



2006  
*Annual Report*

**A RECORD-BREAKING  
YEAR!**

**HOOSIER  LOTTERY**

## *The State Lottery Commission of Indiana*

D. Jean Northenor - Chairman, Warsaw

Todd A. Etzler - Member, Valparaiso

Todd Stuart - Member, Indianapolis

Paul Thrift - Member, Terre Haute

### **Chairman's Message**



Hoosiers across our great state can take pride in the record-breaking accomplishments of the Hoosier Lottery during Fiscal Year (FY) 2006. By reaching new heights in FY 2006, the Hoosier Lottery returned record proceeds to the state of Indiana that reduce excise taxes for automobile owners and help to secure retirement benefits for Indiana's teachers and public safety officers.

The Hoosier Lottery was created in 1989 as a separate body corporate and politic from state government to function as an entrepreneurial business enterprise with a mission to generate revenue for the state. With a profit margin of 27 percent and low general and administrative costs of just 2 cents per every \$1 in revenue, the Lottery's performance in FY 2006 would be enviable in the private sector.

Two years ago, the new Commission and Executive Team plotted a new course for the Hoosier Lottery. We dedicated ourselves to maximizing the bottom line by streamlining our operations and instituting fiscally responsible organizational standards. The result is a more efficient, productive, and most importantly, profitable organization.

As Chairman of the Indiana State Lottery Commission, it is with great pleasure that I present to you the Hoosier Lottery's Annual Report for Fiscal Year 2006.

A handwritten signature in cursive script that reads "Jean Northenor".

## Executive Director's Message



FY 2006 was another year of great change and modernization at the Hoosier Lottery. Despite the many changes in practices, processes and equipment, FY 2006 was truly the most profitable year in the Lottery's 17-year history. Retailers shattered all previous sales records with combined totals of \$816 million, more than \$76 million from the previous record set in FY 2005. Records were set in both scratch-off ticket sales (\$504 million) as well as Powerball sales (\$159 million). The first new online game to launch in several years, Mix & Match, earned \$1.7 million in its first 38 days. Those record sales, coupled with continued efforts to maintain expenses, produced a whopping \$218 million returned to the state, \$14 million more than the record set in FY 1999.

While it's important to note the incredible sales records established in FY 2006, a tremendous effort was placed on general and administrative expenses. General and administrative expenses in FY 2006 were lower than FY 2005 and FY 2004. A great deal of focus was placed on identifying areas where reductions could be made without sacrificing customer service, jeopardizing security measures or creating hardships for the staff. One such area was the elimination of a spare warehouse, which will save over \$100,000 annually.

Other beneficial changes were made during FY 2006, as well. The Lottery dramatically increased investigations that resulted in the recovery of thousands of dollars of illegally claimed prizes. Old security cameras and black-and-white monitors were replaced with state-of-the-art security equipment and color monitors to increase visibility. A 24-hour monitoring system for tracking Lottery tickets was implemented to better service the needs of our retailers. In an effort to improve communication between regional offices and our retailers, a digital phone system was installed.

Much of the Hoosier Lottery's monumental success in FY 2006 can be attributed to the renewed efforts of the staff. A culture shift has taken place over the past two years in which employees are asked to become more engaged in creating greater efficiencies and driving sales. Employees have always been held accountable for the work they perform, but now realize they have a vested stake. While methods and processes may change, the Lottery's goal of creating fun and exciting games for all will proudly continue!

On behalf of the Hoosier Lottery, I am pleased to present the Fiscal Year 2006 Annual Report.

A handwritten signature in black ink, which appears to read "Esther Q. Schneider". The signature is fluid and cursive.

Esther Q. Schneider  
Executive Director

## Fiscal Year 2006 — A Year for the Record Books

Fiscal year 2006 was a year for the record books. With a record **\$816 million** in Lottery products sold, the Lottery was able to return a record **\$218 million** back to the state of Indiana, making FY 2006 the most profitable year in Hoosier Lottery history! The \$218 million return shattered the previous profit record of \$204 million set in FY 1999 and represents a 15% increase over the \$189 million returned in FY 2005.

As in years past, the game of choice for Hoosier Lottery players in FY 2006 was scratch-off tickets. This year, for the first time in Lottery history, scratch-off sales reached the \$500 million mark, with total sales of \$504 million, an increase of 7.3% (\$34 million) over FY 2005.



