

Minnesota State
CELEBRATING 20 YEARS OF FUN
LOTTERY



2010
ANNUAL
REPORT

CONTACT INFORMATION

**24-Hour Automated
Winning Numbers Hotline**
(651) 634-1111

E-mail
lottery@mnlottery.com

Website
mnlottery.com

Players Club
luckymn.com

MAIN OFFICE

Lottery Headquarters
2645 Long Lake Road
Roseville, MN 55113
(651) 635-8273
(651) 635-8268 TTY

REGIONAL OFFICES

Detroit Lakes
1111 Highway 10 East
Detroit Lakes, MN 56501
(218) 846-0700

Marshall
750 West College Drive
Marshall, MN 56258
(507) 537-6041

Owatonna
205 Cedardale Drive
Owatonna, MN 55060
(507) 444-2400

Virginia
130 Chestnut Street
Virginia, MN 55792
(218) 748-2450

EXECUTIVE STAFF

Executive Director
Clint Harris

General Counsel/Assistant Director
Dale McDonnell

Director for Operations
Jenny Canfield

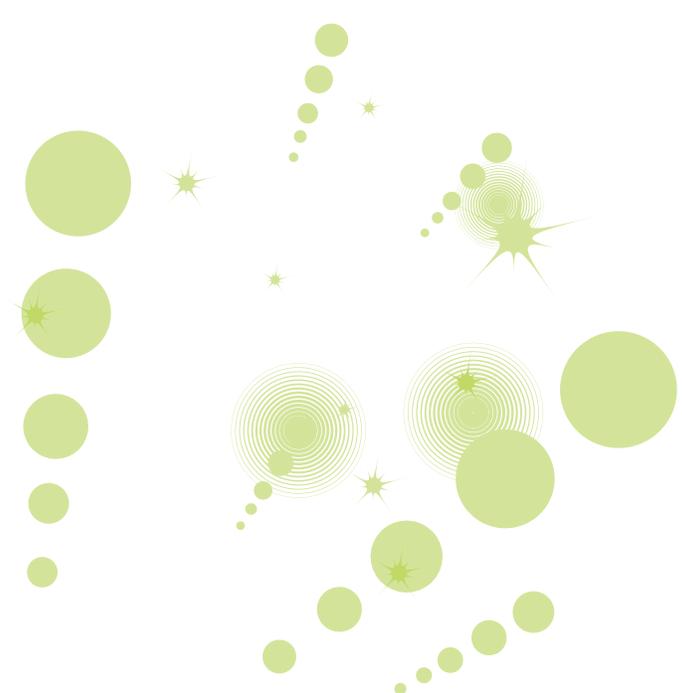
Director for Marketing and Sales
John Mellein

Chief Financial Officer
Joe Pahl

Chief of Security
Doug Wills

Research and Planning Director
Don Feeney

Public Relations Manager
Debbie Hoffmann



2010 Annual Report

Introduction	
Letter from the Executive Director	2
How Lottery Dollars Benefit Minnesota	3
Games & Promotions	
Scratch Games and Second-Chance Promotions.	4
Lotto Games	6
Special Events and Marketing Campaigns.	8
Retailers and Community	
Retailers.	10
Commitment to Social Responsibility.	11
Financials	
Independent Auditor's Report	13
Management Discussion and Analysis	14
Financial Statements	18
Notes to the Financial Statements.	21
Certificate of Achievement for Excellence in Financial Reporting	29
Certification of Executive Director and Chief Financial Officer	29

Letter from the Director

Dear Readers:

I am pleased to announce that for the third consecutive year the Minnesota State Lottery achieved record sales. With ticket sales reaching a record \$498.9 million in fiscal year 2010 (July 1, 2009 – June 30, 2010), we were able to return a record \$122.2 million to the state of Minnesota.

Record scratch game sales led the increase, ending the fiscal year at \$338.1 million, while lotto game sales reached \$160.9 million. These numbers resulted in players winning more prizes than ever before, totaling \$305.3 million.

We introduced two new products at retail locations that contributed to our record sales. The launch of Mega Millions®, Minnesota's third multi-state jackpot game, helped boost lotto sales during FY10. Players also responded positively to Game Books, a revolutionary scratch product within the lottery industry.

The Lottery reached a significant milestone in our history this year — 20 years of service to the state. We recognized this anniversary with a special second-chance promotion that included a series of events held around the state.

I would like to extend our sincere appreciation to everyone who has supported the Lottery the past 20 years. As we look ahead, we are working hard to develop games and promotions that will continue to keep players engaged. I am confident that we will continue to meet or exceed our sales goals to help maximize profits to the state.

I invite you to read on and learn more about the Minnesota State Lottery and its accomplishments this past fiscal year.

Sincerely,



Clint Harris



Minnesota State Lottery's mission

"The Lottery offers fun, innovative and secure games that create excitement, reflect Minnesota values and maximize contributions to the state."

HOW LOTTERY DOLLARS BENEFIT MINNESOTA — GIVING BACK TO MINNESOTA FOR 20 YEARS

During fiscal year 2010 the Lottery generated a record \$122.2 million for state projects and programs. These funds benefit all Minnesotans through the Environment and Natural Resources Trust Fund, the Game and Fish Fund, the Natural Resources Fund and the state's General Fund.



The Environment and Natural Resources Trust Fund receives 40 percent of the Lottery's net proceeds. Trust Fund projects help to preserve, restore and enhance Minnesota's environment and natural resources. In FY10, \$31.3 million was transferred to the Trust Fund. In accordance with the state's constitution, annual appropriations are limited to 5.5 percent of the fund's market value as of the previous June 30 (the fund was valued at \$402 million on June 30, 2009). The Legislative-Citizen Commission on Minnesota Resources makes funding recommendations to the Legislature for Trust Fund projects. Since the Lottery's inception, the Trust Fund has helped finance 449 projects worth \$280 million. Trust Fund projects can be found in each of Minnesota's 87 counties.

The remaining 60 percent of Lottery net proceeds are directed to the state's General Fund, which supports a variety of state services, including public education, health and human services and public safety. More than \$67.4 million was transferred to the General Fund this fiscal year. This amount includes net proceeds, unclaimed prizes, funds for problem gambling treatment and prevention and a portion of the 6.5 percent in-lieu-of-sales tax payment. During the past 20 years, the Lottery has contributed over \$1.1 billion to the General Fund.



The in-lieu-of-sales tax payments made to the state amounts to 6.5 percent of sales. In FY10, this money was allocated to the Game & Fish Fund for activities that improve, enhance or protect fish and wildlife resources in Minnesota (\$11.7 million); to the Natural Resources Fund to benefit state and Twin Cities area parks and trails, local trails and the Minnesota Zoological Garden, Como Zoo and Duluth Zoo (\$11.7 million); and \$8.9 million to the General Fund. The Department of Natural Resources administers both the Game & Fish Fund and Natural Resources Fund.

Minnesota Landscape Arboretum photos courtesy of Julia Bohnen.

Did you know?

The Lottery has raised \$1.9 billion for state programs since its inception in 1990.

Scratch Games & Second-Chance Promotions

Scratch games continued to be a popular form of entertainment for Minnesota adults this fiscal year, with sales reaching a record \$338.1 million. The Lottery offered 55 scratch games with a variety of play styles to appeal to its vast player base. Price points ranged from \$1 to \$20, with prizes ranging from \$1 to \$500,000. Many scratch games were supported with second-chance promotions for added value. Here are some of the highlights from FY10:

Mega MONOPOLY™

A popular board game became one of Minnesota's favorite scratch games this fiscal year. On Aug. 18, 2009 the \$10 Mega MONOPOLY™ scratch game went on sale, offering players the chance to win instant cash prizes up to \$200,000. A second-chance promotion gave players the opportunity to win MONOPOLY™ merchandise and a \$20,000 grand prize, which was won by Arlene Morgan of Maplewood. She shared the prize with her daughter, Denise.



Kitty Cash Doubler & Doggie Dough Doubler

Players showed off their pets in the Cutest Pet Contest. For every non-winning Kitty Cash Doubler or Doggie Dough Doubler scratch ticket submitted on LuckyMN (the Lottery's Players Club), players could upload their favorite photo of their cat or dog. Grand prize winners "Fishy" and his owner John Flier Jr. of Goodland and "O'Reilly" and her owner Jane Mattila of Pinewood received a professional photography session with celebrity pet photographer Keith Kimberlin plus a \$500 Visa® gift card.

Betty Boop™

The Betty Boop™ scratch game remains one of the best-selling tickets to date. The Lottery launched a series of Betty Boop™ scratch games this fiscal year, each featuring Betty Boop™ participating in some of Minnesota's favorite outdoor activities.



