



**ANNUAL REPORT
FY15**

MINNESOTA LOTTERY

FY15 Annual Report

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CONTACT INFORMATION

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Owatonna, MN 55060
(507) 444-2400

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Virginia, MN 55792
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WEBSITE

mnlottery.com

CONNECT WITH US



Facebook.com/mnlottery



@mnlottery



Instagram.com/mnlottery



Pinterest.com/mnlottery



YouTube.com/user/MinnLottery



blog.mnlottery.com

FY15

Welcome Readers:

Fiscal year 2015, which began on July 1, 2014 and ended on June 30, 2015, was a record-setting year for the Minnesota Lottery in many ways. The Lottery is proud to return \$135.5 million to Minnesota to benefit our state's important beneficiaries. This amount is the highest ever recorded in the Lottery's 25-year history.

The Lottery concluded its 25-year anniversary during fiscal year 2015 by celebrating raising \$2.5 billion for Minnesota. All Minnesotans benefit from Lottery proceeds through the General Fund, Environment and Natural Resources Trust Fund, Game & Fish Fund and Natural Resources Fund. Creating a better Minnesota remains the Lottery's biggest prize.

Record proceeds to the state resulted from record scratch game sales. The fiscal year ended with \$376.2 million in scratch ticket sales, which is a strong increase from the previous fiscal year. The Lottery's marketing efforts to deliver exciting new games and innovative promotions to our players, as well as our strong partnership with the 3,100 retailers statewide, helped drive scratch games sales to this unprecedented level.

We invite you to look through our Annual Report to learn more about the successes of fiscal year 2015. As we move forward, we continue to build upon those successes so we can deliver another winning year for the state of Minnesota.

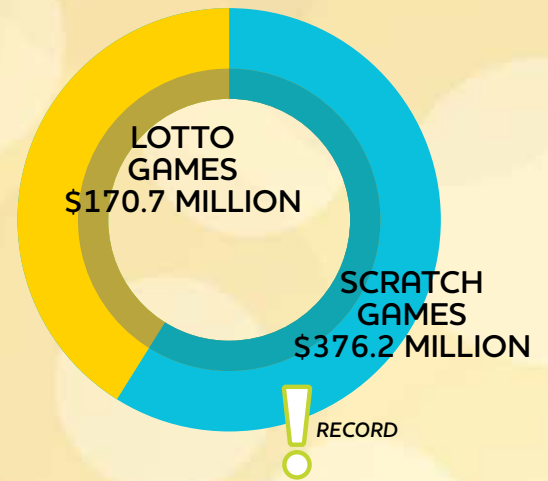
Sincerely,



Michael Vekich
Acting Executive Director

FY15 BY THE NUMBERS

SALES: \$546.9 MILLION >>



PRIZES WON: \$335.2 MILLION

88,000

AVERAGE NUMBER
OF WINNERS
EVERY DAY

16

NUMBER OF
WINNERS
\$1 MILLION+

\$11.7
MILLION

LARGEST
PRIZE WON
(HOT LOTTO)

RETAILER

**million
dollar**
CLUB

Retailers who sold \$1 million+ in tickets

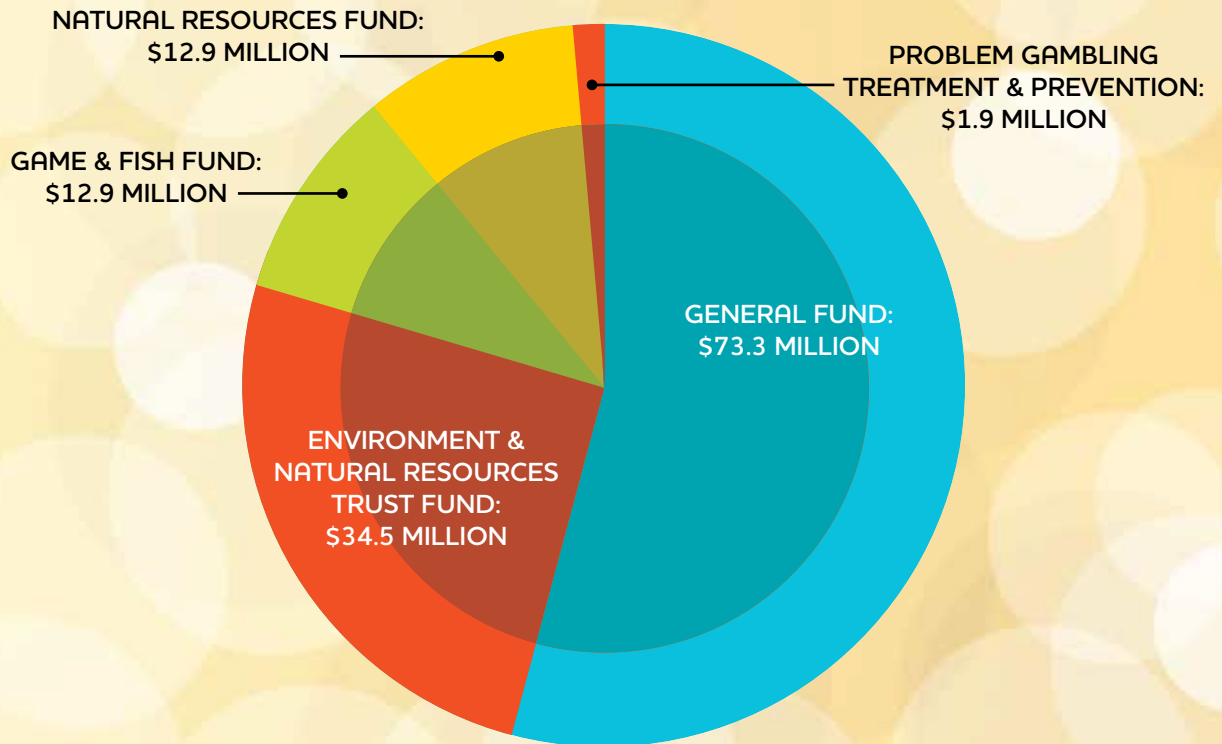
1. M & H Gas in Moorhead
2. MSP Airport Foundation in St. Paul
3. Orton's Moorhead Food Mart in Moorhead

Record profits

FY15 BY THE NUMBERS

FOR THE STATE

\$135.5 MILLION



DIRECT & OPERATING COSTS

- Retailer Commissions: \$32.9 million
- Administration: \$25.7 million
- Lotto Game Vendor Expense: \$10.4 million
- Ticket Costs: \$6 million

FY15 HIGHLIGHTS



Dalton Frovarp of Alexandria won \$10,000 playing the \$500,000 Spectacular scratch game.

