

Suite 300 South 1711 W. County Road B Roseville, MN 55113 651-639-4000

# Annual Report of the Minnesota Gambling Control Board

Fiscal Year 2010

July 1, 2009 - June 30, 2010



## Message from the Board Chair and Executive Director

December 20, 2010

The mission of the Gambling Control Board (Board) is to regulate lawful gambling in Minnesota, so that citizens are assured of the integrity of the industry and nonprofit organizations may continue to raise funds for lawful/charitable purposes.

The Board continues to provide education, outreach, and guidance to the lawful gambling industry through its ongoing programs, including:

- · compliance reviews and site inspections,
- issuing licenses and permits for licensed organizations,
- continuing education classes throughout the state,
- speaking engagements at state-level conventions,
- gambling manager seminars,
- · individualized mentoring programs,
- · a comprehensive web site, and
- a bi-monthly newsletter.

This annual report provides information for the fiscal year beginning July 1, 2009, through June 30, 2010. Portions of the data were obtained from the Minnesota Department of Revenue.

Respectfully submitted,

William Goede, Chair

Tom Barrett, Executive Director

Tom Banet

## Gambling Control Board Members and Staff

The Board has the power to issue, suspend, and revoke licenses. Under Minnesota Statutes, section 349.11, the Board's purpose is "to regulate lawful gambling, to insure the integrity of operations, and to provide for the use of net profits only for lawful purposes."

The Gambling Control Board is comprised of seven citizens. Five of the members are appointed by the Governor, and the Atorney General and Commissioner of Public Safety each appoint one member

Members	s City		Term		
William Goede, Chair	Plainview	Governor	6/08 to 6/12		
Shirleen Hoffman, Vice-Chair	Delano	Governor	7/06 to 6/10		
Gerald Dexter, Secretary	White Bear Lake	Governor	7/06 to 6/10		
Norm Pint	New Prague	Public Safety	7/07 to 6/11		
Bill Gillespie	St. Paul	Attorney General	9/07 to 6/11		
Robert Hyde	Plymouth	Governor	7/09 to 6/13		
Christine Long	Owatonna Governor		7/08 to 6/12 ned May 2010)		
New members - effective July 1, 2010					
Geno Fragnito	Woodbury	Governor	7/10 to 6/14		
Susan McCarville	Hopkins	Governor	7/10 to 6/14		
Gary Sigfrinius	Forest Lake	Governor	7/10 to 6/12		

**Executive Director** 

Tom Barrett

**Board Counsel** 

Melissa Eberhart, Assistant Attorney General

FY 2010 expenditures: \$2,794,000

Board staff: 31 (FTE 29.1)

#### **Statement of Cash Receipts and Industry Overview**

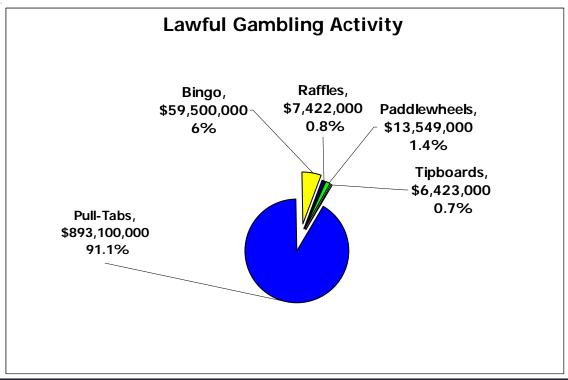
Cash Receipts							
Gam Distri Distri Link Orga M Gam Pren Regi	ufacturer license	division 6 allows waivers of the sthan \$100,000. 16 waivers	ne organization licen were granted at a c	25/100 6,000 5,000 350 se fee if estimate ost of \$5,600. 100	Total Collected \$ 117,000 181,575 78,000 9,900 5,000 453,250 ed  144,900 487,500 988,229 177,950 \$2,643,304		
	penalties andfines e gambling taxes, after re Total civil penalt		entof Revenue)		47,500 35,808,000 <b>\$35,855,500</b>		
		Total	taxes, fees, an	d penalties	\$38,498,804		
In	dustry Overvie	N					
During	fiscal year 2010, the Minnesot	a lawful gambling industry co	nsisted of:				
Licens	sees and Activities	Description					
11	Manufacturers	Sold product to icensed dis	tributors. [h FY10,4	,413 new game	es and product approved.]		
13	Distributors	Sold product to licensed law	ful gambling organiz	ations.			
99	Distributor salespersons	Persons licensed to sell gam	abling equipment to r	nonprofit organiza	ations.		
1							
1,292							
	TYPE OF ORGANIZATION Fraternal - Eagles & Auxil iary, Moose, Elks, Knights of Columbus Veterans - American Legion, VFW , & Auxil iaries Religious - Church/Cathedral Other nonprofit - Fire r elief, hockey, Jaycees, Lions, baseball , athletic, rod & gun, snowmobile, business/chamber/development, sportsman, community, other  TOTAL  Number Percent 239 18% 28% 364 28% 3657 51%						
1,404	Gambling managers	Members of licensed nonprolawful gambling operations.	ofit organizations res	ponsible for supe	rvising organizations'		
3,205	Charitable gambling sites	Locations in Minnesota whe	re lawful gambling w	as approved.			
1,031	Exempt organizations	Nonprofit organizations that of up to five days per caler receipts of \$30,997,000.					
		Exempt activity	Gross receipts	Expense	Profit		
		Raffle	\$29,177,000	\$12,519,000	\$16,658,000		
		Pull-tabs	692,000	514,000	178,000		
		Bingo Paddlewheels	945,000 117,000	388,000 57,000	557,000 60,000		
		Tipboards	66,000	40,000	26,000		
		TOTAL	\$30,997,000	\$13,518,000	\$17,479,000		
517	Excluded organizations	Nonprofit organizations tha activiities. Excluded bingo to 12 consecutive days in c	is conducted for four	r or fewer events	, or conducted up		