Radar Thornbloom of Osakis won \$200,000 by playing the Mega MONOPOLY™ scratch game.



Rebecca Froehlich of Murdock.



Cassandra Gimmer of Mapleton.

Game Books

The Lottery introduced Game Books on Jan. 26, 2010. The \$20 Casino and Puzzle Game Books featured six tickets filled with a variety of games to play. With a \$300,000 top prize, Game Books were popular among players this fiscal year.



Douglas Larson of St. Paul, Michael Tallman of Detroit Lakes and Barb Schultz of Grand Rapids were big Puzzle Game Book winners in FY10.

CASH & CONCERTS

On April 27, 2010 the Lottery launched the \$3 Cash and Concerts scratch game. To help appeal to the younger adult demographic, the game offered second-chance drawing prizes of free music downloads, iPods, Visa® gift cards and a grand prize concert experience package. An innovative marketing campaign supported the game with street teams handing out free music downloads at concert venues across the Twin Cities. The Lottery also promoted the game by sponsoring three free concerts in Minneapolis.



A couple shows off their rock star pose after receiving free music downloads.



Lotto Games

Reaching \$160.9 million in sales, lotto games accounted for 32 percent of total sales in FY10. Whether consumers enjoy playing for the big multi-state jackpots or for smaller jackpots with Minnesota's own Gopher 5[®] and Northstar Cash[®] games, the Lottery's selection of lotto games continued to provide players with choices to suit anyone's play style.

Mega Millions

Mega Millions, a multi-state jackpot game similar to Powerball[®], launched in Minnesota on Jan. 31, 2010. Mega Millions drawings are held on Tuesdays and Fridays — giving players the chance to play for large jackpots four days a week (Powerball drawings are held on Wednesdays and Saturdays). Mega Millions jackpots start at \$12 million and grow until won. Players have the option to add the Megaplier[®] to their ticket for an extra \$1 at the time of purchase for the chance to multiply any non-jackpot prize by 2, 3 or 4.

To promote Mega Millions, the Lottery offered a special “What's Your Dream?” contest. Players had the opportunity to submit their dream online for the chance to win \$10,000. Maplewood resident Richard Lang's (pictured top left) dream came true when he was selected as the \$10,000 grand prize winner.



Lee Grimmer and Henry Lasser (pictured top right) were the biggest Mega Millions winners in Minnesota this fiscal year. The Elk River couple won \$1 million from the March 5, 2010 drawing by matching the first five numbers and adding the Megaplier option to their ticket.

“Lottery Network 2010”, a group of 62 co-workers from the Twin Cities area, claimed one of four \$250,000 Mega Millions prizes won in Minnesota this fiscal year.



Four hairstylists from Concrete Image Salon in St. Cloud won a \$200,000 Powerball prize.



After three years of pooling money for Powerball tickets, “The 7 Friends” from the Sleepy Eye area won a \$200,000 Powerball prize.

Powerball

Powerball[®] continues to be the most popular lotto game offered in Minnesota. Sales reached \$87.3 million this fiscal year, predominantly driven by a number of large Powerball jackpot runs that exceeded \$200 million. Minnesota Powerball players won \$15.5 million in prizes, including thirteen \$200,000 Match 5 prizes. Powerball continues to be the game of choice among Lottery pools — a number of prizes were claimed by groups.



The “Popple People”, a group of 31 who are all regular customers at the Popple Bar in the small town of Laporte, had a big reason to celebrate — they won a \$200,000 Powerball prize.

Minnesota Millionaire Raffle

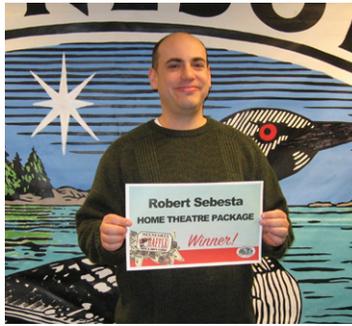
On Nov. 3, 2009, the Lottery launched the fourth annual Minnesota Millionaire Raffle game. Once again, the Raffle game offered the best odds to win \$1 million. Chad Gustafson of Red Wing and Thomas Newell of Shakopee (pictured below) were the \$1 million winners in FY10. To create even more excitement about the game, players had the chance to win a variety of prizes in a bonus drawing. Bonus prizes ranged from a 2010 Ford Fusion Hybrid to Apple Macbook computers to vacation packages to shopping sprees and more. The last Raffle ticket was sold on Dec. 23, 2009, which was the earliest sellout ever for this game.



Sixteen Gopher 5® jackpots were won in FY10. “The Dugout Gang”, a group of 14 patrons and employees at The Dugout Bar in Mahtomedi, won a \$230,179 Gopher 5 jackpot on June 9, 2010.



Carol Addison of Cambridge claimed the 2010 Ford Fusion Hybrid valued at \$40,598. The car was provided by the Lottery and the Northland Ford Dealers Association.



Robert Sebesta of Eden Prairie won a home theatre package.



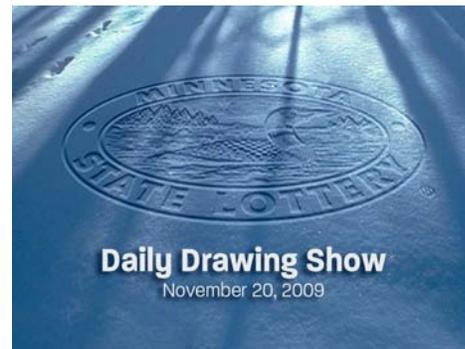
Thomas Newell of Shakopee.



Chad Gustafson of Red Wing.

Drawing Show

The Lottery’s Daily Drawing Show got an exciting new look this fiscal year to enhance the reveal of winning numbers for Minnesota-only lotto games — Daily 3®, Northstar Cash® and Gopher 5. The Daily Drawing Show now features Minnesota players announcing the winning numbers.



Special Events & Marketing Campaigns

Lottery's 20th Anniversary Celebration

April 17, 2010 marked the Lottery's 20th anniversary since the first scratch ticket, Match 3, was sold in Minnesota. The Lottery celebrated its anniversary with a series of events held around the state to thank the millions of Minnesotans who have purchased Lottery tickets over the past 20 years. Scratch-O-Rama tournaments were held in Duluth, Rochester, Burnsville, Bemidji, Roseville, Mankato and Marshall. The Scratch-O-Rama promotion culminated with a grand finale event at Mall of America® on April 17, 2010. Karen Fries of Redwood Falls (pictured below) had the chance to win \$1 million by playing the Million Dollar Match game, but ultimately won \$10,000.



A television ad featuring the Lottery's 20th anniversary scratch game, \$200,000 Platinum Payout, created awareness about the game and second-chance promotion. Shot on the streets of Minneapolis, the ad demonstrated people getting their groove on in the Million Dollar Dance booth.



