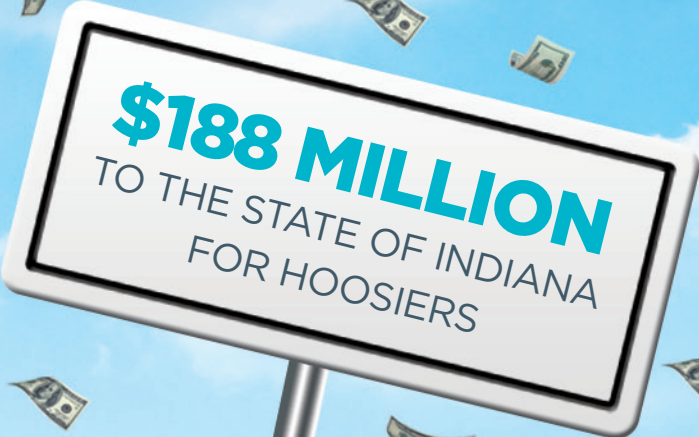




It's Amazing



\$551 MILLION
TO PLAYERS AND
INDIANA BUSINESSES



\$188 MILLION
TO THE STATE OF INDIANA
FOR HOOSIERS



2011 Annual Report



hoosier lottery™

Fiscal Year 2011 Year in Review ●●●●●●●●

Fiscal year 2011 was a busy year filled with accomplishments and challenges. We continued to face tight competition for Hoosiers entertainment dollars, as well as competition for the attention of our retailers. Through the hard work, focus and commitment of our associates and our partners, we are happy to report that it was another year of growth. Scratch-offs, our biggest product line, finished the year up nine percent over the year prior and overall sales were up seven percent. Most importantly, our operating income increased \$8 million from last year. As a result of fair market value adjustments to our annuity prize investments, our transfer to the state was just shy of the prior year. We are pleased to share with you just a few highlights from fiscal year 2011.



We kicked off the year with a seamless and error-free conversion of our gaming system, which included new hardware and software for our nearly 4,000 retailers. This leap forward in technology improved the way we look, gave us the ability to enhance our messaging with in-store digital displays, made it easier for our retailers to transact business, and significantly advanced our system capabilities.

Effective use of research and analysis allowed us to tighten and improve our decision making and measure the return on investment for our initiatives. This past year we implemented quarterly tracking and updated our player segmentation study. We also completed many analyses on initiatives throughout the year. This included changes to in-store merchandising and scratch-off product mix, as well as identifying shifts that occurred as a result of the Big Jackpot Game cross-sell. We also benchmarked our product strategies against best-in-class lotteries which enabled us to identify opportunities for responsible growth in sales and net income.



Beginning in December, we made it more convenient for many Hoosiers across the state to get the latest



Ellen Strong
Indianapolis
Retired Teacher



Steve Reckley
Indianapolis
Retired Firefighter

jackpot amounts for Powerball®, Hoosier Lotto™ and Mega Millions®. Nine outdoor billboards that digitally display the jackpot amounts were installed in key traffic areas statewide. Our tracking results indicate that 45 percent of Hoosiers are aware of the billboards.¹

We also focused on working with our retail partners to implement tests and analyze data to improve our effectiveness at retail. As a result, we implemented improvements to our scratch-off set sizes, plan-o-grams, set locations and merchandising. We closed the year by defining new retailer criteria to ensure we are forming relationships with retailers that can be profitable partners for the Hoosier Lottery.



*Tony and Joyce Augustyniak
\$5 million Scratch-off winner*

Indiana's lucky streak for winners continued with the awarding of six jackpots for our Big Jackpot Games in November, January, February, April, May and June. Steve Cupp (Indianapolis), Robert Simmons (Indianapolis), Ann McClelland (Munster), Darin Fox (Clarksville), William Swanson (Houston, TX) and

Thomas Fox (Indianapolis) became our newest jackpot prize winners. Scratch-off games soared to new heights awarding \$5 million, the biggest scratch-off top prize ever, to Tony Augustyniak of Hoagland. These were just a few of the \$495 million in prizes generated across the state.



*Darin Fox and Todd Reardon
\$221.7 million Powerball winners*



Hoosier Lotto, part of our game offering since 1994, has long been a favorite of many Hoosiers. To add more prize potential for Hoosier Lotto players, in March we launched an add-on game, Tag 6™. Only available with a purchase of Hoosier Lotto, Tag 6 was selected after testing multiple game concepts with our Hoosier Lotto players.



