



**FY11**  
**ANNUAL**  
**REPORT**





## 2011 ANNUAL REPORT

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Dear Readers:

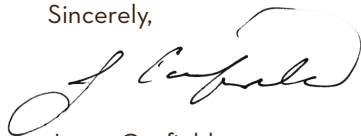
This fiscal year, for the first time in its history, the Lottery surpassed \$500 million in sales. From July 1, 2010 through June 30, 2011, the Lottery achieved sales of \$504.4 million. Lottery sales generated \$121.9 million for Minnesota.

The \$121.9 million includes \$54.6 million to fund critical environmental programs. More than \$65 million was transferred to the state's General Fund, including \$2.2 million to the Department of Human Services to fund problem gambling treatment and prevention programs. Lottery retailers, an important partner in our sales efforts, earned \$30.3 million in commissions and incentives. Players won a record \$310.9 million from our scratch and lotto game products.

Since its inception in 1990, the Lottery has raised more than \$2 billion to benefit all of Minnesota's citizens.

On behalf of all of us at the Lottery, thanks for playing!

Sincerely,



Jenny Canfield

Acting Executive Director





## HOW LOTTERY DOLLARS BENEFIT MINNESOTA

During fiscal year 2011, the Lottery generated \$121.9 million for state projects and programs. Lottery money benefits all Minnesotans through the Environment & Natural Resources Trust Fund, the Game & Fish Fund, the Natural Resources Fund and the state's General Fund.

### **More than \$2 billion has been generated for the state of Minnesota through lottery sales.**

In Minnesota, the Legislature determines how lottery revenue and proceeds are allocated. Lottery beneficiaries have changed over time.

The Environment and Natural Resources Trust Fund receives 40 percent of lottery net proceeds. Trust Fund projects help to preserve, restore and enhance Minnesota's environment. The Lottery transferred \$30.8 million to the Trust Fund during fiscal year 2011. This brings the total raised for the Trust Fund through Lottery sales to \$552.2 million. At the end of this fiscal year, the Trust Fund was valued at \$574.8 million. Projects have been funded in each of Minnesota's 87 counties. The Legislature appropriates funds from the Trust Fund on an annual basis. In accordance with the state constitution, annual appropriations are limited to 5.5 percent of the fund's market value as of the previous June 30. The Trust Fund is administered by the Legislative-Citizen Commission on Minnesota Resources.

Lottery money that is transferred to the state's General Fund supports state services that include public education, local government assistance, public safety and environmental protection. More than \$65 million was transferred to the state's General Fund during the fiscal year – \$1.2 billion has been

Pictured above: Split Rock Lighthouse along Lake Superior in Split Rock Lighthouse State Park. The Environment and Natural Resources Trust Fund has enabled expansion of the park by more than 200 acres.

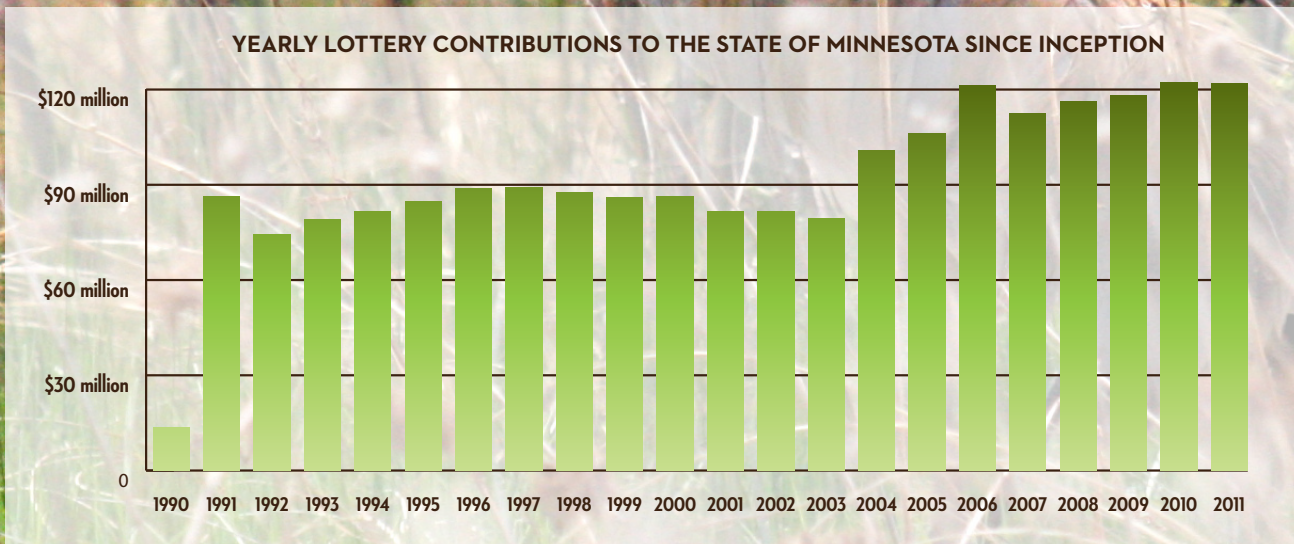
transferred since the Lottery's inception. This amount includes 60 percent of net proceeds, a portion of the 6.5 percent in-lieu-of-sales tax, unclaimed prizes and funds used for problem gambling treatment and prevention.

