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October 3, 2012

Karl B. Browning, Executive Director
The State Lottery Commission of Indiana
1302 N. Meridian Street
Indianapolis, IN 46202

Dear Mr. Browning:

We have received the audit report prepared by E.C. Ortiz & Co., LLP, Certified Public Accountants, for the periods July 1, 2010 to June 30, 2011 and July 1, 2011 to June 30, 2012. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America. The financial statements included in the report present fairly the financial condition of The State Lottery Commission of Indiana as of June 30, 2011 and June 30, 2012, respectively, and the results of its operations for the periods 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, 2012 AND 2011
(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, 2012 and 2011, 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, 2012 and 2011, and the changes in its financial position 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, 2012 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, is 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, 2012

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, a narrative overview of its performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the financial statements and related footnote disclosures, which follow this section.

Financial Highlights

- Fiscal year 2012 ("FY 12") ticket sales were $855 million, an increase of approximately $64 million or 8% from fiscal year 2011 ("FY 11"). The net increase in sales is primarily attributable to a $40 million increase in scratch-off sales, a $10 million increase in Mega Millions sales, and a $15 million increase in Powerball sales. Fiscal year 2011 ("FY 11") ticket sales were $791 million, an increase of approximately $51 million or 7% from fiscal year 2010 ("FY 10"). The net increase in sales is primarily attributable to a $43 million increase in scratch-off sales, a $24 million increase in Mega Millions sales, a $7 million increase in Hoosier Lotto sales, and $2 million in Tag 6 sales, which was introduced in March 2011, along with a $29 million decrease in Powerball sales.

- Prize expenses for FY 12 increased $38 million, or 8%, from FY 11 which is directly related to the 8% increase in sales as mentioned above. Prize expenses for FY 11 increased $39 million from FY 10. This 8% increase is directly related to the 7% increase in sales mentioned above.

- Indirect gaming expense for FY 12, 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 $6 million from FY 11. This increase is due primarily to retailer commissions and draw game expenses, which are directly related to the increase in sales mentioned above. Indirect gaming expense for FY 11 increased approximately $6 million from FY 10. This increase is due primarily to retailer commissions and instant ticket printing expenses, which are directly related to the increase in sales mentioned above.

- Other operating expenses in FY 12, which include salaries, benefits and general and administrative expenses, increased $1 million or 6% compared to those for FY 11 mainly due to employee incentive payments and legal expenses. Other operating expenses in FY 11 decreased $1 million or 5% compared to that of FY 10 mainly due to employee incentive payments and retirement expenses.

- Non-operating revenues, net of expenses, increased approximately $20 million in FY 12 over FY 11. This increase is related to the change in fair market value of investments in U.S. Treasury securities held by the Commission to fund long-term prizes. In FY 11, non-operating revenues, net of expenses, decreased approximately $9 million from FY 10. This decrease was related to the change in fair market value of investments in U.S. Treasury securities held by the Commission to fund long-term prizes.

- FY 12 net income of $227 million represents a $39 million increase from FY 11. FY 11 net income of $188 million represents a $2 million decrease from FY 10.

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 to transfer all of its surplus revenues to the State of Indiana. Beginning in FY 12, the change in fair market value of investments is no longer included in surplus revenues. As of September FY 11, the Commission began transferring the surplus revenues on a monthly basis. As a result, the net assets of the Commission consist of an amount set aside for future cash flow needs 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 operating, 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 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,		
	2012	**2011**	**2010**
Current assets	$ 89	$ 86	$ 115
Restricted assets	9	9	8
Long-term investments	145	127	111
Capital assets—net	2	2	2
Total assets	245	224	236
Current liabilities	94	96	127
Long-term liabilities	124	123	104
Total liabilities	218	219	231
Net assets			
Unrestricted	25	3	3
Invested in capital assets	2	2	2
Total net assets	$ 27	$ 5	$ 5

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

	June 30, 2012	2011	2010
Operating revenues	$ 855	$ 791	$ 740
Operating - direct games expenses	(533)	(495)	(456)
Operating - indirect games expenses	(93)	(87)	(81)
Other operating expenses	(19)	(18)	(19)
Operating income	210	191	184
Non-operating revenues	17	(3)	6
Net income prior to distributions	227	188	190
Distributions	(205)	(188)	(190)
Changes in net assets	22	-	-
Net assets - beginning of year	5	5	5
Net assets - ending of year	$ 27	$ 5	$ 5

Assets

The FY 12 increase of $21 million in total assets over FY 11 was primarily the result of increases in accounts receivable and long-term investments and a decrease in cash and cash equivalents.

