

THE STATE LOTTERY COMMISSION OF INDIANA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2019 AND 2018



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**THE STATE LOTTERY COMMISSION OF INDIANA
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YEARS ENDED JUNE 30, 2019 AND 2018**

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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 accompanying financial statements of The State Lottery Commission of Indiana (the Commission), a component unit of the state of Indiana, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the component unit'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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.

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 3 – 11 and 39 – 42 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2019, 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.



CliftonLarsonAllen LLP

Indianapolis, Indiana
October 3, 2019

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

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, 2019 and 2018. Please read it in conjunction with the financial statements and related footnote disclosures, which follow this section.

Financial Highlights

- Fiscal year 2019 (FY 19) operating revenues were \$1.348 billion, an increase of approximately \$78 million from fiscal year 2018 (FY 18). The net increase in revenue was mainly due to a \$40 million increase in scratch-off revenue, a \$32 million increase in Mega Millions revenue, and a \$10 million increase in Hoosier Lotto revenue, while Powerball decreased by \$12 million. Fiscal year 2018 (FY 18) operating revenues were \$1.270 billion, an increase of approximately \$57 million from fiscal year 2017 (FY 17). The net increase in operating revenues for the year was primarily attributable to a \$28 million increase in scratch-off revenue, a \$13 million increase in Mega Millions revenue, and a \$10 million increase in Powerball revenue.
- Prize expenses for FY 19 increased \$63 million from FY 18. The FY19 increase in prize expense was directly related to the revenue increases for scratch-off, Mega Millions, and Hoosier Lotto. Prize expenses for FY 18 increased \$23 million from FY 17 due to the increase in revenue from prior year.
- Indirect gaming expense for FY 19, which includes retailer commissions, advertising and promotions, ticket printing costs, central gaming system expense, miscellaneous lottery expenses, management fees, and other game expenses increased approximately \$6 million from FY 18. This increase was primarily due to a \$5 million increase in retailer commissions, as well as slight increases in central gaming expense and instant ticket printing expense. Indirect gaming expense for FY 18 increased approximately \$8 million from FY 17. This increase was primarily due to an increase in retailer commissions and central gaming expense.
- Other operating expenses in FY 19, which includes salaries, wages, benefits, and general and administrative expenses, increased about 2% from FY18 mainly due to salary, wages and benefits. Other operating expenses in FY 18 decreased by about 2% from FY17 mainly due to an off year of the biennial security audit.
- In FY 19, nonoperating expenses, net of revenues, decreased by \$7 million when compared to FY 18 mainly due to the gain in fair market value of investments in U.S. Treasury securities held by the Commission to fund noncurrent prize liability. In FY 18, nonoperating expenses, net of revenue, increased approximately \$3 million from FY 17. The increase was primarily related to the provider incentive expense for FY18.
- Net income for FY19 was \$316 million, a \$16 million increase over FY18. The increase in income was mainly a result of the \$78 million increase in operating revenue. Net Income in FY18 was \$301 million, approximately a \$22 million increase over FY17. The increase in FY18 revenue was primarily due to the \$57 million increase in operating revenue.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

Overview of the Financial Statements

The Commission is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to a business entity. This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. For each fiscal year, the Commission's basic financial statements are comprised of the following:

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

The Statements of Net Position present information on all of the Commission's assets, deferred outflows, liabilities, and deferred inflows, with the difference between these items 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 notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. They are an integral part of the basic financial statements.

Financial Analysis of the Commission

Net Position and Changes in Net Position

Net position represents the difference between total assets 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.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

**Condensed Statements of Net Position
(In Millions of Dollars)**

	June 30,		
	2019	2018	2017
Current Assets	\$ 187	\$ 159	\$ 158
Restricted Assets	9	9	8
Long-Term Investments	95	97	110
Capital Assets, Net	1	1	1
Other Assets	11	13	14
Total Assets	<u>303</u>	<u>279</u>	<u>291</u>
Deferred Outflows	1	1	2
Current Liabilities	191	163	162
Long-Term Liabilities	98	107	115
Total Liabilities	<u>289</u>	<u>270</u>	<u>277</u>
Deferred Inflows	1	-	1
Net Position			
Unrestricted	13	9	14
Investment in Capital Assets	<u>1</u>	<u>1</u>	<u>1</u>
Total Net Position	<u>\$ 14</u>	<u>\$ 10</u>	<u>\$ 15</u>

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

	Years Ended June 30,		
	2019	2018	2017
Operating Revenues	\$ 1,348	\$ 1,270	\$ 1,213
Operating - Direct Game Expenses	(860)	(797)	(774)
Operating - Indirect Games Expenses	(161)	(155)	(146)
Other Operating Expenses	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>
Operating Income	321	312	287
Nonoperating Revenues (Expenses)	<u>(4)</u>	<u>(11)</u>	<u>(8)</u>
Net Income Prior to Distributions	316	301	279
Distributions	<u>(312)</u>	<u>(306)</u>	<u>(288)</u>
Change in Net Position	4	(5)	(9)
Net Position - Beginning of Year	<u>10</u>	<u>15</u>	<u>24</u>
Net Position - End of Year	<u>\$ 14</u>	<u>\$ 10</u>	<u>\$ 15</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

Assets

Total assets increased by \$24 million during FY 19 from FY18. The increase was mainly due to a \$19 million increase in cash and cash equivalents and a \$9 million increase in accounts receivable. There was a \$2 million decrease of long-term assets and a \$2 million decrease of other assets during FY19.

Total assets decreased during FY18 from FY17 by \$12 million. The decrease was largely due to a \$13 million decrease in long-term investments but there was also a slight decrease in other assets. There were slight increases to cash and cash equivalents and restricted assets during FY18.

Liabilities

Current liabilities increased by \$28 million in FY 19 from FY 18. The increase was largely due to a \$4 million increase in accounts payable and a \$27 million increase in current prize liability. Long-term liabilities decreased \$9 million in FY 19 from FY 18 primarily due to a decrease in long-term prize liability.

Current liabilities increased slightly by \$1 million in FY 18 from FY 17 primarily as a result of an increase in accounts payable. Long-term liabilities decreased \$8 million in FY 18 over FY 17 primarily due to a decrease in unearned revenue and a decrease in long-term prize liability.

