



Scott Fitzpatrick

Missouri State Auditor

Missouri State Lottery Commission

Report No. 2023-079

November 2023

auditor.mo.gov



Scott Fitzpatrick
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Missouri State Lottery Commission

Conflict of Interest	The Missouri State Lottery Commission (Lottery) entered into a sponsorship agreement in 2021 with a not-for-profit entity while the Lottery's Community Relations Manager, who was responsible for overseeing sponsorships, was a member of the not-for-profit entity's board of directors. This situation was not handled in accordance with Lottery policy regarding potential conflicts of interest.
Purchasing Approvals	The Lottery does not always use purchase requisitions as required by its established purchasing procedures. As a result, the Lottery is at increased risk of potentially improper purchases.
Advertising Expenditures	The Lottery's appropriation for advertising has been significantly reduced by the Legislature in recent budget years, resulting in Missouri's lottery advertising budget becoming the lowest among state-sponsored lotteries. Over the 6-year timeframe from 2018 to 2023, spending on advertising and sponsorship activities has declined from approximately \$17.5 million in 2018 and 2019 to as low as approximately \$800,000 for 2023. Conversely, transfers of lottery proceeds to education have increased significantly in the years since advertising expenditures were reduced.

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.

Missouri State Lottery Commission

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	1. Conflict of Interest.....4 2. Purchasing Approvals.....5 3. Advertising Expenditures6
---	--

Organization and Statistical Information	8
---	---

Appendixes

A	The Lottery's Response to Audit Recommendations.....	10
B	Comparative Statement of Appropriations and Expenditures, 2 Years Ended June 30, 2022.....	13
C	Comparative Statement of Expenditures (From Appropriations), 5 Years Ended June 30, 2022.....	14
D	Statements of Net Position, As of June 30, 2022 and 2021.....	15
E	Statements of Revenues, Expenses, and Changes in Net Position, For The Years Ended June 30, 2022 and 2021	16
F	Statements of Cash Flows, For the Years Ended June 30, 2022 and 2021	17
G	Revenues and Expenditures by Fiscal Year, 10 Years Ended June 30, 2022.....	18



SCOTT FITZPATRICK
MISSOURI STATE AUDITOR

Honorable Michael L. Parson, Governor
and
Missouri State Lottery Commission
and
Lester Elder, Executive Director
Missouri State Lottery Commission
Jefferson City, Missouri

We have audited certain operations of the Missouri State Lottery Commission (Lottery) as required by Section 313.315.1, RSMo. The Lottery engaged CliftonLarsonAllen LLP, Certified Public Accountants (CPAs), to audit the Lottery's financial statements for the 2 years ended June 30, 2022. To minimize duplication of effort, we reviewed the CPA firm's reports for these years. The scope of our audit included, but was not necessarily limited to, the 2 years ended June 30, 2022. The objectives of our audit were to:

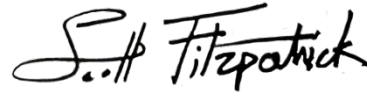
1. Evaluate the Lottery's internal controls over significant management and financial functions.
2. Evaluate the Lottery's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the Lottery; analyzing comparative data obtained from external and internal sources; reviewing contracts that are specific to the Lottery's operations and significant within the context of the audit objectives; and performing sample testing using judgmental selection. The results of our sample testing cannot be projected to the entire populations from which the test items were selected. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess internal control to the extent necessary to address our audit objectives. 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 applicable contract, grant agreement, 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 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) deficiencies in internal controls, (2) no significant 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 that reads "Scott Fitzpatrick". The signature is written in a cursive, flowing style.

Scott Fitzpatrick
State Auditor

Missouri State Lottery Commission

Management Advisory Report

State Auditor's Findings

1. Conflict of Interest

The Missouri State Lottery Commission (Lottery) entered into a sponsorship agreement in 2021 with a not-for-profit entity while the Lottery's Community Relations Manager, who was responsible for overseeing sponsorships, was a member of the not-for-profit entity's board of directors. This situation was not handled in accordance with Lottery policy regarding potential conflicts of interest.

The sponsorship agreement for the event provided \$11,000 cash to the organization and \$600 worth of scratcher tickets to be distributed in gift bags for event attendees. The Lottery also documented spending \$3,575 on other costs related to the event, for a total expenditure of \$15,175. In return, the Lottery was allowed to advertise at the event and on the entity's website. The Community Relations Manager's report of the event calculated the event's value to the Lottery at \$25,041. Based on our analysis, this calculation is consistent with other similar events of this nature.

