



Mary Taylor, CPA
Auditor of State

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY

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Mary Taylor, CPA

Auditor of State

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, 2007, which collectively comprise the Lottery's basic financial statements and have issued our report thereon dated December 12, 2007. Prior year comparative information has been included and is derived from the Lottery's 2006 financial statements and, in our report dated December 19, 2006, 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Lottery's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lottery's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Lottery's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Lottery's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. We noted certain matters that we reported to the Lottery's management in a separate letter dated December 12, 2007.

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

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 management and the Commission. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

December 12, 2007

The Ohio Lottery

An Enterprise Fund of the State of Ohio

Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2007 and 2006

The Ohio Lottery helps make dreams come true.

Dreams of being
a jet pilot.



THE OHIO LOTTERY

An Enterprise Fund of the State of Ohio
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2007 and 2006

Prepared by
The Ohio Lottery Office of Finance

TED STRICKLAND, GOVERNOR
MICHAEL A. DOLAN, EXECUTIVE DIRECTOR
MARK E. DOTTORE, COMMISSION CHAIRPERSON
DENNIS R. BERG, CPA, CFE, DEPUTY DIRECTOR, OFFICE OF FINANCE

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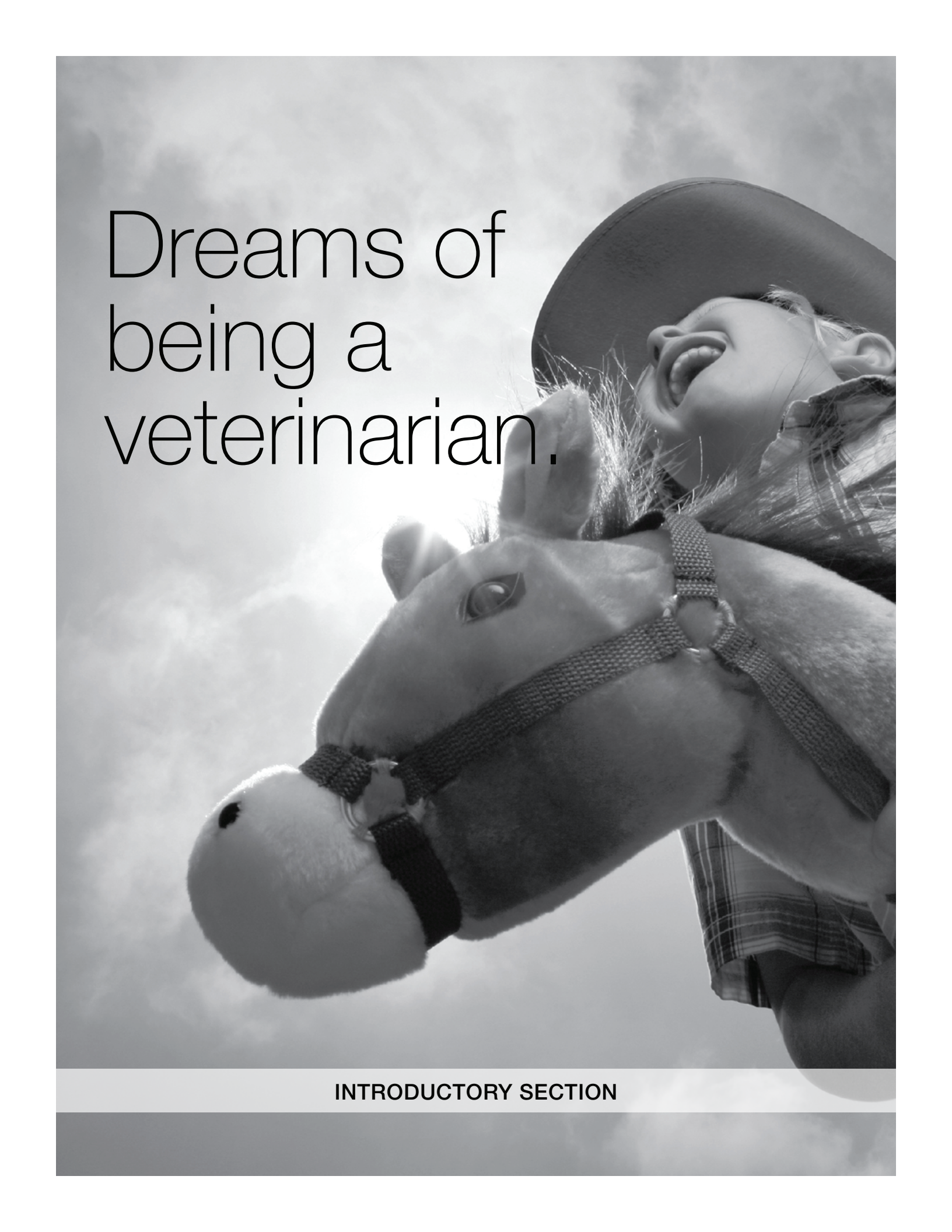
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Dreams of
being a
veterinarian.

INTRODUCTORY SECTION

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The Ohio Lottery
615 West Superior Avenue
Cleveland, Ohio 44113-1879
1.800.686.4208

December 12, 2007

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

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Ohio Lottery for the fiscal year ended June 30, 2007. 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 CAFR. The Ohio Lottery's activity is reported as an enterprise fund type and includes all activity for which the Ohio Lottery is financially accountable. No data related to any other State agency or fund is included.

BACKGROUND

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

To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Ticket sales increased significantly in the early 1990's. As of June 30, 2007, 42 U.S. states, the District of Columbia and the Virgin Islands operate lotteries using computer-based online games and instant "scratch off" games. Nearly 94 percent of the U.S. population resides in a state operating a lottery.

ECONOMIC OUTLOOK

The U.S. economy continued to expand in 2006 with a 3.3 percent increase in gross domestic product (GDP). Market value of the nation's GDP rose to \$13.5 trillion in 2006 as reported by the Bureau of Economic Analysis. The housing market has been and continues to be a drag on the nation's economy. The downward pressure on the economy, caused by the housing and energy markets, has been offset by consumer spending and a strong labor market. The Consumer Confidence Index (CCI) stands at 105.0 in August 2007, which had its highest reading of 111.9 in July 2007, its highest since August 2001. This index is closely monitored by economists as consumer spending accounts for two-thirds of all U.S. economic activity.

High energy prices had a minimal effect on the labor market during the first quarter of 2007. However, the mortgage meltdown had a negative effect on the labor market as mortgage companies either closed their doors or laid off large numbers of employees in August

of 2007. Despite mortgage industry woes, the labor market remained strong through the second half of 2006 and into 2007 with the national unemployment rate at 4.6 percent for August.

Increasing energy prices continue to put upward pressure on inflation, which when combined with the sub-prime collapse places the Federal Reserve System (the Fed) out of its comfort zone. The Fed had kept the federal funds rate at 5.25 percent since June 2004 while the economy was slowing in the first half of 2007 due to inflationary pressure. In September 2007, the Fed announced an aggressive ½ percent cut in the Fed Funds rate. While this rate reduction could offer a little help to a besieged housing market, investors are still wary of jumbo mortgage loans (\$417,000+) as they are considered non-conforming and have no guaranteed secondary market.

Inflation has been the focal point for the Fed during the second half of 2006 thru the first half of 2007. The Consumer Price Index (CPI) reported an unadjusted 12-month ended rate of 4.1 percent in July 2006. This rate gradually decreased to 2.5 percent in December 2006, due in part to the decline in energy prices during this period. However, energy prices remained high in the first half of 2007, affecting inflation. The unadjusted 12 month rate ending September 2007 is 2.8 percent. Inflation, remaining above 2 percent, is out of the comfort range of the Fed, which prefers an inflation rate of 2 percent and below. Core inflation (which excludes the volatile food and energy sectors), which the Fed follows more closely, stands at 2.1 percent as of September 2007.

Cost to consumers for products and services have an impact on personal income. U.S. personal income grew at a rate of 6.3 percent in 2006, according to preliminary estimates released in March 2007 by the U.S. Bureau of Economic Analysis. This 2006 rate is 1.1 percent higher than personal income growth in 2005. Personal income increased 1.0 percent in January 2007 and 0.6 percent in February. Real disposable income, which is more significant to lottery revenue and adjusted for inflation, has increased monthly since June of 2006.

The housing market has put downward pressure on disposable income throughout the second half of 2006 and into the first half of 2007. Construction spending, median home prices and sub-prime mortgage worries have all contributed to the housing market's drag on the economy. The Commerce Department reported a 2.4 percent decline in its February 2007 construction starts compared to February 2006. The median home price has fallen to \$217,000. This is a decline of 0.3 percent from the median price of a year ago. Moody's forecasts the median house price to decline 3.6 percent in 2007. Sub-prime mortgage defaults have increased the supply of houses on the market, putting downward pressure on prices and new construction. Also, increases to adjustable rate mortgages, coupled with decreasing house values, have increased the rate of mortgage defaults.

Ohio's economy, which plays a more significant role in relation to the Ohio Lottery's revenue, had an unemployment rate in July 2007 of 5.8 percent compared to 5.6 percent a year ago, both higher when compared to the national average of the same period. Total employment in Ohio is projected to increase by 7.3 percent for the ten-year period of 2004-2014. Personal income in Ohio grew by 4.7 percent in 2006 compared to U.S. growth of 6.3 percent. Moody's Economy.com forecasts a growth rate of 4.5 percent for personal income in 2007 for Ohio.

Many factors in the national and state economy have a direct impact on revenue generation at the Ohio Lottery. As smaller retail outlets close, national big box retailers and bulk consumer product warehouse clubs open in their place. The Ohio Lottery's revenues are negatively impacted by this national and statewide trend because these retailers do not consider lottery products as part of their business model. The number of Ohio Lottery retailers has declined as a result of this 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, West Virginia, Pennsylvania, Indiana, and Canada compete against the Ohio Lottery with casino gaming drawing disposable income and lottery revenue away from Ohio and into competing states.

The outlook for the remainder of 2007 is modest economic growth. The Blue Chip Indicators panel of forecasters cut their growth rate forecast for U.S. GDP to 2.3 percent for 2007. The panel also forecasted the unemployment rate to be 4.7 percent for 2007.

LOTTERY PRODUCTS

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

INSTANT GAMES are played by scratching the latex covering off of a play area to reveal pre-printed combinations. There are different ways to win in an instant or “scratch off” game, such as matching three like dollar amounts, symbols or letters.



If the correct combinations appear, the player becomes an “instant winner” and may immediately submit a claim to cash the ticket. Instant games have been the Ohio Lottery’s dominant product since fiscal year 1997. For fiscal year 2007, instant game sales were nearly \$1.4 billion, an increase of \$79.8 million, or 6.3 percent, from the previous fiscal year and represented 59.9 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.

The Ohio Lottery continued to feature several \$10 and \$20 “spot-light” instant games in fiscal year 2007. These games, along with lower priced tickets generated sales exceeding \$100 million for twenty (20) consecutive months as of June 2007.

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

Mega Millions is a multi-state, online game. For each wager, players select 5 numbers from a pool of 1 to 56 and select one Mega ball number from a second pool of 1 to 46. To win the jackpot, all six numbers must be matched. The jackpot starts at \$12 million and increases if not won. Drawings are held on Tuesday and Friday evenings. Mega Millions sales for fiscal year 2007 were \$196.1 million, or 8.7 percent of total Ohio Lottery sales.



Classic Lotto, which replaced Lot’O Play in January 2007, is an online game in which players select 6 numbers from a pool of 1 to 49. To win the jackpot all six numbers must be matched. The jackpot starts at \$1 million and increases if not won. Drawings are held on Monday, Wednesday, and Saturday evenings. The combination of Classic Lotto and Lot’O Play sales for fiscal year 2007 were \$43.6 million, or 1.9 percent of total Ohio Lottery sales.



Kicker is an online game, with a top prize of \$100,000, which can only be purchased along with Mega Millions. To win you must match in exact order from left to right, the computer generated six-digit Kicker number printed on your ticket. 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. Sales for fiscal year 2007 were \$21.3 million, approximately 0.9 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). Pick 3 sales for fiscal year 2007 were \$370.9 million, or 16.4 percent of total Ohio Lottery sales.



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 back-up bets. Pick 4 began in 1981. Sales for fiscal year 2007 were \$183.0 million, approximately 8.1 percent of total Ohio Lottery sales. Both Pick 3 and Pick 4 are played Sunday through Saturday.



Rolling Cash 5 is an online game in which players select 5 numbers from a pool of 1 to 39, with overall odds of winning any prize of 1 in 9. The top prize starts at \$100,000 and increases if not won. Sales for fiscal year 2007 were \$72.9 million, approximately 3.2 percent of total Ohio Lottery sales. Drawings are held Sunday through Saturday.



Raffle to Riches was introduced to the Ohio Lottery’s players for the first time in fiscal year 2007. The game is similar to a traditional 50-50 raffle, with players purchasing a single ticket worth \$20. The tickets have a six-digit number, which are sold in sequential order. Prizes range from \$500 to \$1,000,000. Sales for fiscal year 2007 were \$17.8 million or 0.8 percent of total Ohio Lottery sales. The sales period for raffles is targeted for a set period of time, followed by the drawing.



ACCOMPLISHMENTS

Ohio Lottery profits were specifically designated by statute in 1987 to fund the State’s public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2007, the Ohio Lottery transferred \$669.3 million to the LPEF, bringing the total funding the Ohio Lottery has provided in support of the State’s public education system to over \$15.0 billion since its inception in 1974. The \$669.3 million transfer to the LPEF in fiscal year 2007 was \$31.4 million above the Ohio Lottery’s transfer commitment amount set forth in the fiscal year 2006-2007 budget. In addition to this rewarding accomplishment, several other accomplishments were achieved during fiscal year 2007. These include:

- Spot-light instant ticket games continued to contribute significantly to fiscal 2007 sales. Spot-light games feature larger print sizes, multiple top prizes of \$1 million or more and higher overall prize payouts, reaching 75 percent. Along with the spot-light instant ticket strategy, the Ohio 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 Ohio Lottery players. Total fiscal year 2007 instant sales exceeded sales of the prior year by \$79.8 million.

