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OHIO LOTTERY COMMISSION

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AN ENTERPRISE FUND OF THE STATE OF OHIO

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COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

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FOR THE FISCAL YEARS ENDED  
JUNE 30, 1999 & 1998

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PREPARED BY THE FINANCE DIVISION

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OHIO LOTTERY COMMISSION  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 YEARS ENDED JUNE 30, 1999 & 1998

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## 1970s

1971

State Senator Ron Mottl spearheads statewide lobbying effort.

May 8, 1973

Voters approve State Issue #1, creating the Ohio Lottery, by a 3-1 margin.

February 1974

Operations begin.

Aug. 13, 1974

*Buckeye 300*, first weekly 50-cent game, goes on sale.

Oct. 27, 1974

Thistledown race track in Cleveland hosts first millionaire drawing.  
Omar Watts becomes first millionaire.

Feb. 27, 1975

First TV show broadcast.

May 6, 1975

*Lucky Buck*, first weekly \$1 game, goes on sale.

June 24, 1976

First instant ticket scratch-off game, *Ohio Instant Lottery*, goes on sale.

Dec. 3, 1979

*The Number*, Ohio's first on-line game, goes on sale, 6 days a week.  
It is now known as *Pick 3*.



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

October 29, 1999

The Ohio Lottery offers to you this Comprehensive Annual Financial Report of the Ohio Lottery Commission (the "Ohio Lottery") for the year ended June 30, 1999. The Finance Division of the Ohio Lottery has prepared this report. The Lottery is an agency of the State of Ohio. It was created in July of 1974 and is operated as a business enterprise within the framework of the state laws and regulations. The Lottery's mission is to maximize revenues to provide funds for the educational system of the State of Ohio (the "State") by offering dignified games of chance to the public at large.

The Lottery is an enterprise fund of the State of Ohio and is included in the State's Comprehensive Annual Financial Report. Lottery activity is reported using the enterprise fund type. That fund includes all activity for which the Ohio Lottery is financially accountable. No data related to any other State agency or fund is included.

The Comprehensive Annual Financial Report presents an overview of the Ohio Lottery. The report follows formal standards of the Government Finance Officers Association. Government organizations that publish this report can be compared to each other because similar kinds of information are included in these sections:

**Introductory Section** – includes this formal transmittal letter describing the Ohio Lottery and its business activities, a list of principal officers, the Commission's organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded for the fiscal year 1998. This section is not audited because it contains subjective information.

**Financial Section** – begins with the State Auditor's report followed by the comparative financial statements for the Lottery, related notes to the financial statements and certain supplemental schedules.

**Statistical Section** – contains selected financial data including trend data specific to the Ohio Lottery. Additional information on the national lottery industry is also included.

The accuracy of the financial data and the completeness of the presentation, including all disclosures, is the responsibility of the Ohio Lottery Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Ohio Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

## **THE LOTTERY INDUSTRY**

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 \$.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.

Lotteries are now viewed by many as a passive form of taxation that generates revenue for programs that benefit the public. To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Sales of tickets increased significantly in the early 90's. Today 37 states and the District of Columbia operate lotteries using computer-based online games and instant "scratch off" games. More than 87% of the U.S. population resides in a state operating a lottery.

Many Americans believe that lotteries are a good way to raise public funds. In 1998, GTECH, an international hardware and software vendor to the lottery industry, conducted a national gaming survey. That summary showed that 72% of American adults approve of lotteries, 70% had played lotteries in the last year, 69% prefer lotteries to higher taxes and 76% believe lotteries create jobs.

### **ECONOMIC OUTLOOK**

In the early 90's, the Lottery industry experienced double digit growth. From Fiscal Year 93 to Fiscal Year 97 the growth rate declined from 16% to 3.7%. In Fiscal Year 1998, U.S. lottery sales increased just \$63.4 million to \$35.8 billion. The increase was .18%. In Fiscal Year 1999, 11 of the 38 U.S. lotteries experienced a downturn in sales, ranging from .1% to 16.5%. For the last four years, total U.S. lottery sales have shown only a single-digit percentage growth over the previous year. The erosion of sales on core online products, like daily numbers games, and the slow down of instant ticket sales growth has had a significant impact on revenues. Total U.S. gaming revenue increased in 1998 by 6.6%, a reflection on the strong economy and available disposable income. Almost the entire increase, however, was in casino table and machine games.

For Lotteries, only states with Powerball and Video Lottery Terminals had substantive sales increases in FY 1999. The same was true the previous year. Across the country, 4 digit games increased by .7%, 3 digit by .1%, Cash Lotto declined by 1.5% and Lotto games declined by 2.1%. Instant tickets had a .7% increase. Overall, lottery sales increased from \$35.8 billion in Fiscal Year 98 to \$36.5 billion in Fiscal Year 99. The increase was 1.5%.

Record jackpots for Powerball and The Big Game helped states participating in those multi-jurisdiction games to significantly increase sales over the last two years. Many observers believe those record jackpots are a short-term sales boost that may become the long-term demise of the rest of the industry.

For Ohio, total sales declined 2.3% from \$2.195 billion in FY 98 to \$2.144 billion in FY 99. Only Pick 4 had a sales increase and that was a very modest .9%. Pick 3 declined by 5.1%, Buckeye 5 dropped by 4.9%, Kicker by 5.4% and Super Lotto by 5.3%. Instant ticket sales stayed very near the FY 98 level. Sales were down by only \$3 million from \$1.131 billion to \$1.128 billion in FY 99.

U.S. lotteries have been operating in an outstanding economic climate. The end of Fiscal Year 1999 marks 8.5 years of uninterrupted growth since the recession of early 1991. This economic cycle has been marked by slow but steady growth. Interest rates

dropped through most of FY 98 and FY 99. This has been good news for many businesses and homebuyers. But, those interest rates have been a problem for pension funds and lottery games with payouts over twenty-five years. Expenses have increased greatly because more funds must be invested initially to ensure long-term prizes are accumulated. The recent upward trend in interest rates may begin to ease some of that pressure on prize expense.

In addition to the factors affecting all U.S. lotteries and the economy, other factors specific to the State of Ohio are having an impact on Ohio sales. Ohio is a mature lottery that is celebrating its 25<sup>th</sup> year of operation as of August 1999. It has had a mature and stable set of online games that have produced consistent results with sales near \$1.1 billion for over twelve years. Those games have not been changed for over seven years. Customers are beginning to see them as 'passe' and lacking excitement. Sales are still very good but have declined from \$1.168 billion in FY 96 to \$1.105 billion in FY 97 to \$1.106 billion in FY 98 and now to \$1.016 billion in FY 99. Pick 3 and Super Lotto are the largest online games. Sales for these two games have declined consistently over the last four years. The Lottery understands the need to revitalize the online product. Action has been taken to boost sales in Pick 3 with a Red•Ball promotion at the end of FY 99 and the introduction of mid day draws in August 1999. Research on a change to the Super Lotto game is in progress. Action to reinvigorate the remainder of the online product will follow the completion of these initial changes.

Gambling casinos are now open in Windsor and Niagara Falls, Canada. The MGM Grand Casino opened just months ago in Detroit, Michigan. Riverboat casinos have been opened in Illinois and Indiana. The Rising Sun and Argosy riverboat casinos in Indiana are only twenty minutes from Ohio population centers of Cincinnati and Dayton. West Virginia has Video Lottery Terminals at its racetracks. West Virginia, Kentucky and Indiana all sell Powerball. There are many other gaming interests now available to Ohio residents. Those gaming interests outside of Ohio spent over \$14 million on advertising in our state to bring Ohio players to their venues. Ohio had decreased spending on advertising starting with FY 96 to increase efficiency and control costs. It must now substantially increase advertising expenditures to effectively compete. The FY 2000 budget authorizes the Ohio Lottery to spend as much as \$21.5 million on advertising. This is an increase of \$5.7 million.

The Ohio Lottery is well managed and one of the most successful lotteries in the U.S., ranking sixth of thirty-eight lotteries in FY 99 in total sales. During the year, the International Gaming and Wagering Business magazine determined that the Ohio Lottery was one of the four most efficiently and effectively run lotteries in the United States. Sales per capita are good and costs are controlled. In spite of that, the growth that occurred in FY 95 and 96 can not be sustained. Increased competition from a number of sources has changed the outlook from growth to maintenance. Sales dropped from a high of \$2.314 billion in FY 96 to \$2.300 billion in FY 97 to \$2.195 billion in FY 98. Sales declined again in FY 99 to \$2.144 billion. Online sales have averaged \$1.1 billion for the past twelve years. Online sales peaked at \$1.200 billion in FY 93, then declined to a low of \$1.016 billion in FY 99. From FY 93 to FY 97, instant tickets were the growth products. Sales jumped from \$775 million in FY 93 to \$1.032 billion in FY 95 to \$1.195 billion in FY 97. Revenue and the number of tickets sold increased each year. That pattern changed in FY 97. Revenue went up with the addition of the \$3 and \$10 tickets. The number of tickets sold decreased from 889 million to 843 million. In FY 98, revenue declined from \$1.195 billion to \$1.131 billion and the number of tickets

sold declined further to 793 million. In FY 99 the Lottery was able to change that trend with sales that almost equaled those of the previous year at \$1.128 billion. In FY 2000, the Lottery is adding many new instant tickets with new styles of play and increased prize payouts. A sales increase is anticipated.

## LOTTERY PRODUCTS

The Ohio Lottery provides the opportunity to participate in different games with two styles of play, instant games and online games. Descriptions of the games and their portion of sales follows:

*INSTANT GAMES* are played by scratching the latex covering off the play area on the ticket. There are different ways to win in an instant or "scratch off" game, including 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 recently become the Lottery's dominant product. In FY 92, instant games sold \$584.2 million, 34.7% of the \$1.685 billion in sales that year. In FY 97, instant games had grown so that for the first time they accounted for more than half of sales at \$1.195 billion. In FY 99, 52.6% of sales came from the instant games. Instant games had little growth until multiple game strategies were introduced. As many as 48 games are now printed annually including seasonal games and special holiday games. Instant games are sold for \$1.00, \$2.00, \$3.00, \$5.00 and \$10.00. The \$3.00 and \$10.00 games were introduced in 1997 with the Ohio Lottery being the first U.S. lottery ever to market a \$10.00 instant game. A new \$7.00 ticket will be added in FY 2000.

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

Super Lotto is generally considered Ohio's most popular online game. The current game in its 6/47 format (6 winning numbers are selected from 47), was introduced in 1991. Jackpots start at \$4 million. The jackpot grows by at least \$4 million increments if there is no winner. Players have grown increasingly apathetic to jackpots of less than \$20 million. Sales increased from \$370 million in 1994 to \$455 million in 1996. That trend changed in 1997. Super Lotto sales dropped to \$410 million, then to \$384 million in FY 98 and still further in FY 99 to \$364 million. Sales for this game are dependent on the jackpots offered. Sales for FY 95 and FY 96 were excellent with numerous large jackpots. In FY 96, there were three \$30 million jackpots and one for \$36 million. In FY 97, jackpots did not reach those levels as often and sales declined. In FY 98, jackpots were either very large or small. In FY 99, one jackpot reached \$45 million. The remainder was \$24 million or less. Super Lotto accounted for 17.0% of sales in FY 99. Drawings are held on Wednesdays and Saturdays.

The Kicker is an online game that can be purchased along with Super Lotto. To win the top prize of \$100,000, all six numbers must be matched in exact order. Lesser prizes are awarded for 5 of 6, 4 of 6 and 3 of 6 matches. Kicker sales are the lowest for the online games. Sales for FY 99 were \$57.2 million, about 2.7% of sales.

Pick 3 was Ohio's first online game. Players pick three numbers from 0 to 9 and can play the numbers straight (numbers in exact order), boxed (numbers in any order) or as backup bets (players can win either or both ways). In 1996, the Lottery premiered wheel

wagering which allows a player to win all possible combinations of a Pick 3 wager. In the past, Pick 3 has accounted for \$420 to \$450 million in annual sales. Sales for FY 98 were \$421 million. Sales declined further in FY 99 to \$399 million, approximately 18.6% of total sales.

Pick 4 is played like Pick 3 only players choose four numbers from 0 to 9 and may play them straight, boxed or in back-up bets. Pick 4 began in 1981. Sales have increased annually and topped \$125.0 million in 1999. The game accounts for 5.8% of sales. Both Pick 3 and Pick 4 are played Monday through Saturday.

Buckeye 5, a 5/37 online game was introduced in 1992 and has four drawings a week. The game has better odds but lower payout than SuperLotto. Players select and must match five numbers to win the top prize of \$100,000. Buckeye 5 sales have dropped since 1993. It generated \$69.9 million in sales in FY 99, down 4.9% from FY 98. That sales decline was less than experienced in the last two years.

### **ACCOMPLISHMENTS AND FINANCIAL OVERVIEW**

The Ohio Lottery has just completed the four best years on record. It has done what any well managed business is supposed to do; produce high sales, keep expenses low and maximize profit.

- Sales for FY 96 were \$2.314 billion, the highest ever. That was followed by FY 97 sales of \$2.300 billion and FY 98 sales of \$2.195 billion. In FY 99 sales were \$2.144 billion. Those are the four highest sales years ever for the Ohio Lottery.
- Operating expenses have been consistently held at low levels and as a percentage of sales have been the lowest in Lottery history. Operating expenses were only 3.9% in FY 96, 4.0% in FY 97 and 3.9% again in FY 98. In FY 99 operating expense was again maintained at a low level, only \$88.9 million or 4.1% of sales. Operating expenses were at the 5.0% + level in the years up to and including FY 94. Lowered operating expense is the result of reductions in personnel costs, telecommunications costs and advertising costs.
- With high sales and reduced costs, transfers to education have been maximized. The Lottery provided \$726.5 million to education in FY 96, \$748.5 million in FY 97 and \$723.8 million in FY 98. Payments to education had never previously exceeded \$660 million. In FY 99, the \$700 million mark was narrowly missed. Total payments to education were \$696.3 million.

In addition to these quantitative accomplishments, the Lottery made continuing improvements in the operational and administrative areas. Several of these improvements are cited below:

- Developed and implemented a new Claims Information System. This system significantly expands the Lottery's ability to process and report on prize payments. As part of the project, every claim ever paid was reviewed and reconciled to ensure the accuracy of the database.