### **Fiscal year 2011 is the eighth consecutive year that the Lottery has contributed more than \$100 million to the state.**

The Lottery transfers 6.5 percent of sales to the state as in-lieu-of-sales tax payments. In fiscal year 2011 these payments were allocated as follows: \$11.9 million to the Game & Fish Fund for activities that improve, enhance or protect fish and wildlife resources in Minnesota; \$11.9 million to the Natural Resources Fund to benefit state and Twin Cities metropolitan area parks and trails, local trails and the Minnesota Zoological Garden, Como Zoo and Duluth Zoo; and the remaining \$9 million to the General Fund. The Game & Fish Fund and the Natural Resources Fund are both administered by the Department of Natural Resources.

### **Ninety-two cents of every dollar spent on Lottery tickets is returned to Minnesotans in the form of prize money, retailer commissions and contributions to the state for environmental projects, public services through the General Fund and problem gambling treatment and prevention programs.**

Visit [mnlottery.com](http://mnlottery.com) to learn about projects funded by the Environment & Natural Resources Trust Fund





## GAMES AND WINNERS

Lottery games continued to be a popular form of entertainment for Minnesota adults.

Scratch game sales topped \$354.8 million during the fiscal year. There were 65 scratch games introduced during the fiscal year with price points ranging from \$1 to \$20.

Lottery players have claimed \$5 billion in prizes since the Lottery's inception.

Ticket sales from lotto games (Powerball®, Mega Millions®, Hot Lotto®, Gopher 5®, Northstar Cash®, Daily 3®, Progressive Print-N-Play® and Minnesota Millionaire Raffle) totaled \$149.6 million. Powerball continues to be the most popular lotto game offered in Minnesota; however, Mega Millions, Hot Lotto, Gopher 5, Daily 3 and Progressive Print-N-Play sales increased significantly over fiscal year 2010.

Joshua Blesi of Falcon Heights won \$40,000 by playing Mega Millions. Because he added the Megaplier option when he purchased the ticket, his original \$10,000 prize grew to \$40,000.

Thirty-seven employees of a printing company in Minneapolis each contributed \$2 for Powerball tickets and won a \$200,000 prize.

For the fifth consecutive year, the Minnesota Millionaire Raffle, which launched on Nov. 2, sold out before the Dec. 31 deadline. All 600,000 Raffle tickets were purchased by Dec. 24. This year's Raffle offered 112 cash prizes, including two \$1 million prizes and 38 bonus prizes, including a 2011 Ford Explorer, a 2011 Ford Edge and a 2011 Ford Mustang.



Steve Falk of South St. Paul was this year's Minnesota Millionaire Raffle winner of a 2011 Ford Explorer.



On Nov. 18, 2010, the Lottery launched an online subscription program. This is something that players had been asking for and was intended to be a convenient option for our players that would generate incremental sales without taking away from sales at existing retail locations. There are players in Minnesota who do not or cannot visit retail outlets that sell lottery products because they have no way of getting to one; they are physically unable to do so; they are among the thousands of Minnesotans who winter in a warmer climate; or they simply prefer a higher degree of convenience. The subscription service has features built in to ensure that players make their purchases from within Minnesota and are at least 18 years old.

**GAMES AND WINNERS** *continued*

The Print-N-Play lotto game became a progressive jackpot game on Aug. 24, 2010. Players can choose from a variety of favorite games, including Bingo, Crossword and Slots. Each Progressive Print-N-Play® game offers a \$1, \$3 and \$5 price point. Jackpots start at \$5,000 and grow higher with each Progressive Print-N-Play ticket sold. The ticket price determines how much of the progressive jackpot players have the chance to win. The higher the ticket price the higher the percentage of the jackpot they could win.

Jeff Poplow of Albert Lea won \$1,500 by playing Hot Lotto.

Kirk Jensen of Franklin won \$309,698 by playing Gopher 5. "Why play if you don't believe you're going to win?"



Dicie Nelson of Eagan won \$660 by playing Daily 3.



Restaurant owner Melanie Stone of Brooklyn Park says she had a difficult time making pizzas after discovering she won \$100,000 playing Minnesota State Lottery Black.





Monica Johnson of Staples won \$49,269 by playing Northstar Cash.



Players fell in love the Lottery's first-ever "I Love Lucy" scratch game that launched just in time for Valentine's Day.



Randy Stenstrom of Coon Rapids won \$1 million by playing Minnesota Millionaire Raffle. He's pictured with his wife, Cathy.



Brady Means of St. Anthony won \$200,000 by playing Cash Blast. "I never ever thought this would happen – not to me."



McClendon Miller of Champlin won \$660 by playing Daily 3.





## MARKETING

Throughout the fiscal year, a variety of marketing efforts, including advertising campaigns and promotions, helped generate sales by attracting the attention of consumers and creating interest in lottery products.

- Attention-getting billboards, like the one near St. Cloud (pictured below), are an effective way to remind players to purchase tickets.



