

***MO*Lottery**

**Comprehensive Annual  
Financial Report**

*For Fiscal Year Ended June 30, 2012*

**Missouri State Lottery Commission**  
An Enterprise Fund of the State of Missouri





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An Enterprise Fund of the State of Missouri

Prepared by Financial and Business Services



# Missouri State Lottery Commission

(An Enterprise Fund of the State of Missouri)

## Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

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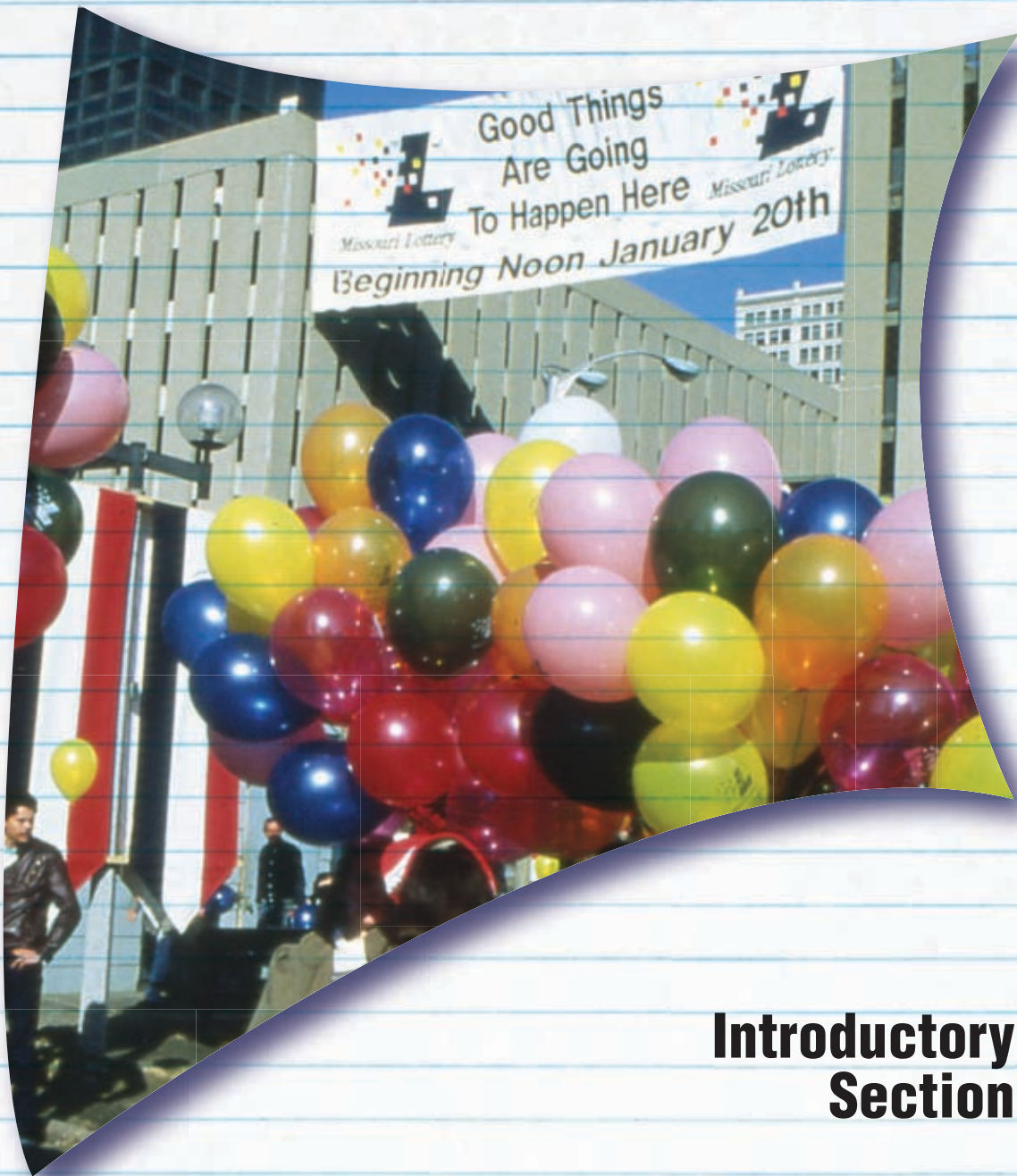
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## **Introductory Section**



## Letter of Transmittal

October 15, 2012

**To: Kevin Roberts, Chairperson, Missouri State Lottery Commission**  
**Gina Hoagland, Member**  
**Jacque Land, Member**  
**Stephen Snead, Member**  
**Pamela Wright, Member**  
**May Scheve Reardon, Executive Director**  
**Citizens of the State of Missouri**

### Introduction

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Missouri State Lottery Commission (the Lottery) for the fiscal year ended June 30, 2012. Management is responsible for the accuracy of the financial data, as well as the completeness and fairness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Lottery. We have included all disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities.

The Comprehensive Annual Financial Report presents an overview of the Lottery and is organized into four sections. The Introductory Section includes this letter of transmittal, certificate of achievement and an organizational chart. The Financial Section includes the report of independent auditors, management's discussion and analysis and the basic financial statements with the accompanying notes. The Statistical Section presents a variety of historical, demographic and industry data. The final section, Compliance Section, includes a report on internal control and compliance.

### Background

The Lottery was created by the passage of a constitutional amendment on November 6, 1984, by the citizens of the State of Missouri. Ticket sales began January 20, 1986, with the introduction of a single scratch-off game, "Jackpot '86." This represented the first legislatively authorized lottery tickets sold in Missouri since the New Franklin Railroad Lottery (later known as the Missouri State Lottery) was closed down in 1877.

When the Lottery began in 1986, proceeds from ticket sales went to the Missouri State General Revenue Fund. In August 1992, voters passed Amendment 11 earmarking Lottery proceeds to solely benefit public education. Each year, the Missouri Legislature determines how these proceeds will be allocated. The proceeds represent about 4 percent of the total funding for Missouri's public elementary, secondary and higher education systems.

Lottery funds help support a variety of programs including the elementary and secondary education Foundation formula, transportation, early childhood development and special education services, vocational rehabilitation, performance-based assessment program, Access Missouri and A+ programs, college and university operating budgets, and minority teaching scholarships. These programs and others that receive Lottery money provide the resources that help Missouri students fulfill their individual dreams — dreams that define Missouri's future and ultimately benefit all Missouri residents.




The Lottery is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision or authority over the actions or decisions of the Lottery. The Lottery Commission consists of five members appointed by the Governor with the advice and consent of the Senate.

The Lottery is an enterprise fund of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the Lottery as a single enterprise fund and does not include information related to any other state agency or fund.


## Products

The Lottery provides the opportunity for the public to participate in a variety of instant ("Scratchers") and Draw Games. The games are described as follows:


 Scratchers Games are played by scratching off a latex coating on the play area of the ticket. There are different ways to win including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. These games were the first type of games offered by the Lottery. For fiscal year 2012, Scratchers ticket sales were more than \$742.5 million, which represents 67.7 percent of total ticket sales.

Draw Games allow players to select the numbers for their wager or players may utilize computer-generated plays. The player receives a ticket with the numbers selected or automatically generated and must await the results of a drawing to determine if they have matched the numbers and won.

Powerball is a multi-state Draw Game jointly operated by the 33 member lotteries of the Multi-State Lottery Association and sold in 44 states. Players select one set of five numbers from a pool of one to 59 and one additional number designated as the "Powerball" from a second pool of one to 35. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. There are eight secondary prizes of fixed amounts, ranging from \$4 to \$1,000,000. The Power Play feature allows players the chance to increase the original prize amount, excluding the jackpot prize. Players who use Power Play and match all five white-ball numbers automatically win \$2 million.\* A jackpot winner may select either an annuitized prize paid in 30 annual installments or a lump-sum payment. Drawings are held every Wednesday and Saturday night. Powerball sales for fiscal year 2012 were approximately \$94.7 million, which represents 8.6 percent of total ticket sales.



\* Effective January 15, 2012, the Powerball ticket price increased from \$1 to \$2, the minimum jackpot amount increased from \$20 million to \$40 million, the second ("Powerball") number pool decreased from 39 to 35, and the secondary prize range increased from a minimum of \$3 to \$4 and a maximum of \$200,000 to \$1 million, with Power Play increasing from a maximum payout of \$1 million to \$2 million, resulting in more millionaires, bigger starting jackpots and better overall odds.

 Missouri Lotto is the original in-state Draw Game that creates millionaires. Twice a week, on Wednesdays and Saturdays, Lotto players have a chance to win \$1 million or more. Players select six numbers from a pool of one to 44 and must match all six numbers to win the jackpot. Prizes are also paid for matching three, four or five numbers. The jackpot starts at \$1 million and increases, based upon ticket sales, for each subsequent draw when the jackpot is not won. Lotto sales were approximately \$22.6 million in fiscal year 2012, representing 2.1 percent of total ticket sales.

Show Me Cash replaced Show Me 5 Paydown in September of 2008. Players select five numbers from a pool of one to 39 and must match all five numbers to win the jackpot. The jackpot starts at \$50,000, and if no player matches all five numbers, the top prize increases based on ticket sales. Prizes are also paid for matching two, three or four numbers. Drawings are held daily. Beginning March 6, 2011, an EZ Match

option was added. Players can add EZ Match for an additional \$1 per Show Me Cash play. If the EZ Match option is chosen, five EZ Match numbers print on the Show Me Cash ticket below the Show Me Cash numbers. If any of the EZ Match numbers match the Show Me Cash numbers (regardless of order), the player instantly wins the prize amount printed next to the matched EZ Match numbers. Fiscal year 2012 Show Me Cash and EZ Match sales were approximately \$29.0 million and \$4.1 million, or 2.6 percent and .4 percent of total ticket sales, respectively.



With Pick 3, players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), boxed (numbers in any order) or front/back pair (match the exact order of the first or last two digits).

Drawings are conducted twice per day. For fiscal year 2012, Pick 3 sales were nearly \$65.1 million, which was 5.9 percent of total ticket sales.

Pick 4 is played similar to Pick 3 with players selecting four numbers between zero and nine. Players may play the numbers straight, boxed, front/middle/back pair, and front/back three (match the exact order of the first or last three digits). Drawings are also conducted twice per day for Pick 4. Sales for fiscal year 2012 were \$31.4 million, or 2.9 percent of total ticket sales.



Club Keno is a Draw Game offered in all Missouri Lottery retail locations and provides drawings every four minutes. Players first choose how many different numbers (also called “spots”) they wish to play from one to 10. The player must then choose a number from one to 80 for each spot. Twenty numbers from the pool of one to 80 are chosen in a computerized random Club Keno drawing. Prizes vary depending on how many spots a player chooses and how many of the players’ numbers match the numbers drawn. Club Keno also offers Multiplier, Bulls-Eye

and Progressive Jackpot features. A Double Bulls-Eye option began August 28, 2011, which offers even more chances to win and larger prizes. For fiscal year 2012, Club Keno sales were \$65.3 million, which was 6.0 percent of total ticket sales.

In March of 2009, the Lottery introduced a new game - Lucky Dough – which was available at retail locations that offer Club Keno. To play Lucky Dough, a player selected one number (of the five numbers) in each of eight squares. A center square is a “Free Square.” Winning was based on matching numbers in each individual square to produce one or more “lines,” either vertically, horizontally or diagonally. Prize amounts were based upon the number of lines matched. Drawings were conducted every five minutes. Lucky Dough was discontinued in July of 2010.



On January 31, 2010, the Lottery began selling the Mega Millions game as a cross-selling agreement between Mega Millions and Powerball. Mega Millions is a multi-state Draw Game available for sale in 42 lottery jurisdictions. Players select one set of five numbers from a pool of one to 56. All six numbers must be matched to win the jackpot. The jackpot starts at \$12 million and increases for each draw when the jackpot is not

won. There are eight secondary prizes of fixed amounts ranging from \$2 to \$250,000. Players have the option to select the Megaplier feature that will increase the non-jackpot prize winnings by two, three or four times their original amount. Players who use the Megaplier and match all five numbers, except the Megaball, win \$1 million. A jackpot winner may select a lump-sum payment or an annuity paid in 26 installments. Drawings are held every Tuesday and Friday night. Mega Millions sales for fiscal year 2012 were approximately \$42.8 million, which represents 3.9 percent of total ticket sales.

## **Highlights of The Past Year**

Ticket sales for the Lottery surpassed the \$1 billion mark for the second year in a row. Fiscal year 2012 sales of just over \$1.097 billion exceeded fiscal year 2011 sales of \$1.001 billion by \$96.7 million, or 9.67 percent. Continued advertising boosted Scratchers sales, while a record \$656 million Mega Millions jackpot and four Powerball jackpots over \$200 million helped to raise Draw Game sales.

For fiscal year 2012, the level of operating expenses increased by 10.6 percent. Total operating expenses increased from \$755.4 million in fiscal year 2011 to \$835.6 million in fiscal year 2012. Most of the increase - \$73.7 million - is attributable to increased prizes. The Lottery continues to operate with one of the lowest administrative cost ratios in the country. The net impact of these results for fiscal year 2012 was an increase in the actual cash transfer of profits for public education from \$259.4 million to \$280.0 million. In addition, the Lottery returned in excess of \$722 million to players in cash and prizes and \$67.8 million to retailers in commissions and incentives for the 2012 fiscal year.

Management's discussion and analysis (MD&A) can be found immediately following the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statements. The Lottery's MD&A complements this letter of transmittal and should be read in conjunction with it.

In addition to financial accomplishments, other noteworthy accomplishments during fiscal year 2012 included:

- The deployment of 450 new self-service lottery vending machines.
- New blitz ticket distribution initiative and retailer incentive.
- \$2 Powerball launch.
- Exceeding minority- and women-owned business expenditure goals of 10 percent and 5 percent, respectively, with participation rates of 13.26 percent and 5.77 percent, respectively.

## **Economic Conditions and Outlook**

Economic recovery, from the recession that began December of 2007, remains sluggish. During the first half of Calendar Year (CY) 2012, the economy expanded modestly. GDP increased at an average annual rate of 1.7 percent.

The unemployment rate remains well above the pre-recession rate of 5 percent. At the end of Fiscal Year (FY) 2011 unemployment was at 8.7 percent. Unemployment dropped during the first quarter of FY 2012 to 8.5 percent; in the second quarter, unemployment fell to 8.0 percent. The unemployment rate at the end of FY 2012 was 7.1 percent. The unemployment rates in Missouri have mostly followed or were better than the national trend.

Consumer spending for the first half of CY 2012 increased at an average annual rate of 2.0 percent. This is about the same as CY 2011. However, the sharp increase in federal taxes and reductions in federal spending that are scheduled under current law to begin in CY 2013 may compromise the economic progress.

In FY 2012, gas prices fluctuated between \$3.86 and \$2.99 per gallon with the weekly average being \$3.40 per gallon. This represents a 10 percent increase in the weekly average price per gallon in FY 2011.

The stock markets also had a volatile year with wild weekly swings but ended FY 2012 up around 9 percent. One of the biggest factors in the U.S. markets has been the uncertainty related to the European debt crisis. Missouri Lottery sales are expected to grow slightly in fiscal year 2013 with a full year of \$2 Powerball, new self-service lottery vending machines and the new blitz ticket distribution initiative; new subscription and loyalty programs; and continued advertising.

## **Relevant Financial Policies**

### Budgetary Controls

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. Expenditures of the Lottery are subject to this annual appropriation process. Certain costs of

operations for the Lottery are paid directly by the Missouri Office of Administration through appropriations administered by that agency. These costs include employee benefits, select capital improvements projects and certain facility-related costs.

Expenses associated with the operation of the Lottery are submitted for payment through the statewide accounting system. The Lottery maintains its own signature authority for payment of prizes through an imprest checking account. The Lottery has its own purchasing authority and has adopted the same rules and procedures as that of the Office of Administration, Division of Purchasing and Materials Management.

All profits from Lottery operations are designated for appropriation by the State solely for the institutions of public elementary, secondary and higher education. The Lottery makes estimated weekly transfers to the Lottery Proceeds Fund with a monthly transfer adjustment done based on calculated net income for the month.

#### Debt Administration

The Lottery's long-term liabilities are primarily payments owed to multi-year prize winners in the form of annual payments. These payments are fully funded by U.S. Treasury Strips held by the State of Missouri. The payments due Powerball and Mega Millions jackpot winners are funded through securities purchased and held by the Multi-State Lottery Association. As such, the Lottery does not record, and the financial statements do not reflect, a liability for future payments of Powerball and Mega Millions prizes funded by the Multi-State Lottery Association.

#### **Internal Control Environment**

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misappropriation. The internal control system is also designed to ensure that the accounting system provides accurate and timely financial information and that the Lottery is in compliance with applicable laws and regulations. The structure does not provide a guarantee, but rather reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the Lottery has segregated appropriate functions where feasible, and added additional administrative reviews of areas not clearly segregated to ensure compliance with established control policies.

Section 313.315 of the Missouri Revised Statutes requires the State Auditor to conduct a biennial audit of all accounts and transactions of the Lottery, and such other special audits, as it may deem necessary. The Lottery is also required to employ an independent firm of accountants to conduct an annual audit of all accounts and transactions of the Lottery. This audit includes consideration of internal controls over financial reporting as they relate to the expression of an opinion on the financial statements.

In addition, the Lottery has, from time to time, employed the services of other qualified external firms to conduct reviews of our security procedures for data processing and controls with game operations.

#### **Government Finance Officers Association Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Missouri State Lottery Commission for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the twelfth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **Acknowledgements**

The preparation of this Comprehensive Annual Financial Report reflects our commitment to maintain the highest standards of public accountability. We reaffirm our commitment to continually improve our financial management and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the dedicated efforts of our employees, especially those within the Financial and Business Services Section. We would also like to recognize Executive Director May Scheve Reardon, Commission Chairperson Kevin Roberts, and Commissioners Gina Hoagland, Jacque Land, Stephen Snead and Pamela Wright for their support, guidance and dedication in operating the Missouri Lottery Commission in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink that reads "Judy Gehrke". The signature is written in a cursive style with a large initial "J".

