

**OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

OHIO LOTTERY COMMISSION
CUYAHOGA COUNTY

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

Ohio Lottery Commission
Cuyahoga County
615 W. Superior Avenue
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We have audited the financial statements of the Ohio Lottery Commission, Cuyahoga County, Ohio, (the Commission) an enterprise fund of the State of Ohio, as of and for the years ended June 30, 2000 and 1999, and have issued our report thereon dated November 6, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Commission in a separate letter dated November 6, 2000.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

November 6, 2000

OHIO LOTTERY COMMISSION

AN ENTERPRISE FUND OF THE STATE OF OHIO

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**



FOR THE FISCAL YEARS ENDED

JUNE 30, 2000 AND 1999

Ohio Lottery Commission

An Enterprise Fund of the State of Ohio

Comprehensive Annual

Financial Report

For the Fiscal Years ended

June 30, 2000 & 1999

Prepared by the Finance Division

Bob Taft, Governor

Dennis G. Kennedy, Interim Director

Sandra K. Barber, Commission Chairperson

Gale W. Fisk, Deputy Director, Finance





OHIO LOTTERY COMMISSION
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEARS ENDED JUNE 30, 2000 AND 1999
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INTRODUCTORY SECTION



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

November 6, 2000

We are pleased to submit to you this Comprehensive Annual Financial Report of the Ohio Lottery Commission (the "Ohio Lottery") for the year ended June 30, 2000. The Finance Division of the Ohio Lottery has prepared this report. The Lottery is an agency of the State of Ohio. It was created in July of 1974 and is operated as a business enterprise within the framework of the state laws and regulations. The Lottery's mission is to maximize revenues to provide funds for the educational system of the State of Ohio (the "State") by offering dignified games of chance to the public at large.

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

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

Introductory Section – includes this formal transmittal letter describing the Ohio Lottery and its business activities, a list of principal officers, the Commission's organizational chart and the Certificate of Financial Reporting Excellence awarded for the fiscal year 1999. This section is not audited because it contains subjective information.

Financial Section – begins with the State Auditor's report followed by the comparative financial statements for the Lottery, related notes to the financial statements and certain supplemental schedules.

Statistical Section – contains selected financial data including trend data specific to the Ohio Lottery. Additional information on the national lottery industry is also included.

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

THE LOTTERY INDUSTRY

In 1964, New Hampshire established a state run Lottery to raise money for education. It became the first state in the United States to enter the Lottery business. New York followed in 1967. In 1971, New Jersey introduced a computer-based \$.50 weekly game which offered frequent drawings, inexpensive tickets, convenience of sale and a weekly

prize of \$50,000. New Jersey grossed \$142.5 million in its first year and established a new paradigm for the industry. New York and New Hampshire revamped their systems and other states soon introduced lotteries using New Jersey's operation as a model. Ohio implemented its Lottery in 1974.

To increase player involvement, state lotteries now market games that feature faster play action and a greater degree of player participation. Sales of tickets increased significantly in the early 90's. Today 37 states and the District of Columbia operate lotteries using computer-based online games and instant "scratch off" games. More than 87% of the U.S. population resides in a state operating a lottery.

Many Americans believe that lotteries are a good way to raise public funds. Support for lotteries is strong in the U.S. as evidenced by the 8th annual National Gaming Survey compiled by American Viewpoint, Inc. That survey showed that 73% of American adults approve of lotteries, 72% had played lotteries in the last year, 72% prefer lotteries to higher taxes and 70% would vote in favor of continuing their lottery. The International Gaming and Wagering Business magazine reports that in poll after poll lotteries continue to have the highest public approval rating of any form of gaming.

ECONOMIC OUTLOOK

In the early 90's, the lottery industry experienced double digit growth. From Fiscal Year 1993 to Fiscal Year 1997 the growth rate declined from 16% to 3.7%. In Fiscal Year 1998, U.S. lottery sales increased only \$63.4 million to \$35.8 billion. In Fiscal Year 1999, 11 of the 38 U.S. lotteries experienced a downturn in sales, ranging from .1% to 16.5%. Overall, lottery sales increased to \$36.5 billion. For Fiscal Year 2000, that overall picture improved only slightly. Total sales for U.S. lotteries improved to \$37.4 billion. Fifteen lotteries experienced sales declines ranging from .7% to 14.1%.

For most U.S. lotteries online game sales are stagnant. Many states are changing online games in an attempt to bolster sales. Some, such as Florida, have achieved a sales increase by changing their Lotto matrix. Others have had little success with that strategy. States with Multi-State games or Video Lottery Terminals (VLT's) have produced the largest sales increases for online games in Fiscal Year 2000. The same was true the previous year. Sales on Multi-State games were up 54% and sales for VLT's were up 17%. Across the country, 4 digit games increased by 4.0%, 3 digit games by 1.9%, Cash Lotto declined by 7.6% and Lotto games declined by 21.3%. Instant ticket sales had a 9.8% increase and were markedly improved from the .7% growth of the year before.

Record jackpots for Powerball and The Big Game during the last three years have helped states participating in those Multi-State games to significantly increase sales. The Big Game had the new highest U.S. jackpot this past year at \$363 million. Many observers believe those record jackpots are a short-term sales boost that may become the long-term demise of the rest of the industry.

For Ohio, total sales increased by 0.2% from \$2.144 billion in Fiscal Year 1999 to \$2.150 billion in Fiscal Year 2000. The increase was \$100 million above sales projections originally made for the year. Midday draws were introduced for Pick 3 and Pick 4. Pick 3 sales increased by \$27.9 million, (6.98%) and Pick 4 sales increased \$19.6 million, a 15.64% increase. Buckeye 5 dropped by 11.02%, Kicker by 7.57% and Super Lotto by 7.64%. Instant ticket sales stayed very near the Fiscal Year 1999 level. Sales were down by only \$2 million from \$1.129 billion to \$1.127 billion in Fiscal Year 2000.

U.S. lotteries have been operating in an outstanding economic climate. The end of Fiscal Year 2000 marks 9.5 years of uninterrupted growth since the recession of early 1991. This economic cycle has been marked by slow but steady growth. Interest rates dropped through most of Fiscal Year 1998 and Fiscal Year 1999. After some slight increases in early FY 2000, rates steadied again at levels consistent with the previous year. This has been good news for many businesses and homebuyers. However, those interest rates have been a problem for pension funds and lottery games with payouts over twenty-five years. Expenses have increased greatly because more funds must be invested initially to ensure long-term prize obligations are met. Current market conditions do not indicate that rates will change appreciably in the near future.

In addition to the factors affecting all U.S. lotteries and the economy, other factors specific to the State of Ohio are having an impact on Ohio sales. Ohio is a mature lottery, now in its 26th year of operation, as of August 2000. It has had a mature and stable set of online games that have produced consistent results with sales near \$1.1 billion for twelve years. Those games had not been changed for over seven years. Sales declined from \$1.168 billion in Fiscal Year 1996 to \$1.105 billion in Fiscal Year 1997 to \$1.1064 billion in Fiscal Year 1998 and then to \$1.016 billion in Fiscal Year 1999. Pick 3 and Super Lotto have been the sales leaders in the online games. Sales for these two games had declined consistently since Fiscal Year 1996. The need for new, more exciting games was clear. The Lottery took initial steps to revitalize the online product this past year. A Red•Ball promotion was implemented for Pick 3 at the end of Fiscal Year 1999 and carried through the first month of Fiscal Year 2000. Only a few weeks after the end of that promotion, Midday draws were introduced for Pick 3 and Pick 4. A second Red•Ball promotion was utilized in April and May. Feedback from the initial promotion was incorporated and the result was expanded sales and profits. Pick 3 and Pick 4 sales increased by nearly \$48 million during the year. Consequently, online game sales rose by \$7 million to \$1.023 billion. After four years of decline even this small increase is significant. Research on a change to the Super Lotto game was conducted during Fiscal Year 2000. Sales and profits on this game had declined consistently since Fiscal Year 1996. Prize payments had climbed to 74% of sales and the profit margin had declined to 16.7%. The new Super Lotto Plus game was introduced on July 15, 2000. The new game should add about \$25 million to online profits. Action to reinvigorate the remainder of the online product must be taken. Those changes will be delayed until Fiscal Year 2002 because of the conversion to a new gaming system during Fiscal Year 2001.

Competition from other gaming venues began to show an impact on Ohio sales in Fiscal Year 1997. Gambling casinos are now open in Windsor and Niagara Falls, Canada. Two casinos are now open in Detroit, Michigan with a third scheduled to open in November. Riverboat casinos have been opened in Illinois and Indiana. The Rising Sun and Argosy riverboat casinos in Indiana are only twenty minutes from the Ohio population centers of Cincinnati and Dayton. Casino revenues have risen throughout the past year. West Virginia has Video Lottery Terminals at its racetracks. West Virginia, Kentucky and Indiana all sell Powerball. There are many other gaming interests now available to Ohio residents. Those gaming interests outside of Ohio now spend over \$14 million on advertising in our state to bring Ohio players to their venues. Ohio Lottery had decreased spending on advertising starting with Fiscal Year 1996 to increase efficiency and control costs. The competitive shift just described prompted a need for increased advertising support. Enhancements to old games and the introduction of new

games provided opportunities to advise players of changes to Ohio's product line. The Lottery substantially increased advertising expenditures in Fiscal Year 2000. Advertising expenditures increased to \$21.0 million. This is an increase of \$6.2 million from the Fiscal Year 1999 level.

The Ohio Lottery is well managed and one of the most successful lotteries in the U.S. ranking seventh in total sales for Fiscal Year 2000 of the thirty-eight U.S. lotteries. During the year, the International Gaming and Wagering Business magazine determined that the Ohio Lottery was one of the four most efficiently and effectively run lotteries in the United States. Sales per capita are good and costs are controlled. Despite that, the growth that occurred in Fiscal Year 1995 and 1996 can not be sustained. Increased competition from a number of sources has changed the outlook from growth to maintenance. Sales dropped from a high of \$2.314 billion in Fiscal Year 1996 to \$2.144 billion in Fiscal Year 1999. Online sales have averaged \$1.1 billion for the past twelve years. During that time the highest sales were \$1.200 billion in Fiscal Year 1993 and the lowest was \$1.016 billion in Fiscal Year 1999. Sales for online games were below the average of the last twelve years in Fiscal Year 2000 but did increase to \$1.023 billion. From Fiscal Year 1993 to Fiscal Year 1997, instant tickets were the growth products. Sales jumped from \$775 million in Fiscal Year 1993 to \$1.032 billion in Fiscal Year 1995 to \$1.195 billion in Fiscal Year 1997. Revenue and the number of tickets sold increased each year. That pattern changed in Fiscal Year 1997. Revenue went up with the addition of the \$3 and \$10 tickets. The number of tickets sold decreased from 889 million to 843 million. In Fiscal Year 1998, revenue declined from \$1.195 billion to \$1.131 billion and the number of tickets sold declined further to 793 million. In Fiscal Year 1999 and Fiscal Year 2000 the Lottery has been able to change that trend and at least maintain sales. Fiscal Year 1999 instant ticket sales were \$1.129 billion. In Fiscal Year 2000, the Lottery added new instant tickets with new styles of play and increased prize payouts. A sales increase was anticipated. By mid March sales were 4.3% ahead of the previous year. Sales declined over the final sixteen weeks of the year to finish at \$1.127 billion.

