



Minnesota Gambling Control Board

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

Annual Report of the Minnesota Gambling Control Board

**Fiscal Year
2011**

July 1, 2010 - June 30, 2011



Message from the Board Chair and Executive Director

December 31, 2011

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

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

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

This annual report provides information for the fiscal year beginning July 1, 2010, through June 30, 2011. Portions of the data were obtained from the Minnesota Department of Revenue.

Respectfully submitted,



William Goede, Chair



Tom Barrett, Executive Director

Gambling Control Board Members and Staff

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

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

Members	City	Appointed by	Term
William Goede, Chair	Plainview	Governor	6/08 to 6/12
Norman Pint, Vice Chair	New Prague	Public Safety	7/07 to 6/11
William Gillespie, Secretary	St. Paul	Attorney General	9/07 to 6/11
Robert Hyde	Plymouth	Governor	7/09 to 6/13
Geno Fragnito	Woodbury	Governor	7/10 to 6/14
Susan McCarville	Hopkins	Governor	7/10 to 6/14
Gary Sigfrinius	Forest Lake	Governor	7/10 to 6/12

Executive Director

Tom Barrett

Board Counsel

Melissa Eberhart, Assistant Attorney General

FY 2011 expenditures: \$2,591,000

Board staff: 30 [FTE 28.1]

Statement of Cash Receipts and Industry Overview

Cash Receipts

	Fee	Total Collected
Manufacturer license	\$9,000	\$ 63,000
Game approval/testing	25/100	176,375
Distributor license	6,000	72,000
Distributor salesperson license.....	100	9,700
Linked bingo game provider license	5,000	5,000
Organization license	350	440,650
Waivers of the organization license fee were granted to 21 organizations that expected to receive less than \$100,000 in gross annual receipts... \$7,350 waived.		
Gambling manager license	100	141,000
Premises permit	150	466,500
Regulatory fee [0.1% (.001) of gross receipts		994,300
Exempt Permit [up to 5 days of activity, total prizes valued at \$50,000 or less] 50/100		182,950
	Total dedicated fees	\$2,551,475
<hr/>		
Civil penalties and fines.....	vary	65,700
State gambling taxes, after refunds [collected by Department of Revenue].....		37,058,000
	Total civil penalties, fines, and taxes paid to state's general fund	\$37,123,700
<hr/>		
	Total taxes, fees, and penalties	\$39,675,175

Industry Overview

On June 30, 2011, the Minnesota lawful gambling industry consisted of:

