



**OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY

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**Auditor of State
Betty Montgomery**

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

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

We have audited the financial statements of the business-type activity and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery) as of and for the year ended June 30, 2005, which collectively comprise the Lottery's basic financial statements and have issued our report thereon dated November 30, 2005. Prior year comparative information has been included and is derived from the Lottery's 2004 financial statements and, in our report dated November 5, 2004, we expressed unqualified opinions on the respective financial statements of the business type activity and each major fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Lottery's management dated November 30, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Lottery's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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We intend this report solely for the information and use of the audit committee, management and the Commissioners. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 30, 2005



Over
\$13,600,000,000
given to education.



*The Ohio Lottery Commission:
An Enterprise Fund of the State of Ohio*

*Comprehensive Annual Financial Report
for the Fiscal Years Ended
June 30, 2005 and 2004*

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THE OHIO LOTTERY COMMISSION

An Enterprise Fund of the State of Ohio
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2005 and 2004



*Prepared by the
Ohio Lottery Office of Finance*

Bob Taft, Governor

Tom Hayes, Director

Sandra K. Barber, Commission Chairperson

Dennis R. Berg, CPA (Inactive), Deputy Director, Office of Finance

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Introductory Section



Since 1974,
the Ohio Lottery has transferred
more than \$13.6 billion to
education in Ohio.



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Ohio Lottery Commission
615 W. Superior Avenue
Cleveland, Ohio 44113-1879
(216) 787-3200

November 30, 2005

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

We are pleased to submit to you this Comprehensive Annual Financial Report of the Ohio Lottery Commission (the "Ohio Lottery") for the fiscal year ended June 30, 2005. The Office of Finance of the Ohio Lottery has prepared this report in accordance with generally accepted accounting principles. The Ohio Lottery, an agency of the State of Ohio (the "State"), was created in July 1974 and is operated as a business enterprise within the framework of the State's laws and regulations. The Ohio Lottery's mission is to maximize revenues to provide funds for the educational system of the State by offering dignified games of chance to the public at large.

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

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 type of report can be compared to each other, because similar kinds of information are included in the following 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 2004. This section is not audited because it contains subjective information.

Financial Section – begins with the State Auditor's report, management's discussion and analysis, the comparative basic financial statements of the Ohio Lottery, related notes to the financial statements and certain supplemental schedules.

Statistical Section – contains selected financial data specific to the Ohio Lottery as well as the national lottery industry. This information has not been audited.

The accuracy of the financial data and the completeness of the presentation, including all disclosures, is the responsibility of the Ohio Lottery's management. 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 Ohio Lottery's financial activities have been included.

BACKGROUND

In 1964, New Hampshire established a state-run lottery to raise money for education. It became the first state in the United States to enter the lottery business. New York followed in 1967. In 1971, New Jersey introduced a computer-based \$0.50 weekly game which offered frequent drawings, inexpensive tickets, convenience of sale and a weekly prize of \$50,000. New Jersey grossed \$142.5 million in its first year and established a new paradigm for the industry. New York and New Hampshire revamped their systems and other states soon introduced lotteries using New Jersey's operation as a model. Ohio implemented its lottery in 1974.

To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Sales of tickets increased significantly in the early 1990's. As of June 30, 2005, 41 U.S. states and the District of Columbia operate lotteries using computer-based online games and instant "scratch off" games, and nearly 93 percent of the U.S. population resides in a state operating a lottery.

ECONOMIC OUTLOOK

Economic growth continued through most of 2005 at a solid pace. Real Gross Domestic Product (GDP) expanded at an annual rate of 3.6% during the three quarters ending in the third quarter of 2005, exactly matching the forecast from Global Insight made in January 2005. Consumer spending accounted for more than two-thirds of the increase, followed by business investment in equipment and software, government purchases, investment in residential structures, and net exports. Business inventories shrank in response to the strong demand.

Consumer spending was fueled by solid increases in personal income, arising from steady growth in hourly earnings and employment. Average hourly earnings grew by 2.6% during the year ending in September. Total employment increased by approximately 200,000 jobs per month on average through August, up more than 10% from all of 2004. (The hurricanes that hit the Gulf Coast in late August and September distorted the jobs numbers after August.) In addition, consumers borrowed more on credit cards and against their homes, pushing the quarterly saving rate into negative territory for the first time on record in the third quarter of 2005.

Flush with strong profits and heavy cash flow, corporations continued to increase capital expenditures at a brisk, but somewhat slower pace than in 2004 through the summer of 2005. Investment in equipment and software increased at an annual rate of 8.5%, down from 13.8% in 2004. Again the hurricanes restrained growth late in the third period.

Home building and remodeling also made solid contributions to overall growth again in 2005, with expenditures rising 7.8% during the first three

quarters of the year, compared with 6.6% in 2004. Low mortgage rates and easier credit terms combined with high confidence levels through much of the period supported this housing activity. Housing starts were running at the highest level in more than 25 years late in 2005. Sales of new and existing homes were both on record pace.

The more than 20% depreciation in the foreign exchange value of the dollar during the last 3 1/2 years began to affect trade flows in 2005. After sinking to a record low in the first quarter, real net exports increased for two consecutive quarters, as import growth slowed to 4.0% from 10.6%. Although the storms likely reduced imports late in the third quarter, the slowdown took hold earlier in the year. Meanwhile U.S. exports accelerated from 6.1% in 2004 to 8.4% during the first three quarters of 2005.

The Ohio economy continued to move forward unevenly in 2005. Activity was supported by strong domestic motor vehicle production, growing demand overseas for U.S. manufactured goods, and residential construction activity. Employment growth resumed in 2005 after the second half slide in 2004, with the number of jobs rising by 17,100 from the end of 2004 through September 2005. The fastest growing major sectors in terms of employment were Professional & Business Services, Education & Health Services, Construction & Mining, and Leisure & Hospitality. Manufacturing employment was unchanged on average, after decreasing each year since 1999.

Ohio personal income growth slowed during the first two quarters of 2005, largely due to the special dividend paid by Microsoft Corp. that temporarily inflated incomes in December 2004. During the second quarter, Ohio personal income increased at an annual rate of 5.2%, compared with 6.0% at the national level. For the four quarters ending in mid-2005, Ohio personal income was up 5.2%, compared with an increase of 6.3% across the U.S. Slower population growth in Ohio continues to account for most of the difference between U.S. and Ohio personal income growth rates.

The consensus outlook is for a rebound in economic growth nationally in 2006, after a temporary slowdown in response to the Gulf Coast hurricanes. Forecasters trimmed their projections for growth in late 2005 by 0.5-1.0 percentage points and raised projections for growth during the first half of 2006 by like amounts.

Hurricanes Katrina, Rita, and Wilma destroyed an estimated \$100-200 billion in wealth, displaced thousands of families and workers, created large uninsured losses, and severely disrupted energy production and distribution facilities and shipping through the Port of New Orleans. Although significant in absolute terms, these effects are very small relative to the \$11 trillion U.S. economy, and not likely to stop its strong momentum.

Consumer spending will slow for a quarter or two, reflecting the hurricane-related disruptions, elevated energy prices, and a decline in motor vehicle sales arising from the end of very popular sales incentives. Consumer confidence fell sharply late in 2005 – particularly among lower income households – in response to these negative factors. But the generally low level of interest rates, rising worker productivity, renewed job growth, and sound household net worth will support a return to trend rate growth in consumer spend-

ing by mid-2006. Global Insight forecasts a rebound in real consumer spending from an estimated 2.8% increase in 2005 to 3.6% in 2006 on a fourth-quarter to fourth-quarter basis.

Business capital spending is projected to continue to grow at a solid pace without even a temporary lull. Record corporate profits and cash flow, the lower foreign exchange value of the dollar, and the low cost of capital will support investment in business equipment and software. Global Insight projects growth in real business investment in equipment and software of 10.1% in 2006, up from 9.2% in 2005.

Housing activity shows signs of cooling in the form of rising inventories of unsold homes and moderating home prices in areas with the most rapid growth recently. Global Insight predicts a decline of 7.3% in investment in residential structures during 2006, as higher mortgage rates soften demand.

The cumulative effects of the depreciation in the U.S. dollar in recent years and very strong demand growth in emerging markets is projected to sustain the strong recent growth in U.S. exports in 2006 and reduce growth in imports, stabilizing the trade deficit for the first time since the 2001 recession. Global Insight predicts real export growth of 8.1% in 2006 and real import growth of 5.4%.

The Federal Reserve is widely expected to stop raising its target for short-term interest rates in the first quarter of 2006 despite the expected replacement of Chairman Alan Greenspan by Ben Bernanke in January. The Fed still views the level of interest rates as too low to prevent elevated energy costs from translating into faster inflation of prices for other goods and services. Global Insight predicts inflation falling back near 2% in 2006, accompanied by short-term interest rates averaging 4.5% and long-term Treasury yields averaging near 5%.

Buffeted by high energy costs and foreign competition, but supported by strong export markets and steady domestic demand for manufactured goods, the Ohio economy is expected to make additional moderate gains in 2006. Ohio employment is projected by Global Insight to expand by 1.0% in 2006 – the fastest pace since 2000 – compared with 0.5% in 2005 and 0.1% in 2004. Leading the growth are expected to be the Education & Health Services, Leisure & Hospitality, Professional & Business Services, Construction & Mining, and Other Services industries. Employment in Manufacturing is projected to increase 0.3% for the first annual average gain since 1998, reflecting gains in the Fabricated Metals and Machinery industries.

Personal income will benefit from more rapidly rising employment and additional gains in productivity-led increases in wages and salaries. Ohio personal income is slated to grow by 5.0% in 2006, following estimated growth of 4.9% in 2005. Global Insight projects real disposable income to increase 3.1% in both years.

Homebuilding in Ohio is projected to slow through 2006 primarily in reaction to the expected rise in mortgage rates to an annual average of 6.50%-6.75% during the year. Slow population growth is also expected to restrain homebuilding for at least the next several years.

The enactment of major tax reform in Ohio is designed to promote hiring and production by increasing economic efficiency and reducing disincentives to do business in the state. A 21% reduction in marginal Personal Income Tax rates and the replacement of the Corporate Franchise Tax and Tangible Personal Property Tax with a broad, low-rate Commercial Activities Tax that are all phased in over five years, will bring tax rates more in line with those in other states.

Despite the widespread destruction by hurricanes in the Gulf region in late 2005 and additional interest rate increases by the Federal Reserve, the U.S. economy is expected to bounce back in 2006 after a temporary lull. Comparable disasters in the past typically have been followed by brief slow-downs and then rebuilding-fueled rebounds. Economic activity will be supported by flexible labor and product markets, rising worker productivity, federal relief spending in affected regions, low inflation expectations, and favorable tax policy. Risks to the economy include the Federal Reserve raising short-term interest rates too high, a renewed and prolonged rise in energy prices, and a global economic slump. The consensus among forecasters is that these risks are unlikely to impede economic growth in the near term.

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 follow:

INSTANT GAMES are played by scratching the latex covering off of a play area to reveal pre-printed combinations. There are different ways to win in an instant or "scratch off" game, such as matching three like dollar amounts, symbols or letters. If the correct combinations appear, the player becomes an "instant winner" and may immediately submit a claim to cash the ticket. Instant games have been the Ohio Lottery's dominant product since fiscal year 1997. For fiscal year 2005, instant game sales were nearly \$1.22 billion, an increase of \$51.2 million, or 4.4 percent, from the previous fiscal year and represented 56.4 percent of total ticket sales. Instant games had little growth until multiple game strategies were introduced. As many as 62 games are now printed annually including seasonal games and special holiday games. The Ohio Lottery has successfully sold instant games at the \$1, \$2, \$3, \$5, \$7, \$10, \$12 and \$20 price points.

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

Lotto has generally been considered Ohio's most popular online game and has been offered in different versions since its introduction in April 1983. The first several versions of Lotto and subsequently Super Lotto had a game design that called for fixed increases, regardless of draw sales. As interest rates began to decline in the late 1990's and draw sales at the lower jackpot levels began to decrease, the drawback in this game design became apparent in suffering profitability. As a response to these adverse conditions, the Ohio Lottery's current in-state lotto game, Super Lotto Plus, was

launched in July 2000. This game has a 6/49 matrix, expanded lower tier prizes and pari-mutuel jackpots, which allow the jackpot to increase as a product of market rates and draw sales. As expected, Super Lotto Plus sales, which realized record levels in fiscal year 2002 as a result of two record jackpot sequences of \$54 million and \$75 million, decreased significantly upon the introduction of Mega Millions in May 2002. Super Lotto Plus sales for fiscal year 2005 were \$113.0 million, approximately 5.2 percent of total Ohio Lottery sales. Drawings are held on Wednesday and Saturday evenings. The Ohio Lottery intends to replace this game in October, 2005 as explained in the "Future Projects" section of this letter.

