottery. This statement is used to measure the success of the Ohio Lottery's operations over the given period related to sales, expenses, 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 assets at June 30, 2011 compared to June 30, 2010.

TABLE 1: NET ASSETS

(rounded thousands)

| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
|---|----------------------|----------------------|
| Current Assets: Unrestricted | \$ 144,777 | \$ 266,833 |
| Current Assets: Restricted | 282,750 | 310,225 |
| Noncurrent Assets: Restricted | 673,530 | 716,935 |
| Net Capital Assets | <u>61,985</u> | <u>74,632</u> |
| Total Assets | 1,163,042 | 1,368,625 |
| Current Liabilities: Unrestricted | 85,477 | 203,102 |
| Current Liabilities: Restricted | 282,751 | 310,225 |
| Noncurrent Liabilities: Restricted and Unrestricted | <u>644,120</u> | <u>686,722</u> |
| Total Liabilities | 1,012,348 | 1,200,049 |
| Net Assets: | | |
| Invested in Capital Assets - Net of Related Debt | 3,978 | 7,874 |
| Restricted for Deferred Prizes | 77,142 | 87,438 |
| Unrestricted | <u>69,574</u> | <u>73,264</u> |
| Total Net Assets | <u>\$ 150,694</u> | <u>\$ 168,576</u> |

Total Assets decreased \$205.6 million. Current Assets - Unrestricted decreased from \$266.8 million, to \$144.8 million a decrease of \$122.0 million. The decrease was primarily a result of cash paid to prize winners in fiscal year 2011 received from the Powerball jackpots won in June 2010 which had not yet been claimed. Current Assets - Restricted decreased from \$310.2 million in 2010, to \$282.8 million in 2011 a decrease of \$27.5 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 \$716.9 million in 2010 to \$673.5 million in 2011. The decrease is a result of securities that matured and the funds were paid to annuity prize winners.

Total Liabilities decreased \$187.7 million. Current Liabilities - Unrestricted decreased by \$117.6 million primarily due to the decrease in prize payable related to the cash paid to prize winners for the June 2010 Powerball jackpots. Current Liabilities - Restricted decreased \$27.4 million primarily as a result of decreases to security lending activity. Noncurrent liabilities decreased \$42.6 million, 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 \$17.9 million decrease in net assets primarily due to the GASB adjustments directly related to the investment portfolio.

Table 2 shows the change in the Ohio Lottery's net assets for fiscal year 2011 compared to fiscal year 2010, including revenue and expense comparisons.

TABLE 2: CHANGES IN NET ASSETS

(rounded thousands)

| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
|--|----------------------|----------------------|
| Ticket Sales | \$ 2,600,993 | \$ 2,490,186 |
| Other Operating Revenues | 7,242 | 8,599 |
| Non-Operating Revenues | <u>24,133</u> | <u>77,951</u> |
| Total Revenues | 2,632,368 | 2,576,736 |
| Prize Awards | 1,603,054 | 1,513,724 |
| Bonuses and Commissions | 161,326 | 153,426 |
| Operating Expenses | 109,286 | 109,422 |
| Non-Operating Expenses | 37,774 | 41,632 |
| Payments to the Lottery Profits Education Fund | <u>738,810</u> | <u>728,625</u> |
| Total Expenses | 2,650,250 | 2,546,829 |
| Change in Net Assets | (17,882) | 29,907 |
| Total Net Assets - Beginning | <u>168,576</u> | <u>138,669</u> |
| Total Net Assets - Ending | <u>\$ 150,694</u> | <u>\$ 168,576</u> |

TICKET SALES BY GAME: FISCAL YEARS 2011 AND 2010

(rounded thousands)

| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
|-------------------------|----------------------|----------------------|
| Pick 3 | \$ 364,436 | \$ 366,750 |
| Pick 4 | 209,040 | 201,252 |
| Rolling Cash 5 | 62,394 | 67,051 |
| Classic Lotto | 42,709 | 42,844 |
| Raffle | 10,000 | 9,127 |
| Kicker | 10,294 | 24,101 |
| Mega Millions/Megaplier | 164,970 | 215,784 |
| EZ Play | 30,858 | 30,442 |
| Ten-Oh | 9,245 | 9,650 |
| Keno/Booster | 157,892 | 120,617 |
| Powerball/Power Play | <u>76,373</u> | <u>23,563</u> |
| Total Online Sales | 1,138,211 | 1,111,181 |
| Instants | <u>1,462,782</u> | <u>1,379,005</u> |
| Total Sales | <u>\$ 2,600,993</u> | <u>\$ 2,490,186</u> |

The Ohio Lottery's total sales increased \$110.8 million in fiscal year 2011. The Ohio Lottery had record ticket sales in fiscal year 2011 of \$2.6 billion. Online ticket sales had an increase of \$27.0 million. This increase is primarily due to a full year of KENO/Booster sales. A decrease of \$53.8 million in non-operating income can be attributed to GASB adjustments. Instant ticket sales increased \$83.8 million, and sales surpassed the \$1.0 billion mark for the ninth consecutive year.

OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION: FISCAL YEARS 2011 AND 2010

(rounded thousands)

| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
|-----------------------|----------------------|----------------------|
| Prize Awards | \$ 1,603,054 | \$ 1,513,724 |
| Bonuses/Commissions | 161,326 | 153,426 |
| Operating Expense | 109,286 | 109,422 |
| Payments to Education | <u>738,810</u> | <u>728,625</u> |
| Total | <u>\$ 2,612,476</u> | <u>\$ 2,505,197</u> |

Prize awards increased by \$89.3 million while bonuses and commissions increased by \$7.9 million. Payments to education increased by \$10.2 million. The activity described above resulted in a decrease in Net Assets of \$17.9 million, decreasing the balance at June 30, 2011 to \$150.7 million from \$168.6 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

Table 3 below summarizes the Ohio Lottery's capital assets at the end of 2011 and 2010.

TABLE 3: CAPITAL ASSETS (NET OF DEPRECIATION)

(rounded thousands)

| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
|--------------------------|----------------------|----------------------|
| Equipment | \$ 60,872 | \$ 73,488 |
| Vehicles | <u>1,113</u> | <u>1,144</u> |
| Total Net Capital Assets | <u>\$ 61,985</u> | <u>\$ 74,632</u> |

As of June 30, 2011, the Ohio Lottery had \$62.0 million, net of accumulated depreciation, in Capital Assets. The decrease in Net Capital Assets is a result of depreciation taken in 2011. 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 \$29.5 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 ASSETS - MAJOR FUNDS
JUNE 30, 2011
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2010)

(rounded thousands)

| | <u>OPERATING</u> | <u>DEFERRED</u> | <u>TOTALS</u> | |
|---|------------------|------------------|----------------------|----------------------|
| | | | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
| ASSETS: | | | | |
| Current Assets - Unrestricted | | | | |
| Cash and Cash Equivalents | \$ 14,463 | \$ - | \$ 14,463 | \$ 148,372 |
| Cash Equity with Treasurer of State | 64,134 | - | 64,134 | 55,060 |
| Collateral on Lent Securities | 13,907 | - | 13,907 | 15,644 |
| Receivables from Agents, Net | 44,089 | - | 44,089 | 38,194 |
| Other Assets | <u>8,184</u> | <u>-</u> | <u>8,184</u> | <u>9,563</u> |
| Total Current Assets - Unrestricted | <u>144,777</u> | <u>-</u> | <u>144,777</u> | <u>266,833</u> |
| Current Assets - Restricted | | | | |
| Cash Equity with Treasurer of State | - | 59 | 59 | 68 |
| Dedicated Investments | - | 42,778 | 42,778 | 39,219 |
| Collateral on Lent Securities | - | 237,300 | 237,300 | 267,929 |
| Interest Receivable | <u>-</u> | <u>2,613</u> | <u>2,613</u> | <u>3,009</u> |
| Total Current Assets - Restricted | <u>-</u> | <u>282,750</u> | <u>282,750</u> | <u>310,225</u> |
| Total Current Assets | <u>144,777</u> | <u>282,750</u> | <u>427,527</u> | <u>577,058</u> |
| Noncurrent Assets | | | | |
| Dedicated Investments, Restricted | - | 673,530 | 673,530 | 716,935 |
| Capital Assets | | | | |
| Equipment | 104,322 | - | 104,322 | 99,149 |
| Vehicles | 2,825 | - | 2,825 | 2,670 |
| Accumulated Depreciation | <u>(45,162)</u> | <u>-</u> | <u>(45,162)</u> | <u>(27,187)</u> |
| Net Assets, Invested in Capital Assets | <u>61,985</u> | <u>-</u> | <u>61,985</u> | <u>74,632</u> |
| Total Noncurrent Assets | <u>61,985</u> | <u>673,530</u> | <u>735,515</u> | <u>791,567</u> |
| TOTAL ASSETS | <u>206,762</u> | <u>956,280</u> | <u>1,163,042</u> | <u>1,368,625</u> |
| LIABILITIES | | | | |
| Current Liabilities - Unrestricted | | | | |
| Accounts Payable | 6,781 | - | 6,781 | 6,210 |
| Prize Awards Payable | 43,333 | - | 43,333 | 162,025 |
| Obligations under Securities Lending | 13,907 | - | 13,907 | 15,644 |
| Capital Lease Payable - Current | 17,590 | - | 17,590 | 15,222 |
| Deferred Revenue | 1,769 | - | 1,769 | 1,132 |
| Other Liabilities | 1,861 | - | 1,861 | 2,594 |
| Due to Other Lotteries | <u>236</u> | <u>-</u> | <u>236</u> | <u>275</u> |
| Total Current Liabilities - Unrestricted | <u>85,477</u> | <u>-</u> | <u>85,477</u> | <u>203,102</u> |
| Current Liabilities - Restricted | | | | |
| Obligations under Securities Lending | - | 237,300 | 237,300 | 267,929 |
| Prize Awards Payable - Net of Discount | <u>-</u> | <u>45,451</u> | <u>45,451</u> | <u>42,296</u> |
| Total Current Liabilities - Restricted | <u>-</u> | <u>282,751</u> | <u>282,751</u> | <u>310,225</u> |
| Total Current Liabilities | <u>85,477</u> | <u>282,751</u> | <u>368,228</u> | <u>513,327</u> |
| Noncurrent Liabilities: | | | | |
| Prize Awards Payable from Restricted Assets - Net of Discount | - | 597,623 | 597,623 | 630,319 |
| Capital Lease Payable - Long-Term | 40,417 | - | 40,417 | 51,535 |
| Workers' Compensation | 2,794 | - | 2,794 | 2,638 |
| Compensated Absences | <u>3,286</u> | <u>-</u> | <u>3,286</u> | <u>2,230</u> |
| Total Noncurrent Liabilities | <u>46,497</u> | <u>597,623</u> | <u>644,120</u> | <u>686,722</u> |
| TOTAL LIABILITIES | <u>131,974</u> | <u>880,374</u> | <u>1,012,348</u> | <u>1,200,049</u> |
| NET ASSETS | | | | |
| Invested in Capital Assets - Net of Related Debt | 3,978 | - | 3,978 | 7,874 |
| Restricted for Net Unrealized Gains on Restricted Investments | - | 77,142 | 77,142 | 87,438 |
| Unrestricted | <u>70,810</u> | <u>(1,236)</u> | <u>69,574</u> | <u>73,264</u> |
| TOTAL NET ASSETS | <u>\$ 74,788</u> | <u>\$ 75,906</u> | <u>\$ 150,694</u> | <u>\$ 168,576</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 ASSETS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)
(rounded thousands)