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#### **Lawful Gambling Statistics**

#### 2010 Fiscal Year Summary

	Gross Receipts	(sales)	Prizes Paid	Net Receipts (gros	ss less prizes)	% Pa	yout
ACTIVITY	FY 2010	% Change from FY09	FY 2010	FY 2010	% Change from FY09		FY09
Pull-tabs	\$ 893,100,000	-5.3	737,417,000	155,683,000	-5.6	82.6	82.5
Bingo	59,500,000	-2.6	44,754,000	14,746,000	1.0	75.2	76.1
Paddlewheels	13,549,000	-1.0	9,953,000	3,596,000	-1.1	73.5	73.4
Raffles	7,422,000	-4.0	3,670,000	3,752,000	-7.5	49.4	47.5
Tipboards	6,423,000	1.4	4,576,000	1,847,000	2.0	71.2	71.4
Interest income	150,000	-31.5	- 0 -	150,000	-31.5		
TOTALS	\$ 980,144,000	-5.0	\$800,370,000	\$179,744,000	-5.0	81.7	81.7



	Ten-Year Comparison of Receipts and Prizes Paid with percent change from previous fiscal year						
FY Gross Receipts			Prizes Paid		Net Receipts		
10	\$ 980,144,000	-5.0%	\$ 800,370,000	-5.0%	\$179,774,000 -5.0%		
09	1,031,699,000	-9.6%	842,507,000	-9.8%	189,192,000 -9.0%		
08	1,141,443,000	-9.8%	933,591,000	-9.7%	207,852,000 -10.3%		
07	1,265,707,000	-3.3%	1,033,863,000	-3.3%	231,844,000 -3.0%		
06	1,308,264,000	-4.8%	1,069,325,000	-4.8%	238,939,000 -4.8%		
05	1,373,783,000	-3.1%	1,122,783,000	-3.3%	251,000,000 -2.5%		
04	1,418,109,000	0.0%	1,160,753,000	-0.3%	257,356,000 1.5%		
03	1,418,200,000	-1.2%	1,164,591,000	-1.0%	253,609,000 -2.1%		
02	1,435,426,000	-0.1%	1,176,268,000	0.2%	259,158,000 -1.1%		
01	1,436,603,000	-4.2%	1,174,490,000	-4.2%	262,113,000 -4.4%		

#### **Lawful Purpose Expenditures**

Proceeds from lawful gambling may be used for lawful purpose expenditures (contributions) in the following categories.







