



2013 ANNUAL REPORT



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Dear Readers:

It has been another record-breaking year for the Minnesota State Lottery. This is the sixth consecutive year that we can say that. Although sales are up for most lotteries, there are only a handful of states that have six consecutive years of growth. I believe there are a number of reasons for this Lottery's great success, but the two biggest reasons have to be the great and hard-working retailers and the very talented and hard-working staff at the Lottery.

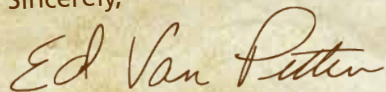
I have stopped at a number of retail locations during some of my travels in this great state and always find our retailers to be friendly and enthusiastic about the Lottery. It is nice to visit with retailers about the existing promotions and get their thoughts about how things are going with their business and the Lottery. I know that all businesses are operating on a closer margin than they would like, so we strive to do anything that will help our retailers get customers in the door. We do understand that without our retailers we do not have a business.

I would also like to just say thank you to Lottery staff. As I said, they are talented and work hard. In addition, they are innovative and always looking for ways to make our Lottery more efficient and more profitable so that our beneficiaries can benefit even more.

And, of course, where would we be without our players? We paid out a record amount in prizes again this year, as you will see in the report. We hope we have widened our player base and that we have brought entertaining games to the market. We also take our duties toward responsible gaming quite seriously, and continue to be very proactive in that regard.

It was another great year and we look forward to more success in FY14.

Sincerely,



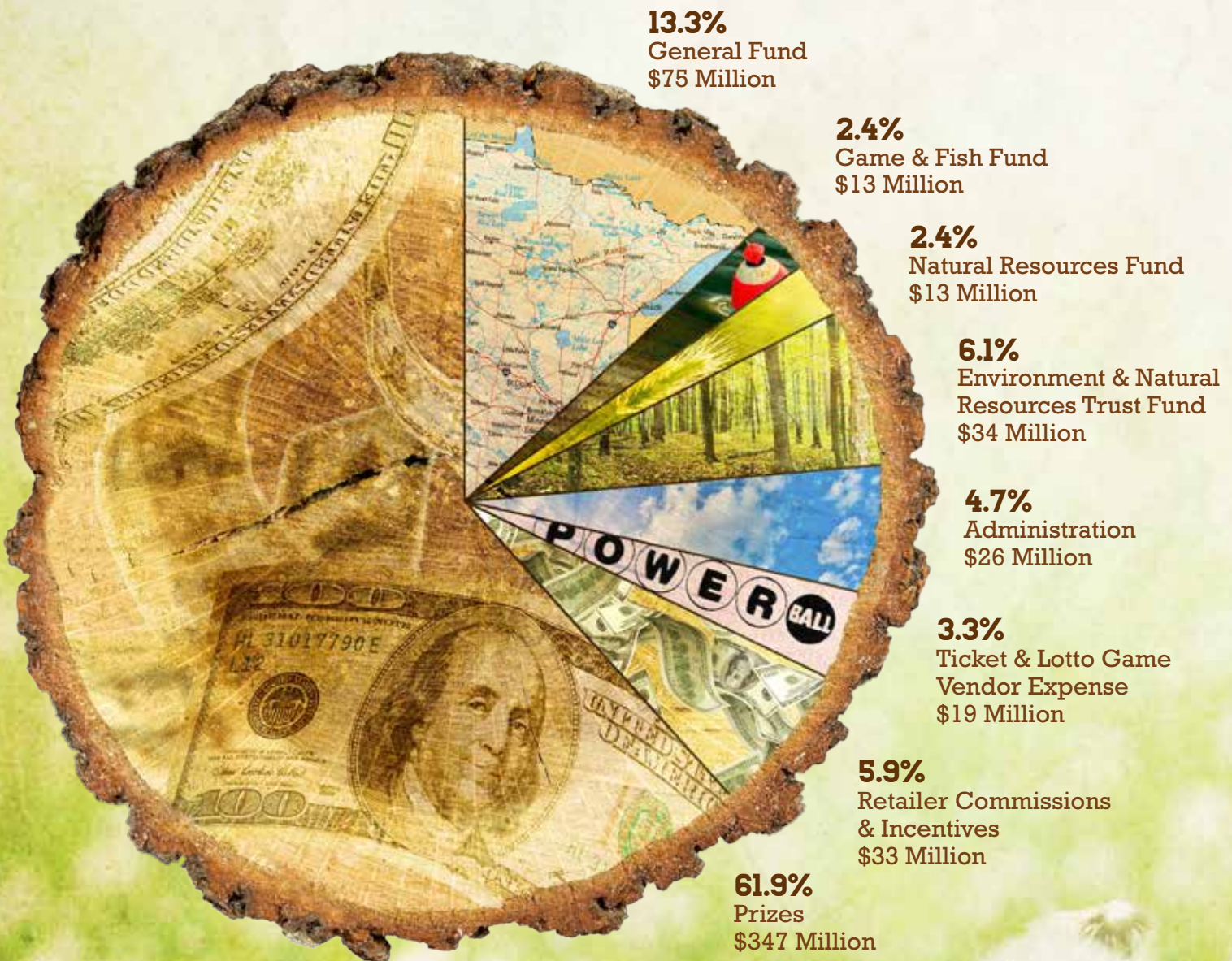
Ed Van Petten
Executive Director

HOW LOTTERY DOLLARS BENEFIT MINNESOTA

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. Visit mnlottery.com to see how Trust Fund projects have benefited Minnesota.

