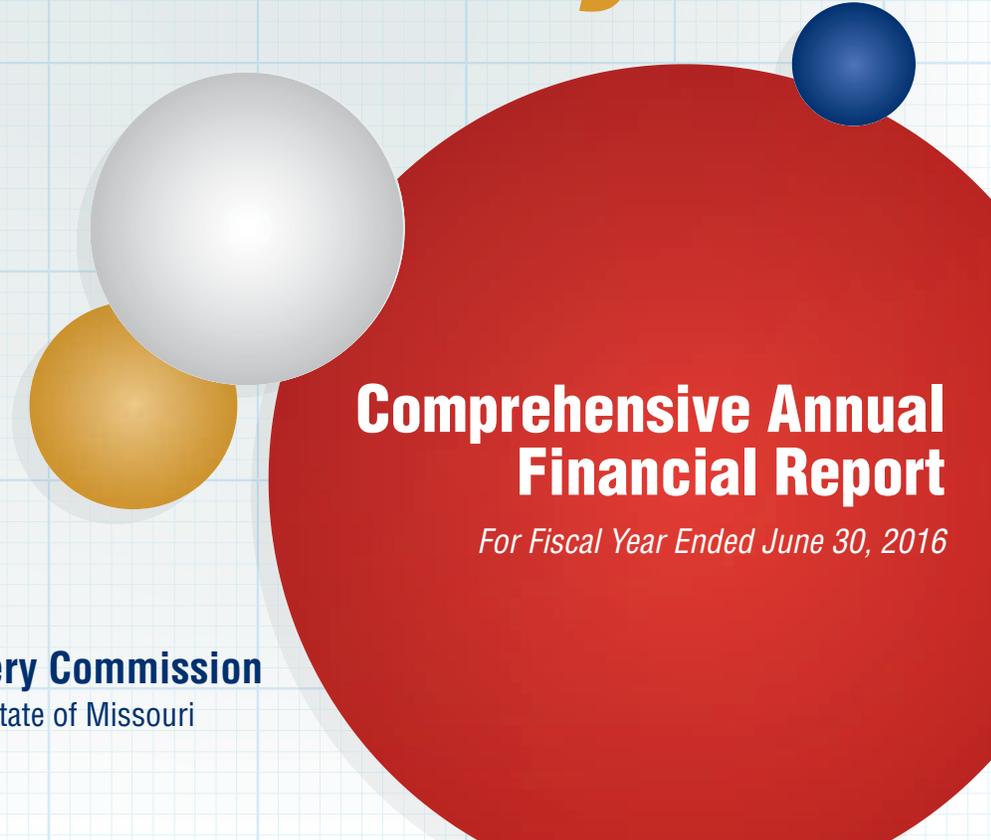




***MO*Lottery**



**Comprehensive Annual
Financial Report**

For Fiscal Year Ended June 30, 2016

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



***MO*Lottery**

**Comprehensive Annual
Financial Report**

For Fiscal Year Ended June 30, 2016

Missouri State Lottery Commission

An Enterprise Fund of the State of Missouri

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, 2016

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Introductory Section



Letter of Transmittal

November 14, 2016

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

Introduction

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Missouri State Lottery Commission (the Lottery) for the fiscal year ended June 30, 2016. 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, the basic financial statements with the accompanying notes, and required supplementary information. 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 2016, Scratchers ticket sales were \$835.6 million, which represents 63.5 percent of total ticket sales.



Draw Games allow players to select the numbers for their wager or players may utilize computer-generated plays (Quick Picks). 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 37 member lotteries of the Multi-State Lottery Association and sold in 44 states, D.C., Puerto Rico and the U.S. Virgin Islands. Players select one set of five numbers from a pool of one to 69 and one additional number designated as the "Powerball" from a second pool of one to 26. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. There are eight secondary prizes of fixed amounts, ranging from \$4 to \$1,000,000. The Power Play feature allows players the chance to increase the original prize amount, excluding the jackpot prize. Players who use Power Play and match all five white-ball numbers automatically win \$2 million. A jackpot winner may select either an annuitized prize paid over 29 years (30 payments) or a lump-sum payment. Drawings are held every Wednesday and Saturday night. Powerball sales for fiscal year 2016 were approximately \$130.8 million, which represents 9.9 percent of total ticket sales.



Note: Beginning October 4, 2015, the game matrix was changed from choosing five main numbers from 1 to 59 and a Powerball from 1 to 35 to selecting five main numbers from 1 to 69 and a Powerball from 1 to 26. The Power Play option also changed- if the jackpot is worth \$150 million or less, a 10x Power Play option is now possible in addition to the 2x, 3x, 4x and 5x options formerly available.



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. Jackpot winners may select either an annuitized prize over 24 years (25 payments) or a lump-sum payment. 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 \$21.4 million in fiscal year 2016, representing 1.6 percent of total ticket sales.

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



numbers. Fiscal year 2016 Show Me Cash and EZ Match sales were approximately \$29.3 million and \$3.3 million, or 2.2 percent and 0.3 percent of total ticket sales, respectively.



With Pick 3, players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), boxed (numbers in any order), front/back pair (match the exact order of the first or last two digits), or combo (provides the player all possible number combinations of the three numbers drawn for exact-order win). Beginning June 16, 2013, a new 1-Off wager type was added (win even if numbers are one number higher or lower than the winning numbers drawn). Drawings are conducted twice per day. For fiscal year 2016, Pick 3 sales were \$73.2 million, which was 5.6 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 four numbers drawn for exact-order win). The 1-Off wager type was also added to Pick 4 (win even if numbers are one number higher or lower than the winning numbers drawn). Drawings are conducted twice per day for Pick 4. Sales for fiscal year 2016 were \$46.4 million, or 3.5 percent of total ticket sales.



Club Keno is a Draw Game offered in all Missouri Lottery retail locations and provides drawings every four minutes. Players first choose how many different numbers (also called "spots") they wish to play from one to 10. The player must then choose a number from one to 80 for each spot. Twenty numbers from the pool of one to 80 are chosen in a computerized random Club Keno drawing. Prizes vary depending on how many spots a player chooses and how many of the players' numbers match the numbers drawn. Club Keno also offers Multiplier, Bulls-Eye, Progressive Jackpot and Double Bulls-Eye features. For fiscal year 2016, Club Keno sales were \$59.6 million, which was 4.5 percent of total ticket sales.

Mega Millions is a multi-state Draw Game available for sale in 44 states, D.C. and the U.S. Virgin Islands. Players select five different numbers from a pool of one to 75 then select one Mega Ball number between 1 and 15. All six numbers must be matched to win the jackpot. The jackpot starts at \$15 million and increases for each draw when the jackpot is not won. There are eight secondary prizes of fixed amounts ranging from \$1 to \$1,000,000. Players have the option to select the Megaplier feature that will increase the non-jackpot prize winnings by two, three, four or five times their original amount. A jackpot winner may select a lump-sum payment or an annuity paid over 29 years (30 payments). Drawings are held every Tuesday and Friday night. Mega Millions sales for fiscal year 2016 were approximately \$34.6 million, which represents 2.6 percent of total ticket sales.



\$250K Triple Play was launched in February of 2014 and ended in January of 2016. Players selected four numbers from one to 60 then an additional eight plays of four numbers each were selected randomly by the terminal using Quick Pick. Each ticket had nine chances to win with the opportunity to win one prize in each of the nine sets of numbers played. The top prize was \$250,000 and drawings were held every Wednesday and Saturday. During fiscal year 2016, sales from this product line were approximately \$1.5 million, or 0.1 percent of total ticket sales.



Lucky for Life was launched in January of 2015 and is the Lottery's newest multi-state Draw Game. It is currently offered in 20 states and D.C. For \$2, the game features a top prize of \$1,000 a day for life and a second prize of \$25,000 a year for life. Top and second prize winners may select either an annuitized prize over a minimum of 20 years or a lump-sum payment. Players select five numbers from 1 to 48 then one number (the Lucky Ball) from 1 to 18. Drawings are held on Monday and Thursday nights. Fiscal year 2016 sales

were \$8.4 million, or 0.6 percent of total ticket sales.

Pull-Tabs were re-introduced in October of 2013 using new dispensers that allow for better security and accounting. Pull-Tabs are Lottery tickets with tabs that are pulled open to reveal cash prizes. Players also have the option to play through the dispenser's interactive touch-screen. The cost of the tickets is 50 cents, \$1 or \$2 and the top prize is \$600. During fiscal year 2016, sales from this product line were approximately \$71.5 million, or 5.4 percent of total ticket sales.



Highlights of The Past Year

Ticket sales for the Lottery surpassed the \$1 billion mark for the sixth year in a row and set a new record high. Fiscal year 2016 sales of \$1.316 billion were ahead of fiscal year 2015 sales of \$1.127 billion by \$188.3 million, or 16.7 percent. Pull-Tab sales, Scratchers sales and overall Draw Games sales were all up compared to previous year levels.

For fiscal year 2016, the level of operating expenses increased by 17.3 percent. Total operating expenses increased from \$873.5 million in fiscal year 2015 to \$1,025.0 million in fiscal year 2016. The increase is attributable to direct costs related to the record-breaking sales year. Prizes increased by \$133.4 million, retailer commissions and incentives increased by \$9.6 million, and cost of tickets sold increased by \$7.5 million. Administrative costs remained relatively flat. 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 2016 was an increase in the actual cash transfer of profits for public education from \$270.7 million to \$309.0 million. In addition, the Lottery returned \$888.9 million to players in cash and prizes and \$78.0 million to retailers in commissions and incentives for the 2016 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 2016 included:

- Conversion to new computer gaming system equipment and software.
- Launch of our first \$30 Scratchers game.
- World record Powerball jackpot of \$1.59 billion.
- Exceeding minority- and women-owned business expenditure goals of 10 percent and 5 percent, respectively, with participation rates of 15.49 percent and 6.01 percent, respectively.

Economic Conditions and Outlook

The U.S. and Missouri economies saw economic growth over the past year. While exhibiting positive growth, there were some signs that economic growth is still uneven. During 2015, Missouri's Gross Domestic Product totaled over \$293.4 billion, which was an increase of 3.6 percent from 2014. Missouri had the 21st largest GDP among the states in 2015, and of the surrounding states, only Illinois (5th) and Tennessee (19th) have larger economies than Missouri. The U.S. GDP increased 3.5 percent during the same time period with 43 out of 50 states experiencing GDP growth.

The unemployment rate has fallen to just below the pre-recession rate of 5 percent. At the end of fiscal year 2016, unemployment was 4.5 percent, down from 4.8 percent at the start of the fiscal year. Unemployment fell through the year until April, when it spiked up again slightly. At 4.5 percent, it is still the lowest unemployment rate since March 2006. The unemployment rates in Missouri have mostly followed the national trend. The U.S. unemployment rate was 4.9 percent at the end of the fiscal year, down from 5.3 percent at the start of the fiscal year.

Consumer spending in the U.S., which makes up approximately 70 percent of the economy, grew at the annualized rate of 2.3 percent in 2015 with disposable income rising 2.4 percent, giving consumers improved purchasing power. Taxable sales in Missouri rose over 2.2 percent in 2015.

Missouri's per capita income rose to \$42,752 or 2.7 percent in 2015. Missouri had the eighth lowest cost of living index in the U.S. in the second quarter of 2016 at 89.9, which is down from 91.6 in 2015.

In fiscal year 2016, gasoline prices fluctuated between \$1.41 and \$2.57 per gallon with the weekly average being \$2.00 per gallon, which is considerably lower than fiscal year 2015 – a decline of \$0.61 or 23.5 percent in the weekly average price per gallon.

The three major U.S. stock markets also had a positive year. The Dow Jones (DJIA) ended the fiscal year up approximately 1.1 percent. The DJIA ended the fiscal year at 17,930. The S&P 500 ended the year up over 1.3 percent, while the NASDAQ ended the year up over 0.1 percent. All three markets experienced a downturn in January but rebounded in the spring and continued to perform well through the end of fiscal year 2016.

Missouri Lottery sales are expected to grow slightly in fiscal year 2017 likely at a similar rate that the economy is expanding, though it will be a challenge to replicate the sales increase that the record setting \$1.59 billion Powerball jackpot provided in fiscal year 2016. The Lottery will continue to focus its advertising budget on our philanthropic branding, sponsorships, new game launches and promotions. Pilot programs for the new Pull-Tab product and the Pay at the Pump/ATM alternative selling locations model are ongoing. Other initiatives include a rollout of new state-of-the-art self-service vending machines, a re-tooled loyalty program and mobile app, continued promotion of our products with integrated product promotions and events (including both Scratchers and Draw Games), and new draw game features and add-ons.

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. The financial statements also do not reflect annuity contracts purchased from selected insurance companies to fund for-life prizes, as it is the intent of the Lottery that the insurance companies will make future installment payments directly to each prize winner.

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. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

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

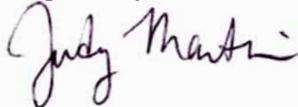
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Missouri State Lottery Commission for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the 16th consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



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



Government Finance Officers Association

**Certificate of
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for Excellence
in Financial
Reporting**

Presented to

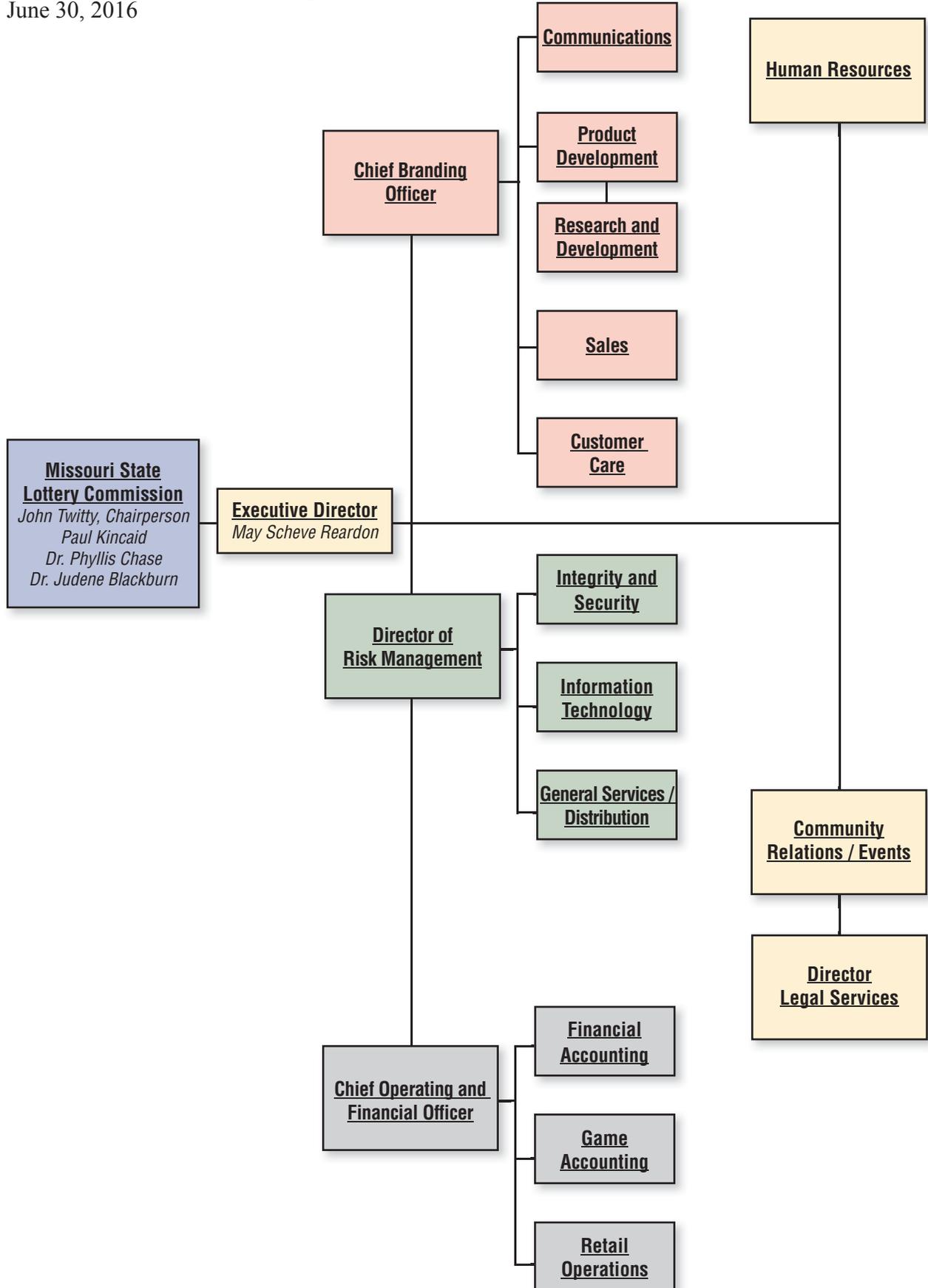
**Missouri State
Lottery Commission**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Missouri State Lottery Commission
 Organizational Chart and Principal Officials
 June 30, 2016