In addition to record scratch-off ticket sales, Powerball sales increased by \$39 million to a staggering **\$159 million** in FY 2006, a new Powerball sales record for the Hoosier Lottery. Two record Powerball jackpots, in October of 2005 (\$340 million)

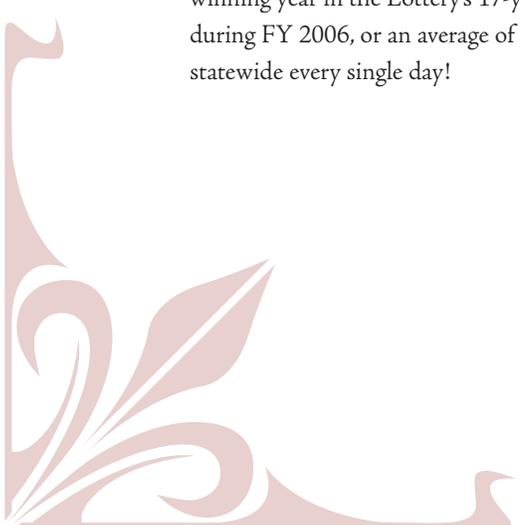
and in February of 2006 (\$365 million), boosted Powerball and draw-game sales. Powerball sales were also enhanced by increased sales of the Power Play feature. A March 2006 Power Play 10X promotion offered players the opportunity to multiply non-jackpot prizes up to 10 times for a maximum win of \$2 million on Match 5 play. The result was a \$700,000 jump in Power Play sales over a typical Powerball with Power Play month.

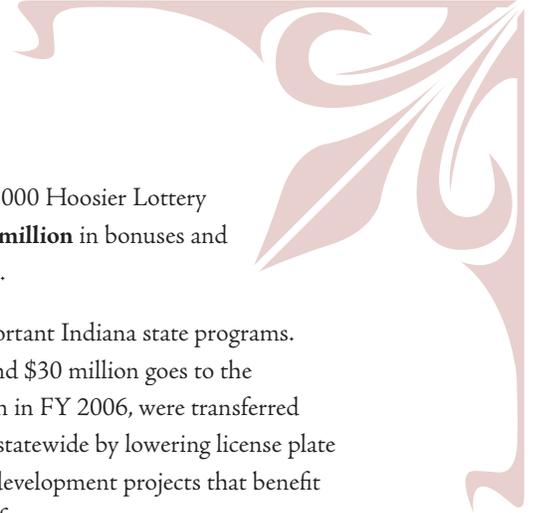
In May 2006, the Hoosier Lottery introduced Mix & Match, the most unique addition to our draw-game lineup. Mix & Match was designed specifically to meet players' demands for large top prizes and more ways to win. The \$2 Mix & Match ticket boasts a \$200,000 top prize and offers the traditional style of play, as well as a new combined play style. Mix & Match's innovative, multi-line play style is unlike any offered in our current draw-game lineup.



Fueled in part by larger-than-average jackpots throughout the year, Hoosier Lotto sales in FY 2006 exceeded FY 2005 figures by \$4 million, for a total sales of \$65 million.

The shattered scratch-off and Powerball sales records as well as an innovative new game meant that Hoosier Lottery players also experienced a banner year in FY 2006 — the best and most lucrative prize winning year in the Lottery's 17-year history! In all, players won a staggering **\$493 million** in prizes during FY 2006, or an average of more than \$1.35 million in prizes paid out to Hoosier Lottery players statewide every single day!





Increased sales and winnings also meant good news for the more than 4,000 Hoosier Lottery retailers statewide, who exceeded their previous records by earning **\$56 million** in bonuses and commissions for selling and cashing winning Lottery tickets in FY 2006.

The Hoosier Lottery's record return of \$218 million will help fund important Indiana state programs. Annually, \$30 million is transferred to the Teachers' Retirement Fund and \$30 million goes to the Police and Fire Pension Relief Fund. The remaining funds, \$158 million in FY 2006, were transferred to the Build Indiana Fund. These dollars will be used to help Hoosiers statewide by lowering license plate excise taxes and funding infrastructure improvements and community-development projects that benefit Indiana's 92 counties. Since its inception, the Lottery has given a total of:

- **\$2.0 billion** to the Build Indiana Fund.\*
- **\$492.6 million** to the Teachers' Retirement Fund.\*
- **\$304.7 million** to the Police and Fire Pension Relief Fund.\*

Now that the records are set and the books are closed on FY 2006, the Lottery has its sights on setting new records in FY 2007. With new games continually being introduced and an emphasis being placed on keeping administrative costs to a minimum, this goal is one that is well within reach, to the benefit of the Lottery's players, retailers and the State of Indiana.

