



Dave Yost • Auditor of State



OHIO LOTTERY COMMISSION  
CUYAHOGA COUNTY

TABLE OF CONTENTS

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

**This page intentionally left blank.**



# Dave Yost • Auditor of State

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

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

To the Commissioners:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of each major fund of the Ohio Lottery Commission, Cuyahoga County, (the Ohio Lottery) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Ohio Lottery's basic financial statements and have issued our report thereon dated October 1, 2015, wherein we noted the Ohio Lottery adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. We also noted the financial statements of the Ohio Lottery are intended to present only the portion of the State of Ohio's financial statements that is attributable for the transactions of the Ohio Lottery. Additionally, the summarized comparative information has been derived from the Ohio Lottery's financial statements as of and for the year ended June 30, 2014 and, in our report dated October 1, 2014, we expressed unmodified opinions on the respective financial position of each major fund.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 1, 2015

# The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio



Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2015





# **The Ohio Lottery Commission**

An Enterprise Fund of the State of Ohio  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2015

Prepared by the  
Ohio Lottery Office of Finance

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



# TABLE OF CONTENTS

---

## INTRODUCTORY SECTION

---

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

## FINANCIAL SECTION

---

Independent Auditor’s Report.....	18
Management’s Discussion and Analysis.....	21
Basic Financial Statements:	
Statement of Net Position – Major Funds.....	28
Statement of Revenues, Expenses, and Changes in Fund Net Position – Major Funds.....	30
Statement of Cash Flows – Major Funds .....	31
Notes to Basic Financial Statements .....	32

## STATISTICAL SECTION

---

Introduction .....	48
<b>OHIO LOTTERY STATISTICS</b>	
Net Position.....	49
Revenues and Sales .....	50
Prize Payout and Expenses .....	51
Video Lottery Terminals (VLTs) .....	53
Lottery Industry Statistics .....	54
Ohio Lottery Comparative Statistics .....	55
Employee Data.....	56
Retailer Data .....	57
<b>STATE OF OHIO STATISTICS</b>	
State of Ohio Demographics .....	58

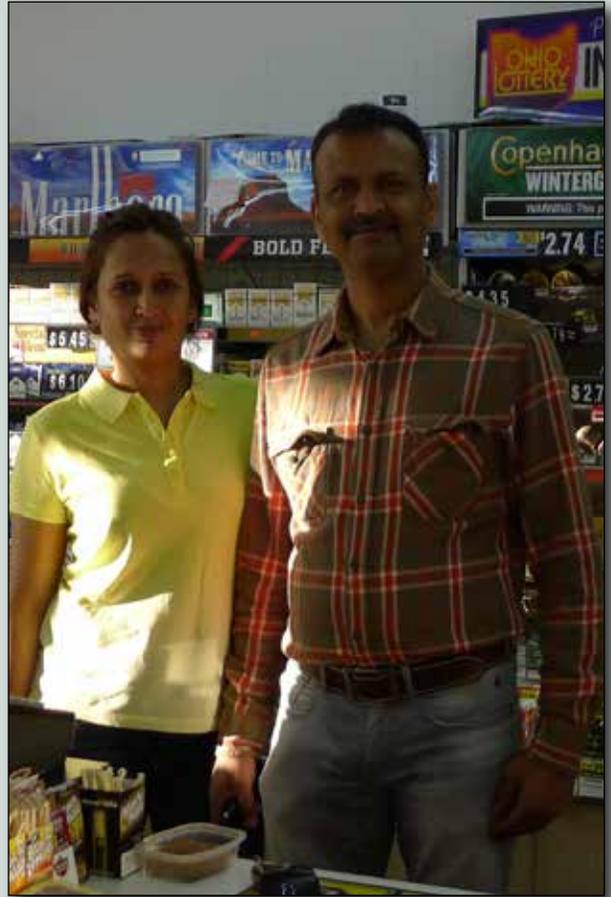
## • INTRODUCTORY SECTION •

The SalesMaker Retailer Program is designed to implement the lottery industry's best practices and optimize lottery sales. The Ohio Lottery comes on site to retailer locations and gives their business a "Lottery Makeover." SalesMaker was originally developed by Jeff Sinacori, Vice President of Retail Development for Scientific Games. A pilot program began in 2009 in Ohio. Fifteen retailer locations were selected and made over. In 2012, the Ohio Lottery developed its own internal program. Since then, hundreds of retail locations have undergone a makeover. Those retailers who continue to adhere to the industry's best practices usually enjoy significantly-increased sales.

"A retailer has to ask themselves, what makes them stand out," says Michelle Frabott, Project Manager for the SalesMaker Program. "Take any retailer on a corner, and there could be two or three other Lottery retailers on that same corner. We offer retailers a tangible example to reinvent their lottery environment. It's one of the selling points of the program," said Michelle.

While every Ohio Lottery retail location is different, a series of best practices has been developed for SalesMaker. It's these best practices that provide the basic framework for every makeover:

- Lottery jackpot signs are visible from outside
- Lottery products are put front and center
- Lottery products are not blocked by other merchandise
- Lottery ticket dispensers are full at all times
- Lottery ticket dispensers are numbered for easy selection
- Top-selling games are double faced
- A "Wall of Winners" displays winning tickets
- A Lottery play area available for customers



Hina and Vimal Patel, owners of C Store Convenience Market.



Doug Kuhlke, Sales Representative 2, removes all outdated and non-essential items off the door and store front.



The storefront has big windows that allows plenty of light into the building.

Recently, the Ohio Lottery went to C Store Convenience Market, Willowick, for a makeover. The owners, Vimal and Hina Patel, purchased the business about 6 months ago. Vimal's brother-in-law, who is also a Lottery Retailer, underwent a SalesMaker makeover and recommended it to Vimal.

"Most of our makeovers come from word-of-mouth," said Michelle. "You can show a retailer sales data, case studies, etc., but most of our retailers come to us because they know or met someone who went through the SalesMaker program."

Once a retailer agrees to a makeover, Michelle will pull research data, which amongst other things include a retailer's ticket sales and product mix. She'll also do a bin count on the amount of individual ticket dispensers a retailer has, as well as conduct a 16-week sales average to see how well each game is selling.

"SalesMaker isn't just about putting up some banners," said Michelle. "It's also to encourage retailers to adopt the right philosophy about their product."

Assessing their product mix is equally important. For example, there may be an instant ticket that has average sales statewide, but is extremely popular at a retail location and is that retailer's top selling ticket.

"In that instance, we would want to increase that ticket's facing," said Frabott. A top-selling ticket would be placed in multiple dispensers side by side, increasing its facing.



The front counter of C Store. Can you spot the Lottery tickets?



You can see that the player area inside C Store is cluttered, offers very little space.



Patrick Kennedy, Office of Sales, positions the newly-delivered play station next to the other Lottery machines.



Gary Lawton begins to carry in the new instant ticket dispensers for assembly on the sales counter.



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

## **OCTOBER 1, 2015**

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, 2015. The Office of Finance of the Ohio Lottery has prepared this report in accordance with Generally Accepted Accounting Principles (GAAP). The Ohio Lottery, an agency of the State of Ohio (the State), was created in 1974 and is operated as a business enterprise within the framework of the State's laws and regulations. The Ohio Lottery's mission is to offer entertaining games that maximize profits for K-12 public education.

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

## **BACKGROUND**

---

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

To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Ticket sales increased significantly in the early 1990s. In 2002, Ohio began selling Mega Millions, a multi-jurisdictional jackpot game and now participates in the Powerball game. In August 2008, KENO debuted in Ohio and now represents our biggest opportunity for growth. As of June 30, 2015, 44 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico operate lotteries using computer-based online games and instant "scratch off" games.

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

## **ECONOMIC OUTLOOK**

---

According to the Bureau of Economic Analysis (BEA), personal income in the United States increased 0.4 percent during the fourth quarter of fiscal year 2015. The report indicates that personal income grew in 46 states and growth accelerated in 15 of those states. BEA targeted a number of special factors behind the increase in personal income, including increases to Social Security and Medicaid benefits, in addition to expansions of the Affordable Care Act. Of the industries tracked, the largest percentage increases are in the professional services, construction, and finance. All told, twenty-two of twenty-four tracked industries saw earnings growth.

The US unemployment rate for June 2015 was 5.3 percent, down from a high in 2011 of 9.2 percent. Earnings growth accelerated in five industries in the first quarter of fiscal year 2015: professional services, health care, retail, construction and finance.

Ohio ended the first quarter of fiscal year 2015 with a 1.1 percent increase in personal income over the previous quarter. Ohio ranked 13th among states for change in income between the quarters. During fiscal year 2015, the unemployment figures in Ohio have trended downward, from 5.9 percent in April of 2014 to 5.2 percent as of June 2015. Ohio's unemployment rate currently sits at 0.6 percent better than the national rate.

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

Fiscal year 2015 marked the tenth consecutive year of profit growth for the Ohio Lottery. Total revenues also increased due to the two new VLT facilities (racinos), in addition to continued strong performance from the five facilities opened between fiscal years 2012 and 2014. The implementation of the new racinos are in keeping with the Ohio Lottery's strategic plan to continually innovate in an effort to maintain player interest. Additionally, as consumers scale back on discretionary spending, Ohio Lottery games offer an affordable entertainment alternative.

## LOTTERY PRODUCTS

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

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



**PICK 3** was Ohio's first online game. Players select a three-digit number from 000 to 999 and can play the numbers straight (numbers in exact order), boxed (numbers in any order) or as backup bets (players can win either or both ways). A wheel wager can also be placed. This wager is, in essence, equivalent to a straight bet being made for each number combination. Pick 3 sales for fiscal year 2015 were \$338 million, or 11.7 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 2015 were \$192.8 million, or 6.7 percent of total Ohio Lottery sales.



**PICK 5** began in August 2012 and is played similarly to Pick 3 and Pick 4. Players select a five-digit number from 00000 to 99999 and may play it straight, boxed or in back-up bets. Sales for fiscal year 2015 were \$33.3 million or 1.2 percent of total Ohio Lottery sales. Pick 3, Pick 4 and Pick 5 are drawn middays and evenings Sunday through Saturday.



**ROLLING CASH 5** is a lotto game in which players select five numbers from a pool of 1 to 39, with overall odds of winning any prize of 1 in 9. The top prize starts at \$100,000 and increases if not won. Sales for fiscal year 2015 were \$62.6 million, or 2.2 percent of total Ohio Lottery sales. Drawings are held Sunday through Saturday evenings.



**CLASSIC LOTTO** is an in-state lotto game in which players select six numbers from a pool of 1 to 49. To win the jackpot, all six numbers must be matched. The jackpot starts at \$1 million and increases if not won. Drawings are held on Monday, Wednesday, and Saturday evenings. Classic Lotto sales for fiscal year 2015 were \$31.0 million, or 1.1 percent of total Ohio Lottery sales.

**KICKER** is an add-on game, with a top prize of \$100,000, which may only be purchased along with Classic Lotto. KICKER was reinstated in April 2012. Sales for fiscal year 2015 were \$4.7 million, or 0.2 percent of total Ohio Lottery sales.



**NEW YEAR'S RAFFLE**, the Ohio Lottery's one-of-a-kind holiday game, made a comeback this year. Tickets were on sale from November 9, 2014 to January 5, 2015. The amount of tickets for sale was limited to 500,000 at \$20 per ticket with the numbers randomly selected. Prizes ranged from \$100 to \$1 million. It had a guaranteed \$5 million payout, with four \$1 million prizes. Sales for fiscal year 2015 were \$7.0 million, or 0.2 percent of total Ohio Lottery sales.



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

**MEGAPLIER** was added to Mega Millions in January 2011. Players may select the Megaplier option for a chance to increase their winnings at the cost of \$1 for each dollar wagered on Mega Millions. The Megaplier number drawn can be 2, 3, 4 or 5, and can increase winnings by that Megaplier number drawn. Megaplier multiplies the winnings by the number drawn for prizes up to \$5,000. If a player selects the Megaplier option and then matches all five numbers but not the Mega ball, the prize is automatically \$1.0 million. Drawings are held on Tuesday and Friday evenings. Mega Millions/Megaplier sales for fiscal year 2015 were \$113.3 million, or 3.9 percent of total Ohio Lottery sales.



**EZPLAY** is a hybrid instant/online game. EZPLAY combines the instant win experience with an online game component. The player purchases an online ticket that consists of two sections, a draw section followed by a play section. Players then match the two sections to determine if they are a winner. Game themes and ticket selling prices modify easily to keep the product line fresh. In fiscal year 2013, a progressive jackpot component was added to the game portfolio, which now comprises of roughly 83% of EZPLAY sales. Sales for fiscal year 2015 were \$99.8 million, or 3.4 percent of total Ohio Lottery sales.



**EZPLAY TAP** is a new series of EZPLAY® Games that include graphical touch-screen style play. The Multi-Purpose Next Generation (MPNG) machines are an exclusive, legal gaming option offered by the Ohio Lottery for Veteran and Fraternal Organizations. This gaming system went live in October 2014 with six hundred and seventy machines. Several different games are loaded into each machine with play prices starting at twenty-five cents. These games are normally structured to generate an 85-90 percent payout. Sales for fiscal year 2015 were \$24.0 million, or 0.8 percent of total Ohio Lottery sales.



**KENO** is a draw game in which players choose from one to 10 numbers (also called spots) for a top prize of \$100,000 by matching 10 of 20 numbers drawn. The drawings are held every day starting at 6:04 a.m. and occur every four minutes, ending at 2:28 a.m. The Ohio Lottery introduced Booster in February 2010. Players may select the Booster option for a chance to increase their winnings at the cost of \$1 for each dollar wagered on KENO. The Booster number drawn can be 1, 2, 3, 4, 5, or 10 and can increase winnings 2, 3, 4, 5, or 10 times. Combined KENO/Booster sales for fiscal year 2015 were \$329.5 million, or 11.4 percent of total Ohio Lottery sales.



**POWERBALL** is a multi-state, lotto game launched in Ohio in April 2010. For each wager, players select five numbers from a pool of 1 to 59 and select one Powerball number from a second pool of 1 to 35. To win the jackpot, all six numbers must match. The jackpot starts at \$40 million and increases if not won. Drawings are held on Wednesday and Saturday evenings.

Players may select the **POWER PLAY** feature that allows a winner to increase the original prize amount. Powerball players winning any prize other than the jackpot will win a larger cash prize. Combined Powerball/Power Play sales for fiscal year 2015 were \$105.0 million or 3.6 percent of total Ohio Lottery sales.

**INSTANT GAMES** are played by scratching the latex covering off a play area to reveal pre-printed combinations. There are different ways to win in an instant or “scratch off” game, such as matching three like dollar amounts, symbols, or letters. If the correct combinations appear, the player becomes an “instant winner” and may immediately submit a claim to cash the ticket. Instant games have been the Ohio Lottery’s dominant product since fiscal year 1997. For fiscal year 2015, instant game sales equaled \$1.6 billion or 53.6 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 \$10 and \$20 price points with attractive, higher prize payouts. Following in the success of its first \$30 instant game introduced in fiscal year 2014, 40th Anniversary Millions, the Ohio Lottery released another \$30 ticket, \$500 Million Spectacular in January 2015. This game offers over a million prizes, which includes twenty-six top prizes of either \$1 million or \$10 million, and five-hundred prizes of \$50,000.

**VIDEO LOTTERY** was introduced to the State of Ohio in 2012 when Governor Kasich signed Executive Order 2011-22K, which authorized the Lottery to amend and adopt rules necessary to implement a video lottery program at Ohio’s seven (7) horse racing facilities. On June 1, 2012, Scioto Downs in Columbus began video gaming with 1,787 video lottery terminals; as of June 30, 2015, there were 10,468 terminals at seven different racetracks in Ohio. A Video Lottery Terminal (VLT) is a stand-alone device containing a random-number generator. Each VLT connects to a centralized computer system that allows the Lottery to monitor game play and collect revenue activity. The Central Monitoring System (CMS) keeps track of money deposited in a terminal, usage, wins and payouts, machine maintenance and cash removal. Game themes are approved by Ohio Lottery Commissioners, and independently tested and certified, before placed into operation. The minimum percentage payout in Ohio is 85 percent. The racetrack VLT total revenue for fiscal year 2015 was \$773.0 million, with the Ohio Lottery receiving \$258.9 million. Ohio is one of seven state lotteries to regulate video gaming at racetracks.

## ACCOMPLISHMENTS

A statute in 1987 specifically designated Ohio Lottery profits to help fund the State’s (K-12) public education system through the Lottery Profits Education Fund (LPEF). During fiscal year 2015, The Ohio Lottery transferred \$990.0 million to the LPEF, making this the highest profit transfer in the Ohio Lottery’s 41-year history, surpassing transfers made the prior year by \$85.7 million. This represented the tenth consecutive year of profit growth. Of the profits realized, \$250.1 million represented net proceeds from the video lottery program. With this transfer, the Ohio Lottery has provided more than \$21.3 billion in profits to the State of Ohio. Additionally, the Ohio Lottery achieved several other milestones during fiscal year 2015.

