

***MO*Lottery**

**Comprehensive Annual  
Financial Report**

*For Fiscal Year Ended June 30, 2014*

**Missouri State Lottery Commission**

An Enterprise Fund of the State of Missouri





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Prepared by Financial and Business Services



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 (An Enterprise Fund of the State of Missouri)  
**Comprehensive Annual Financial Report**  
 For the Fiscal Year Ended June 30, 2014

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## Introductory Section





## Letter of Transmittal

October 22, 2014

**To: John Twitty, Chairperson, Missouri State Lottery Commission**  
**Paul Kincaid, Member**  
**Dr. Phyllis Chase, Member**  
**Dr. Terry Adams, Member**  
**Dr. Judene Blackburn, Member**  
**May Scheve Reardon, Executive Director**  
**Citizens of the State of Missouri**

### Introduction

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Missouri State Lottery Commission (the Lottery) for the fiscal year ended June 30, 2014. Management is responsible for the accuracy of the financial data, as well as the completeness and fairness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Lottery. We have included all disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities.

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

### Background

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

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

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



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

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

## Products

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

Scratchers Games are played by scratching off a latex coating on the play area of the ticket. There are different ways to win including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. These games were the first type of games offered by the Lottery. For fiscal year 2014, Scratchers ticket sales were \$766.6 million, which represents 66.3 percent of total ticket sales.

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

Powerball is a multi-state Draw Game jointly operated by the 36 member lotteries of the Multi-State Lottery Association and sold in 44 states, Washington D.C. and the US Virgin Islands.



Players select one set of five numbers from a pool of one to 59 and one additional number designated as the "Powerball" from a second pool of one to 35. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. There are eight secondary prizes of fixed amounts, ranging from \$4 to \$1,000,000. The Power Play feature allows players the chance to increase the original prize amount, excluding the jackpot prize. Players who use Power Play and match all five white-ball numbers automatically win \$2 million. A jackpot winner may select either an annuitized prize paid over 29 years (30 payments) or a lump-sum payment. Drawings are held every Wednesday and Saturday night. Powerball sales for fiscal year 2014 were approximately \$100.5 million, which represents 8.7 percent of total ticket sales.



Missouri Lotto is the original in-state Draw Game that creates millionaires. Twice a week, on Wednesdays and Saturdays, Lotto players have a chance to win \$1 million or more. Players select six numbers from a pool of one to 44 and must match all six numbers to win the jackpot. Prizes are also paid for matching three, four or five numbers. The jackpot starts at \$1 million and increases, based upon ticket sales, for each subsequent draw when the jackpot is not won. Lotto Doubler was added beginning November 4, 2012, giving players the chance to double their non-jackpot winnings whenever a Lotto ticket is purchased. Through a random process, the Lottery designates certain Lotto tickets as Doubler Tickets. There is no additional cost for the Doubler feature. Lotto sales were approximately \$22.6 million in fiscal year 2014, representing 2.0 percent of total ticket sales.

Show Me Cash replaced Show Me 5 Paydown in September of 2008. Players select five numbers from a pool of one to 39 and must match all five numbers to win the jackpot. The jackpot starts at \$50,000, and if no player matches all five numbers, the top prize increases based on ticket sales. Prizes are also paid for matching two, three or four numbers. Drawings are held daily. Players can add EZ Match for an additional \$1 per Show Me Cash play. If the EZ Match option is chosen, five EZ Match numbers print on the Show Me

Cash ticket below the Show Me Cash numbers. If any of the EZ Match numbers match the Show Me Cash numbers (regardless of order), the player instantly wins the prize amount printed next to the matched EZ Match numbers. Fiscal year 2014 Show Me Cash and EZ Match sales were approximately \$31.8 million and \$3.5 million, or 2.8 percent and .3 percent of total ticket sales, respectively.



With Pick 3, players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), boxed (numbers in any order), front/back pair (match the exact order of the first or last two digits), or combo (provides the player all possible number combinations of the 3 numbers drawn for exact-order win). Beginning June 16, 2013, a new 1-Off wager type was added (win even if numbers are 1-Off the winning numbers drawn). Drawings are conducted twice per day. For fiscal year 2014, Pick 3 sales were \$69.3 million, which was 6.0 percent of total ticket sales.

Pick 4 is played similar to Pick 3 with players selecting four numbers between zero and nine. Players may play the numbers straight, boxed, front/middle/back pair, front/back three (match the exact order of the first or last three digits), or combo (provides the player all possible number combinations of the 4 numbers drawn for exact-order win). The 1-Off wager type was also added to Pick 4 (win even if numbers are 1-Off the winning numbers drawn). Drawings are conducted twice per day for Pick 4. Sales for fiscal year 2014 were \$38.8 million, or 3.4 percent of total ticket sales.



Club Keno is a Draw Game offered in all Missouri Lottery retail locations and provides drawings every four minutes. Players first choose how many different numbers (also called “spots”) they wish to play from one to 10. The player must then choose a number from one to 80 for each spot. Twenty numbers from the pool of one to 80 are chosen in a computerized random Club Keno drawing. Prizes vary depending on how many spots a player chooses and how many of the players’ numbers match the numbers drawn. Club Keno also offers Multiplier, Bulls-Eye, Progressive Jackpot and Double Bulls-Eye features. For fiscal year 2014, Club Keno sales were \$60.1 million, which was 5.2 percent of total ticket sales.

Mega Millions is a multi-state Draw Game available for sale in 44 states, Washington D.C. and the US Virgin Islands. Players select five different numbers from a pool of one to 75 then select one Mega Ball between 1 and 15. All six numbers must be matched to win the jackpot. The jackpot starts at \$15 million and increases for each draw when the jackpot is not won. There are eight secondary prizes of fixed amounts ranging from \$1 to \$1,000,000. Players have the option to select the Megaplier feature that will increase the non-jackpot prize winnings by two, three, four and five times their original amount. A jackpot winner may select a lump-sum payment or an annuity paid over 29 years (30 payments). Drawings are held every Tuesday and Friday night. Mega Millions sales for fiscal year 2014 were approximately \$42.5 million, which represents 3.7 percent of total ticket sales.



\$250k Triple Play was launched in February of 2014 and is the Lottery’s newest Draw Game. Players select four numbers from one to 60 then an additional eight plays of four numbers each are selected randomly by the terminal using Quick Pick. Each ticket has nine chances to win with the opportunity to win one prize in each of the nine sets of numbers played. The top prize is \$250,000 and drawings are held every Wednesday and Saturday. During fiscal year 2014, sales from this

product line were approximately \$4.2 million, or .4% of total ticket sales.

Pull-Tabs were re-introduced in October of 2013 utilizing new dispensers that allow for better security and accounting. Pull-Tabs are Lottery tickets with tabs that are pulled open to reveal cash prizes. Players also have the option to play through the dispenser's interactive touch-screen. The cost of the tickets is \$.50 or \$1.00 and the top prize is \$540. During fiscal year 2014, sales from this product line were approximately \$17.0 million, or 1.5% of total ticket sales.



### **Highlights of The Past Year**

Ticket sales for the Lottery surpassed the \$1 billion mark for the fourth year in a row. Fiscal year 2014 sales of \$1.157 billion exceeded fiscal year 2013 sales of \$1.141 billion by \$16.2 million, or 1.4 percent. Pull-Tab sales and a slight increase in Scratchers sales helped offset an overall decline in Draw Games sales.

For fiscal year 2014, the level of operating expenses increased by 2.0 percent. Total operating expenses increased from \$876.3 million in fiscal year 2013 to \$894.2 million in fiscal year 2014. Most of the increase - \$15.2 million - is attributable to increased prizes from Pull-Tab sales. The Lottery continues to operate with one of the lowest administrative cost ratios in the country. The net impact of these results for fiscal year 2014 was a decrease in the actual cash transfer of profits for public education from \$288.8 million to \$267.3 million. In addition, the Lottery returned \$766.2 million to players in cash and prizes and \$70.6 million to retailers in commissions and incentives for the 2014 fiscal year.

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

In addition to financial accomplishments, other noteworthy accomplishments during fiscal year 2014 included:

- Launch of the \$20 Scratchers Lucky 7s Playbook.
- Pilot program introducing sales of Powerball and Mega Millions at fuel pumps and ATMs.
- Pilot placement of instant ticket vending machines in convenience stores.
- Addition of Draw Games to our Points for Prizes Program and more prizes added to the store.
- Continuation of the permanent POS program.
- Exceeding minority- and women-owned business expenditure goals of 10 percent and 5 percent, respectively, with participation rates of 12.08 percent and 5.52 percent, respectively.

### **Economic Conditions and Outlook**

The economic recovery from the recession of 2008-09 continued in both the U.S. and Missouri but not without some setbacks along the way. During 2013, Missouri's Gross Domestic Product totaled over \$276.3 billion which was an increase of 2.6% from 2012. Missouri had the 22nd largest GDP among the states in 2012, and of the surrounding states, only Illinois (5th) and Tennessee (19th) have larger economies than Missouri. The U.S. GDP retracted in the first quarter of 2014 but saw growth in the last three quarters and ended up growing at 3.1 percent. The 2.9 percent first quarter shrinking could be attributed to the harsh winter season along with economic uncertainty.

The unemployment rate still remains above the pre-recession rate of 5 percent. At the end of fiscal year (FY) 2014 unemployment was at 6.5 percent. Unemployment dropped half way through the year (in December and January) to a low of 6 percent which was the lowest since 2008, however during the last half of FY 2014, the unemployment rate moved back up slightly to end the year at 6.5 percent. The unemployment rates in Missouri have mostly followed the national trend.

Consumer spending, which makes up nearly 70 percent of the economy, grew at the annualized rate of 2.5 percent in the second quarter of 2014 with disposable income rising at a 4.2 percent giving consumers improved purchasing power.

Missouri's per capita income rose to \$39,897 or 2.2% in 2013. Missouri had the 16th lowest cost of living index in the U.S. in the first quarter of 2014 at 93.7 which was up slightly from 92.8 in 2013.

In FY 2014, gasoline prices fluctuated between \$2.86 and \$3.59 per gallon with the weekly average being \$3.26 per gallon which is less than in FY 2013 – a decline of \$0.13 or 3.9 percent in the weekly average price per gallon.

The stock markets also had a positive year with record highs being set in the three major U.S. markets. The Dow Jones (DJIA) ended FY 2014 up over 12.8 percent. The DJIA established a record high during the FY by closing at over 16,924, and has since eclipsed the 17,000 mark. The S&P 500 ended the year up over 21.6 percent while the NASDAQ ended the year up over 28.9 percent with both markets establishing record high marks during the year. All three markets are still performing strongly.

Missouri Lottery sales are expected to grow slightly in Fiscal Year 2015 at a similar rate as the economy is expanding. The Lottery will continue to focus its advertising budget on our philanthropic branding along with sponsorships, new game launches and promotions. Pilot programs including the new Pull-Tab product and the Pay at the Pump/ATM alternative selling locations model are continuing. Other initiatives include the continued expansion of our loyalty program and mobile app, continued promotion of our products with integrated product promotions and events (including both Scratchers and Draw Games), and launching two new multi-state draw games.

## **Relevant Financial Policies**

### Budgetary Controls

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. Expenditures of the Lottery are subject to this annual appropriation process. Certain costs of operations for the Lottery are paid directly by the Missouri Office of Administration through appropriations administered by that agency. These costs include employee benefits, select capital improvements projects and certain facility-related costs.

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

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

### Debt Administration

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

## **Internal Control Environment**

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

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

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

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

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

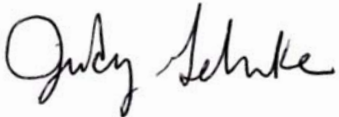
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Missouri State Lottery Commission for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the fourteenth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

### **Acknowledgements**

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

Respectfully submitted,



Judy Gehrke, CPA  
Chief Operating and Financial Officer  
Missouri State Lottery Commission





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

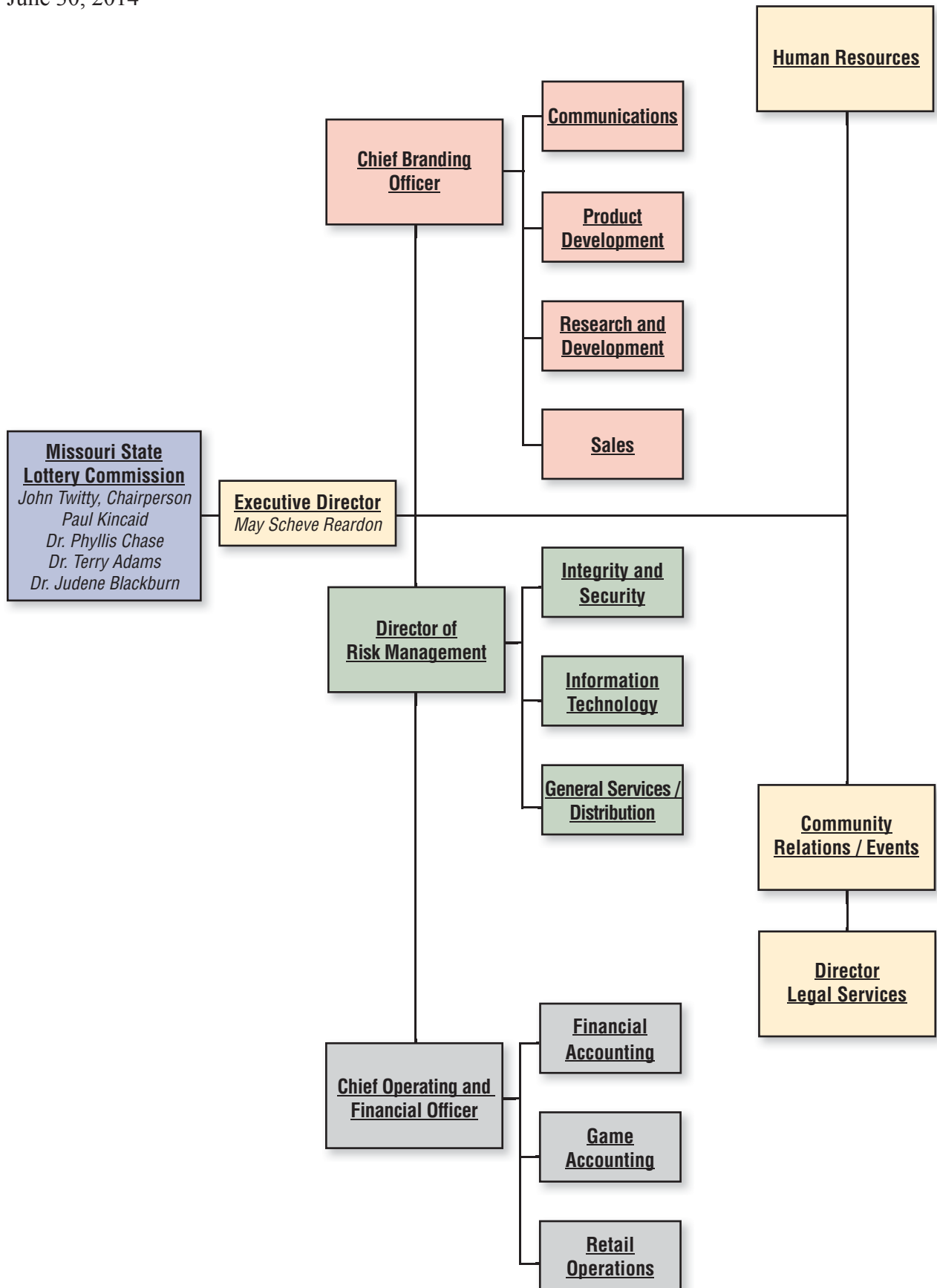
**Missouri State  
Lottery Commission**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

Missouri State Lottery Commission  
 Organizational Chart and Principal Officials  
 June 30, 2014





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## Financial Section



CliftonLarsonAllen LLP  
8390 East Crescent Parkway, Suite 600  
Greenwood Village, CO 80111  
303-779-5710 | fax 303-779-0348  
CLAconnect.com

## INDEPENDENT AUDITORS' REPORT

Missouri State Lottery Commission  
Jefferson City, Missouri

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Missouri State Lottery Commission, an enterprise fund of the State of Missouri, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri State Lottery Commission as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Missouri State Lottery Commission and do not purport to, and do not, present fairly the financial position of the State of Missouri, as of June 30, 2014 and 2013, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 to 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014, on our consideration of the Missouri State Lottery Commission'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Missouri State Lottery Commission's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

St. Louis, Missouri  
October 22, 2014

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

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

The following Management's Discussion and Analysis (MD&A) provides an overview of the Missouri State Lottery Commission's (the Lottery) financial performance and financial activities for the fiscal years ended June 30, 2014 and 2013. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements and notes to the financial statements.

