

MINUTES OF THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS.

The meeting was called to order by Senator Lana Oleen at 11:10 a.m. on January 17, 1996 in Room 254-E of the Capitol.

Members present were: Senator Gooch
Senator Hensley
Senator Jones
Senator Oleen
Senator Papay
Senator Jordan
Senator Praeger
Senator Ramirez
Senator Tillotson

Members excused were: Senator Vidricksen
Senator Walker

Committee staff present: Mary Galligan, Legislative Research Department
Mary Torrence, Revisor of Statutes
Nancy Wolff, Committee Secretary

Conferees appearing before the Committee:
Randy Tongier, Legislative Post Audit
Greg Ziemack, Lottery Commission

A briefing was held on the Lottery Compliance Report that was issued during the interim session. Randy Tongier, with the Legislative Post Audit presented an overview of the audit (Attachment 1) and the Kansas Lottery Financial Summary (Attachment 2). He stated that the audit is required on an annual basis by State law and the current audit covers fiscal year 1995. The audit presented no current findings and recommendations and that the Lottery implemented the previous audit's recommendation.

Senator Gooch requested clarification as to what recommendations were implemented that were requested by the previous audit. Mr. Tongier responded that the previous audit found that there were inadequate reconciliation tools in place to track the number of instant tickets that are in the field at retailers and held in reserve. The audit requested that better systems for tracking the tickets be implemented. Senator Gooch then asked if the Lottery maintained sufficient balances to cover any payout's that were pending should the Lottery ever shut down. Mr. Tongier pointed out that the Financial and Compliance Audit Report for the Kansas Lottery lists such funds as a liability against the funds available and adequate funds are maintained for such a purpose as mandated.

Senator Ramirez stated that outside of 1990, the revenues from the lottery have continued to grow. He questioned why there was a decline in 1990. Mr. Tongier stated that he did not know why such a decline had occurred and said that he could question lottery officials on why the decline had occurred. Senator Ramirez subsequently withdrew the question.

Senator Oleen questioned Greg Ziemack of the Lottery Commission relative to the funds that transfer to EDIF. She stated that in the past year or two there have been additional funds transferred to the general fund budget and requested clarification as to how much those funds were. Mr. Ziemack stated that anything over \$50 million dollars goes into the general fund and approximately \$5 million was transferred last year and approximately \$5.2 - or \$5.3 million the year before.

Senator Oleen stated that the Legislative Post Audit was very pleased with the audit report and that it was a Grade A audit.

Senator Oleen questioned Greg Ziemack on what is currently happening with locations within the state where ticket sales are down. Mr. Ziemack responded that the Kansas City Area sales have reduced by approximately 20 to 25% on Keno over the past year to eighteen months. This translates to \$1/2 to \$1 million loss per year. It is the opinion of the Lottery Commission that the casinos on the Missouri side are impacting sales of Keno in Kansas. Senator Hensley asked if the 20% to 25% reduction in Kansas City includes both Wyandotte and Johnson Counties. Mr. Ziemack stated that it includes both counties.

Senator Oleen stated that the audit report demonstrates that there is a direct correlation when the lottery sales go

up, so do the payout on the tickets. Mr. Ziemack stated that this is true and that approximately 58% of the income from the lottery is returned to those that purchase the tickets.

Senator Jones requested clarification on the lawsuit that is currently pending against the Lottery relative to the American's with Disabilities Act. Mr. Ziemack said that the Lottery Commission had polled the retail vendors to ascertain their compliance with the law and that all but two vendors have responded and are in compliance. The remaining two are no longer vendors for the lottery.

Senator Oleen stated that there were two Confirmation Questionnaires in the folders that would be considered by the committee. Jim Cates, who is currently serving as the Chairman of the Lottery Commission was interviewed by the committee last year and Mr. Cates would not be appearing before the committee today. She then introduced Craig Robinson of Wichita who is a new confirmee for the Lottery Commission. Mr. Robinson presented a brief biographical background (Attachment 3) along with some background on what the position requires of a commission member. The appointment of Mr. Robinson would run from July 1, 1995 to July 1, 1999.

Senator Oleen presented some background information on a bill that the committee may want to introduce to overcome a problem that has arisen out the Indian Nation Casino authorization. The KBI has been running background checks on individuals that want to invest in the casinos but there is no legislative authority for the KBI to present the outcome of those investigations to the Indian Nation. For that reason, there needs to be legislation drafted to allow the KBI to communicate with the individuals representing the Indian Nation as to the background checks of the potential investors. Senator Hensley made a conceptual motion to introduce such legislation and Senator Ramirez seconded the motion. The motion carried.

There being no other business, the meeting was adjourned at 11:55 a.m.

**Financial-Compliance Audit of the
KANSAS LOTTERY
Presentation to the
Senate Federal and State Affairs Committee
January 17, 1996**

Randy Tongier, Audit Manager

- This audit is required annually by State law. It covers fiscal year 1995.
- The work was conducted by Wendling Noe Nelson & Johnson, a certified public accounting firm under contract with the Legislative Division of Post Audit.
- The audit found that:
 - The Lottery's financial statements for fiscal year 1995 were presented following standard accounting rules.
 - The Lottery's financial management practices provided adequate financial controls.
 - The Lottery complied with applicable legal requirements.
- The audit presents no current findings and recommendations.
- The auditors found that the Lottery implemented the previous audit's recommendation. That recommendation addressed better documentation to improve lottery ticket accountability.
- The separate handout, prepared by the staff of Legislative Post Audit, summarizes the Lottery's financial activity for each fiscal year of its existence.

*Attachment
Exhibit 1
Federal and State Affairs
1/17/96*

FINANCIAL AND COMPLIANCE AUDIT REPORT

KANSAS LOTTERY Fiscal Year 1995

OBTAINING AUDIT INFORMATION

This financial and compliance audit was conducted by Wendling Noe Nelson & Johnson LLC, a certified public accounting firm under contract with the Legislative Division of Post Audit.

Attachment
Exhibit 2
Federal and State Affairs
1/17/96

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KANSAS LOTTERY

INTRODUCTION

Years ended June 30, 1995 and 1994

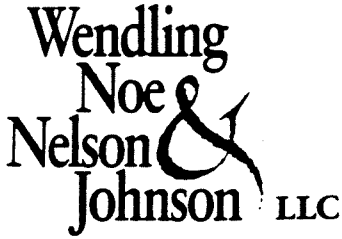
The accompanying report represents the results of the financial and compliance audit of the operations of the Kansas Lottery (Lottery) for the fiscal years ended June 30, 1995 and 1994.

