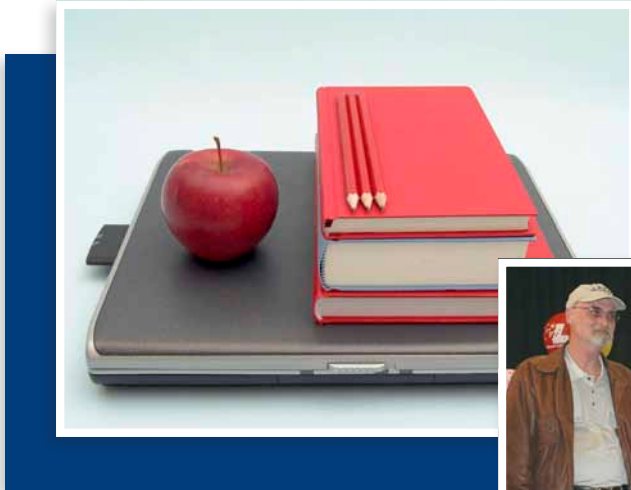




# Comprehensive Annual Financial Report

For Fiscal Year  
Ended June 30, 2007



**Missouri State Lottery Commission**  
A Component Unit of the State of Missouri





# Comprehensive Annual

# Financial Report

*For Fiscal Year  
Ended June 30, 2007*

**Missouri State Lottery Commission**  
A Component Unit of the State of Missouri

Prepared by Integrated Services Division



# Missouri State Lottery Commission

A Component Unit of the State of Missouri

## Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

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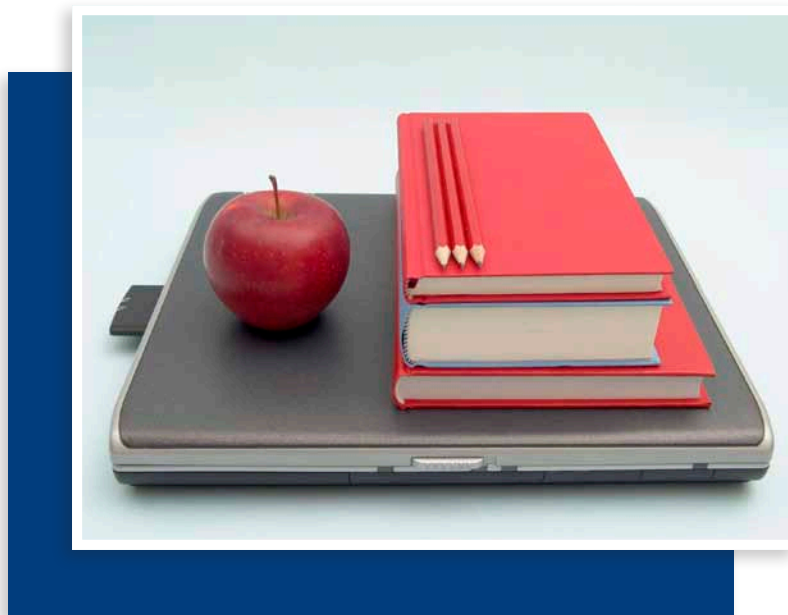
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# Introductory Section

*More than \$2.9 billion in Lottery profits for the state of Missouri and public education*



In fiscal year 2007, the Missouri Lottery generated more than \$259 million for public education programs, including funds for programs such as the A+ Scholarship Program and funding for Missouri's colleges and universities.



November 14, 2007

**To: Celeste Witzel, Chairperson Missouri State Lottery Commission**  
**W. Dale Finke, Member**  
**Charles Larry Ray, Member**  
**Sherri Robins, Member**  
**Barbara Tiedt, Member**  
**Larry P. Jansen, 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 (MLC) for the fiscal year ended June 30, 2007. MLC management is responsible for the accuracy of the financial data and the completeness 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 MLC. All disclosures necessary to enable the reader to gain an understanding of the MLC's financial activities have been included.

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

The Comprehensive Annual Financial Report presents an overview of the Missouri State Lottery Commission. The report format follows formal standards of the Government Finance Officers Association. Government organizations that publish this type of report can be compared to each other as similar kinds of information are included in the report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MLC's MD&A can be found immediately following the report of the independent auditors.

The MLC 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.

The MLC 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 MLC. The Commission consists of five members appointed by the Governor with the advice and consent of the Senate.

## Products

The MLC currently offers the following games for players to choose from:

Scratcher Games are played by scratching a latex coating to reveal the play area of the ticket. MLC contracts with a third party provider for game design consultation, printing and electronic validation information for prize payment. 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. These play styles are combined with a variety of game themes and price points. If the specified condition occurs the ticket is an instant winner. These games were the first offered by the MLC and continue to represent over 50% of our total annual ticket sales.

On-line games are played by purchasing a ticket from a retailer through an on-line (computerized) selling terminal. These tickets are then held until a drawing is conducted by the MLC and witnessed by independent auditors to determine the winning numbers. Drawings are conducted twice a day or twice a week dependent upon the game. Pick 3, Pick 4, and Show Me 5 Paydown are drawn twice daily and are distinguished by their play styles, prize amounts, and odds of winning. Club Keno is an on-line game sold in age-controlled environments with drawings every five minutes. Players choose the number of "spots" they want to play that in turn determines the amount they may win. Missouri Lotto is drawn twice a week and offers a guaranteed minimum top prize of \$1 million



paid over 25 years. The top prize grows for each draw that it is not won. Powerball is a lotto style game that offers a guaranteed minimum top prize of \$15 million paid over a 30-year period. The Powerball game is offered in conjunction with 31 other jurisdictions through the Multi-State Lottery Association. Profits for all on-line games sold in Missouri stay in Missouri. MLC contracts with a third party provider for the terminals and related equipment at retail locations, as well as a central processing system.

Pull-Tabs are played by opening tabs on one side of the ticket to reveal rows of symbols under each tab. Prizes are won by matching symbols indicated on the front of the ticket. The retailer who sold the ticket pays most pull-tab prizes. The MLC has introduced pull-tab games with a top prize of \$1,000 that must be paid by the MLC.

## **Economic Outlook**

While the United States economy has been on a growth trend since 2001, a general slowdown in the growth rate began in the last quarter of 2005, excluding a burst in the first quarter of 2006. Since the second quarter of 2003, the national economy has grown fairly consistently at an annual rate between 3 – 4 percent. Overall for 2006, the national gross domestic product grew by 3.3 percent, but forecasts indicate an expected decline in the growth rate for 2007 to a level of 2 – 2.5 percent.

The State of Missouri's economic growth generally follows the national trends. Missouri's gross domestic product growth rate was 2.3 percent for 2005 (the latest data currently available), while the national growth rate was 3.6 percent for the same period. The annual rate of growth in employment for Missouri in 2006 was 1.4 percent, while the national growth rate was 1.8 percent. Missouri's average unemployment rate for 2006 was 4.8 percent, the first time the rate was below 5 percent since 2001, but higher than the national average rate of 4.6 percent. Missouri's real per capita personal income growth from 2005 to 2006 was 1.9 percent, while the national real growth rate was 2.4 percent. During 2006, national monthly retail sales growth slowed, with three month-to-month declines in retail sales and six of the twelve months of the year having a growth rate below 1 percent. While Missouri does not have specific retail sales data available, an analysis of taxable sales data indicated that a slowing trend of change in taxable sales occurred during 2006, with an actual decline in the fourth quarter of the year.

As the changes in the economy continue to unfold, if the projections are accurate, or the actual results fall below these expectations, the personal disposable incomes and spending patterns of the consumers may be impacted to a level that would affect ticket sales. The continued high prices for oil and gasoline will maintain its negative impact on ticket sales as these higher prices reduce the consumers' discretionary funds available at the retailer locations. The casino industry in Missouri, as well as the potential of another lottery in a bordering state, may also impact the future performance of MLC as competition may increase for the gaming dollars in the declining level of discretionary funds of the consumers. These factors, along with the maturity of traditional lottery products and decreasing promotional resources authorized by the appropriation process, should all contribute to an expected flat to moderate growth curve in product sales over the next twelve to eighteen months.

## **Accomplishments And Initiatives**

Record sales for the MLC were achieved during fiscal year 2007, as ticket sales exceeded \$934 million – an increase of 2.27 percent over the prior fiscal year. This overall increase in sales was driven by a 7.10 percent increase in Scratchier ticket sales during fiscal year 2007, which reflected continued impact and effects of increasing the prizes of these games and introducing higher price point games, as well the increased use of themed games. On-line ticket sales fell below the level of the previous fiscal year primarily due to decreased ticket sales for Powerball and Missouri Lotto. The Powerball and Lotto game sales are driven by the size of the jackpot, and because of the fewer number of larger jackpots, sales were negatively impacted for the fiscal year. For fiscal year 2007, the level of operating expenses increased by 3.55 percent over the previous year. This increase was in the game-related direct costs resulting from increased sales of Scratchier tickets and higher prize structures. The level of administrative expenses actually decreased by 1.5 percent, as the MLC continues to operate with one of the lowest ratios in the country. The net impact of these results for fiscal year 2007 was that the transfer of profits for public education declined slightly from the prior year, from \$261 million to \$258 million. The MLC returned nearly \$595 million to players in cash and prizes and paid \$58 million to retailers in commissions and incentives for the 2007 fiscal year.

In addition to financial accomplishments, other noteworthy accomplishments during the fiscal year 2007 included:

- Implemented an enhanced instant ticket return process, which provides benefits to our retailers and the Lottery.
- Introduced the Club Keno multiplier and progressive jackpot features to enhance this product offering.
- Successfully completed the contract processing and conversion of a majority of our on-line retailers to a new communication network.
- Organized and hosted the National Council on Problem Gambling Conference.

## **Financial Information**

### *Accounting System and Policies:*

The MLC uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred.

### *Budgetary Controls:*

The MLC annually submits a request for appropriation through the budgetary process of the State of Missouri. Expenditures of the MLC are subject to this appropriation process. The MLC does use interest earnings at the Multi-State Lottery Association (MUSL) to offset certain administrative and promotional expenses. The balance of these MUSL interest earnings is transferred to the Lottery Proceeds Fund.

Expenses associated with the operation of the MLC are submitted for payment through the Missouri Office of Administration, Division of Accounting. The MLC maintains its own signature authority for payment of prizes through an imprest checking account. The MLC 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.

### *Debt Administration:*

Long-term liabilities for multi-year prizewinners are presented on the statement of net assets. The MLC holds US Treasury Strips in the name of prizewinners for the purpose of funding these payments. The MLC does own some insurance annuities to fund prizes won prior to August 1990.

### *Cash Management:*

A portion of the MLC's funds are maintained by the Office of State Treasurer and as such are pooled in short term investments until needed for cash payments.

### *Risk Management:*

The MLC's major assets including buildings, data processing and other major equipment are insured by a third party carrier maintained by the Office of Risk Management. The MLC also maintains business interruption insurance. Liability indemnity for operation of the Lottery is managed through the State's Legal Defense Fund of the Office of Attorney General.

## **Internal Control Environment**

Management of the MLC 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 MLC 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 MLC 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 MLC, and such other special audits, as it may deem necessary. The MLC is also required to employ an independent firm of accountants to conduct an annual audit of all accounts and transactions of the MLC. This audit includes a review of internal controls as they relate to the expression of an opinion on the financial statements.

In addition, the MLC 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.

## **Future Projects**

The MLC's mission is to maximize revenues for Missouri public education. As such, the MLC is continually evaluating and exploring ways to enhance products as well as improving operational efficiencies and effectiveness. Major initiatives in 2008 and beyond include:

- Enhance the appearance and functionality of our website.
- Implementation of enhanced reporting and communication tools for the field staff. This project will ensure that the field staff has the most current data, information and tools to enhance productivity and service to the retailer network.
- Introduction of a Million Dollar Raffle Game, which will offer the best chance to win a million dollar cash prize.
- Replacement of existing instant ticket vending machines with machines that have a larger capacity and enhanced features and functions.
- Implement programs to expand current Club Keno retailer network and to add additional theme-style games.
- Continued introduction of higher price point Scratchers spotlight games with larger top prizes.

## **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, 2006. This was the seventh consecutive year that the MLC 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.

