



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

June 26, 2024

Board of Directors
State Lottery Commission of Indiana
Marion County, Indiana

We have reviewed the audit report of the State Lottery Commission of Indiana, which was opined upon by CliftonLarsonAllen LLP, Independent Public Accountants, for the period July 1, 2022 to June 30, 2023. Per the *Independent Auditors' Report*, the financial statements included in the report present fairly the financial condition of the State Lottery Commission of Indiana as of June 30, 2023, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, CliftonLarsonAllen LLP prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

THE STATE LOTTERY COMMISSION OF INDIANA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2023 AND 2022



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**THE STATE LOTTERY COMMISSION OF INDIANA
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
The State Lottery Commission of Indiana
Indianapolis, Indiana

Report on the Audit of the Financial Statements

Opinions

We have audited the business type activities and fiduciary activities of The State Lottery Commission of Indiana (the Commission), a component unit of the State of Indiana, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary activities of the Commission as of June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Commission and do not purport to, and do not, present fairly the financial position of the state of Indiana, as of June 30, 2023 and 2022, and the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2023, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Indianapolis, Indiana
October 25, 2023

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

The management of The State Lottery Commission of Indiana (Commission) offers readers of the Commission's annual financial report a narrative overview of its performance during the fiscal years ended June 30, 2023 and 2022. Please read it in conjunction with the financial statements and related footnote disclosures, which follow this section.

Financial Highlights

- During fiscal year 2023 (FY 23) total operating revenues reached a record \$1.746 billion. It was the highest annual total revenue ever recorded in the history of the Commission and an increase of 3% over prior year, fiscal year 2022 (FY 22). Net scratch-off ticket sales were down in FY 23 from prior year by \$36 million, or 3%, while total on-line ticket sales were up by \$80 million, or 22%. The increase in on-line ticket sales was driven by a \$23 million increase in Powerball sales and a \$45 million increase in Mega Millions sales from prior year. FY 22 operating revenues were \$1.703 billion, down 2% from fiscal year 2021 (FY 21) when operating revenues reached \$1.738 billion. The net decrease in operating revenues during FY 22 was primarily a result of a \$41 million decrease in scratch-off revenue and a \$20 million decrease in Mega Millions revenue while Powerball revenue came in \$19 million higher than prior year.
- Total prize expense for FY 23 was \$1.146 billion, a \$7 million decrease from prior year. This slight decrease was mainly due to the decrease in operating revenues including the scratch-off ticket product line. Total prize expense for FY 22 came in at \$1.139 billion, a \$5 million decrease from prior year FY 21. The FY 22 decrease from prior year was mainly due to the decrease in scratch-off and Mega Millions revenue.
- Indirect game expenses for FY 23 were \$205 million, a 5% increase over prior year FY 22 when indirect game expenses came in at \$196 million. FY 22 indirect game expenses were up \$2 million, or 1%, from FY 21. These expenses include retailer commissions, advertising and promotion, instant ticket printing, central gaming system, miscellaneous lottery expense, management fee, and other game expenses.
- Other operating expenses, which includes salaries, wages, benefits, and general and administrative expenses, remained consistent during each of the last 3 fiscal years at \$7 million per year.
- Nonoperating revenues, net of expenses, was a net expense during each of the last 3 fiscal years. The Commission recognized a net expense of \$22 million in FY 23 and a net expense of \$24 million in both FY 22 and FY 21. Interest income of \$2 million was earned during FY 23 after earning less than \$100 thousand in the prior two fiscal years. FY 23 provider incentive expense was \$20 million and a \$5 million decrease in fair value of investments was also recognized during the year. FY 22 net expense consisted of \$18 million in provider incentive expense, an \$11 million net decrease in fair value of investments, and \$4 million in other income. FY 21 net expense consisted of \$19 million in provider incentive expense, a \$7 million net decrease in fair value of investments, and \$2 million in other income.
- Net income prior to distributions for FY 23 was \$366 million, a \$29 million increase over FY 22. The increase in year-over-year net income was mainly due to the 22% increase in on-line ticket sales. Net income prior to distributions in FY 22 was \$337 million, a \$32 million decrease from FY 21 which was a result of the decrease in operating revenues.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

Overview of the Financial Statements

The Commission's primary activity of generating revenue for the state from lottery operations is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting like a business entity. The Commission implemented GASB Statement No. 87, Leases, in FY 22, resulting in no material impact. In FY 23, the Commission implemented GASB 96, Subscription-based Information Technology Arrangements, and GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements; neither of which resulted in a material impact.

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. For each fiscal year, the Commission's basic financial statements are comprised of the following:

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows
- Statements of Fiduciary Net Position
- Statements of Changes in Fiduciary Net Position
- Notes to Financial Statements

The Statements of Net Position present information on all the Commission's assets, deferred outflows, liabilities, and deferred inflows, with the difference between these items reported as net position.

The Statements of Revenues, Expenses, and Changes in Net Position present revenue and expense information and the change in the Commission's net position during the measurement period as a result of these transactions.

The Statements of Cash Flows present sources and uses of cash for the fiscal year, displayed in the following categories: cash flows from operating activities, cash flows for noncapital and related financing activities, cash flows from capital and related financing activities and cash from investing activities.

The Statements of Fiduciary Net Position present information on the fiduciary fund's assets and liabilities, with the difference between these items reported as net position.

Statements of Changes in Fiduciary Net Position present additions and deductions information and the change in the Commission's net position for fiduciary activities during the fiscal year as a result of these transactions.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. They are an integral part of the basic financial statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

Financial Analysis of the Commission

Net Position and Changes in Net Position

Net position represents the difference between total assets plus deferred outflows and total liabilities plus deferred inflows. Because the Commission is required by law to make transfers of its surplus revenue to the State of Indiana, the change in net position does not necessarily reflect the results of the Commission's operating activities.

	June 30,		
	2023	2022	2021
Assets:			
Current Assets	\$ 240	\$ 222	\$ 218
Restricted Assets	8	8	9
Long-Term Investments	61	70	85
Capital Assets, Net	1	1	-
Other Assets	-	-	8
Total Assets	<u>310</u>	<u>301</u>	<u>320</u>
Deferred Outflows	1	1	1
Liabilities:			
Current Liabilities	244	226	222
Long-Term Liabilities	65	69	82
Total Liabilities	<u>309</u>	<u>295</u>	<u>304</u>
Deferred Inflows	-	1	1
Net Position:			
Unrestricted	(7)	(3)	7
Restricted for MUSL	8	8	9
Investment in Capital Assets	1	1	-
Total Net Position	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ 16</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

	Years Ended June 30,		
	2023	2022	2021
Operating Revenues	\$ 1,746	\$ 1,703	\$ 1,738
Operating - Direct Game Expenses	(1,146)	(1,139)	(1,144)
Operating - Indirect Games Expenses	(205)	(196)	(194)
Other Operating Expenses	(7)	(7)	(7)
Operating Income	388	361	393
Nonoperating Revenues (Expenses)	(22)	(24)	(24)
Net Income Prior to Distributions	366	337	369
Distributions	(370)	(347)	(376)
Change in Net Position	(4)	(10)	(7)
Net Position - Beginning of Year	6	16	23
Net Position - End of Year	\$ 2	\$ 6	\$ 16

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

Assets

Total assets increased during FY 23 by \$9 million. The net increase in assets was due to a combination of an \$4 million increase in cash and cash equivalents, a \$15 million increase in accounts receivable, and a \$10 million decrease in investments. The \$10 million decrease in investments was partly due to fair value adjustments and maturities to honor deferred prizes from prior years.

Total assets decreased in FY 22 by \$19 million. The net decrease in total assets was made up of a \$12 million increase in cash and cash equivalents, \$7 million decrease in accounts receivable, \$10 million decrease in prepaid transfers to the state and other prepaids, and a \$15 million decrease in Investments.

Liabilities

Current liabilities increased by \$18 million during FY 23. The increase consisted of a \$1 million increase in accounts payable and a \$16 million increase in current prize liability. Long-term liabilities decreased by \$4 million during FY 23 which was primarily due to a \$4 million decrease in Long-term prize liability.

Current liabilities increased \$4 million during FY 22. This increase was due to a \$4 million decrease in accounts payable, \$9 million increase in current prize liability, and \$1 million decrease in unearned revenue. Long-term liabilities decreased \$13 million during FY 22 which was primarily due to a \$5 million decrease in noncurrent prize liability and an \$8 million decrease in noncurrent unearned revenue.

Net Position

Net position consists of unrestricted income retained for the future cash flow needs of the Commission, restricted assets for purpose of prize payments, restricted investments for net pension asset, and investment in capital assets. The Commission's total net position on June 30, 2023 was \$2 million, on June 30, 2022 was \$6 million, and at June 30, 2021 was \$16 million. The fair market value of investments adjustment and net pension liability adjustment are excluded from surplus revenue transfers to the state. As a result, these adjustments net to the change in net position.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

**Sales and Prize Expense
(In Millions of Dollars)**

	Scratch-Off			Powerball		
	2023	2022	Change	2023	2022	Change
Operating Revenues	\$ 1,307	\$ 1,343	\$ (36)	\$ 121	\$ 98	\$ 23
Game Prizes	924	950	(26)	55	46	9
Gross Margin	<u>\$ 383</u>	<u>\$ 393</u>	<u>\$ (10)</u>	<u>\$ 66</u>	<u>\$ 52</u>	<u>\$ 14</u>
	Mega Millions			Daily Games		
	2023	2022	Change	2023	2022	Change
Operating Revenues	\$ 85	\$ 40	\$ 45	\$ 97	\$ 95	\$ 2
Game Prizes	42	19	23	48	48	-
Gross Margin	<u>\$ 43</u>	<u>\$ 21</u>	<u>\$ 22</u>	<u>\$ 49</u>	<u>\$ 47</u>	<u>\$ 2</u>
	Hoosier Lotto			Cash 5		
	2023	2022	Change	2023	2022	Change
Operating Revenues	\$ 39	\$ 35	\$ 4	\$ 15	\$ 14	\$ 1
Game Prizes	19	17	2	8	7	1
Gross Margin	<u>\$ 20</u>	<u>\$ 18</u>	<u>\$ 2</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ -</u>
	Quick Draw			Fast Play		
	2023	2022	Change	2023	2022	Change
Operating Revenues	\$ 16	\$ 16	\$ -	\$ 30	\$ 29	\$ 1
Game Prizes	9	9	-	20	24	(4)
Gross Margin	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 5</u>	<u>\$ 5</u>
	PLUS			Cash 4 Life		
	2023	2022	Change	2023	2022	Change
Operating Revenues	\$ 6	\$ 6	\$ -	\$ 7	\$ 7	\$ -
Game Prizes	3	2	1	4	4	-
Gross Margin	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ (1)</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ -</u>
	Superball			EZ Match		
	2023	2022	Change	2023	2022	Change
Operating Revenues	\$ 7	\$ 7	\$ -	\$ 3	\$ 3	\$ -
Game Prizes	4	4	-	2	2	-
Gross Margin	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>
	Bullseye			Double Play		
	2023	2022	Change	2023	2022	Change
Operating Revenues	\$ 3	\$ 3	\$ -	\$ 8	\$ 7	\$ 1
Game Prizes	2	2	-	5	5	-
Gross Margin	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 1</u>
	Cash Pop			Total		
	2023	2022	Change	2023	2022	Change
Operating Revenues	\$ 2	\$ -	\$ 2	\$ 1,746	\$ 1,703	\$ 43
Game Prizes	1	-	1	1,146	1,139	7
Gross Margin	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 600</u>	<u>\$ 564</u>	<u>\$ 36</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

