



**OHIO LOTTERY COMMISSION  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

**This Page is Intentionally Left Blank.**

OHIO LOTTERY COMMISSION  
CUYAHOGA COUNTY

TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	1

**This page intentionally left blank.**



## **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 activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery) an enterprise fund of the State of Ohio, as of and for the year ended June 30, 2006, which collectively comprise the Lottery's basic financial statements and have issued our report thereon dated December 19, 2006. Prior year comparative information has been included and is derived from the Lottery's 2005 financial statements and, in our report dated November 30, 2005, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **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 December 19, 2006, 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*.

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

December 19, 2006



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

*Comprehensive Annual Financial Report  
for the Fiscal Years Ended  
June 30, 2006 and 2005*

A yellow school bus is the central focus of the image. On the front, there is a large black octagonal sign with the word "OHIO" in white capital letters. The sign is flanked by two round yellow lights. Below the sign, the words "LOTTERY" and "COMMISSION" are printed in large, bold, black capital letters on the yellow body of the bus. At the bottom of the bus, there is a smaller sign that reads "OVER \$14.3 BILLION TO EDUCATION AND COUNTING". The background shows a blurred outdoor setting with trees and a clear sky.

**OHIO**

**LOTTERY  
COMMISSION**

**OVER \$14.3 BILLION  
TO EDUCATION AND  
COUNTING**



# THE OHIO LOTTERY COMMISSION

An Enterprise Fund of the State of Ohio  
Comprehensive Annual Financial Report  
For the Fiscal Years Ended June 30, 2006 and 2005

Prepared by the  
Ohio Lottery Office of Finance

*Bob Taft, Governor*  
*Mike Abouserhal, CPA, Executive Director*  
*Sandra K. Barber, Commission Chairperson*  
*Dennis R. Berg, CPA, CFE, Deputy Director, Office of Finance*

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

# TABLE OF CONTENTS

## INTRODUCTORY SECTION

Letter of Transmittal .....	6
GFOA Certificate of Achievement .....	14
Structure of Organization .....	15
Principal Officials .....	16

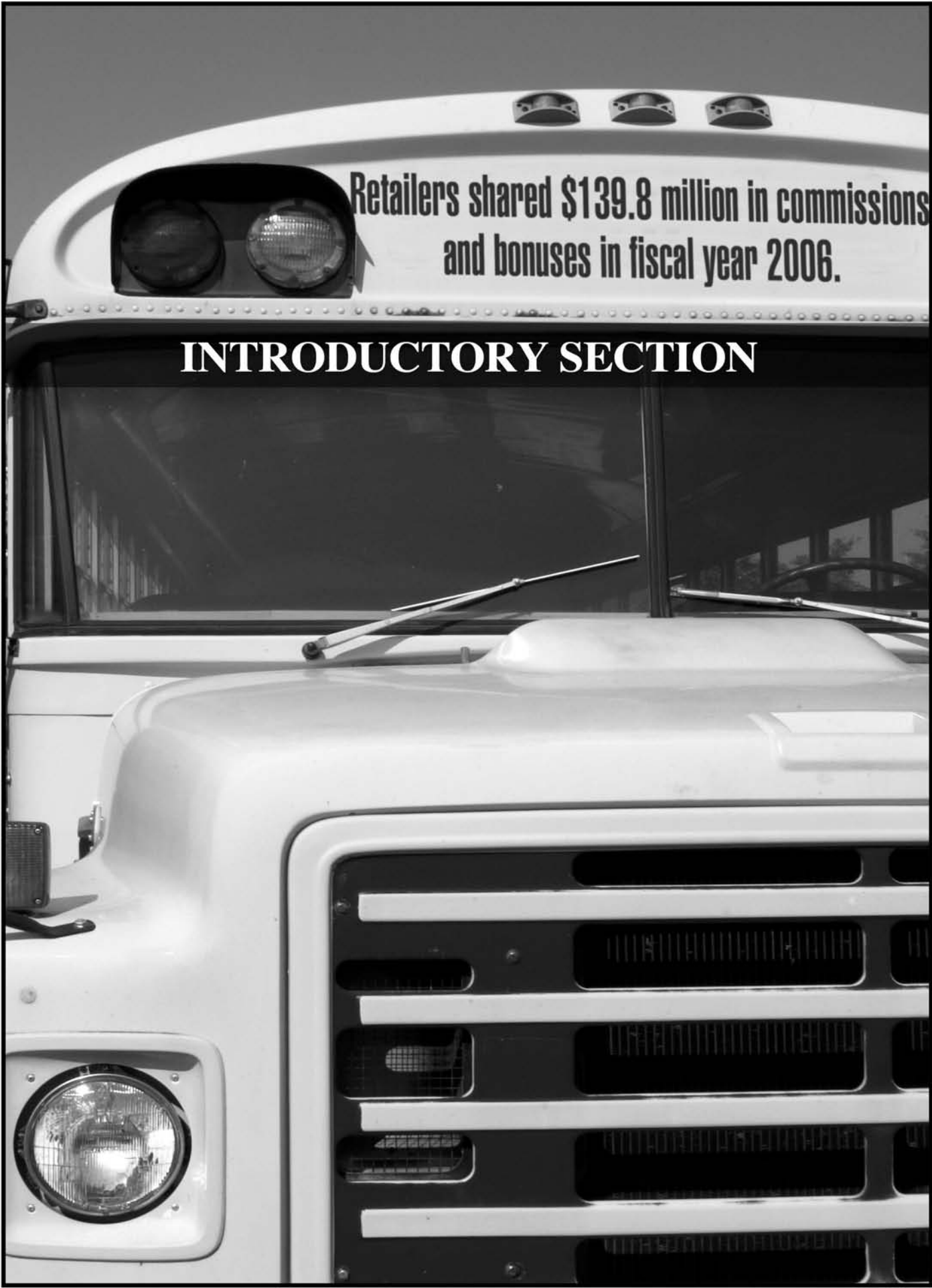
## FINANCIAL SECTION

Independent Accountants' Report .....	18
Management's Discussion and Analysis .....	20
Basic Financial Statements:	
Statement of Net Assets - Major Funds .....	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Major Funds .....	27
Statement of Cash Flows - Major Funds .....	28
Notes to the Financial Statements .....	29
Supplemental Information:	
Schedule of Revenues and Expenses Budget (Non-GAAP) Basis and Actual .....	42

## STATISTICAL SECTION

Ohio Lottery Statistics:	
Revenues and Sales .....	44
Prize Payout and Expenses .....	46
History of Payments to Education From Inception .....	47
National Lottery Statistics:	
Lottery Industry Statistics .....	48
Ohio Lottery Comparative Statistics .....	49
Ohio Lottery Agency Statistics:	
Employee Data .....	50
Retailer Data .....	51
State of Ohio Statistics:	
State of Ohio Demographics .....	52

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

A black and white photograph of the front of a white commercial truck. The truck's hood and grille are visible in the lower half, while the windshield and roof are in the upper half. A banner is mounted on the roof, displaying text. The truck has a large headlight on the left side and a smaller one on the right. The grille features a prominent horizontal bar design.

Retailers shared \$139.8 million in commissions  
and bonuses in fiscal year 2006.

**INTRODUCTORY SECTION**

**This Page is Intentionally Left Blank.**





**Ohio Lottery Commission**  
615 West Superior Avenue  
Cleveland, Ohio 44113-1879  
216.787.3200

December 19, 2006

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, 2006. 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 fiscal year 2005. This section is not audited because it contains subjective information.

**Financial Section** - begins with the State Auditor's report, and includes management's discussion and analysis, 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 fairly present 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.

Lottery sales increased dramatically throughout the nation during the 1990's as revolutionary communication and printing technologies allowed lotteries to introduce games that featured faster play action, extended play action and a greater degree of player participation. Multiple pricing strategies were also introduced in the 1990's, which allowed lottery products to appeal to a wider demographic group. As of June 30, 2006, 41 U.S. states and the District of Columbia operate lotteries using computer-based online games and instant "scratch off" games, and nearly 94 percent of the U.S. population resides in a state operating a lottery.

## ECONOMIC OVERVIEW & OUTLOOK

During the second half of calendar year 2005, the United States suffered devastating hurricanes which crippled the nation's oil and natural gas supplies, resulting in energy prices soaring to all time highs. Along with the hurricanes, unrest and tension in the Middle East kept energy prices high through this period, putting downward pressure on disposable income. Consumer confidence fell as inflation quickly spiked as a result of higher energy prices. By October 2005, the three month unadjusted Consumer Price Index (which includes the volatile food and energy sectors) was pacing at an annual inflation rate of 8.0 percent. The negative financial news impacted lottery sales during that period as discretionary dollars were stretched.

Energy prices subsided during the first half of calendar year 2006. The nation experienced a relatively mild winter, resulting in less demand for natural gas than originally expected. In fact, Ohio experienced the third warmest January on record. By June 30, 2006, the annual CPI was 4.3 percent compared to 2.5 percent the prior twelve month period ending June 30, 2005. Due to a continued drop in energy prices and a slowing housing market, the running 12 month unadjusted CPI through September 2006 was running at an annual pace of 2.1 percent.

As of June 30, 2006 the Federal Reserve Bank raised the federal funds rate 17 consecutive times over the past three years, and the rate now stands at 5.25 percent. The rate increases were made to tame inflationary pressures and to slow down the nation's economic growth from the previous periods. Higher interest rates throughout the year led to higher payments on adjustable rate mortgages, home equity lines, and short term borrowings such as credit cards.

Ohio's economy, which impacts Lottery revenue more directly, has seen a steady decline in manufacturing jobs, population growth, and disposable income. Ohio's unemployment rate for the first half of 2006 averaged 5.25 percent compared to the national average of 4.7 percent. In 2005 Ohio personal income grew by 3.7 percent. This compares to U.S. personal income which grew by 5.2 percent. In addition, the 2000 census showed that Ohio's population grew 4.7 percent the previous decade, ranking its population growth rate 44th out of 50 states. This slow growth trend continued as it is estimated Ohio's population grew less than 1.0 percent between April 2000 and July 2005.

Taxes have had both a positive and negative impact on disposable income. Effective July 1, 2005, Ohio raised its cigarette tax by \$0.70 per pack, cutting an estimated \$500 million in disposable income. On that same effective date, however, the Ohio's sales tax was decreased to 5.5 percent from 6.0 percent, resulting in an estimated \$700 million flowing back into the consumers' pocket on an annual basis. Calendar year 2006 also marked the first year in a series of personal income tax cuts, providing an additional \$340 million in tax relief.

Many factors in the national and state economy have a direct impact on revenue generation at the Lottery. As smaller retail outlets close, national big box retailers and bulk consumer product warehouse clubs open in their place. Lottery revenues are negatively impacted by this national and statewide trend because these retailers do not consider lottery products as part of their business model. From 2005 through 2006, the Lottery's retail base hit a low point of 8,400 retailers, down from a peak of 9,800 due in part to this economic trend.

Gaming industry expansion has put downward pressure on future revenue growth. Casinos and slot machine venues are within a relatively short drive from Ohio. Michigan, New York, Indiana, West Virginia, and Canada compete against the Lottery with casino gaming drawing disposable income and lottery revenue away from Ohio and into competing states and countries. Pennsylvania recently approved the launch of 60,000 slot machines throughout the State. These machines are expected to be installed throughout Pennsylvania starting in calendar year 2007. Beginning in 2005, unsanctioned slot machine style electronic gaming devices have appeared in numerous taverns and truck stops throughout the State of Ohio. In November 2006, Attorney General Jim Petro released an opinion that deemed the games illegal. As such, bar owners have been asked to voluntarily remove their machines or face possible fines and loss of their liquor license.

As more households have access to personal computers and the internet, the offshore internet gaming industry also has grown over the past several years. Internet sites offering casino style gaming and sports betting put downward pressure on Lottery revenue growth due to the shift in disposable income into other gaming markets. The President of the United States signed a new law on October 13, 2006 banning most online gambling and making it a crime to transfer funds to gambling sites. However, gamblers have found a way around this law by shifting the transfer of funds to offshore accounts or non-U.S. payment processors. The impact of the internet gaming industry is difficult to quantify and measure.

Looking ahead, inflation and economic growth throughout the nation is slowing, lifting pressure off the Federal Reserve Bank to increase the federal funds rate. In the second half of 2006, it is widely expected that the Federal Reserve Bank will hold the short term rate steady or cut interest rates, unless personal income growth/GDP growth is stronger than expected in the upcoming future. The absence of major natural disasters have reduced energy prices and also given affected areas time to recover. The consensus among analysts is the national economy will encounter a soft landing and continue moderate economic growth without a threat to inflation. Ohio's personal income grew by 4.2 percent in 2005 and is projected to grow at a rate of 4.3 percent in 2006. Ohio's unemployment for 2005 was 5.9 percent and September's 2006 seasonally adjusted rate was 5.3 percent compared to the national rate of 4.4 percent from October's employment report. New job growth in Ohio is expected to increase at an annual rate of 1.0 percent from 2002-2012. Although Ohio's economic growth is not on pace with the national average, Ohio's economy does remain a dominant contributor to the nation's economic output, ranking it 7th in gross state product of \$442 billion in 2005.

## LOTTERY PRODUCTS

The Ohio Lottery provides the opportunity for the public to participate in different games with two distinct styles of play, instant "scratch off" 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 2006, instant game sales were nearly \$1.3 billion, an increase of \$56.8 million, or 4.7 percent, from the previous fiscal year and represented 57.4 percent of total ticket sales. Instant games had little growth until multiple game strategies were introduced. As many as 60 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.



In January 2006, the Lottery launched its first "Mega" instant ticket game called \$200 Million Cash Spectacular. The game featured a large print size of 30 million tickets, which contains twenty \$1 million top prizes with an overall prize payout of 75 percent. The game was an immediate success, with more than \$7 million in weekly sales when it was first introduced. By fiscal year end, the lottery had seen 26 consecutive weeks of increased weekly instant ticket sales over similar weeks of the prior year. The Lottery plans to continue using the "Mega" game strategy to maximize instant ticket lottery sales.

**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 winning numbers.

Due to declining sales, the Lottery replaced Super Lotto Plus with a new hybrid lotto-style game called Lot 'O Play in October 2005. The game was launched with a \$2 price point and featured starting jackpots of \$1 million, with twelve ways to win a prize from a matrix of 100 numbers. The game offers better odds to win the jackpot compared to Super Lotto Plus. Overall odds to win the jackpot are 1:6.3 million and the odds to win any prize are 1:5. Drawings are held on Wednesday and Saturday evenings. Player interest has declined significantly over the tenure of Lot 'O Play and the Ohio Lottery intends to replace the game in January 2007 with a classic lotto game 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 156.2 million within twelve states, jackpots can grow to higher levels at much faster rates. Mega Millions sales for fiscal year 2006 were \$223.4 million, or approximately 10.0 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. The game was moved to Mega Millions in October 2005 in conjunction with the retirement of the Super Lotto Plus game. To win the \$100,000 top prize, 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 are materially impacted by the sales volume of Mega Millions and are the lowest of the Lottery's online games. Sales for fiscal year 2006 were \$21.6 million, approximately 1.0 percent of total Ohio Lottery sales.



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 straight Pick 3 wager. In order to improve declining sales, the Ohio Lottery added midday drawings in July 1999 and has run several promotions. Pick 3 sales for fiscal year 2006 were \$377.3 million, or 17.0 percent of total Ohio Lottery sales. Pick 3 sales have been slowly eroding over the course of several years.



Pick 4 is played similar to Pick 3. Players select a four-digit number from 0000 to 9999 and may play them straight, boxed or in backup 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 2006 were \$175.7 million, approximately 7.9 percent of total Ohio Lottery sales. Both Pick 3 and Pick 4 are played Monday through Saturday.



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. Sales for fiscal year 2006 were \$72.6 million, approximately 3.3 percent of total Ohio Lottery sales. Drawings are held Monday through Saturday.