JULY 3, 2014



JULY 15, 2014

Lottery teams up with Vikings Hall of Famer Carl Eller on the Moose 81™ scratch game. Eller promoted the game during play days at several lottery retailers.

The Moose 81 name and logo, its distinctive design, as well as distinctive elements of the game, are protected by U.S. Patent No: US 8,485,528 B2. All Rights Reserved. Licensed by Moose #81, LLC, Minneapolis, MN.

JULY 22, 2014

The Lottery expands its social media presence with the Minnesota Lottery blog—creating a new way to share news and showcase the great people, events and uniqueness of Minnesota.

JULY 24, 2014

Eighteen acres of ignored and overgrown woodland area, infested with invasive species, was transformed into an outdoor educational classroom utilized by students of all ages with the help of Lottery proceeds through the Environment and Natural Resources Trust Fund. The Como Woodland Outdoor Classroom at Como Regional Park in St. Paul was one example of how the Lottery highlighted its beneficiaries on the new blog.



FY15 HIGHLIGHTS



SEPTEMBER 1, 2014

A new Lottery sales record is set at the Minnesota State Fair—making it the biggest sales event of the year!

SEPTEMBER 6, 2014

Minnesota is now home to 11 Hot Lotto® jackpot winners. A ticket worth \$11.7 million, with taxes paid, was sold in Anoka County.



Joe & Rhonda Meath of Bethel were introduced at a press conference at Lottery headquarters. The media coverage of the down-to-earth Minnesotans received statewide and national attention.

Corner Express in East Bethel earned a \$10,000 bonus for selling the Hot Lotto jackpot-winning ticket.

SEPTEMBER 8, 2014

FY15 HIGHLIGHTS

SEPTEMBER 16, 2014

Zombies invade downtown Minneapolis to promote The Walking Dead® scratch game, based on the popular TV show, which quickly became the hottest selling \$2 ticket in over 10 years!

The Walking Dead © 2014 AMC Film Holdings LLC. All Rights Reserved.



OCTOBER 11, 2014

The Lottery sponsors the World Brain-Eating Championship at the Minneapolis Zombie Pub Crawl with world champion competitive eater Takeru Kobayashi in celebration of The Walking Dead® scratch game.



OCTOBER 19, 2014

Minnesota joins the new multi-state MONOPOLY MILLIONAIRES' CLUB™ lotto game. Tickets were available through Dec. 26, 2014.



FY15 HIGHLIGHTS



OCTOBER 28, 2014

Minnesota's most popular raffle game—Minnesota Millionaire Raffle—returned and included an additional 4,000 cash prizes and 100,000 more tickets.

NOVEMBER 7, 2014

Rita Deutsch of Maplewood wins a 2014 Mitsubishi Outlander Sport SUV through the Hot family of games second chance contest, a partnership with White Bear Mitsubishi.



Minnesota's near record-breaking Gopher 5[®] jackpot run ended with a \$2,008,806 win by Joyce Moore of Northfield.

Heidelberger's Rock Creek Motor Stop in Pine City won too! The store received a \$5,000 bonus for selling the winning ticket.



NOVEMBER 12, 2014



DECEMBER 3, 2014

Together with the Northstar Problem Gambling Alliance, the Lottery issues a public awareness announcement reminding Minnesotans that Lottery tickets are not appropriate gifts for minors.

FY15 HIGHLIGHTS



DECEMBER 3, 2014

All 700,000 Raffle tickets sell out. Compared to last year, it only took three more days to sell an extra \$1 million in tickets.



“Santa was nice to me,” Veronica Horton of St. Paul said when she claimed a \$40,000 Powerball® with Power Play® prize that she won on Christmas Day.

DECEMBER 26, 2014



JANUARY 1, 2015

The first \$1 million winners of 2015 step forward. Alan & Patricia Potter of Waterville won a \$1 million Raffle prize. “It’s going to be a life changer,” Alan said during the press conference.

Mankato Quick Mart in Mankato sold the \$1 million winning ticket and earned a \$5,000 bonus!

FY15 HIGHLIGHTS



JANUARY 27, 2015

Minnesota joins the multi-state game Lucky for Life®, which includes two lifetime prizes.

In honor of its 25th anniversary, the Lottery hosts a press conference with Governor Dayton at the Science Museum of Minnesota highlighting the Lottery's \$2.4 billion return to the State. Several Environment and Natural Resources Trust Fund project managers attended the event to share how Lottery proceeds have benefited important projects throughout the state.



FEBRUARY 6, 2015

MARCH 13, 2015

Win once and you are a winner for life! Just ask Brian Elliott of Buffalo, who won \$25,000 a year for life playing Lucky for Life.



FY15 HIGHLIGHTS



MARCH 16, 2015

The Lottery releases a video that highlights how Hot Lotto jackpot winners Joe and Rhonda Meath have used their prize money to help others, including a generous donation to the St. Paul Police K-9 Foundation and a \$15,000 donation to the sales clerk who sold them the winning ticket to help pay for her college education.

