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October 15, 2008

Kathryn Densborn, Executive Director  
The State Lottery Commission of Indiana  
Pan Am Plaza, 201 S. Capital, Suite 1100  
Indianapolis, IN 46225

Dear Ms. Densborn:

We have received the audit report prepared by E.C. Ortiz & Co., LLP., Certified Public Accountants, for the period July 1, 2007 to June 30, 2008. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the report present fairly the financial condition of the State Lottery Commission of Indiana as of June 30, 2008 and the results of its operations for the period then ended, on the basis of accounting described in the report.

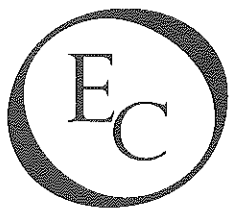
The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS

**THE STATE LOTTERY  
COMMISSION OF INDIANA  
FINANCIAL STATEMENTS  
As of and for the years ended  
JUNE 30, 2008 AND 2007  
(With Independent Auditors' Report)**

**THE STATE LOTTERY COMMISSION OF INDIANA  
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E.C. ORTIZ & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the State Lottery Commission of Indiana:

We have audited the accompanying statement of net assets of the State Lottery Commission of Indiana (the "Commission") as of June 30, 2008, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended June 30, 2007 were audited by another auditor whose report dated September 19, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2008, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Required Supplementary Information, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commission's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2008 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 grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*E. C. Ortiz & Co. LLP*

September 10, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of The State Lottery Commission of Indiana ("Commission") offers readers of the Commission's annual financial report this narrative overview of its performance during the fiscal years ended June 30, 2008 and 2007. Please read it in conjunction with the financial statements and related footnote disclosures, which follow this section.

### *Financial Highlights*

- Fiscal year 2008 ("FY 08") ticket sales were \$823 million, an increase of approximately \$34 million or 4% over fiscal year 2007 ("FY 07"). The net increase in sales is primarily attributable to a \$22 million increase in Hoosier Lotto sales, a \$16 million increase in scratch-off tickets sales, a \$2 million decrease in Powerball sales and a \$2 million decrease in Mix & Match sales. Fiscal year 2007 ("FY 07") ticket sales were \$789 million, a decrease of approximately \$27 million or 3% over fiscal year 2006 ("FY 06"). The net decrease in sales is primarily attributable to a \$41 million decrease in Powerball ticket sales, a \$5 million increase in scratch-off tickets sales and a \$10 million increase in Mix & Match sales.
- Prize expenses for FY 08 increased \$25 million over FY 07. The 5% increase in prize expenses is associated with the \$34 million increase in sales revenues as mentioned above, and a slight increase in the payout percentage of Scratch-off, Raffle and Daily Games. Prize expenses for FY 07 decreased \$15 million over FY 06. The 3% decrease in prize expenses represents a decrease in expenses associated with the \$27 million decrease in sales revenues as mentioned above.
- Indirect gaming expense for FY 08, which includes retailer commissions, ticket printing costs, advertising and promotion, on-line professional services, and Instant Ticket Vending Machine ("ITVM") services, increased \$7 million over FY 07. The increase is primarily related to the increase in Hoosier Lotto sales revenue, retailer commissions, advertising and promotions. Indirect gaming expense for FY 07 decreased \$5 million over FY 06 due primarily to decreases of approximately \$2 million each in retailer commissions and on-line vendor expenses.
- Other operating expenses, which include salaries, benefits and general and administrative expenses in FY 08 increased 16% compared to those for FY 07. The increase is primarily due to an increase in staff, the cost of insurance and incentive payments. Other operating expenses in FY 07 decreased slightly compared to those for FY 06.
- Non-operating revenues, net of expenses, increased \$3 million in FY 08 over FY 07. In FY 07, non-operating revenues, net of expenses, increased approximately \$5 million over FY 06, of which \$4 million was related to the increase (decrease) in fair value of investments. This line item accounts for the change in fair value of investments in U.S. Treasury securities held by the Commission to fund long-term prizes. Interest income increased approximately \$1 million in FY 07 over FY 06.
- FY 08 net income of \$217 million represents a \$1 million increase over FY 07. FY 07 net income of \$216 million represents a \$2 million decrease over FY 06.

### *Overview of the Financial Statements*

The Commission is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to a business entity. This discussion and analysis is intended to serve as an introduction to the Commission's financial statements, along with corresponding note disclosures and other supplementary information.

By law, the Commission is required each quarter to transfer all of its surplus revenues to the State of Indiana. As a result, the net assets of the Commission consist of an amount set aside for the future cash flow needs of the Commission and the net book value of funds invested in capital assets. To assess the Commission's financial position and financial health, the reader of these financial statements should pay particular attention to changes in the components of assets and liabilities as set forth in the statement of net assets, and in changes in operating revenues, expenses and distributions as set forth in the statement of revenues, expenses and changes in net assets. In addition, the statement of cash flows is intended to provide information about the cash receipts, cash payments and net changes in cash resulting from operations, financing and investing activities.

### ***Financial Analysis of the Commission***

#### **Net Assets and Change in Net Assets**

Net assets represent the difference between total assets and total liabilities. Because the Commission is required by law to make quarterly transfers of its surplus revenues to the State of Indiana, the change in net assets does not necessarily reflect the results of the Commission's operating activities.

	<b>Net Assets</b>		
	<b>(in millions of dollars)</b>		
	<b>June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Current assets	\$ 115	\$ 138	\$ 118
Restricted assets	8	8	9
Long-term investments	82	74	66
Capital assets—net	4	2	3
Total assets	<u>209</u>	<u>222</u>	<u>196</u>
Current liabilities	123	142	121
Long-term liabilities	81	75	68
Total liabilities	<u>204</u>	<u>217</u>	<u>189</u>
Net assets			
Unrestricted	1	3	4
Invested in capital assets	4	2	3
Total net assets	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 7</u>

#### **Assets**

The FY 08 decrease in assets over FY 07 was primarily the result of a decrease in cash and cash equivalents. Cash and cash equivalents decreased from \$93 million to \$68 million at June 30, 2008. This decrease is primarily due to a decrease in accounts payable and in the Hoosier Lotto jackpot reserve.