LOTTERY PRODUCTS

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

INSTANT GAMES are played by scratching the latex covering off the play area on the ticket. There are different ways to win in an instant or "scratch off" game, including 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 Lottery's dominant product since Fiscal Year 1996. In Fiscal Year 1992, instant games sold \$584.2 million, 34.7% of the \$1.685 billion in sales that year. In Fiscal Year 1997, instant games had grown so that for the first time they accounted for more than half of sales at \$1.195 billion. In Fiscal Year 2000, 52.4% of sales came from the instant games. Instant games had little growth until multiple game strategies were introduced. As many as 57 games are now printed annually including seasonal games and special holiday games. Instant games are sold for \$1.00, \$2.00, \$3.00, \$5.00, \$7.00 and \$10.00. The \$3.00 and \$10.00 games were introduced in 1997 with the Ohio Lottery being the first U.S. lottery ever to market a \$10.00 instant game. The \$7.00 ticket was added in Fiscal Year 2000. Both \$3.00 and \$10.00 ticket sales were expanded in Fiscal Year 2000.

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

Super Lotto has generally been considered Ohio's most popular online game. The game was introduced in 1991. It had a 6/47 format (6 winning numbers are selected from 47). Jackpots started at \$4 million. The jackpot grew by at least \$4 million increments if there was no winner. Sales were \$455 million in Fiscal Year 1996. The game had not changed in five years and sales began to decline. Super Lotto sales dropped to \$410 million, then to \$384 million in Fiscal Year 1998 and still further in Fiscal Year 1999 to \$364 million. The fixed jackpots meant prize expense remained constant. This became a significant flaw in the game design in a declining sales scenario. Interest rates had also declined and additional funds were required to fund each jackpot. Profit on the game dropped from \$157 million in Fiscal Year 1996 to \$72 million in Fiscal Year 1999. In Fiscal Year 2000 sales declined further to \$336 million. Profit also continued to decline to \$56 million and the profit margin was a very unacceptable 16.7%. Consequently, a replacement game, Super Lotto Plus, was designed during Fiscal Year 2000 and went on sale on July 15th. This game has expanded lower tier prizes and pari-mutuel jackpots. Drawings are held on Wednesdays and Saturdays as they previously were.

The Kicker is an online game that can be purchased along with Super Lotto Plus. To win the top prize of \$100,000, all six numbers must be matched in exact order. Lesser prizes are awarded for 5 of 6, 4 of 6 and 3 of 6 matches. Kicker sales are the lowest of the online games. Sales for Fiscal Year 2000 were \$52.9 million, approximately 2.5% of sales.

Pick 3 was Ohio's first online game. Players pick three numbers from 0 to 9 and can play the numbers straight (numbers in exact order), boxed (numbers in any order) or as backup bets (players can win either or both ways). In 1996, the Lottery premiered wheel wagering which allows a player to win all possible combinations of a Pick 3 wager. In the past, Pick 3 has accounted for \$420 to \$450 million in annual sales. Sales for Fiscal Year 1998 were \$421 million. Sales declined to \$399 million in Fiscal Year 1999. In that year, Pick 3 accounted for approximately 18.6% of total sales. The addition of midday draws and the two Red•Ball promotions increased sales significantly. Sales for Fiscal Year 2000 were \$427.3 million and the percentage of total sales increased to 19.9%.

Pick 4 is played like Pick 3 only players choose four numbers from 0 to 9 and may play them straight, boxed or in back-up bets. Pick 4 began in 1981. Sales have increased every year since the introduction of the game and topped \$125.0 million in 1999. The increases were beginning to diminish and the Fiscal Year 1999 increase was less than 1%. The introduction of midday draws had a very dramatic impact on Pick 4. Sales rose by 15.6% to \$144.6 million. Both Pick 3 and Pick 4 are played Monday through Saturday.

Buckeye 5, a 5/37 online game was introduced in 1992 and has four drawings a week. The game has better odds but lower payout than Super Lotto. Players select and must match five numbers to win the top prize of \$100,000. Buckeye 5 sales have dropped since 1993. It generated \$62.2 million in sales in Fiscal Year 2000, down 11% from Fiscal Year 1999.

ACCOMPLISHMENTS AND FINANCIAL OVERVIEW

The Ohio Lottery had record sales in Fiscal Year 1996 and Fiscal Year 1997. Sales began to decline in Fiscal Year 1998. The Lottery has and continues to take action to maintain sales and profits at the highest possible levels. During this past year some significant steps were taken, as identified below, to accomplish that objective.

- Implemented the first changes made to the online product in the last five years. Designed and utilized two Red•Ball promotions for the Pick 3 game. Added mid day draws to the Pick 3 and Pick 4 games. Pick 3 sales increased for the first time in three years by a vigorous \$27.9 million. Pick 4 experienced significant growth with a sales increase of \$19.5 million, the highest the game has had. Thus, Online sales ended the year \$20 million above the sales level projected for Fiscal Year 2000.

- Designed and implemented a change to the Super Lotto game, which had been experiencing sales declines and rapidly increasing profit declines. The new game is Super Lotto Plus. Sales for Super Lotto Plus will be lower than sales for the Super Lotto 6/47 game it replaced. Profit margins should increase from 16.7% to 29%. Profit for this game is projected to increase by nearly \$30 million. Overall profit for online games would thus increase by \$20 million in Fiscal Year 2001.

In addition to these quantitative accomplishments, the Lottery made continuing improvements in the operational and administrative areas. Several of these improvements are cited below:

- The Lottery established specifications for a new Gaming System. Bid packages were sent to 24 potential bidders. The new contract will provide a state of the art, fully integrated Online and Instant Gaming System to include facilities management, gaming terminals and dispatch and repair services. A new generation of gaming terminals will be installed with 7,500 new touch screen online terminals replacing the 6,300 terminals currently in use. The cost of these services will be consistent with the cost of the current system. The system will be converted during the current fiscal year and will be in place by July 2001.

- Implemented a new payment plan that allows annuity winners of Super Lotto and Super Lotto Plus to change to the cash option within 60 days of claiming their prize. Established a new administrative rule allowing past annuity winners to cash out their remaining payments at a discounted lump sum. The program began July 1, 1999 and will be in effect until December 31, 2000. To date, 456 winners have used this option to cash out \$196 million in prizes. This program has given prizewinners an additional opportunity to receive their winnings in cash and enabled those who felt it was fiscally advantageous to use their prize winnings in other endeavors. It has also improved the financial position of the Deferred Prize Trust Fund.

- Completed work on the Year 2000 Project. All critical systems were remediated and tested and made Y2K ready. The major administrative support systems were also reviewed and made Y2K ready.

- Participated in a review of Lottery operations, challenges and possible new initiatives and presented testimony to the Lottery Profits Review Commission. This review studied past practices and outcomes achieved and investigated new directions needed to maintain sales and profits for Education.
- Established the new Online Product Manager position. This manager is in charge of researching and implementing new promotions and enhancements to current online games to spur sales for the OLC's online products. New games are also now being researched.

ACCOUNTING SYSTEMS AND POLICIES

The Ohio Lottery Commission operates three enterprise funds, which utilize the accrual basis of accounting in accordance with generally accepted accounting principles. The Lottery manages the following funds:

#044 Lottery Operating Fund

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

#871 Deferred Prize Fund

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

#872 Unclaimed Prize Fund

The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month in an amount equal to the prizes unclaimed after the cashing eligibility has expired. The balances in this fund are used for transfers to education to fund special projects such as the computerization of all Ohio public schools and/or vouchered prize payments for special games.

BUDGETARY CONTROL

Budgetary control for all state agencies is maintained through legislative appropriations and the executive branch allotment. An encumbrance system is utilized, whereby purchase orders reserve portions of applicable appropriations. The appropriation and the amount expended for #044 Lottery Operating Fund, #871 Deferred Prize Fund and #872 Unclaimed Prize Fund are monitored by the Ohio Office of Budget and Management (OBM). The adopted budget is divided among the operating departments at the Lottery who have responsibility for delivery of service. These departments control the funds within their program. The Finance Division monitors all accounts via the State of Ohio Central Accounting System and its own accounting reporting system, Solomon. Additionally, the Lottery conducted and published a Mid-Year Review in 2000 to show revenue and expenditure trends and implement any changes necessary to keep both within appropriation and under internal management targets set by the Director.

INTERNAL CONTROL ENVIROMENT

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

To enhance controls over accounting procedures, the Ohio Lottery has segregated the following functions: personnel and payroll, purchasing, accounts payable and general ledger and accounts receivable processing. Additionally, a Contract Compliance Officer monitors the procurement and execution of all large vendor contracts. Data input and processing is separate from system programming. An internal audit team reviews all areas of operations and reports to the Director. The internal audit role was expanded and improved in 1997. At the beginning of Fiscal Year 1997 and for each Fiscal Year since, an audit plan has been promulgated by the Lottery and approved by the Auditor of State. Results of these internal audits have been submitted to the Auditor of State for review and consideration in its financial audit. An Information Security Manager monitors and audits automated systems. An Electronic Data Processing Audit Plan has been established and is executed annually to further improve internal controls. The plan for Fiscal Year 2000 was approved and a contract to execute the plan was awarded.

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

- Maintaining secure Lottery facilities and limiting access to them.
- Performing background checks on retailers, contractors and Lottery employees.
- Printing Lottery tickets with special paper, inks, dyes and security codes.
- Establishing and executing detailed procedures for all game drawings.
- Contracting with the Auditor of State as an independent witness to further ensure the integrity of our drawings and the Cash Explosion game show.
- Providing a variety of access and other controls in our computer systems.

In addition, during this past year the Lottery requested that the Auditor of State conduct a best practice review of Lottery drawing procedures and internal controls over those processes. That review was conducted, a report was delivered and the Lottery has implemented most of the recommendations made.

FINANCIAL INFORMATION

The Ohio Lottery Commission 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 Lottery or included in this report.

DEBT ADMINISTRATION

The Lottery's long-term liabilities are limited to payments owed to deferred prizewinners. The payments due are fully funded by an investment portfolio managed by the Treasurer of the State of Ohio and shown as restricted assets of the Lottery on its balance sheets.

CASH MANAGEMENT

The Lottery's excess cash is invested by the Treasurer of the State of Ohio in U.S. Treasury securities, repurchase agreements, bankers' acceptance and certificates of deposit with qualified public depositories. In addition, the Ohio Lottery, through the Treasurer of State's Investment Department, participates in a securities lending program to increase its overall return on invested funds. A custodial agent bank, whereby certain securities are transferred to an independent broker/dealer in exchange for collateral (principally consisting of cash or U.S. government obligations), administers the lending program. The State Treasurer changed the securities lending policy this past year resulting in reduced income. The changes included a reduction in the amount of securities on loan and the nature and term of the investments in which collateral may be placed.

The Lottery collects cash due from ticket sales from its 9,300 retail agents on a weekly basis. Funds are electronically swept from the agents designated bank accounts. Over \$1.0 billion was collected via this system in Fiscal Year 2000. Timely payment was made on 99.6% of accounts owed. Approximately \$3.7 million (.003%) was returned unpaid and recorded as non-transfer of funds. Those agents selling terminals and ticket equipment were deactivated until payment was received and posted. Over \$2.8 million or 67% of that amount was paid within ten days. Claims were made against agents' bonds in 397 cases with payments totaling \$1.0 million. This amount was certified to the Attorney General for collection. Bond payments totaled \$805,413 with agents paying an additional \$300,264 at that time. Thirty-nine cases worth \$83,466 were forwarded to the Attorney General for collection when all other means failed.