The FY 11 decrease of $12 million in total assets from FY 10 was primarily the result of a decrease in cash and cash equivalents, which is a result of the timing of payments to the Indiana State Treasurer and vendors, and an increase in current and long-term investments.

Liabilities

Current liabilities decreased $2 million in FY 12 from FY 11 primarily as a result of a decrease in accounts payable. Long-term liabilities increased $1 million in FY 12 over FY 11. This increase is due to the annuity prizes won in FY 12, but not paid until after FY 12.

Current liabilities decreased by $31 million in FY 11 from FY 10 primarily as a result of the timing of payments to the Indiana State Treasurer and an increase in accounts payable. Long-term liabilities increased $19 million in FY 11 over FY 10. This increase is due to the annuity prizes won in FY 11, but not paid until after FY 11.

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, 2012 were $27 million, 2011 and 2010 were $5 million. The increase in 2012 was due to the exclusion of the change in fair market value of investments in surplus revenue to be transferred to the State. As such, changes in fair market value of investments formed part of the net assets starting in FY 12.

Sales and Prize Expense
(in millions of dollars)

	Scratch-Off			Pull-Tab		
	2012	2011	Change	2012	2011	Change
Operating Revenues	$ 548	$ 508	$ 40	$ 10	$ 11	$ (1)
Game Prizes	372	347	25	6	7	(1)
Gross Margin	$ 176	$ 161	$ 15	$ 4	$ 4	$ -

	Powerball			Hoosier Lotto		
	2012	2011	Change	2012	2011	Change
Operating Revenues	$ 101	$ 86	$ 15	$ 57	$ 61	$ (4)
Game Prizes	48	41	7	36	34	2
Gross Margin	$ 53	$ 45	$ 8	$ 21	$ 27	$ (6)

	Mega Millions			Daily Games		
	2012	2011	Change	2012	2011	Change
Operating Revenues	$ 46	$ 36	$ 10	$ 64	$ 64	$ -
Game Prizes	23	18	5	30	32	(2)
Gross Margin	$ 23	$ 18	$ 5	$ 34	$ 32	$ 2

	Mix & Match			Quick Draw		
	2012	2011	Change	2012	2011	Change
Operating Revenues	$ 5	$ 5	$ -	$ 20	$ 18	$ 2
Game Prizes	3	4	(1)	13	11	2
Gross Margin	$ 2	$ 1	$ 1	$ 7	$ 7	$ -

	Tag 6			Total		
	2012	2011	Change	2012	2011	Change
Operating Revenues	$ 4	$ 2	$ 2	$ 855	$ 791	$ 64
Game Prizes	2	1	1	533	495	38
Gross Margin	$ 2	$ 1	$ 1	$ 322	$ 296	$ 26

Sales and Prize Expense
(in millions of dollars)

	Scratch-Off			Pull-Tab		
	2011	2010	Change	2011	2010	Change
Operating Revenues	$ 508	$ 465	$ 43	$ 11	$ 9	$ 2
Game Prizes	347	314	33	7	6	1
Gross Margin	$ 161	$ 151	$ 10	$ 4	$ 3	$ 1

	Powerball			Hoosier Lotto		
	2011	2010	Change	2011	2010	Change
Operating Revenues	$ 86	$ 115	$ (29)	$ 61	$ 54	$ 7
Game Prizes	41	55	(14)	34	31	3
Gross Margin	$ 45	$ 60	$ (15)	$ 27	$ 23	$ 4

	Mega Millions			Daily Games		
	2011	2010	Change	2011	2010	Change
Operating Revenues	$ 36	$ 12	$ 24	$ 64	$ 62	$ 2
Game Prizes	18	6	12	32	29	3
Gross Margin	$ 18	$ 6	$ 12	$ 32	$ 33	$ (1)

	Mix & Match			Quick Draw		
	2011	2010	Change	2011	2010	Change
Operating Revenues	$ 5	$ 6	$ (1)	$ 18	$ 17	$ 1
Game Prizes	4	4	-	11	11	-
Gross Margin	$ 1	$ 2	$ (1)	$ 7	$ 6	$ 1

	Tag 6			Total		
	2011	2010	Change	2011	2010	Change
Operating Revenues	$ 2	$ -	$ 2	$ 791	$ 740	$ 51
Game Prizes	1	-	1	495	456	39
Gross Margin	$ 1	$ -	$ 1	$ 296	$ 284	$ 12

The tables above compare FY 12, FY 11 and FY 10 sales, prize expense and gross margin for major lottery game categories. FY 12 sales increased in the scratch-off, Powerball, Mega Millions, Tag 6 and Quick Draw product lines. Tag 6 was introduced as a new game in March 2011. Sales decreased for the Hoosier Lotto and pull-tab product lines.