Fiscal Year 2013 Total Operating Revenue:
RECORD: \$560 MILLION

Contributions to State Programs:
RECORD: \$135 MILLION



BREAKTHROUGH INITIATIVES

ATM & Play at the Pump

The Lottery introduced two groundbreaking initiatives when it began ticket sales at select fuel pumps and ATM locations across the Twin Cities metro area in the fall of 2012. Minnesota became the first lottery in the world to begin Play at the Pump and the first U.S. lottery to offer ticket sales at ATMs. Players have the option to purchase 5, 10 or 20 quick-pick tickets for the next Mega Millions® drawing and 3, 5 or 10 quick-pick tickets for the next Powerball® drawing. Age verification features are built into the systems to ensure users are at least 18 years of age. The Lottery expanded the ATM program outside the metro area during the second half of the fiscal year. Offering ATM & Play at the Pump are innovative approaches to generate additional revenue for the state and its important beneficiaries.

Above: Bob Brooks purchased the first lottery ticket ever sold at an ATM at Lottery headquarters in Roseville on Oct. 19, 2012.

Left: Lottery sales began at select gas pumps a couple of weeks later. On Nov. 13, 2012, Jessica Racchini was the first person in the world to play at the pump.



EXPANDED MARKET REACH

- Our Facebook community saw more than a 300 percent growth in FY13—drawing over 60,000 new Facebook fans.
- The Lottery increased its presence on social media by launching a Twitter account in May 2013. Followers of @mnlottery receive the most up-to-date lottery news, including winning numbers, jackpot alerts and winner updates.
- Mnlottery.com averaged more than 1 million visitors each month during FY13.
- LuckyMN.com, the Lottery's Players Club, continued to be a popular destination. More than 40,000 players joined the club in FY13—resulting in an all-time high for second-chance entries.

GAMES & MARKETING CAMPAIGNS

Minnesota Partnerships

Polaris Industries

For the first time, the Lottery collaborated with Polaris® Industries to offer the \$200,000 Riches & Rides scratch game and second-chance contest. Players had the chance to win some of the most popular sport vehicles in second-chance drawings. Gerald Baures of Fountain City, Wis. was the grand prize winner, taking home a 2013 Polaris Victory Vegas motorcycle, a 2012 Polaris Ranger 800 XP side-by-side, a 2013 Polaris 600 Indy SP snowmobile and \$10,000 in cash.

The \$200,000 Riches & Rides ticket was the featured ticket-on-a-stick at the 2012 State Fair. It proved to be a popular treat with fair-goers—approximately 27,500 tickets-on-a-stick were sold at the Lottery's booth during the 12-day get-together.

Grand prize winner Gerald Baures pictured with one of his sweet new rides.



Minnesota Zoo

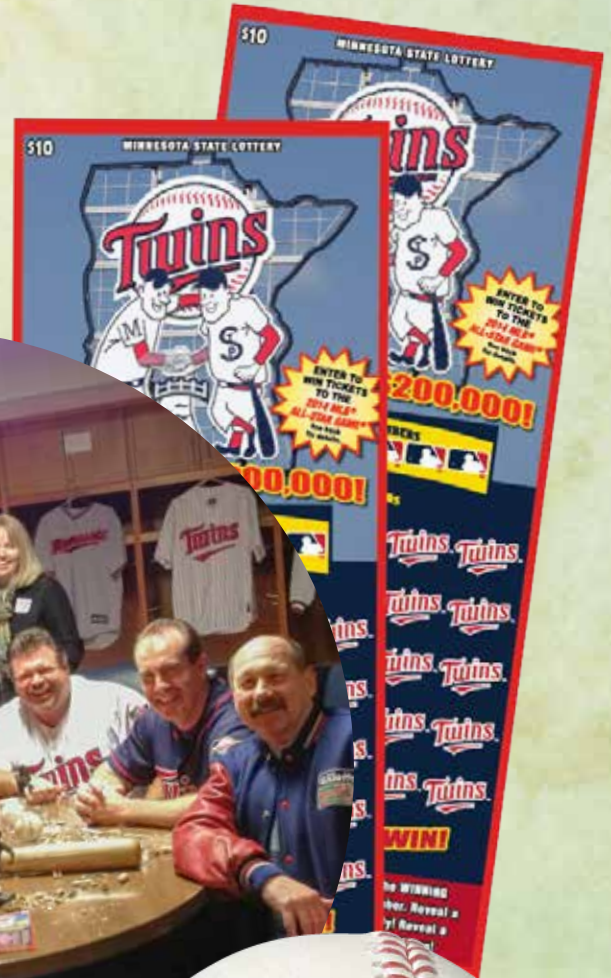
The \$2 Bear Bucks scratch game that launched Oct. 30, 2012 offered a \$20,000 top prize plus an extra bonus for players. Each ticket was good for half off admission at the Minnesota Zoo with the purchase of a regular-priced ticket. Lottery proceeds continue to benefit the Minnesota Zoo through the Natural Resources Fund.

Minnesota Sports

Many of Minnesota's most popular sports organizations, including the St. Paul Saints™, Minnesota Swarm™, Minnesota Wild™, Minnesota Timberwolves™ and Minnesota Twins™ were featured in the \$20 Game Day Cash game book, which debuted at retail Aug. 14, 2012. Six winners and their guests each received VIP treatment at a home game of their favorite Minnesota team.