## ACCOMPLISHMENTS

Ohio Lottery profits were specifically designated by statute in 1987 to help fund the State's public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2006, the Ohio Lottery transferred \$646.3 million to the LPEF, bringing the total funding the Ohio Lottery has provided in support of the State's public education system to over \$14.3 billion since its inception in 1974. In addition to this rewarding accomplishment, several other accomplishments were achieved during fiscal year 2006. These include:

- As a result of very successful Lottery sales levels and prudent management of operating expenses, the \$646.3 million transfer to the LPEF in fiscal year 2006 was \$8.4 million above the Lottery's transfer commitment amount set forth in the fiscal year 2006 budget.
- The Lottery worked diligently in conjunction with the State Treasurer's Office and the Office of Budget and Management to reposition the Deferred Prize Trust Fund's portfolio of investments in an effort to better align investment maturity dates with future prize payment liabilities. With an additional cash infusion of \$5.8 million provided by the Lottery during fiscal year 2006, the fund is positioned to ensure adequate funds are available to meet all future liabilities. The Lottery facilitates regular communication efforts with the Treasurer of State's Office to ensure that the fund's program objectives continue to be met.
- The Lottery successfully launched two "Mega" instant ticket games during fiscal year 2006. Mega games feature larger print sizes, multiple top \$1 million plus prizes, and higher overall prize payouts reaching 75 percent. Both games have provided significant contributions to the Lottery's overall sales success during the fiscal year. Along with the Mega instant ticket strategy, the Lottery has moved



up the prize payouts on certain other instant ticket games. This strategy was implemented to follow industry best practices and to create more winning experiences for Lottery players. As a result of these strategies, the Lottery experienced higher weekly instant ticket sales compared to sales of similar weeks during the prior year for 26 consecutive weeks leading into the fiscal year end. Total fiscal year 2006 instant ticket sales exceeded sales of the prior year by \$56.8 million.

- With the introduction of Mega Millions in May 2002, Super Lotto Plus sales levels continued to decline. As a result, sales levels did not support the starting jackpot sequences as profit margins were severely affected. Lot 'O Play, a new hybrid lotto style game, was launched as the replacement in October 2005. The profit margin for Lot 'O Play is higher than Super Lotto Plus as the prize matrix is designed to protect the Lottery's financial interests. The game, although successful from the standpoint of protecting the Lottery's financial interest, showed signs of declining sales as the fiscal year progressed. As a result, the Lottery plans on retiring the Lot 'O Play game as further described under the "Future Projects" section.
- Since May 2002 when Ohio began participation in the Mega Millions game, Ohio has realized nine jackpot winners for a total win value more than \$1 billion. Additionally, the State of Ohio benefits each time a jackpot winner is drawn in Ohio since state income tax withholdings are withheld from the prize winner's gross proceeds. Since the inception of Mega Millions, total state tax withholdings for jackpot prize winners have exceeded \$26.3 million.
- In June of 2005, the State of California joined the Mega Millions multi-state consortium. As a result, the starting jackpots increased from \$10 to \$12 million. Jackpots roll higher at a faster pace resulting in increased sales. In fiscal year 2006, the Lottery realized an increase in sales of over \$47.0 million from the prior fiscal year. The unprecedented Mega Millions activity proved the strong sales potential of the game at higher jackpot levels, and it also demonstrated that the jackpot is winnable in Ohio at both low and high jackpot levels.
- In August of 2005, the Lottery successfully launched its instant ticket distribution and warehousing initiative. Scientific Games International was awarded a multi-year contract to provide telemarketing, warehousing and delivery of instant tickets to the Lottery's nearly 8,600 retailer locations. Under the new business model, Lottery retailers receive fresh instant ticket products within 24-48 hours of their initial order. The program allows the Lottery to better align its major marketing campaigns with product availability at all retailer locations. The program also allowed the redeployment of several existing sales representatives to work exclusively on the charitable gaming oversight program.
- The Lottery and the Office of the Attorney General continued its relationship via a signed Memorandum of

Understanding, transferring the administration and monitoring of charitable bingo licensing responsibilities to the Lottery. The licensing of charitable bingo is a natural fit for the Lottery, which has experience licensing Lottery retailers since 1974. The program allows the Lottery to draw upon its existing licensing resources and infrastructure to administer charitable bingo licenses. The change has created efficiencies and allows for better overall accounting of money raised for charitable purposes. The Memorandum of Understanding details the compensation for personal services rendered and administrative costs incurred. The Attorney General retains legal responsibility for all of the duties assumed by the Lottery.

- In an effort to streamline the 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. Retailers may obtain their bond coverage by using the designated insurance carrier or by voluntarily seeking coverage through a carrier of their own choice. Since its inception, approximately 40 percent of all independent retailers have chosen to participate in the program.
- In fiscal year 2006, the Lottery field staff began utilizing new mobile technology devices linked to several vital back office systems of the Lottery. These devices allow the Lottery's field staff immediate access to retailer sales history via customized reporting and provide information on ticket inventory levels, availability of point-of-sale materials and higher-end merchandising items. The devices also allow access to vital forms such as retailer applications and access to email. This project initiative ensures the Lottery field staff has the latest information and technological tools to support Lottery sales growth and to meet performance goals and objectives.
- The Lottery successfully renegotiated its on-line gaming contract with GTECH, its instant ticket printing contract with Scientific Games International and its primary telecommunications contract with SBC Communications. As part of the negotiations, the Lottery continues to receive fair and competitive pricing for the on-line gaming system services provided by GTECH. In addition, the Lottery received over \$7.8 million in equipment credits that can be applied towards obtaining additional equipment for use in fiscal years 2006 through 2009.

The Scientific Games renegotiations resulted in options worth approximately \$3.0 million at no charge to the Lottery. Such options include providing optional game printing features (i.e. special dyes and inks) and production of direct mail pieces at no cost. Certain licensing fees have either been waived or reduced for trademarked games such as Monopoly™ and Harley Davidson®. In addition, Scientific Games agreed to provide player and focus group studies at no additional cost.

The SBC (now AT&T) negotiations resulted in lower telecommunication charges related to the Lottery's connection costs which tie in each retailer's gaming terminal to the Lottery's central computer gaming system. Per line costs decreased for each active retailer. On an annual basis, this equates to nearly \$600,000 per year in reduced communication costs compared to the pre-negotiated rate. Further, SBC agreed to waive certain one-time installation costs, with a value more than \$900,000. The Lottery does not project an overall decrease in telecommunication costs since the Lottery plans to expand its on-line retailer base to 9,000 retailers. Nevertheless, the Lottery anticipates that the retailer expansion project, coupled with the newly negotiated SBC communication charges, will produce higher overall sales, along with lower telecommunication charges on a per retailer basis.

- The Ohio Lottery is an active participant in the State of Ohio's implementation of the Ohio Administrative Knowledge System (OAKS) project. This system will integrate the functions of five major statewide business functions, which will decrease paperwork and duplication of effort, and lessen the potential for inaccurate information.

## 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 2007, the Ohio Lottery's energies are being concentrated on the following projects:

- As a spin off project of the instant ticket warehousing and distribution initiative, the Lottery has engaged the services of a real estate facility planner. The Lottery currently leases facility space in eleven buildings throughout the State. Prior to the instant ticket warehousing and distribution initiative, nine regional offices also served as satellite warehouses to store instant ticket inventory to be delivered to the Lottery's nearly 8,600 retailers.

The contracted facility planner is reviewing the Lottery's utilization of space, lease rates, lease terms and benchmarking industry best practices in an effort to recommend the optimal configuration of leased space to be used throughout the State. The Lottery plans to carefully review the facility planner's recommendations and will develop and implement a plan to optimize the use of leased space throughout the State.

- The Lottery launched a new raffle style game, Raffle to Riches, in July 2006. The game's design follows a traditional raffle game concept in which a limited number of raffle tickets are sold. Overall odds to win the top prize are better when compared to other traditional lotto style games. The Lottery's first raffle game consisted of 500,000 sequential raffle numbers. The game featured four prizes of \$1 million, five prizes of \$100,000 and five hundred prizes of \$1,000. The raffle tickets were sold in six weeks with the drawing held on Labor Day (September 4, 2006).

Due to the overwhelming success of the first raffle game, the Lottery is confident that this game strategy is appealing to players. Therefore, the Lottery plans to incorporate the raffle game into the product mix during the upcoming biennium, with three to four raffle drawings per year.

- As the lottery games and options evolve in the industry, the Lottery will continue to evaluate available game options and prize matrixes. As such, the Lottery plans to benchmark Ohio's sales results against peer lottery states and review best practices in an effort to optimize Ohio's catalog of products available for sale. From time-to-time during the fiscal year, the Lottery plans to adjust both its instant ticket and on-line gaming product mix as necessary. Collaboration with the Lottery's primary instant ticket and on-line gaming vendors will enhance the research and benchmarking efforts of the Lottery.
- The Lottery plans to enhance the number of promotional offerings available to the public. Industry practices support the need for retailers, such as the Ohio Lottery, to implement on-going promotional programs to stimulate the public's interest in the products being offered. There are numerous promotional programs and opportunities the Lottery plans to offer over the course of the fiscal year.
- Due to the Lot 'O Play game's complexity, player interest declined over the course of the fiscal year and sales did not meet management's expectations. The Ohio Lottery intends to replace the game in January 2007 with a classic lotto style game to be drawn three times a week. Based upon focus group testing, the Lottery believes players are seeking an easy to understand lotto style game with reasonable odds of winning the grand prize.
- As described in the "Economic Outlook" section, the Lottery continues to struggle to maintain its retailer base. As urban sprawl continues and consumer shopping and spending patterns shift, the Lottery is challenged by how to best capitalize in a shifting market environment. With the conversion of 1,300 existing conventional retailers (i.e. those who sell only instant tickets) to full service retailers who can sell all on-line games and an aggressive retailer recruitment program, the Lottery plans to increase the retailer base to 9,000. As described in the accomplishments section, the Lottery has decided to use the bulk of the GTECH equipment credits to upgrade all conventional retailers to the on-line Altura gaming terminal and to use the credits for supporting the retailer expansion project. The Lottery believes this strategy was the best use of equipment credits, in an effort to maximize lottery sales with minimal negative impact on operating expenses.
- The last extension of the Lottery's gaming system contract with GTECH will expire at the end of fiscal year 2009. As such, the Lottery will be undertaking a significant contract award process. The gaming system plays an integral part in operating computerized transaction activity for both the Lottery's instant ticket and on-line games. The project will require a significant amount of internal personnel resources to develop technical specifications, benchmark current

industry practices, evaluate telecommunication strategies, and analyze vendor bid responses. To ensure the Lottery is taking all responsible measures in developing bid specifications and evaluating bid responses, the Lottery will be seeking additional professional services. It is uncertain what the gaming contract cost will be as general inflationary pressures offset by technological advancements will play a major role in the bid responses.

- In fiscal year 2006, the Lottery decided to retire its Cash Explosion Double Play Television Show after a running of nearly 20 years. Due to a changing instant ticket product mix over the course of several years and changing player interests, the Lottery decided to refresh the entire television show production to appeal to a wider audience. A new show called “Make Me Famous, Make Me Rich” debuted in October 2006.

## **ACCOUNTING SYSTEMS AND POLICIES**

The Ohio Lottery operates under three 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 three Ohio Lottery funds are the Lottery Operating Fund, the Deferred Prize Fund and the Charitable Gaming Oversight Fund. For financial reporting purposes, the Charitable Gaming Oversight Fund has been consolidated with the Lottery Operating Fund activities.

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, 2006 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 which have responsibility for delivery of service. These offices control the funds within their program. The Finance Division 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 project revenue and expenditure trends and implement 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 game shows.
- 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 statement 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 8,600 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 2006. Timely payment was made on 99.5 percent of accounts collected. Approximately \$5.0 million was returned unpaid and recorded as non-transfer of funds. Those agents were deactivated and could not sell tickets until payment was received and posted. Approximately \$4.0 million of the uncollected was subsequently 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 thefts, 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.

## 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, 2005. This was the ninth 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.

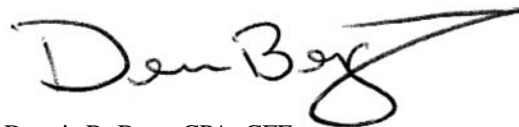
## INDEPENDENT AUDIT

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 2006 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 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 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, CFE  
Deputy Director of Finance



Mike Abouserhal, CPA  
Executive Director

[ THIS PAGE INTENTIONALLY LEFT BLANK ]



# 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, 2005

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.



*Carla E. Perry*

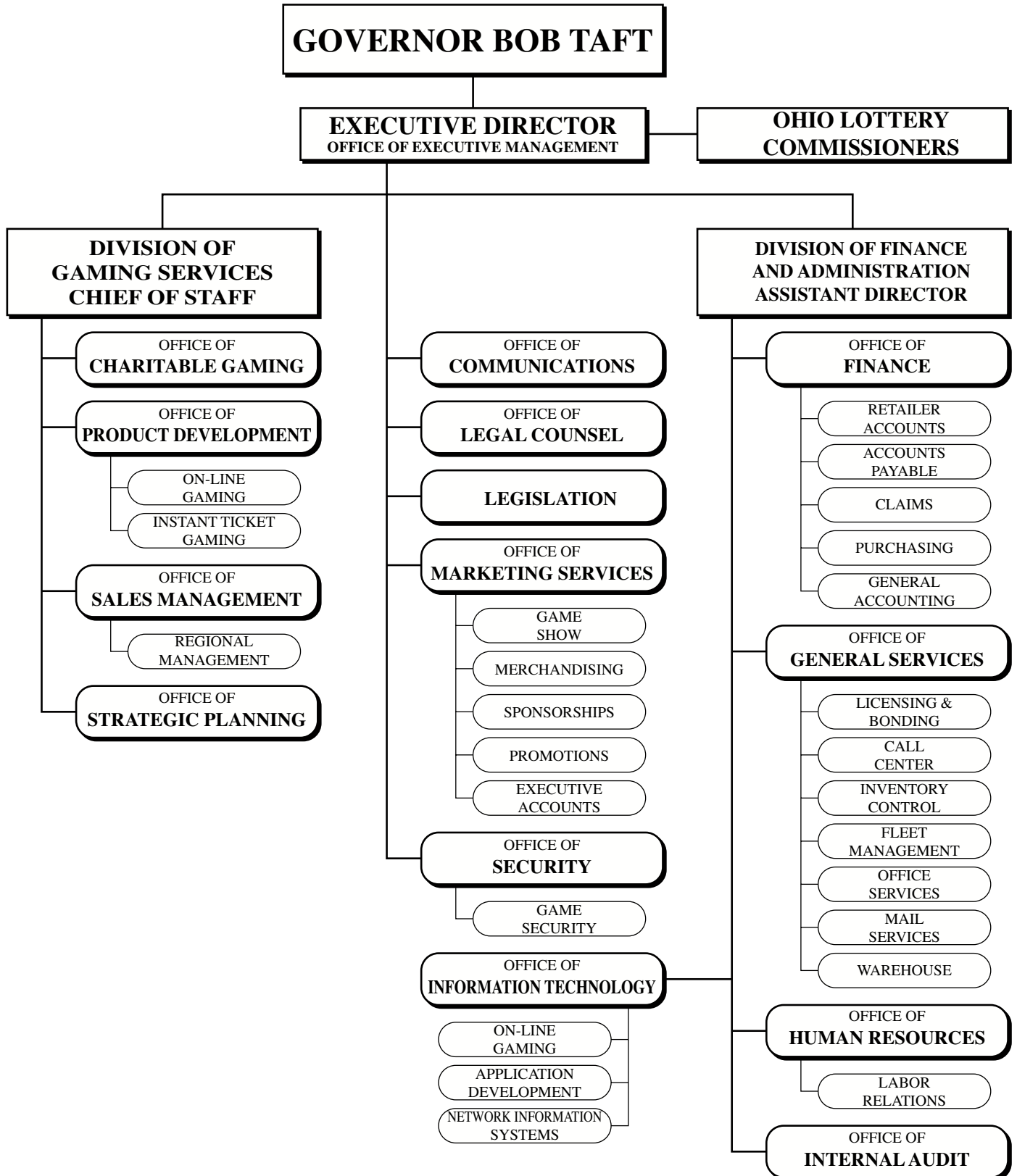
President

*Jeffrey R. Emer*

Executive Director

# OHIO LOTTERY COMMISSION

STRUCTURE OF ORGANIZATION • FISCAL YEAR 2006



# **PRINCIPAL OFFICIALS**

---

**Bob Taft**

GOVERNOR OF OHIO

**Mike Abouserhal, CPA**

DIRECTOR

**Sandra K. Barber**

COMMISSION CHAIR

Term ends 08/01/08

**Erskine E. Cade**

COMMISSIONER

Term ends 08/01/08

**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

**Charles S. Nemer**

COMMISSIONER

Term ends 08/01/07

**Gisale Rosenbaum**

COMMISSIONER

Term ends 08/01/06

**Jerry Y. Seaman**

COMMISSIONER

Term ends 08/01/08

**Lee C. Weingart**

COMMISSIONER

Term ends 08/01/07



**FINANCIAL SECTION**

**Ohioans hit the Mega Millions jackpot six times  
between June 3, 2005, and June 27, 2006.**



## 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 activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery) as of and for the year ended June 30, 2006, 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 2005 financial statements and, in our report dated November 30, 2005, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

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

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and each major fund of the State of Ohio that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2006, and the changes in its financial position and its cash flows 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 activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2006, 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, 2005, from which such comparative information was derived.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)



In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2006, 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

December 19, 2006

# 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, 2006. 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 6-12 of this report, and the financial statements which begin on page 26.