MARCH 16, 2015

Sixteen players experience the luck of the Irish after winning \$1,000 in the All or Nothing™ midday drawing.



MARCH 24, 2015

The multi-state MONOPOLY MILLIONAIRES' CLUB is reintroduced as a scratch game.

FY15 HIGHLIGHTS

MARCH 28, 2015

The MONOPOLY MILLIONAIRES' CLUB game show premieres nationally. Brock Ehnert of Stillwater plays for the \$1 million top prize and ultimately takes home \$116,898.



APRIL 1, 2015

The Lottery creates awareness about how proceeds are helping assess the short-term and long-term impact that the 2010 BP Oil Spill had on Minnesota's loons and pelicans. The groundbreaking research resulted in a multi-million dollar settlement for loon conservation.



Photo courtesy of Carrol Henderson, DNR

APRIL 17, 2015

The Lottery hosts a special event at Mall of America® to celebrate its 25th Anniversary.



FY15 HIGHLIGHTS

MAY 6, 2015

In honor of the new Make My Day scratch games, customers were asked to “Chance It” while filling up with gas at Bobby & Steve’s in Minneapolis. The chance takers were greeted with some fun surprises, including butler service, a personal cheerleading squad and even a pink horse—proof that chance is truly a beautiful thing!



ENVIRONMENT AND NATURAL RESOURCES TRUST FUND

The Lottery, along with 100 other supporters, commemorated the Environment and Natural Resources Trust Fund’s 25th year with a special event at Fort Snelling State Park. Wilderness Inquiry, a recipient of Trust Fund dollars over the years, provided 24-foot Voyageur canoes used in the Wilderness Canoe Adventures Partner Paddle.

MAY 21, 2015

FY15 HIGHLIGHTS



Anthony Fusaro of Plymouth was on his lunch break when he discovered he had won \$1 million playing Mega Millions®. Instead of going back to work, Fusaro headed straight to Lottery headquarters to claim the prize.

JUNE 3, 2015



JUNE 17, 2015

The same set of numbers that Mark Church of Bemidji has been playing for nearly 20 years paid off with a \$1,550,322 Gopher 5 jackpot win.

INDEPENDENT AUDITOR'S REPORT

SCHECHTER DOKKEN KANTER, CPAs • BUSINESS ADVISORS

The Director
Minnesota State Lottery
Roseville, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota State Lottery as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Minnesota State Lottery's basic financial statements.

Management's Responsibility for the 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.

Auditor's Responsibility

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.

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, 2015, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2015, 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.

As discussed in Note 15 to the financial statements, in 2015, the Lottery adopted new accounting guidance prescribed by GASB #68 for its pension plan – a multiple-employer, cost-sharing, defined benefit pension plan. Because GASB #68 implements new measurement criteria and reporting provisions, significant information has been added. The Statement of Net Position discloses the Lottery's net pension liability, deferred outflows and deferred inflows related to the Lottery's pension plan. Statement of Revenues and Expenses and Change in Net Position discloses the restated beginning net position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 and Schedule of Minnesota State Lottery's Share of Net Pension Liability and Schedule of Minnesota State Lottery's Contributions on page 25 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.

Other Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2015 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 & Selzer Ltd.*

November 17, 2015

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, 2015 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, 2015 and 2014 and a condensed version of the balance sheets as of June 30, 2015, and 2014.

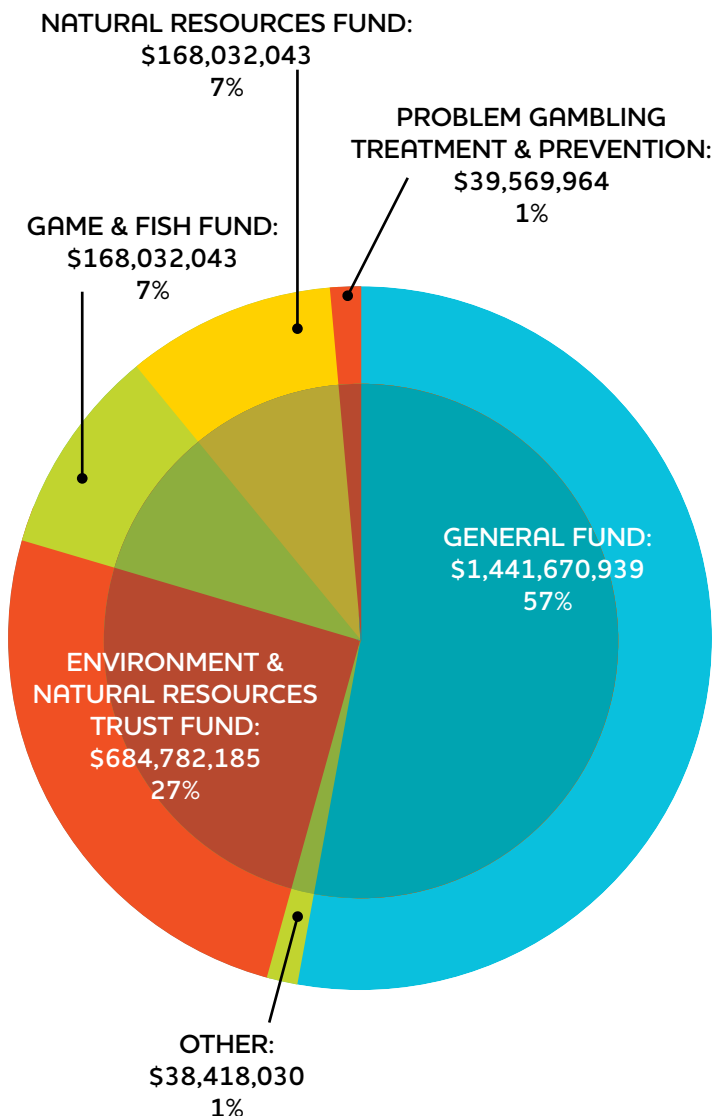
FINANCIAL HIGHLIGHTS

The Minnesota State Lottery had operating revenue of \$546.9 million in fiscal year 2015. Operating revenue increased \$15.4 million from fiscal year 2014: record scratch ticket sales in fiscal year 2015 of \$376.2 million, up \$24.3 million from fiscal year 2014, was the most significant contributing factor. This increase in operating revenue was partially offset by Lotto ticket sales which were down \$8.9 million. A major factor in the decrease in Lotto ticket sales was Powerball and Mega Millions sales, which combined were down \$18.7 million from the previous fiscal year. The lack of high jackpots for Powerball and Mega Millions lotto games was a significant factor in the sales decline. The introduction of the new lotto game Lucky for Life, with sales of \$5.0 million in fiscal year 2015, helped compensate for a portion of the decline in Powerball and Mega Millions sales.

