

This document is made available electronically by the Minnesota Legislative Reference Library as part of an ongoing digital archiving project. <http://www.leg.state.mn.us/lrl/lrl.asp>

The year '2008' is rendered in a stylized, textured font where each digit is filled with a pattern of small, colorful dots in shades of yellow, orange, and green, giving it a mosaic-like appearance.

ANNUAL REPORT
MINNESOTA STATE LOTTERY

MINNESOTA STATE LOTTERY

CONTACT INFORMATION

Main Office

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

Regional Offices

Detroit Lakes

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

Marshall

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

Owatonna

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

Virginia

5463 Mountain Iron Drive
Virginia, MN 55792
(218) 748-2450

Customer Service

**24-Hour Automated
Winning Numbers Hotline**

(651) 634-1111

E-mail

lottery@mnlottery.com

Web site

mnlottery.com

Players Club

luckymn.com

Executive Staff

Executive Director

Clint Harris

General Counsel/ Assistant Director

Dale McDonnell

Director of Operations

Jenny Canfield

Director of Marketing and Sales

John Mellein

Chief Financial Officer

Joe Pahl

Chief of Security

Doug Wills

Research and Planning Director

Don Feeney

Public Relations Manager

Debbie Hoffmann





2008 ANNUAL REPORT

INTRODUCTION	
FROM THE EXECUTIVE DIRECTOR.....	2
HOW LOTTERY DOLLARS BENEFIT MINNESOTA	3
GAMES & PROMOTIONS	
SCRATCH GAMES.....	4
ONLINE GAMES.....	4
COMMUNITY AND RETAILERS	
PLAYER COMMITMENT STATEMENT	8
COMMITMENT TO SOCIAL RESPONSIBILITY.....	9
RETAILERS	11
FINANCIALS	
INDEPENDENT AUDITOR'S REPORT	12
MANAGEMENT DISCUSSION AND ANALYSIS. .	13
FINANCIAL STATEMENTS	17
NOTES TO THE FINANCIAL STATEMENTS....	20
CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING	28
CERTIFICATION OF EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER	28
INDEPENDENT PRACTITIONER'S SYSTRUST REPORT ON SYSTEM RELIABILITY	29



Dear Readers:

Fiscal year 2008 was a record-setting year in many ways for the Minnesota State Lottery. Sales reached a record \$461.5 million, due in part to increased marketing efforts, higher prize payouts and the introduction of \$20 scratch games. Players won a record \$279.6 million and the Lottery's retailer partners earned a record \$27.7 million in commissions and incentives, an average of \$9,261 per business.

The state of Minnesota also benefitted from this record year, as \$116.3 million was generated for crucial state projects and programs, including important environmental projects funded by the Environment and Natural Resources Trust Fund as well as programs supported by the General Fund. This \$116.3 million is the second highest contribution to the state since ticket sales began in 1990.

During this fiscal year, I had the honor to serve as chairman of the Multi-State Lottery Association (MUSL) Powerball® game group. During my tenure as chairman, I worked with MUSL staff and member lottery directors to complete the development of an improved Powerball game launched in January 2009. We also successfully worked to recruit the Florida Lottery to join the Powerball game, which has increased the number of players by 18 percent, resulting in bigger jackpots and more winning experiences.

The Lottery has transferred more than \$1.6 billion to the state of Minnesota since 1990. I'm very proud of this and the many other accomplishments the Lottery has made over the years. I look forward to continuing to provide games that players enjoy, while raising funds for the programs that enhance the quality of life in Minnesota.

Sincerely,

A handwritten signature in black ink that reads "Clint Harris".

Clint Harris
Executive Director

HOW LOTTERY DOLLARS BENEFIT MINNESOTA

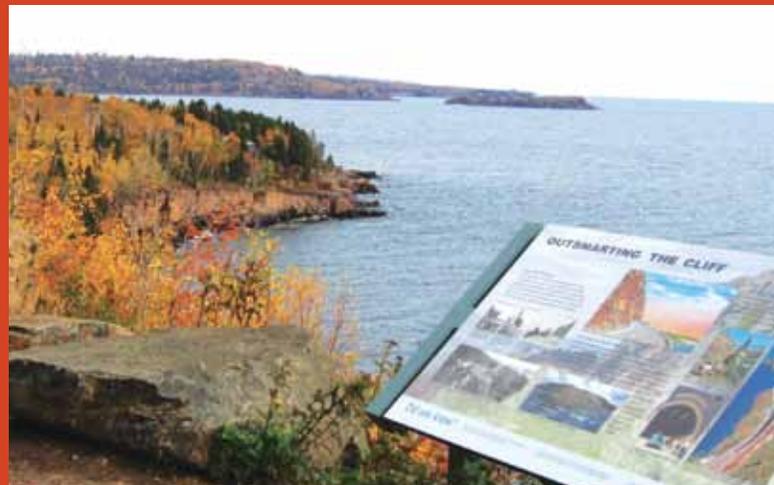
Minnesota State Lottery ticket sales reached a record \$461.5 million in fiscal year 2008, an increase of \$38.9 million, or 9.2 percent, from 2007. Record scratch game sales led the increase, ending the fiscal year at \$298 million, an increase of \$37.1 million, or 14.2 percent. Sales of online games (such as Powerball) totaled \$163.6 million, up \$1.8 million, or 1.1 percent, over the previous year. Scratch games continue to be the most popular with players, at 64.6 percent of total sales.

These record sales resulted in \$116.3 million for state projects and programs, which is up almost \$4 million, or 3.5 percent, over last year. This amount is also the second highest contribution made to the state since ticket sales began in 1990.

The Environment and Natural Resources Trust Fund receives 40 percent of the Lottery's net proceeds — \$30.6 million in FY08. The state constitution limits annual appropriations to 5.5 percent of the Fund's market value as of the previous June 30, which was \$465.8 million on June 30, 2008. Since 1990, 414 projects have received funding of \$254 million. Projects have been funded by the Trust Fund in each of Minnesota's 87 counties. The Legislative-Citizen Commission on Minnesota Resources administers the Trust Fund.

