



**OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Commission) an enterprise fund of the State of Ohio, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Commission in a separate letter dated November 24, 2003.

This report is intended for the information and use of management, the audit committee and Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 24, 2003

OHIO LOTTERY COMMISSION

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2003

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THE OHIO LOTTERY COMMISSION:
 AN ENTERPRISE FUND OF THE STATE OF OHIO
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Prepared by the Ohio Lottery Commission Finance Division
 Bob Toft, Governor • Dennis C. Kennedy, Director
 Sandra K. Barber, Commission Chairperson
 Mark M. Polatajko, CPA, MBA, Deputy Director, Finance

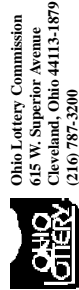
{ Introductory Section }

SHARPENING THE MINDS OF OHIO'S STUDENTS

On a monthly basis, the Ohio Lottery transfers its profits to the Lottery Profits Education Fund for use by the Ohio Department of Education. The Department of Education distributes these funds to school districts, educational service centers, community schools and joint vocational schools statewide.

Twice each month, the Department of Education makes payments to each district. School districts have unrestricted use of Ohio Lottery funds provided through the School Foundation Program.





November 24, 2003

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

We are pleased to submit to you this Comprehensive Annual Financial Report of the Ohio Lottery Commission (the "Ohio Lottery") for the fiscal year ended June 30, 2003. The Finance Division of the Ohio Lottery has prepared this report in accordance with generally accepted accounting principles. The Ohio Lottery, an agency of the State of Ohio (the "State"), was created in July 1974, and is operated as a business enterprise within the framework of the State's laws and regulations. The Ohio Lottery's mission is to maximize revenues to provide funds for the educational system of the State by offering dignified games of chance to the public at large.

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

The Comprehensive Annual Financial Report presents an overview of the Ohio Lottery. The report follows formal standards of the Government Finance Officers Association. Government organizations that publish this type of report can be compared to each other, because similar kinds of information are included in the following sections:

Introductory Section - includes this formal transmittal letter describing the Ohio Lottery and its business activities, a list of principal officers, the Commission's organizational chart and the Certificate of Achievement for Excellence in Financial Reporting awarded for the fiscal year 2002. This section is not audited because it contains subjective information.

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

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

The accuracy of the financial data and the completeness of the presentation, including all disclosures, is the responsibility of the Ohio Lottery's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Ohio Lottery. All disclosures necessary to enable the reader to gain an

understanding of the Ohio Lottery's financial activities have been included.

BACKGROUND

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

To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Sales of tickets increased significantly in the early 1990's. Today, 38 U.S. states and the District of Columbia operate lotteries using computer-based online games and instant scratch off games, and nearly 88 percent of the U.S. population resides in a state operating a lottery.

Many Americans believe that lotteries are a good way to raise public funds. Support for lotteries is strong in the U.S., as evidenced by GTECH Corporation's 8th Annual National Gaming Survey 2000. That survey showed that 73 percent of American adults approve of lotteries, 72 percent had played lotteries in the last year, 72 percent strongly prefer lotteries to higher taxes, 70 percent would vote in favor of continuing their lottery, and 66 percent from non-lottery states would vote for establishing a state lottery if given the opportunity in a statewide referendum. The International Gaming and Wagering Business magazine reports that in poll after poll, lotteries continue to have the highest public approval rating of any form of gaming.

ECONOMIC OUTLOOK

The economic outlook for the U.S. improved markedly during the second half of 2003, with solid gains in most of the economic indicators. The economic recovery that faltered at the onset of war with Iraq is now gathering momentum. The signs of acceleration in economic growth are now unmistakable, as the effects of a prolonged monetary and fiscal stimulus are finally taking hold. Between gains from mortgage refinancing and federal tax cuts, consumers are boosting both their spending and their savings. Following a 1.4 percent annual growth rate in the first quarter of this year, the economy expanded at an annual rate of 3.3 percent in the second quarter. The consensus is that the U.S. economy has further upside strength in the second half of the year and is likely to grow at an annual rate of 3.5 - 4.5 percent during that time.

Consumer spending, which constitutes about two-thirds of the economic activity in the U.S., continues to be the main driver of economic growth. American consumers have kept their spending strong through the summer quarter. Helped by the federal tax cuts and the last batch of gains from mortgage refinancing, July spending was revised up sharply, and August saw another healthy

across-the-board increase. The pace of gains appears to have slowed in September, but third-quarter growth of consumer spending will be over 6 percent annual rate.

While the economy has been showing some real signs of near-term recovery, the corporate sector continues to be very conservative in regard to business-related expenditures, such as investments on technology and production facilities. Most companies have gone through a very painful period of major layoffs and cost cutting in every area of their operations. In fact, these cost-cutting processes are continuing despite the brighter outlook for the economy, as corporations strive to improve productivity as a means to meet increased demand.

Although payroll employment increased in September for the first time since January, the labor market remains the exception to the more upbeat picture. However, there is tentative evidence of improvement ahead. Signals from leading indicators, like employment insurance claims and temporary help services employment have raised hopes that job reports will soon show a modest increase. Productivity growth is very strong, a spectacular 6.8 percent annual rate in the second quarter, so that firms have not yet needed to take on new staff or even increase hours worked. Nonetheless, if the recovery is to be sustained, the economy needs to create jobs over the rest of the year.

The economic outlook for the state of Ohio is consistent with the forecast of a moderate economic recovery at the national level. Real Gross Domestic Product, the total value of goods and services produced in the U.S. and adjusted for inflation, is expected to grow at an annual rate of 3.5 percent to 4.5 percent during the second half of 2003 and into 2004.

LOTTERY PRODUCTS

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

INSTANT GAMES are played by scratching the latex covering off of a play area to reveal pre-primed 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 2003, instant game sales were nearly \$1.09 billion, an increase of \$91.6 million, or 9.2 percent, from the previous fiscal year and represented 52.4 percent of total ticket sales. Instant games had little growth until multiple game strategies were introduced. As many as 70 games are now printed annually including seasonal games and special holiday games. The Ohio Lottery has successfully sold instant games at the \$1, \$2, \$3, \$5, \$7, \$10, \$12 and \$20 price points.

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

Lotto has generally been considered Ohio's most popular online game and has been offered in different versions since its

introduction in April 1993. The first several versions of Lotto and subsequently Super Lotto had a game design that called for fixed increases, regardless of draw sales. As interest rates began to decline in the late 1990's and draw sales at the lower jackpot levels began to decrease, the flaw in this game design became apparent in suffering profitability. As a response to these adverse conditions, the Ohio Lottery's current in-state lotto game Super Lotto Plus was launched in July 2000. This game has a 6/49 matrix, expanded lower tier prizes and pari-mutuel jackpots, which allow the jackpot to increase as a product of market rates and draw sales. As expected, Super Lotto Plus sales, which realized record levels in fiscal year 2002 as a result of two record jackpot sequences of \$54 million and \$75 million, decreased significantly upon the introduction of Mega Millions in May 2002. Super Lotto Plus sales for fiscal year 2003 were \$160.7 million, approximately 7.7 percent of total Ohio Lottery sales. Drawings are held on Wednesday and Saturday evenings.

Mega Millions, a multi-state lottery game, was successfully launched in Ohio on May 15, 2002. With a population base of over 93 million within ten states, jackpots are expected to grow to higher levels at much faster rates. The potential addition of Texas, with its population of nearly 22 million, in the fall of 2003 is expected to contribute to the rapid growth of jackpot sequences. Mega Millions sales for fiscal year 2003 were \$176.2 million, or approximately 8.5 percent of total Ohio Lottery sales. Drawings are held on Tuesday and Friday evenings.

Combined Super Lotto Plus and Mega Millions sales for fiscal year 2003 were \$336.9 million, a \$22.5 million increase from the previous year. As a result, the addition of Mega Millions has provided substantial revenue, even without reaching a jackpot level in excess of \$200 million in its first full fiscal year of sales.

The Kicker is an online game that can only be purchased along with Super Lotto Plus. To win the top prize of \$100,000, all six numbers must be matched in exact order. Lesser prizes are awarded for 5 of 6, 4 of 6, 3 of 6, and 2 of 6 matches. Kicker sales, which also suffered a loss in fiscal year 2003 as a result of the addition of Mega Millions, are the lowest of the online games. Sales for fiscal year 2003 were \$27.3 million, approximately 1.3 percent of total Ohio Lottery sales.

Pick 3 was Ohio's first online game. Players select a three-digit number from 000 to 999 and can play the numbers straight (numbers in exact order), boxed (numbers in any order), or as backup bets (players can win either or both ways). In 1996, the Lottery premiered wheeling which allows a player to play all possible combinations of a Pick 3 wager. In order to enhance declining sales, the Ohio Lottery added midday drawings in July 1999 and has run several promotions. Pick 3 sales for fiscal year 2003 were \$401.8 million, or 19.3 percent of total Ohio Lottery sales.

Pick 4 is played like Pick 3, only players select a four-digit number from 0000 to 9999 and may play them straight, boxed or in back-up bets. Pick 4 began in 1981. Sales have increased nearly every year since the introduction of the game and have been enhanced since the introduction of midday draws in July 1999. Sales for fiscal year 2003 were \$154.2 million, approximately 7.4 percent of total Ohio Lottery sales. Both Pick 3 and Pick 4 are played Monday through Saturday.

Buckeye 5 is a cash lotto game with a 5/37 matrix. Introduced in

1992, Buckeye 5 currently has six drawings a week. The game has better odds but a lower payout than Super Loto Plus. Players select and match five numbers to win the top prize of \$100,000. As a result of increased number of drawings and promotions, sales have increased for the second fiscal year in a row. Sales in fiscal year 2003 were \$68.9 million, approximately 3.3 percent of total Ohio Lottery sales. Drawings are held Monday through Saturday.

ACCOMPLISHMENTS

Ohio Lottery profits were specifically designated by statute in 1987 to fund the State's public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2003, the Ohio Lottery transferred \$641.4 million to the Lottery Profits Education Fund, bringing the total funding the Ohio Lottery has provided in support of the State's public education system to over \$12.3 billion since its inception in 1974. In addition to this rewarding accomplishment, several other accomplishments were achieved during fiscal year 2003. These include:

- The successful introduction of the Wild Card gift card, which takes advantage of the smart card reader component of the Atura gaming terminal. The pilot project, launched on November 11, 2002, introduced the Wild Card as a gift-giving concept. The Wild Card offers players the opportunity to give lottery products as a gift without the difficulty of selecting a specific product or draw date. Customers simply ask an online Lottery Retailer for the Wild Card and will then place value on the card up to \$50 (in \$5 increments). Receivers of the Wild Card are able to go to an online Lottery Retailer and purchase any lottery product offered. The Wild Card is included in four different designs, contains a thermal backing, which can be rewritten up to 500 times, is rechargeable and contains the current balance at all times on the thermal side of the card. The results of the pilot project are currently being evaluated and a plan for statewide launch is being developed. The Wild Card may be used in the future as a player rewards program, a bet card or even as a wager itself.