The FY 07 increase in assets over FY 06 was primarily the result of an increase in cash and cash equivalents, accounts receivable and prepaid expenses. Cash and cash equivalents increased from \$78 million to \$93 million at June 30, 2007. This increase is primarily due to an increase in net income for the fourth quarter of FY 07 compared to FY 06 and an increase in the reserve needed to pay the Hoosier Lotto jackpot.

## Liabilities

Current liabilities decreased by \$19 million in FY 08 over FY 07 primarily as a result of decreased sales and net income and the timing of the related payments to winners and the Indiana State Treasurer.

Current liabilities increased by \$21 million in FY 07 over FY 06 primarily as a result of increased sales and net income and the timing of the related payments to winners and the Indiana State Treasurer.

## Net assets

Net assets consist of unrestricted income retained for the future cash flow needs of the Commission and capital assets. The Commission's total net assets at June 30, 2008 and 2007 were \$5 million.

## Ticket Sales and Prize Expense

### Sales and Prize Expense (in millions of dollars)

	Scratch-Off			Pull-Tab		
	2008	2007	Change	2008	2007	Change
Operating Revenues	\$ 525.9	\$ 510.2	\$ 15.7	\$ 13.4	\$ 15.2	\$ (1.8)
Game Prizes	351.9	340.6	11.3	8.9	10.0	(1.1)
Gross Margin	<u>\$ 174.0</u>	<u>\$ 169.6</u>	<u>\$ 4.4</u>	<u>\$ 4.5</u>	<u>\$ 5.2</u>	<u>\$ (0.7)</u>
	Powerball			Hoosier Lotto		
	2008	2007	Change	2008	2007	Change
Operating Revenues	\$ 116.5	\$ 118.9	\$ (2.4)	\$ 91.2	\$ 69.1	\$ 22.1
Game Prizes	55.4	55.5	(0.1)	49.0	36.9	12.1
Gross Margin	<u>\$ 61.1</u>	<u>\$ 63.4</u>	<u>\$ (2.3)</u>	<u>\$ 42.2</u>	<u>\$ 32.2</u>	<u>\$ 10.0</u>
	Daily Draw Games			Mix & Match		
	2008	2007	Change	2008	2007	Change
Operating Revenues	\$ 63.6	\$ 64.2	\$ (0.6)	\$ 9.4	\$ 11.5	\$ (2.1)
Game Prizes	29.0	27.5	1.5	5.8	7.3	(1.5)
Gross Margin	<u>\$ 34.6</u>	<u>\$ 36.7</u>	<u>\$ (2.1)</u>	<u>\$ 3.6</u>	<u>\$ 4.2</u>	<u>\$ (0.6)</u>
	Raffle			Total		
	2008	2007	Change	2008	2007	Change
Operating Revenues	\$ 2.8	\$ 0.0	\$ 2.8	\$ 822.8	\$ 789.1	\$ 33.7
Game Prizes	3.3	0.0	3.3	503.3	477.8	25.5
Gross Margin	<u>\$ (0.5)</u>	<u>\$ 0.0</u>	<u>\$ (0.5)</u>	<u>\$ 319.5</u>	<u>\$ 311.3</u>	<u>\$ 8.2</u>

The table above compares FY 08, FY 07 and FY 06 sales, prize expense and gross margin for major lottery game categories. FY 08 sales increased in the scratch-off and Hoosier Lotto product lines. Sales decreased for pull-tab, Powerball, the daily draw games, and Mix & Match. FY 07 sales increased in the scratch-off and Hoosier Lotto product lines. The scratch-off game category includes ticket revenue and expense for the Hoosier Millionaire Game Show, which was cancelled in December 2005, for FY 06. Sales decreased for Powerball, pull-tab games and the daily draw games. The Mix & Match game was introduced in May 2006. Gross margins generally increased or decreased relative to changes in game sales.

The FY 08 and FY 07 increases in scratch-off ticket sales reflect the continuation of increased public awareness of such games and the continued effort to promote play in these games. The Commission has increased the frequency of new game introductions and the placement of higher priced games in retail locations.

Powerball is a multi-state lotto game offering large jackpot prizes. The Commission participates in this game along with 30 other United States lotteries, including the District of Columbia and the U.S. Virgin Islands. Powerball sales decreased in FY 08 from \$119 million to \$117 million. The primary reason for the decrease in ticket sales was lower average jackpots than in FY 07. Powerball sales decreased in FY 07 by approximately \$41 million to \$119 million. The primary reason for the decrease in ticket sales was significantly lower jackpots than the two record jackpots in FY 06.

Hoosier Lotto is a smaller lotto game available only in Indiana. Sales increased during FY 08 by approximately \$22 million. The increase in sales is primarily due to a larger than average jackpot in FY 08 as compared to FY 07. Sales increased during FY 07 by approximately \$4 million, primarily due to a larger than average jackpot in FY 07 as compared to FY 06.

The "Daily Draw Games" consists of the Daily 3, Daily 4 and Lucky 5 games. The Daily Draw Games have slightly decreasing sales levels in FY 08 and FY 07.

### **Prize Expense**

In general, prize expense by game will increase or decrease from year to year in proportion to the increase or decrease in ticket sales for the corresponding game. However, prize expense can also be impacted by the luck of the draw or by changes to the game design.

