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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 28, 2011

Kathryn Densborn, Executive Director
The State Lottery Commission of Indiana
1302 N. Meridian Street
Indianapolis, IN 46202

Dear Ms. Densborn:

We have received the audit report prepared by E.C. Ortiz & Co., LLP., Certified Public Accountants, for the period July 1, 2009 to June 30, 2010. 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, 2010 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, 2010 AND 2009

(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 statements of net assets of the State Lottery Commission of Indiana (the "Commission") as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 audits.

We conducted our audits 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 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2010 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 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.

Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

E. C. Ortiz & Co. LLP

September 20, 2010

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

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, 2010 and 2009. Please read it in conjunction with the financial statements and related footnote disclosures, which follow this section.

Financial Highlights

- Fiscal year 2010 ("FY 10") ticket sales were $740 million, an increase of approximately $7 million or 1% from fiscal year 2009 ("FY 09"). The net increase in sales is primarily attributable to a $12 million increase in Mega Millions sales, which was introduced in February FY 10, and a $10 million increase in Quick Draw ticket sales. The economic downturn in FY 09 continued in FY 10 and largely affected the $9 million decrease in scratch-off sales. Hoosier Lotto, Daily Games, Mix & Match, and pull-tab sales all had sales decreases, while Powerball had a slight increase in FY 10. FY 09 ticket sales were $733 million, a decrease of approximately $90 million or 11% over fiscal year 2008 ("FY 08"). The net decrease in sales is primarily attributable to a $52 million decrease in scratch-off sales and a $36 million decrease in Hoosier Lotto tickets sales.

- Prize expenses for FY 10 increased $3 million from FY 09. The less than 1% increase in prize expenses is directly related to the 1% increase in sales as mentioned above. Prize expenses for FY 09 decreased $50 million over FY 08. The 10% decrease in prize expenses is directly related to the 11% decrease in sales as mentioned above.

- Indirect gaming expense for FY 10, which includes retailer commissions, ticket printing costs, advertising and promotion, on-line professional services, and Instant Ticket Vending Machine ("ITVM") lease and courier services, increased approximately $1 million from FY 09. Indirect gaming expense for FY 09, decreased $9 million from FY 08. This decrease is due primarily to retailer commissions, which is directly related to the decrease in sales mentioned above.

- Other operating expenses in FY 10, which include salaries, benefits and general and administrative expenses, decreased $2 million or 10% compared to that of FY 09 mainly due to legal expenses. Other operating expenses in FY 09, increased $1 million or 5% compared to those for FY 08 mainly due to legal expenses.

- In FY 10, non-operating revenues, net of expenses, increased approximately $5 million from FY 09. Approximately $6 million was related to the change in fair value of investments in U.S. Treasury securities held by the Commission to fund long-term prizes. Interest income decreased less than $1 million in FY 10 from FY 09 due to a decrease in short-term interest rates. Non-operating revenues, net of expenses, decreased $6 million in FY 09 over FY 08. $3 million was related to the change in fair value of investments in U.S. Treasury securities held by the Commission to fund long-term prizes. Interest income decreased approximately $3 million in FY 09 from FY 08 due to lower revenues as stated above and a decrease in the short-term interest rates.

- FY 10 net income of $190 million represents an $11 million increase from FY 09. FY 09 net income of $179 million represents a $38 million decrease over FY 08.

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 statements of net assets, and in changes in operating revenues, expenses and distributions as set forth in the statements of revenues, expenses and changes in net assets. In addition, the statements of cash flows are 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 Changes 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.

Condensed Statements of Net Assets
(in millions of dollars)

	June 30,		
	2010	**2009**	**2008**
Current assets	$ 115	$ 100	$ 115
Restricted assets	8	8	8
Long-term investments	111	103	82
Capital assets—net	2	2	4
Total assets	236	213	209
Current liabilities	127	107	123
Long-term liabilities	104	101	81
Total liabilities	231	208	204
Net assets			
Unrestricted	3	3	1
Invested in capital assets	2	2	4
Total net assets	$ 5	$ 5	$ 5

Condensed Statements of Revenues, Expenses and Changes in Net Assets
(in millions of dollars)

	June 30, 2010	2009	2008
Operating revenues	$ 740	$ 733	$ 823
Operating - direct games expenses	(456)	(453)	(503)
Operating - indirect games expenses	(81)	(81)	(90)
Other operating expenses	(19)	(21)	(20)
Operating income	184	178	210
Non-operating revenues	6	1	7
Net income prior to distributions	190	179	217
Distributions	(190)	(179)	(217)
Changes in net assets	-	-	-
Net assets - beginning of year	5	5	5
Net assets - ending of year	$ 5	$ 5	$ 5

Assets

The FY 10 increase of $23 million in total assets over FY 09 was primarily the result of increases in cash and cash equivalents and long-term investments and a decrease in accounts receivable.

