



Dave Yost • Auditor of State

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY
JUNE 30, 2018

TABLE OF CONTENTS

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

This page intentionally left blank.



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 West 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 Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 1, 2018, wherein we noted the summarized comparative information had been derived from the Ohio Lottery Commission's financial statements as of and for the year ended June 30, 2017 and, in our report dated September 29, 2017, 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 Commission'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 Commission'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 Commission'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 Commission'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 Commission's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this report 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

October 1, 2018

The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio



**Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2018**

The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

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

| | |
|---------------------------------------|----|
| Profile of the Ohio Lottery | 6 |
| Economic Outlook | 6 |
| Lottery Products | 7 |
| Major Initiatives | 9 |
| Accounting Systems and Policies | 10 |
| Budgetary Control | 10 |
| Internal Control Environment | 10 |
| Financial Information | 10 |
| GFOA Certificate of Achievement | 11 |
| Independent Audit | 11 |
| Acknowledgments | 11 |

FINANCIAL SECTION

Independent Audit

| | |
|------------------------------------|----|
| Independent Auditor's Report | 18 |
|------------------------------------|----|

Management's Discussion and Analysis

| | |
|--|----|
| Financial Highlights | 21 |
| Overview of the Financial Statements | 21 |
| Lottery Operating Fund | 21 |
| Annuity Prize Fund | 21 |
| Financial Analysis | 22 |
| Operating Analysis | 25 |
| Capital Assets and Debt Administration | 27 |
| Contacting the Ohio Lottery's Financial Management | 27 |

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

| | |
|---|----|
| Summary of Significant Accounting Policies | 32 |
| Cash Deposits and Investments | 36 |
| Capital Assets | 38 |
| Prize Awards Payable | 39 |
| Other Liabilities | 39 |
| Noncurrent Liabilities | 40 |
| Pension-Ohio Public Employees Retirement System (Opers)/Net Pension Liability/Asset | 40 |
| Other Post Employment Benefits | 44 |
| Net OPEB Liability | 44 |
| Interfund Transactions and Balances | 48 |
| Litigation | 48 |

Required Supplementary Information

| | |
|--|----|
| Schedule of the Proportionate Share of the Net Pension Liability | 49 |
| Schedule of Ohio Lottery Contributions | 49 |
| Schedule of Proportionate Share of the Net OPEB Liability | 50 |
| Schedule of Ohio Lottery Contributions | 50 |

STATISTICAL SECTION

| | |
|---|----|
| Introduction | 54 |
| Ohio Lottery Statistics | 55 |
| Transfers to Education | 60 |
| Video Lottery Terminal (VLT) Statistics | 61 |
| Demographic and Economic Information | 62 |

Employee philanthropy • An attitude of gratitude

Charitable causes are near and dear to the hearts of the employees of the Ohio Lottery. From our Executive Director and our Commission Chair, to our student interns, we at the Ohio Lottery have adopted an attitude of gratitude.

Throughout the year, Ohio Lottery employees dig deep and contribute thousands of dollars to numerous charities and thousands of pounds of food to benefit our fellow Ohioans. Within the section dividers of this year's Comprehensive Annual Financial Report, you will find a summary of some of our philanthropic achievements.



Combined Charitable Campaign
Your Campaign. Your Choice.



Outside of the Lottery's commitment to transferring its profits to education, Ohio Lottery employees voluntarily commit to philanthropy as well. They recognize the importance of giving back to the community and actively participate in the statewide Combined Charitable Campaign. In fact, in the past several years, Lottery employees have donated approximately \$45,000 annually to the 1,200 charities affiliated with the campaign via payroll deduction and by participating in fundraising competitions and activities.





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

SEPTEMBER 28, 2018

**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, 2018. 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 launched 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.

PROFILE OF THE OHIO LOTTERY

The Ohio Lottery Commission was approved in May 1973 through a constitutional amendment approved by voters by a 2-to-1 margin. The first ticket went on sale in August 1974. Throughout the 1980's the Lottery launched a number of draw games which still exist today, such as Pick 3 and Pick 4. The 1990's were a strong decade for instant games, with \$2, \$5 and \$10 price points launched during the decade. The first \$20 instant ticket was launched in 2003, and the Lottery later added a \$30 price point in 2014. Encouraged by the ongoing success of its in-state lotto games, the Ohio Lottery formally joined the Mega Millions consortium in fiscal year 2002 and entered an agreement to sell Powerball beginning in fiscal year 2010. In the last decade, the Lottery has begun an aggressive strategy of modernizing its game portfolio to better match player demand, launching EZPlay in 2008 and Keno in fiscal year 2009, in addition to recent new fast play draw options. Today, the Ohio Lottery Commission offers customers a wide variety of instant and draw games, with new convenient payment options, at nearly 10,000 licensed retailer locations across the state.

In 1983, the Ohio Legislature earmarked Lottery profits to education, which was made permanent via a constitutional amendment in 1987. Altogether, the Lottery has provided \$24.5 billion to public education. 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. Last year, Video Lottery Terminal (VLT) revenue contributed more than 30 percent of all Lottery profits.

As of June 30, 2018, 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. The Ohio Lottery routinely ranks in the top ten of all US lotteries in terms of its sales and profits.

ECONOMIC OUTLOOK

According to the Bureau of Economic Analysis (BEA), personal income in the United States increased 0.4 percent in the first quarter of federal fiscal year 2018. The report indicates that personal income grew in every state and the District of Columbia, and growth accelerated in 49 of those states as well as DC. BEA targeted a number of factors behind the increase in personal income, which include increases in compensation of employees, property income, and transfer receipts. Of the industries tracked by the BEA, the largest percentage of earnings increases were in health care and social assistance; durable manufacturing; and professional, scientific, and technical services. All told, twenty-three of the twenty-four industries tracked saw earnings growth.

The US unemployment rate for June 2018 was 4.0 percent, which is 0.4 percent less than the previous year. In comparison to June 2017, the three main industries where employment growth increased were professional and business services, manufacturing, and healthcare, while the retail sector lost jobs.

Ohio began the first quarter of fiscal year 2018 with a 1.1 percent increase in personal income over the previous quarter. Ohio ranked 24th among states for change of income between the quarters. Throughout fiscal year 2018, the unemployment figures in Ohio have steadily decreased, from 5.0 percent in June of 2017 to 4.5 percent as of June 2018. Ohio's unemployment rate currently sits at 0.5 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 bulk consumer product warehouse clubs open in their place. The Ohio Lottery's revenues may be 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 2018 was the third consecutive year of profits exceeding \$1 billion dollars. Recent revenue increases are primarily the result of the ongoing success of KENO, instant ticket games, and the continuing strong performances from seven VLT facilities. 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: draw-based games and instant games. Descriptions of the games and their portion of sales are as follows:

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 draw-based 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 2018 were \$340.1 million, or 10.8 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 2018 were \$205.1 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 2018 were \$40.8 million, or 1.3 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 2018 were \$53.0 million, or 1.7 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 2018 were \$30.3 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 2018 were \$4.0 million, or 0.1 percent of total Ohio Lottery sales.



EZPLAY is a hybrid instant/draw 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 2018 were \$113.2 million, or 3.6 percent of total Ohio Lottery sales.



EZPLAY TAP is a series of EZPLAY® Games that include graphical touch-screen style play and is played exclusively on Multi-Purpose Next Generation (MPNG) machines. This was an exclusive, legal gaming option offered by the Ohio Lottery for Veteran and Fraternal Organizations. In October 2014, 670 units were deployed at various fraternal and veteran organizations throughout the State. 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 2018 were \$31.8 million, or 1.0 percent of total Ohio Lottery sales.



EZPLAY TOUCH & WIN are a style of EZPLAY games that are based on the traditional KENO game. It was originally introduced as QuickKeno in June 2016, and rebranded and renamed in January 2018 to generate more attention. Touch & Win games, which start at \$.25, are highly interactive, visually entertaining, and played on a Touch & Win terminal. Sales for fiscal year 2018 were \$19.5 million, which came to 0.6 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 2018 were \$421.1 million, or 13.3 percent of total Ohio Lottery sales.



THE LUCKY ONE is a new monitor game that was introduced January 21, 2018. It's a simple game that complements Keno, with drawings held every four minutes. Wagers range between \$1 and \$50. Players choose one number between 1 and 36 and have up to three different ways to play. Sales for fiscal year 2018 were \$11.6 million, or 0.4 percent of total Ohio Lottery sales.



MEGA MILLIONS is a multi-state lotto game. To become more competitive, Mega Millions adjusted their pools and jackpot amount on October 28, 2017. For each \$2 wager, players select five numbers from a pool of 1 to 70 and select one Mega ball number from a second pool of 1 to 25. To win the jackpot, all six numbers must match. The jackpot starts at \$40.0 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 2018 were \$120.1 million, or 3.8 percent of total Ohio Lottery sales.



POWERBALL is a multi-state, lotto game launched in Ohio in April 2010. For each \$2 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 for an additional \$1 wager. Powerball players winning any prize other than the jackpot will win a larger cash prize. Combined Powerball/Power Play sales for fiscal year 2018 were \$148.1 million or 4.7 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 and second prize payouts are divided equally among multiple winners. Sales for fiscal year 2018 were \$20.7 million, or 0.6 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 2018, instant game sales were \$1.6 billion or 50.6 percent of total traditional 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. To keep things interesting, the Ohio Lottery introduced several varieties of instant games this year, such as the \$10 Royal Gems, which is a “gigantix” ticket that includes 4 different games to play, a new \$30 Extreme Millions game, and its first ever 3D instant game, the \$5 Game of Gold.

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, 2018, there were 11,267 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 VLT total revenue for fiscal year 2018 was \$987.3 million, with the Ohio Lottery receiving \$330.7 million as commissions earned.

MAJOR INITIATIVES

During fiscal year 2018, the Ohio Lottery transferred \$1.09 billion to the LPEF. This was an increase of \$47.1 million compared to fiscal year 2017, and the highest profit transfer in the Ohio Lottery’s 44-year history. With this transfer, the Ohio Lottery has provided over \$24.5 billion in profits to the State of Ohio. Additionally, the Ohio Lottery made several noteworthy achievements during fiscal year 2018.

In fiscal year 2018, net revenue generated from VLTs were \$987.3 million. This was \$60.7 million more than the prior fiscal year. Of this amount, the video lottery operators received \$653.3 million as commissions earned, while the Lottery’s share of revenue equaled \$330.7 million, and Problem Gambling Services received \$3.3 million.

On May 4, 2018 an Ohio Lottery retailer in Moraine, Ohio sold a Mega Millions jackpot ticket worth \$142 million. The winner chose the cash option, which netted the winner \$60.5 million. The State of Ohio received \$3.4 million in tax revenue, and the store received a \$100,000 selling bonus.

In fiscal year 2018, the Ohio Lottery celebrated the Cash Explosion’s 30th Anniversary Celebration with a special anniversary show. One contestant won the single biggest cash prize of \$300,000, plus Bonus Bucks. In the months leading up to the anniversary show, the Lottery aired Cash Explosion XL shows. These special supersized shows had 24 contestants, instead of 8, and all players had an opportunity to win prizes.

In July 2017 the Ohio Lottery launched a new Retailer Incentive Program. The Lottery’s Retailer Incentive Program was designed to further incentivize retailers to exceed expectations. Retailers who participate in the program must reach certain sales goals and meet retailer-customized criteria set by the Ohio Lottery and its sales representatives. Retailers who achieve both sales and criteria targets receive bonus commissions beyond the standard commission rate for the quarter. This program is open to any Ohio Lottery retailer, in good standing, who opts-in to the program.

As part of our strategy to reach new consumers and adapt our business model to the changing landscape of how consumers purchase goods and services, the Lottery introduced a cashless solution at vending units in November 2017. The Lottery retrofitted all self-service equipment with credit/debit card readers to enable customers to purchase games without cash. The card readers accept Visa, Mastercard, Discover and eWallet transactions. Customers are limited to spending \$100 per day per card. In the first seven months, the program generated over \$19.6 million in sales.

In fiscal year 2019, the Ohio Lottery will cease its partnership with banks to process winning claims between \$600 and \$5,000. The Lottery is pursuing various strategies to expand ticket cashing for their customers. The Lottery will implement cashing at our nine regional offices through issuing debit cards and potentially allow certain super retailers (chain-stores) to cash winning tickets. In addition to finding new venues for cashing winning tickets, the Ohio Lottery will continue to partner with its seven racinos throughout the state. Fiscal year 2018 represented the first complete year of partnerships where all seven racinos offered ticket cashing capabilities. Not only do racinos give players alternative locations to cash claims, but they are conveniently open 24/7.

The Lottery encourages players to enjoy Ohio Lottery games responsibly. The Lottery has demonstrated its historical commitment to responsible gambling by providing mandatory training for all Lottery employees, retailers and Video Lottery Terminal employees. On its own and in conjunction with its Ohio for Responsible Gambling (ORG) partners, (the Ohio Casino Control Commission, the Ohio State Racing Commission and the Ohio Department of Addiction Services), the Lottery produces media campaigns that promote methods of practicing responsible gambling and highlight prevention of problem gambling. Based on the findings of the Ohio Problem Gambling Prevalence Studies, a small percentage of Ohioans are at risk for developing life altering gambling problems. In fiscal year 2018, Ohio for Responsible Gambling continued with their successful campaign “Get Set Before You Bet”, which target select groups, such as seniors, athletes, teenagers, and Spanish-speaking adults. Also, in July 2018, Ohio hosted the 32nd National Conference on Problem Gambling, which the Ohio Lottery helped to both present and sponsor. In fiscal year 2018, the Ohio Lottery contributed \$3.3 million from VLT sales for Problem Gambling in Ohio.

Additionally, the Lottery funds regional outpatient treatment programs, training for problem gambling counselors, a statewide multi-agency Voluntary Exclusion Program, and a statewide annual conference which presents cutting edge research and treatment tools to the problem gambling community to better address the issues impacting our citizens.

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. In fiscal year 2019, the Ohio Lottery will be celebrating Keno's 10th Anniversary with special promotions for both the players and the retailers. Also, next year, to enhance sales and better assist retailers, state-of-the-art Photon point-of-sale terminals will be installed with every retailer. These new terminals offer better display screens, two ticket scanners, ticket-tracking ability, and the ability to accept both cash and credit transactions. Finally, during fiscal year 2019, a new way for consumers to purchase multi-state lottery games via "play at the checkout" will be introduced.

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, to appeal to a more diverse player and retailer base, the Ohio Lottery plans to implement various social media opportunities. Players and retailers can access the Ohio Lottery via Twitter, Facebook, Instagram, YouTube, WordPress, and both the Ohio Lottery website and app. Going forward, into fiscal year 2019, the Ohio Lottery will continue to develop new ways to enhance its current product offerings and maximize operational efficiency and effectiveness. The Lottery benchmarks Ohio's sales results against peer lottery states and reviews best practices 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, 2018 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, key employees at Racino's, 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, 2017. This was the twenty-first 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 2018 has been completed in conformity with generally accepted governmental auditing standards. The auditor's unmodified audit 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 Mary Tedeschi-Vittardi, Mary Pietrick, Marisol Halligan, Anna Callas; 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

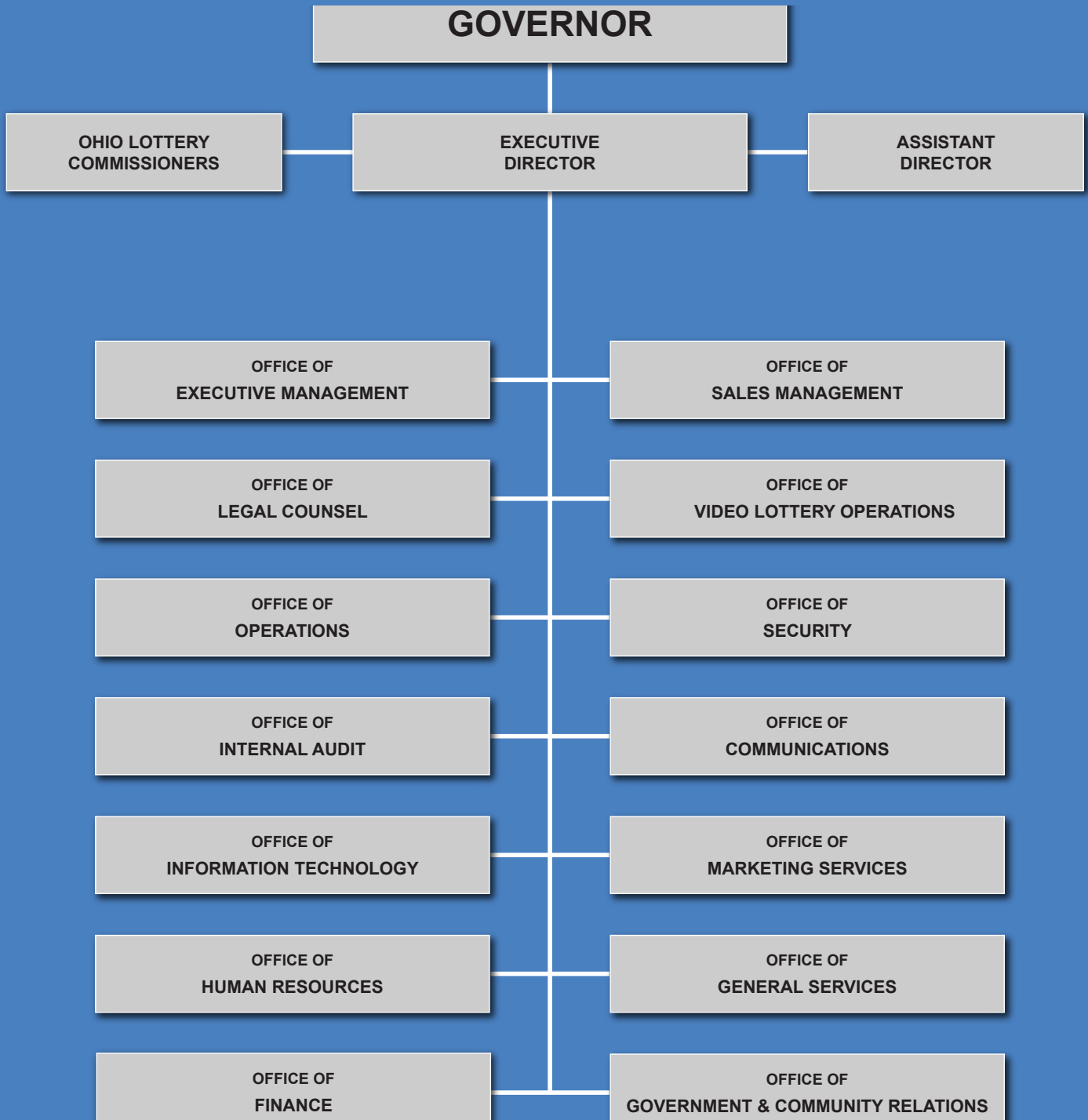
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

OHIO LOTTERY COMMISSION STRUCTURE OF ORGANIZATION • FISCAL YEAR 2018



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 8/01/20

James Brady

COMMISSIONER

Term Ends 8/01/20

Allan C. Krulak

COMMISSIONER

Term Ends 8/01/18

(resigned effective 8/01/17)

John F. Lewis

COMMISSIONER

Term Ends 8/01/19

Trevor McAleer

COMMISSIONER

Term Ends 8/01/19

William Morgan

COMMISSIONER

Term Ends 8/01/18

Angela Mingo

COMMISSIONER

Term Ends 8/01/20

Elizabeth D. Vaci

COMMISSIONER

Term Ends 8/01/19



Stuff the Bus

Helping get students off to a good start



Every year, Ohio Lottery employees partner with local organizations to help raise funds for school supplies.