**Sales and Prize Expense
(in Millions of Dollars)**

	Scratch-Off			Powerball		
	2022	2021	Change	2022	2021	Change
Operating Revenues	\$ 1,343	\$ 1,384	\$ (41)	\$ 98	\$ 79	\$ 19
Game Prizes	950	967	(17)	46	39	7
Gross Margin	\$ 393	\$ 417	\$ (24)	\$ 52	\$ 40	\$ 12
	Mega Millions			Daily Games		
	2022	2021	Change	2022	2021	Change
Operating Revenues	\$ 40	\$ 60	\$ (20)	\$ 95	\$ 96	\$ (1)
Game Prizes	19	29	(10)	48	43	5
Gross Margin	\$ 21	\$ 31	\$ (10)	\$ 47	\$ 53	\$ (6)
	Hoosier Lotto			Cash 5		
	2022	2021	Change	2022	2021	Change
Operating Revenues	\$ 35	\$ 35	\$ -	\$ 14	\$ 17	\$ (3)
Game Prizes	17	18	(1)	7	8	(1)
Gross Margin	\$ 18	\$ 17	\$ 1	\$ 7	\$ 9	\$ (2)
	Quick Draw			Fast Play		
	2022	2021	Change	2022	2021	Change
Operating Revenues	\$ 16	\$ 17	\$ (1)	\$ 29	\$ 24	\$ 5
Game Prizes	9	10	(1)	24	16	8
Gross Margin	\$ 7	\$ 7	\$ -	\$ 5	\$ 8	\$ (3)
	PLUS			Cash 4 Life		
	2022	2021	Change	2022	2021	Change
Operating Revenues	\$ 6	\$ 6	\$ -	\$ 7	\$ 7	\$ -
Game Prizes	2	2	-	4	4	-
Gross Margin	\$ 4	\$ 4	\$ -	\$ 3	\$ 3	\$ -
	Superball			EZ Match		
	2022	2021	Change	2022	2021	Change
Operating Revenues	\$ 7	\$ 6	\$ 1	\$ 3	\$ 4	\$ (1)
Game Prizes	4	4	-	2	2	-
Gross Margin	\$ 3	\$ 2	\$ 1	\$ 1	\$ 2	\$ (1)
	Bullseye			Double Play		
	2022	2021	Change	2022	2021	Change
Operating Revenues	\$ 3	\$ 3	\$ -	\$ 7	\$ -	\$ 7
Game Prizes	2	2	-	5	-	5
Gross Margin	\$ 1	\$ 1	\$ -	\$ 2	\$ -	\$ 2
	Total					
	2022	2021	Change			
Operating Revenues	\$ 1,703	\$ 1,738	\$ (35)			
Game Prizes	1,139	1,144	(5)			
Gross Margin	\$ 564	\$ 594	\$ (30)			

The tables above compare FY 23, FY 22, and FY 21 operating revenues, game prizes, and gross margin for lottery products.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

FY 23 operating revenue increased for Powerball, Mega Millions, Daily Games, Hoosier Lotto, Cash 5, Fast Play, Double Play, and Cash Pop when compared to prior year. Scratch-off revenue was the only product to decrease in FY 23 while Quick Draw, Plus, Cash 4 Life, Superball, EZ Match, and Bullseye products remained consistent from prior year.

FY 22 operating revenue decreased from prior year for scratch-off, Mega Millions, Daily Games, Cash 5, Quick Draw, and EZ Match. Revenue increased over prior year for Powerball, Fast Play, and Superball products. Hoosier Lotto, PLUS, Cash 4 Life, and Bullseye revenue all remained consistent from prior year.

The scratch-off product line consists of preprinted tickets that require players to scratch off a latex coating to reveal the play area. There are several game offerings at different price points ranging from \$1 to \$50 per ticket. While players can win instantly on all scratch-off products, the Commission also offers 2nd chance prizes on a limited number of games where nonwinning tickets are entered by players into drawings for additional chances to win. There were 43 new games offered during FY 23 in a year where scratch-off revenue, net of returns, was \$1.307 billion, a decrease of \$36 million or 3% from prior year. The total scratch-off year-over-year revenue decrease consisted of an \$11 million decrease in the \$2 price point, a \$13 million decrease in the \$3 price point, a \$16 million decrease in the \$5 price point, an \$18 million decrease in the \$10 price point, a \$15 million increase in the \$20 price point, and a \$15 million increase in the \$30 price point.

During FY 22, 44 new scratch games were offered in a year where scratch-off revenue, net of returns, was \$1.343 billion. This was a decrease of \$41 million or 3% from prior year. The overall year-over-year revenue decrease consisted of a \$12 million decrease in the \$2 price point, a \$39 million decrease in the \$5 price point, a \$14 million decrease in the \$10 price point, a \$43 million increase in the \$20 price point, a \$27 million decrease in the \$25 price point, and a \$20 million increase in the \$50 price point.

Powerball is a multi-state, big jackpot draw game jointly operated by the 38 member lotteries of the Multi-State Lottery Association and sold in 45 U.S. states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. Each play is \$2 which consists of six numbers, five numbers from a field of 69 and the last one from a field of 26. Players have the option of electing to add Powerplay for \$1 for a chance to multiply prizes. Revenues in FY 23 for Powerball reached \$121 million, an increase of \$23 million or 23% from prior year. Powerball had a record high jackpot of \$2 billion in November 2022 and a \$750 million jackpot in February 2023, both runs directly contributed to the increase in sales.

In FY 22, Powerball revenue was \$98 million, an increase of \$19 million or 24% from prior year. A third weekly draw was added in August 2021 on Mondays which directly impacted sales in FY 22 over FY 21.

Mega Millions is a multi-state, lotto draw game offering large jackpot prizes twice per week. The Commission participates in this game along with 44 other U.S. states, the District of Columbia, and the U.S. Virgin Islands. The price per play is \$2 and consists of six numbers, five numbers from a field of 70 and the last one from a field of twenty-five. Players have the option of adding Megaplier for \$1 that offers players a chance to multiply prizes. Additionally, there is a Just the Jackpot play feature that allows players to play for only the jackpot prize for \$3 which provides two sets of numbers. FY 23 Mega Millions revenue was \$85 million, an increase of \$45 million or 112% over prior year. Mega Millions had two jackpots over \$1 billion in FY 23, significantly impacting sales.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

The Commission generated Mega Millions revenue of \$40 million in FY 22, a \$20 million or 33% decrease over FY 21. The year over year revenue decrease was primarily due a decrease in jackpot levels.

Hoosier Lotto is Indiana's original big jackpot lotto game available only in Indiana with jackpots starting at \$1 million and drawings twice per week. The price is \$2 per play and players receive 6 numbers from a field of 46. Hoosier Lotto revenue was \$39 million in FY 23 which was a \$4 million or 11% increase over FY 22. Hoosier Lotto revenue of \$35 million for FY 22 was consistent with FY 21.

Daily 3 and Daily 4 (Daily Games), allow players to pick either 3 numbers (Daily 3) or 4 numbers (Daily 4) from digits zero through nine for as little as a \$0.50 wager. Drawings take place 2 times per day for both Daily 3 and Daily 4. Players can play the numbers straight, boxed, combo, wheel, 1-off, front/back pair (Daily 3), or front/back 3 (Daily 4). Revenue for Daily Games reached \$97 million during FY 23, an increase of 2% from prior year. FY 22 revenue for Daily Games was \$95 million, a slight decrease of 1% from revenues in FY 21.

Cash 5 is a daily cash jackpot lotto game offered only in Indiana with a starting jackpot of \$75 thousand. The price per play is \$1 and consists of five numbers from a field of forty-five. FY 23 revenue for Cash 5 was \$15 million, a \$1 million increase in revenue from prior year. FY 23 jackpot offerings were 8% higher on average than jackpots in FY 22. Cash 5 revenue in FY 22 was \$14 million, a \$3 million decrease in revenue from FY 21.

Fast Play is a product category with 23 individual games as of June 30, 2023. Fast Play tickets are printed from Hoosier Lottery terminals at time of purchase and can be played instantly giving players a chance to win fixed prizes or a progressive jackpot. FY 23 revenue for the Fast Play category was \$30 million, a \$1 million or 3% increase over FY 22. Fast Play revenue was \$29 million in FY 22, a \$5 million or 21% increase over FY 21.

Quick Draw is a draw game where players pick 10 numbers and match their numbers against the 20 numbers drawn. Depending on the wager amount and on how many numbers a player matches, prizes can reach up to \$2 million. The FY 23 Quick Draw revenue of \$16 million is consistent with revenue from the prior year. The FY 22 revenue of \$16 million was a \$1 million decrease from FY 21.

Bullseye is an add-on game to Quick Draw which provides players with a chance to win additional cash prizes with their selected Quick Draw numbers. Bullseye has generated revenue of \$3 million each of the last three fiscal years.

EZ Match is an add-on game available with Cash 5 and Quick Draw games that offers an instant win feature. FY 23 Revenue for EZ Match was \$3 million, consistent with revenue from FY 22. The FY 22 revenue was down from FY 21 when revenue came in at \$4 million for the year.

Hoosier Lotto's add-on game, PLUS, can be added on to a Hoosier Lotto wager for \$1 and offers a chance to win a top prize of \$1 million from an additional set of numbers selected. Hoosier Lotto PLUS revenue has remained consistent at \$6 million each of the last three fiscal years.

Cash 4 Life is a multi-state lotto game available in ten U.S. states with the top two prizes offering lifetime payments of \$1,000 per day or \$1,000 per week for life. Cash 4 life has generated revenue of \$7 million each of the last 3 fiscal years.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

Superball is an add-on feature to Daily 3 and Daily 4 that provides additional winning combinations for players. FY 23 revenue remained consistent with FY 22 at \$7 million. In FY 22 Superball outperformed prior year revenue with a \$1 million increase over the \$6 million of revenue in FY 21.

Double Play is a multi-state Powerball add-on game that was first offered in August 2021. The Hoosier Lottery offers this add-on game along with 11 other U.S. states and Puerto Rico. Like Hoosier Lotto's add-on game PLUS, a player can add \$1 to their Powerball wager for a chance to win on an additional set of numbers drawn with a chance to win up to \$10 million. In FY 23 Double Play revenue reached \$8 million, a \$1 million increase over revenue of \$7 million during its inaugural year FY 22.

Cash Pop is the Hoosier Lottery's newest draw game and was launched on April 23, 2023. It features 5 daily draws in which a player may wager \$1, \$2, \$5 or \$10 on a single number between 1 and 15. Cash Pop FY 23 revenue reached \$2 million in less than 2.5 months of sales.

Prize Expense

In general, prize expense by game will increase or decrease from year to year in proportion to the increase or decrease in operating revenues for each corresponding game. However, prize expense can also be impacted by chance, unclaimed prizes, modifications to the game design, or adjustments to the required reserve balances to fund Hoosier Lotto, Powerball, and Mega Millions jackpots.

Total prize expense in FY 23 was \$1.146 billion, a slight increase of \$7 million from FY 22. Total prize expense as a percent of total operating revenues reached 66%, down from 67% during FY 22. Total prize expense in FY 22 was \$1.139 billion, a slight decrease of \$5 million from FY 21.