The Lottery's Chief Financial Officer (CFO) indicated it was the responsibility of the Community Relations Manager to negotiate sponsorship agreements of this nature, but such agreements were also signed by the Executive Director. Lottery personnel indicated the CFO raised the question of whether the Community Relations Manager was a board member of the not-for-profit and whether this represented a conflict of interest, but the then-Executive Director indicated the Community Relations Manager was no longer a member of the board. However, according to the entity's publicly available meeting minutes for 2021, the Community Relations Manager was the board secretary at the time of the event.

The Community Relations Manager was required by policy to notify the Lottery of potential conflicts of interest at the time of hiring or as conflicts occur, but failed to do so. The Lottery Employee Manual, Policy 2.4, referring to Governor's Executive Order 18-10, prohibits employees from participating in any action in which "the state employee's impartiality might reasonably be questioned due to the employee's personal or financial relationship with another participant." Enhancing procedures to require employees who approve sponsorship agreements to formally document any conflicts with management would help provide additional assurance conflict of interest policies are complied with.

Recommendation

The Lottery enhance procedures to require formal disclosure of existing conflicts of interest for employees responsible for approving sponsorship agreements and ensure existing conflict of interest policies and procedures are followed.

Auditee's Response

The Lottery's written response indicates it agrees with this recommendation. The Lottery's full response is included in Appendix A.



2. Purchasing Approvals

The Lottery does not always use purchase requisitions as required by its established purchasing procedures. As a result, the Lottery is at increased risk of potentially improper purchases.

The purchasing guidelines within the Lottery's Internal Control Plan require all purchases greater than \$100 to be submitted for approval by the requestor's immediate supervisor prior to the time of purchase. The request and approval of such purchases is made using a purchase requisition form. Purchases in excess of \$1,000 also require the approval of the applicable division director and the budget office/CFO. Certain purchases, such as utility expenditures, are exempt from the pre-approval process.

We judgmentally selected 5 purchasing card statements containing 61 individual transactions. For the 17 transactions in which a requisition was required, 9 requisitions totaling over \$3,500 were dated after the transaction date, indicating the approval was not obtained prior to the purchase as required by current purchasing procedures. Included in these expenditures were food purchases, COVID-19 supplies, office equipment, and software licenses.

Additionally, we judgmentally selected 8 non-purchasing card transactions for testing. Of the 3 transactions that required requisitions, 1 transaction for \$1,400 to an entertainment provider had the requisition dated the day after the Lottery was invoiced for the services provided.

Lottery staff indicated that in the absence of requisitions, verbal approvals had most likely been given to the purchaser prior to making the purchase. However, verbal approvals are not allowed per the purchasing procedures, nor is there notation on the requisition to document the approval after-the-fact.

Allowing purchases to occur before approval of requisitions opens the Lottery to the risk of incurring costs for inappropriate purchases.

Recommendation

The Lottery ensure purchases requiring approval are approved prior to the purchase transaction in compliance with the purchasing procedures.

Auditee's Response

The Lottery's written response indicates it agrees with this recommendation. The Lottery's full response is included in Appendix A.



3. Advertising Expenditures

The Lottery's appropriation for advertising has been significantly reduced by the Legislature in recent budget years, resulting in Missouri's lottery advertising budget becoming the lowest among state-sponsored lotteries. To evaluate the potential impacts of significant reductions in advertising efforts on Lottery revenues and, ultimately, on the amount of lottery proceeds transferred to education, data from fiscal year 2018 through 2023 was evaluated for trends. See Table 1. Over that 6-year timeframe, spending on advertising and sponsorship activities has declined from approximately \$17.5 million in 2018 and 2019 to as low as approximately \$800,000 for 2023. Conversely, transfers of lottery proceeds to education have increased significantly in the years since advertising expenditures were reduced.

Table 1: Missouri State Lottery Commission Advertising and Sponsorship Expenditures by Appropriation, Fiscal Years 2018 to 2023

Appropriation Name	2018	2019	2020	2021	2022	2023
Lottery Advertising	\$ 15,999,996	15,999,997	4,148,780	1,499,999	400,000	399,973
Responsible Gaming						399,947
Lottery Expense and Equipment	1,534,293	1,515,652	1,456,735	1,884,993	1,168,035	0
Total	\$ 17,534,289	17,515,649	5,605,515	3,384,992	1,568,035	799,920
Transfers to education ¹	\$ 333,392,723	319,376,658	321,928,487	397,155,502	386,434,609	386,422,562

¹ Amount transferred each year from the Lottery to the Lottery Proceeds Fund.