- With the launch of the Hollywood Mahoning Valley Race Course on September 17, 2014, the Lottery marked the opening of its seventh and final VLT facility. This facility generated \$24.7 million in revenue during the year. Also opening during the fiscal year was Hollywood Dayton Raceway, with 1,000 VLTs generating \$23.7 million in revenue for the year. Collectively, all seven racinos operating VLTs generated \$773.0 million in revenue. This was \$335.5 million more than the prior fiscal year. Of this amount, the operators received \$511.4 million, while the Lottery’s share of revenue equaled \$258.9 million.
- **MYLOTTO REWARDS**, the Ohio Lottery’s new player loyalty club went live August 29, 2014. It is a points-based program where players earn points by submitting non-winning tickets or by participating in designated on-line activities, such as answering poll questions and playing games. These points are redeemed at Redemption Central, either for merchandise in the Rewards Catalog or an entry into an exclusive drawing for MyLotto Rewards participants only. One of these feature drawings is Spring into Summer, which gives away Troy-Bilt® FLEX™ and JET™ yard equipment. Other upcoming drawings include tickets to Cincinnati Reds games including hotel and airfare and season ticket packages to Cleveland Indians games. As of June 2015, there were over 190,000 members. There were also over 2.1 million non-winning tickets and drawing entries processed, with over \$1 million in prizes awarded.
- The Ohio Lottery is continually exploring ways to make Lottery play more convenient for our players. In October 2014, the Ohio Lottery introduced a new voucher system for players. The voucher system allows players to transfer remaining funds across various Lottery vending machines. Lottery players will have the ability to redeem any unplayed moneys in a form of a voucher.

The voucher, which is good for one hundred and eighty (180) days can then be used for future play or can be redeemed for cash at any Ohio Lottery retailer location.

- **EZPLAY TAP** is a new series of EZPLAY games launched in October 2014. It is a product line created to provide a legal gaming solution to Veteran and Fraternal organizations. It provides entertainment to the organization's members while generating revenue for their needs and charitable efforts. The Multi-Purpose Next Generation (MPNG) machines offer new games using touch-screen style play. Game prices begin as low as twenty-five cents, with a payout range of 85-90 percent. At the end of playing on an MPNG machine, the player receives a voucher to either redeem as cash or play on other Lottery games. Initially, eighty-five percent of net revenue will be divided between the organizations, their charities, and the vendor Intralot. The remaining fifteen percent will go to the Ohio Lottery and the LPEF. This percentage will increase for the Lottery as the costs of initial equipment and setup decrease. Organizations with MPNG machines are required to hold an Ohio Lottery retailer license, which enables them to sell other Ohio Lottery products at their establishments. The State of Ohio authorized one thousand two hundred MPNG machines to operate in veteran and fraternal posts statewide. At the initial release date of October 5, 2014, there were six hundred and seventy MPNG machines installed at two hundred Veteran and Fraternal organizations throughout the State of Ohio.
- **KENO** sales continue to increase in fiscal year 2015, due in part to successful, varying promotions offered throughout the year, many of which combine with current events taking place. Several of these promotions were Friends Night Out presented in July and May, Spring Training Getaway in September, Holiday Rewards in November and December, and KENO Mania "Free Three" during March Madness basketball games. These promotions emphasize the social nature of the game, attract new players while rewarding loyal customers, and increase overall KENO sales. Additionally, the Lottery introduced a KENO Expert microsite; an online tool accessed using a smartphone or computer. This microsite helps KENO retailer employees learn the rules of the games, which serves as a valuable resource.
- Continuing with the success of the first \$30 instant ticket game, the Ohio Lottery introduced a second \$30 game, \$500 Million Spectacular in January 2015. This game offers players a chance to win up to twenty-five times on a single ticket, with more than \$518 million in total prizes available. \$500 Million Spectacular ticket offers over a million prizes of \$100 to \$5,000, plus five-hundred prizes of \$50,000. In addition, there are four top prizes of \$400K for twenty-five years (\$10 million) and 22 top prizes of \$40K (\$1 million) for twenty-five years. The top prizes are annuity prizes, and include a cash-option equivalent. As of June 30, 2015, there have been three top prize winners.
- The Ohio Lottery is currently coordinating with Ohio's Department of Administrative Services to increase efficiency and effectiveness with the implementation of a Lean Ohio strategy. This program includes certification "Belts" for employees who successfully participate and complete Lean and Six Sigma training. Belts are awarded to those who complete and report on the developments and enhancements made in their division. This is a statewide effort that the Ohio Lottery is pleased to implement. At this time we have one black belt candidate, five (5) green belt holders, and several yellow belt employees. Our entire senior staff is white belt certified and continues to grow in their understanding and engagement with the process.
- The Ohio Lottery acquired 1,500 Dual Jackpot Signs that displayed both the Mega Millions and Powerball games. These signs were strategically positioned at Ohio Lottery Retailers throughout the state. This will help the Lottery by maximizing the exposure of these products to our target market and therefore increase sales.
- In December 2014, a retailer in Boardman, Ohio sold the 13th Classic Lotto jackpot winning ticket worth \$11.1 million. The winner claimed the prize in a trust account and took the cash option of \$5.5 million. This netted the State of Ohio \$222,000 in tax revenue, and the retailer received \$1,000 cash bonus. In February 2015, the Classic Lotto jackpot hit again for \$3.5 million. A retailer in Miamisburg, Ohio, sold the winning ticket. Two Ohio residents claimed the prize. They took the cash option of \$1.75 million, giving the State of Ohio \$70,000 in additional tax revenue.
- In July 2014, a retailer in Conneaut, Ohio sold a winning Powerball ticket. A local Conneaut resident, who opted for the cash option, claimed the \$124.9 million jackpot, resulting in state tax withholdings of \$2.9 million for Ohio. The retailer received a \$100,000 bonus for selling the winning ticket. This win marked Ohio's third Powerball jackpot since joining the game in April 2010.
- The State of Ohio benefits each time a jackpot winner is drawn in Ohio since state income taxes are withheld from the prizewinner's gross proceeds. Since the inception of Mega Millions and Powerball, state tax withholdings for jackpot prize winners have totaled \$61.0 million.
- The Partners in Education program completed its eighth year honoring outstanding K-12 students and teachers from around the State. The Lottery encourages nominations from all over Ohio for the program's Academic All Star and Teacher of the Month awards.
- During fiscal year 2015, the Ohio Lottery, in conjunction with the Ohio Attorney General and the Ohio Department of Job and Family Services, recovered \$3,276,120 from 459 prizewinners who owed state debt or child support.
- In November 2014, the Ohio Lottery launched a second phase of the I Lost A Bet problem gambling awareness campaign. This phase of the campaign expanded the problem gambling discussion through social media, television support, and a bus tour to seven locations across Ohio. The website garnered over 200,000 site visitors, of which 60% were from the 18-24 year old target demographic who are found to be most at-risk for a gambling problem. This was a successful collaborative effort on behalf of Ohio for Responsible Gambling, the multi-agency initiative between the Ohio Lottery, the Ohio Casino Control Commission, the Ohio State Racing Commission, and the Ohio Department of Mental Health and Addiction Services. More than 7 million social media impressions were generated from this campaign and over 2,200 anonymous emails were sent from individuals sharing problem gambling warning signs with their friends and family members.

## 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 2016, the Ohio Lottery's strategies are being concentrated on the following projects:

- Fiscal year 2015 saw the opening of the final two racinos in Ohio, bringing the total in operation to seven. Although these were the last racino establishments scheduled for Ohio, two are already planning expansions, updates, and remodeling for fiscal year 2016. Scioto Downs has begun Phase II of its renovations, which will include a microbrewery and restaurant. They have already completed an outdoor patio with 60 additional video lottery terminals. In April 2015, Thistledown began construction on renovations that will result in major enhancements to the guest experience. These improvements include a parking garage, restaurant, a signature bar that features KENO, and a VIP lounge with an additional 250 VLTs. The expected completion is April 2016. Many of these improvements made by the racinos will also benefit the Ohio Lottery's sales and profits.
- Beginning in fiscal year 2016, under the direction of the Department of Administrative Services, the Ohio Lottery will be upgrading the employee computer software to Microsoft Office 365. This transition to a Private Cloud will happen in late summer 2015. Later on, in September 2015, the Department of Administrative Services and Office of Budget & Management will upgrade the OAKS Financials application. Both of these new cost-effective technology upgrades will not only enhance the Ohio Lottery functionalities and streamline business processes, but also improve standard practices and increase accountability and transparency. Furthermore, in order for the Ohio Lottery to stay competitive and keep up with the latest technology, new smartphones and tablets will be incorporated into the Sales Department. The training is scheduled for late fall 2015, and expected to "Go Live" January 2016.
- The Ohio Lottery has identified an opportunity to join a multi-state Lucky for Life game with 16 other lotteries. Lucky for Life is a smaller online lotto-type game. Wagers cost \$2 with a 59% payout. A player selects five numbers from a field of forty-eight and one number from a field of eighteen. The uniqueness of this game comes from the top two prizes. The grand prize is \$1,000 a day for life paid weekly and the second prize is \$25,000 a year for life paid yearly. These lifetime prizes pay out for either twenty years or as long as you live, whichever is longer. The concept of prizes for life is appealing to the consumer, and it offers players a fixed prize alternative to other Ohio Lottery games that offer progressive jackpots. This game is currently under review by the Governor of Ohio for approval.
- The Multi-State Lottery Association has plans to change the Powerball game structure in fiscal year 2016 in response to customer expectations for frequent game variations. The matrix will change from 5/59 + 1/35 to 5/69 + 1/26, which will change the odds of winning the jackpot from 1 in 175 million to 1 in 292 million. Although this change will make it harder to win the jackpot money, it will increase the odds of winning any Powerball lower-tier prize. This will also increase the average jackpots, which will go from \$174 million to \$310 million. Projected sales are also expected to increase in a twelve-month period, going from \$4.1 billion to \$5.8 billion. Changes to Powerball were necessary to make the game more sustainable. By shifting the wealth, officials hope that more people will be attracted to playing this game more often. The revised rules were brought to the Lottery Commission June 15, 2015 for approval. The changes will go in effect October 2015.
- The Ohio Lottery is collaborating with Georgia, Maryland, and Michigan to launch a multi-state progressive KENO game. One of the first steps is to obtain a vendor to operate a jackpot controller. Once that is accomplished and the rules and regulations are agreed upon, the Ohio Lottery must acquire permission from the Governor of Ohio. The new multi-state KENO will not replace the Ohio Lottery's current KENO games, but the progressive factor will be an added feature. The new game will use the nine spot, which is currently an unpopular spot, as the progressive jackpot spot linking all four states. The main advantage of joining a multi-state progressive game is the expectation that large sales should make for a large jackpot with more frequent winners. This game is expected to launch in late 2015 or early 2016.
- The Ohio Lottery is developing a pilot program for the implementation of "super retailers" throughout the State. The super retailer program would allow approved retailers to cash their winning tickets at amounts between \$600 and \$5,000, and would increase player access to facilities that cash tickets up to \$5,000. This potential program may also realize ancillary economic benefits for the State, as consumers who cash their winning tickets at participating retailers may utilize a portion of their winnings to purchase items in-store.
- As lottery games in the industry evolve, the Ohio Lottery continues to evaluate available game options and prize matrices. The Lottery will benchmark Ohio's sales results against peer lottery states and review best practices in order to improve Ohio's current lottery products. During fiscal year 2016, the Lottery will adjust both its instant ticket and online gaming products as needed to enhance sales. Open communication with the Lottery's primary instant ticket and online gaming vendors will augment the Lottery's research and benchmarking efforts.

## ACCOUNTING SYSTEMS AND POLICIES

---

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

The Ohio Lottery's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of the Ohio Lottery are included in the statement of net position. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net position. A narrative overview and analysis of the Ohio Lottery's financial activities for the fiscal year ended June 30, 2015 is in the Management's Discussion and Analysis in the financial section of this document.

## BUDGETARY CONTROL

---

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

## INTERNAL CONTROL ENVIRONMENT

---

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

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

## FINANCIAL INFORMATION

---

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

## GFOA CERTIFICATE OF ACHIEVEMENT

---

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its CAFR for the fiscal year ended June 30, 2014. This was the eighteenth consecutive year that the Ohio Lottery has received this prestigious award. To qualify for the Certificate of Achievement Award, the Ohio Lottery published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

## INDEPENDENT AUDIT

---

Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audit of the Ohio Lottery. The Ohio Lottery's financial statements audit for fiscal year 2015 has been completed in conformity with generally accepted governmental auditing standards. The auditor's unmodified opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

## ACKNOWLEDGMENTS

---

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

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

Respectfully Submitted,



Gregory A. Bowers, MBA  
Director of Finance



Dennis R. Berg, CPA, CFE  
Director



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**The Ohio Lottery Commission**

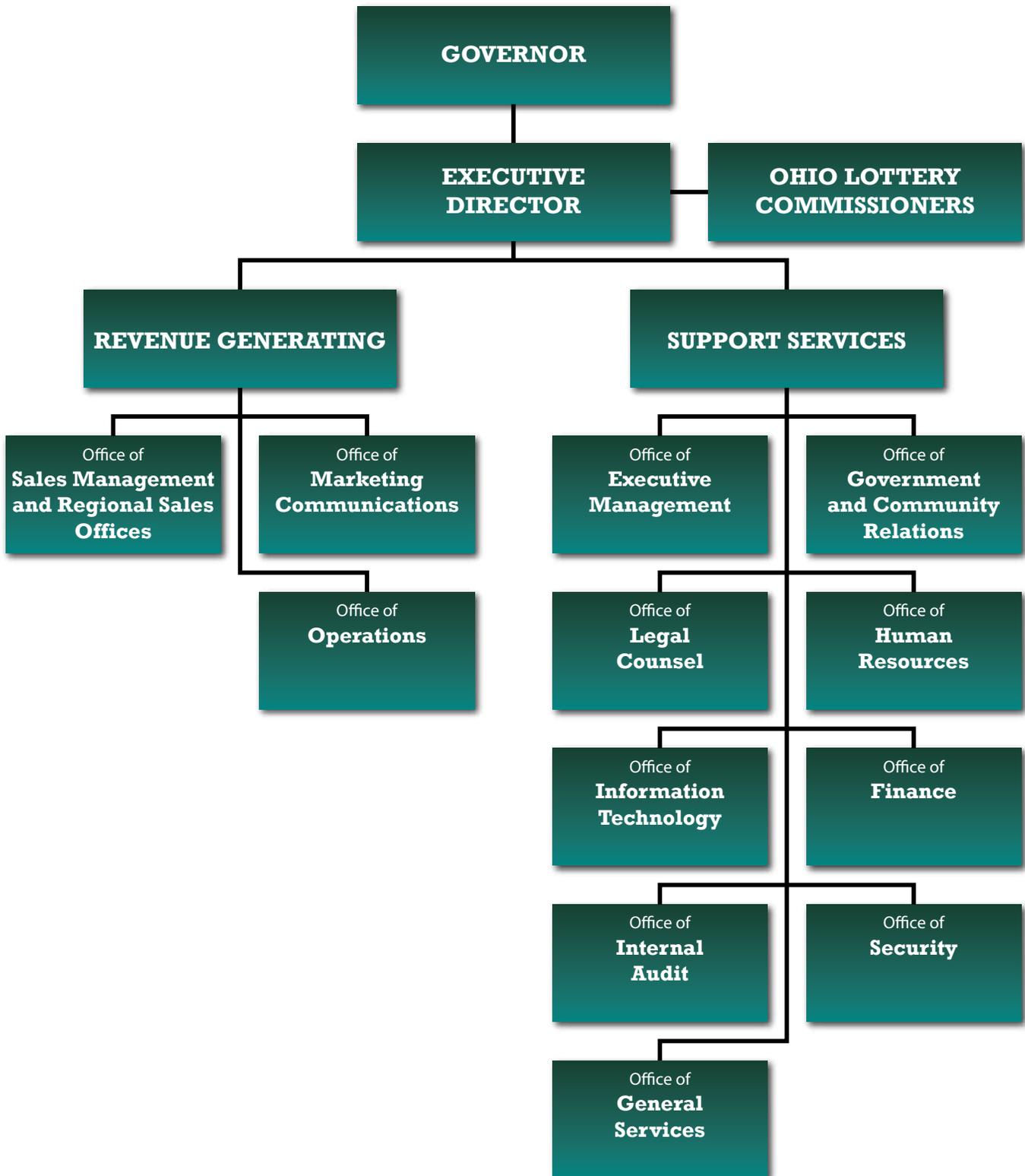
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO

**OHIO LOTTERY COMMISSION**  
**STRUCTURE OF ORGANIZATION • FISCAL YEAR 2015**

---



## PRINCIPAL OFFICIALS

---

**John R. Kasich**

GOVERNOR OF OHIO

**Dennis R. Berg**

DIRECTOR

**Patrick McDonald**

COMMISSION CHAIR

Term ends 8/01/15

**Sean Whalen**

COMMISSION VICE CHAIR

Term Ends 8/01/17

**James Brady**

COMMISSIONER

Term Ends 8/01/17

**Allan C. Krulak**

COMMISSIONER

Term Ends 8/01/15

**John F. Lewis**

COMMISSIONER

Term Ends 8/01/16

**William Morgan**

COMMISSIONER

Term Ends 8/01/15

**Angela Mingo**

COMMISSIONER

Term Ends 8/01/17

**Elizabeth D. Vaci**

COMMISSIONER

Term Ends 8/01/16

**Vacant Commission Term**

Term Ends 8/01/16

# • FINANCIAL SECTION •

Once all the data had been analyzed, the Lottery scheduled a day to come in and conduct the makeover. The makeover takes an entire day, and the business remains open during the entire operation.

By 7:30 a.m. on the appointed day, the SalesMaker Team - several Lottery employees from the Akron-Canton regional office and Central headquarters - have assembled at C Store's parking lot and have begun to work.

The team is primarily focused on three areas for the makeover - the store front, the sales counter, and the play area.

First came the tear down and clean up of each area. Doug Kuhlke and Matt Borgner, Sales Representatives 2 from the Akron-Canton Regional Office and long-time Lottery veterans, began the tedious process of peeling everything off the windows, both inside and out.

Inside, Kerry Walley, C Store's Sales Representative, along with Gary Lawton, Sales Representative 2, and Michelle, begin to clear the sales counter.



Matt installing the window decals.



Doug and Matt ready the next window panel for the Lottery window decals.



Michelle assembling the new ticket dispensers.