## Financial Highlights

- The Ohio Lottery's net assets decreased \$22.4 million or 14.7 percent, as a result of this year's operations, predominantly due to a reduction in interest income based on recognizing an unrealized loss on the Ohio Lottery's restricted investments.
- Annual ticket sales increased \$61.8 million, or 2.9 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.
  - Instant ticket sales increased \$56.8 million or 4.7 percent from last year, primarily due to the launch of several "Mega" style games, which offer higher prize payouts.
  - Sales for the Mega Millions game, a multi-jurisdictional lotto-type game, increased nearly \$47.0 million, or 26.6 percent as a result of higher advertised jackpots and a record five (5) jackpots won in Ohio during the fiscal year. Pick 4 continues to post year-over-year growth, as sales increased \$5.6 million or 3.3 percent from last fiscal year. This was offset by a reduction in sales for the other online games. In total, online game sales increased over \$5.0 million, or 0.5 percent.
- Prize expense increased \$30.4 million, in direct proportion to an increase in ticket sales during the year as well as a planned increase in instant ticket prize payouts. Total prize expense represented 59.0 percent of total ticket sales compared to 59.3 percent in fiscal year 2005.
- Operating expenses increased \$12.0 million partially due to a new initiative utilizing a warehouse and distribution method of delivering instant tickets versus the old "trunk stock" method. A majority of expenses are directly related to sales and therefore increased in direct proportion to sales.
- The Ohio Lottery transferred \$646.3 million to the Lottery Profits Education Fund (LPEF), \$8.4 million above our commitment in the 2006 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. Also included in this fund is activity associated with the Charitable Gaming Oversight Fund. Revenues are credited through reimbursements from the Office of the Attorney General in accordance with an agreement between the Lottery and the Attorney General. Expenses for this fund represent oversight, licensing, and monitoring of charitable gaming activity. As part of the State's biennial budget process for fiscal year 2006/2007, the Office of Budget and Management (OBM) required that a separate fund be established to provide clear segregated accounting of the financial transactions. Effective fiscal year 2006, the Charitable Gaming Oversight Fund (231) was established. For purposes of this financial report, all financial activity is presented within the Lottery Operating Fund. Please see *Note disclosures to the financial statements* for more detailed activity reported within this fund.

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

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

## Financial Analysis

Table 1 provides a summary of the Ohio Lottery's net assets at June 30, 2006 compared to June 30, 2005.

**TABLE 1 - NET ASSETS**

	<u>2006</u>	<u>2005</u>
Current Assets: Unrestricted	\$ 139,861,130	\$ 128,264,338
Current Assets: Restricted	468,308,207	597,040,760
Noncurrent Assets: Restricted	674,223,100	797,629,772
Net Capital Assets	<u>2,866,168</u>	<u>16,335,013</u>
 Total Assets	 <u>1,285,258,605</u>	 <u>1,539,269,883</u>
 Current Liabilities: Unrestricted	 73,576,909	 99,100,965
Current Liabilities: Restricted	446,337,865	587,651,064
Noncurrent Liabilities: Restricted	<u>635,705,170</u>	<u>700,466,252</u>
 Total Liabilities	 <u>1,155,619,944</u>	 <u>1,387,218,281</u>
 Net Assets:		
Invested in Capital Assets - Net of Related Debt	2,866,168	738,955
Restricted for Deferred Prizes	67,146,464	112,003,153
Unrestricted	<u>59,626,029</u>	<u>39,309,494</u>
 Total Net Assets	 <u>\$ 129,638,661</u>	 <u>\$ 152,051,602</u>

Total Assets decreased \$254.0 million as a result of a net decrease in restricted investments, as well as by the depreciation of capital assets. Current Assets - Unrestricted increased from \$128.3 million in 2005 to \$139.9 million in 2006, an increase of \$11.6 million. This increase is a result of higher cash balances, and a \$5.1 million increase in retailer accounts receivable due to the timing of weekly collections from our retailers.

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 \$231.6 million, mainly due to the significant decrease in security lending activity. Current Liabilities – Restricted decreased \$141.3 million as a result of security lending activity. The combined effect of the payment of deferred prizes payable during fiscal year 2006 and payments made on the capital lease obligation contributed to an overall decrease of \$64.8 million in Noncurrent Liabilities.

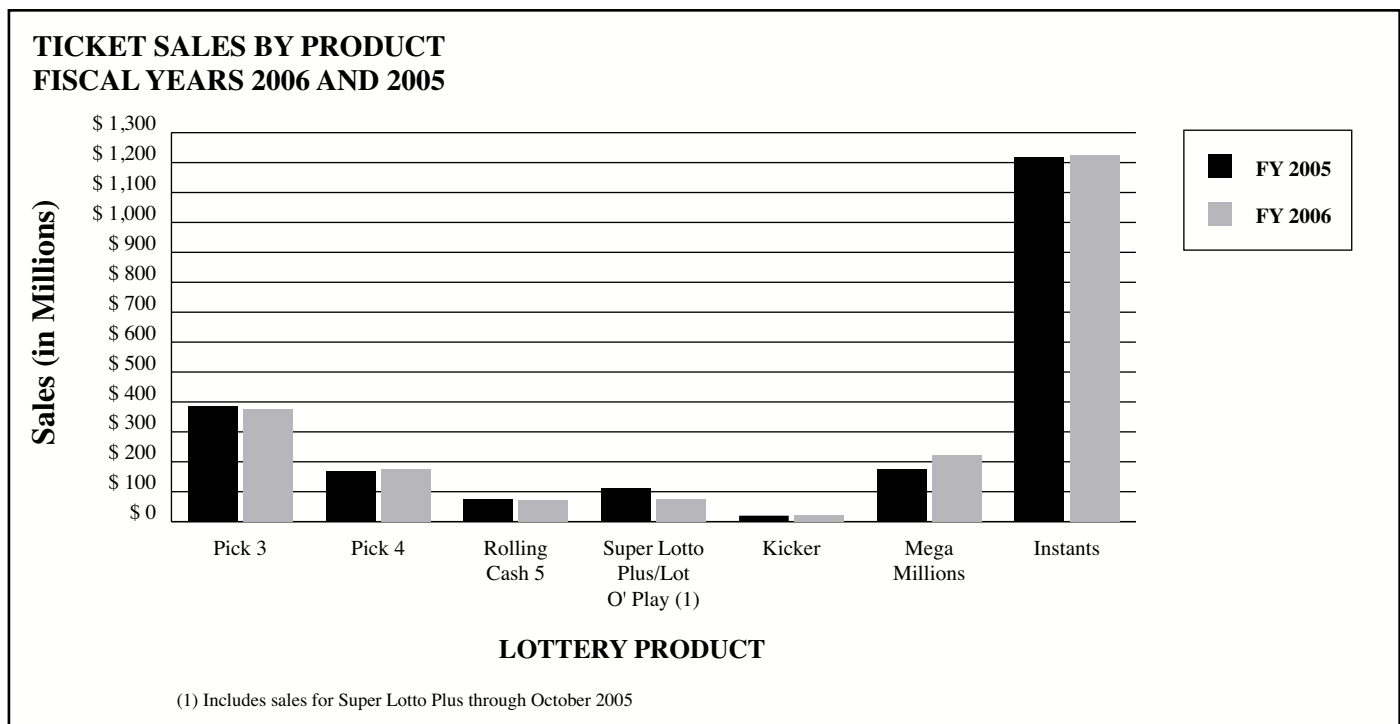
The Ohio Lottery's financial activity resulted in a \$22.4 million decrease in net assets. Net Assets Restricted for Deferred Prizes decreased \$44.9 million as a result of recognizing a fiscal year 2006 unrealized loss on restricted assets in accordance with GASB 31, as noted above. Unrestricted Net Assets realized a \$20.3 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 2006 compared to fiscal year 2005, including revenue and expense comparisons.

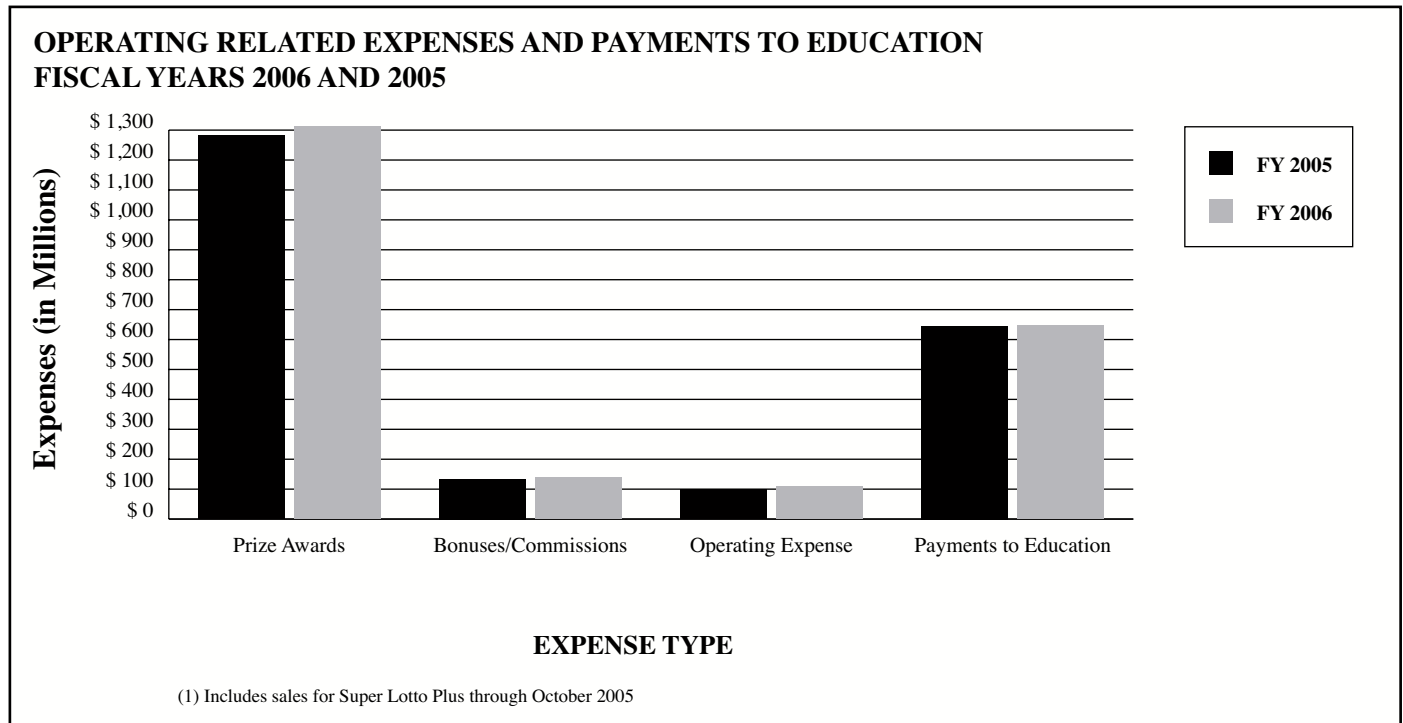
**TABLE 2 - CHANGES IN NET ASSETS**

	2006	2005
Ticket Sales	\$ 2,220,927,317	\$ 2,159,129,175
Other Operating Revenues	6,458,756	5,728,064
Non-Operating Revenues	22,324,847	90,493,342
<b>Total Revenues</b>	<b>2,249,710,920</b>	<b>2,255,350,581</b>
Prize Expenses	1,311,141,167	1,280,786,747
Bonuses and Commissions	139,840,919	133,841,413
Operating Expenses	109,766,429	97,688,847
Non-Operating Expenses	65,099,346	69,320,053
Payments to the Lottery Profits Education Fund	646,276,000	645,137,000
<b>Total Expenses</b>	<b>2,272,123,861</b>	<b>2,226,774,060</b>
<b>Change in Net Assets</b>	<b>(22,412,941)</b>	<b>28,576,521</b>
<b>Total Net Assets - Beginning</b>	<b>152,051,602</b>	<b>123,475,081</b>
<b>Total Net Assets - Ending</b>	<b>\$ 129,638,661</b>	<b>\$ 152,051,602</b>



Total revenues decreased by \$5.6 million, as the decrease in non-operating revenues was offset by an increase in ticket sales. Ohio Lottery sales increased \$61.8 million or 2.9 percent in fiscal year 2006. Instant ticket sales, which experienced an impressive increase of 4.4 percent and 7.1 percent in fiscal years 2005 and 2004, respectively, performed extremely well, increasing \$56.8 million, or 4.7 percent above the prior year's sales. Instant ticket sales surpassed the \$1 billion sales mark for the fourth consecutive year. Online product sales experienced mixed performance by product. Mega Millions enjoyed the most successful year since it began in May

2002. During the year, five (5) jackpots were won in Ohio, ranging from a high of \$270 million to \$15 million. This added excitement to the player base resulted in sales increasing nearly \$47 million, or 26.6 percent from the prior year. Pick 4 continues to experience year-over-year growth, as sales increased \$5.6 million or 3.3 percent over the prior year. The maturation of the remaining online game products continued to show declines in sales. Non-operating revenue represents the Ohio Lottery's investment income on investments dedicated to the payment of annuity prizes, and interest earned on all other equity balances held with the Treasurer of State. In fiscal year 2006, non-operating revenue decreased significantly by \$68.2 million. This is due to the net effect of recognizing an unrealized loss on the investments dedicated to the payment of annuity prizes.



Total expenses increased \$45.3 million. Prizes, bonuses and commissions increased by \$36.4 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 increased compared to last fiscal year due to the introduction of a new delivery method of instant tickets. In addition to an increase in payments to the LPEF, the Lottery also transferred a one-time payment of \$5.8 million to the Lottery's Deferred Prize Trust Fund in an effort to reduce a deficit within the fund.

The activity described above resulted in a decrease in Net Assets of \$22.4 million, decreasing the balance at June 30, 2006 to \$129.6 million from \$152.1 million.

## Capital Assets and Debt Administration

### Capital Assets

**TABLE 3 - CAPITAL ASSETS (Net of Depreciation)**

	<u>2006</u>	<u>2005</u>
Equipment	\$ 1,378,423	\$ 15,075,348
Vehicles	<u>1,487,745</u>	<u>1,259,665</u>
Total Net Capital Assets	<u>\$ 2,866,168</u>	<u>\$ 16,335,013</u>

As of June 30, 2006, the Ohio Lottery had \$2.9 million, net of accumulated depreciation, in Capital Assets. Table 3 summarizes the Ohio Lottery's capital assets at the end of 2006 and 2005.

Total Net Capital Assets decreased \$13.5 million in fiscal year 2006 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 was 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 met the requirement of a capital lease; as a result, the equipment was recorded at the present value of the minimum lease payments and depreciated over its useful life.

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 \$119.9 million as a result of payments on the deferred prize obligation. As of June 30, 2006, no debt remained on the Capital Lease Payable, as the lease agreement has expired.

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.

