



**Thomas A. Schweich**  
Missouri State Auditor

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## REVENUE

# Missouri State Lottery Commission

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November 2012  
Report No. 2012-141



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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Missouri State Lottery Commission

Long-Term Contracts	The Lottery renegotiated some service contracts and entered into long-term contract renewals for other services rather than engaging in regular, competitive bidding. This practice does not require contracts to be awarded to the lowest and best bidder and presents legal issues regarding compliance with state purchasing laws.
Sponsorships	During the 2 years ended June 30, 2011, the Lottery spent approximately \$421,000 to sponsor local community events. The majority of these events (10 of 16) did not yield a positive (benefits exceed costs) Return on Investment (ROI), the Lottery sponsored several events in fiscal year 2011 even though the ROI for the same event was negative in fiscal year 2010, and none of the five most costly local community events had a positive ROI.
Advertising Expenditures	The Lottery reports its advertising expenses to the General Assembly, but it incurred an additional \$3 million and \$1.9 million for fiscal years 2011 and 2010, respectively, in various related advertising expenses, such as promotional items, event sponsorships, and advertising agency expenses, which it did not report. In addition, neither the Lottery nor the General Assembly maintains formal written documentation of the annual amount approved by the General Assembly for advertising.
Closed Meetings	The Lottery Commission did not always comply with the Sunshine Law. It did not document how some topics discussed in closed meetings complied with the Sunshine Law, discussed some topics in closed meetings other than those identified for closing the meeting, and failed to document closed meeting discussions for some topics specified for closing the meeting.

In the areas audited, the overall performance of this entity was **Good**.\*

American Recovery and Reinvestment Act (Federal Stimulus)	The Missouri State Lottery Commission did not receive any federal stimulus monies during the audited time period.
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\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# Missouri State Lottery Commission

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# **THOMAS A. SCHWEICH**

## **Missouri State Auditor**

The Honorable Jeremiah W. (Jay) Nixon, Governor  
and  
Missouri State Lottery Commission  
and  
May Scheve, Executive Director  
Missouri State Lottery Commission  
Jefferson City, Missouri

The State Auditor is required under Section 313.315.1, RSMo, to audit the Missouri State Lottery Commission and we audited certain operations of the Commission in fulfillment of our duties. The Commission is also required under Section 313.315.2, RSMo, to employ an accounting firm to audit all accounts and transactions of the Lottery. The Commission engaged UHY LLP, Certified Public Accountants (CPAs) to audit the Commission's financial statements for the year ended June 30, 2011. Berberich Trahan & Co., P.A., CPAs was engaged to audit the Commission's financial statements for the year ended June 30, 2010. To minimize duplication of effort we reviewed the reports of both firms. We also reviewed substantiating working papers of UHY LLP, CPAs. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2011 and 2010. The objectives of our audit were to:

1. Evaluate the Commission's internal controls over significant management and financial functions.
2. Evaluate the Commission's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the Commission, as well as certain external parties; analysis of comparative data obtained from external and/or internal sources; reviewing contracts specific to the auditee's operations and significant within the context of the audit objectives; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the Commission's management and was not subjected to the procedures applied in our audit of the Lottery.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Missouri State Lottery Commission.



Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

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Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Toni M. Crabtree, CPA
In-Charge Auditor:	Terri Erwin, MBA, CGAP
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# Missouri State Lottery Commission

## Management Advisory Report

### State Auditor's Findings

#### 1. Long-Term Contracts

Rather than periodically soliciting competitive bids/proposals, the Missouri State Lottery Commission (Lottery), renegotiated instead of rebidding some contracts, and entered into long-term contracts with multiple and/or indefinite renewal periods for certain services. This practice does not require contracts to be awarded to the lowest and best bidder and presents legal issues regarding compliance with state purchasing laws and regulations.

During the 2 years ended June 30, 2011, significant contracts were:

Contracted Service	2011 Payments	2010 Payments	Contract Date	Expiration Date, with Renewals	Potential Contract Length
On-line gaming system	\$ 8,514,436	\$ 8,519,484	December 2004	June 2020	16 years
Instant ticket vending machines	2,274,069	1,858,903	March 2007	June 2015	8 years
Communication solution	3,901,281	3,867,090	April 2007	June 2020	13 years
Scratchers printing-primary	8,453,098	7,867,802	April 2011	June 2021	10 years
Scratchers printing-secondary	70,000	0	April 2011	June 2021	10 years
Advertising	1,991,637	2,496,433	August 2005	December 2010	5 years (actual)
Advertising	7,435,344	0	October 2010	June 2017	7 years

The Lottery renegotiated some contracts instead of rebidding the service. In August 2011, before the first renewal period became effective in June 2012, rather than rebidding the services for the on-line gaming system, instant ticket vending machines, and communication solution (computer lines for on-line games such as Keno) provided by one vendor, the Lottery renegotiated and amended the expiration date for these contracts to June 30, 2015, at least in part, because of additional services and equipment provided by the vendor.

