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STATE BOARD OF ACCOUNTS
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November 15, 2013

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

Dear Ms. Taylor:

We have received the audit report prepared by E.C. Ortiz & Co., LLP, Certified Public Accountants, for the periods July 1, 2011 to June 30, 2012 and July 1, 2012 to June 30, 2013. 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, 2012 and June 30, 2013, 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, 2013 AND 2012
(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

The State Lottery Commission of Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the State Lottery Commission of Indiana (the "Commission"), a component unit of the State of Indiana as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for Financial Statements

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

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management discussion and analysis and the schedule of funding progress for pension plan on pages 3 - 10 and 30 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 2013 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* in considering the Commissions internal control over financial reporting and compliance.

E. C. Ortiz & Co., LLP

Chicago, Illinois
October 11, 2013

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, 2013 and 2012. Please read it in conjunction with the financial statements and related footnote disclosures, which follow this section.

Financial Highlights

- Fiscal year 2013 ("FY 13") ticket sales were $934 million, an increase of approximately $79 million or 9% from fiscal year 2012 ("FY 12"). The net increase in sales is primarily attributable to a $67 million increase in scratch-off sales, and a $41 million increase in Powerball sales, along with a $19 million decrease in Mega Millions sales, and a $13 million decrease in Hoosier Lotto sales. 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.

- Prize expenses for FY 13 increased $48 million from FY 12, or 9%. Prize expenses for FY 12 increased $38 million, or 8%. For both years, the increase in prize expenses is directly related to the increase in sales mentioned above.

- Indirect gaming expense for FY 13, which includes retailer commissions, advertising and promotion, ticket printing costs, on-line professional services, and Instant Ticket Vending Machine ("ITVM") lease and courier services, increased approximately $14 million from FY 12. This increase is due primarily to retailer commissions, advertising and marketing expenses, and on-line professional services. Indirect gaming expense for FY 12 increased approximately $6 million from FY 11. This increase is due primarily to retailer commissions and on-line professional expenses, which are directly related to the increase in sales mentioned above.

- Other operating expenses in FY 13, which include salaries, wages, and benefits and general and administrative expenses, increased $1 million or 5% compared to that of FY 12 mainly due to salaries, wages, and benefits. Other operating expenses in FY 12 increased $1 million or 6% compared to those for FY 11 mainly due to employee incentive payments and legal expenses.

- In FY 13, non-operating revenues, net of expenses, decreased approximately $27 million from FY 12. 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. 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.

- FY 13 net income of $216 million represents approximately an $11 million decrease from FY 12. FY 12 net income of $227 million represents a $39 million increase from FY 11.

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. For each fiscal year, the Commission's basic financial statements are comprised of the following:

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

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

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

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

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

Financial Analysis of the Commission

Net Position and Changes in Net Position

Net position represents 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 position does not necessarily reflect the results of the Commission's operating activities.

Condensed Statements of Net Position
(in millions of dollars)

	June 30, 2013	2012	2011
Current assets	$ 108	$ 165	$ 86
Restricted assets	9	9	9
Long-term investments	130	145	127
Capital assets—net	1	2	2
Total assets	248	321	224
Current liabilities	112	170	96
Long-term liabilities	118	124	123
Total liabilities	230	294	219
Net position			
Unrestricted	17	25	3
Net investment in capital assets	1	2	2
Total net position	$ 18	$ 27	$ 5

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

	June 30, 2013	2012	2011
Operating revenues	$ 934	$ 855	$ 791
Operating - direct game expenses	(581)	(533)	(495)
Operating - indirect games expenses	(107)	(93)	(87)
Other operating expenses	(20)	(19)	(18)
Operating income	226	210	191
Non-operating revenues (expenses)	(10)	17	(3)
Net income prior to distributions	216	227	188
Distributions	(225)	(205)	(188)
Change in net position	(9)	22	-
Net position - beginning of year	27	5	5
Net position - end of year	$ 18	$ 27	$ 5

Assets

The FY 13 decrease of $73 million in total assets from FY 12 was primarily the result of a decrease in cash and cash equivalents, a decrease in the investment of cash collateral from securities lending transactions of money with the Treasurer of the State, a decrease in the long-term investments, a decrease in capital assets and an increase in accounts receivables.

