



Mary Taylor, CPA
Auditor of State

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY

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Mary Taylor, CPA

Auditor of State

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

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

To the Commissioners:

We have audited the financial statements of the business-type activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio (the Lottery) as of and for the year ended June 30, 2010, which collectively comprise the Lottery's basic financial statements and have issued our report thereon dated October 1, 2010. The prior year comparative information has been derived from the Lottery's 2009 financial statements and, in our report dated November 13, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Lottery's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Lottery's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Lottery's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Lottery's management in a separate letter dated October 1, 2010.

We intend this report solely for the information and use of management, the audit committee, the Commission and others within the Lottery. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

October 1, 2010



THE OHIO LOTTERY

An Enterprise Fund
of the State of Ohio

Comprehensive Annual
Financial Report for the
Fiscal Years Ended
June 30, 2010 and 2009

**The
Ohio Lottery
works in Ohio,
injecting
millions of
dollars into
Ohio's economy.**

OH!
LOTTERY®

The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2010 and 2009

Prepared by the
Ohio Lottery Office of Finance

Ted Strickland, Governor
Kathleen B. Burke, Executive Director
Allan C. Krulak, Commission Chairperson
Dennis R. Berg, CPA, CFE, Assistant Director and Deputy Director of Finance



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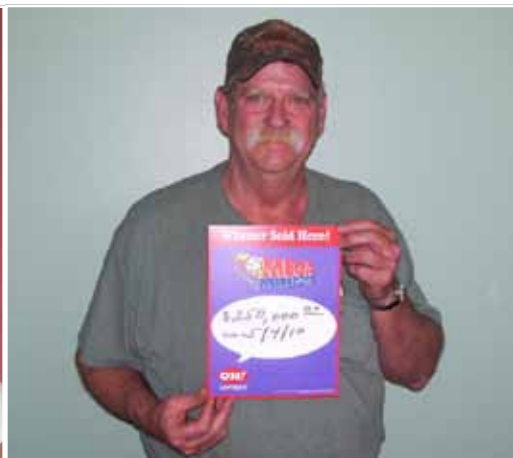
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WINNERS ARE EVERYWHERE

Our winners are the heart of our games, as well as economic engines for their communities. More than \$1.5 billion was awarded to Lottery players in the form of cash prizes, which translates into revenue through state and local income taxes.





INTRODUCTORY SECTION





THE OHIO LOTTERY COMMISSION
615 West Superior Avenue
Cleveland, Ohio 44113-1879
1-800-686-4208

October 1, 2010

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

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Ohio Lottery Commission (the Ohio Lottery) for the fiscal year ended June 30, 2010. The Office of Finance of the Ohio Lottery has prepared this report in accordance with Generally Accepted Accounting Principles (GAAP). The Ohio Lottery, an agency of the State of Ohio (the State), was created in July 1974 and is operated as a business enterprise within the framework of the State's laws and regulations. The Ohio Lottery's mission is to maximize revenues to provide funds for the educational system of the State by offering dignified games of chance to the public at large.

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

BACKGROUND

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

To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Ticket sales increased significantly in the early 1990s. As of September 30, 2010, 43 U.S. States, the District of Columbia and the U.S. Virgin Islands operate lotteries using computer-based online games and instant "scratch off" games.

ECONOMIC OUTLOOK

Over the past year, the economy of the United States experienced some improvement, due in large part to the American Recovery and Reinvestment Act, which provided citizens with tax breaks and homebuyer credits. This Act helped stimulate the economy that had just undergone its worst year since the Great Depression. Furthermore, in April and May of 2010, all twelve regions of the Federal Reserve System grew economically, which has not happened since October 2007. Despite these improvements, the country did not see much of a change in the unemployment rate, which was at 9.6 percent in August of 2010, compared to 9.8 percent in September of 2009.

During the third and fourth quarter of fiscal year 2010, the Gross Domestic Product (GDP) increased at an annual rate of 3.7 percent and 1.6 percent respectively. This reflected a drop in quarterly increase compared to the 5.6 percent annual increase in the second quarter of fiscal year 2010. This growth can be attributed to increased consumer consumption and business spending. Despite the increase, the United States is projected to confront more economic challenges in the near future. The fiscal deficit in 2011 is projected to reach 10.6 percent of GDP.

Fiscal year 2010 was also an improvement economically in Ohio. Auto sales were down during fiscal year 2009, but the Cash-for-Clunkers program generated a government estimated 677,000 new car sales throughout the nation during the first quarter of fiscal year 2010. The auto industry is projected to sell over 11.5 million cars nationwide during 2010, which is an increase over 2009. Due to the increased sales, big car manufacturers rehired some of the workers that they previously were forced to lay off. In April 2010, Ohio led the nation by creating 37,300 new jobs, which can be attributed in part to the increased car sales. This is an improvement from 2009 when 11 out of the 12 months resulted in a loss of jobs. More specifically, the Michigan-based Center for Automotive Research claims Michigan and Ohio combined generated 11,000 new jobs due to the Cash-for-Clunkers program. However, this recent job gain has caused only a .5 percent drop in the unemployment rate for Ohio, from 10.8 percent in December of 2009 to 10.3 percent in July of 2010.

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

Despite the weak economy, fiscal year 2010 marks the ninth consecutive year of sales growth for the Ohio Lottery. Sales increased 3.0 percent from fiscal year 2009 to fiscal year 2010. The Ohio Lottery has taken strategic measures over the past years to keep its products fresh in an effort to maintain player interest. Additionally, as consumers scale back on discretionary spending, Ohio Lottery games offer an affordable entertainment alternative.

LOTTERY PRODUCTS

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

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



PICK 3 was Ohio's first online game. Players select a three-digit number from 000 to 999 and can play the numbers straight (numbers in exact order), boxed (numbers in any order) or as backup bets (players can win either or both ways). A wheel wager can also be placed. This wager is, in essence, equivalent to a straight bet being made for each number combination. Pick 3 sales for fiscal year 2010 were \$366.7 million, or 14.7 percent of total Ohio Lottery sales.



PICK 4 is played similarly to Pick 3. Players select a four-digit number from 0000 to 9999 and may play it straight, boxed or in back-up bets. Sales for fiscal year 2010 were \$201.3 million, or 8.1 percent of total Ohio Lottery sales. Both Pick 3 and Pick 4 are drawn midday and evenings Sunday through Saturday.



ROLLING CASH 5 is an online game in which players select five numbers from a pool of 1 to 39, with overall odds of winning any prize of 1 in 9. The top prize starts at \$100,000 and increases if not won. Sales for fiscal year 2010 were \$67.1 million, or 2.7 percent of total Ohio Lottery sales. Drawings are held Sunday through Saturday evenings.



CLASSIC LOTTO is an online game in which players select six numbers from a pool of 1 to 49. To win the jackpot, all six numbers must be matched. The jackpot starts at \$1 million and increases if not won. Drawings are held on Monday, Wednesday, and Saturday evenings. Classic Lotto sales for fiscal year 2010 were \$42.8 million, or 1.7 percent of total Ohio Lottery sales.



RAFFLE was introduced to the Ohio Lottery's players for the first time in fiscal year 2007. The game is similar to a traditional 50-50 raffle, with players purchasing a single ticket for \$20. The tickets, which have a six-digit number, are sold in sequential order. Prizes range from \$100 to \$1,000,000. The sales period for raffles is targeted for a set period of time, followed by the drawing. Sales for fiscal year 2010 were \$9.1 million or 0.4 percent of total Ohio Lottery sales.



KICKER is an online game, with a top prize of \$100,000, which can only be purchased along with Mega Millions. To win you must match in exact order from left to right, the computer generated six-digit Kicker number printed on each Mega Millions ticket. Prizes are also awarded for 5 of 6, 4 of 6, 3 of 6, and 2 of 6 matches. Kicker sales are materially impacted by the sales volume of Mega Millions. Sales for fiscal year 2010 were \$24.1 million, or 1.0 percent of total Ohio Lottery sales.



MEGA MILLIONS is a multi-state, online game. For each wager, players select five numbers from a pool of 1 to 56 and select one Mega ball number from a second pool of 1 to 46. To win the jackpot, all six numbers must be matched. The jackpot starts at \$12 million and increases if not won. Drawings are held on Tuesday and Friday evenings. Mega Millions sales for fiscal year 2010 were \$215.8 million, or 8.7 percent of total Ohio Lottery sales.



EZ PLAY is a game that was introduced in Ohio in April 2008. EZPlay is a hybrid instant/online game. EZPlay combines the instant win experience with an online game component. The player purchases an online ticket that is made up of two sections, a draw section followed by a play section. Players then match the two sections to determine if they are a winner. Game themes and ticket selling prices can be changed easily to keep the product line fresh. Sales for fiscal year 2010 were \$30.4 million, or 1.2 percent of total Ohio Lottery sales.



TEN-OH! is an online game which was introduced in August 2007. Ten-OH! is a pick 10 draw game in which players can win a top prize of \$500,000 by matching 10 of 20 numbers drawn. There are six other prizes including \$3 for matching none of the 20 numbers drawn. Drawings are held both midday and evenings on Sunday through Saturday. Sales for fiscal year 2010 were \$9.7 million, or 0.4 percent of total Ohio Lottery sales.



KENO is an online game that debuted in Ohio in August 2008. Currently KENO is offered to retailers who hold a Class D liquor permit with on-site consumption in age and time controlled environments. KENO is a draw game in which players choose from 1 to 10 numbers (also called spots) for a top prize of \$100,000 by matching 10 of 20 numbers drawn. The drawings are held every day starting at 6:04 a.m. and occur every four minutes, ending at 2:28 a.m. Booster was introduced by the Ohio Lottery in February 2010. Players may select the Booster option for a chance to increase their winnings at the cost is \$1 for each dollar wagered on KENO. The Booster number drawn can be 1, 2, 3, 4, 5, or 10 and can increase winnings 2X, 3X, 4X, 5X or 10X. Combined KENO/Booster sales for fiscal year 2010 were \$120.6 million, or 4.8 percent of total Ohio Lottery sales.



POWERBALL is a multi-state, online game launched in Ohio in April 2010. For each wager, players select five numbers from a pool of 1 to 59 and select one Powerball number from a second pool of 1 to 39. To win the jackpot, all six numbers must be matched. The jackpot starts at \$20 million and increases if not won. Drawings are held on Wednesday and Saturday evenings. Players may select the Power Play option for a chance to increase their winnings by 2X, 3X, 4X, 5X, depending on the Power Play number drawn. Power Play multiplies the winnings by the number drawn for prizes up to \$10,000. On occasion a 10X promotion is run which, if drawn, will multiply the prizes 10 times. If a player selects the Power Play option and then matches all five numbers but not the Powerball, the prize is automatically \$1.0 million. Combined Powerball/Power Play sales for fiscal year 2010 were \$23.6 million or 0.9 percent of total Ohio Lottery sales.

INSTANT GAMES are played by scratching the latex covering off a play area to reveal pre-printed combinations. There are different ways to win in an instant or “scratch off” game, such as matching three like dollar amounts, symbols or letters. If the correct combinations appear, the player becomes an “instant winner” and may immediately submit a claim to cash the ticket. Instant games have been the Ohio Lottery’s dominant product since fiscal year 1997. For fiscal year 2010, instant game sales of \$1.4 billion increased \$29.6 million or 2.2 percent from the previous fiscal year and represented 55.4 percent of total ticket sales. The Ohio Lottery has successfully sold instant games at the \$1, \$2, \$3, \$5, \$10, and \$20 price points. The Ohio Lottery continues to feature several “spotlight” instant games, which are games sold at the \$10 and \$20 price points with attractive, higher prize payouts.

ACCOMPLISHMENTS

The Ohio Lottery profits were specifically designated by constitutional amendment in 1987 to fund the State’s public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2010, the Ohio Lottery reached a significant milestone by setting an all-time fiscal year sales record of \$2.5 billion. The Ohio Lottery transferred \$728.6 million to the LPEF, making this the second highest profit transfer in the Lottery’s 36 year history and surpassed transfers made the prior year by \$26.3 million. This transfer brought the total funding the Ohio Lottery has provided in support of the State’s public education system more than \$17.0 billion since its inception in 1974. Additionally, several other milestones were achieved during fiscal year 2010. These include:

- The Ohio Lottery began selling Powerball and Power Play in April of 2010. The Ohio Lottery celebrated the launch of Powerball with a winning jackpot ticket sold in Ohio for the drawing of June 2, 2010. The jackpot was worth \$261.6 million. On June 23, 2010 Ohio celebrated its second win when one of two winning tickets was sold in Ohio splitting a \$97 million jackpot. Both jackpots were claimed in July 2010 and the cash option was chosen, thus the State of Ohio will receive tax withholdings of nearly \$9.6 million associated with these prizes.
- Several initiatives were instituted in this fiscal year to bolster the sales of KENO. In January of 2010, to stimulate the recruitment of new KENO retailers, the Ohio Lottery rolled out a re-launch campaign. The campaign included intense sales training for all Lottery sales staff, a statewide, direct mail lead-generation campaign, sales conversion tools and new point-of-sale materials. The program has been successful in generating qualified leads with the goal of licensing additional KENO retailers. In February 2010, the Ohio Lottery introduced Booster, which allows players to take a chance to increase their winnings by multiples of 2X, 3X, 4X, 5X and 10X. The Ohio Lottery also extended KENO hours of play to be in alignment with liquor permit holders’ hours of operation. During fiscal year 2010, the Ohio Lottery deployed Intralot Coronis MP machines to enhance the sales of KENO. KENO retailers have the option to receive an MP machine, which is a self-service device designed for KENO establishments. The MP machine allows players to place wagers without the help of retailer staff for all Ohio Lottery online games. The Ohio Lottery will continue to deploy these machines in fiscal year 2011.
- On July 1, 2009, the Ohio Lottery successfully completed its conversion to a new gaming system vendor, Intralot USA. The contract award is for two years with up to four two-year renewals. The Ohio Lottery is projected to save upwards of \$200 million over a ten-year period under the new contract as compared with the preceding contract. Expected savings result from lower commission rates paid to the gaming system vendor, savings on communication services and the bundling of ticket dispensing and player activated equipment. The new gaming system replaced all existing gaming equipment, including terminals, printers, ticket checkers and communications protocols. Additionally, the Auditor of State recognized in their Performance Audit Report dated August 31, 2010 that the Ohio Lottery’s gaming system conversion was a “Noteworthy Accomplishment” as no significant disruptions to the statewide sale of lottery tickets occurred, especially when considering the complexity of such a large conversion.
- During fiscal year 2010, the Ohio Lottery initiated the Retailer Compliance Inspection Program. This statewide program, developed by the Ohio Lottery and executed with local law enforcement authorities, is designed to protect Ohio Lottery customers by ensuring that winning tickets are not wrongfully claimed by retailers or their employees without payment to the customers.
- The Partners in Education program completed its third year honoring outstanding K-12 students and teachers from around the state as Academic All Stars and Teachers of the Month, respectively. The Ohio Lottery encourages nominations from all over Ohio for the Academic All Star and Teacher of the Month awards. A total of 80 schools statewide participated with nominations and were represented in a drawing for School of the Year in May 2010.
- The Ohio Lottery offered to pay the materials and enrollment fee for any school entering the Scripps National Spelling Bee. Approximately 1,641 schools took advantage of the Ohio Lottery’s support for entry to this prestigious national event this past year. The event is held annually in March.
- A Winners Campaign launched in March 2010, with multi-media advertising that drives audiences to a dedicated website – ohiolottery.com/winners. The Winners Campaign leverages one of the Lottery’s most abundant assets, its winners, in a branding effort to raise awareness and stimulate play by showing real winners telling their stories as proof that the Ohio Lottery averages millions of winners every week. In June 2010, winners were able to upload their own winner stories to the site, marking the beginning of the first-ever Ohio Lottery social network.
- During fiscal year 2010, the Ohio Lottery, in conjunction with the Ohio Attorney General and the Ohio Department of Job and Family Services, recovered a total of \$635,102 from 334 prize winners who owed either state debt or child support.
- Since May 2002, when Ohio began participating in the Mega Millions game, Ohio has had 14 jackpot winners representing advertised jackpots of more than \$1.6 billion. The State of Ohio benefits each time a jackpot winner is drawn in Ohio since state income taxes are withheld from the prize winner’s gross proceeds. Since the inception of Mega Millions, state tax withholdings for jackpot prize winners have totaled \$40.8 million.
- The Ohio Lottery is committed to responsible gaming awareness in the community and its social awareness programs and funding levels have been recognized by industry leaders. The Ohio Lottery provides funding for the Ohio Department of Alcohol and Drug Addiction Services, which in turn contracts with specialized agencies to provide training of counselors and outpatient treatment of problem gambling. The Lottery also provides funding for hotline services, which are provided by the Louisiana Association on Compulsive Gambling.

- The employees of the Ohio Lottery are very active in the philanthropic community. Each year, employees participate in several events, some of which are:
 - Combined Charitable Campaign
 - Harvest for Hunger
 - Domestic Violence Women’s Shelter
 - Haiti Relief
 - Operation Feed Campaign
- In an effort to promote a healthy and productive workforce, Ohio Lottery employees participated in numerous health and wellness awareness programs, along with free health screenings and fitness health walks throughout the year. The health programs are designed to empower employees and encourage positive living habits, which in turn, help to create a productive workforce. The positive momentum and general acceptance by the Ohio Lottery’s associates has continued into fiscal year 2011. Lastly, certain health initiative programs are designed to actually reward employees monetarily as a direct result of their participation.
- The Ohio Lottery has made a concerted effort to be responsible and safeguard the environment by “Going Green.” The Ohio Lottery has downsized its vehicles in both size and number, resulting in better fuel efficiency and reduced repair costs.
 - Mini vans make up 81.2 percent of the fleet.
 - Flex fuel vehicles make up 61.1 percent of the fleet.
- The Ohio Lottery is also participating in a State-sponsored recycling program. In fiscal year 2010, the Ohio Lottery recycled paper, plastic and aluminum cans.

FUTURE PROJECTS

The Ohio Lottery continues to develop new ways to enhance its current product offerings and maximize operational efficiency and effectiveness. In fiscal year 2011, the Ohio Lottery’s energies are being concentrated on the following projects:

- The Ohio Lottery has begun taking initial steps in the development of an agency-wide strategic plan. As such, the plan will help the agency streamline its operations and identify new market opportunities through the development of appealing lottery products. Components of the plan shall enable the agency to more effectively assess the current environment, respond to changes, and align resources in support of our goals.
- As the lottery games available in the industry evolve, the Ohio Lottery will continue to evaluate available game options and prize matrices. The Ohio Lottery plans to benchmark Ohio’s sales results against peer lottery states and review best practices in an effort to optimize Ohio’s catalog of products. From time to time during the fiscal year, the Ohio Lottery plans to adjust both its instant ticket and online gaming product mix as necessary. Collaboration with the Ohio Lottery’s primary instant ticket and online gaming vendors will enhance the Ohio Lottery’s research and benchmarking efforts.
- The Ohio Lottery plans to enhance the number of promotional offerings available to the public. Industry practices support the need for retailers to implement on-going promotional programs to stimulate the public’s interest in the products being offered. There are numerous promotional opportunities the Ohio Lottery plans to offer over the course of the fiscal year.
- The Ohio Lottery, in conjunction with the North American Association of State and Provincial Lotteries, strives to create best practice standards and initiatives within the industry. In fiscal year 2011, the Ohio Lottery will continue to streamline processes, promote industry best practices and adopt common technology protocols.
- Planning is underway for the Ohio Lottery to launch Megaplier in the second half of fiscal year 2011. Megaplier is played in conjunction with Mega Millions and allows a player the chance to increase their winnings at the cost of \$1 for each dollar wagered on Mega Millions. The Megaplier number drawn can be 2, 3, or 4 and can increase prize tier winnings 3 thru 9 by multiples 2X, 3X, or 4X. If a player chooses the Megaplier feature and then matches all five numbers but not the Mega Ball, the prize will automatically be \$1.0 million.
- The Ohio Lottery created a Social Media program in fiscal year 2010. This program will expand to include blogging, interactive micro-sites, Twitter as well as a Player/Winners VIP club. Social Media will also be used to support promotions and game launches.
- Planning has begun for the design and construction of a comprehensive new Ohio Lottery web site that will utilize advanced online technologies to allow the Ohio Lottery to better serve its player base, retailers and the public. The site should be completed within 18 months of site design and architecture approval.
- The Ohio Lottery instituted a retailer pilot program in October 2009 for the purpose of growing sales. The program included a number of merchandising and signage enhancements that focused on creating an Ohio Lottery “store within a store” concept. Participating retailers attended a seminar to better understand how improved product mix, extra point-of-sale material, jackpot awareness programs, second chance drawings and play centers contribute to increased revenues. The Lottery plans to take forward several of the program’s successful concepts into fiscal year 2011 and beyond. Plans are being set to introduce specialized merchandising training programs tailored for the Ohio Lottery’s sales force, along with the acquisition of premium sales support and merchandising items, including improved signage.

ACCOUNTING SYSTEMS AND POLICIES

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

The Ohio Lottery's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of the Ohio Lottery are included in the statement of net assets. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. A narrative overview and analysis of the Ohio Lottery's financial activities for the fiscal year ended June 30, 2010 may be found in Management's Discussion and Analysis in the financial section of this document.

BUDGETARY CONTROL

Budgetary control for all state agencies is maintained through legislative appropriations and the executive branch allotment. The budget includes all costs to operate the Ohio Lottery with the exception of certain prizes paid to winners and all commissions paid to retailers. Prizes and commissions are funded through the sale of lottery tickets and are not included as part of the biennial budget submitted for approval. An encumbrance system is utilized, whereby purchase orders reserve portions of applicable appropriations. The appropriations and the amounts expended within the Ohio Lottery's funds are monitored by State of Ohio Office of Budget and Management. The adopted budget is divided among the operating offices at the Ohio Lottery, which have responsibility for delivery of service. These offices control the funds within their program. The Finance Office monitors all accounts via the Ohio Administrative Knowledge System (OAKS) and its accounting reporting system, Solomon. Additionally, the Ohio Lottery prepares periodic revisions to project revenue and expenditure trends and implements any changes necessary to keep both within appropriation and internal management targets set by the Director.

INTERNAL CONTROL ENVIRONMENT

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

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

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

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

FINANCIAL INFORMATION

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

DEBT ADMINISTRATION

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

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its CAFR for the fiscal year ended June 30, 2009. This was the thirteenth consecutive year that the Ohio Lottery has received this prestigious award. To qualify for the Certificate of Achievement Award, the Ohio Lottery published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

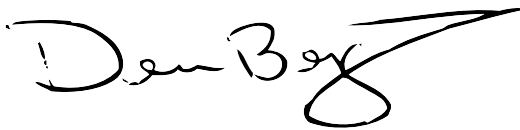
INDEPENDENT AUDIT

Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audit of the Ohio Lottery. The Ohio Lottery's financial statements audit for fiscal year 2010 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 was made possible by the efficient and dedicated efforts of our employees. A special note of thanks is given to the General Accounting Bureau comprised of Mike Popadiuk, Anna Callas, Jane Parker, Joe Angelillo and to the entire finance staff. Thanks to Michael M. Bycko, Visual Communications Manager, for the layout and graphics support of this publication. Publishing this Comprehensive Annual Financial Report reflects our commitment to meet the highest standards of accountability. The Ohio Lottery intends to continually improve financial management and clearly communicate its financial story. It is important for the public to know that the Ohio Lottery's financial condition is properly reported, including payments made to education. Credit is due to Commission Chair Allan C. Krulak and the members of the Ohio Lottery Board of Commissioners for their commitment to operating the Ohio Lottery in a responsible and progressive manner.

Respectfully Submitted,



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



Kathleen B. Burke
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, 2009

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Executive Director

OHIO LOTTERY COMMISSION
STRUCTURE OF ORGANIZATION • FISCAL YEAR 2010



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COMMISSIONER
Term Ends 8/1/10

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COMMISSIONER
Term Ends 8/1/10

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COMMISSIONER
Term Ends 8/1/11

Erskine E. Cade
COMMISSIONER
Term Ends 8/1/11

Matthew R. Cox
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Term Ends 8/1/11

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Term Ends 8/1/12

Patrick McDonald
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Term Ends 8/1/10

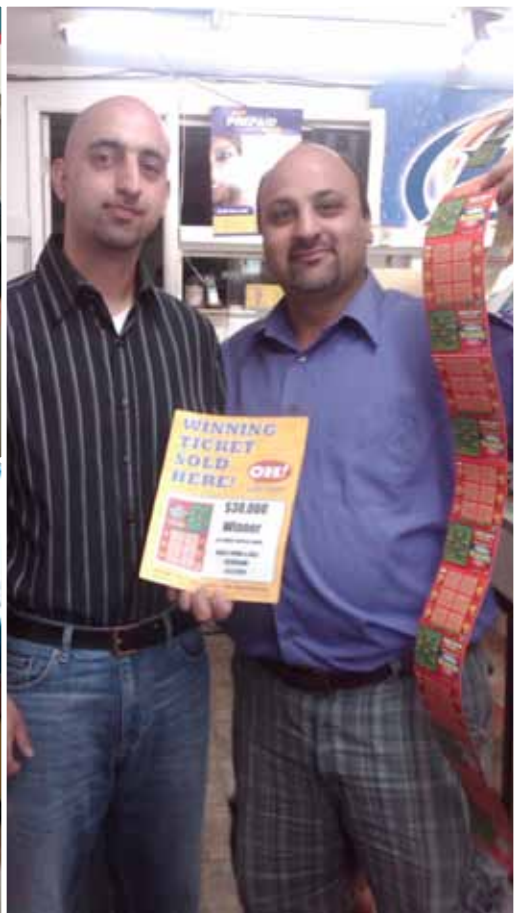




THOUSANDS OF POINTS OF ECONOMIC DEVELOPMENT

During Fiscal Year 2010, the Ohio Lottery partnered with more than 8,770 retailers across Ohio. This partnership brings a reliable revenue stream to these businesses, of which a vast majority are family or independently-run establishments.





FINANCIAL SECTION





Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Commissioners:

We have audited the accompanying financial statements of the business-type activities and each major fund of Ohio Lottery Commission, Cuyahoga County, Ohio (the Lottery), as of and for the year ended June 30, 2010, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Lottery's 2009 financial statements and, in our report dated November 13, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

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

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and each major fund of the State of Ohio that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2010, 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.

The financial statements include prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Lottery's financial statements for the year ended June 30, 2009, from which such comparative information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2010, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Lottery's basic financial statements. The introductory section and statistical tables provide additional information and are not a required part of the basic financial statements. 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.

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

Mary Taylor, CPA
Auditor of State

October 1, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Ohio Lottery Commission (the Ohio Lottery), we offer readers of the Ohio Lottery's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6 – 11 of this report, and the financial statements which begin on page 24.

FINANCIAL HIGHLIGHTS

- The Ohio Lottery's net assets increased \$29.9 million, or 21.6 percent, as a result of this year's operations, predominantly due to the Government Accounting Standards Board (GASB) adjustments directly related to the investment portfolio. These adjustments reflect an increase in the fair market value of the Ohio Lottery's investments.
- Ticket sales increased \$72.5 million, or 3.0 percent, over last fiscal year, resulting in record sales of \$2.5 billion. The increase in sales can be attributed in part to the introduction of a new online product.
- Online sales increased \$42.9 million, or 4.0 percent. In fiscal year 2010, the Ohio Lottery introduced the multi – state game Powerball/ Power Play, which contributed \$23.6 million toward online game sales. KENO, which benefited from a full twelve months of sales and the addition of Booster, together contributed \$120.6 million.
- Instant ticket sales increased \$29.6 million, or 2.2 percent, from last year.
- Prize expense increased \$54.7 million for fiscal year 2010, primarily due to higher sales volume. Total prize expense for fiscal year 2010 represented 60.8 percent of total ticket sales compared to 60.3 percent in fiscal year 2009. The increase in prize percentage payout is a combination of higher online prize payouts of core games and new games with higher prize payout designs, as well as higher instant ticket prize payouts.
- Operating expenses decreased by \$14.9 million, mainly due to savings realized from the new gaming contract.
- The Ohio Lottery transferred \$728.6 million to the Lottery Profits Education Fund (LPEF) in 2010, \$26.3 million more than the 2009 transfer amount.

