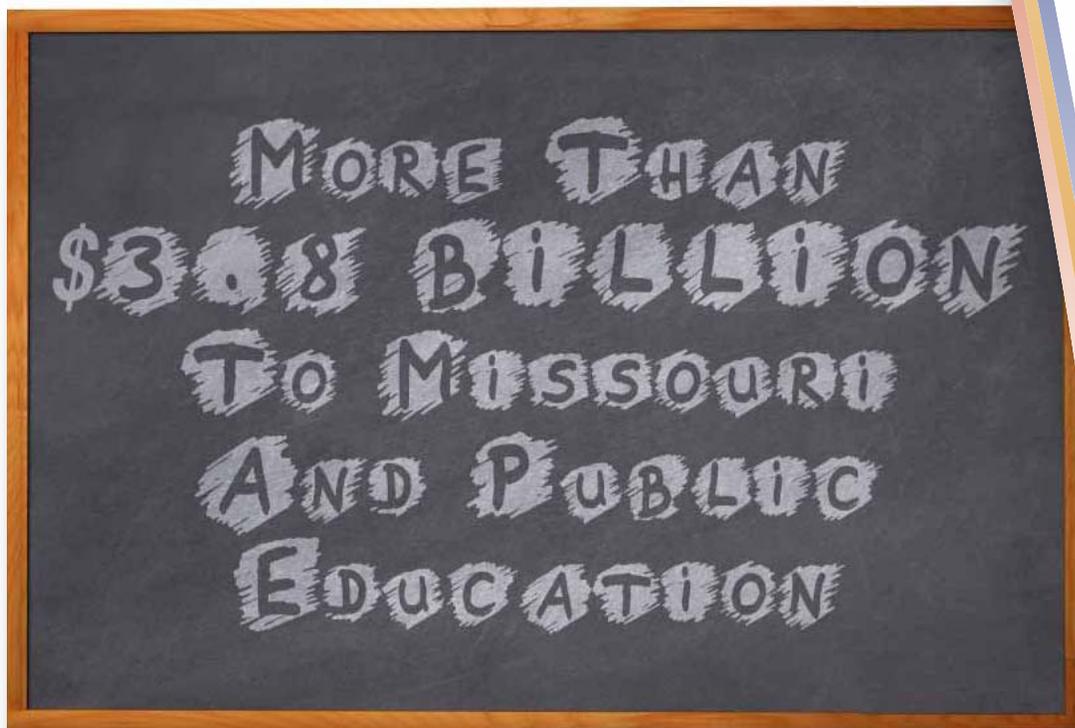




MO Lottery

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2010



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



MO Lottery

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2010

Missouri State Lottery Commission
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Prepared by Financial & Business Services

Missouri State Lottery Commission

A Component Unit of the State of Missouri

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Table Of Contents

Introductory Section

Letter of Transmittal.....	2
Certificate of Achievement for Excellence in Financial Reporting.....	8
Organization Chart and Principal Officials.....	9

Financial Section

Independent Auditors' Report.....	12
Management's Discussion and Analysis.....	14
Basic Financial Statements	
Statements of Net Assets.....	23
Statements of Revenues, Expenses and Changes in Fund Net Assets.....	24
Statements of Cash Flows.....	25
Notes to the Basic Financial Statements.....	26

Statistical Section (Unaudited)

Statistical Information Section.....	36
Financial Trends.....	37
Schedule of Changes in Net Assets & Schedule of Net Assets.....	38
Sales by Product for Fiscal Years 2001 through 2010.....	40
Sales by Fiscal Year by Product Line for Fiscal Years 2001 through 2010.....	41
Expenses and Transfers for Fiscal Years 2001 through 2010.....	42
Expenses and Transfers by Fiscal Year for Fiscal Years 2001 through 2010.....	43
Revenue Capacity	
Schedule of Scratchers Ticket Game Launches and Sales by Price Point.....	44
Schedule of Lottery Retailers and Sales by Region.....	46
Demographic and Economic Information	
Schedule of Demographic and Economic Statistics.....	47
Demographic Group Participation.....	48
Operation Information	
Schedule of Lottery Employees.....	49
Schedule of Operating Indicators.....	49
United States Lottery Statistics	
Fiscal 2009 Sales by Game.....	50
Fiscal 2009 Sales, Prizes and Government Transfers.....	51
Schedule of Capital Asset Information.....	52

Supplementary Information

Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	54
Schedule of Findings and Responses.....	56
Schedule of Prior Year Audit Findings.....	57



Introductory Section



November 12, 2010

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

Introduction

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Missouri State Lottery Commission (the Lottery) for the fiscal year ended June 30, 2010. 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 and an organizational chart. The Financial Section includes the independent auditors' report, 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, Supplementary Information, 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 A+ program, Virtual Schools, Special Education Excess Costs, construction of college and university buildings, library acquisitions and educational 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 Commission consists of five members appointed by the Governor with the advice and consent of the Senate.

The Lottery is a component unit of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the 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 ("Scratcher") and numbers games. The games are described as follows:

 Scratchers Games are played by scratching a latex coating off of 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 and continue to represent over 50% of our total annual ticket sales. For fiscal year 2010, Scratcher ticket sales were nearly \$638.1 million, and represent 65.6% of total ticket sales.

Numbers 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 numbers game jointly operated by the thirty-three member lotteries of the Multi-State Lottery Association and sold in forty-four states. Players select one set of five numbers from a pool of one to fifty-nine and one additional number designated as the "Powerball" from a second pool of one to thirty-nine. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$20 million, which increases for each subsequent draw when the jackpot is not won. There are eight secondary prizes of fixed amounts, ranging from \$3 to \$200,000. The Power Play feature is available that allows players the chance to multiply the original prize amount, excluding the jackpot prize, up to five times. A jackpot winner may select either an annuitized prize paid in thirty annual installments or a lump sum payment. Drawings are held every Wednesday and Saturday night. Powerball sales for fiscal year 2010 were approximately \$112.7 million, which represents 11.6% of total Lottery ticket sales.



 Missouri Lotto is the original in-state numbers 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 forty-four and must match all six numbers to win the jackpot. Prizes are also paid for matching three, four or five numbers. The jackpot starts at \$1 million and increases, based upon ticket sales, for each subsequent draw when the jackpot is not won. Lotto sales were approximately \$28.71 million in fiscal year 2010, representing 3.0% 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 thirty-nine 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. Sales for fiscal year 2010 were approximately \$26.7 million, or 2.8% of total ticket sales.





With Pick 3, players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), boxed (numbers in any order) or front/back pair (match the exact order of the first or last two digits). Drawings are conducted twice per day. For fiscal year 2010, Pick 3 sales were nearly \$68.1 million, which was 7.0% of total ticket sales.

Pick 4 is played similar to Pick 3 with players selecting four numbers between zero and nine. Players may play the numbers straight, boxed, front/middle/back pair, and front/back three (match the exact order of the first or last three digits). Drawings are also conducted twice per day for Pick 4. Sales for fiscal year 2010 were approximately \$29.1 million, or 3.0% of total ticket sales.



Club Keno is a numbers game offered in age-controlled environments that provides drawings every five minutes. Players first choose how many different numbers (also called “spots”) they wish to play from one to ten. The player must then choose a number from one to eighty for each spot. Twenty numbers from the pool of one to eighty are chosen in a computerized random Club Keno drawing. Prizes vary depending on how many spots a player chooses and how many of the players’ numbers match the numbers drawn. Club Keno also offers Multiplier, Bulls-Eye and Progressive Jackpot features. For fiscal year 2010, Club Keno sales were nearly \$55.2 million, which was 5.7% of total ticket sales.

In March of 2009, the Lottery introduced a new game - Lucky Dough – which is available at retail locations that offer Club Keno. To play Lucky Dough, a player selects one number (of the five numbers) in each of eight squares. A center square is a “Free Square.” Winning is based on matching numbers in each individual square to produce one or more “lines,” either vertically, horizontally or diagonally. Prize amounts are based upon the number of lines matched. As with Club Keno, drawings are conducted every five minutes. Sales for fiscal year 2010 for Lucky Dough were approximately \$1.1 million, .1% of total ticket sales.



On January 31, 2010, the Lottery began selling the Mega Millions game as a cross-selling agreement between Mega Millions and Powerball. Mega Millions is a multi-state numbers game available for sale in forty-two lottery jurisdictions. Players select one set of five numbers from a pool of one to fifty-six. All six numbers must be matched to win the jackpot. The jackpot starts at \$12 million and increases for each draw when the jackpot is not won. There are eight secondary prizes of fixed amounts ranging from \$2 to \$250,000. Players have the option to select the Megaplier feature that will increase the non-jackpot prize winnings by two, three or four times their original amount. A jackpot winner may select a lump sum payment or an annuity paid in twenty-six installments. Drawings are held every Tuesday and Friday night. Mega Millions sales for fiscal year 2010 were approximately \$12.1 million, which represents 1.2% of total Lottery ticket sales.

Economic Conditions and Outlook

The deep recession that began December of 2007 appears to have ended. Economic activity picked up during the second half of last year, with inflation-adjusted Gross Domestic Product (GDP) and industrial production both showing gains.

GDP is the broadest measure of economic activity. The economic output of the national economy, as measured by the GDP, had been expanding each quarter since the fourth quarter of calendar year (CY) 2001. Beginning in the second quarter of CY 2003, the national economy grew fairly consistently at an annual rate of approximately three to four percent, with slower growth in late CY 2006 and early CY

2007. Late CY 2007 and the first half of CY 2008 reflected relatively slow growth rates followed by four consecutive quarters of declines in the GDP. The last half of CY 2009 and the first half of CY 2010 have shown small but promising gains in the GDP.

Even though economic activity began to increase during the second half of CY 2009, the unemployment rate continued to rise, finishing the year at 10.0 percent nationally. Unemployment has largely held steady in CY 2010, with a 9.7 percent unemployment rate for the first three months of the year, a slight increase to 9.9 percent for April, dropping down to 9.7 percent for May and 9.5 percent for June and July, and a slight increase to 9.6 percent for August and September. Unemployment rates in Missouri have followed the national trend, reaching a high in CY 2009 of 9.7 percent with CY 2010 rates dropping slightly and holding steady between 9.1 and 9.5 percent. The current Missouri unemployment rate is 9.3%, well above pre-recession levels of 5.3 percent.

Real consumer spending grew modestly last year. Such spending declined steeply during the first part of the recession, bottomed out in mid-2009, and began a tepid recovery in the second half of last year, when it rose at an average annual rate of about 2 ½ percent. Federal fiscal policy, including the effects of the American Recovery and Reinvestment Act of 2009 (ARRA) and the temporary “Cash for Clunkers” program, contributed to that recovery. Over the next few years, the growth in consumer spending is likely to be restrained by slow growth in wages and salaries, the declining impact of ARRA, tax increases in 2011, weak gains in household wealth, and continuing credit restraint. Real consumer spending is expected to rise at below its historical average pace through CY 2011.

As expected, lottery sales have experienced a negative impact from the recent period of economic downturn. Competition from the casino industry and lotteries of bordering states has also impacted sales. The January 2010 cross-selling agreement between Mega Millions and Powerball has further increased competition. Recent ordinances banning smoking in some cities may affect establishments that offer Keno. Fluctuations in gas prices affect convenience store traffic which in turn affects sales. Gas prices ranged from a high of over \$4 a gallon to a low of \$1.59 per gallon during CY 2008. Gas prices have remained relatively flat since mid-2009 at prices of \$2.40 to \$2.87 per gallon. Probable fair tax legislation in the upcoming legislative session will be monitored closely for impact to sales and profits.

Continued economic recovery coupled with increased promotional resources appropriated to the Lottery in the FY 2011 budget is expected to offset potential negative impacts to sales and allow for flat growth in product sales over the next twelve to eighteen months.

Highlights Of The Past Year

Ticket sales for the Lottery rose slightly from the sales levels of fiscal year 2009. The sales for fiscal year 2010 exceeded \$971 million, approximately \$3 million, or 0.3%, higher than the previous year level of \$968 million. The improved economic conditions and the larger number of large jackpots in numbers games were contributing factors to the sales increase.

For fiscal year 2010, the level of operating expenses changed by a marginal amount only. The total operating expenses declined from \$725.9 million in fiscal year 2009 to \$724.9 million in fiscal year 2010. The level of administrative expenses increased by \$552 thousand, or 1.9 percent. The increase in these expenses was primarily reflected in additional advertising expense. 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 2010 was an increase in the transfer of profits for public education from \$256.3 million to \$259.7 million. In addition, the Lottery returned in excess of \$628 million to players in cash and prizes and \$60 million to retailers in commissions and incentives for the 2010 fiscal year. *(Note that transfer of profits figures represent audited accrued amounts and differ from actual cash transferred in a 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 the fiscal year 2010 included:

- The launch of a third \$20 Scratcher game.
- The placing of four-bin instant ticket vending machines in social environments.
- The introduction of Mega Millions sales in Missouri as part of a cross-selling agreement between Mega Millions and Powerball states.
- The successful introduction of a \$10 licensed property Scratcher game and an increase in the number of \$3 Scratcher facings.
- The successful introduction of the Keno-To-Go product in traditional numbers retail locations.

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 Missouri Office of Administration, Division of Accounting. 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 the Lottery operations are designated for appropriation by the State solely for the institutions of public elementary, secondary and higher education. The Lottery transfers the estimated profits weekly to the Lottery Proceeds Fund.