RISK MANAGEMENT

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

FUTURE PROJECTS

The games offered by the Ohio Lottery have been or are under review to determine enhancements and changes needed. Changes were implemented to the Pick 3 and Pick 4 games at the outset of Fiscal Year 2000. A new lotto game, Super Lotto Plus, was introduced on July 15, 2000. Additional game enhancements and promotions for all online games and instant tickets are under review and will be considered for implementation over the next two years.

The Lottery also established specifications for a new Online and Instant Ticket Gaming System. The new system is to be implemented by July 1, 2001. The system is under development and will feature a new state-of-the-art online terminal. That terminal will be available at 7,500 locations in lieu of the 6,300 terminals presently in use. The conversion to this new system will begin in February 2001. This conversion will be a major project and will consume many of our available resources. The ability to change, promote or enhance games during this time will be curtailed. Conversely, new game options are being included in the new system and will have been programmed for possible use and implementation soon after the new system is in place.

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Ohio Lottery for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a one-year period. The Ohio Lottery has received a Certificate of Achievement for the last three years (Fiscal Years ended 1997, 1998 and 1999). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

INDEPENDENT AUDIT

Ohio law requires an annual audit of the Ohio Lottery by an independent auditor. The Auditor of State for the State of Ohio currently conducts the annual financial audits of the Lottery Commission. The Fiscal Year 1999 and Fiscal Year 2000 audits of the Lottery's financial statements have been completed in conformity with generally accepted auditing standards. The auditor's unqualified opinion of the Lottery's financial statements is included in the financial section of this report.

ACKNOWLEDGMENTS

Preparation of this report could not have been accomplished without the efficient and dedicated efforts of the entire Finance Division. A special note of thanks is given to the General Accounting Department headed by Greg Bowers; with the assistance of Michele Olivo and their staff members Jane Parker, Pam Schleicher, Anna Callas and Michael Popadiuk.

Publishing this Comprehensive Annual Financial Report reflects our commitment to meet the highest standards of accountability. The Ohio Lottery intends to continually improve financial management and clearly communicate its financial story. It is important for the public to know that the Ohio Lottery's financial condition is properly reported including payments made to education. Due credit should be given to Commission President Sandra Barber and the members of the Lottery Commission for their commitment to operating the Lottery in a responsible and progressive manner.

Respectfully Submitted,



Gale W. Fisk, Deputy Director of Finance

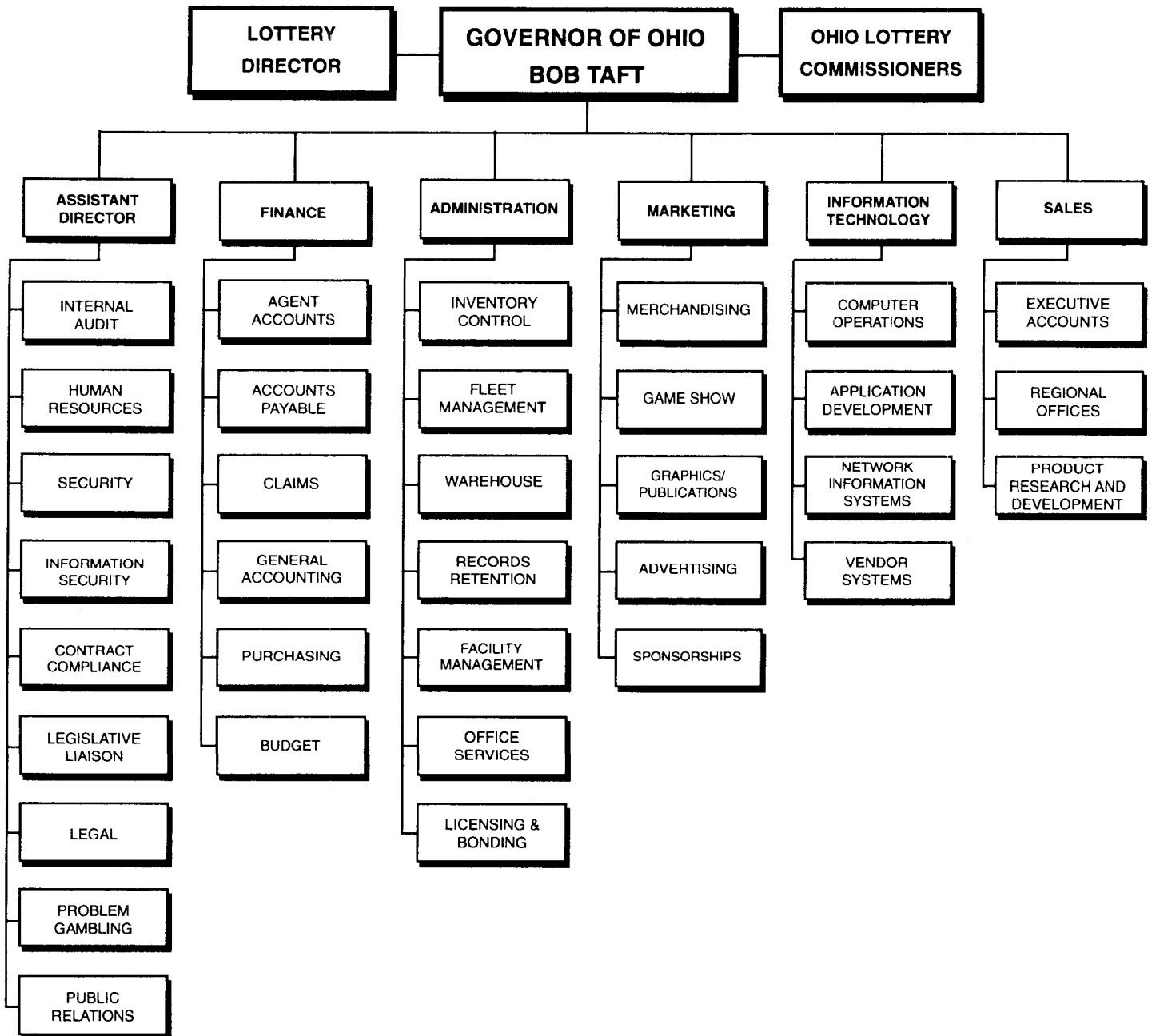


Dennis G. Kennedy, Director



STRUCTURE OF ORGANIZATION

FISCAL YEAR 2000



OHIO LOTTERY COMMISSION • PRINCIPAL OFFICIALS



Bob Taft
Governor of Ohio



Dennis G. Kennedy
Director



Sandra K. Barber
Commission Chair

COMMISSIONERS



Andrew J. Furey



Donet D. Graves



David P. Miller



Michele A. Roberts



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Ohio Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1999

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Anne Spray Kinney
President

Jeffrey L. Essler
Executive Director

FINANCIAL SECTION



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have audited the accompanying general-purpose financial statements of the Ohio Lottery Commission (the Commission) an enterprise fund of the State of Ohio, as of and for the years ended June 30, 2000 and June 30, 1999. These general-purpose financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Ohio Lottery Commission enterprise fund of the State of Ohio and are not intended to present fairly the financial position of the State of Ohio and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Lottery Commission, an enterprise fund of the State of Ohio, as of June 30, 2000 and June 30, 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2000, on our consideration of the Commission's internal control over financial reporting for this fund, and our tests of its compliance with certain provisions of laws, regulations, contracts and grants applicable to this fund. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ohio Lottery Commission
Cuyahoga County
Independent Accountant's Report
Page 2

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Commission, taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the general-purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general-purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and therefore express no opinion thereon.



Jim Petro
Auditor of State

November 6, 2000

OHIO LOTTERY COMMISSION
COMPARATIVE BALANCE SHEET
JUNE 30, 2000 & 1999

ASSETS:	2000	1999
Current Assets:		
Cash	\$825,092	\$362,657
Equity in State of Ohio common cash and investments	84,791,914	117,228,373
Collateral on lent securities	5,633,604	86,361,923
Other investments	11,315,000	11,850,000
Receivables - Net of allowance for doubtful accounts	33,474,849	28,350,769
Prepaid expenses and other assets	4,489,280	5,834,205
Total Current Assets	140,529,739	249,987,927
Restricted Assets:		
Equity in State of Ohio common cash and investments	17,503,799	39,276,000
Dedicated State of Ohio investments	1,150,616,876	1,351,695,094
Collateral on lent securities	209,710,493	1,004,041,722
Interest receivable	6,774,120	10,159,091
Total Restricted Assets	1,384,605,288	2,405,171,907
Equipment:		
Fixed assets - Net of accumulated depreciation	15,341,464	21,676,901
TOTAL ASSETS	\$1,540,476,491	\$2,676,836,735
LIABILITIES AND FUND EQUITY:		
Current Liabilities - (Payable from current assets):		
Obligations under securities lending program	\$5,633,604	\$86,361,923
Prize awards payable	19,042,396	20,077,115
Accounts and contracts payable	12,011,721	8,002,424
Due other State of Ohio entities	327,661	252,645
Other liabilities	900,945	1,429,560
Deferred revenue	2,366,133	1,240,524
Current portion of equipment capital lease obligation	1,152,740	1,000,879
Total Current Liabilities - (Payable from current assets)	41,435,200	118,365,070
Current Liabilities - (Payable from restricted assets):		
Obligations under securities lending program	209,710,493	1,004,041,722
Deferred prizes payable - Net of unamortized discount	73,929,930	74,942,372
Total Current Liabilities - (Payable from restricted assets)	283,640,423	1,078,984,094
Long-Term Liabilities:		
Deferred prizes payable - Net of unamortized discount	1,105,432,062	1,282,777,730
Long-term portion of equipment capital lease obligation	1,128,151	2,190,762
Compensated absences and other long-term liabilities	2,055,921	1,997,237
Total Long-Term Liabilities	1,108,616,134	1,286,965,729
TOTAL LIABILITIES	1,433,691,757	2,484,314,893
FUND EQUITY - RETAINED EARNINGS	106,784,734	192,521,842
TOTAL LIABILITIES AND FUND EQUITY	\$1,540,476,491	\$2,676,836,735

The accompanying notes to the financial statements are an integral part of this statement.

OHIO LOTTERY COMMISSION
COMPARATIVE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2000 & 1999

	2000	1999
REVENUE:		
Ticket Sales	\$2,150,401,326	\$2,144,726,310
Other Revenue	5,387,788	\$5,772,502
Total Operating Revenue	2,155,789,114	2,150,498,812
EXPENSES:		
Prizes, Bonuses and Commission Expense:		
Prize Awards	1,274,978,858	1,259,766,338
Bonuses and Commissions	135,002,845	134,614,180
Total Prizes, Bonuses and Commission Expense	1,409,981,703	1,394,380,518
Operating Expenses:		
Personal Services	72,751,532	54,333,881
Maintenance	22,704,690	20,795,857
Depreciation	8,123,414	13,631,498
Other Expenses	284,393	137,570
Total Operating Expenses	103,864,029	88,898,806
OPERATING INCOME	641,943,382	667,219,488
Non-Operating Revenues (Expenses):		
Interest Income	73,840,349	121,518,451
Amortization of Deferred Prize Liabilities	(85,966,881)	(99,203,818)
Loss on Equipment Disposal	(95,519)	(230,551)
Interest Expense - Borrower Rebates	(36,290,947)	(60,595,099)
Agent Fees	(381,203)	(618,278)
Interest Expense on Capital Lease	(174,514)	(595,226)
Payments to the Lottery Profits Education Fund	(686,020,217)	(696,302,701)
Total Non-Operating Expenses	(735,088,932)	(736,027,222)
NET LOSS BEFORE EXTRAORDINARY ITEMS	(93,145,550)	(68,807,734)
Extraordinary Gain on Early Extinguishment of Debt	7,408,442	0
NET LOSS	(85,737,108)	(68,807,734)
RETAINED EARNINGS JULY 1	192,521,842	261,329,576
RETAINED EARNINGS JUNE 30	\$106,784,734	\$192,521,842

The accompanying notes to the financial statements are an integral part of this statement.