Michelle and Pat install the dispenser's side security panel. In the background, Kerry is preparing the books of instant tickets to be loaded into the dispensers.

“At first, you’d think that the dispenser placement was good, as they’re the first things you see when you walk through the door,” said Michelle. “But most people will go through the store first and shop for whatever they’re shopping for. When they finally get to the register, the dispensers are at the furthest point away from the register,” she said.

There is also a Lottery online terminal next to the register, but it’s obscured.

By mid-morning, all the prescribed clean up and tear down had been completed, and the rebuilding begins. Pat Vasil, Deputy Director of Sales, has stopped by to lend a hand. Seeing that everything is under control, she begins to organize the player area.

Doug, Matt and Patrick work on the storefront, framing each window with new Lottery-branded window clings. Meanwhile, Michelle, Kerry and Gary begin to unload the new dispensers and assemble them on the counter in their new location.

Once the new dispensers are built, they are numbered. This makes it easier for a customer to come in and make their purchase.

Meanwhile, Lottery banner rolls are unfurled and measured out to wrap the base of the sales counter. Patrick, Michelle and Gary begin applying the banner roll while Kerry finishes stocking the new dispensers with instant tickets. As the makeover approaches its conclusion, one of the finishing touches is the winner’s wall - in this case, a window devoted to every significant winning ticket sold at that retail location.



Gary and Michelle install the wrap for the sales counter.



Michelle and Kerry discuss product arrangement inside the dispensers.



Gary and Matt finish up the winners wall.



The bright green dispensers at the top of the display are reserved for the highest-selling and most exclusive games.



Patrick numbers each dispenser to make customer purchases easier.

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Commissioners:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio (the Ohio Lottery), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Ohio Lottery's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801  
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361  
[www.ohioauditor.gov](http://www.ohioauditor.gov)

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Ohio Lottery Commission, Cuyahoga County, Ohio, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited the Ohio Lottery's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Emphases of Matter**

As discussed in Note 1, the financial statements of the Ohio Lottery are intended to present the financial position, and changes in financial position and cash flows, of only the portion of each major fund of the State of Ohio that is attributable to the transactions of the Ohio Lottery. They do not purport to, and do not present the financial position of the State of Ohio as of June 30, 2015, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted by the United States of America.

As discussed in Note 8 to the financial statements, for the year ended June 30, 2015, the Ohio Lottery adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### **Required Supplementary Information**

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

#### **Other Information**

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2015, on our consideration of the Ohio Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ohio Lottery's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 1, 2015

**This page intentionally left blank.**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

---

As management of the Ohio Lottery Commission (the Ohio Lottery), we offer readers of the Ohio Lottery's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2015. 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 6-12 of this report, and the financial statements which begin on page 28.

## FINANCIAL HIGHLIGHTS

---

- Total traditional lottery sales increased \$148.9 million, or 5.4 percent from fiscal year 2014, resulting in overall sales of nearly \$2.9 billion. This represents an all-time record for traditional lottery products.
- Online sales increased \$24.7 million, or 1.9 percent over last year, with the return of New Year's Raffle game, the introduction of EZPLAY Tap games, and record sales achieved from Pick 5. In addition, KENO and EZPLAY® games both broke all-time sales records for the fiscal year.
- Instant ticket sales increased \$124.2 million, or 8.7 percent, from fiscal year 2014. This represents the highest fiscal year instant ticket sales recorded in Ohio Lottery history. This was due in part to the introduction of the second \$30 instant game, \$500 Million Spectacular, in addition to Lottery's 40th Anniversary Millions \$30 game, which was introduced last year.
- Prize expense increased \$177.3 million in fiscal year 2015 primarily due to the increase in sales volume and the introduction of the \$30 price point instant ticket, which carries a higher prize payout. Total prize expense for fiscal year 2015 represented 64.8 percent of total ticket sales compared to 61.9 percent in fiscal year 2014.
- Operating expenses increased from \$121.0 million to \$130.9 million, from fiscal year 2014 to fiscal year 2015 due to the increase in personal service expense, which includes payroll, gaming and advertising expenses.
- In fiscal year 2015, two (2) additional racinos opened and added to the Lottery's VLT portfolio. Hollywood Gaming Dayton Raceway and Hollywood Mahoning Valley Race Course opened in August and September of 2014 respectively, joining the Lottery's existing racinos at Scioto Downs, Thistledown, Hard Rock Northfield, Miami Valley Gaming, and Belterra Park. Gross gaming revenue increased \$335.4 million, and Lottery net revenue increased from \$146.6 million to \$258.9 million or 76.6 percent in fiscal year 2015.
- The Ohio Lottery transferred a record \$990 million to the Lottery Profits Education Fund (LPEF) in 2015, \$85.7 million more than the 2014 transfer amount. This not only represented the tenth consecutive year of profit growth for the agency, but also the highest fiscal year transfer in Ohio Lottery history.
- The Ohio Lottery's total net position decreased \$41.5 million, or 25.8 percent, due to GASB adjustments and increased payments to education.

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

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

### LOTTERY OPERATING FUND

Revenues for this fund are provided primarily from traditional ticket sales and net revenue collected from the VLT facilities. Expenses of this fund represent primarily prize expenses (including cash transfers to the Annuity Prize Fund), operating expenses and transfers to the LPEF. Also included in this fund is the residual balances from the Charitable Gaming Oversight Fund. In fiscal year 2014, the Lottery agreement with the Attorney General's office expired, which will eventually eliminate the usage of the Charitable Gaming Fund in fiscal year 2016. For purposes of this financial report, all financial activity is presented within the Lottery Operating Fund. Please see notes to the basic financial statements for more detailed activity reported within this fund.

### ANNUITY PRIZE FUND

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

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

cash receipts and cash payments during the reporting period from operating, non-capital and capital financing, and investing activities.

## FINANCIAL ANALYSIS

Table 1 provides a summary of the Ohio Lottery's net position at June 30, 2015 compared to June 30, 2014.

**TABLE 1: NET POSITION**  
(rounded thousands)

	<b>JUNE 30, 2015</b>	<b>JUNE 30, 2014</b>
Current Assets: Unrestricted	\$ 274,519	\$ 368,859
Current Assets: Restricted	241,845	225,173
Noncurrent Assets: Restricted	516,440	550,669
Net Capital Assets	<u>28,783</u>	<u>17,469</u>
Total Assets	1,061,587	1,162,170
Deferred Outflows of Resources	1,770	-
Current Liabilities: Unrestricted	71,549	137,225
Current Liabilities: Restricted	383,586	365,925
Noncurrent Liabilities: Restricted and Unrestricted	<u>487,653</u>	<u>497,816</u>
Total Liabilities	942,788	1,000,966
Deferred Inflows of Resources	906	-
Net Position:		
Net Investment in Capital Assets	15,690	2,111
Restricted for Deferred Prizes	66,332	73,751
Unrestricted	<u>37,641</u>	<u>85,342</u>
Total Net Position	<u>\$ 119,663</u>	<u>\$ 161,204</u>

### DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

As a result of implementing GASB 68, the Ohio Lottery is reporting a net pension liability and deferred inflow/outflows of resources related to pension. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The implementation of GASB 68 in fiscal year 2015 resulted in pension liability as stated in deferred outflows and inflows of resources.

### CURRENT ASSETS - UNRESTRICTED

The Ohio Lottery's Current Assets – Unrestricted decreased \$94.3 million compared to fiscal year 2014. Current Assets Unrestricted consists primarily of Cash & Cash Equivalents (including Video Lottery), Cash Equity with the Treasurer of State, Net Receivables from Agents, and other Assets such as Prepaid Assets.

Cash and Cash Equivalent – Video Lottery increased by \$6.0 million due to the timing of the Video Lottery Sales Agents (VLSA) license payments received as agreed upon through a Memorandum of Understanding (MOU) between the VLT operators and the State of Ohio dated June 17, 2011. The MOU requires an applicant to deposit an initial application fee of \$10.0 million, \$15.0 million upon commencement of sales and an additional \$25.0 million due upon one year of operation. Due to the timing of Video Lottery facilities openings, license fees will continue to fluctuate over the course of the next two fiscal years.

Cash Equity with Treasurer of State decreased \$136.2 million, while Cash and Cash Equivalents increased \$83.0 million. Cash Equity with Treasurer of State decreased while Cash and Cash Equivalents increased primarily due to the timing differences of the June profit transfer posting to the Lottery Profits Education Fund.

Net Receivables from Agents decreased by \$3.0 million, which is comprised of amounts due from lottery retailers from the sale of traditional lottery tickets, VLT revenue due from the VLT operators and unrecorded instant ticket sales. On a weekly basis, amounts due from retailers are collected electronically from the retailer's bank accounts for the invoices due from the prior week sales. On June 30, 2015, three days of sales activity were waiting to be collected compared to nine days at June 30, 2014. Other Assets decreased by \$5.2 million over last fiscal year.

### CURRENT ASSETS - RESTRICTED

The Lottery's Current Assets – Restricted increased \$16.7 million in fiscal year 2015 to \$241.8 million, from \$225.2 million in fiscal year 2014. Current Assets – Restricted represent investments dedicated for the payment of annuity prize awards, Obligations under Securities Lending program per GASB 28 requirements, and Interest Receivable. Dedicated Investments increased \$4.2 million, which is a direct function of the number of winner's choosing the annuity option during the year. This category also increased due to an increase in the Securities Lending program.

### NONCURRENT ASSETS – RESTRICTED

Noncurrent Assets – Restricted, which is comprised of investments dedicated to the payment of the Lottery's long-term annuity prizes, decreased from \$550.7 million in fiscal year 2014 to \$516.4 million in fiscal year 2015, or \$34.2 million. This decrease is primarily the result of fewer grand prize winners selecting the annuity option over time as opposed to the cash option.

### CURRENT LIABILITIES - UNRESTRICTED:

Current Liabilities - Unrestricted decreased by \$65.7 million, primarily due to the accounting for GASB 28, Securities Lending Program. The amount reported as collateral on lent securities decreased from \$45.7 million in 2014 to \$6.9 million in 2015, or \$38.8 million. In addition, Capital Leases Payable: Current remained the same.

### CURRENT LIABILITIES - RESTRICTED

Current Liabilities – Restricted increased \$17.7 million, as obligations under securities lending increased \$12.3 million and a payment of \$76.7 million is due to the Lottery Profits Education Fund. Due to other State Agencies increased \$0.9 million, which represented an obligation due to Ohio School Facilities Commission from revenue earned from VLT License Fees. Finally, Prize Awards Payable – Net of Discount increased \$4.4 million from 2014.

### NONCURRENT LIABILITIES

Noncurrent Liabilities - Restricted and Unrestricted decreased \$10.2 million. This decrease is primarily attributed to the implementation of GASB 68 Net Pension Liability and the decrease in Prize Awards Payable from restricted assets which decreased by \$26.4 million. The primary reason for this decrease is the majority of jackpot winners preferred the cash option over the annuity prize option.

The overall effect on liabilities is a decrease of \$58.2 million attributed to the combination of increases and decreases of the various accounts discussed above.

Table 2 shows the change in the Ohio Lottery's net position for fiscal year 2015 compared to fiscal year 2014, including revenue and expense comparisons.

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

	<u>JUNE 30, 2015</u>	<u>JUNE 30, 2014</u>
Ticket Sales	\$ 2,892,043	\$ 2,743,144
VLT and License Revenues	878,113	537,683
Other Operating Revenues	6,294	7,212
Non-Operating Revenues	<u>19,122</u>	<u>16,953</u>
Total Revenues	3,795,572	3,304,992
Prize Awards	1,875,258	1,698,001
Bonuses and Commissions	179,241	169,870
Commissions - VLT	514,016	290,986
Operating Expenses	130,899	120,987
Non-Operating Expenses	130,363	130,682
Payments to the Lottery Profits Education Fund	<u>990,012</u>	<u>904,335</u>
Total Expenses	3,819,789	3,314,861
Change in Net Position	(24,217)	(9,869)
Total Net Position - Beginning	161,204	171,073
Prior Period Adjustment of Pension Liability	<u>(17,324)</u>	-
Restated Net Position at Beginning of Year	143,880	-
Total Net Position - Ending	<u>\$ 119,663</u>	<u>\$ 161,204</u>

**TICKET SALES BY GAME AND VLT REVENUE: FISCAL YEARS 2015 AND 2014**  
(rounded thousands)

	<u>JUNE 30, 2015</u>	<u>JUNE 30, 2014</u>
Pick 3	\$ 338,038	\$ 339,045
Pick 4	192,814	185,807
Pick 5	33,306	27,867
Rolling Cash 5	62,589	63,400
Classic Lotto	30,984	54,063
Raffle	7,051	1,030
Kicker	4,707	6,014
Mega Millions/Megaplier	113,260	133,406
EZPLAY	99,797	84,810
Keno/Booster	329,530	298,127
Powerball/Power Play	105,051	122,774
EZPLAY TAP	23,954	-
	<hr/>	<hr/>
Total Online Sales	1,341,081	1,316,343
Instants	<u>1,550,962</u>	<u>1,426,801</u>
Total Sales	2,892,043	2,743,144
VLT Revenue	772,956	437,576
VLT License Revenue	<u>105,157</u>	<u>100,107</u>
Total VLT Revenue	878,113	537,683
Total Ticket Sales and VLT Revenue	<u>\$ 3,770,156</u>	<u>\$ 3,280,827</u>

## SALES ANALYSIS

Traditional sales for fiscal year 2015 were \$2,892.0 million. This was a \$148.9 million or 5.4 percent increase in sales from fiscal year 2014. This represents a record for traditional sales performance for the Ohio Lottery, exceeding the previous record set in fiscal year 2014 of \$2,743.1 million. The following section summarizes traditional lottery sales in fiscal year 2015 by game category.

### DAILY DRAW

Sales for Daily Draw games, which consist of Pick 3, Pick 4, and Pick 5, totaled \$564.2 million for the 2015 fiscal year. This is \$11.4 million, or 2.0 percent more than sales posted in fiscal year 2014. Fiscal year 2015 sales for Pick 3 were down \$1.0 million, while Pick 4 increased by \$7.0 million and Pick 5 finished the year up by \$5.4 million.

### LOTTO GAMES

Sales for Lotto games, which consist of Rolling Cash 5, Classic Lotto and KICKER, totaled \$98.3 million for the 2015 fiscal year. This is \$25.2 million, or 20.4 percent less than sales posted in fiscal year 2014. Fiscal year 2015 sales for Rolling Cash were \$0.8 million less than sales posted in fiscal year 2014, while Classic Lotto was down \$23.1 million. This decrease can be attributed to lower average jackpots throughout FY 2015. Sales for KICKER, an add-on game of Classic Lotto, were \$1.3 million less than sales posted in fiscal year 2014.

### MULTISTATE

Sales for Multi-state games, which consist of Mega Millions, Megaplier, Powerball, and Power Play, totaled \$218.3 million for the 2015 fiscal year. This is \$37.9 million, or 14.8 percent less than sales posted in fiscal year 2014.

Mega Millions sales in fiscal year 2015 were \$19.1 million less than sales posted the prior year, while Megaplier, the Mega Millions add-on game, decreased by \$1.1 million. This decrease was primarily the result of lower average jackpots offered for the game. Powerball sales in fiscal year 2015 were \$17.0 million less than sales posted the prior year, while Power Play, the Powerball add-on game, decreased by \$0.7 million. These decreases were primarily the result of lower average jackpots for both games.

Nearly all states experienced the phenomenon known as “jackpot fatigue” in fiscal year 2015, which results in a decrease in sales volume at similar jackpot levels. As higher jackpot levels become the norm, consumers adjust their spending patterns and demand increasing jackpot sizes, slowing jackpot growth and lowering the instances of record jackpots. Though base sales for both Powerball and Mega Millions have been steady across fiscal years, average sales for the \$200 million jackpot level, for instance, were nearly halved between fiscal years 2012 and 2015.

## KENO (MONITOR)

Sales for KENO games, which consist of KENO and KENO Booster, totaled \$329.5 million for the 2015 fiscal year. This is \$31.4 million, or 10.5 percent more than sales posted in fiscal year 2014. Sales for KENO in fiscal year 2015 were \$22.0 million more than sales posted in fiscal year 2014, while Booster added \$9.4 million to the positive variance in the category. Sales for Booster in fiscal year 2015 were 24.0 percent of KENO sales. Sales for KENO/Booster grew steadily as the Lottery continued its expansion in this distribution channel, as well as offering more promotions during the year.

## SPECIALTY

Sales for Specialty games, which include Raffle, EZPLAY, and EZPLAY TAP, totaled \$130.8 million for the 2015 fiscal year. This is \$45.0 million, or 52.4 percent more than sales posted in fiscal year 2014. Fiscal year 2015 sales for Raffle totaled \$7.1 million, which were \$6.0 million more than sales posted in fiscal year 2014. In fiscal year 2015, the Lottery had its traditional in-state raffle. Fiscal year 2015 sales for EZPLAY were \$15.0 million more than sales posted in fiscal year 2014. EZPLAY TAP was introduced in fiscal year 2015. Additional sales for the Specialty category were the result of the EZPLAY category, which grew again in fiscal year 2015. Sales for EZPLAY rose steadily on the strength of the Progressive line introduced in 2013 as well as additional price points offered during the year.

The Lottery expanded the EZPLAY family in fiscal year 2015 by launching EZPLAY TAP games. These games, which are only playable on next-generation MP units (MPNGs) specifically licensed by the Ohio Lottery, and sold at veteran/fraternal organizations, added nearly \$24.0 million to total sales in the EZPLAY category.

## INSTANT TICKETS

Sales for Instant Ticket games totaled \$1.6 billion, which is \$124.2 million or 8.7 percent more than sales posted in fiscal year 2014. Instant ticket sales increased due to the introduction of a variety of new games and promotions.