- The addition of the Play-at-Home feature for the Cash Explosion instant game. This new concept, introduced in the fall of 2002, alters both the show and the popular instant game, giving 24 more players an opportunity to participate in the weekly television game show. Entrants, chosen as Play-at-Home players are partnered with game show contestants and win a cash prize from home based upon how well their contestant does on the show. To become a Play-at-Home partner, players who reveal the Play-at-Home symbol in the bonus box on the ticket may complete the back of the ticket and mail it to the Lottery for entry into a weekly drawing. During fiscal year 2003, the Ohio Lottery awarded 792 Play-at-Home prizes, with a value of \$217,800.

- Tangible reduction of costs in an effort to improve operating efficiency. The Ohio Lottery has closely managed staff since June 30, 2002 and expects to remain at the same full-time equivalent level throughout the next biennium period. By redesigning the gaming system telecommunication network, the Ohio Lottery has experienced lower system communication costs. In addition, telecommunications service request procedures have been streamlined, saving money and improving service. By switching from the Columbus mainframe computer

to its own computers, the Ohio Lottery's internal control system procedures have been accelerated at an expected savings of nearly \$1.6 million annually. The substitution of a lower cost thermal paper for the Altura terminal will realize annual cost savings of approximately \$500,000. Finally, after conducting an assessment of prices and service quality, the Ohio Lottery shifted more of its printing needs from outside printing vendors to State Printing. The Ohio Lottery is committed to an ongoing review of the effectiveness, efficiency and cost of its procedures.

- Retooling of the Ohio Lottery's advertising contracts. In an effort to receive the finest expertise in each service area, the Ohio Lottery divided its advertising contract, which had been traditionally bid and awarded to one major vendor in a comprehensive manner, into 5 components: game show services; creative/production services; drawing services; major media buying services; and radio/print/outdoor media buying services.

ACCOUNTING SYSTEMS AND POLICIES

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

The Ohio Lottery's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Ohio Lottery are included in the statement of net assets. Operating statements present net increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. A narrative overview and analysis of the Ohio Lottery's financial activities for the fiscal year ended June 30, 2003 may be found 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. An encumbrance system is utilized whereby purchase orders reserve portions of applicable appropriations. The appropriations and the amounts expended for the Lottery Operating Fund, Deferred Prize Fund and Unclaimed Prize Fund are monitored by the State of Ohio Office of Budget and Management (OBM). The adopted budget is divided among the operating divisions at the Ohio Lottery who have responsibility for delivery of service. These divisions control the funds within their program. The Finance Division monitors all accounts via the State of Ohio Central Accounting System and its accounting reporting system, Solomon. Additionally, the Ohio Lottery conducted and drafted a Mid-Year Review in fiscal year 2003 to show revenue and expenditure trends and implement any changes necessary to keep both within appropriation and internal management targets set by the Director.

INTERNAL CONTROL ENVIRONMENT

Management of the Ohio Lottery is responsible for establishing and

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

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

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

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

FINANCIAL INFORMATION

The Ohio Lottery operates as an enterprise activity, selling lottery tickets to the general public and funding all related support functions or fiduciary operations are managed by the Ohio Lottery or included in this report.

DEBT ADMINISTRATION

A majority of the Ohio Lottery's noncurrent liabilities are comprised of payments owed to deferred prizewinners. The payments due are fully funded by an investment portfolio managed by the Treasurer of the State of Ohio and shown as restricted assets of the Ohio Lottery on its statements of net assets. Other noncurrent liabilities include equipment capital lease obligations, accrued workers' compensation, and compensated absences, which will be satisfied through operating activities.

CASH MANAGEMENT

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

The Ohio Lottery collects cash due from ticket sales from approximately 8,900 retail agents on a weekly basis. Funds are collected electronically from the agents' designated bank accounts. Over \$364.9 million was collected via this system in fiscal year 2003. Timely payment was made on 99.4 percent of accounts collected. Approximately \$6.0 million, or 0.6 percent, was returned unpaid and recorded as non-transfer of funds. Those agents were deactivated and could not sell tickets until payment was received and posted. Over \$4.8 million of the uncollected was paid and the remainder was claimed against agents' bonds and certified to the Attorney General for collection.

RISK MANAGEMENT

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

FUTURE PROJECTS

The Ohio Lottery continues to explore and develop new ways to enhance its current product offerings and maximize operational efficiency and effectiveness. The focus during fiscal year 2003 was to concentrate on product enhancements and promotions. In fiscal year 2004, the Ohio Lottery's energies are being concentrated on the following projects:

- Celebration of the Ohio Lottery's 30th anniversary. Several events and promotions are planned to mark this significant achievement, as well as an anniversary themed \$1 instant ticket, offering a very high prize payout along with a \$1 million top prize.
- A replacement is currently being developed for the Super Loto Plus game with an anticipated launch in early spring 2004. With the addition of Mega Millions, the cannibalization on Super Loto Plus sales and the \$4 million starting jackpot level have affected the profitability of this game, as well as the potential to achieve substantial jackpot sequences. The replacement game will be positioned to appeal to the current base player of Super Loto Plus.
- Maximization of instant ticket vending machine (ITVM) sales. The new contract with Interlot Technologies, Inc., effective July 1, 2003, encourages a working partnership with Interlot, which

will be paid a percentage of sales based upon meeting certain sales objectives. The Ohio Lottery and Interlott are working together to maximize sales through ITVM placement, a product plan-o-gram, agent training and enhanced reporting capabilities. A total 1,500 new and refurbished ITVMs are expected to be deployed by September 30, 2003, completely replacing the ITVM inventory available on June 30, 2003.

- Development and execution of an unclaimed prize usage plan. With the passage of Amended House Bill 95 in June 2003, the General Assembly has provided the Ohio Lottery with the means to utilize unclaimed prize funds in a way that maximizes the Ohio Lottery's ability to promote its product and provide funding for education. The original intent for the use of unclaimed prizes was to return them to the players. However, over the years, these funds have been used to supplement top prizes in instant games to pay Super Loto jackpots, and for transfer to the LPEF. The changes which eliminates the requirement to transfer unclaimed prizes to a separate fund and the restriction on administration of these funds, will allow the Ohio Lottery to distribute these winnings throughout all prize levels, in the spirit of the original legislation. As a result, the Ohio Lottery will be able to actively promote the fact that unclaimed prizes are being returned to the players in high payout, low odds games, allowing for a more creative marketing approach, ultimately providing a greater return to the LPEF.

- Modification of the Cash Explosion Play-at-Home prize payment process. These prizes, which range from \$200 to \$500, are within the retailer payment threshold. The current payment process via state-issued warrant is cumbersome and lengthy, with a processing time of 6 to 8 weeks. A method utilizing certificates redeemable at retailer location is currently being developed, which is expected to reduce prize payment processing time to 5 business days, with an internal cost savings of approximately \$35,000. The proposed method will improve customer service, provide timely prize payment, reduce costs and present the retailers with sales opportunities.

- Launch of a Mega Millions multiplier feature. With the addition of the Texas Lottery, the Mega Millions group is exploring the possibility of developing and marketing a multiplier option for the Mega Millions game. By purchasing the multiplier option on each Mega Millions play, the player obtains the opportunity to increase any non-jackpot prize by a specified multiple or dollar amount. Expected launch of this feature is late fall or early winter of fiscal year 2004.

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the sixth consecutive year that the Ohio Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Ohio Lottery published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only.

We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

INDEPENDENT AUDIT

Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audits of the Lottery. The fiscal year 2003 audit of the Ohio Lottery's financial statements has been completed in conformity with generally accepted governmental auditing standards. The auditor's unqualified opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

Preparation of this report could not have been accomplished without the efficient and dedicated efforts of our employees. Publishing this comprehensive annual financial report reflects our commitment to meet the highest standards of accountability. The Ohio Lottery intends to continually improve financial management and clearly communicate its financial story. It is important for the public to know that the Ohio Lottery's financial condition is properly reported, including payments made to education. Due credit should be given to Commission Chair Sandra Baiber and the members of the Ohio Lottery Commission for their commitment to operating the Ohio Lottery in a responsible and progressive manner.

Respectfully Submitted,

Mark M. Polatajko

Mark M. Polatajko, CPA, MBA
Deputy Director of Finance

Dennis G. Kennedy

Dennis G. Kennedy
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Ohio Lottery Commission

For its Comprehensive Annual Financial Report
for the Fiscal Year Ended
June 30, 2002

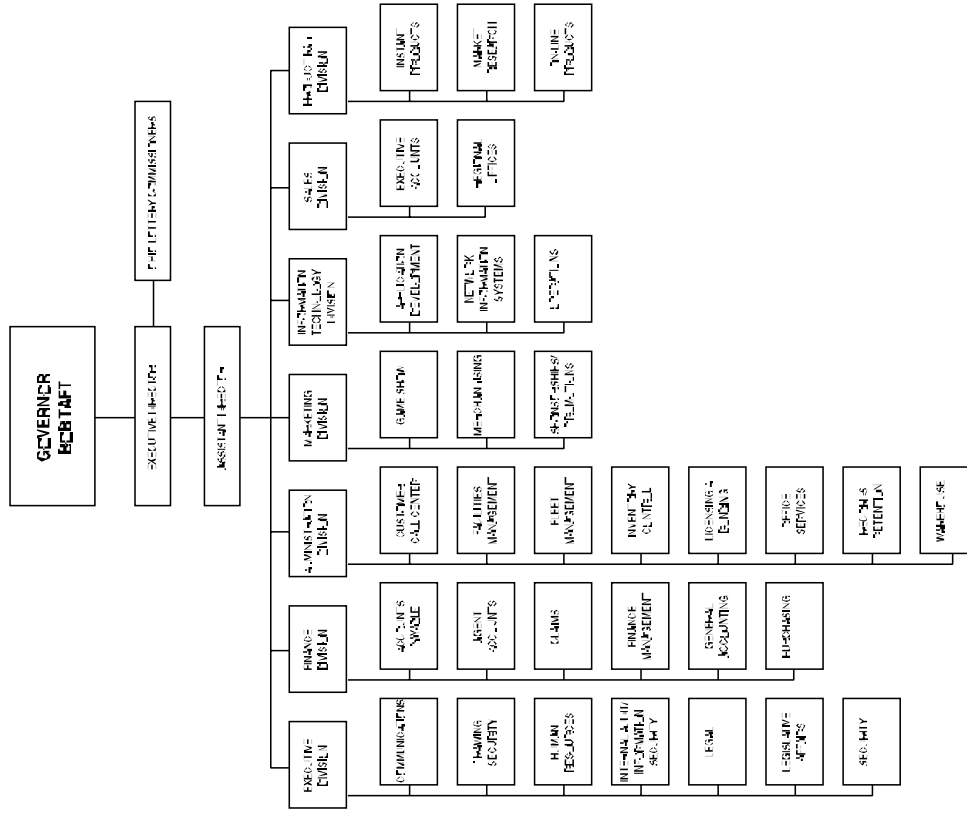
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFR) achieve the highest standards in government accounting and financial reporting.