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

**STATEMENT OF NET ASSETS - MAJOR FUNDS**  
**JUNE 30, 2006**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2005)**

ASSETS:	OPERATING	DEFERRED	Totals	
			June 30, 2006	June 30, 2005
<b>Current Assets - Unrestricted</b>				
Cash and Cash Equivalents	\$ 11,641,334	-	\$ 11,641,334	\$ 11,921,397
Cash Equity with Treasurer of State	51,752,067	-	51,752,067	48,806,723
Collateral on Lent Securities	29,269,612	-	29,269,612	28,959,951
Receivables from Agents, Net	40,054,283	-	40,054,283	34,957,480
Due From Charitable Gaming	334,940	-	334,940	-
Other Assets	6,808,894	-	6,808,894	3,618,787
<b>Total Current Assets-Unrestricted</b>	<b>139,861,130</b>	<b>-</b>	<b>139,861,130</b>	<b>128,264,338</b>
<b>Current Assets - Restricted</b>				
Cash Equity with Treasurer of State	-	\$800,093	800,093	62,751,550
Due From Unrestricted Assets	-	10,477,800	10,477,800	9,389,694
Dedicated Investments	-	91,333,749	91,333,749	82,874,788
Collateral on Lent Securities	-	351,853,710	351,853,710	439,249,507
Due From Other State Lotteries	-	11,492,539	11,492,539	-
Interest Receivable	-	2,350,316	2,350,316	2,775,221
<b>Total Current Assets-Restricted</b>	<b>-</b>	<b>468,308,207</b>	<b>468,308,207</b>	<b>597,040,760</b>
<b>Total Current Assets</b>	<b>139,861,130</b>	<b>468,308,207</b>	<b>608,169,337</b>	<b>725,305,098</b>
<b>Noncurrent Assets</b>				
Dedicated Investments, Restricted	-	674,223,100	674,223,100	797,629,772
<b>Capital Assets</b>				
Equipment	80,556,013	-	80,556,013	77,534,743
Vehicles	-	-	-	2,867,545
Accumulated Depreciation	(77,689,845)	-	(77,689,845)	(64,067,275)
<b>Net Capital Assets</b>	<b>2,866,168</b>	<b>-</b>	<b>2,866,168</b>	<b>16,335,013</b>
<b>Total Noncurrent Assets</b>	<b>2,866,168</b>	<b>674,223,100</b>	<b>677,089,268</b>	<b>813,964,785</b>
<b>TOTAL ASSETS</b>	<b>142,727,298</b>	<b>1,142,531,307</b>	<b>1,285,258,605</b>	<b>1,539,269,883</b>
<b>LIABILITIES</b>				
<b>Current Liabilities - Unrestricted</b>				
Accounts Payable	11,890,443	-	11,890,443	8,387,524
Prize Awards Payable	18,278,441	-	18,278,441	32,882,820
Obligations under Securities Lending	29,269,612	-	29,269,612	28,959,951
Due to Unrestricted Assets	334,940	-	334,940	-
Due to Restricted Assets	10,477,800	-	10,477,800	9,389,694
Capital Lease Payable - Current	-	-	-	15,596,060
Deferred Revenue	942,895	-	942,895	1,709,655
Other Liabilities	2,325,087	-	2,325,087	1,961,900
Due to Other Lotteries	57,691	-	57,691	213,361
<b>Total Current Liabilities -Unrestricted</b>	<b>73,576,909</b>	<b>-</b>	<b>73,576,909</b>	<b>99,100,965</b>
<b>Current Liabilities - Restricted</b>				
Obligations under Securities Lending	-	351,853,710	351,853,710	439,249,507
Prize Awards Payable - Net of Discount	-	94,484,155	94,484,155	148,401,557
<b>Total Current Liabilities-Restricted</b>	<b>-</b>	<b>446,337,865</b>	<b>446,337,865</b>	<b>587,651,064</b>
<b>Total Current Liabilities</b>	<b>73,576,909</b>	<b>446,337,865</b>	<b>519,914,774</b>	<b>686,752,029</b>
<b>Noncurrent Liabilities:</b>				
Prize Awards Payable from Restricted Assets - Net of Discount	-	629,046,978	629,046,978	695,016,315
Accrued Workers' Compensation	3,832,162	-	3,832,162	2,978,746
Compensated Absences	2,826,030	-	2,826,030	2,471,191
<b>Total Noncurrent Liabilities</b>	<b>6,658,192</b>	<b>629,046,978</b>	<b>635,705,170</b>	<b>700,466,252</b>
<b>TOTAL LIABILITIES</b>	<b>80,235,101</b>	<b>1,075,384,843</b>	<b>1,155,619,944</b>	<b>1,387,218,281</b>
<b>NET ASSETS</b>				
Invested in Capital Assets-Net of Related Debt	2,866,168	-	2,866,168	738,955
Restricted for Deferred Prizes	-	67,146,464	67,146,464	112,003,153
Unrestricted	59,626,029	-	59,626,029	39,309,494
<b>TOTAL NET ASSETS</b>	<b>\$ 62,492,197</b>	<b>\$ 67,146,464</b>	<b>\$ 129,638,661</b>	<b>\$ 152,051,602</b>

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, 2006**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005)**

	OPERATING	DEFERRED	Totals	
			JUNE 30, 2006	JUNE 30, 2005
<b>REVENUES</b>				
Ticket Sales	\$ 2,220,927,317	-	\$ 2,220,927,317	\$ 2,159,129,175
Other Revenues	6,006,985	\$ 451,771	6,458,756	5,728,064
<b>Total Operating Revenues</b>	<b>2,226,934,302</b>	<b>451,771</b>	<b>2,227,386,073</b>	<b>2,164,857,239</b>
<b>EXPENSES</b>				
<b>Prizes, Bonuses and Commissions</b>				
Prize Awards	1,267,996,597	43,144,570	1,311,141,167	1,280,786,747
Bonuses and Commissions	139,840,919	-	139,840,919	133,841,413
<b>Total Prizes, Bonuses and Commissions</b>	<b>1,407,837,516</b>	<b>43,144,570</b>	<b>1,450,982,086</b>	<b>1,414,628,160</b>
<b>Operating Expenses</b>				
Personal Services	76,753,655	-	76,753,655	66,470,565
Maintenance	18,318,937	-	18,318,937	16,567,579
Depreciation	14,663,535	-	14,663,535	14,624,318
Other Expenses	30,302	-	30,302	26,385
<b>Total Operating Expenses</b>	<b>109,766,429</b>	<b>-</b>	<b>109,766,429</b>	<b>97,688,847</b>
<b>OPERATING INCOME (LOSS)</b>	<b>709,330,357</b>	<b>(42,692,799)</b>	<b>666,637,558</b>	<b>652,540,232</b>
<b>Non-Operating Revenues (Expenses):</b>				
Interest Income	3,180,101	19,077,432	22,257,533	90,493,342
Amortization of Prize Liabilities	-	(44,377,045)	(44,377,045)	(55,350,774)
Gain (Loss) on Equipment Disposal	67,314	-	67,314	(21,805)
Interest Expense - Borrower Rebates	-	(20,103,956)	(20,103,956)	(12,416,676)
Interest Expense - Capital Lease	(511,506)	-	(511,506)	(1,417,554)
Securities Lending Agent Fees	-	(106,839)	(106,839)	(113,244)
Payments to the Lottery Profits Education Fund	(646,276,000)	-	(646,276,000)	(645,137,000)
<b>Total Non-Operating Expenses, Net</b>	<b>(643,540,091)</b>	<b>(45,510,408)</b>	<b>(689,050,499)</b>	<b>(623,963,711)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>65,790,266</b>	<b>(88,203,207)</b>	<b>(22,412,941)</b>	<b>28,576,521</b>
<b>TRANSFERS:</b>				
Transfers to Deferred Prize Trust Fund	(43,346,518)	43,346,518	-	-
<b>Total Transfers</b>	<b>(43,346,518)</b>	<b>43,346,518</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>22,443,748</b>	<b>(44,856,689)</b>	<b>(22,412,941)</b>	<b>28,576,521</b>
<b>Total Net Assets - Beginning</b>	<b>40,048,449</b>	<b>112,003,153</b>	<b>152,051,602</b>	<b>123,475,081</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 62,492,197</b>	<b>\$ 67,146,464</b>	<b>\$ 129,638,661</b>	<b>\$ 152,051,602</b>

*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, 2006  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2005)**

	Totals			
	OPERATING	DEFERRED	JUNE 30, 2006	JUNE 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Sales	\$ 2,215,063,754	-	\$ 2,215,063,754	\$ 2,161,100,632
Cash Received from Multi-State Lottery for Grand Prize Winners	25,661,596	\$ 364,402,382	390,063,978	87,897,163
Cash Payments for Prize Awards	(1,309,345,915)	(583,303,275)	(1,892,649,190)	(1,436,008,947)
Cash Payments for Bonuses and Commissions	(139,648,511)	-	(139,648,511)	(133,933,754)
Cash Payments for Goods and Services	(68,798,293)	-	(68,798,293)	(59,584,020)
Cash Payments to Employees	(23,654,780)	-	(23,654,780)	(22,570,883)
Other Operating Revenues	6,006,985	451,771	6,458,756	5,728,064
Other Operating Expenses	(30,302)	-	(30,302)	(26,385)
Net Cash Provided (Used) by Operating Activities	<u>705,254,534</u>	<u>(218,449,122)</u>	<u>486,805,412</u>	<u>602,601,870</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payments to the Lottery Profits Education Fund	(646,276,000)	-	(646,276,000)	(645,137,000)
Transfers In	-	43,346,518	43,346,518	16,635,542
Transfers Out	(43,346,518)	-	(43,346,518)	(16,635,542)
Net Cash Provided (Used) by Non Capital Financing Activities	<u>(689,622,518)</u>	<u>43,346,518</u>	<u>(646,276,000)</u>	<u>(645,137,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of Property and Equipment	(1,317,751)	-	(1,317,751)	(497,215)
Proceeds from Sale of Property and Equipment	190,375	-	190,375	58,700
Repayment of Equipment Obligation	(15,596,060)	-	(15,596,060)	(14,690,012)
Interest Paid on Equipment Obligation	(511,506)	-	(511,506)	(1,417,554)
Net Cash Used by Capital and Related Financing Activities	<u>(17,234,942)</u>	<u>-</u>	<u>(17,234,942)</u>	<u>(16,546,081)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income Received	3,180,101	42,861,827	46,041,928	25,128,037
Restricted Assets Due for Investing	1,088,106	(1,088,106)	-	-
Interest Expense and Agent Fees	-	(20,210,795)	(20,210,795)	(12,529,920)
Proceeds from the Sale and Maturity of Investments	-	2,656,653,438	2,656,653,438	2,995,973,636
Purchase of Investments	-	(2,565,065,217)	(2,565,065,217)	(2,874,007,369)
Securities Lending Proceeds	29,269,612	351,853,710	381,123,322	468,209,458
Securities Lending Payments	(29,269,612)	(351,853,710)	(381,123,322)	(468,209,458)
Net Cash Provided by Investing Activities	<u>4,268,207</u>	<u>113,151,147</u>	<u>117,419,354</u>	<u>134,564,384</u>
Net Increase (Decrease) in Cash & Cash Equivalents	2,665,281	(61,951,457)	(59,286,176)	75,483,173
Cash and Cash Equivalents - Beginning	60,728,120	62,751,550	123,479,670	47,996,497
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 63,393,401</u>	<u>\$ 800,093</u>	<u>\$ 64,193,494</u>	<u>\$ 123,479,670</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 709,330,357	\$ (42,692,799)	\$ 666,637,558	\$ 652,540,232
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	14,663,535	-	14,663,535	14,624,318
Amortization of Discount of Prize Liabilities	-	44,377,045	44,377,045	55,350,774
Net Changes in Assets and Liabilities:				
Receivables from Agents - Net	(5,096,803)	-	(5,096,803)	3,075,133
Other Assets	(3,525,047)	(11,492,539)	(15,017,586)	363,235
Prize Awards Payable	(14,604,379)	-	(14,604,379)	806,002
Accounts Payable	3,347,249	-	3,347,249	1,878,640
Other Liabilities	698,127	-	698,127	65,920
Deferred Revenue	(766,760)	-	(766,760)	(1,103,676)
Prize Awards Payable from Restricted Assets - Net of Discount	-	(208,640,829)	(208,640,829)	(124,186,442)
Accrued Workers' Compensation	853,416	-	853,416	(1,027,999)
Compensated Absences	354,839	-	354,839	215,733
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 705,254,534</u>	<u>\$ (218,449,122)</u>	<u>\$ 486,805,412</u>	<u>\$ 602,601,870</u>

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

*Non-Cash items included in investment income were (\$54.6) million and \$22.8 million of unrestricted net gains and (losses) for the years ended June 30, 2006 and June 30, 2005, 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, 2006 AND 2005**

## **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 certified 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 three Ohio Lottery funds are: the Lottery Operating Fund, the Deferred Prize Fund, and Charitable Gaming Oversight Fund. All financial activity related to the Charitable Gaming Oversight Fund is presented within the Lottery Operating Fund for purposes of this financial report.

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.

### **Charitable Gaming Oversight Fund**

In fiscal year 2005, the Lottery and the State of Ohio Attorney General’s Office (“AG”) signed a Memorandum of Understanding (“MOU”) between the two agencies, transferring the administration and monitoring of charitable bingo licensing to the Ohio Lottery



Commission. In fiscal year 2006, a separate fund had been established as authorized by language contained in House Bill 66. In accordance with section 3770.06 of the Ohio Revised Code, the Lottery shall credit to the fund any money it receives from the AG's office under any agreement the Lottery and the AG enters into under division (I) of section 2915.08 of the Revised Code. The Lottery shall use the money in the fund to provide oversight, licensing, and monitoring of charitable gaming activities in the state in accordance with the agreement and Chapter 2915 of the Revised Code. The expenses involved with providing these services under the agreement are reimbursable from the AG's office to the Lottery. During the year, expenses of \$984,886 were reimbursed and recorded as other revenue in the Charitable Gaming Oversight Fund. All activity associated with providing these services are presented within the Lottery's Operating Fund.

## **Cash and Cash Equivalents**

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

In fiscal year 2006 the Ohio Lottery Commission established a Government Money Market Fund, through National City Bank (NCB)/Allegiant Group to invest excess cash. The money market fund invests in short term U.S. Treasury securities or repurchased agreements that are backed by U.S. Treasury securities and guaranteed by the U.S. Government.

## **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, 2006 and 2005, of \$221,516 and \$20,991, 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. The Ohio Lottery is either credited with equity in the State of Ohio Common Cash and Investments Account equal to the amounts deposited, or specific State investments are identified and dedicated to the repayment of deferred prizes. Amounts necessary to fund deferred prizes awarded shortly before the end of the fiscal year, that will be used to acquire additional equity in State of Ohio general investments in the succeeding year, if any, are recorded as amounts "due from unrestricted assets" in the accompanying statement of net assets. In fiscal year 2006, the Ohio Lottery adopted a new method of providing investment capital for future deferred prize payments by purchasing individual securities to fund a specific prize obligation.

## **Capital Assets**

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

The estimated useful life for ticket issuing equipment is five years. The estimated useful life for all other equipment ranges from five to fifteen years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain 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 temporary tiered instant ticket commission structure beginning May 1, 2005 and ending December 31, 2005. During this period, all retailers had 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 the jackpot for the lotto style games, not to exceed \$100,000.

## **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. 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 amount of loss arising from these risks was not significant for the years ended June 30, 2006, 2005, and 2004. No significant payments were made or liabilities recorded during the years ended June 30, 2006, 2005, and 2004 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. It also has a rider that provides faithful performance for the same amount. This policy covers all employees of all the participating agencies, including each commissioner. The Ohio Lottery pays a premium to the State for workers' compensation benefits.

The Ohio Lottery pays a premium assessed by the 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 contributed \$47.17 for single and \$128.50 for family coverage per month, while the Ohio Lottery contributed \$263.86 for single, and \$724.72 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 \$1,327,355 and \$1,600,601 for the years ended June 30, 2006 and 2005, respectively.