The Lottery was created as an independent component unit of the state of Kansas to operate lottery games. It is administered by the Executive Director and the five members of the Lottery Commission appointed by the Governor. The Lottery is an enterprise fund wherein the activities are financed and operated through user charges similar to a private business enterprise.

KANSAS LOTTERY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
Year ended June 30, 1995

Findings:

None noted.



Certified Public Accountants
and Management Consultants

MEMBERS

- Don R. Paxson, CPA
- Donald L. Nelson, CPA
- Jere Noe, CPA
- John E. Wendling, CPA
- Roger L. Johnson, CPA
- John R. Helms, CPA
- Darrell D. Loyd, CPA
- John R. Luttjohann, CPA

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Legislative Post Audit Committee
Kansas State Legislature

We have audited the financial statements of the Kansas Lottery, as of and for the year ended June 30, 1995, and have issued our report thereon dated November 1, 1995.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

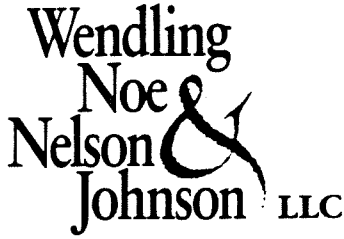
The management of the Kansas Lottery is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Kansas Lottery for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management and the Legislative Post Audit Committee of the Kansas Legislature. However, this report is a matter of public record, and its distribution is not limited.

Topeka, Kansas
November 1, 1995



Certified Public Accountants
and Management Consultants

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INDEPENDENT AUDITORS' REPORT

Legislative Post Audit Committee
Kansas State Legislature

We have audited the balance sheet of the Kansas Lottery, a component unit of the State of Kansas, as of June 30, 1995, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Kansas Lottery as of and for the year ended June 30, 1994, were audited by other auditors whose report dated October 20, 1994, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Kansas Lottery and are not intended to present fairly the financial position of the State of Kansas, and the results of its operations and cash flows of its Proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas Lottery, as of June 30, 1995, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

KANSAS LOTTERY
FOLLOW-UP ON PRIOR YEAR FINDINGS
AND RECOMMENDATIONS
Year ended June 30, 1995

Finding:

Documentation of reconciling items on the ticket reconciliation report was not readily obtainable. The reconciling items related to stolen, quality and damaged tickets. When tickets are purchased by the Lottery a certain number of those tickets are voided for quality control (quality). Additionally, if tickets are returned by vendors and a pack has been opened, the remaining unsold tickets are voided (damaged). The ticket reconciliation report showed unusually high numbers in the damaged and quality reconciling items for certain games. Although we were eventually satisfied as to the reasons for the unusually high numbers, the explanations were not readily obtained.

Recommendation:

It was recommended that supporting documentation be filed for all reconciling items so that explanations for large variances in these reconciling items can be readily obtained. In addition, it was recommended that the security department monitor the reconciling items throughout the year to ensure all large variances are explainable and valid.

Follow-up:

We reviewed the reconciling items for selected games and found the reconciling items were properly documented and supporting documents were on hand.

KANSAS LOTTERY
BALANCE SHEETS

June 30,

ASSETS

| | <u>1995</u> | <u>1994</u> |
|--|---------------------|---------------------|
| CURRENT ASSETS | | |
| Cash (Note C) | | |
| Operating fund | \$ 7,958,154 | \$ 6,250,827 |
| Prize payment fund | 566,834 | 705,544 |
| Accounts receivable, net of allowance for doubtful accounts of \$147,927 and \$153,507 (Note B6) | 525,804 | 2,422,550 |
| Accounts receivable - unbilled (Note B3) | 4,881,601 | |
| Instant ticket game inventory (Note B7) | <u>326,869</u> | <u>297,503</u> |
| Total current assets | <u>14,259,262</u> | <u>9,676,424</u> |
| PROPERTY AND EQUIPMENT (Notes B8 and D) | | |
| Property and equipment | 2,503,673 | 2,019,967 |
| Less accumulated depreciation | <u>1,560,117</u> | <u>1,232,008</u> |
| Total assets | <u>943,556</u> | <u>787,959</u> |
| | <u>\$15,202,818</u> | <u>\$10,464,383</u> |

LIABILITIES AND FUND EQUITY

| | | |
|---|---------------------|---------------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 1,556,511 | \$ 1,767,585 |
| Due to State Gaming Revenue fund (Note I) | 5,782,072 | 3,666,305 |
| Prize liability (Note B9) | 3,395,022 | 2,048,211 |
| Estimated liability for ticket returns | | <u>274,196</u> |
| Total current liabilities | <u>10,733,605</u> | <u>7,756,297</u> |
| COMMITMENTS (Note F) | - | - |
| FUND EQUITY | | |
| Retained earnings | | |
| Designated for prizes (Note H) | 201,706 | 190,523 |
| Unreserved and undesignated | <u>4,267,507</u> | <u>2,517,563</u> |
| Total fund equity | <u>4,469,213</u> | <u>2,708,086</u> |
| Total liabilities and fund equity | <u>\$15,202,818</u> | <u>\$10,464,383</u> |

The accompanying notes are an integral part of these statements.

In accordance with "Government Auditing Standards," we have also issued a report dated November 1, 1995, on our consideration of the Kansas Lottery's internal control structure and a report dated November 1, 1995, on its compliance with laws and regulations.

Wendling Noel Nelson & John LLC

Topeka, Kansas
November 1, 1995

KANSAS LOTTERY
STATEMENTS OF CASH FLOWS
Years ended June 30,

| | <u>1995</u> | <u>1994</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Net income before operating transfers | \$57,123,712 | \$48,877,820 |
| Adjustments to reconcile net income before operating transfers to net cash provided by operating activities | | |
| Depreciation | 328,109 | 327,093 |
| Changes in assets and liabilities | | |
| (Increase) decrease in accounts receivable - net | (2,984,855) | 2,112,985 |
| Increase in ticket inventory | (29,366) | (32,725) |
| Increase (decrease) in accounts payable and accrued liabilities | (211,074) | 91,929 |
| Increase in due to State Gaming Revenue fund | 2,115,767 | 1,690 |
| Increase (decrease) in price liability | 1,346,811 | (735,911) |
| Increase (decrease) in estimated liability for ticket returns | <u>(274,196)</u> | <u>119,710</u> |
| Net cash provided by operating activities | <u>57,414,908</u> | <u>50,762,591</u> |
| Cash flows from noncapital financing activities | | |
| Transfers to State Gaming Revenue fund | (55,240,461) | (47,789,019) |
| Transfers to Lottery and Racing Investigations Fee fund | <u>(122,124)</u> | <u>(100,684)</u> |
| Net cash used for noncapital financing activities | <u>(55,362,585)</u> | <u>(47,889,703)</u> |
| Cash flows from capital and related financing activities | | |
| Purchase of equipment | <u>(483,706)</u> | <u>(59,483)</u> |
| Net cash used in capital financing activities | <u>(483,706)</u> | <u>(59,483)</u> |
| Net increase in cash | 1,568,617 | 2,813,405 |
| Cash, beginning of year | <u>6,956,371</u> | <u>4,142,966</u> |
| Cash, end of year | <u>\$ 8,524,988</u> | <u>\$ 6,956,371</u> |

The accompanying notes are an integral part of these statements.