According to Lottery management, the Lottery formed a committee that researched the lottery industry contract rates and services of other state lotteries, and contacted other state lotteries that had recently rebid these services. The Lottery's goal was to lower its pricing, while being "innovative".

After negotiations with the vendor, the Lottery elected to enter into amended short-term extensions of the current contracts. The renewal periods of the original contracts apply to the renegotiated contracts. Lottery management also stated that the new negotiated contracts should result in annual cost savings of approximately \$1 million over the previous contract, and the extended time period will help the Lottery obtain a sense of future lottery technology and sales options (e.g., internet sales).

The amendments to these contracts provided for new compensation rates, set at a certain percentage of the total net weekly online sales. The former



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Missouri State Lottery Commission  
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compensation included a lower percentage of total net weekly online sales and specific monthly payments for each terminal and bin leasing and maintenance. Lottery management indicated the Lottery also received some additional services such as a web-based subscription service for lottery players and additional equipment such as monitors, billboards, and instant ticket vending machines, at no additional charge.

The Lottery also entered into long-term contracts for other services. The contracts for printing Scratchers tickets and advertising services include multiple renewal periods which may result in contract periods of 10 and 7 years, respectively. In addition, the contracts for auditing services and drawing observations can be renewed indefinitely, if mutually agreed upon by both parties. As a result, competitive bids/proposals might not be solicited for these services for a significant amount of time, and the lowest and best bidder might not be providing these services.

The reasons set forth by Lottery personnel do not justify failing to competitively procure these services. The Lottery handles the procurement of its goods and services and should abide by the state purchasing laws, rules, and regulations as provided by 12 CSR 40-30. State purchasing rules/regulations provide that a formal method of solicitation, such as Request for Proposals, should be utilized for purchases exceeding \$25,000. In addition, Section 313.270, RSMo, provides that Lottery contracts be awarded ". . . on the basis of lowest and best bid on an evaluation basis . . . ."

Although the Lottery is a specialized industry, there is little assurance these long-term contracts will offer the most benefit to the Lottery in the future. Regular, competitive bidding would help provide assurance the Lottery is receiving goods and services at fair value with the most benefits to the Lottery.

## Recommendation

The Lottery solicit competitive bids/proposals for these service contracts in accordance with state law and regulations.

## Auditee's Response

*The Lottery Commission agrees with the recommendation and will continue to solicit competitive bids/proposals in accordance with state law. Although some contracts have extended renewal terms, they are renegotiated before renewing to ensure the Lottery is receiving the best price and service. Costs to convert to a new vendor (including the substantial initial investment and the associated risks of conversion) are a consideration. In addition, contract pricing and terms paid by other state lotteries are readily available and used as a basis for negotiation and decision-making. Prudent decisions are critical in order to maximize revenues for public education. Each time we have extended a contract, we were able to achieve a better deal than what we had previously, lowering costs of the contract to the Lottery.*



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## 2. Sponsorships

The Lottery incurred expenses greater than the amount of benefits for a majority of local community events it sponsored. During the 2 years ended June 30, 2011, the Lottery sponsored 45 special events and 16 local community events. As a sponsor, the Lottery receives exposure and advertising opportunities. According to Lottery personnel, these events are an opportunity to promote the Lottery, educate the public about the Lottery, and build relationships with players.

Special events included activities such as motorsports, sporting events, festivals, music concerts, and the State Fair, while local community events were smaller venues with less exposure. For the 2 years ended June 30, 2011, total sponsorship costs for special and local community events were approximately \$818,000 and \$421,000, respectively.

The Lottery evaluates the events annually to determine whether it receives a positive (benefits exceed costs) Return on Investment (ROI) for the event (a ROI greater than 1). Although the overall average of the ROI on the special events was 3.4 and 4.2 in fiscal year 2011 and 2010, respectively, the overall average ROI (.9) for the local community events was negative.