The State has contracted with five 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 four months after the end of the fiscal year. Unencumbered appropriations lapse at the end of the biennium for which they were appropriated. The major differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis of accounting are:

- Prizes 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, 2006.

## **New Accounting Pronouncements**

The Lottery has implemented GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section", effective for fiscal year ended June 30, 2006. Implementation of this standard had no impact on the Lottery's financial position. The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 45, "Accounting and Financial Reporting by employers for post-employment benefits other than pensions". GASB Statement No. 45 becomes effective for fiscal periods beginning after December 15, 2006, and supersedes GASB Statement No. 12. The Ohio Public Employees Retirement System (OPERS) will begin including other post employment benefit (OPEB) disclosures for GASB Statement No. 45 in their annual report for the fiscal year ended December 31, 2006. Therefore, no implementation information is available at this time. Ohio Lottery management is currently assessing the impact of GASB Statement No. 45 implementation and the effects it will have on its financial statements.

In June 2005, the GASB issued Statement No. 47, "Accounting for Termination Benefits". GASB Statement No. 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives, severance to employees that are involuntarily terminated, and healthcare coverage. While unemployment compensation benefits do fall under the umbrella of termination benefits, GASB Statement No. 47 specifically excludes these benefits from its scope. The Statement requires that similar forms of termination benefits be accounted for in the same manner. GASB Statement No. 47 is effective for financial statements for periods beginning after June 15, 2005.

Healthcare coverage for voluntarily and involuntarily terminated employees under the federal Consolidated Omnibus Budget Reconciliation Act (COBRA) is considered a termination benefit. Under GASB Statement No. 47, a liability for COBRA relative to self-insurance plans only is to be considered for measurement. COBRA related healthcare benefits for the Lottery is not material in relation to the Lottery's financial position. Therefore, the amount of the healthcare termination benefit liability will not be separately identified in the Ohio Lottery financial statements for the period ending June 30, 2006 and June 30, 2005.

State agencies may offer voluntary early retirement incentives (ERI) under Section 145.297 of the ORC, whereby the agency offers to purchase up to a maximum of five years worth of service credit from the public retirement system on behalf of the employees who meet the retirement requirements. The ERI liability recognizes the termination benefits that are not healthcare-related and result in an obligation to pay specific amounts on fixed or determinable dates. No ERI programs were in effect for the fiscal periods ending June 30, 2006 and June 30, 2005.

### **Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles 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, 2005, 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 moneys in certificates of deposit, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. The 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, 2006, the carrying amount of the Ohio Lottery's deposits with financial institutions was \$1,604,632 and the bank balance was \$1,629,397, the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$1,529,397 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.

As mentioned earlier, The Lottery also has cash invested in a money market mutual fund, which is used to fund daily operations. These investments are not subject to interest rate risk because the underlying investments have short-term maturities, and the fund's share price remains stable.

## Investments

Although risks exposures are minimized by complying with legal requirements and internal policies adopted by the Treasurer of State, the Lottery's investments are exposed to risks that may lead to losses of value. The Lottery's investments at June 30, 2006 consists of the following:

Investment Type	Fair Value	Credit Quality Rating	Investment Maturities (in years)			
			Less than 1	1-5	6-10	>10
U.S. Government Obligations	\$ 36,905,239		-	\$ 2,566,203	\$ 11,525,000	\$ 22,814,036
U.S. Government Agency Obligations	78,236,151	AA	\$ 1,129,927	65,324,932	2,217,837	9,563,455
U.S. Government Strips	46,545,678		2,326,206	5,863,084	10,408,232	27,948,156
U.S. Government Agency Strips	562,612,440	AA	99,442,672	243,916,935	134,839,156	84,413,677
Commercial Paper	39,125,155	NR	39,125,155	-	-	-
<b>Total Investments</b>	<b>\$ 763,424,663</b>		<b>\$ 142,023,960</b>	<b>\$ 317,671,154</b>	<b>\$ 158,990,225</b>	<b>\$ 144,739,324</b>
<b>Investments not required to be categorized</b>						
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)	10,132,186	AAA	10,132,186	-	-	-
Equity in State of Ohio Common Cash & Investments	52,552,160		52,552,160	-	-	-
Money Market Mutual Fund	2,036,702	AAAm	2,036,702	-	-	-
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	<u>29,722,123</u>		<u>29,722,123</u>	-	-	-
<b>Total Lottery - Structured Investments, as of June 30, 2006</b>	<b><u>\$ 857,867,834</u></b>		<b><u>\$ 236,467,131</u></b>	<b><u>\$ 317,671,154</u></b>	<b><u>\$ 158,990,225</u></b>	<b><u>\$ 144,739,324</u></b>

*Custodial Credit Risk* for investments exists when a government is unable to recover the value of investments or collateral securities that are in possession of an outside party in the event of a failure of a counterparty to a transaction. Investments are exposed to custodial credit risks if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department but not in the government's name. The Lottery is not subject to custodial credit risk because the investments listed above are insured or registered in the State's name, held by the Treasurer of State or an TOS agent in the State's name, or uninsured and unregistered with securities held by the counterparty's trust department or agent in the State's name.

*Interest Rate Risk:* An interest rate risk is the risk that an 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. The risks that the Lottery will realize material losses from it's investments in government securities resulting from changes in market interest rates is mitigated by the low probability that these securities will be sold before maturity.

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

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

The equity in State of Ohio common cash and investments, collateral on loaned securities, money market mutual fund, and an investment in 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, 2006. 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, 2006 categorized and disclosed in this note is \$1,210,873,665. This amount can be reconciled to the statement of net assets as follows:

	Deposits	Investments	Total
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 1,604,632	\$ 10,036,702	\$ 11,641,334
Cash Equity with Treasurer of State	-	51,752,067	51,752,067
Collateral on Lent Securities	-	29,269,612	29,269,612
Restricted Assets:			
Cash Equity with Treasurer of State	-	800,093	800,093
Dedicated Investments	-	765,556,849	765,556,849
Collateral on Lent Securities	-	351,853,710	351,853,710
Total - per Statement of Net Assets	<u>\$ 1,604,632</u>	<u>\$ 1,209,269,033</u>	<u>\$ 1,210,873,665</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 Sections 135.143 and 135.47 of the 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.

As of June 30, 2006, \$77,989,930 of the cash collateral reinvestment portfolio is invested in corporate repurchase agreements, \$60,131,806 is invested in master notes, and \$213,279,462 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.

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.



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 as follows:

Borrower Owes to Lender		Lender Owes to Borrower	
MV of Loaned Securities	\$ 342,173,593	Cash Collateral	\$ 349,977,970
Unpaid Distributions	-	Unpaid Distributions	-
Accrued Premiums	-	Accrued Premiums	632,022
	<u>\$ 342,173,593</u>		<u>\$ 350,609,992</u>

Since the Lender owes the Borrowers \$8,436,399 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2006.

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 Obligations, U.S. Agency and Instrumentality Obligations, and U.S. Agency and Instrumentality Obligation - Strips in exchange for collateral consisting of cash and/or U.S. government obligations. The Ohio Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2006 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 10 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 2006, 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 2006 due to prior-period losses.

Investment Type	Fair Value	Credit Quality Rating	Investment Maturities (in years)			
			Less than 1	1-5	6-10	>10
Repurchase Agreements	\$ 77,989,930	BBB/Baa	\$ 77,989,930	-	-	-
U.S. Government Strips	-		-	-	-	-
U.S. Government Agency Obligations	-		-	-	-	-
U.S. Government Agency Strips	-		-	-	-	-
Commercial Paper	60,131,806	AA/Aa	60,131,806	-	-	-
Corporate Notes	213,279,462	A/A-1	213,279,462	-	-	-
Total Investments made with cash collateral	<u>351,401,198</u>		<u>351,401,198</u>	-	-	-



### 3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2006 and 2005 was as follows:

	2005	Increases	Decreases	2006
Equipment	\$ 77,534,743	\$ 617,120	\$ (354,440)	\$ 77,797,423
Vehicles	2,867,545	700,631	(809,586)	2,758,590
Total Capital Assets	<u>80,402,288</u>	<u>1,317,751</u>	<u>(1,164,026)</u>	<u>80,556,013</u>
Less Accumulated Depreciation:				
Equipment	(62,459,395)	(14,306,221)	346,616	(76,419,000)
Vehicles	(1,607,880)	(357,314)	694,349	(1,270,845)
Total Accumulated Depreciation	<u>(64,067,275)</u>	<u>(14,663,535)</u>	<u>1,040,965</u>	<u>(77,689,845)</u>
Net Capital Assets	<u>\$ 16,335,013</u>	<u>\$ (13,345,784)</u>	<u>\$ (123,061)</u>	<u>\$ 2,866,168</u>
	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	<u>\$ 80,421,744</u>	<u>\$ 497,215</u>	<u>\$ (516,671)</u>	<u>80,402,288</u>
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	<u>(49,879,123)</u>	<u>(14,624,318)</u>	<u>436,166</u>	<u>(64,067,275)</u>
Net Capital Assets	<u>\$ 30,542,621</u>	<u>\$ (14,127,103)</u>	<u>\$ (80,505)</u>	<u>\$ 16,335,013</u>

The Ohio Lottery 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:

	2006	2005
Asset:		
Computer Equipment and Systems	\$ 69,387,073	\$ 69,387,073
Accumulated Amortization	<u>(69,387,073)</u>	<u>(55,509,658)</u>
Total	<u>\$ -</u>	<u>\$ 13,877,415</u>

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 which was made in June 2006. The total cost of the equipment added as a result of the contract is \$69,387,073, net of partial disposal adjustments.

In June 2005, the Lottery negotiated a contract extension with its on-line gaming systems vendor GTECH. As part of the negotiated contract, the Lottery received over \$7.8 million in optional equipment credits that can be applied towards the use of a variety of additional gaming related equipment for fiscal years 2006 through 2009. In late fiscal year 2006, the Lottery requested to apply certain equipment credits towards 500 additional gaming system terminals to support the expansion of the Lottery's retailer base along with the conversion of all conventional retailers to full service retailers who can sell all on-line games.

The value of the equipment credits applied is contingent upon the type of equipment obtained. Reductions in available credits are based upon a hybrid of application rates such as a percent of sales calculations and fixed amount calculations, depending on the type of equipment received by the Lottery. Generally, equipment credits are applied once the equipment is produced and available for Lottery use and installation. Credits have been applied starting in July 2006.

#### 4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Current portion - face amount	\$ 138,600,652	\$ 197,646,470
Less: Unamortized discount	<u>(44,116,497)</u>	<u>(49,244,913)</u>
Current portion - present value	<u>94,484,155</u>	<u>148,401,557</u>
Noncurrent portion - face amount	945,155,582	1,054,065,311
Less: Unamortized discount	<u>(316,108,604)</u>	<u>(359,048,996)</u>
Noncurrent portion - present value	<u>629,046,978</u>	<u>695,016,315</u>
Total Prize Awards Payable - Net of Discount	<u>\$ 723,531,133</u>	<u>\$ 843,417,872</u>

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, 2006, is summarized as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 138,600,652
2008	101,120,599
2009	85,660,759
2010	68,658,979
2011	65,937,390
2012 through 2016	328,117,314
2017 through 2021	215,799,710
2022 through 2026	64,321,757
2027 through 2031	13,239,074
2032 thereafter	<u>2,300,000</u>
Subtotal	1,083,756,234
Unamortized discount	<u>(360,225,101)</u>
Net Prize Liability	<u>\$ 723,531,133</u>

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Ohio Lottery is required by law to award prizes to holders of winning lottery tickets equal to at least fifty percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$200.7 million and \$201.3 million for the years ended June 30, 2006 and 2005, respectively.

During fiscal year 2006, five Mega Millions jackpots were won in Ohio totaling \$740 million. Since all 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 \$364.4 million was paid to the respective prize winners.

## 5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Accrued Payroll	\$ 1,337,210	\$ 1,206,395
Accrued Agent Bonuses	261,868	70,284
Accrued Workers' Compensation - Current Portion	496,686	494,658
Compensated Absences - Current Portion	<u>229,323</u>	<u>190,563</u>
Total	<u>\$ 2,325,087</u>	<u>\$ 1,961,900</u>

## 6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2006 and 2005 was as follows:

	<u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>2006</u>
Prize Awards Payable from Restricted Assets - Net of Discount	\$ 695,016,315	\$ 152,931,556	\$(218,900,893)	\$ 629,046,978
Capital Lease Payable - Long-term	-	-	-	-
Accrued Workers' Compensation	2,978,746	853,416	-	3,832,162
Compensated Absences	<u>2,471,191</u>	<u>2,399,453</u>	<u>(2,044,614)</u>	<u>2,826,030</u>
Total Noncurrent Liabilities	<u>\$ 700,466,252</u>	<u>\$ 156,184,425</u>	<u>\$(220,945,507)</u>	<u>\$ 635,705,170</u>

	<u>2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>2005</u>
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	<u>2,255,458</u>	<u>2,241,483</u>	<u>(2,025,750)</u>	<u>2,471,191</u>
Total Noncurrent Liabilities	<u>\$ 790,561,367</u>	<u>\$ 101,770,012</u>	<u>\$(191,865,127)</u>	<u>\$ 700,466,252</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.
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to 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 annual 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 OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code Chapter 145 provides statutory authority for member and employer contributions. For 2005 year end, member and employer contributions were consistent across all three plans (TP, MD and CO). The 2005 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. OPERS increased the employer and employee contribution rate, effective January 1, 2006, to 9.0 percent and 13.54 percent, respectively. The Ohio Lottery's required contributions to PERS for the years ended June 30, 2006, 2005, and 2004 were \$1,672,828, \$1,576,453, and \$1,434,004 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. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees, under the Traditional and Combined plans, 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 2005 employer contribution rate for state employers was 13.31 percent of covered payroll, of which 4.0 percent was used to fund the health care portion.

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, 2004.
- **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 2004 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 1.0% to 6.0% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.0% (the projected wage inflation rate).