- FY 23 scratch-off prize expense came in at \$924 million, a \$26 million or 3% decrease from FY 22 that can be attributed to the decrease in revenue. Scratch-off prize expense was \$950 million in FY 22, a \$17 million or 2% decrease over prior year FY 21.
- Total on-line ticket prize expense in FY 23 was \$223 million an increase of \$34 million, or 17%, over prior year FY 22. The increase in prize expense is directly related to the \$79 million or 22% increase in on-line ticket revenue. In FY 23 Powerball, Mega Millions, Hoosier Lotto, Cash 5, Plus, and Cash Pop prize expenses all increased from prior year while there was a decrease in Fast Play prize expense. Total on-line ticket prize expense for FY 22 was \$189 million, a \$12 million or 7% increase over FY 21.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

**Indirect Game Expenses and Other Operating Expenses
(In Millions of Dollars)**

	Years Ended June 30,		
	2023	2022	2021
Indirect Game Expenses:			
Retailer Commissions	\$ 119	\$ 115	\$ 117
Central Gaming System	33	32	32
Advertising and Promotion	22	17	15
Management Fee	12	11	11
Instant Ticket Printing	16	18	16
Miscellaneous Lottery Expense	2	2	2
Other Game Expenses	1	1	1
Total	<u>205</u>	<u>196</u>	<u>194</u>
Other Operating Expenses:			
Salaries, Wages, and Benefits	5	5	5
General and Administrative	2	2	2
Total	<u>7</u>	<u>7</u>	<u>7</u>
Total Indirect Game and Other Operating Expenses	<u>\$ 212</u>	<u>\$ 203</u>	<u>\$ 201</u>

Total indirect game expenses and other operating expenses increased by \$9 million in FY 23 from FY 22. The year-over-year increase was made up of a \$4 million increase in retailer commissions expense, a \$5 million increase in advertising and promotion expense, a \$1 million increase in central gaming system expense, a \$1 million increase in Management fee, and a \$2 million decrease in Instant Ticket Printing expense. Total indirect game expenses and other operating expenses grew by \$2 million in FY 22 compared to FY 21. Although retailer commissions expense decreased \$2 million from prior year, both advertising and promotion expense and instant ticket printing expense increased by \$2 million from prior year FY 21.

Budgetary Highlights

The Commission budgeted for total operating revenues of \$1.687 billion for FY 23 while actual operating revenues came in at \$1.746 billion for the year. These revenue results surpassed budget by \$60 million, or 4%. With this performance, the Commission was able to generate \$370 million in surplus revenue to the state which was \$39 million or 12% more than was in the FY 23 budget.

The most significant variances amongst actual operating revenues and budget revenues during FY 23 are as follows:

Revenue by Product	Actual	Budget	Variance
Powerball	\$ 120,837,519	\$ 77,465,912	\$ 43,371,607
Mega Millions	85,099,005	42,645,188	42,453,817
Scratch - \$5	289,849,365	324,807,883	(34,958,518)
Scratch - \$10	298,719,875	325,900,239	(27,180,364)
Scratch - \$20	303,790,180	277,812,954	25,977,226

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023 AND 2022**

The national big jackpot games, Powerball and Mega Millions, had jackpots reach levels well above what was anticipated when the FY 23 budget was put together, and it is reflected when comparing results to budget for the games. Powerball's jackpot run that reached \$2 billion in November 2022 put revenue well above budget in the second quarter and ultimately finished the year \$43 million or 56% above the annual budget. Mega Millions had even stronger results when compared to budget thanks to the 6 jackpots that were offered during FY 23 that were over \$700 million. The budgeted revenue for Mega Millions did not anticipate this many large jackpots which led to revenue surpassing budget by more than \$42 million, or 100%. Total scratch-off ticket revenue for FY 23 were down 3% from budget. A few of the larger variances by price point level for scratch-off tickets were the \$5 price point which was about \$35 million or 11% lower than budget, \$10 price point which was about \$27 million or 8% lower than budget, and the \$20 price point that was about \$26 million or 9% higher than budget.

The most significant variances between actual operating expenses and budgeted operating expenses were as follows:

<u>Operating Expense</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Total Direct Game Expenses	\$ 1,146,132,299	\$ 1,130,819,427	\$ 15,312,872
Retailer Commissions	118,924,534	116,436,225	2,488,309
Management Fees	11,703,800	13,249,644	(1,545,844)
Instant Ticket Printing	16,376,829	17,750,195	(1,373,366)

The Commission realized total direct game expenses that were \$15 million, or 1%, more than budget and retailer commissions expense at \$2 million, or 2%, more than budget which was directly related to total operating revenue being 4% above budget for FY 23. Instant ticket printing expense was down \$1 million, or 8%, to budget mainly due total scratch-off ticket revenue also being down to budget. Management fees were also down \$1 million to budget in FY 23.

Economic Factors and Next Year's Budget and Rates

The Commission continues to monitor economic factors as the US and Indiana economy matures further into the post-pandemic climate which has seen increases in interest rates and changes in consumer behaviors and expectations. During FY 23, rising costs and stretched labor and production shortages required nimbleness as we supported our partners and our business. Despite the challenges, we continued to demonstrate that the Hoosier Lottery was well positioned to maintain business operations, grow sales, strengthen retail partnerships, and responsibly maximize net income. For fiscal year 2024 (FY 24), the Commission's budget includes total operating revenue of \$1.7 billion, a very slight decrease from FY 23 actuals, as well as generating \$336 million in surplus revenue to the state.

Financial Contact

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the finances of this component unit of the State of Indiana. Questions concerning any of the information provided in this report or requests for additional financial information should contact: Chief of Staff, State Lottery Commission of Indiana, 1302 N. Meridian Street, Suite 100, Indianapolis, IN, 46202.

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022

	2023	2022
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 63,072,062	\$ 58,806,302
Investments, Current Portion	8,404,747	9,503,119
Accounts Receivable, Net	168,612,150	153,302,057
Prepaid Expenses	192,888	182,438
Total Current Assets	240,281,847	221,793,916
NONCURRENT ASSETS		
Long-Term Investments, Less Current Portion	60,555,048	69,536,567
Restricted Assets	8,297,040	8,461,597
Net Pension Asset	155,251	-
Capital Assets, Net	1,047,925	1,287,453
Total Noncurrent Assets	70,055,264	79,285,617
 Total Assets	 310,337,111	 301,079,533
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,016,837	1,139,173
CURRENT LIABILITIES		
Accounts Payable:		
State	25,687,016	20,892,448
Trade	31,258,547	35,095,843
Current Portion of Prize Liability	185,392,775	168,859,817
Unearned Revenue	1,232,250	855,965
Other Accrued Expenses	902,854	706,657
Total Current Liabilities	244,473,442	226,410,730
LONG-TERM LIABILITIES		
Prize Liability, Less Current Portion	63,531,422	67,474,384
Net Pension Liability	1,625,170	1,169,219
Total Long-Term Liabilities	65,156,592	68,643,603
 Total Liabilities	 309,630,034	 295,054,333
TOTAL DEFERRED INFLOWS OF RESOURCES	116,762	1,055,026
NET POSITION		
Unrestricted	(7,893,064)	(3,639,703)
Restricted for MUSL	8,297,040	8,461,597
Restricted for Net Pension Asset	155,251	-
Investment in Capital Assets	1,047,925	1,287,453
 Total Net Position	 \$ 1,607,152	 \$ 6,109,347

See accompanying Notes to Financial Statements.

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Scratch-Off Ticket Sales, Net	\$ 1,306,695,215	\$ 1,342,882,125
On-Line Ticket Sales	439,601,736	359,973,347
Total Operating Revenues	1,746,296,951	1,702,855,472
OPERATING EXPENSES		
Direct Game Expenses:		
Scratch-Off Games Prizes	924,263,150	950,330,619
On-Line Games Prizes	221,869,149	188,185,149
Total Direct Game Expenses	1,146,132,299	1,138,515,768
Indirect Game Expenses:		
Retailer Commissions	118,924,534	115,550,260
Lottery Expenses:		
Central Gaming System Expenses	32,387,793	31,761,255
Advertising and Promotion	21,823,927	17,714,722
Instant Ticket Printing	16,376,829	17,513,504
Miscellaneous Lottery Expenses	2,338,721	1,946,581
Management Fees	11,703,800	10,981,820
Other Game Expenses	1,100,748	738,603
Total Indirect Game Expenses	204,656,352	196,206,745
Total Operating Expenses	1,350,788,651	1,334,722,513
PROVIDER NET INCOME	395,508,300	368,132,959
OTHER OPERATING EXPENSES		
Salaries, Wages, and Benefits	5,091,006	4,713,744
General and Administrative	2,510,197	2,357,151
Total Other Operating Expenses	7,601,203	7,070,895
OPERATING INCOME	387,907,097	361,062,064
NONOPERATING REVENUES (EXPENSES)		
Interest Income	1,945,196	85,731
Net Decrease in Fair Value of Investments	(5,017,423)	(10,851,795)
Increase in Net Pension Liability	515,228	604,170
Provider Incentive	(19,775,415)	(18,406,648)
Other Income, Net	169,875	4,069,838
Total Nonoperating Expenses, Net	(22,162,539)	(24,498,704)
NET INCOME PRIOR TO DISTRIBUTIONS	365,744,558	336,563,360
DISTRIBUTIONS		
Distributions to the State	(344,559,738)	(319,918,537)
Distributions to be Paid to the State	(25,687,016)	(26,892,448)
Total Distributions	(370,246,754)	(346,810,985)
CHANGE IN NET POSITION	(4,502,195)	(10,247,625)
Net Position - Beginning of Year	6,109,347	16,356,972
NET POSITION - END OF YEAR	\$ 1,607,152	\$ 6,109,347

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Ticket Sales	\$ 1,731,363,145	\$ 1,710,412,057
Payments to Ticket Winners	(1,133,542,304)	(1,134,003,230)
Payments to Suppliers	(230,375,485)	(219,507,969)
Payments to Employees	(4,894,809)	(4,716,326)
Net Cash Provided by Operating Activities	362,550,547	352,184,532
 CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Distributions to the State	(365,452,185)	(343,829,859)
Others	169,875	242,915
Net Decrease in Restricted Assets	164,557	206,079
Net Cash Used by Noncapital and Related Financing Activities	(365,117,753)	(343,380,865)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(174,698)	(1,316,871)
Proceeds from the Sale of Capital Assets	-	12,963
Net Cash Used by Capital and Related Financing Activities	(174,698)	(1,303,908)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(1,941,621)	(3,506,605)
Investment Maturities	7,004,089	8,133,673
Interest Income	1,945,196	85,731
Net Cash Provided by Investing Activities	7,007,664	4,712,799
 NET INCREASE IN CASH AND CASH EQUIVALENTS	4,265,760	12,212,558
 Cash and Cash Equivalents - Beginning of Year	58,806,302	46,593,744
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 63,072,062	\$ 58,806,302