- Stemmed the decline in instant ticket sales by revising the ticket mix to meet our customer's desires, increasing prize payout, improving ticket distribution and introducing new Instant ticket products such as "Cash & Cars".
- Implemented the Red•Ball promotion to the Pick 3 game. The promotion increased prize payout on Pick 3 by approximately 20% any time a special red bonus ball was selected. As part of this promotion, agent commitment to the Pick 3 game was reinvigorated with the first agent incentive for performance done in the last five years.
- Implemented a new payment plan that allows annuity winners of Super Lotto to change to the cash option within 60 days of claiming. Established a new administrative rule allowing past annuity winners to cash out their remaining payments at a discounted lump sum. This program began July 1, 1999 and will remain in force for the next 18 months. To date, nearly 300 winners have used this option.
- Planned and executed actions needed to implement game enhancements and new prizes in FY 2000. Based on those actions, the Lottery implemented mid day draws for Pick 3 and Pick 4 on August 16, 1999. The Lottery also added a new special prize to the Cash Explosion show that will be featured during the 25<sup>th</sup> Anniversary; four-year college scholarships valued at \$20,000 each.
- Completed work on the Year 2000 Project. All critical systems were remediated and tested and deemed to be Y2K ready. The major administrative support systems were also reviewed and made Y2K ready by June 30, 1999. An independent validation and verification was performed by a subcontractor of the State of Ohio who concluded that it is probable that the Ohio Lottery systems will process dates accurately in the year 2000.

## **ACCOUNTING SYSTEMS AND POLICIES**

The Ohio Lottery Commission operates three enterprise funds, which utilize the accrual basis of accounting in accordance with generally accepted accounting principles. The Lottery manages the following funds:

### #044 Lottery Operating Fund

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

### #871 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.

### #872 Unclaimed Prize Fund

The Unclaimed Prize Fund receives cash transfers from the Lottery Operating fund each month in an amount equal to the prizes unclaimed after the cashing eligibility has expired. The balances in this fund are used for transfers to education to fund special

projects such as the computerization of all Ohio public schools and/or vouchered prize payments for special games.

### **BUDGETARY CONTROL**

Budgetary control for all state agencies is maintained through legislative appropriations and the executive branch allotment. An encumbrance system is utilized, whereby purchase orders reserve portions of applicable appropriations. The appropriation and the amount expended for #044 Lottery Operating Fund, #871 Deferred Prize Fund and #872 Unclaimed Prize Fund are monitored by the Ohio Office of Budget and Management (OBM). The adopted budget is divided among the operating departments at the Lottery who have responsibility for delivery of service. These departments control the funds within their program. The Finance Division monitors all accounts via the State of Ohio Central Accounting System and its own accounting reporting system, Solomon. Additionally, the Lottery conducted and published a Mid-Year Review in 1999 to show revenue and expenditure trends and implement any changes necessary to keep both within appropriation and under internal management targets set by the Director.

### **INTERNAL CONTROL ENVIROMENT**

Management of the Lottery is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft or misuse and to ensure that the accounting system allows for compilation of accurate and timely financial information. Financial information must be reported at monthly public meetings of the Ohio Lottery Commission. The structure is designed to provide reasonable, but not absolute assurance that these objectives are met.

To enhance controls over accounting procedures, the Ohio Lottery has segregated the following functions: personnel and payroll, purchasing, accounts payable and general ledger and accounts receivable processing. Additionally, a Contract Compliance Officer monitors the procurement and execution of all large vendor contracts. Data input and processing is separate from system programming. An internal audit team reviews all areas of operations and reports to the Director. The internal audit role was expanded and improved in 1997. At the beginning of Fiscal Year 1997 and for each Fiscal Year since, an audit plan has been promulgated by the Lottery and approved by the Auditor of State. Results of these internal audits have been submitted to the Auditor of State for review and consideration in its financial audit. An Information Security manager monitors and audits automated systems. An Electronic Data Program Audit Plan has been established and is executed annually to further improve internal controls. The plan for Fiscal Year 2000 has been approved and a contract to execute the plan has been awarded.

Since the Lottery manages a valuable ticket inventory and controls the disbursement of prizes, we take the following steps to ensure the operations remain honest and secure:

- Hiring a specialized security and law enforcement staff.
- Maintaining secure Lottery facilities and limiting access to them.
- Performing background checks on retailers, contractors and Lottery employees.
- Printing Lottery tickets with special paper, inks, dyes and security codes.
- Establishing and executing detailed procedures for all game drawings.
- Contracting with the Auditor of State as an independent witness to further ensure the integrity of our drawings and the Cash Explosion game show.

\*Providing a variety of access and other controls in our computer systems.

## **FINANCIAL INFORMATION**

The Ohio Lottery Commission 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 Lottery or included in this report.

## **DEBT ADMINISTRATION**

The Lottery's long-term liabilities are limited to payments owed to deferred prizewinners. The payments due are fully funded by an investment portfolio managed by the Treasurer of the State of Ohio and shown as restricted assets of the Lottery on its balance sheets.

## **CASH MANAGEMENT**

The Lottery's excess cash is invested by the Treasurer of the State of Ohio in U.S. Treasury securities, repurchase agreements, bankers' acceptance and certificates of deposit with qualified public depositories. In addition, the Ohio Lottery, through the Treasurer of State's Investment Department, participates in a securities lending program to increase its overall return on invested funds. The lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker/dealer in exchange for collateral (principally consisting of cash or U.S. government obligations).

The Lottery collects cash due from ticket sales from its 9,400 retail agents on a weekly basis. Funds are electronically swept from the agents designated bank accounts. Over \$1.0 billion was collected via this system in 1999. Timely payment was made on 99.6% of accounts owed. About \$4.0 million was returned unpaid and recorded as non-transfer of funds. Those agents were deactivated and could not sell tickets until payment was received and posted. Over \$2.6 million or 65% of that amount was paid within ten days. Claims were made against agents' bonds in 513 cases with payments totaling \$1.2 million. This amount was certified to the Attorney General for collection. Bond payments totaled \$886,000 with agents paying an additional \$359,000 at that time. Sixty-three cases worth \$128,000 were forwarded to the Attorney General for collection when all other means failed.

## **RISK MANAGEMENT**

The Lottery is exposed to various risks of loss related to thefts, damage or destruction of assets, injuries and natural disasters. The State's risks management and insurance program is controlled by the State Department of Administrative Services (DAS). The Lottery pays a premium to DAS for professional and motor vehicle insurance. Retail sales agents are required to carry a bond equal to one-month sales.

## **FUTURE PROJECTS**

The games offered by the Ohio Lottery have been or are under review to determine enhancements and changes needed. Initial changes have been implemented to the Pick 3 and Pick 4 games at the outset of FY 2000. Additional game enhancements and promotions for all online games and instant tickets are under review and will be considered for implementation over the next two years.

## GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1998. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a one-year period. The Ohio Lottery has received a Certificate of Achievement for the last two years (fiscal years ended 1997 and 1998). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

## INDEPENDENT AUDIT

Ohio statutes require an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audits of the Lottery Commission. The FY 98 and FY 99 audits of the Lottery's financial statements have been completed in conformity with generally accepted auditing standards. The auditor's unqualified opinion of the Lottery's financial statements is included in the financial section of this report.

## ACKNOWLEDGMENTS

Preparation of this report could not have been accomplished without the efficient and dedicated efforts of the entire Finance Division. A special note of thanks is given to the General Accounting Department headed by Greg Bowers; with the assistance of Michele Olivo and their staff members Jane Parker, Pam Schleicher, Anna Callas and Marian Heine.

The Comprehensive Annual Financial Report reflects our commitment to improve the Lottery's financial statements and record keeping systems to meet the highest standards of accountability. The Ohio Lottery is committed to continually improving financial management and clearly communicating its financial story. It is important for the public to know that the Ohio Lottery's financial condition is properly reported including payments made to education. Due credit should be given to Commission President Sandra Barber and the members of the Lottery Commission for their commitment to operating the Lottery in a responsible and progressive manner.

Respectfully Submitted,



Gale W. Fisk, Deputy Director of Finance



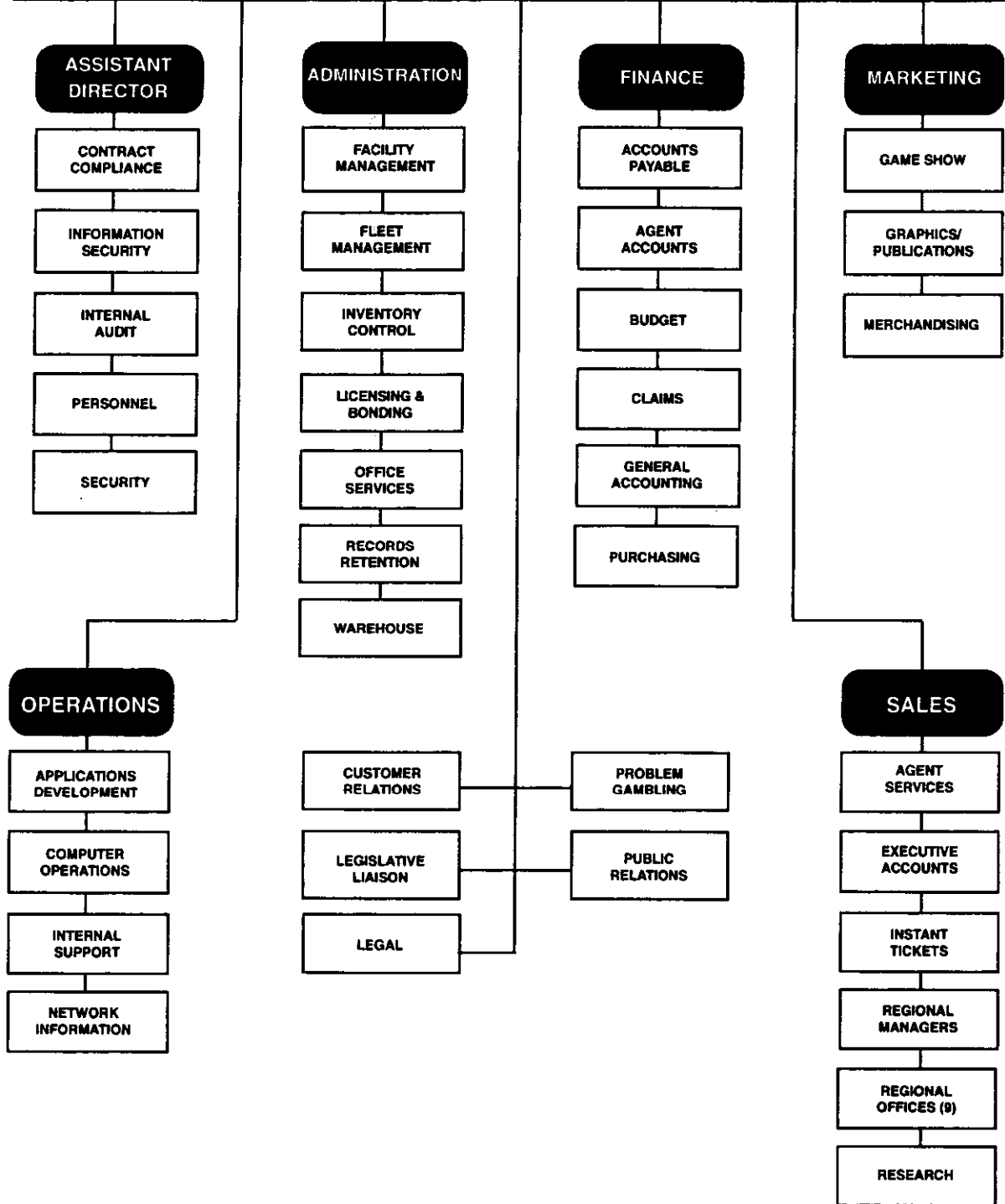
Mitchell J. Brown, Executive Director

MITCHELL J. BROWN  
Ohio Lottery Director

BOB TAFT  
Governor of Ohio

OHIO LOTTERY COMMISSIONERS

**OHIO LOTTERY COMMISSION STRUCTURE OF ORGANIZATION • Fiscal Year 1999**



# PRINCIPAL OFFICIALS • OHIO LOTTERY COMMISSION



**Bob Taft**  
*Governor of Ohio*



**Mitchell J. Brown**  
*Director*



**Sandra K. Barber**  
*Commission Chair*  
Term ends: 8/1/2002



**Andrew J. Futey**  
*Commissioner*  
Term ends: 8/1/2001



**Donét D. Graves**  
*Commissioner*  
Term ends: 8/1/2001



**David P. Miller**  
*Commissioner*  
Term ends: 8/1/2001



**Walter Nagorny**  
*Commissioner*  
Term ended: 8/1/1999



**Michele A. Roberts**  
*Commissioner*  
Term ends: 8/1/2002



**Gisela Rosenbaum**  
*Commissioner*  
Term ends: 8/1/2000



**David Skylar**  
*Commissioner*  
Term ends: 8/1/2000



**Elden Spencer**  
*Commissioner*  
Term ends: 8/1/2000



# 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, 1998

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.



*Cary Brubaker*  
President

*Jeffrey L. Esler*  
Executive Director



## 1980s

**April 1981**

*Pick 4* goes on sale.

**April 9, 1983**

*Ohio Lotto (6/40)* goes on sale with Saturday drawing.

**July 1, 1983**

State Legislature designates that Lottery profits are “earmarked for primary/secondary education.”

**February 1984**

Ohio becomes the first state lottery in the nation to use EFT system for “paperless” agent payments.

**October 1984**

*Ohio Lotto* goes to two draws a week – Wednesday & Saturday — with jackpot rollovers.

**Feb. 19, 1986**

*Super Lotto (6/44)* goes on sale, with Wednesday drawings.

**July 1986**

*Quick Cash* bank program begins.

**Feb. 7, 1987**

Lottery airs first *Cash Explosion*® TV show.

**April 18, 1987**

*Super Lotto* drawings go to Wednesdays and Saturdays.

**March 17, 1988**

Lawmakers create Lottery Profits Education Fund.

**April 27, 1988**

*Kicker* game goes on sale.

**Sept. 18, 1988**

TV show changes its name to *Cash Explosion*® *Double Play*.





STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

Lausche Building, 12<sup>th</sup> Floor  
615 Superior Avenue, NW  
Cleveland, Ohio 44113  
Telephone 216-787 3665  
800-626-2297  
Facsimile 216-787 3361  
www.auditor.state.oh.us

## REPORT OF INDEPENDENT ACCOUNTANTS

Ohio Lottery Commission  
615 Superior Avenue NW  
Cleveland, Ohio 44113

We have audited the accompanying general-purpose financial statements of the Ohio Lottery Commission (the Commission), an enterprise fund of the State of Ohio, as of and for the years ended June 30, 1999 and 1998. These general-purpose financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Ohio Lottery Commission enterprise fund of the State of Ohio and are not intended to present fairly the financial position of the State of Ohio and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

As described in Note 3 to the accompanying general-purpose financial statements, during fiscal year 1999 the Commission changed its method of reporting cash flows.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 1999, on our consideration of the Commission's internal control over financial reporting for this fund, and our tests of its compliance with certain provisions of laws, regulations, contracts and grants applicable to this fund.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Commission, taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the general-purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general-purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and therefore express no opinion thereon.

JIM PETRO  
Auditor of State

October 29, 1999

## OHIO LOTTERY COMMISSION • COMPARATIVE BALANCE SHEET • JUNE 30, 1999 &amp; 1998

ASSETS:	1999	1998
<b>Current Assets:</b>		
Cash	\$362,657	\$20,116,147
Equity in State of Ohio common cash and investments	117,228,373	140,454,966
Collateral on lent securities	86,361,923	107,111,470
Other investments	11,850,000	11,160,000
Receivables - Net of allowance for doubtful accounts	28,350,769	23,519,194
Prepaid expenses and other assets	5,834,205	6,416,529
<b>Total Current Assets</b>	<b>249,987,927</b>	<b>308,778,306</b>
<b>Restricted Assets:</b>		
Equity in State of Ohio common cash and investments	39,276,000	22,153,312
Dedicated State of Ohio investments	1,351,695,094	1,397,217,746
Collateral on lent securities	1,004,041,722	1,255,785,397
Interest receivable	10,159,091	15,964,137
<b>Total Restricted Assets</b>	<b>2,405,171,907</b>	<b>2,691,120,592</b>
<b>Equipment:</b>		
Fixed assets - Net of accumulated depreciation	21,676,901	33,615,047
<b>TOTAL ASSETS</b>	<b>\$2,676,836,735</b>	<b>\$3,033,513,945</b>
<b>LIABILITIES AND FUND EQUITY:</b>		
<b>Current Liabilities - (Payable from current assets):</b>		
Obligations under securities lending program	\$86,361,923	\$107,111,470
Prize awards payable	20,077,115	19,431,075
Accounts and contracts payable	8,002,424	9,458,989
Due other State of Ohio entities	252,645	541,307
Other liabilities	1,429,560	1,359,859
Deferred revenue	1,240,524	2,183,781
Current portion of equipment capital lease obligation	1,000,879	13,482,255
<b>Total Current Liabilities - (Payable from current assets)</b>	<b>118,365,070</b>	<b>153,568,736</b>
<b>Current Liabilities - (Payable from restricted assets):</b>		
Obligations under securities lending program	1,004,041,722	1,255,785,397
Deferred prizes payable - Net of unamortized discount	74,942,372	68,634,327
<b>Total Current Liabilities - (Payable from restricted assets)</b>	<b>1,078,984,094</b>	<b>1,324,419,724</b>
<b>Long-Term Liabilities:</b>		
Deferred prizes payable - Net of unamortized discount	1,282,777,730	1,289,128,271
Long-term portion of equipment capital lease obligation	2,190,762	3,191,652
Compensated absences and other long-term liabilities	1,997,237	1,875,986
<b>Total Long-Term Liabilities</b>	<b>1,286,965,729</b>	<b>1,294,195,909</b>
<b>TOTAL LIABILITIES</b>	<b>2,484,314,893</b>	<b>2,772,184,369</b>
<b>FUND EQUITY - Retained Earnings:</b>		
Unreserved	149,111,759	183,756,979
Reserved - deferred prizes	24,954,379	24,362,568
	174,066,138	208,119,547
Additional Reserve for Deferred Prizes - net unrealized appreciation on restricted investments	18,455,704	53,210,029
<b>TOTAL FUND EQUITY</b>	<b>192,521,842</b>	<b>261,329,576</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$2,676,836,735</b>	<b>\$3,033,513,945</b>

The accompanying notes to the financial statements are an integral part of this statement

**OHIO LOTTERY COMMISSION**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**FOR THE YEARS ENDED JUNE 30, 1999 & 1998**

	1999	1998
<b>REVENUE:</b>		
Ticket Sales	\$2,144,726,310	\$2,195,796,964
Other Revenue	5,772,502	5,367,020
<b>Total Operating Revenue</b>	2,150,498,812	2,201,163,984
<b>EXPENSES:</b>		
<b>Prizes, Bonuses and Commission Expense:</b>		
Prize Awards	1,259,766,338	1,244,715,121
Bonuses and Commissions	134,614,180	137,845,726
<b>Total Prizes, Bonuses and Commission Expense</b>	1,394,380,518	1,382,560,847
<b>Operating Expenses:</b>		
Personal Services	54,333,881	49,815,293
Maintenance	20,795,857	22,472,353
Depreciation	13,631,498	14,048,171
Other Expenses	137,570	204,050
<b>Total Operating Expenses</b>	88,898,806	86,539,867
<b>OPERATING INCOME (LOSS)</b>	667,219,488	732,063,270
<b>Non-Operating Revenues (Expenses):</b>		
Interest Income	121,518,451	225,083,909
Amortization of Deferred Prize Liabilities	(99,203,818)	(100,689,547)
Loss on Equipment Disposal	(230,551)	(2,839,300)
Interest Expense - Borrower Rebates	(60,595,099)	(68,334,075)
Agent Fees	(618,278)	(483,448)
Interest Expense on Capital Lease	(595,226)	(1,725,841)
Payments to the Lottery Profits Education Fund	(696,302,701)	(723,864,739)
<b>Total Non-Operating Expenses</b>	(736,027,222)	(672,853,041)
<b>NET INCOME (LOSS)</b>	(68,807,734)	59,210,229
<b>RETAINED EARNINGS JULY 1</b>	261,329,576	202,119,347
<b>RETAINED EARNINGS JUNE 30</b>	\$192,521,842	\$261,329,576

*The accompanying notes to the financial statements are an integral part of this statement.*

**OHIO LOTTERY COMMISSION • COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 1999 & 1998**

	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Customers	\$2,138,951,478	\$2,213,173,146
Cash Payments for Prize Awards	(1,259,162,794)	(1,228,791,823)
Cash Payments for Bonuses and Commissions	(134,664,002)	(137,821,349)
Cash Payments for Goods and Services	(56,316,965)	(52,125,712)
Cash Payments to Employees	(19,803,701)	(19,415,843)
Other Operating Revenues	5,772,502	5,367,020
Other Operating Expenses	(137,570)	(204,050)
Net Cash Provided by (used) in Operating Activities	<u>674,638,948</u>	<u>780,181,389</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payments to the State of Ohio	(696,302,701)	(723,864,739)
Inter-Fund Transfers	0	0
Amortization of Deferred Prize Liability	(99,203,818)	(100,689,547)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>(795,506,519)</u>	<u>(824,554,286)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of Property and Equipment	(1,923,902)	(3,012,226)
Proceeds from Sale of Property and Equipment	0	1,108,698
Repayment of Equipment Obligation	(13,482,266)	(16,467,283)
Interest Paid on Equipment Obligation	(595,226)	(1,725,841)
Net Cash Used by Capital and Related Financing Activities	<u>(16,001,394)</u>	<u>(20,096,652)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Income Received	117,954,043	137,940,853
Interest Expense (Borrower Rebates) and Agent Fees	(61,213,377)	(68,817,523)
Proceeds from the Sale or Maturity of Dedicated State of Ohio Investments	816,620,474	524,518,280
Acquisition of Investments	(761,659,570)	(493,444,021)
Cash Collateral received under Securities Lending Activities	1,090,403,645	1,362,896,867
Investment of Securities Lending Cash Collateral	(1,090,403,645)	(1,362,896,867)
Net Cash Provided by Investing Activities	<u>111,701,570</u>	<u>100,197,589</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>	<u>(25,167,395)</u>	<u>35,728,040</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD:</b>	<u>193,884,425</u>	<u>158,156,385</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD:</b>	<u><u>\$168,717,030</u></u>	<u><u>\$193,884,425</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating Income (Loss)	667,219,488	732,063,270
Adjustments to Reconcile Operating Income (Loss) to net cash provided (used) by operating activities		
Depreciation	13,631,498	14,048,171
Accounts Receivable	(4,831,575)	17,478,211
Prepaid Expenses and Other Assets	513,527	(2,236,871)
Prize Awards Payable	646,040	2,906,894
Accounts Payable	(1,456,565)	3,376,953
Deferred Revenue	(943,258)	(102,029)
Deferred Prize Awards Payable	(42,496)	13,016,404
Compensated Absences and Other Liabilities	(97,711)	(369,614)
Total Adjustments	<u>7,419,460</u>	<u>48,118,119</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$674,638,948</u></u>	<u><u>\$780,181,389</u></u>

The accompanying notes to the financial statements are and integral part of this statement

## 1. DESCRIPTION OF OPERATIONS

The Ohio Lottery Commission (Lottery) was established in August, 1974, under Section 3770 of the Ohio Revised Code (ORC). The 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 (State) and is presented as such in the State's financial statements.

The Lottery is required by law to transfer to the Lottery Profits Education Fund of the State an amount no less than 30% of the total revenue earned from the sale of lottery tickets. The amounts transferred are determined by the Director of the Office of Budget and Management and are to be used to help support primary and secondary education within the State.

The Lottery operates both on-line and instant games. The instant games generated 52.6% and 51.5% of the Lottery's revenue from ticket sales and on-line games generated 47.4% and 48.5% of the Lottery's revenue from ticket sales for the years ended June 30, 1999, and 1998, respectively.

## 2. BASIS OF ACCOUNTING AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The 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 Lottery funds are: the State Lottery Fund (Lottery Operating Fund); the Deferred Prize Fund; and the Unclaimed Prize Fund.

The 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 Lottery are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

### Lottery Operating Fund

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

### Deferred Prize Fund

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

### Unclaimed Prize Fund

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

## OHIO LOTTERY COMMISSION • NOTES TO THE FINANCIAL STATEMENTS • FOR THE YEARS ENDED JUNE 30, 1999 &amp; 1998

**Investments**

The Lottery adopted the provisions of Statement No. 31 "Accounting and Financial Reporting for Certain Investments and External Investment Pools" of the Governmental Accounting Standards Board ("GASB") for the year ended June 30, 1998. Accordingly, the Lottery's investments are stated at fair value (based on quoted market prices) in the accompanying comparative balance sheet and the change in the fair value of the investments is recorded as investment income along with the interest earned on the investments.

The Lottery has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's office which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price at which the investment could be sold.

**Allowance for Doubtful Accounts**

The allowance for doubtful accounts at June 30, 1999 and 1998, of \$286,371 and \$237,568, respectively, are based on an analysis of historical collection experience for accounts receivable which considers the age of the receivable and current economic conditions.

**Restricted Assets**

Restricted assets represent amounts restricted for the payment of deferred prize awards. Upon the awarding of an annuity prize, amounts equal to the present value of the future prize payments are deposited with the Treasurer of the State of Ohio (State Treasurer). The Lottery is either credited with an 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 balance sheets.

**Property and Equipment**

Equipment is 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 two to five years. The estimated useful life for all other equipment can range from five to fifteen years. Approximately 82.35% and 88.97% of the net book value of equipment relates to ticket issuing equipment at June 30, 1999 and 1998, respectively.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting loss is reflected in non-operating expense in the period of disposal.

Property and equipment (including assets held under capital leases) at June 30, 1999 and 1998 consisted of:

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Cost:		
Machinery and Equipment	\$69,100,084	\$68,686,487
Vehicles	3,268,251	3,311,181
Total Property and Equipment	<u>72,368,335</u>	<u>71,997,668</u>
Accumulated Depreciation and Amortization	<u>(50,691,434)</u>	<u>(38,382,621)</u>
Net Fixed Assets	<u>\$21,676,901</u>	<u>\$33,615,047</u>

## OHIO LOTTERY COMMISSION • NOTES TO THE FINANCIAL STATEMENTS • FOR THE YEARS ENDED JUNE 30, 1999 &amp; 1998

Since the year ended June 30, 1994, the Lottery has entered into different capital leases for gaming equipment and computer software. In February 1999, a final installment was paid on one of the capital leases leaving a carrying value of \$17.5 million. 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 Financial Accounting Standards Board (FASB) No. 13, the Lottery is required to disclose the following information regarding capital leases:

**Capital Leases****Gross Assets and Accumulated Amortization**

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Initial Carrying Value:		
Computer Equipment and Systems	\$17,536,097	\$54,559,874
Accumulated Amortization	(14,328,497)	(28,631,770)
Net Capital Leases	<u>\$3,207,600</u>	<u>\$25,928,104</u>

**Capital Leases****Future Minimum Lease Payments and Present Values of the Remaining Minimum Lease Payments**

Fiscal Year Ending June 30,	<u>June 30, 1999</u>
2000	1,165,151
2001	1,165,151
2002	1,165,151
Total Minimum Lease Payments	<u>3,495,453</u>
Imputed Interest	<u>(303,812)</u>
Present Value of Remaining Minimum Lease Payments	<u>\$3,191,641</u>

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

**Deferred Revenue**

Advanced wagers may be placed for all on-line 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.

### **Bonuses and Commissions**

Agents receive a commission of 5.5% based on their total sales. Cashing bonuses are paid on a weekly basis and equal 1% of all redeemed tickets. An additional .5% is awarded to agents if their cash-to-sales ratio is 50% or greater. A \$5 claiming bonus is awarded to agents for completing a claim form for a prize valuing more than \$599. Selling bonuses range from \$500 to \$10,000 and are awarded to agents for selling Super Lotto, Kicker, and Buckeye 5 jackpot winners, as well as Cash Explosion Game Show winning tickets.

### **Compensated Absences**

In conformity with GASB Statement No. 16, the Lottery accrues all types of leave benefits as earned by its employees.

Employees of the Lottery earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining units or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or upon other separation from the Lottery, employees are paid at their hourly rate for 100 percent of unused vacation leave, personal leave, and compensatory time.

Sick leave for all full-time employees is accumulated at a rate of 3.1 hours every two weeks. Upon retirement or other separation from the Lottery, a union employee who has a minimum of five years or an exempt employee who has a minimum of one year of service, can receive payment for their unused sick leave at 50 percent of their hourly rate.