OPEB are advance-funded on an actuarially determined basis. At December 1, 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. In fiscal years 2006, 2005 and 2004, \$718,634, \$677,233, and \$862,975, respectively, of the Ohio Lottery's total contributions to OPERS were used for post-employment benefits. The actuarial value of the Retirement System's net assets available for OPEB was \$10.8 million at December 31, 2004. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 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. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

## 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, 2006 and 2005 respectively:

	<u>2006</u>	<u>2005</u>
Department of Administrative Services (DAS) Expenditures		
Telecommunications	\$ 280,632	\$ 334,413
Computer	164,160	165,338
Rent	1,065,497	921,416
Printing	131,170	140,898
Miscellaneous	<u>320,687</u>	<u>15,022</u>
Total DAS Expenditures	<u>1,962,146</u>	<u>1,577,087</u>
Other Agency Expenditures	<u>978,741</u>	<u>1,057,313</u>
Total Transactions with other State Entities	<u>\$ 2,940,887</u>	<u>\$ 2,634,400</u>

**SCHEDULE OF REVENUES AND EXPENSES  
BUDGET (NON-GAAP) BASIS AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amount		Actual	Variance with
	Original	Final		Budget Favorable (Unfavorable)
Revenues				
Ticket Sales	\$ 2,084,100,000	\$ 2,250,000,000	\$ 2,215,063,754	\$ (34,936,246)
Other Revenue	22,994,445	22,994,445	83,298,553	60,304,108
Total Revenue	<u>2,107,094,445</u>	<u>2,272,994,445</u>	<u>2,298,362,307</u>	<u>25,367,862</u>
Expenses				
Personal Services	25,969,422	25,934,284	24,671,214	1,263,070
Maintenance	17,752,894	17,832,894	17,603,576	229,318
Equipment	2,607,533	2,562,671	1,978,509	584,162
Game and Advertising Contracts	70,524,000	70,524,000	68,698,851	1,825,149
Subsidy	335,000	335,000	330,000	5,000
Prizes, Bonuses & Commissions	150,952,466	152,952,466	151,374,310	1,578,156
Annuity Prizes	148,680,031	592,889,282	581,081,520	11,807,762
Payments to Lottery Profits Education Fund	<u>637,900,000</u>	<u>637,900,000</u>	<u>646,276,000</u>	<u>(8,376,000)</u>
Total Expenses	<u>1,054,721,346</u>	<u>1,500,930,597</u>	<u>1,492,013,980</u>	<u>8,916,617</u>
Excess of Revenues over Expenses	<u>\$ 1,052,373,099</u>	<u>\$ 772,063,848</u>	<u>\$ 806,348,327</u>	<u>\$ 34,284,479</u>

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	\$ (22,412,941)
Prizes Redeemed at Agent Locations	580,542,896
Agent Bonuses and Commissions	139,840,919
Depreciation	14,663,535
Amortization of Discount of Prize Liabilities	44,377,045
Interest Expense - Borrower Rebates	20,103,956
Interest Expense - Capital Leases	511,506
Securities Lending Agent Fees	106,839
Loss on Equipment Disposal	(67,314)
Decrease in Fair Value of Investments	54,582,264
Encumbrances	(17,252,227)
Net Adjustments for Revenue and Expense Accruals	<u>(8,648,151)</u>
Excess of Revenues over Expenses	<u>\$ 806,348,327</u>

# SCHOOL BUS

EMERGENCY DOOR

## STATISTICAL SECTION

NOTICE  
TO BE LEASE, OPENED DOOR  
FROM HOLD POSITION  
OPEN DOOR FULLY  
CLOSE DOOR

**Fiscal year 2006 was the  
best sales year on  
record for Mega  
Millions, Pick 4 and  
instant games.**

**THIS VEHICLE STOPS AT  
ALL RAILWAY CROSSINGS**

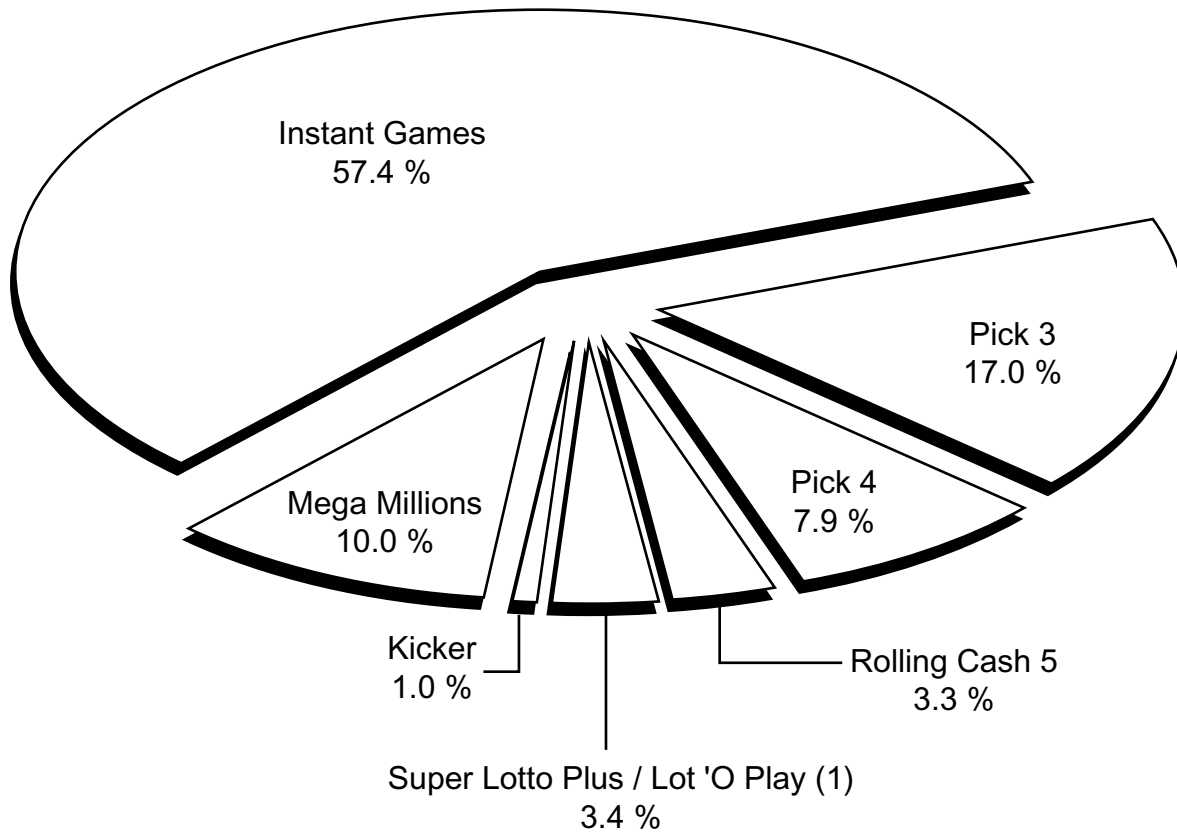


**REVENUES**  
**LAST TEN FISCAL YEARS**  
(In Millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
ON-LINE TICKET SALES										
PICK 3	\$ 435.6	\$ 421.1	\$ 399.4	\$ 427.3	\$ 419.0	\$ 409.2	\$ 401.8	\$ 396.8	\$ 387.7	\$ 377.3
PICK 4	116.5	124.0	125.1	144.6	150.7	154.6	154.2	165.2	170.1	175.7
BUCKEYE 5 / ROLLING CASH 5 (2)	78.8	73.5	69.9	62.2	56.5	62.4	68.9	66.6	74.8	72.6
SUPER LOTTO PLUS / LOT O' PLAY (1)	410.6	384.9	364.4	336.6	262.5	297.9	160.7	143.8	113.0	76.3
KICKER	63.5	60.5	57.2	52.9	42.9	45.0	27.3	24.5	19.9	21.6
MEGA MILLIONS	-	-	-	-	-	16.5	176.2	191.8	176.4	223.4
TOTAL ON-LINE TICKET SALES	1,105.0	1,064.0	1,016.0	1,023.6	931.6	985.6	989.1	988.7	941.9	946.9
INSTANT GAMES SALES	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	1,274.0
TOTAL TICKET SALES	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	2,220.9
TOTAL OTHER REVENUES (3)	163.3	230.4	127.3	79.2	180.2	124.1	153.7	(0.5)	96.2	28.7
TOTAL OPERATING REVENUES	\$ 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	\$ 2,249.6

- (1) In July 2000, the Super Lotto game was changed to Super Lotto Plus and the matrix was changed to 6/49.  
In October 2005 the game was retired and replaced with Lot 'O Play
- (2) In October 2004, the Buckeye 5 game was retired and replaced with Rolling Cash 5.
- (3) Other revenues include adjustments to investment income for unrealized gains/losses as a result of GASB 31 reporting.

**SALES BY GAME**  
**FY 2006**



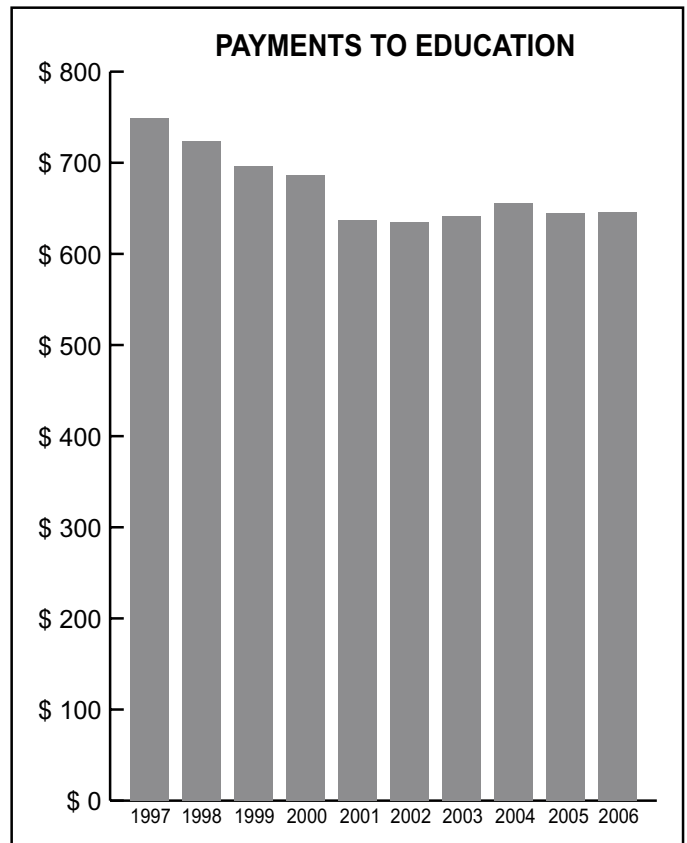
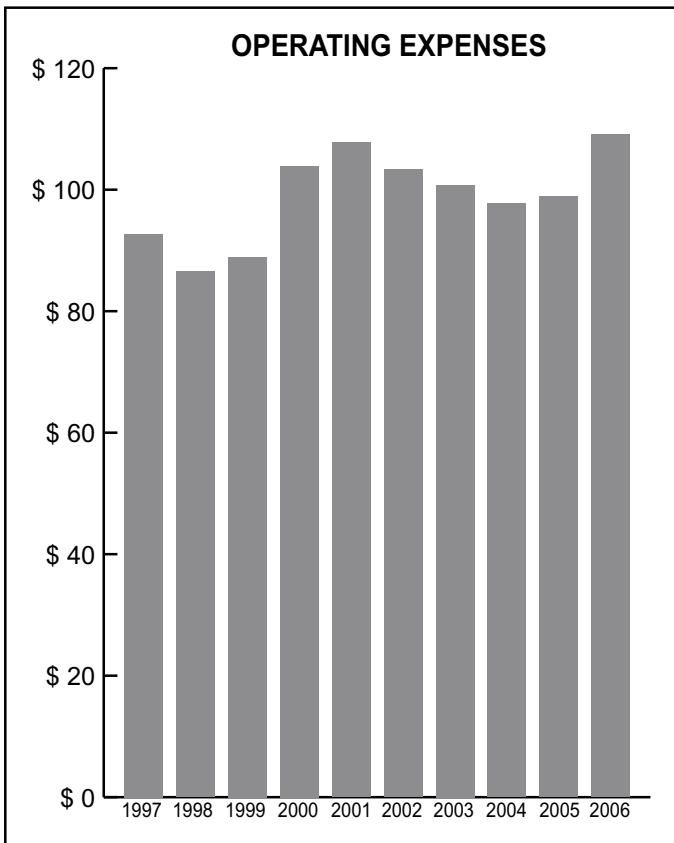
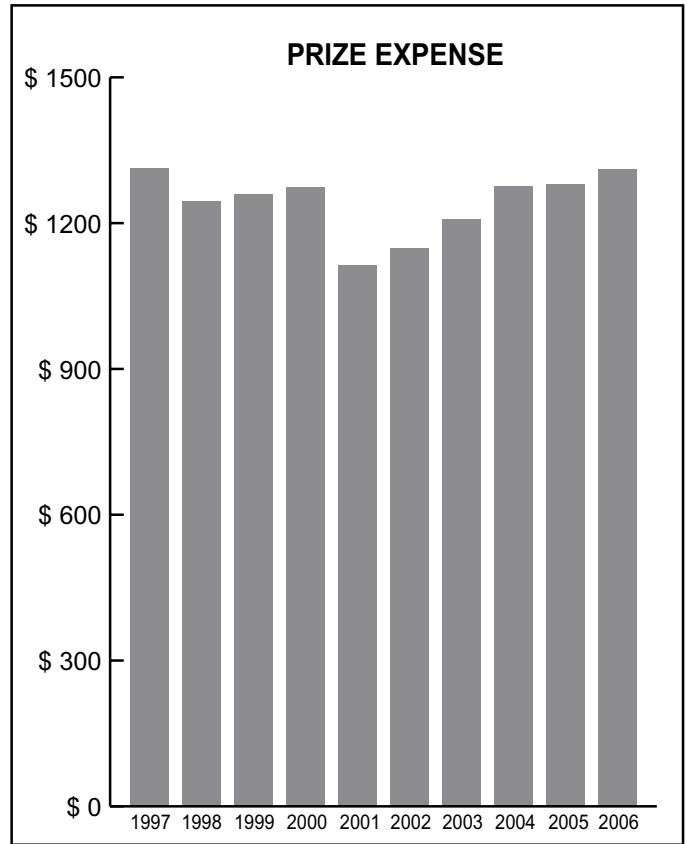
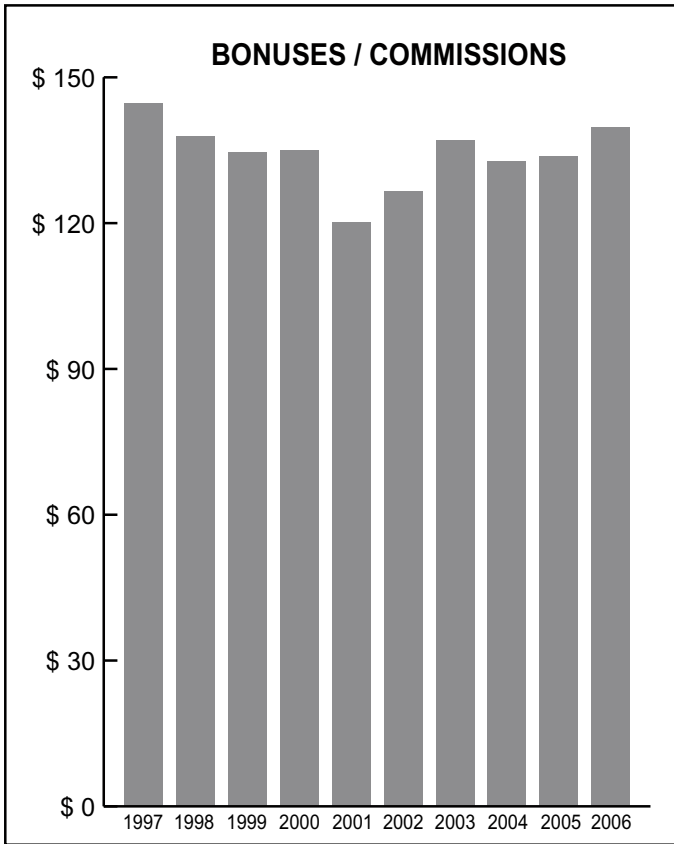
**PRIZE PAYOUT AS A PERCENTAGE OF SALES  
LAST TEN FISCAL YEARS (IN MILLIONS)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>SALES</b>										
On-Line	\$1,105.0	\$1,064.0	\$1,016.0	\$1,023.6	\$931.6	\$985.6	\$989.1	\$988.7	\$941.9	\$946.9
Instant	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	1,274.0
<b>Total Sales</b>	<u>\$2,300.0</u>	<u>\$2,195.8</u>	<u>\$2,144.7</u>	<u>\$2,150.4</u>	<u>\$1,919.9</u>	<u>\$1,983.1</u>	<u>\$2,078.2</u>	<u>\$2,154.7</u>	<u>\$2,159.1</u>	<u>\$2,220.9</u>
<b>PRIZE EXPENSE</b>										
On-Line	\$584.1	\$557.6	\$568.9	\$575.0	\$488.4	\$508.0	\$502.9	\$512.3	\$486.2	\$467.4
Instant	728.1	687.1	690.9	700.0	624.4	640.1	705.2	763.7	794.6	843.7
<b>Total Prize Expense</b>	<u>\$1,312.2</u>	<u>\$1,244.7</u>	<u>\$1,259.8</u>	<u>\$1,275.0</u>	<u>\$1,112.8</u>	<u>\$1,148.1</u>	<u>\$1,208.2</u>	<u>\$1,276.0</u>	<u>\$1,280.8</u>	<u>\$1,311.1</u>
<b>PRIZE PAYOUT PERCENTAGE</b>										
On-Line	52.9%	52.4%	56.0%	56.2%	52.4%	51.5%	50.8%	51.8%	51.6%	49.4%
Instant	60.9%	60.7%	61.2%	62.1%	63.2%	64.2%	64.8%	65.5%	65.3%	66.2%

