

***MO*Lottery**

**Comprehensive Annual
Financial Report**

For Fiscal Year Ended June 30, 2013

Missouri State Lottery Commission

An Enterprise Fund of the State of Missouri



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Prepared by Financial and Business Services

Missouri State Lottery Commission

(An Enterprise Fund of the State of Missouri)

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

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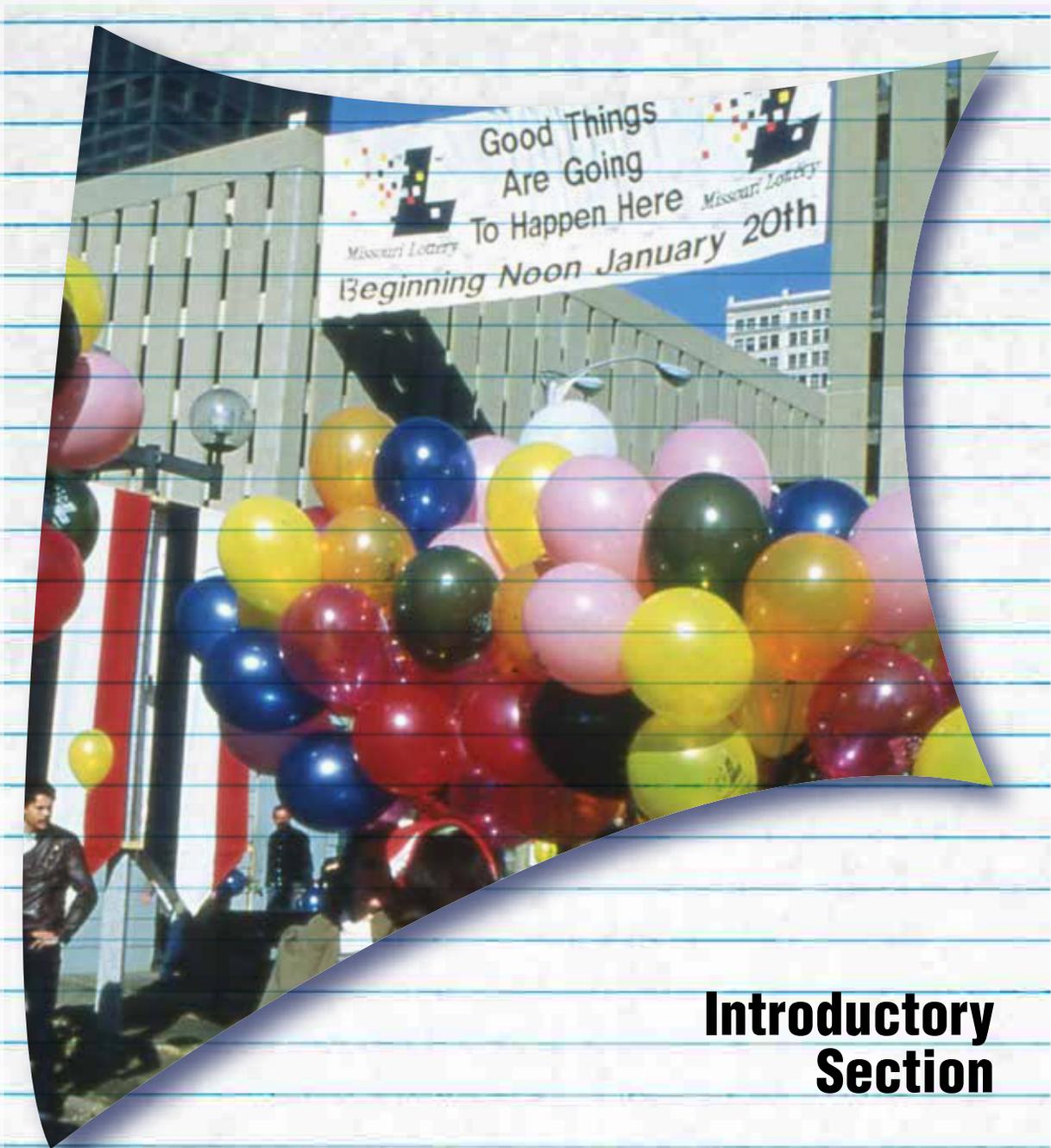
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Introductory Section



Letter of Transmittal

October 22, 2013

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, 2013. Management is responsible for the accuracy of the financial data, as well as the completeness and fairness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Lottery. We have included all disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities.

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

Background

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

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

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

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

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

Products

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

Scratchers Games are played by scratching off a latex coating on the play area of the ticket. There are different ways to win including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. These games were the first type of games offered by the Lottery. For fiscal year 2013, Scratchers ticket sales were more than \$758.9 million, which represents 66.5 percent of total ticket sales.

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

Powerball is a multi-state Draw Game jointly operated by the 33 member lotteries of the Multi-State Lottery Association and sold in 44 states. Players select one set of five numbers from a pool of one to 59 and one additional number designated as the "Powerball" from a second pool of one to 35. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. There are eight secondary prizes of fixed amounts, ranging from \$4 to \$1,000,000. The Power Play feature allows players the chance to increase the original prize amount, excluding the jackpot prize. Players who use Power Play and match all five white-ball numbers automatically win \$2 million.* A jackpot winner may select either an annuitized prize paid in 30 annual installments or a lump-sum payment. Drawings are held every Wednesday and Saturday night. Powerball sales for fiscal year 2013 were approximately \$127 million, which represents 11.1 percent of total ticket sales.



** Effective January 15, 2012, the Powerball ticket price increased from \$1 to \$2, the minimum jackpot amount increased from \$20 million to \$40 million, the second ("Powerball") number pool decreased from 39 to 35, and the secondary prize range increased from a minimum of \$3 to \$4 and a maximum of \$200,000 to \$1 million, with Power Play increasing from a maximum payout of \$1 million to \$2 million, resulting in more millionaires, bigger starting jackpots and better overall odds.*



Missouri Lotto is the original in-state Draw Game that creates millionaires. Twice a week, on Wednesdays and Saturdays, Lotto players have a chance to win \$1 million or more. Players select six numbers from a pool of one to 44 and must match all six numbers to win the jackpot. Prizes are also paid for matching three, four or five numbers. The jackpot starts at \$1 million and increases, based upon ticket sales, for each subsequent draw when the jackpot is not won. Lotto Doubler was added beginning November 4, 2012, giving players the chance to double their non-jackpot winnings whenever a Lotto ticket is purchased. Through a random process, the Lottery designates certain Lotto tickets as Doubler Tickets. There is no additional cost for the Doubler feature. Lotto sales were approximately \$22.1 million in fiscal year 2013, representing 1.9 percent of total ticket sales.

Show Me Cash replaced Show Me 5 Paydown in September of 2008. Players select five numbers from a pool of one to 39 and must match all five numbers to win the jackpot. The jackpot starts at \$50,000, and if no player matches all five numbers, the top prize increases based on ticket sales. Prizes are also paid for matching two, three or four numbers. Drawings are held daily. Beginning March 6, 2011, an EZ Match option was added. Players can add EZ Match for an additional \$1 per Show Me Cash play. If the EZ Match option is chosen, five EZ Match numbers print on the Show Me Cash ticket below the Show Me Cash numbers. If any of the EZ Match numbers match the Show Me Cash numbers (regardless of order), the player instantly wins the prize amount printed next to the matched EZ Match numbers. Fiscal year 2013 Show Me Cash and EZ Match sales were approximately \$36.8 million and \$4.3 million, or 3.2 percent and .4 percent of total ticket sales, respectively.



With Pick 3, players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), boxed (numbers in any order), front/back pair (match the exact order of the first or last two digits), or combo (provides the player all possible number combinations of the 3 numbers drawn for exact-order win). Beginning June 16, 2013, a new 1-Off wager type was added (win even if numbers are 1-Off the winning numbers drawn). Drawings are conducted twice per day. For fiscal year 2013, Pick 3 sales were nearly \$65.8 million, which was 5.8 percent of total ticket sales.

Pick 4 is played similar to Pick 3 with players selecting four numbers between zero and nine. Players may play the numbers straight, boxed, front/middle/back pair, front/back three (match the exact order of the first or last three digits), or combo (provides the player all possible number combinations of the 4 numbers drawn for exact-order win). The 1-Off wager type was also added to Pick 4 (win even if numbers are 1-Off the winning numbers drawn). Drawings are conducted twice per day for Pick 4. Sales for fiscal year 2013 were \$34.5 million, or 3.0 percent of total ticket sales.



Club Keno is a Draw Game offered in all Missouri Lottery retail locations and provides drawings every four minutes. Players first choose how many different numbers (also called “spots”) they wish to play from one to 10. The player must then choose a number from one to 80 for each spot. Twenty numbers from the pool of one to 80 are chosen in a computerized random Club Keno drawing. Prizes vary depending on how many spots a player chooses and how many of the players’ numbers match the numbers drawn. Club Keno also offers Multiplier, Bulls-Eye and Progressive Jackpot features. A Double Bulls-Eye option began August 28, 2011, which offers even more chances to win and larger prizes. For fiscal year 2013, Club Keno sales were \$65.4 million, which was 5.7 percent of total ticket sales.

In March of 2009, the Lottery introduced a new game - Lucky Dough – which was available at retail locations that offer Club Keno. To play Lucky Dough, a player selected one number (of the five numbers) in each of eight squares. A center square is a “Free Square.” Winning was based on matching numbers in each individual square to produce one or more “lines,” either vertically, horizontally or diagonally. Prize amounts were based upon the number of lines matched. Drawings were conducted every five minutes. Lucky Dough was discontinued in July of 2010.



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 Draw Game available for sale in 44 lottery jurisdictions. Players select one set of five numbers from a pool of one to 56. 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. Players who use the Megaplier and match all five numbers, except the Megaball, win \$1 million. A jackpot winner may select a lump-sum payment or an annuity paid in 26 installments. Drawings are held every Tuesday and Friday night. Mega Millions sales for fiscal year 2013 were approximately \$26 million, which represents 2.3 percent of total ticket sales.

Highlights of The Past Year

Ticket sales for the Lottery surpassed the \$1 billion mark for the third year in a row. Fiscal year 2013 sales of nearly \$1.141 billion exceeded fiscal year 2012 sales of \$1.097 billion by \$43.4 million, or 4.0 percent. Continued advertising and the August 2012 launch of the Points for Prizes loyalty program boosted Scratchers sales, while two record Powerball jackpots of \$587.5 million and \$590.5 million helped to raise Draw Game sales.

For fiscal year 2013, the level of operating expenses increased by 4.9 percent. Total operating expenses increased from \$835.6 million in fiscal year 2012 to \$876.3 million in fiscal year 2013. Most of the increase - \$30.9 million - is attributable to increased prizes. 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 2013 was an increase in the actual cash transfer of profits for public education from \$280.0 million to \$288.8 million. In addition, the Lottery returned \$753 million to players in cash and prizes and \$70.3 million to retailers in commissions and incentives for the 2013 fiscal year.

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

In addition to financial accomplishments, other noteworthy accomplishments during fiscal year 2013 included:

- Launch of the Points for Prizes player loyalty program allowing players the chance to enter non-winning Scratchers tickets and earn points for great prizes.
- New Play It Forward branding campaign.
- New permanent POS program.
- Expansion of blitz ticket distribution initiative.
- Exceeding minority- and women-owned business expenditure goals of 10 percent and 5 percent, respectively, with participation rates of 12.57 percent and 5.99 percent, respectively.

Economic Conditions and Outlook

The economic recovery from the recession that began in December of 2007 appears to be gaining some momentum, but not without some setbacks along the way. During calendar year 2012, Missouri's Gross Domestic Product totaled more than \$258 billion, which was an increase of 3.7 percent compared with 2011. Missouri had the 22nd largest GDP among the states in 2012, and of the surrounding states, only Illinois (5th) and Tennessee (18th) have larger economies.

The unemployment rate still remains above the pre-recession rate of 5 percent. At the end of fiscal year 2012, unemployment was at 7.1 percent. Unemployment dropped during the first half of fiscal year 2013 to a low of 6.6 percent; however, during the last half of fiscal year 2013, the unemployment rate moved back up slightly to end the year at 6.9 percent. The unemployment rates in Missouri have mostly followed or were better than the national trend.

Consumer spending for the second quarter of calendar year 2013 increased about 1 percent, which points to the economy growing at a weak pace. Some federal payroll tax reductions were allowed to expire, which may have had a slight slowing effect on consumer spending, which makes up nearly 70 percent of the economy. Rising interest rates could squash the gains made in home and automobile sectors. Overall, the economy grew at a 2.5 percent annual rate, which was above the initial estimate of a 1.7 percent rate.

In fiscal year 2013, gas prices fluctuated between \$2.95 and \$3.78 per gallon with the weekly average being \$3.39 per gallon, which is slightly less than in fiscal year 2012 – a decline of \$0.01 or 0.3 percent in the weekly average price per gallon.

The stock markets also had a volatile, but positive, year with wild weekly swings. The Dow Jones (DJIA) ended fiscal year 2013 up more than 18.5 percent. The DJIA established a record high during the fiscal year by closing at more than 15,354. United States markets did face some uncertainty related to the European debt crisis, as well as the fiscal cliff crisis, in which some payroll tax cuts were allowed to expire.

Missouri Lottery sales are expected to grow slightly in fiscal year 2014 due to an increased advertising budget with a focus on our philanthropic branding, implementing new Scratchers plan-o-grams, a pilot program for the Pull-Tab product, a pilot program for Play at the Pump and ATM alternative selling locations, expanding Points For Prizes to include Draw Games, continued promotion of our products with integrated product promotions and events (including both Scratchers and Draw Games), and the launch of a new Draw Game.

Relevant Financial Policies

Budgetary Controls

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

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

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

Debt Administration

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

Internal Control Environment

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

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

Section 313.315 of the Missouri Revised Statutes requires the State Auditor to conduct a biennial audit of all accounts and transactions of the Lottery, and such other special audits, as it may deem necessary.

The Lottery is also required to employ an independent firm of accountants to conduct an annual audit of all accounts and transactions of the Lottery. This audit includes consideration of internal controls over financial reporting as they relate to the expression of an opinion on the financial statements.

