



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
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August 1, 2022

Board of Directors
State Lottery Commission of Indiana
10 W. Market St., Suite 2980
Indianapolis, IN 46204

We have reviewed the audit report of the State Lottery Commission of Indiana, which was opined upon by CliftonLarsonAllen LLP, Independent Public Accountants, for the period July 1, 2020 to June 30, 2021. Per the *Independent Auditors' Report*, the financial statements included in the report present fairly the financial condition of the State Lottery Commission of Indiana as of June 30, 2021, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

A handwritten signature in black ink that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

THE STATE LOTTERY COMMISSION OF INDIANA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2021 AND 2020



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

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

Report on the Financial Statements

We have audited the business type activity and the aggregate remaining fund information 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, 2021 and 2020, 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 the 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 opinions 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 from 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 auditors' 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 opinions.

Opinions

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, 2021 and 2020, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Commission and do not purport to, and do not, present fairly the financial position of the state of Indiana, as of June 30, 2021 and 2020, and the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

During fiscal year ended June 30, 2021, retroactive to June 30, 2020, the entity adopted GASB Statement No. 84 Fiduciary Activities. As a result of the implementation of this standard, the entity restated its beginning fiduciary net position for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

Other Information

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension information on pages 4 to 16 and 51 to 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Board of Commissioners
The State Lottery Commission of Indiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2021, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting or on compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Indianapolis, Indiana
October 25, 2021

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

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, 2021 and 2020. Please read it in conjunction with the financial statements and related footnote disclosures, which follow this section.

Financial Highlights

- Fiscal year 2021 (FY 21) operating revenues reached \$1.738 billion, the highest revenue year on record in the Commission's history. It was an increase of \$354 million from fiscal year 2020 (FY 20). The net increase in revenue was primarily a result of a \$291 million increase in scratch-off revenue, a \$20 million increase in Mega Millions revenue, and an \$18 million increase in Powerball revenue. Fiscal year 2020 (FY 20) operating revenues were \$1.384 billion, an increase of \$36 million from fiscal year 2019 (FY 19). The net increase in FY 20 operating revenue was primarily attributable to a \$118 million, 12% increase in scratch-off revenue from prior year. Big jackpot games' revenues were down in FY 20, including a \$35 million decrease in Powerball revenue, a \$38 million decrease in Mega Millions revenue, and a \$19 million decrease in Hoosier Lotto revenue.
- Prize expenses for FY 21 increased \$230 million from FY 20. The FY 21 increase in prize expense was directly related to the revenue increases for scratch-off, Mega Millions, and Powerball during the year. In FY 20, although prize expenses were down for many lottery products, including Hoosier Lotto, Powerball, Mega Millions, and Cash 5 due to their respective decreases in revenue; total prize expense increased from FY 19 by \$54 million due to scratch-off revenue growth.
- Indirect gaming expense for FY 21, which includes retailer commissions, advertising and promotions, ticket printing costs, central gaming system expense, miscellaneous lottery expenses, management fees, and other game expenses increased from FY 20 primarily due to the large increase in revenue. The most significant indirect game expense increases during FY 21 from prior year included a \$22 million increase in retailer commission expense, a \$7 million increase in central gaming system expense, and a \$3 million increase in ticket printing costs. Indirect game expenses for FY 20 remained approximately the same from prior year, FY 19.
- Other operating expenses during FY 21, which includes salaries, wages, benefits, and general and administrative expenses, increased by 4% from prior year. Other operating expenses also increased by 4% in FY 20 from FY 19. These year-over-year increases were both due to increases in salary, wages and benefits.
- In FY 21, nonoperating revenues, net of expenses, resulted in a net expense of \$24 million. The FY 21 net expense consisted of \$19 million in provider incentive payment, a \$7 million net decrease in fair value of investments, and \$2 in other income. In FY 20, nonoperating revenue, net of expenses, resulted in net revenue of \$10 million during the year. A favorable \$9 million fair market value adjustment was recognized in FY 20 due to the increase in fair market value of US Treasury strips held by the Commission.
- Net income prior to distributions for FY 21 was \$369 million, a \$56 million increase over FY 20. The increase in year over year net income was mainly due to the 25% increase in operating revenue mentioned above. Net income prior to distributions in FY 20 was \$313 million, a \$3 million decrease from FY 19. The FY 20 decrease in net income was driven by a \$93 million increase in scratch-off game prize expense mentioned above.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

Overview of the Financial Statements

The Commission's primary activity of generating revenue for the state from lottery operations is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting like a business entity. The Commission implemented GASB Statement No. 84, *Fiduciary Activities* in FY 21. This resulted in additional statements being presented in a fiduciary fund that reflects the Commission's fiduciary activities for the trust held for the Employees' Pension Plan of the State Lottery Commission of Indiana.

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

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

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

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

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

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

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

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

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

Financial Analysis of the Commission

Net Position and Changes in Net Position

Net position represents the difference between total assets plus deferred outflows and total liabilities plus deferred inflows. Because the Commission is required by law to make transfers of its surplus 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,		
	2021	2020	2019
Current Assets	\$ 218	\$ 176	\$ 187
Restricted Assets	9	9	9
Long-Term Investments	85	96	95
Capital Assets, Net	-	-	1
Other Assets	8	11	11
Total Assets	<u>320</u>	<u>292</u>	<u>303</u>
Deferred Outflows	1	-	1
Current Liabilities	222	179	191
Long-Term Liabilities	82	90	98
Total Liabilities	<u>304</u>	<u>269</u>	<u>289</u>
Deferred Inflows	1	-	1
Net Position			
Unrestricted	7	14	4
Restricted for MUSL	9	9	9
Restricted for Net Pension Asset	-	-	-
Investment in Capital Assets	-	-	1
Total Net Position	<u>\$ 16</u>	<u>\$ 23</u>	<u>\$ 14</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

**Condensed Statements of Revenues, Expenses and Changes in Net Position
(In Millions of Dollars)**

	Years Ended June 30,		
	2021	2020	2019
Operating Revenues	\$ 1,738	\$ 1,384	\$ 1,348
Operating - Direct Game Expenses	(1,144)	(914)	(860)
Operating - Indirect Games Expenses	(194)	(161)	(161)
Other Operating Expenses	(7)	(6)	(6)
	<u>393</u>	<u>303</u>	<u>321</u>
Operating Income			
Nonoperating Revenues (Expenses)	(24)	10	(4)
	<u>369</u>	<u>313</u>	<u>316</u>
Net Income Prior to Distributions			
Distributions	(376)	(304)	(312)
	<u>(7)</u>	<u>9</u>	<u>4</u>
Change in Net Position			
Net Position - Beginning of Year	<u>23</u>	<u>14</u>	<u>10</u>
Net Position - End of Year	<u>\$ 16</u>	<u>\$ 23</u>	<u>\$ 14</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

Assets

Total assets increased by \$28 million during FY 21. The increase was mainly due to a \$16 million increase in cash and cash equivalents and a \$27 million increase in accounts receivable. There was an \$11 million decrease of long-term investments and a \$3 million decrease of other assets during FY 21.

Total assets decreased during FY 20 from FY 19 by \$11 million. The decrease was a result of a \$19 million decrease in cash and cash equivalents, an \$8 million increase in accounts receivable, and a slight decrease in capital assets. Investments, restricted assets, other assets, prepaid transfers to the state and other prepaid remained consistent from prior year.

Liabilities

Current liabilities increased by \$43 million during FY 21. The increase consisted of a \$27 million increase in accounts payable and a \$17 million increase in current prize liability. Long-term liabilities decreased \$8 million during FY 21 due to a \$6 million decrease in Long-term prize liability, a \$1 million decrease in unearned revenue, and a \$1 million decrease in net pension liability.

Current liabilities decreased \$12 million in FY 20 from FY 19. This decrease was due to a \$7 million decrease in accounts payable and a \$6 million decrease in current prize liability. Long-term liabilities decreased \$8 million in FY 20 from FY 19 primarily due to a \$6 million decrease in noncurrent prize liability and a \$1 million decrease in unearned revenue.