During the 2 years ended June 30, 2011, the following local community events were held (in order from highest to lowest costs):

Local Community Event	Cost	Benefit	ROI	Location
Black Expo 2011	\$ 82,813	53,932	0.7	St. Louis
Black Expo 2010	77,858	61,469	0.8	St. Louis
Gateway Classic 2010	75,675	53,358	0.7	St. Louis
Gateway Classic 2011	75,000	53,366	0.7	St. Louis
100 Black Men	25,000	14,600	0.6	St. Louis
Holiday Magic	22,997	28,365	1.2	St. Louis
Salute to Excellence in Education	15,000	12,103	0.8	St. Louis
St. Louis Business Women	12,760	10,511	0.8	St. Louis
Go! St. Louis	8,500	55,968	6.6	St. Louis
KC Riverfest	7,079	10,442	1.5	Kansas City
Community Women Against Hardship	5,000	4,096	0.8	St. Louis
Epsilon Lambda Benefit	5,000	8,138	1.6	St. Louis
Bill Picket Rodeo	3,018	3,379	1.1	Kansas City
Jim Butler Golf Benefit	2,237	1,670	0.7	St. Louis
Party on the Plaza	1,500	2,076	1.4	St. Louis
Missouri School Board Association	1,214	493	0.4	Osage Beach
Total	\$ 420,651	373,966	0.9	



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The majority of local community events (10 of 16) did not yield a positive ROI. In addition, the Lottery sponsored several events in fiscal year 2011 even though the ROI for the event was negative in fiscal year 2010, and none of the five local community events with the highest costs had a positive ROI.

To ensure lottery proceeds are spent in an efficient and effective matter, the Lottery should discontinue sponsoring local community events that do not provide a positive benefit.

## Recommendation

The Lottery discontinue sponsoring local community events which do not produce a positive ROI.

## Auditee's Response

*The Lottery Commission agrees with the recommendation and will continue to use the PINPOINT Sponsorship Evaluation System (implemented in July 2011) to systematically organize, measure and evaluate applications submitted to the Lottery for community and other sponsorships. The PINPOINT operating system uses algorithms that weigh a series of criteria based on Missouri Lottery's strategic marketing and public relations focus. Criteria include type of event, audience, media and signage values, geographic location, time of year, size of the event, as well as other intangible factors such as age of event, number of sponsors and industry exclusivity. Proposals are reviewed, rated and accepted or rejected based on the criteria. The system is also used to evaluate the results of completed sponsorships, including calculating benefits and costs associated with the Sponsorship. PINPOINT assists us in selecting sponsorships that best promote Lottery products; emphasize our mission of providing educational opportunities for Missouri students, supporting Missouri businesses and entertaining millions; and also provide a positive return. In addition, the Lottery takes Executive Order 05-30 minority- and women-owned business enterprise (MWBE) 10 percent and 5 percent targets very seriously and utilizes participation in minority and women community events, in addition to direct and subcontracted expenditures to MWBEs, to achieve these goals. The return on community events is typically lower than the return on other sponsorships because community events focus on community outreach and building relationships rather than ticket sales. The Lottery will work to raise the return on investment of these events.*

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## 3. Advertising Expenditures

The advertising amounts reported to the General Assembly by the Lottery do not include some related expenditures. These additional advertising related expenditures totaled approximately \$3 million and \$1.9 million, for fiscal years 2011 and 2010, respectively. In addition, the advertising amount approved by the General Assembly is not adequately documented.

Lottery expenditures are paid from Lottery revenues and are subject to the legislative appropriation process. Lottery management also stated that,



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along with its budget documents, the Lottery furnishes the House of Representatives and Senate budget committees its current Comprehensive Annual Financial Report and a Resource Recommendation report. The resource report includes information such as Lottery sales, advertising, and transfers to education 10-year history; market challenges; and plans and recommendations to manage its resources. The report also includes various comparisons of states with lotteries, such as advertising to sales and advertising to population. Based on this information and discussions with the budget committees, an advertising amount for the budget year is decided/approved.

### 3.1 Advertising related expenditures

The Lottery reports total expenses charged to the category "advertising services" in the state accounting system (SAM II) to the General Assembly. However, the Lottery incurs various other advertising related expenditures that are not reported.

The advertising services amounts reported and other advertising related expenses incurred by the Lottery for the 5 years ended June 30, 2012 were:

		Year Ended June 30,				
		2012	2011	2010	2009	2008
Advertising services, reported	\$	7,214,478	7,982,054	1,855,338	1,249,065	1,308,886
Related expenses, not reported:						
Other professional services		1,910,687	1,892,809	1,240,333	1,483,061	1,640,508
Public relations services		1,685,677	1,108,247	567,966	357,074	437,576
Promotional supplies		209,715	293,236	98,358	181,903	220,951
Total not reported	\$	3,806,079	3,294,292	1,906,657	2,022,038	2,299,035

The Lottery currently reports expenses such as space in newspapers and magazines; television and radio commercials; informational materials; billboards; and highway/road signs as advertising services expenditures. However, the Lottery does not report other advertising related expenses, recorded in SAM II in categories other than advertising services, to the General Assembly.