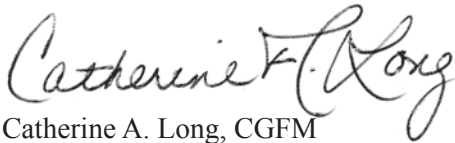
### **Acknowledgements**

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 the accounting staff. We would also like to recognize Executive Director Larry Jansen, Commission Chairperson Celeste Witzel, Commissioners Larry Ray, Sherri Robins, Barbara Tiedt, and Dale Finke for their support, guidance and dedication in operating the Missouri Lottery Commission in a responsible and progressive manner.

Respectfully submitted,



Michael R. Lauf, CPA  
Chief Financial Officer  
Missouri State Lottery Commission



Catherine A. Long, CGFM  
Financial Accounting Manager  
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, 2006

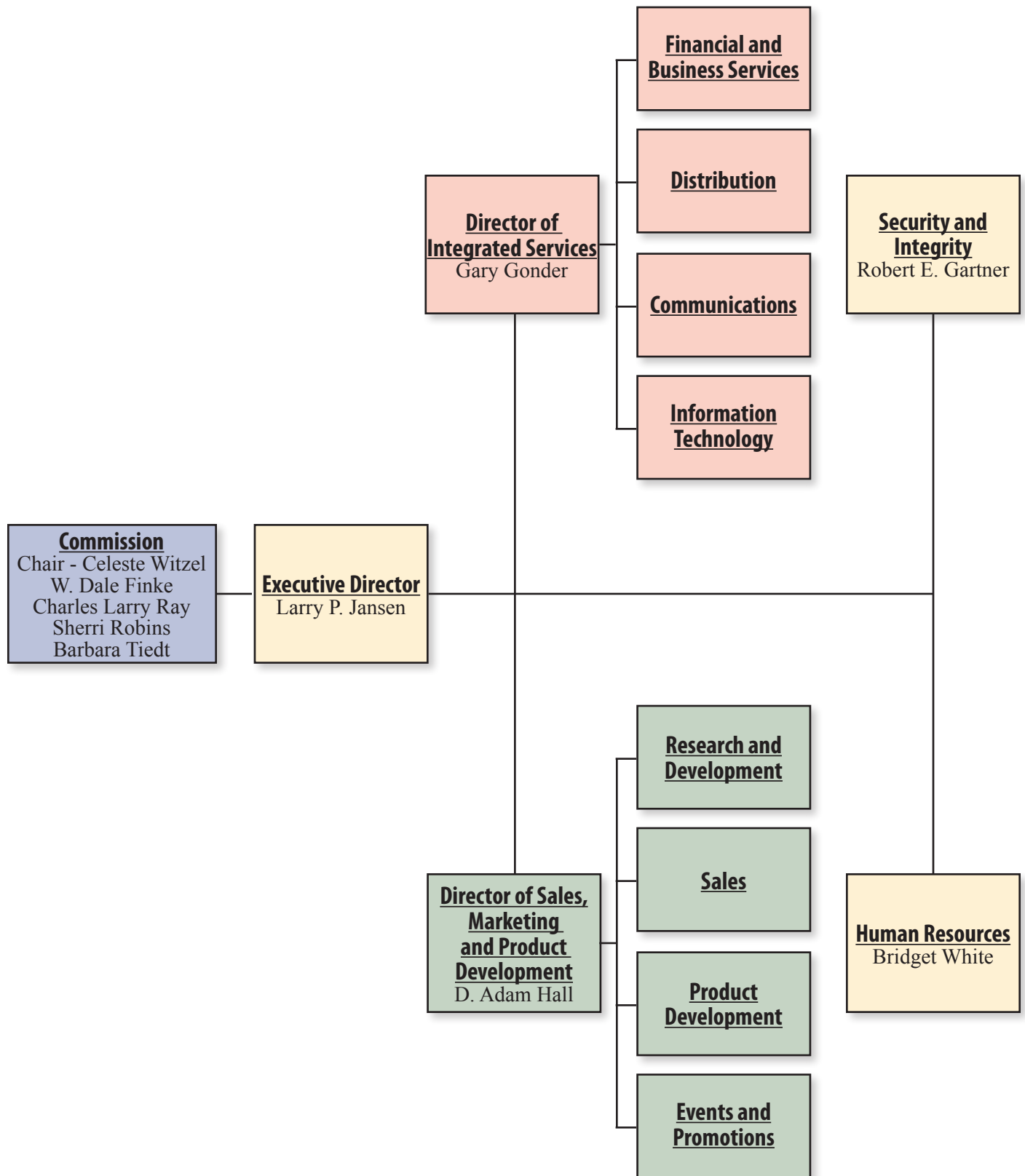
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

Missouri State Lottery Commission  
Principal Officials and Organization Chart  
June 30, 2007



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# Financial Section

*More than \$5.7 billion returned to players in prizes*



The Wilson family of St. Louis claimed Missouri's largest jackpot ever - a \$254 million Powerball jackpot - on Jan. 24, 2007.



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**INDEPENDENT AUDITOR'S REPORT**

To the Missouri State Lottery Commission  
Jefferson City, Missouri

We have audited the accompanying basic financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), a component unit of the State of Missouri, as of and for the years ended June 30, 2007 and 2006, 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 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. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements present only the Missouri State Lottery Commission and do not purport to, and do not, present fairly the financial position of State of Missouri, as of June 30, 2007 and 2006, 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 business-type activity of the Missouri State Lottery Commission, as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007, 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 considered in assessing the results of our audit.

**Other Offices**

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(816) 453-7016 FAX

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(913) 287-4433  
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6700 Antioch Rd, Suite 460  
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(913) 378-1100  
(913) 378-1177 FAX

317 W. Young  
Warrensburg, MO 64093  
(660) 747-9125  
(660)747-9490 FAX



The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but rather is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

October 19, 2007

*Cochran Head Vick H. R.*

## Management's Discussion And Analysis For The Fiscal Years Ended June 30, 2007 And 2006

This discussion and analysis of the Missouri State Lottery Commission's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the Lottery's financial statements, which begin on page 17. These financial statements reflect only activities of the Missouri State Lottery Commission (MLC), a component unit of the State of Missouri.

### Using This Annual Report

This annual report consists of a set of financial statements. The Statement of Net Assets provides information about the MLC's assets and liabilities and reflects the MLC's financial position as of June 30, 2007 and 2006. The Statement of Revenues, Expenses and Changes in Fund Net Assets reports the activity of selling lottery products and expenses related to such activity for the years ended June 30, 2007 and 2006. The Statement of Cash Flows outlines the cash inflows and outflows related to the activity of selling lottery products for the years ended June 30, 2007 and 2006.

### MLC Net Assets

	<u>As of June 30, 2007</u>	<u>As of June 30, 2006</u>	<u>As of June 30, 2005</u>
<b>Assets</b>			
Current assets	\$66,109,425	\$69,152,265	\$63,475,906
Noncurrent assets:			
Capital assets	3,411,563	3,068,609	3,295,311
Other noncurrent assets	61,497,694	66,558,437	79,296,246
Total noncurrent assets	<u>64,909,257</u>	<u>69,627,046</u>	<u>82,591,557</u>
<b>Total assets</b>	<u>131,018,682</u>	<u>138,779,311</u>	<u>146,067,463</u>
<b>Liabilities</b>			
Current liabilities	65,384,010	68,598,855	63,585,194
Long-term liabilities	62,045,864	66,237,970	72,158,873
<b>Total liabilities</b>	<u>127,429,874</u>	<u>134,836,825</u>	<u>135,744,067</u>
<b>Net Assets</b>			
Invested in capital assets	3,411,563	3,068,609	3,295,311
Unrestricted	(3,411,563)	(3,068,609)	(3,295,311)
Restricted	<u>3,588,808</u>	<u>3,942,486</u>	<u>10,323,396</u>
<b>Total net assets</b>	<u><u>\$3,588,808</u></u>	<u><u>\$3,942,486</u></u>	<u><u>\$10,323,396</u></u>

The MLC's current assets consist primarily of cash and cash equivalents with the State Treasurer, accounts receivable from ticket sellers and investments held on behalf of grand-prize winners (current portion). Capital assets consist of land, buildings, vehicles, computers and other equipment. Other noncurrent assets consist primarily of investments held on behalf of grand-prize winners (noncurrent). Current liabilities consist primarily of accrued prizes payable, the amount due the Lottery Proceeds Fund, and general accounts payable to suppliers. Long-term liabilities include the long-term portion of amounts payable to grand-prize winners. Net assets invested in capital assets are unrestricted. Net assets restricted for unrealized gains on investments held for grand-prize winners are presented in compliance with GASB 31 and represent the net market value adjustment of investments held to maturity.

## MLC Changes in Net Assets

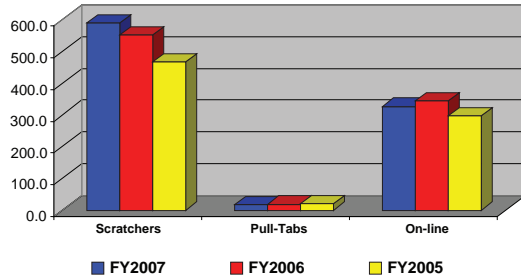
	For the Year Ended June 30, 2007	For the Year Ended June 30, 2006	For the Year Ended June 30, 2005
<b>Operating revenues</b>			
On-line ticket sales	\$326,815,671	\$343,402,242	\$297,540,450
Scratchers ticket sales	590,045,817	550,961,109	467,326,093
Pull-Tab ticket sales	17,409,170	19,154,900	20,731,089
Other operating revenues	1,395,548	167,767	340,957
<b>Total operating revenues</b>	<u>935,666,206</u>	<u>913,686,018</u>	<u>785,938,589</u>
<b>Nonoperating revenues</b>	<u>16,058,976</u>	<u>12,867,438</u>	<u>14,702,347</u>
<b>Total revenues</b>	<u>951,725,182</u>	<u>926,553,456</u>	<u>800,640,936</u>
<b>Operating expenses</b>			
Direct costs:			
Prize expense	595,022,614	572,767,960	487,925,882
Retailer commissions and incentives	58,257,753	56,543,150	48,798,722
Other direct costs	16,280,719	16,282,739	17,543,004
Total direct costs	<u>669,561,086</u>	<u>645,593,849</u>	<u>554,267,608</u>
Administrative expenses	19,987,112	20,290,872	21,430,609
<b>Total operating expenses</b>	<u>689,548,198</u>	<u>665,884,721</u>	<u>575,698,217</u>
<b>Nonoperating expenses</b>			
Transfers to the State of Missouri	257,882,704	260,668,734	218,642,710
Other nonoperating expenses	4,647,958	6,380,911	5,259,106
<b>Total nonoperating expenses</b>	<u>262,530,662</u>	<u>267,049,645</u>	<u>223,901,816</u>
<b>Total expenses</b>	<u>952,078,860</u>	<u>932,934,366</u>	<u>799,600,033</u>
<b>Change in net assets</b>	(353,678)	(6,380,910)	1,040,903
<b>Total net assets, beginning of year</b>	<u>3,942,486</u>	<u>10,323,396</u>	<u>9,282,493</u>
<b>Total net assets, end of year</b>	<u>\$3,588,808</u>	<u>\$3,942,486</u>	<u>\$10,323,396</u>

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

## Operating Revenues

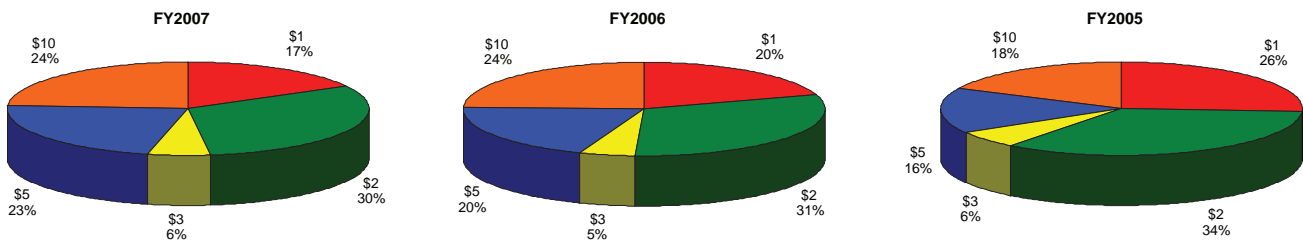
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Sales by Game			
Scratchers	\$590,045,817	\$550,961,109	\$467,326,093
Pull-Tabs	17,409,170	19,154,900	20,731,089
On-line			
Lotto	33,955,803	35,062,426	30,311,403
Pick 3	65,091,442	62,274,077	60,558,754
Pick 4	24,015,250	22,605,473	21,338,535
SHOW ME 5 Paydown	19,684,271	20,861,442	23,056,447
Club Keno	53,273,105	49,948,394	47,616,083
Powerball	130,795,800	151,772,839	114,485,380
Dream Draw	-	877,591	-
Xtra	-	-	173,848
Other	1,395,548	167,767	340,957

