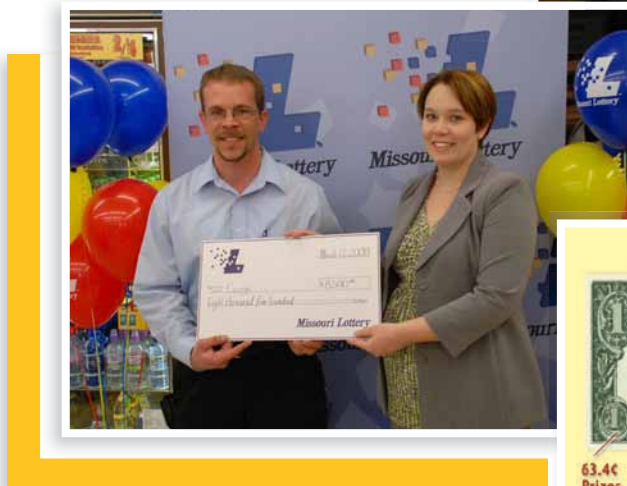




# Comprehensive Annual Financial Report

For Fiscal Year  
Ended June 30, 2008



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





# Comprehensive Annual Financial Report

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*For Fiscal Year  
Ended June 30, 2008*

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

Prepared by the 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, 2008

### Table Of Contents

#### Introductory Section

Letter of Transmittal.....	2
Certificate of Achievement for Excellence in Financial Reporting.....	6
Organizational Chart and Principal Officials.....	7

#### Financial Section

Independent Auditors' Report.....	10
Management's Discussion and Analysis.....	12
Basic Financial Statements	
Statements of Net Assets.....	17
Statements of Revenues, Expenses and Changes in Fund Net Assets.....	18
Statements of Cash Flows.....	19
Notes to the Basic Financial Statements.....	20

#### Statistical Section (Unaudited)

Statistical Information Section.....	28
Financial Trends.....	29
Schedule of Net Assets and Changes in Net Assets.....	30
Sales by Product for Fiscal Years 1999 through 2008.....	32
Sales by Fiscal Year by Product for Fiscal Years 1999 through 2008.....	33
Expenses and Transfers for Fiscal Years 1999 through 2008.....	34
Expenses and Transfers by Fiscal Year for Fiscal Years 1999 through 2008.....	35
Revenue Capacity	
Schedule of Scratchers Ticket Game Launches and Sales by Price Point.....	36
Schedule of Lottery Retailers and Sales by Region.....	38
Demographic and Economic Information	
Schedule of Demographic and Economic Statistics.....	39
Demographic Group Participation.....	40
Operation Information	
Schedule of Lottery Employees.....	41
Schedule of Operating Indicators.....	41
United States Lottery Statistics	
Fiscal 2007 Sales by Game.....	42
Fiscal 2007 Sales, Prizes and Government Transfers.....	43
Schedule of Capital Asset Information.....	44

#### Supplementary Information

Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	46
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# Introductory Section

*More than \$3 billion in Lottery profits for the state of Missouri and public education*



In fiscal year 2008, the Missouri Lottery generated more than \$265 million for public education programs, including funds for programs such as the A+ Scholarships Program, Virtual Schools, Specials Education Excess Costs, and funding for Missouri's colleges and universities.



December 3, 2008

**To: Celeste Witzel, Chairperson Missouri State Lottery Commission**  
**Marti Cortez, Member**  
**Pat Dillon, Member**  
**Robert Gattermeir, Member**  
**Charles Larry Ray, 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, 2008. 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**

The State of Missouri's economic growth generally follows the national trends. According to advance estimates, Missouri's gross domestic product growth rate was 1.3 percent for 2007, while the national growth rate was 2.2 percent for the same period. The annual rate of growth in employment for Missouri in 2007 was 0.8 percent, while the national growth rate was 1.1 percent. Missouri's average unemployment rate for 2007 was 5.0 percent, higher than the national average rate of 4.6 percent. Missouri's real per capita personal income growth from 2006 to 2007 was 2.3 percent, while the national real growth rate was 2.6 percent. During 2006 and 2007, national monthly retail sales growth slowed. This was due to continued weakness in the housing market along with high energy and food prices. While Missouri does not have specific retail sales data available, an analysis of taxable sales data indicated a declining trend. Preliminary data shows taxable sales declined by 5.83 percent during the first quarter of 2008 compared to the same quarter of 2007. This decline marks four consecutive quarters of decline in Missouri taxable sales.

The end of 2007 and the start of 2008 have been a difficult time for both the U.S. and Missouri economies. Economic growth has thus far been relatively flat in 2008, and it is predicted that it may decline for the remainder of 2008 and into 2009. Employment has declined and unemployment rates are projected to reach among the highest rates over the last two decades. Personal income and salary and wage growth have been declining and are expected to continue this trend. Missouri's economic outlook over the next twelve to eighteen months is similar to that of the nation: job losses will continue and income growth and consumer spending will slow. If the projections are accurate the personal disposable incomes and spending patterns of the consumers may be impacted to a level that would affect ticket sales of the MLC. 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 flattening of the 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 2008, as ticket sales exceeded \$995 million – an increase of 6.6 percent, approximately \$61 million, over the prior fiscal year. This overall increase in sales was driven by an 8.2 percent, \$48.5 million, increase in Scratcher ticket sales during fiscal year 2008, which reflected continued impact and effects of increasing the prize structures of these games and introducing higher price point games. On-line ticket sales increased 4.6 percent, \$15 million, above the level of the previous fiscal year primarily due to increased ticket sales for Powerball and Club Keno. Powerball sales are driven by the size of the jackpots, and during fiscal year 2008, there were two large jackpots in excess of \$250 million. A retailer recruitment program in fiscal year 2008 contributed to the increased sales for Club Keno.

For fiscal year 2008, the level of operating expenses increased by 7.4 percent, approximately \$50.7 million, over the previous year, from \$689.5 million to \$740.3 million. This increase was primarily in prize expenses, as these costs increased by \$46.1 million. These increases reflected the effects of increased sales and higher prize structures. The increased sales also resulted in an additional \$3.3 million increase in retailer commissions and incentives and a \$1 million increase in the costs of tickets sold. The level of administrative expenses increased slightly by \$375 thousand, or 1.9 percent. The MLC continues to operate with one of the lowest administrative cost ratios in the country. The net impact of these results for fiscal year 2008 was that the transfer of profits for public education increased from the prior year, from \$258 million to \$267 million. In addition, the MLC returned in excess of \$641 million to players in cash and prizes and \$61 million to retailers in commissions and incentives for the 2008 fiscal year.

In addition to financial accomplishments, other noteworthy accomplishments during the fiscal year 2008 included:

- The MLC introduced its first \$20 Scratchers game, “\$4 Million Dollar Cash Bonanza,” which offered more than \$175 million in prizes and the highest payout to date in a Scratchers game – 76.2 percent.
- Introduced the Club Keno “Quick Start” recruitment program to expand the number of retailers of Club Keno.
- Introduced Million Dollar Raffle Game.
- Enhanced the appearance and functionality of our website
- Implemented enhanced reporting and communication tools for the field staff.
- Replaced existing instant ticket vending machines with machines that have a larger capacity and enhanced features and functions.

## **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 2009 and beyond include:

- The addition of a new monitor game.
- Implementation of Powerball game changes.
- Implementation of changes and conversion of the current Show Me 5 twice-daily draw game to Show Me Cash, with a rolling jackpot feature and drawings held daily.
- Continued focus on expanding the retailer base.

## **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, 2007. This was the eighth consecutive year that the MLC has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish

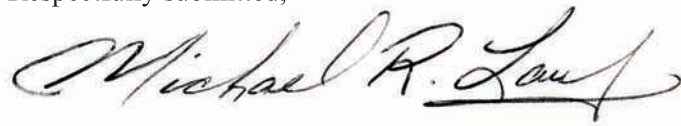
an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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**

The preparation of this Comprehensive Annual Financial Report reflects our commitment to maintain the highest standards of public accountability. We reaffirm our commitment to continually improve our financial management and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the dedicated efforts of our employees, especially the accounting staff. We would also like to recognize Executive Director Larry Jansen, Commission Chairperson Celeste Witzel and Commissioner Larry Ray for their support, guidance and dedication in operating the Missouri Lottery Commission in a responsible and progressive manner. We extend our congratulations to Commissioners Marti Cortez, Robert Gattermeir and Pat Dillon on their recent appointments to the Commission and appreciate their commitment to the Missouri State Lottery Commission.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael R. Lauf". The signature is written in a cursive style with a horizontal line under the last name.

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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Missouri State Lottery Commission

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

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.



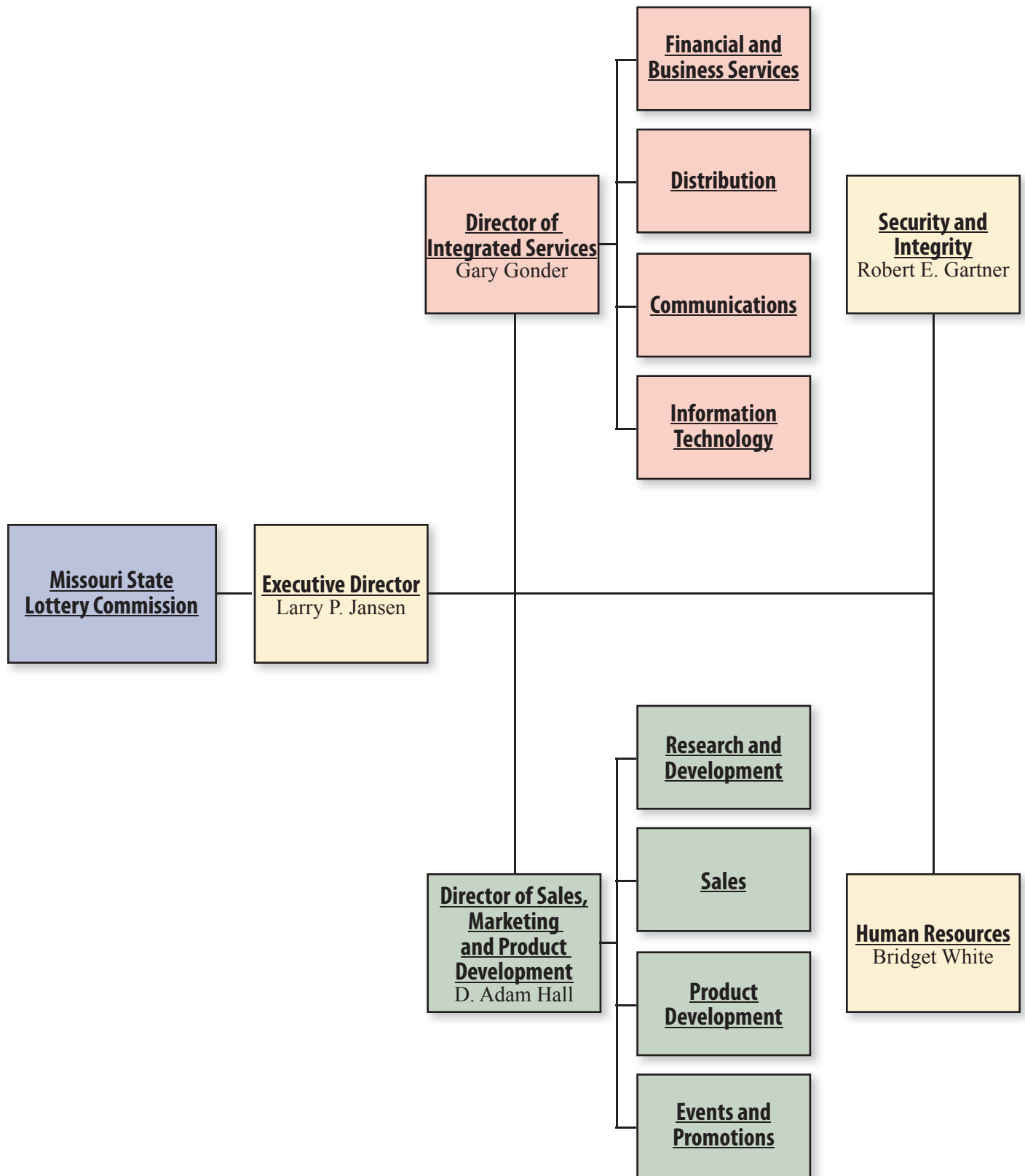
*Charles S. Cox*

President

*Jeffrey R. Emer*

Executive Director

Missouri State Lottery Commission  
Principal Officials and Organization Chart  
June 30, 2008



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# Financial Section

*More than \$6 billion returned to players in prizes*



Phil Sutterfield of Troy claimed a \$1.4 million Missouri Lotto jackpot that he won on Dec. 26, 2007.