### **Fund Equity**

The reservation of fund equity represents the portion of fund equity that is legally segregated for the payment of deferred prizes. The reserve amount represents the excess of the assets restricted for the payment of deferred prizes over the related liability for deferred prize awards. The portion of the fund equity reserve that is attributable to the unrealized appreciation on the Lottery's restricted investments is presented separately on the accompanying comparative balance sheet in order to disclose the additional fund equity that has been recorded due to the implementation of Statement No.31 of the Governmental Accounting Standards Board (see the "Investments" section of this footnote).

### **Risk Management**

The 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 Lottery generally retains the risk of loss. The Lottery also operates a self insurance program for third party liabilities. The amount of loss arising from these risks was not significant for the years ended June 30, 1999 and 1998. No significant payments were made or liabilities recorded during the years ended June 30, 1999 and 1998 due to self-insured risks.

The Lottery pays a premium to the State for workers' compensation benefits. Professional liability, excluding Commissioners, is protected with a blanket bond from Acordia Mid-Atlantic Specialty with an aggregate coverage totaling \$250,000 and a deductible of \$1,000. The Department of Administrative Services (DAS) Risk Management covers each Commissioner at a maximum of \$10,000, \$90,000 aggregate, with no deductible per Commissioner. Upon inception, Conventional Agents are required to carry a bond of \$5,000 and On-Line Agents are required to carry a bond of \$20,000. On a yearly basis, the agents' required coverage is based on an evaluation of their average annual sales.

The Lottery pays a premium assessed by DAS to cover potential liability related to motor vehicle damage for a maximum of \$1,000,000. The Lottery retains the risk for any liability exceeding this limit.



## OHIO LOTTERY COMMISSION • NOTES TO THE FINANCIAL STATEMENTS • FOR THE YEARS ENDED JUNE 30, 1999 &amp; 1998

The State provides an option to eligible Lottery employees to participate in the OhioMed Health Plan, which was established July 1, 1989, as a fully self-insured health benefit plan. The plan is administered by Medical Mutual of Ohio under a claims administration contract with the State. The Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contribute \$16.44 for single and \$45.12 for family coverage per month and the Lottery contributes \$147.95 for single and \$406.03 for family coverage per month for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The fund balance has experienced a surplus in recent years which has reduced premiums assessed to participants and eliminated the need for the Lottery to record a liability for these benefits. The Lottery's total contributions to the OhioMed Health Plan were \$609,405 and \$626,350 for the years ended June 30, 1999 and 1998, respectively.

The State has contracted with 11 various types of Health Maintenance Organizations (HMO). Lottery employees are eligible to participate in the plans available in their geographic area of residence. HMO claims are paid for by the respective HMO without transfer of risk to the State or the Lottery. Premiums are contracted individually between each HMO and the State of Ohio's Benefits Trust Fund.

Settled claims have not exceeded the Lottery's insurance coverage in any of the past three years.

#### **Budgetary Accounting and Control**

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

- Prizes which are not vouchered are not budgeted;
- Revenues are recorded when received in cash (budget) as opposed to when earned (GAAP);
- Expenses (including deferred prizes) are recorded when paid in cash or encumbered (budget) as opposed to when the liability is incurred (GAAP);
- The budget basis excludes depreciation and amortization, as well as gains and losses on the disposition of equipment.

The Lottery maintains budgetary control by not permitting the total expenditures to exceed appropriations without approval of the General Assembly except for vouchered prize awards for which appropriation amendments may be approved by the Ohio Office of Budget and Management and unvouchered prize expenses which are not budgeted. Certain budget amendments were adopted during the years ended June 30, 1999 and 1998.

**Financial and Reporting for Proprietary Activities**

The Lottery has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting." The Lottery has elected not to apply FASB pronouncements and Accounting Principles Board Opinions issued after November 30, 1989. The Lottery will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

**Securities Lending**

In accordance with GASB Statement No. 28 "Accounting and Financial Reporting for Securities Lending Transactions", the Lottery reports cash received as collateral on securities lending transactions and any investments made with that cash as assets in the accompanying comparative balance sheet. Liabilities to return the collateral to the borrower are also recognized. Securities received as collateral in connection with securities lending activities are not recorded as the assets and liabilities of the Lottery because the Lottery does not have the ability to pledge or sell the securities without a borrower default. The costs of securities lending transactions are reported as expenses in the accompanying comparative statements of revenues, expenses and changes in retained earnings.

**3. STATEMENT OF CASH FLOWS**

In accordance with the provisions of GASB Statement No. 9, the Lottery has prepared a Statement of Cash Flows for the years ended June 30, 1999, and 1998. The Lottery considers the Equity in State of Ohio Common Cash and Investments Account and highly liquid investments, with a maturity of 90 days or less from the date of purchase, to be cash equivalents. During fiscal year 1999, the Ohio Lottery Commission changed the method of presenting its statement of cash flows from the indirect method to the direct method, which is encouraged by GASB No. 9. The Office of Budget and Management advised this change in anticipation of the GASB adoption of a new reporting requirement specified in its Financial Reporting Model Project.

Non cash items included in investment income in 1998 were \$53,210,029 of unrealized gains. Unrealized net losses on investments in the amount of \$34,754,325 were recorded in 1999.

**4. CASH DEPOSITS AND INVESTMENTS**

The Lottery maintains cash on deposit at a commercial bank and with the State Treasurer. The Lottery is authorized by State statutes to invest its moneys in certificates of deposit, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. The Lottery may also enter into repurchase agreements with any eligible depository for periods not to exceed thirty days and is also permitted to engage in security lending transactions with qualified broker-dealers.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities the face value of which is at least 110% 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 Lottery's name.

**Deposits**

As of June 30, 1999, the carrying amount of the Lottery's deposits was \$362,657 and the bank balance was \$362,702, the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$262,702 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board.

## OHIO LOTTERY COMMISSION • NOTES TO THE FINANCIAL STATEMENTS • FOR THE YEARS ENDED JUNE 30, 1999 &amp; 1998

**Investments**

The Lottery's investments at June 30, 1999 are detailed below and are categorized to give an indication of the level of credit risk associated with the Lottery's custodial arrangements at year end. Category 1 includes investments that are insured, registered, or held by the Lottery or its agent in the Lottery's name. Category 2 includes uninsured or unregistered investments held by the counterparty's trust department or its agent in the Lottery's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the Lottery or State's name.

	Category 1	Category 2	Category 3	Total Market/ Carrying Value
<b>Investments Categorized:</b>				
U.S. Government and agency obligations	--	--	\$283,451,293	\$283,451,293
<b>Securities lending collateral:</b>				
Repurchase agreements.....	\$618,043,478	--	--	\$618,043,478
Corporate bonds and notes..	208,635,230	--	--	208,635,230
Commercial Paper	24,726,026			24,726,026
	<u>\$851,404,734</u>	--	<u>\$283,451,293</u>	<u>\$1,134,856,027</u>

**Investments not Categorized:**

<b>Investments held by broker-dealers under security loans-</b>	
U.S. government & agency obligations.....	960,303,641
Equity in State of Ohio common cash and investments account (including \$114,983,777 of securities lent).....	156,504,373
Collateral on loaned securities - Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio common cash and investments account.....	114,983,777
Investment in Treasurer of State investment pool (STAR Ohio).....	119,790,160
Securities lending collateral - mutual funds .....	898,884
Investment contracts .....	123,116,250
<b>Total Investments .....</b>	<b><u>\$2,610,453,112</u></b>

The "Equity in State of Ohio common cash and investments," "Collateral on loaned securities," "Investment in Treasurer of State investment pool (STAROhio)," and mutual fund accounts have not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools' investments and deposits by credit risk may be found in the *State of Ohio Comprehensive Annual Financial Report*, for the fiscal year ended June 30, 1999. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB Statement No. 28.

The total carrying amount of deposits and investments, as of June 30, 1999, categorized and disclosed in this note is \$2,610,815,769. This amount can be reconciled to the balance sheet as follows:

## OHIO LOTTERY COMMISSION • NOTES TO THE FINANCIAL STATEMENTS • FOR THE YEARS ENDED JUNE 30, 1999 &amp; 1998

	Deposits	Investments	Total
<b>Unrestricted Assets:</b>			
Cash .....	\$362,657	--	\$362,657
Equity in State of Ohio common cash and investments *.....	--	\$117,228,373	117,228,373
Collateral on lent securities .....	--	86,361,923	86,361,923
Other investments * .....	--	11,850,000	11,850,000
<b>Restricted Assets:</b>			
Equity in State of Ohio common cash and investments * .....	--	39,276,000	39,276,000
Dedicated State of Ohio investments .....	--	1,351,695,094	1,351,695,094
Collateral on lent securities .....	--	1,004,041,722	1,004,041,722
<b>Total carrying amount per June 30, 1999 balance sheet</b>	<b>\$362,657</b>	<b>\$2,610,453,112</b>	<b>\$2,610,815,769</b>

\* Represents a cash equivalent.

#### **Securities Lending Transactions**

The Lottery Commission through the Treasurer of State's Investment Department participates in a securities lending program for securities included in the "Equity in State of Ohio common cash and investments" and "Dedicated State of Ohio investment" accounts. The lending program, authorized under Section 135.143, Ohio Revised Code, is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. The Lottery has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the lent securities are collateralized at no less than 102 percent of the market value.

For loaned contracts the Treasurer executes on the Lottery's behalf, not more than 15 percent of the State's cash and investment portfolio can be lent to a single broker-dealer.

During the fiscal year, the Treasurer lent U.S. government and agency obligations in exchange for collateral consisting of cash and /or U.S. government obligations. The Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 1999, the collateral the Lottery had received for securities lent consisted entirely of cash, some of which had been temporarily invested by the Lottery in various securities. The Lottery invests cash collateral in short-term obligations, which have a weighted average maturity of 12 to 13 days and generally match the maturities of the securities loans at year end. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 1999, the Lottery did not experience any losses due to credit or market risk on securities lending activities. The 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 1999 due to prior-period losses.

## OHIO LOTTERY COMMISSION • NOTES TO THE FINANCIAL STATEMENTS • FOR THE YEARS ENDED JUNE 30, 1999 &amp; 1998

**5. PRIZE AWARDS**

Prize awards payable from restricted assets as of June 30, 1999 and 1998 consisted of the following:

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Current portion - face amount	\$167,507,274	\$163,195,495
Less: Unamortized discount	<u>(92,564,902)</u>	<u>(94,561,168)</u>
Current portion - present value	<u>74,942,372</u>	<u>68,634,327</u>
Long Term portion - face amount	2,106,280,777	2,150,675,627
Less: Unamortized discount	<u>(823,503,047)</u>	<u>(861,547,356)</u>
Long Term portion - present value	<u>1,282,777,730</u>	<u>1,289,128,271</u>
Total Prize Awards	<u><u>\$1,357,720,102</u></u>	<u><u>\$1,357,762,598</u></u>

Interest rates used to determine the present values ranged from 4.0% to 11.69%. The present value of future payments from restricted assets for deferred prize awards as of June 30, 1999, is summarized as follows:

Year Ending June 30,

2000	\$167,507,274
2001	167,171,037
2002	167,411,274
2003	167,165,549
2004	163,731,508
2005 through 2009	644,167,672
2010 through 2014	377,539,374
2015 thereafter	<u>419,094,363</u>
Subtotal	2,273,788,051
Unamortized discount	<u>(916,067,949)</u>
Net Prize Liability	<u><u>\$1,357,720,102</u></u>

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Lottery is required by law to award prizes to holders of winning lottery tickets equal to, as nearly as is practicable, fifty percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$187 million and \$147 million for the years ended June 30, 1999 and 1998, respectively.

**6. PENSIONS - DEFINED BENEFIT PENSION PLAN**

The Lottery contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple employer, public employee retirement system administered by the Public Employees Retirement Board. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand alone financial report. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

## OHIO LOTTERY COMMISSION • NOTES TO THE FINANCIAL STATEMENTS • FOR THE YEARS ENDED JUNE 30, 1999 &amp; 1998

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the Lottery is required to contribute 13.31 percent. Contributions are authorized by State statute. The Lottery's required contributions to PERS for the years ended June 30, 1999, 1998, and 1997 were \$2,088,367, \$2,020,540 and \$1,975,296, respectively, equal to the required contribution for each year.

## 7. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, PERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contributions to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate for state employees was 13.31% of covered payroll; 4.2% was the portion used to fund health care. During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage. In Fiscal Year 1999 and 1998, \$659,089 and \$644,976, respectively, of the Lottery's total contributions to PERS were used for postretirement benefits. At June 30, 1999, the Lottery was not responsible for paying premiums, contributions, or claims for OPEB under PERS for any retirees, terminated employees, or other beneficiaries. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OPEB is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care and medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Total PERS expenditures for OPEB during 1998 (the latest information available) were \$441 million. As of December 31, 1998, the unaudited net assets available for future OPEB payments were \$9.4 billion. The number of PERS benefit recipients eligible for OPEB at December 31, 1998 was 115,579.