The FY 09 increase of $4 million in total assets over FY 08 was primarily the result of decreases in cash and cash equivalents, accounts receivable and capital assets and an increase in long-term investments.

Liabilities

Current liabilities increased by $20 million in FY 10 over FY 09 primarily as a result of increased prize reserves and the timing of payments to winners and to the Indiana State Treasurer. Long-term liabilities increased $3 million in FY 10 over FY 09. This increase is due to the annuity prizes won, but not paid until after FY 10.

Current liabilities decreased by $16 million in FY 09 over FY 08 primarily as a result of decreased sales and net income and the timing of payments to winners and to the Indiana State Treasurer. Long-term liabilities increased $20 million in FY 09 over FY 08. This increase is due to the annuity prizes won, but not paid until after FY 09.

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, 2010, 2009 and 2008 were $5 million.

Sales and Prize Expense
(in millions of dollars)

	Scratch-Off			Pull-Tab		
	2010	2009	Change	2010	2009	Change
Operating Revenues	$ 465	$ 474	$ (9)	$ 9	$ 11	$ (2)
Game Prizes	314	319	(5)	6	7	(1)
Gross Margin	$ 151	$ 155	$ (4)	$ 3	$ 4	$ (1)

	Powerball			Hoosier Lotto		
	2010	2009	Change	2010	2009	Change
Operating Revenues	$ 115	$ 114	$ 1	$ 54	$ 55	$ (1)
Game Prizes	55	55	-	31	33	(2)
Gross Margin	$ 60	$ 59	$ 1	$ 23	$ 22	$ 1

	Mega Millions			Daily Games		
	2010	2009	Change	2010	2009	Change
Operating Revenues	$ 12	$ -	$ 12	$ 62	$ 63	$ (1)
Game Prizes	6	-	6	29	30	(1)
Gross Margin	$ 6	$ -	$ 6	$ 33	$ 33	$ -

	Quick Draw			Mix & Match		
	2010	2009	Change	2010	2009	Change
Operating Revenues	$ 17	$ 7	$ 10	$ 6	$ 9	$ (3)
Game Prizes	11	4	7	4	5	(1)
Gross Margin	$ 6	$ 3	$ 3	$ 2	$ 4	$ (2)

	Total		
	2010	2009	Change
Operating Revenues	$ 740	$ 733	$ 7
Game Prizes	456	453	3
Gross Margin	$ 284	$ 280	$ 4

Sales and Prize Expense
(in millions of dollars)

	Scratch-Off 2009	Scratch-Off 2008	Scratch-Off Change	Pull-Tab 2009	Pull-Tab 2008	Pull-Tab Change
Operating Revenues	$ 474	$ 526	$ (52)	$ 11	$ 13	$ (2)
Game Prizes	319	352	(33)	7	9	(2)
Gross Margin	$ 155	$ 174	$ (19)	$ 4	$ 4	$ -

	Powerball 2009	Powerball 2008	Powerball Change	Hoosier Lotto 2009	Hoosier Lotto 2008	Hoosier Lotto Change
Operating Revenues	$ 114	$ 117	$ (3)	$ 55	$ 91	$ (36)
Game Prizes	55	55	-	33	49	(16)
Gross Margin	$ 59	$ 62	$ (3)	$ 22	$ 42	$ (20)

	Daily Games 2009	Daily Games 2008	Daily Games Change	Mix & Match 2009	Mix & Match 2008	Mix & Match Change
Operating Revenues	$ 63	$ 64	$ (1)	$ 9	$ 10	$ (1)
Game Prizes	30	29	1	5	6	(1)
Gross Margin	$ 33	$ 35	$ (2)	$ 4	$ 4	$ -