Net Position

Net position consists of unrestricted income retained for the future cash flow needs of the Commission and capital assets. The Commission's total net position at June 30, 2019 was \$14 million, at June 30, 2018 was \$10 million, and at June 30, 2017 was \$15 million. The fair market value of investments adjustment and net pension liability adjustment are excluded from surplus revenue to be transferred to the State. As such, these changes form part of the net position.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

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

	Scratch-Off			Powerball		
	2019	2018	Change	2019	2018	Change
Operating Revenues	\$ 975	\$ 935	\$ 40	\$ 96	\$ 108	\$ (12)
Game Prizes	672	633	39	46	52	(6)
Gross Margin	<u>\$ 303</u>	<u>\$ 302</u>	<u>\$ 1</u>	<u>\$ 50</u>	<u>\$ 56</u>	<u>\$ (6)</u>
	Mega Millions			Daily Games		
	2019	2018	Change	2019	2018	Change
Operating Revenues	\$ 78	\$ 46	\$ 32	\$ 77	\$ 72	\$ 5
Game Prizes	38	22	16	38	33	5
Gross Margin	<u>\$ 40</u>	<u>\$ 24</u>	<u>\$ 16</u>	<u>\$ 39</u>	<u>\$ 39</u>	<u>\$ -</u>
	Hoosier Lotto			Cash 5		
	2019	2018	Change	2019	2018	Change
Operating Revenues	\$ 55	\$ 45	\$ 10	\$ 17	\$ 19	\$ (2)
Game Prizes	27	21	6	9	9	-
Gross Margin	<u>\$ 28</u>	<u>\$ 24</u>	<u>\$ 4</u>	<u>\$ 8</u>	<u>\$ 10</u>	<u>\$ (2)</u>
	Quick Draw			Fast Play		
	2019	2018	Change	2019	2018	Change
Operating Revenues	\$ 15	\$ 15	\$ -	\$ 14	\$ 12	\$ 2
Game Prizes	10	9	1	9	8	1
Gross Margin	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ (1)</u>	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 1</u>
	PLUS			Cash 4 Life		
	2019	2018	Change	2019	2018	Change
Operating Revenues	\$ 7	\$ 5	\$ 2	\$ 5	\$ 5	\$ -
Game Prizes	4	2	2	2	3	(1)
Gross Margin	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 1</u>
	Superball			EZ Match		
	2019	2018	Change	2019	2018	Change
Operating Revenues	\$ 4	\$ 3	\$ 1	\$ 3	\$ 3	\$ -
Game Prizes	2	2	-	2	2	-
Gross Margin	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>
	Bullseye					
	2019	2018	Change			
Operating Revenues	\$ 2	\$ 2	\$ -			
Game Prizes	1	1	-			
Gross Margin	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>			
	Total					
	2019	2018	Change			
Operating Revenues	\$ 1,348	\$ 1,270	\$ 78			
Game Prizes	860	797	63			
Gross Margin	<u>\$ 488</u>	<u>\$ 473</u>	<u>\$ 15</u>			

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

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

	Scratch-Off			Powerball		
	2018	2017	Change	2018	2017	Change
Operating Revenues	\$ 935	\$ 907	\$ 28	\$ 108	\$ 98	\$ 10
Game Prizes	633	623	10	52	46	6
Gross Margin	<u>\$ 302</u>	<u>\$ 284</u>	<u>\$ 18</u>	<u>\$ 56</u>	<u>\$ 68</u>	<u>\$ 4</u>
	Mega Millions			Daily Games		
	2018	2017	Change	2018	2017	Change
Operating Revenues	\$ 46	\$ 33	\$ 13	\$ 72	\$ 71	\$ 1
Game Prizes	22	16	6	33	32	1
Gross Margin	<u>\$ 24</u>	<u>\$ 17</u>	<u>\$ 7</u>	<u>\$ 39</u>	<u>\$ 39</u>	<u>\$ -</u>
	Hoosier Lotto			Cash 5		
	2018	2017	Change	2018	2017	Change
Operating Revenues	\$ 45	\$ 43	\$ 2	\$ 19	\$ 14	\$ 5
Game Prizes	21	19	2	9	7	2
Gross Margin	<u>\$ 24</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 7</u>	<u>\$ 3</u>
	Quick Draw			Fast Play		
	2018	2017	Change	2018	2017	Change
Operating Revenues	\$ 15	\$ 17	\$ (2)	\$ 12	\$ 12	\$ -
Game Prizes	9	12	(3)	8	7	1
Gross Margin	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ (1)</u>
	PLUS			Cash 4 Life		
	2018	2017	Change	2018	2017	Change
Operating Revenues	\$ 5	\$ 5	\$ -	\$ 5	\$ 7	\$ (2)
Game Prizes	2	4	(2)	3	4	(1)
Gross Margin	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ (1)</u>
	Superball			EZ Match		
	2018	2017	Change	2018	2017	Change
Operating Revenues	\$ 3	\$ 1	\$ 2	\$ 3	\$ 3	\$ -
Game Prizes	2	1	1	2	2	-
Gross Margin	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>
	Bullseye			Poker Lotto		
	2018	2017	Change	2018	2017	Change
Operating Revenues	\$ 2	\$ 1	\$ 1	\$ -	\$ 1	\$ (1)
Game Prizes	1	1	-	-	-	-
Gross Margin	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ (1)</u>
	Total					
	2018	2017	Change			
Operating Revenues	\$ 1,270	\$ 1,213	\$ 57			
Game Prizes	797	774	23			
Gross Margin	<u>\$ 473</u>	<u>\$ 439</u>	<u>\$ 34</u>			

The tables above compare FY 19, FY 18, and FY 17 operating revenue, game prizes, and gross margin for major lottery game categories. FY 19 revenue increased in the Scratch-off, Hoosier Lotto, Mega Millions, Superball, Fast Play, PLUS, and Daily Games categories. Revenues decreased in FY 19 for Powerball and Cash 5 categories. Lastly, revenue remained fairly consistent in FY 19 for Cash 4 Life, EZ Match, Quick Draw and Bullseye.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

FY 18 operating revenues increased from prior year in the Scratch-off, Powerball, Hoosier Lotto, Mega Millions, Cash 5, Bullseye, Daily Games and Superball categories. FY 18 had decreases in revenue from prior year for Quick Draw, Poker Lotto and Cash 4 Life. FY 18 revenue remained fairly consistent for PLUS, EZ Match, and Fast Play from the prior year.

Powerball is a multi-state, big jackpot lotto game offered by 44 U.S. states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. While Powerball had two jackpots in the \$700 million range during FY19, total revenue decreased \$12 million from FY18 mainly due to a phenomenon referred to as jackpot fatigue- a situation wherein jackpot levels need to reach a higher level in order to attract the attention of players.

Powerball revenue was \$108 million in FY18, a \$10 million increase from the prior year. The primary reason for the increase in revenue was a jackpot run that topped \$700 million in August 2017. This was the second largest Powerball jackpot ever offered at the time.

Mega Millions is a multi-state lotto game offering large jackpot prizes. The Commission participates in this game along with 43 other U.S. States, the District of Columbia, and the U.S. Virgin Islands. Mega Millions generated revenues of approximately \$78 million in FY 19 and \$46 million in FY 18. The \$32 million revenue increase was a result of the record \$1.6 billion Mega Millions jackpot in October 2018.

The Commission generated a year over year increase in revenues for Mega Millions during FY18 where revenues were \$13 million higher than that of FY17. Revenues increased in large part due to a price point increase of \$1 per play to \$2 per play in October 2017 and higher jackpot levels in FY 18 than prior year.