- Since May 2002 when Ohio began participating in the Mega Millions game, Ohio has realized ten jackpot winners in which the advertised jackpots totaled more than \$1.12 billion. 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 has exceeded \$27.7 million.
- The Ohio Lottery recently converted the remaining 1,400 instant only retailers to full service retailers with additional equipment obtained as part of the renegotiated gaming contract with GTECH. Additionally, 400 self verifying ticket units were also obtained and deployed as a result of the renegotiation.
- The Ohio Lottery is an active participant in the State's implementation of the Ohio Administrative Knowledge System (OAKS) project. The system will integrate the functions of five major statewide business functions and will result in decreased paperwork, duplication of effort, and the potential for inaccurate information. In December 2006, the State successfully rolled out the module for payroll. The financial module rolled out in July 2007.
- The Ohio Lottery, in conjunction with the Ohio Attorney Generals' Office, has renewed their partnership via a signed Memorandum of Understanding, whereby the Ohio Lottery continues licensing and monitoring of charitable organizations. During 2007, the Ohio Lottery began the next phase of the agreement. This function allows for charitable organizations on a periodic basis to be visited by one of sixteen site inspectors throughout the state. Recommendations and support are given to the charitable organizations to help assure compliance with the Ohio Revised Code, which governs charitable law. Site inspectors insure that charitable organizations are utilizing licensed manufacturers and distributors, therefore increasing accountability of all bingo tickets sold in Ohio. With the advent of site inspections, charitable organizations have a clearer understanding of the requirements. 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 Ohio Lottery.
- Based upon focus group testing, the Ohio Lottery launched Classic Lotto in 2007. Classic Lotto replaced Lot O' Play due to declining sales and demand for an easy to understand lotto game with reasonable odds of winning the grand prize. Classic Lotto contributed \$21.8 million in fiscal year 2007.
- The Ohio Lottery has downsized its vehicles, resulting in better fuel efficiency and reduced repair costs. Mini vans now make up 62 percent of the fleet, compared to 42 percent last year. Also, flex fuel vehicles have increased from 26 percent to 42 percent this year.
- All Ohio Lottery sales employees participated in a Lottery Skills and Training workshop, specifically designed by Fisher College of Business at the Ohio State University. The two-day sales program covered primarily Marketing, Merchandising Fundamentals, and Sales Essentials. The training program was part of the Labor-Management partnership under the State of Ohio's Workforce Development Program.
- During fiscal year 2007, the Ohio Lottery installed software to each sales terminal, allowing for auto settlement of instant tickets. The 45-day auto settlement system allows an activated ticket lot to be

automatically marked sold after 45 days. The software includes a weekly report that indicates any tickets that will be auto-settled in the upcoming 14-day period, which allows the retailer to return or settle partially sold lots. This software enabled the corresponding 45-day auto settlement policy to take effect in July 2007.

FUTURE PROJECTS

The Ohio Lottery continues to develop new ways to enhance its current product offerings and maximize operational efficiency and effectiveness. In fiscal year 2008, the Ohio Lottery's energies are being concentrated on the following projects:

- In an effort to help the public embrace the Ohio Lottery's defined mission of benefiting public education in Ohio, the Ohio Lottery is undergoing a comprehensive re-branding campaign. This includes crafting a new brand story and brand identity for the Ohio Lottery, and developing new marketing and sales plans as well as new advertising campaigns. A consulting firm was brought on board to assist the Ohio Lottery in this project. During the re-branding effort, groups of employees have participated in interactive sessions to identify strengths and weaknesses, to help build the agency's brand promise and to brainstorm ways to achieve our goals.
- To serve Ohioans more directly and to spread its education mission more broadly, the Ohio Lottery has undertaken a new program of identifying and honoring academic achievements in Ohio schools. The Academic All Star program honors nine academic achievers, one student from each of nine lottery regions, once a month. The Teacher of the Month program, likewise, honors nine teachers a month. The students and teachers will be chosen from nominations received from peers and school personnel. Public recognition of the Academic All Star and Teacher of the Month includes a Certificate of Excellence, four tickets to a community or sports event, recognition at the event attended and recognition on the Ohio Lottery website.
- No student should be denied the opportunity to participate in academic endeavors due to economic circumstances. To do its part to ensure that every student has an equal chance to participate in the Scripps National Spelling Bee, the Ohio Lottery is offering to sponsor the materials and enrollment fee for any school participating. The offer extends to any school in Ohio, regardless of affiliation. The Scripps National Spelling Bee is held annually in March.
- In conjunction with the re-branding and image campaign and understanding the challenges many Ohio families have ensuring a college education for their children, the Ohio Lottery is developing a lottery game featuring fully paid college tuition (higher education) as one of the game's top prizes. Upon careful research and analysis, the Ohio Lottery plans to position the product to appeal to persons who have a need or vested interest in obtaining the security of a paid education for either themselves, their children or other persons of interest. The Ohio Lottery tentatively plans to implement the new game concept in late fiscal year 2008 or early fiscal year 2009.
- The Ohio Lottery will continue to offer raffle-style games throughout fiscal year 2008. 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 Ohio 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.
- As the lottery games available in the industry evolve, the Ohio Lottery will continue to evaluate available game options and prize matrices. As such, the Ohio Lottery plans to benchmark Ohio's

sales results against peer lottery states and review best practices in an effort to optimize Ohio's catalog of products. From time-to-time during the fiscal year, the Ohio Lottery plans to adjust both its instant ticket and online gaming product mix as necessary. Collaboration with the Ohio Lottery's primary instant ticket and online gaming vendors will enhance the Ohio Lottery's research and benchmarking efforts.

- The Ohio Lottery plans to enhance the number of promotional offerings available to the public. Industry practices support the need for retailers to implement on-going promotional programs to stimulate the public's interest in the products being offered. There are numerous promotional programs and opportunities the Ohio Lottery plans to offer over the course of the fiscal year.
- The last renewal of the Ohio Lottery's gaming system contract with GTECH will expire at the end of fiscal year 2009. As such, the Ohio Lottery will be undertaking a significant contract award process. The gaming system plays an integral part in operating computerized transaction activity for both the Ohio Lottery's instant ticket and online 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 Ohio Lottery is taking all responsible measures in developing bid specifications and evaluating bid responses, the Ohio Lottery has sought additional professional services from the Battelle Memorial Institute.
- The Ohio Lottery, in conjunction with the North American Association of State and Provincial Lotteries (NASPL), strives to create standards and initiatives within the industry. In fiscal year 2008, the Ohio Lottery will continue to streamline processes, promote industry best practices, and technology protocols.
- The Cash Explosion Double Play television show returned by popular demand in October 2007, as the Ohio Lottery's "new" TV game show. The instant ticket game, Cash Explosion, which provides cash prizes and opportunities to be a show contestant, went on sale in July 2007.
- Ten-OH!, the Ohio Lottery's newest draw game, began in August 2007. Ten-OH! is a pick 10 draw game in which players can win a top prize of \$500,000 by matching 10 of 20 numbers drawn or win \$3 for matching none of the 20 numbers drawn as well as prizes in between. Drawings will be held both midday and evenings on Sunday through Saturday. Pick ten games sold in other lottery jurisdictions have proved successful, and the Ohio Lottery is confident Ten OH! will have similar success.
- G3 games will be introduced to Ohio in the latter part of the Fiscal Year 2008. G3 games are a hybrid instant/online game. They combine the instant win experience with an online game component. The player purchases an online ticket that is made up of two sections, a draw section followed by a play section. Players then match the two sections to determine if they are a winner.

ACCOUNTING SYSTEMS AND POLICIES

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

The Ohio Lottery's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Ohio Lottery are included in the statement of net assets. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. A narrative overview and analysis of the Ohio Lottery's financial

activities for the fiscal year ended June 30, 2007 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 periodic revisions to project revenue and expenditure trends and implements any changes necessary to keep both within appropriation and internal management targets set by the Director.

INTERNAL CONTROL ENVIRONMENT

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

To enhance controls over accounting procedures, the Ohio Lottery has segregated the following functions: personnel and payroll; purchasing; accounts payable; general ledger; and accounts receivable processing. Additionally, a Contract Compliance Officer monitors the execution of all large vendor contracts. Data input and processing is separate from system programming. An Information Security Manager monitors and audits automated systems. An Electronic Data Processing Audit Plan is executed annually to further improve internal controls. An internal audit team reviews all areas of operations and reports to the Director. The internal audit role was expanded and improved in 1997. Beginning in fiscal year 1997, an annual audit plan has been formally prepared 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.

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

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

FINANCIAL INFORMATION

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

DEBT ADMINISTRATION

A majority of the Ohio Lottery's non-current liabilities are comprised of payments owed to deferred prizewinners. The payments due are funded by an investment portfolio managed by the Treasurer of the State of Ohio and shown as restricted assets of the Ohio Lottery on its statements of net assets. Other non-current 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 8,200 retailers on a weekly basis. Funds are collected electronically from the retailers' designated bank accounts. Over \$ 1.0 billion was collected via this system in fiscal year 2007. 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 retailers were deactivated and could not sell tickets until payment was received and posted. Approximately \$3.6 million of the uncollected funds was paid and the remainder was claimed against retailers' 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. Retailers' 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 CAFR for the fiscal year ended June 30, 2006. This was the tenth 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.

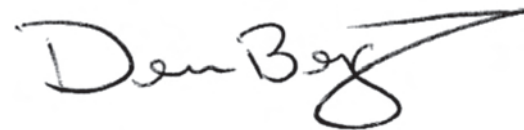
INDEPENDENT AUDIT

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 audit of the Ohio Lottery. The Ohio Lottery's financial statements audit for fiscal year 2007 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 comprised of Greg Bowers, Michele Olivo, Mike Popadiuk, Anna Callas, John Herrle and Joe Angelillo. Thanks to Michael M. Bycko, Visual Communications Manager, for the layout and graphics support of this publication. Publishing this comprehensive annual financial report reflects our commitment to meet the highest standards of accountability. The Ohio Lottery intends to continually improve financial management and clearly communicate its financial story. It is important for the public to know that the Ohio Lottery's financial condition is properly reported, including payments made to education. Due credit should be given to Commission Chair Mark Dottore and the members of the Ohio Lottery Board of Commissioners for their commitment to operating the Ohio Lottery in a responsible and progressive manner.

Respectfully Submitted,



Dennis R. Berg, CPA, CFE
Deputy Director of Finance



Michael A. Dolan
Executive Director

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Achievement for Excellence in Financial Reporting

Presented to

Ohio Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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.



A handwritten signature in black ink, appearing to read "Ronald J. Hain".

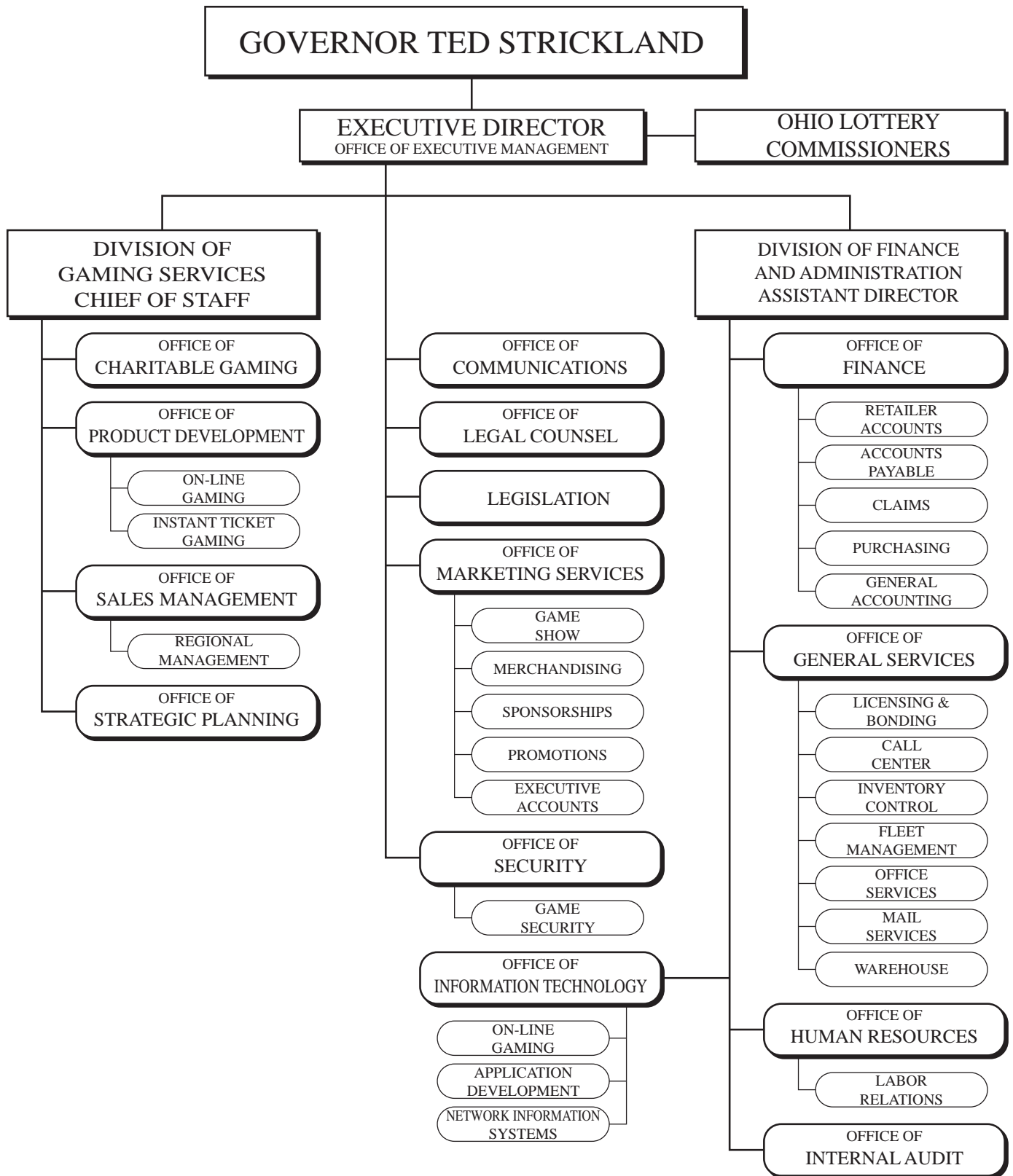
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

THE OHIO LOTTERY

STRUCTURE OF ORGANIZATION • FISCAL YEAR 2007



PRINCIPAL OFFICIALS

Ted Strickland
GOVERNOR OF OHIO

Michael A. Dolan
EXECUTIVE DIRECTOR

Mark E. Dottore
COMMISSION CHAIR
Term ends 8/1/07

Erskine E. Cade
COMMISSIONER
Term Ends 8/1/08

Jonathan A. Allison
COMMISSIONER
Term Ends 8/1/09

Allan C. Krulak
COMMISSIONER
Term Ends 8/1/09

Patrick McDonald
COMMISSIONER
Term Ends 8/1/09

Charles A. Nemer
COMMISSIONER
Term Ends 8/1/07

Elizabeth Luper Schuster
COMMISSIONER
Term Ends 8/1/08

Jerry Y. Seaman
COMMISSIONER
Term Ends 8/1/08

Lee C. Weingart
COMMISSIONER
Term Ends 8/1/07



Dreams
of finding a
cure for cancer.