- LuckyMN.com is the Lottery's online players club and has continued to gain new members – for a total of 110,100 at the end of the fiscal year. The Players Club offers a variety of fun promotions, some requiring a purchase and some that are free.
- During the month of June 2011, lottery players could enter Mega Millions tickets on the LuckyMN Players Club website for a chance to win up to \$25,000 in the Mega Millions Cash Giveaway.
- \$100,000 Playcation Cash offered instant cash prizes of up to \$100,000 and the chance to win a \$5,000 dream vacation in a second-chance promotion.
- The Cash & Concerts scratch game offered cash prizes of up to \$25,000 and a second-chance promotion for the chance to win a VIP Concert Experience. David Gorick of Waseca won the VIP Concert Experience. He and five of his friends went to the George Thorogood concert at the Route 66 Casino in Albuquerque, New Mexico. They were treated to

Pro football Hall of Fame member and Vikings great, John Randle (pictured above), appeared in a humorous advertising campaign to support the Lottery's first Vikings scratch game. The ad campaign generated a lot of positive feedback from our players and the Vikings scratch game was a lottery player favorite during this fiscal year, with \$12.6 million in total sales.



airfare, hotel, dinner and prime concert seating. After the trip, Gorick said, "We all got to meet George Thorogood and we all had a great time!"

- The Buck\$ and Duck\$ scratch game featured ticket artwork created by Minnesota artists Scot Storm and Michael Sieve. The game offered instant cash prizes up to \$100,000 and a second-chance promotion for the chance to win a \$5,000 grand prize or wildlife prints by Minnesota artists. Faylene Lavallo of Maplewood (pictured) was one of 92 players who won wildlife prints. Dan Sjolander of Moorhead won the \$5,000 grand prize.



- Players could reel in cash prizes up to \$100,000 instantly by playing the Large Mouth Cash scratch game or enter a second-chance promotion for the chance to win a \$5,000 grand prize, a "Fish with a Pro" package or a Rapala® gift card!

## RETAILERS

More than 3,000 authorized lottery retailers, located throughout Minnesota, play a crucial role in the success of the Lottery.

Retailers receive 5.5 cents for each \$1 of ticket sales at their business, as well as 1 percent of the amount of each winning ticket cashed at their store (retailers can pay prizes of up to \$599). Retailers also receive a bonus for selling qualifying top prizes or jackpot-winning tickets after the prize has been claimed. 156 winning ticket bonuses were paid to retailers during the fiscal year ranging from \$130 to \$5,000.

In fiscal year 2011, lottery retailers earned a record \$30.4 million in commission and incentives – an average of \$10,000 per store.

### TOP 10 RETAILERS IN FISCAL YEAR 2011

1. Airport Foundation MSP
2. M & H Gas, Moorhead
3. Holiday, St. Paul (Rice St.)
4. Cub Foods, Brooklyn Center
5. Orton's Moorhead Food Mart, Moorhead
6. Rainbow Foods, Minneapolis (26th Ave. S.)
7. M & H Gas, St. Paul
8. East Grand Station, East Grand Forks
9. Cub Foods, Crystal
10. Holiday, Bloomington (W. 98th St.)

## 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.





## **COMMITMENT TO SOCIAL RESPONSIBILITY** *continued*

### **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](http://www.mnscams.org).

## **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 make responsible choices, including providing 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.

In fiscal year 2011, \$2.23 million was appropriated to the Department of Human Services for problem gambling treatment and prevention, bringing the Lottery's contributions for these efforts to \$32.67 million since 1990. Lottery contributions to problem gambling programs are determined by the Legislature.

Visit [mnlottery.com](http://mnlottery.com) for information on problem gambling treatment and prevention.

# INDEPENDENT AUDITOR'S REPORT

The Director  
Minnesota State Lottery  
Roseville, Minnesota



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We have audited the accompanying balance sheets of the Minnesota State Lottery as of June 30, 2011 and 2010, 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, 2011 and 2010, 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 25, 2011, 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 6 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.

A handwritten signature in black ink that reads "Schechter Dikken Kanter Andrews &amp; Selcer Ltd". The signature is written in a cursive, flowing style.

October 25, 2011

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW OF THE FINANCIAL STATEMENTS

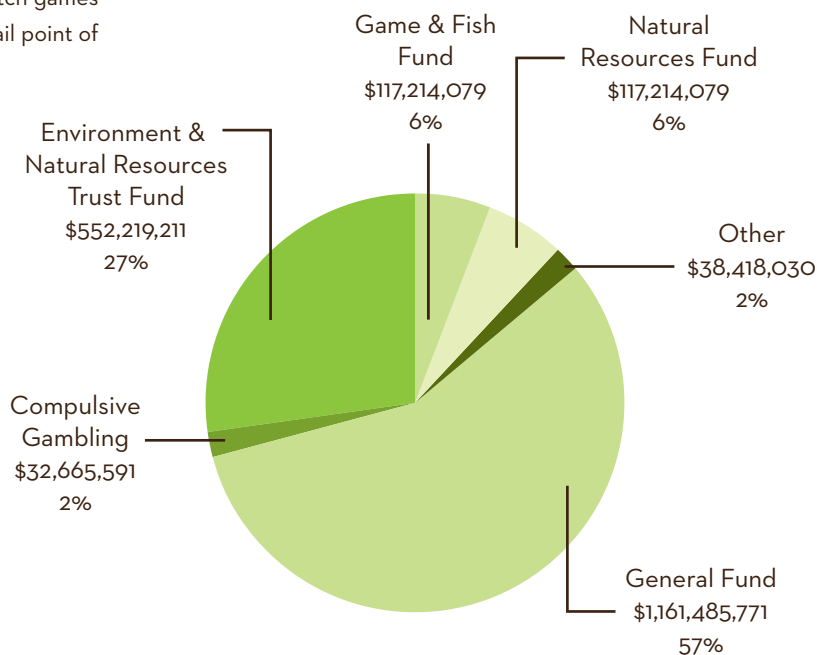
This discussion and analysis includes an overview of financial activities regarding the financial performance of the Minnesota State Lottery for the fiscal year ended June 30, 2011 and should be read in conjunction with the transmittal letter and supplementary information included in this report. This 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, 2011, 2010 and 2009 and a condensed version of the balance sheets as of June 30, 2011, 2010 and 2009.