Edward H. Kempf
President

Jeffrey R. Egan
Executive Director

**STRUCTURE OF ORGANIZATION
FISCAL YEAR 2003**



Principal Officials

Bob Taft GOVERNOR OF OHIO	Andrew J. Futey COMMISSIONER Term ends 8/1/04
Dennis G. Kennedy DIRECTOR	Brooke S. Hill COMMISSIONER Term ends 8/1/03
Sandra K. Barber COMMISSION CHAIR Term ends 8/1/05	Charles A. Nemer COMMISSIONER Term ends 8/1/04
Erskine E. Cade COMMISSIONER Term ends 8/1/05	Gisela Rosenbaum COMMISSIONER Term ends 8/1/03
Linda S. Dotson COMMISSIONER Term ends 8/1/03	Jerry Y. Seaman COMMISSIONER Term ends 8/1/05
Mark A. Dottore COMMISSIONER Term ends 8/1/04	

{ Financial Section }

COMMITTED TO BUILDING A STRONG FOUNDATION FOR EDUCATION

Since 1975, the Ohio Lottery has transferred more than \$12 billion to education in Ohio. This includes special transfers designated by the legislature. In 1997 and 1998, Lottery-generated funds provided \$53.6 million to the SchoolNet program for the purchase of computers and related equipment. An additional \$30 million paid for the electrical infrastructure needed to connect and operate them.

{ Build }





**Auditor of State
Betty Montgomery**

REPORT OF INDEPENDENT ACCOUNTANTS'

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

We have audited the accompanying financial statements of the business-type activity and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Lottery) as of and for the year ended June 30, 2003, which collectively comprise the Lottery's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and each major fund of the State of Ohio that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2003 on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State
November 24, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Ohio Lottery Commission (the "Ohio Lottery"), we offer readers of the Ohio Lottery's financial statements this narrative overview and analysis of the financial activities of the Ohio Lottery for the fiscal year ended June 30, 2003. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 4-8 of this report, and the financial statements which begin on page 20.

Financial Highlights

- The Ohio Lottery's net assets increased \$66.6 million or nearly 49.7 percent, as a result of this year's operations.
- Annual ticket sales increased \$95.2 million or 4.8 percent. The increase in ticket sales is due to a successful restructuring of the instant product line, as well as maintenance efforts dedicated to the online products.
- Operating expenses decreased as a percentage of sales from 5.2 percent in fiscal year 2002 to 4.9 percent in fiscal year 2003, consistent with management's efforts to reduce costs and limit controllable expenses without sacrificing service or performance.
- The Ohio Lottery transferred \$641.4 million to the Lottery Profits Education Fund (LPEF), \$6.2 million above the amount transferred in the prior fiscal year.

Overview of the Financial Statements

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

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

Lottery Operating Fund

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

Deferred Prize Fund

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

Unclaimed Prize Fund

The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month in an amount equal to the prizes unclaimed after the cashing eligibility has expired. The balances in this fund are used to enhance prize payouts for special Ohio Lottery games and for transfer to fund educational purposes as directed by the State's Legislature. Effective July 1, 2003, the Unclaimed Prize Fund has been eliminated from the Ohio Lottery's fund structure. Additional information on this change may be found in Note 14 of this report.

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

Financial Analysis

Table 1 provides a summary of the Ohio Lottery's net assets for fiscal year 2003 compared to fiscal year 2002.

TABLE 1 - NET ASSETS

	2003	2002
Current Assets - Unrestricted	\$ 82,143,054	\$ 92,008,770
Current Assets - Restricted	480,341,566	500,204,596
Deferred Assets	1,046,644,445	1,046,644,445
Net Capital Assets	44,886,945	591,377,689
Total Assets	1,623,809,711	1,666,498,265

TABLE 1 - NET ASSETS continued

	2003	2002
Current Liabilities - Unrestricted	59,475,281	64,574,163
Current Liabilities - Restricted	4,832,749	5,746,939
Noncurrent Liabilities	883,227,927	987,565,129
Total Liabilities	1,423,044,454	1,532,345,889
Net Assets		
Capital Assets - Net of Related Debt	764,274	1,957,360
Restricted for Deferred Prizes	2,814,713	8,881,832
Restricted for Net Unrealized Gains on Restricted Investments	167,007,427	88,177,370
Unrestricted	30,178,843	35,147,825
Total Net Assets	\$ 200,765,257	\$ 134,154,377

Total Assets decreased \$42.7 million as a result of investment activity and the depreciation of capital assets. Restricted Assets, which are comprised of investments dedicated to the payment of annuity prizes, realized a smaller than expected reduction as a result of an unrealized gain on investments of \$76.6 million. Net Capital Assets decreased as a result of the depreciation recognized on the leased gaming equipment, which is discussed following Table 3.

Total Liabilities decreased \$109.3 million, mainly due to prize liability activity. The combined effect of the payment of deferred prizes payable during fiscal year 2003, only one Super Loto Plus jackpot being claimed as an annuity, the reduction in security lending activity, and payments made on the capital lease obligation allowed for a reduction of \$84.4 million in Noncurrent Liabilities.

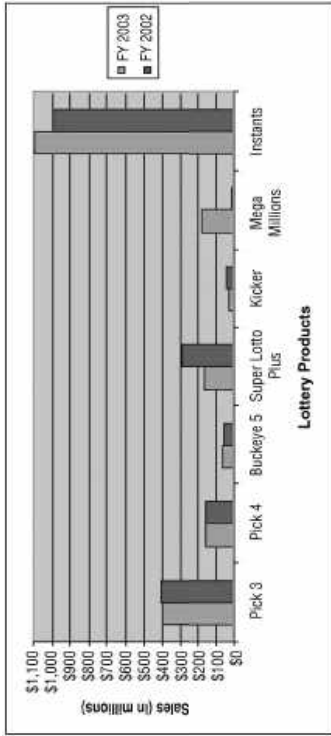
The Ohio Lottery's financial activity resulted in a \$66.6 million increase in net assets. Net Assets Restricted for Net Unrealized Gains on Restricted Investments increased \$78.6 million as a result of recognizing a fiscal year 2003 unrealized gain on restricted assets in accordance with GASB 31, as noted above. Unrestricted Net Assets realized a \$5.0 million decrease, the net effect of an increase in net assets reported in the Lottery Operating Fund of \$5.6 million and a decrease in net assets of \$10.6 million in the Unclaimed Prize Fund.

Table 2 shows the changes in the Ohio Lottery's net assets for fiscal year 2003 compared to fiscal year 2002, including revenue and expense comparisons.

TABLE 2 - CHANGES IN NET ASSETS

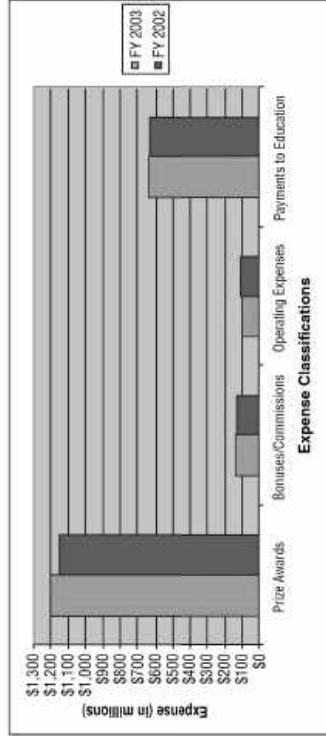
	2003	2002
Ticket Sales	\$ 2,078,254,017	\$ 1,983,102,819
Other Operating Revenues	4,854,225	5,022,043
Non-Operating Revenues	148,797,169	119,038,635
Total Revenues	2,231,905,411	2,107,163,497
Prizes, Bonuses and Commissions	1,345,223,480	1,274,722,820
Operating Expenses	100,820,852	103,315,231
Non-Operating Expenses	77,909,550	89,304,478
Payments to the Lottery Profits Education Fund	641,352,000	635,150,066
Total Expenses	2,165,305,882	2,102,492,595
Excess of Revenues over Expenses	66,599,529	4,670,902
Special Gain on Early Extinguishment of Debt	11,351	25,893
Change in Net Assets	66,610,880	4,696,795
Total Net Assets - Beginning	134,154,377	129,457,582
Total Net Assets - Ending	\$ 200,765,257	\$ 134,154,377

**Ticket Sales by Product
Fiscal Years 2003 and 2002**



Total Revenues increased by \$124.7 million, mostly in part to a significant increase in sales. Ohio Lottery sales increased \$95.2 million, or 4.8 percent in fiscal year 2003. Instant ticket sales, which experienced a slight increase in fiscal year 2002, performed extremely well, with an increase of \$91.6 million, or 9.2 percent above the prior year's sales, surpassing the \$1 billion sales mark for the first time since fiscal year 2000. Online product sales experienced mixed performance by product, with a net overall increase of \$3.5 million, or 0.4 percent. Non-Operating Revenues, which represent the Ohio Lottery's investment income, increased \$29.8 million in fiscal year 2003. This increase is the net effect of lower interest income realized from lower rates on gradually reducing investment principal, combined with a significant unrealized gain recognized on investments dedicated to the payment of annuity prizes, as noted in the analysis of Table 1.

**Operating Related Expenses and Payments to Education
Fiscal Years 2003 and 2002**



Total Expenses increased \$62.8 million, the direct result of increased sales. Prizes, bonuses and commissions increased by \$70.5 million from the prior year in proportion with increased sales due to their variable nature. Operating Expenses decreased \$2.5 million, largely in part due to a concerted effort by management to manage controllable expenses given the uncertain economic environment and the

budgetary concerns raised by the Governor. As a percentage of sales, operating expenses decreased from 5.2 percent to 4.9 percent, a significant accomplishment considering the increased sales realized. Non-Operating Expenses, which are predominantly dependent on securities lending activity and the magnitude of the deferred prize liability, decreased by \$11.4 million, proportionate with the decrease in investment principal and deferred prize liability. Payments to the Lottery Profits Education Fund increased by \$6.2 million as a result of a \$35 million transfer from the Unclaimed Prize Fund, \$10 million higher than in the prior fiscal year.

The activity described above resulted in an increase in Net Assets of \$66.6 million, raising the balance at June 30, 2003 to \$200.8 million from \$134.2 million.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2003, the Ohio Lottery had \$44.9 million, net of accumulated depreciation, in Capital Assets. Table 3 below summarizes the Ohio Lottery's capital assets at the end of 2003 and 2002.

TABLE 3 - CAPITAL ASSETS (Net of Depreciation)

	2003	2002
Equipment	\$ 43,220,916	\$ 57,430,162
Vehicles	1,666,129	1,707,527
Total Net Capital Assets	\$ 44,886,945	\$ 59,137,689

Total Net Capital Assets decreased \$14.3 million in fiscal year 2003. This significant decrease is the result of depreciation recognized on leased gaming equipment. Effective July 1, 2001, the Ohio Lottery entered into a contractual agreement with GTECH Corporation for gaming services, including leased gaming equipment. The length of the contract is two years, with three optional two-year renewals. The total value of the equipment added as a result of the contract is \$69.4 million. The lease meets the requirements of a capital lease, as a result, the equipment was recorded at the present value of the minimum lease payments and is being depreciated over its useful life of five years.