FINANCIAL SECTION



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Ohio Lottery Commission
Cuyahoga County
615 West Superior Avenue
Cleveland, Ohio 441113

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, 2007, 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 2006 financial statements and, in our report dated December 19, 2006, 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, 2007, 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, 2007, 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, 2006, 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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2007, 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 statistical tables to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.



Mary Taylor, CPA
Auditor of State

December 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Ohio Lottery, we offer readers this narrative overview and analysis of the financial activities of the Ohio Lottery for the fiscal year ended June 30, 2007. 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 6-10 of this report, and the financial statements which begin on page 22.

Financial Highlights

- The Ohio Lottery's net assets decreased \$39.2 million or 30.3 percent, as a result of this year's operations, predominantly due to a restructuring of the investment portfolio in Fiscal Year 2007. The restructure was necessary to create a more timely cash flow to match our future deferred prize payment obligations.
- Annual ticket sales increased \$38.5 million, or 1.7 percent. The increase in ticket sales is due to the continued success of instant ticket product line enhancements and maintenance efforts dedicated to the online products.
- Instant ticket sales increased \$79.8 million or 6.3 percent from last year, primarily due to the launch of several "spot-light" style games, which offer higher prize payouts.
- Sales for the Mega Millions game, a multi-jurisdictional lotto-type game, decreased nearly \$27.3 million, or 12.2 percent as a result of lower advertised jackpots. Pick 4 continues to post year-over-year growth, as sales increased \$7.3 million or 4.2 percent from last fiscal year. This was offset by a reduction in sales for the other online games. In total, online game sales decreased \$41.3 million, or 4.4 percent.
- Prize expense increased \$27.2 million, in direct proportion to an increase in ticket sales during the year. Total prize expense represented 59.2 percent of total ticket sales compared to 59.0 percent in fiscal year 2006. The increase in prize expense to total sales is a combination of lower online prize payouts and higher instant ticket prize payouts.
- Operating expenses were held to a minimal increase; however there was fluctuation within expense categories. The fluctuation between Personal Services and Depreciation resulted from the gaming equipment being fully depreciated and the expenses incurred from our gaming provider are now charged to the Personal Services category.
- The Ohio Lottery transferred \$669.3 million to the Lottery Profits Education Fund (LPEF), \$31.4 million above our commitment in the 2007 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 Ohio Lottery and the Attorney General. Expenses for this fund represent oversight, licensing, and monitoring of charitable gaming activity. As part of the State's biennial budget process for fiscal year 2006/2007, the Office of Budget and Management (OBM) required that a separate fund be established. Effective fiscal year 2006, the Charitable Gaming Oversight Fund (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, non-capital and capital financing, and investing activities.

Financial Analysis

Table 1 provides a summary of the Ohio Lottery's net assets at June 30, 2007 compared to June 30, 2006.

TABLE 1 - NET ASSETS

	2007	2006
Current Assets: Unrestricted	\$ 164,797,481	\$ 139,861,130
Current Assets: Restricted	473,352,318	468,308,207
Dedicated Investments: Restricted	632,221,198	674,223,100
Net Capital Assets	<u>2,740,053</u>	<u>2,866,168</u>
 Total Assets	 <u>1,273,111,050</u>	 <u>1,285,258,605</u>
Current Liabilities: Unrestricted	85,506,067	73,576,909
Current Liabilities: Restricted	472,753,679	446,337,865
Noncurrent Liabilities: Restricted	<u>624,427,860</u>	<u>635,705,170</u>
 Total Liabilities	 <u>1,182,687,606</u>	 <u>1,155,619,944</u>
Net Assets:		
Invested in Capital Assets		
- Net of Related Debt	2,740,053	2,866,168
Restricted for Deferred Prizes	13,870,470	67,146,464
Unrestricted	<u>73,812,921</u>	<u>59,626,029</u>
 Total Net Assets	 <u>\$ 90,423,444</u>	 <u>\$ 129,638,661</u>

Total Assets decreased \$12.1 million as a result of a net decrease in restricted investments. Current Assets - Unrestricted increased from \$139.9 million in 2006 to \$164.8 million in 2007, an increase of \$24.9 million. The increase was primarily a result of higher cash balances caused by timing differences of cash receipts to cash disbursements along with the accumulation of jackpots won but not paid by fiscal year end. Another factor was the increase of collateral on secured lending balances. The Ohio Lottery's Current Assets - Restricted increased by \$5.0 million as a result of an increase in securities lending activity. Non-current 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 the restructuring of the investment portfolio noted in the highlights above.

Total Liabilities increased \$27.1 million partially due to the increase in Current Liabilities - Restricted category, which increased \$26.4 million primarily as a result of increases to security lending activity. Non-current liabilities decreased \$11.3 million mainly due to the reduction of Prize Awards Payable. Prize winners of late have been opting for discounted cash option for prizes instead of the choosing the annuity prize.

The Ohio Lottery's financial activity resulted in a \$39.2 million decrease in net assets. Net Assets Restricted for Deferred Prizes decreased \$53.3 million as a result of recognizing a fiscal year 2007 unrealized loss on restricted assets in accordance with GASB 31, as noted above. Unrestricted Net Assets realized a \$14.2 million increase, the net effect of an increase in net assets reported in the Lottery Operating Fund.

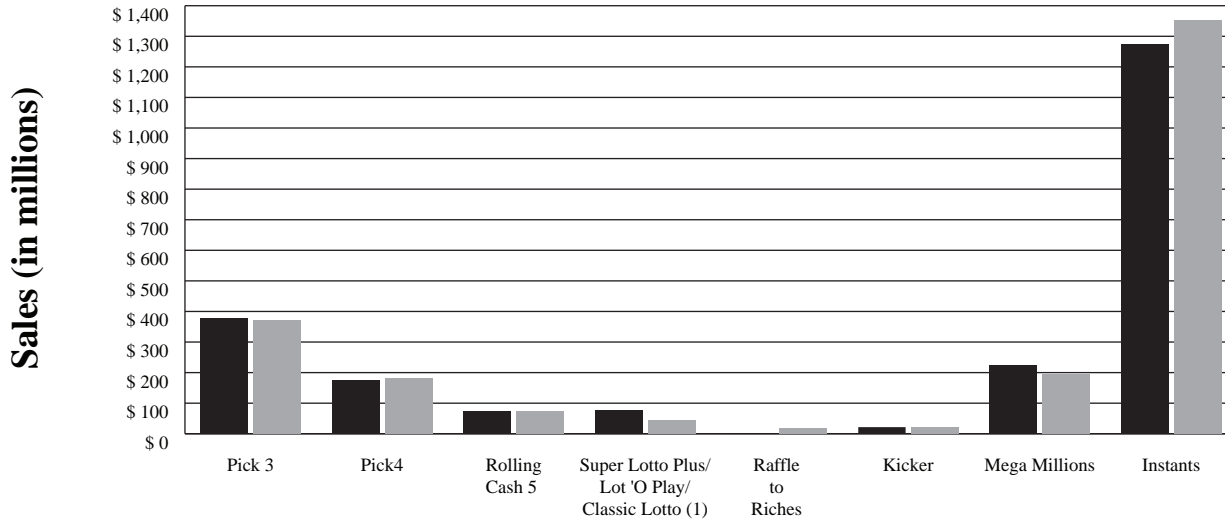
Table 2 shows the changes in the Ohio Lottery's net assets for fiscal year 2007 compared to fiscal year 2006, including revenue and expense comparisons.

TABLE 2 - CHANGES IN NET ASSETS

	2007	2006
Ticket Sales	\$ 2,259,396,588	\$ 2,220,927,317
Other Operating Revenues	7,737,403	6,458,756
Non-Operating Revenues	<u>60,407,781</u>	<u>22,324,847</u>
 Total Revenues	 <u>2,327,541,772</u>	 <u>2,249,710,920</u>
Prize Expenses	1,338,366,454	1,311,141,167
Bonuses and Commissions	139,960,610	139,840,919
Operating Expenses	109,785,907	109,766,429
Non-Operating Expenses	109,317,018	65,099,346
Payments to the Lottery Profits Education Fund	<u>669,327,000</u>	<u>646,276,000</u>
 Total Expenses	 <u>2,366,756,989</u>	 <u>2,272,123,861</u>
 Change in Net Assets	 (39,215,217)	 (22,412,941)
Total Net Assets-Beginning	<u>129,638,661</u>	<u>152,051,602</u>
Total Net Assets-Ending	<u>\$ 90,423,444</u>	<u>\$ 129,638,661</u>

**TICKET SALES BY PRODUCT
FISCAL YEARS 2007 AND 2006**

■ FY 2006 ■ FY 2007



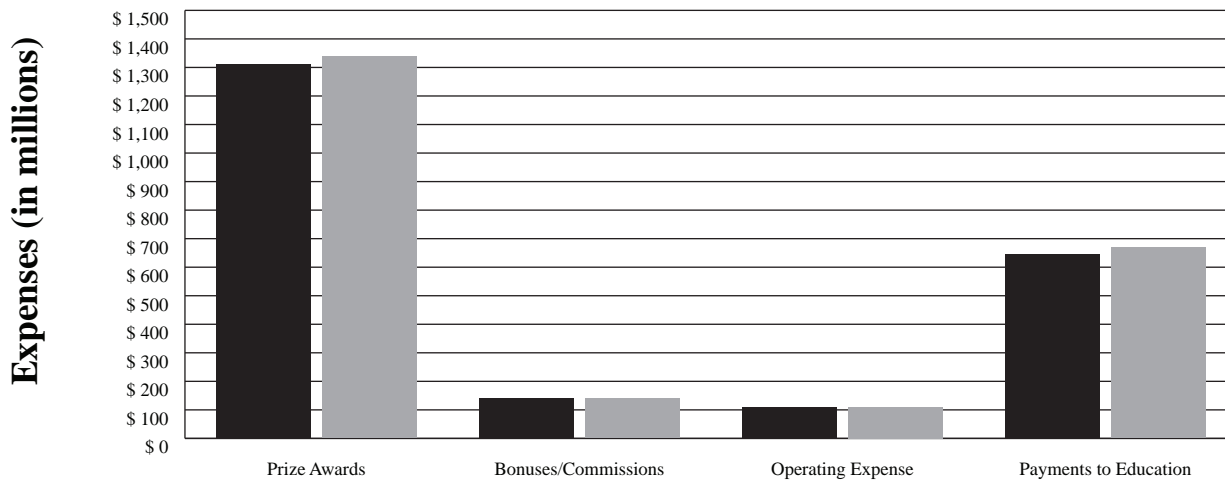
LOTTERY PRODUCT

(1) Includes sales for Super Lotto Plus through October 2005 and Lot'O Play through January 2007

The Ohio Lottery's total revenues increased by \$77.8 million in fiscal year 2007. Ticket sales account for \$38.5 million of the increase with a \$38.1 million increase attributed to non-operating revenues. Instant ticket sales, which experienced an impressive increase of 4.7 percent and 4.4 percent in fiscal years 2006 and 2005, respectively, performed extremely well, increasing \$79.8 million, or 6.3 percent above the prior year's sales. Instant ticket sales surpassed the \$1 billion sales mark for the fifth consecutive year. Online product sales experienced mixed performance by product. Mega Millions experienced a decrease in sales of \$27.3 million or 12.2 percent. During the year, one (1) jackpot of \$40.0 million was won in Ohio, as compared to 2006 when five (5) jackpots were won in Ohio, ranging from a high of \$270 million to \$15 million. Pick 4 continues to experience year-over-year growth, as sales increased \$7.3 million or 4.2 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. This is due to the net effect of recognizing an unrealized loss on the investments dedicated to the payment of annuity prizes.

**OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION
FISCAL YEARS 2007 AND 2006**

■ FY 2006 ■ FY 2007



EXPENSE TYPE

Total expenses increased \$94.6 million. Prizes, bonuses and commissions increased by \$27.3 million from the prior year, in proportion with increased sales due to their variable nature. In addition, the Ohio Lottery initiated a temporary increase to instant ticket sales commission beginning in May 2005 and ending December 2005. Operating Expense experienced a minimal increase compared to last fiscal year.

The activity described above resulted in a decrease in Net Assets of \$39.2 million, decreasing the balance at June 30, 2007 to \$90.4 million from \$129.6 million.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the Ohio Lottery had \$2.7 million, net of accumulated depreciation, in Capital Assets. **Table 3** summarizes the Ohio Lottery's capital assets at the end of 2007 and 2006.