Both the FY 12 increase and the FY 11 increase in scratch-off ticket sales is a reflection of an increased focus on game design, ticket distribution and product management.

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 12 by approximately $15 million to $101 million. The primary reasons for the increase in sales were larger average jackpots than in FY 11 and an increase in ticket price to $2 which began in January 2012.

Powerball sales decreased in FY 11 by approximately $29 million to $86 million. The primary reason for the decrease in ticket sales was lower average jackpots than in FY 10. Another factor that contributed to this decrease was the introduction of new states to Powerball, especially Illinois, Michigan and Ohio, which caused border sales loss in FY 11 as compared to FY 10. Mega Millions' high jackpot levels in FY 11 may have also contributed to the decrease in Powerball sales as they are very similar games.

Mega Millions is also 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. Mega Millions, beginning in February 2010, recorded sales of approximately $46 million in FY 12 and $36 million in FY 11. The $10 million increase in FY 12 was due to a record jackpot level.

Hoosier Lotto is a game available only in Indiana. Sales decreased in FY 12 by approximately $4 million. Sales increased in FY 11 by approximately $7 million. Both the decrease in FY 12 and the increase in FY 11 are due to two larger than average jackpots in FY 11.

The "Daily Games" consists of the Daily 3, Daily 4 and Lucky 5 games. Daily Games sales remained consistent between FY 12 and FY 11. Daily Games had a slight increase in sales in FY 11.

The pull-tab category had slightly decreasing sales levels in FY 12 and slightly increasing sales levels in FY 11.

Mix & Match sales remained consistent from FY 12 to FY 11 and had a slight decrease in sales in FY 11.

In FY 12, Quick Draw had a $2 million increase in sales. In FY 11, Quick Draw had a slight increase in sales.

Prize Expense

In general, prize expense by game will increase or decrease from year to year in proportion to the increase or decrease in 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 12 of $533 million increased by 8% over FY 11 prize expense of $495 million. Total prize expense in FY 11 of $495 million increased by 8% over FY 10 prize expense of $456 million. Notable variances in prize expense are discussed below.

- FY 12 scratch-off game prize expense increased 7% or $25 million. FY 11 scratch-off game prize expense increased 11% or $33 million. Both increases are directly related to scratch-off sales increases for the respective years as discussed earlier.

- On-line game prize expense increased 10% or $14 million in FY 12 as compared to FY 11. This increase is directly related to higher Powerball and Mega Millions sales as explained earlier. On-line game prize expense increased 4% or $5 million in FY 11 as compared to FY 10. This increase is directly related to an increase in Mega Millions sales.

Indirect Game Expenses and Other Operating Expenses

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

	2012	2011	2010
Indirect game expenses:			
Retailer commissions	$ 60	$ 56	$ 51
Ticket printing costs	10	9	8
Advertising and promotion	12	12	11
On-line professional services	8	7	8
ITVM lease and courier services	3	3	3
	93	87	81
Other operating expenses:			
Salaries, wages, and benefits	14	13	14
General and administrative	5	5	5
	19	18	19
Total indirect game and other operating expenses	$ 112	$ 105	$ 100