Hoosier Lotto is a game available only in Indiana with jackpots starting at \$1 million. Revenue reached \$55 million for FY 19 which was a \$10 million increase over FY18. The 22% year over year revenue increase was due to the largest Hoosier Lotto jackpot since 2007. The large Hoosier Lotto jackpot reached \$40.8 million by the end of FY19. The Commission recognized a \$2 million increase in revenue for FY18 from prior year, a 5% increase.

The "Daily Games" consists of the Daily 3 and Daily 4 games which offer many different ways of playing and drawings occurring two times per day. The \$77 million FY 19 revenue increased \$5 million from FY 18, a 7% increase. This increase comes after relatively consistent revenue was recognized during FY18 and FY17.

Cash 5 is a daily cash jackpot game only offered in Indiana with a starting jackpot of \$75 thousand. Revenue for FY19 was \$17 million, a \$2 million decrease from FY 18 revenue of \$19 million. FY18 had a record \$2.4 million jackpot, the highest Cash 5 jackpot during FY19 was about \$1.5 million.

Fast Play is an on-line game category with 19 individual games as of June 30, 2019. Fast Play tickets are printed right at the Hoosier Lottery terminals at time of purchase. The Commission generated \$14 million in revenues for FY19, a 17% increase over FY18. Fast Play had revenues of approximately \$12 million in both FY18 and FY17.

Quick Draw, which offers two drawings per day and a chance to win up to \$2 million, had revenue of \$15 million during FY 19 and FY 18. Quick Draw had experienced a revenue decrease of 11%, or \$2 million in FY 18 from FY 17.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

EZ Match is an add-on game available with Cash 5 and Quick Draw that offers an instant win feature. Revenues have remained fairly consistent over the last 3 fiscal years with revenue reaching \$3 million each year.

Bullseye is an add-on game to Quick Draw that launched in January 2017 providing players with a chance to win additional cash prizes with their selected Quick Draw numbers. Bullseye had revenue of approximately \$2 million in FY 19 and FY18.

Hoosier Lotto PLUS, also referred to as "PLUS", is a game that can be added on to a Hoosier Lotto game for a dollar. PLUS revenue was \$7 million in FY 19, a \$2 million increase over FY18. The FY19 increase in revenue is related to the increase in Hoosier Lotto plays with the large FY19 Hoosier Lotto jackpot.

Cash 4 Life is a multi-state lotto game available in nine states with the top two prizes offering lifetime annuity payments. The Commission's participation in this game began in September 2016 and drawings occurred twice a week through June 30, 2019. Cash 4 Life revenue was \$5 million in FY 19, \$5 million in FY18, and \$7 million in FY17.

Superball is an add-on game to Daily 3 and Daily 4 that was launched in March 2017. Superball revenue was \$4 million in FY 19, a \$1 million increase in revenue from FY18. FY18 revenue was \$3 million in its first full year, a \$2 million increase over FY17.

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 19 was \$860 million, which was a \$63 million increase from FY 18. The increase in prize expense during FY 19 was a direct result of increased operating revenue and a decrease in unclaimed prizes during the year. Total prize expense in FY 18 was \$797 million, a \$23 million increase from FY 17. The increase in prize expense during FY 18 was a result of increased operating revenue and an increase in unclaimed prizes.

- FY 19 scratch-off game prize expense increased \$39 million from prior year. FY 18 scratch-off game prize expense increased \$10 million from FY17. Both increases are mainly due to the increases in scratch-off revenue for their respective years.
- On-line game prize expense was \$188 million in FY 19 which was up 15% or \$24 million from FY 18. This increase is directly related to the increase in On-line ticket revenue during FY 19. On-line game prize expense increased \$13 million in FY 18 as compared to FY 17. This decrease is directly related to the increase in On-line ticket revenue during FY 18.

**THE STATE LOTTERY COMMISSION OF INDIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

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

	Years Ended June 30,		
	2019	2018	2017
Indirect Game Expenses:			
Retailer Commissions	\$ 92	\$ 87	\$ 82
Central Gaming System Expenses	24	23	21
Advertising and Promotion	18	18	17
Management Fees	11	12	12
Ticket Printing Costs	13	12	12
Miscellaneous Lottery Expenses	2	2	2
Other Game Expenses	1	1	-
Total	<u>161</u>	<u>155</u>	<u>146</u>
Other Operating Expenses:			
Salaries, Wages, and Benefits	4	4	4
General and Administrative	2	2	2
Total	<u>6</u>	<u>6</u>	<u>6</u>
 Total Indirect Game and Other Operating Expenses	 <u>\$ 167</u>	 <u>\$ 161</u>	 <u>\$ 152</u>

Total indirect game and other operating expenses increased \$6 million from FY 18 to FY 19. 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 and other operating expenses increased \$9 million from FY 17 to FY 18 mainly due to increases in retailer commissions, central gaming system expense, and advertising and promotion expense.

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 50,451,482	\$ 31,862,415
Investments, Current Portion	10,721,772	10,819,035
Accounts Receivable, Net	124,646,471	115,396,346
Prepaid Transfers to the State and Other Prepaid Expenses	1,558,260	1,552,967
Total Current Assets	187,377,985	159,630,763
NONCURRENT ASSETS		
Long-Term Investments, Less Current Portion	94,546,573	96,893,075
Prepaid Transfers to the State, Less Current Portion	11,230,769	12,634,615
Restricted Assets	9,593,596	8,509,501
Capital Assets, Net	506,246	741,051
Total Noncurrent Assets	115,877,184	118,778,242
Total Assets	303,255,169	278,409,005
TOTAL DEFERRED OUTFLOWS OF RESOURCES	566,468	1,310,830
CURRENT LIABILITIES		
Accounts Payable:		
State	20,383,555	18,528,667
Trade	19,391,669	16,789,547
Current Portion of Prize Liability	149,144,836	122,566,561
Unearned Revenue	1,999,198	4,471,647
Other Accrued Expenses	459,037	435,541
Total Current Liabilities	191,378,295	162,791,963
LONG-TERM LIABILITIES		
Prize Liability, Less Current Portion	84,263,453	91,272,507
Unearned Revenue	11,230,769	12,634,615
Net Pension Liability	2,139,082	2,763,582
Total Noncurrent Liabilities	97,633,304	106,670,704
Total Liabilities	289,011,599	269,462,667
TOTAL DEFERRED INFLOWS OF RESOURCES	525,541	474,835
NET POSITION		
Unrestricted	13,778,251	9,041,282
Investment in Capital Assets	506,246	741,051
Total Net Position	\$ 14,284,497	\$ 9,782,333