TABLE 3 - CAPITAL ASSETS (Net of Depreciation)

	<u>2007</u>	<u>2006</u>
Equipment	\$ 1,429,870	\$ 1,378,423
Vehicles	<u>1,310,183</u>	<u>1,487,745</u>
Total Net Capital Assets	<u>\$ 2,740,053</u>	<u>\$ 2,866,168</u>

Total Net Capital Assets decreased \$0.1 million in fiscal year 2007 as a result of depreciation recognized on equipment and vehicles. 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 \$42.5 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, 615 W. Superior Avenue, Cleveland, Ohio 44113-1879. You may also access more information about the Ohio Lottery by visiting the lottery's website at www.ohiolottery.com.

STATEMENT OF NET ASSETS - MAJOR FUNDS

JUNE 30, 2007

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006)

	<u>OPERATING</u>	<u>DEFERRED</u>	<u>TOTALS</u>	
			<u>June 30, 2007</u>	<u>June 30, 2006</u>
ASSETS:				
Current Assets-Unrestricted				
Cash and Cash Equivalents	\$ 12,700,707	\$ -	\$ 12,700,707	\$ 11,641,334
Cash Equity with Treasurer of State	66,493,095	-	66,493,095	51,752,067
Collateral on Lent Securities	37,313,034	-	37,313,034	29,269,612
Receivables from Agents, Net	41,742,768	-	41,742,768	40,054,283
Other Assets	<u>6,547,877</u>	<u>-</u>	<u>6,547,877</u>	<u>7,143,834</u>
Total Current Assets-Unrestricted	<u>164,797,481</u>	<u>-</u>	<u>164,797,481</u>	<u>139,861,130</u>
Current Assets-Restricted				
Cash Equity with Treasurer of State	-	273,056	273,056	800,093
Due From Unrestricted Assets	-	598,636	598,636	10,477,800
Dedicated Investments	-	56,551,568	56,551,568	91,333,749
Collateral on Lent Securities	-	410,718,210	410,718,210	351,853,710
Due From Other State Lotteries	-	-	-	11,492,539
Interest Receivable	-	5,210,848	5,210,848	2,350,316
Total Current Assets-Restricted	<u>-</u>	<u>473,352,318</u>	<u>473,352,318</u>	<u>468,308,207</u>
Total Current Assets	<u>164,797,481</u>	<u>473,352,318</u>	<u>638,149,799</u>	<u>608,169,337</u>
Noncurrent Assets				
Dedicated Investments, Restricted	-	632,221,198	632,221,198	674,223,100
Capital Assets				
Equipment	78,094,124	-	78,094,124	77,797,423
Vehicles	2,503,096	-	2,503,096	2,758,590
Accumulated Depreciation	<u>(77,857,167)</u>	<u>-</u>	<u>(77,857,167)</u>	<u>(77,689,845)</u>
Net Assets, Invested in Capital Assets	<u>2,740,053</u>	<u>-</u>	<u>2,740,053</u>	<u>2,866,168</u>
Total Noncurrent Assets	<u>2,740,053</u>	<u>632,221,198</u>	<u>634,961,251</u>	<u>677,089,268</u>
TOTAL ASSETS	<u>167,537,534</u>	<u>1,105,573,516</u>	<u>1,273,111,050</u>	<u>1,285,258,605</u>
LIABILITIES				
Current Liabilities-Unrestricted				
Accounts Payable	11,032,774	-	11,032,774	11,890,443
Prize Awards Payable	32,566,933	-	32,566,933	18,278,441
Obligations under Securities Lending	37,313,034	-	37,313,034	29,269,612
Due to Unrestricted Assets	-	-	-	-
Due to Restricted Assets	598,636	-	598,636	10,477,800
Capital Lease Payable-Current	-	-	-	-
Deferred Revenue	993,063	-	993,063	942,895
Other Liabilities	2,639,050	-	2,639,050	2,660,027
Due to Other Lotteries	<u>362,577</u>	<u>-</u>	<u>362,577</u>	<u>57,691</u>
Total Current Liabilities-Unrestricted	<u>85,506,067</u>	<u>-</u>	<u>85,506,067</u>	<u>73,576,909</u>
Current Liabilities-Restricted				
Obligations under Securities Lending	-	410,718,210	410,718,210	351,853,710
Prize Awards Payable-Net of Discount	<u>-</u>	<u>62,035,469</u>	<u>62,035,469</u>	<u>94,484,155</u>
Total Current Liabilities-Restricted	<u>-</u>	<u>472,753,679</u>	<u>472,753,679</u>	<u>446,337,865</u>
Total Current Liabilities	<u>85,506,067</u>	<u>472,753,679</u>	<u>558,259,746</u>	<u>519,914,774</u>
Noncurrent Liabilities:				
Prize Awards Payable from Restricted Assets-Net of Discount	-	618,949,367	618,949,367	629,046,978
Workers' Compensation	2,472,899	-	2,472,899	3,832,162
Compensated Absences	<u>3,005,594</u>	<u>-</u>	<u>3,005,594</u>	<u>2,826,030</u>
Total Noncurrent Liabilities	<u>5,478,493</u>	<u>618,949,367</u>	<u>624,427,860</u>	<u>635,705,170</u>
TOTAL LIABILITIES	<u>90,984,560</u>	<u>1,091,703,046</u>	<u>1,182,687,606</u>	<u>1,155,619,944</u>
NET ASSETS				
Invested in Capital Assets-Net of Related Debt	2,740,053	-	2,740,053	2,866,168
Restricted for Deferred Prizes	-	13,870,470	13,870,470	67,146,464
Unrestricted	<u>73,812,921</u>	<u>-</u>	<u>73,812,921</u>	<u>59,626,029</u>
TOTAL NET ASSETS	<u>\$ 76,552,974</u>	<u>\$ 13,870,470</u>	<u>\$ 90,423,444</u>	<u>\$ 129,638,661</u>

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, 2007
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006)

	<u>OPERATING</u>	<u>DEFERRED</u>	<u>TOTALS</u>	
			<u>JUNE 30, 2007</u>	<u>JUNE 30, 2006</u>
REVENUES				
Ticket Sales	\$ 2,259,396,588	\$ -	\$ 2,259,396,588	\$ 2,220,927,317
Other Revenues	<u>7,392,599</u>	<u>344,804</u>	<u>7,737,403</u>	<u>6,458,756</u>
Total Operating Revenues	2,266,789,187	344,804	2,267,133,991	2,227,386,073
EXPENSES				
Prizes, Bonuses and Commissions				
Prize Awards	1,323,524,874	14,841,580	1,338,366,454	1,311,141,167
Bonuses and Commissions	<u>139,960,610</u>	<u>-</u>	<u>139,960,610</u>	<u>139,840,919</u>
Total Prizes, Bonuses and Commissions	1,463,485,484	14,841,580	1,478,327,064	1,450,982,086
Operating Expenses				
Personal Services	92,074,380	-	92,074,380	76,753,655
Maintenance	16,852,473	-	16,852,473	18,318,937
Depreciation	821,987	-	821,987	14,663,535
Other Expenses	<u>37,067</u>	<u>-</u>	<u>37,067</u>	<u>30,302</u>
Total Operating Expenses	<u>109,785,907</u>	<u>-</u>	<u>109,785,907</u>	<u>109,766,429</u>
OPERATING INCOME (LOSS)	693,517,796	(14,496,776)	679,021,020	666,637,558
Non-Operating Revenues (Expenses):				
Interest Income	4,751,652	55,613,664	60,365,316	22,257,533
Amortization of Prize Liabilities	-	(85,343,487)	(85,343,487)	(44,377,045)
Gain (Loss) on Equipment Disposal	42,465	-	42,465	67,314
Interest Expense - Borrower Rebates	-	(23,888,261)	(23,888,261)	(20,103,956)
Interest Expense - Capital Lease	-	-	-	(511,506)
Securities Lending Agent Fees	-	(85,270)	(85,270)	(106,839)
Payments to the Lottery Profits Education Fund	<u>(669,327,000)</u>	<u>-</u>	<u>(669,327,000)</u>	<u>(646,276,000)</u>
Total Non-Operating Expenses, Net	<u>(664,532,883)</u>	<u>(53,703,354)</u>	<u>(718,236,237)</u>	<u>(689,050,499)</u>
INCOME (LOSS) BEFORE TRANSFERS	28,984,913	(68,200,130)	(39,215,217)	(22,412,941)
TRANSFERS:				
Transfers to Deferred Prize Trust Fund	<u>(14,924,136)</u>	<u>14,924,136</u>	<u>-</u>	<u>-</u>
Total Transfers	<u>(14,924,136)</u>	<u>14,924,136</u>	<u>-</u>	<u>-</u>
Change in Net Assets	14,060,777	(53,275,994)	(39,215,217)	(22,412,941)
Total Net Assets - Beginning	<u>62,492,197</u>	<u>67,146,464</u>	<u>129,638,661</u>	<u>152,051,602</u>
TOTAL NET ASSETS - ENDING	<u>\$ 76,552,974</u>	<u>\$ 13,870,470</u>	<u>\$ 90,423,444</u>	<u>\$ 129,638,661</u>

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, 2007
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006)

	<u>OPERATING</u>	<u>DEFERRED</u>	<u>TOTALS</u>	
			<u>JUNE 30, 2007</u>	<u>JUNE 30, 2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Sales	\$ 2,257,758,271	\$ -	\$ 2,257,758,271	\$ 2,215,063,754
Cash Received from Multi-State Lottery for Grand Prize Winners	3,101,783	43,482,276	46,584,059	390,063,978
Cash Payments for Prize Awards	(1,311,150,672)	(174,721,105)	(1,485,871,777)	(1,892,649,190)
Cash Payments for Bonuses and Commissions	(139,993,669)	-	(139,993,669)	(139,648,511)
Cash Payments for Goods and Services	(87,200,485)	-	(87,200,485)	(68,798,293)
Cash Payments to Employees	(24,019,807)	-	(24,019,807)	(23,654,780)
Other Operating Revenues	7,392,599	344,804	7,737,403	6,458,756
Other Operating Expenses	(37,067)	-	(37,067)	(30,302)
Net Cash Provided (Used) by Operating Activities	<u>705,850,953</u>	<u>(130,894,025)</u>	<u>574,956,928</u>	<u>486,805,412</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payments to the Lottery Profits Education Fund	(669,327,000)	-	(669,327,000)	(646,276,000)
Transfers In	-	14,924,136	14,924,136	43,346,518
Transfers Out	(14,924,136)	-	(14,924,136)	(43,346,518)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>(684,251,136)</u>	<u>14,924,136</u>	<u>(669,327,000)</u>	<u>(646,276,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Property and Equipment	(818,632)	-	(818,632)	(1,317,751)
Proceeds from Sale of Property and Equipment	165,224	-	165,224	190,375
Repayment of Equipment Obligation	-	-	-	(15,596,060)
Interest Paid on Equipment Obligation	-	-	-	(511,506)
Net Cash Used by Capital and Related Financing Activities	<u>(653,408)</u>	<u>-</u>	<u>(653,408)</u>	<u>(17,234,942)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	4,733,162	24,611,225	29,344,387	46,041,928
Restricted Assets Due for Investing	(9,879,171)	9,879,171	-	-
Interest Expense and Agent Fees	-	(23,973,531)	(23,973,531)	(20,210,795)
Proceeds from the Sale and Maturity of Investments	-	971,819,276	971,819,276	2,656,653,438
Purchase of Investments	-	(866,893,288)	(866,893,288)	(2,565,065,217)
Securities Lending Proceeds	37,313,034	410,718,210	448,031,244	381,123,322
Securities Lending Payments	(37,313,034)	(410,718,210)	(448,031,244)	(381,123,322)
Net Cash Provided (Used) by Investing Activities	<u>(5,146,009)</u>	<u>115,442,853</u>	<u>110,296,844</u>	<u>117,419,354</u>
Net Increase (Decrease) in Cash & Cash Equivalents	15,800,400	(527,036)	15,273,364	(59,286,176)
Cash and Cash Equivalents - Beginning	<u>63,393,401</u>	<u>800,092</u>	<u>64,193,493</u>	<u>123,479,670</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 79,193,801</u>	<u>\$ 273,056</u>	<u>\$ 79,466,857</u>	<u>\$ 64,193,494</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 693,517,796	\$ (14,496,776)	\$ 679,021,020	\$ 666,637,558
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	821,987	-	821,987	14,663,535
Amortization of Discount of Prize Liabilities	-	85,343,487	85,343,487	44,377,045
Net Changes in Assets and Liabilities				
Receivables from Agents - Net	(1,688,485)	-	(1,688,485)	(5,096,803)
Other Assets	614,446	11,492,539	12,106,985	(15,017,586)
Prize Awards Payable	14,288,500	-	14,288,500	(14,604,379)
Accounts Payable	(552,783)	-	(552,783)	3,347,249
Other Liabilities	(20,977)	-	(20,977)	698,127
Deferred Revenue	50,168	-	50,168	(766,760)
Prize Awards Payable from Restricted Assets - Net of Discount	-	(213,233,275)	(213,233,275)	(208,640,829)
Accrued Workers' Compensation	(1,359,263)	-	(1,359,263)	853,416
Compensated Absences	179,564	-	179,564	354,839
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 705,850,953</u>	<u>\$ (\$130,894,025)</u>	<u>\$574,956,928</u>	<u>\$ 486,805,412</u>

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

Non-Cash items included in investment income were (\$49.5) million and (\$54.6) million of unrestricted net losses for the years ended June 30, 2007 and June 30, 2006, respectively. The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Ohio Lottery was established in August 1974, under Section 3770 of the Ohio Revised Code (ORC). The Ohio Lottery has a nine-member board of commissioners appointed by the Governor with the advice and consent of the Senate. It is classified as an enterprise fund of the State of Ohio (the "State") and is presented as such in the State's financial statements. The Ohio Lottery is required by law to transfer all of its net profits from the sale of lottery tickets to the Lottery Profits Education Fund of the State. The amounts transferred are determined by the Director of the Office of Budget and Management and are to be used to help support primary, secondary, vocational, and special education within the State. The Ohio Lottery participates in Mega Millions, a jointly operated multi-state lottery comprised of twelve states: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. The net proceeds from the sale of Mega Millions in Ohio that remain after associated operating expenses, prize disbursements, retailer bonuses and commissions, reimbursements, and any other expenses necessary to comply with the agreements among the member jurisdictions, are required to be transferred to the 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 retailer's gross sales less cash prizes paid and commissions earned. The balance from the Lottery Operating Fund is reduced mainly by the following types of transactions: (1) operating expenses and all non-deferred prize payments; (2) cash transfers to the Deferred Prize Trust Fund; (3) transfers to the 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 Ohio 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. 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 Ohio Lottery shall credit to the fund any money it receives from the AG's office under any agreement the Ohio Lottery and the AG enters into under division (I) of section 2915.08 of the Revised Code. The Ohio Lottery shall use the money in the fund to provide oversight, licensing, and monitoring of charitable gaming activities in the state in accordance with the agreement and Chapter 2915 of the Revised Code. The expenses involved with providing these services under the agreement are reimbursable from the AG's office to the Ohio Lottery. During the year, expenses of \$2,222,285 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 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 repurchase 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, 2007 and 2006, of \$230,771 and \$221,516, 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 certain 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

Retailers receive a commission of 5.5 percent based on their total sales. Cashing bonuses are paid on a weekly basis and equal 1.0 percent of all redeemed tickets. An additional 0.5 percent is awarded to retailers if their cash-to-sales ratio is 50 percent or greater. A \$5 claiming bonus is awarded to retailers for validating a winning ticket worth \$600 to \$5,000. In addition, various selling bonuses are in place ranging from \$500 to \$1,000 per \$1,000,000 of the jackpot for the lotto style games, not to exceed \$100,000. A retailer is eligible for an instant ticket bonus, when selling the top prize of the game with top prize being \$100,000 or more. The bonus is 1.0 percent of the prize with a maximum of \$10,000.