KANSAS LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
Years ended June 30,

| | <u>1995</u> | <u>1994</u> |
|---|---------------------|---------------------|
| Operating revenues | | |
| Net game revenues | \$171,935,717 | \$152,292,802 |
| Net unsettled revenue | 5,138,528 | |
| Retailer fees and miscellaneous income | 68,432 | 87,827 |
| Phone reimbursement | <u>1,160,053</u> | <u>1,046,334</u> |
| Total operating revenue | <u>178,302,730</u> | <u>153,426,963</u> |
| Operating expenses | | |
| Game prizes | 92,074,812 | 79,390,419 |
| Retailer commissions | 9,145,434 | 7,845,162 |
| Advertising | 1,858,708 | 2,150,206 |
| Cost of instant tickets | 1,884,652 | 1,102,239 |
| Depreciation | 328,109 | 327,093 |
| Professional services | 744,142 | 426,161 |
| On-line games service bureau | 8,038,522 | 6,576,378 |
| Salaries and benefits | 3,216,568 | 3,104,662 |
| Telecommunications | 2,637,202 | 2,452,349 |
| Other administrative expense | 1,205,610 | 1,120,158 |
| Retailer incentives | <u>45,259</u> | <u>54,316</u> |
| Total operating expenses | <u>121,179,018</u> | <u>104,549,143</u> |
| Income before operating transfers | 57,123,712 | 48,877,820 |
| Operating transfers out (Note I) | | |
| State Gaming Revenue fund | 55,240,461 | 47,789,019 |
| Lottery and Racing Investigations Fee fund | <u>122,124</u> | <u>100,684</u> |
| Total operating transfers out | <u>55,362,585</u> | <u>47,889,703</u> |
| Net income | 1,761,127 | 988,117 |
| Retained earnings, beginning of year | <u>2,708,086</u> | <u>1,719,969</u> |
| Retained earnings, end of year | <u>\$ 4,469,213</u> | <u>\$ 2,708,086</u> |

The accompanying notes are an integral part of these statements.

KANSAS LOTTERY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 1995 and 1994

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Basis of Accounting

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

3. Revenue Recognition

Lottery games are sold to the public by contracted retailers. These retailers purchase instant ticket games with a right of return. Prior to November 14, 1994, instant ticket game revenue was recognized when the tickets left the Lottery's Warehouse for delivery to the retailers. An allowance for tickets estimated to be returned by the retailers was recognized for games in progress based upon historical experience, and was included in the financial statements as a liability since the retailers were billed for the tickets when received.

On November 14, 1994, the Lottery implemented a new on-line instant ticket validation system. This system utilizes a bar code system to activate, track and validate instant win tickets. With the implementation of the new on-line validation system, the Lottery changed their sales terms to the retailer. Instant win game tickets are now consigned to retailers. The activated and unsettled instant win ticket packets are reflected in revenues in the current period and are carried on the balance sheet as accounts receivable - unbilled. Consigned instant win ticket packets at the retailer that have not been activated are reflected on the financial statements in ticket inventory at original cost.

Certain instant ticket games include tickets which entitle the holder to exchange the ticket for another ticket ("free tickets"). Such tickets are deemed to be replacements, and, therefore, are not included in sales. Pull tab game revenue is recognized when the games are delivered to the retailers. Pull tabs are not purchased with a right of return. On-line game revenue is recognized in the period in which tickets are sold.

4. Retailer Commissions

Retailers receive a commission of 5 percent of ticket sales, which is recognized as expense when sales are recorded.

In addition to the 5 percent commission on sales, retailers also receive a 1 percent cashing bonus on instant win prizes less than \$600 that they redeem.

KANSAS LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 1995 and 1994

NOTE A - REPORTING ENTITY

In November 1986, a constitutional amendment was approved by the Kansas voters authorizing a State Lottery. During the 1987 Legislative session, the State Legislature adopted the Lottery Act (the Act), and created the Kansas Lottery (the Lottery), as an independent component unit of the state of Kansas to operate lottery games. During the 1992 Legislative session, the Legislature continued the Lottery until June 30, 1996; the 1995 Legislative session continued the Lottery until June 30, 2002. The Kansas Lottery Act abolishes the Lottery on July 1, 2002, unless the Legislature reaches an affirmative vote to continue the Lottery during the 2001 Legislative session.

The Lottery was organized on March 19, 1987, and commenced administrative operations on May 21, 1987, but was strictly in the developmental stage through fiscal year 1987. Instant win ticket games began November 12, 1987. On February 2, 1988, the Lottery began participating in Lotto America, a multistate on-line game, now called Powerball. Additional games offered by the Lottery include Cash Lotto, Club Keno, Pick 3 and Pull Tabs.

The Lottery operates under the direction of the Executive Director of the Lottery and a five-member Lottery Commission appointed by the Governor. The Commission advises the Executive Director and reviews and approves Lottery games, rules and regulations.

The Lottery prepares an annual budget of expenses which is approved by the State Legislature of Kansas. Any changes in the budget must also be approved by the State Legislature. Such Budgets are adopted on a cash plus encumbrance basis, which differs from generally accepted accounting principles. Encumbrances represent commitments relating to unperformed contracts for goods or services. All budgeted, unencumbered funds lapse at fiscal year-end.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

1. Basis of Presentation

The Lottery is accounted for as a proprietary-type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises: (1) Where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges; or, (2) Where the periodic determination of net income is considered appropriate.

KANSAS LOTTERY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 1995 and 1994

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prize expense for on-line games is recorded based on ticket sales. Prizes which are not claimed within one year after the drawing remain in the prize pool, and future prizes will be increased accordingly through special prize promotions.