Mega Millions, a multi-state lottery game, was successfully launched in Ohio on May 15, 2002. With a current population base of over 148.6 million within twelve states, jackpots are expected to grow to higher levels at much faster rates. Mega Millions sales for fiscal year 2005 were \$176.4 million, or approximately 8.2 percent of total Ohio Lottery sales. Drawings are held on Tuesday and Friday evenings.

The Kicker is an online game that previously could only be purchased along with Super Lotto Plus. 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, 3 of 6, and 2 of 6 matches. Kicker sales, which were also materially impacted by the addition of Mega Millions, are the lowest of the online games. Sales for fiscal year 2005 were \$19.9 million, approximately 0.9 percent of total Ohio Lottery sales. The Ohio Lottery moved this game to the Mega Millions game in October, 2005.

Pick 3 was Ohio's first online game. Players select a three-digit number from 000 to 999 and can play the numbers straight (numbers in exact order), boxed (numbers in any order) or as backup bets (players can win either or both ways). In 1996, the Ohio Lottery premiered wheel wagering which allows a player to play all possible combinations of a Pick 3 wager. In order to enhance declining sales, the Ohio Lottery added midday drawings in July 1999 and has run several promotions. Pick 3 sales for fiscal year 2005 were \$387.7 million, or 18.0 percent of total Ohio Lottery sales.

Pick 4 is played like Pick 3, only players select a four-digit number from 0000 to 9999 and may play them straight, boxed or in back-up bets. Pick 4 began in 1981. Sales have increased nearly every year since the introduction of the game and have been enhanced since the introduction of midday draws in July 1999. Sales for fiscal year 2005 were \$170.1 million, approximately 7.9 percent of total Ohio Lottery sales. Both Pick 3 and Pick 4 are played Monday through Saturday.

Buckeye 5 was a cash lotto game with a 5/37 matrix. Introduced in 1992, Buckeye 5 currently had six drawings a week. The game had better odds but a lower payout than Super Lotto Plus. Players select and must match five numbers to win the top prize of \$100,000. The Buckeye 5 sales have steadily declined on an annual basis since 1994. As a result, a new online product, Rolling Cash 5, was launched on October 3, 2004 as a replacement for Buckeye 5. Rolling Cash 5 offers a 5/39 matrix with overall odds of winning any prize of 1 in 9. The top prize starts at \$100,000 and increases if not won. Before discontinuing the game in fiscal year 2005, sales for Buckeye 5 were

\$16.4 million, approximately 0.76 percent of total Ohio Lottery sales. Sales for Rolling Cash 5 were \$58.4 million, approximately 2.7 percent of total Ohio Lottery Sales. Drawings are held Monday through Saturday.

ACCOMPLISHMENTS

Ohio Lottery profits were specifically designated by statute in 1987 to fund the State's public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2005, the Ohio Lottery transferred \$645.1 million to the Lottery Profits Education Fund, bringing the total funding the Ohio Lottery has provided in support of the State's public education system to over \$13.6 billion since its inception in 1974. In addition to this rewarding accomplishment, several other accomplishments were achieved during fiscal year 2005. These include:

- The continued successful management of the Ohio Lottery's instant ticket product line has provided maximization of revenue and reduction of product cost. The effective development and organization of instant game prize payouts, while adhering to a set total instant ticket payout percentage of approximately 64.9%, has been well received within the marketplace, and was evidenced by higher sales in each of the last 32 out of 34 months compared to the prior 34 months through June 30, 2005.
- A new five (5) digit game, Rolling Cash 5, was launched as planned in October, 2004. This successful implementation enabled sales to grow a remarkable 12.4% over comparable Buckeye 5 sales, and achieved our goal of increasing our player base.
- On July 27, 2004, Attorney General Petro announced that his office signed a Memorandum of Understanding transferring the administration and monitoring of charitable bingo licensing responsibilities to the Ohio Lottery. The licensing of charitable bingo is a natural fit for the Ohio Lottery, which has experience licensing Ohio Lottery retailers since 1974. The Ohio Lottery will draw upon its existing licensing resources and infrastructure to administer charitable bingo licenses. The change is expected to create efficiencies and allow for better overall accounting of money raised for charitable purposes.
- In an effort to strengthen the relationship the Ohio Lottery has with its agent retailers, a tiered instant commission structure was introduced, whereby exceeding certain sales thresholds would enable agents to earn increased levels of compensation. In addition, a Premium Program for agents whose sales exceed \$1 million annually was created. These agents will be invited to participate in product planning, agency goal and long range planning meetings.
- The Ohio Lottery determined that the retailer base would be better served if a delivery system were implemented that would provide more timely delivery to the retailers. Furthermore, with the addition of the administration over the charitable gaming function, the Ohio Lottery would be able to re-deploy existing sales representatives in a hybrid role, serving the marketing and promotion needs of the retailer base, while concurrent-

ly addressing the fieldwork needs of the Ohio Lottery's charitable gaming responsibilities. During fiscal year 2005, a vendor was selected to provide telemarketing, warehousing, and delivery of instant tickets. This new warehouse distribution system began on August 29, 2005.

- In June 2005, the Ohio Lottery welcomed the California Lottery to the multi-state lottery game, Mega Millions, which includes other member lotteries; New York, Texas, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, Virginia and Washington.

With the addition of California, the member states agreed to game and prize matrix changes that should result in the jackpots rolling faster along with advertised higher jackpots with greater frequency. In addition, the starting jackpot was increased to \$12 million from \$10 million and the second-tier prize was raised to \$250,000 from \$175,000. Overall odds of winning a prize were improved to 1 in 40.

- Other accomplishments include the increased use of in-house personnel to reduce outside personal services and printing; automation of the weekly electronic funds transfer process and the upgrading of servers to a new operating system to improve access to user data.

ACCOUNTING SYSTEMS AND POLICIES

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

The Ohio Lottery's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Ohio Lottery are included in the statement of net assets. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. A narrative overview and analysis of the Ohio Lottery's financial activities for the fiscal year ended June 30, 2005 may be found in Management's Discussion and Analysis in the Financial Section of this document.

BUDGETARY CONTROL

Budgetary control for all state agencies is maintained through legislative appropriations and the executive branch allotment. An encumbrance system is utilized, whereby purchase orders reserve portions of applicable appropriations. The appropriations and the amounts expended within the Ohio Lottery's funds are monitored by the State of Ohio Office of Budget and Management (OBM). The adopted budget is divided among the operating offices at the Ohio Lottery who have responsibility for delivery of service. These offices control the funds within their program. The Office of Finance monitors all accounts via the State of Ohio Central Accounting System and its accounting reporting system, Solomon. Additionally, the Ohio Lottery prepares quarterly revisions to revenue and expenditure forecasts and implements any changes necessary to keep both within appropriation and internal management targets set by the Director.

INTERNAL CONTROL ENVIRONMENT

Management of the Ohio Lottery is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft or misuse, and to ensure that the accounting system allows for compilation of accurate and timely financial information. Financial information must be reported at monthly public meetings of the Ohio Lottery 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; general ledger; and accounts receivable processing. Additionally, a Contract Compliance Officer monitors the execution of all large vendor contracts. Data input and processing is separate from system programming. An internal audit team reviews all areas of operations and reports to the Director. The internal audit role was expanded and improved in 1997. Beginning in fiscal year 1997, an annual audit plan has been promulgated by the Ohio 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 Processing Audit Plan has been established and is executed annually to further improve internal controls.

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

- Maintain secure Ohio Lottery facilities and limiting access to them.
- Perform background checks on retailers, contractors and Ohio Lottery employees.
- Print lottery tickets with special paper, inks, dyes and security codes.
- Establish and execute detailed procedures for all game drawings.
- Contract with the Auditor of State as an independent witness to further ensure the integrity of our drawings, promotions and the Cash Explosion game show.
- Provide a variety of access and other controls in our computer systems.

FINANCIAL INFORMATION

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

DEBT ADMINISTRATION

A majority of the Ohio Lottery's noncurrent liabilities are comprised of payments owed to deferred prizewinners. The payments due are funded by an investment portfolio managed by the Treasurer of the State of Ohio and shown as restricted assets of the Ohio Lottery on its statements of net assets. Other noncurrent liabilities include accrued workers' compensation

and compensated absences, which will be satisfied through operating activities.

CASH MANAGEMENT

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

The Ohio Lottery collects cash due from ticket sales from approximately 8,700 retail agents on a weekly basis. Funds are collected electronically from the agents' designated bank accounts. Over \$1.0 billion was collected via this system in fiscal year 2005. Timely payment was made on 99.5 percent of accounts collected. Approximately \$5.1 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 \$4.9 million of the uncollected was paid and the remainder was claimed against agents' bonds and certified to the Attorney General for collection.

RISK MANAGEMENT

The Ohio Lottery is exposed to various risks of loss related to theft, damage or destruction of assets, injuries, and natural disasters. The State Department of Administrative Services (DAS) controls the State's risk management and insurance program. The Ohio Lottery pays a premium to DAS for professional and motor vehicle insurance. Retail sales agents are required to carry a bond equal to 1/26 of their annual sales.

FUTURE PROJECTS

The Ohio Lottery continues to explore and develop new ways to enhance its current product offerings and maximize operational efficiency and effectiveness. In fiscal year 2006, the Ohio Lottery's energies are being concentrated on the following projects:

- Super Lotto Plus sales declined at an accelerated pace upon the introduction of the Mega Millions game in May 2002, as sales cannibalization occurred. It became evident that with two competing lotto game products with several similar play features, the Super Lotto Plus game could not effectively compete against the large jackpots offered in the Mega Millions game. It was projected that sales and profitability would continue to decline if a replacement game was not introduced.

In October 2005, the Ohio Lottery replaced the Super Lotto Plus game with a new lotto game "LOT 'O PLAY". The replacement game has been positioned to appeal to the current base player of Super Lotto Plus by offering more chances and better odds to win the jackpot along with an instant win feature and improved odds of winning any prize. The game

offers attractive jackpots starting at \$1 million and has unique characteristics as it is designed to be played differently from traditional lotto type games.

- A new online product to be added to the online product line is under review.
- The Ohio Lottery expects to implement a significant portion of the Ohio Administrative Knowledge System (OAKS). This system will integrate the functions of five major statewide business functions and will result in decreased paperwork, duplication of effort and the potential for inaccurate information.
- Past practice required agent retailers to seek out their own insurance carrier who would provide bond coverage generally equal to 1/26 of their annual sales. In an effort to streamline the agent retailer application and licensing process, simplify the annual bond renewal process, and lower overall bond premiums for agent retailers, a contract was awarded on August 1, 2005 to an insurance agent on behalf of a single source insurance carrier to provide competitive and low cost bond coverage to the entire agent retailer base. Agent retailers may obtain their bond coverage by using the designated insurance carrier or voluntarily seek coverage through a carrier of their own choice.
- The majority of the Ohio Lottery's retailer base consists of full service retailers who sell all Ohio Lottery products which includes on-line and instant ticket games. However, certain retailers sell only instant ticket games. The Ohio Lottery plans to convert all instant ticket retailers to full service retailers. As such, an expansion project directing additional and new on-line gaming terminals to those instant ticket retailers will be undertaken in fiscal year 2006. In conjunction with the project and the expansion of the gaming terminal base, the Ohio Lottery will be negotiating new lower telecommunication rates with the Lottery's primary telecommunication carrier. The Ohio Lottery anticipates that the end result of this project will produce higher overall sales coupled with lower telecommunication charges on a per retailer basis.
- The Ohio Lottery plans to implement in fiscal year 2006 new mobile technology devices for use by existing Lottery field staff. The mobile devices will be linked to several vital Back Office Systems of the Lottery. This project initiative ensures the Lottery field staff has the latest information and technology tools to support Lottery sales growth and to meet performance goals and objectives of the Lottery. The project is anticipated to result in a more productive Lottery for our retailer network. Access to key retailer and Lottery information, such as sales history, customized reporting, ticket inventory levels, availability of point of sales materials and higher-end merchandising items, retailer application and other vital forms, and email access will be made available through the mobile devices.

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the eighth consecutive year that the Ohio Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Ohio Lottery published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

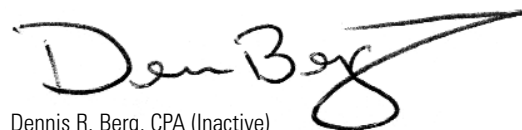
INDEPENDENT AUDIT

Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audits of the Lottery. The fiscal year 2005 audit of the Ohio Lottery's financial statements has been completed in conformity with generally accepted governmental auditing standards. The auditor's unqualified opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

Preparation of this report could not have been accomplished without the efficient and dedicated efforts of our employees. A special note of thanks is given to the General Accounting Bureau managed by Greg Bowers; assisted by Michele Olivo and Tom Malling, and staff members Mike Popadiuk and Anna Callas. Publishing this comprehensive annual financial report reflects our commitment to meet the highest standards of accountability. The Ohio Lottery intends to continually improve its financial management and clearly communicate its financial story. It is important for the public to know that the Ohio Lottery's financial condition is properly reported, including payments made to education. Due credit should be given to Commission Chair Sandra Barber and the members of the Ohio Lottery Commission for their commitment to operating the Ohio Lottery in a responsible and progressive manner.