OHIO LOTTERY COMMISSION
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2000 & 1999

	FY 2000	FY 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$2,146,402,856	\$2,138,951,478
Cash Payments for Prize Awards	(1,532,930,127)	(1,358,366,612)
Cash Payments for Bonuses and Commissions	(134,986,569)	(134,664,002)
Cash Payments for Goods and Services	(69,511,338)	(56,316,965)
Cash Payments to Employees	(21,045,063)	(19,803,701)
Other Operating Revenues	5,387,788	5,772,502
Other Operating Expenses	(284,393)	(137,570)
<i>Net Cash Provided by Operating Activities</i>	<u>393,033,154</u>	<u>575,435,130</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments to the State of Ohio	(686,020,217)	(696,302,701)
<i>Net Cash Used by NonCapital Financing Activities</i>	<u>(686,020,217)</u>	<u>(696,302,701)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Property and Equipment	(1,995,996)	(1,923,902)
Proceeds from Sale of Property and Equipment	112,502	0
Repayment of Equipment Obligation	(910,750)	(13,482,266)
Interest Paid on Equipment Obligation	(174,514)	(595,226)
<i>Net Cash Used by Capital and Related Financing Activities</i>	<u>(2,968,758)</u>	<u>(16,001,394)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income Received	80,791,127	117,954,043
Interest Expense (Borrower Rebates) and Agent Fees	(36,672,150)	(61,213,377)
Proceeds from the Sale or Maturity of Dedicated State of Ohio Investments	502,509,145	816,620,474
Acquisition of Investments	(304,953,526)	(761,659,570)
Cash Collateral received under Securities Lending Activities	215,344,096	1,090,403,645
Investment of Securities Lending Cash Collateral	(215,344,096)	(1,090,403,645)
<i>Net Cash Provided by Investing Activities</i>	<u>241,674,596</u>	<u>111,701,570</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(54,281,225)</u>	<u>(25,167,395)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>168,717,030</u>	<u>193,884,425</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$114,435,805</u>	<u>\$168,717,030</u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income	\$641,943,382	\$667,219,488
Adjustments to Reconcile Operating Income to determine net cash provided by operating activities:		
Depreciation	8,123,414	13,631,498
Accounts Receivable	(5,124,079)	(4,831,575)
Prepaid Expenses and Other Assets	1,301,714	513,527
Prize Awards Payable	(1,034,719)	646,040
Accounts Payable	4,009,297	(1,456,565)
Deferred Revenue	1,125,610	(943,258)
Deferred Prize Awards Payable	(256,916,550)	(99,246,314)
Compensated Absences and Other Liabilities	(394,915)	(97,711)
<i>Total Adjustments</i>	<u>(248,910,228)</u>	<u>(91,784,358)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$393,033,154</u>	<u>\$575,435,130</u>

The accompanying notes to the financial statements are an integral part of this statement.

**OHIO LOTTERY COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2000 AND 1999**

1. DESCRIPTION OF OPERATIONS

The Ohio Lottery Commission (Lottery) was established in August, 1974, under Section 3770 of the Ohio Revised Code (ORC). The 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 (State) and is presented as such in the State's financial statements.

The Lottery is required by law to transfer to the Lottery Profits Education Fund of the State an amount no less than 30% of the total revenue earned from the sale of lottery tickets. The amounts transferred are determined by the Director of the Office of Budget and Management and are to be used to help support primary and secondary education within the State.

The Lottery operates both on-line and instant games. The instant games generated 52.4% and 52.6% of the Lottery's revenue from ticket sales and on-line games generated 47.6% and 47.4% of the Lottery's revenue from ticket sales for the years ended June 30, 2000 and 1999, respectively.

2. BASIS OF ACCOUNTING AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

The 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 Lottery are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Lottery Operating Fund

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

Deferred Prize Trust Fund

Revenues for the Deferred Prize Trust 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 Lottery. Expenses of the Deferred Prize Trust Fund primarily represent deferred prizes.

Unclaimed Prize Fund

The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month, in an amount equal to the prizes unclaimed after their cashing eligibility has expired. The balances in this fund are used to: (1) transfer cash to the Deferred Prize Trust Fund for the purpose of supplying investment capital for deferred prizes (in the event moneys are used to finance special games or drawings which offer deferred prizes); (2) voucher expenses for prize or promotion payments drawn against reserves of funds accumulated for unclaimed prizes; or (3) transfer cash to the Lottery Profits Education Fund.

Investments

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

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts at June 30, 2000 and 1999, of \$338,130 and \$286,371, respectively, are based on an analysis of historical collection experience for accounts receivable which considers the age of the receivable and current economic conditions.

Restricted Assets

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

Property and Equipment

Equipment is 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 two to five years. The estimated useful life for all other equipment can range from five to fifteen years. Approximately 74.59% and 82.35% of the net book value of equipment relates to ticket issuing equipment at June 30, 2000 and 1999, respectively.

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

Property and equipment (including assets held under capital leases) at June 30, 2000 and 1999 consisted of:

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Cost:		
Machinery and Equipment	\$69,454,677	\$69,100,084
Vehicles	<u>3,689,393</u>	<u>3,268,251</u>
Total Property and Equipment	73,144,070	72,368,335
Accumulated Depreciation and Amortization	<u>(57,802,606)</u>	<u>(50,691,434)</u>
Net Fixed Assets	<u>\$15,341,464</u>	<u>\$21,676,901</u>

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

Capital Leases

Gross Assets and Accumulated Amortization

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Initial Carrying Value:		
Computer Equipment and Systems	\$5,583,500	\$17,536,097
Accumulated Amortization	<u>(3,326,350)</u>	<u>(14,328,497)</u>
Net Capital Leases	<u>\$2,257,150</u>	\$3,207,600

Capital Leases

Future Minimum Lease Payments and Present Values of the Remaining Minimum Lease Payments

Fiscal Year Ending	<u>June 30</u>
2001	1,257,092
2002	<u>1,165,151</u>
Total Minimum Lease Payments	2,422,243
Imputed Interest	<u>(141,352)</u>
Present Value of Remaining Minimum Lease Payments	<u>\$2,280,891</u>

Deferred 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 Lottery by the State Treasurer. The interest rates represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized over the terms of the obligations using the interest method and the amortization is recognized as a non-operating expense.

Deferred Revenue

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

Bonuses and Commissions

Agents receive a commission of 5.5% based on their total sales. Cashing bonuses are paid on a weekly basis and equal 1% of all redeemed tickets. An additional .5% is awarded to agents if their cash-to-sales ratio is 50% or greater. A \$5 claiming bonus is awarded to agents for completing a claim form for a prize valuing more than \$599. Selling bonuses range from \$500 to \$10,000 and are awarded to agents for selling Super Lotto, Kicker, and Buckeye 5 jackpot winners, as well as Cash Explosion Game Show winning tickets.

Compensated Absences

In conformity with GASB Statement No. 16, the Lottery accrues all types of leave benefits as earned by its employees.

Employees of the Lottery earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining units or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or upon other separation from the Lottery, employees are paid at their hourly rate for 100 percent of unused vacation leave, personal leave, and 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 (3) years of separation at the rate of fifty-five percent (55%) for retirement separation and fifty percent (50%) for all separations.

Fund Equity

The reservation of fund equity represents the portion of fund equity that is legally segregated for the payment of deferred prizes. The reserve amount represents the excess of the assets restricted for the payment of deferred prizes over the related liability for deferred prize awards. The portion of the fund equity reserve that is attributable to the unrealized appreciation on the Lottery's restricted investments is presented separately on the table below in order to disclose the additional fund equity that has been recorded due to the implementation of Statement No.31 of the Governmental Accounting Standards Board (see the "Investments" section of this footnote).

As of June 30, 2000 and 1999, retained earnings comprised of the following:

	June 30, 2000	June 30, 1999
Fund Equity - Retained Earnings:		
Unreserved	\$111,251,931	\$149,111,759
Reserved - deferred prizes	13,159,445	24,954,379
	124,411,376	174,066,138
Net unrealized gain/loss on restricted investments	(17,626,642)	18,455,704
Total Fund Equity- Retained Earnings	\$106,784,734	\$192,521,842

Fund Equity – retained earnings at June 30, 2000 included the following individual fund deficit: Deferred Prize Fund (\$4,467,197). The deficit is a result of the recognition of unrealized loss on restricted investments at year end as required by GASB 31.

Risk Management

The 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 Lottery generally retains the risk of loss. The Lottery also operates a self insurance program for third party liabilities. The amount of loss arising from these risks was not significant for the years ended June 30, 2000 and 1999. No significant payments were made or liabilities recorded during the years ended June 30, 2000 and 1999 due to self-insured risks.

The Lottery pays a premium to the State for workers' compensation benefits. Professional liability, excluding Commissioners, is protected with a blanket bond from Acordia Mid-Atlantic Specialty with an aggregate coverage totaling \$250,000 and a deductible of \$1,000. The Department of Administrative Services (DAS) Risk Management

covers each Commissioner at a maximum of \$10,000, \$90,000 aggregate, with no deductible per Commissioner. Upon inception, Conventional Agents are required to carry a minimum bond of \$5,000 and On-Line Agents are required to carry a minimum bond of \$20,000. On a yearly basis, the agents' required coverage is based on an evaluation of their average annual sales.

The Lottery pays a premium assessed by DAS to cover potential liability related to motor vehicle damage for a maximum of \$1,000,000. The Lottery retains the risk for any liability exceeding this limit.

The State provides an option to eligible Lottery employees to participate in the OhioMed Health Plan, which was established July 1, 1989, as a fully self-insured health benefit plan. The plan is administered by Medical Mutual of Ohio under a claims administration contract with the State. The Lottery and its participants are charged a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. Employees contribute \$19.95 for single and \$54.90 for family coverage per month and the Lottery contributes \$179.56 for single and \$494.13 for family coverage per month for each eligible employee. Premiums are accounted for in the State of Ohio's Benefits Trust Fund. In the event that liabilities exceed premiums paid, assessed premiums would be increased in the succeeding year. The fund balance has experienced a surplus in recent years which has reduced premiums assessed to participants and eliminated the need for the Lottery to record a liability for these benefits. The Lottery's total contributions to the OhioMed Health Plan were \$631,284 and \$609,405 for the years ended June 30, 2000 and 1999, respectively.

The State has contracted with 6 various types of Health Maintenance Organizations (HMO). Lottery employees are eligible to participate in the plans available in their geographic area of residence. HMO claims are paid for by the respective HMO without transfer of risk to the State or the Lottery. Premiums are contracted individually between each HMO and the State of Ohio's Benefits Trust Fund.

Settled claims have not exceeded the Lottery's insurance coverage in any of the past three years.

Budgetary Accounting and Control

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

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

The Lottery maintains budgetary control by not permitting the total expenditures to exceed appropriations without approval of the General Assembly except for vouchered prize awards for which appropriation amendments may be approved by the Ohio Office of Budget and Management and unvouchered prize expenses which are not budgeted. Certain budget amendments were adopted during the years ended June 30, 2000 and 1999.