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Minnesota Twins

The Lottery teamed up with the *Minnesota Twins*® on the Minnesota State Lottery *Twins*™ scratch game and second-chance contest. Several lucky players scored tickets to the highly anticipated 2014 MLB® All-Star Game® at Target Field™.

Above: A television commercial promoting the Minnesota State Lottery Twins™ scratch game and second-chance contest featured an all-star cast with former Twins® manager Tom Kelly and several former Twins® players.



Jackpot Fever

Two record Powerball jackpot runs created a nationwide frenzy during FY13. Minnesota players lined up to get their tickets to dream about the chance to win a \$587.5 million jackpot in the Nov. 28, 2012 drawing. The record jackpot generated record Powerball sales in Minnesota. At the busiest sales peak, retailers were selling \$250.57 worth of Powerball tickets per second. While the \$587.5 million jackpot was won in Arizona and Missouri, Minnesota was lucky enough to have a \$1 million winner.

Right: Sandy Webster of Millville won the \$1 million second prize by matching the first five numbers drawn.



The Powerball jackpot set another new record on May 18, 2013 when it reached a whopping \$590.5 million. Even though a single ticket in Florida won the jackpot, the 14-draw run created two \$1 million winners in Minnesota. However, the biggest winner was Minnesota's beneficiaries—receiving more than \$8.8 million.



Minnesota's popular daily jackpot game—Northstar Cash®—also spiked to record territory during FY13. The jackpot soared to \$236,756 on Nov. 26, 2012 and was split three ways by winners in Benton, Hennepin and Rice counties.



The rolling Progressive Print-N-Play® jackpot climbed to record heights during FY13. The progressive jackpot set a new record on June 18, 2013 when a Jordan resident won \$306,884 on his \$5 bingo ticket.

Left: Patricia Weber of Askov won a \$71,111 Progressive Print-N-Play jackpot on a free ticket that she received with her \$20 Big Cash Crossword purchase. "It certainly made up for not winning on the \$20 ticket," beamed Weber as she claimed her prize on May 24, 2013.

Money Machine

Forty lucky contestants from around the state got a cash-catching experience in the Lottery's Money Machine. Filled with \$30,000 in \$100 bills, each contestant received 30 seconds in the Money Machine to get as many \$100 bills as possible. Dan Pirkl of Owatonna (pictured below) was the biggest winner—grabbing thirty-one \$100 bills to win \$3,100. This wildly successful promotion was part of the Jumbo Bucks family of games that went on sale Jan. 8, 2013.

Below: Brooklyn Park resident Rhonna Douglas won \$2,200 in the Money Machine.



Left: Karen Kauphusman of Winona walked away with \$1,700 after her time in the Money Machine.



Hot Lotto®

The multi-state Hot Lotto® game got even hotter during FY13. On May 23, 2013 it became an all-cash jackpot game with the Lottery covering the required 32.25 percent in tax withholding for jackpot winners. Early sales results showed a 72 percent sales increase, indicating Minnesota players were responding positively to the changes.

MINNESOTA WINNERS

Winning experiences among Minnesota players were at an all-time high in FY13. Players from across the state won \$347 million in prizes—surpassing the previous record set in FY12 by more than \$26 million.



RETAIL PARTNERS

Our 3,100 retail partners continue to be the huge driver behind the success of the Lottery.

Increasing lottery visibility with eye-catching point-of-purchase, ticket displays and lottery signage continued to be a priority at retail locations during FY13. Many retailers changed their under-counter ticket dispensers to above the counter, creating an attention-grabbing display while providing for a more efficient means of dispensing tickets. Instant ticket vending machines that dispense both scratch and lotto tickets were placed at existing lottery retailers as well as at new venues to provide players with a convenient and accessible way to purchase their tickets.

Retailers earned a record \$33.5 million in commission and incentives in FY13, an average of \$10,000 per business.

Top 10 retailers:

MSP Airport Foundation in St. Paul

M & H Gas in Moorhead

Orton's Moorhead Food Mart in Moorhead

Holiday #005 in St. Paul

Rainbow Foods #8844 in Minneapolis

Cub Foods in Brooklyn Center

East Grand Station in East Grand Forks

Bill's Superette #9 in Brooklyn Park

M & H Gas in St. Paul

Cub Foods in Crystal



INDEPENDENT AUDITOR'S REPORT

**SCHECHTER
DOKKEN
KANTER**
CERTIFIED PUBLIC ACCOUNTANTS - AMPS/ORS

The Director
Minnesota State Lottery
Roseville, Minnesota

We have audited the accompanying financial statements of the Minnesota State Lottery as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Minnesota State Lottery's basic financial statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Minnesota State Lottery, as of June 30, 2013 and 2012, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note 1, the financial statements present only the Minnesota State Lottery, an Enterprise Fund of the State of Minnesota, and do not purport to, and do not, present fairly the financial position of the State of Minnesota, as of June 30, 2013, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2013 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, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Minnesota State Lottery's internal control over financial reporting and compliance.

*Schechter Dokken Kanter
Andrews & Selcer Ltd.*

October 31, 2013

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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, 2013 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, 2013 and 2012 and a condensed version of the balance sheets as of June 30, 2013 and 2012.