In Fiscal Year 2018, the Ohio Lottery partnered with the Cleveland Kids in Need Resource Center for its annual campaign, donating school supplies to 250 northeast Ohio schools. Employees at the Ohio Lottery's nine regional offices also partnered with various schools in their regions, to help their students start the school year with much-needed supplies.



This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Ohio Lottery Commission
Cuyahoga County
615 West 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), as of and for the year ended June 30, 2018, 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 such 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, 2018, 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 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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, pension contributions, net other postemployment benefits (OPEB) liabilities, and OPEB 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 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 will also issue our report dated October 1, 2018, 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

October 1, 2018

This page intentionally left blank.

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, 2018. 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 \$158.4 million, or 5.3 percent from fiscal year 2017, resulting in overall sales of \$3.2 billion.
- Online sales increased \$84.9 million, or 5.8 percent from last year. Higher jackpots combined with increased overall sales in most game categories helped spur growth over the prior year. In addition, a new monetary style game (Lucky One) was introduced, resulting in sales of \$11.6 million. The largest jackpot for fiscal year 2018 was a \$758.7 million Powerball jackpot, the second-highest on record at the time. There were four instances where the Powerball jackpot exceeded \$300 million, and three instances where the jackpot was over \$300 million for Mega Millions.
- Instant ticket sales increased \$73.5 million, or 4.8 percent, from fiscal year 2017. This can be attributed to new game releases at multiple price points combined with several Lottery initiatives such as the Retailer Incentive program (RIP). The RIP is a program where retailers can earn additional commissions based on certain sales increases for a specific quarter. The Lottery also began to see the benefits of a re-launched Sales-Maker initiative.
- Total prize expense for fiscal year 2018 represented 63.2 percent of total ticket sales compared to 63.6 percent in fiscal year 2017. Though the percentage of prize expense decreased slightly, actual prize expense increased \$86.7 million in fiscal year 2018 as a result of increased sales volume.
- Operating expenses increased by \$1.3 million compared to fiscal year 2017.
- Gross gaming revenue from VLT's totaled \$987.3 million, an increase of \$60.7 million over fiscal year 2017. The Ohio Lottery's net VLT revenue increased from \$310.4 million to \$330.7 million or 6.6 percent in fiscal year 2018.
- The Ohio Lottery transferred \$1.09 billion to the Lottery Profits Education Fund (LPEF) in 2018, \$47.1 million more than the 2017 transfer amount. The Ohio Lottery's total net position increased \$27.8 million, or 17.5 percent, due to additional GASB adjustments and an 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, deferred outflow of resources, liabilities and deferred inflows of resources. The difference between the two is 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

The table below provides a summary of the Ohio Lottery's net position at June 30, 2018 compared to June 30, 2017.

NET POSITION

(rounded thousands)

| | <u>JUNE 30, 2018</u> | <u>JUNE 30, 2017</u> |
|---|----------------------|----------------------|
| Current Assets: Unrestricted | \$ 269,809 | \$ 314,754 |
| Current Assets: Restricted | 107,329 | 141,502 |
| Noncurrent Assets: Restricted | 375,749 | 433,932 |
| Net Capital Assets | 28,781 | 27,199 |
| Net Pension Asset | <u>171</u> | <u>73</u> |
| Total Assets | 781,839 | 917,460 |
| Deferred Outflows of Resources | | |
| Pension: OPERS | 5,092 | 18,384 |
| OPEB: OPERS | 1,288 | - |
| Total Outflows | 6,380 | 18,384 |
| Current Liabilities: Unrestricted | 80,568 | 111,162 |
| Current Liabilities: Restricted | 108,128 | 225,580 |
| Noncurrent Liabilities: Restricted and Unrestricted | 362,614 | 401,776 |
| Net Pension Liability | 25,796 | 36,541 |
| Net OPEB Liability | <u>17,491</u> | <u>-</u> |
| Total Liabilities | 594,597 | 775,059 |
| Deferred Inflows of Resources | | |
| Pension: OPERS | 6,125 | 2,358 |
| OPEB: OPERS | 1,303 | - |
| Total Inflows | 7,428 | 2,358 |
| Net Position: | | |
| Net Investment in Capital Assets | 25,619 | 20,921 |
| Restricted for Net Unrealized Gains on Restricted Investments | 27,954 | 46,998 |
| Unrestricted | <u>132,621</u> | <u>90,508</u> |
| Total Net Position | <u>\$ 186,194</u> | <u>\$ 158,427</u> |

GASB 68/75 NET PENSION LIABILITY & NET OPEB LIABILITY

The net pension liability (NPL) and the net other postemployment benefits (OPEB) liability at June 30, 2018 are reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27" and GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", respectively. 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 OPEB, adding the net pension liability and net OPEB liability to the reported net position, and subtracting deferred outflows related to pension and OPEB.

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 and OPEB costs, GASB 27 and 45 focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability and net OPEB liability. GASB 68 and 75 take an earnings approach to pension and OPEB 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 and 75 require the net pension liability and net OPEB liability to equal the Ohio Lottery's proportionate share of each plan's collective:

1. Present value of estimated future pension and OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB 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 and OPEB 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 these liabilities. In Ohio, the employee shares the obligation of funding pension and OPEB 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 liabilities of the pension OPEB plan 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 these plans.

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 or net OPEB liability. As explained above, changes in pension and OPEB benefits, contribution rates, and return on investments affect the balance of the net pension liability and net OPEB 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 and OPEB 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 and net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and 75, 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 and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Ohio Lottery is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. The implementation also had the effect of restating net position at June 30, 2017 from \$158,427 to \$142,262 (Note: numbers are in thousands).

CURRENT ASSETS – UNRESTRICTED

The Ohio Lottery's Current Assets – Unrestricted decreased \$44.9 million compared to fiscal year 2017. 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 Equity with Treasurer of State decreased \$59.3 million, while Cash and Cash Equivalents increased \$21.8 million. The decrease in Cash Equity with Treasurer of State was offset by an increase in balances held in Cash and Cash Equivalents primarily due to the timing differences of the transfer of funds from the Gross Revenue Fund to the State Lottery Fund.

Cash and Cash Equivalent – Video Lottery increased by \$6.9 million due to the timing of the transfers. In fiscal year 2017, the final transfer to the Treasurer of State was made before the end of the fiscal year, compared to the final transfer made after the end of fiscal year 2018.

Net Receivables from Agents increased by \$1.9 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, 2018, seven days of sales activity were waiting to be collected compared to six days on June 30, 2017. Other Assets decreased by \$1.1 million over last fiscal year.

CURRENT ASSETS - RESTRICTED

The Lottery's Current Assets – Restricted decreased \$34.2 million in fiscal year 2018 to \$107.3 million, from \$141.5 million in fiscal year 2017. 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 \$2.3 million, which is a direct function of the number of winners 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 for the payment of the Lottery's long-term annuity prizes, decreased from \$433.9 million in fiscal year 2017 to \$375.7 million in fiscal year 2018, or \$58.2 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 decreased by \$30.6 million, primarily due to the accounting for GASB 28, Securities Lending Program. The amount reported as collateral on lent securities decreased from \$45.2 million in 2017 to \$30.1 million in 2018, or \$15.1 million. In addition, Capital Leases Payable: Current decreased \$1.6 million.

CURRENT LIABILITIES - RESTRICTED

Current Liabilities – Restricted decreased \$117.5 million. This can be attributed to a change in an accounting procedure which caused Due to other State Agencies to decrease significantly. Also, obligations under securities lending decreased \$31.8 million as the value and size of the investment portfolio has decreased over time.

NONCURRENT LIABILITIES

Noncurrent Liabilities decreased \$32.4 million. This decrease is primarily attributed to the Prize Awards Payable from restricted assets which decreased by \$37.2 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 a decrease of \$10.7 million in GASB 68 Net Pension Liability. Implementation of GASB 75 (OPEB Liability) caused an increase of \$17.5 million.

The overall effect on liabilities is a decrease of \$180.5 million attributed to the combination of increases and decreases of the various accounts discussed above.

The table below shows the change in the Ohio Lottery's net position for fiscal year 2018 compared to fiscal year 2017, including revenue and expense comparisons.

CHANGES IN NET POSITION

(rounded thousands)

| | <u>JUNE 30, 2018</u> | <u>JUNE 30, 2017</u> |
|---|----------------------|----------------------|
| Ticket Sales | \$ 3,160,109 | \$ 3,001,699 |
| VLT and License Revenues | 987,405 | 926,793 |
| Other Operating Revenues | 5,849 | 4,869 |
| Non-Operating Revenues | <u>2,465</u> | <u>-</u> |
| Total Revenues | 4,155,828 | 3,933,361 |
| Prize Awards | 1,998,654 | 1,910,007 |
| Bonuses and Commissions | 206,103 | 185,739 |
| Commissions - VLT | 656,553 | 616,220 |
| Cost of Tickets Sold | 30,174 | 29,479 |
| Vendor Fees | 19,543 | 30,647 |
| Operating Expenses | 92,218 | 90,919 |
| Non-Operating Expenses | 20,930 | 28,780 |
| Payments to the Lottery Profits Education Fund | <u>1,087,721</u> | <u>1,040,642</u> |
| Total Expenses | 4,111,896 | 3,932,433 |
| Change in Net Position | 43,932 | 928 |
| Total Net Position - Beginning | 158,427 | 157,499 |
| Cumulative Effect of Change in Accounting Principle | <u>(16,165)</u> | <u>-</u> |
| Restated Net Position at Beginning of Year | 142,262 | - |
| Total Net Position - Ending | <u>\$ 186,194</u> | <u>\$ 158,427</u> |

TICKET SALES BY GAME AND VLT REVENUE: FISCAL YEARS 2018 AND 2017

(rounded thousands)

| | <u>JUNE 30, 2018</u> | <u>JUNE 30, 2017</u> |
|------------------------------------|----------------------|----------------------|
| Pick 3 | \$ 340,069 | \$ 339,589 |
| Pick 4 | 205,062 | 201,045 |
| Pick 5 | 40,828 | 38,101 |
| Rolling Cash 5 | 52,997 | 55,547 |
| Classic Lotto | 30,359 | 27,221 |
| Kicker | 4,009 | 3,742 |
| Ohio 50/50 Raffle | - | 3,638 |
| Lucky For Life | 20,740 | 19,879 |
| Mega Millions/Megaplier | 120,080 | 93,319 |
| Powerball/Power Play | 148,095 | 129,780 |
| Keno/Booster | 421,148 | 396,318 |
| The Lucky One | 11,580 | - |
| EZPLAY | 113,246 | 120,197 |
| EZPLAY TAP | 31,793 | 30,024 |
| EZPLAY TOUCH & WIN | <u>19,496</u> | <u>16,216</u> |
| Total Online Sales | 1,559,502 | 1,474,616 |
| Instants | <u>1,600,607</u> | <u>1,527,083</u> |
| Total Sales | <u>3,160,109</u> | <u>3,001,699</u> |
| VLT Revenue | 987,297 | 926,646 |
| VLT License Revenue | <u>108</u> | <u>147</u> |
| Total VLT Revenue | 987,405 | 926,793 |
| Total Ticket Sales and VLT Revenue | <u>\$ 4,147,514</u> | <u>\$ 3,928,492</u> |

OPERATING ANALYSIS

Traditional sales for fiscal year 2018 were \$3,160.1 million. This was a \$158.4 million or 5.3 percent increase in sales from fiscal year 2017. The following section summarizes traditional lottery sales in fiscal year 2018 by game category.

DAILY DRAW

Sales for Daily Draw games, which consist of Pick 3, Pick 4, and Pick 5, totaled \$586.0 million in fiscal year 2018. This is \$7.2 million, or 1.2 percent higher than sales posted in fiscal year 2017. Fiscal year 2018 sales for Pick 3 increased by \$480,000, Pick 4 increased by \$4.0 million, while Pick 5 finished the year up by \$2.7 million. This growth is consistent with an overall trend by peer Lotteries toward increased traditional draw play, likely the result of a naturally expanding player base for this game type.

LOTTO GAMES

Sales for Lotto games, which consist of Rolling Cash 5, Classic Lotto and KICKER, totaled \$87.4 million for fiscal year 2018. This is \$855,000 or 1.0 percent more than sales posted in fiscal year 2017. Fiscal year 2018 sales for Rolling Cash were \$2.6 million less than sales posted in fiscal year 2017. Classic Lotto was up \$3.1 million. This increase can be attributed to higher average jackpots throughout FY 2018. Sales for KICKER, an add-on game of Classic Lotto, were \$267,000 more than sales posted in fiscal year 2017.

MULTI-STATE

Sales for Multi-state games, which consist of Mega Millions, Megaplier, Powerball, Power Play, and Lucky for Life, totaled \$288.9 million for fiscal year 2018. This is \$45.9 million, or 18.9 percent more than sales posted in fiscal year 2017.

Sales for Mega Millions in fiscal year 2018 were \$27.2 million more than sales posted the prior year, while Megaplier, the Mega Millions add-on game, decreased by \$441,000. Powerball sales in fiscal year 2018 were \$16.5 million more than sales generated the prior year, while Power Play, the Powerball add-on game, increased by \$1.8 million. These increases can be attributed to higher jackpots for both Mega Millions and Powerball during the fiscal year. Lucky for Life, a non-progressive game, increased sales for fiscal year 2018 by \$861,000.

KENO AND THE LUCKY ONE (MONITOR)

Sales for Monitor games totaled \$421.1 million for the 2018 fiscal year. This is \$24.8 million, or 6.3 percent more than sales posted in fiscal year 2017. Sales for KENO in fiscal year 2018 were \$15.8 million more than sales posted in fiscal year 2017, while Booster added \$9.0 million to the positive variance in the category. Sales for Booster in fiscal year 2018 were 25.8 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. The Lucky One, a new monitor game, was introduced during fiscal year 2018 and generated \$11.6 million in sales in the final six months of the fiscal year.

EZPLAY

Sales for EZPLAY games, which include, EZPLAY, EZPLAY TAP, and EZPLAY TOUCH & WIN, totaled \$164.5 million for the 2018 fiscal year. This is \$1.9 million, or 1.1 percent less than sales posted in fiscal year 2017. Fiscal year 2018 sales for EZPLAY were \$7.0 million less than sales recorded in fiscal year 2017. Fiscal year 2018 sales for EZPLAY TAP were \$1.8 million more than sales posted in fiscal year 2017. Sales decreases for EZPLAY were mitigated by Touch & Win and other instant style games. Decreases in some EZPLAY categories were the result of timing of new game releases, specifically new progressive EZPLAY game launches.

During fiscal year 2018 EZPLAY QUICKKENO was re-branded to EZPLAY TOUCH & WIN. These games are only played on Multi-Play Touch & Win (MPQK) terminals and available at select Ohio Lottery licensed retailers. This product line was launched in June of fiscal year 2016 and generated \$19.5 million in sales in the EZPLAY category.

INSTANT TICKETS

Sales for Instant Ticket games totaled \$1.6 billion, which is \$73.5 million, or 4.8 percent more than sales posted in fiscal year 2017. Instant ticket performance was bolstered in fiscal year 2018 by several strong instant ticket releases at multiple price points, combined with improvements in several economic metrics. A number of other Lottery initiatives also contributed to the revenue increase, such as the launch of the retailer incentive program and the re-introduction of the Lottery's Salesmaker initiative.

OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION - FISCAL YEARS 2017 AND 2016

(rounded in thousands)

| | <u>JUNE 30, 2018</u> | <u>JUNE 30, 2017</u> |
|-----------------------|----------------------|----------------------|
| Prize Awards | \$ 1,998,654 | \$ 1,910,007 |
| Bonuses/Commissions | 206,103 | 185,739 |
| Commissions - VLT | 656,553 | 616,220 |
| Cost of Tickets Sold | 30,174 | 29,479 |
| Vendor Fees | 19,543 | 30,647 |
| Operating Expense | 92,218 | 90,919 |
| Payments to Education | <u>1,087,721</u> | <u>1,040,642</u> |
| Total | <u>\$ 4,090,966</u> | <u>\$ 3,903,653</u> |

PRIZE AWARDS

Prize expense for fiscal year 2018, which totaled \$1,998.7 million, was \$86.7 million, or 4.6 percent higher than fiscal year 2017. Prize expense has a direct correlation to sales. Therefore, since sales volume increased, the prizes awarded also increase. Additionally, the combinations of several large multistate jackpots, combined with growth in higher price point instant tickets and steady increases in Keno sales, led to larger prize awards during the fiscal year.

BONUSES/COMMISSIONS

Bonuses/Commissions increased due to a higher sales volume and the implementation of a quarterly bonus incentive for the retailers. This program provides an increase in commissions for retailers when they meet certain sales goals and other mandatory requirements and optional qualifying criteria. Additional commissions from this incentive program amounted to \$9.8 million for the year. VLT commissions increased \$40.3 million due to the increase in VLT sales for fiscal year 2018.

OPERATING EXPENSE

Total Operating Expenses, which for purposes of this Management Discussion & Analysis, consists of Direct Game Costs – Cost of Tickets Sold, Vendor Fees and VLT Commissions, as well as Operating Expenses. Cost of Tickets Sold increased slightly due to growth in sales volume. Due to increased equipment purchases in fiscal year 2017, vendor fees decreased \$11.1 million. Operating Expenses consist of personal services (including salaries and benefits), maintenance and equipment, advertising, travel, utilities, rent, depreciation and other expenses. Other expenses increased due to pension expenses and OPEB expense (GASB 75) which is a new GASB implemented for Fiscal Year 2018. VLT Commissions increased due to an increase in VLT Sales. Total Operating Expenses increased \$1.3 million and for fiscal year 2018 were 2.9 percent of total traditional lottery sales.

PAYMENTS TO EDUCATION

Payments to education increased \$47.1 million because of an increase in traditional lottery sales and VLT revenue. Profits from traditional lottery products increased due to a combination of draw-based game sales and instant sales. The majority of profits derived from draw-based games can be attributed to the success from Multi-State game jackpots. Profits derived from VLT operations were up \$20.3 million over fiscal year 2017.