| | <u>OPERATING</u> | <u>DEFERRED</u> | <u>TOTALS</u> | |
|--|------------------|------------------|----------------------|----------------------|
| | | | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
| REVENUES | | | | |
| Ticket Sales | \$ 2,600,993 | \$ - | \$ 2,600,993 | \$ 2,490,186 |
| Other Revenues | <u>7,073</u> | <u>169</u> | <u>7,242</u> | <u>8,599</u> |
| Total Operating Revenues | 2,608,066 | 169 | 2,608,235 | 2,498,785 |
| EXPENSES | | | | |
| Prizes, Bonuses and Commissions | | | | |
| Prize Awards | 1,588,387 | 14,667 | 1,603,054 | 1,513,724 |
| Bonuses and Commissions | <u>161,326</u> | <u>-</u> | <u>161,326</u> | <u>153,426</u> |
| Total Prizes, Bonuses and Commissions | 1,749,713 | 14,667 | 1,764,380 | 1,667,150 |
| Operating Expenses | | | | |
| Personal Services | 58,383 | - | 58,383 | 61,482 |
| Maintenance and Equipment | 30,828 | - | 30,828 | 28,233 |
| Depreciation | 20,054 | - | 20,054 | 19,693 |
| Other Expenses | <u>21</u> | <u>-</u> | <u>21</u> | <u>14</u> |
| Total Operating Expenses | <u>109,286</u> | <u>-</u> | <u>109,286</u> | <u>109,422</u> |
| OPERATING INCOME (LOSS) | 749,067 | (14,498) | 734,569 | 722,213 |
| Non-Operating Revenues (Expenses): | | | | |
| Interest Income | 251 | 23,882 | 24,133 | 67,881 |
| Donation of Capital Assets | - | - | - | 8,414 |
| Amortization of Prize Liabilities | - | (33,625) | (33,625) | (36,629) |
| Gain (Loss) on Equipment Disposal | (34) | - | (34) | 1,656 |
| Interest Expense on Capital Lease | (3,591) | - | (3,591) | (4,476) |
| Interest Expense - Borrower Rebates | - | (482) | (482) | (495) |
| Securities Lending Agent Fees | - | (42) | (42) | (32) |
| Payments to the Lottery Profits Education Fund | <u>(738,810)</u> | <u>-</u> | <u>(738,810)</u> | <u>(728,625)</u> |
| Total Non-Operating Expenses, Net | <u>(742,184)</u> | <u>(10,267)</u> | <u>(752,451)</u> | <u>(692,306)</u> |
| INCOME (LOSS) BEFORE TRANSFERS | 6,883 | (24,765) | (17,882) | 29,907 |
| TRANSFERS: | | | | |
| Transfers to Deferred Prize Trust Fund | <u>(14,055)</u> | <u>14,055</u> | <u>-</u> | <u>-</u> |
| Total Transfers | <u>(14,055)</u> | <u>14,055</u> | <u>-</u> | <u>-</u> |
| Change in Net Assets | (7,172) | (10,710) | (17,882) | 29,907 |
| Total Net Assets - Beginning | <u>81,960</u> | <u>86,616</u> | <u>168,576</u> | <u>138,669</u> |
| TOTAL NET ASSETS - ENDING | <u>\$ 74,788</u> | <u>\$ 75,906</u> | <u>\$ 150,694</u> | <u>\$ 168,576</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, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

(rounded thousands)

| | OPERATING | DEFERRED | TOTALS | |
|--|-------------------|--------------------|-------------------|-------------------|
| | | | JUNE 30, 2011 | JUNE 30, 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash Received from Sales | \$ 2,595,736 | \$. | \$ 2,595,736 | \$ 2,482,818 |
| Cash Received from Multi-State Lottery for Grand Prize Winners | 171,003 | . | \$171,003 | . |
| Cash Payments for Prize Awards | (1,877,743) | (77,832) | (1,955,575) | (1,457,705) |
| Cash Payments for Bonuses and Commissions | (161,326) | . | (161,326) | (153,556) |
| Cash Payments for Goods and Services | (60,057) | . | (60,057) | (65,872) |
| Cash Payments to Employees | (27,104) | . | (27,104) | (25,520) |
| Other Operating Revenues | 7,073 | 169 | 7,242 | 8,599 |
| Other Operating Expenses | (21) | . | (21) | (14) |
| Net Cash Provided (Used) by Operating Activities | <u>647,561</u> | <u>(77,663)</u> | <u>569,898</u> | <u>788,750</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Payments to the Lottery Profits Education Fund | (738,810) | . | (738,810) | (728,625) |
| Transfers In | . | 14,055 | 14,055 | 14,768 |
| Transfers Out | (14,055) | . | (14,055) | (14,768) |
| Net Cash Provided (Used) by NonCapital Financing Activities | <u>(752,865)</u> | <u>14,055</u> | <u>(738,810)</u> | <u>(728,625)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition of Property and Equipment | (520) | . | (520) | 798 |
| Proceeds from Sale of Property and Equipment | 23 | . | 23 | 1,682 |
| Repayment of Equipment Obligation | (15,694) | . | (15,694) | (14,338) |
| Interest Paid on Equipment Obligation | (3,591) | . | (3,591) | (4,476) |
| Net Cash Used by Capital and Related Financing Activities | <u>(19,782)</u> | <u>.</u> | <u>(19,782)</u> | <u>(16,334)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment Income Received | 251 | 11,553 | 11,804 | 14,586 |
| Interest Expense and Agent Fees | . | (524) | (524) | (526) |
| Proceeds from the Sale and Maturity of Investments | . | 98,235 | 98,235 | 99,315 |
| Purchase of Investments | . | (45,665) | (45,665) | (48,346) |
| Securities Lending Proceeds | 13,906 | 237,300 | 251,206 | 283,574 |
| Securities Lending Payments | (13,906) | (237,300) | (251,206) | (283,574) |
| Net Cash Provided (Used) by Investing Activities | <u>251</u> | <u>63,599</u> | <u>63,850</u> | <u>65,029</u> |
| Net Increase (Decrease) in Cash & Cash Equivalents | <u>(124,835)</u> | <u>(9)</u> | <u>(124,844)</u> | <u>108,820</u> |
| Cash and Cash Equivalents - Beginning | <u>203,432</u> | <u>68</u> | <u>203,500</u> | <u>94,680</u> |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 78,597</u> | <u>\$ 59</u> | <u>\$ 78,656</u> | <u>\$ 203,500</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$ 749,066 | \$ (14,498) | \$ 734,568 | \$ 722,213 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 20,054 | . | 20,054 | 19,693 |
| Amortization of Discount of Prize Liabilities | . | 33,625 | 33,625 | 36,629 |
| Net Changes in Assets and Liabilities | | | | |
| Receivables from Agents - Net | (5,895) | . | (5,895) | (8,499) |
| Other Assets | 1,379 | . | 1,379 | (1,649) |
| Prize Awards Payable | (118,692) | . | (118,692) | 119,192 |
| Accounts Payable | 571 | . | 571 | (485) |
| Other Liabilities | (771) | . | (771) | 191 |
| Deferred Revenue | 637 | . | 637 | 1,132 |
| Prize Awards Payable from Restricted Assets - Net of Discount | . | (96,790) | (96,790) | (100,491) |
| Accrued Workers' Compensation | 156 | . | 156 | 826 |
| Compensated Absences | 1,056 | . | 1,056 | (2) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ 647,561</u> | <u>\$ (77,663)</u> | <u>\$ 569,898</u> | <u>\$ 788,750</u> |

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

Non-Cash items included in investment income were (\$10.3) million and \$31.7 million of unrestricted net gains/losses for the years ended June 30, 2011 and June 30, 2010, respectively. During fiscal year 2011 the Ohio Lottery acquired gaming equipment amounting to \$6.9 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.

OHIO LOTTERY COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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.

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 assets. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The Ohio Lottery distinguishes operating revenues and expenses from non-operating items within the operating statements. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with selling Ohio Lottery tickets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

LOTTERY OPERATING FUND

Revenues for this fund are provided primarily from the sale of lottery tickets. Receivables from ticket sales are collected 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 \$1,266,000 were recorded and \$1,272,000 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 assets, and the change in the fair value of the investments is recorded as investment income along with the interest earned on the investments.