Judy Gehrke, CPA  
Chief Financial Officer  
Missouri State Lottery Commission

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Missouri State Lottery Commission

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



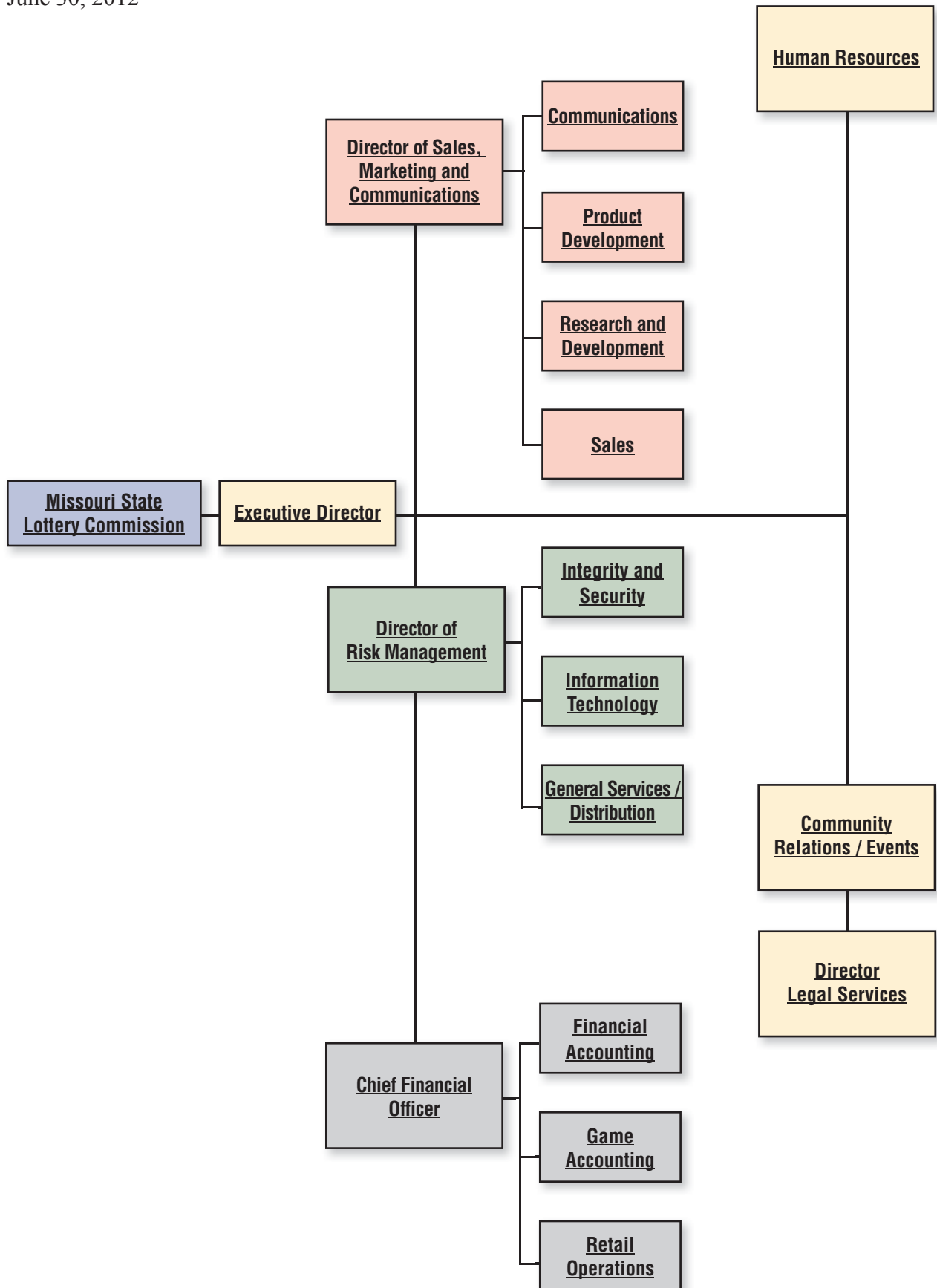
*Linda C. Sandison*

President

*Jeffrey R. Emer*

Executive Director

Missouri State Lottery Commission  
 Organizational Chart and Principal Officials  
 June 30, 2012



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## Financial Section

## REPORT OF INDEPENDENT AUDITORS

To the Missouri State Lottery Commission  
Jefferson City, Missouri

We have audited the accompanying basic financial statements of the Missouri State Lottery Commission (the Lottery), an enterprise fund of the State of Missouri, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Lottery and do not purport to, and do not, present fairly the financial position of the State of Missouri, as of June 30, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 14 to the basic financial statements, the Lottery restated the basic financial statements as of and for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 21 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.

**UHY** LLP

St. Louis, Missouri  
October 15, 2012

A member of UHY International, a network of independent account and consulting firms

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

The following Management's Discussion and Analysis (MD&A) provides an overview of the Missouri State Lottery Commission's (the Lottery) financial performance and financial activities for the fiscal years ended June 30, 2012 and 2011 (Note: 2011 has been restated - See Note 14 on page 35). The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to the financial statements, the other information included in the Statistical Section, and the 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*.

**Financial Statements Presented in This Report**

The Lottery is a Type III division of the State of Missouri, created to generate revenues for public education through the operation of a lottery. The Lottery's activities are accounted for as an enterprise fund using the accrual basis of accounting, which is comparable to the method used by private business entities. The Lottery is an enterprise fund of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the Lottery as a single enterprise fund and does not include information related to any other state agency or fund.

This annual report includes three financial statements for the fiscal years ended June 30, 2012 and 2011. The Statements of Net Assets provide information on the nature and amount of the Lottery's assets, liabilities and net assets at the end of each fiscal year and provide a measure of the Lottery's economic resources. The Statements of Revenues, Expenses and Changes in Net Assets reflect the operating and non-operating revenues and expenses and the changes in net assets for each year. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for each year.

The Notes to the Basic Financial Statements provide additional detailed information to supplement the basis for reporting and nature of key assets and liabilities.

**Financial Analysis**  
**Summary of Net Assets**

	As of June 30,		
	2012	2011	2010
<b>Assets</b>			
Current assets	\$74,952,046	\$77,345,897	\$77,427,149
Capital assets (net of accumulated depreciation)	3,442,268	3,364,727	3,458,481
Investments held for grand-prize winners at fair value - noncurrent	49,218,868	47,260,330	54,617,645
<b>Total Assets</b>	<u>127,613,182</u>	<u>127,970,954</u>	<u>135,503,275</u>
<b>Liabilities</b>			
Current liabilities	75,309,779	77,691,363	77,768,780
Long-term liabilities	42,628,411	43,976,854	49,785,262
<b>Total Liabilities</b>	<u>117,938,190</u>	<u>121,668,217</u>	<u>127,554,042</u>
<b>Net Assets</b>			
Invested in capital assets	3,442,269	3,364,727	3,458,481
Unrestricted	(3,442,269)	(3,364,727)	(3,458,481)
Restricted	9,674,992	6,302,737	7,949,233
<b>Total Net Assets</b>	<u>\$9,674,992</u>	<u>\$6,302,737</u>	<u>\$7,949,233</u>

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Current Assets**

Current assets consist primarily of cash and cash equivalents, accounts receivable from retailers and the current portion (maturing within one year) of investments held in United States guaranteed marketable securities on behalf of past grand-prize winners. During fiscal year 2012, current assets decreased by \$2,393,851. This decrease was due to a decrease in accounts receivable balances from retailers.

For fiscal year 2011, current assets stayed relatively flat compared to fiscal year 2010.

**Noncurrent Assets**

Investments held for grand-prize winners represents the market value of the investments held in United States guaranteed marketable securities on behalf of past grand-prize winners that mature beyond one year. These investments were purchased to fund the annual payments for winners that were required to or elected to receive annuity payments and consist of United States Government-backed obligations of zero coupon bonds and stripped securities that equal the face amount of the bond or security upon maturity. Originally, winners of jackpots were required to receive annuity payments. Subsequently, winners were allowed to elect a lump-sum payment instead of a long-term annuity. Since this option has been available, the trend among winners has generally been to elect the lump-sum payment and, therefore, fewer purchases of securities have been required. Fiscal year 2012 showed a slight increase in this category of \$1,958,538. In fiscal year 2011, this category decreased \$7,357,315 due to more lump-sum payments and fewer purchases of annuities.

Capital assets consist of land, buildings, vehicles, computers and software, and other equipment and is reported net of all related accumulated depreciation. For fiscal year 2012, net capital assets increased by \$77,541, as additions to capital assets, mainly computer equipment, exceeded the level of depreciation expenses and dispositions for the fiscal year.

In fiscal year 2011, the level of capital assets decreased by \$93,754 due to the level of depreciation expenses for the fiscal year exceeding the cost of additions to capital assets.

**Current Liabilities**

Current liabilities consist primarily of accrued prize liabilities, other accrued expenses, amounts due the Lottery Proceeds Fund, and accounts payable to suppliers. In fiscal year 2012, current liabilities decreased by \$2,381,584 which was the result of decreases in the amounts due the Lottery Proceeds Fund and grand-prize winners of \$6,509,809 and \$991,000, respectively, offset by increases in accrued prizes, accounts payable and other accrued liabilities of \$4,387,796, \$135,883 and \$595,546, respectively.

In fiscal year 2011, current liabilities stayed relatively flat compared to fiscal year 2010.

**Long-Term Liabilities**

Long-term liabilities include the long-term portion of amounts payable to grand-prize winners and the deferred portion of the amount due the Lottery Proceeds Fund. For fiscal year 2012, the long-term liabilities have decreased by \$1,348,443. As discussed previously, the trend of winners to elect lump-sum payments in lieu of annuity payments has resulted in fewer additions to long-term annuities and a reduction in the long-term liability as older annuities are paid off. The long-term liabilities for the grand-prize winners in fiscal year 2012 declined by \$1,413,955. The deferred portion of the amount due the Lottery Proceeds Fund increased in fiscal year 2012 by \$65,512. This deferred amount represents the net book value (cost less accumulated depreciation) of capital assets acquired after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association. The increase was the result of capital asset additions exceeding depreciation expense recognized during the fiscal year.

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

In fiscal year 2011, long-term liabilities declined by \$5,808,408, as decreases in the long-term liabilities for the grand-prize winners decreased by \$5,709,334 and the deferred amount to the Lottery Proceeds Fund declined by \$99,074.

**Net Assets**

Net assets invested in capital assets are unrestricted. Restricted net assets are the cumulative result of increased fair market value of the United States guaranteed marketable securities held by the Lottery to pay prize winners on an annuity basis.

**Changes in Net Assets**

	For the Year Ended June 30,		
	2012	2011	2010
<b>Operating Revenues</b>			
Ticket sales	\$1,097,427,696	\$1,000,678,406	\$971,864,485
Other operating revenues	1,294,455	523,186	50,414
<b>Total Operating Revenues</b>	<u>1,098,722,151</u>	<u>1,001,201,592</u>	<u>971,914,899</u>
<b>Operating Expenses</b>			
Direct costs			
Prize expense	722,079,619	648,382,278	628,057,994
Retailer commissions and incentives	67,830,868	61,850,265	59,900,383
Other direct costs	15,318,902	16,522,096	16,106,631
Total direct costs	<u>805,229,389</u>	<u>726,754,639</u>	<u>704,065,008</u>
Administrative expenses	30,380,982	28,688,464	20,809,357
<b>Total Operating Expenses</b>	<u>835,610,371</u>	<u>755,443,103</u>	<u>724,874,365</u>
<b>Operating Income</b>	<u>263,111,780</u>	<u>245,758,489</u>	<u>247,040,534</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	94,134	151,545	310,040
Gain on sale of capital assets	6,109	43,687	3,739
Unclaimed prizes	10,385,777	9,853,309	12,318,398
Transfers to the State of Missouri	(273,597,799)	(255,807,030)	(259,672,711)
Amortization of grand-prize winner liability	(2,509,798)	(2,904,666)	(3,381,475)
Net increase in the fair value of investments held for grand-prize winners	5,882,052	1,258,170	4,560,063
<b>Net Nonoperating Revenues (Expenses)</b>	<u>(259,739,525)</u>	<u>(247,404,985)</u>	<u>(245,861,946)</u>
<b>Changes in Net Assets</b>	3,372,255	(1,646,496)	1,178,588
<b>Total Net Assets, Beginning of Year</b>	<u>6,302,737</u>	<u>7,949,233</u>	<u>6,770,645</u>
<b>Total Net Assets, End of Year</b>	<u>\$9,674,992</u>	<u>\$6,302,737</u>	<u>\$7,949,233</u>

Changes in net assets are the result of fluctuations in market yields, which increase or reduce the unrealized gain on investments.

Because the Lottery is required to transfer its net income (excluding the unrealized gain or loss on investments) to the Lottery Proceeds Fund, the changes in net assets do not reflect the results of the Lottery's operating activities. The amounts reported as Transfer to the State of Missouri reflect the Lottery's operating activities for the fiscal years.

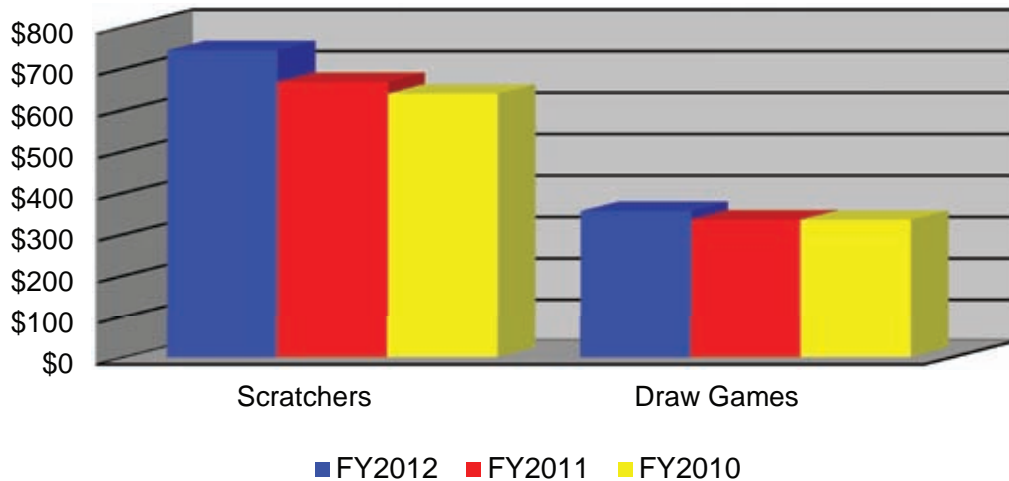
**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Operating Revenues**

	For the Year Ended June 30,		
	2012	2011	2010
<b>Sales by Game</b>			
Scratchers	\$742,541,015	\$666,315,849	\$638,062,954
Draw Games			
Lotto	22,564,631	25,214,432	28,751,655
Pick 3	65,074,532	64,075,659	68,177,109
Powerball	94,688,699	83,319,805	112,711,538
Show Me Cash	28,970,446	29,503,742	26,711,262
Pick 4	31,378,162	29,557,118	29,117,093
Club Keno	65,331,226	65,302,751	55,192,089
Mega Millions	42,792,811	34,852,442	12,059,295
EZ Match	4,086,174	2,490,930	-
Lucky Dough	-	45,678	1,081,490
Total Draw Games	354,886,681	334,362,557	333,801,531
Other	1,294,455	523,186	50,414
Total operating revenues	\$1,098,722,151	\$1,001,201,592	\$971,914,899

**Lottery Sales By Product**  
**in millions**



After a record high in fiscal year 2011, ticket sales rose again to a new record high in fiscal year 2012. Overall sales increased by approximately \$96.7 million, or 9.67 percent, from fiscal year 2011 levels.

For the year ended June 30, 2012, Scratchers ticket sales increased by approximately \$76.2 million, or 11.44 percent, while Draw Game product sales increased by \$20.5 million, or 6.14 percent.

For fiscal year 2011, ticket sales increased by \$28.8 million, or 3 percent. Scratchers ticket sales increased by approximately \$28.2 million, or 4.43 percent, Draw Game product sales increased slightly by \$561,000, or 0.17 percent.

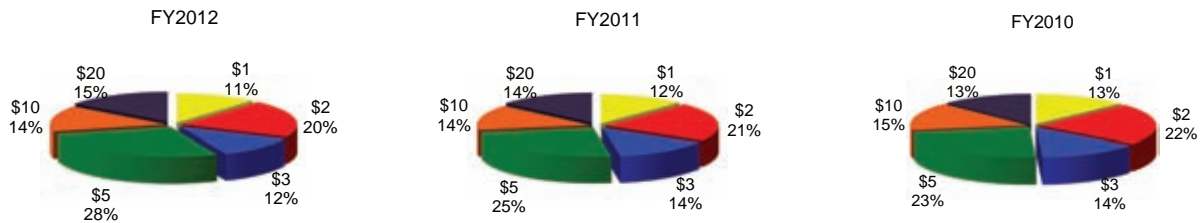
**Missouri State Lottery Commission**  
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**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

During fiscal year 2012, revenues from the sale of Lottery products were the highest in the 26-year history of the Lottery. As indicated in the financial statements, Scratchers tickets continue to lead the way to increased sales levels. During fiscal year 2012, the \$5 price point sales grew approximately \$40.1 million over the sales of fiscal year 2011. Strong traditional games, holiday games along with licensed property games are the main contributing factors to the growth in this price point. The \$20 price point sales grew approximately \$17.4 million over the sales of fiscal year 2011 with the introduction of a new \$20 taxes-paid game, while the \$10 price point sales grew approximately \$12.5 million with the introduction of a new \$10 holiday game and two \$10 games offering life-changing top prizes. The \$1 and \$2 price points showed increases as well, of \$3.4 million and \$9 million, respectively, over fiscal year 2011 sales. These increases were offset by a decline in sales for the \$3 price point of approximately \$6.2 million over fiscal year 2011 sales.