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 2018 totaled \$987.3 million, an increase of \$60.7 million or 6.6 percent over fiscal year 2017. The increase of Gross Gaming Revenue in 2018 is accredited to another 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; which helps to establish their customer loyalty base. The following table shows VLT statistics for fiscal years 2018 and 2017.

VIDEO LOTTERY TERMINAL - NET WIN

(rounded in thousands)

| <u>RACINO</u> | <u>DATE OPENED</u> | <u>2018 NET WIN</u> | <u>2017 NET WIN</u> |
|----------------------------------|--------------------|---------------------|---------------------|
| Scioto Downs | June 1, 2012 | \$ 168,320 | \$ 153,191 |
| Jack Thistle Down | April 9, 2013 | 121,356 | 115,653 |
| Hard Rock Rocksino | December 09, 2013 | 246,482 | 232,589 |
| Miami Valley | December 06, 2013 | 151,563 | 143,775 |
| Belterra Park | May 1, 2014 | 80,746 | 79,921 |
| Hollywood Gaming Mahoning Valley | September 11, 2014 | 115,331 | 106,558 |
| Hollywood Gaming Dayton Raceway | August 22, 2014 | 103,499 | 94,959 |
| | | <u>\$ 987,297</u> | <u>\$ 926,646</u> |

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The table below summarizes the Ohio Lottery's capital assets at the end of fiscal years 2018 and 2017.

CAPITAL ASSETS (NET OF DEPRECIATION)

(rounded in thousands)

| | <u>JUNE 30, 2017</u> | <u>JUNE 30, 2016</u> |
|--------------------------|----------------------|----------------------|
| Equipment | \$ 26,965 | \$ 25,282 |
| Vehicles | <u>1,816</u> | <u>1,917</u> |
| Total Net Capital Assets | <u>\$ 28,781</u> | <u>\$ 27,199</u> |

As of June 30, 2018, the Ohio Lottery had \$28.8 million, net of accumulated depreciation, in Capital Assets. The increase in Net Capital Assets is a result of additional acquired equipment in 2018. 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.

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 (non-current portion only) decreased \$37.2 million as prior long-term annuities are paid off at a faster rate than new annuities are selected by prize winners.

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, 2018
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)
(rounded thousands)

| | OPERATING | ANNUITY FUND | TOTALS | |
|--|----------------|----------------|----------------|----------------|
| | | | JUNE 30, 2018 | JUNE 30, 2017 |
| ASSETS: | | | | |
| Current Assets - Unrestricted | | | | |
| Cash and Cash Equivalents | \$ 62,231 | \$ - | \$ 62,231 | \$ 40,450 |
| Cash Equity with Treasurer of State | 106,166 | - | 106,166 | 165,487 |
| Cash and Cash Equivalents - Video Lottery | 6,969 | - | 6,969 | 70 |
| Collateral on Lent Securities | 30,149 | - | 30,149 | 45,214 |
| Receivables from Agents, Net | 60,940 | - | 60,940 | 59,088 |
| Due From Other State Agencies | - | - | - | 2 |
| Other Assets | 3,354 | - | 3,354 | 4,443 |
| Total Current Assets - Unrestricted | 269,809 | - | 269,809 | 314,754 |
| Current Assets - Restricted | | | | |
| Cash Equity with Treasurer of State | - | 63 | 63 | 76 |
| Dedicated Investments | - | 52,834 | 52,834 | 55,126 |
| Collateral on Lent Securities | - | 54,429 | 54,429 | 86,244 |
| Interest Receivable | - | 3 | 3 | 56 |
| Total Current Assets - Restricted | - | 107,329 | 107,329 | 141,502 |
| Total Current Assets | 269,809 | 107,329 | 377,138 | 456,256 |
| Noncurrent Assets | | | | |
| Dedicated Investments, Restricted | - | 375,749 | 375,749 | 433,932 |
| Capital Assets | | | | |
| Equipment | 164,045 | - | 164,045 | 151,867 |
| Vehicles | 3,686 | - | 3,686 | 3,597 |
| Accumulated Depreciation | (138,950) | - | (138,950) | (128,265) |
| Net Capital Assets | 28,781 | - | 28,781 | 27,199 |
| Net Pension Asset | 171 | - | 171 | 73 |
| Total Noncurrent Assets | 28,952 | 375,749 | 404,701 | 461,204 |
| TOTAL ASSETS | 298,761 | 483,078 | 781,839 | 917,460 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension: OPERS | 5,092 | - | 5,092 | 18,384 |
| OPEB: OPERS | 1,288 | - | 1,288 | - |
| Total Deferred Outflows of Resources | \$ 6,380 | \$ - | \$ 6,380 | \$ 18,384 |

OHIO LOTTERY COMMISSION
STATEMENT OF NET POSITION - MAJOR FUNDS, CONTINUED
JUNE 30, 2018
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)
(rounded thousands)

| | OPERATING | ANNUITY FUND | TOTALS | |
|---|-------------------|------------------|-------------------|-------------------|
| | | | JUNE 30, 2018 | JUNE 30, 2017 |
| LIABILITIES | | | | |
| Current Liabilities - Unrestricted | | | | |
| Accounts Payable | \$ 9,512 | \$ - | \$ 9,512 | \$ 14,067 |
| Prize Awards Payable | 34,223 | - | 34,223 | 44,216 |
| Obligations under Securities Lending | 30,149 | - | 30,149 | 45,214 |
| Capital Lease Payable - Current | 1,552 | - | 1,552 | 3,113 |
| Unearned Revenue | 1,147 | - | 1,147 | 1,537 |
| Other Liabilities | 1,902 | - | 1,902 | 2,318 |
| Due to Other Lotteries | 2,083 | - | 2,083 | 697 |
| Total Current Liabilities - Unrestricted | 80,568 | - | 80,568 | 111,162 |
| Current Liabilities - Restricted | | | | |
| Due to other State Agencies | - | - | - | 83,845 |
| Due for Problem Gambling VLT Expenses | 799 | - | 799 | 234 |
| Obligations under Securities Lending | - | 54,429 | 54,429 | 86,244 |
| Prize Awards Payable - Net of Discount | - | 52,900 | 52,900 | 55,257 |
| Total Current Liabilities - Restricted | 799 | 107,329 | 108,128 | 225,580 |
| Total Current Liabilities | 81,367 | 107,329 | 188,696 | 336,742 |
| Noncurrent Liabilities: | | | | |
| Prize Awards Payable from Restricted Assets - Net of Discount | - | 356,678 | 356,678 | 393,912 |
| Capital Lease Payable - Long-Term | 1,612 | - | 1,612 | 3,164 |
| Workers' Compensation | 1,036 | - | 1,036 | 1,300 |
| Compensated Absences | 3,288 | - | 3,288 | 3,400 |
| Net Pension Liability | 25,796 | - | 25,796 | 36,541 |
| Net OPEB Liability | 17,491 | - | 17,491 | - |
| Total Noncurrent Liabilities | 49,223 | 356,678 | 405,901 | 438,317 |
| TOTAL LIABILITIES | 130,590 | 464,007 | 594,597 | 775,059 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension: OPERS | 6,125 | - | 6,125 | 2,358 |
| OPEB: OPERS | 1,303 | - | 1,303 | - |
| Total Deferred Inflows of Resources | 7,428 | - | 7,428 | 2,358 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 25,619 | - | 25,619 | 20,921 |
| Restricted for Net Unrealized Gains on Restricted Investments | - | 27,954 | 27,954 | 46,998 |
| Unrestricted | 141,504 | (8,883) | 132,621 | 90,508 |
| TOTAL NET POSITION | \$ 167,123 | \$ 19,071 | \$ 186,194 | \$ 158,427 |

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

OHIO LOTTERY COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)
(rounded in thousands)

| | OPERATING | ANNUITY FUND | TOTALS | |
|---|--------------------|------------------|--------------------|--------------------|
| | | | JUNE 30, 2018 | JUNE 30, 2017 |
| REVENUES | | | | |
| Ticket Sales | 3,160,109 | - | 3,160,109 | 3,001,699 |
| VLT Revenue, Net | 987,297 | - | 987,297 | 926,646 |
| VLT License Revenue | 108 | - | 108 | 147 |
| Other Revenues | 5,643 | 206 | 5,849 | 4,869 |
| Total Operating Revenues | 4,153,157 | 206 | 4,153,363 | 3,933,361 |
| EXPENSES | | | | |
| Direct Game Costs | | | | |
| Prize Awards | 1,986,145 | 12,509 | 1,998,654 | 1,910,007 |
| Bonuses and Commissions | 206,103 | - | 206,103 | 185,739 |
| VLT Commissions | 656,553 | - | 656,553 | 616,220 |
| Cost of Tickets Sold | 30,174 | - | 30,174 | 29,479 |
| Vendor Fees | 19,543 | - | 19,543 | 30,647 |
| Total Direct Game Costs | 2,898,518 | 12,509 | 2,911,027 | 2,772,092 |
| Operating Expenses | | | | |
| Personal Services | 4,527 | - | 4,527 | 6,044 |
| Repairs and Maintenance | 8,566 | - | 8,566 | 16,522 |
| Salaries Wages and Benefits | 32,802 | - | 32,802 | 32,040 |
| Advertising | 25,567 | - | 25,567 | 23,364 |
| Travel | 190 | - | 190 | 226 |
| Utilities and Rent | 1,037 | - | 1,037 | 2,146 |
| Depreciation | 10,942 | - | 10,942 | 10,577 |
| Other Expenses | 8,587 | - | 8,587 | - |
| Total Operating Expenses | 92,218 | - | 92,218 | 90,919 |
| OPERATING INCOME (LOSS) | 1,162,421 | (12,303) | 1,150,118 | 1,070,350 |
| Non-Operating Revenues (Expenses): | | | | |
| Interest Income | 2,350 | 115 | 2,465 | (7,419) |
| Amortization of Prize Liabilities | - | (19,807) | (19,807) | (20,714) |
| Gain (Loss) on Equipment Disposal | (76) | - | (76) | (117) |
| Interest Expense - Borrower Rebates | - | (1,010) | (1,010) | (483) |
| Securities Lending Agent Fees | - | (37) | (37) | (47) |
| Payments to the Lottery Profits Education Fund | (1,087,721) | - | (1,087,721) | (1,040,642) |
| Total Non-Operating Revenues (Expenses), Net | (1,085,447) | (20,739) | (1,106,186) | (1,069,422) |
| INCOME (LOSS) BEFORE TRANSFERS | 76,974 | (33,042) | 43,932 | 928 |
| TRANSFERS: | | | | |
| Transfers to Annuity Prize Trust Fund | (12,092) | 12,092 | - | - |
| Total Transfers | (12,092) | 12,092 | - | - |
| Change in Net Position | 64,882 | (20,950) | 43,932 | 928 |
| Total Net Position - Beginning | 118,406 | 40,021 | 158,427 | 157,499 |
| Cumulative effect of change in Accounting Principle | (16,165) | - | (16,165) | - |
| Restated Net Position at beginning of year | | | 142,262 | |
| TOTAL NET POSITION - ENDING | \$ 167,123 | \$ 19,071 | \$ 186,194 | \$ 158,427 |

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

OHIO LOTTERY COMMISSION
STATEMENT OF CASH FLOWS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)
(rounded in thousands)

| | OPERATING | ANNUITY FUND | TOTALS | |
|--|---------------------|--------------------|---------------------|--------------------|
| | | | JUNE 30, 2018 | JUNE 30, 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash Received from Sales | \$ 4,145,166 | \$ - | \$ 4,145,166 | \$ 3,920,277 |
| Cash Received from Multi-State Lottery for Grand Prize Winners | 85,751 | - | 85,751 | 12,081 |
| Cash Payments for Prize Awards | (2,079,702) | (71,905) | (2,151,607) | (1,989,234) |
| Cash Payments for Bonuses and Commissions | (862,656) | - | (862,656) | (801,959) |
| Cash Payments for Goods and Services | (177,300) | - | (177,300) | (115,436) |
| Cash Payments to Employees | (33,445) | - | (33,445) | (31,960) |
| Other Operating Revenues | 5,751 | 206 | 5,957 | 5,016 |
| Other Operating Expenses | (1,028) | - | (1,028) | - |
| Net Cash Provided (Used) by Operating Activities | <u>1,082,537</u> | <u>(71,699)</u> | <u>1,010,838</u> | <u>998,785</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Due to Other State Agencies | - | - | - | - |
| Payments to the Lottery Profits Education Fund | (1,087,721) | - | (1,087,721) | (1,040,642) |
| Transfers In | - | 12,092 | 12,092 | 31,308 |
| Transfers Out | (12,092) | - | (12,092) | (31,308) |
| Net Cash Provided (Used) by NonCapital Financing Activities | <u>(1,099,813)</u> | <u>12,092</u> | <u>(1,087,721)</u> | <u>(1,040,642)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition of Property and Equipment | (12,602) | - | (12,602) | (1,084) |
| Proceeds from Sale of Property and Equipment | - | - | - | 31 |
| Repayment of Equipment Obligation | (3,113) | - | (3,113) | (3,799) |
| Net Cash Used by Capital and Related Financing Activities | <u>(15,715)</u> | <u>-</u> | <u>(15,715)</u> | <u>(4,852)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment Income Received | 2,349 | 2,478 | 4,827 | 3,685 |
| Interest Expense and Agent Fees | - | (1,047) | (1,047) | (530) |
| Proceeds from the Sale and Maturity of Investments | - | 138,199 | 138,199 | 116,069 |
| Purchase of Investments | - | (80,035) | (80,035) | (74,014) |
| Securities Lending Proceeds | (30,149) | 54,429 | 24,280 | 131,458 |
| Securities Lending Payments | 30,149 | (54,429) | (24,280) | (131,458) |
| Net Cash Provided (Used) by Investing Activities | <u>2,349</u> | <u>59,595</u> | <u>61,944</u> | <u>45,210</u> |
| Net Increase (Decrease) in Cash & Cash Equivalents | <u>(30,642)</u> | <u>(12)</u> | <u>(30,654)</u> | <u>(1,499)</u> |
| Cash and Cash Equivalents - Beginning | <u>206,008</u> | <u>75</u> | <u>206,083</u> | <u>207,582</u> |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 175,366</u> | <u>\$ 63</u> | <u>\$ 175,429</u> | <u>\$ 206,083</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$ 1,162,421 | \$ (12,303) | \$ 1,150,118 | \$ 1,070,350 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 10,942 | - | 10,942 | 10,577 |
| Amortization of Discount of Prize Liabilities | - | 19,807 | 19,807 | 20,714 |
| Net Changes in Assets and Liabilities | | | | |
| Receivables from Agents - Net | (1,850) | - | (1,850) | (7,147) |
| Other Assets | 1,089 | - | 1,089 | 2,348 |
| Prize Awards Payable | (9,993) | - | (9,993) | (23,507) |
| Accounts Payable | (4,555) | - | (4,555) | (9,848) |
| Other Liabilities | (82,310) | - | (82,310) | (1,818) |
| Unearned Revenue | (390) | - | (390) | (920) |
| Prize Awards Payable from Restricted Assets - Net of Discount | - | (79,203) | (79,203) | (63,920) |
| Accrued Workers' Compensation | (264) | - | (264) | (80) |
| Compensated Absences | (112) | - | (112) | 119 |
| Pension Expense | 6,217 | - | 6,217 | 1,917 |
| OPEB Expense | 1,342 | - | 1,342 | - |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ 1,082,537</u> | <u>\$ (71,699)</u> | <u>\$ 1,010,838</u> | <u>\$ 998,785</u> |

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

Non-Cash items included in investment income were \$(19.0) million and \$(30.5) million of unrestricted net gains/losses for the years ended June 30, 2018 and June 30, 2017, respectively. During fiscal year 2018 the Ohio Lottery did not acquire any additional equipment. 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, 2018

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, 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 (SEC) as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants", which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts at June 30, 2018 and 2017 of \$541,000 and \$306,000, 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 AND RESTRICTED NET POSITION

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. The restricted net position of the Annuity Fund represents amounts that have been externally imposed by Ohio Lottery winners and are restricted to be used for future prize payments when winners select the annuity option.

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 2018, the Video Lottery Sales Agents (VLSA) had 11,267 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, 2018, VLT revenue was \$987.3 million with \$656.6 million paid to VLSA as VLT commission, \$3.3 million paid to Problem Gambling Services, and \$330.7 million paid to the Ohio Lottery.

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

Payments to the Lottery Profits Education Fund totaled \$1,087.7 million. Of this amount, \$794.7 million represented profits generated from traditional lottery games, while \$293.0 million represented profits generated from the VLT program. Due to a change in how the Office of Budget and Management (OBM) recognizes transfers, VLT revenue earned in June was transferred and posted to the LPEF in July and will be accounted for in the next fiscal year.

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. The Game Show selling bonus is 1.0 percent of the championship contestant’s total winnings (excluding bonus prize winnings).

In July 2017, the Lottery launched a tiered commission structure to incentivize retailers to increase sales volume in select categories, along with meeting other mandatory qualifying criteria selected by management. Qualified, eligible retailers will receive 0.5 percent commission bonus for achieving a 2.5 percent increase in sales over the same quarter last year, and a 1.0 percent commission bonus for a 5.0 percent increase in sales over the same quarter last year.

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, 2018, 2017, and 2016. No significant payments were made or liabilities recorded during the years ended June 30, 2018, 2017, and 2016 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, Anthem and Aetna 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, Anthem and Aetna 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 \$46.19 for single, \$126.44 for family Minus Spouse and \$132.21 for Family Plus Spouse per pay period, while the Ohio Lottery contributed \$260.64 for single and \$715.40 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 \$4,796,000, \$4,280,000, \$3,746,000, \$3,577,000, \$3,198,000, \$2,682,000, \$1,267,000, \$1,371,000, \$1,284,000 and \$1,221,000.

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, 2017.

NEW ACCOUNTING PRONOUNCEMENTS/RESTATEMENT OF NET POSITION

The Government Accounting Standards Board (GASB) has issued GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", GASB Statement No. 81, "Irrevocable Split-Interest Agreements", GASB Statement No. 85, "Omnibus 2017", GASB Statement No. 86, "Certain Debt Extinguishment Issues" to be implemented for the fiscal year ending June 30, 2018. The Ohio Lottery has implemented GASB 75. GASB 81, 85, 86, have no impact to the Ohio Lottery.

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

| NET POSITION | |
|--|-------------------|
| <i>in thousands</i> | |
| Net Position June 30, 2017 | \$ 158,427 |
| Adjustments: | |
| Net OPEB Liability | (16,269) |
| Deferred Outflow - Payments Subsequent to Measurement Date | 104 |
| Restated Net Position June 30, 2017 | \$ 142,262 |

Other than employer contributions subsequent to the measurement date, the Ohio Lottery made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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, 2017, 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/OTHER POSTEMPLOYMENT BENEFITS (OPEB)

For purposes of measuring the net pension/OPEB liability, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans 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, 2018, 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 \$69,214,000 and bank balances of the Ohio Lottery's deposits with the financial institutions were \$68,964,000.