Financial Highlights

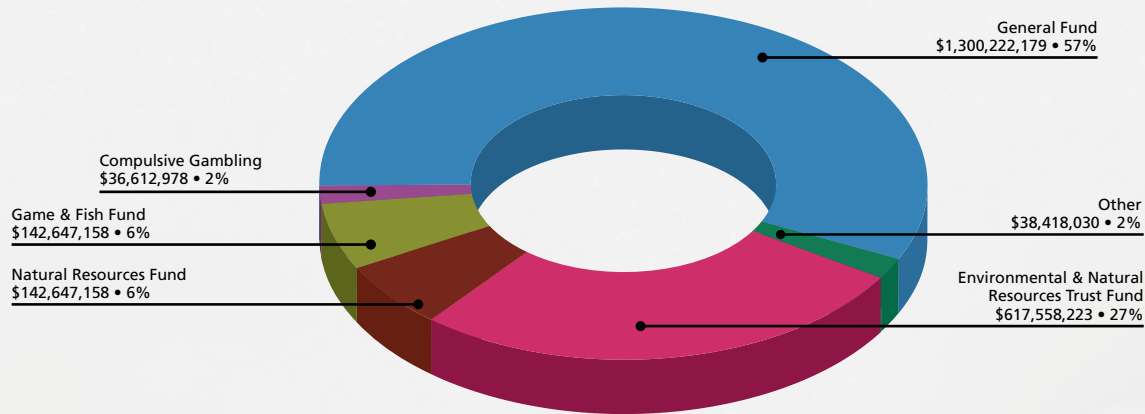
The Minnesota State Lottery achieved record operating revenue of \$560.5 million in fiscal year 2013. This was a \$40.4 million increase over the previous operating revenue record in fiscal year 2012. Lotto ticket sales led the way increasing \$31.8 million over the previous year,

while scratch ticket sales had a modest increase of \$8.6 million. Lottery Powerball sales were a significant factor to the increased sales, contributing an additional \$33.6 million compared with fiscal year 2012 Powerball sales. Factors leading to the increased Powerball sales were consistent high jackpots including two jackpots that exceeded \$500 million, culminating with the largest estimated Powerball jackpot ever of \$600 million in May 2013. Also contributing to the Lottery’s record sales were Hot Lotto and Progressive Print-N-Play, which saw dramatic sales increases over fiscal year 2012 of 38.2 percent and 47.4 percent, respectively.

Summary of Contributions to State

The Lottery contributed \$135.6 million to the State in fiscal year 2013, which was a 9.5 percent increase from the \$123.8 million contributed in 2012. 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 two fiscal years.

The Lottery has contributed over \$2.2 billion to the State since inception



CONTRIBUTIONS TO THE STATE	2013	2012
Net proceeds to the State	\$85,822,897	\$77,524,634
In-lieu-of-sales tax	\$36,425,843	\$33,802,180
Compulsive gambling contribution	\$2,230,000	\$2,230,000
Unclaimed prizes to the State	\$11,115,435	\$10,250,589
Total paid to State	\$135,594,175	\$123,807,403

SUMMARY RESULTS OF OPERATIONS

SUMMARY RESULTS OF OPERATION	2013	2012
Gross receipts	\$524,064,062	\$486,284,810
Prizes, commissions and ticket costs	399,314,147	370,218,586
Gross profit	124,749,915	116,066,224
Operating expenses	26,228,324	26,371,872
<i>Operating income</i>	<u>98,521,591</u>	<u>89,694,352</u>
Non-operating revenues (expense):		
Interest earned on investments	134,842	155,819
Unused Compulsive Gambling	511,899	155,052
Payments to State (not including sales tax)	(99,168,332)	(90,005,223)
Total non-operating revenue (expense)	<u>(98,521,591)</u>	<u>(89,694,352)</u>
<i>Net Income</i>	<u>\$0</u>	<u>\$0</u>

Operating Income

A steady increase in operating revenue in the last three years is due largely to consistently high lotto jackpots as well as the changes in the price of a Powerball ticket from one to two dollars. Other factors contributing to the increase in revenue include the Lottery's concentrated efforts on increasing the number of retail locations as well as improving exposure through the Lottery's web-based LuckyMN website and social media. Operating revenue increased \$40.4 million or 7.8 percent in fiscal year 2013 over fiscal year 2012.

Operating Expenses

Operating expenses decreased in fiscal year 2013 by \$144 thousand or 0.5 percent from fiscal year 2012 due to a decrease in marketing, promotional and purchased services expenses.

GROSS RECEIPTS BY GAME	2013	2012
Scratch ticket sales	\$363,835,268	\$355,260,670
Lotto ticket sales:		
Daily 3®	13,891,885	12,844,327
Gopher 5®	20,027,762	19,611,685
Powerball®	104,153,926	70,516,182
Power Play®	2,969,839	3,141,464
Mega Millions®	14,019,200	24,678,710
Megaplier®	1,102,376	1,563,907
Hot Lotto®	11,888,590	8,604,488
Sizzler®	1,076,822	823,377
Northstar Cash®	11,040,160	9,941,086
Minnesota Millionaire Raffle	5,991,700	5,993,670
Progressive Print-N-Play®	10,400,056	7,053,971
Total Lotto Ticket Sales	196,562,316	164,772,867
Operating revenue	560,397,584	520,033,537
Other income	92,321	53,453
Total operating revenue	560,489,905	520,086,990
Less in-lieu-of-sales tax	36,425,843	33,802,180
<i>Gross Receipts</i>	<i>\$524,064,062</i>	<i>\$486,284,810</i>

Scratch Games

Scratch game sales accounted for 64.9 percent and 68.3 percent of total operating revenue respectively for fiscal years 2013 and 2012. Fiscal year 2013 scratch sales were up 2.4 percent over fiscal year 2012. Total scratch sales were \$363.8 million in fiscal year 2013 and \$355.3 million in fiscal year 2012.