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Financial Section



INDEPENDENT AUDITORS' REPORT

Missouri State Lottery Commission
Jefferson City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the Missouri State Lottery Commission, an enterprise fund of the State of Missouri, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri State Lottery Commission as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Missouri State Lottery Commission and do not purport to, and do not, present fairly the financial position of the State of Missouri, as of June 30, 2016 and 2015, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 14 to 22 and page 40 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 November 14, 2016, 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
November 14, 2016

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, 2016 and 2015

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, 2016 and 2015. 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, 2016 and 2015. 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

	2016	2015	2014
Assets			
Current assets	\$86,015,448	\$81,806,357	\$78,159,003
Capital assets (net of accumulated depreciation)	2,935,542	2,363,309	2,859,744
Investments held for grand-prize winners at fair value - noncurrent	35,461,889	36,376,785	37,568,189
Total Assets	<u>124,412,879</u>	<u>120,546,451</u>	<u>118,586,936</u>
Deferred Outflows			
Deferred outflows - pensions	2,028,574	1,169,099	0
Total Deferred Outflows	<u>2,028,574</u>	<u>1,169,099</u>	<u>0</u>
Liabilities			
Current liabilities	86,334,820	82,518,641	78,440,153
Long-term liabilities	43,230,038	42,057,924	35,257,361
Total Liabilities	<u>129,564,858</u>	<u>124,576,565</u>	<u>113,697,514</u>
Deferred Inflows			
Deferred inflows - pensions	238,502	2,385,663	0
Total Deferred Inflows	<u>238,502</u>	<u>2,385,663</u>	<u>0</u>
Net Position			
Investment in capital assets	2,935,542	2,363,309	2,859,744
Unrestricted	(12,401,704)	(12,197,533)	(2,859,744)
Restricted	6,104,255	4,587,546	4,889,422
Total Net Position	<u>(\$3,361,907)</u>	<u>(\$5,246,678)</u>	<u>\$4,889,422</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, 2016 and 2015

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 2016, current assets increased by \$4,209,091 due to an increase in cash and cash equivalents offset by a decrease in investments held for grand-prize winners.

During fiscal year 2015, current assets increased by \$3,647,354 due to an increase in cash and cash equivalents.

Noncurrent Assets

Investments held for grand-prize winners represents the market value of the investments held in United States guaranteed marketable securities on behalf of past grand-prize winners that mature beyond one year. These investments were purchased to fund the annual payments for winners that were required to or elected to receive annuity payments and consist of United States Government-backed obligations of zero coupon bonds and stripped securities that equal the face amount of the bond or security upon maturity. Originally, winners of jackpots were required to receive annuity payments. Subsequently, winners were allowed to elect a lump-sum payment instead of a long-term annuity. Since this option has been available, the trend among winners has generally been to elect the lump-sum payment and, therefore, fewer purchases of securities have been required. In fiscal year 2016, this category decreased by \$914,896. Fiscal year 2015 showed a decrease in this category of \$1,191,404.

Capital assets consist of land, buildings, vehicles, computers and software, and other equipment and is reported net of all related accumulated depreciation. In fiscal year 2016, the level of capital assets increased by \$572,233 due to the cost of additions to capital assets exceeding the level of depreciation expenses for the fiscal year.

For fiscal year 2015, net capital assets decreased by \$496,435.

Deferred Outflows

Deferred outflows represent fiscal year 2016 pension contributions made subsequent to the measurement date of \$1,154,280, differences between expected and actual experience of \$20,766, and the net difference between projected and actual investment earnings on pension plan investments of \$853,528. These amounts represent an increase in this category of \$859,475.

Fiscal year 2015 was the first year of implementation of GASB 68 so the amounts represented an increase in this category of \$1,169,099.

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 2016, current liabilities increased by \$3,816,179 which was mainly the result of an increase in accrued prize liabilities of \$10,653,408 offset by a decrease in the amount due the Lottery Proceeds Fund of \$7,083,246.

In fiscal year 2015, current liabilities increased by \$4,078,488 which was mainly the result of increases in the amount due the Lottery Proceeds Fund of \$1,110,321 and accrued prize liabilities of \$3,108,307.

Long-Term Liabilities

Long-term liabilities include the long-term portion of amounts payable to grand-prize winners, the deferred portion of the amount due the Lottery Proceeds Fund, and net pension liability. For fiscal year 2016, long-term liabilities have increased by \$1,172,114. As discussed previously, the trend of winners to elect lump-sum

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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 2016 declined by \$2,434,620. The deferred portion of the amount due the Lottery Proceeds Fund increased in fiscal year 2016 by \$672,619. This deferred amount represents the net book value (cost less accumulated depreciation) of capital assets acquired after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association. The increase was the result of capital asset additions exceeding depreciation expense recognized during the fiscal year. The net pension liability increased by \$2,934,115 over fiscal year 2015.

For fiscal year 2015, long-term liabilities increased by \$6,800,563 due to the recording of net pension liability of \$8,249,598 pursuant to GASB 68. This increase was offset by a decline in long-term liabilities for grand-prize winners of \$890,681 and a decrease in the amount due the Lottery Proceeds Fund. The deferred portion of the amount due the Lottery Proceeds Fund decreased in fiscal year 2015 by \$558,354.

Deferred Inflows

Deferred inflows decreased \$2,147,161 which represents increases in the difference between expected and actual experience of \$71,914, changes in assumptions of \$147,946, and change in proportion and differences between employer contributions and proportionate share of contributions of \$18,642, offset by a decrease in the Lottery's proportionate share of the net difference between projected and actual investment earnings related to pensions of \$2,385,663.

The Lottery's proportionate share of the net difference between projected and actual investment earnings related to pensions increased by \$2,385,663 in fiscal year 2015, the first fiscal year of GASB 68 implementation.

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,		
	2016	2015	2014
Operating Revenues			
Ticket sales	\$1,315,624,846	\$1,127,354,806	\$1,157,051,074
Other operating revenues	203,982	460,531	92,041
Total Operating Revenues	<u>1,315,828,828</u>	<u>1,127,815,337</u>	<u>1,157,143,115</u>
Operating Expenses			
Direct costs			
Prize expense	888,861,166	755,428,901	766,226,926
Retailer commissions and incentives	78,001,381	68,399,542	70,560,397
Other direct costs	23,705,430	16,163,284	17,911,043
Total direct costs	<u>990,567,977</u>	<u>839,991,727</u>	<u>854,698,366</u>
Administrative expenses	34,450,976	33,486,809	39,492,161
Total Operating Expenses	<u>1,025,018,953</u>	<u>873,478,536</u>	<u>894,190,527</u>
Operating Income	<u>290,809,875</u>	<u>254,336,801</u>	<u>262,952,588</u>

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Nonoperating Revenues (Expenses)			
Interest income	104,369	77,934	82,805
Gain on sale of capital assets	13,335	49,465	65,420
Unclaimed prizes	12,023,258	16,788,784	14,437,266
Transfers to the State of Missouri	(302,582,776)	(271,252,985)	(277,538,079)
Amortization of grand-prize winner liability	(1,501,380)	(1,644,196)	(1,818,487)
Net increase (decrease) in the fair value of investments held for grand-prize winners	3,018,090	1,342,321	1,077,556
Net Nonoperating Revenues (Expenses)	<u>(288,925,104)</u>	<u>(254,638,677)</u>	<u>(263,693,519)</u>
Changes in Net Position	1,884,771	(301,876)	(740,931)
Total Net Position, Beginning of Year	(5,246,678)	4,889,422	5,630,353
Prior Period Adjustment		<u>(9,834,224)</u>	
Total Net Position, End of Year	<u>(\$3,361,907)</u>	<u>(\$5,246,678)</u>	<u>\$4,889,422</u>

Changes in net position are the result of fluctuations in market yields, which increase or reduce the unrealized gain on investments. In fiscal year 2015, a prior period adjustment was recorded to establish the Lottery's net pension liability pursuant to GASB 68.

Because the Lottery is required to transfer its net income (excluding the unrealized gain or loss on investments) to the Lottery Proceeds Fund, the changes in net position do not reflect the results of the Lottery's operating activities. The amounts reported as Transfer to the State of Missouri reflect the Lottery's operating activities for the fiscal years. For fiscal year 2016, the transfer amount exceeded \$300 million for the first time in Lottery history.

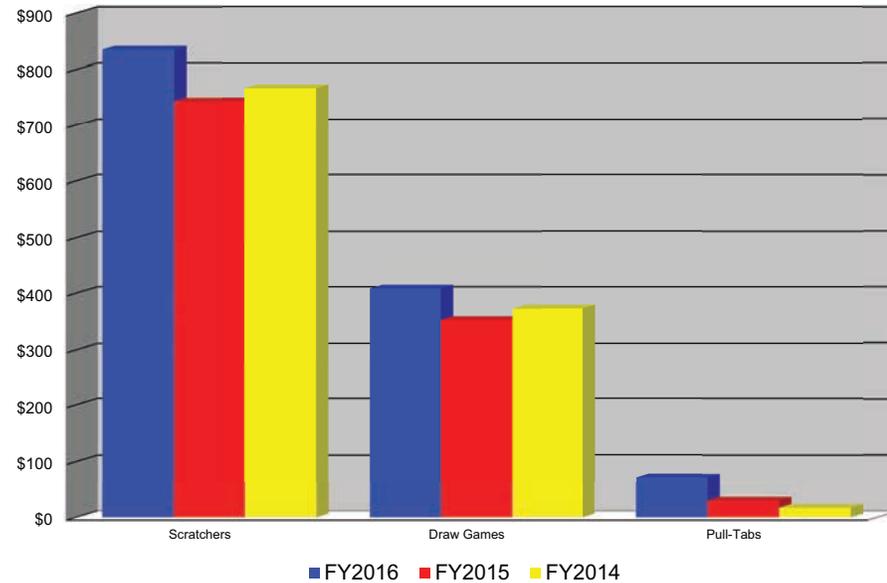
Operating Revenues

	<u>For the Year Ended June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Sales by Game			
Scratchers	<u>\$835,592,355</u>	<u>\$743,764,015</u>	<u>\$766,609,691</u>
Draw Games			
Lotto	21,374,724	20,643,747	22,610,711
Pick 3	73,244,815	70,473,352	69,264,771
Powerball	130,774,026	81,534,778	100,524,928
Show Me Cash	29,260,709	30,411,294	31,845,652
Pick 4	46,410,375	44,672,747	38,840,458
Club Keno	59,642,782	58,358,785	60,109,683
Mega Millions	34,603,961	34,946,306	42,499,882
\$250K Triple Play	1,518,956	4,001,958	4,237,043
EZ Match	3,293,204	3,212,177	3,483,316
Lucky For Life	8,429,647	4,636,613	-
Monopoly Millionaires Club	-	807,895	-
Total Draw Games	<u>408,553,199</u>	<u>353,699,652</u>	<u>373,416,444</u>
Pull-Tabs	71,479,292	29,891,139	17,024,939
Other operating income	<u>203,982</u>	<u>460,531</u>	<u>92,041</u>
Total operating revenues	<u>\$1,315,828,828</u>	<u>\$1,127,815,337</u>	<u>\$1,157,143,115</u>

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Lottery Sales By Product
in millions



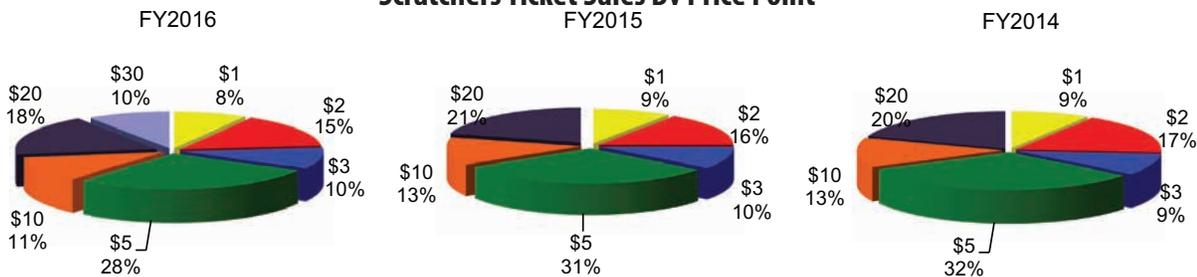
Ticket sales in fiscal year 2016 were ahead of fiscal year 2015 levels by \$188.3 million, or 16.7%. Scratchers sales increased by \$91.8 million, or 12.3%, while Draw Game sales increased by \$54.9 million, or 15.5%. Pull-Tab sales increased by \$41.6 million, or 139.1%, as a result of expansion to liquor-by-the-drink locations in December of 2015.

For the year ended June 30, 2015, Scratchers sales decreased by \$22.8 million, or 3.0%, while Draw Game sales decreased by \$19.7 million, or 5.3%. These decreases were offset by an increase in Pull-Tab sales of \$12.9 million, or 75.6%.

Most of the increase in fiscal year 2016 Scratchers sales can be attributed to the launch of the first \$30 Scratchers game, which added sales of \$79.3 million. Scratchers \$2, \$3, \$5 and \$10 price point sales also grew over the sales of the previous fiscal year, offsetting declines in the \$1 and \$20 price points.

During fiscal year 2015, Scratchers \$1, \$3 and \$20 price points increased by \$2.9 million, \$5.2 million and \$5.5 million, respectively, over fiscal year 2014. The \$2, \$5 and \$10 price points showed decreases in sales of \$18.3 million, \$14.3 million, and \$3.8 million, respectively.