Source: Expenditure amounts are from Statewide Advantage for Missouri (SAM II) data. Transfers to education amounts for 2018 through 2022 are from the Lottery's audited annual financial statements. The 2023 transfer to education amount was provided by Lottery management and is unaudited.

In addition to the majority of advertising expenses being paid from the agency's designated advertising appropriation, the Lottery has historically made payments for sponsorships out of the expense and equipment appropriation. For the 2023 budget year, the Legislature created a separate appropriation for advertising for responsible gaming for approximately \$400,000, but also created a separate appropriation for sponsorships and set that appropriation at \$1, effectively eliminating the agency's ability to fund sponsorships.

Missouri's Lottery advertising budget is the lowest in the nation According to national lottery data,¹ Missouri's current advertising budget of 0.02 percent of sales is the smallest advertising budget of any of the 46 states that sponsor a lottery.² The remaining states range from a low of 0.08 percent

¹ *La Fleur's World Lottery Almanac, 2023*, <<https://www.lafleurs.com>>, data provided by the Lottery.

² Forty-five states plus the District of Columbia operate a lottery. Alabama, Alaska, Hawaii, Nevada, and Utah do not operate a state-sponsored lottery.



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

of sales in Massachusetts to 5.26 percent of sales in Wyoming. The national average advertising budget is 1.07 percent, and the 8 states contiguous to Missouri average 1.31 percent of sales.

According to Lottery officials, advertising is just one of many factors that affect Lottery sales. Lottery staff attribute the increase in sales, despite the decrease in advertising expenditures, to other factors, including large jackpots for draw games, adding a major retailer to its sales network, and pandemic-related closures of alternative entertainment options. Because of the multiple factors driving sales, Lottery officials indicated they cannot determine if the reduction in advertising had a definitive impact on sales. However, according to Lottery officials, market studies have already begun to show reductions in overall awareness of the Lottery and in the public's perception of Lottery activities. Lottery staff also noted they have received citizen complaints about the lack of Lottery sponsorships at events around the state, particularly the Missouri State Fair.

Conclusion

Lottery transfers to education have increased in recent years despite significant cuts to advertising appropriations. The Lottery's advertising appropriations are established by the Legislature each year as part of the annual budget process. Lottery officials work with the various legislative committees and members as part of that process to discuss the Lottery's needs and advocate for funding for its priorities. However, the appropriation of funds is ultimately the responsibility of the Legislature and Governor and is outside of the Lottery's control.

Recommendation

The Lottery continue to work with the Legislature to evaluate the impact of advertising and sponsorship spending on Lottery sales.

Auditee's Response

The Lottery's written response indicates it disagrees with our decision to include this issue as an audit finding, but does not dispute any of the facts presented in the finding. The Lottery's full response is included in Appendix A.

Missouri State Lottery Commission

Organization and Statistical Information

Pursuant to Sections 313.200 to 313.351, 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 allocated 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 64.17 percent from 1986 to 2022. 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 draw game sales such as the Powerball and Mega Millions games. Lottery officials believe 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.

Estimated Transfers of Profits

Article III, Section 39(b), of the Missouri Constitution requires transfer of Lottery profits 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 2023 (which began July 2022) was developed by the Lottery in September 2021. 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 to the Lottery Proceeds Fund

	Year Ended June 30,			
	2019	2020	2021	2022
Lottery estimate	289,606,888	293,095,042	309,132,386	317,158,471
Actual cash transfer	323,000,000	333,000,000	345,062,500	400,260,827
Actual over (under) estimate	33,393,112	39,904,958	35,930,114	83,102,356
Variance from estimate	11.5%	13.6%	11.6%	26.2%

The Lottery estimates transfers using the average of the total actual transfers for the preceding 5 fiscal years plus 1 percent rather than assuming continued growth. The Lottery's estimated transfers were \$330.8 and \$366.8 million for the fiscal year 2023 and 2024 budgets, respectively.