The decrease in capital assets in FY 13 was due to normal depreciation and an assignment of assets to GTech Indiana, LLC (GTech Indiana). The assets assigned to GTech Indiana included vehicles, furniture, fixtures and equipment, information system equipment and ITVM machine upgrades in the amount of $1.1 million. This decrease was offset by the purchase of patents in the amount of $550,869 relating to multipliers used in lotto games.

The FY 12 increase of $97 million in total assets over FY 11 was primarily the result of increases in accounts receivable and long-term investments, securities lending collateral, and a decrease in cash and cash equivalents.

Liabilities

Current liabilities decreased by $58 million in FY 13 from FY 12 primarily as a result of a decrease in accounts payable, a decrease in securities lending transactions and an increase in current portion of prize liability. Long-term liabilities decreased $6 million in FY 13 over FY 12.

Current liabilities increased $74 million in FY 12 from FY 11 primarily as a result of the cash collateral from securities lending transactions by the Treasurer of the State. 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.

Net position

Net position consists of unrestricted income retained for the future cash flow needs of the Commission and capital assets. The Commission's total net position at June 30, 2013 was $18 million, at June 30, 2012, was $27 million, and at June 30, 2011 was $5 million. Starting in FY 12, the fair market value adjustment is excluded from surplus revenue to be transferred to the State. As such, changes in fair market value of investments formed part of the net position starting in FY 12.

Sales and Prize Expense
(in millions of dollars)

	Scratch-Off			Pull-Tab		
	2013	2012	Change	2013	2012	Change
Operating Revenues	$ 615	$ 548	$ 67	$ 2	$ 10	$ (8)
Game Prizes	417	372	45	1	6	(5)
Gross Margin	$ 198	$ 176	$ 22	$ 1	$ 4	$ (3)

	Powerball			Hoosier Lotto		
	2013	2012	Change	2013	2012	Change
Operating Revenues	$ 142	$ 101	$ 41	$ 44	$ 57	$ (13)
Game Prizes	68	48	20	27	36	(9)
Gross Margin	$ 74	$ 53	$ 21	$ 17	$ 21	$ (4)

	Mega Millions			Daily Games		
	2013	2012	Change	2013	2012	Change
Operating Revenues	$ 27	$ 46	$ (19)	$ 61	$ 64	$ (3)
Game Prizes	13	23	(10)	31	30	1
Gross Margin	$ 14	$ 23	$ (9)	$ 30	$ 34	$ (4)

	Mix & Match			Quick Draw		
	2013	2012	Change	2013	2012	Change
Operating Revenues	$ 4	$ 5	$ (1)	$ 21	$ 20	$ 1
Game Prizes	2	3	(1)	13	13	-
Gross Margin	$ 2	$ 2	$ -	$ 8	$ 7	$ 1

	Cash 5			Raffle		
	2013	2012	Change	2013	2012	Change
Operating Revenues	$ 11	$ -	$ 11	$ 1	$ -	$ 1
Game Prizes	5	-	5	1	-	1
Gross Margin	$ 6	$ -	$ 6	$ 0	$ 0	$ -

	Tag 6 / EZ Match			Total		
	2013	2012	Change	2013	2012	Change
Operating Revenues	$ 6	$ 4	$ 2	$ 934	$ 855	$ 79
Game Prizes	3	2	1	581	533	48
Gross Margin	$ 3	$ 2	$ 1	$ 353	$ 322	$ 31

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

The tables above compare FY 13, FY 12 and FY 11 sales, prize expense and gross margin for major lottery game categories. FY 13 sales increased in the scratch-off and Powerball product lines. Mega Millions, Hoosier Lotto and Daily Games sales decreased. Sales remained consistent for Mix & Match, and Quick Draw product lines. Three new games were introduced in fiscal year 2013 including Cash 5 in November 2012, EZ Match in May 2013 and Raffle in June 2013. Lucky 5 and Pull-tab games ended in November of 2012 and Tag 6 ended in March of 2013.

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.

Powerball is a multi-state lotto game offering large jackpot prizes. The Commission participates in this game along with 44 other United States lotteries, including the District of Columbia and the U.S. Virgin Islands. Powerball sales increased in FY 13 by approximately $41 million to $142 million. The primary reasons for the increase in ticket sales were larger average jackpots than in FY 12 and a full 12 months with a ticket price of $2.