### FINANCIAL HIGHLIGHTS

The Minnesota State Lottery achieved record operating revenue of \$504.5 million in fiscal year 2011. Lottery scratch ticket sales increased by more than \$16 million which was enough to make up for the \$11.2 million decrease in online sales. The Lottery achieved this in part by the introduction of new family of scratch games and high visibility of scratch game dispensers at retail point of sale locations.

### SUMMARY OF CONTRIBUTIONS TO STATE

The Lottery contributed \$121.9 million to the State in fiscal year 2011. This was a slight decrease from the \$122.2 million contributed in 2010 or less than 3/10 of 1 percent decrease and a modest increase from the \$118.2 contributed in fiscal year 2009. 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 in the last three fiscal years.



The Lottery has contributed over \$2 billion to the State since 1990.

CONTRIBUTIONS TO STATE	2011	2010	2009
Net proceeds to the State	\$77,110,501	\$78,374,378	\$77,024,023
In-lieu-of-sales tax	32,788,367	32,432,967	31,280,934
Compulsive gambling contribution	2,230,000	2,230,000	2,130,000
Unclaimed prizes to the State	9,759,269	9,211,142	7,812,399
<b>Total paid to State</b>	<b>\$121,888,137</b>	<b>\$122,248,487</b>	<b>\$118,247,356</b>

## SUMMARY OF RESULTS OF OPERATIONS

SUMMARY RESULTS OF OPERATIONS	2011	2010	2009
Gross receipts	\$471,736,178	\$466,575,526	\$450,059,496
Prizes, commissions and ticket costs	357,892,568	351,471,062	339,222,479
Gross profit	113,843,610	115,104,464	110,837,017
Operating expenses	24,865,261	25,554,707	24,610,483
Operating income	<u>\$88,978,349</u>	<u>\$89,549,757</u>	<u>\$86,226,534</u>
Non-operating revenues (expense):			
Interest earned on investments	121,421	\$265,763	\$674,888
Unused Compulsive Gambling Contribution	0	0	65,000
Payments to State (not including sales tax)	(89,099,770)	(89,815,520)	(86,966,422)
Total non-operating revenue (expense)	<u>(88,978,349)</u>	<u>(89,549,757)</u>	<u>(86,226,534)</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 emphasis on marketing scratch sales and holding operating expenses down. The introduction of a new family of scratch games, concentrating on key scratch ticket themes as well as the introduction of high visibility dispensers has helped propel scratch ticket sales. Operating revenue increased \$5.2 million or 1.1 percent in fiscal year 2011 over fiscal year 2010 and increased \$16.5 million or 3.7 percent in fiscal year 2010 over fiscal year 2009.

### OPERATING EXPENSES

Operating expenses decreased in fiscal year 2011 by \$689 thousand or 2.7% from fiscal year 2010 largely due to a decrease in marketing, promotion and salary expenses. Operating expenses increased in fiscal year 2010 by \$944,223 or 3.8 percent over fiscal year 2009 due largely to the increased marketing and advertising efforts to support the introduction of Lotto game Mega Millions.

<b>GROSS RECEIPTS BY GAME</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Scratch ticket sales	\$354,813,430	\$338,114,154	\$324,941,996
Lotto ticket sales:			
Daily 3 <sup>®</sup>	13,258,715	12,939,238	12,417,213
Gopher 5 <sup>®</sup>	16,457,217	15,451,880	16,485,360
Powerball <sup>®</sup>	59,028,789	82,252,717	83,265,951
Powerball with Power Play <sup>®</sup>	3,816,815	4,997,806	5,070,512
Mega Millions <sup>®</sup>	17,995,480	5,900,573	0
Mega Millions with Megaplier <sup>®</sup>	1,545,180	582,425	0
Hot Lotto <sup>®</sup>	12,250,143	13,805,414	13,565,974
Sizzler <sup>®</sup>	1,065,828	1,096,382	1,026,762
Northstar Cash <sup>®</sup>	10,872,164	11,899,536	11,671,586
Minnesota Millionaire Raffle	5,999,710	4,998,520	4,989,042
Progressive Print-N-Play <sup>®</sup>	7,332,938	6,930,076	7,810,737
<b>Total Lotto Ticket Sales</b>	<b>149,622,979</b>	<b>160,854,567</b>	<b>156,303,137</b>
Operating revenue	504,436,409	498,968,721	481,245,133
Other income	88,136	39,772	95,297
<b>Total operating revenue</b>	<b>504,524,545</b>	<b>499,008,493</b>	<b>481,340,430</b>
Less in-lieu-of-sales tax	32,788,367	32,432,967	31,280,934
<b>Gross receipts</b>	<b>\$471,736,178</b>	<b>\$466,575,526</b>	<b>\$450,059,496</b>

### SCRATCH GAMES

Scratch game sales accounted for 70.3 percent, 67.7 percent and 67.5 percent of sales respectively for fiscal years 2011, 2010 and 2009. Scratch sales increased over 4 percent in the last two fiscal years and continue to increase its respective percentage of total Lottery sales. Total scratch sales were \$354.8 million in fiscal year 2011, \$338.1 million in fiscal year 2010, \$324.9 million in fiscal year 2009.

