



Dave Yost • Auditor of State

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY

TABLE OF CONTENTS

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

This page intentionally left blank.



Dave Yost • Auditor of State

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

Ohio Lottery Commission
Cuyahoga County
615 Superior Avenue, N.W.
Cleveland, Ohio 44113

To the Commissioners:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of each major fund of the Ohio Lottery Commission, Cuyahoga County, (the Ohio Lottery) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Ohio Lottery's basic financial statements and have issued our report thereon dated September 30, 2016, wherein we noted the summarized comparative information has been derived from the Ohio Lottery's financial statements as of and for the year ended June 30, 2015 and, in our report dated October 1, 2015, we expressed unmodified opinions on the respective financial position of each major fund.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Ohio Lottery's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Ohio Lottery's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Ohio Lottery's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Ohio 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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Ohio Lottery's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Ohio Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

September 30, 2016

The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio



Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2016



The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2016

Prepared by the
Ohio Lottery Office of Finance

John R. Kasich, Governor
Dennis R. Berg, Executive Director
Patrick McDonald, Commission Chairperson
Gregory A. Bowers, Finance Director



TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	6
GFOA Certificate of Achievement.....	13
Structure of Organization	14
Principal Officials.....	15

FINANCIAL SECTION

Independent Audit	18
Management Discussion and Analysis	21
Basic Financial Statements:	
Statement of Net Position - Major Funds.....	28
Statement of Revenues, Expenses, and Changes in Fund Net Position - Major Funds	30
Statement of Cash Flows - Major Funds.....	31
Notes to the Basic Financial Statements	32
Required Supplementary Information	45

STATISTICAL SECTION

Introduction	48
--------------------	----

OHIO LOTTERY STATISTICS

Net Position	49
Revenues and Sales	50
Prize Payout and Expenses	51
Video Lottery Terminals (VLTs)	55
Lottery Industry Statistics	56
Ohio Lottery Comparative Statistics	57
Employee Data	58
Retailer Data.....	59

STATE OF OHIO STATISTICS

State of Ohio Demographics	60
----------------------------------	----

• INTRODUCTORY SECTION •



Miami Valley Hospital employees pool together and win

There's nothing like a group win and that's what happened to 23 co-workers from Miami Valley Hospital Oct. 24, 2015. They played and won \$50,000 in the Oct. 24 Powerball drawing. The work pool matched four out of five numbers, along with the Powerball, for that drawing. They had the honorary check made out to the order of "Already Spent." They purchased the winning ticket from 202 Drive Thru in Tipp City.

Mansfield man has his wife to thank for his big win

Ricky Rhineboldt of Mansfield had his wife to thank after winning \$5 million in the March 8 Mega Millions drawing. Ricky was going to change the old auto pick numbers he had been playing for years, but his wife encouraged him to stick with them. He planned to pay off bills and might buy a new home.



Truck driver has luck when playing Ohio Lottery

Stilbert Henry of Wheatley Heights, NY won \$50,000 playing \$500 Million Spectacular while driving through Ohio in July 2015. He enjoys playing in all the states he drives through, but especially Ohio.



Maria Gibson • \$25,417 Pick 5 winner



Toledo couple wins big

Frank and Dorothy Czekaj of Toledo won \$2 Million in the TPD \$100X the Money drawing on January 1, 2016. They'll use the windfall for their grandchildren's college expenses.



Two brothers listen to their mom

Jay Young and Chris Saddler, both of Garfield Heights each won \$25,000 playing in the Sept. 28, 2015 Pick 5 drawing. Their mom gave Jay the numbers to play and he in turn gave them to Chris. They both purchased their tickets at Dunham Beverage in Maple Heights.



THE OHIO LOTTERY COMMISSION
615 WEST SUPERIOR AVENUE
CLEVELAND, OHIO 44113-1879
1-800-686-4208

SEPTEMBER 30, 2016

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

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Ohio Lottery Commission (the Ohio Lottery) for the fiscal year ended June 30, 2016. The Office of Finance of the Ohio Lottery has prepared this report in accordance with Generally Accepted Accounting Principles (GAAP). The Ohio Lottery, an agency of the State of Ohio (the State), was created in 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 offer entertaining games that maximize profits for K-12 public education.

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

BACKGROUND

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

To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Ticket sales increased significantly in the early 1990s. In 2002, Ohio began selling Mega Millions, a multi-jurisdictional jackpot game and now participates in the Powerball game. In August 2008, KENO debuted in Ohio and now represents our biggest opportunity for growth. As of June 30, 2016, 44 states, plus the District of Columbia, the U.S. Virgin Islands and Puerto Rico operate lotteries using computer-based draw games and instant "scratch off" games.

Video Lottery gaming was introduced in Ohio when the Governor signed Executive Order 2011-22K, which authorized the Ohio Lottery to amend and adopt rules necessary to implement a video lottery program at Ohio's seven (7) horse racing facilities. The Lottery's role is to regulate the program with the goal of generating revenue for the State of Ohio while maintaining integrity and transparency.

ECONOMIC OUTLOOK

According to the Bureau of Economic Analysis (BEA), personal income in the United States increased 0.3 percent in the final quarter of fiscal year 2016. The report indicates that personal income grew in all 50 states and the District of Columbia, and growth accelerated in 11 of those states. BEA targeted a number of factors behind the increase in personal income, which include increases in private wages and salaries, nonfarm proprietor's income, disposable personal income (DPI), and interest and dividend income. Of the industries tracked by the BEA, the largest percentage of earnings increases were in the construction, health care & social assistance, retail trade, and professional & technical services. All told, twenty-two of the twenty-four industries tracked saw earnings growth.

The US unemployment rate for June 2016 was 4.9 percent, which is 0.4 percent less than the previous year. In comparison to June 2015, the three main industries where employment growth increased were leisure & hospitality, healthcare & social assistance, and financial activities.

Ohio ended the final quarter of fiscal year 2016 with a 1.0 percent increase in personal income over the previous quarter. Ohio ranked 24th among states for change in income between the quarters. Throughout fiscal year 2016, the unemployment figures in Ohio have trended slightly upward, from 4.6 percent in September of 2015 to 5.0 percent as of June 2016. Ohio's unemployment rate currently sits at 0.1 percent higher than the national rate.

Many factors in the national and state economies have a direct impact on revenue generation at the Ohio Lottery. As smaller retail outlets close, national big box retailers and consumer warehouse clubs open in their place. The Ohio Lottery's revenues are negatively impacted by this national and statewide trend because these retailers do not consider lottery products to be part of their business model, though the Lottery continues to make inroads into these markets.

Fiscal year 2016 marked the eleventh consecutive year of profit growth for the Ohio Lottery. Total revenues increased due in part to a \$1.5 billion jackpot for Powerball in January 2016, the ongoing success of KENO games, and to the continuing strong performances from seven VLT facilities. The implementations of the new racinos are in keeping with the Ohio Lottery's strategic plan to continually innovate in an effort to maintain player interest. Additionally, as consumers scale back on discretionary spending, Ohio Lottery games offer an affordable entertainment alternative.

LOTTERY PRODUCTS

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

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



PICK 3 was Ohio's first online game. Players select a three-digit number from 000 to 999 and can play the numbers straight (numbers in exact order), boxed (numbers in any order) or as backup bets (players can win either or both ways). A wheel wager can also be placed. This wager is, in essence, equivalent to a straight bet being made for each number combination. Pick 3 sales for fiscal year 2016 were \$343.0 million, or 11.2 percent of total Ohio Lottery sales.



PICK 4 is played similarly to Pick 3. Players select a four-digit number from 0000 to 9999 and may play it straight, boxed or in back-up bets. Sales for fiscal year 2016 were \$200.3 million, or 6.5 percent of total Ohio Lottery sales.



PICK 5 began in August 2012 and is played similarly to Pick 3 and Pick 4. Players select a five-digit number from 00000 to 99999 and may play it straight, boxed or in back-up bets. Sales for fiscal year 2016 were \$36.4 million or 1.2 percent of total Ohio Lottery sales. Pick 3, Pick 4 and Pick 5 are drawn middays and evenings Sunday through Saturday.



ROLLING CASH 5 is a lotto game in which players select five numbers from a pool of 1 to 39, with overall odds of winning any prize of 1 in 9. The top prize starts at \$100,000 and increases if not won. Sales for fiscal year 2016 were \$60.3 million, or 2.0 percent of total Ohio Lottery sales. Drawings are held Sunday through Saturday evenings.



CLASSIC LOTTO is an in-state lotto game in which players select six numbers from a pool of 1 to 49. To win the jackpot, all six numbers must be matched. The jackpot starts at \$1.0 million and increases if not won. Drawings are held on Monday, Wednesday, and Saturday evenings. Classic Lotto sales for fiscal year 2016 were \$31.0 million, or 1.0 percent of total Ohio Lottery sales.

KICKER is an add-on game, with a top prize of \$100,000, which may only be purchased along with Classic Lotto. KICKER was reinstated in April 2012. Sales for fiscal year 2016 were \$4.6 million, or 0.2 percent of total Ohio Lottery sales.



MEGA MILLIONS is a multi-state lotto game. For each wager, players select five numbers from a pool of 1 to 75 and select one Mega ball number from a second pool of 1 to 15. To win the jackpot, all six numbers must match. The jackpot starts at \$15.0 million and increases a minimum of \$5.0 million if not won.

MEGAPLIER was added to Mega Millions in January 2011. Players may select the Megaplier option for a chance to increase their winnings at the cost of \$1 for each dollar wagered on Mega Millions. The Megaplier number drawn can be 2, 3, 4 or 5, and can increase winnings by that Megaplier number drawn. Megaplier multiplies the winnings by the number drawn for prizes up to \$5,000. If a player selects the Megaplier option and then matches all five numbers but not the Mega ball, the prize is automatically \$1.0 million. Drawings are held on Tuesday and Friday evenings. Mega Millions/Megaplier sales for fiscal year 2016 were \$102.2 million, or 3.3 percent of total Ohio Lottery sales.



EZPLAY is a hybrid instant/online game. EZPLAY combines the instant win experience with an online game component. The player purchases an online ticket that consists of two sections, a draw section followed by a play section. Players then match the two sections to determine if they are a winner. Game themes and ticket selling prices modify easily to keep the product line fresh. In fiscal year 2013, a progressive jackpot component was added to the game portfolio, which now comprises roughly 83 percent of EZPLAY sales. Sales for fiscal year 2016 were \$115.2 million, or 3.8 percent of total Ohio Lottery sales.



EZPLAY TAP is a series of EZPLAY® Games that include graphical touch-screen style play. The Multi-Purpose Next Generation (MPNG) machines are an exclusive, legal gaming option offered by the Ohio Lottery for Veteran and Fraternal Organizations. This gaming system went live in October 2014 with six hundred and seventy machines. Several different games are loaded into each machine with play prices starting at twenty-five cents. These games are normally structured to generate an 85-90 percent payout. Sales for fiscal year 2016 were \$31.5 million, or 1.0 percent of total Ohio Lottery sales.



EZPLAY QUICKKENO is a new style of EZPLAY games that are based on the traditional KENO game. It requires a new Multi-Play QuickKeno (MPQK) touch screen terminal which the Ohio Lottery installed and activated 1,000 at various retailers on June 19, 2016. QuickKeno game prices start at \$0.25, and they offer players multiple ways to win. Sales for fiscal year 2016 were \$743,000, which came to less than 1.0 percent of total Ohio Lottery sales.



KENO is a draw game in which players choose from one to 10 numbers (also called spots) for a top prize of \$100,000 by matching 10 of 20 numbers drawn. The drawings are held every day starting at 6:04 a.m. and occur every four minutes, ending at 2:28 a.m. The Ohio Lottery introduced Booster in February 2010. Players may select the Booster option for a chance to increase their winnings at the cost of \$1 for each dollar wagered on KENO. The Booster number drawn can be 1, 2, 3, 4, 5, or 10 and can increase winnings 2, 3, 4, 5, or 10 times. Combined KENO/Booster sales for fiscal year 2016 were \$365.9 million, or 12.0 percent of total Ohio Lottery sales.



POWERBALL is a multi-state, lotto game launched in Ohio in April 2010. For each wager, players select five numbers from a pool of 1 to 69 and select one Powerball number from a second pool of 1 to 26. To win the jackpot, all six numbers must match. The jackpot starts at \$40.0 million and increases if not won. Drawings are held on Wednesday and Saturday evenings.

Players may select the **POWER PLAY** feature that allows a winner to increase the original prize amount. Powerball players winning any prize other than the jackpot will win a larger cash prize. Combined Powerball/Power Play sales for fiscal year 2016 were \$193.5 million or 6.3 percent of total Ohio Lottery sales.



LUCKY FOR LIFE is a small-scale multi-state game that was introduced in Ohio in November 2015. Wagers cost \$2 and drawings are held on Mondays and Thursdays. The Top Prize is \$1,000 a day for life and the Second Prize is \$25,000 a year for life. The top prize is divided equally among multiple winners. Sales for fiscal year 2016 were \$14.1 million, or 0.5 percent of total Ohio Lottery sales.

INSTANT GAMES are played by scratching the latex covering off a play area to reveal pre-printed combinations. There are different ways to win in an instant or “scratch off” game, such as matching three like dollar amounts, symbols, or letters. If the correct combinations appear, the player becomes an “instant winner” and may immediately submit a claim to cash the ticket. Instant games have been the Ohio Lottery’s dominant product since fiscal year 1997. For fiscal year 2016, instant game sales equaled nearly \$1.6 billion or 51.0 percent of total ticket sales. The Ohio Lottery has successfully sold instant games at the \$1, \$2, \$3, \$5, \$10, \$20 and \$30 price points. The Ohio Lottery continues to feature several “spotlight” instant games, which are games sold at \$10 and \$20 price points with attractive, higher prize payouts. As of April 28, 2016, Ohio’s Monopoly Millionaires’ Club joined the lineup of instant games. There is a wide range of price points, \$1, \$2, \$5, or \$10, to attract a variety of customers. Customers can enter their non-winning tickets through MyLotto Rewards® for an exclusive trip to Las Vegas with an opportunity to play on the Monopoly Millionaires’ game show. Retailers also get a chance for a trip to Las Vegas in the Monopoly Millionaires’ Club retailer drawing by selling a book of tickets. One retailer from each Ohio Lottery region will win a trip to Las Vegas.

VIDEO LOTTERY was introduced to the State of Ohio in 2012 when Governor Kasich signed Executive Order 2011-22K, which authorized the Lottery to amend and adopt rules necessary to implement a video lottery program at Ohio’s seven (7) horse racing facilities. On June 1, 2012, Scioto Downs in Columbus began video gaming with 1,787 video lottery terminals; as of June 30, 2016, there were 10,793 terminals at seven different racetracks in Ohio. A Video Lottery Terminal (VLT) is a stand-alone device containing a random-number generator. Each VLT connects to a centralized computer system that allows the Lottery to monitor game play and collect revenue activity. The Central Monitoring System (CMS) keeps track of money deposited in a terminal, usage, wins and payouts, machine maintenance and cash removal. Game themes are approved by the Ohio Lottery Commissioners, and independently tested and certified, before placed into operation. The minimum percentage payout in Ohio is 85.0 percent. The racetrack VLT total revenue for fiscal year 2016 was \$868.9 million, with the Ohio Lottery receiving \$291.1 million as commissions earned. Ohio is one of seven state lotteries to regulate video gaming at racetracks.

MAJOR INITIATIVES

In 1987, a statute designated Ohio Lottery profits to fund Ohio’s (K-12) public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2016, The Ohio Lottery transferred \$1.06 billion to the LPEF, making this the highest profit transfer in the Ohio Lottery’s 42-year history, surpassing transfers made the prior year by \$76.1 million. This represented the eleventh consecutive year of profit growth. With this transfer, the Ohio Lottery has provided more than \$22.3 billion in profits to the State of Ohio. Additionally, the Ohio Lottery made several noteworthy achievements during fiscal year 2016.

Fiscal year 2016 marked the first fiscal year that all seven of the Ohio Lottery’s VLT racinos were in operation for a complete 12-month period. They generated \$868.9 million in revenue from 10,793 VLT machines. This was \$96.0 million more than the prior fiscal year. Of this amount, the operators received \$574.9 million, while the Lottery’s share of revenue equaled \$291.1 million, and \$2.9 million went to Problem Gambling Services.

On October 4, 2015, the new Powerball® game went on sale with a change to the game matrix. This change lengthens top prize odds and shortens overall game odds. On January 13, 2016, the Powerball® jackpot grew to an incredible and record-breaking \$1.586 billion. Sales during this sequence of 19 draws were \$96.4 million. The profit generated from this record jackpot was approximately \$39.8 million. When compared to fiscal year 2015, the multi-state category grew by \$91.6 million or 42.0 percent.

Lucky for Life, a multi-state draw game, made its debut on November 15, 2015, making Ohio the 17th state lottery to join this game. The top prize is \$1,000 a day for life and the second prize is \$25,000 a year for life. This game provides customers with a new play option that offers attractive life prizes. Since joining the Lucky for Life game, the Ohio Lottery has had one jackpot winner, and three second-tier prizewinners, with sales over \$14.1 million.

EZPLAY QuicKeno launched on June 19, 2016. The Ohio Lottery acquired one-thousand MPQK (Multi-Play QuicKeno) terminals to be placed at various bar and restaurant locations. QuicKeno games are a new style of EZPLAY® games based on the traditional Keno game using a touch screenplay style. They are highly interactive and visually entertaining. Sales for the first twelve days were \$743,000.

On December 30, 2015, an Ohio Lottery retailer, in Bridgeport, Ohio sold a Classic Lotto jackpot ticket worth \$17.4 million. The winner claimed the prize in a trust account and took the cash option of \$6.2 million. This netted the State of Ohio \$348,063 in tax revenue.

In November, on Friday the thirteenth, one lucky Ohio Lottery customer won the \$200 million Mega Millions jackpot in Westerville, Ohio. The retailer received a \$100,000 bonus for selling the winning ticket. The winner chose the cash option and received \$86.8 million after federal and state taxes were withheld. Ohio received \$4.9 million in state tax revenue.

The Ohio Lottery encourages players to enjoy Ohio Lottery games, but at the same time, Play Responsibly. The Ohio Lottery offers players updated and easily accessible information regarding various Outreach Programs for Problem Gambling; speakers available for groups; brochures, helpline telephone numbers and websites. In May 2012, the Ohio Lottery Commission, along with the Ohio Casino Control Commission, the Ohio Racing Commission, and Ohio Mental Health Services formed a partnership aimed at encouraging responsible gambling in Ohio. This organization is Ohio for Responsible Gambling (ORG). By these four state agencies working together, it has led to expanded problem gambling services that benefit Ohioans. This year, Ohio for Responsible Gambling won three national awards from the National Council on Problem Gambling for their collective campaign "Be the 95%". In fiscal year 2016, the Ohio Lottery contributed \$2.9 million from VLT sales for Problem Gambling in Ohio.

The Ohio Lottery's mission is to offer entertaining games that maximize profits for K-12 public education, with the vision to create a fun and innovative gaming experience. During fiscal year 2017, the Lottery will be offering new games, such as the Ohio 50/50, which is the first statewide weekly raffle drawing. Along with offering fair and equitable games, the Ohio Lottery continues its commitment to the community to enhance and expand its various sponsorship programs, such as Partners in Education, MBE/EDGE Programs, and Community Outreach. Moreover, in order to appeal to a more diverse player and retailer base, the Ohio Lottery plans to implement various social media opportunities. Both players and retailers can access the Ohio Lottery via email, blog, smartphone, twitter, Facebook, and the internet. Going forward, into fiscal year 2017, the Ohio Lottery continues to develop new ways to enhance its current product offerings and maximize operational efficiency and effectiveness. The Lottery will benchmark Ohio's sales results against peer lottery states and review best practices in order to improve Ohio's current lottery products.

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 Annuity 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 deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of the Ohio Lottery are included in the statement of net position. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net position. A narrative overview and analysis of the Ohio Lottery's financial activities for the fiscal year ended June 30, 2016 is in the Management's Discussion and Analysis in the financial section of this document.

