



Dave Yost • Auditor of State

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY
JUNE 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Ohio Lottery's basic financial statements and have issued our report thereon dated September 29, 2017, wherein we noted the summarized comparative information has been derived from the Ohio Lottery's financial statements as of and for the year ended June 30, 2016 and, in our report dated September 30, 2016, we expressed unmodified opinions on the respective financial position of each major fund.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

September 29, 2017



The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio



Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2017

The Ohio Lottery Commission

An Enterprise Fund of the State of Ohio
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Prepared by the
Ohio Lottery Office of Finance

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



TABLE OF CONTENTS

INTRODUCTORY SECTION

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

FINANCIAL SECTION

| | |
|--|----|
| Independent 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 |
| Required Supplementary Information..... | 47 |

STATISTICAL SECTION

| | |
|--------------------|----|
| Introduction | 50 |
|--------------------|----|

OHIO LOTTERY STATISTICS

| | |
|---|----|
| Net Position..... | 51 |
| Revenues and Sales..... | 52 |
| Prize Payout and Expenses..... | 53 |
| Video Lottery Terminals (VLTs) | 53 |
| Lottery Industry Statistics..... | 58 |
| Ohio Lottery Comparative Statistics | 59 |
| Employee Data | 60 |
| Retailer Data..... | 61 |

STATE OF OHIO STATISTICS

| | |
|----------------------------------|----|
| State of Ohio Demographics | 62 |
|----------------------------------|----|

• INTRODUCTORY SECTION •



CELEBRATING 10 YEARS

This year, the Ohio Lottery Celebrates its 10-year anniversary of the *Partners in Education* program. The program was launched in 2007 in order to recognize outstanding students and educators in Ohio who are working hard throughout our state.

Every month during the school year, teachers and students across Ohio are recognized for their achievements. Those students and teachers who have been recognized as winners receive a Certificate of Excellence, a gift card, Ohio Lottery Partners in Education merchandise, and their name, picture, and article posted on the Ohio Lottery's web site.





Academic All Star

The *Academic All Star* award recognizes K-12 students who have exhibited academic achievement, community involvement, citizenship and leadership in and out of the classroom.

This program is designed to recognize students based on a variety of criteria: improvement in academics, leadership abilities, citizenship, and extracurricular activities.

ACADEMIC ALL STAR





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

SEPTEMBER 29, 2017

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, 2017. 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.

PROFILE OF THE OHIO LOTTERY

The Ohio Lottery Commission was created in May 1973 through a constitutional amendment approved by voters by a 2-to-1 margin. The first ticket went on sale in August 1974. Throughout the 1980's the Lottery launched a number of draw games which still exist today, such as Pick 3 and Pick 4. The 1990's were a strong decade for instant games, with \$2 instant tickets launched in 1993, and \$5 and \$10 games following in 1995 and 1998 respectively. The first \$20 instant ticket was launched in 2003, and the Lottery later added a \$30 price point in 2014. Encouraged by the ongoing success of its in-state lotto games, the Ohio Lottery formally joined the Mega Millions consortium in fiscal year 2002, and entered an agreement to sell Powerball beginning in fiscal year 2010. In the last decade, the Lottery has begun an aggressive strategy of modernizing its game portfolio to better match player demand, launching EZPLAY in 2008 and Keno in fiscal year 2009, in addition to recent new fast play draw options. Today, the Ohio Lottery Commission offers customers a wide variety of instant and draw games, with new convenient payment options, at nearly 10,000 licensed retailer locations across the state.

In 1983, the Ohio Legislature earmarked Lottery profits to education, which was made permanent via a constitutional amendment in 1987. Altogether, the Lottery has provided more than \$23 billion to public education. Video Lottery gaming was introduced in Ohio when the Governor signed Executive Order 2011-22K, which authorized the Ohio Lottery to amend and adopt rules necessary to implement a video lottery program at Ohio's seven (7) horse racing facilities. The Lottery's role is to regulate the program with the goal of generating revenue for the State of Ohio while maintaining integrity and transparency. Last year, VLT revenue contributed over a quarter of all annual Lottery profits.

As of June 30, 2017, 44 states, plus the District of Columbia, the U.S. Virgin Islands and Puerto Rico operate lotteries using computer-based draw games and instant "scratch off" games. The Ohio Lottery routinely ranks in the top ten of all US lotteries in terms of its sales and profits.

ECONOMIC OUTLOOK

According to the Bureau of Economic Analysis (BEA), personal income in the United States increased 1.0 percent in the first quarter of federal fiscal year 2017. The report indicates that personal income grew in 49 states and the District of Columbia, and growth accelerated in 48 of those states as well as DC. BEA targeted a number of factors behind the increase in personal income, which include increases in compensation of employees, disposable personal income (DPI), and interest and dividend income. Of the industries tracked by the BEA, the largest percentage of earnings increases were in the professional, scientific, and technical services; construction; and health care and social assistance. All told, twenty-one of the twenty-four industries tracked saw earnings growth.

The US unemployment rate for June 2017 was 4.4 percent, which is 0.5 percent less than the previous year. In comparison to June 2016, the three main industries where employment growth increased were health care and social assistance, financial activities, and mining.

Ohio began the first quarter of fiscal year 2017 with a 1.0 percent increase in personal income over the previous quarter. Ohio ranked 27th among states for change of income between the quarters. Throughout fiscal year 2017, the unemployment figures in Ohio have remained relatively consistent, from 4.9 percent in June of 2016 to 5.0 percent as of June 2017. Ohio's unemployment rate currently sits at 0.6 percent higher than the national rate.

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

Fiscal year 2017 was the second consecutive year of profits exceeding \$1 billion dollars. Recent revenue increases are primarily the result of the ongoing success of KENO games, and the continuing strong performances from seven VLT facilities. The implementations of the new racinos are in keeping with the Ohio Lottery's strategic plan to continually innovate in an effort to maintain player interest. Additionally, as consumers scale back on discretionary spending, Ohio Lottery games offer an affordable entertainment alternative.

LOTTERY PRODUCTS

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

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



PICK 3 was Ohio's first online game OR draw-based game. Players select a three-digit number from 000 to 999 and can play the numbers straight (numbers in exact order), boxed (numbers in any order) or as backup bets (players can win either or both ways). A wheel wager can also be placed. This wager is, in essence, equivalent to a straight bet being made for each number combination. Pick 3 sales for fiscal year 2017 were \$340.0 million, or 11.3 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 2017 were \$201.0 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 2017 were \$38.1 million, or 1.3 percent of total Ohio Lottery sales. Pick 3, Pick 4 and Pick 5 are drawn middays and evenings Sunday through Saturday.



ROLLING CASH 5 is a lotto game in which players select five numbers from a pool of 1 to 39, with overall odds of winning any prize of 1 in 9. The top prize starts at \$100,000 and increases if not won. Sales for fiscal year 2017 were \$55.5 million, or 1.9 percent of total Ohio Lottery sales. Drawings are held Sunday through Saturday evenings.



CLASSIC LOTTO is an in-state lotto game in which players select six numbers from a pool of 1 to 49. To win the jackpot, all six numbers must be matched. The jackpot starts at \$1.0 million and increases if not won. Drawings are held on Monday, Wednesday, and Saturday evenings. Classic Lotto sales for fiscal year 2017 were \$27.2 million, or 0.9 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 2017 were \$3.7 million, or 0.1 percent of total Ohio Lottery sales.



EZPLAY is a hybrid instant/online game. EZPLAY combines the instant win experience with an online game component. The player purchases an online ticket that consists of two sections, a draw section followed by a play section. Players then match the two sections to determine if they are a winner. Game themes and ticket selling prices modify easily to keep the product line fresh. In fiscal year 2013, a progressive jackpot component was added to the game portfolio, which now comprises roughly 83 percent of EZPLAY sales. Sales for fiscal year 2017 were \$120.2 million, or 4.0 percent of total Ohio Lottery sales.



EZPLAY TOP is a series of EZPLAY® Games that include graphical touch-screen style play, and is played exclusively on Multi-Purpose Next Generation (MPNG) machines. This was an exclusive, legal gaming option offered by the Ohio Lottery for Veteran and Fraternal Organizations. In October 2014, 670 units were deployed as various fraternal/veterans throughout the State. Several different games are loaded into each machine with play prices starting at twenty-five cents. These games are normally structured to generate an 85-90 percent payout. Sales for fiscal year 2017 were \$30.0 million, or 1.0 percent of total Ohio Lottery sales.



KENO is a draw game in which players choose from one to 10 numbers (also called spots) for a top prize of \$100,000 by matching 10 of 20 numbers drawn. The drawings are held every day starting at 6:04 a.m. and occur every four minutes, ending at 2:28 a.m. The Ohio Lottery introduced Booster in February 2010. Players may select the Booster option for a chance to increase their winnings at the cost of \$1 for each dollar wagered on KENO. The Booster number drawn can be 1, 2, 3, 4, 5, or 10 and can increase winnings 2, 3, 4, 5, or 10 times. Combined KENO/Booster sales for fiscal year 2017 were \$396.3 million, or 13.2 percent of total Ohio Lottery sales.



EZPLAY QUICKKENO is a new style of EZPLAY games that are based on the traditional KENO game. It requires a new Multi-Play QuickKeno (MPQK) touch screen terminal which the Ohio Lottery installed and activated 1,000 at various retailers on June 19, 2016. QuickKeno game prices start at \$0.25, and they offer players multiple ways to win. Sales for fiscal year 2017 were \$16.0 million, which came to 0.5 percent of total Ohio Lottery sales.



OHIO 50/50 is a new weekly Raffle game launched in August 2016. The dates and times of the drawings are at the discretion of the Ohio Lottery director. Price is \$1 per play. There are 36 winners per drawing. One grand prize winner receives 50% of weekly sales, ten winners receive \$2,000 and 25 winners receive \$500. The jackpot is based on total net sales. The first segment of drawings for fiscal year 2017 ran from August 29, 2016 to February 11, 2017. Sales in fiscal year 2017 were \$3.6 million which came to 0.1 percent of total Ohio Lottery sales.



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

MEGAPLIER was added to Mega Millions in January 2011. Players may select the Megaplier option for a chance to increase their winnings at the cost of \$1 for each dollar wagered on Mega Millions. The Megaplier number drawn can be 2, 3, 4 or 5, and can increase winnings by that Megaplier number drawn. Megaplier multiplies the winnings by the number drawn for prizes up to \$5,000. If a player selects the Megaplier option and then matches all five numbers but not the Mega ball, the prize is automatically \$1.0 million. Drawings are held on Tuesday and Friday evenings. Mega Millions/Megaplier sales for fiscal year 2017 were \$93.3 million, or 3.1 percent of total Ohio Lottery sales.



POWERBALL is a multi-state, lotto game launched in Ohio in April 2010. For each \$2 wager, players select five numbers from a pool of 1 to 69 and select one Powerball number from a second pool of 1 to 26. To win the jackpot, all six numbers must match. The jackpot starts at \$40.0 million and increases if not won. Drawings are held on Wednesday and Saturday evenings.

Players may select the **POWER PLAY** feature that allows a winner to increase the original prize amount for an additional \$1 wager. Powerball players winning any prize other than the jackpot will win a larger cash prize. Combined Powerball/Power Play sales for fiscal year 2017 were \$129.8 million or 4.3 percent of total Ohio Lottery sales.



LUCKY FOR LIFE is a small-scale multi-state game that was introduced in Ohio in November 2015. Wagers cost \$2 and drawings are held on Mondays and Thursdays. The Top Prize is \$1,000 a day for life and the Second Prize is \$25,000 a year for life. The top prize and second prize payouts are divided equally among multiple winners. Sales for fiscal year 2017 were \$19.9 million, or 0.7 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 2017, instant game sales were \$1.5 billion or 50.9 percent of total traditional ticket sales. The Ohio Lottery has successfully sold instant games at the \$1, \$2, \$3, \$5, \$10, \$20 and \$30 price points. The Ohio Lottery continues to feature several “spotlight” instant games, which are games sold at \$10 and \$20 price points with attractive, higher prize payouts. To keep things interesting, the Ohio Lottery introduced several varieties of instant games this year, such as various “Jackpot” instant games at four different price points, a \$5 “Price is Right” game, and to celebrate Cash Explosion’s 30th anniversary, a “Cash Explosion 30th Anniversary” \$2 instant ticket.

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, 2017, there were 11,032 terminals at seven different racetracks in Ohio. A Video Lottery Terminal (VLT) is a stand-alone device containing a random-number generator. Each VLT connects to a centralized computer system that allows the Lottery to monitor game play and collect revenue activity. The Central Monitoring System (CMS) keeps track of money deposited in a terminal, usage, wins and payouts, machine maintenance and cash removal. Game themes are approved by the Ohio Lottery Commissioners, and independently tested and certified, before placed into operation. The minimum percentage payout in Ohio is 85.0 percent. The racetrack VLT total revenue for fiscal year 2017 was \$926.6 million, with the Ohio Lottery receiving \$310.4 million as commissions earned. Ohio is one of seven state lotteries to regulate video gaming at racetracks.

MAJOR INITIATIVES

During fiscal year 2017, The Ohio Lottery transferred \$1.04 billion to the LPEF. Although this was a decrease of \$25.5 million compared to fiscal year 2016, it was the second highest profit transfer in the Ohio Lottery's 43-year history. With this transfer, the Ohio Lottery has provided more than \$23.4 billion in profits to the State of Ohio. Additionally, the Ohio Lottery made several noteworthy achievements during fiscal year 2017.

Fiscal year 2016 marked the first fiscal year that all seven of the Ohio Lottery's VLT racinos were in operation for a complete 12-month period. In fiscal year 2017, they generated \$926.6 million in revenue from 11,032 VLT machines. This was \$57.7 million more than the prior fiscal year. Of this amount, the operators received \$613.1 million, while the Lottery's share of revenue equaled \$310.4 million, and \$3.1 million went to Problem Gambling Services.

As of March 2017, all seven racinos have cashing capabilities. Players can now cash in Ohio Lottery winning tickets from \$600 to \$5,000 at any racino in Ohio. Not only does it offer players alternative locations to cash claims, but they are conveniently open 24/7.

Ohio Lottery's limited edition weekly raffle game, Ohio 50/50 began sales on August 29, 2016. Tickets cost \$1, and for every five tickets purchased, a sixth ticket is generated for free. One grand prize winner each week receives 50% of the weekly sales. In addition, ten winners receive \$2,000 each and 25 winners receive \$500. The first run for this game was from August 29 to February 11, and generated over \$3.6 million in sales.

On August 10, 2016 an Ohio Lottery retailer in Cincinnati, Ohio sold a Classic Lotto jackpot ticket worth \$11 million. Six friends living in the Cincinnati area split the cash option of \$7.8 million. This netted the State of Ohio \$220,000 in tax revenue.

In fiscal year 2017, the Ohio Lottery began the Cash Explosion's 30th Anniversary Celebration. A new Cash Explosion instant ticket was introduced, which offers a chance on the Anniversary television show, scheduled to air in August 2017. One contestant will win the single biggest cash prize of \$300,000, plus Bonus Bucks. Leading up to the Anniversary show, from June through August, Cash Explosion XL will air. These supersized shows will have 24 contestants, instead of 8, and they will all have an opportunity to win prizes.

A special promotion for Powerball was conducted from February through March for a Powerball Power Cruise. Powerball tickets purchased between February 5 to March 29 were entered in a drawing for a cruise. Fifty vacation packages were set aside just for Ohio Lottery customers. The winners will sail the Caribbean on Royal Caribbean Cruise Lines.

The Ohio Lottery encourages players to enjoy Ohio Lottery games, but at the same time, Play Responsibly. The Ohio Lottery offers players updated and easily accessible information regarding various Outreach Programs for Problem Gambling; speakers available for groups; brochures, helpline telephone numbers and websites. In May 2012, the Ohio Lottery Commission, along with the Ohio Casino Control Commission, the Ohio Racing Commission, and Ohio Mental Health Services formed a partnership aimed at encouraging responsible gambling in Ohio. This organization is Ohio for Responsible Gambling (ORG). By these four state agencies working together, it has led to expanded problem gambling services that benefit Ohioans. In fiscal year 2017, Ohio for Responsible Gambling continued with their successful campaign "Be the 95%". They also added a new campaign, "Get Set Before You Bet", which has provided opportunities to create micro-campaigns and toolkits which target select groups, such as seniors, athletes, teenagers and Spanish-speaking adults. In fiscal year 2017, the Ohio Lottery contributed \$3.1 million from VLT sales for Problem Gambling in Ohio.

The Ohio Lottery's mission is to offer entertaining games that maximize profits for K-12 public education, with the vision to create a fun and innovative gaming experience. In fiscal year 2018, the Cash Explosion 30th Anniversary show will air and the Lottery will be introducing its first 3D instant game, Game of Gold. In addition to new games, the Ohio Lottery will be implementing other ways to increase profits, such as the Retailer Incentive Program, and installing debit card readers for cashless vending in Winstation and MP vending machines. Along with offering fair and equitable games, the Ohio Lottery continues its commitment to the community to enhance and expand its various sponsorship programs, such as Partners in Education, MBE/EDGE Programs, and Community Outreach. Moreover, in order to appeal to a more diverse player and retailer base, the Ohio Lottery plans to implement various social media opportunities. Both players and retailers can access the Ohio Lottery via email, blog, smartphone, Twitter, Facebook, and the internet. Going forward, into fiscal year 2018, the Ohio Lottery continues to develop new ways to enhance its current product offerings and maximize operational efficiency and effectiveness. The Lottery will benchmark Ohio's sales results against peer lottery states and review best practices in order to improve Ohio's current lottery products.

ACCOUNTING SYSTEMS AND POLICIES

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

The Ohio Lottery's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of the Ohio Lottery are included in the statement of net position. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net position. A narrative overview and analysis of the Ohio Lottery's financial activities for the fiscal year ended June 30, 2017 is in the Management's Discussion and Analysis in the financial section of this document.