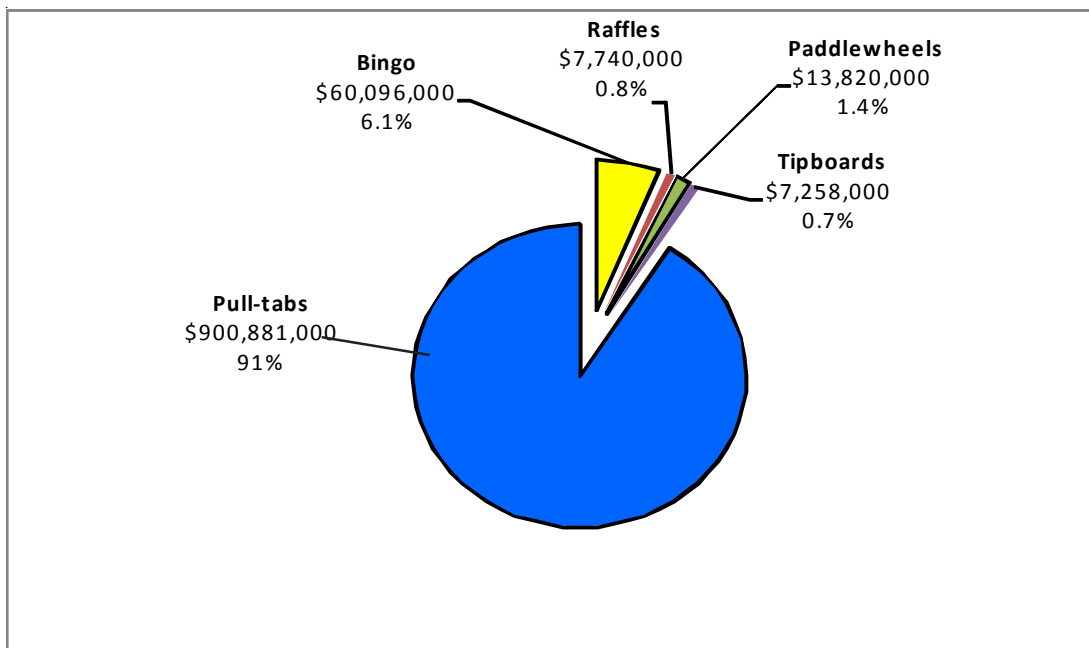
Licensees and Activities	Description																												
9 Manufacturers	Sold product to licensed distributors. In FY11, approved 4,337 new games.																												
12 Distributors	Sold product to licensed lawful gambling organizations.																												
96 Distributor salespersons	Persons licensed to sell gambling equipment to nonprofit organizations.																												
1 Linked bingo game provider	Providing linked bingo games to licensed organizations.																												
1,215 Nonprofit organizations	Nonprofit organizations licensed to conduct gambling at permitted premises.																												
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Type of Organization</u></th> <th style="text-align: right;"><u>Number</u></th> <th style="text-align: right;"><u>Percent</u></th> </tr> </thead> <tbody> <tr> <td>Fraternal - Eagles, Moose, Elks, Knights of Columbus</td> <td style="text-align: right;">226</td> <td style="text-align: right;">18%</td> </tr> <tr> <td>Veterans - American Legion, VFW, & Auxiliaries</td> <td style="text-align: right;">344</td> <td style="text-align: right;">28%</td> </tr> <tr> <td>Religious - Church/Cathedral</td> <td style="text-align: right;">30</td> <td style="text-align: right;">3%</td> </tr> <tr> <td>Other nonprofit - Fire relief, hockey, Jaycees, Lions, baseball, athletic, rod & gun, sportsman, snowmobile, business/chamber/development, community, other</td> <td style="text-align: right;">615</td> <td style="text-align: right;">51%</td> </tr> <tr> <td style="text-align: right;">TOTAL</td> <td style="text-align: right;">1,215</td> <td style="text-align: right;">100%</td> </tr> </tbody> </table>	<u>Type of Organization</u>	<u>Number</u>	<u>Percent</u>	Fraternal - Eagles, Moose, Elks, Knights of Columbus	226	18%	Veterans - American Legion, VFW, & Auxiliaries	344	28%	Religious - Church/Cathedral	30	3%	Other nonprofit - Fire relief, hockey, Jaycees, Lions, baseball, athletic, rod & gun, sportsman, snowmobile, business/chamber/development, community, other	615	51%	TOTAL	1,215	100%										
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TOTAL	1,215	100%																											
1,215 Gambling managers	Members of licensed nonprofit organizations responsible for supervising organizations' lawful gambling operations.																												
2,728 Charitable gambling sites	Locations in Minnesota where lawful gambling was conducted.																												
2,340 Exempt organizations	Nonprofit organizations that applied for authorization to conduct limited gambling of up to five days per calendar year conducted 3,275 activities, with gross receipts of \$31,849,000 .																												
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303 Excluded organizations	Nonprofit organizations that applied for authorizations to conduct 543 excluded bingo activities. Excluded bingo is conducted for four or fewer events, or conducted up to 12 consecutive days in conjunction with a county fair, civic celebration, or state fair.																												