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, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Scratch-Off Ticket Sales, Net	\$ 974,884,849	\$ 934,984,749
On-Line Ticket Sales	372,870,808	335,080,894
Total Operating Revenues	1,347,755,657	1,270,065,643
OPERATING EXPENSES		
Direct Game Expenses:		
Scratch-Off Games Prizes	671,678,121	632,906,443
On-Line Games Prizes	188,319,594	164,364,802
Total Direct Game Expenses	859,997,715	797,271,245
Indirect Game Expenses:		
Retailer Commissions	91,618,898	86,646,361
Lottery Expenses:		
Central Gaming System Expenses	24,388,365	23,397,500
Advertising and Promotion	17,924,629	18,077,442
Ticket Printing Costs	12,575,123	11,920,820
Miscellaneous Lottery Expenses	2,244,422	1,922,661
Management Fees	11,129,313	11,984,749
Other Game Expenses	640,905	461,998
Total Indirect Game Expenses	160,521,655	154,411,531
Total Operating Expenses	1,020,519,370	951,682,776
PROVIDER NET INCOME	327,236,287	318,382,867
OTHER OPERATING EXPENSES		
Salaries, Wages, and Benefits	3,981,744	3,794,213
General and Administrative	2,317,874	2,399,790
Total Other Operating Expenses	6,299,618	6,194,003
OPERATING INCOME	320,936,669	312,188,864
NONOPERATING REVENUES (EXPENSES)		
Interest Income	917,443	428,442
Net Increase (Decrease) in Fair Value of Investments	4,672,734	(4,580,898)
Increase in Net Pension Liability	(170,570)	(347,317)
Provider Incentive	(11,239,981)	(9,191,433)
Other Income, Net	1,609,179	2,652,698
Total Nonoperating Revenues (Expenses), Net	(4,211,195)	(11,038,508)
NET INCOME PRIOR TO DISTRIBUTIONS	316,725,474	301,150,356
DISTRIBUTIONS		
Distributions to the State	(291,839,754)	(287,549,904)
Distributions to be Paid to the State	(20,383,555)	(18,528,667)
Total Distributions	(312,223,309)	(306,078,571)
CHANGES IN NET POSITION	4,502,164	(4,928,215)
Net Position - Beginning of year	9,782,333	14,710,548
NET POSITION - END OF YEAR	\$ 14,284,497	\$ 9,782,333

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Ticket Sales	\$ 1,317,775,082	\$ 1,258,127,786
Payments to Ticket Winners	(840,428,494)	(808,754,311)
Payments to Employees	(3,958,248)	(4,218,022)
Payments to Suppliers	(141,658,282)	(125,190,306)
Net Cash Provided by Operating Activities	331,730,058	319,965,147
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Distributions to the State	(308,964,576)	(313,833,257)
Provider Incentive	(11,239,981)	(9,191,433)
Others	205,333	1,248,849
Net Increase in Restricted Assets	(1,084,095)	(544,935)
Net Cash Used by Noncapital and Related Financing Activities	(321,083,319)	(322,320,776)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(99,613)	(37,417)
Proceeds from the Sale of Capital Assets	8,000	-
Net Cash Used by Capital and Related Financing Activities	(91,613)	(37,417)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(2,017,893)	-
Investment Maturities	9,134,391	8,396,846
Interest Income	917,443	428,442
Net Cash Provided by Investing Activities	8,033,941	8,825,288
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,589,067	6,432,242
Cash and Cash Equivalents - Beginning of Year	31,862,415	25,430,173
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 50,451,482	\$ 31,862,415

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 320,936,669	\$ 312,188,864
Adjustments to Reconcile Operating Income to Net Cash		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	334,418	358,168
Change in Provision for Ticket Returns	1,476,179	(184,662)
Proceeds on Sale of Capital Assets	(8,000)	-
Changes in Certain Assets and Liabilities:		
Accounts Receivable	(10,726,304)	4,440,790
Prepaid Expenses	1,398,553	1,386,106
Accounts Payable - Trade	2,602,122	13,030,587
Unearned Revenue	(3,876,295)	652,169
Other Accrued Expenses	23,495	(423,809)
Prize Liability	19,569,221	(11,483,066)
Net Cash Provided by Operating Activities	\$ 331,730,058	\$ 319,965,147
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES		
Net Increase (Decrease) in Fair Value of Investments	\$ 4,672,734	\$ (4,580,898)
Loss on Disposal of Assets	(1,560)	(2,836)
Increase in Net Pension Liability	(170,570)	(347,317)
Net Noncash Investing, Capital, and Related Financing Activities	\$ 4,500,604	\$ (4,931,051)

See accompanying Notes to Financial Statements.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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 in May 1989 (Lottery Article). The Commission offers various On-line terminal games, including Hoosier Lotto, Hoosier Lotto PLUS, Powerball, Mega Millions, Daily 3, Daily 4, Superball, Quick Draw, Bullseye, Cash 5, EZ Match, Cash 4 Life, and Fast Play. On-line tickets are generated from a terminal and all but EZ Match and Fast Play require a subsequent drawing of numbers to determine winners. EZ Match and Fast Play winners are determined instantly. The Commission also offers numerous scratch-off games. Scratch-off games are preprinted tickets that require players to scratch off a coating to reveal the play area. The Commission also offers several 2nd chance promotions where nonwinning tickets are entered by players, and winners are randomly drawn.

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

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 Comprehensive Annual Financial Report (CAFR). Component units are separate legal entities for which the primary government is legally accountable. The Commission itself does not have any component units.

Basis of Accounting

The Commission's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles 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 FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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

The Treasurer of the State, on behalf of the Commission, is permitted to invest Commission funds in direct obligations of the U.S. Treasury or insurance annuities to fund future installment prize obligations. Except for the insurance annuities, investments are recorded at fair market value at June 30, 2019 and 2018. The insurance annuities are considered to be nonparticipating interest-earning contracts and are carried at accreted cost.

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 \$11,811,694 and \$13,287,872 as of June 30, 2019 and 2018, respectively. The Commission uses the direct write off method for recognizing bad debt; therefore, there is no balance for doubtful accounts as of June 30, 2019 and 2018. Accounts receivable also includes other receivables, which consists of amounts owed to the Commission by nonretailers. The balance of other receivables was \$155,745 and \$809,465 as of June 30, 2019 and 2018, 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, dues and subscriptions, and retirement.

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 FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 of the other assets are depreciated over five years. Intangibles are amortized over the useful life of the asset. Depreciation and amortization expense was \$334,418 and \$358,168 for the years ended June 30, 2019 and 2018, respectively.

Prize Expense and Liability

Prize liability includes an estimate of outstanding scratch-off and on-line game prizes as of June 30, 2019 and 2018, 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 1% to 3%, 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 is 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.

The prize expense and liability for on-line games is determined based on the actual prizes won at the time of purchase for instant and online game categories, or actual prizes won at the time of drawing. Additionally, expense and liability is 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. 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, 2019 and 2018 was used to offset future prizes.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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. The remaining balance of the amount distributed to the Indiana State Treasurer is deposited into the State’s Build Indiana Fund, used to reduce the motor vehicle excise tax and to refund technology at schools and libraries. Distributions to the State’s Build Indiana Fund totaled \$252,223,309 and \$246,078,571 for the years ended June 30, 2019 and 2018, 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. Retailers earn a 1.0% cashing commission for redeeming winning tickets and the lesser of 1.0% or \$100,000 for selling winning jackpot tickets or top prizes on certain online 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 expense and miscellaneous lottery expenses.

