



Nicole R. Galloway, CPA  
Missouri State Auditor

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## REVENUE

# Missouri State Lottery Commission



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December 2015  
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<http://auditor.mo.gov>



**Nicole R. Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Missouri State Lottery

Advertising and Sponsorships	The Missouri State Lottery needs to conduct further analysis to determine the appropriate amount of advertising expenditures needed to optimize sales and profits. Lottery officials have indicated increases in the advertising budget would result in higher funding for education, however, changes in the amount of budgeted advertising expenditures do not appear to have a direct correlation to the amount of funding generated for education. The Lottery has not developed written policies and procedures for investing in sponsorships. The Lottery entered into professional sports sponsorships that projected a negative return on investment, and has incurred expenses greater than the amount of benefits for many local community events it sponsored.
Contracts	As noted in a previous report, the Lottery continues to execute long-term contracts and to renegotiate and amend long-term contracts in lieu of periodically soliciting competitive bids/proposals. This practice does not require contracts to be awarded to the lowest and best bidder and presents legal issues regarding compliance with state purchasing laws and regulations. As a result of the long-term contracts, competitive bids/proposals might not be solicited for these services for a significant amount of time, and the lowest and best bidder might not be providing these services.
Points for Prizes	The Lottery has not determined whether the Points for Prizes program is profitable. A cost-benefit study has not been conducted to determine if the Points for Prizes program has resulted in increased ticket sales and additional funding for education. The Lottery has also not required prizes offered players be made in the United States or sold by a Missouri business, as required by state law.
Travel Expenses	As required by the contract, the primary instant ticket contractor pays some Lottery travel expenses, including travel costs of key Lottery employees who were involved in evaluating and awarding the instant ticket contract and negotiating amendments to that contract. Lottery employees did not timely report travel expenses paid by third parties on Personal Financial Disclosure statements filed with the Missouri Ethics Commission and did not always include travel expenses to be paid by third parties in the estimated costs on out-of-state travel authorization forms.

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

\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

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

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# Missouri State Lottery Commission

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**NICOLE R. GALLOWAY, CPA**  
**Missouri State Auditor**

The Honorable Jeremiah W. Jay Nixon, Governor

And

Missouri State Lottery Commission

And

May Scheve Reardon, Executive Director

Missouri State Lottery Commission

Jefferson City, Missouri

The State Auditor is required under Section 313.315.1, RSMo, to audit the Missouri State Lottery Commission. The Lottery engaged CliftonLarsonAllen LLP, Certified Public Accountants (CPAs), to audit the Lottery's financial statements for the years ended June 30, 2014 and 2013. The Lottery engaged UHY LLP, CPAs, to audit the Lottery's financial statements for the year ended June 30, 2012. To satisfy our statutory obligation and minimize duplication of effort, the State Auditor has used the work of the CPA firms. We reviewed the reports of both firms and the substantiating working papers of CliftonLarsonAllen LLP, CPAs, to satisfy ourselves as to the appropriateness of using the reports, and we accept them in partial fulfillment of our duties. We have also audited certain operations of the Lottery in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2014, 2013, and 2012. The additional objectives of our audit were to:

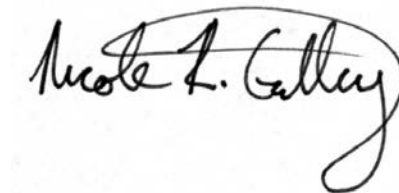
1. Evaluate the Lottery's internal controls over significant management and financial functions.
2. Evaluate the Lottery's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations.

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

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

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

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

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with the first name "Nicole" and last name "Galloway" clearly legible. The signature is positioned above a faint, rectangular stamp.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	John Luetkemeyer, CPA
Director of Audits:	Douglas J. Porting, CPA, CFE
Audit Manager:	Dennis Lockwood, CPA
In-Charge Auditor:	John Lieser, CPA
Audit Staff:	Terese Summers, MSAS, CPA
	Steven Barton

# Missouri State Lottery Commission

## Management Advisory Report

### State Auditor's Findings

#### 1. Advertising and Sponsorships

The Missouri State Lottery (Lottery) needs to conduct further analysis to determine the appropriate amount of advertising expenditures needed to optimize sales and profits. In addition, the Lottery has no comprehensive policies and procedures for investing in sponsorships and most professional sports sponsorships and some local community event sponsorships do not provide a positive return on investment (ROI).

The Lottery contracts with an advertising agency for advertising services and assistance with major sports sponsorships. The Lottery makes arrangements for other sponsorships directly. The advertising agency develops annual marketing plans, procures media services, produces television commercials, and manages special promotions and prizes.

##### 1.1 Advertising costs

The Lottery needs to conduct further analysis to determine the appropriate advertising spending to optimize sales and profits. Annual Lottery spending to the advertising agency has increased from about \$2.5 million in 2010 to nearly \$17 million in 2014, an increase of approximately 580 percent. Total sales increased from just under \$972 million to nearly \$1.16 billion over that same period, an increase of just over 19 percent. Lottery advertising costs as a percentage of sales increased from .26% in 2010 to 1.46% in 2014.

The following table summarizes advertising and professional sport sponsorship expenditures to the advertising contractor, Lottery ticket sales, and advertising as a percentage of sales for fiscal years 2010 to 2014.

Advertising Contractor Payments and Total Sales

		Year Ended June 30,				
		2014	2013	2012	2011	2010
Advertising services	\$	14,041,046	10,606,928	7,199,600	7,887,914	1,781,778
Media production & promotions		1,958,954	2,064,777	1,208,014	1,468,608	714,655
Professional sport sponsorships		943,725	368,821	389,500	0	0
Total advertising payments	\$	16,943,725	13,040,526	8,797,114	9,356,522	2,496,433
Total sales	\$	1,157,051,074	1,140,833,158	1,097,427,696	1,000,678,406	971,864,485
Advertising as a percentage of sales		1.46%	1.14%	0.8%	0.94%	0.26%

##### Comparison to other states

The Lottery provided us information on the budgeted advertising cost per capita, advertising as a percentage of sales, and total lottery sales for all 44 states that have a lottery. This information was obtained by the Lottery from La Fleur's World Lottery Almanac series. The information was self-reported by the states and not subjected to any verification procedures.

For the 5 year period of 2010 to 2014, the Lottery ranking for budgeted advertising cost per capita rose 34 places, from 2nd lowest (\$.32) to 9th highest (\$2.64). For the same period, the ranking for budgeted advertising expense as a percentage of sales rose 24 places, from 2nd lowest (.20



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percent) to 19th highest (1.38 percent). The Lottery increase for the 5 year period in advertising both on a per capita basis and as a percentage of sales far exceeded increased advertising efforts in any other state. During the 5 year period, Missouri lottery sales increased 19 percent; however, 14 states reported a higher percentage in sales growth than Missouri. All 14 states had significantly lower increases, or even decreases, in both advertising cost measures discussed above.