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

Government Finance Officers Association Certificate of Achievement

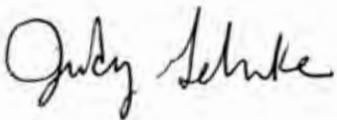
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Missouri State Lottery Commission for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the thirteenth 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 Operating and Financial Officer
Missouri State Lottery Commission



Government Finance Officers Association

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

Presented to

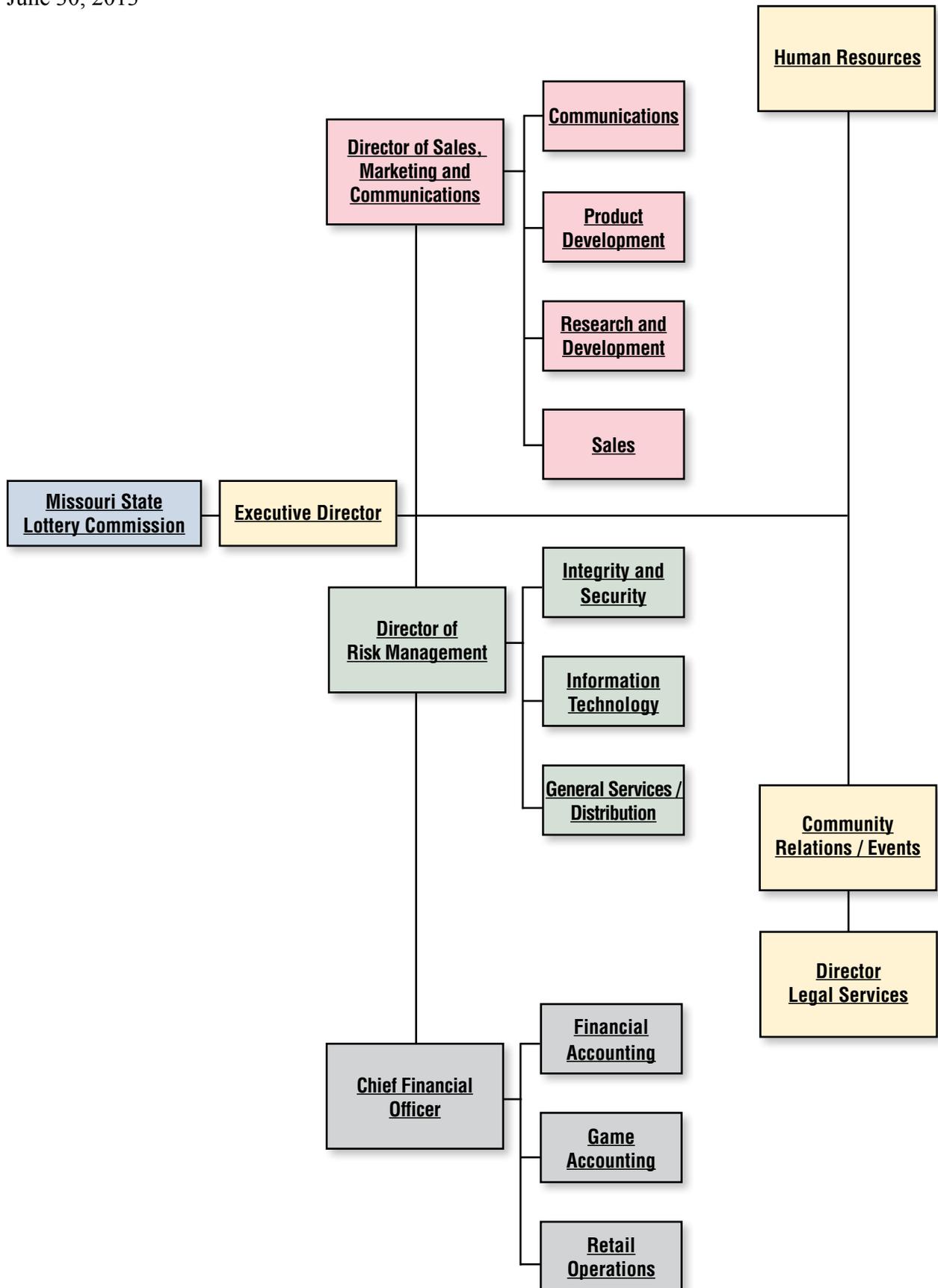
**Missouri State
Lottery Commission**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

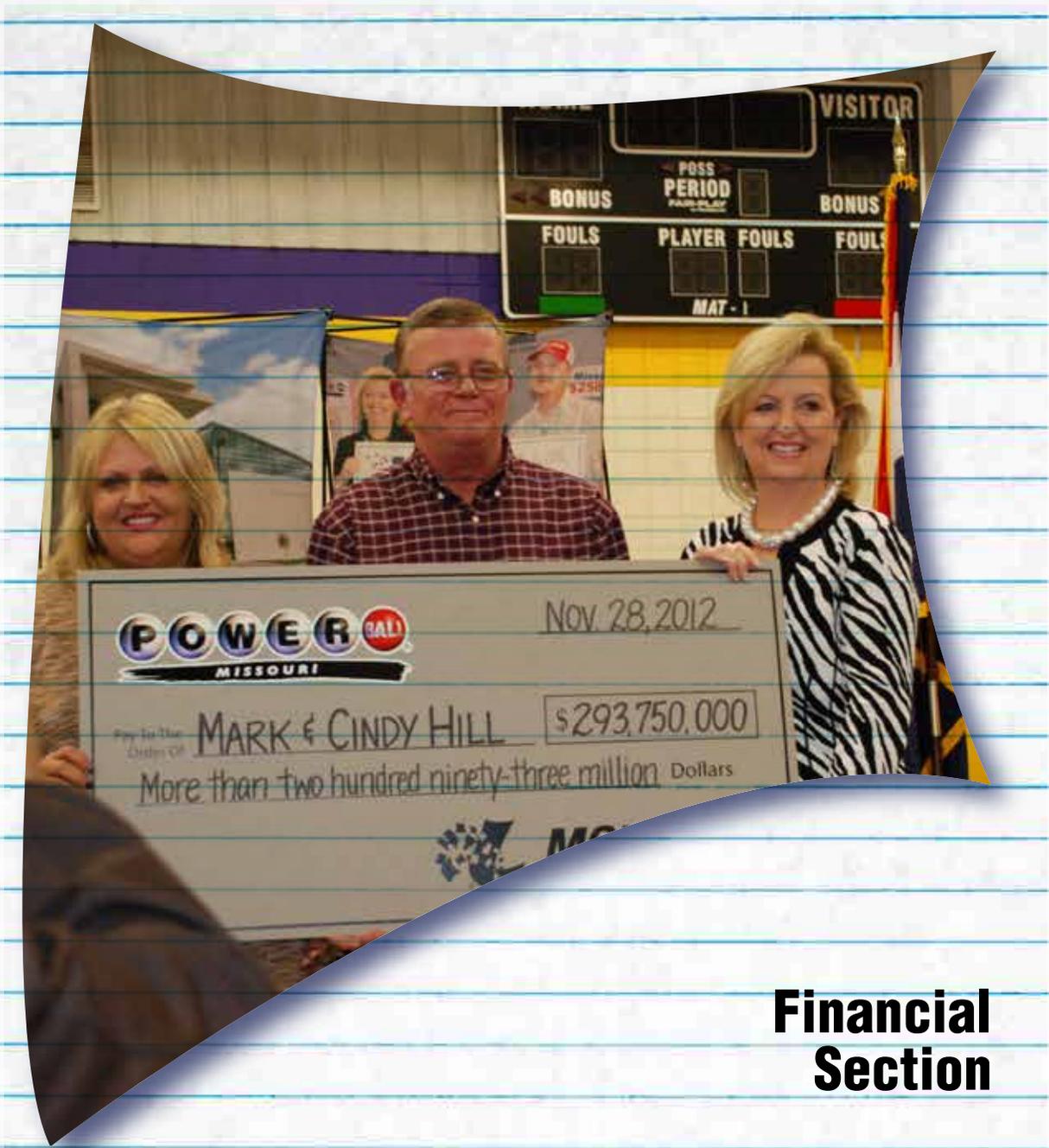
June 30, 2012

Executive Director/CEO

Missouri State Lottery Commission
 Organizational Chart and Principal Officials
 June 30, 2013



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Financial Section

INDEPENDENT AUDITORS' REPORT

To the Missouri State Lottery Commission
Jefferson City, Missouri

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Other Matters

Period Year Financial Statements

The financial statements for the year ended June 30, 2012 were audited by other auditors, whose report dated October 15, 2012, expressed an unqualified opinion on those statements.

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013, on our consideration of the Missouri State Lottery Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Missouri State Lottery Commission's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

St. Louis, Missouri
October 22, 2013

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

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013 and 2012. The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements and notes to the financial statements.

Financial Statements Presented in This Report

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

This annual report includes three financial statements for the fiscal years ended June 30, 2013 and 2012. The Statements of Net Position provide information on the nature and amount of the Lottery's assets, liabilities and net position at the end of each fiscal year and provide a measure of the Lottery's economic resources. The Statements of Revenues, Expenses and Changes in Net Position reflect the operating and non-operating revenues and expenses and the changes in net position for each year. The Statements of Cash Flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for each year.

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

Financial Analysis
Summary of Net Position

	As of June 30,		
	2013	2012	2011
Assets			
Current assets	\$70,501,918	\$74,952,046	\$77,345,897
Capital assets (net of accumulated depreciation)	3,123,532	3,442,268	3,364,727
Investments held for grand-prize winners at fair value - noncurrent	39,677,407	49,218,868	47,260,330
Total Assets	<u>113,302,857</u>	<u>127,613,182</u>	<u>127,970,954</u>
Liabilities			
Current liabilities	70,735,188	75,309,779	77,691,363
Long-term liabilities	36,937,316	42,628,411	43,976,854
Total Liabilities	<u>107,672,504</u>	<u>117,938,190</u>	<u>121,668,217</u>
Net Position			
Invested in capital assets	3,123,532	3,442,269	3,364,727
Unrestricted	(3,123,532)	(3,442,269)	(3,364,727)
Restricted	5,630,353	9,674,992	6,302,737
Total Net Position	<u>\$5,630,353</u>	<u>\$9,674,992</u>	<u>\$6,302,737</u>

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

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2013 and 2012

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

For fiscal year 2012, current assets decreased by \$2,393,851 due to a decrease in accounts receivable balances from retailers.

Noncurrent Assets

Investments held for grand-prize winners represents the market value of the investments held in United States guaranteed marketable securities on behalf of past grand-prize winners that mature beyond one year. These investments were purchased to fund the annual payments for winners that were required to or elected to receive annuity payments and consist of United States Government-backed obligations of zero coupon bonds and stripped securities that equal the face amount of the bond or security upon maturity. Originally, winners of jackpots were required to receive annuity payments. Subsequently, winners were allowed to elect a lump-sum payment instead of a long-term annuity. Since this option has been available, the trend among winners has generally been to elect the lump-sum payment and, therefore, fewer purchases of securities have been required. Fiscal year 2013 showed a decrease in this category of \$9,541,461. In fiscal year 2012, this category increased by \$1,958,538.

Capital assets consist of land, buildings, vehicles, computers and software, and other equipment and is reported net of all related accumulated depreciation. For fiscal year 2013, net capital assets decreased by \$318,736 due to the level of depreciation expenses for the fiscal year exceeding the cost of additions to capital assets.

In fiscal year 2012, the level of capital assets increased by \$77,541.

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

In fiscal year 2012, current liabilities decreased by \$2,381,584 which was mainly the result of a decrease in the amount due the Lottery Proceeds Fund of \$6,509,809 offset by an increase in accrued prizes of \$4,387,796.

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

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State Lottery Association. The decrease was the result of depreciation expense recognized exceeding capital asset additions during the fiscal year.

For fiscal year 2012, the long-term liabilities decreased by \$1,348,443. The long-term liabilities for the grand-prize winners in fiscal year 2012 declined by \$1,413,955. The deferred portion of the amount due the Lottery Proceeds Fund increased in fiscal year 2012 by \$65,512.

Net Position

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

Changes in Net Position

	For the Year Ended June 30,		
	2013	2012	2011
Operating Revenues			
Ticket sales	\$1,140,833,158	\$1,097,427,696	\$1,000,678,406
Other operating revenues	706,055	1,294,455	523,186
Total Operating Revenues	<u>1,141,539,213</u>	<u>1,098,722,151</u>	<u>1,001,201,592</u>
Operating Expenses			
Direct costs			
Prize expense	752,964,849	722,079,619	648,382,278
Retailer commissions and incentives	70,326,011	67,830,868	61,850,265
Other direct costs	16,395,935	15,318,902	16,522,096
Total direct costs	<u>839,686,795</u>	<u>805,229,389</u>	<u>726,754,639</u>
Administrative expenses	36,655,720	30,380,982	28,688,464
Total Operating Expenses	<u>876,342,515</u>	<u>835,610,371</u>	<u>755,443,103</u>
Operating Income	<u>265,196,698</u>	<u>263,111,780</u>	<u>245,758,489</u>
Nonoperating Revenues (Expenses)			
Interest income	91,150	94,134	151,545
Gain on sale of capital assets	23,572	6,109	43,687
Unclaimed prizes	14,695,619	10,385,777	9,853,309
Transfers to the State of Missouri	(280,007,039)	(273,597,799)	(255,807,030)
Amortization of grand-prize winner liability	(3,160,411)	(2,509,798)	(2,904,666)
Net increase in the fair value of investments held for grand-prize winners	(884,228)	5,882,052	1,258,170
Net Nonoperating Revenues (Expenses)	<u>(269,241,337)</u>	<u>(259,739,525)</u>	<u>(247,404,985)</u>
Changes in Net Position	(4,044,639)	3,372,255	(1,646,496)
Total Net Position, Beginning of Year	<u>9,674,992</u>	<u>6,302,737</u>	<u>7,949,233</u>
Total Net Position, End of Year	<u>\$5,630,353</u>	<u>\$9,674,992</u>	<u>\$6,302,737</u>

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

Because the Lottery is required to transfer its net income (excluding the unrealized gain or loss on investments) to

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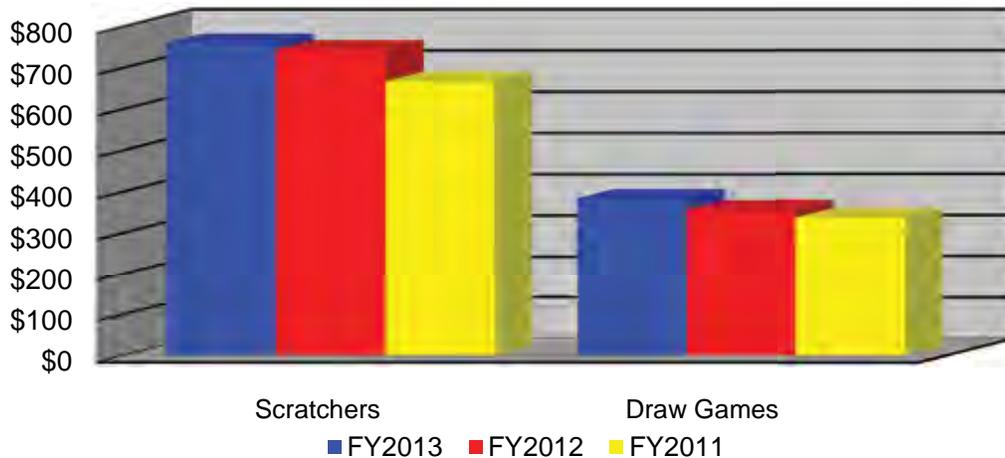
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the Lottery Proceeds Fund, the changes in net position do not reflect the results of the Lottery's operating activities. The amounts reported as Transfer to the State of Missouri reflect the Lottery's operating activities for the fiscal years.