For fiscal year 2011, the \$5 price point sales grew approximately \$18.6 million over the sales of fiscal year 2010. Strong traditional games, along with licensed property games and the 25th anniversary games, were the main contributing factors to the growth in this price point. The \$20 price point sales grew approximately \$10.8 million over the sales of fiscal year 2010 and can be attributed to the introduction of a new \$20 game during the fiscal year. The \$3 price point sales grew approximately \$3.9 million over fiscal year 2010 sales. The use of specialty themes extended-play games introduced in this price point was the main contributing factor for the increased sales. These increases, however, were offset by a decline in sales for the \$1, \$2 and \$10 price points of approximately \$1 million, \$0.1 million and \$3.8 million, respectively, over fiscal year 2010 sales.

**Scratchers Ticket Sales By Price Point**



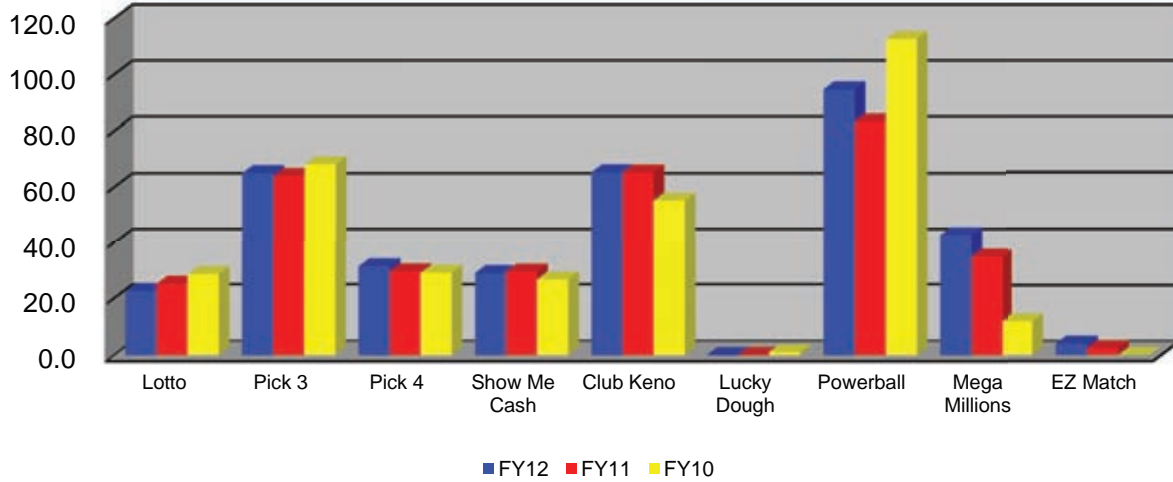
Total Draw Game sales increased by \$20.5 million in fiscal year 2012. The increase is due mainly to Powerball and Mega Millions jackpots during fiscal year 2012. These games showed increases of \$11.4 million and \$7.9 million, respectively, over fiscal year 2011. Other Draw Games stayed relatively flat from fiscal year 2011 with the exception of Lotto which showed a \$2.6 million decrease due to low jackpots.

For the fiscal year 2011, total Draw Game sales increased only slightly. A \$29.4 million, or 26 percent, decline in Powerball sales was partially offset by a \$22.8 million increase in Mega Millions sales. Powerball sales were down due to lower jackpot amounts. Mega Millions sales were up mainly because fiscal year 2011 reflected a full 12 months of sales as opposed to only five months of sales in fiscal year 2010. Club Keno sales were up \$10.1 million, while Show Me Cash and the new EZ Match option added increases of \$2.8 million and \$2.4 million, respectively, over fiscal year 2010. The increase in Club Keno sales can be attributed to Keno To Go (launched June 2010) and Club Keno drawings changing from every five minutes to every four minutes (July 2010). The Show Me Cash increase is due largely to a new jackpot funding mechanism incorporated in December 2010, which allows jackpots to grow more quickly. These increases were offset by \$3.5 million and \$4.1 million decreases in Lotto and Pick 3 sales, respectively.

**Missouri State Lottery Commission**  
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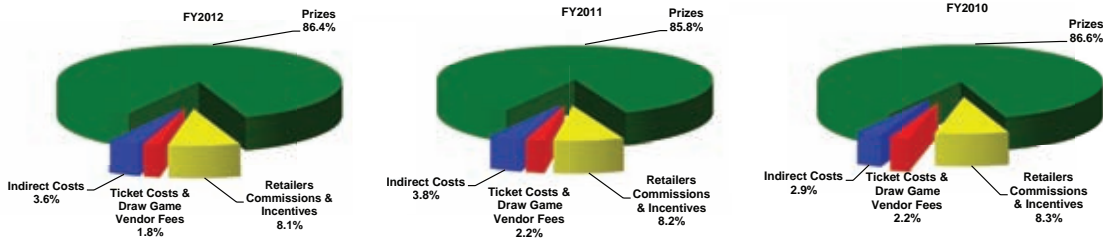
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Draw Game Sales By Game**  
**in millions**



**Operating Expenses**

	For the Year Ended June 30,		
	2012	2011	2010
<b>Direct Expenses</b>			
Prizes	\$722,079,619	\$648,382,278	\$628,057,994
Retailer commissions and incentives	67,830,868	61,850,265	59,900,383
Tickets	6,737,925	7,995,056	7,583,111
Draw Game vendor fees	8,580,977	8,527,040	8,523,520
<b>Other Operating Expenses</b>			
Advertising	7,261,102	7,943,537	1,850,163
Wages and benefits	9,378,026	9,831,552	9,946,081
Other general expenses	12,693,246	9,873,506	8,009,882
Depreciation and amortization	1,048,608	1,039,869	1,003,231





**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Direct Expenses**

Most costs and expenses that comprise direct expenses are related to specific games and, thus, vary proportionately with the change in sales of the related game. However, some variability does occur due to the nature of some of the expenses and the activities, events and programs, which may occur during any period of time. These expenses include prize expenses, retailer commissions and incentives, Scratchers ticket printing costs and Draw Game vendor fees.

Of the Lottery's total operating expenses of \$835.6 million in fiscal year 2012, \$805.2 million, or 96.36 percent, are game-related, or direct, expenses. In fiscal year 2011, direct expenses were \$726.8 million, or 96.20 percent, of the total \$755.4 million total operating expenses for the year. In fiscal year 2010, direct expenses were 97.13 percent of total operating expenses.

Prize expense for fiscal year 2012 increased by approximately \$73.7 million, or 11.37 percent, while total ticket sales increased by 9.67 percent. In fiscal year 2011, prize expense increased by approximately \$20.3 million, or 3.2 percent, while total ticket sales increased by 3.0 percent. The variance between the percentage increase in prize expense and sales reflects the effects of increasing the prize structure of the Scratchers products, while the random selection of winning numbers may result in deviations from expected results in a short-term period.

Retailer commissions and incentives in fiscal year 2012 increased by approximately \$6 million, or 9.67 percent. In fiscal year 2011, these expenses increased by approximately \$2 million, or 3.26 percent. These categories and results more closely follow the sales trends than prize expense. Variations will occur due to additional promotional activity to promote selected games and the number of jackpots won during the year.

Scratchers ticket printing expenses decreased in fiscal year 2012 by \$1.3 million or 15.72 percent due to new, reduced contract pricing effective July 1, 2011. In fiscal year 2011, these expenses increased by approximately \$0.4 million, or 5.43 percent, which approximates the percentage increase in Scratchers sales for the year.

Draw Game vendor fees remained flat in fiscal year 2012 despite an increase in Draw Games sales due to new contract pricing effective August 2011. In fiscal year 2011, this expense category increased only slightly in direct response to the slight increase in Draw Game sales for the year. The annual variances in this category will not exactly mirror the percentage change in sales, as the level of free and promotional tickets, as well as any system performance credits, will affect the actual annual expense amount.

**Other Operating Expenses**

Other operating expenses include advertising, personal services, fringe benefits, marketing and promotional expenses, utilities and facility costs, communication services and other administrative costs. The Lottery is subject to the budgetary and appropriation process of the State of Missouri. Management develops budgets for these expenses, within the total amounts appropriated by the State, based upon current economic conditions, business plans and market conditions, with actual results continuously monitored to ensure that overall business objectives are met in the most effective and efficient manner. In fiscal year 2012, other operating expenses increased by \$1.7 million, or 5.9 percent, due to an increase in vending machine lease expense, under-threshold equipment purchases, and increased event and sports sponsorships.

The level of depreciation expenses is generally a function of capital asset acquisition activity. A significant portion of the Lottery's vehicle fleet has been replaced during the last three years, as well as necessary upgrades, replacements and additions of computer equipment and related items, resulting in increased depreciation expenses for fiscal years 2012 and 2011.

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Nonoperating Revenues (Expenses)**

	For the Year Ended June 30,		
	2012	2011	2010
Interest	\$94,134	\$151,545	\$310,040
Unclaimed prizes	10,385,777	9,853,309	12,318,398
Gain on sale of capital assets	6,109	43,687	3,739
Net increase in investments held for grand-prize winners	5,882,052	1,258,170	4,560,063
Amortization of grand-prize winner liability	(2,509,798)	(2,904,666)	(3,381,475)
Transfers to State of Missouri	(273,597,799)	(255,807,030)	(259,672,711)

The Lottery earns interest on its share of the common cash pool with the State Treasurer's Office, as well as interest on an imprest fund account utilized to pay prizes. Interest is also earned on funds receivable from the Multi-State Lottery Association (MUSL). The significant decrease in interest earnings for fiscal year 2012 reflects the effects of the market conditions as interest rates continued to decline during the year.

The Lottery retains prize money if a claim for the prize is not made within a 180-day claim period. In fiscal year 2012, the level of unclaimed prizes increased by \$.5 million over fiscal year 2011. This line item fluctuates considerably from year to year, depending on the timing of Scratchers game closings and the unpredictability of prizes going unclaimed.

The net increase (decrease) in investments held for grand-prize winners represents the net market value change. Amortization of the grand-prize winner liability represents the accretion of interest to the securities held to maturity to fund the grand-prize winner payments.

As to the gain or loss from the disposal of capital assets, the variances generally reflect the effects of the number of vehicles that were sold during each fiscal year. In fiscal year 2012, seven vehicles were sold, in fiscal year 2011, nine vehicles were sold, and in fiscal year 2010, three vehicles were sold. The net gain in fiscal year 2012 was due primarily to the sale of seven vehicles at surplus property. This was, however, offset by the disposal of equipment that was not fully depreciated. The net gain in fiscal year 2011 was due entirely to the sale of the nine vehicles at surplus property.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for fiscal year 2012 increased \$17.8 million, or 6.96 percent, from fiscal year 2011. For fiscal year 2011, proceeds decreased \$3.9 million, or 1.49 percent, from fiscal year 2010. The Governor's Office and the Legislature determine where these funds will be expended within the state's public institutions of elementary, secondary and higher education.

**Capital Assets and Long-Term Debt**

The Lottery's capital assets consist of land, buildings, vehicles, computers and software, and other equipment. Capital assets are not a significant part of the Lottery's total assets. Additional detailed information on capital assets can be found in Note 6 to the financial statements.

The Lottery has no long-term liabilities other than the long-term annuitized payments to Lottery winners and deferred transfers to the State of Missouri. Additional detailed information on long-term liabilities may be found in Note 11 to the financial statements.

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Contacting the Lottery's Financial Management**

This management discussion and analysis report is designed to provide Missouri citizens, government officials, players, retailers and other interested parties reliable financial information and an explanation of the Lottery's financial activities for the fiscal years ended June 30, 2012 and 2011. If you have questions about this report or need additional information, contact the Missouri State Lottery Commission, Financial Accounting Section, P.O. Box 1603, Jefferson City, Missouri 65109-1603.

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Statements of Net Assets As of June 30, 2012 and 2011**

	2012	2011
<b>Current Assets</b>		
Cash and cash equivalents	\$ 23,454,082	\$ 18,667,493
Investments held for grand-prize winners	7,618,239	8,609,476
Accounts receivable, net of allowances for returns	43,575,947	49,769,176
Other assets	303,778	299,752
Total current assets	74,952,046	77,345,897
<b>Noncurrent Assets</b>		
Capital assets		
Capital assets not being depreciated	352,973	634,758
Capital assets	14,767,057	14,157,716
Accumulated depreciation	(11,677,762)	(11,427,747)
	3,442,268	3,364,727
Investments held for grand-prize winners	49,218,868	47,260,330
Total noncurrent assets	52,661,136	50,625,057
Total assets	127,613,182	127,970,954
<b>Current Liabilities</b>		
Accounts payable	220,320	84,437
Due to Lottery Proceeds Fund	11,805,372	18,315,181
Accrued prize liabilities	51,402,199	47,014,403
Grand-prize winner liabilities	7,623,000	8,614,000
Other accrued liabilities	4,258,888	3,663,342
Total current liabilities	75,309,779	77,691,363
<b>Long-term Liabilities</b>		
Due to Lottery Proceeds Fund	3,089,296	3,023,784
Grand-prize winner liabilities	39,539,115	40,953,070
Total long-term liabilities	42,628,411	43,976,854
Total liabilities	117,938,190	121,668,217
<b>Net Assets</b>		
Invested in capital assets	3,442,269	3,364,727
Unrestricted	(3,442,269)	(3,364,727)
Restricted through Constitutional provisions	9,674,992	6,302,737
Total net assets	\$ 9,674,992	\$ 6,302,737

See accompanying notes to the basic financial statements.

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Statements of Revenues, Expenses and Changes In Net Assets  
For The Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Operating Revenues</b>		
Scratchers ticket sales	\$ 742,541,015	\$ 666,315,849
Draw Game ticket sales	354,886,681	334,362,557
Total sales	1,097,427,696	1,000,678,406
Other	1,294,455	523,186
Total operating revenues	1,098,722,151	1,001,201,592
<b>Operating Expenses</b>		
Scratchers prizes	521,263,401	465,451,594
Draw Game prizes	200,816,218	182,930,684
Scratchers retailer commissions and incentives	47,258,571	42,190,539
Draw Game retailer commissions and incentives	20,572,297	19,659,726
Cost of tickets sold	15,318,902	16,522,096
Advertising	7,261,102	7,943,537
Wages and benefits	9,378,026	9,831,552
Other general and administrative	12,693,246	9,873,506
Depreciation	1,048,608	1,039,869
Total operating expenses	835,610,371	755,443,103
Operating income	263,111,780	245,758,489
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	94,134	151,545
Unclaimed prizes	10,385,777	9,853,309
Gain on sale of capital assets	6,109	43,687
Net increase in the fair value of investments held for grand-prize winners	5,882,052	1,258,170
Amortization of grand-prize winner liability	(2,509,798)	(2,904,666)
Transfers to State of Missouri Lottery Proceeds Fund	(273,597,799)	(255,807,030)
Total nonoperating revenues (expenses)	(259,739,525)	(247,404,985)
Changes in net assets	3,372,255	(1,646,496)
<b>Total Net Assets, Beginning of Year</b>	6,302,737	7,949,233
<b>Total Net Assets, End of Year</b>	\$ 9,674,992	\$ 6,302,737

See accompanying notes to the basic financial statements.

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Statements of Cash Flows**  
**For The Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash Flows From Operating Activities</b>		
Cash received from retailers and others	\$ 1,105,403,762	\$ 995,856,073
Cash paid for prizes	(715,920,045)	(643,770,086)
Cash paid for retailer commissions	(67,581,359)	(61,735,559)
Cash paid for employee services	(9,430,729)	(9,873,782)
Cash paid for other expenses	(35,231,038)	(34,351,625)
Net cash provided by operating activities	277,240,592	246,125,021
<b>Cash Flows From Noncapital Financing Activities</b>		
Transfers to State of Missouri	(280,042,095)	(259,424,365)
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchases of capital assets	(1,174,870)	(947,953)
Proceeds from sale of capital assets	54,828	45,527
Net cash used for capital and related financing activities	(1,120,042)	(902,426)
<b>Cash Flows From Investing Activities</b>		
Proceeds from maturity of investments	8,614,000	10,560,000
Interest received	94,134	151,545
Net cash provided by investing activities	8,708,134	10,711,545
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	4,786,589	(3,490,225)
<b>Cash and Cash Equivalents, Beginning of Year</b>	18,667,493	22,157,718
<b>Cash and Cash Equivalents, End of Year</b>	\$ 23,454,082	\$ 18,667,493
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 263,111,780	\$ 245,758,489
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,048,608	1,039,869
Unclaimed prizes	10,385,777	9,853,309
Payments to grand-prize winners	(8,614,000)	(10,560,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	6,193,230	(5,277,495)
(Increase) in other assets	(4,026)	(75,994)
Increase in accounts payable and other accrued liabilities	731,428	67,960
Increase in accrued prize liabilities	4,387,796	5,318,883
Net cash provided by operating activities	\$ 277,240,592	\$ 246,125,021
<b>Noncash Activities</b>		
Net increase in the fair value of investments held for grand-prize winners	\$ 5,882,052	\$ 1,258,170
Amortization of grand-prize winner liability	\$ 2,509,798	\$ 2,904,666

See accompanying notes to the basic financial statements.

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)  
**Notes To The Basic Financial Statements**  
**June 30, 2012 and 2011**

**1. Summary of Significant Accounting Policies**

The Missouri State Lottery Commission (the Lottery) was created by the passage of a constitutional amendment on November 6, 1984 by the citizens of the State of Missouri. The Lottery is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision or authority over the actions or decisions of the Lottery. The Lottery's Commission consists of five members appointed by the Governor with the advice and consent of the Senate. The day-to-day operations are administered by the executive director and administrative staff as designated by the Commission.

For financial reporting purposes, the Lottery is considered an enterprise fund of the State of Missouri. Additional disclosures related to Missouri's self-insurance funds, unemployment insurance compensation, state pension plans, post-employment benefits, and workers' compensation benefits are included in the State of Missouri's Comprehensive Annual Financial Report.

These financial statements include all Lottery activity and do not include any activity related to any other state agency or fund.

**Basis of Presentation**

The Lottery is accounted for as a proprietary, business-type activity enterprise fund. The financial statements of the Lottery have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges or where the periodic determination of net income is appropriate.

In reporting its financial activities, the Lottery applies all applicable private sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Lottery has elected not to follow private sector guidance issued after this date.

**Basis of Accounting**

The term "basis of accounting" refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. The term "measurement focus" refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with GAAP.