### OPERATING RELATED EXPENSES AND PAYMENTS TO EDUCATION: FISCAL YEARS 2015 AND 2014

(rounded thousands)

	<u>JUNE 30, 2015</u>	<u>JUNE 30, 2014</u>
Prize Awards	\$ 1,875,258	\$ 1,698,001
Bonuses/Commissions	179,241	169,870
Commissions - VLT	514,016	290,986
Operating Expense	130,899	120,987
Payments to Education	<u>990,012</u>	<u>904,335</u>
Total	<u>\$ 3,689,426</u>	<u>\$ 3,184,179</u>

## PRIZE AWARDS

Prize expense for fiscal year 2015, which totaled \$1,875.3 million, was \$177.3 million, or 10.4 percent higher than fiscal year 2014. This was partly due to an increase in overall ticket sales and the release of a higher price point, which carries higher prize payouts in the game. As gross sales for traditional games increase, prize payouts will naturally grow. Fiscal year 2015 prize payouts were also higher than structured for Pick 4. This is a normal phenomenon, as prize payouts may temporarily deviate from their expected level, but will return to their theoretical prize structure over the long run. Additional prize expense resulted from the launch of a second \$30 instant ticket, in addition to the TAP game category, which carry a higher average prize expense percentage, consistent with both price point and game type.

## BONUSES/COMMISSIONS

Bonuses/Commissions also increased due to the higher sales volume. Commissions- VLT increased \$223.0 million due to the opening of Hollywood Mahoning Valley Race Course and Hollywood Gaming Dayton Raceway in fiscal year 2015.

## OPERATING EXPENSE

Operating Expense increased \$9.9 million due to an increase in Personal services. These increases can be attributed to payroll, gaming and advertising expense. Gaming expense increased due to higher sales volume.

## PAYMENTS TO EDUCATION

Payments to education increased \$85.7 million as a result of increased traditional lottery sales and VLT Revenue.

## VIDEO LOTTERY TERMINAL (VLT) GROSS REVENUE

VLT Gross Gaming Revenue represents revenue generated from VLT machines net of total payouts. Gross Revenue for fiscal year 2015 totaled \$773.0 million, an increase of \$335.4 million or 76.6 percent over fiscal year 2014. The increase of Gross Gaming Revenue in 2015 is credited to a full year of operations at Hard Rock Northfield, Miami Valley Gaming, and Belterra Park, in addition to the opening of two new racinos; Hollywood Gaming Dayton Raceway and Hollywood Mahoning Valley Race Course. The following table shows VLT statistics for fiscal years 2015 and 2014.

### VIDEO LOTTERY TERMINAL - NET WIN

(in thousands)

RACINO	DATE OPENED	2015 NET WIN	2014 NET WIN
Scioto Downs	June 1, 2012	\$ 140,796	\$ 134,817
Thistle Down	April 9, 2013	115,085	132,223
Hard Rock Rocksino	December 18, 2013	194,383	95,164
Miami Valley	December 12, 2013	120,860	66,022
Belterra Park	May 1, 2014	57,628	9,350
Hollywood Mahoning Valley	September 15, 2014	73,594	-
Hollywood Gaming Dayton	August 26, 2014	70,610	-
		<u>\$ 772,956</u>	<u>\$ 437,576</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### CAPITAL ASSETS

Table 3 below summarizes the Ohio Lottery's capital assets at the end of fiscal years 2015 and 2014.

**TABLE 3: CAPITAL ASSETS (NET OF DEPRECIATION)**

(rounded thousands)

	JUNE 30, 2015	JUNE 30, 2014
Equipment	\$ 27,453	\$ 16,105
Vehicles	1,330	1,364
Total Net Capital Assets	<u>\$ 28,783</u>	<u>\$ 17,469</u>

As of June 30, 2015, the Ohio Lottery had \$28.8 million, net of accumulated depreciation, in Capital Assets. The increase in Net Capital Assets is a result of acquired equipment in 2015. In July 2009, the Ohio Lottery entered into a contractual agreement with Intralot for gaming services, including leased equipment. The original contract was for two years, with six optional two-year renewals. The lease meets the requirements of a capital lease and, as a result, the equipment was recorded at present value and is being depreciated over its useful life of five years.

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

### DEBT

The significant components of the Ohio Lottery's debt is annuity prize awards payable, which is payable from restricted assets. Prize Awards Payable from Restricted Assets – Net of Discount decreased \$22.0 million as prior long-term annuities are paid off at a faster rate than new annuities are selected by prize winners.

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

## GASB 68 NET PENSION LIABILITY

During 2015, the Ohio Lottery adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Ohio Lottery's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the Ohio Lottery's proportionate share of each plan's collective:

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

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

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

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

As a result of implementing GASB 68, the Ohio Lottery is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$161,204 to \$143,880. (Note: numbers are in thousands)

## **CONTACTING THE OHIO LOTTERY'S FINANCIAL MANAGEMENT**

---

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

**OHIO LOTTERY COMMISSION**  
**STATEMENT OF NET POSITION - MAJOR FUNDS**  
**JUNE 30, 2015**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2014)**  
*(rounded thousands)*

	OPERATING	ANNUITY FUND	TOTALS	
			JUNE 30, 2015	JUNE 30, 2014
<b>ASSETS:</b>				
<b>Current Assets - Unrestricted</b>				
Cash and Cash Equivalents	\$ 95,150	\$ -	\$ 95,150	\$ 12,373
Cash Equity with Treasurer of State	28,112	-	28,112	164,287
Cash and Cash Equivalents Video Lottery	65,975	-	65,975	60,000
Collateral on Lent Securities	6,864	-	6,864	45,681
Receivables from Agents, Net	64,366	-	64,366	67,308
Due From Other State Agencies	1,518	-	1,518	1,518
Other Assets	12,534	-	12,534	17,692
<b>Total Current Assets - Unrestricted</b>	<b>274,519</b>	<b>-</b>	<b>274,519</b>	<b>368,859</b>
<b>Current Assets - Restricted</b>				
Cash Equity with Treasurer of State	-	36	36	38
Dedicated Investments	-	60,011	60,011	55,841
Collateral on Lent Securities	-	180,460	180,460	168,146
Interest Receivable	-	1,338	1,338	1,148
<b>Total Current Assets - Restricted</b>	<b>-</b>	<b>241,845</b>	<b>241,845</b>	<b>225,173</b>
<b>Total Current Assets</b>	<b>274,519</b>	<b>241,845</b>	<b>516,364</b>	<b>594,032</b>
<b>Noncurrent Assets</b>				
Dedicated Investments, Restricted	-	516,440	516,440	550,669
Capital Assets				
Equipment	143,034	-	143,034	123,509
Vehicles	3,070	-	3,070	3,181
Accumulated Depreciation	(117,321)	-	(117,321)	(109,221)
Net Position, Investment in Capital Assets	28,783	-	28,783	17,469
<b>Total Noncurrent Assets</b>	<b>28,783</b>	<b>516,440</b>	<b>545,223</b>	<b>568,138</b>
<b>TOTAL ASSETS</b>	<b>303,302</b>	<b>758,285</b>	<b>1,061,587</b>	<b>1,162,170</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension: OPERS	1,770	-	1,770	-
Total Deferred Outflows of Resources	1,770	-	1,770	-

**OHIO LOTTERY COMMISSION**  
**STATEMENT OF NET POSITION - MAJOR FUNDS, CONTINUED**  
**JUNE 30, 2015**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2014)**  
*(rounded thousands)*

	OPERATING	ANNUITY FUND	TOTALS	
			JUNE 30, 2015	JUNE 30, 2014
<b>LIABILITIES</b>				
<b>Current Liabilities - Unrestricted</b>				
Accounts Payable	9,043	-	9,043	11,221
Prize Awards Payable	46,048	-	46,048	70,944
Obligations under Securities Lending	6,864	-	6,864	45,681
Capital Lease Payable - Current	5,594	-	5,594	5,556
Unearned Revenue	1,380	-	1,380	1,447
Other Liabilities	2,212	-	2,212	975
Due to Other Lotteries	408	-	408	1,401
<b>Total Current Liabilities - Unrestricted</b>	<b>71,549</b>	<b>-</b>	<b>71,549</b>	<b>137,225</b>
<b>Current Liabilities - Restricted</b>				
Due to other State Agencies	141,720	-	141,720	140,751
Due for Problem Gambling VLT Expenses	20	-	20	-
Obligations under Securities Lending	-	180,460	180,460	168,146
Prize Awards Payable - Net of Discount	-	61,386	61,386	57,028
<b>Total Current Liabilities - Restricted</b>	<b>141,740</b>	<b>241,846</b>	<b>383,586</b>	<b>365,925</b>
<b>Total Current Liabilities</b>	<b>213,289</b>	<b>241,846</b>	<b>455,135</b>	<b>503,150</b>
<b>Noncurrent Liabilities:</b>				
Prize Awards Payable from Restricted Assets - Net of Discount	-	456,846	456,846	483,210
Capital Lease Payable - Long-Term	7,500	-	7,500	9,801
Workers' Compensation	1,464	-	1,464	1,754
Compensated Absences	3,109	-	3,109	3,051
Net Pension Liability	18,734	-	18,734	-
<b>Total Noncurrent Liabilities</b>	<b>30,807</b>	<b>456,846</b>	<b>487,653</b>	<b>497,816</b>
<b>TOTAL LIABILITIES</b>	<b>244,096</b>	<b>698,692</b>	<b>942,788</b>	<b>1,000,966</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension: OPERS	906	-	906	-
Total Deferred Inflows of Resources	906	-	906	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	15,690	-	15,690	2,111
Restricted for Annuity Prizes	-	-	-	-
Restricted for Net Unrealized Gains on Restricted Investments	-	66,332	66,332	73,751
Unrestricted	44,380	(6,739)	37,641	85,342
<b>TOTAL NET POSITION</b>	<b>\$ 60,070</b>	<b>\$ 59,593</b>	<b>\$ 119,663</b>	<b>\$ 161,204</b>

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

**OHIO LOTTERY COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - MAJOR FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)**  
*(rounded thousands)*

	OPERATING	ANNUITY FUND	TOTALS	
			JUNE30,2015	JUNE30,2014
<b>REVENUES</b>				
Ticket Sales	2,892,043	-	2,892,043	2,743,144
VLT Revenue, Net	772,956	-	772,956	437,576
VLT License Revenue	105,157	-	105,157	100,107
Other Revenues	6,102	192	6,294	7,212
<b>Total Operating Revenues</b>	<b>3,776,258</b>	<b>192</b>	<b>3,776,450</b>	<b>3,288,039</b>
<b>EXPENSES</b>				
<b>Prizes, Bonuses and Commissions</b>				
Prize Awards	1,841,888	33,370	1,875,258	1,698,001
Bonuses and Commissions	179,241	-	179,241	169,870
VLT Commissions	514,016	-	514,016	290,986
<b>Total Prizes, Bonuses and Commissions</b>	<b>2,535,145</b>	<b>33,370</b>	<b>2,568,515</b>	<b>2,158,857</b>
<b>Operating Expenses</b>				
Personal Services	88,729	-	88,729	58,726
Maintenance and Equipment	32,414	-	32,414	38,144
Depreciation	8,663	-	8,663	23,619
Pension Expense	546	-	546	-
Other Expenses	547	-	547	498
<b>Total Operating Expenses</b>	<b>130,899</b>	<b>-</b>	<b>130,899</b>	<b>120,987</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,110,214</b>	<b>(33,178)</b>	<b>1,077,036</b>	<b>1,008,195</b>
<b>Non-Operating Revenues (Expenses):</b>				
Interest Income	171	18,925	19,096	16,931
Donation of Capital Assets	-	-	-	-
Amortization of Prize Liabilities	-	(25,078)	(25,078)	(29,988)
Gain (Loss) on Equipment Disposal	26	-	26	22
Interest Expense on Capital Lease	-	-	-	(597)
Interest Expense - Borrower Rebates	-	(255)	(255)	(70)
Securities Lending Agent Fees	-	(20)	(20)	(27)
Payments to other Government Agencies/VLT	(5,010)	-	(5,010)	-
Payments to the Lottery Profits Education Fund	(1,090,012)	-	(1,090,012)	(1,004,335)
<b>Total Non-Operating Expenses, Net</b>	<b>(1,094,825)</b>	<b>(6,428)</b>	<b>(1,101,253)</b>	<b>(1,018,064)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>15,389</b>	<b>(39,606)</b>	<b>(24,217)</b>	<b>(9,869)</b>
<b>TRANSFERS:</b>				
Transfers to Annuity Prize Trust Fund	(31,741)	31,741	-	-
<b>Total Transfers</b>	<b>(31,741)</b>	<b>31,741</b>	<b>-</b>	<b>-</b>
<b>Change in Net Position</b>	<b>(16,352)</b>	<b>(7,865)</b>	<b>(24,217)</b>	<b>(9,869)</b>
<b>Total Net Position - Beginning</b>	<b>93,746</b>	<b>67,458</b>	<b>161,204</b>	<b>171,073</b>
Prior period adjustment of pension liability	(17,324)	-	(17,324)	-
<b>Restated Net position at beginning of year</b>			<b>143,880</b>	
<b>TOTAL NET POSITION - ENDING</b>	<b>\$ 60,070</b>	<b>\$ 59,593</b>	<b>\$ 119,663</b>	<b>\$ 161,204</b>

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

**OHIO LOTTERY COMMISSION**  
**STATEMENT OF CASH FLOWS - MAJOR FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)**  
*(rounded thousands)*

			<b>TOTALS</b>	
	<b>OPERATING</b>	<b>ANNUITY FUND</b>	<b>JUNE 30, 2015</b>	<b>JUNE 30, 2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Sales	\$ 3,675,876	\$ -	\$ 3,675,876	\$ 3,163,354
Cash Received from Multi-State Lottery for Grand Prize Winners	73,121	-	73,121	0
Cash Payments for Prize Awards	(1,942,514)	(80,455)	(2,022,969)	(1,760,236)
Cash Payments for Bonuses and Commissions	(693,257)	-	(693,257)	(460,856)
Cash Payments for Goods and Services	(93,502)	-	(93,502)	(22,647)
Cash Payments to Employees	(29,050)	-	(29,050)	(27,122)
Other Operating Revenues	111,259	192	111,451	107,318
Other Operating Expenses	(547)	-	(547)	(498)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>1,101,386</b>	<b>(80,263)</b>	<b>1,021,123</b>	<b>999,313</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Due to Other State Agencies	(5,010)	-	(5,010)	0
Payments to the Lottery Profits Education Fund	(1,090,012)	-	(1,090,012)	(1,004,335)
Transfers In	-	31,741	31,741	10,040
Transfers Out	(31,741)	-	(31,741)	(10,040)
<b>Net Cash Provided (Used) by NonCapital Financing Activities</b>	<b>(1,126,763)</b>	<b>31,741</b>	<b>(1,095,022)</b>	<b>(1,004,335)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of Property and Equipment	(16,361)	-	(16,361)	(770)
Proceeds from Sale of Property and Equipment	77	-	77	53
Repayment of Equipment Obligation	(5,932)	-	(5,932)	(23,341)
Interest Paid on Equipment Obligation	-	-	-	(597)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(22,216)</b>	<b>-</b>	<b>(22,216)</b>	<b>(24,655)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income Received	170	4,759	4,929	6,549
Interest Expense and Agent Fees	-	(275)	(275)	(97)
Proceeds from the Sale and Maturity of Investments	-	177,071	177,071	132,567
Purchase of Investments	-	(133,035)	(133,035)	(69,397)
Securities Lending Proceeds	45,632	180,460	226,092	213,827
Securities Lending Payments	(45,632)	(180,460)	(226,092)	(213,827)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>170</b>	<b>48,520</b>	<b>48,690</b>	<b>69,622</b>
<b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>	<b>(47,423)</b>	<b>(2)</b>	<b>(47,425)</b>	<b>39,945</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>236,660</b>	<b>38</b>	<b>236,698</b>	<b>196,753</b>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b>189,237</b>	<b>36</b>	<b>189,273</b>	<b>236,698</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	1,110,214	(33,178)	1,077,036	1,008,195
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	8,663	-	8,663	23,619
Amortization of Discount of Prize Liabilities	-	25,078	25,078	29,988
Net Changes in Assets and Liabilities				
Receivables from Agents - Net	2,942	-	2,942	(9,611)
Other Assets	5,160	-	5,160	(9,684)
Prize Awards Payable	(24,896)	-	(24,896)	6,083
Accounts Payable	(2,178)	-	(2,178)	3,982
Other Liabilities	1,233	-	1,233	45,673
Unearned Revenue	(66)	-	(66)	245
Prize Awards Payable from Restricted Assets - Net of Discount	-	(72,163)	(72,163)	(99,349)
Accrued Workers' Compensation	(289)	-	(289)	97
Compensated Absences	57	-	57	75
Pension Expense	546	-	546	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 1,101,386</b>	<b>\$ (80,263)</b>	<b>\$ 1,021,123</b>	<b>\$ 999,313</b>

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

Non-Cash items included in investment income were (\$7.4) million and (\$11.3) million of unrestricted net gains/losses for the years ended June 30, 2015 and June 30, 2014, respectively. During fiscal year 2015 the Ohio Lottery acquired gaming equipment amounting to \$3.7 million, by entering into a capital lease arrangement with Intralot Inc. The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

# NOTES TO THE BASIC FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2015

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

---

#### REPORTING ENTITY

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

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

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

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

#### BASIS OF ACCOUNTING

The Ohio Lottery operates under a series of enterprise funds, each using a full accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when incurred. The three Ohio Lottery funds are: the Lottery Operating Fund, the Annuity 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 position. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The Ohio Lottery distinguishes operating revenues and expenses from non-operating items within the operating statements. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with selling Ohio Lottery tickets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### LOTTERY OPERATING FUND

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

#### ANNUITY PRIZE FUND

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

#### 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 (MOU) between the two agencies transferring the administration and monitoring of charitable bingo licensing to the Ohio Lottery. In fiscal year 2006, a separate fund 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. On June 28, 2014 the Attorney General terminated the MOU with the Ohio Lottery.