**EXPENSES AS A PERCENTAGE OF SALES  
LAST TEN FISCAL YEARS  
(In Millions)**

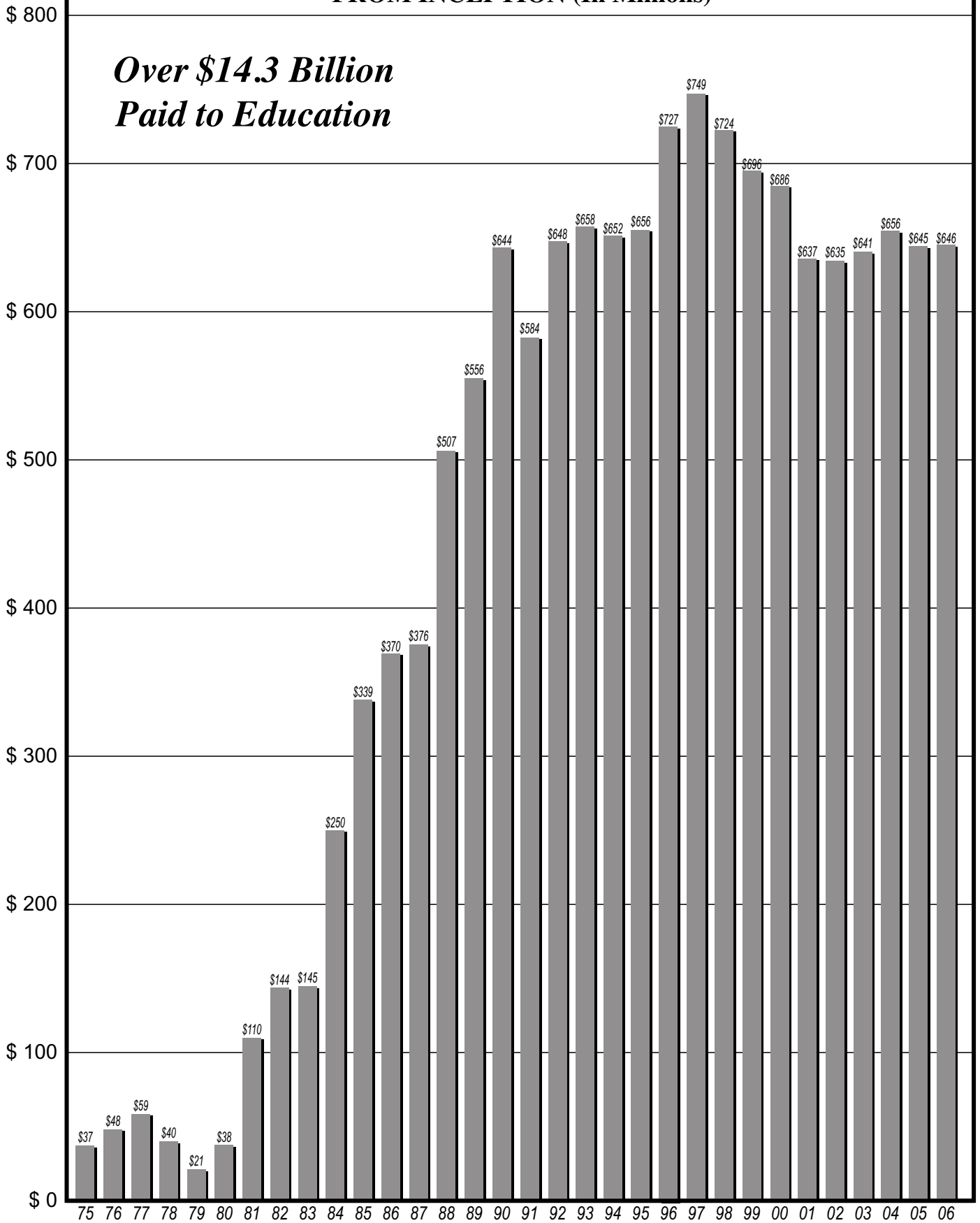
Fiscal Year	Total Ticket Sales	Prizes	Prizes as % of Total Sales	Bonuses/ Comm.	Bonus/ Comm %	Operating Expenses	Oper. Exp. %	Payments to Education	Payments to Education %
1997	\$2,300.0	\$1,312.2	57.1%	\$144.7	6.3%	\$92.7	4.0%	\$748.5	32.5%
1998	2,195.8	1,244.7	56.7%	137.8	6.3%	86.5	3.9%	723.8	33.0%
1999	2,144.7	1,259.8	58.7%	134.6	6.3%	88.9	4.1%	696.3	32.5%
2000	2,150.4	1,275.0	59.3%	135.0	6.3%	103.9	4.8%	686.0	31.9%
2001	1,919.9	1,112.8	58.0%	120.2	6.3%	107.8	5.6%	637.0	33.2%
2002	1,983.1	1,148.1	57.9%	126.6	6.4%	103.3	5.2%	635.2	32.0%
2003	2,078.2	1,208.2	58.1%	137.0	6.6%	100.8	4.9%	641.4	30.9%
2004	2,154.7	1,276.0	59.2%	132.8	6.2%	97.7	4.5%	655.6	30.4%
2005	2,159.1	1,280.8	59.3%	133.8	6.2%	97.7	4.5%	645.1	29.9%
2006	<u>\$2,220.9</u>	<u>\$1,311.1</u>	<u>59.0%</u>	<u>\$139.8</u>	<u>6.3%</u>	<u>\$109.8</u>	<u>4.9%</u>	<u>\$646.3</u>	<u>29.1%</u>

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



## HISTORY OF PAYMENTS TO EDUCATIONS FROM INCEPTION (In Millions)

*Over \$14.3 Billion  
Paid to Education*



## LOTTERY INDUSTRY STATEMENT OF OPERATIONS

### Rank by Sales (a) Fiscal Year 2005(b) (In Millions)

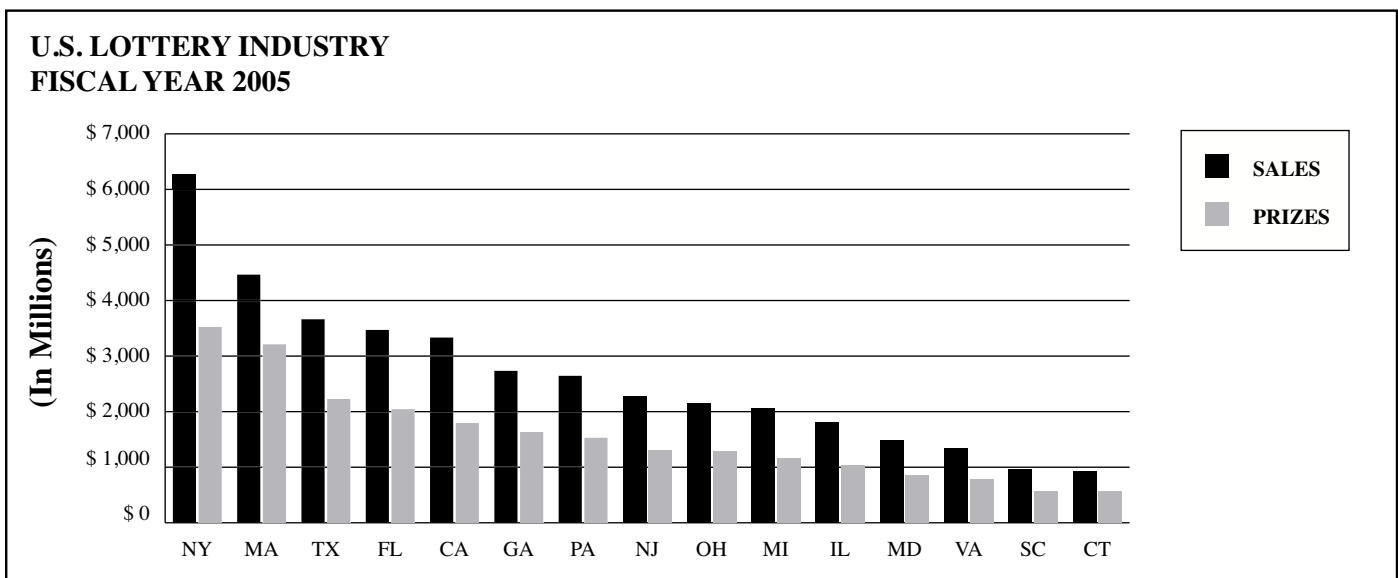
Lottery	Population	Total Ticket Sales	Prizes	Bonuses/ Comm.	Operating Expenses	Prizes as % of Total Sales	Per Capita Sales
1. New York	19.3	\$6,270.5	\$3,523.5	\$429.2	\$254.3	56.2%	\$326
2. Massachusetts	6.4	4,465.7	3,211.5	253.7	81.5	71.9%	698
3. Texas	22.9	3,662.5	2,228.0	187.5	178.8	60.8%	160
4. Florida	17.8	3,470.7	2,044.3	197.8	142.6	58.9%	195
5. California	36.1	3,333.6	1,795.3	233.5	170.0	53.9%	92
6. Georgia	9.1	2,734.4	1,633.3	192.5	111.9	59.7%	301
7. Pennsylvania	12.4	2,644.9	1,529.4	137.8	143.6	57.8%	213
8. New Jersey	8.7	2,274.4	1,296.8	126.3	80.7	57.0%	261
9. <b>OHIO</b>	<b>11.5</b>	<b>2,159.1</b>	<b>1,280.8</b>	<b>133.8</b>	<b>97.7</b>	<b>59.3%</b>	<b>188</b>
10. Michigan	10.1	2,069.5	1,162.0	152.6	100.3	56.1%	204
11. Illinois	12.8	1,814.4	1,042.9	91.9	99.8	57.5%	142
12. Maryland	5.6	1,485.7	856.2	97.6	51.4	57.6%	265
13. Virginia	7.6	1,334.0	774.6	75.6	66.0	58.1%	176
14. South Carolina	4.3	957.0	573.6	67.5	41.9	59.9%	225
15. Connecticut	3.5	932.9	573.0	51.7	40.6	61.4%	266
<b>Top 15 Average U.S.</b>	<b>12.5</b>	<b>\$2,640.6</b>	<b>\$1,568.3</b>	<b>\$161.9</b>	<b>\$110.7</b>	<b>59.4%</b>	<b>\$247</b>

(a) does not include video lottery, (b) Latest Information Available

The fiscal year ends June 30, 2005 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, 2005.

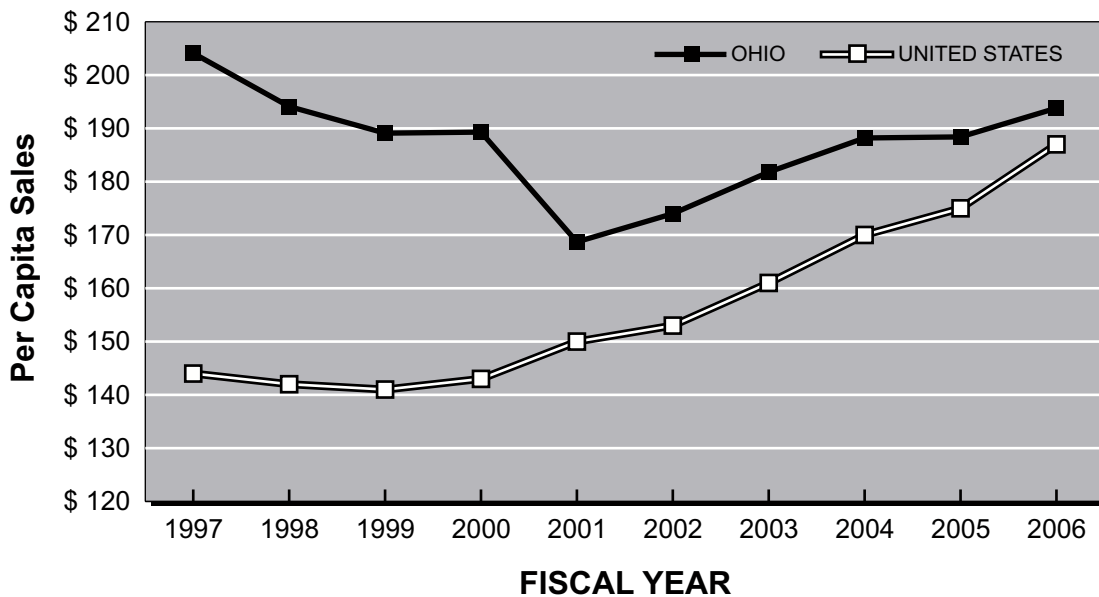
Source: "La Fleur's 2006 World Lottery Almanac"



**OHIO LOTTERY SALES PER CAPITA  
LAST TEN FISCAL YEARS  
(In Millions)**

<b>Fiscal Year</b>	<b>Population</b>	<b>Total Ticket Sales</b>	<b>Per Capita Sales</b>	<b>National Average</b>
1997	11.27	\$ 2,300.0	\$ 204	\$ 144
1998	11.31	2,195.8	194	142
1999	11.34	2,144.7	189	141
2000	11.36	2,150.4	189	143
2001	11.38	1,919.9	169	150
2002	11.40	1,983.1	174	153
2003	11.43	2,078.2	182	161
2004	11.45	2,154.7	188	170
2005	11.46	2,159.1	188	175
2006	11.46	2,220.9	194	187
<b>Average</b>	<b>11.39</b>	<b>\$ 2,130.7</b>	<b>\$ 187</b>	<b>\$ 157</b>