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, communications, and other operating expenses.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Game Expenses

Other game expenses mainly consist of operating expenditures that are paid by the Commission and do not qualify as a reimbursable commission paid expense. A few items reflected in this line are promotion expenses and MUSL operating expenses paid directly by the Commission.

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, 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.

Subsequent Events

Subsequent events have been evaluated through October 3, 2019, which is the date the financial statements were available to be issued.

Recently Issued Accounting Standards

The Commission has implemented the following new accounting pronouncement:

GASB Statement No. 83—*Certain Asset Retirement Obligations*, effective for the Commission's fiscal year ending June 30, 2019.

The adoption did not have an impact on the Commission's financial position or results of operations.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards (Continued)

The Commission will determine the applicability and adoption the following new accounting pronouncements in future years:

GASB Statement No. 84—*Fiduciary Activities*, effective for the Commission’s fiscal year ending June 30, 2020.

GASB Statement No., 87—*Leases*, effective for the Commission’s fiscal year ending June 30, 2021.

GASB Statement No. 88—*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the Commission’s fiscal year ending June 30, 2020.

The impact of these pronouncements on the Commission’s financial statements has not been determined.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

The Commission’s investment policy establishes cash and investment guidelines for the deposit of funds. The Commission is authorized to make deposits in commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, 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 carrying amount of the Commission’s deposits and outstanding checks with financial institutions at June 30, 2019 and 2018, totaled \$696,794 and \$328,308, respectively, while bank balances totaled \$1,101,084 and \$1,144,948, respectively. The Commission invests all funds not needed to cover the outflows of cash for operating expenses and payments of prizes in a money market fund. Uninsured, uncollateralized bank balances were \$851,084 as of June 30, 2019 and \$857,455 as of June 30, 2018.

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.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The Lottery 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 Lottery has U.S. Treasury securities of \$97 million as of June 30, 2019 and 2018. These securities are valued using quoted market prices and as such, are Level 1 inputs. The Lottery also invests in a Money Market Fund. This, too, is valued using quoted market prices and is considered a Level 1 input.

The Lottery Article states that money that the Commission anticipates will be available for the payment of prizes on a deferred basis may be invested in direct U.S. Treasury obligations or insurance annuities. Investments in U.S. Treasury obligations and money market funds are reported at fair value using quoted market prices. Insurance annuities are carried at accreted cost. Changes in the fair value of the investments are recognized as nonoperating revenue or expense in the statements of revenues, expenses, and changes in net position. The net change in the fair value of U.S. Treasury obligations for the years ended June 30, 2019 and 2018 was \$4,672,734 and \$(4,580,898), respectively. Investments in insurance annuity contracts, at rates yielding approximately 3% to 6%, relate to deferred prize liability.

As of June 30, 2019 and 2018, the Commission had the following investment maturities:

June 30, 2019	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
U.S. Government Securities	\$ 96,855,628	\$ 7,998,772	\$ 38,009,646	\$ 25,716,834	\$ 25,130,375
Money Market Fund	49,754,687	49,754,687	-	-	-
Total	146,610,315	57,753,459	38,009,646	25,716,834	25,130,375
	Carrying Value				
Insurance Annuities	8,412,718	2,723,000	5,689,718	-	-
Total Investments	<u>\$ 155,023,033</u>	<u>\$ 60,476,459</u>	<u>\$ 43,699,364</u>	<u>\$ 25,716,834</u>	<u>\$ 25,130,375</u>
June 30, 2018	Fair Value	Investment Maturities (in Years)			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
U.S. Government Securities	\$ 97,076,647	\$ 8,096,035	\$ 37,884,381	\$ 27,104,797	\$ 23,991,435
Money Market Fund	31,534,108	31,534,108	-	-	-
Total	128,610,755	39,630,143	37,884,381	27,104,797	23,991,435
	Carrying Value				
Insurance Annuities	10,635,462	2,723,000	7,704,618	207,844	-
Total Investments	<u>\$ 139,246,217</u>	<u>\$ 42,353,143</u>	<u>\$ 45,588,999</u>	<u>\$ 27,312,641</u>	<u>\$ 23,991,435</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

	2019	2018
Statement of Net Position:		
Cash and Cash Equivalents	\$ 50,451,482	\$ 31,862,415
Investments (Current)	10,721,772	10,819,035
Investments (Long-Term)	94,546,573	96,893,075
Total	\$ 155,719,827	\$ 139,574,525
Notes to the Financial Statements:		
Deposits	\$ 696,794	\$ 328,308
Investments (Current and Long-Term)	155,023,033	139,246,217
Total	\$ 155,719,827	\$ 139,574,525

The following table provides information on the credit ratings associated with the Commission's investments as of June 30, 2019 and 2018:

	S&P	Fitch	Moody's	A.M. Best	Balance at June 30, 2019	Percent of Total	Balance at June 30, 2018	Percent of Total
U.S. Government Securities	AA+	AAA	Aaa	Unrated	\$ 96,855,628	62%	\$ 97,076,647	70%
Insurance Annuities	AA-	A+	A1	a+	8,412,718	5%	10,635,462	7%
Money Market Mutual Fund	AAAm	AAAmmf	Aaa-mf	Unrated	49,754,687	32%	31,534,108	23%
Total Investments					\$ 155,023,033	100%	\$ 139,246,217	100%

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In 2019, \$147 million of investments were not held by the Commission. Investments totaling \$97 million were held by the Indiana State Treasurer; therefore, these investments were not considered to have custodial credit risk. The remaining \$50 million of investments were held by outside counterparties. In 2018, the \$129 million of investments were not held by the Commission. Investments totaling \$97 million were held by the Indiana State Treasurer; therefore, these investments were not considered to have custodial credit risk. The remaining \$32 million of investments were held by outside counterparties.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

Cash and collateral securities are initially pledged at 102% of the market value of the securities lent. Collateral securities cannot be pledged or sold by the board unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The custodian bank provides 100% indemnification to the lender against any borrower default, overnight market risk, and failure to return loaned securities.

As of June 30, 2019 and 2018, the Treasurer of State did not lend any securities related to the Commission.