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 387,907,097	\$ 361,062,064
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	414,227	228,287
Change in Provision for Ticket Returns	(2,420,800)	(540,219)
Proceeds on Sale of Capital Assets	-	(12,963)
Changes in Certain Assets and Liabilities:		
Accounts Receivable	(12,889,293)	7,702,013
Prepaid Expenses	(10,449)	(8,439,800)
Accounts Payable - Trade	(23,612,712)	(12,732,562)
Unearned Revenue	376,286	407,754
Prize Liability	12,589,995	4,512,539
Other Accrued Expenses	196,196	(2,581)
Net Cash Provided by Operating Activities	\$ 362,550,547	\$ 352,184,532
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES		
Net Decrease in Fair Value of Investments	\$ (5,017,423)	\$ (10,851,795)
Increase in Net Pension Liability	515,228	604,170
Net Noncash Investing, Capital, and Related Financing Activities	\$ (4,502,195)	\$ (10,247,625)

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2023 AND 2022**

	2023	2022
ASSETS		
Cash and Cash Equivalents	\$ 381,631	\$ 354,500
Receivables:		
Accrued Interest and Dividends	9,603	6,926
Total Receivables	9,603	6,926
Investments:		
Fixed Income Securities	1,870,225	1,460,169
Domestic and Foreign Equities	4,152,728	4,275,384
Total Investments	6,022,953	5,735,553
Total Assets	6,414,187	6,096,979
NET POSITION RESTRICTED FOR PENSIONS	\$ 6,414,187	\$ 6,096,979

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
ADDITIONS		
Employer Contributions	\$ 274,286	\$ 271,937
Total Contributions	274,286	271,937
Interest and Dividends	208,314	309,559
Net Increase (Decrease) in Fair Value of Investments	384,528	(1,212,213)
Net Investment Income (Loss)	592,841	(902,654)
Other	-	-
Total Additions	867,127	(630,717)
DEDUCTIONS		
Benefit Payments	549,919	686,095
Total Deductions	549,919	686,095
Net Increase (Decrease) in Net Position	317,208	(1,316,812)
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of Year	6,096,979	7,413,791
End of Year	\$ 6,414,187	\$ 6,096,979

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The State Lottery Commission of Indiana (the Commission) was established by Public Law No. 341, as amended, as listed in Indiana Code Section 4, Article 30 (IC 4-30) in May 1989. IC 4-30 (Lottery Article) establishes the Hoosier Lottery as a body politic and corporate and provides for the creation of lottery games in Indiana that are the best available and for the benefit of the people of Indiana.

The Commission is organized to provide for administering and overseeing the operation of the Hoosier Lottery with the assistance of a service provider, IGT Indiana, LLC, under an integrated services agreement entered into in October 2012.

Reporting Entity

The Commission is a discretely presented component unit of the state of Indiana (the State) for financial reporting purposes in the State's Annual Comprehensive Financial Report (ACFR). Component units are separate legal entities for which the primary government is legally accountable. The Commission's financial statements consist of its primary operational activities in an enterprise fund. Additionally, the Commission also presents its fiduciary fund used to account for fiduciary activities that meet the definition contained in GASB Statement No. 84, *Fiduciary Activities*. The fiduciary fund is held in a trust for the Employees' Pension Plan of the State Lottery Commission of Indiana.

Basis of Accounting

The Commission's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues, such as sale of lottery tickets, result from exchange transactions associated with the principal activity of the Commission. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income and changes in fair value of investments, result from nonexchange transactions or ancillary activities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Ticket revenue for on-line games is recognized on the date of the draw for which the ticket was purchased for those that require a subsequent drawing, and immediately for those on-line games with the instant feature. Scratch-off ticket revenue, less an allowance for returns, is recognized at the time tickets are shipped to retailers.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and short-term, highly liquid investments, with original maturity dates of three months or less. Short-term investments may include direct obligations of the U.S. government or government agencies, or various money market funds.

Investments

Investments in the enterprise fund mainly include money market mutual funds, direct obligations of the U.S. government, and insurance annuities. Investments presented in the fiduciary fund are managed by a contracted investment management company that adheres to an Investment Policy Statement adopted by the Commission.

Accounts Receivable, Net

Accounts receivable primarily represent proceeds due from retailers for net ticket sales, less retailer commissions and prizes redeemed by retailers. Accounts receivable is reduced by an allowance for ticket returns. Allowance for ticket returns is an estimate based on historical average rate of ticket returns associated with scratch-off games and was \$17,371,190 and \$14,950,390 as of June 30, 2023 and 2022, respectively. The Commission had no balance for doubtful accounts as of June 30, 2023 and 2022. Accounts receivable also includes other receivables, which consists of amounts owed to the Commission by nonretailers. The balance of other receivables was \$1,065,404 and \$162,092 as of June 30, 2023 and 2022, respectively.

Restricted Assets

Restricted assets consist principally of cash and investments held in prize reserve accounts for Mega Millions and Powerball as required by the Multi-State Lottery Association (MUSL).

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost. Capital assets are defined as assets that have a useful life of at least three years and a cost equal to or greater than \$1,000 individually or \$5,000 in aggregate. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Generally, data processing equipment and software are depreciated over a minimum of three years, vehicles are depreciated over four years, and leasehold improvements are depreciated over the remaining life of the lease. Most other assets are depreciated over five years. Depreciation and amortization expense were \$414,227 and \$228,287 for the years ended June 30, 2023 and 2022, respectively.

Prize Expense and Liability

Prize liability includes an estimate of outstanding scratch-off and on-line game prizes as of June 30, 2023 and 2022, as well as installment amounts payable to past scratch-off, on-line game, and game show winners. Installment prizes are recorded at a discount based on interest rates that range from approximately 1.43% to 5.72%, which is reflective of the interest rate earned on the investments held to fund the related liabilities.

For scratch-off games, prize expense and liability are recorded when tickets are shipped to licensed retailers. The accrual is based on the specified prize payout structure, which includes cash and free ticket prizes, established for each game. Instant game prizes must be claimed within 180 days after the declared end-of-game date or they will be forfeited. An exception applies for some prizes that had not yet reached 180 days past the declared end-of-game date as of March 31, 2020 due to the State of Indiana Executive Orders 20-15, 20-25, 20-30, 20-34, and 20-38. Winning tickets that would have reached 180 days between March 31, 2020 and September 2, 2020 were granted an additional 60 days to be claimed in response to the COVID-19 pandemic.

The prize expense and liability for on-line games are determined based on the actual prizes won at the time of purchase for games with the instant win feature, or actual prizes won at the time of drawing. Additionally, prize expense and liability are accrued for jackpot prizes associated with the following games: Hoosier Lotto, Cash 5, Cash 4 Life, Powerball, and Mega Millions. All on-line game prizes must be claimed within 180 days of the date of the selection event or instant win date or they will be forfeited. The 60-day extension to scratch prizes due to the Executive Orders mentioned above also apply to on-line game prizes. Unclaimed prize money is included in the current portion of prize liability in the accompanying statements of net position. All unclaimed prize money during the years ended June 30, 2023 and 2022 was used to offset future prizes.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

As stated in the Lottery Article, funds in excess of the amounts necessary to pay prizes and expenses for the operation of the Commission referred to as “surplus revenue” are to be distributed per a statutory schedule to the Indiana State Treasurer. The Commission excludes the change in fair market value of investments and change in net pension liability from surplus revenue transferred to the Indiana State Treasurer. The Commission has set aside amounts that it estimates are necessary to meet future cash flow needs of the Commission until the next transfer to the Indiana State Treasurer. These amounts have been reflected in the accompanying financial statements as unrestricted net position.

The Lottery Article requires that the Indiana State Treasurer distribute \$30 million annually to the Indiana State Teachers’ Retirement Fund to pay a portion of the current pension obligations, and \$30 million annually to the State Pension Relief Fund to assist cities and towns in the payment of current and future local police and firefighters’ pension fund obligations. The remaining funds are transferred to the Lottery Surplus Fund. The State Comptroller then transfers \$19,775,415 from the Lottery Surplus Fund to the state general fund motor vehicle tax replacement account monthly. At the end of the year, what is left in the Lottery Surplus Fund is transferred to the State General Fund. Total distributions generated for transfer to the Lottery Surplus Fund totaled \$338,283,763 and \$286,810,985 for the years ended June 30, 2023 and 2022, respectively.

Classification of Operating and Nonoperating

The Commission’s operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation of the Commission. All other revenue and expenses are reported as nonoperating revenues and expenses.

Retailer Commission Expense

Retailers earn a 6.0% commission for both on-line and scratch-off ticket game sales and earn 1.0% cashing commission of redeeming winning tickets up to \$599. Retailers can earn a big prize bonus up to \$100,000 for selling winning jackpot tickets or top prizes on certain on-line games. Additionally, retailers may be eligible for performance and sales initiative-based incentives throughout the year.

Lottery Expenses

As a condition of the Integrated Services Agreement with IGT Indiana, LLC, lottery expenses, an indirect game expense, are incurred by IGT Indiana, LLC and billed to the Commission. These expenses include the following: central gaming system expenses, advertising and promotion, instant ticket printing, and miscellaneous lottery expenses.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Fees

As a condition of the Integrated Services Agreement with IGT Indiana, LLC, management fees, an indirect game expense, are incurred by IGT Indiana, LLC and billed to the Commission. Management fees consist of the following costs: personnel, occupancy, insurance, and other operating expenses.

Other Game Expenses

Other game expenses consist of other operating expenses that are paid directly by the Commission, not IGT Indiana, LLC. A few items reflected in this line are promotional prize expenses as well as the Commission's share of operating expenses of the Multi-State Lottery Association (MUSL) for which it is a member.

Pension Liability (Asset)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Commission's share in the Public Employees' Retirement Fund (PERF) and additions to/deductions from said fiduciary net position have been determined on the same basis as they are reported by Indiana Public Retirement System (INPRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Commission also sponsors a single employer plan, Employees' Pension Plan of the State Lottery Commission of Indiana (Commission Plan), which was frozen effective July 1, 2013. For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Commission Plan and additions to/deductions from said fiduciary net position have been determined on the basis as they are reported by the Commission Plan's actuary. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net position in total.

Recently Issued Accounting Standards

In FY 23, the Commission implemented GASB 96, *Subscription-based Information Technology Arrangements*, and GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. GASB 87, *Leases*, was implemented in FY 22. There was no material impact on financial position or changes in net position as a result of their adoption.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 DEPOSITS AND INVESTMENTS

Enterprise Fund

The Commission's investment policy establishes cash and investment guidelines for the deposit of funds. The Commission is authorized to make deposits in commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, and money market funds with portfolios of securities issued or guaranteed by the United States of America or agreements to repurchase these same obligations. The Treasurer of the State is authorized by Indiana Code 4-30-15-2 to invest the Commission's funds in direct obligations of the U.S. Treasury or insurance annuities to fund future installment prize obligations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statute does not establish any parameters or guidelines related to interest rate risk.