Total prize expense in FY 08 of \$503 million represents a 5% increase over FY 07 prize expense of \$478 million. Total prize expense in FY 07 of \$478 million decreased 3% over FY 06 prize expense of \$493 million. Notable variances in prize expense are discussed below.

- FY 08 scratch-off game prize expense increased 3% or \$11 million. FY 07 scratch-off game prize expense increased 1% or \$3 million. These increases are directly related to the increases in scratch-off sales as discussed earlier.
- On-line game prize expense increased 12% or \$15 million in FY 08 as compared to FY 07. Such increase is directly related to increased Hoosier Lotto sales as discussed previously and Raffle which was offered in FY 08 but not FY 07. On-line game prize expense decreased 12% or \$17 million in FY 07 as compared to FY 06. Such decrease is directly related to decreased Powerball sales as discussed previously.

## Indirect Game Expenses and Other Operating Expenses

Indirect Game Expenses and Other Operating Expenses for the year ended June 30,  
(in millions of dollars)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Indirect game expenses:			
Advertising and promotion	\$ 10	\$ 8	\$ 9
Retailer commissions	59	55	57
On-line professional services	8	8	9
ITVM lease and courier services	4	4	4
Ticket printing costs	<u>9</u>	<u>8</u>	<u>9</u>
	<u>90</u>	<u>83</u>	<u>88</u>
Other operating expenses:			
Salaries, wages, and benefits	15	13	12
General and administrative	<u>5</u>	<u>4</u>	<u>5</u>
	<u>20</u>	<u>17</u>	<u>17</u>
Total indirect game other operating expenses	<u>\$ 110</u>	<u>\$ 100</u>	<u>\$ 105</u>

Overall, other operating expenses increased slightly from FY 07 to FY 08 and remained relatively consistent from FY 06 to FY 07. Fluctuations in retailer commissions are directly related to the increase in overall ticket sales as retailers earn a commission on each ticket sold.

### Other

The Commission is not aware of any facts, decisions or conditions, other than those disclosed in the accompanying financial statements, that are expected to have a significant effect on financial position or results of operations.

\* \* \* \* \*

**THE STATE LOTTERY COMMISSION OF INDIANA**  
**STATEMENTS OF NET ASSETS**  
**AS OF JUNE 30, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 68,074,259	\$ 92,834,599
Investments — current portion	8,585,823	7,861,153
Accounts receivable — net	32,423,283	31,271,899
Prepaid expenses	5,215,736	5,386,399
Accrued interest receivable	715,041	534,603
Ticket inventory	229,937	95,713
	<u>115,244,079</u>	<u>137,984,366</u>
NONCURRENT ASSETS:		
Long-term investments — less current portion	82,146,691	74,315,459
Restricted assets	8,074,698	8,013,262
Capital assets — net	3,736,960	2,159,263
	<u>93,958,349</u>	<u>84,487,984</u>
<b>TOTAL</b>	<u>\$ 209,202,428</u>	<u>\$ 222,472,350</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable:		
State	\$ 51,340,603	\$ 58,303,566
Trade	6,718,479	9,019,348
Current portion of prize liability	62,584,910	72,198,080
Deferred revenue	783,615	438,306
Other accrued expenses	2,145,033	1,799,562
	<u>123,572,640</u>	<u>141,758,862</u>
LONG-TERM LIABILITIES — Prize liability less current portion	<u>80,629,788</u>	<u>75,713,488</u>
<b>Total liabilities</b>	<u>204,202,428</u>	<u>217,472,350</u>
NET ASSETS:		
Unrestricted	1,263,040	2,840,737
Invested in capital assets	3,736,960	2,159,263
	<u>5,000,000</u>	<u>5,000,000</u>
<b>TOTAL</b>	<u>\$ 209,202,428</u>	<u>\$ 222,472,350</u>

See notes to financial statements.

**THE STATE LOTTERY COMMISSION OF INDIANA  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
OPERATING REVENUES:		
Instant ticket sales — net	\$ 539,321,205	\$ 525,409,657
On-line ticket sales	<u>283,523,946</u>	<u>263,646,309</u>
Total operating revenues	<u>822,845,151</u>	<u>789,055,966</u>
OPERATING EXPENSES:		
Direct game expenses:		
Instant game prizes	360,763,282	350,606,825
On-line games prizes	<u>142,531,880</u>	<u>127,204,747</u>
	<u>503,295,162</u>	<u>477,811,572</u>
Indirect game expenses:		
Retailer commissions	59,499,591	55,076,782
Ticket printing costs	8,620,546	8,163,519
Advertising and promotion	9,837,030	7,982,552
On-line professional services	8,358,404	7,718,453
ITVM lease and courier services	<u>3,662,997</u>	<u>3,931,590</u>
	<u>89,978,568</u>	<u>82,872,896</u>
Total game expenses	<u>593,273,730</u>	<u>560,684,468</u>
OTHER OPERATING EXPENSES:		
Salaries, wages, and benefits	14,589,704	12,639,843
General and administrative	<u>5,000,032</u>	<u>4,247,820</u>
Total other operating expenses	<u>19,589,736</u>	<u>16,887,663</u>
Total operating expenses	<u>612,863,466</u>	<u>577,572,131</u>
OPERATING INCOME	<u>209,981,685</u>	<u>211,483,835</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	3,910,889	3,984,323
Net increase (decrease) in fair value of investments	2,944,523	126,610
Other income (expense)	<u>230,062</u>	<u>385,897</u>
Total non-operating revenues (expenses)	<u>7,085,474</u>	<u>4,496,830</u>
NET INCOME PRIOR TO DISTRIBUTIONS	<u>217,067,159</u>	<u>215,980,665</u>
DISTRIBUTIONS:		
Distributions to the State	(165,726,556)	(159,264,732)
Distributions to be paid to the State	<u>(51,340,603)</u>	<u>(58,303,566)</u>
Total distributions	<u>(217,067,159)</u>	<u>(217,568,298)</u>
CHANGES IN NET ASSETS	-	(1,587,633)
NET ASSETS — Beginning of year	<u>5,000,000</u>	<u>6,587,633</u>
NET ASSETS — Ending of year	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

See notes to financial statements.