Scratchers Ticket Sales By Price Point



Total Draw Game sales increased by \$54.9 million in fiscal year 2016 due mainly to Powerball. Powerball sales were up \$49.2 million over fiscal year 2015 due to the record \$1.59 billion jackpot. Pick 3, Pick 4, Lotto, Club Keno, EZ Match and Lucky for Life sales also showed increases, while Show Me Cash and Mega Millions sales

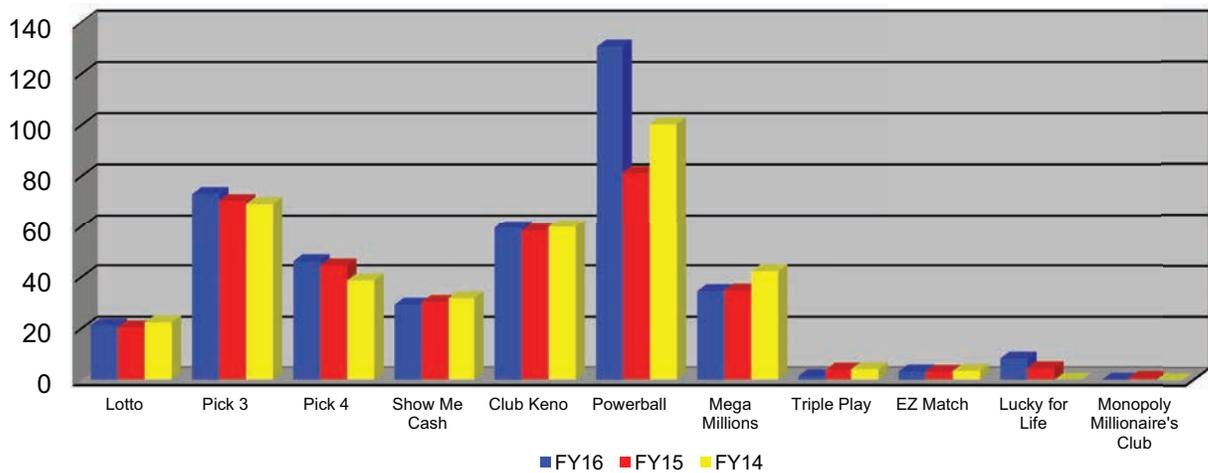
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were down slightly. \$250K Triple Play sales, which were discontinued in January 2016, were down \$2.5 million from fiscal year 2015.

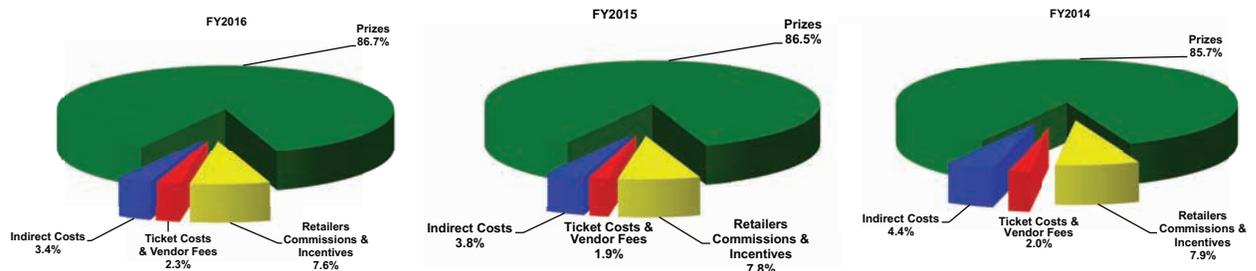
Total Draw Game sales decreased by \$19.7 million in fiscal year 2015 due mainly to Powerball. Powerball sales were down \$19.0 million over fiscal year 2014. Mega Millions sales were down \$7.6 million over fiscal year 2014. Lotto, Show Me Cash, Club Keno, \$250K Triple Play and EZ Match also showed slight decreases while Pick 3 and Pick 4 sales were up \$1.2 million and \$5.8 million, respectively, over fiscal year 2014. Lucky for Life added \$4.6 million in sales in fiscal year 2015.

Draw Game Sales By Game
in millions



Operating Expenses

	For the Year Ended June 30,		
	2016	2015	2014
Direct Expenses			
Prizes	\$888,861,166	\$755,428,901	\$766,226,926
Retailer commissions and incentives	78,001,381	68,399,542	70,560,397
Tickets	7,527,900	6,580,960	8,041,642
Draw Game vendor fees	13,325,888	8,323,393	9,074,826
Pull-Tab vendor fees	2,851,642	1,258,931	794,576
Other Operating Expenses			
Advertising	15,998,981	12,024,546	16,025,166
Wages and benefits	10,008,155	9,525,438	9,770,278
Other general expenses	7,475,486	10,821,677	12,559,473
Depreciation and amortization	968,354	1,115,148	1,137,244



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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 and Pull-Tab vendor fees.

Of the Lottery's total operating expenses of \$1,025.0 million in fiscal year 2016, \$990.6 million, or 96.6 percent, are game-related, or direct, expenses. In fiscal year 2015, direct expenses were \$840.0 million, or 96.2 percent, of the \$873.5 million total operating expenses. In fiscal year 2014, direct expenses were \$854.7 million, or 95.6 percent, of the \$894.2 million total operating expenses for the year.

Prize expense for fiscal year 2016 increased by approximately \$133.4 million, or 17.66 percent, while total ticket sales increased by 16.70 percent. In fiscal year 2015, prize expense decreased by approximately \$10.8 million, or 1.4 percent, while total ticket sales decreased by 2.6 percent. The variance between the percentage increase in prize expense and sales reflects the effects of increasing the prize structure of the Scratchers products, while the random selection of winning numbers may result in deviations from expected results in a short-term period for Draw Game products.

Retailer commissions and incentives in fiscal year 2016 increased by approximately \$9.6 million, or 14.0 percent. In fiscal year 2015 retailer commissions and incentives decreased by approximately \$2.2 million, or 3.1 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 2016 by \$.9 million, or 14.4%, due largely to printing costs associated with the new \$30 Scratchers ticket. Printing costs decreased in fiscal year 2015 by \$1.5 million, or 18.2 percent due largely to upfront printing costs and the purchase of reusable on-counter containers for the Lucky 7s Playbook in fiscal year 2014 that did not re-occur in fiscal year 2015.

Draw Game vendor fees increased by \$5.0 million, or 60.1 percent, due to instant ticket vending machine leasing costs formerly recorded as other general and administrative costs being included as Draw Game vendor fees under the new computer gaming system contract. Beginning July 1, 2015, a new computer gaming system agreement took effect consisting of a single percentage of net weekly Draw Game sales for all services; instant ticket vending machine leasing is not a separate percentage under the new agreement. Annual lease expense for the instant ticket vending machines totaled approximately \$3,217,000 in fiscal year 2015. The remaining increase can be attributed to the \$54.9 million increase in Draw Game ticket sales. In fiscal year 2015, this expense category decreased by \$.8 million or 8.3 percent due to decreased Draw Game sales. The annual variances in this category will not exactly mirror the percentage change in sales, as the level of free and promotional tickets, as well as any system performance credits, will affect the actual annual expense amount.

Pull-Tab vendor fees increased by \$1.6 million, or 126.5%, as a result of increased Pull-Tab sales from the expansion of the program to liquor-by-the-drink locations in December of 2015. Fiscal year 2015 Pull-Tab vendor fees increased by \$.5 million or 58.4%. Fiscal year 2015 was the first full-year of sales following the re-introduction of Pull-Tabs in October of 2013.

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

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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. Other operating expenses increased by \$1.0 million, or 2.88 percent, due to no restrictions on advertising spending offset by instant ticket machine leasing costs included as Draw Game vendor fees in fiscal year 2016. In fiscal year 2015, other operating expenses decreased by \$6 million, or 15.2 percent, due to internal spending restrictions on advertising and other items.

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 fairly flat depreciation expenses in recent years.

Nonoperating Revenues (Expenses)

	For the Year Ended June 30,		
	2016	2015	2014
Interest	\$104,369	\$77,934	\$82,805
Unclaimed prizes	12,023,258	16,788,784	14,437,266
Gain on sale of capital assets	13,335	49,465	65,420
Net increase (decrease) in investments held for grand-prize winners	3,018,090	1,342,321	1,077,556
Amortization of grand-prize winner liability	(1,501,380)	(1,644,196)	(1,818,487)
Transfers to State of Missouri	(302,582,776)	(271,252,985)	(277,538,079)

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 increase in interest earnings for fiscal year 2016 reflects increased cash balances coupled with higher interest rates.

The Lottery retains prize money if a claim for the prize is not made within a 180-day claim period. In fiscal year 2016, the level of unclaimed prizes decreased by \$4.8 million over fiscal year 2015. 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 2016, four vehicles were surplus. In fiscal year 2015, fourteen vehicles were surplus, and in fiscal year 2014, seventeen vehicles were surplus. The net gain in each year was due primarily to the sale of vehicles at surplus property.

All net proceeds are transferred to the Lottery Proceeds Fund for Education. Net proceeds for fiscal year 2016 increased \$31.3 million, or 11.6%. Net proceeds for fiscal year 2015 decreased \$6.3 million, or 2.3 percent, from fiscal year 2014. 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.

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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, deferred transfers to the State of Missouri, and net pension liability recorded pursuant to GASB 68. Additional detailed information on long-term liabilities may be found in Note 11 to the financial statements.

Contacting the Lottery's Financial Management

This management discussion and analysis report is designed to provide Missouri citizens, government officials, players, retailers and other interested parties reliable financial information and an explanation of the Lottery's financial activities for the fiscal years ended June 30, 2016 and 2015. If you have questions about this report or need additional information, contact the Missouri State Lottery Commission, Financial Accounting Section, P.O. Box 1603, Jefferson City, Missouri 65109-1603.

Missouri State Lottery Commission
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Statements of Net Position As of June 30, 2016 and 2015

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 36,047,572	\$ 30,710,830
Investments held for grand-prize winners	3,929,370	5,132,384
Accounts receivable, net of allowances for returns	45,624,621	45,717,505
Other assets	413,885	245,638
Total current assets	86,015,448	81,806,357
Noncurrent Assets		
Capital assets		
Capital assets not being depreciated	352,973	352,973
Capital assets being depreciated	14,449,992	15,488,205
Accumulated depreciation	(11,867,423)	(13,477,869)
	2,935,542	2,363,309
Investments held for grand-prize winners	35,461,889	36,376,785
Total noncurrent assets	38,397,431	38,740,094
Total assets	124,412,879	120,546,451
Deferred Outflows		
Deferred Outflows - Contributions made subsequent to measurement date	1,154,280	1,137,217
Deferred Outflows - Diff. between exp. and actual experience	20,766	31,882
Deferred Outflows - Net difference between projected and actual Investment earnings on PP investments	853,528	0
Total Deferred Outflows	2,028,574	1,169,099
Current Liabilities		
Accounts payable	575,165	178,088
Due to Lottery Proceeds Fund	7,757,178	14,840,424
Accrued prize liabilities	68,465,425	57,812,017
Grand-prize winner liabilities	3,936,000	5,136,000
Other accrued liabilities	5,601,052	4,552,112
Total current liabilities	86,334,820	82,518,641
Long-term Liabilities		
Due to Lottery Proceeds Fund	2,695,321	2,022,702
Grand-prize winner liabilities	29,351,004	31,785,624
Net Pension Liability	11,183,713	8,249,598
Total long-term liabilities	43,230,038	42,057,924
Total liabilities	129,564,858	124,576,565
Deferred Inflows		
Deferred Inflows - Diff. between projected and actual investment earnings	0	2,385,663
Deferred Inflows - Diff. between exp. and actual experience	71,914	0
Deferred Inflows - Chg in proportion and diff between emp. contrib.	18,642	0
Deferred Inflows - Changes in assumptions	147,946	0
Total deferred inflows	238,502	2,385,663
Net Position		
Investment in capital assets	2,935,542	2,363,309
Unrestricted	(12,401,704)	(12,197,533)
Restricted for the unrealized gain/loss on investments held for grand-prize winners	6,104,255	4,587,546
Total net position	(\$3,361,907)	(\$5,246,678)

See accompanying notes to the basic financial statements.

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Statements of Revenues, Expenses and Changes In Net Position
For The Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Scratchers ticket sales	\$ 835,592,355	\$ 743,764,015
Draw Game ticket sales	408,553,199	353,699,652
Pull-Tab ticket sales	71,479,292	29,891,139
Total sales	1,315,624,846	1,127,354,806
Other	203,982	460,531
Total operating revenues	1,315,828,828	1,127,815,337
Operating Expenses		
Scratchers prizes	594,577,964	524,877,348
Draw Game prizes	230,056,120	203,725,703
Pull-Tab prizes	64,227,082	26,825,850
Scratchers retailer commissions and incentives	53,207,871	47,426,846
Draw Game retailer commissions and incentives	23,343,290	20,342,488
Pull-Tab retailer commissions and incentives	1,450,220	630,208
Cost of tickets sold	23,705,430	16,163,284
Depreciation	968,354	1,115,148
Advertising	15,998,981	12,024,546
Wages and benefits	10,008,155	9,525,438
Other general and administrative	7,475,486	10,821,677
Total operating expenses	1,025,018,953	873,478,536
Operating income	290,809,875	254,336,801
Nonoperating Revenues (Expenses)		
Interest income	104,369	77,934
Unclaimed prizes	12,023,258	16,788,784
Gain on sale of capital assets	13,335	49,465
Net increase (decrease) in the fair value of investments held for grand-prize winners	3,018,090	1,342,321
Amortization of grand-prize winner liability	(1,501,380)	(1,644,196)
Transfers to State of Missouri Lottery Proceeds Fund	(302,582,776)	(271,252,985)
Total nonoperating revenues (expenses)	(288,925,104)	(254,638,677)
Changes in net position	1,884,771	(301,876)
Total Net Position, Beginning of Year	(5,246,678)	(4,944,802)
Total Net Position, End of Year	(\$3,361,907)	(\$5,246,678)

See accompanying notes to the basic financial statements.

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Statements of Cash Flows
For The Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Cash received from retailers and others	\$ 1,316,530,385	\$ 1,128,680,684
Cash paid for prizes	(871,320,499)	(740,783,809)
Cash paid for retailer commissions	(77,628,337)	(68,475,111)
Cash paid for employee services	(10,069,063)	(9,893,227)
Cash paid for other expenses	(46,895,459)	(39,060,817)
Net cash provided by operating activities	310,617,027	270,467,720
Cash Flows From Noncapital Financing Activities		
Transfers to State of Missouri	(308,993,402)	(270,701,018)
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(1,546,803)	(619,358)
Proceeds from sale of capital assets	19,551	50,110
Net cash used for capital and related financing activities	(1,527,252)	(569,248)
Cash Flows From Investing Activities		
Proceeds from maturity of investments	5,136,000	5,252,000
Interest received	104,369	77,934
Net cash provided by investing activities	5,240,369	5,329,934
Net Increase (Decrease) in Cash and Cash Equivalents	5,336,742	4,527,388
Cash and Cash Equivalents, Beginning of Year	30,710,830	26,183,442
Cash and Cash Equivalents, End of Year	\$ 36,047,572	\$ 30,710,830
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 290,809,875	\$ 254,336,801
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	968,354	1,115,148
Noncash pension expense adjustment	(72,521)	(368,063)
Unclaimed prizes	12,023,258	16,788,784
Payments to grand-prize winners	(5,136,000)	(5,252,000)
Changes in operating assets and liabilities:		
Decrease in accounts receivable, net	92,884	668,044
(Increase) decrease in other receivables	(55,212)	113,842
(Increase) in prepaid expenses	(113,036)	(19,005)
Increase (decrease) in accounts payable and other accrued liabilities	1,446,017	(24,138)
Increase in accrued prize liabilities	10,653,408	3,108,307
Net cash provided by operating activities	\$ 310,617,027	\$ 270,467,720
Noncash Activities		
Net increase in the fair value of investments held for grand-prize winners	\$ 3,018,090	\$ 1,342,321
Amortization of grand-prize winner liability	\$ 1,501,380	\$ 1,644,196

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, 2016 and 2015

1. Summary of Significant Accounting Policies

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

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

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

Basis of Presentation

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

Basis of Accounting

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

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

Current Year GASB Statement Implementation

For the year ended June 30, 2016, the Lottery adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statement periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The effect of this new statement required the Lottery to identify certain investments that were recorded at fair value at the appropriate fair value hierarchy level. This resulted in additional accounting policy disclosure for Investments Held for Grand-Prize Winners (Note 1) and in Note 4 Investments Held for Grand-Prize Winners.