- The Lottery distributes promotional items such as t-shirts, tote bags, stress balls, can koozies, pens, blankets, clocks, water bottles, and coolers at various events. The Lottery logo is imprinted on these promotional items and the cost of these items is charged to the category "promotional supplies" in SAM II.
- The Lottery sponsors special and local community events that include advertising aspects. Advertising involved with these sponsorships include placing the Lottery logo on television spots, print advertisements, brochures, and signage for the events; and mentioning



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the Lottery sponsorship in radio ads. The Lottery also sponsors a hot air balloon that displays the Lottery logo, which flies over the State Fair, concerts, and various sporting events. The cost of these events is charged to the category "public relations services" in SAM II.

- The Lottery made payments to advertising agencies, totaling \$1,468,608 and \$714,655, during the year ended June 30 2011 and 2012, respectively, for artwork, the printing of signage, production and talent expenses for commercials, and other miscellaneous advertising related expenses. The payments are charged to the category "other professional services" in SAM II.

To promote full disclosure and accountability, the Lottery should also report advertising related expenditures to the General Assembly.

### 3.2 Approved advertising amount

The Lottery and the General Assembly do not maintain formal written documentation of the annual amount approved by the General Assembly for advertising.

According to Lottery management, the General Assembly approves the advertising amount through its annual budgeting and appropriation process. However, there is no specific line item for advertising in the annual Lottery appropriation bill. In addition, advertising expenditures are not separately identified in Lottery budget documents, but rather included in the professional services budget classification, a classification that includes other expenses such as printing/binding, accounting/auditing services, and public relation services. In fiscal year 2011, the professional services budget classification totaled approximately \$29 million of which approximately \$8 million was designated for advertising.

To prevent misunderstandings and ensure the Lottery limits advertising expenditures to amounts approved by the General Assembly, the Lottery needs to maintain formal written documentation of the approved advertising amount.

## Recommendations

The Lottery:

- 3.1 Include advertising related expenses in future reports to the General Assembly.
- 3.2 Ensure specific written documentation is maintained to support the annual advertising amount approved by the General Assembly.

## Auditee's Response

- 3.1 *The Lottery agrees with the recommendation. The Lottery follows SAM II policies and procedures in coding expenditures. The Advertising Services object code description is very specific: "Fees*



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*for advertising expenses including space in newspapers and magazines, television and radio commercials, information materials, bill boards and highway/road sign advertising, and other advertising related costs." Sponsorships, media production and promotional items do not fit this description and are better suited under public relations services, other professional services and promotional supplies object codes. The Lottery will begin disclosing public relations services, media production and promotional supplies costs (which in total amount to less than one-half of one percent of annual operating costs) in the footnotes to the financial statements.*

3.2 *The Lottery Commission agrees with the recommendation.*

## 4. Closed Meetings

The Commission did not always follow various requirements in Chapter 610, RSMo (the Sunshine law), regarding closed meetings. The Commission meets quarterly and typically holds a closed meeting.

The Commission did not document how some items discussed in closed meetings complied with the Sunshine Law. These items included general discussions regarding Americans with Disabilities Act compliance issues, internet gaming, illegal gaming, and pull-tabs. It is unclear how these topics meet the exceptions established for closing a meeting. In addition, the discussion of budgetary issues and the announcement of the resignation of an employee do not appear to be proper subjects for a closed meeting.

The Commission also discussed some topics in a closed meeting other than the exceptions identified for closing the meeting. For example, the Commission discussed the job expectation of the Executive Director and the handling of illegal gaming machines; however, an exception related to these topics was not identified as a reason for the closed meeting.

The Commission also closed some meetings by identifying specific exceptions; however, there were no documented discussions regarding these exceptions. Litigation was listed as an exception for closing the November 2009 meeting; however, there was no documentation that legal issues, cause of action, or litigation was discussed. Also, the March 2012 meeting listed communications between the Commission and its auditors as an exception for a closed meeting; however, there was no documentation that audit work or reports were discussed.

The Sunshine Law requires a closed meeting, record, or vote to be held only for the specific exceptions (reasons) announced publicly at an open session. This law also provides that public governmental bodies shall not discuss any other business during the meeting that differs from the specific reason used



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Management Advisory Report - State Auditor's Findings

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to justify such meeting, record, or vote, and limits what type of topics can be discussed in closed session.

## Recommendation

The Lottery limit issues discussed in closed meetings to only those topics allowed by state law, and only to those specific topics listed to justify such a closed meeting. The Lottery should not list topics for a closed meeting that will not be discussed.