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 oversees the commission's operation and administration. May Scheve Reardon served as Executive Director until July 29, 2022. Chief Financial Officer Judy Martin served as Interim Executive Director until Lester Elder was hired effective November 7, 2022. As of June 30, 2022, members of the commission were:

Commissioner	Term Expiration (1)
Lance Mayfield, Chairman	September 2022
Robert Gattermeir, Vice Chairman	September 2022
Nicholas Gerth	September 2024
John Clark Hemeyer	September 2023
Abigail Pinegar-Rose	September 2023

(1) Section 313.215, RSMo, requires appointments to be made within 30 days of the expiration of a term. However, the current practice is for the expired member to serve until reappointed or a new member is appointed.

The Lottery staff is organized into 4 divisions: Executive, Sales, Marketing, and Operations. Each division is headed by a director who coordinates activities to meet the commission's objectives. At June 30, 2022, the Missouri State Lottery Commission employed 153 individuals.

Financial Activity

A summary of the Lottery's operating financial activity is presented in Appendixes B through G.



Appendix A
Missouri State Lottery Commission
The Lottery's Response to Audit Recommendations



Missouri Lottery
1823 Southridge Drive • PO Box 1603 • Jefferson City, MO • 65102-1603 • Phone (573) 751-4050
www.Molottery.com • FAX (573) 751-5188

September 28, 2023

Honorable Scott Fitzpatrick
Missouri State Auditor
Jefferson City, Missouri

We have reviewed the findings from your office's audit of the Missouri State Lottery Commission. Below you will find our responses to the audit findings.

- 1 Lottery management enhance procedures to require formal disclosure of existing conflicts of interest for employees responsible for approving sponsorship agreements and ensure existing conflict of interest policies and procedures are followed.**

Department's Response: The Lottery agrees that the event in question cost \$15,175 and provided benefits valued at \$25,041, for a return on investment (ROI) of 1.7 to 1. The Lottery also agrees that the ROI for this event was positive and consistent with other similar events of this nature.

We agree the Community Relations Manager was required by existing policy to notify the Lottery of potential conflicts of interest. It is unknown if this occurred as the Community Relations Manager and the Executive Director at the time are no longer employed at Lottery.

The Lottery also agrees with the recommendation that procedures be enhanced to ensure conflict of interest policies and procedures are followed. We are currently revising Lottery Employee Policy 2.4 to include reporting potential conflicts of interest through volunteer relationships as well as through employment. In addition, all employees will be required to complete a potential conflict of interest report annually and attest that the report is complete and accurate.

- 2 The Lottery should ensure purchases requiring approval are approved prior to the purchase transaction in compliance with their purchasing procedures.**

Department's Response: The Lottery agrees with the recommendation and has implemented changes to purchasing guidelines and the purchase requisition form effective July 1, 2023 to facilitate compliance.

- 3 The Lottery continue to work with the Legislature to evaluate the impact of advertising and sponsorship spending on Lottery sales.**

Department's Response: We understand the importance of the recommendation; however, we do not agree that this recommendation should be characterized as an audit finding. Rather, we consider it an acknowledgement that we are already doing as the report recommends and will continue to do so.



Appendix A Missouri State Lottery Commission The Lottery's Response to Audit Recommendations

The Missouri Lottery's goal is to responsibly maximize the transfer to Missouri education. The Lottery acknowledges that there are many factors in achieving that goal, and one of those factors is the ability to advertise Missouri Lottery's brand and family of products. Advertising and marketing is a best practice for any business, organization or even non-profit. This is especially true when considering the highly competitive retail environment with Lottery offered alongside thousands of other consumer goods. Most competing brands spend 10-13% of total sales on advertising.

Lottery advertising plays a key role in maintaining the current customer base and helping to attract new customers, just as any billion-dollar business would do. It helps keep lottery games relevant in a marketplace climate of rising prices and increasing gaming/entertainment options. To achieve its revenue transfer goal, maintaining the Lottery's current player base is not enough; it must expand the number of players and engage a new generation of players. Today's media landscape grows more and more fractured every day, making it more challenging to reach new players. Using an Omni-channel strategy, an optimal ad budget would allow the Missouri Lottery to touch multiple platforms in order to reach new players. In addition to using traditional advertising media (print, broadcast TV and radio and billboards), adding non-traditional platforms will reach the next generation of players in more effective and efficient ways (digital advertising, streaming audio and video, event participation and guerilla marketing).