BUDGETARY CONTROL

Budgetary control for all state agencies is maintained through legislative appropriations and the executive branch allotment. The budget includes all costs to operate the Ohio Lottery with the exception of certain prizes paid to winners and all commissions paid to retailers. Various prize tiers and commissions are funded through the sale of lottery tickets and are not included as part of the biennial budget submitted for approval. An encumbrance system is utilized, whereby purchase orders reserve portions of applicable appropriations. The Ohio Lottery and the State of Ohio Office of Budget and Management monitor the appropriations and the amounts expended within the Ohio Lottery's funds. 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 Office of Finance monitors all accounts via the Ohio Administrative Knowledge System and its accounting reporting system, Solomon. Additionally, the Ohio Lottery prepares periodic revisions to project revenue and expenditure trends and implements any changes necessary to keep both within appropriation and within 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 is reported at monthly public meetings of the Ohio Lottery Commission. Because the cost of a control should not exceed their benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

To enhance controls over accounting procedures, the Ohio Lottery has segregated the following functions: personnel and payroll; purchasing; accounts payable; general ledger; and accounts receivable processing. Additionally, a Contract Compliance Officer monitors the execution of all large vendor contracts. Data input and processing is separate from system programming. An Information Security Manager monitors and audits automated systems. An Electronic Data Processing Audit Plan is executed annually to further improve internal controls. An internal audit team reviews all areas of operations and reports to the Director. The Office of Internal Audit prepares an annual internal audit plan and formally submits the plan to the Office of Budget and Management for approval. Results of these internal audits are 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 and the television game show.
- Provide a variety of access and other controls in our computer systems.

FINANCIAL INFORMATION

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

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its CAFR for the fiscal year ended June 30, 2015. This was the nineteenth consecutive year that the Ohio Lottery has received this prestigious award. To qualify for the Certificate of Achievement Award, the Ohio Lottery published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

INDEPENDENT AUDIT

Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audit of the Ohio Lottery. The Ohio Lottery's financial statements audit for fiscal year 2016 has been completed in conformity with generally accepted governmental auditing standards. The auditor's unmodified opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

Preparation of this report was made possible by the efficient and dedicated efforts of our employees. A special note of thanks is given to the General Accounting Bureau comprised of Anna Callas, Mike Popadiuk, Mary Pietrick, and Mary Tedeschi-Vittardi and to the entire finance staff. Thanks to Michael M. Bycko, Visual Communications Manager, for the layout and graphics support of this publication.

Publishing this Comprehensive Annual Financial Report reflects our commitment to meet the highest standards of accountability. The Ohio Lottery intends to continually improve financial management and clearly communicate its financial story. It is important for the public to know that the Ohio Lottery's financial condition is properly reported, including payments made to education. Credit is due to Commission Chair Patrick McDonald and the members of the Ohio Lottery Commission for their commitment to operating the Ohio Lottery in a responsible and progressive manner.

Respectfully Submitted,



Gregory A. Bowers, MBA
Finance Director



Dennis R. Berg, CPA, CFE
Executive Director





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

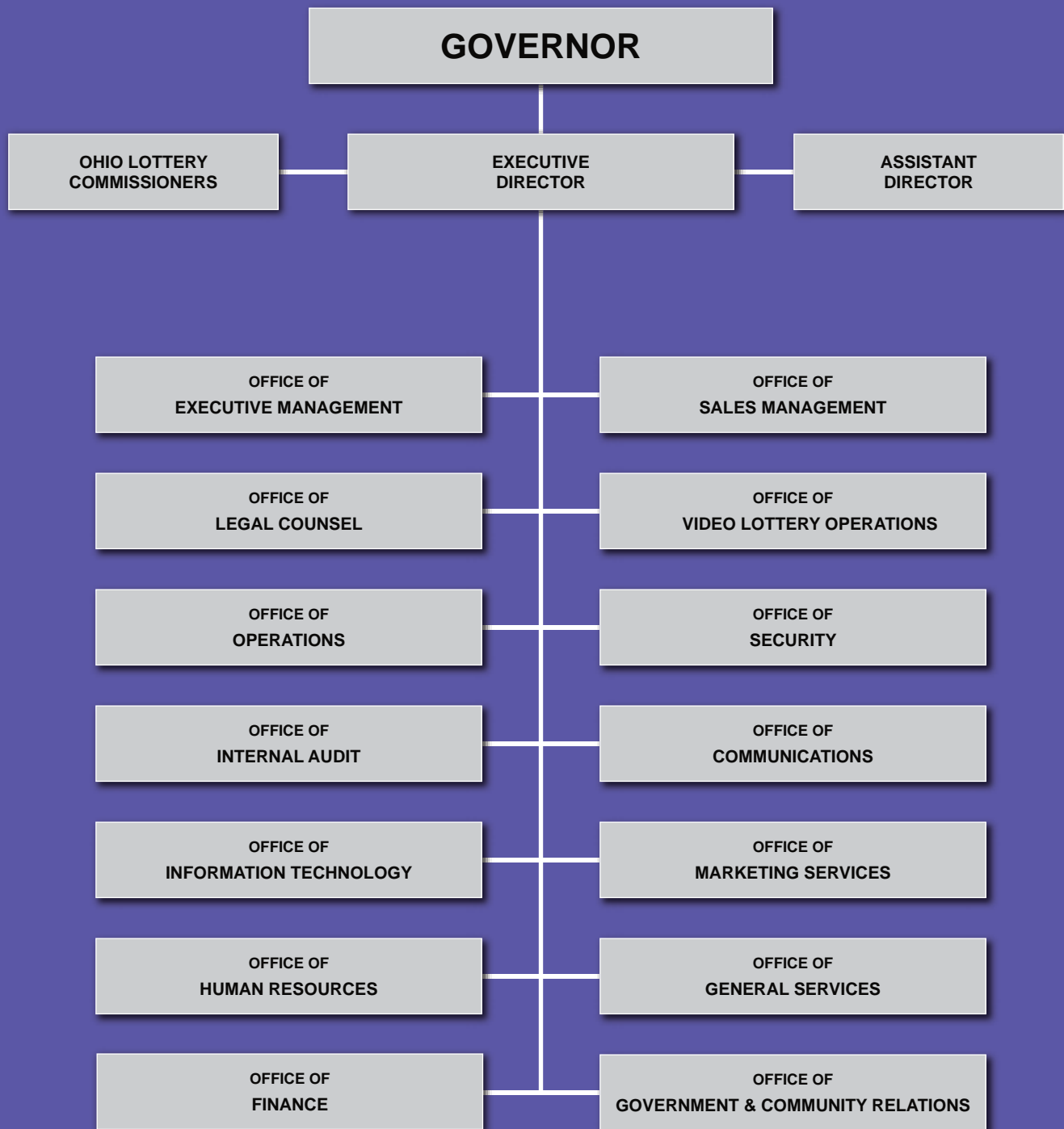
The Ohio Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

OHIO LOTTERY COMMISSION STRUCTURE OF ORGANIZATION • FISCAL YEAR 2016



PRINCIPAL OFFICIALS

John R. Kasich

GOVERNOR OF OHIO

Dennis R. Berg

DIRECTOR

Patrick McDonald

COMMISSION CHAIR

Term ends 8/01/18

Sean Whalen

COMMISSION VICE CHAIR

Term Ends 8/01/17

James Brady

COMMISSIONER

Term Ends 8/01/17

Allan C. Krulak

COMMISSIONER

Term Ends 8/01/18

John F. Lewis

COMMISSIONER

Term Ends 8/01/16

Trevor McAleer

COMMISSIONER

Term Ends 8/01/16

William Morgan

COMMISSIONER

Term Ends 8/01/18

Angela Mingo

COMMISSIONER

Term Ends 8/01/17

Elizabeth D. Vaci

COMMISSIONER

Term Ends 8/01/16

• FINANCIAL SECTION •



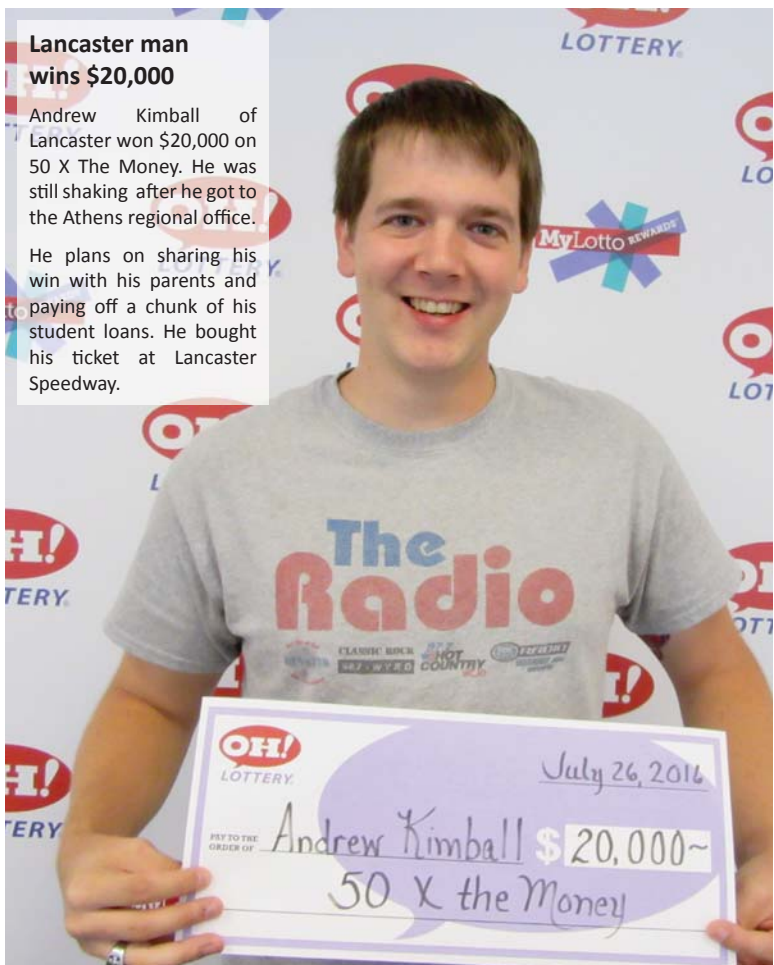
VFW members split EZPlay winnings

James Blancett, James Burt, George Tolbert, and Burdette Parry of Cambridge and Donald Campbell of Bylesville will split \$41,428 on the Going Pro ticket that they purchased at the VFW Post 2901 where they are members.

Lancaster man wins \$20,000

Andrew Kimball of Lancaster won \$20,000 on 50 X The Money. He was still shaking after he got to the Athens regional office.

He plans on sharing his win with his parents and paying off a chunk of his student loans. He bought his ticket at Lancaster Speedway.



College freshman wins \$100,000

Ronaysha Averiett of Akron won \$100,000 in the TPD Special Edition Cashword drawing on 8-25-16. She starts her freshman year in college this year and said the win came at a great time.



No, you're not seeing double

Kelley Shupert, West Portsmouth, cannot believe her luck! Shupert won \$20,000 in October on the Big \$10 ticket. Six months later, she won another \$5,500 and an entry into the Top Prize Drawing for a \$5 million prize in the Gold instant game. She also won \$750 on another instant ticket in the meantime. She said the money comes in handy because she is caring for her mother and has extra expenses.



Malinta woman wins \$50,000

Rita Smith from Malinta is no stranger to hitting the jackpot. She won \$50,000 playing \$500 Million Spectacular at the same location her husband won \$5,000 on last year!



Juanita Corder • \$100,000 a year for 20 years



Bo Peters • \$10,000 winner



Stacey Horning • \$20,000 winner



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Ohio Lottery Commission
Cuyahoga County
615 Superior Avenue, N.W.
Cleveland, Ohio 44113

To the Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio (the Ohio Lottery), component unit of the State of Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Ohio Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Ohio Lottery's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Ohio Lottery's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Ohio Lottery's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Ohio Lottery's basic financial statements taken as a whole.

The introductory section, the financial section's combining statements, individual fund statements and schedules and the statistical section information present additional analysis and are not a required part of the basic financial statements. We did not subject the introductory section and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the Ohio 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ohio Lottery's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

September 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Ohio Lottery Commission (the Ohio Lottery), we offer readers of the Ohio Lottery's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6-11 of this report, and the financial statements which begin on page 28.

FINANCIAL HIGHLIGHTS

- Total traditional lottery sales increased \$167.6 million, or 5.8 percent from fiscal year 2015, resulting in overall sales of over \$3.1 billion. This represents an all-time record for traditional lottery products.
- Online sales increased \$157.8 million, or 11.8 percent over last year, with record sales achieved from Pick 3 and Pick 4, as well as the continuing popularity of KENO games.
- The Powerball jackpot reached a record high of \$1.58 billion in January 2016. Total sales for that Powerball jackpot run was \$96.4 million and resulted in estimated net profits of \$39.0 million.
- Instant ticket sales increased \$9.8 million, or 0.63 percent, from fiscal year 2015. This represents the highest fiscal year instant ticket sales recorded in Ohio Lottery history. This was due in part, not only to the continued success of the \$30 instants, but also to the introduction of both the Monopoly Millionaire's Club and the For Life-themed instants offering various price points.
- Prize expense increased \$57.3 million in fiscal year 2016 primarily due to the increase in sales volume for higher-priced instant tickets, which carries a higher prize payout. Total prize expense for fiscal year 2016 represented 63.2 percent of total ticket sales compared to 64.8 percent in fiscal year 2015.
- Operating expenses increased from \$75.9 million to \$89.5 million, from fiscal year 2015 to fiscal year 2016 due to the increase in maintenance and gaming equipment for QuickKeno.
- Fiscal year 2016, marked the first complete year the Ohio Lottery had all seven VLT racinos in operation. Hollywood Gaming Dayton and Hollywood Mahoning Valley, which opened in fiscal year 2015, joined the Lottery's existing racinos at Scioto Downs, JACK Thistledown, Hard Rock Rocksino, Miami Valley Gaming, and Belterra Park. Gross gaming revenue was \$868.9 million, an increase of \$96.0 million over fiscal year 2015. The Ohio Lottery's net VLT revenue increased from \$258.9 million to \$291.1 million or 12.4 percent in fiscal year 2016.
- The Ohio Lottery transferred a record \$1.06 billion to the Lottery Profits Education Fund (LPEF) in 2016, \$76.1 million more than the 2015 transfer amount. This not only represented the eleventh consecutive year of profit growth for the agency, but also the highest fiscal year transfer in Ohio Lottery history.
- The Ohio Lottery's total net position increased \$37.8 million, or 31.6 percent, due to GASB adjustments and increase in operating income.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to these statements. The basic financial statements by fund include the statement of net position, statement of revenues, expenses and changes in fund net position, statement of cash flows, as well as the notes to the basic financial statements, which disclose detailed information within the financial statements.

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

LOTTERY OPERATING FUND

Revenues for this fund are provided primarily from traditional ticket sales and net revenue collected from the VLT facilities. Expenses of this fund represent primarily prize expenses (including cash transfers to the Annuity Prize Fund), operating expenses, and transfers to the LPEF. For purposes of this financial report, all financial activity is presented within the Lottery Operating Fund. Please see notes to the basic financial statements for more detailed activity reported within this fund.

ANNUITY 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 Annuity Prize Fund primarily represent annuity prize payments.

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

FINANCIAL ANALYSIS

Table 1 provides a summary of the Ohio Lottery’s net position at June 30, 2016 compared to June 30, 2015.

TABLE 1: NET POSITION
(rounded in thousands)

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Current Assets: Unrestricted	\$ 281,996	\$ 274,519
Current Assets: Restricted	142,150	241,845
Noncurrent Assets: Restricted	484,847	516,440
Net Capital Assets	36,838	28,783
Net Pension Asset	<u>53</u>	<u>-</u>
Total Assets	945,884	1,061,587
Deferred Outflows of Resources	10,548	1,770
Current Liabilities: Unrestricted	117,937	71,549
Current Liabilities: Restricted	226,754	383,586
Noncurrent Liabilities: Restricted and Unrestricted	425,117	468,919
Net Pension Liability	<u>27,660</u>	<u>18,734</u>
Total Liabilities	797,468	942,788
Deferred Inflows of Resources	1,465	906
Net Position:		
Net Investment in Capital Assets	26,762	15,690
Restricted for Net Unrealized Gains on Restricted Investments	77,464	66,332
Unrestricted	<u>53,273</u>	<u>37,641</u>
Total Net Position	<u>\$ 157,499</u>	<u>\$ 119,663</u>

GASB 68 NET PENSION LIABILITY

The net pension liability (NPL) at June 30, 2016 is reported pursuant to GASB Statement 68, “Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27.” For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Ohio Lottery’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the Ohio Lottery’s proportionate share of each plan’s collective:

- Present value of estimated future pension benefits attributable to active and inactive employees’ past service
- Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Ohio Lottery is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Ohio Lottery's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

CURRENT ASSETS - UNRESTRICTED

The Ohio Lottery's Current Assets – Unrestricted increased \$7.5 million compared to fiscal year 2015. Current Assets Unrestricted consists primarily of Cash & Cash Equivalents (including Video Lottery), Cash Equity with the Treasurer of State, Net Receivables from Agents, and other Assets such as Prepaid Assets.

Cash and Cash Equivalent – Video Lottery decreased by \$60.5 million due to the timing of the Video Lottery Sales Agents (VLSA) license payments received as agreed upon through a Memorandum of Understanding (MOU) between the VLT operators and the State of Ohio dated June 17, 2011. The MOU requires an applicant to deposit an initial application fee of \$10.0 million, \$15.0 million upon commencement of sales and an additional \$25.0 million due upon one year of operation. As of fiscal year 2016, all of the Video Lottery facilities license fees have been received.

Cash Equity with Treasurer of State increased \$146.7 million, while Cash and Cash Equivalents decreased \$68.0 million. Cash Equity with Treasurer of State increased while Cash and Cash Equivalents decreased primarily due to the timing differences of the June profit transfer posting to the Lottery Profits Education Fund.

Net Receivables from Agents decreased by \$12.4 million, which is comprised of amounts due from lottery retailers from the sale of traditional lottery tickets, VLT revenue due from the VLT operators and unrecorded instant ticket sales. On a weekly basis, amounts due from retailers are collected electronically from the retailer's bank accounts for the invoices due from the prior week sales. On June 30, 2016, five days of sales activity were waiting to be collected compared to nine days on June 30, 2015. Other Assets decreased by \$5.7 million over last fiscal year.

CURRENT ASSETS - RESTRICTED

The Lottery's Current Assets – Restricted decreased \$99.7 million in fiscal year 2016 to \$142.1 million, from \$241.8 million in fiscal year 2015. Current Assets – Restricted represent investments dedicated for the payment of annuity prize awards, Obligations under Securities Lending program per GASB 28 requirements, and Interest Receivable. Dedicated Investments decreased \$3.0 million, which is a direct function of the number of winner's choosing the annuity option during the year. This category also decreased due to a decrease in the Securities Lending program.

NONCURRENT ASSETS – RESTRICTED

Noncurrent Assets – Restricted, which is comprised of investments dedicated to the payment of the Lottery's long-term annuity prizes, decreased from \$516.4 million in fiscal year 2015 to \$484.8 million in fiscal year 2016, or \$32.0 million. This decrease is primarily the result of fewer grand prize winners selecting the annuity option over time as opposed to the cash option.

CURRENT LIABILITIES - UNRESTRICTED

Current Liabilities - Unrestricted increased by \$46.3 million, primarily due to the accounting for GASB 28, Securities Lending Program. The amount reported as collateral on lent securities increased from \$6.9 million in 2015 to \$15.7 million in 2016, or \$8.9 million. In addition, Capital Leases Payable: Current decreased slightly.

CURRENT LIABILITIES - RESTRICTED

Current Liabilities – Restricted decreased \$156.8 million, as obligations under securities lending decreased \$95.8 million and a payment of \$84.4 million is due to the Lottery Profits Education Fund. Due to other State Agencies decreased \$57.3 million, which represented an obligation due to Ohio School Facilities Commission from revenue earned from VLT License Fees. Finally, Prize Awards Payable – Net of Discount decreased \$3.9 million from 2015.

NONCURRENT LIABILITIES

Noncurrent Liabilities decreased \$34.9 million. This decrease is primarily attributed to the Prize Awards Payable from restricted assets which decreased by \$42.7 million. The primary reason for this decrease is the majority of jackpot winners preferred the cash option over the annuity prize option. There was also an increase of \$8.9 million in GASB 68 Net Pension Liability.

The overall effect on liabilities is a decrease of \$145.3 million attributed to the combination of increases and decreases of the various accounts discussed above.

Table 2 shows the change in the Ohio Lottery's net position for fiscal year 2016 compared to fiscal year 2015, including revenue and expense comparisons.