As of June 30, 2023 and 2022, the Commission had the following investment maturities:

<u>June 30, 2023</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>< 1 Year</u>	<u>1–5 Years</u>	<u>6–10 Years</u>	<u>> 10 Years</u>
U.S. Government Securities	\$ 67,227,927	\$ 8,052,747	\$ 30,543,388	\$ 13,150,886	\$ 15,480,906
Money Market Fund	62,814,941	62,814,941	-	-	-
Subtotal	<u>130,042,868</u>	<u>70,867,688</u>	<u>30,543,388</u>	<u>13,150,886</u>	<u>15,480,906</u>
	<u>Carrying Value</u>				
Insurance Annuities	1,731,867	352,000	141,469	-	1,238,398
Total Investments	<u>\$ 131,774,735</u>	<u>\$ 71,219,688</u>	<u>\$ 30,684,857</u>	<u>\$ 13,150,886</u>	<u>\$ 16,719,304</u>

<u>June 30, 2022</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>< 1 Year</u>	<u>1–5 Years</u>	<u>6–10 Years</u>	<u>> 10 Years</u>
U.S. Government Securities	\$ 75,375,372	\$ 8,004,119	\$ 32,930,591	\$ 16,026,024	\$ 18,414,638
Money Market Fund	58,566,121	58,566,121	-	-	-
Subtotal	<u>133,941,493</u>	<u>66,570,240</u>	<u>32,930,591</u>	<u>16,026,024</u>	<u>18,414,638</u>
	<u>Carrying Value</u>				
Insurance Annuities	3,664,313	1,499,000	445,762	-	1,719,551
Total Investments	<u>\$ 137,605,806</u>	<u>\$ 68,069,240</u>	<u>\$ 33,376,353</u>	<u>\$ 16,026,024</u>	<u>\$ 20,134,189</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Enterprise Fund (Continued)

Deposit Custodial Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The carrying amount of the Commission's deposits and outstanding checks with financial institutions as of June 30, 2023 and 2022, totaled \$257,122 and \$240,182, respectively, while bank balances totaled \$1,102,089 and \$1,103,019, respectively. The insured, collateralized, and the uninsured, uncollateralized cash balances carried during the year represent the compensating balances that are required to be maintained at banks in exchange for goods received or services provided. Uninsured, uncollateralized bank balances were \$852,089 as of June 30, 2023 and \$853,019 as of June 30, 2022.

Investment Custodial Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. On June 30, 2023, \$130 million of investments were not held by the Commission. Investments totaling \$67 million were held by the Indiana State Treasurer; therefore, these investments were not considered to have custodial credit risk. The remaining \$63 million of investments were held by outside counterparties. On June 30, 2022, \$134 million of investments were not held by the Commission. Investments totaling \$75 million were held by the Indiana State Treasurer; therefore, these investments were not considered to have custodial credit risk. The remaining \$59 million of investments were held by outside counterparties.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commission is not limited on the amount it can invest in U.S. Treasury Bills, repurchase agreements, money market funds or an interest-bearing checking account. No more than \$5 million may be invested in securities for any one government agency (i.e., Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation) and no more than \$20 million in the aggregate. No more than \$5 million may be invested in commercial paper for any one company and no more than \$20 million in the aggregate. Commercial paper must be rated P-1 (Moody) or A-1 (S & P) at the time of purchase. The Commission's investments, outside of those at Indiana State Treasurer noted above, are all U.S. Treasury Bills, for June 30, 2023 and 2022.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Enterprise Fund (Continued)

Credit Risk and Concentration of Credit Risk (Continued)

The following table provides information on the credit ratings associated with the Commission's investments as of June 30, 2023 and 2022:

	S&P	Fitch	Moody's	A.M. Best	Balance at June 30, 2023	Percent of Total	Balance at June 30, 2022	Percent of Total
U.S. Government Securities	AA+	AA+	Aaa	Unrated	\$ 67,227,927	51%	\$ 75,375,372	55%
Money Market Mutual Fund	AAA	AAA	Aaa-mf	Unrated	62,814,941	48%	58,566,121	43%
Transamerica Life Insurance Company	A+	Unrated	A1	A	493,469	0%	1,944,762	1%
Lincoln National Life Insurance Company	A+	A+	A1	A	1,238,398	1%	1,719,551	1%
Total Investments					<u>\$ 131,774,735</u>	<u>100%</u>	<u>\$ 137,605,806</u>	<u>100%</u>

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest-bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise in excess of the total market value of the loaned securities. Cash and collateral securities are initially pledged at 102% of the market value of the securities lent. Collateral securities cannot be pledged or sold by the board unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0 to 15 days. The custodian bank provides 100% indemnification to the lender against any borrower default, overnight market risk, and failure to return loaned securities. As of June 30, 2023, and 2022, the Treasurer of State did not lend any securities related to the Commission.

Fair Value Measurement

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Commission had U.S. Treasury securities of \$67 million as of June 30, 2023 and \$75 million as of June 30, 2022. The Commission also held investments in a Money Market Mutual Fund with a fair value of \$63 million as of June 30, 2023 and \$59 million as of June 30, 2022. These securities are valued using quoted market prices and as such, are Level 1 inputs. Changes in the fair value of the investments are recognized as nonoperating revenue or expense in the statements of revenues, expenses, and changes in net position. The net change in the fair value of U.S. Treasury obligations for the years ended June 30, 2023 and 2022 was (\$10,851,795) and (\$4,536,269), respectively.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Enterprise Fund (Continued)

Reconciliation of Enterprise Fund Cash, Cash Equivalents, and Investments

A reconciliation of enterprise fund cash, cash equivalents, and investments per the statements of net position to the deposits and investments previously presented is as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Statement of Net Position:		
Cash and Cash Equivalents	\$ 63,072,062	\$ 58,806,302
Investments (Current)	8,404,747	9,503,119
Investments (Long Term)	<u>60,555,048</u>	<u>69,536,567</u>
Total	<u>\$ 132,031,857</u>	<u>\$ 137,845,988</u>
Notes to the Financial Statements:		
Deposits	\$ 257,122	\$ 240,182
Investments (Current and Long Term)	<u>131,774,735</u>	<u>137,605,806</u>
Total	<u>\$ 132,031,857</u>	<u>\$ 137,845,988</u>

Fiduciary Fund

The Commission is responsible for the Employees' Pension Plan of the State Lottery Commission of Indiana Trust (the Trust) that was created to provide pension benefits to former and current employees of the Commission and their beneficiaries who meet the statutory requirement for such benefits. The Trust is held by a trust company under a custodial agreement with the Commission for the years ended June 30, 2023 and 2022. The Commission contracts with an investment management company that adheres to an Investment Policy Statement adopted by the Commission which focus on four objectives: 1) to outperform inflation over the long term, 2) to establish a well-diversified investment approach, 3) to create a portfolio that offers various classes of assets (equities and fixed income), and 4) to maximize the overall portfolio return within reasonable risk levels.

The Commission has specific investment guidelines established for the Trust which puts limits on the types of investments allowed. These asset allocation guidelines contain target asset allocations and allowable ranges that are expected to meet target rates of return over a long period of time while minimizing risk. The following is the Commission's adopted asset allocation policy as of June 30, 2023 and 2022:

<u>Asset Class</u>	<u>Target Allocation (%)</u>
Cash	0.0%
Fixed Income	30.0%
Equity	<u>70.0%</u>
Total	<u>100.0%</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fiduciary Fund (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income instruments shall not exceed an average of (8) years without the express approval of the Commission.

As of June 30, 2023 and 2022, the Commission has the following investment maturities for the Trust:

<u>June 30, 2023</u>	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1–5 Years	6–10 Years	> 10 Years
U.S. Treasuries	\$ 65,064	\$ -	\$ 65,064	\$ -	\$ -
Money Market Mutual Fund	381,073	381,073	-	-	-
Corporate Bonds	158,578	44,217	114,361	-	-
Taxable Municipal Bonds	24,380	-	24,380	-	-
Brokered Certificates of Deposit					
Within FDIC Limits	210,055	34,148	175,907	-	-
Mutual Funds/ETFs	1,411,126	-	1,128,680	282,446	-
Total Investments	<u>\$ 2,250,276</u>	<u>\$ 459,438</u>	<u>\$ 1,508,392</u>	<u>\$ 282,446</u>	<u>\$ -</u>

<u>June 30, 2022</u>	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1–5 Years	6–10 Years	> 10 Years
U.S. Treasuries	\$ 67,864	\$ -	\$ 14,361	\$ 53,503	\$ -
Money Market Mutual Fund	354,500	354,500	-	-	-
Corporate Bonds	172,145	10,015	152,596	9,534	-
Taxable Municipal Bonds	25,028	-	25,028	-	-
Brokered Certificates of Deposit					
Within FDIC Limits	215,492	-	215,492	-	-
Mutual Funds/ETFs	979,640	-	549,864	429,776	-
Total Investments	<u>\$ 1,814,669</u>	<u>\$ 364,515</u>	<u>\$ 957,341</u>	<u>\$ 492,813</u>	<u>\$ -</u>

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The following table provides information on the credit quality ratings for investments in debt securities, short-term money market funds, bond mutual/commingled funds, municipal securities, asset-backed, and mortgage-backed securities for the Trust. The table reflects the highest rating as set by either of two nationally recognized rating organizations (S&P and Moody's) for each investment type except Mutual Funds/ETFs. The Mutual Funds/ETFs average ratings are from Morningstar, Inc.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fiduciary Fund (Continued)

Credit Risk and Concentration of Credit Risk (Continued)

<u>Investment Type</u>	<u>Credit Rating</u>	Fair Value at <u>June 30, 2023</u>	Fair Value at <u>June 30, 2022</u>
U.S. Treasuries	AAA	\$ 65,064	\$ 67,864
Money Market Mutual Fund	Aaa-mf	381,073	354,500
Corporate Bonds	AAA	-	14,908
	AA	33,561	19,638
	A	77,902	118,606
	BBB	47,115	18,993
Taxable Municipal Bonds	A	24,380	25,028
Brokered Certificates of Deposit			
Within FDIC Limits	AAA	210,055	215,492
Mutual Funds/ETFs	AAA(wtd. Avg)	336,284	-
	AA(wtd. Avg)	286	786,614
	A(wtd. Avg)	850,472	193,026
	BBB(wtd. Avg)	224,084	-
		<u>\$ 2,250,276</u>	<u>\$ 1,814,669</u>

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments that exceed 5% of the total net position of the Trust were as follows:

	Balance at <u>June 30, 2023</u>	Percent <u>of Total</u>
Vanguard Admiral Funds Inc S&P Mid-Cap 400 Index Instl	\$ 585,310	9%
Pimco Income Fund Class I	567,815	9%
Mfs Series Trust X Intl Value Fund R6	490,941	8%
Vanguard Fixed Income Securities Fed Fund Admiral	336,284	5%
	Balance at <u>June 30, 2022</u>	Percent <u>of Total</u>
Vanguard Equity Income Fund	\$ 350,880	6%
Vanguard Midcap Value Index Class A Fund	399,071	7%

Fair Value Measurement

The Trust categorizes investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability into three broad categories. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2 and 3 (lowest priority level) of the fair value hierarchy are defined as follows: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fiduciary Fund (Continued)

Fair Value Measurement (Continued)

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority level input that is significant to the valuation. The Trust's assessment of significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following tables summarize the valuation of the investments in the Trust by the fair value hierarchy levels as of June 30, 2023 and 2022:

<u>Investment Type</u>	<u>June 30, 2023</u>	<u>Fair Value Measurements Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Fixed Income Securities:			
U.S. Treasuries	\$ 65,064	\$ 65,064	\$ -
Corporate Bonds	158,578	-	158,578
Taxable Municipal Bonds	24,380	-	24,380
Brokered Certificates of Deposit	210,055	-	210,055
Mutual Funds/ETFs	1,411,126	1,411,126	-
Money Market Mutual Funds	381,073	381,073	-
Total Fixed Income Securities	<u>2,250,276</u>	<u>1,857,263</u>	<u>393,013</u>
Equity Investments:			
Domestic Equities	2,456,747	2,456,747	-
Mutual Funds/ETFs	751,748	751,748	-
International Mutual Funds	944,232	944,232	-
Total Equity Investments	<u>4,152,727</u>	<u>4,152,727</u>	<u>-</u>
Total Investments by Fair Value	<u>\$ 6,403,003</u>	<u>\$ 6,009,990</u>	<u>\$ 393,013</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fiduciary Fund (Continued)