Sixty percent of net Lottery proceeds are directed to the state's General Fund and support state services that include public education, local government assistance, public safety and environmental protection. The General Fund received \$63.9 million in FY08, which included net proceeds, unclaimed prizes, funds for problem gambling treatment and prevention and a portion of 6.5 percent in-lieu-of-sales tax payments.

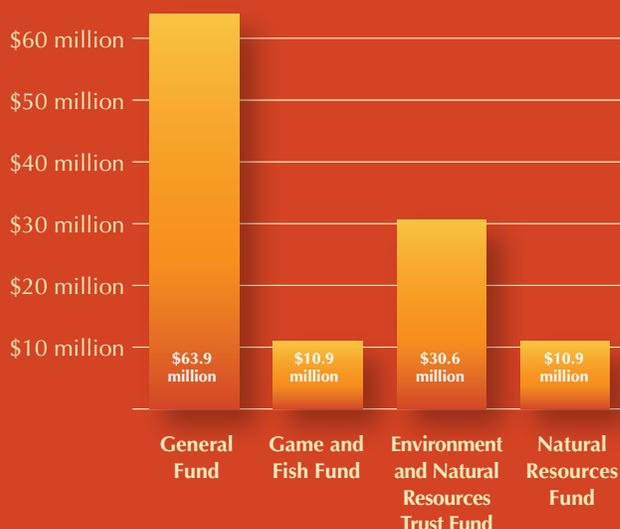
The in-lieu-of-sales tax payments made to the state amounts to 6.5 percent of sales. In FY08, these payments were allocated to the Game & Fish Fund for activities that improve, enhance or protect fish and wildlife resources in Minnesota (\$10.9 million); to the Natural Resources Fund to benefit state and Twin Cities area parks and trails, local trails and the Minnesota Zoological Garden, Como Zoo and Duluth Zoo (\$10.9 million); and \$8.3 million to the General Fund. The Department of Natural Resources administers both the Game & Fish Fund and Natural Resources Fund.



Overlooking Lake Superior near Silver Creek Cliff Tunnel on the North Shore Scenic Drive. Photo courtesy Minnesota Department of Natural Resources.

THE MINNESOTA STATE LOTTERY ACHIEVED RECORD SALES OF \$461.5 MILLION IN FISCAL YEAR 2008

Lottery Contributions to State for FY08



The Lottery paid a record \$279.6 million in prizes to players, introduced many unique games and offered some exciting promotions in FY08. Players won some fantastic prizes, ranging from cash to a Lund® boat manufactured in New York Mills, Minnesota.

SCRATCH GAMES

Deal or No Deal

The Deal or No Deal scratch game, based on the television game show, was one of the most popular scratch games this year. Players could enter non-winning tickets into a second-chance drawing for the chance to win one of 10 trips to Hollywood, Calif. and the chance to play the real Deal or No Deal game with Howie Mandel for the chance to win \$1 million. Katrina Tanner of Maplewood had that once-in-a-lifetime experience and won \$63,000.

Hook, Lund® and Sinker

Players could enter non-winning Hook, Lund® and Sinker scratch game tickets for the chance to win one of two 2008 Lund® 1850 Tye OBGS boat, motor and trailer packages valued at \$45,136. Jeff Gallaher of Wahpeton, N.D. was the first player to win this fabulous package.

\$500,000 Spectacular

The first \$20 scratch game to be offered in Minnesota, \$500,000 Spectacular, began in February 2008. First week sales of the game, which offered a \$500,000 top prize, far exceeded expectations with sales of \$1.7 million.

Minnesota Crossword

Minnesota celebrated its sesquicentennial, or 150th year of statehood, on May 11, 2008. The Lottery was proud to commemorate this historic event with the Minnesota Crossword scratch game.

ONLINE GAMES

Minnesota Millionaire Raffle

The Minnesota Millionaire Raffle game, offering a maximum of 500,000 tickets and two \$1 million top prizes, was popular again in FY08. For the second year in a row all 500,000 tickets were sold before the Dec. 31 deadline. After the New Year's Day drawing, Julie Nolan of Kellogg and a group of 40 co-workers from Consolidated Telecommunications Company in Brainerd learned they were the first \$1 million Lottery winners of 2008.

Hot Lotto®

On Jan. 3, 2008, the Sizzler™ option was added to the Hot Lotto game. For an extra \$1 per play, players who add the Sizzler option to their Hot Lotto ticket will see the value of any prize won (except the jackpot) triple in value.

Ebenezer Longe of Minneapolis became Minnesota's fifth Hot Lotto jackpot winner after winning a \$1 million Hot Lotto jackpot on Aug. 4, 2007. Longe, who selected the \$588,818 cash option, split the \$2 million jackpot with a player from New Mexico. Bryn Mawr Market in Minneapolis earned a \$10,000 cash bonus for selling the winning ticket.

Three months after Longe won his jackpot, Minnesota had its sixth Hot Lotto jackpot winner. Jerome Cody of Red Wing won a jackpot worth \$7.19 million. He selected the cash option of \$4.4 million. Cody's winning ticket was purchased at Freedom Valu Center in Red Wing.

Powerball

Paul Rosenau of Waseca was the year's biggest winner after he won a Powerball jackpot of \$180.1 million on May 3, 2008. Rosenau's jackpot is the largest prize ever won in Minnesota and the 20th Powerball jackpot won in the state. He selected the \$88 million cash option. Rosenau told the two clerks who assisted him with his ticket purchase that he'd send them to the Bahamas if he won. True to his word, both of the clerks at Hy-Vee in Faribault received the trip. Hy-Vee received a \$50,000 cash bonus for selling the winning ticket.