	Raffle 2009	Raffle 2008	Raffle Change	Quick Draw 2009	Quick Draw 2008	Quick Draw Change
Operating Revenues	$ -	$ 2	$ (2)	$ 7	$ -	$ 7
Game Prizes	-	3	(3)	4	-	4
Gross Margin	$ -	$ (1)	$ 1	$ 3	$ -	$ 3

	Total 2009	Total 2008	Total Change
Operating Revenues	$ 733	$ 823	$ (90)
Game Prizes	453	503	(50)
Gross Margin	$ 280	$ 320	$ (40)

The tables above compare FY 10, FY 09 and FY 08 sales, prize expense and gross margin for major lottery game categories. FY 10 sales decreased in the scratch-off, pull-tab, Hoosier Lotto, Daily Games and Mix & Match product lines. Sales increased for the Powerball, Mega Millions and Quick Draw product lines. Mega Millions was introduced as a new game in February of FY 10.

In both FY 10 and FY 09 decreases in scratch-off ticket sales were a reflection of the economic downturn.

Powerball is a multi-state lotto game offering large jackpot prizes. The Commission participates in this game along with 43 other United States lotteries, including the District of Columbia and the U.S. Virgin Islands. Powerball sales increased in FY 10 by approximately $1 million to $115 million. The primary reason for the increase in ticket sales was larger average jackpots than in FY09. Powerball sales decreased in FY 09 by approximately $3 million. The primary reason for the decrease in ticket sales was lower jackpots than in FY 08.

Mega Millions is a multi-state lotto game offering large jackpot prizes. The Commission participates in this game along with 41 other United States lotteries, including the District of Columbia. Mega Millions, beginning in February 2010, recorded sales of approximately $12 million in FY 10.

Hoosier Lotto is a smaller lotto game available only in Indiana. Sales decreased during FY 10 by approximately $1 million. Sales decreased during FY 09 by approximately $36 million. This decrease in sales is primarily due to jackpot levels returning to normal levels as compared to the record level jackpot in FY 08.

The “Daily Games” consists of the Daily 3, Daily 4 and Lucky 5 games. The Daily Games and pull-tab had slightly decreasing sales levels in FY 10 and FY 09.

Mix & Match had decreasing sales of $3 million in FY 10 while only slightly decreasing in FY 09.

In FY 10, Quick Draw increased sales by $10 million with a full year of sales being recorded. In March of FY 09, the Hoosier Lottery introduced Quick Draw and recorded sales of $7 million.

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 10 of $456 million increased less than 1% over FY 09 prize expense of $453 million. Total prize expense in FY 09 of $453 million decreased 10% over FY 08 prize expense of $503 million. Notable variances in prize expense are discussed below.

- FY 10 scratch-off game prize expense decreased 2% or $5 million. This decrease is directly related to the decrease in scratch-off sales as discussed earlier. FY 09 scratch-off game prize expense decreased 9% or $33 million.

- On-line game prize expense increased 7% or $9 million in FY 10 as compared to FY 09. Such increase is directly related to a full year of Quick Draw and the introduction of Mega Millions. On-line game prize expense decreased 11% or $15 million in FY 09 as compared to FY 08. Such decrease is directly related to decreased Hoosier Lotto 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)**

	2010	2009	2008
Indirect game expenses:			
Retailer commissions	$ 51	$ 51	$ 59
Ticket printing costs	8	8	9
Advertising and promotion	11	11	10
On-line professional services	8	7	8
ITVM lease and courier services	3	4	4
	81	81	90
Other operating expenses:			
Salaries, wages, and benefits	14	14	15
General and administrative	5	7	5
	19	21	20
Total indirect game and other operating expenses	$ 100	$ 102	$ 110

Overall, other operating expenses decreased slightly from FY 09 to FY 10 and increased slightly from FY 08 to FY 09. These fluctuations are attributed to high legal expenses in FY 09. Fluctuations in retailer commissions are directly related to the increase and decrease in all 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.