The Ohio Lottery has invested funds in the State Treasury Asset Reserve of Ohio (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, 2011 and 2010 of \$263,000 and \$256,000 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. 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 assets. In fiscal year 2006, the Ohio Lottery adopted a new method of providing investment capital for future deferred prize payments by purchasing individual securities to fund a specific prize obligation.

CAPITAL ASSETS

Capital assets are defined as assets with an initial, individual cost of more than \$1,000, or otherwise classified as sensitive items as described in 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 five to fifteen years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain (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.

DEFERRED REVENUE

Advanced wagers may be placed for all online games. Sales relating to future draws are recorded as deferred revenue when received. Sales revenue is recognized during the month in which the related drawings occur.

COMPENSATED ABSENCES

Employees of the Ohio Lottery earn vacation leave, sick leave and personal leave at various rates within limits specified under collective bargaining 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.

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.

FUND EQUITY CLASSIFICATIONS

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

- Invested in Capital Assets – consists of capital assets including fixed assets, net of accumulated depreciation.
- Restricted for Deferred Prizes – represents the excess of the assets restricted for payment of deferred prizes over the related liability for deferred prize awards, including the reserve for unrealized gains (losses) on investments, in accordance with the restrictions imposed by ORC 3770.06.
- Restricted – for Net Unrealized Gains on Restricted Investments.
- Unrestricted – represents all other net assets that are not classified as invested in capital assets or restricted.

RISK MANAGEMENT

The Ohio Lottery is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ohio Lottery generally retains the risk of loss; however, the Ohio Lottery is protected for purposes of sales collections by third-party surety bonds. Upon inception, retailers are required to carry a minimum bond of \$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, 2011, 2010, and 2009. No significant payments were made or liabilities recorded during the years ended June 30, 2011, 2010, and 2009 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 \$2,000,000 per occurrence. The Ohio Lottery retains the risk for any liability exceeding this limit.

The State provides an option to eligible Ohio Lottery employees to participate in the OhioMed Health Plan, which was established as a fully self-insured health benefit plan. The plan is administered by Medical Mutual of Ohio under a claims administration contract with the State. The Ohio Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contributed \$30.35 for single and \$89.07 for family coverage per pay period, while the Ohio Lottery contributed \$165.24 for single and \$454.01 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 \$1,371,000 and \$1,284,000 for the years ended June 30, 2011 and 2010, respectively.

The State has contracted with four types of Health Maintenance Organizations (HMO). Ohio Lottery employees are eligible to participate in the plans available in their geographic area of residence or workplace. HMO claims are paid for by the respective HMO without transfer of risk to the State or the Ohio Lottery. Premiums are contracted individually between each HMO and the State of Ohio's Benefits Trust Fund.

BUDGETARY ACCOUNTING AND CONTROL

As a Department of the State of Ohio, the Ohio Lottery is required to submit, through the Governor, a biennial budget to the Ohio General Assembly (General Assembly). Biennially, the General Assembly approves the appropriations, which are provided in annual amounts.

The Ohio Lottery's official budget, as adopted by the Legislature, is based upon accounting for certain transactions on the basis of cash receipts and disbursements. Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded as expenditures when the purchase commitment is made, is employed for budgetary purposes. Unliquidated encumbrances are generally canceled four months after the end of the fiscal year. Unencumbered appropriations lapse at the end of the biennium for which they were appropriated. The major differences between the budget basis and the 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, 2011.

NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued GASB No. 59, "Financial Instruments Omnibus." GASB 59 was implemented by the Ohio Lottery with 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, 2010, 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 assets. Liabilities to return the collateral to the borrower are also recognized. Securities received as collateral in connection with securities lending activities are not recorded as the assets and liabilities of the Ohio Lottery, because the Ohio Lottery does not have the ability to pledge or sell the securities without borrower default. The costs of securities lending transactions are reported as expenses in the accompanying comparative statements of revenues, expenses and changes in fund net assets.

2. CASH DEPOSITS AND INVESTMENTS

The Ohio Lottery maintains cash on deposit at a commercial bank and with the 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

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the Ohio Lottery's deposits may not be returned to it. As of June 30, 2011, the carrying amounts of the Ohio Lottery's deposits with financial institutions were \$14,463,000 and the bank balances were \$14,461,000 the difference representing normal reconciling items. Of the bank balances, \$341,000 was covered by the FDIC insurance as part of the economic stabilization package passed by Congress. The most basic insured amount was temporarily increased to \$250,000 per depositor, per insured bank.

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, 2011 consist of the following:

| INVESTMENT TYPE | FAIR VALUE | CREDIT QUALITY RATING | INVESTMENT MATURITIES (IN YEARS) | | | |
|--|------------|-----------------------|----------------------------------|------------|------------|------------|
| | | | LESS THAN 1 | 1-5 | 6-10 | >10 |
| U.S. Government Agency Obligations | \$ 199,629 | AAA/Aaa | \$ 23,202 | \$ 134,513 | \$ 41,914 | \$ - |
| U.S. Government Strips | 185,230 | | 12,517 | 50,074 | 51,942 | 70,697 |
| U.S. Government Agency Strips | 324,063 | AAA/Aaa | 39,947 | 97,132 | 143,518 | 43,466 |
| Israel Bond | 3,000 | A/A1 | 3,000 | - | - | - |
| Total Investments | 711,922 | | 78,666 | 281,719 | 237,374 | 114,163 |
| <i>Investments not required to be categorized</i> | | | | | | |
| Investments in State Treasury Asset Reserve of Ohio (STAR Ohio) | 4,386 | AAA/Aaa | 4,386 | - | - | - |
| Equity in State of Ohio Common Cash & Investments | 64,193 | | 64,193 | - | - | - |
| 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 | 13,907 | | 13,907 | - | - | - |
| Total Lottery Commission - Structured Investments, as of June 30, 2011 | \$ 794,408 | | \$ 161,152 | \$ 281,719 | \$ 237,374 | \$ 114,163 |

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 Funds 10 % maximum

The equity in State of Ohio common cash and investments, collateral on loaned securities, money market mutual fund and an investment in STAR Ohio has not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools' investments and deposits by credit risk may be found in the State of Ohio Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

As of June 30, 2011, the total carrying amount of deposits and investments categorized and disclosed in this note is \$1,046,171. This amount can be reconciled to the statement of net assets as follows:

(rounded thousands)

| | <u>DEPOSITS</u> | <u>INVESTMENTS</u> | <u>TOTAL</u> |
|-------------------------------------|------------------|---------------------|---------------------|
| Unrestricted Assets: | | | |
| Cash and Cash Equivalents | \$ 14,463 | \$. | \$ 14,463 |
| Cash Equity with Treasurer of State | - | 64,134 | 64,134 |
| Collateral on Lent Securities | - | 13,907 | 13,907 |
| Restricted Assets: | | | |
| Cash Equity with Treasurer of State | - | 59 | 59 |
| Dedicated Investments | - | 716,308 | 716,308 |
| Collateral on Lent Securities | - | 237,300 | 237,300 |
| Total - per Statement of Net Assets | <u>\$ 14,463</u> | <u>\$ 1,031,708</u> | <u>\$ 1,046,171</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 (MV) of the underlying securities (including accrued interest), unpaid income distributions on the underlying securities and accrued loan premiums or fees. The amount the lender owes the borrower includes the cash collateral received, the market value of collateral securities (including accrued interest), the face value of letters of credit, unpaid income distributions on collateral securities and accrued borrower rebates.

(rounded thousands)

| <u>BORROWER OWES TO LENDER</u> | | <u>LENDER OWES TO BORROWER</u> | |
|--------------------------------|-------------------|--------------------------------|-------------------|
| MV of Loaned Securities | \$ 230,010 | Cash Collateral | \$ 237,230 |
| Unpaid Distributions | - | Unpaid Distributions | - |
| Accrued Premiums | - | Accrued Rebates | 7 |
| Total | <u>\$ 230,010</u> | Total | <u>\$ 237,237</u> |

Since the Lender owes the Borrowers \$7,227,000 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2011.

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, 2011 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 2011, 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 2011 due to prior-period losses.

(rounded thousands)

| INVESTMENT TYPE | FAIR VALUE | CREDIT QUALITY RATING | INVESTMENT MATURITIES (IN YEARS) | | | |
|--|-------------------|-----------------------|----------------------------------|------|------|-----|
| | | | LESS THAN 1 | 1-5 | 6-10 | >10 |
| Repurchase Agreements | \$ 142,389 | A/Aa A/A-1 | \$ 142,389 | \$ - | \$ - | - |
| U.S. Government Agency Obligations | 12,497 | | 12,497 | - | - | - |
| Commercial Paper | 63,694 | A/A-1 | 63,694 | - | - | - |
| Other Investments: | | | | | | |
| Master Note | 11,700 | A/A-1 | 11,700 | - | - | - |
| Variable Note | 7,007 | A/A-1 | 7,007 | - | - | - |
| Investments Not Required to be Categorized: | | | | | | |
| Allocated Cash Collateral (1) | 13 | | 13 | - | - | - |
| Total - Investments made with Cash Collateral, as of June 30, 2011 | \$ <u>237,300</u> | | \$ <u>237,300</u> | \$ - | \$ - | - |

(1) The Ohio Lottery has been allocated \$13,000 cash collateral based on the amount of cash equity from the State's common cash and investment account.