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
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1. Summary of Significant Accounting Policies (continued)

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 \$1,775,132 and \$3,155,000 at June 30, 2016 and 2015, respectively, have been established for estimated tickets to be returned by retailers.

Sales of Draw Game lottery tickets are generated by the semiweekly Lotto, Powerball, Lucky for Life, and Mega Millions games, and the daily Club Keno, Show Me Cash, EZ Match, Pick 4 and Pick 3 games. \$250K Triple was a semiweekly drawing. 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. Unearned revenues from these sales represent tickets sold for future prize drawings. Unearned revenues were \$1,188,869 and \$524,983 as of June 30, 2016 and 2015 and are included in other accrued liabilities.

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

Operating revenues are presented net of sales returns, cancellations and promotional tickets of \$57,470,396 and \$56,380,241 for the years ended June 30, 2016 and 2015, respectively.

Prizes

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

Lotto grand-prize winners have the choice of receiving their prize in 25 annual installments or a portion of the prize in one lump-sum payment. Powerball and Mega Millions grand-prize winners have the choice of receiving their prize over 29 years (30 annual graduated installments) or a portion of the prize in one lump-sum payment. Lucky for Life top and second prize winners have the choice of receiving their prize annually for life (minimum of 20 years) or in one lump-sum payment.

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

Pull-Tab prizes are recorded at actual prizes paid.

Unclaimed Prizes

State statutes require that unclaimed prize monies be retained by the Lottery for the person entitled thereto for 180 days after the time the prize was awarded. If no claim is made for the prize within such time, the prize money reverts to the Lottery. Effective July 1, 2000, at the directive of the State of Missouri, the Lottery transfers to the Lottery Proceeds Fund all prizes that remain unclaimed. During the years ended June 30, 2016 and 2015, unclaimed prizes in the amount of approximately \$12,023,000 and \$16,789,000 were transferred to the Lottery Proceeds Fund. For the years ended June 30, 2016 and 2015, 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.

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Notes To The Basic Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

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. The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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 statements 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, amortization of grand-prize winner liabilities and the change in net position related to pensions (calculated using a one-year lag), 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.

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Due to Lottery Proceeds Fund (continued)

The Lottery makes estimated weekly transfers to the Lottery Proceeds Fund with a monthly transfer adjustment done based on calculated net income before transfers. A portion of the liability to the Lottery Proceeds Fund, equal to the net book value of capital additions after September 1, 1988, and all amounts receivable from the Multi-State Lottery Association, is shown as a long-term liability and is not subject to current transfers.

Compensated Absences

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

Risk Management

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

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

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

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

Budgetary Authority

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

Marketing, Advertising and Promotion

The Lottery expenses the costs of marketing, advertising and promotions as they are incurred. The Lottery spent \$4.7 million and \$2.9 million on media production, sponsorships and promotional supplies in fiscal years ended June 30, 2016 and 2015, respectively.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri State Employees' Plan (MSEP) and additions to/deductions from MSEP's fiduciary net position

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Notes To The Basic Financial Statements
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have been determined on the same basis as they are reported by MSEP. For this purpose, benefit payments

1. Summary of Significant Accounting Policies (continued)

Pensions (continued)

(including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Subsequent Events

The Lottery has performed a review of events subsequent to the statement of net position date through November 14, 2016, 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.

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

3. Cash and Cash Equivalents

Cash, other than petty cash and the imprest fund, is part of the common cash pool in the State Treasury. The State of Missouri invests such cash in excess of what is necessary to meet current obligations. The fair value in the common cash pool is the same as the value of the pool shares. At June 30, 2016 and 2015, the Lottery's share in the State's common cash pool was \$26,674,014 and \$24,285,566, respectively. At June 30, 2016 and 2015, the book balance of the imprest fund was \$9,363,107 and \$6,416,584, respectively, and the bank balance was \$9,938,224 and \$7,390,174, 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, 2016 and 2015. 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. The recurring fair value measurements of these investments at June 30, 2016 and 2015 using quoted market prices (Level 1 inputs) was \$39,391,259 and \$41,509,169, respectively. The maturity

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
June 30, 2016 and 2015

value of securities held at June 30, 2016 and 2015 was \$43,980,000 and \$49,116,000, respectively.

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

At June 30, 2016 and 2015 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, 2016	\$39,391,259	\$3,929,370	\$12,922,854	\$13,197,857	\$9,341,178
June 30, 2015	\$41,509,169	\$5,132,384	\$13,413,466	\$13,042,990	\$9,920,329

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

5. Draw Game Ticket Sales

Draw Game ticket sales for the year ended June 30, consist of the following:

	2016	2015
Lotto	\$ 21,374,724	\$ 20,643,747
Pick 3	73,244,815	70,473,352
Powerball	130,774,026	81,534,778
Show Me Cash	29,260,709	30,411,294
Pick 4	46,410,375	44,672,747
Club Keno	59,642,782	58,358,785
Mega Millions	34,603,961	34,946,306
EZ Match	3,293,204	3,212,177
\$250K Triple Play	1,518,956	4,001,958
Lucky For Life	8,429,647	4,636,613
Monopoly Millionaires Club	-	807,895
	<u>\$ 408,553,199</u>	<u>\$ 353,699,652</u>

6. Capital Assets

The changes in capital assets for the year ended June 30, consist of the following:

	June 30, 2015	Increases	Decreases	June 30, 2016
Capital assets not being depreciated				
Land	\$ 352,973	\$ -	\$ -	\$ 352,973
Total capital assets not being depreciated	<u>352,973</u>	<u>-</u>	<u>-</u>	<u>352,973</u>
Capital assets being depreciated				
Buildings	5,221,413	48,900	-	5,270,313
Computers and software	7,149,692	1,145,237	(2,388,635)	5,906,294
Equipment	1,649,336	174,164	(123,026)	1,700,474
Automobiles	1,467,764	178,502	(73,355)	1,572,911
Total capital assets being depreciated	<u>15,488,205</u>	<u>1,546,803</u>	<u>(2,585,016)</u>	<u>14,449,992</u>
Less accumulated depreciation for				

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Notes To The Basic Financial Statements
June 30, 2016 and 2015

6. Capital Assets (continued)

Buildings	(4,413,856)	(180,754)	-	(4,594,610)
Computers and software	(6,544,696)	(443,199)	2,382,419	(4,605,476)
Equipment	(1,499,875)	(45,980)	123,026	(1,422,829)
Automobiles	(1,019,442)	(298,421)	73,355	(1,244,508)
Total accumulated depreciation	<u>(13,477,869)</u>	<u>\$ (968,354)</u>	<u>\$ 2,578,800</u>	<u>(11,867,423)</u>
Total capital assets being depreciated, net	<u>2,010,336</u>			<u>2,582,569</u>
Capital assets, net	<u>\$ 2,363,309</u>			<u>\$ 2,935,542</u>
	<u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Capital assets not being depreciated				
Land	<u>\$ 352,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 352,973</u>
Total capital assets not being depreciated	<u>352,973</u>	<u>-</u>	<u>-</u>	<u>352,973</u>
Capital assets being depreciated				
Buildings	5,221,413	-	-	5,221,413
Computers and software	6,990,660	312,635	(153,603)	7,149,692
Equipment	1,771,339	98,713	(220,716)	1,649,336
Automobiles	1,516,553	208,010	(256,799)	1,467,764
Total capital assets being depreciated	<u>15,499,965</u>	<u>619,358</u>	<u>(631,118)</u>	<u>15,488,205</u>
Less accumulated depreciation for				
Buildings	(4,236,803)	(177,053)	-	(4,413,856)
Computers and software	(6,102,977)	(594,677)	152,958	(6,544,696)
Equipment	(1,666,616)	(53,975)	220,716	(1,499,875)
Automobiles	(986,798)	(289,443)	256,799	(1,019,442)
Total accumulated depreciation	<u>(12,993,194)</u>	<u>\$ (1,115,148)</u>	<u>\$ 630,473</u>	<u>(13,477,869)</u>
Total capital assets being depreciated, net	<u>2,506,771</u>			<u>2,010,336</u>
Capital assets, net	<u>\$ 2,859,744</u>			<u>\$ 2,363,309</u>

7. Pension Plan

Plan Description

The Lottery participates in the Missouri State Employees' Plan (MSEP) (the Plan), a cost-sharing, multiple-employer defined benefit public employees' retirement plan administered by Missouri State Employees' Retirement System (MOSERS). Chapter 104 of the Revised Statutes of Missouri grants the authority to establish and amend benefit terms to the MOSERS Board of Trustees. 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 MSEP has three benefit structures known as MSEP (closed plan), MSEP 2000, and MSEP 2011. 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 1, 2011. MSEP 2011 covers all full-time employees first hired on or after January 1, 2011. Members of the closed plan have the option at retirement to choose between the benefit structure of the MSEP or MSEP 2000.

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Notes To The Basic Financial Statements
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7. Pension Plan (continued)

Benefits Provided

MOSERS provides retirement, disability, and life insurance benefits to eligible employees. Employees covered by the MSEP and the MSEP 2000 plans are fully vested after 5 years of creditable service. Employees covered by the MSEP 2011 plan are fully vested after 10 years of creditable service. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. Retirement eligibility requirements are as follows:

MSEP

Age 65 and active with 4 years of service
Age 65 with 5 years of service
Age 60 with 15 years of service
Age 48 with age and service equaling 80 or more (Rule of 80)
Employees may retire early at age 55 with at least 10 years of service with reduced benefits
The base benefit in the general employee plan is equal to 1.6% multiplied by the final average pay multiplied by years of credited service.

MSEP 2000

Age 62 with 5 years of service
Age 48 with age and service equaling 80 or more (Rule of 80)
Employees may retire early at age 57 with at least 5 years of service with reduced benefits
The base benefit in the general employee plan is equal to 1.7% multiplied by the final average pay multiplied by years of credited service.

MSEP 2011

Age 67 with 10 years of service
Age 55 with age and service equaling 90 or more (Rule of 90)
Employees may retire early at age 62 with at least 10 years of service with reduced benefits.
The base benefit in the general employee plan is equal to 1.7% multiplied by the final average pay multiplied by years of credited service.

For members hired prior to August 28, 1997, cost of living adjustments (COLAs) are provided annually based on 80% of the percentage increase in the average Consumer Price Index (CPI) from one year to the next, with a minimum rate of 4% and a maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original benefit, thereafter the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%. Qualified, terminated-vested members of MSEP may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than \$10,000.

Contributions

Per Chapter 104.436 RSMo., contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. Employees in the MSEP 2011 Plan are required to contribute 4% of the annual pay. The Lottery's required contribution rates for the years ended June 30, 2016 and June 30, 2015 were 16.96% and 16.68%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Lottery contributions to the MSEP at June 30, 2016 and 2015 were \$1,154,280 and \$1,137,217, respectively.

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Notes To The Basic Financial Statements
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7. Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, a liability of \$11,183,713 was reported for the proportionate share of the Lottery's net pension liability in the MSEP. The net pension liability and proportionate share were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Lottery's proportion of the net pension liability was based on Lottery's contributions of wages to the pension plan relative to the contributions of all participating reporting units, actuarially determined. At the June 30, 2015 measurement date, the Lottery's proportion was .35%, no significant change from its proportion measured using .35% as of the June 30, 2014 measurement date.

There were no changes in benefit terms during the MSEP plan year ended June 30, 2015, that affected the measurement of total pension liability.

For the years ended June 30, 2016 and 2015, the Lottery recognized pension expense of \$1,081,759 and \$769,155, respectively. At June 30, 2016, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Difference between expected and actual experience	\$20,766	\$71,914
Changes of assumptions		\$147,946
Net difference between projected and actual earnings on pension plan investments	\$853,528	
Changes in proportion and difference between Lottery contributions and Proportionate share of contributions		\$18,642
Lottery contributions subsequent to the measurement date	\$1,154,280	
Total	<u>\$2,028,574</u>	<u>\$238,502</u>

Amounts reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	<u>Net Deferred Outflows (Inflows) of Resources</u>
2017	\$(7,111)
2018	(8,425)
2019	(8,299)
2020	659,627
2021	---
Thereafter	---
Total	<u>\$635,792</u>

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Notes To The Basic Financial Statements
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7. Pension Plan (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation, which is also the date of measurement for GASB 68 purposes, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.5 percent, approximate
Salary increases or wage inflation	0% for FY 2016 and 3.0 percent annually, average, including inflation thereafter
Investment rate of return	8.0 percent per year, compounded annually, net after investment expenses and including inflation

MOSERS pre-retirement mortality rates used were 100% of the post-retirement mortality rates for males and 80% of the post-retirements mortality rates for females.

The change in assumptions recorded as deferred inflows of resources was related to a change in wage assumptions. For the June 30, 2015, valuation, wage inflation is assumed to be 0% in the first year and 3% thereafter. This is a one-time change based on the pay freeze enacted for fiscal year ending June 30, 2016. Previously, salary increases were assumed to be 3.0% to 5.9% annually on average, including inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2011. As a result of the 2011 actuarial experience study, the MOSERS Board made various demographic assumption changes to more closely reflect actual experience. The most significant change was lowering the assumed annual investment rate of return from 8.5 percent to 8 percent. MOSERS is conducting an experience study and the results of that study are expected to be finalized prior to June 30, 2016 which will be used by the actuarial firm to conduct the valuation report for MOSERS' FY 2016 valuation which impacts the Lottery's FY 2018 payroll.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*	Weighted Average Long-Term Expected Real Rate of Return
Beta-balanced	80%	5.7%	4.6%
Illiquids **	20%	7.3%	1.5%
	100.0%		6.1%

* Represent best estimates of geometric rates of return for each major asset class included.

** Illiquid portfolio upper limit of 27.5% of capital, no new commitments past 23%.

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all

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

Notes To The Basic Financial Statements
June 30, 2016 and 2015

7. Pension Plan (continued)

Discount Rate (continued)

projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Lottery's Proportionate Share of Net Pension Liability to Changes in the Discount Rate

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents net pension liability, calculated using a single discount rate as well as what net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	1% Decrease	Current Single Discount Rate Assumption	1% Increase
	7.00%	8.00%	9.00%
Lottery's Proportionate Share of Net Pension Liability	\$15,761,268	\$11,183,713	\$7,339,270

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separate financial reports issued by MOSERS which may be requested from:

Missouri State Employees' Retirement System
P.O. Box 209
907 Wildwood Drive
Jefferson City, Missouri 65102-0209

8. Leases

Operating Leases

The Lottery's regional facilities are held under operating lease agreements. The lease agreements for both the St. Louis and Springfield offices are under a one year agreement with four one-year renewal options set to expire June 30, 2019. The lease agreement for the Kansas City began January 1, 2016 and ended June 30, 2016 with four one-year renewal options that expire June 30, 2020. Annual rent expense for these facilities for the years ended June 30, 2016 and 2015 totaled approximately \$275,000 and \$271,000, respectively.