Overall, indirect game and other operating expenses increased $7 million from FY 11 to FY 12. This increase is due to fluctuations in retailer commissions, ticket printing cost, on-line professional services and salary, wages and benefits in FY 12. Indirect game and other operating expenses increased $5 million from FY 10 to FY 11. This is due to the fluctuations in retailer commissions, which are directly related to the increase or 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, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,774,779	$ 47,896,357
Investments — current portion	11,815,565	12,024,544
Accounts receivable — net	32,481,773	22,112,127
Prepaid expenses	2,693,408	3,768,748
Accrued interest receivable	446	103
Ticket inventory	263,750	401,773
Total current assets	89,029,721	86,203,652
NONCURRENT ASSETS:		
Long-term investments — less current portion	144,697,963	126,761,064
Restricted assets	8,757,087	8,397,985
Capital assets — net	2,399,077	2,354,611
Total noncurrent assets	155,854,127	137,513,660
TOTAL	$ 244,883,848	$ 223,717,312
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
State	$ 8,321,238	$ 10,659,871
Trade	12,713,345	19,919,057
Current portion of prize liability	70,407,568	62,813,388
Deferred revenue	528,295	870,240
Other accrued expenses	1,536,432	1,611,507
Total current liabilities	93,506,878	95,874,063
LONG-TERM LIABILITIES — Prize liability less current portion	124,241,317	122,843,249
Total liabilities	217,748,195	218,717,312
NET ASSETS:		
Unrestricted	24,736,576	2,645,389
Invested in capital assets	2,399,077	2,354,611
Total net assets	27,135,653	5,000,000
TOTAL	$ 244,883,848	$ 223,717,312

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, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Instant ticket sales — net	$ 557,784,919	$ 519,307,182
On-line ticket sales	297,799,838	272,139,361
Total operating revenues	855,584,757	791,446,543
OPERATING EXPENSES:		
Direct game expenses:		
Instant game prizes	377,488,962	354,353,552
On-line games prizes	155,472,805	140,162,169
	532,961,767	494,515,721
Indirect game expenses:		
Retailer commissions	60,036,174	56,241,137
Ticket printing costs	9,862,337	9,484,181
Advertising and promotion	11,725,343	11,635,171
On-line professional services	8,691,678	7,581,656
ITVM lease and courier services	2,652,168	2,651,596
	92,967,700	87,593,741
Total game expenses	625,929,467	582,109,462
OTHER OPERATING EXPENSES:		
Salaries, wages, and benefits	13,786,376	13,343,070
General and administrative	5,252,783	4,505,750
Total other operating expenses	19,039,159	17,848,820
Total operating expenses	644,968,626	599,958,282
OPERATING INCOME	210,616,131	191,488,261
NON-OPERATING REVENUES:		
Interest income	65,433	135,975
Net increase (decrease) in fair value of investments	16,549,412	(3,499,418)
Other income - net	156,030	105,551
Total non-operating revenues (expenses) -net	16,770,875	(3,257,892)
NET INCOME PRIOR TO DISTRIBUTIONS	227,387,006	188,230,369
DISTRIBUTIONS:		
Distributions to the State	(196,930,115)	(177,570,498)
Distributions to be paid to the State	(8,321,238)	(10,659,871)
Total distributions	(205,251,353)	(188,230,369)
CHANGES IN NET ASSETS	22,135,653	-
NET ASSETS — Beginning of year	5,000,000	5,000,000
NET ASSETS — Ending of year	$ 27,135,653	$ 5,000,000

See notes to financial statements.

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from ticket sales	$ 844,968,027	$ 791,419,648
Payments to ticket winners	(523,969,519)	(476,858,721)
Payments to employees	(13,861,451)	(13,603,534)
Payments of suppliers	(103,371,636)	(79,128,121)
Net cash provided by operating activities	203,765,421	221,829,272
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Distributions to the State	(207,589,986)	(230,199,435)
Other income	156,030	105,551
Net decrease in restricted assets	(359,102)	(419,927)
Net cash used in noncapital and related financing activities	(207,793,058)	(230,513,811)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,017,832)	(1,757,227)
Proceeds from the sale of capital assets	37,309	73,200
Net cash used in capital and related financing activities	(980,523)	(1,684,027)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(7,686,310)	(25,804,376)
Investment maturities	6,507,802	5,583,940
Interest income	65,090	136,256
Net cash used in investing activities	(1,113,418)	(20,084,180)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,121,578)	(30,452,746)
CASH AND CASH EQUIVALENTS — Beginning of year	47,896,357	78,349,103
CASH AND CASH EQUIVALENTS — End of year	$ 41,774,779	$ 47,896,357

(Continued)