Financial and Reporting for Proprietary Activities

The Lottery has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting." The Lottery has elected not to apply FASB

pronouncements and Accounting Principles Board Opinions issued after November 30, 1989. The Lottery will continue applying all applicable pronouncements issued by the Governmental Accounting Standards Board.

Securities Lending

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

3. STATEMENT OF CASH FLOWS

In accordance with the provisions of GASB Statement No. 9, the Lottery has prepared a Statement of Cash Flows for the years ended June 30, 2000 and 1999. The Lottery considers the Equity in State of Ohio Common Cash and Investments Account and highly liquid investments, with a maturity of 90 days or less from the date of purchase, to be cash equivalents. As of June 30, 2000 the Ohio Lottery Commission considers all cash flows related to the payment of prize awards as operating activities. As a result, there was no effect on cash and cash equivalents as previously reported.

Non cash items included in investment income were \$36 million and \$34.7 million of unrealized net losses at June 30, 2000 and June 30, 1999, respectively.

4. CASH DEPOSITS AND INVESTMENTS

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

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities the face value of which is at least 110% 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 Lottery's name.

Deposits

As of June 30, 2000 the carrying amount of the Lottery's deposits was \$825,092 and the bank balance was \$838,552, the difference representing normal reconciling items. Of the bank balance, \$100,000 was covered by the FDIC insurance. The remaining \$738,552 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board.

Investments

The Lottery's investments at June 30, 2000 are detailed below and are categorized to give an indication of the level of credit risk associated with the Lottery's custodial arrangements at year end. Category 1 includes investments that are insured, registered, or held by the Lottery or its agent in the Lottery's name. Category 2 includes uninsured or unregistered investments held by the counterparty's trust department or its agent in the Lottery's name. Category 3

includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the Lottery or State's name.

	Category 1	Category 2	Category 3	Total Fair Value
Investments Categorized:				
U.S. Government and agency obligations	--	--	\$881,636,657	\$881,636,657
Securities lending collateral:				
Repurchase agreements.....	\$125,705,494	--	--	125,705,494
Corporate bonds and notes..	80,542,400	--	--	80,542,400
	<u>\$206,247,894</u>	--	<u>\$881,636,657</u>	<u>\$1,087,884,551</u>

Investments not Categorized:

Investments held by broker-dealers under security loans-				
U.S. government & agency obligations.....				204,559,714
Equity in State of Ohio common cash and investments account (including \$6,788,185 of securities lent).....				102,295,713
Collateral on loaned securities - Lottery's ratable allocation of cash collateral received on securities loans made from the State of Ohio common cash and investments account.....				6,788,185
Investment in Treasurer of State investment pool (STAR Ohio).....				75,735,505
Securities lending collateral - mutual funds				<u>2,308,018</u>
Total Investments				<u>\$1,479,571,686</u>

The "Equity in State of Ohio common cash and investments," "Collateral on loaned securities," "Investment in Treasurer of State investment pool (STAROhio)," and mutual fund accounts have not been categorized because these accounts represent investment pools. Equity in the pools is not evidenced by securities that exist in physical or book entry form. Information regarding the classification of the pools' investments and deposits by credit risk may be found in the *State of Ohio Comprehensive Annual Financial Report*, for the fiscal year ended June 30, 2000. Investments held by broker-dealers under securities loans are also not categorized pursuant to the provisions of GASB Statement No. 28.

The total carrying amount of deposits and investments, as of June 30, 2000 categorized and disclosed in this note is \$1,480,396,778. This amount can be reconciled to the balance sheet as follows:

	Deposits	Investments	Total
Unrestricted Assets:			
Cash	\$825,092	--	\$825,092
Equity in State of Ohio common cash and investments *....	--	\$84,791,914	84,791,914
Collateral on lent securities	--	5,633,604	5,633,604
Other investments *	--	11,315,000	11,315,000
Restricted Assets:			
Equity in State of Ohio common cash and investments *	--	17,503,799	17,503,799
Dedicated State of Ohio investments	--	1,150,616,876	1,150,616,876
Collateral on lent securities	--	209,710,493	209,710,493
Total carrying amount per June 30, 2000 balance sheet	<u>\$825,092</u>	<u>\$1,479,571,686</u>	<u>\$1,480,396,778</u>

* Represents a cash equivalent.

Securities Lending Transactions

The Lottery Commission through the Treasurer of State's Investment Department participates in a securities lending program for securities included in the "Equity in State of Ohio common cash and investments" and "Dedicated State of Ohio investment" accounts. The lending program, authorized under Section 135.143, Ohio Revised Code, is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. The Lottery has minimized its exposure to credit risk due to borrower default by requiring the custodial agent to ensure that the lent securities are collateralized at no less than 102 percent of the market value. The securities lending policy was changed by the State Treasurer this past year resulting in reduced income. The changes included a reduction in the amount of securities on loan and terms of the investments in which collateral may be placed.

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

During the fiscal year, the Treasurer lent U.S. government and agency obligations in exchange for collateral consisting of cash and /or U.S. government obligations. The Lottery cannot sell securities received as collateral unless the borrower defaults. At June 30, 2000 the collateral the Lottery had received for securities lent consisted entirely of cash, some of which had been temporarily invested by the Lottery in various securities. The Lottery invests cash collateral in short-term obligations, which have a weighted average maturity of 12 to 13 days and generally match the maturities of the securities loans at year end. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 2000, the Lottery did not experience any losses due to credit or market risk on securities lending activities. The Lottery did not experience any losses on securities lending transactions resulting from the default of a borrower or lending agent, therefore, there were no recoveries during fiscal year 2000 due to prior-period losses.

5. PRIZE AWARDS

Prize awards payable from restricted assets as of June 30, 2000 and 1999 consisted of the following:

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Current portion - face amount	\$153,628,044	\$167,507,274
Less: Unamortized discount	<u>(79,698,114)</u>	<u>(92,564,902)</u>
Current portion - present value	<u>73,929,930</u>	<u>74,942,372</u>
Long Term portion - face amount	1,792,086,577	2,106,280,777
Less: Unamortized discount	<u>(686,654,515)</u>	<u>(823,503,047)</u>
Long Term portion - present value	<u>1,105,432,062</u>	<u>1,282,777,730</u>
Total Prize Awards	<u>\$1,179,361,992</u>	<u>\$1,357,720,102</u>

Interest rates used to determine the present values ranged from 4.0% to 11.69%. The present value of future payments from restricted assets for deferred prize awards as of June 30, 2000, is summarized as follows:

Year Ending	<u>June 30</u>
2001	\$153,628,045
2002	151,313,689
2003	151,415,918
2004	148,303,538
2005	142,139,499
2006 through 2010	518,195,256
2011 through 2015	341,513,628
2016 thereafter	<u>339,205,048</u>
Subtotal	1,945,714,621
Unamortized discount	<u>(766,352,629)</u>
Net Prize Liability	<u>\$1,179,361,992</u>

Prize liabilities are reduced by an estimate of the amount of prizes that will ultimately be unclaimed. The Lottery is required by law to award prizes to holders of winning lottery tickets equal to, as nearly as is practicable, fifty percent of total revenues from the sale of lottery tickets. The prize structure of certain games played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. These amounts approximated \$200 million and \$187 million for the years ended June 30, 2000 and 1999, respectively.

In May 1999 the Lottery adopted an administrative rule (3770-1-8-01) which allows annuity prize winners an opportunity to cash out their remaining deferred prize payments at a discounted lump sum. This rule is a temporary change to the Internal Revenue Code to allow discounted lump sum cash payments to be made to certain annuity prize winners without the constraints of "constructive receipt". In the period ended June 30, 2000 the Lottery has cashed out 421 deferred prize payments in the amount of \$168.3 million. The carrying value at the original annuity rate was \$175.7 million, resulting in an extraordinary gain amount of \$7.4 million. This option has provided a much desired cash out alternative for annuity winners who did not have a cash option at the time they won or now experience a changed circumstance from the time they elected the annuity option. The option began July 1, 1999 and expires December 31, 2000.

6. PENSIONS - DEFINED BENEFIT PENSION PLAN

The Lottery contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple employer, public employee retirement system administered by the Public Employees Retirement Board. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand alone financial report. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the Lottery is required to contribute 13.31 percent. Contributions are authorized by State statute. The Lottery's required contributions to PERS for the years ended June 30, 2000, 1999, and 1998 were \$2,201,836, \$2,088,367 and \$2,020,540, respectively, equal to the required contribution for each year.

7. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, PERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contributions to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2000 employer contribution rate for state employees was 13.31% of covered payroll; 4.2% was the portion used to fund health care. During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage. In Fiscal Year 2000 and 1999, \$694,899 and \$659,089, respectively, of the Lottery's total contributions to PERS were used for postretirement benefits. At June 30, 2000, the Lottery was not responsible for paying premiums, contributions, or claims for OPEB under PERS for any retirees, terminated employees, or other beneficiaries. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS.

OPEB is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Total PERS expenditures for OPEB during 1999 (the latest information available) were \$524 million. As of December 31, 1999, the unaudited net assets available for future OPEB payments were \$9.8 billion. The number of PERS benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

8. LITIGATION

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

9. TRANSACTIONS WITH OTHER STATE ENTITIES

During the course of normal operations, the Lottery has numerous transactions with various other State entities. Total operating expenses recognized for services provided by other State agencies are summarized as follows for the years ended June 30, 2000 and 1999, respectively:

	June 30, 2000	June 30, 1999
Department of Administrative Services (DAS) Expenditures		
Telecommunications	\$306,159	\$740,989
Computer	1,232,283	967,655
Rent	1,151,231	1,052,044
Printing	38,827	70,323
Miscellaneous	394,631	494,559
Total DAS Expenditures	3,123,131	3,325,570
Other Agency Expenditures	596,345	397,511
Total Transactions with other State Entities	\$3,719,476	\$3,723,081

10. SEGMENT INFORMATION – ENTERPRISE FUNDS

The Lottery operates three enterprise funds. The Operating Fund provides the basic operating needs for the Lottery. Revenues are provided primarily from the sales of Lottery tickets and expenses are composed primarily of prize payments, administration expense and payments to the Lottery Profits Education Fund. The Deferred Prize Fund receives cash transfers from the Operating Fund for the purpose of providing investment principal for funding long-term prize obligations. The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund equal to the amount of prizes that are unclaimed after their cashing eligibility has expired. The balance in the fund is used for the payment of special higher tier prizes at the discretion of the Executive Director. Selected segment information for the years ended June 30, 2000 and 1999 is as follows:

Fiscal Year 2000	Operating Fund	Deferred Prize Fund	Unclaimed Prize Fund	TOTAL
Ticket Sales	\$2,150,401,326	-	-	\$2,150,401,326
Depreciation and Amortization	8,123,414	-	-	8,123,414
Amortization of Deferred Prize Liabilities	-	\$85,966,881	-	85,966,881
Operating Income (Loss)	767,396,198	(114,161,203)	(\$11,291,613)	641,943,382
Operating Transfers In (Out)	(144,353,970)	115,379,814	28,974,156	0
Payments to the Lottery				
Profits Education Fund	661,020,217	-	25,000,000	686,020,217
Extraordinary Gain on Early Extinguishment				
Of debt	-	7,408,442	-	7,408,442
Net Income (Loss)	(32,712,398)	(47,877,280)	(5,147,430)	(85,737,108)
Property/Equipment: Additions	1,995,996	-	-	1,995,996
Property/Equipment: Disposals	1,220,261	-	-	1,220,261
Net Working Capital	61,552,793	1,100,964,865	37,541,746	1,200,059,404
Increase in Cash and				
Cash Equivalents	(27,334,688)	(21,772,201)	(5,174,336)	(54,281,225)
Total Assets	115,854,084	1,384,605,288	40,017,119	1,540,476,491
Non-Current Liabilities	3,184,072	1,105,432,062	-	1,108,616,134
Total Fund Equity	\$73,710,185	(\$4,467,197)	\$37,541,746	\$106,784,734
Fiscal Year 1999	Operating Fund	Deferred Prize Fund	Unclaimed Prize Fund	TOTAL
Ticket Sales	\$2,144,726,310	-	-	\$2,144,726,310
Depreciation and Amortization	13,631,498	-	-	13,631,498
Amortization of Deferred Prize Liabilities	-	\$99,203,818	-	99,203,818
Operating Income (Loss)	737,076,535	(64,857,047)	(\$5,000,000)	667,219,488
Operating Transfers In (Out)	(103,558,013)	76,664,536	26,893,477	0
Payments to the Lottery				
Profits Education Fund	671,302,701	-	25,000,000	696,302,701
Net Income	(32,839,781)	(34,162,514)	(1,805,439)	(68,807,734)
Property/Equipment: Additions	1,923,902	-	-	1,923,902
Property/Equipment: Disposals	1,553,235	-	-	1,553,235
Net Working Capital	88,933,681	1,326,187,813	42,689,176	1,457,810,670
Increase in Cash and				
Cash Equivalents	(40,520,308)	17,122,688	(1,769,775)	(25,167,395)
Total Assets	197,791,526	2,405,171,907	73,873,302	2,676,836,735
Non-Current Liabilities	4,187,999	1,282,777,730	-	1,286,965,729
Total Fund Equity	\$106,422,583	\$43,410,083	\$42,689,176	\$192,521,842

SUPPLEMENTAL SCHEDULES

OHIO LOTTERY COMMISSION
ENTERPRISE FUNDS
June 30, 2000

Lottery Operating Fund - Revenues for this fund are provided primarily from the sale of Lottery tickets. Expenses of the Lottery Operating Fund are composed mainly of operating expenses and prize payments including transfers to the Deferred Prize Fund and payments to the State Education system.

Deferred Prize Trust 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. The balance in the Deferred Prize Fund is mainly reduced by vouchered prize payments.

Unclaimed Prize Fund - The Unclaimed Prize Fund receives cash transfers from the Lottery Operating Fund each month, in an amount equal to the prizes unclaimed after the cashing eligibility has expired. The balances in this fund are used for transfers or vouchered prize payments.

OHIO LOTTERY COMMISSION
SUPPLEMENTAL BALANCE SHEET INFORMATION BY FUND
JUNE 30, 2000

ASSETS:	OPERATING	DEFERRED	UNCLAIMED	TOTAL
Current Assets:				
Cash	\$825,092	\$0	\$0	\$825,092
Equity in State of Ohio common cash and investments	47,349,394	0	37,442,520	84,791,914
Collateral on lent securities	3,158,231	0	2,475,373	5,633,604
Other investments	11,315,000	0	0	11,315,000
Receivables - Net of allowance for doubtful accounts	33,474,849	0	0	33,474,849
Prepaid expenses and other assets	4,390,054	0	99,226	4,489,280
Total Current Assets	100,512,620	0	40,017,119	140,529,739
Restricted Assets:				
Equity in State of Ohio common cash and investments	0	17,503,799	0	17,503,799
Dedicated State of Ohio investments	0	1,150,616,876	0	1,150,616,876
Collateral on lent securities	0	209,710,493	0	209,710,493
Interest receivable	0	6,774,120	0	6,774,120
Total Restricted Assets	0	1,384,605,288	0	1,384,605,288
Equipment:				
Fixed assets - Net of accumulated depreciation	15,341,464	0	0	15,341,464
TOTAL ASSETS	\$115,854,084	\$1,384,605,288	\$40,017,119	\$1,540,476,491
LIABILITIES AND FUND EQUITY:				
Current Liabilities - (Payable from current assets):				
Obligations under securities lending program	\$3,158,231	\$0	\$2,475,373	\$5,633,604
Prize awards payable	19,042,396	0	0	19,042,396
Accounts and contracts payable	12,011,721	0	0	12,011,721
Due other State of Ohio entities	327,661	0	0	327,661
Other liabilities	900,945	0	0	900,945
Deferred revenue	2,366,133	0	0	2,366,133
Current portion of equipment capital lease obligation	1,152,740	0	0	1,152,740
Total Current Liabilities - (Payable from current assets)	38,959,827	0	2,475,373	41,435,200
Current Liabilities - (Payable from restricted assets):				
Obligations under securities lending program	0	209,710,493	0	209,710,493
Deferred prizes payable - Net of unamortized discount	0	73,929,930	0	73,929,930
Total Current Liabilities - (Payable from restricted assets)	0	283,640,423	0	283,640,423
Long-Term Liabilities:				
Deferred prizes payable - Net of unamortized discount	0	1,105,432,062	0	1,105,432,062
Long-term portion of equipment capital lease obligation	1,128,151	0	0	1,128,151
Compensated absences and other long-term liabilities	2,055,921	0	0	2,055,921
Total Long-Term Liabilities	3,184,072	1,105,432,062	0	1,108,616,134
TOTAL LIABILITIES	42,143,899	1,389,072,485	2,475,373	1,433,691,757
FUND EQUITY- RETAINED EARNINGS (DEFICIT)	73,710,185	(4,467,197)	37,541,746	106,784,734
TOTAL LIABILITIES AND FUND EQUITY	\$115,854,084	\$1,384,605,288	\$40,017,119	\$1,540,476,491

OHIO LOTTERY COMMISSION
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES, TRANSFERS
AND CHANGES IN RETAINED EARNINGS BY FUND
FOR THE YEAR ENDED JUNE 30, 2000

	OPERATING	DEFERRED	UNCLAIMED	TOTAL
REVENUE:				
Ticket Sales	\$2,150,401,326	\$0	\$0	\$2,150,401,326
Other Revenue	4,168,301	1,219,487	0	5,387,788
Total Operating Revenue	2,154,569,627	1,219,487	0	2,155,789,114
EXPENSES:				
Prizes, Bonuses and Commission Expense:				
Prize Awards	1,148,306,555	115,380,690	11,291,613	1,274,978,858
Bonuses and Commissions	135,002,845	0	0	135,002,845
Total Prizes, Bonuses and Commission Expense	1,283,309,400	115,380,690	11,291,613	1,409,981,703
Operating Expenses:				
Personal Services	72,751,532	0	0	72,751,532
Maintenance	22,704,690	0	0	22,704,690
Depreciation	8,123,414	0	0	8,123,414
Other Expenses	284,393	0	0	284,393
Total Operating Expenses	103,864,029	0	0	103,864,029
OPERATING INCOME (LOSS)	767,396,198	(114,161,203)	(11,291,613)	641,943,382
Non-Operating Revenues (Expenses):				
Interest Income	5,535,624	66,134,698	2,170,027	73,840,349
Amortization of Deferred Prize Liabilities	0	(85,966,881)	0	(85,966,881)
Loss on Equipment Disposal	(95,519)	0	0	(95,519)
Interest Expense - Borrower Rebates	0	(36,290,947)	0	(36,290,947)
Agent Fees	0	(381,203)	0	(381,203)
Interest Expense on Capital Lease	(174,514)	0	0	(174,514)
Payments to the Lottery Profits Education Fund	(661,020,217)	0	(25,000,000)	(686,020,217)
Total Non-Operating Expenses	(655,754,626)	(56,504,333)	(22,829,973)	(735,088,932)
NET INCOME (LOSS) BEFORE TRANSFERS AND EXTRAORDINARY ITEMS	111,641,572	(170,665,536)	(34,121,586)	(93,145,550)
TRANSFERS:				
Transfers to the Deferred Prize Trust Fund	(115,379,814)	115,379,814	0	0
Transfers to the Unclaimed Prize Fund	(28,974,156)	0	28,974,156	0
Total Transfers	(144,353,970)	115,379,814	28,974,156	0
NET LOSS BEFORE EXTRAORDINARY ITEMS	(32,712,398)	(55,285,722)	(5,147,430)	(93,145,550)
Extraordinary Gain on Early Extinguishment of Debt	0	7,408,442	0	7,408,442
NET LOSS	(32,712,398)	(47,877,280)	(5,147,430)	(85,737,108)
RETAINED EARNINGS JULY 1	106,422,583	43,410,083	42,689,176	192,521,842
RETAINED EARNINGS (DEFICIT) JUNE 30	\$73,710,185	(\$4,467,197)	\$37,541,746	\$106,784,734

OHIO LOTTERY COMMISSION
 SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION BY FUND
 FOR THE YEAR ENDED JUNE 30, 2000

	OPERATING	DEFERRED PRIZE	UNCLAIMED PRIZE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$2,146,402,856	\$0	\$0	\$2,146,402,856
Cash Payments for Prize Awards	(1,149,341,274)	(572,297,540)	(11,271,613)	(1,732,910,427)
Cash Payments for Bonuses and Commissions	(734,986,289)	0	0	(734,986,289)
Cash Payments for Goods and Services	(69,511,238)	0	0	(69,511,238)
Cash Payments to Employees	(21,945,063)	0	0	(21,945,063)
Other Operating Revenues	4,168,391	1,219,487	0	5,387,878
Other Operating Expenses	(234,393)	0	0	(234,393)
<i>Net Cash Provided (Used) by Operating Activities</i>	<u>775,402,520</u>	<u>(352,977,553)</u>	<u>(11,271,613)</u>	<u>393,031,154</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payments to the State of Ohio	(691,020,217)	0	(28,099,692)	(719,119,909)
Interfund Transfer	(144,350,000)	115,379,814	29,974,156	0
<i>Net Cash (Used) Provided by Noncapital Financing Activities</i>	<u>(835,370,217)</u>	<u>115,379,814</u>	<u>3,974,464</u>	<u>(695,995,939)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Property and Equipment	(1,195,896)	0	0	(1,195,896)
Proceeds from Sale of Property and Equipment	112,502	0	0	112,502
Repayment of Equipment Obligation	(910,759)	0	0	(910,759)
Interest Paid on Equipment Obligation	(174,716)	0	0	(174,716)
<i>Net Cash Used by Capital and Related Financing Activities</i>	<u>(1,268,869)</u>	<u>0</u>	<u>0</u>	<u>(1,268,869)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment Income Received	5,605,737	73,042,269	2,143,121	86,791,127
Interest Expense (Borrower Rebates) and Agent Fees	0	(26,071,179)	0	(26,071,179)
Proceeds from the Sale or Maturity of Dedicated State of Ohio Investments	0	502,509,145	0	502,509,145
Acquisition of Investments	0	(361,953,820)	0	(361,953,820)
Cash Collateral received under Securities Lending Activities	3,158,230	209,710,493	2,475,373	215,344,096
Investment of Securities Lending Cash Collateral	(3,158,230)	(209,710,493)	(2,475,373)	(515,344,096)
<i>Net Cash Provided by Investing Activities</i>	<u>5,605,737</u>	<u>233,925,738</u>	<u>2,143,121</u>	<u>241,674,596</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(17,334,698)</u>	<u>(21,471,261)</u>	<u>(1,194,336)</u>	<u>(19,999,295)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>86,824,174</u>	<u>39,276,000</u>	<u>42,616,356</u>	<u>168,716,530</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$59,489,486</u>	<u>\$17,804,739</u>	<u>\$37,442,320</u>	<u>\$114,436,805</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating Income (Loss)	\$767,206,198	\$114,160,202	\$11,591,611	\$892,958,011
Adjustments to Reconcile Operating Income (Loss) to determine net cash provided (used) by operating activities:				
Depreciation	8,123,414	0	0	8,123,414
Accounts Receivable	(2,174,973)	0	0	(2,174,973)
Prepaid Expenses and Other Assets	(1,701,714)	0	0	(1,701,714)
Prize Awards Payable	(1,974,733)	0	0	(1,974,733)
Accounts Payable	4,009,297	0	0	4,009,297
Deferred Revenue	1,125,610	0	0	1,125,610
Deferred Prize Awards Payable	0	(8,700,110)	0	(8,700,110)
Commissariat Absences and Other Liabilities	(294,611)	0	0	(294,611)
<i>Total Adjustments</i>	<u>8,006,322</u>	<u>(8,700,110)</u>	<u>0</u>	<u>(793,788)</u>
<i>Net Cash Provided (Used) by Operating Activities</i>	<u>\$775,402,520</u>	<u>(352,977,553)</u>	<u>(11,271,613)</u>	<u>\$393,031,154</u>