Net Position

Net position consists of unrestricted income retained for the future cash flow needs of the Commission, restricted assets for purpose of prize payments, restricted investments for net pension asset, and investment in capital assets. The Commission's total net position on June 30, 2021 was \$16 million, on June 30, 2020 was \$23 million, and at June 30, 2019 was \$14 million. The fair market value of investments adjustment and net pension liability adjustment are excluded from surplus revenue transfers to the State. As a result, these adjustments net to the change in net position.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

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

	Scratch-Off			Powerball		
	2021	2020	Change	2021	2020	Change
Operating Revenues	\$ 1,384	\$ 1,093	\$ 291	\$ 79	\$ 61	\$ 18
Game Prizes	967	765	202	39	29	10
Gross Margin	<u>\$ 417</u>	<u>\$ 328</u>	<u>\$ 89</u>	<u>\$ 40</u>	<u>\$ 32</u>	<u>\$ 8</u>
	Mega Millions			Daily Games		
	2021	2020	Change	2021	2020	Change
Operating Revenues	\$ 60	\$ 40	\$ 20	\$ 96	\$ 83	\$ 13
Game Prizes	29	20	9	43	40	3
Gross Margin	<u>\$ 31</u>	<u>\$ 20</u>	<u>\$ 11</u>	<u>\$ 53</u>	<u>\$ 43</u>	<u>\$ 10</u>
	Hoosier Lotto			Cash 5		
	2021	2020	Change	2021	2020	Change
Operating Revenues	\$ 35	\$ 36	\$ (1)	\$ 17	\$ 16	\$ 1
Game Prizes	18	18	-	8	8	-
Gross Margin	<u>\$ 17</u>	<u>\$ 18</u>	<u>\$ (1)</u>	<u>\$ 9</u>	<u>\$ 8</u>	<u>\$ 1</u>
	Quick Draw			Fast Play		
	2021	2020	Change	2021	2020	Change
Operating Revenues	\$ 17	\$ 16	\$ 1	\$ 24	\$ 17	\$ 7
Game Prizes	10	10	-	16	11	5
Gross Margin	<u>\$ 7</u>	<u>\$ 6</u>	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 6</u>	<u>\$ 2</u>
	PLUS			Cash 4 Life		
	2021	2020	Change	2021	2020	Change
Operating Revenues	\$ 6	\$ 5	\$ 1	\$ 7	\$ 7	\$ -
Game Prizes	2	4	(2)	4	4	-
Gross Margin	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ -</u>
	Superball			EZ Match		
	2021	2020	Change	2021	2020	Change
Operating Revenues	\$ 6	\$ 4	\$ 2	\$ 4	\$ 3	\$ 1
Game Prizes	4	2	2	2	2	-
Gross Margin	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 1</u>
	Bullseye					
	2021	2020	Change			
Operating Revenues	\$ 3	\$ 3	\$ -			
Game Prizes	2	1	1			
Gross Margin	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ (1)</u>			
	Total					
	2021	2020	Change			
Operating Revenues	\$ 1,738	\$ 1,384	\$ 354			
Game Prizes	1,144	914	230			
Gross Margin	<u>\$ 594</u>	<u>\$ 470</u>	<u>\$ 124</u>			

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

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

	Scratch-Off			Powerball		
	2020	2019	Change	2020	2019	Change
Operating Revenues	\$ 1,093	\$ 975	\$ 118	\$ 61	\$ 96	\$ (35)
Game Prizes	765	672	93	29	46	(17)
Gross Margin	<u>\$ 328</u>	<u>\$ 303</u>	<u>\$ 25</u>	<u>\$ 32</u>	<u>\$ 50</u>	<u>\$ (18)</u>
	Mega Millions			Daily Games		
	2020	2019	Change	2020	2019	Change
Operating Revenues	\$ 40	\$ 78	\$ (38)	\$ 83	\$ 77	\$ 6
Game Prizes	20	38	(18)	40	38	2
Gross Margin	<u>\$ 20</u>	<u>\$ 40</u>	<u>\$ (20)</u>	<u>\$ 43</u>	<u>\$ 39</u>	<u>\$ 4</u>
	Hoosier Lotto			Cash 5		
	2020	2019	Change	2020	2019	Change
Operating Revenues	\$ 36	\$ 55	\$ (19)	\$ 16	\$ 17	\$ (1)
Game Prizes	18	27	(9)	8	9	(1)
Gross Margin	<u>\$ 18</u>	<u>\$ 28</u>	<u>\$ (10)</u>	<u>\$ 8</u>	<u>\$ 8</u>	<u>\$ -</u>
	Quick Draw			Fast Play		
	2020	2019	Change	2020	2019	Change
Operating Revenues	\$ 16	\$ 15	\$ 1	\$ 17	\$ 14	\$ 3
Game Prizes	10	10	-	11	9	2
Gross Margin	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 1</u>
	PLUS			Cash 4 Life		
	2020	2019	Change	2020	2019	Change
Operating Revenues	\$ 5	\$ 7	\$ (2)	\$ 7	\$ 5	\$ 2
Game Prizes	4	4	-	4	2	2
Gross Margin	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ (2)</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ -</u>
	Superball			EZ Match		
	2020	2019	Change	2020	2019	Change
Operating Revenues	\$ 4	\$ 4	\$ -	\$ 3	\$ 3	\$ -
Game Prizes	2	2	-	2	2	-
Gross Margin	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>
	Bullseye					
	2020	2019	Change			
Operating Revenues	\$ 3	\$ 2	\$ 1			
Game Prizes	1	1	-			
Gross Margin	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 1</u>			
	Total					
	2020	2019	Change			
Operating Revenues	\$ 1,384	\$ 1,348	\$ 36			
Game Prizes	914	860	54			
Gross Margin	<u>\$ 470</u>	<u>\$ 488</u>	<u>\$ (18)</u>			

The tables above compare FY 21, FY 20, and FY 19 operating revenues, game prizes, and gross margin for lottery products.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

FY 21 revenue increased from prior year for scratch-off, Powerball, Mega Millions, Daily Games, Cash 5, Quick Draw, Fast Play, Plus, Superball and EZ Match products. Hoosier Lotto revenue slightly decreased in FY 21 while Cash 4 Life and Bullseye products remained consistent when compared to prior year.

FY 20 revenue increased for scratch-off, Daily Games, Quick Draw, Fast Play, Cash 4 Life, and Bullseye products. Revenue decreased in FY 20 for Powerball, Mega Millions, Hoosier Lotto, Cash 5, and PLUS products. FY 20 revenues remained consistent from prior year for Superball and EZ Match.

The scratch-off product line consists of preprinted tickets that require players to scratch off a latex coating to reveal the play area. There are several game offerings at different price points ranging from \$1 to \$50 per ticket. While players can win instantly on all scratch-off products, the Commission also offers several 2nd chance promotions where nonwinning tickets are entered by players into drawings for additional chances to win. During FY 21, 46 new scratch-off games were introduced and total scratch-off revenue, net of returns, reached \$1.384 billion which was an increase over prior year of \$291 million or 27%. Most price point offerings increased from prior year including a \$99 million increase in revenue at the \$20 price point, a \$67 million increase at the \$50 price point, a \$56 million increase at the \$10 price point, and a \$44 million increase at the \$5 price point.

There were 45 new game offerings during FY 20 in a year where scratch-off revenue, net of returns, was \$1.093 billion, an increase of \$118 million or 12% over prior year. The overall year-over-year revenue increase consisted of a \$19 million increase in the \$5 price point, a \$44 million increase in the \$10 price point, a \$26 million increase in the \$20 price point, a \$15 million decrease in the \$25 price point, and a \$45 million increase in the \$50 price point.

Powerball is a multi-state, big jackpot draw game jointly operated by the 38 member lotteries of the Multi-State Lottery Association and sold in 45 U.S. states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. Drawings are twice a week and each play is \$2 which consists of six numbers, five numbers from a field of 69 and the last one from a field of 26. Players have the option of electing to add Powerplay for \$1 for a chance to multiply prizes. In FY 21, Powerball revenue was \$79 million, an increase of \$18 million or 29% from prior year. Powerball had a jackpot reach \$730 million in January 2021 which contributed to this increase.

In FY 20, Powerball jackpots were down from prior year and failed to offer a jackpot at the \$400 million level during the year. The games' starting jackpot and minimum roll increases were reduced in April 2020 in response to slowing sales during the pandemic. Consequently, FY 20 revenue was down \$35 million or 36% from FY 19.

Mega Millions is a multi-state, lotto draw game offering large jackpot prizes twice per week. The Commission participates in this game along with 44 other U.S. States, the District of Columbia, and the U.S. Virgin Islands. The price per play is \$2 and consists of six numbers, five numbers from a field of 70 and the last one from a field of twenty-five. Players have the option of adding Megaplier for \$1 that offers players a chance to multiply prizes. Additionally, there is a Just the Jackpot play feature that allows players to play for only the jackpot prize for \$3 which provides two sets of numbers. The Commission generated Mega Millions revenue of \$60 million in FY 21, a \$20 million or 50% increase over prior year. The year over year revenue increase was primarily due to a \$1 billion jackpot offered in January 2021.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

FY 20 Mega Millions revenue was down \$38 million or 49% from prior year. Jackpot levels were down considerably in FY 20 from prior years and in April 2020, the Mega Millions Consortium adjusted the rules to no longer guarantee \$40 million starting jackpots and minimum \$5 million jackpot increases in response to slowing sales during the pandemic. Starting jackpots and jackpot increases were determined on a draw-by-draw basis based on sales and interest rates.

Hoosier Lotto is Indiana's original big jackpot lotto game available only in Indiana with jackpots starting at \$1 million and drawings twice per week. The price is \$2 per play and players receive 6 numbers from a field of 46. The average jackpot offered during FY 21 was \$5 million which was \$3 million less than the average jackpot offered in the prior year. Hoosier Lotto revenue reached \$35 million for FY 21 which was a \$1 million decrease from FY 20. During April 2020 in response to a decrease in sales due to the COVID-19 pandemic, the Commission changed the game rules regarding minimum jackpot increases. Where previously, jackpot increments alternated between \$200 thousand and \$300 thousand per roll, minimum jackpot increments would move to \$100 thousand per roll and only increase more if a review of sales between drawings permitted. In October 2020, it was determined that revenue returned to a level to allow jackpot increments of \$200 thousand per roll which continued through the end of FY 21.