Advertising and funding for education

During the budgetary process, Lottery officials indicated increases in the advertising budget would result in higher funding for education. The following table lists the budgeted advertising expenditures, the amount of funding provided by the Lottery for education, and the percentage of year to year change in those amounts for fiscal years 2010 to 2014.

Budgeted Advertising Expenditures and Funding for Education

		Year Ended June 30,				
		2014	2013	2012	2011	2010
Budgeted advertising expenditures <sup>1</sup>	\$	16,000,000	12,000,000	8,000,000	8,000,000	1,930,000
Percentage of change		33.3%	50.0%	0%	314.5%	n/a
Funding for education	\$	277,538,079	280,007,039	273,597,799	265,179,113	259,672,711
Percentage of change		(0.9%)	2.3%	3.2%	2.1%	n/a

<sup>1</sup> Budgeted advertising expenditures from the Lottery's internal budget

Changes in the amount of budgeted advertising expenditures do not appear to have a direct correlation to the amounts of funding for education generated by the Lottery. Lottery officials indicated there are many factors beyond advertising that affect sales and the amount of funding for education such as the size of draw game jackpots, the prize payout percentage for instant games, and other promotional activities such as the Points for Prizes program discussed in MAR finding number 3. Sales are also impacted by general economic conditions, extended periods of widespread inclement weather, natural disasters, and competition from the gaming industry and lotteries in other states.

The Lottery has not conducted a comprehensive analysis to determine the appropriate level of spending for advertising to optimize sales and funding for education. Reductions in advertising spending while sustaining or increasing sales could result in increased Lottery profits and funding for education. In September 2014, the Lottery reduced its total fiscal year 2015 budget for advertising by about \$4 million as part of overall efforts to reduce costs and increase funding for education.

## 1.2 Sponsorships

The Lottery has not developed written policies and procedures for investing in sponsorships. The Lottery considers the ROI, but the Lottery invested in



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many sponsorships for professional sports and local community events with projected negative ROI. Lottery officials indicated other factors affect the investment decision, but those factors are not described in any document supporting the decision or based on any formal policy or procedure. Also, the Lottery did not determine the actual ROI for professional sports sponsorships.

#### Professional sports

The Lottery entered into professional sports sponsorships that had projected negative ROI. The Lottery's costs for the sponsorships of each of the state's 5 major professional sports teams usually exceeded the projected benefit from the sponsorships for 2014 and 2015. The Lottery has not subsequently determined the actual ROI realized for these sponsorships.

The costs of the sponsorships include licensing payments to the teams and additional related advertising and media expenditures. Under the terms of these sponsorships, the Lottery was provided certain rights and accesses including licensing rights for the team logo on Lottery instant tickets, in-stadium signage, rights to locate instant ticket vending machines in the stadiums, television or radio spots, web page ads, etc. The Lottery's advertising agency quantified the dollar amount of expected benefits to the Lottery based on the estimated audience size, number of impressions, and other factors. The Lottery negotiated the sponsorships and executed contracts with each team. Payments are passed through the advertising agency.

For fiscal year 2014 agreements, team sponsorship costs totaled about \$1.6 million and the estimated benefits totaled about \$1.1 million. All 2014 team sponsorships had a projected negative or breakeven ROI. The individual team sponsorship costs exceeded the expected benefits by amounts ranging up to about \$264,000. For fiscal year 2015 agreements, team sponsorship costs totaled about \$1.7 million and estimated benefits totaled about \$1.8 million. However, 3 of the 5 individual sponsorships had a projected negative ROI. A Lottery official indicated other considerations like brand loyalty that cannot be easily quantified contribute to additional value from the sponsorships. The Lottery did not prepare a subsequent analysis to determine how actual event attendance or other measurable benefit factors compared to those used in the initial estimated benefit values or otherwise attempt to determine the actual ROI for these sponsorships.

#### Local community events

The Lottery incurred expenses greater than the amount of benefits for many local community events it sponsored. The Lottery evaluates the events annually to determine whether it receives a positive ROI for these sponsored events. The Lottery contracts with a vendor to perform an analysis of the potential ROI for each community event prior to entering into a sponsorship agreement. Lottery officials indicated events should have a potential ROI of 1:1 or greater to be considered for sponsorship. Lottery officials indicated





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supporting local community events held by minority and women's organizations is an additional goal. There is no formal policy establishing the ROI criteria or how other considerations enter into the decision whether or not to fund a sponsorship request.

The Lottery sponsored 44 separate events held by 24 organizations during the 3 years ended June 30, 2014. Lottery officials indicated the sponsorship costs totaled about \$883,000 while the estimated benefits totaled nearly \$2,108,000. While many events were positive, 13 events had a negative ROI with total costs of \$173,472 and estimated benefits of only \$110,057. Some events sponsored by 2 organizations had a negative ROI for 2 consecutive events.

A similar condition was noted in our prior audit report.

### Conclusion

To ensure lottery proceeds are spent in an efficient and effective manner and to provide guidance in the decision-making process, the Lottery should develop formal policies and procedures for the evaluation of sponsorships. The policies and procedures should provide for the identification of all relevant sponsorship benefits to be considered, the measurement of those benefits, the time periods over which the benefits are considered, and the means for comparing the benefits and costs and interpreting the results to support the investment decision. In addition, the Lottery should determine the actual ROI for professional sports sponsorships.

### Recommendations

The Lottery:

- 1.1 Conduct further analysis to determine the level of advertising needed to optimize sales and funding for education.
- 1.2 Develop formal policies and procedures for the evaluation of sponsorships. In addition, the Lottery should determine the actual return on investment for professional sports sponsorships.