The Lottery distinguishes operating revenues and expenses from nonoperating items. The principal operating revenues of the Lottery primarily consist of sales from Scratchers and Draw Game tickets. Operating expenses primarily consist of payments to prize winners, commissions to retailer agents, payments to vendors and employees, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Revenue Recognition**

Sales of Scratchers tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances of approximately \$2,186,000 and \$1,036,000 at June 30, 2012 and 2011, respectively, have been established for estimated tickets to be returned by retailers.

**Missouri State Lottery Commission**  
(An Enterprise Fund of the State of Missouri)

**Notes To The Basic Financial Statements**  
**June 30, 2012 and 2011**

**1. Summary of Significant Accounting Policies (continued)**

**Revenue Recognition (continued)**

Sales of Draw Game lottery tickets are generated by the semiweekly Lotto, Powerball and Mega Millions games, and the daily Club Keno, Lucky Dough (discontinued July 2010), Show Me Cash, EZ Match (added March 2011), Pick 4 and Pick 3 games. Sales of Draw Game lottery tickets are made through licensed retail sales outlets via Draw Game terminals maintained by the retailers. Revenue is recognized for Draw Games when tickets are sold to players and the related draw occurs. Deferred revenues from these sales represent tickets sold for future prize drawings. Deferred revenues were \$387,747 as of June 30, 2012 and are included in other accrued liabilities.

Operating revenues are presented net of sales returns, cancellations and promotional tickets of \$41,258,937 and \$34,876,825 for the years ended June 30, 2012 and 2011, respectively.

**Prizes**

Expenses for Draw Game lottery ticket prizes are recorded based on a minimum of 45 percent of Draw Game lottery ticket sales. This amount is recognized and accrued as prize liability. Actual prizes paid are treated as a reduction of the prize liability.

Lotto grand-prize winners have the choice of receiving their prize in 25 annual installments or a portion of the prize in one lump-sum payment. Powerball grand-prize winners have the choice of receiving their prize in 30 annual graduated installments or a portion of the prize in one lump-sum payment. Mega Millions grand-prize winners have the choice of receiving their prize in 26 annual installments or a portion of the prize in one lump-sum payment.

Expenses for Scratchers ticket prizes are recorded based upon the unique, predetermined prize structure for each game and are accrued as tickets are sold to the retailer.

**Unclaimed Prizes**

State statutes require that unclaimed prize monies be retained by the Lottery for the person entitled thereto for 180 days after the time the prize was awarded. If no claim is made for the prize within such time, the prize money reverts to the Lottery. Effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers to the Lottery Proceeds Fund all prizes that remain unclaimed. During the years ended June 30, 2012 and 2011, unclaimed prizes in the amount of approximately \$10,386,000 and \$9,853,000, respectively, were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2012 and 2011, this amount has been included as nonoperating revenue on the statements of revenues, expenses and changes in net assets with a corresponding amount included as a transfer to the State of Missouri.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents consist of cash in banks, repurchase agreements and funds on deposit with the State Treasurer. The Lottery considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Investments Held for Grand-Prize Winners**

Since March 1990, the Lottery has purchased U.S. Treasury Zero Coupon Bonds to fund future payments under grand-prize winner prize claims. The maturities of these bonds approximate deferred grand-prize annuity installment amounts and due dates. The securities purchased are held in the Lottery's name in safekeeping by the Federal Reserve Bank in a separate account. The investments in these securities are carried at fair value based on quoted market prices.



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**Notes To The Basic Financial Statements**  
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**1. Summary of Significant Accounting Policies (continued)**

**Retailer Fees**

Retailers are charged a fee when licensed to sell lottery tickets. Additionally, retailers pay an annual fee in lieu of obtaining an insurance bond. Such fees are used to offset uncollectible accounts receivable from retailers. The Lottery has not established an allowance for bad debt as this amount has been determined to be immaterial to the accounts receivable balance.

**Capital Assets**

Property and equipment greater than \$1,000 are carried at cost, less accumulated depreciation. Property and equipment received as settlement for liquidated damages are recorded at fair value on the date received. Depreciation is computed on the straight-line method over the estimated lives of the related assets, which range from three to fifteen years for autos, computers, equipment, and other assets and nineteen years for buildings.

When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in nonoperating revenues and expenses for the period.

**Net Assets**

Restricted net assets represent the unrealized gains or losses on investments held for grand-prize winners. Certain investments are reported at fair value with gains and losses reflected in the statement of revenues, expenses and changes in net assets. As required by the Missouri Constitution and state statutes, the Lottery uses investments only to fund its annuity prize obligations and intends to hold the investments to maturity. Market gains or losses represent temporary fluctuations and are not recognized in the calculation of the amounts due to the Lottery Proceeds Fund.

**Use of Estimates**

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

**Due to Lottery Proceeds Fund**

All income before transfers of the Lottery, except for the net increase in the fair value of investments held for grand-prize winners and amortization of grand-prize winner liabilities, as described in the accompanying statements of revenues, expenses and changes in net assets, accrues to the benefit of the State of Missouri. Transfers are made to the Lottery Proceeds Fund, which shall be appropriated by the State solely for the institutions of public elementary, secondary and higher education.

Transfers are made monthly and are based on estimated net income before transfers. A portion of the liability to the Lottery Proceeds Fund, equal to the net book value of capital additions after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association, is deferred and is not subject to current transfers.

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**Notes To The Basic Financial Statements**  
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**1. Summary of Significant Accounting Policies (continued)**

**Compensated Absences**

Under the terms of the Lottery's personnel policy, employees are granted vacation and sick leave in varying amounts, based upon length of service. In the event of termination or separation, an employee is generally paid for accumulated vacation up to 240 hours if in service for less than ten years; 288 hours for service between ten and fifteen years; and 336 hours if service exceeds fifteen years. Accordingly, it is the Lottery's policy to record vacation pay as an expense as it is earned. The amount of earned but unused accumulated vacation is included as an accrued liability in the accompanying financial statements. Retiring employees receive an additional month of credited service for every twenty-one days of accumulated sick leave on the date of termination. Credited service is used to calculate retirement benefits administered by the Missouri State Employees Retirement System. The amount of earned but unused sick leave has no material financial effect on the Lottery.

**Risk Management**

The Lottery's risk management activities for workers' compensation and unemployment are recorded in the Workers' Compensation Fund and the Employment Security Fund, funds of the State of Missouri. The Lottery reimburses these funds for actual disbursements made on the Lottery's account.

Employees are offered various health insurance coverage programs administered by the Missouri Consolidated Health Care Plan (MCHCP). The Lottery contributes a fixed monthly payment for each covered employee to MCHCP as appropriated by the General Assembly of the State of Missouri.

The Lottery's major assets including data processing equipment, buildings and business interruption are insured by a third-party carrier maintained by the Office of Risk Management.

There were no significant reductions in insurance coverage from the prior year. Insurance settlements did not exceed insurance coverage in the past three years.

**Budgetary Authority**

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. All expenses of the Lottery are subject to the State of Missouri appropriation process.

**Marketing, Advertising and Promotion**

The Lottery expenses the costs of marketing, advertising and promotion as they are incurred.

**Subsequent Events**

The Lottery has performed a review of events subsequent to the statement of net assets date through October 15, 2012, the date the financial statements are available to be issued.

**2. Statutory Requirements**

Missouri statutes provide that a minimum of 45 percent of the money received from the sale of lottery tickets shall be allocated to prizes. The costs of operating the Lottery, including all commissions to retailers, promotional costs, and all other administrative expenditures, are appropriated by the General Assembly of the State of Missouri.

The Lottery receives certain services for no charge from other Missouri state government agencies. Tax clearance and driver's license checks are provided by the Department of Revenue. The Office of Administration provides certain services to process expenditures and payroll for the Lottery.

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**Notes To The Basic Financial Statements**  
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**3. Cash and Cash Equivalents**

Cash, other than petty cash and the imprest fund, is part of the common cash pool in the State Treasury. The State of Missouri invests such cash in excess of what is necessary to meet current obligations. The fair value in the common cash pool is the same as the value of the pool shares. At June 30, 2012 and 2011, the Lottery's share in the State's common cash pool was \$16,699,365 and \$10,109,078, respectively. At June 30, 2012 and 2011, the book balance of the imprest fund was \$6,749,217 and \$8,551,015, respectively, and the bank balance was \$8,160,994 and \$9,132,570, respectively.

Collateral is required by state statutes for demand deposits and certificates of deposit. The fair value of collateral must equal 100 percent of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are governed by state statute and include U.S. government and U.S. agency bonds and securities, general obligation bonds of any of the fifty states, general obligation bonds of any Missouri county and certain cities and special districts, and revenue bonds of certain Missouri agencies. Written custodial agreements are required which provide, among other things, that the collateral be held separate from the assets of the custodial bank.

Custodial credit risk is the risk that, in the event of a bank failure, the Lottery's deposits may not be returned to it. The Lottery does not have a deposit policy for custodial credit risk. The Lottery's imprest fund was fully collateralized by FDIC insurance and pledged collateral at June 30, 2012 and 2011. Because the Lottery's share of the State's Treasury is a pooled investment, the balance of this account is not subject to custodial credit risk.

**4. Investments Held For Grand-Prize Winners**

As provided for by Article III, Section 39(b) of the Missouri Constitution, the Lottery purchases United States Treasury Zero Coupon Bonds for the specific purpose of funding future grand-prize winner prize claims. These investments are carried at fair value in the amounts of \$56,837,107 and \$55,869,806 at June 30, 2012 and 2011, respectively. The maturity value of securities held at June 30, 2012 and 2011 was \$64,131,000 and \$68,051,000, respectively.

At June 30, 2012 and 2011, the Lottery had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
United States Treasury Zero Coupon Bonds					
June 30, 2012	\$56,837,107	\$7,618,239	\$20,520,986	\$14,512,369	\$14,185,513
June 30, 2011	\$55,869,806	\$8,609,476	\$23,139,773	\$12,772,754	\$11,347,803

Investments in prize annuities are subject to changes in fair value due to interest rate risk. However, to satisfy the annual installment obligations to prize winners, these bonds are held to maturity. The fair value at maturity is the face value of the bonds, regardless of the changes in value during the time that the investments are outstanding.

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**Notes To The Basic Financial Statements**  
**June 30, 2012 and 2011**

**5. Draw Game Ticket Sales**

Draw Game ticket sales for the years ended June 30<sup>th</sup> consist of the following:

	<u>2012</u>	<u>2011</u>
Lotto	\$ 22,564,631	\$ 25,214,432
Pick 3	65,074,532	64,075,659
Powerball	94,688,699	83,319,805
Show Me Cash	28,970,446	29,503,742
Pick 4	31,378,162	29,557,118
Club Keno	65,331,226	65,302,751
Mega Millions	42,792,811	34,852,442
EZ Match	4,086,174	2,490,930
Lucky Dough	-	45,678
	<u>\$ 354,886,681</u>	<u>\$ 334,362,557</u>

**6. Capital Assets**

The changes in capital assets for the years ended June 30<sup>th</sup> consist of the following:

	<u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	281,785		(281,785)	-
Total capital assets not being depreciated	<u>634,758</u>	<u>\$ -</u>	<u>\$ (281,785)</u>	<u>352,973</u>
Capital assets being depreciated				
Buildings	4,939,628	\$ 281,785	\$ -	5,221,413
Computers	5,669,565	982,637	(58,398)	6,593,804
Equipment	2,331,022	37,078	(609,623)	1,758,477
Automobiles	1,172,501	155,154	(134,292)	1,193,363
Other	45,000	-	(45,000)	-
Total capital assets being depreciated	<u>14,157,716</u>	<u>\$ 1,456,654</u>	<u>\$ (847,313)</u>	<u>14,767,057</u>
Less accumulated depreciation for				
Buildings	(3,705,210)	\$ (177,487)	\$ -	(3,882,697)
Computers	(4,596,030)	(666,571)	58,398	(5,204,203)
Equipment	(2,132,089)	(59,337)	581,303	(1,610,123)
Automobiles	(970,591)	(144,440)	134,292	(980,739)
Other	(23,827)	(773)	24,600	-
Total accumulated depreciation	<u>(11,427,747)</u>	<u>\$(1,048,608)</u>	<u>\$ 798,593</u>	<u>(11,677,762)</u>
Total capital assets being depreciated, net	<u>2,729,969</u>			<u>3,089,295</u>
Capital assets, net	<u>\$ 3,364,727</u>			<u>\$ 3,442,268</u>

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**6. Capital Assets (continued)**

	<u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Capital assets not being depreciated				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	132,353	281,785	(132,353)	281,785
Total capital assets not being depreciated	<u>485,326</u>	<u>\$ 281,785</u>	<u>\$ (132,353)</u>	<u>634,758</u>
Capital assets being depreciated				
Buildings	4,807,275	\$ 132,353	\$ -	4,939,628
Computers	5,276,908	454,356	(61,699)	5,669,565
Equipment	2,346,055	2,400	(17,433)	2,331,022
Automobiles	1,167,409	209,412	(204,320)	1,172,501
Other	45,000	-	-	45,000
Total capital assets being depreciated	<u>13,642,647</u>	<u>\$ 798,521</u>	<u>\$ (283,452)</u>	<u>14,157,716</u>
Less accumulated depreciation for				
Buildings	(3,548,465)	\$ (156,745)	\$ -	(3,705,210)
Computers	(4,021,126)	(636,603)	61,699	(4,596,030)
Equipment	(2,056,341)	(93,181)	17,433	(2,132,089)
Automobiles	(1,021,233)	(151,840)	202,482	(970,591)
Other	(22,327)	(1,500)	-	(23,827)
Total accumulated depreciation	<u>(10,669,492)</u>	<u>\$ (1,039,869)</u>	<u>\$ 281,614</u>	<u>(11,427,747)</u>
Total capital assets being depreciated, net	<u>2,973,155</u>			<u>2,729,969</u>
Capital assets, net	<u>\$ 3,458,481</u>			<u>\$ 3,364,727</u>

**7. Pension Plan**

The Lottery participates in the Missouri State Employees' Retirement System (MOSERS) (the Plan), a single-employer defined benefit public employees' retirement plan covering all the employees of the State of Missouri. The Plan is administered by the MOSERS Board of Trustees in accordance with Chapter 104 of the Revised Statutes of Missouri. Substantially all full-time employees of the Lottery are covered by the Plan. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: Missouri State Employees' Retirement System, 907 Wildwood Drive, P.O. Box 209, Jefferson City, Missouri 65102, by calling (800) 827-1063 or by visiting [www.mosers.org](http://www.mosers.org).

The Plan has two benefit structures known as MSEP (closed plan) and MSEP 2000. The MSEP covers all full-time employees hired before July 1, 2000, who are not covered under another state-sponsored retirement plan. MSEP 2000 covers all full-time employees hired on or after July 1, 2000 and before January 2011. Employees hired on or after January 1, 2011, will be eligible for membership in the MSEP 2011 tier of the Plan. Some provisions of this new membership tier include 4% employee contributions of pre-tax wages, 5-year vesting will be increased to 10-year vesting, the "Rule of 80" will be increased to the "Rule of 90", and the age for early retirement for general employees will be increased from age 57 to age 62. Members of the closed plan have the option at retirement to choose between the benefit structure of the MSEP or MSEP 2000.

The Plan provides retirement, survivor and disability benefits to its members. The Plan cannot be terminated.

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**7. Pension Plan (continued)**

Retirement eligibility requirements prior to the MSEP 2011 tier of the Plan are as follows:

<u>MSEP</u>	<u>MSEP 2000</u>
<i>Age 65 and active with 4 years of service</i>	<i>Age 62 with 5 years of service</i>
<i>Age 65 with 5 years of service</i>	<i>Age 48 with age and service equaling 80 or more</i>
<i>Age 60 with 15 years of service</i>	<i>(Rule of 80)</i>
<i>Age 48 with age and service equaling 80 or more (Rule of 80)</i>	<i>Employees may retire early at age 57 with at least 5 years of service with reduced benefits</i>
<i>Employees may retire early at age 55 with at least 10 years of service with reduced benefits</i>	<i>Employees do not contribute</i>
<i>Employees do not contribute</i>	

The State of Missouri is obligated by state law to make all required contributions to the Plan, which are made at an actuarially determined rate. Beginning January 1, 2011 employee contributions of 4% of gross pay are required for those covered by the MSEP 2011 tier of the Plan. The current rate of contribution for retirement and long-term disability is 13.97 percent and 0.495 percent of total payroll, respectively.

For fiscal years ended June 30, 2012, 2011 and 2010, the annual pension cost associated with Lottery employees was approximately \$954,000, \$990,000 and \$934,000, respectively, and was equal to 100 percent of the annual pension cost required to be contributed for those years.

**8. Leases**

**Operating Leases**

The Lottery's regional facilities are held under operating lease agreements. The lease agreements for both the St. Louis and Springfield offices are under a one year agreement with four one-year renewal options starting July 1, 2009 and set to expire June 30, 2014. The Kansas City office is under a reduced rate agreement set to expire December 31, 2015. Annual rent expense for these facilities totaled approximately \$272,000 in fiscal year 2012 and \$273,000 in fiscal year 2011.

The Lottery leases instant ticket vending machines under an operating lease agreement. The lease agreement was set to expire June 30, 2012; however, an amendment dated August 3, 2011 extended the expiration to June 30, 2015. In addition to 24- and 4-bin machines, the amendment provides for an additional 450 Gemini instant ticket vending machines. Leasing costs under the amendment changed from a monthly lease rate per machine to a percentage of net weekly Draw Game sales. Annual lease expense for the instant ticket vending machines totaled approximately \$3,136,000 in fiscal year 2012 and \$1,902,000 in 2011. The increase in vending machine lease expense from fiscal year 2011 to 2012 is due to the 450 Gemini machines added under the amendment and the change to percentage of sales pricing. (Note: Additional contract amendments executed at the same time included a pricing change that rolled telecommunications costs into Draw Game processing costs at a reduced rate, creating an overall cost savings.)