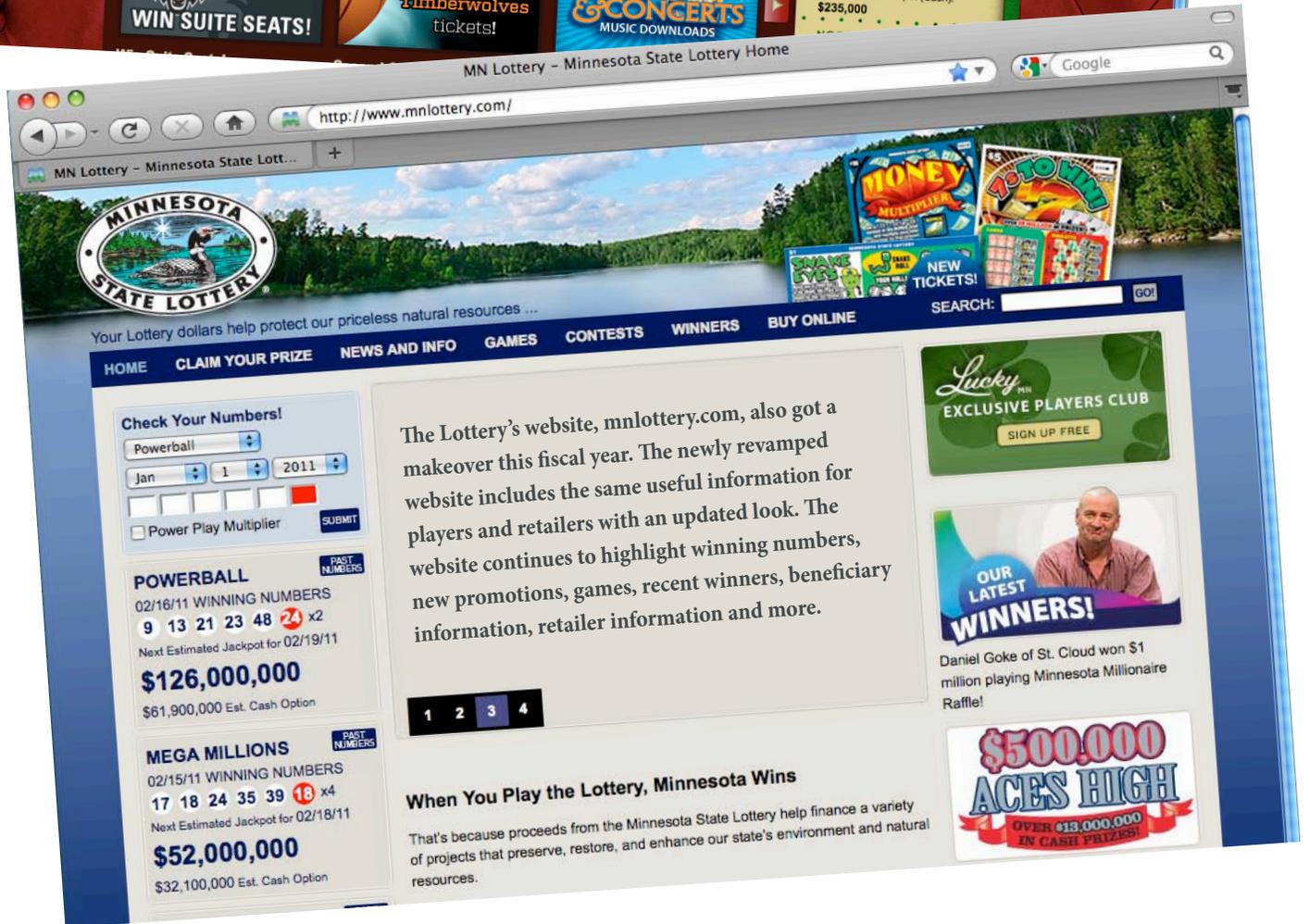
Minnesota State Fair

For the second consecutive year, the Lottery had a sales and information booth at the Minnesota State Fair. People from all corners of the state visited the booth to purchase Lottery tickets, including the Mega MONOPOLY™ scratch-ticket-on-a-stick. During the 12-day get-together, players had the chance to win some “mega” prizes. Fred Bauermeister of Maple Grove (pictured above) won a 2010 Toyota Prius Hybrid through a sponsorship between the Lottery, the Twin Cities Toyota Dealers Association and KSTC-TV. Lottery sales reached more than \$366,000 at the Fair — a 46 percent increase over the previous year.

Scratch Game Campaign

Hamsters helped promote scratch games in a series of television and radio spots that aired during the last half of the fiscal year. These unconventional stars demonstrated how playing scratch games can be a great way to break out and live a little.





Retailers

More than 3,000 Lottery retailers in Minnesota helped achieve record-breaking sales in fiscal year 2010. The record-breaking revenues resulted in retailers earning a record \$30 million in commission and incentives. This is an average of \$9,915 per business, which helped give retailers a boost during these challenging economic times.

To reward the Lottery's hard-working retail partners, retailers receive 5.5 cents for every \$1 in ticket sales at their business, as well as 1 percent of the amount of each winning ticket cashed at their store (they can pay prizes up to \$599). Retailers are also paid a bonus for selling qualifying jackpot-winning or top prize winning tickets after the prize has been claimed. Retailers earned bonuses totaling \$168,185 during fiscal year 2010. The bonuses ranged from \$130 to \$10,000.



Minnesota had its eighth Hot Lotto® jackpot winner on Dec. 2, 2009. Cub Foods (Pheasant Ridge Drive) in Blaine received a \$10,000 bonus for selling the winning \$1.15 million ticket.



Kwik Trip #481 in Red Wing earned a \$5,000 bonus for selling one of the \$1 million winning Raffle tickets from the Jan. 1, 2010 drawing.



For selling a \$25,000 winning Print-N-Play® ticket, Nelson's Market Place in Faribault received a \$250 bonus.



Paulbeck's County Market in Aitkin received a \$1,000 bonus for selling a \$200,000 winning Powerball ticket.

TOP 10 RETAILERS IN FISCAL YEAR 2010

1. Metropolitan Public Airport Foundation — Minneapolis/St. Paul International Airport, Bloomington
2. M & H Gas, Moorhead
3. Holiday (Rice Street), St. Paul
4. Cub Foods, Brooklyn Center
5. M & H Gas (Arcade Street), St. Paul
6. Cub Foods, Crystal
7. SuperAmerica (University Ave. N.E.), Blaine
8. Orton's Moorhead Food Mart, Moorhead
9. Cub Foods, St. Louis Park
10. Cub Foods, Maple Grove

Commitment to Social Responsibility

As an agency of the state of Minnesota, the Lottery is held to a high standard. It is not only expected to raise money for good causes, but to do so with integrity and regard to the best interest of its customers and the citizens of Minnesota. The goal is to be recognized as a leader in the United States and throughout the world in the area of social responsibility.

The social responsibility programs are wide ranging, covering all aspects of the Lottery's operations. It includes the commitment to business integrity, player protection policies and programs to help understand, prevent and treat problem gambling.

Business Integrity

The Lottery strives to conduct its operations in a manner that is open, transparent and accountable. An annual independent financial audit and periodic outside audits of the Lottery's security and technology systems are completed. Lottery staff regularly communicates with the office of the governor, the legislature and other government agencies about Lottery finances and operations. The Lottery's security department works closely with law enforcement agencies to vigorously investigate any allegations of wrongdoing relating to the Lottery. All Lottery products are extensively tested before putting them on sale and the drawing systems are tested

daily to ensure that every ticket stands an equal chance of winning.

Player Commitment

Lottery customers are entitled to Lottery games that can be purchased with complete confidence regarding their security and integrity. To this end the Lottery has adopted a Player Commitment Statement that outlines the policies for achieving these aims. The Lottery has also initiated a retailer compliance program that ensures retailers follow the rules and regulations outlined in their contract when interacting with players and when paying winners. Additional efforts have been made to encourage players to sign tickets and self-service terminals have been introduced at many retail locations that allow players to check their own tickets.

Fraud Protection

Too many Minnesotans have been victimized by scam artists seeking to convince the vulnerable that they have won a prize in a lottery that they have not entered. To combat these fraudulent activities, the Lottery has joined with many other public agencies, non-profit organizations and private businesses in a cooperative effort to combat lottery and sweepstakes fraud. To learn more about the Minnesota Fraud Enforcement Partnership, visit www.mnscams.org.



**NO MORE
MINNESOTA
NICE**

Report Lottery and
Sweepstakes Scams
(866) 347-0911



Responsible Gambling and Problem Gambling

For most people, playing the lottery is nothing more than an enjoyable diversion. For a few, however, lottery play can become excessive. They may play beyond their means or even develop an addiction to gambling. The Minnesota State Lottery is committed to maintaining its status as a world leader in the promotion of responsible gambling and the prevention of problem gambling. To this end the Lottery will continue to offer players the information they need to make responsible choices, including complete information about the odds of winning, the process of selecting winners and information about problem gambling services should the need arise.

The Minnesota State Lottery will also continue its partnerships with organizations that work to treat and prevent problem gambling, including the National Council on Problem Gambling, Northstar Problem Gambling Alliance and the Minnesota Department of Human Services. Lottery staff is also working with the World Lottery Association on the development of worldwide standards for lottery responsible gambling programs and plans to seek certification at the highest level once this program is in place. Minnesota State Lottery staff were asked to participate in several problem gambling conferences throughout North America, and the Lottery has donated the resources of its advertising agency to help develop materials that aid in this effort.



Did you know?

Since 1990, the Lottery has contributed more than \$32 million to problem gambling treatment and prevention programs.

INDEPENDENT AUDITOR'S REPORT

The Director
Minnesota State Lottery
Roseville, Minnesota

**SCHECHTER
DOKKEN
KANTER**
CERTIFIED PUBLIC ACCOUNTANTS • ARISSOIS

Schechter Dokken Kanter
Andrews & Selzer Ltd

Suite 1600

100 Washington Avenue South

Minneapolis, MN

55401-2192

Phone 612-332-5500

Fax 612-332-1529

E-mail info@sdkcpa.com

www.sdkcpa.com

We have audited the accompanying balance sheets of the Minnesota State Lottery as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Minnesota State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota State Lottery as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued separately our report dated October 8, 2010, on our consideration of the Minnesota State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

*Schechter Dokken Kanter
Andrews & Selzer Ltd*

October 8, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis includes an overview of financial activities regarding the financial performance of the Minnesota State Lottery for the fiscal year ended June 30, 2010 and should be read in conjunction with the transmittal letter and supplementary information included in this report. This report consists of three parts: management’s discussion and analysis, the basic financial statements and the notes to the financial statements. Included below and on the following pages are the financial highlights, summary of contributions to the State, summary results of operations for years ended June 30, 2010, 2009 and 2008 and a condensed version of the balance sheets as of June 30, 2010, 2009 and 2008.