### Lottery Sales By Product in millions



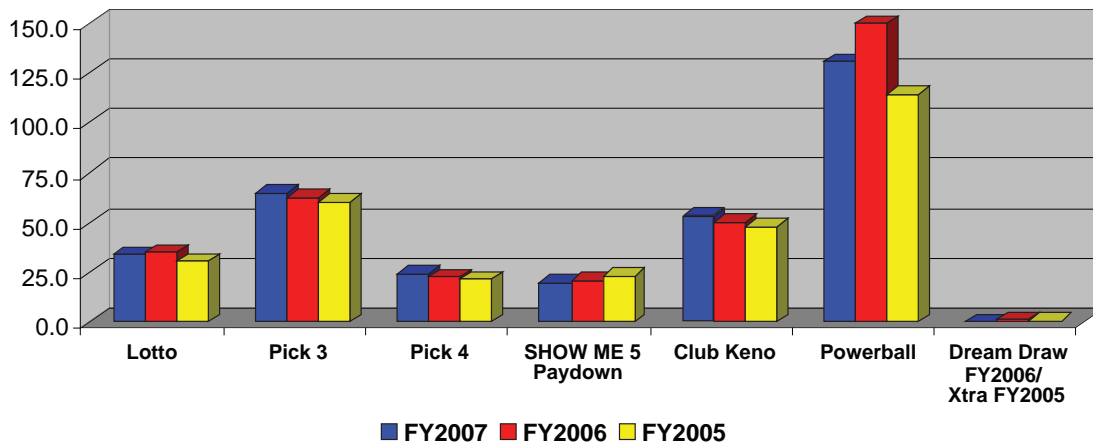
Revenues from the sale of lottery products were the highest in the 22-year history of the MLC. As indicated in the financial statements, Scratchers tickets led the way to this record sales level. The MLC has made a significant investment in increasing prizes and introducing more \$5 and \$10 tickets, including the introduction of \$5 baseball-themed games and the continuation of \$10 mega games with large jackpots and multi-year prizes. The resulting increase in the ratio of sales for higher price-point games continues to lead to overall sales increases in Scratchers ticket sales.

### Scratchers Ticket Sales By Price Point



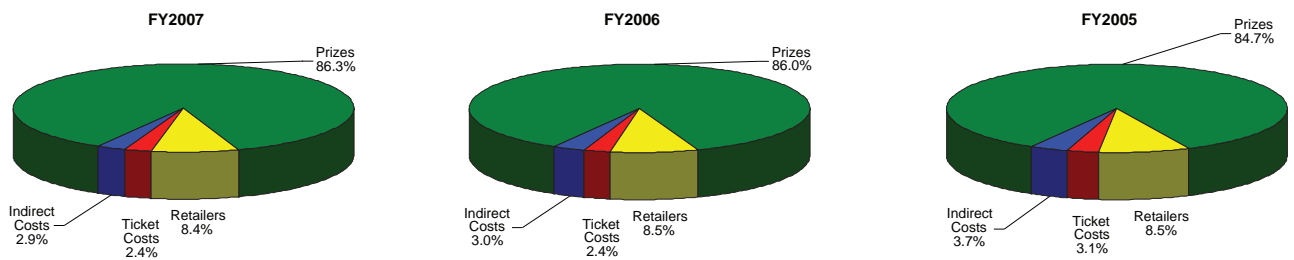
The on-line sales decrease in fiscal year 2007 was due primarily to a decrease in sales of the Powerball game. Several large jackpots contributed to record sales in fiscal year 2006 for this game, as sales are driven by high jackpot amounts. Lotto sales were also higher in fiscal year 2006 due to two large jackpots that drove sales for that year. While high-level jackpots accounted for record sales levels in fiscal year 2006, there were no comparable jackpots in fiscal year 2007. Sales for the Pick 3 and Pick 4 games continued to increase in fiscal year 2007 and fiscal year 2006 after the addition of a second daily draw in fiscal year 2005. Club Keno sales increased in fiscal year 2007 after the addition of multiplier and progressive jackpot features. SHOW ME 5 Paydown sales continued a declining sales trend that started in fiscal year 2005. Pull-Tabs, which are sold in the same market environment as Club Keno, experienced declines in sales in both fiscal year 2007 and fiscal year 2006.

### On-line Sales By Game in millions



## Operating Expenses

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Game-related			
Prizes	\$595,022,614	\$572,767,960	\$487,925,882
Retailer commissions and incentives	58,257,753	56,543,150	48,798,722
Tickets	7,914,860	7,427,625	7,431,856
On-line vendor fees	8,365,859	8,855,114	10,111,148
Non-game-related			
Advertising	1,467,480	2,107,347	2,110,182
Wages and benefits	9,603,898	8,885,702	9,086,615
Other general expenses	8,915,734	9,297,823	10,233,812



Of the MLC's total operating expenses of \$689.5 million in fiscal year 2007, \$669.5 million, or 97.1 percent, are game-related, or direct, expenses. In fiscal year 2006, direct expenses were \$645.5 million, or 97.0 percent, of the total \$665.8 million total operating expenses for the year. In fiscal year 2005, direct expenses were 96.3 percent, of total operating expenses. Direct expenses increased in fiscal year 2007 and fiscal year 2006 due to a continued increase in the aggregate prize expense as a percentage of Scratchers ticket sales, as discussed above. In fiscal year 2007 increased product sales resulted in additional increase in direct expenses.

## Non-Operating Revenues (Expenses)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest	\$1,360,853	\$1,459,617	\$571,049
Unclaimed prizes	10,349,767	11,392,679	7,811,413
Net increase (decrease) in investments held	4,294,279	(1,424,646)	6,300,009
Amortization of grand-prize winner liability	(4,647,958)	(4,956,265)	(5,259,106)
Gain (loss) on capital asset disposal	54,077	15,142	19,876
Transfers to State of Missouri	(257,882,704)	(260,668,734)	(218,642,710)

The MLC retains prize money if a claim for the prize is not made within a 180 day claim period. In fiscal year 2006, in an effort to reduce the number of Scratchers games available for sale, the MLC closed twenty additional Scratchers games resulting in increased unclaimed prize amounts. In fiscal year 2007, fewer Scratchers games were closed causing a decrease in unclaimed prizes.

The net increase (decrease) in investments held for grand-prize winners represents the net market value change as required to be reported per GASB 31. 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.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for fiscal year 2007 decreased \$2.8 million, or 1.1 percent, from fiscal year 2006. For fiscal year 2006, proceeds increased \$42.0 million, or 19.2 percent, from fiscal year 2005. 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. The Missouri Department of Elementary and Secondary Education was appropriated \$158.3 million in fiscal year 2007 and \$152.1 million in fiscal year 2006 and the Missouri Department of Higher Education received \$77.0 million in fiscal year 2007 and \$81.0 million in fiscal year 2006.

### **Capital Assets and Long-Term Debt**

The MLC's capital assets consist of land, buildings, vehicles, computers and other equipment. Capital assets decreased in fiscal years 2007 and 2006 because depreciation expense was greater than capital asset acquisitions. Capital assets are not a significant part of the MLC's total assets. Additional detailed information on capital assets may be found in note 6 to the financial statements.

The MLC 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.

### **Contacting MLC Financial Management**

This management discussion and analysis report is designed to provide Missouri citizens, government officials, players, retailers and other interested parties with reliable financial information and an explanation of the MLC's financial activities for the years ended June 30, 2007 and 2006. 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**  
(A Component Unit of the State of Missouri)

**Statements Of Net Assets As Of June 30, 2007 And 2006**

	2007	2006
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 20,314,310	\$ 21,955,708
Investments held for grand-prize winners at fair value	10,912,370	11,162,439
Accounts receivable, net of allowances for returns and doubtful accounts	33,468,798	34,906,672
Other receivable	1,362,811	1,001,886
Prepaid expense	51,136	125,560
Total current assets	66,109,425	69,152,265
<b>Noncurrent Assets:</b>		
Investments held for grand-prize winners at fair value	61,497,694	66,558,437
Capital assets:		
Capital assets not being depreciated	658,759	370,448
Capital assets	16,925,585	19,984,109
Accumulated depreciation	(14,172,781)	(17,285,948)
Total noncurrent assets	64,909,257	69,627,046
Total assets	131,018,682	138,779,311
<b>Current Liabilities:</b>		
Accounts payable	191,884	224,438
Due to Lottery Proceeds Fund	16,525,065	19,062,359
Accrued prize liabilities	34,150,013	34,801,570
Grand-prize winner liabilities	11,123,000	11,206,000
Other accrued liabilities	3,394,048	3,304,488
Total current liabilities	65,384,010	68,598,855
<b>Long-term Liabilities:</b>		
Due to Lottery Proceeds Fund - Deferred	4,347,606	3,665,579
Long-term grand-prize winner liabilities at present value	57,698,258	62,572,391
Total long-term liabilities	62,045,864	66,237,970
Total liabilities	127,429,874	134,836,825
<b>Net Assets:</b>		
Invested in capital assets	3,411,563	3,068,609
Unrestricted	(3,411,563)	(3,068,609)
Restricted through Constitutional provisions	3,588,808	3,942,486
Total net assets	\$ 3,588,808	\$ 3,942,486

See accompanying notes to the basic financial statements.

**Missouri State Lottery Commission**  
(A Component Unit of the State of Missouri)

**Statements Of Revenues, Expenses And Changes In Fund Net Assets  
For The Years Ended June 30, 2007 And 2006**

	2007	2006
<b>Operating Revenues:</b>		
On-line ticket sales	\$ 326,815,671	\$ 343,402,242
Scratchers ticket sales	590,045,817	550,961,109
Pull-Tab ticket sales	17,409,170	19,154,900
Total sales	934,270,658	913,518,251
Other	1,395,548	167,767
Total operating revenues	935,666,206	913,686,018
<b>Operating Expenses:</b>		
On-line prize expense	178,645,325	185,416,764
Scratchers prize expense	405,319,861	375,179,476
Pull-Tab prize expense	11,057,428	12,171,720
On-line retailer commissions and incentives	18,933,089	19,880,652
Scratchers retailer commissions and incentives	37,961,173	35,399,461
Pull-Tab retailer commissions and incentives	1,363,491	1,263,037
Cost of tickets sold	16,280,719	16,282,739
Advertising	1,467,480	2,107,347
Wages and benefits	9,603,898	8,885,702
Other general and administrative	8,166,226	8,479,184
Depreciation and amortization	749,508	818,639
Total operating expenses	689,548,198	665,884,721
Operating income	246,118,008	247,801,297
<b>Nonoperating Revenues (Expenses):</b>		
Interest income	1,360,853	1,459,617
Unclaimed prizes	10,349,767	11,392,679
Net increase (decrease) in the fair value of investments held for grand-prize winners	4,294,279	(1,424,646)
Amortization of grand-prize winner liability	(4,647,958)	(4,956,265)
Gain on disposal of capital assets	54,077	15,142
Transfers to State of Missouri	(257,882,704)	(260,668,734)
Total nonoperating revenues (expenses)	(246,471,686)	(254,182,207)
Changes in net assets	(353,678)	(6,380,910)
<b>Total Net Assets, Beginning Of Year</b>	3,942,486	10,323,396
<b>Total Net Assets, End Of Year</b>	\$ 3,588,808	\$ 3,942,486

See accompanying notes to the basic financial statements.