### Auditee's Response

- 1.1 *The Office of Administration "Review of Missouri Lottery Operations" report dated September 2014 recommended that the Lottery implement a more systematic review of return on investment for both advertising and sponsorships. With the guidance of a new commission appointed by the Governor in September 2014, the Lottery has taken immediate and timely action on this and other review recommendations to ensure the Lottery is spending budget dollars appropriately and providing the maximum return for public education. In fiscal year 2015, the Lottery took several actions and self-imposed reductions to increase profit year over year. Those actions include:*



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- *Pull-Tab vendor percentage was decreased beginning October 1, 2014, from 45% of net compensation to 40% (a \$135,000 annual savings).*
- *New Draw Games Computer Gaming System contract was competitively bid and awarded reducing costs by approximately \$700,000 per year beginning July 1, 2015.*
- *Points for Prizes Loyalty Program vendor percentage was decreased from 1.15% to 1.00% of net prize fund beginning October 21, 2014 (a \$745,000 annual savings).*
- *Reduced the amount of prize dollars spent on promotions.*
- *Advertising contract was rebid in 2015.*
- *Reviewed all available prize payout studies and other variables to validate optimum prize payout.*
- *Limited advertising spending to \$12 million.*
- *Self-imposed a 10% restriction of unobligated September 30, 2014 Expense and Equipment budget (estimated \$700,000 savings).*

*The Lottery's advertising budget has increased during the audit period, but it remains near the industry average as a percentage of sales. The auditor accurately points out that the Lottery's budgeted advertising expense as a percentage of sales rose to 1.38% in 2014. This compares with the average of all state lotteries of 1.41% and the average of contiguous state lotteries of 1.57%. The Lottery's increased advertising budget has brought us in line with other lotteries.*

*The advertising budget of \$16 million includes production and media. The Lottery has calculated the optimum spend at \$14-\$16 million based on adjusting for annual local media cost inflation (5-8% per year), achieving an ideal repetition with current players at industry benchmarks for impulse purchase items with which the Missouri Lottery competes at the convenience store level (based on 9 campaigns, 10+ frequency in a two-week period statewide) and building awareness established with a new audience (millennials and social media channels).*

- 1.2 *The Lottery utilizes the Pinpoint Sponsorship Evaluation System to evaluate Lottery-sponsored events including community events. While most of the Lottery's community events returned a positive ROI, a few did not. Community events by nature do not have many of the same value elements as other events. The Lottery works hard to exceed Executive Order 05-30 agency goal of spending 10% and 5% with minority and women-owned businesses (M/WBE) and organizations. One of the ways the Lottery meets and exceeds the goal is by participating in M/WBE events. The Lottery continues to*



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*work with these event organizers to ensure we get at minimum a 1:1 ROI. If not, we will discontinue participation.*

*Due to the larger media elements involved with the five major sports team sponsorships, the Lottery has utilized its advertising agency (Barkley) media department to complete a detailed evaluation of each major sports sponsorship. While not all of these sponsorship evaluations showed a 1:1 media ROI during the audit period, these sponsorship values did exceed breakeven when you include the many other sponsorship elements not included in the agency's media evaluations. When evaluating sport sponsorships there are many additional elements beyond the cost to value ratio for in-stadium and broadcast media that add significant value to the sponsorship and increase Lottery sales and profits. In the future, the Lottery will include all costs and values in their final evaluations. Current season sports sponsorships are returning a positive ROI.*

## 2. Contracts

The Lottery continues to execute long-term contracts and to renegotiate and amend long-term contracts in lieu of periodically soliciting competitive bids/proposals. This practice does not require contracts to be awarded to the lowest and best bidder and presents legal issues regarding compliance with state purchasing laws and regulations.

### Computer gaming systems

The Lottery executed a new long-term contract for computer gaming systems and related services in October 2014. As noted in our prior audit report, Report No. 2012-141, issued in November 2012, the Lottery used long-term contracts with multiple additional renewal periods, and renegotiation and amendments to modify and extend 3 existing contracts for computer gaming systems and related services. These contracts had been in place since 2004 and 2007. The contracts were renegotiated and amended in 2011 and subsequently extended to June 2015. Payments to the vendor under these contracts during the 3 years ended June 30, 2014, totaled about \$48.8 million.

In March 2014, the Lottery, through the Office of Administration, Division of Purchasing and Materials Management, solicited bids for a new single contract that included all 3 services. The Lottery prepared the request for proposals indicating the contract would be for 7 years, with 3 possible additional one year renewal periods. Three vendors submitted qualifying bids. Lottery and OA officials conducted a formal bid evaluation and the contract was ultimately awarded to the current contractor. Under the new contract, the Lottery will pay the contractor about 4.2 percent of net weekly online (draw game) sales - a reduction from the total of about 4.4 percent of net weekly online sales paid under the 3 previous contracts. If the new contract rate had been in effect during state fiscal year 2014, the Lottery would have saved about \$680,000 on these contractual services. A Lottery



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official indicated the use of longer-term contracts is necessary to attract competitive vendors because of the large capital investment and the substantial conversion costs involved.

**Primary instant ticket printing** The Lottery renegotiated and amended its primary instant ticket printing contract in October 2011 to include the Points for Prizes (PFP) program (see MAR finding number 3). The Lottery's contract for instant ticket printing services was executed in April 2011 for services through June 2014 with 7 possible additional one year renewal periods. The primary instant ticket game contractor's bid proposal as well as the proposals of the other 2 bidders offered the PFP as an optional service, though not all the proposals contained pricing information. This optional service was not included in the evaluation of bids.

Within 6 months after executing the initial contract in April 2011, the Lottery decided to add a PFP program. Subsequently, the Lottery negotiated with only the previously selected contractor for the PFP service and obtained a substantially lower rate than the contractor's initial proposal. A Lottery official indicated the overall value of the PFP program and other services obtained by the Lottery in the amendment exceeded the cost to the Lottery. During the 3 years ended June 30, 2014, payments to this contractor totaled about \$28.4 million, of which about \$9.8 million was related to the additional PFP program. Given the significant change in contract terms and additional cost, the Lottery should have solicited and considered prices for PFP services in the original bid process, or subsequently solicited proposals for stand-alone PFP services. Without such information, the Lottery has less assurance it has received the most competitive terms for either service.

The Lottery amended the contract in 2012, 2013, and 2014 each resulting in an extension of the contract and the PFP. The current contract expiration date is October 21, 2015, with 6 possible additional one year renewal periods. The 2014 amendment also resulted in reduction in the PFP payment rate.

## Conclusion

As a result of the long-term contracts, competitive bids/proposals might not be solicited for these services for a significant amount of time, and the lowest and best bidder might not be providing these services.

The reasons provided by Lottery personnel do not justify failing to competitively procure these services regularly. The Lottery, in conjunction with the Office of Administration, handles the procurement of its goods and services and should abide by the state purchasing laws, rules, and regulations as provided by 12 CSR 40-30.180. State purchasing rules/regulations provide that a formal method of solicitation, such as Request for Proposals, should be utilized for purchases exceeding \$25,000.



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In addition, Section 313.270, RSMo, provides that Lottery contracts be awarded ". . . on the basis of lowest and best bid . . ."