BUDGETARY CONTROL

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

INTERNAL CONTROL ENVIRONMENT

Management of the Ohio Lottery is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft, or misuse, and to ensure that the accounting system allows for compilation of accurate and timely financial information. Financial information is reported at monthly public meetings of the Ohio Lottery Commission. Because the cost of a control should not exceed their benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

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

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

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

FINANCIAL INFORMATION

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

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its CAFR for the fiscal year ended June 30, 2016. This was the nineteenth consecutive year that the Ohio Lottery has received this prestigious award. To qualify for the Certificate of Achievement Award, the Ohio Lottery published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

INDEPENDENT AUDIT

Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audit of the Ohio Lottery. The Ohio Lottery's financial statements audit for fiscal year 2017 has been completed in conformity with generally accepted governmental auditing standards. The auditor's unmodified audit opinion of the Ohio Lottery's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

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

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

Respectfully Submitted,



Gregory A. Bowers, MBA
Finance Director



Dennis R. Berg, CPA, CFE
Executive Director





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

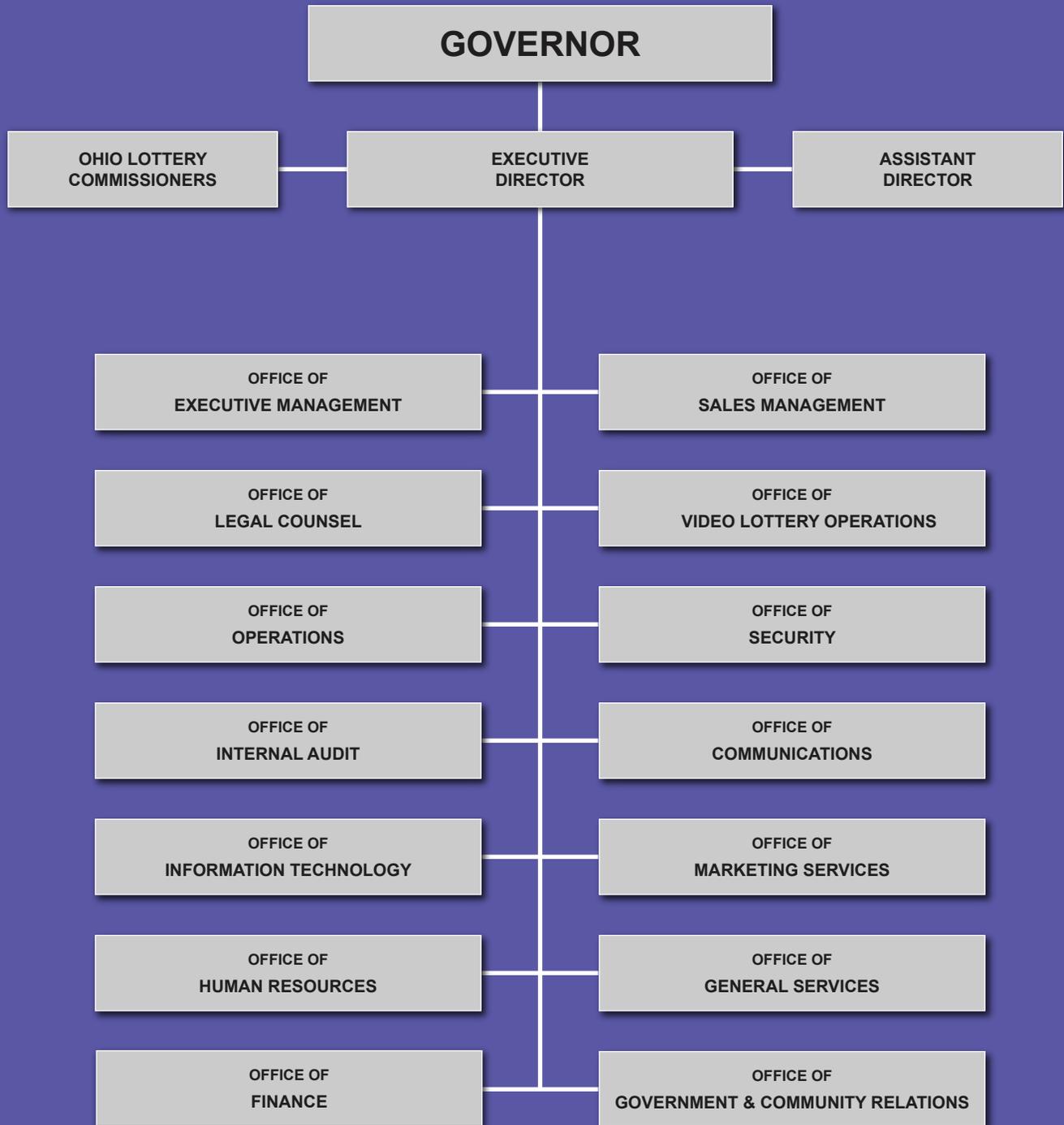
The Ohio Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

OHIO LOTTERY COMMISSION STRUCTURE OF ORGANIZATION • FISCAL YEAR 2017



PRINCIPAL OFFICIALS

John R. Kasich

GOVERNOR OF OHIO

Dennis R. Berg

DIRECTOR

Patrick McDonald

COMMISSION CHAIR

Term Ends 8/01/18

Sean Whalen

COMMISSION VICE CHAIR

Term Ends 8/01/17

James Brady

COMMISSIONER

Term Ends 8/01/17

Allan C. Krulak

COMMISSIONER

Term Ends 8/01/18

John F. Lewis

COMMISSIONER

Term Ends 8/01/19

Trevor McAleer

COMMISSIONER

Term Ends 8/01/19

William Morgan

COMMISSIONER

Term Ends 8/01/18

Angela Mingo

COMMISSIONER

Term Ends 8/01/17

Elizabeth D. Vaci

COMMISSIONER

Term Ends 8/01/19



TEACHER OF THE MONTH

Teacher of the Month

Along with students, teachers throughout the state are recognized for their contributions to their school, excellence in the classroom, leadership abilities, citizenship, and community involvement.







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), a component unit of the State of Ohio, as of and for the year ended June 30, 2017, 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

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Ohio Lottery's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, 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

September 29, 2017

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 6-11 of this report, and the financial statements which begin on page 28.

Financial Highlights

- Total traditional lottery sales decreased \$57.9 million, or 1.9 percent from fiscal year 2016, resulting in overall sales of over \$3.0 billion.
- Online sales decreased \$24.3 million, or 1.6 percent from last year. A Powerball sales decrease of \$63.7 million was partially offset by increased sales from Pick 4 and Pick 5, EZ Play, Lucky for Life, Ohio 50/50, as well as the continuing popularity of KENO games.
- The largest Powerball jackpot for fiscal year 2017 was \$478 million, less than a third of fiscal year 2016's record high of \$1.58 billion. The largest Mega Millions jackpot, \$536 million, exceeded the fiscal year 2016 high of \$200 million.
- Instant ticket sales decreased \$33.6 million, or 2.2 percent, from fiscal year 2016, due in a large part to a lack of new games released at the \$30 price point, combined with weaker than expected holiday sales.
- Total prize expense for fiscal year 2017 represented 63.6 percent of total ticket sales compared to 63.2 percent in fiscal year 2016. Though the percentage of prize expense increased slightly, actual prize expense decreased \$22.6 million in fiscal year 2017 as a result of reduced sales volume.
- Operating expenses increased slightly by \$1.4 million compared to fiscal year 2016.
- Gross gaming revenue from VLT totaled \$926.6 million, an increase of \$57.7 million over fiscal year 2016. The Ohio Lottery's net VLT revenue increased from \$291.1 million to \$310.4 million or 6.6 percent in fiscal year 2017.
- The Ohio Lottery transferred \$1.04 billion to the Lottery Profits Education Fund (LPEF) in 2017, \$25.5 million less than the 2016 transfer amount. The Ohio Lottery's total net position increased \$928,000, or less than one percent, due to GASB adjustments and increase in operating income.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

LOTTERY OPERATING FUND

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

ANNUITY PRIZE FUND

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

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

FINANCIAL ANALYSIS

The table provides a summary of the Ohio Lottery's net position at June 30, 2017 compared to June 30, 2016.

NET POSITION (rounded thousands)

| | <u>JUNE 30, 2017</u> | <u>JUNE 30, 2016</u> |
|---|----------------------|----------------------|
| Current Assets: Unrestricted | \$ 314,754 | \$ 281,996 |
| Current Assets: Restricted | 141,502 | 142,150 |
| Noncurrent Assets: Restricted | 433,932 | 484,847 |
| Net Capital Assets | 27,199 | 36,838 |
| Net Pension Asset | <u>73</u> | <u>53</u> |
| Total Assets | 917,460 | 945,884 |
| Deferred Outflows of Resources | 18,384 | 10,548 |
| Current Liabilities: Unrestricted | 111,162 | 117,937 |
| Current Liabilities: Restricted | 225,580 | 226,754 |
| Noncurrent Liabilities: Restricted and Unrestricted | 401,776 | 425,117 |
| Net Pension Liability | <u>36,541</u> | <u>27,660</u> |
| Total Liabilities | 775,059 | 797,468 |
| Deferred Inflows of Resources | 2,358 | 1,465 |
| Net Position: | | |
| Net Investment in Capital Assets | 20,921 | 26,762 |
| Restricted for Net Unrealized Gains on Restricted Investments | 46,998 | 77,464 |
| Unrestricted | <u>90,508</u> | <u>53,273</u> |
| Total Net Position | <u>\$ 158,427</u> | <u>\$ 157,499</u> |

GASB 68 NET PENSION LIABILITY

The net pension liability (NPL) at June 30, 2017 is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Ohio Lottery's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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.

CURRENT ASSETS – UNRESTRICTED

The Ohio Lottery's Current Assets – Unrestricted increased \$32.8 million compared to fiscal year 2016. Current Assets Unrestricted consists primarily of Cash & Cash Equivalents (including Video Lottery), Cash Equity with the Treasurer of State, Net Receivables from Agents, and other Assets such as Prepaid Assets.

Cash Equity with Treasurer of State decreased \$9.4 million, while Cash and Cash Equivalents increased \$13.2 million. The decrease in Cash Equity with Treasurer of State was offset by an increase in balances held in Cash and Cash Equivalents primarily due to the timing differences of the transfer of funds from the Gross Revenue Fund to the State Fund.

Cash and Cash Equivalent – Video Lottery decreased by \$5.4 million due to the timing of the transfers. In fiscal year 2016, the final transfer to the Treasurer of State was not made before the end of the fiscal year, compared to the final transfer made prior to the end of fiscal year 2017.

Net Receivables from Agents increased by \$7.1 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, 2017, six days of sales activity were waiting to be collected compared to five days on June 30, 2016. Other Assets decreased by \$2.4 million over last fiscal year.

CURRENT ASSETS - RESTRICTED

The Lottery's Current Assets – Restricted decreased \$648,000 in fiscal year 2017 to \$141.5 million, from \$142.1 million in fiscal year 2016. Current Assets – Restricted represent investments dedicated for the payment of annuity prize awards, Obligations under Securities Lending program per GASB 28 requirements, and Interest Receivable. Dedicated Investments decreased \$1.9 million, which is a direct function of the number of winner's choosing the annuity option during the year. This category also decreased due to a decrease in the Securities Lending program.

NONCURRENT ASSETS – RESTRICTED

Noncurrent Assets – Restricted, which is comprised of investments dedicated to the payment of the Lottery's long-term annuity prizes, decreased from \$484.8 million in fiscal year 2016 to \$433.9 million in fiscal year 2017, or \$50.9 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 \$6.8 million, primarily due to the accounting for GASB 28, Securities Lending Program. The amount reported as collateral on lent securities increased from \$15.7 million in 2016 to \$45.2 million in 2017, or \$29.5 million. In addition, Capital Leases Payable: Current decreased slightly.

CURRENT LIABILITIES - RESTRICTED

Current Liabilities – Restricted decreased \$1.2 million, as obligations under securities lending increased \$1.6 million. An increase in obligations under Securities Lending was offset by a decrease in due to other State Agencies and Prize Awards Payable. Due to other State Agencies decreased as the June 2017 transfer to the LPEF was lower than the June 2016 transfer.

NONCURRENT LIABILITIES

Noncurrent Liabilities decreased \$14.5 million. This decrease is primarily attributed to the Prize Awards Payable from restricted assets which decreased by \$20.3 million. The primary reason for this decrease is the majority of jackpot winners preferred the cash option over the annuity prize option. There was also an increase of \$8.9 million in GASB 68 Net Pension Liability.

The overall effect on liabilities is a decrease of \$22.4 million attributed to the combination of increases and decreases of the various accounts discussed above.

The table below shows the change in the Ohio Lottery’s net position for fiscal year 2017 compared to fiscal year 2016, including revenue and expense comparisons.

CHANGES IN NET POSITION
(rounded thousands)

| | <u>JUNE 30, 2017</u> | <u>JUNE 30, 2016</u> |
|--|-----------------------------|-----------------------------|
| Ticket Sales | \$ 3,001,699 | \$ 3,059,601 |
| VLT and License Revenues | 926,793 | 919,028 |
| Other Operating Revenues | 4,869 | 8,606 |
| Non-Operating Revenues | <u>-</u> | <u>35,071</u> |
| Total Revenues | 3,933,361 | 4,022,306 |
| Prize Awards | 1,910,007 | 1,932,585 |
| Bonuses and Commissions | 185,739 | 188,592 |
| Commissions - VLT | 616,220 | 577,828 |
| Cost of Tickets Sold | 29,479 | 20,709 |
| Vendor Fees | 30,647 | 34,713 |
| Operating Expenses | 90,919 | 89,506 |
| Non-Operating Expenses | 28,780 | 74,432 |
| Payments to the Lottery Profits Education Fund | <u>1,040,642</u> | <u>1,066,105</u> |
| Total Expenses | 3,932,433 | 3,984,470 |
| Change in Net Position | 928 | 37,836 |
| Total Net Position - Beginning | <u>157,499</u> | <u>119,663</u> |
| Total Net Position - Ending | <u>\$ 158,427</u> | <u>\$ 157,499</u> |

TICKET SALES BY GAME AND VLT REVENUE: FISCAL YEARS 2017 AND 2016
(rounded thousands)

| | <u>JUNE 30, 2017</u> | <u>JUNE 30, 2016</u> |
|------------------------------------|-----------------------------|-----------------------------|
| Pick 3 | \$ 339,589 | \$ 343,015 |
| Pick 4 | 201,045 | 200,349 |
| Pick 5 | 38,101 | 36,425 |
| Rolling Cash 5 | 55,547 | 60,258 |
| Classic Lotto | 27,221 | 30,997 |
| Kicker | 3,742 | 4,633 |
| Ohio 50/50 Raffle | 3,638 | - |
| Lucky For Life | 19,879 | 14,134 |
| Mega Millions/Megaplier | 93,319 | 102,229 |
| Powerball/Power Play | 129,780 | 193,532 |
| Keno/Booster | 396,318 | 365,866 |
| EZPLAY | 120,197 | 115,217 |
| EZPLAY TAP | 30,024 | 31,481 |
| EZPLAY QUICKENO | <u>16,216</u> | <u>743</u> |
| Total Online Sales | 1,474,616 | 1,498,879 |
| Instants | <u>1,527,083</u> | <u>1,560,722</u> |
| Total Sales | <u>3,001,699</u> | <u>3,059,601</u> |
| VLT Revenue | 926,646 | 868,915 |
| VLT License Revenue | <u>147</u> | <u>50,113</u> |
| Total VLT Revenue | 926,793 | 919,028 |
| Total Ticket Sales and VLT Revenue | <u>\$ 3,928,492</u> | <u>\$ 3,978,629</u> |

OPERATING ANALYSIS

Traditional sales for fiscal year 2017 were \$3,001.7 million. This was a \$57.9 million or 1.9 percent decrease in sales from fiscal year 2016. The following section summarizes traditional lottery sales in fiscal year 2017 by game category.

DAILY DRAW

Sales for Daily Draw games, which consist of Pick 3, Pick 4, and Pick 5, totaled \$578.7 million in fiscal year 2017. This is \$1.1 million, or less than one percent than sales posted in fiscal year 2016. Fiscal year 2017 sales for Pick 3 were down \$3.4 million, while Pick 4 increased by \$696,000 and Pick 5 finished the year up by \$1.7 million.

LOTTO GAMES

Sales for Lotto games, which consist of Rolling Cash 5, Classic Lotto and KICKER, totaled \$86.5 million for fiscal year 2017. This is \$9.4 million, or 9.8 percent less than sales posted in fiscal year 2016. Fiscal year 2017 sales for Rolling Cash were \$4.7 million less than sales posted in fiscal year 2016. Classic Lotto was down \$3.8 million. This decrease can be attributed to lower average jackpots throughout FY 2017. Sales for KICKER, an add-on game of Classic Lotto, were \$891,000 less than sales posted in fiscal year 2016.

MULTISTATE

Sales for Multi-state games, which consist of Mega Millions, Megaplier, Powerball, Power Play, and Lucky for Life, totaled \$243.0 million for fiscal year 2017. This is \$66.9 million, or 22.0 percent less than sales posted in fiscal year 2016.

Mega Millions sales in fiscal year 2017 were \$7.5 million less than sales posted the prior year, while Megaplier, the Mega Millions add-on game, decreased by \$1.4 million. Powerball sales in fiscal year 2017 were \$59.3 million less than sales posted the prior year, while Power Play, the Powerball add-on game, decreased by \$4.4 million. These decreases can be attributed to the \$1.58 billion Powerball Jackpot sequence last fiscal year, which generated \$96.4 million in sales. Lucky for Life, a non-progressive game, increased sales for fiscal year 2017 by \$5.7 million.

KENO (MONITOR)

Sales for KENO games, which consist of KENO and KENO Booster, totaled \$396.3 million for the 2017 fiscal year. This is \$30.5 million, or 8.3 percent more than sales posted in fiscal year 2016. Sales for KENO in fiscal year 2017 were \$21.3 million more than sales posted in fiscal year 2016, while Booster added \$9.2 million to the positive variance in the category. Sales for Booster in fiscal year 2017 were 33.7 percent of KENO sales. Sales for KENO/Booster grew steadily as the Lottery continued its expansion in this distribution channel, as well as offering more promotions during the year.