Respectfully Submitted,



Dennis R. Berg, CPA (Inactive)
Deputy Director of Finance



Tom Hayes
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Ohio Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.



Nancy L. Zielke

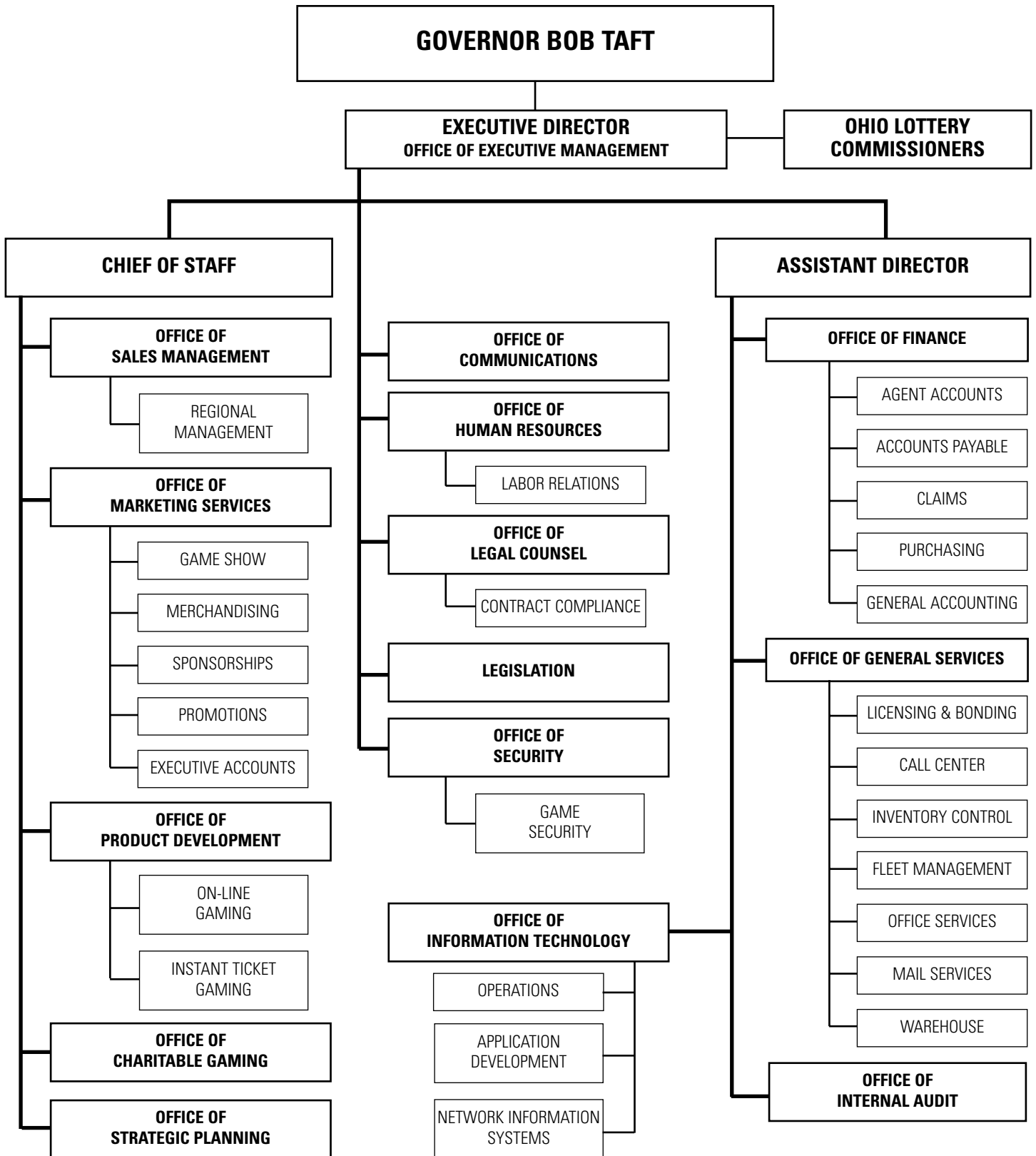
President

Jeffrey R. Emer

Executive Director

STRUCTURE OF ORGANIZATION

Fiscal Year 2005



PRINCIPAL OFFICIALS

Bob Taft

GOVERNOR OF OHIO

Tom Hayes

DIRECTOR

Sandra K. Barber

COMMISSION CHAIR

Term ends 08/01/05

Erskine E. Cade

COMMISSIONER

Term ends 08/01/05

Linda S. Dotson

COMMISSIONER

Term ends 08/01/06

Mark E. Dottore

COMMISSIONER

Term ends 08/01/07

Brooke S. Hill

COMMISSIONER

Term ends 08/01/06

Beverly A. Martin

COMMISSIONER

Term ends 08/01/07

Charles A. Nemer

COMMISSIONER

Term ends 08/01/07

Gisela Rosenbaum

COMMISSIONER

Term ends 08/01/06

Jerry Y. Seaman

COMMISSIONER

Term ends 08/01/05

Financial Section



Ohio Lottery profits accounted for 4.2 percent of operating funds spent on public, primary, and secondary education in fiscal year 2004.





**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the business-type activity and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery) as of and for the year ended June 30, 2005, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Lottery's 2004 financial statements and, in our report dated November 5, 2004, we expressed unqualified opinions on the respective financial statements of the business type activity and each major fund.

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

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and each major fund of the State of Ohio that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Lottery's financial statements for the year ended June 30, 2004, from which such comparative information was derived.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
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www.auditor.state.oh.us

Ohio Lottery Commission
Cuyahoga County
Independent Accountants' Report
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2005, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Lottery's basic financial statements. The introductory section, the budgetary comparison information, and the statistical tables provide additional information and are not a required part of the basic financial statements. We subjected the budgetary comparison information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not subject the introductory section and the statistical tables to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Betty Montgomery
Auditor of State

November 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Ohio Lottery Commission (the "Ohio Lottery"), we offer readers of the Ohio Lottery's financial statements this narrative overview and analysis of the financial activities of the Ohio Lottery for the fiscal year ended June 30, 2005. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6-11 of this report, and the financial statements which begin on page 22.

Financial Highlights

- The Ohio Lottery's net assets increased \$28.6 million or 23.1 percent, as a result of this year's operations, predominantly due to unrealized gains of \$22.8 million recognized on the Ohio Lottery's restricted investments.
- Annual ticket sales increased \$4.4 million, or 0.2 percent. The increase in ticket sales is due to the continued success of instant product line enhancements and maintenance efforts dedicated to the online products. The new Rolling Cash 5 game, successor to Buckeye 5, increased 12.4 percent, the largest increase of the online games.
- Operating expenses remained steady as a percentage of sales at 4.5 percent in fiscal year 2005 compared to 4.5 percent in fiscal year 2004, consistent with management's efforts to limit controllable expenses without sacrificing service or performance.
- The Ohio Lottery transferred \$645.1 million to the Lottery Profits Education Fund (LPEF), \$7.2 million above our commitment in the 2005 State of Ohio budget.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis; basic financial statements; and supplementary information. The basic financial statements include the statements of net assets, statements of revenues, expenses and changes in fund net assets, statements of cash flows, as well as the notes to the financial statements, which disclose in detail information within the financial statements.

The Ohio Lottery's activities are accounted for within the enterprise fund type and are reported using a full accrual basis of accounting, which is comparable to the methods used by private sector entities. The Ohio Lottery manages the following major funds:

Lottery Operating Fund

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

Deferred Prize Fund

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

The statement of net assets presents information on all of the Ohio Lottery's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Ohio Lottery is improving or deteriorating. The statement of revenues, expenses, and changes in fund net assets reports the revenue and expense activity of the Ohio Lottery. This statement is used to measure the success of the Ohio Lottery's operations over the given period related to sales, expenses, funding of the State of Ohio's education, and profitability. The statement of cash flows provides information about the Ohio Lottery's cash receipts and cash payments during the reporting period from operating, non-capital and capital financing, and investing activities.

Financial Analysis

Table 1 provides a summary of the Ohio Lottery's net assets at June 30, 2005 compared to June 30, 2004.

TABLE 1 - NET ASSETS	2005	2004
Current Assets - Unrestricted	\$ 128,264,338	\$ 100,521,456
Current Assets - Restricted	597,040,760	699,399,220
Noncurrent Assets	813,964,785	882,848,815
Total Assets	1,539,269,883	1,682,769,491
Current Liabilities - Unrestricted	99,100,965	75,911,157
Current Liabilities - Restricted	587,651,064	692,821,886
Noncurrent Liabilities	700,466,252	790,561,367
Total Liabilities	1,387,218,281	1,559,294,410
Net Assets		
Invested in Capital Assets – Net of Related Debt	738,955	256,549
Restricted for Deferred Prizes	112,003,153	90,180,424
Unrestricted	39,309,494	33,038,108
Total Net Assets	\$ 152,051,602	\$ 123,475,081

Total Assets decreased \$143.5 million as a result of a net decrease in restricted investments, as well as by the depreciation of capital assets. Current Assets - Unrestricted increased \$27.7 million as a result of an increase in cash balances. Current Assets – Restricted decreased as a result of a significant decrease in securities lending activity. Noncurrent Assets, which is comprised of investments dedicated to the payment of the Ohio Lottery's long-term annuity prizes as well as capital assets, decreased as a result of annuity prize payments, and depreciation recognized on the leased gaming equipment, which is discussed following Table 3.

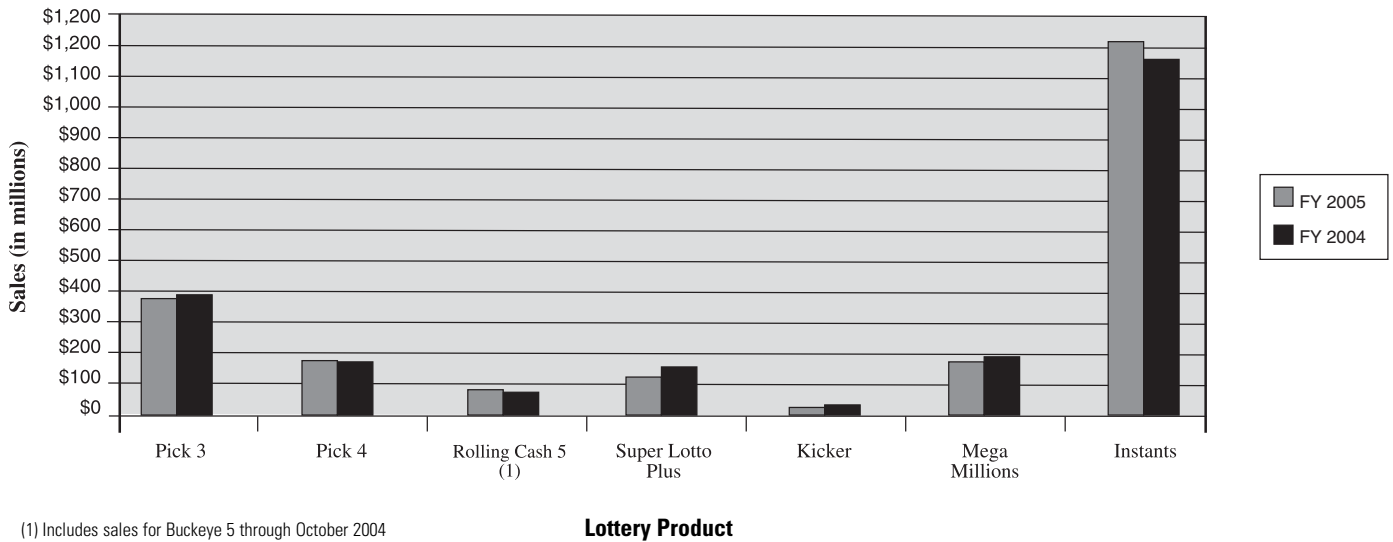
Total Liabilities decreased \$172.1 million, mainly due to the significant decrease in security lending activity. The combined effect of the payment of deferred prizes payable during fiscal year 2005 and payments made on the capital lease obligation contributed to an overall decrease of \$90.1 million in Noncurrent Liabilities.

The Ohio Lottery's financial activity resulted in a \$28.6 million increase in net assets. Net Assets Restricted for Deferred Prizes increased \$21.8 million as a result of recognizing a fiscal year 2005 unrealized gain on restricted assets in accordance with GASB 31, as noted above. Unrestricted Net Assets realized a \$6.3 million increase, the net effect of an increase in net assets reported in the Lottery Operating Fund.

Table 2 shows the changes in the Ohio Lottery's net assets for fiscal year 2005 compared to fiscal year 2004, including revenue and expense comparisons.