Future minimum lease payments under all non-cancelable leases having initial or remaining terms in excess of one year as of June 30, 2012 (including an estimated \$3,299,000 per year for vending machines, based on current Draw Games sales levels) are as follows:

<u>Years Ending June 30</u>	
2013	\$ 3,569,000
2014	3,569,000
2015	3,396,000
2016	49,000
	<u>\$ 10,583,000</u>

**Missouri State Lottery Commission**  
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**9. Contractual Arrangements**

The Lottery maintains contractual arrangements with providers of goods and services critical to the Lottery's operations. Significant contracts include an agreement with the provider of the Lottery's Draw Game computer systems, agreements with producers of the Lottery's Scratchers games tickets, and an agreement for advertising services, among others. The contracts require the Lottery to compensate vendors for goods and services that meet stated quality standards. Scratchers game tickets are purchased on a percentage of sales bases. Scratchers tickets on hand in the Lottery's warehouse are held on a consignment basis and are not recorded as inventory.

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 33 state and district lotteries (member lotteries) and operates the Powerball game and the Mega Millions game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50 percent of sales to MUSL for payment of prizes. On January 31, 2010 the Lottery began selling the Mega Millions jackpot game as an historic cross-selling agreement between Mega Millions and Powerball. Member lotteries sell tickets for the Mega Millions game and currently remit 51.50 percent of sales to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL.

Powerball grand-prize winners have the choice of receiving the prize in 30 annual graduated installments or a portion of the prize in one lump-sum payment. Mega Millions grand-prize winners have the choice of receiving the prize in 26 annual installments or a portion of the prize in one lump-sum payment. Investment securities, with maturities that approximate all grand-prize winner payments due to winners of MUSL games, are maintained by MUSL. The investments and related prize liabilities for winners of these games from the State of Missouri are excluded from the accompanying financial statements. Future grand-prize winner payments of MUSL games due to winners in Missouri are approximately \$15,311,000 and \$22,745,000 as of June 30, 2012 and 2011, respectively.

The Lottery has contributed to a prize reserve fund and set prize reserve fund, separately maintained by MUSL, to protect MUSL members in case of unforeseen liabilities and to pay certain prizes associated with Powerball and Mega Millions, respectively. With certain restrictions, these fund balances are refundable to member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2012 and 2011, the Lottery's portion of the prize reserve fund and set prize reserve fund for Powerball was approximately \$4,339,000 and \$4,489,000, respectively, and \$1,148,000 and \$998,000, respectively. At June 30, 2012 and 2011, the Lottery's portion of the prize reserve fund for Mega Millions was approximately \$909,000 and \$514,000, respectively. The Lottery has charged amounts placed into the prize reserve funds to prize expense as the related sales have occurred. The reserve funds are not reflected on the Lottery's statements of net assets as of June 30, 2012 and 2011, respectively.

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game and the Mega Millions game. With certain restrictions, the balances in this account are refundable to the member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2012 and 2011 the Lottery's portion of the balance of this account was \$0 and \$12,030, respectively, and is reported as a receivable.

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**10. Amounts Held On Behalf of Grand-Prize Winners Liability**

The Lottery has an implied contract to make future installment payments to grand-prize winners, and as such, recognizes this as amounts held on behalf of grand-prize winners. Amounts due to grand-prize winners are carried at the estimated present value of the prizes that will eventually be awarded. The present value of these payments at June 30, 2012 and 2011 was \$47,162,115 and \$49,567,070 respectively. This is funded with the maturing U.S. Treasury Zero Coupon Bonds that are restricted for this purpose.

The balances of these maturities at June 30, 2012, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 7,623,000
2014	6,666,000
2015	5,290,000
2016	5,030,000
2017	3,830,000
2018 through 2022	16,020,000
2023 through 2027	13,116,000
2028 through 2032	5,480,000
2033 through 2036	1,076,000
Total installment payments due	<u>64,131,000</u>
Less- Interest portion	<u>16,968,885</u>
	<u>\$ 47,162,115</u>

The Lottery has also purchased annuity contracts in the name of the prize winners from selected insurance companies to fund certain grand-prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. The Lottery would assume liability for future payments if the insurance companies were to default on their payments; however, this possibility is remote and therefore no liability is recorded. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$9,300,000 and \$5,800,000 at June 30, 2012 and 2011, respectively.

**11. Long-Term Liabilities**

The changes in long-term liabilities consist of the following:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 21,338,965	\$273,597,799	\$280,042,095	\$ 14,894,668	\$ 11,805,372
Grand-prize winner liabilities	<u>49,567,070</u>	<u>6,209,045</u>	<u>8,614,000</u>	<u>47,162,115</u>	<u>7,623,000</u>
Total	<u>\$ 70,906,035</u>	<u>\$279,806,844</u>	<u>\$288,656,095</u>	<u>\$ 62,056,783</u>	<u>\$ 19,428,372</u>
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 24,956,300	\$255,807,030	\$259,424,365	\$ 21,338,965	\$ 18,315,181
Grand-prize winner liabilities	<u>57,222,404</u>	<u>2,904,666</u>	<u>10,560,000</u>	<u>49,567,070</u>	<u>8,614,000</u>
Total	<u>\$ 82,178,704</u>	<u>\$258,711,696</u>	<u>\$269,984,365</u>	<u>\$ 70,906,035</u>	<u>\$ 26,929,181</u>



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**12. Postretirement Benefits**

As a State agency, the Lottery participates in a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Missouri Consolidated Health Care Plan (MCHCP). Retirees who had medical insurance coverage for six months immediately prior to termination or state-sponsored medical insurance coverage since the effective date of the last enrollment period (or since first eligible), before they are eligible to retire, based on their plan's criteria, may continue coverage into retirement.

MCHCP medical insurance benefits are provided through self-funded preferred provider organizations (PPO), various health maintenance organizations (HMO), and self-funded HMOs. Generally, these include hospital, medical, mental health and substance abuse benefits and prescription drug benefits.

The Lottery's policy regarding retiree healthcare benefits is to pay the amounts billed through the State's fringe benefit rate on a pay-as-you-go basis. The Lottery has no obligation beyond the payment of the State's fringe benefit rate for retiree healthcare benefits. The State's policy is that the State is responsible for recording the annual required contribution and the actuarial accrued liability for the Lottery's retiree health care benefits in the State's government-wide financial statements.

**13. Contingencies**

There are claims and/or lawsuits to which the Lottery is a party as a result of matters arising in the ordinary course of business. The final outcome of any claim or lawsuit is not presently determinable. Management does not anticipate the resolution of these matters to have a materially adverse effect on the financial condition of the Lottery.

**14. Restatement**

The financial statements have been restated to reflect the impact of an overstatement in Cash and Cash Equivalents and Due to Lottery Proceeds Fund as of June 30, 2011. The overstatement resulted from cash received from retailers on July 1, 2011 being posted to the Lottery Enterprise Fund by Department of Revenue's Internal Cash Management Office (ICMO) on June 30, 2011, prior to the funds actually being transferred. The following table reflects a summary of the restatements:

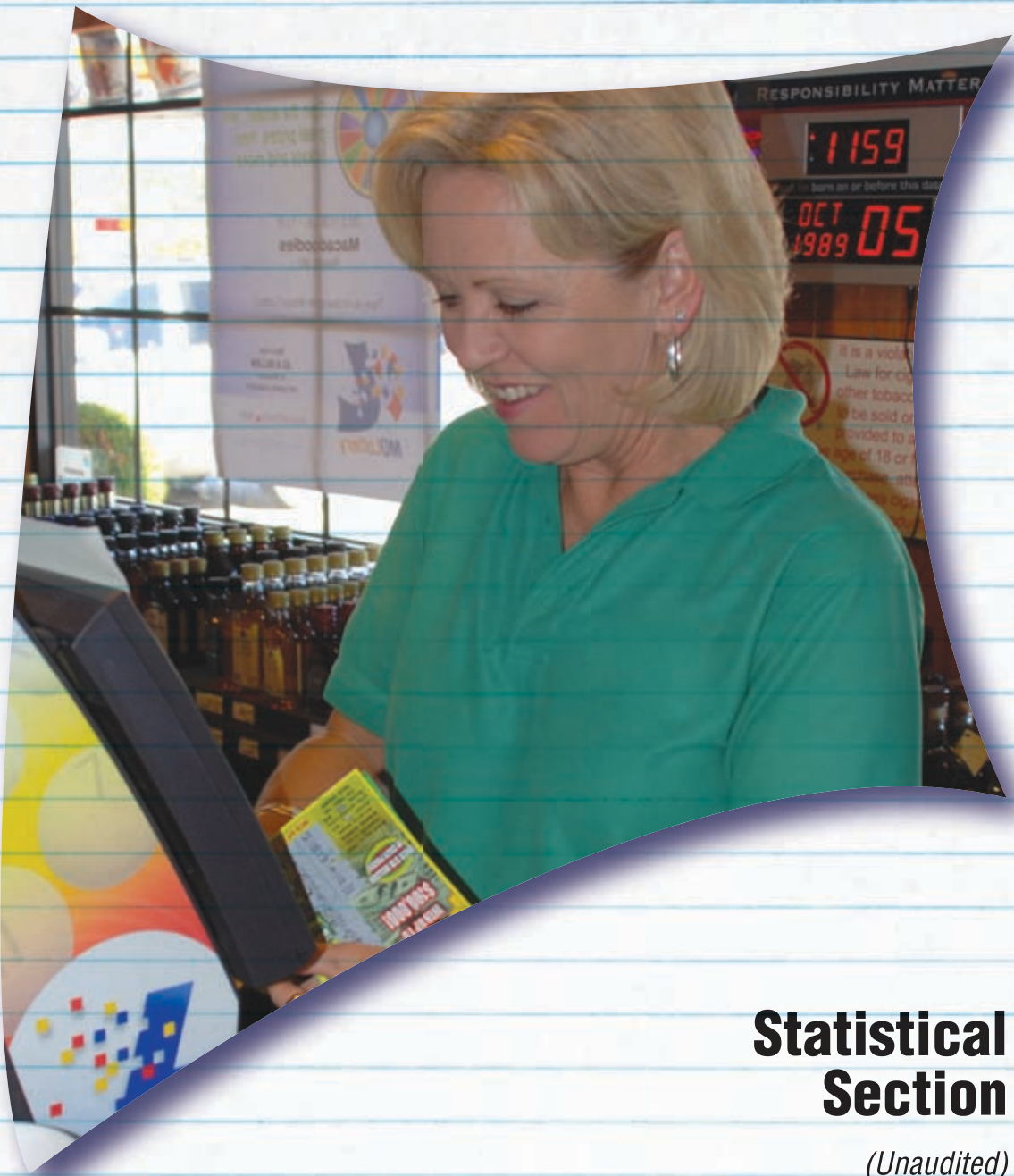
	June 30, 2011 As Previously Reported	Adjustments	June 30, 2011 As Restated
<u>Statement of Net Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 28,039,576	\$ (9,372,083)	\$ 18,667,493
Total Current Assets	\$ 86,717,980	\$ (9,372,083)	\$ 77,345,897
Total Assets	\$ 137,343,037	\$ (9,372,083)	\$ 127,970,954
Current Liabilities			
Due to Lottery Proceeds Fund	\$ 27,687,264	\$ (9,372,083)	\$ 18,315,181
Total Current Liabilities	\$ 87,063,446	\$ (9,372,083)	\$ 77,691,363
Total Liabilities	\$ 131,040,300	\$ (9,372,083)	\$ 121,668,217
<u>Statement of Revenues, Expenses and Changes in Net Assets</u>			
Operating Expenses			
Scratchers prizes	\$ 456,079,511	\$ 9,372,083	\$ 465,451,594
Total Operating Expenses	\$ 746,071,020	\$ 9,372,083	\$ 755,443,103
Operating Income	\$ 255,130,572	\$ (9,372,083)	\$ 245,758,489
Nonoperating Revenues (Expenses)			
Transfers to State of Missouri	\$ (265,179,113)	\$ 9,372,083	\$ (255,807,030)
Total Nonoperating Revenues (Expenses)	\$ (256,777,068)	\$ 9,372,083	\$ (247,404,985)

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**14. Restatement (continued)**

	June 30, 2011 As Previously Reported	Adjustments	June 30, 2011 As Restated
<u>Statement of Cash Flows</u>			
Cash Flows from Operating Activities			
Cash paid for prizes	\$ (634,398,003)	\$ (9,372,083)	\$ (643,770,086)
Net cash provided by operating activities	\$ 255,497,104	\$ (9,372,083)	\$ 246,125,021
Net increase (decrease) in cash and cash equivalents	\$ 5,881,858	\$ (9,372,083)	\$ (3,490,225)
Cash and cash equivalents, end of year	\$ 28,039,576	\$ (9,372,083)	\$ 18,667,493
Reconciliation of Operating Income to Net Cash			
Provided by Operating Activities			
Operating income	\$ 255,130,571	\$ (9,372,083)	\$ 245,758,489
Net cash provided by operating activities	\$ 255,497,104	\$ (9,372,083)	\$ 246,125,021



## **Statistical Section**

*(Unaudited)*

## **Missouri State Lottery Commission Statistical Information Section**

This section of the Missouri State Lottery Commission’s comprehensive annual financial report presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing the Lottery’s overall financial health.

<b>Contents</b>	<b>Page</b>
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<b>Financial Trends</b>	<b>39</b>
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These schedules contain trend information from the current year and prior years’ comprehensive annual financial reports to help a reader understand how the Lottery’s financial performance and position have changed over time.

<b>Revenue Capacity</b>	<b>46</b>
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These schedules contain information to help the reader assess factors affecting the Lottery’s ability to generate sales of lottery tickets. Scratchers ticket game strategies, such as price points and launch schedules, affect the selection and availability of products for sale at retail locations. Information for draw sales by game, included in the financial trends section, provides data about the various drawing based games that are available to the public. The Lottery’s statewide retailer network determines the market exposure for Scratchers and Draw Games.

<b>Demographic and Economic Information</b>	<b>50</b>
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These schedules contain demographic and economic indicators to help a reader understand the environment in which the Lottery operates.

<b>Operating Information</b>	<b>53</b>
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These schedules contain information about the Lottery’s organizational structure, financial performance indicators compared to other lotteries in the United States and capital asset information.

With the exception of information on retailers and sales for each region, statistical information is provided for the most recent ten years. In the future, data for this schedule will be accumulated and, in due course, the schedule will contain information for a ten-year period.

## Financial Trends

Information for the Missouri State Lottery Commission for the last ten fiscal years, 2003 through 2012, is presented in the accompanying schedules and charts. The Missouri State Lottery Commission was created on November 6, 1984 by the passage of a constitutional amendment and began selling tickets in January 1986.

The following information is presented in the accompanying schedules and charts:

**Revenue** – includes sales, interest income, retailer fees and other income amounts. Interest income does not reflect interest from investments for Lotto payments.

**Sales** – reflects the face value of lottery tickets.

**Retailer commission and incentives** – includes the base commission and cashing, promotional and program incentive payments.

**Prizes** – reflects the liability incurred for payments to winners.

**Ticket costs** – includes the purchase cost of Scratchers and pull-tab tickets and payments to the Draw Game games service provider.

**Administration** – includes all operating expenses not included in prizes, retailer commissions and incentives or ticket costs.

**Transfers to the State** – reflects the transfer of net income, excluding unrealized gains on investments and amortization of grand-prize winner liability, to the Lottery Proceeds Fund for fiscal years 2003 through 2012. Transfers made during fiscal year 2012 include \$10,385,777 of unclaimed prizes. The Lottery Proceeds Fund is appropriated by the Missouri State General Assembly to the Department of Higher Education and the Department of Elementary and Secondary Education. Profits not yet transferred are shown on the balance sheet as a liability.

**Expenses and transfers** – includes prizes, retailer commissions and incentives, ticket costs and administration costs as described above, as well as transfers made to the state.

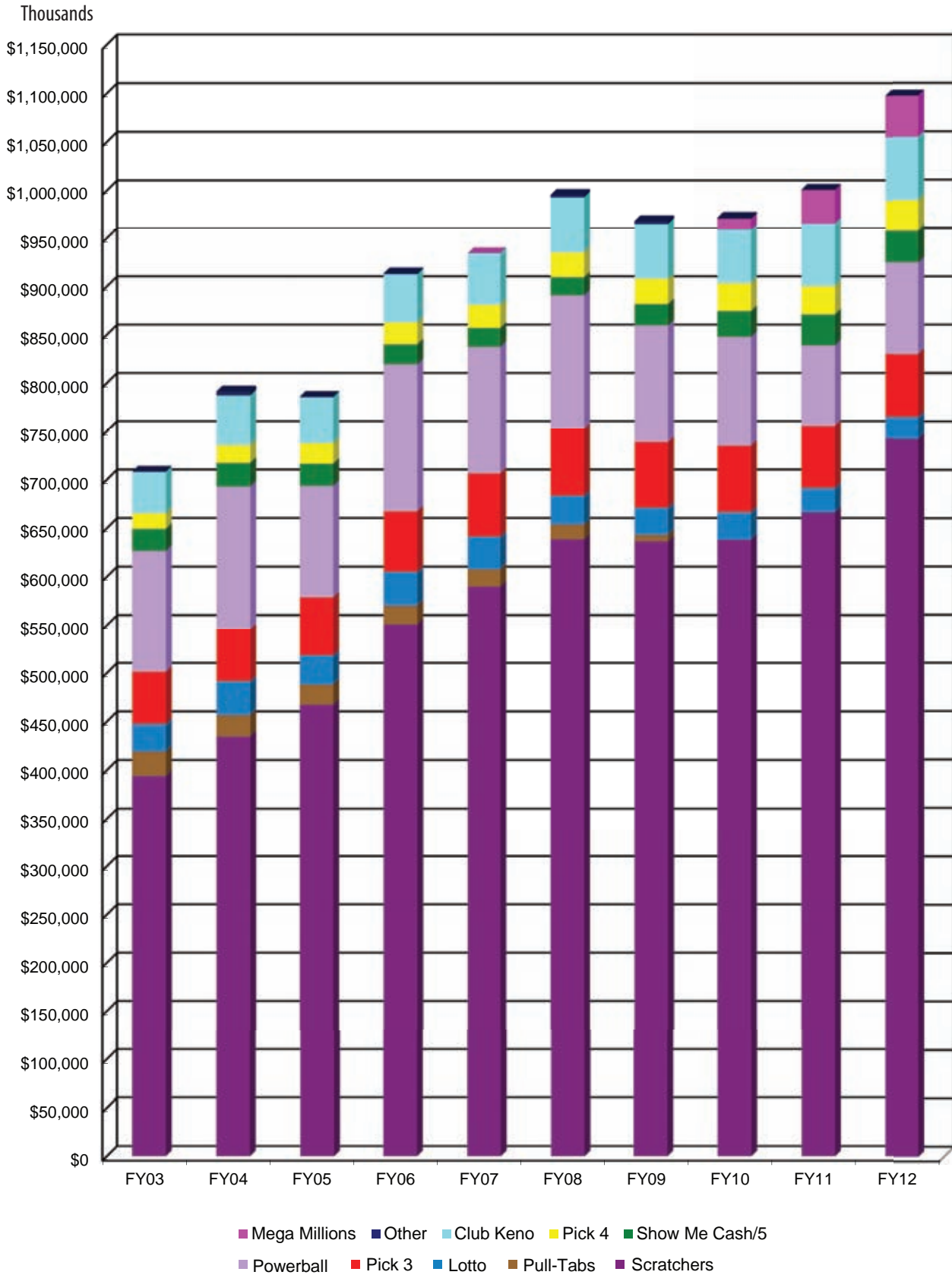
Unless otherwise noted, the source for the data used to prepare the following schedules and charts is the Financial Accounting Section of the Missouri State Lottery Commission.