NOTE 3 CAPITAL ASSETS

A summary of the Commission's capital assets at June 30, 2019 and 2018 is as follows:

	<u>Balances at June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances at June 30, 2019</u>
Capital Assets Being Depreciated:				
Vehicles	\$ 177,777	\$ 36,353	\$ (50,397)	\$ 163,733
Furniture, Fixtures, and Equipment	548,667	-	-	548,667
Leasehold Improvements	1,021,529	-	-	1,021,529
Data Processing Equipment	819,344	63,260	(29,802)	852,802
Total Capital Assets, Being Depreciated	<u>2,567,317</u>	<u>99,613</u>	<u>(80,199)</u>	<u>2,586,731</u>
Less Accumulated Depreciation:				
Vehicles	(126,004)	(25,668)	50,397	(101,275)
Furniture, Fixtures, and Equipment	(416,115)	(45,165)	-	(461,280)
Leasehold Improvements	(752,612)	(107,401)	-	(860,013)
Data Processing Equipment	(657,971)	(80,166)	29,802	(708,335)
Total Accumulated Depreciation	<u>(1,952,702)</u>	<u>(258,400)</u>	<u>80,199</u>	<u>(2,130,903)</u>
Intangible Assets Being Amortized:				
Patent	550,869	-	-	550,869
Less Accumulated Amortization	(424,433)	(76,018)	-	(500,451)
Total Intangible Assets Being Amortized	<u>126,436</u>	<u>(76,018)</u>	<u>-</u>	<u>50,418</u>
Total Capital Assets, Net	<u>\$ 741,051</u>	<u>\$ (234,805)</u>	<u>\$ -</u>	<u>\$ 506,246</u>

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Balances at June 30, 2017	Increases	Decreases	Balances at June 30, 2018
Capital Assets Being Depreciated:				
Vehicles	\$ 140,360	\$ 37,417	\$ -	\$ 177,777
Furniture, Fixtures, and Equipment	559,252	-	(10,585)	548,667
Leasehold Improvements	1,021,529	-	-	1,021,529
Data Processing Equipment	874,278	-	(54,934)	819,344
Total Capital Assets, Being Depreciated	2,595,419	37,417	(65,519)	2,567,317
Less Accumulated Depreciation:				
Vehicles	(101,595)	(24,409)		(126,004)
Furniture, Fixtures, and Equipment	(357,904)	(68,796)	10,585	(416,115)
Leasehold Improvements	(645,211)	(107,401)	-	(752,612)
Data Processing Equipment	(631,361)	(81,544)	54,934	(657,971)
Total Accumulated Depreciation	(1,736,071)	(282,150)	65,519	(1,952,702)
Intangible Assets Being Amortized:				
Patent	550,869	-	-	550,869
Less Accumulated Amortization	(348,415)	(76,018)	-	(424,433)
Total Intangible Assets Being Amortized	202,454	(76,018)	-	126,436
Total Capital Assets, Net	<u>\$ 1,061,802</u>	<u>\$ (320,751)</u>	<u>\$ -</u>	<u>\$ 741,051</u>

The Commission removed \$70,840 and \$51,953 of fully depreciated capital assets during the years ended June 30, 2019 and 2018, respectively.

NOTE 4 PRIZE LIABILITY

The prize liability relating to past game show, scratch-off, and on-line winners, including an estimate of unclaimed instant and on-line winners at June 30, 2019 and 2018 is as follows:

	2019	2018
Installment Prizes Liability	\$ 95,073,009	\$ 102,191,063
Scratch-Off Game Liability	104,975,458	98,300,059
On-Line Game Liability	33,359,822	13,347,946
Total Prize Liability	233,408,289	213,839,068
Less: Current Portion	(149,144,836)	(122,566,561)
Noncurrent Portion	<u>\$ 84,263,453</u>	<u>\$ 91,272,507</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 4 PRIZE LIABILITY (CONTINUED)

Future payments of prize liability as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Liability</u>	<u>Other Accrued Prize Liability</u>	<u>Total</u>
2020	\$ 10,809,556	\$ 138,335,280	\$ 149,144,836
2021	10,365,556	-	10,365,556
2022	9,985,556	-	9,985,556
2023	9,679,556	-	9,679,556
2024	8,553,556	-	8,553,556
2025-2029	32,935,780	-	32,935,780
2030-2034	18,247,785	-	18,247,785
2035-2039	15,212,800	-	15,212,800
2040-2044	7,387,800	-	7,387,800
2045-2049	814,800	-	814,800
2050-2054	787,800	-	787,800
2055-2059	784,680	-	784,680
2060	104,000	-	104,000
Total	<u>125,669,225</u>	<u>138,335,280</u>	<u>264,004,505</u>
Less: Unamortized Discount	<u>(30,596,216)</u>	<u>-</u>	<u>(30,596,216)</u>
Total at Present Value	95,073,009	138,335,280	233,408,289
Less: Current Portion	<u>(10,809,556)</u>	<u>(138,335,280)</u>	<u>(149,144,836)</u>
Total Long-Term Portion at Present Value	<u>\$ 84,263,453</u>	<u>\$ -</u>	<u>\$ 84,263,453</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>2019</u>	<u>2018</u>
Balance - Beginning of Year	\$ 213,839,068	\$ 225,322,134
Prize Expense	859,997,715	797,271,245
Prize Payments	<u>(840,428,494)</u>	<u>(808,754,311)</u>
Balance - End of Year	<u>\$ 233,408,289</u>	<u>\$ 213,839,068</u>

NOTE 5 OPERATING LEASES

The Commission leases office space, under a noncancelable operating lease, at its headquarters located in Indianapolis, Indiana under an initial lease term of 10 years expiring in April 2021. The Commission also leases office equipment on terms ranging from two to five years. Total rental expense was \$716,168 and \$716,305 for the years ended June 30, 2019 and 2018, respectively.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 OPERATING LEASES (CONTINUED)

As of June 30, 2019, 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>
2020	\$ 703,293
2021	644,120
Total	\$ 1,347,413

The Commission entered into a memorandum of understanding (MOU) with the Indiana Horse Racing Commission for the purpose of subleasing a portion of the Commission's headquarters to the Indiana Horse Racing Commission. The term of the MOU is three years and one month effective April 1, 2018 to April 30, 2021. The total amount of minimum rental payments to be received by the Commission under the MOU is \$68,556 in FY20 and \$57,130 in FY21.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Commitments

The Commission is a member of the Multi-State Lottery Association (MUSL), an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently consists of 37 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, 2019 and 2018, the Commission's balance of prize reserve funds, included in restricted assets in the accompanying statement of net position, was \$9,593,596 and \$8,509,501, respectively.

Litigation

Periodically, the Commission is subject to certain legal and administrative actions that arise in the normal course of its operations. As of June 30, 2019, the Commission's management believes that the ultimate outcome of any pending legal matters will not have a material adverse impact on the Commission's financial position.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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.

NOTE 8 INTEGRATED SERVICES AGREEMENT

The Commission entered into a 15-year integrated services agreement (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.

As a result of a renegotiation, an amended 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, 2019, 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 currently reflected as unearned revenue on the statement of net position.

For the years ended June 30, 2019 and 2018, the incentive thresholds were surpassed resulting in provider incentive compensation from the Commission to IGT in the amount of \$11,239,981 and \$9,191,433, respectively.

THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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.