## INDEPENDENT AUDITORS' 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 year ended June 30, 2008, 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. The basic financial statements of the Lottery for the year ended June 30, 2007, were audited by other auditors whose report, dated October 19, 2007, expressed an unqualified opinion on those statements.

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 of the Lottery are intended to present the financial position and the results of its operations and cash flows of the Lottery. They do not purport to, and do not present fairly, the financial position of the State of Missouri as of June 30, 2008 and the changes in its financial position and cash flows, where applicable, for the year 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 Lottery, as of June 30, 2008, and the results of its operations and cash flows for the year 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 December 3, 2008 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.

The management's discussion and analysis on pages 12 - 16 is not a required part of the basic financial statements but 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.

*Berberich Trahan & Co., P.A.*

December 3, 2008

## Management's Discussion And Analysis For The Fiscal Years Ended June 30, 2008 And 2007

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, 2008 and 2007. Please review 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, 2008 and 2007. 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, 2008 and 2007. 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, 2008 and 2007.

### MLC Net Assets

	<u>As of June 30, 2008</u>	<u>As of June 30, 2007</u>	<u>As of June 30, 2006</u>
<b>Assets</b>			
Current assets	\$71,513,909	\$66,109,425	\$69,152,265
Noncurrent assets:			
Capital assets	3,366,885	3,411,563	3,068,609
Other noncurrent assets	61,732,872	61,497,694	66,558,437
Total noncurrent assets	<u>65,099,757</u>	<u>64,909,257</u>	<u>69,627,046</u>
<b>Total assets</b>	<u>136,613,666</u>	<u>131,018,682</u>	<u>138,779,311</u>
<b>Liabilities</b>			
Current liabilities	70,142,343	65,384,010	68,598,855
Long-term liabilities	60,204,389	62,045,864	66,237,970
<b>Total liabilities</b>	<u>130,346,732</u>	<u>127,429,874</u>	<u>134,836,825</u>
<b>Net Assets</b>			
Invested in capital assets	3,366,885	3,411,563	3,068,609
Unrestricted	(3,366,885)	(3,411,563)	(3,068,609)
Restricted	6,266,934	3,588,808	3,942,486
<b>Total net assets</b>	<u><u>\$6,266,934</u></u>	<u><u>\$3,588,808</u></u>	<u><u>\$3,942,486</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, 2008	For the Year Ended June 30, 2007	For the Year Ended June 30, 2006
<b>Operating revenues</b>			
Ticket sales	\$995,492,888	\$934,270,658	\$913,518,251
Other operating revenues	649,422	1,395,548	167,767
<b>Total operating revenues</b>	<u>996,142,310</u>	<u>935,666,206</u>	<u>913,686,018</u>
<b>Operating expenses</b>			
Direct costs:			
Prize expense	641,123,508	595,022,614	572,767,960
Retailer commissions and incentives	61,508,836	58,257,753	56,543,150
Other direct costs	17,289,790	16,280,719	16,282,739
Total direct costs	<u>719,922,134</u>	<u>669,561,086</u>	<u>645,593,849</u>
Administrative expenses	20,362,542	19,987,112	20,290,872
<b>Total operating expenses</b>	<u>740,284,676</u>	<u>689,548,198</u>	<u>665,884,721</u>
<b>Operating Income</b>	<u>255,857,634</u>	<u>246,118,008</u>	<u>247,801,297</u>
<b>Nonoperating revenues and (expenses)</b>			
Interest income	1,430,382	1,360,853	1,459,617
Gain on disposal of capital assets	37,679	54,077	15,142
Unclaimed prizes	9,330,350	10,349,767	11,392,679
Transfers to the State of Missouri	(266,656,044)	(257,882,704)	(260,668,734)
Amortization of grand-prize winner liability	(4,215,836)	(4,647,958)	(4,956,265)
Net increase (decrease) in the fair value of investments held for grand-prize winners	6,893,961	4,294,279	(1,424,646)
<b>Net nonoperating revenue (expenses)</b>	<u>(253,179,508)</u>	<u>(246,471,686)</u>	<u>(254,182,207)</u>
<b>Change in net assets</b>	2,678,126	(353,678)	(6,380,910)
<b>Total net assets, beginning of year</b>	<u>3,588,808</u>	<u>3,942,486</u>	<u>10,323,396</u>
<b>Total net assets, end of year</b>	<u>\$6,266,934</u>	<u>\$3,588,808</u>	<u>\$3,942,486</u>

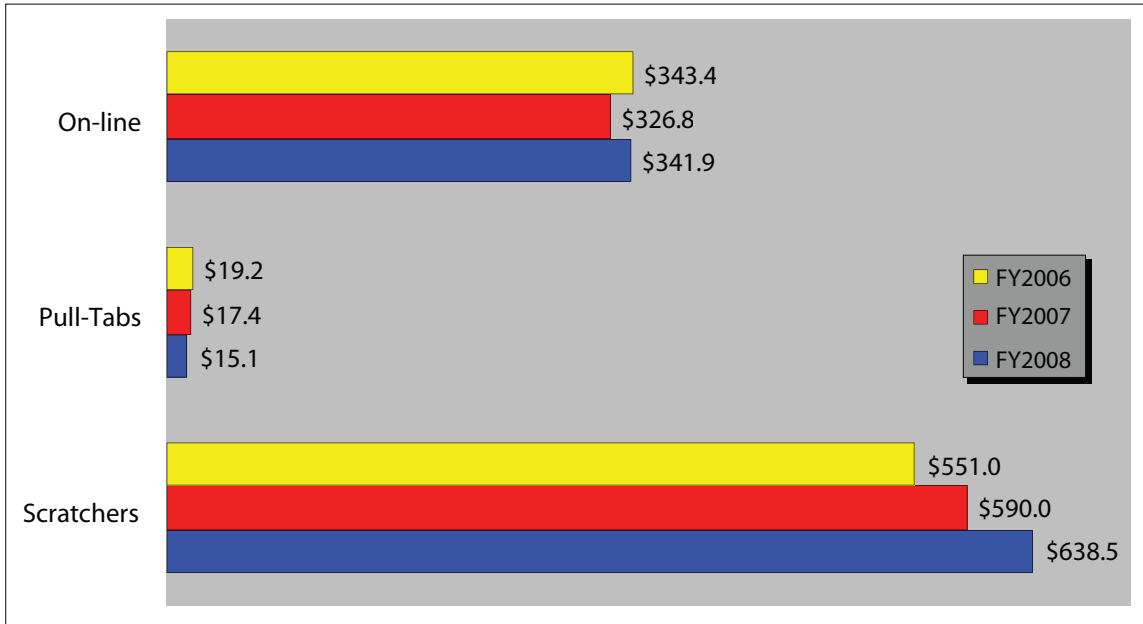
Changes in net assets are the result of fluctuations in market yields which increase or reduce the unrealized gain on investments. Because the MLC is required to transfer its net income (excluding the unrealized gain or loss on investments) to the Lottery Proceeds Fund, the change in net assets do not reflect the results of the MLC operating activities. The amounts reported as Transfer to the State of Missouri reflect the MLC's operating activities for the fiscal years. For fiscal year 2008, the transfer amount of \$266,656,044 was the highest amount in the history of the MLC.

## Operating Revenues

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Sales by Game			
Scratchers	\$638,533,775	\$590,045,817	\$550,961,109
Pull-Tabs	15,088,705	17,409,170	19,154,900
On-line			
Lotto	29,955,387	33,955,803	35,062,426
Pick 3	68,680,133	65,091,442	62,274,077
Pick 4	25,751,837	24,015,250	22,605,473
SHOW ME 5 Paydown	18,836,176	19,684,271	20,861,442

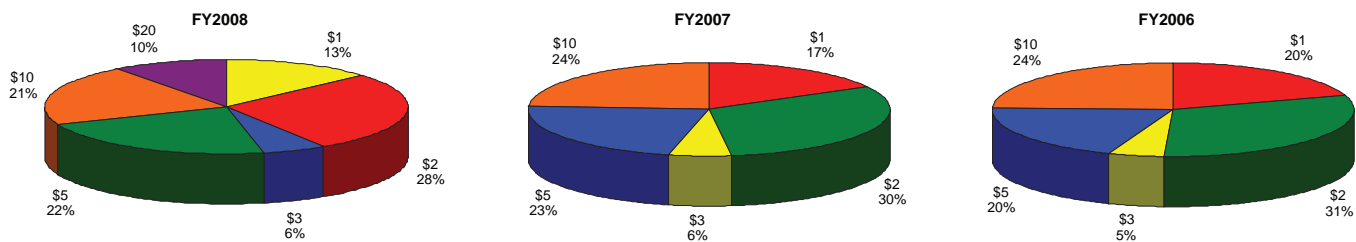
Club Keno	57,753,303	53,273,105	49,948,394
Powerball	138,393,572	130,795,800	151,772,839
Raffle	2,500,000	-	877,591
Other	649,422	1,395,548	167,767
<b>Total operating revenues</b>	<b>\$996,142,310</b>	<b>\$935,666,206</b>	<b>\$913,686,018</b>