**Financial Statements Presented in This Report**

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

This annual report includes three financial statements for the fiscal years ended June 30, 2014 and 2013. The Statements of Net Position provide information on the nature and amount of the Lottery's assets, liabilities and net position at the end of each fiscal year and provide a measure of the Lottery's economic resources. The Statements of Revenues, Expenses and Changes in Net Position reflect the operating and non-operating revenues and expenses and the changes in net position for each year. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for each year.

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

**Financial Analysis**  
**Summary of Net Position**

	As of June 30,		
	2014	2013	2012
<b>Assets</b>			
Current assets	\$78,159,003	\$70,501,918	\$74,952,046
Capital assets (net of accumulated depreciation)	2,859,744	3,123,532	3,442,268
Investments held for grand-prize winners at fair value - noncurrent	37,568,189	39,677,407	49,218,868
<b>Total Assets</b>	<u>118,586,936</u>	<u>113,302,857</u>	<u>127,613,182</u>
<b>Liabilities</b>			
Current liabilities	78,440,153	70,735,188	75,309,779
Long-term liabilities	35,257,361	36,937,316	42,628,411
<b>Total Liabilities</b>	<u>113,697,514</u>	<u>107,672,504</u>	<u>117,938,190</u>
<b>Net Position</b>			
Investment in capital assets	2,859,744	3,123,532	3,442,269
Unrestricted	(2,859,744)	(3,123,532)	(3,442,269)
Restricted	4,889,422	5,630,353	9,674,992
<b>Total Net Position</b>	<u>\$4,889,422</u>	<u>\$5,630,353</u>	<u>\$9,674,992</u>

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

**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Current Assets**

Current assets consist primarily of cash and cash equivalents, accounts receivable from retailers and the current portion (maturing within one year) of investments held in United States guaranteed marketable securities on behalf of past grand-prize winners. During fiscal year 2014, current assets increased by \$7,657,085. This increase was due mostly to an increase in cash and cash equivalents.

For fiscal year 2013, current assets decreased by \$4,450,128 due mostly to a decrease in cash and cash equivalents.

**Noncurrent Assets**

Investments held for grand-prize winners represents the market value of the investments held in United States guaranteed marketable securities on behalf of past grand-prize winners that mature beyond one year. These investments were purchased to fund the annual payments for winners that were required to or elected to receive annuity payments and consist of United States Government-backed obligations of zero coupon bonds and stripped securities that equal the face amount of the bond or security upon maturity. Originally, winners of jackpots were required to receive annuity payments. Subsequently, winners were allowed to elect a lump-sum payment instead of a long-term annuity. Since this option has been available, the trend among winners has generally been to elect the lump-sum payment and, therefore, fewer purchases of securities have been required. Fiscal year 2014 showed a decrease in this category of \$2,109,218. In fiscal year 2013, this category decreased by \$9,541,461.

Capital assets consist of land, buildings, vehicles, computers and software, and other equipment and is reported net of all related accumulated depreciation. For fiscal year 2014, net capital assets decreased by \$263,788 due to the level of depreciation expenses for the fiscal year exceeding the cost of additions to capital assets.

In fiscal year 2013, the level of capital assets decreased by \$318,736.

**Current Liabilities**

Current liabilities consist primarily of accrued prize liabilities, other accrued expenses, amounts due the Lottery Proceeds Fund, and accounts payable to suppliers. In fiscal year 2014, current liabilities increased by \$7,704,965 which was mainly the result of an increase in the amount due the Lottery Proceeds Fund of \$10,526,004 offset by decreases in accrued and grand prize winner liabilities of \$1,660,339 and \$1,252,000, respectively.

In fiscal year 2013, current liabilities decreased by \$4,574,591 which was mainly the result of decreases in the amounts due the Lottery Proceeds Fund and grand-prize winners of \$8,601,273 and \$1,119,000, respectively, offset by an increase in accrued prizes of \$4,961,850.

**Long-Term Liabilities**

Long-term liabilities include the long-term portion of amounts payable to grand-prize winners and the deferred portion of the amount due the Lottery Proceeds Fund. For fiscal year 2014, the long-term liabilities have decreased by \$1,679,955. As discussed previously, the trend of winners to elect lump-sum payments in lieu of annuity payments has resulted in fewer additions to long-term annuities and a reduction in the long-term liability as older annuities are paid off. The long-term liabilities for the grand-prize winners in fiscal year 2014 declined by \$1,367,410. The deferred portion of the amount due the Lottery Proceeds Fund decreased in fiscal year 2014 by \$312,545. This deferred amount represents the net book value (cost less accumulated depreciation) of capital assets acquired after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association. The decrease was the result of depreciation expense recognized exceeding capital asset additions during the fiscal year.

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For fiscal year 2013, the long-term liabilities decreased by \$5,691,095. The long-term liabilities for the grand-prize winners in fiscal year 2013 declined by \$5,495,400. The deferred portion of the amount due the Lottery Proceeds Fund decreased in fiscal year 2013 by \$195,695.

**Net Position**

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

**Changes in Net Position**

	For the Year Ended June 30,		
	2014	2013	2012
<b>Operating Revenues</b>			
Ticket sales	\$1,157,051,074	\$1,140,833,158	\$1,097,427,696
Other operating revenues	92,041	706,055	1,294,455
<b>Total Operating Revenues</b>	<u>1,157,143,115</u>	<u>1,141,539,213</u>	<u>1,098,722,151</u>
<b>Operating Expenses</b>			
Direct costs			
Prize expense	766,226,926	752,964,849	722,079,619
Retailer commissions and incentives	70,560,397	70,326,011	67,830,868
Other direct costs	17,911,043	16,395,935	15,318,902
Total direct costs	<u>854,698,366</u>	<u>839,686,795</u>	<u>805,229,389</u>
Administrative expenses	39,492,161	36,655,720	30,380,982
<b>Total Operating Expenses</b>	<u>894,190,527</u>	<u>876,342,515</u>	<u>835,610,371</u>
<b>Operating Income</b>	<u>262,952,588</u>	<u>265,196,698</u>	<u>263,111,780</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	82,805	91,150	94,134
Gain on sale of capital assets	65,420	23,572	6,109
Unclaimed prizes	14,437,266	14,695,619	10,385,777
Transfers to the State of Missouri	(277,538,079)	(280,007,039)	(273,597,799)
Amortization of grand-prize winner liability	(1,818,487)	(3,160,411)	(2,509,798)
Net increase (decrease) in the fair value of investments held for grand-prize winners	1,077,556	(884,228)	5,882,052
<b>Net Nonoperating Revenues (Expenses)</b>	<u>(263,693,519)</u>	<u>(269,241,337)</u>	<u>(259,739,525)</u>
<b>Changes in Net Position</b>	(740,931)	(4,044,639)	3,372,255
<b>Total Net Position, Beginning of Year</b>	<u>5,630,353</u>	<u>9,674,992</u>	<u>6,302,737</u>
<b>Total Net Position, End of Year</b>	<u>\$4,889,422</u>	<u>\$5,630,353</u>	<u>\$9,674,992</u>

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

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



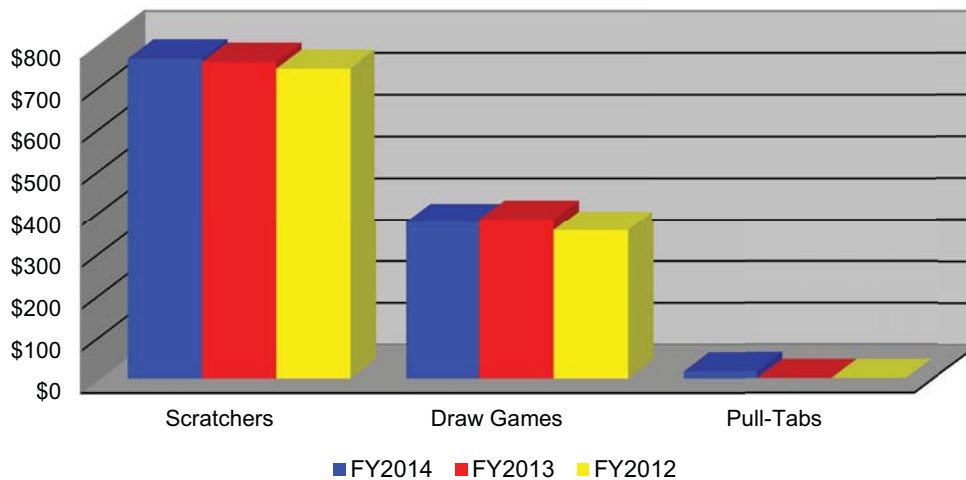
**Missouri State Lottery Commission**  
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**Operating Revenues**

	For the Year Ended June 30,		
	2014	2013	2012
<b>Sales by Game</b>			
Scratchers	\$766,609,691	\$758,900,234	\$742,541,015
Draw Games			
Lotto	22,610,711	22,114,822	22,564,631
Pick 3	69,264,771	65,755,962	65,074,532
Powerball	100,524,928	127,027,808	94,688,699
Show Me Cash	31,845,652	36,830,777	28,970,446
Pick 4	38,840,458	34,491,756	31,378,162
Club Keno	60,109,683	65,389,456	65,331,226
Mega Millions	42,499,882	26,028,887	42,792,811
\$250K Triple Play	4,237,043	-	-
EZ Match	3,483,316	4,293,456	4,086,174
Total Draw Games	373,416,444	381,932,924	354,886,681
Pull-Tab	17,024,939	-	-
Other operating income	92,041	706,055	1,294,455
<b>Total operating revenues</b>	<b>\$1,157,143,115</b>	<b>\$1,141,539,213</b>	<b>\$1,098,722,151</b>

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



After another record high in fiscal year 2013, ticket sales rose again to a new record high in fiscal year 2014. Overall sales increased by approximately \$16.2 million, or 1.4 percent, from fiscal year 2013 levels.

For the year ended June 30, 2014, Scratchers ticket sales increased by approximately \$7.7 million, or 1.0 percent, while Draw Game product sales decreased by \$8.5 million, or 2.2 percent. The net decrease in existing games was offset by \$17.0 million in sales of the new Pull-Tab product which began in October of 2013.

For fiscal year 2013, Scratchers ticket sales increased by approximately \$16.4 million, or 2.2 percent, while Draw Game product sales increased by \$27.0 million, or 7.6 percent.

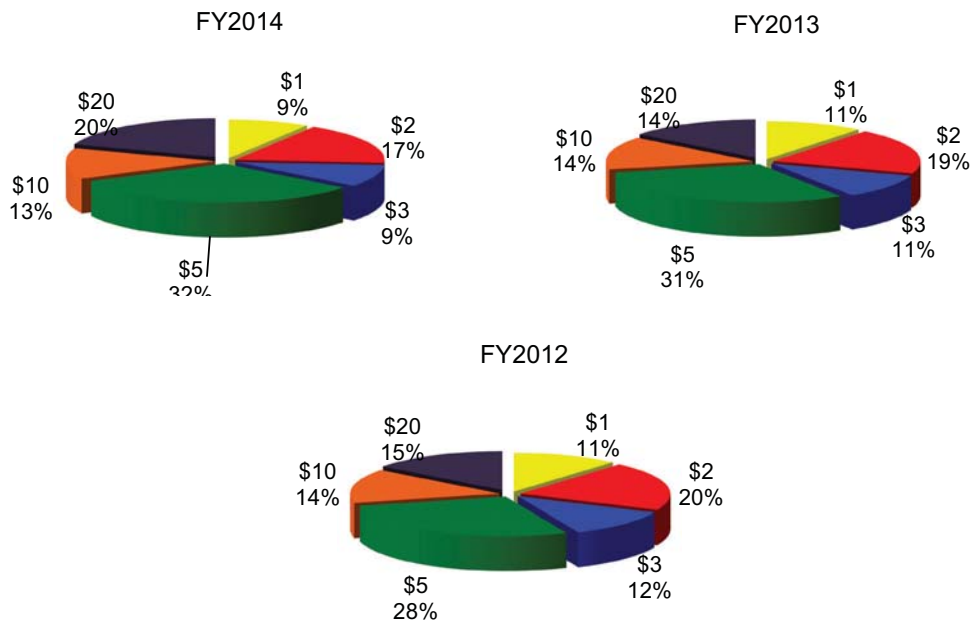
**Missouri State Lottery Commission**  
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During fiscal year 2014, revenues from the sale of Lottery products were the highest in the 28-year history of the Lottery. As indicated in the financial statements, Scratchers ticket sales continue to grow. During fiscal year 2014, the \$5 and \$20 price point sales grew over the sales of the previous fiscal year by \$12.4 million and \$40.7 million, respectively, offsetting declines in other price points. Sales in the \$20 price point grew due to the very successful Lucky 7s Playbook, \$4 million Cash Spectacular and \$5 Million Jackpot games.