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 is 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, 2018 and 2019. Employers have the option of making all or part of the 3% ASA contribution on behalf of the member; the Commission options 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 \$363,149 and \$342,299 for the years ended June 30, 2019 and 2018, respectively.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

At June 30, 2019 and 2018, the Commission reported a liability of \$1,606,123 and \$2,138,420, respectively, for its proportionate share of the total PERF net pension liability. Total PERF net pension liability was measured as of June 30, 2018 and 2017, which came to \$3,397,045,250 and \$4,461,543,469, 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, 2018 and 2017, the Commission's proportion was 0.04728% and .04793%, respectively

For the years ended June 30, 2019 and 2018, the Commission recognized pension expense for this plan of \$475,377 and \$891,696, respectively.

At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERF plan from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 21,005	\$ 110
Difference between Projected and Actual Earnings	47,567	-
Changes in Assumptions	3,827	257,885
Changes in Proportion and Differences between Commission Contributions and Proportionate Share of Contributions	<u>64,691</u>	<u>22,992</u>
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	<u>137,090</u>	<u>280,987</u>
Contributions made Subsequent to the Measurement Date	<u>286,428</u>	-
Total Deferred Amounts	<u><u>\$ 423,518</u></u>	<u><u>\$ 280,987</u></u>

Deferred outflows made during the year ended June 30, 2019 in the amount of \$286,428, 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, 2020.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERF plan from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 40,611	\$ 1,660
Difference between Projected and Actual Earnings	338,260	107,213
Changes in Assumptions	34,334	-
Changes in Proportion and Differences between Commission Contributions and Proportionate Share of Contributions	<u>306,479</u>	<u>14,005</u>
Total Deferred Amounts to be Recognized in Pension Expense in Future Periods	<u>719,684</u>	<u>122,878</u>
Contributions made Subsequent to the Measurement Date	269,982	-
Total Deferred Amounts	<u><u>\$ 989,666</u></u>	<u><u>\$ 122,878</u></u>

Deferred outflows made during the year ended June 30, 2018 in the amount of \$269,982, for contributions made subsequent to the measurement date, were recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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>
2020	\$ 78,698
2021	(68,311)
2022	(125,840)
2023	(28,444)
Total	<u><u>\$ (143,897)</u></u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

Actuarial Assumptions

The total pension liability in the June 30, 2018 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%, Including Inflation
Investment Rate of Return	6.75%, Net of Administrative and Investment Expense

These assumptions for June 30, 2018 were adopted by the INPRS Board in April 2018. The majority of actuarial assumptions and methods were based on plan experience from the 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. Additionally, a load on final average salary of \$400 was added to reflect unused sick leave accumulated at termination of employment for active and inactive vested members.

The total pension liability in the June 30, 2017 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%, Including Inflation
Investment Rate of Return	6.75%, Net of Pension Plan Investment Expense

These assumptions for June 30, 2017 were adopted by the INPRS Board pursuant to an experience study completed in April 2015. The actuarial assumptions used in the June 30, 2017 valuations were the same assumptions used in the 2016 valuations, except the 2017 valuation assumed two mortality tables (RP-2014 total dataset for healthy members and RP-2014 Disabled mortality tables for disabled members) rather than only healthy. Additionally, a load on final average salary of \$400 was added to reflect unused sick leave accumulated at termination of employment for active and inactive vested members.

The long-term expected rate of return on pension plan investments for the years ended June 30, 2018 and 2017 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, 2017 and 2018, and best estimates of arithmetic real rates of return for each major asset class for each year are summarized in the following table:

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	June 30, 2018 Long-Term Expected Real Rate of Return	June 30, 2017 Long-Term Expected Real Rate of Return
Public Equity	22.0%	4.4%	4.9%
Private Equity	14.0%	5.4%	5.7%
Fixed Income - Ex Inflation-Linked	20.0%	2.2%	2.3%
Fixed Income - Inflation-Linked	7.0%	0.8%	0.6%
Commodities	8.0%	2.3%	2.2%
Real Estate	7.0%	6.5%	3.7%
Absolute Return	10.0%	2.7%	3.9%
Risk Parity	12.0%	5.2%	5.1%
Total	<u>100.0%</u>		

Discount Rate

The discount rate used to measure the total pension liability for the years ended June 30, 2018 and 2017 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, 2019 and 2018 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.

For the year ended June 30, 2019 as follows:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Commission's Proportionate Share of the Net Pension Liability	<u>\$ 2,528,296</u>	<u>\$ 1,606,123</u>	<u>\$ 837,131</u>

For the year ended June 30, 2018 as follows:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Commission's Proportionate Share of the Net Pension Liability	<u>\$ 3,118,796</u>	<u>\$ 2,138,418</u>	<u>\$ 1,323,451</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.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Deferred Compensation Plan

Plan Description

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, allows an employee to contribute a minimum of \$15 per paycheck or 1% of eligible 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, 2019 and 2018 were approximately \$171,072 and \$163,351, 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, 2019 and 2018, were approximately \$16,035 and \$14,250, respectively.

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, 2019 and 2018.

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, 2019 and 2018, the following employees were covered by the benefit terms:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	45	47
Inactive Employees Entitled to but not yet Receiving Benefits	49	51
Active Employees	19	19
Total	<u>113</u>	<u>117</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

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 \$183,525 and \$194,733 for the years ended June 30, 2019 and 2018, respectively.

Net Pension Liability

The Commission's net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

Actuarial Assumptions

The total pension liability in the June 30, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	N/A
Investment Rate of Return	6.75%, Net of Pension Plan Investment Expense, Including Inflation

The mortality tables used for June 30, 2019 were the RP-2014 total dataset mortality adjusted to 2006 with two dimensional generational mortality improvement projection scale MP-2018.

The mortality tables used for June 30, 2018 were revised from the RP-2014 total dataset with MP-2016 projected mortality improvements to RP-2014 total dataset with MP-2017 projected mortality improvements.

The actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on the Entry Age Actuarial Cost Method.

For the years ended June 30, 2018 and 2019, the long-term expected rate of return on pension plan investments was 6.75%. The plan's trust asset allocation, based on market value, for each asset class are summarized in the following table:

<u>Asset Class</u>	<u>June 30, 2019 Asset Allocation</u>	<u>June 30, 2018 Asset Allocation</u>
Equity	71%	75%
Fixed Income	28%	23%
Cash	1%	2%
Total	<u>100%</u>	<u>100%</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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 6.75% for the years ended June 30, 2019 and 2018. 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

A summary of the changes in net pension liability for the years ended June 30, 2019 and 2018 are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance - June 30, 2018	\$ 6,669,596	\$ 6,044,434	\$ 625,162
Changes for the Year			
Service Cost	-	-	-
Interest	432,110	-	432,110
Difference Between Expected and Actual Experience	(28,495)	-	(28,495)
Contributions – Employer	-	183,525	(183,525)
Net Investment Income	-	394,267	(394,267)
Benefit Payments	(494,710)	(494,710)	-
Administrative Expenses	-	-	-
Other Changes	81,974	-	81,974
Net Changes	(9,121)	83,082	(92,203)
Balance - June 30, 2019	<u>\$ 6,660,475</u>	<u>\$ 6,127,516</u>	<u>\$ 532,959</u>

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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

Changes in the Net Pension Liability (Continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance - June 30, 2017	\$ 6,688,845	\$ 5,885,026	\$ 803,819
Changes for the Year			
Service Cost	-	-	-
Interest	438,751	-	438,751
Difference Between Expected and Actual Experience	146,065	-	146,065
Contributions – Employer	-	194,733	(194,733)
Net Investment Income	-	536,940	(536,940)
Benefit Payments	(572,582)	(572,582)	-
Administrative Expenses	-	-	-
Other Changes	(31,483)	317	(31,800)
Net Changes	(19,249)	159,408	(178,657)
Balance - June 30, 2018	<u>\$ 6,669,596</u>	<u>\$ 6,044,434</u>	<u>\$ 625,162</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the Commission for the years ended June 30, 2019 and 2018 that were calculated using the discount rate of 6.75%, 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, 5.75%, or one percentage point higher, 7.75%, than the current rate.