3. CAPITAL ASSETS

Capital asset activity was as follows:

(rounded thousands)

| | <u>JUNE 30, 2010</u> | <u>INCREASES</u> | <u>DECREASES</u> | <u>JUNE 30, 2011</u> |
|--------------------------------|----------------------|--------------------|------------------|----------------------|
| Capital Assets | | | | |
| Equipment | \$ 99,149 | \$ 7,105 | \$ 1,932 | \$ 104,322 |
| Vehicles | 2,670 | 358 | 203 | 2,825 |
| Total Capital Assets | 101,819 | 7,463 | 2,135 | 107,147 |
| Less Accumulated Depreciation: | | | | |
| Equipment | (25,661) | (19,700) | 1,911 | (43,450) |
| Vehicles | (1,526) | (354) | 168 | (1,712) |
| Total Accumulated Depreciation | (27,187) | (20,054) | 2,079 | (45,162) |
| Net Capital Assets | \$ <u>74,632</u> | \$ <u>(12,591)</u> | \$ <u>56</u> | \$ <u>61,985</u> |
| | <u>JUNE 30, 2009</u> | <u>INCREASES</u> | <u>DECREASES</u> | <u>JUNE 30, 2010</u> |
| Capital Assets | | | | |
| Equipment | \$ 79,097 | \$ 88,697 | \$ 68,645 | \$ 99,149 |
| Vehicles | 2,673 | 13 | 16 | 2,670 |
| Total Capital Assets | 81,770 | 88,710 | 68,661 | 101,819 |
| Less Accumulated Depreciation: | | | | |
| Equipment | (74,964) | (19,327) | 68,630 | (25,661) |
| Vehicles | (1,166) | (366) | 6 | (1,526) |
| Total Accumulated Depreciation | (76,130) | (19,693) | 68,636 | (27,187) |
| Net Capital Assets | \$ <u>5,640</u> | \$ <u>69,017</u> | \$ <u>25</u> | \$ <u>74,632</u> |

The Ohio Lottery has entered into a capital lease for gaming services and leased equipment with Intralot. During fiscal year 2011, additional equipment acquired amounted to \$6,943,155, 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, 2011</u> | <u>JUNE 30, 2010</u> |
|--------------------------------|----------------------|----------------------|
| ASSET | | |
| Computer Equipment and Systems | \$ 88,038 | \$ 81,095 |
| Accumulated Depreciation | <u>(32,910)</u> | <u>(16,219)</u> |
| TOTAL | <u>\$ 55,128</u> | <u>\$ 64,876</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> |
|---|------------------|
| 2012 | \$ 18,814 |
| 2013 | 18,813 |
| 2014 | 18,813 |
| Total Minimum Lease Payments | 56,440 |
| Less: Amount for Interest | <u>(4,906)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 51,534</u> |

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2011 and 2010 consist of the following:

(rounded thousands)

| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
|--|----------------------|----------------------|
| Current portion - face amount | \$ 78,102 | \$ 77,068 |
| Less: Unamortized discount | (32,651) | (34,772) |
| Current portion - present value | <u>45,451</u> | <u>42,296</u> |
| Noncurrent portion - face amount | 803,894 | 861,755 |
| Less: Unamortized discount | <u>(206,271)</u> | <u>(231,436)</u> |
| Noncurrent portion - present value | <u>597,623</u> | <u>630,319</u> |
| Total Prize Awards Payable - Net of Discount | <u>\$ 643,074</u> | <u>\$ 672,615</u> |

Interest rates used to determine the present values ranged from 3.0 percent to 9.0 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2011 is summarized as follows:

| <u>FISCAL YEAR ENDING JUNE 30</u> | <u>AMOUNT</u> |
|-----------------------------------|-------------------|
| <i>(rounded thousands)</i> | |
| 2012 | \$ 78,102 |
| 2013 | 77,017 |
| 2014 | 76,926 |
| 2015 | 76,789 |
| 2016 | 76,765 |
| 2017 through 2021 | 277,587 |
| 2022 through 2026 | 129,778 |
| 2027 through 2031 | 65,682 |
| 2032 through 2036 | 21,857 |
| 2037 thereafter | <u>1,493</u> |
| Subtotal | 881,996 |
| Unamortized Discount | <u>(238,922)</u> |
| Net Prize Liability | <u>\$ 643,074</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 \$302.6 million and \$268.6 million for the years ended June 30, 2011 and 2010, respectively.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2011 and 2010 is as follows:

| <i>(rounded thousands)</i> | <u>2011</u> | <u>2010</u> |
|---|-----------------|-----------------|
| Accrued Liabilities | \$ 1,231 | \$ 2,210 |
| Worker's Compensation - Current Portion | 108 | 30 |
| Compensated Absences - Current Portion | <u>522</u> | <u>354</u> |
| Total | <u>\$ 1,861</u> | <u>\$ 2,594</u> |

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2011 and 2010 was as follows:

| <i>(rounded thousands)</i> | <u>2010</u> | <u>ADDITIONS</u> | <u>REDUCTIONS</u> | <u>2011</u> |
|---|-------------------|------------------|-------------------|-------------------|
| Prize Awards Payable from Restricted Assets-Net of Discount | \$ 630,319 | \$ 45,137 | \$ 77,833 | \$ 597,623 |
| Capital Lease Payable - Long-term | 51,535 | 6,943 | 18,061 | 40,417 |
| Accrued Workers' Compensation | 2,638 | 156 | - | 2,794 |
| Compensated Absences | <u>2,230</u> | <u>3,506</u> | <u>2,450</u> | <u>3,286</u> |
| Total Noncurrent Liabilities | <u>\$ 686,722</u> | <u>\$ 55,742</u> | <u>\$ 98,344</u> | <u>\$ 644,120</u> |

| <i>(rounded thousands)</i> | <u>2009</u> | <u>ADDITIONS</u> | <u>REDUCTIONS</u> | <u>2010</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Prize Awards Payable from Restricted Assets-Net of Discount | \$ 658,229 | \$ 51,360 | \$ 79,270 | \$ 630,319 |
| Capital Lease Payable - Long-term | - | 81,095 | 29,560 | 51,535 |
| Accrued Workers' Compensation | 1,813 | 825 | - | 2,638 |
| Compensated Absences | <u>2,232</u> | <u>2,084</u> | <u>2,086</u> | <u>2,230</u> |
| Total Noncurrent Liabilities | <u>\$ 662,274</u> | <u>\$ 135,364</u> | <u>\$ 110,916</u> | <u>\$ 686,722</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 \$45.5 million and \$42.3 million for the years ended June 30, 2011 and June 30, 2010, 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.

The ORC provides the statutory authority for member and employer contributions. For 2010 calendar year member and employer contribution rates were consistent across all three plans (TP, MD and CO). The 2010 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, 2011, 2010, and 2009 were \$1,699,000, \$1,555,000, and \$1,321,000 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 2010 employer contribution rate for State employers was 14 percent of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll.

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 5.5 percent from January 1 through February 28, 2010 and 5.0 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010 and 4.23 percent from March 1 through December 31, 2010.

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 2011, 2010 and 2009, \$944,000, \$1,006,000, and \$1,321,000, respectively, of the Ohio Lottery's total contributions to OPERS were used for post-employment benefits.

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 reasonably estimable. In the opinion of management the ultimate outcome of such legal proceedings will not have a material adverse impact on the Ohio Lottery's financial position.



{ STATISTICAL SECTION }

OHIO LOTTERY COMMISSION

STATISTICAL INFORMATION 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 assets, 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 ASSETS • LAST TEN FISCAL YEARS

(in millions)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Change in Net Assets | | | | | | | | | | |
| Plus: Total Operating Revenues | \$ 1,988.1 | \$ 2,083.1 | \$ 2,166.6 | \$ 2,164.8 | \$ 2,227.3 | \$ 2,267.1 | \$ 2,332.9 | \$ 2,425.9 | \$ 2,498.8 | \$ 2,608.3 |
| Less: Total Prizes, Bonuses and Commissions | 1,274.7 | 1,345.2 | 1,408.8 | 1,414.6 | 1,451.0 | 1,478.3 | 1,541.0 | 1,609.1 | 1,667.2 | 1,764.4 |
| Less: Total Operating Expenses | 103.3 | 100.8 | 97.7 | 97.7 | 109.8 | 109.8 | 110.3 | 124.3 | 109.4 | 109.3 |
| Operating Income (Loss) | 610.1 | 637.1 | 660.1 | 652.5 | 666.5 | 679.0 | 681.6 | 692.5 | 722.2 | 734.6 |
| Plus: Non-Operating Income | 119.0 | 148.8 | (12.3) | 90.5 | 22.3 | 60.4 | 88.0 | 55.8 | 76.3 | 24.1 |
| Less: Non-Operating Expense | 89.3 | 77.9 | 69.5 | 69.3 | 65.0 | 109.3 | 53.9 | 41.2 | 40.0 | 37.8 |
| Less: Transfers | 635.1 | 641.4 | 655.6 | 645.1 | 646.3 | 669.3 | 672.2 | 702.3 | 728.6 | 738.8 |
| Change In Net Assets | 4.7 | 66.6 | (77.3) | 28.6 | (22.5) | (39.2) | 43.5 | 4.8 | 29.9 | (17.9) |
| Change In Net Assets | 4.7 | 66.6 | (77.3) | 28.6 | (22.5) | (39.2) | 43.5 | 4.8 | 29.9 | (17.9) |
| Total Net Assets - Beginning | 129.5 | 134.2 | 200.8 | 123.5 | 152.1 | 129.6 | 90.4 | 133.9 | 138.7 | 168.6 |
| Total Net Assets - Ending | \$ 134.2 | \$ 200.8 | \$ 123.5 | \$ 152.1 | \$ 129.6 | \$ 90.4 | \$ 133.9 | \$ 138.7 | \$ 168.6 | \$ 150.7 |