OHIO LOTTERY COMMISSION
 SUPPLEMENTAL SCHEDULE OF RECEIPTS, EXPENSES, AND PAYMENTS
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 FOR THE YEAR ENDED JUNE 30, 2000 (In Millions)

	APPROVED BUDGET (1)	ACTUAL	VARIANCE
RECEIPTS:			
Ticket Sales	\$2,139.3	\$2,150.4	\$11.1
Other Revenue	70.9	79.2	8.3
<i>Total Receipts</i>	<u>2,210.2</u>	<u>2,229.6</u>	<u>19.4</u>
EXPENSES:			
Payroll and Personal Services	22.8	21.4	1.4
Maintenance and Supplies	24.6	18.6	6.0
Equipment	3.8	1.6	2.2
Contracts	63.5	56.3	7.2
Vouchered Prizes, Bonuses and Commissions	173.6	130.7	42.9 (2)
Annuity Prizes	400.7	372.3	28.4
Unclaimed Prizes	11.3	11.3	0.0
<i>Total Expenses</i>	<u>700.3</u>	<u>612.2</u>	<u>88.1</u>
EXCESS OF RECEIPTS OVER EXPENSES	1,509.9	1,617.4	107.5
PAYMENTS IN (OUT):			
Payments to Lottery Profits Education Fund	<u>(686.0)</u>	<u>(686.0)</u>	<u>(0.0)</u>
EXCESS OF RECEIPTS OVER EXPENSES AND PAYMENTS	<u>\$823.9</u>	<u>\$931.4</u>	<u>\$107.5</u>

(1) Reported budgeted amounts are as originally adopted and amended by the General Assembly and the Office of Budget and Management.

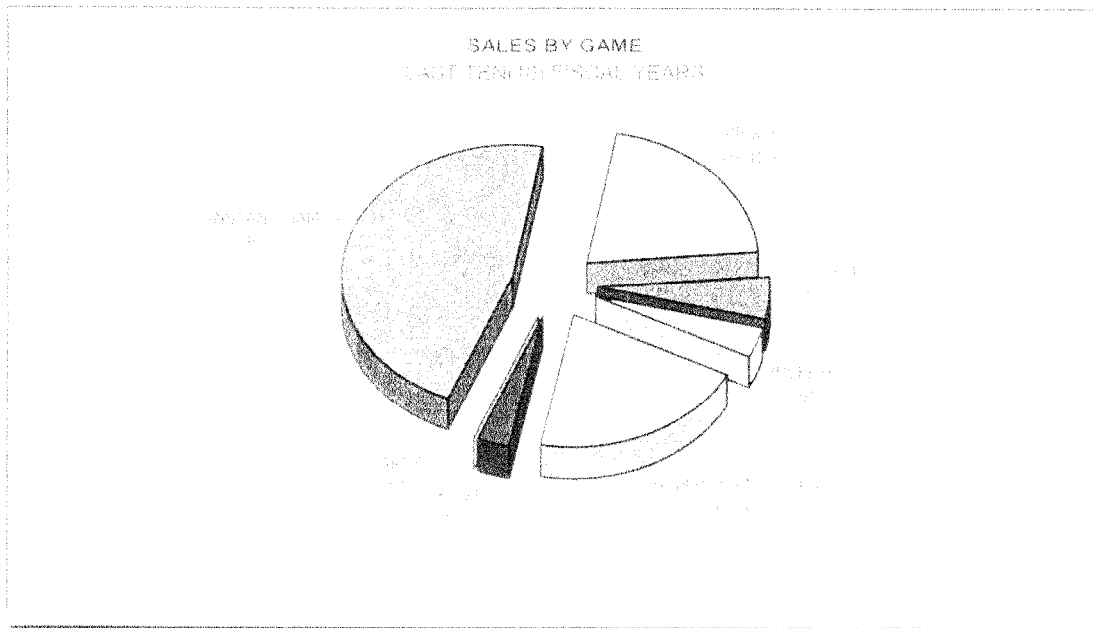
(2) Vouchered prizes do not include those prizes cashed at participating agent and bank locations.

STATISTICAL SECTION

OHIO LOTTERY COMMISSION
REVENUES - LAST TEN (10) FISCAL YEARS
(In Millions)

	FISCAL YEAR									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
ON-LINE GAMES										
PICK 3	847.7	841.1	847.3	877.9	846.7	833.6	843.6	879.1	899.4	842.3
PICK 4	70.1	83.4	91.3	91.9	92.1	98.7	116.7	111.9	125.1	141.1
ROCKY 4	-	5	11.4	17.2	100.3	87.3	75.8	73.9	69.9	62.2
SUPER LOTTO PLUS	457.4	499.9	493.2	476.6	437.3	477.3	471.9	484.1	468.1	346.5
KICKER	71.3	93	85.4	74.3	63.1	76	67.2	66.1	77.7	53.9
CARDS	24.7	9.3	-	-	-	-	-	-	-	-
TOTAL ON-LINE GAMES	1,275.2	1,432.7	1,428.2	1,477.9	1,349.4	1,402.9	1,275.5	1,004.6	1,040.2	1,445.0
INSTANT GAMES										
INSTANT GAMES	829.2	781.2	779.7	803.9	1,032.1	1,145.1	1,198.9	1,111.8	1,125.7	1,171.3
TOTAL INSTANT GAMES	1,161.9	1,162.4	1,176.5	1,191.9	1,182.3	1,314.7	1,399.0	1,198.3	1,144.7	1,361.1
INTEREST INCOME AND OTHER REVENUE										
INTEREST INCOME AND OTHER REVENUE	37.7	38.6	44.7	47.3	56.1	46.9	46.7	40.4	47.3	51.1
TOTAL REVENUE	\$2,474.8	\$2,633.3	\$2,648.6	\$2,713.1	\$2,668.2	\$2,863.6	\$2,821.2	\$2,444.3	\$2,358.6	\$2,967.4

Other revenue, including net income earned on investments, is reported as a separate category, separate from the amount of net revenue reported above for each year.

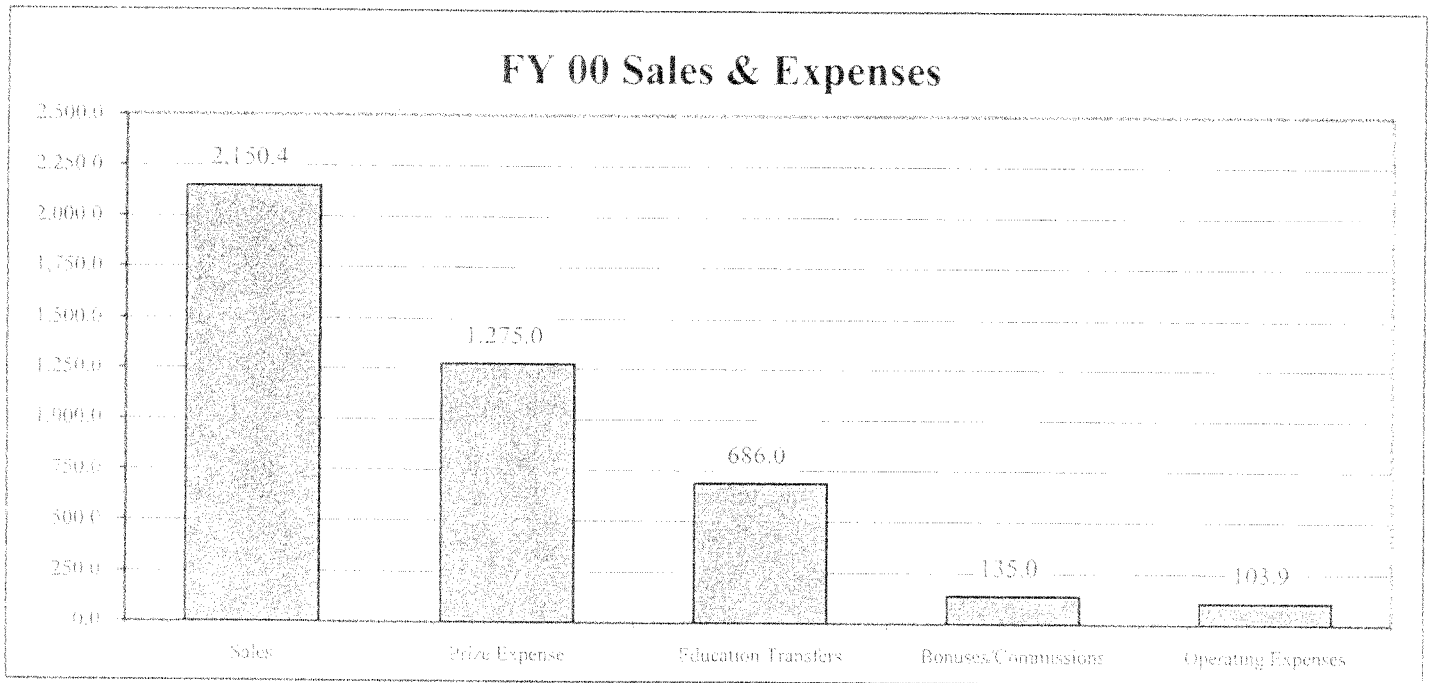


OHIO LOTTERY COMMISSION
REVENUES, EXPENSES AND PAYMENTS TO EDUCATION
LAST TEN FISCAL YEARS

(In Millions)

FISCAL YEAR	TICKET SALES (1)	PRIZE EXPENSE	% SALES	BONUSES/ COMMISSIONS	% SALES	OPERATING EXPENSES	% SALES	PAYMENTS TO EDUCATION	% SALES
1991	1,564.5	842.6	53.86%	95.2	6.09%	90.8	5.80%	583.7	37.31%
1992	1,685.4	888.2	52.70%	100.4	5.96%	82.7	4.91%	648.4	38.47%
1993	1,976.5	1,075.9	54.43%	119.5	6.05%	102.6	5.19%	658.4	33.31%
1994	1,919.9	1,115.0	58.08%	116.9	6.09%	97.3	5.07%	652.3	33.98%
1995	2,182.3	1,236.8	56.67%	133.4	6.11%	94.4	4.33%	656.4	30.08%
1996	2,314.7	1,297.8	56.06%	145.6	6.29%	91.8	3.97%	726.5	31.39%
1997	2,300.0	1,312.2	57.05%	144.7	6.29%	92.7	4.03%	748.5	32.54%
1998	2,195.8	1,244.7	56.69%	137.8	6.28%	86.5	3.94%	723.8	32.96%
1999	2,144.7	1,259.8	58.74%	134.6	6.28%	88.9	4.15%	696.3	32.47%
2000	2,150.4	1,275.0	59.29%	135.0	6.28%	103.9	4.83%	686.0	31.90%
Total	\$20,434.2	\$11,547.8	56.51%	\$1,263.1	6.18%	\$931.6	4.66%	\$6,780.3	33.18%