### LOTTO GAMES

Total lotto game sales dipped in fiscal year 2011 due largely to the \$23.2 million drop in Powerball sales. One significant factor to account for this drop is the introduction of Mega Millions late in fiscal year 2010. The Mega Millions game concept is closely related to Powerball and the two games compete for sales dollars. The Mega Millions sales increase of \$12.1 million in fiscal year 2011 over fiscal year 2010 was not enough to offset the steep drop in Powerball sales in that same period. Additional contributing factors include a lower number of Powerball jackpots over \$200 million in fiscal year 2011 compared to fiscal year 2010.

All other lotto games in the aggregate have remained very consistent with sales of \$72.6 million, \$72.7 million and \$73.0 million in the last three fiscal years 2011, 2010 and 2009.

## BALANCE SHEET SUMMARY

CONDENSED BALANCE SHEET	2011	2010	2009
<b>Assets:</b>			
Cash and cash equivalents	\$16,539,449	\$13,981,238	\$14,694,086
Receivables	4,957,153	7,569,329	6,265,725
Inventory and prepaid expenses	1,112,825	1,827,037	2,047,475
Capital assets & other current assets	2,151,282	2,265,672	1,811,784
<b>Total Assets</b>	<b>\$24,760,709</b>	<b>\$25,643,276</b>	<b>\$24,819,070</b>
<b>Liabilities and fund equity:</b>			
Due to State and State Agencies	\$15,624,368	\$14,132,066	\$13,336,177
Accounts payable & current accrued expenses	7,480,960	5,309,656	4,244,286
Current accrued prizes	896,399	5,471,136	6,654,080
Long-term accrued expenses	758,982	730,418	584,527
Unrestricted Net Assets	(2,151,282)	(2,265,672)	(1,811,785)
Net Assets Invested in Capital Assets	2,151,282	2,265,672	1,811,785
<b>Net Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Liabilities</b>	<b>\$24,760,709</b>	<b>\$25,643,276</b>	<b>\$24,819,070</b>

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 \$540 thousand variance from fiscal year 2011 to 2010.

### CAPITAL ASSETS AND OTHER ASSETS

Net capital assets decreased by over \$114 thousand in fiscal year 2011. Purchases of capital assets included office equipment, vehicles and Express Point machines which accounted for \$730 thousand of the \$800 thousand in total purchases of capital assets. Net of depreciation, total retirements were \$1,464.

Other assets were down slightly in fiscal year 2011 from fiscal year 2010 due mainly to scratch ticket inventory dropping from \$1.3 million in fiscal year 2010 to \$600 thousand in fiscal year 2011.

### DUE TO STATE AND STATE AGENCIES

The fiscal year 2011 increase of \$1.5 million was due to the increase in unclaimed prizes due the state of \$548 thousand and an increase in June's proceeds due the state of \$944 thousand.

### ACCOUNTS PAYABLE AND CURRENT ACCRUED EXPENSES

Accounts payable and current accrued expenses is up \$2.2 million from 2010 to 2011 due mainly to the increase in In-lieu-of Sales Tax Payable of \$2.7 million. Fiscal Year 2010 In-lieu-of Sales Tax Payable for June was estimated and paid early. Other various payables decreased by \$500 thousand to net the \$2.2 million increase noted above.



<b>BALANCE SHEETS — JUNE 30, 2011 AND 2010</b>		
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents (Note 3)	\$16,539,449	\$ 13,981,238
Accounts Receivable (Note 4)	4,950,167	7,556,166
Interest Receivable	6,986	13,163
Scratch Ticket Inventory	597,284	1,375,928
Prepaid Expense	515,541	451,109
<b>Total Current Assets</b>	<b>22,609,427</b>	<b>23,377,604</b>
Capital Assets, Net (Note 5)	2,151,282	2,265,672
<b>Total Assets</b>	<b>\$24,760,709</b>	<b>\$25,643,276</b>
<b>Liabilities and Net Assets:</b>		
<b>Current Liabilities:</b>		
Net Proceeds Due to State (Note 8)	\$5,865,099	\$4,920,924
Unclaimed Prizes Due to State (Note 6)	9,759,269	9,211,142
Accounts Payable	2,339,773	3,478,056
In-Lieu-of-Sales Tax Payable	2,761,124	81,730
Prize Liability	896,299	5,471,136
Accrued Salaries and Benefits, Current (Note 7)	1,555,451	1,448,980
Deferred Revenue	824,612	300,890
<b>Total Current Liabilities</b>	<b>24,001,727</b>	<b>24,912,858</b>
Accrued Salaries and Benefits, Net of Current Portion (Note 7)	758,982	730,418
<b>Total Liabilities</b>	<b>24,760,709</b>	<b>25,643,276</b>
<b>Net Assets:</b>		
Unrestricted Net Assets	(2,151,282)	(2,265,672)
Net Assets Invested in Capital Assets (Note 8)	2,151,282	2,265,672
<b>Total Net Assets</b>	<b>0</b>	<b>0</b>
<b>Total Liabilities and Net Assets</b>	<b>\$24,760,709</b>	<b>\$25,643,276</b>