TABLE 2: CHANGES IN NET POSITION
(rounded in thousands)

	JUNE 30, 2016	JUNE 30, 2015
Ticket Sales	\$ 3,059,601	\$ 2,892,043
VLT and License Revenues	919,028	878,113
Other Operating Revenues	8,606	6,294
Non-Operating Revenues	<u>35,071</u>	<u>19,122</u>
Total Revenues	4,022,306	3,795,572
Prize Awards	1,932,585	1,875,258
Bonuses and Commissions	188,592	179,241
Commissions - VLT	577,828	514,016
Cost of Tickets Sold	20,709	18,020
Vendor Fees	34,713	37,014
Operating Expenses	89,506	75,865
Non-Operating Expenses	74,432	130,363
Payments to the Lottery Profits Education Fund	<u>1,066,105</u>	<u>990,012</u>
Total Expenses	3,984,470	3,819,789
Change in Net Position	37,836	(24,217)
Total Net Position - Beginning	119,663	161,204
Prior Period Adjustment of Pension Liability	<u>-</u>	<u>(17,324)</u>
Restated Net Position at Beginning of Year	119,663	143,880
Total Net Position - Ending	<u>\$ 157,499</u>	<u>\$ 119,663</u>

TICKET SALES BY GAME AND VLT REVENUE: FISCAL YEARS 2016 AND 2015
(rounded in thousands)

	JUNE 30, 2016	JUNE 30, 2015
Pick 3	\$ 343,015	\$ 338,038
Pick 4	200,349	192,814
Pick 5	36,425	33,306
Rolling Cash 5	60,258	62,589
Classic Lotto	30,997	30,984
Kicker	4,633	4,707
Raffle	-	7,051
Mega Millions/Megaplier	102,229	113,260
Powerball/Power Play	193,532	105,051
Keno/Booster	365,866	329,530
EZPLAY	115,217	99,797
EZPLAY TAP	31,481	23,954
EZPLAY QUICKENO	743	-
Lucky For Life	<u>14,134</u>	<u>-</u>
Total Online Sales	1,498,879	1,341,081
Instants	<u>1,560,722</u>	<u>1,550,962</u>
Total Sales	<u>3,059,601</u>	<u>2,892,043</u>
VLT Revenue	868,915	772,956
VLT License Revenue	<u>50,113</u>	<u>105,157</u>
Total VLT Revenue	919,028	878,113
Total Ticket Sales and VLT Revenue	<u>\$ 3,978,629</u>	<u>\$ 3,770,156</u>

OPERATING ANALYSIS

Traditional sales for fiscal year 2016 were \$3,059.6 million. This was a \$167.6 million or 5.8 percent increase in sales from fiscal year 2015. This represents a record for traditional sales performance for the Ohio Lottery, exceeding the previous record set in fiscal year 2015 of \$2,892.0 million. The following section summarizes traditional lottery sales in fiscal year 2016 by game category.

DAILY DRAW

Sales for Daily Draw games, which consist of Pick 3, Pick 4, and Pick 5, totaled \$579.7 million for the 2016 fiscal year. This is \$15.6 million, or 2.8 percent more than sales posted in fiscal year 2015. Fiscal year 2016 sales for Pick 3 were up \$5.0 million, while Pick 4 increased by \$7.5 million and Pick 5 finished the year up by \$3.1 million.

LOTTO GAMES

Sales for Lotto games, which consist of Rolling Cash 5, Classic Lotto and KICKER, totaled \$95.9 million for fiscal year 2016. This is \$2.4 million, or 2.4 percent less than sales posted in fiscal year 2015. Fiscal year 2016 sales for Rolling Cash were \$2.3 million less than sales posted in fiscal year 2015, while Classic Lotto was up \$13,000. This decrease can be attributed to lower average jackpots throughout FY 2016. Sales for KICKER, an add-on game of Classic Lotto, were \$74,000 less than sales posted in fiscal year 2015.

MULTI-STATE

Sales for Multi-state games, which consist of Mega Millions, Megaplier, Powerball, Power Play, and Lucky for Life, totaled \$309.8 million for fiscal year 2016. This is \$91.6 million, or 42.0 percent more than sales posted in fiscal year 2015.

Mega Millions sales in fiscal year 2016 were \$10.6 million less than sales posted the prior year, while Megaplier, the Mega Millions add-on game, decreased by \$462 thousand. This decrease was primarily the result of lower average jackpots offered for the game. Powerball sales in fiscal year 2016 were \$82.3 million more than sales posted the prior year, while Power Play, the Powerball add-on game, increased by \$6.2 million. These increases were primarily the result of higher average jackpots for Powerball games. Sales for the record Powerball jackpot run equaled \$96.4 million and resulted in estimated profits of \$39.0 million.

KENO (MONITOR)

Sales for KENO games, which consist of KENO and KENO Booster, totaled \$365.9 million for the 2016 fiscal year. This is \$36.3 million, or 11 percent more than sales posted in fiscal year 2015. Sales for KENO in fiscal year 2016 were \$25.1 million more than sales posted in fiscal year 2015, while Booster added \$11.2 million to the positive variance in the category. Sales for Booster in fiscal year 2016 were 32.9 percent of KENO sales. Sales for KENO/Booster grew steadily as the Lottery continued its expansion in this distribution channel, as well as offering more promotions during the year.

EZPLAY

Sales for EZPLAY games, which include EZPLAY, EZPLAY TAP, and EZPLAY QUICKKENO, totaled \$147.4 million for the 2016 fiscal year. This is \$23.7 million, or 19.1 percent more than sales posted in fiscal year 2015. Fiscal year 2016 sales for EZPLAY were \$15.4 million more than sales posted in fiscal year 2015. Fiscal year 2016 sales for EZPLAY TAP were \$7.5 million more than sales posted in fiscal year 2015. Sales for EZPLAY rose steadily on the strength of the progressive line introduced in 2013 as well as additional price points offered during the year.

The Ohio Lottery expanded the EZPLAY family in fiscal year 2016 by launching EZPLAY QUICKKENO games. These games are only played on Multi-Play QuicKeno (MPQK) terminals and available at select Ohio Lottery licensed retailers. This product line was launched on June 19 and in twelve days generated over \$743 thousand sales in the EZPLAY category.

INSTANT TICKETS

Sales for Instant Ticket games totaled \$1.6 billion, which is \$9.8 million or 0.6 percent more than sales posted in fiscal year 2015. Instant ticket sales increased due to the introduction of a variety of new games and promotions.

OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION: FISCAL YEARS 2016 AND 2015

(rounded in thousands)

	JUNE 30, 2016	JUNE 30, 2015
Prize Awards	\$ 1,932,585	\$ 1,875,258
Bonuses/Commissions	188,592	179,241
Commissions - VLT	577,828	514,016
Cost of Tickets Sold	20,709	18,020
Vendor Fees	34,713	37,014
Operating Expense	89,506	75,865
Payments to Education	<u>1,066,105</u>	<u>990,012</u>
Total	<u>\$ 3,910,038</u>	<u>\$ 3,689,426</u>

PRIZE AWARDS

Prize expense for fiscal year 2016, which totaled \$1,932.6 million, was \$57.3 million, or 3.1 percent higher than fiscal year 2015. This was partly due to an increase in overall ticket sales and the release of a higher price point, which carries higher prize payouts in the game. As gross sales for traditional games increase, prize payouts will naturally grow. Fiscal year 2016 prize payouts were also higher than structured for Pick 4. This is a normal phenomenon, as prize payouts may temporarily deviate from their expected level, but will return to their theoretical prize structure over the long run. Additional prize expense results from the TAP game category, which carry a higher average prize expense percentage, consistent with both price point and game type.

BONUSES/COMMISSIONS

Bonuses/Commissions also increased due to the higher sales volume. Commissions- VLT increased \$63.8 million due to a complete fiscal year of all seven racinos in operation.

OPERATING EXPENSE

Total Operating Expenses, which for purposes of this Management Discussion & Analysis, consists of Direct Game Costs – Cost of Tickets Sold and Vendor Fees, as well as Operating Expenses. Operating Expenses consist of personal services (including salaries and benefits), maintenance & equipment, advertising, travel, utilities and rent, and other expenses. Total Operating Expenses increased nearly \$14.0 million in fiscal year 2016 due to the purchase of new gaming vending machines, and an increase in salaries as a result of the contractual cost of living adjustments. In addition, since a large proportion of expenses are a direct relation to sales activity, and as traditional lottery sales have increased, expenses associated to support that growth has increased. Total Operating Expenses for fiscal year 2016 were 4.4 percent of total traditional lottery sales.

PAYMENTS TO EDUCATION

Payments to education increased \$76.1 million because of increased traditional lottery sales and VLT Revenue.

VIDEO LOTTERY TERMINAL (VLT) GROSS REVENUE

VLT Gross Gaming Revenue represents revenue generated from VLT machines net of total payouts. Gross Revenue for fiscal year 2016 totaled \$868.9 million, an increase of \$96.0 million or 12.4 percent over fiscal year 2015. The increase of Gross Gaming Revenue in 2016 is credited to a full year of operations at all seven facilities, Scioto Downs, JACK Thistledown, Hard Rock Rocksino, Miami Valley Gaming, Belterra Park, Hollywood Gaming Dayton Raceway and Hollywood Gaming Mahoning Valley. The following table shows VLT statistics for fiscal years 2016 and 2015.

VIDEO LOTTERY TERMINAL - NET WIN

(rounded in thousands)

RACINO	DATE OPENED	2016 NET WIN	2015 NET WIN
Scioto Downs	June 1, 2012	\$ 148,920	\$ 140,796
JACK Thistle Down	March 29, 2013	108,293	115,085
Hard Rock Rocksino	December 9, 2013	220,660	194,383
Miami Valley	December 6, 2013	131,035	120,860
Belterra Park	May 1, 2014	74,766	57,628
Hollywood Gaming Mahoning Valley	September 11, 2014	97,469	73,594
Hollywood Gaming Dayton Raceway	August 22, 2014	<u>87,771</u>	<u>70,610</u>
		<u>\$ 868,914</u>	<u>\$ 772,956</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

Table 3 below summarizes the Ohio Lottery's capital assets at the end of fiscal years 2016 and 2015.

TABLE 3: CAPITAL ASSETS (NET OF DEPRECIATION)
(rounded in thousands)

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Equipment	\$ 35,188	\$ 27,453
Vehicles	<u>1,650</u>	<u>1,330</u>
Total Net Capital Assets	<u>\$ 36,838</u>	<u>\$ 28,783</u>

As of June 30, 2016, the Ohio Lottery had \$36.8 million, net of accumulated depreciation, in Capital Assets. The increase in Net Capital Assets is a result of acquired equipment in 2016. In July 2009, the Ohio Lottery entered into a contractual agreement with Intralot for gaming services, including leased equipment. The original contract was for two years, with six optional two-year renewals. The lease meets the requirements of a capital lease and, as a result, the equipment was recorded at present value and is being depreciated over its useful life of five years.

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

DEBT

The significant components of the Ohio Lottery's debt is annuity prize awards payable, which is payable from restricted assets. Prize Awards Payable from Restricted Assets – Net of Discount decreased \$46.6 million as prior long-term annuities are paid off at a faster rate than new annuities are selected by prize winners.

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

CONTACTING THE OHIO LOTTERY'S FINANCIAL MANAGEMENT

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

OHIO LOTTERY COMMISSION
STATEMENT OF NET POSITION - MAJOR FUNDS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)
(rounded in thousands)

	OPERATING	ANNUITY FUND	TOTALS	
			JUNE 30, 2016	JUNE 30, 2015
ASSETS				
Current Assets - Unrestricted				
Cash and Cash Equivalents	\$ 27,216	\$ -	\$ 27,216	\$ 95,150
Cash Equity with Treasurer of State	174,845	-	174,845	28,112
Cash and Cash Equivalents Video Lottery	5,467	-	5,467	65,975
Collateral on Lent Securities	15,730	-	15,730	6,864
Receivables from Agents, Net	51,942	-	51,942	64,366
Due From Other State Agencies	1	-	1	1,518
Other Assets	6,795	-	6,795	12,534
Total Current Assets - Unrestricted	281,996	-	281,996	274,519
Current Assets - Restricted				
Cash Equity with Treasurer of State	-	54	54	36
Dedicated Investments	-	57,032	57,032	60,011
Collateral on Lent Securities	-	84,671	84,671	180,460
Interest Receivable	-	393	393	1,338
Total Current Assets - Restricted	-	142,150	142,150	241,845
Total Current Assets	281,996	142,150	424,146	516,364
Noncurrent Assets				
Dedicated Investments, Restricted	-	484,847	484,847	516,440
Capital Assets				
Equipment	152,938	-	152,938	143,034
Vehicles	3,357	-	3,357	3,070
Accumulated Depreciation	(119,457)	-	(119,457)	(117,321)
Net Position, Investment in Capital Assets	36,838	-	36,838	28,783
Net Pension Asset	53	-	53	-
Total Noncurrent Assets	36,891	484,847	521,738	545,223
TOTAL ASSETS	318,887	626,997	945,884	1,061,587
DEFERRED OUTFLOWS OF RESOURCES				
Pension: OPERS	10,548	-	10,548	1,770
Total Deferred Outflows of Resources	\$ 10,548	\$ -	\$ 10,548	\$ 1,770

OHIO LOTTERY COMMISSION
STATEMENT OF NET POSITION - MAJOR FUNDS, CONTINUED
JUNE 30, 2016
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)
(rounded in thousands)

	OPERATING	ANNUITY FUND	TOTALS	
			JUNE 30, 2016	JUNE 30, 2015
LIABILITIES				
Current Liabilities - Unrestricted				
Accounts Payable	\$ 23,916	\$ -	\$ 23,916	\$ 9,043
Prize Awards Payable	67,723	-	67,723	46,048
Obligations under Securities Lending	15,730	-	15,730	6,864
Capital Lease Payable - Current	3,800	-	3,800	5,594
Unearned Revenue	2,458	-	2,458	1,380
Other Liabilities	2,134	-	2,134	2,212
Due to Other Lotteries	2,176	-	2,176	408
Total Current Liabilities - Unrestricted	<u>117,937</u>	<u>-</u>	<u>117,937</u>	<u>71,549</u>
Current Liabilities - Restricted				
Due to other State Agencies	84,438	-	84,438	141,720
Due for Problem Gambling VLT Expenses	166	-	166	20
Obligations under Securities Lending	-	84,671	84,671	180,460
Prize Awards Payable - Net of Discount	-	57,479	57,479	61,386
Total Current Liabilities - Restricted	<u>84,604</u>	<u>142,150</u>	<u>226,754</u>	<u>383,586</u>
Total Current Liabilities	<u>202,541</u>	<u>142,150</u>	<u>344,691</u>	<u>455,135</u>
Noncurrent Liabilities:				
Prize Awards Payable from Restricted Assets - Net of Discount	-	414,180	414,180	456,846
Capital Lease Payable - Long-Term	6,277	-	6,277	7,500
Workers' Compensation	1,379	-	1,379	1,464
Compensated Absences	3,281	-	3,281	3,109
Net Pension Liability	27,660	-	27,660	18,734
Total Noncurrent Liabilities	<u>38,597</u>	<u>414,180</u>	<u>452,777</u>	<u>487,653</u>
TOTAL LIABILITIES	<u>241,138</u>	<u>556,330</u>	<u>797,468</u>	<u>942,788</u>
DEFERRED INFLOWS OF RESOURCES				
Pension: OPERS	1,465	-	1,465	906
Total Deferred Inflows of Resources	<u>1,465</u>	<u>-</u>	<u>1,465</u>	<u>906</u>
NET POSITION				
Net Investment in Capital Assets	26,762	-	26,762	15,690
Restricted for Net Unrealized Gains on Restricted Investments	-	77,464	77,464	66,332
Unrestricted	60,070	(6,797)	53,273	37,641
TOTAL NET POSITION	<u>\$ 86,832</u>	<u>\$ 70,667</u>	<u>\$ 157,499</u>	<u>\$ 119,663</u>

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

OHIO LOTTERY COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)
(rounded in thousands)

	OPERATING	ANNUITY FUND	TOTALS	
			JUNE 30, 2016	JUNE 30, 2015 (RESTATED)
REVENUES				
Ticket Sales	\$ 3,059,601	\$ -	\$ 3,059,601	\$ 2,892,043
VLT Revenue, Net	868,915	-	868,915	772,956
VLT License Revenue	50,113	-	50,113	105,157
Other Revenues	8,456	150	8,606	6,294
Total Operating Revenues	3,987,085	150	3,987,235	3,776,450
EXPENSES				
Direct Game Costs				
Prize Awards	1,919,196	13,389	1,932,585	1,875,258
Bonuses and Commissions	188,592	-	188,592	179,241
VLT Commissions	577,828	-	577,828	514,016
Cost of Tickets Sold	20,709	-	20,709	18,020
Vendor Fees	34,713	-	34,713	37,014
Total Direct Game Costs	2,741,038	13,389	2,754,427	2,623,549
Operating Expenses				
Personal Services	4,390	-	4,390	3,080
Repairs and Maintenance	18,468	-	18,468	4,583
Salaries Wages and Benefits	31,826	-	31,826	30,327
Advertising	24,163	-	24,163	26,513
Travel	261	-	261	269
Utilities and Rent	2,001	-	2,001	1,883
Depreciation	8,185	-	8,185	8,663
Other Expenses	212	-	212	547
Total Operating Expenses	89,506	-	89,506	75,865
OPERATING INCOME (LOSS)	1,156,541	(13,239)	1,143,302	1,077,036
Non-Operating Revenues (Expenses):				
Interest Income	818	34,253	35,071	19,096
Amortization of Prize Liabilities	-	(22,090)	(22,090)	(25,078)
Gain (Loss) on Equipment Disposal	(2,015)	-	(2,015)	26
Interest Expense - Borrower Rebates	-	(294)	(294)	(255)
Securities Lending Agent Fees	-	(23)	(23)	(20)
Payments to other Government Agencies/VLT	(10)	-	(10)	(5,010)
Payments to the Lottery Profits Education Fund	(1,116,105)	-	(1,116,105)	(1,090,012)
Total Non-Operating Expenses, Net	(1,117,312)	11,846	(1,105,466)	(1,101,253)
INCOME (LOSS) BEFORE TRANSFERS	39,229	(1,393)	37,836	(24,217)
TRANSFERS:				
Transfers to Annuity Prize Trust Fund	(12,467)	12,467	-	-
Total Transfers	(12,467)	12,467	-	-
Change in Net Position	26,762	11,074	37,836	(24,217)
Total Net Position - Beginning	60,070	59,593	119,663	161,204
Prior period adjustment of pension liability	-	-	-	(17,324)
Restated Net position at beginning of year			119,663	143,880
TOTAL NET POSITION - ENDING	\$ 86,832	\$ 70,667	\$ 157,499	\$ 119,663

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

OHIO LOTTERY COMMISSION
STATEMENT OF CASH FLOWS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)
(rounded in thousands)

	TOTALS			
	OPERATING	ANNUITY FUND	JUNE 30, 2016	JUNE 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Sales	\$ 3,943,534	\$ -	\$ 3,943,534	\$ 3,675,876
Cash Received from Multi-State Lottery for Grand Prize Winners	128,806	-	128,806	73,121
Cash Payments for Prize Awards	(2,024,477)	(82,050)	(2,106,527)	(2,022,969)
Cash Payments for Bonuses and Commissions	(766,420)	-	(766,420)	(693,257)
Cash Payments for Goods and Services	(141,563)	-	(141,563)	(93,502)
Cash Payments to Employees	(30,910)	-	(30,910)	(29,050)
Other Operating Revenues	58,569	150	58,719	111,451
Other Operating Expenses	(211)	-	(211)	(547)
Net Cash Provided (Used) by Operating Activities	<u>1,167,328</u>	<u>(81,900)</u>	<u>1,085,428</u>	<u>1,021,123</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Due to Other State Agencies	(10)	-	(10)	(5,010)
Payments to the Lottery Profits Education Fund	(1,116,105)	-	(1,116,105)	(1,090,012)
Transfers In	-	12,467	12,467	31,741
Transfers Out	(12,467)	-	(12,467)	(31,741)
Net Cash Provided (Used) by noncapital Financing Activities	<u>(1,128,582)</u>	<u>12,467</u>	<u>(1,116,115)</u>	<u>(1,095,022)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Property and Equipment	(14,826)	-	(14,826)	(16,361)
Proceeds from Sale of Property and Equipment	102	-	102	77
Repayment of Equipment Obligation	(6,550)	-	(6,550)	(5,932)
Interest Paid on Equipment Obligation	-	-	-	-
Net Cash Used by Capital and Related Financing Activities	<u>(21,274)</u>	<u>-</u>	<u>(21,274)</u>	<u>(22,216)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	819	3,551	4,370	4,929
Interest Expense and Agent Fees	-	(317)	(317)	(275)
Proceeds from the Sale and Maturity of Investments	-	127,628	127,628	177,071
Purchase of Investments	-	(61,411)	(61,411)	(133,035)
Securities Lending Proceeds	-	84,671	84,671	226,092
Securities Lending Payments	-	(84,671)	(84,671)	(226,092)
Net Cash Provided (Used) by Investing Activities	<u>819</u>	<u>69,451</u>	<u>70,270</u>	<u>48,690</u>
Net Increase (Decrease) in Cash & Cash Equivalents	18,291	18	18,309	(47,425)
Cash and Cash Equivalents - Beginning	189,237	36	189,273	236,698
CASH AND CASH EQUIVALENTS - ENDING	<u>207,528</u>	<u>54</u>	<u>207,582</u>	<u>189,273</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	1,156,541	(13,239)	1,143,302	1,077,036
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	8,185	-	8,185	8,663
Amortization of Discount of Prize Liabilities	-	22,090	22,090	25,078
Net Changes in Assets and Liabilities				
Receivables from Agents - Net	13,941	-	13,941	2,942
Other Assets	5,741	-	5,741	5,160
Prize Awards Payable	21,675	-	21,675	(24,896)
Accounts Payable	14,873	-	14,873	(2,178)
Other Liabilities	(55,447)	-	(55,447)	1,233
Unearned Revenue	1,077	-	1,077	(66)
Prize Awards Payable from Restricted Assets - Net of Discount	-	(90,751)	(90,751)	(72,163)
Accrued Workers' Compensation	(85)	-	(85)	(289)
Compensated Absences	173	-	173	57
Pension Expense	654	-	654	546
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,167,328</u>	<u>\$ (81,900)</u>	<u>\$ 1,085,428</u>	<u>\$ 1,021,123</u>

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

Non-Cash items included in investment income were \$11.1 million and (\$7.4) million of unrestricted net gains/losses for the years ended June 30, 2016 and June 30, 2015, respectively. During fiscal year 2016 the Ohio Lottery acquired gaming equipment amounting to \$3.5 million, by entering into a capital lease arrangement with Intralot Inc. The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

In fiscal year 2010 a cross-sale agreement was reached authorizing the Ohio Lottery to sell both Mega Millions and Powerball games. The net proceeds from the sale of Mega Millions and Powerball in Ohio that remain after associated operating expenses, prize disbursements, retailer bonuses and commissions, reimbursements, and any other expenses necessary to comply with the agreements among the member jurisdictions are required to be transferred to the LPEF of the State.