Operating Revenues

	For the Year Ended June 30,		
	2013	2012	2011
Sales by Game			
Scratchers	\$758,900,234	\$742,541,015	\$666,315,849
Draw Games			
Lotto	22,114,822	22,564,631	25,214,432
Pick 3	65,755,962	65,074,532	64,075,659
Powerball	127,027,808	94,688,699	83,319,805
Show Me Cash	36,830,777	28,970,446	29,503,742
Pick 4	34,491,756	31,378,162	29,557,118
Club Keno	65,389,456	65,331,226	65,302,751
Mega Millions	26,028,887	42,792,811	34,852,442
EZ Match	4,293,456	4,086,174	2,490,930
Lucky Dough	-	-	45,678
Total Draw Games	381,932,924	354,886,681	334,362,557
Other	706,055	1,294,455	523,186
Total operating revenues	\$1,141,539,213	\$1,098,722,151	\$1,001,201,592

Lottery Sales By Product
in millions



After a record high in fiscal year 2012, ticket sales rose again to a new record high in fiscal year 2013. Overall sales increased by approximately \$43.4 million, or 4.0 percent, from fiscal year 2012 levels.

For the year ended June 30, 2013, Scratchers ticket sales increased by approximately \$16.4 million, or 2.2 percent, while Draw Game product sales increased by \$27.0 million, or 7.6 percent.

For fiscal year 2012, ticket sales increased by \$96.7 million, or 9.67 percent. Scratchers ticket sales increased by approximately \$76.2 million, or 11.44 percent, while Draw Game product sales increased by \$20.5 million, or 6.14 percent.

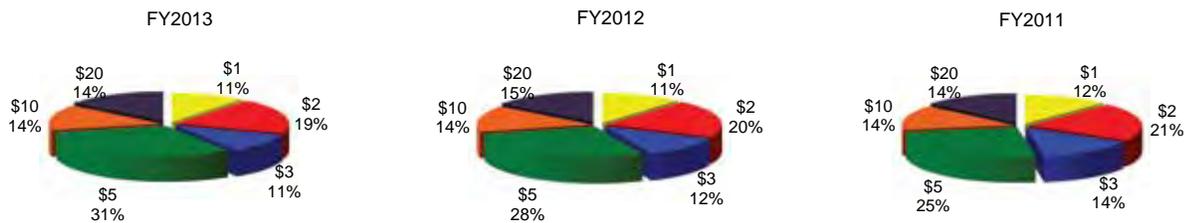
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During fiscal year 2013, revenues from the sale of Lottery products were the highest in the 27-year history of the Lottery. As indicated in the financial statements, Scratchers tickets continue to lead the way to increased sales levels. During fiscal year 2013, the \$5 price point sales grew approximately \$27.0 million over the sales of fiscal year 2012. A very successful cross-promotional game, strong traditional games, holiday games and licensed property games are the main contributing factors to the growth in this price point. The \$20 and \$10 price point sales grew modestly over fiscal year 2012, while the \$1, \$2 and \$3 price points showed decreases in sales of \$3.5 million, \$3.0 million, and \$6.2 million, respectively.

For fiscal year 2012, the \$5 price point sales grew approximately \$40.1 million over the sales of fiscal year 2011. Similar to fiscal year 2013, strong traditional games, holiday games and licensed property games were the main contributing factors to the growth in this price point. The \$20 price point sales grew approximately \$17.4 million over the sales of fiscal year 2011 with the introduction of a new \$20 taxes-paid game, while the \$10 price point sales grew approximately \$12.5 million with the introduction of a new \$10 holiday game and two \$10 games offering life-changing prizes. The \$1 and \$2 price points showed increases as well, of \$3.4 million and \$9 million, respectively, over fiscal year 2011 sales. These increases were offset by a decline in sales of the \$3 price point of \$6.2 million over fiscal year 2011 sales.

Scratchers Ticket Sales By Price Point



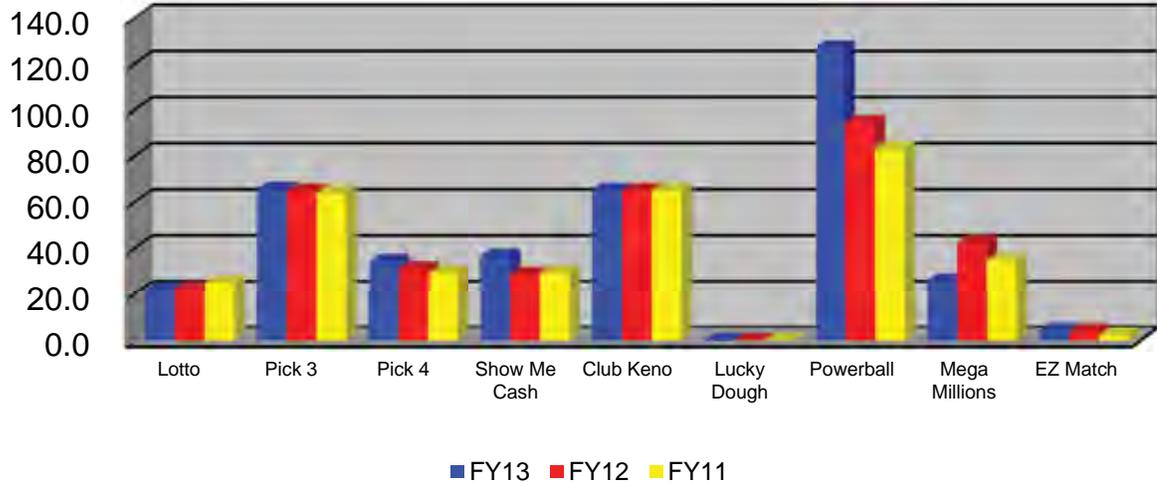
Total Draw Game sales increased by \$27.0 million in fiscal year 2013. The increase is due mainly to Powerball during fiscal year 2013, which had two record jackpots of \$587.5 million and \$590.5 million, boosting sales by \$32.3 million. Show Me Cash and Pick 4 sales increased by \$7.9 million and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

Total Draw Game sales increased by \$20.5 million in fiscal year 2012. The increase was mainly due to Powerball and Mega Millions jackpots during fiscal year 2012. These games showed increases of \$11.4 million and \$7.9 million, respectively, over fiscal year 2011. Other Draw Games stayed relatively flat from fiscal year 2011 with the exception of Lotto which showed a \$2.6 million decrease due to low jackpots.

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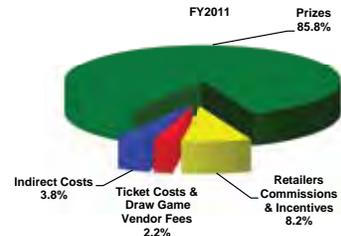
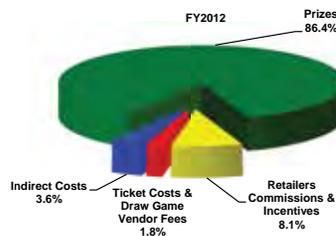
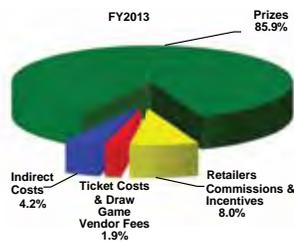
Management's Discussion and Analysis (Unaudited)
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Draw Game Sales By Game
in millions



Operating Expenses

	For the Year Ended June 30,		
	2013	2012	2011
Direct Expenses			
Prizes	\$752,964,849	\$722,079,619	\$648,382,278
Retailer commissions and incentives	70,326,011	67,830,868	61,850,265
Tickets	6,915,375	6,737,925	7,995,056
Draw Game vendor fees	9,480,560	8,580,977	8,527,040
Other Operating Expenses			
Advertising	10,599,791	7,261,102	7,943,537
Wages and benefits	9,380,734	9,378,026	9,831,552
Other general expenses	15,486,243	12,693,246	9,873,506
Depreciation and amortization	1,188,952	1,048,608	1,039,869



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Direct Expenses

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

Of the Lottery's total operating expenses of \$876.3 million in fiscal year 2013, \$839.7 million, or 95.8 percent, are game-related, or direct, expenses. In fiscal year 2012, direct expenses were \$805.2 million, or 96.4 percent, of the total \$835.6 million total operating expenses for the year. In fiscal year 2011, direct expenses were 96.2 percent of total operating expenses.

Prize expense for fiscal year 2013 increased by approximately \$30.9 million, or 4.3 percent, while total ticket sales increased by 4.0 percent. In fiscal year 2012, prize expense increased by approximately \$73.7 million, or 11.37 percent, while total ticket sales increased by 9.67 percent. The variance between the percentage increase in prize expense and sales reflects the effects of increasing the prize structure of the Scratchers products, while the random selection of winning numbers may result in deviations from expected results in a short-term period.

Retailer commissions and incentives in fiscal year 2013 increased by approximately \$2.5 million, or 3.7 percent. In fiscal year 2012, these expenses increased by approximately \$6 million, or 9.67 percent. These categories and results more closely follow the sales trends than prize expense. Variations will occur due to additional promotional activity to promote selected games and the number of jackpots won during the year.

Scratchers ticket printing expenses increased in fiscal year 2013 by \$.2 million or 2.6 percent, which approximates the percentage increase in Scratchers sales for the year. In fiscal year 2012, these expenses decreased by approximately \$1.3 million, or 15.72 percent, due to new, reduced contract pricing effective July 1, 2011.

Draw Game vendor fees increased by \$.9 million, or 10.5%, as a result of increased Draw Game sales. In fiscal year 2012, this expense category remained flat despite an increase in Draw Game sales due to new contract pricing effective August 2011. 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, with actual results continuously monitored to ensure that overall business objectives are met in the most effective and efficient manner. In fiscal year 2013, other operating expenses increased by \$6.3 million, or 20.7 percent, due largely to a \$4 million increase in advertising and productions costs. Vending machine lease expense and increased event and sports sponsorships also added to the increase.

The level of depreciation expenses is generally a function of capital asset acquisition activity. A significant portion of the Lottery's vehicle fleet has been replaced during the last three years, as well as necessary upgrades, replacements and additions of computer equipment and related items, resulting in increased depreciation expenses for fiscal years 2013 and 2012.

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Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2013 and 2012

Nonoperating Revenues (Expenses)

	For the Year Ended June 30,		
	2013	2012	2011
Interest	\$91,150	\$94,134	\$151,545
Unclaimed prizes	14,695,619	10,385,777	9,853,309
Gain on sale of capital assets	23,572	6,109	43,687
Net increase (decrease) in investments held for grand-prize winners	(884,228)	5,882,052	1,258,170
Amortization of grand-prize winner liability	(3,160,411)	(2,509,798)	(2,904,666)
Transfers to State of Missouri	(280,007,039)	(273,597,799)	(255,807,030)

The Lottery earns interest on its share of the common cash pool with the State Treasurer's Office, as well as interest on an imprest fund account utilized to pay prizes. Interest is also earned on funds receivable from the Multi-State Lottery Association (MUSL). The decrease in interest earnings for fiscal year 2013 reflects the effects of the market conditions as interest rates remained low.

The Lottery retains prize money if a claim for the prize is not made within a 180-day claim period. In fiscal year 2013, the level of unclaimed prizes increased by \$4.3 million over fiscal year 2012. This line item fluctuates considerably from year to year, depending on the timing of Scratchers game closings and the unpredictability of prizes going unclaimed.

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

As to the gain or loss from the disposal of capital assets, the variances generally reflect the effects of the number of vehicles that were surplus during each fiscal year. In fiscal year 2013, six vehicles were surplus and in fiscal year 2012, seven vehicles were surplus. The net gain in fiscal year 2013 was due primarily to the sale of six vehicles at surplus property. The 2012 vehicle sales were offset by the disposal of equipment that was not fully depreciated.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for fiscal year 2013 increased \$6.4 million, or 2.3 percent, from fiscal year 2012. For fiscal year 2012, proceeds increased \$17.8 million, or 6.96 percent, from fiscal year 2011. The Governor's Office and the Legislature determine where these funds will be expended within the state's public institutions of elementary, secondary and higher education.

Capital Assets and Long-Term Debt

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

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

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Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2013 and 2012

Contacting the Lottery's Financial Management

This management discussion and analysis report is designed to provide Missouri citizens, government officials, players, retailers and other interested parties reliable financial information and an explanation of the Lottery's financial activities for the fiscal years ended June 30, 2013 and 2012. 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
(An Enterprise Fund of the State of Missouri)

Statements of Net Position As of June 30, 2013 and 2012

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 19,928,948	\$ 23,454,082
Investments held for grand-prize winners	6,500,661	7,618,239
Accounts receivable, net of allowances for returns	43,652,392	43,575,947
Other assets	419,917	303,778
Total current assets	70,501,918	74,952,046
Noncurrent Assets		
Capital assets		
Capital assets not being depreciated	352,973	352,973
Capital assets being depreciated	15,168,953	14,767,057
Accumulated depreciation	(12,398,394)	(11,677,762)
	3,123,532	3,442,268
Investments held for grand-prize winners	39,677,407	49,218,868
Total noncurrent assets	42,800,939	52,661,136
Total assets	113,302,857	127,613,182
Current Liabilities		
Accounts payable	141,631	220,320
Due to Lottery Proceeds Fund	3,204,099	11,805,372
Accrued prize liabilities	56,364,049	51,402,199
Grand-prize winner liabilities	6,504,000	7,623,000
Other accrued liabilities	4,521,409	4,258,888
Total current liabilities	70,735,188	75,309,779
Long-term Liabilities		
Due to Lottery Proceeds Fund	2,893,601	3,089,296
Grand-prize winner liabilities	34,043,715	39,539,115
Total long-term liabilities	36,937,316	42,628,411
Total liabilities	107,672,504	117,938,190
Net Position		
Invested in capital assets	3,123,532	3,442,269
Unrestricted	(3,123,532)	(3,442,269)
Restricted through Constitutional provisions	5,630,353	9,674,992
Total net position	\$ 5,630,353	\$ 9,674,992

See accompanying notes to the basic financial statements.