In its report, *Review of Lottery Operations - September 2014*, the Office of Administration, Division of Budget and Planning, recommended the Lottery reduce its reliance on vendor contract extensions and indicated such extensions may result in the loss of efficiencies gained through competitive bidding.

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

Similar conditions were also noted in our prior audit report.

## Recommendation

The Lottery regularly solicit competitive bids/proposals for these service contracts.

## Auditee's Response

*The auditor accurately points out that the Office of Administration "Review of Missouri Lottery Operations" report dated September 2014 recommended the Lottery reduce its reliance on vendor contract extensions. Since the report was issued, the Lottery has executed a new long-term contract for a computer gaming system and a new contract for advertising services, our two largest vendor expenditure areas. The Lottery is estimated to save more than \$7 million for public education over the life of the new computer gaming system contract. The new advertising contract rate is 8% less than the rate under the previous contract. The Lottery will continue to solicit competitive bids/proposals for service contracts.*

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## 3. Points for Prizes

The Lottery has not determined whether the Points For Prizes (PFP) program is profitable and has not ensured the prizes were manufactured in the United States and purchased from a Missouri business, as required by state law.

Lottery officials indicated the primary goal of PFP, which is part of the MyLottery Loyalty Program, is to increase engagement with Lottery customers, add value to products, provide incentives to purchase at retail locations and reward player loyalty, all in an effort to increase profits for Missouri education. Lottery officials indicated, as part of the negotiations to establish PFP and the related PFP contractor fee, the Lottery received licensing fee and merchandise discounts valued at approximately \$3.1 million and services primarily related to the development and maintenance of the MyLottery website to operate the PFP program valued at approximately \$2 million at no additional cost.



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The PFP program allows players to establish accounts on the Lottery website and earn points for non-winning instant and draw game tickets that can then be redeemed for various prizes such as clothing, electronics, tools, household appliances, and entries in second chance drawings and other promotional games. Players must sign up and enter a code from each non-winning ticket. The PFP system assigns various point values based upon the cost of the non-winning ticket and a prize point matrix. On average, the player will earn points equivalent to 2.5 times the purchase price of the ticket. The points have no monetary value and cannot be redeemed for cash. Using information provided by Lottery officials, we estimated entering 100 \$1 non-winning scratcher tickets into PFP would likely yield 250 points redeemable for approximately \$3.75 in merchandise at the retail price. The point range for the merchandise redemption is from 1 point to about 90,000 points. The Lottery made PFP available to players in August 2012 for instant games and added draw games to PFP in May 2014.

The primary instant ticket printing contractor operates PFP for the Lottery. Under the PFP program terms, the Lottery paid the contractor monthly for PFP at the rate of 1.15 percent of the prize fund of participating instant ticket games. The prize fund for each game was determined from the product of the monthly dollar sales and the total prize percentage built into the game. The Lottery payments to the contractor for PFP from August 2012 through June 2014 totaled about \$9.8 million. The contractor provided monthly reports indicating the total retail value of the prizes redeemed by players over that same time period was \$8.4 million. In addition, the contractor reported nearly 197,000 players were members of the MyLottery players club and held over 393 million points valued at nearly \$5.9 million that had not been redeemed as of June 30, 2014. Beginning in October 2014, the PFP contractor rate was reduced to 1 percent of the prize fund.

### 3.1 Profitability

The Lottery has not conducted a cost-benefit study to determine if the PFP program is profitable and has resulted in increased ticket sales and additional funding for education.

Lottery instant game ticket sales increased \$16.4 million (2.2 percent) during fiscal year 2013 and \$7.7 million (1 percent) during fiscal year 2014. The annual average growth rate was 1.6 percent for the 2 year period the PFP program has been in place. Total sales from draw games fell \$8.5 million (2.2 percent) in fiscal year 2014. In addition to PFP, the Lottery had also significantly increased advertising expenditures as discussed in MAR finding number 1. A Lottery official indicated a cost-benefit study will be performed in state fiscal year 2016.

The Lottery should conduct a cost-benefit study to determine if the PFP has increased sales of lottery tickets, resulted in additional funding for education, and warrants continuation.



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### 3.2 Prize origins

The Lottery has not required prizes offered players be made in the United States or sold by a Missouri business, and the Lottery has not required the contractor to provide the Lottery with information on the origin of the prizes offered in the PFP store. The contractor and its wholly-owned subcontractor operating the PFP program are based in Georgia, none of the subcontractors providing fulfillment services are located in Missouri, and many prizes available for redemption are produced in other countries. The contract terms do not address the state or country of origin of prizes. Lottery officials indicated the contractor has been unable to find any businesses in Missouri that could provide the fulfillment services and the many types of merchandise available are generally not made in the United States.

Section 313.270, RSMo, indicates the Lottery may purchase goods made in the United States and sold by a Missouri business to be given away as prizes and 12 CSR 40-60.010 indicates the Lottery may award merchandise as prizes when such goods are made in the United States and sold by a Missouri business.

### Recommendations

The Lottery:

- 3.1 Conduct a cost-benefit study to determine if the PFP has increased sales of lottery tickets and resulted in additional funding for education.
- 3.2 Ensure Lottery prizes are manufactured in the United States and sold by a Missouri based company. If it is impractical to meet these statutory and regulatory restrictions, the Lottery should work with the General Assembly to revise those restrictions.

### Auditee's Response

- 3.1 *To fund the PFP loyalty program, the Lottery effectively lowered the cash prizes in the Scratchers games to offset the PFP prizes paid through the loyalty program, so the Lottery would be within our "optimal" payout. Also, draw games were not eligible during most of fiscal year 2014 as cited in the report.*

*The Lottery will bid the Points For Prizes loyalty program to ensure we are getting the best value.*

- 3.2 *Executive Order 04-09 allows agencies to contract with a vendor for goods produced outside the United States when "no comparable domestically-provided good or service can adequately duplicate the unique features of the good or service provided by the vendor" or when "a significant and substantial economic cost factor exists that outweighs the economic impact of providing the function or professional services within the United States." Going forward, the*



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*Lottery will bid the Points For Prizes loyalty program and will make Made in the USA products a requirement of the RFP.*

## Auditor's Comment

3.1 The Lottery's response fails to address the recommendation. As stated in the finding, even with significant additional advertising expenditures, sales increases have averaged just 1.6 percent annually. A cost-benefit study should be performed to determine if the PFP is meeting the Lottery's objectives and resulting in increased funding for education.