Deal or No Deal™ & © 2008 Endemol International B.V.

Deal or No Deal game show experience prize includes a recorded DVD of the produced show, but TV broadcast is not guaranteed.



Katrina Tanner of Maplewood won a trip to Hollywood to play Deal or No Deal with Howie Mandel and took home \$63,000.



Ebenezer Longe won \$1 million playing Hot Lotto. He bought his winning ticket at Bryn Mawr Market in Minneapolis.



Jerome Cody of Red Wing was Minnesota's sixth Hot Lotto jackpot winner. He chose the \$4,466,224 cash option.



Paul Rosenau of Waseca was the year's biggest winner. He won a \$180.1 million jackpot playing Powerball.



CTC Lucky 40, a group of co-workers from the Brainerd/Baxter area, split a \$1 million cash prize playing Minnesota Millionaire Raffle.



Adam Schneider of South St. Paul won \$500,000 playing the \$500,000 Spectacular scratch game. Pictured with Adam is his fiancé, Jill Schirmer.



Julie Nolan of Kellogg played Minnesota Millionaire Raffle and was one of the first \$1 million winners of 2008.



Jeff Gallaher of Wahpeton, N.D. (right) won a Lund® 1850 Tye OBCS boat package in one of two second chance Hook, Lund® and Sinker drawings.

\$10,000 SPRING FOR CASH



Spring for Cash winners, co-workers at a Perkins Restaurant in Brainerd, shared the \$10,000 top prize.

The **\$10,000 Spring for Cash** promotion offered \$10,000 and \$1,000 cash prizes to players who purchased Powerball with Power Play® tickets during April 2008. Non-winning tickets were entered into a second-chance drawing. A group of co-workers at a Perkins Restaurant in Brainerd shared the \$10,000 prize.



Players and non-players alike took in the sights and sounds of the **Vegas-ota Scratch Tour** from Aug. 14–18, 2007. Actual Las Vegas performers — Elvis impersonators, a magician and show girls — promoted the new Welcome to Fabulous Las Vegas scratch game and performed in Bemidji, Duluth, Mankato, Owatonna, Rochester, St. Cloud, the Twin Cities and cities in between.



The Elvis look-a-likes take off from the starting line in downtown Minneapolis for the Running of the Elvises.

Prior to the Vegas-ota Tour, the **Running of the Elvises** took place in downtown Minneapolis. Elvis look-a-likes, dressed in their sequined best, took to the streets of Minneapolis for a 2-block run. The event, which attracted 40 Elvises, received extensive national television coverage.

MINNESOTA Fishing Sweepstakes



Richard Wick of Burnsville won a trip to Sportsman's Lodge on Lake of the Woods from the Lucky, MN Fishing Sweepstakes.



Lucky, MN, the Lottery's online Players Club (luckymn.com), continued to welcome new "residents" — more than 44,000 players were members at the end of the fiscal year. The free club offers monthly promotions, advance notification of new games and the opportunity to have the winning numbers sent via e-mail.



MINNESOTA STATE LOTTERY PLAYER COMMITMENT STATEMENT

The Minnesota State Lottery is committed to maintaining the integrity of its Lottery games and maintaining the public's confidence in its games and operations.

The Minnesota State Lottery will fulfill this commitment through the following actions:

- By treating each person who contacts the Lottery with respect.
- By clearly stating the guidelines and procedures for its games, second-chance drawings, and other promotions.
- By making information relating to its games, promotions, and operations readily accessible to the public.
- By operating its games and operations in an open, transparent, and accountable manner.
- By educating and routinely reminding Lottery retailers and their employees of their obligations relating to selling Lottery tickets and paying prizes to Lottery players.
- By monitoring the practices of Lottery retailers to ensure compliance with Lottery rules and their contractual obligations.
- By establishing a formal consumer complaint process so that players can easily report suspicious behavior to the Lottery.
- By treating seriously every complaint made by a Lottery player regarding the Lottery's operations or the activities of a Lottery retailer by thoroughly addressing/investigating each complaint.
- By ensuring that Lottery operations are secure so that each game is operated in a fair manner.

Any person with a complaint relating to the security or the integrity of the Lottery or any of its games, whether the complaint relates to a Lottery employee, vendor working for the Lottery, or a Lottery retailer, may contact the Lottery at (651) 635-8273 (select "2" from the menu) or by e-mail.

COMMITMENT TO SOCIAL RESPONSIBILITY

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

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

Responsible Gambling and Problem Gambling

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

The Minnesota State Lottery will also continue its partnerships with organizations that work to treat and prevent problem gambling, including the National Council on Problem Gambling, Northstar Problem Gambling Alliance and the Minnesota Department of Human Services. Lottery staff are also working with the World Lottery Association on the development of worldwide standards for lottery



LOTTERY CUSTOMERS ARE ENTITLED TO LOTTERY GAMES THAT CAN BE PURCHASED WITH COMPLETE CONFIDENCE REGARDING THEIR SECURITY AND INTEGRITY

responsible gambling programs and plan to seek certification at the highest level once this program is in place. Minnesota State Lottery staff were asked to participate in several problem gambling conferences throughout North America, and the Lottery has donated the resources of its advertising agency to help develop materials that aid in this effort.

Player Commitment

Lottery customers are entitled to Lottery games that can be purchased with complete confidence regarding their security and integrity. The Lottery has adopted a Player Commitment Statement (page 8) that outlines the policies for achieving these aims. The Lottery's retailers continue to receive training on the appropriate treatment of Lottery players and winners, additional efforts have been made to encourage players to sign tickets and self-service terminals have been introduced at many retail locations that allow players to check their own tickets.



Business Integrity

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

Fraud Protection

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



Pictured above is Mike Alkhaleefa, owner of S.O.S.A. Foods in Minneapolis. Lottery players can count on S.O.S.A. Foods to pay their prizes; in Feb. 2008 the store ranked 22nd in Minnesota in dollars of prizes paid out.