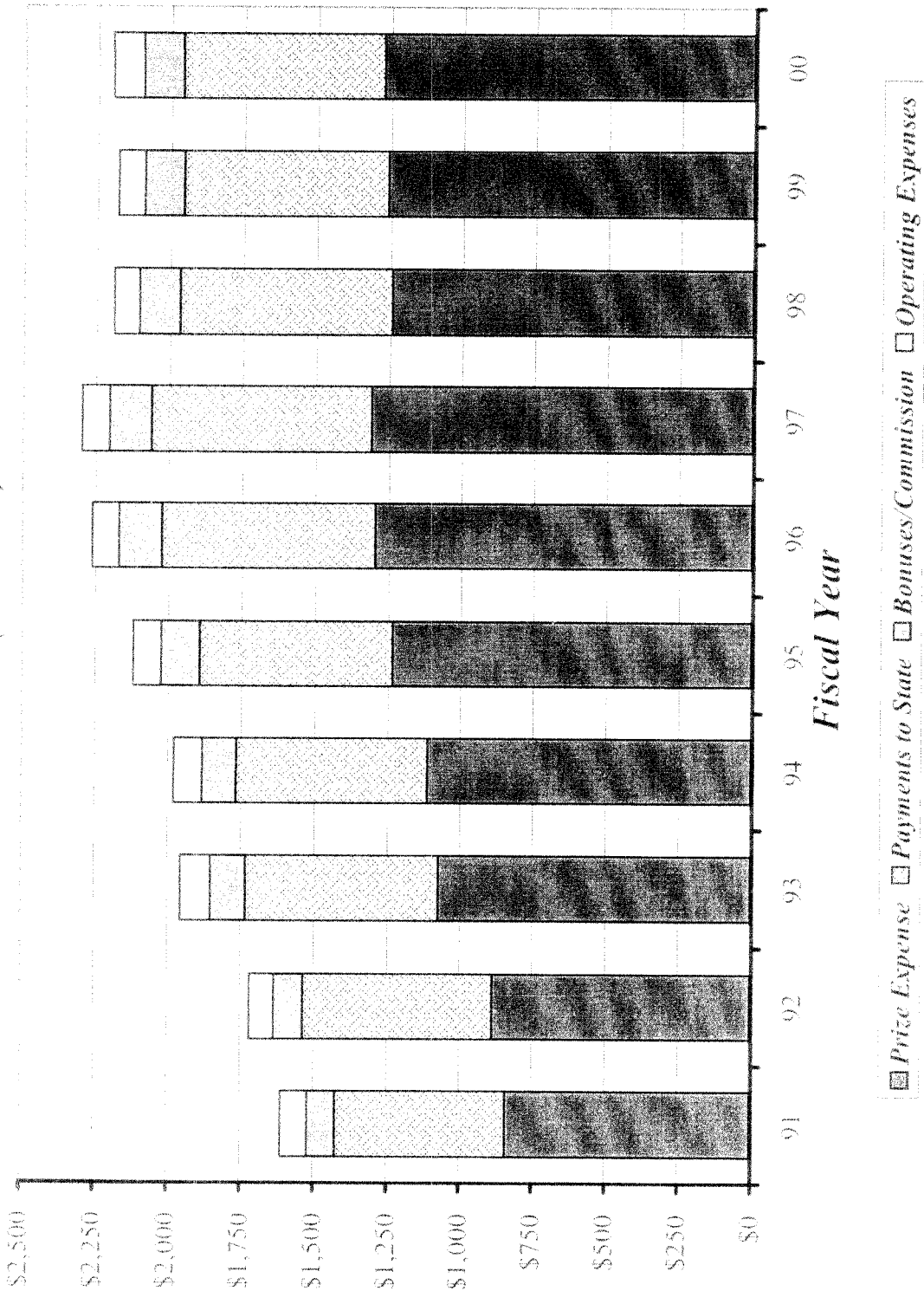
(1) Sales and Prize Expense for FY 96-00 are shown net of free tickets. In prior years, the amount of free tickets issued was recorded in both sales and prize expense.



SOURCE: OHIO LOTTERY COMMISSION

Expenses And Payments

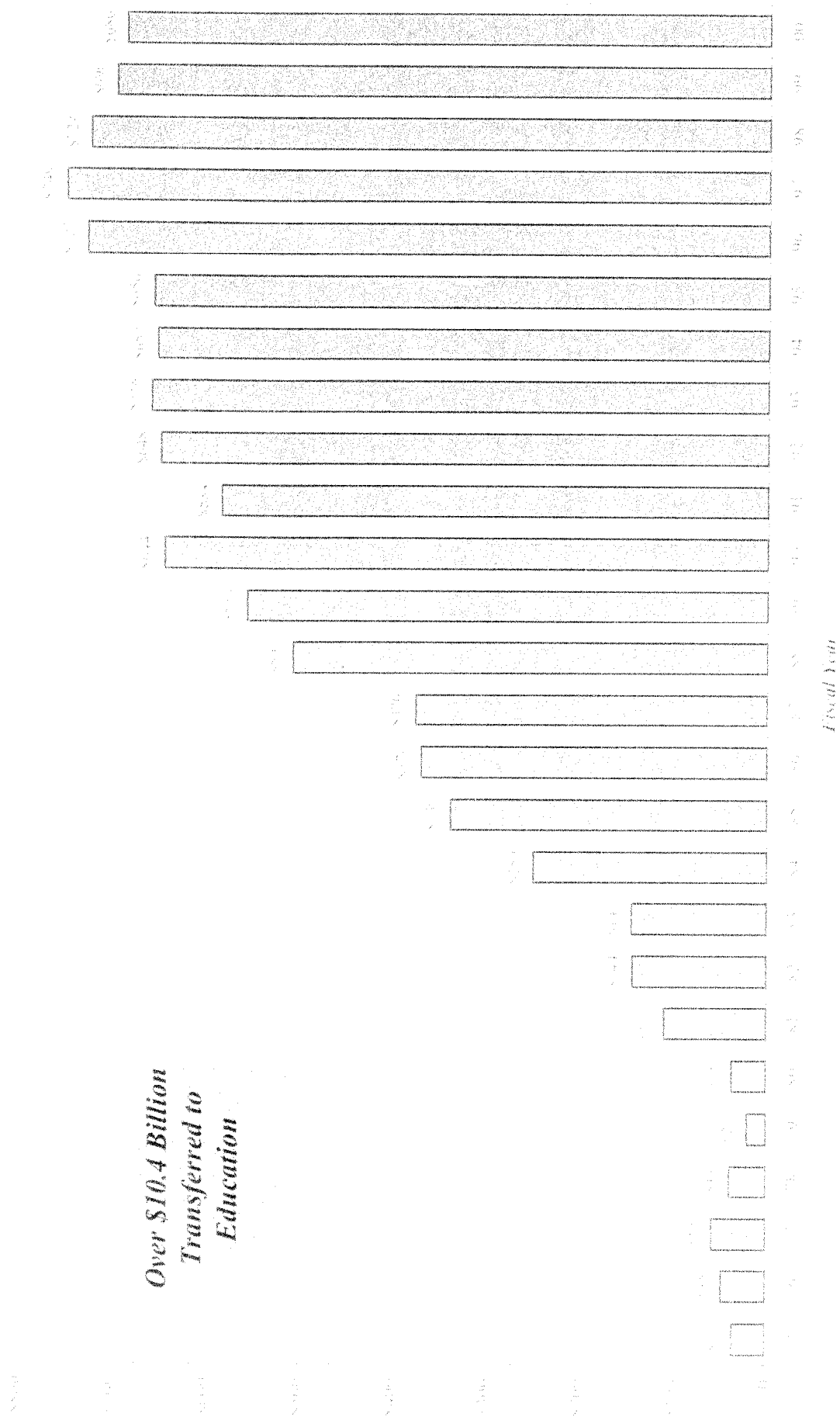
(in millions)



Source: Ohio Lottery Commission

History of Transfers to Education

In Millions - Source: Ohio Lottery Commission



**Over \$10.4 Billion
Transferred to
Education**

LOTTERY INDUSTRY STATEMENT OF OPERATIONS

Fiscal Year 1999 (a) - In Millions

Lottery	Population	Ticket Sales	Prizes	Bonuses/ Comm.	Expenses	Net Income (c)	Prizes as % of Total Sales	Net Income as % of Total Sales
1 New York (1)	18.20	\$3,697.63	\$1,871.97	\$221.84	\$194.99	\$1,413.33	50.6%	38.2%
2 Massachusetts (2)	6.18	3,357.97	2,315.95	189.41	67.16	809.09	69.0%	24.1%
3 Texas (3)	20.04	2,571.60	1,329.01	128.83	173.73	847.56	51.7%	33.0%
4 California (4)	33.15	2,498.30	1,276.18	169.79	171.28	899.35	51.1%	36.0%
5 OHIO (5)	11.26	2,144.73	1,259.77	134.61	88.90 (b)	627.50	58.7%	29.3%
6 Florida (6)	15.11	2,096.73	1,056.81	118.92	131.46	807.23	50.4%	38.5%
7 Georgia (7)	7.78	1,948.86	1,059.59	137.02	113.27	648.10	54.4%	33.3%
8 Michigan (9)	9.86	1,730.92	944.51	120.82	148.63	515.32	54.6%	29.8%
9 Pennsylvania (8)	11.99	1,668.66	852.69	78.98	76.72	668.22	51.1%	40.0%
10 New Jersey (10)	8.14	1,658.40	888.32	90.74	49.43	654.84	53.6%	39.5%
11 Illinois (11)	12.13	1,474.15	812.71	75.98	87.65	525.71	55.1%	35.7%
12 Maryland (12)	5.17	1,380.03	582.19	61.76	44.49	391.58	53.0%	36.3%
13 Virginia (13)	6.87	934.52	506.90	52.13	68.83	316.88	54.2%	33.9%
14 Connecticut (14)	3.28	876.92	517.31	47.10	33.17	275.24	59.4%	31.6%
15 Indiana (15)	8.94	681.03	383.77	46.28	47.12	204.05	56.4%	30.0%
Top 15 Average U.S.	11.67	1,894.30	1,043.85	111.61	99.79	646.27	54.9%	33.9%
Industry Average U.S.	6.21	\$962.60	\$494.64	\$58.18	\$53.94	\$296.18	54.8%	32.8%

(1) Last Years Ranking

(a) Latest Information Available

(b) Amount Includes Operating Expenses Only

(c) Before Payments to Education

The fiscal year ends June 30 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 are the estimates of resident population published by the Bureau of the Census on Dec. 31, 1999.

Data represents only revenue from traditional lottery games and does not include video lottery terminal (VLT) operation.



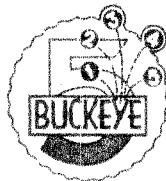
COMPREHENSIVE ANNUAL FINANCIAL REPORT

OHIO LOTTERY COMMISSION
615 WEST SUPERIOR AVENUE
CLEVELAND, OHIO 44113-1879

*The Ohio Lottery is an equal opportunity
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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 28, 2000**