### Lottery Sales By Product in millions



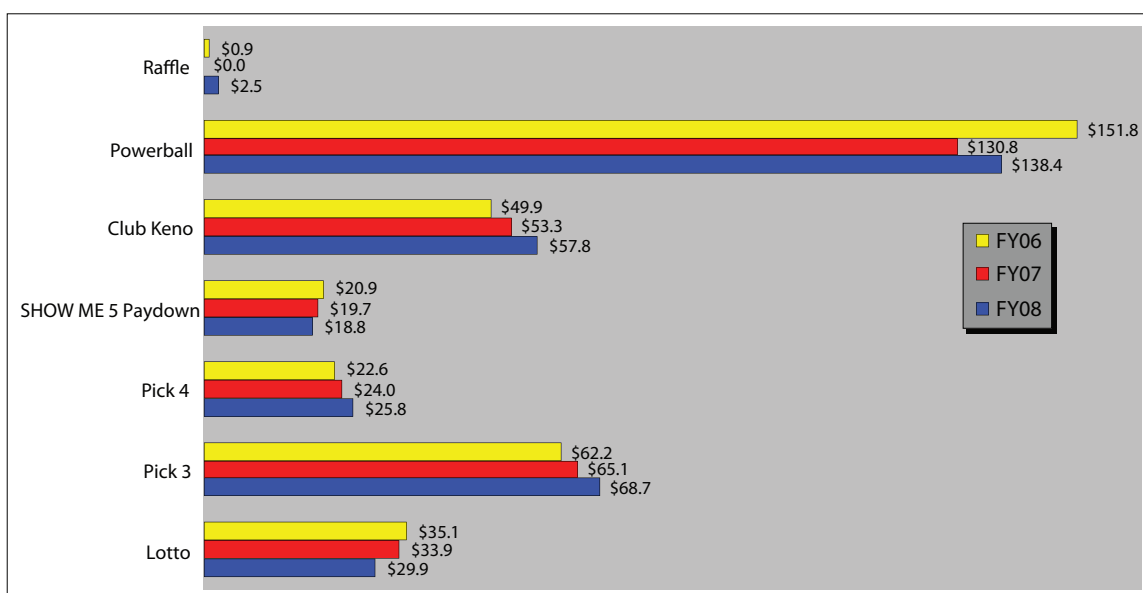
Revenues from the sale of lottery products were the highest in the 23-year history of the MLC. As indicated in the financial statements, Scratchers tickets led the way to this record sales level. The MLC has made a significant investment in increasing prizes and introducing more \$5 and \$10 tickets. In addition, the first \$20 ticket was introduced in fiscal year 2008. 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



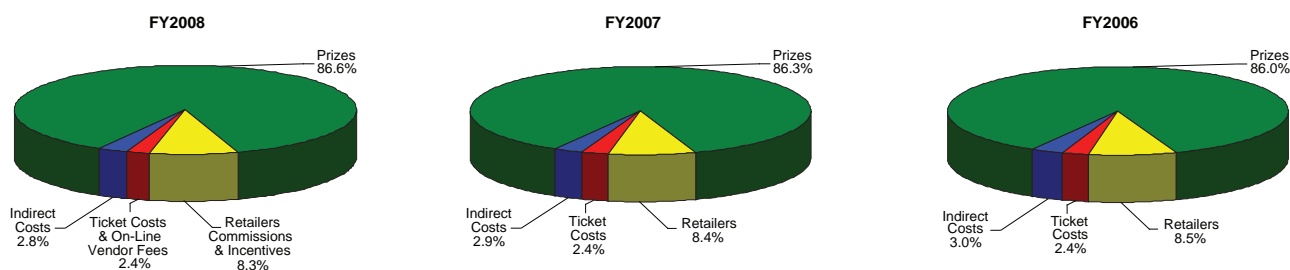
The on-line sales increase in fiscal year 2008 was due primarily to an increase in sales of the Powerball game. Several large jackpots contributed to increased sales in fiscal year 2008 for this game, as sales are driven by high jackpot amounts. Sales for the Pick 3 and Pick 4 games continued to increase in fiscal year 2008 and fiscal year 2007 after the addition of a second daily draw in fiscal year 2005. Club Keno sales continued to increase in fiscal year 2008 due to a recruitment program instituted to expand the number of retailers. Lotto sales continued to decrease in fiscal year 2008. 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 2008 and fiscal year 2007.

## On-line Sales By Game in millions



## Operating Expenses

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Game-related</b>			
Prizes	\$641,123,508	\$595,022,614	\$572,767,960
Retailer commissions and incentives	61,508,836	58,257,753	56,543,150
Tickets	8,640,791	7,914,860	7,427,625
On-line vendor fees	8,648,999	8,365,859	8,855,114
<b>Non-game-related</b>			
Advertising	1,299,980	1,467,480	2,107,347
Wages and benefits	9,800,283	9,603,898	8,885,702
Other general expenses	9,262,279	8,915,734	9,297,823



Of the MLC's total operating expenses of \$740.3 million in fiscal year 2008, \$719.9 million, or 97.2 percent, are game-related, or direct, expenses. In fiscal year 2007, direct expenses were \$669.5 million, or 97.1 percent, of the total \$689.5 million total operating expenses for the year. In fiscal year 2006, direct expenses were 97.0 percent, of total operating expenses. Direct expenses increased in fiscal year 2008 and fiscal year 2007 due to a continued increase in the aggregate prize expense as a percentage of Scratchers ticket sales, as discussed above. In fiscal year 2008 and fiscal year 2007 increased product sales resulted in additional increases in direct expenses.

## Non-Operating Revenues (Expenses)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest	1,430,382	\$1,360,853	\$1,459,617
Unclaimed prizes	9,330,350	10,349,767	11,392,679
Net increase (decrease) in investments held	6,893,961	4,294,279	(1,424,646)
Amortization of grand-prize winner liability	(4,215,836)	(4,647,958)	(4,956,265)
Gain on capital asset disposal	37,679	54,077	15,142
Transfers to State of Missouri	(266,656,044)	(257,882,704)	(260,668,734)

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 years 2008 and 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 2008 increased \$8.8 million, or 3.4 percent, from fiscal year 2007. For fiscal year 2007, proceeds decreased \$2.8 million, or 1.1 percent, from fiscal year 2006. 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 \$181.4 million in fiscal year 2008 and \$158.3 million in fiscal year 2007 and the Missouri Department of Higher Education received \$86.2 million in fiscal year 2008 and \$77.0 million in fiscal year 2007.

## 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 2008 and 2007 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, 2008 and 2007. 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, 2008 And 2007**

	2008	2007
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 20,059,415	\$ 20,314,310
Investments held for grand-prize winners at fair value	11,603,000	10,912,370
Accounts receivable, net of allowances for returns	37,906,597	33,468,798
Other receivable	1,852,610	1,362,811
Prepaid expense	92,287	51,136
Total current assets	71,513,909	66,109,425
<b>Noncurrent Assets:</b>		
Investments held for grand-prize winners at fair value	61,732,872	61,497,694
Capital assets:		
Capital assets not being depreciated	352,973	658,759
Capital assets	15,204,708	16,925,585
Accumulated depreciation	(12,190,796)	(14,172,781)
Total noncurrent assets	65,099,757	64,909,257
Total assets	136,613,666	131,018,682
<b>Current Liabilities:</b>		
Accounts payable	187,535	191,884
Due to Lottery Proceeds Fund	17,640,085	16,525,065
Accrued prize liabilities	37,050,549	34,150,013
Grand-prize winner liabilities	11,702,000	11,123,000
Other accrued liabilities	3,562,174	3,394,048
Total current liabilities	70,142,343	65,384,010
<b>Long-term Liabilities:</b>		
Due to Lottery Proceeds Fund - Deferred	4,837,451	4,347,606
Long-term grand-prize winner liabilities at present value	55,366,938	57,698,258
Total long-term liabilities	60,204,389	62,045,864
Total liabilities	130,346,732	127,429,874
<b>Net Assets:</b>		
Invested in capital assets	3,366,885	3,411,563
Unrestricted	(3,366,885)	(3,411,563)
Restricted through Constitutional provisions	6,266,934	3,588,808
Total net assets	\$ 6,266,934	\$ 3,588,808

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, 2008 And 2007**

	2008	2007
<b>Operating Revenues:</b>		
On-line ticket sales	\$ 341,870,408	\$ 326,815,671
Scratchers ticket sales	638,533,775	590,045,817
Pull-Tab ticket sales	15,088,705	17,409,170
Total sales	995,492,888	934,270,658
Other	649,422	1,395,548
Total operating revenues	996,142,310	935,666,206
<b>Operating Expenses:</b>		
On-line prize expense	188,271,101	178,645,325
Scratchers prize expense	443,260,128	405,319,861
Pull-Tab prize expense	9,592,279	11,057,428
On-line retailer commissions and incentives	19,896,220	18,933,089
Scratchers retailer commissions and incentives	40,177,085	37,961,173
Pull-Tab retailer commissions and incentives	1,435,531	1,363,491
Cost of tickets sold	17,289,790	16,280,719
Advertising	1,299,980	1,467,480
Wages and benefits	9,800,283	9,603,898
Other general and administrative	8,498,159	8,166,226
Depreciation and amortization	764,120	749,508
Total operating expenses	740,284,676	689,548,198
Operating income	255,857,634	246,118,008
<b>Nonoperating Revenues (Expenses):</b>		
Interest income	1,430,382	1,360,853
Unclaimed prizes	9,330,350	10,349,767
Net increase in the fair value of investments held for grand-prize winners	6,893,961	4,294,279
Amortization of grand-prize winner liability	(4,215,836)	(4,647,958)
Gain on disposal of capital assets	37,679	54,077
Transfers to State of Missouri	(266,656,044)	(257,882,704)
Total nonoperating revenues (expenses)	(253,179,508)	(246,471,686)
Changes in net assets	2,678,126	(353,678)
<b>Total Net Assets, Beginning Of Year</b>	3,588,808	3,942,486
<b>Total Net Assets, End Of Year</b>	\$ 6,266,934	\$ 3,588,808

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, 2008 And 2007**

	2008	2007
<b>Cash Flows From Operating Activities:</b>		
Cash received from retailers and others	\$ 991,214,712	\$ 936,743,155
Cash paid for prizes	(640,015,622)	(596,601,404)
Cash paid for retailer commissions	(61,364,393)	(58,236,439)
Cash paid for employee services	(9,783,662)	(9,536,492)
Cash paid for other expenses	(27,126,369)	(25,871,715)
Net cash provided by operating activities	252,924,666	246,497,105
<b>Cash Flows From Noncapital Financing Activities:</b>		
Transfers to State of Missouri	(265,051,179)	(259,737,970)
<b>Cash Flows From Capital And Related Financing Activities:</b>		
Purchases of capital assets	(724,409)	(1,096,428)
Proceeds from sale of capital assets	42,645	58,042
Net cash used for capital and related financing activities	(681,764)	(1,038,386)
<b>Cash Flows From Investing Activities:</b>		
Proceeds from maturity of investments	11,123,000	11,277,000
Interest received	1,430,382	1,360,853
Net cash provided by investing activities	12,553,382	12,637,853
Net (decrease) in cash and cash equivalents	(254,895)	(1,641,398)
<b>Cash And Cash Equivalents, Beginning Of Year</b>	20,314,310	21,955,708
<b>Cash And Cash Equivalents, End Of Year</b>	\$ 20,059,415	\$ 20,314,310
<b>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities:</b>		
Operating income	\$ 255,857,634	\$ 246,118,008
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	764,120	749,508
Unclaimed prizes	9,330,350	10,349,767
Payments to grand-prize winners	(11,123,000)	(11,277,000)
Changes in operating assets and liabilities:		
Accounts receivable	(4,437,799)	1,437,874
Other receivable	(489,799)	(360,925)
Prepaid expense	(41,151)	74,424
Accounts payable and other accrued liabilities	163,777	57,006
Accrued prize liabilities	2,900,534	(651,557)
Net cash provided by operating activities	\$ 252,924,666	\$ 246,497,105
<b>Non-cash Activities:</b>		
Unrealized gains on investments held for grand-prize winners	\$ 6,893,961	\$ 4,294,279
Amortization of long-term annuity prize liability	\$ 4,215,836	\$ 4,647,958

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, 2008 And 2007

#### **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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### ***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 Raffle 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 \$2,412,000 and \$2,210,000 at June 30, 2008 and 2007, 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, 2008 and 2007, unclaimed prizes in the amount of approximately \$9,330,000 and \$10,350,000, respectively, were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2008 and 2007, 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.