For the year ended June 30, 2019 as follows:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Commissions Net Pension Liability	<u>\$ 1,013,823</u>	<u>\$ 532,959</u>	<u>\$ 107,721</u>

For the year ended June 30, 2018 as follows:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Commissions Net Pension Liability	<u>\$ 1,140,528</u>	<u>\$ 625,162</u>	<u>\$ 171,516</u>

Pension Plan Fiduciary Net Position

The plan does not issue a stand-alone financial report.

**THE STATE LOTTERY COMMISSION OF INDIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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

For the year ended June 30, 2019 and 2018, the Commission recognized pension expense of \$162,133 and \$9,650, respectively.

At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 15,007	\$ 9,044
Change of Assumptions	26,019	3,235
Net Difference between Projected and Actual Earnings on Pension Plan Investments	101,924	232,275
Total Deferred Amounts	<u>\$ 142,950</u>	<u>\$ 244,554</u>

At June 30, 2018, 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	\$ 80,536	\$ 1,058
Change of Assumptions	-	17,836
Net Difference between Projected and Actual Earnings on Pension Plan Investments	240,628	333,063
Total Deferred Amounts	<u>\$ 321,164</u>	<u>\$ 351,957</u>

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>
2020	\$ 28,470
2021	(100,316)
2022	(30,229)
2023	471
Total	<u>\$ (101,604)</u>

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)

	2019	2018	2017	2016	2015
Total Pension Liability					
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	432,110	438,751	468,085	472,636	498,173
Changes in Benefit Terms	-	-	-	-	-
Differences Between Expected and Actual Experience	(28,495)	146,065	(133,400)	207,737	(603,171)
Changes of Assumptions	81,974	(31,483)	(60,149)	(82,380)	321,275
Benefit Payments, Including Refunds of Employee Contributions	(494,710)	(572,582)	(734,974)	(668,196)	(610,941)
Net Change in Total Pension Liability	(9,121)	(19,249)	(460,438)	(70,203)	(394,664)
Total Pension Liability - Beginning of Year	6,669,596	6,688,845	7,149,283	7,219,486	7,614,150
Total Pension Liability - End of Year	6,660,475	6,669,596	6,688,845	7,149,283	7,219,486
Plan Fiduciary Net Position					
Contributions - Employer	183,525	194,733	305,586	233,261	143,329
Contributions - Employee	-	-	-	-	-
Net Investment Income	394,267	536,940	715,223	(96,780)	220,909
Benefit Payments, Including Refunds of Employee Contributions	(494,710)	(572,582)	(734,974)	(668,197)	(610,940)
Administrative Expenses	-	-	-	-	-
Other	-	317	(82,197)	2,022	(320,856)
Net Change in Plan Fiduciary Net Position	83,082	159,408	203,638	(529,694)	(567,558)
Plan Fiduciary Net Position - Beginning of Year	6,044,434	5,885,026	5,681,388	6,211,082	6,778,640
Plan Fiduciary Net Position - End of Year	6,127,516	6,044,434	5,885,026	5,681,388	6,211,082
Net Pension Liability - End of Year	\$ 532,959	\$ 625,162	\$ 803,819	\$ 1,467,895	\$ 1,008,404
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.00%	90.63%	87.98%	79.47%	86.03%
Covered Payroll	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

*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)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially Determined Contribution	\$ 53,316	\$ 67,430	\$ 121,275	\$ 82,149	\$ 92,659	\$ 97,334	\$ 1,085,298	\$ 792,899	\$ 894,186	\$ 1,146,46
Contributions in Relation of the Actuarially Determined Contribution	<u>183,525</u>	<u>194,733</u>	<u>305,586</u>	<u>233,261</u>	<u>143,329</u>	<u>186,036</u>	<u>1,272,352</u>	<u>872,145</u>	<u>1,129,491</u>	<u>1,514,02</u>
Contribution Deficiency (Excess)	<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>	<u>\$ (235,305)</u>	<u>\$ (367,55</u>
Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	\$ 1,808,138	\$ 7,828,729	\$ 7,978,173	\$ 7,335,04
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A	70.37%	11.14%	14.16%	20.64

Notes to Schedules

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

Actuarial Cost Method	Entry age normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	Market Value
Inflation	2.25%
Salary Increases	N/A
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Retirement Age	Retirement rates are based on age with 10% assumed to retire at 60 years old, 22% at 62 years, 33% at 65 years, and 30% at 70 years old. 100% retirement at ages 75 and older.
Mortality	RP-2014 total dataset mortality adjusted to 2006 with two dimensional generational mortalityimprovement projection scale MP-2018
Other information	The changes in assumptions for base year ending June 30, 2019 reflect the change from the use of the RP-2014 Adjusted to 2006 Total Dataset Mortality with Two Dimensional Generational Mortality Improvement Scale MP-2017 (separate employee & annuitant tables and male & female tables) to the RP-2014 Adjusted to 2006 Total Dataset Mortality with Two Dimensional Generational Mortality Improvement Scale MP-2018 (separate employee & annuitant tables and male & female tables)

**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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Commission's Proportion (Percentage) of Collective Net Pension Liability	0.04728%	0.04793%	0.04316%	0.03967%	0.03747%
Commission's Proportionate Share of the Collective Pension Liability	\$ 1,606,123	\$ 2,138,418	\$ 1,958,793	\$ 1,615,720	\$ 984,687
Commission's Covered Payroll	\$ 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	66.6%	89.9%	94.7%	68.7%	51.8%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contributions	\$ 286,428	\$ 270,227	\$ 266,322	\$ 231,651	\$ 263,490
Contributions in Relation to the Statutorily Required Contribution	<u>286,428</u>	<u>269,982</u>	<u>256,771</u>	<u>244,166</u>	<u>221,764</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 245</u>	<u>\$ 9,551</u>	<u>\$ (12,515)</u>	<u>\$ 41,726</u>
Covered Payroll	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%

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 State Lottery Commission of Indiana, as of and for the year ended June 30, 2019, 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 3, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The 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 determination of 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 3, 2019