Fair Value Measurement (Continued)

<u>Investment Type</u>	<u>June 30, 2022</u>	<u>Fair Value Measurements Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Fixed Income Securities:			
U.S. Treasuries	\$ 67,864	\$ 67,864	\$ -
Corporate Bonds	172,145	-	172,145
Taxable Municipal Bonds	25,028	-	25,028
Brokered Certificates of Deposit	215,492	-	215,492
Mutual Funds/ETFs	979,640	979,640	-
Money Market Mutual Funds	354,500	354,500	-
Total Fixed Income Securities	<u>1,814,669</u>	<u>1,402,004</u>	<u>412,665</u>
Equity Investments			
Domestic Equities	1,534,261	1,534,261	-
Mutual Funds/ETFs	2,236,951	2,236,951	-
International Mutual Funds	504,172	504,172	-
Total Equity Investments	<u>4,275,384</u>	<u>4,275,384</u>	<u>-</u>
Total Investments by Fair Value	<u>\$ 6,090,053</u>	<u>\$ 5,677,388</u>	<u>\$ 412,665</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 3 CAPITAL ASSETS

A summary of the Commission's capital assets for the years ended June 30, 2023 and 2022 is as follows:

	Balances at June 30, 2022	Increases	Decreases	Balances at June 30, 2023
Capital Assets Being Depreciated:				
Vehicles	\$ 146,192	\$ 50,184	\$ -	\$ 196,376
Vending Machines	1,000,000	-	-	1,000,000
Furniture, Fixtures, and Equipment	557,379	60,757	(1,154)	616,982
Leasehold Improvements	1,113,601	-	(301,907)	811,694
Data Processing Equipment	1,044,050	63,757	(40,250)	1,067,557
Total Capital Assets, Being Depreciated	3,861,222	174,698	(343,311)	3,692,609
Less Accumulated Depreciation:				
Vehicles	(126,103)	(9,454)	-	(135,557)
Vending Machines	(114,167)	(250,000)	-	(364,167)
Furniture, Fixtures, and Equipment	(542,009)	(11,772)	1,154	(552,627)
Leasehold Improvements	(1,033,765)	(30,245)	301,907	(762,103)
Data Processing Equipment	(757,725)	(112,755)	40,250	(830,230)
Total Accumulated Depreciation	(2,573,769)	(414,226)	343,311	(2,644,684)
Intangible Assets Being Amortized:				
Patent	550,869	-	-	550,869
Less Accumulated Amortization	(550,869)	-	-	(550,869)
Total Intangible Assets Being Amortized	-	-	-	-
Total Capital Assets, Net	<u>\$ 1,287,453</u>	<u>\$ (239,528)</u>	<u>\$ -</u>	<u>\$ 1,047,925</u>
	Balances at June 30, 2021	Increases	Decreases	Balances at June 30, 2022
Capital Assets Being Depreciated:				
Vehicles	\$ 164,707	\$ -	\$ (18,515)	\$ 146,192
Vending Machines	-	1,000,000	-	1,000,000
Furniture, Fixtures, and Equipment	557,379	-	-	557,379
Leasehold Improvements	1,033,595	80,006	-	1,113,601
Data Processing Equipment	807,185	236,865	-	1,044,050
Total Capital Assets, Being Depreciated	2,562,866	1,316,871	(18,515)	3,861,222
Less Accumulated Depreciation:				
Vehicles	(115,203)	(29,415)	18,515	(126,103)
Vending Machines	-	(114,167)	-	(114,167)
Furniture, Fixtures, and Equipment	(533,067)	(8,942)	-	(542,009)
Leasehold Improvements	(1,022,849)	(10,916)	-	(1,033,765)
Data Processing Equipment	(692,877)	(64,848)	-	(757,725)
Total Accumulated Depreciation	(2,363,996)	(228,288)	18,515	(2,573,769)
Intangible Assets Being Amortized:				
Patent	550,869	-	-	550,869
Less Accumulated Amortization:	(550,869)	-	-	(550,869)
Total Intangible Assets Being Amortized	-	-	-	-
Total Capital Assets, Net	<u>\$ 198,870</u>	<u>\$ 1,088,583</u>	<u>\$ -</u>	<u>\$ 1,287,453</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 PRIZE LIABILITY

The prize liability relating to deferred winners, scratch-off games, and on-line games, including an estimate of unclaimed scratch-off and on-line winners at June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Installment Prize Liability	\$ 72,164,978	\$ 77,077,940
Scratch-Off Game Liability	154,776,198	141,130,462
On-Line Game Liability	<u>21,983,021</u>	<u>18,125,799</u>
Total Prize Liability	248,924,197	236,334,201
Less: Current Portion	<u>(185,392,775)</u>	<u>(168,859,817)</u>
Noncurrent Portion	<u>\$ 63,531,422</u>	<u>\$ 67,474,384</u>

Future payments of prize liability as of June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Liability</u>	<u>Other Accrued Prize Liability</u>	<u>Total</u>
2024	\$ 8,633,556	\$ 176,759,219	\$ 185,392,775
2025	8,229,556	-	8,229,556
2026	7,914,556	-	7,914,556
2027	6,939,556	-	6,939,556
2028	5,755,556	-	5,755,556
2029-2033	20,787,781	-	20,787,781
2034-2038	18,187,800	-	18,187,800
2039-2043	10,001,800	-	10,001,800
2044-2048	3,309,800	-	3,309,800
2049-2053	1,593,800	-	1,593,800
2054-2058	526,240	-	526,240
2059-2060	<u>156,000</u>	-	<u>156,000</u>
Total	92,036,001	176,759,219	268,795,220
Less: Unamortized Discount	<u>(19,871,023)</u>	-	<u>(19,871,023)</u>
Total at Present Value	72,164,978	176,759,219	248,924,197
Less: Current Portion	<u>(8,633,556)</u>	<u>(176,759,219)</u>	<u>(185,392,775)</u>
Total Long-Term Portion at Present Value	<u>\$ 63,531,422</u>	<u>\$ -</u>	<u>\$ 63,531,422</u>

Prize liability installments are discounted to their present value at date of award. This discounted value approximates fair value. Interest is not paid on prizes.

Activity in prize liability accounts consists of:

	<u>2023</u>	<u>2022</u>
Balance - Beginning of Year	\$ 236,334,201	\$ 231,821,662
Prize Expense	1,146,132,299	1,138,515,768
Prize Payments	<u>(1,133,542,303)</u>	<u>(1,134,003,229)</u>
Balance - End of Year	<u>\$ 248,924,197</u>	<u>\$ 236,334,201</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 5 COMMITMENTS AND CONTINGENCIES

Commitments

The Commission is a member of MUSL, an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently consists of 38 state and district lotteries (member lotteries) and operates the on-line Powerball game and manages the Mega Millions game for its participating member lotteries. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for these games and remit a percentage of sales to prize winners or to MUSL for payment of prizes.

As a member of MUSL, the Commission is required to contribute to various prize reserve funds held by MUSL. Accounts were established by MUSL as a contingency reserve to fund prizes in excess of the game prize structure and to protect all member lotteries and MUSL from any unforeseen liabilities. All funds remitted, and the related interest earned, will be returned to the Commission upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the funds. As of June 30, 2023 and 2022, the Commission's balance of prize reserve funds, included in restricted assets in the accompanying statements of net position, was \$8,297,040 and \$8,461,597, respectively.

Contingencies

Periodically, the Commission is subject to certain legal and administrative actions that arise in the normal course of its operations. As of June 30, 2023, the Commission's management believes that the ultimate outcome of any pending legal matters will not have a material adverse impact on the Commission's financial position.

NOTE 6 RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets or property; errors and omissions; injuries to employees; and natural disasters. The Commission has purchased commercial insurance to cover these risks. The amount of commercial coverage has not decreased nor has the amount of settlements exceeded coverage in any of the past three fiscal years.

NOTE 7 INTEGRATED SERVICES AGREEMENT (ISA)

The Commission entered into a 15-year ISA with IGT Indiana, LLC, formerly, GTECH Indiana, LLC, effective October 12, 2012, for the purpose of coordinating, consulting, providing for, and integrating the Commission's management and performing all functions necessary to operate the Lottery except those functions specifically retained by the Commission to facilitate the Commission's carrying out its public purpose as set forth in the Indiana Code. Under the terms of the agreement, effective July 1, 2013, the compensation to be paid under the ISA is comprised of reimbursement of operating expenses, management fees, and possible incentive compensation payments in accordance with the agreement. Subject to certain annual operating income targets, the ISA also provides for IGT Indiana, LLC to pay the Commission a shortfall payment when minimum operating income targets are not met.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 7 INTEGRATED SERVICES AGREEMENT (ISA) (CONTINUED)

An amendment of the ISA was executed on June 12, 2015. One of the changes in the amended ISA was the adjustment of net income thresholds necessary for IGT to meet as it relates to incentive compensation and shortfall payments. The annual thresholds were adjusted beginning with contract year 3, FY 2016. As an additional component of the adjusted ISA, an upfront payment from IGT Indiana, LLC to the Commission was made in the amount of \$18.25 million. As of June 30, 2023, the amended ISA has not been terminated and no reimbursement of the \$18.25 million will be required if it were terminated in a future year. The Commission began amortizing the payment over the remaining life of the 15-year contract at the start of FY 16. Based on an Agreement between the Commission and IGT Indiana, LLC related to the notice of dispute delivered by IGT Indiana, LLC to the Commission on September 20, 2021 as well as other matters, the remaining unamortized amount of unearned revenue recorded in FY 16 was fully expensed in FY 22.

For the years ended June 30, 2023 and 2022, IGT Indiana, LLC earned an incentive from the Commission in the amount of \$19,775,415 and \$18,406,648, respectively.

NOTE 8 RETIREMENT PLANS

The Commission participates in two defined benefit retirement plans: The Public Employees' Retirement Fund (a multi-employer plan for employees of the state of Indiana) and the Employees' Pension Plan of the State Lottery Commission of Indiana (a single employer plan for employees of the Commission). The Commission also participates in a defined contribution plan.

Public Employees' Retirement Fund (PERF)

Plan Description

The Commission participates in the PERF Hybrid Plan administered by the Indiana Public Retirement System (INPRS). There are two portions to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly-defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the Annuity Savings Account (ASA) that supplements the defined benefit at retirement. The employer defined benefit pension portion contribution rate is based on an actuarial valuation and is adopted by the INPRS Board of Trustees in accordance with Indiana Code 5-10.2-2-11. The ASA consists of the member's contributions, set by statute at 3% of compensation as defined by Indiana Code 5-10.2-3-2, plus the interest/earnings or losses credited to the member's account. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

Benefits Provided

PERF provides retirement, disability, and survivor benefits to full-time employees. Retirement benefits are determined as 1.1% of the employee's average highest 20 quarters of salary times the employee's years of creditable service. Employees are eligible for pension benefit payment as follows: early retirement with reduced benefits between ages 50-59 with 15 years of service, at age 55 if age and creditable service total at least 85, at age 60 with 15 years of service, at age 65 with 10 years of service, or if still working at age 70 with 20 years of service. Employees are fully vested in the 3% employee share to ASA upon hire. Employee's share of employer contributions to the ASA is based on full years of participation and is vested immediately.