Additional information on the Ohio Lottery's capital assets may be found in Note 6 of this report.

Debt

The significant components of the Ohio Lottery's debt are deferred prize awards payable, which are payable from restricted assets, and capital leases payable. Prize Awards Payable from Restricted Assets - Net of Discount decreased \$71.5 million as a result of payments on the deferred prize obligation, and only one Super Lotto Plus jackpot winner accepting the prize as an annuity during fiscal year 2003. Capital Lease Payable - Long-term, which as of June 30, 2003 represents only the unpaid balance on the leased gaming equipment from GTECH Corporation, decreased \$13.8 million as a result of payments made during fiscal year 2003.

Additional information on the Ohio Lottery's long-term debt may be found in Notes 7 and 9 of this report.

Contacting the Ohio Lottery's Financial Management

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

STATEMENTS OF NET ASSETS - BUSINESS TYPE ACTIVITY
JUNE 30, 2003 AND 2002

	2003	2002
ASSETS		
Current Assets - Unrestricted		
Cash and Cash Equivalents	\$ 8,930,351	\$ 12,092,552
Cash Equity with Treasurer of State	7,016,127	33,397,047
Investments in Securities	1,166,475	31,660,475
Receivables from Agents, Net	45,136,271	3,632,616
Other Assets	3,666,441	
Total Current Assets - Unrestricted	82,143,054	92,008,770
Current Assets - Restricted		
Cash Equity with Treasurer of State	16,653,561	6,439,160
Dedicated Investments	63,140,247	69,131,456
Collateral on Lent Securities	397,732,276	420,368,364
Interest Receivable	2,815,482	4,265,616
Total Current Assets - Restricted	480,341,566	500,204,596
Total Current Assets	562,484,620	592,213,366
Restricted Assets	1,016,438,146	1,015,147,210
Dedicated Investments		
Equipment	77,610,265	77,532,803
Vehicles	3,486,139	3,589,656
Accumulated Depreciation	(36,209,459)	(21,894,770)
Net Capital Assets	44,886,945	59,137,689
TOTAL ASSETS	1,623,809,711	1,666,496,265
LIABILITIES		
Current Liabilities - Unrestricted		
Accounts Payable	8,949,296	11,217,190
Prize Awards Payable	25,822,676	26,103,233
Obligations under Securities Lending	1,000,000	1,000,000
Capital Lease Payable - Current	13,836,600	13,047,687
Deferred Revenue	1,929,000	1,487,829
Other Liabilities	1,543,831	1,492,164
Total Current Liabilities - Unrestricted	59,475,261	64,574,163
Current Liabilities - Restricted		
Obligations under Securities Lending	397,732,276	420,368,364
Prize Awards Payable - Net of Discount	82,609,290	79,836,232
Total Current Liabilities - Restricted	480,341,566	500,204,596
Total Current Liabilities	539,816,827	564,778,759
Noncurrent Liabilities		
Prize Awards Payable from Restricted Assets - Net of Discount	846,616,006	918,108,008
Capital Lease Payable - Long-term	30,286,072	44,122,672
Accrued Workers Compensation	4,143,436	3,397,406
Compensated Absences	2,182,113	1,937,043
Total Noncurrent Liabilities	883,227,627	967,565,129
TOTAL LIABILITIES	1,423,044,454	1,532,343,888
NET ASSETS		
Invested in Capital Assets - Net of Related Debt	764,274	1,967,350
Restricted for Prizes	2,815	8,760,000
Restricted for Net Unrealized Gains on Restricted Investments	167,007,427	88,177,370
Unrestricted	30,178,843	35,147,825
TOTAL NET ASSETS	\$ 200,765,257	\$ 134,154,377

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUSINESS TYPE ACTIVITY
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
REVENUES		
Ticket Sales	\$ 2,078,254,017	\$ 1,983,102,819
Other Revenues	4,954,225	5,022,043
Total Operating Revenues	2,083,108,242	1,988,124,862
EXPENSES		
Prizes, Bonuses and Commissions	1,208,193,077	1,148,125,801
Prize Awards	137,030,403	126,597,019
Bonuses and Commissions		
Total Prizes, Bonuses and Commissions	1,345,223,480	1,274,722,820
Operating Expenses		
Personnel Services	63,223,209	64,977,670
Maintenance	21,847,824	22,676,792
Depreciation	15,110,645	15,518,831
Other Expenses	639,174	141,938
Total Operating Expenses	100,820,852	103,315,231
OPERATING INCOME	637,063,910	610,086,811
Non-Operating Revenues (Expenses)		
Interest Income	148,797,169	119,038,635
Amortization of Discount of Prize Liabilities	(68,940,102)	(74,350,428)
Loss on Equipment Disposal	(67,115)	(477,160)
Interest Expense - Capital Leases	(5,000,000)	(5,000,000)
Interest Expense - Other	(3,076,047)	(3,534,983)
Securities Lending Agent Fees	(87,676)	(123,361)
Payments to the Lottery Profits Education Fund	(641,352,000)	(635,150,066)
Total Non-Operating Expenses, Net	(570,464,381)	(605,415,909)
INCOME BEFORE TRANSFERS AND SPECIAL ITEM	66,599,529	4,670,902
Transfers		
Transfers In	40,399,438	35,342,575
Transfers Out	(40,399,438)	(35,342,575)
Total Transfers	-	-
INCOME BEFORE SPECIAL ITEM	66,599,529	4,670,902
Special Gain on Early Extinguishment of Debt	11,351	25,893
Change in Net Assets	66,610,880	4,696,795
Total Net Assets - Beginning	134,154,377	129,457,582
TOTAL NET ASSETS - ENDING	\$ 200,765,257	\$ 134,154,377

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

**STATEMENTS OF CASH FLOWS - BUSINESS TYPE ACTIVITY
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Sales	\$ 2,065,239,386	\$ 1,989,380,124
Cash Payments for Prize Awards	(1,346,119,928)	(1,235,610,982)
Cash Payments for Bonuses and Commissions	(136,993,684)	(126,575,134)
Cash Payments for Goods and Services	(62,916,216)	(60,221,678)
Cash Payments to Employees	(22,880,480)	(23,285,552)
Other Operating Revenues	4,854,225	5,022,043
Other Operating Expenses	(639,174)	(141,938)
Net Cash Provided by Operating Activities	500,544,131	498,566,883
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to the Lottery Profits Education Fund	(641,352,000)	(635,150,066)
Transfers In	33,242,000	33,242,000
Transfers Out	(40,399,438)	(35,342,575)
Net Cash Used by Noncapital Financing Activities	(648,409,438)	(637,250,641)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Equipment	(893,440)	(653,755)
Proceeds from Sale of Property	66,424	136,587
Repayment of Equipment Obligation	(13,047,667)	(12,318,006)
Interest Paid on Equipment Obligation	(3,075,047)	(3,834,983)
Net Cash Used by Capital and Related Financing Activities	(17,049,730)	(16,670,157)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income Received	22,302,802	36,724,105
Interest Expense and Agent Fees	(5,827,286)	(10,641,907)
Proceeds from the Sale and Maturity of Investments	635,858,419	279,954,609
Purchase of Investments	(503,785,056)	(171,697,344)
Securities Lending Proceeds	405,126,134	431,594,444
Securities Lending Payments	(405,126,134)	(431,594,444)
Net Cash Provided by Investing Activities	146,548,879	134,339,460
Net Decrease in Cash and Cash Equivalents	(9,308,720)	(18,913,880)
Cash and Cash Equivalents - Beginning	51,908,759	70,822,639
CASH AND CASH EQUIVALENTS - ENDING	\$ 42,600,039	\$ 51,908,759
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$637,063,910	\$610,086,811
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	15,110,645	15,518,831
Amortization of Discount of Prize Liabilities	68,940,102	74,350,428
Special Gain on Early Extinguishment of Debt	(11,351)	(25,893)
Net Changes in Assets and Liabilities	(13,455,802)	5,556,111
Receivable from Agents - Net	1,536,458	1,536,458
Other Assets	(527,985)	(527,985)
Accounts Payable	(2,360,556)	(2,360,556)
Prize Awards Payable	441,171	6,840,581
Deferred Revenue	721,193	721,193
Other Liabilities	341,985	341,985
Prize Awards Payable From Restricted Assets - Net of Discount	(206,576,446)	(218,650,276)
Accrued Workers Compensation	1,407,473	1,407,473
Compensated Absences	245,070	(140,072)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 500,544,131	\$ 498,566,883
DESCRIPTION OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Non-cash items included in investment income were \$79.8 million and \$35.7 million of unrealized net gains at June 30, 2003 and June 30, 2002, respectively.		

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

**STATEMENT OF NET ASSETS - MAJOR FUNDS
JUNE 30, 2003**

	OPERATING	DEFERRED	UNCLAIMED	TOTAL
ASSETS				
Current Assets - Unrestricted	\$ 8,930,351	-	\$ 12,841,743	\$ 8,930,351
Cash and Cash Equivalents	4,174,384	-	4,301,786	17,016,127
Cash Equity with Treasurer of State	3,092,072	-	-	7,393,869
Collateral on Lent Securities	45,136,277	-	-	45,136,277
Receivables from Agents, Net	3,694,104	-	12,337	3,686,441
Other Assets	-	-	-	-
Total Current Assets - Unrestricted	64,987,188	-	17,155,866	82,143,054
Current Assets - Restricted	-	\$ 16,653,561	-	16,653,561
Cash Equity with Treasurer of State	-	63,140,247	-	63,140,247
Dedicated Investments	-	397,732,276	-	397,732,276
Collateral on Lent Securities	-	2,815,482	-	2,815,482
Interest Receivable	-	-	-	-
Total Current Assets - Restricted	-	480,341,566	-	480,341,566
Total Current Assets	64,987,188	480,341,566	17,155,866	562,484,620
Restricted Assets	-	-	-	-
Dedicated Investments	-	1,016,438,146	-	1,016,438,146
Capital Assets	77,610,265	-	-	77,610,265
Equipment	3,486,139	-	-	3,486,139
Vehicles	(36,208,459)	-	-	(36,208,459)
Accumulated Depreciation	-	-	-	-
Net Capital Assets	44,886,945	-	-	44,886,945
TOTAL ASSETS	109,874,133	1,496,779,712	17,155,866	1,623,809,711
LIABILITIES				
Current Liabilities - Unrestricted	8,949,296	-	-	8,949,296
Accounts Payable	25,829,676	-	-	25,829,676
Prize Awards Payable	3,092,072	-	4,301,786	7,393,869
Obligations under Securities Lending	13,836,600	-	-	13,836,600
Capital Lease Payable - Current	1,929,000	-	-	1,929,000
Deferred Revenue	1,543,831	-	-	1,543,831
Other Liabilities	-	-	-	-
Total Current Liabilities - Unrestricted	55,173,475	-	4,301,786	59,475,261
Current Liabilities - Restricted	-	397,732,276	-	397,732,276
Obligations under Securities Lending	-	82,609,280	-	82,609,280
Prize Awards Payable - Net of Discount	-	-	-	-
Total Current Liabilities - Restricted	-	480,341,566	-	480,341,566
Total Current Liabilities	55,173,475	480,341,566	4,301,786	539,816,827
Noncurrent Liabilities	-	-	-	-
Prize Awards Payable from Restricted Assets - Net of Discount	-	846,616,006	-	846,616,006
Capital Lease Payable - Long-term	30,286,072	-	-	30,286,072
Accrued Workers Compensation	4,143,436	-	-	4,143,436
Compensated Absences	2,182,119	-	-	2,182,119
Total Noncurrent Liabilities	36,611,621	846,616,006	-	883,227,627
TOTAL LIABILITIES	91,785,096	1,326,957,572	4,301,786	1,423,044,454
NET ASSETS				
Invested in Capital Assets - Net of Related Debt	764,274	2,814,713	-	764,274
Restricted for Deferred Prizes	-	-	-	2,814,713
Restricted for Net Unrealized Gains on Restricted Investments	-	167,007,427	-	167,007,427
Unrestricted	17,324,763	-	12,854,080	30,176,843
TOTAL NET ASSETS	\$ 18,089,037	\$ 169,822,140	\$ 12,854,080	\$ 200,765,257