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.

Mega Millions is also a multi-state lotto game offering large jackpot prizes. The Commission participates in this game along with 44 other United States lotteries, including the District of Columbia and US Virgin Islands. Mega Millions recorded sales of approximately $27 million in FY 13 and $46 million in FY 12. The $19 million decrease in FY 13 was due to a lower average jackpot level. Mega Millions sales increased $10 million in FY 12 over sales of $36 million in FY 11 due to a record level jackpot.

Hoosier Lotto is a game available only in Indiana. Sales decreased in FY 13 by approximately $13 million. Sales decreased in FY 12 by approximately $4 million. Both decreases were due to low jackpot levels.

The “Daily Games” consists of the Daily 3, Daily 4 and Lucky 5 games. Daily Games’ sales slightly decreased in FY 13, due to the discontinuing of Lucky 5, and remained relatively consistent between FY 12 and FY 11.

The pull-tab category ended in FY 13 causing sales to be down $8 million from FY 12. Pull-tabs had slightly decreasing sales levels in FY 12.

Mix & Match sales remained consistent between FY 13, FY 12 to FY 11.

In FY 13, Quick Draw had a slight increase in sales. In FY 12, Quick Draw had a $2 million 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 13 of $581 million increased by 9% over FY 12 prize expense of $533 million. Total prize expense in FY 12 of $533 million increased by 8% over FY 11 prize expense of $495 million. Notable variances in prize expense are discussed below.

- FY 13 scratch-off game prize expense increased 12% or $45 million. FY 12 scratch-off game prize expense increased 7% or $25 million. Both increases are directly related to scratch-off sales increases for the respective years as discussed earlier.

- In FY 13, Pull-tab games were discontinued causing a decrease in prize expense of $5 million from FY 12.

- On-line game prize expense increased 5% or $8 million in FY 13 as compared to FY 12. This increase is directly related to an increase in Powerball sales. 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.

Indirect Game Expenses and Other Operating Expenses

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

	2013	2012	2011
Indirect game expenses:			
Retailer commissions	$ 63	$ 60	$ 56
Advertising and promotion	21	12	12
Ticket printing costs	10	10	9
On-line professional services	10	8	7
ITVM lease and courier services	3	3	3
	107	93	87
Other operating expenses:			
Salaries, wages, and benefits	15	14	13
General and administrative	5	5	5
	20	19	18
Total indirect game and other operating expenses	$ 127	$ 112	$ 105

Indirect game and other operating expenses increased $15 million from FY 12 to FY 13. This is due to the fluctuations in retailer commissions, on-line professional services, and advertising and promotions. Both retailer commissions and on-line professional services are directly related to the increase in ticket sales. 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.

Other

During fiscal year 2013, the Commission entered into an Integrated Services Agreement with GTech Indiana, LLC for the purpose of increasing sales and net income. This strategic relationship with GTech Indiana, LLC is expected to increase revenues net of game expenses over the term of the Integrated Service Agreement of 15 years.

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THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,476,145	$ 41,774,779
Investments — current portion	11,446,826	11,815,565
Securities lending collateral	-	76,034,555
Accounts receivable — net	68,732,655	32,481,773
Prepaid expenses	1,414,957	2,693,408
Accrued interest receivable	223	446
Ticket inventory	-	263,750
Total current assets	108,070,806	165,064,276
NONCURRENT ASSETS:		
Long-term investments — less current portion	129,933,934	144,697,963
Restricted assets	8,720,176	8,757,087
Capital assets — net	1,744,493	2,399,077
Total noncurrent assets	140,398,603	155,854,127
TOTAL	$ 248,469,409	$ 320,918,403
LIABILITIES AND NET POSITIONS		
CURRENT LIABILITIES:		
Accounts payable:		
State	$ 8,463,509	$ 8,321,238
Trade	9,916,381	12,713,345
Securities lending transactions	-	76,034,555
Current portion of prize liability	92,034,617	70,407,568
Unearned revenue	668,788	528,295
Other accrued expenses	583,008	1,536,432
Total current liabilities	111,666,303	169,541,433
LONG-TERM LIABILITIES — Prize liability less current portion	118,597,333	124,241,317
Total liabilities	230,263,636	293,782,750
NET POSITION:		
Unrestricted	16,461,280	24,736,576
Net investment in capital assets	1,744,493	2,399,077
Total net position	18,205,773	27,135,653
TOTAL	$ 248,469,409	$ 320,918,403

See notes to financial statements.