EZPLAY

Sales for EZPLAY games, which include, EZPLAY, EZPLAY TAP, and EZPLAY QUICKKENO, totaled \$166.4 million for the 2017 fiscal year. This is \$19.0 million, or 12.9 percent more than sales posted in fiscal year 2016. Fiscal year 2017 sales for EZPLAY were \$5.0 million more than sales posted in fiscal year 2016. Fiscal year 2017 sales for EZPLAY TAP were \$1.5 million less than sales posted in fiscal year 2016. 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.

Fiscal year 2017 marked one complete year for EZPLAY QUICKKENO sales. These games are only played on Multi-Play QuickKeno (MPQK) terminals and available at select Ohio Lottery licensed retailers. This product line was launched in June of fiscal year 2016 and generated over \$15.5 million in sales in the EZPLAY category.

INSTANT TICKETS

Sales for Instant Ticket games totaled \$1.5 billion, which is \$33.6 million or 2.2 percent less than sales posted in fiscal year 2016. Instant ticket sales declined throughout the lottery industry. Recovery started in the fourth quarter of fiscal year 2017 and is continuing into the current fiscal year.

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

(rounded in thousands)

| | <u>JUNE 30, 2017</u> | <u>JUNE 30, 2016</u> |
|-----------------------|----------------------|----------------------|
| Prize Awards | \$ 1,910,007 | \$ 1,932,585 |
| Bonuses/Commissions | 185,739 | 188,592 |
| Commissions - VLT | 616,220 | 577,828 |
| Cost of Tickets Sold | 29,479 | 20,709 |
| Vendor Fees | 30,647 | 34,713 |
| Operating Expense | 90,919 | 89,506 |
| Payments to Education | <u>1,040,642</u> | <u>1,066,105</u> |
| Total | <u>\$ 3,903,653</u> | <u>\$ 3,910,038</u> |

PRIZE AWARDS

Prize expense for fiscal year 2017, which totaled \$1,910.0 million, was \$22.6 million, or 1.2 percent lower than fiscal year 2016. Prize Awards has a direct correlation to sales. As the sales volume decrease, the prize awards also decrease.

BONUSES/COMMISSIONS

Ticket sales Bonuses/Commissions decreased due to the lower sales volume. Commissions- VLT increased \$38.4 million due to the increase in VLT sales for fiscal year 2017.

OPERATING EXPENSE

Total Operating Expenses, which for purposes of this Management Discussion & Analysis, consists of Direct Game Costs – Cost of Tickets Sold and Vendor Fees and VLT Commissions, as well as Operating Expenses. Cost of Tickets Sold decreased due to the delay in procuring instant ticket in fiscal year 2016. Vendor Fee decrease of \$4.1 million can be attributed to a decrease in equipment not classified as an asset and gaming services. Operating Expenses consist of personal services (including salaries and benefits), maintenance & equipment, advertising, travel, utilities and rent, depreciation and other expenses. Total Operating Expenses increased \$1.4 million due to an increase in salaries as a result of the contractual cost of living adjustments, normal depreciation and VLT Commissions increased due to an increase in VLT Sales. Total Operating Expenses for fiscal year 2017 were 3.0 percent of total traditional lottery sales.

PAYMENTS TO EDUCATION

Payments to education decreased \$25.5 million because of a decrease in traditional lottery sales. The majority of this can be attributed to the lack of significant jackpots in fiscal year 2017 compared to the record breaking 1.5 billion jackpot in 2016.

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 2017 totaled \$926.6 million, an increase of \$57.7 million or 6.6 percent over fiscal year 2016. The increase of Gross Gaming Revenue in 2017 is accredited to another full year of operations at all seven facilities, Scioto Downs, JACK Thistledown, Hard Rock Rocksino, Miami Valley Gaming, Belterra Park, Hollywood Gaming Dayton Raceway and Hollywood Gaming Mahoning Valley, which helps to establish their customer loyalty base. The following table shows VLT statistics for fiscal years 2017 and 2016.

VIDEO LOTTERY TERMINAL - NET WIN

(rounded in thousands)

| <u>RACINO</u> | <u>DATE OPENED</u> | <u>2017 NET WIN</u> | <u>2016 NET WIN</u> |
|----------------------------------|--------------------|---------------------|---------------------|
| Scioto Downs | June 1, 2012 | \$ 153,191 | \$ 148,920 |
| Jack Thistle Down | March 29, 2013 | 115,653 | 108,293 |
| Hard Rock Rocksino | December 09, 2013 | 232,589 | 220,660 |
| Miami Valley | December 06, 2013 | 143,775 | 131,035 |
| Belterra Park | May 1, 2014 | 79,921 | 74,766 |
| Hollywood Gaming Mahoning Valley | September 11, 2014 | 106,558 | 97,469 |
| Hollywood Gaming Dayton Raceway | August 22, 2014 | <u>94,959</u> | <u>87,771</u> |
| | | <u>\$ 926,646</u> | <u>\$ 868,914</u> |

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The table below summarizes the Ohio Lottery's capital assets at the end of fiscal years 2017 and 2016.

CAPITAL ASSETS (NET OF DEPRECIATION)

(rounded in thousands)

| | <u>JUNE 30, 2017</u> | <u>JUNE 30, 2016</u> |
|--------------------------|----------------------|----------------------|
| Equipment | \$ 25,282 | \$ 35,188 |
| Vehicles | <u>1,917</u> | <u>1,650</u> |
| Total Net Capital Assets | <u>\$ 27,199</u> | <u>\$ 36,838</u> |

As of June 30, 2017, the Ohio Lottery had \$27.2 million, net of accumulated depreciation, in Capital Assets. The decrease in Net Capital Assets is a result of no additional acquired equipment in 2017. In July 2009, the Ohio Lottery entered into a contractual agreement with Intralot for gaming services, including leased equipment. The original contract was for two years, with six optional two-year renewals. The lease meets the requirements of a capital lease and, as a result, the equipment was recorded at present value and is being depreciated over its useful life of five years.

DEBT

The significant components of the Ohio Lottery's debt is annuity prize awards payable, which is payable from restricted assets. Prize Awards Payable from Restricted Assets – Net of Discount (non-current portion only) decreased \$20.3 million as prior long-term annuities are paid off at a faster rate than new annuities are selected by prize winners.

CONTACTING THE OHIO LOTTERY'S FINANCIAL MANAGEMENT

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

OHIO LOTTERY COMMISSION
STATEMENT OF NET POSITION - MAJOR FUNDS
JUNE 30, 2017
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2016)
(rounded thousands)

| | OPERATING | ANNUITY FUND | TOTALS | |
|--|------------------|---------------------|----------------------|----------------------|
| | | | JUNE 30, 2017 | JUNE 30, 2016 |
| ASSETS: | | | | |
| Current Assets - Unrestricted | | | | |
| Cash and Cash Equivalents | \$ 40,450 | \$ - | \$ 40,450 | \$ 27,216 |
| Cash Equity with Treasurer of State | 165,487 | - | 165,487 | 174,845 |
| Cash and Cash Equivalents Video Lottery | 70 | - | 70 | 5,467 |
| Collateral on Lent Securities | 45,214 | - | 45,214 | 15,730 |
| Receivables from Agents, Net | 59,088 | - | 59,088 | 51,942 |
| Due From Other State Agencies | 2 | - | 2 | 1 |
| Other Assets | 4,443 | - | 4,443 | 6,795 |
| Total Current Assets - Unrestricted | 314,754 | - | 314,754 | 281,996 |
| Current Assets - Restricted | | | | |
| Cash Equity with Treasurer of State | - | 76 | 76 | 54 |
| Dedicated Investments | - | 55,126 | 55,126 | 57,032 |
| Collateral on Lent Securities | - | 86,244 | 86,244 | 84,671 |
| Interest Receivable | - | 56 | 56 | 393 |
| Total Current Assets - Restricted | - | 141,502 | 141,502 | 142,150 |
| Total Current Assets | 314,754 | 141,502 | 456,256 | 424,146 |
| Noncurrent Assets | | | | |
| Dedicated Investments, Restricted | - | 433,932 | 433,932 | 484,847 |
| Capital Assets | | | | |
| Equipment | 151,867 | - | 151,867 | 152,938 |
| Vehicles | 3,597 | - | 3,597 | 3,357 |
| Accumulated Depreciation | (128,265) | - | (128,265) | (119,457) |
| Net Capital Assets | 27,199 | - | 27,199 | 36,838 |
| Net Pension Asset | 73 | - | 73 | 53 |
| Total Noncurrent Assets | 27,272 | 433,932 | 461,204 | 521,738 |
| TOTAL ASSETS | 342,026 | 575,434 | 917,460 | 945,884 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension: OPERS | 18,384 | - | 18,384 | 10,548 |
| Total Deferred Outflows of Resources | \$ 18,384 | \$ - | \$ 18,384 | \$ 10,548 |

OHIO LOTTERY COMMISSION
STATEMENT OF NET POSITION - MAJOR FUNDS, CONTINUED
JUNE 30, 2017
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2016)
(rounded thousands)

| | OPERATING | ANNUITY FUND | TOTALS | |
|---|-------------------|---------------------|----------------------|----------------------|
| | | | JUNE 30, 2017 | JUNE 30, 2016 |
| LIABILITIES | | | | |
| Current Liabilities - Unrestricted | | | | |
| Accounts Payable | \$ 14,067 | \$ - | \$ 14,067 | \$ 23,916 |
| Prize Awards Payable | 44,216 | - | 44,216 | 67,723 |
| Obligations under Securities Lending | 45,214 | - | 45,214 | 15,730 |
| Capital Lease Payable - Current | 3,113 | - | 3,113 | 3,800 |
| Unearned Revenue | 1,537 | - | 1,537 | 2,458 |
| Other Liabilities | 2,318 | - | 2,318 | 2,134 |
| Due to Other Lotteries | 697 | - | 697 | 2,176 |
| Total Current Liabilities - Unrestricted | 111,162 | - | 111,162 | 117,937 |
| Current Liabilities - Restricted | | | | |
| Due to other State Agencies | 83,845 | - | 83,845 | 84,438 |
| Due for Problem Gambling VLT Expenses | 234 | - | 234 | 166 |
| Obligations under Securities Lending | - | 86,244 | 86,244 | 84,671 |
| Prize Awards Payable - Net of Discount | - | 55,257 | 55,257 | 57,479 |
| Total Current Liabilities - Restricted | 84,079 | 141,501 | 225,580 | 226,754 |
| Total Current Liabilities | 195,241 | 141,501 | 336,742 | 344,691 |
| Noncurrent Liabilities: | | | | |
| Prize Awards Payable from Restricted Assets - Net of Discount | - | 393,912 | 393,912 | 414,180 |
| Capital Lease Payable - Long-Term | 3,164 | - | 3,164 | 6,277 |
| Workers' Compensation | 1,300 | - | 1,300 | 1,379 |
| Compensated Absences | 3,400 | - | 3,400 | 3,281 |
| Net Pension Liability | 36,541 | - | 36,541 | 27,660 |
| Total Noncurrent Liabilities | 44,405 | 393,912 | 438,317 | 452,777 |
| TOTAL LIABILITIES | 239,646 | 535,413 | 775,059 | 797,468 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension: OPERS | 2,358 | - | 2,358 | 1,465 |
| Total Deferred Inflows of Resources | 2,358 | - | 2,358 | 1,465 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 20,921 | - | 20,921 | 26,762 |
| Restricted for Net Unrealized Gains on Restricted Investments | - | 46,998 | 46,998 | 77,464 |
| Unrestricted | 97,485 | (6,977) | 90,508 | 53,273 |
| TOTAL NET POSITION | \$ 118,406 | \$ 40,021 | \$ 158,427 | \$ 157,499 |

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, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)
(rounded in thousands)

| | OPERATING | ANNUITY FUND | TOTALS | |
|--|------------------|---------------------|----------------------|----------------------|
| | | | JUNE 30, 2017 | JUNE 30, 2016 |
| REVENUES | | | | |
| Ticket Sales | \$ 3,001,699 | \$ - | \$ 3,001,699 | \$ 3,059,601 |
| VLT Revenue, Net | 926,646 | - | 926,646 | 868,915 |
| VLT License Revenue | 147 | - | 147 | 50,113 |
| Other Revenues | 4,612 | 257 | 4,869 | 8,606 |
| Total Operating Revenues | 3,933,104 | 257 | 3,933,361 | 3,987,235 |
| EXPENSES | | | | |
| Direct Game Costs | | | | |
| Prize Awards | 1,877,835 | 32,172 | 1,910,007 | 1,932,585 |
| Bonuses and Commissions | 185,739 | - | 185,739 | 188,592 |
| VLT Commissions | 616,220 | - | 616,220 | 577,828 |
| Cost of Tickets Sold | 29,479 | - | 29,479 | 20,709 |
| Vendor Fees | 30,647 | - | 30,647 | 34,713 |
| Total Direct Game Costs | 2,739,920 | 32,172 | 2,772,092 | 2,754,427 |
| Operating Expenses | | | | |
| Personal Services | 6,044 | - | 6,044 | 4,390 |
| Repairs and Maintenance | 16,522 | - | 16,522 | 18,468 |
| Salaries Wages and Benefits | 32,040 | - | 32,040 | 31,826 |
| Advertising | 23,364 | - | 23,364 | 24,163 |
| Travel | 226 | - | 226 | 261 |
| Utilities and Rent | 2,146 | - | 2,146 | 2,001 |
| Depreciation | 10,577 | - | 10,577 | 8,185 |
| Other Expenses | - | - | - | 212 |
| Total Operating Expenses | 90,919 | - | 90,919 | 89,506 |
| OPERATING INCOME (LOSS) | 1,102,265 | (31,915) | 1,070,350 | 1,143,302 |
| Non-Operating Revenues (Expenses): | | | | |
| Interest Income | 1,376 | (8,795) | (7,419) | 35,071 |
| Amortization of Prize Liabilities | - | (20,714) | (20,714) | (22,090) |
| Gain (Loss) on Equipment Disposal | (117) | - | (117) | (2,015) |
| Interest Expense - Borrower Rebates | - | (483) | (483) | (294) |
| Securities Lending Agent Fees | - | (47) | (47) | (23) |
| Payments to other Government Agencies/VLT | - | - | - | (10) |
| Payments to the Lottery Profits Education Fund | (1,040,642) | - | (1,040,642) | (1,116,105) |
| Total Non-Operating Expenses, Net | (1,039,383) | (30,039) | (1,069,422) | (1,105,466) |
| INCOME (LOSS) BEFORE TRANSFERS | 62,882 | (61,954) | 928 | 37,836 |
| TRANSFERS: | | | | |
| Transfers to Annuity Prize Trust Fund | (31,308) | 31,308 | - | - |
| Total Transfers | (31,308) | 31,308 | - | - |
| Change in Net Position | 31,574 | (30,646) | 928 | 37,836 |
| Total Net Position - Beginning | 86,832 | 70,667 | 157,499 | 119,663 |
| TOTAL NET POSITION - ENDING | \$ 118,406 | \$ 40,021 | \$ 158,427 | \$ 157,499 |

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, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)
(rounded in thousands)

| | | | TOTALS | |
|---|---------------------|---------------------|----------------------|----------------------|
| | OPERATING | ANNUITY FUND | JUNE 30, 2017 | JUNE 30, 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash Received from Sales | \$ 3,920,277 | \$ - | \$ 3,920,277 | \$ 3,943,534 |
| Cash Received from Multi-State Lottery for Grand Prize Winners | 12,081 | - | 12,081 | 128,806 |
| Cash Payments for Prize Awards | (1,913,856) | (75,378) | (1,989,234) | (2,106,527) |
| Cash Payments for Bonuses and Commissions | (801,959) | - | (801,959) | (766,420) |
| Cash Payments for Goods and Services | (115,436) | - | (115,436) | (141,563) |
| Cash Payments to Employees | (31,960) | - | (31,960) | (30,910) |
| Other Operating Revenues | 4,759 | 257 | 5,016 | 58,719 |
| Other Operating Expenses | - | - | - | (211) |
| Net Cash Provided (Used) by Operating Activities | <u>1,073,906</u> | <u>(75,121)</u> | <u>998,785</u> | <u>1,085,428</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Due to Other State Agencies | - | - | - | (10) |
| Payments to the Lottery Profits Education Fund | (1,040,642) | - | (1,040,642) | (1,116,105) |
| Transfers In | - | 31,308 | 31,308 | 12,467 |
| Transfers Out | (31,308) | - | (31,308) | (12,467) |
| Net Cash Provided (Used) by NonCapital Financing Activities | <u>(1,071,950)</u> | <u>31,308</u> | <u>(1,040,642)</u> | <u>(1,116,115)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition of Property and Equipment | (1,084) | - | (1,084) | (14,826) |
| Proceeds from Sale of Property and Equipment | 31 | - | 31 | 102 |
| Repayment of Equipment Obligation | (3,799) | - | (3,799) | (6,550) |
| Net Cash Used by Capital and Related Financing Activities | <u>(4,852)</u> | <u>-</u> | <u>(4,852)</u> | <u>(21,274)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment Income Received | 1,375 | 2,310 | 3,685 | 4,370 |
| Interest Expense and Agent Fees | - | (530) | (530) | (317) |
| Proceeds from the Sale and Maturity of Investments | - | 116,069 | 116,069 | 127,628 |
| Purchase of Investments | - | (74,014) | (74,014) | (61,411) |
| Securities Lending Proceeds | 45,214 | 86,244 | 131,458 | 84,671 |
| Securities Lending Payments | (45,214) | (86,244) | (131,458) | (84,671) |
| Net Cash Provided (Used) by Investing Activities | <u>1,375</u> | <u>43,835</u> | <u>45,210</u> | <u>70,270</u> |
| Net Increase (Decrease) in Cash & Cash Equivalents | (1,521) | 22 | (1,499) | 18,309 |
| Cash and Cash Equivalents - Beginning | <u>207,528</u> | <u>54</u> | <u>207,582</u> | <u>189,273</u> |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 206,007</u> | <u>\$ 76</u> | <u>\$ 206,083</u> | <u>\$ 207,582</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) | | | | |
| BY OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$ 1,102,265 | \$ (31,915) | \$ 1,070,350 | \$ 1,143,302 |
| Adjustments to Reconcile Operating Income to | | | | |
| Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 10,577 | - | 10,577 | 8,185 |
| Amortization of Discount of Prize Liabilities | - | 20,714 | 20,714 | 22,090 |
| Net Changes in Assets and Liabilities | | | | |
| Receivables from Agents - Net | (7,147) | - | (7,147) | 13,941 |
| Other Assets | 2,348 | - | 2,348 | 5,741 |
| Prize Awards Payable | (23,507) | - | (23,507) | 21,675 |
| Accounts Payable | (9,848) | - | (9,848) | 14,873 |
| Other Liabilities | (1,818) | - | (1,818) | (55,447) |
| Unearned Revenue | (920) | - | (920) | 1,077 |
| Prize Awards Payable from Restricted Assets - Net of Discount | - | (63,920) | (63,920) | (90,751) |
| Accrued Workers' Compensation | (80) | - | (80) | (85) |
| Compensated Absences | 119 | - | 119 | 173 |
| Pension Expense | 1,917 | - | 1,917 | 654 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ 1,073,906</u> | <u>\$ (75,121)</u> | <u>\$ 998,785</u> | <u>\$ 1,085,428</u> |

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

Non-Cash items included in investment income were \$(30.5) million and \$11.1 million of unrestricted net gains/losses for the years ended June 30, 2017 and June 30, 2016, respectively. During fiscal year 2017 the Ohio Lottery acquired gaming equipment amounting to \$3.5 million, by entering into a capital lease arrangement with Intralot Inc. The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

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

BASIS OF ACCOUNTING

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

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

LOTTERY OPERATING FUND

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

ANNUITY PRIZE FUND

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

The Ohio Lottery has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the TOS, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission (SEC) as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants", which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts at June 30, 2017 and 2016 of \$306,000 and \$492,000, respectively, is based on an analysis of historical collection experience for accounts receivable, which considers the age of the receivable and current economic conditions.