Video Lottery was introduced in the State of Ohio in 2012 when Governor Kasich signed Executive Order 2011-22K, which authorized the Lottery to amend and adopt rules necessary to implement a video lottery program at Ohio's seven (7) horse racing facilities. On June 1, 2012, Scioto Downs in Columbus began video gaming with 1,787 video lottery terminals, since then six additional VLT facilities opened. The Ohio Lottery is responsible for regulating the licensing of video lottery sales agents (VLSA), key gaming employees, VLT manufacturers, collection and disbursement of VLT revenue, as well as compliance. The Ohio Lottery receives the proceeds from the video lottery terminal income less a commission paid to the VLSA.

BASIS OF ACCOUNTING

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

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

LOTTERY OPERATING FUND

Revenues for this fund are provided primarily from the sale of lottery tickets. Starting in June 2012, revenues from VLTs are also included in this fund. Receivables from ticket sales are collected weekly, with net proceeds equal to an individual retailer's gross sales less cash prizes paid and commissions earned. The balance from the Lottery Operating Fund is reduced mainly by the following types of transactions: (1) operating expenses and all non-deferred prize payments; (2) cash transfers to the Annuity Prize Trust Fund; (3) transfers to the LPEF of the State; and (4) transfers to other State agencies to support centralized services.

ANNUITY PRIZE FUND

Revenues for the Annuity 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 Annuity Prize Fund primarily represent payments for annuity prizes.

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts at June 30, 2016 and 2015 of \$492,000 and \$540,000, respectively, is based on an analysis of historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

RESTRICTED ASSETS

Restricted assets represent amounts restricted for the payment of annuity prize awards and payments to other Governmental Agencies. Upon the awarding of an annuity prize, amounts equal to the present value of future prize payments are deposited with the TOS. The Ohio Lottery is either credited with equity in the State of Ohio Common Cash and Investments Account equal to the amounts deposited, or specific State investments are identified and dedicated to the repayment of annuity prizes. Amounts necessary to fund annuity 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 position. In fiscal year 2006, the Ohio Lottery adopted a new method of providing investment capital for future annuity prize payments by purchasing individual securities to fund a specific prize obligation.

CAPITAL ASSETS

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

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

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain (loss) is reflected in non-operating revenues (expenses) in the year of disposal.

PRIZE AWARDS

Prize awards that are payable in installments over future years are recorded at their present values based upon interest rates provided to the Ohio Lottery by the TOS. The interest rates represent the expected long-term rate of return on the assets restricted for the payment of annuity prize awards. Once established for a particular annuity 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.

UNEARNED REVENUE

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

COMPENSATED ABSENCES

Ohio Lottery employees earn vacation leave, sick leave and personal leave at various rates within limits specified under collective bargaining agreements or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first four years of employment, up to a maximum rate of 9.2 hours every two weeks after 24 years of employment. Vacation credit may be accumulated to a maximum of three times the annual rate of accrual. At termination or upon other separation from the Ohio Lottery, employees are paid at their hourly rate for 100 percent of unused vacation leave and personal leave. Bargaining unit employees are also eligible to receive 100 percent of unused compensatory time.

Sick leave for all full-time employees is accumulated at a rate of 3.1 hours every two weeks. Union employees who have a minimum of five years or exempt employees who have a minimum of one year of service shall convert to cash any sick leave accrued at the employee's regular rate of pay earned at time of separation within three years of separation at the rate of 55 percent for retirement separation and 50 percent for all other separations.

DEFERRED COMPENSATION PLAN

Ohio Lottery employees are eligible to participate in the deferred compensation plan sponsored by the state of Ohio. The state-sponsored plan was created in accordance with IRC Section 457. The plan is available to all Ohio Lottery employees and permits them to defer a portion of their salary until future years. Deferred compensation assets are not available to employees until termination, retirement, death, or unforeseeable emergency.

VIDEO LOTTERY OPERATIONS

The Ohio Lottery commenced Video Lottery Operations in June 2012 at Scioto Downs in Columbus. In April 2013, Thistledown Racino in Cleveland opened. In March 2016, new owners took over and the name changed to JACK Thistledown. In December 2013, Hard Rock Rocksino in Northfield and Miami Valley Gaming in Lebanon opened. Later in May 2014, Belterra Park in Cincinnati opened. Hollywood Gaming Dayton opened in August 2014, and Hollywood Mahoning Valley Race Course opened in September 2014. As of June 30 2016, the Video Lottery Sales Agents (VLSA) had 10,793 VLTs in operation. A Video Lottery Terminal (VLT) is a stand-alone device containing a random-number generator. Each VLT is connected to a centralized computer system that allows the Lottery to monitor game play and revenue activity. The Central Monitoring System (CMS) keeps track of money deposited in a terminal, usage, wins and payouts, machine maintenance and cash removal. Each game theme is approved by Ohio Lottery Commissioners and independently tested and certified before being placed into operation.

The Ohio Lottery recognizes VLT revenue as “gross gaming revenue”. Gross gaming revenue represents gross wagers, net of related prizes. The minimum percentage payout in Ohio is 85 percent. Licensed operators receive 66.5 percent of gross terminal revenue to operate their facility, as commissions earned. Payments to the VLSA are recorded in VLT Commissions. For fiscal year ended June 30, 2016, VLT revenue was \$868.9 million with \$574.9 million paid to VLSA as VLT commission, \$2.9 million paid to Problem Gambling Services, and \$291.1 million paid to the Ohio Lottery.

NON-OPERATING EXPENSE: PAYMENTS TO THE LOTTERY PROFITS EDUCATION FUND

Payments to the Lottery Profits Education Fund totaled \$1,116.0 million. Of this amount, \$784.1 million represented profits generated from traditional lottery games, while \$282.0 million represented profits generated from the VLT program. In addition, \$50.0 million of revenue was collected from Video Lottery Sales Agents (VLSA) in the form of License Fees, per Ohio Administrative Code 3770:2-11-01.

BONUSES AND COMMISSIONS

Retailers receive a commission of 5.5 percent based on their total sales. Cashing bonuses are paid on a weekly basis and equal 1.0 percent of all redeemed tickets. An additional 0.5 percent is awarded to retailers if their cash-to-sales ratio is 49.5 percent or greater. A \$5 claiming bonus is awarded to retailers for validating a winning ticket worth \$600 to \$5,000. In addition, various selling bonuses are in place for online games ranging from \$500 to \$100,000. A retailer is eligible for an instant ticket bonus when selling the top prize of the game with top prize of \$100,000 or more. The bonus is 1.0 percent of the prize, with a maximum of \$10,000.

A VLSA receives a commission of 66.5 percent of the net win, which is defined as net revenues remaining after payout of prizes to players. The VLT terminal income is calculated as follows: credit(s) played, less credits won, less promotional credits.

FUND EQUITY CLASSIFICATIONS

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

- Net Investment in Capital Assets – consists of capital assets net of accumulated depreciation.
- Restricted – for Net Unrealized Gains on Restricted Investments.
- Unrestricted – represents all other net position that are not classified as invested in capital assets or restricted.

RISK MANAGEMENT

The Ohio Lottery is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ohio Lottery generally retains the risk of loss; however, the Ohio Lottery is protected for purposes of sales collections by third-party surety bonds or deposits. Upon inception, retailers are required to carry a minimum bond of \$15,000 or a deposit of \$500. On a yearly basis, the retailers' required coverage is based on an evaluation of their average annual sales. The minimum bond coverage is \$15,000 or one twenty-sixth of their annual sales. The amount of loss arising from these risks was not significant for the years ended June 30, 2016, 2015, and 2014. No significant payments were made or liabilities recorded during the years ended June 30, 2016, 2015, and 2014 due to self-insured risks.

The Office of Risk Management implemented the Blanket Bond coverage program, under which all state employees, including elected and appointed officials (other than the Treasurer of State as an individual), are covered. This policy is paid annually and remains in effect until terminated. The premium is split between all participating state agencies and is charged based upon number of employees. It provides a limit of \$250,000 per occurrence, subject to a \$5,000 deductible for employee theft. This policy covers all employees of all the participating agencies, including each commissioner. The Ohio Lottery pays a premium to the State for workers' compensation benefits.

The Ohio Lottery pays a premium assessed by DAS to cover motor vehicle liability related to bodily injury and property damage for a maximum of \$2.0 million per occurrence. The Ohio Lottery retains the risk for any liability exceeding this limit.

The state contracts with Medical Mutual of Ohio and United Healthcare to serve as the third-party administrators for the Ohio Med PPO, a fully self-insured health benefit plan. This plan allows all employees and any eligible dependents to have access to both network and non-network providers. Medical Mutual and United Healthcare each serve specific regions of Ohio based upon the home ZIP codes, which determines which administrator the employee will be assigned to. 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 \$36.22 for single, \$99.07 for family Minus Spouse and \$104.84 for Family Plus Spouse per pay period, while the Ohio Lottery contributed \$204.17 for single and \$560.31 for family coverage per pay period for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year.

The Ohio Lottery's total contributions to the Health Plans for the last ten fiscal years were \$3,746,000, \$3,577,000, \$3,198,000, \$2,682,000, \$1,267,000, \$1,371,000, \$1,284,000, \$1,221,000, \$1,693,000 and \$1,059,000.

BUDGETARY ACCOUNTING AND CONTROL

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

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

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

The Ohio Lottery maintains budgetary control by not permitting total expenditures to exceed appropriations without approval of the General Assembly, except for vouchered prize awards for which appropriation amendments may be approved by Ohio OBM and unvouchered prize expenses, which are not budgeted. Certain budget amendments were adopted during the year ended June 30, 2016.

NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 – part to be implemented for the fiscal year ending June 30, 2016, and part for the fiscal year ending June 30, 2017", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". GASB Statement No. 79, "Certain External Investment Pools and Pool Participants - part to be implemented for the fiscal year ending June 30, 2016, and part for the fiscal year ending June 30, 2017". GASB 72, 73, 76 and 79 have no impact to the Ohio Lottery.

ESTIMATES

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

SUMMARIZED COMPARATIVE DATA

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Ohio Lottery's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

SECURITIES LENDING

In accordance with GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions" (GASB 28), the Ohio Lottery reports cash received as collateral on securities lending transactions and any investments made with that cash as assets in the accompanying comparative statement of net position. 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 position.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

2. CASH DEPOSITS AND INVESTMENTS

The Ohio Lottery maintains cash on deposit at a commercial bank and with the TOS. The Ohio Lottery is authorized by State statutes to invest its moneys in certificates of deposit, money market accounts, the TOS investment pool STAR Ohio and obligations of the United States government or certain agencies thereof. The Ohio Lottery, through the TOS, may also enter into repurchase agreements with any eligible depository for periods not to exceed 30 days and is also permitted to engage in security lending transactions with qualified broker-dealers.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities of which the face value is at least 102 percent of the total value of public moneys on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States government, and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Ohio Lottery's name.

DEPOSITS

As of June 30, 2016, the deposit accounts were not exposed to custodial credit risk; since the accounts were held in insured depositories approved by the State Board of Deposit and were fully collateralized. The financial institutions holding state deposits collateralize accounts for balances in excess of the amounts insured by FDIC as required by ORC Section 135.18. The carrying amount was \$32,683,000 and bank balances of the Ohio Lottery's deposits with the financial institutions were \$32,689,000.

INVESTMENTS

Although risk exposures are minimized by complying with legal requirements and internal policies adopted by the TOS, the Ohio Lottery's investments are exposed to risks that may lead to a loss of value. The Ohio Lottery's investments at June 30, 2016 consist of the following:

INVESTMENT TYPE (rounded in thousands)	FAIR VALUE	CREDIT QUALITY RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1	1-5	6-10	>10
Commercial Paper	\$ -		\$ -	\$ -	\$ -	\$ -
U.S. Agency Obligations	36,943	AAA/Aaa	12,412	24,531	-	-
U.S. Agency Obligation Strips	243,458	AAA/Aaa	44,228	134,148	59,734	5,348
U.S. Government Obligation - strips	260,793	AAA	18,160	71,057	81,800	89,776
Total Investments	541,194		74,800	229,736	141,534	95,124
Investments not required to be categorized						
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)	685	AAA/Aaa	685	-	-	-
Equity in State of Ohio Common Cash & Investments	174,845		174,845	-	-	-
Collateral on loaned securities - Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio's Common Cash and Investments account	15,730		15,730	-	-	-
Total Lottery Commission - Structured Investments, as of June 30, 2016	\$ 732,454		\$ 266,060	\$ 229,736	\$ 141,534	\$ 95,124
Total Lottery Commission - Investments made with Cash Collateral	84,671					
Total - Statement of Net Position	817,125					

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

Interest Rate Risk: An interest rate risk is the risk that an investment's fair value decreases as the market interest rate increases. Typically, this risk is higher in debt instruments with longer maturities. The State's investment policy states that the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. The Ohio Lottery's portfolio invests in securities with a stated maturity of no more than 30 years from the date of purchase. Notwithstanding these limitations, in no case will the assets be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds. The risks that the Ohio Lottery will realize material losses from its investments in government securities resulting from changes in market interest rates is mitigated by the low probability that these securities will be sold before maturity.

Credit Risk: Ohio Lottery does not have a separate policy relating to credit risk of investments. The Ohio Lottery follows the Treasurer of State, Statement of Investment Policy. This policy applies to the investment of all interim funds of the State Treasurer including the Ohio Lottery Annuity Prizes Trust Fund.

Concentration of Credit Risk: The State's investment policy states that the portfolio should be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, or a specific type of security. The portfolio will be further

diversified to limit the exposure to any one issuer. No more than 2 percent of the total average portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Government Obligations..... 100% maximum
Repurchase Agreements5%, or \$250 million, whichever is less
Mutual Funds 10% maximum

The equity in State of Ohio common cash and investments, collateral on loaned securities, money market mutual fund and an investment in STAR Ohio has not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools’ investments and deposits by credit risk may be found in the State of Ohio Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

As of June 30, 2016, the total carrying amount of deposits and investments categorized and disclosed in this note is \$849,862. This amount can be reconciled to the statement of net position as follows:

<i>(rounded in thousands)</i>	<u>DEPOSITS</u>	<u>INVESTMENTS</u>	<u>TOTAL</u>
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 27,216	\$ -	\$ 27,216
Cash Equity with Treasurer of State	-	174,845	174,845
Cash and Cash Equivalents - Video Lottery	5,467	-	5,467
Collateral on Lent Securities	-	15,730	15,730
Restricted Assets:			
Cash Equity with Treasurer of State	-	54	54
Dedicated Investments	-	541,879	541,879
Collateral on Lent Securities	-	84,671	84,671
Total - per Statement of Net Position	<u>\$ 32,683</u>	<u>\$ 817,179</u>	<u>\$ 849,862</u>

SECURITIES LENDING TRANSACTIONS

The Ohio Lottery, through the TOS’s Investment Department, participates in a securities lending program for securities included in the equity in State of Ohio common cash and investments and Dedicated State of Ohio investment accounts. The lending program, authorized under Sections 135.143 and 135.47 of the ORC, is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral.

Several investments reported as “Collateral on Lent Securities” have terms that make them highly sensitive to interest rate changes. U.S. Agency & Instrumentality Obligations and Master Notes have daily reset dates. Variable Rate Notes have daily, monthly and quarterly reset dates.

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

The amount the borrower owes the lender includes the market value 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.

<i>(rounded in thousands)</i>			
<u>BORROWER OWES TO LENDER</u>		<u>LENDER OWES TO BORROWER</u>	
MV of Loaned Securities	\$ 83,032	Cash Collateral	\$ 84,650
Unpaid Distributions	-	Unpaid Distributions	-
Accrued Premiums	-	Accrued Rebates	13
Total	<u>\$ 83,032</u>	Total	<u>\$ 84,663</u>

Since the Lender owes the Borrowers \$1,631,000 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2016.

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

For loaned contracts, the TOS executes on the Ohio Lottery’s behalf not more than 15.0 percent of the State’s cash and investment portfolio can be lent to a single broker-dealer.

During the fiscal year, the TOS lent U.S. Agency and Instrumentality Obligations (excluding Strips) and U.S. Agency and Instrumentality Obligation – Strips in exchange for collateral consisting of cash and/or U.S. government obligations. The Ohio Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2016 the collateral the Ohio Lottery had received for securities lent consisted entirely of cash, some of which had been temporarily invested by the Ohio Lottery in various securities. The Ohio Lottery invests cash collateral in short-term obligations, which have a weighted average maturity of 3.4 days and generally match the maturities of the securities loans at year-end. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default. However, during

fiscal year 2016, 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 2016 due to prior-period losses.

INVESTMENT TYPE (rounded in thousands)	FAIR VALUE	CREDIT QUALITY RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1	1-5	6-10	>10
Repurchase Agreements	\$ 44,114	A/A	\$ 44,114	\$ -	\$ -	\$ -
U.S. Government Obligation Strips	-		-	-	-	-
U.S. Agency and Instrumentality Obligations	-		-	-	-	-
U.S. Agency and Instrumentality Obligations Strips	-		-	-	-	-
Bonds Mutual Funds	-		-	-	-	-
Certificates of Deposits (Negotiable)	-		-	-	-	-
Commercial Paper	1,070	A/A	1,070	-	-	-
Other Investments:						
Master Note	-		-	-	-	-
Variable Rate Note	39,482	AA/Aa A/A	39,482	-	-	-
Investments Not Required to be Categorized:						
Money Market Funds	-		-	-	-	-
Allocated Cash Collateral ⁽¹⁾	5		5	-	-	-
Total - Investments made with Cash Collateral, as of June 30, 2015	\$ 84,671		\$ 84,671	\$ -	\$ -	\$ -

(1) The Ohio Lottery has been allocated \$5,000 cash collateral bases on the amount of cash equity from the State's common cash and investment account.