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, 2018 consist of the following:

| Investment Type (rounded thousands) | Fair Value | Level 1 | Level 2 | Level 3 | Investment Maturities (in years) | | | | |
|--|------------|--|-------------------------------------|---------------------------------|----------------------------------|-------------|------------|------------|-----------|
| | | Quoted Prices In Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs | Credit Quality Rating | Less than 1 | 1-5 | 6-10 | >10 |
| Commercial Paper | \$ - | | | | | \$ - | \$ - | \$ - | \$ - |
| U.S. Agency Obligations | 4,964 | - | 4,964 | - | AA/Aa AAA/Aaa | - | 2,952 | 2,012 | - |
| U.S. Agency Obligation Strips | 168,555 | - | 168,555 | - | AA/Aa | 50,636 | 93,837 | 21,179 | 2,903 |
| U.S. Government Obligation - strips | 254,374 | - | 254,374 | - | AAA | 20,452 | 77,166 | 82,538 | 74,218 |
| Total Investments | 427,893 | - | 427,893 | - | | 71,088 | 173,955 | 105,729 | 77,121 |
| <u>Investments not required to be categorized</u> | | | | | | | | | |
| Investments in State Treasury Asset Reserve of Ohio (STAR Ohio) | 689 | | | | AAA/Aaa | 689 | - | - | - |
| 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 | 30,149 | | | | | 30,149 | - | - | - |
| Total Lottery Commission - Structured Investments, as of June 30, 2018 | \$ 458,731 | | | | | \$ 101,926 | \$ 173,955 | \$ 105,729 | \$ 77,121 |
| Total Lottery Commission - Investments made with Cash Collateral | 54,429 | | | | | | | | |
| Total - Statement of Net Position | 513,160 | | | | | | | | |

For Investments held by the Treasurer of State, 6.75 billion classified in Level 2 was valued using either matrix pricing, or, in the case of variable rate notes, were valued by discounting the current and future coupons using a yield calculation or scale based on the characteristics of the security. For matrix pricing, inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications were used. Interactive Data pricing used by the Treasurer's office also monitors market indicators, and industry and economic events. The Ohio Lottery Commission's structured investments are included in the Treasurer of State's Level 2 investments noted above.

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 Funds10% 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, 2018. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

As of June 30, 2018, the total carrying amount of deposits and investments categorized and disclosed in this note is \$688,590. This amount can be reconciled to the statement of net position as follows:

| <i>rounded thousands</i> | DEPOSITS | INVESTMENTS | TOTAL |
|--|-------------------|--------------------|-------------------|
| Unrestricted Assets: | | | |
| Cash and Cash Equivalents | \$ 62,231 | \$ - | \$ 62,231 |
| Cash Equity with Treasurer of State | 106,166 | | 106,166 |
| Cash and Cash Equivalents - Video Lottery | 6,969 | - | 6,969 |
| Collateral on Lent Securities | - | 30,149 | 30,149 |
| Restricted Assets: | | | |
| Cash Equity with Treasurer of State | 63 | - | 63 |
| Dedicated Investments | - | 428,583 | 428,583 |
| Collateral on Lent Securities | - | 54,429 | 54,429 |
| Total - per Statement of Net Position | \$ 175,429 | \$ 513,161 | \$ 688,590 |

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.

| BORROWER OWES TO LENDER | | LENDER OWES TO BORROWER | |
|--------------------------------|------------------|--------------------------------|------------------|
| MV of Loaned Securities | \$ 53,529 | Cash Collateral | \$ 54,398 |
| Unpaid Distributions | - | Unpaid Distributions | - |
| Accrued Premiums | - | Accrued Rebates | 59 |
| Total | \$ 53,529 | Total | \$ 54,457 |

Since the Lender owes the Borrowers \$928,000 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2018.

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

For loaned contracts, the 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, 2018 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 2018, 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 2018 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 | \$ 14,499 | A/A-1BBB/Baa | \$ 14,499 | \$ - | \$ - | \$ - |
| U.S. Government Obligation Strips | - | | - | - | - | - |
| U.S. Agency Obligations-strips | - | | - | - | - | - |
| U.S. Agency Obligations | - | | - | - | - | - |
| Corporate Bonds and Notes | - | | - | - | - | - |
| Certificates of Deposits (Negotiable) | - | | - | - | - | - |
| Commercial Paper | 11,940 | A/A-1 | 11,940 | - | - | - |
| Other Investments: | | | | | | |
| Master Note | - | | - | - | - | - |
| Variable Rate Note | 27,972 | A/A-1 | 27,972 | - | - | - |
| Investments Not Required to be Categorized: | | | | | | |
| Money Market Funds | - | | - | - | - | - |
| Allocated Cash Collateral ⁽¹⁾ | 18 | | 18 | - | - | - |
| Total - Investments made with Cash Collateral, as of June 30, 2018 | \$ 54,429 | | \$ 54,429 | \$ - | \$ - | \$ - |

(1) The Ohio Lottery has been allocated \$18,000 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, 2018 and 2017 was as follows:

| (rounded in thousands) | 2017 | INCREASES | DECREASES | 2018 |
|--------------------------------|------------|------------|-----------|------------|
| Equipment | \$ 151,867 | \$ 12,185 | \$ 7 | \$ 164,045 |
| Vehicles | 3,597 | 416 | 327 | 3,686 |
| Total Capital Assets | 155,464 | 12,601 | 334 | 167,731 |
| Less Accumulated Depreciation: | | | | |
| Equipment | (126,585) | (10,501) | 6 | (137,080) |
| Vehicles | (1,680) | (441) | 251 | (1,870) |
| Total Accumulated Depreciation | (128,265) | (10,942) | 257 | (138,950) |
| Net Capital Assets | \$ 27,199 | \$ 1,659 | \$ 77 | \$ 28,781 |
| | | | | |
| | 2016 | INCREASES | DECREASES | 2017 |
| Equipment | \$ 152,938 | \$ 229 | \$ 1,300 | \$ 151,867 |
| Vehicles | 3,357 | 856 | 616 | 3,597 |
| Total Capital Assets | 156,295 | 1,085 | 1,916 | 155,464 |
| Less Accumulated Depreciation: | | | | |
| Equipment | (117,750) | (10,133) | 1,298 | (126,585) |
| Vehicles | (1,707) | (444) | 471 | (1,680) |
| Total Accumulated Depreciation | (119,457) | (10,577) | 1,769 | (128,265) |
| Net Capital Assets | \$ 36,838 | \$ (9,492) | \$ 147 | \$ 27,199 |

The Ohio Lottery has entered into a capital lease for gaming services and leased equipment with Intralot. During fiscal year 2018, no additional equipment was acquired. The length of the contract is two years, with five optional two-year renewals; the Lottery has exercised the forth 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, 2018 are as follows:

CAPITAL LEASES GROSS ASSETS AND ACCUMULATED AMORTIZATION
(rounded in thousands)

| | JUNE 30, 2018 | JUNE 30, 2017 |
|--------------------------------|----------------------|----------------------|
| ASSET | | |
| Computer Equipment and Systems | 108,815 | 108,815 |
| Accumulated Depreciation | (105,651) | (102,538) |
| TOTAL | 3,164 | 6,277 |

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2018 and 2017 consist of the following:

| <i>(rounded in thousands)</i> | JUNE 30, 2018 | JUNE 30, 2017 |
|---|----------------------|----------------------|
| Current portion - face amount | \$ 67,277 | \$ 71,785 |
| Less: Unamortized discount | (14,377) | (16,528) |
| Current portion - present value | 52,900 | 55,257 |
| Noncurrent portion - face amount | 438,639 | 487,330 |
| Less: Unamortized discount | (81,961) | (93,418) |
| Noncurrent portion - present value | 356,678 | 393,912 |
| Total Prize Awards Payable - Net of Discount | \$ 409,578 | \$ 449,169 |

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, 2018 is summarized as follows:

| FISCAL YEAR ENDING JUNE 30 <i>(rounded in thousands)</i> | AMOUNT |
|--|-------------------|
| 2019 | \$ 67,277 |
| 2020 | 54,967 |
| 2021 | 49,838 |
| 2022 | 44,861 |
| 2023 | 37,645 |
| 2024 through 2028 | 131,333 |
| 2029 through 2033 | 92,219 |
| 2034 through 2038 | 21,265 |
| 2039 through 2043 | 6,311 |
| 2044 thereafter | 200 |
| Subtotal | 505,916 |
| Unamortized Discount | (96,338) |
| Net Prize Liability | \$ 409,578 |

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 \$419.0 million and \$409.0 million for the years ended June 30, 2018 and 2017, respectively.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2018 and 2017 is as follows:

| <i>(rounded in thousands)</i> | 2018 | 2017 |
|---|-------------|-------------|
| Accrued Liabilities | \$ 1,274 | \$ 1,896 |
| Worker's Compensation - Current Portion | 99 | 76 |
| Compensated Absences - Current Portion | 529 | 346 |

Total

\$ 1,902 \$ 2,318

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2018 and 2017 was as follows:

| <i>(rounded in thousands)</i> | NON-CURRENT | | | CURRENT | | | | |
|---|---|------------------|--------------------|------------------------------|--------------------------|------------------|-------------------|--------------------------|
| | NON-CURRENT LIABILITIES 2017 (RESTATEd) | ADDITIONS | REDUCTIONS | NON-CURRENT LIABILITIES 2018 | CURRENT LIABILITIES 2017 | ADDITIONS | REDUCTIONS | CURRENT LIABILITIES 2018 |
| Prize Awards Payable from Restricted Assets - Net of Discount | \$ 393,912 | \$ 34,664 | \$ (71,898) | \$ 356,678 | \$ 55,257 | \$ - | \$ (2,357) | \$ 52,900 |
| Capital Lease Payable | 3,164 | - | (1,552) | 1,612 | 3,113 | - | (1,561) | 1,552 |
| Accrued Workers' Compensation | 1,300 | - | (264) | 1,036 | 76 | 23 | - | 99 |
| Compensated Absences | 3,400 | 2,899 | (3,011) | 3,288 | 346 | 183 | - | 529 |
| Net Pension Liability | 36,541 | - | (10,745) | 25,796 | - | - | - | - |
| Net OPEB Liability | 16,269 | 1,222 | - | 17,491 | - | - | - | - |
| Total Current and Noncurrent Liabilities | \$ 454,586 | \$ 38,785 | \$ (87,470) | \$ 405,901 | \$ 58,792 | \$ 206 | \$ (3,918) | \$ 55,080 |
| | 2016 | ADDITIONS | REDUCTIONS | 2017 | 2016 | ADDITIONS | REDUCTIONS | 2017 |
| Prize Awards Payable from Restricted Assets - Net of Discount | \$ 414,180 | \$ 55,114 | \$ (75,382) | \$ 393,912 | \$ 57,479 | \$ - | \$ (2,222) | \$ 55,257 |
| Capital Lease Payable | 6,277 | - | (3,113) | 3,164 | 3,800 | - | (687) | 3,113 |
| Accrued Workers' Compensation | 1,379 | - | (79) | 1,300 | 71 | 5 | - | 76 |
| Compensated Absences | 3,281 | 2,945 | (2,826) | 3,400 | 309 | 37 | - | 346 |
| Net Pension Liability | 27,660 | 8,881 | - | 36,541 | - | - | - | - |
| Total Current and Noncurrent Liabilities | \$ 452,777 | \$ 66,940 | \$ (81,400) | \$ 438,317 | \$ 61,659 | \$ 42 | \$ (2,909) | \$ 58,792 |

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 \$53.0 million and \$55.3 million for the years ended June 30, 2018 and June 30, 2017 respectively.

7. PENSION-OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)/NET PENSION LIABILITY/ASSET

NET PENSION LIABILITY/ASSET

The net pension liability/asset reported on the statement of net position represents a liability or asset 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/asset represents the Ohio Lottery's 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/asset 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.

The Ohio Revised Code limits the Ohio Lottery's 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 any net pension 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 or overfunded benefits is presented as a long-term net pension liability or net pension asset, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in other liabilities on both the accrual basis of accounting.

PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Ohio Lottery employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The

Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Ohio Lottery employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| GROUP A | GROUP B | GROUP C |
|---|--|---|
| Eligible to retire prior to January 7, 2013, or five years after January 7, 2013 | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Members not in other groups and members hired on or after January 7, 2013 |
| STATE AND LOCAL | STATE AND LOCAL | STATE AND LOCAL |
| Age and Service Requirements | Age and Service Requirements | Age and Service Requirements |
| Age 60 with 60 months of service credit or age 55 with 25 years of service credit | Age 60 with 60 months of service credit or age 55 with 25 years of service credit | Age 57 with 25 years of service credit or age 62 with 5 years of service credit |
| Formula | Formula | Formula |
| 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30. | 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30. | 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35. |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.00% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.00%.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.00% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3.00% COLA adjustment on the defined benefit portion of their benefit.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy- The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| 2018 STATUTORY MAXIMUM CONTRIBUTIONS RATE | | STATE AND LOCAL |
|---|--|-----------------|
| Employer | | 14.0% |
| Employee | | 10.0% |

| 2018 ACTUAL CONTRIBUTIONS RATE | | STATE AND LOCAL |
|---|--|-----------------|
| Employer: | | |
| Pension | | 13.0% |
| Post-Employment Health Care Benefits (July-December) | | 1.0% |
| Post-Employment Health Care Benefits (January - June) | | 0.0% |
| Total Employer | | <u>14.0%</u> |
| Employee | | <u>10.0%</u> |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The Ohio Lottery's contractually required contribution for the Traditional Pension Plan and the Combined Plan was \$3,094,000 for fiscal year 2018.

PENSION LIABILITIES/ASSETS, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The net pension liability and net pension asset for the OPERS Traditional Pension Plan and Combined Plan, respectively, were measured as of December 31, 2017, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. The Ohio Lottery's proportion of the net pension liability or asset 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 | TOTAL |
|---|------------------|-------------------|---------------|
| Proportionate of the Net Pension Liability/Asset Prior Measurement Date | 0.160915% | 0.130520% | |
| Proportionate of the Net Pension Liability/Asset Current Measurement Date | 0.164436% | <u>0.125481%</u> | |
| Change in Proportionate Share | <u>0.003521%</u> | <u>-0.005039%</u> | |
| Proportionate Share of the Net Pension Liability (Asset) | \$ 25,796,000 | \$ (171,000) | \$ 25,625,000 |
| Proportionate Share of the Net Pension Expense | \$ 7,668,000 | \$ 28,000 | \$ 7,696,000 |

At June 30, 2018, the OLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS | TRADITIONAL | COMBINED | TOTAL |
|--|---------------------|------------------|---------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 26,000 | \$ - | \$ 26,000 |
| Changes of Assumptions | 3,083,000 | 15,000 | 3,098,000 |
| Changes in employer's proportionate percentage/difference between employer contributions | \$ 489,000 | \$ - | \$ 489,000 |
| OLC contributions subsequent to the measurement date | <u>1,479,000</u> | <u>-</u> | <u>1,479,000</u> |
| Total Deferred Outflows of Resources | <u>\$ 5,077,000</u> | <u>\$ 15,000</u> | <u>\$ 5,092,000</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ 509,000 | \$ 51,000 | \$ 560,000 |
| Net difference between projected and actual earnings on pension plan investments | <u>5,538,000</u> | <u>27,000</u> | <u>5,565,000</u> |
| Total Deferred Inflows of Resources | <u>6,047,000</u> | <u>78,000</u> | <u>6,125,000</u> |

\$1,479,000 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, 2019. 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 | TOTAL |
|-----------------------------|--------------------|-----------------|--------------------|
| 2019 | \$ 2,595,000 | \$ (9,000) | \$ 2,586,000 |
| 2020 | (329,000) | (9,000) | (338,000) |
| 2021 | (2,439,000) | (15,000) | (2,454,000) |
| 2022 | (2,276,000) | (15,000) | (2,291,000) |
| 2023 | \$ - | \$ (5,000) | \$ (5,000) |
| Thereafter | - | (10,000) | (10,000) |
| Total | <u>(2,449,000)</u> | <u>(63,000)</u> | <u>(2,512,000)</u> |

ACTUARIAL ASSUMPTIONS - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values 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, 2017, using the following actuarial assumptions and methods 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 valuation, reflecting experience study results, are presented below.

| KEY METHODS AND ASSUMPTIONS USED IN VALUATION OF TOTAL PENSION LIABILITY | | |
|--|--|--|
| Actuarial Information | Traditional Pension Plan | Combined Plan |
| Measurement and Valuation Date | December 31, 2017 | December 31, 2017 |
| Experience Study | 5 Year Period Ended December 31, 2015 | 5 Year Period Ended December 31, 2015 |
| Actuarial Cost Method | Individual entry age | Individual entry age |
| ACTUARIAL ASSUMPTIONS | | |
| Investment Rate of Return | 7.50% | 7.50% |
| Wage Inflation | 3.25% | 3.25% |
| Projected Salary Increases | 3.25%-10.75% (includes wage inflation at 3.25%) | 3.25%-8.25% (includes wage inflation at 3.25%) |
| Cost-of-living Adjustments | Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple | Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term 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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care 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 and the annuitized accounts of the Member-Directed Plan. 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 annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82% for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS 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 2017 and the long-term expected real rates of return:

| ASSET CLASS | TARGET ALLOCATION FOR 2017 | WEIGHTED AVERAGE LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC) |
|------------------------|----------------------------|--|
| Fixed Income | 23.00% | 2.20% |
| Domestic Equities | 19.00% | 6.37% |
| Real Estate | 10.00% | 5.26% |
| Private Equity | 10.00% | 8.97% |
| International Equities | 20.00% | 7.88% |
| Other Investments | 18.00% | 5.26% |
| TOTAL | 100.00% | 5.66% |

Discount Rate- The discount rate used to measure the total pension liability/asset was 7.50%, post-experience study results, for the Traditional Pension Plan and the Combined 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 benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan and Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Ohio Lottery’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following table presents the Ohio Lottery’s proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 7.50%, as well as what the Ohio Lottery’s proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

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

| EMPLOYERS’ NET PENSION LIABILITY/(ASSET) AS OF DECEMBER 31, 2017 | 1% DECREASE | CURRENT DISCOUNT RATE | 1% INCREASE |
|---|--------------|-----------------------|-------------|
| | 6.5% | 7.5% | 8.5% |
| Traditional Pension Plan | \$45,809,000 | \$25,796,000 | \$9,113,000 |
| Combined Plan | (\$93,000) | (\$171,000) | (\$225,000) |

8. OTHER POST EMPLOYMENT BENEFITS: OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)/ NET OPEB LIABILITY

NET OPEB LIABILITY

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” was effective. The net OPEB liability has been disclosed below.

OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 net OPEB liability represents the District’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of the plan’s unfunded benefits or overfunded benefits is presented as a long-term net OPEB liability, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in other liabilities on the accrual basis of accounting.

PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Plan Description- Ohio Lottery employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Ohio Lottery employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

DEFINED BENEFIT OPEB PLANS

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

As of December 2016, OPERS maintains one health care trust, the 115 Health Care Trust (115 Trust), which was established in 2014 to initially provide a funding mechanism for a health reimbursement arrangement (HRA), as the prior trust structure could not support the HRA. In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate health care assets into the 115 Trust. The 401(h) Health Care Trust (401(h) Trust) was a pre-funded trust that provided health care funding for eligible members of the Traditional Pension Plan and the Combined Plan through December 31, 2015, when plans funded through the 401(h) Trust were terminated. The Voluntary Employees' Beneficiary Association Trust (VEBA Trust) accumulated funding for retiree medical accounts for participants in the Member-Directed Plan through June 30, 2016. The 401(h) Trust and the VEBA Trust were closed as of June 30, 2016 and the net positions transferred to the 115 Trust on July 1, 2016. Beginning in 2016, the 115 Trust, established under Internal Revenue Code (IRC) Section 115, is the funding vehicle for all health care plans.

The OPERS health care plans are reported as other post-employment benefit plans (OPEB) based on the criteria established by the Governmental Accounting Standards Board (GASB). Periodically, OPERS modifies the health care program design to improve the ongoing solvency of the plans. Eligibility requirements for access to the OPERS health care options have changed over the history of the program for Traditional Pension Plan and Combined Plan members. Prior to January 1, 2015, 10 or more years of service were required to qualify for health care coverage. Beginning January 1, 2015, generally, members must be at least age 60 with 20 years of qualifying service credit to qualify for health care coverage or 30 years of qualifying service at any age. Beginning 2016, Traditional Pension Plan and Combined Plan retirees enrolled in Medicare A and B were eligible to participate in the OPERS Medicare Connector (Connector). The Connector, a vendor selected by OPERS, assists eligible retirees in the selection and purchase of Medicare supplemental coverage through the Medicare market. Retirees that purchase supplemental coverage through the Connector may receive a monthly allowance in their HRA that can be used to reimburse eligible health care expenses.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The Ohio Lottery's contractually required contribution for OPEB was \$124,000 for fiscal year 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability for OPERS was measured as of December 31, 2017, and the total OPEB liability used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. The Ohio Lottery's proportion of the net pension liability or asset was based on the Ohio Lottery's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| PERS | OPEB |
|--|---------------|
| Proportionate of the Net OPEB Liability Prior Measurement Date | 0.161070% |
| Proportionate of the Net OPEB Liability Current Measurement Date | 0.161070% |
| Change in Proportionate Share | 0.000000% |
| Proportionate Share of the Net OPEB Liability | \$ 17,491,000 |
| Proportionate Share of the Net OPEB Expense | \$ 1,326,000 |

At June 30, 2018, the Ohio Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| PERS | OPEB |
|--|----------------------------|
| Deferred Outflows of Resources | |
| Differences between expected and actual experience | \$ 14,000 |
| Changes of Assumptions | <u>1,274,000</u> |
| Total Deferred Outflows of Resources | \$ <u>1,288,000</u> |
| Deferred Inflows of Resources | |
| Net difference between projected and actual earnings on pension plan investments | <u>1,303,000</u> |
| Total Deferred Inflows of Resources | \$ <u>1,303,000</u> |

No amounts were reported as deferred outflows of resources related to OPEB resulting from Ohio Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| FISCAL YEAR ENDING JUNE 30, | OPEB |
|-----------------------------|---------------------------|
| 2019 | \$ 290,000 |
| 2020 | 290,000 |
| 2021 | (270,000) |
| 2022 | <u>(325,000)</u> |
| Total | \$ <u>(15,000)</u> |

ACTUARIAL ASSUMPTIONS - OPERS

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 health care costs for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between the System and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

| KEY METHODS AND ASSUMPTIONS USED IN VALUATION OF TOTAL OPEB LIABILITY | |
|---|--|
| Actuarial Information | OPEB Plan |
| Actuarial Valuation Date | December 31, 2016 |
| Roll-Forward Measurement Date | December 31, 2017 |
| Experience Study | 5 Year Period Ended December 31, 2015 |
| Actuarial Cost Method | Individual entry age normal |
| Actuarial Assumptions: | |
| Single Discount Rate | 3.85% |
| Investment Rate of Return | 6.50% |
| Municipal Bond Rate | 3.31% |
| Wage Inflation | 3.25% |
| Projected Salary Increases | 3.25%-10.75% (includes wage inflation at 3.25%) |
| Health Care Cost Trend Rate | 7.50% initial, 3.25 ultimate in 2028 |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The long-term 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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2% for 2017.

The allocation of investment assets within the Health Care portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. The System's primary goal is to achieve and maintain a fully funded status for benefits provided through the defined pension plans. Health care is a discretionary benefit.

The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| ASSET CLASS | TARGET ALLOCATION | WEIGHTED AVERAGE LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC) |
|------------------------|-------------------|--|
| Fixed Income | 34.00% | 1.88% |
| Domestic Equities | 21.00% | 6.37% |
| Real Estate | 6.00% | 5.91% |
| International Equities | 22.00% | 7.88% |
| Other Investments | 17.00% | 5.39% |
| TOTAL | 100.00% | 4.98% |

Discount Rate- A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Ohio Lottery's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate- The following table represents the net OPEB liability as of December 31, 2017, calculated using the current period discount rate assumption of 3.85 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.85 percent) or one percentage point higher (4.85 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

Health care Cost Trend Rate- Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

| SENSITIVITY OF NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE | | | |
|---|----------------------|--------------------------------|----------------------|
| EMPLOYERS' NET OPEB LIABILITY AS OF DECEMBER 31, 2017 | 1% DECREASE 2.85% | CURRENT DISCOUNT RATE 3.85% | 1% INCREASE 4.85% |
| OPEB | \$23,238,000 | \$17,491,000 | \$12,842,000 |

| SENSITIVITY OF NET OPEB LIABILITY TO CHANGES IN THE TREND RATE | | | |
|--|--------------|--------------------|--------------|
| EMPLOYERS' NET OPEB LIABILITY AS OF DECEMBER 31, 2017 | 1% DECREASE | CURRENT TREND RATE | 1% INCREASE |
| OPEB | \$16,735,000 | \$17,491,000 | \$18,272,000 |

9. INTERFUND TRANSACTIONS AND BALANCES

Interfund Transactions: During the course of normal operations, the Ohio Lottery records numerous transactions between funds including expenditures and transfers of resources to provide services, subsidize operations and service debt. The Ohio Lottery has the following types of transactions among funds:

Nonreciprocal interfund transfers - Flows of assets between funds without equivalent flows of assets in return and without a requirement for repayment. This includes transfers to subsidize various funds

For the year ended June 30, 2018, transfers consist of the following:

| TRANSFER OUT | TRANSFER IN |
|----------------|-----------------|
| Operating Fund | Annuity Fund |
| | <u>\$12,092</u> |

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 as of the date of issuance of the financial statement and if the amount of the associated 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⁽¹⁾

| PERS | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|---------------|---------------|
| OLC's Proportion (Percentage) of the Collective Net Pension Liability | | | | | |
| Traditional | 0.164436% | 0.160915% | 0.159630% | 0.155623% | 0.155623% |
| Combined | 0.125481% | 0.130520% | 0.107980% | 0.094337% | 0.094337% |
| OLC's Proportionate share (amount) of the Collection Net Pension Liability | \$ 25,625,000 | \$ 36,468,000 | \$ 27,607,000 | \$ 18,734,000 | \$ 18,336,000 |
| Traditional | \$ 25,796,000 | \$ 36,541,000 | \$ 27,660,000 | \$ 18,770,000 | \$ 18,346,000 |
| Combined | (171,000) | (73,000) | (53,000) | (36,000) | (10,000) |
| OLC's Covered-Employee Payroll | \$ 18,635,000 | \$ 17,844,000 | \$ 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 | 137.5% | 204.4% | 163.1% | 115.4% | 123.9% |
| The Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability | | | | | |
| Traditional | 84.7% | 77.3% | 81.1% | 86.4% | 86.4% |
| Combined | 137.3% | 116.6% | 116.9% | 114.8% | 104.6% |
| Member-Direct | 124.5% | 103.4% | 103.9% | 107.1% | |

⁽¹⁾ Information prior to 2014 is not available

SCHEDULE OF OHIO LOTTERY CONTRIBUTIONS LAST TEN FISCAL YEARS

| PERS | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually Required Contributions ⁽²⁾ | \$ 3,094,000 | \$ 2,785,000 | \$ 2,557,000 | \$ 2,435,000 | \$ 2,293,000 | \$ 2,042,000 | \$ 1,732,000 | \$ 1,786,000 | \$ 1,596,000 | \$ 1,455,000 |
| Traditional | 2,964,000 | 2,668,000 | 2,450,000 | 2,333,000 | 2,197,000 | 1,956,000 | 1,659,000 | 1,711,000 | 1,529,000 | 1,394,000 |
| Combined | 50,000 | 45,000 | 41,000 | 39,000 | 37,000 | 33,000 | 28,000 | 29,000 | 26,000 | 24,000 |
| Member-Direct | 80,000 | 72,000 | 66,000 | 63,000 | 59,000 | 53,000 | 45,000 | 46,000 | 41,000 | 38,000 |
| Contributions in Relation to the Contractually Required Contributions | (3,094,000) | (2,785,000) | (2,557,000) | (2,435,000) | (2,293,000) | (2,042,000) | (1,732,000) | (1,786,000) | (1,596,000) | (1,455,000) |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| OLC's Covered-Employee Payroll | \$ 18,977,000 | \$ 18,635,000 | \$ 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 | 16.3% | 14.9% | 14.3% | 14.4% | 14.1% | 13.8% | 12.1% | 12.2% | 10.2% | 9.1% |

(2) Contractually required contributions from fiscal year 2017-2009 have been restated to exclude the portion associated with OPEB

Changes in benefit terms

There were no changes in benefit terms from the amounts reported for fiscal year 2014-2018.

Changes in assumptions

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date:

- (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%,
- (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25%; and
- (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%.

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM • LAST TWO FISCAL YEARS ⁽¹⁾**

| PERS | 2018 | 2017 |
|--|---------------|---------------|
| OLC's Proportion (Percentage) of the Collective Net OPEB Liability | 0.161070% | 0.161070% |
| OLC's Proportionate share (amount) of the Collection Net OPEB Liability | \$ 17,491,000 | \$ 16,269,000 |
| OLC's Covered-Employee Payroll | \$ 18,635,000 | \$ 17,844,000 |
| OLC's Proportionate share (amount) of the Collection Net Pension Liability as a Percentage of the OLC's Covered-Employee Payroll | 93.9% | 91.2 |
| The Pension Plan's Fiduciary Net Position as a Percentage of the Total OPEB Liability | 54.1% | 54.1% |

⁽¹⁾ Information prior to 2017 is not available

SCHEDULE OF OHIO LOTTERY CONTRIBUTIONS • LAST TEN FISCAL YEARS

| PERS | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| Contractually Required Contributions | \$ 124,000 | \$ 343,000 | \$ 426,000 | \$ 406,000 | \$ 277,000 | \$ 442,000 | \$ 693,000 | \$ 856,000 | \$ 964,000 | \$ 1,188,000 |
| Contributions in Relation to the Contractually Required Contributions | <u>(124,000)</u> | <u>(343,000)</u> | <u>(426,000)</u> | <u>(406,000)</u> | <u>(277,000)</u> | <u>(442,000)</u> | <u>(693,000)</u> | <u>(856,000)</u> | <u>(964,000)</u> | <u>(1,188,000)</u> |
| Contribution Deficiency (Excess) | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| OLC's Covered-Employee Payroll | \$ 18,977,000 | \$ 18,635,000 | \$ 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 | 0.7% | 1.8% | 2.4% | 2.4% | 1.7% | 3.0% | 4.8% | 5.9% | 6.2% | 7.5% |

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - PENSION

Changes in benefit terms

There were no changes in benefit terms from the amounts reported for fiscal year 2017-2018.

Changes in assumptions

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017-2018. For fiscal year 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date:

- (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%
- (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25%; and
- (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%.

There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.





8,342 meals

Cash Explosion's "Facing Hunger" Food Drive



The Ohio Lottery's Cash Explosion **Facing Hunger** campaign is a wildly successful effort that runs every year from November through May. Fans are invited to donate non-perishable food when they come to a taping of the show.

This year's campaign generated a record 10,300 pounds of food. The donation was delivered to the Second Harvest Food Bank of North Central Ohio. The donation translated to more than 8,300 meals to aid those Ohioans in need.

Since its kick off in 2011, the Facing Hunger Campaign has donated 21 tons of food to multiple food banks across Ohio.



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

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Plus: total Operating Revenues | \$ 2,425.9 | 2,498.8 | 2,608.3 | 2,781.7 | 2,939.8 | 3,288.0 | 3,776.4 | 3,987.2 | 3,933.3 | 4,153.3 |
| Less: Direct Game Costs - Prizes & Commissions | 1,609.1 | 1,667.2 | 1,764.4 | 1,860.2 | 1,945.1 | 2,158.9 | 2,568.5 | 2,699.0 | 2,711.9 | 2,861.3 |
| Less: Direct Game Costs - Cost of Tickets Sold/ Vendor Fees | | | | | | | 55.0 | 55.4 | 60.1 | 49.7 |
| Less: Total Operating Expenses | 124.3 | 109.4 | 109.3 | 107.8 | 121.4 | 121.0 | 75.9 | 89.5 | 90.9 | 92.2 |
| Operating Income (Loss) | \$ <u>692.5</u> | \$ <u>722.2</u> | \$ <u>734.6</u> | \$ <u>813.7</u> | \$ <u>873.3</u> | \$ <u>1,008.2</u> | \$ <u>1,077.0</u> | \$ <u>1,143.3</u> | \$ <u>1,070.4</u> | \$ <u>1,150.1</u> |
| Plus: Non-Operating Income | 55.8 | 76.3 | 24.1 | 79.1 | - | 16.9 | 19.1 | 35.1 | (7.4) | 2.4 |
| Less: Non-Operating Expense | 41.2 | 40.0 | 37.8 | 34.0 | 137.6 | 30.7 | 30.3 | 24.4 | 21.3 | 20.9 |
| Less: Transfers | 702.3 | 728.6 | 738.8 | 771.0 | 803.1 | 1,004.3 | 1,090.0 | 1,116.1 | 1,040.6 | 1,087.7 |
| Change In Net Position | \$ <u>4.8</u> | \$ <u>29.9</u> | \$ <u>(17.9)</u> | \$ <u>87.8</u> | \$ <u>(67.4)</u> | \$ <u>(9.9)</u> | \$ <u>(24.2)</u> | \$ <u>37.9</u> | \$ <u>\$1.1</u> | \$ <u>43.9</u> |
| Change In Net Position | 4.8 | 29.9 | (17.9) | 87.8 | (67.4) | (9.9) | (41.6) | 37.9 | 0.9 | 43.9 |
| Total Net Position - Beginning | <u>133.9</u> | <u>138.7</u> | <u>168.6</u> | <u>150.7</u> | <u>238.5</u> | <u>171.1</u> | <u>161.2</u> | <u>119.6</u> | <u>157.5</u> | <u>142.3</u> |
| Total Net Position - Ending | \$ <u><u>138.7</u></u> | \$ <u><u>168.6</u></u> | \$ <u><u>150.7</u></u> | \$ <u><u>238.5</u></u> | \$ <u><u>171.1</u></u> | \$ <u><u>161.2</u></u> | \$ <u><u>119.6</u></u> | \$ <u><u>157.5</u></u> | \$ <u><u>158.4</u></u> | \$ <u><u>186.2</u></u> |

OHIO LOTTERY - NET POSITION

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Net Investment In Capital Assets | \$ 5.6 | \$ 7.9 | \$ 4.0 | \$ 2.8 | \$ 1.7 | \$ 2.1 | \$ 15.7 | \$ 26.8 | \$ 20.9 | \$ 25.6 |
| Restricted For Annuity Prizes | 1.4 | - | - | - | - | - | - | - | - | - |
| Restricted For Net Unrealized Gains On Restricted Investments | 55.7 | 87.4 | 77.1 | 123.7 | 85.1 | 73.8 | 66.3 | 77.4 | 47.0 | 28.0 |
| Unrestricted | <u>76.0</u> | <u>73.3</u> | <u>69.6</u> | <u>112.0</u> | <u>84.3</u> | <u>85.3</u> | <u>37.6</u> | <u>53.3</u> | <u>90.5</u> | <u>132.6</u> |
| Total Net Position | \$ <u><u>138.7</u></u> | \$ <u><u>168.6</u></u> | \$ <u><u>150.7</u></u> | \$ <u><u>238.5</u></u> | \$ <u><u>171.1</u></u> | \$ <u><u>161.2</u></u> | \$ <u><u>119.6</u></u> | \$ <u><u>157.5</u></u> | \$ <u><u>158.4</u></u> | \$ <u><u>186.2</u></u> |

OHIO LOTTERY - CAPITAL ASSETS

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Capital Assets | | | | | | | | | | |
| Lottery Equipment | \$ 2.0 | \$ 6.1 | \$ 2.3 | \$ 0.5 | \$ (0.3) | \$ - | \$ 13.8 | \$ 24.4 | \$ 18.4 | \$ 23.2 |
| Vehicles | 1.5 | 1.1 | 1.1 | 1.3 | 1.1 | 1.4 | 1.3 | 1.6 | 1.9 | 1.8 |
| Data / Office Equipment | <u>2.1</u> | <u>0.7</u> | <u>0.6</u> | <u>1.0</u> | <u>0.8</u> | <u>0.7</u> | <u>0.6</u> | <u>0.8</u> | <u>0.6</u> | <u>0.6</u> |
| Net Investments In Capital Assets | \$ <u><u>5.6</u></u> | \$ <u><u>7.9</u></u> | \$ <u><u>4.0</u></u> | \$ <u><u>2.8</u></u> | \$ <u><u>1.6</u></u> | \$ <u><u>2.1</u></u> | \$ <u><u>15.7</u></u> | \$ <u><u>26.8</u></u> | \$ <u><u>20.9</u></u> | \$ <u><u>25.6</u></u> |

Capital Asset Lease

| | | | | | | | | | | |
|--|---|---------|---------|---------|---------|---------|---------|---------|--------|--------|
| Ratio of Outstanding Debt | | | | | | | | | | |
| Related Debt ⁽¹⁾ | - | \$ 66.8 | \$ 58.0 | \$ 45.3 | \$ 33.0 | \$ 15.4 | \$ 13.1 | \$ 10.1 | \$ 6.3 | \$ 3.2 |
| Percentage Of Total Operating Revenues | | 2.8% | 2.3% | 1.7% | 1.2% | 0.5% | 0.4% | 0.3% | 0.2% | 0.1% |