10. Compensated Absences

Under the terms of the Lottery's personnel policy, employees are granted vacation and sick leave in varying amounts, based upon length of service. In the event of termination or separation, an employee is generally paid for accumulated vacation up to 144 hours if in service less than 5 years; 176 hours for service between 5 and 10 years of service; 208 hours for service between 10 and 15 years; and 240 hours if service exceeds 15 years [K.A.R. 1-9-4(a)(4)]. Accordingly, it is the Lottery's policy to record vacation pay as an expense as it is earned. The amount of earned but unused accumulated vacation is included as an accrued liability in the accompanying financial statements.

Retiring employees are paid a portion of their accumulated sick leave in excess of 100 or more days, depending upon the total number of accumulated days and years of service. The minimum payable is 30 days, and the maximum is limited to 60 days. The amount of earned but unused accumulated sick leave is paid from the State Leave Payment Reserve fund to which the Lottery makes monthly contributions.

11. Cash Equivalents

For purposes of reporting cash flows, cash includes cash on hand and amounts deposited with the Treasurer of the State of Kansas.

NOTE C - DEPOSITS

All but \$3,700 of the Lottery's cash is held by the Treasurer of the State of Kansas. The Pooled Money Investment Board invests such cash in excess of that necessary to meet current obligations. Earnings on such investments are retained by the State of Kansas. All investments are either insured or collateralized with securities held by the State of Kansas, or by its agent in the State's name. The market value of such investments approximated the carrying value at June 30, 1995 and 1994.

KANSAS LOTTERY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 1995 and 1994

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Retailer Fees

Licensed retailers are charged a one-time fee for the right to sell lottery tickets. Fees are recorded as income when received by the Lottery.

6. Accounts Receivable

Accounts receivable represent amounts to be collected from retailers and is shown as net of allowance for doubtful accounts. The allowance for doubtful accounts is based on an analysis of accounts receivable, which considers the age of the accounts and current economic conditions.

7. Ticket Inventory

Instant ticket game inventory consists of tickets stored in the main and regional warehouses and trunk stock of District Managers for games in progress and new games. Inventories are carried at cost. Tickets are charged to cost of sales when delivered to the licensed retailers. Unsold tickets are charged to cost of sales at the end of each instant ticket game.

Since the installation of the instant ticket validation system, inventories of trunk stock and consigned and inactivated tickets at the retailer are included in ticket inventory.

8. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line basis using the group depreciation method and an estimated useful life of five years.

9. Prize Liability

The Act states, "as nearly as practical, an amount equal to not less than 45 percent of the total sales of lottery tickets or shares, computed on an annual basis, shall be allocated for payment of Lottery prizes." This amount is recognized and accrued as a prize liability. Actual prizes paid are treated as a reduction of the prize liability.

Prize expense for instant ticket games is recorded based on the predetermined prize structure for each game. Since instant prize tickets are randomly distributed throughout the tickets, there will be differences between amounts accrued and the amounts actually paid if all tickets for a game have not yet been sold. Prizes which are not claimed within 180 days after the termination of each game remain in the prize pool, and future prizes will be increased accordingly through special promotions.

KANSAS LOTTERY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 1995 and 1994

NOTE E - COMMITMENTS - Continued

Future fees for on-line games through June 30, 1996 and 1997, are 5.75 percent and 5.65 percent, respectively, and 2.20 percent to 2.90 percent depending on sales volume for instant win games through June 30, 1997.

NOTE F - CONTINGENCIES

Zero Coupon Bonds

Lotto America and Powerball prizes awarded to the grand prize winner are payable in annual installments over twenty years, with the first payment being made by the Lottery within weeks of the drawing. Treasury zero coupon bonds that provide payments corresponding to the Lottery's obligation to these winners are purchased by the Multi-State Lottery (MUSL). MUSL holds these bonds in an account for the Lottery, cashes the bonds when due, and wires the money to the Lottery on or before the anniversary date of the winner.

At June 30, 1995 and 1994, the MUSL had purchased zero coupon bonds for the Lottery to fund future installment payments aggregating \$155,667,000 and \$135,755,000. The total purchase price of these bonds was \$78,888,452 and \$68,682,253. Total future installments outstanding at June 30, 1995 and 1994, are \$130,611,000 and \$117,844,000, respectively.

MUSL Prize Reserves

The Lottery is a member of the Multi-State Lottery (MUSL). MUSL, which consists of 18 state lotteries, operates the Powerball game. Powerball is a semiweekly 5 out of 45 plus 1 out of 45 lotto game. The grand prize is determined on a parimutuel basis; the remaining prizes are set cash prizes. Each MUSL member sells Powerball tickets through its retailers and makes weekly wire transfers to the MUSL. The weekly transfer amount consists of 50 percent of weekly sales less actual set cash prizes paid by the Lottery. The prize pool for all Powerball prize categories consists of 50 percent of each drawing period's sales until the grand prize is funded to the annuitized amount guaranteed by the MUSL. When the grand prize fund reaches the guaranteed annuitized amount, then 48 percent of sales becomes part of the prize pool and 2 percent of sales is placed in the prize reserve fund. The MUSL has placed a \$52,000,000 cap on the prize reserve account and a \$30,000,000 cap on the set prize reserve account. Once the prize reserve accounts exceed the designated caps, the excess shall become part of the prize pool. The prize reserve accounts serve as a contingency reserve to protect the MUSL in case of unforeseen, but valid, liabilities for grand prize claims or for set prizes.

KANSAS LOTTERY
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 1995 and 1994

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 1995 and 1994:

| | <u>1995</u> | <u>1994</u> |
|---|--------------------|--------------------|
| Data processing equipment | \$1,547,948 | \$1,088,717 |
| Office furniture, fixtures and equipment | 864,522 | 857,260 |
| Vehicles and other | <u>91,203</u> | <u>73,990</u> |
| | <u>\$2,503,673</u> | <u>\$2,019,967</u> |

NOTE E - COMMITMENTS

The Lottery leases office and warehouse space from unrelated parties under operating leases. Minimum future lease payments by fiscal year are as follows:

| | <u>Unrelated parties</u> |
|------------------------|--------------------------|
| 1996 | \$ 335,440 |
| 1997 | 335,940 |
| 1998 | 335,940 |
| 1999 | 27,000 |
| 2000 | 27,000 |
| Thereafter | <u>4,500</u> |
| Total minimum payments | <u>\$1,065,820</u> |

It is anticipated that as leases expire they will be replaced with new leases in the future. The Lottery incurred rental expense of \$314,824 and \$300,080, respectively, under operating leases for the years ended June 30, 1995 and 1994.