**THE STATE LOTTERY COMMISSION OF INDIANA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from ticket sales	\$ 822,069,641	\$ 786,444,176
Payments to ticket winners	(507,992,032)	(455,479,589)
Payments to employees	(14,244,233)	(13,650,061)
Payments of suppliers	(95,177,329)	(86,365,705)
Net cash provided by operating activities	<u>204,656,047</u>	<u>230,948,821</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Distributions to the State	(224,030,122)	(210,859,622)
Other income	230,062	385,897
Net increase (decrease) in restricted assets	<u>(61,436)</u>	<u>979,461</u>
Net cash used in noncapital and related financing activities	<u>(223,861,496)</u>	<u>(209,494,264)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(3,713,319)	(873,126)
Proceeds from the sale of capital assets	<u>39,356</u>	<u>29,634</u>
Net cash used in capital and related financing activities	<u>(3,673,963)</u>	<u>(843,492)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(9,551,318)	(16,370,047)
Investment maturities	3,939,939	7,234,000
Interest income	<u>3,730,451</u>	<u>3,516,877</u>
Net cash used in investing activities	<u>(1,880,928)</u>	<u>(5,619,170)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,760,340)	14,991,895
CASH AND CASH EQUIVALENTS — Beginning of year	<u>92,834,599</u>	<u>77,842,704</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 68,074,259</u>	<u>\$ 92,834,599</u>

(Continued)

**THE STATE LOTTERY COMMISSION OF INDIANA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 209,981,685	\$ 211,483,835
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,065,701	1,511,158
Change in provision for doubtful accounts	27,577	54,313
Change in provision for ticket returns	994,710	(317,090)
Loss (gain) on sale of fixed assets	30,565	(20,299)
Changes in certain assets and liabilities:		
Accounts receivable	(2,173,671)	(1,707,647)
Instant ticket inventory	(134,224)	253,170
Prepaid expenses	170,663	(2,299,239)
Accounts payable — trade	(2,300,869)	1,289,922
Deferred revenue	345,309	(621,067)
Other accrued expenses	345,471	(1,010,218)
Prize liability	(4,696,870)	22,331,983
Net cash provided by operating activities	<u>\$ 204,656,047</u>	<u>\$ 230,948,821</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES —</b>		
Net increase in fair value of investments	<u>\$ 2,944,523</u>	<u>\$ 126,610</u>

See notes to financial statements.

(Concluded)

**THE STATE LOTTERY COMMISSION OF INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

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**1. REPORTING ENTITY**

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 in May 1989 ("Lottery Article"). The Commission is a component unit of the State of Indiana (the "State") and is reported as an enterprise fund in the State's Comprehensive Annual Financial Report ("CAFR").

The Commission has introduced various draw games since its inception, including Hoosier Lotto, Powerball, Daily 3, Daily 4, Lucky 5, Mix & Match, various Raffle games, numerous scratch-off and assorted pull-tab ticket games.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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"). Under this method, revenues are recognized when earned and expenses are recognized when incurred. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Commission is required to follow all applicable Governmental Accounting Standards Board pronouncements.

**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 and liabilities 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.

**Revenue Recognition** — Scratch-off and pull-tab ticket revenue, less an allowance for returns, is recognized at the time tickets are shipped to retailers. Ticket revenue for draw games is recognized in the period in which tickets sold to the playing public become eligible for a drawing. Certain scratch-off ticket games include free ticket prizes that entitle the holder to exchange one ticket for another of equal value. The selling price of free tickets reduces scratch-off ticket revenue when tickets are issued 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. Included in cash and cash equivalents are investments in direct obligations of the U.S. government or government agencies, AAA/AA short-term commercial paper or various money market funds composed exclusively of investment vehicles previously described. At times, cash deposits may be in excess of the federally insured limits.

**Investments** — The treasurer of the State, on behalf of the Commission, is permitted to invest Commission funds in direct obligations of the U.S. Treasury or insurance annuities to fund future installment prize obligations. Investments are recorded at fair value, except for the insurance annuities, at June 30, 2008 and 2007. The insurance annuities are considered to be nonparticipating interest-earning contracts and are carried at accreted cost.

**Accounts Receivable, Net** — Accounts receivable represent proceeds due from retailers for net ticket sales, less commissions and prizes redeemed by retailers. Accounts receivable is reduced by an allowance for ticket returns and an allowance for doubtful accounts. Allowance for ticket returns is based on recent actual returns associated with scratch-off and pull-tab game ticket returns and was \$4,703,091 and \$3,708,381 as of June 30, 2008 and 2007, respectively. Allowance for doubtful accounts is based on management's estimate of retailer receivables that will not be collected and was \$145,923 and \$118,347 as of June 30, 2008 and 2007, respectively.

**Prepaid Expenses** — Expenses benefiting future accounting periods include payments for rent, insurance, parking, software maintenance, retirement, game licenses, prize trips and prize packages.

**Capital Assets** — Capital assets are stated at cost. Capital assets are defined as assets that have a useful life of more than one year and a unit cost of more than \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Generally, data processing equipment and software are depreciated over three years. Vehicles are depreciated over four years. Most of the other assets are depreciated over five years. Depreciation expense was \$2,065,701 and \$1,511,158 for the years ended June 30, 2008 and 2007, respectively.