Note: All of the Commission activities are Business –Type and none are Governmental activities.

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Instant ticket sales — net	$ 616,359,272	$ 557,784,919
On-line ticket sales	317,668,814	297,799,838
Total operating revenues	934,028,086	855,584,757
OPERATING EXPENSES:		
Direct game expenses:		
Instant game prizes	418,282,785	377,488,962
On-line games prizes	163,062,740	155,472,805
	581,345,525	532,961,767
Indirect game expenses:		
Retailer commissions	63,517,963	60,036,174
Ticket printing costs	9,684,953	9,862,337
Advertising and promotion	21,308,239	11,725,343
On-line professional services	9,795,199	8,691,678
ITVM lease and courier services	2,926,218	2,652,168
	107,232,572	92,967,700
Total game expenses	688,578,097	625,929,467
OTHER OPERATING EXPENSES:		
Salaries, wages, and benefits	14,783,307	13,786,376
General and administrative	5,164,886	5,252,783
Total other operating expenses	19,948,193	19,039,159
Total operating expenses	708,526,290	644,968,626
OPERATING INCOME	225,501,796	210,616,131
NON-OPERATING REVENUES:		
Interest income	126,173	65,433
Net increase (decrease) in fair value of investments	(8,929,881)	16,549,412
Other income (expenses) - net	(966,346)	156,030
Total non-operating revenues (expenses) -net	(9,770,054)	16,770,875
NET INCOME PRIOR TO DISTRIBUTIONS	215,731,742	227,387,006
DISTRIBUTIONS:		
Distributions to the State	(216,198,113)	(196,930,115)
Distributions to be paid to the State	(8,463,509)	(8,321,238)
Total distributions	(224,661,622)	(205,251,353)
CHANGES IN NET POSITION	(8,929,880)	22,135,653
NET POSITION — Beginning of year	27,135,653	5,000,000
NET POSITION — Ending of year	$ 18,205,773	$ 27,135,653

See notes to financial statements.

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from ticket sales	$ 899,090,839	$ 844,968,027
Payments to ticket winners	(565,362,460)	(523,969,519)
Payments to employees	(15,736,731)	(13,861,451)
Payments to suppliers	(113,088,037)	(103,371,636)
Net cash provided by operating activities	204,903,611	203,765,421
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Distributions to the State	(224,519,352)	(207,589,986)
Others	(966,346)	156,030
Net decrease (decrease) in restricted assets	36,911	(359,102)
Net cash used in noncapital and related financing activities	(225,448,787)	(207,793,058)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,111,276)	(1,017,832)
Proceeds from the sale of capital assets	28,535	37,309
Net cash used in capital and related financing activities	(1,082,741)	(980,523)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	-	(7,686,310)
Investment maturities	6,202,887	6,507,802
Interest income	126,396	65,090
Net cash provided by (used) in investing activities	6,329,283	(1,113,418)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,298,634)	(6,121,578)
CASH AND CASH EQUIVALENTS — Beginning of year	41,774,779	47,896,357
CASH AND CASH EQUIVALENTS — End of year	$ 26,476,145	$ 41,774,779

(Continued)

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 225,501,796	$ 210,616,131
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	564,184	841,197
Change in provision for doubtful accounts	(34,719)	(41,211)
Change in provision for ticket returns	2,473,225	(923,393)
Loss on disposal of capital assets	1,173,142	94,860
Changes in certain assets and liabilities:		
Accounts receivable	(38,689,388)	(9,405,042)
Ticket inventory	263,750	138,023
Prepaid expenses	1,278,451	1,075,340
Accounts payable — trade	(2,796,964)	(7,205,712)
Unearned revenue	140,493	(341,945)
Other accrued expenses	(953,424)	(75,075)
Prize liability	15,983,065	8,992,248
Net cash provided by operating activities	$ 204,903,611	$ 203,765,421
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES —		
Net increase (decrease) in fair value of investments	$ (8,929,881)	$ 16,549,412