Lawful Gambling Statistics

Fiscal Year Summary

ACTIVITY	Gross Receipts (sales)		Prizes Paid	Net Receipts (gross less prizes)		% Payout	
	FY 2011	% Change from FY10	FY 2011	FY 2011	% Change from FY10	FY11	FY10
Pull-tabs	\$ 900,881,000	0.9	743,563,000	157,318,000	1.1	82.5	82.6
Bingo	60,096,000	1.0	45,467,000	14,629,000	-0.8	75.7	76.1
Paddlewheels	13,820,000	2.0	10,085,000	3,735,000	3.9	73.0	73.4
Raffles	7,740,000	4.3	3,798,000	3,942,000	5.1	49.1	47.5
Tipboards	7,258,000	13.0	5,259,000	1,999,000	8.2	72.5	71.4
Interest income	111,000	-26.0	- 0 -	111,000	-26.0		
TOTALS	\$ 989,906,000	1.0	\$808,172,000	\$181,734,000	1.1	81.6	81.7

Lawful Gambling Activity



Ten-Year Comparison of Receipts and Prizes Paid with percent change from previous fiscal year

FY	Gross Receipts		Prizes Paid		Net Receipts	
11	\$989,906,000	1.0%	\$ 808,172,000	1.0%	\$181,734,000	1.1%
10	980,144,000	-5.0%	800,370,000	-5.0%	179,774,000	-5.0%
09	1,031,699,000	-9.6%	842,507,000	-9.8%	189,192,000	-9.0%
08	1,141,443,000	-9.8%	933,591,000	-9.7%	207,852,000	-10.3%
07	1,265,707,000	-3.3%	1,033,863,000	-3.3%	231,844,000	-3.0%
06	1,308,264,000	-4.8%	1,069,325,000	-4.8%	238,939,000	-4.8%
05	1,373,783,000	-3.1%	1,122,783,000	-3.3%	251,000,000	-2.5%
04	1,418,109,000	0.0%	1,160,753,000	-0.3%	257,356,000	1.5%
03	1,418,200,000	-1.2%	1,164,591,000	-1.0%	253,609,000	-2.1%
02	1,435,426,000	-0.1%	1,176,268,000	0.2%	259,158,000	-1.1%

Lawful Purpose Expenditures

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



Youth activities

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



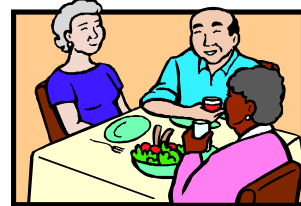
Recognition of military service



Scholarship funds, and private or public nonprofit educational institutions



Repair and maintenance projects of organization-owned buildings



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

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



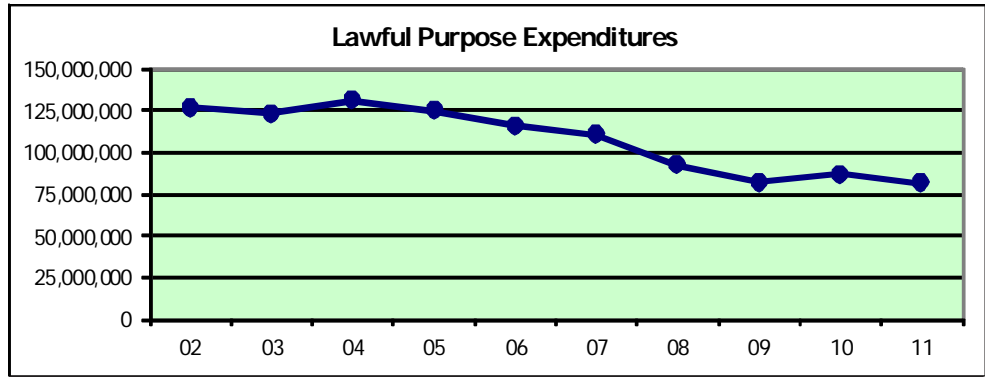
Other Lawful Purpose Expenditure Categories

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

Lawful Purpose Expenditures

Ten-Year Comparison

11	\$ 81,336,000
10	\$ 87,025,000
09	\$ 82,247,000
08	\$ 92,311,000
07	\$110,144,000
06	\$116,011,000
05	\$124,974,000
04	\$130,944,000
03	\$123,138,000
02	\$126,514,000