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 statement of net assets, statement of revenues, expenses and changes in fund net assets, statement of cash flows, as well as the notes to the basic financial statements, which disclose detailed information within the financial statements.

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

LOTTERY OPERATING FUND

- Revenues for this fund are provided primarily from ticket sales. Expenses of this fund represent primarily prize expenses (including cash transfers to the Deferred Prize Fund), operating expenses and transfers to the LPEF. Also included in this fund is activity associated with the Charitable Gaming Oversight Fund. Revenues are credited through reimbursements from the State of Ohio Attorney General's Office (Attorney General) in accordance with an agreement between the Ohio Lottery and the Attorney General. Expenses for this fund represent oversight, licensing and monitoring of charitable gaming activity. As part of the State's biennial budget process for fiscal year 2006/2007, the Office of Budget and Management (OBM) required that a separate fund be established. Effective fiscal year 2006, the Charitable Gaming Oversight Fund (2310) was established. For purposes of this financial report, all financial activity is presented within the Lottery Operating Fund. Please see *Notes to the Basic Financial Statements* for more detailed activity reported within this fund.

DEFERRED PRIZE FUND

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

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

FINANCIAL ANALYSIS

Table 1 provides a summary of the Ohio Lottery's net assets.

TABLE 1
NET ASSETS
(rounded thousands)

	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
Current Assets: Unrestricted	\$ 266,833	\$ 159,410
Current Assets: Restricted	310,225	298,169
Noncurrent Assets: Restricted	716,935	715,289
Net Capital Assets	<u>74,632</u>	<u>5,640</u>
Total Assets	1,368,625	1,178,508
Current Liabilities: Unrestricted	203,102	79,395
Current Liabilities: Restricted	310,225	298,170
Noncurrent Liabilities: Restricted and Unrestricted	<u>686,722</u>	<u>662,274</u>
Total Liabilities	1,200,049	1,039,839
Net Assets:		
Invested in Capital Assets – Net of Related Debt	7,874	5,640
Restricted for Deferred Prizes	86,616	57,059
Unrestricted	<u>74,086</u>	<u>75,970</u>
Total Net Assets	<u>\$ 168,576</u>	<u>\$ 138,669</u>

Total Assets increased \$190.1 million. Current Assets – Unrestricted increased from \$159.4 million in 2009 to \$266.8 million, an increase of \$107.4 million. The increase was primarily a result of cash received from the Powerball jackpot won on June 2, 2010 by a player from Ohio. Current Assets – Restricted increased from \$298.2 million in 2009 to \$310.2 million in 2010, an increase of \$12.1 million. The primary reason for the increase was a result of increased secured lending balances. Noncurrent Assets – Restricted, which is comprised of investments dedicated to the payment of the Ohio Lottery's long – term annuity prizes, remained relatively unchanged. Net Capital Assets increased by \$69.0 million as a result of the new gaming equipment related to the new gaming contract.

Total Liabilities increased \$160.2 million. Current Liabilities – Unrestricted increased by \$123.7 million primarily due to the increase in prize payable related to the June 2, 2010 Powerball jackpot. Current Liabilities – Restricted increased \$12.1 million primarily as a result of increases to security lending activity. Noncurrent liabilities increased \$24.4 million, a combination of the increase in capital lease payable of \$51.5 million and a decrease in prize awards payables to prize winners who selected annuities.

The Ohio Lottery's financial activity resulted in a \$29.9 million increase in net assets primarily due to the GASB adjustments directly related to the investment portfolio.

Table 2 shows the changes in the Ohio Lottery's net assets, including revenue and expense comparisons.

TABLE 2
CHANGES IN NET ASSETS
(rounded thousands)

	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
Ticket Sales	\$ 2,490,186	\$ 2,417,679
Other Operating Revenues	8,599	8,153
Non – Operating Revenues	<u>77,951</u>	<u>55,862</u>
Total Revenues	2,576,736	2,481,694
Prize Expenses	1,513,724	1,459,048
Bonuses and Commissions	153,426	150,061
Operating Expenses	109,422	124,289
Non – Operating Expenses	41,632	41,265
Payments to the Lottery Profits Education Fund	<u>728,625</u>	<u>702,291</u>
Total Expenses	2,546,829	2,476,954
Change in Net Assets	29,907	4,740
Total Net Assets – Beginning	<u>138,669</u>	<u>133,929</u>
Total Net Assets – Ending	<u>\$ 168,576</u>	<u>\$ 138,669</u>

TICKET SALES BY PRODUCT
FISCAL YEARS 2010 AND 2009
(rounded thousands)

	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
Pick 3	\$ 366,750	\$ 382,506
Pick 4	201,252	205,866
Rolling Cash 5	67,051	67,195
Kicker	24,101	21,431
Raffle	9,127	9,254
Keno/Booster	120,617	99,782
Classic Lotto	42,844	43,918
Mega Millions	215,784	193,048
Ez Play	30,442	34,286
Ten – Oh!	9,650	11,009
Powerball/Power Play	<u>23,563</u>	N/A
Total Online Sales	1,111,181	1,068,295
Instants	<u>1,379,005</u>	<u>1,349,384</u>
Total Sales	<u>\$ 2,490,186</u>	<u>\$ 2,417,679</u>

The Ohio Lottery's total revenues increased \$95.0 million in fiscal year 2010. The Ohio Lottery had record ticket sales in fiscal year 2010 of \$2.5 billion. Online ticket sales had an increase of \$42.9 million. This increase is primarily due to higher Mega Millions jackpots, the introduction of Powerball/Power Play, and the addition of KENO/Booster. An increase of \$22.1 million in non – operating income can be attributed to GASB adjustments. During the year, two Powerball jackpots were won in Ohio totaling \$310.1 million, as compared to 2009 when three Mega Millions jackpots totaling \$297.7 million were won in Ohio. Instant ticket sales increased \$29.6 million, and sales surpassed the \$1.0 billion mark for the eighth consecutive year.

OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION
FISCAL YEARS 2010 AND 2009
(rounded thousands)

	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
Prize Awards	\$ 1,513,724	\$ 1,459,048
Bonuses/Commissions	153,426	150,061
Operating Expense	109,422	124,289
Payments to Education	<u>728,625</u>	<u>702,291</u>
Total	<u>\$ 2,505,197</u>	<u>\$ 2,435,689</u>

Prize awards increased by \$54.7 million, while bonuses and commissions increased by \$3.4 million. Payments to education increased by \$26.3 million. Total operating expenses decreased \$14.9 million. The activity described above resulted in an increase in Net Assets of \$29.9 million, increasing the balance at June 30, 2010 to \$168.6 million from \$138.7 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

Table 3 below summarizes the Ohio Lottery's capital assets.

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

	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
Equipment	\$ 73,488	\$ 4,133
Vehicles	<u>1,144</u>	<u>1,507</u>
Total Net Capital Assets	<u>\$ 74,632</u>	<u>\$ 5,640</u>

As of June 30, 2010, the Ohio Lottery had \$74.6 million, net of accumulated depreciation, in Capital Assets. The significant increase in Net Capital Assets is a result of new gaming equipment. In July 2009, the Ohio Lottery entered into a contractual agreement with Intralot USA for gaming services, including leased equipment. The length of the contract is two years, with four two – year renewals. The lease meets the requirements of a capital lease and, as a result, the equipment was recorded at present value and is being depreciated over its useful life of five years.

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

DEBT

The significant components of the Ohio Lottery's debt is deferred prize awards payable, which is payable from restricted assets. Prize Awards Payable from Restricted Assets – Net of Discount decreased \$27.2 million as prior long – term annuities are being paid off at a faster pace than new annuities are being selected by prize winners.

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

CONTACTING THE OHIO LOTTERY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the legislative and executive branches of government, the Ohio Lottery Commissioners, the public and other interested parties with a general overview of the Ohio Lottery's finances and to demonstrate the 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. You may also access more information about the Ohio Lottery by visiting the Ohio Lottery's website at www.ohiolottery.com.

OHIO LOTTERY COMMISSION
STATEMENT OF NET ASSETS - MAJOR FUNDS
JUNE 30, 2010
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2009)
(rounded thousands)

			TOTALS	
	<u>OPERATING</u>	<u>DEFERRED</u>	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
ASSETS				
Current Assets-Unrestricted				
Cash and Cash Equivalents	\$ 148,372	\$ -	\$ 148,372	\$ 31,029
Cash Equity with Treasurer of State	55,060	-	55,060	63,581
Collateral on Lent Securities	15,644	-	15,644	27,189
Receivables from Agents, Net	38,194	-	38,194	29,695
Other Assets	9,563	-	9,563	7,916
Total Current Assets-Unrestricted	<u>266,833</u>	<u>-</u>	<u>266,833</u>	<u>159,410</u>
Current Assets-Restricted				
Cash Equity with Treasurer of State	-	68	68	70
Dedicated Investments	-	39,219	39,219	37,847
Collateral on Lent Securities	-	267,929	267,929	256,550
Interest Receivable	-	3,009	3,009	3,702
Total Current Assets-Restricted	<u>-</u>	<u>310,225</u>	<u>310,225</u>	<u>298,169</u>
Total Current Assets	<u>266,833</u>	<u>310,225</u>	<u>577,058</u>	<u>457,579</u>
Noncurrent Assets				
Dedicated Investments, Restricted	-	716,935	716,935	715,289
Capital Assets				
Equipment	99,149	-	99,149	79,097
Vehicles	2,670	-	2,670	2,673
Accumulated Depreciation	(27,187)	-	(27,187)	(76,130)
Net Assets, Invested in Capital Assets	74,632	-	74,632	5,640
Total Noncurrent Assets	<u>74,632</u>	<u>716,935</u>	<u>791,567</u>	<u>720,929</u>
TOTAL ASSETS	<u>341,465</u>	<u>1,027,160</u>	<u>1,368,625</u>	<u>1,178,508</u>
LIABILITIES				
Current Liabilities-Unrestricted				
Accounts Payable	6,210	-	6,210	6,694
Prize Awards Payable	162,025	-	162,025	42,833
Obligations under Securities Lending	15,644	-	15,644	27,190
Capital Lease Payable-Current	15,222	-	15,222	-
Deferred Revenue	1,132	-	1,132	-
Other Liabilities	2,594	-	2,594	2,678
Due to Other Lotteries	275	-	275	-
Total Current Liabilities-Unrestricted	<u>203,102</u>	<u>-</u>	<u>203,102</u>	<u>79,395</u>
Current Liabilities-Restricted				
Obligations under Securities Lending	-	267,929	267,929	256,550
Prize Awards Payable-Net of Discount	-	42,296	42,296	41,620
Total Current Liabilities-Restricted	<u>-</u>	<u>310,225</u>	<u>310,225</u>	<u>298,170</u>
Total Current Liabilities	<u>203,102</u>	<u>310,225</u>	<u>513,327</u>	<u>377,565</u>
Noncurrent Liabilities:				
Prize Awards Payable from Restricted Assets-Net of Discount	-	630,319	630,319	658,229
Capital Lease Payable-Long-Term	51,535	-	51,535	-
Workers' Compensation	2,638	-	2,638	1,813
Compensated Absences	2,230	-	2,230	2,232
Total Noncurrent Liabilities	<u>56,403</u>	<u>630,319</u>	<u>686,722</u>	<u>662,274</u>
TOTAL LIABILITIES	<u>259,505</u>	<u>940,544</u>	<u>1,200,049</u>	<u>1,039,839</u>
NET ASSETS				
Invested in Capital Assets-Net of Related Debt	7,874	-	7,874	5,640
Restricted for Deferred Prizes	-	(822)	(822)	1,329
Restricted for Net Unrealized Gains on Restricted Investments	-	87,438	87,438	55,730
Unrestricted	74,086	-	74,086	75,970
TOTAL NET ASSETS	<u>\$ 81,960</u>	<u>\$ 86,616</u>	<u>\$ 168,576</u>	<u>\$ 138,669</u>

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

OHIO LOTTERY COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)
(rounded thousands)

	<u>OPERATING</u>	<u>DEFERRED</u>	<u>TOTALS</u>	
			<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
REVENUES				
Ticket Sales	\$ 2,490,186	\$ -	\$ 2,490,186	\$ 2,417,679
Other Revenues	<u>8,468</u>	<u>131</u>	<u>8,599</u>	<u>8,153</u>
Total Operating Revenues	2,498,654	131	2,498,785	2,425,832
EXPENSES				
Prizes, Bonuses and Commissions				
Prize Awards	1,498,317	15,407	1,513,724	1,459,048
Bonuses and Commissions	<u>153,426</u>	<u>-</u>	<u>153,426</u>	<u>150,061</u>
Total Prizes, Bonuses and Commissions	1,651,743	15,407	1,667,150	1,609,109
Operating Expenses				
Personal Services	61,482	-	61,482	76,176
Maintenance and Equipment	28,233	-	28,233	46,279
Depreciation	19,693	-	19,693	1,822
Other Expenses	<u>14</u>	<u>-</u>	<u>14</u>	<u>12</u>
Total Operating Expenses	<u>109,422</u>	<u>-</u>	<u>109,422</u>	<u>124,289</u>
OPERATING INCOME (LOSS)	737,489	(15,276)	722,213	692,434
Non-Operating Revenues (Expenses)				
Interest Income	661	67,220	67,881	55,842
Donation of Capital Assets	8,414	-	8,414	-
Amortization of Prize Liabilities	-	(36,629)	(36,629)	(38,602)
Gain (Loss) on Equipment Disposal	1,656	-	1,656	20
Interest Expense on Capital Lease	(4,476)	-	(4,476)	-
Interest Expense - Borrower Rebates	-	(495)	(495)	(2,485)
Securities Lending Agent Fees	-	(32)	(32)	(178)
Payments to the Lottery Profits Education Fund	<u>(728,625)</u>	<u>-</u>	<u>(728,625)</u>	<u>(702,291)</u>
Total Non-Operating Expenses, Net	<u>(722,370)</u>	<u>30,064</u>	<u>(692,306)</u>	<u>(687,694)</u>
INCOME (LOSS) BEFORE TRANSFERS	15,119	14,788	29,907	4,740
TRANSFERS				
Transfers to Deferred Prize Trust Fund	<u>(14,768)</u>	<u>14,768</u>	<u>-</u>	<u>-</u>
Total Transfers	<u>(14,768)</u>	<u>14,768</u>	<u>-</u>	<u>-</u>
Change in Net Assets	351	29,556	29,907	4,740
Total Net Assets - Beginning	<u>81,609</u>	<u>57,060</u>	<u>138,669</u>	<u>133,929</u>
TOTAL NET ASSETS - ENDING	<u>\$ 81,960</u>	<u>\$ 86,616</u>	<u>\$ 168,576</u>	<u>\$ 138,669</u>