See notes to financial statements. (Concluded)

1. ORGANIZATION

The State Lottery Commission of Indiana (the "Commission") was established by Public Law No. 341, as amended, as listed in Indiana Code Section 4, Article 30 in May 1989 ("Lottery Article"). The Commission offers various on-line games, including Hoosier Lotto, Powerball, Mega Millions, Daily 3, Daily 4, Lucky 5, Mix & Match, Quick Draw, Cash 5, EZ Match, Raffle and Tag 6. On-line tickets are generated from a terminal and all but EZ Match require a subsequent drawing of numbers to determine winners. EZ Match winners are determined instantly. 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. Lucky 5 and Pull-tab games were discontinued in November 2012 and Tag 6 was discontinued in March 2013.

The Commission is organized to provide for administering and overseeing the operation of the Indiana Lottery with the assistance of a provider under an integrated services agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — The Commission is a component unit of the State of Indiana (the "State") for financial reporting purposes and is reported as an enterprise fund in the State's Comprehensive Annual Financial Report ("CAFR"). Component units are separate legal entities for which the primary government is legally accountable. The Commission itself does not have any component units.

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.

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. Non-operating revenues, such as interest income and changes in fair value of investments, result from non-exchange 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.

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. Except for the insurance annuities, investments are recorded at fair market value at June 30, 2013 and 2012. 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 an estimate based on historical average rate of ticket returns associated with scratch-off and pull-tab games and was \$8,747,975 and \$6,274,750 as of June 30, 2013 and 2012, respectively. Allowance for doubtful accounts is based on management's estimate of retailer receivables that will not be collected and was \$17,728 and \$52,447 as of June 30, 2013 and 2012, 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 and amortization is computed using the straight-line method over the estimated useful lives of the assets. Generally, data processing equipment and software are depreciated over a minimum of three years, vehicles are depreciated over four years and leasehold improvements are depreciated over the remaining life of the lease. Most of the other assets are depreciated over five years. Intangibles are amortized over the useful life of the asset. Depreciation and amortization expense was \$564,184 and \$841,196 for the years ended June 30, 2013 and 2012, 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.

As of October 12, 2012, all ticket inventories were transferred to an outside vendor that assumed responsibility of ticket distribution.

Prize Liability — Prize liability includes an estimate of sold and unclaimed scratch-off, pull-tab and on-line game winners as of June 30, 2013 and 2012, 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 tickets are shipped 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 position. All unclaimed prize money during FY 13 and FY 12 was used to offset future prizes. Therefore, the unclaimed prize balance as of the June 30, 2013 and 2012 was $0.

Net Position — As stated in the Lottery Article, funds in excess of the amounts necessary to pay prizes and expenses for the operation of the Commission referred to as "surplus revenue" are to be distributed per a statutory schedule to the Indiana State Treasurer. In FY 12, the Commission began excluding the change in fair market value of investments from surplus revenue transferred to the Indiana State Treasurer. The Commission has set aside amounts that it estimates are necessary to meet future cash flow needs of the Commission until the next transfer to the Indiana State Treasurer. These amounts have been reflected in the accompanying financial statements as unrestricted assets.

The Lottery Article requires that the Indiana State Treasurer distribute $30 million annually to the Indiana State Teachers' Retirement Fund to pay a portion of the current pension obligations, and $30 million annually to the State Pension Relief Fund to assist cities and towns in the payment of current and future pension obligations. The balance of the amount distributed to the Indiana State Treasurer is deposited into the State's Build Indiana Fund, to be distributed to state and local capital projects and for the Lottery/Gaming Surplus Account. Distributions to the State's Build Indiana Fund totaled $164,519,351 and $147,589,986 for the years ended June 30, 2013 and 2012, respectively.

Classification of Operating and Nonoperating – The Commission's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation of the Commission. All other revenues and expenses are reported as nonoperating revenues and expenses.

Commissions and Bonuses — Retailers earn a 6.0% sales commission on on-line game tickets, 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 may be eligible for performance based bonuses throughout the year.

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

The Commission entered into a 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 operation of the gaming network that consists of approximately 4,000 instant and on-line retailer ticket terminals and associated software. The Commission assigned this contract to GTech Indiana effective April 1, 2013 in accordance with the Integrated Services Agreement.