In FY 20, revenue for Hoosier Lotto was \$36 million, down 35% from prior year. Although FY 20 offered the highest jackpot since 2007 at \$43.8 million; the average jackpot offered during the year was \$8 million compared to an average jackpot of \$25 million during FY 19.

Daily 3 and Daily 4 (Daily Games), allow players to pick either 3 numbers (Daily 3) or 4 numbers (Daily 4) from digits zero through nine for as little as a \$0.50 wager. Drawings take place 2 times per day for both Daily 3 and Daily 4. Players can play the numbers straight, boxed, combo, wheel, 1-off, front/back pair (Daily 3), or front/back 3 (Daily 4). FY 21 revenue for Daily Games was \$96 million, a \$13 million or 15% increase over FY 20. Revenue for Daily Games was \$83 million during FY 20, a \$6 million increase over prior year.

Cash 5 is a daily cash jackpot lotto game offered only in Indiana with a starting jackpot of \$75 thousand. The price per play is \$1 and consists of five numbers from a field of forty-five. FY 21 revenue for Cash 5 was \$17 million, an increase of \$1 million from prior year. FY 20 revenue for Cash 5 was \$16 million, a \$1 million decrease in revenue from prior year. FY 20 jackpot offerings were 24% lower on average than jackpots offered in FY 19.

Fast Play is a product category with 19 individual games as of June 30, 2021. Fast Play tickets are printed from Hoosier Lottery terminals at time of purchase and can be played instantly. Fast Play revenue was \$24 million in FY 21, a \$7 million or 17% increase from prior year. FY 20 revenue for the Fast Play category was \$17 million, a 21% growth over prior year.

Quick Draw is a draw game where players pick 10 numbers and match their numbers against the 20 numbers drawn. Depending on the wager amount and on how many numbers a player matches, prizes can reach up to \$2 million. Quick Draw revenue came in at \$17 million during FY 21, a \$1 million increase over prior year. Quick Draw had revenue of \$16 million during FY 20, which was \$1 million more than the \$15 million in revenue generated during FY 19.

Bullseye is an add-on game to Quick Draw which provides players with a chance to win additional cash prizes with their selected Quick Draw numbers. Bullseye generated revenue of \$3 million in both FY 21 and FY 20, an increase from \$2 million in revenue generated during FY 19.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

EZ Match is an add-on game available with Cash 5 and Quick Draw games that offers an instant win feature. Revenue for EZ Match reached \$4 million during FY 21. Revenue was consistent during FY 20 and FY 19 where it came in at \$3 million for each year.

Hoosier Lotto's add-on game, PLUS, can be added on to a Hoosier Lotto wager for one dollar and offers a chance to win a top prize of \$1 million. FY 21 PLUS revenue of \$6 million was a slight increase in revenue over prior year. FY 20 revenue of \$5 million was a decrease of \$2 million from prior year which corresponded to the decrease in Hoosier Lotto revenue for the year.

Cash 4 Life is a multi-state lotto game available in ten U.S. states with the top two prizes offering lifetime annuity payments. Revenue generated during FY 21 came in at \$7 million, consistent with prior year. FY 20 was the first full year of daily drawings for the game which resulted in a \$2 million increase in revenue over prior year.

Superball is an add-on feature to Daily 3 and Daily 4 that provides additional winning combinations for players. Superball revenue increased during FY 21 by \$2 million over prior year as it reached \$6 million. Superball revenue was \$4 million for both FY 20 and FY 19.

Prize Expense

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

Total prize expense in FY 21 was \$1.144 billion, the first time in history the Commission's prize expense surpassed \$1 billion. It was an increase of \$230 million over FY 20 and a result of the record year for operating revenues. Prize expense remained consistent from prior year as a percentage of total operating revenue, 66%. Total prize expense in FY 20 was \$914 million, a \$54 million increase from FY 19. The increase in prize expense for FY 20 was directly related to the increase in operating revenue and a decrease in unclaimed prizes from prior year.

- FY 21 scratch-off prize expense was \$967 million, a \$202 million or 26% increase over prior year. The increase was a direct result of the 27% increase in scratch-off operating revenue mentioned above. FY 20 scratch-off prize expense increased \$93 million from FY 19, also a result of an increase in scratch-off operating revenue
- Total on-line ticket prize expense for FY 21 was \$177 million, a \$27 million or 18% increase over FY 20. This increase in prize expense was due to the increase in total on-line ticket operating revenue which increased over prior year by 21%. Total on-line game prize expense decreased by \$39 million, or 21%, in FY 20 from FY 19. The decrease was due to the year-over-year revenue decreases in the big jackpot games Powerball, Mega Millions, and Hoosier Lotto.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

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

	Years Ended June 30,		
	2021	2020	2019
Indirect Game Expenses:			
Retailer Commissions	\$ 117	\$ 95	\$ 92
Central Gaming System Expenses	32	25	24
Advertising and Promotion	15	15	18
Management Fees	11	11	11
Ticket Printing Costs	16	13	13
Miscellaneous Lottery Expenses	2	1	2
Other Game Expenses	1	1	1
Total	<u>194</u>	<u>161</u>	<u>161</u>
Other Operating Expenses:			
Salaries, Wages, and Benefits	5	4	4
General and Administrative	2	2	2
Total	<u>7</u>	<u>6</u>	<u>6</u>
 Total Indirect Game and Other Operating Expenses	 <u>\$ 201</u>	 <u>\$ 167</u>	 <u>\$ 167</u>

Total indirect game and other operating expenses increased by \$34 million in FY 21 from FY 20. The increase was due to increases in retailer commissions, central gaming system expenses, and ticket printing costs which are all variable based on operating revenue. Total indirect game expenses and other operating expenses remained consistent from FY 19 to FY 20. Retailer commissions increased \$3 million in FY 20 due to the increase in operating revenue while advertising and promotion expense decreased \$3 million, mainly due to 4th quarter reductions during the COVID-19 pandemic.

Budgetary Highlights

The Commission budgeted for total operating revenues of \$1.366 billion for FY 21 while actual revenue came in at \$1.738 billion. Actual operating revenue results for FY 21 surpassed budget by \$372 million, or 27%. Revenue for nearly all products surpassed FY 21 budget, allowing the Commission to generate an additional \$75 million or 24% of surplus revenue to the state over what was budgeted.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

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

Product	Actual Revenue	Budgeted Revenue	Variance
Scratch - \$20	\$ 245,120,920	\$ 122,462,019	\$ 122,658,901
Scratch - \$50	192,660,050	105,784,516	86,875,534
Scratch - \$10	330,879,740	270,792,546	60,087,194
Scratch - \$5	344,970,295	317,054,398	27,915,897
Mega Millions	60,035,880	44,450,848	15,585,032
Powerball	78,730,188	70,378,265	8,351,923

Scratch-off revenues continued the record setting trend started at the end of FY 20. Of the 10 highest scratch-off revenue months on record, 7 took place during FY 21. Revenue for the \$20 scratch-off price point doubled the amount that was budgeted for the year. In January 2021, Mega Millions jackpot reached \$1 billion and Powerball reached a jackpot of \$730 million; both of these big jackpot runs contributed to actual revenue outperforming budget for the year.

Several expenses were also over budget in a year where operating revenue came in 27% higher than what was budgeted. The most significant variances between actual operating expenses and budgeted operating expenses were as follows:

Expenses	Actual Expense	Budgeted Expense	Variance
Total Prizes	\$ 1,143,858,629	\$ 887,887,764	\$ 255,970,865
Retailer Commission	117,532,198	94,323,286	23,208,912
Central Gaming System	31,739,863	26,493,729	5,246,134
Instant Ticket Printing	16,607,791	13,510,450	3,097,341
Marketing and Promotions	15,215,154	20,569,309	(5,354,155)

Total prize expense came in 29% higher than budget for FY 21, slightly outpacing operating revenues. Some of the operating expenses with the higher variances from budget included the following: retailer commission, central gaming system, and instant ticket printing. Advertising and promotions expense was one of the few expenses to come in under budget. Savings of these expenses can be attributed to several cancelled sponsorships due to the pandemic, and a new game that was expected to launch in FY 21 being postponed to a later year.