**Missouri State Lottery Commission**  
**Schedule of Changes in Net Assets and Schedule of Net Assets**  
**Last Ten Fiscal Years**  
**(Unaudited)**

	2003	2004	2005	2006
<b>Operating Revenues</b>				
Scratchers ticket sales	\$393,981,254	\$434,791,673	\$467,326,093	\$550,961,109
Draw Game ticket sales				
Lotto	28,736,839	35,015,934	30,311,403	35,062,426
Pick 3	53,569,248	53,946,082	60,558,754	62,274,077
Powerball	125,324,451	147,232,847	114,485,380	151,772,839
Show Me Cash	22,665,639	24,337,775	23,056,447	20,861,442
Pick 4	16,157,968	18,436,614	21,338,535	22,605,473
Club Keno	42,570,878	51,531,568	47,616,083	49,948,394
Mega Millions	-	-	-	-
EZ Match	-	-	-	-
Raffle	-	-	-	877,591
Xtra	-	4,014,945	173,848	-
Lucky Dough	-	-	-	-
Total draw game ticket sales	<u>289,025,023</u>	<u>334,515,765</u>	<u>297,540,450</u>	<u>343,402,242</u>
Pull-Tab ticket sales	<u>25,041,235</u>	<u>21,846,920</u>	<u>20,731,089</u>	<u>19,154,900</u>
<b>Total sales</b>	<u>708,047,512</u>	<u>791,154,358</u>	<u>785,597,632</u>	<u>913,518,251</u>
<b>Other Operating Revenues</b>	<u>539,609</u>	<u>638,392</u>	<u>340,957</u>	<u>167,767</u>
<b>Total operating revenues</b>	<u>708,587,121</u>	<u>791,792,750</u>	<u>785,938,589</u>	<u>913,686,018</u>
<b>Operating Expenses</b>				
<b>Direct costs</b>				
Prize expense	434,559,460	484,827,462	487,925,882	572,767,960
Retailer compensation	44,453,462	49,316,766	48,798,722	56,543,150
Ticket costs	16,712,029	18,341,746	17,543,004	16,282,739
<b>Total direct costs</b>	<u>495,724,951</u>	<u>552,485,974</u>	<u>554,267,608</u>	<u>645,593,849</u>
<b>Administrative expenses</b>	<u>26,561,873</u>	<u>22,619,483</u>	<u>21,430,609</u>	<u>20,290,872</u>
Total operating expenses	<u>522,286,824</u>	<u>575,105,457</u>	<u>575,698,217</u>	<u>665,884,721</u>
Operating Income	<u>186,300,297</u>	<u>216,687,293</u>	<u>210,240,372</u>	<u>247,801,297</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	382,523	470,448	571,049	1,459,617
Unclaimed prizes*	16,720,584	12,283,414	7,811,413	11,392,679
Net increase (decrease) in the fair value of investments	11,259,456	(1,546,223)	6,300,009	(1,424,646)
Amortization of grand prize winner liability	(5,473,304)	(5,255,750)	(5,259,106)	(4,956,265)
Gain (loss) on disposal of assets	62,857	(13,972)	19,876	15,142
Transfers to the state	(203,466,261)	(229,427,183)	(218,642,710)	(260,668,734)
Transfers from the state	-	-	-	-
Total nonoperating expenses	<u>(180,514,145)</u>	<u>(223,489,266)</u>	<u>(209,199,469)</u>	<u>(254,182,207)</u>
<b>Changes In Net Assets</b>	5,786,152	(6,801,973)	1,040,903	(6,380,910)
<b>Total Net Assets, Beginning of Year</b>	<u>10,298,314</u>	<u>16,084,466</u>	<u>9,282,493</u>	<u>10,323,396</u>
<b>Total Net Assets, End of Year</b>	<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>
* - effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers all unclaimed prizes to the Lottery Proceeds Fund				
<b>Net Assets</b>				
Invested in capital assets	\$4,986,696	\$4,151,722	\$3,295,311	\$3,068,609
Unrestricted	(4,986,696)	(4,151,722)	(3,295,311)	(3,068,609)
Restricted	16,084,466	9,282,493	10,323,396	3,942,486
<b>Total Net Assets</b>	<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>\$590,045,817</u>	<u>\$638,533,775</u>	<u>\$636,574,616</u>	<u>\$638,062,954</u>	<u>\$666,315,849</u>	<u>\$742,541,015</u>
33,955,803	29,955,387	28,116,282	28,751,655	25,214,432	22,564,631
65,091,442	68,680,133	67,665,040	68,177,109	64,075,659	65,074,532
130,795,800	138,393,572	120,677,712	112,711,538	83,319,805	94,688,699
19,684,271	18,836,176	22,168,807	26,711,262	29,503,742	28,970,446
24,015,250	25,751,837	26,434,016	29,117,093	29,557,118	31,378,162
53,273,105	57,753,303	57,378,494	55,192,089	65,302,751	65,331,226
-	-	-	12,059,295	34,852,442	42,792,811
-	-	-	-	2,490,930	4,086,174
-	2,500,000	1,717,410	-	-	-
-	-	-	-	-	-
-	-	1,256,408	1,081,490	45,678	-
<u>326,815,671</u>	<u>341,870,408</u>	<u>325,414,169</u>	<u>333,801,531</u>	<u>334,362,557</u>	<u>354,886,681</u>
<u>17,409,170</u>	<u>15,088,705</u>	<u>6,463,110</u>	-	-	-
934,270,658	995,492,888	968,451,895	971,864,485	1,000,678,406	1,097,427,696
<u>1,395,548</u>	<u>649,422</u>	<u>596,377</u>	<u>50,414</u>	<u>523,186</u>	<u>1,294,455</u>
<u>935,666,206</u>	<u>996,142,310</u>	<u>969,048,272</u>	<u>971,914,899</u>	<u>1,001,201,592</u>	<u>1,098,722,151</u>
595,022,614	641,123,508	629,276,635	628,057,994	648,382,278	722,079,619
58,257,753	61,508,836	60,109,568	59,900,383	61,850,265	67,830,868
16,280,719	17,289,790	16,077,548	16,106,631	16,522,096	15,318,902
<u>669,561,086</u>	<u>719,922,134</u>	<u>705,463,751</u>	<u>704,065,008</u>	<u>726,774,304</u>	<u>805,209,724</u>
<u>19,987,112</u>	<u>20,362,542</u>	<u>20,466,793</u>	<u>20,809,357</u>	<u>28,688,464</u>	<u>30,380,982</u>
<u>689,548,198</u>	<u>740,284,676</u>	<u>725,930,544</u>	<u>724,874,365</u>	<u>755,443,103</u>	<u>835,610,371</u>
<u>246,118,008</u>	<u>255,857,634</u>	<u>243,117,728</u>	<u>247,040,534</u>	<u>245,758,489</u>	<u>263,111,780</u>
1,360,853	1,430,382	731,222	310,040	151,545	94,134
10,349,767	9,330,350	12,403,901	12,318,398	9,853,309	10,385,777
4,294,279	6,893,961	4,365,372	4,560,063	1,258,170	5,882,052
(4,647,958)	(4,215,836)	(3,861,661)	(3,381,475)	(2,904,666)	(2,509,798)
54,077	37,679	(26,702)	3,739	43,687	6,109
(257,882,704)	(266,656,044)	(256,286,630)	(259,672,711)	(255,807,030)	(273,597,799)
-	-	60,481	-	-	-
<u>(246,471,686)</u>	<u>(253,179,508)</u>	<u>(242,614,017)</u>	<u>(245,861,946)</u>	<u>(247,404,985)</u>	<u>(259,739,525)</u>
(353,678)	2,678,126	503,711	1,178,588	(1,646,496)	3,372,255
<u>3,942,486</u>	<u>3,588,808</u>	<u>6,266,934</u>	<u>6,770,645</u>	<u>7,949,233</u>	<u>\$6,302,737</u>
<u>\$3,588,808</u>	<u>\$6,266,934</u>	<u>\$6,770,645</u>	<u>\$7,949,233</u>	<u>\$6,302,737</u>	<u>\$9,674,992</u>
<hr/>					
\$3,411,563	\$3,923,538	\$3,478,013	\$3,458,481	\$3,364,727	\$3,442,269
(3,411,563)	(3,923,538)	(3,478,013)	(3,458,481)	(3,364,727)	(3,442,269)
<u>3,588,808</u>	<u>6,266,934</u>	<u>6,770,645</u>	<u>7,949,233</u>	<u>6,302,737</u>	<u>9,674,992</u>
<u>\$3,588,808</u>	<u>\$6,266,934</u>	<u>\$6,770,645</u>	<u>\$7,949,233</u>	<u>\$6,302,737</u>	<u>\$9,674,992</u>

**Missouri State Lottery Commission  
Sales By Product  
Last Ten Fiscal Years  
(Unaudited)**

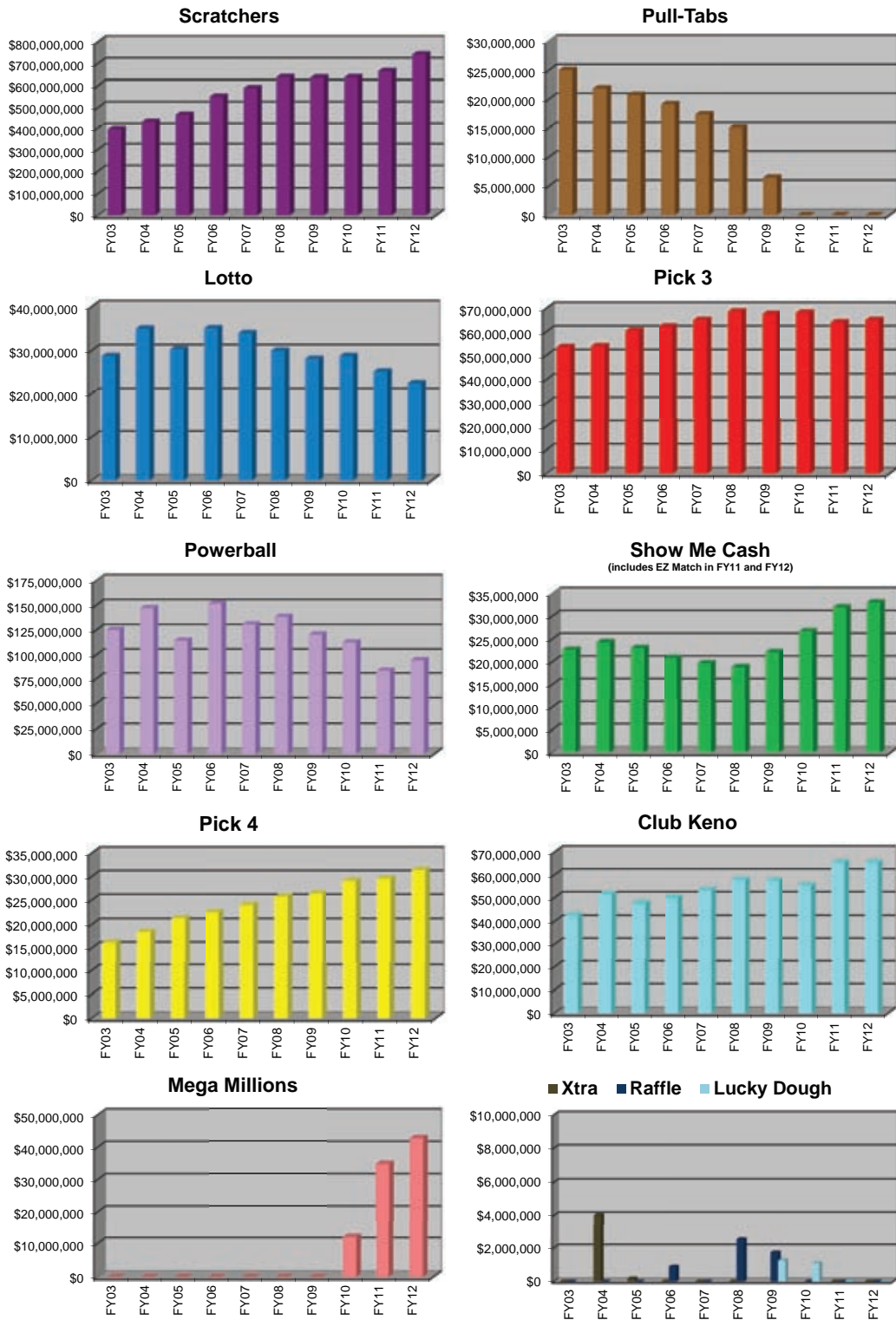




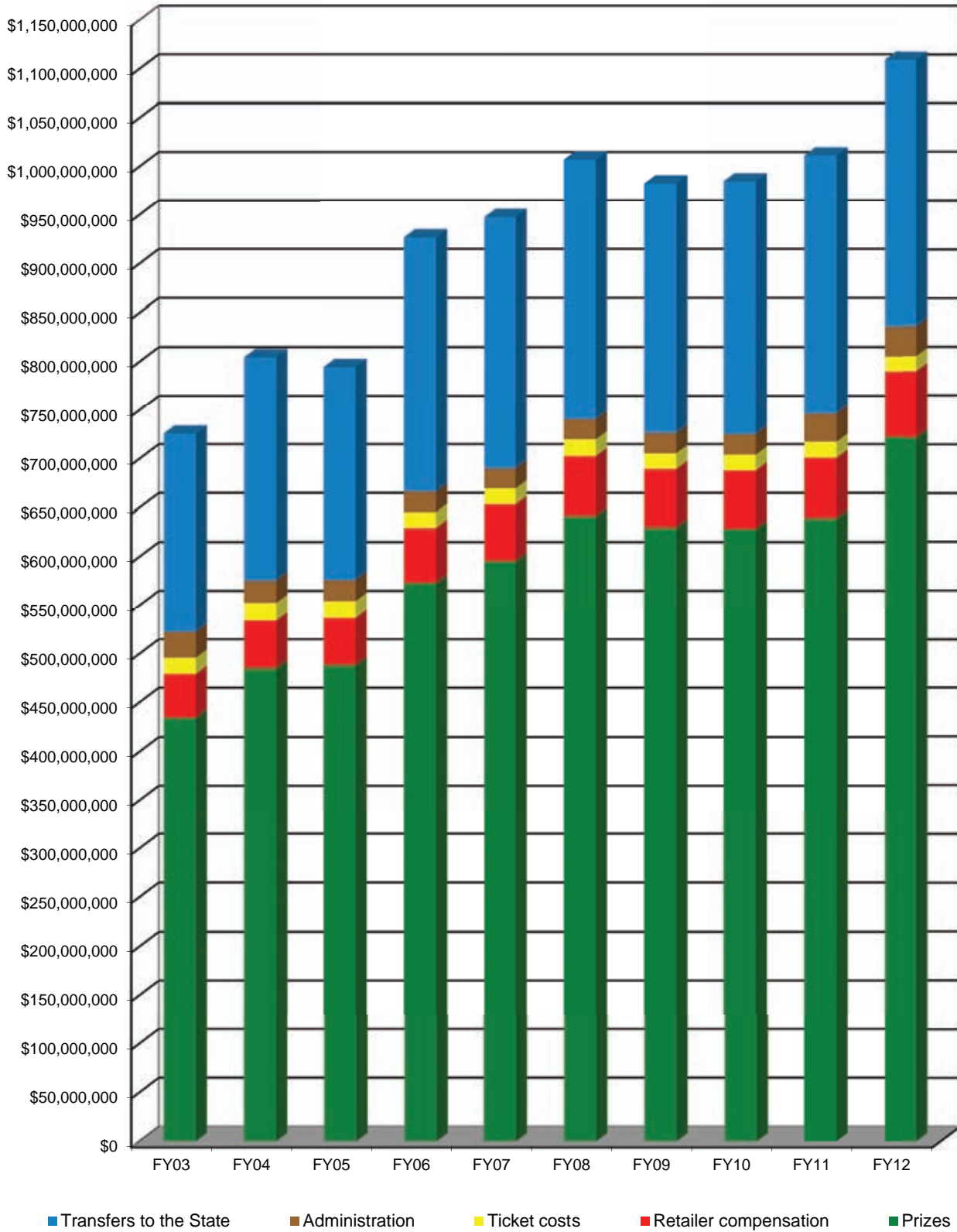
# Missouri State Lottery Commission

## Sales By Fiscal Year By Product Line

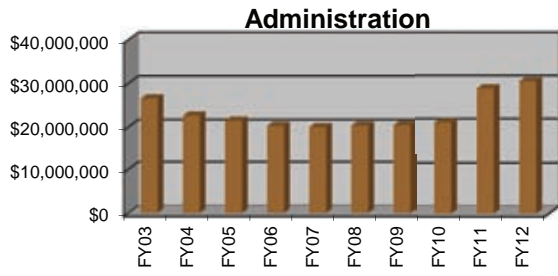
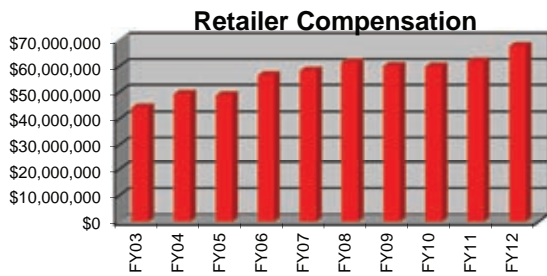
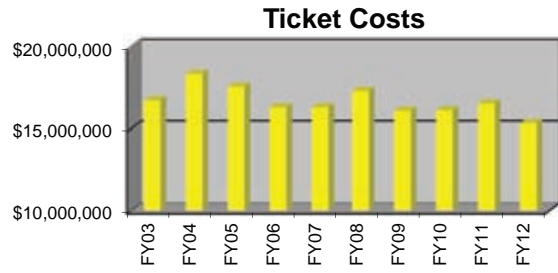
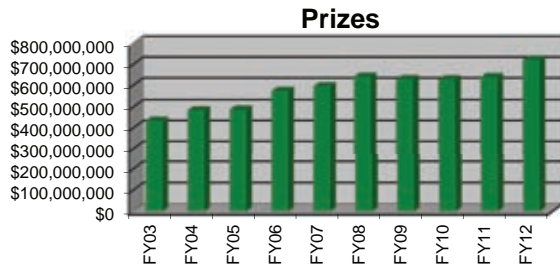
### Last Ten Fiscal Years (Unaudited)