Debt Administration:

The Lottery's long-term liabilities are primarily payments owed to multi-year prizewinners in the form of annual payments. These payments are fully funded by US 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 a review of internal controls 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

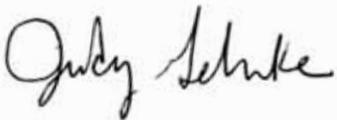
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Missouri State Lottery Commission for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the ninth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



Judy Gehrke, CPA
Chief Financial Officer
Missouri State Lottery Commission

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri State Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

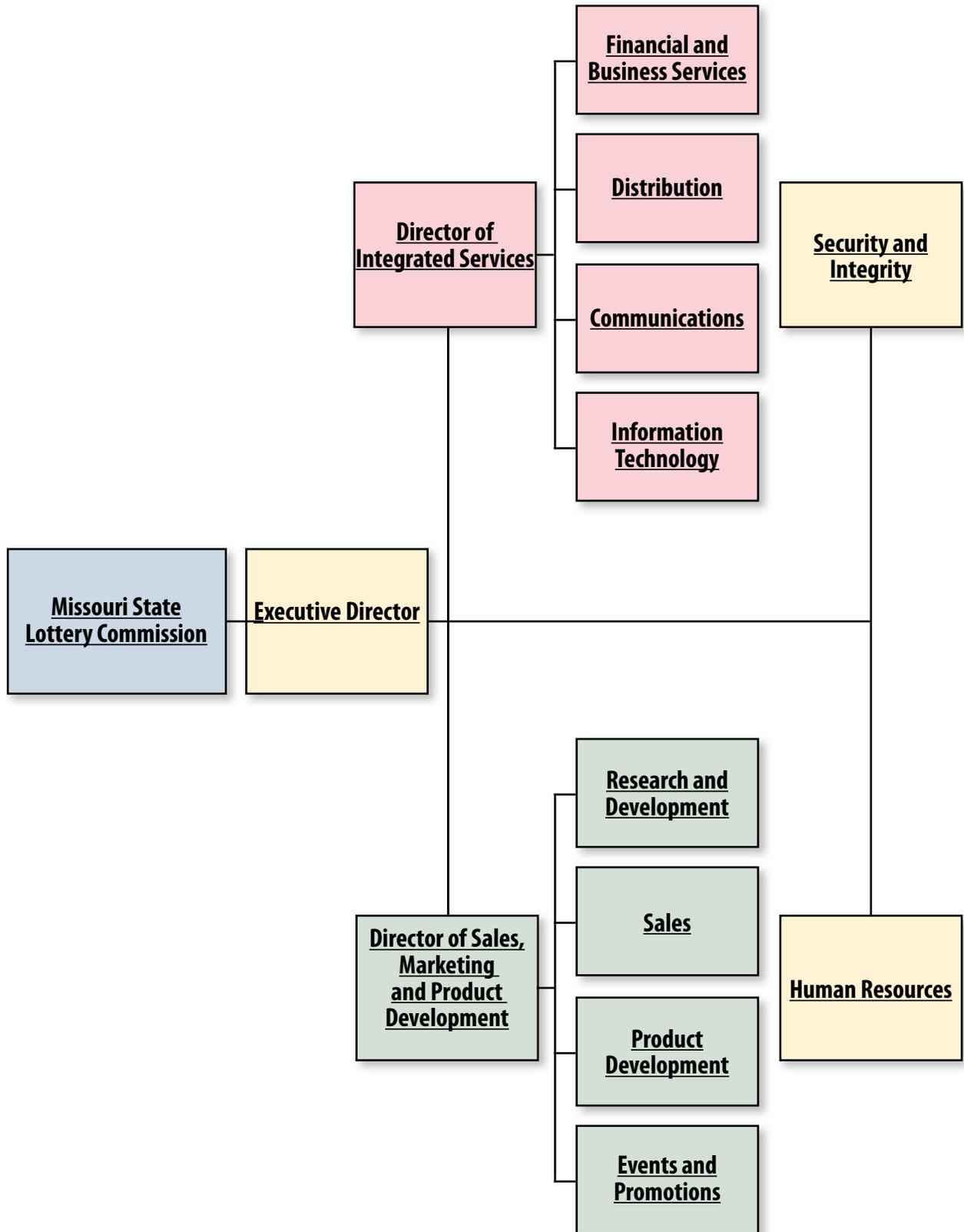
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

Missouri State Lottery Commission
Organization Chart and Principal Officials
June 30, 2010



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Financial Section



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

INDEPENDENT AUDITORS' REPORT

To the Missouri State Lottery Commission
Jefferson City, Missouri:

We have audited the accompanying basic financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), a component unit of the State of Missouri, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements of the Lottery are intended to present the financial position and the results of its operations and cash flows of the Lottery. They do not purport to, and do not present fairly, the financial position of the State of Missouri as of June 30, 2010 and 2009 and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the Lottery, as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 14 - 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Berberich Trahan & Co., P.A.

November 12, 2010

Management's Discussion And Analysis For The Fiscal Years Ended June 30, 2010 And 2009

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, 2010 and 2009. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements, notes to the financial statements, the other information included in the Statistical Section, and the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

Financial Statements Presented in This Report

The Lottery is a Type III division of the State of Missouri, created to generate revenues for public education through the operation of a lottery. The Lottery's activities are accounted for as an enterprise fund using the accrual basis of accounting, which is comparable to the method used by private business entities. The Lottery is a component unit of the State of Missouri and is included in the State's Comprehensive Annual Financial Report. This report presents the activity of the 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, 2010 and 2009. The Statements of Net Assets provide information on the nature and amount of the Lottery's assets, liabilities and net assets at the end of each fiscal year and provide a measure of the Lottery's economic resources. The Statements of Revenues, Expenses and Changes in Fund Net Assets reflect the operating and non-operating revenues and expenses and the changes in net assets for each year. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for each year.

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

Financial Analysis Summary of Net Assets

	As of June 30,		
	2010	2009	2008
Assets			
Current assets	\$77,427,149	\$72,726,299	\$71,513,909
Investments held for grand-prize winners at fair value - noncurrent	54,617,645	57,808,429	61,732,872
Capital assets (net of accumulated depreciation)	3,458,481	3,478,013	3,923,538
Total assets	135,503,275	134,012,741	137,170,319
Liabilities			
Current liabilities	77,768,780	73,042,629	70,142,343
Long-term liabilities	49,785,262	54,199,467	60,761,042
Total liabilities	127,554,042	127,242,096	130,903,385
Net Assets			
Invested in capital assets	3,458,481	3,478,013	3,923,558
Unrestricted	(3,458,481)	(3,478,013)	(3,923,558)
Restricted	7,949,233	6,770,645	6,266,934
Total net assets	\$7,949,233	\$6,770,645	\$6,266,934

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 2010, current assets increased by \$4,700,850. This increase was due to an increase in accounts receivable balances from retailers.

For fiscal year 2009, current assets increased by \$1,212,390 from the fiscal year 2008 balances. This was due to larger cash account balances but was partially offset by a decrease in other receivables.

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. 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. This was true in fiscal year 2010, as this category decreased by \$3,190,784. In fiscal year 2009, this category also decreased \$3,924,443 due to more lump sum payments and less purchases of annuities.

Capital assets consist of land, buildings, vehicles, computers and other equipment and is reported net of all related accumulated depreciation on the capital assets. For fiscal year 2010, net capital assets declined by \$19,532, as the level of depreciation expenses for the fiscal year exceeded the cost of additions to capital assets.

In fiscal year 2009, the level of capital assets decreased by \$445,525 due to the level of depreciation expenses for the fiscal year exceeding the cost of additions to capital assets.

Current Liabilities

Current liabilities consist primarily of accrued prize liabilities, other accrued expenses, amounts due the Lottery Proceeds Fund, and accounts payable to suppliers. In fiscal year 2010, current liabilities increased by \$4,726,151, which was the result of increased prize liabilities of \$1,667,621, and an increase in the amount due the Lottery Proceeds Fund of \$3,079,101, although these increases were offset by decreases in accrued expenses and accounts payable of \$20,571.

In fiscal year 2009, current liabilities increased by \$2,900,286, which reflected increased prize liabilities of \$3,447,583, although this increase was offset by decreases in the amount due to the Lottery Proceeds Fund of \$497,977, and accrued expenses and accounts payable of \$49,320.

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 2010, the long-term liabilities have decreased by \$4,414,205. 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 2010 declined by \$4,364,636. The deferred portion of the amount due the Lottery Proceeds Fund declined in fiscal year 2010 by \$49,569. 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 during the fiscal year and funds received from the Multi-State Lottery Association to decrease the amount receivable.

In fiscal year 2009, long-term liabilities declined by \$6,561,575, as decreases in the long-term liabilities for the

grand prize winners decreased by \$4,339,898, and the deferred amount to the Lottery Proceeds Fund declined by \$2,221,677.

Net Assets

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

Changes in Net Assets

	For the Year Ended June 30,		
	2010	2009	2008
Operating revenues			
Ticket sales	\$971,864,485	\$968,451,895	\$995,492,888
Other operating revenues	50,414	596,377	649,422
Total operating revenues	<u>971,914,899</u>	<u>969,048,272</u>	<u>996,142,310</u>
Operating expenses			
Direct costs:			
Prize expense	628,057,994	629,276,635	641,123,508
Retailer commissions and incentives	59,900,383	60,109,568	61,508,836
Other direct costs	16,106,631	16,077,548	17,289,790
Total direct costs	<u>704,065,008</u>	<u>705,463,751</u>	<u>719,922,134</u>
Administrative expenses	20,809,357	20,466,793	20,273,474
Total operating expenses	<u>724,874,365</u>	<u>725,930,544</u>	<u>740,195,608</u>
Operating Income	247,040,534	243,117,728	255,946,702
Nonoperating revenues and (expenses)			
Interest income	310,040	731,222	1,430,382
Gain (loss) on disposal of capital assets	3,739	(26,702)	37,679
Unclaimed prizes	12,318,398	12,403,901	9,330,350
Transfers from the State of Missouri	-	60,481	-
Transfers to the State of Missouri	(259,672,711)	(256,286,630)	(266,745,112)
Amortization of grand-prize winner liability	(3,381,475)	(3,861,661)	(4,215,836)
Net increase in the fair value of investments held for grand-prize winners	4,560,063	4,365,372	6,893,961
Net nonoperating revenue (expenses)	<u>(245,861,946)</u>	<u>(242,614,017)</u>	<u>(253,268,576)</u>
Change in net assets	1,178,588	503,711	2,678,126
Total net assets, beginning of year	<u>6,770,645</u>	<u>6,266,934</u>	<u>3,588,808</u>
Total net assets, end of year	<u>\$7,949,233</u>	<u>\$6,770,645</u>	<u>\$6,266,934</u>

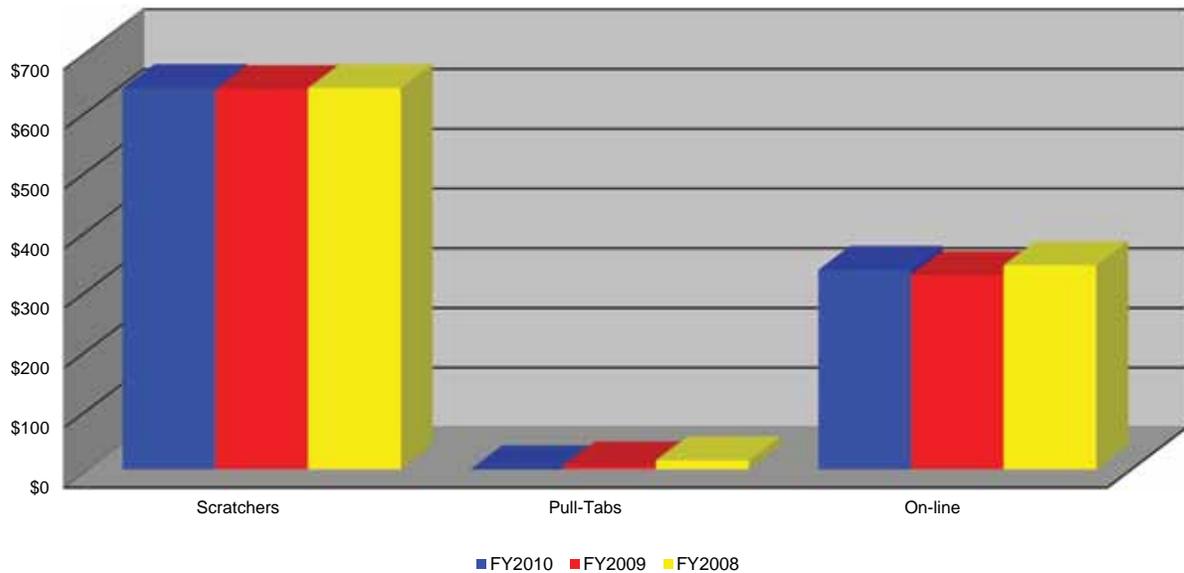
Changes in net assets are the result of fluctuations in market yields which increase or reduce the unrealized gain on investments.

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

Operating Revenues

	For the Year Ended June 30,		
	2010	2009	2008
Sales by Game			
Scratchers	\$638,062,954	\$636,574,616	\$638,533,775
Pull-Tabs	-	6,463,110	15,088,705
On-line			
Lotto	28,751,655	28,116,282	29,955,387
Pick 3	68,177,109	67,665,040	68,680,133
Pick 4	29,117,093	26,434,016	25,751,837
Show Me Cash	26,711,262	22,168,807	18,836,176
Club Keno	55,192,089	57,378,494	57,753,303
Lucky Dough	1,081,490	1,256,408	-
Powerball	112,711,538	120,677,712	138,393,572
Raffle	-	1,717,410	2,500,000
Mega Millions	12,059,295	-	-
Total on-line	333,801,531	325,414,169	341,870,408
Other	50,414	596,377	649,422
Total operating revenues	\$971,914,899	\$969,048,272	\$996,142,310

Lottery Sales By Product in millions



After declining in fiscal year 2009, ticket sales rose slightly in fiscal year 2010. Overall sales increased by approximately \$2.86 million, or 0.3%, from the fiscal year 2009 levels.