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

OHIO LOTTERY COMMISSION
STATEMENT OF CASH FLOWS - MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)
(rounded thousands)

	<u>OPERATING</u>	<u>DEFERRED</u>	<u>TOTALS</u>	
			<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Sales	\$ 2,482,818	\$ -	\$ 2,482,818	\$ 2,430,836
Cash Received from Multi-State Lottery for Grand Prize Winners	-	-	-	179,565
Cash Payments for Prize Awards	(1,378,436)	(79,269)	(1,457,705)	(1,715,262)
Cash Payments for Bonuses and Commissions	(153,556)	-	(153,556)	(150,023)
Cash Payments for Goods and Services	(65,872)	-	(65,872)	(100,113)
Cash Payments to Employees	(25,520)	-	(25,520)	(25,888)
Other Operating Revenues	8,468	131	8,599	8,154
Other Operating Expenses	(14)	-	(14)	(12)
Net Cash Provided (Used) by Operating Activities	<u>867,888</u>	<u>(79,138)</u>	<u>788,750</u>	<u>627,257</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payments to the Lottery Profits Education Fund	(728,625)	-	(728,625)	(702,291)
Transfers In	-	14,768	14,768	33,869
Transfers Out	(14,768)	-	(14,768)	(33,869)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>(743,393)</u>	<u>14,768</u>	<u>(728,625)</u>	<u>(702,291)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Property and Equipment	798	-	798	(3,179)
Proceeds from Sale of Property and Equipment	1,682	-	1,682	126
Repayment of Equipment Obligation	(14,338)	-	(14,338)	-
Interest Paid on Equipment Obligation	(4,476)	-	(4,476)	-
Net Cash Used by Capital and Related Financing Activities	<u>(16,334)</u>	<u>-</u>	<u>(16,334)</u>	<u>(3,053)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	661	13,925	14,586	18,806
Restricted Assets Due to the State of Ohio	-	-	-	(5,563)
Interest Expense and Agent Fees	-	(526)	(526)	(2,662)
Proceeds from the Sale and Maturity of Investments	-	99,315	99,315	441,637
Purchase of Investments	-	(48,346)	(48,346)	(371,802)
Securities Lending Proceeds	15,645	267,929	283,574	283,739
Securities Lending Payments	(15,645)	(267,929)	(283,574)	(283,739)
Net Cash Provided (Used) by Investing Activities	<u>661</u>	<u>64,368</u>	<u>65,029</u>	<u>80,416</u>
Net Increase (Decrease) in Cash & Cash Equivalents	108,822	(2)	108,820	2,329
Cash and Cash Equivalents - Beginning	94,610	70	94,680	92,351
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 203,432</u>	<u>\$ 68</u>	<u>\$ 203,500</u>	<u>\$ 94,680</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 737,489	\$ (15,276)	\$ 722,213	\$ 692,434
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	19,693	-	19,693	1,822
Amortization of Discount of Prize Liabilities	-	36,629	36,629	38,602
Net Changes in Assets and Liabilities				
Receivables from Agents - Net	(8,499)	-	(8,499)	14,736
Other Assets	(1,649)	-	(1,649)	(727)
Prize Awards Payable	119,192	-	119,192	3,178
Accounts Payable	(485)	-	(485)	(2,856)
Other Liabilities	191	-	191	(16)
Deferred Revenue	1,132	-	1,132	(1,580)
Prize Awards Payable from Restricted Assets - Net of Discount	-	(100,491)	(100,491)	(117,410)
Accrued Workers' Compensation	826	-	826	(375)
Compensated Absences	(2)	-	(2)	(551)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 867,888</u>	<u>\$ (79,138)</u>	<u>\$ 788,750</u>	<u>\$ 627,257</u>

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

Non-Cash items included in investment income were \$31.7 million and \$12.4 million of unrestricted net gains/losses for the years ended June 30, 2010 and June 30, 2009, respectively. In fiscal year 2010, the Ohio Lottery received donated assets of \$8.4 million. The Accompanying Notes to the Financial Statements are an Integral Part of the Statement.

OHIO LOTTERY COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

BASIS OF ACCOUNTING

The Ohio Lottery operates under a series of enterprise funds, each using a full accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when incurred. The three Ohio Lottery funds are: the Lottery Operating Fund, the Deferred Prize Fund and Charitable Gaming Oversight Fund. All financial activity related to the Charitable Gaming Oversight Fund is presented within the Lottery Operating Fund for purposes of this financial report.

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 selling Ohio Lottery tickets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As permitted by Generally Accepted Accounting Principles (GAAP), the Ohio Lottery has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

LOTTERY OPERATING FUND

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

DEFERRED PRIZE FUND

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

CHARITABLE GAMING OVERSIGHT FUND

In fiscal year 2005, the Ohio Lottery and the State of Ohio Attorney General's Office (Attorney General) signed a Memorandum of Understanding between the two agencies transferring the administration and monitoring of charitable bingo licensing to the Ohio Lottery. In fiscal year 2006, a separate fund was established, as authorized by language contained in House Bill 66. In accordance with section 3770.06 of the ORC, the Ohio Lottery shall credit to the fund any money it receives from the Attorney General's office under any agreement the Ohio Lottery and the Attorney General enters into under division (I) of section 2915.08 of the ORC. The Ohio Lottery shall use the money in the fund to provide oversight, licensing and monitoring of charitable gaming activities in the state in accordance with the agreement and Chapter 2915 of the ORC. The expenses involved with providing these services under the agreement are reimbursable from the Attorney General's office to the Ohio Lottery. During the year, expenses of \$1,364,000 were recorded and \$1,065,000 were reimbursed and recorded as other revenue in the Charitable Gaming Oversight Fund, with the difference representing normal timing differences. All activities associated with providing these services are presented within the Ohio Lottery's Operating Fund.

CASH AND CASH EQUIVALENTS

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

In fiscal year 2006, the Ohio Lottery established a Government Money Market Fund through PNC Corporation to invest excess cash. The money market fund invests in short term U.S. Treasury securities or repurchase agreements that are backed by U.S. Treasury securities and guaranteed by the U.S. Government.

INVESTMENTS

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

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts at June 30, 2010 and 2009 of \$256,000 and \$355,000 respectively, is based on an analysis of historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

RESTRICTED ASSETS

Restricted assets represent amounts restricted for the payment of deferred prize awards. Upon the awarding of an annuity prize, amounts equal to the present value of future prize payments are deposited with the TOS. The Ohio Lottery is either credited with equity in the State of Ohio Common Cash and Investments Account equal to the amounts deposited, or specific State investments are identified and dedicated to the repayment of deferred prizes. Amounts necessary to fund deferred prizes awarded shortly before the end of the fiscal year that will be used to acquire additional equity in State of Ohio general investments in the succeeding year, if any, are recorded as amounts "due from unrestricted assets" in the accompanying statement of net assets. In fiscal year 2006, the Ohio Lottery adopted a new method of providing investment capital for future deferred prize payments by purchasing individual securities to fund a specific prize obligation.

CAPITAL ASSETS

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

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

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

PRIZE AWARDS

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

DEFERRED REVENUE

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

COMPENSATED ABSENCES

Employees of the Ohio Lottery earn vacation leave, sick leave and personal leave at various rates within limits specified under collective bargaining agreements 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 55 percent for retirement separation and 50 percent for all other separations.

BONUSES AND COMMISSIONS

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

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.
- Restricted for Deferred Prizes – represents the excess of the assets restricted for payment of deferred prizes over the related liability for deferred prize awards, including the reserve for unrealized gains (losses) on investments, in accordance with the restrictions imposed by ORC 3770.06.
- Restricted – for Net Unrealized Gains on Restricted Investments.
- Unrestricted – represents all other net assets that are not classified as invested in net assets or restricted.

RISK MANAGEMENT

The Ohio Lottery is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ohio Lottery generally retains the risk of loss; however, the Ohio Lottery is protected for purposes of sales collections by third-party surety bonds. Upon inception, retailers are required to carry a minimum bond of \$20,000. On a yearly basis, the retailers' required coverage is based on an evaluation of their average annual sales. The minimum coverage is \$20,000 or one twenty-sixth of their annual sales. The amount of loss arising from these risks was not significant for the years ended June 30, 2010, 2009, and 2008. No significant payments were made or liabilities recorded during the years ended June 30, 2010, 2009, and 2008 due to self-insured risks.

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

The Ohio Lottery pays a premium assessed by the DAS to cover motor vehicle liability related to bodily injury and property damage for a maximum of \$2,000,000 per occurrence. The Ohio Lottery retains the risk for any liability exceeding this limit.

The State provides an option to eligible Ohio Lottery employees to participate in the OhioMed Health Plan, which was established as a fully self-insured health benefit plan. The plan is administered by Medical Mutual of Ohio under a claims administration contract with the State. The Ohio Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contributed \$52.08 for single and \$144.76 for family coverage per month, while the Ohio Lottery contributed \$319.74 for single and \$879.30 for family coverage per month for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The Ohio Lottery's total contributions to the OhioMed Health Plan were \$1,284,000 and \$1,221,000 for the years ended June 30, 2010 and 2009, respectively.

The State has contracted with four types of Health Maintenance Organizations (HMO). Ohio Lottery employees are eligible to participate in the plans available in their geographic area of residence or workplace. HMO claims are paid for by the respective HMO without transfer of risk to the State or the Ohio Lottery. Premiums are contracted individually between each HMO and the State of Ohio's Benefits Trust Fund.

BUDGETARY ACCOUNTING AND CONTROL

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

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

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

The Ohio Lottery maintains budgetary control by not permitting total expenditures to exceed appropriations without approval of the General

Assembly, except for vouchered prize awards for which appropriation amendments may be approved by OBM and unvouchered prize expenses, which are not budgeted. Certain budget amendments were adopted during the year ended June 30, 2010.

NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued GASB No. 51, "Accounting and Financial Reporting for Intangible Assets." The Ohio Lottery has implemented GASB 51 and determined that trademarks and internally developed software completed in fiscal year 2010 are under the \$100,000 threshold for capitalization, based on the State of Ohio's guidelines.

ESTIMATES

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

SUMMARIZED COMPARATIVE DATA

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Ohio Lottery's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

SECURITIES LENDING

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

2. CASH DEPOSITS AND INVESTMENTS

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

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

DEPOSITS

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the Ohio Lottery's deposits may not be returned to it. As of June 30, 2010, the carrying amount of the Ohio Lottery's deposits with financial institutions were \$148,077,000 and the bank balances were \$148,066,000, the difference representing normal reconciling items. Of the bank balances, \$409,000 was covered by the FDIC insurance as part of the economic stabilization package passed by Congress. The most basic insured amount was temporarily increased to \$250,000 per depositor, per insured bank.

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

INVESTMENTS

Although risk exposures are minimized by complying with legal requirements and internal policies adopted by the TOS, the Ohio Lottery's investments are exposed to risks that may lead to a loss of value. The Ohio Lottery's investments at June 30, 2010 consist of the following:

(rounded thousands)

INVESTMENT TYPE	FAIR VALUE	CREDIT QUALITY RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1	1-5	6-10	>10
U.S. Government Agency Obligations	\$ 245,875	AAA/Aaa	\$ 43,764	\$ 126,279	\$ 75,832	\$ -
U.S. Government Strips	180,100	AAA/Aaa	11,676	45,624	48,470	74,330
U.S. Government Agency Strips	325,794	AAA/Aaa	15,350	107,264	138,217	64,963
Israel Bond	<u>3,000</u>	A/A1	-	<u>3,000</u>	-	-
Total Investments	754,769		70,790	282,167	262,519	139,293
<u>Investments not required to be categorized</u>						
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)	1,385	AAA	1,385	-	-	-
Equity in State of Ohio Common Cash & Investments	55,128		55,128	-	-	-
Money Market Mutual Fund	294	AAA/m	294	-	-	-
Collateral on loaned securities - Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio's Common Cash and Investments account	<u>15,644</u>		<u>15,644</u>	-	-	-
Total Lottery Commission - Structured Investments, as of June 30, 2010	<u>\$ 827,220</u>		<u>\$ 143,241</u>	<u>\$ 282,167</u>	<u>\$ 262,519</u>	<u>\$ 139,293</u>

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

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

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

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

The equity in State of Ohio common cash and investments, collateral on loaned securities, money market mutual fund and an investment in STAR Ohio has not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools' investments and deposits by credit risk may be found in the State of Ohio Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

As of June 30, 2010, the total carrying amount of deposits and investments categorized and disclosed in this note is \$1,243,227,000. This amount can be reconciled to the statement of net assets as follows:

<i>(rounded thousands)</i>	<u>DEPOSITS</u>	<u>INVESTMENTS</u>	<u>TOTAL</u>
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 148,077	\$ 295	\$ 148,372
Cash Equity with Treasurer of State	-	55,060	55,060
Collateral on Lent Securities	-	15,644	15,644
Restricted Assets:			
Cash Equity with Treasurer of State	-	68	68
Dedicated Investments	-	756,154	756,154
Collateral on Lent Securities	-	<u>267,929</u>	<u>267,929</u>
Total - per Statement of Net Assets	<u>\$ 148,077</u>	<u>\$ 1,095,150</u>	<u>\$ 1,243,227</u>

SECURITIES LENDING TRANSACTIONS

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

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

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

The amount the borrower owes the lender includes the market value of the underlying securities (including accrued interest), unpaid income distributions on the underlying securities and accrued loan premiums or fees. The amount the lender owes the borrower includes the cash collateral received, the market value of collateral securities (including accrued interest), the face value of letters of credit, unpaid income distributions on collateral securities and accrued borrower rebates.