During fiscal year 2013, the \$5 price point sales grew approximately \$27.0 million over the sales of fiscal year 2012. A very successful cross-promotional game, strong traditional games, holiday games and licensed property games were the main contributing factors to the growth in this price point. The \$20 and \$10 price point sales grew modestly over fiscal year 2012, while the \$1, \$2 and \$3 price points showed decreases in sales.

**Scratchers Ticket Sales By Price Point**



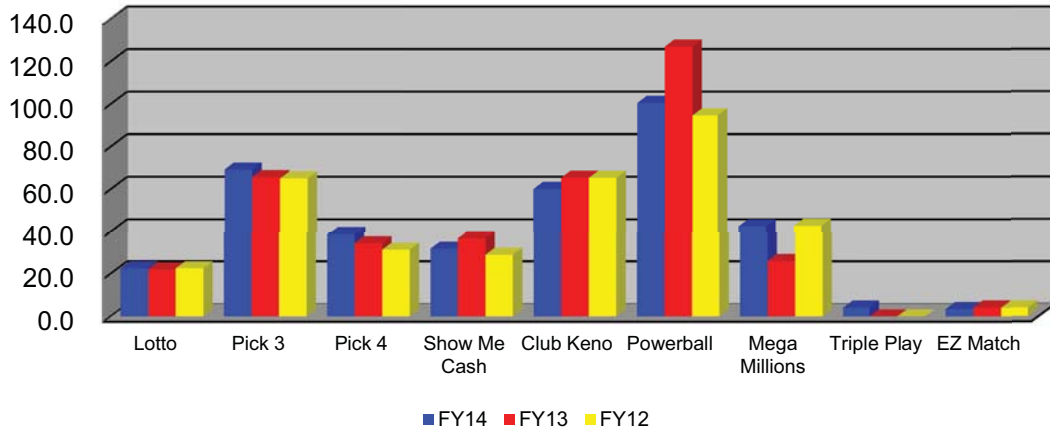
Total Draw Game sales decreased by \$8.5 million in fiscal year 2014 due mainly to Powerball. Powerball sales were down \$26.5 million over fiscal year 2013, which was partially offset by an increase in Mega Millions sales of \$16.5 million. Pick 3, Pick 4 and Lotto sales were up \$3.5 million, \$4.3 million and \$.5 million, respectively, while Show Me Cash, EZ Match and Club Keno sales were down \$5.0 million, \$0.8 million, and \$5.3 million, respectively. The new \$250K Triple Play game added \$4.2 million in sales in fiscal year 2014.

Total Draw Game sales increased by \$27.0 million in fiscal year 2013. The increase was due mainly to Powerball during fiscal year 2013, which had two record jackpots of \$587.5 million and \$590.5 million, boosting sales by \$32.3 million. Show Me Cash and Pick 4 sales increased by \$7.9 million and \$3.1 million, respectively, while Pick 3, Club Keno and EZ Match sales showed slight increases. These increases were offset by a \$16.8 million decrease in Mega Millions sales from fiscal year 2012 as well as a slight decrease in Lotto sales.

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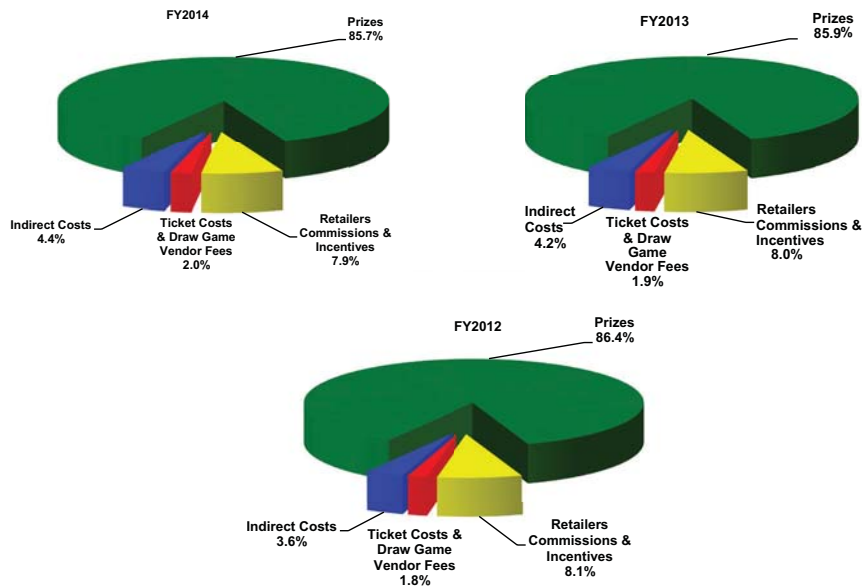
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Draw Game Sales By Game**  
in millions



**Operating Expenses**

	For the Year Ended June 30,		
	2014	2013	2012
<b>Direct Expenses</b>			
Prizes	\$766,226,926	\$752,964,849	\$722,079,619
Retailer commissions and incentives	70,560,397	70,326,011	67,830,868
Tickets	8,041,642	6,915,375	6,737,925
Draw Game vendor fees	9,074,826	9,480,560	8,580,977
Pull-Tab vendor fees	794,576	-	-
<b>Other Operating Expenses</b>			
Advertising	16,025,166	10,599,791	7,261,102
Wages and benefits	9,770,278	9,380,734	9,378,026
Other general expenses	12,559,473	15,486,243	12,693,246
Depreciation and amortization	1,137,244	1,188,952	1,048,608



**Missouri State Lottery Commission**  
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**Management's Discussion and Analysis (Unaudited)**  
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**Direct Expenses**

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

Of the Lottery's total operating expenses of \$894.2 million in fiscal year 2014, \$854.7 million, or 95.6 percent, are game-related, or direct, expenses. In fiscal year 2013, direct expenses were \$839.7 million, or 95.8 percent, of the total \$876.3 million total operating expenses for the year. In fiscal year 2012, direct expenses were 96.4 percent of total operating expenses.

Prize expense for fiscal year 2014 increased by approximately \$13.3 million, or 1.8 percent, while total ticket sales increased by 1.4 percent. In fiscal year 2013, prize expense increased by approximately \$30.9 million, or 4.3 percent, while total ticket sales increased by 4.0 percent. The variance between the percentage increase in prize expense and sales reflects the effects of increasing the prize structure of the Scratchers products, while the random selection of winning numbers may result in deviations from expected results in a short-term period for Draw Game products.

Retailer commissions and incentives in fiscal year 2014 increased by approximately \$.2 million, or .3 percent. In fiscal year 2013, these expenses increased by approximately \$2.5 million, or 3.7 percent. These categories and results more closely follow the sales trends than prize expense. Variations will occur due to additional promotional activity to promote selected games and the number of jackpots won during the year.

Scratchers ticket printing expenses increased in fiscal year 2014 by \$1.1 million or 16.29 percent due largely to upfront printing costs and the purchase of reusable on-counter containers for the Lucky 7s Playbook. In fiscal year 2013, these expenses increased by approximately \$.2 million, or 2.6 percent, which approximated the percentage increase in sales for the year.

Draw Game vendor fees decreased by \$.4 million, or 4.3 percent, as a result of decreased Draw Game sales. In fiscal year 2013, this expense category increased by \$.9 million or 10.5 percent as a result of increased Draw Game sales. The annual variances in this category will not exactly mirror the percentage change in sales, as the level of free and promotional tickets, as well as any system performance credits, will affect the actual annual expense amount.

Vendor fees associated with the new Pull-Tab product were \$.8 million for the year.

**Other Operating Expenses**

Other operating expenses include advertising, personal services, fringe benefits, marketing and promotional expenses, utilities and facility costs, communication services and other administrative costs. The Lottery is subject to the budgetary and appropriation process of the State of Missouri. Management develops budgets for these expenses, within the total amounts appropriated by the State, based upon current economic conditions, business plans and market conditions, with actual results continuously monitored to ensure that overall business objectives are met in the most effective and efficient manner. In fiscal year 2014, other operating expenses increased by \$2.8 million, or 7.7 percent, due largely to a \$4 million increase in advertising and media production costs. Beginning with fiscal year 2014, media production costs are included in the advertising line on the financial statements.

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

**Nonoperating Revenues (Expenses)**

	For the Year Ended June 30,		
	2014	2013	2012
Interest	\$82,805	\$91,150	\$94,134
Unclaimed prizes	14,437,266	14,695,619	10,385,777
Gain on sale of capital assets	65,420	23,572	6,109
Net increase (decrease) in investments held for grand-prize winners	1,077,556	(884,228)	5,882,052
Amortization of grand-prize winner liability	(1,818,487)	(3,160,411)	(2,509,798)
Transfers to State of Missouri	(277,538,079)	(280,007,039)	(273,597,799)

The Lottery earns interest on its share of the common cash pool with the State Treasurer's Office, as well as interest on an imprest fund account utilized to pay prizes. Interest is also earned on funds receivable from the Multi-State Lottery Association (MUSL). The decrease in interest earnings for fiscal year 2014 reflects the effects of the market conditions as interest rates remained low.

The Lottery retains prize money if a claim for the prize is not made within a 180-day claim period. In fiscal year 2014, the level of unclaimed prizes decreased by \$.3 million over fiscal year 2013. This line item fluctuates considerably from year to year, depending on the timing of Scratchers game closings and the unpredictability of prizes going unclaimed.

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

As to the gain or loss from the disposal of capital assets, the variances generally reflect the effects of the number of vehicles that were surplus during each fiscal year. In fiscal year 2014, seventeen vehicles were surplus and in fiscal year 2013, six vehicles were surplus. The net gain in fiscal years 2014 and 2013 was due primarily to the sale of vehicles at surplus property.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for fiscal year 2014 decreased \$2.5 million, or .9 percent, from fiscal year 2013. For fiscal year 2013, proceeds increased \$6.4 million, or 2.3 percent, from fiscal year 2013. The Governor's Office and the Legislature determine where these funds will be expended within the state's public institutions of elementary, secondary and higher education.

**Capital Assets and Long-Term Debt**

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

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

**Contacting the Lottery's Financial Management**

This management discussion and analysis report is designed to provide Missouri citizens, government officials, players, retailers and other interested parties reliable financial information and an explanation of the Lottery's financial activities for the fiscal years ended June 30, 2014 and 2013. 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**  
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**Statements of Net Position As of June 30, 2014 and 2013**

	2014	2013
<b>Current Assets</b>		
Cash and cash equivalents	\$ 26,183,442	\$ 19,928,948
Investments held for grand-prize winners	5,249,538	6,500,661
Accounts receivable, net of allowances for returns	46,385,549	43,652,392
Other assets	340,474	419,917
Total current assets	78,159,003	70,501,918
<b>Noncurrent Assets</b>		
Capital assets		
Capital assets not being depreciated	352,973	352,973
Capital assets being depreciated	15,499,965	15,168,953
Accumulated depreciation	(12,993,194)	(12,398,394)
	2,859,744	3,123,532
Investments held for grand-prize winners	37,568,189	39,677,407
Total noncurrent assets	40,427,933	42,800,939
Total assets	118,586,936	113,302,857
<b>Current Liabilities</b>		
Accounts payable	209,989	141,631
Due to Lottery Proceeds Fund	13,730,103	3,204,099
Accrued prize liabilities	54,703,710	56,364,049
Grand-prize winner liabilities	5,252,000	6,504,000
Other accrued liabilities	4,544,351	4,521,409
Total current liabilities	78,440,153	70,735,188
<b>Long-term Liabilities</b>		
Due to Lottery Proceeds Fund	2,581,056	2,893,601
Grand-prize winner liabilities	32,676,305	34,043,715
Total long-term liabilities	35,257,361	36,937,316
Total liabilities	113,697,514	107,672,504
<b>Net Position</b>		
Investment in capital assets	2,859,744	3,123,532
Unrestricted	(2,859,744)	(3,123,532)
Restricted for the unrealized gain/loss on investments held for grand-prize winners	4,889,422	5,630,353
Total net position	\$ 4,889,422	\$ 5,630,353

See accompanying notes to the basic financial statements.



**Missouri State Lottery Commission**  
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**Statements of Revenues, Expenses and Changes In Net Position**  
**For The Years Ended June 30, 2014 and 2013**

	2014	2013
<b>Operating Revenues</b>		
Scratchers ticket sales	\$ 766,609,691	\$ 758,900,234
Draw Game ticket sales	373,416,444	381,932,924
Pull-Tab ticket sales	17,024,939	-
Total sales	1,157,051,074	1,140,833,158
Other	92,041	706,055
Total operating revenues	1,157,143,115	1,141,539,213
<b>Operating Expenses</b>		
Scratchers prizes	539,763,719	537,224,413
Draw Game prizes	211,219,379	215,740,436
Pull-Tab prizes	15,243,828	-
Scratchers retailer commissions and incentives	48,798,359	48,489,399
Draw Game retailer commissions and incentives	21,403,707	21,836,612
Pull-Tab retailer commissions and incentives	358,331	-
Cost of tickets sold	17,911,043	16,395,935
Depreciation	1,137,244	1,188,952
Advertising	16,025,166	10,599,791
Wages and benefits	9,770,278	9,380,734
Other general and administrative	12,559,473	15,486,243
Total operating expenses	894,190,527	876,342,515
Operating income	262,952,588	265,196,698
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	82,805	91,150
Unclaimed prizes	14,437,266	14,695,619
Gain on sale of capital assets	65,420	23,572
Net increase (decrease) in the fair value of investments held for grand-prize winners	1,077,556	(884,228)
Amortization of grand-prize winner liability	(1,818,487)	(3,160,411)
Transfers to State of Missouri Lottery Proceeds Fund	(277,538,079)	(280,007,039)
Total nonoperating revenues (expenses)	(263,693,519)	(269,241,337)
Changes in net position	(740,931)	(4,044,639)
<b>Total Net Position, Beginning of Year</b>	5,630,353	9,674,992
<b>Total Net Position, End of Year</b>	\$ 4,889,422	\$ 5,630,353

See accompanying notes to the basic financial statements.