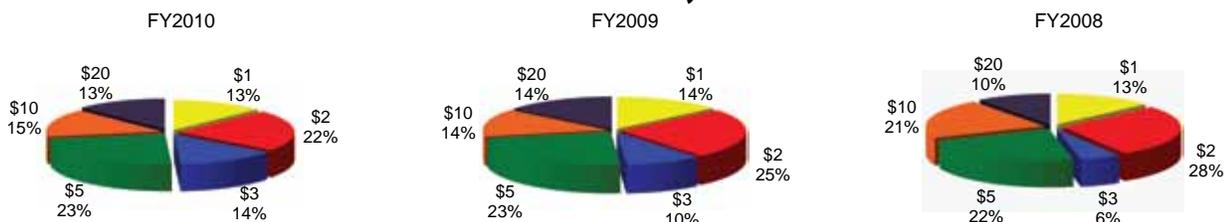
For the year ended June 30, 2010, Scratcher ticket sales increased by approximately \$1.5 million (0.23%), while on-line product sales increased by approximately \$8.4 million (2.58%). The Pull-Tab product line was discontinued in January of 2009, but accounted for approximately \$6.5 million in sales in fiscal year 2009. This action was taken in response to continued declining sales of the product line and the need to redirect the Lottery's limited resources to the other more profitable product lines.

For the fiscal year ended June 30, 2009, ticket sales decreased by 2.72%, approximately \$27 million, over the fiscal year 2008 sales level. Scratcher tickets declined by approximately \$2 million (0.31%) during 2009. On-line product sales decreased in 2009 by approximately \$16.5 million, or 4.81%, and Pull-Tab sales were discontinued in January 2009.

During fiscal year 2010, revenues from the sale of lottery products were the second highest in the 25-year history of the Lottery. As indicated in the financial statements, Scratcher tickets continue to lead the way to increased sales levels. During 2010, the \$3 price point sales grew approximately \$25.9 million over the sales of 2009. The use of specialty themes extended-pay games being introduced in this price point are the main contributing factor for the increased sales. This increase, however, was offset by a decline in sales for the \$1, \$2, and \$20 price points of approximately \$6 million, \$17.2 million and \$10 million respectively over the 2009 sales. The \$5 and \$10 price points increased in fiscal year 2010 by \$1.2 million and \$7.5 million respectively. The \$10 price point increase can be largely attributed to the introduction of new specialty themed games.

For the fiscal year ended June 30, 2009, the Scratcher ticket sales decrease was primarily due to the higher price point tickets. The combined sales results for the \$10 and \$20 price points in 2009 was a decrease from 2008 levels of approximately \$19.6 million or 9.86%. The first \$20 ticket was introduced in January of 2008 and a second ticket was introduced in January of 2009. The total sales of the \$20 tickets increased from approximately \$65.0 million in 2008 to approximately \$90.7 million in 2009, however, the sales level of the \$10 tickets declined from approximately \$134.3 million in 2008 to \$88.9 million in 2009.

Scratchers Ticket Sales By Price Point

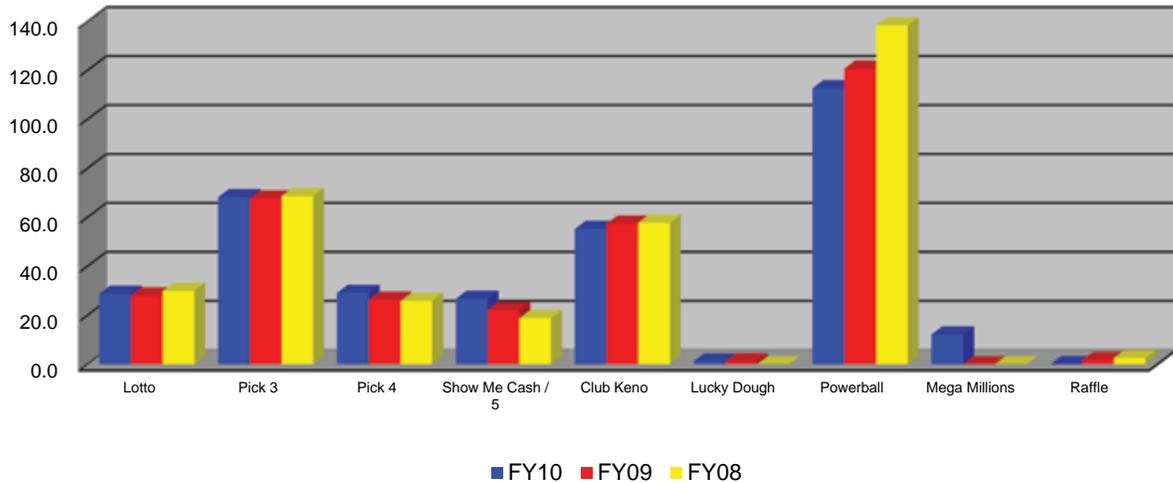


The on-line sales increase in fiscal year 2010 was due primarily to an increase in sales of the Show Me Cash game. Sales of Show Me Cash increased by 20.49% as fiscal year 2010 was the first full fiscal year with the redesigned game change from a static jackpot amount to a rolling jackpot amount. The jackpot starts at \$50,000 and increases by a minimum of \$5,000 per draw until won. There were twelve Show Me Cash jackpot winners over \$200,000 in fiscal year 2010. Show Me Cash sales levels, like that of Powerball and Lotto, are typically driven by higher jackpot amounts. Lotto sales for 2010 increased slightly by 2.26% in response to higher jackpots as there were a smaller number of larger jackpot winners as compared to fiscal year 2009. Powerball sales declined in fiscal year 2010 by \$8.0 million or 6.61% due to fewer large jackpots during the year. Pick 3 and Pick 4 sales levels increased during fiscal year 2010 due to more promoting of these daily games. Both Club Keno and Lucky Dough saw declining sales in fiscal year 2010. On January 31, 2010, the Lottery began selling the Mega Millions jackpot game as a cross-selling agreement between Mega Millions and Powerball went into effect. The Mega Millions jackpot starts at \$12 million and grows until it is won. The first five months of sales totaled \$12.1 million. In fiscal year 2010, the Raffle game was not offered as it did not achieve the desired results in the previous fiscal year. It was decided that limited resources could best be utilized in the new Mega Millions game and the standard on-line games.

For the fiscal year 2009, the on-line sales decrease was due primarily to a decrease in sales of the Powerball game. Sales of Powerball tickets declined by 12.80% as there were fewer large jackpots during the year. Lotto sales for 2009 declined by 6.14% in response to lower jackpots as there were a number of smaller jackpot winners. Pick 3, Pick 4 and Club Keno sales were generally relatively stable during 2009 compared to 2008. In 2009 the Show Me Cash (formerly known as Show Me 5 Paydown) game was redesigned to

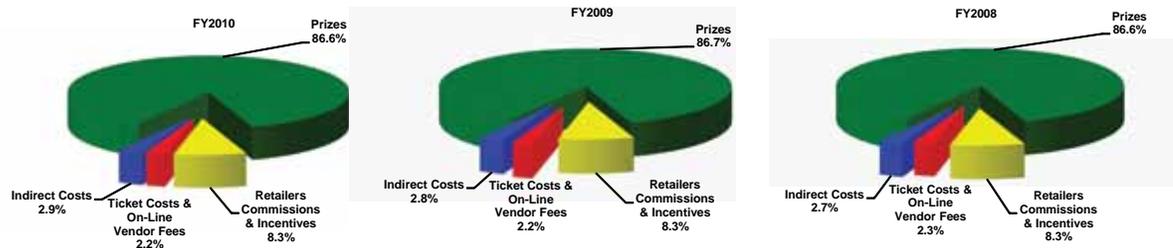
a rolling jackpot game. Sales responded positively to this change and increased 17.69% over 2008 sales. Lucky Dough was introduced during 2009 in the same market environment as Club Keno. The Raffle game was once again offered in 2009, but did not achieve the desired results as only 57% of the total available tickets were sold. In 2008, all of the available tickets were sold.

On-line Sales By Game in millions



Operating Expenses

	For the Year Ended June 30,		
	2010	2009	2008
Direct Expenses:			
Prizes	\$628,057,994	\$629,276,635	\$641,123,508
Retailer commissions and incentives	59,900,383	60,109,568	61,508,836
Tickets	7,583,111	7,782,756	8,640,791
On-line vendor fees	8,523,520	8,294,792	8,648,999
Other Operating Expenses:			
Advertising	1,850,163	1,236,819	1,299,980
Wages and benefits	9,946,081	9,856,894	9,800,283
Other general expenses	8,009,882	8,376,605	8,321,447
Depreciation and amortization	1,003,231	996,475	851,764



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, instant ticket printing costs and on-line

vendor fees.

Of the Lottery's total operating expenses of \$724.9 million in fiscal year 2010, \$704.1 million, or 97.13%, are game-related, or direct, expenses. In fiscal year 2009, direct expenses were \$705.5 million, or 97.18%, of the total \$725.9 million total operating expenses for the year. In fiscal year 2008, direct expenses were 97.39 percent, of total operating expenses.

Prize expense for fiscal year 2010 decreased slightly by approximately \$1.2 million, or 0.19%, while total ticket sales increased by 0.3%. In fiscal year 2009, prize expense decreased by approximately \$11.8 million, or 1.85%, while total ticket sales decreased by 2.72%. The variance between the percentage increase in prize expense and sales reflects the effects of increasing the prize structure of the Scratcher products and also larger prize payouts than expected on Lotto, Pick 3 and Pick 4. The random selection of winning numbers may result in deviations from expected results in a short-term period.

Retailer commissions and incentives in fiscal year 2010 declined by approximately \$0.2 million, or 0.35%. In fiscal year 2009, these expenses decreased by approximately \$1.4 million, or 2.27%. 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 number of jackpots won during the year.

Instant ticket expenses remained relatively stable in fiscal year 2010, with a decrease of only \$0.06 million or 0.01%. In fiscal year 2009, these expenses decreased by approximately \$.8 million (2.27%), which reflects the effects of the decrease in sales and discontinuation of the Pull-Tab product line, as well as the utilization of fewer licensed property games during 2009.

The on-line vendor fees increased by \$.2 million, or 2.76%, in fiscal year 2010, which reflects the effects of higher sales for the year. In fiscal year 2009, this expense category decreased by \$.3 million, or 4.09%, in direct response to the decrease in sales for the year. The annual variances in this category will not exactly mirror the percentage change in sales as the level of free and promotional tickets, as well as any system performance credits, will affect the actual annual expense amount.

Other Operating Expenses

Other operating expenses include advertising, personal services, fringe benefits, marketing and promotional expenses, utilities and facility costs, communication services and other administrative costs. The Lottery is subject to the budgetary and appropriation process of the State of Missouri. Management develops budgets for these expenses, within the total amounts appropriated by the State, based upon current economic conditions, business plans and market conditions, and actual results are continuously monitored to ensure that the overall business objectives are being met in the most effective and efficient manner. During the fiscal years of 2010 and 2009, the levels of expenditures for advertising, wages and benefits and other general expenses have remained relatively unchanged. In total, these expenses increased by 1.72% in fiscal year 2010 and 0.25% in fiscal year 2009.

The level of depreciation and amortization 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, has resulted in increased depreciation and amortization expenses for the fiscal years of 2010 and 2009.

Non-Operating Revenues (Expenses)

	For the Year Ended June 30,		
	2010	2009	2008
Interest	\$310,040	\$731,222	\$1,430,382
Unclaimed prizes	12,318,398	12,403,901	9,330,350
Net increase in investments held	4,560,063	4,365,372	6,893,961
Amortization of grand-prize winner liability	(3,381,475)	(3,861,661)	(4,215,836)
Gain (loss) on capital asset disposal	3,739	(26,702)	37,679
Transfers from State of Missouri	-	60,481	-
Transfers to State of Missouri	(259,672,711)	(256,286,630)	(266,745,112)

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 Multi-State Lottery Association (MUSL). The significant decrease in interest earnings for fiscal year 2010 reflects the effects of the market conditions as interest rates declined substantially during the year.

The Lottery retains prize money if a claim for the prize is not made within a 180 day claim period. In fiscal year 2010, the level of unclaimed prizes remained relatively stable, showing only a slight decrease of \$0.08 million over fiscal year 2009. In fiscal year 2009, there was an increase in the number of \$5 price point Scratcher games, along with a single \$10 price point game, that were closed which resulted in a higher level of unclaimed prizes for the year.

The net increase (decrease) in investments held for grand-prize winners represents the net market value change as required to be reported per GASB 31. Amortization of the grand-prize winner liability represents the accretion of interest to the securities held to maturity to fund the grand-prize winner payments.

As to the gain or loss from the disposal of capital assets, the variances generally reflect the effects of the number of vehicles that were sold during each fiscal year. In fiscal year 2010, three vehicles were sold, in fiscal year 2009, nine vehicles were sold and in fiscal year 2008, seventeen vehicles were sold. For fiscal year 2009, the net loss recognized on the disposal of capital assets was primarily the result of writing off certain equipment related to the Pull-Tab product, which was discontinued during the fiscal year.

The transfer from the State of Missouri in fiscal year 2009 represents funds provided by another state agency to cover the costs in excess of an appropriation received by the Lottery for a capital improvement project.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for fiscal year 2010 increased \$3.4 million, or 1.3 percent, from fiscal year 2009. For fiscal year 2009, proceeds decreased \$10.5 million, or 3.9 percent, from fiscal year 2008. 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 other equipment. Capital assets are not a significant part of the Lottery's total assets. Additional detailed information on capital assets can be found in note 6 to the financial statements.

The Lottery no longer has 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 with reliable financial information and an explanation of the Lottery's financial activities for the years ended June 30, 2010 and 2009. If you have questions about this report or need additional information, contact the Missouri State Lottery Commission, Financial Accounting Section, P.O. Box 1603, Jefferson City, Missouri 65109-1603.