RESTRICTED ASSETS

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

CAPITAL ASSETS

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

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

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

PRIZE AWARDS

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

UNEARNED REVENUE

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

COMPENSATED ABSENCES

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

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

DEFERRED COMPENSATION PLAN

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

VIDEO LOTTERY OPERATIONS

The Ohio Lottery commenced Video Lottery Operations in June 2012 at Scioto Downs in Columbus. In April 2013, Thistledown Racino in Cleveland opened. In March 2016, new owners took over and the name changed to JACK Thistledown. In December 2013, Hard Rock Rocksino in Northfield and Miami Valley Gaming in Lebanon opened. Later in May 2014, Belterra Park in Cincinnati opened. Hollywood Gaming Dayton opened in August 2014, and Hollywood Mahoning Valley Race Course opened in September 2014. As of June 30 2017, the Video Lottery Sales Agents (VLSA) had 11,032 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, 2017, VLT revenue was \$926.6 million with \$616.2 million paid to VLSA as VLT commission, \$3.1 million paid to Problem Gambling Services, and \$310.4 million paid to the Ohio Lottery.

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

Payments to the Lottery Profits Education Fund totaled \$1,041.0 million. Of this amount, \$739.4 million represented profits generated from traditional lottery games, while \$301.2 million represented profits generated from the VLT program. In addition, \$30,000 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.

Beginning in July 2017, the Lottery will launch a tiered commission structure to incentivize retailers to increase sales volume in select categories. Qualified, eligible retailers will receive ½ percent commission bonus for achieving a 2.5 percent sales increase over the same quarter last year, and a 1 percent bonus for a 5 percent sales increase.

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

FUND EQUITY CLASSIFICATIONS

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

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

RISK MANAGEMENT

The Ohio Lottery is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ohio Lottery generally retains the risk of loss; however, the Ohio Lottery is protected for purposes of sales collections by third-party surety bonds or deposits. Upon inception, retailers are required to carry a minimum bond of \$15,000 or a deposit of \$500. On a yearly basis, the retailers' required coverage is based on an evaluation of their average annual sales. The minimum bond coverage is \$15,000 or one twenty-sixth of their annual sales. The amount of loss arising from these risks was not significant for the years ended June 30, 2017, 2016, and 2015. No significant payments were made or liabilities recorded during the years ended June 30, 2017, 2016, and 2015 due to self-insured risks.

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

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

The state contracts with Medical Mutual of Ohio, Anthem and Aetna to serve as the third-party administrators for the Ohio Med PPO, a fully self-insured health benefit plan. This plan allows all employees and any eligible dependents to have access to both network and non-network providers. Medical Mutual, Anthem and Aetna each serve specific regions of Ohio based upon the home ZIP codes, which determines which administrator the employee will be assigned to. The Ohio Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contributed

\$40.90 for Single, \$111.92 for Family Minus Spouse and \$117.69 for Family Plus Spouse per pay period, while the Ohio Lottery contributed \$230.68 for single and \$633.12 for family coverage per pay period for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The Ohio Lottery's total contributions to the Health Plans for the last ten fiscal years were \$4,280,000, \$3,746,000, \$3,577,000, \$3,198,000, \$2,682,000, \$1,267,000, \$1,371,000, \$1,284,000, \$1,221,000 and \$1,693,000.

BUDGETARY ACCOUNTING AND CONTROL

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

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

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

The Ohio Lottery maintains budgetary control by not permitting total expenditures to exceed appropriations without approval of the General Assembly, except for vouchered prize awards for which appropriation amendments may be approved by Ohio OBM and unvouchered prize expenses, which are not budgeted. Certain budget amendments were adopted during the year ended June 30, 2017.

NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 – part to be implemented for the fiscal year ending June 30, 2016, and part for the fiscal year ending June 30, 2017", GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", GASB Statement No. 79, "Certain External Investment Pools and Pool Participants - part to be implemented for the fiscal year ending June 30, 2016, and part for the fiscal year ending June 30, 2017", GASB Statement No. 80, "Blending Requirements for Certain Component Units (an amendment of GASB Statement No. 14)", GASB Statement No. 82, Pensions issues-an Amendment of GASB Statements No. 67, No. 68, and No. 73-part to be implemented for the fiscal year ending June 30, 2017 and part for the fiscal year ending June 30, 2018. GASB 73, 74, 77, 78, 80 and 82 have no impact to the Ohio Lottery.

ESTIMATES

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

SUMMARIZED COMPARATIVE DATA

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Ohio Lottery's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

SECURITIES LENDING

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

PENSIONS

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

2. CASH DEPOSITS AND INVESTMENTS

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

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

DEPOSITS

As of June 30, 2017, 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 \$40,520,000 and bank balances of the Ohio Lottery's deposits with the financial institutions were \$40,532,000.

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, 2017 consist of the following:

| INVESTMENT TYPE <i>(rounded thousands)</i> | FAIR VALUE | CREDIT QUALITY RATING | INVESTMENT MATURITIES (IN YEARS) | | | |
|--|---------------|-----------------------------|----------------------------------|------------|------------|-----------|
| | | | LESS THAN 1 | 1-5 | 6-10 | >10 |
| Commercial Paper | \$ - | | \$ - | \$ - | \$ - | \$ - |
| U.S. Agency Obligations | 23,670 | AA/Aa | 18,784 | - | 4,886 | - |
| U.S. Agency Obligation Strips | 193,336 | AAA/AaaAA/Aa | 25,206 | 126,588 | 36,302 | 5,240 |
| U.S. Government Obligation - strips | 264,924 | AAA | 20,131 | 76,565 | 84,461 | 83,767 |
| Total Investments | 481,930 | | 64,121 | 203,153 | 125,649 | 89,007 |
| <u>Investments not required to be categorized</u> | | | | | | |
| Investments in State Treasury Asset Reserve of Ohio (STAR Ohio) | 7,128 | AAA/Aaa | 7,128 | - | - | - |
| Equity in State of Ohio Common Cash & Investments | 165,487 | | 165,487 | - | - | - |
| 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 | 45,214 | | 45,214 | - | - | - |
| Total Lottery Commission - Structured Investments, as of June 30, 2017 | \$ 699,759 | | \$ 281,950 | \$ 203,153 | \$ 125,649 | \$ 89,007 |
| Total Lottery Commission - Investments made with Cash Collateral | 86,244 | | | | | |
| Total - Statement of Net Position | 786,003 | | | | | |

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

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

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

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

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

The equity in State of Ohio common cash and investments, collateral on loaned securities, money market mutual fund and an investment in STAR Ohio has not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools’ investments and deposits by credit risk may be found in the State of Ohio Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB 28.

As of June 30, 2017, the total carrying amount of deposits and investments categorized and disclosed in this note is \$826,599. This amount can be reconciled to the statement of net position as follows:

| <i>(rounded thousands)</i> | DEPOSITS | INVESTMENTS | TOTAL |
|--|------------------|--------------------|-------------------|
| Unrestricted Assets: | | | |
| Cash and Cash Equivalents | \$ 40,450 | \$ - | \$ 40,450 |
| Cash Equity with Treasurer of State | - | 165,487 | 165,487 |
| Cash and Cash Equivalents - Video Lottery | 70 | - | 70 |
| Collateral on Lent Securities | - | 45,214 | 45,214 |
| Restricted Assets: | | | |
| Cash Equity with Treasurer of State | - | 76 | 76 |
| Dedicated Investments | - | 489,058 | 489,058 |
| Collateral on Lent Securities | - | 86,244 | 86,244 |
| Total - per Statement of Net Position | \$ 40,520 | \$ 786,079 | \$ 826,599 |

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> | | | |
|--------------------------------|------------------|--------------------------------|------------------|
| BORROWER OWES TO LENDER | | LENDER OWES TO BORROWER | |
| MV of Loaned Securities | \$ 83,937 | Cash Collateral | \$ 86,182 |
| Unpaid Distributions | - | Unpaid Distributions | - |
| Accrued Premiums | - | Accrued Rebates | 39 |
| Total | \$ 83,937 | Total | \$ 86,221 |

Since the Lender owes the Borrowers \$2,284,000 more than the Borrowers owe the Lender, there is no credit risk to the Lender as of June 30, 2017.

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

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

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, 2017 are as follows:

CAPITAL LEASES GROSS ASSETS AND ACCUMULATED AMORTIZATION
(rounded thousands)

| | <u>JUNE 30, 2017</u> | <u>JUNE 30, 2016</u> |
|--------------------------------|----------------------|----------------------|
| ASSET | | |
| Computer Equipment and Systems | \$ 108,815 | \$ 108,815 |
| Accumulated Depreciation | <u>(102,538)</u> | <u>(98,738)</u> |
| TOTAL | <u>\$ 6,277</u> | <u>\$ 10,077</u> |

4. PRIZE AWARDS PAYABLE

Prize awards payable from restricted assets as of June 30, 2017 and 2016 consist of the following:

(rounded in thousands)

| | <u>JUNE 30, 2017</u> | <u>JUNE 30, 2016</u> |
|--|----------------------|----------------------|
| Current portion - face amount | \$ 71,785 | \$ 76,250 |
| Less: Unamortized discount | <u>(16,528)</u> | <u>(18,771)</u> |
| Current portion - present value | 55,257 | 57,479 |
| Noncurrent portion - face amount | 487,330 | 516,619 |
| Less: Unamortized discount | <u>(93,418)</u> | <u>(102,439)</u> |
| Noncurrent portion - present value | <u>393,912</u> | <u>414,180</u> |
| Total Prize Awards Payable - Net of Discount | <u>\$ 449,169</u> | <u>\$ 471,659</u> |

Interest rates used to determine the present values ranged from 2.0 percent to 8.0 percent. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2017 is summarized as follows:

| FISCAL YEAR ENDING JUNE 30 (rounded in thousands) | AMOUNT |
|---|-------------------|
| 2018 | \$ 71,785 |
| 2019 | 63,069 |
| 2020 | 54,508 |
| 2021 | 49,208 |
| 2022 | 44,228 |
| 2023 through 2027 | 143,782 |
| 2028 through 2032 | 95,768 |
| 2033 through 2037 | 30,574 |
| 2038 through 2042 | 5,892 |
| 2043 thereafter | <u>300</u> |
| Subtotal | 559,114 |
| Unamortized Discount | <u>(109,945)</u> |
| Net Prize Liability | <u>\$ 449,169</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 \$409.0 million and \$403.0 million for the years ended June 30, 2017 and 2016, respectively.

5. OTHER LIABILITIES

The composition of other liabilities balances as of June 30, 2017 and 2016 is as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-----------------|-----------------|
| (rounded thousands) | | |
| Accrued Liabilities | \$ 1,896 | \$ 1,754 |
| Worker's Compensation - Current Portion | 76 | 71 |
| Compensated Absences - Current Portion | <u>346</u> | <u>309</u> |
| Total | <u>\$ 2,318</u> | <u>\$ 2,134</u> |

6. NONCURRENT LIABILITIES

Noncurrent liabilities activity for the years ended June 30, 2017 and 2016 was as follows:

| | NON-CURRENT | | | | CURRENT | | | |
|---|------------------------------|-----------|-------------|------------------------------|--------------------------|-----------|------------|--------------------------|
| | NON-CURRENT LIABILITIES 2016 | ADDITIONS | REDUCTIONS | NON-CURRENT LIABILITIES 2017 | CURRENT LIABILITIES 2016 | ADDITIONS | REDUCTIONS | CURRENT LIABILITIES 2017 |
| <i>(rounded in thousands)</i> | | | | | | | | |
| Prize Awards Payable from Restricted Assets-Net of Discount | \$ 414,180 | \$ 55,114 | \$ (75,382) | \$ 393,912 | \$ 57,479 | \$ - | \$ (2,222) | \$ 55,257 |
| Capital Lease Payable | 6,277 | - | (3,113) | 3,164 | 3,800 | - | (687) | 3,113 |
| Accrued Workers' Compensation | 1,379 | - | (79) | 1,300 | 71 | 5 | - | 76 |
| Compensated Absences | 3,281 | 2,945 | (2,826) | 3,400 | 309 | 37 | - | 346 |
| Net Pension Liability | 27,660 | 8,881 | - | 36,541 | - | - | - | - |
| Total Current and Noncurrent Liabilities | \$ 452,777 | \$ 66,940 | \$ (81,400) | \$ 438,317 | \$ 61,659 | \$ 42 | \$ (2,909) | \$ 58,792 |
| | 2015 | ADDITIONS | REDUCTIONS | 2016 | 2015 | ADDITIONS | REDUCTIONS | 2016 |
| Prize Awards Payable from Restricted Assets-Net of Discount | \$ 456,846 | \$ 39,390 | \$ (82,056) | \$ 414,180 | \$ 61,385 | \$ - | \$ (3,906) | \$ 57,479 |
| Capital Lease Payable | 7,500 | 3,533 | (4,756) | 6,277 | 5,594 | - | (1,794) | 3,800 |
| Accrued Workers' Compensation | 1,464 | - | (85) | 1,379 | 24 | 47 | - | 71 |
| Compensated Absences | 3,109 | 2,770 | (2,598) | 3,281 | 507 | - | (198) | 309 |
| Net Pension Liability | 18,734 | 8,926 | - | 27,660 | - | - | - | - |
| Total Current and Noncurrent Liabilities | \$ 487,653 | \$ 54,619 | \$ (89,495) | \$ 452,777 | \$ 67,510 | \$ 47 | \$ (5,898) | \$ 61,659 |

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 \$55.3 million and \$57.5 million for the years ended June 30, 2017 and June 30, 2016 respectively.

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

PLAN DESCRIPTION

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

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

THE TRADITIONAL PENSION PLAN

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

THE MEMBER-DIRECTED PLAN

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

THE COMBINED PLAN

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

OPERS maintains three health care trusts. Two trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust) work together to provide funding to eligible members of the Traditional Pension Plan and Combined Plan. The third trust is a Voluntary Employees' Beneficiary Association Trust (VEBA Trust) that accumulates funding for participants of the Member-Directed Retiree Medical Account Plan (RMA), which functions as a medical spending account. The three trusts are considered to be separate legal entities under Internal Revenue Service (IRS) regulations and are reported separately in the financial statements

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

AGE AND SERVICE RETIREMENT

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

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

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

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

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

CONTRIBUTIONS

The OPERS funding policy provides for periodic employee and employer contributions to all three plans (Traditional Pension, Combined and Member-Directed) at rates established by the Board of Trustees, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of the System's actuary. All contribution rates were within the limits authorized by the Ohio Revised Code. The employee and employer contribution rates for the State and Local divisions are currently set at the maximums authorized by the Ohio Revised Code of 10 and 14 percent, respectively. The OLC's required contributions to OPERS for the last nine fiscal years were \$3,128,000, \$2,983,000, \$2,841,000, \$2,570,000, 2,484,000, \$2,425,000, \$2,642,000, \$2,561,000, and \$2,642,000, equal to the required contribution for each year.

Based upon the recommendation of the System's actuary, a portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care coverage. The portion of Traditional Pension Plan employer contributions allocated to health care was 1.0 percent for 2017 and 2.0 percent for 2016. The portion of Combined Plan employer contributions allocated to health care was 1.0 percent for 2017 and 2.0 percent for 2016.

8. NET PENSION LIABILITY

NET PENSION LIABILITY

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

The net pension liability represents the Ohio Lottery proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments

and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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

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

| | PERS | TRADITIONAL | COMBINED | TOTAL |
|---|------|---------------|-------------|---------------|
| Proportionate of the Net Pension Liability Prior Measurement Date | | 0.159693% | 0.107980% | |
| Proportionate of the Net Pension Liability Current Measurement Date | | 0.160915% | 0.130520% | |
| Change in Proportionate Share | | 0.001222% | 0.022540% | |
| Proportionate Share of the Net Pension Liability | | \$ 36,541,000 | \$ (73,000) | \$ 36,468,000 |
| Proportionate Share of the Net Pension Expense | | \$ 7,757,746 | \$ 52,483 | \$ 7,810,229 |

At June 30, 2017, the OLC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | PERS | TRADITIONAL | COMBINED | TOTAL |
|--|---------------|-------------|----------|---------------|
| Deferred Outflows of Resources | | | | |
| Net Differences between OLC contributions and proportionate share of contributions | \$ 16,891,000 | \$ 38,000 | | \$ 16,929,000 |
| OLC contributions subsequent to the measurement date | 1,455,000 | - | | 1,455,000 |
| Total Deferred Outflows of Resources | \$ 18,346,000 | \$ 38,000 | | \$ 18,384,000 |
| Deferred Inflows of Resources | | | | |
| Differences between expected and actual experience | \$ 854,000 | \$ 39,000 | | \$ 893,000 |
| Differences between OLC contributions and proportionate share of contributions | 1,465,000 | - | | 1,465,000 |
| Total Deferred Inflows of Resources | \$ 2,319,000 | \$ 39,000 | | \$ 2,358,000 |

\$1,455,000 reported as deferred outflows of resources related to pension resulting from OLC's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| FISCAL YEAR ENDING JUNE 30, | TRADITIONAL | COMBINED | TOTAL |
|-----------------------------|-----------------|------------|-----------------|
| 2018 | \$ (6,370,000) | \$ (3,000) | \$ (6,373,000) |
| 2019 | (6,428,000) | (3,000) | (6,431,000) |
| 2020 | (1,934,000) | (3,000) | (1,937,000) |
| 2021-2025 | 160,000 | 10,000 | 170,000 |
| Total | \$ (14,572,000) | \$ 1,000 | \$ (14,571,000) |

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, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below.