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

**Statements of Cash Flows**  
**For The Years Ended June 30, 2014 and 2013**

	2014	2013
<b>Cash Flows From Operating Activities</b>		
Cash received from retailers and others	\$ 1,154,078,654	\$ 1,141,593,066
Cash paid for prizes	(759,953,999)	(745,048,609)
Cash paid for retailer commissions	(70,518,291)	(70,264,698)
Cash paid for employee services	(9,702,327)	(9,315,715)
Cash paid for other expenses	(46,103,691)	(42,670,907)
Net cash provided by operating activities	267,800,345	274,293,137
<b>Cash Flows From Noncapital Financing Activities</b>		
Transfers to State of Missouri	(267,324,620)	(288,804,006)
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchases of capital assets	(877,448)	(870,438)
Proceeds from sale of capital assets	69,412	23,795
Net cash used for capital and related financing activities	(808,037)	(846,643)
<b>Cash Flows From Investing Activities</b>		
Proceeds from maturity of investments	6,504,000	11,741,229
Interest received	82,805	91,150
Net cash provided by investing activities	6,586,805	11,832,379
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	6,254,494	(3,525,134)
<b>Cash and Cash Equivalents, Beginning of Year</b>	19,928,948	23,454,082
<b>Cash and Cash Equivalents, End of Year</b>	\$ 26,183,442	\$ 19,928,948
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 262,952,588	\$ 265,196,698
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,137,244	1,188,952
Unclaimed prizes	14,437,266	14,695,619
Payments to grand-prize winners	(6,504,000)	(11,741,229)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable, net	(2,733,157)	(76,445)
(Increase) decrease in other receivables	(256,673)	1,893
(Decrease) increase in prepaid expenses	336,116	(118,033)
(Decrease) increase in accounts payable and other accrued liabilities	91,300	183,833
Increase in accrued prize liabilities	(1,660,339)	4,961,850
Net cash provided by operating activities	\$ 267,800,345	\$ 274,293,137
<b>Noncash Activities</b>		
Net increase (decrease) in the fair value of investments held for grand-prize winners	\$ 1,077,556	\$ (884,228)
Amortization of grand-prize winner liability	\$ 1,818,487	\$ 3,160,411

See accompanying notes to the basic financial statements.

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

**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

**1. Summary of Significant Accounting Policies**

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

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

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

**Basis of Presentation**

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

**Basis of Accounting**

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

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

**Revenue Recognition**

Sales of Scratchers tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances of approximately \$1,483,000 and \$1,766,000 at June 30, 2014 and 2013, respectively, have been established for estimated tickets to be returned by retailers.

Sales of Draw Game lottery tickets are generated by the semiweekly Lotto, Powerball, \$250K Triple Play (added February 2014), and Mega Millions games, and the daily Club Keno, Show Me Cash, EZ Match (added March 2011), Pick 4 and Pick 3 games. Sales of Draw Game lottery tickets are made through licensed retail sales outlets via Draw Game terminals maintained by the retailers. Revenue is

**Missouri State Lottery Commission**  
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**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

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

**Revenue Recognition (continued)**

recognized for Draw Games when tickets are sold to players and the related draw occurs. Unearned revenues from these sales represent tickets sold for future prize drawings. Unearned revenues were \$441,521 and \$516,152 as of June 30, 2014 and 2013, and are included in other accrued liabilities.

Sales of the new Pull-Tabs product began October 2013. Sales are generated daily through Pull-Tab dispensers at licensed retail sales outlets. Revenue is recognized for Pull-Tabs when tickets are dispensed to players.

Operating revenues are presented net of sales returns, cancellations and promotional tickets of \$51,117,752 and \$48,122,747 for the years ended June 30, 2014 and 2013, respectively.

**Prizes**

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

Lotto grand-prize winners have the choice of receiving their prize in 25 annual installments or a portion of the prize in one lump-sum payment. Powerball and Mega Millions grand-prize winners have the choice of receiving their prize over 29 years (30 annual graduated installments) or a portion of the prize in one lump-sum payment.

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

Pull-Tab prizes are recorded at actual prizes paid.

**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, 2014 and 2013, unclaimed prizes in the amount of approximately \$14,437,000 and \$14,696,000, respectively, were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2014 and 2013, this amount has been included as nonoperating revenue on the statements of revenues, expenses and changes in net position with a corresponding amount included as a transfer to the State of Missouri.

**Cash and Cash Equivalents**

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

**Investments Held for Grand-Prize Winners**

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

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

**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

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

**Retailer Fees**

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

**Capital Assets**

Property and equipment greater than \$1,000 are carried at cost, less accumulated depreciation. 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 Position**

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

**Use of Estimates**

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

**Due to Lottery Proceeds Fund**

All income before transfers of the Lottery, except for the net increase in the fair value of investments held for grand-prize winners and amortization of grand-prize winner liabilities, as described in the accompanying statements of revenues, expenses and changes in net position, 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 shown as a long-term liability and is not subject to current transfers.

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**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

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

**Compensated Absences**

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

**Risk Management**

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

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

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

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

**Budgetary Authority**

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

**Marketing, Advertising and Promotion**

The Lottery expenses the costs of marketing, advertising and promotions as they are incurred. The Lottery spent \$3.9 million and \$4.3 million on media production, sponsorships and promotional supplies in fiscal years ended June 30, 2014 and 2013, respectively. Beginning with fiscal year 2014, media production costs are included in the advertising line on the financial statements.

**Subsequent Events**

The Lottery has performed a review of events subsequent to the statement of net position date through October 22, 2014, the date the financial statements are available to be issued.



**Missouri State Lottery Commission**  
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**Notes To The Basic Financial Statements**  
**June 30, 2013 and 2012**

**2. Statutory Requirements**

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

The Lottery receives certain services for no charge from other Missouri state government agencies. Tax clearance and driver's license checks are provided by the Department of Revenue. The Office of Administration provides services related to employee benefits and certain capital improvements, procurements, and facilities-related items.

**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, 2014 and 2013, the Lottery's share in the State's common cash pool was \$19,926,355 and \$13,638,818, respectively. At June 30, 2014 and 2013, the book balance of the imprest fund was \$6,249,383 and \$6,281,621, respectively, and the bank balance was \$7,529,125 and \$8,897,218, 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, 2014 and 2013. Because the Lottery's share of the State's Treasury is a pooled investment, the balance of this account is not subject to custodial credit risk.

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

As provided for by Article III, Section 39(b) of the Missouri Constitution, the Lottery purchases United States Treasury Zero Coupon Bonds for the specific purpose of funding future grand-prize winner prize claims. These investments are carried at fair value in the amounts of \$42,817,727 and \$46,178,068 at June 30, 2014 and 2013, respectively. The maturity value of securities held at June 30, 2014 and 2013 was \$50,912,000 and \$54,440,000, respectively.

At June 30, 2014 and 2013, the Lottery had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
United States Treasury Zero Coupon Bonds					
June 30, 2014	\$42,817,727	\$5,249,538	\$14,714,840	\$12,926,679	\$9,926,670
June 30, 2013	\$46,178,068	\$6,500,661	\$16,358,332	\$12,824,610	\$10,494,465



**Missouri State Lottery Commission**  
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**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

**4. Investments Held For Grand-Prize Winners (continued)**

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. Draw Game Ticket Sales**

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

	2014	2013
Lotto	\$ 22,610,711	\$ 22,114,822
Pick 3	69,264,771	65,755,962
Powerball	100,524,928	127,027,808
Show Me Cash	31,845,652	36,830,777
Pick 4	38,840,458	34,491,756
Club Keno	60,109,683	65,389,456
Mega Millions	42,499,882	26,028,887
EZ Match	3,483,316	4,293,456
\$250K Triple Play	4,237,043	-
	\$ 373,416,444	\$ 381,932,924

**6. Capital Assets**

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

	June 30, 2013	Increases	Decreases	June 30, 2014
Capital assets not being depreciated				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Total capital assets not being depreciated	352,973	-	-	352,973
Capital assets being depreciated				
Buildings	5,221,413	-	-	5,221,413
Computers and software	6,714,363	493,523	(217,226)	6,990,660
Equipment	1,773,538	40,430	(42,629)	1,771,339
Automobiles	1,459,639	343,495	(286,581)	1,516,553
Total capital assets being depreciated	15,168,953	877,448	(546,436)	15,499,965
Less accumulated depreciation for				
Buildings	(4,059,750)	(177,053)	-	(4,236,803)
Computers and software	(5,648,297)	(667,914)	213,234	(6,102,977)
Equipment	(1,654,606)	(54,639)	42,629	(1,666,616)
Automobiles	(1,035,741)	(237,638)	286,581	(986,798)
Total accumulated depreciation	(12,398,394)	\$(1,137,244)	\$ 542,444	(12,993,194)
Total capital assets being depreciated, net	2,770,559			2,506,771
Capital assets, net	\$ 3,123,532			\$ 2,859,744

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**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

**6. Capital Assets (continued)**

	<u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Capital assets not being depreciated				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Total capital assets not being depreciated	<u>352,973</u>	<u>-</u>	<u>-</u>	<u>352,973</u>
Capital assets being depreciated				
Buildings	5,221,413	-	-	5,221,413
Computers	6,593,804	470,629	(350,070)	6,714,363
Equipment	1,758,477	24,893	(9,832)	1,773,538
Automobiles	1,193,363	374,916	(108,640)	1,459,639
Total capital assets being depreciated	<u>14,767,057</u>	<u>870,438</u>	<u>(468,542)</u>	<u>15,168,953</u>
Less accumulated depreciation for				
Buildings	(3,882,697)	(177,053)	-	(4,059,750)
Computers	(5,204,203)	(793,942)	349,848	(5,648,297)
Equipment	(1,610,123)	(54,315)	9,832	(1,654,606)
Automobiles	(980,739)	(163,642)	108,640	(1,035,741)
Total accumulated depreciation	<u>(11,677,762)</u>	<u>\$ (1,188,952)</u>	<u>\$ 468,320</u>	<u>(12,398,394)</u>
Total capital assets being depreciated, net	<u>3,089,295</u>			<u>2,770,559</u>
Capital assets, net	<u>\$ 3,442,268</u>			<u>\$ 3,123,532</u>

**7. Pension Plan**

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

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

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

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**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

**7. Pension Plan (continued)**

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

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

The State of Missouri is obligated by state law to make all required contributions to the Plan, which are made at an actuarially determined rate. Beginning January 1, 2011 employee contributions of 4% of gross pay are required for those covered by the MSEP 2011 tier of the Plan. The current rate of contribution for retirement and long-term disability is 16.98 percent and 0.495 percent of total payroll, respectively.

For fiscal years ended June 30, 2014, 2013 and 2012, the annual pension cost associated with Lottery employees was approximately \$1,178,000, \$990,000, and \$954,000, respectively, and was equal to 100 percent of the annual pension cost required to be contributed for those years.

**8. Leases**

**Operating Leases**

The Lottery's regional facilities are held under operating lease agreements. The lease agreements for both the St. Louis and Springfield offices are under a one year agreement with four one-year renewal options set to expire June 30, 2019. The Kansas City office is under an agreement set to expire December 31, 2015. Annual rent expense for these facilities totaled approximately \$271,000 in both fiscal year 2014 and 2013.

The Lottery leases instant ticket vending machines under an operating lease agreement. The lease agreement was set to expire June 30, 2012; however, an amendment dated August 3, 2011 extended the expiration to June 30, 2015. In addition to 24- and 4-bin machines, the amendment provides for an additional 450 Gemini instant ticket vending machines. Leasing costs under the amendment changed from a monthly lease rate per machine to a percentage of net weekly Draw Game sales. Annual lease expense for the instant ticket vending machines totaled approximately \$3,392,000 in fiscal year 2014 and \$3,456,000 in 2013. The decrease in vending machine lease expense from fiscal year 2013 to 2014 is due to lower Draw Game sales in fiscal year 2014.

The Lottery also leases copiers for its headquarters and regional offices.

Future minimum lease payments under all non-cancelable leases having initial or remaining terms in excess of one year as of June 30, 2014 including an estimated \$3,540,000 for the year ended June 30, 2015 for vending machines, based on current Draw Games sales levels are as follows:

<u>Years Ending June 30</u>	
2015	\$ 3,840,000
2016	245,000
2017	193,000
2018	193,000
2019	186,000
	<u>\$ 4,657,000</u>

**Missouri State Lottery Commission**  
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**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

**9. Contractual Arrangements**

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

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 36 state and district lotteries (member lotteries) and operates the Powerball game and the Mega Millions game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50 percent of sales to MUSL for payment of prizes. On January 31, 2010 the Lottery began selling the Mega Millions jackpot game as an historic cross-selling agreement between Mega Millions and Powerball. Member lotteries sell tickets for the Mega Millions game and currently remit 50 percent of sales to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL.

Powerball and Mega Millions grand-prize winners have the choice of receiving their prize over 29 years (30 annual graduated 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 \$6,981,000 and \$10,531,000 as of June 30, 2014 and 2013, respectively.

The Lottery has contributed to a prize reserve fund and set prize reserve fund, separately maintained by MUSL, to protect MUSL members in case of unforeseen liabilities and to pay certain prizes associated with Powerball and Mega Millions, respectively. With certain restrictions, these fund balances are refundable to member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2014 and 2013, the Lottery's portion of the prize reserve fund and set prize reserve fund for Powerball was approximately \$3,476,000 and \$3,415,000, respectively, and \$1,538,000 and \$1,599,000, respectively. At June 30, 2014 and 2013, the Lottery's portion of the prize reserve fund for Mega Millions was approximately \$1,634,000 and \$1,285,000, respectively. The Lottery has charged amounts placed into the prize reserve funds to prize expense as the related sales have occurred. The reserve funds are not reflected on the Lottery's statements of net position as of June 30, 2014 and 2013, respectively.

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game and the Mega Millions game. With certain restrictions, the balances in this account are refundable to the member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2014 and 2013 the Lottery's portion of the balance of this account was \$74,285 and \$123,042, respectively, and is reported as other assets.

**Missouri State Lottery Commission**  
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**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

**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, 2014 and 2013 was \$37,928,305 and \$40,547,715 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, 2014, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 5,252,000
2016	4,992,000
2017	3,792,000
2018	3,166,000
2019	3,166,000
2020 through 2024	15,302,000
2025 through 2029	10,394,000
2030 through 2034	3,716,000
2035 through 2038	1,132,000
Total installment payments due	<u>50,912,000</u>
Less- Interest portion	<u>12,983,695</u>
	<u>\$ 37,928,305</u>

The Lottery has also purchased annuity contracts in the name of the prize winners from selected insurance companies to fund certain grand-prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. The Lottery would assume liability for future payments if the insurance companies were to default on their payments; however, this possibility is remote and therefore no liability is recorded. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$8,300,000 and \$8,800,000 at June 30, 2014 and 2013, respectively.

**11. Long-Term Liabilities**

The changes in long-term liabilities for the years ended June 30th consist of the following:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 6,097,700	\$277,538,079	\$267,324,620	\$ 16,311,159	\$ 13,730,103
Grand-prize winner liabilities	<u>40,547,715</u>	<u>3,884,590</u>	<u>6,504,000</u>	<u>37,928,305</u>	<u>5,252,000</u>
Total	<u>\$ 46,645,415</u>	<u>\$281,422,669</u>	<u>\$273,828,620</u>	<u>\$ 54,239,464</u>	<u>\$ 18,982,103</u>

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 14,894,668	\$280,007,039	\$288,804,007	\$ 6,097,700	\$ 3,204,099
Grand-prize winner liabilities	<u>47,162,115</u>	<u>5,126,829</u>	<u>11,741,229</u>	<u>40,547,715</u>	<u>6,504,000</u>
Total	<u>\$ 62,056,783</u>	<u>\$285,133,868</u>	<u>\$300,545,236</u>	<u>\$ 46,645,415</u>	<u>\$ 9,708,099</u>

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**Notes To The Basic Financial Statements**  
**June 30, 2014 and 2013**

**12. Postretirement Benefits**

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

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

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

**13. Contingencies**

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

**14. Upcoming GASB Pronouncements**

The Governmental Accounting Standards Board (GASB) issued Statement No. 68 *Accounting and Financial Reporting for Pensions* (Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. See further information about the Plan in Note 7.