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

Statements Of Net Assets As Of June 30, 2010 And 2009

	2010	2009
Current Assets:		
Cash and cash equivalents	\$ 22,157,718	\$ 22,838,110
Investments held for grand-prize winners at fair value	10,553,992	11,583,256
Accounts receivable, net of allowances for returns	44,491,681	38,069,945
Other receivable	65,264	87,145
Prepaid expense	158,494	147,843
Total current assets	77,427,149	72,726,299
Noncurrent Assets:		
Investments held for grand-prize winners at fair value	54,617,645	57,808,429
Capital assets:		
Capital assets not being depreciated	485,326	352,973
Capital assets	13,642,647	13,181,164
Accumulated depreciation	(10,669,492)	(10,056,124)
Total noncurrent assets	58,076,126	61,286,442
Total assets	135,503,275	134,012,741
Current Liabilities:		
Accounts payable	81,511	95,484
Due to Lottery Proceeds Fund	21,833,442	17,142,108
Accrued prize liabilities	41,695,520	40,606,132
Grand-prize winner liabilities	10,560,000	11,594,000
Other accrued liabilities	3,598,307	3,604,905
Total current liabilities	77,768,780	73,042,629
Long-term Liabilities:		
Due to Lottery Proceeds Fund - Deferred	3,122,858	3,172,427
Long-term grand-prize winner liabilities at present value	46,662,404	51,027,040
Total long-term liabilities	49,785,262	54,199,467
Total liabilities	127,554,042	127,242,096
Net Assets:		
Invested in capital assets	3,458,481	3,478,013
Unrestricted	(3,458,481)	(3,478,013)
Restricted through Constitutional provisions	7,949,233	6,770,645
Total net assets	\$ 7,949,233	\$ 6,770,645

See accompanying notes to the basic financial statements.

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

**Statements Of Revenues, Expenses And Changes In Fund Net Assets
For The Years Ended June 30, 2010 And 2009**

	2010	2009
Operating Revenues:		
On-line ticket sales	\$ 333,801,531	\$ 325,414,169
Scratchers ticket sales	638,062,954	636,574,616
Pull-Tab ticket sales	-	6,463,110
Total sales	971,864,485	968,451,895
Other	50,414	596,377
Total operating revenues	971,914,899	969,048,272
Operating Expenses:		
On-line prize expense	186,527,348	182,748,411
Scratchers prize expense	441,530,646	442,423,786
Pull-Tab prize expense	-	4,104,438
On-line retailer commissions and incentives	19,556,045	19,105,995
Scratchers retailer commissions and incentives	40,344,338	40,426,633
Pull-Tab retailer commissions and incentives	-	576,940
Cost of tickets sold	16,106,631	16,077,548
Advertising	1,850,163	1,236,819
Wages and benefits	9,946,081	9,856,894
Other general and administrative	8,009,882	8,376,605
Depreciation and amortization	1,003,231	996,475
Total operating expenses	724,874,365	725,930,544
Operating income	247,040,534	243,117,728
Nonoperating Revenues (Expenses):		
Interest income	310,040	731,222
Unclaimed prizes	12,318,398	12,403,901
Net increase in the fair value of investments held for grand-prize winners	4,560,063	4,365,372
Amortization of grand-prize winner liability	(3,381,475)	(3,861,661)
Gain (loss) on disposal of capital assets	3,739	(26,702)
Transfers from State of Missouri	-	60,481
Transfers to State of Missouri	(259,672,711)	(256,286,630)
Total nonoperating revenues (expenses)	(245,861,946)	(242,614,017)
Changes in net assets	1,178,588	503,711
Total Net Assets, beginning of year	6,770,645	6,266,934
Total Net Assets, end of year	\$ 7,949,233	\$ 6,770,645

See accompanying notes to the basic financial statements.

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

Statements Of Cash Flows
For The Years Ended June 30, 2010 And 2009

	2010	2009
Cash Flows From Operating Activities:		
Cash received from retailers and others	\$ 965,515,045	\$ 970,650,389
Cash paid for prizes	(626,244,208)	(625,019,151)
Cash paid for retailer commissions	(59,882,155)	(60,111,068)
Cash paid for employee services	(9,970,908)	(9,812,663)
Cash paid for other expenses	(25,991,300)	(25,838,579)
Net cash provided by operating activities	243,426,474	249,868,928
Cash Flows From Noncapital Financing Activities:		
Transfers to State of Missouri	(255,030,946)	(259,006,284)
Cash Flows From Capital And Related Financing Activities:		
Purchases of capital assets	(1,019,082)	(555,918)
Proceeds from sale of capital assets	39,122	38,747
Net cash used for capital and related financing activities	(979,960)	(517,171)
Cash Flows From Investing Activities:		
Proceeds from maturity of investments	11,594,000	11,702,000
Interest received	310,040	731,222
Net cash provided by investing activities	11,904,040	12,433,222
Net increase (decrease) in cash and cash equivalents	(680,392)	2,778,695
Cash And Cash Equivalents, beginning of year	22,838,110	20,059,415
Cash And Cash Equivalents, end of year	\$ 22,157,718	\$ 22,838,110
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities:		
Operating income	\$ 247,040,534	\$ 243,117,728
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,003,231	996,475
Unclaimed prizes	12,318,398	12,403,901
Payments to grand-prize winners	(11,594,000)	(11,702,000)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable, net	(6,421,736)	(163,348)
(Increase) decrease in other receivables	21,881	1,765,465
(Increase) in prepaid expenss	(10,651)	(55,556)
Increase (decrease) in accounts payable and other accrued liabilities	(20,571)	(49,320)
Increase in accrued prize liabilities	1,089,388	3,555,583
Net cash provided by operating activities	\$ 243,426,474	\$ 249,868,928
Non-cash Activities:		
Unrealized gains on investments held for grand-prize winners	\$ 4,560,063	\$ 4,365,372
Amortization of long-term annuity prize liability	\$ 3,381,475	\$ 3,861,661

See accompanying notes to the basic financial statements.

Missouri State Lottery Commission
(A Component Unit of the State of Missouri)
Notes To The Basic Financial Statements
June 30, 2010 And 2009

1. Summary of Significant Accounting Policies:

The Missouri State Lottery Commission (the Lottery) was created by the passage of a constitutional amendment on November 6, 1984 by the citizens of the State of Missouri. The Lottery is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision or authority over the actions or decisions of the Lottery. The Commission consists of five members appointed by the Governor with the advice and consent of the Senate. The day-to-day operations are administered by the executive director and administrative staff as designated by the Commission. In accordance with Governmental Accounting Standards Board Statement No. 14, the Lottery, although a legally separate entity, is considered to be a component unit of the State of Missouri. This component unit provides services which exclusively, or almost exclusively, benefit the State of Missouri.

Basis of Presentation

The Lottery is accounted for as a proprietary-type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges or where the periodic determination of net income is appropriate. In reporting its financial activities, the Lottery applies all applicable private sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Lottery has elected not to follow private sector guidance issued after this date.

Basis of Accounting

The financial statements of the Lottery have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

Revenue Recognition

Sales of on-line lottery tickets are generated by the semiweekly Lotto, Powerball and Mega Millions games, and the daily Club Keno, Lucky Dough, Show Me Cash (previously Show Me 5 Paydown), Pick 4, Pick 3 and Raffle games. Sales of on-line lottery tickets are made through licensed retail sales outlets via on-line terminals maintained by the retailers. Ticket sales are recognized at the time the player purchases a ticket from the retailer.

Sales of Scratchers tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances of approximately \$1,015,000 and \$1,524,000 at June 30, 2010 and 2009, respectively, have been established for estimated tickets to be returned by retailers.

Sales of Pull-Tab lottery tickets were made to licensed retail sales outlets with no right of return. Ticket sales were recognized upon the sale of tickets to retailers and were valued at the sale price to the player. During the fiscal year ended June 30, 2009, the Lottery discontinued the Pull-Tab product line.

Prizes

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

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

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

Unclaimed Prizes

State statutes require that unclaimed prize monies be retained by the Lottery for the person entitled thereto for 180 days after the time the prize was awarded. If no claim is made for the prize within such time, the prize money reverts to the Lottery. Effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers to the Lottery Proceeds Fund all prizes that remain unclaimed. During the years ended June 30, 2010 and 2009, unclaimed prizes in the amount of approximately \$12,318,000 and \$12,404,000 respectively, were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2010 and 2009, this amount has been included as nonoperating revenue on the statements of revenues, expenses and changes in fund net assets with a corresponding amount included as a transfer to State of Missouri.

Cash and Cash Equivalents

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

Investments Held for Grand-Prize Winners

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

Retailer Fees

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

Capital Assets

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

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

Net Assets

Restricted net assets represent the unrealized gains or losses on investments held for grand-prize winners. GASB Statement No. 31 requires that certain investments be reported at fair value with gains and losses reflected in the statement of operations. As required by the Missouri Constitution and state statutes, the Lottery uses investments only to fund its annuity prize obligations and intends to hold the investments to maturity. Market gains or losses represent temporary fluctuations and are not recognized in the calculation of the amounts due to the Lottery Proceeds Fund.

Use of Estimates

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

Due to Lottery Proceeds Fund

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

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

Compensated Absences

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

Risk Management

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

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

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

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

Budgetary Authority

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

2. Statutory Requirements:

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

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

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, 2010 and 2009, the Lottery's share in the State's common cash pool was \$16,160,054 and \$18,339,986, respectively. At June 30, 2010 and 2009, the book balance of the imprest fund was \$5,991,826 and \$4,496,024, respectively, and the bank balance was \$8,345,060 and \$5,733,672, 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, 2010 and 2009. Because the Lottery's share of the State's Treasury is a pooled investment, the balance of this account is not subject to custodial credit risk under GASB Statement No. 40.

4. Investments Held For Grand-Prize Winners:

As provided for by Article III, Section 39(b) of the Missouri Constitution, the Lottery purchases United States Treasury Zero Coupon Bonds for the specific purpose of funding future grand-prize winner prize claims. These investments are carried at fair value in the amounts of \$65,171,637 and \$69,391,685 at June 30, 2010 and 2009, respectively. The maturity value of securities held at June 30, 2010 and 2009 was \$78,611,000 and \$85,991,000, respectively.

At June 30, 2010, 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	<u>\$65,171,637</u>	<u>\$10,553,992</u>	<u>\$26,766,232</u>	<u>\$14,461,470</u>	<u>\$13,389,943</u>

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

5. On-line Ticket Sales:

On-line ticket sales consist of the following:

	2010	2009
Powerball	\$ 112,711,538	\$ 120,677,712
Pick 3	68,177,109	67,665,040
Lotto	28,751,655	28,116,282
Show Me Cash/ SHOW ME 5 Paydown	26,711,262	22,168,807
Pick 4	29,117,093	26,434,016
Club Keno	55,192,089	57,378,494
Lucky Dough	1,081,490	1,256,408
Mega Millions	12,059,295	-
Million-Dollar Raffle	-	1,717,410
	<u>\$ 333,801,531</u>	<u>\$ 325,414,169</u>

6. Capital Assets:

The changes in capital assets consist of the following:

	June 30, 2009	Increases	Decreases	June 30, 2010
Capital assets not being depreciated:				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	-	132,353	-	132,353
Total capital assets not being depreciated	<u>352,973</u>	<u>132,353</u>	<u>-</u>	<u>485,326</u>
Capital assets being depreciated:				
Buildings	4,807,275	-	-	4,807,275
Computers	4,831,889	707,999	(262,980)	5,276,908
Equipment	2,272,680	178,730	(105,355)	2,346,055
Automobiles	1,224,320	-	(56,911)	1,167,409
Other	45,000	-	-	45,000
Total capital assets being depreciated	<u>13,181,164</u>	<u>886,729</u>	<u>(425,246)</u>	<u>13,642,647</u>
Less accumulated depreciation for:				
Buildings	(3,399,020)	(149,445)	-	(3,548,465)
Computers	(3,673,895)	(574,828)	227,597	(4,021,126)
Equipment	(2,082,999)	(78,697)	105,355	(2,056,341)
Automobiles	(879,383)	(198,761)	56,911	(1,021,233)
Other	(20,827)	(1,500)	-	(22,327)
Total accumulated depreciation	<u>(10,056,124)</u>	<u>\$ (1,003,231)</u>	<u>\$ 389,863</u>	<u>10,669,492</u>
Total capital assets being depreciated, net	<u>3,125,040</u>			<u>2,973,155</u>
Capital assets, net	<u>\$ 3,478,013</u>			<u>\$ 3,458,481</u>

	<u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	-	60,481	(60,481)	-
Total capital assets not being depreciated	<u>352,973</u>	<u>60,481</u>	<u>(60,481)</u>	<u>352,973</u>
Capital assets being depreciated:				
Buildings	4,746,794	60,481	-	4,807,275
Computers	5,087,784	374,262	(630,157)	4,831,889
Equipment	5,551,701	6,850	(3,285,871)	2,272,680
Automobiles	1,246,411	174,807	(196,898)	1,224,320
Other	45,000	-	-	45,000
Total capital assets being depreciated	<u>16,677,690</u>	<u>616,400</u>	<u>(4,112,926)</u>	<u>13,181,164</u>
Less accumulated depreciation for:				
Buildings	(3,267,906)	(131,114)	-	(3,399,020)
Computers	(3,762,805)	(516,791)	605,701	(3,673,895)
Equipment	(5,239,410)	(99,561)	3,255,972	(2,082,999)
Automobiles	(817,677)	(247,508)	185,802	(879,383)
Other	(19,327)	(1,500)	-	(20,827)
Total accumulated depreciation	<u>(13,107,125)</u>	<u>\$ (996,474)</u>	<u>\$ 4,047,475</u>	<u>(10,056,124)</u>
Total capital assets being depreciated, net	<u>3,570,565</u>			<u>3,125,040</u>
Capital assets, net	<u>\$ 3,923,538</u>			<u>\$ 3,478,013</u>

7. Pension Plan:

The Lottery participates in the Missouri State Employees' Retirement System (MOSERS) plan, a cost-sharing multiple employer defined benefit retirement plan covering all the employees of the State of Missouri. The Plan is administered by the MOSERS Board of Trustees in accordance with Sections 104.010 and 104.312 to 104.800 of the Revised Statutes of Missouri. Substantially all full-time employees of the Lottery are covered by the plan. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: Missouri State Employees' Retirement System, 907 Wildwood Drive, P.O. Box 209, Jefferson City, Missouri 65102, or by calling (800) 827-1067.