(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

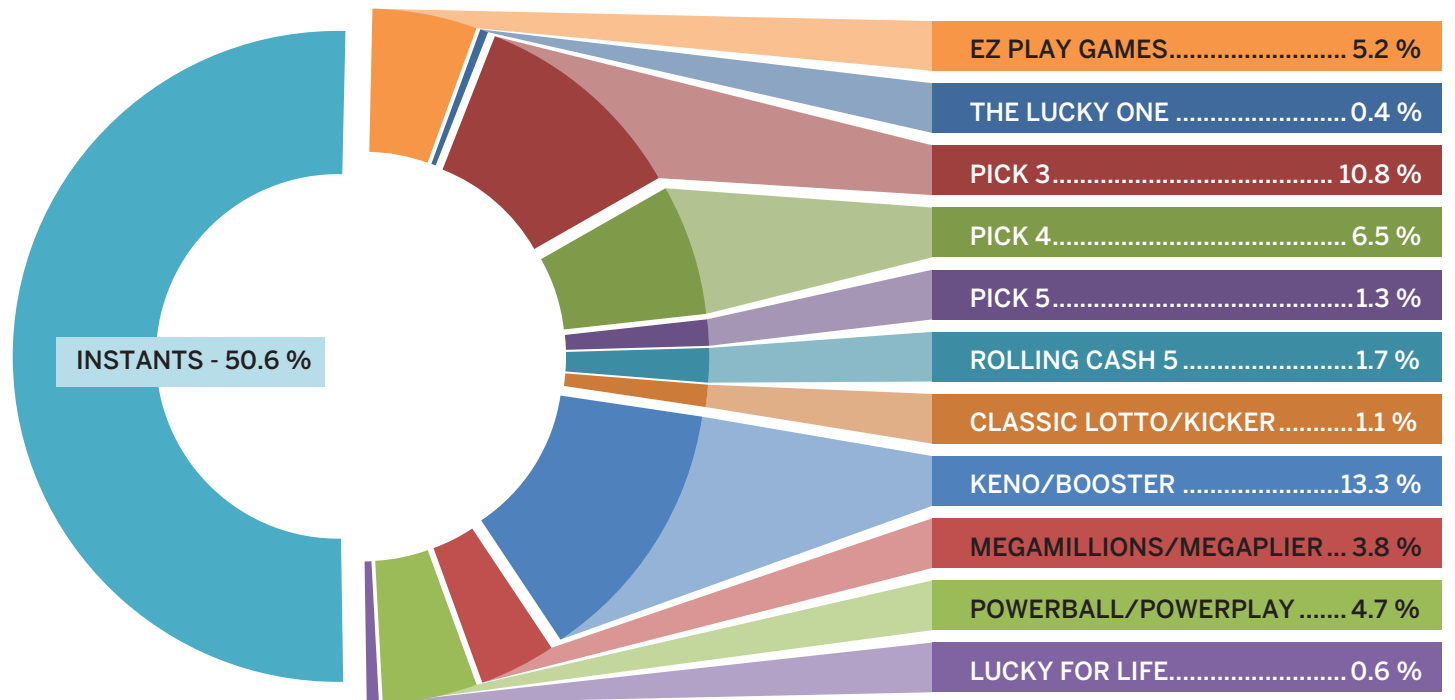
LAST TEN FISCAL YEARS • IN MILLIONS

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Draw Sales | | | | | | | | | | |
| Pick 3 | \$ 382.5 | \$ 366.7 | \$ 364.4 | \$ 357.4 | \$ 345.2 | \$ 339.0 | \$ 338.0 | \$ 343.0 | \$ 340.0 | \$ 340.1 |
| Pick 4 | 205.9 | 201.3 | 209.0 | 207.9 | 189.8 | 185.8 | 192.8 | 200.3 | 201.0 | 205.1 |
| Pick 5 | - | - | - | - | 28.0 | 27.9 | 33.3 | 36.4 | 38.1 | 40.8 |
| Ten-OH ⁽¹⁾ | 11.0 | 9.7 | 9.2 | 8.3 | 0.8 | - | - | - | - | - |
| Rolling Cash 5 | 67.2 | 67.1 | 62.4 | 63.8 | 61.5 | 63.4 | 62.6 | 60.3 | 55.5 | 53.0 |
| Kicker ⁽²⁾ | 21.4 | 24.1 | 10.3 | - | - | - | - | - | - | - |
| Classic Lotto/Kicker ⁽²⁾⁽³⁾ | 43.9 | 42.8 | 42.7 | 43.2 | 46.6 | 60.1 | 35.7 | 35.8 | 30.9 | 34.4 |
| Raffle/Multi-State Raffle | 9.3 | 9.1 | 10.0 | 10.0 | 9.1 | 1.0 | 7.0 | - | 3.6 | - |
| EZPLAY | 34.3 | 30.4 | 30.9 | 46.5 | 68.0 | 84.8 | 99.8 | 115.2 | 120.2 | 113.2 |
| EZPLAY Tap | - | - | - | - | - | - | 24.0 | 31.5 | 30.0 | 31.8 |
| Touch & Win | - | - | - | - | - | - | - | 0.7 | 16.0 | 19.5 |
| Keno / Booster ⁽³⁾ | 99.8 | 120.6 | 157.9 | 209.8 | 251.5 | 298.1 | 329.5 | 365.9 | 396.3 | 421.1 |
| Mega Millions/Megaplier ⁽²⁾ | 193.0 | 215.8 | 165.0 | 179.3 | 102.8 | 133.4 | 113.3 | 102.2 | 93.3 | 120.1 |
| Powerball/Power Play ⁽³⁾ | - | 23.6 | 76.4 | 105.3 | 166.6 | 122.8 | 105.0 | 193.5 | 129.8 | 148.1 |
| The Lucky One ⁽⁵⁾ | - | - | - | - | - | - | - | - | - | 11.6 |
| Lucky For Life | - | - | - | - | - | - | - | 14.1 | 19.9 | 20.7 |
| Total Draw Sales | 1,068.3 | 1,111.2 | 1,138.2 | 1,231.5 | 1,269.9 | 1,316.3 | 1,341.0 | 1,498.9 | 1,474.6 | 1,559.5 |
| Instant Games Sales | 1,349.4 | 1,379.0 | 1,462.8 | 1,507.5 | 1,428.0 | 1,426.8 | 1,551.0 | 1,560.7 | 1,527.1 | 1,600.6 |
| Total Ticket Sales | 2,417.7 | 2,490.2 | 2,601.0 | 2,739.0 | 2,697.9 | 2,743.1 | 2,892.0 | 3,059.6 | 3,001.7 | 3,160.1 |
| VLT Revenue | - | - | - | 11.1 | 165.5 | 437.6 | 773.0 | 868.9 | 926.6 | 987.3 |
| VLT License Revenue | - | - | - | 25.0 | 70.0 | 100.1 | 105.2 | 50.1 | 0.1 | 0.1 |
| Other Revenues | 64.0 | 86.6 | 31.4 | 6.6 | 6.3 | 7.2 | 6.2 | 8.6 | 4.9 | 5.8 |
| Total Revenues | \$ 2,481.7 | \$ 2,576.8 | \$ 2,632.4 | \$ 2,781.7 | \$ 2,939.8 | \$ 3,288.0 | \$ 3,776.4 | \$ 3,987.2 | \$ 3,933.3 | \$ 4,153.3 |

- (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) Booster option and Power Ball / Power Play added in Fiscal Year 2010.
 (4) QuickKeno was rebranded to EZPLAY Touch & Win in January 2018.
 (5) The Lucky One game was introduced on January 21, 2018

SALES BY GAME

FISCAL YEAR 2018



PRIZE PAYOUT AS A PERCENTAGE OF TRADITIONAL LOTTERY SALES

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| SALES | | | | | | | | | | |
| Draw | \$ 1,068.3 | \$ 1,111.2 | \$ 1,138.2 | \$ 1,231.5 | \$ 1,269.9 | \$ 1,316.3 | \$ 1,341.0 | \$ 1,498.9 | \$ 1,474.6 | \$ 1,559.5 |
| Instant | 1,349.4 | 1,379.0 | 1,462.8 | 1,507.5 | 1,428.0 | 1,426.8 | 1,551.0 | 1,560.7 | 1,527.1 | 1,600.6 |
| Total Ticket Sales | \$ 2,417.7 | \$ 2,490.2 | \$ 2,601.0 | \$ 2,739.0 | \$ 2,697.9 | \$ 2,743.1 | \$ 2,892.0 | \$ 3,059.6 | \$ 3,001.7 | \$ 3,160.1 |
| PRIZE EXPENSE | | | | | | | | | | |
| Draw | \$ 537.0 | \$ 566.7 | \$ 593.1 | \$ 648.0 | \$ 683.0 | \$ 705.7 | \$ 758.5 | \$ 838.2 | \$ 834.2 | \$ 879.9 |
| Instant | 922.0 | 947.0 | 1,010.0 | 1,032.9 | 985.1 | 992.3 | 1,116.8 | 1,094.4 | 1,075.8 | 1,118.8 |
| Total Prize Expense | \$ 1,459.0 | \$ 1,513.7 | \$ 1,603.1 | \$ 1,680.8 | \$ 1,668.1 | \$ 1,698.0 | \$ 1,875.3 | \$ 1,932.6 | \$ 1,910.0 | \$ 1,998.7 |
| PRIZE PAYOUT PERCENTAGE | | | | | | | | | | |
| Draw | 50.3% | 51.0% | 52.1% | 52.6% | 53.8% | 53.6% | 56.6% | 55.9% | 56.6% | 56.2% |
| Instant | 68.3% | 68.7% | 69.0% | 68.5% | 69.0% | 69.5% | 72.0% | 70.1% | 70.4% | 69.9% |

TRADITIONAL LOTTERY EXPENSES

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Prizes | \$ 1,459.0 | \$ 1,513.7 | \$ 1,603.1 | \$ 1,680.8 | \$ 1,668.1 | \$ 1,698.0 | \$ 1,875.3 | \$ 1,932.6 | \$ 1,910.0 | \$ 1,998.7 |
| Bonuses/Commissions | 150.1 | 153.4 | 161.3 | 172.0 | 166.9 | 169.9 | 179.2 | 188.6 | 185.7 | 206.1 |
| Direct Game Costs | - | - | - | - | - | - | 55.4 | 55.0 | 60.1 | 49.7 |
| Operating Expenses | 124.3 | 109.4 | 109.3 | 107.8 | 116.5 | 113.8 | 75.9 | 89.5 | 90.9 | 92.2 |
| Payments to Education | 702.3 | 728.6 | 738.8 | 771.0 | 752.5 | 764.9 | 739.9 | 784.1 | 739.4 | 794.7 |
| Total Sales | \$ 2,417.7 | \$ 2,490.2 | \$ 2,601.0 | \$ 2,739.0 | \$ 2,697.9 | \$ 2,743.1 | \$ 2,892.0 | \$ 3,059.6 | \$ 3,001.7 | \$ 3,160.1 |

VIDEO LOTTERY TERMINALS (VLT)

GROSS GAMING REVENUE, COMMISSIONS TO VLSA'S, OPERATING EXPENSES AND PAYMENTS TO EDUCATION
LAST TEN FISCAL YEARS - IN MILLIONS

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------|------|------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Commissions to VLSA's | | | | \$ 7.4 | \$ 110.1 | \$ 291.0 | \$ 514.0 | \$ 577.8 | \$ 616.2 | \$ 656.6 |
| Lottery Net Revenue | | | | 3.7 | 55.5 | 146.6 | 259.0 | 291.1 | 310.4 | 330.7 |
| Operating Expenses | | | | | 4.9 | 7.2 | 8.8 | 9.1 | 9.2 | 9.2 |
| Accrued - Profits to Education - Paid in July | | | | | | | | | | 28.5 |
| Payments to Education | | | | | 50.6 | 139.4 | 250.1 | 282.0 | 301.2 | 293.0 |
| Gross Gaming Revenue | | | | \$ 11.1 | \$ 165.6 | \$ 437.6 | \$ 773.0 | \$ 868.9 | \$ 926.6 | \$ 987.3 |

- (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 VLT ACTIVITY

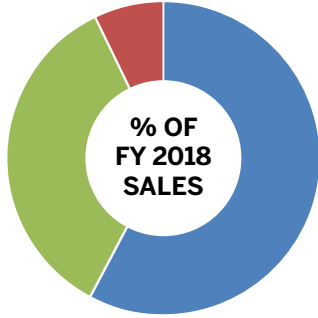
LAST TEN FISCAL YEARS • IN MILLIONS

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Total Sales (including VLT GGR) | \$ 2,417.7 | \$ 2,490.2 | \$ 2,601.0 | \$ 2,750.1 | \$ 2,863.5 | \$ 3,180.7 | \$ 3,665.0 | \$ 3,928.5 | \$ 3,928.3 | \$ 4,147.4 |
| Direct Game Costs: | | | | | | | | | | |
| Prizes | 1,459.0 | 1,513.7 | 1,603.1 | 1,680.8 | 1,668.1 | 1,698.0 | 1,875.3 | 1,932.6 | 1,910.0 | 1,998.7 |
| Bonuses and Commissions | 150.1 | 153.4 | 161.3 | 179.4 | 277.0 | 460.9 | 693.2 | 766.4 | 801.9 | 862.7 |
| Cost of Tickets Sold and Vendor Fees | - | - | - | - | - | - | 55.4 | 55.0 | 60.1 | 49.7 |
| Operating Expenses | 124.3 | 109.4 | 109.3 | 107.8 | 121.4 | 121.0 | 84.7 | 98.6 | 100.1 | 101.4 |
| Accrued - Profits to Education - Paid in July | - | - | - | - | - | - | - | - | - | 28.5 |
| Payments to Education | \$ 702.3 | \$ 728.6 | \$ 738.8 | \$ 771.0 | \$ 803.1 | \$ 904.3 | \$ 990.0 | \$ 1,066.1 | \$ 1,040.6 | \$ 1,087.7 |

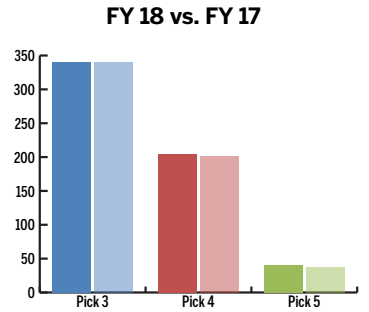
OHIO LOTTERY • REVENUES

LAST 10 FISCAL YEARS • IN MILLIONS

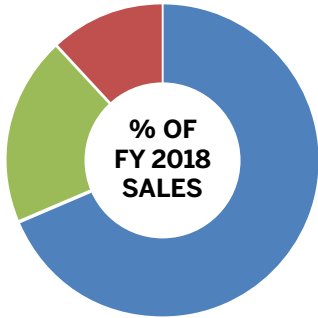
| DAILY DRAW | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| PICK 3 | \$ 382.5 | \$ 366.7 | \$ 364.4 | \$ 357.4 | \$ 345.2 | \$ 339.0 | \$ 338.0 | \$ 343.0 | \$ 340.0 | \$ 340.1 |
| PICK 4 | 205.9 | 201.3 | 209.0 | 207.9 | 189.8 | 185.8 | 192.8 | 200.3 | 201.0 | 205.1 |
| PICK 5 | - | - | - | - | 28.0 | 27.9 | 33.3 | 36.4 | 38.1 | 40.8 |
| TOTAL DAILY DRAW SALES | \$ 588.4 | \$ 568.0 | \$ 573.4 | \$ 565.3 | \$ 563.0 | \$ 552.7 | \$ 564.1 | \$ 579.7 | \$ 579.1 | \$ 586.0 |



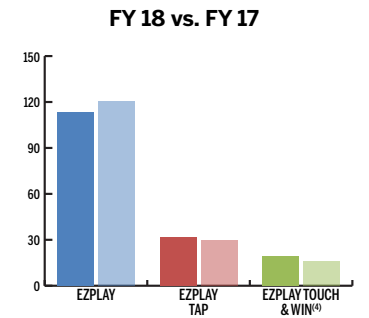
| SALES | % OF FY18 SALES | FY18 | FY17 | DIFF |
|--------|-----------------|-----------------|-----------------|---------------|
| PICK 3 | 58.0% | \$ 340.1 | \$ 340.0 | \$ 0.1 |
| PICK 4 | 35.0% | 205.1 | 201.0 | 4.1 |
| PICK 5 | 7.0% | 40.8 | 38.1 | 2.7 |
| | <u>100.0%</u> | <u>\$ 586.0</u> | <u>\$ 579.1</u> | <u>\$ 6.9</u> |



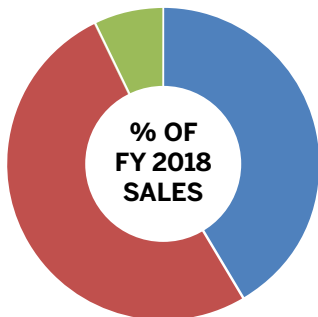
| EZPLAY GAMES | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| EZPLAY | \$ 34.3 | \$ 30.4 | \$ 30.9 | \$ 46.5 | \$ 68.0 | \$ 84.8 | \$ 99.8 | \$ 115.2 | \$ 120.2 | \$ 113.2 |
| EZPLAY TAP | - | - | - | - | - | - | 24.0 | 31.5 | 30.0 | 31.8 |
| EZPLAY Touch & Win ⁽⁴⁾ | - | - | - | - | - | - | - | 0.7 | 16.0 | 19.5 |
| TOTAL EZPLAY SALES | \$ 34.3 | \$ 30.4 | \$ 30.9 | \$ 46.5 | \$ 68.0 | \$ 84.8 | \$ 123.8 | \$ 147.4 | \$ 166.2 | \$ 164.5 |