The Lottery leases warehouse space in Jefferson City to store Scratchers tickets on hand. The lease term was January 1, 2016 to June 30, 2016 with one one-year renewal option and is set to expire June 30, 2017. Rent expense for the six months ended June 30, 2016 was \$4,051.

The Lottery formerly leased 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 provided 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 \$3,217,000 in fiscal year 2015. Beginning July 1, 2015, a new computer gaming system agreement took effect consisting of a single percentage of net weekly Draw Game sales for all services; instant ticket vending machine leasing is not a separate percentage under the new agreement.

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
June 30, 2016 and 2015

8. Leases (continued)

Operating Leases (continued)

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

Future minimum lease payments under all non-cancelable leases having initial or remaining terms in excess of one year as of June 30, 2016 are as follows:

<u>Years Ending June 30</u>	
2017	\$ 320,000
2018	312,000
2019	306,000
2020	114,000
2021	1,000
	<u>\$ 1,053,000</u>

9. Contractual Arrangements

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

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 37 member lotteries and operates the Powerball game and the Mega Millions game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50 percent of sales to MUSL for payment of prizes. On January 31, 2010 the Lottery began selling the Mega Millions jackpot game as an historic cross-selling agreement between Mega Millions and Powerball. Member lotteries sell tickets for the Mega Millions game and currently remit 50 percent of sales to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL.

Powerball and Mega Millions grand-prize winners have the choice of receiving their prize over 29 years (30 annual graduated installments) or a portion of the prize in one lump-sum payment. Investment securities, with maturities that approximate all grand-prize winner payments due to winners of MUSL games, are maintained by MUSL. The investments and related prize liabilities for winners of these games from the State of Missouri are excluded from the accompanying financial statements. Future grand-prize winner payments of MUSL games due to winners in Missouri are approximately \$28,182,000 and \$4,493,000 as of June 30, 2016 and 2015, 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, 2016 and 2015, the Lottery's portion of the prize reserve fund and set prize reserve fund for Powerball was approximately \$3,230,000 and \$3,315,000, respectively, and \$1,404,000 and \$1,441,000, respectively. At June 30, 2016 and 2015, the Lottery's portion of the prize reserve fund for Mega Millions was approximately \$1,581,000 and \$1,634,000, 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 statement of net position as of June 30, 2016 and 2015, respectively.

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

Notes To The Basic Financial Statements
June 30, 2016 and 2015

9. Contractual Arrangements (continued)

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, 2016 and 2015 the Lottery's portion of the balance of this account was \$112,752 and \$12,365, respectively, and is reported as other assets.

Lucky for Life is the Lottery's newest multi-state Draw Game. It is currently offered in 20 states and D.C. The Lottery sells Lucky for Life tickets, collects all revenues, and remits prize funds and operating funds to MUSL. While Lucky for Life is not a MUSL game, the party lotteries pay a fee to MUSL to act as the game administrator (clearinghouse agent) for the Lucky for Life game. MUSL collects and re-distributes funds to the party lotteries when funds are due and purchases insurance annuities for the top two highest prize tiers when a winner does not choose a cash pay-out.

Lucky for Life's top two prize tiers are payable in installments and are satisfied through insurance annuities purchased by MUSL when a winner chooses the annuity option. MUSL purchases insurance annuities, on behalf of the member states, based on \$365,000 (top prize tier) or \$25,000 (second highest prize tier) per year deferred annuity paid annually on the anniversary of the claim date for the lifetime of the top prize winner. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL or the other party lotteries. The Lottery does accrue a current amount due for its proportionate share of prizes and expenses. There are no prize reserves held by MUSL for Lucky for Life. The Lottery had an accounts receivable due from the other states of \$240 and \$11,333 for shared low-tier prizes as of June 30, 2016 and 2015, respectively. The Lottery's share of accrued operating expenses at June 30, 2016 and 2015 was \$2,733 and \$4,021, respectively.

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, 2016 and 2015 was \$33,287,004 and \$36,921,624 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, 2016, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 3,936,000
2018	3,310,000
2019	3,310,000
2020	3,310,000
2021	3,310,000
2022 through 2026	14,622,000
2027 through 2031	7,874,000
2032 through 2036	3,520,000
2037 through 2040	<u>788,000</u>
Total installment payments due	43,980,000
Less- Interest portion	<u>10,692,996</u>
	<u>\$ 33,287,004</u>

Missouri State Lottery Commission
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Notes To The Basic Financial Statements
June 30, 2016 and 2015

10. Amounts Held On Behalf of Grand-Prize Winners Liability (continued)

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 \$7,750,000 and \$8,275,000 at June 30, 2016 and 2015, respectively.

11. Long-Term Liabilities

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

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 16,863,126	\$302,582,775	(\$308,993,402)	\$ 10,452,499	\$ 7,757,178
Grand-prize winner liabilities	36,921,624	1,501,380	(5,136,000)	33,287,004	3,936,000
Net pension liability	8,249,598	2,934,115	0	11,183,713	0
Total	<u>\$ 62,034,348</u>	<u>\$307,018,270</u>	<u>(\$314,129,402)</u>	<u>\$ 54,923,216</u>	<u>\$ 11,693,178</u>

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Current Portion</u>
Due to Lottery Proceeds Fund	\$ 16,311,159	\$271,252,985	(\$270,701,018)	\$ 16,863,126	\$ 14,840,424
Grand-prize winner liabilities	37,928,305	4,245,319	(5,252,000)	36,921,624	5,136,000
Net pension liability	10,965,244	0	(2,715,646)	8,249,598	0
Total	<u>\$ 65,204,708</u>	<u>\$275,498,304</u>	<u>(\$278,668,664)</u>	<u>\$ 62,034,348</u>	<u>\$ 19,976,424</u>

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.

Missouri State Lottery Commission
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Required Supplementary Information
June 30, 2016

Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years - See Note below

	<u>2016</u>	<u>2015</u>
Lottery's proportion of the net pension liability (asset)	0.35%	0.35%
Lottery's proportionate share of the net pension liability (asset)	11,183,713	8,249,598
Lottery's covered-employee payroll	6,920,144	6,817,848
Lottery's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	161.61%	121.00%
Plan fiduciary net position as a percentage of the total pension liability	72.62%	79.49%

Note: This schedule will ultimately contain 10 years of data upon availability.

Note: The data provided in the schedule for 2016 is based on the measurement date of 6-30-15.

Schedule of Agency Contributions
Last 10 Fiscal Years - See Note below

	<u>2016</u>	<u>2015</u>
Required Contributions	1,154,280	1,137,217
Contributions in relation to the required contribution	1,154,280	1,137,217
Contribution deficiency (excess)	-	-
Lottery's covered-employee payroll	6,920,144	6,817,848
Contributions as a percentage of covered-employee payroll	16.96%	16.68%

Note: This schedule will ultimately contain 10 years of data upon availability.

Note: The data provided in the schedule for 2016 is based on the measurement date of 6-30-15.

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

Notes To The Required Supplementary Information
June 30, 2016

Changes of benefit terms. There were no changes to benefit terms in the plan for the year ended June 30, 2015.

Changes of assumptions. . There were no changes to assumptions in valuation reports for the year ended June 30, 2015, other than the assumption that there would be no pay increases for fiscal year ending June 30, 2016, only.

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Statistical Section

(Unaudited)

Missouri State Lottery Commission Statistical Information Section

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

Contents	Page
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Financial Trends	45
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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	52
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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	56
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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	59
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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, 2007 through 2016, 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 2007 through 2016. Transfers made during fiscal year 2016 include \$12,023,000 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)

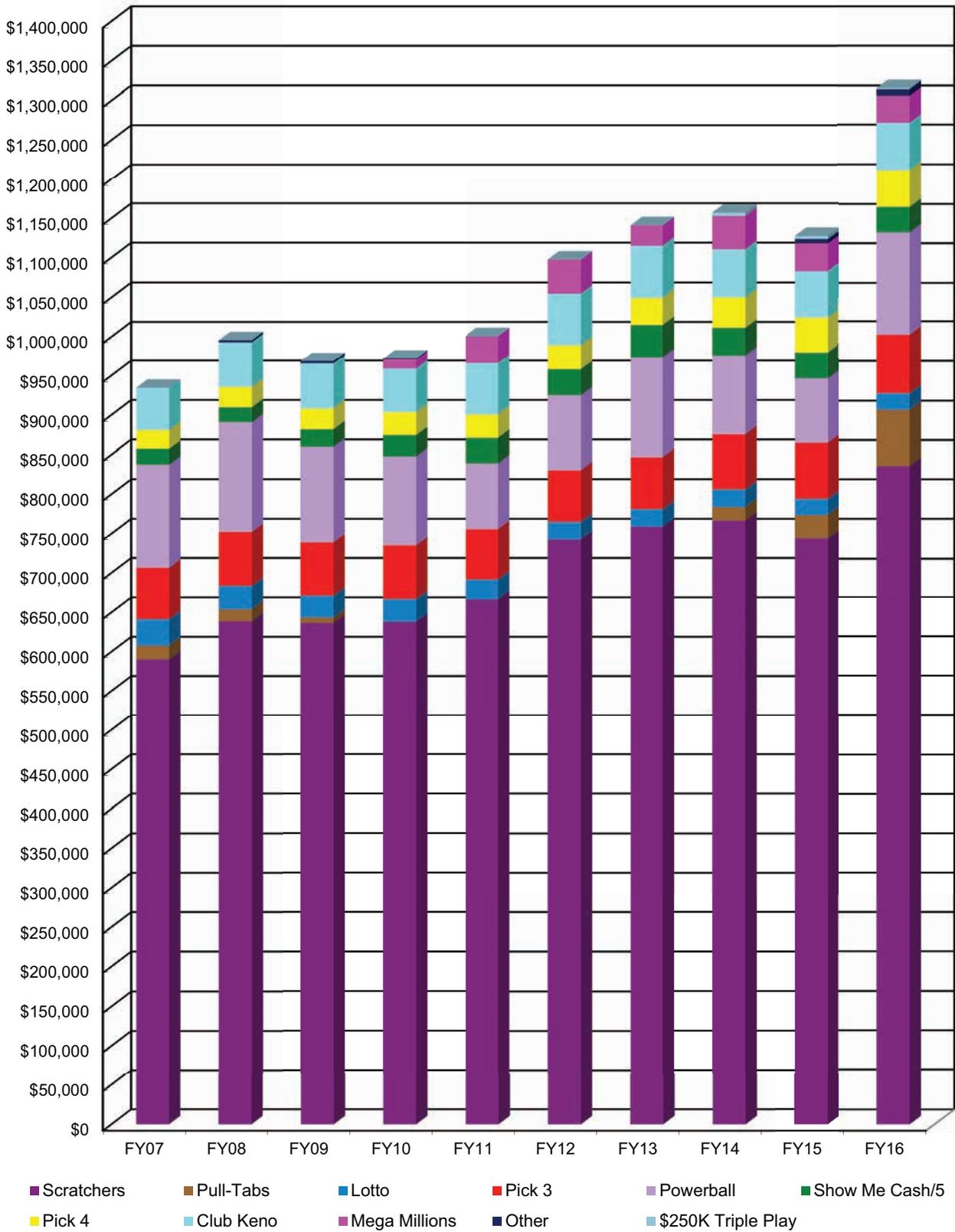
	2007	2008	2009	2010
Operating Revenues				
Scratchers ticket sales	\$590,045,817	\$638,533,775	\$636,574,616	\$638,062,954
Draw Game ticket sales				
Lotto	33,955,803	29,955,387	28,116,282	28,751,655
Pick 3	65,091,442	68,680,133	67,665,040	68,177,109
Powerball	130,795,800	138,393,572	120,677,712	112,711,538
Show Me Cash	19,684,271	18,836,176	22,168,807	26,711,262
Pick 4	24,015,250	25,751,837	26,434,016	29,117,093
Club Keno	53,273,105	57,753,303	57,378,494	55,192,089
Mega Millions	-	-	-	12,059,295
EZ Match	-	-	-	-
\$250K Triple Play	-	-	-	-
Lucky For Life	-	-	-	-
Raffle	-	2,500,000	1,717,410	-
Monopoly Millionaire's Club	-	-	-	-
Lucky Dough	-	-	1,256,408	1,081,490
Total draw game ticket sales	326,815,671	341,870,408	325,414,169	333,801,531
Pull-Tab ticket sales	17,409,170	15,088,705	6,463,110	-
Total sales	934,270,658	995,492,888	968,451,895	971,864,485
Other Operating Revenues	1,395,548	649,422	596,377	50,414
Total operating revenues	935,666,206	996,142,310	969,048,272	971,914,899
Operating Expenses				
Direct costs				
Prize expense	595,022,614	641,123,508	629,276,635	628,057,994
Retailer compensation	58,257,753	61,508,836	60,109,568	59,900,383
Ticket costs	16,280,719	17,289,790	16,077,548	16,106,631
Total direct costs	669,561,086	719,922,134	705,463,751	704,065,008
Administrative expenses	19,987,112	20,362,542	20,466,793	20,809,357
Total operating expenses	689,548,198	740,284,676	725,930,544	724,874,365
Operating Income	246,118,008	255,857,634	243,117,728	247,040,534
Nonoperating Revenues (Expenses)				
Interest income	1,360,853	1,430,382	731,222	310,040
Unclaimed prizes*	10,349,767	9,330,350	12,403,901	12,318,398
Net increase (decrease) in the fair value of investments	4,294,279	6,893,961	4,365,372	4,560,063
Amortization of grand prize winner liability	(4,647,958)	(4,215,836)	(3,861,661)	(3,381,475)
Gain (loss) on disposal of assets	54,077	37,679	(26,702)	3,739
Transfers to the state	(257,882,704)	(266,656,044)	(256,286,630)	(259,672,711)
Transfers from the state	-	-	60,481	-
Total nonoperating expenses	(246,471,686)	(253,179,508)	(242,614,017)	(245,861,946)
Changes In Net Position	(353,678)	2,678,126	503,711	1,178,588
Total Net Position, Beginning of Year	3,942,486	3,588,808	6,266,934	6,770,645
Prior Period Adjustment	-	-	-	-
Total Net Position, End of Year	\$3,588,808	\$6,266,934	\$6,770,645	\$7,949,233
* - 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	\$3,411,563	\$3,923,538	\$3,478,013	\$3,458,481
Unrestricted	(3,411,563)	(3,923,538)	(3,478,013)	(3,458,481)
Restricted	3,588,808	6,266,934	6,770,645	7,949,233
Total Net Position	\$3,588,808	\$6,266,934	\$6,770,645	\$7,949,233