Lotto Games

Total lotto game sales increased in fiscal year 2013 due largely to the \$33.6 million increase in Powerball sales. Contributing factors include the first full year of the two dollar Powerball ticket price point as well as consistently high jackpots, including the \$590.5 million Powerball jackpot run in May of fiscal year 2013. Even though Mega Millions experienced a 43.2 percent decrease in sales due to the world record estimated jackpot of \$640 million in fiscal year 2012, most other Lotto games saw increases in sales with Hot Lotto and Progressive Print-N-Play leading the way with sales increases of 38.2 percent and 47.4 percent respectively. Total lotto sales were \$196.6 million in fiscal year 2013 and \$164.8 million in fiscal year 2012.

BALANCE SHEET SUMMARY

CONDENSED BALANCE SHEETS	2013	2012
Assets:		
Cash and cash equivalents	\$14,488,291	\$21,756,782
Receivables	5,240,270	4,720,077
Inventory and prepaid expenses	1,393,423	1,164,239
Capital assets	1,681,910	1,535,356
Total Assets	\$22,803,894	\$29,176,454
Liabilities and net assets:		
Due to State and State Agencies	\$11,115,435	\$16,043,054
Accounts payable & current accrued expenses	9,367,640	8,089,692
Prize Liability	1,641,417	4,348,289
Long-term accrued expenses	679,402	695,419
Unrestricted Net Position	(1,681,911)	(1,535,356)
Net invested in capital assets	1,681,911	1,535,356
Net Position	0	0
Total Liabilities and Net Position	\$22,803,894	\$29,176,454

The Lottery is required to advance net proceeds to the State of Minnesota and, therefore, net position remain 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 & Cash Equivalents & Receivables

Cash and cash equivalents and receivables decreased by \$6.7 million from fiscal year 2012 to 2013. This is a direct result of the lower sales at the end of the year relative to the prior year.

Capital Assets & Other Assets

Net capital assets increased over \$146 thousand in fiscal year 2013 versus fiscal year 2012. Purchases of capital assets totaled over \$982 thousand and included computer equipment and software purchases of over \$622 thousand, of which a large portion was for the new AEGIS system. Other contributing purchases were express point machines costing over \$112 thousand and vehicles costing over \$152 thousand. Net of depreciation, total retirements were \$0. See note 5 on page 22 for more detail.

Other assets increased by almost \$230 thousand in fiscal year 2013 from fiscal year 2012 due largely to scratch ticket inventory which increased from \$785 thousand in fiscal year 2012 to \$934 thousand in fiscal year 2013.

Due to State & State Agencies

The fiscal year 2013 decrease of \$4.9 million was due to overpayments made to the state in prior months during 2013.

Prize Liability

Current accrued prizes decreased by \$2.7 million in fiscal year 2013 mainly due to lotto tickets that were unclaimed as of the end of fiscal year 2012. These included \$1 million winning Powerball tickets from the April 21st and June 30th drawings in fiscal year 2012, a \$250 thousand winning Mega Millions ticket from February 7th in fiscal year 2012 and \$230 thousand in winning tickets from the estimated \$640 million jackpot run in fiscal year 2012. Also, a Progressive Print-N-Play ticket sold on June 25th worth \$182 thousand remained unclaimed at the end of fiscal year 2012.

Accounts Payable & Current Accrued Expenses

Accounts payable and current accrued expenses are up \$1.3 million from 2012 to 2013 due to a \$1.5 million increase in payables for invoices received in June but not paid until the following fiscal year. The majority of the payables are invoices from the Minnesota Twins as well as scratch game, online and advertising vendors. This was offset by a \$300 thousand decrease in in-lieu-of-sales tax payable. Accrued salaries remained mostly unchanged, as the number of days accrued in fiscal year 2013 was the same as in fiscal year 2012. The increase of \$49 thousand in deferred revenue is due to fiscal year 2013 not ending on a draw date for Powerball and Hot Lotto, whereas the year did end on a Powerball and Hot Lotto draw day in fiscal year 2012.

BALANCE SHEETS – JUNE 30, 2013 and 2012

2013

2012

Assets**Current Assets:**

Cash and Cash Equivalents (Note 3)	\$14,488,291	\$21,756,782
Accounts Receivable, Net (Note 4)	5,044,635	4,709,064
Interest Receivable	8,835	11,013
Scratch Ticket Inventory	934,072	785,176
Due from State (Note 8)	186,800	
Prepaid Expense	459,351	379,063
<i>Total Current Assets</i>	21,121,984	27,641,098
Capital Assets, Net (Note 5)	1,681,910	1,535,356
<i>Total Assets</i>	<u>\$22,803,894</u>	<u>\$29,176,454</u>

Liabilities and Net Position**Current Liabilities:**

Net Proceeds Due to State (Note 8)		\$5,792,465
Unclaimed Prizes Due to State (Note 6)	\$11,115,435	10,250,589
Accounts Payable	5,068,410	3,546,476
In-Lieu-of-Sales Tax Payable	2,558,605	2,867,301
Prize Liability	1,641,417	4,348,289
Accrued Salaries and Benefits, Current (Note 7)	1,204,412	1,188,610
Advanced Sales	536,213	487,305
<i>Total Current Liabilities</i>	22,124,492	28,481,035
Accrued Salaries and Benefits, Net of Current Portion (Note 7)	679,402	695,419
<i>Total Liabilities</i>	<u>22,803,894</u>	<u>29,176,454</u>