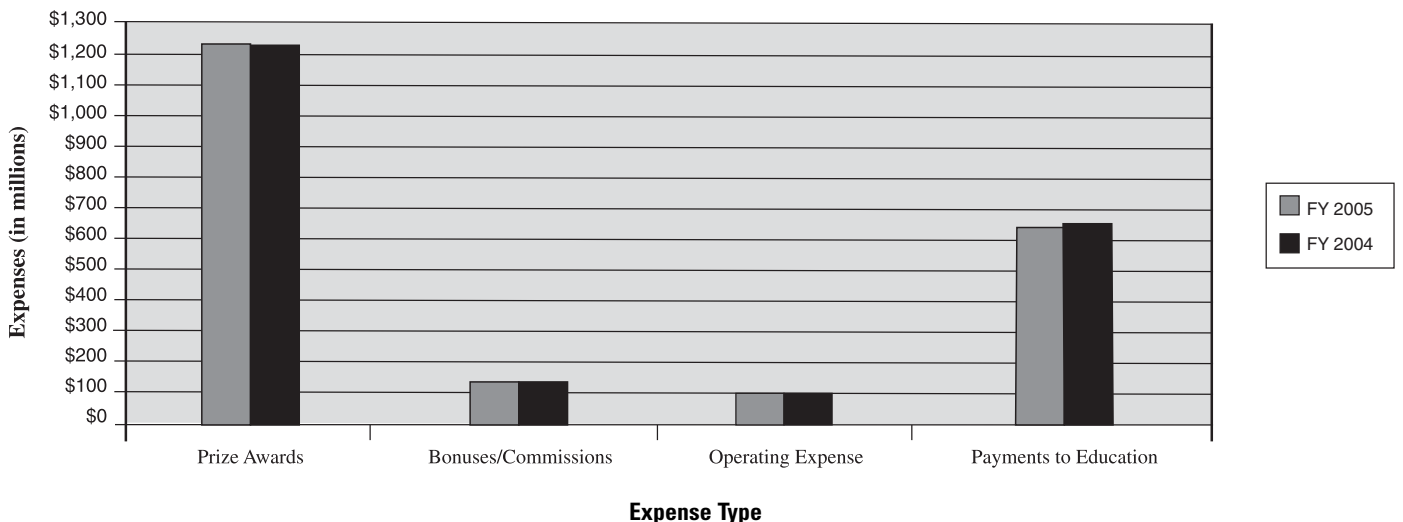
TABLE 2 - CHANGES IN NET ASSETS	2005	2004
Ticket Sales	\$ 2,159,129,175	\$ 2,154,715,264
Other Operating Revenues	5,728,064	11,796,816
Non-Operating Revenues	90,493,342	(12,294,110)
Total Revenues	2,255,350,581	2,154,217,970
Prizes, Bonuses and Commissions	1,414,628,160	1,408,759,937
Operating Expenses	97,688,847	97,671,545
Non-Operating Expenses	69,320,053	69,470,664
Payments to the Lottery Profits Education Fund	645,137,000	655,606,000
Total Expenses	2,226,774,060	2,231,508,146
Change in Net Assets	28,576,521	(77,290,176)
Total Net Assets - Beginning	123,475,081	200,765,257
Total Net Assets - Ending	\$ 152,051,602	\$ 123,475,081

Ticket Sales by Product
Fiscal Years 2005 and 2004



Total Revenues increased by \$101.1 million, the result of a significant increase in investment income. Ohio Lottery sales increased \$4.4 million or 0.2 percent in fiscal year 2005. Instant ticket sales, which experienced an impressive increase of 7.1 percent in fiscal year 2004, performed extremely well, with an increase of \$51.2 million, or 4.4 percent above the prior year's sales, surpassing the \$1 billion sales mark for the third consecutive year. Online product sales experienced mixed performance by product. The Buckeye 5 online game was restructured and introduced in October of 2004 as a new product called Rolling Cash 5. The new Rolling Cash 5 experienced a remarkable 12.4 percent increase compared to last year's performance of Buckeye 5 and is the largest contributor of increased sales of all the online products. The Pick 4 game continued to experience an increase in sales of 3.0 percent, with the maturation of the remaining online game products continuing to show declines in sales. Other Operating Revenues are representative of the average earned in past years without the consideration of Ohio's share of unclaimed Mega Millions jackpots. Non-operating revenue represents the Ohio Lottery's investment income on investments dedicated to the payment of annuity prizes. In fiscal year 2005, non-operating revenue, which represents the Ohio Lottery's investment income, increased significantly by \$102.8 million. This is due to the net effect of recognizing an unrealized gain on the investments dedicated to the payment of annuity prizes.

Operating Related Expenses and Payments to Education
Fiscal Years 2005 and 2004



Total Expenses decreased \$4.7 million, as payments made to the Lottery Profits Education Fund fell \$10.5 million. Prizes, bonuses and commissions increased by \$5.9 million from the prior year, in proportion with increased sales due to their variable nature. In addition, the Lottery initiated a temporary increase to instant ticket sales commission beginning in May 2005. Operating Expense remained relatively steady compared to last fiscal year, due to a concerted effort by management to manage controllable expenses given the uncertain economic environment and the budgetary concerns raised by the Governor. Payments to the Lottery Profits Education Fund decreased by \$10.5 million as a result of a one-time payment of \$7.5 million last fiscal year upon the liquidation of the Unclaimed Prize Fund. In fiscal year 2005, payments to the Lottery Profits Education Fund of \$645.1 million were \$7.2 million more than its budgetary commitment of \$637.9 million.

The activity described above resulted in an increase in Net Assets of \$28.6 million, increasing the balance at June 30, 2005 to \$152.1 million from \$123.5 million.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2005, the Ohio Lottery had \$16.3 million, net of accumulated depreciation, in Capital Assets. Table 3 below summarizes the Ohio Lottery's capital assets at the end of 2005 and 2004.

TABLE 3 - CAPITAL ASSETS (Net of Depreciation)

	2005	2004
Equipment	\$ 15,075,348	\$ 28,904,055
Vehicles	1,259,665	1,638,566
Total Net Capital Assets	<u>\$ 16,335,013</u>	<u>\$ 30,542,621</u>

Total Net Capital Assets decreased \$14.2 million in fiscal year 2005 as a result of depreciation recognized on leased gaming equipment. Effective July 1, 2001, the Ohio Lottery entered into a contractual agreement with GTECH Corporation for gaming services, including leased gaming equipment. The length of the contract is two years, with three optional two-year renewals. The total value of the equipment added as a result of the contract is \$69.4 million. The lease meets the requirements of a capital lease; as a result, the equipment was recorded at the present value of the minimum lease payments and is being depreciated over its useful life of five years.

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

Debt

The significant components of the Ohio Lottery's debt are deferred prize awards payable, which are payable from restricted assets, and capital leases payable. Prize Awards Payable from Restricted Assets – Net of Discount decreased \$73.7 million as a result of payments on the deferred prize obligation. Capital Lease Payable, which as of June 30, 2005 represents only the unpaid balance on the leased gaming equipment from GTECH Corporation, decreased \$14.7 million as a result of payments made during fiscal year 2005.

Additional information on the Ohio Lottery's long-term debt may be found in Notes 4 and 6 of this report.

Contacting the Ohio Lottery's Financial Management

This financial report is designed to provide the legislative and executive branches of government, the Commissioners, the public, and other interested parties, a general overview of the Ohio Lottery's finances and to show the Ohio Lottery's accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Ohio Lottery's Finance Director at the Ohio Lottery Commission, 615 W. Superior Avenue, Cleveland, Ohio 44113-1879.

STATEMENT OF NET ASSETS - MAJOR FUNDS
JUNE 30, 2005
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	Business-Type Activities			
	OPERATING	DEFERRED	June 30, 2005	June 30, 2004
ASSETS:				
Current Assets - Unrestricted				
Cash and Cash Equivalents	\$ 11,921,397	-	\$ 11,921,397	\$ 19,769,636
Cash Equity with Treasurer of State	48,806,723	-	48,806,723	27,601,748
Collateral on Lent Securities	28,959,951	-	28,959,951	11,135,437
Receivables from Agents, Net	34,957,480	-	34,957,480	38,032,613
Other Assets	3,618,787	-	3,618,787	3,982,022
Total Current Assets - Unrestricted	128,264,338	-	128,264,338	100,521,456
Current Assets - Restricted				
Cash Equity with Treasurer of State	-	\$ 62,751,550	62,751,550	625,113
Due From Unrestricted Assets	-	9,389,694	9,389,694	6,577,334
Dedicated Investments	-	82,874,788	82,874,788	84,664,269
Collateral on Lent Securities	-	439,249,507	439,249,507	604,622,224
Interest Receivable	-	2,775,221	2,775,221	2,910,280
Total Current Assets - Restricted	-	597,040,760	597,040,760	699,399,220
Total Current Assets	128,264,338	597,040,760	725,305,098	799,920,676
Noncurrent Assets				
Dedicated Investments, Restricted	-	797,629,772	797,629,772	852,306,194
Capital Assets				
Equipment	77,534,743	-	77,534,743	77,362,178
Vehicles	2,867,545	-	2,867,545	3,059,566
Accumulated Depreciation	(64,067,275)	-	(64,067,275)	(49,879,123)
Net Capital Assets	16,335,013	-	16,335,013	30,542,621
Total Noncurrent Assets	16,335,013	797,629,772	813,964,785	882,848,815
TOTAL ASSETS	144,599,351	1,394,670,532	1,539,269,883	1,682,769,491
LIABILITIES				
Current Liabilities - Unrestricted				
Accounts Payable	8,387,524	-	8,387,524	6,722,245
Prize Awards Payable	32,882,820	-	32,882,820	32,076,818
Obligations under Securities Lending	28,959,951	-	28,959,951	11,135,437
Due to Restricted Assets	9,389,694	-	9,389,694	6,577,334
Capital Lease Payable - Current	15,596,060	-	15,596,060	14,690,012
Deferred Revenue	1,709,655	-	1,709,655	2,813,331
Other Liabilities	1,961,900	-	1,961,900	1,895,980
Due to Other Lotteries	213,361	-	213,361	-
Total Current Liabilities - Unrestricted	99,100,965	-	99,100,965	75,911,157
Current Liabilities - Restricted				
Obligations under Securities Lending	-	439,249,507	439,249,507	604,622,224
Prize Awards Payable - Net of Discount	-	148,401,557	148,401,557	88,199,662
Total Current Liabilities - Restricted	-	587,651,064	587,651,064	692,821,886
Total Current Liabilities	99,100,965	587,651,064	686,752,029	768,733,043
Noncurrent Liabilities:				
Prize Awards Payable from Restricted Assets - Net of Discount	-	695,016,315	695,016,315	768,703,104
Capital Lease Payable - Long-Term	-	-	-	15,596,060
Accrued Workers' Compensation	2,978,746	-	2,978,746	4,006,745
Compensated Absences	2,471,191	-	2,471,191	2,255,458
Total Noncurrent Liabilities	5,449,937	695,016,315	700,466,252	790,561,367
TOTAL LIABILITIES	104,550,902	1,282,667,379	1,387,218,281	1,559,294,410
NET ASSETS				
Invested in Capital Assets - Net of Related Debt	738,955	-	738,955	256,549
Restricted for Deferred Prizes	-	112,003,153	112,003,153	90,180,424
Unrestricted	39,309,494	-	39,309,494	33,038,108
TOTAL NET ASSETS	\$ 40,048,449	\$ 112,003,153	\$ 152,051,602	\$ 123,475,081

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)

	OPERATING	DEFERRED	Business-Type Activities	
			June 30, 2005	June 30, 2004
REVENUES				
Ticket Sales	\$ 2,159,129,175	-	\$ 2,159,129,175	\$ 2,154,715,264
Other Revenues	5,374,279	\$ 353,785	5,728,064	11,796,816
Total Operating Revenues	2,164,503,454	353,785	2,164,857,239	2,166,512,080
EXPENSES				
Prizes, Bonuses and Commissions				
Prize Awards	1,264,304,260	16,482,487	1,280,786,747	1,275,994,395
Bonuses and Commissions	133,841,413	-	133,841,413	132,765,542
Total Prizes, Bonuses and Commissions	1,398,145,673	16,482,487	1,414,628,160	1,408,759,937
Operating Expenses				
Personal Services	66,470,565	-	66,470,565	65,176,934
Maintenance	16,567,579	-	16,567,579	17,470,051
Depreciation	14,624,318	-	14,624,318	14,883,951
Other Expenses	26,385	-	26,385	140,609
Total Operating Expenses	97,688,847	-	97,688,847	97,671,545
OPERATING INCOME (LOSS)	668,668,934	(16,128,702)	652,540,232	660,080,598
Non-Operating Revenues (Expenses):				
Interest Income	1,296,759	89,196,583	90,493,342	(12,294,110)
Amortization of Prize Liabilities	-	(55,350,774)	(55,350,774)	(62,933,527)
Loss on Equipment Disposal	(21,805)	-	(21,805)	(98,349)
Interest Expense - Borrower Rebates	-	(12,416,676)	(12,416,676)	(4,085,358)
Interest Expense - Capital Lease	(1,417,554)	-	(1,417,554)	(2,270,965)
Securities Lending Agent Fees	-	(113,244)	(113,244)	(82,465)
Payments to the Lottery Profits Education Fund	(645,137,000)	-	(645,137,000)	(655,606,000)
Total Non-Operating Expenses, Net	(645,279,600)	21,315,889	(623,963,711)	(737,370,774)
INCOME (LOSS) BEFORE TRANSFERS	23,389,334	5,187,187	28,576,521	(77,290,176)
Transfers :				
Transfers to Deferred Prize Trust Fund	(16,635,542)	16,635,542	-	-
Total Transfers	(16,635,542)	16,635,542	-	-
Change in Net Assets	6,753,792	21,822,729	28,576,521	(77,290,176)
Total Net Assets - Beginning	33,294,657	90,180,424	123,475,081	200,765,257
TOTAL NET ASSETS - ENDING	\$ 40,048,449	\$ 112,003,153	\$ 152,051,602	\$ 123,475,081