OHIO LOTTERY - NET ASSETS • LAST TEN FISCAL YEARS

(in millions)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|----------|----------|----------|----------|----------|---------|----------|----------|----------|----------|
| Net Assets | | | | | | | | | | |
| Invested In Capital Assets - Net Of Related Debt | \$ 2.0 | \$ 0.8 | \$ 0.3 | \$ 0.7 | \$ 2.9 | \$ 2.7 | \$ 4.4 | \$ 5.6 | \$ 7.9 | \$ 4.0 |
| Restricted For Deferred Prizes | 8.9 | 2.8 | 0.0 | 0.0 | 5.4 | 1.6 | 1.0 | 1.4 | 0.0 | 0.0 |
| Restricted For Net Unrealized Gains/(Losses) On Restricted Assets | 88.2 | 167.0 | 90.2 | 112.1 | 61.7 | 12.3 | 43.3 | 55.7 | 87.4 | 77.1 |
| Unrestricted | 35.1 | 30.2 | 33.0 | 39.3 | 59.6 | 73.8 | 85.2 | 76.0 | 73.3 | 69.6 |
| Total Net Assets | \$ 134.2 | \$ 200.8 | \$ 123.5 | \$ 152.1 | \$ 129.6 | \$ 90.4 | \$ 133.9 | \$ 138.7 | \$ 168.6 | \$ 150.7 |

OHIO LOTTERY CAPITAL ASSETS - NET OF RELATED DEBT

(in millions)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|--------|--------|--------|--------|--------|--------|
| Capital Assets - Net of Related Debt | | | | | | |
| Lottery Equipment | \$ - | \$ - | \$ 1.6 | \$ 2.0 | \$ 6.1 | \$ 2.3 |
| Vehicles | 1.5 | 1.3 | 1.4 | 1.5 | 1.1 | 1.1 |
| Data/Office Equipment | 1.4 | 1.4 | 1.4 | 2.1 | 0.7 | 0.6 |
| Total Capital Assets - Net of Related Debt | \$ 2.9 | \$ 2.7 | \$ 4.4 | \$ 5.6 | \$ 7.9 | \$ 4.0 |

REVENUES • LAST TEN FISCAL YEARS

(in millions)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Online Ticket Sales | | | | | | | | | | |
| Pick 3 | \$ 409.2 | \$ 401.8 | \$ 396.8 | \$ 387.7 | \$ 377.3 | \$ 370.9 | \$ 387.1 | \$ 382.5 | \$ 366.7 | \$ 364.4 |
| Pick 4 | 154.6 | 154.2 | 165.2 | 170.1 | 175.7 | 183.0 | 198.8 | 205.9 | 201.3 | 209.0 |
| Buckeye 5/Rolling Cash 5 (2) | 62.4 | 68.9 | 66.6 | 74.8 | 72.6 | 72.9 | 70.5 | 67.2 | 67.1 | 62.4 |
| Super Lotto Plus/Lot O' Play (1) | 297.9 | 160.7 | 143.8 | 113.0 | 76.3 | 21.8 | - | - | - | - |
| Classic Lotto (3) | - | - | - | - | - | 21.8 | 41.2 | 43.9 | 42.8 | 42.7 |
| Raffle | - | - | - | - | - | 17.8 | 10.0 | 9.3 | 9.1 | 10.0 |
| Kicker (5) | 45.0 | 27.3 | 24.5 | 19.9 | 21.6 | 21.3 | 21.4 | 21.4 | 24.1 | 10.3 |
| Mega Millions/Megaplier (5) | 16.5 | 176.2 | 191.8 | 176.4 | 223.4 | 196.1 | 201.0 | 193.0 | 215.8 | 165.0 |
| Ez Play | - | - | - | - | - | - | 12.3 | 34.3 | 30.4 | 30.9 |
| Ten-Oh | - | - | - | - | - | - | 18.0 | 11.0 | 9.7 | 9.2 |
| Keno / Booster (4) | - | - | - | - | - | - | - | 99.8 | 120.6 | 157.9 |
| Power Ball/Power Play (4) | - | - | - | - | - | - | - | - | 23.6 | 76.4 |
| Total Online Ticket Sales | 985.6 | 989.1 | 988.7 | 941.9 | 946.9 | 905.6 | 960.3 | 1,068.3 | 1,111.2 | 1,138.2 |
| Instant Games Sales | 997.5 | 1,089.1 | 1,166.0 | 1,217.2 | 1,274.0 | 1,353.8 | 1,364.8 | 1,349.4 | 1,379.0 | 1,462.8 |
| Total Ticket Sales | 1,983.1 | 2,078.2 | 2,154.7 | 2,159.1 | 2,220.9 | 2,259.4 | 2,325.1 | 2,417.7 | 2,490.2 | 2,601.0 |
| Total Other Revenues (6) | 124.1 | 153.7 | (0.5) | 96.2 | 28.7 | 68.1 | 95.8 | 64.0 | 86.6 | 31.4 |
| Total Revenues | \$ 2,107.2 | \$ 2,231.9 | \$ 2,154.2 | \$ 2,255.3 | \$ 2,249.6 | \$ 2,327.5 | \$ 2,420.9 | \$ 2,481.7 | \$ 2,576.8 | \$ 2,632.4 |

(1) In July 2000, the Super Lotto game was changed to Super Lotto Plus and the matrix was changed to 6/49. In October 2005 the game was replaced by Lot O' Play

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

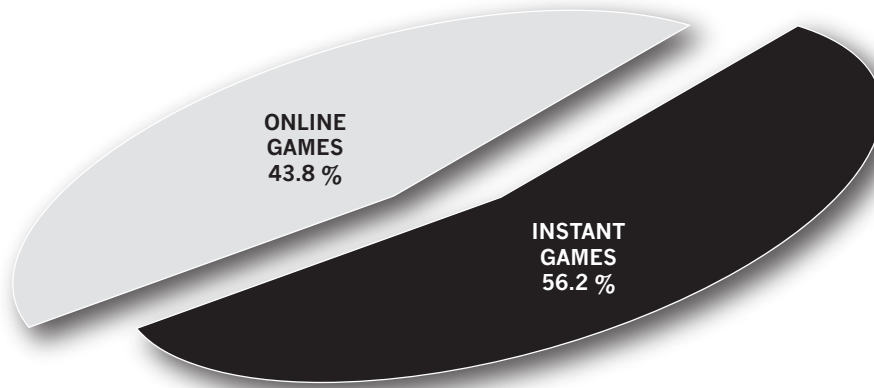
(3) In January 2007, the Classic Lotto game replaced Super Lotto Plus / Lot O' Play.

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

(5) Megaplier added in Fiscal Year 2011 and the Kicker was retired

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

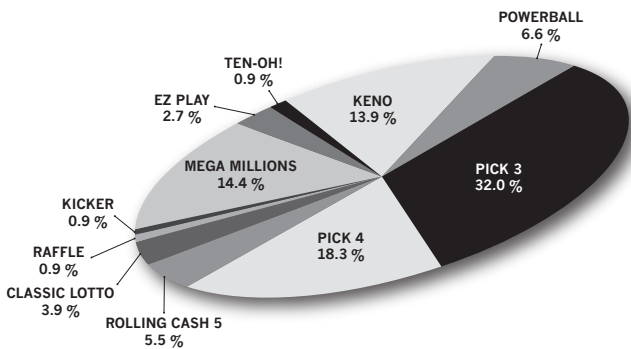
OHIO LOTTERY - SALES BY GAME FISCAL YEAR 2011



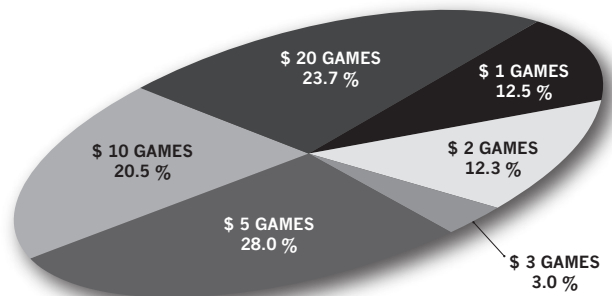
| | |
|----------------------------|---------------|
| PICK 3 | 14.0 % |
| PICK 4 | 8.0 % |
| ROLLING CASH 5 | 2.4 % |
| KICKER..... | 0.4 % |
| RAFFLE..... | 0.4 % |
| KENO/BOOSTER..... | 6.1 % |
| CLASSIC | 1.7 % |
| MEGA/MAGAPLIER | 6.3 % |
| EZ PLAY | 1.2 % |
| TEN-OH | 0.4 % |
| POWERBALL/POWER PLAY | 2.9 % |
| TOTAL..... | 43.8 % |

| | |
|-------------------|---------------|
| \$1..... | 7.0 % |
| \$2..... | 6.9 % |
| \$3..... | 1.7 % |
| \$5..... | 15.8 % |
| \$10..... | 11.5 % |
| \$20..... | 13.3 % |
| TOTAL..... | 56.2 % |

ONLINE SALES MIX



INSTANT SALES MIX



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

(in millions)