PLEASE,
STOP STEALING MY MONEY,
DON'T LIE TO ME,
QUIT WASTING MY TIME.
THANK YOU.

NO MORE MINNESOTA NICE
866.347.0911
REPORT FRAUDULENT LOTTERY & SWEEPSTAKES SCAMS

Minnesotans lose millions to fraudulent lottery & sweepstakes scams each year.
Criminals will use e-mails, phone calls and mailings to gain your trust and take your money.
Protect yourself. Visit MNSCAMS.org to learn how to recognize and report scams.



A Lottery retailer since the beginning (1990), Grampa Al's in Faribault has established a solid base of loyal online game players. Pictured above are Jake Jasinski and Jim Jasinski, co-owners of the family-owned pub.

2008

TOP 10 RETAILERS

1. Metropolitan Public Airport Foundation — Minneapolis/ St. Paul International Airport
2. M & H Gas, Moorhead
3. Holiday, St. Paul (Rice Street)
4. Clark on Rice, St. Paul
5. M & H Gas, St. Paul
6. Cub Foods, Maple Grove
7. Cub Foods, St. Anthony
8. SuperAmerica, Roseville (N. Lexington Ave.)
9. SuperAmerica, Blaine (University Ave. N.E.)
10. Cub Foods, Crystal

RETAILERS

More than 3,000 outlets across Minnesota are authorized Lottery retailers. These retail partners play a crucial role in the Lottery's success.

Lottery retailers earn 5.5 cents for each \$1 of ticket sales at their business, as well as 1 percent of the amount of each winning ticket cashed at their store (they can pay prizes up to \$599). Retailers are also paid a bonus for selling qualifying jackpot-winning or top prize winning tickets after the prize has been claimed. During FY08, 172 retailers earned bonuses totaling \$210,041. The bonus ranged from \$125 to \$50,000. Lottery retailers earned \$27.7 million in commissions and incentives in FY08, an average of \$9,261 per business.



Lottery retailer Super One Foods in Virginia was one of the hosts of the Welcome to Fabulous Las Vegas scratch tour in August 2007. Pictured above (l-r) are sales associate Ruth Brandenburger, store manager John Babich and sales associate Sue MacGregor.



INDEPENDENT AUDITOR'S REPORT

The Director
Minnesota State Lottery
Roseville, Minnesota

We have audited the accompanying balance sheets of the Minnesota State Lottery as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Minnesota State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Schechter Dokken Kanter
Andrews & Selcer Ltd

Suite 1600

100 Washington Avenue South

Minneapolis, MN

55401-2192

Phone 612-332-5500

Fax 612-332-1529

E-mail info@sdkcpa.com

www.sdkcpa.com

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota State Lottery as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2008, on our consideration of the Minnesota State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

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

*Schechter Dokken Kanter
Andrews & Selcer Ltd*

October 20, 2008

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, 2008 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, 2008, 2007 and 2006 and a condensed version of the Balance Sheets as of June 30, 2008, 2007 and 2006.



Burrowing owls at Glacial Ridge. Photo courtesy Rebecca Ekstein, USFWS.

Financial Highlights

The Minnesota State Lottery achieved record sales of \$461.5 million in fiscal year 2008. The Lottery attained this in part due to increased marketing efforts, higher prize payouts and the introduction of \$20 Scratch games. Record sales contributed to the \$116.3 million transferred to the state in fiscal year 2008.

Summary of Contributions to State

The Lottery contributed \$116.3 million to the State in fiscal year 2008. This was an increase of 3.5 percent compared to \$112.4 million in fiscal year 2007, and a decrease of 4.3 percent over fiscal year 2006 contributions to State of \$121.5 million. Table 1 below provides detail on the source of the transfers provided to the state in the last three fiscal years.

INCREASED MARKETING
EFFORTS, HIGHER PRIZE
PAYOUTS AND THE
INTRODUCTION OF
\$20 SCRATCH GAMES
CONTRIBUTED TO RECORD
SALES IN FISCAL YEAR 2008

Table 1. Contributions to State

	2008	2007	2006
Net Proceeds to the State	\$76,587,446	\$73,917,531	\$81,232,065
In-Lieu-of-Sales-Tax	29,998,984	27,469,761	29,331,193
Compulsive Gambling Contribution	2,525,000	1,946,000	1,821,000
Unclaimed Prizes to the State	7,154,188	9,018,487	7,008,290
Unclaimed Prizes — Held in Trust	—	—	2,186,831
Total Paid to State	\$116,265,617	\$112,351,779	\$121,479,379

Table 2. Summary Results of Operations

	2008	2007	2006
Gross Receipts	\$431,581,820	\$395,156,103	\$420,529,452
Prizes, Commissions and Ticket Costs	322,667,987	288,958,944	309,247,591
Gross Profit	108,913,833	106,197,159	111,281,861
Operating Expenses	24,165,559	22,933,423	22,782,405
Operating Income	84,748,274	83,263,736	88,499,456
Non-Operating Revenues (Expense):			
Interest Earned on Investments	1,518,360	1,618,282	1,366,852
Unused Compulsive Gambling Contribution	0	0	195,047
Payments to State (not including sales tax)	(86,266,634)	(84,882,018)	(90,061,355)
Total Non-Operating Revenue (Expense)	(84,748,274)	(83,263,736)	(88,499,456)
Net Income	\$0	\$0	\$0