## Auditee's Response

*The Lottery Commission agrees with the recommendation.*

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# Missouri State Lottery Commission

## Organization and Statistical Information

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Pursuant to Sections 313.200 to 313.350, RSMo, the Missouri State Lottery Commission (Lottery) was created in June 1985. That action followed voter approval of a lottery amendment to the Missouri Constitution at the November 1984 general election. The Lottery began selling instant game tickets on January 20, 1986. From 1986 to 1993, lottery proceeds less prizes and expenses were transferred to the General Revenue Fund for appropriation by the General Assembly. Effective July 1, 1993, pursuant to a voter approved lottery amendment to Article III, Section 39(b), Missouri Constitution, lottery proceeds are transferred to the Lottery Proceeds Fund for appropriation by the General Assembly for educational purposes.

Section 313.321 RSMo, provides that money received from the sale of lottery tickets shall be divided as follows: A minimum of 45 percent shall be awarded as prizes; administration, advertising, promotion, and retailer compensation costs shall be paid as appropriated by the General Assembly; and the remainder shall be transferred to the Lottery Proceeds Fund to be appropriated solely for public institutions of elementary, secondary, and higher education.

Traditionally, the Lottery has paid out more than the minimum 45 percent of sales as prizes. The pay-out percentage has averaged 56.5 percent from 1986 to 2011. The prize percentage fluctuates each year based on factors such as the type of scratcher tickets sold (each game has a different prize structure) and the timing of payouts related to on-line sales such as the Powerball and Mega Millions games. The Lottery believes that more people will play if there are more prizes to receive.

Lottery retailers are authorized to redeem prizes up to \$600, or players may claim any prizes in person at any of the Lottery offices. Prizes are paid out of an imprest checking account. The Lottery revenues reported for the Lottery Enterprise Fund are net sales; however the transfers to the Lottery Proceeds Fund are based on gross sales.

A five-member Lottery commission is appointed by the governor with the advice and consent of the Senate. The commission must meet at least quarterly. The commission has the authority to promulgate rules as it deems necessary and desirable to fully implement the Lottery as mandated by the people in Article III, Missouri Constitution. It appoints a director to act as secretary of the commission and keep all books and records of the commission. The director of the Lottery oversees the commission's operation and administration. May Scheve Reardon has served as Executive Director since December 2009. As of June 30, 2011, members of the commission were:



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Missouri State Lottery Commission  
Organization and Statistical Information

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Commissioner	Term Expires
Pamela Wright	September 2010
Kevin Roberts	September 2011
Stephen Snead	September 2011
Gina Hoagland	September 2012
Jacque Land	September 2011

As of October 2012, all commission members' terms have expired. Section 313.215, RSMo, requires appointments to be made within 30 days of the expiration of a term. However, the current practice is for the member to serve until reappointed or a new member is appointed.

The Lottery staff is organized into three divisions: Executive; Sales, Marketing, and Communications; and Risk Management. Each division is headed by a director who coordinates activities to meet the commission's objectives. At June 30, 2011, the Missouri State Lottery Commission employed 159 individuals.

American Recovery and  
Reinvestment Act 2009  
(Federal Stimulus)

The Missouri State Lottery Commission did not receive any federal stimulus monies during the 2 years ended June 30, 2011.

Appendix A

Missouri State Lottery Commission  
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2011			2010		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
LOTTERY ENTERPRISE FUND						
Lottery Prizes	\$ 125,000,000	123,196,951	1,803,049	125,000,000	124,999,306	694
Personal Services	6,993,837	6,775,402	218,435	6,993,837	6,837,782	156,055
Payment of real property leases, related services, utilities, system furniture, and structural modifications - Expense and Equipment	482,869	476,099	9,770	568,715	472,624	96,091
Expense and equipment	39,253,502	39,015,170	238,332	31,256,455	30,963,218	293,237
Total Lottery Enterprise Fund	\$ 171,730,208	169,463,622	2,269,586	163,819,007	163,272,930	546,077

Appendix B

Missouri State Lottery Commission  
 Comparative Statement of Expenditures (From Appropriations)