The Lottery has contracted with a service bureau which provides computer services for on-line games. The duration of the contract is through June 30, 1997. The service bureau received fees averaging the following percentages for the periods as follows:

| <u>Period</u> | <u>Instant win</u> | <u>On-line games</u> |
|--------------------|--------------------|----------------------|
| 11-14-94 - 6-30-95 | 2.90% | 5.85% |
| 7-01-94 - 11-13-94 | N/A | 6.50 |

KANSAS LOTTERY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 1995 and 1994

NOTE H - FUND EQUITY - DESIGNATED RETAINED EARNINGS

As of June 30, 1995 and 1994, the Executive Director of the Lottery set aside \$201,706 and \$190,523 for prizes designated for subsequent on-line game drawings.

NOTE I - OPERATING TRANSFERS

Pursuant to the Act, the Director of Accounts and Reports of the State of Kansas shall transfer monies in the Lottery operating fund to the State Gaming Revenue fund at least monthly in an amount equal to the monies in such fund in excess of those needed for payment of Lottery expenses, payment of compensation to retailers and transfers to the prize payment fund as certified by the Executive Director of the Lottery. The accumulated year-to-date transfers must be in an amount not less than 30 percent of total revenues from the sales of lottery tickets during the fiscal year. Transfers to the State Gaming Revenue fund of \$55,240,461 and \$47,789,019 were made for the years ended June 30, 1995 and 1994, respectively. Transfers were based on accrual basis net games revenue, plus additional amounts required by the Legislature.

The 1994 and 1995 Legislatures enacted HB 2731 and HB 2234 directing additional transfers from the Lottery's operating fund to the State Gaming Revenue fund of \$909,065 on October 31, 1994, and March 31, 1995, and \$500,000 on May 31, 1995.

Pursuant to 1994 and 1993 Legislation, the Lottery transferred from its operating fund \$122,124 and \$100,684 to the Lottery and Racing Investigations Fee fund of the Attorney General in the years ended June 30, 1995 and 1994, respectively.

NOTE J - PENSION PLAN

Substantially all full-time employees of the Lottery participate in the Kansas Public Employees Retirement System (the System/KPERS), a multi-employer Public Employee Retirement System. The payroll for Lottery employees covered by KPERS for the years ended June 30, 1995 and 1994, was approximately \$1,986,700 and \$1,814,000, respectively; the total payroll was approximately \$2,647,100 and \$2,508,000, respectively.

Substantially, all employees of the Lottery are eligible to participate in KPERS after one year of employment. Employees who retire at or after age 65 or age 62 with ten years service credit or at any age when years of service plus age equal 85 "points" are entitled to a retirement benefit, payable monthly for life, equal to one percent of their final average salary for each year of "prior" service and 1.75 percent for each year of "participating" service. Final average salary is the employee's average salary over the higher of four years of credited service including add-ons such as accrued

KANSAS LOTTERY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 1995 and 1994

NOTE F - CONTINGENCIES - Continued

The prize reserve and set prize reserve account monies are refundable to MUSL members if the MUSL disbands or if a member withdraws from MUSL. Members leaving MUSL must wait one year before receiving their refund. At June 30, 1995 and 1994, the prize reserve account had a balance of \$31,089,716 and \$27,605,010, of which the Lottery's share was \$1,541,381 and \$1,410,388. The set prize reserve at June 30, 1995 and 1994, had a balance of \$15,314,678 and \$19,266,442, of which the Lottery's share was \$755,177 and \$977,862.

Litigation

The Lottery has been named in a lawsuit concerning the Americans With Disabilities Act (ADA). The plaintiff is not seeking damages, but is seeking ADA compliance of all lottery retailers.

Claims

The Lottery has been presented with a claim by a co-winner of a Cash Lotto prize seeking the balance of the unclaimed prize. Legal counsel is currently investigating this claim.

NOTE G - RISK MANAGEMENT

The Lottery's risk management activities for worker's compensation and unemployment are recorded in the State Workers Compensation Self-Insurance Fund and the Employment Security Fund, funds of the State of Kansas. The Lottery contributes to these funds based upon annual assessed rates. Employees are offered various health insurance coverage programs of the State; the Lottery's contribution toward single member coverage ranges from 85 percent to 97 percent, based on salary level and tobacco usage of the employee.

State agencies are not allowed to purchase or carry insurance on any property owned by the State or its agencies, except as expressly and specifically authorized by statute. Currently, none of the exceptions apply to property of the Lottery. The State has had no problem in resolving losses in the past through utilization of resources available at the time the loss occurred. The Lottery retains liability for fixed asset damage.

Tort claims involving Lottery employees are subject to the Kansas Tort Claims Act (K.S.A. 75-6101 et seq.).

Employees' faithful performance is covered by commercial insurance. There has been no significant reduction in insurance coverage.

KANSAS LOTTERY
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 1995 and 1994

NOTE K - BUDGET AND ACTUAL COMPARISON - Continued

At June 30, 1995, the only line item budgeted was official hospitality. Actual expenses for official hospitality were \$3,949 and \$3,547 out of budgeted expenses of \$5,000 on a budgetary basis for each of the years ended June 30, 1995 and 1994.

The following table presents a comparison of the legally adopted budget with actual data on a budgetary basis for years ended June 30, 1995 and 1994. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resultant basis differences for the years ended June 30, 1995 and 1994, are also presented below:

| | <u>1995</u> | <u>1994</u> |
|---|----------------------|----------------------|
| Operating expenses excluding expenses for game prizes, retailer commissions, on-line games service bureau and on-line communications | | |
| Actual | <u>\$ 9,508,315</u> | <u>\$ 8,331,476</u> |
| Budget | <u>\$ 9,615,542</u> | <u>\$ 8,466,559</u> |
| Operating expenses, budgetary basis | \$ 9,508,315 | \$ 8,331,476 |
| Adjustments | | |
| Add: | | |
| Net increase in accruals | 282,799 | |
| Prior year encumbrances incurred, net of unreleased encumbrances | 156,485 | 390,920 |
| Depreciation | 328,109 | 327,093 |
| Nonbudgeted expenses | | |
| 1) Game prizes, retailer com- missions, on-line games service bureau and on-line communications expenses | 74,555,067 | 60,214,559 |
| 2) Prizes paid from Prize fund | 37,157,776 | 35,799,412 |
| Deduct: | | |
| Net decrease in accruals | | (147,582) |
| Increase in ticket inventory | (29,366) | (32,725) |
| Encumbrances at end of period | (296,462) | (274,527) |
| Capitalized expenditures | <u>(483,705)</u> | <u>(59,483)</u> |
| Operating expenses, GAAP basis | <u>\$121,179,018</u> | <u>\$104,549,143</u> |

KANSAS LOTTERY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 1995 and 1994

NOTE J - PENSION PLAN - Continued

sick leave and vacation leave or a three-year average without add-ons. For those hired July 1, 1993, or later, final average salary is a three-year average with no add-ons. Benefits fully vest upon reaching ten years of service. Vested employees may retire at age 55 and receive reduced retirement benefits. KPERS also provides death and disability benefits. Benefits are established by State of Kansas statute.