Net Position:

Unrestricted Net Position	(1,681,911)	(1,535,356)
Net Investment in Capital Assets (Note 8)	1,681,911	1,535,356
<i>Total Net Position</i>	<u>0</u>	<u>0</u>
<i>Total Liabilities and Net Position</i>	<u>\$22,803,894</u>	<u>\$29,176,454</u>

See accompanying notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED JUNE 30, 2013 AND 2012	2013	2012
Operating Revenues:		
Scratch Ticket Sales	\$363,835,268	\$355,260,670
Lotto Ticket Sales	196,562,316	164,772,867
Other Income	92,321	53,453
Total Operating Revenues	560,489,905	520,086,990
Less: In-Lieu-of-Sales Tax	36,425,843	33,802,180
<i>Gross Receipts</i>	<u>524,064,062</u>	<u>486,284,810</u>
Direct Costs:		
Scratch Ticket Prizes	248,336,306	240,023,798
Lotto Ticket Prizes	98,737,043	80,584,939
Online Vendor Expense	10,680,681	9,505,892
Ticket Costs	8,076,972	8,635,277
Retailer Commissions and Incentives (Note 11)	33,483,145	31,468,680
<i>Total Direct Costs</i>	<u>399,314,147</u>	<u>370,218,586</u>
<i>Gross Profit</i>	<u>124,749,915</u>	<u>116,066,224</u>
Operating Expenses (Note 12):		
Advertising (Note 12)	6,876,833	7,475,199
Salaries and Benefits (Note 7, 13)	11,212,065	10,264,453
Promotion	1,562,398	1,882,002
Purchased Services	1,643,988	1,750,921
Communication	560,299	552,099
Occupancy Costs (Note 9)	1,455,021	1,394,649
Supplies and Materials	1,150,457	947,940
Computer and Omnipoint Maintenance	341,139	422,769
Depreciation	836,044	892,802
Other Expense	590,080	789,038
<i>Total Operating Expenses</i>	<u>26,228,324</u>	<u>26,371,872</u>
Operating Income	<u>98,521,591</u>	<u>89,694,352</u>
Nonoperating Revenue (Expense):		
Interest Earned on Investments	134,842	155,819
Unused Compulsive Gambling Contribution	511,899	155,052
Payments to State:		
Compulsive Gambling Contribution from Prize Fund (Note 10)	(2,230,000)	(2,230,000)
Unclaimed Prizes to State (Note 6)	(11,115,435)	(10,250,589)
Net Proceeds to State (Note 8)	(85,822,897)	(77,524,634)
<i>Total Nonoperating Expense</i>	<u>(98,521,591)</u>	<u>(89,694,352)</u>
Net Income	<u>0</u>	<u>0</u>
Net Position at Beginning of Year (Note 8)	<u>0</u>	<u>0</u>
Net Position at End of Year (Note 8)	<u>\$0</u>	<u>\$0</u>

See accompanying notes to Financial Statements.

STATEMENTS OF CASH FLOWS – YEARS ENDED JUNE 30, 2013 AND 2012	2013	2012
Cash Flows from Operating Activities:		
Cash Received from Customers	\$560,110,921	\$519,937,333
Cash Received from Other Income	92,321	53,453
Payments to State (In-Lieu-of-Sales Tax)	(36,734,539)	(33,696,003)
Payments to Employees	(11,212,280)	(10,694,857)
Payments to Suppliers	(31,686,188)	(32,238,190)
Payments to Retailers	(33,483,145)	(31,468,680)
Payments to Prize Winners	(349,780,221)	(317,156,847)
<i>Net Cash Provided by Operating Activities</i>	<u>97,306,869</u>	<u>94,736,209</u>
Cash Flows from Capital and Non-Capital Financing Activities:		
Net Proceeds Paid to State	(91,802,162)	(77,597,268)
Compulsive Gambling Contribution Transfer	(2,230,000)	(2,230,000)
Unused Compulsive Gambling Contribution	511,899	155,052
Unclaimed Prizes Transfer	(10,250,589)	(9,759,269)
<i>Net Cash Used by Non-Capital Financing Activities</i>	<u>(103,770,852)</u>	<u>(89,431,485)</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of Capital Assets	(982,598)	(276,876)
Proceeds on Sale of Capital Assets	41,070	37,693
<i>Net Cash Used by Capital Financing Activities</i>	<u>(941,528)</u>	<u>(239,183)</u>
Cash Flows from Investing Activities:		
Investment Income	137,020	151,792
<i>Net Cash Provided by Investing Activities</i>	<u>137,020</u>	<u>151,792</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,268,491)	5,217,333
Beginning of Year Cash and Cash Equivalents	21,756,782	16,539,449
End of Year Cash and Cash Equivalents	<u>\$14,488,291</u>	<u>\$21,756,782</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$98,521,591	\$89,694,352
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	836,044	892,802
Gain on the Disposal of Capital Assets	(41,070)	(37,693)
Net Change in Assets and Liabilities:		
Scratch Ticket Inventory	(148,896)	(187,892)
Accounts Receivable	(335,571)	241,103
Prepaid Expenses	(80,288)	136,478
Other Liabilities	1,261,931	545,169
Prize Liability	(2,706,872)	3,451,890
<i>Net Cash Provided by Operating Activities</i>	<u>\$97,306,869</u>	<u>\$94,736,209</u>

See accompanying notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

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.