	Year Ended June 30,				
	2011	2010	2009	2008	2007
Personal service	\$ 6,775,402	6,837,782	6,930,753	6,927,670	6,671,844
Travel, instate	84,502	64,071	66,252	100,376	78,326
Travel, out-of-state	25,282	10,813	14,259	20,795	24,993
Fuel and utilities	37,902	34,242	34,422	32,298	25,751
Supplies	686,548	514,062	591,243	647,778	545,245
Professional development	96,154	66,167	94,453	80,839	90,960
Communication services and supplies	4,146,137	4,137,041	4,142,272	4,236,144	4,120,776
Services:					
Printing and binding	8,368,321	8,046,603	8,192,247	8,945,617	8,302,518
Advertising	7,982,054	1,855,338	1,249,065	1,308,886	1,473,578
Other business	8,514,643	8,521,109	8,337,092	8,614,931	8,345,827
Accounting and auditing	176,087	160,510	162,678	150,209	153,800
Public relations	1,108,247	567,966	357,074	437,576	499,612
Other professional	3,004,103	2,313,615	2,480,580	2,600,464	2,258,580
Housekeeping and janitorial	73,560	71,934	69,936	69,855	62,583
Maintenance and repair	1,150,715	1,187,127	1,509,345	1,272,319	1,641,318
Equipment:					
Computer	661,469	726,898	514,295	539,142	557,263
Motorized	110,058	34,980	103,960	245,498	249,819
Office	2,067	6,529	2,817	8,134	31,809
Other equipment	57,447	420,631	356,472	346,167	493,634
Property and improvements	311,876	178,335	33,338	8,869	301,873
Real property rentals and leases	439,209	428,225	439,540	316,352	318,726
Equipment rental and leases	1,911,077	1,494,240	1,423,051	1,330,891	646,657
Lottery prizes	121,549,770	124,825,871	115,298,724	120,965,226	107,887,858
Lottery prizes-merchandise	1,647,181	173,435	8,046	289,965	1,018,405
Lottery retailer-incentives	370,637	506,138	482,320	376,767	463,999
Lottery retailer incentive - merchandise	104,769	47,234	28,925	13,977	322,390
Agency provided food	5,221	10,353	9,567	20,117	7,908
Miscellaneous expense	58,819	30,584	24,459	25,092	33,506
Refunds	4,365	1,097	2,857	4,603	9,682
Total Expenditures	\$ <u>169,463,622</u>	<u>163,272,930</u>	<u>152,960,042</u>	<u>159,936,557</u>	<u>146,639,240</u>

Appendix C

Missouri State Lottery Commission  
 Statement of Changes in General Capital Assets  
 Lottery Enterprise Fund

	Furniture and Equipment	Buildings	Software and Intangibles	Vehicles	Land	Total
Balance, June 30, 2009	\$ 5,500,774	4,807,276	1,652,654	1,224,319	352,973	13,537,996
Additions	916,781	0	16,380	34,981	0	968,142
Dispositions	(372,037)	0	0	(56,911)	0	(428,948)
Balance, June 30, 2010	6,045,518	4,807,276	1,669,034	1,202,389	352,973	14,077,190
Additions	512,864	0	38,404	209,412	0	760,680
Dispositions	(79,132)	0	0	(239,301)	0	(318,433)
Balance, June 30, 2011	\$ 6,479,250	4,807,276	1,707,438	1,172,500	352,973	14,519,437

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

**Statements of Net Assets As of June 30, 2011 and 2010**

	2011	2010
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 28,039,576	\$ 22,157,718
Investments held for grand-prize winners	8,609,476	10,553,992
Accounts receivable, net of allowances for returns	49,769,176	44,491,681
Other receivables	133,288	65,264
Prepaid expenses	166,464	158,494
Total current assets	86,717,980	77,427,149
<b>Noncurrent Assets:</b>		
Capital assets:		
Capital assets not being depreciated	634,758	485,326
Capital assets	14,157,716	13,642,647
Accumulated depreciation	(11,427,747)	(10,669,492)
	3,364,727	3,458,481
Investments held for grand-prize winners	47,260,330	54,617,645
Total noncurrent assets	50,625,057	58,076,126
Total assets	137,343,037	135,503,275
<b>Current Liabilities:</b>		
Accounts payable	84,437	81,511
Due to Lottery Proceeds Fund	27,687,264	21,833,442
Accrued prize liabilities	47,014,403	41,695,520
Grand-prize winner liabilities	8,614,000	10,560,000
Other accrued liabilities	3,663,342	3,598,307
Total current liabilities	87,063,446	77,768,780
<b>Long-term Liabilities:</b>		
Due to Lottery Proceeds Fund	3,023,784	3,122,858
Grand-prize winner liabilities	40,953,070	46,662,404
Total long-term liabilities	43,976,854	49,785,262
Total liabilities	131,040,300	127,554,042
<b>Net Assets:</b>		
Invested in capital assets	3,364,727	3,458,481
Unrestricted	(3,364,727)	(3,458,481)
Restricted through Constitutional provisions	6,302,737	7,949,233
Total net assets	\$ 6,302,737	\$ 7,949,233

Source: Excerpt from the Missouri State Lottery Commission's audited financial statements.