Statement No. 68 requires employers to record their proportionate share, as defined in Statement No. 68, of the Plan's unfunded pension liability. Statement No. 68 is effective for fiscal year 2015. The impact of this change on the financial statements is unknown at this time.





## Statistical Section

*(Unaudited)*



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

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

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These schedules contain trend information from the current year and prior years’ comprehensive annual financial reports to help a reader understand how the Lottery’s financial performance and position have changed over time.

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

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

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

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

## Financial Trends

Information for the Missouri State Lottery Commission for the last ten fiscal years, 2005 through 2014, is presented in the accompanying schedules and charts. The Missouri State Lottery Commission was created on November 6, 1984 by the passage of a constitutional amendment and began selling tickets in January 1986.

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

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

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

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

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

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

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

**Transfers to the State** – reflects the transfer of net income, excluding unrealized gains on investments and amortization of grand-prize winner liability, to the Lottery Proceeds Fund for fiscal years 2005 through 2014. Transfers made during fiscal year 2014 include \$14,437,266 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.

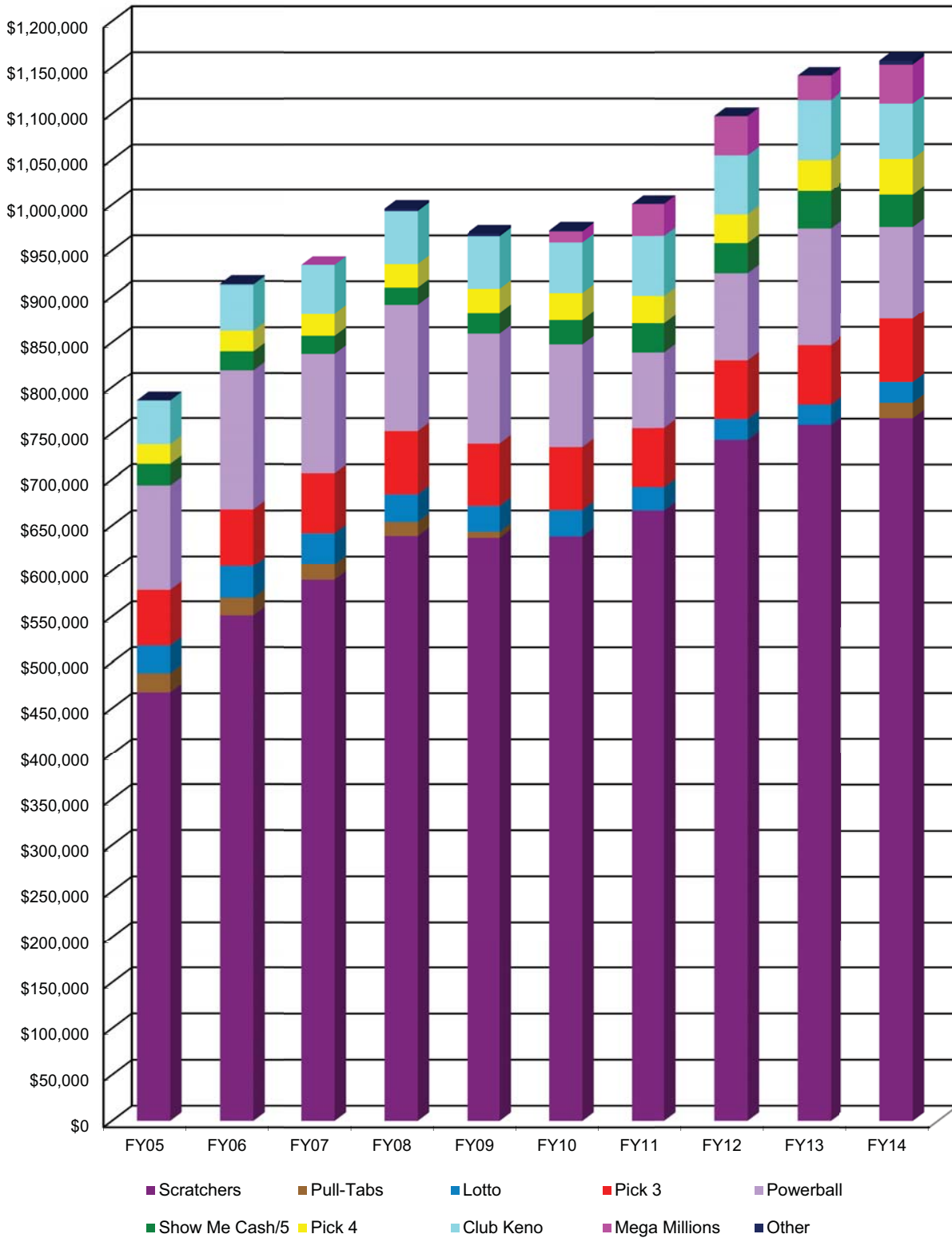
**Missouri State Lottery Commission**  
**Schedule of Changes in Net Position and Schedule of Net Position**  
**Last Ten Fiscal Years**  
**(Unaudited)**

	2005	2006	2007	2008
<b>Operating Revenues</b>				
Scratchers ticket sales	\$467,326,093	\$550,961,109	\$590,045,817	\$638,533,775
Draw Game ticket sales				
Lotto	30,311,403	35,062,426	33,955,803	29,955,387
Pick 3	60,558,754	62,274,077	65,091,442	68,680,133
Powerball	114,485,380	151,772,839	130,795,800	138,393,572
Show Me Cash	23,056,447	20,861,442	19,684,271	18,836,176
Pick 4	21,338,535	22,605,473	24,015,250	25,751,837
Club Keno	47,616,083	49,948,394	53,273,105	57,753,303
Mega Millions	-	-	-	-
EZ Match	-	-	-	-
\$250K Triple Play	-	-	-	-
Raffle	-	877,591	-	2,500,000
Xtra	173,848	-	-	-
Lucky Dough	-	-	-	-
Total draw game ticket sales	297,540,450	343,402,242	326,815,671	341,870,408
Pull-Tab ticket sales	20,731,089	19,154,900	17,409,170	15,088,705
<b>Total sales</b>	785,597,632	913,518,251	934,270,658	995,492,888
<b>Other Operating Revenues</b>	340,957	167,767	1,395,548	649,422
<b>Total operating revenues</b>	785,938,589	913,686,018	935,666,206	996,142,310
<b>Operating Expenses</b>				
<b>Direct costs</b>				
Prize expense	487,925,882	572,767,960	595,022,614	641,123,508
Retailer compensation	48,798,722	56,543,150	58,257,753	61,508,836
Ticket costs	17,543,004	16,282,739	16,280,719	17,289,790
<b>Total direct costs</b>	554,267,608	645,593,849	669,561,086	719,922,134
<b>Administrative expenses</b>	21,430,609	20,290,872	19,987,112	20,362,542
Total operating expenses	575,698,217	665,884,721	689,548,198	740,284,676
Operating Income	210,240,372	247,801,297	246,118,008	255,857,634
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	571,049	1,459,617	1,360,853	1,430,382
Unclaimed prizes*	7,811,413	11,392,679	10,349,767	9,330,350
Net increase (decrease) in the fair value of investments	6,300,009	(1,424,646)	4,294,279	6,893,961
Amortization of grand prize winner liability	(5,259,106)	(4,956,265)	(4,647,958)	(4,215,836)
Gain (loss) on disposal of assets	19,876	15,142	54,077	37,679
Transfers to the state	(218,642,710)	(260,668,734)	(257,882,704)	(266,656,044)
Transfers from the state	-	-	-	-
Total nonoperating expenses	(209,199,469)	(254,182,207)	(246,471,686)	(253,179,508)
<b>Changes In Net Position</b>	1,040,903	(6,380,910)	(353,678)	2,678,126
<b>Total Net Position, Beginning of Year</b>	9,282,493	10,323,396	3,942,486	3,588,808
<b>Total Net Position, End of Year</b>	<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,808</u>	<u>\$6,266,934</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 Position</b>				
Invested in capital assets	\$3,295,311	\$3,068,609	\$3,411,563	\$3,923,538
Unrestricted	(3,295,311)	(3,068,609)	(3,411,563)	(3,923,538)
Restricted	10,323,396	3,942,486	3,588,808	6,266,934
<b>Total Net Position</b>	<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,808</u>	<u>\$6,266,934</u>

2009	2010	2011	2012	2013	2014
<u>\$636,574,616</u>	<u>\$638,062,954</u>	<u>\$666,315,849</u>	<u>\$742,541,015</u>	<u>\$758,900,234</u>	<u>\$766,609,691</u>
28,116,282	28,751,655	25,214,432	22,564,631	22,114,822	22,610,711
67,665,040	68,177,109	64,075,659	65,074,532	65,755,962	69,264,771
120,677,712	112,711,538	83,319,805	94,688,699	127,027,808	100,524,928
22,168,807	26,711,262	29,503,742	28,970,446	36,830,777	31,845,652
26,434,016	29,117,093	29,557,118	31,378,162	34,491,756	38,840,458
57,378,494	55,192,089	65,302,751	65,331,226	65,389,456	60,109,683
-	12,059,295	34,852,442	42,792,811	26,028,887	42,499,882
-	-	2,490,930	4,086,174	4,293,456	3,483,316
-	-	-	-	-	4,237,043
1,717,410	-	-	-	-	-
-	-	-	-	-	-
1,256,408	1,081,490	45,678	-	-	-
<u>325,414,169</u>	<u>333,801,531</u>	<u>334,362,557</u>	<u>354,886,681</u>	<u>381,932,924</u>	<u>373,416,444</u>
<u>6,463,110</u>	-	-	-	-	<u>17,024,939</u>
968,451,895	971,864,485	1,000,678,406	1,097,427,696	1,140,833,158	1,157,051,074
<u>596,377</u>	<u>50,414</u>	<u>523,186</u>	<u>1,294,455</u>	<u>706,055</u>	<u>92,041</u>
<u>969,048,272</u>	<u>971,914,899</u>	<u>1,001,201,592</u>	<u>1,098,722,151</u>	<u>1,141,539,213</u>	<u>1,157,143,115</u>
629,276,635	628,057,994	648,382,278	722,079,619	752,964,849	766,226,926
60,109,568	59,900,383	61,850,265	67,830,868	70,326,011	70,560,397
<u>16,077,548</u>	<u>16,106,631</u>	<u>16,522,096</u>	<u>15,318,902</u>	<u>16,395,935</u>	<u>17,911,043</u>
<u>705,463,751</u>	<u>704,065,008</u>	<u>726,754,639</u>	<u>805,229,389</u>	<u>839,686,795</u>	<u>854,698,366</u>
<u>20,466,793</u>	<u>20,809,357</u>	<u>28,688,464</u>	<u>30,380,982</u>	<u>36,655,720</u>	<u>39,492,161</u>
<u>725,930,544</u>	<u>724,874,365</u>	<u>755,443,103</u>	<u>835,610,371</u>	<u>876,342,515</u>	<u>894,190,527</u>
<u>243,117,728</u>	<u>247,040,534</u>	<u>245,758,489</u>	<u>263,111,780</u>	<u>265,196,698</u>	<u>262,952,588</u>
731,222	310,040	151,545	94,134	91,150	82,805
12,403,901	12,318,398	9,853,309	10,385,777	14,695,619	14,437,266
4,365,372	4,560,063	1,258,170	5,882,052	(884,228)	1,077,556
(3,861,661)	(3,381,475)	(2,904,666)	(2,509,798)	(3,160,411)	(1,818,487)
(26,702)	3,739	43,687	6,109	23,572	65,420
(256,286,630)	(259,672,711)	(255,807,030)	(273,597,799)	(280,007,039)	(277,538,079)
<u>60,481</u>	-	-	-	-	-
<u>(242,614,017)</u>	<u>(245,861,946)</u>	<u>(247,404,985)</u>	<u>(259,739,525)</u>	<u>(269,241,337)</u>	<u>(263,693,519)</u>
503,711	1,178,588	(1,646,496)	3,372,255	(4,044,639)	(740,931)
<u>6,266,934</u>	<u>6,770,645</u>	<u>7,949,233</u>	<u>6,302,737</u>	<u>9,674,992</u>	<u>5,630,353</u>
<u>\$6,770,645</u>	<u>\$7,949,233</u>	<u>\$6,302,737</u>	<u>\$9,674,992</u>	<u>\$ 5,630,353</u>	<u>\$4,889,422</u>
<hr/>					
\$3,478,013	\$3,458,481	\$3,364,727	\$3,442,269	\$3,123,532	\$2,859,744
(3,478,013)	(3,458,481)	(3,364,727)	(3,442,269)	(3,123,532)	(2,859,744)
<u>6,770,645</u>	<u>7,949,233</u>	<u>6,302,737</u>	<u>9,674,992</u>	<u>5,630,353</u>	<u>4,889,422</u>
<u>\$6,770,645</u>	<u>\$7,949,233</u>	<u>\$6,302,737</u>	<u>\$9,674,992</u>	<u>\$5,630,353</u>	<u>\$4,889,422</u>

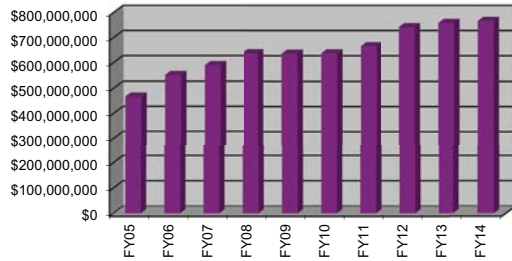
### Missouri State Lottery Commission Sales By Product Last Ten Fiscal Years (Unaudited)