The financial statements present only the Minnesota State Lottery, an Enterprise Fund of the State of Minnesota, and do not purport to present the financial statements of the State of Minnesota.

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

In 2012 the Lottery implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements

issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Implementation of GASB Statement No. 62 did not have a significant impact on the Lottery's financial statements.

(b) Budgetary Data

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 total net position.

(d) Operating Revenue and Expenses

Operating revenues 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) Nonoperating Revenue and Expense

Nonoperating revenues are derived primarily from interest earned on cash balances held in the State Treasury and reserves held at the Multi-State Lottery Association. Nonoperating expenses consist of appropriations required by law or statute, including the net proceeds to the State.

(f) 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.

(g) 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 Progressive 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 54 percent of draw sales.

Included in the Lottery Prize Liability at June 30, 2013 is a \$1,073,013 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, 2012 was \$1,057,100.

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 and 50 percent of draw sales, respectively. 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, 2013 was as follows:

Powerball®/Power Play®	\$3,856,702
Mega Millions®/Megaplier®	755,517
Hot Lotto®/Sizzler®	1,583,185
Total	\$6,195,404

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 recognizes

other income when the donated prize is received and records prize expense when the prize is given to the player. The Lottery received \$88,238 and \$45,194 in donated prizes in fiscal year 2013 and 2012, respectively, which were subsequently given to players.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

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, 2013 and 2012.

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, 2013 and 2012.

5. CAPITAL ASSETS

Tables 3 and 4 (page 23) show the summary of changes in capital assets for the years ended June 30, 2013 and 2012.

**TABLE 1
CASH AND CASH EQUIVALENTS AT JUNE 30, 2013 AND 2012**

	2013	2012
Cash (checks issued but not yet presented for payment)	\$(136,013)	\$(399,509)
Cash on Deposit	14,624,304	22,156,291
Total Cash and Cash Equivalents	<u>\$14,488,291</u>	<u>\$21,756,782</u>

**TABLE 2
ACCOUNTS RECEIVABLE – ALLOWANCE FOR DOUBTFUL ACCOUNTS
AT JUNE 30, 2013 AND 2012**

	2013	2012
Accounts Receivable	\$5,388,114	\$5,161,261
Allowance for Doubtful Accounts	(343,479)	(452,197)
Accounts Receivable, Net	<u>\$5,044,635</u>	<u>\$4,709,064</u>

TABLE 3 - CAPITAL ASSETS 2013	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Depreciable Capital Assets:					
Office Equipment & Furniture	\$1,854,506	\$54,761	(\$13,056)		\$1,896,211
Software Costs	895,310	238,941			1,134,251
Leasehold Improvements	1,444,364	41,483			1,485,847
Vehicles	1,002,777	151,645	(155,220)		999,202
Computer Equipment	947,052	383,268			1,330,320
Lotto Drawing Equipment	775,528				775,528
Express Point Machines	1,495,438	112,500			1,607,938
Signs	79,151				79,151
Warehouse Equipment	236,121				236,121
<i>Total</i>	<u>8,730,247</u>	<u>982,598</u>	<u>(168,276)</u>	<u>0</u>	<u>9,544,569</u>
Less - Accumulated Depreciation:					
Office Equipment & Furniture	(1,628,986)	(101,155)	13,056		(1,717,085)
Software Costs	(716,955)	(186,457)			(903,412)
Leasehold Improvements	(1,375,238)	(12,964)			(1,388,202)
Vehicles	(656,136)	(159,240)	155,220		(660,156)
Computer Equipment	(769,412)	(101,575)			(870,987)
Lotto Drawing Equipment	(735,162)	(24,232)			(759,394)
Express Point Machines	(1,022,193)	(244,435)			(1,266,628)
Signs	(79,153)				(79,153)
Warehouse Equipment	(211,656)	(5,986)			(217,642)
<i>Total accumulated depreciation</i>	<u>(7,194,891)</u>	<u>(836,044)</u>	<u>168,276</u>	<u>0</u>	<u>(7,862,659)</u>
Net Capital Assets	<u>\$1,535,356</u>	<u>\$146,554</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,681,910</u>

TABLE 4 - CAPITAL ASSETS 2012	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Depreciable Capital Assets:					
Office Equipment & Furniture	\$1,869,415	\$48,878	(\$63,787)		\$1,854,506
Software Costs	855,223	40,087			895,310
Leasehold Improvements	1,444,364				1,444,364
Vehicles	956,488	177,201	(130,912)		1,002,777
Computer Equipment	936,342	10,710			947,052
Lotto Drawing Equipment	775,528				775,528
Express Point Machines	1,495,438				1,495,438
Signs	79,151				79,151
Warehouse Equipment	236,121				236,121
<i>Total</i>	<u>8,648,070</u>	<u>276,876</u>	<u>(194,699)</u>	<u>0</u>	<u>8,730,247</u>
Less - Accumulated Depreciation:					
Office Equipment & Furniture	(1,571,382)	(121,391)	63,787		(1,628,986)
Software Costs	(488,544)	(228,411)			(716,955)
Leasehold Improvements	(1,361,510)	(13,728)			(1,375,238)
Vehicles	(657,126)	(129,922)	130,912		(656,136)
Computer Equipment	(683,389)	(86,023)			(769,412)
Lotto Drawing Equipment	(710,221)	(24,941)			(735,162)
Express Point Machines	(749,366)	(272,827)			(1,022,193)
Signs	(69,579)	(9,574)			(79,153)
Warehouse Equipment	(205,671)	(5,985)			(211,656)
<i>Total accumulated depreciation</i>	<u>(6,496,788)</u>	<u>(892,802)</u>	<u>194,699</u>	<u>0</u>	<u>(7,194,891)</u>
Net Capital Assets	<u>\$2,151,282</u>	<u>(\$615,926)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,535,356</u>