Missouri State Lottery Commission
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Statements of Revenues, Expenses and Changes In Net Position
For The Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Scratchers ticket sales	\$ 758,900,234	\$ 742,541,015
Draw Game ticket sales	381,932,924	354,886,681
Total sales	1,140,833,158	1,097,427,696
Other	706,055	1,294,455
Total operating revenues	1,141,539,213	1,098,722,151
Operating Expenses		
Scratchers prizes	537,224,413	521,263,401
Draw Game prizes	215,740,436	200,816,218
Scratchers retailer commissions and incentives	48,489,399	47,258,571
Draw Game retailer commissions and incentives	21,836,612	20,572,297
Cost of tickets sold	16,395,935	15,318,902
Depreciation	1,188,952	1,048,608
Advertising	10,599,791	7,261,102
Wages and benefits	9,380,734	9,378,026
Other general and administrative	15,486,243	12,693,246
Total operating expenses	876,342,515	835,610,371
Operating income	265,196,698	263,111,780
Nonoperating Revenues (Expenses)		
Interest income	91,150	94,134
Unclaimed prizes	14,695,619	10,385,777
Gain on sale of capital assets	23,572	6,109
Net increase (decrease) in the fair value of investments held for grand-prize winners	(884,228)	5,882,052
Amortization of grand-prize winner liability	(3,160,411)	(2,509,798)
Transfers to State of Missouri Lottery Proceeds Fund	(280,007,039)	(273,597,799)
Total nonoperating revenues (expenses)	(269,241,337)	(259,739,525)
Changes in net position	(4,044,639)	3,372,255
Total Net Position, Beginning of Year	9,674,992	6,302,737
Total Net Position, End of Year	\$ 5,630,353	\$ 9,674,992

See accompanying notes to the basic financial statements.

Missouri State Lottery Commission
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Statements of Cash Flows
For The Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Cash received from retailers and others	\$ 1,141,593,066	\$ 1,105,403,762
Cash paid for prizes	(745,048,609)	(715,920,045)
Cash paid for retailer commissions	(70,264,698)	(67,581,359)
Cash paid for employee services	(9,315,715)	(9,430,729)
Cash paid for other expenses	(42,670,907)	(35,231,038)
Net cash provided by operating activities	274,293,137	277,240,592
Cash Flows From Noncapital Financing Activities		
Transfers to State of Missouri	(288,804,006)	(280,042,095)
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(870,438)	(1,174,870)
Proceeds from sale of capital assets	23,795	54,828
Net cash used for capital and related financing activities	(846,643)	(1,120,042)
Cash Flows From Investing Activities		
Proceeds from maturity of investments	11,741,229	8,614,000
Interest received	91,150	94,134
Net cash provided by investing activities	11,832,379	8,708,134
Net Increase (Decrease) in Cash and Cash Equivalents	(3,525,134)	4,786,589
Cash and Cash Equivalents, Beginning of Year	23,454,082	18,667,493
Cash and Cash Equivalents, End of Year	\$ 19,928,948	\$ 23,454,082
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 265,196,698	\$ 263,111,780
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,188,952	1,048,608
Unclaimed prizes	14,695,619	10,385,777
Payments to grand-prize winners	(11,741,229)	(8,614,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(76,445)	6,193,230
Decrease in other receivables	1,893	100,636
(Increase) in prepaid expenses	(118,033)	(104,662)
Increase in accounts payable and other accrued liabilities	183,833	731,428
Increase in accrued prize liabilities	4,961,850	4,387,796
Net cash provided by operating activities	\$ 274,293,137	\$ 277,240,592
Noncash Activities		
Net increase (decrease) in the fair value of investments held for grand-prize winners	\$ (884,228)	\$ 5,882,052
Amortization of grand-prize winner liability	\$ 3,160,411	\$ 2,509,798

See accompanying notes to the basic financial statements.

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

Notes To The Basic Financial Statements
June 30, 2013 and 2012

1. Summary of Significant Accounting Policies

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

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

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

Basis of Presentation

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

In reporting its financial activities, the Lottery has applied GASB 62 and 63 in the current year.

Basis of Accounting

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

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

Revenue Recognition

Sales of Scratchers tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances of approximately \$1,766,000 and \$2,186,000 at June 30, 2013 and 2012, respectively, have been established for estimated tickets to be returned by retailers.

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

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Sales of Draw Game lottery tickets are generated by the semiweekly Lotto, Powerball and Mega Millions games, and the daily Club Keno, Lucky Dough (discontinued July 2010), Show Me Cash, EZ Match (added March 2011), Pick 4 and Pick 3 games. Sales of Draw Game lottery tickets are made through licensed retail sales outlets via Draw Game terminals maintained by the retailers. Revenue is recognized for Draw Games when tickets are sold to players and the related draw occurs. Deferred revenues from these sales represent tickets sold for future prize drawings. Deferred revenues were \$516,152 and \$387,747 as of June 30, 2013 and 2012, and are included in other accrued liabilities.

Operating revenues are presented net of sales returns, cancellations and promotional tickets of \$48,122,747 and \$41,258,937 for the years ended June 30, 2013 and 2012, respectively.

Prizes

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

Lotto grand-prize winners have the choice of receiving their prize in 25 annual installments or a portion of the prize in one lump-sum payment. Powerball grand-prize winners have the choice of receiving their prize in 30 annual graduated 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 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, 2013 and 2012, unclaimed prizes in the amount of approximately \$14,696,000 and \$10,386,000, respectively, were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2013 and 2012, this amount has been included as nonoperating revenue on the statements of revenues, expenses and changes in net position with a corresponding amount included as a transfer to the State of Missouri.

Cash and Cash Equivalents

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

Investments Held for Grand-Prize Winners

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

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

Notes To The Basic Financial Statements
June 30, 2013 and 2012

1. Summary of Significant Accounting Policies (continued)

Retailer Fees

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

Capital Assets

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

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

Net Position

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

Use of Estimates

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

Due to Lottery Proceeds Fund

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

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

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

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

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

Risk Management

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

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

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

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

Budgetary Authority

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

Marketing, Advertising and Promotion

The Lottery expenses the costs of marketing, advertising and promotion as they are incurred. The Lottery spent \$4.3 million and \$3.1 million on media production, sponsorships and promotional supplies in fiscal years ended June 30, 2013 and 2012, respectively.

Subsequent Events

The Lottery has performed a review of events subsequent to the statement of net position date through October 22, 2013, the date the financial statements are available to be issued.

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.

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

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, 2013 and 2012, the Lottery's share in the State's common cash pool was \$13,638,818 and \$16,699,365, respectively. At June 30, 2013 and 2012, the book balance of the imprest fund was \$6,281,621 and \$6,749,217, respectively, and the bank balance was \$8,897,218 and \$8,160,994, 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, 2013 and 2012. Because the Lottery's share of the State's Treasury is a pooled investment, the balance of this account is not subject to custodial credit risk.

4. Investments Held For Grand-Prize Winners

As provided for by Article III, Section 39(b) of the Missouri Constitution, the Lottery purchases United States Treasury Zero Coupon Bonds for the specific purpose of funding future grand-prize winner prize claims. These investments are carried at fair value in the amounts of \$46,178,068 and \$56,837,107 at June 30, 2013 and 2012, respectively. The maturity value of securities held at June 30, 2013 and 2012 was \$54,440,000 and \$64,131,000, respectively.

At June 30, 2013 and 2012, the Lottery had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
United States Treasury Zero Coupon Bonds					
June 30, 2013	\$46,178,068	\$6,500,661	\$16,358,332	\$12,824,610	\$10,494,465
June 30, 2012	\$56,837,107	\$7,618,239	\$20,520,986	\$14,512,369	\$14,185,513

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.

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)
Notes To The Basic Financial Statements
June 30, 2013 and 2012

5. Draw Game Ticket Sales

Draw Game ticket sales for the years ended June 30th consist of the following:

	2013	2012
Lotto	\$22,114,822	\$ 22,564,631
Pick 3	65,755,962	65,074,532
Powerball	127,027,808	94,688,699
Show Me Cash	36,830,777	28,970,446
Pick 4	34,491,756	31,378,162
Club Keno	65,389,456	65,331,226
Mega Millions	26,028,887	42,792,811
EZ Match	4,293,456	4,086,174
Lucky Dough	-	-
	\$ 381,932,924	\$ 354,886,681

6. Capital Assets

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

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

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

6. Capital Assets (continued)

	<u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Construction in progress	281,785	-	(281,785)	-
Total capital assets not being depreciated	<u>634,758</u>	<u>-</u>	<u>(281,785)</u>	<u>352,973</u>
Capital assets being depreciated				
Buildings	4,939,628	281,785	-	5,221,413
Computers	5,669,565	982,637	(58,398)	6,593,804
Equipment	2,331,022	37,078	(609,623)	1,758,477
Automobiles	1,172,501	155,154	(134,292)	1,193,363
Other	45,000	-	(45,000)	-
Total capital assets being depreciated	<u>14,157,716</u>	<u>1,456,654</u>	<u>(847,313)</u>	<u>14,767,057</u>
Less accumulated depreciation for				
Buildings	(3,705,210)	(177,487)	-	(3,882,697)
Computers	(4,596,030)	(666,571)	58,398	(5,204,203)
Equipment	(2,132,089)	(59,337)	581,303	(1,610,123)
Automobiles	(970,591)	(144,440)	134,292	(980,739)
Other	(23,827)	(773)	24,600	-
Total accumulated depreciation	<u>(11,427,747)</u>	<u>\$ (1,048,608)</u>	<u>\$ 798,593</u>	<u>(11,677,762)</u>
Total capital assets being depreciated, net	<u>2,729,969</u>			<u>3,089,295</u>
Capital assets, net	<u>\$ 3,364,727</u>			<u>\$ 3,442,268</u>

7. Pension Plan

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

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

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

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

Notes To The Basic Financial Statements
June 30, 2013 and 2012

7. Pension Plan (continued)

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

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

The State of Missouri is obligated by state law to make all required contributions to the Plan, which are made at an actuarially determined rate. Beginning January 1, 2011 employee contributions of 4% of gross pay are required for those covered by the MSEP 2011 tier of the Plan. The current rate of contribution for retirement and long-term disability is 14.45 percent and 0.495 percent of total payroll, respectively.

For fiscal years ended June 30, 2013, 2012 and 2011, the annual pension cost associated with Lottery employees was approximately \$990,000, \$954,000 and \$990,000, respectively, and was equal to 100 percent of the annual pension cost required to be contributed for those years.

8. Leases

Operating Leases

The Lottery's regional facilities are held under operating lease agreements. The lease agreements for both the St. Louis and Springfield offices are under a one year agreement with four one-year renewal options starting July 1, 2009 and set to expire June 30, 2014. The Kansas City office is under a reduced rate agreement set to expire December 31, 2015. Annual rent expense for these facilities totaled approximately \$271,000 in fiscal year 2013 and \$272,000 in fiscal year 2012.

The Lottery leases instant ticket vending machines under an operating lease agreement. The lease agreement was set to expire June 30, 2012; however, an amendment dated August 3, 2011 extended the expiration to June 30, 2015. In addition to 24- and 4-bin machines, the amendment provides for an additional 450 Gemini instant ticket vending machines. Leasing costs under the amendment changed from a monthly lease rate per machine to a percentage of net weekly Draw Game sales. Annual lease expense for the instant ticket vending machines totaled approximately \$3,456,000 in fiscal year 2013 and \$3,136,000 in 2012. The increase in vending machine lease expense from fiscal year 2012 to 2013 is due to the 450 Gemini machines added under the amendment and the change to percentage of sales pricing. (Note: Additional contract amendments executed at the same time included a pricing change that rolled telecommunications costs into Draw Game processing costs at a reduced rate, creating an overall cost savings.)

Future minimum lease payments under all non-cancelable leases having initial or remaining terms in excess of one year as of June 30, 2013 (including an estimated \$3,666,000 per year for vending machines, based on current Draw Games sales levels) are as follows:

<u>Years Ending June 30</u>	
2014	\$ 3,937,000
2015	3,764,000
2016	49,000
	<u>\$ 7,750,000</u>

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

9. Contractual Arrangements

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

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 33 state and district lotteries (member lotteries) and operates the Powerball game and the Mega Millions game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50 percent of sales to MUSL for payment of prizes. On January 31, 2010 the Lottery began selling the Mega Millions jackpot game as an historic cross-selling agreement between Mega Millions and Powerball. Member lotteries sell tickets for the Mega Millions game and currently remit 51 percent of sales 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 graduated 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 \$10,531,000 and \$15,311,000 as of June 30, 2013 and 2012, 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, 2013 and 2012, the Lottery's portion of the prize reserve fund and set prize reserve fund for Powerball was approximately \$3,415,000 and \$4,339,000, respectively, and \$1,599,000 and \$1,148,000, respectively. At June 30, 2013 and 2012, the Lottery's portion of the prize reserve fund for Mega Millions was approximately \$1,285,000 and \$909,000, respectively. The Lottery has charged amounts placed into the prize reserve funds to prize expense as the related sales have occurred. The reserve funds are not reflected on the Lottery's statements of net position as of June 30, 2013 and 2012, respectively.

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game and the Mega Millions game. With certain restrictions, the balances in this account are refundable to the member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2013 and 2012 the Lottery's portion of the balance of this account was \$123,042 and \$0, respectively, and is reported as a receivable.