*\*As of June 30, 2006*

STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2006 AND 2005

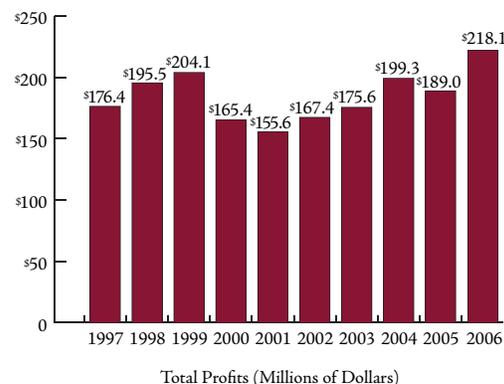
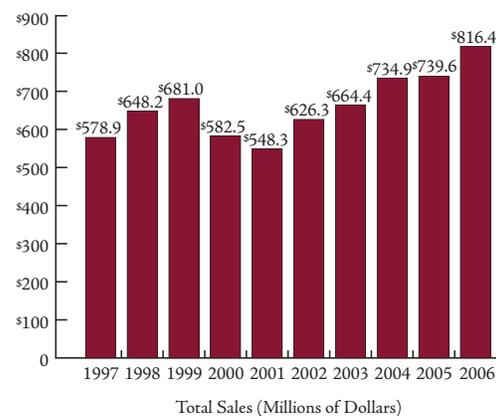
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$77,842,704	\$57,834,783
Investments—current portion	7,024,000	9,668,378
Accounts receivable—net	29,301,475	30,337,865
Prepaid expenses	3,087,160	2,448,572
Accrued interest receivable	67,157	200,033
Ticket inventory	348,883	319,242
Total current assets	<u>117,671,379</u>	<u>100,808,873</u>
<b>NONCURRENT ASSETS:</b>		
Long-term investments—less current portion above	65,889,955	70,419,514
Restricted assets	8,992,723	9,224,755
Capital assets—net	2,806,630	2,994,302
Total noncurrent assets	<u>77,689,308</u>	<u>82,638,571</u>
<b>TOTAL</b>	<u>\$195,360,687</u>	<u>\$183,447,444</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable:		
State	\$51,594,890	\$45,049,125
Trade	7,729,426	7,287,869
Current portion of prize liability	58,067,505	55,459,250
Deferred revenue	1,059,373	647,046
Other accrued expenses	2,809,780	1,773,335
Total current liabilities	<u>121,260,974</u>	<u>110,216,625</u>
<b>LONG-TERM LIABILITIES</b>		
—Prize liability less current portion	<u>67,512,080</u>	<u>68,230,819</u>
Total liabilities	<u>188,773,054</u>	<u>178,447,444</u>
<b>NET ASSETS:</b>		
Unrestricted	3,781,003	2,005,698
Invested in capital assets	<u>2,806,630</u>	<u>2,994,302</u>
Total net assets	<u>6,587,633</u>	<u>5,000,000</u>
<b>TOTAL</b>	<u>\$195,360,687</u>	<u>\$183,447,444</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES:</b>		
Instant ticket sales—net	\$521,604,691	\$489,736,650
On-line ticket sales	<u>294,757,423</u>	<u>249,896,405</u>
Total operating revenues	<u>816,362,114</u>	<u>739,633,055</u>
<b>OPERATING EXPENSES:</b>		
<b>Game expenses:</b>		
Instant game prizes	345,848,926	327,176,941
On-line games prizes	144,199,439	121,056,817
Television game show prizes	3,078,444	7,098,408
Retailer commissions	56,734,312	51,401,509
Ticket printing costs	8,683,043	7,851,976
Advertising and promotion	8,837,971	10,060,953
On-line professional services	9,629,621	8,461,606
ITVM lease and courier services	<u>3,707,991</u>	<u>3,346,522</u>
Total game expenses	<u>580,719,747</u>	<u>536,454,732</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES:</b>		
Salaries, wages, and benefits	12,420,682	13,002,805
Other	<u>4,807,247</u>	<u>4,419,623</u>
General and administrative expenses	<u>17,227,929</u>	<u>17,422,428</u>
Total operating expenses	<u>597,947,676</u>	<u>553,877,160</u>
<b>OPERATING INCOME</b>	<u>218,414,438</u>	<u>185,755,895</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	3,191,607	1,356,850
Net (decrease) increase in fair value of investments	(3,730,714)	2,552,513
Other income (expense)	<u>204,192</u>	<u>(624,261)</u>
Total nonoperating revenues (expenses)	<u>(334,915)</u>	<u>3,285,102</u>
<b>NET INCOME PRIOR TO DISTRIBUTIONS</b>	<u>218,079,523</u>	<u>189,040,997</u>
<b>DISTRIBUTIONS:</b>		
Distributions to the State	(164,897,000)	(143,880,204)
Distributions to be paid to the State	<u>(51,594,890)</u>	<u>(45,049,125)</u>
Total distributions	<u>(216,491,890)</u>	<u>(188,929,329)</u>
<b>CHANGES IN NET ASSETS</b>	1,587,633	111,668
<b>NET ASSETS—Beginning of year</b>	<u>5,000,000</u>	<u>4,888,332</u>
<b>NET ASSETS—Ending of year</b>	<u>\$6,587,633</u>	<u>\$5,000,000</u>