**Missouri State Lottery Commission**  
(A Component Unit of the State of Missouri)

**Statements Of Cash Flows**  
**For The Years Ended June 30, 2007 And 2006**

	2007	2006
<b>Cash Flows From Operating Activities:</b>		
Cash received from retailers and others	\$ 936,743,155)	\$ 918,198,581
Cash paid for prizes	(596,601,404)	(567,996,755)
Cash paid for retailer commissions	(58,236,439)	(56,167,528)
Cash paid for employee services	(9,536,492)	(8,843,938)
Cash paid for other expenses	(25,871,715)	(26,297,167)
Net cash provided by operating activities	246,497,105	258,893,193
<b>Cash Flows From Noncapital Financing Activities:</b>		
Transfers to State of Missouri	(259,737,970)	(260,300,830)
<b>Cash Flows From Capital And Related Financing Activities:</b>		
Purchases of capital assets	(1,096,428)	(591,937)
Proceeds from sale of capital assets	58,042	15,141
Net cash used for capital and related financing activities	(1,038,386)	(576,796)
<b>Cash Flows From Investing Activities:</b>		
Proceeds from maturity of investments	11,277,000	11,216,000
Interest received	1,360,853	1,459,617
Net cash provided by investing activities	12,637,853	12,675,617
Net increase (decrease) in cash and cash equivalents	(1,641,398)	10,691,184
<b>Cash And Cash Equivalents, Beginning Of Year</b>	21,955,708	11,264,524
<b>Cash And Cash Equivalents, End Of Year</b>	\$ 20,314,310	\$ 21,955,708
<b>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities:</b>		
Operating income	\$ 246,118,008	\$ 247,801,297
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	749,508	818,639
Unclaimed prizes	10,349,767	11,392,679
Payments to grand-prize winners	(11,277,000)	(11,206,000)
Changes in operating assets and liabilities:		
Accounts receivable	1,437,874	4,947,128
Other receivable	(360,925)	(434,565)
Prepaid expense	74,424	599,425
Accounts payable and other accrued liabilities	57,006	390,064
Accrued prize liabilities	(651,557)	4,594,526
Net cash provided by operating activities	\$ 246,497,105	\$ 258,903,193
<b>Non-cash Activities:</b>		
Unrealized gains (losses) on investments held for grand-prize winners	\$ 4,294,279	\$ (1,424,656)
Amortization of long-term annuity prize liability	\$ 4,647,958	\$ 4,956,265

See accompanying notes to the basic financial statements.

# Missouri State Lottery Commission

(A Component Unit of the State of Missouri)

## Notes To The Basic Financial Statements June 30, 2007 And 2006

### **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 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. In accordance with Governmental Accounting Standards Board Statement No. 14, the Lottery, although a legally separate entity, is considered to be a component unit of the State of Missouri. This component unit provides services which exclusively, or almost exclusively, benefit the State of Missouri.

#### ***Basis of Presentation***

The Lottery is accounted for as a proprietary-type enterprise fund. 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 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.

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, Pull-Tab and on-line tickets. Operating expenses primarily consist of payments to prize winners, commissions to retailer agents and payments to vendors and employees.

#### ***Revenue Recognition***

Sales of on-line lottery tickets are generated by the semiweekly Lotto and Powerball games, and the daily Club Keno, SHOW ME 5 Paydown, Pick 4, Pick 3 and Dream Draw games. Sales of on-line lottery tickets are made through licensed retail sales outlets via on-line terminals maintained by the retailers. Ticket sales are recognized at the time the player purchases a ticket from the retailer.

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 \$2,210,000 and \$1,896,000 at June 30, 2007 and 2006, respectively, have been established for estimated tickets to be returned by retailers.

Sales of Pull-Tab lottery tickets are made to licensed retail sales outlets with no right of return. Ticket sales are recognized upon the sale of tickets to retailers and are valued at the sale price to the player.

#### ***Prizes***

Expenses for on-line lottery ticket prizes are recorded based on a minimum of 45 percent of on-line 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 installments or a portion of the prize in one lump-sum payment.

Expenses for Scratchers ticket prizes and Pull-Tab 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, 2007 and 2006, unclaimed prizes in the amount of approximately \$10,350,000 and \$11,400,000, respectively, were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2007 and 2006, this amount has been included as nonoperating revenue on the statements of revenues, expenses and changes in fund net assets with a corresponding amount included as a transfer to 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.

### ***Retailer Fees***

Licensed retailers are charged a fee for the right to sell lottery tickets. Additionally, certain 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. GASB Statement No. 31 requires that certain investments be reported at fair value with gains and losses reflected in the statement of operations. 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 fund 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.

### ***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.

## **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. Investigative services are provided by the Missouri State Highway Patrol. The Office of Administration provides certain services to process expenditures and payroll for the Lottery.

## **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, 2007 and 2006, the Lottery's share in the State's common cash pool was \$13,362,613 and \$14,355,628, respectively. At June 30, 2007 and 2006, the book balance of the imprest fund was \$6,949,597 and \$7,597,980, respectively, and the bank balance was \$7,483,809 and \$8,615,660, 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, 2007 and 2006. 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 under GASB Statement No. 40.

#### 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 \$72,410,064 and \$77,720,876 at June 30, 2007 and 2006, respectively. The maturity value of securities held at June 30, 2007 and 2006 was \$95,638,000 and \$103,667,000, respectively.

At June 30, 2007, the Lottery had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
<b>Investments in prize annuities:</b>					
United States Treasury Zero Coupon Bonds	\$72,410,064	\$10,912,370	\$40,128,634	\$12,780,149	\$8,588,911

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.

#### 5. On-line Ticket Sales:

On-line ticket sales consist of the following:

	2007	2006
Powerball	\$130,795,800	\$151,772,839
Pick 3	65,091,442	62,274,077
Lotto	33,955,803	35,062,426
SHOW ME 5 Paydown	19,684,271	20,861,442
Pick 4	24,015,250	22,605,473
Club Keno	53,273,105	49,948,394
Dream Draw	-	877,591
	<u>\$326,815,671</u>	<u>\$343,402,242</u>

#### 6. Capital Assets:

The changes in capital assets consist of the following:

	June 30, 2006	Increases	Decreases	June 30, 2007
<b>Capital assets not being depreciated:</b>				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	17,475	288,311	-	305,786
Total capital assets not being depreciated	<u>370,448</u>	<u>288,311</u>	<u>-</u>	<u>658,759</u>
<b>Capital assets being depreciated:</b>				
Buildings	4,441,008	-	-	4,441,008
Computers	4,039,974	412,035	1,000,955	3,451,054
Equipment	9,980,757	119,014	2,442,908	7,656,863
Automobiles	1,477,370	277,066	422,776	1,331,660
Other	45,000	-	-	45,000
Total capital assets being depreciated	<u>19,984,109</u>	<u>808,115</u>	<u>3,866,639</u>	<u>16,925,585</u>
<b>Less accumulated depreciation for:</b>				
Buildings	2,974,910	167,627	-	3,142,537
Computers	3,408,255	345,926	1,000,547	2,753,634
Equipment	9,624,361	106,158	2,439,352	7,291,167
Automobiles	1,262,099	128,297	422,776	967,620
Other	16,323	1,500	-	17,823
Total accumulated depreciation	<u>17,285,948</u>	<u>749,508</u>	<u>3,862,675</u>	<u>14,172,781</u>
Total capital assets being depreciated, net	<u>2,698,161</u>			<u>2,752,804</u>
Capital assets, net	<u>\$ 3,068,609</u>			<u>\$ 3,411,563</u>

	<u>June 30, 2005</u>	Increases	Decreases	<u>June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	0	17,475	-	17,475
Total capital assets not being depreciated	<u>352,973</u>	<u>17,475</u>	<u>-</u>	<u>370,448</u>
Capital assets being depreciated:				
Buildings	4,355,297	85,711	-	4,441,008
Computers	4,064,857	205,165	230,048	4,039,974
Equipment	10,370,346	101,173	490,762	9,980,757
Automobiles	1,311,987	182,413	17,030	1,477,370
Other	45,000	-	-	45,000
Total capital assets being depreciated	<u>20,147,487</u>	<u>574,462</u>	<u>737,840</u>	<u>19,984,109</u>
Less accumulated depreciation for:				
Buildings	2,767,271	207,639	-	2,974,910
Computers	3,292,794	345,509	230,048	3,408,255
Equipment	9,981,306	133,817	490,762	9,624,361
Automobiles	1,148,955	130,174	17,030	1,262,099
Other	14,823	1,500	-	16,323
Total accumulated depreciation	<u>17,205,149</u>	<u>818,639</u>	<u>737,840</u>	<u>17,285,948</u>
Total capital assets being depreciated, net	<u>2,942,338</u>			<u>2,698,161</u>
Capital assets, net	<u>\$ 3,295,311</u>			<u>\$ 3,068,609</u>

## 7. Pension Plan:

The Lottery participates in the Missouri State Employees' Retirement System (MOSERS) plan, a cost-sharing multiple employer defined benefit retirement plan covering all the employees of the State of Missouri. The Plan is administered by the MOSERS Board of Trustees in accordance with Sections 104.010 and 104.312 to 104.800 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, or by calling (800) 827-1067.

The Plan provides retirement, death and disability benefits to its members. Benefits for state employees are fully vested after five years of credited service. Employees may retire on or after age 55 and may receive reduced benefits at an earlier retirement age. However, an employee may receive full benefits if they are at least age 48 and their combined age and service equal 80. The Plan cannot be terminated. The Lottery's full-time employees do not contribute to the Plan. The State of Missouri is required to make all contributions at an actuarially determined rate. The current rate of contribution for retirement and long-term disability is 12.78 percent and 0.51 percent of total payroll, respectively.

For fiscal years ended June 30, 2007, 2006, 2005 and 2004, the annual pension cost was approximately \$916,000, \$850,000, \$751,000, and \$639,000, 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 through June 30, 2007, with renewal options available for additional one-year periods. Annual rent expense for these facilities totaled approximately \$308,000 in fiscal 2007 and \$291,000 in 2006.

The Lottery leases ticket vending machines under operating lease agreements through June 30, 2007, with options available for an additional one-year period. Annual lease expense for these machines totaled approximately \$691,000 in both fiscal 2007 and 2006.

## 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 on-line game computer systems and agreements with producers of the Lottery's Scratchers and Pull-Tab games tickets, among others. The contracts generally run for one year, with one-year renewals available at the option of the Lottery. The contracts require the Lottery to compensate vendors for goods and services that meet stated quality standards.

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 31 state and district lotteries (member lotteries) and operates the on-line Powerball 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 prize

winners or 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 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 \$57,484,000 and \$78,228,000 as of June 30, 2007 and 2006, 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, 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, 2007 and 2006, the Lottery's portion of the prize reserve fund and set prize reserve fund was approximately \$4,016,000 and \$4,861,000, respectively, and \$1,293,000 and \$1,435,000, respectively. The Lottery has charged amounts placed into the prize reserve funds to prize expense as the related sales have occurred.

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. 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, 2007 and 2006, the Lottery's portion of the balance of this account was approximately \$1,289,000 and \$922,000, respectively, and is reported as a receivable.

**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, 2007 and 2006 was \$68,821,258 and \$73,778,391, 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, 2007, are as follows:

Fiscal Year	Amount
2008	\$ 11,123,000
2009	11,310,000
2010	10,972,000
2011	9,752,000
2012	7,806,000
2013 through 2017	23,369,000
2018 through 2022	10,950,000
2023 through 2027	8,046,000
2028 through 2030	2,310,000
Total installment payments due	95,638,000
Less- Interest portion	26,816,742
	\$ 68,821,258

Prior to March 1990, the Lottery purchased annuity contracts in the name of the prize winners from selected insurance companies to fund the Lotto 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. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$3,321,000 and \$7,323,000 at June 30, 2007 and 2006, respectively. An additional annuity contract was purchased in fiscal year 2007 to fund a Scratcher game prize of \$50,000 a year for life, with thirty guaranteed payments. Minimum future payments to be made to this winner totaled \$1,450,000 at June 30, 2007.