Thousands

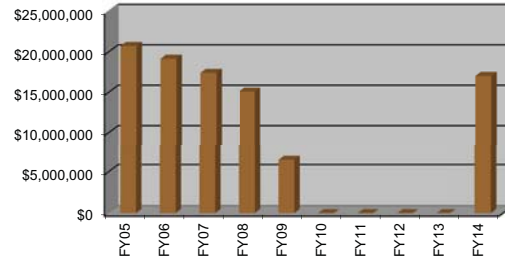


# Missouri State Lottery Commission Sales By Fiscal Year By Product Line Last Ten Fiscal Years (Unaudited)

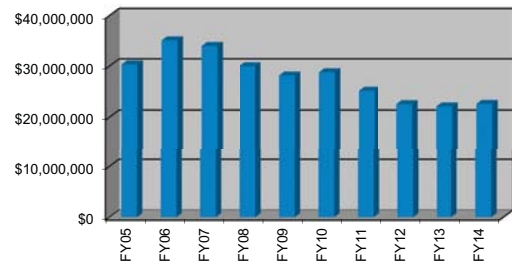
### Scratchers



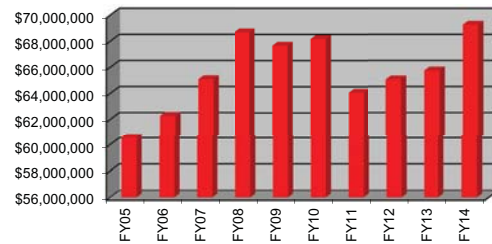
### Pull-Tabs



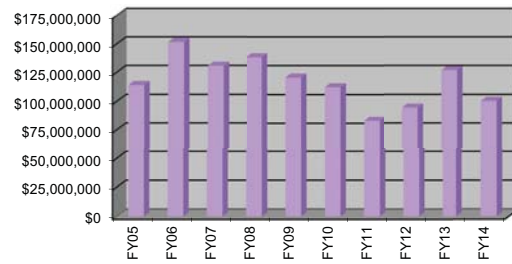
### Lotto



### Pick 3

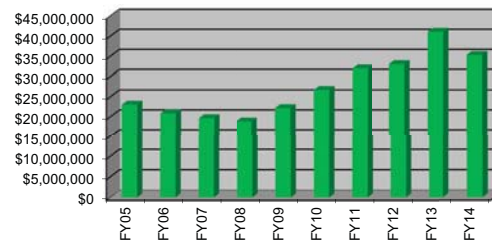


### Powerball

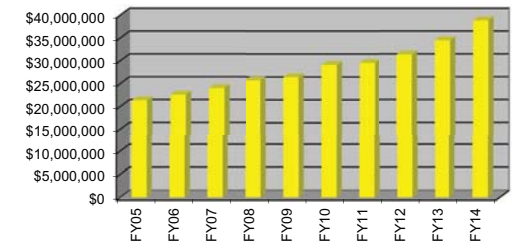


### Show Me Cash

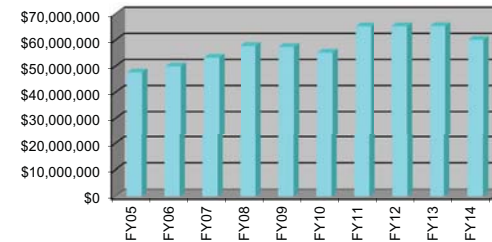
(includes EZ Match in FY11, FY12, FY13 and FY14)



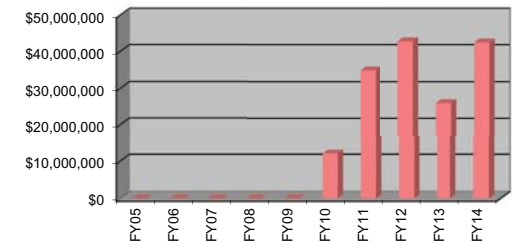
### Pick 4



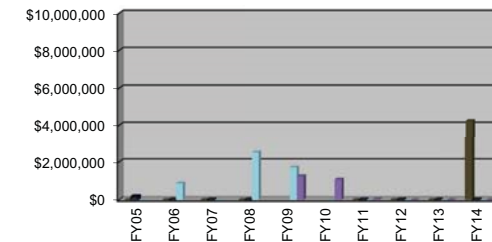
### Club Keno



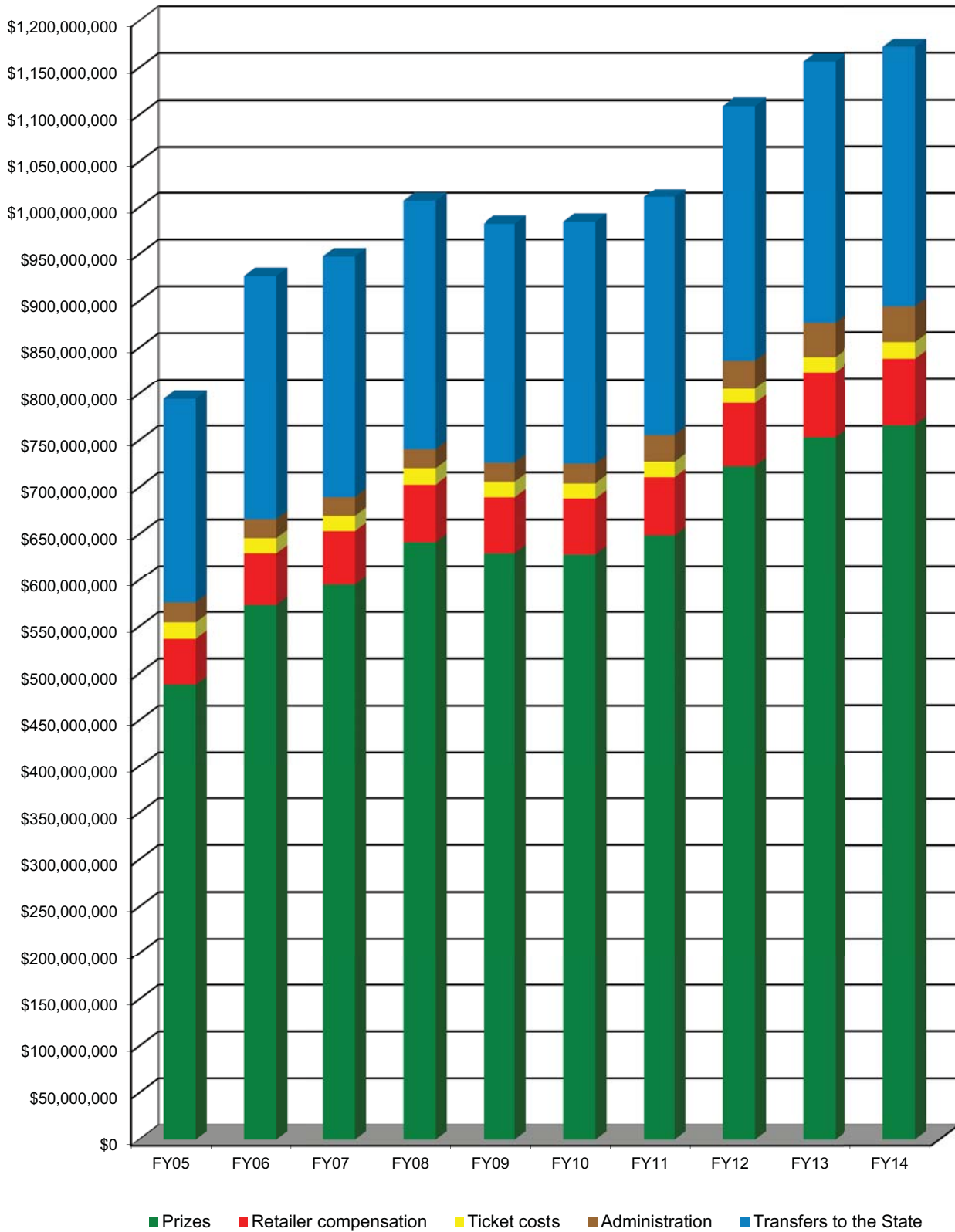
### Mega Millions



■ \$250K Triple Play    ■ Xtra  
■ Raffle                      ■ Lucky Dough



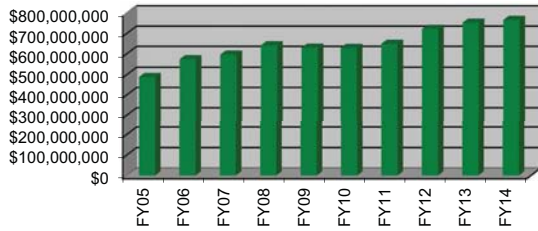
**Missouri State Lottery Commission  
Expenses and Transfers  
Last Ten Fiscal Years  
(Unaudited)**



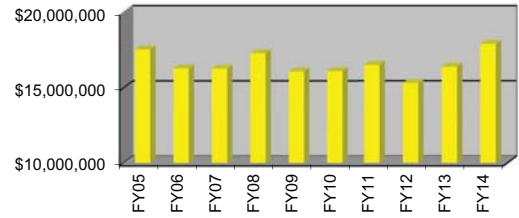


## Missouri State Lottery Commission Expenses and Transfers Last Ten Fiscal Years (Unaudited)

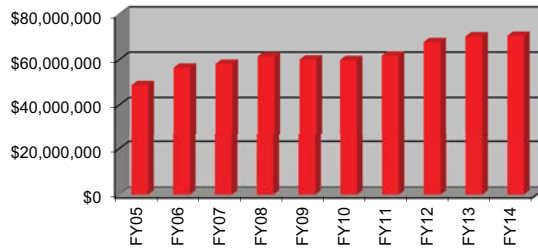
**Prizes**



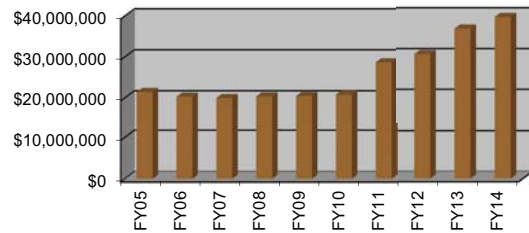
**Ticket Costs**



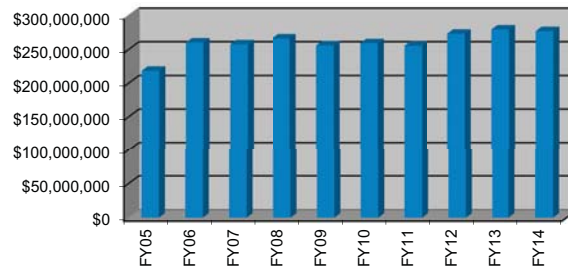
**Retailer Compensation**



**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	2005	2006	2007	2008	2009
<b>Number of Launches</b>					
\$1	14	14	11	9	11
\$2	22	22	19	18	15
\$3	2	1	2	2	5
\$5	9	10	9	9	10
\$10	7	3	1	1	2
\$20	-	-	-	1	1
<b>Total</b>	<b>54</b>	<b>50</b>	<b>42</b>	<b>40</b>	<b>44</b>
<b>Sales</b>					
\$1	\$120,824,709	\$109,864,276	\$99,694,829	\$85,622,427	\$88,731,681
\$2	162,535,252	169,626,074	183,404,816	177,465,587	159,437,206
\$3	27,283,622	28,130,183	32,647,121	35,194,190	62,411,862
\$5	73,989,819	108,561,454	133,382,786	140,942,309	146,339,990
\$10	82,692,691	134,779,122	140,916,265	134,285,251	88,918,424
\$20	-	-	-	65,024,011	90,735,453
	<b>\$467,326,093</b>	<b>\$550,961,109</b>	<b>\$590,045,817</b>	<b>\$638,533,775</b>	<b>\$636,574,616</b>

2010	2011	2012	2013	2014	% of Total 2014
11	11	12	10	6	13.33%
14	14	15	12	10	22.22%
7	7	6	7	8	17.78%
8	11	14	11	16	35.56%
3	2	3	3	3	6.67%
1	1	1	1	2	4.44%
<u>44</u>	<u>46</u>	<u>51</u>	<u>44</u>	<u>45</u>	<u>100.00%</u>
\$82,671,825	\$81,643,988	\$84,981,064	\$81,479,080	\$67,530,816	8.81%
142,217,688	142,079,513	151,120,846	148,101,059	133,719,339	17.45%
88,327,022	92,204,540	85,998,362	79,783,688	70,847,146	9.24%
147,668,657	166,281,836	206,417,583	233,455,702	245,810,603	32.06%
96,437,335	92,587,827	105,138,848	106,694,693	98,581,760	12.86%
80,740,427	91,518,145	108,884,312	109,386,013	150,120,027	19.58%
<u>\$638,062,954</u>	<u>\$666,315,849</u>	<u>\$742,541,015</u>	<u>\$758,900,234</u>	<u>\$766,609,691</u>	<u>100.00%</u>

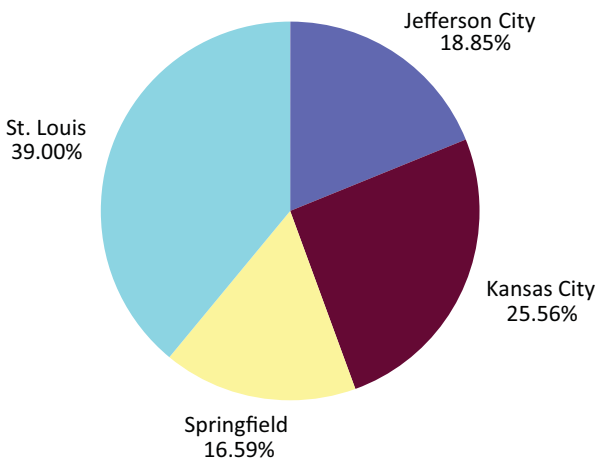
**Missouri State Lottery Commission**  
**Schedule of Lottery Retailers and Sales By Region**  
**Fiscal Years Ending June 30, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013 and 2014**  
**(Unaudited)**

Region	Number of Retailers								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Jefferson City	909	864	893	857	863	890	947	923	921
Kansas City	1,313	1,313	1,325	1,278	1,273	1,307	1,242	1,237	1,249
Springfield	922	904	924	871	875	879	838	817	811
St. Louis	1,789	1,765	1,866	1,759	1,767	1,785	1,911	1,888	1,906
<b>Total Statewide</b>	<b>4,933</b>	<b>4,846</b>	<b>5,008</b>	<b>4,765</b>	<b>4,778</b>	<b>4,861</b>	<b>4,938</b>	<b>4,865</b>	<b>4,887</b>