2011	2012	2013	2014	2015	2016
<u>\$666,315,849</u>	<u>\$742,541,015</u>	<u>\$758,900,234</u>	<u>\$766,609,691</u>	<u>\$743,764,015</u>	<u>\$835,592,355</u>
25,214,432	22,564,631	22,114,822	22,610,711	20,643,747	21,374,724
64,075,659	65,074,532	65,755,962	69,264,771	70,473,352	73,244,815
83,319,805	94,688,699	127,027,808	100,524,928	81,534,778	130,774,026
29,503,742	28,970,446	36,830,777	31,845,652	30,411,294	29,260,709
29,557,118	31,378,162	34,491,756	38,840,458	44,672,747	46,410,375
65,302,751	65,331,226	65,389,456	60,109,683	58,358,785	59,642,782
34,852,442	42,792,811	26,028,887	42,499,882	34,946,306	34,603,961
2,490,930	4,086,174	4,293,456	3,483,316	3,212,177	3,293,204
-	-	-	4,237,043	4,001,958	1,518,956
-	-	-	-	4,636,613	8,429,647
-	-	-	-	-	-
-	-	-	-	807,895	-
45,678	-	-	-	-	-
<u>334,362,557</u>	<u>354,886,681</u>	<u>381,932,924</u>	<u>373,416,444</u>	<u>353,699,652</u>	<u>408,553,199</u>
-	-	-	17,024,939	29,891,139	71,479,292
<u>1,000,678,406</u>	<u>1,097,427,696</u>	<u>1,140,833,158</u>	<u>1,157,051,074</u>	<u>1,127,354,806</u>	<u>1,315,624,846</u>
523,186	1,294,455	706,055	92,041	460,531	203,982
<u>1,001,201,592</u>	<u>1,098,722,151</u>	<u>1,141,539,213</u>	<u>1,157,143,115</u>	<u>1,127,815,337</u>	<u>1,315,828,828</u>
648,382,278	722,079,619	752,964,849	766,226,926	755,428,901	888,861,166
61,850,265	67,830,868	70,326,011	70,560,397	68,399,542	78,001,381
16,522,096	15,318,902	16,395,935	17,911,043	16,163,284	23,705,430
<u>726,754,639</u>	<u>805,229,389</u>	<u>839,686,795</u>	<u>854,698,366</u>	<u>839,991,727</u>	<u>990,567,977</u>
28,688,464	30,380,982	36,655,720	39,492,161	33,486,809	34,450,976
<u>755,443,103</u>	<u>835,610,371</u>	<u>876,342,515</u>	<u>894,190,527</u>	<u>873,478,536</u>	<u>1,025,018,953</u>
<u>245,758,489</u>	<u>263,111,780</u>	<u>265,196,698</u>	<u>262,952,588</u>	<u>254,336,801</u>	<u>290,809,875</u>
151,545	94,134	91,150	82,805	77,934	104,369
9,853,309	10,385,777	14,695,619	14,437,266	16,788,784	12,023,258
-	-	-	-	-	3,018,090
1,258,170	5,882,052	(884,228)	1,077,556	1,342,321	-
(2,904,666)	(2,509,798)	(3,160,411)	(1,818,487)	(1,644,196)	(1,501,380)
43,687	6,109	23,572	65,420	49,465	13,335
(255,807,030)	(273,597,799)	(280,007,039)	(277,538,079)	(271,252,985)	(302,582,776)
-	-	-	-	-	-
<u>(247,404,985)</u>	<u>(259,739,525)</u>	<u>(269,241,337)</u>	<u>(263,693,519)</u>	<u>(254,638,677)</u>	<u>(288,925,104)</u>
(1,646,496)	3,372,255	(4,044,639)	(740,931)	(301,876)	1,884,771
<u>7,949,233</u>	<u>6,302,737</u>	<u>9,674,992</u>	<u>5,630,353</u>	<u>4,889,422</u>	<u>(5,246,678)</u>
-	-	-	-	(9,834,224)	-
<u>\$6,302,737</u>	<u>\$9,674,992</u>	<u>\$5,630,353</u>	<u>\$4,889,422</u>	<u>(\$5,246,678)</u>	<u>(\$3,361,907)</u>
\$3,364,727	\$3,442,269	\$3,123,532	\$2,859,744	\$2,363,309	\$2,935,542
(3,364,727)	(3,442,269)	(3,123,532)	(2,859,744)	(12,197,533)	(12,401,704)
<u>6,302,737</u>	<u>9,674,992</u>	<u>5,630,353</u>	<u>4,889,422</u>	<u>4,587,546</u>	<u>6,104,255</u>
<u>\$6,302,737</u>	<u>\$9,674,992</u>	<u>\$5,630,353</u>	<u>\$4,889,422</u>	<u>(\$5,246,678)</u>	<u>(\$3,361,907)</u>

Note: In fiscal year 2015, a prior period adjustment was recorded to establish the Lottery's net pension liability pursuant to GASB 68.

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

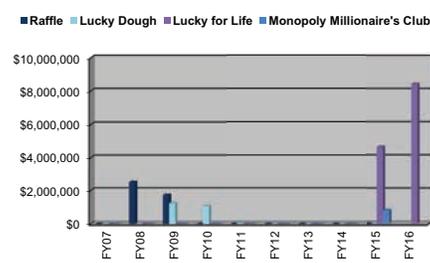
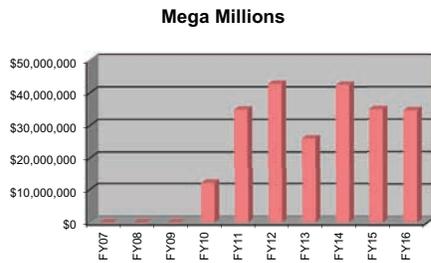
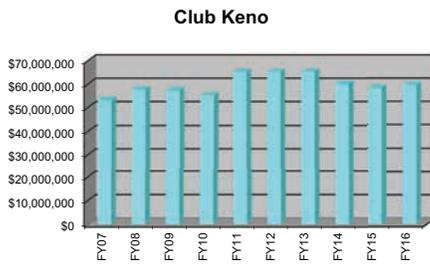
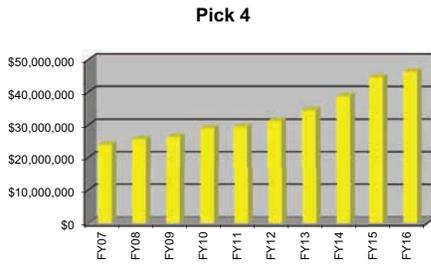
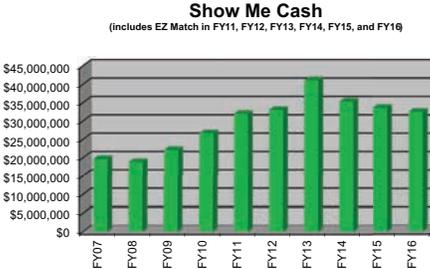
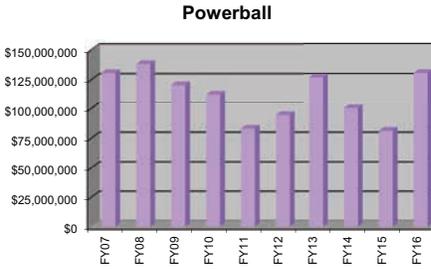
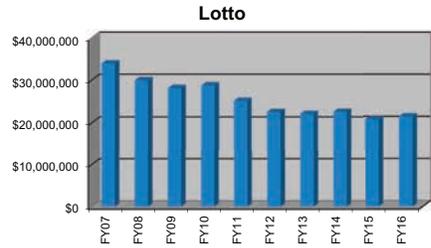
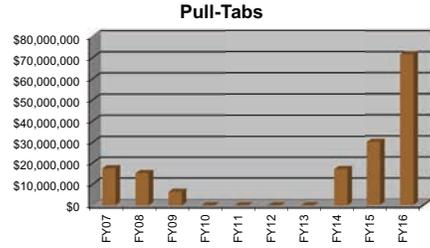
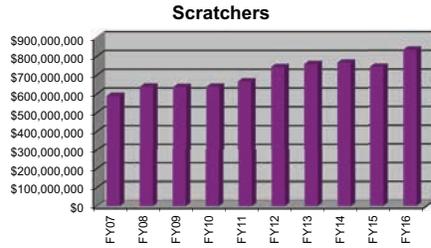
Thousands



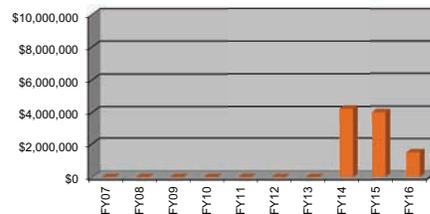
Missouri State Lottery Commission

Sales By Fiscal Year By Product Line

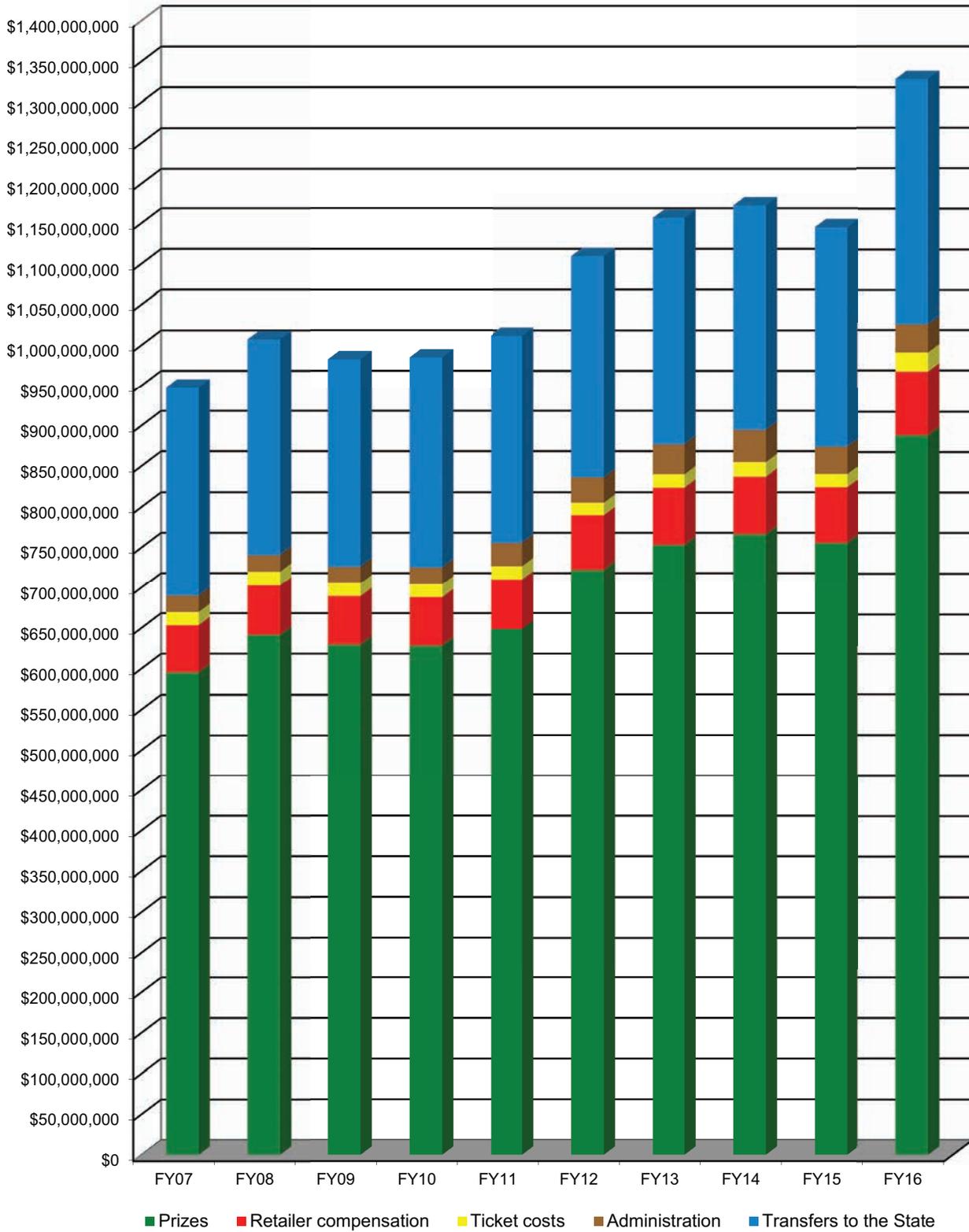
Last Ten Fiscal Years (Unaudited)



\$250K Triple Play

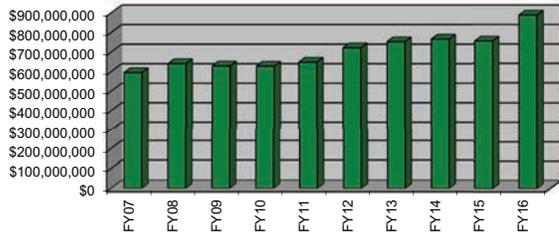


**Missouri State Lottery Commission
Expenses and Transfers
Last Ten Fiscal Years
(Unaudited)**

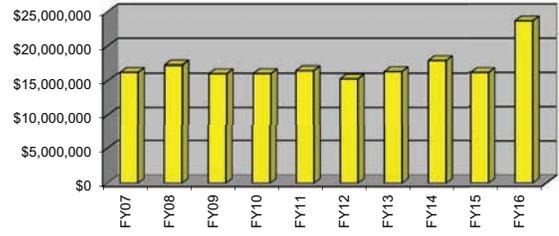


Missouri State Lottery Commission Expenses and Transfers Last Ten Fiscal Years (Unaudited)

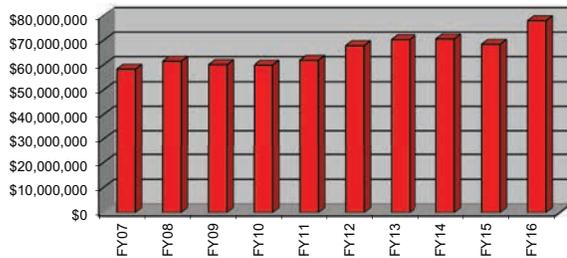
Prizes



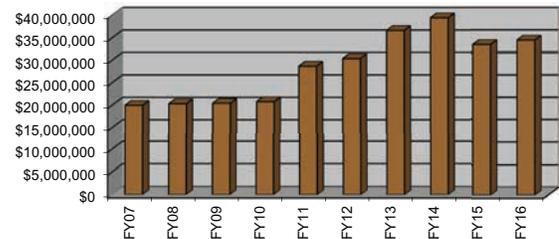
Ticket Costs



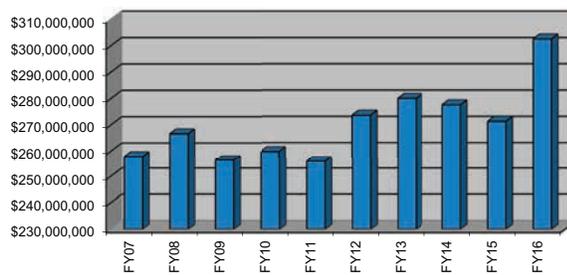
Retailer Compensation



Administration



Transfers to the State



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

Price Point	2007	2008	2009	2010	2011
Number of Launches					
\$1	11	9	11	11	11
\$2	19	18	15	14	14
\$3	2	2	5	7	7
\$5	9	9	10	8	11
\$10	1	1	2	3	2
\$20	-	1	1	1	1
\$30	-	-	0	0	0
Total	42	40	44	44	46
Sales					
\$1	\$99,694,829	\$85,622,427	\$88,731,681	\$82,671,825	\$81,643,988
\$2	183,404,816	177,465,587	159,437,206	142,217,688	142,079,513
\$3	32,647,121	35,194,190	62,411,862	88,327,022	92,204,540
\$5	133,382,786	140,942,309	146,339,990	147,668,657	166,281,836
\$10	140,916,265	134,285,251	88,918,424	96,437,335	92,587,827
\$20	-	65,024,011	90,735,453	80,740,427	91,518,145
\$30	-	-	-	-	-
	\$590,045,817	\$638,533,775	\$636,574,616	\$638,062,954	\$666,315,849