**Missouri State Lottery Commission  
Expenses and Transfers  
Last Ten Fiscal Years  
(Unaudited)**



## Missouri State Lottery Commission Expenses and Transfers Last Ten Fiscal Years (Unaudited)



**Missouri State Lottery Commission**  
**Schedule of Scratchers Ticket Game Launches and Sales By Price Point**  
**Last Ten Fiscal Years**  
**(Unaudited)**

Price Point	2003	2004	2005	2006	2007
<b>Number of Launches</b>					
\$1	15	15	14	14	11
\$2	20	24	22	22	19
\$3	2	2	2	1	2
\$5	7	6	9	10	9
\$10	5	5	7	3	1
\$20	-	-	-	-	-
<b>Total</b>	<b>49</b>	<b>52</b>	<b>54</b>	<b>50</b>	<b>42</b>
<b>Sales</b>					
\$1	\$143,870,364	\$132,474,169	\$120,824,709	\$109,864,276	\$99,694,829
\$2	117,812,464	150,207,177	162,535,252	169,626,074	183,404,816
\$3	20,099,812	24,940,942	27,283,622	28,130,183	32,647,121
\$5	50,094,329	57,003,246	73,989,819	108,561,454	133,382,786
\$10	62,104,285	70,166,139	82,692,691	134,779,122	140,916,265
\$20	-	-	-	-	-
	<b>\$393,981,254</b>	<b>\$434,791,673</b>	<b>\$467,326,093</b>	<b>\$550,961,109</b>	<b>\$590,045,817</b>

2008	2009	2010	2011	2012	% of Total 2012
9	11	11	11	12	23.53%
18	15	14	14	15	29.41%
2	5	7	7	6	11.76%
9	10	8	11	14	27.45%
1	2	3	2	3	5.89%
1	1	1	1	1	1.96%
<u>40</u>	<u>44</u>	<u>44</u>	<u>46</u>	<u>51</u>	<u>100.00%</u>
\$85,622,427	\$88,731,681	\$82,671,825	\$81,643,988	\$84,981,064	11.44%
177,465,587	159,437,206	142,217,688	142,079,513	151,120,846	20.35%
35,194,190	62,411,862	88,327,022	92,204,540	85,998,362	11.58%
140,942,309	146,339,990	147,668,657	166,281,836	206,417,583	27.80%
134,285,251	88,918,424	96,437,335	92,587,827	105,138,848	14.16%
65,024,011	90,735,453	80,740,427	91,518,145	108,884,312	14.66%
<u>\$638,533,775</u>	<u>\$636,574,616</u>	<u>\$638,062,954</u>	<u>\$666,315,849</u>	<u>\$742,541,015</u>	<u>100.00%</u>

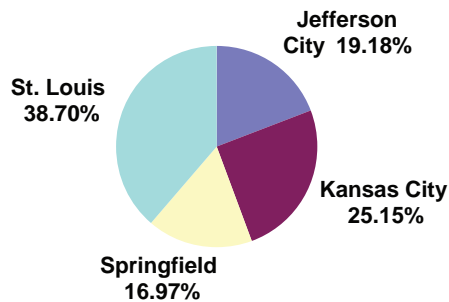
**Missouri State Lottery Commission**  
**Schedule of Lottery Retailers and Sales By Region**  
**Fiscal Years Ending June 30, 2006, 2007, 2008, 2009, 2010, 2011 and 2012**  
**(Unaudited)**

Region	Number of Retailers						
	2006	2007	2008	2009	2010	2011	2012
Jefferson City	909	864	893	857	863	890	947
Kansas City	1,313	1,313	1,325	1,278	1,273	1,307	1,242
Springfield	922	904	924	871	875	879	838
St. Louis	1,789	1,765	1,866	1,759	1,767	1,785	1,911
<b>Total Statewide</b>	<b>4,933</b>	<b>4,846</b>	<b>5,008</b>	<b>4,765</b>	<b>4,778</b>	<b>4,861</b>	<b>4,938</b>

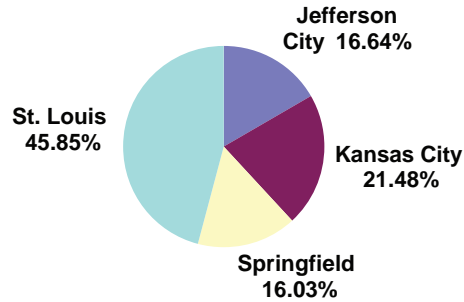
Region	Total Sales						
	2006	2007	2008	2009	2010	2011	2012
Jefferson City	\$133,903,265	\$136,964,078	\$150,518,525	\$145,752,010	\$148,986,826	\$167,613,633	\$182,611,969
Kansas City	211,175,672	212,733,429	225,280,041	218,289,057	219,544,187	212,143,822	235,727,469
Springfield	170,395,799	170,597,822	180,881,058	170,350,688	164,536,657	159,408,070	175,917,660
St. Louis	398,043,515	413,975,329	438,813,264	434,060,139	438,796,815	461,512,881	503,170,598
<b>Total Statewide</b>	<b>\$913,518,251</b>	<b>\$934,270,658</b>	<b>\$995,492,888</b>	<b>\$968,451,895</b>	<b>\$971,864,485</b>	<b>\$1,000,678,406</b>	<b>\$1,097,427,696</b>

**FY2012**

**Percentage of Retailers By Region**



**Percentage of Total Sales By Region**



**Source:** Missouri State Lottery Commission Research Section

**Note:** Information is accumulated and retained in this format only for Fiscal Years 2006, 2007, 2008, 2009, 2010, 2011 and 2012. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

**% of Total Retailers**

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
18.43%	17.83%	17.83%	17.99%	18.06%	18.31%	19.18%
26.62%	27.09%	26.46%	26.82%	26.64%	26.89%	25.15%
18.69%	18.66%	18.45%	18.28%	18.32%	18.08%	16.97%
36.26%	36.42%	37.26%	36.91%	36.98%	36.72%	38.70%
<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**% of Total Sales**

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
14.66%	14.66%	15.12%	15.05%	15.33%	16.75%	16.64%
23.12%	22.77%	22.63%	22.54%	22.59%	21.20%	21.48%
18.65%	18.26%	18.17%	17.59%	16.93%	15.93%	16.03%
43.57%	44.31%	44.08%	44.82%	45.15%	46.12%	45.85%
<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Missouri State Lottery Commission**  
**Schedule of Demographic and Economic Statistics**  
**Calendar Years 2003 To 2012**  
**(Unaudited)**

<b>Calendar Year</b>	<b>Statewide Population</b>	<b>Statewide Personal Income (millions of dollars)</b>	<b>Statewide Personal Income per Capita</b>	<b>State Unemployment Rate</b>
2003	5,712,355	\$ 166,129	\$ 29,082	5.4%
2004	5,752,861	\$ 173,968	\$ 30,240	5.4%
2005	5,797,703	\$ 181,930	\$ 31,380	5.9%
2006	5,842,713	\$ 191,602	\$ 32,793	4.7%
2007	5,878,415	\$ 199,773	\$ 33,984	5.0%
2008	5,911,605	\$ 208,255	\$ 35,228	6.5%
2009	5,987,580	\$ 215,181	\$ 35,938	9.3%
2010	5,988,927	\$ 221,465	\$ 36,979	9.2%
2011	6,010,688	\$ 229,898	\$ 38,248	8.7%
2012	n/a	n/a	n/a	7.1%

**Sources:**

Population from U.S. Census Bureau;

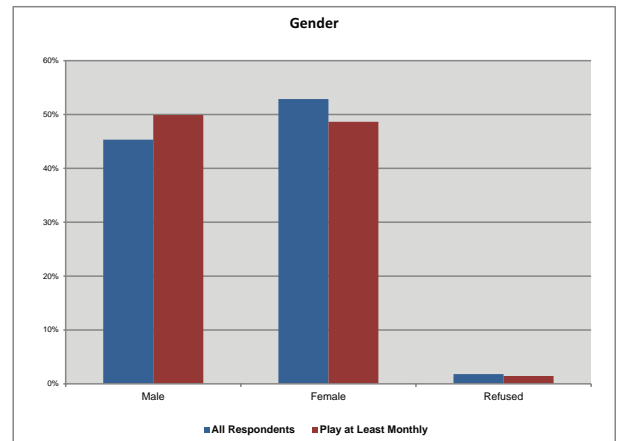
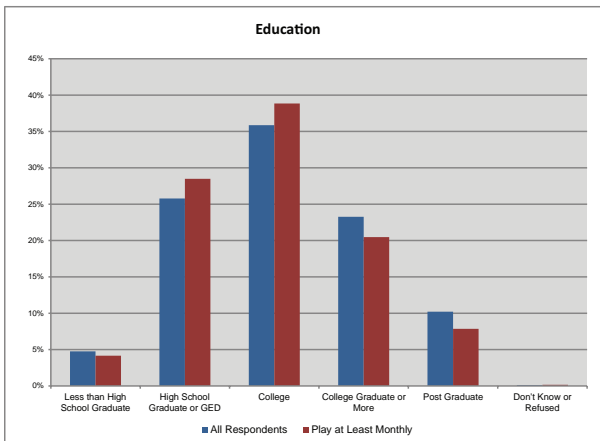
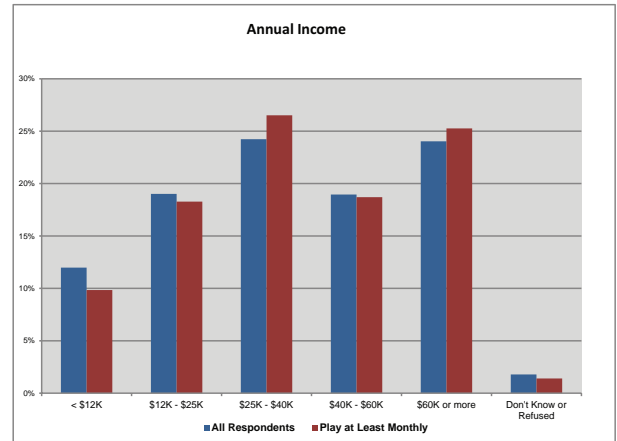
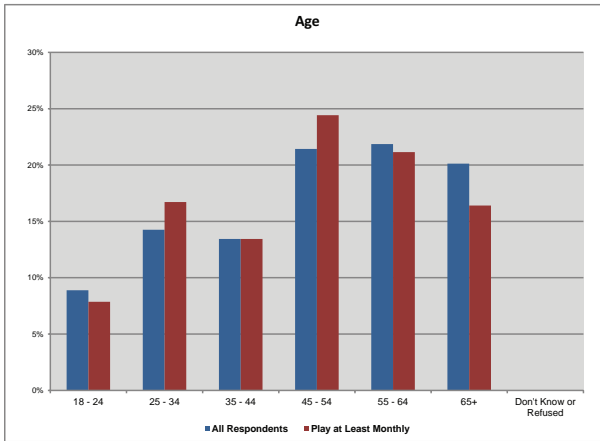
Personal income from U.S. Bureau of Economic Analysis

Unemployment rate from U.S. Department of Labor, Bureau of Statistics

n/a - not yet available



## Missouri State Lottery Commission Demographic Group Participation Fiscal Year 2012



**Source:** Missouri Lottery Track and Trend Report FY2012

**Missouri State Lottery Commission  
State of Missouri Major Employers  
Calendar Years 2011 and 2002**

**2011**

<b>Employer</b>	<b>Number of Employees</b>	<b>Percent of Total State Employment</b>
State Of Missouri*	64,000	2.47%
Wal-Mart Associates, Inc.	25,000 +	0.96%
University Of Missouri	20,000-25,000	0.77%-0.96%
The Washington University	15,000-20,000	0.58%-0.77%
US Post Office	15,000-20,000	0.58%-0.77%
The Boeing Company	10,000-15,000	0.38%-0.58%
Barnes-Jewish Hospital	7,500-10,000	0.29%-0.38%
Department Of Defense	7,500-10,000	0.29%-0.38%
Schnuck Markets, Inc.	7,500-10,000	0.29%-0.38%
Department Of Veterans Affairs	7,500-10,000	0.29%-0.38%
Division Of Adult Institutions	7,500-10,000	0.29%-0.38%
	186,500-219,000	7.19%-8.41%
<b>Total Statewide Employment</b>	<b>2,584,740</b>	

**2002**

<b>Employer</b>	<b>Number of Employees</b>	<b>Percent of Total State Employment</b>
State Of Missouri*	66,000	2.49%
Wal-Mart Associates, Inc.	35,000-40,000	1.32%-1.50%
University Of Missouri	20,000-25,000	0.75%-0.94%
US Post Office	20,000-25,000	0.75%-0.94%
The Boeing Company	10,000-15,000	0.37%-0.56%
The Washington University	10,000-15,000	0.37%-0.56%
Schnuck Markets, Inc.	10,000-15,000	0.37%-0.56%
US Department Of Defense	7,500-10,000	0.28%-0.37%
Barnes-Jewish Hospital	7,500-10,000	0.28%-0.37%
Federated Retail/Macy's	7,500-10,000	0.28%-0.37%
City Of St Louis	7,500-10,000	0.28%-0.37%
	201,000-241,000	7.54%-9.03%
<b>Total Statewide Employment</b>	<b>2,650,350</b>	

All figures are based on a calendar-year average.

\*Number of state employees includes only full-time personnel and does not include college or university employees.

Sources: Missouri Economic Research and Information Center

**Missouri State Lottery Commission  
Schedule of Lottery Employees  
Last Ten Fiscal Years  
(Unaudited)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Full-time	177.0	177.0	175.0	175.0	173.0	173.0	173.0	163.0	159.0	153.0
Part-time	1.5	1.5	1.5	1.5	0.5	0.5	0.5	0.5	0.5	0.5
Total	<u>178.5</u>	<u>178.5</u>	<u>176.5</u>	<u>176.5</u>	<u>173.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>	<u>159.5</u>	<u>153.5</u>
Sales										
Jefferson City	12.0	12.0	12.0	12.0	11.0	11.0	10.0	9.0	10.0	10.0
Springfield	8.0	8.0	8.0	8.0	9.0	9.0	10.0	9.0	8.0	8.0
Kansas City	15.0	15.0	15.0	15.0	15.0	15.0	15.0	14.0	14.0	14.0
St. Louis	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	11.0	11.0	11.0	11.0	12.0	12.0	12.0	11.0	11.0	11.0
Vault	11.0	11.0	11.0	11.0	12.0	12.0	12.0	12.0	11.0	11.0
Marketing and administration	102.5	101.5	101.5	99.5	99.5	94.5	94.5	88.5	85.5	79.5
Total	<u>179.5</u>	<u>178.5</u>	<u>178.5</u>	<u>176.5</u>	<u>178.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>	<u>159.5</u>	<u>153.5</u>

**Source:** Missouri State Lottery Commission Budget Office

**Missouri State Lottery Commission  
Schedule of Operating Indicators  
Last Ten Fiscal Years  
(Unaudited)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Retailers- Statewide	5,021	5,003	5,022	4,933	4,846	5,008	4,765	4,778	4,861	4,938
Per Capita Sales	\$125	\$138	\$136	\$157	\$160	\$169	\$164	\$162	\$167	\$183