Table 3. Gross Receipts by Game

	2008	2007	2006
Scratch Ticket Sales	\$297,972,532	\$260,841,696	\$267,793,640
Online Ticket Sales:			
Daily 3 [®]	12,896,317	13,198,769	12,958,518
Gopher 5 [®]	16,860,714	13,451,496	23,751,551
Powerball [®]	91,984,559	86,770,299	112,184,974
Power Play [®]	5,183,767	4,822,784	4,393,871
Hot Lotto [®]	11,718,951	18,241,635	10,823,419
Sizzler [™]	480,279	0	0
Northstar Cash [®]	11,381,159	10,974,105	9,585,521
Minnesota Millionaire Raffle	4,983,459	4,992,260	0
G3 [®]	8,061,088	9,318,669	8,219,169
Operating Revenue	461,522,825	422,611,713	449,710,663
Other Income	57,979	14,152	49,982
Total Operating Revenue	461,580,804	422,625,865	449,760,645
Less in-Lieu-of-Sales-Tax	29,998,984	27,469,761	29,231,193
Gross Revenue	\$431,581,820	\$395,156,103	\$420,529,452

Table 4. Balance Sheet Summary—Condensed Balance Sheet

	2008	2007	2006
Assets			
Cash and Cash Equivalents	\$13,817,893	\$19,582,548	\$15,494,128
Receivables	5,772,330	4,579,018	3,151,896
Capital Assets and Other Assets	2,651,190	2,672,838	2,343,129
Total Assets	\$22,241,413	\$26,834,404	\$20,989,153
Liabilities and Fund Equity			
Due to State and State Agencies	\$10,435,618	\$14,124,440	\$10,605,584
Accounts Payable and Current Accrued Expenses	5,976,005	6,210,628	3,482,985
Current Accrued Prizes and Prize Annuity	5,294,565	6,043,724	6,411,129
Long-term Accrued Expense	535,225	455,612	489,455
Unrestricted Net Assets	(1,135,109)	(1,403,218)	(1,089,022)
Net Assets Invested in Capital Assets	1,135,109	1,403,218	1,089,022
Net Assets	0	0	0
Total Liabilities	\$22,241,413	\$26,834,404	\$20,989,153

Summary Results of Operation

Operating Income

Fluctuations in operating income in the last three years are due mainly to the elasticity of Powerball® and the propensity for players to spend significantly more dollars when jackpots exceed \$300 million. Higher Scratch sales, due in part to the introduction of a \$20 Scratch game in February, increased prize payouts in fiscal year 2008. Operating income increased \$1.5 million or 1.8 percent in fiscal year 2008 over fiscal year 2007 and decreased \$3.8 million or 4.2 percent over fiscal year 2006 (Table 2).

The increase in operating income was primarily due to higher Scratch sales in fiscal year 2008 compared to the previous year. Fiscal year 2007 operating income decreased \$5.2 million or 5.9 percent compared with fiscal year 2006, which saw record jackpots for Powerball®/Power Play® of \$365 million and \$340 million. The highest Powerball®/Power Play® jackpot in fiscal year 2008 was \$314 million.

Operating Expenses

Operating expenses increased \$1.2 million or 5.4 percent in fiscal year 2008 over fiscal year 2007 due in part to increased salaries and the introduction of Lucky MN. In fiscal year 2008 operating expenses were \$24.2 million or 5.6 percent of gross receipts. This was up from operating expenses in fiscal year 2007 and 2006 which was \$22.9 million and \$22.8 million, respectively (Table 2).

Scratch Games

Scratch Game sales were 64.6 percent of total sales in fiscal year 2008, an increase of 2.9 percent over 61.7 percent of sales in fiscal year 2007. Actual Scratch sales increased \$37.1 million or 14.2 percent from \$260.8 million in fiscal year 2007 to \$298.0 million in fiscal year 2008. Total sales, Scratch and Online, increased 9.2 percent from \$422.6 million in fiscal year 2007 to \$461.5 million in fiscal year 2008. The Lottery increased marketing efforts and introduced \$20 Scratch games in fiscal year 2008, which contributed to the increase in scratch sales.

Scratch Game sales were 61.7 percent of total sales in fiscal year 2007. Scratch sales decreased 2.6 percent over fiscal year 2006 (Table 3).

Online Games

Online Games sales were 35.4 percent of total sales in fiscal year 2008. Online sales increased \$1.8 million or 1.1 percent from \$161.8 million in fiscal year 2007 to \$163.6 million in fiscal year 2008. The increase in Online sales was mainly due to the higher jackpots for Powerball® and Gopher 5® in fiscal year 2008. The highest Powerball® jackpot in fiscal year 2008 was \$314 million compared with \$254 million in 2007. Powerball®/Power Play® sales increased 6.1 percent. Gopher 5® sales increased 25.3 percent in fiscal year 2008 because of higher jackpots than in fiscal year 2007. Gopher 5® experienced higher sales in fiscal year 2006 because of a restructuring of Gopher 5®. Northstar Cash® sales increased 3.7 percent over fiscal year 2007. Daily 3®, Hot Lotto®, and G3® Games all experienced sales decreases. An add-on game to Hot Lotto® named Sizzler™ began on January 3, 2008. For the second year in a row, the Lottery sold the Minnesota Millionaire Raffle™ game. It launched on October 30, 2007 and the drawing took place New Year's Day. Tickets were \$10 and it sold out on December 24, 2007, generating \$5 million in sales.

Online Game sales were 38.3 percent of total sales in fiscal year 2007. Powerball® sales decreased 22.7 percent and Power Play® sales increased 9.8 percent respectively in fiscal year 2007 over fiscal year 2006. The decrease in Online sales was mainly due to the large number of high Powerball® jackpots created by a game matrix change in fiscal year 2006. Gopher 5® sales decreased 43.4 percent in fiscal year 2007 compared to fiscal year 2006. This was due to a Gopher 5® matrix change in fiscal year 2006, which improved the odds of winning a prize, while increasing average jackpots. Hot Lotto® saw an increase of 68.5 percent due to a record jackpot run in fiscal year 2007. Daily 3®, Northstar Cash® and G3® Games all experienced sales increases relative to fiscal year 2006 (Table 3).



Balance Sheet Summary

The Lottery is required to advance net proceeds to the State of Minnesota and therefore, fund equity remains unchanged from year to year. In general, short term assets and liabilities will fluctuate with the activity of games being played (Table 4).