### ***Pending Governmental Accounting Standards Board Statements***

At June 30, 2008, the Governmental Accounting Standards Board (GASB) had issued a statement not yet implemented by the Lottery. The statement that might impact the Lottery is as follows:

GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued in June 2004. This statement establishes standards for when and whether intangible assets should be considered capital assets for financial reporting purposes. It requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The provisions of this statement are effective for periods beginning after June 15, 2009.

## **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, 2008 and 2007, the Lottery's share in the State's common cash pool was \$14,040,488 and \$13,362,613, respectively. At June 30, 2008 and 2007, the book balance of the imprest fund was \$6,016,827 and \$6,949,597, respectively, and the bank balance was \$7,339,672 and \$7,483,809, 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, 2008 and 2007. 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 \$73,335,872 and \$72,410,064 at June 30, 2008 and 2007, respectively. The maturity value of securities held at June 30, 2008 and 2007 was \$92,423,000 and \$95,638,000, respectively.

At June 30, 2008, 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	\$73,335,872	\$11,603,000	\$38,969,166	\$12,626,352	\$10,137,354

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:

	2008	2007
Powerball	\$138,393,572	\$130,795,800
Pick 3	68,680,133	65,091,442
Lotto	29,955,387	33,955,803
SHOW ME 5 Paydown	18,836,176	19,684,271
Pick 4	25,751,837	24,015,250
Club Keno	57,753,303	53,273,105
Million-Dollar Raffle	2,500,000	-
	<u>\$341,870,408</u>	<u>\$326,815,671</u>

#### 6. Capital Assets:

The changes in capital assets consist of the following:

	June 30, 2007	Increases	Decreases	June 30, 2008
<b>Capital assets not being depreciated:</b>				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	305,786	-	305,786	-
Total capital assets not being depreciated	<u>658,759</u>	<u>\$ -</u>	<u>\$ 305,786</u>	<u>352,973</u>
<b>Capital assets being depreciated:</b>				
Buildings	4,441,008	305,786	-	4,746,794
Computers	3,451,054	433,669	269,921	3,614,802
Equipment	7,656,863	43,106	2,148,268	5,551,701
Automobiles	1,331,660	247,635	332,884	1,246,411
Other	45,000	-	-	45,000
Total capital assets being depreciated	<u>16,925,585</u>	<u>\$1,030,196</u>	<u>\$2,751,073</u>	<u>15,204,708</u>
<b>Less accumulated depreciation for:</b>				
Buildings	3,142,537	125,369	-	3,267,906
Computers	2,753,634	357,795	264,953	2,846,476
Equipment	7,291,167	96,511	2,148,268	5,239,410
Automobiles	967,620	182,941	332,884	817,677
Other	17,823	1,504	-	19,327
Total accumulated depreciation	<u>14,172,781</u>	<u>\$ 764,120</u>	<u>\$ 2,746,105</u>	<u>12,190,796</u>
Total capital assets being depreciated, net	<u>2,752,804</u>			<u>3,013,912</u>
Capital assets, net	<u>\$ 3,411,563</u>			<u>\$ 3,366,885</u>



	<u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>
Capital assets not being depreciated:				
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>
Capital assets being depreciated:				
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>
Less accumulated depreciation for:				
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>

## 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 12.84 percent and 0.495 percent of total payroll, respectively.

For fiscal years ended June 30, 2008, 2007 and 2006, the annual pension cost was approximately \$951,000, \$916,000 and \$850,000, respectively, and was equal to 100 percent of the annual pension cost required to be contributed for those years.

## 8. Leases:

### *Operating Leases*

The Lottery's regional facilities are held under operating lease agreements. The Kansas City office is currently under a five year lease set to expire December 31, 2012. The lease agreements for both the St. Louis and Springfield offices are set to expire June 30, 2009. Annual rent expense for these facilities totaled approximately \$309,000 in fiscal 2008 and \$308,000 in 2007.

The Lottery leases ticket vending machines under operating lease agreements. In fiscal year 2008, the Lottery replaced the existing vending machines with new machines under a new lease agreement which expires June 30, 2012. The lease agreement permits the Lottery to lease machines for terms of three to five years at established price levels during the duration of the agreement. Annual lease expense for the ticket vending machines totaled approximately \$1,262,000 in fiscal 2008 and \$691,000 in 2007.

Future minimum lease payments under all noncancelable leases having initial or remaining terms in excess of one year as of June 30, 2008 are as follows:

2009	\$1,538,202
2010	1,538,202
2011	1,538,202
2012	1,538,202
2013	446,376
	<u>\$ 6,599,184</u>

## 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 \$47,608,000 and \$57,484,000 as of June 30, 2008 and 2007, 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, 2008 and 2007, the Lottery's portion of the prize reserve fund and set prize reserve fund was approximately \$4,208,000 and \$4,016,000, respectively, and \$1,504,000 and \$1,293,000, 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, 2008 and 2007 the Lottery's portion of the balance of this account was approximately \$1,824,000 and \$1,289,000 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, 2008 and 2007 was \$67,068,938 and \$68,821,258, 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, 2008, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 11,702,000
2010	11,364,000
2011	10,144,000
2012	8,198,000
2013	7,001,000
2014 through 2018	20,910,000
2019 through 2023	12,910,000
2024 through 2028	8,494,000
2029 through 2032	1,700,000
Total installment payments due	92,423,000
Less- Interest portion	25,354,062
	<u><u>\$ 67,068,938</u></u>

The Lottery has also purchased annuity contracts in the name of the prize winners from selected insurance companies to fund certain grand-prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value

of the related future payments are reflected in the accompanying financial statements. The Lottery would assume liability for future payments if the insurance companies were to default on their payments. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$2,275,000 and \$4,771,000 at June 30, 2008 and 2007, respectively.

**11. Long-Term Liabilities:**

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

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 20,872,671	\$266,656,044	\$265,051,179	\$ 22,477,536	\$ 17,640,085
Grand-prize winner liabilities	<u>68,821,258</u>	<u>9,370,680</u>	<u>11,123,000</u>	<u>67,068,938</u>	<u>11,702,000</u>
Total	<u>\$ 89,693,929</u>	<u>\$276,026,724</u>	<u>\$276,174,179</u>	<u>\$ 89,546,474</u>	<u>\$ 29,342,085</u>

	<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>\$265,565,034</u>	<u>\$272,377,434</u>	<u>\$ 89,693,929</u>	<u>\$ 27,648,065</u>

**12. Postretirement Benefits:**

As a State agency, the Lottery participates in the Missouri Consolidated Health Care Plan (MCHCP), which is administered by the State as an agent multiple employer plan. Under the plan the State provides certain healthcare for eligible retired employees and their dependents under an employer noncontributory healthcare plan. Retirees who had state-sponsored medical insurance coverage for at least two years (or since first eligible) before they are eligible to retire, based on their plan’s criteria, may continue coverage into retirement.

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

The Lottery’s policy regarding retiree healthcare benefits is to pay the amounts billed through the State’s fringe benefit rate on a pay-as-you-go basis. The Lottery has no obligation beyond the payment of the State’s fringe benefit rate for retiree healthcare benefits. The State’s policy is that the State is responsible for recording the annual required contribution and the actuarial accrued liability under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions for the Lottery’s retiree health care benefits in the State’s government-wide financial statements.

**13. Contingencies:**

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



# Statistical Section (Unaudited)

*More than \$61.5 million was paid to Lottery retailers in commissions and incentives during fiscal year 2008 for selling Missouri Lottery products.*



Area Manager Josh Medlin accepts a ceremonial check for \$8,500 on behalf of the Casey's General Stores Inc. The bonus was awarded as an incentive for selling a winning Lotto ticket.

## 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 changed 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, 1999 through 2008, 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 1999 through 2008. Transfers made during fiscal year 2008 include \$9,330,350 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.

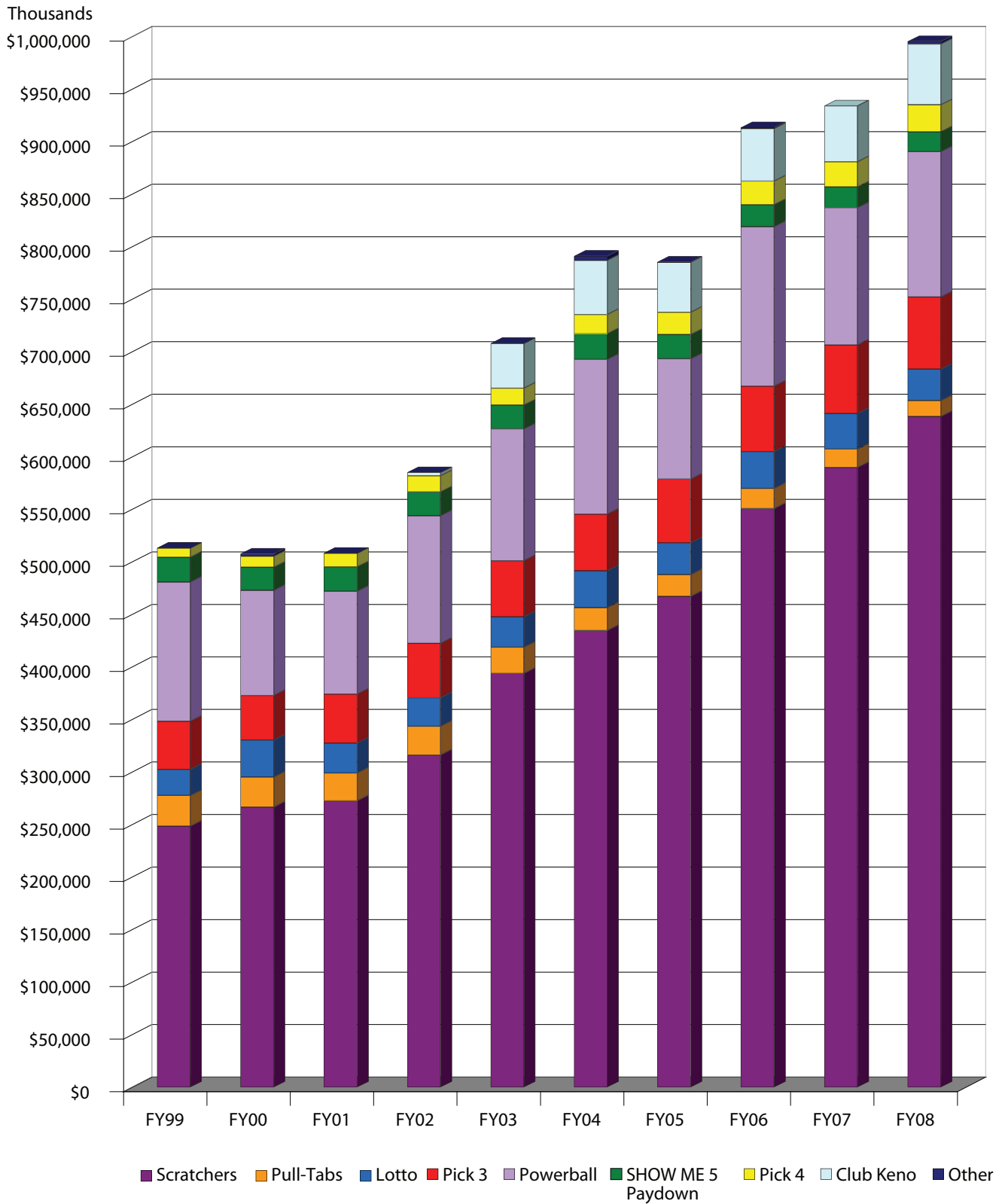
Unless otherwise noted, the source for the data used to prepare the following schedules and charts is the Financial Accounting Section of the Missouri State Lottery Commission.