Lawful Purpose Expenditures

	<u>FY 2011</u>	<u>FY 2010</u>	<u>% Change</u>
Charitable Contributions	\$ 44,278,000	\$ 51,217,000	-13.5
State Gambling Taxes Paid	37,058,000	35,808,000	3.5
Gross receipts state tax	15,531,000	15,359,000	1.1
Net receipts state tax	1,910,000	1,889,000	1.1
Combined receipts state tax	19,617,000	18,560,000	5.7
TOTALS	\$ 81,336,000	87,025,000	-6.5

State Gambling Taxes

	<u>Taxes paid</u>	<u>Refund</u>	<u>Net taxes (after refund)</u>	<u>Net taxes as % of Gross receipts</u>	<u>Net receipts</u>
11	\$43,943,000	\$6,885,000	37,058,000	3.74%	20.39%
10	42,628,000	6,820,000	35,808,000	3.65%	19.92%
09	44,761,000	6,917,000	37,844,000	3.67%	20.00%
08	50,019,000	7,328,000	42,691,000	3.74%	20.54%
07	56,461,000	7,477,000	48,984,000	3.87%	21.13%
06	58,519,000	7,381,000	51,138,000	3.91%	21.40%
05	61,621,000	7,333,000	54,288,000	3.95%	21.63%
04	63,539,000	6,900,000	56,639,000	3.99%	22.01%
03	62,698,000	6,566,000	56,132,000	3.96%	22.13%
02	62,655,000	6,232,000	56,423,000	3.92%	21.73%

The three state gambling taxes included as lawful purpose expenditures are:

Gross Receipts Tax

1.7 percent of the gross receipts on pull-tab and tipboard games.

Net Receipts Tax

8.5 percent on the net receipts on bingo, raffles, and paddlewheels.

Combined Receipts Tax

A progressive tax calculated on the gross receipts from pull-tab games, tipboards, and interest.

Allowable Expenses

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

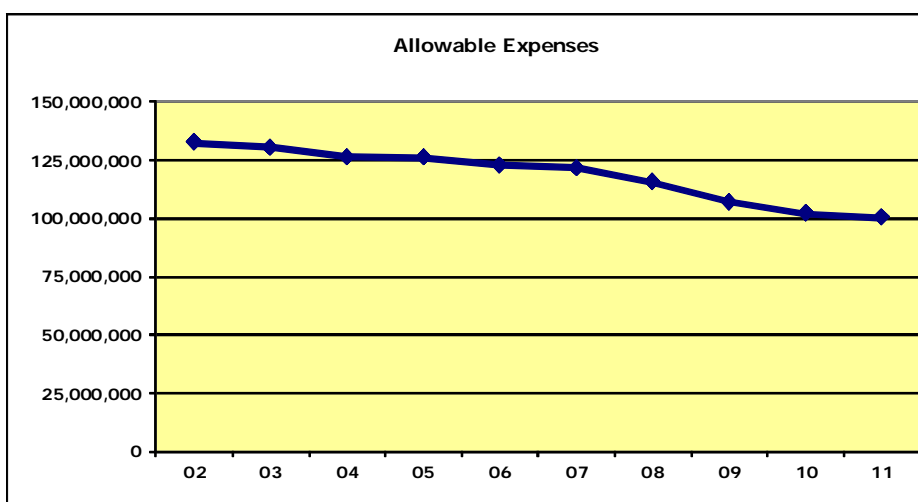
Allowable expenses as reported to the Department of Revenue included:

Operating Cost	FY11	FY10	% Change
Compensation and payroll taxes ¹	48,863,000	49,966,000	-2.2
Gambling equipment (pull-tabs, bingo paper, tipboards, paddletickets)	18,014,000	18,157,000	-0.8
Rent ²	17,833,000	17,760,000	0.4
Accounting and legal work	6,048,000	6,563,000	-7.8
Office supplies and miscellaneous expenses	5,133,000	5,324,000	-3.6
Gambling device purchase, storage, maintenance (paddlewheel & table, bingo number selection device, pull-tab dispensing device)	2,256,000	2,253,000	0.1
Penalty and interest paid on taxes	110,000	54,000	103.7
Cash shortages (see next page)	1,121,000	1,163,000	-3.6
Utilities (premises owned by organization)	405,000	402,000	0.7
Bond; local government investigation fee ³	222,000	251,000	-10.6
Advertising	453,000	438,000	3.4
Theft and liability insurance	532,000	563,000	-5.5
Expenses were offset by reimbursements from a source of nongambling funds for the following:			
Excess cash shorts	(582,000)	(603,000)	-3.5
Negative expense calculations	(10,000)	(124,000)	-91.9
TOTAL	\$100,398,000	\$102,167,000	-1.7%

1. Lessors and their employees may not be paid compensation.
2. Rent is all-inclusive (utilities, etc.) and for bar operations, the lessor must reimburse all cash shortages.
3. License and permit fees paid to the state are reported as a lawful purpose instead of as an allowable expense.

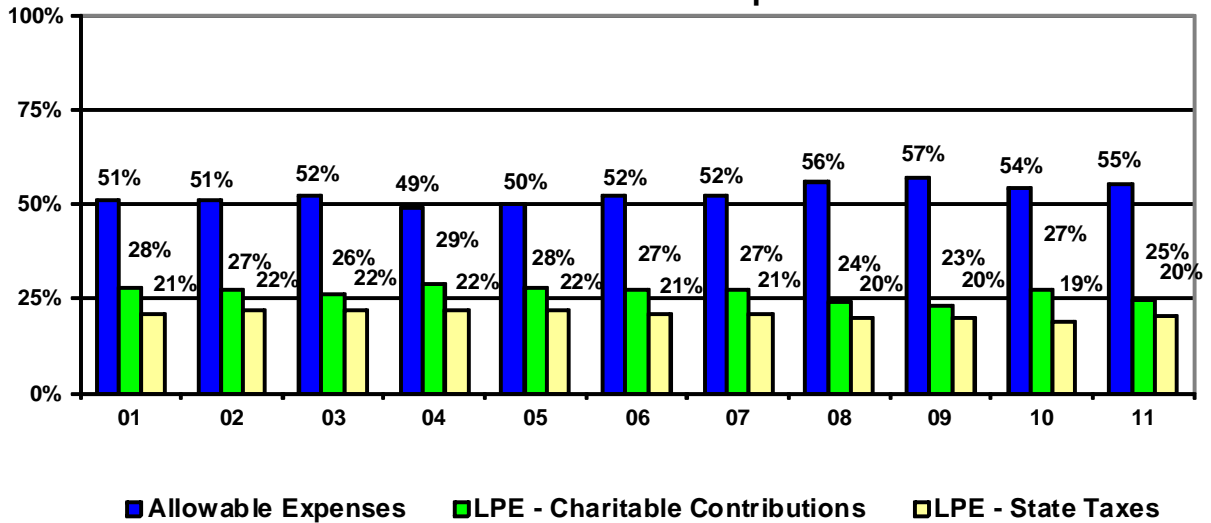
Ten-Year Comparison of Allowable Expenses

11	\$100,398,000
10	\$102,167,000
09	\$106,945,000
08	\$115,541,000
07	\$121,700,000
06	\$122,928,000
05	\$126,026,000
04	\$126,412,000
03	\$130,471,000
02	\$132,644,000