## 4. Travel Expenses

As required by the contract, the primary instant ticket contractor pays some Lottery travel expenses, including travel costs of key Lottery employees who were involved in evaluating and awarding the instant ticket contract and negotiating amendments to that contract. Lottery employees did not timely report travel expenses paid by third parties on Personal Financial Disclosure (PFD) statements filed with the Missouri Ethics Commission and did not always include travel expenses to be paid by third parties in the estimated costs on out-of-state travel authorization forms.

### 4.1 Expenses paid by contractor

The Lottery requires, as part of the contract terms, the primary instant ticket contractor to pay some Lottery travel expenses including travel costs of the Executive Director and key Lottery employees. Those employees are involved in evaluating and awarding the instant ticket contract and negotiating amendments to that contract. Because the costs are paid directly by the contractor, these costs are excluded from the financial statements of the Lottery.

The Lottery forwarded travel related invoices totaling \$92,174 to the instant ticket contractor for payment by the contractor. The costs included \$31,393 for conference fees, \$21,808 for lodging, and \$38,973 for flights, covering part of the costs related to 30 trips during the 3 years ended June 30, 2014. The Lottery paid the remainder of the travel costs totaling \$129,881 for these trips from Lottery appropriations. Lottery personnel indicated most of the trips were for interstate conferences, seminars, or meetings not directly related to the contractor. Lottery travel costs should be paid by the Lottery and reported on Lottery financial statements to allow for full disclosure and transparency for costs of Lottery operations.

### 4.2 Personal Financial Disclosure statements

The Lottery did not ensure that employees timely reported travel expenses paid by third parties on PFD statements filed with the Missouri Ethics Commission (MEC). In September 2014, the Lottery Executive Director and other applicable employees filed amended statements for previous years after the Lottery was notified by the MEC of the requirement to disclose travel expenses paid by third parties. The Executive Director amended previously filed statements and reported amounts paid by third parties for 2013, 2012, and 2011 totaling \$11,157, \$12,168, and \$4,784, respectively.





## Missouri State Lottery Commission Management Advisory Report - State Auditor's Findings

Four other employees filed amended statements for either 2012 or 2013 to report travel costs paid by third parties totaling \$7,205. The original statements filed by these individuals for those years reported no travel expenses paid by third parties.

Section 105.485(9), RSMo, requires the PFD statements contain lodging and travel expenses provided by any third party for expenses incurred outside the state of Missouri whether by gift or in relation to the duties of office of such official.

### 4.3 Out-of-state travel authorizations

Travel expenses to be paid by third parties were not always included in the estimated costs on out-of-state travel authorization forms. We reviewed these forms for 3 trips and noted the forms did not include costs paid by the primary instant ticket contractor totaling \$13,286 for lodging, registration, and airfare.

Lottery policy requires a properly completed and approved out-of-state travel authorization form for each trip to include names of individuals traveling, purpose of the trip, and estimated costs including any paid by third parties. The failure to include travel expenses to be paid by others results in underestimated trip costs, inhibiting the ability of supervisors to consider all factors when approving out-of-state travel.

## Recommendations

The Lottery:

- 4.1 Require travel costs of Lottery personnel be paid by the Lottery and disclosed on the Lottery financial statements.
- 4.2 Ensure employees properly complete personal financial disclosure forms including travel expenses paid by third parties.
- 4.3 Ensure out-of-state travel authorizations include estimated costs to be paid by third parties.

## Auditee's Response

- 4.1 *The third-party travel funding identified by the auditor is a contractual requirement of the current instant ticket print contract. This requirement will not be included in future contracts so that travel costs of Lottery personnel are paid by the Lottery.*
- 4.2 *All third-party travel expenditures were disclosed for the 2014 filings and will continue to be disclosed on future personal financial disclosure statements.*
- 4.3 *We agree and will ensure all out-of-state travel authorizations include costs to be paid by third parties.*

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# Missouri State Lottery Commission

## Organization and Statistical Information

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

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

Traditionally, the Lottery has paid out more than the minimum 45 percent of sales as prizes. The pay-out percentage has averaged 60.8 percent from 1986 to 2014. The prize percentage fluctuates each year based on factors such as the type of scratcher tickets sold (each game has a different prize structure) and the timing of payouts related to on-line sales such as the Powerball and Mega Millions games. Lottery officials believe that more people will play if there are more prizes to receive.

Lottery retailers are authorized to redeem prizes up to \$600, or players may claim any prizes in person at any of the Lottery offices. Prizes paid by the Lottery are paid from an imprest checking account, and the account is reimbursed from the Lottery Enterprise Fund (LEF). Prizes redeemed by retailers, as well as commissions and incentives due the retailers, are deducted from sales of the retailers in determining the net sales due from retailers to the LEF.

### Estimated Transfers of Profits

Article III, Section 39(b), of the Missouri Constitution requires Lottery profits be transferred to the Lottery Proceeds Fund to be appropriated solely for public institutions of elementary, secondary and higher education. In September each year, as part of the state budget process, the Lottery develops estimates of the transfer for the subsequent fiscal year in its budget request submitted to the Office of Administration and Governor. For example, the estimate for fiscal year 2015 (which began July 2014) was developed by the Lottery in September 2013. The Lottery's estimates provide a basis from which the Governor incorporates estimates into the budget submitted to the General Assembly for determining appropriations to schools from the Lottery Proceeds Fund.



## Missouri State Lottery Commission Organization and Statistical Information

Estimated and actual transfers for the last 4 fiscal years were as follows:

### Estimated and actual transfers

		Year Ended June 30,			
		2015	2014	2013	2012
Lottery estimate <sup>1</sup>	\$	298,563,213	288,563,213	267,172,000	259,000,000
Actual cash transfer		270,701,018	267,324,620	288,804,006	280,042,095
Actual over (under) estimate	\$	(27,862,195)	(21,238,593)	21,632,006	21,042,095
Variance from estimate		(9.4%)	(7.3%)	8.2%	8.1%

<sup>1</sup> Agrees to amount included in the budget approved by the General Assembly and signed by the Governor.

According to a Lottery official, profits and transfers decreased in fiscal year 2014 after increasing for many years as the growth rate of sales slowed due to the maturation of the Lottery and overall decreasing consumer demand for draw games. Due to the slower growth, in September 2014 the Lottery estimated transfers for fiscal year 2016 using the average of the total actual transfers for the preceding 3 fiscal years rather than assuming continued growth as in estimations for previous years. As a result, the Lottery's estimated transfer for fiscal year 2016 was about \$278.7 million, an amount lower than the estimated transfers of the previous 2 fiscal years. However, despite the Lottery lowering its estimate, the actual budget approved by the General Assembly and signed by the Governor remained at the higher amount of \$299 million. The Governor recommended increases in the transfer amount of \$2 million and \$6.828 million for fiscal years 2014 and 2013 respectively. The General Assembly did not approve the Governor's recommended transfer increase. The Lottery official indicated the Lottery changed its estimation method to a 5 year average transfer amount beginning with the fiscal year 2017 budget year.