**11. Long-Term Liabilities:**

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

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 22,727,938	\$257,882,703	\$259,737,970	\$ 20,872,671	\$ 16,525,065
Grand-prize winner liabilities	<u>73,778,391</u>	<u>7,682,331</u>	<u>12,639,464</u>	<u>68,821,258</u>	<u>11,123,000</u>
Total	<u>\$ 96,506,329</u>	<u>\$265,565,035</u>	<u>\$272,377,435</u>	<u>\$ 89,693,929</u>	<u>\$ 27,648,065</u>

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 22,360,034	\$260,668,734	\$260,300,830	\$ 22,727,938	\$ 19,062,359
Grand-prize winner liabilities	<u>80,038,126</u>	<u>4,956,265</u>	<u>11,216,000</u>	<u>73,778,391</u>	<u>11,206,000</u>
Total	<u>\$102,398,160</u>	<u>\$265,624,999</u>	<u>\$271,516,830</u>	<u>\$ 96,506,329</u>	<u>\$ 30,268,359</u>

**12. 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.



# Statistical Section (Unaudited)

*More than \$618 million paid to Lottery retailers in commissions and incentives for selling Lottery products*



Country Mart Express in St. Clair was presented with a bonus check for \$18,000. The bonus equaled 1 percent of the winning \$1.8 million Lotto jackpot ticket that the store sold to David Carroll of Dixon for the June 13, 2007, drawing.

## 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>
<b>Financial Trends</b>	29
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 changes over time.	
<b>Revenue Capacity</b>	36
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 on-line 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 on-line games.	
<b>Demographic And Economic Information</b>	39
These schedules contain demographic and economic indicators to help a reader understand the environment in which the Lottery operates.	
<b>Operating Information</b>	41
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, 1998 through 2007, 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 on-line 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 1998 through 2007. Transfers made during fiscal year 2007 include \$10,349,767 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)**

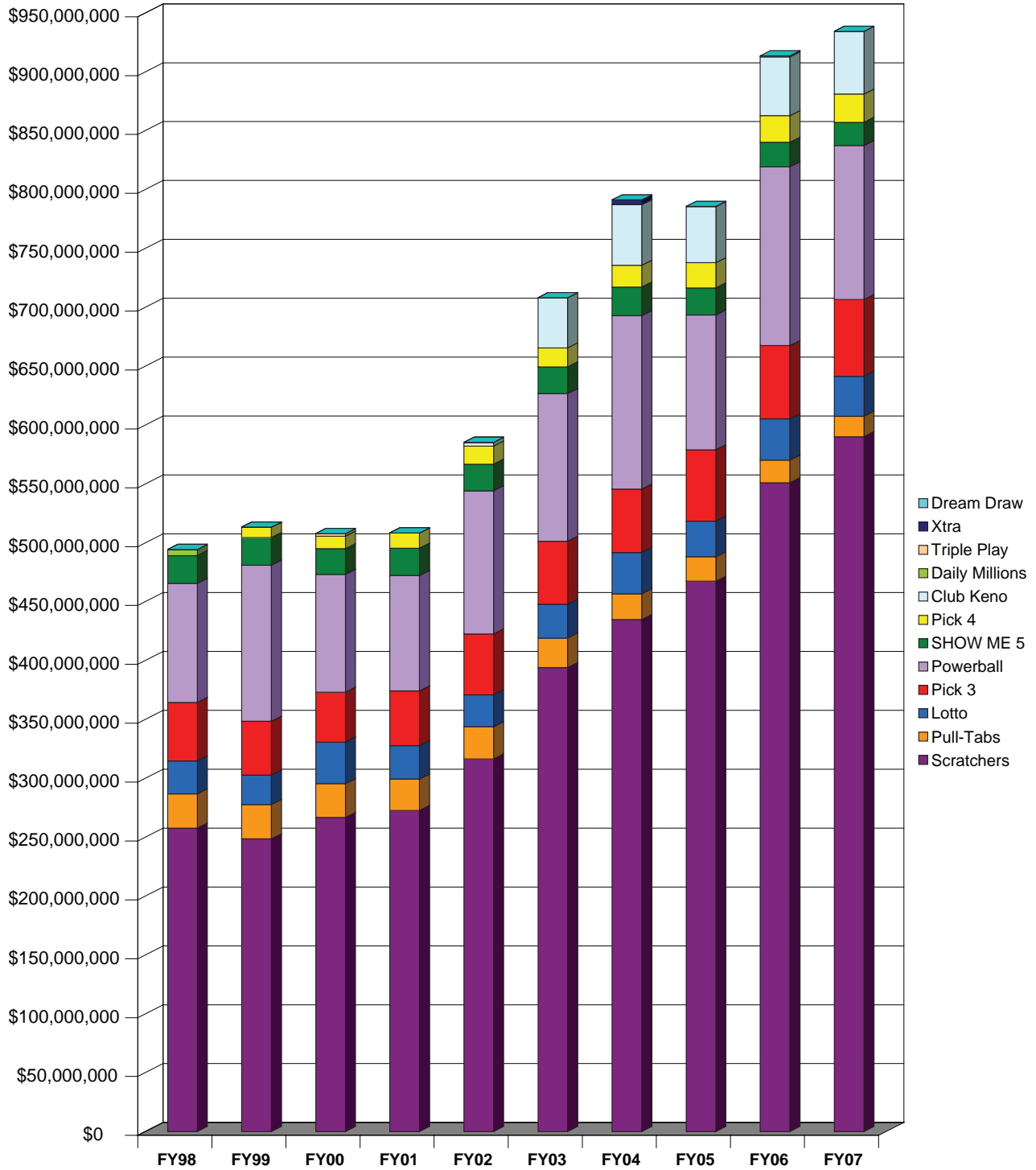
	1998	1999	2000	2001
<b>Operating revenues</b>				
Scratchers ticket sales	\$257,643,316	\$248,510,434	\$266,708,105	\$272,658,386
On-line ticket sales				
Lotto	27,875,180	24,981,515	35,292,475	28,459,170
Pick 3	49,711,706	45,622,562	42,368,038	46,539,183
Powerball	101,082,612	132,599,484	99,966,448	97,920,328
SHOW ME 5	23,666,577	23,537,442	21,923,806	23,280,662
Pick 4	-	8,759,037	10,549,806	12,864,736
Club Keno	-	-	-	-
Dream Draw	-	-	-	-
Xtra	-	-	-	-
Triple Play	-	-	2,336,614	-
Daily Millions	5,180,039	-	-	-
Total on-line ticket sales	<u>207,516,114</u>	<u>235,500,040</u>	<u>212,437,187</u>	<u>209,064,079</u>
Pull-Tab ticket sales	<u>29,139,331</u>	<u>29,240,982</u>	<u>28,700,294</u>	<u>26,578,639</u>
<b>Total sales</b>	<u>494,298,761</u>	<u>513,251,456</u>	<u>507,845,586</u>	<u>508,301,104</u>
<b>Other operating revenues</b>	<u>85,624</u>	<u>109,142</u>	<u>87,776</u>	<u>1,757,320</u>
<b>Total operating revenues</b>	<u>494,384,385</u>	<u>513,360,598</u>	<u>507,933,362</u>	<u>510,058,424</u>
<b>Operating Expenses</b>				
<b>Direct costs</b>				
Prize expense	273,168,317	282,306,452	280,506,198	293,218,540
Retailer compensation	31,110,621	32,278,385	32,388,529	32,429,771
Ticket costs	12,457,684	13,195,977	12,580,313	12,531,590
<b>Total direct costs</b>	<u>316,736,622</u>	<u>327,780,814</u>	<u>325,475,040</u>	<u>338,179,901</u>
<b>Administrative expenses</b>	<u>29,167,815</u>	<u>30,024,072</u>	<u>30,119,645</u>	<u>31,503,644</u>
Total operating expenses	<u>345,904,437</u>	<u>357,804,886</u>	<u>355,594,685</u>	<u>369,683,545</u>
Operating Income	<u>148,479,948</u>	<u>155,555,712</u>	<u>152,338,677</u>	<u>140,374,879</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	945,708	1,518,063	1,563,766	1,540,929
Unclaimed prizes*	-	-	-	12,201,033
Net increase (decrease) in the fair value of investments	13,828,307	3,080,058	5,868,431	9,747,840
Amortization of grand prize winner liability	(7,169,429)	(7,355,232)	(7,388,931)	(7,462,567)
Gain (loss) on disposal of assets	99,780	381,513	115,884	(202,110)
Liquidated damages	-	1,107,200	-	-
Transfers to the state	(149,525,436)	(158,562,488)	(154,018,327)	(153,914,731)
Total nonoperating expenses	<u>(141,821,070)</u>	<u>(159,830,886)</u>	<u>(153,859,177)</u>	<u>(138,089,606)</u>
<b>Changes In Net Assets</b>	<u>6,658,878</u>	<u>(4,275,174)</u>	<u>(1,520,500)</u>	<u>2,285,273</u>
<b>Total Net Assets, beginning of year</b>	<u>5,088,743</u>	<u>11,747,621</u>	<u>7,472,447</u>	<u>5,951,947</u>
<b>Total Net Assets, end of year</b>	<u>\$11,747,621</u>	<u>\$7,472,447</u>	<u>\$5,951,947</u>	<u>\$8,237,220</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	\$6,442,016	\$8,657,852	\$8,759,614	\$7,141,537
Unrestricted	(6,442,016)	(8,657,852)	(8,759,614)	(7,141,537)
Restricted	<u>11,747,621</u>	<u>7,472,447</u>	<u>5,951,947</u>	<u>8,237,220</u>
<b>Total net assets</b>	<u>\$11,747,621</u>	<u>\$7,472,447</u>	<u>\$5,951,947</u>	<u>\$8,237,220</u>

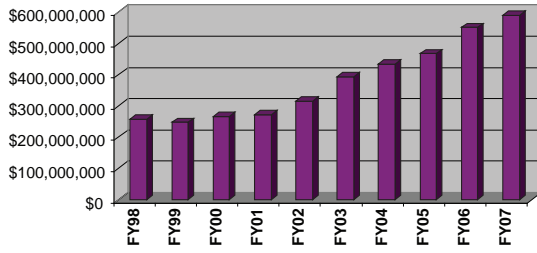
2002	2003	2004	2005	2006	2007
<u>\$316,397,488</u>	<u>\$393,981,254</u>	<u>\$434,791,673</u>	<u>\$467,326,093</u>	<u>\$550,961,109</u>	<u>\$590,045,817</u>
27,030,491	28,736,839	35,015,934	30,311,403	35,062,426	33,955,803
51,785,842	53,569,248	53,946,082	60,558,754	62,274,077	65,091,442
121,474,897	125,324,451	147,232,847	114,485,380	151,772,839	130,795,800
22,714,933	22,665,639	24,337,775	23,056,447	20,861,442	19,684,271
15,292,249	16,157,968	18,436,614	21,338,535	22,605,473	24,015,250
3,124,386	42,570,878	51,531,568	47,616,083	49,948,394	53,273,105
-	-	-	-	877,591	-
-	-	4,014,945	173,848	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>241,422,798</u>	<u>289,025,023</u>	<u>334,515,765</u>	<u>297,540,450</u>	<u>343,402,242</u>	<u>326,815,671</u>
<u>27,368,968</u>	<u>25,041,235</u>	<u>21,846,920</u>	<u>20,731,089</u>	<u>19,154,900</u>	<u>17,409,170</u>
585,189,254	708,047,512	791,154,358	785,597,632	913,518,251	934,270,658
615,041	539,609	638,392	340,957	167,767	1,395,548
<u>585,804,295</u>	<u>708,587,121</u>	<u>791,792,750</u>	<u>785,938,589</u>	<u>913,686,018</u>	<u>935,666,206</u>
353,075,456	434,559,460	484,827,462	487,925,882	572,767,960	595,022,614
37,100,715	44,453,462	49,316,766	48,798,722	56,543,150	58,257,753
13,289,487	16,712,029	18,341,746	17,543,004	16,282,739	16,280,719
<u>403,465,658</u>	<u>495,724,951</u>	<u>552,485,974</u>	<u>554,267,608</u>	<u>645,593,849</u>	<u>669,561,086</u>
<u>29,832,679</u>	<u>26,561,873</u>	<u>22,619,483</u>	<u>21,430,609</u>	<u>20,290,872</u>	<u>19,987,112</u>
<u>433,298,337</u>	<u>522,286,824</u>	<u>575,105,457</u>	<u>575,698,217</u>	<u>665,884,721</u>	<u>689,548,198</u>
<u>152,505,958</u>	<u>186,300,297</u>	<u>216,687,293</u>	<u>210,240,372</u>	<u>247,801,297</u>	<u>246,118,008</u>
756,413	382,523	470,448	571,049	1,459,617	1,360,851
6,669,140	16,720,584	12,283,414	7,811,413	11,392,679	10,349,767
7,678,525	11,259,456	(1,546,223)	6,300,009	(1,424,646)	4,294,279
(5,617,431)	(5,473,304)	(5,255,750)	(5,259,106)	(4,956,265)	(4,647,958)
106,956	62,857	(13,972)	19,876	15,142	54,077
-	-	-	-	-	-
<u>(160,038,467)</u>	<u>(203,466,261)</u>	<u>(229,427,183)</u>	<u>(218,642,710)</u>	<u>(260,668,734)</u>	<u>(257,882,704)</u>
<u>(150,444,864)</u>	<u>(180,514,145)</u>	<u>(223,489,266)</u>	<u>(209,199,469)</u>	<u>(254,182,207)</u>	<u>(246,471,688)</u>
2,061,094	5,786,152	(6,801,973)	1,040,903	(6,380,910)	(353,680)
8,237,220	10,298,314	16,084,466	9,282,493	10,323,396	3,942,486
<u>\$10,298,314</u>	<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,806</u>
<hr/>					
\$5,912,800	\$4,986,696	\$4,151,722	\$3,295,311	\$3,068,609	\$3,411,563
(5,912,800)	(4,986,696)	(4,151,722)	(3,295,311)	(3,068,609)	(3,411,563)
<u>10,298,314</u>	<u>16,084,466</u>	<u>9,282,493</u>	<u>10,323,396</u>	<u>3,942,486</u>	<u>3,588,806</u>
<u>\$10,298,314</u>	<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,806</u>