Contributions

Employer contribution rates for the PERF defined benefit pension portion are determined annually by the INPRS Board based on recommendations by the INPRS actuary which were 11.2% of covered payroll for the years ended June 30, 2023 and 2022. Employers have the option of making all or part of the 3% ASA contribution on behalf of the member; the Commission opts to contribute the entire 3% on behalf of the member. Members may also make voluntary contributions to the ASA, up to an additional 10% of gross wages, under certain limitations. Total contributions to the PERF Hybrid Plan from the Commission were \$459,441 and \$423,293 for the years ended June 30, 2023 and 2022, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023 and 2022, the Commission reported a liability of \$1,625,170 and \$666,345, respectively, for its proportionate share of the total PERF net pension liability. Total PERF net pension liability was measured as of June 30, 2022 and 2021, which came to \$3,153,832,002 and \$1,315,847,703, respectively, and was calculated using an actuarial valuation as of these dates. The Commission's proportion of the net pension liability was based on the Commission's wages relative to the collective wages of all participating employers to the PERF plan. At June 30, 2023, 2022, and 2021, the Commission's proportion was 0.05153%, 0.05064%, and .04951%, respectively. The change in proportion from 2022 to 2023 was .00089 and from 2021 to 2022 was .00113.

For the years ended June 30, 2023 and 2022, the Commission recognized pension expense (income) for this plan of \$238,149 and \$(38,647), respectively.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At June 30, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERF plan from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 35,045	\$ 6,181
Difference between Projected and Actual Earnings	200,563	-
Changes in Assumptions	220,121	69,530
Changes in Proportion and Differences between Commission Contributions and Proportionate Share of Contributions	<u>41,672</u>	<u>7,336</u>
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	497,401	83,047
Contributions made Subsequent to the Measurement Date	<u>362,376</u>	<u>-</u>
Total Deferred Amounts	<u>\$ 859,777</u>	<u>\$ 83,047</u>

Deferred outflows made during the year ended June 30, 2023 in the amount of \$362,376 for contributions made subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

On June 30, 2022, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERF plan from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 22,791	\$ 13,305
Difference between Projected and Actual Earnings	-	865,188
Changes in Assumptions	335,176	149,674
Changes in Proportion and Differences between Commission Contributions and Proportionate Share of Contributions	<u>50,974</u>	<u>13,690</u>
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	408,941	1,041,857
Contributions made Subsequent to the Measurement Date	<u>333,865</u>	<u>-</u>
Total Deferred Amounts	<u>\$ 742,806</u>	<u>\$ 1,041,857</u>

Deferred outflows made during the year ended June 30, 2022 in the amount of \$333,865, for contributions made subsequent to the measurement date, were recognized as a reduction of the net pension liability in the year ended June 30, 2023.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

As of June 30, 2023, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 86,079
2025	142,884
2026	(26,766)
2027	212,157
Total	<u>\$ 414,354</u>

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00%
Salary Increases	2.65% to 8.65%, Includes Inflation
Investment Rate of Return	6.25%, Includes Inflation and Net of Investment Expenses

The actuarial assumptions and methods used in the June 30, 2022 valuation of the Public Employees' Defined Benefit Account were adopted by the INPRS Board in April 2022. The majority of the actuarial assumptions and methods are based on plan experience from July 1, 2014 through June 30, 2019, and were first used in the June 30, 2020 valuation.

The long-term return expectation for PERF for the year ended June 30, 2022 was determined by using a building block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. To determine the expected long-term nominal market rate of return, the asset class geometric real returns are projected for a 30-year time horizon. These returns are combined with a projected covariance matrix and the target asset allocations to create a range of expected long-term real market rates of return for the portfolio. A range of possible expected long-term rates of return is created by adding the forecasted inflation to the expected long-term real rates of return. The assumption is a long-term assumption and is not expected to change with small fluctuations in the underlying inputs, but may change with a fundamental shift in the underlying market factors or significant asset allocation change. The target allocation for June 30, 2022 and geometric real returns for each major asset class are summarized in the table below. Note that the defined benefit plans target allocation for total exposure is 115%. For the long-term expected rate of return calculation, an additional -15% is allocated to the cash and cash overlay global asset class.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Allocation</u>	<u>Long-Term Rate of Return</u>
Public Equity	20.0%	3.6%
Private Markets	15.0%	7.7%
Fixed Income - Ex Inflation-Linked	20.0%	1.4%
Fixed Income - Inflation-Linked	15.0%	-0.3%
Commodities	10.0%	0.9%
Real Assets	10.0%	3.7%
Absolute Return	5.0%	2.1%
Risk Parity	20.0%	3.8%
Cash and Cash Overlay	N/A	-1.7%
Total	<u>115.0%</u>	

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00%
Salary Increases	2.65% to 8.75%, Includes Inflation
Investment Rate of Return	6.25%, Includes Inflation and Net of Investment Expenses

The actuarial assumptions for June 30, 2021 were adopted by the INPRS Board in May 2021. The majority of actuarial assumptions were based on plan experience from July 1, 2014 through June 30, 2019 and were first used in the June 30, 2020 valuation. The mortality assumptions used was Pub-2010 Public Retirement Plans Mortality Tables with a fully generational projection of mortality improvements using SOA Scale MP-2019.

The long-term return expectation for PERF for the year ended June 30, 2021 was determined by using a building block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. To determine the expected long-term nominal rate of return, the asset class geometric real returns are projected for a 30-year time horizon. These returns are combined with a projected covariance matrix and the target asset allocations to create a range of expected long-term real rates of return for the portfolio. A range of possible expected long-term rates of return is created by adding the forecasted inflation to the expected long-term real rates of return and adding an expected contribution to the return due to manager selection. The assumption is a long-term assumption and is not expected to change with small fluctuations in the underlying inputs, but may change with a fundamental shift in the underlying market factors or significant asset allocation change. The target allocation for June 30, 2021 and geometric real returns for each major asset class are summarized in the following table:

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>June 30, 2021 Long-Term Expected Real Rate of Return</u>
Public Equity	20.0%	3.6%
Private Markets	15.0%	7.3%
Fixed Income - Ex Inflation-Linked	20.0%	1.5%
Fixed Income - Inflation-Linked	15.0%	-0.3%
Commodities	10.0%	0.8%
Real Estate	10.0%	4.2%
Absolute Return	5.0%	2.5%
Risk Parity	20.0%	4.4%
Leverage Offset	-15.0%	-1.4%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability for the years ended June 30, 2022 and 2021 was 6.25%.

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Commission's proportionate share of the net pension liability for the years ended June 30, 2023 and 2022 that were calculated using the discount rate of 6.25% as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

For the year ended June 30, 2023 as follows:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Commission's Proportionate Share of the Net Pension Liability	<u>\$ 2,745,506</u>	<u>\$ 1,625,170</u>	<u>\$ 690,727</u>

For the year ended June 30, 2022 as follows:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Commission's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 1,742,785</u>	<u>\$ 666,345</u>	<u>\$ (231,548)</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separate financial reports issued by INPRS and may be obtained from their website, www.in.gov/inprs.

Deferred Compensation Plan

Plan Description

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This is the State of Indiana's 457 plan, available to all employees. The plan allows employees to contribute a minimum of \$15 per paycheck or 1% of eligible earnings (percentage withholding must equal at least \$15) and a maximum of 100% of includible compensation (subject to Internal Revenue Service limitations). Employees are immediately vested in their contributions. Contributions by plan participants during the fiscal years ended June 30, 2023 and 2022 were approximately \$229,369 and \$240,909, respectively.

The Commission makes a matching contribution of \$15 per paycheck for each employee participating in the 457 Deferred Compensation Plan into a 401(a) Incentive Match Plan. Employees are immediately vested in the employer match made by the Commission. Contributions by the Commission during the fiscal years ended June 30, 2023 and 2022, were approximately \$17,295 and \$17,145, respectively.

Employees' Pension Plan of the State Lottery Commission of Indiana

Plan Description

The Commission had adopted a single-employer defined benefit pension plan. Effective July 1, 2013, the plan was frozen as all employees became eligible for the PERF plan (above) under the Senate Enrollment Act No. 526. The following disclosures are related to June 30, 2023 and 2022.

Benefits Provided

Upon employee retirement at age 65, the plan provided annual benefits equal to 2% of an employee's average salary earned during the highest five consecutive years of employment multiplied by the number of full-time years of employment up to a maximum of 25 years. Participants became fully vested after four years of service. Employees cannot contribute to the plan. The plan permits retirees to choose their form of distribution from several alternatives including a lump sum option.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Employees' Pension Plan of the State Lottery Commission of Indiana (Continued)

Employees Covered by Benefit Terms

At June 30, 2023 and 2022, the following employees were covered by the benefit terms:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	42	40
Inactive Plan Members or Beneficiaries Entitled to but Not Yet Receiving Benefits	40	44
Active Plan Members	<u>14</u>	<u>15</u>
Total	<u><u>96</u></u>	<u><u>99</u></u>

Contributions

The Commission determines quarterly contributions based on actuarially suggested contributions provided by an independent actuary. The actuarially suggested contributions are an estimated amount necessary to finance the costs of benefits earned by employees, with an additional amount to finance any unfunded accrued liability. Total contributions to the Employees' Pension Plan of the State Lottery Commission of Indiana from the Commission were \$274,286 and \$271,937 for the years ended June 30, 2023 and 2022, respectively.

Net Pension Liability (Asset)

The Commission's net pension liability (asset) was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

Actuarial Assumptions

The total pension liability in the June 30, 2023 and 2022 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	N/A
Salary increases	N/A
Investment Rate of Return	6.00%, Net of Pension Plan Investment Expense, Including Inflation

The mortality tables used for June 30, 2023 were the Pub-2010 general employee amount-weighted mortality projected generationally with scale MP-2021 (separate employee, retiree, disability and contingent survivor tables and male & female tables).

The mortality tables used for June 30, 2022 were the Pub-2010 general employee amount-weighted mortality projected generationally with scale MP-2020 (separate employee, retiree, disability and contingent survivor tables and male & female tables).

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Employees' Pension Plan of the State Lottery Commission of Indiana (Continued)

Actuarial Assumptions (Continued)

For the years ended June 30, 2023 and 2022, the long-term expected rate of return on pension plan investments was 6.00%. The plan's trust asset allocation, based on market value, for each asset class are summarized in the following table:

<u>Asset Class</u>	<u>June 30, 2023 Asset Allocation</u>	<u>June 30, 2022 Asset Allocation</u>
Equity	65%	70%
Fixed Income	29%	24%
Cash	6%	6%
Total	<u>100%</u>	<u>100%</u>

Discount Rate

The discount rate used to measure the total pension liability was 6.00% for the years ended June 30, 2023 and 2022 respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions would be made at the current contribution rate and that Commission contributions would be made at the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

A summary of the changes in net pension liability (asset) for the years ended June 30, 2023 and 2022 are as follows:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance - June 30, 2022	\$ 6,599,853	\$ 6,096,979	\$ 502,874
Changes for the Year			
Interest	378,119	-	378,119
Difference Between Expected and Actual Experience	(169,116)	-	(169,116)
Contributions – Employer	-	274,286	(274,286)
Net Investment Income	-	592,842	(592,842)
Benefit Payments	(549,920)	(549,920)	-
Net Changes	<u>(340,917)</u>	<u>317,208</u>	<u>(658,125)</u>
Balance - June 30, 2023	<u>\$ 6,258,936</u>	<u>\$ 6,414,187</u>	<u>\$ (155,251)</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Employees' Pension Plan of the State Lottery Commission of Indiana (Continued)

Changes in the Net Pension Liability (Asset) (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following table presents the net pension liability (asset) of the Commission for the years ended June 30, 2023 and 2022 that were calculated using the discount rate of 6.00%, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher, than the current rate.