3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2016 and 2015 was as follows:

(rounded in thousands)	2015	INCREASES	DECREASES	2016
Equipment	\$ 143,034	\$ 17,602	\$ 7,698	\$ 152,938
Vehicles	3,070	756	469	3,357
Total Capital Assets	146,104	18,358	8,167	156,295
Less Accumulated Depreciation:				
Equipment	(115,581)	(7,813)	5,644	(117,750)
Vehicles	(1,740)	(372)	405	(1,707)
Total Accumulated Depreciation	(117,321)	(8,185)	6,049	(119,457)
Net Capital Assets	\$ 28,783	\$ 10,173	\$ 2,118	\$ 36,838
	2014	INCREASES	DECREASES	2015
Capital Assets				
Equipment	\$ 123,509	\$ 19,716	\$ 191	\$ 143,034
Vehicles	3,181	313	424	3,070
Total Capital Assets	126,690	20,029	615	146,104
Less Accumulated Depreciation:				
Equipment	(107,404)	(8,365)	188	(115,581)
Vehicles	(1,817)	(299)	376	(1,740)
Total Accumulated Depreciation	(109,221)	(8,664)	564	(117,321)
Net Capital Assets	\$ 17,469	\$ 11,365	\$ 51	\$ 28,783

The Ohio Lottery has entered into a capital lease for gaming services and leased equipment with Intralot. During fiscal year 2016, additional equipment acquired amounted to \$3,533,000, per an addendum, and recorded at cost. The length of the contract is two years, with five optional two-year renewals; the Lottery has exercised the third renewal option. In addition, the lease requires repayment over 60 months. The assets and liabilities under the lease are recorded at the present value of the minimum lease payments. The carrying value of the capital lease assets are amortized over their estimated useful lives. The original amounts capitalized for the capital leases and their book values as of June 30, 2016 are as follows:

CAPITAL LEASES GROSS ASSETS AND ACCUMULATED AMORTIZATION

(rounded in thousands)

ASSET	JUNE 30, 2016	JUNE 30, 2015
Computer Equipment and Systems	\$ 108,815	\$ 110,771
Accumulated Depreciation	(98,738)	(97,677)
TOTAL	\$ 10,077	\$ 13,094

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2016 and 2015 consist of the following:

(rounded in thousands)

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Current portion - face amount	\$ 76,250	\$ 82,911
Less: Unamortized discount	<u>(18,771)</u>	<u>(21,525)</u>
Current portion - present value	57,479	61,386
Noncurrent portion - face amount	516,619	575,004
Less: Unamortized discount	<u>(102,439)</u>	<u>(118,158)</u>
Noncurrent portion - present value	414,180	456,846
Total Prize Awards Payable - Net of Discount	<u>\$ 471,659</u>	<u>\$ 518,232</u>

Interest rates used to determine the present values ranged from 2.0 percent to 8.0 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2016 is summarized as follows:

<u>FISCAL YEAR ENDING JUNE 30</u> (rounded in thousands)	<u>AMOUNT</u>
2017	\$ 76,250
2018	67,714
2019	61,145
2020	52,559
2021	47,260
2022 through 2026	155,962
2027 through 2031	91,867
2032 through 2036	35,129
2037 through 2041	4,483
2042 thereafter	<u>500</u>
Subtotal	592,869
Unamortized Discount	<u>(121,210)</u>
Net Prize Liability	<u>\$ 471,659</u>

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Ohio Lottery is required by law to award prizes to holders of winning lottery tickets equal to at least 50 percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$403.0 million and \$429.0 million for the years ended June 30, 2016 and 2015, respectively.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2016 and 2015 is as follows:

(rounded in thousands)

	<u>2016</u>	<u>2015</u>
Accrued Liabilities	\$ 1,754	\$ 1,681
Worker's Compensation - Current Portion	71	24
Compensated Absences - Current Portion	<u>309</u>	<u>507</u>
Total	<u>\$ 2,134</u>	<u>\$ 2,212</u>

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2016 and 2015 was as follows:

<i>(rounded in thousands)</i>	<u>2015</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>2016</u>	<u>DUE WITHIN ONE YEAR</u>
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 456,846	\$ 39,390	\$ (82,056)	\$ 414,180	\$ 57,479
Capital Lease Payable - Long-term	7,500	3,533	(4,756)	6,277	3,800
Accrued Workers' Compensation	1,464	-	(85)	1,379	71
Compensated Absences	3,109	2,770	(2,598)	3,281	309
Net Pension Liability	18,734	8,926	-	27,660	-
Total Noncurrent Liabilities	<u>\$ 487,653</u>	<u>\$ 54,619</u>	<u>\$ (89,495)</u>	<u>\$ 452,777</u>	<u>\$ 61,659</u>
	<u>2014</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>2015</u>	<u>DUE WITHIN ONE YEAR</u>
	<u>(RESTATE)</u>				
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 483,210	\$ 54,095	\$ (80,459)	\$ 456,846	\$ 61,386
Capital Lease Payable - Long-term	9,801	3,668	(5,969)	7,500	5,594
Accrued Workers' Compensation	1,754	-	(290)	1,464	24
Compensated Absences	3,051	2,619	(2,561)	3,109	507
Net Pension Liability	18,336	398	-	18,734	-
Total Noncurrent Liabilities	<u>\$ 516,152</u>	<u>\$ 60,780</u>	<u>\$ (89,279)</u>	<u>\$ 487,653</u>	<u>\$ 67,511</u>

The amounts due within one year for accrued worker's compensation and compensated absences are reported as current liabilities. Current liabilities for prize awards payable from restricted assets were \$57.5 million and \$61.4 million for the years ended June 30, 2016 and June 30, 2015 respectively.

7. PENSION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

PLAN DESCRIPTION

The Ohio Lottery contributes to the Ohio Public Employees Retirement System, which is a cost sharing, multiple-employer public employee retirement system. In 2000, legislation required OPERS to establish one or more defined contribution plans to be offered to members in addition to the existing Traditional Pension Plan. OPERS began offering three retirement plans to its members on January 1, 2003. The plans include the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan.

Effective January 7, 2013, legislation modified components of the Traditional Pension and Combined plans. Members were impacted by these changes to varying degrees based on their transition group. Three transition groups (A, B and C) were designed to ease the transition for key components of the pension plan changes. A brief overview of each plan is provided below.

THE TRADITIONAL PENSION PLAN

The Traditional Pension Plan is a defined benefit plan under which a member's retirement benefit is based on a formula. The formula is determined by the years of service credit and the average of the three or five (based on transition group) highest years of eligible salary, referred to as final average salary (FAS). OPERS investment professionals manage the investment of employee and employer contributions to ensure that funds are available to pay the formula benefit.

THE MEMBER-DIRECTED PLAN

The Member-Directed Plan is a defined contribution plan under which employee and employer contributions are deposited into a member's individual account and the member directs the investment by selecting from professionally managed OPERS investment options. The investment options include six core funds comprised of a series of fixed income and equity funds, 10 target date funds, and a self-directed brokerage account. Members become vested in the employer contributions at a rate of 20 percent for each year of participation until the member is fully vested at the end of five years. The account value available at retirement is based on employee and vested employer contributions and the investment gains and losses on those contributions.

THE COMBINED PLAN

The Combined Plan is a retirement plan with both a defined benefit and a defined contribution component. The employer contributions fund the defined benefit portion of the Combined Plan. The member's defined benefit retirement component is determined by a formula similar to, but lower than, the Traditional Pension Plan formula. OPERS investment professionals manage the investment of the employer contributions to ensure that funds are available to pay the reduced-formula benefit. Under the defined contribution portion of the Combined Plan, employee contributions are deposited into the member's individual account and the member directs the investment by selecting from professionally managed OPERS investment options. The investment options include six core funds comprised of a series of fixed income and equity funds, 10 target date funds, and a self-directed brokerage account. The defined contribution account value available at retirement is based on employee contributions and the investment gains and losses on those contributions.

OPERS maintains three health care trusts. Two trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust) work together to provide funding to eligible members of the Traditional Pension Plan and Combined Plan. The third trust is a Voluntary Employees' Beneficiary Association Trust (VEBA Trust) that accumulates funding for participants of the Member-Directed Retiree Medical Account Plan

(RMA), which functions as a medical spending account. The three trusts are considered to be separate legal entities under Internal Revenue Service (IRS) regulations and are reported separately in the financial statements

OPERS is administered in accordance with Chapter 145 of the Ohio Revised Code (ORC Chapter 145). OPERS is not part of the state of Ohio financial-reporting entity, nor is OPERS a component unit of the state of Ohio. Responsibility for the organization is vested in the Board of Trustees; there is no financial interdependency with the state of Ohio. The Board is the governing body of OPERS, with responsibility for administration and management.

AGE AND SERVICE RETIREMENT

In 2012, the Ohio General Assembly enacted into law a number of significant plan design changes that became effective on January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the new law applicable to each group. Members who were eligible to retire under law in effect prior to the legislation or who will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or who will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

Retirement benefits are specific to each plan and members must meet the eligibility requirements based on their age and years of service within the plan. Retirement eligibility also varies by division and transition group. The chart shows the retirement eligibility requirements for the State and Local divisions apply to members who participate in either the Traditional Pension Plan or the Combined Plan.

UNREDUCED	GROUP A		GROUP B		GROUP C	
	AGE	SERVICE	AGE	SERVICE	AGE	SERVICE
State/Local	Any	30	52	31	55	32
			Any	32		
	65	5	66	5	67	5

REDUCED	GROUP A		GROUP B		GROUP C	
	AGE	SERVICE	AGE	SERVICE	AGE	SERVICE
State/Local	55	25	55	25	57	25
	60	5	60	5	62	5

OPERS also provides age and service Defined Benefits, Defined Contribution Benefits, Early Retirement Incentive Plan (ERIP), Disability Benefits, Survivor Benefits, and Health Care Coverage.

CONTRIBUTIONS

The OPERS funding policy provides for periodic employee and employer contributions to all three plans (Traditional Pension, Combined and Member-Directed) at rates established by the Board of Trustees, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of the System’s actuary. All contribution rates were within the limits authorized by the Ohio Revised Code. The employee and employer contribution rates for the State and Local divisions are currently set at the maximums authorized by the Ohio Revised Code of 10 and 14 percent, respectively. The OLC’s required contributions to OPERS for the last eight fiscal years were \$2,983,000, \$2,841,000, \$2,570,000, 2,484,000, \$2,425,000, \$2,642,000, \$2,561,000, and \$2,642,000, equal to the required contribution for each year.

Based upon the recommendation of the System’s actuary, a portion of each employer’s contribution to OPERS is set aside for the funding of post-employment health care coverage. The portion of Traditional Pension Plan employer contributions allocated to health care was 2.0 percent for 2014 and 1.0 percent for 2013. The portion of Combined Plan employer contributions allocated to health care was 2.0 percent for 2014 and 1.0 percent for 2013. The employer contribution as a percent of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for both 2014 and 2013 was 4.5 percent.

8. NET PENSION LIABILITY

NET PENSION LIABILITY

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Ohio Lottery proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Ohio Lottery obligation for this liability to annually required payments. The Ohio Lottery cannot control benefit terms or the manner in which pensions are financed; however, the Ohio Lottery does receive the benefit of employees’ services in exchange

for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years; each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. The proportion of net pension liability was based on the Ohio Lottery’s share of contributions to the pension plan relative to the contributions of all participating entities.

The following is information related to the proportionate share and pension expense:

	PERS	TRADITIONAL	COMBINED	MEMBER-DIRECT	TOTAL
Proportionate of the Net Pension Liability Prior Measurement Date		0.155623 %	0.094337 %	0.000000 %	
Proportionate of the Net Pension Liability Current Measurement Date		<u>0.159693 %</u>	<u>0.107980 %</u>	<u>0.112449 %</u>	
Change in Proportionate Share		<u>0.004070 %</u>	<u>0.013643 %</u>	<u>0.112449 %</u>	
Proportionate Share of the Net Pension Liability		\$ 27,660,000	\$ (53,000)	\$ -	\$ 27,607,000
Proportionate Share of the Net Pension Expense		\$ 3,886,591	\$ 27,706	\$ -	\$ 3,914,297

At June 30, 2016, the OLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PERS	TRADITIONAL	COMBINED	MEMBER-DIRECT	TOTAL
Deferred Outflows of Resources					
Net Differences between OLC contributions and proportionate share of contributions		\$ 9,019,000	\$ 23,000	\$ 4,000	\$ 9,046,000
OLC contributions subsequent to the measurement date		<u>1,502,000</u>	<u>-</u>	<u>-</u>	<u>1,502,000</u>
Total Deferred Outflows of Resources		<u>\$ 10,521,000</u>	<u>\$ 23,000</u>	<u>\$ 4,000</u>	<u>\$ 10,548,000</u>
Deferred Inflows of Resources					
Differences between expected and actual experience		\$ 534,000	\$ 24,000	\$ -	\$ 558,000
Differences between OLC contributions and proportionate share of contributions		<u>903,000</u>	<u>3,000</u>	<u>1,000</u>	<u>907,000</u>
Total Deferred Inflows of Resources		<u>\$ 1,437,000</u>	<u>\$ 27,000</u>	<u>\$ 1,000</u>	<u>\$ 1,465,000</u>

\$1,502,000 reported as deferred outflows of resources related to pension resulting from OLC’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

FISCAL YEAR ENDING JUNE 30,	TRADITIONAL	COMBINED	MEMBER-DIRECT	TOTAL
2017	\$ (2,486,000)	\$ (3,000)	\$ (1,000)	\$ (2,490,000)
2018	(2,697,000)	(3,000)	(1,000)	(2,701,000)
2019	(2,398,000)	(2,000)	(1,000)	(2,401,000)
2020-2024	<u>-</u>	<u>12,000</u>	<u>(1,000)</u>	<u>11,000</u>
Total	<u>\$ (7,581,000)</u>	<u>\$ 4,000</u>	<u>\$ (4,000)</u>	<u>\$ (7,581,000)</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below.

KEY METHODS AND ASSUMPTIONS USED IN VALUATION OF TOTAL PENSION LIABILITY

ACTUARIAL INFORMATION	TRADITIONAL PENSION PLAN	COMBINED PLAN	MEMBER-DIRECTED PLAN
Valuation Date	December 31, 2015	December 31, 2015	December 31, 2015
Experience Study	5 Year Period Ended December 31, 2010	5 Year Period Ended December 31, 2010	5 Year Period Ended December 31, 2010
Actuarial Cost Method	Individual entry age	Individual entry age	Individual entry age
ACTUARIAL ASSUMPTIONS			
Investment Rate of Return	8.00%	8.00%	8.00%
Wage Inflation	3.75%	3.75%	3.75%
Projected Salary Increases	4.25%-10.05% (includes wage inflation at 3.75%)	4.25%-8.05% (includes wage inflation at 3.75%)	4.25%-8.05% (includes wage inflation at 3.75%)
Cost-of-living Adjustments	Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple	Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple	Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple

The discount rate used to measure the total pension liability was 8.0 percent for both the Traditional Pension Plan, Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return.

ASSET CLASS	TARGET ALLOCATION FOR 2015	WEIGHTED AVERAGE LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC)
Fixed Income	23.00%	2.31%
Domestic Equities	20.70%	5.84%
Real Estate	10.00%	4.25%
Private Equity	10.00%	9.25%
International Equities	18.30%	7.40%
Other Investments	18.00%	4.59%
TOTAL	100.00%	5.27%

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan, and the Member-Directed retiree medical accounts funded through the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money-weighted rate of return, net of investment expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The following table presents the net pension liability calculated using the discount rate of 8.0 percent, and the expected net pension liability if it were calculated using a discount rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

SENSITIVITY OF NET PENSION LIABILITY/(ASSET) TO CHANGES IN THE DISCOUNT RATE

OHIO LOTTERY'S NET PENSION LIABILITY/(ASSET) AS OF DECEMBER 31, 2015	1% DECREASE	CURRENT DISCOUNT RATE	1% INCREASE
	7.0%	8.0%	9.0%
Traditional Pension Plan	\$44,054,000	\$27,660,000	\$13,815,000
Combined Plan	(\$2,000)	(\$53,000)	(\$94,000)
Member-Directed	\$2,000	\$0	(\$2,000)

9. OTHER POST EMPLOYMENT BENEFITS

Health Care Coverage -The ORC permits, but does not require, OPERS to offer post-employment health care coverage (OPEB). The ORC allows a portion of the employers' contributions to be used to fund health care coverage. OPERS maintains a 401(h) Health Care Trust established under IRC Section 401(h), to fund health care coverage to the retirees and beneficiaries of the Traditional Pension Plan and Combined Plan. Prior to January 1, 2015, the System provided comprehensive health care coverage to retirees with 10 or more years of qualifying service credit and offered coverage to their dependents on a premium deduction or direct bill basis. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Coverage includes hospitalization, medical expenses, prescription drugs, and reimbursement of monthly Medicare premiums.

Participants in the Member-Directed Plan are not eligible for health care coverage under the health care plans funded through the 401(h) or 115 trusts. A portion of employer contributions for these participants is allocated to a RMA funded through the VEBA trust established under IRC 501(c)(9). Upon separation or retirement, participants may be reimbursed for qualified medical expenses from their RMA funds.

Other Benefits - Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3 percent cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a 3 percent cost-of-living adjustment on the defined benefit portion of their benefit. A death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional Pension Plan and Combined Plan. Death benefits are not available to beneficiaries of Member-Directed Plan participants.

Other Benefits also offered are an Early Retirement Incentive Plan and two disability plans for participants in either the Traditional Pension Plan or Combined Plan.

Money Purchase Annuity - Age-and-service retirees who become re-employed in an OPERS-covered position must contribute the regular contribution rates, which are applied toward a money purchase annuity. The money purchase annuity calculation is based on the accumulated contributions of the retiree for the period of re-employment, and an amount of the employer contributions determined by the Board. Upon termination of service, members over the age of 65 can elect to receive a lump-sum payout or a monthly annuity. Members under age 65 may leave the funds on deposit with OPERS to receive an annuity benefit at age 65, or may elect to receive a refund of their employee contributions made during the period of re-employment, plus interest.

Refunds - Members who have terminated service in OPERS-covered employment may file an application for refund of their account. The ORC requires a three-month waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's rights and benefits in OPERS.

Survivor Benefits - Dependents of deceased members who participated in either the Traditional Pension Plan or the Combined Plan may qualify for survivor benefits. The ORC Chapter 145 specifies the dependents and the conditions under which they qualify for survivor benefits.

OPERS issues a stand-alone financial report and any interested parties may obtain a copy by making a written request to: Ohio Public Employees Retirement System, Director-Finance, 277 East Town Street, Columbus, Ohio 43215-4642 or by visiting:

<http://www.opers.org/investments/cafr.shtml>.

The approximate contributions to OPERS for post-employment benefits by the Ohio Lottery for fiscal years 2016, 2015 and 2014 were \$426,000, \$406,000, \$183,000. Active members do not make contributions to the post-employment health care plan.

10. LITIGATION

The Ohio Lottery is a party to legal proceedings. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is estimable. In the opinion of management, the ultimate outcome of such legal proceedings cannot be determined at this time. Its impact on the Ohio Lottery's financial position, therefore, is also unknown.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL, COMBINED AND MEMBER-DIRECT PLANS LAST THREE FISCAL YEARS⁽¹⁾

PERS	2015	2014	2013
OLC's Proportion (Percentage) of the Collective Net Pension Liability			
Traditional	0.159630 %	0.155623 %	0.155623 %
Combined	0.107980 %	0.094337 %	0.094337 %
Member-Direct	0.112449 %	-	-
OLC's Proportionate share (amount) of the Collection Net Pension Liability	\$ 27,607,000	\$ 18,734,000	\$ 18,336,000
Traditional	\$ 27,660,000	\$ 18,770,000	\$ 18,346,000
Combined	(53,000)	(36,000)	(10,000)
Member-Direct	-	-	-
OLC's Covered-Employee Payroll	\$ 16,929,000	\$ 16,239,000	\$ 14,805,000
OLC's Proportionate share (amount) of the Collection Net Pension Liability as a Percentage of the OLC's Covered-Employee Payroll	163.1 %	115.4 %	123.9 %
The Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability			
Traditional	81.1 %	86.4 %	86.4 %
Combined	116.9 %	114.8 %	104.6 %
Member-Direct	103.9 %	107.1 %	

(1) Information prior to 2013 is not available

SCHEDULE OF OHIO LOTTERY CONTRIBUTIONS LAST EIGHT FISCAL YEARS⁽¹⁾

PERS	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contributions	\$ 2,986,000	\$ 2,913,000	\$ 2,776,000	\$ 2,484,000	\$ 2,425,000	\$ 2,642,000	\$ 2,561,000	\$ 2,642,000
Traditional	2,861,000	2,791,000	2,659,000	2,380,000	2,323,000	2,531,000	2,453,000	2,531,000
Combined	48,000	47,000	45,000	40,000	39,000	43,000	41,000	43,000
Member-Direct	77,000	75,000	72,000	64,000	63,000	68,000	66,000	68,000
Contributions in Relation to the Contractually Required Contributions	<u>(2,986,000)</u>	<u>(2,913,000)</u>	<u>(2,776,000)</u>	<u>(2,484,000)</u>	<u>(2,425,000)</u>	<u>(2,642,000)</u>	<u>(2,561,000)</u>	<u>(2,642,000)</u>
Contribution Deficiency (Excess)	<u>\$ 2,986,000</u>	<u>\$ 2,913,000</u>	<u>\$ 2,776,000</u>	<u>\$ 2,484,000</u>	<u>\$ 2,425,000</u>	<u>\$ 2,642,000</u>	<u>\$ 2,560,000</u>	<u>\$ 2,642,000</u>
OLC's Covered-Employee Payroll	\$ 17,844,000	\$ 16,929,000	\$ 16,239,000	\$ 14,805,000	\$ 14,363,000	\$ 14,617,000	\$ 15,608,000	\$ 15,941,000
Contributions as a Percentage of Covered-Employee Payroll	16.7 %	17.2 %	17.1 %	16.8 %	16.9 %	18.1 %	16.4 %	16.6 %

(1) Information prior to 2009 is not available

• STATISTICAL SECTION •



Couple uses wedding date to win Pick 5

Planning a wedding is tough, and one of first things a couple has to check off the list is the date for the big day. Pamela Fletcher and Jason Jones of Cleveland settled on June 4, 2016 to exchange their nuptials, and it seems like that date is a perfect and lucky choice.