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

Notes To The Basic Financial Statements
June 30, 2013 and 2012

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, 2013 and 2012 was \$40,547,715 and \$47,162,115 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, 2013, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 6,504,000
2015	5,128,000
2016	4,868,000
2017	3,668,000
2018	3,042,000
2019 through 2023	15,210,000
2024 through 2028	10,844,000
2029 through 2033	4,140,000
2034 through 2037	1,036,000
Total installment payments due	<u>54,440,000</u>
Less- Interest portion	<u>13,892,285</u>
	<u>\$ 40,547,715</u>

The Lottery has also purchased annuity contracts in the name of the prize winners from selected insurance companies to fund certain grand-prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. The Lottery would assume liability for future payments if the insurance companies were to default on their payments; however, this possibility is remote and therefore no liability is recorded. Future payments to be made to grand-prize winners by these insurance companies totaled approximately \$8,800,000 and \$9,300,000 at June 30, 2013 and 2012, respectively.

11. Long-Term Liabilities

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

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

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 21,338,965	\$273,597,799	\$280,042,095	\$ 14,894,668	\$ 11,805,372
Grand-prize winner liabilities	<u>49,567,070</u>	<u>6,209,045</u>	<u>8,614,000</u>	<u>47,162,115</u>	<u>7,623,000</u>
Total	<u>\$ 70,906,035</u>	<u>\$279,806,844</u>	<u>\$288,656,095</u>	<u>\$ 62,056,783</u>	<u>\$ 19,428,372</u>

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

12. Postretirement Benefits

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

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

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

13. Contingencies

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



Statistical Section

(Unaudited)

Missouri State Lottery Commission Statistical Information Section

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

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

Revenue Capacity	46
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These schedules contain information to help the reader assess factors affecting the Lottery’s ability to generate sales of lottery tickets. Scratchers ticket game strategies, such as price points and launch schedules, affect the selection and availability of products for sale at retail locations. Information for draw sales by game, included in the financial trends section, provides data about the various drawing based games that are available to the public. The Lottery’s statewide retailer network determines the market exposure for Scratchers and Draw Games.

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

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

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

Financial Trends

Information for the Missouri State Lottery Commission for the last ten fiscal years, 2004 through 2013, is presented in the accompanying schedules and charts. The Missouri State Lottery Commission was created on November 6, 1984 by the passage of a constitutional amendment and began selling tickets in January 1986.

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

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

Sales – reflects the face value of lottery tickets.

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

Prizes – reflects the liability incurred for payments to winners.

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

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

Transfers to the State – reflects the transfer of net income, excluding unrealized gains on investments and amortization of grand-prize winner liability, to the Lottery Proceeds Fund for fiscal years 2004 through 2013. Transfers made during fiscal year 2013 include \$14,695,619 of unclaimed prizes. The Lottery Proceeds Fund is appropriated by the Missouri State General Assembly to the Department of Higher Education and the Department of Elementary and Secondary Education. Profits not yet transferred are shown on the balance sheet as a liability.

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

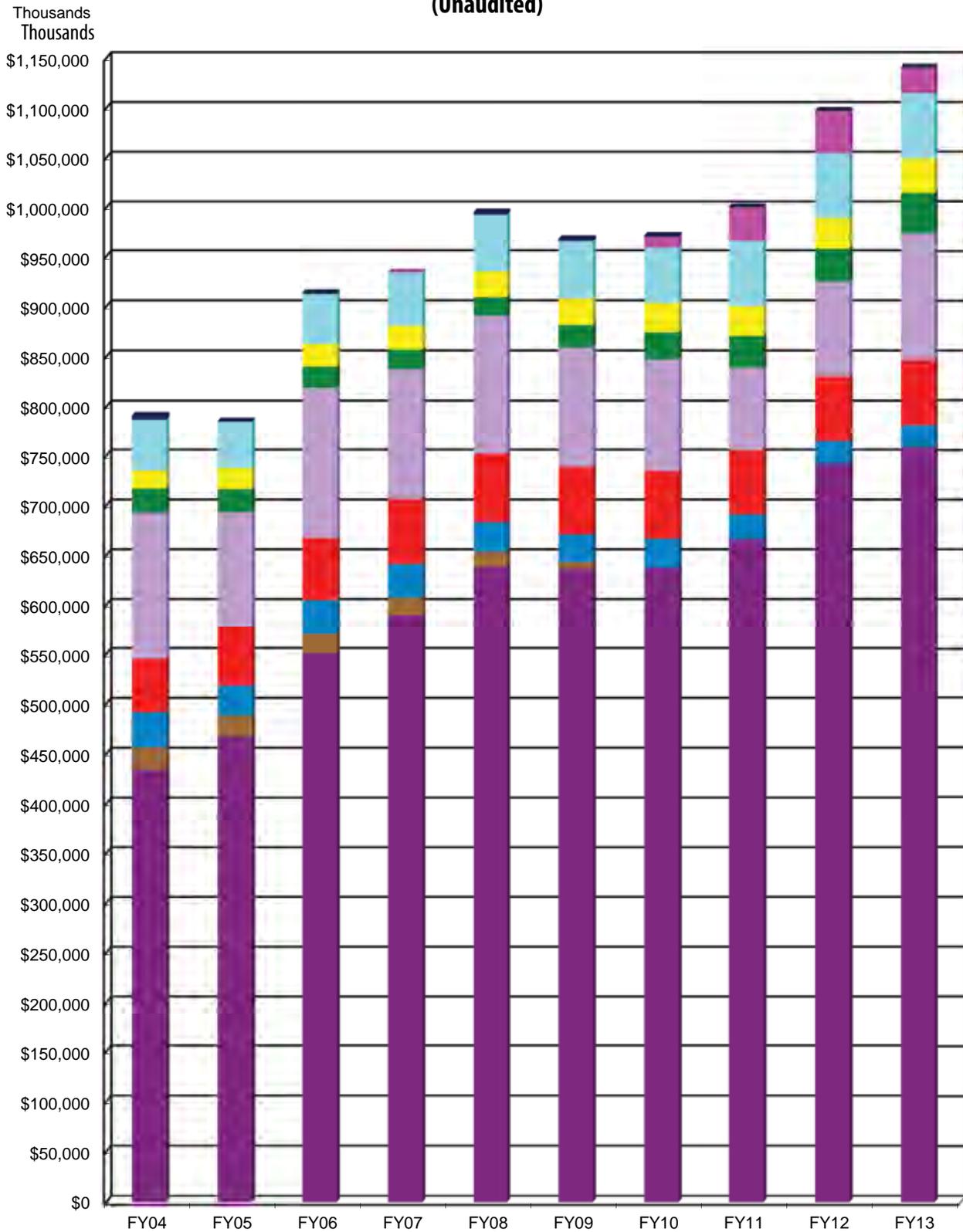
Unless otherwise noted, the source for the data used to prepare the following schedules and charts is the Financial Accounting Section of the Missouri State Lottery Commission.

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

	2004	2005	2006	2007
Operating Revenues				
Scratchers ticket sales	\$434,791,673	\$467,326,093	\$550,961,109	\$590,045,817
Draw Game ticket sales				
Lotto	35,015,934	30,311,403	35,062,426	33,955,803
Pick 3	53,946,082	60,558,754	62,274,077	65,091,442
Powerball	147,232,847	114,485,380	151,772,839	130,795,800
Show Me Cash	24,337,775	23,056,447	20,861,442	19,684,271
Pick 4	18,436,614	21,338,535	22,605,473	24,015,250
Club Keno	51,531,568	47,616,083	49,948,394	53,273,105
Mega Millions	-	-	-	-
EZ Match	-	-	-	-
Raffle	-	-	877,591	-
Xtra	4,014,945	173,848	-	-
Lucky Dough	-	-	-	-
Total draw game ticket sales	<u>334,515,765</u>	<u>297,540,450</u>	<u>343,402,242</u>	<u>326,815,671</u>
Pull-Tab ticket sales	<u>21,846,920</u>	<u>20,731,089</u>	<u>19,154,900</u>	<u>17,409,170</u>
Total sales	<u>791,154,358</u>	<u>785,597,632</u>	<u>913,518,251</u>	<u>934,270,658</u>
Other Operating Revenues	<u>638,392</u>	<u>340,957</u>	<u>167,767</u>	<u>1,395,548</u>
Total operating revenues	<u>791,792,750</u>	<u>785,938,589</u>	<u>913,686,018</u>	<u>935,666,206</u>
Operating Expenses				
Direct costs				
Prize expense	484,827,462	487,925,882	572,767,960	595,022,614
Retailer compensation	49,316,766	48,798,722	56,543,150	58,257,753
Ticket costs	18,341,746	17,543,004	16,282,739	16,280,719
Total direct costs	<u>552,485,974</u>	<u>554,267,608</u>	<u>645,593,849</u>	<u>669,561,086</u>
Administrative expenses	<u>22,619,483</u>	<u>21,430,609</u>	<u>20,290,872</u>	<u>19,987,112</u>
Total operating expenses	<u>575,105,457</u>	<u>575,698,217</u>	<u>665,884,721</u>	<u>689,548,198</u>
Operating Income	<u>216,687,293</u>	<u>210,240,372</u>	<u>247,801,297</u>	<u>246,118,008</u>
Nonoperating Revenues (Expenses)				
Interest income	470,448	571,049	1,459,617	1,360,853
Unclaimed prizes*	12,283,414	7,811,413	11,392,679	10,349,767
Net increase (decrease) in the fair value of investments	(1,546,223)	6,300,009	(1,424,646)	4,294,279)
Amortization of grand prize winner liability	(5,255,750)	(5,259,106)	(4,956,265)	(4,647,958)
Gain (loss) on disposal of assets	(13,972)	19,876	15,142	54,077
Transfers to the state	(229,427,183)	(218,642,710)	(260,668,734)	(257,882,704)
Transfers from the state	-	-	-	-
Total nonoperating expenses	<u>(223,489,266)</u>	<u>(209,199,469)</u>	<u>(254,182,207)</u>	<u>(246,471,686)</u>
Changes In Net Position	<u>(6,801,973)</u>	<u>1,040,903</u>	<u>(6,380,910)</u>	<u>(353,678)</u>
Total Net Position, Beginning of Year	<u>16,084,466</u>	<u>9,282,493</u>	<u>10,323,396</u>	<u>3,942,486</u>
Total Net Position, End of Year	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,808</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 Position				
Invested in capital assets	\$4,151,722	\$3,295,311	\$3,068,609	\$3,411,563
Unrestricted	(4,151,722)	(3,295,311)	(3,068,609)	(3,411,563)
Restricted	<u>9,282,493</u>	<u>10,323,396</u>	<u>3,942,486</u>	<u>3,588,808</u>
Total Net Position	<u>\$9,282,493</u>	<u>\$10,323,396</u>	<u>\$3,942,486</u>	<u>\$3,588,808</u>