SUMMARY OF CONTRIBUTIONS TO STATE

The Lottery contributed a record \$135.5 million to the State in fiscal year 2015, which was a 6.72% increase from the \$127.0 million contributed in 2014. 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.

The Lottery has contributed over \$2.5 billion to the State since inception.



CONTRIBUTIONS TO THE STATE	2015	2014	2013
Net proceeds to the State	\$86,376,609	\$81,683,294	\$85,822,897
In-lieu-of-sales tax	35,546,418	34,548,528	36,425,843
Compulsive gambling contribution	1,922,954	1,188,372	1,718,101
Unclaimed prizes to the State	11,698,224	9,589,418	11,115,435
Total paid to State	\$135,544,205	\$127,009,612	\$135,082,276

SUMMARY RESULTS OF OPERATIONS

	2015	2014	2013
Gross receipts	\$511,348,521	\$497,010,018	\$524,064,062
Prizes, commissions and ticket costs	384,541,061	377,256,458	399,314,147
Gross profit	126,807,460	119,753,560	124,749,915
Operating expenses	25,695,670	27,449,582	26,228,324
Operating income	101,111,790	92,303,978	98,521,591
Non-operating revenues (expense):			
Interest earned on investments	168,997	157,106	134,842
Unused Compulsive Gambling	307,046	1,041,628	511,899
Payments to State (not including sales tax)	(100,304,833)	(93,502,712)	(99,168,332)
Total non-operating revenue (expense)	(99,828,790)	(92,303,978)	(98,521,591)
Net Income	\$1,283,000	\$0	\$0

OPERATING INCOME

An increase in gross receipts, coupled with a decrease in relative direct cost percentage and a decrease in actual operating expenses relative to the prior year, has contributed to a 9.5% increase in operating income in fiscal year 2015.

OPERATING EXPENSES

Operating expenses decreased in fiscal year 2015 by \$1.8 million or 6.4% from fiscal year 2014, contributing to the record transfers given to the state.

GROSS RECEIPTS BY GAME	2015	2014	2013
Scratch ticket sales	\$376,195,747	\$351,912,194	\$363,835,268
Lotto ticket sales:			
Daily 3 [®]	14,633,243	14,374,236	13,891,885
Gopher 5 [®]	21,815,472	17,066,341	20,027,762
Powerball [®]	64,438,029	77,427,224	104,153,926
Powerball [®] Power Play [®]	2,195,749	2,485,438	2,969,839
Mega Millions [®]	19,700,950	25,408,255	14,019,200
Mega Millions [®] Megaplier [®]	1,333,564	1,536,563	1,102,376
Hot Lotto [®]	12,813,117	11,499,441	11,888,590
Hot Lotto [®] Sizzler [®]	1,342,266	1,156,486	1,076,822
Northstar Cash [®]	9,510,151	10,040,866	11,040,160
Minnesota Millionaire Raffle	6,999,520	5,999,680	5,991,700
All or Nothing [™]	3,976,389	3,652,456	0
MONOPOLY MILLIONAIRES' CLUB [™]	397,375	0	0
Lucky for Life [®]	5,006,304	0	0
Progressive Print-N-Play [®]	6,510,093	8,956,637	10,400,056
Total Lotto Ticket Sales	170,672,222	179,603,623	196,562,316
Operating revenue	546,867,969	531,515,817	560,397,584
Other income	26,970	42,729	92,321
Total operating revenue	546,894,939	531,558,546	560,489,905
Less in-lieu-of-sales tax	35,546,418	34,548,528	36,425,843
<i>Gross Receipts</i>	<u>\$511,348,521</u>	<u>\$497,010,018</u>	<u>\$524,064,062</u>

SCRATCH GAMES

Scratch game sales accounted for 68.8% and 66.2% of total operating revenue, respectively, for fiscal years 2015 and 2014. Scratch sales increased by 6.9% in fiscal year 2015 over fiscal year 2014. Total scratch sales were \$376.2 million in fiscal year 2015 and \$351.9 million in fiscal year 2014.

LOTTO GAMES

Total lotto game sales decreased in fiscal year 2015 largely due to the \$13.0 million decrease in Powerball sales. The decrease in Powerball sales in fiscal year 2015 follows a decrease in Powerball sales in 2014 of \$26.7 million, for a combined decrease of \$39.7 million within two years or a 38.1% reduction in Powerball sales over a two year period. This rapid decrease in Powerball sales is a point of emphasis for the Lottery industry, which has resulted in a matrix change that should help Powerball jackpots grow to higher levels in fiscal year 2016, which should help stabilize or increase Powerball sales.