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. This contract expired on April 1, 2013.

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, *Deposit and Investment Risk Disclosures*, 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, 2013 and 2012.

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, 2013 and 2012, totaled $26,476,145 and $41,774,779, respectively, while bank balances totaled $29,139,260 and $42,213,413, 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 in U.S. Treasury obligations are reported at fair value 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 position. The net change in the fair value of U.S. treasury obligations for the years ended June 30, 2013 and 2012 was ($8,929,881) and $16,549,412, respectively. Investments in insurance annuity contracts, at rates yielding approximately 3% to 6%, relate to deferred prize obligations.

As of June 30, 2013, 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	$ 120,967,815	$ 8,423,826	$ 40,502,860	$ 34,344,690	$ 37,696,439
Certificates of deposit	385,000	385,000	-	-	-
	121,352,815	8,808,826	40,502,860	34,344,690	37,696,439
	Carrying Value				
Insurance annuities	20,412,945	3,023,000	10,725,395	6,493,257	171,293
Total investments	$ 141,765,760	$ 11,831,826	$ 51,228,255	$ 40,837,947	$ 37,867,732

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

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

	2013	2012
Statement of Net Position:		
Cash and cash equivalents	$ 26,476,145	$ 41,774,779
Investments (current)	11,446,826	11,815,565
Investments (long-term)	129,933,934	144,697,963
Restricted assets *	385,000	385,000
Total	$ 168,241,905	$ 198,673,307
Notes to the Financial Statements:		
Deposits	$ 26,476,145	$ 41,774,779
Investments (current and long-term)	141,765,760	156,898,528
Total	$ 168,241,905	$ 198,673,307

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

The following table provides information on the credit ratings associated with the Commission's investments as of June 30, 2013 and 2012:

	S&P	Fitch	Moody's	A.M. Best	Balance at June 30, 2013	Percent of Total	Balance at June 30, 2012	Percent of Total
U.S. government securities	AA+	AAA	Aaa	unrated	$ 120,967,815	85%	$ 133,828,569	85%
Certificate of Deposits	unrated	unrated	unrated	unrated	385,000	0%	385,000	0%
Insurance annuities	AA-	AA-	A1	A+	20,412,945	15%	22,684,959	15%
Total investments					$ 141,765,760	100%	$ 156,898,528	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 2013, the $142 million of investments were not held by the Commission. Investments totaling $121 million were held by the Indiana State Treasurer; therefore, these investments were not considered to have custodial credit risk. The remaining $21 million of investments were held by outside counterparties. 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.

Securities lending credit risk – The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise in excess of the total market value of the loaned securities.

Cash and collateral securities are initially pledged at 102% of the market value of the securities lent. Collateral securities cannot be pledged or sold by the Board unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The custodian bank provides 100% indemnification to the lender against any borrower default, overnight market risk, and failure to return loaned securities. At year end, there was no credit risk exposure to any borrowers because the amount owed the borrowers exceeds the amounts the borrowers owed the State.

As of June 30, 2013, the Treasurer of State did not lend any securities related to the Commission. As of June 30, 2012, all lent securities were collateralized with cash. The fair value of securities loan was $74,493,000.

4. CAPITAL ASSETS

A summary of the Commission's capital assets at June 30, 2013 and 2012 is as follows:

	Balances at June 30, 2012	Increases	Decreases	Balances at June 30, 2013
Capital assets being depreciated:				
Vehicles	$ 1,353,257	$ -	$ (1,220,169)	$ 133,088
Furniture, fixtures, and equipment	3,338,064	388,930	(3,374,088)	352,906
Leasedhold improvements	729,572	154,155	-	883,727
Data processing equipment	2,825,418	17,323	(2,035,918)	806,823
Total capital assets — being depreciated	8,246,311	560,408	(6,630,175)	2,176,544
Less accumulated depreciation:				
Vehicles	(881,619)	(109,942)	869,709	(121,852)
Furniture, fixtures, and equipment	(2,698,157)	(96,206)	2,713,408	(80,955)
Leasehold improvements	(64,330)	(89,404)	-	(153,734)
Data processing equipment	(2,203,128)	(224,309)	1,845,381	(582,056)
Total accumulated depreciation	(5,847,234)	(519,861)	5,428,498	(938,597)
Intangible assets being amortized:				
Patent	-	550,869	-	550,869
Less accumulated amortization	-	(44,323)	-	(44,323)
Total intangible assets being amortized	-	506,546	-	506,546
Total capital assets - net	$ 2,399,077	$ 547,093	$ (1,201,677)	$ 1,744,493