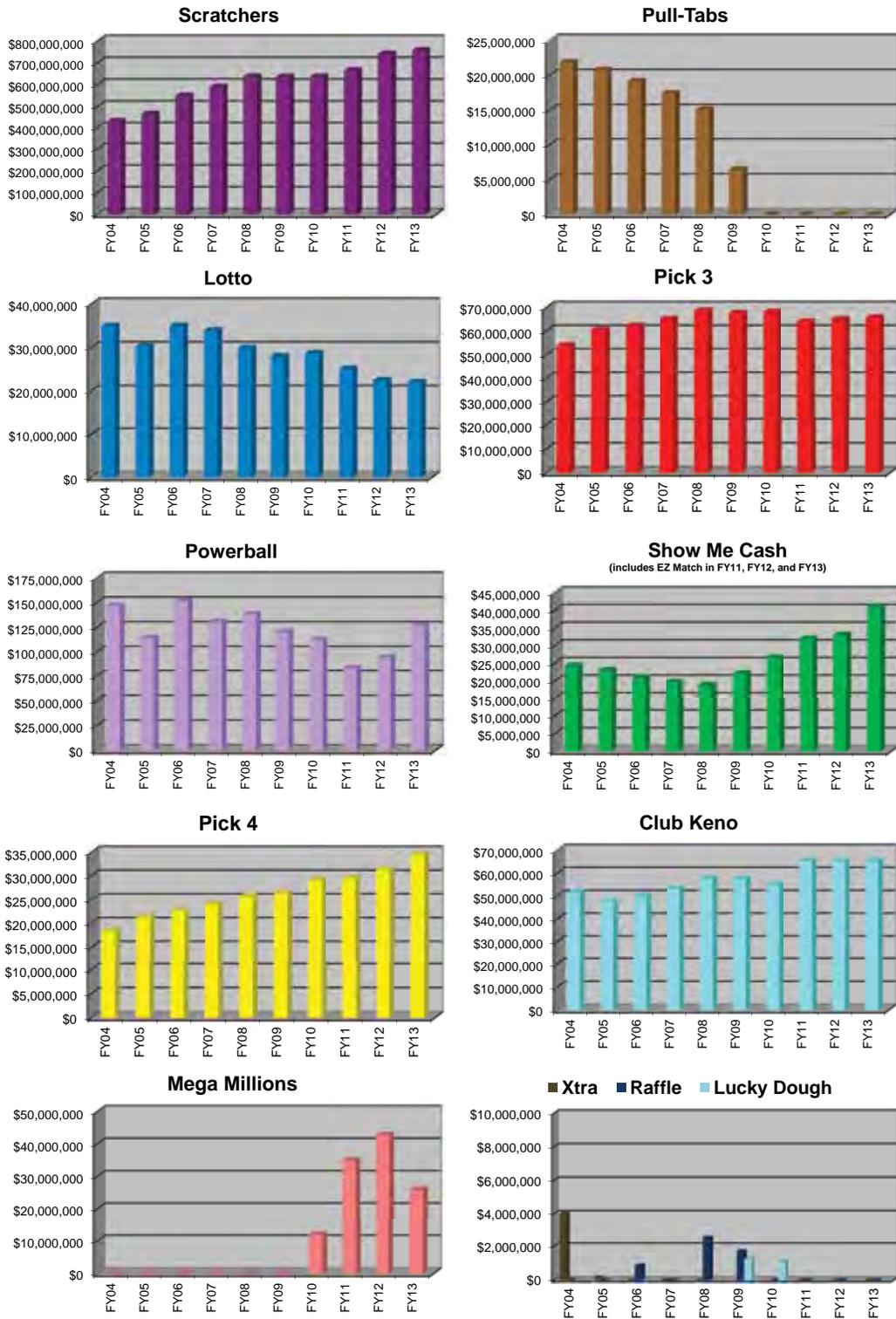
2008	2009	2010	2011	2012	2013
<u>\$638,533,775</u>	<u>\$636,574,616</u>	<u>\$638,062,954</u>	<u>\$666,315,849</u>	<u>\$742,541,015</u>	<u>\$758,900,234</u>
29,955,387	28,116,282	28,751,655	25,214,432	22,564,631	22,114,822
68,680,133	67,665,040	68,177,109	64,075,659	65,074,532	65,755,962
138,393,572	120,677,712	112,711,538	83,319,805	94,688,699	127,027,808
18,836,176	22,168,807	26,711,262	29,503,742	28,970,446	36,830,777
25,751,837	26,434,016	29,117,093	29,557,118	31,378,162	34,491,756
57,753,303	57,378,494	55,192,089	65,302,751	65,331,226	65,389,456
-	-	12,059,295	34,852,442	42,792,811	26,028,887
-	-	-	2,490,930	4,086,174	4,293,456
2,500,000	1,717,410	-	-	-	-
-	-	-	-	-	-
-	1,256,408	1,081,490	45,678	-	-
<u>341,870,408</u>	<u>325,414,169</u>	<u>333,801,531</u>	<u>334,362,557</u>	<u>354,886,681</u>	<u>381,932,924</u>
<u>15,088,705</u>	<u>6,463,110</u>	-	-	-	-
995,492,888	968,451,895	971,864,485	1,000,678,406	1,097,427,696	1,140,833,158
<u>649,422</u>	<u>596,377</u>	<u>50,414</u>	<u>523,186</u>	<u>1,294,455</u>	<u>706,055</u>
<u>996,142,310</u>	<u>969,048,272</u>	<u>971,914,899</u>	<u>1,001,201,592</u>	<u>1,098,722,151</u>	<u>1,141,539,213</u>
641,123,508	629,276,635	628,057,994	648,382,278	722,079,619	752,964,849
61,508,836	60,109,568	59,900,383	61,850,265	67,830,868	70,326,011
17,289,790	16,077,548	16,106,631	16,522,096	15,318,902	16,395,935
<u>719,922,134</u>	<u>705,463,751</u>	<u>704,065,008</u>	<u>726,774,304</u>	<u>805,209,724</u>	<u>839,686,795</u>
<u>20,362,542</u>	<u>20,466,793</u>	<u>20,809,357</u>	<u>28,688,464</u>	<u>30,380,982</u>	<u>36,655,720</u>
<u>740,284,676</u>	<u>725,930,544</u>	<u>724,874,365</u>	<u>755,443,103</u>	<u>835,610,371</u>	<u>876,342,515</u>
<u>255,857,634</u>	<u>243,117,728</u>	<u>247,040,534</u>	<u>245,758,489</u>	<u>263,111,780</u>	<u>265,196,698</u>
1,430,382	731,222	310,040	151,545	94,134	91,150
9,330,350	12,403,901	12,318,398	9,853,309	10,385,777	14,695,619
6,893,961	4,365,372	4,560,063	1,258,170	5,882,052	(884,228)
(4,215,836)	(3,861,661)	(3,381,475)	(2,904,666)	(2,509,798)	(3,160,411)
37,679	(26,702)	3,739	43,687	6,109	23,572
(266,656,044)	(256,286,630)	(259,672,711)	(255,807,030)	(273,597,799)	(280,007,039)
-	60,481	-	-	-	-
<u>(253,179,508)</u>	<u>(242,614,017)</u>	<u>(245,861,946)</u>	<u>(247,404,985)</u>	<u>(259,739,525)</u>	<u>(269,241,337)</u>
2,678,126	503,711	1,178,588	(1,646,496)	3,372,255	(4,044,639)
3,588,808	6,266,934	6,770,645	7,949,233	\$6,302,737	\$9,674,992
<u>\$6,266,934</u>	<u>\$6,770,645</u>	<u>\$7,949,233</u>	<u>\$6,302,737</u>	<u>\$9,674,992</u>	<u>5,630,353</u>
<hr/>					
\$3,923,538	\$3,478,013	\$3,458,481	\$3,364,727	\$3,442,269	\$3,123,532
(3,923,538)	(3,478,013)	(3,458,481)	(3,364,727)	(3,442,269)	(3,123,532)
<u>6,266,934</u>	<u>6,770,645</u>	<u>7,949,233</u>	<u>6,302,737</u>	<u>9,674,992</u>	<u>5,630,353</u>
<u>\$6,266,934</u>	<u>\$6,770,645</u>	<u>\$7,949,233</u>	<u>\$6,302,737</u>	<u>\$9,674,992</u>	<u>\$5,630,353</u>

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

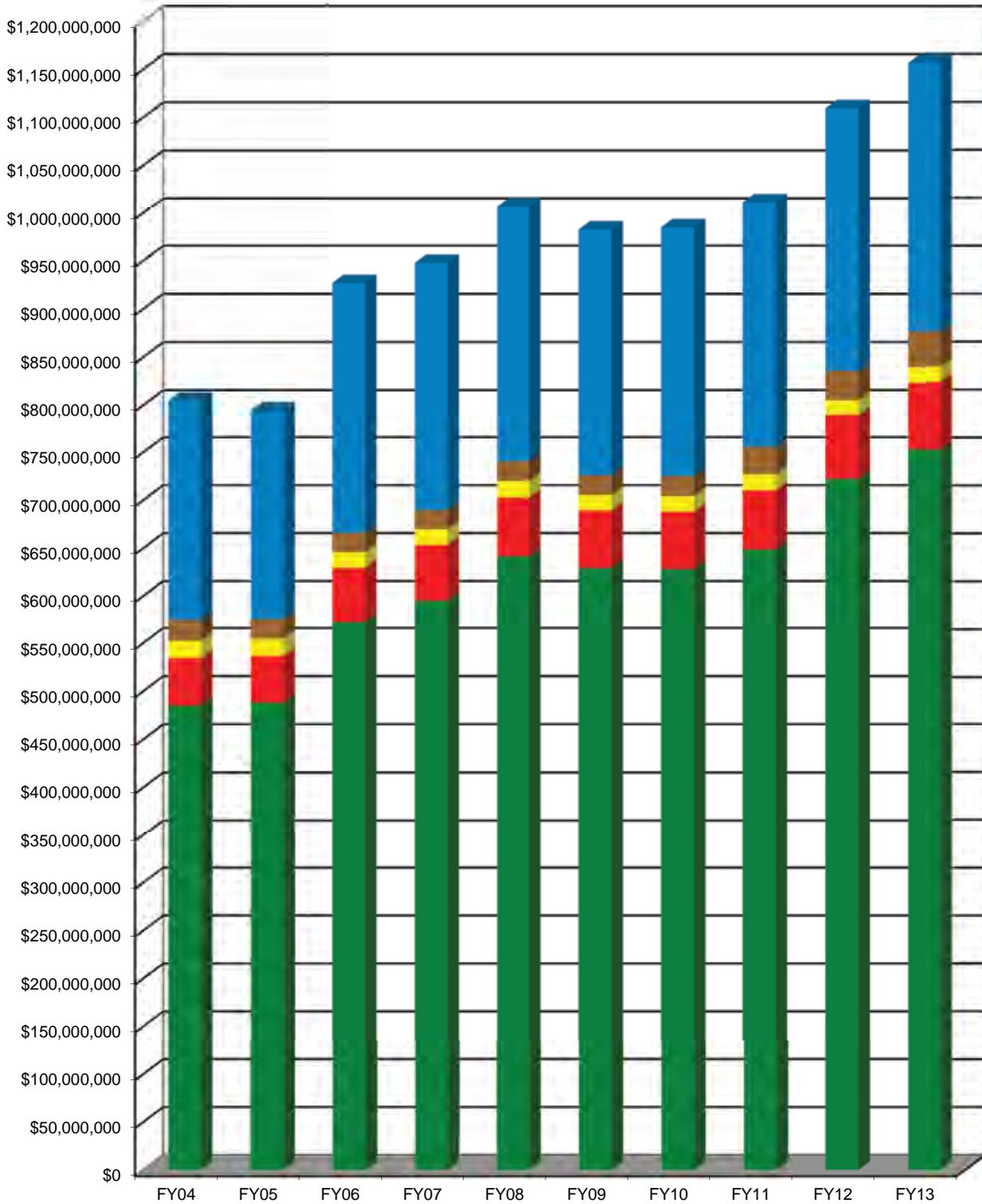


■ Mega Millions
 ■ Other
 ■ Club Keno
 ■ Pick 4
 ■ Show Me Cash/5
■ Powerball
 ■ Pick 3
 ■ Lotto
 ■ Pull-Tabs
 ■ Scratchers

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

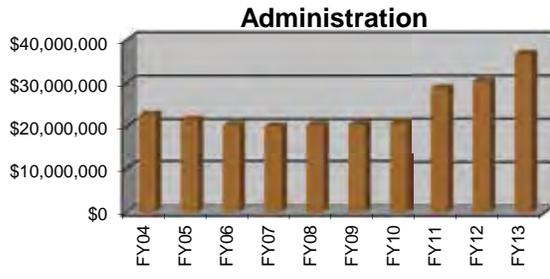
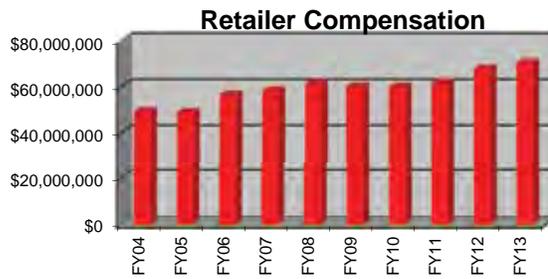
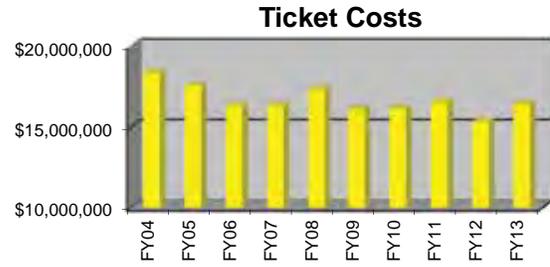
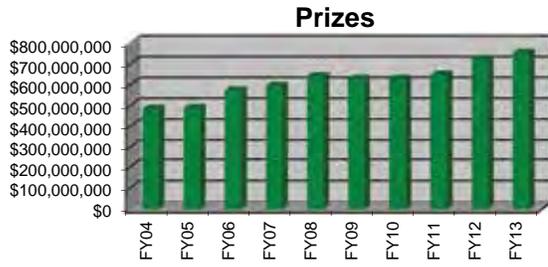


**Missouri State Lottery Commission
Expenses and Transfers
Last Ten Fiscal Years
(Unaudited)**



■ Prizes ■ Retailer compensation ■ Ticket costs ■ Administration ■ Transfers to the State

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



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

Price Point	2004	2005	2006	2007	2008
Number of Launches					
\$1	15	14	14	11	9
\$2	24	22	22	19	18
\$3	2	2	1	2	2
\$5	6	9	10	9	9
\$10	5	7	3	1	1
\$20	-	-	-	-	1
Total	52	54	50	42	40
Sales					
\$1	\$132,474,169	\$120,824,709	\$109,864,276	\$99,694,829	\$85,622,427
\$2	150,207,177	162,535,252	169,626,074	183,404,816	177,465,587
\$3	24,940,942	27,283,622	28,130,183	32,647,121	35,194,190
\$5	57,003,246	73,989,819	108,561,454	133,382,786	140,942,309
\$10	70,166,139	82,692,691	134,779,122	140,916,265	134,285,251
\$20	-	-	-	-	65,024,011
	\$434,791,673	\$467,326,093	\$550,961,109	\$590,045,817	\$638,533,775

2009	2010	2011	2012	2013	% of Total 2013
11	11	11	12	10	22.73%
15	14	14	15	12	27.27%
5	7	7	6	7	15.91%
10	8	11	14	11	25.00%
2	3	2	3	3	6.82%
1	1	1	1	1	2.27%
<u>44</u>	<u>44</u>	<u>46</u>	<u>51</u>	<u>44</u>	<u>100.00%</u>
\$88,731,681	\$82,671,825	\$81,643,988	\$84,981,064	\$81,479,080	10.74%
159,437,206	142,217,688	142,079,513	151,120,846	148,101,059	19.52%
62,411,862	88,327,022	92,204,540	85,998,362	79,783,688	10.51%
146,339,990	147,668,657	166,281,836	206,417,583	233,455,702	30.76%
88,918,424	96,437,335	92,587,827	105,138,848	106,694,693	14.06%
90,735,453	80,740,427	91,518,145	108,884,312	109,386,013	14.41%
<u>\$636,574,616</u>	<u>\$638,062,954</u>	<u>\$666,315,849</u>	<u>\$742,541,015</u>	<u>\$758,900,234</u>	<u>100.00%</u>

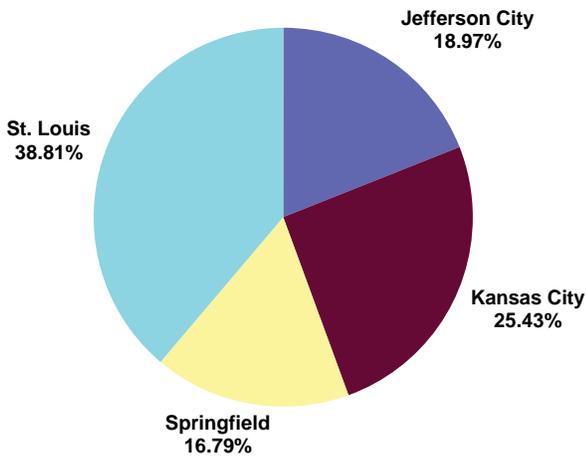
Missouri State Lottery Commission
Schedule of Lottery Retailers and Sales By Region
Fiscal Years Ending June 30, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013
(Unaudited)

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

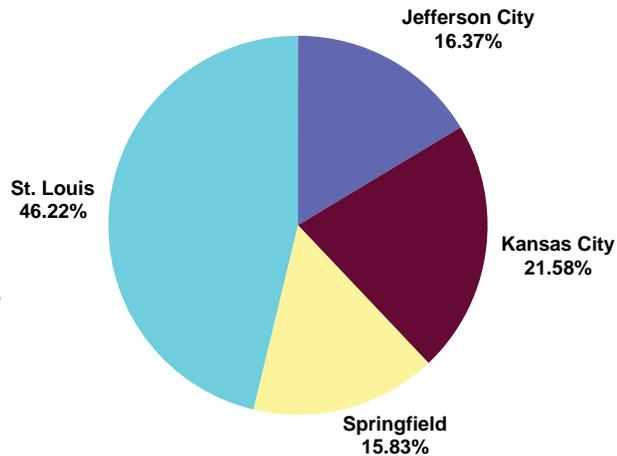
Region	Total Sales							
	2006	2007	2008	2009	2010	2011	2012	2013
Jefferson City	\$133,903,265	\$136,964,078	\$150,518,525	\$145,752,010	\$148,986,826	\$167,613,633	\$182,611,969	\$186,754,388
Kansas City	211,175,672	212,733,429	225,280,041	218,289,057	219,544,187	212,143,822	235,727,469	246,191,795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