#### CASH AND CASH EQUIVALENTS

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

## **INVESTMENTS**

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

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

## **ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The allowance for doubtful accounts at June 30, 2015 and 2014 of \$539,500 and \$344,600, respectively, is based on an analysis of historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

## **RESTRICTED ASSETS**

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

## **CAPITAL ASSETS**

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

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

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

## **PRIZE AWARDS**

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

## **UNEARNED REVENUE**

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

## **COMPENSATED ABSENCES**

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 four years of employment, up to a maximum rate of 9.2 hours every two weeks after 24 years of employment. Vacation credit may be accumulated to a maximum of three times the annual rate of accrual. At termination or upon other separation from the Ohio Lottery, employees are paid at their hourly rate for 100 percent of unused vacation leave and personal leave. Bargaining unit employees are also eligible to receive 100 percent of unused compensatory time.

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

## **VIDEO LOTTERY OPERATIONS**

Video lottery operations commenced in June 2012 at Scioto Downs in Columbus in fiscal year 2012. In April 2013 Thistledown Racino in Cleveland opened. In December 2013, Hard Rock Rockino in Northfield and Miami Valley Gaming in Lebanon opened. Later in May 2014, Belterra Park in Cincinnati opened. For fiscal year 2015, Hollywood Gaming Dayton opened in August 2014, and Hollywood Mahoning Valley Race Course opened in September 2014. As of June 30, 2015 the Video Lottery Sales Agents (VLSA) had 10,468 VLTs in operation. A Video Lottery Terminal (VLT) is a stand-alone device containing a random-number generator. Each VLT is connected to a centralized computer system that allows the Lottery to monitor game play and revenue activity. The Central Monitoring System (CMS) keeps track of money deposited in a terminal, usage, wins and payouts, machine maintenance and cash removal. Each game theme is approved by Ohio Lottery Commissioners and independently tested and certified before being placed into operation.

The Ohio Lottery recognizes VLT revenue as "gross gaming revenue". Gross gaming revenue represents gross wagers, net of related prizes. The minimum percentage payout in Ohio is 85 percent. Licensed operators receive 66.5 percent of gross terminal revenue to operate their facility, as

commissions earned. Payments to the VLSA are recorded in VLT Commissions. For fiscal year ended June 30, 2015, VLT revenue was \$773.0 million with \$511.4 million paid to VLSA as VLT commission, \$2.6 million paid to Problem Gambling Services, and \$258.9 million paid to the Ohio Lottery.

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

Payments to the Lottery Profits Education Fund totaled \$1,090.0 million. Of this amount, \$739.9 million represented profits generated from traditional lottery games, while \$250.1 million represented profits generated from the VLT program. In addition, \$100.0 million of revenue was collected from Video Lottery Sales Agents (VLSA) in the form of License Fees, per Ohio Administrative Code 3770:2-11-01.

### **BONUSES AND COMMISSIONS**

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

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

### **FUND EQUITY CLASSIFICATIONS**

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

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

### **RISK MANAGEMENT**

The Ohio Lottery is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ohio Lottery generally retains the risk of loss; however, the Ohio Lottery is protected for purposes of sales collections by third-party surety bonds or deposits. Upon inception, retailers are required to carry a minimum bond of \$15,000 or a deposit of \$500. On a yearly basis, the retailers' required coverage is based on an evaluation of their average annual sales. The minimum bond coverage is \$15,000 or one twenty-sixth of their annual sales. The amount of loss arising from these risks was not significant for the years ended June 30, 2015, 2014, and 2013. No significant payments were made or liabilities recorded during the years ended June 30, 2015, 2014, and 2013 due to self-insured risks.

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

The Ohio Lottery pays a premium assessed by DAS to cover motor vehicle liability related to bodily injury and property damage for a maximum of \$1.0 million per occurrence. The Ohio Lottery retains the risk for any liability exceeding this limit.

The state contracts with Medical Mutual of Ohio and UnitedHealthcare to serve as the third-party administrators for the Ohio Med PPO, a fully self-insured health benefit plan. This plan allows all employees and any eligible dependents to have access to both network and non-network providers. Medical Mutual and UnitedHealthcare each serve specific regions of Ohio based upon the home ZIP codes, which determines which administrator the employee will be assigned to. The Ohio Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contributed \$35.51 for single, \$97.13 for family Minus Spouse and \$102.90 for Family Plus Spouse per pay period, while the Ohio Lottery contributed \$200.17 for single and \$549.32 for family coverage per pay period for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The Ohio Lottery's total contributions to the Health Plans were \$3,577,000 and \$3,198,000 for the years ended June 30, 2015 and 2014, respectively.

### **BUDGETARY ACCOUNTING AND CONTROL**

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

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

- Prizes and commissions which are not vouchered are not budgeted.
- Revenues are recorded when received in cash (budget) as opposed to when earned (GAAP).

- Expenses (including annuity prizes) are recorded when paid in cash or encumbered (budget) as opposed to when the liability is incurred (GAAP).
- The budget basis excludes depreciation and amortization, as well as gains and losses on the disposition of equipment.

The Ohio Lottery maintains budgetary control by not permitting total expenditures to exceed appropriations without approval of the General Assembly, except for vouchered prize awards for which appropriation amendments may be approved by Ohio OBM and unvouchered prize expenses, which are not budgeted. Certain budget amendments were adopted during the year ended June 30, 2012.

## **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, 2014, from which the summarized information was derived.

## **SECURITIES LENDING**

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

## **PENSIONS**

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

## **2. CASH DEPOSITS AND INVESTMENTS**

---

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

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

## **DEPOSITS**

As of June 30, 2015, the deposit accounts were not exposed to custodial credit risk; since the accounts were held in insured depositories approved by the State Board of Deposit and were fully collateralized. The financial institutions holding state deposits collateralize accounts for balances in excess of the amounts insured by FDIC as required by ORC Section 135.18. The carrying amount was \$161,125,000 and bank balances of the Ohio Lottery's deposits with the financial institutions were \$161,128,000.

## INVESTMENTS

Although risk exposures are minimized by complying with legal requirements and internal policies adopted by the TOS, the Ohio Lottery's investments are exposed to risks that may lead to a loss of value. The Ohio Lottery's investments at June 30, 2015 consist of the following:

### INVESTMENT MATURITIES (IN YEARS)

INVESTMENT TYPE <i>(rounded thousands)</i>	FAIR VALUE	CREDIT QUALITY RATING	LESS THAN			
			1	1-5	6-10	>10
Commercial Paper	\$ 3,099	A/A	\$ 3,099	\$ -	\$ -	\$ -
U.S. Agency Obligations	69,365	AAA/Aaa	30,697	38,668	-	-
U.S. Agency Obligation Strips	261,911	AAA/Aaa	29,076	142,125	84,139	6,571
U.S. Government Obligation - strips	241,757	AAA	16,725	67,239	73,531	84,262
Total Investments	576,132		79,597	248,032	157,670	90,833
<b>Investments not required to be categorized</b>						
Investments in State Treasury Asset Reserve of Ohio (STAR Ohio)	318	AAA/Aaa	318	-	-	-
Equity in State of Ohio Common Cash & Investments	28,112		28,112	-	-	-
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	6,864		6,864	-	-	-
Total Lottery Commission - Structured Investments, as of June 30, 2015	\$ 611,426		\$ 114,891	\$ 248,032	\$ 157,670	\$ 90,833
Total Lottery Commission - Investments made with Cash Collateral	180,460					
Total - Statement of Net Position	791,886					

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

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

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

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

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

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, 2015. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

As of June 30, 2015, the total carrying amount of deposits and investments categorized and disclosed in this note is \$953,048. This amount can be reconciled to the statement of net position as follows:

<i>(rounded thousands)</i>	<u>DEPOSITS</u>	<u>INVESTMENTS</u>	<u>TOTAL</u>
Unrestricted Assets:			
Cash and Cash Equivalents	95,150	-	95,150
Cash Equity with Treasurer of State	-	28,112	28,112
Cash and Cash Equivalents - Video Lottery	65,975	-	65,975
Collateral on Lent Securities	-	6,864	6,864
Restricted Assets:			
Cash Equity with Treasurer of State	-	36	36
Dedicated Investments	-	576,451	576,451
Collateral on Lent Securities	-	180,460	180,460
Total - per Statement of Net Position	<u>161,125</u>	<u>791,923</u>	<u>953,048</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	\$ 176,056	Cash Collateral	\$ 180,443
Unpaid Distributions	-	Unpaid Distributions	-
Accrued Premiums	-	Accrued Rebates	4
Total	<u>\$ 176,056</u>	Total	<u>\$ 180,447</u>

Since the Lender owes the Borrowers \$4,391,000 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2015.

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, the TOS lent U.S. Agency and Instrumentality Obligations (excluding Strips) and U.S. Agency and Instrumentality Obligation – Strips in exchange for collateral consisting of cash and/or U.S. government obligations. The Ohio Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2015 the collateral the Ohio Lottery had received for securities lent consisted entirely of cash, some of which had been temporarily invested by the Ohio Lottery in various securities. The Ohio Lottery invests cash collateral in short-term obligations, which have a weighted average maturity of 3.4 days and generally match the maturities of the securities loans at year-end. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default. However, during fiscal year 2015, 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 2015 due to prior-period losses.

**INVESTMENT MATURITIES (IN YEARS)**

INVESTMENT TYPE <i>(rounded thousands)</i>	FAIR VALUE	CREDIT QUALITY RATING	INVESTMENT MATURITIES (IN YEARS)			
			LESS THAN 1	1-5	6-10	>10
Repurchase Agreements	\$ 61,000	A/A	\$ 61,000	\$ -	\$ -	\$ -
U.S. Government Obligation Strips	-		-	-	-	-
U.S. Agency and Instrumentality Obligations	-		-	-	-	-
U.S. Agency and Instrumentality Obligations Strips	-		-	-	-	-
Bonds Mutual Funds	58,441	AAA/Aaa	58,441	-	-	-
Certificates of Deposits (Negotiable)	-		-	-	-	-
Commercial Paper	15,500	A/A	15,500	-	-	-
Other Investments:						
Master Note	-		-	-	-	-
Variable Rate Note	45,510	AA/Aa A/A BBB/Baa	45,510	-	-	-
Investments Not Required to be Categorized:						
Money Market Funds	-		-	-	-	-
Allocated Cash Collateral <sup>(1)</sup>	9		9	-	-	-
<b>Total - Investments made with Cash Collateral, as of June 30, 2015</b>	<b>\$ 180,460</b>		<b>\$ 180,460</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

(1) The Ohio Lottery has been allocated \$9,000 cash collateral bases on the amount of cash equity from the State's common cash and investment account.

### 3. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2015 and 2014 was as follows:

<i>(rounded thousands)</i>	2014	INCREASES	DECREASES	2015
Equipment	\$ 123,509	\$ 19,716	\$ 191	\$ 143,034
Vehicles	3,181	313	424	3,070
<b>Total Capital Assets</b>	<b>126,690</b>	<b>20,029</b>	<b>615</b>	<b>146,104</b>
Less Accumulated Depreciation:				
Equipment	(107,404)	(8,365)	188	(115,581)
Vehicles	(1,817)	(299)	376	(1,740)
<b>Total Accumulated Depreciation</b>	<b>(109,221)</b>	<b>(8,664)</b>	<b>564</b>	<b>(117,321)</b>
<b>Net Capital Assets</b>	<b>\$ 17,469</b>	<b>\$ 11,365</b>	<b>\$ 51</b>	<b>\$ 28,783</b>
Capital Assets	2013	INCREASES	DECREASES	2014
Equipment	\$ 117,953	\$ 5,835	\$ 279	\$ 123,509
Vehicles	2,777	624	220	3,181
<b>Total Capital Assets</b>	<b>120,730</b>	<b>6,459</b>	<b>499</b>	<b>126,690</b>
Less Accumulated Depreciation:				
Equipment	(84,360)	(23,316)	272	(107,404)
Vehicles	(1,711)	(303)	197	(1,817)
<b>Total Accumulated Depreciation</b>	<b>(86,071)</b>	<b>(23,619)</b>	<b>469</b>	<b>(109,221)</b>
<b>Net Capital Assets</b>	<b>\$ 34,659</b>	<b>\$ (17,160)</b>	<b>\$ 30</b>	<b>\$ 17,469</b>

The Ohio Lottery has entered into a capital lease for gaming services and leased equipment with Intralot. During fiscal year 2015, additional equipment acquired amounted to \$3,668,578, per an addendum, and recorded at cost. The length of the contract is two years, with five optional two-year renewals; the Lottery has exercised the second renewal option. In addition, the lease requires repayment over 60 months. The assets and liabilities under the lease are recorded at the present value of the minimum lease payments. The carrying value of the capital lease assets are amortized over their estimated useful lives. The original amounts capitalized for the capital leases and their book values as of June 30, 2015 are as follows:

#### CAPITAL LEASES GROSS ASSETS AND ACCUMULATED AMORTIZATION

*(rounded thousands)*

ASSET	JUNE 30, 2015	JUNE 30, 2014
Computer Equipment and Systems	\$ 110,771	\$ 107,103
Accumulated Depreciation	(97,677)	(91,746)
<b>TOTAL</b>	<b>\$ 13,094</b>	<b>\$ 15,357</b>

## 4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2015 and 2014 consist of the following:

(rounded thousands)

	<u>JUNE 30, 2015</u>	<u>JUNE 30, 2014</u>
Current portion - face amount	\$ 82,911	\$ 81,127
Less: Unamortized discount	<u>(21,525)</u>	<u>(24,099)</u>
Current portion - present value	61,386	57,028
Noncurrent portion - face amount	575,004	614,320
Less: Unamortized discount	<u>(118,158)</u>	<u>(131,110)</u>
Noncurrent portion - present value	456,846	483,210
Total Prize Awards Payable - Net of Discount	<u>\$ 518,232</u>	<u>\$ 540,238</u>

Interest rates used to determine the present values ranged from 2.0 percent to 9.0 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2015 is summarized as follows:

<u>FISCAL YEAR ENDING JUNE 30</u>	<u>AMOUNT</u>
<i>(rounded thousands)</i>	
2016	\$ 82,911
2017	73,562
2018	66,997
2019	60,377
2020	51,791
2021 through 2025	178,194
2026 through 2030	93,342
2031 through 2035	45,807
2036 through 2040	4,734
2041 thereafter	<u>200</u>
Subtotal	657,915
Unamortized Discount	<u>(139,683)</u>
Net Prize Liability	<u>\$ 518,232</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 \$429 million and \$327 million for the years ended June 30, 2015 and 2014, respectively.

## 5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2015 and 2014 is as follows:

(rounded thousands)

	<u>2015</u>	<u>2014</u>
Accrued Liabilities	\$ 1,681	\$ 442
Worker's Compensation - Current Portion	24	45
Compensated Absences - Current Portion	<u>507</u>	<u>488</u>
Total	<u>\$ 2,212</u>	<u>\$ 975</u>

## 6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2015 and 2014 was as follows:

<i>(rounded thousands)</i>	<b>2014</b> <b>(RESTATED)</b>	<b>ADDITIONS</b>	<b>REDUCTIONS</b>	<b>2015</b>
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 483,210	\$ 54,095	\$ (80,459)	\$ 456,846
Capital Lease Payable - Long-term	9,801	3,668	(5,969)	7,500
Accrued Workers' Compensation	1,754	0	(290)	1,464
Compensated Absences	3,051	2,619	(2,561)	3,109
Net Pension Liability	18,336	398	0	18,734
Total Noncurrent Liabilities	<u>\$ 516,152</u>	<u>\$ 60,780</u>	<u>\$ (89,279)</u>	<u>\$ 487,653</u>
	<b>2013</b>	<b>ADDITIONS</b>	<b>REDUCTIONS</b>	<b>2014</b>
Prize Awards Payable from Restricted Assets-Net of Discount	\$ 527,065	\$ 35,696	\$ (79,551)	\$ 483,210
Capital Lease Payable - Long-term	10,422	5,689	(6,310)	9,801
Accrued Workers' Compensation	1,657	97	-	1,754
Compensated Absences	2,977	2,474	(2,400)	3,051
Total Noncurrent Liabilities	<u>\$ 542,121</u>	<u>\$ 43,956</u>	<u>\$ (88,261)</u>	<u>\$ 497,816</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 \$61.4 million and \$57.0 million for the years ended June 30, 2015 and June 30, 2014, respectively.

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

### PLAN DESCRIPTION

The Ohio Lottery contributes to the Ohio Public Employees Retirement System, which is a cost sharing, multiple-employer public employee retirement system comprised of three separate pension plans as described below:

- The Traditional Pension Plan (TP) – is a defined benefit plan under which a member's retirement benefit is based on a formula. The formula is determined by years of service credit and the average of the three or five highest years of earnable salary depending on your retirement transition group, referred to as final average salary (FAS).
- The Member-Directed Plan (MD) – is a defined contribution plan under which employee and employer contributions are deposited into a member's individual account and invested as directed by the member. The member's retirement benefit is based on member and employer contributions and the gains and losses on those contributions. Under the Member-Directed Plan, the member directs the investment by selecting from professionally managed OPERS investment options.
- The Combined Plan (CO) – is a retirement plan with both a defined benefit and a defined contribution component. Under the defined benefit portion of the Combined Plan, the member's retirement benefit is determined by a reduced formula (similar to the Traditional Pension Plan). OPERS investment professionals manage the investment of employer contributions to ensure that funds are available to pay the reduced formula benefit, as well as disability and survivor benefits, cost-of-living adjustments after retirement and access to health care coverage in retirement.