Wildlife management projects, grooming and maintaining snowmobile and all-terrain vehicle trails approved by MN Department of Natural Resources, and monitoring surface water quality



Recognition of military service



Scholarship funds, and private or public nonprofit educational institutions





Repair and maintenance projects of organization-owned buildings



Congregate dining, nutritional programs, or food shelves for the disabled or persons age 62 and older

Programs and projects by the United States, the state of Minnesota, or local units of government

#### Other Lawful Purpose Expenditure Categories

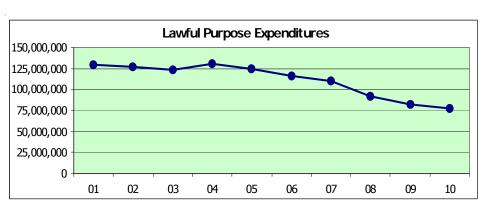
- Community arts organizations or program sponsorships
- Religious purposes
- Donations to or expenditures by nonprofit organizations designated by the Internal Revenue Service as 501(c)(3) organizations or 501(c)(4) festival organizations
- Relieving effects of poverty, homelessness, or disabilities
- Treatment for compulsive gambling
- Recognition of humanitarian service
- Surface water quality testing
- Real estate taxes
- State, local, and federal gambling taxes; state lawful gambling license & regulatory fees
- Specific utility costs by licensed veterans and fraternal organizations
- Membership events by licensed veterans organizations

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#### **Lawful Purpose Expenditures**

#### **Ten-Year Comparison**





Lawful Purpose Expenditures							
	FY 2010	FY 2009	% Change				
Available for Lawful and Charitable Contributions	\$ 41,799,000	\$ 44,403,000	-5.9				
State Gambling Taxes Paid	35,808,000	37,844,000	-5.4				
Gross receipts state tax	15,359,000	16,027,000	-4.2				
Net receipts state tax	1,889,000	1,912,000	-1.2				
Combined receipts state tax	18,560,000	19,905,000	-6.8				
TOTALS	\$ 77,607,000	82,247,000	-5.6				

#### **State Gambling Taxes**

			Net taxes	Net taxes as % of		
	Taxes paid	Refund	(after refund)	Gross receipts	Net receipts	
10	\$42,628,000	6,820,000	35,808,000	3.65%	19.92%	The three state gambling taxes included as lawful purpose
09	44,761,000	6,917,000	37,844,000	3.67%	20.00%	expenditures are:
80	50,019,000	7,328,000	42,691,000	3.74%	20.54%	Gross Receipts Tax 1.7 percent of the gross receipts
07	56,461,000	7,477,000	48,984,000	3.87%	21.13%	on pull-tab and tipboard games.
06	58,519,000	7,381,000	51,138,000	3.91%	21.40%	Net Receipts Tax 8.5 percent on the net receipts on
05	61,621,000	7,333,000	54,288,000	3.95%	21.63%	bingo, raffles, and paddlewheels.
04	63,539,000	6,900,000	56,639,000	3.99%	22.01%	Combined Receipts Tax
03	62,698,000	6,566,000	56,132,000	3.96%	22.13%	A progressive tax calculated on the gross receipts from pull-tab
02	62,655,000	6,232,000	56,423,000	3.92%	21.73%	games, tipboards, and interest.
01	62,147,000	6,246,000	55,901,000	3.89%	21.33%	

#### **Allowable Expenses**

An allowable expense is an expense or a proportion of an expense directly related to the conduct of lawful gambling.

Allowable expenses as reported to the Department of Revenue included:

Operating Cost	FY10	FY09	% Change
Compensation and payroll taxes <sup>1</sup>	49,966,000	\$52,206,000	-4.3
Gambling equipment (pull-tabs, bingo paper, tipboards, paddletickets)	18,157,000	18,665,000	-2.7
Rent <sup>2</sup>	17,760,000	19,258,000	-7.8
Accounting and legal work	6,563,000	6,965,000	-5.8
Office supplies and miscellaneous expenses	5,324,000	5,673,000	-6.2
Gambling device purchase, storage, maintenance (paddlewheel & table,bingo number selection device, pull-tab dispensing device)	2,253,000	2,282,000	-1.3
Penalty and interest paid on taxes	54,000	87,000	-37.9
Cash shortages (see next page)	1,163,000	1,249,000	-6.9
Utilities (premises owned by organization)	402,000	432,000	-6.9
Bond; local government investigation fee <sup>3</sup>	251,000	292,000	-14.0
Advertising	438,000	457,000	-4.2
Theft and liability insurance	563,000	614,000	-8.3
Expenses were offset by reimbursements from a so Excess cash shorts Negative expense calculations	(603,000) (124,000)	(610,000) (625,000)	-1.1 <u>-80.2</u>
TOTAL \$1	102,167,000	\$106,945,000	-4.5%