Cash and Cash Equivalents

The fiscal year 2008 decrease of \$5.8 million was mainly due to a decrease in liabilities of \$4.6 million, particularly a decrease of Net Proceeds Due to State of \$1.8 million, Unclaimed Prizes Due to State of \$1.9 million and In-Lieu-of-Sales Tax Payable of \$1.8 million. In fiscal year 2007 there was a \$4.1 million increase due to an increase in liabilities of \$5.8 million, particularly an increase of Net Proceeds Due to State of \$1.6 million, Unclaimed Prizes Due to State of \$2.0 million and In-Lieu-of-Sales Tax Payable of \$2.0 million.

Receivables

Receivables increased in fiscal year 2008 by \$1.2 million which was due mainly to a timing difference between the day of the week in the fiscal year ended in 2008 versus 2007. Receivables accrued for seven days at the end of fiscal year 2008 versus five days at the end of fiscal year 2007. In fiscal year 2007, the increase of \$1.4 million was due mainly to a timing difference of five days versus four days at the end of the period.

Capital Assets and Other Assets

Additions to capital assets of \$265 thousand in fiscal year 2008 resulted from purchases of office equipment and furniture, software, leasehold improvements and vehicles. Additions to capital assets in fiscal year 2007 were \$756 thousand mainly consisting of office equipment and furniture, vehicles, computer equipment, express point machines and glow cube signs. Retirements of capital assets in fiscal year 2008 were \$254 thousand consisting mainly of office equipment and furniture, computer equipment and vehicles. All but \$14 thousand was depreciated in fiscal year 2008. Retirements of capital assets in fiscal year 2007 were \$873 thousand consisting mainly of office equipment and furniture, computer equipment, vehicles and glow cube signs. Net of depreciation, total retirements were zero. See note 5 in Notes to the Financial Statements for more detail.

Other assets increased by \$246 thousand in fiscal year 2008 due to an increase in pre-paid expenses of \$34 thousand and an increase in ticket inventory of \$213 thousand. Other assets increased by \$15 thousand in fiscal year 2007 due to an increase in pre-paid expenses of \$15 thousand while ticket inventory remained basically unchanged.

Due to State and State Agencies

The fiscal year 2008 decrease of \$3.7 million versus fiscal year 2007 was due to a decrease in net proceeds and unclaimed prize money due to the state. The fiscal year 2007 increase of \$3.5 million over fiscal year 2006 was due to the increase of net proceeds and unclaimed prize money due to the state.

Accounts Payable & Accrued Expenses and Current Accrued Prizes and Prize Annuity Liabilities

A decrease of \$155 thousand for fiscal year 2008 compared with fiscal year 2007 was primarily due to increases in amounts owed to vendors of \$1.2 million, deferred revenues of \$313 thousand and compensated absences payable of \$129 thousand offset by a decrease due to the timing of payment for in-lieu-of-sales tax of \$1.8 million. An increase of \$2.7 million for fiscal year 2007 over fiscal year 2006 was primarily due to the timing of payment for in-lieu-of-sales tax.



A portion of the Gitchi-Gami trail on the North Shore. Photo courtesy Minnesota Department of Natural Resources.

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Balance Sheets—June 30, 2008 and 2007

Assets	2008	2007
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$13,817,893	\$19,582,548
Accounts Receivable, Net (Note 4)	5,772,330	4,579,018
Scratch Ticket Inventory	1,087,330	874,534
Prepaid Expense	428,751	395,086
Total Current Assets	21,106,304	25,431,186
Capital Assets, Net (Note 5)	1,135,109	1,403,218
Total Assets	\$22,241,413	\$26,834,404
Liabilities and Net Assets		
Current Liabilities:		
Net Proceeds Due to State (Note 8)	\$3,281,430	\$5,105,953
Unclaimed Prizes Due to State (Note 6)	7,154,188	9,018,487
Accounts Payable	4,444,756	3,198,439
In-Lieu-of-Sales Tax Payable	287,628	2,131,981
Prize Liability	5,204,565	6,043,724
Accrued Benefits, Current (Note 7)	715,483	665,826
Deferred Revenue	528,138	214,382
Total Current Liabilities	21,706,188	26,378,792
Accrued Benefits, Net of Current Portion (Note 7)	535,225	455,612
Commitments and Contingencies (Note 9 and 10)		
Net Assets		
Unrestricted Net Assets	(1,135,109)	(1,403,218)
Net Assets Invested in Capital Assets (Note 8)	1,135,109	1,403,218
Total Net Assets	0	0
Total Liabilities and Net Assets	\$22,241,413	\$26,834,404

See accompanying notes to Financial Statements.



Statements of Revenues, Expenses, and Changes in Net Assets—Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues:		
Scratch Ticket Sales	\$297,972,532	\$260,841,696
Online Ticket Sales	163,550,293	161,770,016
Other Income	14,135	14,152
Total Operating Revenues	461,536,960	422,625,864
Less: In-Lieu-of-Sales Tax	29,998,984	27,469,761
Gross Receipts	431,537,976	395,156,103
Direct Costs:		
Scratch Ticket Prizes	199,227,777	173,761,521
Online Ticket Prizes	80,407,544	76,357,952
Online Vendor Expense	10,031,368	9,869,664
Ticket Costs	5,338,261	3,720,019
Retailer Commissions and Incentives (Note 11)	27,663,037	25,249,788
Total Direct Costs	322,667,987	288,958,944
Gross Profit	108,869,989	106,197,159
Operating Expenses (Note 12):		
Advertising (Note 12)	6,355,108	6,465,432
Salaries and Benefits (Note 13)	10,481,515	10,063,020
Promotion	1,940,916	1,872,463
Purchased Services	1,335,230	1,112,427
Communication	495,766	408,625
Occupancy Costs (Note 9)	1,346,955	1,216,350
Supplies and Materials	933,197	807,740
Computer and Omnipoint Maintenance	250,143	208,568
Depreciation	518,911	441,937
Other Expense	463,974	336,861
Total Operating Expenses	24,121,715	22,933,423
Operating Income	84,748,274	83,263,736
Non-Operating Revenue (Expense):		
Interest Earned on Investments	1,518,360	1,618,282
Payments to State:		
Compulsive Gambling Contribution		
from Prize Fund (Note 10)	(2,525,000)	(1,946,000)
Unclaimed Prizes to State (Note 6)	(7,154,188)	(9,018,487)
Net Proceeds to state (Note 8)	(76,587,446)	(73,917,531)
Total Non-Operating Revenue (Expense)	(84,748,274)	(83,263,736)
Net Income	0	0
Net Assets at Beginning of Year (Note 8)	0	0
Net Assets at End of Year (Note 8)	\$0	\$0