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THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 78,349,103	$ 61,393,152
Investments — current portion	10,790,011	10,229,452
Accounts receivable — net	21,686,165	24,472,828
Prepaid expenses	3,997,913	3,531,634
Accrued interest receivable	384	111,805
Ticket inventory	450,197	402,312
Total current assets	115,273,773	100,141,183
NONCURRENT ASSETS:		
Long-term investments — less current portion	111,274,579	102,347,244
Restricted assets	7,978,058	8,052,769
Capital assets — net	1,431,761	2,209,034
Total noncurrent assets	120,684,398	112,609,047
TOTAL	$ 235,958,171	$ 212,750,230
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
State	$ 52,628,937	$ 46,832,296
Trade	8,016,070	5,531,900
Current portion of prize liability	64,196,564	52,175,090
Deferred revenue	441,556	920,488
Other accrued expenses	1,871,971	1,439,658
Total current liabilities	127,155,098	106,899,432
LONG-TERM LIABILITIES — Prize liability less current portion	103,803,073	100,850,798
Total liabilities	230,958,171	207,750,230
NET ASSETS:		
Unrestricted	3,568,239	2,790,966
Invested in capital assets	1,431,761	2,209,034
Total net assets	5,000,000	5,000,000
TOTAL	$ 235,958,171	$ 212,750,230

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, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Instant ticket sales — net	$ 474,217,486	$ 484,630,385
On-line ticket sales	266,121,987	248,026,485
Total operating revenues	740,339,473	732,656,870
OPERATING EXPENSES:		
Direct game expenses:		
Instant game prizes	320,293,579	326,291,712
On-line games prizes	136,002,921	126,933,453
	456,296,500	453,225,165
Indirect game expenses:		
Retailer commissions	51,076,592	50,499,632
Ticket printing costs	7,890,401	7,424,945
Advertising and promotion	11,074,138	11,252,281
On-line professional services	8,327,371	7,195,740
ITVM lease and courier services	2,923,645	3,740,932
	81,292,147	80,113,530
Total game expenses	537,588,647	533,338,695
OTHER OPERATING EXPENSES:		
Salaries, wages, and benefits	14,243,704	13,879,830
General and administrative	5,041,522	7,409,111
Total other operating expenses	19,285,226	21,288,941
Total operating expenses	556,873,873	554,627,636
OPERATING INCOME	183,465,600	178,029,234
NON-OPERATING REVENUES:		
Interest income	161,451	635,959
Net increase in fair value of investments	5,853,879	21,611
Other income - net	176,574	247,517
Total non-operating revenues -net	6,191,904	905,087
NET INCOME PRIOR TO DISTRIBUTIONS	189,657,504	178,934,321
DISTRIBUTIONS:		
Distributions to the State	(137,028,567)	(132,102,025)
Distributions to be paid to the State	(52,628,937)	(46,832,296)
Total distributions	(189,657,504)	(178,934,321)
CHANGES IN NET ASSETS	-	-
NET ASSETS — Beginning of year	5,000,000	5,000,000
NET ASSETS — Ending of year	$ 5,000,000	$ 5,000,000

See notes to financial statements.

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from ticket sales	$ 742,673,222	$ 740,669,757
Payments to ticket winners	(441,322,751)	(443,413,975)
Payments to employees	(13,811,390)	(14,585,205)
Payments of suppliers	(83,074,337)	(85,048,777)
Net cash provided by operating activities	204,464,744	197,621,800
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Distributions to the State	(183,860,863)	(183,442,628)
Other income	176,574	247,517
Net increase in restricted assets	74,711	21,929
Net cash used in noncapital and related financing activities	(183,609,578)	(183,173,182)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(572,662)	(627,311)
Proceeds from the sale of capital assets	34,590	80,962
Net cash used in capital and related financing activities	(538,072)	(546,349)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(9,153,007)	(25,943,583)
Investment maturities	5,518,992	4,121,012
Interest income	272,872	1,239,195
Net cash used in investing activities	(3,361,143)	(20,583,376)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,955,951	(6,681,107)
CASH AND CASH EQUIVALENTS — Beginning of year	61,393,152	68,074,259
CASH AND CASH EQUIVALENTS — End of year	$ 78,349,103	$ 61,393,152

(Continued)

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	**2009**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 183,465,600	$ 178,029,234
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,289,327	2,148,717
Change in provision for doubtful accounts	(57,300)	22,711
Change in provision for ticket returns	3,204,234	(161,447)
Loss (gain) on sale of fixed assets	26,018	(74,442)
Changes in certain assets and liabilities:		
Accounts receivable	(360,271)	8,089,191
Instant ticket inventory	(47,885)	(172,375)
Prepaid expenses	(466,279)	1,684,102
Accounts payable — trade	2,484,170	(1,186,579)
Deferred revenue	(478,932)	136,873
Other accrued expenses	432,313	(705,375)
Prize liability	14,973,749	9,811,190
Net cash provided by operating activities	$ 204,464,744	$ 197,621,800
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES —		
Net increase in fair value of investments	$ 5,853,879	$ 21,611

See notes to financial statements.