Economic Factors and Next Year's Budget and Rates

The Commission considered numerous factors to establish the budget for fiscal year 2022 (FY 22) such as interest rates that are expected to remain at low levels through FY 22. The economic impact of the COVID-19 pandemic has contributed to an increase in operating revenue for the Commission as of June 30, 2021. Scratch-off revenue was positively impacted by the largest margin throughout FY 21 and expectations are that this trend will continue into FY 22, to an extent. The Commission's revenue budget for FY 22 expects the retention of some of the new players that have been acquired during the COVID-19 pandemic.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

Financial Contact

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

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

	2021	2020
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 46,593,744	\$ 30,982,701
Investments, Current Portion	9,865,150	10,833,393
Accounts Receivable, Net	160,463,851	132,808,689
Prepaid Transfers to the State and Other Prepaid Expenses	1,569,562	1,557,420
Total Current Assets	218,492,307	176,182,203
NONCURRENT ASSETS		
Long-Term Investments, Less Current Portion	84,653,398	95,633,001
Prepaid Transfers to the State, Less Current Portion	8,423,077	9,826,923
Restricted Assets	8,667,675	9,452,179
Net Pension Asset	465,012	-
Capital Assets, Net	198,870	219,733
Total Noncurrent Assets	102,408,032	115,131,836
Total Assets	320,900,339	291,314,039
TOTAL DEFERRED OUTFLOWS OF RESOURCES	617,922	414,838
CURRENT LIABILITIES		
Accounts Payable:		
State	27,738,245	28,449,664
Trade	31,844,834	4,373,701
Current Portion of Prize Liability	159,988,747	142,833,896
Unearned Revenue	1,852,057	2,174,606
Other Accrued Expenses	709,238	922,212
Total Current Liabilities	222,133,121	178,754,079
LONG-TERM LIABILITIES		
Prize Liability, Less Current Portion	71,832,915	77,651,458
Unearned Revenue	8,423,077	9,826,924
Net Pension Liability	1,495,397	2,111,822
Total Noncurrent Liabilities	81,751,389	89,590,204
Total Liabilities	303,884,510	268,344,283
TOTAL DEFERRED INFLOWS OF RESOURCES	1,276,779	343,154
NET POSITION		
Unrestricted	7,025,415	13,369,528
Restricted for MUSL	8,667,675	9,452,179
Restricted for Net Pension Asset	465,012	-
Investment in Capital Assets	198,870	219,733
Total Net Position	\$ 16,356,972	\$ 23,041,440

See accompanying Notes to Financial Statements.

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Scratch-Off Ticket Sales, Net	\$ 1,384,468,618	\$ 1,093,015,280
On-Line Ticket Sales	353,265,414	291,052,960
Total Operating Revenues	1,737,734,032	1,384,068,240
OPERATING EXPENSES		
Direct Game Expenses:		
Scratch-Off Games Prizes	967,253,592	764,594,944
On-Line Games Prizes	176,605,037	149,569,647
Total Direct Game Expenses	1,143,858,629	914,164,591
Indirect Game Expenses:		
Retailer Commissions	117,532,198	94,664,414
Lottery Expenses:		
Central Gaming System Expenses	31,739,862	24,943,663
Advertising and Promotion	15,215,154	14,762,159
Ticket Printing Costs	16,607,791	13,367,572
Miscellaneous Lottery Expenses	1,659,160	1,361,236
Management Fees	10,762,659	10,877,527
Other Game Expenses	504,146	652,333
Total Indirect Game Expenses	194,020,970	160,628,904
Total Operating Expenses	1,337,879,599	1,074,793,495
PROVIDER NET INCOME	399,854,433	309,274,745
OTHER OPERATING EXPENSES		
Salaries, Wages, and Benefits	4,457,065	4,242,191
General and Administrative	2,353,093	2,295,211
Total Other Operating Expenses	6,810,158	6,537,402
OPERATING INCOME	393,044,275	302,737,343
NONOPERATING REVENUES (EXPENSES)		
Interest Income	17,575	697,655
Net Increase (Decrease) in Fair Value of Investments	(7,035,364)	8,698,926
Increase in Net Pension Liability	350,896	58,017
Provider Incentive	(19,492,722)	-
Other Income, Net	1,979,011	1,159,803
Total Nonoperating Revenues (Expenses), Net	(24,180,604)	10,614,401
NET INCOME PRIOR TO DISTRIBUTIONS	368,863,671	313,351,744
DISTRIBUTIONS		
Distributions to the State	(347,809,893)	(276,145,136)
Distributions to be Paid to the State	(27,738,245)	(28,449,664)
Total Distributions	(375,548,138)	(304,594,800)
CHANGE IN NET POSITION	(6,684,468)	8,756,943
Net Position - Beginning of year	23,041,440	14,284,497
NET POSITION - END OF YEAR	\$ 16,356,972	\$ 23,041,440

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Ticket Sales	\$ 1,709,749,320	\$ 1,357,831,430
Payments to Ticket Winners	(1,132,522,320)	(927,087,527)
Payments to Suppliers	(188,237,587)	(159,384,480)
Payments to Employees	(4,670,038)	(3,779,015)
Net Cash Provided by Operating Activities	384,319,375	267,580,408
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Distributions to the State	(374,855,713)	(295,124,846)
Others	575,165	(244,044)
Net Decrease in Restricted Assets	784,503	141,418
Net Cash Used by Noncapital and Related Financing Activities	(373,496,045)	(295,227,472)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(149,345)	(20,250)
Proceeds from the Sale of Capital Assets	7,001	-
Net Cash Used by Capital and Related Financing Activities	(142,344)	(20,250)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(3,409,617)	-
Investment Maturities	8,322,099	7,500,878
Interest Income	17,575	697,655
Net Cash Provided by Investing Activities	4,930,057	8,198,533
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,611,043	(19,468,781)
Cash and Cash Equivalents - Beginning of Year	30,982,701	50,451,482
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 46,593,744	\$ 30,982,701

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 393,044,275	\$ 302,737,343
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	170,208	306,764
Change in Provision for Ticket Returns	4,729,132	(7,327,609)
Proceeds on Sale of Capital Assets	(7,001)	-
Changes in Certain Assets and Liabilities:		
Accounts Receivable	(32,384,294)	(834,609)
Prepaid Expenses	1,391,704	1,404,686
Accounts Payable - Trade	7,978,411	(15,017,969)
Unearned Revenue	(1,726,395)	(1,228,439)
Other Accrued Expenses	11,336,310	463,176
Prize Liability	(212,975)	(12,922,935)
Net Cash Provided by Operating Activities	\$ 384,319,375	\$ 267,580,408
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES		
Net Increase (Decrease) in Fair Value of Investments	\$ (7,035,364)	\$ 8,698,926
Increase (Decrease) in Net Pension Liability	350,896	58,017
Net Noncash Investing, Capital, and Related Financing Activities	\$ (6,684,468)	\$ 8,756,943

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2021 AND 2020**

	2021	2020
ASSETS		
Cash and Cash Equivalents	\$ 239,324	\$ 168,456
Receivables:		
Accrued Interest and Dividends	6,729	9,105
Total Receivables	6,729	9,105
Investments:		
Fixed Income Securities	1,635,032	1,749,841
Domestic and Foreign Equities	5,532,706	4,042,104
Total Investments	7,167,738	5,791,945
Total Assets	7,413,791	5,969,507
NET POSITION RESTRICTED FOR PENSIONS	\$ 7,413,791	\$ 5,969,507

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
ADDITIONS		
Employer Contributions	\$ 269,726	\$ 202,158
Total Contributions	269,726	202,158
Interest and Dividends	168,929	180,196
Net Increase in Fair Value of Investments	1,409,073	129,257
Net Investment Income	1,578,002	309,453
Other	76	-
Total Additions	1,847,804	511,611
DEDUCTIONS		
Benefit Payments	403,520	669,620
Total Deductions	403,520	669,620
Net Increase (Decrease) in Net Position	1,444,284	(158,009)
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of Year, as Originally Reported	5,969,507	-
Restatement for Change in Accounting Principle	-	6,127,516
Beginning of Year, as Restated	5,969,507	6,127,516
End of Year	\$ 7,413,791	\$ 5,969,507

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Reporting Entity

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

Basis of Accounting

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

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

Estimates

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

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable, Net

Accounts receivable primarily represent proceeds due from retailers for net ticket sales, less commissions and prizes redeemed by retailers. Accounts receivable is reduced by an allowance for ticket returns. Allowance for ticket returns is an estimate based on historical average rate of ticket returns associated with scratch-off games and was \$14,410,171 and \$19,139,302 as of June 30, 2021 and 2020, respectively. The Commission had no balance for doubtful accounts as of June 30, 2021 and 2020. Accounts receivable also includes other receivables, which consists of amounts owed to the Commission by nonretailers. The balance of other receivables was \$148,102 and \$139,209 as of June 30, 2021 and 2020, respectively.

Prepaid Transfers to the State and Other Prepaid Expenses

Prepaid transfers to the State are funds that are transferred to the State as surplus revenue but have yet to be earned as income by the Commission. Other prepaid expenses benefit future accounting periods including payments for rent, insurance, equipment and software maintenance, and dues and subscriptions.

Restricted Assets

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

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost. Capital assets are defined as assets that have a useful life of at least three years and a cost equal to or greater than \$1,000 individually or \$5,000 in aggregate. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Generally, data processing equipment and software are depreciated over a minimum of three years, vehicles are depreciated over four years, and leasehold improvements are depreciated over the remaining life of the lease. Most other assets are depreciated over five years. Depreciation and amortization expense were \$170,208 and \$306,764 for the years ended June 30, 2021 and 2020, respectively.