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - MAJOR FUNDS FOR THE YEAR ENDED JUNE 30, 2003

	OPERATING	DEFERRED	UNCLAIMED	TOTAL
REVENUES				
Ticket Sales	\$ 2,078,254,017	-	-	\$ 2,078,254,017
Prize Awards	4,581,804	-	-	4,581,804
Other Revenues	-	272,421	-	272,421
Total Operating Revenues	2,082,835,821	272,421	-	2,083,108,242
EXPENSES				
Prizes, Bonuses and Commissions	1,191,705,985	-	\$ 8,452,728	1,200,158,077
Prize Awards	137,030,403	-	-	137,030,403
Bonuses and Commissions	-	8,034,364	-	8,034,364
Total Prizes, Bonuses and Commissions	1,328,736,388	8,034,364	8,452,728	1,345,223,480
Operating Expenses	63,223,209	-	-	63,223,209
Personal Services	21,847,824	-	-	21,847,824
Maintenance	15,110,646	-	-	15,110,646
Depreciation	639,174	-	-	639,174
Other Expenses	-	-	-	-
Total Operating Expenses	100,820,852	-	-	100,820,852
OPERATING INCOME (LOSS)	653,278,581	(7,761,943)	(8,452,728)	637,063,910
Non-Operating Revenues (Expenses)	1,068,682	147,286,554	461,933	1,487,976,069
Interest Income	(67,115)	(66,940,102)	-	(67,007,217)
License Fee	-	-	-	-
Amortization of Discount of Prize Liabilities	(67,115)	-	-	(67,115)
Loss on Equipment Disposal	-	-	-	-
Interest Expense - Borrower Rebates	(3,075,047)	(5,739,610)	-	(8,814,657)
Interest Expense - Capital Lease	-	-	-	-
Securities Lending Agent Fees	(87,676)	-	-	(87,676)
Payments to the Lottery Profits Education Fund	(606,352,000)	-	(35,000,000)	(641,352,000)
Total Non-Operating Expenses; Net	(608,425,480)	72,499,166	(34,538,067)	(570,464,381)
INCOME (LOSS) BEFORE TRANSFERS AND SPECIAL ITEM	44,853,101	64,737,223	(42,990,795)	66,599,529
Transfers				
Transfers to Deferred Prize Fund	(8,034,364)	8,034,364	-	-
Transfers to Unclaimed Prize Fund	(32,365,074)	-	32,365,074	-
Total Transfers	(40,399,438)	8,034,364	32,365,074	-
INCOME (LOSS) BEFORE SPECIAL ITEM	4,453,663	72,771,587	(10,625,721)	66,599,529
Special Gain on Early Extinguishment of Debt	-	11,351	-	11,351
Change in Net Assets	4,453,663	72,782,938	(10,625,721)	66,610,880
Total Net Assets - Beginning	13,635,374	97,039,202	23,479,801	134,154,377
TOTAL NET ASSETS - ENDING	\$ 18,089,037	\$ 169,822,140	\$ 12,854,080	\$ 200,765,257

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

STATEMENT OF CASH FLOWS - MAJOR FUNDS FOR THE YEAR ENDED JUNE 30, 2003

	OPERATING	DEFERRED	UNCLAIMED	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 2,085,239,386	-	-	\$ 2,085,239,386
Payments to the Lottery Profits Education Fund	(1,191,985,139)	-	-	(1,191,985,139)
Cash Payments from Prize Awards	(136,993,684)	\$(145,682,059)	\$(8,452,728)	(291,128,471)
Cash Payments from Bonuses and Commissions	(62,916,216)	-	-	(62,916,216)
Cash Payments for Goods and Services	(22,880,480)	-	-	(22,880,480)
Cash Payments to Employees	4,581,804	272,421	-	4,854,225
Other Operating Revenues	(639,174)	-	-	(639,174)
Other Operating Expenses	-	-	-	-
Net Cash Provided (Used) by Operating Activities	654,406,497	(145,409,638)	(8,452,728)	500,544,131
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	(606,352,000)	-	(35,000,000)	(641,352,000)
Payments to the Lottery Profits Education Fund	(40,399,438)	8,034,364	32,365,074	-
Interfund Transfers	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(646,751,438)	8,034,364	(2,634,926)	(641,352,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(983,440)	-	-	(983,440)
Acquisition of Property and Equipment	56,424	-	-	56,424
Proceeds from Sale and Property and Equipment	(13,047,667)	-	-	(13,047,667)
Repayment of Equipment Obligation	(3,075,047)	-	-	(3,075,047)
Interest paid on Equipment Obligation	-	-	-	-
Net Cash Used by Capital and Related Financing Activities	(17,049,730)	-	-	(17,049,730)
CASH FLOWS FROM INVESTING ACTIVITIES	439,982	21,343,588	519,222	22,302,802
Investment Income Received	-	(6,827,286)	-	(6,827,286)
Interest Expense and Agent Fees	-	638,958,419	-	638,958,419
Proceeds from the Sale and Maturity of Investments	-	(503,785,056)	-	(503,785,056)
Purchase of Investments	3,092,072	(17,732,276)	4,301,786	(4,339,428)
Securities Lending Proceeds	(3,092,072)	(397,732,276)	(4,301,786)	(405,126,134)
Securities Lending Payments	-	-	-	-
Net Cash Provided by Investing Activities	439,982	147,589,675	519,222	148,548,879
Net Increase (Decrease) in Cash and Cash Equivalents	(8,954,689)	10,214,401	(10,968,492)	(9,308,720)
Cash and Cash Equivalents - Beginning	22,059,424	6,439,180	23,410,175	51,908,759
CASH AND CASH EQUIVALENTS - ENDING	\$ 13,104,735	\$ 16,653,581	\$ 12,841,743	\$ 42,600,059

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ 653,278,581	\$ (7,761,943)	\$ 637,063,910
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	15,110,645	-	15,110,645
Amortization of Discount of Prize Liabilities	-	68,940,102	68,940,102
Special Gain on Early Extinguishment of Debt	-	(11,351)	(11,351)
Net Changes in Assets and Liabilities:			
Receivables from Agents - Net	(13,455,802)	-	(13,455,802)
Other Assets	537,585	-	537,585
Accounts Payable	(2,267,894)	-	(2,267,894)
Deferred Prize	(280,556)	-	(280,556)
Other Liabilities	51,667	-	51,667
Prize Awards Payable from Restricted Assets - Net of Discount	-	(206,576,446)	(206,576,446)
Accrued Workers' Compensation	746,030	-	746,030
Compensated Absences	245,070	-	245,070
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 654,406,497	\$ (8,452,728)	\$ 500,544,131

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

1. DESCRIPTION OF OPERATIONS

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

The Ohio Lottery is required by law to transfer all of its net profits from the sale of lottery tickets to the Lottery Profits Education Fund of the State. The amounts transferred are determined by the Director of the Office of Budget and Management and are to be used to help support primary, secondary, vocational, and special education within the State. As of July 1, 2001, per Amended Sub. House Bill No. 94, the State of Ohio's legislature amended the statute eliminating the requirement that the transfer amount represent no less than 30 percent of the total revenue earned from ticket sales.

The Ohio Lottery operates both online and instant games. The instant games generated 52.4 percent and 50.3 percent of the Ohio Lottery's revenue from ticket sales and online games generated 47.6 percent and 49.7 percent of the Ohio Lottery's revenue from ticket sales for the years ended June 30, 2003 and 2002, respectively.

On May 15, 2002, the Ohio Lottery launched Mega Millions, a jointly operated multi-state lottery, comprised of nine states: Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio and Virginia. The State of Washington joined in September 2002. The net proceeds from the sale of Mega Millions in Ohio that remain after associated operating expenses, prize disbursements, lottery sales agent bonuses, commissions, and reimbursements, and any other expenses necessary to comply with the agreements among the member jurisdictions, are required to be transferred to the Lottery Profits Education Fund of the State.

2. BASIS OF ACCOUNTING AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

Lottery Operating Fund

Revenues for this fund are provided primarily from the sale of lottery tickets. Receivables from ticket sales are collected on a weekly cycle, with net proceeds being equal to an individual agent's gross sales less cash prizes paid and commissions earned. The balance from the Lottery Operating Fund is reduced mainly by the following types of transactions: (1) operating expenses and all non-deferred prize payments; (2) cash transfers to the Deferred Prize Fund and the Unclaimed Prize Fund; (3) transfers to the Lottery Profits Education Fund; and (4) transfers to other State agencies to support centralized services.

Deferred Prize Fund

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

Unclaimed Prize Fund

The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month, in an amount equal to the prizes unclaimed after their cashing eligibility has expired. Beginning in fiscal year 2002, free tickets were deducted from the total unclaimed prize per instant ticket game. The balances in this fund are used to: (1) transfer cash to the Deferred Prize Fund for the purpose of

supplying investment capital for deferred prizes (in the event monies are used to finance special games or drawings which offer deferred prizes); (2) voucher expenses for prize or promotion payments drawn against reserves of funds accumulated for unclaimed prizes; or (3) transfer cash to the Lottery Profits Education Fund.

Investments

The Ohio Lottery has adopted the provisions of Statement No. 31 "Accounting and Financial Reporting for Certain Investments and External Investment Pools" of the Governmental Accounting Standards Board ("GASB"). Accordingly, the Ohio Lottery's investments are stated at fair value (based on quoted market prices) in the accompanying comparative statement of net assets and the change in the fair value of the investments is recorded as investment income along with the interest earned on the investments.