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

	1999	2000	2001	2002
<b>Operating revenues</b>				
Scratchers ticket sales	\$248,510,434	\$266,708,105	\$272,658,386	\$316,397,488
On-line ticket sales				
Lotto	24,981,515	35,292,475	28,459,170	27,030,491
Pick 3	45,622,562	42,368,038	46,539,183	51,785,842
Powerball	132,599,484	99,966,448	97,920,328	121,474,897
SHOW ME 5 Paydown	23,537,442	21,923,806	23,280,662	22,714,933
Pick 4	8,759,037	10,549,806	12,864,736	15,292,249
Club Keno	-	-	-	3,124,386
Raffle	-	-	-	-
Xtra	-	-	-	-
Triple Play	-	2,336,614	-	-
Total on-line ticket sales	<u>235,500,040</u>	<u>212,437,187</u>	<u>209,064,079</u>	<u>241,422,798</u>
Pull-Tab ticket sales	<u>29,240,982</u>	<u>28,700,294</u>	<u>26,578,639</u>	<u>27,368,968</u>
<b>Total sales</b>	<u>513,251,456</u>	<u>507,845,586</u>	<u>508,301,104</u>	<u>585,189,254</u>
<b>Other operating revenues</b>	<u>109,142</u>	<u>87,776</u>	<u>1,757,320</u>	<u>615,041</u>
<b>Total operating revenues</b>	<u>513,360,598</u>	<u>507,933,362</u>	<u>510,058,424</u>	<u>585,804,295</u>
<b>Operating Expenses</b>				
<b>Direct costs</b>				
Prize expense	282,306,452	280,506,198	293,218,540	353,075,456
Retailer compensation	32,278,385	32,388,529	32,429,771	37,100,715
Ticket costs	13,195,977	12,580,313	12,531,590	13,289,487
<b>Total direct costs</b>	<u>327,780,814</u>	<u>325,475,040</u>	<u>338,179,901</u>	<u>403,465,658</u>
<b>Administrative expenses</b>	<u>30,024,072</u>	<u>30,119,645</u>	<u>31,503,644</u>	<u>29,832,679</u>
Total operating expenses	<u>357,804,886</u>	<u>355,594,685</u>	<u>369,683,545</u>	<u>433,298,337</u>
Operating Income	<u>155,555,712</u>	<u>152,338,677</u>	<u>140,374,879</u>	<u>152,505,958</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	1,518,063	1,563,766	1,540,929	756,413
Unclaimed prizes*	-	-	12,201,033	6,669,140
Net increase (decrease) in the fair value of investments	3,080,058	5,868,431	9,747,840	7,678,525
Amortization of grand prize winner liability	(7,355,232)	(7,388,931)	(7,462,567)	(5,617,431)
Gain (loss) on disposal of assets	381,513	115,884	(202,110)	106,956
Liquidated damages	1,107,200	-	-	-
Transfers to the state	(158,562,488)	(154,018,327)	(153,914,731)	(160,038,467)
Total nonoperating expenses	<u>(159,830,886)</u>	<u>(153,859,177)</u>	<u>(138,089,606)</u>	<u>(150,444,864)</u>
<b>Changes In Net Assets</b>	(4,275,174)	(1,520,500)	2,285,273	2,061,094
<b>Total Net Assets, beginning of year</b>	<u>11,747,621</u>	<u>7,472,447</u>	<u>5,951,947</u>	<u>8,237,220</u>
<b>Total Net Assets, end of year</b>	<u>\$7,472,447</u>	<u>\$5,951,947</u>	<u>\$8,237,220</u>	<u>\$10,298,314</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	\$8,657,852	\$8,759,614	\$7,141,537	\$5,912,800
Unrestricted	(8,657,852)	(8,759,614)	(7,141,537)	(5,912,800)
Restricted	<u>7,472,447</u>	<u>5,951,947</u>	<u>8,237,220</u>	<u>10,298,314</u>
<b>Total net assets</b>	<u>\$7,472,447</u>	<u>\$5,951,947</u>	<u>\$8,237,220</u>	<u>\$10,298,314</u>

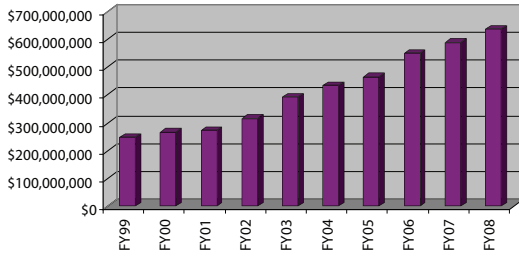
2003	2004	2005	2006	2007	2008
<u>\$393,981,254</u>	<u>\$434,791,673</u>	<u>\$467,326,093</u>	<u>\$550,961,109</u>	<u>\$590,045,817</u>	<u>\$638,533,775</u>
28,736,839	35,015,934	30,311,403	35,062,426	33,955,803	29,955,387
53,569,248	53,946,082	60,558,754	62,274,077	65,091,442	68,680,133
125,324,451	147,232,847	114,485,380	151,772,839	130,795,800	138,393,572
22,665,639	24,337,775	23,056,447	20,861,442	19,684,271	18,836,176
16,157,968	18,436,614	21,338,535	22,605,473	24,015,250	25,751,837
42,570,878	51,531,568	47,616,083	49,948,394	53,273,105	57,753,303
-	-	-	877,591	-	2,500,000
-	4,014,945	173,848	-	-	-
-	-	-	-	-	-
<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>341,870,408</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>	<u>15,088,705</u>
708,047,512	791,154,358	785,597,632	913,518,251	934,270,658	995,492,888
<u>539,609</u>	<u>638,392</u>	<u>340,957</u>	<u>167,767</u>	<u>1,395,548</u>	<u>649,422</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>	<u>996,142,310</u>
434,559,460	484,827,462	487,925,882	572,767,960	595,022,614	641,123,508
44,453,462	49,316,766	48,798,722	56,543,150	58,257,753	61,508,836
<u>16,712,029</u>	<u>18,341,746</u>	<u>17,543,004</u>	<u>16,282,739</u>	<u>16,280,719</u>	<u>17,289,790</u>
495,724,951	552,485,974	554,267,608	645,593,849	669,561,086	719,922,134
<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>20,362,542</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>740,284,676</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>	<u>255,857,634</u>
382,523	470,448	571,049	1,459,617	1,360,853	1,430,382
16,720,584	12,283,414	7,811,413	11,392,679	10,349,767	9,330,350
11,259,456	(1,546,223)	6,300,009	(1,424,646)	4,294,279	6,893,961
(5,473,304)	(5,255,750)	(5,259,106)	(4,956,265)	(4,647,958)	(4,215,836)
62,857	(13,972)	19,876	15,142	54,077	37,679
-	-	-	-	-	-
<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>(266,656,044)</u>
<u>(180,514,145)</u>	<u>(223,489,266)</u>	<u>(209,199,469)</u>	<u>(254,182,207)</u>	<u>(246,471,686)</u>	<u>(253,179,508)</u>
5,786,152	(6,801,973)	1,040,903	(6,380,910)	(353,678)	2,678,126
<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>3,588,808</u>
<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,808</u>	<u>\$6,266,934</u>
<hr/>					
\$4,986,696	\$4,151,722	\$3,295,311	\$3,068,609	\$3,411,563	\$3,366,885
(4,986,696)	(4,151,722)	(3,295,311)	(3,068,609)	(3,411,563)	(3,366,885)
<u>16,084,466</u>	<u>9,282,493</u>	<u>10,323,396</u>	<u>3,942,486</u>	<u>3,588,808</u>	<u>6,266,934</u>
<u>\$16,084,466</u>	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,808</u>	<u>\$6,266,934</u>