<i>(rounded thousands)</i>			
<u>BORROWER OWES TO LENDER</u>		<u>LENDER OWES TO BORROWER</u>	
MV of Loaned Securities	\$ 260,805	Cash Collateral	\$ 267,915
Unpaid Distributions	-	Unpaid Distributions	-
Accrued Premiums	-	Accrued Rebates	<u>8</u>
Total	<u>\$ 260,805</u>	Total	<u>\$ 267,923</u>

Since the Lender owes the Borrowers \$7,117,000 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2010.

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

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

During the fiscal year, TOS lent U.S. Agency and Instrumentality Obligations (excluding Strips) and U.S. Agency and Instrumentality Obligation – Strips in exchange for collateral consisting of cash and/or U.S. government obligations. The Ohio Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2009 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 2.6 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 2010, 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 2010 due to prior-period losses.

(rounded thousands)

INVESTMENT TYPE	FAIR VALUE	CREDIT QUALITY RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1	1-5	6-10	>10
Repurchase Agreements	\$ 144,000	A/Aa A/A-1	\$ 144,000	\$ -	\$ -	\$ -
U.S. Government Strips	-		-	-	-	-
U.S. Government Agency Obligations	12,467		12,467	-	-	-
U.S. Government Agency Strips	-		-	-	-	-
Certificates of Deposits (Negotiable)	-		-	-	-	-
Commercial Paper	43,995	A/A-1	43,995	-	-	-
Other Investments:						
Master Note	12,000	A/A-1	12,000	-	-	-
Variable Note	18,968	A/A-1	18,968	-	-	-
Investments Not Required to be Categorized:						
Money Marker Funds	36,480	AAA/Aaa	36,480	-	-	-
Allocated Cash Collateral (1)	19		19	-	-	-
Total - Investments made with Cash Collateral, as of June 30, 2010	<u>\$ 267,929</u>		<u>\$ 267,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(1) The Ohio Lottery has been allocated \$19,000 cash collateral based on the amount of cash equity from the State's common cash and investment account.

3. CAPITAL ASSETS

Capital asset activity was as follows:

(rounded thousands)

	<u>JUNE 30, 2009</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>JUNE 30, 2010</u>
Equipment	\$ 79,097	\$ 88,697	\$ 68,645	\$ 99,149
Vehicles	<u>2,673</u>	<u>13</u>	<u>16</u>	<u>2,670</u>
Total Fixed Assets	81,770	88,710	68,661	101,819
Less Accumulated Depreciation:				
Equipment	(74,964)	(19,327)	(68,630)	(25,661)
Vehicles	<u>(1,166)</u>	<u>(366)</u>	<u>(6)</u>	<u>(1,526)</u>
Total Accumulated Depreciation	(76,130)	(19,693)	(68,636)	(27,187)
Net Fixed Assets	<u>\$ 5,640</u>	<u>\$ 69,017</u>	<u>\$ 25</u>	<u>\$ 74,632</u>
	<u>JUNE 30, 2008</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>JUNE 30, 2009</u>
Equipment	\$ 80,150	\$ 2,618	\$ 3,671	\$ 79,097
Vehicles	<u>2,569</u>	<u>561</u>	<u>457</u>	<u>2,673</u>
Total Fixed Assets	82,719	3,179	4,128	81,770
Less Accumulated Depreciation:				
Equipment	(77,188)	(1,448)	(3,672)	(74,964)
Vehicles	<u>(1,142)</u>	<u>(374)</u>	<u>(350)</u>	<u>(1,166)</u>
Total Accumulated Depreciation	(78,330)	(1,822)	(4,022)	(76,130)
Net Fixed Assets	<u>\$ 4,389</u>	<u>\$ 1,357</u>	<u>\$ 106</u>	<u>\$ 5,640</u>

On July 1, 2009, the Ohio Lottery entered into a contractual agreement with Intralot, Inc. for gaming services and leased equipment. The length of the contract is two years, with four 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 \$81,095,075.

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 FASB No. 13, the Ohio Lottery Commission is required to disclose the following information regarding capital leases:

**CAPITAL LEASES
GROSS ASSETS AND ACCUMULATED AMORTIZATION**

<i>(rounded thousands)</i>	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
ASSET		
Computer Equipment and Systems	\$ 81,095	\$ -
Accumulated Depreciation	<u>(16,219)</u>	<u>-</u>
TOTAL	<u>\$ 64,876</u>	<u>\$ -</u>

FUTURE MINIMUM LEASE PAYMENTS AND PRESENT VALUE OF THE REMAINING MINIMUM LEASE PAYMENTS

<u>FISCAL YEAR ENDING JUNE 30,</u> <i>(rounded thousands)</i>	<u>AMOUNT</u>
2011	\$ 18,814
2012	18,814
2013	18,813
2014	<u>18,813</u>
Total Minimum Lease Payments	75,254
Less: Amount for Interest	(8,497)
Present Value of Minimum Lease Payments	<u>\$ 66,757</u>

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets consist of the following:

<i>(rounded thousands)</i>	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
Current portion - face amount	\$ 77,068	\$ 78,611
Less: Unamortized discount	<u>(34,772)</u>	<u>(36,991)</u>
Current portion - present value	42,296	41,620
Noncurrent portion - face amount	861,755	916,391
Less: Unamortized discount	<u>(231,436)</u>	<u>(258,162)</u>
Noncurrent portion - present value	<u>630,319</u>	<u>658,229</u>
Total Prize Awards Payable - Net of Discount	<u>\$ 672,615</u>	<u>\$ 699,849</u>

Interest rates used to determine the present values ranged from 3.2 percent to 9.0 percent. The present value of future payments from restricted assets for deferred prize awards is summarized as follows:

<u>FISCAL YEAR ENDING JUNE 30</u> <i>(rounded thousands)</i>	<u>AMOUNT</u>
2011	\$ 77,068
2012	76,247
2013	76,094
2014	76,003
2015	75,865
2016 through 2020	307,623
2021 through 2025	150,942
2026 through 2030	65,998
2031 through 2035	31,469
2036 thereafter	<u>1,514</u>
Subtotal	938,823
Unamortized Discount	<u>(266,208)</u>
Net Prize Liability	<u>\$ 672,615</u>

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Ohio Lottery is required by law to award prizes to holders of winning lottery tickets equal to at least 50 percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$268.6 million and \$250.2 million for the years ended June 30, 2010 and 2009, respectively.

5. OTHER LIABILITIES

The composition of other liabilities balances is as follows:

<i>(rounded thousands)</i>	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
Accrued Liabilities	\$ 2,210	\$ 2,180
Workers' Compensation - Current Portion	30	144
Compensated Absences - Current Portion	<u>354</u>	<u>354</u>
Total	<u>\$ 2,594</u>	<u>\$ 2,678</u>

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity was as follows:

<i>(rounded thousands)</i>	<u>JUNE 30, 2009</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>JUNE 30, 2010</u>
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 658,229	\$ 51,360	\$ (79,270)	\$ 630,319
Capital Lease Payable - Long-term	-	81,095	(29,560)	51,535
Accrued Workers' Compensation	1,813	825	-	2,638
Compensated Absences	<u>2,232</u>	<u>2,084</u>	<u>(2,086)</u>	<u>2,230</u>
Total Noncurrent Liabilities	<u>\$ 662,274</u>	<u>\$ 135,364</u>	<u>\$ (110,916)</u>	<u>\$ 686,722</u>

<i>(rounded thousands)</i>	<u>JUNE 30, 2008</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>JUNE 30, 2009</u>
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 685,315	\$ 255,477	\$ (282,563)	\$ 658,229
Capital Lease Payable - Long-term	-	-	-	-
Accrued Workers' Compensation	2,188	-	(375)	1,813
Compensated Absences	<u>2,783</u>	<u>1,811</u>	<u>(2,362)</u>	<u>2,232</u>
Total Noncurrent Liabilities	<u>\$ 690,286</u>	<u>\$ 257,288</u>	<u>\$ (285,300)</u>	<u>\$ 662,274</u>

The amounts due within one year for accrued worker's compensation and compensated absences are reported as current liabilities. Current liabilities for prize awards payable from restricted assets were \$42.3 million and \$41.6 million for the years ended June 30, 2010 and June 30, 2009, respectively.

7. PENSIONS – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The Ohio Lottery contributes to the Ohio Public Employees Retirement System (OPERS), which administers three separate pension plans as described below:

- The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

The ORC permits, but does not mandate, OPERS to provide Other Post Employment Benefit (OPEB) benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

FUNDING POLICY

The ORC provides the statutory authority requiring public employees to fund post retirement health care through their contributions to OPERS. For 2009 calendar year end, member and employer contribution rates were consistent across all three plans (TP, MD and CO). The 2009 member contribution rates were 10 percent for members in classifications other than law enforcement and the employer contribution rate for State employers was 14 percent of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14 percent.

The Ohio Lottery's required contributions to OPERS for the years ended June 30, 2010, 2009, and 2008 were \$1,555,000, \$1,321,000, and \$1,405,000 respectively, equal to the required contribution for each year.

8. OTHER POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION

In addition to the pension benefits described in Note 7, OPERS maintains a cost-sharing, multiple-employer defined benefit, post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Authority to establish and amend benefits is provided in Chapter 145 of the ORC. The health care coverage provided by the Retirement System is considered an OPEB as described in GASB Statement No. 45.

FUNDING POLICY

The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active employees. The 2009 employer contribution rate for State employers was 14 percent of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 7 percent from January 1 through March 31, 2009 and 5.5 percent from April 1 through December 31, 2009.

The retirement board is also authorized to establish rules for the payment of a portion of health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan. In fiscal years 2010, 2009 and 2008, \$1,006,000, \$1,321,000, and \$1,085,000, respectively, of the Ohio Lottery's total contributions to OPERS were used for post-employment benefits. The actuarial value of the Retirement System's net assets available for OPEB was \$10.7 billion at December 31, 2008.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

9. LITIGATION

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

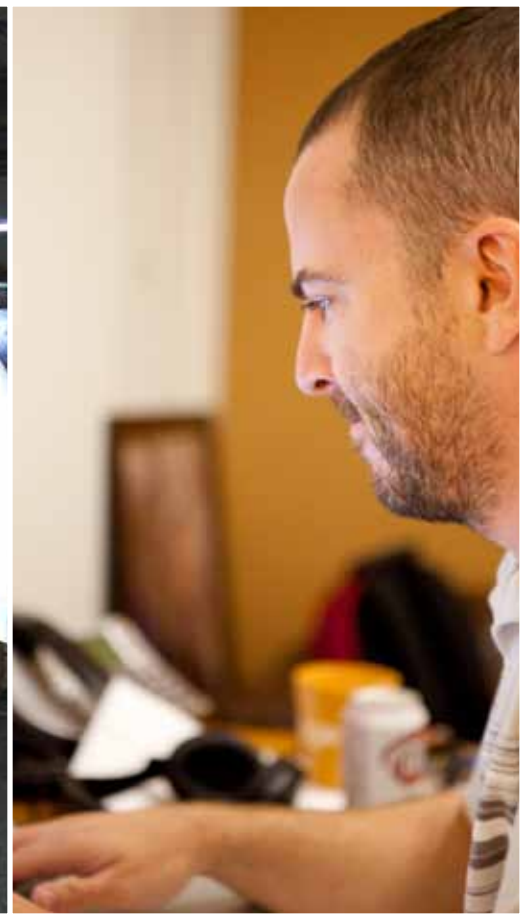




OHIO VENDORS MEAN OHIO BENEFITS

The Lottery contracts with many Ohio vendors, some of which include advertising, ticket printing and merchandise. These contracts mean that millions of dollars stay right here in Ohio and, in the case of our game and game system vendors, whose headquarters may be elsewhere, attract economic development in the form of leased offices and hundreds of Ohio workers being hired.