(Concluded)

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 offers various on-line games, including Hoosier Lotto, Powerball, Mega Millions, Daily 3, Daily 4, Lucky 5, Mix & Match, Quick Draw, numerous scratch-off and assorted pull-tab ticket games. On-line tickets, which are generated from a terminal, require a subsequent drawing of numbers to determine winners. Scratch-off games have preprinted tickets that require players to scratch off a coating to reveal the play area. Pull-tab games have preprinted tickets that require players to pull open tabs to reveal the play area.

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 on-line games is recognized on the date of the draw for which the ticket was purchased. 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. Short term investments may include direct obligations of the U.S. government or government agencies, short-term commercial paper or various money market funds composed exclusively of investment vehicles previously described.

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, 2010 and 2009. 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 $7,745,878 and $4,541,644 as of June 30, 2010 and 2009, respectively. Allowance for doubtful accounts is based on management's estimate of retailer receivables that will not be collected and was $111,334 and $168,634 as of June 30, 2010 and 2009, respectively.

Prepaid Expenses — Expenses benefiting future accounting periods include payments for rent, insurance, parking, software maintenance, retirement, 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 $1,289,327 and $2,148,717 for the years ended June 30, 2010 and 2009, respectively.

Ticket Inventory **—** Ticket inventory consists of certain scratch-off and all pull-tab tickets purchased by the Commission under an agreement for new games that have not yet been sold 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 on-line game winners as of June 30, 2010 and 2009, 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 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 180 days after the declared end-of-game date or they will be forfeited. The liability for online draw games is determined based on the actual winning numbers drawn and the number of wagers placed for each draw date. Additional liability for Hoosier Lotto is determined by the level of the jackpot that could be won on a given draw date. All on-line game prizes must be claimed within 180 days of the date of the selection event or they will be forfeited. Unclaimed prize money is included in the current portion of prize liability in the accompanying statements of net assets. All unclaimed prize money during FY 10 and FY 09 was used to offset future prizes. Therefore, the unclaimed prize balance as of the June 30, 2010 and 2009 was $0.

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 $123,860,863 and $123,442,628 for the years ended June 30, 2010 and 2009, 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 on-line 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 based on the actual winning numbers drawn and the number of wagers placed for each draw. Additional liability for Hoosier Lotto is determined by the level of the jackpot that could be won on a given draw date.

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, 2010 and 2009.

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, and short-term commercial paper.

The carrying amount of the Commission's deposits and outstanding checks with financial institutions at June 30, 2010 and 2009, totaled $78,349,103 and $61,393,752, respectively, while bank balances totaled $78,601,214 and $62,698,238, respectively. The bank balances are categorized as insured by the FDIC or collateralized with securities held by the Commission in its name.

The insured and collateralized 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 non-operating 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, 2010 and 2009 was $5,853,879 and $21,611, respectively. Investments in insurance annuity contracts, at rates yielding approximately 3% to 6%, relate to deferred prize obligations.

As of June 30, 2010, the Commission had the following investments and maturities:

		Investment Maturities (in Years)			
	Fair Value	**< 1 Year**	**1–5 Years**	**6–10 Years**	**> 10 Years**
U.S. government securities	$ 93,592,216	$ 6,607,011	$ 31,356,306	$ 25,678,284	$ 29,950,615
Certificates of deposit	385,000	385,000	-	-	-
	93,977,216	6,992,011	31,356,306	25,678,284	29,950,615
	Carrying Value				
Insurance annuities	28,472,374	4,183,000	12,174,907	9,550,095	2,564,372
Total investments	$ 122,449,590	$ 11,175,011	$ 43,531,213	$ 35,228,379	$ 32,514,987

As of June 30, 2009, 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	$ 81,548,909	$ 6,046,452	$ 22,707,602	$ 22,853,030	$ 29,941,825
Certificates of deposit	375,000	375,000	-	-	-
	81,923,909	6,421,452	22,707,602	22,853,030	29,941,825
	Carrying Value				
Insurance annuities	31,027,787	4,183,000	13,103,947	9,686,942	4,053,898
Total investments	$ 112,951,696	$ 10,604,452	$ 35,811,549	$ 32,539,972	$ 33,995,723