2012	2013	2014	2015	2016	% of Total 2016
12	10	6	6	8	17.39%
15	12	10	9	11	23.91%
6	7	8	6	6	13.04%
14	11	16	14	14	30.43%
3	3	3	3	3	6.52%
1	1	2	3	3	6.52%
0	0	0	0	1	2.17%
<u>51</u>	<u>44</u>	<u>45</u>	<u>41</u>	<u>46</u>	<u>100.00%</u>
\$84,981,064	\$81,479,080	\$67,530,816	\$70,466,360	\$69,556,923	8.32%
151,120,846	148,101,059	133,719,339	115,372,245	125,658,860	15.04%
85,998,362	79,783,688	70,847,146	76,015,501	80,490,586	9.63%
206,417,583	233,455,702	245,810,603	231,533,175	235,525,993	28.19%
105,138,848	106,694,693	98,581,760	94,803,988	95,754,447	11.46%
108,884,312	109,386,013	150,120,027	155,572,746	149,331,212	17.87%
-	-	-	-	79,274,333	9.49%
<u>\$742,541,015</u>	<u>\$758,900,234</u>	<u>\$766,609,691</u>	<u>\$743,764,015</u>	<u>\$835,592,355</u>	<u>100.00%</u>

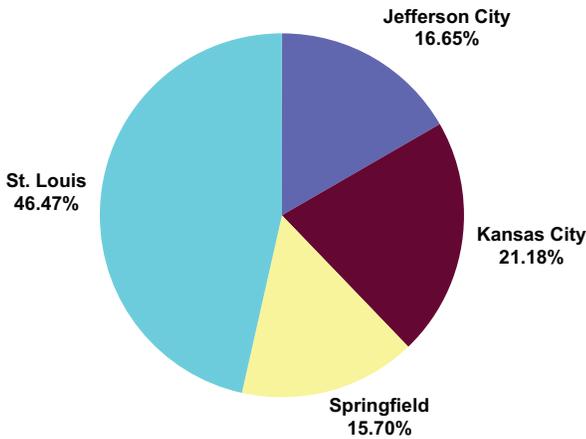
**Missouri State Lottery Commission
Schedule of Lottery Retailers and Sales By Region
Last Ten Fiscal Years
(Unaudited)**

Number of Retailers										
Region	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Jefferson City	864	893	857	863	890	947	923	921	906	884
Kansas City	1,313	1,325	1,278	1,273	1,307	1,242	1,237	1,249	1,203	1,191
Springfield	904	924	871	875	879	838	817	811	811	828
St. Louis	1,765	1,866	1,759	1,767	1,785	1,911	1,888	1,906	1,872	1,829
Total Statewide	4,846	5,008	4,765	4,778	4,861	4,938	4,865	4,887	4,792	4,732

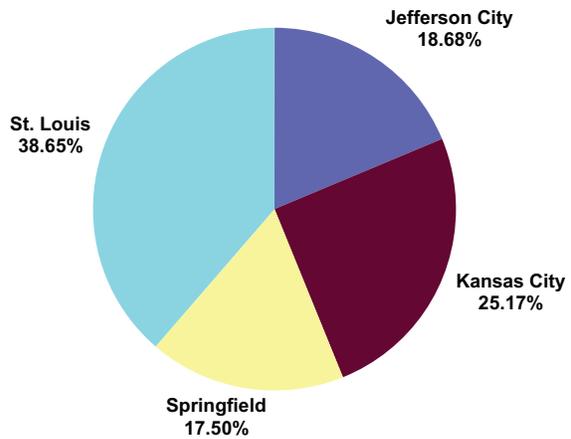
Total Sales										
Region	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Jefferson City	\$136,964,078	\$150,518,525	\$145,752,010	\$148,986,826	\$167,613,633	\$182,611,969	\$186,754,388	\$189,640,671	\$187,591,840	\$219,051,537
Kansas City	212,733,429	225,280,041	218,289,057	219,544,187	212,143,822	235,727,469	246,191,795	250,154,442	\$236,857,245	\$278,649,342
Springfield	170,597,822	180,881,058	170,350,688	164,536,657	159,408,070	175,917,660	180,593,889	180,731,378	\$176,994,705	\$206,553,101
St. Louis	413,975,329	438,813,264	434,060,139	438,796,815	461,512,881	503,170,598	527,293,086	536,524,583	\$525,911,017	\$611,370,866
Total Statewide	\$934,270,658	\$995,492,888	\$968,451,895	\$971,864,485	\$1,000,678,406	\$1,097,427,696	\$1,140,833,158	\$1,157,051,074	\$1,127,354,806	\$1,315,624,846

FY2016

Percentage of Total Sales by Region



Percentage of Retailers by Region



Source: Missouri State Lottery Commission Research Section

% of Total Retailers

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
17.83%	17.83%	17.99%	18.06%	18.31%	19.18%	18.97%	18.85%	18.91%	18.68%
27.09%	26.46%	26.82%	26.64%	26.89%	25.15%	25.43%	25.56%	25.10%	25.17%
18.66%	18.45%	18.28%	18.32%	18.08%	16.97%	16.79%	16.59%	16.92%	17.50%
36.42%	37.26%	36.91%	36.98%	36.72%	38.70%	38.81%	39.00%	39.07%	38.65%
100.00%									

% of Total Sales

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
14.66%	15.12%	15.05%	15.33%	16.75%	16.64%	16.37%	16.39%	16.64%	16.65%
22.77%	22.63%	22.54%	22.59%	21.20%	21.48%	21.58%	21.62%	21.01%	21.18%
18.26%	18.17%	17.59%	16.93%	15.93%	16.03%	15.83%	15.62%	15.70%	15.70%
44.31%	44.08%	44.82%	45.15%	46.12%	45.85%	46.22%	46.37%	46.65%	46.47%
100.00%									

**Missouri State Lottery Commission
Schedule of Demographic and Economic Statistics
Calendar Years 2007 To 2016
(Unaudited)**

Calendar Year	Statewide Population	Statewide Personal Income (millions of dollars)	Statewide Personal Income per Capita	State Unemployment Rate
2007	5,878,415	\$199,773	\$33,984	5.0%
2008	5,911,605	\$208,255	\$35,228	6.5%
2009	5,987,580	\$215,181	\$35,938	9.3%
2010	5,988,927	\$221,465	\$36,979	9.2%
2011	6,010,688	\$229,898	\$38,248	8.7%
2012	6,021,988	\$235,154	\$39,049	7.1%
2013	6,044,171	\$241,145	\$39,897	6.9%
2014	6,063,589	\$252,325	\$41,613	6.5%
2015	6,083,672	\$260,123	\$42,752	5.8%
2016	n/a	n/a	n/a	4.5%

Sources:

Population from U.S. Census Bureau;

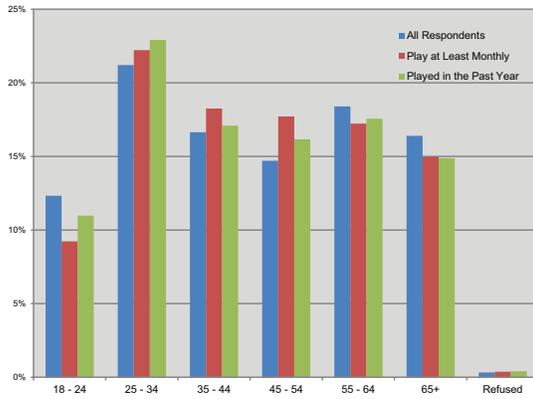
Personal income from U.S. Bureau of Economic Analysis

Unemployment rate from U.S. Department of Labor, Bureau of Statistics

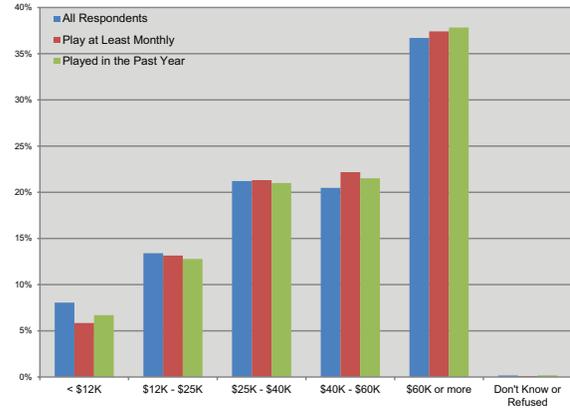
n/a - not yet available

Missouri State Lottery Commission Demographic Group Participation Fiscal Year 2016

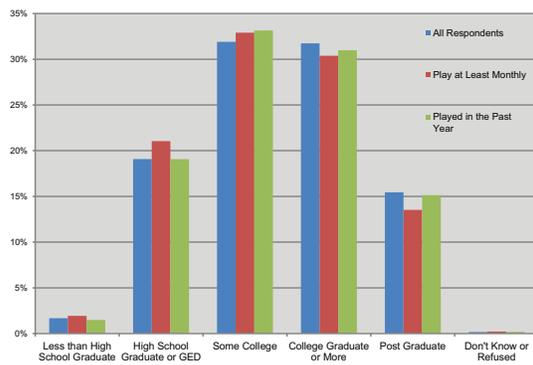
FY16 Age Groups



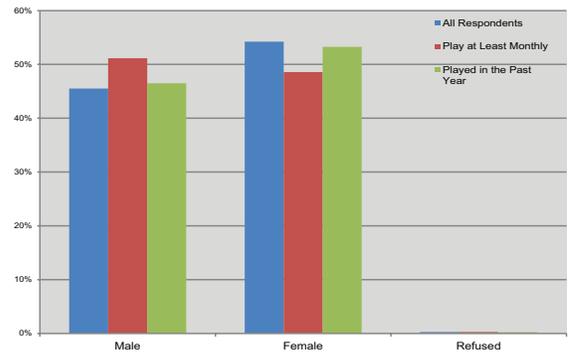
FY16 Annual Income



FY16 Education



FY16 Gender



Source: Missouri Lottery Track and Trend Report FY2016

**Missouri State Lottery Commission
State of Missouri Major Employers
Calendar Years 2015 and 2006**

2015

Employer	Number of Employees	Percent of Total State Employment
STATE OF MISSOURI*	60,000+	2.20%
WAL-MART ASSOCIATES, INC.	40,000+	1.47%
UNIVERSITY OF MISSOURI	20,000-25,000	0.73%-0.92%
MHM SUPPORT SERVICES (Mercy Health)	20,000-25,000	0.73%-0.92%
WASHINGTON UNIVERSITY	15,000-20,000	0.56%-0.73%
US POST OFFICE	10,000-15,000	0.36%-0.56%
THE BOEING COMPANY	10,000-15,000	0.36%-0.56%
BARNES-JEWISH HOSPITAL	7,500-10,000	0.27%-0.36%
DEPARTMENT OF VETERANS AFFAIRS	7,500-10,000	0.27%-0.36%
SSM HEALTH CARE ST. LOUIS	7,500-10,000	0.27%-0.36%
	197,500-230,000	7.22%-8.44%
Total Statewide Employment	2,715,795	

2006

Employer	Number of Employees	Percent of Total State Employment
STATE GOVERNMENT*	65,000+	2.40%
WAL-MART ASSOCIATES, INC.	40,000+	1.48%
UNIVERSITY OF MISSOURI	20,000-25,000	0.74%-0.92%
US POST OFFICE	15,000-20,000	0.55%-0.74%
WASHINGTON UNIVERSITY	10,000-15,000	0.37%-0.55%
THE BOEING COMPANY	10,000-15,000	0.37%-0.55%
SCHNUCK MARKETS INC	7,500-10,000	0.27%-0.37%
DEPARTMENT OF DEFENSE	7,500-10,000	0.27%-0.37%
BARNES-JEWISH HOSPITAL	7,500-10,000	0.27%-0.37%
DIVISION OF ADULT INSTITUTIONS	7,500-10,000	0.27%-0.37%
	190,000-220,000	6.99%-8.12%
Total Statewide Employment	2,698,999	

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Full-time	173.0	173.0	173.0	163.0	159.0	153.0	153.0	153.0	153.0	153.0
Part-time	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total	<u>173.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>	<u>159.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>
Sales										
Jefferson City	11.0	11.0	10.0	9.0	10.0	10.0	10.0	10.0	10.0	10.0
Springfield	9.0	9.0	10.0	9.0	8.0	8.0	8.0	8.0	8.0	8.0
Kansas City	15.0	15.0	15.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
St. Louis	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Inside Sales	12.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Vault	12.0	12.0	12.0	12.0	11.0	11.0	11.0	11.0	11.0	11.0
Marketing and administration	94.5	94.5	94.5	88.5	85.5	79.5	79.5	79.5	79.5	79.5
Total	<u>173.5</u>	<u>173.5</u>	<u>173.5</u>	<u>163.5</u>	<u>159.5</u>	<u>153.5</u>	<u>153.5</u>	<u>153.5</u>	<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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Retailers-										
Statewide	4,846	5,008	4,765	4,778	4,861	4,938	4,865	4,887	4,792	4,732
Per Capita Sales	\$160	\$169	\$164	\$162	\$167	\$183	\$189	\$191	\$186	\$216

Source: Missouri State Lottery Commission Research and Licensing Sections

U.S. Lotteries' Fiscal Year 2015 Sales by Game*

(in \$millions)