See Accompanying Notes to Financial Statements

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
<b>Operating Revenues:</b>		
Scratch Ticket Sales	\$354,813,430	\$338,114,154
Lotto Ticket Sales	149,622,979	160,854,567
Other Income	88,136	39,772
Total Operating Revenues	504,524,545	499,008,493
Less: In-Lieu-of-Sales Tax	32,788,367	32,432,967
Gross Receipts	471,736,178	466,575,526
<b>Direct Costs:</b>		
Scratch Ticket Prizes	236,881,984	225,083,096
Lotto Ticket Prizes	73,977,591	80,232,645
Online Vendor Expense	9,077,683	8,930,263
Ticket Costs	7,608,118	7,355,164
Retailer Commissions and Incentives (Note 11)	30,347,192	29,869,894
Total Direct Costs	357,892,568	351,471,062
Gross Profit	113,843,610	115,104,464
<b>Operating Expenses: (Note 12)</b>		
Advertising (Note 12)	6,475,905	6,980,526
Salaries and Benefits (Note 13)	10,649,595	10,973,599
Promotion	1,525,612	1,626,966
Purchased Services	1,442,811	1,728,938
Communication	472,423	527,876
Occupancy Costs (Note 9)	1,363,918	1,292,547
Supplies and Materials	1,164,920	875,310
Computer and Omnipoint Maintenance	321,110	268,888
Depreciation	913,304	740,454
Other Expense	535,663	539,603
Total Operating Expenses	24,865,261	25,554,707
<b>Operating Income</b>	<b>88,978,349</b>	<b>89,549,757</b>
<b>Nonoperating Revenue (Expense)</b>		
Interest Earned on Investments	121,421	265,763
Unused Compulsive Gambling Contribution	o	o
Payments to State:		
Compulsive Gambling Contribution from Prize Fund (Note 10)	(2,230,000)	(2,230,000)
Unclaimed Prizes to State (Note 6)	(9,759,269)	(9,211,142)
Net Proceeds to State (Note 8)	(77,110,501)	(78,374,378)
Total Nonoperating Revenue (Expense)	(88,978,349)	(89,549,757)
<b>Net Income</b>	<b>o</b>	<b>o</b>
<b>Net Assets at Beginning of Year (Note 8)</b>	<b>o</b>	<b>o</b>
<b>Net Assets at End of Year (Note 8)</b>	<b>\$o</b>	<b>\$o</b>

See Accompanying Notes to Financial Statements

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 507,654,266	\$497,287,007
Cash Received from Other Income	92,196	83,206
Payments to State (In-Lieu-of-Sales Tax)	(30,108,973)	(32,432,967)
Payments to Employees	(10,514,560)	(10,742,707)
Payments to Suppliers	(30,422,248)	(28,571,858)
Payments to Retailers	(30,439,388)	(29,953,100)
Payments to Prize Winners	(315,434,312)	(306,498,685)
Net Cash Provided by Operating Activities	<u>90,826,981</u>	<u>89,170,896</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Net Proceeds Paid to State	(76,166,326)	(78,977,232)
Compulsive Gambling Contribution Transfer	(2,230,000)	(2,230,000)
Unclaimed Prizes Transfer	(9,211,142)	(7,812,399)
Net Cash Used by Non-Capital Financing Activities	<u>(87,607,468)</u>	<u>(89,019,631)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Purchases of Capital Assets	(800,378)	(1,198,005)
Proceeds on sale of Capital Assets	11,478	34,131
Net Cash Used by Capital Financing Activities	<u>(788,900)</u>	<u>(1,163,874)</u>
<b>Cash Flows from Investing Activities:</b>		
Investment Income	127,598	299,761
Net Cash Provided by Investing Activities	<u>127,598</u>	<u>299,761</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,558,211	(712,848)
<b>Beginning of Year Cash and Cash Equivalents</b>	13,981,238	14,694,086
<b>End of Year Cash and Cash Equivalents</b>	<u>\$ 16,539,449</u>	<u>\$ 13,981,238</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$88,978,349	\$89,549,757
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities:		
Depreciation	913,304	740,454
Gain on the disposal of capital assets	(10,014)	(30,468)
Net Change in Assets and Liabilities:		
Scratch ticket inventory	778,644	83,425
Accounts receivable	2,605,999	(1,337,602)
Prepaid expenses	(64,432)	137,013
Other liabilities	2,199,868	1,211,261
Prize liability	(4,574,737)	(1,182,944)
Net Cash Provided by Operating Activities	<u>\$ 90,826,981</u>	<u>\$ 89,170,896</u>

See accompanying Notes to Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

## 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 ticket 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<sup>®</sup>, Northstar Cash<sup>®</sup>, Progressive Print-N-Play<sup>™</sup>, Gopher 5<sup>®</sup>, Powerball<sup>®</sup>, Power Play<sup>®</sup>, Mega Millions<sup>®</sup>, Megaplier<sup>®</sup>, Hot Lotto<sup>®</sup>, Sizzler<sup>®</sup> 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 accounting principles generally accepted in the United States of America 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 consigned to retail sales outlets and revenue is recognized 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<sup>®</sup> is recorded based upon the actual winners on the date of the draw. Prize expense for Progressive Print-N-Play<sup>®</sup> games are based on actual winners and are recorded at the time of sale. The prize expense for Northstar Cash<sup>®</sup> is recorded at 53.3 percent of draw sales. The prize expense for Gopher 5<sup>®</sup> is recorded at 55 percent of draw sales.

Included in the Lottery Prize Liability at June 30, 2011, was a \$986,802 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, 2010, was \$913,625.