All week Jason kept seeing the number 60416. It seemed to be everywhere he turned. "Was it a coincidence or was it something else?" he thought. While in the car with Pamela, he saw the number again. He said to her "I think that we should play our wedding date in the Pick 5 today."

Pamela was skeptical that they would win anything, since she had never really played the lottery before. She almost didn't play the number!

The couple decided to play anyway and sure enough, that day their wedding date fell straight in the evening Pick 5 drawing! The couple won \$25,000.



Son to take mom on balloon ride after Rolling Cash 5 win

Chris Crosby of Van Wert brought his mom Debra along to claim the \$182,000 jackpot prize he won playing Rolling Cash 5. He planned to use a small portion of his winnings to take his mom on a balloon ride. It's on her bucket list.



Timoteo Ransom • \$50,000 instant ticket winner

Walbridge man wins \$20,000 on KENO

Matt Brown of Walbridge was at Fricker's in Perrysburg celebrating his son's birthday when he decided to play Keno. His son was at the claw machine while the draw displayed on the screen. When he checked his ticket he thought he won \$2,000, turns out he won ten times as much! \$20,000!



Wooster Couple win \$50 a day for life

Michele and Vince Yoder of Wooster won \$50 A day for Life. The win will help with college expenses for their three who will be in college. Adding to that bonus is \$10,000 because they own Triway Bowling Alley where Michele bought the winning ticket.



Kathy Berry • \$50,000 winner



Calvin Wray • \$20,000 winner



Melissa Trissler • \$20,000 winner



Zanesville woman to split winnings with mom

Savanna Mitchell of Zanesville cried when she won a \$250,000 top prize on Holiday Lucky X10 drawing held 1-26-16. She will split her prize with her mother, Pat, because they always go in half when buying Ohio lottery instants.



Fremont woman breaks the bank

Christine Scott of Fremont won \$50,000 on Break the Bank. She was stunned and said she didn't realize she could win that much on an instant ticket.

OHIO LOTTERY COMMISSION STATISTICAL SECTION

This section of the Ohio Lottery's comprehensive annual financial report presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing the Lottery's overall financial health.

FINANCIAL TRENDS

These schedules contain trend information to help readers understand how the Lottery's financial performance and position has changed over time. The information presented includes changes in net position, sales, and transfer data specific to the Lottery as well as the lottery industry as a whole.

REVENUE CAPACITY

These schedules contain information to help readers assess the Lottery's most significant revenue source. Sales information, included in the financial trends section, provides data about the various games available to the public. The Lottery's statewide retailer network determines the market exposure for the Lottery's games.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help readers understand the environment within which the Lottery operates.

OPERATING INFORMATION

These schedules contain information about the Lottery's organization and efficiency.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports or the audited financial statements for the relevant year.

OHIO LOTTERY - CHANGE IN NET POSITION

LAST TEN FISCAL YEARS • IN MILLIONS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Plus: Total Operating Revenues	\$ 2,267.1	\$ 2,332.9	\$ 2,425.9	\$ 2,498.8	\$ 2,608.3	\$ 2,781.7	\$ 2,939.8	\$ 3,288.0	\$ 3,776.4	\$ 3,987.2
Less: Total Prizes, Bonuses And Commissions	1,478.3	1,541.0	1,609.1	1,667.2	1,764.4	1,860.2	1,945.1	2,158.9	-	-
Less: Direct Game Costs	-	-	-	-	-	-	-	-	2,623.5	2,754.4
Less: Total Operating Expenses	109.8	110.3	124.3	109.4	109.3	107.8	121.4	121.0	75.9	89.5
Operating Income (Loss)	\$ 679.0	\$ 681.6	\$ 692.5	\$ 722.2	\$ 734.6	\$ 813.7	\$ 873.3	\$ 1,008.2	\$ 1,077.0	\$ 1,143.3
Plus: Non-Operating Income	60.4	88.0	55.8	76.3	24.1	79.1	-	16.9	19.1	35.1
Less: Non-Operating Expense	109.3	53.9	41.2	40.0	37.8	34.0	137.6	30.7	30.3	24.4
Less: Transfers	669.3	672.2	702.3	728.6	738.8	771.0	803.1	1,004.3	1,090.0	1,116.1
Change In Net Position	\$ (39.2)	\$ 43.5	\$ 4.8	\$ 29.9	\$ (17.9)	\$ 87.8	\$ (67.4)	\$ (9.9)	\$ (24.2)	\$ 37.9
Change In Net Position	(39.2)	43.5	4.8	29.9	(17.9)	87.8	(67.4)	(9.9)	(41.6)	37.9
Total Net Position - Beginning	129.6	90.4	133.9	138.7	168.6	150.7	238.5	171.1	161.2	119.6
Total Net Position - Ending	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6	\$ 150.7	\$ 238.5	\$ 171.1	\$ 161.2	\$ 119.6	\$ 157.5

OHIO LOTTERY - NET POSITION

LAST TEN FISCAL YEARS • IN MILLIONS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Investment In Capital Assets	\$ 2.7	\$ 4.4	\$ 5.6	\$ 7.9	\$ 4.0	\$ 2.8	\$ 1.7	\$ 2.1	\$ 15.7	\$ 26.8
Restricted For Annuity Prizes	1.6	1.0	1.4	-	-	-	-	-	-	-
Restricted For Net Unrealized Gains On Restricted Investments	12.3	43.3	55.7	87.4	77.1	123.7	85.1	73.8	66.3	77.4
Unrestricted	73.8	85.2	76.0	73.3	69.6	112.0	84.3	85.3	37.6	53.3
Total Net Position	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6	\$ 150.7	\$ 238.5	\$ 171.1	\$ 161.2	\$ 119.6	\$ 157.5

OHIO LOTTERY - CAPITAL ASSETS

LAST TEN FISCAL YEARS • IN MILLIONS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Capital Assets										
Lottery Equipment	\$ -	\$ 1.6	\$ 2.0	\$ 6.1	\$ 2.3	\$ 0.5	\$ (0.3)	\$ 0.0	\$ 13.8	\$ 24.4
Vehicles	1.3	1.4	1.5	1.1	1.1	1.3	1.1	1.4	1.3	1.6
Data / Office Equipment	1.4	1.4	2.1	0.7	0.6	1.0	0.8	0.7	0.6	0.8
Net Investments In Capital Assets	\$ 2.7	\$ 4.4	\$ 5.6	\$ 7.9	\$ 4.0	\$ 2.8	\$ 1.6	\$ 2.1	\$ 15.7	\$ 26.8
Capital Asset Lease										
Ratio of Outstanding Debt										
Related Debt ⁽¹⁾	-	-	-	\$ 66.8	\$ 58.0	\$ 45.3	\$ 33.0	\$ 15.4	\$ 13.1	\$ 10.1
Percentage Of Total Operating Revenues	-	-	-	2.7%	2.2%	1.6%	1.1%	0.5%	0.3%	0.3%

(1) The Debt will be paid by Lottery Ticket Sales.

Note: The Ohio Lottery changed the way expenses are classified for Fiscal Year 2015 and subsequent.

REVENUES LAST TEN FISCAL YEARS • IN MILLIONS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Online Draw Sales										
Pick 3	\$ 370.9	\$ 387.1	\$ 382.5	\$ 366.7	\$ 364.4	\$ 357.4	\$ 345.2	\$ 339.0	\$ 338.0	\$ 343.0
Pick 4	183.0	198.8	205.9	201.3	209.0	207.9	189.8	185.8	192.8	200.3
Pick 5	-	-	-	-	-	-	28.0	27.9	33.3	36.4
Ten-Oh ⁽¹⁾	-	18.0	11.0	9.7	9.2	8.3	0.8	-	-	-
Rolling Cash 5	72.9	70.5	67.2	67.1	62.4	63.8	61.5	63.4	62.6	60.3
Lot O' Play	21.8	-	-	-	-	-	-	-	-	-
Kicker ⁽²⁾	21.3	21.4	21.4	24.1	10.3	-	-	-	-	-
Classic Lotto/Kicker ⁽²⁾⁽³⁾	21.8	41.2	43.9	42.8	42.7	43.2	46.6	60.1	35.7	35.8
Raffle/Multi-State Raffle	17.8	10.0	9.3	9.1	10.0	10.0	9.1	1.0	7.0	-
Ezplay	-	12.3	34.3	30.4	30.9	46.5	68.0	84.8	99.8	115.2
Ezplay Tap	-	-	-	-	-	-	-	-	24.0	31.5
Ezplay Quick Keno	-	-	-	-	-	-	-	-	-	0.7
Keno / Booster ⁽⁴⁾	-	-	99.8	120.6	157.9	209.8	251.5	298.1	329.5	365.9
Mega Millions/Megaplier ⁽²⁾	196.1	201.0	193.0	215.8	165.0	179.3	102.8	133.4	113.3	102.2
Powerball/Power Play ⁽⁴⁾	-	-	-	23.6	76.4	105.3	166.6	122.8	105.0	193.5
Lucky For Life	-	-	-	-	-	-	-	-	-	14.1
Total Online Draw Sales	905.6	960.3	1,068.3	1,111.2	1,138.2	1,231.5	1,269.9	1,316.3	1,341.0	1,498.9
Instant Games Sales	1,353.8	1,364.8	1,349.4	1,379.0	1,462.8	1,507.5	1,428.0	1,426.8	1,551.0	1,560.7
Total Ticket Sales	2,259.4	2,325.1	2,417.7	2,490.2	2,601.0	2,739.0	2,697.9	2,743.1	2,892.0	3,059.6
Vlt Revenue	-	-	-	-	-	11.1	165.5	437.6	773.0	868.9
Vlt License Revenue	-	-	-	-	-	25.0	70.0	100.1	105.2	50.1
Other Revenues ⁽⁵⁾	68.1	95.8	64.0	86.6	31.4	6.6	6.3	7.2	6.2	8.6
Total Revenues	\$ 2,327.5	\$ 2,420.9	\$ 2,481.7	\$ 2,576.8	\$ 2,632.4	\$ 2,781.7	\$ 2,939.8	\$ 3,288.0	\$ 3,776.4	\$ 3,987.2

(1) In August 2012, the Ten-Oh game was replaced by Pick 5.

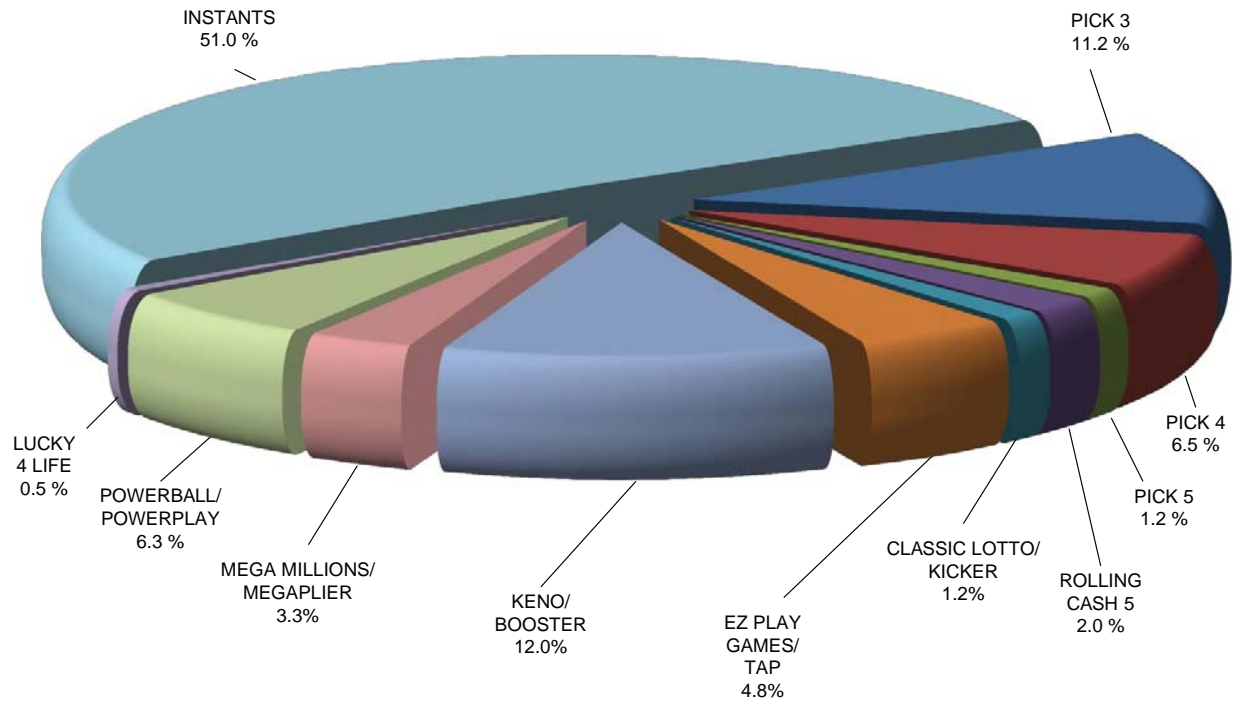
(2) The Kicker was retired from Mega Millions in 2011 and was replaced by Megaplier; Kicker was reintroduced in 2012 as a add-on feature to Classic Lotto.

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

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

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

TRADITIONAL SALES BY GAME FISCAL YEAR 2016



PRIZE PAYOUT AS A PERCENTAGE OF TRADITIONAL LOTTERY SALES

LAST TEN FISCAL YEARS • IN MILLIONS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
SALES										
Online	\$ 905.6	\$ 960.3	\$ 1,068.3	\$ 1,111.2	\$ 1,138.2	\$ 1,231.5	\$ 1,269.9	\$ 1,316.3	\$ 1,341.0	\$ 1,498.9
Instant	1,353.8	1,364.8	1,349.4	1,379.0	1,462.8	1,507.5	1,428.0	1,426.8	1,551.0	1,560.7
Total Ticket Sales	\$ 2,259.4	\$ 2,325.1	\$ 2,417.7	\$ 2,490.2	\$ 2,601.0	\$ 2,739.0	\$ 2,697.9	\$ 2,743.1	\$ 2,892.0	\$ 3,059.6
PRIZE EXPENSE										
Online	\$ 426.7	\$ 470.3	\$ 537.0	\$ 566.7	\$ 593.1	\$ 648.0	\$ 683.0	\$ 705.7	\$ 758.5	\$ 838.2
Instant	911.7	926.7	922.0	947.0	1,010.0	1,032.9	985.1	992.3	1,116.8	1,094.4
Total Prize Expense	\$ 1,338.4	\$ 1,397.0	\$ 1,459.0	\$ 1,513.7	\$ 1,603.1	\$ 1,680.8	\$ 1,668.1	\$ 1,698.0	\$ 1,875.3	\$ 1,932.6
PRIZE PAYOUT PERCENTAGE										
Online	47.1%	49.0%	50.3%	51.0%	52.1%	52.6%	53.8%	53.6%	56.6%	55.9%
Instant	67.3%	67.9%	68.3%	68.7%	69.0%	68.5%	69.0%	69.5%	72.0%	70.1%

EXPENSES AS A PERCENTAGE OF TRADITIONAL LOTTERY SALES

LAST TEN FISCAL YEARS • IN MILLIONS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Prizes	\$ 1,338.4	\$ 1,397.0	\$ 1,459.0	\$ 1,513.7	\$ 1,603.1	\$ 1,680.8	\$ 1,668.1	\$ 1,698.0	\$ 1,875.3	\$ 1,932.6
Prizes as % Total Sales	59.2%	60.1%	60.3%	60.8%	61.6%	61.4%	61.8%	61.9%	64.8%	63.2%
Bonuses/Commissions	140.0	143.9	150.1	153.4	161.3	172.0	166.9	169.9	179.2	188.6
Bonuses/Commissions as % of total Sales	6.2%	6.2%	6.2%	6.2%	6.2%	6.3%	6.2%	6.2%	6.2%	6.2%
Direct Game Costs	-	-	-	-	-	-	-	-	55.4	55.0
Direct Game Costs as a % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	1.8%
Operating Expenses	109.8	110.3	124.3	109.4	109.3	107.8	116.5	113.8	75.9	89.5
Operating Expenses as % of Total Sales	4.9%	4.7%	5.1%	4.4%	4.2%	3.9%	4.3%	4.1%	2.6%	2.9%
Payments to Education	669.3	672.2	702.3	728.6	738.8	771.0	752.5	764.9	739.9	784.1
Payments to Education as % of Total Sales	29.6%	28.9%	29.0%	29.3%	28.4%	28.1%	27.9%	27.9%	25.6%	25.6%

VIDEO LOTTERY TERMINALS

GROSS GAMING REVENUE, COMMISSIONS TO VLSA, OPERATING EXPENSES AND PAYMENTS TO EDUCATION

LAST TEN FISCAL YEARS • IN MILLIONS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross Gaming Revenue						\$ 11.1	\$ 165.6	\$ 437.6	\$ 773.0	\$ 868.9
Commissions to VLSA's ⁽²⁾						\$ 7.4	\$ 110.1	\$ 291.0	\$ 514.0	\$ 577.8
Lottery Net Revenue						3.7	55.5	146.6	259.0	291.1
Operating Expenses						N/A ⁽¹⁾	4.9	7.2	8.8	9.1
Payments to Education						N/A ⁽¹⁾	50.6	139.4	250.1	282.0

(1): Operating Costs (including Start-up) and resulting profits were included in regular Lottery Operating Expenses & Transfers to Education. In Fiscal Year 2012, there was only one (1) month of VLT operations.

(2) Includes collected from the VLSA's for Problem Gambling programs.