**Ticket Inventory** — Ticket inventory consists of certain scratch-off tickets and all pull-tabs purchased by the Commission under an agreement for new games that are not yet on sale to retailers. These inventories are carried at cost, using the specific identification method. Tickets are expensed upon shipment to licensed retailers.

The Commission has an agreement with its primary scratch-off ticket vendor whereby the Commission pays for scratch-off tickets issued to Commission retailers. Any scratch-off tickets not issued to retailers for sale are not paid for by the Commission. The Commission receives a refund for any tickets returned by retailers to the Commission. Therefore, the Commission does not have any risk of loss in the event the tickets become damaged or lost and tickets are not treated as inventory by the Commission.

**Prize Liability** — Prize liability includes an estimate of sold and unclaimed scratch-off, pull-tab and draw game winners as of June 30, 2008 and 2007, as well as installment amounts payable to past scratch-off, pull tab, draw game, and game show winners. Installment prizes are recorded at a discount based on interest rates that range from approximately 3% to 6%, which is reflective of the interest rate earned on the investments held to fund the related liabilities.

For scratch-off and pull-tab games, a liability is recorded when the Commission ships the tickets to the licensed retailers. The accrual is based on the specified prize payout structure established for each game. Instant game prizes must be claimed within 60 days after the declared end-of-game date or they will be forfeited. The liability for daily mid-day and evening draw games is determined based on the actual winning numbers drawn and the number of wagers placed for each draw date. The liability for Hoosier Lotto is determined by the level of the jackpot that could be won on a given draw date. All draw game prizes must be claimed within 180 days of the date of the selection event or they will be forfeited. All unclaimed prize money is added to a pool from which future prizes may be awarded or from which the cost of prize promotions can be paid. Unclaimed prize money at June 30, 2008 and 2007 of \$0 and \$200,000, respectively, is included in the current portion of prize liability in the accompanying statements of net assets.

**Net Assets** — As stated in the Lottery Article, funds in excess of the amounts necessary to pay prizes and expenses for the operation of the Commission are to be distributed quarterly per a statutory schedule 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 assets.

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 pension obligations. The balance of the amount distributed to the Indiana State Treasurer is deposited into the State's Build Indiana Fund, to be distributed to state and local capital projects and for the Lottery/Gaming Surplus Account. Distributions to the State's Build Indiana Fund totaled \$164,030,122 and \$150,859,622 for the years ended June 30, 2008 and 2007, respectively.

Net assets invested in capital assets consist of capital assets, net of accumulated depreciation.

**Commissions and Bonuses** — Retailers earn a 6.0% sales commission on draw game tickets and a 5.5% sales commission on scratch-off and pull-tab game tickets. Retailers earn a 1.0% cashing commission for redeeming winning tickets and the lesser of 1.0% or \$100,000 for selling winning jackpot tickets. Additionally, retailers are eligible for a quarterly bonus based on their scratch-off and pull tab sales over the preceding 13-week period.

**Contractor Fees** — The Commission has contracted with Scientific Games, Inc. ("Sci Games") for the majority of its gaming systems and supplies.

The Commission entered into a contract, with an effective date of January 13, 1999, with Sci Games for the operation of the gaming network that consists of approximately 4,000 instant and on-line retailer ticket terminals and associated software. The contract requires the Commission to pay 3% of gross on-line ticket revenue to Sci Games for the above services.

The Commission entered into a contract, with an effective date of April 24, 2001, with Sci Games for the printing and distribution of scratch-off tickets. Sci Games received 1.3855 % of net scratch-off ticket revenue for games that were released on or prior to January 1, 2008. For games released after January 1, 2008, the percentage decreased to 1.3655%.

**Prize Expense** — Prize expense for scratch-off and pull-tab games is recognized based on the predetermined prize structure of each game. Generally, prize expense for the on-line draw games is recognized based on the estimated payout experience for the respective game.

### 3. DEPOSITS AND INVESTMENTS

The Commission applies GASB Statement No. 40, *Deposits and Investments*, which provides guidance on disclosure information relating to investment credit risk, investment maturity information, interest rate sensitivity and foreign exchange exposure. The commission was not subject to interest rate sensitivity of foreign exchange exposure for the years ended June 30, 2008 and 2007.

**Deposits** — 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, money market funds with portfolios of securities issued or guaranteed by the United States of America or agreements to repurchase these same obligations, certificates of deposit, and short-term commercial paper rated AAA or AA.

The carrying amount of the Commission's deposits and outstanding checks with financial institutions at June 30, 2008 and 2007, totaled \$(984,720) and \$(966,641), respectively, while bank balances totaled \$32,611 and \$20,171, respectively. The bank balances are categorized as insured by the FDIC or collateralized with securities held by the Commission in its name.

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.

**Investments** — The Lottery Article states that money that the Commission anticipates will be available for the payment of prizes on a deferred basis may be invested in direct U.S. Treasury obligations or insurance annuities. Investments are reported at fair value, except for insurance annuities, using quoted market prices. Insurance annuities are carried at cost. 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 assets. The net change in the fair value of U.S. treasury obligations for the years ended June 30, 2008 and 2007 was \$3,036,792 and (\$939), respectively. The net change in the fair value of commercial papers held by the Commission for the years ended June 30, 2008 and 2007 was (\$92,269) and \$127,549, respectively. Investments in insurance annuity contracts, at rates yielding approximately 3% to 6%, relate to deferred prize obligations.