## Commission

A five-member Lottery commission is appointed by the Governor with the advice and consent of the Senate. The commission must meet at least quarterly. The commission has the authority to promulgate rules as it deems necessary and desirable to fully implement the Lottery as mandated by the people in Article III, Missouri Constitution. The commission appoints an executive director to act as secretary of the commission and keep all books and records of the commission. The executive director of the Lottery oversees the commission's operation and administration. At June 30, 2014, May Scheve Reardon served as Executive Director, and members of the commission were:



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## Missouri State Lottery Commission Organization and Statistical Information

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

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Section 313.125, RSMo, requires appointments to be made within 30 days of the expiration of a term. However, the current practice is for the member to serve until reappointed or a new member is appointed.

In September 2014, the Governor appointed the following new members to the commission: John Twitty, Terry Adams, Dr. Judene Blackburn, Dr. Phyllis Chase, and Paul Kincaid. Terry Adams was not confirmed by the Senate, and the Governor has not appointed a replacement.

The Lottery staff is organized into three divisions: Executive; Sales, Marketing, and Communications; and Risk Management. Each division is headed by a director who coordinates activities to meet the commission's objectives. At June 30, 2014, the Missouri State Lottery Commission employed 153 individuals.

Appendix A

Missouri State Lottery Commission  
Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,								
	2014			2013			2012		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
LOTTERY ENTERPRISE FUND									
Lottery prizes	\$ 162,800,590	162,800,590	0	152,910,227	152,910,227	0	141,200,000	141,120,859	79,141
Advertising expenses	16,000,000	16,000,000	0	0	0	0	0	0	0
Personal Service	6,829,466	6,614,485	214,981	6,786,206	6,438,560	347,646	6,865,837	6,513,253	352,584
Payment of real property leases, related services, utilities, system furniture, and structural modifications - expense and equipment	462,487	455,165	7,322	480,778	470,852	9,926	487,044	476,310	10,734
Expense and equipment	36,218,992	35,095,929	1,123,063	45,752,632	45,749,994	2,638	39,294,808	39,293,647	1,161
Total Lottery Enterprise Fund	\$ 222,311,535	220,966,169	1,345,366	205,929,843	205,569,633	360,210	187,847,689	187,404,069	443,620

The lapsed balances include the following withholdings made at the Governor's request:

	Year Ended June 30,		
	2014	2013	2012
Lottery Enterprise Fund			
Personal Service	\$ 0	0	192,000

Appendix B

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

		Year Ended June 30,				
		2014	2013	2012	2011	2010
Personal service	\$	6,614,485	6,438,560	6,513,253	6,775,402	6,837,782
Travel, instate		118,879	108,997	119,596	84,502	64,071
Travel, out-of-state		47,158	45,605	37,118	25,282	10,813
Fuel and utilities		41,245	40,632	38,713	37,902	34,242
Supplies		633,931	644,021	641,130	686,548	514,062
Professional development		101,377	92,310	92,601	96,154	66,167
Communication services and supplies		425,961	341,774	588,125	4,146,137	4,137,041
Services:						
Printing and binding		8,208,242	7,175,094	7,052,599	8,368,321	8,046,603
Advertising		14,056,807	10,623,384	7,226,510	7,982,054	1,855,338
Other business		13,738,344	13,367,331	12,083,984	8,514,643	8,521,109
Accounting and auditing		196,215	186,167	169,723	176,087	160,510
Public relations		1,733,761	1,962,670	1,685,677	1,108,247	567,966
Other professional		4,974,385	4,927,581	3,268,775	3,004,103	2,313,615
Housekeeping and janitorial		50,248	55,849	63,621	73,560	71,934
Maintenance and repair		962,948	960,901	813,868	1,150,715	1,187,127
Equipment:						
Computer		731,754	578,298	929,049	661,469	726,898
Motorized		302,000	248,328	238,383	110,058	34,980
Office		12,774	13,940	17,188	2,067	6,529
Other equipment		831,292	557,417	539,387	57,447	420,631
Property and improvements		126,117	47,158	47,659	311,876	178,335
Real property rentals and leases		436,002	452,494	438,930	439,209	428,225
Equipment rental and leases		3,416,216	3,475,958	3,143,991	1,911,077	1,494,240
Lottery prizes		155,959,740	148,365,884	140,468,469	121,549,770	124,825,871
Lottery prizes-merchandise		6,840,850	4,544,343	652,390	1,647,181	173,435
Lottery retailer-incentives		276,018	207,628	350,466	370,637	506,138
Lottery retailer incentive - merchandise		66,957	24,210	68,477	104,769	47,234
Agency provided food		27,715	20,447	15,590	5,221	10,353
Miscellaneous expense		29,248	58,692	93,246	58,819	30,584
Refunds		5,500	3,960	5,551	4,365	1,097
Total Expenditures	\$	<u>220,966,169</u>	<u>205,569,633</u>	<u>187,404,069</u>	<u>169,463,622</u>	<u>163,272,930</u>

## Appendix C

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

	Furniture and Equipment	Buildings	Software and Intangibles	Vehicles	Land	Total
Balance, June 30, 2011	\$ 6,479,250	4,807,276	1,707,438	1,172,500	352,973	14,519,437
Additions	772,391	132,353	55,286	155,154	0	1,115,184
Dispositions	(803,454)	0	0	(134,292)	0	(937,746)
Balance, June 30, 2012	6,448,187	4,939,629	1,762,724	1,193,362	352,973	14,696,875
Additions	629,273	0	58,287	271,446	0	959,006
Dispositions	(327,343)	0	(37,930)	(108,640)	0	(473,913)
Balance, June 30, 2013	6,750,117	4,939,629	1,783,081	1,356,168	352,973	15,181,968
Additions	313,485	281,785	109,995	446,965	0	1,152,230
Dispositions	(253,124)	0	(14,085)	(286,580)	0	(553,789)
Balance, June 30, 2014	<u>\$ 6,810,478</u>	<u>5,221,414</u>	<u>1,878,991</u>	<u>1,516,553</u>	<u>352,973</u>	<u>15,780,409</u>

**Missouri State Lottery Commission**  
 (An Enterprise Fund of the State of Missouri)  
**Statements of Net Position As of June 30, 2014, 2013, and 2012**