The Plan provides retirement, death and disability benefits to its members. Benefits for state employees are fully vested after five years of credited service. Employees may retire on or after age 55 and may receive reduced benefits at an earlier retirement age. However, an employee may receive full benefits if they are at least age 48 and their combined age and service equal 80. The Plan cannot be terminated. The Lottery's full-time employees do not contribute to the Plan. The State of Missouri is required to make all contributions at an actuarially determined rate. The current rate of contribution for retirement and long-term disability is 12.75 percent and 0.495 percent of total payroll, respectively.

For fiscal years ended June 30, 2010, 2009 and 2008, the annual pension cost was approximately \$934,000, \$930,000 and \$951,000, 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. All three leases were renegotiated at the end of FY09 due to the Lottery's plan to request improvements to the facilities and a request from the Governor's Office to decrease pricing for all state leased buildings by ten percent. All three leases were decreased between five and ten percent and all improvements to the buildings were made with the exception of the Kansas City office, which is pending. The lease agreements for both the St. Louis and Springfield offices are under a one year agreement with four one-year renewal options starting July 1, 2009 and set to expire June 30, 2014. The Kansas City office is under a one year reduced

rate agreement set to expire on October 31, 2010. Effective November 1, 2010 through December 31, 2012, the Kansas City lease agreement returns to the original amount. Annual rent expense for these facilities totaled approximately \$277,000 in fiscal 2010 and \$295,000 in 2009.

The Lottery leases ticket vending machines under operating lease agreements. In fiscal year 2008, the Lottery replaced the existing vending machines with new 24-bin machines under a new lease agreement which expires June 30, 2012. The lease agreement permits the Lottery to lease machines for terms of three to five years at established price levels during the duration of the agreement. In fiscal year 2010, the Lottery leased an additional 500 4-bin machines which were added to the existing contract. These 4-bin machines were placed in social atmosphere retail establishments. Annual lease expense for the ticket vending machines totaled approximately \$1,487,000 in fiscal 2010 and \$1,414,000 in 2009.

Future minimum lease payments under all noncancelable leases having initial or remaining terms in excess of one year as of June 30, 2010 are as follows:

2011	\$ 2,223,405
2012	2,227,099
2013	228,898
2014	173,496
	<u>\$ 4,852,898</u>

9. Contractual Arrangements:

The Lottery maintains contractual arrangements with providers of goods and services critical to the Lottery's operations. Significant contracts include an agreement with the provider of the Lottery's on-line game computer systems and agreements with producers of the Lottery's Scratchers and Pull-Tab games tickets, among others. The contracts generally run for one year, with one-year renewals available at the option of the Lottery. The contracts require the Lottery to compensate vendors for goods and services that meet stated quality standards.

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 33 state and district lotteries (member lotteries) and operates the on-line Powerball game and the on-line 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 prize winners or 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 went into effect. Member lotteries sell tickets for the Mega Millions game and remit 51 percent of sales to prize winners or to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL.

Powerball grand-prize winners have the choice of receiving the prize in 30 annual installments or a portion of the prize in one lump-sum payment. Mega Millions grand-prize winners have the choice of receiving the prize in 26 annual installments or a portion of the prize in one lump-sum payment. Investment securities, with maturities that approximate all grand-prize winner payments due to winners of MUSL games, are maintained by MUSL. The investments and related prize liabilities for winners of these games from the state of Missouri are excluded from the accompanying financial statements. Future grand-prize winner payments of MUSL games due to winners in Missouri are approximately \$30,175,000 and \$38,098,000 as of June 30, 2010 and 2009, 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, 2010 and 2009, the Lottery's portion of the prize reserve fund and set prize reserve fund for Powerball was approximately \$4,529,000 and \$4,529,000, respectively, and

\$1,487,000 and \$1,478,000, respectively. At June 30, 2010, the Lottery's portion of the prize reserve fund for Mega Millions was approximately (\$49,000). The Lottery has charged amounts placed into the prize reserve funds to prize expense as the related sales have occurred.

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game 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, 2010 and 2009 the Lottery's portion of the balance of this account was \$17,349 and \$47,387, respectively, and is reported as a receivable.

10. Amounts Held On Behalf Of Grand-Prize Winners Liability:

The Lottery has an implied contract to make future installment payments to grand-prize winners, and as such, recognizes this as amounts held on behalf of grand-prize winners. Amounts due to grand-prize winners are carried at the estimated present value of the prizes that will eventually be awarded. The present value of these payments at June 30, 2010 and 2009 was \$57,222,404 and \$62,621,040 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, 2010, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 10,560,000
2012	8,614,000
2013	7,417,000
2014	6,460,000
2015	5,084,000
2016 through 2020	17,442,000
2021 through 2025	13,762,000
2026 through 2030	8,004,000
2031 through 2034	1,268,000
Total installment payments due	<u>78,611,000</u>
Less- Interest portion	<u>21,388,596</u>
	<u><u>\$ 57,222,404</u></u>

The Lottery has also purchased annuity contracts in the name of the prize winners from selected insurance companies to fund certain grand-prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. The Lottery would assume liability for future payments if the insurance companies were to default on their payments. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$5,100,000 and \$1,350,000 at June 30, 2010 and 2009, respectively.

11. Long-Term Liabilities:

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

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 20,314,535	\$259,672,711	\$255,030,946	\$ 24,956,300	\$ 21,833,442
Grand-prize winner liabilities	<u>62,621,040</u>	<u>6,195,364</u>	<u>11,594,000</u>	<u>57,222,404</u>	<u>10,560,000</u>
Total	<u><u>\$ 82,935,575</u></u>	<u><u>\$265,868,075</u></u>	<u><u>\$266,624,946</u></u>	<u><u>\$ 82,178,704</u></u>	<u><u>\$ 32,393,442</u></u>

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 23,034,189	\$256,286,630	\$259,006,284	\$ 20,314,535	\$ 17,142,108
Grand-prize winner liabilities	<u>67,068,938</u>	<u>7,254,102</u>	<u>11,702,000</u>	<u>62,621,040</u>	<u>11,594,000</u>
Total	<u>\$ 90,103,127</u>	<u>\$263,540,732</u>	<u>\$270,708,284</u>	<u>\$ 82,935,575</u>	<u>\$ 28,736,108</u>

12. Postretirement Benefits:

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

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

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

13. Contingencies:

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



Statistical Section

(Unaudited)



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.

Contents	Page
Financial Trends	37
<p>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.</p>	
Revenue Capacity	44
<p>These schedules contain information to help the reader assess factors affecting the Lottery’s ability to generate sales of lottery tickets. Scratchers ticket game strategies, such as price points and launch schedules, affect the selection and availability of products for sale at retail locations. Information for on-line sales by game, included in the financial trends section, provides data about the various drawing based games that are available to the public. The Lottery’s statewide retailer network determines the market exposure for Scratchers and on-line games.</p>	
Demographic And Economic Information	47
<p>These schedules contain demographic and economic indicators to help a reader understand the environment in which the Lottery operates.</p>	
Operating Information	49
<p>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.</p>	

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, 2001 through 2010, is presented in the accompanying schedules and charts. The Missouri State Lottery Commission was created on November 6, 1984 by the passage of a constitutional amendment and began selling tickets in January 1986.

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

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

Sales – reflects the face value of lottery tickets.

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

Prizes – reflects the liability incurred for payments to winners.

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

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

Transfers to the State – reflects the transfer of net income, excluding unrealized gains on investments and amortization of grand-prize winner liability, to the Lottery Proceeds Fund for fiscal years 2001 through 2010. Transfers made during fiscal year 2010 include \$12,318,398 of unclaimed prizes. The Lottery Proceeds Fund is appropriated by the Missouri State General Assembly to the Department of Higher Education and the Department of Elementary and Secondary Education. Profits not yet transferred are shown on the balance sheet as a liability.

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

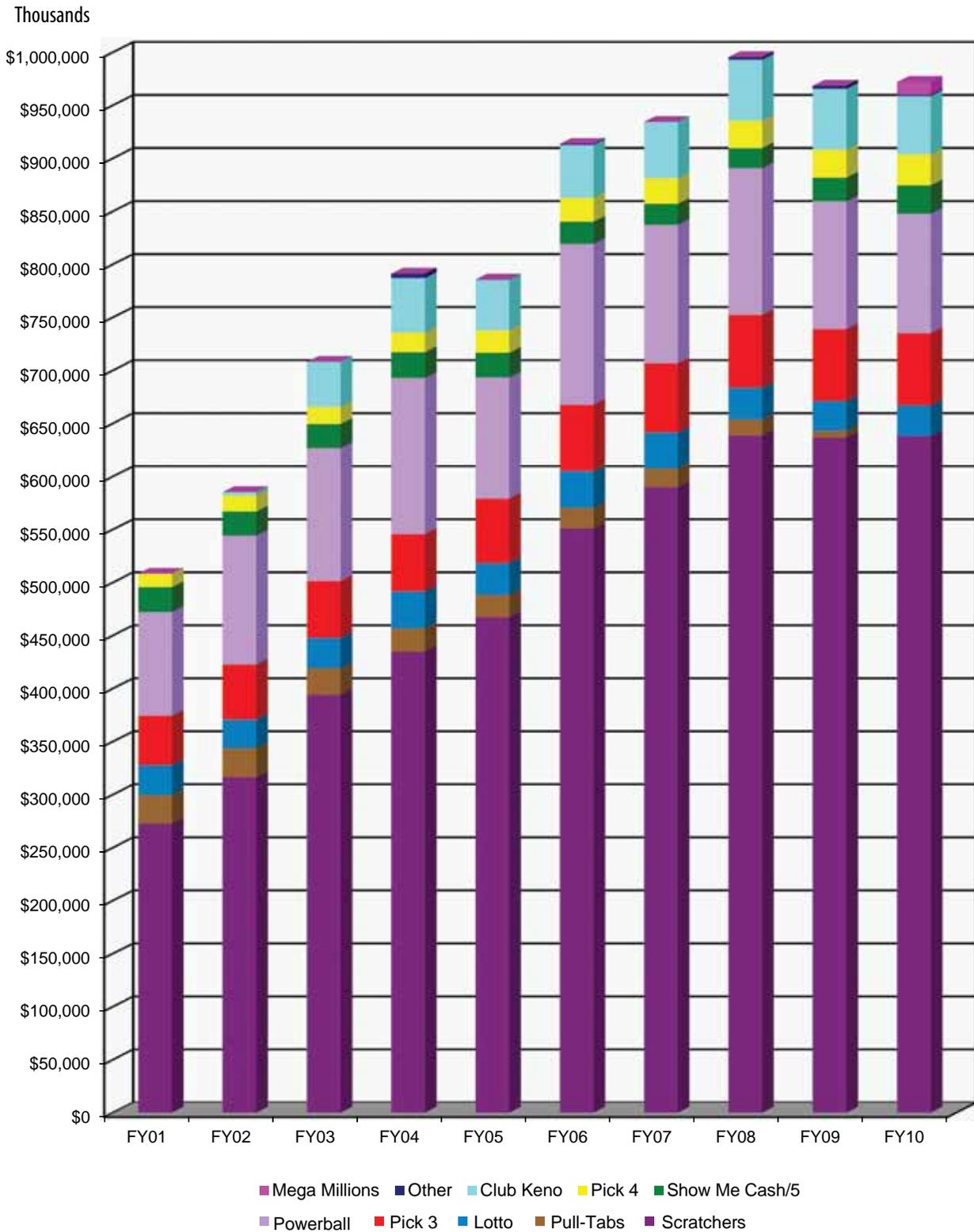
Unless otherwise noted, the source for the data used to prepare the following schedules and charts is the Financial Accounting Section of the Missouri State Lottery Commission.