**Source:** Missouri State Lottery Commission Research and Licensing Sections

## U.S. Lotteries' Fiscal Year 2011 Sales by Game\*

(in \$millions)				Draw Games									Total Sales	PC Sales	VLT (net)
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Power Ball	Mega Millions	Hot Lotto	Keno	Other			
Arizona	6.5	373.45	1.01	8.34		34.62	15.60	89.10	47.32			14.09	583.54	\$90	
Arkansas	2.9	390.11		5.81	3.09			34.96	24.11			5.93	464.02	\$158	
California	37.7	2,002.09		130.70	29.50	434.63	159.64		538.55		130.47	13.00	3,438.58	\$91	
Colorado	5.1	344.95				39.26	19.15	70.05	25.13			20.39	518.92	\$101	
Connecticut	3.6	610.57		124.95	100.43	24.34	34.24	60.28	33.18			28.62	1,016.61	\$284	
Delaware	0.9	40.86		25.39	18.04	5.00	0.73	20.40	9.88	3.35		13.29	136.94	\$151	573.62
D.C.	0.6	56.11		53.38	65.37	12.88	0.49	13.92	8.69	3.32	11.55	6.05	231.75	\$375	
Florida	19.1	2,225.68		313.27	235.69	411.39	88.97	392.97				340.7	4,008.72	\$210	
Georgia	9.8	2,161.44		467.57	191.50	21.69	97.35	77.92	147.92		144.28	25.94	3,335.61	\$340	
Idaho	1.6	90.63	6.57	1.65		1.25	2.36	29.68	8.96	3.13		2.91	147.15	\$93	
Illinois	12.9	1,263.68		290.64	190.99	107.66	119.85	97.18	172.01			22.68	2,264.69	\$176	
Indiana	6.5	508.48	10.83	28.96	30.20	61.35	4.32	86.09	36.27			24.95	791.45	\$121	
Iowa	3.1	165.33	18.32	6.57	2.70		3.69	47.12	16.05	11.61			271.39	\$89	
Kansas	2.9	118.61	8.15	5.83		1.78	14.86	32.56	11.40	8.78	24.05	6.36	232.37	\$81	
Kentucky	4.4	424.65	1.80	121.52	35.97	10.01	11.63	71.96	33.49			8.33	719.37	\$165	
Louisiana	4.6	148.08		49.01	37.38	32.92		98.50				17.70	383.59	\$84	
Maine	1.3	156.95		5.34	4.17	18.28	3.41	19.76	5.31	3.21			216.43	\$163	
Maryland	5.8	493.55		260.82	254.65	27.95	21.39	57.71	101.61		380.57	116.17	1,714.40	\$294	103.13
Massachusetts	6.6	3,008.07	0.88		344.44	30.63	77.51	60.83	104.91		768.22	20.80	4,416.29	\$670	
Michigan	9.9	739.22	26.87	327.39	358.18	44.07	53.67	85.93	167.84		513.55	23.24	2,339.96	\$237	
Minnesota	5.3	354.81		13.26			27.33	62.85	19.54	13.32		13.33	504.44	\$94	
Missouri	6.0	666.32		64.08	29.56	25.21	29.50	83.32	34.85		65.30	2.54	1,000.68	\$166	
Montana	1.0	15.08				2.34	3.80	14.48	3.49	3.87		3.14	46.20	\$46	
Nebraska	1.8	71.92		3.28	2.08	1.79	11.37	30.75	10.73				131.92	\$72	
N. Hampshire	1.3	161.38		5.15	5.23	10.54	3.76	26.54	11.60	3.70		0.97	228.87	\$174	
New Jersey	8.8	1,364.54		435.31	258.28	68.53	146.36	132.78	230.63				2,636.45	\$299	
New Mexico	2.1	75.76		3.73			8.75	29.08	10.66	7.56			135.54	\$65	
New York	19.5	3,546.39		854.43	776.58	132.67	328.23	202.63	463.05		424.19	30.50	6,758.66	\$347	1,109.6
N. Carolina	9.7	862.09		258.44	65.31		57.76	138.67	72.85			5.99	1,461.11	\$151	
N. Dakota	0.7					1.73	3.42	9.86	4.52	3.47			23.00	\$34	
Ohio	11.5	1,462.78		364.44	209.04	42.71	62.39	76.37	164.97		157.89	60.40	2,600.99	\$225	
Oklahoma	3.8	102.97		5.85			4.71	54.15	20.95	9.51			198.15	\$52	
Oregon	3.9	115.90			1.28	40.78	5.87	33.49	17.45		93.27	9.42	317.45	\$82	720.51
Pennsylvania	12.7	1,922.11		379.67	254.49	79.03	172.25	214.18	126.22			59.95	3,207.91	\$252	
Rhode Island	1.1	77.22			24.93		5.26	28.18	11.54		81.06	2.40	230.59	\$219	492.59
S. Carolina	4.7	698.26		132.78	65.97		20.90	84.13	41.87			3.21	1,047.12	\$224	
S. Dakota	0.8	22.22				2.16	2.75	12.86	3.22	3.97			47.17	\$57	191.77
Tennessee	6.4	864.73		58.08	25.53		18.53	90.37	45.34				1,102.58	\$172	
Texas	25.7	2,842.27		279.77	63.08	172.50	64.72	124.18	213.77			50.98	3,811.27	\$148	
Vermont	0.6	71.33		1.49	1.23	6.05	1.57	8.14	3.41	1.28		1.0	95.54	\$153	
Virginia	8.1	756.84		241.96	207.17	29.43	26.66	66.61	138.50			15.52	1,482.69	\$183	
Washington	6.8	309.05		16.74	11.17	54.56	20.65	35.59	55.04		5.55	2.12	510.46	\$75	
W. Virginia	1.9	115.70		8.62	4.97		5.44	35.67	10.92	5.83	6.42		193.57	\$104	1,128.59
Wisconsin	5.7	299.05	3.47	24.77	12.14	16.93	25.87	65.13	28.71			26.58	502.65	\$88	
<b>Total</b>	<b>295.6</b>	<b>32,101.20</b>	<b>77.89</b>	<b>5,378.98</b>	<b>3,920.36</b>	<b>2,006.66</b>	<b>1,786.70</b>	<b>3,106.94</b>	<b>3,236.44</b>	<b>85.93</b>	<b>2,806.37</b>	<b>999.28</b>	<b>55,506.8</b>	<b>\$188</b>	<b>4,319.78</b>
% of total		57.8%	0.1%	9.7%	7.1%	3.6%	3.2%	5.6%	5.8%	0.2%	5.1%	1.8%	100.0%		

\* Fiscal year ends June 30 for all U.S. states, except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30)

Source: LaFleur's 2012 World Lottery Almanac

## U.S. Lottery Fiscal Year 2011 Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	2011 Pop. <sup>1</sup> (Mil)	2010 Gross Domestic Product <sup>2</sup>							PC Sales	PC Gov't	Ticket Sales as % of GDP	Gov't Transfers as % of GDP <sup>7</sup>	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale
			Ticket Sales <sup>3</sup>	VLT (net)	Prizes <sup>4</sup>	Agent Comm. <sup>5</sup>	Expense <sup>6</sup>	Gov't Transfers <sup>7</sup>						
Arizona	6.5	228,486	583.54		360.49	39.25	39.33	146.33	\$90	\$23	0.255%	0.064%	61.8%	25.1%
Arkansas	2.9	91,828	464.02		307.45	26.22	38.04	74.43	\$158	\$25	0.505%	0.081%	66.3%	16.0%
California	37.7	1,731,848	3,438.58		1,904.79	233.57	199.40	1,102.86	\$91	\$29	0.199%	0.064%	55.4%	32.1%
Colorado	5.1	235,152	518.92		326.74	39.58	40.04	113.36	\$101	\$22	0.221%	0.048%	63.0%	21.8%
Connecticut	3.6	211,345	1,016.61		620.13	56.96	48.34	291.20	\$284	\$81	0.481%	0.138%	61.0%	28.6%
Delaware <sup>3,4</sup>	0.9	56,199	136.85	573.62	75.85	9.25	18.52	339.90	\$151	\$375	0.244%	0.605%	55.4%	
D.C.	0.6	90,716	231.75		125.86	14.77	28.90	62.18	\$375	\$101	0.255%	0.069%	54.3%	26.8%
Florida	19.1	673,375	4,008.72		2,346.16	223.39	248.77	1,191.82	\$210	\$63	0.595%	0.177%	58.5%	29.7%
Georgia	9.8	361,993	3,335.61		2,120.84	230.93	142.53	846.11	\$340	\$86	0.921%	0.234%	63.6%	25.4%
Idaho	1.6	50,702	147.15		90.23	8.98	12.79	37.11	\$93	\$23	0.290%	0.073%	61.3%	25.2%
Illinois	12.9	581,259	2,264.69		1,368.47	111.94	120.85	668.42	\$176	\$52	0.390%	0.115%	60.4%	29.5%
Indiana	6.5	245,442	791.45		494.52	56.24	49.20	188.23	\$121	\$29	0.322%	0.077%	62.5%	23.8%
Iowa	3.1	127,666	271.39		158.96	17.29	27.41	68.00	\$89	\$22	0.213%	0.053%	58.6%	25.1%
Kansas	2.9	114,021	232.37		132.33	13.78	22.43	71.51	\$81	\$25	0.204%	0.063%	56.9%	30.8%
Kentucky	4.4	144,612	719.36		422.51	47.29	37.71	212.25	\$165	\$49	0.497%	0.147%	58.7%	29.5%
Louisiana	4.6	195,171	383.59		202.90	21.37	24.84	136.36	\$84	\$30	0.197%	0.070%	52.9%	35.5%
Maine	1.3	45,950	216.43		134.18	13.93	18.68	50.19	\$163	\$38	0.471%	0.109%	62.0%	23.2%
Maryland	5.8	264,882	1,714.40	103.13	1,029.04	113.69	111.25	586.62	\$294	\$101	0.647%	0.221%	60.0%	34.2%
Massachusetts	6.6	342,123	4,416.29		3,199.44	251.97	88.63	887.91	\$670	\$135	1.291%	0.260%	72.4%	20.1%
Michigan	9.9	344,871	2,339.95		1,344.33	168.37	103.33	737.67	\$237	\$75	0.679%	0.214%	57.5%	31.5%
Minnesota	5.3	243,404	504.44		310.86	30.35	41.55	121.89	\$94	\$23	0.207%	0.050%	61.6%	24.2%
Missouri	6.0	217,320	1,000.68		639.01	61.85	45.21	265.18	\$166	\$44	0.460%	0.122%	63.9%	26.5%
Montana	1.0	31,809	46.04		24.78	2.72	7.79	10.82	\$46	\$11	0.145%	0.034%	53.8%	23.5%
Nebraska	1.8	79,674	131.92		76.87	8.21	16.55	32.06	\$72	\$17	0.166%	0.040%	58.3%	24.3%
N. Hampshire	1.3	54,587	228.87		139.26	12.93	14.78	62.21	\$174	\$47	0.419%	0.114%	60.8%	27.2%
New Jersey	8.8	438,721	2,636.45		1,543.67	146.97	55.97	930.00	\$299	\$105	0.601%	0.212%	58.6%	35.3%
New Mexico	2.1	72,802	135.54		73.61	8.86	11.80	41.31	\$65	\$20	0.186%	0.057%	54.3%	30.5%
New York	19.5	1,034,339	6,758.65	1,109.56	3,967.67	404.65	246.92	3,049.15	\$347	\$157	0.653%	0.295%	58.7%	
N. Carolina	9.7	380,631	1,461.11		863.00	102.13	63.39	437.31	\$151	\$45	0.384%	0.115%	59.1%	29.9%
N. Dakota	0.7	31,254	23.00		11.94	1.18	3.95	5.92	\$34	\$9	0.074%	0.019%	51.9%	25.7%
Ohio	11.5	426,116	2,600.99		1,603.05	161.33	109.29	738.81	\$225	\$64	0.610%	0.173%	61.6%	28.4%
Oklahoma	3.8	133,464	198.15		106.60	13.22	12.49	69.90	\$52	\$18	0.148%	0.052%	53.8%	35.3%
Oregon <sup>3,4</sup>	3.9	166,275	317.45	720.51	208.67	26.83	25.02	548.44	\$82	\$142	0.191%	0.330%	65.7%	
Pennsylvania	12.7	505,935	3,207.91		1,958.43	168.59	126.09	960.61	\$252	\$75	0.634%	0.190%	61.1%	29.9%
R. Island <sup>3,4</sup>	1.1	44,014	230.59	492.59	140.16	28.15	9.09	354.86	\$219	\$338	0.524%	0.806%	60.8%	
S. Carolina	4.7	145,134	1,047.06		667.64	74.05	37.64	271.39	\$224	\$58	0.721%	0.187%	63.8%	25.9%
S. Dakota <sup>3,4</sup>	0.8	36,272	47.17	191.77	27.18	2.57	5.12	107.98	\$57	\$131	0.130%	0.298%	57.6%	
Tennessee	6.4	228,716	1,102.58		683.51	77.46	51.98	293.49	\$172	\$46	0.482%	0.128%	62.0%	26.6%
Texas	25.7	1,106,236	3,811.27		2,387.24	212.23	184.32	1,023.78	\$148	\$40	0.345%	0.093%	62.6%	26.9%
Vermont	0.6	23,140	95.54		60.61	5.61	7.94	21.44	\$153	\$34	0.413%	0.093%	63.4%	22.4%
Virginia	8.1	380,609	1,482.69		881.03	83.84	74.92	435.20	\$183	\$54	0.390%	0.114%	59.4%	29.4%
Washington	6.8	306,633	510.46		295.16	31.94	45.53	150.13	\$75	\$22	0.166%	0.049%	57.8%	29.4%
W. Virginia <sup>3,4</sup>	1.9	55,992	193.57	1,128.59	120.71	13.56	15.21	594.61	\$104	\$321	0.346%	1.062%	62.4%	
Wisconsin	5.7	221,293	502.66		290.49	35.25	32.16	144.87	\$88	\$25	0.227%	0.065%	57.8%	28.8%
<b>Total</b>	<b>295.6</b>	<b>12,502,011</b>	<b>55,506.5</b>	<b>4,319.8</b>	<b>33,846.4</b>	<b>3,413.2</b>	<b>2,665.7</b>	<b>18,483.8</b>	<b>\$188</b>	<b>\$63</b>	<b>0.444%</b>	<b>0.148%</b>	<b>61.0%</b>	

Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30). <sup>1</sup> Source: U.S. Census Bureau  
<sup>2</sup> Source: U.S. Bureau of Economic Analysis; <sup>3</sup> This data represents only revenue from traditional lottery games; <sup>4</sup> Prizes do not include VLT prizes paid  
<sup>5</sup> Traditional lottery commissions only; <sup>6</sup> Traditional lottery expenses only; <sup>7</sup> Includes transfers for VLT operations

Note: If a lottery's operating statement did not include actual profits raised for government, the "government transfers" may represent the net income.

Source: LaFleur's 2012 World Lottery Almanac

**Missouri State Lottery Commission  
Schedule of Capital Asset Information  
Last Ten Fiscal Years**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Owned buildings - square feet</b>										
Headquarters										
1823 Southridge Drive										
Jefferson City, Mo. 65109	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696	62,696
Distribution Center										
911 Bubba Lane										
Jefferson City, Mo. 65109	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017	16,017
<b>Fleet of owned vehicles</b>										
Passenger vans - sales staff	55	49	49	49	49	49	49	49	49	49
Delivery vans	4	3	3	3	3	3	3	3	0	1
Passenger vans - vehicle pool	10	8	3	12	11	10	11	8	11	9
Passenger cars - vehicle pool	9	9	8	8	4	3	1	1	0	0
Trucks	4	4	3	3	3	3	3	3	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>83</u>	<u>74</u>	<u>67</u>	<u>76</u>	<u>71</u>	<u>69</u>	<u>68</u>	<u>65</u>	<u>64</u>	<u>63</u>

**Source:** Missouri State Lottery Commission Maintenance and Vehicle Sections

**Division of Each Dollar Spent on the Missouri Lottery - Fiscal Year 2012**

*More than 95 cents is returned to players, retailers and public education in Missouri*

**64.8¢ Prizes**

**24.8¢ Education**

**6.2¢ Retailers**

**4.2¢ Administration**

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## **Compliance Section**

**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**

To the Missouri State Lottery Commission  
Jefferson City, Missouri

We have audited the basic financial statements of the Missouri State Lottery Commission (the Lottery), an enterprise fund of the State of Missouri, as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 15, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Lottery is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (Finding No. 2012-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's basic financial statements are free of 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Lottery's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Lottery's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Missouri State Lottery Commission, and the Missouri State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

**UHY** LLP

St. Louis, Missouri  
October 15, 2012

**MISSOURI STATE LOTTERY COMMISSION**  
(An Enterprise Fund of the State of Missouri)

**SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES**  
**June 30, 2012**

**Finding No. 2012-1 – Material Weakness**

**Prior Period Restatement**

**Condition** – The financial statements have been restated to reflect the impact of an overstatement in Cash and Cash Equivalents (asset) and Due to Lottery Proceeds Fund (liability) of \$9,372,083 as of June 30, 2011. The overstatement resulted from cash received from retailers on July 1, 2011 being posted to the Lottery Enterprise Fund (cash account) by Department of Revenue's Internal Cash Management Office (ICMO) on June 30, 2011, prior to the funds actually being transferred. In addition, the error resulted in the understatement of Scratchers prize expense and the overstatement of transfers to the Lottery Proceeds Fund for the year ended June 30, 2011. These corrections were not identified by the Lottery's internal control structure on a timely basis.

**Criteria** – The management of the Lottery is responsible for establishing and maintaining a system of internal controls. The objective of an internal control system is to provide management with reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements.

**Cause** – The internal control system over financial reporting did not function as designed. In addition, the internal control system design did not include a procedure to reconcile cash receipts on a monthly basis.

**Effect** – The prior year's financial statements were materially misstated and required restatement.

**Recommendation** – We recommend that the Lottery's controls and processes be expanded to include a monthly reconciliation of ticket sales cash receipts that are posted to cash and accounts receivable.

**Management's Response/Corrective Action Plan (Unaudited)** – *No internal control structure can completely eliminate the risk of errors; and the occurrence of errors is not necessarily an indication that the overall internal control structure is deficient. Controls are often resource-intensive. The overstatement of cash resulted from a procedural error made by the Department of Revenue ICMO. ICMO should not have posted the receipt to our fund prior to the funds hitting the Treasury. The State Treasury also erred in confirming the overstated cash balance to the UHY LLP auditors during last year's audit test work.*

*With limited resources, the Lottery has not invested resources in monitoring and double-checking the accuracy of the work of other state agencies and the State Treasurer's Office. Resources are focused on activities facing the greatest threats. Internal controls require constant monitoring and reengineering as the external and internal environment changes and as former threats are mitigated and new risks arise, and our internal control structure did ultimately detect and correct the error. However, because of our reliance that Department of Revenue cash management procedures were followed (which they were not) and because the only information we have regarding our Enterprise Fund balance is provided through the state accounting system and the State Treasurer's Office (which were both incorrect), we did not discover the error in a timely fashion. We have revised our procedures to incorporate a process in which the accounts receivable receipts for each month will now be compared on a monthly basis to the ticket sale cash receipts to ensure the amounts are the same and any differences will be investigated and corrected as found.*

**MISSOURI STATE LOTTERY COMMISSION**  
(An Enterprise Fund of the State of Missouri)

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**June 30, 2011**

No comments in the prior year.