As of June 30, 2008, the Commission had the following investments and maturities:

	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
U.S. government securities	\$ 57,055,198	\$ 4,352,823	\$16,042,511	\$16,181,924	\$20,477,940
Commercial paper	36,839,840	36,839,840	-	-	-
Certificates of deposit	375,000	375,000	-	-	-
Money market funds	32,219,139	32,219,139	-	-	-
	126,489,177	73,786,802	16,042,511	16,181,924	20,477,940
	<b>Carrying Value</b>				
Insurance annuities	33,677,316	4,233,000	11,327,229	10,082,657	8,034,430
Total investments	<u>\$160,166,493</u>	<u>\$78,019,802</u>	<u>\$27,369,740</u>	<u>\$26,264,581</u>	<u>\$28,512,370</u>

As of June 30, 2007, the Commission had the following investments and maturities:

	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
U.S. government securities	\$ 45,949,505	\$ 3,578,153	\$12,738,592	\$12,616,857	\$17,015,903
Commercial paper	31,850,560	31,850,560	-	-	-
Certificates of deposit	392,418	392,418	-	-	-
Money market funds	61,950,680	61,950,680	-	-	-
	140,143,163	97,771,811	12,738,592	12,616,857	17,015,903
	<b>Carrying Value</b>				
Insurance annuities	36,227,107	4,283,000	14,570,974	10,066,869	7,306,264
Total investments	<u>\$176,370,270</u>	<u>\$ 102,054,811</u>	<u>\$27,309,566</u>	<u>\$22,683,726</u>	<u>\$24,322,167</u>

A reconciliation of cash, cash equivalents, and investments per the balance sheet to the deposits and investments previously presented is as follows as of June 30:

	2008	2007
Balance Sheet:		
Cash and cash equivalents	\$ 68,074,259	\$ 92,834,599
Investments (current)	8,585,823	7,861,153
Investments (long-term)	82,146,691	74,315,459
Restricted assets *	375,000	392,418
Total	<u>\$ 159,181,773</u>	<u>\$ 175,403,629</u>
Notes to the Financial Statements:		
Deposits	\$ (984,720)	\$ (966,641)
Investments (current and long-term)	<u>160,166,493</u>	<u>176,370,270</u>
Total	<u>\$ 159,181,773</u>	<u>\$ 175,403,629</u>

\* included as a component of the restricted assets balance in the accompanying statements of net assets.

The following table provides information on the credit ratings associated with the Commission's investments as of June 30, 2008 and 2007:

	S&P	Fitch	Moody's	A.M. Best	Balance at June 30, 2008	Percent of Total	Balance at June 30, 2007	Percent of Total
U.S. government securities	AAA	unrated	unrated	unrated	\$ 57,055,198	36%	\$ 45,949,505	26%
Commercial paper	A1+	F1+	P1	unrated	36,839,840	23%	31,850,560	18%
Repurchase agreements	unrated	unrated	unrated	unrated	375,000	0%	392,418	0%
Money market funds	AAAm	AAA	Aaa	unrated	32,219,139	20%	61,950,680	35%
Insurance annuities	AA	AA+	Aa3	A+	<u>33,677,316</u>	21%	<u>36,227,107</u>	<u>21%</u>
Total investments					<u>\$ 160,166,493</u>	<u>100%</u>	<u>\$ 176,370,270</u>	<u>100%</u>

The Commission is not limited on the amount it can invest in one issuer. More than 5% of the Commission's investments are in each of the following: United States Treasury Strips, Citigroup Funding and American General Commercial Paper, Key Bank Prime Money Market Fund and AEGON Institutional Markets annuities.

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. In 2008, the \$160 million of investments is not held by the Commission. Investments totaling \$57 million are held by the Indiana State Treasurer; therefore, these investments are not considered to have custodial credit risk. The remaining \$103 million of investments are held by outside counterparties. In 2007, the \$176 million of investments is not held by the Commission. Investments totaling \$46 million are held by the Indiana State Treasurer; therefore, these investments are not considered to have custodial credit risk. The remaining \$130 million of investments are held by outside counterparties.

#### 4. CAPITAL ASSETS

A summary of the Commission's capital assets at June 30, 2008 and 2007 is as follows:

	Balances at June 30, 2007	Increases	Decreases	Balances at June 30, 2008
Vehicles	\$ 1,869,712	\$ 89,936	\$ (283,842)	\$ 1,675,806
Furniture, fixtures, and equipment	6,714,170	2,549,746	(5,401,355)	3,862,561
Data processing equipment	<u>4,434,963</u>	<u>1,073,637</u>	<u>(2,987,715)</u>	<u>2,520,885</u>
Total capital assets — being depreciated	<u>13,018,845</u>	<u>3,713,319</u>	<u>(8,672,912)</u>	<u>8,059,252</u>
Less accumulated depreciation:				
Vehicles	(1,371,069)	(247,196)	281,818	(1,336,447)
Furniture, fixtures, and equipment	(6,192,121)	(1,135,122)	5,393,321	(1,933,922)
Data processing equipment	<u>(3,296,392)</u>	<u>(683,383)</u>	<u>2,927,852</u>	<u>(1,051,923)</u>
Total accumulated depreciation	<u>(10,859,582)</u>	<u>(2,065,701)</u>	<u>8,602,991</u>	<u>(4,322,292)</u>
Total capital assets — net	<u>\$ 2,159,263</u>	<u>\$ 1,647,618</u>	<u>\$ (69,921)</u>	<u>\$ 3,736,960</u>

	Balances at June 30, 2006	Increases	Decreases	Balances at June 30, 2007
Vehicles	\$ 1,750,064	\$ 221,584	\$ (101,936)	\$ 1,869,712
Furniture, fixtures, and equipment	6,719,448	-	(5,278)	6,714,170
Data processing equipment	4,523,244	651,542	(739,823)	4,434,963
<b>Total capital assets — being depreciated</b>	<u>12,992,756</u>	<u>873,126</u>	<u>(847,037)</u>	<u>13,018,845</u>
Less accumulated depreciation:				
Vehicles	(1,055,704)	(409,853)	94,488	(1,371,069)
Furniture, fixtures, and equipment	(5,470,621)	(726,778)	5,278	(6,192,121)
Data processing equipment	(3,659,801)	(374,527)	737,936	(3,296,392)
<b>Total accumulated depreciation</b>	<u>(10,186,126)</u>	<u>(1,511,158)</u>	<u>837,702</u>	<u>(10,859,582)</u>
<b>Total capital assets — net</b>	<u>\$ 2,806,630</u>	<u>\$ (638,032)</u>	<u>\$ (9,335)</u>	<u>\$ 2,159,263</u>

The Commission removed \$8,389,067 and \$737,936 of fully depreciated capital assets during FY08 and FY07, respectively.