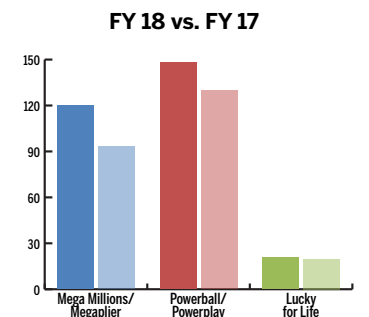
| SALES | % OF FY18 SALES | FY18 | FY17 | DIFF |
|--------------------|-----------------|-----------------|-----------------|-----------------|
| EZPLAY | 68.8% | \$ 113.2 | \$ 120.2 | \$ (7.0) |
| EZPLAY TAP | 19.3% | 31.8 | 30.0 | 1.8 |
| EZPLAY TOUCH & WIN | 11.9% | 19.5 | 16.0 | 3.5 |
| | <u>100.0%</u> | <u>\$ 164.5</u> | <u>\$ 166.2</u> | <u>\$ (1.7)</u> |



| MULTI-STATE GAMES | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| MEGA MILLIONS/MEGAPLIER ⁽²⁾ | \$ 193.0 | \$ 215.8 | \$ 165.0 | \$ 179.3 | \$ 102.8 | \$ 133.4 | \$ 113.3 | \$ 102.2 | \$ 93.3 | \$ 120.1 |
| POWERBALL/POWER PLAY ⁽³⁾ | - | 23.6 | 76.4 | 105.3 | 166.6 | 122.8 | 105.0 | 193.5 | 129.8 | 148.1 |
| LUCKY FOR LIFE | - | - | - | - | - | - | - | 14.1 | 19.9 | 20.7 |
| TOTAL MULTI-STATE SALES | \$ 193.0 | \$ 239.4 | \$ 241.4 | \$ 284.6 | \$ 269.4 | \$ 256.2 | \$ 218.3 | \$ 309.8 | \$ 243.0 | \$ 288.9 |



| SALES | % OF FY18 SALES | FY18 | FY17 | DIFF |
|-------------------------|-----------------|-----------------|-----------------|----------------|
| MEGA MILLIONS/MEGAPLIER | 41.6% | \$ 120.1 | \$ 93.3 | \$ 26.8 |
| POWERBALL/POWER PLAY | 51.3% | 148.1 | 129.8 | 18.3 |
| LUCKY FOR LIFE | 7.2% | 20.7 | 19.9 | 0.8 |
| | <u>100.0%</u> | <u>\$ 288.9</u> | <u>\$ 243.0</u> | <u>\$ 45.9</u> |



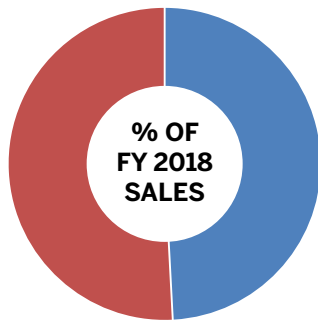
OHIO LOTTERY • REVENUES

LAST 10 FISCAL YEARS • IN MILLIONS

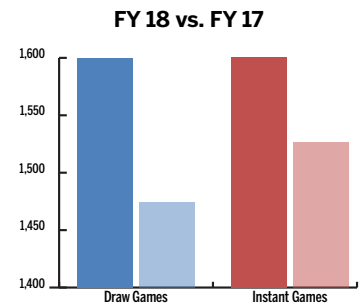
| DAILY LOTTO | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------------|----------|----------|----------|----------|----------|----------|----------|---------|---------|---------|
| KICKER ⁽²⁾ | 21.4 | 24.1 | 10.3 | - | - | - | - | - | - | - |
| CLASSIC LOTTO/KICKER ⁽²⁾ | 43.9 | 42.8 | 42.7 | 43.2 | 46.6 | 60.1 | 35.7 | 35.8 | 30.9 | 34.4 |
| RAFFLE/MULTI-STATE RAFFLE | 9.3 | 9.1 | 10.0 | 10.0 | 9.1 | 1.0 | 7.0 | - | 3.6 | - |
| TEN-OH ⁽¹⁾ | 11.0 | 9.7 | 9.2 | 8.3 | 0.8 | - | - | - | - | - |
| ROLLING CASH 5 | 67.2 | 67.1 | 62.4 | 63.8 | 61.5 | 63.4 | 62.6 | 60.3 | 55.5 | 53.0 |
| TOTAL DAILY LOTTO GAME SALES | \$ 152.8 | \$ 152.8 | \$ 134.6 | \$ 125.3 | \$ 118.0 | \$ 124.5 | \$ 105.3 | \$ 96.1 | \$ 90.0 | \$ 87.4 |

| KENO | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| KENO/BOOSTER ⁽³⁾ | \$ 99.8 | \$ 120.6 | \$ 157.9 | \$ 209.8 | \$ 251.5 | \$ 298.1 | \$ 329.5 | \$ 365.9 | \$ 396.3 | \$ 421.1 |

| TOTAL REVENUE | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| DRAW GAME TICKET SALES | \$ 1,068.3 | \$ 1,111.2 | \$ 1,138.2 | \$ 1,231.5 | \$ 1,269.9 | \$ 1,316.3 | \$ 1,341.0 | \$ 1,498.9 | \$ 1,474.6 | \$ 1,559.5 |
| INSTANT GAMES SALES | 1,349.4 | 1,379.0 | 1,462.8 | 1,507.5 | 1,428.0 | 1,426.8 | 1,551.0 | 1,560.7 | 1,527.1 | 1,600.6 |
| VLT REVENUE | - | - | - | 11.1 | 165.5 | 437.6 | 773.0 | 868.9 | 926.6 | 987.3 |
| VLT LICENSE REVENUE | - | - | - | 25.0 | 70.0 | 100.1 | 105.2 | 50.1 | 0.1 | 0.1 |
| OTHER REVENUES | 64.0 | 86.6 | 31.4 | 6.6 | 6.3 | 7.2 | 6.2 | 8.6 | 4.9 | 5.8 |
| TOTAL REVENUES | \$ 2,481.7 | \$ 2,576.8 | \$ 2,632.4 | \$ 2,781.7 | \$ 2,939.7 | \$ 3,288.0 | \$ 3,776.4 | \$ 3,987.2 | \$ 3,933.3 | \$ 4,153.3 |



| SALES | % OF FY18 SALES | FY18 | FY17 | DIFF |
|------------------------|-----------------|------------|------------|----------|
| DRAW GAME TICKET SALES | 49.3% | \$ 1,559.5 | \$ 1,474.6 | \$ 84.9 |
| INSTANT TICKET SALES | 50.7% | 1,600.6 | 1,527.1 | 73.5 |
| | 100.0% | \$ 3,160.1 | \$ 3,001.7 | \$ 158.4 |



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

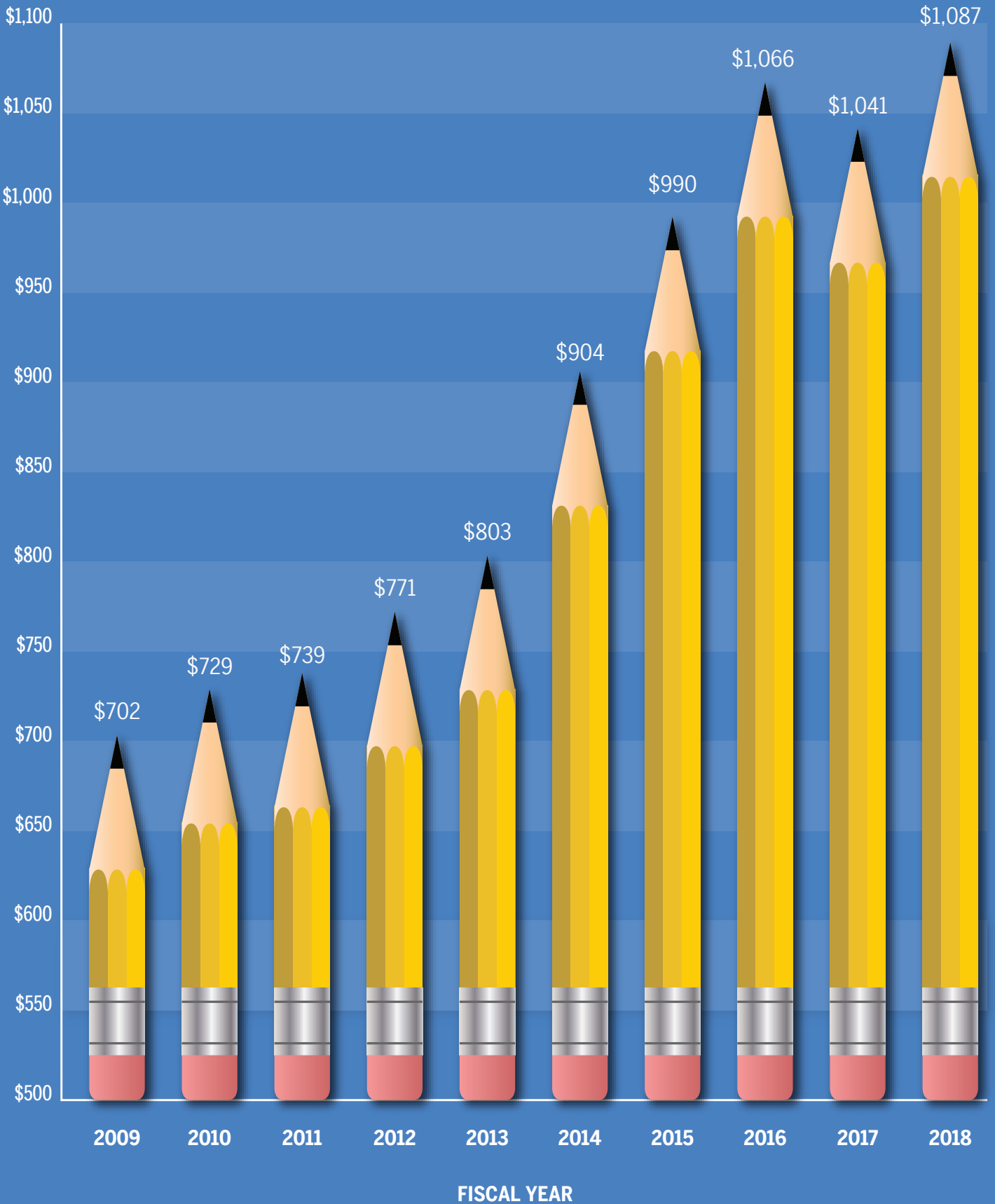
(2) The Kicker was retired from Mega Millions in 2011 and was replaced by Megaplier; Kicker was reintroduced in 2012 as a add-on feature to Classic Lotto.

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

(4) QuickKeno was rebranded to EZPLAY Touch & Win in January 2018.

OHIO LOTTERY • TRANSFERS TO EDUCATION

LAST 10 FISCAL YEARS • IN MILLIONS



TOTAL VIDEO LOTTERY TERMINAL (VLT) SALES

IN MILLIONS



Percent Change of Net Win from FY 2017



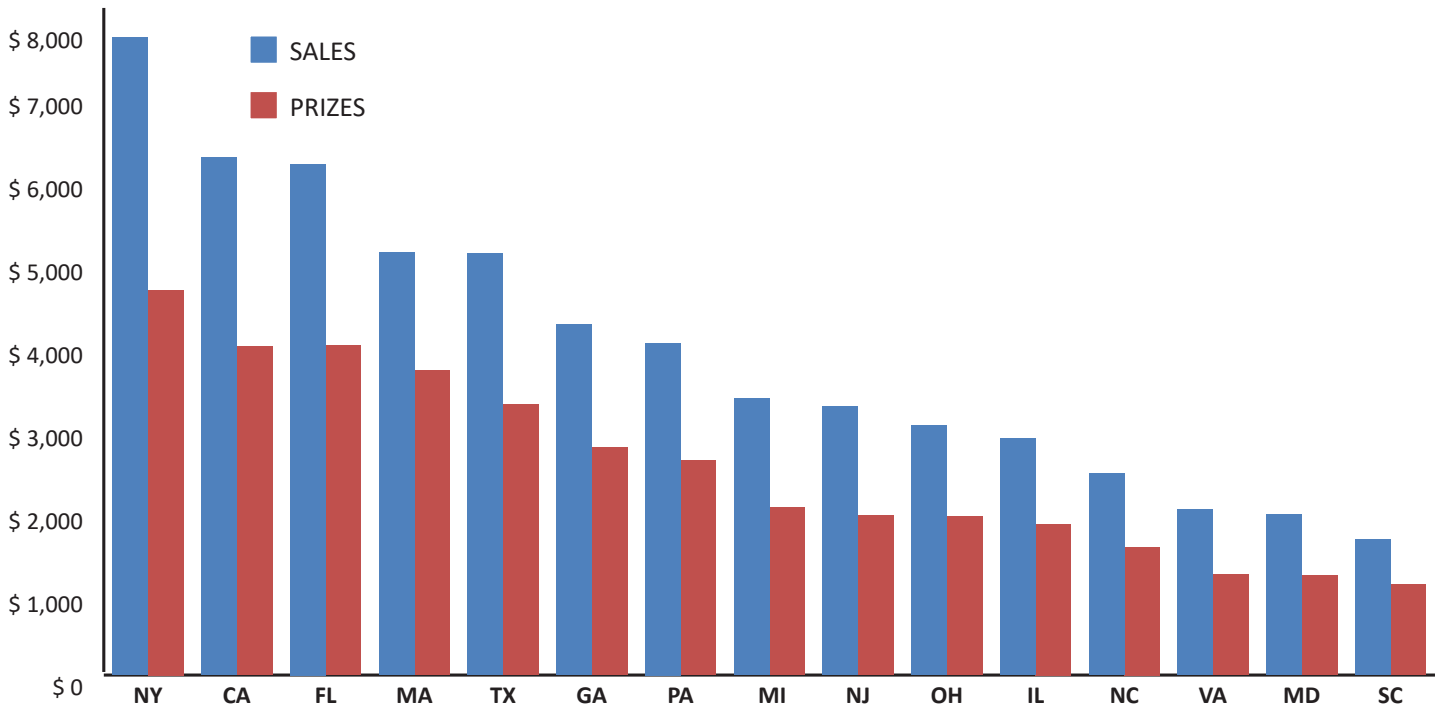
| | SCIOTO DOWNS RACINO | JACK THISTLEDOWN RACINO | HARD ROCK ROCKSINO | MIAMI VALLEY GAMING | BELTERRA PARK GAMING | HOLLYWOOD GAMING AT DAYTON RACEWAY | HOLLYWOOD GAMING AT MAHONING VALLEY | TOTAL |
|---------------------------|---------------------------|-------------------------------|-----------------------|------------------------|----------------------------|---|--|--------|
| DATE OPENED | June 2012 | April 2013 | December 2013 | December 2013 | May 2014 | August 2014 | September 2014 | |
| Average # of VLTs | 2,241 | 1,443 | 2,308 | 1,839 | 1,374 | 1,028 | 1,034 | 11,267 |
| Net Win FY18 | \$168.3 | \$121.4 | \$246.5 | \$151.6 | \$80.7 | \$103.5 | \$115.3 | 987.3 |
| Racino Commission | 111.4 | 80.3 | 163.1 | 100.3 | 53.4 | 68.5 | 76.3 | 653.3 |
| OLC Commission | 56.4 | 40.6 | 82.6 | 50.8 | 27.0 | 34.7 | 38.6 | 330.7 |
| Problem Gambling Services | 0.6 | 0.4 | 0.8 | 0.5 | 0.3 | 0.3 | 0.4 | 3.3 |
| Problem Gambling Services | \$0.6 | \$0.4 | \$0.8 | \$0.5 | \$0.3 | \$0.3 | \$0.4 | \$3.3 |

U.S. LOTTERY INDUSTRY STATEMENT OF OPERATIONS RANK BY SALES^(a) FISCAL YEAR 2017^(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 | 19.9 | \$7,679.1 | \$4,639.0 | \$459.9 | - | 60.4% | \$387 |
| 2 | California | 39.5 | 6,233.5 | 3,963.5 | 433.7 | 342.2 | 63.6% | 158 |
| 3 | Florida | 21.0 | 6,156.5 | 3,966.6 | 343.6 | 199.7 | 64.4% | 293 |
| 4 | Massachusetts | 6.9 | 5,087.9 | 3,670.6 | 291.9 | 97.8 | 72.0% | 742 |
| 5 | Texas | 28.3 | 5,077.5 | 3,257.4 | 276.3 | 219.8 | 64.1% | 179 |
| 6 | Georgia | 10.4 | 4,218.4 | 2,737.5 | 268.5 | 178.6 | 63.9% | 404 |
| 7 | Pennsylvania | 12.8 | 4,001.0 | 2,588.3 | 211.4 | 156.9 | 64.7% | 312 |
| 8 | Michigan | 10.0 | 3,329.8 | 2,016.5 | 249.2 | 155.6 | 60.2% | 334 |
| 9 | New Jersey | 9.0 | 3,235.8 | 1,927.3 | 181.9 | 112.9 | 59.6% | 359 |
| 10 | OHIO | 11.7 | 3,001.7 | 1,910.0 | 185.7 | 151.1 | 63.5% | 257 |
| 11 | Illinois (c) | 12.8 | 2,845.6 | 1,820.1 | 160.9 | 137.0 | 63.8% | 222 |
| 12 | North Carolina | 10.3 | 2,428.1 | 1,543.2 | 170.5 | 94.9 | 63.4% | 236 |
| 13 | Virginia | 8.5 | 1,989.9 | 1,214.3 | 112.0 | 106.3 | 61.0% | 235 |
| 14 | Maryland | 6.1 | 1,931.6 | 1,196.5 | 145.9 | - | 61.9% | 319 |
| 15 | South Carolina | 5.0 | 1,635.7 | 1,086.2 | 115.4 | 39.5 | 66.3% | 326 |

(a) Sales excludes video lottery, (b) Latest information available
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"

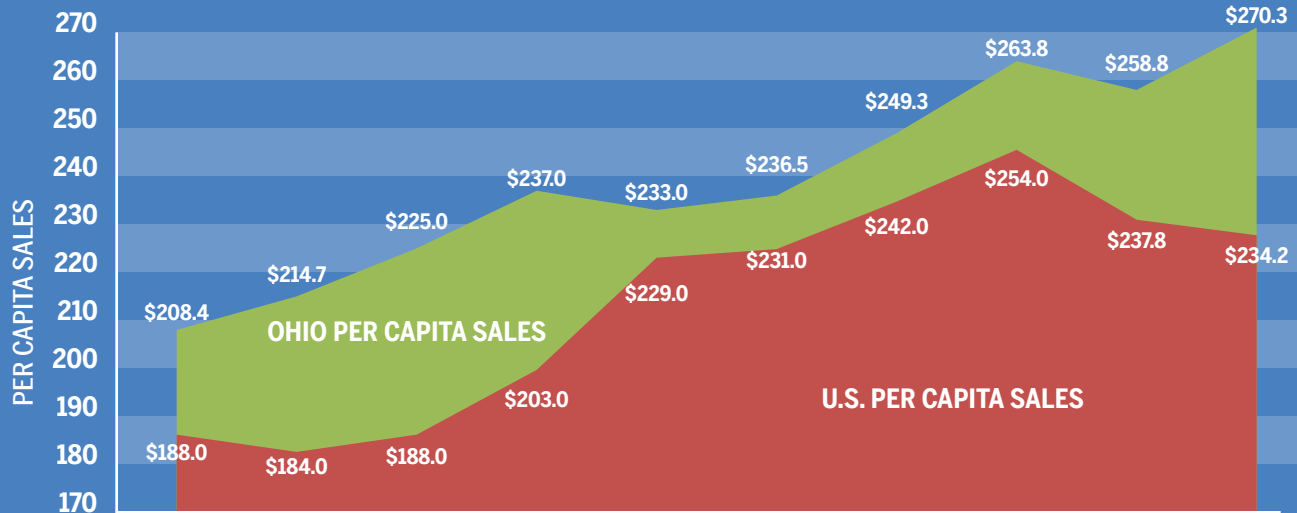
U.S. LOTTERY INDUSTRY • FISCAL YEAR 2017 IN MILLIONS