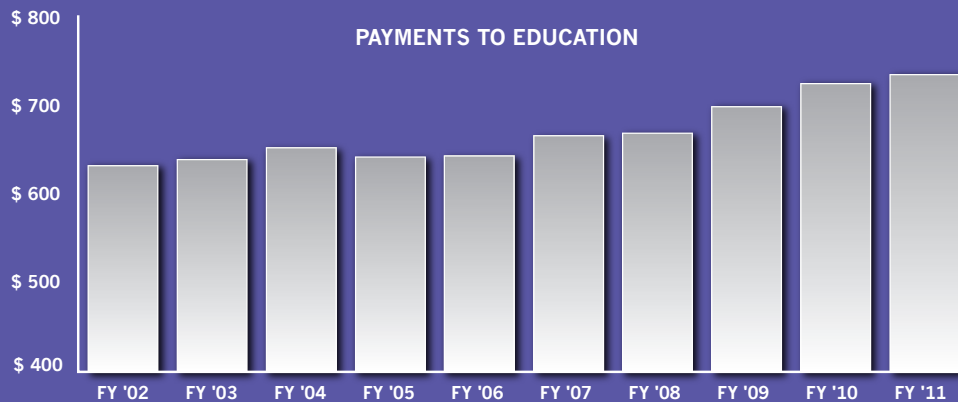
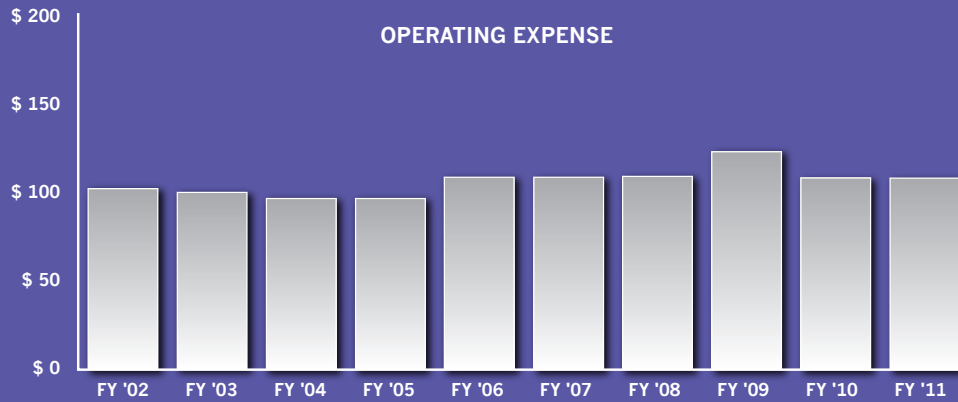
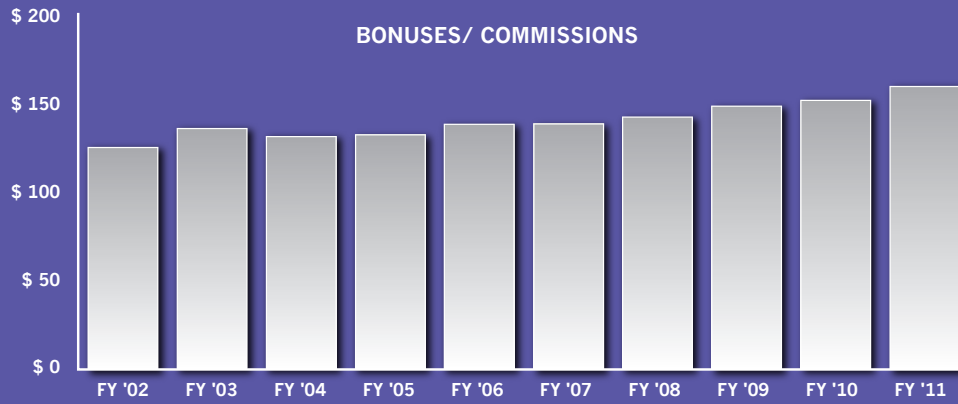
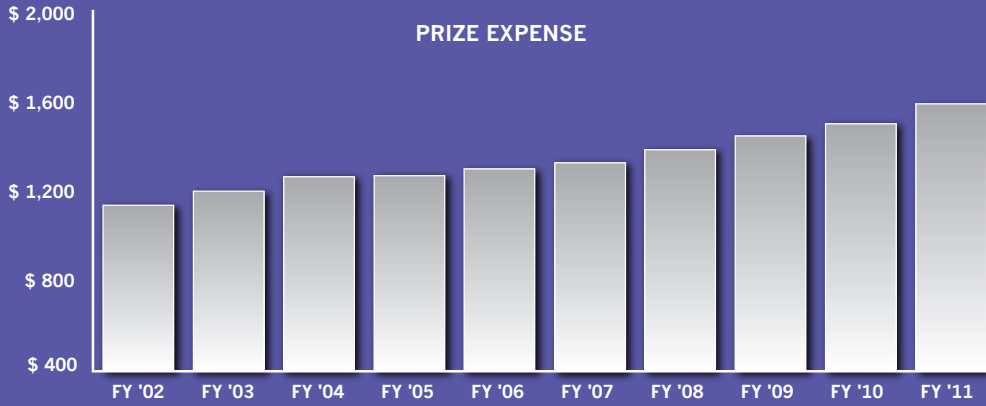
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Sales | | | | | | | | | | |
| Online | \$ 985.6 | \$ 989.1 | \$ 988.7 | \$ 941.9 | \$ 946.9 | \$ 905.6 | \$ 960.3 | \$ 1,068.3 | \$ 1,111.2 | \$ 1,138.2 |
| Instant | 997.5 | 1,089.1 | 1,166.0 | 1,217.2 | 1,274.0 | 1,353.8 | 1,364.8 | 1,349.4 | 1,379.0 | 1,462.8 |
| Total Sales | \$ 1,983.1 | \$ 2,078.2 | \$ 2,154.7 | \$ 2,159.1 | \$ 2,220.9 | \$ 2,259.4 | \$ 2,325.1 | \$ 2,417.7 | \$ 2,490.2 | \$ 2,601.0 |
| Prize Expense | | | | | | | | | | |
| Online | \$ 508.0 | \$ 502.9 | \$ 512.3 | \$ 486.2 | \$ 467.7 | \$ 426.7 | \$ 470.3 | \$ 537.0 | \$ 566.7 | \$ 593.1 |
| Instant | 640.1 | 705.3 | 763.7 | 794.6 | 843.5 | 911.7 | 926.7 | 922.0 | 947.0 | 1,010.0 |
| Total Prize Expense | \$ 1,148.1 | \$ 1,208.2 | \$ 1,276.0 | \$ 1,280.8 | \$ 1,311.2 | \$ 1,338.4 | \$ 1,397.0 | \$ 1,459.0 | \$ 1,513.7 | \$ 1,603.1 |
| Prize Payout Percentage | | | | | | | | | | |
| Online | 51.5% | 50.8% | 51.8% | 51.6% | 49.4% | 47.1% | 49.0% | 50.3% | 51.0% | 52.1% |
| Instant | 64.2% | 64.8% | 65.5% | 65.3% | 66.2% | 67.3% | 67.9% | 68.3% | 68.7% | 69.0% |

OPERATING EXPENSES AS A PERCENTAGE OF SALES • LAST TEN FISCAL YEARS

(in millions)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Prizes | \$ 1,148.1 | \$ 1,208.2 | \$ 1,276.0 | \$ 1,280.8 | \$ 1,311.2 | \$ 1,338.4 | \$ 1,397.0 | \$ 1,459.0 | \$ 1,513.7 | \$ 1,603.1 |
| as % Total Sales | 57.9 | 58.1 | 59.2 | 59.3 | 59.0 | 59.2 | 60.1 | 60.3 | 60.8 | 61.6 |
| Bonuses / Commissions | \$ 126.6 | \$ 137.0 | \$ 132.8 | \$ 133.8 | \$ 139.8 | \$ 140.0 | \$ 143.9 | \$ 150.1 | \$ 153.4 | \$ 161.3 |
| as % of Total Sales | 6.4 | 6.6 | 6.2 | 6.2 | 6.3 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 |
| Operating Expenses | \$ 103.3 | \$ 100.8 | \$ 97.7 | \$ 97.7 | \$ 109.8 | \$ 109.8 | \$ 110.3 | \$ 124.3 | \$ 109.4 | \$ 109.3 |
| as % of Total Sales | 5.2 | 4.9 | 4.5 | 4.5 | 4.9 | 4.9 | 4.7 | 5.1 | 4.4 | 4.2 |
| Payment to Education | \$ 635.2 | \$ 641.4 | \$ 655.6 | \$ 645.1 | \$ 646.3 | \$ 669.3 | \$ 672.2 | \$ 702.3 | \$ 728.6 | \$ 738.8 |
| as % of Total Sales | 32.0 | 30.9 | 30.4 | 29.9 | 29.1 | 29.6 | 28.9 | 29.0 | 29.3 | 28.4 |
| Total Sales | \$ 1,983.1 | \$ 2,078.2 | \$ 2,154.7 | \$ 2,159.1 | \$ 2,220.9 | \$ 2,259.4 | \$ 2,325.1 | \$ 2,417.7 | \$ 2,490.2 | \$ 2,601.0 |

**OHIO LOTTERY - EXPENSES AND PAYMENTS
LAST TEN FISCAL YEARS**
(in millions)



LOTTERY INDUSTRY STATEMENT OF OPERATIONS

RANK BY SALES (a)

FISCAL YEAR 2010 (b)

(in millions)