TOTAL EXPENSES, INCLUDING VIDEO LOTTERY TERMINALS

LAST TEN FISCAL YEARS • IN MILLIONS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Sales Includes VLT Net	\$ 2,259.4	\$ 2,325.1	\$ 2,417.7	\$ 2,490.2	\$ 2,601.0	\$ 2,750.1	\$ 2,863.5	\$ 3,180.7	\$ 3,665.0	\$ 3,928.5
Direct Game Costs:										
Prizes	1,338.4	1,397.0	1,459.0	1,513.7	1,603.1	1,680.8	1,668.1	1,698.0	1,875.3	1,932.6
Bonuses and Commission	140.0	143.9	150.1	153.4	161.3	179.4	277.0	460.9	693.2	766.4
Cost of Tickets Sold and Vendor Fees	-	-	-	-	-	-	-	-	55.0	55.4
Operating Expenses	109.8	110.3	124.3	109.4	109.3	107.8	121.4	121.0	75.9	89.5
Payments to Education	\$ 669.3	\$ 672.2	\$ 702.3	\$ 728.6	\$ 738.8	\$ 771.0	\$ 803.1	\$ 904.3	\$ 990.0	\$ 1,066.1

OHIO LOTTERY • REVENUES

LAST 10 FISCAL YEARS • IN MILLIONS

DAILY DRAWS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
PICK 3	\$ 370.9	\$ 387.1	\$ 382.5	\$ 366.7	\$ 364.4	\$ 357.4	\$ 345.2	\$ 339.0	\$ 338.0	\$ 343.0
PICK 4	183.0	198.8	205.9	201.3	209.0	207.9	189.8	185.8	192.8	200.3
PICK 5	-	-	-	-	-	-	28.0	27.9	33.3	36.4
TOTAL SALES	\$ 553.9	\$ 585.9	\$ 588.4	\$ 568.0	\$ 573.4	\$ 565.3	\$ 563.0	\$ 552.7	\$ 564.1	\$ 579.7

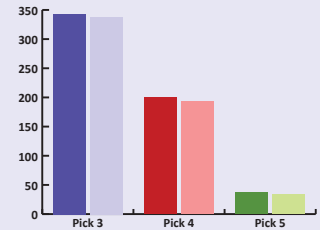
% OF FY16 SALES



SALES

	% OF FY16 SALES	FY16	FY15	DIFF
PICK 3	59.2%	\$ 343.0	\$ 338.0	\$ 5.0
PICK 4	34.6%	200.3	192.8	7.5
PICK 5	6.3%	36.4	33.3	3.1
	100.0%	\$ 579.7	\$ 564.1	\$ 15.6

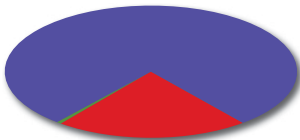
FY 16 vs. FY 15



EZPLAY GAMES

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EZPLAY	\$ -	\$ 12.3	\$ 34.3	\$ 30.4	\$ 30.9	\$ 46.5	\$ 68.0	\$ 84.8	\$ 99.8	\$ 115.2
EZPLAY TAP	-	-	-	-	-	-	-	-	24.0	31.5
EZPLAY QUICK KENO	-	-	-	-	-	-	-	-	-	0.7
TOTAL SALES	\$ -	\$ 12.3	\$ 34.3	\$ 30.4	\$ 30.9	\$ 46.5	\$ 68.0	\$ 84.8	\$ 123.8	\$ 147.4

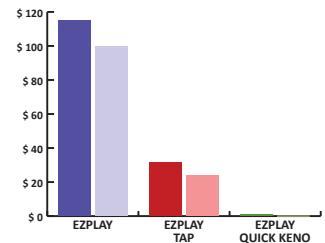
% OF FY16 SALES



SALES

	% OF FY16 SALES	FY16	FY15	DIFF
EZPLAY	78.2%	\$ 115.2	\$ 99.8	\$ 15.4
EZPLAY TAP	21.4%	31.5	24.0	7.5
EZPLAY QUICK KENO	0.5%	0.7	-	0.7
	100.0%	\$ 147.4	\$ 123.8	\$ 23.6

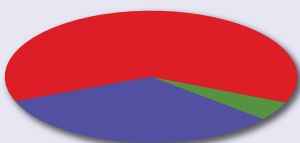
FY 16 vs. FY 15



MULTI-STATE GAMES

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
MEGA MILLIONS/MEGAPLIER ⁽²⁾	\$ 196.1	\$ 201.0	\$ 193.0	\$ 215.8	\$ 165.0	\$ 179.3	\$ 102.8	\$ 133.4	\$ 113.3	\$ 102.2
POWERBALL/POWER PLAY ⁽⁴⁾	-	-	-	23.6	76.4	105.3	166.6	122.8	105.0	193.5
LUCKY FOR LIFE	-	-	-	-	-	-	-	-	-	14.1
TOTAL SALES	\$ 196.1	\$ 201.0	\$ 193.0	\$ 239.4	\$ 241.4	\$ 284.6	\$ 269.4	\$ 256.2	\$ 218.3	\$ 309.8

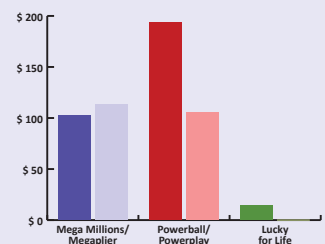
% OF FY16 SALES



SALES

	% OF FY16 SALES	FY16	FY15	DIFF
MEGA MILLIONS / MEGAPLIER	33.0%	\$ 102.2	\$ 113.3	\$ (11.1)
POWERBALL / POWER PLAY	62.5%	193.5	105.0	88.5
LUCKY FOR LIFE	4.6%	14.1	-	14.1
	100.0%	\$ 309.8	\$ 218.3	\$ 91.5

FY 16 vs. FY 15



OHIO LOTTERY • REVENUES

LAST 10 FISCAL YEARS • IN MILLIONS

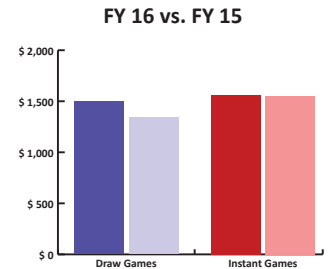
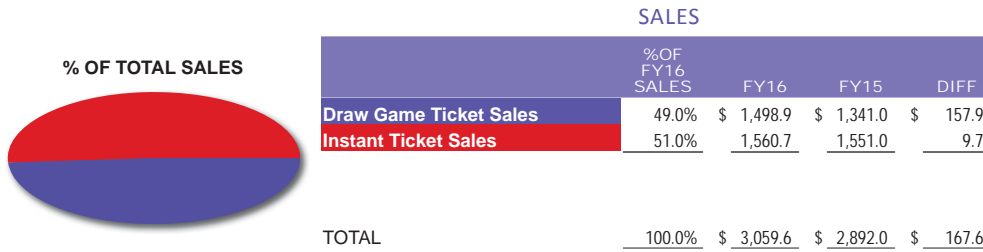
DAILY LOTTO

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
LOT O' PLAY	\$ 21.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
KICKER ⁽²⁾	21.3	21.4	21.4	24.1	10.3	-	-	-	-	-
CLASSIC LOTTO/KICKER ⁽²⁾⁽³⁾	21.8	41.2	43.9	42.8	42.7	43.2	46.6	60.1	35.7	35.8
RAFFLE/MULTI-STATE RAFFLE	17.8	10.0	9.3	9.1	10.0	10.0	9.1	1.0	7.0	-
TEN-OH ⁽¹⁾	-	18.0	11.0	9.7	9.2	8.3	0.8	-	-	-
ROLLING CASH 5	72.9	70.5	67.2	67.1	62.4	63.8	61.5	63.4	62.6	60.3
TOTAL SALES	\$ 155.6	\$ 161.1	\$ 152.8	\$ 152.8	\$ 134.6	\$ 125.3	\$ 118.0	\$ 124.5	\$ 105.3	\$ 96.1

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
KENO / BOOSTER ⁽⁴⁾	\$ -	\$ -	\$ 99.8	\$ 120.6	\$ 157.9	\$ 209.8	\$ 251.5	\$ 298.1	\$ 329.5	\$ 365.9

TOTAL REVENUE

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
DRAW GAME TICKET SALES	\$ 905.6	\$ 960.3	\$ 1,068.3	\$ 1,111.2	\$ 1,138.2	\$ 1,231.5	\$ 1,269.9	\$ 1,316.3	\$ 1,341.0	\$ 1,498.9
INSTANT GAMES SALES	1,353.8	1,364.8	1,349.4	1,379.0	1,462.8	1,507.5	1,428.0	1,426.8	1,551.0	1,560.7
VLT REVENUE	-	-	-	-	-	11.1	165.5	437.6	773.0	868.9
VLT LICENSE REVENUE	-	-	-	-	-	25.0	70.0	100.1	105.2	50.1
OTHER REVENUES ⁽⁵⁾	68.1	95.8	64.0	86.6	31.4	6.6	6.3	7.2	6.2	8.6
TOTAL REVENUES	\$ 2,327.5	\$ 2,420.9	\$ 2,481.7	\$ 2,576.8	\$ 2,632.4	\$ 2,781.7	\$ 2,939.7	\$ 3,288.0	\$ 3,776.4	\$ 3,987.2



(1) In August 2012, the Ten-Oh game was replaced by Pick 5.

(2) The Kicker was retired from Mega Millions in 2011 and was replaced by Megaplier; Kicker was reintroduced in 2012 as a add-on feature to Classic Lotto.

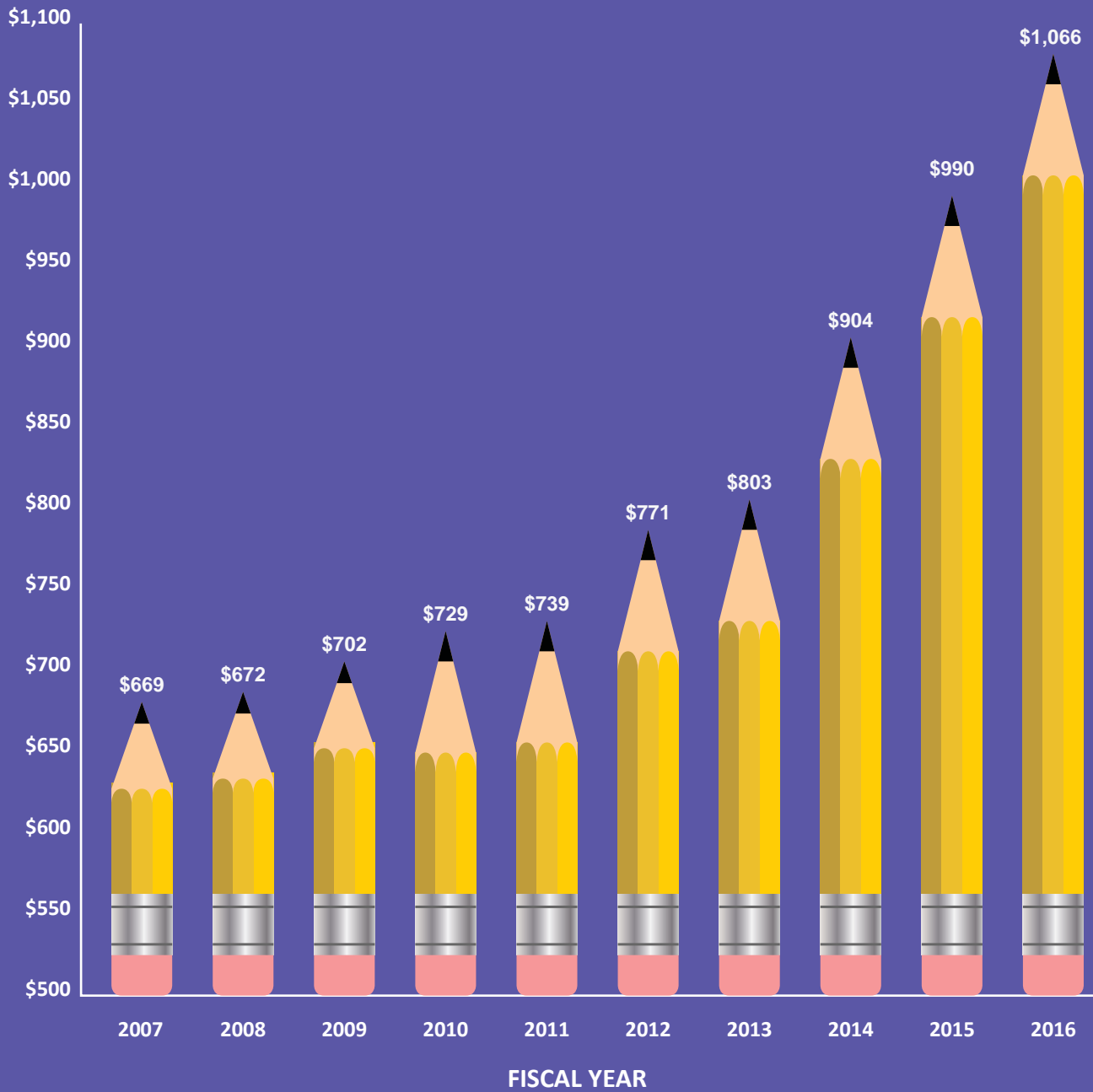
(3) In January 2007, the Classic Lotto game replaced Lot O' Play.

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

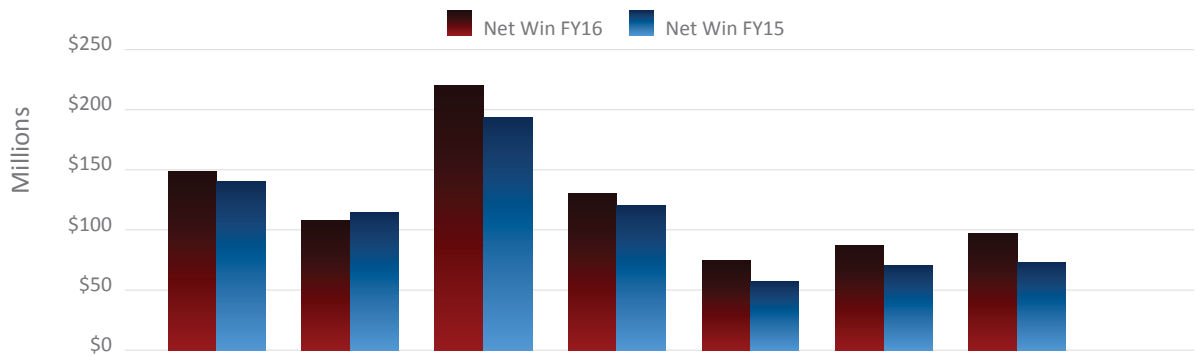
(5) Interest Income includes adjustment for unrealized gain/losses as a result of GASB 31 reporting.

OHIO LOTTERY • TRANSFERS TO EDUCATION

LAST 10 FISCAL YEARS • IN MILLIONS



TOTAL VIDEO LOTTERY TERMINAL (VLT) SALES IN MILLIONS



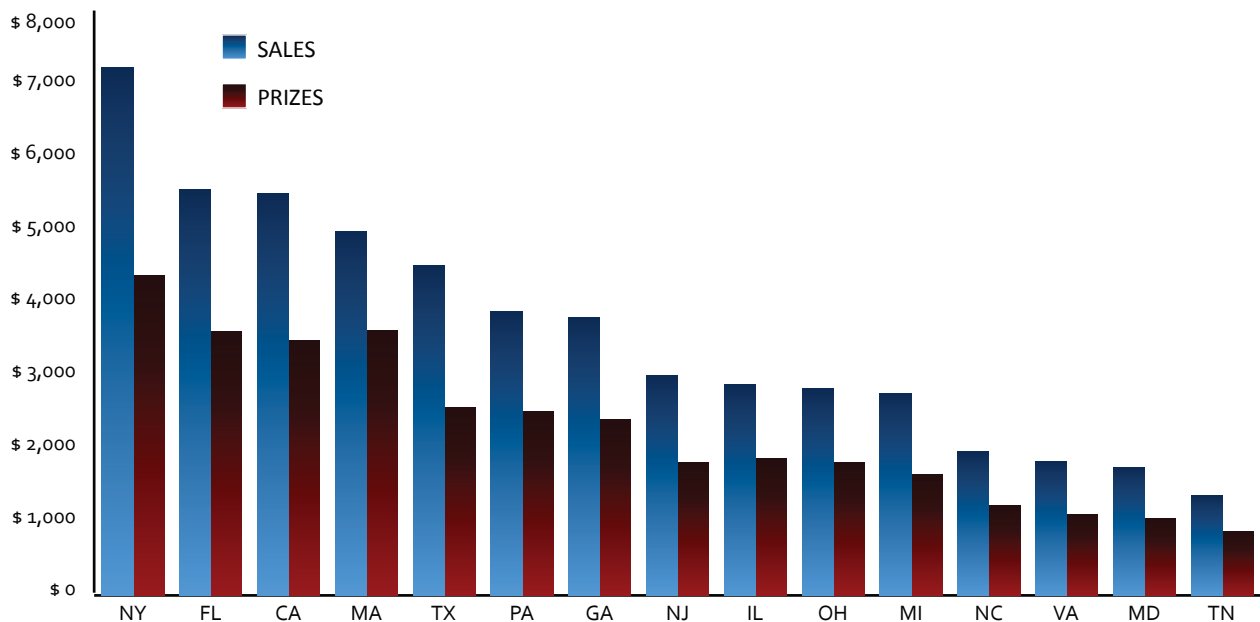
	SCIOTO DOWNS RACINO	JACK THISTLEDOWN RACINO	HARD ROCK ROCKSINO	MIAMI VALLEY GAMING	BELTERRA PARK GAMING	HOLLYWOOD GAMING AT DAYTON RACEWAY	HOLLYWOOD GAMING AT MAHONING VALLEY	TOTAL
DATE OPENED	June 2012	April 2013	December 2013	December 2013	April 2014	August 2014	September 2014	
Average # of VLTs	2,150	1,467	2,254	1,630	1,366	999	927	10,793
% Change of Net Win from FY15	5.8%	-5.9%	13.5%	8.4%	29.7%	24.3%	32.4%	12.4%
Net Win FY16	\$148.9	\$108.3	\$220.7	\$131.0	\$74.8	\$87.8	\$97.5	\$868.9
Racino Commission	98.5	71.7	146.0	86.7	49.5	58.1	64.5	574.9
OLC Commission	49.9	36.3	73.9	43.9	25.0	29.4	32.7	291.1
Problem Gambling Services	0.5	0.4	0.7	0.4	0.3	0.3	0.3	2.9

U.S. LOTTERY INDUSTRY STATEMENT OF OPERATIONS RANK BY SALES^(a) FISCAL YEAR 2015^(b) IN MILLIONS

U. S. LOTTERY	POPULATION	TOTAL TICKET SALES	PRIZES	BONUSES/ COMMISSIONS	OPERATING EXPENSES	PRIZES AS % OF TOTAL SALES	PER CAPITA SALES
1 New York	19.8	\$7,251.0	\$4,397.0	\$434.7		60.6%	\$366
2 Florida	20.3	5,583.3	3,627.9	312.0	157.3	64.9%	275
3 California	39.2	5,524.9	3,501.8	380.3	279.5	63.4%	141
4 Massachusetts	6.8	5,005.7	3,641.3	286.7	100.6	72.6%	737
5 Texas	27.5	4,529.7	2,585.3	248.6	464.3	57.1%	165
6 Georgia	10.2	3,903.5	2,528.9	249.0	166.7	64.5%	380
7 Pennsylvania	12.8	3,819.6	2,411.7	203.2	145.6	63.1%	298
8 New Jersey	9.0	3,027.3	1,825.2	169.5	107.5	59.8%	338
9 OHIO	11.6	2,892.0	1,875.3	179.2	130.9	64.7%	249
10 Illinois (c)	12.9	2,837.8	1,823.6	161.6	125.4	63.9%	221
11 Michigan	9.9	2,771.9	1,665.5	203.6	116.0	59.8%	279
12 North Carolina	10.0	1,972.2	1,231.2	137.8	81.5	62.3%	196
13 Virginia	8.4	1,843.9	1,116.6	103.9	90.8	60.6%	220
14 Maryland	6.0	1,760.9	1,051.5	128.6		59.7%	293
15 Tennessee	6.6	1,368.5	881.1	96.3	47.3	64.2%	207

(a) Sales excludes video lottery, (b) Latest information available, (c) Unaudited
The fiscal year ends June 30, 2015 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, 2015.
Source: "La Fleur's 2016 World Lottery Almanac"

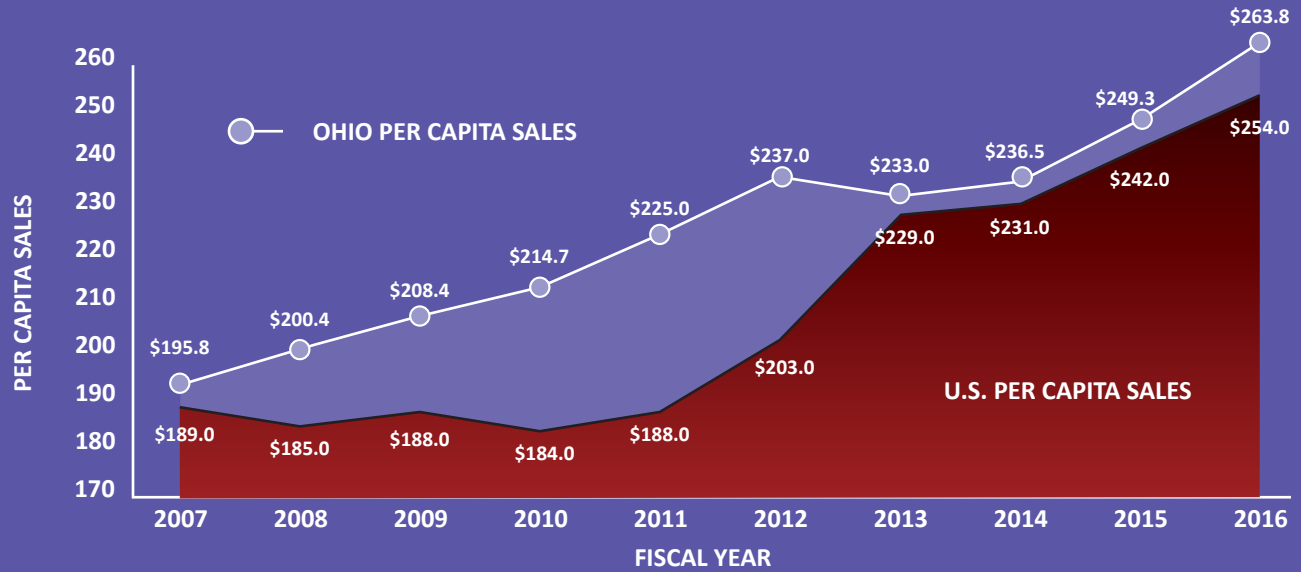
U.S. LOTTERY INDUSTRY • FISCAL YEAR 2015 IN MILLIONS



Source: "La Fleur's 2016 World Lottery Almanac"