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	**2011**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 210,616,131	$ 191,488,261
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	841,197	790,794
Change in provision for doubtful accounts	(41,211)	(17,676)
Change in provision for ticket returns	(923,393)	(547,736)
Loss (gain) on sale of fixed assets	94,860	(29,617)
Changes in certain assets and liabilities:		
Accounts receivable	(9,405,042)	139,450
Instant ticket inventory	138,023	48,424
Prepaid expenses	1,075,340	229,165
Accounts payable — trade	(7,205,712)	11,902,987
Deferred revenue	(341,945)	428,684
Other accrued expenses	(75,075)	(260,464)
Prize liability	8,992,248	17,656,700
Net cash provided by operating activities	$ 203,765,421	$ 221,828,972
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES —		
Net increase (decrease) in fair value of investments	$ 16,549,412	$ (3,499,418)

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 and Tag 6. On-line tickets, which are generated from a terminal, require a subsequent drawing of numbers to determine winners. The Commission also offers numerous scratch-off and assorted pull-tab ticket games. 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.

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

Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets 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 —Ticket revenue for on-line games is recognized on the date of the draw for which the ticket was purchased. Scratch-off and pull-tab ticket revenue, less an allowance for returns, is recognized at the time tickets are shipped to retailers. 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 redeemed by 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, 2012 and 2011. 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 $6,274,750 and $7,198,142 as of June 30, 2012 and 2011, respectively. Allowance for doubtful accounts is based on management's estimate of retailer receivables that will not be collected and was $52,447 and $93,658 as of June 30, 2012 and 2011, respectively.

Prepaid Expenses — Expenses benefiting future accounting periods include payments for rent, insurance, equipment and software maintenance, retirement, sponsorships and prize packages.

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

Capital Assets — Capital assets are stated at cost. Capital assets are defined as assets that have a useful life of at least three years and a cost equal to or greater than $1,000 individually or $5,000 in aggregate. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Generally, data processing equipment and software are depreciated over a minimum of three years. Vehicles are depreciated over four years. Most of the other assets are depreciated over five years. Depreciation expense was $841,196 and $790,794 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, 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 2% 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 on-line 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 12 and FY 11 was used to offset future prizes. Therefore, the unclaimed prize balance as of the June 30, 2012 and 2011 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 per a statutory schedule to the Indiana State Treasurer. In FY 12, the Commission began excluding the change in fair market value of investments from surplus revenue. During FY 11 the Commission began transferring on a monthly basis versus quarterly which caused 14 months of net income to be transferred to the state in FY 11 as compared to 12 months in FY 10. 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 $147,589,986 and $160,199,435 for the years ended June 30, 2012 and 2011, respectively.

Net 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 an annual bonus based on their scratch-off and pull tab sales over the preceding year.

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

The Commission entered into a contract, with an effective date of January 13, 1999 through August 27, 2010, with Scientific Games for the operation of the gaming network that consists of approximately 4,000 instant and on-line retailer ticket terminals and associated software. That contract required the Commission to pay 3% of gross on-line ticket revenue to Scientific Games for the above services. The Commission entered into a new contract with Scientific Games, with an effective date of August 28, 2010, that required the Commission to pay 3.1375% of on-line ticket revenue to Scientific Games for the above services.

The Commission entered into a contract, with an effective date of April 24, 2001, with Scientific Games for the printing and distribution of scratch-off tickets. Scientific Games receives 1.3855% of net scratch-off ticket revenue for games that were released prior to January 1, 2008. Scientific Games receives 1.3655% of net scratch-off ticket revenue for games released between January 1, 2008 and October 6, 2010. Scientific Games receives 1.4661% of net scratch-off ticket revenue for games released on or after October 7, 2010.

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 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, 2012 and 2011.

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, 2012 and 2011, totaled $41,774,779 and $47,896,357, respectively, while bank balances totaled $42,213,413 and $48,825,687, 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 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, 2012 and 2011 was $16,549,412 and ($3,499,418), respectively. Investments in insurance annuity contracts, at rates yielding approximately 3% to 6%, relate to deferred prize obligations.