## 5. PRIZE LIABILITY

The prize liability relating to past game show and on-line winners, including an estimate of unclaimed instant and on-line winners at June 30, 2008 and 2007 is as follows:

	2008	2007
TV game show and Hoosier Lotto liability	\$ 89,268,788	\$ 83,671,488
Scratch game liability	43,203,147	37,893,152
Pull tab game liability	1,974,298	2,066,089
On-line game liability	8,768,465	24,080,839
Unclaimed prize liability	-	200,000
<b>Total prize liability</b>	143,214,698	147,911,568
Less current portion	<u>(62,584,910)</u>	<u>(72,198,080)</u>
<b>Noncurrent portion</b>	<u>\$ 80,629,788</u>	<u>\$ 75,713,488</u>

Future payments of prize liability as of June 30, 2008, are as follows:

<b>Fiscal Years Ending June 30</b>	<b>Long Term Liability</b>	<b>Other Accrued Prize Liability</b>	<b>Total</b>
2009	\$ 8,639,000	\$ 53,945,910	\$ 62,584,910
2010	8,639,000	-	8,639,000
2011	8,639,000	-	8,639,000
2012	8,489,000	-	8,489,000
2013	7,914,000	-	7,914,000
2014-2018	36,220,000	-	36,220,000
2019-2023	32,728,000	-	32,728,000
2024-2028	16,473,000	-	16,473,000
2029-2033	2,190,000	-	2,190,000
2034-2038	894,000	-	894,000
	<hr/>	<hr/>	<hr/>
Total	130,825,000	53,945,910	184,770,910
Less unamortized discount	<u>(41,556,212)</u>	<u>-</u>	<u>(41,556,212)</u>
Total at present value	89,268,788	53,945,910	143,214,698
Less current portion	<u>(8,639,000)</u>	<u>(53,945,910)</u>	<u>(62,584,910)</u>
Total long-term portion at present value	<u>\$ 80,629,788</u>	<u>\$ -</u>	<u>\$ 80,629,788</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.

## 6. OPERATING LEASES

The Commission leases office space, under noncancelable operating leases, in each of its five regions and at its headquarters located in Indianapolis under initial lease terms of one to 10 years, warehouse space for its ticket inventory, and parking facilities for the Indianapolis location. The Commission also leases office equipment on terms ranging from two to five years, including a scratch-off ticket vending machine lease. Total rental expense was \$2,498,890 and \$3,103,600 for the years ended June 30, 2008 and 2007, respectively.

The future minimum rental payments required under noncancelable operating leases with original terms in excess of one year are as follows:

<b>Fiscal Years Ending June 30</b>	
2009	\$ 1,317,885
2010	895,007
2011	633,316
2012	419,585
2013	383,136
2014	<u>351,208</u>
Total	<u>\$4,000,137</u>

## 7. COMMITMENTS AND CONTINGENCIES

**Commitments** — The Commission is a member of the Multi-State Lottery Association (“MUSL”), an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently consists of 31 state and district lotteries (“member lotteries”) and operates the on-line Powerball game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for this game and remit 50% 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, 2008 and 2007, the Commission’s balance of prize reserve funds, included in restricted assets in the accompanying statement of net assets, was \$7,670,208 and \$7,620,844, respectively.

Restricted assets also contain the Retailers Bonding Fund, with a balance as of June 30, 2008 and 2007, of \$404,490 and \$392,418, respectively.

**Litigation** — Periodically, the Commission is subject to certain legal and administrative actions that arise in the normal course of its operations. As of June 30, 2008, 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.

## 8. RETIREMENT PLANS

**Deferred Compensation Plan** — The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, allows an employee to contribute a minimum of \$15 per paycheck or 1% of eligible earning (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, 2008 and 2007 were approximately \$325,533 and \$235,818, 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, 2008 and 2007 were approximately \$40,665 and \$46,500, respectively.

**Defined Benefit Pension Plan** — The Commission has adopted a single-employer defined benefit pension plan. Article 30 of the state statute of Indiana assigns the Commission to establish and amend benefit provisions. An independent contractor administers the Employees' Pension Plan of the State Lottery Commission of Indiana (the "Plan"). The Plan covers virtually all of the Commission's full time employees over the age of 21, providing retirement, death, and disability benefits. Upon employee retirement at age 65, the Plan provides 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 become 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.

During 2007, the Plan was amended to (a) change the Plan's accounting year-end to June 30 in order to make it consistent with the Commission's fiscal year-end and (b) to modify the benefits available to participants who elect early retirement. Now, early retirement benefits will be reduced by 5% for each year that benefit commencement precedes the participant's 65<sup>th</sup> birthday. Previously, the reductions were based on an actuarial table. As a result of the change in the Plan's accounting year-end noted above, the actuarial valuation date was changed from January 1, to July 1. Additionally, the Plan was "fresh started" as of July 1, 2006 and the Plan's funding method was changed to entry age normal.