OHIO LOTTERY • PER CAPITA SALES

LAST TEN FISCAL YEARS • IN MILLIONS

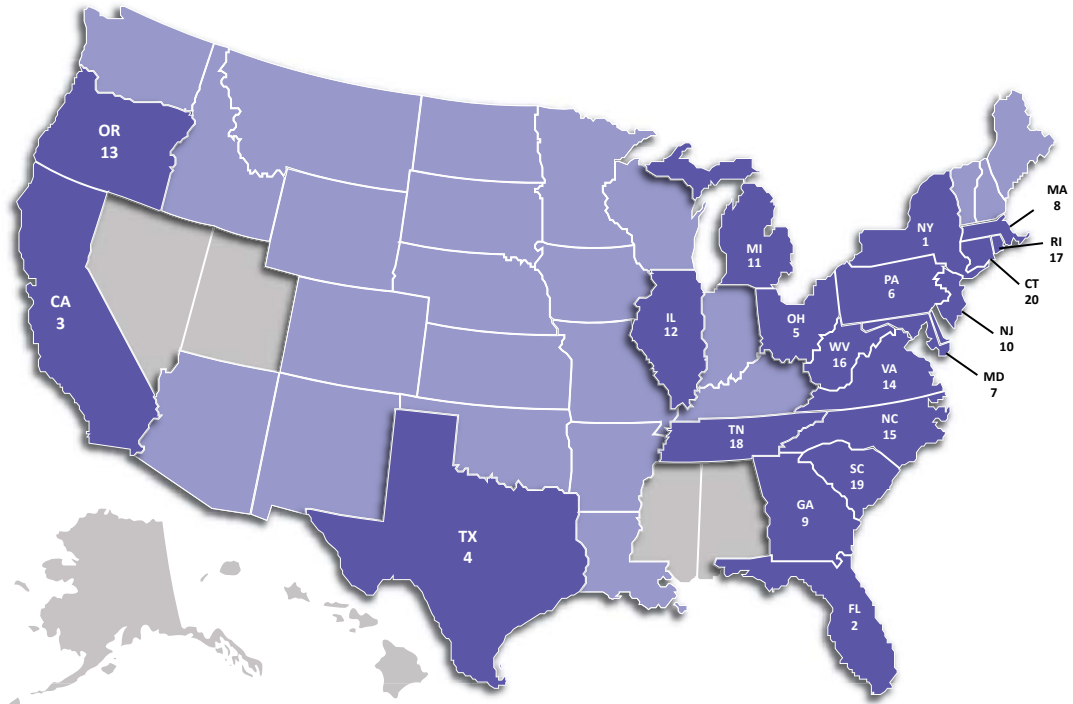


FISCAL YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Population	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Ticket Sales	\$2,259.4	\$2,325.1	\$2,417.7	\$2,490.2	\$2,601.0	\$2,739.0	\$2,697.9	\$2,743.1	\$2,892.0	\$3,059.6

Source: "La Fleur's 2016 World Lottery Almanac"
 (1) 2016 National Per Capita Sales is estimated

TOP 20 U.S. LOTTERY GOVERNMENT TRANSFERS • FY 2015 (IN MILLIONS)

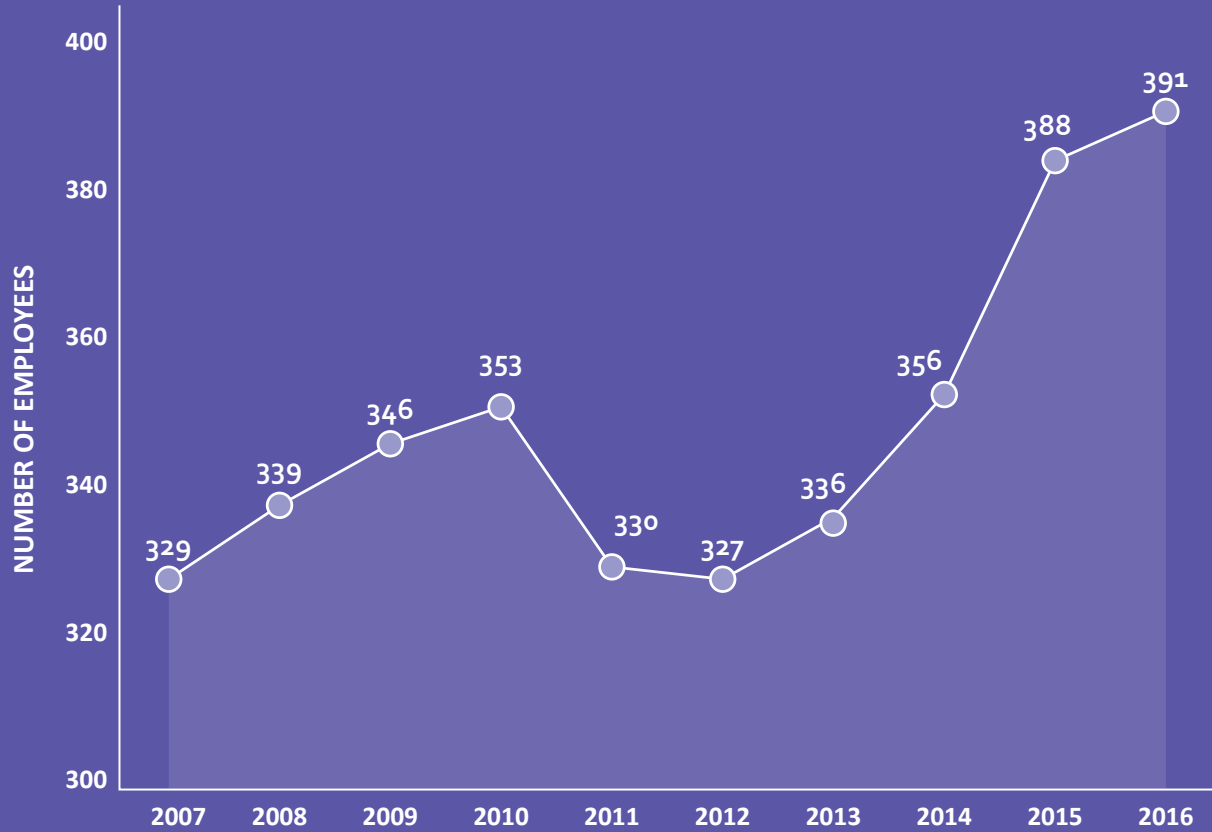
- 1 NY \$3,110.6
- 2 FL \$1,496.4
- 3 CA \$1,391.1
- 4 TX \$1,242.7
- 5 OH \$1,090.0
- 6 PA \$1,060.9
- 7 MD \$1,026.2
- 8 MA \$985.9
- 9 GA \$980.5
- 10 NJ \$960.0
- 11 MI \$799.4
- 12 IL \$743.9
- 13 OR \$547.8
- 14 VA \$533.8
- 15 NC \$527.4
- 16 WV \$527.4
- 17 RI \$381.9
- 18 TN \$347.8
- 19 SC \$343.5
- 20 CT \$324.4



Ohio includes one time VLT License Fees collected in the amount of \$100.0 million

OHIO LOTTERY • NUMBER OF EMPLOYEES

LAST TEN FISCAL YEARS • AS OF JUNE 30, 2016

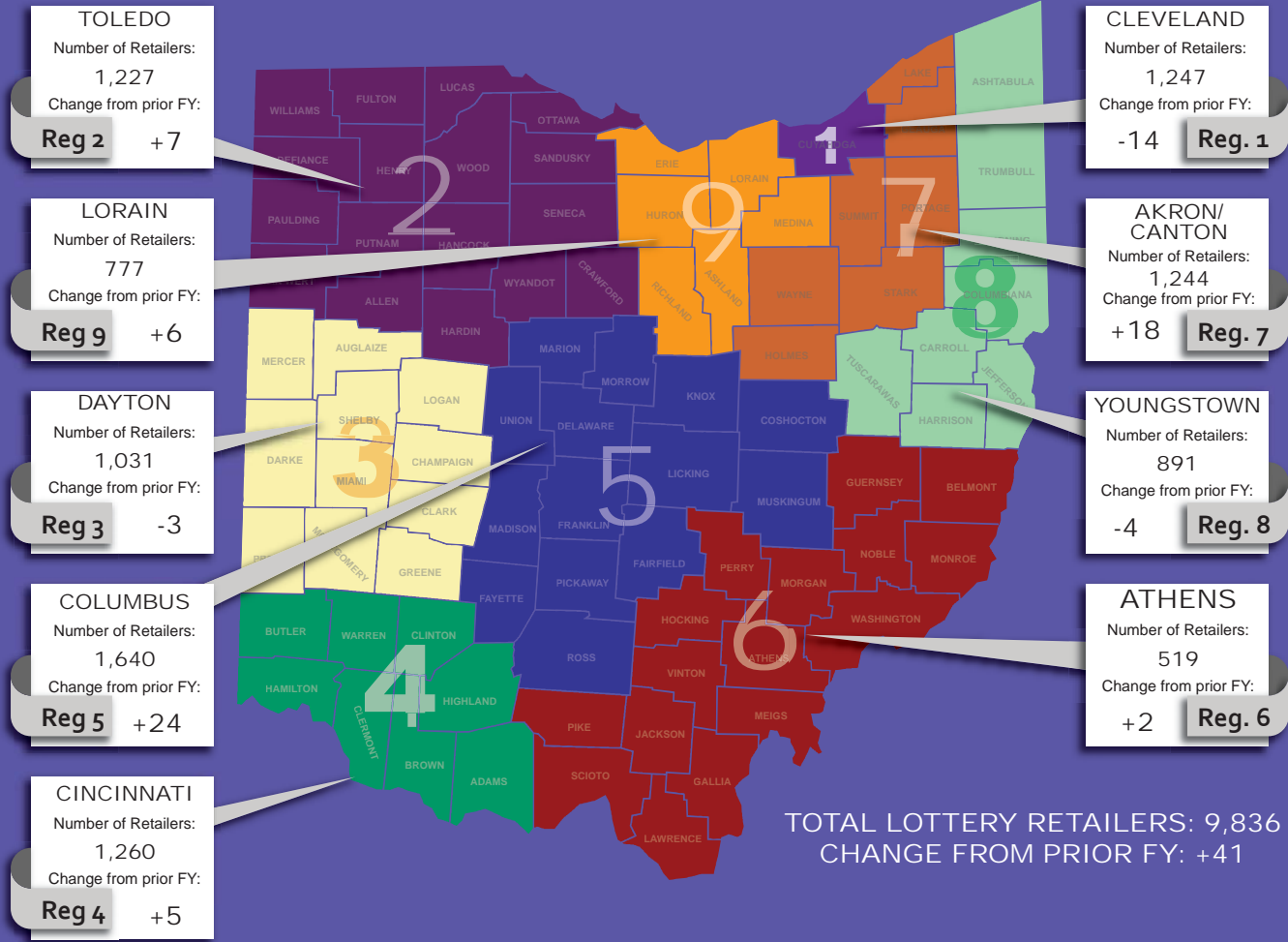


OHIO LOTTERY • EMPLOYEES BY OFFICE

LAST TEN FISCAL YEARS • AS OF JUNE 30, 2016

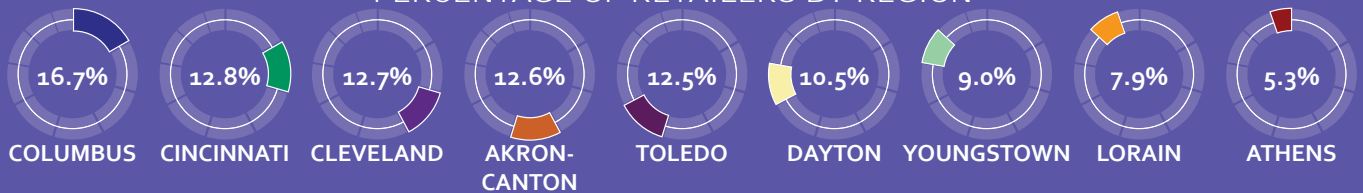


OHIO LOTTERY • ACTIVE RETAILERS BY REGION

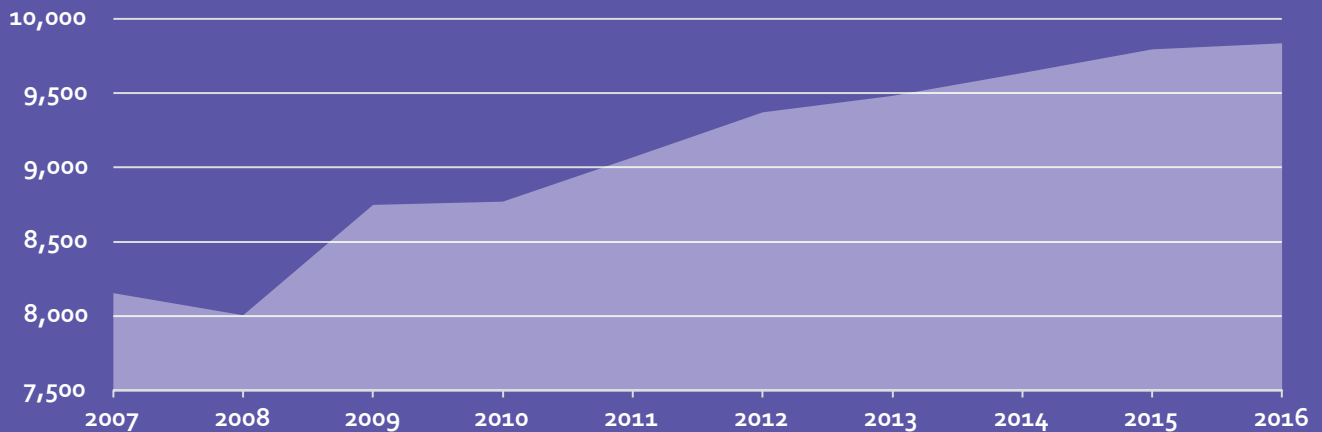


TOTAL LOTTERY RETAILERS: 9,836
CHANGE FROM PRIOR FY: +41

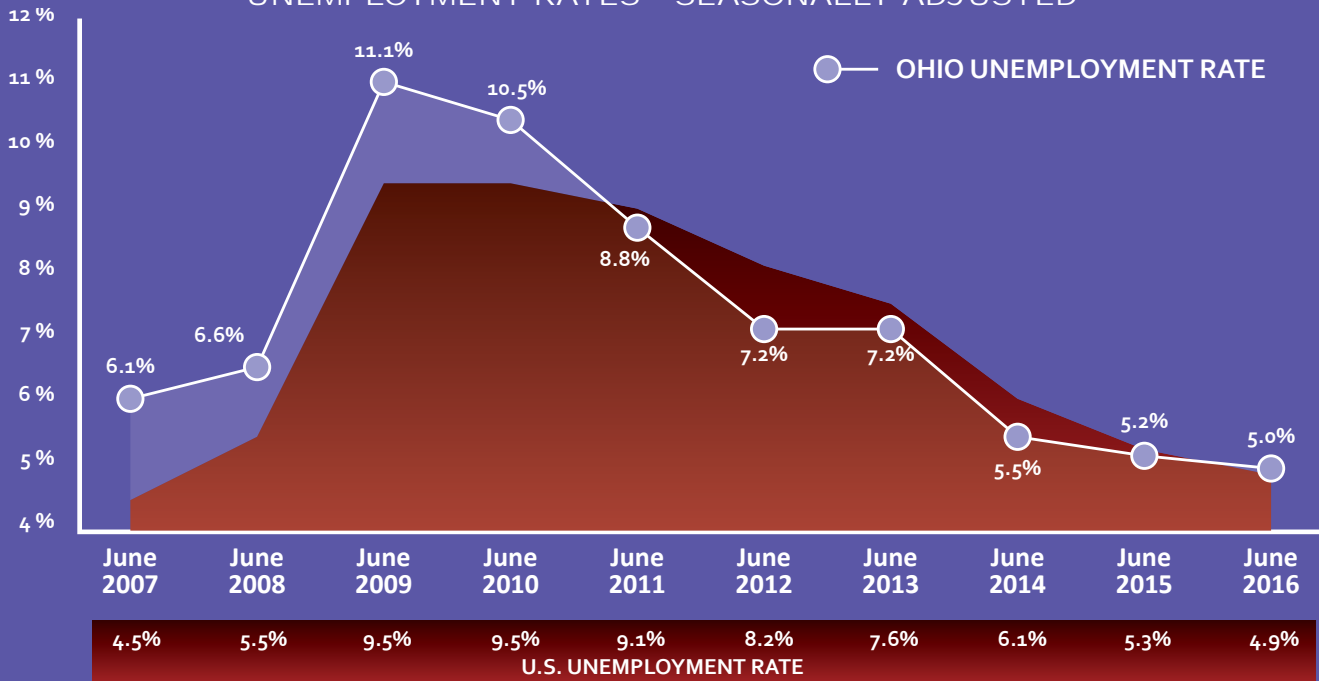
PERCENTAGE OF RETAILERS BY REGION



LOTTERY RETAILERS LAST 10 FISCAL YEARS



UNEMPLOYMENT RATES • SEASONALLY ADJUSTED

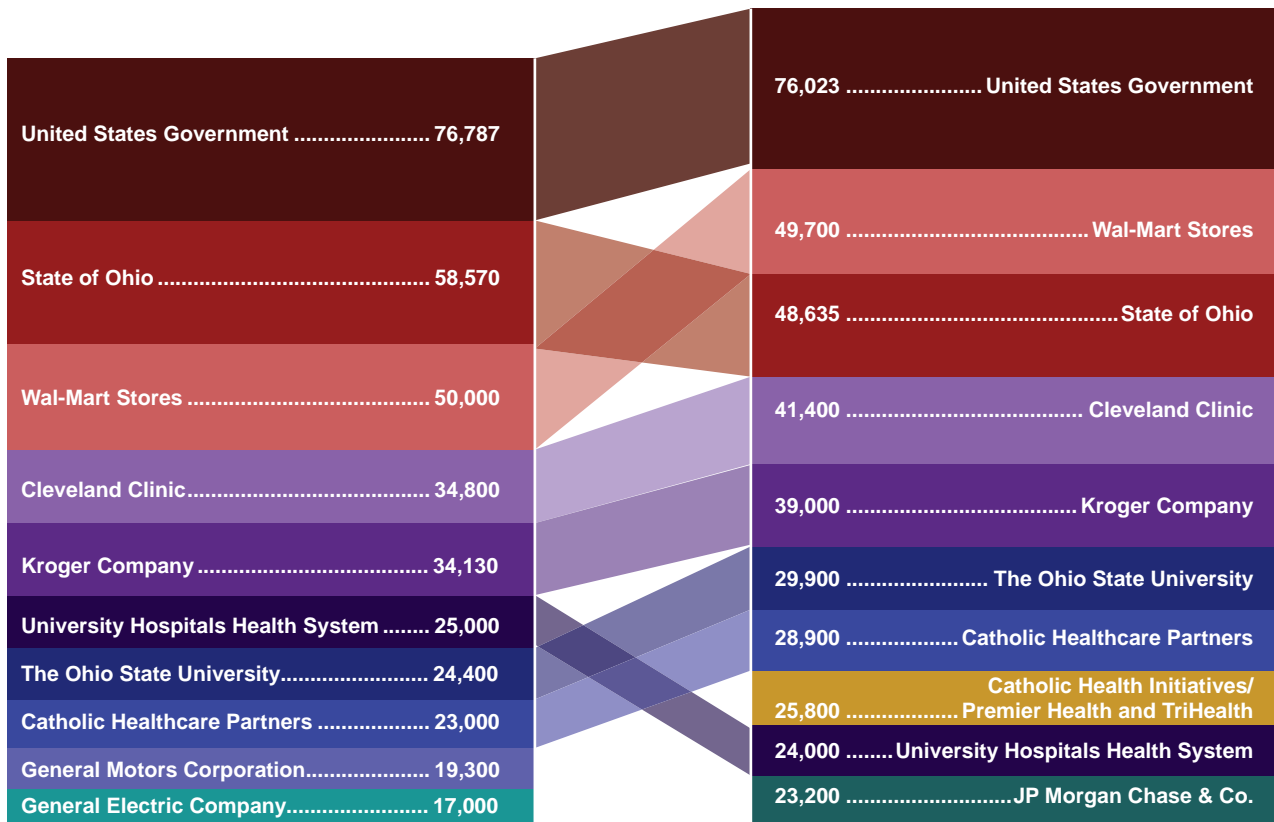


Source:
Ohio Department of Job & Family Services

STATE OF OHIO • PRINCIPAL EMPLOYERS FOR CALENDAR YEARS 2006 AND 2014

2006

2014



Sources: U.S. Department of Commerce, Bureau of Economic Analysis; Ohio Department of Services Agency, Office of Strategic Research; State of Ohio Comprehensive Annual Report for Fiscal Year 2014 and 2006



The Ohio Lottery Commission • An Equal Opportunity Employer and Service Provider
615 West Superior Avenue • Cleveland, Ohio 44113-1875
1.800.686.4208 • www.ohiolottery.com





Dave Yost • 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
DECEMBER 15, 2016**