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

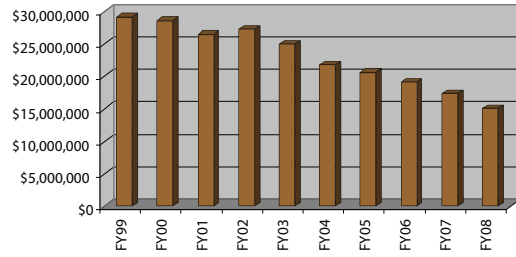


# Missouri State Lottery Commission Sales By Fiscal Year By Product Line Last Ten Fiscal Years (Unaudited)

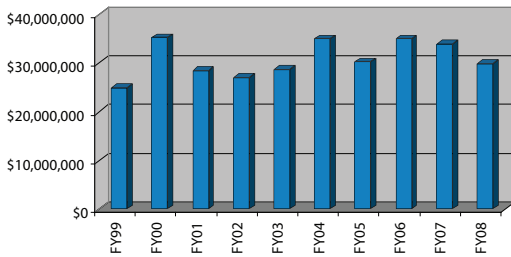
**Scratchers**



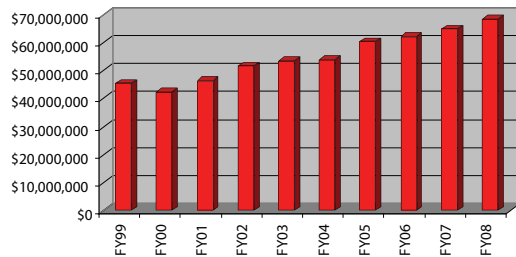
**Pull-Tabs**



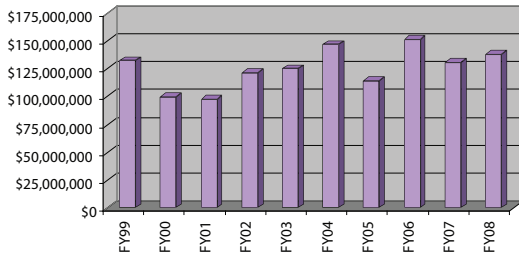
**Lotto**



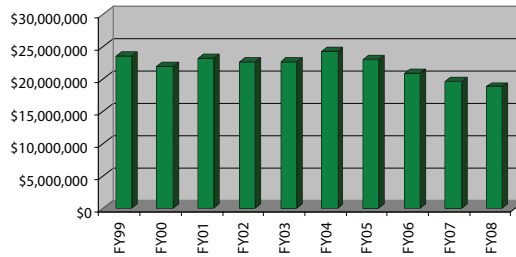
**Pick 3**



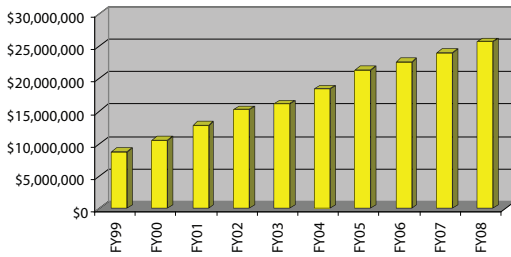
**Powerball**



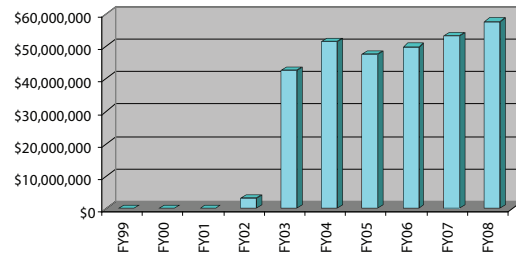
**SHOW ME 5 Paydown**



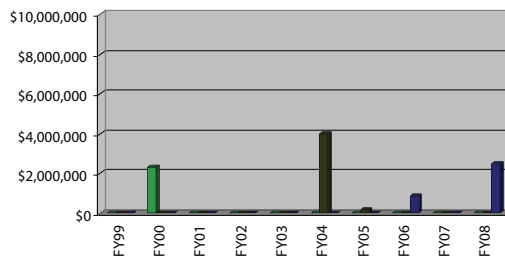
**Pick 4**



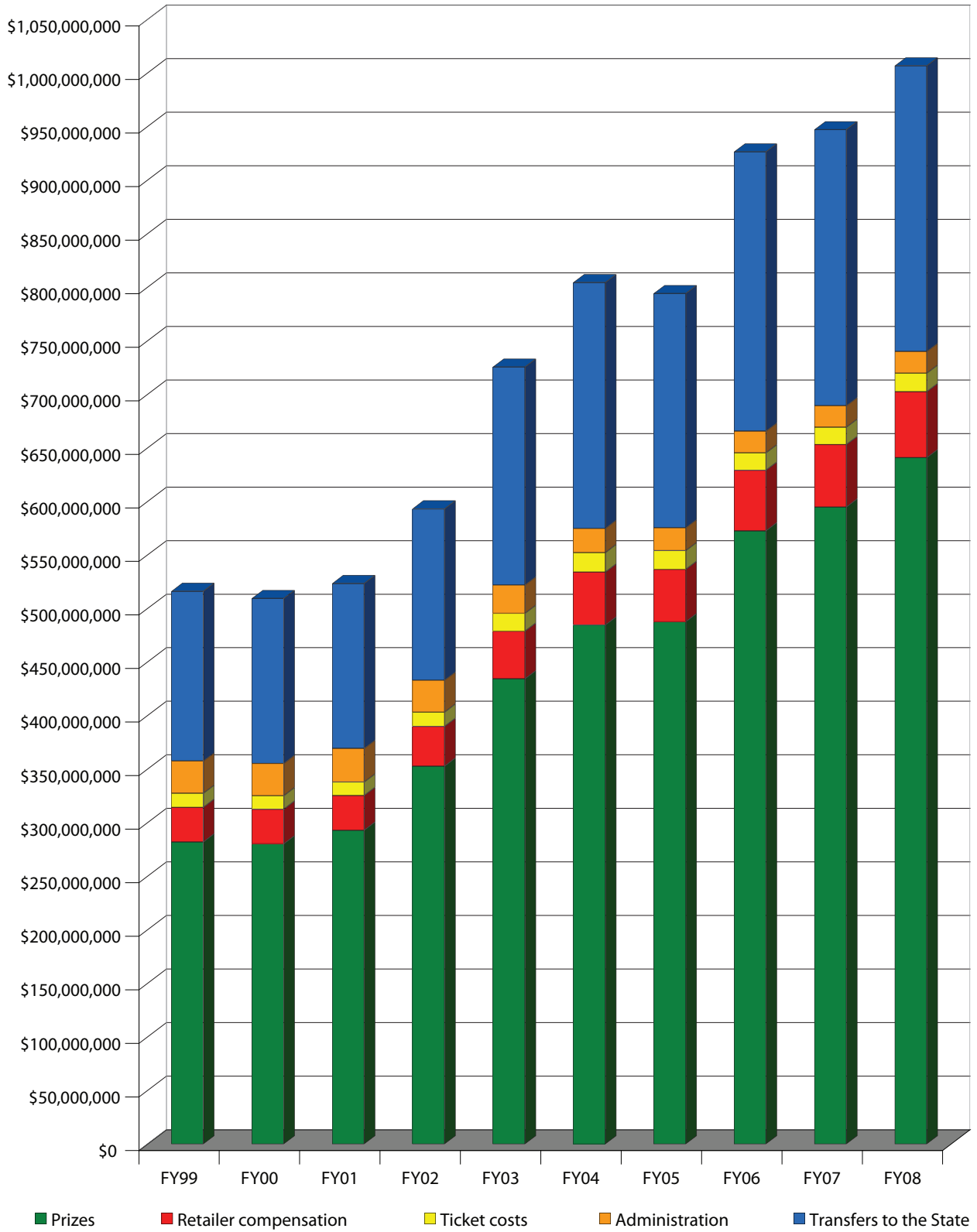
**Club Keno**



■ Triple Play ■ Xtra ■ Raffle



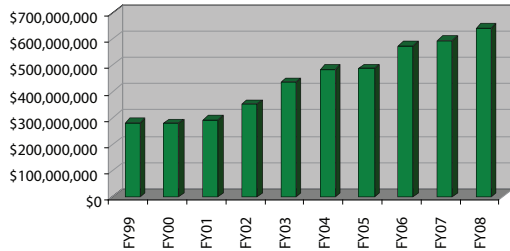
**Missouri State Lottery Commission  
Expenses And Transfers  
Last Ten Fiscal Years  
(Unaudited)**



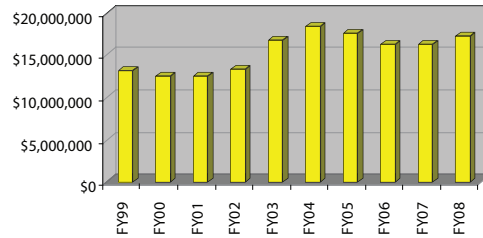


## Missouri State Lottery Commission Expenses And Transfers Last Ten Fiscal Years (Unaudited)

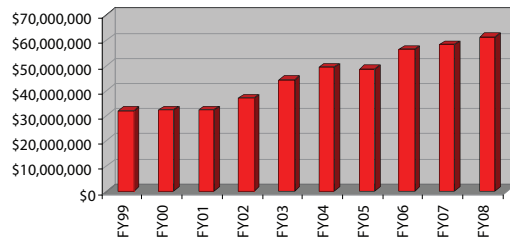
Prizes



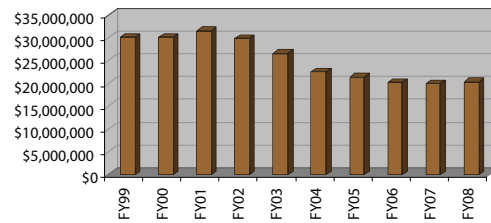
Ticket Costs



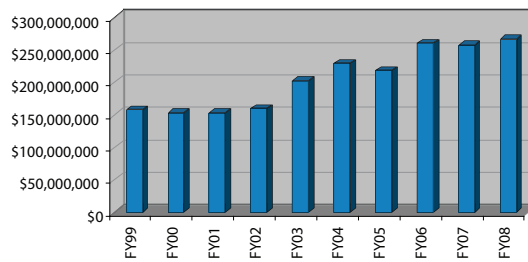
Retailer Compensation



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	1999	2000	2001	2002	2003
<b>Number of Launches</b>					
\$1	28	28	30	23	15
\$2	11	13	14	20	20
\$3	2	3	2	3	2
\$5	-	1	5	6	7
\$10	-	-	-	-	5
\$20	-	-	-	-	-
<b>Total</b>	<b>41</b>	<b>45</b>	<b>51</b>	<b>52</b>	<b>49</b>
<b>Sales</b>					
\$1	\$149,768,576	\$160,458,169	\$152,793,807	\$163,461,975	\$143,870,364
\$2	77,225,485	77,613,717	73,564,980	97,976,908	117,812,464
\$3	21,516,373	23,667,980	18,676,691	19,576,955	20,099,812
\$5	-	4,968,239	27,622,908	35,411,650	50,094,329
\$10	-	-	-	-	62,104,285
\$20	-	-	-	-	-
	<b>\$248,510,434</b>	<b>\$266,708,105</b>	<b>\$272,658,386</b>	<b>\$316,427,488</b>	<b>\$393,981,254</b>

2004	2005	2006	2007	2008	% of Total 2008
15	14	14	11	9	22.50%
24	22	22	19	18	45.00%
2	2	1	2	2	5.00%
6	9	10	9	9	22.50%
5	7	3	1	1	2.50%
-	-	-	-	1	2.50%
<u>52</u>	<u>54</u>	<u>50</u>	<u>42</u>	<u>40</u>	<u>100.00%</u>
\$132,474,169	\$120,824,709	\$109,864,276	\$99,694,829	\$85,622,427	13.41%
150,207,177	162,535,252	169,626,074	183,404,816	177,465,587	27.80%
24,940,942	27,283,622	28,130,183	32,647,121	35,194,190	5.51%
57,003,246	73,989,819	108,561,454	133,382,786	140,942,309	22.07%
70,166,139	82,692,691	134,779,122	140,916,265	134,285,251	21.03%
-	-	-	-	65,024,011	10.18%
<u>\$434,791,673</u>	<u>\$467,326,093</u>	<u>\$550,961,109</u>	<u>\$590,045,817</u>	<u>\$638,533,775</u>	<u>100.00%</u>

**Missouri State Lottery Commission**  
**Schedule Of Lottery Retailers And Sales By Region**  
**Fiscal Years Ending June 30, 2007 and 2008**  
**(Unaudited)**