KEY METHODS AND ASSUMPTIONS USED IN VALUATION OF TOTAL PENSION LIABILITY

| ACTUARIAL INFORMATION | TRADITIONAL PENSION PLAN | COMBINED PLAN | MEMBER-DIRECTED PLAN |
|----------------------------|--|--|--|
| Valuation Date | December 31, 2016 | December 31, 2016 | December 31, 2016 |
| Experience Study | 5 Year Period Ended December 31, 2016 | 5 Year Period Ended December 31, 2016 | 5 Year Period Ended December 31, 2016 |
| Actuarial Cost Method | Individual entry age | Individual entry age | Individual entry age |
| ACTUARIAL ASSUMPTIONS | | | |
| Investment Rate of Return | 7.50% | 7.50% | 7.50% |
| Wage Inflation | 3.25% | 3.25% | 3.25% |
| Projected Salary Increases | 3.25%-10.75% (includes wage inflation at 3.25%) | 3.25%-8.25% (includes wage inflation at 3.25%) | 3.25%-8.25% (includes wage inflation at 3.25%) |
| Cost-of-living Adjustments | Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple | Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple | Pre 1/7/2013 Retirees: 3.00% Simple Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple |

The discount rate used to measure the total pension liability was 7.50 percent for both the Traditional Pension Plan, Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return.

| ASSET CLASS | TARGET ALLOCATION FOR 2016 | WEIGHTED AVERAGE LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC) |
|------------------------|----------------------------|--|
| Fixed Income | 23.00% | 2.75% |
| Domestic Equities | 20.70% | 6.34% |
| Real Estate | 10.00% | 4.75% |
| Private Equity | 10.00% | 8.97% |
| International Equities | 18.30% | 7.95% |
| Other Investments | 18.00% | 4.92% |
| TOTAL | 100.00% | 5.66% |

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

OPERS manages investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan, and the Member-Directed retiree medical accounts funded through the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money-weighted rate of return, net of investment expense, for the Defined Benefit portfolio is 8.3 percent for 2016.

The following table presents the net pension liability calculated using the discount rate of 7.5 percent, and the expected net pension liability if it were calculated using a discount rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

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

| OHIO LOTTERY'S NET PENSION LIABILITY/(ASSET) AS OF DECEMBER 31, 2016 | 1% DECREASE 6.5% | CURRENT DISCOUNT RATE 7.5% | 1% INCREASE 8.5% |
|---|---------------------|-------------------------------|---------------------|
| Traditional Pension Plan | \$55,825,000 | \$36,541,000 | \$20,472,000 |
| Combined Plan | (\$6,000) | (\$73,000) | (\$134,000) |

9. OTHER POST EMPLOYMENT BENEFITS

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

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

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

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

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

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

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

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

www.opers.org/investments/cafr.shtml

The approximate contributions to OPERS for post-employment benefits by the Ohio Lottery for fiscal years 2017, 2016 and 2015 were \$447,000, \$426,000, \$406,000. Active members do not make contributions to the post-employment health care plan.

10. INTERFUND TRANSACTIONS AND BALANCES

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

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

For the year ended June 30, 2017, transfers consist of the following:

| TRANSFER OUT | TRANSFER IN |
|----------------|-----------------|
| Operating Fund | Annuity Fund |
| | <u>\$31,308</u> |

11. LITIGATION

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

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

| PERS | 2016 | 2015 | 2014 | 2013 |
|--|---------------|---------------|---------------|---------------|
| OLC's Proportion (Percentage) of the Collective Net Pension Liability | | | | |
| Traditional | 0.160915% | 0.159630% | 0.155623% | 0.155623% |
| Combined | 0.130520% | 0.107980% | 0.094337% | 0.094337% |
| OLC's Proportionate share (amount) of the Collection Net Pension Liability | \$ 36,468,000 | \$ 27,607,000 | \$ 18,734,000 | \$ 18,336,000 |
| Traditional | \$ 36,541,000 | \$ 27,660,000 | \$ 18,770,000 | \$ 18,346,000 |
| Combined | (73,000) | (53,000) | (36,000) | (10,000) |
| Member-Direct | - | - | - | - |
| OLC's Covered-Employee Payroll | \$ 17,844,000 | \$ 16,929,000 | \$ 16,239,000 | \$ 14,805,000 |
| OLC's Proportionate share (amount) of the Collection Net Pension Liability as a Percentage of the OLC's Covered-Employee Payroll | 204.4% | 163.1% | 115.4% | 123.9% |
| The Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability | | | | |
| Traditional | 77.3% | 81.1% | 86.4% | 86.4% |
| Combined | 116.6% | 116.9% | 114.8% | 104.6% |
| Member-Direct | 103.4% | 103.9% | 107.1% | |

⁽¹⁾ Information prior to 2013 is not available

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

| PERS | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Contractually Required Contributions | \$ 3,128,000 | \$ 2,983,000 | \$ 2,841,000 | \$ 2,570,000 | \$ 2,484,000 | \$ 2,425,000 | \$ 2,642,000 | \$ 2,561,000 | \$ 2,642,000 |
| Traditional | 2,997,000 | 2,858,000 | 2,722,000 | 2,462,000 | 2,380,000 | 2,323,000 | 2,531,000 | 2,453,000 | 2,531,000 |
| Combined | 51,000 | 48,000 | 46,000 | 42,000 | 40,000 | 39,000 | 43,000 | 41,000 | 43,000 |
| Member-Direct | 81,000 | 77,000 | 73,000 | 66,000 | 64,000 | 63,000 | 68,000 | 66,000 | 68,000 |
| Contributions in Relation to the Contractually Required Contributions | <u>(3,128,000)</u> | <u>(2,983,000)</u> | <u>(2,841,000)</u> | <u>(2,570,000)</u> | <u>(2,484,000)</u> | <u>(2,425,000)</u> | <u>(2,642,000)</u> | <u>(2,561,000)</u> | <u>(2,642,000)</u> |
| Contribution Deficiency (Excess) | <u>\$ 3,129,000</u> | <u>\$ 2,983,000</u> | <u>\$ 2,841,000</u> | <u>\$ 2,570,000</u> | <u>\$ 2,484,000</u> | <u>\$ 2,425,000</u> | <u>\$ 2,642,000</u> | <u>\$ 2,560,000</u> | <u>\$ 2,642,000</u> |
| OLC's Covered-Employee Payroll | \$ 18,635,000 | \$ 17,844,000 | \$ 16,929,000 | \$ 16,239,000 | \$ 14,805,000 | \$ 14,363,000 | \$ 14,617,000 | \$ 15,608,000 | \$ 15,941,000 |
| Contributions as a Percentage of Covered-Employee Payroll | 16.8% | 16.7% | 16.8% | 15.8% | 16.8% | 16.9% | 18.1% | 16.4% | 16.6% |

⁽¹⁾ Information prior to 2009 is not available



• STATISTICAL SECTION •



School of the Year

In 2009, the Partners in Education program added *School of the Year*. The School of the Year is recognized in the following school year with an assembly to celebrate the event. Lottery officials, along with local dignitaries, attend the celebration. Numerous mascots from Ohio's sports teams are invited to entertain the students and faculty. The assembly also gets local media attention as well.

Each School of the Year receives a gift card for the purposes of purchasing school supplies, as well as autographed sports memorabilia to help support the school's fundraising efforts.

To mark the inaugural year, one school in each of the Ohio Lottery's regions was acknowledged in 2009 as School of the Year. In subsequent years, one school in Ohio was acknowledged, based on the students and teachers that were nominated throughout the year.





2008-2009 Schools of the Year

- Claymont High School, Uhrichsville
- Columbus Alternative, Columbus
- Dunbar Elementary, Tallmadge
- EHOVE, Milan
- Greenmont Elementary, Dayton
- Lincoln West High School, Cleveland
- Raymond Elementary, Maple Heights
- Upper Scioto Valley High School, McGuffey

School of the Year

- 2009-10 North Ridgeville High School
- 2010-11 Hamilton Township High School
- 2011-12 North Ridgeville High School
- 2012-13 Parma Senior High School
- 2013-14 Loveland Middle School
- 2014-15 Fairport Harbor High School
- 2015-16 Olentangy High School
- 2016-17 Our Lady of the Lake School

For more information on the Ohio Lottery's Partners in Education program, visit: www.ohiolottery.com/supportingeducation



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

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Plus: Total Operating Revenues | \$ 2,332.9 | \$ 2,425.9 | \$ 2,498.8 | \$ 2,608.3 | \$ 2,781.7 | \$ 2,939.8 | \$ 3,288.0 | \$ 3,776.4 | \$ 3,987.2 | \$ 3,933.4 |
| Less: Total Prizes, Bonuses And Commissions | 1,541.0 | 1,609.1 | 1,667.2 | 1,764.4 | 1,860.2 | 1,945.1 | 2,158.9 | - | - | - |
| Less: Direct Game Costs | - | - | - | - | - | - | - | 2,623.5 | 2,754.4 | 2,772.10 |
| Less: Total Operating Expenses | 110.3 | 124.3 | 109.4 | 109.3 | 107.8 | 121.4 | 121.0 | 75.9 | 89.5 | 90.9 |
| Operating Income (Loss) | \$ 681.6 | \$ 692.5 | \$ 722.2 | \$ 734.6 | \$ 813.7 | \$ 873.3 | \$ 1,008.2 | \$ 1,077.0 | \$ 1,143.3 | \$ 1,070.4 |
| Plus: Non-Operating Income | 88.0 | 55.8 | 76.3 | 24.1 | 79.1 | - | 16.9 | 19.1 | 35.1 | (7.4) |
| Less: Non-Operating Expense | 53.9 | 41.2 | 40.0 | 37.8 | 34.0 | 137.6 | 30.7 | 30.3 | 24.4 | 21.3 |
| Less: Transfers | 672.2 | 702.3 | 728.6 | 738.8 | 771.0 | 803.1 | 1,004.3 | 1,090.0 | 1,116.1 | 1,040.60 |
| Change In Net Position | \$ 43.5 | \$ 4.8 | \$ 29.9 | \$ (17.9) | \$ 87.8 | \$ (67.4) | \$ (9.9) | \$ (24.2) | \$ 37.9 | \$ 1.1 |
| Change In Net Position | 43.5 | 4.8 | 29.9 | (17.9) | 87.8 | (67.4) | (9.9) | (41.6) | 37.9 | 0.9 |
| Total Net Position - Beginning | 90.4 | 133.9 | 138.7 | 168.6 | 150.7 | 238.5 | 171.1 | 161.2 | 119.6 | 157.5 |
| Total Net Position - Ending | \$ 133.9 | \$ 138.7 | \$ 168.6 | \$ 150.7 | \$ 238.5 | \$ 171.1 | \$ 161.2 | \$ 119.6 | \$ 157.5 | \$ 158.4 |

OHIO LOTTERY - NET POSITION

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Net Investment In Capital Assets | \$ 4.4 | \$ 5.6 | \$ 7.9 | \$ 4.0 | \$ 2.8 | \$ 1.7 | \$ 2.1 | \$ 15.7 | \$ 26.8 | \$ 20.9 |
| Restricted For Annuity Prizes | 1.0 | 1.4 | - | - | - | - | - | - | - | - |
| Restricted For Net Unrealized Gains On | | | | | | | | | | |
| Restricted Investments | 43.3 | 55.7 | 87.4 | 77.1 | 123.7 | 85.1 | 73.8 | 66.3 | 77.4 | 47.0 |
| Unrestricted | 85.2 | 76.0 | 73.3 | 69.6 | 112.0 | 84.3 | 85.3 | 37.6 | 53.3 | 90.5 |
| Total Net Position | \$ 133.9 | \$ 138.7 | \$ 168.6 | \$ 150.7 | \$ 238.5 | \$ 171.1 | \$ 161.2 | \$ 119.6 | \$ 157.5 | \$ 158.4 |

OHIO LOTTERY - CAPITAL ASSETS

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|--------|--------|---------|---------|---------|----------|---------|---------|---------|---------|
| Capital Assets | | | | | | | | | | |
| Lottery Equipment | \$ 1.6 | \$ 2.0 | \$ 6.1 | \$ 2.3 | \$ 0.5 | \$ (0.3) | \$ - | \$ 13.8 | \$ 24.4 | \$ 18.4 |
| Vehicles | 1.4 | 1.5 | 1.1 | 1.1 | 1.3 | 1.1 | 1.4 | 1.3 | 1.6 | 1.9 |
| Data / Office Equipment | 1.4 | 2.1 | 0.7 | 0.6 | 1.0 | 0.8 | 0.7 | 0.6 | 0.8 | 0.6 |
| Net Investments In Capital Assets | \$ 4.4 | \$ 5.6 | \$ 7.9 | \$ 4.0 | \$ 2.8 | \$ 1.6 | \$ 2.1 | \$ 15.7 | \$ 26.8 | \$ 20.9 |
| Capital Asset Lease | | | | | | | | | | |
| Ratio of Outstanding Debt | | | | | | | | | | |
| Related Debt ⁽¹⁾ | - | - | \$ 66.8 | \$ 58.0 | \$ 45.3 | \$ 33.0 | \$ 15.4 | \$ 13.1 | \$ 10.1 | \$ 6.3 |
| Percentage Of Total Operating Revenues | - | - | 2.8% | 2.3% | 1.7% | 1.2% | 0.5% | 0.4% | 0.3% | 0.2% |

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

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

REVENUES

LAST TEN FISCAL YEARS - IN MILLIONS

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Online Draw Sales | | | | | | | | | | |
| Pick 3 | \$ 387.1 | \$ 382.5 | \$ 366.7 | \$ 364.4 | \$ 357.4 | \$ 345.2 | \$ 339.0 | \$ 338.0 | \$ 343.0 | \$ 340.0 |
| Pick 4 | 198.8 | 205.9 | 201.3 | 209.0 | 207.9 | 189.8 | 185.8 | 192.8 | 200.3 | 201.0 |
| Pick 5 | - | - | - | - | - | 28.0 | 27.9 | 33.3 | 36.4 | 38.1 |
| Ten-OH ⁽¹⁾ | 18.0 | 11.0 | 9.7 | 9.2 | 8.3 | 0.8 | - | - | - | - |
| Rolling Cash 5 | 70.5 | 67.2 | 67.1 | 62.4 | 63.8 | 61.5 | 63.4 | 62.6 | 60.3 | 55.5 |
| Kicker ⁽²⁾ | 21.4 | 21.4 | 24.1 | 10.3 | - | - | - | - | - | - |
| Classic Lotto/Kicker ⁽²⁾⁽³⁾ | 41.2 | 43.9 | 42.8 | 42.7 | 43.2 | 46.6 | 60.1 | 35.7 | 35.8 | 30.9 |
| Raffle/Multi-State Raffle | 10.0 | 9.3 | 9.1 | 10.0 | 10.0 | 9.1 | 1.0 | 7.0 | - | 3.6 |
| EZPLAY | 12.3 | 34.3 | 30.4 | 30.9 | 46.5 | 68.0 | 84.8 | 99.8 | 115.2 | 120.2 |
| EZPLAY Tap | - | - | - | - | - | - | - | 24.0 | 31.5 | 30.0 |
| EZPLAY Quick Keno | - | - | - | - | - | - | - | - | 0.7 | 16.0 |
| Keno / Booster ⁽³⁾ | - | 99.8 | 120.6 | 157.9 | 209.8 | 251.5 | 298.1 | 329.5 | 365.9 | 396.3 |
| Mega Millions/Megaplier ⁽²⁾ | 201.0 | 193.0 | 215.8 | 165.0 | 179.3 | 102.8 | 133.4 | 113.3 | 102.2 | 93.3 |
| Powerball/Power Play ⁽³⁾ | - | - | 23.6 | 76.4 | 105.3 | 166.6 | 122.8 | 105.0 | 193.5 | 129.8 |
| Lucky For Life | - | - | - | - | - | - | - | - | 14.1 | 19.9 |
| Total Online Draw Sales | 960.3 | 1,068.3 | 1,111.2 | 1,138.2 | 1,231.5 | 1,269.9 | 1,316.3 | 1,341.0 | 1,498.9 | 1,474.6 |
| Instant Games Sales | 1,364.8 | 1,349.4 | 1,379.0 | 1,462.8 | 1,507.5 | 1,428.0 | 1,426.8 | 1,551.0 | 1,560.7 | 1,527.1 |
| Total Ticket Sales | 2,325.1 | 2,417.7 | 2,490.2 | 2,601.0 | 2,739.0 | 2,697.9 | 2,743.1 | 2,892.0 | 3,059.6 | 3,001.7 |
| VLT Revenue | - | - | - | - | 11.1 | 165.5 | 437.6 | 773.0 | 868.9 | 926.6 |
| VLT License Revenue | - | - | - | - | 25.0 | 70.0 | 100.1 | 105.2 | 50.1 | 0.1 |
| Other Revenues | 95.8 | 64.0 | 86.6 | 31.4 | 6.6 | 6.3 | 7.2 | 6.2 | 8.6 | 4.9 |
| Total Revenues | \$ 2,420.9 | \$ 2,481.7 | \$ 2,576.8 | \$ 2,632.4 | \$ 2,781.7 | \$ 2,939.8 | \$ 3,288.0 | \$ 3,776.4 | \$ 3,987.2 | \$ 3,933.3 |