Covered employees are required by State statute to contribute 4 percent of their salary to the plan. The employer is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. The contribution requirement for the years ended June 30, 1995 and 1994, was approximately \$143,000 and \$132,000, respectively, which consisted of approximately \$63,600 and \$60,000, respectively, from the employer and \$79,500 and \$72,000, respectively, from employees; employer contributions represented 3.2 percent, and employee contributions represented 4.0 percent of covered payroll, respectively.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Public Employees Retirement Systems and employers. The System does not make separate measurement of assets and pension benefit obligations for individual employers. The pension benefit obligation at June 30, 1994, for KPERS as a whole, determined through an actuarial valuation performed as of that date, was \$6.42 billion. KPERS' net assets available for benefits on that date (valued at market) were estimated to be \$5.04 billion, leaving an unfunded pension benefit obligation estimated at \$1.38 billion. The contribution of the Lottery for the period covered by this report represents less than one percent of total contributions required of all participating entities.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's 1994 component unit financial report.

NOTE K - BUDGET AND ACTUAL COMPARISON

As discussed in Note 1, the Lottery prepares an annual budget of expenses on a cash plus encumbrance basis. Expenses may not exceed budgeted amounts for total operating expenses or certain line items.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 1995 and 1994

NOTE M - OPERATING SEGMENT INFORMATION

Operating segment information by game was as follows:

| | For the year ended June 30, 1995 | | | | | | |
|----------------------|----------------------------------|-------------------|---------------------|---------------------|---------------------|--------------------|----------------------|
| | <u>Instant</u> | <u>Pull Tabs</u> | <u>Powerball</u> | <u>Cash Lotto</u> | <u>Keno</u> | <u>Pick 3</u> | <u>Total</u> |
| Sales, net | \$63,942,951 | \$ 975,896 | \$55,050,519 | \$15,329,804 | \$37,238,071 | \$4,537,004 | \$177,074,245 |
| Prizes, net | (36,574,409) | (585,565) | (26,424,249) | (6,591,816) | (19,925,176) | (1,973,597) | (92,074,812) |
| Retailer commissions | <u>(3,485,496)</u> | <u>(48,880)</u> | <u>(2,752,526)</u> | <u>(766,490)</u> | <u>(1,865,192)</u> | <u>(226,850)</u> | <u>(9,145,434)</u> |
| Gross margin | <u>\$23,883,046</u> | <u>\$ 341,451</u> | <u>\$25,873,744</u> | <u>\$ 7,971,498</u> | <u>\$15,447,703</u> | <u>\$2,336,557</u> | <u>\$ 75,853,999</u> |

| | For the year ended June 30, 1994 | | | | | | |
|----------------------|----------------------------------|-------------------|---------------------|---------------------|---------------------|--------------------|----------------------|
| | <u>Instant</u> | <u>Pull Tabs</u> | <u>Powerball</u> | <u>Cash Lotto</u> | <u>Keno</u> | <u>Pick 3</u> | <u>Total</u> |
| Sales, net | \$45,213,170 | \$1,450,476 | \$49,184,953 | \$16,894,917 | \$35,102,923 | \$4,446,364 | \$152,292,803 |
| Prizes, net | (26,141,444) | (869,078) | (24,329,490) | (7,349,724) | (18,699,820) | (2,000,863) | (79,390,419) |
| Retailer commissions | <u>(2,489,043)</u> | <u>(72,524)</u> | <u>(2,461,385)</u> | <u>(844,746)</u> | <u>(1,755,146)</u> | <u>(222,319)</u> | <u>(7,845,163)</u> |
| Gross margin | <u>\$16,582,683</u> | <u>\$ 508,874</u> | <u>\$22,394,078</u> | <u>\$ 8,700,447</u> | <u>\$14,647,957</u> | <u>\$2,223,182</u> | <u>\$ 65,057,221</u> |

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KANSAS LOTTERY
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 June 30, 1995 and 1994

NOTE L - OPERATIONS

On November 14, 1994, the Lottery implemented a new Instant Ticket Validation System (ITVS). With the implementation of the ITVS the Lottery changed the sales terms to the retailers. Instant win tickets delivered to retailers that have not been activated are now carried as consignment inventory, whereas before they were sold and billed to retailers as delivered. If the instant win tickets carried as consignment inventory at June 30, 1995, had been recorded as sales, the estimated effect on revenues, expenses and net income would have been as follows:

| | |
|---|--------------------|
| Increase in net game revenues | <u>\$1,880,000</u> |
| | |
| Increase in operating expenses | |
| Game prizes | 916,000 |
| Retailer commissions | <u>109,000</u> |
| | <u>1,025,000</u> |
| | |
| Increase in income before operating transfers | 855,000 |
| Increase in operating transfers out | |
| State Gaming Revenue fund | <u>655,000</u> |
| Increase in net income | <u>\$ 200,000</u> |

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Bill Graves
Governor

Gregory P. Ziemak
Executive Director

December 7, 1995

Mr. Darrell D. Loyd, CPA
Partner
Wendling, Noe, Nelson & Johnson
1500 Bank IV Tower
Topeka, Kansas 66603

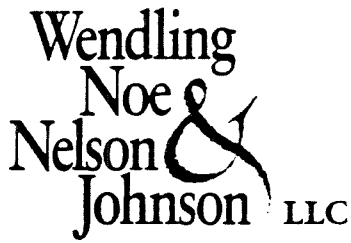
Dear Mr. Loyd:

We have reviewed your draft of the Financial and Compliance Audit Report for the Kansas Lottery for the fiscal year ended June 30, 1995, and concur with the results of the audit.

We are very pleased that there were no "findings" to be reported.