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

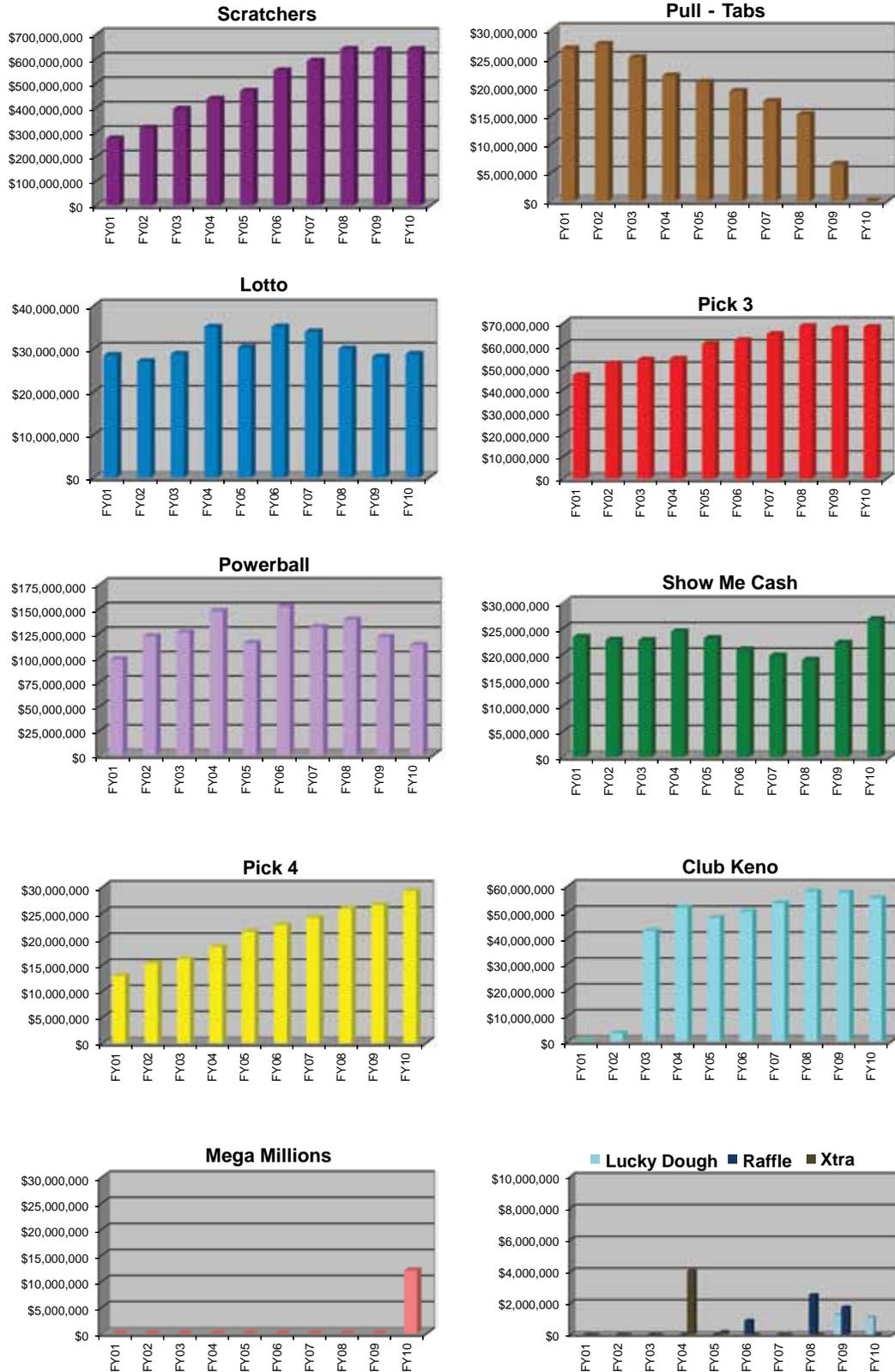
	2001	2002	2003	2004
Operating revenues				
Scratchers ticket sales	\$272,658,386	\$316,397,488	\$393,981,254	\$434,791,673
On-line ticket sales				
Lotto	28,459,170	27,030,491	28,736,839	35,015,934
Pick 3	46,539,183	51,785,842	53,569,248	53,946,082
Powerball	97,920,328	121,474,897	125,324,451	147,232,847
Show Me Cash	23,280,662	22,714,933	22,665,639	24,337,775
Pick 4	12,864,736	15,292,249	16,157,968	18,436,614
Club Keno	-	3,124,386	42,570,878	51,531,568
Mega Millions	-	-	-	-
Raffle	-	-	-	-
Xtra	-	-	-	4,014,945
Lucky Dough	-	-	-	-
Total on-line ticket sales	<u>209,064,079</u>	<u>241,422,798</u>	<u>289,025,023</u>	<u>334,515,765</u>
Pull-Tab ticket sales	<u>26,578,639</u>	<u>27,368,968</u>	<u>25,041,235</u>	<u>21,846,920</u>
Total sales	<u>508,301,104</u>	<u>585,189,254</u>	<u>708,047,512</u>	<u>791,154,358</u>
Other operating revenues	<u>1,757,320</u>	<u>615,041</u>	<u>539,609</u>	<u>638,392</u>
Total operating revenues	<u>510,058,424</u>	<u>585,804,295</u>	<u>708,587,121</u>	<u>791,792,750</u>
Operating Expenses				
Direct costs				
Prize expense	293,218,540	353,075,456	434,559,460	484,827,462
Retailer compensation	32,429,771	37,100,715	44,453,462	49,316,766
Ticket costs	12,531,590	13,289,487	16,712,029	18,341,746
Total direct costs	<u>338,179,901</u>	<u>403,465,658</u>	<u>495,724,951</u>	<u>552,485,974</u>
Administrative expenses	<u>31,503,644</u>	<u>29,832,679</u>	<u>26,561,873</u>	<u>22,619,483</u>
Total operating expenses	<u>369,683,545</u>	<u>433,298,337</u>	<u>522,286,824</u>	<u>575,105,457</u>
Operating Income	<u>140,374,879</u>	<u>152,505,958</u>	<u>186,300,297</u>	<u>216,687,293</u>
Nonoperating Revenues (Expenses)				
Interest income	1,540,929	756,413	382,523	470,448
Unclaimed prizes*	12,201,033	6,669,140	16,720,584	12,283,414
Net increase (decrease) in the fair value of investments	9,747,840	7,678,525	11,259,456	(1,546,223)
Amortization of grand prize winner liability	(7,462,567)	(5,617,431)	(5,473,304)	(5,255,750)
Gain (loss) on disposal of assets	(202,110)	106,956	62,857	(13,972)
Transfers to the state	(153,914,731)	(160,038,467)	(203,466,261)	(229,427,183)
Transfers from the state	-	-	-	-
Total nonoperating expenses	<u>(138,089,606)</u>	<u>(150,444,864)</u>	<u>(180,514,145)</u>	<u>(223,489,266)</u>
Changes In Net Assets	2,285,273	2,061,094	5,786,152	(6,801,973)
Total Net Assets, beginning of year	<u>5,951,947</u>	<u>8,237,220</u>	<u>10,298,314</u>	<u>16,084,466</u>
Total Net Assets, end of year	<u>\$8,237,220</u>	<u>\$10,298,314</u>	<u>\$16,084,466</u>	<u>\$9,282,493</u>
* - effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers all unclaimed prizes to the Lottery Proceeds Fund				
Net Assets				
Invested in capital assets	\$7,141,537	\$5,912,800	\$4,986,696	\$4,151,722
Unrestricted	(7,141,537)	(5,912,800)	(4,986,696)	(4,151,722)
Restricted	<u>8,237,220</u>	<u>10,298,314</u>	<u>16,084,466</u>	<u>9,282,493</u>
Total net assets	<u>\$8,237,220</u>	<u>\$10,298,314</u>	<u>\$16,084,466</u>	<u>\$9,282,493</u>

2005	2006	2007	2008	2009	2010
<u>\$467,326,093</u>	<u>\$550,961,109</u>	<u>\$590,045,817</u>	<u>\$638,533,775</u>	<u>\$636,574,616</u>	<u>\$638,062,954</u>
30,311,403	35,062,426	33,955,803	29,955,387	28,116,282	28,751,655
60,558,754	62,274,077	65,091,442	68,680,133	67,665,040	68,177,109
114,485,380	151,772,839	130,795,800	138,393,572	120,677,712	112,711,538
23,056,447	20,861,442	19,684,271	18,836,176	22,168,807	26,711,262
21,338,535	22,605,473	24,015,250	25,751,837	26,434,016	29,117,093
47,616,083	49,948,394	53,273,105	57,753,303	57,378,494	55,192,089
-	-	-	-	-	12,059,295
-	877,591	-	2,500,000	1,717,410	-
173,848	-	-	-	-	-
-	-	-	-	1,256,408	1,081,490
<u>297,540,450</u>	<u>343,402,242</u>	<u>326,815,671</u>	<u>341,870,408</u>	<u>325,414,169</u>	<u>333,801,531</u>
<u>20,731,089</u>	<u>19,154,900</u>	<u>17,409,170</u>	<u>15,088,705</u>	<u>6,463,110</u>	<u>-</u>
785,597,632	913,518,251	934,270,658	995,492,888	968,451,895	971,864,485
<u>340,957</u>	<u>167,767</u>	<u>1,395,548</u>	<u>649,422</u>	<u>596,377</u>	<u>50,414</u>
<u>785,938,589</u>	<u>913,686,018</u>	<u>935,666,206</u>	<u>996,142,310</u>	<u>969,048,272</u>	<u>971,914,899</u>
487,925,882	572,767,960	595,022,614	641,123,508	629,276,635	628,057,994
48,798,722	56,543,150	58,257,753	61,508,836	60,109,568	59,900,383
17,543,004	16,282,739	16,280,719	17,289,790	16,077,548	16,106,631
<u>554,267,608</u>	<u>645,593,849</u>	<u>669,561,086</u>	<u>719,922,134</u>	<u>705,463,751</u>	<u>704,065,008</u>
<u>21,430,609</u>	<u>20,290,872</u>	<u>19,987,112</u>	<u>20,362,542</u>	<u>20,466,793</u>	<u>20,809,357</u>
<u>575,698,217</u>	<u>665,884,721</u>	<u>689,548,198</u>	<u>740,284,676</u>	<u>725,930,544</u>	<u>724,874,365</u>
<u>210,240,372</u>	<u>247,801,297</u>	<u>246,118,008</u>	<u>255,857,634</u>	<u>243,117,728</u>	<u>247,040,534</u>
571,049	1,459,617	1,360,853	1,430,382	731,222	310,040
7,811,413	11,392,679	10,349,767	9,330,350	12,403,901	12,318,398
6,300,009	(1,424,646)	4,294,279	6,893,961	4,365,372	4,560,063
(5,259,106)	(4,956,265)	(4,647,958)	(4,215,836)	(3,861,661)	(3,381,475)
19,876	15,142	54,077	37,679	(26,702)	3,739
(218,642,710)	(260,668,734)	(257,882,704)	(266,656,044)	(256,286,630)	(259,672,711)
-	-	-	-	60,481	-
<u>(209,199,469)</u>	<u>(254,182,207)</u>	<u>(246,471,686)</u>	<u>(253,179,508)</u>	<u>(242,614,017)</u>	<u>(245,861,946)</u>
1,040,903	(6,380,910)	(353,678)	2,678,126	503,711	1,178,588
<u>9,282,493</u>	<u>10,323,396</u>	<u>3,942,486</u>	<u>3,588,808</u>	<u>6,266,934</u>	<u>6,770,645</u>
<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,808</u>	<u>\$6,266,934</u>	<u>\$6,770,645</u>	<u>\$7,949,233</u>
<hr/>					
\$3,295,311	\$3,068,609	\$3,411,563	\$3,923,538	\$3,478,013	\$3,458,481
(3,295,311)	(3,068,609)	(3,411,563)	(3,923,538)	(3,478,013)	(3,458,481)
<u>10,323,396</u>	<u>3,942,486</u>	<u>3,588,808</u>	<u>6,266,934</u>	<u>6,770,645</u>	<u>7,949,233</u>
<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,808</u>	<u>\$6,266,934</u>	<u>\$6,770,645</u>	<u>\$7,949,233</u>

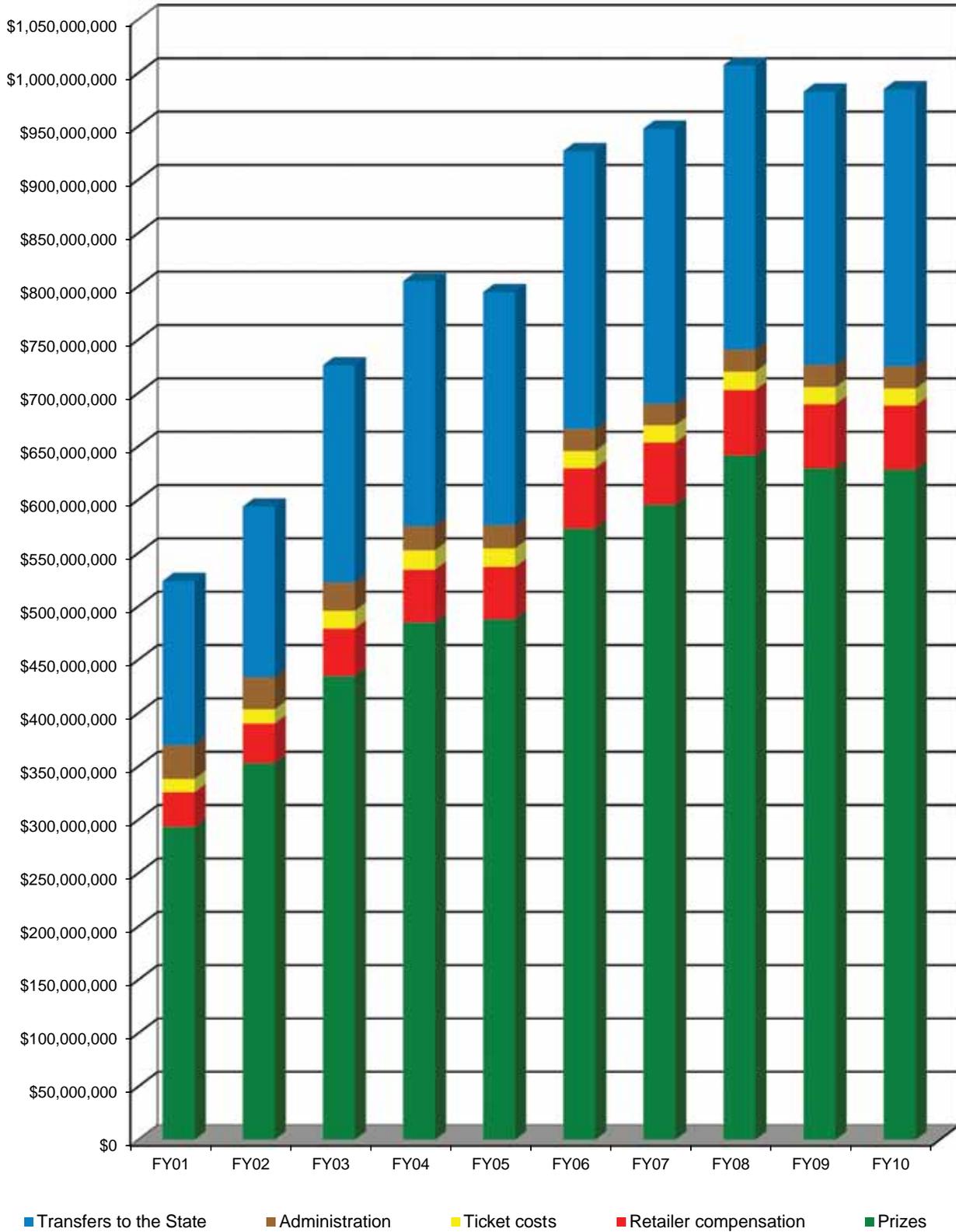
**Missouri State Lottery Commission
Sales By Product
Last Ten Fiscal Years
(Unaudited)**