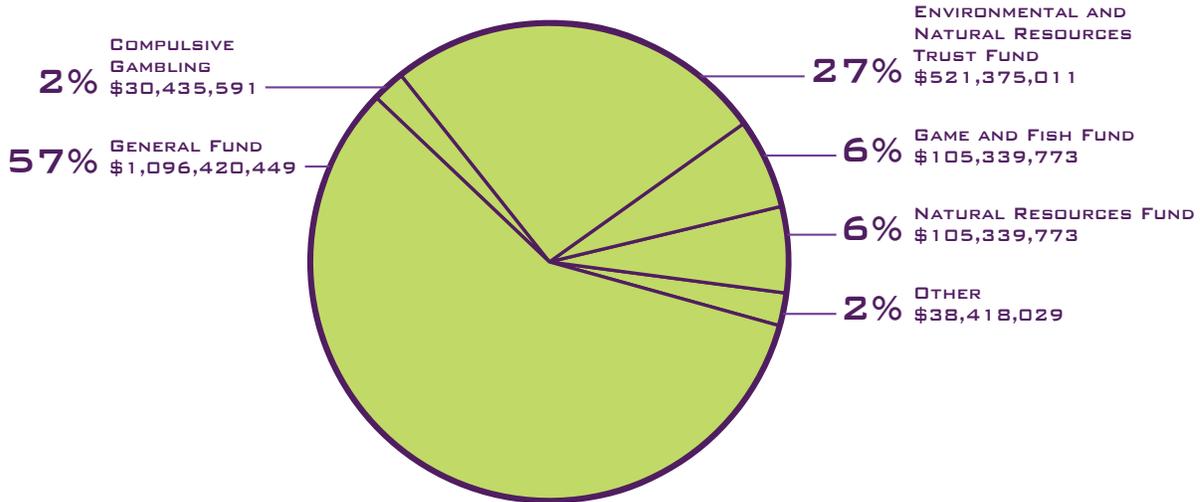
THE LOTTERY HAS CONTRIBUTED \$1.9 BILLION TO THE STATE SINCE 1990

FINANCIAL HIGHLIGHTS

The Minnesota State Lottery achieved record operating revenue of \$499 million and record contributions to state programs of over \$122 million in fiscal year 2010. Revenue increases have been driven by the introduction of new products that respond to customer needs and desires along with strategic marketing and promotion of existing products. Notable among these new products were the introduction of Game Books—a completely new style of scratch game—and the multi-state lotto game Mega Millions.

SUMMARY OF CONTRIBUTIONS TO STATE

The Lottery contributed \$122.2 million to the State in fiscal year 2010. This was a modest increase over the \$118.2 million contributed in 2009 or 3.4 percent increase which was again higher than 2008 by 1.6 percent. The following table provides detail on the total amounts transferred to the State as well as the source of the transfers provided to the state since 1990.



CONTRIBUTIONS TO STATE	2010	2009	2008
Net proceeds to the State	\$78,374,378	\$77,024,023	\$76,587,446
In-lieu-of-sales tax	32,432,967	31,280,934	29,998,984
Compulsive gambling contribution	2,230,000	2,130,000	2,525,000
Unclaimed prizes to the State	9,211,142	7,812,399	7,154,188
Total paid to State	\$122,248,487	\$118,247,356	\$116,265,618

SUMMARY RESULTS OF OPERATIONS

SUMMARY RESULTS OF OPERATIONS	2010	2009	2008
Gross revenue	\$466,575,526	\$450,059,496	\$431,537,976
Prizes, commissions and ticket costs	351,471,062	339,222,479	322,667,987
Gross profit	115,104,464	110,837,017	108,869,989
Operating expenses	25,554,707	24,610,483	24,121,715
Operating income	<u>\$89,549,757</u>	<u>\$86,226,534</u>	<u>\$84,748,274</u>
Non-operating revenues (expense):			
Interest earned on investments	\$265,763	\$674,888	\$1,518,360
Unused Compulsive Gambling Contribution	0	65,000	0
Payments to State (not including sales tax)	(89,815,520)	(86,966,422)	(86,266,634)
Total non-operating revenue (expense)	<u>(89,549,757)</u>	<u>(86,226,534)</u>	<u>(84,748,274)</u>
Net Income	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Operating Income:

A steady increase in operating income in the last three years is largely due to the introduction of \$20 Scratch games in February of 2008 as well as new online games and a new scratch concept in 2010 which helped propel sales. Operating costs increased in 2010 due in large part to the additional support needed to launch and promote Mega Millions. Operating revenue has increased steadily in the last three fiscal years: an increase of \$17.7 million or 3.7 percent in fiscal year 2010 over fiscal year 2009 and an increase of \$19.8 million or 4.3 percent in fiscal year 2009 over fiscal year 2008.

Operating Expenses:

Operating expenses increased by \$944 thousand or 3.8 percent in fiscal year 2010 over fiscal year 2009 due largely to the increased marketing and advertising efforts to support Lottery sales goals as well as increased salaries expense. Operating expenses increased by \$489 thousand or 2.0 percent in fiscal year 2009 over fiscal year 2008 due in most part to salary increases.

GROSS RECEIPTS BY GAME			
	2010	2009	2008
Scratch ticket sales	\$338,114,154	\$324,941,996	\$297,972,532
Lotto ticket sales:			
Daily 3 [®]	12,939,238	12,417,213	12,896,317
Gopher 5 [™]	15,451,880	16,485,360	16,860,714
Powerball [®]	82,252,717	83,265,951	91,984,559
Power Play [®]	4,997,806	5,070,512	5,183,767
MegaMillions	5,900,573	0	0
Megaplier	582,425	0	0
Hot Lotto [®]	13,805,414	13,565,974	11,718,951
Sizzler [®]	1,096,382	1,026,762	480,279
Northstar Cash [®]	11,899,536	11,671,586	11,381,159
Minnesota Millionaire Raffle	4,998,520	4,989,042	4,983,459
Print-N-Play [™]	6,930,076	7,810,737	8,061,088
Total Lotto Ticket Sales	160,854,567	156,303,137	163,550,293
Operating revenue	498,968,721	481,245,133	461,522,825
Other income	39,772	95,297	14,135
Total operating revenue	499,008,493	481,340,430	461,536,960
Less in-lieu-of-sales tax	32,432,967	31,280,934	29,998,984
Gross revenue	\$466,575,526	\$450,059,496	\$431,537,976

Scratch Games:

Scratch Game sales accounted for 67.8 percent, 67.5 percent and 64.6 percent of sales respectively for fiscal years 2010, 2009 and 2008. Scratch sales were \$338.1 million in fiscal year 2010, \$324.9 million in fiscal year 2009 and \$298.0 million in fiscal year 2008. The Lottery's steady increase in marketing efforts in the last three fiscal years and the introduction of the \$20 Scratch Games in fiscal year 2008 has helped contribute to the increase in Scratch Game sales in each of the last three fiscal years. \$20 Scratch Games sales in fiscal year 2010, 2009 and 2008 were \$66.5 million, \$57 million and \$22.2 million, respectively.

Lotto Games:

Total Lotto Game sales remained fairly constant over the last three years varying less than \$8 million from year to year. The most significant Lotto Game sales variation occurred in Powerball[®] which decreased \$8.7 million or 9.5 percent from fiscal year 2008 to fiscal year 2009. This significant drop in Powerball[®] sales was due mainly to the higher jackpots for Powerball[®] in fiscal year 2008. Top Powerball[®] jackpots were \$261 million, \$232 million and \$314 million for fiscal year 2010, 2009 and 2008, respectively. Powerball

sales may have also been affected slightly by the introduction of a similar game called Mega Millions. Mega Millions and the Megaplier were first introduced in Minnesota in fiscal year 2010 and added \$6.5 million dollars in Lotto Sales.

Gopher 5[®] sales decreased 6.3 percent in fiscal year 2010 because of lower jackpots than in fiscal year 2009 and 2008. Top jackpot sizes were \$588,277, \$1,197,421 and \$1,224,214 in fiscal year 2010, 2009 and 2008 respectively. Gopher 5[®] sales remained fairly consistent in fiscal year 2009 with fiscal year 2008 noting a similar trend in jackpot size in fiscal year 2009 and fiscal year 2008.