STATISTICAL SECTION



OHIO LOTTERY COMMISSION

STATISTICAL SECTION

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

FINANCIAL TRENDS

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

REVENUE CAPACITY

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

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

OPERATING INFORMATION

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

SOURCES

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

OHIO LOTTERY - NET ASSETS
LAST TEN FISCAL YEARS
(in millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NET ASSETS										
Invested in Capital Assets -										
Net of Related Debt	\$ 5.2	\$ 2.0	\$ 0.8	\$ 0.3	\$ 0.7	\$ 2.9	\$ 2.7	\$ 4.4	\$ 5.6	\$ 7.9
Restricted for Deferred Prizes	13.5	8.9	2.8	(3.4)	(4.4)	5.4	1.6	1.0	1.4	(0.8)
Restricted for Net Unrealized Gains/ (Losses) on Restricted Investments	52.5	88.2	167.0	93.6	116.4	61.7	12.3	43.3	55.7	87.4
Unrestricted	58.3	35.1	30.2	33.0	39.3	59.6	73.8	85.2	76.0	74.1
TOTAL NET ASSETS	\$ 129.5	\$ 134.2	\$ 200.8	\$ 123.5	\$ 152.0	\$ 129.6	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6

OHIO LOTTERY - NATURE OF ASSETS
CAPITAL ASSETS - NET OF RELATED DEBT 2009 - 2010
(in millions)

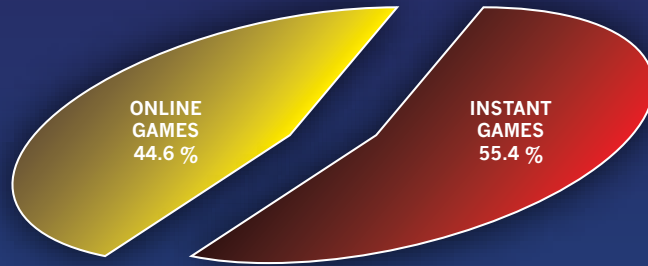
	2009	2010
Lottery Equipment	\$ 2.0	\$ 6.1
Vehicles	1.5	1.1
Data / Office Equipment	2.1	0.7
	\$ 5.6	\$ 7.9

OHIO LOTTERY - REVENUES
LAST TEN FISCAL YEARS
(in millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Online Ticket Sales										
Pick 3	\$ 419.0	\$ 409.2	\$ 401.8	\$ 396.8	\$ 387.7	\$ 377.3	\$ 370.9	\$ 387.1	\$ 382.5	\$ 366.7
Pick 4	150.7	154.6	154.2	165.2	170.1	175.7	183.0	198.8	205.9	201.3
Buckeye 5/Rolling Cash 5 (2)	56.5	62.4	68.9	66.6	74.8	72.6	72.9	70.5	67.2	67.1
Super Lotto Plus/Lot O' Play (1)	262.5	297.9	160.7	143.8	113.0	76.3	21.8	-	-	-
Classic Lotto (3)	-	-	-	-	-	-	21.8	41.2	43.9	42.8
Raffle	-	-	-	-	-	-	17.8	10.0	9.3	9.1
Kicker	42.9	45.0	27.3	24.5	19.9	21.6	21.3	21.4	21.4	24.1
Mega Millions	-	16.5	176.2	191.8	176.4	223.4	196.1	201.0	193.0	215.8
EZ Play	-	-	-	-	-	-	-	12.3	34.3	30.4
Ten-OH!	-	-	-	-	-	-	-	18.0	11.0	9.7
Keno/Booster (4)	-	-	-	-	-	-	-	-	99.8	120.6
Powerball/Power Play (4)	-	-	-	-	-	-	-	-	-	23.6
Total Online Ticket Sales	931.6	985.6	989.1	988.7	941.9	946.9	905.6	960.3	1,068.3	1,111.2
Instant Games Sales	988.3	997.5	1,089.1	1,166.0	1,217.2	1,274.0	1,353.8	1,364.8	1,349.4	1,379.0
Total Ticket Sales	1,919.9	1,983.1	2,078.2	2,154.7	2,159.1	2,220.9	2,259.4	2,325.1	2,417.7	2,490.2
Total Other Revenues (5)	180.2	124.1	153.7	(0.5)	96.2	28.7	68.1	95.8	64.0	86.6
Total Revenues	\$ 2,100.1	\$ 2,107.2	\$ 2,231.9	\$ 2,154.2	\$ 2,255.3	\$ 2,249.6	\$ 2,327.5	\$ 2,420.9	\$ 2,481.7	\$ 2,576.8

- (1) In July 2000, Super Lotto was changed to Super Lotto Plus and the matrix was changed to 6/49. In October 2005 the game was replaced by Lot O' Play
(2) In October 2004, the Buckeye 5 game was replaced by Rolling Cash 5.
(3) In January 2007, the Classic Lotto game replaced Super Lotto Plus / Lot O' Play.
(4) Booster option and Powerball / Power Play added in Fiscal Year 2010
(5) Interest Income includes adjustment for unrealized gain/losses as a result of GASB 31 reporting.

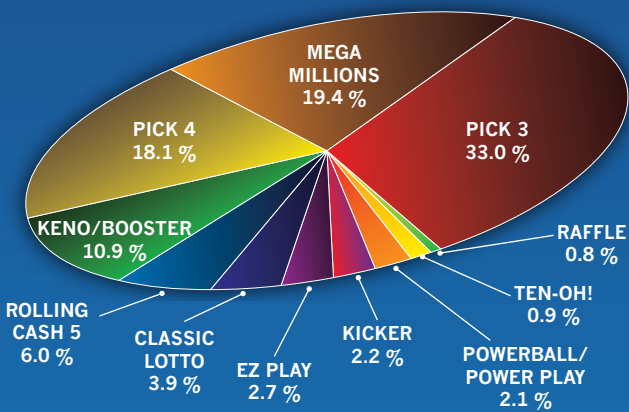
OHIO LOTTERY - SALES BY GAME FISCAL YEAR 2010



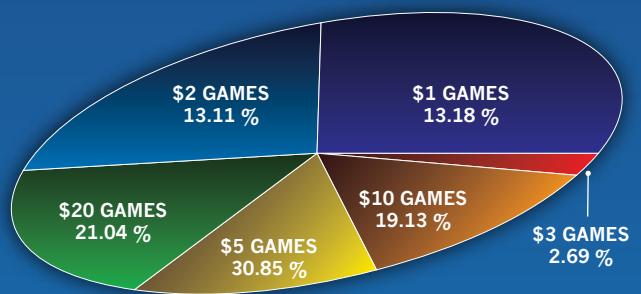
Pick 3	14.7 %
Pick 4	8.1 %
Rolling Cash 5	2.7 %
Classic Lotto	1.7 %
Raffle	0.4 %
Kicker	1.0 %
Mega Millions	8.7 %
EZ Play	1.2 %
Ten-OH!	0.4 %
Keno/Booster	4.8 %
Powerball/Power Play.....	0.9 %
Total	44.6 %

\$ 20 Instant Games	11.7 %
\$ 10 Instant Games	10.6 %
\$ 5 Instant Games	17.1 %
\$ 3 Instant Games	1.5 %
\$ 2 Instant Games	7.2 %
\$ 1 Instant Games	7.3 %
Total	55.4 %

ONLINE SALES MIX



INSTANT SALES MIX



OHIO LOTTERY - PRIZE PAYOUT AS A PERCENTAGE OF SALES LAST TEN FISCAL YEARS

(in millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SALES										
Online	\$ 931.6	\$ 985.6	\$ 989.1	\$ 988.7	\$ 941.9	\$ 946.9	\$ 905.6	\$ 960.3	\$ 1,068.3	\$ 1,111.2
Instant	988.3	997.5	1,089.1	1,166.0	1,217.2	1,274.0	1,353.8	1,364.8	1,349.4	1,379.0
Total Sales	\$ 1,919.9	\$ 1,983.1	\$ 2,078.2	\$ 2,154.7	\$ 2,159.1	\$ 2,220.9	\$ 2,259.4	\$ 2,325.1	\$ 2,417.7	\$ 2,490.2
PRIZE EXPENSE										
Online	\$ 488.4	\$ 508.0	\$ 502.9	\$ 512.3	\$ 486.2	\$ 467.7	\$ 426.7	\$ 470.3	\$ 537.0	\$ 566.7
Instant	624.4	640.1	705.3	763.7	794.6	843.5	911.7	926.7	922.0	947.0
Total Prize Expense	\$ 1,112.8	\$ 1,148.1	\$ 1,208.2	\$ 1,276.0	\$ 1,280.8	\$ 1,311.2	\$ 1,338.4	\$ 1,397.0	\$ 1,459.0	\$ 1,513.7
PRIZE PAYOUT PERCENTAGE										
Online	52.4%	51.5%	50.8%	51.8%	51.6%	49.4%	47.1%	49.0%	50.3%	51.0%
Instant	63.2%	64.2%	64.8%	65.5%	65.3%	66.2%	67.3%	67.9%	68.3%	68.7%

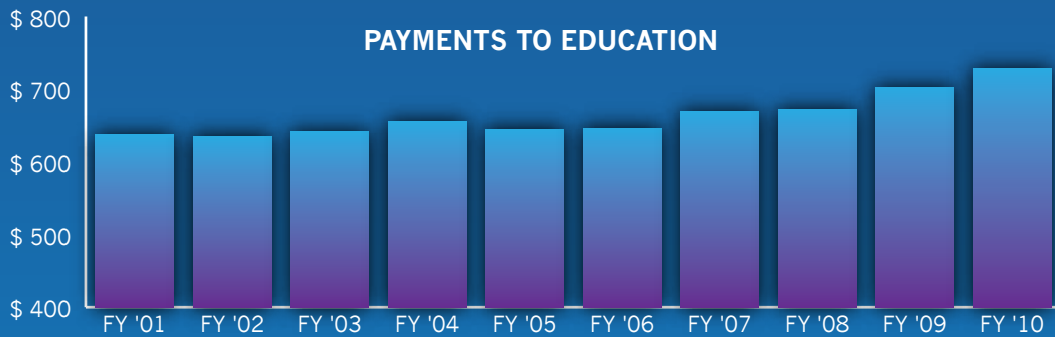
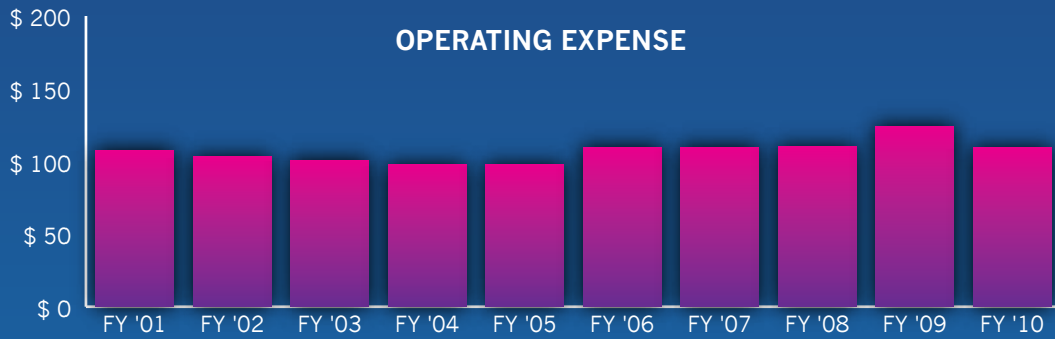
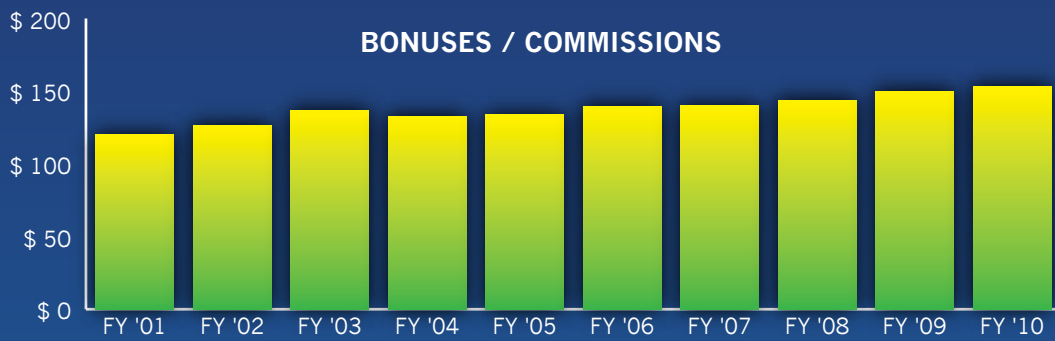
OPERATING EXPENSES AS A PERCENTAGE OF SALES LAST TEN FISCAL YEARS

(in millions)

FISCAL YEAR	TOTAL SALES	PRIZES	PRIZES AS % TOTAL SALES	BONUSES / COMM.	BONUSES / COMM. AS % OF TOTAL SALES	OPERATING EXPENSES	OPERATING EXPENSES AS % OF TOTAL SALES	PAYMENT TO EDUCATION	PAYMENT TO EDUCATION AS % OF TOTAL SALES
2001	1,919.9	1,112.8	58.0 %	120.2	6.3 %	107.8	5.6 %	637.0	33.2 %
2002	1,983.1	1,148.1	57.9 %	126.6	6.4 %	103.3	5.2 %	635.2	32.0 %
2003	2,078.2	1,208.2	58.1 %	137.0	6.6 %	100.8	4.9 %	641.4	30.9 %
2004	2,154.7	1,276.0	59.2 %	132.8	6.2 %	97.7	4.5 %	655.6	30.4 %
2005	2,159.1	1,280.8	59.3 %	133.8	6.2 %	97.7	4.5 %	645.1	29.9 %
2006	2,220.9	1,311.2	59.0 %	139.8	6.3 %	109.8	4.9 %	646.3	29.1 %
2007	2,259.4	1,338.4	59.2 %	140.0	6.2 %	109.8	4.9 %	669.3	29.6 %
2008	2,325.1	1,397.0	60.1 %	143.9	6.2 %	110.3	4.7 %	672.2	28.9 %
2009	2,417.7	1,459.0	60.3 %	150.1	6.2 %	124.3	5.1 %	702.3	29.0 %
2010	2,490.2	1,513.7	60.8 %	153.4	6.2 %	109.4	4.4 %	728.6	29.3 %

OHIO LOTTERY - EXPENSES AND PAYMENTS LAST TEN FISCAL YEARS

(in millions)

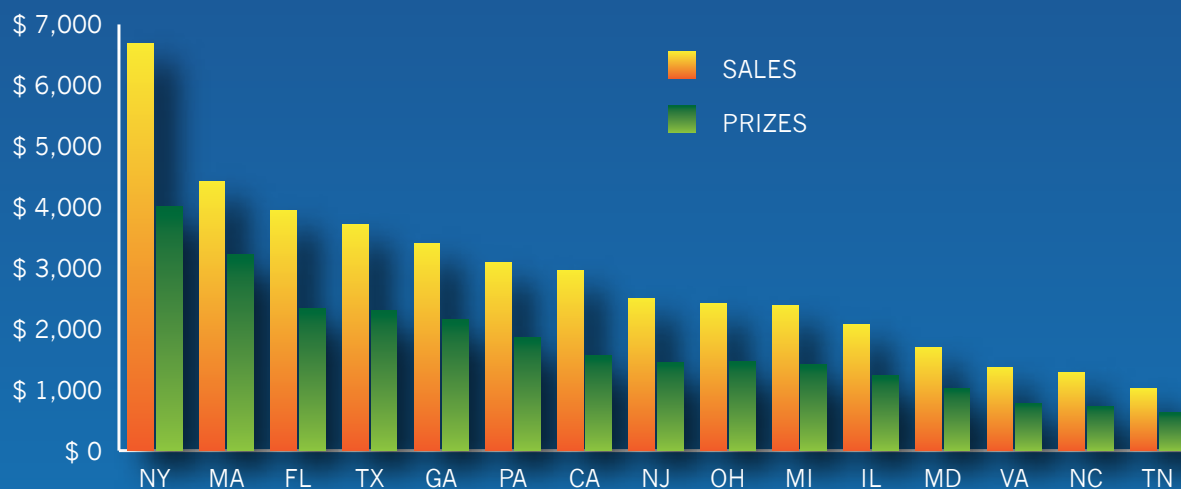


LOTTERY INDUSTRY STATEMENT OF OPERATIONS
RANK BY SALES (a)
FISCAL YEAR 2009 (b)
(in millions)