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts at June 30, 2003 and 2002, of \$455,922 and \$320,004, respectively, is based on an analysis of historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

Restricted Assets

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

Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and are stated on the basis of historical cost. Accumulated depreciation is determined by depreciating the cost of the assets over their estimated useful lives on a straight-line basis.

The estimated useful life for ticket issuing equipment is five years. The estimated useful life for all other equipment ranges from five to fifteen years. Approximately 93 percent and 94 percent of the net book value of equipment relates to gaming equipment at June 30, 2003 and 2002, respectively. The Ohio Lottery Commission entered into a contractual agreement with GTECH Corporation for gaming services commencing July 1, 2001.

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

Prize Awards

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

Deferred Revenue

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

Compensated Absences

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences" ("GASB 16") the Ohio Lottery accrues all types of leave benefits as earned by its employees.

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

of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Vacation credit may be accumulated to a maximum of three times the annual rate of accrual. At termination or upon other separation from the Ohio Lottery, employees are paid at their hourly rate for 100 percent of unused vacation leave and personal leave. Bargaining unit employees are also eligible to receive 100 percent of unused compensatory time.

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

Bonuses and Commissions

Agents receive a commission of 5.5 percent based on their total sales. During fiscal year 2003, a promotion was in effect from January 12, 2003 to March 15, 2003, in which agents received a 10 percent commission on instant ticket 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 agents if their cash-to-sales ratio is 50 percent or greater. A \$5 claiming bonus is awarded to agents for validating a winning ticket worth \$600 to \$5,000. In addition, various selling bonuses are in place ranging from \$500 for a Cash Explosion show entry ticket drawn to \$1,000 per \$1,000,000 of jackpot for the lotto style games.

Fund Equity Classifications

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

- Invested in Capital Assets – consists of capital assets including fixed assets, net of accumulated depreciation and reduced by related debt outstanding.
- Restricted for Deferred Prizes – represents the excess of the assets restricted for payment of deferred prizes over the related liability for restricted prize awards, excluding the reserve for unrealized gains (losses) on investments.
- Restricted for Net Unrealized Gains on Restricted Investments – represents the difference between the fair value and the amortized cost of investments restricted for the payment of deferred prize awards.
- Unrestricted – represents all other net assets that are not classified as invested in net assets or restricted.

Risk Management

The Ohio Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ohio Lottery generally retains the risk of loss; however, the Ohio Lottery is protected for purposes of sales collections by third party surety bonds. The amount of loss arising from these risks was not significant for the years ended June 30, 2003 and 2002. No significant payments were made or liabilities recorded during the years ended June 30, 2003 and 2002 due to self-insured risks.

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

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

The State provides an option to eligible Ohio Lottery employees to participate in the OhioMed Health Plan, which was established July 1, 1989, as a fully self-insured health benefit plan. The plan is administered by Medical Mutual of Ohio under a claims administration contract with the State. The Ohio Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contribute \$28.60 for single and \$78.61 for family coverage per month and the Ohio Lottery contributes \$257.39 for single and \$707.54 for family coverage per month for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The fund balance has experienced a surplus in recent years, which has reduced premiums assessed to participants and eliminated the need for the Ohio Lottery to record a liability for these benefits. The Ohio Lottery's total contributions to the OhioMed Health Plan were \$1,457,182 and \$1,010,192 for the years ended June 30, 2003 and 2002, respectively.

The State has contracted with six various types of Health Maintenance Organizations (HMO). Ohio Lottery employees are eligible to

participate in the plans available in their geographic area of residence or workplace. HMO claims are paid for by the respective HMO without transfer of risk to the State or the Ohio Lottery. Premiums are contracted individually between each HMO and the State of Ohio Benefits Trust Fund.

Budgetary Accounting and Control

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

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

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

The Ohio Lottery maintains budgetary control by not permitting the total expenditures to exceed appropriations without approval of the General Assembly, except for vouchered prize awards for which appropriation amendments may be approved by the Ohio Office of Budget and Management and unvouchered prize expenses which are not budgeted. Certain budget amendments were adopted during the year ended June 30, 2002.

Financial and Reporting for Proprietary Activities

The Ohio Lottery has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting" ("GASB 20"). The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Ohio Lottery has elected to apply Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, provided they do not contradict or conflict with GASB pronouncements. The Ohio Lottery will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

Estimates

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

Reclassifications

The Ohio Lottery prepares comparative financial statements. As a result, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Securities Lending

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

3. CHANGES IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2002, the Ohio Lottery has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" ("GASB 34"). GASB 34 creates new basic financial statements for reporting on the Ohio Lottery's financial activities. The financial statements now include a statement of net assets,

statement of revenues, expenses and changes in net assets, and a statement of cash flows all prepared on an accrual basis of accounting. As a result of implementing GASB No. 34, the Ohio Lottery has changed its method of accounting for workers' compensation coverage from a terminal-funding (pay-as-you-go) basis to an actuarially determined liability.

4. STATEMENT OF CASH FLOWS

In accordance with the provisions of GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting" ("GASB 9"), the Ohio Lottery has prepared a Statement of Cash Flows for the years ended June 30, 2003 and 2002. Cash equivalents include highly liquid investments with a maturity of 90 days or less from the date of purchase. The Ohio Lottery also considers Cash Equity with Treasurer of State to be a cash equivalent. Cash flows related to the payment of prize awards are accounted for as an operating activity.

5. CASH DEPOSITS AND INVESTMENTS

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

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities the face value of which is at least 110 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, 2003 the carrying amount of the Ohio Lottery's deposits was \$910,097 and the bank balance was \$932,974, the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$832,974 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board.

Investments

The Ohio Lottery's investments at June 30, 2003 are detailed below and are categorized to give an indication of the level of credit risk associated with the Ohio Lottery's custodial arrangements at year-end. Category 1 includes investments that are insured, registered, or held by the Ohio Lottery or its agent in the Ohio Lottery's name. Category 2 includes uninsured or unregistered investments held by the counterparty's trust department or its agent in the Ohio Lottery's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the Ohio Lottery or State's name.

Investments Categorized:	Category 1	Category 2	Category 3	Fair Value
U.S. Government and agency obligations	-	-	\$ 602,508,039	\$ 602,508,039
State and local government securities	-	-	-	-
Repurchase agreements	\$ 180,007,025	-	-	180,007,025
Commercial Paper	125,090,585	-	-	125,090,585
Corporate bonds and notes	37,039,404	-	-	37,039,404
	\$ 342,137,014	-	\$ 602,508,039	944,645,053
Investments not Categorized:				
Investments held by broker-dealers under security loans - U.S. government & agency obligations				357,906,770
Equity in State of Ohio common cash and investments account (including \$11,256,910 of securities lent)				33,669,688
Collateral on loaned securities - Ohio Lottery's rabble allocation of cash collateral received on securities loans made from the State of Ohio common cash and investments account				38,776,406
Investment in Treasurer of State investment pool (STAROhio)				127,183,839
Securities lending collateral - mutual funds				24,213,713
Total Investments				\$ 1,526,394,469

The equity in State of Ohio common cash and investments, collateral on loaned securities, investment in Treasurer of State investment pool (STAROhio), and mutual fund accounts have not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools' investments and deposits by credit risk may be found in the State of Ohio Comprehensive Annual Financial Report, for the fiscal year ended June 30, 2003. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB Statement No. 28.

The total carrying amount of deposits and investments, as of June 30, 2003 categorized and disclosed in this note is \$1,527,304,566. This amount can be reconciled to the statement of net assets as follows:

Unrestricted Assets:	Deposits	Investments	Total
Cash and Cash Equivalents	\$ 910,097	\$ 8,020,254	\$ 8,930,351
Cash Equity with Treasurer of State	-	17,016,127	17,016,127
Collateral on lent securities	-	7,393,858	7,393,858
Restricted Assets:			
Cash Equity with Treasurer of State	-	16,653,561	16,653,561
Dedicated investments	-	1,079,576,393	1,079,576,393
Collateral on lent securities	-	397,732,276	397,732,276
Total Carrying Amount per Statement of Net Assets	\$ 910,097	\$ 1,526,394,469	\$ 1,527,304,566

Securities Lending Transactions

The Ohio Lottery through the Treasurer of State's Investment Department participates in a securities lending program for securities included in the equity in State of Ohio common cash and investments and dedicated State of Ohio investment accounts. The lending program, authorized under Section 135.143, Ohio Revised Code, is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. The Ohio Lottery has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the lent securities are collateralized at no less than 102 percent of the market value.

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

During the fiscal year, the Treasurer lent U.S. government and agency obligations in exchange for collateral consisting of cash and/or U.S. government obligations. The Ohio Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2003 the collateral the Ohio Lottery had received for securities lent consisted entirely of cash, some of which had been temporarily invested by the Ohio Lottery in various securities. The Ohio Lottery invests cash collateral in short-term obligations, which have a weighted average maturity of 12 to 13 days and generally match the maturities of the securities loans at year-end. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 2003, 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 2003 due to prior-period losses.

6. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2003 and 2002 was as follows:

	2002	Increases	Decreases	2003
Equipment	\$ 77,532,803	\$ 508,740	\$ (431,278)	\$ 77,610,265
Vehicles	3,589,656	474,700	(578,217)	3,486,139
Total Capital Assets	81,122,459	983,440	(1,009,495)	81,096,404
Less Accumulated Depreciation:				
Equipment	(20,102,641)	(14,679,604)	392,796	(34,389,449)
Vehicles	(1,882,129)	(431,041)	483,160	(1,820,010)
Total Accumulated Depreciation	(21,984,770)	(15,110,645)	885,956	(36,209,459)
Net Capital Assets	\$ 59,137,689	\$ (1,127,205)	\$ (123,539)	\$ 44,886,945

	2001	Increases	Decreases	2002
Equipment Vehicles	\$ 12,734,353 3,697,676	\$ 69,711,979 372,849	\$ (4,913,529) (480,869)	\$ 77,532,803 3,589,656
Total Capital Assets	16,432,029	70,084,828	(5,394,388)	81,122,459
Less Accumulated Depreciation:	(9,444,495)	(15,026,741)	4,366,595	(20,102,641)
Equipment Vehicles	(1,802,092)	(492,090)	412,053	(1,882,129)
Total Accumulated Depreciation	(11,246,587)	(15,518,831)	4,780,648	(21,984,770)
Net Capital Assets	\$ 5,185,442	\$ 54,565,997	\$ (613,750)	\$ 59,137,689

The Ohio Lottery has entered into a capital lease for certain equipment. The assets and liabilities under the lease are recorded at the present value of the minimum lease payments. The carrying value of the capital lease assets are amortized over their estimated useful lives. In accordance with the Financial Accounting Standards Board (FASB) No. 13, the Ohio Lottery is required to disclose the following information regarding capital leases:

Capital Leases	2003	2002
Gross Assets and Accumulated Amortization		
Initial Carrying Value:		
Computer Equipment and Systems	\$ 69,431,073	\$ 69,569,343
Accumulated Amortization	(27,772,429)	(13,973,785)
Net Capital Leases	\$ 41,658,644	\$ 55,595,558
Capital Leases		
Future Minimum Lease Payments and Present Values of the Remaining Minimum Lease Payments		
Fiscal Year Ending June 30		Amount
2004		\$ 16,107,566
2005		16,107,566
2006		16,107,566
Total Minimum Lease Payments		48,322,698
Imputed Interest		(4,200,028)
Present Value of Remaining Minimum Lease Payments		\$ 44,122,672

On July 1, 2001, the Ohio Lottery entered into a contractual agreement with GTECH Corporation for gaming services and leased equipment. The length of the contract is two years, with three optional two-year renewals. In addition, the lease requires repayment over 60 months. The total cost of the equipment added as a result of the contract is \$69,431,073.

7. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2003 and 2002 consist of the following:

	2003	2002
Current portion - face amount	\$ 142,713,519	\$ 145,906,739
Less: Unamortized discount	(60,104,229)	(65,470,507)
Current portion - present value	82,609,290	79,836,232
Noncurrent portion - face amount	1,309,264,118	1,437,662,313
Less: Unamortized discount	(462,646,112)	(519,754,305)
Noncurrent portion - present value	846,616,006	918,108,008
Total Prize Awards Payable - Net of Discount	\$ 929,225,296	\$ 987,944,240

Interest rates used to determine the present values ranged from 4.0 percent to 11.69 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2003, is summarized as follows:

Fiscal Year Ending June 30	Amount
2004	\$ 142,713,519
2005	136,504,021
2006	127,726,009
2007	16,816,669
2008	10,689,689
2009 through 2013	349,279,905
2014 through 2018	302,376,540
2019 thereafter	177,370,118
Subtotal	1,451,977,637
Unamortized discount	(522,752,341)
Net Prize Liability	\$ 929,225,296

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, as nearly as is practicable, fifty percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$170 million and \$157 million for the years ended June 30, 2003 and 2002, respectively.

In May 1999 the Ohio Lottery adopted an Administrative Rule (3770-1-8-01) which allowed annuity prizewinners an opportunity to cash out their remaining deferred prize payments at a discounted lump sum. This rule was a temporary change to the Internal Revenue Code to allow discounted lump sum cash payments to be made to certain annuity prize winners without the constraints of "constructive receipt". The administrative rule was in effect through December 31, 2000. The Administrative Rule also allowed a discounted lump sum, cash settlement to estates and trusts of deceased prizewinners. This portion of the Administrative Rule does not expire. Special Gains on Early Extinguishment of Debt in the amount of \$11,351 and \$25,893 were recognized for the years ended June 30, 2003 and 2002, respectively.

8. OTHER LIABILITIES

The composition of other liabilities balances as of June 20, 2003 and 2002, is as follows:

	2003	2002
Accrued Payroll	\$ 898,803	\$ 615,862
Accrued Agent Bonuses	60,006	21,885
Accrued Workers Compensation - Current Portion	390,531	203,650
Compensated Absences - Current Portion	194,491	450,767

9. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2003 and 2002 was as follows:

	2002	Additions	Reductions	2003
Prize Awards Payable from Restricted Assets - Net of Discount	\$ 918,108,008	\$ 74,190,057	\$ (145,682,059)	\$ 846,616,006
Capital Lease Payable - Long-term	44,122,672	-	(13,836,600)	30,286,072
Accrued Workers Compensation	3,397,406	746,030	-	4,143,436
Compensated Absences	1,937,043	2,506,117	(2,281,047)	2,182,113
Total Noncurrent Liabilities	\$ 967,565,129	\$ 77,442,204	\$ (161,779,706)	\$ 883,227,627

	2001	Additions	Reductions	2002
Prize Awards Payable from Restricted Assets - Net of Discount	\$ 987,474,455	\$ 86,711,304	\$ (156,077,751)	\$ 918,108,008
Capital Lease Payable - Long-term	14,889	69,656,547	(25,548,764)	44,122,672
Accrued Workers Compensation	1,989,933	1,407,473	3,397,406	3,397,406
Compensated Absences	2,077,115	1,996,236	(2,136,308)	1,937,043
Total Noncurrent Liabilities	\$ 991,556,392	\$ 159,771,560	\$ (183,762,823)	\$ 967,565,129

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

10. PENSIONS - DEFINED BENEFIT PENSION PLAN

The Ohio Lottery contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent of their annual covered salary and the Ohio Lottery is required to contribute 13.31 percent of covered payroll. The Ohio Lottery's required contributions to PERS for the years ended June 30, 2003, 2002, and 2001 were \$2,336,362, \$2,314,248, and \$1,762,512 respectively, equal to the required contribution for each year.

11. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate for state employers was 13.31 percent of covered payroll of which 5.0 percent was the portion used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The following is a summary of assumptions:

- Actuarial Review - The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001.
- Funding Method - An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method - All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

- Investment Return - The investment assumption rate for 2001 was 8.0 percent.
- Active Employee Total Payroll - An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.5 percent to 6.3 percent.
- Health Care - Health care costs were assumed to increase 4.0 percent annually.

OPEB are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. In fiscal year 2003 and 2002, \$877,771 and \$747,733, respectively, of the Ohio Lottery's total contributions to OPERS were used for postemployment benefits. The actuarial value of the Retirement System's net assets available for OPEB was \$11.6 billion at December 31, 2001. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan. The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, like a Medical Spending Account.

12. LITIGATION

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

13. TRANSACTIONS WITH OTHER STATE ENTITIES

During the course of normal operations, the Ohio Lottery has numerous transactions with various other State entities. Total operating expenses recognized for services provided by other State agencies are summarized as follows for the years ended June 30, 2003 and 2002, respectively:

	2003	2002
Department of Administrative Services (DAS) Expenditures	\$ 269,603	\$ 259,373
Telecommunications	714,623	966,667
Computer	1,040,898	1,040,207
Rent	190,222	21,147
Printing	438,982	654,875
Miscellaneous		
Total DAS Expenditures	2,654,328	2,942,269
Total Transactions with other State Entities	772,154	664,644
	\$ 3,426,482	\$ 3,606,913

14. SUBSEQUENT EVENTS

In accordance with Amended Substitute House Bill 95, 125th General Assembly, the Unclaimed Prize Fund has been eliminated from the Ohio Lottery's fund structure commencing July 1, 2003. The Ohio Lottery will no longer be required to execute cash transfers equivalent to the prizes unclaimed after the cashing eligibility has expired. These funds will be accounted for within the Lottery Operating Fund and will be used to fund the prize structures and operating expenses of specialty games, as well as direct transfers to the Lottery Profits Education Fund. In order to liquidate the Unclaimed Prize Fund, the Office of Budget and Management executed a payment of \$7,500,000 to the Lottery Profits Education Reserve Fund on August 1, 2003, and transferred the remaining balance to the Lottery Operating Fund.

On November 19, 2003, the Ohio Supreme Court issued its decision not to accept the State ex rel. Ohio Roundtable v. Teltl appeal case for review. The original complaint challenged the constitutionality of the State's participation in Mega Millions. As a result, the decision issued in the Franklin County Court of Appeals will stand as final.

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP) BASIS AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

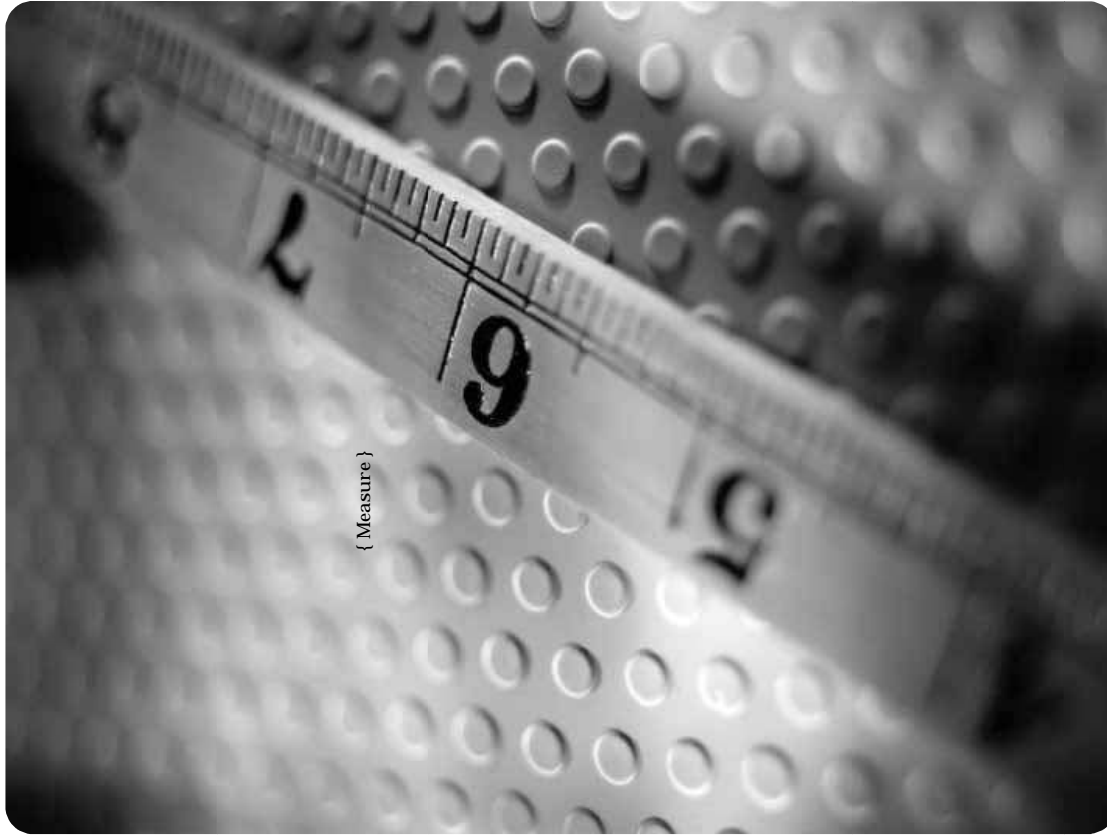
	Budgeted Amount	Actual	Variance with Budget Favorable (Unfavorable)
Revenues			
Ticket Sales	\$ 2,003,300,000	\$ 2,065,239,386	\$ 61,939,386
Other Revenue	62,353,075	110,451,394	48,098,319
Total Revenues	2,065,653,075	2,175,690,780	110,037,705
Expenses			
Personal Services	25,164,204	23,889,216	1,274,988
Maintenance	24,363,840	20,989,005	3,374,835
Equipment	3,664,576	3,132,765	531,811
Game and Advertising Contracts	64,624,331	63,849,746	774,585
Subsidiary	135,000,000	135,000,000	0
Prizes, Bonuses and Commissions	132,525,025	117,183,570	15,341,455
Amnity Prizes	188,275,981	145,682,058	42,593,923
Unclaimed Prize Awards	13,354,976	8,468,165	4,886,811
Payments to Lottery Profits Education Fund	637,700,000	641,352,000	(3,652,000)
Total Expenses	1,090,015,043	1,024,639,329	65,375,714
Excess of Revenues over Expenses	\$ 975,638,032	\$ 1,151,051,451	\$ 175,413,419
The following table summarizes the adjustments necessary to reconcile the Change in Net Assets to the Excess of Revenues over Expenses:			
Change in Net Assets		\$ 66,610,880	
Prizes Redeemed at Agent Locations	936,859,280		
Agent Bonuses and Commissions	137,030,403		
Depreciation	15,110,645		
Provision of Discount of Prize Liabilities	66,610,880		
Interest Expense - Bonuses/Rebates	5,739,610		
Interest Expense - Capital Leases	3,075,047		
Securities Lending Agent Fees	87,676		
Loss on Equipment Disposal	(43,200,000)		
Increase in Fair Value of Investments	67,115		
Encumbrances	(21,395,089)		
Net Adjustments for Revenue and Expense Accruals	(17,862,867)		
Special Gain on Early Extinguishment of Debt	(11,351)		
Excess of Revenues over Expenses		\$ 1,151,051,451	