Prize Expense and Liability

Prize liability includes an estimate of outstanding scratch-off and on-line game prizes as of June 30, 2021 and 2020, 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 0.63% to 6.00%, which is reflective of the interest rate earned on the investments held to fund the related liabilities.

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

The prize expense and liability for on-line games are determined based on the actual prizes won at the time of purchase for games with the instant win feature, or actual prizes won at the time of drawing. Additionally, prize expense and liability are accrued for jackpot prizes associated with the following games: Hoosier Lotto, Cash 5, Cash 4 Life, Powerball, and Mega Millions. All on-line game prizes must be claimed within 180 days of the date of the selection event or instant win date or they will be forfeited. The 60-day extension to scratch prizes due to the Executive Orders mentioned above also apply to on-line game prizes. Unclaimed prize money is included in the current portion of prize liability in the accompanying statements of net position. All unclaimed prize money during the years ended June 30, 2021 and 2020 was used to offset future prizes.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

The Lottery Article requires that the Indiana State Treasurer distribute \$30 million annually to the Indiana State Teachers’ Retirement Fund to pay a portion of the current pension obligations, and \$30 million annually to the State Pension Relief Fund to assist cities and towns in the payment of current and future local police and firefighters’ pension fund obligations. Beginning in FY 20, the Build Indiana Fund was replaced by the Lottery Surplus Fund. Starting in FY 20 the Auditor of the State transfers \$19,701,344 monthly from the Lottery Surplus Fund to the state general fund motor vehicle tax replacement account. At the end of the year, what is left in the Lottery Surplus Fund is transferred to the State General Fund. Total distributions generated for transfer to the Lottery Surplus Fund totaled \$315,548,138 and \$244,594,800 for the years ended June 30, 2021 and 2020, 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.

Retailer Commission Expense

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

Lottery Expenses

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

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Fees

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

Other Game Expenses

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

Pension Liability

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

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

Reclassifications

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

Recently Issued Accounting Standards

The Commission implemented GASB Statement 84, "Fiduciary Activities" for the year ending June 30, 2021. This resulted in restating beginning fiduciary net position by including the single employer pension plan of The Commission as a new fiduciary fund.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 DEPOSITS AND INVESTMENTS

Enterprise Fund

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

Interest Rate Risk

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

As of June 30, 2021 and 2020, the Commission had the following investment maturities:

June 30, 2021	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
U.S. Treasuries	\$ 89,136,061	\$ 8,009,150	\$ 37,424,174	\$ 20,100,027	\$ 23,602,710
Money Market Mutual Fund	46,354,009	46,354,009	-	-	-
Total	135,490,070	54,363,159	37,424,174	20,100,027	23,602,710
	Carrying Value				
Insurance Annuities	5,382,486	1,856,000	1,806,934	-	1,719,552
Total Investments	\$ 140,872,556	\$ 56,219,159	\$ 39,231,108	\$ 20,100,027	\$ 25,322,262

June 30, 2020	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
U.S. Treasuries	\$ 100,402,552	\$ 8,110,393	\$ 39,562,724	\$ 24,498,147	\$ 28,231,288
Money Market Mutual Fund	30,641,284	30,641,284	-	-	-
Total	131,043,836	38,751,677	39,562,724	24,498,147	28,231,288
	Carrying Value				
Insurance Annuities	6,063,842	2,643,000	3,420,842	-	-
Total Investments	\$ 137,107,678	\$ 41,394,677	\$ 42,983,566	\$ 24,498,147	\$ 28,231,288

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Enterprise Fund (Continued)

Deposit Custodial Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The carrying amount of the Commission's deposits and outstanding checks with financial institutions as of June 30, 2021 and 2020, totaled \$239,736 and \$341,417, respectively, while bank balances totaled \$1,132,692 and \$1,100,460, respectively. The insured, collateralized, and the uninsured, uncollateralized cash balances carried during the year represent the compensating balances that are required to be maintained at banks in exchange for goods received or services provided. Uninsured, uncollateralized bank balances were \$882,692 as of June 30, 2021 and \$850,460 as of June 30, 2020.

Investment Custodial Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In 2021, \$135 million of investments were not held by the Commission. Investments totaling \$89 million were held by the Indiana State Treasurer; therefore, these investments were not considered to have custodial credit risk. The remaining \$46 million of investments were held by outside counterparties. In 2020, \$131 million of investments were not held by the Commission. Investments totaling \$100 million were held by the Indiana State Treasurer; therefore, these investments were not considered to have custodial credit risk. The remaining \$31 million of investments were held by outside counterparties.

Credit Risk and Concentration of Credit Risk

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

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

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Enterprise Fund (Continued)

Credit Risk and Concentration of Credit Risk (Continued)

The following table provides information on the credit ratings associated with the Commission's investments as of June 30, 2021 and 2020:

	S&P	Fitch	Moody's	A.M. Best	Balance at June 30, 2021	Percent of Total	Balance at June 30, 2020	Percent of Total
U.S. Treasuries	AA+	AAA	Aaa	Unrated	\$ 89,136,061	63%	\$100,402,552	73%
Money Market Mutual Fund	AAA	AAAmf	Aaa-mf	Unrated	46,354,009	33%	30,641,284	23%
Transamerica Life Insurance Company	A+	Unrated	A1	a+	3,662,934	3%	6,063,842	4%
Lincoln National Life Insurance Company	AA-	A+	A1	A+	1,719,552	1%	-	0%
Total Investments					<u>\$140,872,556</u>	<u>100%</u>	<u>\$137,107,678</u>	<u>100%</u>

Securities Lending

The Treasurer of State is authorized by Indiana Code 5-13-10.5-13 to lend securities. Securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest-bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States, a federal instrumentality, or a federal government sponsored enterprise in excess of the total market value of the loaned securities. Cash and collateral securities are initially pledged at 102% of the market value of the securities lent. Collateral securities cannot be pledged or sold by the board unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0 to 15 days. The custodian bank provides 100% indemnification to the lender against any borrower default, overnight market risk, and failure to return loaned securities. As of June 30, 2021, and 2020, the Treasurer of State did not lend any securities related to the Commission.

Fair Value Measurement

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

The Commission had U.S. Treasury securities of \$89 million as of June 30, 2021 and \$100 million as of June 30, 2020. The Commission also held investments in a Money Market Mutual Fund with a fair value of \$46 million as of June 30, 2021 and \$31 million as of June 30, 2020. These securities are valued using quoted market prices and as such, are Level 1 inputs. Changes in the fair value of the investments are recognized as nonoperating revenue or expense in the statements of revenues, expenses, and changes in net position. The net change in the fair value of U.S. Treasury obligations for the years ended June 30, 2021 and 2020 was (\$7,035,364) and \$8,698,926, respectively. Investments in insurance annuity contracts are carried at their accreted value, with rates yielding approximately 0.63%.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Enterprise Fund (Continued)

Reconciliation of Enterprise Fund Cash, Cash Equivalents, and Investments

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

	<u>2021</u>	<u>2020</u>
Statement of Net Position:		
Cash and Cash Equivalents	\$ 46,593,744	\$ 30,982,701
Investments (Current)	9,865,150	10,833,393
Investments (Long-Term)	84,653,398	95,633,001
Total	<u>\$ 141,112,292</u>	<u>\$ 137,449,095</u>
Notes to the Financial Statements:		
Deposits	\$ 239,736	\$ 341,417
Investments (Current and Long-Term)	140,872,556	137,107,678
Total	<u>\$ 141,112,292</u>	<u>\$ 137,449,095</u>

Fiduciary Fund

The Commission is responsible for the Employees' Pension Plan of the State Lottery Commission of Indiana Trust (the Trust) that was created to provide pension benefits to former and current employees of the Commission and their beneficiaries who meet the statutory requirement for such benefits. The Trust is held by a trust company under a custodial agreement with the Commission for the years ended June 30, 2021 and 2020. The Commission contracts with an investment management company that adheres to an Investment Policy Statement adopted by the Commission which focus on four objectives: 1) to outperform inflation over the long term, 2) to establish a well-diversified investment approach, 3) to create a portfolio that offers various classes of assets (equities and fixed income), and 4) to maximize the overall portfolio return within reasonable risk levels.