Fund Equity Classifications

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

- Invested in Capital Assets-Net of Related Debt – 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 retailers are required to carry a minimum bond of \$5,000 and on-line retailers are required to carry a minimum bond of \$20,000. On a yearly basis, the retailers' 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, 2007, 2006, and 2005. No significant payments were made or liabilities recorded during the years ended June 30, 2007, 2006, and 2005 due to self-insured risks.

The Office of Risk Management implemented the Blanket Bond coverage program, under which all state employees, including elected and appointed officials (other than the Treasurer of State as an individual), are covered. This policy is paid annually and remains in effect until terminated. The premium is split between all participating state agencies and is charged 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. 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 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 \$46.97 for single and \$128.30 for family coverage per month, while the Ohio Lottery contributed \$263.86 for single and \$724.73 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 \$1,059,475 and \$1,327,355 for the years ended June 30, 2007 and 2006, 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, 2007.

New Accounting Pronouncements

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.

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 Ohio Lottery is not material in relation to the Ohio 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, 2007 and June 30, 2006.

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, 2007 and June 30, 2006.

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, 2006, 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 Ohio Lottery’s deposits may not be returned to it. As of June 30, 2007, the carrying amount of the Ohio Lottery’s deposits with financial institutions was \$128,824 and the bank balance was \$310,574, the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$210,574 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 Ohio 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 Ohio Lottery's investments are exposed to risks that may lead to losses of value. The Ohio Lottery's investments at June 30, 2007 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 Agency Obligations	\$ 399,482,438	AAA	\$ 80,598,175	\$ 164,367,901	\$ 135,041,039	\$ 19,475,323
U.S. Government Strips	10,933,280		903,094	2,928,082	3,102,960	3,999,144
U.S. Government Agency Strips	<u>276,429,011</u>	AAA/AA/Unrated	<u>1,082,756</u>	<u>72,707,359</u>	<u>99,460,183</u>	<u>103,178,713</u>
Total Investments	686,844,729		82,584,025	240,003,342	237,604,182	126,653,180
<u>Investments not required to be categorized</u>						
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)	9,928,037	AAA	9,928,037			
Equity in State of Ohio Common Cash & Investments	66,766,151		66,766,151	-	-	-
Money Market Mutual Fund	4,571,883	AAAm	4,571,883	-	-	-
Collateral on loaned securities-Ohio Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio's Common Cash and Investments account	<u>37,466,259</u>		<u>37,466,259</u>	-	-	-
Total Ohio Lottery - Structured Investments, as of June 30, 2007	\$ <u>805,577,059</u>		\$ <u>201,316,355</u>	\$ <u>240,003,342</u>	\$ <u>237,604,182</u>	\$ <u>126,653,180</u>

Custodial Credit Risk for investments exists when a government is unable to recover the value of investments or collateral securities that are in possession of an outside party in the event of a failure of a counterparty to a transaction. Investments are exposed to custodial credit risks if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department but not in the government's name. The Ohio Lottery is not subject to custodial credit risk because the investments listed above are insured or registered in the State's name, held by the 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'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 Ohio Lottery will realize material losses from its investments in government securities resulting from changes in market interest rates is mitigated by the low probability that these securities will be sold before maturity.

Concentration of Credit Risk: The State's investment policy states that the portfolio should be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, or a specific type of security. The portfolio will be further diversified to limit the exposure to any one issuer. No more than 2% 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, 2007. 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, 2007 categorized and disclosed in this note is \$1,216,270,868. This amount can be reconciled to the statement of net assets as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 128,824	\$ 12,571,883	\$ 12,700,707
Cash Equity with Treasurer of State	-	66,493,095	66,493,095
Collateral on Lent Securities	-	37,313,034	37,313,034
Restricted Assets:			
Cash Equity with Treasurer of State	-	273,056	273,056
Dedicated Investments	-	688,772,766	688,772,766
Collateral on Lent Securities	-	410,718,210	410,718,210
Total - per Statement of Net Assets	<u>\$ 128,824</u>	<u>\$ 1,216,142,044</u>	<u>\$ 1,216,270,868</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, 2007, \$85,502,346 of the cash collateral reinvestment portfolio is invested in corporate repurchase agreements, \$14,999,090 is invested in Negotiable Certificates of Deposits, \$80,000,000 is invested in master notes, and \$230,063,550 is invested in variable rate corporate notes. No variable rate securities are currently held in the Ohio Lottery'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.

<u>Borrower Owes to Lender</u>		<u>Lender Owes to Borrower</u>	
MV of Loaned Securities	\$ 399,005,957	Cash Collateral	\$ 410,506,677
Unpaid Distributions	-	Unpaid Distributions	-
Accrued Premiums	-	Accrued Rebates	546,083
Total	<u>\$ 399,005,957</u>	Total	<u>\$ 411,052,760</u>

Since the Lender owes the Borrowers \$12,046,803 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2007.

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, 2007 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 2007, 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 2007 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	\$ 85,502,346	AA/A-1	\$ 85,502,346	-	-	-
U.S. Government Strips	-	-	-	-	-	-
U.S. Government Agency Obligations	-	-	-	-	-	-
U.S. Government Agency Strips	-	-	-	-	-	-
Certificates of Deposits (Negotiable)	14,999,090	AA	14,999,090	-	-	-
Commercial Paper	80,000,000	AA/A-1	80,000,000	-	-	-
Corporate Notes	230,063,550	AA/A-1	230,063,550	-	-	-
Total Investments made with Cash Collateral	\$ 410,564,986		\$ 410,564,986	-	-	-

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2007 and 2006 was as follows:

	2006	Increases	Decreases	2007
Equipment	\$ 77,797,423	\$ 546,486	\$ 249,785	\$ 78,094,124
Vehicles	2,758,590	272,146	527,640	2,503,096
Total Capital Assets	<u>80,556,013</u>	<u>818,632</u>	<u>777,425</u>	<u>80,597,220</u>
Less Accumulated Depreciation:				
Equipment	(76,419,000)	(478,067)	(232,813)	(76,664,254)
Vehicles	(1,270,845)	(343,920)	(421,852)	(1,192,913)
Total Accumulated Depreciation	<u>(77,689,845)</u>	<u>(821,987)</u>	<u>(654,665)</u>	<u>(77,857,167)</u>
Net Capital Assets	\$ <u>2,866,168</u>	\$ <u>(3,355)</u>	\$ <u>122,760</u>	\$ <u>2,740,053</u>
	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>

The Ohio Lottery has not entered into any new contractual agreements for gaming services in fiscal year 2007. All gaming equipment was fully depreciated on June 30, 2006 ; therefore there is no related net book value. Accumulated depreciation is determined by depreciating the cost of the assets over their estimated useful lives on a straight-line basis. In June 2005, the Ohio Lottery negotiated a contract extension with its on-line gaming systems vendor GTECH. As part of the negotiated contract, the Ohio 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 Ohio Lottery requested to apply certain equipment credits towards 500 additional gaming system terminals to support the expansion of the Ohio Lottery's retailer base along with the conversion of all conventional retailers to full service retailers who can sell all on-line games. In fiscal year 2007, an additional 800 gaming system terminals were installed, converting conventional retailers to full service retailers.

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 Ohio Lottery. Generally, equipment credits are applied once the equipment is produced and available for the Ohio 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, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Current portion - face amount	\$ 101,955,294	\$ 138,600,652
Less: Unamortized discount	<u>(39,919,825)</u>	<u>(44,116,497)</u>
Current portion - present value	<u>62,035,469</u>	<u>94,484,155</u>
Noncurrent portion - face amount	862,168,428	945,155,582
Less: Unamortized discount	<u>(243,219,061)</u>	<u>(316,108,604)</u>
Noncurrent portion - present value	<u>618,949,367</u>	<u>629,046,978</u>
Total Prize Awards Payable - Net of Discount	<u>\$ 680,984,836</u>	<u>\$ 723,531,133</u>

Interest rates used to determine the present values ranged from 4.5 percent to 9.0 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2007, is summarized as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2008	\$ 101,955,294
2009	86,569,339
2010	69,539,616
2011	66,820,027
2012	66,743,027
2013 through 2017	324,636,885
2018 through 2022	186,820,185
2023 through 2027	47,599,349
2028 through 2032	12,156,667
2033 thereafter	<u>1,283,333</u>
Subtotal	964,123,722
Unamortized discount	<u>(283,138,886)</u>
Net Prize Liability	<u>\$ 680,984,836</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 \$207.9 million and \$200.7 million for the years ended June 30, 2007 and 2006, respectively. During fiscal year 2007, two Mega Millions jackpots were claimed in Ohio totaling \$63 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 \$43.5 million was paid to the respective prize winners.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Accrued Liabilities	\$ 1,982,166	\$ 1,934,018
Workers' Compensation - Current Portion	408,070	496,686
Compensated Absences - Current Portion	<u>248,814</u>	<u>229,323</u>
Total	<u>\$ 2,639,050</u>	<u>\$ 2,660,027</u>

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2007 and 2006 was as follows:

	2006	Additions	Reductions	2007
Prize Awards Payable from Restricted Assets - Net of Discount	\$ 629,046,978	\$ 121,141,214	\$ (131,238,825)	\$ 618,949,367
Workers' Compensation	3,832,162	-	(1,359,263)	2,472,899
Compensated Absences	2,826,030	2,417,908	(2,238,344)	3,005,594
Total Noncurrent Liabilities	<u>\$ 635,705,170</u>	<u>\$ 123,559,122</u>	<u>\$ (134,836,432)</u>	<u>\$ 624,427,860</u>
	2005	Additions	Reductions	2006
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	-	-	-	-
Workers' Compensation	2,978,746	853,416	-	3,832,162
Compensated Absences	2,471,191	2,399,453	(2,044,614)	2,826,030
Total Noncurrent Liabilities	<u>\$ 700,466,252</u>	<u>\$ 156,184,425</u>	<u>\$ (220,945,507)</u>	<u>\$ 635,705,170</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 Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of living adjustments to members of the Traditional Pension 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 2006 year end, member and employer contribution rates were consistent across all three plans (TP, MD and CO). The 2006 member contribution rates were 9.0 percent for members in classifications other than law enforcement and the employer contribution rate for state employers was 13.54 percent of covered payroll. OPERS increased the employer and employee contribution rate, effective January 1, 2007, to 9.5 percent and 13.77 percent, respectively. The Ohio Lottery's required contributions to PERS for the years ended June 30, 2007, 2006, and 2005 were \$1,666,241, \$1,672,828, and \$1,576,453 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 Pension and the Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees, under the Traditional and Combined plans, must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by 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 2006 employer contribution rate for state employers was 13.54 percent of covered payroll, of which 4.5 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, 2005.

Funding Method – The individual entry age 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, not to exceed 12 percent corridor.

Investment Return - The investment assumption rate for 2005 was 6.5 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 0.5 percent to 6.0 percent for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4.0 percent (the projected wage inflation rate).