	2014	2013	2012
<b>Current Assets</b>			
Cash and cash equivalents	\$ 26,183,442	19,928,948	23,454,082
Investments held for grand-prize winners	5,249,538	6,500,661	7,618,239
Accounts receivable, net of allowances for returns	46,385,549	43,652,392	43,575,947
Other assets	340,474	419,917	303,778
Total current assets	<u>78,159,003</u>	<u>70,501,918</u>	<u>74,952,046</u>
<b>Noncurrent Assets</b>			
Capital assets			
Capital assets not being depreciated	352,973	352,973	352,973
Capital assets being depreciated	15,499,965	15,168,953	14,767,057
Accumulated depreciation	<u>(12,993,194)</u>	<u>(12,398,394)</u>	<u>(11,677,762)</u>
	2,859,744	3,123,532	3,442,268
Investments held for grand-prize winners	<u>37,568,189</u>	<u>39,677,407</u>	<u>49,218,868</u>
Total noncurrent assets	<u>40,427,933</u>	<u>42,800,939</u>	<u>52,661,136</u>
Total assets	<u>118,586,936</u>	<u>113,302,857</u>	<u>127,613,182</u>
<b>Current Liabilities</b>			
Accounts payable	209,989	141,631	220,320
Due to Lottery Proceeds Fund	13,730,103	3,204,099	11,805,372
Accrued prize liabilities	54,703,710	56,364,049	51,402,199
Grand-prize winner liabilities	5,252,000	6,504,000	7,623,000
Other accrued liabilities	<u>4,544,351</u>	<u>4,521,409</u>	<u>4,258,888</u>
Total current liabilities	<u>78,440,153</u>	<u>70,735,188</u>	<u>75,309,779</u>
<b>Long-term Liabilities</b>			
Due to Lottery Proceeds Fund	2,581,056	2,893,601	3,089,296
Grand-prize winner liabilities	<u>32,676,305</u>	<u>34,043,715</u>	<u>39,539,115</u>
Total long-term liabilities	<u>35,257,361</u>	<u>36,937,316</u>	<u>42,628,411</u>
Total liabilities	<u>113,697,514</u>	<u>107,672,504</u>	<u>117,938,190</u>
<b>Net Position</b>			
Investment in capital assets	2,859,744	3,123,532	3,442,269
Unrestricted	(2,859,744)	(3,123,532)	(3,442,269)
Restricted for unrealized gain/loss on investments held for grand-prize winners	<u>4,889,422</u>	<u>5,630,353</u>	<u>9,674,992</u>
	<u>\$ 4,889,422</u>	<u>5,630,353</u>	<u>9,674,992</u>

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



**Missouri State Lottery Commission**  
 (An Enterprise Fund of the State of Missouri)  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2014, 2013, and 2012**

	2014	2013	2012
<b>Operating Revenues</b>			
Scratchers ticket sales	\$ 766,609,691	758,900,234	742,541,015
Draw Game ticket sales	373,416,444	381,932,924	354,886,681
Pull-Tab ticket sales	17,024,939	0	0
Total sales	<u>1,157,051,074</u>	<u>1,140,833,158</u>	<u>1,097,427,696</u>
Other	92,041	706,055	1,294,455
Total operating revenues	<u>1,157,143,115</u>	<u>1,141,539,213</u>	<u>1,098,722,151</u>
<b>Operating Expenses</b>			
Scratchers prizes	539,763,719	537,224,413	521,263,401
Draw Game prizes	211,219,379	215,740,436	200,816,218
Pull-Tab prizes	15,243,828	0	0
Scratchers retailer commissions and incentives	48,798,359	48,489,399	47,258,571
Draw Game retailer commissions and incentives	21,403,707	21,836,612	20,572,297
Pull-Tab retailer commissions and incentives	358,331	0	0
Cost of tickets sold	17,911,043	16,395,935	15,318,902
Depreciation	1,137,244	1,188,952	1,048,608
Advertising	16,025,166	10,599,791	7,261,102
Wages and benefits	9,770,278	9,380,734	9,378,026
Other general and administrative	12,559,473	15,486,243	12,693,246
Total operating expenses	<u>894,190,527</u>	<u>876,342,515</u>	<u>835,610,371</u>
Operating income	<u>262,952,588</u>	<u>265,196,698</u>	<u>263,111,780</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	82,805	91,150	94,134
Unclaimed prizes	14,437,266	14,695,619	10,385,777
Gain on sale of capital assets	65,420	23,572	6,109
Net increase (decrease) in the fair value of investments held for grand-prize winners	1,077,556	(884,228)	5,882,052
Amortization of grand-prize winner liability	(1,818,487)	(3,160,411)	(2,509,798)
Transfers to State of Missouri Lottery Proceeds Fund	(277,538,079)	(280,007,039)	(273,597,799)
Total nonoperating revenues (expenses)	<u>(263,693,519)</u>	<u>(269,241,337)</u>	<u>(259,739,525)</u>
Changes in net position	<u>(740,931)</u>	<u>(4,044,639)</u>	<u>3,372,255</u>
<b>Total Net Position, Beginning of Year</b>	<u>5,630,353</u>	<u>9,674,992</u>	<u>6,302,737</u>
<b>Total Net Position, End of Year</b>	<u>\$ 4,889,422</u>	<u>5,630,353</u>	<u>9,674,992</u>

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

**Missouri State Lottery Commission**  
 (An Enterprise Fund of the State of Missouri)  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2014, 2013, and 2012**