SUMMARY

CONDENSED BALANCE SHEETS	2015	2014	2013
Assets:			
Cash and cash equivalents	\$24,906,193	\$22,000,524	\$14,488,291
Receivables	6,700,618	5,709,696	5,240,270
Inventory and prepaid expenses	1,887,556	1,447,510	1,393,423
Capital assets	1,207,356	1,354,219	1,681,910
<i>Total assets</i>	<u>\$34,701,723</u>	<u>\$30,511,949</u>	<u>\$22,803,894</u>
Deferred Outflows	\$582,000		
Liabilities:			
Due to State and State Agencies	\$17,233,821	\$14,165,779	\$11,115,435
Accounts payable & current accrued expenses	10,022,840	7,324,891	9,367,640
Prize liability	6,328,485	8,055,281	1,641,417
Long-term accrued expenses	6,366,577	965,998	679,402
<i>Total Liabilities</i>	<u>\$39,951,723</u>	<u>\$30,511,949</u>	<u>\$22,803,894</u>
Deferred Inflows	\$6,664,000		
Net Position:			
Unrestricted net position	(\$12,539,356)	(\$1,354,219)	(\$1,681,911)
Net investment in capital assets	1,207,356	1,354,219	1,681,911
<i>Net Position</i>	<u>(\$11,332,000)</u>	<u>\$0</u>	<u>\$0</u>

NET POSITION

The net position of the Minnesota State Lottery of \$(11.3) million relates solely to a new GASB requirement Statement No. 68, Accounting and Financial Reporting for Pensions. Pension liabilities were not previously reported on the Lottery's financial statement. The net position consists of the following: Net Pension Liability of \$(5,250,000) combined with a Deferred Inflow of \$(6,664,000) and a Deferred Outflow of \$582,000.

CASH AND CASH EQUIVALENTS AND RECEIVABLES

Cash and cash equivalents and receivables increased by \$2.9 million from fiscal year 2014 to 2015. This is a direct result of higher sales at the end of the year relative to the prior year.

CAPITAL ASSETS AND OTHER ASSETS

Net capital assets decreased \$146 thousand in fiscal year 2015 versus fiscal year 2014. Purchases of capital assets totaled over \$517 thousand with the significant purchases on vehicles of over \$200 thousand, computer equipment of over \$62 thousand and leasehold improvements of over \$104 thousand. Net of depreciation, total retirements were \$4,427. See note 5 for more detail.

DUE TO STATE AND STATE AGENCIES

The fiscal year 2015 increase of \$3.0 million was due to higher unclaimed prizes due to the state of over \$2.1 million as well as net proceeds of over \$900 thousand higher in 2015 vs. 2014.

PRIZE LIABILITY

Current accrued prizes decreased by \$1.7 million in fiscal year 2015. Contributing factors related mostly to the timing of scratch game introductions as well as a \$1 million unclaimed Powerball prize at the end of fiscal year 2014.

ACCOUNTS PAYABLE AND CURRENT ACCRUED EXPENSES

Accounts payable and current accrued expenses are up \$2.7 million from 2014 to 2015. This is mainly due to an increase in unclaimed prizes payable of \$2.1 million, which is paid after the close of the fiscal year. The roughly \$600 thousand increase in other payables relates solely to timing differences in the payment process.

STATEMENT OF NET POSITION – JUNE 30, 2015

2015

Assets**Current Assets:**

Cash and Cash Equivalents (Note 3)	\$24,906,193
Accounts Receivable	6,687,645
Interest Receivable	12,973
Scratch Ticket Inventory	1,217,591
Prepaid Expense	669,965
<i>Total Current Assets</i>	<u>33,494,367</u>
Capital Assets, Net (Note 5)	1,207,356
<i>Total Assets</i>	<u>34,701,723</u>

Deferred Outflows582,000**Liabilities****Current Liabilities:**

Net Proceeds Due to State (Note 8)	5,535,597
Unclaimed Prizes Due to State (Note 6)	11,698,224
Accounts Payable	4,994,327
In-Lieu-of-Sales Tax Payable	2,876,858
Prize Liability	6,328,485
Accrued Salaries and Benefits Payable, Current (Note 7)	1,393,507
Deferred Revenue	758,148
<i>Total Current Liabilities</i>	<u>33,585,146</u>

Noncurrent Liabilities:

Accrued Benefits Payable, Net of Current Portion (Note 7)	786,379
Commitments and Contingencies (Notes 9 and 10)	330,198
Net Pension Liability	5,250,000
<i>Total Noncurrent Liabilities</i>	<u>6,366,577</u>
<i>Total Liabilities</i>	<u>39,951,723</u>

Deferred Inflows6,664,000**Net Position:**

Net Investment in Capital Assets (Note 8)	1,207,356
Unrestricted	(12,539,356)
<i>Total Net Position</i>	<u><u>\$(11,332,000)</u></u>

See accompanying notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015**

2015

Operating Revenues:	
Scratch Ticket Sales	\$376,195,747
Online Ticket Sales	170,672,222
Other Income	26,970
Total Operating Revenues	546,894,939
Less: In-Lieu-of-Sales Tax	35,546,418
<i>Gross Receipts</i>	<u>511,348,521</u>
Direct Costs:	
Scratch Ticket Prizes	249,885,363
Online Ticket Prizes	85,313,450
Online Vendor Expense	10,404,691
Ticket Costs	6,064,450
Retailer Commissions and Incentives (Note 11)	32,873,107
<i>Total Direct Costs</i>	<u>384,541,061</u>
<i>Gross Profit</i>	<u>126,807,460</u>
Operating Expenses (Note 12):	
Advertising (Note 12)	6,970,958
Salaries and Benefits (Note 13)	11,259,768
Promotion	1,304,480
Purchased Services	1,696,587
Communication	556,632
Occupancy Costs (Note 9)	1,469,382
Supplies and Materials	878,946
Computer and Omnipoint Maintenance	437,347
Depreciation	659,856
Other Expense	461,714
<i>Total Operating Expenses</i>	<u>25,695,670</u>
Operating Income	<u>101,111,790</u>
Nonoperating Revenue (Expense):	
Interest Earned on Investments	168,997
Compulsive Gambling Contribution from Prize Fund (Note 10)	(1,922,954)
Unclaimed Prizes to State (Note 6)	(11,698,224)
Net Proceeds to State (Note 8)	(86,376,609)
<i>Total Nonoperating Revenue (Expense)</i>	<u>(99,828,790)</u>
Change in Net Position	1,283,000
Net Position at Beginning of Year (Note 8)	(12,615,000)
Net Position at End of Year (Note 8)	<u><u>(\$11,332,000)</u></u>

See accompanying notes to Financial Statements.