OPEB are advance-funded on an actuarially determined basis. At December 31 2006, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,214. In fiscal years 2007, 2006 and 2005, \$829,252, \$718,634, and \$677,233, 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 \$11.1 billion at December 31, 2005. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 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. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, 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, 2007 and 2006 respectively:

	2007	2006
Department of Administrative Services (DAS) Expenditures		
Telecommunications	\$ 412,313	\$ 280,632
Computer	132,767	164,160
Rent	1,065,497	1,065,497
Printing	131,785	131,170
Miscellaneous	300,565	320,687
	<u>2,042,927</u>	<u>1,962,146</u>
Total DAS Expenditures		
Other Agency Expenditures	<u>1,075,434</u>	<u>978,741</u>
Total Transactions with other State Entities	<u>\$ 3,118,361</u>	<u>\$ 2,940,887</u>

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP) BASIS AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amount		Actual	Variance with Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Ticket Sales	\$ 2,080,400,000	\$ 2,231,700,000	\$ 2,257,758,271	\$ 26,058,271
Other Revenue	19,075,464	19,075,464	117,606,335	98,530,871
Total Revenue	2,099,475,464	2,250,775,464	2,375,364,606	124,589,142
Expenses				
Personal Services	25,457,016	25,457,016	23,126,734	2,330,282
Maintenance	17,954,156	17,954,156	17,712,791	241,365
Equipment	2,494,718	2,494,718	1,958,894	535,824
Game and Advertising Contracts	70,024,000	70,199,000	69,702,998	496,002
Subsidy	335,000	335,000	330,000	5,000
Prizes, Bonuses & Commissions	147,716,286	147,716,286	107,343,066	40,373,220
Annuity Prizes	138,918,557	174,085,092	153,953,303	20,131,789
Payments to Lottery Profits Education Fund	637,900,000	637,900,000	669,327,000	(31,427,000)
Total Expenses	1,040,799,733	1,076,141,268	1,043,454,786	32,686,482
Excess of Revenues over Expenses	\$ 1,058,675,731	\$ 1,174,634,196	\$ 1,331,909,820	\$ 157,275,624

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	\$ (39,215,217)
Prizes Redeemed at Agent Locations	1,077,931,356
Agent Bonuses and Commissions	139,960,610
Depreciation	821,987
Amortization of Discount of Prize Liabilities	85,343,487
Interest Expense - Borrower Rebates	23,888,261
Interest Expense - Capital Leases	-
Securities Lending Agent Fees	85,270
Loss on Equipment Disposal	(42,465)
Decrease in Fair Value of Investments	49,503,616
Encumbrances	(16,451,380)
Net Adjustments for Revenue and Expense Accruals	<u>10,084,295</u>
Excess of Revenues over Expenses	\$ <u>1,331,909,820</u>

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Dreams of
playing
Carnegie Hall.

STATISTICAL SECTION

OHIO LOTTERY - NET ASSETS
LAST TEN FISCAL YEARS
 (IN MILLIONS)

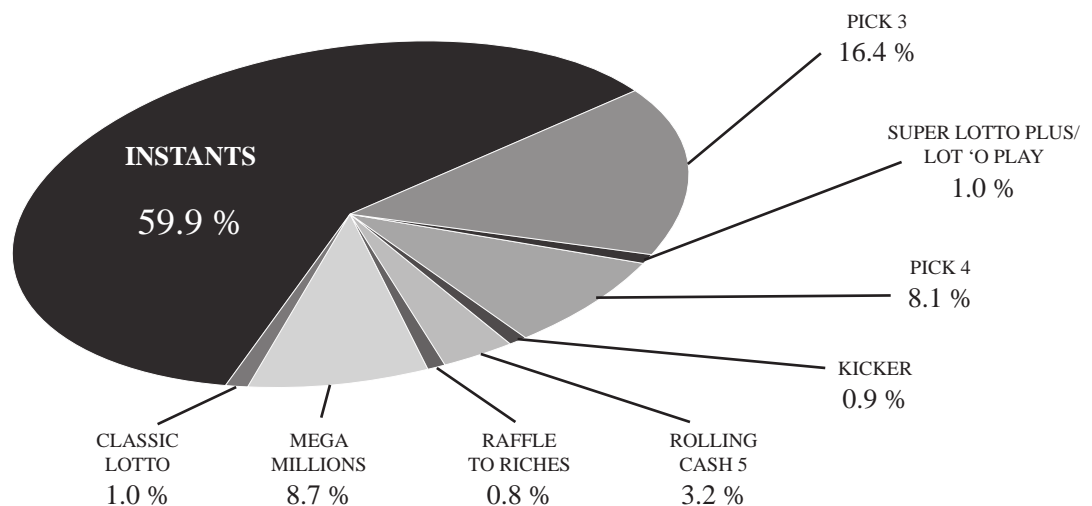
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
NET ASSETS										
Invested in Capital Assets										
- Net of Related Debt	\$ -	\$ -	\$ -	\$ 0.1	\$ 2.0	\$ 0.8	\$ 0.3	\$ 0.7	\$ 2.9	\$ 2.7
Unreserved	183.7	149.1	111.3	-	-	-	-	-	-	-
Restricted for Deferred Prizes	24.4	25.0	13.1	13.5	8.9	2.8	90.2	112.0	67.1	13.9
Restricted for Net Unrealized Gains on Restricted Investments	53.2	18.5	(17.6)	52.5	88.2	167.0	-	-	-	-
Unrestricted	-	-	-	58.4	35.1	30.2	33.0	39.4	59.6	73.8
TOTAL NET ASSETS	\$261.3	\$192.6	\$106.8	\$124.5	\$134.2	\$200.8	\$123.5	\$152.1	\$129.6	\$ 90.4

OHIO LOTTERY - REVENUES
LAST TEN FISCAL YEARS
 (IN MILLIONS)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
ON-LINE TICKET SALES										
Pick 3	\$ 421.1	\$ 399.4	\$ 427.3	\$ 419.0	\$ 409.2	\$ 401.8	\$ 396.8	\$ 387.7	\$ 377.3	\$ 370.9
Pick 4	124.0	125.1	144.6	150.7	154.6	154.2	165.2	170.1	175.7	183.0
Buckeye 5 / Rolling Cash 5 (2)	73.5	69.9	62.2	56.5	62.4	68.9	66.6	74.8	72.6	72.9
Super Lotto Plus / Lot 'O Play (1)	384.9	364.4	336.6	262.5	297.9	160.7	143.8	113.0	76.3	21.8
Classic Lotto (3)	-	-	-	-	-	-	-	-	-	21.8
Raffle To Riches	-	-	-	-	-	-	-	-	-	17.8
Kicker	60.5	57.2	52.9	42.9	45.0	27.3	24.5	19.9	21.6	21.3
Mega Millions	-	-	-	-	16.5	176.2	191.8	176.4	223.4	196.1
TOTAL ON-LINE TICKET SALES	1,064.0	1,016.0	1,023.6	931.6	985.6	989.1	988.7	941.9	946.9	905.6
INSTANT GAMES SALES	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	1,353.8
TOTAL TICKET SALES	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	2,259.4
TOTAL OTHER REVENUES (4)	230.4	127.3	79.2	180.2	124.1	153.7	(0.5)	96.2	28.7	68.1
TOTAL REVENUES	\$ 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	\$ 2,327.5

- (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 changed to Lot 'O Play.
- (2) In October 2004, the Buckeye 5 game was changed to Rolling Cash 5.
- (3) In January 2007, the Classic Lotto game replaced Super Lotto Plus / Lot 'O Play.
- (4) Other revenues include adjustments to investment income for unrealized gains/losses as a result of GASB 31 reporting.

OHIO LOTTERY - SALES BY GAME FISCAL YEAR 2007



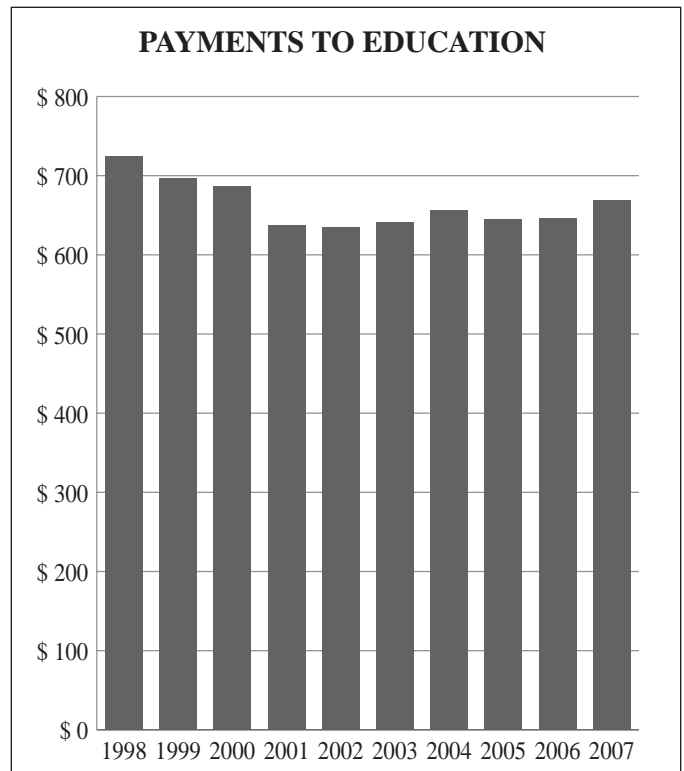
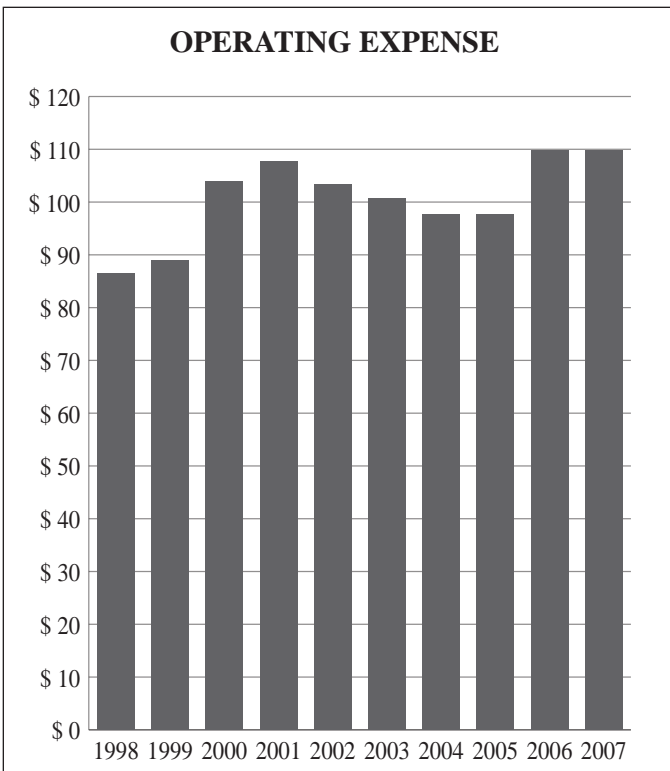
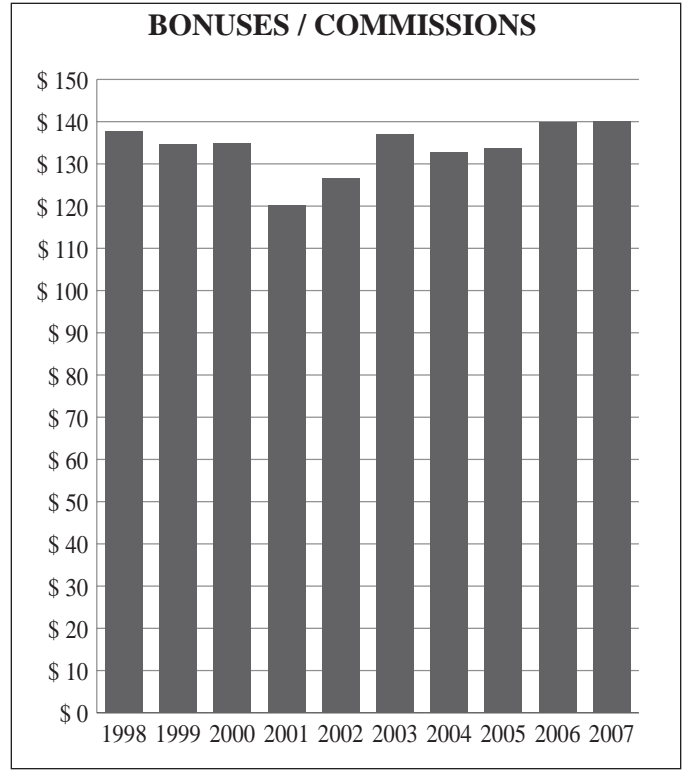
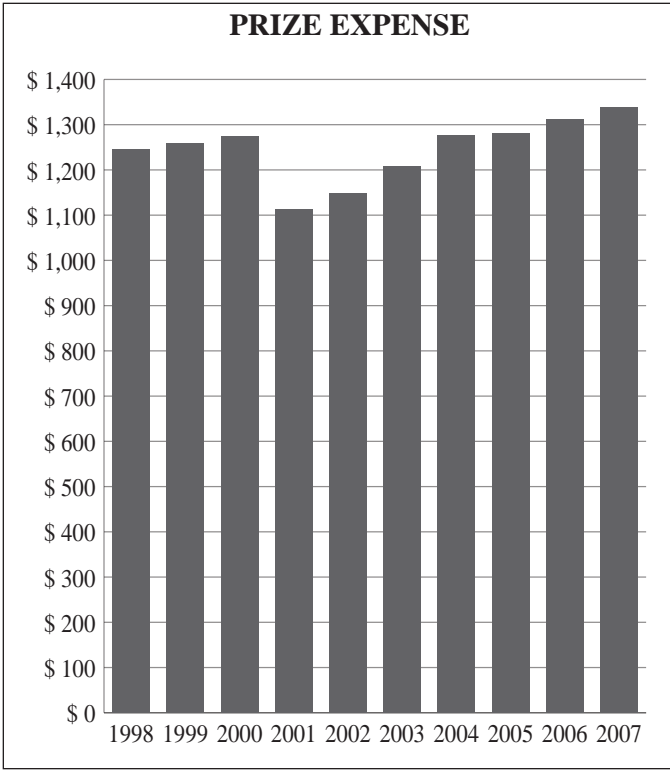
**OHIO LOTTERY - PRIZE PAYOUT AS A PERCENTAGE OF SALES
LAST TEN FISCAL YEARS
(IN MILLIONS)**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SALES										
On-Line	\$ 1,064.0	\$ 1,016.0	\$ 1,023.6	\$ 931.6	\$ 985.6	\$ 989.1	\$ 988.7	\$ 941.9	\$ 946.9	\$ 905.6
Instant	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	1,353.8
Total Sales	<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>	<u>\$ 2,259.4</u>
PRIZE EXPENSE										
On-Line	\$ 557.6	\$ 568.9	\$ 575.0	\$ 488.4	\$ 508.0	\$ 502.9	\$ 512.3	\$ 486.2	\$ 467.6	\$ 426.6
Instant	687.1	690.9	700.0	624.4	640.1	705.2	763.7	794.6	843.5	911.8
Total Prize Expense	<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>	<u>\$ 1,338.4</u>
PRIZE PAYOUT PERCENTAGE										
On-Line	52.4%	56.0%	56.2%	52.4%	51.5%	50.8%	51.8%	51.6%	49.4%	47.1%
Instant	60.7%	61.2%	62.1%	63.2%	64.2%	64.8%	65.5%	65.3%	66.2%	67.4%