Source: "La Fleur's 2017 World Lottery Almanac"

OHIO LOTTERY • PER CAPITA SALES

LAST TEN FISCAL YEARS • IN MILLIONS



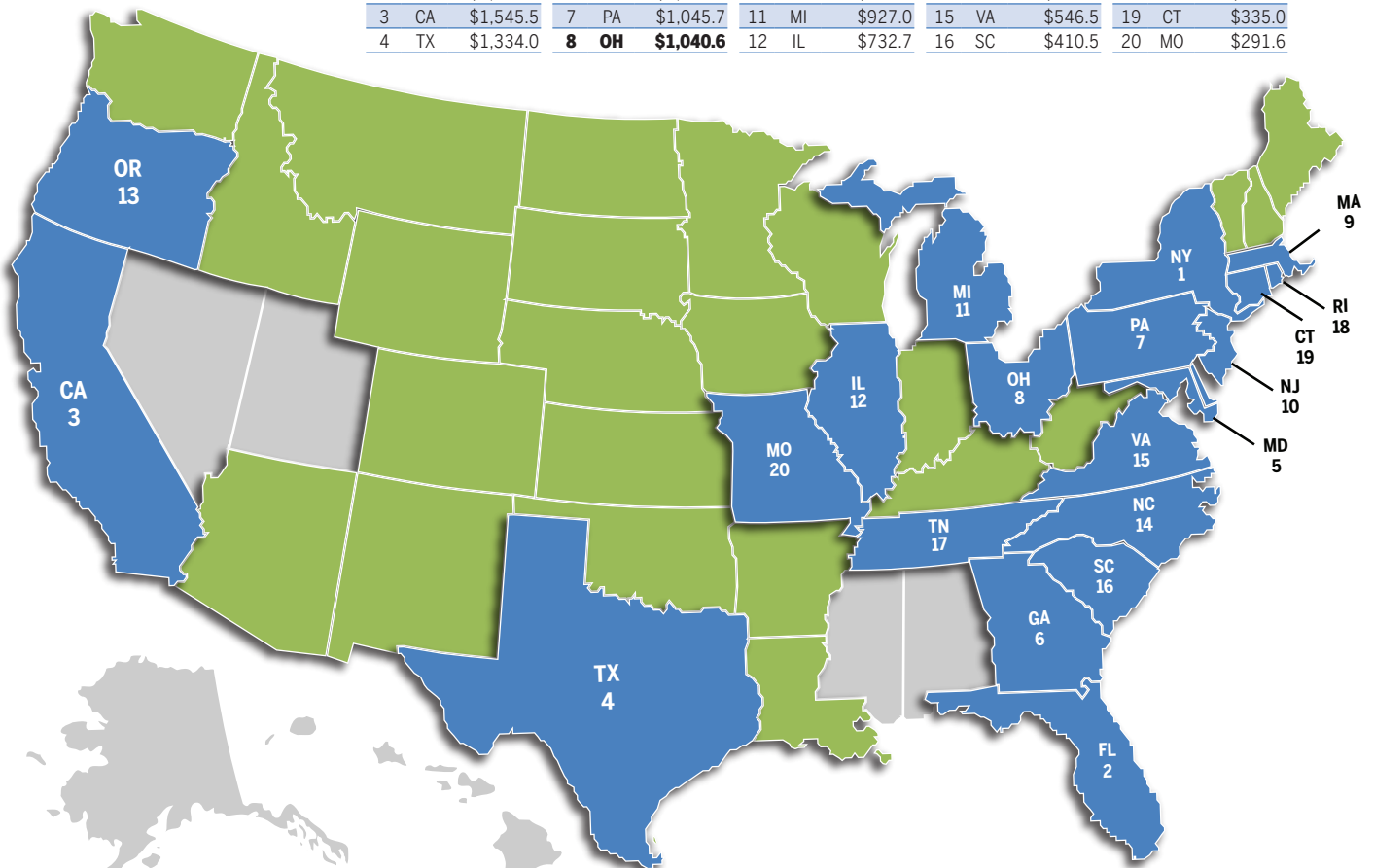
| FISCAL YEAR | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Population | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.7 |
| Ticket Sales | \$2,417.7 | \$2,490.2 | \$2,601.0 | \$2,739.0 | \$2,697.9 | \$2,743.1 | \$2,892.0 | \$3,059.6 | \$3,001.7 | \$3,160.5 |

Source: "La Fleur's 2018 World Lottery Almanac"
 (1) 2018 National Per Capita Sales is estimated

TOP 20 U.S. LOTTERY GOVERNMENT TRANSFERS • FY 2017

IN MILLIONS

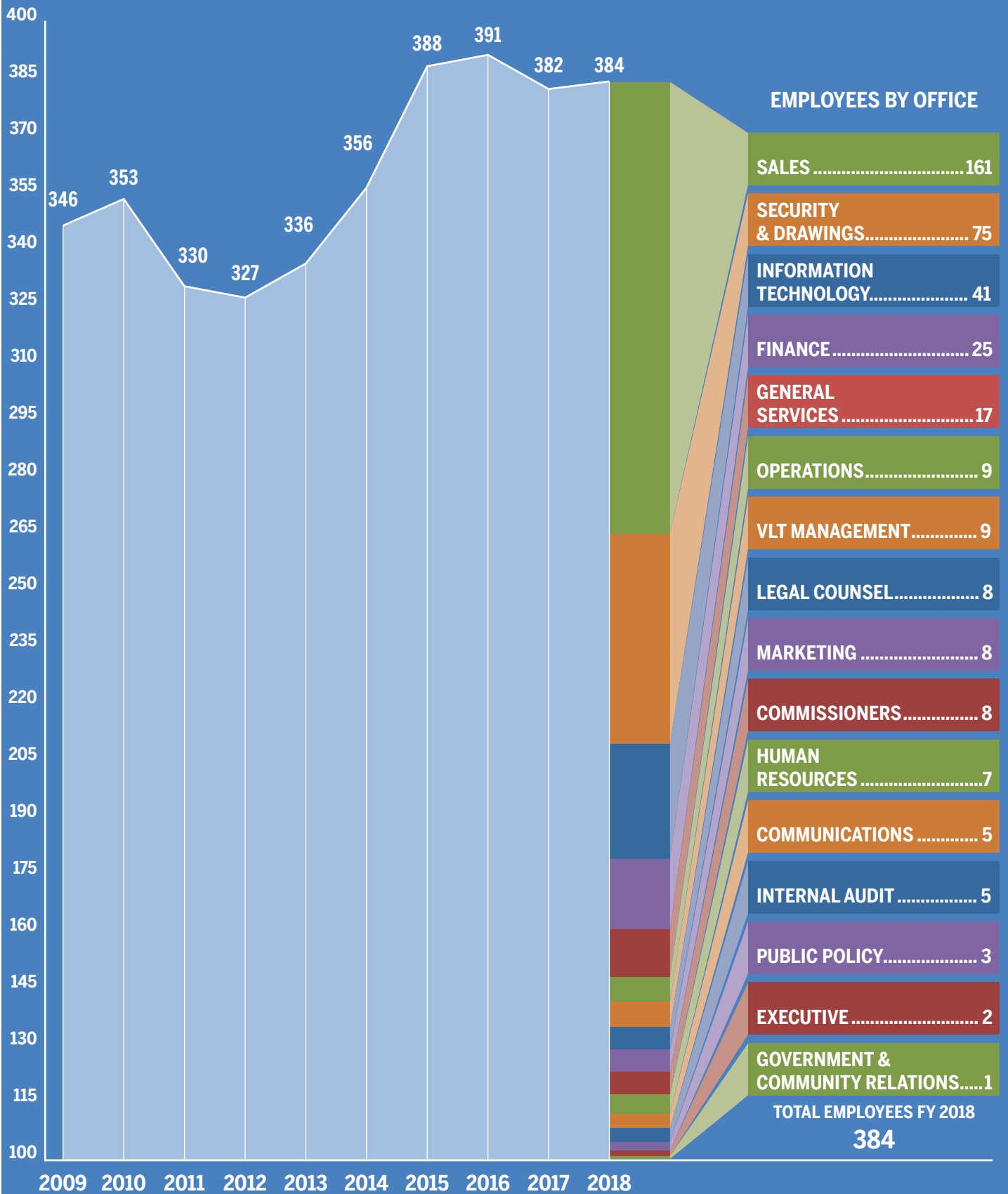
| | | | | | | | | | |
|------|-----------|-------------|------------------|-------|-----------|-------|---------|-------|---------|
| 1 NY | \$3,267.0 | 5 MD | \$1,124.5 | 9 MA | \$1,039.7 | 13 OR | \$697.6 | 17 TN | \$386.7 |
| 2 FL | \$1,656.4 | 6 GA | \$1,101.1 | 10 NJ | \$994.0 | 14 NC | \$605.0 | 18 RI | \$362.7 |
| 3 CA | \$1,545.5 | 7 PA | \$1,045.7 | 11 MI | \$927.0 | 15 VA | \$546.5 | 19 CT | \$335.0 |
| 4 TX | \$1,334.0 | 8 OH | \$1,040.6 | 12 IL | \$732.7 | 16 SC | \$410.5 | 20 MO | \$291.6 |



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, 2018



OHIO LOTTERY • ACTIVE RETAILERS BY REGION



TOTAL LOTTERY RETAILERS:

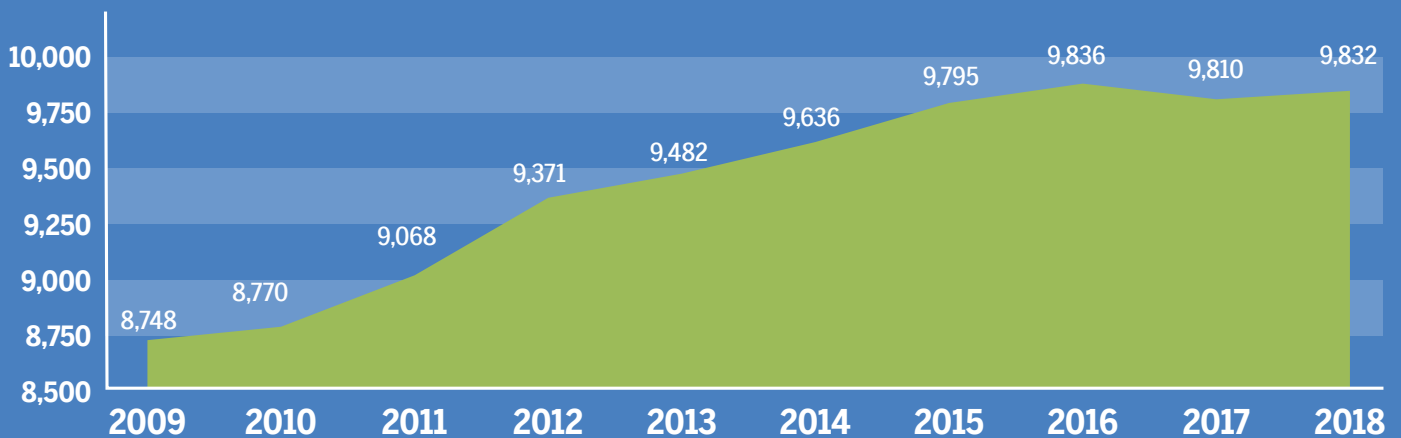
9,832

CHANGE FROM PRIOR FISCAL YEAR:

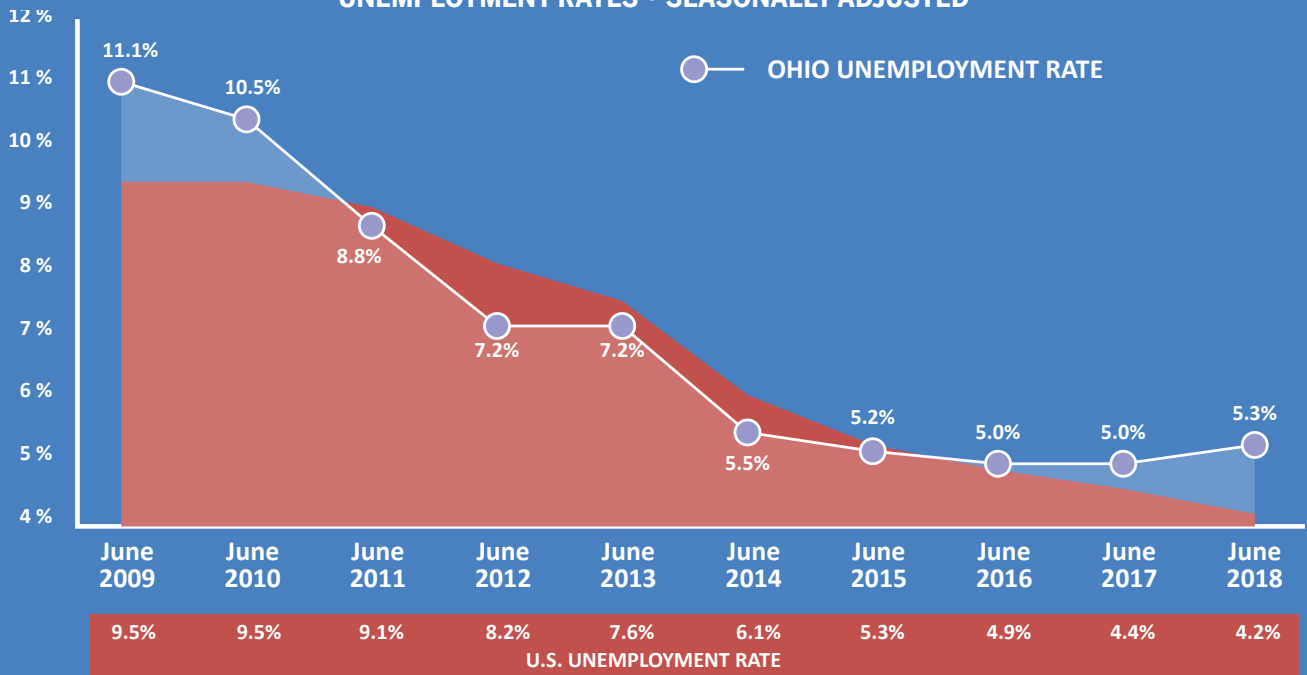
+22

| | | | |
|------------------|-------|-------|-----|
| 5 • COLUMBUS | 1,644 | 16.7% | -1 |
| 4 • CINCINNATI | 1,268 | 12.9% | +4 |
| 7 • AKRON-CANTON | 1,252 | 12.7% | +5 |
| 2 • TOLEDO | 1,225 | 12.5% | -4 |
| 1 • CLEVELAND | 1,221 | 12.4% | -1 |
| 3 • DAYTON | 1,031 | 10.5% | +12 |
| 8 • YOUNGSTOWN | 906 | 9.2% | +7 |
| 9 • LORAIN | 761 | 7.8% | +4 |
| 6 • ATHENS | 524 | 5.3% | +6 |

LOTTERY RETAILERS • LAST TEN FISCAL YEARS



UNEMPLOYMENT RATES • SEASONALLY ADJUSTED



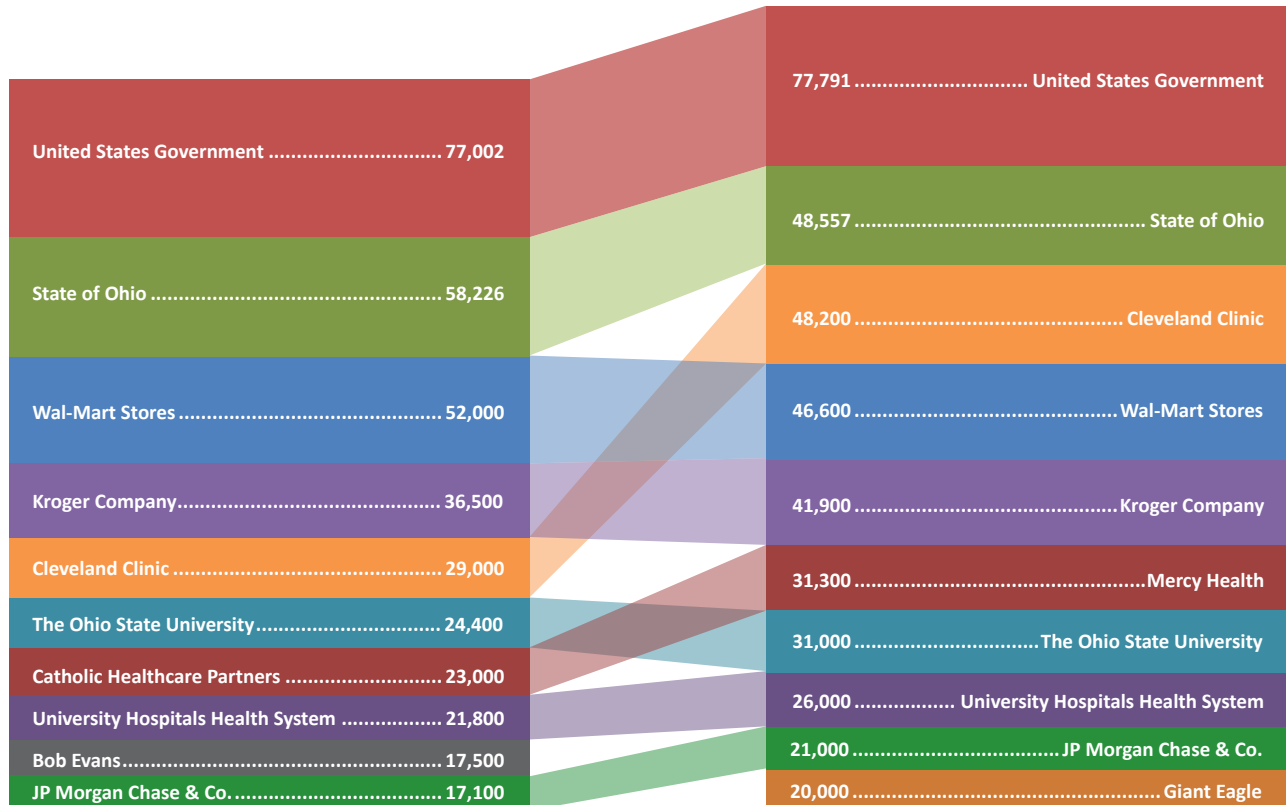
Source:
Ohio Department of Job & Family Services

STATE OF OHIO • PRINCIPAL EMPLOYERS

FOR CALENDAR YEARS 2007 AND 2016

2007

2016



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 2016 and 2007



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

This page intentionally left blank.



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 20, 2018