OPERS maintains three health trusts. Two trusts, the Post-employment Health Care Fund (401(h) fund) and the 115 Health Care Trust, work together to provide funding to eligible members of the Traditional Pension and Combined plans. The third trust is a Voluntary Employees' Beneficiary Association (VEBA) that provides funding for members of the Member-Directed Plan. The 401(h) health care fund is considered a separate legal entity under Internal Revenue Service regulations and is reported separately in the financial statements as the Post-employment Health Care Plan.

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

### BENEFITS

All benefits of the System, and any benefit increases are established by the legislature pursuant to ORC Chapter 145. The Board of Trustees, pursuant to ORC Chapter 145, has elected to maintain funds to provide health care coverage to eligible Traditional Pension and Combined plan retirees and survivors of members. Health care coverage does not vest and is not required under ORC 145. As a result, coverage may be reduced or eliminated at the discretion of the Board of Trustees.

New Legislation — Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

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

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

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

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

### CONTRIBUTIONS

The OPERS funding policy provides for periodic employee and employer contributions to all three plans (Traditional Pension, Combined and Member-Directed) at rates established by the Board of Trustees, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of the System’s actuary. All contribution rates were within the limits authorized by the Ohio Revised Code. The employee and employer contribution rates for the State and Local divisions are currently set at the maximums authorized by the Ohio Revised Code of 10% and 14%, respectively.

The OLC’s required contributions to OPERS for the years ended June 30, 2015, 2014, and 2013 were \$2,841,000, \$2,348,000, and \$1,713,000 respectively, equal to the required contribution for each year.

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

## 8. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The GASB has issued Statement No. 67 (GASB 67), Financial Reporting for Pension Plans—An Amendment of GASB Statement No. 25, establishing additional financial reporting by state and local governmental pension plans. GASB 67 replaces the requirements of Statements No. 25 and 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of GASB 67 are effective for financial statements for fiscal years beginning after June 15, 2013.

OPERS is a cost-sharing, multiple-employer pension plan as defined by GASB 67. The requirements for GASB 67 include changes in presentation of the financial statements, notes to the financial statements, and required supplementary information of state and local pension plans established as trusts. The new accounting and reporting standards break the link between accounting and funding. The new standard impact the financial statement presentation for pension accounting and related disclosures for OPERS and participating employers (refer to GASB 68 information below).

GASB 67 and GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, require that the three pension plans (Traditional Pension, Member-Directed and Combined) and the three health care funds (Post-employment Health Care, 115 Health Care Trust and VEBA) be shown separately in the combining financial statements as they each are legally separate plans.

The GASB also issued Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27, and Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68. These statements are effective for state and local governmental employers that sponsor or contribute to pension plans for fiscal years beginning after June 15, 2014. Several elements required by GASB 68 are defined in GASB 67 and will be calculated by OPERS and the OPERS external actuaries. Information needed by OPERS participating employers to implement these statements beginning in 2015 is compiled in separate audited schedules of employer allocations and collective pension totals, including related footnotes to those schedules. The schedule of collective pension totals includes net pension liability, pension expense and deferred inflows/outflows related to pension as defined in GASB 68. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

#### NET POSITION

(in thousands)

Net Position June 30, 2014	\$ 161,204
Adjustments:	
Net Pension Liability	(18,337)
Deferred Outflow - Payments Subsequent to Measurement Date	1,013
Restated Net Position June 30, 2014	<u>\$ 143,880</u>

## 9. NET PENSION LIABILITY

### NET PENSION LIABILITY

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

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

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

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

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

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

<i>(rounded thousands)</i>	<b>PERS</b>
Proportionate Share of the Net Pension Liability	\$ <u>18,734,000</u>
Proportion of the Net Pension Liability	<u>0.155623%</u>
Pension Expense	\$ <u>546,000</u>

At June 30, 2015, the OLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>(rounded thousands)</i>	<b>PERS</b>
<b>Deferred Outflows of Resources</b>	
Differences between expected and actual experience	\$ 340,000
OLC contributions subsequent to the measurement date	<u>1,430,000</u>
<b>Total Deferred Outflows of Resources</b>	<b>\$ <u>1,770,000</u></b>
<b>Deferred Inflows of Resources</b>	
Net difference between projected and actual earnings on pension plan investments	\$ 1,003,000
Differences between OLC contributions and proportionate share of contributions	<u>(97,000)</u>
<b>Total Deferred Inflows of Resources</b>	<b>\$ <u>906,000</u></b>

\$1,770,000 reported as deferred outflows of resources related to pension resulting from OLC’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<i>(rounded thousands)</i>	<b>PERS</b>
<b>FISCAL YEAR ENDING JUNE 30,</b>	
2016	\$ (97,000)
2017	(224,000)
2018	<u>(250,000)</u>
<b>Total</b>	<b>\$ <u>(571,000)</u></b>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions applied to all prior periods included

in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below.

**KEY METHODS AND ASSUMPTIONS USED IN VALUATION OF TOTAL PENSION LIABILITY**

ACTUARIAL INFORMATION	TRADITIONAL PENSION PLAN	COMBINED PLAN
Valuation Date	December 31, 2014	December 31, 2014
Experience Study	5 Year Period Ended December 31, 2010	5 Year Period Ended December 31, 2010
Actuarial Cost Method	Individual entry age	Individual entry age
Actuarial Assumptions		
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.75%
Projected Salary Increases	4.25%-10.05% (includes wage inflation at 3.75%)	4.25%-10.05% (includes wage inflation at 3.75%)
Cost-of-living Adjustments	3.00% Simple	3.00% Simple

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

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return.

ASSET CLASS	TARGET ALLOCATION FOR 2014	WEIGHTED AVERAGE LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC)
Fixed Income	23.00%	2.31%
Domestic Equities	19.90%	5.84%
Real Estate	10.00%	4.25%
Private Equity	10.00%	9.25%
International Equities	19.10%	7.40%
Other Investments	18.00%	4.59%
TOTAL	100.00%	5.28%

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

OPERS manages investments in four investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan, and the VEBA. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money-weighted rate of return, net of investment expense, for the Defined Benefit portfolio is 6.95% for 2014.

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

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

OHIO LOTTERY'S NET PENSION LIABILITY/(ASSET)	1% DECREASE	CURRENT DISCOUNT RATE	1% INCREASE
	7.0%	8.0%	9.0%
Traditional Pension Plan	\$ 34,531,245	\$ 18,769,721	\$ 5,495,057
Combined Plan	\$4,717	(\$35,848)	(\$68,866)

## 10. OTHER POST EMPLOYMENT BENEFITS

---

In addition to the pension benefits described in Note 7, OPERS maintains a Health Care Fund established under IRC Section 401(h), to provide coverage to the retirees and beneficiaries of the Traditional Pension Plan and Combined Plan. In 2014, OPERS established a 115 Health Care Trust under IRC Section 115. The System currently provides comprehensive health care coverage to retirees with 10 or more years of qualifying service credit and offers coverage to their dependents on a premium deduction or direct bill basis. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Coverage includes hospitalization, medical expenses, prescription drugs, and reimbursement of monthly Medicare premiums.

Effective January 1, 2007, OPERS implemented the first changes referred to as the Health Care Preservation Plan (HCPP) to improve the long-term solvency of the Health Care Fund. The plan provides monthly allowances for health care coverage for retirees and their dependents based on the retiree's years of service. In September 2012, the Board adopted additional changes to the Health Care plan which have staggered effective dates beginning January 1, 2014. Participants in the Member-Directed Plan are not eligible for health care coverage under the Post-employment Health Care Plan. A portion of employer contributions for these members is allocated to the VEBA established under IRC 501(c)(9). Terminated members and retirees may be reimbursed for qualified medical expenses from their VEBA funds.

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

Age-and-service retirees who become re-employed in an OPERS-covered position must contribute the regular contribution rates, which are applied towards a money purchase annuity. Upon termination of service, members over the age of 65 can elect to receive a lump-sum payout or a monthly annuity. Members under age 65 may leave the funds on deposit with OPERS to receive an annuity benefit at age 65, or may elect to receive a refund of their employee contributions made during the period of re-employment, plus interest.

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

OPERS issues a stand-alone financial report and any 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 or by visiting <http://www.opers.org/investments/cafr.shtml>.



# • STATISTICAL SECTION •

If a picture is worth a thousand words, then the pictures of this reinvigorated location must be worth thousands of Lottery tickets. In 8 short hours, C Store Convenience Market went from a nondescript storefront to a clearly branded Lottery Retail Location.

The results were immediate. As the Lottery crew was packing its gear, a customer walked in, stopped in amazement at the transformation, and said to herself, "I'm going to have to start buying tickets from this place."

Suffice to say, the owners were very pleased.

A very special thank you to Vimal and Hina Patel, owners of C Store Convenience Market, and the Ohio Lottery Office of Sales for their cooperation.





The Lottery Sales staff that made this makeover possible (from left): Michelle Frabott, Patrick Kennedy, Pat Vasil, Gary Lawton, Kerry Walley, Doug Kuhlke, Matt Borgner.

# OHIO LOTTERY COMMISSION STATISTICAL SECTION

---

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

## FINANCIAL TRENDS

---

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

## REVENUE CAPACITY

---

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

## DEMOGRAPHIC AND ECONOMIC INFORMATION

---

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

## OPERATING INFORMATION

---

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

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

## OHIO LOTTERY - CHANGE IN NET POSITION • LAST TEN FISCAL YEARS

(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Change in Net Position										
Plus: Total Operating Revenues	\$ 2,227.3	\$ 2,267.1	\$ 2,332.9	\$ 2,425.9	\$ 2,498.8	\$ 2,608.3	\$ 2,781.7	\$ 2,939.8	\$ 3,288.0	\$ 3,776.4
Less: Total Prizes, Bonuses And Commissions	1,451.0	1,478.3	1,541.0	1,609.1	1,667.2	1,764.4	1,860.2	1,945.1	2,158.9	2,568.5
Less: Total Operating Expenses	109.8	109.8	110.3	124.3	109.4	109.3	107.8	121.4	121.0	130.9
Operating Income (Loss)	\$ 666.5	\$ 679.0	\$ 681.6	\$ 692.5	\$ 722.2	\$ 734.6	\$ 813.7	\$ 873.3	\$ 1,008.2	\$ 1,077.0
Plus: Non-Operating Income	22.3	60.4	88.0	55.8	76.3	24.1	79.1	0.0	16.9	19.1
Less: Non-Operating Expense	65.0	109.3	53.9	41.2	40.0	37.8	34.0	137.6	30.7	30.3
Less: Transfers	646.3	669.3	672.2	702.3	728.6	738.8	771.0	803.1	1,004.3	1,090.0
Change In Net Position	\$ (22.5)	\$ (39.2)	\$ 43.5	\$ 4.8	\$ 29.9	\$ (17.9)	\$ 87.8	\$ (67.4)	\$ (9.9)	\$ (24.2)
Change In Net Position	22.5	(39.2)	43.5	4.8	29.9	(17.9)	87.8	(67.4)	(9.9)	(41.6)
Total Net Position - Beginning	152.1	129.6	90.4	133.9	138.7	168.6	150.7	238.5	171.1	161.2
Total Net Position - Ending	\$ 129.6	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6	\$ 150.7	\$ 238.5	\$ 171.1	\$ 161.2	\$ 119.6

## OHIO LOTTERY - NET POSITION • LAST TEN FISCAL YEARS

(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Investment In Capital Assets	\$ 2.9	\$ 2.7	\$ 4.4	\$ 5.6	\$ 7.9	\$ 4.0	\$ 2.8	\$ 1.7	\$ 2.1	\$ 15.7
Restricted For Annuity Prizes	5.4	1.6	1.0	1.4	-	-	-	-	-	-
Restricted For Net Unrealized Gains On										
Restricted Investments	61.7	12.3	43.3	55.7	87.4	77.1	123.7	85.1	73.8	66.3
Unrestricted	59.6	73.8	85.2	76.0	73.3	69.6	112.0	84.3	85.3	37.6
Total Net Position	\$ 129.6	\$ 90.4	\$ 133.9	\$ 138.7	\$ 168.6	\$ 150.7	\$ 238.5	\$ 171.1	\$ 161.2	\$ 119.6

## OHIO LOTTERY - CAPITAL ASSETS

(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Capital Assets										
Lottery Equipment	\$ -	\$ -	\$ 1.6	\$ 2.0	\$ 6.1	\$ 2.3	\$ 0.5	\$ (0.3)	\$ 0.0	\$ 13.8
Vehicles	1.5	1.3	1.4	1.5	1.1	1.1	1.3	1.1	1.4	1.3
Data / Office Equipment	1.4	1.4	1.4	2.1	0.7	0.6	1.0	0.8	0.7	0.6
Net Investments In Capital Assets	\$ 2.9	\$ 2.7	\$ 4.4	\$ 5.6	\$ 7.9	\$ 4.0	\$ 2.8	\$ 1.6	\$ 2.1	\$ 15.7
Ratio of Outstanding Debt										
Related Debt <sup>(1)</sup>	-	-	-	-	\$ 66.8	\$ 58.0	\$ 45.3	\$ 33.0	\$ 15.4	\$ 13.1
Percentage Of Total Operating Revenues					2.7%	2.2%	1.6%	1.1%	0.5%	0.3%

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

## REVENUES • LAST TEN FISCAL YEARS

(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Online Ticket Sales</b>										
Pick 3	\$ 377.3	\$ 370.9	\$ 387.1	\$ 382.5	\$ 366.7	\$ 364.4	\$ 357.4	\$ 345.2	\$ 339.0	\$ 338.0
Pick 4	175.7	183.0	198.8	205.9	201.3	209.0	207.9	189.8	185.8	192.8
Pick 5	-	-	-	-	-	-	-	28.0	27.9	33.3
Rolling Cash 5	72.6	72.9	70.5	67.2	67.1	62.4	63.8	61.5	63.4	62.6
Super Lotto Plus/Lot O' Play <sup>(1)</sup>	76.3	21.8	-	-	-	-	-	-	-	-
Classic Lotto <sup>(2)</sup>	-	21.8	41.2	43.9	42.8	42.7	42.3	41.5	54.1	31.0
Raffle/Multi-State Raffle	-	17.8	10.0	9.3	9.1	10.0	10.0	9.1	1.0	7.0
Kicker <sup>(5)</sup>	21.6	21.3	21.4	21.4	24.1	10.3	0.9	5.1	6.0	4.7
Mega Millions/Megaplier <sup>(4)</sup>	223.4	196.1	201.0	193.0	215.8	165.0	179.3	102.8	133.4	113.3
EZPlay	-	-	12.3	34.3	30.4	30.9	46.5	68.0	84.8	99.8
Ten-OH! <sup>(5)</sup>	-	-	18.0	11.0	9.7	9.2	8.3	0.8	-	-
Keno / Booster <sup>(3)</sup>	-	-	-	99.8	120.6	157.9	209.8	251.5	298.1	329.5
Powerball/Power Play <sup>(3)</sup>	-	-	-	-	23.6	76.4	105.3	166.6	122.8	105.0
EZPlay Tap	-	-	-	-	-	-	-	-	-	24.0
<b>Total Online Ticket Sales</b>	<b>946.9</b>	<b>905.6</b>	<b>960.3</b>	<b>1,068.3</b>	<b>1,111.2</b>	<b>1,138.2</b>	<b>1,231.5</b>	<b>1,269.9</b>	<b>1,316.3</b>	<b>1,341.0</b>
Instant Games Sales	1,274.0	1,353.8	1,364.8	1,349.4	1,379.0	1,462.8	1,507.5	1,428.0	1,426.8	1,551.0
<b>Total Ticket Sales</b>	<b>2,220.9</b>	<b>2,259.4</b>	<b>2,325.1</b>	<b>2,417.7</b>	<b>2,490.2</b>	<b>2,601.0</b>	<b>2,739.0</b>	<b>2,697.9</b>	<b>2,743.1</b>	<b>2,892.0</b>
VLT Revenue	-	-	-	-	-	-	11.1	165.5	437.6	773.0
VLT License Revenue	-	-	-	-	-	-	25.0	70.0	100.1	105.2
Other Revenues <sup>(6)</sup>	28.7	68.1	95.8	64.0	86.6	31.4	6.6	6.3	7.2	6.2
<b>Total Revenues</b>	<b>\$ 2,249.6</b>	<b>\$ 2,327.5</b>	<b>\$ 2,420.9</b>	<b>\$ 2,481.7</b>	<b>\$ 2,576.8</b>	<b>\$ 2,632.4</b>	<b>\$ 2,781.7</b>	<b>\$ 2,939.8</b>	<b>\$ 3,288.0</b>	<b>\$ 3,776.4</b>

(1) Super Lotto Plus was replaced in October 2005 by Lot O' Play.