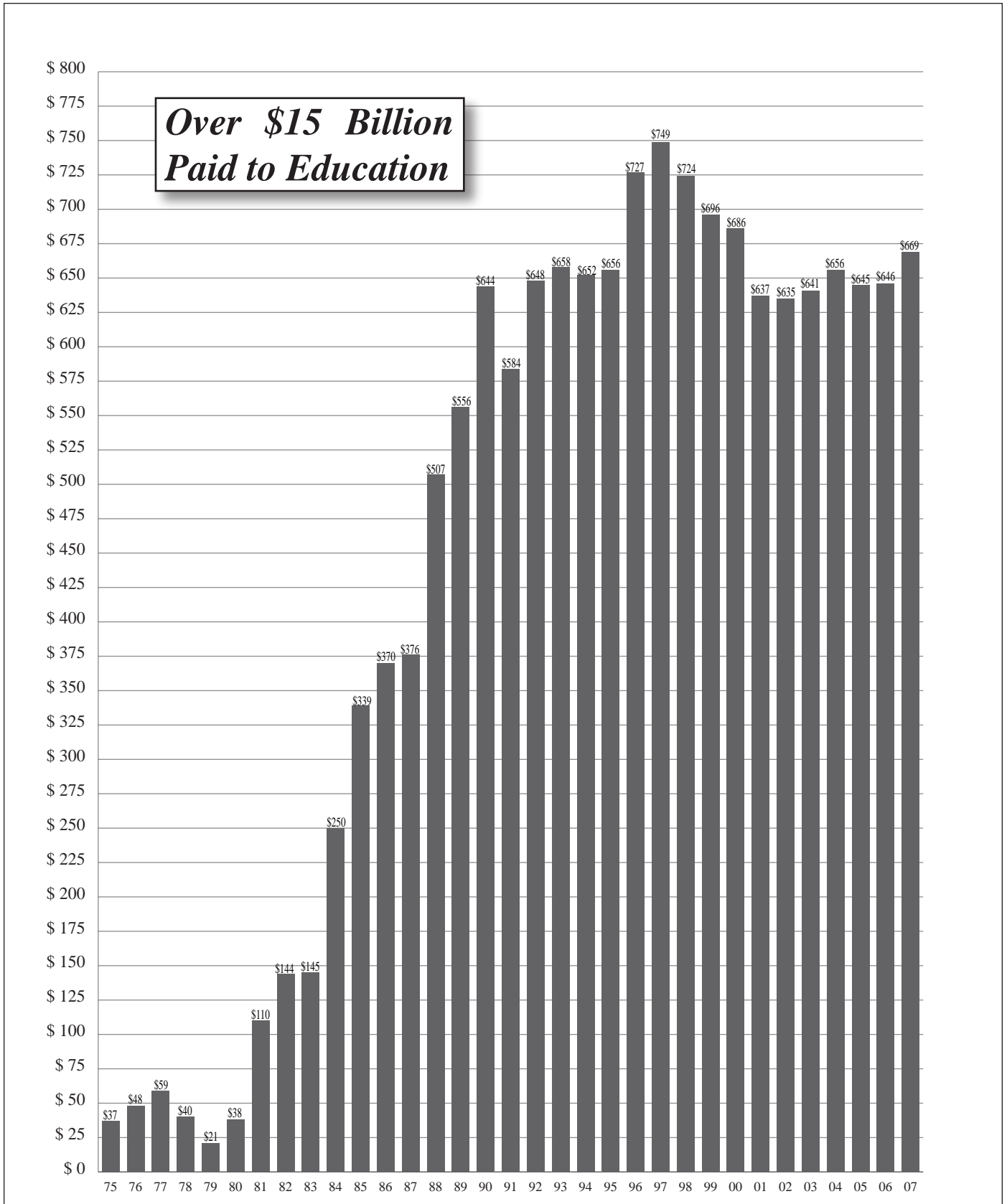
**OHIO LOTTERY - EXPENSES AS A PERCENTAGE OF SALES
LAST TEN FISCAL YEARS
(IN MILLIONS)**

Fiscal Year	Total Ticket Sales	Prizes	Prizes as % of Total Sales	Bonuses/ Commissions	Bonuses/ Comm. %	Operating Expenses	Operating Expenses %	Payments to Education	Payments to Education %
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	2,220.9	1,311.3	59.0%	139.8	6.3%	109.8	4.9%	646.3	29.1%
2007	2,259.4	1,338.4	59.2%	140.0	6.2%	109.8	4.9%	669.3	29.6%

OHIO LOTTERY - EXPENSES AND PAYMENTS
LAST TEN FISCAL YEARS
 (IN MILLIONS)



**OHIO LOTTERY - HISTORY OF PAYMENTS TO EDUCATION
FROM INCEPTION
(IN MILLIONS)**



LOTTERY INDUSTRY STATEMENT OF OPERATIONS

Rank by Sales (a) Fiscal Year 2006 (b) (IN MILLIONS)

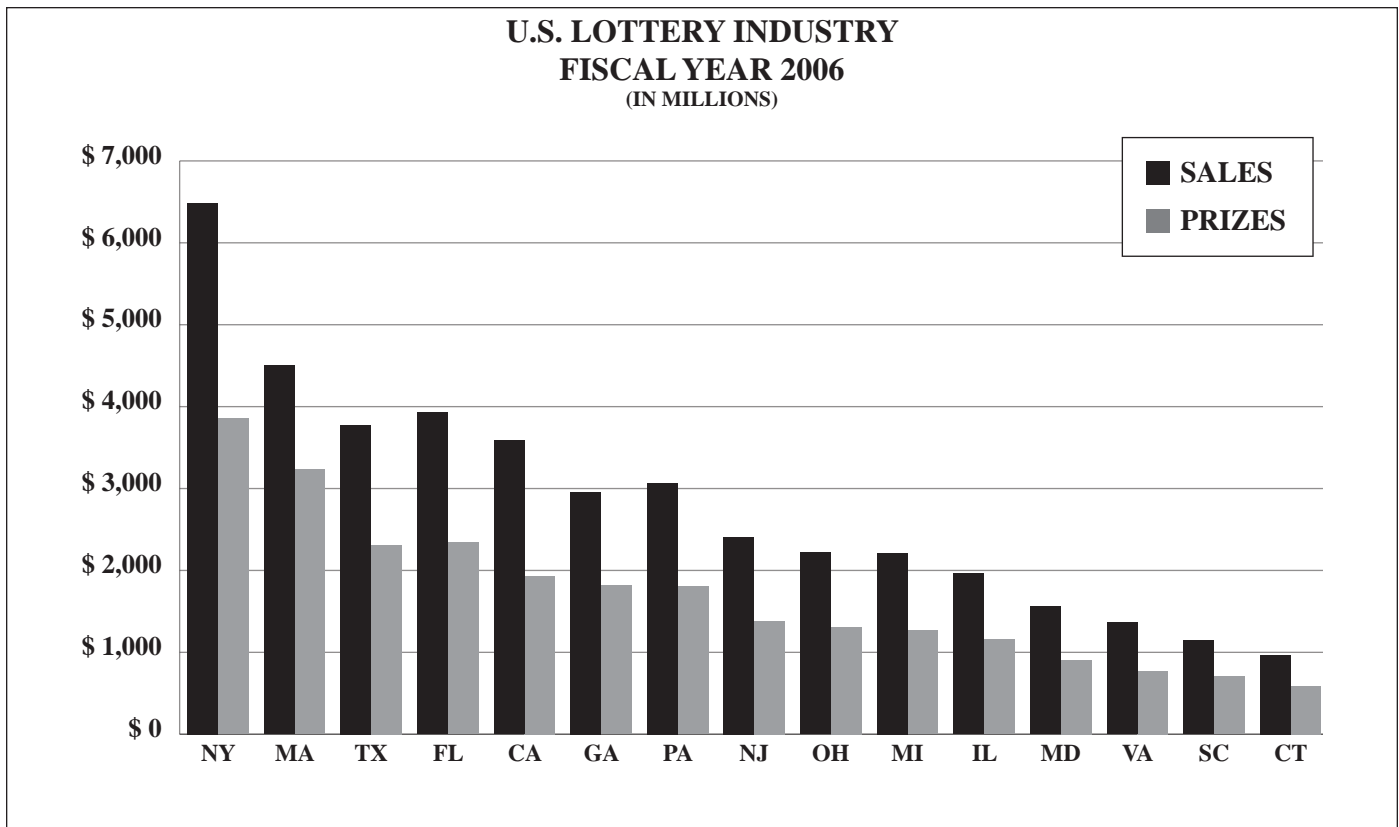
Lottery	Population	Total Ticket Sales	Prizes	Bonuses/Commissions	Operating Expenses	Prizes as % of Total Sales	Per Capita Sales
1 New York	19.3	\$ 6,487.1	\$ 3,853.3	\$ 511.1	\$ 271.7	59.4%	\$ 352
2 Massachusetts	6.4	4,501.2	3,234.6	255.0	83.3	71.9%	699
3 Texas	23.5	3,774.7	2,310.6	191.6	184.9	61.2%	161
4 Florida	18.1	3,929.0	2,340.9	224.6	147.0	59.6%	217
5 California	36.5	3,585.0	1,932.7	252.5	160.5	53.9%	98
6 Georgia	9.4	2,955.4	1,815.6	208.3	121.0	61.4%	316
7 Pennsylvania	12.4	3,070.3	1,804.9	170.7	131.8	58.8%	247
8 New Jersey	8.7	2,406.5	1,380.4	133.6	88.7	57.4%	276
9 OHIO	11.5	2,220.9	1,311.1	139.8	109.8	59.0%	193
10 Michigan	10.1	2,212.4	1,268.2	165.3	105.4	57.3%	219
11 Illinois	12.8	1,964.3	1,158.2	99.3	102.0	59.0%	153
12 Maryland	5.6	1,560.9	904.1	102.7	54.5	57.9%	278
13 Virginia	7.6	1,365.3	773.6	76.2	69.7	56.7%	179
14 South Carolina	4.3	1,144.6	702.3	81.1	46.7	61.4%	265
15 Connecticut	3.5	970.3	587.4	54.1	45.8	60.5%	277
Top 15 Average U.S.	12.65	\$ 2,809.9	\$ 1,691.8	\$ 177.7	\$ 114.8	60.2%	\$ 262

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

The fiscal year ends June 30, 2006 for all US states except New York (March 31), Texas (August 31), and Michigan (September 30).

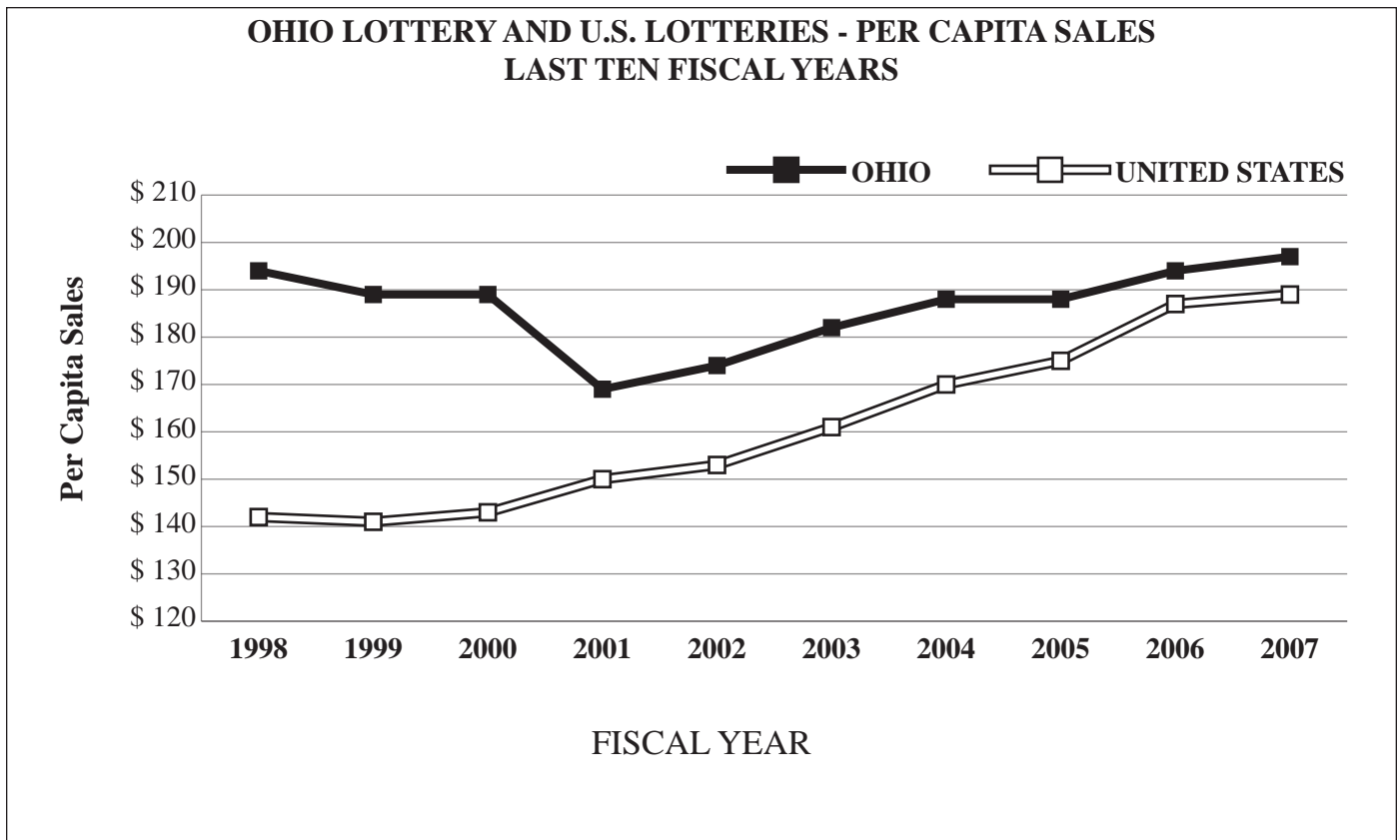
The population figures used for the U.S. states were published by the Bureau of the Census on July 1, 2006.