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

**STATEMENT OF CASH FLOWS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)**

	OPERATING	DEFERRED	Business-Type Activities	
			June 30, 2005	June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Sales	\$ 2,161,100,632	-	\$ 2,161,100,632	\$ 2,162,703,259
Cash Received from Multi-State Lottery for Grand Prize Winners	-	\$ 87,897,163	87,897,163	97,954,869
Cash Payments for Prize Awards	(1,262,793,629)	(173,215,318)	(1,436,008,947)	(1,502,750,854)
Cash Payments for Bonuses and Commissions	(133,933,754)	-	(133,933,754)	(132,662,693)
Cash Payments for Goods and Services	(59,584,020)	-	(59,584,020)	(62,392,629)
Cash Payments to Employees	(22,570,883)	-	(22,570,883)	(22,853,885)
Other Operating Revenues	5,374,279	353,785	5,728,064	11,796,816
Other Operating Expenses	(26,385)	-	(26,385)	(140,609)
Net Cash Provided (Used) by Operating Activities	687,566,240	(84,964,370)	602,601,870	551,654,274
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payments to the Lottery Profits Education Fund	(645,137,000)	-	(645,137,000)	(655,606,000)
Transfers In	-	16,635,542	16,635,542	15,243,547
Transfers Out	(16,635,542)	-	(16,635,542)	(15,243,547)
Net Cash Provided (Used) by NonCapital Financing Activities	(661,772,542)	16,635,542	(645,137,000)	(655,606,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Property and Equipment	(497,215)	-	(497,215)	(744,940)
Proceeds from Sale of Property and Equipment	58,700	-	58,700	106,964
Repayment of Equipment Obligation	(14,690,012)	-	(14,690,012)	(13,836,601)
Interest Paid on Equipment Obligation	(1,417,554)	-	(1,417,554)	(2,270,965)
Net Cash Used by Capital and Related Financing Activities	(16,546,081)	-	(16,546,081)	(16,745,542)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	1,296,759	23,831,278	25,128,037	16,260,990
Restricted Assets Due for Investing	2,812,360	(2,812,360)	-	-
Interest Expense and Agent Fees	-	(12,529,920)	(12,529,920)	(4,167,823)
Proceeds from the Sale and Maturity of Investments	-	2,995,973,636	2,995,973,636	455,162,569
Purchase of Investments	-	(2,874,007,369)	(2,874,007,369)	(341,162,010)
Securities Lending Proceeds	28,959,951	439,249,507	468,209,458	615,757,661
Securities Lending Payments	(28,959,951)	(439,249,507)	(468,209,458)	(615,757,661)
Net Cash Provided (Used) by Investing Activities	4,109,119	130,455,265	134,564,384	126,093,726
Net Increase (Decrease) in Cash & Cash Equivalents	13,356,736	62,126,437	75,483,173	5,396,458
Cash and Cash Equivalents - Beginning	47,371,384	625,113	47,996,497	42,600,039
CASH AND CASH EQUIVALENTS - ENDING	\$ 60,728,120	\$ 62,751,550	\$ 123,479,670	\$ 47,996,497
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 668,668,934	\$ (16,128,702)	\$ 652,540,232	\$660,080,598
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	14,624,318	-	14,624,318	14,883,951
Amortization of Discount of Prize Liabilities	-	55,350,774	55,350,774	62,933,527
Net Changes in Assets and Liabilities				
Receivables from Agents - Net	3,075,133	-	3,075,133	7,103,664
Other Assets	363,235	-	363,235	(358,107)
Prize Awards Payable	806,002	-	806,002	6,254,142
Accounts Payable	1,878,640	-	1,878,640	(2,227,051)
Other Liabilities	65,920	-	65,920	352,149
Deferred Revenue	(1,103,676)	-	(1,103,676)	884,331
Prize Awards Payable from Restricted Assets - Net of Discount	-	(124,186,442)	(124,186,442)	(198,189,584)
Accrued Workers' Compensation	(1,027,999)	-	(1,027,999)	(136,691)
Compensated Absences	215,733	-	215,733	73,345
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 687,566,240	\$ (84,964,370)	\$ 602,601,870	\$ 551,654,274

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

Non-Cash items included in investment income were \$22.8 million and (\$73.5) million of unrestricted net gains and (losses) for the years ended June 30, 2005 and June 30, 2004, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Ohio Lottery is required by law to transfer all of its net profits from the sale of lottery tickets to the Lottery Profits Education Fund of the State. The amounts transferred are determined by the Director of the Office of Budget and Management and are to be used to help support primary, secondary, vocational, and special education within the State.

The Ohio Lottery participates in Mega Millions, a jointly operated multi-state lottery comprised of twelve states: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. The net proceeds from the sale of Mega Millions in Ohio that remain after associated operating expenses, prize disbursements, lottery sales agent bonuses and commissions, reimbursements, and any other expenses necessary to comply with the agreements among the member jurisdictions, are required to be transferred to the Lottery Profits Education Fund of the State.

Basis of Accounting

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

The Ohio Lottery operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Ohio Lottery are included in the statement of net assets. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The Ohio Lottery distinguishes operating revenues and expenses from non-operating items within the operating statements. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Ohio Lottery's operation of selling lottery tickets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Lottery Operating Fund

Revenues for this fund are provided primarily from the sale of lottery tickets. Receivables from ticket sales are collected on a weekly cycle, with net proceeds being equal to an individual 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 Trust Fund; (3) transfers to the Lottery Profits Education Fund of the State; and (4) transfers to other State agencies to support centralized services.

Deferred Prize Fund

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

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with a maturity of 90 days or less from the date of purchase. The Ohio Lottery also considers Cash Equity with Treasurer of State to be a cash equivalent. Cash flows related to the payment of prize awards are accounted for as an operating activity.

Investments

The Ohio Lottery's investments are stated at fair value (based on quoted market prices) in the accompanying comparative statement of net assets and the change in the fair value of the investments is recorded as investment income along with the interest earned on the investments.

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts at June 30, 2005 and 2004, of \$20,991 and \$384,169, respectively, is based on an analysis of historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

Restricted Assets

Restricted assets represent amounts restricted for the payment of deferred prize awards. Upon the awarding of an annuity prize, amounts equal to the present value of the future prize payments are deposited with the Treasurer of the State of Ohio (State Treasurer). The Ohio Lottery is either credited with equity in the State of Ohio Common Cash and Investments Account equal to the amounts deposited, or specific state investments are identified and dedicated to the repayment of deferred prizes. Amounts necessary to fund deferred prizes awarded shortly before the end of the fiscal year, that will be used to acquire additional equity in State of Ohio general investments in the succeeding year, if any, are recorded as amounts "due from unrestricted assets" in the accompanying statement of net assets.

Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$1,000, or otherwise classified as sensitive items as described in DAS' Property Inventory Guidelines and Procedures, and are stated on the basis of historical cost. Accumulated depreciation is determined by depreciating the cost of the assets over their estimated useful lives on a straightline basis.

The estimated useful life for ticket issuing equipment is five years. The estimated useful life for all other equipment ranges from five to fifteen years. Approximately 85 percent and 87 percent of the net book value of equipment relates to gaming equipment at June 30, 2005 and 2004, 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 gain or loss is reflected in non-operating revenues (expenses) in the year of disposal.

Prize Awards

Prize awards that are payable in installments over future years are recorded at their present values based upon interest rates provided to the Ohio Lottery by the State Treasurer. The interest rates represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized over the terms of the obligations using the interest method and the amortization is recognized as a non-operating expense.

Deferred Revenue

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

Compensated Absences

Employees of the Ohio Lottery earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining units or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours

every two weeks after 25 years of employment. Vacation credit may be accumulated to a maximum of three times the annual rate of accrual. At termination or upon other separation from the Ohio Lottery, employees are paid at their hourly rate for 100 percent of unused vacation leave and personal leave. Bargaining unit employees are also eligible to receive 100 percent of unused compensatory time.

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

Bonuses and Commissions

Agents receive a commission of 5.5 percent based on their total sales. During fiscal year 2005, the Lottery implemented a tiered instant ticket commission structure for a six-month trial period, beginning May 1, 2005. During this period, all retailers will have their base instant ticket commission raised to 5.75 percent, with incremental increases in commissions up to 6.5 percent based on achieving certain sales thresholds. Cashing bonuses are paid on a weekly basis and equal 1.0 percent of all redeemed tickets. An additional 0.5 percent is awarded to agents if their cash-to-sales ratio is 50 percent or greater. A \$5 claiming bonus is awarded to agents for validating a winning ticket worth \$600 to \$5,000. In addition, various selling bonuses are in place ranging from \$500 for a Cash Explosion show entry ticket drawn to \$1,000 per \$1,000,000 of jackpot for the lotto style games.

Fund Equity Classifications

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

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

Risk Management

The Ohio Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ohio Lottery generally retains the risk of loss; however, the Ohio Lottery is protected for purposes of sales collections by third party surety bonds. The amount of loss arising from these risks was not significant for the years ended June 30, 2005, 2004, and 2003. No significant payments were made or liabilities recorded during the years ended June 30, 2005, 2004, and 2003 due to self-insured risks.

On December 31, 2000 the Office of Risk Management placed the crime/bond coverage with St. Paul Insurance. This policy is paid annually and remains in effect until terminated. The premium is split between all participating state agencies and is charged on a basis of number of employees. It provides a limit of \$250,000 per occurrence, subject to a \$5,000 deductible for employee theft and faithful performance, and commercial crime. This policy covers all employees of all the participating agencies, including each commissioner. The Ohio Lottery pays a premium to the State for workers' compensation benefits. Upon inception, instant-only agents are required to carry a minimum bond of \$5,000 and on-line agents are required to carry a minimum bond of \$20,000. On a yearly basis, the agents' required coverage is based on an evaluation of their average annual sales.

The Ohio Lottery pays a premium assessed by the Department of Administrative Services to cover motor vehicle liability related to bodily injury and property damage for a maximum of \$1,000,000 per occurrence. The Ohio Lottery retains the risk for any liability exceeding this limit.

The State provides an option to eligible Ohio Lottery employees to participate in the OhioMed Health Plan, which was established 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 Ohio Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contribute \$31.59 for single and \$85.94 for family coverage per month and the Ohio Lottery contributes \$278.56 for single and \$767.68 for family coverage per month for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The Ohio Lottery's total contributions to the OhioMed Health Plan were \$1,600,601 and \$1,514,000 for the years ended June 30, 2005 and 2004, respectively.

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

Budgetary Accounting and Control

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

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

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

The Ohio Lottery maintains budgetary control by not permitting the total expenditures to exceed appropriations without approval of the General Assembly, except for vouchered prize awards for which appropriation amendments may be approved by the Ohio Office of Budget and Management and unvouchered prize expenses which are not budgeted. Certain budget amendments were adopted during the year ended June 30, 2005.

New Accounting Pronouncements

The Lottery has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", an amendment of GASB Statement No. 3, which addresses common deposit and investment risks, effective for fiscal year ended June 30, 2005.

Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Summarized Comparative Data

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Ohio Lottery's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

Securities Lending

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

2. CASH DEPOSITS AND INVESTMENTS

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

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities of which the face value is at least 105 percent of the total value of public moneys on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States government, and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Ohio Lottery's name.

Deposits

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the Lottery's deposits may not be returned to it. As of June 30, 2005, the carrying amount of the Ohio Lottery's deposits was \$11,921,397 and the bank balance was \$11,918,994, the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$11,818,994 was not exposed to custodial credit risk, and collateralized by a pool of government securities of which the face value is at least 105 percent of the total value of public moneys on deposit at the institution.