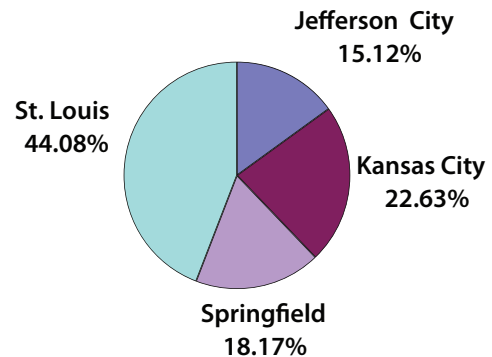
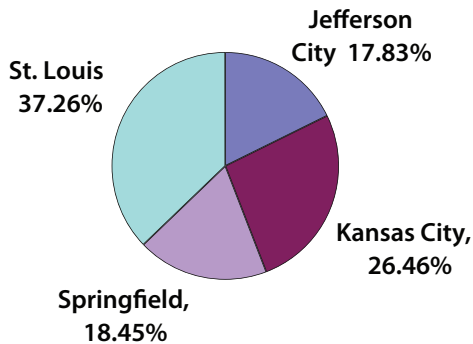
Region	Number of Retailers			% of Total Retailers		
	2006	2007	2008	2006	2007	2008
Jefferson City	909	864	893	18.43%	17.83%	17.83%
Kansas City	1,313	1,313	1,325	26.62%	27.09%	26.46%
Springfield	922	904	924	18.69%	18.66%	18.45%
St. Louis	1,789	1,765	1,866	36.26%	36.42%	37.26%
<b>Total Statewide</b>	<b>4,933</b>	<b>4,846</b>	<b>5,008</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Region	Total Sales			% of Total Sales		
	2006	2007	2008	2006	2007	2008
Jefferson City	\$133,903,265	\$136,964,078	\$150,518,525	14.66%	14.66%	15.12%
Kansas City	211,175,672	212,733,429	225,280,041	23.12%	22.77%	22.63%
Springfield	170,395,799	170,597,822	180,881,058	18.65%	18.26%	18.17%
St. Louis	398,043,515	413,975,329	438,813,264	43.57%	44.31%	44.08%
<b>Total Statewide</b>	<b>\$913,518,251</b>	<b>\$934,270,658</b>	<b>\$995,492,888</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Percentage of Retailers By Region**

**FY2008**

**Percentage of Total Sales By Region**



Source: Missouri State Lottery Commission Research Section

Note: Information is accumulated and retained in this format only for Fiscal Years 2006, 2007 and 2008. 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 1999 To 2008  
(Unaudited)**

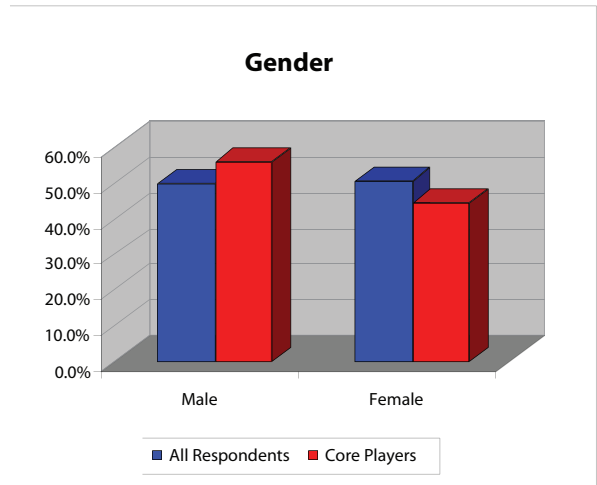
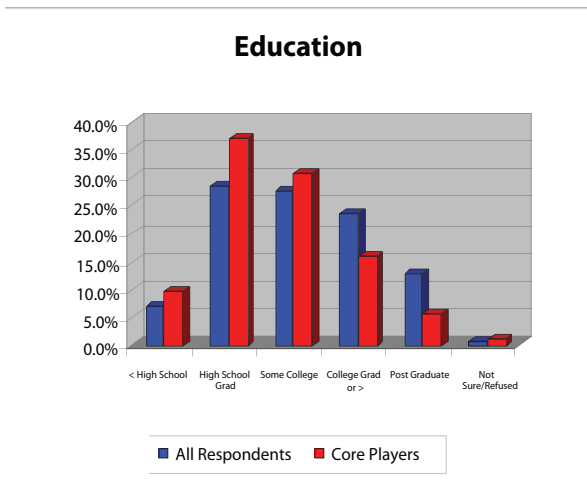
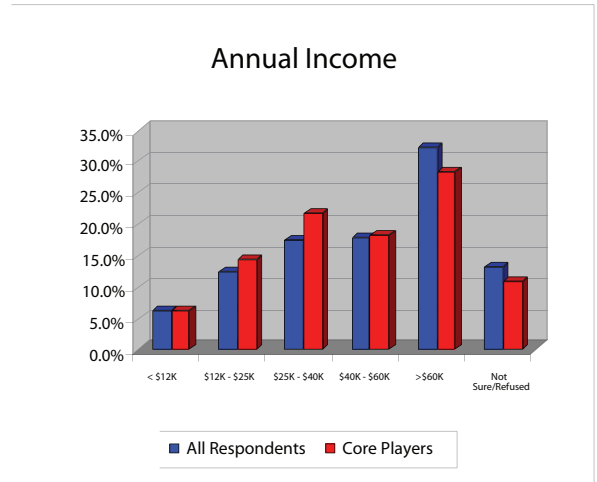
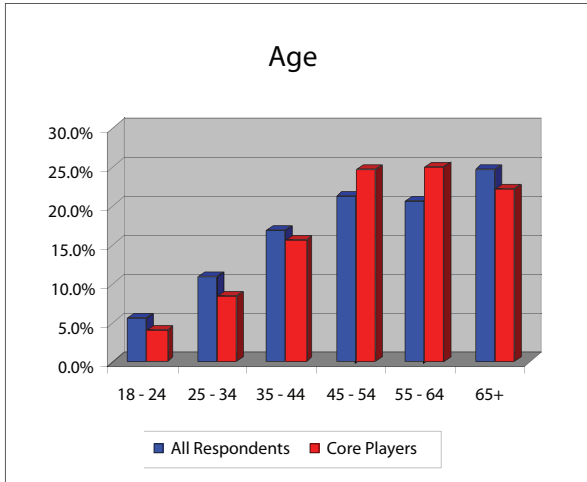
<b>Calendar Year</b>	<b>Statewide Population</b>	<b>Statewide Personal Income</b> (millions of dollars)	<b>Statewide Personal Income per Capita</b>	<b>State Unemployment Rate</b>
1999	5,561,948	\$ 142,925	\$ 25,697	3.1%
2000	5,595,211	\$ 152,722	\$ 27,295	2.6%
2001	5,643,232	\$ 156,937	\$ 27,810	4.2%
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	5,878,415	\$ 199,773	\$ 33,984	5.0%
2008	n/a	n/a	n/a	6.5%

**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 2008



**Source:** Missouri Lottery Track and Trend Report FY2008

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Full-time	177.0	177.0	177.0	177.0	177.0	177.0	175.0	175.0	173.0	173.0
Part-time	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	0.5	0.5
<b>Total</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>173.5</b>
<b>Sales</b>										
Jefferson City	11.0	11.0	12.0	12.0	12.0	12.0	12.0	12.0	11.0	11.0
Springfield	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	9.0	9.0
Kansas City	16.0	16.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
St. Louis	19.0	19.0	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	12.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0	12.0	12.0
Vault	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	12.0	12.0
Marketing and administration	101.5	101.5	101.5	102.5	101.5	101.5	99.5	99.5	94.5	94.5
<b>Total</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>173.5</b>

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

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retailers- Statewide	5,060	5,050	4,968	5,036	5,021	5,003	5,022	4,933	4,846	5,008
Per Capita Sales	\$93	\$91	\$91	\$104	\$125	\$138	\$136	\$157	\$160	\$169

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



## U.S. lotteries' fiscal 2007 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	6.3	261.02		8.93		52.41	12.57	127.28				462.20	\$73	
California	36.6	1,824.36		152.38	0.00	629.43	147.44	393.61		143.18	27.95	3,318.35	\$91	
Colorado	4.9	297.11				39.84	17.41	101.56				455.92	\$94	
Connecticut	3.5	594.93		112.17	85.42	30.39	41.37	92.75				957.03	\$273	
Delaware	0.9	33.07		26.87	17.62	7.08		32.64	0.00		1.00	118.29	\$137	635.68
D.C.	0.6	40.40		69.76	84.61	4.40	3.65	35.75	3.54	13.44	1.29	256.82	\$437	0.00
Florida	18.3	2,283.62		348.69	225.29	735.59	326.24				202.69	4,122.12	\$226	
Georgia	9.5	2,077.76		545.36	176.29		82.96	219.12		66.92	10.00	3,178.40	\$333	
Idaho	1.5	83.20	1.24	1.42		6.37		38.29				130.53	\$87	
Illinois	12.9	1039.61		308.65	170.20	111.91	127.85	195.86			44.90	1,998.97	\$156	
Indiana	6.3	510.18	15.23	29.32	28.45	69.13	6.42	118.86		0.00	11.46	789.05	\$124	0.00
Iowa	3.0	125.15	21.06	6.28	2.22		4.36	61.55	14.45			235.08	\$79	
Kansas	2.8	114.70	9.40	5.60		1.70	20.00	39.40	11.50	33.60	4.10	240.00	\$86	
Kentucky	4.2	439.63	18.39	116.80	35.01		14.55	108.60			11.24	744.22	\$175	
Louisiana	4.3	134.65		46.34	30.51	34.79	5.12	102.79				354.19	\$83	
Maine	1.3	169.47		5.36	4.29		3.87	45.37			1.66	230.02	\$175	
Maryland	5.6	425.09		291.92	240.08	30.12	22.88	98.19		412.68	56.37	1,577.31	\$281	
Massachusetts	6.4	3,066.44	1.33		344.16	39.36	88.43	119.79		775.49	1.51	4,436.50	\$688	
Michigan	10.1	717.80	38.52	369.12	335.13	53.11	49.44	218.08		504.97	56.42	2,342.60	\$233	0.00
Minnesota	5.2	260.84		13.20			24.43	89.59	18.24		14.31	420.61	\$81	
Missouri	5.9	590.05	17.41	65.09	24.02	33.96	19.68	130.80		53.27	0.00	934.27	\$159	
Montana	1.0	12.41		0.00	0.00	3.16	4.67	16.98	3.90		0.45	41.56	\$43	
Nebraska	1.8	59.63		2.81		2.00	12.14	37.91				114.49	\$65	
N. Hampshire	1.3	188.57		10.87		0.00	4.08	54.05	4.63		1.37	263.56	\$200	
New Jersey	8.7	1,193.12		448.81	256.01	87.45	119.27	236.63			10.00	2,351.28	\$271	
New Mexico	2.0	91.39		2.06	0.65		7.93	42.63	3.48			148.14	\$75	
New York	19.3	3,517.96		850.27	698.18	216.57	326.78	454.91		444.98	142.79	6,652.44	\$345	522.67
N. Carolina	9.1	466.66		89.54			36.50	258.97			10.00	861.67	\$95	
N. Dakota	0.6					3.21	3.50	12.24	3.70			22.64	\$35	
Ohio	11.5	1,353.80		370.90	183.00	43.60	72.90	196.10			39.10	2,259.40	\$197	
Oklahoma	3.6	98.09		8.01			5.55	102.82			0.60	215.07	\$59	
Oregon	3.7	127.64	1.17		1.40	40.16		48.66		113.20	22.39	354.62	\$95	853.51
Pennsylvania	12.4	1,703.50		412.84	271.89	141.95	194.85	326.94			24.36	3,076.34	\$247	
Rhode Island	1.1	79.98		27.84		0.00	5.71	47.08		83.19	1.05	244.85	\$231	416.71
S. Carolina	4.4	617.47		138.43	62.13		26.75	134.31			9.06	988.16	\$224	
S. Dakota	0.8	18.22	0.00	0.00	0.00	2.89	2.22	12.90	3.58			39.81	\$50	222.82
Tennessee	6.2	771.13		66.29	25.30	27.82		156.85			10.74	1,058.13	\$172	
Texas	23.9	2,857.50		312.68		232.51	86.30	236.79			48.41	3,774.18	\$158	
Vermont	0.6	79.95		1.72	1.40		2.32	18.43			0.70	104.51	\$168	
Virginia	7.7	698.27		265.40	179.92		27.52	171.62			19.61	1,362.34	\$177	
Washington	6.5	325.20		18.98	0.00	57.11	27.37	57.20		6.74	0.00	492.59	\$76	
W. Virginia	1.8	106.49		9.27	4.66		6.01	51.73	4.73	9.77		192.65	\$106	1,369.61
Wisconsin	5.6	280.04	4.09	25.87	11.67	28.39	51.18	88.09			3.46	492.79	\$88	
<b>Total</b>	<b>283.5</b>	<b>29,736.08</b>	<b>127.85</b>	<b>5,585.82</b>	<b>3,499.49</b>	<b>2,766.38</b>	<b>2,042.20</b>	<b>5,133.72</b>	<b>71.75</b>	<b>2,661.43</b>	<b>788.99</b>	<b>52,413.7</b>	<b>\$185</b>	<b>4,020.99</b>
% of total		56.7%	0.2%	10.7%	6.7%	5.3%	3.9%	9.8%	0.1%	5.1%	1.5%	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 2008 World Lottery Almanac