The Lottery's "Play It Forward" for education advertising campaign has had a positive impact on Lottery brand relevance, changing perceptions and reaching younger generational audiences. This means those aware of the Lottery's ads are more likely to feel that the Lottery matters in terms of making a difference for Missouri schools. The Lottery tracks brand relevance and frequently scores as being more "relevant" to consumers than brands like McDonald's, the NFL and Starbucks. Relevance continues to decrease as our ad budget decreases. Prior to the ad budget cuts, Missouri Lottery advertising had increased the percentage of Missouri adults who feel that Lottery proceeds are used to help support public education to 51%. With the current reduction in budget, this number has fallen 12% in just three years.

Although sales have been on the rise since the pandemic, there are several reasons aside from advertising spending or lack thereof:

- *The Missouri Lottery is now selling at Walmart Supercenters throughout the state. This is an increase of over 112 stores selling Lottery products.*
- *During the early days of the pandemic, when casinos, restaurants and bars were shut down, Missouri Lottery products continued to be a form of entertainment since they are sold in convenience stores and grocery stores, both of which remained open during the lockdowns.*
- *The Missouri Lottery loyalty program, My Lottery® Players Club, has had an 85% increase in new customer registrations and a 58% increase in individual active users from FY20 to FY21.*
- *The multi-state lottery products, Powerball and Mega Millions, have had some record jackpot runs that created national news media coverage. The large jackpots fuel increased purchases, not only in sales of those products, but all lottery products. We cannot necessarily count on this consistently.*
- *Record Pick 3 and Pick 4 sales in FY 21.*
- *Complete rollout of cashless functionality on self-service vending machines in FY 21. Cashless sales to date exceed \$59 million and have contributed an additional \$13 million in proceeds to education.*
- *Monday drawings and the Double Play feature were added to the Powerball game beginning August 2021.*
- *Introduction of the first \$50 Scratchers game in January 2022.*
- *Record Pull-Tab sales in FY 22 which contributed an additional \$7 million in proceeds to education.*



Appendix A
Missouri State Lottery Commission
The Lottery's Response to Audit Recommendations

Missouri Lottery is required by state statute, (313.230, RSMo) to:

"Carry on a continuous study and investigation of the lottery throughout the state and to make a continuous study and investigation of the operation and the administration of similar laws which may be in effect in other states or countries, any literature on the subject which from time to time may be published or available, any federal laws which may affect the operation of the lottery, and the reaction of Missouri citizens to existing and potential features of the lottery with a view to recommending or effecting changes that will tend to serve the purposes of sections 313.200 to 313.350."

In compliance with this statute, Missouri Lottery, through a joint procurement with Missouri Division of Tourism and Missouri Department of Agriculture, contracts with an independent research group to conduct ongoing studies. The independent research group is Strategic Marketing & Research Insights, LLC ("SMARI").

The 2022 SMARI annual report for Missouri Lottery shows the decline of our advertising budget has had a negative effect. Below are some of the findings:

- Advertising awareness was 62% in FY 18 when Lottery had \$16 million in advertising and after four years (when the budget was \$400,000), the advertising awareness reduced to 37% in FY 22.*
- The perception of Lottery being "fun and good entertainment" has reduced in 4 years.*
- The perception of Lottery "being a good way to raise money for education" has reduced in 4 years.*
- The reduced advertising budget has reduced the awareness of new products and games to the Gen X, Baby Boomers, and the Silent Generation. These three groups comprise Missouri Lottery players between the age group of 43-95. Their awareness has been reduced to 37% as a result of the diminished advertising budget.*

The SMARI report was shared with the House Budget and Senate Appropriations Committees during the FY 23 legislative session and Lottery's Executive Director personally visited every member of both committees to discuss Lottery advertising and sponsorships. The Lottery, under the new Executive Director, is committed to keeping the lines of communication open with members of the Legislature and will continue to keep members abreast of the impact of advertising on Lottery sales and proceeds to education.

Sincerely,

A handwritten signature in blue ink that reads "Lester Elder".