STATEMENT OF CASH FLOWS – YEAR ENDED JUNE 30, 2015

2015

Cash Flows from Operating Activities:

Cash Received from Customers	\$545,973,185
Cash Received from Other Income	26,970
Payments to State (In-Lieu-of-Sales Tax)	(35,443,944)
Payments to Employees	(12,402,373)
Payments to Suppliers	(28,251,798)
Payments to Retailers	(32,873,107)
Payments to Prize Winners	(336,925,609)
<i>Net Cash Provided by Operating Activities</i>	<u>100,103,324</u>

Cash Flows from Non-Capital Financing Activities:

Net Proceeds Paid to State	(85,417,373)
Compulsive Gambling Contribution Transfer	(1,922,954)
Unclaimed Prizes Transfer	(9,589,418)
<i>Net Cash Used by Non-Capital Financing Activities</i>	<u>(96,929,745)</u>

Cash Flows from Capital and Related Financing Activities:

Purchases of Capital Assets	(517,421)
Proceeds on sale of Capital Assets	83,158
<i>Net Cash Used by Capital Financing Activities</i>	<u>(434,263)</u>

Cash Flows from Investing Activities:

Investment Income	166,353
<i>Net Cash Provided by Investing Activities</i>	<u>166,353</u>

Net Increase in Cash and Cash Equivalents 2,905,669

Beginning of Year Cash and Cash Equivalents 22,000,524

End of Year Cash and Cash Equivalents \$24,906,193

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	\$101,111,790
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities:	
Depreciation	659,856
Gain on the disposal of capital assets	(78,729)
Change in pension activity	(1,283,000)
Net Change in Assets and Liabilities:	
Inventory	(272,900)
Accounts Receivable	(988,279)
Prepaid Expenses	(167,146)
Current Liabilities	2,848,528
Prize Awards Payable	(1,726,796)
<i>Net Cash Provided by Operating Activities</i>	<u>\$100,103,324</u>

See accompanying notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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 the financial statements of the State of Minnesota.

Lottery revenue is generated by sales of scratch games and lotto games that include: Daily 3, Northstar Cash, Progressive Print-N-Play, Gopher 5, Powerball, Powerball Power Play, Mega Millions, Mega Millions Megaplier, Hot Lotto, Hot Lotto Sizzler, All or Nothing, MONOPOLY MILLIONAIRES' CLUB, Lucky for Life 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 March 2012, the GASB issued statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement was effective for the Lottery's fiscal year 2014; therefore, it was adopted as of July 1, 2014.

(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 not recognized 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 55% of draw sales. The prize expense for Gopher 5 is recorded at 54% of draw sales.

Included in the Lottery Prize Liability at June 30, 2015 is a \$1 million 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 expense for Lucky for Life is 59.4335% of draw sales. Prizes won ranging from \$4 to \$5,000 are recorded on the date of the draw. The amount in excess of that, up to 59.4335% of draw sales, is set aside to pay for the Lottery's share of the top 2 prizes (\$7,000/week for life and \$25,000/year for life), when won.

Prize expenses for Powerball, Powerball Power Play, Hot Lotto, Hot Lotto Sizzler, Mega Millions, Mega Millions Megaplier and MONOPOLY MILLIONAIRES' CLUB are recorded at 50% of draw sales. All or Nothing is recorded at 60.5102% of draw sales. All Multi-State Lottery Association (MUSL) games are recorded in accordance with the MUSL prize structure. The Powerball, Powerball Power Play, Hot Lotto, Hot Lotto Sizzler, Mega Millions, Mega Millions Megaplier, and All or Nothing prizes are paid with funds held by MUSL. MUSL has established separate prize pool reserves for Powerball, Powerball Power Play, Hot Lotto, Hot Lotto Sizzler, Mega Millions, and Mega Millions 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, 2015 was as follows:

Powerball/Power Play	\$3,762,141
Mega Millions/Megaplier	983,045
Hot Lotto/Sizzler	1,511,072
All or Nothing	397,508
Total	<u>\$6,653,766</u>

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 or awarded 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 awarded to the player. The Lottery received \$23,600 in donated prizes in fiscal year 2015 which were subsequently awarded to players.

(h) Scratch Ticket Inventory

Scratch ticket inventories are carried at cost using the specific identification method. Tickets are charged to direct costs 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.

(m) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and additions to/deductions from MSRS's fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair market value.

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 deposit in the State Treasury and with financial institutions is 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. Cash on deposit in the State Treasury is secured by depository insurance or a combination of depository insurance and collateral securities.

The following table summarizes the Lottery's cash and cash equivalents at June 30, 2015:

Cash (checks issued but not yet presented for payment)	(\$482,167)
Cash on Deposit	25,388,360
Total Cash and Cash Equivalents	<u>\$24,906,193</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. Cash on deposit in the State Treasury cannot be tied to specific investment securities.

4. ACCOUNTS RECEIVABLE – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following table summarizes the Lottery's accounts receivable at June 30, 2015:

Accounts Receivable	\$6,925,650
Allowance for Doubtful Accounts	(238,005)
Accounts Receivable, Net	<u>\$6,687,645</u>

5. CAPITAL ASSETS

Table 1 (next page) shows the summary of changes in capital assets for the year ended June 30, 2015.

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 \$11,698,224 on June 30, 2015.

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 shown in **Tables 2 and 3** (next page).