Hot Lotto[®], Sizzler and Northstar Cash sales have remained largely unchanged over the last two fiscal years. Combined sales for the trio were \$26.8 million and \$26.3 million for fiscal year 2010 and 2009 respectively.

For the fourth year in a row the Lottery sold out its Minnesota Millionaire Raffle game, generating close to \$5 million in sales annually.

BALANCE SHEET SUMMARY

BALANCE SHEET SUMMARY – CONDENSED BALANCE SHEET			
	2010	2009	2008
Assets:			
Cash and cash equivalents	\$13,981,238	\$14,694,086	\$13,817,893
Receivables	7,556,166	6,265,725	5,772,330
Capital assets & other current assets	4,105,872	3,859,259	2,651,190
Total Assets	\$25,643,276	\$24,819,070	\$22,241,413
Liabilities and fund equity:			
Due to State and State Agencies	\$14,132,066	\$13,336,177	\$10,435,618
Accounts payable & current accrued expenses	5,309,656	4,244,286	5,976,005
Current accrued prizes	5,471,136	6,654,080	5,294,565
Long-term accrued expenses	730,418	584,527	535,225
Unrestricted Net Assets	(2,265,672)	(1,811,785)	(1,135,109)
Net Assets Invested in Capital Assets	2,265,672	1,811,785	1,135,109
Net Assets	0	0	0
Total Liabilities	\$25,643,276	\$24,819,070	\$22,241,413

The Lottery is required to advance net proceeds to the State of Minnesota and therefore, fund equity remains unchanged from year to year. In general, short term assets and liabilities will fluctuate with the activity of games being played and the timing of the year end cut-off related to our business cycle.

Cash and cash equivalents and Receivables:

Cash and cash equivalents and Receivables have remained largely unchanged in the last two fiscal years with less than a \$600 thousand dollar variance from fiscal year 2009 to 2010. This is largely due to the mostly unchanged liabilities held on the books from fiscal year 2009 to 2010 and the small change in capital and other current assets. Receivables have steadily increased in the last two fiscal years from \$5.8 million in fiscal year 2008, to \$6.3 million in fiscal year 2009 and \$7.6 million in fiscal year 2010. The increases in receivables are mostly related to the timing of the fiscal year end. The Lottery had 7 days of receivables on the books in 2008, 8 days of receivables on the books in 2009, and 9 days of receivables on the books in 2010, which accounted for the increases over the three year period.

Capital assets and other assets:

Increases in capital assets of \$453 thousand in fiscal year 2010 from fiscal year 2009 resulted largely from the purchases of computer software and equipment, and vehicles. Net of depreciation, total retirements were \$3,663. See note 5 for more detail.

Other assets remained largely unchanged in fiscal year 2010 from fiscal year 2009 with the exception of prepaid expenses which are down slightly more than \$137 thousand. Other assets increased by \$531 thousand in fiscal year 2009 due to an increase in prepaid expenses of \$159 thousand and an increase in ticket inventory of \$372 thousand.

Due to State and State Agencies:

The fiscal year 2010 increase of \$796 thousand was due to the coupling of an increase in unclaimed prizes due the state of slightly less than \$1.4 million offset by a decrease in June's proceeds due to the state of a little over \$600 thousand. The fiscal year 2009 increase of \$2.9 million over fiscal year 2008 was due to an increase in net proceeds and unclaimed prize money due to the state.

FINANCIAL STATEMENTS

Balance Sheets – June 30, 2010 and 2009	2010	2009
Assets		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 13,981,238	\$ 14,694,086
Accounts Receivable (Note 4)	7,556,166	6,218,564
Interest Receivable	13,163	47,161
Scratch Ticket Inventory	1,375,928	1,459,353
Prepaid Expense	451,109	588,122
Total Current Assets	23,377,604	23,007,286
Capital Assets, Net (Note 5)	2,265,672	1,811,784
Total Assets	\$ 25,643,276	\$ 24,819,070
Liabilities and Net Assets:		
Current Liabilities:		
Net Proceeds Due to State (Note 8)	\$ 4,920,924	\$ 5,523,778
Unclaimed Prizes Due to State (Note 6)	9,211,142	7,812,399
Accounts Payable	4,200,094	2,821,184
Prize Liability	5,471,136	6,654,080
Compensated Absences Payable, current (Note 7)	808,672	738,328
Deferred Revenue	300,890	684,774
Total Current Liabilities	24,912,858	24,234,543
Compensated absences payable, net of current portion (Note 7)	730,418	584,527
Net Assets:		
Unrestricted Net Assets	(2,265,672)	(1,811,784)
Net Assets Invested in Capital Assets (Note 8)	2,265,672	1,811,784
Total Net Assets	0	0
Total Liabilities and Net Assets	\$ 25,643,276	\$ 24,819,070

See Accompanying Notes to Financial Statements

**Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009**

2010

2009

Operating Revenues:

Scratch Ticket Sales	\$ 338,114,154	\$ 324,941,996
Lotto Ticket Sales	160,854,567	156,303,137
Other Income	39,772	95,297
Total Operating Revenues	499,008,493	481,340,430
Less: In-Lieu-of-Sales Tax	32,432,967	31,280,934
Gross Receipts	466,575,526	450,059,496

Direct Costs:

Scratch Ticket Prizes	225,083,096	217,652,167
Lotto Ticket Prizes	80,232,645	77,388,857
Online Vendor Expense	8,930,263	9,525,314
Ticket Costs	7,355,164	5,809,317
Retailer Commissions and Incentives (Note 11)	29,869,894	28,846,824
Total Direct Costs	351,471,062	339,222,479
Gross Profit	115,104,464	110,837,017

Operating Expenses: (Note 12)

Advertising (Note 12)	6,980,526	6,402,302
Salaries and Benefits (Note 13)	10,973,599	10,781,942
Promotion	1,626,966	1,579,992
Purchased Services	1,728,938	1,435,084
Communication	527,876	499,389
Occupancy Costs (Note 9)	1,292,547	1,345,471
Supplies and Materials	875,310	974,672
Computer and Omnipoint Maintenance	268,888	359,745
Depreciation	740,454	634,717
Other Expense	539,603	597,169
Total Operating Expenses	25,554,707	24,610,483

Operating Income

89,549,757 86,226,534

Nonoperating Revenue (Expense)

Interest Earned on Investments	265,763	674,888
Unused Compulsive Gambling Contribution	0	65,000
Payments to State:		
Compulsive Gambling Contribution from Prize Fund (Note 10)	(2,230,000)	(2,130,000)
Unclaimed Prizes to State (Note 6)	(9,211,142)	(7,812,399)
Net Proceeds to State (Note 8)	(78,374,378)	(77,024,023)
Total Nonoperating Revenue (Expense)	(89,549,757)	(86,226,534)

Net Income 0 0

Net Assets at Beginning of Year (Note 8) 0 0

Net Assets at End of Year (Note 8) \$0 \$0

See Accompanying Notes to Financial Statements

Statements of Cash Flows – Years Ended June 30, 2010 and 2009			2010	2009
Cash Flows from Operating Activities:				
Cash Received from Customers			\$ 497,287,007	\$ 480,992,956
Cash Received from Other Income			83,206	82,440
Payments to State (In-Lieu-of-Sales Tax)			(32,432,967)	(31,568,562)
Payments to Employees			(10,757,364)	(10,709,795)
Payments to Suppliers			(28,557,201)	(30,705,106)
Payments to Retailers			(29,953,100)	(28,929,264)
Payments to Prize Winners			(306,498,685)	(293,681,510)
Net Cash Provided by Operating Activities			<u>89,170,896</u>	<u>85,481,159</u>
Cash Flows from Non-Capital Financing Activities:				
Net Proceeds Paid to State			(78,977,232)	(74,781,675)
Compulsive Gambling Contribution Transfer			(2,230,000)	(2,130,000)
Unused Compulsive Gambling Contribution			0	65,000
Unclaimed Prizes Transfer			(7,812,399)	(7,154,188)
Net Cash Used by Non-Capital Financing Activities			<u>(89,019,631)</u>	<u>(84,000,863)</u>
Cash Flows from Capital and Related Financing Activities:				
Purchases of Capital Assets			(1,198,005)	(1,311,392)
Proceeds on sale of Capital Assets			34,131	21,686
Net Cash Used by Capital Financing Activities			<u>(1,163,874)</u>	<u>(1,289,706)</u>
Cash Flows from Investing Activities:				
Investment Income			299,761	685,603
Net Cash Provided by Investing Activities			<u>299,761</u>	<u>685,603</u>
Net Increase (Decrease) in Cash and Cash Equivalents			<u>(712,848)</u>	<u>876,193</u>
Beginning of Year Cash and Cash Equivalents			<u>14,694,086</u>	<u>13,817,893</u>
End of Year Cash and Cash Equivalents			<u><u>\$ 13,981,238</u></u>	<u><u>\$ 14,694,086</u></u>
Reconciliation of Operating Income to Net Cash Provided by				
Operating Activities:				
Operating Income			\$ 89,549,757	\$ 86,226,534
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities:				
Depreciation			740,454	634,717
Gain on the disposal of capital assets			(30,468)	(21,686)
Net Change in Assets and Liabilities:				
Inventory			83,425	(372,023)
Accounts receivable			(1,337,602)	(504,110)
Prepaid expenses			137,013	(159,371)
Current Liabilities			1,211,261	(1,682,417)
Prize Awards Payable			(1,182,944)	1,359,515
Net Cash Provided by Operating Activities			<u><u>\$ 89,170,896</u></u>	<u><u>\$ 85,481,159</u></u>