FY2013

Percentage of Retailers By Region



Percentage of Total Sales by Region



Source: Missouri State Lottery Commission Research Section

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

% of Total Retailers

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

% of Total Sales

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

Missouri State Lottery Commission
Schedule of Demographic and Economic Statistics
Calendar Years 2004 To 2013
(Unaudited)

Calendar Year	Statewide Population	Statewide Personal Income (millions of dollars)	Statewide Personal Income per Capita	State Unemployment Rate
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	5,988,927	\$221,465	\$36,979	9.2%
2011	6,010,688	\$229,898	\$38,248	8.7%
2012	6,021,988	\$235,154	\$39,049	7.1%
2013	n/a	n/a	n/a	6.9%

Sources:

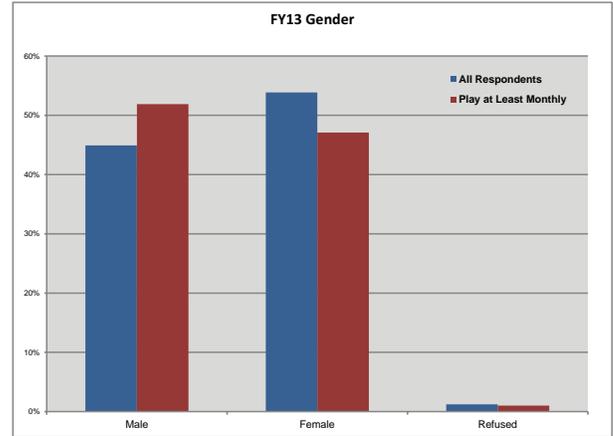
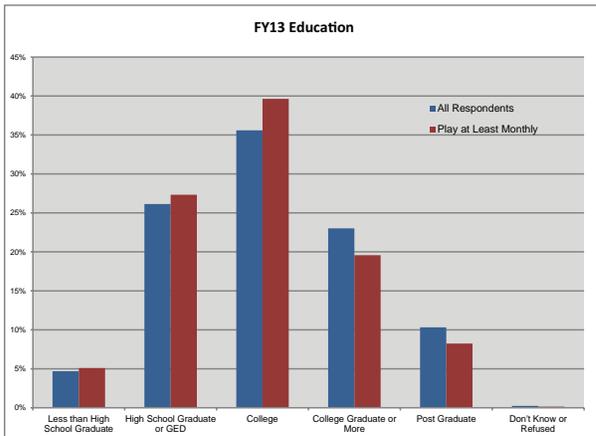
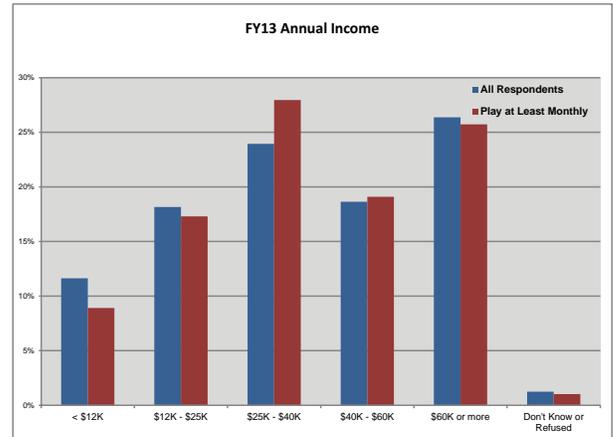
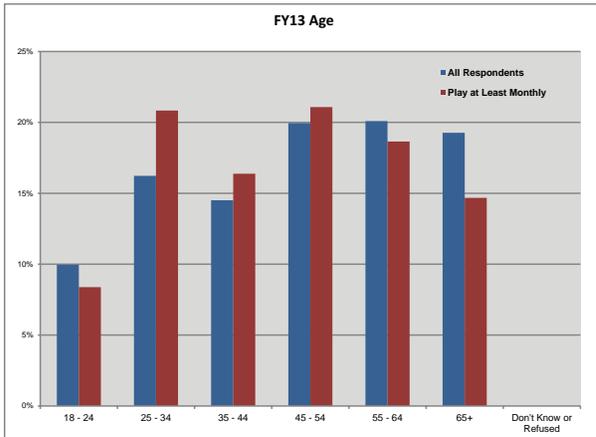
Population from U.S. Census Bureau;

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 2013



Source: Missouri Lottery Track and Trend Report FY2013

**Missouri State Lottery Commission
State of Missouri Major Employers
Calendar Years 2012 and 2003**

2012

Employer	Number of Employees	Percent of Total State Employment
State Of Missouri*	56,000	2.12%
Wal-Mart Associates, Inc.	25,000+	0.95%
University Of Missouri	20,000-25,000	0.76%-0.95%
Washington University	15,000-20,000	0.57%-0.76%
US Post Office	15,000-20,000	0.57%-0.76%
The Boeing Company	10,000-15,000	0.38%-0.57%
Division of Administration	10,000-15,000	0.38%-0.57%
Barnes-Jewish Hospital	7,500-10,000	0.28%-0.38%
Schnuck Markets, Inc.	7,500-10,000	0.28%-0.38%
U.S. Department of Veterans Affairs	7,500-10,000	0.28%-0.38%
U.S. Department of Defense	7,500-10,000	0.28%-0.38%
	181,000-216,000	6.85%-8.18%
Total Statewide Employment	2,641,713	

2003

Employer	Number of Employees	Percent of Total State Employment
State Of Missouri*	64,000	2.43%
Wal-Mart Associates, Inc.	25,000+	0.95%
University Of Missouri	20,000-25,000	0.76%-0.95%
US Post Office	15,000-20,000	0.57%-0.76%
The Boeing Company	10,000-15,000	0.38%-0.57%
Washington University	10,000-15,000	0.38%-0.57%
Schnuck Markets, Inc.	10,000-15,000	0.38%-0.57%
Division of Adult Institutions	7,500-10,000	0.28%-0.38%
Barnes-Jewish Hospital	7,500-10,000	0.28%-0.38%
U.S. Department of Defense	7,500-10,000	0.28%-0.38%
Ford Motor Company	7,500-10,000	0.28%-0.38%
	184,000-219,000	6.99%-8.32%
Total Statewide Employment	2,632,426	

All figures are based on a calendar-year average.

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

Sources: Missouri Economic Research and Information Center

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Full-time	177.0	175.0	175.0	173.0	173.0	173.0	163.0	159.0	153.0	153.0
Part-time	1.5	1.5	1.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total	<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>	<u>159.5</u>	<u>153.5</u>	<u>153.5</u>
Sales										
Jefferson City	12.0	12.0	12.0	11.0	11.0	10.0	9.0	10.0	10.0	10.0
Springfield	8.0	8.0	8.0	9.0	9.0	10.0	9.0	8.0	8.0	8.0
Kansas City	15.0	15.0	15.0	15.0	15.0	15.0	14.0	14.0	14.0	14.0
St. Louis	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	11.0	11.0	11.0	12.0	12.0	12.0	11.0	11.0	11.0	11.0
Vault	11.0	11.0	11.0	12.0	12.0	12.0	12.0	11.0	11.0	11.0
Marketing and administration	101.5	99.5	99.5	94.5	94.5	94.5	88.5	85.5	79.5	79.5
Total	<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>	<u>159.5</u>	<u>153.5</u>	<u>153.5</u>

Source: Missouri State Lottery Commission Budget Office

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Retailers-										
Statewide	5,003	5,022	4,933	4,846	5,008	4,765	4,778	4,861	4,938	4,865
Per Capita Sales	\$138	\$136	\$157	\$160	\$169	\$164	\$162	\$167	\$183	\$189

Source: Missouri State Lottery Commission Research and Licensing Sections

U.S. Lotteries' Fiscal Year 2012 Sales by Game*

(in \$millions)				Draw Games									Total Sales	PC Sales	VLT (net)
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Power Ball	Mega Millions	Hot Lotto	Keno	Other			
Arizona	6.6	409.78	3.27	8.49		34.63	18.09	104.21	56.07			12.15	646.68	\$99	
Arkansas	2.9	391.29		6.18	3.33			37.90	25.57			8.82	473.09	\$160	
California	38.0	2,755.38		135.32	29.53	423.76	164.03		720.08		131.06	12.33	4,371.49	\$115	
Colorado	5.2	364.24				33.28	19.52	81.87	37.12			9.27	545.30	\$105	
Connecticut	3.6	653.31		121.52	98.54	27.37	33.78	74.28	40.63			32.31	1,081.74	\$301	
Delaware	0.9	45.71		25.03	18.63	4.52	1.12	24.96	11.97	2.62		0.13	134.69	\$147	475.73
D.C.	0.6	59.94		53.07	65.67		15.10	17.14	10.63	2.75	12.48	12.91	249.68	\$395	
Florida	19.3	2,566.99		314.75	244.71	419.04	92.35	503.70				308.4	4,449.90	\$230	
Georgia	9.9	2,310.18		468.84	195.69	28.74	94.97	110.99	159.00		174.26	17.22	3,559.89	\$359	
Idaho	1.6	99.83	15.58	1.77		0.14	2.10	34.75	14.09	2.70		4.88	175.84	\$110	
Illinois ¹	12.9	1,624.59		278.55	194.14	104.88	131.59	147.92	188.72				2,670.40	\$207	
Indiana	6.5	557.79		29.74	30.21	56.93	4.06	101.12	46.18			29.57	855.58	\$131	
Iowa	3.1	188.81	17.44	6.74	2.79		4.31	57.93	22.29	10.53			310.85	\$101	
Kansas	2.9	124.01	9.04	6.01			15.59	37.67	15.66	6.98	23.13	8.07	246.14	\$85	
Kentucky	4.4	450.25		123.29	37.57	7.91	10.66	83.07	40.06			15.08	767.89	\$175	
Louisiana	4.6	158.03		48.96	38.51	31.02		106.85	32.82			13.42	429.62	\$93	
Maine	1.3	165.14		5.27	4.30	16.40	4.73	22.08	7.96	2.47			228.35	\$172	
Maryland	5.9	506.80		254.59	265.54	30.71	21.87	82.86	110.85		387.41	134.26	1,794.89	\$305	195.09
Massachusetts	6.6	3,251.48	0.86		333.86	33.58	84.59	82.91	101.48		790.46	50.39	4,729.60	\$712	
Michigan	9.9	771.72	27.31	323.48	357.65	48.30	51.92	119.54	166.76		538.38	8.41	2,413.46	\$244	
Minnesota	5.4	355.26		12.84			29.55	73.66	26.24	9.43		13.05	520.03	\$97	
Missouri	6.0	742.54		65.07	31.38	22.57	28.97	94.69	42.79		65.33	4.09	1,097.43	\$182	
Montana ¹	1.0	16.53				1.90	4.15	15.94	5.56	3.15		5.54	52.76	\$52	
Nebraska	1.9	81.95		3.51		1.78	11.56	36.41	13.43			1.97	150.61	\$81	
N. Hampshire	1.3	176.91		5.18	5.13	9.46	2.43	33.02	14.99	3.18		4.36	254.66	\$193	
New Jersey	8.9	1,417.66		431.48	261.76	84.16	142.22	183.89	238.19			-0.47	2,758.90	\$311	
New Mexico	2.1	68.74		3.64			7.51	33.77	14.26	5.43		0.45	133.79	\$64	
New York	19.6	3,578.93		880.54	813.75	122.27	323.24	296.58	464.58		502.04	30.76	7,012.69	\$358	1,426.8
N. Carolina	9.8	959.96		247.75	91.53		57.97	153.92	85.56				1,596.69	\$164	
N. Dakota	0.7							11.74	6.20	2.73		5.37	26.04	\$37	
Ohio	11.5	1,507.46		357.41	207.93	42.28	63.79	105.34	179.30		209.78	65.69	2,738.98	\$237	11.08
Oklahoma	3.8	95.98		4.65	2.05		4.21	58.24	27.33	7.41			199.85	\$52	
Oregon	3.9	117.52			1.35	37.54	5.55	38.78	22.21		93.46	6.76	323.16	\$83	727.15
Pennsylvania	12.8	2,134.58		359.92	245.60	66.01	159.85	277.69	151.23			86.01	3,480.90	\$273	
Rhode Island	1.1	83.95			25.41		4.89	32.86	13.94		82.25	6.17	249.48	\$238	527.32
S. Carolina	4.7	758.44		138.85	66.78		22.28	96.15	53.03				1,135.53	\$240	
S. Dakota	0.8	24.77				1.96	2.29	16.22	4.63	3.27			53.14	\$64	176.64
Tennessee	6.5	955.25		57.97	27.69		19.22	102.75	53.96				1,216.85	\$188	
Texas	26.1	3,086.14		279.64	73.41	169.69	65.61	198.67	252.69			64.97	4,190.82	\$161	
Vermont	0.6	74.54		1.38	1.30	5.36	1.00	9.65	4.68	1.06		2.0	100.93	\$161	
Virginia	8.2	842.12		243.27	222.77	33.15	26.68	89.05	140.24			18.72	1,616.00	\$197	
Washington	6.9	318.15		16.60	12.41	54.47	22.96	42.86	59.20		5.63	2.93	535.20	\$78	
W. Virginia	1.9	117.68		8.70	5.03		5.47	38.69	14.75	4.74	6.25		201.29	\$109	1,175.96
Wisconsin ¹	5.7	320.13	2.35	24.14	12.17	24.83	47.66	78.21	36.99			1.20	547.68	\$96	
Total	297.8	35,290.5	75.8	5,354.1	4,028.1	1,978.6	1,829.4	3,950.5	3,733.9	68.4	3,021.9	997.1	60,328.5	\$203	4,715.8
% of total		58.5%	0.1%	8.9%	6.7%	3.3%	3.0%	6.5%	6.2%	0.1%	5.0%	1.7%	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); ¹ Unaudited sales

Source: La Fleur's 2013 World Lottery Almanac © 2013 TLF Publications, Inc. All rights reserved.