LOTTERY	POPULATION	TOTAL TICKET SALES	PRIZES	BONUSES/ COMMISSIONS	OPERATING EXPENSES	PRIZES AS % OF TOTAL SALES	PER CAPITA SALES
1 New York	19.5	6,695.1	4,003.3	400.7	257.6	59.8 %	343.3
2 Massachusetts	6.6	4,425.5	3,217.8	266.1	99.6	72.7 %	670.5
3 Florida	18.5	3,938.0	2,340.4	220.6	131.1	59.4 %	212.9
4 Texas	24.8	3,720.1	2,299.8	186.2	194.4	61.8 %	150.0
5 Georgia	9.8	3,395.6	2,148.7	240.9	140.2	63.3 %	346.5
6 Pennsylvania	12.6	3,088.2	1,852.5	165.1	132.6	60.0 %	245.1
7 California	37.0	2,954.8	1,556.1	208.1	188.1	52.7 %	79.9
8 New Jersey	8.7	2,503.3	1,455.3	139.5	72.5	58.1 %	287.7
9 OHIO	11.5	2,417.7	1,459.1	150.1	124.3	60.4 %	210.2
10 Michigan	10.0	2,377.4	1,407.6	174.2	110.5	59.2 %	237.7
11 Illinois	12.9	2,077.2	1,225.9	104.6	113.3	59.0 %	161.0
12 Maryland	5.7	1,698.1	1,025.9	121.9	59.4	60.4 %	297.9
13 Virginia	7.9	1,365.6	781.0	76.9	73.7	57.2 %	172.9
14 North Carolina	9.4	1,283.4	731.7	90.4	54.7	57.0 %	136.5
15 Tennessee	6.3	1,014.9	618.7	71.0	50.2	61.0 %	161.1
Top 15 Average U.S.	13.4	2,863.7	1,741.6	174.4	120.1	60.8 %	247.4

(a) sales does not include video lottery, (b) latest information available
The fiscal year ends June 30, 2009 for all US states except New York (March 31), Texas (August 31), and Michigan (September 30).
The population figures used for the U.S. states were published by the Bureau of the Census on July 1, 2009.
Source: "La Fleur's 2010 World Lottery Almanac"

U.S. LOTTERY INDUSTRY
FISCAL YEAR 2009
(in millions)

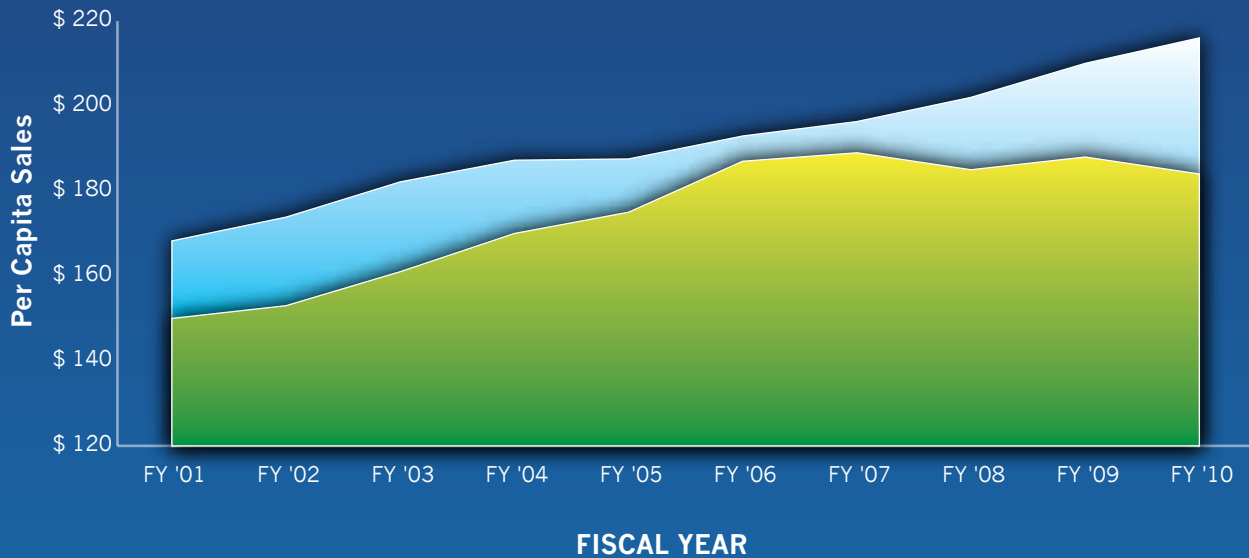


OHIO LOTTERY - SALES PER CAPITA LAST TEN FISCAL YEARS

FISCAL YEAR	OHIO			NATIONAL PER CAPITA SALES
	POPULATION (in millions)	TICKET SALES (in millions)	PER CAPITA SALES	
2001	11.4	\$1,919.9	\$ 168.4	\$ 150.0
2002	11.4	1,983.1	174.0	153.0
2003	11.4	2,078.2	182.3	161.0
2004	11.5	2,154.7	187.4	170.0
2005	11.5	2,159.1	187.7	175.0
2006	11.5	2,220.9	193.1	187.0
2007	11.5	2,259.4	196.5	189.0
2008	11.5	2,325.1	202.2	185.0
2009	11.5	2,417.7	210.2	188.0
2010	11.5	2,490.2	216.5	184.0

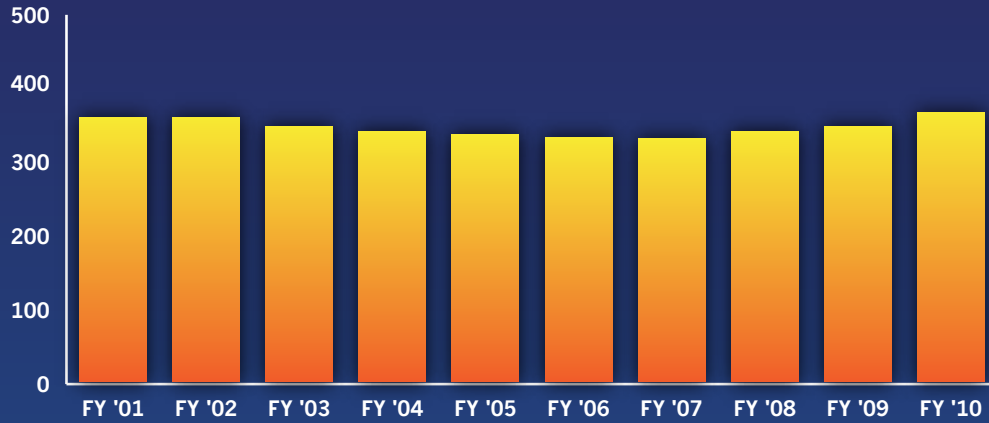
Source: "La Fleur's 2009 World Lottery Almanac"

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

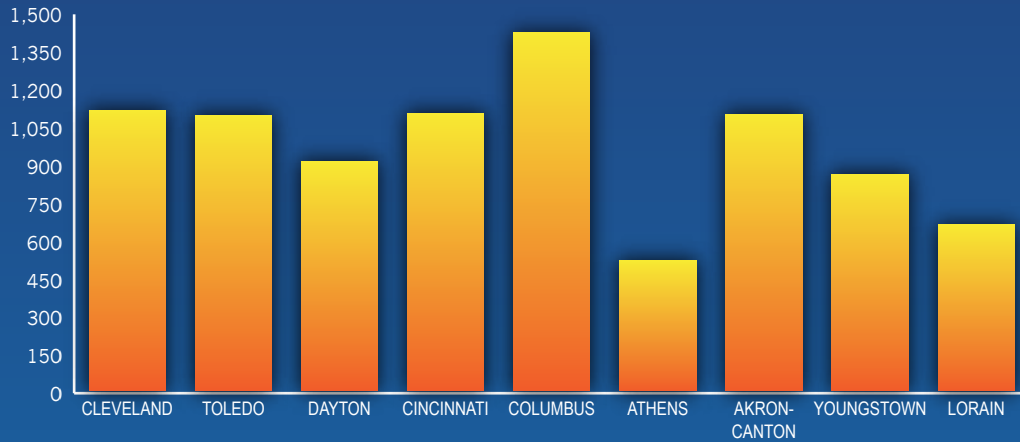


Source: "La Fleur's 2009 World Lottery Almanac"

**OHIO LOTTERY - NUMBER OF EMPLOYEES
LAST TEN FISCAL YEARS
AS OF JUNE 30, 2010**



**OHIO LOTTERY - RETAILERS BY REGION
TOTAL LOTTERY RETAILERS: 8,770
AS OF JUNE 30, 2010 (ACTIVE RETAILERS ONLY)**

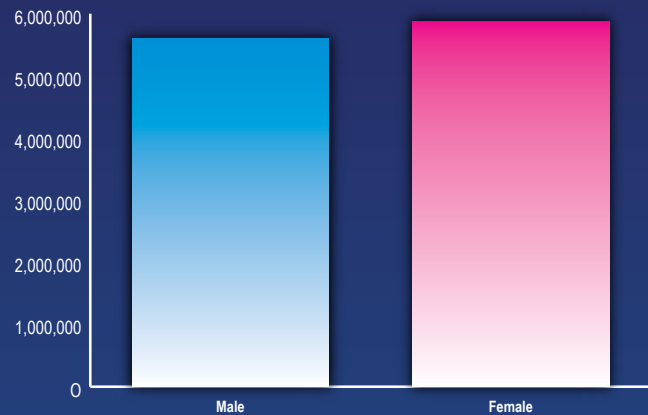


**OHIO LOTTERY - NUMBER OF RETAILERS
LAST TEN FISCAL YEARS**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TOTAL RETAILERS	9,178	9,019	8,882	8,801	8,754	8,559	8,154	8,005	8,748	8,770

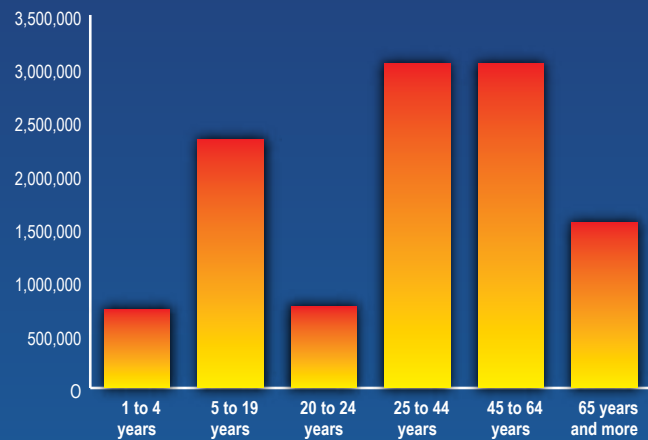
POPULATION BY GENDER (ANNUAL ESTIMATES JULY 1, 2008)

	Number	Percent
Male	5,593,315	48.75%
Female	5,880,668	51.25%
Total Population	11,473,983	100.0%



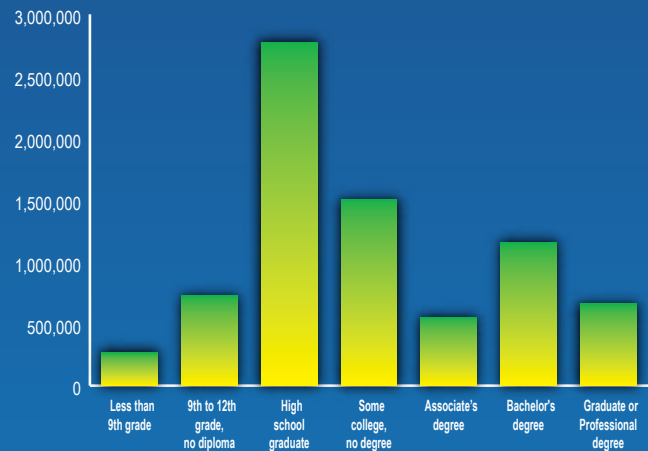
POPULATION BY AGE (ANNUAL ESTIMATES JULY 1, 2008)

Population by Age	Number	Percent
Under 5 years	739,177	6.4%
5 to 19 years	2,336,112	20.4%
20 to 24 years	761,859	6.6%
25 to 44 years	3,042,707	26.5%
45 to 64 years	3,043,800	26.5%
65 years and more	1,550,328	13.5%
Total Population	11,473,983	100.0%
Median Age	37.9	



EDUCATION (2008)

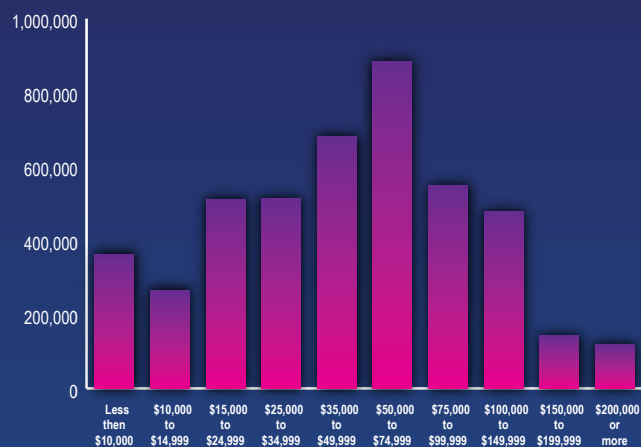
Educational Attainment	Number	Percent
Less than 9th grade	266,380	3.5%
9th to 12th grade, no diploma	726,379	9.5%
High school graduate	2,775,575	36.3%
Some college, no degree	1,501,473	19.7%
Associate degree	552,006	7.2%
Bachelor's degree	1,154,781	15.1%
Graduate or Professional degree	660,241	8.6%
Persons 25 years and over	7,636,835	100.0%



U.S. Census Bureau - 2008 American Community Survey, Ohio Department of Development
 Note: percentages may not add to 100% due to rounding.