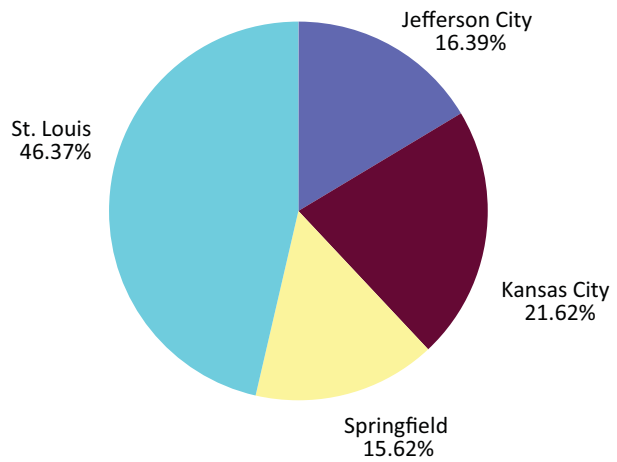
Region	Total Sales								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Jefferson City	\$133,903,265	\$136,964,078	\$150,518,525	\$145,752,010	\$148,986,826	\$167,613,633	\$182,611,969	\$186,754,388	\$189,640,671
Kansas City	211,175,672	212,733,429	225,280,041	218,289,057	219,544,187	212,143,822	235,727,469	246,191,795	250,154,442
Springfield	170,395,799	170,597,822	180,881,058	170,350,688	164,536,657	159,408,070	175,917,660	180,593,889	180,731,378
St. Louis	398,043,515	413,975,329	438,813,264	434,060,139	438,796,815	461,512,881	503,170,598	527,293,086	536,524,583
<b>Total Statewide</b>	<b>\$913,518,251</b>	<b>\$934,270,658</b>	<b>\$995,492,888</b>	<b>\$968,451,895</b>	<b>\$971,864,485</b>	<b>\$1,000,678,406</b>	<b>\$1,097,427,696</b>	<b>\$1,140,833,158</b>	<b>\$1,157,051,074</b>

**FY2014**

**Percentage of Retailers By Region**



**Percentage of Total Sales by Region**



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

**Note:** Information is accumulated and retained in this format only for Fiscal Years 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013 and 2014. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

**% of Total Retailers**

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
18.43%	17.83%	17.83%	17.99%	18.06%	18.31%	19.18%	18.97%	18.85%
26.62%	27.09%	26.46%	26.82%	26.64%	26.89%	25.15%	25.43%	25.56%
18.69%	18.66%	18.45%	18.28%	18.32%	18.08%	16.97%	16.79%	16.59%
36.26%	36.42%	37.26%	36.91%	36.98%	36.72%	38.70%	38.81%	39.00%
<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**% of Total Sales**

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
14.66%	14.66%	15.12%	15.05%	15.33%	16.75%	16.64%	16.37%	16.39%
23.12%	22.77%	22.63%	22.54%	22.59%	21.20%	21.48%	21.58%	21.62%
18.65%	18.26%	18.17%	17.59%	16.93%	15.93%	16.03%	15.83%	15.62%
43.57%	44.31%	44.08%	44.82%	45.15%	46.12%	45.85%	46.22%	46.37%
<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Missouri State Lottery Commission  
Schedule of Demographic and Economic Statistics  
Calendar Years 2005 To 2014  
(Unaudited)**

<b>Calendar Year</b>	<b>Statewide Population</b>	<b>Statewide Personal Income (millions of dollars)</b>	<b>Statewide Personal Income per Capita</b>	<b>State Unemployment Rate</b>
2005	5,797,703	\$181,930	\$31,380	5.9%
2006	5,842,713	\$191,602	\$32,793	4.7%
2007	5,878,415	\$199,773	\$33,984	5.0%
2008	5,911,605	\$208,255	\$35,228	6.5%
2009	5,987,580	\$215,181	\$35,938	9.3%
2010	5,988,927	\$221,465	\$36,979	9.2%
2011	6,010,688	\$229,898	\$38,248	8.7%
2012	6,021,988	\$235,154	\$39,049	7.1%
2013	6,044,171	\$241,145	\$39,897	6.9%
2014	n/a	n/a	n/a	6.5%

**Sources:**

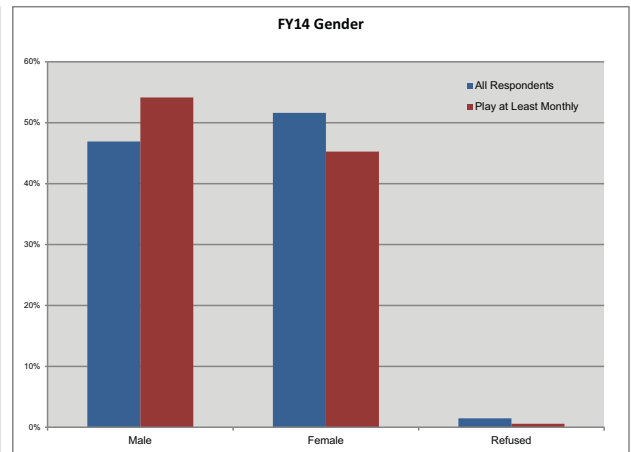
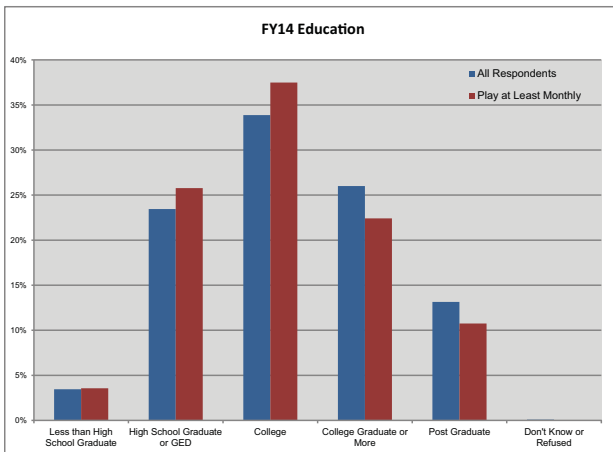
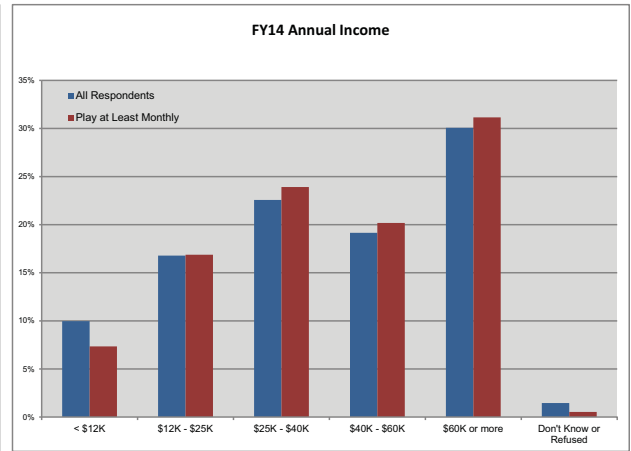
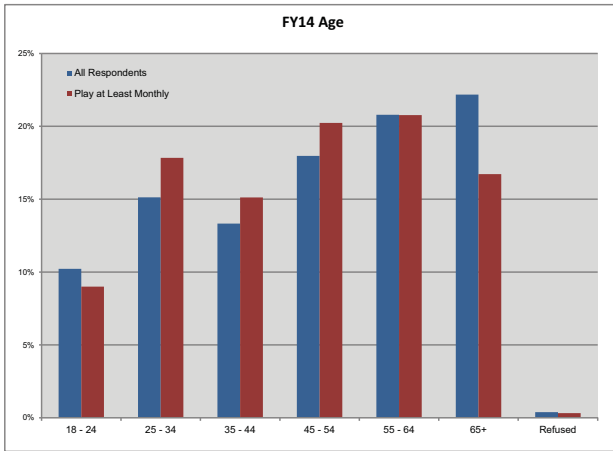
Population from U.S. Census Bureau;

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 2014



**Source:** Missouri Lottery Track and Trend Report FY2014



**Missouri State Lottery Commission  
State of Missouri Major Employers  
Calendar Years 2013 and 2004**

**2013**

<b>Employer</b>	<b>Number of Employees</b>	<b>Percent of Total State Employment</b>
State Of Missouri*	60,000+	2.27%
Wal-Mart Associates, Inc.	30,000+	1.13%
University Of Missouri	20,000-25,000	0.75%-0.94%
Washington University	15,000-20,000	0.56%-0.75%
US Post Office	15,000-20,000	0.56%-0.75%
The Boeing Company	10,000-15,000	0.38%-0.56%
Barnes-Jewish Hospital	7,500-10,000	0.28%-0.38%
Schnuck Markets, Inc.	7,500-10,000	0.28%-0.38%
U.S. Department of Veterans Affairs	7,500-10,000	0.28%-0.38%
U.S. Department of Defense	7,500-10,000	0.28%-0.38%
	<b>180,000-210,000</b>	<b>6.72%-7.85%</b>
<b>Total Statewide Employment</b>	<b>2,637,642</b>	

**2004**

<b>Employer</b>	<b>Number of Employees</b>	<b>Percent of Total State Employment</b>
State Of Missouri*	65,000+	2.43%
Wal-Mart Associates, Inc.	30,000+	1.12%
University Of Missouri	20,000-25,000	0.75%-0.93%
US Post Office	15,000-20,000	0.56%-0.75%
The Boeing Company	10,000-15,000	0.38%-0.56%
Washington University	10,000-15,000	0.38%-0.56%
Schnuck Markets, Inc.	7,500-10,000	0.28%-0.38%
Barnes-Jewish Hospital	7,500-10,000	0.28%-0.38%
U.S. Department of Defense	7,500-10,000	0.28%-0.38%
Ford Motor Company	7,500-10,000	0.28%-0.38%
	<b>180,000-210,000</b>	<b>6.74%-7.87%</b>
<b>Total Statewide Employment</b>	<b>2,665,048</b>	

All figures are based on a calendar-year average.

\*Number of State of Missouri employees includes only full-time personnel and does not include college or university employees. It also excludes Division of Administration and Division of Adult Institutions, which are considered substantial employers in Missouri. Their employment has been deducted from the State of Missouri total, because individually they are in the top ten of Missouri employers.

Sources: Missouri Economic Research and Information Center

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Full-time	175.0	175.0	173.0	173.0	173.0	163.0	159.0	153.0	153.0	153.0
Part-time	1.5	1.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total	<u>176.5</u>	<u>176.5</u>	<u>173.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>	<u>159.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>
Sales										
Jefferson City	12.0	12.0	11.0	11.0	10.0	9.0	10.0	10.0	10.0	10.0
Springfield	8.0	8.0	9.0	9.0	10.0	9.0	8.0	8.0	8.0	8.0
Kansas City	15.0	15.0	15.0	15.0	15.0	14.0	14.0	14.0	14.0	14.0
St. Louis	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	11.0	11.0	12.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0
Vault	11.0	11.0	12.0	12.0	12.0	12.0	11.0	11.0	11.0	11.0
Marketing and administration	99.5	99.5	94.5	94.5	94.5	88.5	85.5	79.5	79.5	79.5
Total	<u>176.5</u>	<u>176.5</u>	<u>173.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>	<u>159.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>

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

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Retailers-										
Statewide	5,022	4,933	4,846	5,008	4,765	4,778	4,861	4,938	4,865	4,887
Per Capita Sales	\$136	\$157	\$160	\$169	\$164	\$162	\$167	\$183	\$189	\$191

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

## U.S. Lotteries' Fiscal Year 2013 Sales by Game\*

(in \$millions)				Draw Games									Total Sales	PC Sales	VLT (net)
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Power Ball	Mega Millions	Hot Lotto	Keno	Other			
Arizona	6.6	436.6	3.9	8.5		33.0	15.8	151.2	32.4			11.6	692.9	106	
Arkansas	2.9	355.1		6.2	3.3		7.0	47.4	13.9			6.7	439.5	149	
California	38.0	3,010.1		135.5	28.9	375.4	166.6	183.6	376.7		154.4	14.7	4,445.9	117	
Colorado	5.2	368.6		1.9		32.6	21.3	116.7	23.2			2.0	566.3	109	
Connecticut	3.6	667.3		126.4	107.2	22.1	32.6	107.4	23.7			36.0	1,122.7	313	
Delaware	0.9	57.2		49.1	60.1	16.2		20.6	6.2	3.4	11.8	18.0	242.5	264	396.8
D.C.	0.6	47.5		24.9	19.2	4.2	0.9	34.2	7.6	3.1	2.5		144.1	228	
Florida	19.3	3,028.5		324.5	244.1	352.4	89.5	654.3	16.7			303.0	5,013.0	259	
Georgia	9.9	2,630.7		476.8	209.3	24.0	95.0	177.7	93.3		189.6	15.6	3,912.2	394	
Idaho	1.6	108.7	21.8	1.9			2.2	45.5	9.2	3.1		5.2	197.6	124	
Illinois <sup>1</sup>	12.9	1,768.4		269.6	198.7	96.6	134.7	237.8	109.1			26.5	2,841.3	221	
Indiana	6.5	614.8	1.5	29.8	29.6	44.1		142.0	27.2			44.9	934.0	143	
Iowa	3.1	202.3	16.2	6.8	3.1		4.5	81.4	13.3	11.7			339.3	110	
Kansas	2.9	126.7	11.0	5.8			13.4	52.1	10.4	7.4	20.5	8.5	255.8	89	
Kentucky	4.4	522.2		125.6	38.7	6.2	10.5	105.0	27.1			11.4	846.7	193	
Louisiana	4.6	163.1		49.5	39.5	25.6		129.9	28.2			11.6	447.4	97	
Maine	1.3	163.4		5.2	4.2	14.1	6.7	27.3	4.5	2.0		0.4	227.7	171	
Maryland	5.9	485.8		245.5	267.8	28.8	21.1	131.3	71.0		344.8	160.0	1,756.1	298	560.7
Massachusetts	6.6	3,342.7	0.7	324.5		65.2	70.2	150.6	55.5		800.7	29.2	4,839.3	728	
Michigan	9.9	827.0	31.7	321.1	351.0	52.4	53.3	186.8	101.6		545.5	6.0	2,476.4	251	
Minnesota	5.4	363.8		13.9			31.1	107.1	15.1	13.0		16.4	560.4	104	
Missouri	6.0	758.9		65.8	34.5	22.1	36.8	127.0	26.0		65.4	4.3	1,140.8	189	
Montana <sup>1</sup>	1.0	17.3				2.1	3.4	20.2	3.5	3.1		7.4	57.0	57	
Nebraska	1.9	83.5		3.7	2.0	1.7	11.0	49.6	9.3				160.8	87	
N. Hampshire	1.3	192.5		5.1	4.8	9.2	7.8	46.2	8.8	3.2		1.8	279.3	211	
New Jersey	8.9	1,474.3		434.0	266.1	65.3	144.4	300.4	136.8				2,821.4	318	
New Mexico	2.1	69.9		3.5			6.8	46.7	8.1	5.9		0.9	141.8	68	
New York	19.6	3,724.2		847.2	793.5	110.0	301.1	468.4	254.4		579.9	30.1	7,108.9	363	1,825.4
N. Carolina	9.8	1,011.9		258.9	103.9		64.5	196.9	53.7				1,689.8	173	
N. Dakota	0.7							16.4	3.3	2.9		5.3	27.8	40	
Ohio	11.5	1,428.0		345.2	189.8	41.5	89.5	166.6	102.8		252.3	82.2	2,697.9	234	165.5
Oklahoma	3.8	89.4		4.3	1.9		4.2	76.0	16.1	8.3			200.2	52	
Oregon	3.9	117.1			1.4	38.1	4.8	58.3	11.8		91.6	7.3	330.5	85	737.4
Pennsylvania	12.8	2,305.1		345.1	242.6	65.1	167.5	400.9	83.8			89.2	3,699.4	290	
Rhode Island	1.1	85.0	0.1		24.5		3.6	40.9	7.9		79.0	12.4	253.4	241	520.7
S. Carolina	4.7	806.0		148.3	70.2	20.7	3.6	117.6	32.7				1,199.2	254	
S. Dakota	0.8	25.2				2.2	2.4	21.0	3.1	3.5			57.2	69	184.6
Tennessee	6.5	1,089.0		57.1	29.2		24.8	133.2	31.9	2.4			1,360.0	211	
Texas	26.1	3,222.6		274.0	79.8	153.0	56.1	330.0	137.4			123.3	4,376.3	168	
Vermont	0.6	74.2		1.4	1.3	7.5	0.1	12.0	2.8	1.0		1.8	102.1	163	
Virginia	8.2	887.1		253.7	232.2	29.2	28.3	145.7	89.5			23.5	1,689.2	206	
Washington	6.9	356.0		16.7	11.9	43.8	22.8	75.9	35.5		5.7	1.3	569.6	83	
W. Virginia	1.9	108.6		8.3	4.7		5.2	48.7	9.3	5.1	5.7		195.6	105	1,059.6
Wisconsin <sup>1</sup>	5.7	323.8	2.7	23.8	12.4	14.9	25.3	113.8	21.6			27.5	565.8	99	
<b>Total</b>	<b>297.8</b>	<b>37,540.1</b>	<b>89.6</b>	<b>5,649.6</b>	<b>3,711.5</b>	<b>1,819.1</b>	<b>1,790.1</b>	<b>5,902.3</b>	<b>2,156.1</b>	<b>79.1</b>	<b>3,149.3</b>	<b>1,145.9</b>	<b>63,025.2</b>	<b>212</b>	<b>5,450.7</b>
% of total		59.6%	0.1%	9.0%	5.9%	2.9%	2.8%	9.4%	3.4%	0.1%	5.0%	1.8%	100.0%		