As of June 30, 2012, 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	$ 133,828,569	$ 8,422,565	$ 41,132,606	$ 36,165,655	$ 48,107,743
Certificates of deposit	385,000	385,000	-	-	-
	134,213,569	8,807,565	41,132,606	36,165,655	48,107,743
	Carrying Value				
Insurance annuities	22,684,959	3,393,000	10,740,743	8,130,542	420,674
Total investments	$ 156,898,528	$ 12,200,565	$ 51,873,349	$ 44,296,197	$ 48,528,417

As of June 30, 2011, 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	$ 113,154,288	$ 8,041,544	$ 38,252,737	$ 30,798,866	$ 36,061,141
Certificates of deposit	385,000	385,000	-	-	-
	113,539,288	8,426,544	38,252,737	30,798,866	36,061,141
	Carrying Value				
Insurance annuities	25,631,320	3,983,000	11,234,412	9,096,738	1,317,170
Total investments	$ 139,170,608	$ 12,409,544	$ 49,487,149	$ 39,895,604	$ 37,378,311

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:

	2012	2011
Balance Sheet:		
Cash and cash equivalents	$ 41,774,779	$ 47,896,357
Investments (current)	11,815,565	12,024,544
Investments (long-term)	144,697,963	126,761,064
Restricted assets *	385,000	385,000
Total	$ 198,673,307	$ 187,066,965
Notes to the Financial Statements:		
Deposits	$ 41,774,779	$ 47,896,357
Investments (current and long-term)	156,898,528	139,170,608
Total	$ 198,673,307	$ 187,066,965

* 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, 2012 and 2011:

	S&P	Fitch	Moody's	A.M. Best	Balance at June 30, 2012	Percent of Total	Balance at June 30, 2011	Percent of Total
U.S. government securities	AA+	AAA	Aaa	unrated	$ 133,828,569	85%	$ 113,154,288	81%
Certificate of Deposits	unrated	unrated	unrated	unrated	385,000	0%	385,000	0%
Insurance annuities	AA-	AA-	A1	A+	22,684,959	15%	25,631,320	19%
Total investments					$ 156,898,528	100%	$ 139,170,608	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 2012, the $157 million of investments were not held by the Commission. Investments totaling $134 million were held by the Indiana State Treasurer; therefore, these investments were not considered to have custodial credit risk. The remaining $23 million of investments were held by outside counterparties. In 2011, the $139 million of investments is not held by the Commission. Investments totaling $113 million are held by the Indiana State Treasurer; therefore, these investments are not considered to have custodial credit risk. The remaining $26 million of investments are held by outside counterparties.

4. CAPITAL ASSETS

A summary of the Commission's capital assets at June 30, 2012 and 2011 is as follows:

	Balances at June 30, 2011	Increases	Decreases	Balances at June 30, 2012
Vehicles	$ 1,366,744	$ 224,394	$ (237,881)	$ 1,353,257
Furniture, fixtures, and equipment	3,626,853	463,142	(22,359)	4,067,636
Data processing equipment	2,860,180	330,296	(365,058)	2,825,418
Total capital assets — being depreciated	7,853,777	1,017,832	(625,298)	8,246,311
Less accumulated depreciation:				
Vehicles	(866,866)	(252,045)	237,292	(881,619)
Furniture, fixtures, and equipment	(2,598,349)	(166,480)	2,342	(2,762,487)
Data processing equipment	(2,033,951)	(422,672)	253,495	(2,203,128)
Total accumulated depreciation	(5,499,166)	(841,197)	493,129	(5,847,234)
Total capital assets — net	$ 2,354,611	$ 176,635	$ (132,169)	$ 2,399,077

	Balances at June 30, 2010	Increases	Decreases	Balances at June 30, 2011
Vehicles	$ 1,439,786	$ 236,642	$ (309,684)	$ 1,366,744
Furniture, fixtures, and equipment	2,735,808	1,061,255	(170,210)	3,626,853
Data processing equipment	2,419,181	459,330	(18,331)	2,860,180
Total capital assets — being depreciated	6,594,775	1,757,227	(498,225)	7,853,777
Less accumulated depreciation:				
Vehicles	(930,332)	(244,151)	307,617	(866,866)
Furniture, fixtures, and equipment	(2,644,007)	(83,174)	128,832	(2,598,349)
Data processing equipment	(1,588,675)	(463,469)	18,193	(2,033,951)
Total accumulated depreciation	(5,163,014)	(790,794)	454,642	(5,499,166)
Total capital assets — net	$ 1,431,761	$ 966,433	$ (43,583)	$ 2,354,611

The Commission removed $475,370 and $358,039 of fully depreciated capital assets during FY12 and FY11, 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, 2012 and 2011 is as follows:

	2012	2011
Installment prizes liability	$136,064,317	$134,884,249
Scratch-off game liability	46,736,973	44,053,890
Pull tab game liability	996,186	2,057,862
On-line game liability	10,851,409	4,660,636
Total prize liability	194,648,885	185,656,637
Less current portion	(70,407,568)	(62,813,388)
Noncurrent portion	$124,241,317	$122,843,249