See Accompanying Notes to Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

1. ORGANIZATION OF THE MINNESOTA STATE LOTTERY

In 1988, Minnesotans voted to amend their Constitution to authorize a state-run lottery. In 1989, the Legislature approved and the Governor signed Minnesota Statutes Chapter 349A into law, officially creating the Minnesota State Lottery, the 33rd lottery in the country.

The Minnesota State Lottery (the Lottery), an enterprise fund of the State of Minnesota, is under the supervision and control of the Director of the Lottery, who is appointed by the Governor with the advice and consent of the Senate. The Lottery net proceeds and proceeds from the in-lieu-of-sales tax on tickets sales are dedicated to the General Fund, the Environment and Natural Resources Trust Fund, the Game and Fish Fund, and the Natural Resources Fund. The funds are used to enhance the state's natural resources as well as public education, local government assistance, and public safety.

Lottery revenue is generated by sales of scratch games and lotto games that include: Daily 3^o, Northstar Cash^o, Print-N-Play[™], Gopher 5[™], Powerball^o, Power Play^o, Mega Millions^o, Megaplier^o, Hot Lotto^o, Sizzler^o and the MN Millionaire Raffle game.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lottery is an agency of the State of Minnesota using proprietary type enterprise accounting. The financial statements are prepared in accordance with generally accepted accounting principles as applicable to governmental units. Following are the significant accounting policies:

(a) Basis of Accounting

The financial statements of the Lottery have been prepared on the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recognized as incurred.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*,

provides that proprietary and similar trust funds should apply all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and Accounting Research Bulletins (ARB). As permitted by GASB Statement No. 20, the Lottery has elected not to apply FASB statements or interpretations issued on or after November 30, 1989, unless the GASB specifically adopts such statements or interpretations.

(b) Accounting Standard: GASB No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement established updated financial reporting requirements for state and local governments. This statement also requires budgetary comparison schedules to be presented as supplementary information. The Lottery is not legally required to adopt a budget and therefore budgetary comparison schedules are not included as supplementary information.

(c) Measurement Focus

A proprietary fund is accounted for using the "economic resources" measurement focus. This means that all assets and liabilities associated with its activity are included on its balance sheet. The proprietary fund type operating statement presents increases (revenues) and decreases (expenses) in net total assets.

(d) Operating Revenue and Expenses

Operating revenue and expenses for a proprietary fund such as the Lottery are revenues and expenses that result from providing services and producing and delivering goods and/or services. Operating revenues are derived from providing various types of games. Operating expenses include commissions, prize costs, other direct costs of providing lottery games, and administrative expenses.

Packs of Scratch tickets are distributed to retail sales outlets. Scratch ticket sales are recognized as operating revenue upon settlement of ticket packs by retailers and are recorded at the sale price to the consumer. Sales of lotto tickets are recognized as operating revenue on the date of the draw for which the tickets were purchased. Revenues from future lotto ticket draw sales are deferred until the date of the draw for which the tickets were purchased.

(e) Cash and Cash Equivalents

Cash and cash equivalents include an amount in demand deposits as well as funds held in the State Treasury and invested by the State Board of Investment.

(f) Prizes and Reserves

Scratch ticket prize expense is recognized in accordance with the predetermined prize structure for each game and is accrued when revenue is recognized. High tier prizes for certain Scratch ticket games may also be structured and paid as an annuity.

Prize expense for Daily 3[®] is recorded based upon the actual winners on the date of the draw. Prize expense for Print-N-Play[™] games are based on actual winners and are recorded at the time of sale. The prize expense for Northstar Cash[®] is recorded at 53.3 percent of draw sales. The prize expense for Gopher 5[®] is recorded at 55 percent of draw sales.

Included in the Lottery Prize Liability at June 30, 2010 is a \$913,625 prize reserve which reflects funds due to the State Treasury that have been set aside in the Lottery prize fund by the Director in accordance with Minnesota Statutes, Section 349A.10, subdivision 2(b) to assure proper funding for future lottery prizes. The prize reserve at June 30, 2009 was \$1,000,000.

Prize expenses for Powerball[®], Power Play[®], Hot Lotto[®] and Sizzler[®] are recorded at 50 percent of draw sales; Mega Millions[®] and the Megaplier[®] are recorded at 51 percent of draw sales. All Multi-State Lottery Association (MUSL) games are recorded in accordance with the MUSL prize structure. The Powerball[®], Power Play[®], Hot Lotto[®], Sizzler[®], Mega Millions[®], and Megaplier[®] prizes are paid with funds held by MUSL. MUSL has established separate prize pool reserves for Powerball[®], Power Play[®], Hot Lotto[®], Sizzler[®], Mega Millions[®], and Megaplier[®] to support payment of prizes in light

of the remote possibility of claims greatly exceeding the expected amounts. In the event that the Lottery ceases to participate in one of these games, the Lottery may make claim to assets, if any, in the related prize pool reserve. The Lottery's share of these prize reserves as of June 30, 2010 was as follows:

Powerball [®] /Power Play [®]	\$3,188,351
Mega Millions [®] /Megaplier [®]	(22,702)
Hot Lotto [®] /Sizzler [®]	1,554,498
Total	\$4,720,147

These reserves held by MUSL are not included in these financial statements.

The Lottery participates in joint marketing campaigns for various events in order to maximize its marketing dollar and the exposure to the Lottery. In doing so, other entities may donate various prizes which are given out by the Lottery to its players. The Lottery increases Other Income when the prize is received and increases Prize Expense when the prize is given to the player. The Lottery received \$53,456 and \$97,487 in donated prizes in fiscal year 2010 and 2009 respectively which were subsequently given to players.

(g) Scratch Ticket Inventory

Scratch ticket inventories are carried at cost using the specific identification method. Tickets are charged to operating expense over the estimated life of each Scratch game.

(h) Capital Assets

Assets costing \$5,000 or more are capitalized and are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line basis using estimated useful lives from three to seven years. Computer equipment, printers, and software costs are depreciated over three years. Vehicles, other than the warehouse truck, are depreciated over four years. Office equipment, lotto drawing equipment and signs are depreciated over five years. Office furniture and the warehouse truck and equipment are depreciated over seven years. Leasehold improvements are depreciated on a straight-line basis over the shorter of the useful life or length of the lease. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized.

(i) In-Lieu-of-Sales Tax

From every dollar in Lottery sales, the Lottery sets aside six and one-half cents as in-lieu-of-sales tax and remits that amount monthly to the Commissioner of Revenue as required by Minnesota Statutes, Section 297A.65. Minnesota Statutes, Section 297A.94(e), provides that 27.57% of the in-lieu-of-sales-tax is credited to the General Fund and the remaining 72.43% is credited equally between the Game and Fish Fund and the Natural Resources Fund to be used for natural resources projects as specified by law.

(j) Income Taxes

The Lottery, as an agency of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, the Lottery makes no provision for income taxes.

(k) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

3. CASH AND CASH EQUIVALENTS

Minnesota Statutes, Section 349A.10, subdivision 7(a), requires the Lottery transfer all funds to a Lottery cash flow account in the State Treasury. Funds necessary to cover cash needs are transferred as needed from the State Treasury to the Lottery fund. Funds in this account earn interest, which is credited monthly to the Lottery's account. Cash on deposits in the State Treasury and with financial institutions are insured. Cash on deposit is covered up to \$250,000 per institution by the Federal Depository Insurance Corporation (FDIC). At times, cash balances may be in excess of the FDIC insurance limit. As a result, the financial institutions are required to pledge securities as collateral to the Lottery in an amount equal to the funds in excess of the FDIC insurance limit. The securities are held in the name of the Lottery.