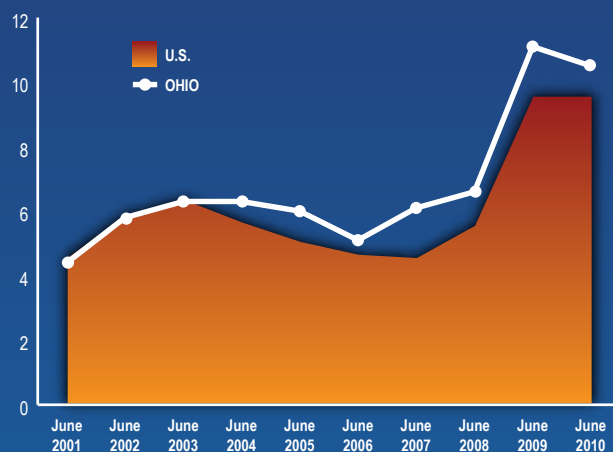
HOUSEHOLD INCOME (2008)

	Number	Percent
Less than \$10,000	361,807	8.0%
\$10,000 to \$14,999	264,330	5.9%
\$15,000 to \$24,999	511,068	11.3%
\$25,000 to \$34,999	513,495	11.4%
\$35,000 to \$49,999	682,089	15.1%
\$50,000 to \$74,999	883,362	19.6%
\$75,000 to \$99,999	547,839	12.2%
\$100,000 to \$149,999	479,239	10.6%
\$150,000 to \$199,999	144,310	3.2%
\$200,000 or more	118,948	2.6%
Total Households	4,506,487	100.0%
Median Household Income	\$48,023	



UNEMPLOYMENT RATES (SEASONALLY ADJUSTED)

Month / Year	Ohio	U.S.
Jun-2001	4.4%	4.5%
Jun-2002	5.8%	5.8%
Jun-2003	6.3%	6.3%
Jun-2004	6.3%	5.6%
Jun-2005	6.0%	5.0%
Jun-2006	5.1%	4.6%
Jun-2007	6.1%	4.5%
Jun-2008	6.6%	5.5%
Jun-2009	11.1%	9.5%
Jun-2010	10.5%	9.5%



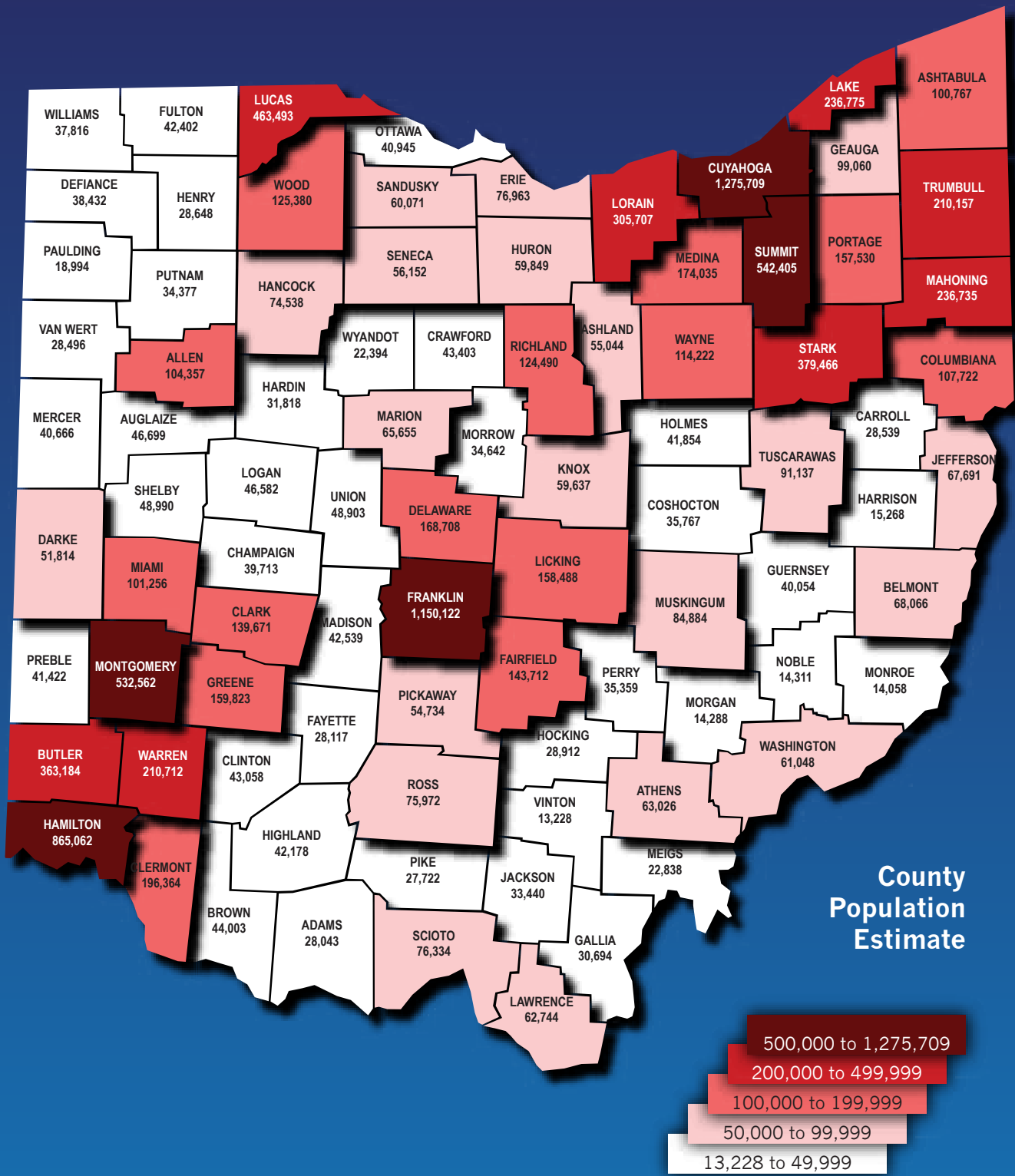
Ohio Department of Job & Family Services

STATE OF OHIO - PRINCIPAL EMPLOYERS FOR CALENDAR YEARS 2008 AND 1999

2008				1999		
RANK	EMPLOYER	EMPLOYEES	% OF TOTAL STATE EMPLOYMENT	RANK	EMPLOYEES	% OF TOTAL STATE EMPLOYMENT
1	United States Government	77,555	1.14%	1	82,895	1.23%
2	State of Ohio	57,273	0.84%	2	62,055	0.92%
3	Wal-Mart Stores	54,200	0.79%	8	17,900	0.27%
4	Kroger Company	38,000	0.56%	5	25,000	0.37%
5	Cleveland Clinic Health System	37,800	0.55%	6	20,000	0.30%
6	Catholic Healthcare Partners	28,200	0.41%			
7	The Ohio State University	26,800	0.39%			
8	University Hospitals Health System	21,800	0.32%			
9	JP Morgan Chase & Co.	17,500	0.26%			
10	Giant Eagle, Inc	17,000	0.25%			
	General Motors Corporation			3	27,700	0.41%
	Delphi Automotive			4	27,000	0.40%
	Ford Motor Company			7	18,900	0.28%
	General Electric Company			9	17,400	0.26%
	Procter & Gamble Company			10	15,500	0.23%

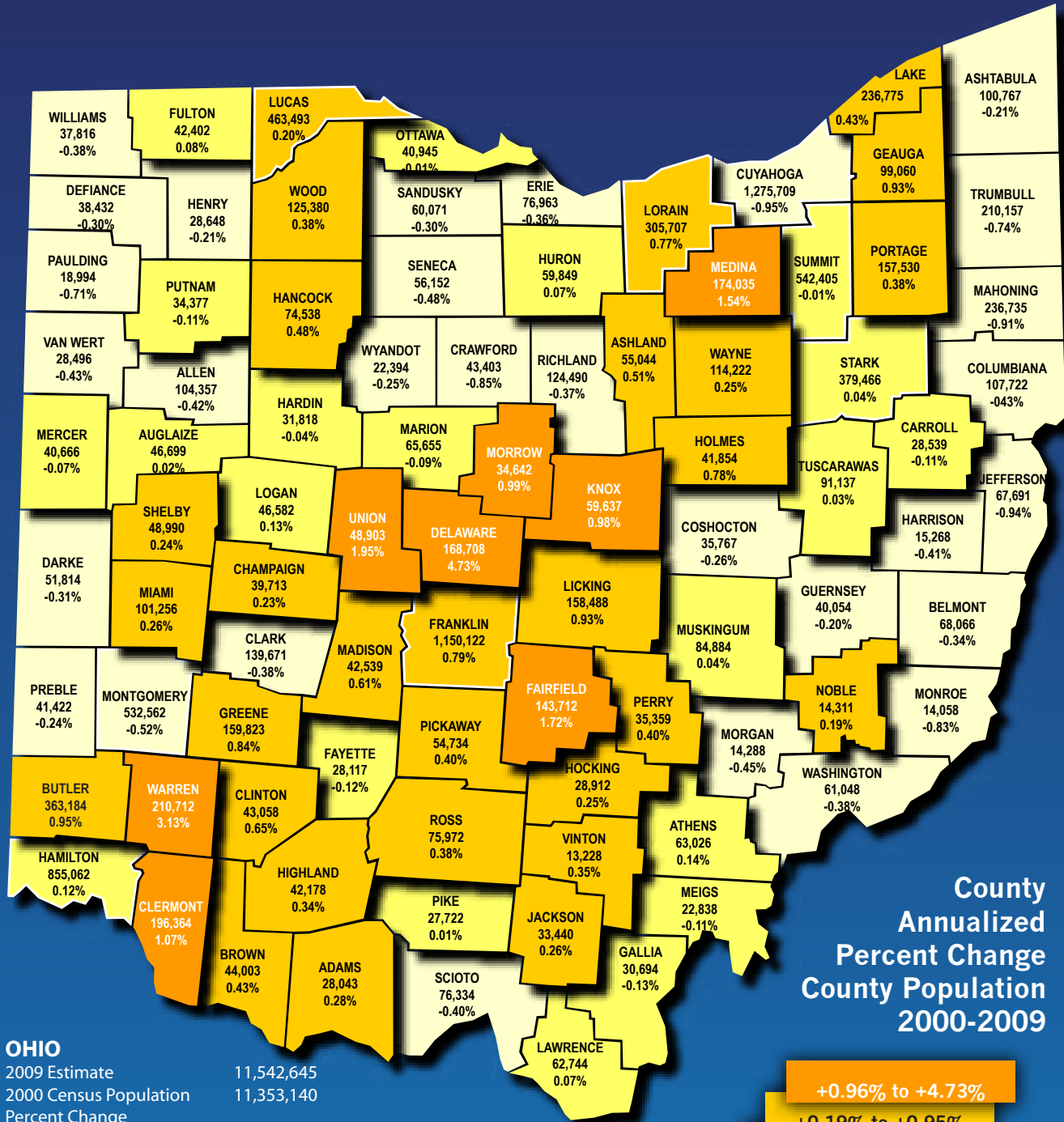
Sources: U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Census Bureau, Ohio Department of Development, Ohio Department of Administrative Services, The Ohio State University, University Resource Planning and Institutional Analysis

STATE OF OHIO
POPULATION DISTRIBUTION - 2009
STATE POPULATION: 11,542,645



Source: U.S. Census Bureau

STATE OF OHIO POPULATION ESTIMATES ANNUALIZED PERCENT CHANGE 2000-2009



OHIO
2009 Estimate 11,542,645
2000 Census Population 11,353,140
Percent Change (Annualized) 2000 to 2009 +0.18%

U.S.
Percent Change (Annualized) 2000 to 2009 +0.95%

+0.96% to +4.73%
+0.19% to +0.95%
-0.17% to +0.18%
-0.95% to -0.18%
Counties with 300,000+ population

Source: U.S. Census Bureau

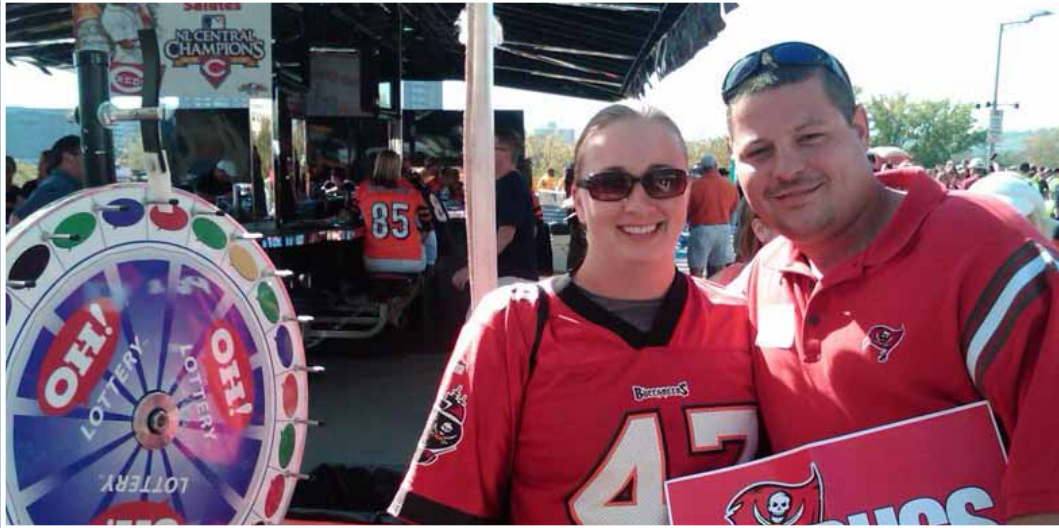


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Mary Taylor, CPA
Auditor of State

OHIO LOTTERY COMMISSION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2010**