The Commission applies Governmental Accounting Standards Board ("GASB") Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27* and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. GASB Statement No. 50 requires the disclosure of the funded status of the plan as of the most recent valuation date and a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in the Required Supplementary Information (RSI). GASB Statement No. 27 requires that the measurement of pension expense for a period be similar to the required contributions for that period and related information reported be consistent. The resulting pension asset (liability) required to comply with the provisions of GASB Statement No. 27 was determined in accordance with this statement and is included in the accompanying statements of net assets as Prepaid Expenses in the amount of \$3,488,511 for 2008 and \$3,931,595 for 2007.

The Commission's annual pension cost and net pension obligation to the Plan is as follows:

	Year Ended June 30, 2008	Year Ended June 30, 2007	Period from January 1, 2006 through June 30, 2006	Year Ended December 31, 2005
Annual required contribution	\$ 561,405	\$ 958,889	\$ 217,407	\$ 887,737
Interest on net pension obligation	(382,574)	(138,388)	(48,419)	(8,829)
Adjustment to annual required contribution	<u>428,571</u>	<u>153,658</u>	<u>68,286</u>	<u>12,452</u>
Annual pension cost	607,402	974,159	237,274	891,360
Contributions made	<u>(237,693)</u>	<u>(4,026,480)</u>	<u>(756,656)</u>	<u>(1,991,460)</u>
(Decrease) increase in net pension obligation	369,709	(3,052,321)	(519,382)	(1,100,100)
Net pension asset (obligation), beginning	<u>(4,782,170)</u>	<u>(1,729,849)</u>	<u>(1,210,467)</u>	<u>(110,367)</u>
Net pension asset (obligation), end	<u>\$ (4,412,461)</u>	<u>\$ (4,782,170)</u>	<u>\$ (1,729,849)</u>	<u>\$ (1,210,467)</u>
Percentage of annual pension cost contributed	42.3%	419.9 %	348.0 %	224.3 %

The annual required contribution and contribution rate for the current year was determined as part of the July 1, 2008 actuarial valuation using the normal entry age actuarial cost method. In prior years, the frozen entry age cost method was used. The actuarial assumptions included (a) an investment return assumption of 8.0% per year (Note: the post-retirement investment return assumption is reduced to 5% per year to reflect the effect of the plan's lump sum option) and (b) an annual 4.0% increase in salary assumption. The amortization method used is a level dollar amount on a closed basis over 10 years. The actuarial value of assets was determined using market value.

As of July 1, 2006, the Commission had an unfunded actuarial accrued liability of \$3,105,530. The Commission made a one-time payment of \$3,000,000 in October 2006 to fund the unfunded pension liability. In June 2005, the Commission made a one-time payment of \$1,430,839 to fund the unfunded liability as of January 1, 2005. These amounts are included in prepaid expenses on the statement of net assets as of June 30, 2008 and 2007 and are being amortized ratably over a ten year period in the statement of revenues, expenses and changes in net assets.

The Commission's six-year trend information, by Plan year, is as follows:

<b>Plan Year Ended</b>	<b>Annual Required Contribution</b>	<b>Actual Employer Contribution</b>	<b>Percentage Contributed</b>	<b>Net Pension Asset</b>
December 31, 2001	\$ 589,280	\$ 608,300	103.2	(\$41,689)
December 31, 2002	599,280	652,596	108.9	(\$93,636)
December 31, 2003	693,040	716,590	103.4	(\$114,113)
December 31, 2004	719,136	719,136	100.0	(\$110,367)
December 31, 2005	887,737	1,991,460	224.3	(\$1,210,467)
Six months ended June 30, 2006	217,407	756,656	348.0	(\$1,729,849)
June 30, 2007	958,889	4,026,480	419.9	(\$4,782,170)
June 30, 2008	561,405	237,693	42.3	(\$4,412,461)

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**REQUIRED SUPPLEMENTARY INFORMATION**

# THE STATE LOTTERY COMMISSION OF INDIANA

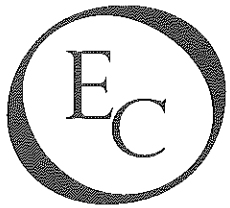
## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN \*

Valuation Date	Valuation of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded Liability as % of Payroll ((b-a)/c)
1/1/2002	6,922,670	8,308,021	1,385,351	83.3 %	8,072,437	17.2 %
1/1/2003	7,650,486	9,012,069	1,361,583	84.9	8,770,313	15.5
1/1/2004	7,673,634	9,362,428	1,688,794	82.0	8,395,882	20.1
1/1/2005	8,254,981	9,909,288	1,654,307	83.3	9,302,333	17.8
1/1/2006	9,146,422	9,597,771	451,349	95.3	6,676,472	6.8
7/1/2006	9,684,229	12,789,759	3,105,530	75.7	7,331,750	42.4
7/1/2007	14,212,236	12,825,945	(1,386,291)	110.8	7,798,129	0.0
7/1/2008	12,656,765	12,920,838	264,073	98.0	8,591,645	3.1

\* Prior to July 1, 2006, determined under the Frozen Entry Age Actuarial Cost Method, as defined in Statement #27 of the Governmental Accounting Standards Board. Effective July 1, 2006, determined under the Entry Age Normal Actuarial Cost Method, as defined in Statement #27 of the Governmental Accounting Standards Board. The amortization of the Unfunded Actuarial Accrued Liability is based on a 30 year closed period from July 1, 2006.

\*\* The Unfunded Accrued Liability was "fresh started" as of January 1, 2001.

\*\*\* Revised figures reflect a difference between the final 2002 contribution and the contribution that was expected at the time the January 1, 2003, valuation was completed.



**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**

To the State Lottery Commission of Indiana:

We have audited the financial statements of the State Lottery Commission of Indiana ("Commission") as of and for the year ended June 30, 2008 and have issued our report thereon dated September 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations – specifically Indiana Code, Title 4, Article 30, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State Lottery Commission of Indiana and management and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co. LLP

September 10, 2008