Lester Elder
Executive Director

Appendix B

Missouri State Lottery Commission
 Comparative Statement of Appropriations and Expenditures

	Year Ended June 30,					
	2022			2021		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
LOTTERY ENTERPRISE FUND						
Advertising expenses	\$ 400,000	400,000	0	1,500,000	1,499,999	1
Pull tab vendor payments	9,194,385	5,886,403	3,307,982	9,194,385	5,697,991	3,496,394
Vendor payments for games	34,731,341	34,678,069	53,272	32,371,477	32,371,202	275
Personal services	7,540,911	7,436,555	104,356	7,465,907	7,171,246	294,661
Expense and equipment	10,204,295	8,814,322	1,389,973	10,258,718	8,609,056	1,649,662
Total Lottery Enterprise Fund	<u>62,070,932</u>	<u>57,215,349</u>	<u>4,855,583</u>	<u>60,790,487</u>	<u>55,349,494</u>	<u>5,440,993</u>
STATE LOTTERY FUND						
Lottery prizes	202,805,855	200,277,993	2,527,862	177,575,218	177,575,218	0
Total State Lottery Fund	<u>202,805,855</u>	<u>200,277,993</u>	<u>2,527,862</u>	<u>177,575,218</u>	<u>177,575,218</u>	<u>0</u>
Total All Funds	<u>\$ 264,876,787</u>	<u>257,493,342</u>	<u>7,383,445</u>	<u>238,365,705</u>	<u>232,924,712</u>	<u>5,440,993</u>

Appendix C

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

	Year Ended June 30,				
	2022	2021	2020	2019	2018
Salaries and wages	\$ 7,436,211	7,171,246	7,119,329	6,841,029	6,706,457
Travel, in-state	60,936	18,790	94,853	108,700	130,269
Travel, out-of-state	40,808	3,719	50,952	75,649	72,031
Fuel and utilities	122,034	114,399	126,305	141,672	42,519
Supplies	1,023,482	897,898	754,190	863,558	807,548
Professional development	202,056	168,409	125,027	145,664	140,765
Communication services and supplies	319,229	338,415	313,306	299,804	264,726
Services:					
Printing and binding	12,036,751	11,542,147	10,953,765	9,010,460	10,320,967
Advertising	330,357	1,186,632	3,721,914	14,613,928	14,021,940
Other business	29,191,243	26,664,456	20,976,613	24,089,179	23,440,925
Accounting and auditing	227,505	224,616	216,441	215,589	215,018
Public relations	1,168,035	1,884,993	1,456,735	1,515,652	1,534,293
Other professional	1,615,404	1,679,671	1,618,563	2,574,219	3,025,729
Housekeeping and janitorial	87,498	75,207	64,500	65,814	64,746
Maintenance and repair	1,695,233	997,190	1,250,009	1,248,546	840,806
Equipment:					
Computer	237,711	327,674	335,273	303,914	391,230
Motorized	0	211,128	307,622	190,412	136,948
Office	11,663	9,553	26,604	32,356	46,844
Other	299,216	363,072	689,748	622,087	889,668
Property and improvements	78,282	1,207,757	232,174	274,541	642,675
Building lease payments	408,245	457,237	375,398	379,922	514,523
Equipment rental and leases	174,547	437,283	1,053,991	1,095,455	87,917
Lottery prizes	199,130,416	176,403,624	146,161,560	172,393,075	164,906,021
Lottery prizes-merchandise	1,151,927	1,175,344	1,249,556	1,686,893	1,553,451
Lottery retailer incentives	66,328	60,931	66,803	123,055	67,760
Lottery retailer incentives-merchandise	101,788	67,033	67,504	77,032	53,677
Agency provided food	20,520	9,744	21,843	25,608	20,572
Miscellaneous expenses	212,255	68,361	42,705	39,744	31,408
Refunds	43,664	11,847	22,594	1,395	3,595
Total Expenditures	\$ <u>257,493,344</u>	<u>233,778,376</u>	<u>199,495,877</u>	<u>239,054,952</u>	<u>230,975,028</u>