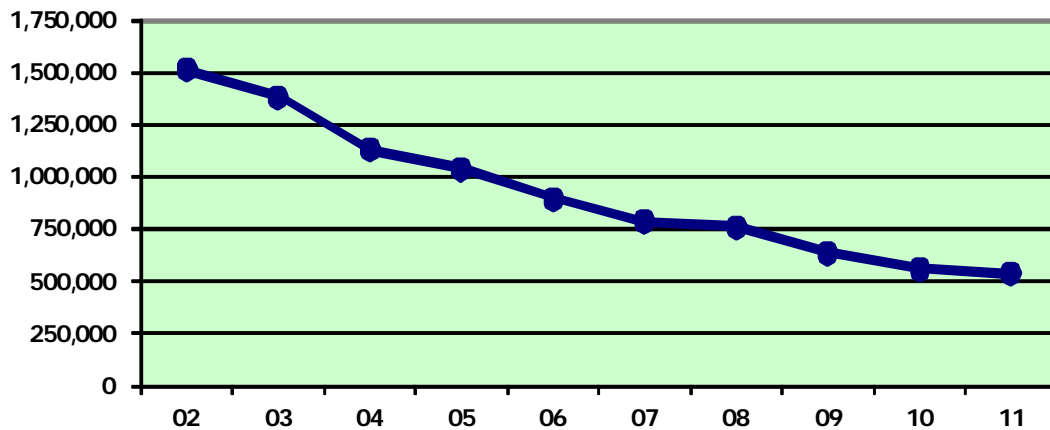


Lawful Gambling Statistics

Distribution of Net Receipts



Net Cash Shortages



	Shortages	Gross Receipts
11	\$ 539,000	0.05%
10	560,000	0.06%
09	639,000	0.06%
08	763,000	0.07%
07	788,000	0.06%
06	896,000	0.07%
05	1,038,000	0.08%
04	1,132,000	0.08%
03	1,383,000	0.10%
02	1,513,000	0.11%

A cash shortage is the difference between the reported net receipts for a game and the actual cash on hand to be deposited for that game.

For reporting purposes, shortages may not exceed three-tenths of one percent (.3%) of gross receipts (sales) and are treated as an allowable expense.

For bar operation leases, cash shortages must be reimbursed by the lessor.

The Board closely monitors cash shortages, because shortages may indicate theft or mismanagement.

Government

Legislative Changes

In 2011, the only legislative change that occurred was a reduction in the minimum amount that must be expended by certain organizations for lawful purpose.

This provision applies only to organizations that only conduct lawful gambling in a location where the primary business is bingo [bingo hall]. Those organizations must expend a minimum of 20 percent annually for lawful purpose or be subject to sanctions by the Board.

The change became effective May 25, 2011.
Minn. Stat. 349.15, subdivision 1, paragraph (d)

Rule Changes

The Board completed extensive revisions to its rules.

Changes included manufacturing standards for promotional tickets, electronic bingo devices, and pull-tab dispensing devices. The Board also addressed statutory changes that occurred in 2007, 2008, and 2009.

The rule changes became effective March 1, 2011.

Local Government

Voluntary A10 LPE contributions

- Organizations may provide voluntary contributions to units of government (under lawful purpose code A10) for government programs and projects of the United States, the state of Minnesota, or local units of government.
- The city or county is not required to report the receipt of these contributions to the Board.

10% fund contributions, when mandated by ordinance

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

- The city or county may only spend the fund for charitable contributions (Minn. Stat. 349.12, subd. 7a), or for police, fire, and other emergency or public safety-related services, equipment, and training.
- The fund may not be used for the payment of pension obligations or general government functions.
- A licensed organization that contributes to the 10% fund may not be a beneficiary of the fund.
- A city or county that has a 10% fund must submit a report to the Gambling Control Board by March 15.

- In fiscal year 2011, a total of \$7,259,000 was contributed to units of government for voluntary contributions allowed under code A10.
- In calendar year 2010, 99 cities required 10% fund contributions as mandated by their city ordinance.
 - A total of \$742,665 was contributed to cities for 10% funds.
 - Cities reported a balance of \$1,239,381 for future distribution.