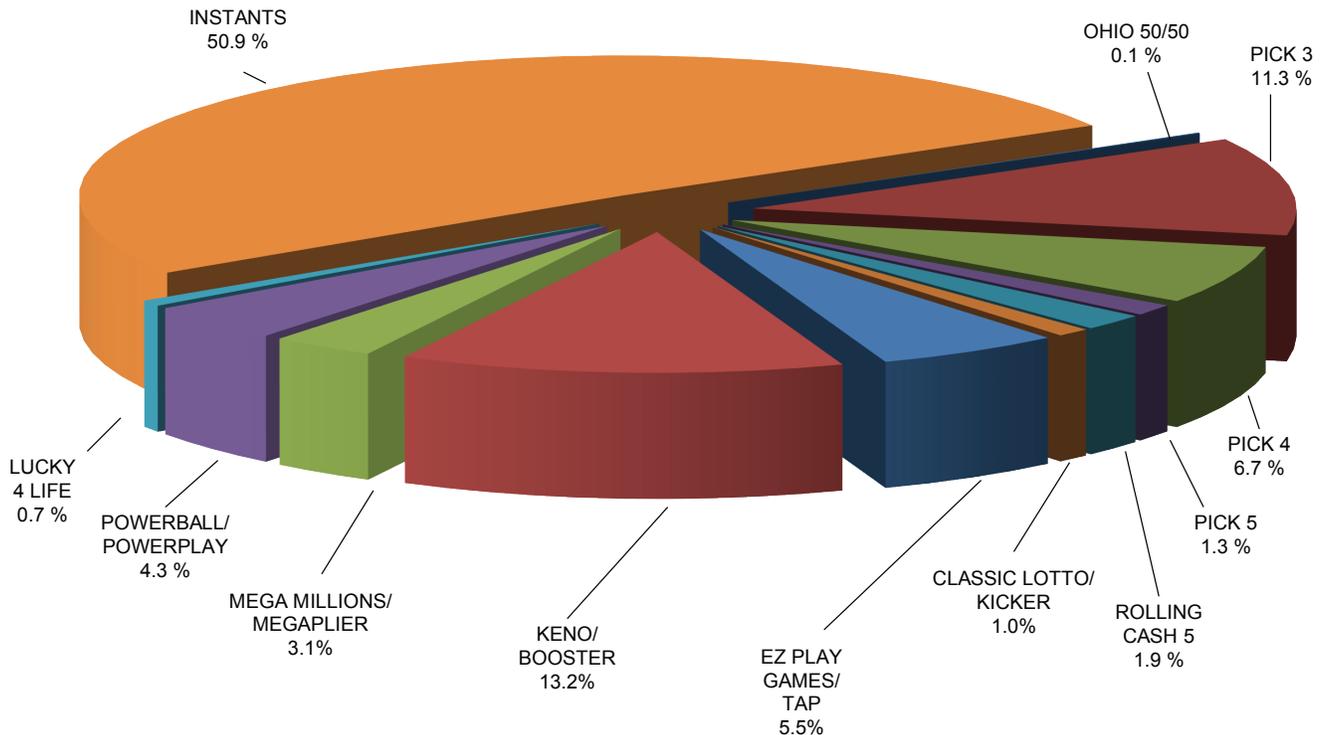
(1) In August 2012, the Ten-OH game was replaced by Pick 5.

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

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

SALES BY GAME

FISCAL YEAR 2017



PRIZE PAYOUT AS A PERCENTAGE OF TRADITIONAL LOTTERY SALES

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| SALES | | | | | | | | | | |
| Online | \$ 960.3 | \$ 1,068.3 | \$ 1,111.2 | \$ 1,138.2 | \$ 1,231.5 | \$ 1,269.9 | \$ 1,316.3 | \$ 1,341.0 | \$ 1,498.9 | \$ 1,474.6 |
| Instant | 1,364.8 | 1,349.4 | 1,379.0 | 1,462.8 | 1,507.5 | 1,428.0 | 1,426.8 | 1,551.0 | 1,560.7 | 1,527.1 |
| Total Ticket Sales | \$ 2,325.1 | \$ 2,417.7 | \$ 2,490.2 | \$ 2,601.0 | \$ 2,739.0 | \$ 2,697.9 | \$ 2,743.1 | \$ 2,892.0 | \$ 3,059.6 | \$ 3,001.7 |
| PRIZE EXPENSE | | | | | | | | | | |
| Online | \$ 470.3 | \$ 537.0 | \$ 566.7 | \$ 593.1 | \$ 648.0 | \$ 683.0 | \$ 705.7 | \$ 758.5 | \$ 838.2 | \$ 834.2 |
| Instant | 926.7 | 922.0 | 947.0 | 1,010.0 | 1,032.9 | 985.1 | 992.3 | 1,116.8 | 1,094.4 | 1,075.8 |
| Total Prize Expense | \$ 1,397.0 | \$ 1,459.0 | \$ 1,513.7 | \$ 1,603.1 | \$ 1,680.8 | \$ 1,668.1 | \$ 1,698.0 | \$ 1,875.3 | \$ 1,932.6 | \$ 1,910.0 |
| PRIZE PAYOUT PERCENTAGE | | | | | | | | | | |
| Online | 49.0% | 50.3% | 51.0% | 52.1% | 52.6% | 53.8% | 53.6% | 56.6% | 55.9% | 56.6% |
| Instant | 67.9% | 68.3% | 68.7% | 69.0% | 68.5% | 69.0% | 69.5% | 72.0% | 70.1% | 70.4% |

TRADITIONAL LOTTERY EXPENSES

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Prizes | \$ 1,397.0 | \$ 1,459.0 | \$ 1,513.7 | \$ 1,603.1 | \$ 1,680.8 | \$ 1,668.1 | \$ 1,698.0 | \$ 1,875.3 | \$ 1,932.6 | \$ 1,910.0 |
| Bonuses/Commissions | 143.9 | 150.1 | 153.4 | 161.3 | 172.0 | 166.9 | 169.9 | 179.2 | 188.6 | 185.7 |
| Direct Game Costs | - | - | - | - | - | - | - | 55.4 | 55.0 | 60.1 |
| Operating Expenses | 110.3 | 124.3 | 109.4 | 109.3 | 107.8 | 116.5 | 113.8 | 75.9 | 89.5 | 90.9 |
| Payments to Education | 672.2 | 702.3 | 728.6 | 738.8 | 771.0 | 752.5 | 764.9 | 739.9 | 784.1 | 739.4 |
| Total Sales | \$ 2,325.1 | \$ 2,417.7 | \$ 2,490.2 | \$ 2,601.0 | \$ 2,739.0 | \$ 2,697.9 | \$ 2,743.1 | \$ 2,892.0 | \$ 3,059.6 | \$ 3,001.7 |

VIDEO LOTTERY TERMINALS (VLT)

GROSS GAMING REVENUE, COMMISSIONS TO VSLA, OPERATING EXPENSES AND PAYMENTS TO EDUCATION
LAST TEN FISCAL YEARS • IN MILLIONS

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------------|------|------|------|------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Commissions to VSLA's ⁽²⁾ | | | | | \$ 7.4 | \$ 110.1 | \$ 291.0 | \$ 514.0 | \$ 577.8 | \$ 616.2 |
| Lottery Net Revenue | | | | | 3.7 | 55.5 | 146.6 | 259.0 | 291.1 | 310.4 |
| Operating Expenses | | | | | N/A ⁽¹⁾ | 4.9 | 7.2 | 8.8 | 9.1 | 9.2 |
| Payments to Education | | | | | N/A ⁽¹⁾ | 50.6 | 139.4 | 250.1 | 282.0 | 301.2 |
| Gross Gaming Revenue | | | | | \$ 11.1 | \$ 165.6 | \$ 437.6 | \$ 773.0 | \$ 868.9 | \$ 926.6 |

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

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

TOTAL EXPENSES, INCLUDING VLT ACTIVITY

LAST TEN FISCAL YEARS • IN MILLIONS

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Sales Includes VLT Net | \$ 2,325.1 | \$ 2,417.7 | \$ 2,490.2 | \$ 2,601.0 | \$ 2,750.1 | \$ 2,863.5 | \$ 3,180.7 | \$ 3,665.0 | \$ 3,928.5 | \$ 3,928.3 |
| Direct Game Costs: | | | | | | | | | | |
| Prizes | \$ 1,397.0 | \$ 1,459.0 | \$ 1,513.7 | \$ 1,603.1 | \$ 1,680.8 | \$ 1,668.1 | \$ 1,698.0 | \$ 1,875.3 | \$ 1,932.6 | \$ 1,910.0 |
| Bonuses and Commission | \$ 143.9 | \$ 150.1 | \$ 153.4 | \$ 161.3 | \$ 179.4 | \$ 277.0 | \$ 460.9 | \$ 693.2 | \$ 766.4 | \$ 802.0 |
| Cost of Tickets Sold and Vendor Fees | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 55.0 | \$ 55.4 | \$ 60.1 |
| Operating Expenses | \$ 110.3 | \$ 124.3 | \$ 109.4 | \$ 109.3 | \$ 107.8 | \$ 121.4 | \$ 121.0 | \$ 75.9 | \$ 89.5 | \$ 90.9 |
| Payments to Education | 672.2 | 702.3 | 728.6 | 738.8 | 771.0 | 803.1 | 904.3 | 990.0 | 1,066.1 | 1040.6 |

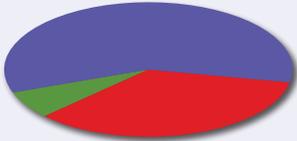
OHIO LOTTERY • REVENUES

LAST 10 FISCAL YEARS • IN MILLIONS

DAILY DRAWS

| DAILY DRAWS | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| PICK 3 | \$ 387.1 | \$ 382.5 | \$ 366.7 | \$ 364.4 | \$ 357.4 | \$ 345.2 | \$ 339.0 | \$ 338.0 | \$ 343.0 | \$ 340.0 |
| PICK 4 | 198.8 | 205.9 | 201.3 | 209.0 | 207.9 | 189.8 | 185.8 | 192.8 | 200.3 | 201.0 |
| PICK 5 | - | - | - | - | - | 28.0 | 27.9 | 33.3 | 36.4 | 38.1 |
| TOTAL DAILY DRAW SALES | \$ 585.9 | \$ 588.4 | \$ 568.0 | \$ 573.4 | \$ 565.3 | \$ 563.0 | \$ 552.7 | \$ 564.1 | \$ 579.7 | \$ 579.1 |

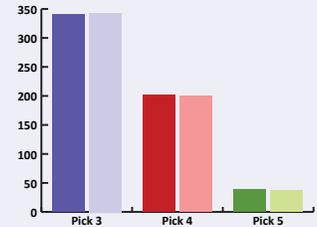
% OF FY17 SALES



SALES

| | % OF FY17 SALES | FY17 | FY16 | DIFF |
|--------|-----------------|----------|----------|----------|
| PICK 3 | 58.7% | \$ 340.0 | \$ 343.0 | \$ (3.0) |
| PICK 4 | 34.7% | 201.0 | 200.3 | 0.7 |
| PICK 5 | 6.6% | 38.1 | 36.4 | 1.7 |
| | 100.0% | \$ 579.1 | \$ 579.7 | \$ (0.6) |

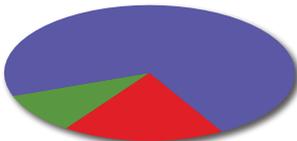
FY 17 vs. FY 16



EZPLAY GAMES

| EZPLAY GAMES | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|----------|----------|----------|
| EZPLAY | \$ 12.3 | \$ 34.3 | \$ 30.4 | \$ 30.9 | \$ 46.5 | \$ 68.0 | \$ 84.8 | \$ 99.8 | \$ 115.2 | \$ 120.2 |
| EZPLAY TAP | - | - | - | - | - | - | - | 24.0 | 31.5 | 30.0 |
| EZPLAY QUICK KENO | - | - | - | - | - | - | - | - | 0.7 | 16.0 |
| TOTAL EZPLAY SALES | \$ 12.3 | \$ 34.3 | \$ 30.4 | \$ 30.9 | \$ 46.5 | \$ 68.0 | \$ 84.8 | \$ 123.8 | \$ 147.4 | \$ 166.2 |

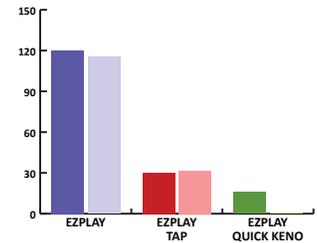
% OF FY17 SALES



SALES

| | % OF FY17 SALES | FY17 | FY16 | DIFF |
|-------------------|-----------------|----------|----------|---------|
| EZPLAY | 72.3% | \$ 120.2 | \$ 115.2 | \$ 5.0 |
| EZPLAY TAP | 18.1% | 30.0 | 31.5 | (1.5) |
| EZPLAY QUICK KENO | 9.6% | 16.0 | 0.7 | 15.3 |
| | 100.0% | \$ 166.2 | \$ 147.4 | \$ 18.8 |

FY 17 vs. FY 16



MULTI-STATE GAMES

| MULTI-STATE GAMES | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| MEGA MILLIONS/MEGAPLIER ⁽²⁾ | \$ 201.0 | \$ 193.0 | \$ 215.8 | \$ 165.0 | \$ 179.3 | \$ 102.8 | \$ 133.4 | \$ 113.3 | \$ 102.2 | \$ 93.3 |
| POWERBALL/POWER PLAY ⁽⁴⁾ | - | - | 23.6 | 76.4 | 105.3 | 166.6 | 122.8 | 105.0 | 193.5 | 129.8 |
| LUCKY FOR LIFE | - | - | - | - | - | - | - | - | 14.1 | 19.9 |
| TOTAL MULTI-STATE SALES | \$ 201.0 | \$ 193.0 | \$ 239.4 | \$ 241.4 | \$ 284.6 | \$ 269.4 | \$ 256.2 | \$ 218.3 | \$ 309.8 | \$ 243.0 |

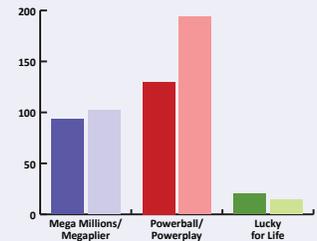
% OF FY17 SALES



SALES

| | % OF FY17 SALES | FY17 | FY16 | DIFF |
|---------------------------|-----------------|----------|----------|-----------|
| MEGA MILLIONS / MEGAPLIER | 38.4% | \$ 93.3 | \$ 102.2 | \$ (8.9) |
| POWERBALL / POWER PLAY | 53.4% | 129.8 | 193.5 | (63.7) |
| LUCKY FOR LIFE | 8.2% | 19.9 | 14.1 | 5.8 |
| | 100.0% | \$ 243.0 | \$ 309.8 | \$ (66.8) |

FY 17 vs. FY 16



OHIO LOTTERY • REVENUES

LAST 10 FISCAL YEARS • IN MILLIONS

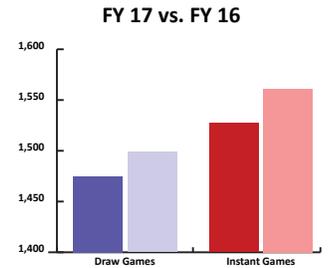
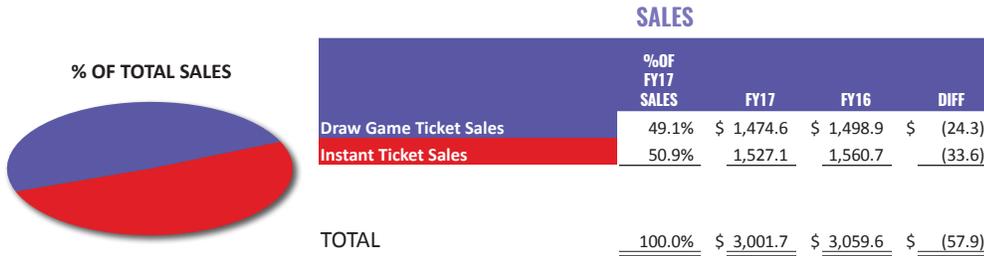
DAILY LOTTO

| DAILY LOTTO | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
| KICKER ⁽²⁾ | 21.4 | 21.4 | 24.1 | 10.3 | - | - | - | - | - | - |
| CLASSIC LOTTO/KICKER ⁽²⁾⁽³⁾ | 41.2 | 43.9 | 42.8 | 42.7 | 43.2 | 46.6 | 60.1 | 35.7 | 35.8 | 30.9 |
| RAFFLE/MULTI-STATE RAFFLE | 10.0 | 9.3 | 9.1 | 10.0 | 10.0 | 9.1 | 1.0 | 7.0 | - | 3.6 |
| TEN-OH ⁽¹⁾ | 18.0 | 11.0 | 9.7 | 9.2 | 8.3 | 0.8 | - | - | - | - |
| ROLLING CASH 5 | 70.5 | 67.2 | 67.1 | 62.4 | 63.8 | 61.5 | 63.4 | 62.6 | 60.3 | 55.5 |
| TOTAL DAILY LOTTO GAME SALES | \$ 161.1 | \$ 152.8 | \$ 152.8 | \$ 134.6 | \$ 125.3 | \$ 118.0 | \$ 124.5 | \$ 105.3 | \$ 96.1 | \$ 90.0 |

| KENO | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|------|---------|----------|----------|----------|----------|----------|----------|----------|----------|
| KENO / BOOSTER ⁽⁴⁾ | \$ - | \$ 99.8 | \$ 120.6 | \$ 157.9 | \$ 209.8 | \$ 251.5 | \$ 298.1 | \$ 329.5 | \$ 365.9 | \$ 396.3 |