Appendix D

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)
 Statements of Net Position As of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and cash equivalents	\$ 86,519,077	118,860,116
Investments held for grand-prize winners	3,847,277	4,100,990
Accounts receivable, net of allowances for returns	60,440,250	58,500,793
Other assets	1,389,287	694,012
Total current assets	<u>152,195,891</u>	<u>182,155,911</u>
Noncurrent Assets		
Capital assets		
Capital assets not being depreciated	360,973	352,973
Other capital assets	14,177,517	12,256,249
Accumulated depreciation	(11,370,864)	(10,811,364)
Accumulated amortization	(464,905)	0
	<u>2,702,721</u>	<u>1,797,858</u>
Investments held for grand-prize winners	28,012,860	34,738,546
Total noncurrent assets	<u>30,715,581</u>	<u>36,536,404</u>
Total assets	<u>182,911,472</u>	<u>218,692,315</u>
Deferred Outflows		
Deferred Outflows - Pension	3,554,685	3,485,035
Deferred Outflows - OPEB	606,113	645,816
Total Deferred Outflows	<u>4,160,798</u>	<u>4,130,851</u>
Current Liabilities		
Accounts payable	1,532,612	4,112,007
Due to Lottery Proceeds Fund	43,490,096	58,766,011
Accrued prize liabilities	84,944,648	97,946,438
Grand-prize winner liabilities	4,102,000	4,102,000
Lease Liability	434,989	0
Other accrued liabilities	7,126,229	6,902,996
Total current liabilities	<u>141,630,574</u>	<u>171,829,452</u>
Long-term Liabilities		
Due to Lottery Proceeds Fund	11,594,234	10,144,538
Grand-prize winner liabilities	28,611,138	31,627,522
Net Pension Liability	19,812,551	22,307,756
Net OPEB Liability	7,234,107	7,539,380
Lease Liability	995,341	0
Total long-term liabilities	<u>68,247,371</u>	<u>71,619,196</u>
Total liabilities	<u>209,877,945</u>	<u>243,448,648</u>
Deferred Inflows		
Deferred Inflows - Pension	3,648,714	232,105
Deferred Inflows - OPEB	982,065	635,064
Total deferred inflows	<u>4,630,779</u>	<u>867,169</u>
Net Position		
Investment in capital assets	1,272,391	1,797,858
Unrestricted	(28,708,846)	(26,400,524)
Restricted for the unrealized gain/loss on investments held for grand-prize winners	0	3,110,015
Total net position	<u>\$ (27,436,455)</u>	<u>(21,492,651)</u>

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

Appendix E

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, 2022 and 2021

	2022	2021
Operating Revenues		
Scratchers ticket sales	\$ 1,195,318,049	1,215,705,180
Draw Game ticket sales	426,114,924	442,850,831
Pull-Tab ticket sales	158,512,368	152,933,048
Total sales	<u>1,779,945,341</u>	<u>1,811,489,059</u>
Other	128,698	760,896
Total operating revenues	<u>1,780,074,039</u>	<u>1,812,249,955</u>
Operating Expenses		
Scratchers prizes	886,572,498	875,392,754
Draw Game prizes	235,244,169	253,112,820
Pull-Tab prizes	142,575,126	137,520,206
Scratchers retailer commissions and incentives	76,623,928	78,039,114
Draw Game retailer commissions and incentives	24,398,498	25,348,677
Pull-Tab retailer commissions and incentives	3,187,338	3,061,072
Cost of tickets sold	32,292,593	36,226,684
Depreciation	1,192,724	845,512
Advertising	400,000	1,499,999
Wages and benefits	12,992,031	13,541,489
Other general and administrative	9,508,551	9,578,861
Total operating expenses	<u>1,424,987,456</u>	<u>1,434,167,188</u>
Operating income	<u>355,086,583</u>	<u>378,082,767</u>
Nonoperating Revenues (Expenses)		
Interest income	196,410	217,720
Unclaimed prizes	29,134,511	16,063,183
Gain (Loss) on sale of capital assets	36,316	22,077
Net increase (decrease) in the fair value of investments		
held for grand-prize winners	(2,877,399)	(1,182,283)
Amortization of grand-prize winner liability	(1,085,616)	(1,157,131)
Transfers to State of Missouri Lottery Proceeds Fund	<u>(386,434,609)</u>	<u>(397,155,502)</u>
Total nonoperating revenues (expenses)	<u>(361,030,387)</u>	<u>(383,191,936)</u>
Changes in net position	(5,943,804)	(5,109,169)
Total Net Position, Beginning of Year	<u>(21,492,651)</u>	<u>(16,383,482)</u>
Total Net Position, End of Year	<u>\$ (27,436,455)</u>	<u>(21,492,651)</u>

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

Appendix F

Missouri State Lottery Commission
 (An Enterprise Fund of the State of Missouri)
 Statements of Cash Flows
 For The Years Ended June 30, 2022 and 2021