The Commission has specific investment guidelines established for the Trust which puts limits on the types of investments allowed. These asset allocation guidelines contain target asset allocations and allowable ranges that are expected to meet target rates of return over a long period of time while minimizing risk. The following is the Commission's adopted asset allocation policy as of June 30, 2021 and 2020:

<u>Asset Class</u>	<u>Target Allocation (%)</u>
Cash	0%
Fixed Income	30%
Equity	70%
Total	<u>100%</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fiduciary Fund (Continued)

Interest Rate Risk

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

As of June 30, 2021 and 2020, the Commission has the following investment maturities for the Trust:

June 30, 2021	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1–5 Years	6–10 Years	> 10 Years
U.S. Treasuries	\$ 75,607	\$ -	\$ -	\$ 75,607	\$ -
Money Market Mutual Fund	239,324	239,324	-	-	-
Corporate Bonds	188,388	-	166,933	21,455	-
Taxable Municipal Bonds	26,003	-	26,003	-	-
Brokered Certificates of Deposit w ithin FDIC Limits	259,717	-	259,717	-	-
Mutual Funds/ETFs	1,085,317	-	540,145	545,172	-
Total Investments	<u>\$ 1,874,356</u>	<u>\$ 239,324</u>	<u>\$ 992,798</u>	<u>\$ 642,234</u>	<u>\$ -</u>

June 30, 2020	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1–5 Years	6–10 Years	> 10 Years
U.S. Treasuries	\$ 79,537	\$ -	\$ -	\$ 79,537	\$ -
Money Market Mutual Fund	168,456	168,456	-	-	-
Corporate Bonds	264,117	61,333	92,777	110,007	-
Taxable Municipal Bonds	56,372	-	56,372	-	-
Brokered Certificates of Deposit w ithin FDIC Limits	367,253	103,104	253,110	11,039	-
Mutual Funds/ETFs	982,562	-	246,870	735,692	-
Total Investments	<u>\$ 1,918,297</u>	<u>\$ 332,893</u>	<u>\$ 649,129</u>	<u>\$ 936,275</u>	<u>\$ -</u>

Credit Risk and Concentration of Credit Risk

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

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

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fiduciary Fund (Continued)

Credit Risk and Concentration of Credit Risk (Continued)

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value at June 30, 2021</u>	<u>Fair Value at June 30, 2020</u>
U.S. Treasuries	AAA	\$ 75,607	\$ 79,537
Money Market Mutual Fund	Aaa-mf	239,324	168,456
Corporate Bonds	AA	16,469	16,800
	A	129,361	204,237
	BBB	42,558	43,080
Taxable Municipal Bonds	AA	-	30,074
	A	26,003	26,298
Brokered Certificates of Deposit within FDIC Limits	AAA	259,717	367,253
Mutual Funds/ETFs	AA (w td. Avg.)	430,519	-
	A (w td. Avg.)	545,171	982,562
	BBB (w td. Avg.)	109,627	-
Total		\$ 1,874,356	\$ 1,918,297

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

	<u>Balance at June 30, 2021</u>	<u>Percent of Total</u>
Vanguard Short-Term Bond Fund	\$ 430,519	6%
MFS Growth Fund Class R6	475,571	6%

	<u>Balance at June 30, 2020</u>	<u>Percent of Total</u>
MFS Growth Fund Class I	\$ 438,397	7%
S&P 500 SPY Equity ETF Trust	467,474	8%
Dodge & Cox Income Fund	490,364	8%

Fair Value Measurement

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

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fiduciary Fund (Continued)

Fair Value Measurement (Continued)

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

The following tables summarize the valuation of the investments in the Trust by the fair value hierarchy levels as of June 30, 2021 and 2020:

Investment type	June 30, 2021	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Fixed Income Securities			
U.S. Treasuries	\$ 75,607	\$ 75,607	\$ -
Corporate Bonds	188,388	-	188,388
Taxable Municipal Bonds	26,003	-	26,003
Brokered Certificates of Deposit	259,717	-	259,717
Mutual Funds/ETFs	1,085,317	1,085,317	-
Money Market Mutual Fund	239,324	239,324	-
Total Fixed Income	<u>1,874,356</u>	<u>1,400,248</u>	<u>474,108</u>
Equity Investments			
Domestic Equities	1,789,000	1,789,000	-
Mutual Funds/ETFs	3,100,124	3,100,124	-
International Mutual Funds	643,582	643,582	-
Total Equities	<u>5,532,706</u>	<u>5,532,706</u>	<u>-</u>
Total Investments by Fair Value	<u>\$ 7,407,062</u>	<u>\$ 6,932,954</u>	<u>\$ 474,108</u>

Investment type	June 30, 2020	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Fixed Income Securities			
U.S. Treasuries	\$ 79,537	\$ 79,537	\$ -
Corporate Bonds	264,117	-	264,117
Taxable Municipal Bonds	56,372	-	56,372
Brokered Certificates of Deposit	367,253	-	367,253
Mutual Funds/ETFs	982,562	982,562	-
Money Market Mutual Fund	168,456	168,456	-
Total Fixed Income	<u>1,918,297</u>	<u>1,230,555</u>	<u>687,742</u>
Equity Investments			
Domestic Equities	1,463,199	1,463,199	-
Mutual Funds/ETFs	2,161,917	2,161,917	-
International Mutual Funds	416,988	416,988	-
Total Equities	<u>4,042,104</u>	<u>4,042,104</u>	<u>-</u>
Total Investments by Fair Value	<u>\$ 5,960,401</u>	<u>\$ 5,272,659</u>	<u>\$ 687,742</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 3 CAPITAL ASSETS

A summary of the Commission's capital assets for the years ended June 30, 2021 and 2020 is as follows:

	Balances at June 30, 2020	Increases	Decreases	Balances at June 30, 2021
Capital Assets Being Depreciated:				
Vehicles	\$ 163,733	\$ 37,817	\$ (36,843)	\$ 164,707
Furniture, Fixtures, and Equipment	557,379	-	-	557,379
Leasehold Improvements	1,021,529	12,066	-	1,033,595
Data Processing Equipment	864,340	99,462	(156,617)	807,185
Total Capital Assets, Being Depreciated	2,606,981	149,345	(193,460)	2,562,866
Less Accumulated Depreciation:				
Vehicles	(124,208)	(27,838)	36,843	(115,203)
Furniture, Fixtures, and Equipment	(503,212)	(29,855)	-	(533,067)
Leasehold Improvements	(967,414)	(55,435)	-	(1,022,849)
Data Processing Equipment	(792,414)	(57,080)	156,617	(692,877)
Total Accumulated Depreciation	(2,387,248)	(170,208)	193,460	(2,363,996)
Intangible Assets Being Amortized:				
Patent	550,869	-	-	550,869
Less Accumulated Amortization	(550,869)	-	-	(550,869)
Total Intangible Assets Being Amortized	-	-	-	-
Total Capital Assets, Net	<u>\$ 219,733</u>	<u>\$ (20,863)</u>	<u>\$ -</u>	<u>\$ 198,870</u>
	Balances at June 30, 2019	Increases	Decreases	Balances at June 30, 2020
Capital Assets Being Depreciated:				
Vehicles	\$ 163,733	\$ -	\$ -	\$ 163,733
Furniture, Fixtures, and Equipment	548,667	8,712	-	557,379
Leasehold Improvements	1,021,529	-	-	1,021,529
Data Processing Equipment	852,802	11,538	-	864,340
Total Capital Assets, Being Depreciated	2,586,731	20,250	-	2,606,981
Less Accumulated Depreciation:				
Vehicles	(101,275)	(22,933)	-	(124,208)
Furniture, Fixtures, and Equipment	(461,280)	(41,932)	-	(503,212)
Leasehold Improvements	(860,013)	(107,401)	-	(967,414)
Data Processing Equipment	(708,335)	(84,079)	-	(792,414)
Total Accumulated Depreciation	(2,130,903)	(256,345)	-	(2,387,248)
Intangible Assets Being Amortized:				
Patent	550,869	-	-	550,869
Less Accumulated Amortization	(500,451)	(50,418)	-	(550,869)
Total Intangible Assets Being Amortized	50,418	(50,418)	-	-
Total Capital Assets, Net	<u>\$ 506,246</u>	<u>\$ (286,513)</u>	<u>\$ -</u>	<u>\$ 219,733</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 4 PRIZE LIABILITY

The prize liability relating to deferred winners, scratch-off games, and on-line games, including an estimate of unclaimed scratch-off and on-line winners at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Installment Prize Liability	\$ 81,702,471	\$ 87,992,014
Scratch-Off Game Liability	134,502,441	121,198,695
On-Line Game Liability	<u>15,616,750</u>	<u>11,294,645</u>
Total Prize Liability	231,821,662	220,485,354
Less: Current Portion	<u>(159,988,747)</u>	<u>(142,833,896)</u>
Noncurrent Portion	<u>\$ 71,832,915</u>	<u>\$ 77,651,458</u>

Future payments of prize liability as of June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Liability</u>	<u>Other Accrued Prize Liability</u>	<u>Total</u>
2022	\$ 9,869,556	\$ 150,119,191	\$ 159,988,747
2023	9,565,556	-	9,565,556
2024	8,441,556	-	8,441,556
2025	8,033,556	-	8,033,556
2026	7,714,556	-	7,714,556
2027-2031	24,533,780	-	24,533,780
2032-2036	17,865,793	-	17,865,793
2037-2041	12,359,800	-	12,359,800
2042-2046	4,720,800	-	4,720,800
2047-2051	1,254,800	-	1,254,800
2052-2056	787,800	-	787,800
2057-2061	<u>573,560</u>	-	<u>573,560</u>
Total	105,721,113	150,119,191	255,840,304
Less: Unamortized Discount	<u>(24,018,642)</u>	-	<u>(24,018,642)</u>
Total at Present Value	81,702,471	150,119,191	231,821,662
Less: Current Portion	<u>(9,869,556)</u>	<u>(150,119,191)</u>	<u>(159,988,747)</u>
Total Long-Term Portion at Present Value	<u>\$ 71,832,915</u>	<u>\$ -</u>	<u>\$ 71,832,915</u>

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

Activity in prize liability accounts consists of:

	<u>2021</u>	<u>2020</u>
Balance - Beginning of Year	\$ 220,485,354	\$ 233,408,289
Prize Expense	1,143,858,628	914,164,592
Prize Payments	<u>(1,132,522,320)</u>	<u>(927,087,527)</u>
Balance - End of Year	<u>\$ 231,821,662</u>	<u>\$ 220,485,354</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 5 OPERATING LEASES

In December 2020, the Commission entered into an amended lease agreement for its headquarters office space located in Indianapolis, Indiana that expires May 31, 2025. The landlord has the right to cancel the lease no earlier than May 31, 2024. The Commission has the right to cancel the lease with a 180 day notice. The Commission also leases office equipment on 48-month term agreements. Total rental expense was \$710,767 and \$716,127 for the years ended June 30, 2021 and 2020, respectively.