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

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

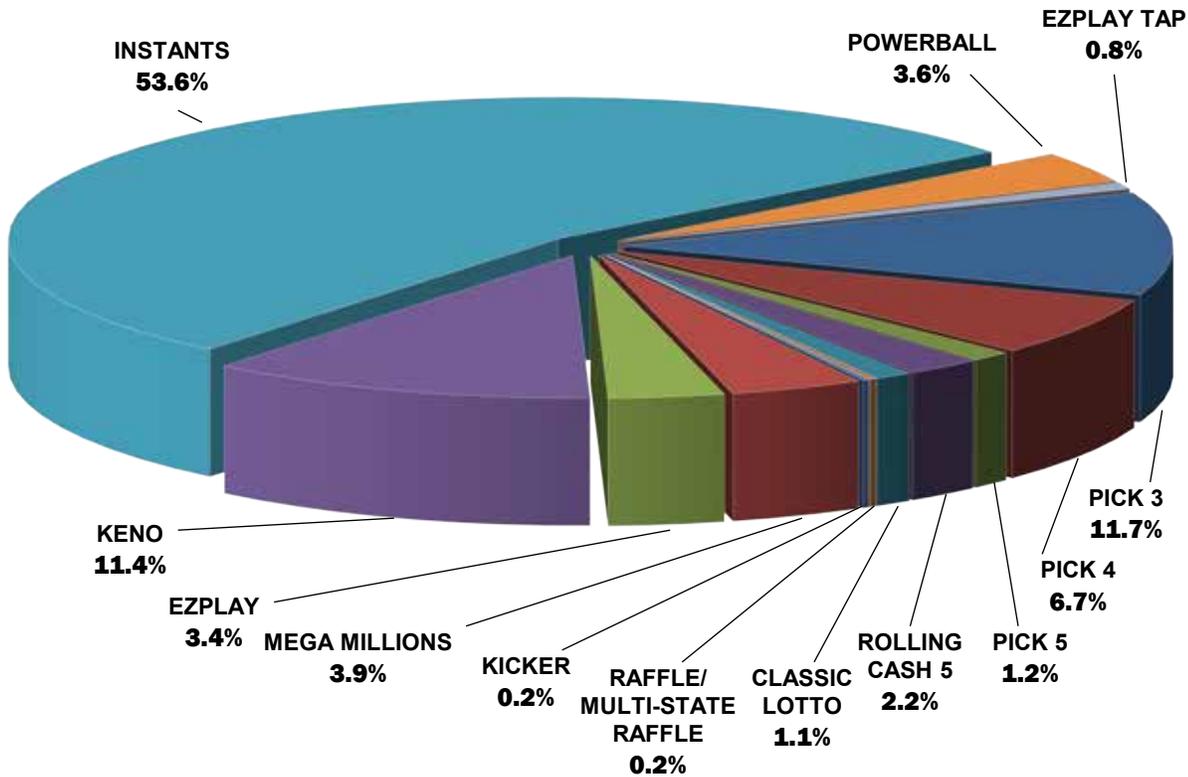
(4) The Kicker was retired from Mega Millions in 2011 and was replaced by Megaplier; Kicker was reintroduced in 2012 as a add-on feature to Classic Lotto.

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

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

## OHIO LOTTERY • SALES BY GAME

(Fiscal Year 2015)



## PRIZE PAYOUT AS A PERCENTAGE OF TRADITIONAL LOTTERY SALES • LAST TEN FISCAL YEARS

(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>SALES</b>										
Online	\$ 946.9	\$ 905.6	\$ 960.3	\$ 1,068.3	\$ 1,111.2	\$ 1,138.2	\$ 1,231.5	\$ 1,269.9	\$ 1,316.3	\$ 1,341.0
Instant	1,274.0	1,353.8	1,364.8	1,349.4	1,379.0	1,462.8	1,507.5	1,428.0	1,426.8	1,551.0
<b>Total Ticket Sales</b>	<b>\$ 2,220.9</b>	<b>\$ 2,259.4</b>	<b>\$ 2,325.1</b>	<b>\$ 2,417.7</b>	<b>\$ 2,490.2</b>	<b>\$ 2,601.0</b>	<b>\$ 2,739.0</b>	<b>\$ 2,697.9</b>	<b>\$ 2,743.1</b>	<b>\$ 2,892.0</b>
<b>PRIZE EXPENSE</b>										
Online	\$ 467.7	\$ 426.7	\$ 470.3	\$ 537.0	\$ 566.7	\$ 593.1	\$ 648.0	\$ 683.0	\$ 705.7	\$ 758.5
Instant	843.5	911.7	926.7	922.0	947.0	1,010.0	1,032.9	985.1	992.3	1,116.8
<b>Total Prize Expense</b>	<b>\$ 1,311.2</b>	<b>\$ 1,338.4</b>	<b>\$ 1,397.0</b>	<b>\$ 1,459.0</b>	<b>\$ 1,513.7</b>	<b>\$ 1,603.1</b>	<b>\$ 1,680.8</b>	<b>\$ 1,668.1</b>	<b>\$ 1,698.0</b>	<b>\$ 1,875.3</b>
<b>PRIZE PAYOUT PERCENTAGE</b>										
Online	49.4%	47.1%	49.0%	50.3%	51.0%	52.1%	52.6%	53.8%	53.6%	56.6%
Instant	66.2%	67.3%	67.9%	68.3%	68.7%	69.0%	68.5%	69.0%	69.5%	72.0%

## EXPENSES AS A PERCENTAGE OF TRADITIONAL LOTTERY SALES • LAST TEN FISCAL YEARS

(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Prizes</b>	<b>\$ 1,311.2</b>	<b>\$ 1,338.4</b>	<b>\$ 1,397.0</b>	<b>\$ 1,459.0</b>	<b>\$ 1,513.7</b>	<b>\$ 1,603.1</b>	<b>\$ 1,680.8</b>	<b>\$ 1,668.1</b>	<b>\$ 1,698.0</b>	<b>\$ 1,875.3</b>
Prizes as % Total Sales	59.0%	59.2%	60.1%	60.3%	60.8%	61.6%	61.4%	61.8%	61.9%	64.8%
<b>Bonuses/Commissions</b>	<b>139.8</b>	<b>140.0</b>	<b>143.9</b>	<b>150.1</b>	<b>153.4</b>	<b>161.3</b>	<b>172.0</b>	<b>166.9</b>	<b>169.9</b>	<b>179.2</b>
Bonuses/Commissions as % of total Sales	6.3%	6.2%	6.2%	6.2%	6.2%	6.2%	6.3%	6.2%	6.2%	6.2%
<b>Operating Expenses</b>	<b>109.8</b>	<b>109.8</b>	<b>110.3</b>	<b>124.3</b>	<b>109.4</b>	<b>109.3</b>	<b>107.8</b>	<b>116.5</b>	<b>113.8</b>	<b>119.8</b>
Operating Expenses as % of Total Sales	4.9%	4.9%	4.7%	5.1%	4.4%	4.2%	3.9%	4.3%	4.1%	4.1%
<b>Payments to Education</b>	<b>646.3</b>	<b>669.3</b>	<b>672.2</b>	<b>702.3</b>	<b>728.6</b>	<b>738.8</b>	<b>771.0</b>	<b>752.5</b>	<b>764.9</b>	<b>739.9</b>
Payments to Education as % of Total Sales	29.1%	29.6%	28.9%	29.0%	29.3%	28.4%	28.1%	27.9%	27.9%	25.6%
<b>Total Sales</b>	<b>\$ 2,220.9</b>	<b>\$ 2,259.4</b>	<b>\$ 2,325.1</b>	<b>\$ 2,417.7</b>	<b>\$ 2,490.2</b>	<b>\$ 2,601.0</b>	<b>\$ 2,739.0</b>	<b>\$ 2,697.9</b>	<b>\$ 2,743.1</b>	<b>\$ 2,892.0</b>

## VIDEO LOTTERY TERMINALS

### GROSS GAMING REVENUE, COMMISSIONS TO VLSA, OPERATING EXPENSES AND PAYMENTS TO EDUCATION • LAST TEN FISCAL YEARS

(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Commissions to VLSA's <sup>(2)</sup>							7.4	110.1	291.0	514.0
Lottery Net Revenue							3.7	55.5	146.6	258.9
Operating Expenses							N/A <sup>(1)</sup>	4.9	7.2	8.8
Payments to Education							N/A <sup>(1)</sup>	50.6	139.4	250.1
<b>Gross Gaming Revenue</b>							<b>11.1</b>	<b>165.5</b>	<b>437.6</b>	<b>773.0</b>

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

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

## TOTAL EXPENSES, INCLUDING VIDEO LOTTERY TERMINALS • LAST TEN FISCAL YEARS

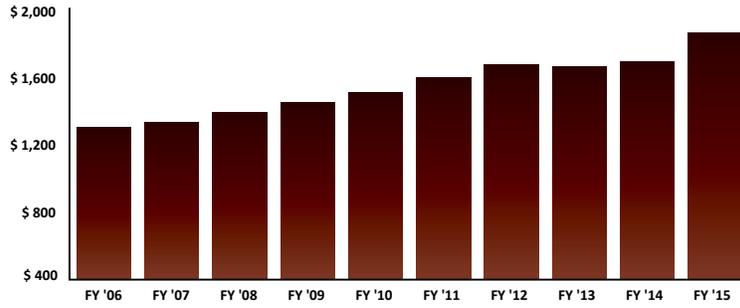
(in millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales	\$ 2,220.9	\$ 2,259.4	\$ 2,325.1	\$ 2,417.7	\$ 2,490.2	\$ 2,601.0	\$ 2,750.1	\$ 2,863.5	\$ 3,180.7	\$ 3,664.9
Prizes	\$ 1,311.2	\$ 1,338.4	\$ 1,397.0	\$ 1,459.0	\$ 1,513.7	\$ 1,603.1	\$ 1,680.8	\$ 1,668.1	\$ 1,698.0	\$ 1,875.3
Bonus and Commission	\$ 139.8	\$ 140.0	\$ 143.9	\$ 150.1	\$ 153.4	\$ 161.3	\$ 179.4	\$ 277.0	\$ 460.9	\$ 693.2
Operating Expenses	\$ 109.8	\$ 109.8	\$ 110.3	\$ 124.3	\$ 109.4	\$ 109.3	\$ 107.8	\$ 121.4	\$ 121.0	\$ 130.9
Payments to Education	\$ 646.3	\$ 669.3	\$ 672.2	\$ 702.3	\$ 728.6	\$ 738.8	\$ 771.0	\$ 803.1	\$ 904.3	\$ 988.4

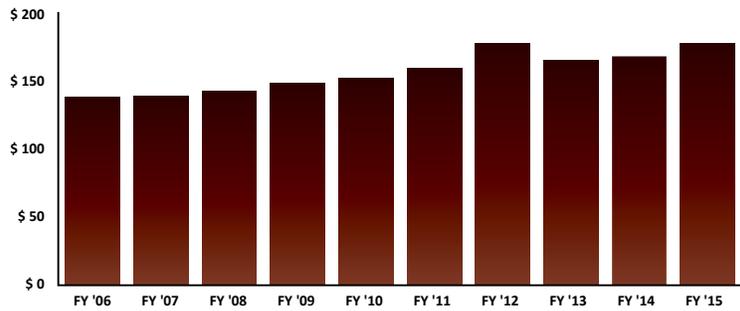
# OHIO LOTTERY • EXPENSES AND PAYMENTS - LAST TEN FISCAL YEARS

(in millions)

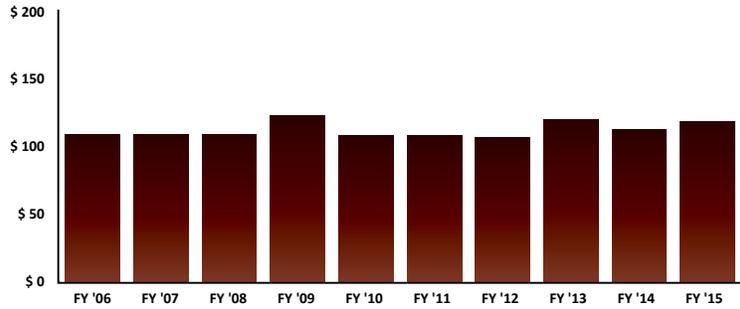
## PRIZE EXPENSE



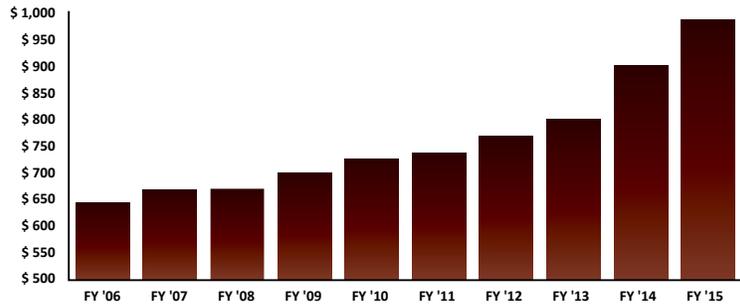
## BONUSES/COMMISSIONS



## OPERATING EXPENSE

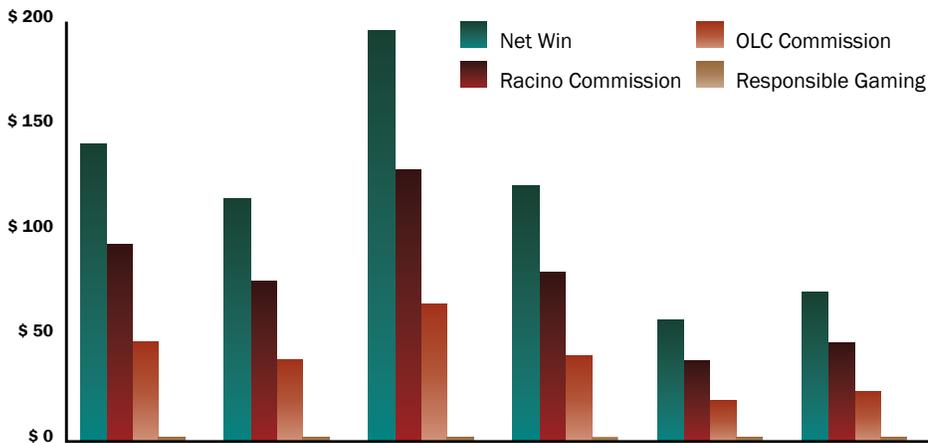


## PAYMENTS TO EDUCATION



# TOTAL VIDEO LOTTERY TERMINAL (VLT) SALES • FISCAL YEAR 2015

(in millions)



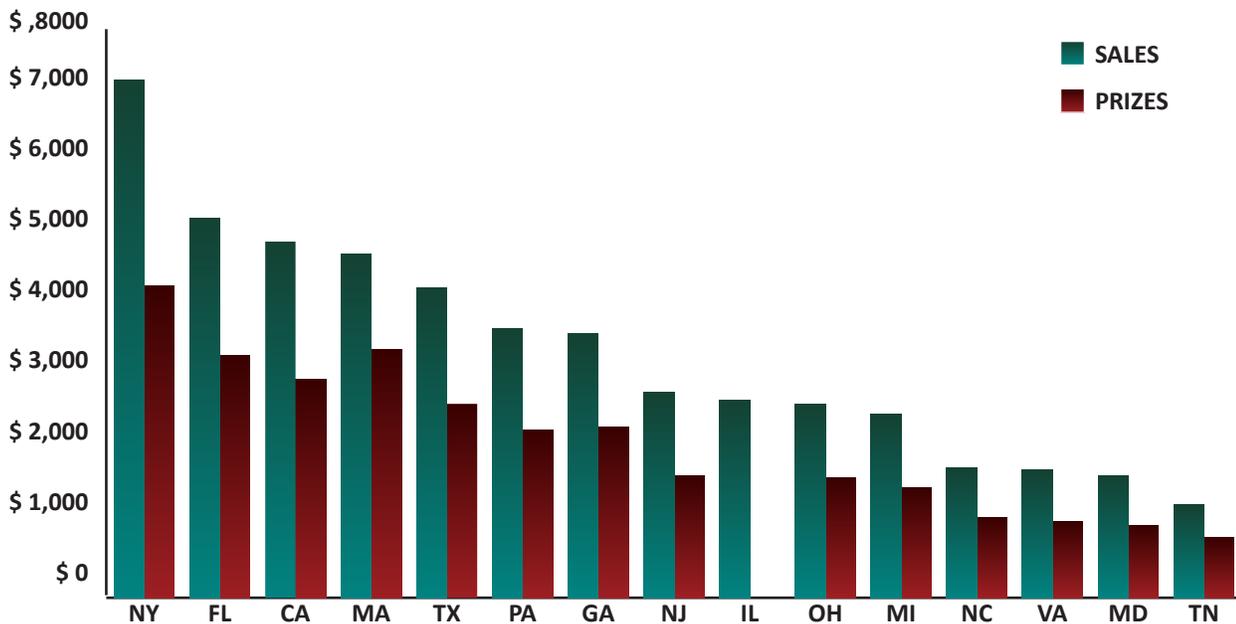
	SCIOTO DOWNS RACINO	THISTLEDOWN RACINO	HARD ROCK ROCKSINO	MIAMI VALLEY GAMING	BELTERRA PARK GAMING & ENTERTAINMENT CENTER	HOLLYWOOD GAMING AT DAYTON RACEWAY	HOLLYWOOD GAMING AT MAHONING VALLEY	TOTAL VLTs FISCAL YEAR 2015
<b>DATE OPENED</b>	<b>June 2012</b>	<b>April 2013</b>	<b>December 2013</b>	<b>December 2013</b>	<b>April 2014</b>	<b>August 2014</b>	<b>September 2014</b>	
<b>Average Number of VLTs</b>	<b>2,129</b>	<b>1,246</b>	<b>2,268</b>	<b>1,579</b>	<b>1,332</b>	<b>988</b>	<b>863</b>	<b>10,405</b>
Net Win	\$140.8	\$115.1	\$194.4	\$120.9	\$57.6	\$70.6	\$73.6	\$773.0
Racino Commission	93.2	76.1	128.6	80.0	38.1	46.7	48.7	511.4
Ohio Lottery	47.2	38.6	65.1	40.5	19.3	23.7	24.7	258.9
Responsible Gaming	0.5	0.4	0.6	0.4	0.2	0.2	0.2	2.6

**U.S. LOTTERY INDUSTRY STATEMENT OF OPERATIONS**  
**RANK BY SALES<sup>(a)</sup> FISCAL YEAR 2014<sup>(b)</sup>**  
*(in millions)*