	Balances at June 30, 2011	Increases	Decreases	Balances at June 30, 2012
Capital assets being depreciated:				
Vehicles	$ 1,366,744	$ 224,394	$ (237,881)	$ 1,353,257
Furniture, fixtures, and equipment	3,250,909	109,514	(22,359)	3,338,064
Leasedhold improvements	375,944	353,628	-	729,572
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	(2,585,818)	(114,681)	2,342	(2,698,157)
Leasehold improvements	(12,531)	(51,799)	-	(64,330)
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

The Commission removed $4,021,569 and $475,370 of fully depreciated capital assets during FY13 and FY12, 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, 2013 and 2012 is as follows:

	2013	2012
Installment prizes liability	$ 130,050,333	$ 136,064,317
Scratch-off game liability	62,037,873	46,736,973
Pull tab game liability	321,809	996,186
On-line game liability	18,221,935	10,851,409
Total prize liability	210,631,950	194,648,885
Less current portion	(92,034,617)	(70,407,568)
Noncurrent portion	$ 118,597,333	$ 124,241,317

Future payments of prize liability as of June 30, 2013, are as follows:

2014	$ 11,453,000	$ 80,581,617	$ 92,034,617
2015	11,253,000	-	11,253,000
2016	11,153,000	-	11,153,000
2017	11,153,000	-	11,153,000
2018	11,153,000	-	11,153,000
2019–2023	52,860,000	-	52,860,000
2024–2028	36,898,000	-	36,898,000
2029–2033	17,135,000	-	17,135,000
2034–2038	15,039,000	-	15,039,000
2039-2060	6,900,000	-	6,900,000
Total	184,997,000	80,581,617	265,578,617
Less unamortized discount	(54,946,667)	-	(54,946,667)
Total at present value	130,050,333	80,581,617	210,631,950
Less current portion	(11,453,000)	(80,581,617)	(92,034,617)
Total long-term portion at present value	$ 118,597,333	$ -	$ 118,597,333

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

Activity in prize liability accounts consists of:

	2013	**2012**
Balance - beginning of the year	$ 194,648,885	$ 185,656,637
Prize expense	581,345,525	532,961,767
Prize payments	(565,362,460)	(523,969,519)
Balance - end of the year	$ 210,631,950	$ 194,648,885

6. OPERATING LEASES

The Commission leases office space, under non-cancelable 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. During FY 2013, the Commission terminated or assigned leases for the regional offices, warehouse and scratch-off ticket vending machines to GTech Indiana, LLC in accordance with the Integrated Services Agreement. Total rental expense was $1,014,142 and $1,388,875 for the years ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, the future minimum rental payments required under non-cancelable operating leases with original terms in excess of one year are as follows:

Fiscal Years Ending June 30	
2014	$ 668,781
2015	686,606
2016	669,101
2017	670,667
2018	702,676
2019-2021	2,049,472
Total	$ 5,447,303

The Commission entered into a memorandum of understanding (MOU) with the Indiana Horse Racing Commission for the purpose of subleasing a portion of the Commission's headquarters to the Indiana Horse Racing Commission. The term of the MOU is 4 years effective March 31, 2012 to March 31, 2015. The total amounts of minimum rentals to be received under the MOU were $188,529 and $257,085 in fiscal years 2013, and 2012, respectively.

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 these games and remit a percentage of sales to prize winners or to MUSL for payment of prizes.

As a member of MUSL, the Commission is required to contribute to various prize reserve funds held by MUSL. Accounts were established by MUSL as a contingency reserve to fund prizes in excess of the game prize structure and to protect all member lotteries and MUSL from any unforeseen liabilities. All funds remitted, and the related interest earned, will be returned to the Commission upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the funds. As of June 30, 2013 and 2012, the Commission's balance of prize reserve funds, included in restricted assets in the accompanying statement of net position, was $8,330,301 and $8,367,926, respectively.