U.S. Lottery Fiscal Year 2012 Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	Pop. ¹ (Mil)	2011 Gross Domestic Product ²	Traditional			Gov't		PC Sales	PC Gov't	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	Gov't Transfers ⁵							
Arizona	6.6	227,098	646.7		396.7	164.7	\$99	\$25	0.285%	0.073%	61.35%	25.47%	
Arkansas	2.9	91,496	473.1		315.3	97.7	\$160	\$33	0.517%	0.107%	66.65%	20.65%	
California	38.0	1,735,360	4,371.5		2,560.3	1,300.2	\$115	\$34	0.252%	0.075%	58.57%	29.74%	
Colorado	5.2	234,308	545.3		342.6	123.2	\$105	\$24	0.233%	0.053%	62.84%	22.60%	
Connecticut	3.6	201,386	1,081.7		659.9	311.9	\$301	\$87	0.537%	0.155%	61.00%	28.83%	
Delaware ^{4,5}	0.9	57,293	134.7	475.7	85.7	329.1	\$147	\$359	0.235%	0.574%	63.60%	53.91%	
D.C.	0.6	91,643	249.7		137.3	66.4	\$395	\$105	0.272%	0.072%	54.99%	26.59%	
Florida	19.3	661,091	4,449.9		2,766.1	1,321.6	\$230	\$68	0.673%	0.200%	62.16%	29.70%	
Georgia	9.9	365,809	3,559.9		2,289.8	901.3	\$359	\$91	0.973%	0.246%	64.32%	25.32%	
Idaho	1.6	51,463	175.8		108.9	41.6	\$110	\$26	0.342%	0.081%	61.91%	23.66%	
Illinois ⁶	12.9	582,094	2,670.4		1,675.0	705.1	\$207	\$55	0.459%	0.121%	62.73%	26.40%	
Indiana	6.5	240,933	855.6		533.0	205.3	\$131	\$31	0.355%	0.085%	62.29%	23.99%	
Iowa	3.1	128,597	310.9		182.4	78.7	\$101	\$26	0.242%	0.061%	58.69%	25.33%	
Kansas	2.9	113,367	246.1		138.9	71.0	\$85	\$25	0.217%	0.063%	56.43%	28.85%	
Kentucky	4.4	141,266	767.9		459.2	216.4	\$175	\$49	0.544%	0.153%	59.80%	28.19%	
Louisiana	4.6	205,877	429.6		226.3	156.9	\$93	\$34	0.209%	0.076%	52.67%	36.52%	
Maine	1.3	44,821	228.4		142.8	54.3	\$172	\$41	0.509%	0.121%	62.55%	23.79%	
Maryland ^{4,5}	5.9	264,373	1,794.9	195.1	1,065.7	685.1	\$305	\$116	0.679%	0.259%	59.37%	34.43%	
Massachusetts	6.6	348,577	4,729.6		3,396.8	983.8	\$712	\$148	1.357%	0.282%	71.82%	20.80%	
Michigan	9.9	337,427	2,413.5		1,369.8	786.9	\$244	\$80	0.715%	0.233%	56.75%	32.61%	
Minnesota	5.4	244,912	520.0		320.6	123.8	\$97	\$23	0.212%	0.051%	61.65%	23.81%	
Missouri	6.0	216,099	1,097.4		722.1	273.6	\$182	\$45	0.508%	0.127%	65.80%	24.93%	
Montana ⁶	1.0	31,983	52.8		28.6	13.1	\$52	\$13	0.165%	0.041%	54.25%	24.75%	
Nebraska	1.9	79,889	150.6		87.4	36.1	\$81	\$19	0.189%	0.045%	58.02%	23.96%	
N. Hampshire	1.3	56,572	254.7		158.9	66.8	\$193	\$51	0.450%	0.118%	62.39%	26.22%	
New Jersey	8.9	426,765	2,758.9		1,617.8	950.1	\$311	\$107	0.646%	0.223%	58.64%	34.44%	
New Mexico	2.1	70,497	133.8		72.0	41.3	\$64	\$20	0.190%	0.059%	53.84%	30.89%	
New York	19.6	1,016,350	7,012.7	1,426.8	4,130.4	2,878.0	\$358	\$147	0.690%	0.283%	58.90%	34.10%	
N. Carolina	9.8	385,092	1,596.7		961.6	460.5	\$164	\$47	0.415%	0.120%	60.22%	28.84%	
N. Dakota	0.7	34,262	26.0		13.4	07.6	\$37	\$11	0.076%	0.022%	51.50%	29.26%	
Ohio	11.5	418,881	2,739.0	11.1	1,680.8	771.0	\$237	\$67	0.654%	0.184%	61.37%	28.04%	
Oklahoma	3.8	134,146	199.9		103.1	70.5	\$52	\$18	0.149%	0.053%	51.56%	35.27%	
Oregon ^{4,5}	3.9	186,228	323.2	727.2	238.3	525.1	\$83	\$135	0.174%	0.282%	73.73%	50.00%	
Pennsylvania	12.8	500,433	3,480.9		2,120.5	1,060.9	\$273	\$83	0.696%	0.212%	60.92%	30.48%	
R. Island ^{4,5}	1.1	43,663	249.5	527.3	152.6	377.7	\$238	\$360	0.571%	0.865%	61.18%	48.62%	
S. Carolina	4.7	143,278	1,135.5		721.4	300.1	\$240	\$64	0.793%	0.209%	63.53%	26.43%	
S. Dakota ^{4,5}	0.8	34,443	53.1	176.6	29.2	103.7	\$64	\$124	0.154%	0.301%	55.02%	45.13%	
Tennessee	6.5	233,997	1,215.9		757.5	323.4	\$188	\$50	0.520%	0.138%	62.30%	26.60%	
Texas	26.1	1,149,908	4,190.8		2,632.6	1,155.5	\$161	\$44	0.364%	0.100%	62.82%	27.57%	
Vermont	0.6	22,968	100.9		64.6	22.3	\$161	\$36	0.439%	0.097%	64.01%	22.12%	
Virginia	8.2	375,747	1,616.0		962.3	464.1	\$197	\$57	0.430%	0.124%	59.55%	28.72%	
Washington	6.9	310,906	535.2		311.6	138.0	\$78	\$20	0.172%	0.044%	58.21%	25.79%	
W. Virginia ^{4,5}	1.9	55,765	201.3	1,176.0	120.6	693.8	\$109	\$374	0.361%	1.244%	59.92%	50.38%	
Wisconsin ⁶	5.7	221,741	547.7		320.1	150.0	\$96	\$26	0.247%	0.068%	58.45%	27.38%	
Total	297.8	12,518,804	60,327.5	4,715.8	37,180.4	19,608.4	\$203	\$66	0.482%	0.157%	61.63%	32.50%	

* 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 Includes government transfers for VLT operations; ⁶ Unaudited

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

Source: La Fleur's 2013 World Lottery Almanac © 2013 TLF Publications, Inc. All rights reserved.

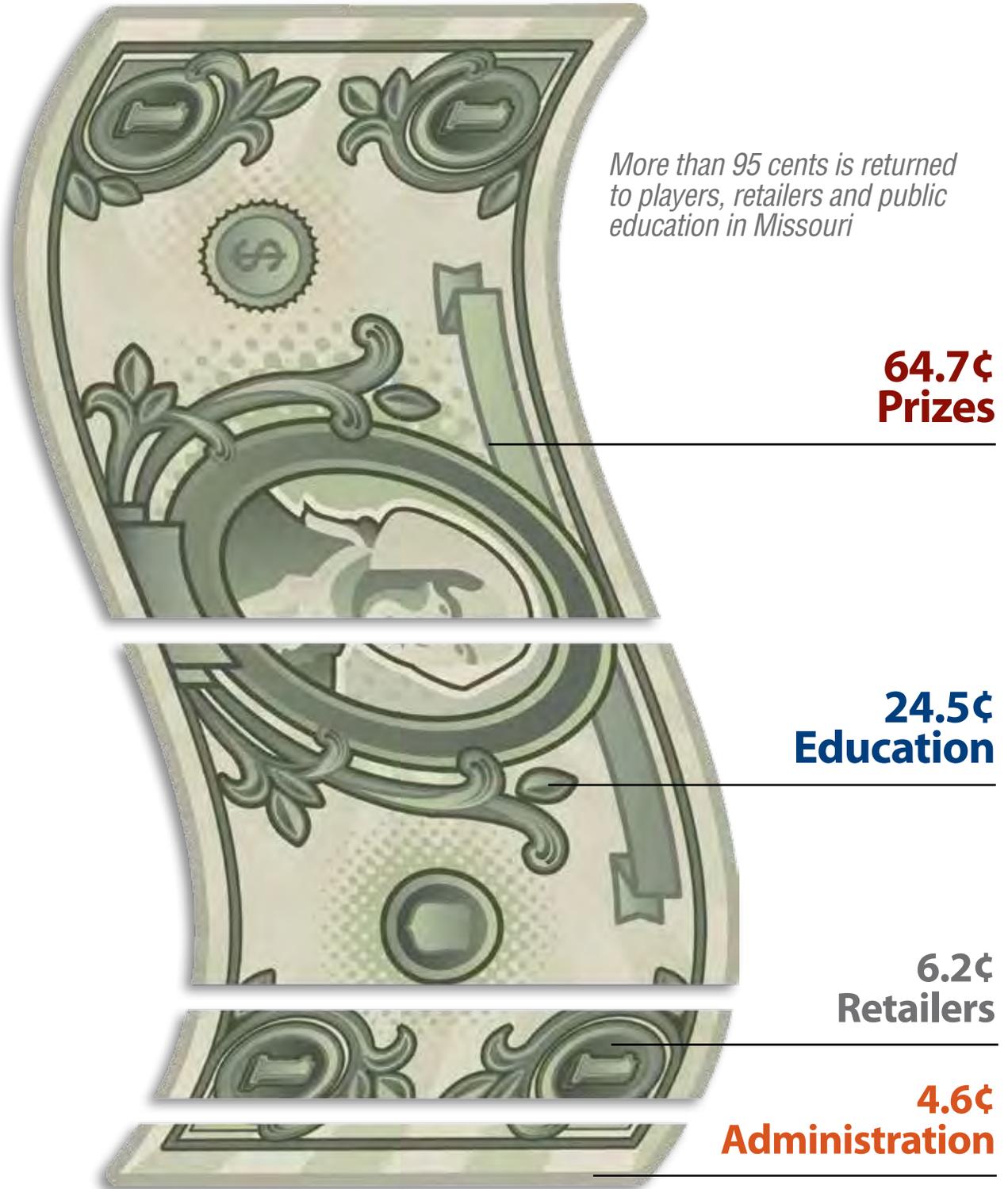
**Missouri State Lottery Commission
Schedule of Capital Asset Information
Last Ten Fiscal Years**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
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	49	49	49	49	49	49	49	49	49	49
Delivery vans	3	3	3	3	3	3	3	0	1	1
Passenger vans - vehicle pool	8	3	12	11	10	11	8	11	9	21
Passenger cars - vehicle pool	9	8	8	4	3	1	1	0	0	0
Trucks	4	3	3	3	3	3	3	3	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>74</u>	<u>67</u>	<u>76</u>	<u>71</u>	<u>69</u>	<u>68</u>	<u>65</u>	<u>64</u>	<u>63</u>	<u>75</u>

Source: Missouri State Lottery Commission Maintenance and Vehicle Sections

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

Division of Each Dollar Spent on the Missouri Lottery - Fiscal Year 2013



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Compliance Section

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

To the Missouri State Lottery Commission
Jefferson City, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Missouri State Lottery Commission, an enterprise fund of the State of Missouri, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Missouri State Lottery Commission's basic financial statements, and have issued our report thereon dated October 22, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Saint Louis, Missouri
October 22, 2013

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

SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
June 30, 2013

No findings in the current year.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Finding No. 2012-1 – Material Weakness

Prior Period Restatement

Condition – The financial statements have been restated to reflect the impact of an overstatement in Cash and Cash Equivalents (asset) and Due to Lottery Proceeds Fund (liability) of \$9,372,083 as of June 30, 2011. The overstatement resulted from cash received from retailers on July 1, 2011 being posted to the Lottery Enterprise Fund (cash account) by Department of Revenue’s Internal Cash Management Office (ICMO) on June 30, 2011, prior to the funds actually being transferred. In addition, the error resulted in the understatement of Scratchers prize expense and the overstatement of transfers to the Lottery Proceeds Fund for the year ended June 30, 2011. These corrections were not identified by the Lottery’s internal control structure on a timely basis.

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. In addition, the internal control system design did not include a procedure to reconcile cash receipts on a monthly basis.

Effect – The prior year’s financial statements were materially misstated and required restatement.

Recommendation – We recommend that the Lottery’s controls and processes be expanded to include a monthly reconciliation of ticket sales cash receipts that are posted to cash and accounts receivable.

Management’s Response/Corrective Action Plan (Unaudited) – *No internal control structure can completely eliminate the risk of errors; and the occurrence of errors is not necessarily an indication that the overall internal control structure is deficient. Controls are often resource-intensive. The overstatement of cash resulted from a procedural error made by the Department of Revenue ICMO. ICMO should not have posted the receipt to our fund prior to the funds hitting the Treasury. The State Treasury also erred in confirming the overstated cash balance to the UHY LLP auditors during last year’s audit test work.*

With limited resources, the Lottery has not invested resources in monitoring and double-checking the accuracy of the work of other state agencies and the State Treasurer’s Office. Resources are focused on activities facing the greatest threats. Internal controls require constant monitoring and reengineering as the external and internal environment changes and as former threats are mitigated and new risks arise, and our internal control structure did ultimately detect and correct the error. However, because of our reliance that Department of Revenue cash management procedures were followed (which they were not) and because the only information we have regarding our Enterprise Fund balance is provided through the state accounting system and the State Treasurer’s Office (which were both incorrect), we did not discover the error in a timely fashion. We have revised our procedures to incorporate a process in which the accounts receivable receipts for each month will now be compared on a monthly basis to the ticket sale cash receipts to ensure the amounts are the same and any differences will be investigated and corrected as found.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Finding No. 2012-1 – Material Weakness (Continued)

Status – In 2013 the Lottery performed procedures to reconcile accounts receivable receipts for each month to the ticket sales cash receipts to ensure the amounts were the same of differences were reconciled.