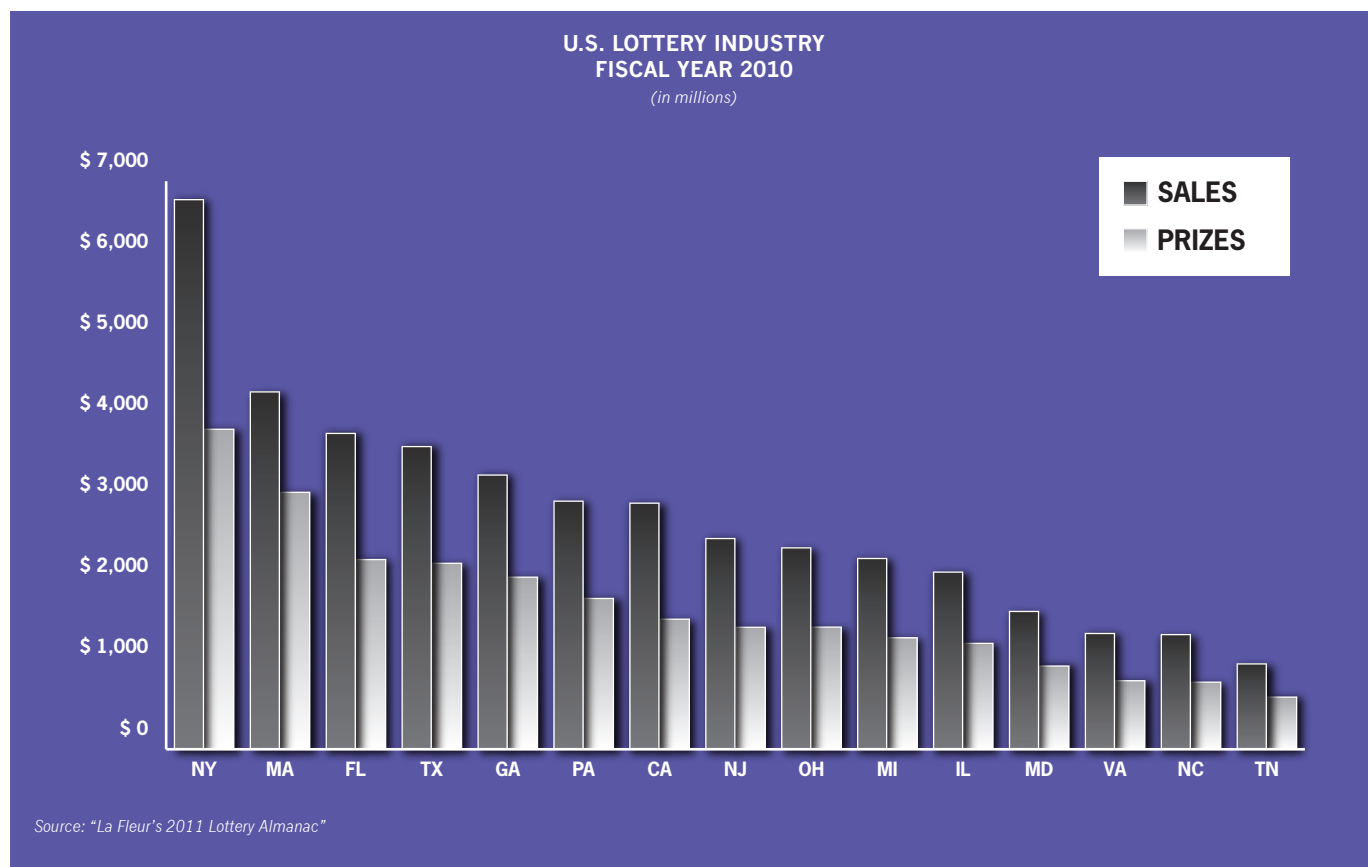
| LOTTERY | POPULATION | TOTAL TICKET SALES | PRIZES | BONUSES COMMISSIONS | OPERATING EXPENSES | PRIZES AS % OF TOTAL SALES | PER CAPITA SALES |
|-------------------|------------|--------------------------|------------|------------------------|-----------------------|----------------------------------|---------------------|
| 1 New York | 19.6 | \$ 6,781.1 | \$ 3,952.0 | \$ 405.9 | \$ 252.6 | 58.3 % | \$ 346.0 |
| 2 Massachusetts | 6.6 | 4,412.1 | 3,174.9 | 259.1 | 86.2 | 72.0 % | 665.0 |
| 3 Florida | 18.7 | 3,900.5 | 2,346.2 | 216.2 | 129.8 | 60.2 % | 209.0 |
| 4 Texas | 25.2 | 3,738.4 | 2,300.2 | 196.2 | 185.3 | 61.5 % | 148.0 |
| 5 Georgia | 9.9 | 3,387.4 | 2,129.1 | 239.3 | 140.4 | 62.9 % | 342.0 |
| 6 Pennsylvania | 12.6 | 3,065.7 | 1,867.1 | 160.1 | 123.6 | 60.9 % | 243.0 |
| 7 California | 37.3 | 3,041.0 | 1,611.4 | 214.5 | 190.9 | 53.0 % | 82.0 |
| 8 New Jersey | 8.7 | 2,605.1 | 1,511.9 | 144.9 | 66.4 | 58.0 % | 298.0 |
| 9 OHIO | 11.5 | 2,490.2 | 1,513.7 | 153.4 | 109.4 | 60.8 % | 216.0 |
| 10 Michigan | 9.9 | 2,359.2 | 1,381.6 | 202.5 | 105.9 | 58.6 % | 238.0 |
| 11 Illinois | 12.9 | 2,191.4 | 1,313.7 | 110.2 | 120.7 | 59.9 % | 169.0 |
| 12 Maryland | 5.7 | 1,706.6 | 1,034.2 | 113.1 | 58.0 | 60.6 % | 297.0 |
| 13 Virginia | 8.0 | 1,435.1 | 852.7 | 80.4 | 73.8 | 59.4 % | 180.0 |
| 14 North Carolina | 9.5 | 1,421.3 | 835.3 | 99.3 | 59.3 | 58.8 % | 150.0 |
| 15 Tennessee | 6.3 | 1,060.1 | 651.2 | 74.3 | 49.8 | 61.4 % | 167.0 |

(a) Sales does not include video lottery, (b) Latest information available

The fiscal year ends June 30, 2010 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, 2010.

Source: "La Fleur's 2011 World Lottery Almanac"

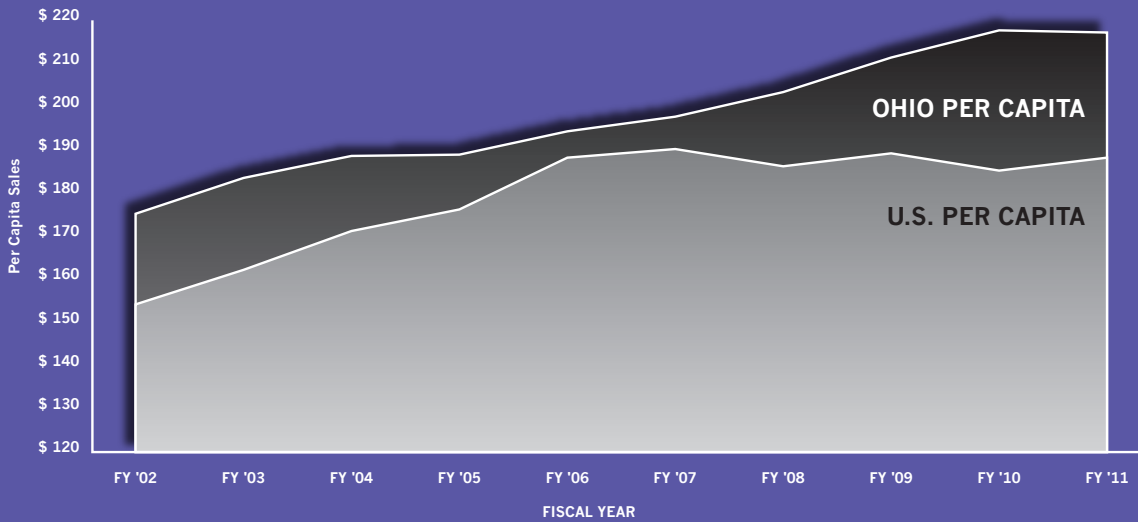


**OHIO LOTTERY - PER CAPITA SALES
LAST TEN FISCAL YEARS**

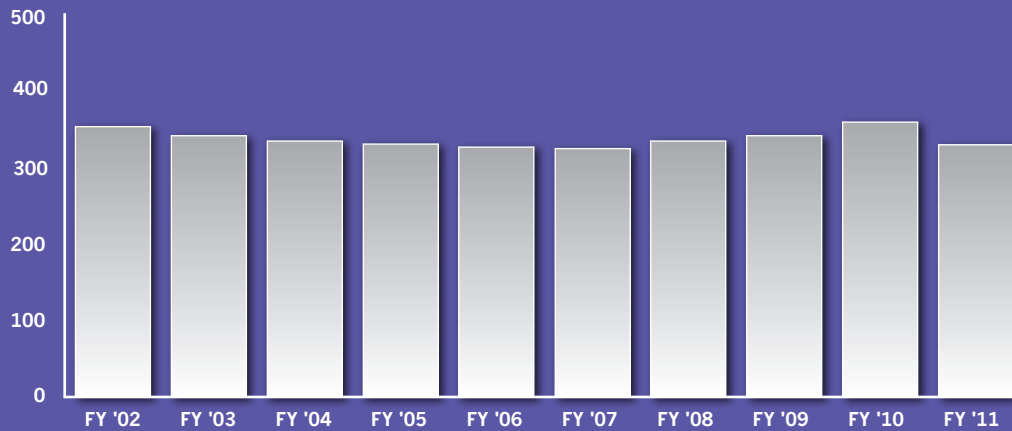
(In Millions)

| Fiscal Year | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| OHIO | | | | | | | | | | |
| Population | 11.4 | 11.4 | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 |
| Ticket Sales | \$1,983.1 | \$2,078.2 | \$2,154.7 | \$2,159.1 | \$2,220.9 | \$2,259.4 | \$2,325.1 | \$2,417.7 | \$2,490.2 | \$2,601.0 |
| Per Capita Sales | \$ 174.0 | \$ 182.3 | \$ 187.4 | \$ 187.7 | \$ 193.1 | \$ 196.5 | \$ 202.2 | \$ 210.2 | \$ 216.5 | \$ 216.0 |
| National Per Capita Sales | \$ 153.0 | \$ 161.0 | \$ 170.0 | \$ 175.0 | \$ 187.0 | \$ 189.0 | \$ 185.0 | \$ 188.0 | \$ 184.0 | \$ 187.0 |