Table 1 summarizes the Lottery's cash and cash equivalents at June 30, 2010 and 2009.

Available cash in the State Treasury is invested by the State Board of Investment. In accordance with Minnesota Statutes, Section 11A.24, the State Board of Investment must invest in obligations and stocks of U.S. and Canadian governments, their agencies and their registered corporations, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and restricted participation in registered mutual funds. Lottery funds on deposit in the State Treasury cannot be tied to specific investment securities.

4. ACCOUNTS RECEIVABLE—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Table 2 summarizes the Lottery's accounts receivable at June 30, 2010 and 2009.

5. CAPITAL ASSETS

Tables 3 and 4 summarize changes in capital assets for the years ended June 30, 2010 and 2009, respectively.

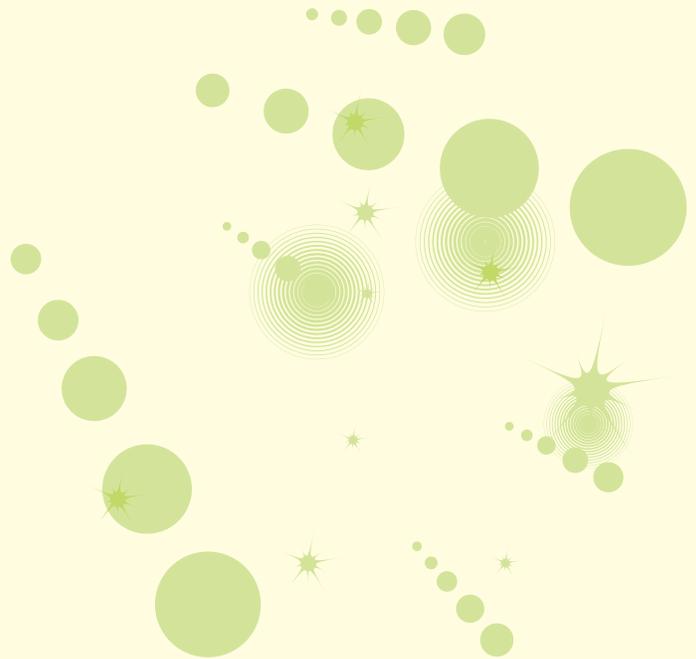


Table 1**Cash and Cash Equivalents at June 30, 2010 and 2009**

	2010	2009
Cash (checks issued but not yet presented for payment)	\$(330,304)	\$(909,786)
Cash on Deposit	14,311,542	15,603,872
Total Cash and Cash Equivalents	\$13,981,238	\$14,694,086

Table 2**Accounts Receivable at June 30, 2010 and 2009**

	2010	2009
Accounts Receivable	\$7,986,149	\$6,652,407
Allowance for Doubtful Accounts	(429,983)	(433,843)
Accounts Receivable, Net	\$7,556,166	\$6,218,564

Table 3 — Capital Assets**Year Ended June 30, 2010**

	July 1, 2009	Additions	Deletions	Transfers	June 30, 2010
Depreciable Capital Assets:					
Office Equipment & Furniture	\$2,740,785	\$16,839	\$(969,079)	\$(2,107)	\$1,786,438
PC & Printer Equipment	765,129		(766,734)	2,107	502
Software Costs	211,890	598,017			809,907
Leasehold Improvements	1,624,598	84,813	(228,755)	(37,352)	1,443,304
Vehicles	852,219	135,068	(138,319)		848,968
Computer Equipment	1,457,166	363,268	(897,479)	17,579	940,534
Lotto Drawing Equipment	775,528				775,528
Express Point Machines	1,013,375				1,013,375
Signs	59,378			19,773	79,151
Warehouse Equipment	211,329		(3,732)		207,597
Total	9,711,397	1,198,005	(3,004,098)	0	7,905,302
Less - accumulated depreciation:					
Office Equipment & Furniture	2,326,346	121,749	(971,186)		1,476,909
PC & Printer Equipment	765,129		(764,627)		502
Software Costs	136,145	112,712		1,183	250,040
Leasehold Improvements	1,598,363	12,552	(228,755)	(37,352)	1,344,808
Vehicles	528,741	167,372	(134,656)		561,457
Computer Equipment	1,396,572	79,548	(897,479)	16,396	595,037
Lotto Drawing Equipment	659,604	25,320			684,924
Express Point Machines	270,071	201,867			471,938
Signs	28,956	10,419		19,773	59,148
Warehouse Equipment	189,686	8,915	(3,732)		194,869
Total accumulated depreciation	7,899,613	740,454	(3,000,435)	0	5,639,632
Net Capital Assets	\$1,811,784	\$457,551	\$(3,663)	\$0	\$2,265,670

Table 4 — Capital Assets Year Ended June 30, 2009	July 1, 2008	Additions	Deletions	Transfers	June 30, 2009
Depreciable Capital Assets:					
Office Equipment & Furniture	\$2,440,840	\$290,038		\$9,907	\$2,740,785
PC & Printer Equipment	765,129				765,129
Software Costs	169,944	41,946			211,890
Leasehold Improvements	1,624,598				1,624,598
Vehicles	797,843	125,171	(70,795)		852,219
Computer Equipment	1,427,518	29,648			1,457,166
Lotto Drawing Equipment	654,368	121,160			775,528
Express Point Machines	319,500	693,875			1,013,375
Signs	59,378				59,378
Warehouse Equipment	201,775	9,554			211,329
Capital assets not yet placed in service	9,907			(9,907)	-
Total	8,470,800	1,311,392	(70,795)	-	9,711,397
Less - accumulated depreciation:					
Office Equipment & Furniture	2,225,952	100,394			2,326,346
PC & Printer Equipment	765,129				765,129
Software Costs	73,858	62,287			136,145
Leasehold Improvements	1,589,400	8,963			1,598,363
Vehicles	417,151	182,385	(70,795)		528,741
Computer Equipment	1,325,670	70,902			1,396,572
Lotto Drawing Equipment	647,861	11,743			659,604
Express Point Machines	90,525	179,546			270,071
Signs	18,525	10,431			28,956
Warehouse Equipment	181,620	8,066			189,686
Total accumulated depreciation	7,335,691	634,717	(70,795)	-	7,899,613
Net Capital Assets	\$1,135,109	\$676,675	\$(141,590)	\$0	\$1,811,784

6. UNCLAIMED PRIZES

Effective July 1, 2003 pursuant to Minnesota Statutes 349A.08, subdivision 5, all unclaimed prizes will be transferred to the General Fund at the end of the fiscal year. The unclaimed prizes due to the State are \$9,211,142 and \$7,812,399 on June 30, 2010 and 2009, respectively.

7. ACCRUED BENEFITS

A liability is recognized for unpaid vacation, compensatory hours, vested severance and anticipated severance pay when earned. Non-vested severance pay is estimated based upon historical trends and current demographics.

Accrued Benefits	Beginning	Additions	Retirements	Ending
2010	\$1,322,855	\$1,203,462	\$(987,227)	\$1,539,090
2009	\$1,250,708	\$1,111,760	\$(1,039,613)	\$1,322,855

8. NET ASSETS

Within 30 days after the end of each month, the Lottery is required by Minnesota Statutes, Section 349A.10, and subdivision 5 to deposit the net proceeds in the State Treasury. The monthly transfer of net proceeds leaves a zero balance in Net Assets. Net Proceeds Due to State on the accompanying balance sheets for the month ended June 30, 2010 and 2009 were \$4,920,924 and \$5,523,778, respectively. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation.

9. COMMITMENTS AND CONTINGENCIES

(a) Risk Management

The Lottery is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Lottery participates in the State's Risk Management Fund for property, liability, crime and automobile insurance coverage. The Lottery pays annual premiums for this coverage. The State's Risk Management Fund covers all claims above the deductible. The Lottery has not experienced any settlements in excess of coverage in the past three years.

Areas of Insurance Coverage, Limits and Deductibles as of June 30, 2010	Limits	Deductible
Property	\$7,641,772	\$1,000
Auto		
Bodily Injury & Property Damage	\$400,000/\$1,200,000	\$500
Primary Crime		
Employee Dishonesty, Money & Securities	\$25,000	\$1,000
General Liability	\$500,000/\$1,500,000	None
Excess Crime		
Employee Theft	\$1,000,000	\$25,000
Forgery or Alteration	\$1,000,000	\$25,000
Theft of Money & Securities	\$75,000	\$25,000
Robbery, Safe Burglary-Other Prop.	\$75,000	\$25,000
Outside Premises	\$75,000	\$25,000
Computer Fraud	\$1,000,000	\$25,000
Funds Transfer	\$1,000,000	\$25,000
Money Orders & Counterfeit Paper Currency	\$1,000,000	\$25,000

The Lottery participates in the State's workers' compensation program. The Workers' Compensation Alternative Cost Allocation Account (WCACAA) funds approximately 15% of the total workers' compensation costs annually. Funds are collected up-front through a premium based on each agency's unique exposure and experience. The Lottery paid a premium of \$29,923 in fiscal year 2010 and \$38,044 in fiscal year 2009.