Source: "La Fleur's 2007 World Lottery Almanac"

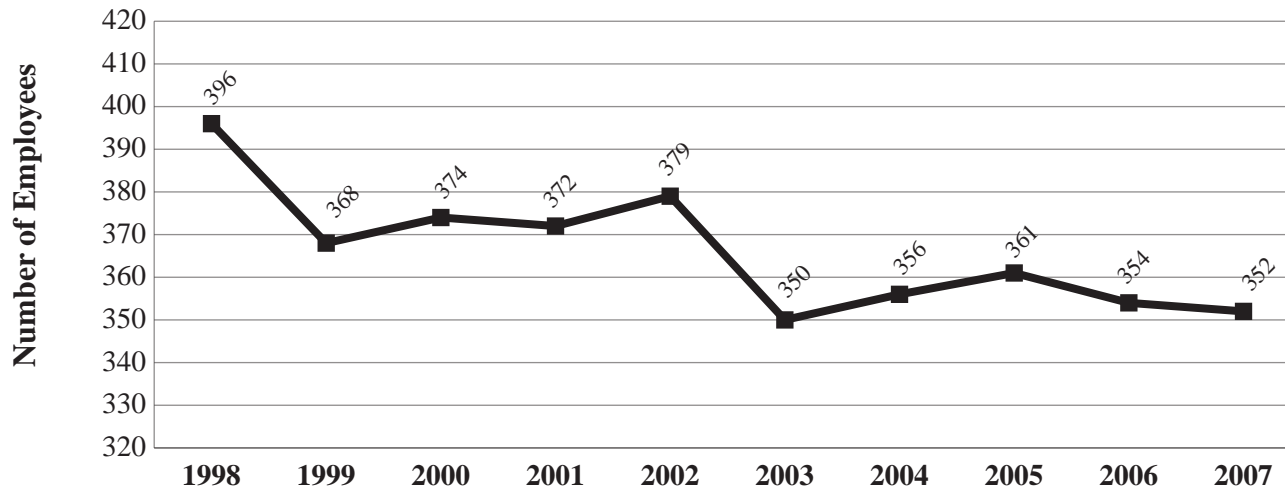


OHIO LOTTERY - SALES PER CAPITA LAST TEN FISCAL YEARS

Fiscal Year	Population (Millions)	Total Ticket Sales (Millions)	Per Capita Sales	National Average
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
2007	11.47	2,259.4	197	189
Average	11.41	\$ 2,126.6	\$ 186	\$ 161

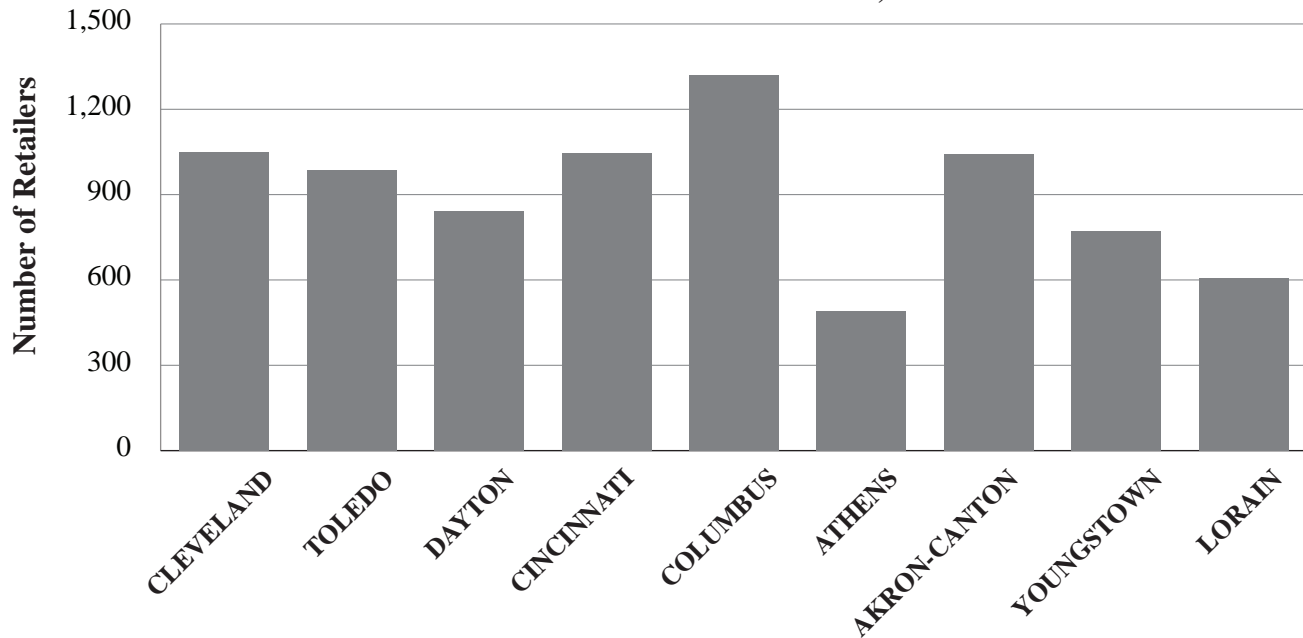


**OHIO LOTTERY - NUMBER OF EMPLOYEES
LAST TEN FISCAL YEARS**



**OHIO LOTTERY - RETAILERS BY REGION
as of June 30, 2007 (Active Retailers Only)**

TOTAL LOTTERY RETAILERS: 8,154



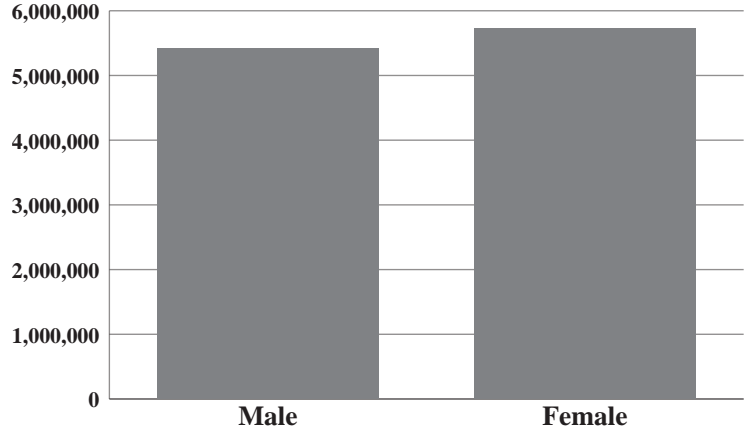
**OHIO LOTTERY - NUMBER OF RETAILERS
LAST TEN FISCAL YEARS**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
On-Line & Instant	6,226	6,273	6,363	7,066	7,183	7,199	7,304	7,374	7,806	8,144
Instant Only	3,087	3,058	2,924	2,112	1,836	1,683	1,497	1,380	753	10
TOTAL RETAILERS	9,313	9,331	9,287	9,178	9,019	8,882	8,801	8,754	8,559	8,154

STATE OF OHIO DEMOGRAPHICS

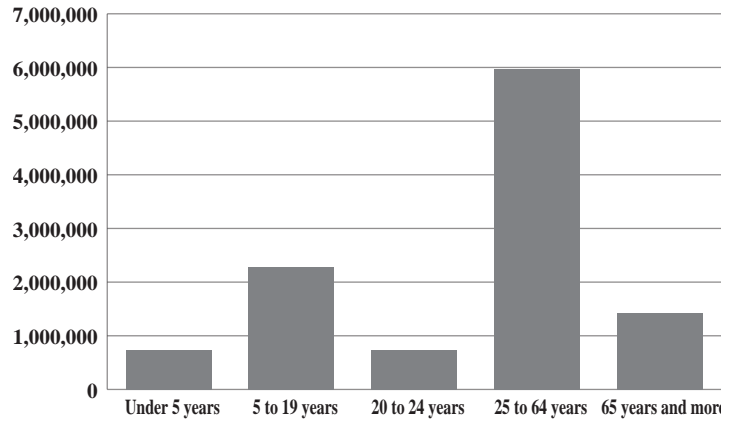
Population by Gender

	Number	Percent
Male	5,423,416	48.62%
Female.....	5,732,190	51.38%
Total Population	11,155,606	100.0%



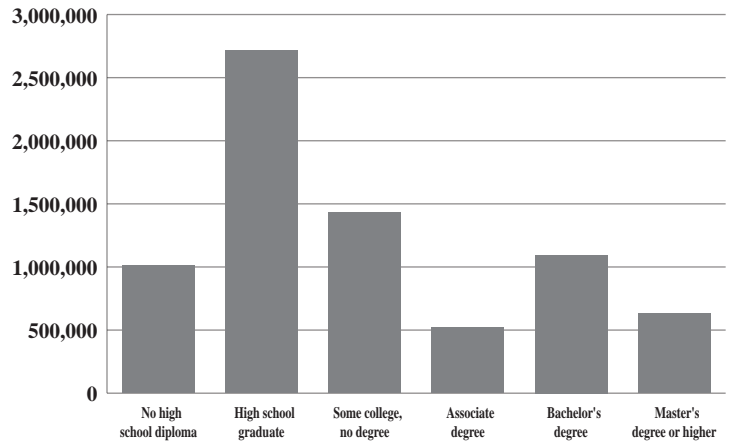
Population by Age

	Number	Percent
Under 5 years	735,204	6.6%
5 to 19 years	2,279,537	20.4%
20 to 24 years	735,604	6.6%
25 to 64 years	5,974,277	53.6%
65 years and more	1,430,984	12.8%
Total Population	11,155,606	100.0%
Median Age	37.6	



Education

	Number	Percent
No high school diploma	1,013,323	13.7%
High school graduate	2,715,259	36.7%
Some college, no degree	1,432,994	19.4%
Associate degree	518,113	7.0%
Bachelor's degree.....	1,094,740	14.8%
Master's degree or higher	630,832	8.5%
Persons 25 years and over ...	7,405,261	100.0%

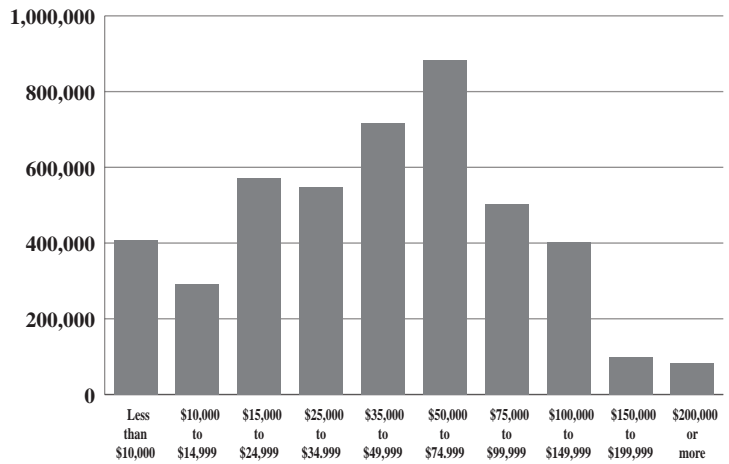


Source: U.S. Census Bureau - Ohio General Demographic Characteristics 2005

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

Household Income

Income	Number	Percent
Less than \$10,000	408,866	9.1%
\$10,000 to \$14,999	293,117	6.5%
\$15,000 to \$24,999	572,108	12.7%
\$25,000 to \$34,999	547,699	12.1%
\$35,000 to \$49,999	717,620	15.9%
\$50,000 to \$74,999	883,623	19.6%
\$75,000 to \$99,999	502,469	11.1%
\$100,000 to \$149,999	401,731	8.9%
\$150,000 to \$199,999	98,273	2.2%
\$200,000 or more	82,315	1.8%
Total Households	4,507,821	100.0%
Median Household Income.....	\$43,493	

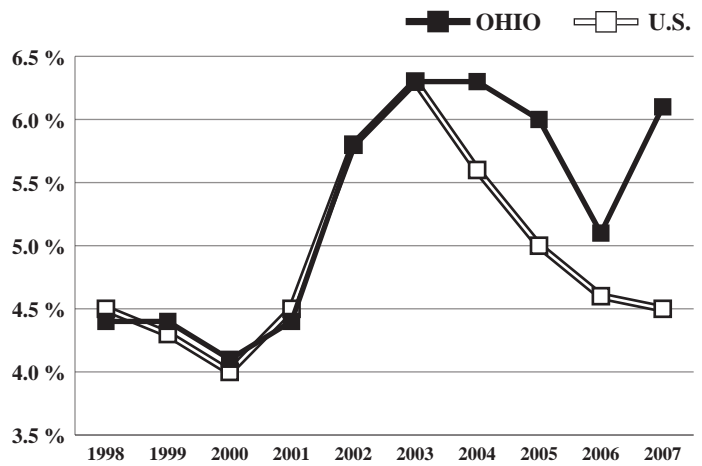


Unemployment Rates

Seasonally Adjusted

Month - Year	Ohio	U.S.
Jun-1998.....	4.4%	4.5%
Jun-1999.....	4.4%	4.3%
Jun-2000.....	4.1%	4.0%
Jun-2001.....	4.4%	4.5%
Jun-2002.....	5.8%	5.8%
Jun-2003.....	6.3%	6.3%
Jun-2004.....	6.3%	5.6%
Jun-2005.....	6.0%	5.0%
Jun-2006.....	5.1%	4.6%
Jun-2007.....	6.1%	4.5%

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



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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 29, 2008**