See accompanying notes to Financial Statements.

Cash Flows—Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities:		
Cash Received from Customers	\$460,662,711	\$420,946,218
Cash Received from Other Income	83,395	90,388
Payments to State (In-Lieu-of-Sales-Tax)	(31,843,337)	(25,500,305)
Payments to Employees	(10,352,245)	(10,038,042)
Payments to Suppliers	(27,549,824)	(25,086,842)
Payments to Retailers	(27,746,432)	(25,340,176)
Payments to Prize Winners	(280,384,480)	(250,486,878)
Net Cash Provided by Operating Activities	82,869,788	84,584,363
Cash Flows from Non-Capital Financing Activities:		
Net Proceeds Paid to State	(78,411,969)	(72,363,252)
Compulsive Gambling Contribution Transfer	(2,525,000)	(1,946,000)
Unclaimed Prizes Transfer	(9,018,487)	(7,008,290)
Net Cash Used by Non-Capital Financing Activities	(89,955,456)	(81,317,542)
Cash Flows from Capital and Related Financing Activities:		
Purchases of Capital Assets	(250,802)	(756,133)
Proceeds from sale of Capital Assets	14,918	55,863
Net Cash Used by Capital Financing Activities	(235,884)	(700,270)
Cash Flows from Investing Activities		
Investment Income	1,556,897	1,521,869
Net Increase (Decrease) in Cash and Cash Equivalents	(5,764,655)	4,088,420
Beginning of Year Cash and Cash Equivalents	19,582,548	15,494,128
End of Year Cash and Cash Equivalents	\$13,817,893	\$19,582,548
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$84,748,274	\$83,263,736
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	518,911	441,937
Gain on the Disposal of Capital Assets	(14,918)	(55,863)
Net Change in Assets and Liabilities:		
Inventory	(212,796)	(343)
Other Assets	(1,265,514)	(1,345,879)
Other Liabilities	(155,010)	2,648,180
Prize Awards Payable	(749,159)	(367,405)
Net Cash Provided by Operating Activities	\$82,869,788	\$84,584,363

See accompanying notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS—JUNE 30, 2008 AND 2007

1. Organization of the Minnesota State Lottery

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

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

Lottery revenue is generated by sales of Scratch Games and Online Games that include: Daily 3[®], Northstar Cash[®], G3[®], Gopher 5[®], Powerball[®], Power Play[®], Hot Lotto[®], Sizzler[™] and the MN Millionaire Raffle game.

2. Summary of Significant Accounting Policies

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

(a) Basis of Accounting

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

Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, provides that proprietary and similar trust funds should apply all GASB pronouncements, as well as the following pronouncements issued

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

(b) Accounting Standard: GASB No. 34

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

(c) Measurement Focus

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



Wildflowers at the Minnesota Landscape Arboretum in Chanhassen.

(d) Operating Revenue and Expenses

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

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

(e) Cash and Cash Equivalents

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

(f) Prizes and Reserves

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

Prize expense for Daily 3[®] is recorded based upon the actual winners on the date of the draw. Prize expense for G3[®] games are based on actual winners and are recorded at the time of sale. The prize expense for Northstar Cash[®] is recorded at 53.3 percent of draw sales. The prize expense for Gopher 5[®] is recorded at 55 percent of draw sales; prior to September 23, 2005 it was recorded at 57 percent of draw sales.

Included in the Lottery Prize Liability at June 30, 2008 is a \$462,380 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, 2007 was \$17,033.

Prize expenses for Powerball[®], Power Play[®], Hot Lotto[®] and Sizzler[™] are recorded at 50 percent



Wind turbine at the University of Minnesota, Morris. Photo courtesy Joel Tallaksen, University of Minnesota.

draw sales in accordance with the Multi-State Lottery Association (MUSL) prize structure. The Powerball[®], Power Play[®], Hot Lotto[®] and Sizzler[™] prizes are paid with funds held by MUSL. MUSL has established separate prize pool reserves for Powerball[®], Power Play[®], Hot Lotto[®] and Sizzler[™] to support payment of prizes in light of the remote possibility of claims greatly exceeding the expected amounts. In the event that the Lottery ceases to participate in one of these games, the Lottery may make claim to assets, if any, in the related prize pool reserve. The Lottery's share of these prize reserves as of June 30, 2008 was as follows:

Powerball [®] /Power Play [®]	\$3,136,161
Hot Lotto [®] /Sizzler [™]	\$1,118,974
Total	\$4,255,135

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

(g) Scratch Ticket Inventory

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

(h) Capital Assets

Assets costing five thousand dollars 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, Online draw equipment and signs are depreciated over five years. Office furniture and the warehouse truck and equipment are depreciated over seven years. Leasehold improvements are depreciated on a straight-line basis over the shorter of the useful life or length of the lease. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized.

(i) In-Lieu-of-Sales Tax

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

(j) Income Taxes

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

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

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

(l) Reclassification

Certain reclassifications have been made to the 2007 financial statements to conform with the 2008 presentation.