## 8. LITIGATION

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

## 9. TRANSACTIONS WITH OTHER STATE ENTITIES

During the course of normal operations, the Lottery has numerous transactions with various other State entities. Total operating expenses recognized for services provided by other State agencies are summarized as follows for the years ended June 30, 1999 and 1998, respectively:

	<u>1999</u>	<u>1998</u>
Department of Administrative Services (DAS) Expenditures:		
Telecommunications	\$740,989	\$4,106,239
Computer	967,655	1,085,667
Rent	1,052,044	1,050,877
Printing	70,323	57,380
Miscellaneous	<u>494,559</u>	<u>622,518</u>
Total DAS Expenditures	<u>3,325,570</u>	<u>6,922,681</u>
Other Agency Expenditures	<u>397,511</u>	<u>462,932</u>
Total Expenditures	<u>\$3,723,081</u>	<u>\$7,385,613</u>

## OHIO LOTTERY COMMISSION • NOTES TO THE FINANCIAL STATEMENTS • FOR THE YEARS ENDED JUNE 30, 1999 &amp; 1998

## 10. SEGMENT INFORMATION – ENTERPRISE FUNDS

The Lottery operates three enterprise funds. The Operating Fund provides the basic operating needs for the Lottery. Revenues are provided primarily from the sales of Lottery tickets and expenses are composed primarily of prize payments, administration expense and payments to the Lottery Profits Education Fund. The Deferred Prize Fund receives cash transfers from the Operating Fund for the purpose of providing investment principal for funding long-term prize obligations. The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund equal to the amount of prizes that are unclaimed after their cashing eligibility has expired. The balance in the fund is used for the payment of special higher tier prizes at the discretion of the Executive Director. Selected segment information for the years ended June 30, 1999 and 1998 is as follows:

Fiscal Year 1999	Operating Fund	Deferred Prize Fund	Unclaimed Prize Fund	TOTAL
Ticket Sales	\$2,144,726,310	-	-	\$2,144,726,310
Depreciation and Amortization	13,631,498	-	-	13,631,498
Amortization of Deferred Prize Liabilities	-	99,203,818	-	99,203,818
Operating Income (Loss)	737,076,535	(64,857,047)	(5,000,000)	667,219,488
Operating Transfers In (Out)	(103,558,013)	76,664,536	26,893,477	0
Payments to the Lottery				
Profits Education Fund	671,302,701	-	25,000,000	696,302,701
Net Income	(32,839,781)	(34,162,514)	(1,805,439)	(68,807,734)
Property/Equipment: Additions	1,923,902	-	-	1,923,902
Property/Equipment: Disposals	1,553,235	-	-	1,553,235
Net Working Capital	88,933,681	1,326,187,813	42,689,176	1,457,810,670
Increase in Cash &				
Cash Equivalents	(40,520,308)	17,122,688	(1,769,775)	(25,167,395)
Total Assets	197,791,526	2,405,171,907	73,873,302	2,676,836,735
Non-Current Liabilities	4,187,999	1,282,777,730	-	1,286,965,729
Total Fund Equity	106,422,583	43,410,083	42,689,176	192,521,842
Fiscal Year 1998	Operating Fund	Deferred Prize Fund	Unclaimed Prize Fund	TOTAL
Ticket Sales	\$2,195,796,964	-	-	\$2,195,796,964
Depreciation and Amortization	14,048,171	-	-	14,048,171
Amortization of Deferred Prize Liabilities	-	100,689,547	-	100,689,547
Operating Income (Loss)	817,201,476	(80,138,206)	(5,000,000)	732,063,270
Operating Transfers In (Out)	(112,683,716)	80,315,712	32,368,004	0
Payments to the Lottery				
Profits Education Fund	695,200,486	-	28,664,253	723,864,739
Net Income	11,365,539	46,559,935	1,284,755	59,210,229
Property/Equipment: Additions	20,548,323	-	-	20,548,323
Property/Equipment: Disposals	3,947,998	-	-	3,947,998
Net Working Capital	110,714,955	1,366,700,868	44,494,615	1,521,910,438
Increase (Decrease) in Cash &				
Cash Equivalents	30,879,148	3,601,295	1,247,597	35,728,040
Total Assets	264,056,105	2,691,120,592	78,337,248	3,033,513,945
Non-Current Liabilities	5,067,638	1,289,128,271	-	1,294,195,909
Total Fund Equity	139,262,364	77,572,597	44,494,615	261,329,576

**11. SUBSEQUENT EVENT :**

In May 1999, the Lottery adopted an administrative rule (3770-1-8-01) which allows annuity prize winners an opportunity to cash-out their remaining deferred prize payments at a discounted lump sum. This rule is a temporary change to the Internal Revenue Code to allow discounted lump sum cash payments to be made to certain annuity prize winners without the constraints of "constructive receipt". The OLC sent nearly 2,000 letters to existing deferred prize winners notifying them the existence of this option. As of October 15, 1999, nearly 300 have executed this option for a total discounted lump sum value of \$97 million. This option has provided a much desired cash out alternative for annuity winners who did not have a cash option at the time they won or now experience a changed circumstance from the time they elected the annuity option. The option began July 1, 1999 and expires December 31, 2000. It will clearly have an impact on the Lottery's long-term deferred prize award liability.

**12. FINANCIAL STATEMENT PRESENTATION :**

Certain items in the 1998 financial statements were reclassified to conform to the 1999 presentation. Prior to 1999, other revenue & other expenses were classified as non-operating items. These accounts were reclassified into the operating section of the Statement of Revenues, Expenses, and Changes in Retained Earnings.



**SUPPLEMENTAL SCHEDULES**

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OHIO LOTTERY COMMISSION  
**ENTERPRISE FUNDS**  
JUNE 30, 1999

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***Lottery Operating Fund*** - Revenues for this fund are provided primarily from the sale of Lottery tickets. Expenses of the Lottery Operating Fund are composed mainly of operating expenses and prize payments including transfers to the Deferred Prize Fund and payments to the State Education system.

***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. The balance in the Deferred Prize Fund is mainly reduced by vouchered prize payments.

***Unclaimed Prize Fund*** - The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month, in an amount equal to the prizes unclaimed after the cashing eligibility has expired. The balances in this fund are used for transfers or vouchered prize payments.

**OHIO LOTTERY COMMISSION**  
**SUPPLEMENTAL BALANCE SHEET INFORMATION BY FUND • JUNE 30, 1999**

ASSETS:	OPERATING	DEFERRED	UNCLAIMED	TOTAL
<b>Current Assets:</b>				
Cash	\$362,657	\$0	\$0	\$362,657
Equity in State of Ohio common cash and investments	74,611,517	0	42,616,856	117,228,373
Collateral on lent securities	55,177,797	0	31,184,126	86,361,923
Other investments	11,850,000	0	0	11,850,000
Receivables - Net of allowance for doubtful accounts	28,350,769	0	0	28,350,769
Prepaid expenses and other assets	5,761,885	0	72,320	5,834,205
<b>Total Current Assets</b>	<b>176,114,625</b>	<b>0</b>	<b>73,873,302</b>	<b>249,987,927</b>
<b>Restricted Assets:</b>				
Equity in State of Ohio common cash and investments	0	39,276,000	0	39,276,000
Dedicated State of Ohio investments	0	1,351,695,094	0	1,351,695,094
Collateral on lent securities	0	1,004,041,722	0	1,004,041,722
Interest receivable	0	10,159,091	0	10,159,091
<b>Total Restricted Assets</b>	<b>0</b>	<b>2,405,171,907</b>	<b>0</b>	<b>2,405,171,907</b>
<b>Equipment:</b>				
Fixed assets - Net of accumulated depreciation	21,676,901	0	0	21,676,901
<b>TOTAL ASSETS</b>	<b>\$197,791,526</b>	<b>\$2,405,171,907</b>	<b>\$73,873,302</b>	<b>\$2,676,836,735</b>
<b>LIABILITIES AND FUND EQUITY:</b>				
<b>Current Liabilities - (Payable from current assets):</b>				
Obligations under securities lending program	\$55,177,797	\$0	\$31,184,126	\$86,361,923
Prize awards payable	20,077,115	0	0	20,077,115
Accounts and contracts payable	8,002,424	0	0	8,002,424
Due other State of Ohio entities	252,645	0	0	252,645
Other liabilities	1,429,560	0	0	1,429,560
Deferred revenue	1,240,524	0	0	1,240,524
Current portion of equipment capital lease obligation	1,000,879	0	0	1,000,879
<b>Total Current Liabilities - (Payable from current assets)</b>	<b>87,180,944</b>	<b>0</b>	<b>31,184,126</b>	<b>118,365,070</b>
<b>Current Liabilities - (Payable from restricted assets):</b>				
Obligations under securities lending program	0	1,004,041,722	0	1,004,041,722
Deferred prizes payable - Net of unamortized discount	0	74,942,372	0	74,942,372
<b>Total Current Liabilities - (Payable from restricted assets)</b>	<b>0</b>	<b>1,078,984,094</b>	<b>0</b>	<b>1,078,984,094</b>
<b>Long-Term Liabilities:</b>				
Deferred prizes payable - Net of unamortized discount	0	1,282,777,730	0	1,282,777,730
Long-term portion of equipment capital lease obligation	2,190,762	0	0	2,190,762
Compensated absences and other long-term liabilities	1,997,237	0	0	1,997,237
<b>Total Long-Term Liabilities</b>	<b>4,187,999</b>	<b>1,282,777,730</b>	<b>0</b>	<b>1,286,965,729</b>
<b>TOTAL LIABILITIES</b>	<b>91,368,943</b>	<b>2,361,761,824</b>	<b>31,184,126</b>	<b>2,484,314,893</b>
<b>FUND EQUITY - Retained Earnings:</b>				
Unreserved	106,422,583	0	42,689,176	149,111,759
Reserved - deferred prizes	0	24,954,379	0	24,954,379
	106,422,583	24,954,379	42,689,176	174,066,138
Additional Reserve for Deferred Prizes - net unrealized appreciation on restricted investments	0	18,455,704	0	18,455,704
<b>TOTAL FUND EQUITY</b>	<b>106,422,583</b>	<b>43,410,083</b>	<b>42,689,176</b>	<b>192,521,842</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$197,791,526</b>	<b>\$2,405,171,907</b>	<b>\$73,873,302</b>	<b>\$2,676,836,735</b>

*The accompanying notes to the financial statements are an integral part of this statement.*

**OHIO LOTTERY COMMISSION**  
**SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN RETAINED EARNINGS BY FUND**  
**FOR THE YEAR ENDED JUNE 30, 1999**

	<b>OPERATING</b>	<b>DEFERRED</b>	<b>UNCLAIMED</b>	<b>TOTAL</b>
<b>REVENUE:</b>				
Ticket Sales	\$2,144,726,310	\$0	\$0	\$2,144,726,310
Other Revenue	3,965,014	1,807,488	0	5,772,502
<b>Total Operating Revenue</b>	<b>2,148,691,324</b>	<b>1,807,488</b>	<b>0</b>	<b>2,150,498,812</b>
<b>EXPENSES:</b>				
<b>Prizes, Bonuses and Commission Expense:</b>				
Prize Awards	1,188,101,803	66,664,535	5,000,000	1,259,766,338
Bonuses and Commissions	134,614,180	0	0	134,614,180
<b>Total Prizes, Bonuses and Commission Expense</b>	<b>1,322,715,983</b>	<b>66,664,535</b>	<b>5,000,000</b>	<b>1,394,380,518</b>
<b>Operating Expenses:</b>				
Personal Services	54,333,881	0	0	54,333,881
Maintenance	20,795,857	0	0	20,795,857
Depreciation	13,631,498	0	0	13,631,498
Other Expenses	137,570	0	0	137,570
<b>Total Operating Expenses</b>	<b>88,898,806</b>	<b>0</b>	<b>0</b>	<b>88,898,806</b>
<b>OPERATING INCOME (LOSS)</b>	<b>737,076,535</b>	<b>(64,857,047)</b>	<b>(5,000,000)</b>	<b>667,219,488</b>
<b>Non-Operating Revenues (Expenses):</b>				
Interest Income	5,770,175	114,447,192	1,301,084	121,518,451
Amortization of Deferred Prize Liabilities	0	(99,203,818)	0	(99,203,818)
Loss on Equipment Disposal	(230,551)	0	0	(230,551)
Interest Expense - Borrower Rebates	0	(60,595,099)	0	(60,595,099)
Agent Fees	0	(618,278)	0	(618,278)
Interest Expense on Capital Lease	(595,226)	0	0	(595,226)
Payments to the Lottery Profits Education Fund	(671,302,701)	0	(25,000,000)	(696,302,701)
<b>Total Non-Operating Expenses</b>	<b>(666,358,303)</b>	<b>(45,970,003)</b>	<b>(23,698,916)</b>	<b>(736,027,222)</b>
	70,718,232	(110,827,050)	(28,698,916)	(68,807,734)
<b>TRANSFERS:</b>				
Transfers to the Deferred Prize Trust Fund (871)	(76,664,536)	76,664,536	0	0
Transfers to the Unclaimed Prize Fund (872)	(26,893,477)	0	26,893,477	0
<b>Total Transfers</b>	<b>(103,558,013)</b>	<b>76,664,536</b>	<b>26,893,477</b>	<b>0</b>
<b>NET INCOME (LOSS)</b>	<b>(32,839,781)</b>	<b>(34,162,514)</b>	<b>(1,805,439)</b>	<b>(68,807,734)</b>
<b>RETAINED EARNINGS JULY 1</b>	<b>139,262,364</b>	<b>77,572,597</b>	<b>44,494,615</b>	<b>261,329,576</b>
<b>RETAINED EARNINGS JUNE 30</b>	<b>\$106,422,583</b>	<b>\$43,410,083</b>	<b>\$42,689,176</b>	<b>\$192,521,842</b>

The accompanying notes to the financial statements are an integral part of this statement.

OHIO LOTTERY COMMISSION • SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION BY FUND  
FOR THE YEAR ENDED JUNE 30, 1999

	OPERATING	DEFERRED PRIZE	UNCLAIMED PRIZE	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash Received from Customers	\$2,138,951,478	\$0	\$0	\$2,138,951,478
Cash Payments for Prize Awards	(1,187,455,763)	(66,707,031)	(5,000,000)	(1,259,162,794)
Cash Payments for Bonuses and Commissions	(134,664,002)	0	0	(134,664,002)
Cash Payments for Goods and Services	(56,316,965)	0	0	(56,316,965)
Cash Payments to Employees	(19,803,701)	0	0	(19,803,701)
Other Operating Revenues	3,965,014	1,807,488	0	5,772,502
Other Operating Expenses	(137,570)	0	0	(137,570)
Net Cash Provided by (used) in Operating Activities	744,538,491	(64,899,543)	(5,000,000)	674,638,948
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Payments to the State of Ohio	(671,302,701)	0	(25,000,000)	(696,302,701)
Inter-Fund Transfers	(103,558,013)	76,664,536	26,893,477	0
Amortization of Deferred Prize Liability	0	(99,203,818)	0	(99,203,818)
Net Cash Provided (Used) by NonCapital Financing Activities	(774,860,714)	(22,539,282)	1,893,477	(795,506,519)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of Property and Equipment	(1,923,902)	0	0	(1,923,902)
Proceeds from Sale of Property and Equipment	0	0	0	0
Repayment of Equipment Obligation	(13,482,266)	0	0	(13,482,266)
Interest Paid on Equipment Obligation	(595,226)	0	0	(595,226)
Net Cash Used by Capital and Related Financing Activities	(16,001,394)	0	0	(16,001,394)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment Income Received	5,803,309	110,813,986	1,336,748	117,954,043
Interest Expense (Borrower Rebates) and Agent Fees	0	(61,213,377)	0	(61,213,377)
Proceeds from the Sale or Maturity of Dedicated State of Ohio Investments	0	816,620,474	0	816,620,474
Acquisition of Investments	0	(761,659,570)	0	(761,659,570)
Cash Collateral received under Securities Lending Activities	55,177,797	1,004,041,722	31,184,126	1,090,403,645
Investment of Securities Lending Cash Collateral	(55,177,797)	(1,004,041,722)	(31,184,126)	(1,090,403,645)
Net Cash Provided by Investing Activities	5,803,309	104,561,513	1,336,748	111,701,570
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>	(40,520,308)	17,122,688	(1,769,775)	(25,167,395)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD:</b>	127,344,482	22,153,312	44,386,631	193,884,425
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD:</b>	\$86,824,174	\$39,276,000	\$42,616,856	\$168,717,030
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	737,076,535	(64,857,047)	(5,000,000)	667,219,488
Adjustments to Reconcile Operating Income (Loss) to net cash provided (used) by operating activities:				
Depreciation	13,631,498	0	0	13,631,498
Accounts Receivable	(4,831,575)	0	0	(4,831,575)
Prepaid Expenses and Other Assets	513,527	0	0	513,527
Prize Awards Payable	646,040	0	0	646,040
Accounts Payable	(1,456,565)	0	0	(1,456,565)
Deferred Revenue	(943,258)	0	0	(943,258)
Deferred Prize Awards Payable	0	(42,496)	0	(42,496)
Compensated Absences and Other Liabilities	(97,711)	0	0	(97,711)
Total Adjustments	7,461,956	(42,496)	0	7,419,460
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$744,538,491</b>	<b>(\$64,899,543)</b>	<b>(\$5,000,000)</b>	<b>\$674,638,948</b>

The accompanying notes to the financial statements are an integral part of this statement.