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

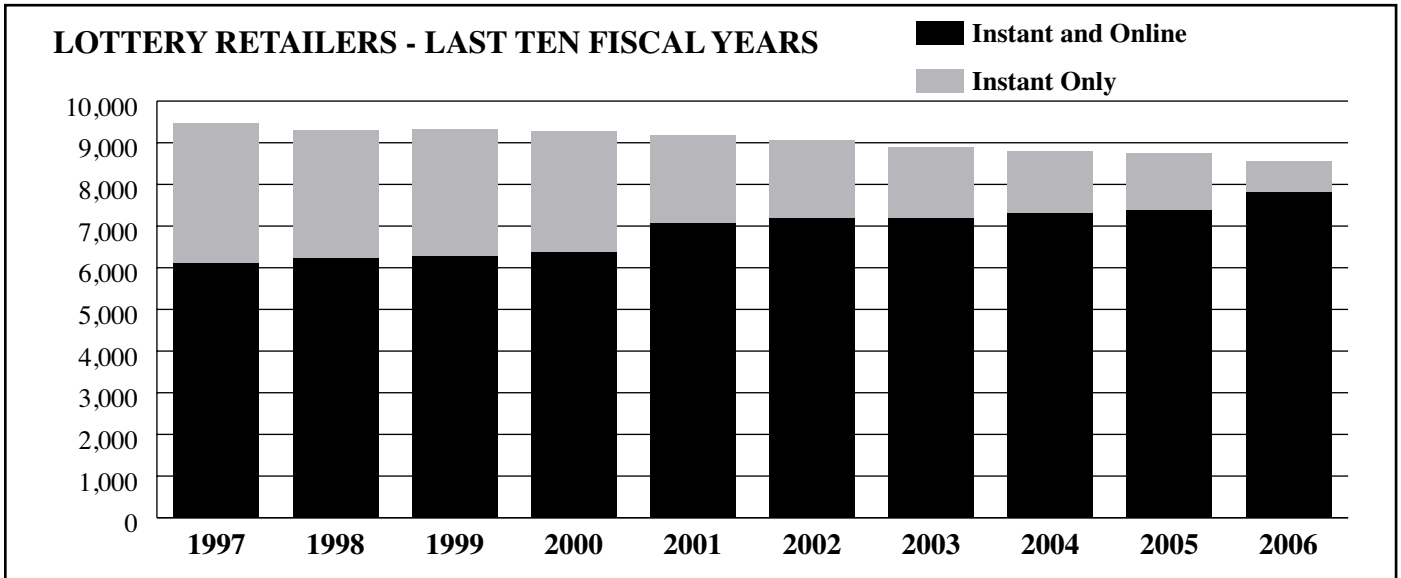






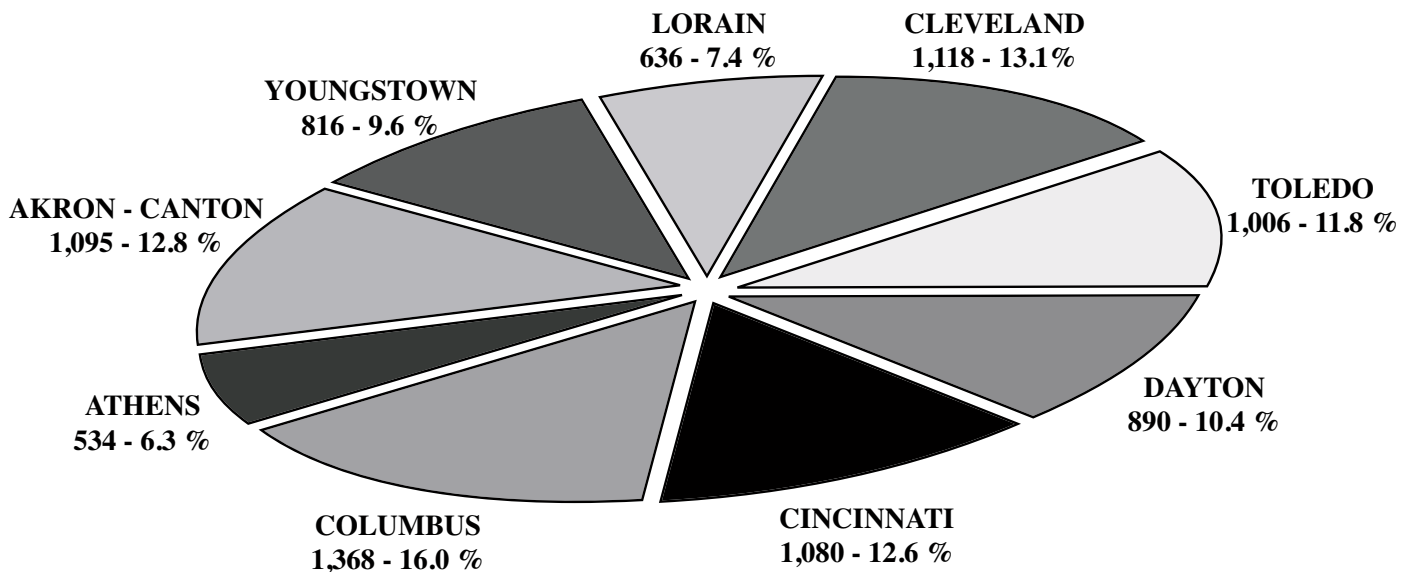
**LOTTERY RETAILERS  
LAST TEN FISCAL YEARS**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
On-Line & Instant	6,101	6,226	6,273	6,363	7,066	7,183	7,199	7,304	7,374	7,806
Instant Only	3,377	3,087	3,058	2,924	2,112	1,836	1,683	1,497	1,380	737
<b>TOTAL LOTTERY RETAILERS</b>	<b>9,478</b>	<b>9,313</b>	<b>9,331</b>	<b>9,287</b>	<b>9,178</b>	<b>9,019</b>	<b>8,882</b>	<b>8,801</b>	<b>8,754</b>	<b>8,543</b>



**OHIO LOTTERY RETAILERS - BY REGION  
as of June 30, 2006 (Active retailers only)**

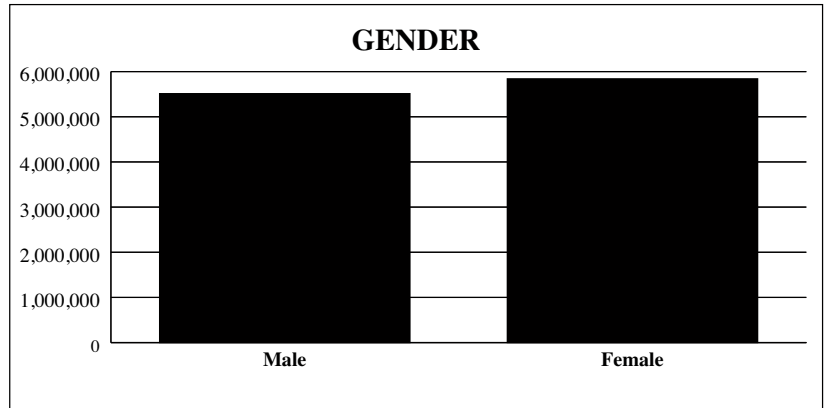
**Total Lottery Retailers: 8,543**



## STATE OF OHIO - DEMOGRAPHICS

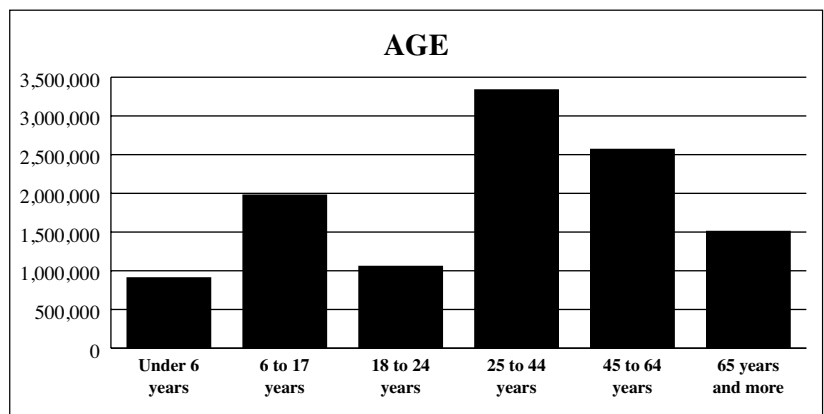
### Population by Gender

	Number	Percent
Male .....	5,512,262	48.55%
Female .....	5,840,878	51.45%
<b>Total Population .....</b>	<b>11,353,140</b>	<b>100.0%</b>



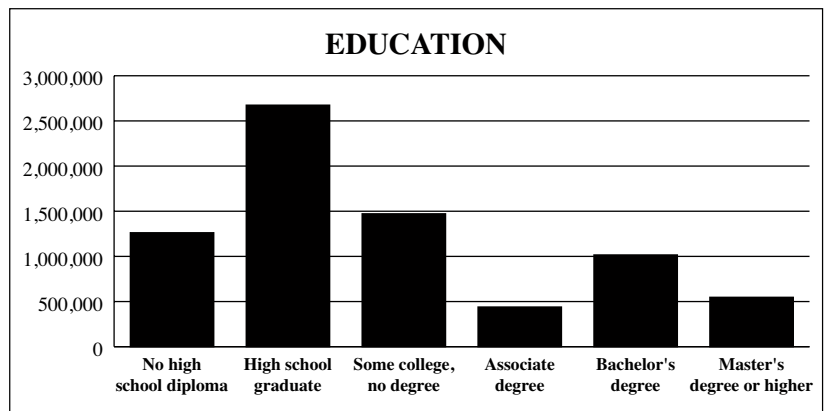
### Population by Age

	Number	Percent
Under 6 years .....	908,264	8.0%
6 to 17 years .....	1,976,877	17.4%
18 to 24 years .....	1,056,259	9.3%
25 to 44 years .....	3,335,997	29.4%
45 to 64 years .....	2,567,648	22.6%
65 years and more .....	1,508,095	13.3%
<b>Total Population .....</b>	<b>11,353,140</b>	<b>100.0%</b>
<b>Median Age .....</b>	<b>36.2</b>	



### Education

	Number	Percent
No high school diploma .....	1,262,085	17.0%
High school graduate .....	2,674,551	36.1%
Some college, no degree .....	1,471,964	19.9%
Associate degree .....	439,608	5.9%
Bachelor's degree .....	1,016,256	13.7%
Master's degree or higher .....	547,276	7.4%
<b>Persons 25 years and over .....</b>	<b>7,411,740</b>	<b>100.0%</b>



Source: U.S. Census Bureau 2000

## Household Income \*

	Number	Percent
Less than \$10,000 .....	406,698	9.1%
\$10,000 to \$19,999 .....	571,868	12.9%
\$20,000 to \$29,999 .....	609,368	13.7%
\$30,000 to \$39,999 .....	577,653	13.0%
\$40,000 to \$49,999 .....	494,751	11.1%
\$50,000 to \$59,999 .....	426,570	9.6%
\$60,000 to \$74,999 .....	478,753	10.8%
\$75,000 to \$99,999 .....	444,599	10.0%
\$100,000 to \$149,999 .....	289,049	6.5%
\$150,000 to \$199,999 .....	71,062	1.6%
\$200,000 or more .....	76,250	1.7%

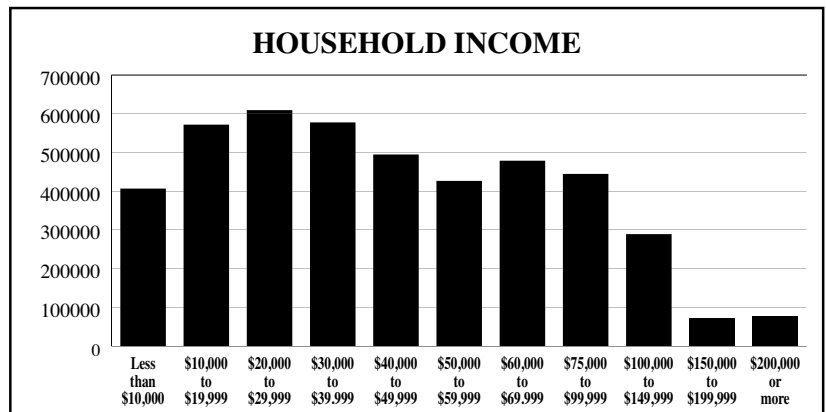
**Total Households ..... 4,446,621 100.0%**

### Median

**Household Income ..... \$40,956**

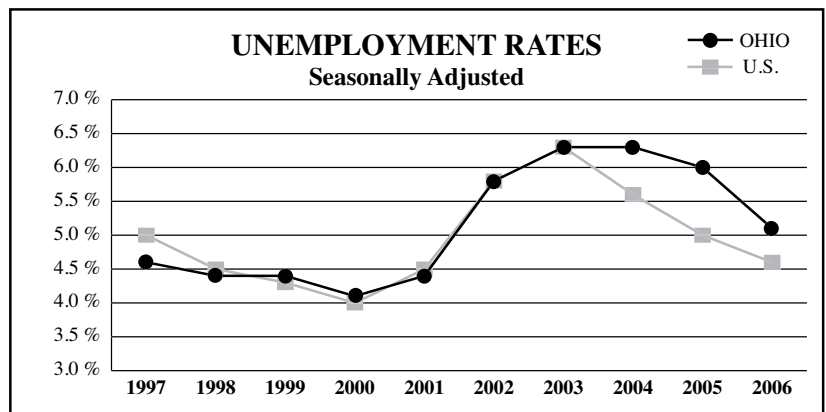
\* Latest information available - U.S. Census 2000

Source: U.S. Census Bureau 2000



## Unemployment Rates Seasonally Adjusted

Month / Year	Ohio	U.S.
June - 1997 .....	4.6 %	5.0 %
June - 1998 .....	4.4 %	4.5 %
June - 1999 .....	4.4 %	4.3 %
June - 2000 .....	4.1 %	4.0 %
June - 2001 .....	4.4 %	4.5 %
June - 2002 .....	5.8 %	5.8 %
June - 2003 .....	6.3 %	6.3 %
June - 2004 .....	6.3 %	5.6 %
June - 2005 .....	6.0 %	5.0 %
June - 2006 .....	5.1 %	4.6 %

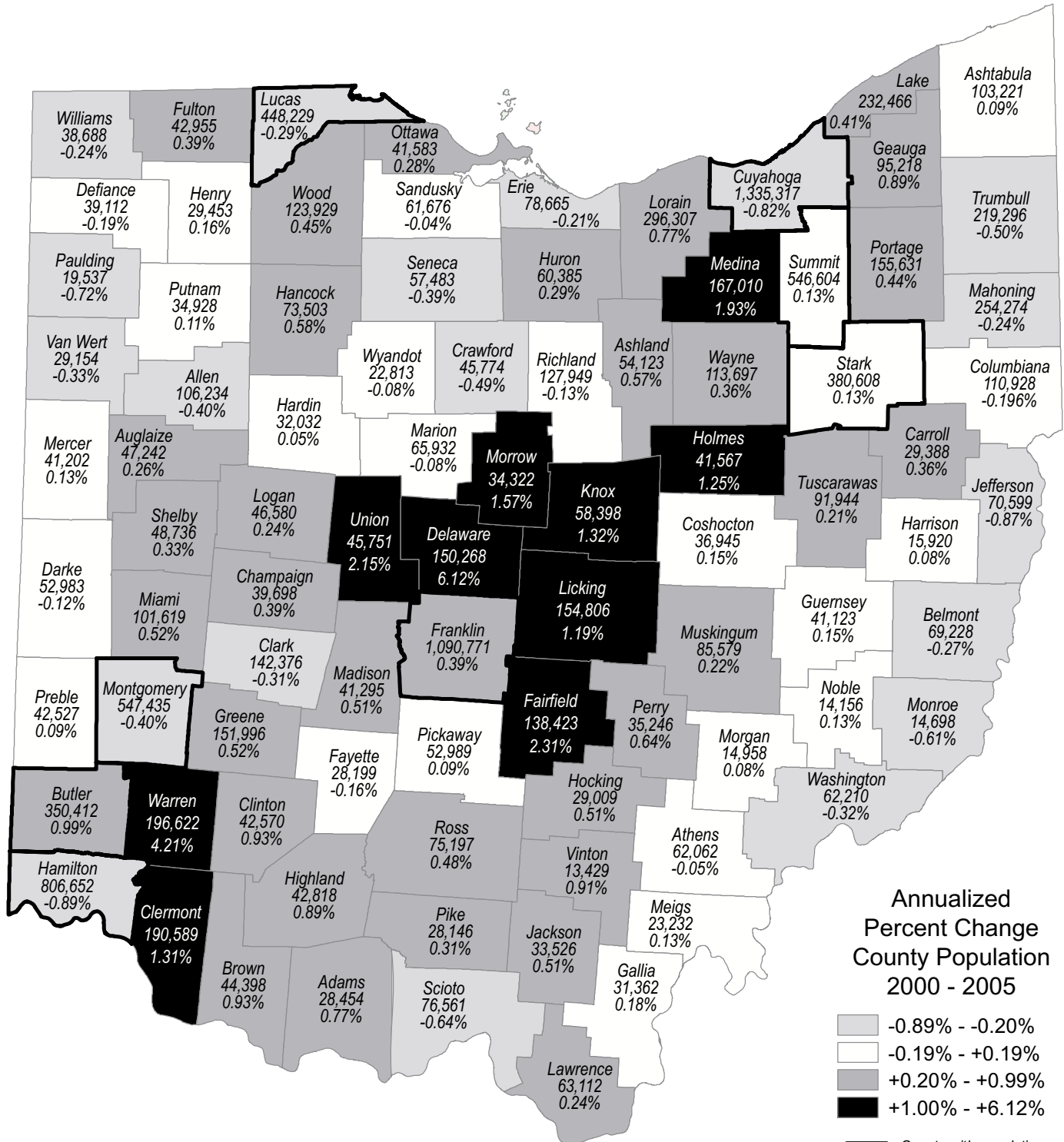


Source: Ohio Job and Family Services, Office of Workforce Development

# OHIO

## 2005 County Population Estimates

### Annualized Percent Change 2000 - 2005



**Annualized  
Percent Change  
County Population  
2000 - 2005**

- 0.89% - -0.20%
- 0.19% - +0.19%
- +0.20% - +0.99%
- +1.00% - +6.12%
- County with population of 300,000 or more

2005 Estimate 11,464,042  
 2000 Census Population 11,353,140  
 Percent Change (Annualized) 2000 to 2005 +0.19%  Greater than Ohio  
 U.S. Percent Change (Annualized) 2000 to 2005 +0.99%  Greater than U.S.

Source: U.S. Census Bureau  
 Prepared by: Ohio Department of Development,  
 Office of Strategic Research

RO31706A

**INSIDE COVER LEFT INTENTIONALLY BLANK**



**The Ohio Lottery Commission  
615 West Superior Avenue  
Cleveland, Ohio 44113-1879  
216 - 787 - 3200**

*[www.ohiolottery.com](http://www.ohiolottery.com)*

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

**PLEASE PLAY RESPONSIBLY**







**Mary Taylor, CPA**  
Auditor of State

**OHIO LOTTERY COMMISSION**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 18, 2007**