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. Net Proceeds Due to State on the accompanying balance sheet for the month ended June 30, 2015 was \$5,535,597. Net investment in capital assets consist of capital assets, net of accumulated depreciation.

The Lottery adopted the new GASB Statement No. 68, Accounting and Financial Reporting Pensions. The adoption of this new principle was retrospectively applied and therefore the beginning net position was adjusted by \$(12,615,000), which was previously reported as \$0.

The ending net position of the Minnesota State Lottery of \$(11.3) million relates solely to a new GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Pension liabilities were not previously reported on the Lottery's financial statements.

9. COMMITMENTS AND 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, 2015 are shown in **Table 4** (page 30).

TABLE 1 - CAPITAL ASSETS 2015	JULY 1, 2014	ADDITIONS	DELETIONS	TRANSFERS	JUNE 30, 2015
Depreciable Capital Assets:					
Office Equipment & Furniture	\$1,915,749	\$21,945		\$4,995	\$1,942,689
Software Costs	1,157,593	24,789			1,182,382
Leasehold Improvements	1,537,659	104,817		(4,995)	1,637,481
Vehicles	1,176,257	200,319	\$(325,500)		1,051,076
Computer Equipment	1,391,176	62,023			1,453,199
Lotto Drawing Equipment	775,528				775,528
Express Point Machines	1,607,938				1,607,938
Signs	82,362	103,527			185,889
Warehouse Equipment	236,121				236,121
<i>Total</i>	<u>9,880,383</u>	<u>517,420</u>	<u>(325,500)</u>	<u>0</u>	<u>10,072,303</u>
Less - accumulated depreciation:					
Office Equipment & Furniture	(1,792,569)	(50,194)		(52)	(1,842,815)
Software Costs	(1,001,520)	(93,313)			(1,094,833)
Leasehold Improvements	(1,401,456)	(23,510)		52	(1,424,914)
Vehicles	(789,405)	(179,067)	321,073		(647,399)
Computer Equipment	(1,054,527)	(174,233)			(1,228,760)
Lotto Drawing Equipment	(775,527)				(775,527)
Express Point Machines	(1,409,112)	(118,913)			(1,528,025)
Signs	(79,368)	(16,551)			(95,919)
Warehouse Equipment	(222,680)	(4,075)			(226,755)
<i>Total accumulated depreciation</i>	<u>(8,526,164)</u>	<u>(659,856)</u>	<u>321,073</u>	<u>0</u>	<u>(8,864,947)</u>
Net Capital Assets	<u>\$1,354,219</u>	<u>(\$142,436)</u>	<u>(\$4,427)</u>	<u>\$0</u>	<u>\$1,207,356</u>

TABLE 2 – ACCRUED SALARY AND BENEFITS	2015
Accrued Salary and Benefits:	
Salaries Payable	\$490,168
Compensated Absences	903,339
<i>Total Current Accrued Salaries and Benefits</i>	<u>\$1,393,507</u>
Compensated Absences Payable	\$639,379
Post Employee Obligations	147,000
<i>Total Non-Current Accrued Salaries and Benefits</i>	<u>\$786,379</u>

TABLE 3 – COMPENSATED ABSENCES PAYABLE	BEGINNING	ADDITIONS	RETIREMENTS	ENDING
2015	\$1,506,549	\$1,215,963	\$(1,179,794)	\$1,542,718

TABLE 4 - COVERAGE	LIMITS	DEDUCTIBLES
Property	\$6,137,276	\$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

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 \$26,810 in fiscal year 2015.

As of June 30, 2015, the Lottery has purchased twenty-five lifetime annuities from various insurance companies. If these insurance companies were to default on those obligations these policies would be covered under a "Guaranty Fund Law" which is administered by the State of Minnesota. The amount guaranteed per annuity is \$300,000. The Lottery may be ultimately responsible for the lifetime annuities; however, management feels that the possibility of these insurance companies defaulting on its obligations in a material sum in excess of the \$300,000 guaranteed by the State is remote.

(b) Operating Leases

The Lottery is committed under various operating leases for building and office space. For the year ended June 30, 2015, the lease expense was \$1,174,050. This is net of sublease rental income of \$347,997 in 2015. Sublease rental income is included within occupancy costs in the financial statements. Future minimum lease payments for existing lease agreements are shown in **Table 5**.

The total amount of lease payments is being charged to Occupancy Costs on a straight-line basis over the terms of the leases. The difference between the lease expense and amount paid is recorded as accrued rent.

TABLE 5 - OPERATING LEASES

YEAR ENDING JUNE 30	LEASE AMOUNT
2016	\$1,459,489
2017	1,496,986
2018	1,412,440
2019	1,234,384
2020	1,268,841
2021 to 2023	3,778,063
TOTAL	<u>\$10,650,203</u>

(c) Potential Claims

In May of 2015 the Minnesota State Legislature voted to end the Minnesota Lottery's ability to sell eScratch tickets on the Lottery's website. The same legislation also requires us to end Play at the Pump and Play at ATM sales. Further, the legislation required the Lottery to cancel all related contracts with Lottery vendors. The Lottery was required to terminate those services and suspend those contracts on or before September 25, 2015. This action may result in possible litigation from Lottery vendors. At this time, it's not possible to estimate the potential financial impact on the Lottery related to any litigation, if any, from Lottery vendors therefore no Liability was recorded in reference thereto.

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 2013, Chapter 108, Article 14, section 2, subdivision 1 appropriated \$1,890,000 for fiscal year 2015 from the Lottery Prize Fund of the Department of Human Services for statewide compulsive gambling treatment programs. The programs' services are designed to increase public awareness of problem gamblers and their families, and research relating to problem gambling.

11. RETAILER COMMISSIONS AND INCENTIVES

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% and operating costs to 9% of gross revenue. Minnesota Laws 2013, Chapter 142, Article 1, section 17 provides that notwithstanding Minnesota Statutes, section 349A.10, subdivision 3, the operating budget must not exceed \$30,500,000 in fiscal year 2015.