OHIO LOTTERY COMMISSION  
 SUPPLEMENTAL SCHEDULE OF RECEIPTS, EXPENSES, AND PAYMENTS BUDGET AND ACTUAL  
 (NON-GAAP BUDGETARY BASIS)  
 FOR THE YEAR ENDED JUNE 30, 1999 (In millions)

	<u>APPROVED BUDGET (1)</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>RECEIPTS</b>			
Ticket Sales	\$2,204.5	\$2,144.7	(\$59.8)
Other Revenue	79.1	102.7	23.6
<i>Total Receipts</i>	<u>2,283.6</u>	<u>2,247.4</u>	<u>(36.2)</u>
<b>EXPENSES</b>			
Payroll and Personal Services	20.9	20.1	0.8
Maintenance and Supplies	27.0	16.9	10.1
Equipment	3.8	2.4	1.4
Contracts	61.2	51.4	9.8
Vouchered Prizes, Bonuses and Commissions	195.6	184.9	10.7 (2)
Annuity Prizes	170.0	167.9	2.1
Unclaimed Prizes	5.0	5.0	0.0
<i>Total Expenses</i>	<u>483.5</u>	<u>448.6</u>	<u>34.9</u>
<b>EXCESS OF RECEIPTS OVER EXPENSES</b>	1,800.1	1,798.8	(1.3)
<b>PAYMENTS IN (OUT):</b>			
Payments to Lottery Profits Education Fund	<u>(713.8)</u>	<u>(696.3)</u>	<u>17.5</u>
<b>EXCESS OF RECEIPTS OVER EXPENSES AND PAYMENTS</b>	<u>\$1,086.3</u>	<u>\$1,102.5</u>	<u>\$16.2</u>

(1) Reported budgeted amounts are as originally adopted and amended by the General Assembly and the Office of Budget and Management.

(2) Vouchered prizes do not include those prizes cashed at participating agent and bank locations.

## OHIO LOTTERY COMMISSION • YEAR 2000 READINESS DISCLOSURE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the Ohio Lottery Commissions' (Lottery) operation in the year 2000.

The Lottery recognized the importance of this issue early and began action in the awareness phase by the beginning of Fiscal Year 1997. Three (3) areas were identified as critical for assessment and remediation: 1) the on-line gaming system; 2) the instant ticket gaming system; and 3) the administrative support systems. The most critical area of operations was the gaming system.

1. On-Line Gaming System: By November 1996, the Lottery had meetings with other lotteries and with the gaming vendor, GTECH, to review a new gaming system that would substantially enhance capability and would be Year 2000 compliant. This system would replace a system nearing its full capacity with one that is modularly integrated with graphic user interface and a scalable platform. The New Central Computer System, PRO:SYS was ready for testing by April 1997. It was installed and went into full production by July 31, 1997. The Lottery and GTECH believe this system to be Y2K compliant.
2. The Instant Ticket Gaming System was assessed, remediated and tested for Year 2000 compliance and an upgraded system was in operation by December 1998. At that time, the Lottery had incorporated programming changes needed to process dates for the Year 2000 and beyond correctly for its gaming systems. This system is believed to be Y2K compliant.
3. Administrative support systems: The Lottery had also determined that most of the administrative support systems used to manage the Lottery were not compliant. Needs were assessed. Specifications were written and a contract was awarded to *Compuware* on March 9, 1998. The contract required assessment, remediation and testing of the administrative support systems to operate and manage this \$2.1 billion enterprise. The contract obligated \$206,400 for Fiscal Year 1998 and \$280,000 for Fiscal Year 1999. The contract was completed by December 1998 with all administrative support systems believed to be capable of properly processing dates for the Year 2000. Efficiencies developed by the contractor in concert with the Lottery and completed the project at a cost of \$331,457.

Additionally, the agency created a plan for assessing and remediating secondary systems including the Local and Wide Area Networks, the Client Server databases, and the external data interfaces with the Department of Administrative Services (DAS), Office of Budget and Management (OBM) and National City Bank (NCB).

The State identified 31 systems as mission critical, including the lottery's on-line and instant gaming systems. To ensure that needed action had been taken, the Department of Administrative Services (DAS), State of Ohio contracted for a Year 2000 Independent Verification and Validation Audit Report of the gaming systems of the Ohio Lottery Commission. Representatives of *Logtec, Inc.* conducted an on-site review in April 1999 and attended the full Y2K test of the gaming system performed on July 19, 1999. *Logtec, Inc.* completed a final report in September which concluded that it is probable that the gaming systems of the Ohio Lottery will process data correctly in the year 2000.

The report makes five (5) recommendations on areas that do not directly impact the gaming systems, but require additional effort. The areas are as follows:

**1) Ongoing Renovation, Upgrades and Testing**

GTECH Corporation developed a "Year 2000 Readiness Guide." The document described Y2K issues in GTECH'S worldwide software and hardware that is common to all of GTECH'S lottery sites. The Lottery should continue to provide management oversight to ensure GTECH incorporates required changes by January 1, 2000. The OLC is working with GTECH to monitor this progress on an on-going basis.

**2) Contingency Planning**

A business continuity plan should be developed. GTECH has completed a draft of their corporate contingency plan. The Ohio Lottery has also prepared a plan for continuity of operations. Eight (8) areas are addressed in this plan:

## OHIO LOTTERY COMMISSION • YEAR 2000 READINESS DISCLOSURE

- Mission critical nature of the area/service,
- Potential disruption to the service,
- Risk mitigation,
- Identify the contingency plan and the criteria for activating.
- Provide procedures for responding to the disruption.
- Identification of temporary strategies,
- Procedures for restoring services, and
- Explanation of Business Continuity training.

**3) Ambiguous Data Display**

The on-line display of the Retailer Summary Report had a data field incorrectly displayed in the PC's computer clock. This is a very minor concern. GTECH plans to correct this item in the next screen code revision.

**4) Infrastructure/Facilities**

The infrastructure for the Lottery's nine (9) regional Offices was checked. Eight (8) of the nine (9) facilities have letters from their contractors indicating they are Y2K compliant. All PC's and servers at those sites are believed to be compliant. The lottery is planning a site visit to determine the Y2K status of the final regional office.

**5) High-Level Project Plan**

The *Logtec* report recommended that the OLC develop a High-Level Project Plan that contains both OLC and GTECH Y2K tasks and responsibilities. That plan would be updated so the OLC can assess what items remain to be completed for Y2K compliance. This plan has been implemented and lottery management will monitor this plan on an on-going basis.

**Payroll services:** The Department of Administrative Services (DAS) provides payroll processing services for the lottery. DAS is responsible for remediation and all associated costs with this system. DAS has **represented** to us that the system has been remediated and at this point the system is in the testing and validation stage.

**Financial Applications:** The lottery uses a financial reporting system (CAS) controlled by the Office of Budget & Management (OBM) for certain accounting information. OBM is responsible for CAS and has **represented** to the lottery that the system has been remediated, tested and validated to be year 2000 compliant. The lottery also uses an internal general ledger software package provided by Solomon Software for financial statement preparation. The software company has provided Y2K upgrades for this package. This software package is believed to be year 2000 compliant.

**Banking services:** National City Bank provides banking services as well as electronic fund transfer (EFT) of weekly sales collection via Automated Clearing House (ACH). Processing of EFT data by NCB has been tested and complies with National Automated Clearing House Association (NACHA) guidelines. National City has informed us that remediation of their mission critical systems has been completed as of December 1998 and testing was completed by mid 1999.

**Utilities:** The OLC has contacted the utility companies for each regional location and has confirmed the year 2000 readiness of each facility from the lessors. The utilities at lottery central are provided by the following:

The Cleveland Electric Illuminating Co. (CEI) provides electricity to the lottery. CEI asserts all critical computer systems are scheduled to be year 2000 compliant.

The City of Cleveland provides water to the lottery, and has not provided assurance to the lottery regarding remediation of this system.

Ameritech provides service for most of the telecommunications systems at the lottery. Ameritech provided assurance of year 2000 compliance in April of 1999 for all services provided to the lottery.

The Ohio Lottery Commission also maintains backup power generator capabilities sufficient to run the gaming system computers and heat/lighting/electricity at lottery headquarters for a minimum of 7 days.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Ohio Lottery is or will be Year 2000 ready, that the Lottery's remediation efforts will be successful in whole or in part, or that parties with whom the Lottery does business will by year 2000 ready.



# 1990s



## January 1990

- Zipcash system begins to streamline instant ticket validation,
- Marketing concept of "Maximum Scratch" begins, Lottery offers more than one instant game at a time.

## July 27, 1990

*Cards* game goes on sale.

## August 1990

Problem gambling program begins.

## September 1990

*Super Lotto 6/53* goes on sale.

## Jan. 12, 1991

*Super Lotto 6/47* goes on sale with cash option, \$26-million jackpot cap, and Millionaire-of-the-Month drawings.

## April 1992

First instant ticket vending machine (ITVM) installed.

## May 3, 1992

*Buckeye 5 (5/37)* replaces *Cards*.

## November 1992

First \$2 game, *Holiday Surprise*, sells out in record time.

## November 1992

Direct-mail instant ticket promotion has 38 percent redemption rate.

## February 1993

*Cash Explosion*® instant game sells its one billionth ticket; Lottery offers \$1 million prize.

## Aug. 2, 1993

First \$5 instant game, *Anniversary Millions*, goes on sale.

## February 1994

All state employees begin quality training program.

## June 2, 1995

Fiscal year sales top \$2 billion milestone.

## November 1996

*Stocking Stuffer* goes on sale, first \$10 instant game in U.S.

## February 1997

First \$3 game, extended-play *Bingo*, goes on sale.

## June, 1999

*Red Ball* promotion begins for *Pick 3*.

## August 1999

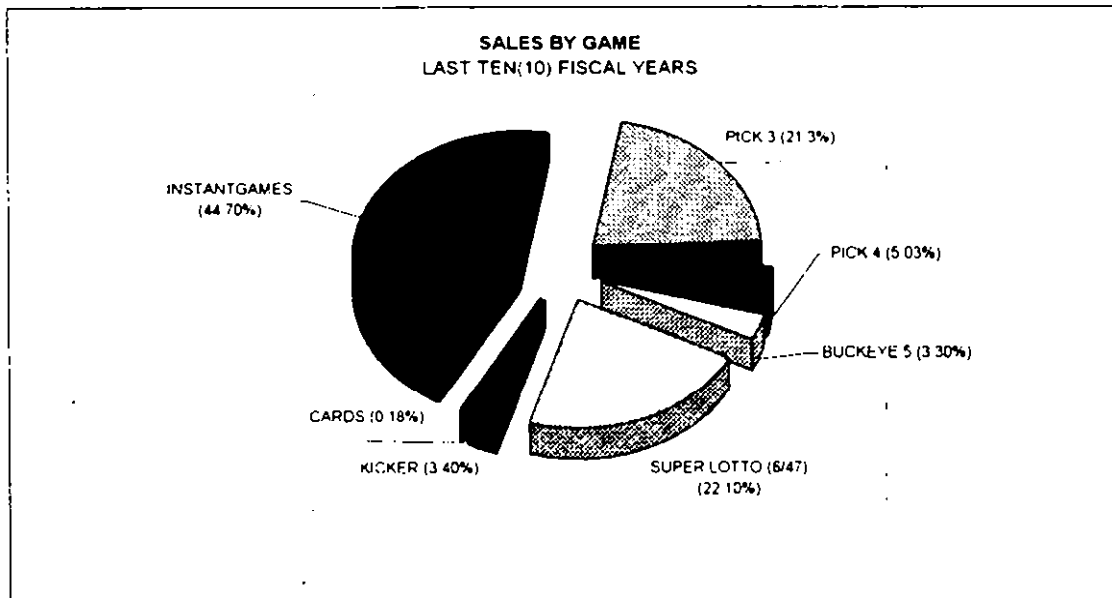
Lottery celebrates 25<sup>th</sup> anniversary. Mid-day draws begin for *Pick 3* and *Pick 4*.