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® and Sizzler® prizes are paid with funds held by MUSL. MUSL has established separate prize pool reserves for Powerball®, Power Play®, Hot Lotto® and Sizzler® 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, 2011 was as follows:

Powerball®/Power Play®	\$3,445,840
Mega Millions®/Megaplier®	284,187
Hot Lotto®/Sizzler®	1,531,106
<b>Total</b>	<b>\$5,261,133</b>

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 dollars 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 \$19,134 and \$53,456 in donated prizes in fiscal year 2011 and 2010 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 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 allocated to the General Fund and the remaining 72.43% is allocated 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 2010 financial statements to conform to the 2011 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 State Treasury to the Lottery fund. Funds in this account earn interest, which is credited monthly to the Lottery's account. Cash on deposits held 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, 2011 and 2010:

<b>TABLE 1</b>		
<b>CASH AND CASH EQUIVALENTS AT JUNE 30, 2011 AND 2010</b>	<b>2011</b>	<b>2010</b>
Cash (checks issued but not yet presented for payment)	(\$2,062,144)	(\$330,304)
Cash on Deposit	18,601,593	14,311,542
Total Cash and Cash Equivalents	<u>\$16,539,449</u>	<u>\$13,981,238</u>

<b>TABLE 2</b>		
<b>ACCOUNTS RECEIVABLE AT JUNE 30, 2011 AND 2010</b>	<b>2011</b>	<b>2010</b>
Accounts Receivable	\$5,383,724	\$7,986,149
Allowance for Doubtful Accounts	(433,557)	(429,983)
Accounts Receivable, Net	<u>\$4,950,167</u>	<u>\$7,556,166</u>

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, 2011 and 2010.

## 5. CAPITAL ASSETS

TABLES 3 and 4 show the summary of changes in capital assets for the years ended June 30, 2011 and 2010.

TABLE 3 – CAPITAL ASSETS 2011	JULY 1, 2010	ADDITIONS	DELETIONS	TRANSFERS	JUNE 30, 2011
<b>Depreciable Capital Assets:</b>					
Office Equipment & Furniture	\$1,786,438	\$106,573	(\$23,596)		\$1,869,415
Software Costs	809,907	27,822		17,494	855,223
Leasehold Improvements	1,443,304	1,060			1,444,364
Vehicles	848,968	141,536	(34,016)		956,488
Computer Equipment	941,036	12,800		(17,494)	936,342
Lotto Drawing Equipment	775,528				775,528
Express Point Machines	1,013,375	482,063			1,495,438
Signs	79,151				79,151
Warehouse Equipment	207,597	28,524			236,121
<b>Total</b>	<b>7,905,304</b>	<b>800,378</b>	<b>(57,612)</b>	<b>0</b>	<b>8,648,070</b>
<b>Less - accumulated Depreciation:</b>					
Office Equipment & Furniture	1,476,909	116,605	(22,132)		1,571,382
Software Costs	250,040	237,335		1,169	488,544
Leasehold Improvements	1,344,808	16,702			1,361,510
Vehicles	561,457	129,685	(34,016)		657,126
Computer Equipment	595,539	89,019		(1,169)	683,389
Lotto Drawing Equipment	684,924	25,297			710,221
Express Point Machines	471,938	277,428			749,366
Signs	59,148	10,431			69,579
Warehouse Equipment	194,869	10,802			205,671
<b>Total accumulated depreciation</b>	<b>5,639,632</b>	<b>913,304</b>	<b>(56,148)</b>	<b>0</b>	<b>6,496,788</b>
<b>Net Capital Assets</b>	<b>\$2,265,672</b>	<b>(\$112,926)</b>	<b>(\$1,464)</b>	<b>\$0</b>	<b>\$2,151,282</b>

TABLE 4—CAPITAL ASSETS 2010	JULY 1, 2009	ADDITIONS	DELETIONS	TRANSFERS	JUNE 30, 2010
<b>Depreciable Capital Assets:</b>					
Office Equipment & Furniture	\$2,740,785	\$16,839	(\$969,079)	(\$2,107)	\$1,786,438
PC & Printer Equipment	765,129		(766,734)	1,605	
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)	18,081	941,036
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
<b>Total</b>	<b>9,711,397</b>	<b>1,198,005</b>	<b>( 3,004,098)</b>		<b>7,905,304</b>
<b>Less - accumulated Depreciation:</b>					
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)	16,898	595,539
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
<b>Total accumulated depreciation</b>	<b>7,899,613</b>	<b>740,454</b>	<b>(3,000,435)</b>		<b>5,639,632</b>
<b>Net Capital Assets</b>	<b>\$1,811,784</b>	<b>\$ 457,551</b>	<b>(\$3,663)</b>	<b>\$ 0</b>	<b>\$2,265,672</b>

## 6. UNCLAIMED PRIZES DUE TO STATE

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 were \$9,759,269 and \$9,211,142 on June 30, 2011 and June 30, 2010, respectively.

## 7. ACCRUED SALARIES AND BENEFITS

A liability is recognized for accrued salaries, post employment benefit obligations, unpaid vacation, compensatory hours, vested severance and anticipated severance pay when earned. Nonvested severance pay is estimated based upon historical trends and current demographics. A schedule of the accrued salaries and benefits and compensated absences payable is shown in **Tables 5 and 6**.