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

**Statements of Revenues, Expenses and Changes In Net Assets**  
**For The Years Ended June 30, 2011 and 2010**

	2011	2010
<b>Operating Revenues:</b>		
Scratchers ticket sales	\$ 666,315,849	\$ 638,062,954
Draw Game ticket sales	334,362,557	333,801,531
Total sales	1,000,678,406	971,864,485
Other	523,186	50,414
Total operating revenues	1,001,201,592	971,914,899
<b>Operating Expenses:</b>		
Scratchers prizes	456,079,511	441,530,646
Draw Game prizes	182,930,684	186,527,348
Scratchers retailer commissions and incentives	42,190,539	40,344,338
Draw Game retailer commissions and incentives	19,659,726	19,556,045
Cost of tickets sold	16,522,096	16,106,631
Advertising	7,943,537	1,850,163
Wages and benefits	9,831,552	9,946,081
Other general and administrative	9,873,506	8,009,882
Depreciation	1,039,869	1,003,231
Total operating expenses	746,071,020	724,874,365
Operating income	255,130,572	247,040,534
<b>Nonoperating Revenues (Expenses):</b>		
Interest income	151,545	310,040
Unclaimed prizes	9,853,309	12,318,398
Net increase in the fair value of investments held for grand-prize winners	1,258,170	4,560,063
Amortization of grand-prize winner liability	(2,904,666)	(3,381,475)
Gain on disposal of capital assets	43,687	3,739
Transfers to State of Missouri Lottery Proceeds Fund	(265,179,113)	(259,672,711)
Total nonoperating revenues (expenses)	(256,777,068)	(245,861,946)
Changes in net assets	(1,646,496)	1,178,588
<b>Total Net Assets, beginning of year</b>	7,949,233	6,770,645
<b>Total Net Assets, end of year</b>	\$ 6,302,737	\$ 7,949,233

Source: Excerpt from the Missouri State Lottery Commission's audited financial statements.

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

**Statements of Cash Flows**  
**For The Years Ended June 30, 2011 and 2010**

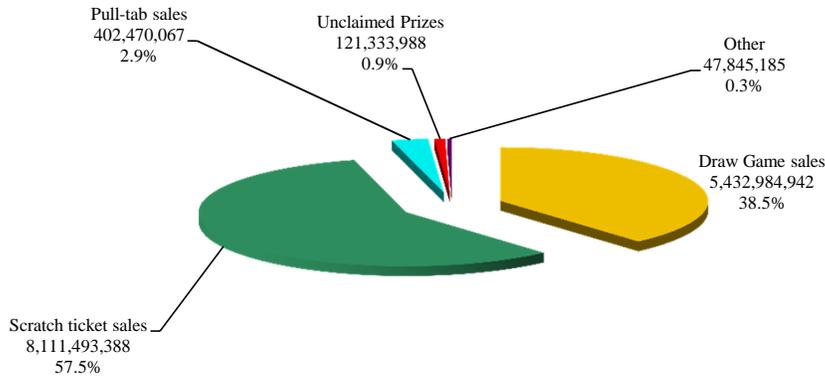
	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Cash received from retailers and others	\$ 995,856,073	\$ 965,515,045
Cash paid for prizes	(634,398,003)	(626,244,208)
Cash paid for retailer commissions	(61,735,559)	(59,882,155)
Cash paid for employee services	(9,873,782)	(9,970,908)
Cash paid for other expenses	(34,351,625)	(25,991,300)
Net cash provided by operating activities	255,497,104	243,426,474
<b>Cash Flows From Noncapital Financing Activities:</b>		
Transfers to State of Missouri	(259,424,365)	(255,030,946)
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchases of capital assets	(947,953)	(1,019,082)
Proceeds from sale of capital assets	45,527	39,122
Net cash used for capital and related financing activities	(902,426)	(979,960)
<b>Cash Flows From Investing Activities:</b>		
Proceeds from maturity of investments	10,560,000	11,594,000
Interest received	151,545	310,040
Net cash provided by investing activities	10,711,545	11,904,040
<b>Net increase (decrease) in cash and cash equivalents</b>	5,881,858	(680,392)
<b>Cash and Cash Equivalents, beginning of year</b>	22,157,718	22,838,110
<b>Cash and Cash Equivalents, end of year</b>	\$ 28,039,576	\$ 22,157,718
<b>Reconciliation of Operating Income To Net Cash Provided By Operating Activities:</b>		
Operating income	\$ 255,130,571	\$ 247,040,534
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,039,869	1,003,231
Unclaimed prizes	9,853,309	12,318,398
Payments to grand-prize winners	(10,560,000)	(11,594,000)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable, net	(5,277,495)	(6,421,736)
(Increase) decrease in other receivables	(68,024)	21,881
(Increase) in prepaid expenses	(7,970)	(10,651)
Increase (decrease) in accounts payable and other accrued liabilities	67,961	(20,571)
Increase in accrued prize liabilities	5,318,883	1,089,388
Net cash provided by operating activities	\$ 255,497,104	\$ 243,426,474
<b>Noncash Activities:</b>		
Net increase in the fair value of investments held for grand-prize winners	\$ 1,258,170	\$ 4,560,063
Amortization of grand-prize winner liability	\$ 2,904,666	\$ 3,381,475