Education Program

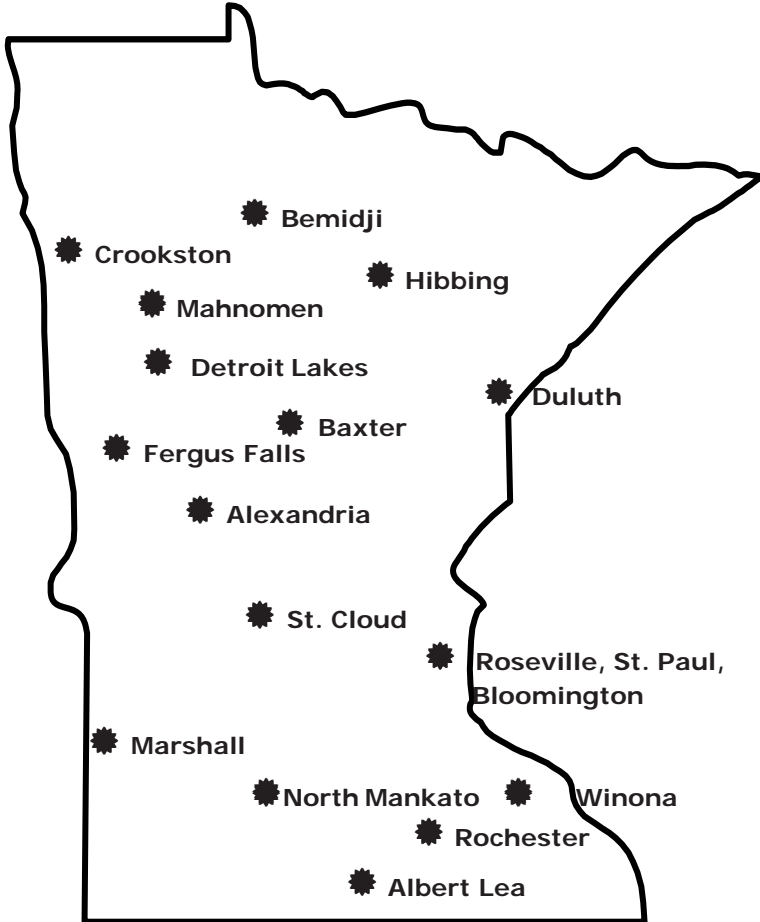
An integral part of the Board’s mission is educating the lawful gambling industry. To ensure the integrity of the industry, education is provided to organizations through the following opportunities.

Continuing Education Classes Speaking Engagements

Gambling managers are required to attend one class each year.

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

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



Other Education Programs

Gambling Manager Seminars

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

Mentoring

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

Gaming News

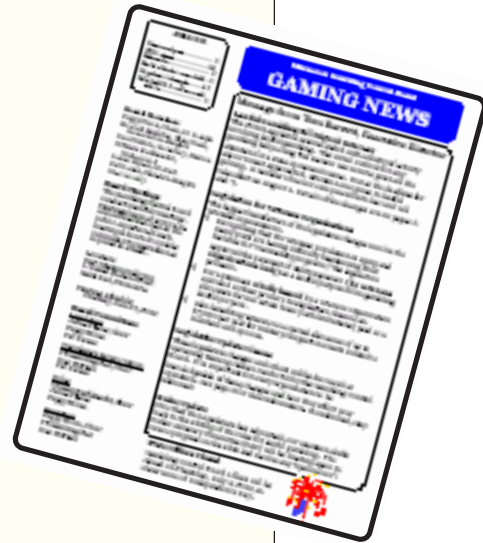
The Board publishes the quarterly *Gaming News* newsletter on its web site at www.gcb.state.mn.us.

The newsletter is mailed to all licensed gambling managers. Subscriptions to the newsletter are available through Minnesota's Bookstore.

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

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

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



Lawful Gambling Manual

Minnesota
Gambling Control
Board

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

The *Manual* provides information on statute and rule requirements in an easy to understand format, and was last updated in 2011.

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

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

“Everything you always wanted to know about lawful gambling...” can be found on the Board’s web site at:



Minnesota Gambling Control Board

www.gcb.state.mn.us

BOARD INFORMATION

- √ Meeting dates
- √ Agenda
- √ Summary of monthly Board meetings - actions taken on requests and gambling equipment

PUBLICATIONS

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

LOCAL GOVERNMENT

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

LINKS

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

EDUCATION AND OTHER INFORMATION

“We’re here to help”

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



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