## Fiscal 2007 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>	Ticket Sales	VLT (net)	Prizes	Agent Comm.	Expense	Gov't Transfers	PC Sales	PC Gov't	Ticket Sales as % of GSP	Gov't Transfers as % of GSP	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale
Arizona	6.3	232,463	462.20		257.49	31.12	34.46	139.92	\$73	\$22	0.199%	0.060%	55.7%	30.3%
California	36.6	1,727,355	3,318.35		1,765.64	233.79	166.48	1,176.93	\$91	\$32	0.192%	0.068%	53.2%	35.5%
Colorado	4.9	230,478	455.92		276.92	33.67	29.10	119.00	\$94	\$24	0.198%	0.052%	60.7%	26.1%
Connecticut	3.5	204,134	957.03		579.85	53.60	45.43	278.33	\$273	\$79	0.469%	0.136%	60.6%	29.1%
Delaware <sup>3,4</sup>	0.9	60,361	118.29	635.68	61.33	7.02	12.93	326.96	\$137	\$378	0.196%	0.542%	51.8%	
D.C.	0.6	87,664	256.82	0.00	145.34	15.99	31.01	65.38	\$437	\$111	0.293%	0.075%	56.6%	25.5%
Florida	18.3	713,505	4,122.12		2,484.52	234.29	151.31	1,263.27	\$226	\$69	0.578%	0.177%	60.3%	30.6%
Georgia	9.5	379,550	3,178.40		1,978.38	225.66	128.97	853.55	\$333	\$89	0.837%	0.225%	62.2%	26.9%
Idaho	1.5	49,907	130.53		78.88	7.66	12.77	34.00	\$87	\$23	0.262%	0.068%	60.4%	26.0%
Illinois	12.9	589,598	1,998.97		1,177.16	100.68	110.19	631.17	\$156	\$49	0.339%	0.107%	58.9%	31.6%
Indiana	6.3	248,915	789.06	0.00	477.81	55.08	44.68	217.57	\$124	\$34	0.317%	0.087%	60.6%	27.6%
Iowa	3.0	123,970	235.08		133.36	14.67	29.03	58.15	\$79	\$19	0.190%	0.047%	56.7%	24.7%
Kansas	2.8	111,699	240.00		134.21	13.94	22.78	71.02	\$86	\$26	0.215%	0.064%	55.9%	29.6%
Kentucky	4.2	145,959	744.22		456.37	47.73	46.30	196.29	\$175	\$46	0.510%	0.134%	61.3%	26.4%
Louisiana	4.3	193,138	354.19		179.41	19.66	29.52	128.23	\$83	\$30	0.183%	0.066%	50.7%	36.2%
Maine	1.3	46,973	230.02		143.77	16.48	20.62	51.44	\$175	\$39	0.490%	0.109%	62.5%	22.4%
Maryland	5.6	257,815	1,577.31		927.01	112.19	54.83	494.12	\$281	\$88	0.612%	0.192%	58.8%	31.3%
Massachusetts	6.4	337,570	4,436.50		3,225.04	251.66	91.89	920.00	\$688	\$143	1.314%	0.273%	72.7%	20.7%
Michigan	10.1	381,003	2,342.60	0.00	1,329.08	172.74	108.30	748.90	\$233	\$74	0.615%	0.197%	56.7%	32.0%
Minnesota	5.2	244,546	422.61		250.12	25.25	36.52	112.35	\$81	\$22	0.173%	0.046%	59.2%	26.6%
Missouri	5.9	225,876	934.27		595.02	58.26	40.92	257.88	\$159	\$44	0.414%	0.114%	63.7%	27.6%
Montana	1.0	32,322	41.56		21.42	2.47	6.53	11.42	\$43	\$12	0.129%	0.035%	51.5%	27.5%
Nebraska	1.8	75,700	114.49		65.40	7.18	13.32	29.27	\$65	\$16	0.151%	0.039%	57.1%	25.6%
N. Hampshire	1.3	56,276	263.56		155.94	14.31	16.08	79.04	\$200	\$60	0.468%	0.140%	59.2%	30.0%
New Jersey	8.7	453,177	2,351.28		1,359.40	131.24	81.82	828.33	\$271	\$95	0.519%	0.183%	57.8%	35.2%
New Mexico	2.0	75,910	148.14		85.12	9.75	19.09	34.88	\$75	\$18	0.195%	0.046%	57.5%	23.5%
New York	19.3	1,021,944	6,652.44	522.67	3,970.74	398.44	264.12	2,358.35	\$345	\$122	0.651%	0.231%	59.7%	
N. Carolina	9.1	374,525	861.67		451.79	61.93	41.71	315.37	\$95	\$35	0.230%	0.084%	52.4%	36.6%
N. Dakota	0.6	26,385	22.64		11.29	1.16	3.61	6.50	\$36	\$10	0.086%	0.025%	49.9%	28.7%
Ohio	11.5	461,302	2,259.40		1,338.37	139.96	109.79	669.33	\$197	\$58	0.490%	0.145%	59.2%	29.6%
Oklahoma	3.6	134,651	215.07		115.97	13.43	15.63	69.38	\$59	\$19	0.160%	0.052%	53.9%	32.3%
Oregon <sup>3,4</sup>	3.7	151,301	354.62	853.51	233.56	31.02	29.09	644.03	\$95	\$172	0.234%	0.426%	65.9%	
Pennsylvania	12.4	510,293	3,076.34		1,832.63	166.32	161.30	949.07	\$247	\$76	0.603%	0.186%	59.6%	30.9%
R. Island <sup>3,4</sup>	1.1	45,660	244.85	416.71	143.89	29.83	9.63	320.99	\$231	\$303	0.536%	0.703%	58.8%	
S. Carolina	4.4	149,214	988.16		600.09	70.04	45.73	279.24	\$224	\$63	0.662%	0.187%	60.7%	28.3%
S. Dakota <sup>3,4</sup>	0.8	32,330	39.81	222.82	22.32	2.18	5.33	121.07	\$50	\$152	0.123%	0.374%	56.1%	
Tennessee	6.2	238,029	984.88		584.92	69.16	52.89	294.69	\$160	\$48	0.414%	0.124%	59.4%	29.9%
Texas	23.9	1,065,891	3,774.18		2,315.31	193.17	182.61	1,093.02	\$158	\$46	0.354%	0.103%	61.3%	29.0%
Vermont	0.6	24,213	104.51		66.22	6.10	8.89	23.57	\$168	\$38	0.432%	0.097%	63.4%	22.6%
Virginia	7.7	369,260	1,362.34		791.79	76.48	68.06	437.18	\$177	\$57	0.369%	0.118%	58.1%	32.1%
Washington	6.5	293,531	492.59		304.83	31.19	42.40	117.89	\$76	\$18	0.168%	0.040%	61.9%	23.9%
W. Virginia <sup>3,4</sup>	1.8	55,658	192.65	1,369.61	115.79	13.47	5.44	639.15	\$106	\$353	0.346%	1.148%	60.1%	
Wisconsin	5.6	227,230	492.79		292.07	34.13	28.94	160.65	\$88	\$29	0.217%	0.071%	59.3%	32.6%
<b>Total</b>	<b>283.5</b>	<b>12,467,281</b>	<b>52,342.5</b>	<b>4,021.0</b>	<b>31,535.5</b>	<b>3,234.1</b>	<b>2,460.1</b>	<b>17,626.9</b>	<b>\$185</b>	<b>\$62</b>	<b>0.420%</b>	<b>0.141%</b>	<b>60.2%</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 2008 World Lottery Almanac

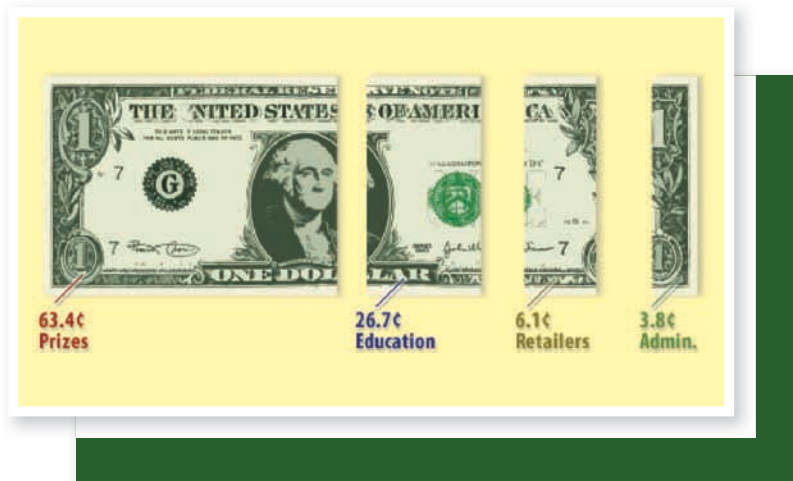
**Missouri State Lottery Commission  
Schedule Of Capital Asset Information  
Last Ten Fiscal Years**

	<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>	<u>2008</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	54	54	54	54	55	49	49	49	49	49
Delivery vans	4	6	6	5	4	3	3	3	3	3
Passenger vans - vehicle pool	29	29	10	8	10	8	3	12	11	10
Passenger cars - vehicle pool	8	8	12	11	9	9	8	8	4	3
Trucks	4	4	4	4	4	4	3	3	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<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>	<u>69</u>

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

# Supplementary Information

*More than 26 cents of every Lottery dollar goes to public education. Only 3.8 cents is spent on operating expenses.*



Approximately 26.7 cents of every dollar spent on the Missouri Lottery benefits Missouri's public education programs; 63.4 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!



BERBERICH TRAHAN & CO., P.A.  
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Missouri State Lottery Commission  
Jefferson City, Missouri:

We have audited the basic financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), a component unit of the State of Missouri, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control.

Our consideration of the 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 the 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 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 of the Missouri State Legislature and is not intended to be and should not be used by anyone other than those specified parties.

*Berberich Trahan & Co., P.A.*

December 3, 2008

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