As of June 30, 2021, the future minimum rental payments required under noncancelable operating leases with original terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 607,443
2023	607,443
2024	606,321
2025	550,922
Total	<u>\$ 2,372,129</u>

The Commission entered 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 MOU term began on May 1, 2021 and is effective through April 30, 2025. The total amount of minimum rental payments to be received by the Commission under the MOU for fiscal year 2022, fiscal year 2023, and fiscal year 2024 is \$80,952. The Commission will also receive minimum rental payments of \$67,460 during fiscal year 2025.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Commitments

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

As a member of MUSL, the Commission is required to contribute to various prize reserve funds held by MUSL. Accounts were established by MUSL as a contingency reserve to fund prizes in excess of the game prize structure and to protect all member lotteries and MUSL from any unforeseen liabilities. All funds remitted, and the related interest earned, will be returned to the Commission upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the funds. As of June 30, 2021 and 2020, the Commission's balance of prize reserve funds, included in restricted assets in the accompanying statements of net position, was \$8,667,675 and \$9,452,179, respectively.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

On September 20, 2021, IGT Indiana, LLC delivered a notice of dispute to the Commission. The dispute arises from a difference of opinion over the interpretation and application of portions of the ISA. IGT Indiana is seeking payment in the amount of \$18.25 million based on its interpretation of the Integrated Services Agreement (ISA). The Commission is pursuing the informal dispute resolution process afforded in the ISA to defend its position. The outcome of this process cannot be reasonably estimated at this time.

NOTE 7 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.

Risks and Uncertainties

In March of 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Commission, operations and financial results were extremely successful in FY 21. Management believes the Commission is taking appropriate actions to mitigate any potential negative impacts and will continue to do so during fiscal year 2022. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are ongoing and still developing.

NOTE 8 INTEGRATED SERVICES AGREEMENT (ISA)

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

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 8 INTEGRATED SERVICES AGREEMENT (CONTINUED)

An amendment of the ISA was executed on June 12, 2015. One of the changes in the amended ISA was the adjustment of net income thresholds necessary for IGT to meet as it relates to incentive compensation and shortfall payments. The annual thresholds were adjusted beginning with contract year 3, FY 16. As an additional component of the adjusted ISA, an upfront payment from IGT Indiana, LLC to the Commission was made in the amount of \$18.25 million. As of June 30, 2021, the amended ISA has not been terminated and no reimbursement of the \$18.25 million will be required if it were terminated in a future year. The Commission began amortizing the payment over the remaining life of the 15-year contract at the start of FY 16. What has yet to be recorded as other income is reflected as unearned revenue on the statement of net position.

For the year ended June 30, 2021, IGT Indiana, LLC earned an incentive from the Commission in the amount of \$19,492,722. For the year ended June 30, 2020, IGT Indiana, LLC did not earn an incentive, nor were they required to pay a shortfall payment.

NOTE 9 RETIREMENT PLANS

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

Public Employees' Retirement Fund (PERF)

Plan Description

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

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 9 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

Benefits Provided

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

Contributions

Employer contribution rates for the PERF defined benefit pension portion are determined annually by the INPRS Board based on recommendations by the INPRS actuary which were 11.2% of covered payroll for the years ended June 30, 2021 and 2020. Employers have the option of making all or part of the 3% ASA contribution on behalf of the member; the Commission opts to contribute the entire 3% on behalf of the member. Members may also make voluntary contributions to the ASA, up to an additional 10% of gross wages, under certain limitations. Total contributions to the PERF Hybrid Plan from the Commission were \$396,453 and \$372,165 for the years ended June 30, 2021 and 2020, respectively.

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

At June 30, 2021 and 2020, the Commission reported a liability of \$1,495,397 and \$1,622,456, respectively, for its proportionate share of the total PERF net pension liability. Total PERF net pension liability was measured as of June 30, 2020 and 2019, which came to \$3,020,394,274 and \$3,305,063,696, respectively, and was calculated using an actuarial valuation as of these dates. The Commission's proportion of the net pension liability was based on the Commission's wages relative to the collective wages of all participating employers to the PERF plan. At June 30, 2020 and 2019, the Commission's proportion was 0.04951% and 0.049090%, respectively.

For the years ended June 30, 2021 and 2020, the Commission recognized pension expense for this plan of \$137,023 and \$323,167, respectively.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

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

At June 30, 2021, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERF plan from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 26,494	\$ 20,078
Difference between Projected and Actual Earnings	127,982	-
Changes in Assumptions	-	311,578
Changes in Proportion and Differences between Commission Contributions and Proportionate Share of Contributions	<u>44,645</u>	<u>15,570</u>
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	199,121	347,226
Contributions made Subsequent to the Measurement Date	<u>312,695</u>	<u>-</u>
Total Deferred Amounts	<u><u>\$ 511,816</u></u>	<u><u>\$ 347,226</u></u>

Deferred outflows made during the year ended June 30, 2021 in the amount of \$312,695 for contributions made subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

On June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERF plan from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 42,962	\$ -
Difference between Projected and Actual Earnings	-	76,689
Changes in Assumptions	361	176,373
Changes in Proportion and Differences between Commission Contributions and Proportionate Share of Contributions	<u>56,212</u>	<u>16,823</u>
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	99,535	269,885
Contributions made Subsequent to the Measurement Date	<u>291,980</u>	<u>-</u>
Total Deferred Amounts	<u><u>\$ 391,515</u></u>	<u><u>\$ 269,885</u></u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

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

Deferred outflows made during the year ended June 30, 2020 in the amount of \$291,980, for contributions made subsequent to the measurement date, were recognized as a reduction of the net pension liability in the year ended June 30, 2021.

As of June 30, 2021, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ (138,500)
2023	(40,955)
2024	(23,013)
2025	54,363
Total	<u>\$ (148,105)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	2.75% to 8.75%, Based on Age
Investment Rate of Return	6.75%, Net Investment Expense

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

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	2.50% to 4.25%, Based on Age
Investment Rate of Return	6.75%, net of Investment Expense

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

Actuarial Assumptions (Continued)

These assumptions for June 30, 2019 were adopted by the INPRS Board in May 2019. The majority of actuarial assumptions and methods were based on plan experience from July 1, 2010 through June 30, 2014. The demographic assumptions used for members were the RP-2014 total data set mortality tables for healthy members and the RP-2014 disability mortality tables for disabled members, both with Social Security generational improvements from 2006 based on the Social Security Administration's 2014 Trustee Report.

The long-term expected rate of return on pension plan investments for the years ended June 30, 2020 and 2019 were determined using annualized time-weighted rate of return for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation, which stayed the same for years ended June 30, 2020 and 2019, and best estimates of arithmetic real rates of return for each major asset class for each year are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>June 30, 2020 Long-Term Expected Real Rate of Return</u>	<u>June 30, 2019 Long-Term Expected Real Rate of Return</u>
Public Equity	22.0%	4.4%	4.9%
Private Equity	14.0%	7.6%	7.0%
Fixed Income - Ex Inflation-Linked	20.0%	1.9%	2.5%
Fixed Income - Inflation-Linked	7.0%	0.5%	1.3%
Commodities	8.0%	1.6%	2.0%
Real Estate	7.0%	5.8%	6.7%
Absolute Return	10.0%	2.9%	2.9%
Risk Parity	12.0%	5.5%	5.3%
Total	<u>100.0%</u>		

Discount Rate

The discount rate used to measure the total pension liability for the years ended June 30, 2020 and 2019 was 6.75%.