TOTAL REVENUE

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| DRAW GAME TICKET SALES | \$ 960.3 | \$ 1,068.3 | \$ 1,111.2 | \$ 1,138.2 | \$ 1,231.5 | \$ 1,269.9 | \$ 1,316.3 | \$ 1,341.0 | \$ 1,498.9 | \$ 1,474.6 |
| INSTANT GAMES SALES | 1,364.8 | 1,349.4 | 1,379.0 | 1,462.8 | 1,507.5 | 1,428.0 | 1,426.8 | 1,551.0 | 1,560.7 | 1,527.1 |
| VLT REVENUE | - | - | - | - | 11.1 | 165.5 | 437.6 | 773.0 | 868.9 | 926.6 |
| VLT LICENSE REVENUE | - | - | - | - | 25.0 | 70.0 | 100.1 | 105.2 | 50.1 | 0.1 |
| OTHER REVENUES ⁽⁵⁾ | 95.8 | 64.0 | 86.6 | 31.4 | 6.6 | 6.3 | 7.2 | 6.2 | 8.6 | 4.9 |
| TOTAL REVENUES | \$ 2,420.9 | \$ 2,481.7 | \$ 2,576.8 | \$ 2,632.4 | \$ 2,781.7 | \$ 2,939.7 | \$ 3,288.0 | \$ 3,776.4 | \$ 3,987.2 | \$ 3,933.3 |



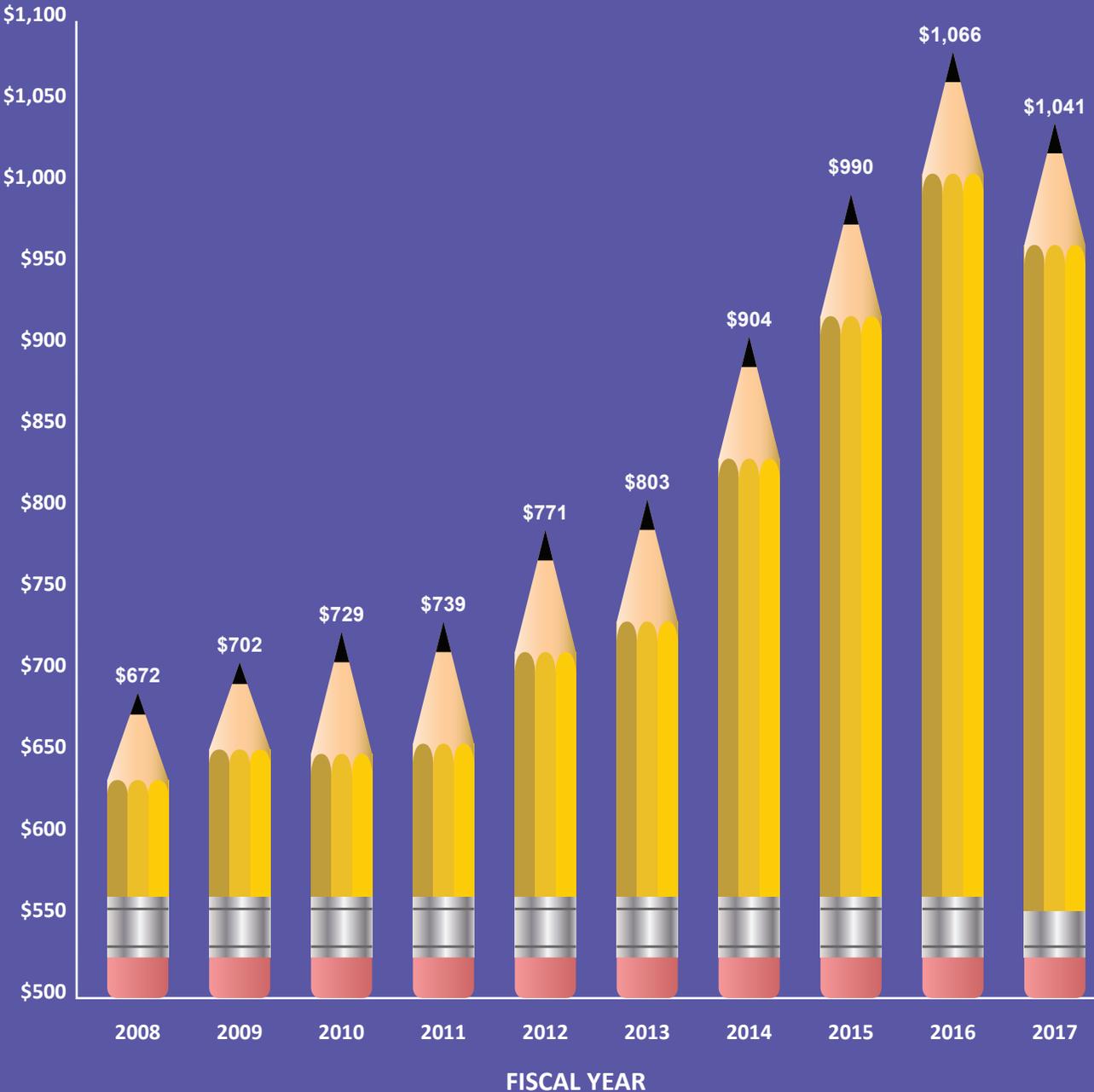
(1) In August 2012, the Ten-OH game was replaced by Pick 5.

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

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

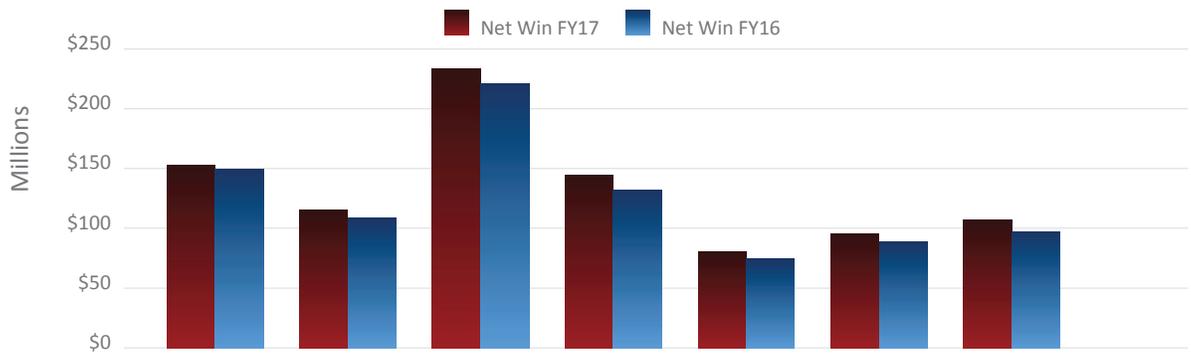
OHIO LOTTERY • TRANSFERS TO EDUCATION

LAST 10 FISCAL YEARS • IN MILLIONS



TOTAL VIDEO LOTTERY TERMINAL (VLT) SALES

IN MILLIONS



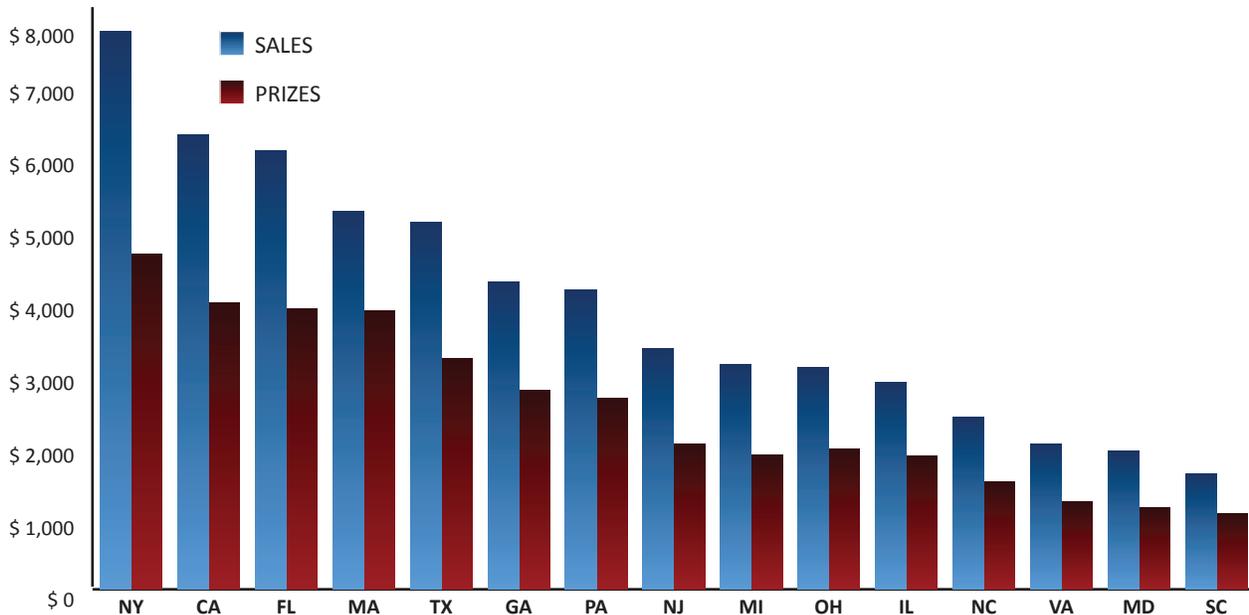
| | SCIOTO DOWNS RACINO | JACK THISTLEDOWN RACINO | HARD ROCK ROCKSINO | MIAMI VALLEY GAMING | BELTERRA PARK GAMING | HOLLYWOOD GAMING AT DAYTON RACEWAY | HOLLYWOOD GAMING AT MAHONING VALLEY | TOTAL |
|-------------------------------|---------------------|-------------------------|--------------------|---------------------|----------------------|------------------------------------|-------------------------------------|---------|
| DATE OPENED | June 2012 | April 2013 | December 2013 | December 2013 | April 2014 | August 2014 | September 2014 | |
| Average # of VLTs | 2,244 | 1,399 | 2,272 | 1,710 | 1,361 | 1,012 | 1,034 | 11,032 |
| % Change of Net Win from FY16 | 2.9% | 6.8% | 5.4% | 9.7% | 6.9% | 8.2% | 9.3% | 49.2% |
| Net Win FY17 | \$153.2 | \$115.7 | \$232.6 | \$143.8 | \$79.9 | \$95.0 | \$106.6 | \$926.6 |
| Racino Commission | 101.4 | 76.5 | 153.9 | 95.1 | 52.9 | 62.8 | 70.5 | 613.1 |
| OLC Commission | 51.3 | 38.7 | 77.9 | 48.2 | 26.8 | 31.8 | 35.7 | 310.4 |
| Problem Gambling Services | 0.5 | 0.4 | 0.8 | 0.5 | 0.3 | 0.3 | 0.4 | 3.1 |

U.S. LOTTERY INDUSTRY STATEMENT OF OPERATIONS RANK BY SALES^(a) FISCAL YEAR 2016^(b) IN MILLIONS

| | U. S. LOTTERY | POPULATION | TOTAL TICKET SALES | PRIZES | BONUSES/ COMMISSIONS | OPERATING EXPENSES | PRIZES AS % OF TOTAL SALES | PER CAPITA SALES |
|-----------|----------------|-------------|--------------------|----------------|----------------------|--------------------|----------------------------|------------------|
| 1 | New York | 19.8 | \$7,703.1 | \$4,629.7 | \$463.9 | - | 60.1% | \$390 |
| 2 | California | 39.3 | 6,275.6 | 3,955.8 | 433.0 | 327.2 | 63.0% | 160 |
| 3 | Florida | 20.6 | 6,062.4 | 3,869.0 | 337.0 | 168.4 | 63.8% | 294 |
| 4 | Massachusetts | 6.8 | 5,223.5 | 3,841.4 | 299.5 | 102.7 | 73.4% | 767 |
| 5 | Texas | 27.9 | 5,067.5 | 3,186.4 | 273.3 | 205.6 | 62.9% | 182 |
| 6 | Georgia | 10.3 | 4,247.9 | 2,745.6 | 270.7 | 185.5 | 63.9% | 412 |
| 7 | Pennsylvania | 12.8 | 4,135.2 | 2,639.8 | 218.3 | 156.6 | 63.8% | 323 |
| 8 | New Jersey | 8.9 | 3,321.7 | 2,001.7 | 186.0 | 114.0 | 60.2% | 371 |
| 9 | Michigan | 9.9 | 3,104.6 | 1,856.3 | 231.7 | 146.6 | 59.5% | 313 |
| 10 | OHIO | 11.6 | 3,059.6 | 1,932.6 | 188.6 | 144.9 | 63.0% | 263 |
| 11 | Illinois (c) | 12.8 | 2,855.5 | 1,837.4 | 160.9 | 139.8 | 64.2% | 223 |
| 12 | North Carolina | 10.2 | 2,383.6 | 1,491.0 | 166.4 | 95.3 | 62.4% | 235 |
| 13 | Virginia | 8.4 | 2,006.9 | 1,208.4 | 112.7 | 98.7 | 60.2% | 239 |
| 14 | Maryland | 6.0 | 1,905.5 | 1,133.3 | 141.2 | - | 59.5% | 317 |
| 15 | South Carolina | 5.0 | 1,600.4 | 1,047.2 | 112.9 | 39.5 | 65.3% | 323 |

(a) Sales excludes video lottery, (b) Latest information available
 The fiscal year ends June 30, 2015 for all US states except New York (March 31), Texas (August 31), and Michigan (September 30).
 The population figures used for the U.S. states were published by the Bureau of the Census on July 1, 2015.
 Source: "La Fleur's 2016 World Lottery Almanac"

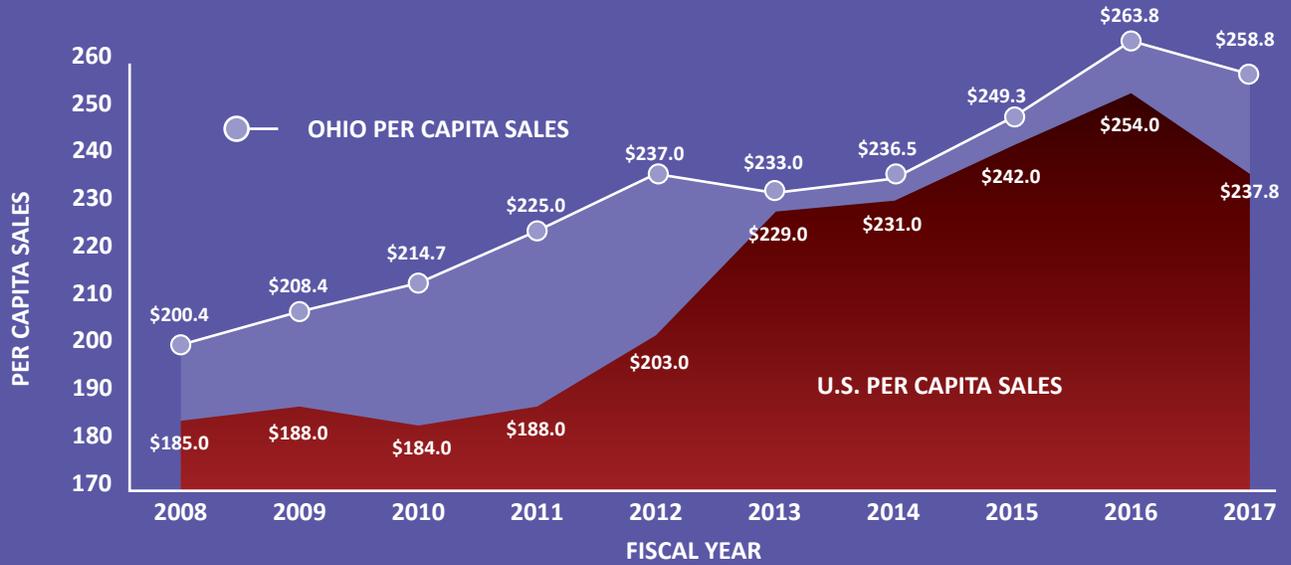
U.S. LOTTERY INDUSTRY • FISCAL YEAR 2016 IN MILLIONS



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

OHIO LOTTERY • PER CAPITA SALES

LAST TEN FISCAL YEARS • IN MILLIONS



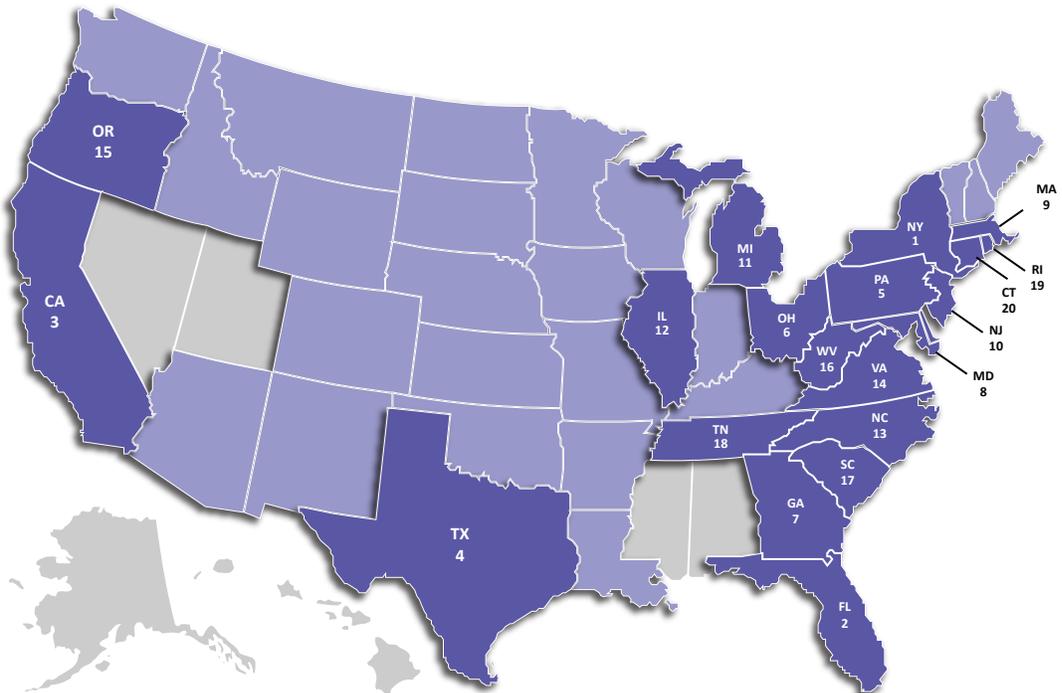
| FISCAL YEAR | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Population | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 |
| Ticket Sales | \$2,325.1 | \$2,417.7 | \$2,490.2 | \$2,601.0 | \$2,739.0 | \$2,697.9 | \$2,743.1 | \$2,892.0 | \$3,059.6 | \$3,001.7 |