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

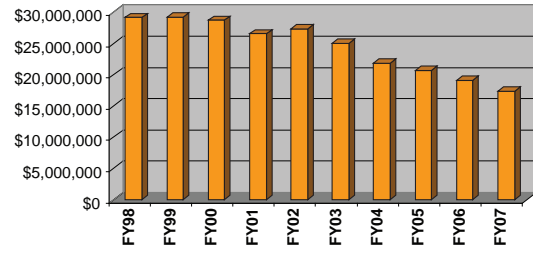


# Missouri State Lottery Commission Sales By Fiscal Year By Product Line Last Ten Fiscal Years (Unaudited)

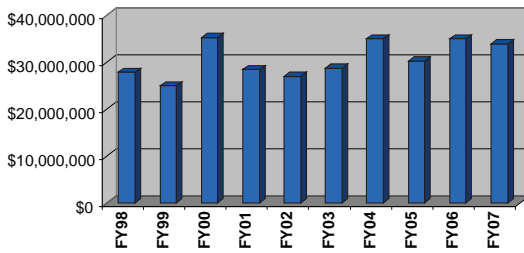
**Scratchers**



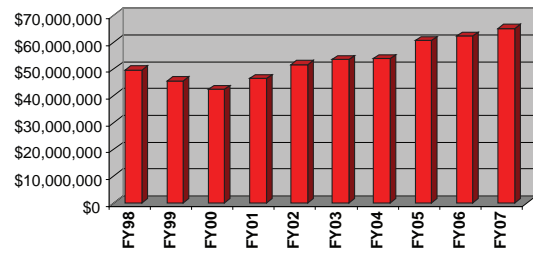
**Pull-Tabs**



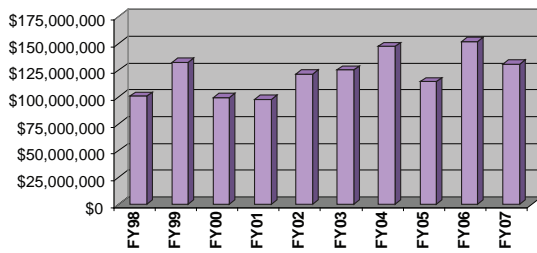
**Lotto**



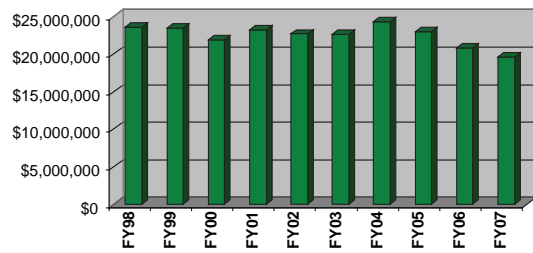
**Pick 3**



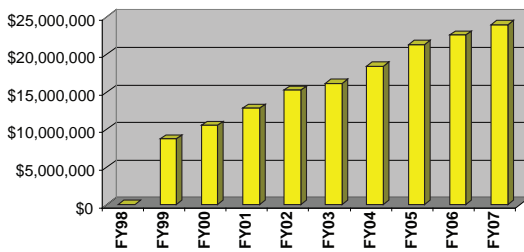
**Powerball**



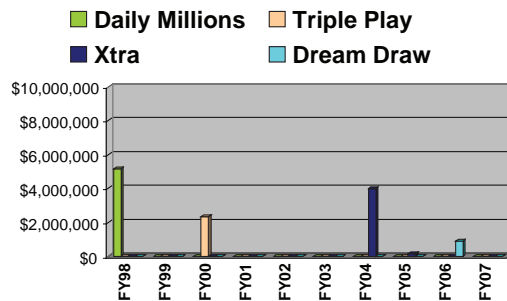
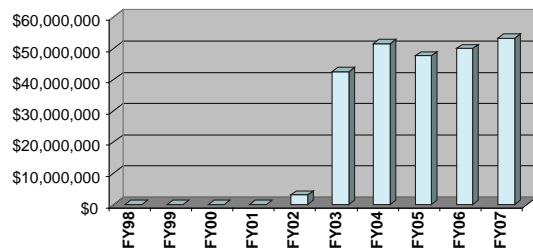
**SHOW ME 5**



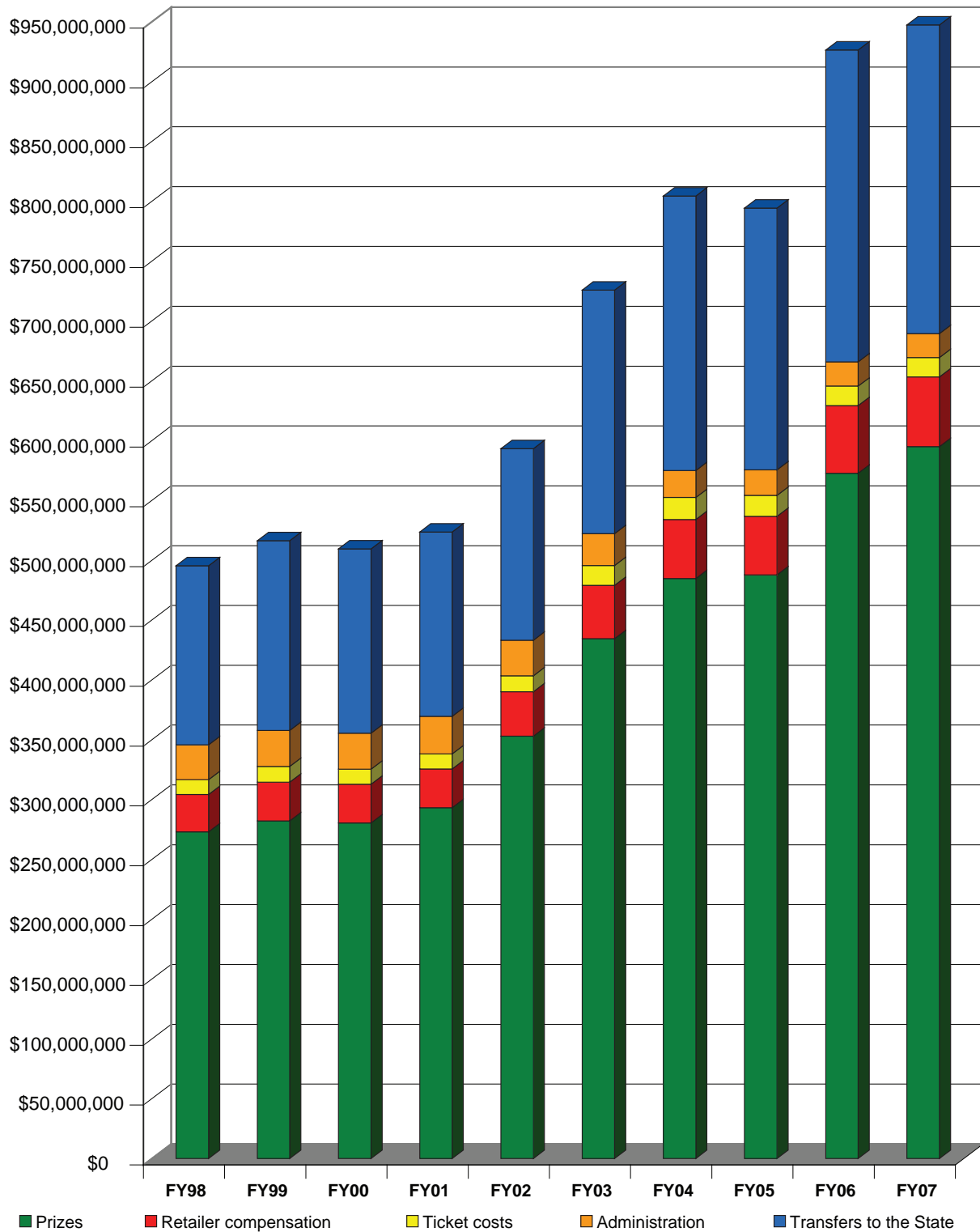
**Pick 4**



**Club Keno**



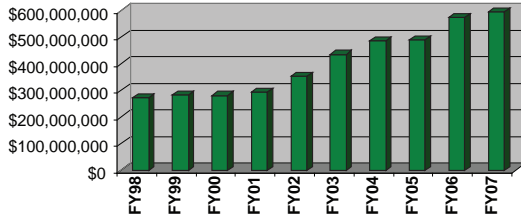
**Missouri State Lottery Commission  
Expenses And Transfers  
Last Ten Fiscal Years  
(Unaudited)**



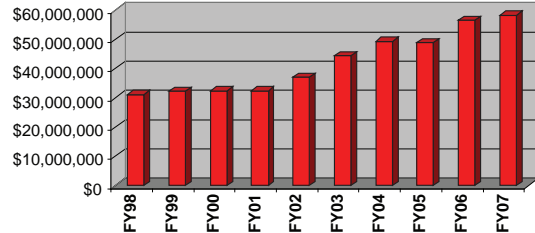


# Missouri State Lottery Commission Expenses And Transfers Last Ten Fiscal Years (Unaudited)

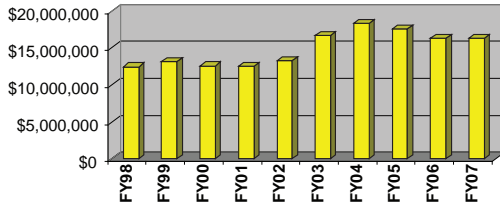
**Prizes**



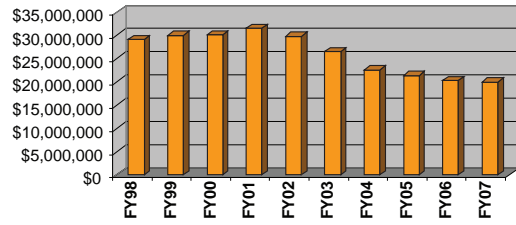
**Retailer Compensation**



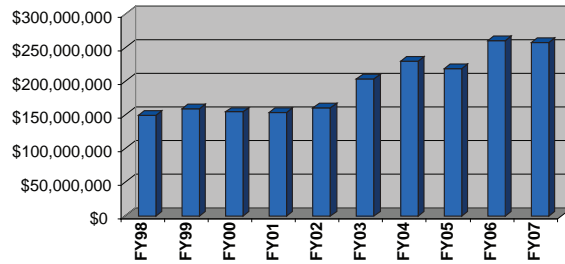
**Ticket Costs**



**Administration**



**Transfers to the State**



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

Price Point	1998	1999	2000	2001	2002
<b>Number of Launches</b>					
\$1	26	28	28	30	23
\$2	11	11	13	14	20
\$3	3	2	3	2	3
\$5	-	-	1	5	6
\$10	-	-	-	-	-
<b>Total</b>	<b>40</b>	<b>41</b>	<b>45</b>	<b>51</b>	<b>52</b>
<b>Sales</b>					
\$1	\$150,347,228	\$149,768,576	\$160,458,169	\$152,793,807	\$163,461,975
\$2	76,190,998	77,225,485	77,613,717	73,564,980	97,976,908
\$3	31,105,090	21,516,373	23,667,980	18,676,691	19,576,955
\$5	-	-	4,968,239	27,622,908	35,411,650
\$10	-	-	-	-	-
	<b>\$257,643,316</b>	<b>\$248,510,434</b>	<b>\$266,708,105</b>	<b>\$272,658,386</b>	<b>\$316,427,488</b>