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

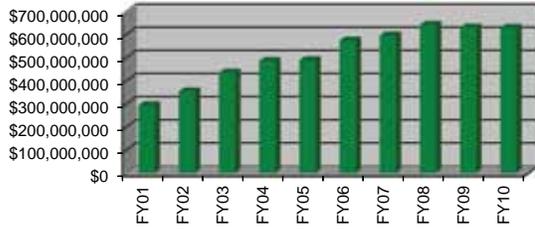


**Missouri State Lottery Commission
Expenses And Transfers
Last Ten Fiscal Years
(Unaudited)**

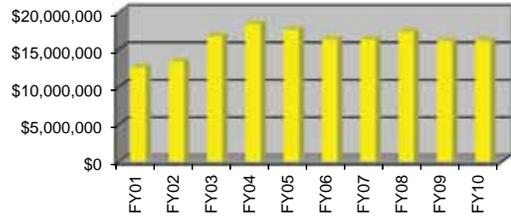


Missouri State Lottery Commission Expenses And Transfers Last Ten Fiscal Years (Unaudited)

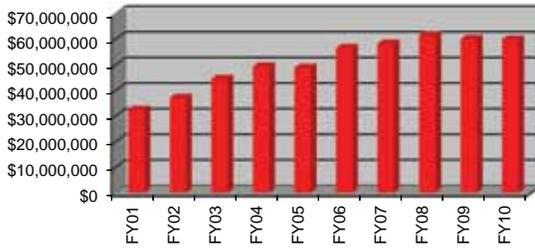
Prizes



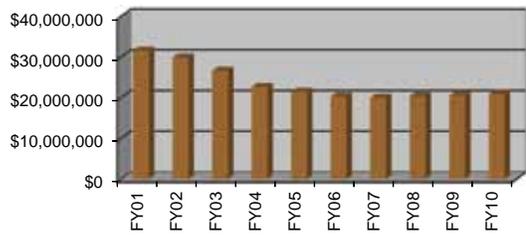
Ticket Costs



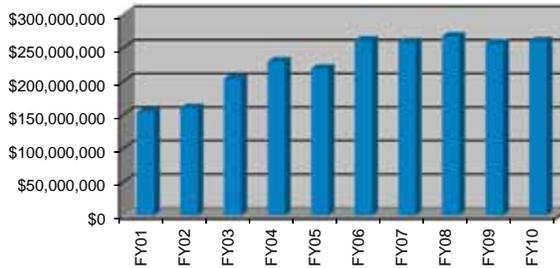
Retailer Compensation



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	2001	2002	2003	2004	2005
Number of Launches					
\$1	30	23	15	15	14
\$2	14	20	20	24	22
\$3	2	3	2	2	2
\$5	5	6	7	6	9
\$10	-	-	5	5	7
\$20	-	-	-	-	-
Total	51	52	49	52	54
Sales					
\$1	\$152,793,807	\$163,461,975	\$143,870,364	\$132,474,169	\$120,824,709
\$2	73,564,980	97,976,908	117,812,464	150,207,177	162,535,252
\$3	18,676,691	19,576,955	20,099,812	24,940,942	27,283,622
\$5	27,622,908	35,411,650	50,094,329	57,003,246	73,989,819
\$10	-	-	62,104,285	70,166,139	82,692,691
\$20	-	-	-	-	-
	\$272,658,386	\$316,427,488	\$393,981,254	\$434,791,673	\$467,326,093

2006	2007	2008	2009	2010	% of Total 2010
14	11	9	11	11	25.00%
22	19	18	15	14	31.82%
1	2	2	5	7	15.91%
10	9	9	10	8	18.18%
3	1	1	2	3	6.82%
-	-	1	1	1	2.27%
<u>50</u>	<u>42</u>	<u>40</u>	<u>44</u>	<u>44</u>	<u>100.00%</u>
\$109,864,276	\$99,694,829	\$85,622,427	\$88,731,681	\$82,671,825	12.96%
169,626,074	183,404,816	177,465,587	159,437,206	142,217,688	22.29%
28,130,183	32,647,121	35,194,190	62,411,862	88,327,022	13.85%
108,561,454	133,382,786	140,942,309	146,339,990	147,668,657	23.14%
134,779,122	140,916,265	134,285,251	88,918,424	96,437,335	15.11%
-	-	65,024,011	90,735,453	80,740,427	12.65%
<u>\$550,961,109</u>	<u>\$590,045,817</u>	<u>\$638,533,775</u>	<u>\$636,574,616</u>	<u>\$638,062,954</u>	<u>100.00%</u>

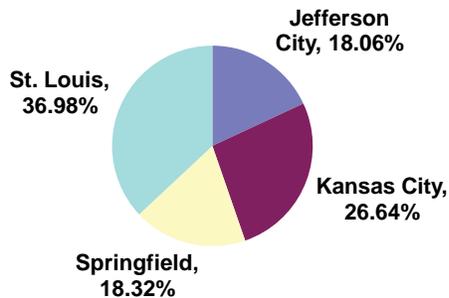
**Missouri State Lottery Commission
Schedule Of Lottery Retailers And Sales By Region
Fiscal Years Ending June 30, 2006, 2007, 2008, 2009 and 2010
(Unaudited)**

Region	Number of Retailers					% of Total Retailers				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Jefferson City	909	864	893	857	863	18.43%	17.83%	17.83%	17.99%	18.06%
Kansas City	1,313	1,313	1,325	1,278	1,273	26.62%	27.09%	26.46%	26.82%	26.64%
Springfield	922	904	924	871	875	18.69%	18.66%	18.45%	18.28%	18.32%
St. Louis	1,789	1,765	1,866	1,759	1,767	36.26%	36.42%	37.26%	36.91%	36.98%
Total Statewide	4,933	4,846	5,008	4,765	4,778	100.00%	100.00%	100.00%	100.00%	100.00%

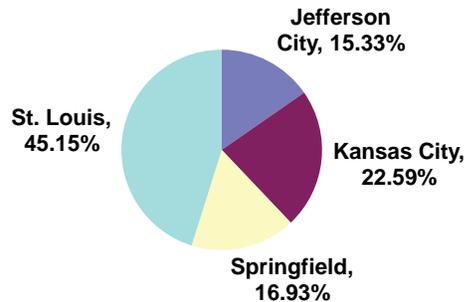
Region	Total Sales					% of Total Sales				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Jefferson City	\$133,903,265	\$136,964,078	\$150,518,525	\$145,752,010	\$148,986,826	14.66%	14.66%	15.12%	15.05%	15.33%
Kansas City	211,175,672	212,733,429	225,280,041	218,289,057	\$219,544,187	23.12%	22.77%	22.63%	22.54%	22.59%
Springfield	170,395,799	170,597,822	180,881,058	170,350,688	\$164,536,657	18.65%	18.26%	18.17%	17.59%	16.93%
St. Louis	398,043,515	413,975,329	438,813,264	434,060,139	\$438,796,815	43.57%	44.31%	44.08%	44.82%	45.15%
Total Statewide	\$913,518,251	\$934,270,658	\$995,492,888	\$968,451,895	\$971,864,485	100.00%	100.00%	100.00%	100.00%	100.00%

FY2010

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 and 2010. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

Missouri State Lottery Commission
Schedule Of Demographic And Economic Statistics
Calendar Years 2001 To 2010
(Unaudited)

Calendar Year	Statewide Population	Statewide Personal Income (millions of dollars)	Statewide Personal Income per Capita	State Unemployment Rate
2001	5,643,232	156,937	27,810	4.2%
2002	5,680,259	161,104	28,362	5.0%
2003	5,712,355	166,129	29,082	5.4%
2004	5,752,861	173,968	30,240	5.4%
2005	5,797,703	181,930	31,380	5.9%
2006	5,842,713	191,602	32,793	4.7%
2007	5,878,415	199,773	33,984	5.0%
2008	5,911,605	208,255	35,228	6.5%
2009	5,987,580	215,181	35,938	9.3%
2010	n/a	n/a	n/a	9.2%

Sources:

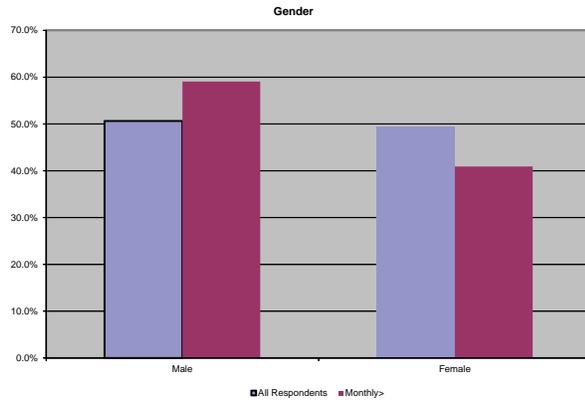
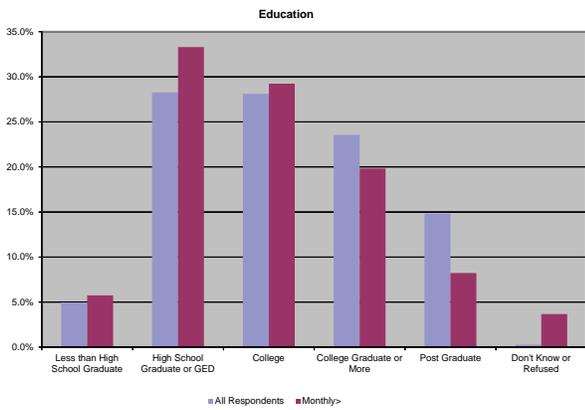
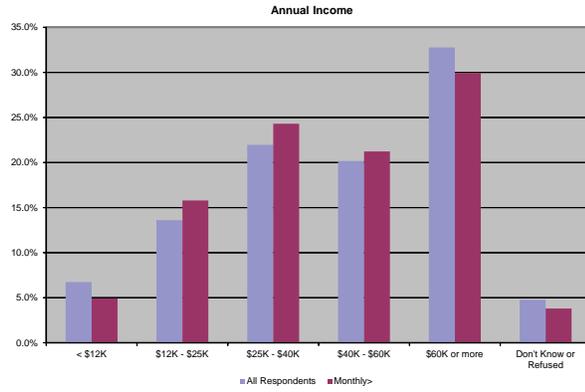
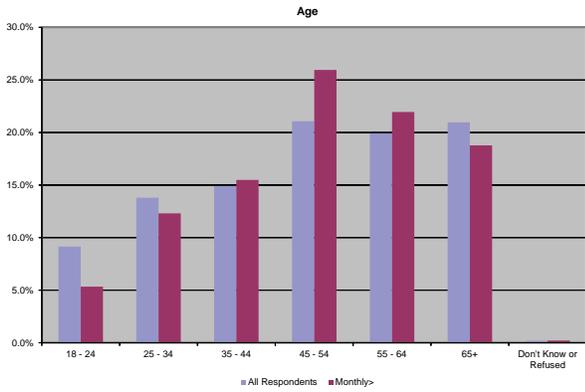
Population from U.S. Census Bureau;

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 2010



Source: Missouri Lottery Track and Trend Report FY2010

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Full-time	177.0	177.0	177.0	177.0	175.0	175.0	173.0	173.0	173.0	163.0
Part-time	1.5	1.5	1.5	1.5	1.5	1.5	0.5	0.5	0.5	0.5
Total	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>178.5</u>	<u>176.5</u>	<u>176.5</u>	<u>173.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>
Sales										
Jefferson City	12.0	12.0	12.0	12.0	12.0	12.0	11.0	11.0	10.0	9.0
Springfield	8.0	8.0	8.0	8.0	8.0	8.0	9.0	9.0	10.0	9.0
Kansas City	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	14.0
St. Louis	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	12.0	11.0	11.0	11.0	11.0	11.0	12.0	12.0	12.0	11.0
Vault	11.0	11.0	11.0	11.0	11.0	11.0	12.0	12.0	12.0	12.0
Marketing and administration	-	101.5	102.5	101.5	101.5	99.5	99.5	94.5	94.5	88.5
Total	<u>77.0</u>	<u>177.5</u>	<u>179.5</u>	<u>178.5</u>	<u>178.5</u>	<u>176.5</u>	<u>178.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>

Source: Missouri State Lottery Commission Budget Office

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Retailers- Statewide	4,968	5,036	5,021	5,003	5,022	4,933	4,846	5,008	4,765	4,778
Per Capita Sales	\$91	\$104	\$125	\$138	\$136	\$157	\$160	\$169	\$164	\$162