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

The following presents the Commission's proportionate share of the net pension liability for the years ended June 30, 2021 and 2020 that were calculated using the discount rate of 6.75%, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement Fund (PERF) (Continued)

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

For the year ended June 30, 2021 as follows:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Commission's Proportionate Share of the Net Pension Liability	<u>\$ 2,438,006</u>	<u>\$ 1,495,397</u>	<u>\$ 705,886</u>

For the year ended June 30, 2020 as follows:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Commission's Proportionate Share of the Net Pension Liability	<u>\$ 2,605,685</u>	<u>\$ 1,622,456</u>	<u>\$ 802,367</u>

Pension Plan Fiduciary Net Position

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

Deferred Compensation Plan

Plan Description

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This is the State's 457 plan. The plan, available to all employees, allows an employee to contribute a minimum of \$15 per paycheck or 1% of eligible earnings (percentage withholding must equal at least \$15) and a maximum of 100% of includible compensation (subject to Internal Revenue Service limitations). Employees are immediately vested in their contributions. Contributions by plan participants during the fiscal years ended June 30, 2021 and 2020 were approximately \$233,920 and \$211,664, respectively.

The Commission makes a matching contribution of \$15 per paycheck for each employee participating in the 457 Deferred Compensation Plan into a 401(a) Incentive Match Plan. Employees are immediately vested in the employer match made by the Commission. Contributions by the Commission during the fiscal years ended June 30, 2021 and 2020, were approximately \$17,760 and \$16,950, respectively.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Employees' Pension Plan of the State Lottery Commission of Indiana

Plan Description

The Commission had adopted a single-employer defined benefit pension plan. Effective July 1, 2013, the plan was frozen as all employees became eligible for the PERF plan (above) under the Senate Enrollment Act No. 526. The following disclosures are related to June 30, 2021 and 2020.

Benefits Provided

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

Employees Covered by Benefit Terms

At June 30, 2021 and 2020, the following employees were covered by the benefit terms:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	43	44
Inactive Employees Entitled to but not yet Receiving Benefits	48	47
Active Employees	<u>16</u>	<u>18</u>
Total	<u><u>107</u></u>	<u><u>109</u></u>

Contributions

The Commission determines quarterly contributions based on actuarially suggested contributions provided by an independent actuary. The actuarially suggested contributions are an estimated amount necessary to finance the costs of benefits earned by employees, with an additional amount to finance any unfunded accrued liability. Total contributions to the Employees' Pension Plan of the State Lottery Commission of Indiana from the Commission were \$269,726 and \$202,158 for the years ended June 30, 2021 and 2020, respectively.

Net Pension Liability (Asset)

The Commission's net pension liability (asset) was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

Discount Rate

The discount rate used to measure the total pension liability was 6.00% and 6.75% for the years ended June 30, 2021 and 2020 respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions would be made at the current contribution rate and that Commission contributions would be made at the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

A summary of the changes in net pension liability (asset) for the years ended June 30, 2021 and 2020 are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance - June 30, 2020	\$ 6,458,873	\$ 5,969,507	\$ 489,366
Changes for the Year			
Interest	421,220	-	421,220
Difference Between Expected and Actual Experience	(38,885)	-	(38,885)
Contributions – Employer	-	269,726	(269,726)
Net Investment Income	-	1,578,002	(1,578,002)
Benefit Payments	(403,520)	(403,520)	-
Changes in Assumptions	511,091	-	511,091
Other Changes	-	76	(76)
Net Changes	<u>489,906</u>	<u>1,444,284</u>	<u>(954,378)</u>
Balance - June 30, 2021	<u>\$ 6,948,779</u>	<u>\$ 7,413,791</u>	<u>\$ (465,012)</u>
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance - June 30, 2019	\$ 6,660,475	\$ 6,127,516	\$ 532,959
Changes for the Year			
Interest	425,099	-	425,099
Difference Between Expected and Actual Experience	(52,611)	-	(52,611)
Contributions – Employer	-	202,158	(202,158)
Net Investment Income	-	309,453	(309,453)
Benefit Payments	(669,620)	(669,620)	-
Other Changes	95,530	-	95,530
Net Changes	<u>(201,602)</u>	<u>(158,009)</u>	<u>(43,593)</u>
Balance - June 30, 2020	<u>\$ 6,458,873</u>	<u>\$ 5,969,507</u>	<u>\$ 489,366</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

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

The following table presents the net pension liability (asset) of the Commission for the years ended June 30, 2021 and 2020 that were calculated using the discount rate of 6.00% and 6.75% respectively, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher, than the current rate.

For the year ended June 30, 2021 as follows:

	1% Decrease <u>(5.00%)</u>	Current Discount Rate <u>(6.00%)</u>	1% Increase <u>(7.00%)</u>
Commissions Net Pension Liability (Asset)	<u>\$ (3,980)</u>	<u>\$ (465,012)</u>	<u>\$ (874,273)</u>

For the year ended June 30, 2020 as follows:

	1% Decrease <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Commissions Net Pension Liability	<u>\$ 937,487</u>	<u>\$ 489,366</u>	<u>\$ 91,886</u>

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

For the years ended June 30, 2021 and 2020, the Commission recognized pension expense of \$88,849 and \$106,907, respectively.

At June 30, 2021, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ 8,073
Change of Assumptions	106,106	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	921,480
Total Deferred Amounts	<u>\$ 106,106</u>	<u>\$ 929,553</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

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

At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ 12,845
Change of Assumptions	23,323	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	60,424
Total Deferred Amounts	<u>\$ 23,323</u>	<u>\$ 73,269</u>

As of June 30, 2021, amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ (150,773)
2023	(218,106)
2024	(218,579)
2025	(235,989)
Total	<u>\$ (823,447)</u>

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

For the year ended June 30, 2021, aggregate data for the Commission's two defined pension plans is summarized by the following table:

	Employee's Pension Plan of the State Lottery Commission of Indiana	Public Employees' Retirement Fund	Total
Deferred Outflows of Resources	\$ 106,106	\$ 511,816	\$ 617,922
Deferred Inflows of Resources	929,553	347,226	1,276,779
Pension Expense	88,849	137,023	225,872
Net Pension Liability	-	1,495,397	1,495,397
Net Pension Asset	465,012	-	465,012

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

For the year ended June 30, 2020, aggregate data for the Commission's two defined pension plans is summarized by the following table:

	Employee's Pension Plan of the State Lottery Commission of Indiana	Public Employees' Retirement Fund	Total
Deferred Outflows of Resources	\$ 23,323	\$ 391,515	\$ 414,838
Deferred Inflows of Resources	73,269	269,885	343,154
Pension Expense	106,907	323,167	430,074
Net Pension Liability	489,366	1,622,456	2,111,822

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

** All available years data has been represented above.

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially Determined Contribution	\$ 43,329	\$ 46,276	\$ 53,316	\$ 67,430	\$ 121,275	\$ 82,149	\$ 92,659	\$ 97,334	\$ 1,085,298	\$ 792,899
Contributions in Relation of the Actuarially Determined Contribution	269,726	202,158	183,525	194,733	305,586	233,261	143,329	186,036	1,272,352	872,145
Contribution Deficiency (Excess)	<u>\$ (226,397)</u>	<u>\$ (155,882)</u>	<u>\$ (130,209)</u>	<u>\$ (127,303)</u>	<u>\$ (184,311)</u>	<u>\$ (151,112)</u>	<u>\$ (50,670)</u>	<u>\$ (88,702)</u>	<u>\$ (187,054)</u>	<u>\$ (79,246)</u>
Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 1,808,138	\$ 7,828,729
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	70.37%	11.14%

Notes to Schedules

Valuation date:

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

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed (30 year decreasing from July, 2012)
Remaining Amortization Period	22 years
Asset Valuation Method	Fair market value
Salary Increases	N/A
Investment Rate of Return	6.75%
Retirement Age	2% at 50-53, 5% at 54-55, 4% at 56-57, 5% at 58, 7% at 59, 10% at 60, 17.5% at 61, 22% at 62, 18% at 63, 22% at 64, 33% at 65, 17.5% at 66-67, 15% at 68, 19% at 69, 30% at 70-74, 100% at age 75.
Mortality	Pub-2010 General Employee Amount-Weighted Mortality Projected Generationally with Scale MP-2019 (separate employee, retiree, disability and contingent survivor tables and male & females tables)

Other information:

None

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

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

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

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

**All available years data has been represented above.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contributions	\$ 329,393	\$ 313,421	\$ 286,428	\$ 270,227	\$ 266,322	\$ 231,651	\$ 263,490
Contributions in Relation to the Statutorily Required Contribution	<u>312,695</u>	<u>291,980</u>	<u>286,428</u>	<u>269,982</u>	<u>256,771</u>	<u>244,166</u>	<u>221,764</u>
Contribution Deficiency (Excess)	<u>\$ 16,698</u>	<u>\$ 21,441</u>	<u>\$ 0</u>	<u>\$ 245</u>	<u>\$ 9,551</u>	<u>\$ (12,515)</u>	<u>\$ 41,726</u>
Covered Payroll	2,941,009	2,798,398	2,557,396	2,412,743	2,377,878	2,068,311	2,352,591
Contribution as a Percentage of Covered Payroll	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%

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

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

**All available years data has been represented above.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity and aggregate remaining fund information of The State Lottery Commission of Indiana, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise The State Lottery Commission of Indiana's basic financial statements, and have issued our report thereon dated October 25, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Indianapolis, Indiana
October 25, 2021

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