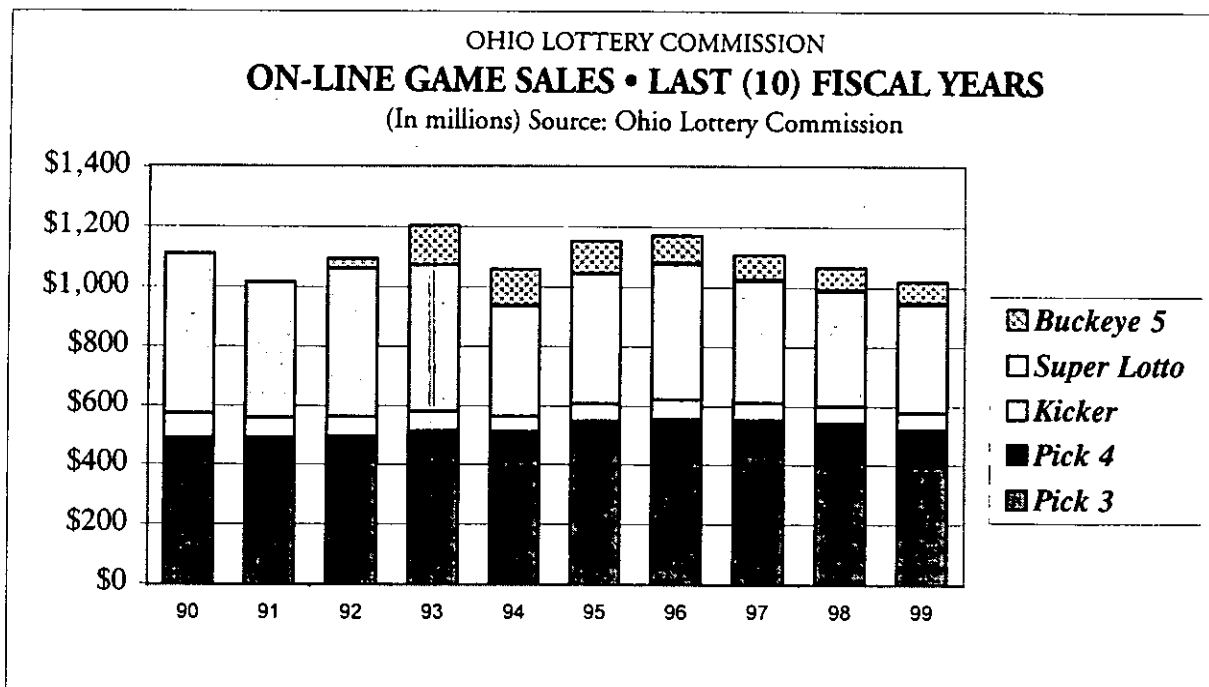
## OHIO LOTTERY COMMISSION REVENUES • LAST TEN (10) FISCAL YEARS

(In millions) • Source: Ohio Lottery Commission

	FISCAL YEAR									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>ON-LINE GAMES</b>										
PICK 3	\$414.2	\$411.7	\$411.1	\$428.3	\$421.0	\$446.2	\$450.6	\$435.6	\$421.1	\$399.4
PICK 4	77.4	79.1	85.4	91.0	91.9	102.1	108.2	116.5	124.0	125.1
BUCKEYE 5			25.7	122.4	118.2	100.3	87.3	78.8	73.5	69.9
SUPER LOTTO (6/47)	530.8	451.4	500.0	493.5	370.6	437.8	455.8	410.6	384.9	364.4
KICKER	84.6	71.3	69.5	65.6	54.3	63.3	66.7	63.5	60.5	57.2
CARDS		24.7	9.5							
<b>TOTAL ON-LINE GAMES</b>	<b>1,107.0</b>	<b>1,038.2</b>	<b>1,101.2</b>	<b>1,200.8</b>	<b>1,056.0</b>	<b>1,149.7</b>	<b>1,168.6</b>	<b>1,105.0</b>	<b>1,064.0</b>	<b>1,016.0</b>
<b>INSTANT GAMES (1)</b>	<b>513.9</b>	<b>526.3</b>	<b>584.2</b>	<b>775.7</b>	<b>863.9</b>	<b>1,032.6</b>	<b>1,146.1</b>	<b>1,195.0</b>	<b>1,131.8</b>	<b>1,128.7</b>
<b>TOTAL TICKET SALES</b>	<b>1,620.9</b>	<b>1,564.5</b>	<b>1,685.4</b>	<b>1,976.5</b>	<b>1,919.9</b>	<b>2,182.3</b>	<b>2,314.7</b>	<b>2,300.0</b>	<b>2,195.8</b>	<b>2,144.7</b>
<b>INTEREST INCOME/ OTHER REVENUE</b>	<b>83.7</b>	<b>99.7</b>	<b>115.6</b>	<b>140.7</b>	<b>115.3</b>	<b>86.1</b>	<b>140.9</b>	<b>163.3</b>	<b>230.4</b>	<b>127.3</b>
<b>TOTAL REVENUES</b>	<b>\$1,704.6</b>	<b>\$1,664.2</b>	<b>\$1,801.0</b>	<b>\$2,117.2</b>	<b>\$2,035.2</b>	<b>\$2,268.4</b>	<b>\$2,455.6</b>	<b>\$2,463.3</b>	<b>\$2,426.2</b>	<b>\$2,272.0</b>

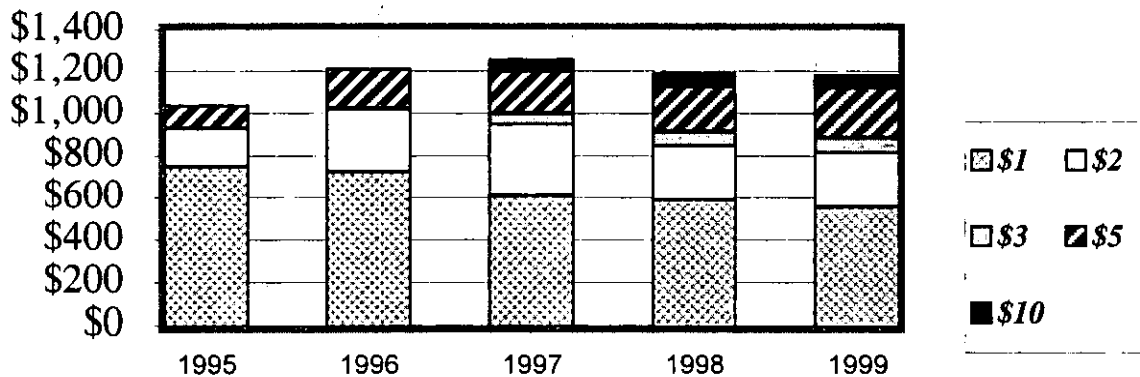
(1) FY 96-FY 99 Instant tickets are reported as net of free tickets. In prior years, the amount of free tickets issued was recorded in ticket sales.





### OHIO LOTTERY COMMISSION INSTANT TICKET SALES • LAST FIVE (5) FISCAL YEARS

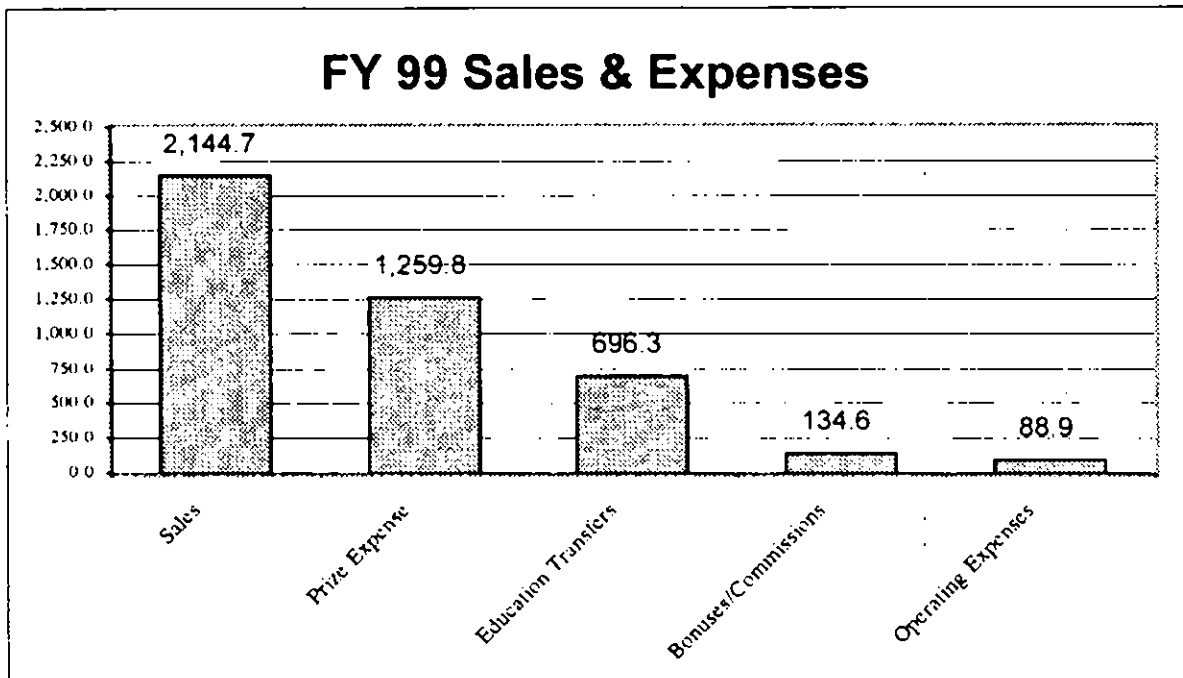
(By ticket price & in millions) Source: Ohio Lottery Commission



**OHIO LOTTERY COMMISSION**  
**REVENUES, EXPENSES & PAYMENTS TO EDUCATION • LAST TEN (10) FISCAL YEARS**  
 (In millions) • Source: Ohio Lottery Commission

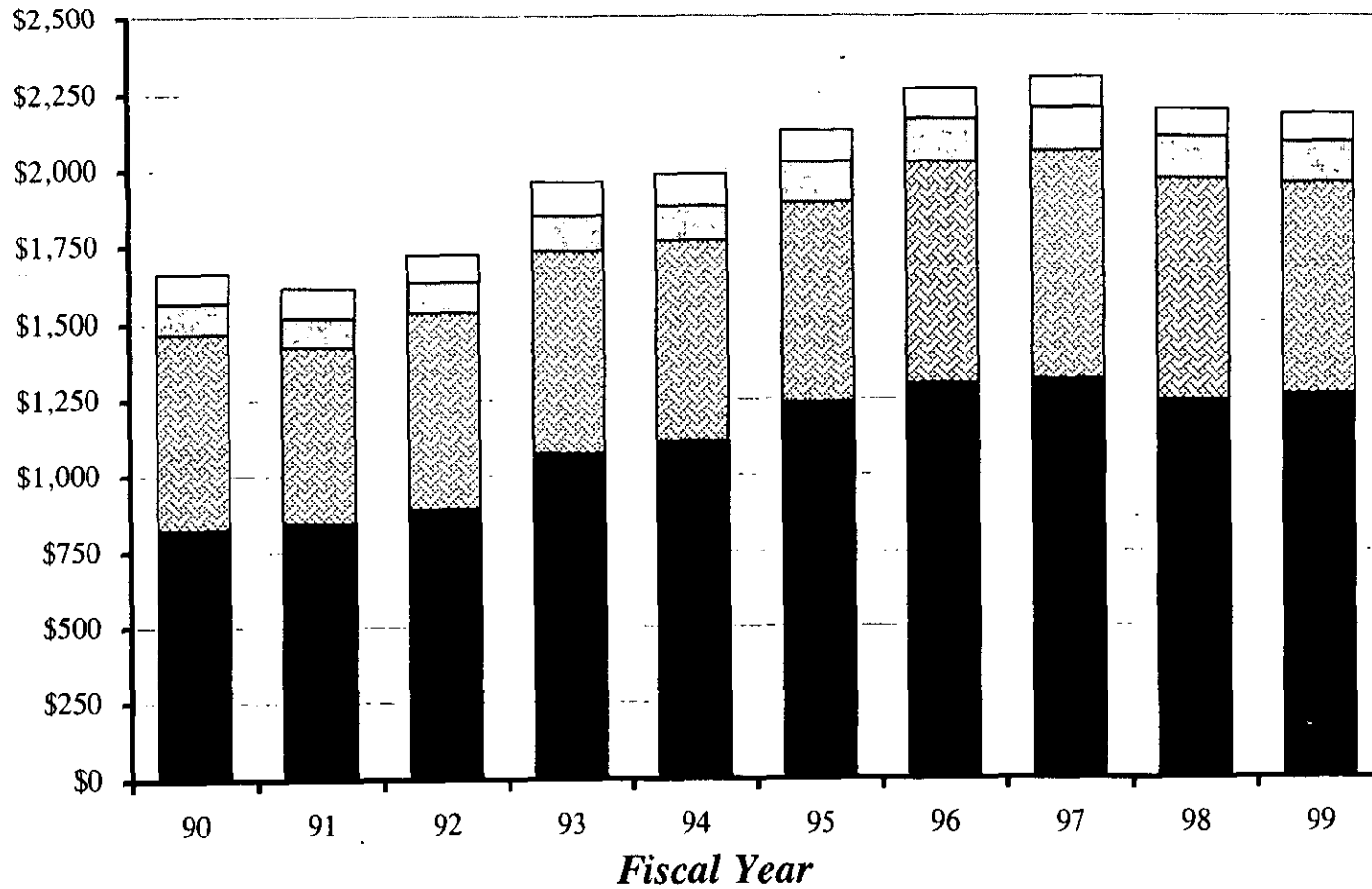
FISCAL YEAR	TICKET SALES (1)	PRIZE EXPENSE	% SALES	BONUSES/ COMMISSIONS	% SALES	OPERATING EXPENSES	% SALES	PAYMENTS TO EDUCATION	% SALES
1990	\$1,620.9	\$827.4	51.05%	\$97.8	6.03%	\$89.3	5.51%	\$644.3	39.75%
1991	1,564.5	842.6	53.86%	95.2	6.09%	90.8	5.80%	583.7	37.31%
1992	1,685.4	888.2	52.70%	100.4	5.96%	82.7	4.91%	648.4	38.47%
1993	1,976.5	1,075.9	54.43%	119.5	6.05%	102.6	5.19%	658.4	33.31%
1994	1,919.9	1,115.0	58.08%	116.9	6.09%	97.3	5.07%	652.3	33.98%
1995	2,182.3	1,236.8	56.67%	133.4	6.11%	94.4	4.33%	656.4	30.08%
1996	2,314.7	1,297.6	56.06%	145.6	6.29%	91.8	3.97%	726.5	31.39%
1997	2,300.0	1,312.2	57.05%	144.7	6.29%	92.7	4.03%	748.5	32.54%
1998 (2)	2,195.8	1,244.7	56.69%	137.8	6.28%	86.5	3.94%	723.8	32.96%
1999	2,144.7	1,259.8	58.74%	134.6	6.28%	88.9	4.15%	696.3	32.47%
<b>Total</b>	<b>\$19,904.7</b>	<b>\$11,100.2</b>	<b>55.77%</b>	<b>\$1,225.9</b>	<b>6.16%</b>	<b>\$917.0</b>	<b>4.61%</b>	<b>\$6,738.6</b>	<b>33.85%</b>

- (1) Sales and Prize Expense for FY 96-99 are shown net of free tickets. In prior years, the amount of free tickets issued was recorded in both sales and prize expense.
- (2) Certain items for FY 98 were reclassified to conform to the FY 99 presentation (see note 12).