Source: "La Fleur's 2017 World Lottery Almanac"
 (1) 2017 National Per Capita Sales is estimated

TOP 20 U.S. LOTTERY GOVERNMENT TRANSFERS • FY 2016

IN MILLIONS

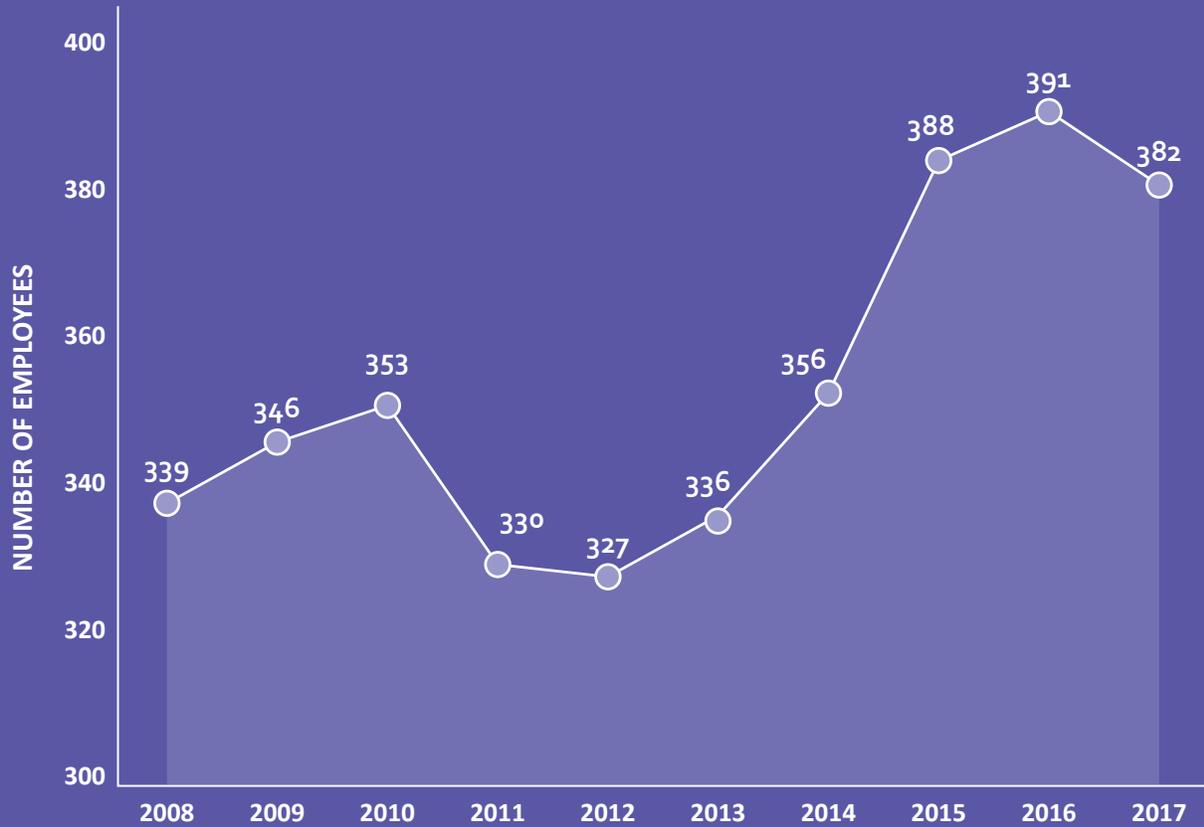
| | | |
|----|----|------------|
| 1 | NY | \$3,301.8 |
| 2 | FL | \$1,692.6 |
| 3 | CA | \$1,585.9 |
| 4 | TX | \$1,392.3 |
| 5 | PA | \$1,121.3 |
| 6 | OH | \$1,116.1* |
| 7 | GA | \$1,097.6 |
| 8 | MD | \$1,084.0 |
| 9 | MA | \$989.4 |
| 10 | NJ | \$987.0 |
| 11 | MI | \$892.9 |
| 12 | IL | \$724.2 |
| 13 | NC | \$634.3 |
| 14 | VA | \$588.2 |
| 15 | OR | \$585.1 |
| 16 | WV | \$518.8 |
| 17 | SC | \$398.9 |
| 18 | TN | \$394.1 |
| 19 | RI | \$369.8 |
| 20 | CT | \$342.6 |



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

OHIO LOTTERY • NUMBER OF EMPLOYEES

LAST TEN FISCAL YEARS • AS OF JUNE 30, 2017

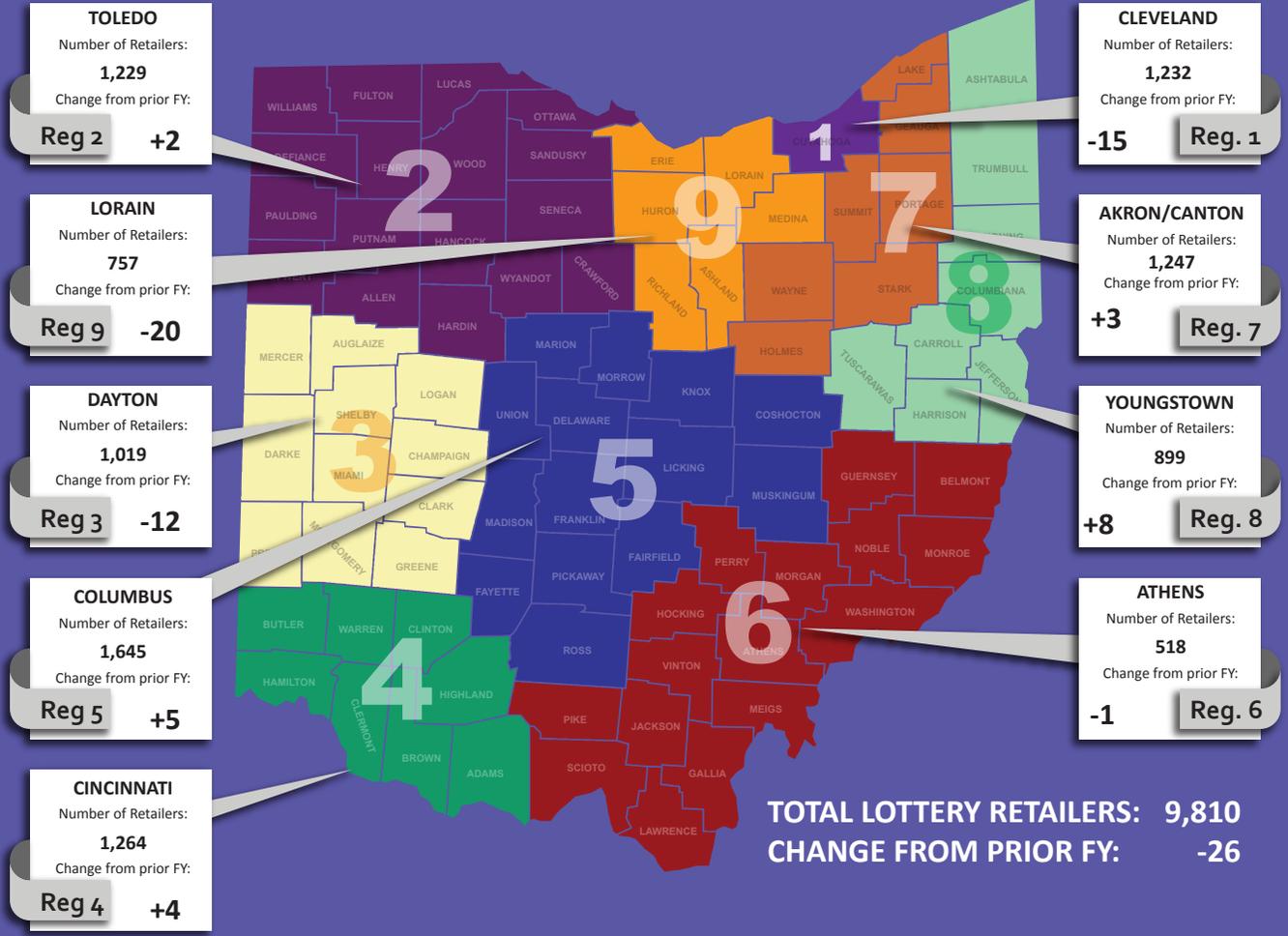


OHIO LOTTERY • EMPLOYEES BY OFFICE

AS OF JUNE 30, 2017

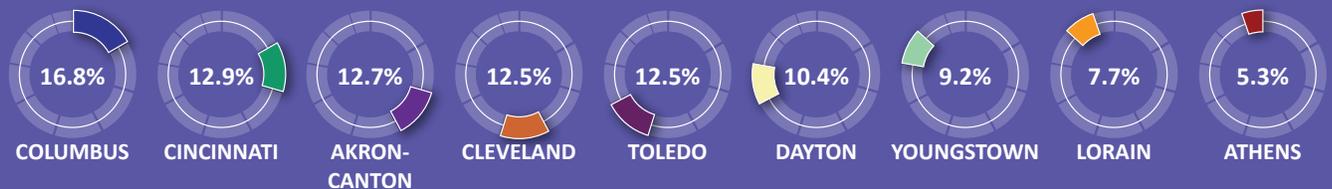


OHIO LOTTERY • ACTIVE RETAILERS BY REGION

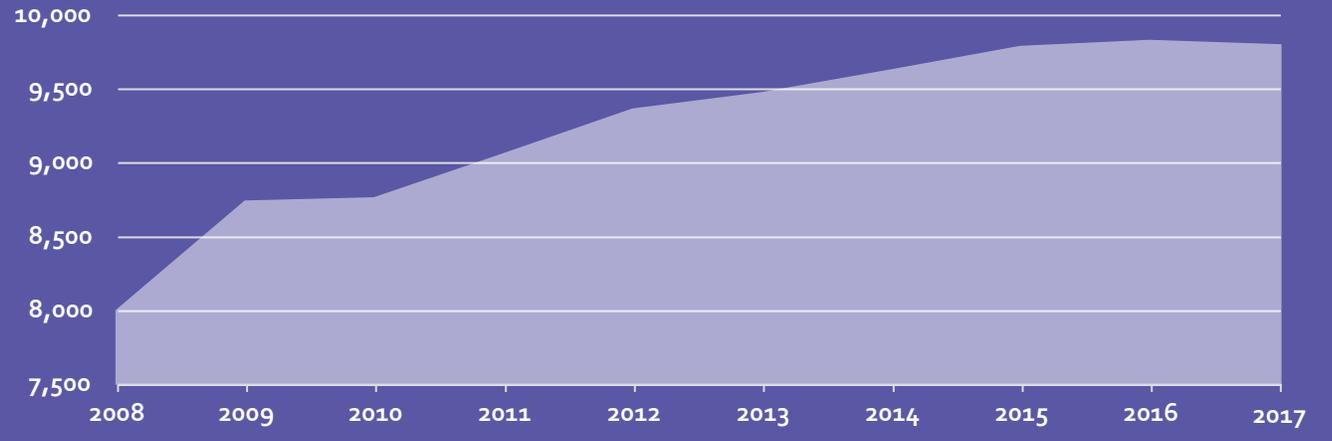


TOTAL LOTTERY RETAILERS: 9,810
CHANGE FROM PRIOR FY: -26

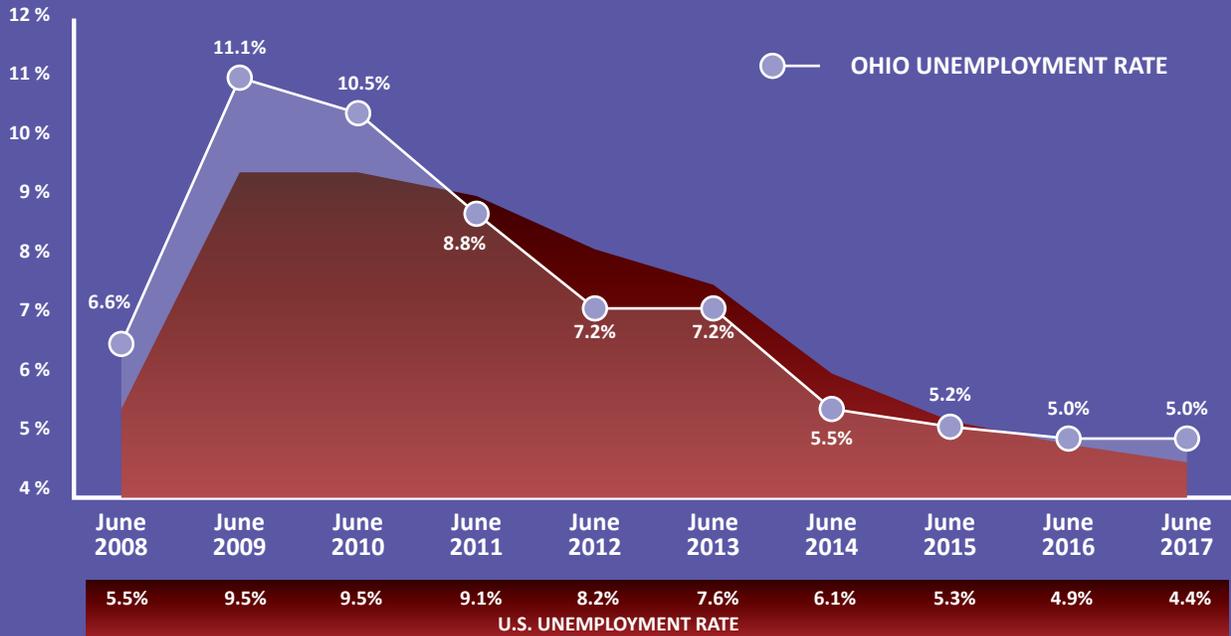
PERCENTAGE OF RETAILERS BY REGION



LOTTERY RETAILERS LAST 10 FISCAL YEARS



UNEMPLOYMENT RATES • SEASONALLY ADJUSTED



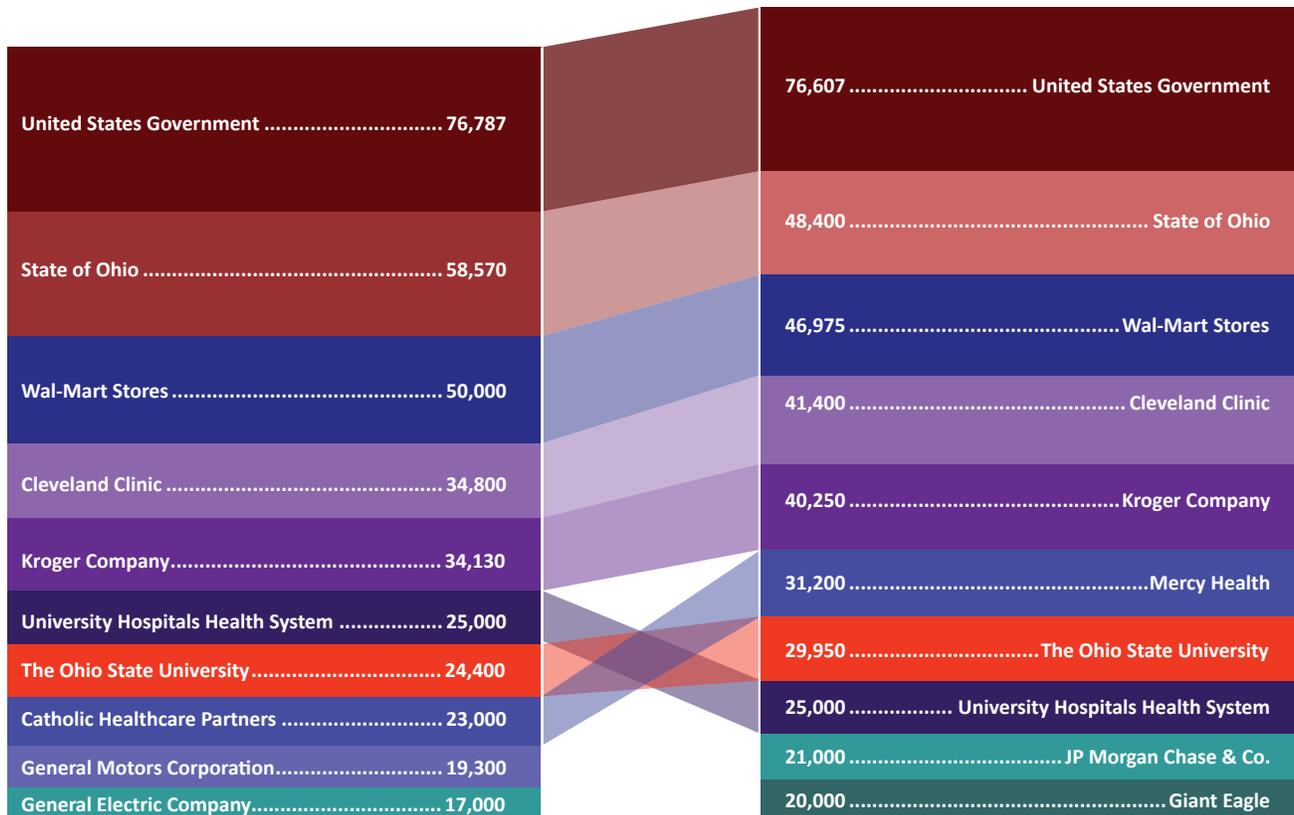
Source:
Ohio Department of Job & Family Services

STATE OF OHIO • PRINCIPAL EMPLOYERS

FOR CALENDAR YEARS 2006 AND 2015

2006

2015



Sources: U.S. Department of Commerce, Bureau of Economic Analysis; Ohio Department of Services Agency, Office of Strategic Research; State of Ohio Comprehensive Annual Report for Fiscal Year 2015 and 2006

OH!

LOTTERY®



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

This page intentionally left blank.



Dave Yost • Auditor of State

OHIO LOTTERY COMMISSION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2017**