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from ticket sales	\$817,750,417	\$735,735,612
Payments to ticket winners	(491,237,293)	(442,931,420)
Payments to employees	(11,384,237)	(13,437,124)
Payments of suppliers	(91,389,121)	(82,482,674)
Net cash provided by operating activities	<u>223,739,766</u>	<u>196,884,394</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Distributions to the State	(209,946,125)	(189,739,422)
Other income (expense)	204,192	(624,261)
Net decrease in restricted assets	232,032	515,739
Net cash used in noncapital and related financing activities	<u>(209,509,901)</u>	<u>(189,847,944)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of fixed assets	(1,089,317)	(697,702)
Proceeds from the sale of fixed assets	99,667	15,866
Net cash used in capital and related financing activities	<u>(989,650)</u>	<u>(681,836)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net proceeds (purchases) of investments	3,443,223	(8,713,458)
Interest income	3,324,483	1,300,372
Net cash provided by (used in) investing activities	<u>6,767,706</u>	<u>(7,413,086)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>20,007,921</u>	<u>(1,058,472)</u>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>57,834,783</u>	<u>58,893,255</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$77,842,704</u>	<u>\$57,834,783</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$218,414,438	\$185,755,895
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,237,736	1,604,739
Change in provision for doubtful accounts	59,034	3,630
Change in provision for ticket returns	321,008	(67,156)
Gain on sale of fixed assets	(60,414)	45,247
Changes in assets and liabilities:		
Accounts receivable	656,348	(4,082,395)
Instant ticket inventory	(29,641)	(5,205)
Prepaid expenses and other assets	(638,588)	(1,212,555)
Accounts payable—trade	441,557	2,548,309
Deferred revenue	412,327	327,458
Other accrued expenses	1,036,445	(434,319)
Prize liability	1,889,516	12,400,746
Net cash provided by operating activities	<u>\$223,739,766</u>	<u>\$196,884,394</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES—</b>		
Net (decrease) increase in fair value of investments	<u>\$(3,730,714)</u>	<u>\$2,552,513</u>



Scratch-off	\$504.9 million
Pull Tab	\$16.7 million
Powerball	\$159.8 million
Hoosier Lotto	\$65.6 million
Daily 3/4	\$59.4 million
Lucky 5	\$7.6 million
Mix & Match	\$1.7 million
TV Bingo	\$0.560 million
Raffle	\$0.145 million
<b>Grand Total</b>	<b>\$816.4 million</b>

**Fiscal Year 2006 Dollar Breakdown: Where Does the Money Go?**



The Financial Statements are excerpts from the Hoosier Lottery's audited financial statements for the years ended June 30, 2006 and June 30, 2005. Complete financial statements are available upon request to Controller, Hoosier Lottery, P.O. Box 6124, Indianapolis, IN 46206.

## Hoosier Lottery Executive Staff

As of November 30, 2006

### Esther Q. Schneider

*Executive Director*

Provides direction for overall Lottery operations.

### Edward Benton

*Chief Financial Officer*

Responsible for all financial operations of the Lottery.

### Michael Bare

*Director of Security*

Implements policies and procedures to safeguard the integrity of the Lottery.

### Brenda Kiger

*Director of Human Resources*

Manages the human resources, administrative and procurement functions for the Lottery.

### Andrew Jones

*Director of Information Services*

Directs Lottery information systems, programming and technical support.

### Timothy Kuehr

*Controller*

Directs all accounting operations and manages the prize payment group.

### Open

*Director of Sales*

Oversees all sales operations.

### Andrew Reed

*Director of Public Relations*

Responsible for public relations including customer service and community affairs.

### Carrie Stroud

*Internal Auditor*

Reviews and evaluates internal controls and performs internal audits.

### Susan Thompson

*Marketing Manager*

Develops the marketing process and advertising for Lottery products.

## Regional Offices

### Headquarters

Pan Am Plaza, Suite 1100  
201 S. Capitol Ave.  
Indianapolis, IN 46225

### Northern Territory

*Russ Huglin, Regional Manager*

1344 Broadway  
Gary, IN 46407

1539 N. Ironwood Dr.  
South Bend, IN 46635

3711 Vanguard Dr., Suite I  
Fort Wayne, IN 46809

### Southern Territory

*Nancy Wallace, Regional Manager*

Water Tower Square, Suite 104  
590 Missouri Ave.  
Jeffersonville, IN 47130

5625 E. Virginia St.  
Evansville, IN 47715

680 E. Springhill Dr.  
Terre Haute, IN 47802

5252 Decatur Blvd.  
Indianapolis, IN 46241  
(Not a claims paying location)



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