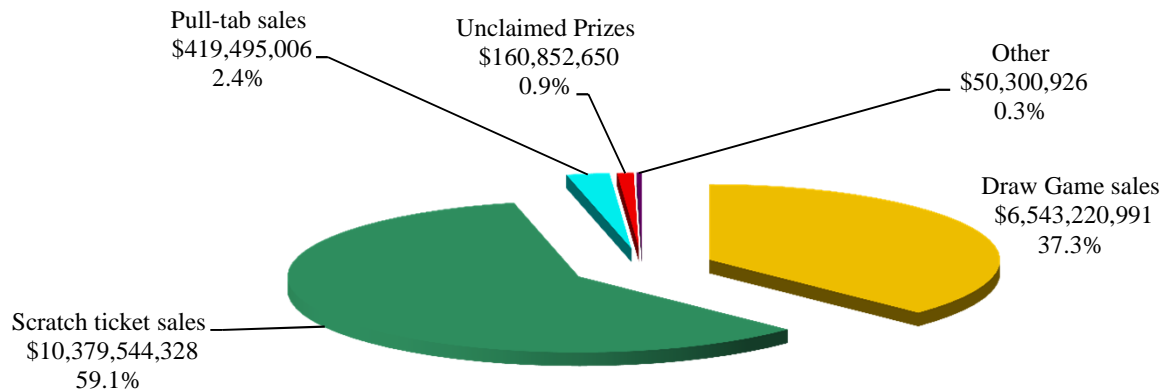
	2014	2013	2012
<b>Cash Flows From Operating Activities</b>			
Cash received from retailers and others	\$ 1,154,078,653	1,141,593,066	1,105,403,763
Cash paid for prizes	(759,953,999)	(745,048,609)	(715,920,045)
Cash paid for retailer commissions	(70,518,291)	(70,264,698)	(67,581,359)
Cash paid for employee services	(9,702,327)	(9,315,715)	(9,430,729)
Cash paid for other expenses	(46,103,691)	(42,670,907)	(35,231,038)
Net cash provided by operating activities	267,800,345	274,293,137	277,240,592
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers to State of Missouri	(267,324,620)	(288,804,006)	(280,042,095)
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchases of capital assets	(877,448)	(870,438)	(1,174,870)
Proceeds from sale of capital assets	69,412	23,795	54,828
Net cash used for capital and related financing activities	(808,036)	(846,643)	(1,120,042)
<b>Cash Flows From Investing Activities</b>			
Proceeds from maturity of investments	6,504,000	11,741,229	8,614,000
Interest received	82,805	91,150	94,134
Net cash provided by investing activities	6,586,805	11,832,379	8,708,134
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	6,254,494	(3,525,133)	4,786,589
<b>Cash and Cash Equivalents, Beginning of Year</b>	19,928,949	23,454,082	18,667,493
<b>Cash and Cash Equivalents, End of Year</b>	26,183,443	19,928,949	23,454,082
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating income	262,952,588	265,196,698	263,111,780
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,137,244	1,188,952	1,048,608
Unclaimed prizes	14,437,266	14,695,619	10,385,777
Payments to grand-prize winners	(6,504,000)	(11,741,229)	(8,614,000)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable, net	(2,733,157)	(76,445)	6,193,230
(Increase) decrease in other receivables	(256,673)	1,893	100,636
(Decrease) increase in prepaid expenses	336,116	(118,033)	(104,662)
(Decrease) increase in accounts payable and other accrued liabilities	91,300	183,833	731,428
(Decrease) Increase in accrued prize liabilities	(1,660,339)	4,961,850	4,387,796
Net cash provided by operating activities	267,800,345	274,293,138	277,240,593
<b>Noncash Activities</b>			
Net increase (decrease) in the fair value of investment held for grand prize winners	1,077,556	(884,228)	5,882,052
Amortization of grand-prize winner liability	\$ 1,818,487	3,160,411	2,509,798

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

## Appendix G

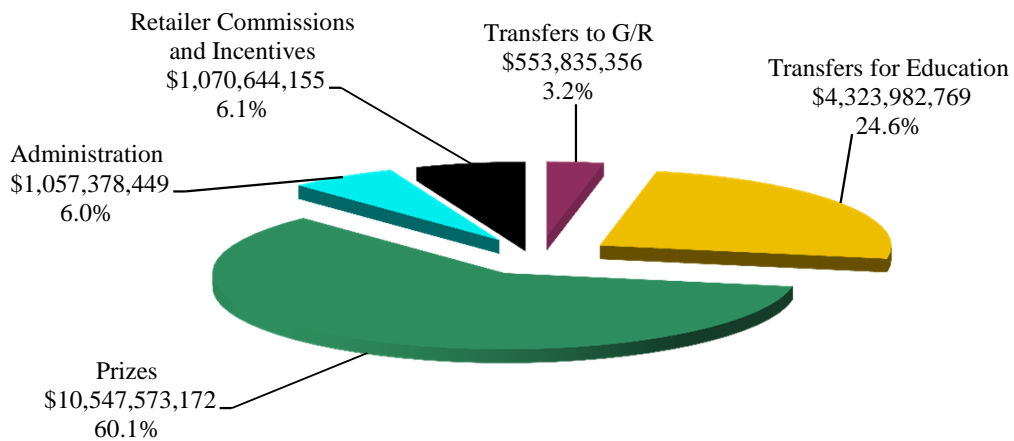
### Missouri State Lottery Commission Revenue and Expenditure Charts January 20, 1986 Through June 30, 2014

#### Revenues



Total Revenues: \$17,553,413,901

#### Expenditures

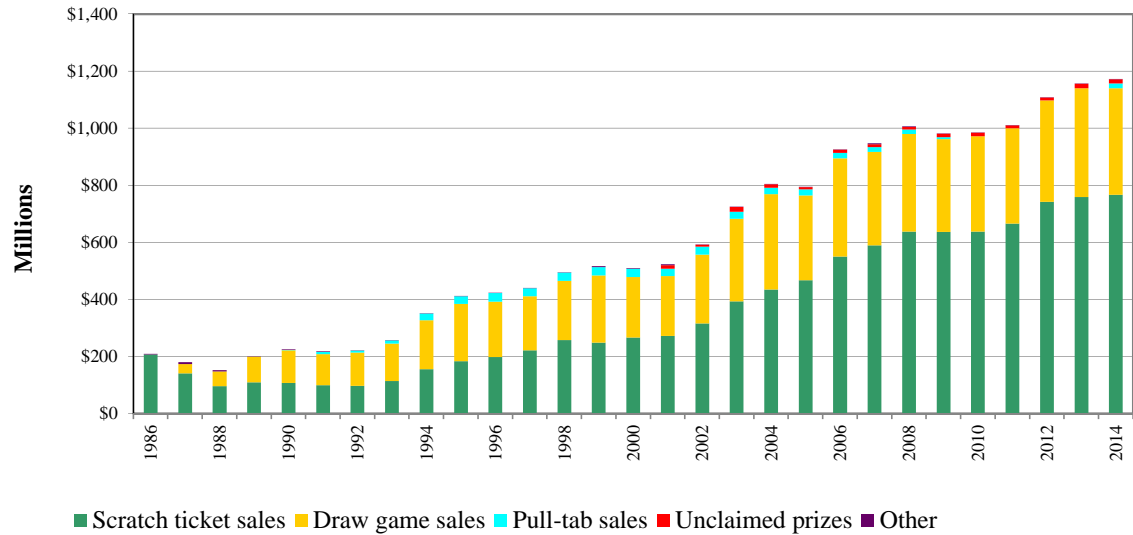


Total Expenditures: \$17,553,413,901

## Appendix H

Missouri State Lottery Commission  
Revenue and Expenditure Charts  
January 20, 1986 Through June 30, 2014

### Revenues



### Expenditures