To ensure information about our games, winners, events, beneficiaries and more is conveniently available to Hoosiers no matter when they need it, our website and **mylottery** program

remained priorities in fiscal 2011. This year we added ForeSee tracking to our website to quantify the value of our web activities and improve its features and functions based on user feedback. We closed the fiscal year with a customer satisfaction rating of 83, well above industry averages of 71 and not too far from best-in-class ratings of 90.²

Hoosier Lottery's **mylottery** program started to take root this year. This program includes text and email alerts, exclusive 2nd chance promotions, coupons, invitations to participate in research and more. Players can customize their experience and sign up for just the information and features they want, when and where they want them.



Our players expect to have fun, to be surprised and to get chances to win when they experience the Hoosier Lottery. This year, we made our presence known to players across the state by increasing the number of promotional events at retail locations, launching the Big Jackpot Games Tour, and executing some exciting ticket giveaways when we had a great big jackpot to promote.

After a little more than 20 years at Pan Am Plaza, our Headquarters is now located at 1302 North Meridian Street. Our new location is more accessible and convenient for our players, and offers a newer, larger, more convenient retail space.

As we look back on the year, we are proud of the progress we made and look forward to exploring new opportunities in fiscal year 2012. Our mission remains clear, and that is to responsibly provide innovative and entertaining lottery games for the benefit of the citizens of Indiana. With our utilization of evolving technology, research and analysis, and our continuing effort to provide secure, innovative and fun games for our players, we continue to be well-positioned to accomplish that mission.

1 Ipsos-Reid, Hoosier Lottery Quarterly Tracking, Q32011

2 ForeSee, Hoosier Lottery, June 2011

3 Ipsos-Reid, Hoosier Lottery Quarterly Tracking, Q42011

Where Does the Money Go? ●●●●●●●●

\$56 MILLION
Earned by our retail partners in commissions and bonuses

\$495 MILLION
In prizes all across the State of Indiana

\$35 MILLION
Directed to the teachers retirement fund
\$35 MILLION
Directed to the police & firefighters retirement fund

\$118 MILLION
Directed to the Build Indiana Fund to reduce Hoosiers' motor vehicle excise tax



THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 47,896,357	\$ 78,349,103
Investments — current portion	12,024,544	10,790,011
Accounts receivable — net	22,112,127	21,686,165
Prepaid expenses	3,768,748	3,997,913
Accrued interest receivable	103	384
Ticket inventory	401,773	450,197
Total current assets	<u>86,203,652</u>	<u>115,273,773</u>
NONCURRENT ASSETS:		
Long-term investments — less current portion	126,761,064	111,274,579
Restricted assets	8,397,985	7,978,058
Capital assets — net	2,354,611	1,431,761
Total noncurrent assets	<u>137,513,660</u>	<u>120,684,398</u>
TOTAL	<u>\$ 223,717,312</u>	<u>\$ 235,958,171</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
State	\$ 10,659,871	\$ 52,628,937
Trade	19,919,057	8,016,070
Current portion of prize liability	62,813,388	64,196,564
Deferred revenue	870,240	441,556
Other accrued expenses	1,611,507	1,871,971
Total current liabilities	95,874,063	127,155,098
LONG-TERM LIABILITIES — Prize liability less current portion	<u>122,843,249</u>	<u>103,803,073</u>
Total liabilities	<u>218,717,312</u>	<u>230,958,171</u>
NET ASSETS:		
Unrestricted	2,645,389	3,568,239
Invested in capital assets	2,354,611	1,431,761
Total net assets	<u>5,000,000</u>	<u>5,000,000</u>
TOTAL	<u>\$ 223,717,312</u>	<u>\$ 235,958,171</u>