Restricted assets also contain the Retailers Bonding Fund, with a balance as of June 30, 2013 and 2012, of $389,875 and $389,161, 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, 2013, 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. RISK MANAGEMENT

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

9. INTEGRATED SERVICES AGREEMENT

The Commission entered into a 15-year integrated services agreement (ISA) with GTech Indiana, LLC effective October 12, 2012 for the purpose of coordinating, consulting, providing for and integrating the Commission's management and performing all functions necessary to operate the Lottery except those functions specifically retained by the Commission to facilitate the Commission's carrying out its public purpose as set forth in the Indiana Code. Under the terms of the agreement, effective July 1, 2013, the compensation to be paid under the ISA is comprised of reimbursement of operating expenses and incentive compensation payments. Incentive compensation payment is subject to annual adjustments in accordance with the agreement. Subject to certain annual net income targets, the ISA also provides for GTECH to pay the Commission a shortfall payment amounting to the difference between the target and actual income.

10. 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, 2013 and 2012 were approximately $147,057 and $237,131 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, 2013 and 2012 were approximately $23,190 and $17,235, 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 position as Prepaid Expenses in the amount of $1,273,092 for 2013 and $1,716,175 for 2012.

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

	Year Ended June 30, 2013	**Year Ended June 30, 2012**	**Year Ended June 30, 2011**	**Year Ended June 30, 2010**
Annual required contribution	$ 1,085,298	$ 792,899	$ 894,186	$ 1,146,464
Interest on net pension obligation	(325,790)	(385,049)	(370,863)	(345,412)
Adjustment to annual required contribution	(379,229)	450,885	428,842	394,840
Annual pension cost	1,138,737	858,735	952,165	1,195,892
Contributions made	(1,272,352)	(872,145)	(1,129,491)	(1,514,023)
(Decrease) increase in net pension obligation	(133,615)	(13,410)	(177,326)	(318,131)
Net pension Obligation, beginning	(4,826,521)	(4,813,111)	(4,635,785)	(4,317,654)
Net pension Obligation, end	$ (4,960,136)	$ (4,826,521)	$ (4,813,111)	$ (4,635,785)
Percentage of annual pension cost contributed	117.2%	110.0%	126.3%	132.1%

The annual required contribution and contribution rate for the current year was determined as part of the July 1, 2013 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, 2013, the "ARC Adjust" will be a level dollar amortization over a closed 30-year period beginning July 1, 2013 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 position 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 position.

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 Obligation
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)
June 30, 2013	1,085,298	1,272,352	117.2	(4,960,136)

As of July 1, 2013, the most recent actuarial valuation date, the plan was 84% funded. The actuarial accrued liability for benefits was $7.6 million and the actuarial value of assets was $6.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $1.2 million, and the ratio of covered payroll to UAAL was 67.8%.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing overtime relative to the actuarial liability for benefits.

11. SUBSEQUENT EVENTS

Senate Enrolled Act No. 526 requires the transfer of the Commission's defined benefit plan to the Public Employees' Retirement Fund (PERF) of the State of Indiana effective July 1, 2013. In order to facilitate this transfer, $1.4 million from the Commission's pension plan was transferred to Indiana Public Employee Retirement System (INPRS) and the amount remaining in the Lottery's pension plan was frozen as of July 2013. All employees of the Commission became members of the PERF on July 1, 2013.

During FY 2012, the Treasurer of the State entered into securities lending transactions using pooled money from different funds of State Agencies including funds from the Commission. In accordance with GASB 28, the State should report the assets and liabilities arising from the securities lending transactions in the balance sheets of the funds that have the risk of loss on the collateral assets. This transaction was not timely communicated to the Commission for recording as of the financial statement and report release dates. As a result, the financial statements were subsequently reissued and adjustments made on the reissued financial statements to record an asset and liability arising from the securities lending transactions totaling $76,034,555. No such lending of securities occurred in FY 2013.

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)
1/1/2006	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
7/1/2013	6,425,469	7,650,535	1,225,066	84.0	1,808,138	67.8

* 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*

The State Lottery Commission of Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Lottery Commission of Indiana ("Commission") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commissions' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

Purpose of this Report

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

C. E. Gilroy & Co., LLP

Chicago, Illinois
October 11, 2013