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:

	2010	2009
Balance Sheet:		
Cash and cash equivalents	$ 78,349,103	$ 61,393,152
Investments (current)	10,790,011	10,229,452
Investments (long-term)	111,274,579	102,347,244
Restricted assets *	385,000	375,000
Total	$ 200,798,693	$ 174,344,848
Notes to the Financial Statements:		
Deposits	$ 78,349,103	$ 61,393,152
Investments (current and long-term)	122,449,590	112,951,696
Total	$ 200,798,693	$ 174,344,848

* 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, 2010 and 2009:

	S&P	Fitch	Moody's	A.M. Best	Balance at June 30, 2010	Percent of Total	Balance at June 30, 2009	Percent of Total
U.S. government securities	AAA	unrated	unrated	unrated	$ 93,592,216	76%	$ 81,548,909	72%
Certificate of Deposits	unrated	unrated	unrated	unrated	385,000	0%	375,000	0%
Insurance annuities	AA-	AA-	A1	A+	28,472,374	24%	31,027,787	28%
Total investments					$ 122,449,590	100%	$ 112,951,696	100%

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. More than 5% of the Commission's investments are in each of the following: United States Treasury Strips, Key Bank NOW Account 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 2010, the $122 million of investments is not held by the Commission. Investments totaling $94 million are held by the Indiana State Treasurer; therefore, these investments are not considered to have custodial credit risk. The remaining $28 million of investments are held by outside counterparties. In 2009, the $113 million of investments is not held by the Commission. Investments totaling $82 million are held by the Indiana State Treasurer; therefore, these investments are not considered to have custodial credit risk. The remaining $31 million of investments are held by outside counterparties.

4. CAPITAL ASSETS

A summary of the Commission's capital assets at June 30, 2010 and 2009 is as follows:

	Balances at June 30, 2009	Additions	Disposals/ Retirements	Balances at June 30, 2010
Vehicles	$ 1,481,871	$ 195,395	$ (237,480)	$ 1,439,786
Furniture, fixtures, and equipment	2,881,742	13,077	(159,011)	2,735,808
Data processing equipment	2,167,920	364,190	(112,929)	2,419,181
Total capital assets — being depreciated	6,531,533	572,662	(509,420)	6,594,775
Less accumulated depreciation:				
Vehicles	(958,600)	(205,877)	234,145	(930,332)
Furniture, fixtures, and equipment	(2,260,091)	(485,654)	101,738	(2,644,007)
Data processing equipment	(1,103,808)	(597,796)	112,929	(1,588,675)
Total accumulated depreciation	(4,322,499)	(1,289,327)	448,812	(5,163,014)
Total capital assets — net	$ 2,209,034	$ (716,665)	$ (60,608)	$ 1,431,761

	Balances at June 30, 2008	Additions	Disposals/ Retirements	Balances at June 30, 2009
Vehicles	$ 1,675,806	$ 380,305	$ (574,240)	$ 1,481,871
Furniture, fixtures, and equipment	3,862,561	25,418	(1,006,237)	2,881,742
Data processing equipment	2,520,885	221,588	(574,553)	2,167,920
Total capital assets — being depreciated	8,059,252	627,311	(2,155,030)	6,531,533
Less accumulated depreciation:				
Vehicles	(1,336,447)	(191,709)	569,556	(958,600)
Furniture, fixtures, and equipment	(1,933,922)	(1,332,406)	1,006,237	(2,260,091)
Data processing equipment	(1,051,923)	(624,602)	572,717	(1,103,808)
Total accumulated depreciation	(4,322,292)	(2,148,717)	2,148,510	(4,322,499)
Total capital assets — net	$ 3,736,960	$ (1,521,406)	$ (6,520)	$ 2,209,034

The Commission removed $361,230 and $2,105,593 of fully depreciated capital assets during FY10 and FY09, respectively.