Lottery	Pop. (M)	Draw Games												Total Sales	PC Sales	VLT (net)
		Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Power Ball	Mega Millions	For Life	MUSL Bloc	Keno	Other			
Arizona	6.8	542.0	5.2	9.7		25.8	17.1	93.6	45.9				10.6	750.0	110	
Arkansas	3.0	335.0		6.7	3.8	0.6	7.0	27.1	15.2	2.0			11.2	408.7	137	
California	39.1	3,915.4		140.2	28.8	287.7	145.8	372.4	404.4			206.4	23.7	5,524.9	141	
Colorado	5.5	377.2		8.7		29.8	19.3	72.0	31.0					538.0	99	
Connecticut	3.6	688.0		122.9	108.8	20.1	31.2	66.5	32.4	21.5			52.5	1,144.0	319	
Delaware	0.9	54.4		25.6	21.1	4.2	0.5	20.9	10.8	2.3	3.2	6.7		149.8	159	357.5
D.C.	0.7	32.6		43.9	55.3			11.0	6.5	2.5	3.0	9.8	47.8	212.5	316	
Florida	20.3	3,724.0		363.3	276.2	301.0	103.2	375.1	147.4				293.3	5,583.3	275	
Georgia	10.2	2,578.2		516.2	242.7	94.4	12.4	111.5	106.4			206.5	35.2	3,903.5	382	
Idaho	1.7	129.8	25.6	2.1		2.4	1.7	29.3	11.3	1.9	3.1		3.0	210.2	127	
Illinois ¹	12.9	1,821.6		263.8	223.3	107.7	150.6	133.4	119.5				17.3	2,837.3	221	
Indiana	6.6	759.5		33.4	32.9	43.3		86.8	35.8				49.0	1,040.7	157	
Iowa	3.1	212.0	16.0	7.0	3.2	4.5		52.2	18.0		11.1		0.6	324.8	104	
Kansas	2.9	146.3		6.1			12.7	35.3	14.7		8.6	18.2	8.2	250.0	86	
Kentucky	4.4	548.3		131.3	38.5	10.0	7.7	65.0	33.2	3.0		47.3	2.5	886.9	200	
Louisiana	4.7	202.2		51.9	41.6	26.8		86.6	32.5				10.7	452.5	97	
Maine	1.3	199.5		5.1	4.0	10.9	1.4	18.8	6.2	4.7	2.2		0.2	253.1	190	
Maryland	6.0	546.1		240.9	277.0	34.5	21.3	89.5	82.0			303.0	162.7	1,757.0	293	681.8
Massachusetts	6.8	3,522.4			322.8	21.2	75.1	101.9	78.6	27.5		850.5	5.7	5,005.7	737	
Michigan	9.9	1,013.2	32.9	344.6	398.3	53.9	56.1	109.5	120.5	15.6		590.8	36.5	2,771.9	279	
Minnesota	5.5	375.2		14.6		21.8	9.5	66.6	21.0	5.0	18.1		14.9	546.9	100	
Missouri	6.1	743.8		70.5	44.7	20.6	30.4	81.5	34.9	4.6		58.4	37.9	1,127.4	181	
Montana ¹	1.0	17.5				1.6	4.4	12.5	4.0	1.8	3.2		7.2	52.3	51	
Nebraska	1.9	91.9		4.4		12.0	1.7	35.6	12.4				2.0	160.0	84	
N. Hampshire	1.3	208.9		5.2	4.7	7.4	4.6	28.7	12.5	5.3	3.4		0.3	281.1	211	
New Jersey	9.0	1,709.1		437.8	271.8	57.6	148.4	165.4	162.5	71.4			3.3	3,027.3	338	
New Mexico	2.1	80.0		4.6			6.2	27.7	11.2		6.0		1.3	137.0	66	
New York	19.8	3,760.1		870.5	852.0	84.0	239.0	304.5	287.8	120.3		693.8	38.9	7,251.0	366	1,905.3
N. Carolina	10.0	1,294.0		278.1	122.9	19.5	64.9	130.1	61.3				1.4	1,972.2	196	
N. Dakota	0.8					4.2	1.6	12.3	5.7		3.2			27.0	36	
Ohio	11.6	1,551.0		338.0	192.8	31.0	62.6	105.1	113.3			329.5	168.8	2,892.0	249	437.6
Oklahoma	3.9	81.6		5.3			4.2	46.5	22.1		9.9		2.0	171.6	44	
Oregon	4.0	119.6			1.4	33.3	4.1	37.1	20.5			93.0	9.3	318.3	79	798.6
Pennsylvania	12.8	2,591.6		310.9	234.8	68.0	136.2	239.8	124.9	11.3			102.0	3,819.6	298	
Rhode Island	1.1	90.5			24.2	3.7		26.0	11.5	5.5		80.5	1.2	243.1	230	516.3
S. Carolina	4.9	1,002.5		163.0	84.9	20.0		80.0	42.2	9.0				1,401.7	286	
S. Dakota	0.9	25.8				2.2	2.0	13.5	3.9		3.5		0.2	51.2	60	199.1
Tennessee	6.6	1,113.3		58.9	33.4		21.1	87.8	39.2		15.3			1,368.9	207	
Texas	27.5	3,481.4		256.8	91.6	143.0	50.2	227.0	184.0				95.7	4,529.7	165	
Vermont	0.6	85.5		1.4	1.2	3.8	0.8	8.2	3.7	1.9			5.4	111.8	179	
Virginia	8.4	1,018.5		272.3	268.6	12.3	29.9	94.3	96.6	3.8			47.6	1,843.9	220	
Washington	7.2	404.1		16.9		44.8	23.4	47.6	44.8			5.8	12.9	600.3	84	
W. Virginia	1.8	103.3		8.1	4.8		5.2	34.1	13.6		5.7	5.1		180.0	98	935.1
Wisconsin ¹	5.8	356.2	1.1	24.1	12.7	25.2	24.3	70.9	26.9				33.0	574.5	100	
Wyoming	0.6					3.5		9.1	4.9					17.5	30	
Total	305.5	41,653.0	80.7	5,464.9	4,325.3	1,698.7	1,537.9	3,950.5	2,717.9	321.0		3,505.2	1,356.1	66,711.1	218	5,831.3
% of total		62.4%	0.1%	8.2%	6.5%	2.5%	2.3%	5.9%	4.1%	0.5%	0.1%	5.3%	2.0%	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 2016 World Lottery Almanac © 2016 TLF Publications, Inc. All rights reserved.

U.S. Lottery Fiscal Year 2015 Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	Pop. ¹ (Mil)	2014 Gross Domestic Product ²	Traditional Ticket Sales ³					Gov't Transfers ⁵	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
			Traditional Ticket Sales ³	VLT (net)	Gaming (net)	Prizes ⁴	Gov't Transfers ⁵							
Arizona	6.8	260,799	750.0			486.6	176.0	110	26	0.288%	0.067%	64.89%	23.5%	
Arkansas	3.0	110,746	408.7			280.5	72.8	137	24	0.369%	0.066%	68.63%	17.8%	
California	39.1	2,113,280	5,524.9			3,501.7	1,364.5	141	35	0.261%	0.065%	63.38%	24.7%	
Colorado	5.5	279,650	538.0			331.5	128.0	99	23	0.192%	0.046%	61.61%	23.8%	
Connecticut	3.6	232,620	1,144.0			707.7	324.4	319	90	0.492%	0.139%	61.87%	28.4%	
Delaware ^{4,5}	0.9	56,652	149.8	357.5	51.5	109.0	244.0	159	258	0.264%	0.431%	72.73%	48.1%	
D.C.	0.7	105,018	212.5			115.3	55.6	316	83	0.202%	0.053%	54.25%	26.2%	
Florida	20.3	769,662	5,583.3			3,627.9	1,496.4	275	74	0.725%	0.194%	64.98%	26.8%	
Georgia	10.2	435,511	3,903.5			2,528.9	980.5	382	96	0.896%	0.225%	64.79%	25.1%	
Idaho	1.7	57,591	210.2			136.8	45.1	127	27	0.365%	0.078%	65.07%	21.4%	
Illinois ⁶	12.9	680,448	2,837.8			1,823.6	743.9	221	58	0.417%	0.109%	64.26%	26.2%	
Indiana	6.6	289,346	1,040.7			671.0	242.7	157	37	0.360%	0.084%	64.48%	23.3%	
Iowa	3.1	152,482	324.8			196.9	74.5	104	24	0.213%	0.049%	60.62%	22.9%	
Kansas	2.9	132,904	250.0		365.0	144.9	162.2	86	56	0.188%	0.122%	57.96%	64.9%	
Kentucky	4.4	171,850	886.9			556.3	236.1	200	53	0.516%	0.137%	62.72%	26.6%	
Louisiana	4.7	215,968	452.5			219.2	184.8	97	40	0.210%	0.086%	48.45%	40.8%	
Maine	1.3	50,979	253.1			165.2	54.7	190	41	0.496%	0.107%	65.27%	21.6%	
Maryland ^{4,5}	6.0	321,288	1,760.9	681.8	356.4	1,051.5	1,026.2	293	171	0.548%	0.319%	59.71%	42.0%	
Massachusetts	6.8	424,991	5,005.7			3,641.3	985.9	737	145	1.178%	0.232%	72.74%	19.7%	
Michigan	9.9	417,306	2,771.9			1,665.5	799.4	279	81	0.664%	0.192%	60.08%	28.8%	
Minnesota	5.5	288,145	546.9			335.2	135.5	100	25	0.190%	0.047%	61.29%	24.8%	
Missouri	6.1	259,847	1,127.4			755.4	271.3	185	45	0.434%	0.104%	67.01%	24.1%	
Montana ⁶	1.0	39,448	52.3			29.3	12.4	51	12	0.133%	0.031%	55.91%	23.6%	
Nebraska	1.9	99,200	160.0			94.7	37.1	84	20	0.161%	0.037%	59.20%	23.2%	
N. Hampshire	1.3	66,276	281.1			176.4	74.3	211	56	0.424%	0.112%	62.75%	26.4%	
New Jersey	9.0	504,159	3,027.3			1,825.2	960.0	338	107	0.600%	0.190%	60.29%	31.7%	
New Mexico	2.1	83,592	137.0			75.6	41.1	66	20	0.164%	0.049%	55.17%	30.0%	
New York	19.8	1,279,921	7,251.0	1,905.3		4,396.9	3,110.6	366	157	0.567%	0.243%	60.64%	34.0%	
N. Carolina	10.0	440,333	1,972.2			1,231.2	527.4	196	53	0.448%	0.120%	62.43%	26.7%	
N. Dakota	0.8	48,233	27.0			14.0	6.7	36	9	0.056%	0.014%	51.75%	24.9%	
Ohio	11.6	532,018	3,665.0	437.6		1,875.3	1,095.0	316	94	0.689%	0.206%	51.17%	26.7%	
Oklahoma	3.9	162,377	171.6			87.8	60.9	44	16	0.106%	0.037%	51.15%	35.5%	
Oregon ^{4,5}	4.0	203,788	318.3	798.6		211.4	547.8	79	136	0.156%	0.269%	66.43%	49.1%	
Pennsylvania	12.8	609,141	3,819.6			2,411.7	1,060.9	298	83	0.627%	0.174%	63.14%	27.8%	
R. Island ^{4,5}	1.1	50,544	243.1	516.3	106.6	147.4	381.9	230	362	0.481%	0.756%	60.65%	50.3%	
S. Carolina	4.9	174,573	1,401.7			924.1	343.5	286	70	0.803%	0.197%	65.93%	24.5%	
S. Dakota ^{4,5}	0.9	39,833	51.2	199.1		29.7	112.1	60	131	0.128%	0.281%	58.12%	44.8%	
Tennessee	6.6	275,826	1,368.5			881.1	347.8	207	53	0.496%	0.126%	64.39%	25.4%	
Texas	27.5	1,467,342	4,529.7			2,858.3	1,242.7	165	45	0.309%	0.085%	63.10%	27.4%	
Vermont	0.6	27,164	111.8			72.7	22.8	179	36	0.411%	0.084%	65.06%	20.4%	
Virginia	8.4	427,451	1,843.9			1,116.6	533.8	220	64	0.431%	0.125%	60.56%	28.9%	
Washington	7.2	390,489	600.3			365.9	141.3	84	20	0.154%	0.036%	60.95%	23.5%	
W. Virginia ^{4,5}	1.8	68,035	180.0	935.1	46.9	106.5	527.4	98	286	0.265%	0.775%	59.15%	47.3%	
Wisconsin ⁶	5.8	268,677	574.6			342.4	167.6	100	29	0.214%	0.062%	59.59%	29.2%	
Wyoming	0.6	37,566	17.5			9.7		30		0.047%		55.59%		
Total	305.5	15,123,069	67,488.0	5,831.3	926.5	42,335.9	21,159.3	221	69	0.446%	0.140%	62.73%	31.4%	

* 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.

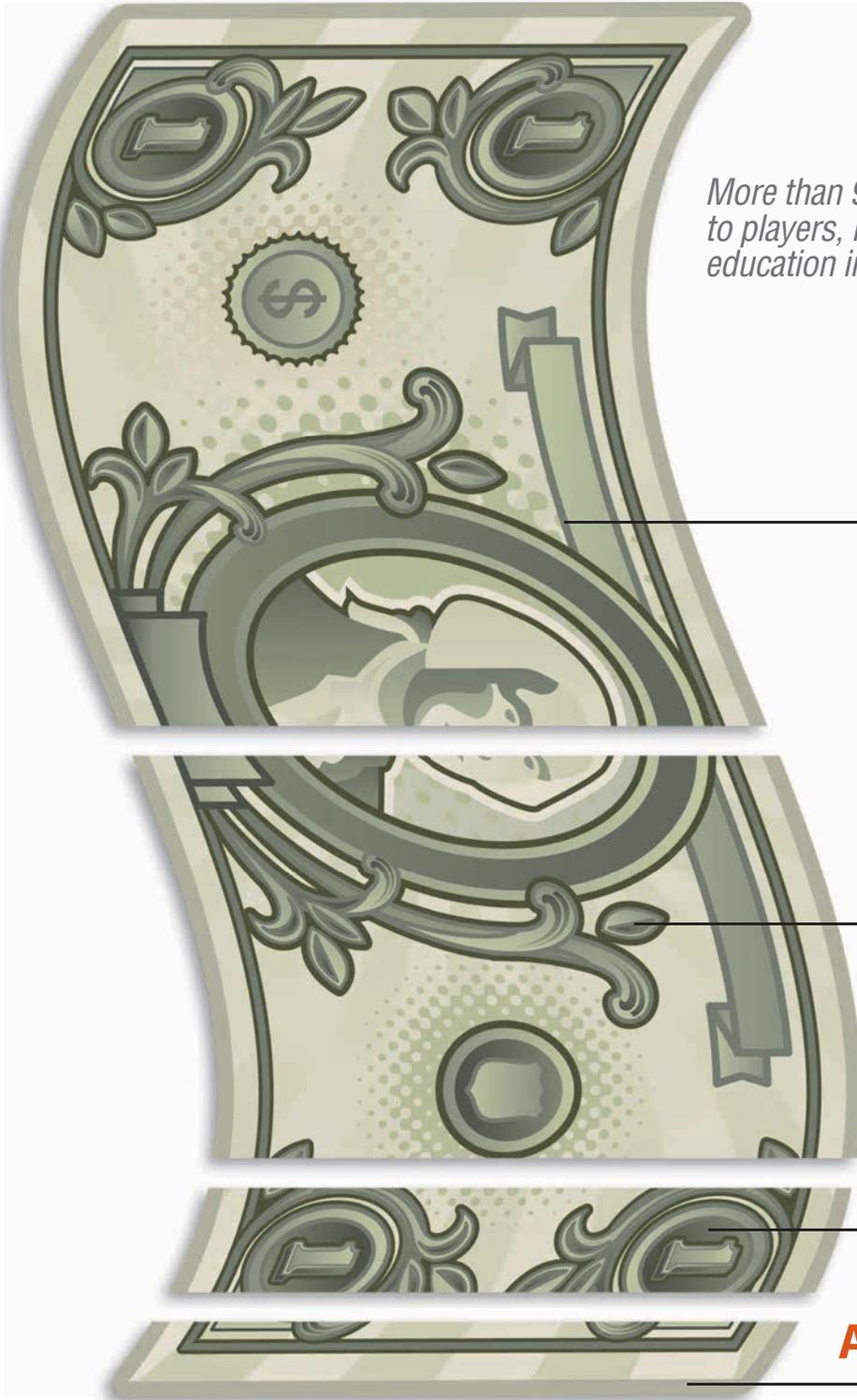
Source: La Fleur's 2016 World Lottery Almanac © 2016 TLF Publications, Inc. All rights reserved.

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</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	0	1	1	1	1	1
Passenger vans - vehicle pool	11	10	11	8	11	9	21	16	14	18
Passenger cars - vehicle pool	4	3	1	1	0	0	0	0	0	0
Trucks	3	3	3	3	3	3	3	4	3	3
Event trailers	1	1	1	1	1	1	1	1	1	1
	<u>71</u>	<u>69</u>	<u>68</u>	<u>65</u>	<u>64</u>	<u>63</u>	<u>75</u>	<u>71</u>	<u>68</u>	<u>72</u>

Source: Missouri State Lottery Commission Maintenance and Vehicle Sections

Division of Each Dollar Spent on the Missouri Lottery - Fiscal Year 2016



More than 95 cents is returned to players, retailers and public education in Missouri

**66.6¢
Prizes**

**23¢
Education**

**5.9¢
Retailers**

**4.5¢
Administration**

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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***

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, 2016, and the related notes to the financial statements, which collectively comprise the Missouri State Lottery Commission's basic financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

St. Louis, Missouri
November 14, 2016

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

SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
June 30, 2016

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, 2016

No findings in the prior year.

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