2003	2004	2005	2006	2007	% of Total 2007
15	15	14	14	11	26.19%
20	24	22	22	19	45.24%
2	2	2	1	2	4.76%
7	6	9	10	9	21.43%
5	5	7	3	1	2.38%
<u>49</u>	<u>52</u>	<u>54</u>	<u>50</u>	<u>42</u>	<u>100.00%</u>
\$143,870,364	\$132,474,169	\$120,824,709	\$109,864,276	\$99,694,829	16.90%
117,812,464	150,207,177	162,535,252	169,626,074	183,404,816	31.08%
20,099,812	24,940,942	27,283,622	28,130,183	32,647,121	5.53%
50,094,329	57,003,246	73,989,819	108,561,454	133,382,786	22.61%
62,104,285	70,166,139	82,692,691	134,779,122	140,916,265	23.88%
<u>\$393,981,254</u>	<u>\$434,791,673</u>	<u>\$467,326,093</u>	<u>\$550,961,109</u>	<u>\$590,045,817</u>	<u>100.00%</u>

**Missouri State Lottery Commission  
Schedule Of Lottery Retailers And Sales By Region  
Fiscal Years Ending June 30, 2006 and 2007  
(Unaudited)**

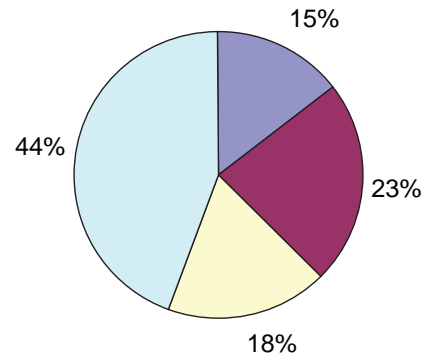
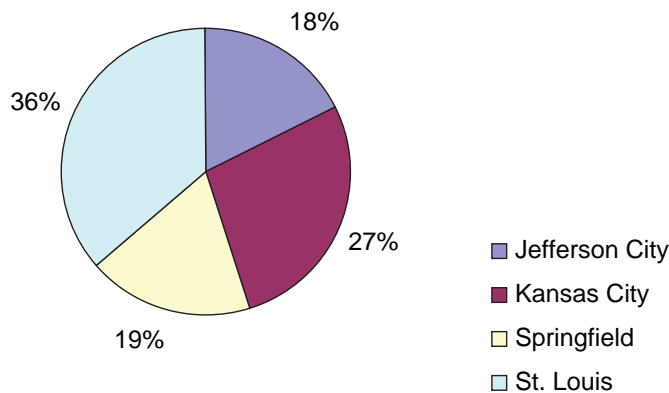
Region	Number of Retailers		% of Total Retailers	
	2006	2007	2006	2007
Jefferson City	909	864	18.43%	17.83%
Kansas City	1,313	1,313	26.62%	27.09%
Springfield	922	904	18.69%	18.66%
St. Louis	1,789	1,765	36.26%	36.42%
<b>Total Statewide</b>	<b>4,933</b>	<b>4,846</b>	<b>100.00%</b>	<b>100.00%</b>

Region	Total Sales		% of Total Sales	
	2006	2007	2006	2007
Jefferson City	\$133,903,265	\$136,964,078	14.66%	14.66%
Kansas City	211,175,672	212,733,429	23.12%	22.77%
Springfield	170,395,799	170,597,822	18.65%	18.26%
St. Louis	398,043,515	413,975,329	43.57%	44.31%
<b>Total Statewide</b>	<b>\$913,518,251</b>	<b>\$934,270,658</b>	<b>100.00%</b>	<b>100.00%</b>

**% Retailers by Region**

**FY2007**

**% 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 and 2007. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

**Missouri State Lottery Commission  
 Schedule Of Demographic And Economic Statistics  
 Calendar Years 1998 To 2007  
 (Unaudited)**

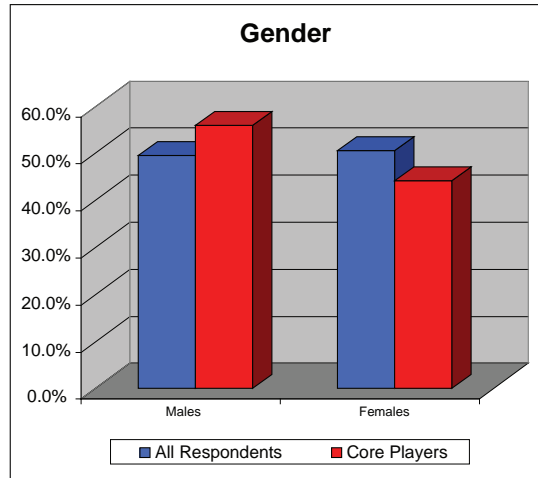
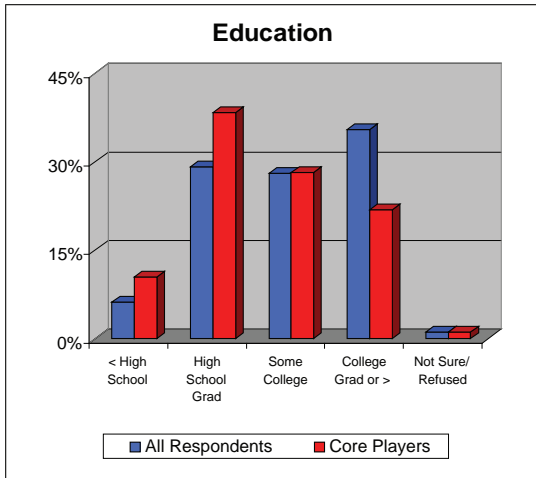
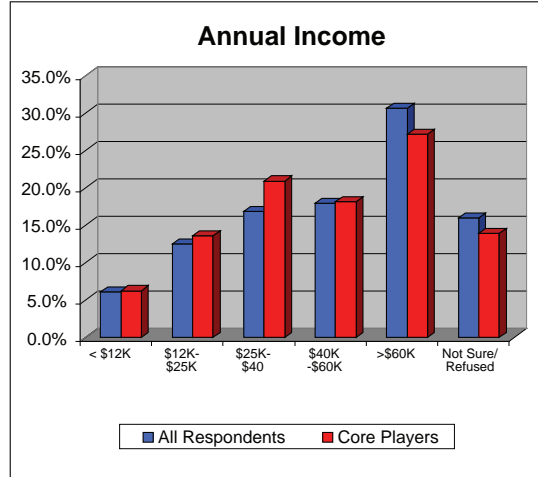
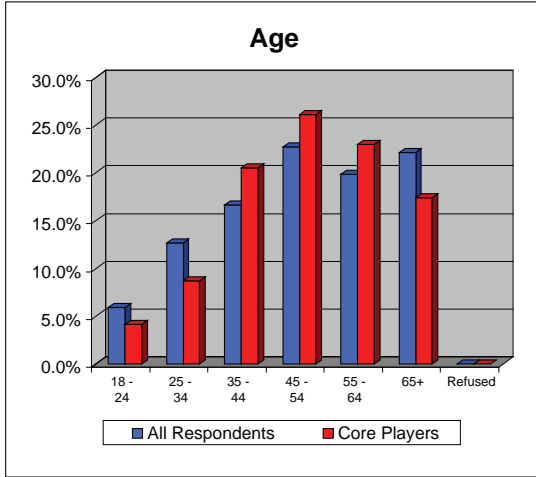
<b>Calendar Year</b>	<b>Statewide Population</b>	<b>Statewide Personal Income</b> (millions of dollars)	<b>Statewide Personal Income per Capita</b>	<b>State Unemployment Rate</b>
1998	5,521,765	\$ 137,619	\$ 24,923	4.3%
1999	5,561,948	142,925	25,697	3.1%
2000	5,595,211	152,722	27,295	2.6%
2001	5,643,232	156,937	27,810	4.2%
2002	5,680,259	161,104	28,362	5.0%
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	n/a	n/a	n/a	4.6%

**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 2007



**Source:** Missouri Lottery Track and Trend Report FY2007

**Missouri State Lottery Commission  
Schedule Of Lottery Full-time Equivalent Employees  
Last Ten Fiscal Years  
(Unaudited)**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Full-time	174.0	177.0	177.0	177.0	177.0	177.0	177.0	175.0	175.0	173.0
Part-time	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	0.5
<b>Total</b>	<b>175.5</b>	<b>178.5</b>	<b>178.5</b>	<b>178.5</b>	<b>178.5</b>	<b>178.5</b>	<b>178.5</b>	<b>176.5</b>	<b>176.5</b>	<b>173.5</b>
<b>Sales</b>										
Jefferson City	10.0	11.0	11.0	12.0	12.0	12.0	12.0	12.0	12.0	11.0
Springfield	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	9.0
Kansas City	16.0	16.0	16.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
St. Louis	19.0	19.0	19.0	19.0	19.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	12.0	12.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0	12.0
Vault	12.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	12.0
Marketing and administration	98.5	101.5	101.5	101.5	102.5	101.5	101.5	99.5	99.5	94.5
<b>Total</b>	<b>175.5</b>	<b>178.5</b>	<b>178.5</b>	<b>178.5</b>	<b>178.5</b>	<b>178.5</b>	<b>178.5</b>	<b>176.5</b>	<b>176.5</b>	<b>173.5</b>

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

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retailers- Statewide	4,996	5,060	5,050	4,968	5,036	5,021	5,003	5,022	4,933	4,846
Per Capita Sales	\$90	\$93	\$91	\$91	\$104	\$125	\$138	\$136	\$157	\$160