Investments

The Ohio Lottery's investments at June 30, 2005 are detailed below and are categorized to give an indication of the level of credit risk associated with the Ohio Lottery's custodial arrangements at year-end.

Investment Type	Custodial Credit Risk Category					Investment Maturities (in years)			
	Not Exposed to Custodial Credit Risk	Held by Counter-Party	Held by Counterparty's Trust Dept. or not in the Lottery's name	Fair Value	Credit Quality Rating	Less than 1	1-5	6-10	>10
U.S. Government Obligations	\$ 40,840,200			\$ 40,840,200	AAA	-	\$ 2,572,767	-	\$ 38,267,433
U.S. Government Strips	60,487,520			60,487,520	AAA	-	30,503,340	\$ 7,077,200	22,906,980
U.S. Government Agency Obligations	89,187,920			89,187,920	AAA	\$ 6,458,620	66,152,131	6,103,724	10,473,445
U.S. Government Agency Strips	609,362,808			609,362,808	AA	51,757,225	273,553,180	167,380,098	116,672,305
Commercial Paper	78,578,844			78,578,844	NR	78,578,844	-	-	-
Total Investments	\$ 878,457,292			\$ 878,457,292		\$136,794,689	\$372,781,418	\$180,561,022	\$188,320,163
Investments not required to be categorized									
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)				\$ 2,047,268	AAA	\$ 2,047,268	-	-	-
Equity in State of Ohio Common Cash & Investments				111,558,273		111,558,273	-	-	-
Collateral on loaned securities - Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio's Common Cash and Investments account				66,247,538		66,247,538	-	-	-
Total Lottery Commission - Structured Investments, as of June 30, 2005				\$1,058,310,371		\$316,647,768	\$372,781,418	\$180,561,022	\$188,320,163

Interest Rate Risk: An interest rate risk is the risk that an investments' fair value decreases as the market interest rate increases. Typically, this risk is higher in debt instruments with longer maturities. The States' Investment policy states that the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. The Ohio Lottery Commission's portfolio invests in securities with a stated maturity of no more than thirty (30) years from the date of purchase. Notwithstanding these limitations, in no case will the assets be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds. At June 30, 2005, the portfolio consisted of three securities with call features, totaling \$37.3 million.

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

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

More than 5% of the Lottery's investments are held in FHLMC (7.16 percent), FNMA (16.06 percent), Resolution Funding Corp. (44.16 percent), TVA (9.93 percent), and U.S. Treasuries (11.51 percent).

The equity in State of Ohio common cash and investments, collateral on loaned securities, and an investment in Treasurer of State investment pool (STAROhio), have not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools' investments and deposits by credit risk may be found in the *State of Ohio Comprehensive Annual Financial Report*, for the fiscal year ended June 30, 2005. 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, 2005 categorized and disclosed in this note is \$1,472,193,688. This amount can be reconciled to the statement of net assets as follows:

	Deposits	Investments	Total
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 11,921,397	-	\$ 11,921,397
Cash Equity with Treasurer of State	-	\$ 48,806,723	48,806,723
Collateral on Lent Securities	-	28,959,951	28,959,951
Restricted Assets:			
Cash Equity with Treasurer of State	-	62,751,550	62,751,550
Dedicated Investments	-	880,504,560	880,504,560
Collateral on Lent Securities	-	439,249,507	439,249,507
Total Carrying Amount per Statement of Net assets	<u>\$ 11,921,397</u>	<u>\$ 1,460,272,291</u>	<u>\$ 1,472,193,688</u>

Securities Lending Transactions

The Ohio Lottery through the Treasurer of State's Investment Department participates in a securities lending program for securities included in the equity in State of Ohio common cash and investments and Dedicated State of Ohio investment accounts. The lending program, authorized under 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.

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

As of June 30, 2005, \$59,603,557 of the cash collateral reinvestment portfolio is invested in corporate repurchase agreements, \$30,152,698 is invested in commercial paper, \$90,305,748 is invested in master notes, and \$221,899,917 is invested in variable rate corporate notes.

No variable rate securities are currently held in the Lottery Commission's Structured Investment Portfolio. However, corporate repurchase agreements, commercial paper, master notes, and variable rate corporate notes are currently used in the cash collateral reinvestment portfolio. All of the corporate repurchase agreements, commercial paper and master notes have daily reset dates. The variable rate reset notes have either daily, monthly, or quarterly reset dates. The reset dates allow the interest rates of these instruments to move with any interest rate fluctuations that may occur. This reduces the amount of credit risk in a fluctuating interest rate environment.

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

Borrower Owes to Lender		Lender Owes to Borrower	
MV of Loaned Securities	\$ 392,054,355	Cash Collateral	\$ 400,571,469
Unpaid Distributions	-	Unpaid Distributions	-
Accrued Premiums	-	Accrued Premiums	378,498
	<u>\$ 392,054,355</u>		<u>\$ 400,949,967</u>

Since the Lender owes the Borrowers \$8,895,612 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2005.

The Ohio Lottery has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the lent securities are collateralized at no less than 102 percent of the market value.

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

During the fiscal year, the Treasurer lent U.S. government and agency obligations in exchange for collateral consisting of cash and/or U.S. government obligations. The Ohio Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2005 the collateral the Ohio Lottery had received for securities lent consisted entirely of cash, some of which had been temporarily invested by the Ohio Lottery in various securities. The Ohio Lottery invests cash collateral in short-term obligations, which have a weighted average maturity of 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 2005, the Ohio Lottery did not experience any losses due to credit or market risk on securities lending activities. The Ohio Lottery did not experience any losses on securities lending transactions resulting from the default of a borrower or lending agent, therefore, there were no recoveries during fiscal year 2005 due to prior-period losses.

Investment Type	Investment Custodial		Credit Risk Category		Credit Quality Rating	Investment Maturities (in years)			
	Not Exposed to Custodial Credit Risk	Held by Counter-Party	Held by the Counterparty's Trust Dept. or not in the Lottery's name			Less than 1	1-5	6-10	>10
				Fair Value					
Repurchase Agreements	\$ 59,603,557	-	-	\$ 59,603,557	N/A	\$ 59,603,557	-	-	-
U.S. Government Strips	-	-	-	-		-	-	-	-
U.S. Government Agency Obligations	-	-	-	-		-	-	-	-
U.S. Government Agency Strips	-	-	-	-		-	-	-	-
Commercial Paper	30,152,698	-	-	30,152,698	A1	30,152,698	-	-	-
Corporate Notes	312,205,665	-	-	312,205,665	A2	312,205,665	-	-	-
Total Investments	\$ 401,961,920	-	-	401,961,920		401,961,920	-	-	-
Total Lottery Commission - Structured Investments, as of June 30, 2005				\$ 401,961,920		\$ 401,961,920	-	-	-

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2005 and 2004 was as follows:

	2004	Increases	Decreases	2005
Equipment	\$ 77,362,178	\$ 439,147	\$ (266,582)	\$ 77,534,743
Vehicles	3,059,566	58,068	(250,089)	2,867,545
Total Capital Assets	80,421,744	497,215	(516,671)	80,402,288
Less Accumulated Depreciation:				
Equipment	(48,458,123)	(14,246,370)	245,098	(62,459,395)
Vehicles	(1,421,000)	(377,948)	191,068	(1,607,880)
Total Accumulated Depreciation	(49,879,123)	(14,624,318)	436,166	(64,067,275)
Net Capital Assets	\$ 30,542,621	\$ (14,127,103)	\$ (80,505)	\$ 16,335,013

	2003	Increases	Decreases	2004
Equipment	\$ 77,610,265	\$ 218,733	\$ (466,820)	\$ 77,362,178
Vehicles	3,486,139	526,167	(952,740)	3,059,566
Total Capital Assets	81,096,404	744,900	(1,419,560)	80,421,744
Less Accumulated Depreciation:				
Equipment	(34,389,449)	(14,490,020)	421,346	(48,458,123)
Vehicles	(1,820,010)	(393,931)	792,941	(1,421,000)
Total Accumulated Depreciation	(36,209,459)	(14,883,951)	1,214,287	(49,879,123)
Net Capital Assets	\$ 44,886,945	\$ (14,139,051)	\$ (205,273)	\$ 30,542,621

The Ohio Lottery has entered into a capital lease for certain equipment. 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. The assets acquired through capital leases are as follows:

Asset:	2005	2004
Computer Equipment and Systems	\$ 69,387,073	\$ 69,387,073
Accumulated Amortization	(55,509,658)	(42,788,695)
Total	\$ 13,877,415	\$ 26,598,378

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

	Amount
Current Capital Lease Obligation	\$ 16,107,566
Amount for Interest	(511,506)
Present Value of Net Minimum Lease Payments	\$ 15,596,060

On July 1, 2001, the Ohio Lottery entered into a contractual agreement with GTECH Corporation for gaming services and leased equipment. The length of the contract is two years, with three optional two-year renewals. In addition, the lease requires repayment over 60 months, the final payment of which will be made in June 2006. The total cost of the equipment added as a result of the contract is \$69,387,073, net of a partial disposal adjustment.

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2005 and 2004 consist of the following:

	2005	2004
Current portion - face amount	\$ 197,646,470	\$ 142,720,512
Less: Unamortized discount	(49,244,913)	(54,520,850)
Current portion - present value	148,401,557	88,199,662
Noncurrent portion - face amount	1,054,065,311	1,174,596,344
Less: Unamortized discount	(359,048,996)	(405,893,240)
Noncurrent portion - present value	695,016,315	768,703,104
Total Prize Awards Payable – Net of Discount	\$ 843,417,872	\$ 856,902,766

Interest rates used to determine the present values ranged from 4.0 percent to 11.69 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2005, is summarized as follows:

Fiscal Year ending June 30, 2005	Amount
2006	\$ 197,646,470
2007	116,373,069
2008	100,875,191
2009	85,453,294
2010	68,451,513
2011 through 2015	327,560,803
2016 through 2020	250,949,701
2021 thereafter	104,401,740
Subtotal	1,251,711,781
Unamortized discount	(408,293,909)
Net Prize Liability	\$ 843,417,872

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Ohio Lottery is required by law to award prizes to holders of winning lottery tickets equal to at least fifty percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceed-

ed this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$201 million and \$198 million for the years ended June 30, 2005 and 2004, respectively.

During fiscal year 2005, Mega Millions jackpots of \$52 million and \$106 million were won and claimed in Ohio. Since both jackpots were claimed with the lump-sum cash election option, the net jackpot funding received in the Deferred Prize Fund from other states in the amount of \$87.9 million was paid to the respective prize winners.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2005 and 2004 is as follows:

	2005	2004
Accrued Payroll	\$1,206,395	\$1,090,723
Accrued Agent Bonuses	70,284	162,660
Accrued Workers' Compensation – Current Portion	494,658	443,445
Compensated Absences - Current Portion	190,563	199,152
	<u>\$1,961,900</u>	<u>\$1,895,980</u>

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2005 and 2004 was as follows:

	2004	Additions	Reductions	2005
Prize Awards Payable from				
Restricted Assets – Net of Discount	\$ 768,703,104	\$ 99,528,529	\$ (173,215,318)	\$ 695,016,315
Capital Lease Payable – Long-term	15,596,060	-	(15,596,060)	-
Accrued Workers' Compensation	4,006,745	-	(1,027,999)	2,978,746
Compensated Absences	2,255,458	2,241,483	(2,025,750)	2,471,191
Total Noncurrent Liabilities	<u>\$ 790,561,367</u>	<u>\$ 101,770,012</u>	<u>\$ (191,865,127)</u>	<u>\$ 700,466,252</u>
	2003	Additions	Reductions	2004
Prize Awards Payable from				
Restricted Assets – Net of Discount	\$ 846,616,006	\$ 171,818,243	\$ (249,731,145)	\$ 768,703,104
Capital Lease Payable – Long-term	30,286,072	-	(14,690,012)	15,596,060
Accrued Workers' Compensation	4,143,436	-	(136,691)	4,006,745
Compensated Absences	2,182,113	2,156,608	(2,083,263)	2,255,458
Total Noncurrent Liabilities	<u>\$ 883,227,627</u>	<u>\$ 173,974,851</u>	<u>\$ (266,641,111)</u>	<u>\$ 790,561,367</u>

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

7. PENSIONS - DEFINED BENEFIT PENSION PLAN

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

- The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and cost of living adjustments to members of the Traditional and the Combined Plans.

Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code Chapter 145 provides statutory authority for member and employer contributions. For 2004, member and employer contributions were consistent across all three plans (TP, MD and CO). The 2004 member contribution rates were 8.5 percent for members in classifications other than law enforcement and public safety, and the employer contribution rate for state employers was 13.31 percent of covered payroll. The Ohio Lottery's required contributions to PERS for the years ended June 30, 2005, 2004, and 2003 were \$1,576,453, \$1,434,004, and \$1,458,591 respectively, equal to the required contribution for each year.

8. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, OPERS provides retirement, disability, survivor, and post-retirement health care benefits to qualifying members of both the traditional and the combined plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate for state employers was 13.31 percent of covered payroll, of which 4.0 percent was used to fund health care for the year.

The Ohio Revised Code Chapter 145 provides the statutory authority to require public employers to fund post-retirement health care through their contributions to OPERS. The following is a summary of assumptions:

- Actuarial Review - The assumptions and calculations below were based on the OPERS' latest Actuarial Review performed as of December 31, 2003.
- Funding Method - An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method - All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.
- Investment Return - The investment assumption rate for 2003 was 8.0 percent.
- Active Employee Total Payroll - An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.5 percent to 6.3 percent.
- Health Care - Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB are advance-funded on an actuarially determined basis. At year-end 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. In fiscal years 2005, 2004 and 2003, \$677,233, \$862,975, and \$877,771, respectively, of the Ohio Lottery's total contributions to OPERS were used for postemployment benefits. The actuarial value of the Retirement System's net assets available for OPEB was \$10.5 billion at December 31, 2003. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

9. LITIGATION

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

10. TRANSACTIONS WITH OTHER STATE ENTITIES

During the course of normal operations, the Ohio 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, 2005 and 2004 respectively:

	2005	2004
Department of Administrative Services (DAS) Expenditures		
Telecommunications	\$ 334,413	\$ 392,164
Computer	165,338	326,139
Rent	921,416	921,416
Printing	140,898	209,333
Miscellaneous	15,022	325,774
Total DAS Expenditures	<u>1,577,087</u>	<u>2,174,826</u>
Other Agency Expenditures	<u>1,057,313</u>	<u>1,195,897</u>
Total Transactions with other State Entities	<u>\$ 2,634,400</u>	<u>\$ 3,370,723</u>

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP) BASIS AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amount		Actual	Variance with Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Ticket Sales	\$ 2,192,803,654	\$ 2,104,361,000	\$ 2,161,100,632	\$ 56,739,632
Other Revenue	26,458,839	26,458,839	73,423,606	46,964,767
Total Revenue	2,219,262,493	2,130,819,839	2,234,524,238	103,704,399
Expenses				
Personal Services	25,133,314	25,133,314	23,500,143	1,633,171
Maintenance	20,120,268	20,120,268	18,704,490	1,415,778
Equipment	3,113,259	3,113,259	2,887,822	225,437
Game and Advertising Contracts	68,683,000	68,683,000	64,822,856	3,860,144
Subsidy	335,000	335,000	333,000	2,000
Prizes, Bonuses & Commissions	166,173,455	166,173,455	138,107,472	28,065,983
Annuity Prizes	162,185,260	190,506,367	166,766,890	23,739,477
Payments to Lottery Profits Education Fund	637,900,000	637,900,000	645,137,000	(7,237,000)
Total Expenses	1,083,643,556	1,111,964,663	1,060,259,673	51,704,990
Excess of Revenues over Expenses	\$ 1,135,618,937	\$ 1,018,855,176	\$ 1,174,264,565	\$ 155,409,389

The following table summarizes the adjustments necessary to reconcile the Change in Net Assets to the Excess of Revenues over Expenses:

Change in Net Assets	\$ 28,576,521
Prizes Redeemed at Agent Locations	976,155,702
Agent Bonuses and Commissions	133,841,413
Depreciation	14,624,318
Amortization of Discount of Prize Liabilities	55,350,774
Interest Expense - Borrower Rebates	12,416,676
Interest Expense - Capital Leases	1,417,554
Securities Lending Agent Fees	113,244
Loss on Equipment Disposal	21,805
Decrease in Fair Value of Investments	(22,797,800)
Encumbrances	(19,897,617)
Net Adjustments for Revenue and Expense Accruals	(5,558,025)
Excess of Revenues over Expenses	\$ 1,174,264,565

Statistical Section



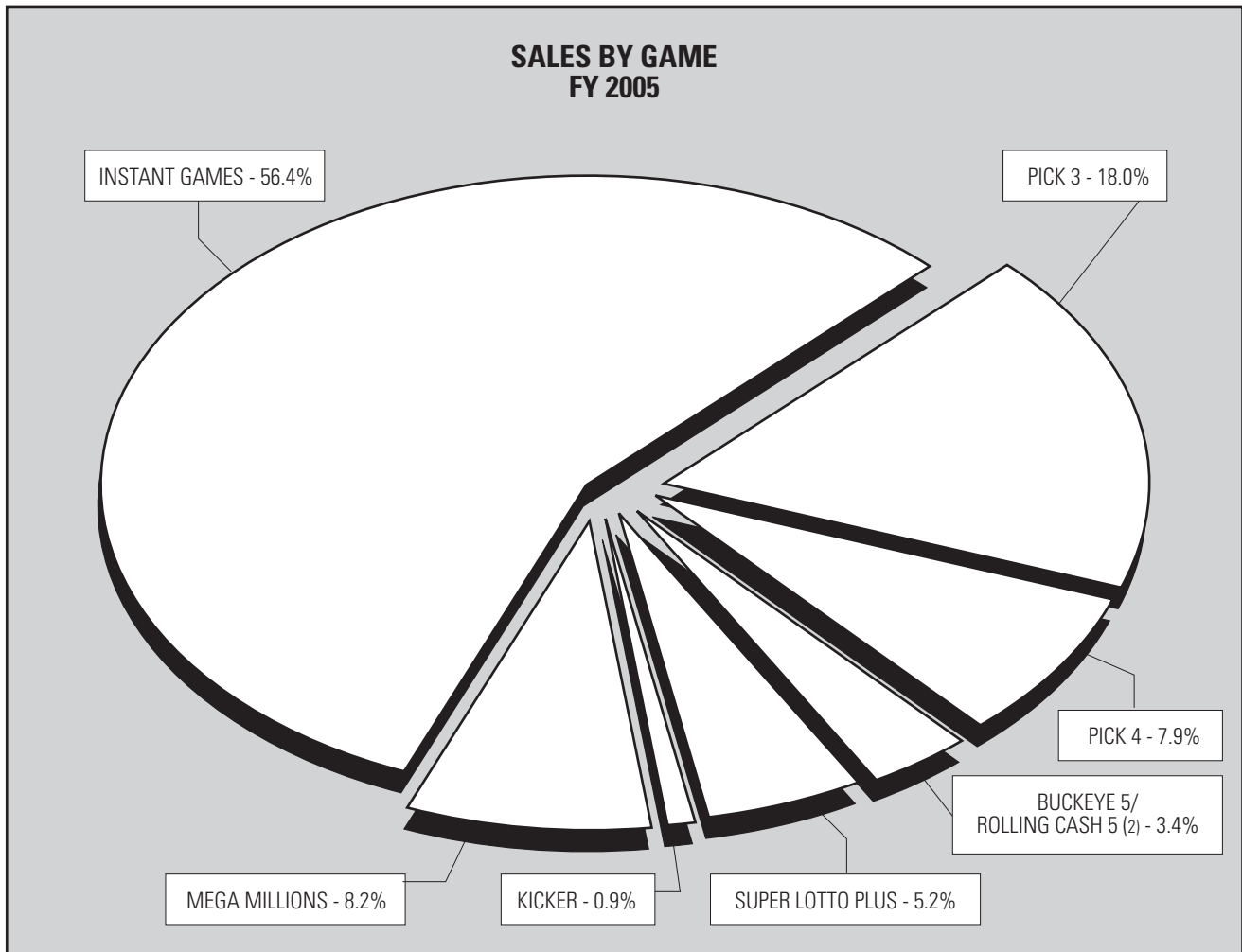
The Ohio Lottery's
portion of educational funding
equates to approximately
\$350 annually per public school child.



**REVENUES
LAST TEN FISCAL YEARS
(In Millions)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ONLINE GAMES										
PICK 3	\$ 450.6	\$ 435.6	\$ 421.1	\$ 399.4	\$ 427.3	\$ 419.0	\$ 409.2	\$ 401.8	\$ 396.8	\$ 387.7
PICK 4	108.2	116.5	124.0	125.1	144.6	150.7	154.6	154.2	165.2	170.1
BUCKEYE 5/ ROLLING CASH 5 (2)	87.3	78.8	73.5	69.9	62.2	56.5	62.4	68.9	66.6	74.8
SUPER LOTTO (1)	455.8	410.6	384.9	364.4	336.6	262.5	297.9	160.7	143.8	113.0
KICKER	66.7	63.5	60.5	57.2	52.9	42.9	45.0	27.3	24.5	19.9
MEGA MILLIONS	-	-	-	-	-	-	16.5	176.2	191.8	176.4
TOTAL ONLINE GAMES	1,168.6	1,105.0	1,064.0	1,016.0	1,023.6	931.6	985.6	989.1	988.7	941.9
INSTANT GAMES	1,146.1	1,195.0	1,131.8	1,128.7	1,126.8	988.3	997.5	1,089.1	1,166.0	1,217.2
TOTAL TICKET SALES	2,314.7	2,300.0	2,195.8	2,144.7	2,150.4	1,919.9	1,983.1	2,078.2	2,154.7	2,159.1
INTEREST INCOME/ OTHER REVENUE	140.9	163.3	230.4	127.3	79.2	180.2	124.1	153.7	(0.5)	96.2
TOTAL REVENUES	\$2,455.6	\$2,463.3	\$2,426.2	\$2,272.0	\$2,229.6	\$2,100.1	\$2,107.2	\$2,231.9	\$2,154.2	\$2,255.3

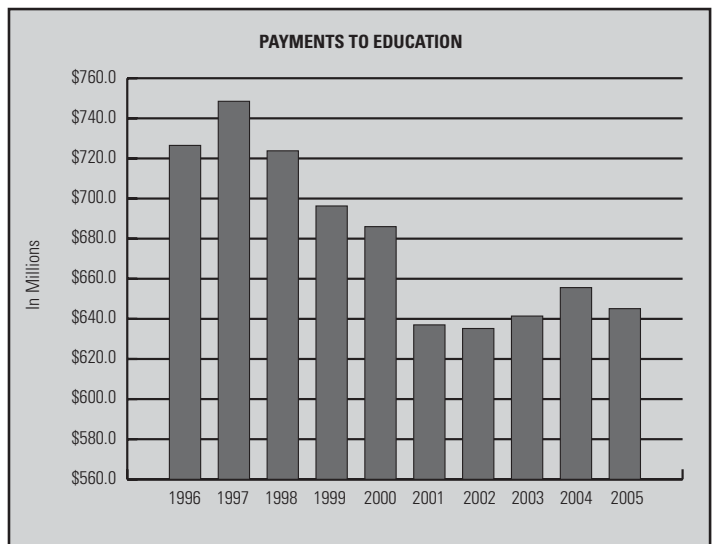
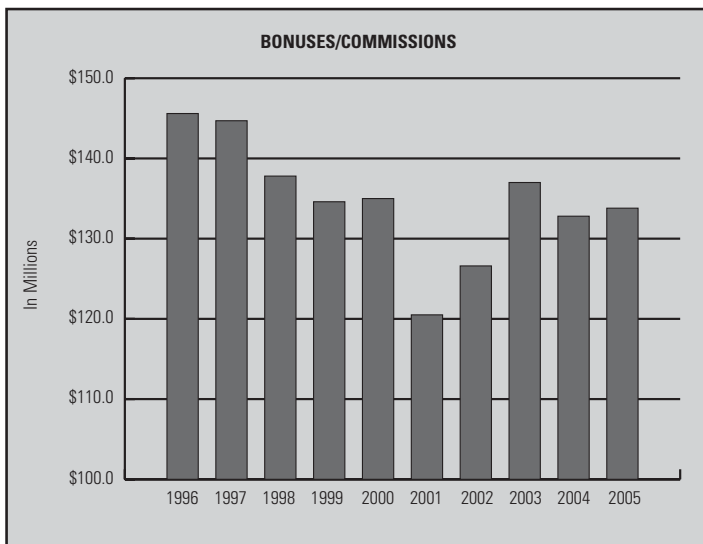
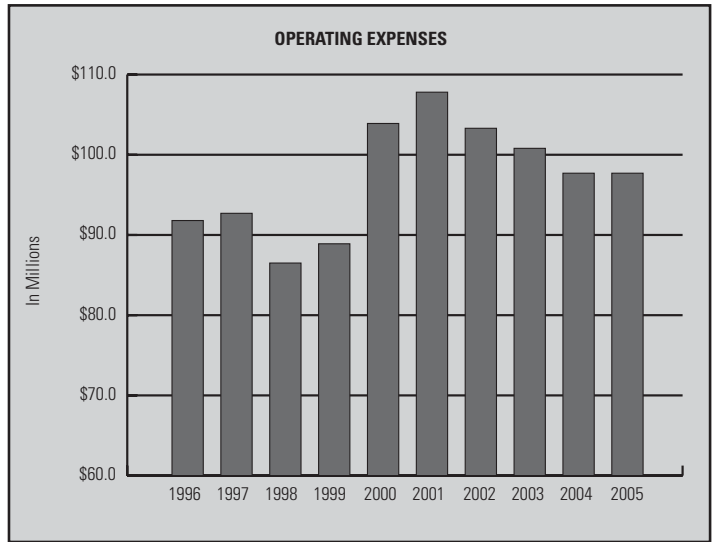
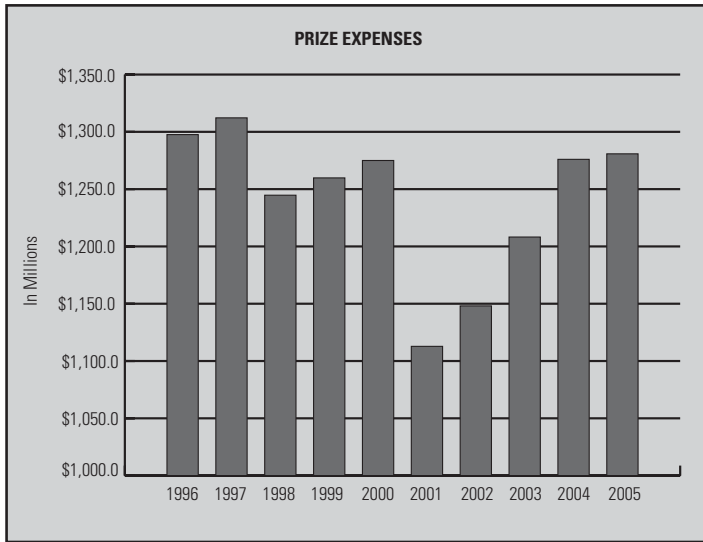
(1) In July 2000, the Super Lotto game was changed to Super Lotto Plus and the matrix was changed to 6/49.
(2) In October 2004, the Buckeye 5 game was changed to Rolling Cash 5.