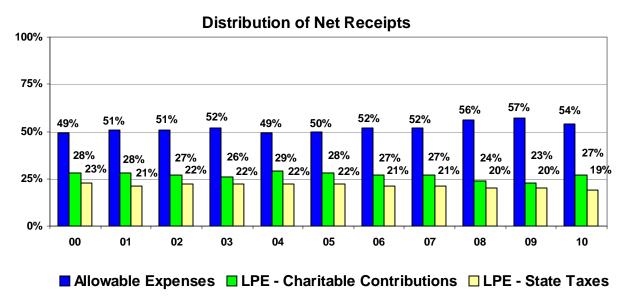
1. Lessors and their employees may not be paid compensation.

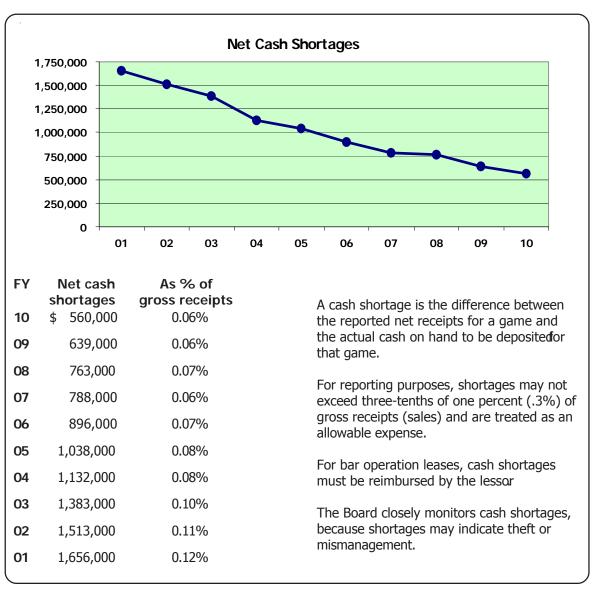
2. Rent is all-inclusive (utilities, etc.) and for bar operations, the lessor must reimburse all cash shortages.

3. License and permit fees paid to the state are reported as a lawful purpose instead of as an allowable expense.

#### **Ten-Year Comparison** of Allowable Expenses Allowable Expenses \$102,167,000 10 150,000,000 09 \$106,945,000 125.000.000 80 \$115,541,000 07 \$121,700,000 100,000,000 06 \$122,928,000 75,000,000 \$126,026,000 05 50,000,000 \$126,412,000 04 25,000,000 \$130,471,000 03 02 \$132,644,000 01 02 03 04 05 06 07 08 09 10 \$132,960,000 01

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#### Government

#### **Legislative Changes**

#### Lawful purpose expenditures

Effective May 28, 2010, veteran and fraternal organizations may pay a proportional amount of utilities (water, heating, electricity, and sewer costs) for the portion of a building used as the primary headquarters, with prior approval of the Gambling Control Board director [Minn. Stat. 349.12, Subd. 25(a)(16)(ii)].

This will allow organizations that lease out a portion of the building, such as an apartment or office, to pay for a portion of the utilities related to the portion of the building used for its headquarters (with prior approval).

#### **Rule Changes**

#### Rulemaking process

In October 2009 the Board initiated a rulemaking process with a Request for Comments published in the State Register.

The proposed rules pertaining to lawful gambling, chapters 7861, 7863, 7864, and 7865, are being amended to address statutory changes that occurred in 2007, 2008, and 2009; to repeal obsolete language; delete unnecessary language; provide clarification of rule language; and consolidate similar requirements for manufacturing standards of pull-tabs and tipboards.

It is expected that the rules process will be completed in early 2011.

#### **Local Government**

#### Voluntary A10 LPE contributions

- Organizations may provide voluntary contributions to units of government (under lawful purpose code A-10) for government programs and projects of the United States, the state of Minnesota, or local units of government.
- The city or county is not required to report the receipt of these contributions to the Board.

## 10% fund contributions, when mandated by ordinance

As established by ordinance, a city or county (not a township) may require an organization to contribute up to 10% per year of net profits to a fund that the city or county administers.