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

## U.S. lotteries' fiscal 2006 sales by game\*

(in \$millions)				Online Games								Total Sales	PC Sales	VLT (net)
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Bloc Lotto	Hot Lotto	Keno	Other			
Arizona	6.2	249.83		7.92		43.06	9.99	157.89				468.70	\$76	
California	36.5	1,929.63		143.99	0.00	734.01	148.35	453.72		163.53	11.77	3,585.00	\$98	
Colorado	4.8	293.81				38.33	16.86	119.76				468.76	\$99	
Connecticut	3.5	587.56		106.94	80.28	32.26	41.35	121.93				970.33	\$277	
Delaware	0.9	31.36		27.57	17.21	7.61		40.85	0.00			124.60	\$146	603.50
D.C.	0.6	39.79		70.31	80.01		8.17	51.77	2.43	13.17	0.74	266.39	\$458	0.00
Florida	18.1	2,100.12		343.17	215.53	835.03	306.68				128.50	3,929.03	\$217	
Georgia	9.4	1,832.41		544.27	177.62		79.35	272.02		49.71	0.00	2,955.38	\$316	
Idaho	1.5	80.99	0.97	1.21		3.27		44.87				131.31	\$90	
Illinois	12.8	975.82		309.21	170.07	125.34	126.56	243.84			13.42	1,964.26	\$153	
Indiana	6.3	504.87	16.74	29.57	29.84	65.54	7.60	159.82		0.00	2.38	816.36	\$129	0.00
Iowa	3.0	106.56	18.31	6.06	2.07		4.32	71.11	9.64		121.45	339.52	\$114	
Kansas	2.8	107.37	7.04	5.47		1.90	19.18	54.36	2.55	36.30	1.88	236.05	\$85	
Kentucky	4.2	404.93	20.01	124.33	36.57		15.56	136.74			4.19	742.31	\$176	
Louisiana	4.3	118.87		43.61	26.12	30.23	4.77	108.54				332.12	\$77	
Maine	1.3	165.42		5.94	4.42		2.99	50.48			0.46	229.70	\$174	
Maryland	5.6	415.33		298.08	236.50	35.79	22.43	116.25		436.26	0.27	1,560.91	\$278	
Massachusetts	6.4	3,115.07	1.68		342.57	42.20	89.72	134.76		775.25		4,501.24	\$699	
Michigan	10.1	710.77	41.60	385.78	322.95	50.70	45.51	216.41		438.66	0.00	2,212.37	\$219	0.00
Minnesota	5.2	267.80		13.00			33.30	116.60	10.80		8.20	449.70	\$87	
Missouri	5.8	550.96	19.16	62.27	22.61	35.06	20.86	151.77		49.95	0.88	913.52	\$156	
Montana	0.9	11.24		0.00	0.00	2.42	4.18	18.89	2.77		0.42	39.92	\$42	
Nebraska	1.8	56.91		2.74		2.01	11.32	40.13				113.11	\$64	
N. Hampshire	1.3	176.98		10.82		0.00	4.09	67.42	3.00		0.44	262.74	\$200	
New Jersey	8.7	1141.68		458.72	260.27	102.73	125.90	317.21				2,406.50	\$276	
New Mexico	2.0	89.37		2.01	0.77		8.35	54.11				154.61	\$79	
New York	19.3	3,197.90		822.34	657.71	252.64	335.53	563.15		493.06	164.82	6,487.14	\$336	315.70
N. Carolina	8.9	202.21						27.32				229.53	\$26	
N. Dakota	0.6					4.18		15.42	2.73			22.33	\$35	
Ohio	11.5	1,273.99		377.32	175.74	76.30	72.63	223.38			21.58	2,220.93	\$193	
Oklahoma	3.6	125.37		8.43				71.04				204.84	\$57	
Oregon	3.7	127.24	1.67		1.41	37.77	5.91	59.07		116.24	13.77	363.09	\$98	732.89
Pennsylvania	12.4	1,587.76		415.31	269.39	117.79	202.71	448.07			29.25	3,070.27	\$247	
Rhode Island	1.1	84.02		27.84		0.00	5.42	57.20		85.71	0.94	261.12	\$244	416.52
S. Carolina	4.3	696.46		134.33	58.39		33.62	221.81				1,144.61	\$265	
S. Dakota	0.8	18.52	0.00	0.00	0.00	1.74	2.01	15.00	2.17			39.44	\$50	221.54
Tennessee	6.0	627.95		61.42	25.53	22.16		190.95				928.01	\$154	
Texas	23.5	2,861.40		295.39		241.71	90.27	238.54			47.38	3,774.69	\$161	
Vermont	0.6	79.32		1.69	1.37		1.64	20.77			0.06	104.85	\$168	
Virginia	7.6	689.32		257.01	169.76		27.72	221.52				1,365.33	\$179	
Washington	6.4	305.51		18.17	0.00	61.89	23.07	60.06		6.69	2.51	477.88	\$75	
W. Virginia	1.8	119.12		9.39	4.52		5.94	65.53	3.32	10.25		218.08	\$120	1,304.43
Wisconsin	5.6	280.33	5.28	24.78	10.85	24.41	49.97	113.29			-0.01	508.91	\$92	
<b>Total</b>	<b>281.6</b>	<b>28,341.85</b>	<b>132.44</b>	<b>5,456.36</b>	<b>3,400.08</b>	<b>3,028.09</b>	<b>2,013.82</b>	<b>5,933.33</b>	<b>39.42</b>	<b>2,674.76</b>	<b>575.27</b>	<b>51,595.4</b>	<b>\$183</b>	<b>3,594.58</b>
% of total		54.9%	0.3%	10.6%	6.6%	5.9%	3.9%	11.5%	0.1%	5.2%	1.1%	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 2007 World Lottery Almanac



## Fiscal 2006 U.S. Lottery Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	Pop. <sup>1</sup> (Mil)	2005 Gross State Product <sup>2</sup>							PC		Ticket Sales as % of GSP	Gov't Transfers as % of GSP	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale
			Ticket Sales	VLT (net)	Prizes	Agent Comm.	Expense	Gov't Transfers	Sales	Gov't				
Arizona	6.2	216,528	468.70		259.09	31.28	37.98	141.12	\$76	\$23	0.216%	0.065%	55.3%	30.1%
California	36.5	1,622,116	3,585.00		1,932.72	252.54	160.52	1,258.51	\$98	\$35	0.221%	0.078%	53.9%	35.1%
Colorado	4.8	216,537	468.76		281.59	34.67	30.44	125.55	\$99	\$26	0.216%	0.058%	60.1%	26.8%
Connecticut	3.5	193,745	970.33		587.39	54.05	45.76	284.87	\$277	\$81	0.501%	0.147%	60.5%	29.4%
Delaware <sup>3,4</sup>	0.9	56,483	124.60	603.50	64.88	8.04	20.56	315.99	\$146	\$370	0.221%	0.559%	52.1%	
D.C.	0.6	81,830	266.39	0.00	146.69	16.53	30.69	73.80	\$458	\$127	0.326%	0.090%	55.1%	27.7%
Florida	18.1	673,274	3,929.03		2,340.86	224.57	150.45	1,224.65	\$217	\$68	0.584%	0.182%	59.6%	31.2%
Georgia	9.4	363,839	2,955.38		1,815.57	208.33	121.04	822.40	\$316	\$88	0.812%	0.226%	61.4%	27.8%
Idaho	1.5	47,189	131.31		76.68	7.75	13.18	33.00	\$90	\$23	0.278%	0.070%	58.4%	25.1%
Illinois	12.8	560,032	1,964.26		1,158.21	99.27	101.96	645.92	\$153	\$50	0.351%	0.115%	59.0%	32.9%
Indiana	6.3	238,568	816.36	0.00	493.13	56.73	48.09	216.49	\$129	\$34	0.342%	0.091%	60.4%	26.5%
Iowa	3.0	113,552	339.52		122.26	107.85	29.19	80.88	\$114	\$27	0.299%	0.071%	36.0%	23.8%
Kansas	2.8	105,574	236.05		131.00	13.64	22.98	67.09	\$85	\$24	0.224%	0.064%	55.5%	28.4%
Kentucky	4.2	140,501	742.31		444.95	46.72	48.28	204.32	\$176	\$49	0.528%	0.145%	59.9%	27.5%
Louisiana	4.3	168,204	332.12		168.24	18.50	28.09	119.43	\$77	\$28	0.197%	0.071%	50.7%	36.0%
Maine	1.3	44,971	229.70		142.10	16.28	21.09	51.56	\$174	\$39	0.511%	0.115%	61.9%	22.4%
Maryland	5.6	246,234	1,560.91		904.08	102.70	54.47	500.97	\$278	\$89	0.634%	0.203%	57.9%	32.1%
Massachusetts	6.4	325,917	4,501.24		3,234.55	255.02	83.32	951.24	\$699	\$148	1.381%	0.292%	71.9%	21.1%
Michigan	10.1	376,243	2,212.37	0.00	1,268.18	165.30	105.35	688.02	\$219	\$68	0.588%	0.183%	57.3%	31.1%
Minnesota	5.2	234,552	449.71		267.80	27.29	36.94	119.29	\$87	\$23	0.192%	0.051%	59.5%	26.5%
Missouri	5.8	216,065	913.52		572.77	56.54	42.95	260.67	\$156	\$45	0.423%	0.121%	62.7%	28.5%
Montana	0.9	29,885	39.92		20.73	2.33	7.96	9.11	\$42	\$10	0.134%	0.030%	51.9%	22.8%
Nebraska	1.8	70,676	113.11		63.72	7.08	12.64	27.60	\$64	\$16	0.160%	0.039%	56.3%	24.4%
N. Hampshire	1.3	55,061	262.74		152.39	14.18	16.86	80.38	\$200	\$61	0.477%	0.146%	58.0%	30.6%
New Jersey	8.7	431,079	2,406.50		1,380.41	133.60	88.74	844.16	\$276	\$97	0.558%	0.196%	57.4%	35.1%
New Mexico	2.0	68,870	154.61		84.63	9.86	19.23	36.86	\$79	\$19	0.224%	0.054%	54.7%	23.8%
New York	19.3	957,873	6,487.14	315.70	3,853.27	511.06	271.68	2,202.62	\$336	\$114	0.677%	0.230%	59.4%	
N. Carolina	8.9	346,640	229.53		118.97	16.06	17.66	64.59	\$26	\$7	0.066%	0.019%	51.8%	28.1%
N. Dakota	0.6	24,397	22.33		11.04	1.16	3.42	6.50	\$35	\$10	0.092%	0.027%	49.5%	29.1%
Ohio	11.5	440,923	2,220.93		1,311.14	139.84	109.77	646.28	\$193	\$56	0.504%	0.147%	59.0%	29.1%
Oklahoma	3.6	121,490	204.84		109.68	12.92	13.18	68.95	\$57	\$19	0.169%	0.057%	53.5%	33.7%
Oregon <sup>3,4</sup>	3.7	144,278	363.09	732.89	239.49	32.28	25.86	570.66	\$98	\$154	0.252%	0.396%	66.0%	
Pennsylvania	12.4	489,025	3,070.27		1,804.89	170.69	131.75	992.36	\$247	\$80	0.628%	0.203%	58.8%	32.3%
R. Island <sup>3,4</sup>	1.1	43,787	261.11	416.52	154.82	31.99	8.73	323.90	\$244	\$303	0.596%	0.740%	59.3%	
S. Carolina	4.3	140,019	1,144.61		702.34	81.07	46.70	320.63	\$265	\$74	0.817%	0.229%	61.4%	28.0%
S. Dakota <sup>3,4</sup>	0.8	30,919	39.44	221.54	22.37	2.23	6.14	119.00	\$50	\$152	0.128%	0.385%	56.7%	
Tennessee	6.0	229,215	927.58		537.75	64.95	52.55	284.65	\$154	\$47	0.405%	0.124%	58.0%	30.7%
Texas	23.5	989,443	3,774.69		2,310.56	191.62	184.90	1,090.33	\$161	\$46	0.381%	0.110%	61.2%	28.9%
Vermont	0.6	23,065	104.85		66.45	6.15	9.67	23.01	\$168	\$37	0.455%	0.100%	63.4%	21.9%
Virginia	7.6	351,903	1,365.33		773.55	76.18	69.69	454.00	\$179	\$59	0.388%	0.129%	56.7%	33.3%
Washington	6.4	267,308	477.89		291.77	30.35	34.69	125.09	\$75	\$20	0.179%	0.047%	61.1%	26.2%
W. Virginia <sup>3,4</sup>	1.8	50,050	218.08	1,304.43	131.90	15.28	6.56	610.04	\$120	\$335	0.436%	1.219%	60.5%	
Wisconsin	5.6	216,322	509.06		293.91	35.19	29.48	133.30	\$92	\$24	0.235%	0.062%	57.7%	26.2%
<b>Total</b>	<b>281.6</b>	<b>11,764,182</b>	<b>51,595.2</b>	<b>3,594.6</b>	<b>30,848.5</b>	<b>3,389.7</b>	<b>2,401.2</b>	<b>17,219.8</b>	<b>\$183</b>	<b>\$61</b>	<b>0.439%</b>	<b>0.146%</b>	<b>59.8%</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

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 2007 World Lottery Almanac

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</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	53	54	54	54	54	55	49	49	49	49
Delivery vans	4	4	6	6	5	4	3	3	3	3
Passenger vans - vehicle pool	25	29	29	10	8	10	8	3	12	11
Passenger cars - vehicle pool	5	8	8	12	11	9	9	8	8	4
Trucks	4	4	4	4	4	4	4	3	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>92</u>	<u>100</u>	<u>102</u>	<u>87</u>	<u>83</u>	<u>83</u>	<u>74</u>	<u>67</u>	<u>76</u>	<u>71</u>

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

# Supplementary Information

*More than 27 cents of every Lottery dollar goes to public education. Only 3.8 cents is spent on operating expenses.*



Approximately 27.1 cents of every dollar spent on the Missouri Lottery benefits Missouri's public education programs; 63 cents goes back to players as prizes, 3.8 cents is used for administrative costs; and 6.1 cents goes to retailers in the form of commissions, incentives and bonuses. In all, more than 96 cents of every dollar stays in Missouri!



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**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 accompanying basic financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), a component unit of the State of Missouri, as of and for the years ended June 30, 2007 and 2006, and have issued our reports thereon dated October 19, 2007, and September 27, 2006, respectively. 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.

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 opinions on the 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.

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A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lottery's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lottery's financial statements that is more than inconsequential will not be prevented or detected by the Lottery's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lottery's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 or other matters that are required to be reported under *Government Auditing Standards*.

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

October 19, 2007

Cochran Hood Vicks & Co PC

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