The Lottery is in compliance with the statutory limits on advertising and operating costs. Advertising costs as a percentage of gross revenue were 1.36% for the year ended June 30, 2015. Operating costs as a percentage of gross revenue were 5.02% for the year ended June 30, 2015.

13. RETIREMENT PLANS AND POST RETIREMENT BENEFITS

(a) Plan Description

The State Employees Retirement Fund (SERF) is administered by the Minnesota State Retirement System (MSRS), and is established and administered in accordance with Minnesota Statutes, Chapters 352 and 356. SERF includes the General Employees Retirement Plan (General Plan), a multiple-employer, cost-sharing defined benefit plan, and three single-employer defined benefit plans: the Military Affairs Plan, the Transportation Pilots Plan, and the Fire Marshals Plan. Only certain employees of the Department of Military Affairs, the Department of Transportation, and the State Fire Marshal's Division are eligible to be members of those plans, but all state of Minnesota employees who are not members of another plan are covered by the General Plan. The Transportation Pilots Plan has been closed to new entrants since July 1, 2008.

MSRS issues a publicly available financial report that includes

financial statements and required supplementary information. That report may be obtained at www.msrs.state.mn.us/financial-information; by writing to MSRS at 60 Empire Drive, #300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

(b) Benefits Provided

MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0% each year. When the fund reaches a 90% funded status for two consecutive years, annuitants will receive a 2.5% increase.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2% of the high-five average salary for each of the first 10 years of covered service, plus 1.7% for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90). In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7% of the high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

(c) Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members and participating employers were required to contribute 5.0% of their annual covered salary in fiscal year 2014. Effective July 1, 2014, member and employer rates increased to 5.5% of total compensation. The Lottery's contributions to MSRS for the year ending June 30, 2015, 2014, and 2013 were as follows:

CLASSIFIED PLAN	2015	2014	2013
MSRS	\$488,541	\$424,617	\$400,410
UNCLASSIFIED PLAN	2015	2014	2013
MSRS	\$37,847	\$32,908	\$31,020

These contributions were equal to the contractually required contributions for each year as set by state statute.

(d) Actuarial Assumptions

The Minnesota State Lottery's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75% per year
Active Member Payroll Growth	3.5% per year
Investment Rate of Return	7.9%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 generational mortality tables for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees are assumed to be 2.0% every January 1st through 2015 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9%. The rate assumption was selected as the result of a 2014 actuarial review of economic assumptions. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI) with return expectations from eight other investment consultants. The review also factored in information from the Social Security Trustees Report, U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

The SBI, which manages the investments of MSRS, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	SBI'S LONG-TERM EXPECTED REAL RATE OF RETURN (GEOMETRIC MEAN)
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	.50%

(e) Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2014, was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2014, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A similar analysis was performed as of July 1, 2013, based on a long-term expected rate of return of 7.90% and a municipal bond rate of 4.63%. The projection showed that assets would be available to pay benefits only through 2045, with a resulting single discount rate of 6.63%, and an increase of 1.27% between the beginning and the end of the measurement period.

(f) Net Pension Liability

At June 30, 2015, the Minnesota State Lottery reported a liability of \$5,250,000 for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Minnesota State Lottery's proportion of the net pension liability was based on the Minnesota State Lottery's contributions received by MSRS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2014, the Minnesota State Lottery's proportion was 0.4371%.

Two changes in benefit provisions affected the measurement of the total pension liability since the prior measurement date. Member and employer contribution rates increased from 5% to 5.5% of pay effective the first day of the first full pay period beginning after July 1, 2014. Beginning July 1, 2014, the funding ratio threshold that must be attained to pay a 2.5% post-retirement benefit increase to benefit recipients was changed from 90% for one year to 90% for two consecutive years.

Two changes in assumptions affected the measurement of the total pension liability since the prior measurement date. The single discount rate changed from 6.63% to 7.90%. The post-retirement benefit increase changed from 2% indefinitely, to 2% through 2015, and 2.5% thereafter.

(g) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website (www.msrs.state.mn.us/financial-information).

(h) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Minnesota State Lottery recognized pension expense of \$(808,000). At June 30, 2015, the Minnesota State Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from following sources shown in **Table 6**.

Amounts reported as deferred outflows of resources related to pensions resulting from Minnesota State Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

(i) Postemployment Benefits

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 adjustments related to the OPEB Liability for fiscal years 2015, 2014 and 2013 were \$34,000, \$15,000 and \$(11,000), respectively.

TABLE 6	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	\$0	\$114,000
Changes of assumptions	0	3,827,000
Net difference between projected and actual earnings on investments	0	2,723,000
Changes in proportion and difference between actual contributions and proportionate share of contributions	107,000	0
Contributions paid to MSRS subsequent to the measurement date	475,000	0
Total	\$582,000	\$6,664,000

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Minnesota State Lottery's Share of Net Pension Liability
State Employees Retirement Fund
Last 10 Years*

Schedule of the Minnesota State Lottery's Contributions
State Employees Retirement Fund
Last 10 Fiscal Years*

	2014
Minnesota State Lottery's proportion of the net pension liability	.4371%
Minnesota State Lottery's proportionate share of the net pension liability	\$5,250,000
Plan fiduciary net position as a percentage of the total pension liability	87.64%

	2014
Contractually required contribution	\$457,525
Contributions in relation to the contractually required contribution	\$526,388
Contribution deficiency (excess)	0
Minnesota State Lottery's covered-employee payroll	\$8,951,059
Contributions as a percentage of covered-employee payroll	5.111%

The measurement date is June 30 of each fiscal year.

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

*This schedule is intended to show information for 10 years prospectively beginning in fiscal year ended June 30, 2015. Additional years will be displayed as they become available.



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June 30, 2014

Executive Director/CEO



FY15 Minnesota Lottery