Future payments of prize liability as of June 30, 2012, are as follows:

Fiscal Years Ending June 30	Long Term Liability	Other Accrued Prize Liability	Total
2013	$ 11,823,000	$ 58,584,568	$ 70,407,568
2014	11,503,000	-	11,503,000
2015	11,253,000	-	11,253,000
2016	11,153,000	-	11,153,000
2017	11,153,000	-	11,153,000
2018–2022	54,364,000	-	54,364,000
2023–2027	40,782,000	-	40,782,000
2023–2032	19,183,000	-	19,183,000
2033–2037	15,138,000	-	15,138,000
2038-2041	6,661,000	-	6,661,000
Total	193,013,000	58,584,568	251,597,568
Less unamortized discount	(56,948,683)	-	(56,948,683)
Total at present value	136,064,317	58,584,568	194,648,885
Less current portion	(11,823,000)	(58,584,568)	(70,407,568)
Total long-term portion at present value	$ 124,241,317	$ -	$ 124,241,317

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, and warehouse space for its ticket inventory. 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 $1,388,875 and $2,415,188 for the years ended June 30, 2012 and 2011, 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	
2013	$ 1,580,311
2014	1,293,230
2015	726,869
2016	683,924
2017	667,859
2018-2021	2,741,150
Total	$ 7,693,343

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, 2012 and 2011, the Commission's balance of prize reserve funds, included in restricted assets in the accompanying statement of net assets, was $8,367,926 and $8,009,432, respectively.

Restricted assets also contain the Retailers Bonding Fund, with a balance as of June 30, 2012 and 2011, of $389,161 and $388,553, 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, 2012, 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, 2012 and 2011 were approximately $237,131 and $274,384 respectively.

Beginning in January 2012, 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. Employees are immediately vested in the employer match made by the Commission. Contributions by the Commission during the fiscal years ended June 30, 2012 and 2011 were approximately $17,235 and $0, 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 65^{th} 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 $1,716,175 for 2012 and $2,159,259 for 2011.

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

	Year Ended June 30, 2012	**Year Ended June 30, 2011**	**Year Ended June 30, 2010**	**Year Ended June 30, 2009**
Annual required contribution	$ 792,899	$ 894,186	$ 1,146,464	$ 824,943
Interest on net pension obligation	(385,049)	(370,863)	(345,412)	(352,997)
Adjustment to annual required contribution	450,885	428,842	394,840	399,278
Annual pension cost	858,735	952,165	1,195,892	871,224
Contributions made	(872,145)	(1,129,491)	(1,514,023)	(776,417)
(Decrease) increase in net pension obligation	(13,410)	(177,326)	(318,131)	94,807
Net pension asset (obligation), beginning	(4,813,111)	(4,635,785)	(4,317,654)	(4,412,461)
Net pension asset (obligation), end	$ (4,826,521)	$ (4,813,111)	$ (4,635,785)	$ (4,317,654)
Percentage of annual pension cost contributed	110.0%	126.3%	132.1%	94.1%

The annual required contribution and contribution rate for the current year was determined as part of the July 1, 2012 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. Effective July 1, 2012, the "ARC Adjust" will be a level dollar amortization over a closed 30-year period beginning July 1, 2012 at the new assumed interest rate of 6.75% per year. (Note: the post-retirement investment return assumption is reduced to 5.0% 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, 2011 and 2010 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, 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)
June 30, 2011	894,186	1,129,491	126.3	(4,813,111)
June 30, 2012	792,899	872,145	110.0	(4,826,521)

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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)
1/1/2005	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
7/1/2011	12,443,439	12,948,905	505,466	96.1	7,978,173	6.3
7/1/2012	12,081,239	15,090,262	3,009,023	80.1	7,828,729	38.4

* 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 GASB #27. Effective July 1, 2006, determined under the Entry Age Normal Actuarial Cost Method, as defined in GASB #27. The amortization of the Unfunded Actuarial Liability is based on a 30 - year closed period from July 1, 2006. Effective July 1, 2012, fresh-started over a 30-year closed period from July 1, 2012.

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 years ended June 30, 2012 and 2011, and have issued our report thereon dated September 20, 2012. 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

Management of the Commission is responsible for establishing and maintaining effective 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 *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 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, 2012

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