Source: Missouri State Lottery Commission Research and Licensing Sections

U.S. lotteries' fiscal 2009 sales by game*

(in \$millions)				Online Games								Total Sales	PC Sales	VLT (net)
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Bloc Lotto	Hot Lotto	Keno	Other			
Arizona	6.6	278.92		9.41	3.04	45.49	17.00	117.24			13.39	484.49	\$73	
California	37.0	1,615.37		132.08	38.64	536.16	143.33	347.69		126.36	15.21	2,954.84	\$80	
Colorado	5.0	328.25				43.54	20.83	100.73				493.36	\$98	
Connecticut	3.5	610.01		113.12	93.23	32.94	40.42	92.13			9.45	991.30	\$282	
Delaware	0.9	36.47		27.01	18.06	5.84		31.54	3.44		0.90	123.25	\$139	578.98
D.C.	0.6	45.25		60.83	79.91		9.58	33.00	3.83	12.58	0.39	245.37	\$409	
Florida	18.5	2,064.14		320.16	238.96	650.60	287.29	233.40			143.50	3,938.04	\$212	
Georgia	9.8	2,243.71		504.11	209.27	23.55	91.42	205.81		116.25	1.52	3,395.64	\$345	
Idaho	1.5	88.43	2.41	1.88		3.15		36.79	4.13		2.86	139.65	\$90	
Illinois	12.9	1,119.74		297.70	176.88	122.67	129.00	204.58			26.61	2,077.17	\$161	
Indiana	6.4	473.83	10.80	29.33	28.35	54.88		114.27			21.19	732.66	\$114	
Iowa	3.0	136.27	21.32	6.54	2.56		4.11	58.22	14.33			243.34	\$81	
Kansas	2.8	115.72	8.75	5.97		1.70	14.82	40.00	10.73	28.42	4.39	230.51	\$82	
Kentucky	4.3	458.63	14.22	124.43	36.11	20.61	14.15	96.89				765.03	\$177	
Louisiana	4.5	141.39		49.09	36.16	33.48	14.51	103.89				378.52	\$84	
Maine	1.3	153.43		5.31	4.15	15.58	3.60	27.57			1.03	210.67	\$160	
Maryland	5.7	507.06		276.35	249.17	32.90	23.46	125.96		394.20	88.98	1,698.07	\$298	
Massachusetts	6.6	3,069.33	0.90		353.64	35.89	84.62	119.31		741.83	19.99	4,425.48	\$671	
Michigan	10.0	749.05	28.04	351.00	335.91	64.23	51.31	222.69		533.91	41.30	2,377.44	\$238	
Minnesota	5.3	324.94		12.42			28.16	88.34	14.59		12.80	481.25	\$91	
Missouri	6.0	636.58	6.46	67.67	26.43	28.12	22.17	120.68		57.38	2.97	968.45	\$162	
Montana	1.0	13.23				2.53	4.14	16.86	4.15		2.92	43.83	\$45	
Nebraska	1.8	64.76		3.12		2.12	11.87	39.41			1.97	123.25	\$69	
N. Hampshire	1.3	170.82		5.59	4.90	8.69	4.24	39.99	4.32		1.03	239.58	\$181	
New Jersey	8.7	1,270.53		448.18	265.45	90.17	138.97	282.50			7.46	2,503.27	\$287	
New Mexico	2.0	82.18		2.90			6.45	43.98	8.42			143.93	\$72	
New York	19.5	3,666.09		850.33	740.16	178.08	328.43	467.14		424.42	40.42	6,695.07	\$343	965.07
N. Carolina	9.4	789.10		208.80	15.79		60.00	209.75				1,283.44	\$137	
N. Dakota	0.6					2.08	3.59	11.80	4.26			21.72	\$34	
Ohio	11.5	1,349.38		382.51	205.87	43.92	67.20	193.05		110.79	64.97	2,417.68	\$209	
Oklahoma	3.7	77.88		6.86			4.14	91.03	13.25			193.16	\$52	
Oregon	3.8	112.11			1.39	38.07	6.65	51.84		99.18	4.54	313.78	\$82	786.75
Pennsylvania	12.6	1,757.65		399.11	260.39	153.50	187.29	311.06			19.16	3,088.16	\$245	
Rhode Island	1.1	82.35		25.81			5.19	46.58		76.04	2.51	238.48	\$226	460.90
S. Carolina	4.6	650.04		136.61	61.81	19.08	19.40	118.17				1,005.11	\$220	
S. Dakota	0.8	20.18				1.87	1.92	13.78	3.30			41.05	\$51	220.13
Tennessee	6.3	768.92		57.19	24.51	23.40	13.88	126.74			0.79	1,015.43	\$161	
Texas	24.8	2,791.53		290.79	52.25	200.52	70.75	262.75			51.52	3,720.11	\$150	
Vermont	0.6	73.79		1.72	1.36	5.08	1.82	11.41			0.80	95.98	\$154	
Virginia	7.9	690.38		250.63	185.42	32.13	29.27	162.10			15.68	1,365.61	\$173	
Washington	6.7	307.01		18.34	14.59	58.25	24.43	59.58		5.52		487.72	\$73	
W. Virginia	1.8	113.85		8.92	4.76		5.60	51.02	4.88	9.07		198.10	\$109	1,260.72
Wisconsin	5.7	275.34	1.46	26.27	11.97	20.74	52.24	85.40				473.42	\$84	
Total	288.5	30,323.65	94.35	5,518.06	3,781.07	2,631.54	2,047.24	5,216.66	93.64	2,735.96	620.26	53,062.4	\$184	4,272.55
% of total		57.1%	0.2%	10.4%	7.1%	5.0%	3.9%	9.8%	0.2%	5.2%	1.2%	100.0%		

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

Source: LaFleur's 2010 World Lottery Almanac

Fiscal 2009 U.S. Lottery Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	Pop. ¹ (Mil)	2008 Gross Domestic Product ²								Ticket Sales as % of GDP	Gov't Transfers as % of GDP ⁷	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale	
			Ticket Sales ³	VLT (net)	Prizes ⁴	Agent Comm. ⁵	Expense ⁶	Gov't Transfers ⁷	PC Sales					PC Gov't
Arizona	6.6	248,888	484.49		282.48	32.47	42.85	129.08	\$73	\$20	0.195%	0.052%	58.3%	26.6%
California	37.0	1,846,757	2,954.84		1,556.12	208.11	188.08	1,027.73	\$80	\$28	0.160%	0.056%	52.7%	34.8%
Colorado	5.0	248,603	493.36		301.67	36.48	35.04	119.60	\$98	\$24	0.198%	0.048%	61.1%	24.2%
Connecticut	3.5	216,174	991.30		604.71	55.77	48.10	282.90	\$282	\$80	0.459%	0.131%	5.6%	28.5%
Delaware ^{3,4}	0.9	61,828	123.25	578.98	66.80	7.39	13.63	311.84	\$139	\$352	0.199%	0.504%	54.2%	
D.C.	0.6	97,235	245.37		128.06	15.32	33.25	68.78	\$409	\$115	0.252%	0.071%	52.2%	28.0%
Florida	18.5	744,120	3,938.04		2,340.37	220.55	131.10	1,287.86	\$212	\$69	0.529%	0.173%	59.4%	32.7%
Georgia	9.8	397,756	3,395.64		2,148.68	240.91	140.19	872.08	\$345	\$89	0.854%	0.219%	63.3%	25.7%
Idaho	1.5	52,747	139.65		85.00	8.31	12.47	35.28	\$90	\$23	0.265%	0.067%	60.9%	25.3%
Illinois	12.9	633,697	2,077.17		1,225.86	104.59	113.26	634.67	\$161	\$49	0.328%	0.100%	59.0%	30.6%
Indiana	6.4	254,861	732.66		453.23	50.50	50.90	178.93	\$114	\$28	0.287%	0.070%	61.9%	24.4%
Iowa	3.0	135,702	243.34		138.43	15.30	30.75	60.55	\$81	\$20	0.179%	0.045%	56.9%	24.9%
Kansas	2.8	122,731	230.51		130.91	13.45	20.69	68.19	\$82	\$24	0.188%	0.056%	56.8%	29.6%
Kentucky	4.3	156,436	765.03		470.44	50.25	42.14	204.39	\$177	\$47	0.489%	0.131%	61.5%	26.7%
Louisiana	4.5	222,218	378.52		193.33	21.06	31.33	135.91	\$84	\$30	0.170%	0.061%	51.1%	35.9%
Maine	1.3	49,709	210.67		129.96	13.55	19.30	50.57	\$160	\$38	0.424%	0.102%	61.7%	24.0%
Maryland	5.7	273,333	1,698.07		1,025.90	121.89	59.37	493.21	\$298	\$87	0.621%	0.180%	60.4%	29.0%
Massachusetts	6.6	364,988	4,425.48		3,217.78	266.12	99.60	859.41	\$671	\$130	1.213%	0.235%	72.7%	19.4%
Michigan	10.0	382,544	2,377.44		1,407.64	174.20	110.47	737.22	\$238	\$74	0.621%	0.193%	59.2%	31.0%
Minnesota	5.3	262,847	481.25		295.04	28.85	39.95	118.25	\$91	\$22	0.183%	0.045%	61.3%	24.6%
Missouri	6.0	237,797	968.45		629.28	60.11	36.54	256.29	\$162	\$43	0.407%	0.108%	65.0%	26.5%
Montana	1.0	35,891	43.83		23.08	2.52	8.07	10.13	\$45	\$10	0.122%	0.028%	52.7%	23.1%
Nebraska	1.8	83,273	123.25		71.86	7.67	15.14	30.25	\$69	\$17	0.148%	0.036%	58.3%	24.5%
N. Hampshire	1.3	60,005	239.58		142.05	13.07	16.79	68.15	\$181	\$51	0.399%	0.114%	59.3%	28.4%
New Jersey	8.7	474,936	2,503.27		1,455.25	139.49	72.50	887.21	\$287	\$102	0.527%	0.187%	58.1%	35.4%
New Mexico	2.0	79,901	143.93		80.09	9.27	14.17	40.81	\$72	\$20	0.180%	0.051%	55.6%	28.4%
New York	19.5	1,144,481	6,695.07	965.07	4,003.27	400.66	257.62	2,543.95	\$343	\$130	0.585%	0.222%	59.8%	38.0%
N. Carolina	9.4	400,192	1,283.43		731.69	90.37	54.73	414.92	\$137	\$44	0.321%	0.104%	57.0%	32.3%
N. Dakota	0.6	31,208	21.72		11.31	1.10	3.70	6.38	\$34	\$10	0.070%	0.020%	52.1%	29.4%
Ohio	11.5	471,508	2,417.68		1,459.05	150.06	124.29	702.29	\$209	\$61	0.513%	0.149%	60.3%	29.0%
Oklahoma	3.6	146,448	193.17		95.92	13.43	13.78	69.73	\$54	\$19	0.132%	0.048%	49.7%	36.1%
Oregon ^{3,4}	3.8	161,573	313.78	786.75	205.35	26.72	28.30	594.31	\$82	\$155	0.194%	0.368%	65.4%	
Pennsylvania	12.6	553,301	3,088.16		1,852.50	165.07	132.64	910.48	\$245	\$72	0.558%	0.165%	60.0%	29.5%
R. Island ^{3,4}	1.1	47,364	238.48	460.90	141.82	29.04	9.36	344.29	\$226	\$327	0.504%	0.727%	59.5%	
S. Carolina	4.6	156,384	1,005.11		633.20	71.26	42.96	261.52	\$220	\$57	0.643%	0.167%	63.0%	26.0%
S. Dakota ^{3,4}	0.8	36,959	41.05	220.13	23.32	2.35	5.53	119.88	\$51	\$148	0.111%	0.324%	56.8%	
Tennessee	6.3	252,127	1,014.94		618.66	71.03	50.23	280.15	\$161	\$44	0.403%	0.111%	61.0%	27.6%
Texas	24.8	1,223,511	3,720.11		2,299.75	186.15	194.37	1,062.15	\$150	\$43	0.304%	0.087%	61.8%	28.6%
Vermont	0.6	25,442	95.98		60.74	5.64	8.51	21.10	\$154	\$34	0.377%	0.083%	63.3%	22.0%
Virginia	7.9	397,025	1,365.61		781.02	76.88	73.71	430.24	\$173	\$55	0.344%	0.108%	57.2%	31.5%
Washington	6.7	322,778	487.72		301.28	30.75	45.50	120.39	\$73	\$18	0.151%	0.037%	61.8%	24.7%
W. Virginia ^{3,4}	1.8	61,652	198.10	1,260.72	119.45	13.87	9.44	616.62	\$109	\$339	0.321%	1.000%	60.3%	
Wisconsin	5.7	240,429	473.42		279.88	32.41	32.23	133.30	\$84	\$24	0.197%	0.055%	59.1%	28.2%
Total	288.4	13,417,359	53,061.9	4,272.5	32,222.2	3,284.0	2,512.6	17,601.0	\$184	\$61	0.395%	0.131%	60.7%	

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

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

Source: LaFleur's 2010 World Lottery Almanac

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Owned buildings - square feet										
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
Fleet of owned vehicles										
Passenger vans - sales staff	54	54	55	49	49	49	49	49	49	49
Delivery vans	6	5	4	3	3	3	3	3	3	3
Passenger vans - vehicle pool	10	8	10	8	3	12	11	10	11	8
Passenger cars - vehicle pool	12	11	9	9	8	8	4	3	1	1
Trucks	4	4	4	4	3	3	3	3	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>87</u>	<u>83</u>	<u>83</u>	<u>74</u>	<u>67</u>	<u>76</u>	<u>71</u>	<u>69</u>	<u>68</u>	<u>65</u>

Source: Missouri State Lottery Commission Maintenance and Vehicle Sections



Division of Each Dollar Spent on the Missouri Lottery

More than 96 cents is returned to players, retailers and public education in Missouri

63.4¢ Prizes

26.6¢ Education

6.2¢ Retailers

3.8¢ Administration

Supplemental Information





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

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

To the Missouri State Lottery Commission
Jefferson City, Missouri:

We have audited the financial statements of the business-type activity of the Missouri State Lottery Commission (the Lottery), a component unit of the State of Missouri, as of and for the year ended June 30, 2010 and have issued our report thereon dated November 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 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.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as finding 2010-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

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

Berberich Trahan & Co., P.A.

November 12, 2010

MISSOURI STATE LOTTERY COMMISSION
(A COMPONENT UNIT OF THE STATE OF MISSOURI)

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2010

Finding No. 2010-1 – Significant Deficiency

Condition – Controls and processes which had functioned in previous years were not followed in the current year for converting cash basis financial reports to the accrual basis in order to prepare year end financial statements, resulting in significant adjustments to the trial balance which were not initially identified by the Lottery's internal control structure.

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

Cause – The internal control system over financial reporting did not function as designed.

Effect – There is a potential that the financial statements may be materially misstated.

Recommendation – We recommend that controls and processes be followed to insure the accurate conversion of cash basis financial information to the accrual basis.

Management's Response/Corrective Action Plan (Unaudited) – We agree with the auditors' comments. Year-end financial reporting procedures will be formalized and a general ledger software package purchased and implemented prior to June 30, 2011 to insure cash basis financial reports are accurately converted to the accrual basis. The Lottery's chief financial officer and the chief accountant of the financial accounting section will be responsible for the corrective action.

MISSOURI STATE LOTTERY COMMISSION
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2010

No comments in the prior year.

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