TABLE 5 – ACCRUED SALARIES AND BENEFITS	2013	2012
Accrued Salary and Benefits:		
Salaries Payable	\$356,294	\$350,875
Compensated Absences	848,118	837,735
<i>Total Current Accrued Salaries and Benefits</i>	<u>\$1,204,412</u>	<u>\$1,188,610</u>
Compensated Absences Payable	\$581,402	\$586,419
Post Employee Obligations	98,000	109,000
Total Non-Current Accrued Salaries and Benefits	<u>\$679,402</u>	<u>\$695,419</u>

TABLE 6 – COMPENSATED ABSENCES PAYABLE	Beginning	Additions	Retirements	Ending
2013	\$1,424,154	\$1,052,865	\$(1,047,499)	\$1,429,520
2012	\$1,498,422	\$981,019	\$(1,055,287)	\$1,424,154

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 \$11,115,435 and \$10,250,589 on June 30, 2013 and June 30, 2012, 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. Non-vested severance pay is estimated based upon historical trends and current demographics. A schedule of the accrued salaries and benefits is as follows: **Tables 5 and 6.**

8. NET POSITION

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 position. During fiscal year 2013, the Lottery made deposits in excess of the net proceeds available to transfer and therefore as of June 30, 2013 a balance of \$186,800 was due from the State. Net proceeds due to the state on the accompanying balance sheets for the month ended June 30, 2012 was \$5,792,465. Net investment in capital assets consist of capital assets, net of accumulated depreciation.

9. COMMITMENTS & CONTINGENCIES

(a) Risk Management

The Lottery is exposed to various risks of loss related to torts, checking, 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, 2013 are shown in **Table 7** (page 25).

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 \$31,649 in fiscal year 2013 and \$32,014 in fiscal year 2012.

The Lottery purchased twenty 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.

TABLE 7 - INSURANCE COVERAGE, LIMITS AND DEDUCTIBLES	Limits	Deductibles
Property	\$6,674,767	\$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 Currency	\$1,000,000	\$25,000

TABLE 8 - OPERATING LEASES YEAR ENDING JUNE 30	Lease Amount
2014	\$1,387,007
2015	1,422,711
2016	1,449,351
2017	1,436,159
2018	1,351,613
2019 to 2023	4,904,732
2024	1,204,214
Total	<u>\$13,155,787</u>

(b) Operating Leases

The Lottery is committed under various operating leases for building and office space. For the years ended June 30, 2013 and 2012, the lease expense was \$1,183,116 and \$1,159,137, respectively. This is net of sublease rental income of \$336,371 and \$336,371 in 2013 and 2012, respectively. Sublease rental income is included within occupancy costs in the financial statements. Future minimum lease payments for existing lease agreements are shown in **Table 8** above.

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 2011, 1st Special Session, Chapter 9, Article 10, section 3, subdivision 1 appropriated \$1,665,000 for fiscal years 2013 and 2012 from the prize fund of the Department of Human Services for statewide compulsive gambling treatment programs.

Minnesota Laws 2011, Chapter 101, Article 1, section 36 appropriated \$225,000 for fiscal years 2013 and 2012 from the prize fund to the Gambling Control Board for a grant to the state affiliate recognized by the National Council on 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 OPERATIONS & 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 2011, 1st Special Session, Chapter 10, Article 1, section 33 and 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 \$29,000,000 in both fiscal years 2013 and 2012.

The Lottery is in compliance with the statutory limits on advertising and operating costs. Advertising costs as a percentage of gross revenue were 1.31 percent and 1.54 percent for the years ended June 30, 2013 and 2012, respectively. Operating costs as a percentage of gross revenue were 5.00 percent and 5.42 percent for the years ended June 30, 2013 and 2012, respectively.

13. RETIREMENT PLANS & 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.

Funding Policy

Plan members are required to contribute 5.0% of their annual covered salary and the Lottery is required to

contribute at an actuarially-determined rate.

The Lottery's current rate is 5.0% of annual covered payroll. The contribution requirements of plan members and the Lottery are established and may be amended by state statute. The Lottery contributed 100% of the required contributions for the years ending June 30, 2013, 2012, and 2011. See **Table 9**.

- (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.

Funding Policy

Plan members are required to contribute 5.0% 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 contributed 100% of the required contributions for the years ending June 30, 2013, 2012, and 2011. See **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. The Lottery implemented GASB Statement No. 45 in Fiscal Year 2008. Total expenses related to OPEB for fiscal years 2013, 2012 and 2011 were \$11,000, \$21,000 and \$24,000, respectively.

TABLE 9 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS TO MSRS – YEAR ENDING JUNE 30

2013	2012	2011
\$400,410	\$363,195	\$376,714

TABLE 10 – DEFINED CONTRIBUTION PLAN CONTRIBUTIONS TO MSRS – YEAR ENDING JUNE 30

2013	2012	2011
\$31,020	\$34,131	\$35,403



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Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO



CERTIFICATION OF EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER

I, Ed Van Petten, 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, 2013 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 31, 2013

By: 

Ed Van Petten, Executive Director

By: 

Joseph Pahl, Chief Financial Officer





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