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Instant ticket sales — net	\$ 519,307,182	\$ 474,217,486
On-line ticket sales	272,139,361	266,121,987
Total operating revenues	<u>791,446,543</u>	<u>740,339,473</u>
OPERATING EXPENSES:		
Direct game expenses:		
Instant game prizes	354,353,552	320,293,579
On-line games prizes	140,162,169	136,002,921
	<u>494,515,721</u>	<u>456,296,500</u>
Indirect game expenses:		
Retailer commissions	56,241,137	51,076,592
Ticket printing costs	9,484,181	7,890,401
Advertising and promotion	11,635,171	11,074,138
On-line professional services	7,581,656	8,327,371
ITVM lease and courier services	2,651,596	2,923,645
	<u>87,593,741</u>	<u>81,292,147</u>
Total game expenses	<u>582,109,462</u>	<u>537,588,647</u>
OTHER OPERATING EXPENSES:		
Salaries, wages, and benefits	13,343,070	14,243,704
General and administrative	4,505,750	5,041,522
Total other operating expenses	<u>17,848,820</u>	<u>19,285,226</u>
Total operating expenses	<u>599,958,282</u>	<u>556,873,873</u>
OPERATING INCOME	<u>191,488,261</u>	<u>183,465,600</u>
NON-OPERATING REVENUES:		
Interest income	135,975	161,451
Net increase (decrease) in fair value of investments	(3,499,418)	5,853,879
Other income - net	105,551	176,574
Total non-operating revenues (expenses) -net	<u>(3,257,892)</u>	<u>6,191,904</u>
NET INCOME PRIOR TO DISTRIBUTIONS	<u>188,230,369</u>	<u>189,657,504</u>
DISTRIBUTIONS:		
Distributions to the State	(177,570,498)	(137,028,567)
Distributions to be paid to the State	(10,659,871)	(52,628,937)
Total distributions	<u>(188,230,369)</u>	<u>(189,657,504)</u>
CHANGES IN NET ASSETS	-	-
NET ASSETS — Beginning of year	<u>5,000,000</u>	<u>5,000,000</u>
NET ASSETS — Ending of year	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

THE STATE LOTTERY COMMISSION OF INDIANA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from ticket sales	\$ 791,419,648	\$ 742,673,222
Payments to ticket winners	(476,858,721)	(441,322,751)
Payments to employees	(13,603,534)	(13,811,390)
Payments of suppliers	<u>(79,128,121)</u>	<u>(83,074,337)</u>
Net cash provided by operating activities	<u>221,829,272</u>	<u>204,464,744</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Distributions to the State	(230,199,435)	(183,860,863)
Other income	105,551	176,574
Net increase (decrease) in restricted assets	<u>(419,927)</u>	<u>74,711</u>
Net cash used in noncapital and related financing activities	<u>(230,513,811)</u>	<u>(183,609,578)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,757,227)	(572,662)
Proceeds from the sale of capital assets	<u>73,200</u>	<u>34,590</u>
Net cash used in capital and related financing activities	<u>(1,684,027)</u>	<u>(538,072)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(25,804,376)	(9,153,007)
Investment maturities	5,583,940	5,518,992
Interest income	<u>136,256</u>	<u>272,872</u>
Net cash used in investing activities	<u>(20,084,180)</u>	<u>(3,361,143)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(30,452,746)	16,955,951
CASH AND CASH EQUIVALENTS — Beginning of year	<u>78,349,103</u>	<u>61,393,152</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 47,896,357</u>	<u>\$ 78,349,103</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 191,488,261	\$ 183,465,600
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	790,794	1,289,327
Change in provision for doubtful accounts	(17,676)	(57,300)
Change in provision for ticket returns	(547,736)	3,204,234
Loss (gain) on sale of fixed assets	(29,617)	26,018
Changes in certain assets and liabilities:		
Accounts receivable	139,450	(360,271)
Instant ticket inventory	48,424	(47,885)
Prepaid expenses	229,165	(466,279)
Accounts payable — trade	11,902,987	2,484,170
Deferred revenue	428,684	(478,932)
Other accrued expenses	(260,464)	432,313
Prize liability	<u>17,656,700</u>	<u>14,973,749</u>
Net cash provided by operating activities	<u>\$ 221,828,972</u>	<u>\$ 204,464,744</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES —		
Net increase (decrease) in fair value of investments	<u>\$ (3,499,418)</u>	<u>\$ 5,853,879</u>

Fiscal Year 2011 State Lottery Commissioners ●●●●●●●●



William A. Zielke
Chairperson
Fort Wayne, IN



Todd A. Etzler
Valparaiso, IN



Gregory M. Fitzloff
Georgetown, IN



Todd Stuart
Indianapolis, IN

Fiscal Year 2011 Hoosier Lottery Executive Staff ●●●●●●●●



Kathryn A. Densborn
Executive Director



Susan Golightly
Director of Marketing



Jeff Goltz
Director of Information
Technology



Andrew J. Klinger
General Counsel



Tim Kuehr
Controller



Irene Lange
Director of Sales



Tracy McNutt
Director of Administration



Jim Nash
Director of Security



Carrie Stroud
Internal Auditor

Hoosier Lottery Office Locations ●●●●●●●●

Headquarters
1302 N. Meridian
Indianapolis, IN 46202

Northern Region
1539 N. Ironwood Dr.
South Bend, IN 46635

Distribution Center
5252 Decatur Blvd.
Indianapolis, IN 46241

Southern Region
5625 E. Virginia St.
Evansville, IN 47715

For more information, please visit hoosierlottery.com or contact customer service at (317) 264-4800.