Sincerely,

Gregory P. Ziemak
Executive Director



Certified Public Accountants
and Management Consultants

MEMBERS

Don R. Paxson, CPA
Donald L. Nelson, CPA
Jere Noe, CPA
John E. Wendling, CPA
Roger L. Johnson, CPA
John R. Helms, CPA
Darrell D. Loyd, CPA
John R. Luttjohann, CPA

1500 BANK IV Tower
Topeka, Kansas 66603
(913) 233-4226

INDEPENDENT AUDITORS' COMPLIANCE REPORT ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"

Legislative Post Audit Committee
Kansas State Legislature

We have audited the financial statements of the Kansas Lottery as of and for the year ended June 30, 1995, and have issued our report thereon dated November 1, 1995.

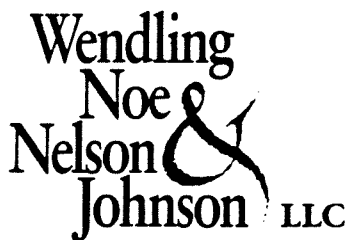
We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Kansas Lottery is the responsibility of the Lottery's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Kansas Lottery's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of management and the Legislative Post Audit Committee of the Kansas State Legislature. However, this report is a matter of public record and its distribution is not limited.

Topeka, Kansas
November 1, 1995



Certified Public Accountants
and Management Consultants

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Topeka, Kansas
November 1, 1995



Bill Graves
Governor

Gregory P. Ziemak
Executive Director

December 7, 1995

Mr. Darrell D. Loyd, CPA
Partner
Wendling, Noe, Nelson & Johnson
1500 Bank IV Tower
Topeka, Kansas 66603

Dear Mr. Loyd:

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Sincerely,

Gregory P. Ziemak
Executive Director

2-28

SENATE CONFIRMATION QUESTIONNAIRE

Office of Governor Bill Graves

Please complete and return this form to the Governor's Appointments Office. Attach additional sheets if necessary.

Name: Glenn Craig Robinson
Home Address: 1521 Amarado
City, State, Zip: Wichita, Kansas 67212
Business Address: 330 North Main
City, State, Zip: Wichita, Kansas 67202
Home Phone: (316) 721-4264 Business Phone: (316) 267-1229
Date of Birth: 07/17/54 Place of Birth: Ellinwood, Kansas
Party Affiliation: Demo. KBI Check: NA In Process Complete
Appointed as: Commissioner
Appointment Date: 06/30/95 Expiration Date: March 15, 1999
Term Length: 4 years Statutory Authority: K.S.A. 74-8709
Salary: \$35 per meeting; plus mileage Predecessor: Mary Kay Peltzer
Statutory Requirements: See Attached

BACKGROUND

1. List high school, college, or other education institution attended along with the date attended and degree conferred.

| Education Institution | Dates | Degree |
|--------------------------------|--------------------|-----------------------------|
| <u>Ellinwood High School</u> | <u>09/68-05/72</u> | <u>Diploma</u> |
| <u>Kansas State University</u> | <u>09/72-05/76</u> | <u>BS-political science</u> |
| <u>Washburn Law School</u> | <u>09/76-05/79</u> | <u>Juris Doctor</u> |

2. List memberships in business, trade and professional organizations for the past 10 years.

| Organization | Dates |
|---|-------------------------|
| <u>Wichita Bar Association</u> | <u>09/79 to present</u> |
| <u>Kansas Bar Association</u> | <u>12/79 to present</u> |
| <u>Kansas Trial Lawyers Association</u> | <u>12/79 to present</u> |

3. List any public offices you have been elected or appointed to, along with the dates of service.

| Office Held | Dates |
|---|-------|
| <u>I have not held any public office;</u> | |

Attachment
Exhibit 3
Federal and State Affairs
1/17/96

4. List any positions held with a foreign, federal or local government entity along with the dates of service.

| Position | Government Entity | Dates |
|----------|-------------------|-------|
| N/a | | |
| | | |
| | | |

5. List any lobbying activities you have been involved in during the past five years. This includes activities as a registered lobbyist or lobbying activities for which you were compensated.

| Group | Compensation (yes/no) | Dates |
|-------|-----------------------|-------|
| N/a | | |
| | | |
| | | |

6. List experience or interests which qualify you for the position to which you have been appointed. Attorney

7. Summarize business and professional experience. I have been an attorney operating my own business since January, 1981.

8. List any service in the United States military. Include dates of service, branch, date and type of discharge.

| Branch | Discharge | Dates |
|--------|-----------|-------|
| N/a | | |
| | | |
| | | |

9. Provide details of any arrest, charge or questioning by a federal, state or other law enforcement authority for violation of any federal, state, county or municipal law, regulation or ordinance (excluding traffic violations for which a fine of \$100 or less was imposed).

None

10. List and provide details of any interests that may present a conflict of interest for this position. None

I, G. CRAIG ROBINSON, declare that this questionnaire is true, correct and complete to the best of my knowledge.

G. Craig Robinson
Signature

7/25/95
Date

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(4) is a vendor or an employee or agent of any vendor doing business with the Kansas lottery;

(5) resides in the same household of an employee of the Kansas lottery or of a member of the commission; or

(6) has made a statement of material fact to the Kansas lottery, knowing such statement to be false.

(i) For a partnership to be selected as a lottery retailer, the partnership must meet the requirements of subsections (g)(2), (g)(3), (g)(4) and (g)(5) and each partner must meet the requirements of subsections (g)(1), (g)(3), (g)(4) and (h)(1) through (h)(6).

(j) For a corporation to be selected as a lottery retailer, the corporation must meet the requirements of subsections (g)(2), (g)(3), (g)(4) and (g)(5) and each officer or director and each stockholder who owns 5% or more of the stock of such corporation must meet the requirements of subsections (g)(3), (g)(4) and (h)(1) through (h)(6).

(k) For an unincorporated association to be selected as a lottery retailer, the association must meet the requirements of subsections (g)(2), (g)(3), (g)(4) and (g)(5) and each officer or director must meet the requirements of subsections (g)(1), (g)(3), (g)(4) and (h)(1) through (h)(6).

(l) The executive director may terminate the certificate of any lottery retailer who fails to meet any of the applicable qualifying standards for selection as a retailer provided in this section or on the grounds for termination provided in the contract pursuant to rules and regulations adopted by the commission.

(m) If a lottery retailer's rental payments for the business premises are contractually computed, in whole or in part, on the basis of a percentage of retail sales, and such computation of retail sales is not explicitly defined to include sale of tickets or shares in a state-operated lottery, the compensation received by the lottery retailer from the lottery shall be considered the amount of the retail sale for purposes of computing the rental payment.

History: L. 1987, ch. 292, § 8; L. 1988, ch. 314, § 3; July 1.