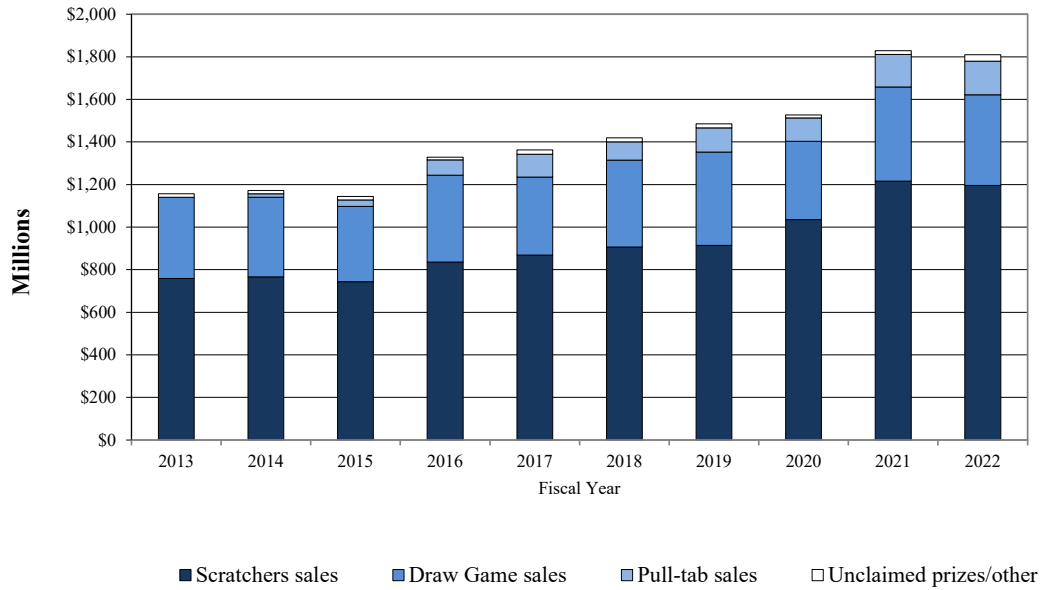
	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Cash received from retailers and others	\$ 1,777,839,920	1,819,069,771
Cash paid for prizes	(1,252,361,072)	(1,250,323,216)
Cash paid for retailer commissions	(104,456,249)	(106,169,579)
Cash paid for employee services	(11,987,565)	(11,510,290)
Cash paid for other expenses	<u>(44,782,716)</u>	<u>(43,726,095)</u>
Net cash provided by operating activities	<u>364,252,318</u>	<u>407,340,591</u>
Cash Flows From Noncapital Financing Activities		
Transfers to State of Missouri	<u>(400,260,828)</u>	<u>(345,032,500)</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(230,127)	(428,810)
Proceeds from sale of capital assets	36,551	104,074
Lease related cash outflows	<u>(437,363)</u>	<u>0</u>
Net cash used for capital and related financing activities	<u>(630,939)</u>	<u>(324,736)</u>
Cash Flows From Investing Activities		
Proceeds from maturity of investments	4,102,000	3,794,000
Interest received	<u>196,410</u>	<u>217,720</u>
Net cash provided by investing activities	<u>4,298,410</u>	<u>4,011,720</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(32,341,039)	65,995,075
Cash and Cash Equivalents, Beginning of Year	<u>118,860,116</u>	<u>52,865,041</u>
Cash and Cash Equivalents, End of Year	<u>86,519,077</u>	<u>118,860,116</u>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	355,086,583	378,082,767
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation and amortization	1,192,724	845,512
Noncash pension and OPEB adjustments	933,185	1,980,788
Unclaimed prizes	29,134,511	16,063,183
Payments to grand-prize winners	(4,102,000)	(3,794,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(1,939,457)	7,676,006
(Increase) decrease in other receivables	(695,275)	(537,542)
Increase (decrease) in accounts payable and		
other accrued liabilities	(2,356,162)	3,590,496
Increase (decrease) in accrued prize liabilities	<u>(13,001,791)</u>	<u>3,433,381</u>
Net cash provided by operating activities	<u>364,252,318</u>	<u>407,340,591</u>
Noncash Activities		
Net increase (decrease) in the fair value of investments		
held for grand-prize winners	(2,877,399)	(1,182,283)
Amortization of grand-prize winner liability	\$ 1,085,616	1,157,131

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

Appendix G

Missouri State Lottery Commission
 Revenues and Expenditures by Fiscal Year
 10 Fiscal Years ended June 30, 2022

Revenues



Expenditures