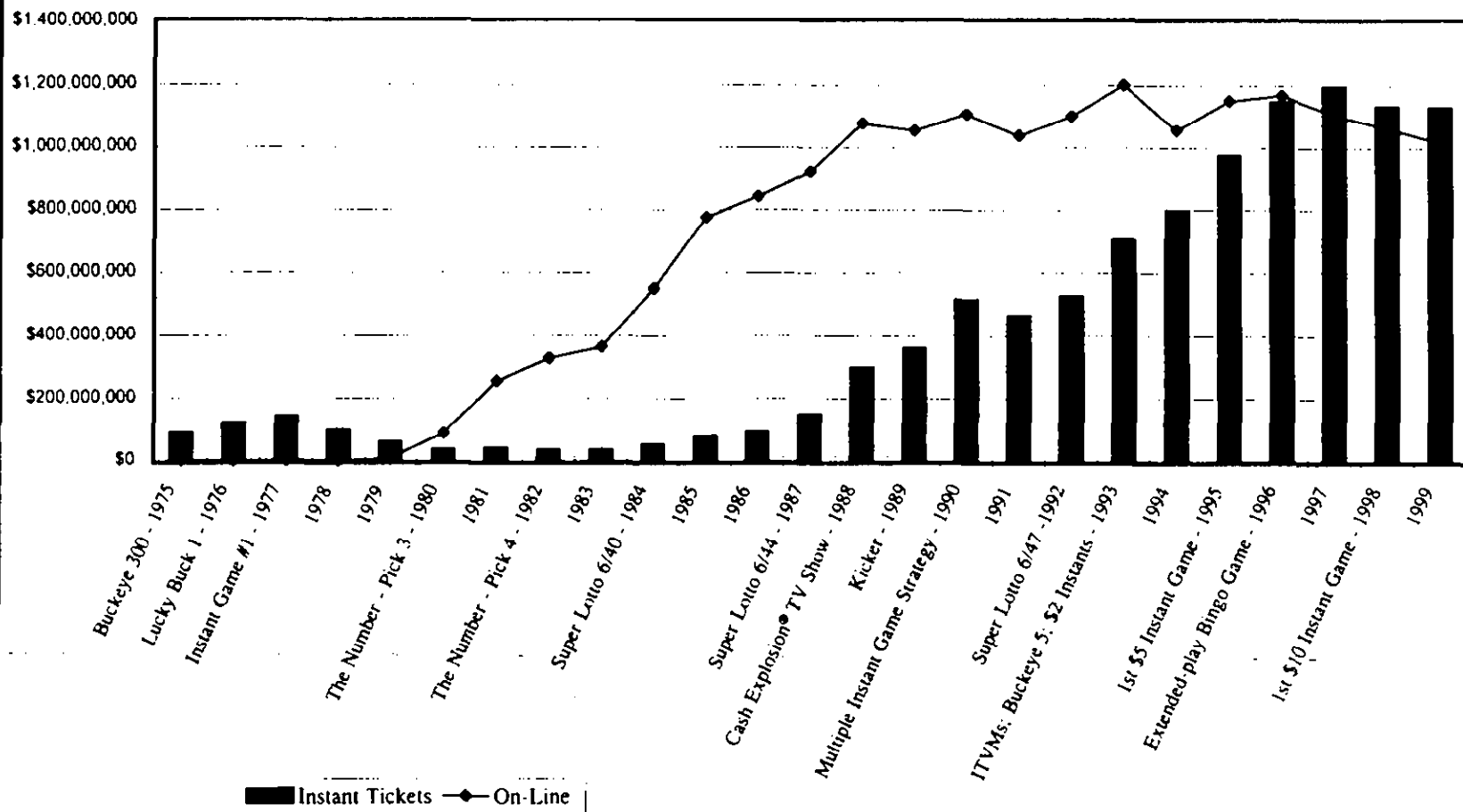
## EXPENSES AND PAYMENTS (IN MILLIONS)



■ Prize Expense      ▨ Payments to State  
□ Bonuses/Commission      □ Operating Expenses



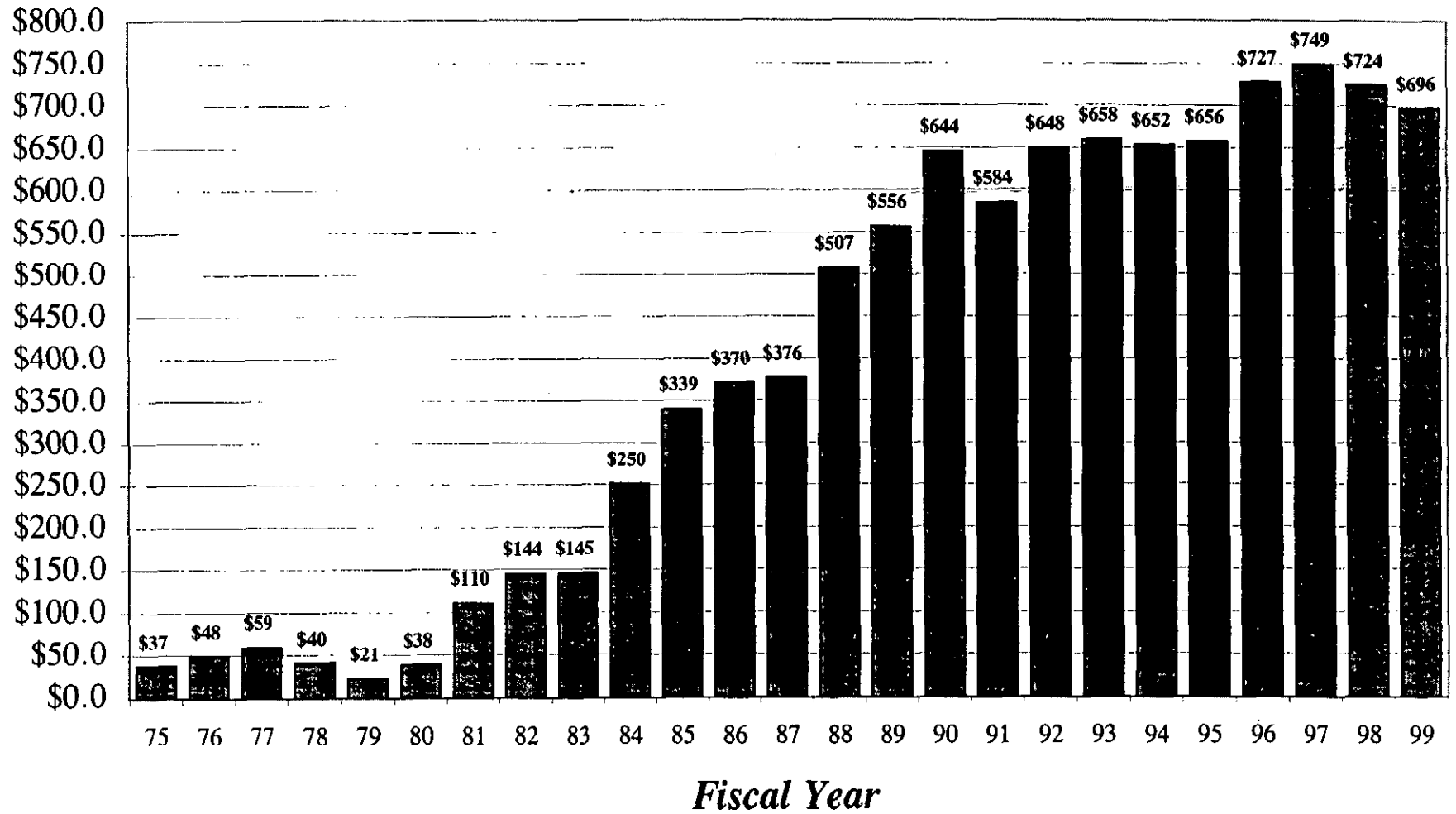
# HISTORICAL SALES & MILESTONES





## HISTORY OF TRANSFERS TO EDUCATION

IN MILLIONS • SOURCE: OHIO LOTTERY COMMISSION



**LOTTERY INDUSTRY STATEMENT OF OPERATIONS**  
**FISCAL YEAR 1998 (1) • IN MILLIONS**

Lottery	POP. (MILL)	Ticket Sales	Prizes	Bonuses/ Comm.	Expenses	Net Income (3)	Prizes as % of Sales	Net Income % of Sales
1 NEW YORK	18.2	\$3,943.10	\$1,993.97	\$236.85	\$194.33	\$1,528.85	50.57%	38.77%
2 MASSACHUSETTS	6.1	3,207.24	2,205.07	181.66	63.72	774.88	68.75%	24.16%
3 TEXAS	19.8	3,090.03	1,648.11	154.58	206.87	1,212.52	53.34%	39.24%
4 CALIFORNIA	32.7	2,294.42	1,150.81	151.22	175.35	834.75	50.16%	36.38%
5 OHIO	11.2	2,195.80	1,244.72	137.85	86.54 (2)	783.07	56.69%	35.66%
6 FLORIDA	14.9	2,050.04	1,022.06	116.18	127.55	918.06	49.86%	44.78%
7 GEORGIA	7.6	1,672.87	902.47	118.72	105.66	555.07	53.95%	33.18%
8 PENNSYLVANIA	12.0	1,668.41	822.68	83.82	63.77	714.63	49.31%	42.83%
9 MICHIGAN	9.8	1,637.59	892.67	114.58	71.98	709.23	54.51%	43.31%
10 NEW JERSEY	8.1	1,630.34	868.41	89.32	47.74	643.90	53.27%	39.49%
AVERAGE (4)	14.3	\$2,338.98	\$1,275.10	\$138.48	\$114.35	\$867.50		
INDUSTRY AVERAGE	6.2	\$896.21	\$489.42	\$56.70	\$51.62	\$318.48		

(1) Latest Information Available

(2) Amount includes operating expenses only

(3) Before payments to education

(4) Average is for the above ten (10) states only

Source 1998 World Lottery Almanac



## INDEPENDENT RATING OF LOTTERY EFFICIENCY AND EFFECTIVENESS

The *International Gaming & Wagering Business* (IGWB) magazine conducts an annual analysis of all U.S. lotteries and publishes the results in their magazine. IGWB is a respected industry publication which maintains that effectiveness and efficiency are often conflicting goals and that lotteries which perform well in both measures are rare. In fiscal 1998, only Maryland, Michigan, New York and Ohio made the top ten in all six areas of analysis, as listed

in the tables below. Table 2 is a measure of effectiveness, the ability to penetrate the marketplace. Tables 3 through 7 are all measures of efficiency. All five tables are concerned with the rate of return and the amount of operating funds expended to generate government revenue.

The Ohio Lottery strives to be both effective and efficient and is pleased to be recognized by an independent source for achieving the goals of maximizing revenue for public education.

Table 2: Ranked by fiscal 1998 sales as a percent of state personal income			Table 3: Ranked by fiscal 1998 government revenue as a percent of state personal income			Table 4: Ranked by fiscal 1998 government revenue as a percent of sales		
Rank	Traditional lottery:	Total sales as a percent of personal Lottery income	Rank	Traditional lottery:	Government revenue as a percent of personal income	Rank	Traditional lottery:	Government revenue as a percent of lottery sales
1	Mass.	1.591%	1	D.C.	0.421%	1	Fla.	44.8%
2	D.C.	1.172%	2	Mass.	0.385%	2	Mich.	43.3%
3	Ca.	0.918%	3	Ca.	0.291%	3	Pa.	42.7%
4	Ohio	0.779%	4	Mich.	0.278%	4	Wis.	41.0%
5	Ky.	0.698%	5	Ohio	0.277%	5	N.J.	39.5%
6	Md.	0.698%	6	N.Y.	0.261%	6	N.Y.	38.8%
7	N.Y.	0.687%	7	Ill.	0.250%	7	Md.	37.3%
8	Conn.	0.650%	8	Fla.	0.247%	8	La.	36.6%
9	Ill.	0.571%	9	N.J.	0.233%	9	D.C.	35.9%
10	Mich.	0.511%	10	Texas	0.225%	10	Ohio	35.7%

Table 5: Ranked by fiscal 1998 government revenue as a percent of gross revenue (sales - prizes)			Table 6: Ranked by cents spent to generate one sales dollar in fiscal 1998			Table 7: Ranked by cents spent to generate one government dollar in fiscal 1998		
Rank	Traditional lottery:	Government revenue as a percent of lottery gross revenue	Rank	Traditional lottery:	Cents spent	Rank	Traditional lottery:	Cents spent
1	Mich.	95.2%	1	Mass.	7.7	1	Pa.	20.0
2	Wis.	95.2%	2	N.J.	8.4	2	N.J.	21.3
3	Fla.	89.3%	3	Pa.	8.8	3	Mich.	25.3
4	N.J.	84.5%	4	Conn.	9.3	4	Md.	25.4
5	Ca.	84.2%	5	Md.	9.5	5	Fla.	26.5
6	Wis.	82.7%	6	Ohio	10.2	6	N.Y.	28.2
7	Ill.	82.3%	7	Ill.	10.8	7	Ohio	28.6
8	Ca.	79.7%	8	N.Y.	10.9	8	Conn.	29.0
9	Ill.	79.6%	9	Mich.	11.0	9	Ill.	30.6
10	N.Y.	78.4%	10	Vt.	11.2	10	Mass.	31.7

• Tables reprinted from *International Gaming & Wagering* magazine, April, 1999.

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**Comprehensive Annual Financial Report**  
For the Fiscal Years ended June 30, 1999 and 1998

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The Ohio Lottery Commission  
615 West Superior Avenue  
Cleveland, Ohio 44113-1879

*The Ohio Lottery is an equal opportunity  
employer and service provider.*

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Ohio Lottery Commission  
615 Superior Avenue, NW  
Cleveland, Ohio 44113

We have audited the financial statements of the Ohio Lottery Commission (the Commission), an enterprise fund of the State of Ohio, as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated October 29, 1999 in which we noted a change in the method of reporting cash flows. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Commission in a separate letter dated October 29, 1999.

This report is intended for the information and use of the audit committee, management and Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a circular stamp.

JIM PETRO  
Auditor of State

October 29, 1999



STATE OF OHIO  
OFFICE OF THE AUDITOR

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OHIO LOTTERY COMMISSION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

By: *Susan Babbitt*

Date: JAN 06 2000