5. PRIZE LIABILITY

The prize liability relating to past game show, scratch-off, pull-tab and on-line winners, including an estimate of unclaimed instant and on-line winners at June 30, 2010 and 2009 is as follows:

	2010	2009
Installment prizes liability	$114,608,073	$111,089,798
Scratch-off game liability	37,270,453	34,142,611
Pull tab game liability	1,510,194	1,694,048
On-line game liability	14,610,917	6,099,431
Total prize liability	167,999,637	153,025,888
Less current portion	(64,196,564)	(52,175,090)
Noncurrent portion	$103,803,073	$100,850,798

Future payments of prize liability as of June 30, 2010, are as follows:

Fiscal Years Ending June 30	Long Term Liability	Other Accrued Prize Liability	Total
2011	$ 10,805,000	$ 53,391,564	$ 64,196,564
2012	10,655,000	-	10,655,000
2013	10,155,000	-	10,155,000
2014	9,785,000	-	9,785,000
2015	9,485,000	-	9,485,000
2016–2020	46,925,000	-	46,925,000
2021–2025	38,681,000	-	38,681,000
2026–2030	18,888,000	-	18,888,000
2031–2035	11,795,000	-	11,795,000
2036-2039	4,235,000	-	4,235,000
Total	171,409,000	53,391,564	224,800,564
Less unamortized discount	(56,800,927)	-	(56,800,927)
Total at present value	114,608,073	53,391,564	167,999,637
Less current portion	(10,805,000)	(53,391,564)	(64,196,564)
Total long-term portion at present value	$ 103,803,073	$ -	$ 103,803,073

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 regional offices 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 $2,118,168 and $2,148,327 for the years ended June 30, 2010 and 2009, respectively.

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

Fiscal Years Ending June 30	
2011	$ 1,107,555
2012	430,696
2013	383,130
2014	351,203
Total	$ 2,272,584

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 33 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 this game 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, 2010 and 2009, the Commission's balance of prize reserve funds, included in restricted assets in the accompanying statement of net assets, was $7,591,094 and $7,669,882, respectively.

Restricted assets also contain the Retailers Bonding Fund, with a balance as of June 30, 2010 and 2009, of $386,964 and $382,887, 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, 2010, 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, 2010 and 2009 were approximately $278,795 and $295,143, respectively.

The Commission made a matching contribution of $15 per paycheck for each employee participating in the 457 Deferred Compensation Plan into a 401(a) Incentive Match Plan through January 2010. Employees are immediately vested in the employer match made by the Commission. Contributions by the Commission during the fiscal years ended June 30, 2010 and 2009 were approximately $19,575 and $40,470, 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 FY 07, 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) 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 65th 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 $2,602,343 for 2010 and $3,045,427 for 2009.

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

	Year Ended June 30, 2010	**Year Ended June 30, 2009**	**Year Ended June 30, 2008**	**Year Ended June 30, 2007**
Annual required contribution	$ 1,146,464	$ 824,943	$ 561,405	$ 958,889
Interest on net pension obligation	(345,412)	(352,997)	(382,574)	(138,388)
Adjustment to annual required contribution	394,840	399,278	428,571	153,658
Annual pension cost	1,195,892	871,224	607,402	974,159
Contributions made	(1,514,023)	(776,417)	(237,693)	(4,026,480)
(Decrease) increase in net pension obligation	(318,131)	94,807	369,709	(3,052,321)
Net pension asset (obligation), beginning	(4,317,654)	(4,412,461)	(4,782,170)	(1,729,849)
Net pension asset (obligation), end	$ (4,635,785)	$ (4,317,654)	$ (4,412,461)	$ (4,782,170)
Percentage of annual pension cost contributed	132.1%	94.1%	42.3%	419.9%

The annual required contribution and contribution rate for the current year was determined as part of the July 1, 2010 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, 2010 and 2009 and are being amortized ratably over a ten year period in the statement of revenues, expenses and changes in net assets.

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

Plan Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed	Net Pension Asset
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)
June 30, 2009	824,943	776,417	94.1	(4,317,654)
June 30, 2010	1,146,464	1,514,023	132.1	(4,635,785)

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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)	
1/1/2003	$ 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	(17.8)	
7/1/2008	12,656,765		12,920,838	264,073		98.0		8,591,645	3.1	
7/1/2009	8,871,453		12,524,241	3,652,788		70.8		8,467,374	43.1	
7/1/2010	10,085,843		11,986,403	1,900,560		84.1		7,335,049	25.9	

* 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.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009, and have issued our report thereon dated September 20, 2010. 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, and 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, 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 20, 2010

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911