Source: Excerpt from the Missouri State Lottery Commission's audited financial statements.

Appendix G

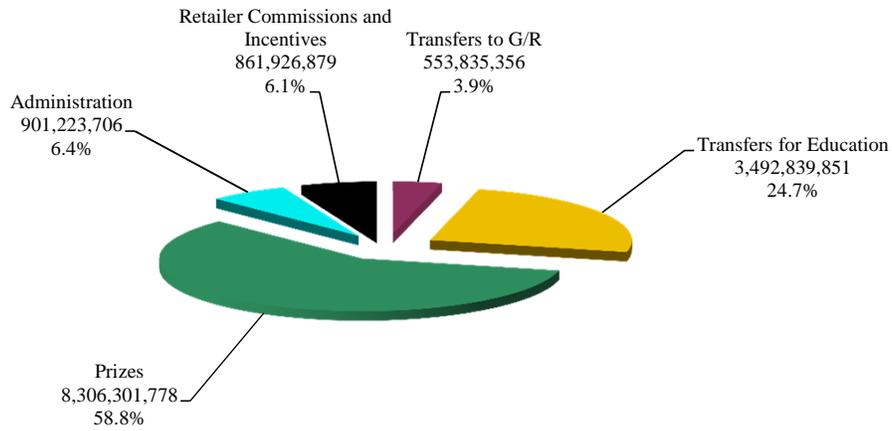
Missouri State Lottery Commission  
Revenue and Expenditure Charts  
January 20, 1986 Through June 30, 2011

**Revenues**



Total Revenues: \$14,116,127,570

**Expenditures**

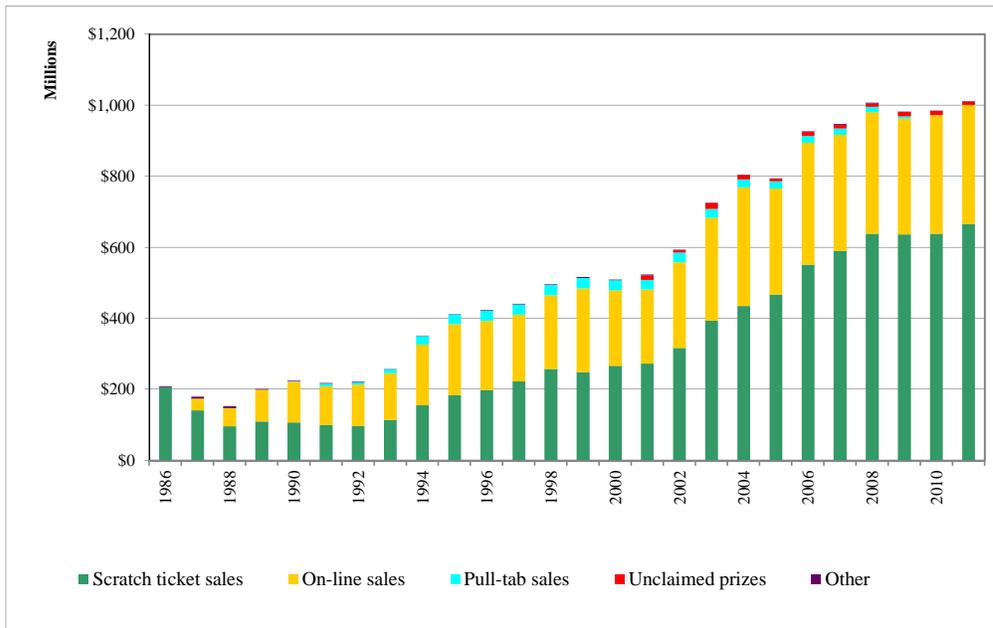


Total Expenditures: \$14,116,127,570

Appendix H

Missouri State Lottery Commission  
 Revenue and Expenditure Charts  
 January 20, 1986 Through June 30, 2011

**Revenues**



**Expenditures**