Error! Not a valid link. For the year ended June 30, 2023 as follows:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Net Pension Liability (Asset)	<u>\$ 235,477</u>	<u>\$ (155,251)</u>	<u>\$ (503,261)</u>

For the year ended June 30, 2022 as follows:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Net Pension Liability	<u>\$ 933,896</u>	<u>\$ 502,874</u>	<u>\$ 120,147</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2022, the Commission recognized pension expense of \$33,178. For the year ended June 30, 2023, the Commission recognized pension income of \$123,986.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Employees' Pension Plan of the State Lottery Commission of Indiana (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At June 30, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ 33,715
Change of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	157,060	-
Total Deferred Amounts	<u>\$ 157,060</u>	<u>\$ 33,715</u>

At June 30, 2022, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ 13,169
Change of Assumptions	1,824	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	394,543	-
Total Deferred Amounts	<u>\$ 396,367</u>	<u>\$ 13,169</u>

As of June 30, 2023, amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense(income) as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ (32,686)
2025	(16,381)
2026	219,609
2027	(47,197)
Total	<u>\$ 123,345</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Summary of Public Employees' Retirement Fund (PERF) and Employees' Pension Plan of the State Lottery Commission of Indiana

For the year ended June 30, 2023, aggregate data for the Commission's two defined pension plans is summarized by the following table:

	Employee's Pension Plan of the State Lottery Commission of Indiana	Public Employees' Retirement Fund	Total
Deferred Outflows of Resources	\$ 157,060	\$ 859,777	\$ 1,016,837
Deferred Inflows of Resources	33,715	83,047	116,762
Pension Expense (Income)	(123,986)	238,149	114,163
Net Pension Liability	-	1,625,170	1,625,170
Net Pension Asset	155,251	-	155,251

For the year ended June 30, 2022, aggregate data for the Commission's two defined pension plans is summarized by the following table:

	Employee's Pension Plan of the State Lottery Commission of Indiana	Public Employees' Retirement Fund	Total
Deferred Outflows of Resources	\$ 396,367	\$ 742,806	\$ 1,139,173
Deferred Inflows of Resources	13,169	1,041,857	1,055,026
Pension Expense (Income)	33,178	(38,647)	(5,469)
Net Pension Liability	502,874	666,345	1,169,219

REQUIRED SUPPLEMENTARY INFORMATION

**THE STATE LOTTERY COMMISSION OF INDIANA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
EMPLOYEES' PENSION PLAN OF THE STATE LOTTERY COMMISSION OF INDIANA
LAST TEN FISCAL YEARS**
(SEE INDEPENDENT AUDITORS' REPORT)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability									
Interest	\$ 378,119	\$ 394,629	\$ 421,220	\$ 425,099	\$ 432,110	\$ 438,751	\$ 468,085	\$ 472,636	\$ 498,173
Differences Between Expected and Actual Experience	(169,116)	(66,700)	(38,885)	(52,611)	(28,495)	146,065	(133,400)	207,737	(603,171)
Changes of Assumptions	-	9,240	511,091	95,530	81,974	(31,483)	(60,149)	(82,380)	321,275
Benefit Payments, Including Refunds of Employee Contributions	(549,920)	(686,095)	(403,520)	(669,620)	(494,710)	(572,582)	(734,974)	(668,196)	(610,941)
Net Change in Total Pension Liability	(340,917)	(348,926)	489,906	(201,602)	(9,121)	(19,249)	(460,438)	(70,203)	(394,664)
Total Pension Liability - Beginning of Year	6,599,853	6,948,779	6,458,873	6,660,475	6,669,596	6,688,845	7,149,283	7,219,486	7,614,150
Total Pension Liability - End of Year	6,258,936	6,599,853	6,948,779	6,458,873	6,660,475	6,669,596	6,688,845	7,149,283	7,219,486
Plan Fiduciary Net Position									
Contributions - Employer	274,286	271,937	269,726	202,158	183,525	194,733	305,586	233,261	143,329
Net Investment Income	592,842	(902,654)	1,578,002	309,453	394,267	536,940	715,223	(96,780)	220,909
Benefit Payments, Including Refunds of Employee Contributions	(549,920)	(686,095)	(403,520)	(669,620)	(494,710)	(572,582)	(734,974)	(668,197)	(610,940)
Other	-	-	76	-	-	317	(82,197)	2,022	(320,856)
Net Change in Plan Fiduciary Net Position	317,208	(1,316,812)	1,444,284	(158,009)	83,082	159,408	203,638	(529,694)	(567,558)
Plan Fiduciary Net Position - Beginning of Year	6,096,979	7,413,791	5,969,507	6,127,516	6,044,434	5,885,026	5,681,388	6,211,082	6,778,640
Plan Fiduciary Net Position - End of Year	6,414,187	6,096,979	7,413,791	5,969,507	6,127,516	6,044,434	5,885,026	5,681,388	6,211,082
Net Pension Liability (Asset) - End of Year	<u>\$ (155,251)</u>	<u>\$ 502,874</u>	<u>\$ (465,012)</u>	<u>\$ 489,366</u>	<u>\$ 532,959</u>	<u>\$ 625,162</u>	<u>\$ 803,819</u>	<u>\$ 1,467,895</u>	<u>\$ 1,008,404</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension									
Liability	102.48%	92.38%	106.69%	92.42%	92.00%	90.63%	87.98%	79.47%	86.03%
Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Commission's Net Pension Liability as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

*The Commission joined the Indiana Public Employees Retirement Fund effective July 1, 2013.

** All available years data has been represented above.

**THE STATE LOTTERY COMMISSION OF INDIANA
SCHEDULE OF COMMISSION CONTRIBUTIONS
EMPLOYEES' PENSION PLAN OF THE STATE LOTTERY COMMISSION OF INDIANA
LAST TEN FISCAL YEARS
(SEE INDEPENDENT AUDITORS' REPORT)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 43,843	\$ -	\$ 43,329	\$ 46,276	\$ 53,316	\$ 67,430	\$ 121,275	\$ 82,149	\$ 92,659	\$ 97,334
Contributions in Relation of the Actuarially Determined Contribution	274,286	271,937	269,726	202,158	183,525	194,733	305,586	233,261	143,329	186,036
Contribution Deficiency (Excess)	<u>\$ (230,443)</u>	<u>\$ (271,937)</u>	<u>\$ (226,397)</u>	<u>\$ (155,882)</u>	<u>\$ (130,209)</u>	<u>\$ (127,303)</u>	<u>\$ (184,311)</u>	<u>\$ (151,112)</u>	<u>\$ (50,670)</u>	<u>\$ (88,702)</u>
Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedules

Valuation date:

Actuarially determined contribution rates are calculated as of July 1, one year prior to end of the fiscal year in which the contributions were reported.

Methods and Assumptions Used to Determine the Most Current Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed (30 year decreasing from July, 2012)
Remaining Amortization Period	20 years
Asset Valuation Method	Fair market value
Investment Rate of Return	6.00%
Retirement Age	2% at 50-53, 5% at 54-55, 4% at 56-57, 5% at 58, 7% at 59, 10% at 60, 17.5% at 61, 22% at 62, 18% at 63, 22% at 64, 33% at 65, 17.5% at 66-67, 15% at 68, 19% at 69, 30% at 70-74, 100% at age 75.
Mortality	Pub-2010 General Employee Amount-Weighted Mortality Projected Generationally with Scale MP-2021 (separate employee, retiree, disability contingent survivor tables and male & females tables)

Other information:

None

THE STATE LOTTERY COMMISSION OF INDIANA
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
LAST TEN FISCAL YEARS**
(SEE INDEPENDENT AUDITORS' REPORT)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Commission's Proportion (Percentage) of Collective Net Pension Liability	0.05153%	0.05064%	0.04951%	0.04909%	0.04728%	0.04793%	0.04316%	0.03967%	0.03747%
Commission's Proportionate Share of the Collective Pension Liability	\$ 1,625,170	\$ 666,345	\$ 1,495,397	\$ 1,622,456	\$ 1,606,123	\$ 2,138,418	\$ 1,958,793	\$ 1,615,720	\$ 984,687
Commission's Covered Payroll	\$ 2,965,778	\$ 2,791,917	\$ 2,672,820	\$ 2,557,396	\$ 2,412,743	\$ 2,377,878	\$ 2,068,311	\$ 2,352,591	\$ 1,900,340
Commission's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	54.8%	23.9%	55.9%	63.4%	66.6%	89.9%	94.7%	68.7%	51.8%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.5%	92.5%	81.4%	80.1%	78.9%	76.6%	75.3%	77.3%	84.3%

The Commission joined the Indiana Public Employees Retirement Fund effective July 1, 2013.

* The amounts presented for each fiscal year were determined as of June 30 of the previous fiscal year (measurement date).

**All available years data has been represented above.

**THE STATE LOTTERY COMMISSION OF INDIANA
SCHEDULE OF COMMISSION CONTRIBUTIONS
INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND
LAST TEN FISCAL YEARS**
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contributions	\$ 362,334	\$ 334,189	\$ 329,393	\$ 313,421	\$ 286,428	\$ 270,227	\$ 266,322	\$ 231,651	\$ 263,490
Contributions in Relation to the Statutorily Required Contribution	<u>362,334</u>	<u>333,865</u>	<u>312,695</u>	<u>291,980</u>	<u>286,428</u>	<u>269,982</u>	<u>256,771</u>	<u>244,166</u>	<u>221,764</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ 324</u>	<u>\$ 16,698</u>	<u>\$ 21,441</u>	<u>\$ -</u>	<u>\$ 245</u>	<u>\$ 9,551</u>	<u>\$ (12,515)</u>	<u>\$ 41,726</u>
Covered Payroll	3,235,128	2,983,832	2,941,009	2,798,398	2,557,396	2,412,743	2,377,878	2,068,311	2,352,591
Contribution as a Percentage of Covered Payroll	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%

The Commission joined the Indiana Public Employees Retirement Fund effective July 1, 2013.

* The amounts presented for each fiscal year were determined as of June 30 of the previous fiscal year (measurement date).

**All available years data has been represented above.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
The State Lottery Commission of Indiana
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities and fiduciary activities of The State Lottery Commission of Indiana, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise The State Lottery Commission of Indiana's basic financial statements, and have issued our report thereon dated October 25, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The State Lottery Commission of Indiana's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The State Lottery Commission of Indiana's internal control. Accordingly, we do not express an opinion on the effectiveness of The State Lottery Commission of Indiana's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether The State Lottery Commission of Indiana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Indianapolis, Indiana
October 25, 2023



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