The Lottery purchased 18 lifetime annuities from various insurance companies. If these insurance companies were to default on those obligations these policies would be covered under a "Guaranty Fund Law" which is administered by the State of Minnesota. The amount guaranteed per annuity is \$300,000. The Lottery may be ultimately responsible for the lifetime annuities; however, management feels that the possibility of these insurance companies defaulting on its obligations in a material sum in excess of the \$300,000 guaranteed by the State is remote.

(b) Operating Leases

The Lottery is committed under various operating leases for building and office space. For the years ended June 30, 2010 and 2009, the lease expense was \$1,081,370 and \$1,064,058, respectively. This is net of sublease rental income of \$355,157 and \$352,667 in 2010 and 2009, respectively. Sublease rental income is included within occupancy costs in the financial statements.

Future Minimum Lease Payments for Existing Lease Agreements — Year Ending June 30	Amount	Sub-Lease Amount	Net
2011	\$1,442,412	\$341,312	\$1,101,100
2012	1,307,916	336,371	971,545
2013	1,243,675	205,227	1,038,448
2014	174,906	0	174,906
2015	177,213	0	177,213
Thereafter	604,651	0	604,651
Total	\$4,950,773	\$882,910	\$4,067,863

10. COMPULSIVE GAMBLING TREATMENT CONTRIBUTION PROVIDED FROM PRIZE FUND

Minnesota Laws 1998, Chapter 407, Article 8, Section 11 directed the Lottery to pay \$340,000 annually from the prize fund to a special Indian Gaming account in the State Treasury. Funds in this account are transferred to the Department of Human Services for compulsive gambling treatment programs.

Minnesota Laws 2007, Chapter 147, Article 19, section 3, subdivision 8(e) and 9 appropriated \$1,790,000 for Fiscal Year 2009 from the prize fund to the Department of Human Services for statewide compulsive gambling treatment programs. Of this appropriation \$225,000 each year is to a grant to the state affiliate recognized by the National Council of Problem Gambling, \$100,000 of which is contingent on contribution of non-state matching funds. Of this appropriation Fiscal Year 2009 \$100,000 is for the purpose of compulsive gambling education, assessment, and treatment under Minnesota Statutes, section 245.98.

Minnesota Laws 2009, Chapter 79, Article 13, section 3, subdivisions 8(e) and 9 appropriated \$1,665,000 for Fiscal Year 2010 from the prize fund to the Department of Human Services for statewide compulsive gambling treatment programs. Minnesota Laws 2009, Chapter 101, Article 1, section 31 appropriated \$225,000 for Fiscal Year 2010 from the prize fund to the Gambling Control Board for a grant to the state affiliate recognized by the National Council of Problem Gambling to be used for public awareness, education, training of treatment providers, and research (of this appropriation \$50,000 each year is contingent on contribution of non-state matching funds).

11. RETAILER COMMISSIONS

Retailer commission is set by Minnesota Rule 7856.4030, subpart 1 as 5.5% of the price of each lottery ticket sold by a retailer and 1% of the amount of each winning lottery ticket cashed by a retailer.

12. STATUTORY LIMITATION ON OPERATING AND ADVERTISING EXPENSES

Gross revenue is defined in law as ticket sales and all other income less in-lieu-of-sales tax. Direct costs are expenses that are a direct function of lottery sales, which include all prize payouts, retailer commissions and incentives, amounts paid to produce and deliver scratch lottery tickets, and amounts paid to an outside vendor to operate and maintain an on-line gaming system. Operating costs include all other expenses of the Lottery.

Minnesota Statutes, Section 349A.10, subdivision 3 limits the Lottery's advertising costs to 2.75 percent and operating costs to 9 percent of gross revenue. Minnesota Laws 2007, Chapter 148, Article 1, section 19, provides that notwithstanding Minnesota Statutes, section 349A.10,

the operating costs of the Lottery may not exceed \$27,378,000 in fiscal year 2008 and \$28,141,000 in fiscal year 2009 and Minnesota Laws 2009, Chapter 101, Article 1, section 18 provides that notwithstanding Minnesota Statutes, section 349A.10, subdivision 3, the operation budget must not exceed \$28,111,000 in fiscal year 2010.

The Lottery is in compliance with the statutory limits on advertising and operating costs. Advertising costs as a percentage of gross revenue were 1.50 percent and 1.42 percent for the years ended June 30, 2010 and 2009, respectively. Operating costs as a percentage of gross revenue were 5.48 percent and 5.47 percent for the years ended June 30, 2010 and 2009, respectively.

13. RETIREMENT PLANS AND POST RETIREMENT BENEFITS

The Lottery is involved in two pension programs as follows:

(a) General Plan - Defined Benefit Pension Plan - Statewide:

Plan Description

The Lottery contributes to the Minnesota State Retirement System (MSRS), which includes a cost-sharing multiple-employer defined benefit pension plan administered by the MSRS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to qualifying plan members and beneficiaries. Benefit provisions are established and may be amended by state statute and vest after three years of credited service. MSRS issues a publicly available financial report that includes financial statements and required supplementary information for MSRS. That report may be obtained by contacting MSRS at 651-296-2761 or www.msrs.state.mn.us.

Funding Policy

Plan members are required to contribute 4.5% of their annual covered salary and the Lottery is required to contribute at an

actuarially-determined rate. The Lottery's current rate is 4.5% of annual covered payroll. The contribution requirements of plan members and the Lottery are established and may be amended by state statute.

(b) Unclassified Plan - Defined Contribution Plan - Statewide:

Plan Description

The Lottery contributes to the MSRS, which includes a multiple-employer defined contribution plan administered by the MSRS. The plan provides retirement and disability benefits, and death benefits to qualifying plan members and beneficiaries. Benefit provisions are established and may be amended by state statute and vest immediately. MSRS issues a publicly available financial report that includes financial statements and required supplementary information for MSRS. That report may be obtained by contacting MSRS at 651-296-2761 or www.msrs.state.mn.us.

Funding Policy

Plan members are required to contribute 4.0% of their annual covered salary and the Lottery is required to contribute 6.0% of the annual covered payroll. The contribution requirements of plan members and the Lottery are established and may be amended by state statute.

The Lottery provides other postemployment benefits (OPEB) as part of its total employee compensation package. GASB statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" requires the Lottery to report OPEB on the face of its financial statements. The Lottery implemented GASB Statement No. 45 in Fiscal Year 2008. Total expenses and related balance sheet accrual for OPEB in Fiscal Year 2008 was \$29,000 and is included in accrued benefits. Total expenses related to OPEB for fiscal year 2009 and 2010 were \$42,000 and \$35,235 respectively.

Retirement Plan Contributions to MSRS for the Years Ending June 30, 2010, 2009 and 2008			
	2010	2009	2008
General Plan — MSRS	\$365,152	\$348,431	\$320,039
Unclassified Plan — MSRS	40,132	38,019	33,038

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Minnesota State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



[Signature]
President
Jeffrey R. Erwin
Executive Director



CERTIFICATION OF EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER IN CONSIDERATION OF SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 AS IT RELATES TO THE MINNESOTA STATE LOTTERY

I, Clint Harris, Executive Director of the Minnesota State Lottery and I, Joseph Pahl, Chief Financial Officer of the Minnesota State Lottery, certify that:

1. I have reviewed these Financial Statements for the fiscal year ended June 30, 2010 of the Minnesota State Lottery;
2. Based on my knowledge, these statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by these statements;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Minnesota State Lottery as of, and for, the periods presented in these Financial Statements;
4. The Minnesota State Lottery's other certifying officer and I have disclosed, based on our most recent review of internal control over financial reporting, to the Minnesota State Lottery's auditors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Minnesota State Lottery's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Minnesota State Lottery's internal control over financial reporting.

Date: October 8, 2010

By: *[Signature]*
Clint Harris, Executive Director

By: *[Signature]*
Joseph Pahl, Chief Financial Officer



Minnesota State Lottery • 2645 Long Lake Road, Roseville, Minnesota 55113 • PH: 651-635-8100 • FAX: 651-297-7498 • TTY: 651-635-8268
An Equal Opportunity Employer