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{ Statistical Section }

MEASURING UP TO OHIO'S EXPECTATIONS

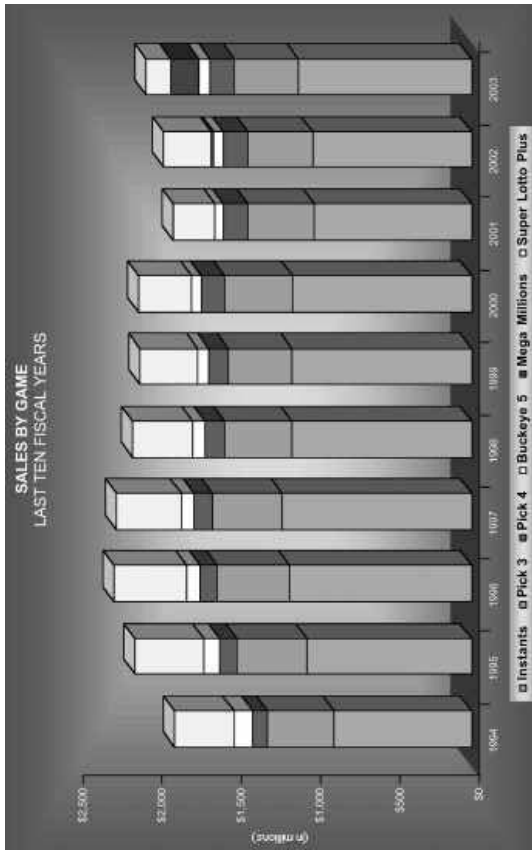
The amount of money the Ohio Lottery provides to public education in Ohio is significant. In 2002, the Ohio Lottery provided 4.4% of the \$14.5 billion that funded primary, secondary, vocational and special education. That is more than \$3.5 million per school day for education and equates to approximately \$350 annually per public school child.



REVENUES - LAST TEN FISCAL YEARS (in Millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
ON-LINE GAMES										
PICK 3	\$421.0	\$446.2	\$456.6	\$435.6	\$421.1	\$399.4	\$427.3	\$419.0	\$409.2	\$401.8
PICK 4	91.9	102.1	106.2	116.5	124.0	125.1	144.6	150.7	154.6	154.2
PICK 5	11.9	13.3	14.3	15.3	16.3	17.3	18.3	19.3	20.3	21.3
BUCKEYE 5	370.6	437.8	456.8	410.6	384.9	364.4	336.6	282.5	237.9	180.7
SUPER LOTTO PLUS (1)	-	-	-	-	-	-	-	-	-	-
KICKER	54.3	63.3	66.7	63.5	60.5	57.2	52.9	42.9	45.0	27.3
MEGAMILLIONS	-	-	-	-	-	-	-	-	-	-
TOTAL ON-LINE GAMES	1,056.0	1,148.7	1,168.6	1,105.0	1,064.0	1,016.0	1,023.6	931.6	985.6	989.1
INSTANT GAMES (2)	863.9	1,032.6	1,146.1	1,185.0	1,131.8	1,128.7	1,126.8	988.3	897.5	1,089.1
TOTAL TICKET SALES	1,919.9	2,182.3	2,314.7	2,300.0	2,195.8	2,144.7	2,150.4	1,919.9	1,983.1	2,078.2
INTEREST INCOME/ OTHER REVENUE	115.3	86.1	140.9	163.3	230.4	127.3	79.2	180.2	124.1	153.7
TOTAL REVENUES	\$2,035.2	\$2,268.4	\$2,455.6	\$2,463.3	\$2,426.2	\$2,272.0	\$2,229.6	\$2,100.1	\$2,107.2	\$2,231.9

(1) In July 2000, the Super Lotto game was changed to Super Lotto Plus and the matrix was changed to 6/49.
 (2) FY 96/FY 03 Instant tickets are reported net of free tickets. In prior years, the amount of free tickets issued was recorded in ticket sales.

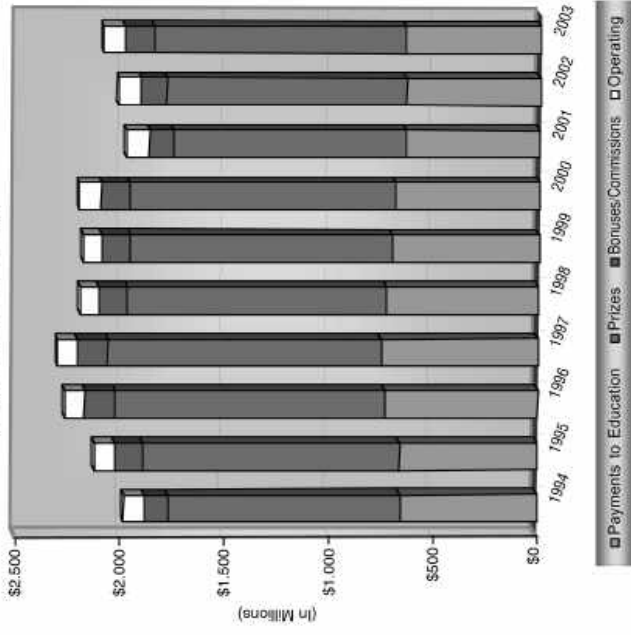


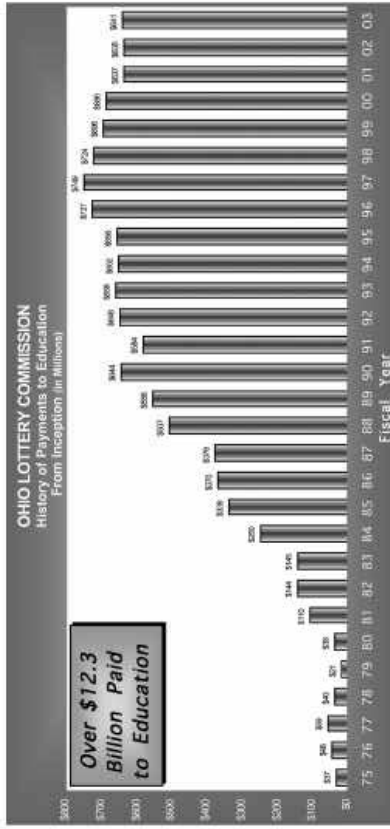
EXPENSES AND PAYMENTS TO EDUCATION - LAST TEN FISCAL YEARS (in Millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
PRIZE EXPENSE	1,115.0	1,236.8	1,297.6	1,312.2	1,244.7	1,259.8	1,275.0	1,112.8	1,148.1	1,208.2
BONUSES / COMMISSIONS	116.9	133.4	145.6	144.7	137.8	134.6	135.0	120.2	126.6	137.0
OPERATING EXPENSES	97.3	94.4	91.8	92.7	86.5	88.9	103.9	107.8	103.3	100.8
TOTAL EXPENSES	1,329.2	1,464.6	1,535.0	1,549.6	1,469.0	1,483.3	1,513.9	1,340.8	1,378.0	1,446.0
PAYMENTS TO EDUCATION	\$652.3	\$656.4	\$726.5	\$748.5	\$723.8	\$696.3	\$696.0	\$637.0	\$635.2	\$641.4

(1) Prize Expenses for FY'96 - FY'03 are reported net of free tickets. In prior years, the amount of free tickets issued was recorded in prize expense.

Operating Related Expenses and Payments to Education Last Ten Fiscal Years





U.S. LOTTERY SALES (1)

Ranked by Sales
Fiscal Year 2002 (2)

Lottery	Population (1) (in millions)	Ticket Sales (in millions)	Per Capita Sales
1 New York	19.2	4,753.62	\$248
2 Massachusetts	6.4	4,193.83	\$652
3 Texas	21.8	2,966.26	\$136
4 California	35.1	2,896.37	\$82
5 Florida	16.7	2,330.37	\$139
6 Georgia	8.6	2,321.95	\$271
7 New Jersey	8.6	2,068.51	\$241
8 OHIO	11.4	1,983.10	\$174
9 Pennsylvania	12.3	1,934.16	\$157
10 Michigan	10.1	1,688.06	\$168
11 Illinois	12.8	1,566.67	\$124
12 Maryland	5.5	1,306.54	\$239
13 Virginia	7.3	1,108.07	\$152
14 Connecticut	3.5	907.90	\$262
15 Kentucky	4.1	638.73	\$156
16 Indiana	6.2	626.31	\$102
17 Missouri	5.7	585.19	\$103
18 Washington	6.1	438.60	\$72
19 Wisconsin	5.4	427.55	\$79
20 Colorado	4.5	407.97	\$91
21 Minnesota	5.0	377.13	\$75
22 Oregon (3)	3.5	336.86	\$96
23 South Carolina	4.1	335.49	\$82
24 Louisiana	4.5	311.62	\$70
25 Arizona	5.5	294.82	\$54
26 Rhode Island (3)	1.1	235.65	\$220
27 New Hampshire	1.3	212.83	\$167
28 District of Columbia	0.6	211.15	\$370
29 West Virginia (3)	1.8	206.90	\$115
30 Kansas	2.7	190.08	\$70
31 Iowa	2.9	181.31	\$62
32 Maine	1.3	157.91	\$122
33 New Mexico	1.9	133.97	\$72
34 Delaware (3)	0.8	117.22	\$145
35 Idaho	1.3	92.67	\$69
36 Vermont	0.6	81.98	\$133
37 Nebraska	1.7	73.96	\$43
38 Montana	0.9	33.63	\$37
39 South Dakota (3)	0.8	26.28	\$35

(1) La Fleur's 2003 World Lottery Almanac
 (2) Fiscal Year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (September 30).
 (3) This data represents only revenue from traditional lottery games and does not include video lottery terminal (VLT) operations.



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Betty Montgomery**

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Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

OHIO LOTTERY COMMISSION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 20, 2004**