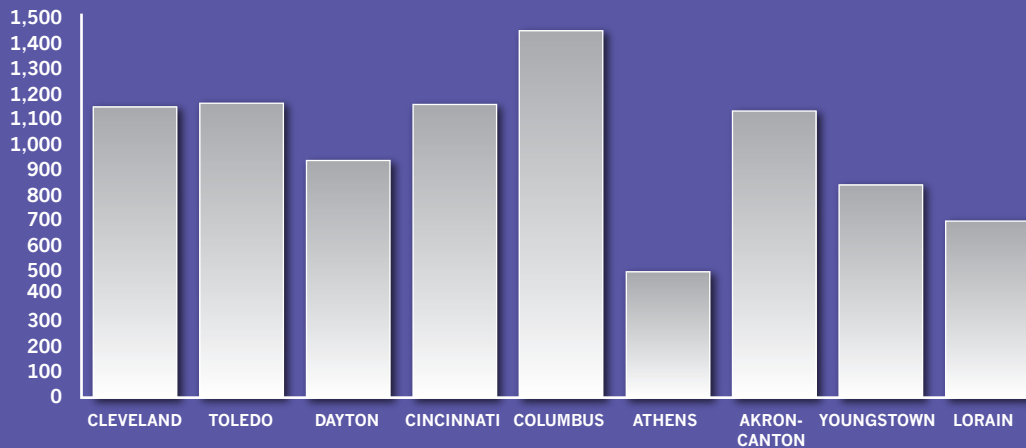
**OHIO LOTTERY AND U.S. LOTTERIES
PER CAPITA SALES
LAST TEN FISCAL YEARS**



OHIO LOTTERY - NUMBER OF EMPLOYEES
LAST TEN FISCAL YEARS
AS OF JUNE 30, 2011



OHIO LOTTERY - RETAILERS BY REGION
TOTAL LOTTERY RETAILERS: 9,068
AS OF JUNE 30, 2011 (ACTIVE RETAILERS ONLY)



OHIO LOTTERY - NUMBER OF RETAILERS
LAST TEN FISCAL YEARS
AS OF JUNE 30, 2011

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| TOTAL RETAILERS | 9,019 | 8,882 | 8,801 | 8,754 | 8,559 | 8,154 | 8,005 | 8,748 | 8,770 | 9,068 |

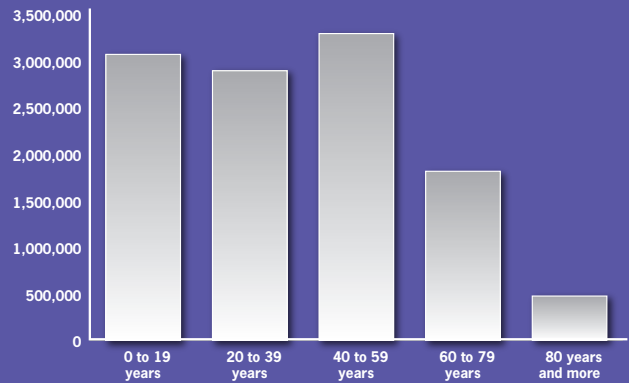
POPULATION BY GENDER
(ANNUAL ESTIMATES JULY 1, 2009)

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



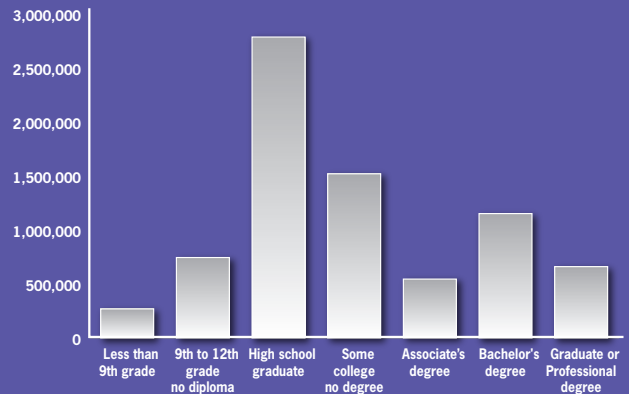
POPULATION BY AGE
(ANNUAL ESTIMATES JULY 1, 2009)

| Population by Age | Number | Percent |
|-------------------------------|-------------------|---------------|
| 0 to 19 years | 3,067,126 | 26.6% |
| 20 to 39 years | 2,891,567 | 25.1% |
| 40 to 59 years | 3,290,417 | 28.5% |
| 60 to 79 years | 1,813,162 | 15.7% |
| 80 years and more..... | 474,262 | 4.1% |
| Total Population | 11,536,573 | 100.0% |
| Median Age | 39 | |



EDUCATION
(2009)

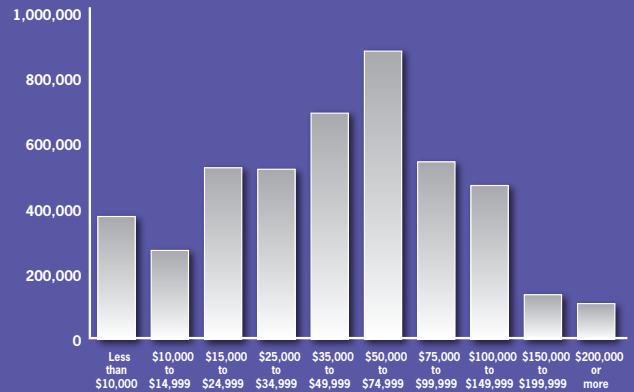
| Educational Attainment | Number | Percent |
|---------------------------------------|------------------|---------------|
| Less than 9th grade | 268,504 | 3.5% |
| 9th to 12th grade, no diploma | 744,140 | 9.7% |
| High school graduate | 2,784,773 | 36.3% |
| Some college, no degree | 1,518,967 | 19.8% |
| Associate degree | 544,680 | 7.1% |
| Bachelor's degree..... | 1,150,733 | 15.0% |
| Graduate or professional degree..... | 659,753 | 8.6% |
| Persons 25 years and over..... | 7,671,550 | 100.0% |



U.S. Census Bureau - 2010 American Community Survey, Ohio Department of Development
Note: percentages may not add to 100% due to rounding.

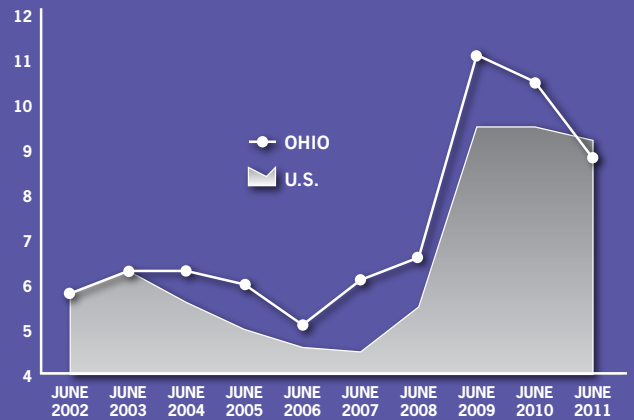
HOUSEHOLD INCOME (2009)

| Household Income | Number | Percent |
|--------------------------------|----------------|---------------|
| Less than \$10,000 | 375672 | 8.3% |
| \$10,000 to \$14,999 | 271570 | 6.0% |
| \$15,000 to \$24,999 | 525035 | 11.6% |
| \$25,000 to \$34,999 | 520509 | 11.5% |
| \$35,000 to \$49,999 | 692503 | 15.3% |
| \$50,000 to \$74,999 | 882602 | 19.5% |
| \$75,000 to \$99,999 | 543140 | 12.0% |
| \$100,000 to \$149,999 | 470721 | 10.4% |
| \$150,000 to \$199,999 | 135785 | 3.0% |
| \$200,000 or more | 108628 | 2.4% |
| Total Households | 4526164 | 100.0% |
| Median Household Income | 47144 | |



UNEMPLOYMENT RATES SEASONALLY ADJUSTED

| Month / Year | Ohio | U.S. |
|--------------|------|------|
| June 2002 | 5.8 | 5.8 |
| June 2003 | 6.3 | 6.3 |
| June 2004 | 6.3 | 5.6 |
| June 2005 | 6.0 | 5.0 |
| June 2006 | 5.1 | 4.6 |
| June 2007 | 6.1 | 4.5 |
| June 2008 | 6.6 | 5.5 |
| June 2009 | 11.1 | 9.5 |
| June 2010 | 10.5 | 9.5 |
| June 2011 | 8.8 | 9.2 |



Source: Ohio Department of Job & Family Services

STATE OF OHIO - PRINCIPAL EMPLOYERS FOR CALENDAR YEAR 2009 AND 1999

| 2009 | | | | 1999 | | |
|------|------------------------------------|-----------|-----------------------------|------|-----------|-----------------------------|
| Rank | Employer | Employees | % of Total State Employment | Rank | Employees | % of Total State Employment |
| 1 | United States Government | 78,553 | 1.21% | 1 | 82,806 | 1.23% |
| 2 | State of Ohio | 55,007 | 0.85% | 2 | 62,055 | 0.92% |
| 3 | Wal-Mart Stores | 54,200 | 0.84% | 8 | 17,900 | 0.27% |
| 4 | Kroger Company | 38,000 | 0.59% | 5 | 25,000 | 0.37% |
| 5 | Cleveland Clinic Health System | 37,800 | 0.58% | 6 | 20,000 | 0.30% |
| 6 | Catholic Healthcare Partners | 28,200 | 0.44% | | | |
| 7 | The Ohio State University | 26,800 | 0.41% | | | |
| 8 | University Hospitals Health System | 21,800 | 0.34% | | | |
| 9 | JP Morgan Chase & Co. | 17,500 | 0.27% | | | |
| 10 | Giant Eagle, Inc | 17,000 | 0.26% | | | |
| | General Motors Corporation | | | 3 | 27,700 | 0.41% |
| | Delphi Automotive | | | 4 | 27,000 | 0.40% |
| | Ford Motor Company | | | 7 | 18,900 | 0.28% |
| | General Electric Company | | | 9 | 17,400 | 0.26% |
| | Procter & Gamble Company | | | 10 | 15,500 | 0.23% |

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





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