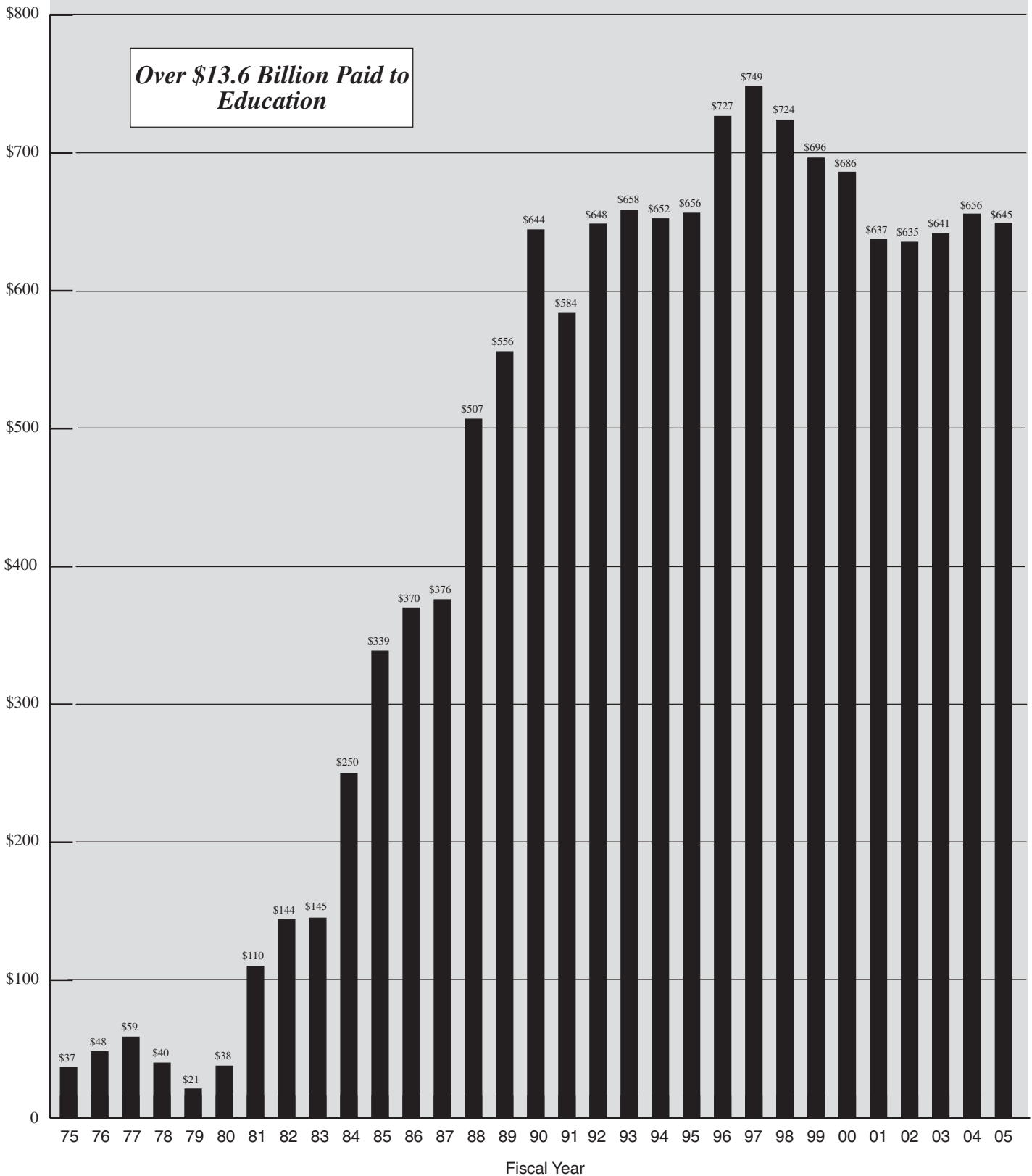
**EXPENSES AND PAYMENTS TO EDUCATION
LAST TEN FISCAL YEARS
(In Millions)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
PRIZE EXPENSE (1)	\$1,297.6	\$1,312.2	\$1,244.7	\$1,259.8	\$1,275.0	\$1,112.8	\$1,148.1	\$1,208.2	\$1,276.0	\$1,280.8
BONUSES / COMMISSIONS	145.6	144.7	137.8	134.6	135.0	120.2	126.6	137.0	132.8	133.8
OPERATING EXPENSES	91.8	92.7	86.5	88.9	103.9	107.8	103.3	100.8	97.7	97.7
TOTAL EXPENSES	\$1,535.0	\$1,549.6	\$1,469.0	\$1,483.3	\$1,513.9	\$1,340.8	\$1,378.0	\$1,446.0	\$1,506.5	\$1,512.3
PAYMENTS TO EDUCATION	\$726.5	\$748.5	\$723.8	\$696.3	\$686.0	\$637.0	\$635.2	\$641.4	\$655.6	\$645.1

(1) Prize Expense is reported net of free tickets.



**HISTORY OF PAYMENTS TO EDUCATION
FROM INCEPTION (in Millions)**

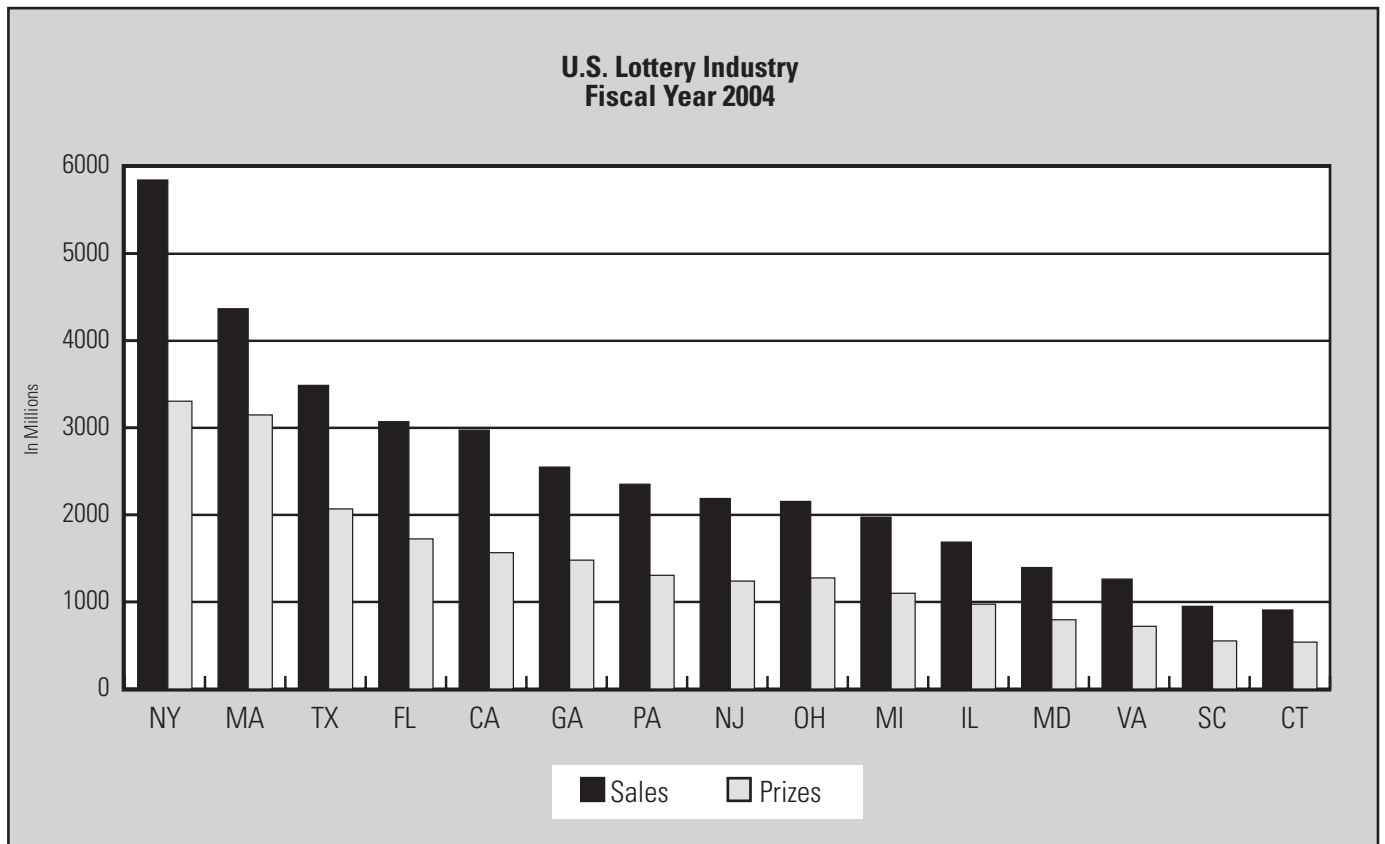


LOTTERY INDUSTRY STATEMENT OF OPERATIONS

**Rank by Sales (a)
Fiscal Year 2004(b)
(In Millions)**

Lottery	Population	Total Ticket Sales	Prizes	Bonuses/ Commissions	Operating Expenses	Prizes as % of Total Sales	Per Capita Sales
1 New York	19.2	\$5,847.5	\$3,306.3	\$355.7	\$230.9	56.5%	\$304
2 Massachusetts	6.4	4,368.4	3,148.5	248.1	73.2	72.1%	681
3 Texas	22.5	3,487.9	2,068.6	176.6	180.8	59.3%	155
4 Florida	17.4	3,071.0	1,724.5	174.4	136.1	56.2%	177
5 California	35.9	2,974.0	1,566.0	205.8	165.1	52.7%	83
6 Georgia	8.8	2,549.5	1,480.3	178.0	113.5	58.1%	289
7 Pennsylvania	12.4	2,352.7	1,305.9	121.9	125.3	55.5%	190
8 New Jersey	8.7	2,188.4	1,239.7	121.0	73.1	56.6%	252
9 OHIO	11.5	2,154.7	1,276.0	132.8	97.7	59.2%	188
10 Michigan	10.1	1,973.9	1,099.7	145.4	95.4	55.7%	195
11 Illinois	12.7	1,687.6	973.8	85.4	85.7	57.7%	133
12 Maryland	5.6	1,395.4	795.2	91.3	50.6	57.0%	251
13 Virginia	7.5	1,262.4	720.2	70.7	68.1	57.1%	169
14 South Carolina	4.2	950.0	552.3	67.0	43.4	58.1%	226
15 Connecticut	3.5	907.7	538.3	50.5	38.5	59.3%	259
Top 15 Average U.S.	12.4	\$2,478.1	\$1,453.0	\$148.3	\$105.2	58.6%	\$199

(a) Does not include video lottery (b) Latest information available
 The fiscal year ends June 30, 2004 for all U.S. states except New York (March 31), Texas (August 31), and Michigan (September 30).
 The population figures used for the U.S. states were published by the Bureau of the Census on July 1, 2004.
 Source: "La Fleur's 2005 World Lottery Almanac"



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The Ohio Lottery Commission

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OHIO LOTTERY COMISSION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2005**