74-8709. Kansas lottery commission. (a) There is hereby created the Kansas lottery commission, which shall be composed of five members who shall be appointed by the governor, subject to confirmation by the senate as provided by K.S.A. 75-4315b and amendments

thereto. All members of the commission shall be citizens of the United States and residents of this state. Not more than three of the five members shall be members of the same political party. A chairperson of the commission shall be designated by the governor from the membership of the commission.

(b) The members of the commission shall serve for terms of four years and until their successors are appointed and qualified, except that the members first appointed shall serve for terms designated by the governor as follows: One member shall serve for a term of one year, one shall serve for a term of two years, one shall serve for a term of three years and two shall serve for terms of four years. Any vacancy occurring in the membership of the commission shall be filled in the same manner as the original appointment for the remainder of the unexpired term.

(c) The commission shall hold at least four regular meetings each year and such additional meetings as the chairperson deems desirable. Special meetings shall be called by the chairperson upon written request of the executive director or any three members of the commission. All meetings shall be held at a place and time fixed by the chairperson. A majority of the members of the commission shall constitute a quorum to transact its business.

(d) The commission shall consult with and advise the executive director relating to the operation of the state lottery, shall assist the director in the establishment of policies and shall review and approve the proposed annual budget for the Kansas lottery prepared by the executive director, subject to all state laws governing budget procedures for state agencies.

(e) The commission, in conjunction with the executive director, shall make an ongoing study of the operation and administration of lotteries in operation in other states or countries, of available literature on the subject, of federal laws and regulations which may affect the operation of the lottery and of the reaction of citizens of this state to existing or proposed features of lottery games, with a view toward implementing improvements that will tend to serve the purposes of this act.

(f) Major procurements recommended by the executive director shall be subject to the approval of the commission.

(g) The commission may enter into written agreements with one or more other states or corporations made up of representatives of one or more other states' lotteries and participate

C. **OWNERSHIP INTERESTS:** List any corporation, partnership, proprietorship, trust, joint venture and every other business interest, including land used for income in, which either you or your spouse has owned within the preceding 12 months a legal or equitable interest exceeding \$5,000 or 5%, whichever is less. If you or your spouse own more than 5% of a business, you must disclose the percentage held. Please insert additional page if necessary to complete this section.
 If you have nothing to report in Section "C", check here .

| BUSINESS NAME AND ADDRESS | TYPE OF BUSINESS | DESCRIPTION OF INTERESTS HELD | HELD BY WHOM | PERCENT OF OWNERSHIP INTERESTS |
|---------------------------|------------------|-------------------------------|---|--------------------------------|
| 1. | | | <input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly | |
| 2. | | | <input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly | |
| 3. | | | <input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly | |
| 4. | | | <input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly | |
| 5. | | | <input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly | |
| 6. | | | <input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly | |
| 7. | | | <input type="checkbox"/> You <input type="checkbox"/> Spouse <input type="checkbox"/> Jointly | |

D. **GIFTS OR HONORARIA:** List any person or business from whom you or your spouse either individually or collectively, have received gifts or honoraria having an aggregate value of \$500 or more in the preceding 12 months.
 If you have nothing to report in Section "D", check here .

| NAME OF PERSON OR BUSINESS FROM WHOM GIFT RECEIVED | ADDRESS | RECEIVED BY: |
|--|---------|--------------|
| 1. | | |
| 2. | | |
| 3. | | |

E. RECEIPT OF COMPENSATION: List all places of employment in the last calendar year, and any other businesses from which you or your spouse received \$2,000 or more in compensation (salary, thing of value, or economic benefit conferred on in return for services rendered, or to be rendered), which was reportable as taxable income on your federal income tax returns.

1. YOUR PLACE(S) OF EMPLOYMENT OR OTHER BUSINESS IN THE PRECEDING CALENDAR YEAR. IF SAME AS SECTION "B", CHECK HERE ____.
 If you have nothing to report in Section "E"1, check here .

| | NAME OF BUSINESS | ADDRESS | TYPE OF BUSINESS |
|----|-----------------------------|--------------------------|------------------|
| 1. | G. CRAIG ROBINSON, ATTORNEY | 330 N. Main, Wichita, KS | Legal Practice |
| 2. | | | |

2. SPOUSE'S PLACE(S) OF EMPLOYMENT OR OTHER BUSINESS IN THE PRECEDING CALENDAR YEAR.
 If you have nothing to report in Section "E"2, check here ____.

| | NAME OF BUSINESS | ADDRESS | TYPE OF BUSINESS |
|----|------------------|--------------------------|------------------|
| 1. | Traditions | 3224 E. Douglas, Wichita | Retail/furniture |
| 2. | | | |

F. OFFICER OR DIRECTOR OF AN ORGANIZATION OR BUSINESS: List any organization or business in which you or your spouse hold a position of officer, director, associate, partner or proprietor at the time of filing, irrespective of the amount of compensation received for holding such position. Please insert additional page if necessary to complete this section. If you have nothing to report in Section "F", check here .

| | BUSINESS NAME AND ADDRESS | POSITION HELD | HELD BY WHOM |
|----|---------------------------|---------------|--------------|
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. | | | |
| 5. | | | |

RECEIPT OF FEES AND COMMISSIONS: List each client or customer who pays fees or commissions to a business or combination of businesses from which fees or commissions you or your spouse received an aggregate of \$2,000 or more in the preceding calendar year. The phrase "client or customer" relates only to businesses or combination of businesses. In the case of a partnership, it is the partner's proportionate share of the business, and hence of the fee, which is significant, without regard to expenses of the partnership. An individual who receives a salary as opposed to portions of fees or commissions is generally not required to report under this provision. Please insert additional page if necessary to complete this section.

If you have nothing to report in Section "G", check here .

| | NAME OF CLIENT / CUSTOMER | ADDRESS | RECEIVED BY |
|-----|---------------------------|---------|-------------|
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. | | | |
| 5. | | | |
| 6. | | | |
| 7. | | | |
| 8. | | | |
| 9. | | | |
| 10. | | | |
| 11. | | | |
| 12. | | | |
| 13. | | | |

H. DECLARATION:

I, G. CRAIG ROBINSON, declare that this statement of substantial interests (including any accompanying pages and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete statement of all of my substantial interests and other matters required by law. I understand that the intentional failure to file this statement as required by law or intentionally filing a false statement is a class B misdemeanor.

7/25/95
Date

[Signature]
Signature of Person Making Statement
G. CRAIG ROBINSON

NUMBER OF ADDITIONAL PAGES _____.

Return your completed statement to the Secretary of State, State House, Topeka, Kansas 66612.