U. S. LOTTERY	POPULATION	TOTAL TICKET SALES	PRIZES	BONUSES/ COMMISSIONS	OPERATING EXPENSES	PRIZES AS % OF TOTAL SALES	PER CAPITA SALES
1. New York	19.7	\$7,314.2	\$4,409.3	\$439.3	\$1,100.4	60.3%	\$370
2. Florida	19.9	5,368.2	3,431.1	298.7	151.6	63.9%	270
3. California	38.8	5,034.7	3,082.4	345.5	280.1	61.2%	130
4. Massachusetts	6.7	4,853.6	3,514.6	277.8	95.4	72.4%	720
5. Texas	27.0	4,384.6	2,741.2	237.5	185.4	62.5%	163
6. Pennsylvania	12.8	3,799.6	2,376.7	202.4	140.9	62.6%	297
7. Georgia	10.1	3,739.9	2,413.8	239.3	154.5	64.5%	370
8. New Jersey	8.9	2,908.1	1,732.0	162.1	91.5	59.6%	325
9. Illinois (c )	12.9	2,791.8	n/a	n/a	n/a	n/a	n/a
10. OHIO	11.6	2,743.1	1,698.0	169.9	121.0	61.9%	237
11. Michigan	9.9	2,596.4	1,559.9	188.5	113.2	60.1%	265
12. North Carolina	9.9	1,839.3	1,135.1	128.6	77.6	61.7%	185
13. Virginia	8.3	1,810.8	1,082.5	101.5	89.7	59.8%	217
14. Maryland	6.0	1,724.0	1,022.0	122.1	148.2	59.3%	288
15. Tennessee	6.5	1,319.1	850.8	92.5	42.8	64.5%	201

*(a) Sales excludes video lottery, (b) Latest information available, (c ) Unaudited*  
 The fiscal year ends June 30, 2013 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, 2013.  
 Source: "La Fleur's 2015 World Lottery Almanac"

**U.S. LOTTERY INDUSTRY • FISCAL YEAR 2014**  
*(in millions)*



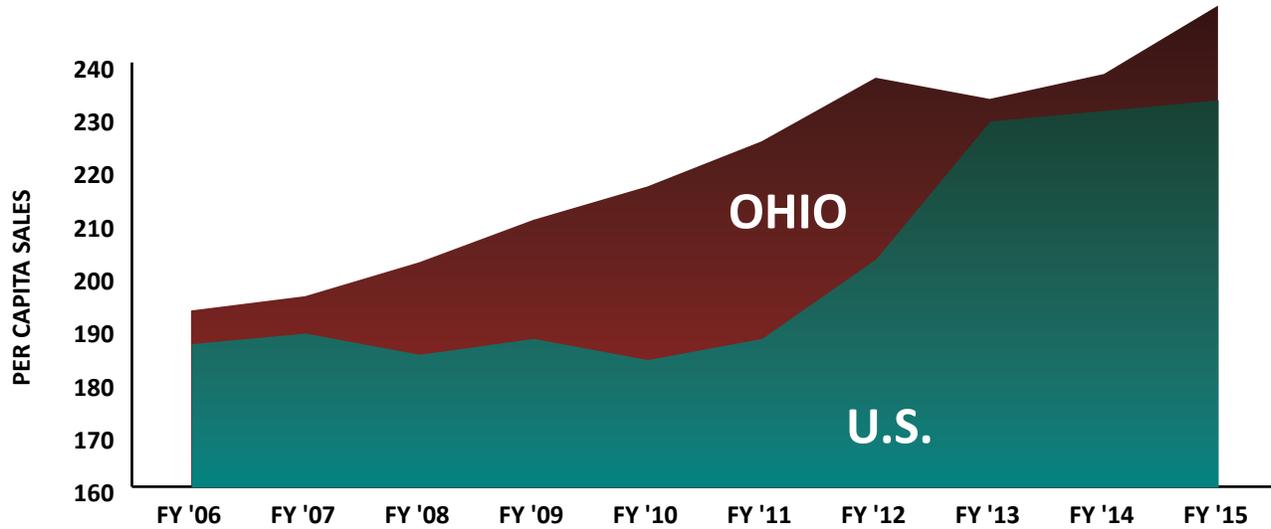
Source: "La Fleur's 2015 World Lottery Almanac"

## OHIO LOTTERY • PER CAPITA SALES - LAST TEN FISCAL YEARS

(in millions)

FISCAL YEAR	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Population	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Traditional Lottery Sales	\$ 2,220.9	\$ 2,259.4	\$ 2,325.1	\$ 2,417.7	\$ 2,490.2	\$ 2,601.0	\$ 2,739.0	\$ 2,697.9	\$ 2,743.1	\$ 2,892.0
Ohio Lottery Per Capita Sales	\$ 193.1	\$ 195.8	\$ 202.2	\$ 210.2	\$ 216.5	\$ 225.0	\$ 237.0	\$ 233.0	\$ 237.7	\$ 250.6
US Lotteries Per Capita Sales	\$ 187.0	\$ 189.0	\$ 185.0	\$ 188.0	\$ 184.0	\$ 188.0	\$ 203.0	\$ 229.0	\$ 231.0	\$ 233.0

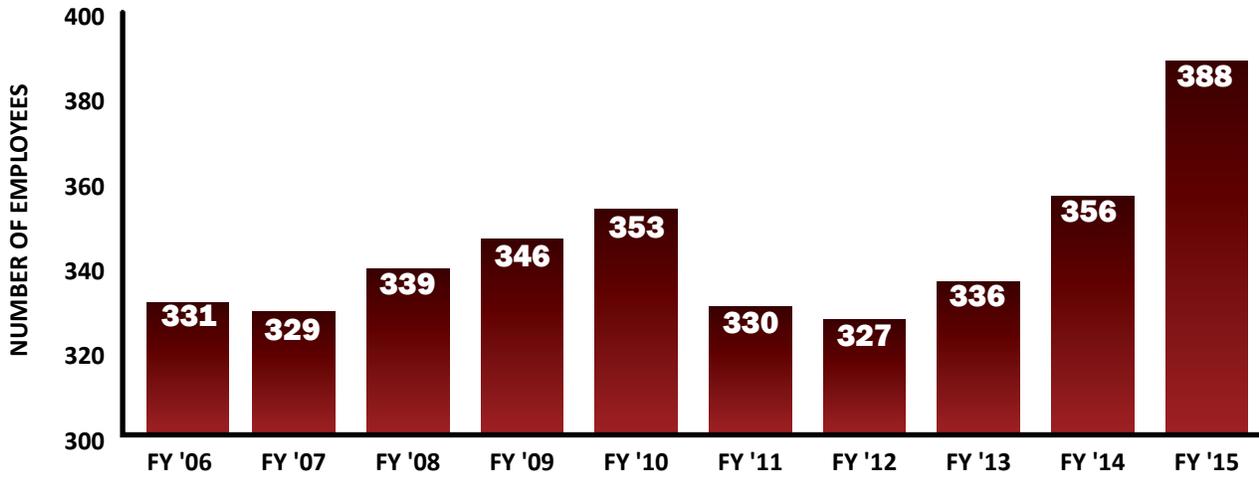
## OHIO LOTTERY AND U.S. LOTTERIES • PER CAPITA SALES - LAST TEN FISCAL YEARS



Source: "La Fleur's 2014 World Lottery Almanac"  
 (1) 2015 National Per Capita Sales is estimated

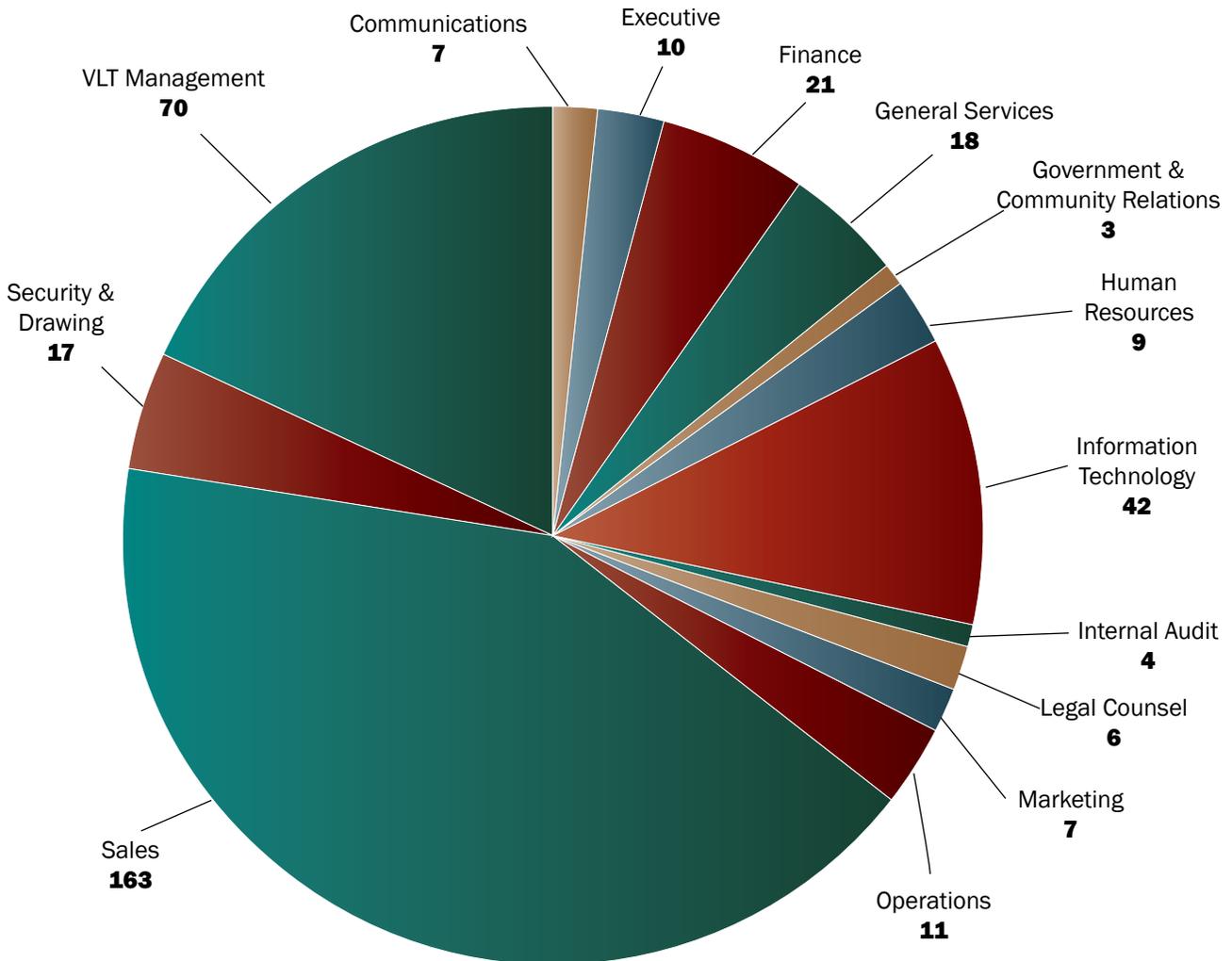
## OHIO LOTTERY • NUMBER OF EMPLOYEES - LAST TEN FISCAL YEARS

(as of June 30, 2015)



## OHIO LOTTERY • EMPLOYEES BY OFFICE

(as of June 30, 2015)



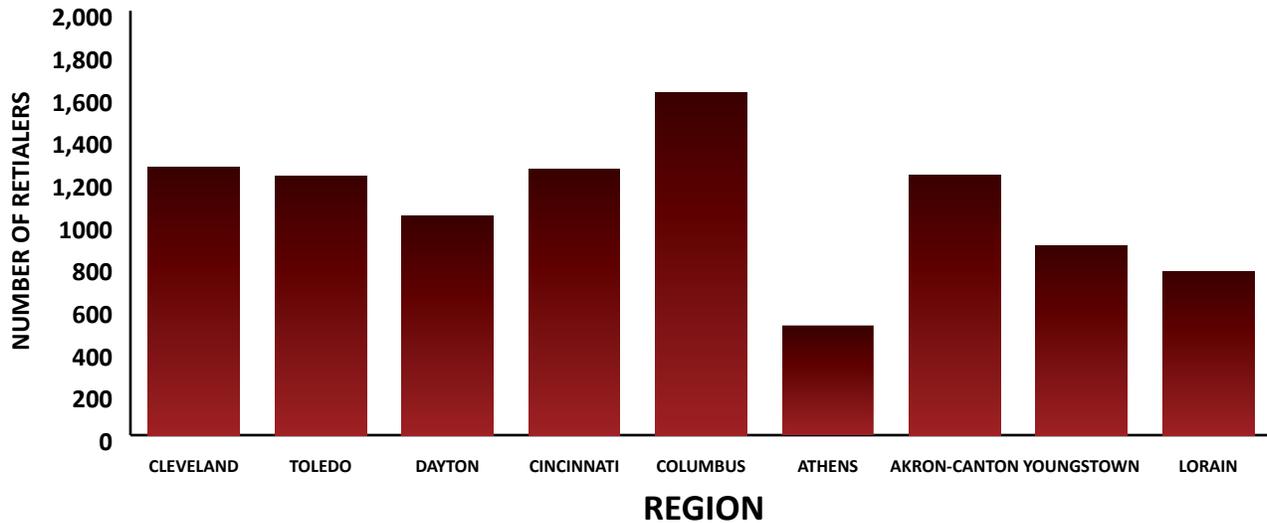
## OHIO LOTTERY • ACTIVE RETAILERS BY REGION

*(as of June 30, 2015)*

REGIONAL OFFICE	LOTTERY RETAILERS	CHANGE - PRIOR FY	PERCENTAGE OF TOTAL
CLEVELAND	1,261	19	12.9%
TOLEDO	1,220	19	12.4%
DAYTON	1,034	30	10.6%
CINCINNATI	1,255	5	12.8%
COLUMBUS	1,616	24	16.5%
ATHENS	517	2	5.3%
AKRON-CANTON	1,226	25	12.5%
YOUNGSTOWN	895	13	9.1%
LORAIN	771	22	7.9%
<b>TOTAL LOTTERY RETAILERS</b>	<b>9,795</b>	<b>159</b>	<b>100.0%</b>

## OHIO LOTTERY • RETAILERS BY REGION

*(as of June 30, 2015)*



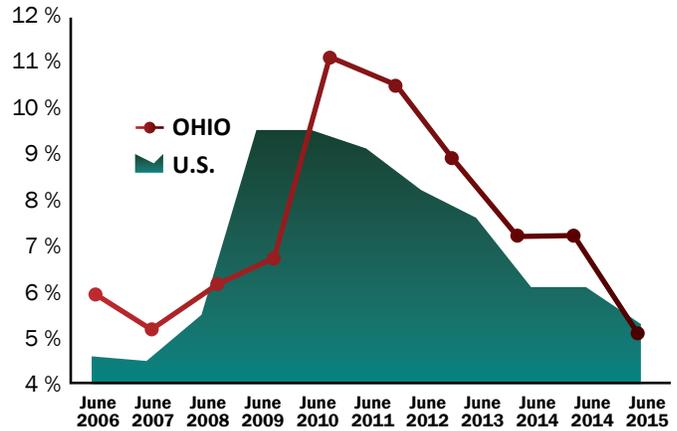
## LOTTERY RETAILERS - LAST TEN FISCAL YEARS

*(as of June 30, 2015)*

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
TOTAL RETAILERS	8,559	8,154	8,005	8,748	8,770	9,068	9,371	9,482	9,636	9,795
Online & Instant	7,806	8,144	8,005	8,748	8,770	9,068	9,371	9,482	9,636	9,795
Instant Only	753	10	0	0	0	0	0	0	0	0

## UNEMPLOYMENT RATES • SEASONALLY ADJUSTED

Month / Year	Ohio	U.S.
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%
Jun-2011	8.8%	9.1%
Jun-2012	7.2%	8.2%
Jun-2013	7.2%	7.6%
Jun-2014	5.5%	6.1%
Jun-2015	5.2%	5.3%



Source:  
Ohio Department of Job & Family Services

## STATE OF OHIO • PRINCIPAL EMPLOYERS

*for Calendar Years 2012 and 2004*

### 2013 RANKINGS

RANK	EMPLOYER	EMPLOYEES	% OF TOTAL STATE EMPLOYMENT
1	United States Government	76,666	1.15%
2	Wal-Mart Stores	49,700	0.75%
3	State of Ohio	48,880	0.73%
4	Cleveland Clinic	41,400	0.62%
5	Kroger Company	39,000	0.59%
6	The Ohio State University	29,900	0.45%
7	Catholic Healthcare Partners	28,900	0.43%
8	Catholic Health Initiatives/Premier Health and TriHealth	25,800	0.39%
9	University Hospitals Health System	24,000	0.36%
10	JP Morgan Chase & Co.	23,200	0.35%

### 2004 RANKINGS

RANK	EMPLOYER	EMPLOYEES	% OF TOTAL STATE EMPLOYMENT
1	United States Government	78,509	1.18%
2	State of Ohio	58,965	0.89%
3	Wal-Mart Stores	42,800	0.64%
4	Kroger Company	32,700	0.49%
5	Cleveland Clinic Health System	28,950	0.43%
6	University Hospitals Health System	25,000	0.38%
7	The Ohio State University	22,100	0.33%
8	General Motors Corporation	21,900	0.33%
9	General Electric Company	20,000	0.30%
10	Meijer, Inc.	20,000	0.30%

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  
 (A) Calendar year 2004 was the most recent year for which data was available for the required nine-year comparison.



# The Ohio Lottery Commission

An Equal Opportunity Employer and Service Provider



615 West Superior Avenue • Cleveland, Ohio 44113-1875

1.800.686.4208 • [www.ohiolottery.com](http://www.ohiolottery.com)





# Dave Yost • Auditor of State

**OHIO LOTTERY COMMISSION**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 15, 2015**