\* Fiscal year ends June 30 for all U.S. states, except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30); <sup>1</sup> Unaudited sales

Source: La Fleur's 2014 World Lottery Almanac © 2014 TLF Publications, Inc. All rights reserved.

## U.S. Lottery Fiscal Year 2013 Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	Pop. <sup>1</sup> (Mil)	2012 Gross Domestic Product <sup>2</sup>	Traditional Lottery			PC		Ticket Sales as % of GDP	Gov't Transfers as % of GDP <sup>7</sup>	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale	
			Ticket Sales <sup>3</sup>	VLT (net)	Prizes <sup>4</sup>	Gov't Transfers <sup>5</sup>	Sales					Gov't
Arizona	6.6	230,641	692.9		426.1	177.8	106	27	0.300%	0.077%	61.50%	25.7%
Arkansas	2.9	93,892	439.5		292.1	90.5	149	31	0.468%	0.096%	66.46%	20.6%
California	38.0	1,751,002	4,445.9		2,652.1	1,262.1	117	33	0.254%	0.072%	59.65%	28.4%
Colorado	5.2	239,884	566.3		350.3	135.6	109	26	0.236%	0.057%	61.85%	24.0%
Connecticut	3.6	197,202	1,122.7		699.1	316.9	313	88	0.569%	0.161%	62.27%	28.2%
Delaware <sup>4,5</sup>	0.9	56,110	144.1	396.8	99.3	277.8	157	303	0.257%	0.495%	68.88%	51.4%
D.C.	0.6	92,106	242.5		129.4	68.3	384	108	0.263%	0.074%	53.38%	28.2%
Florida	19.3	672,287	5,013.0		3,162.9	1,424.3	259	74	0.746%	0.212%	63.09%	28.4%
Georgia	9.9	374,000	3,635.9		2,332.5	927.5	367	93	0.972%	0.248%	64.15%	25.5%
Idaho	1.6	50,976	197.4		122.9	48.3	124	30	0.387%	0.095%	62.24%	24.5%
Illinois <sup>6</sup>	12.9	594,201	2,841.3				221		0.478%			
Indiana	6.5	255,380	934.0		581.3	224.7	143	34	0.366%	0.088%	62.24%	24.1%
Iowa	3.1	129,799	339.3		200.8	84.9	110	28	0.261%	0.065%	59.19%	25.0%
Kansas	2.9	118,523	244.8		138.6	161.7	85	56	0.207%	0.136%	56.61%	66.1%
Kentucky	4.4	146,829	810.8		494.9	223.8	185	51	0.552%	0.152%	61.04%	27.6%
Louisiana	4.6	198,548	447.4		236.2	160.2	97	35	0.225%	0.081%	52.78%	35.8%
Maine	1.3	45,986	227.7		142.7	53.5	171	40	0.495%	0.116%	62.66%	23.5%
Maryland <sup>4,5</sup>	5.9	274,930	1,756.1	560.7	1,038.5	921.8	298	157	0.639%	0.335%	59.13%	39.8%
Massachusetts	6.6	353,717	4,839.3		3,523.9	955.8	728	144	1.368%	0.270%	72.82%	19.8%
Michigan	9.9	348,867	2,476.4		1,461.5	739.8	251	75	0.710%	0.212%	59.02%	29.9%
Minnesota	5.4	252,971	560.4		347.1	135.6	104	25	0.222%	0.054%	61.93%	24.2%
Missouri	6.0	221,702	1,140.8		753.0	280.0	189	46	0.515%	0.126%	66.00%	24.5%
Montana <sup>6</sup>	1.0	33,374	56.8		32.2	13.1	57	13	0.170%	0.039%	56.65%	23.0%
Nebraska	1.9	83,393	160.8		93.1	40.0	87	22	0.193%	0.048%	57.91%	24.9%
N. Hampshire	1.3	56,735	279.3		173.4	74.3	211	56	0.492%	0.131%	62.06%	26.6%
New Jersey	8.9	438,173	2,821.4		1,670.4	1,085.0	318	122	0.644%	0.248%	59.20%	38.5%
New Mexico	2.1	70,699	141.8		77.1	43.7	68	21	0.201%	0.062%	54.37%	30.8%
New York	19.6	1,038,541	7,108.9	1,825.4	4,219.0	3,045.8	363	156	0.685%	0.293%	59.35%	34.1%
N. Carolina	9.8	392,905	1,689.8		1,024.4	479.5	173	49	0.430%	0.122%	60.62%	28.4%
N. Dakota	0.7	38,654	27.8		14.2	7.9	40	11	0.072%	0.020%	51.07%	28.5%
Ohio	11.5	435,104	2,697.9	165.5	1,668.0	898.1	234	78	0.620%	0.206%	61.83%	31.4%
Oklahoma	3.8	138,296	200.2		104.5	70.6	52	19	0.145%	0.051%	52.18%	35.3%
Oregon <sup>4,5</sup>	3.9	187,440	330.5	737.4	211.4	546.9	85	140	0.176%	0.292%	63.98%	51.2%
Pennsylvania	12.8	511,345	3,699.7		2,299.0	1,067.4	290	84	0.724%	0.209%	62.14%	28.9%
R. Island <sup>4,5</sup>	1.1	43,774	253.4	520.7	149.9	379.2	241	361	0.579%	0.866%	59.15%	49.0%
S. Carolina	4.7	150,596	1,199.2		775.5	305.2	254	65	0.796%	0.203%	64.66%	25.5%
S. Dakota <sup>4,5</sup>	0.8	35,985	57.3	184.6	32.4	107.7	69	129	0.159%	0.299%	56.53%	44.5%
Tennessee	6.5	240,523	1,275.3		794.4	339.7	198	53	0.530%	0.141%	62.29%	26.6%
Texas	26.1	1,211,692	4,376.3		2,767.4	1,214.1	168	47	0.361%	0.100%	63.24%	27.7%
Vermont	0.6	23,912	102.1		64.6	22.9	163	37	0.427%	0.096%	63.24%	22.5%
Virginia	8.2	385,772	1,689.2		1,025.2	464.3	206	57	0.438%	0.120%	60.69%	27.5%
Washington	6.9	325,165	569.6		339.4	139.2	83	20	0.175%	0.043%	59.58%	24.4%
W. Virginia <sup>4,5</sup>	1.9	56,384	195.6	1,059.6	116.2	571.6	105	308	0.347%	1.014%	59.42%	45.5%
Wisconsin <sup>6</sup>	5.7	225,094	566.1		329.2	155.9	99	27	0.251%	0.069%	58.15%	27.5%
<b>Total</b>	<b>297.8</b>	<b>12,823,109</b>	<b>62,617.6</b>	<b>5,450.7</b>	<b>37,165.7</b>	<b>19,743.2</b>	<b>210</b>	<b>66</b>	<b>0.488%</b>	<b>0.154%</b>	<b>59.35%</b>	<b>31.5%</b>

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

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

Source: La Fleur's 2014 World Lottery Almanac © 2014 TLF Publications, Inc. All rights reserved.

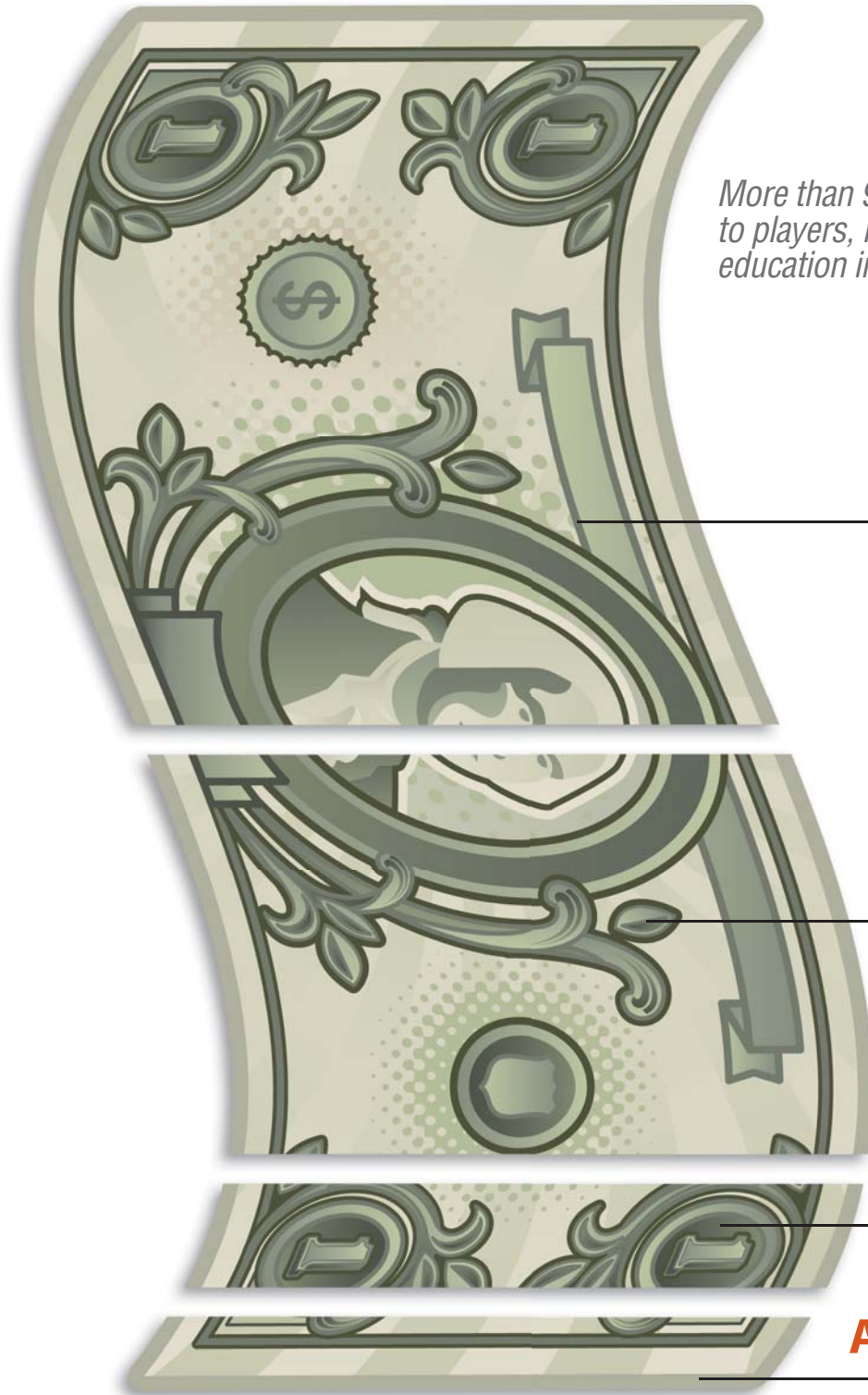
**Missouri State Lottery Commission  
Schedule of Capital Asset Information  
Last Ten Fiscal Years**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</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	49	49	49	49	49	49	49	49	49	49
Delivery vans	3	3	3	3	3	3	0	1	1	1
Passenger vans - vehicle pool	3	12	11	10	11	8	11	9	21	16
Passenger cars - vehicle pool	8	8	4	3	1	1	0	0	0	0
Trucks	3	3	3	3	3	3	3	3	3	4
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>67</u>	<u>76</u>	<u>71</u>	<u>69</u>	<u>68</u>	<u>65</u>	<u>64</u>	<u>63</u>	<u>75</u>	<u>71</u>

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

Note: The increase in vehicles in FY13 is due to the purchase of 9 vehicles at fiscal year-end. The vehicles they replaced were not taken to Surplus Property until beginning of FY14.

**Division of Each Dollar Spent on the Missouri Lottery - Fiscal Year 2014**



**65¢  
Prizes**

**24¢  
Education**

**6.1¢  
Retailers**

**4.9¢  
Administration**

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## **Compliance Section**



CliftonLarsonAllen LLP  
8390 East Crescent Parkway, Suite 600  
Greenwood Village, CO 80111  
303-779-5710 | fax 303-779-0348  
CLAconnect.com

**INDEPENDENT AUDITORS' 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**

Missouri State lottery Commission  
Jefferson City, Missouri

We have audited, in accordance with the 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, the financial statements of the Missouri State Lottery Commission, an enterprise fund of the State of Missouri, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Missouri State Lottery Commission's basic financial statements, and have issued our report thereon dated October 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Missouri State Lottery Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Missouri State Lottery Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Missouri State Lottery Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Missouri State Lottery Commission's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

St. Louis, Missouri  
October 22, 2014

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

**SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES**  
**June 30, 2014**

No findings in the current year.

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

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**June 30, 2014**

No findings in the prior year.

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