TABLE 5 ACCRUED SALARIES BENEFIT	2011	2010
<b>Accrued Salaries and Benefits:</b>		
Salaries Payable	\$686,011	\$640,308
Compensated Absences Payable	848,440	808,672
Post Employment Obligations	21,000	0
<b>Total Current Accrued Salaries and Benefits</b>	<b>\$1,555,451</b>	<b>1,448,980</b>
Compensated Absences Payable	649,982	624,418
Post Employment Obligations	109,000	106,000
<b>Total Non-Current Accrued Salaries and Benefits</b>	<b>\$758,982</b>	<b>\$730,418</b>



<b>TABLE 6 COMPENSATED ABSENCES PAYABLE</b>	<b>BEGINNING</b>	<b>ADDITIONS</b>	<b>RETIREMENTS</b>	<b>ENDING</b>
2011	\$1,433,090	\$1,095,041	(\$1,029,709)	\$1,498,422
2010	1,293,854	1,126,463	(987,227)	\$1,433,090

## 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, 2011 and 2010 were \$5,865,099 and \$4,920,924, 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.

The areas of insurance coverage, limits and deductibles as of June 30, 2011 are as follows in **Table 7**:

<b>TABLE 7 COVERAGE</b>	<b>LIMITS</b>	<b>DEDUCTIBLES</b>
Property	\$8,583,126	\$1,000
Auto		
Bodily Injury & Property Damage	500,000/1,500,000	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	1,000,000	25,000
Currency		

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 \$27,032 in fiscal year 2011 and \$29,923 in fiscal year 2010.

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 through 2018. For the years ended June 30, 2011 and 2010, the lease expense was \$1,135,761 and \$1,081,370, respectively. This is net of sublease rental income of \$341,312 and \$355,157 in 2011 and 2010, respectively. Sublease rental income is included within occupancy costs in the financial statements. Future minimum lease payments for existing lease agreements are shown below in **Table 8**.

<b>TABLE 8 OPERATING LEASES—YEAR ENDING JUNE 30</b>	<b>LEASE AMOUNT</b>	<b>LESS SUB-LEASE AMOUNT</b>	<b>NET</b>
2012	\$1,391,142	\$336,371	\$1,054,771
2013	1,404,529	205,227	\$1,199,302
2014	370,508	0	370,508
2015	376,664	0	376,664
2016	372,722	0	372,722
Thereafter	539,733	0	539,733
Total	<u>\$4,455,298</u>	<u>\$541,598</u>	<u>\$3,913,700</u>

## 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 2009, Chapter 79, Article 13, section 3, subdivisions 8(e) and 9 appropriated \$1,665,000 for Fiscal Year 2011 and \$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 2010, 1st Special Session, Chapter 1, Article 25, section 3, subdivision 8(d) reduced this amount by \$79,000 in Fiscal Year 2011 and \$80,000 in Fiscal Year 2010, making the appropriation from the prize fund to the Department of Human Services for statewide compulsive gambling treatment programs for Fiscal Year 2011 and Fiscal Year 2010 \$1,586,000 and \$1,585,000, respectively. Minnesota Laws 2009, Chapter 101, Article 1, section 31 appropriated \$225,000 for Fiscal Year 2011 and \$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 2009, Chapter 101, Article 1, section 18 provides that notwithstanding Minnesota Statutes, section 349A.10, subdivision 3, the operating budget must not exceed \$28,740,000 in fiscal year 2011 and \$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 1.37 percent and 1.50 percent for the years ended June 30, 2011 and 2010, respectively. Operating costs as a percentage of gross revenue were 5.27 percent and 5.48 percent for the years ended June 30, 2011 and 2010, 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 is 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](http://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. See **Table 9** below.

**(b) Unclassified Plan –  
Defined Contribution Plan – Statewide:**

**Plan Description**

The Lottery contributes to the MSRS, which is 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](http://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’s contributions to MSRS for the years ending June 30, 2011, 2010 and 2009 are shown below in **Table 10**.

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. Total expenses related to OPEB for fiscal year 2011, 2010 and 2009 was \$24,000, \$35,235 and \$42,000 respectively.

<b>TABLE 9—DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS TO MSRS—YEAR ENDING JUNE 30</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	\$376,713	\$365,152	\$348,431

<b>TABLE 10 —DEFINED CONTRIBUTION PLAN CONTRIBUTIONS TO MSRS—YEAR ENDING JUNE 30</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	\$35,403	\$40,132	\$38,019

# 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, 2010

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.



*Linda C. Davison*

President

*Jeffrey R. Egan*

Executive Director



CERTIFICATION OF EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER

I, Jenny Canfield, Acting Executive Director of the Minnesota State Lottery and 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, 2011 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 25, 2011

By: 

Jenny Canfield, Acting Executive Director

By: 

Joseph Pahl, Chief Financial Officer



## **CONTACT INFORMATION**

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### **E-MAIL**

[lottery@mnlottery.com](mailto:lottery@mnlottery.com)

### **WEBSITE**

[mnlottery.com](http://mnlottery.com)

### **PLAYERS CLUB**

[luckymn.com](http://luckymn.com)

## **REGIONAL OFFICES**

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Owatonna, MN 55060  
(507) 444-2400

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Virginia, MN 55792  
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## **EXECUTIVE STAFF**

### **ACTING EXECUTIVE DIRECTOR**

Jenny Canfield

### **GENERAL COUNSEL/ ASSISTANT DIRECTOR**

Dale McDonnell

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Wes Harms

### **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

Written by Marie Hinton



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