- The city or county may only spend the fund for charitable contributions (Minn. Stat. 349.12, subd. 7a), or for police, fire, and other emergency or public safety-related services, equipment, and training.
- The fund may not be used for the payment of pension obligations or general government functions.
- A licensed organization that contributes to the 10% fund may not be a beneficiary of the fund.
- A city or county that has a 10% fund must submit a report to the Gambling Control Board by March 15.
- In fiscal year 2010, a total of **\$6,589,000** was contributed to units of government for contributions allowed under code A-10.
- In calendar year 2009, 97 cities required 10% fund contributions as mandated by city ordinance. A total of \$774,000 was contributed to cities for 10% funds. Cities reported a balance of \$1,200,000 for future distribution.

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#### **Education Program**

An integral part of the Board's mission is educating the lawful gambling industry. To ensure the integrity of the industry, education is provided to organizations through the following opportunities.

### **Continuing Education Classes Speaking Engagements**

Gambling managers are required to attend one class each year.

Continuing education classes are conducted at various locations throughout the state free of charge and are open to the public. The chief executive officer, members, and employees of the organizations are invited as well.

During the fiscal year, 67 continuing education classes were conducted.

Staff also participated in 12 speaking engagements throughout the state at conferences and conventions, such as American Legion, VFW, Eagles, and Lions.



#### Other Education Programs

#### Gambling Manager Seminars

Gambling manager seminars are conducted each month by Board staff. Each seminar consisted of two days of training and included information on statutes, rules, conduct of lawful gambling, internal controls, reporting and licensing requirements, and the organization's responsibilities.

#### Mentoring

The Board's mentoring program provides one-on-one training to organizations on how to properly manage their gambling operation and comply with all reporting requirements. The program also provides guidance to licensed organizations that have experienced serious operational difficulties. New organizations or existing organizations with a new gambling manager may voluntarily participate in this program.

#### **Gaming News**

The Board publishes the bi-monthly *Gaming News* newsletter on its web site at www.gcb.state.mn.us. The newsletter is mailed to all licensed gambling managers. Subscriptions to the newsletter are available through Minnesota's Bookstore.

Gaming News provides up-to-date information on compliance, licensing, and education issues.

Gaming News also includes information on legislative and rule changes, scheduled continuing education classes, forms, and Board activities.

The Departments of Revenue and Public Safety and the Internal Revenue Service periodically contribute articles for the newsletter.



#### Lawful Gambling Manual

Minnesota Gambling Control Board The Lawful Gambling Manual is a handy reference guide for CEO's, gambling managers, and organizations--whether new or experienced.

The *Manual* provides information on statute and rule requirements in an easy to understand format, and was last updated in 2009.

The Manual is divided into chapters that are easily referenced for:

- $\sqrt{}$  licensing requirements,
- $\sqrt{}$  conduct for each form of lawful gambling: pull-tabs, bingo, raffles, paddlewheels,and tipboards,
- $\sqrt{}$  managing gambling equipment inventory,
- $\sqrt{}$  guidelines for internal controls of the gambling operation including accounting and administrative controls, with a section on monthly oversight,
- $\sqrt{\phantom{a}}$  how net receipts may be spent, and
- $\sqrt{\phantom{a}}$  a cross-reference index.

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## "Everything you always wanted to know about lawful gambling..." can be found on the Board's web site at:



#### www.gcb.state.mn.us

#### **BOARD INFORMATION**

## Gambling

Minnesota Gambling Control Board

- √ Meeting dates and agenda
- √ Summary of monthly Board meetings

#### **PUBLICATIONS**

- Gaming News
- CEO Guidebook
- Illegal Gambling
- · Lawful Gambling Manual
- Who May and May Not Play
- Raffle Ticket Requirements
- Bingo FAQ

#### LOCAL GOVERNMENT

- authority and restrictions
- local tax or investigation fee
- contribution fund
- reports

#### **LINKS**

- Links to other agencies
- Link to legislature
- E-mail links to staff

#### **EDUCATION AND OTHER INFORMATION**

"We're here to help"



- Continuing education; training dates
- Request for mentoring
- Forms
- Lawful gambling statutes and rules
- List of licensees
  - nonprofit organizations
  - distributors and manufacturers
  - linked bingo game providers

Minnesota Gambling Control Board 1711 West County Road B, Suite 300 South Roseville, Minnesota 55113

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www.gcb.state.mn.us

This publication will be made available in alternative format (large print, Braille) upon request.

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