3. Cash and Cash Equivalents

Minnesota Statutes, Section 349A.10, subdivision 7(a), requires the Lottery transfer all funds to a Lottery cash flow account in the State Treasury. Funds necessary to cover cash needs are transferred as needed from State Treasury to the Lottery fund. Funds in this account earn interest, which is credited monthly to the Lottery's account. Cash on deposits in the State Treasury and with financial institutions are insured. Cash on deposit is covered up to \$100,000 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 5 summarizes the Lottery's cash and cash equivalents at June 30, 2008 and 2007.

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 6 summarizes the Lottery's accounts receivable at June 30, 2008 and 2007.

5. Capital Assets

Tables 7 and 8 summarize changes in capital assets for the years ended June 30, 2008 and 2007.

Table 5. Cash and Cash Equivalents at June 30, 2008 and 2007

	2008	2007
Cash (checks issued but not yet presented for payment)	\$(1,173,871)	\$(1,677,782)
Cash on Deposit	14,991,764	21,260,330
Total Cash and Cash Equivalents	\$13,817,893	\$19,582,548

Table 6. Accounts Receivable at June 30, 2008 and 2007

	2008	2007
Accounts Receivable	\$6,069,501	\$4,840,667
Allowance for Doubtful Accounts	(297,171)	(261,649)
Accounts Receivable, Net	\$5,772,330	\$4,579,018

Table 7. Summary of Changes in Capital Assets—Year Ended June 30, 2008

	July 1, 2007	Additions	Deletions	Transfers	June 30, 2008
Depreciable Capital Assets:					
Office Equipment and Furniture	\$2,486,067	\$23,279	\$(82,431)	\$13,835	\$2,440,840
PC and Printer Equipment	771,356	—	(6,227)	—	765,129
Software Costs	59,965	109,979	—	—	169,944
Leasehold Improvements	1,629,259	4,571	(9,232)	—	1,624,598
Vehicles	819,540	112,973	(134,670)	—	797,843
Computer Equipment	1,435,646	—	(8,128)	—	1,427,518
Online Drawing Equipment	654,368	—	—	—	654,368
Express Point Machines	319,500	—	—	—	319,500
Signs	59,378	—	—	—	59,378
Warehouse Equipment	201,775	—	—	—	201,775
Capital Assets Not Yet Placed in Service	23,742	—	—	(13,835)	9,907
Total	8,460,596	250,802	(240,598)	—	8,470,800
Less-Accumulated Depreciation:					
Office Equipment and Furniture	2,234,693	73,600	(82,342)	—	2,225,951
PC and Printer Equipment	771,356	—	(6,227)	—	765,129
Software Costs	23,320	50,538	—	—	73,857
Leasehold Improvements	1,585,134	13,498	(9,232)	—	1,589,400
Vehicles	388,224	163,595	(134,669)	—	417,151
Computer Equipment	1,268,095	65,703	(8,128)	—	1,325,670
Online Drawing Equipment	578,183	69,678	—	—	647,861
Express Point Machines	26,625	63,900	—	—	90,525
Signs	8,094	10,431	—	—	18,525
Warehouse Equipment	173,652	7,968	—	—	181,620
Total Accumulated Depreciation	7,057,378	518,911	(240,598)	—	7,335,690
Net Capital Assets	\$1,403,218	\$(268,109)	—	—	\$1,135,109

Table 8. *Summary of Changes in Capital Assets—Year Ended June 30, 2007*

	July 1, 2006	Additions	Deletions	June 30, 2007
Depreciable Capital Assets:				
Office Equipment and Furniture	\$2,375,681	\$146,117	\$(35,731)	\$2,486,067
PC and Printer Equipment	916,289	—	(144,933)	771,356
Software Costs	59,965	—	—	59,965
Leasehold Improvements	1,629,259	—	—	1,629,599
Vehicles	1,041,311	218,131	(439,902)	819,540
Computer Equipment	1,452,726	—	(17,080)	1,435,646
Online Drawing Equipment	694,498	5,325	(45,455)	654,368
Express Point Machines	—	319,500	—	319,500
Signs	196,691	52,153	(189,466)	59,378
Warehouse Equipment	201,775	—	—	201,775
Capital Assets Not Yet Placed in Service	8,835	14,907	—	23,742
Total	8,577,030	756,133	(872,567)	8,460,596
Less-Accumulated Depreciation:				
Office Equipment and Furniture	2,215,721	54,703	(35,731)	2,234,693
PC and Printer Equipment	916,289	—	(144,933)	771,356
Software Costs	3,331	19,989	—	23,320
Leasehold Improvements	1,561,297	23,838	—	1,585,135
Vehicles	710,588	117,539	(439,902)	388,225
Computer Equipment	1,193,605	91,570	(17,080)	1,268,095
Online Drawing Equipment	525,088	98,550	(45,455)	578,183
Express Point Machines	—	26,625	—	26,625
Signs	196,691	869	(189,466)	8,094
Warehouse Equipment	165,398	8,254	—	173,652
Total Accumulated Depreciation	7,488,008	441,937	(872,567)	7,057,378
Net Capital Assets	\$1,089,022	\$314,196	—	\$1,403,218

Table 9. *Accrued Benefits*

	Beginning	Additions	Retirements	Ending
2008	\$1,121,438	\$1,108,150	\$(978,880)	\$1,250,708
2007	1,096,460	927,301	(902,323)	1,121,438

6. Unclaimed Prizes

Effective July 1, 2003 pursuant to Minnesota Laws 2003, 1st Special Session, Chapter 1, Article 2, Section 101, 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 \$7,154,188 and \$9,018,487 on June 30, 2008 and 2007, respectively.

7. Accrued Benefits

A liability is recognized for unpaid vacation, compensatory hours, vested severance and anticipated severance pay when earned. Non-vested severance pay is estimated based upon historical trends and current demographics. See Table 9.

8. Net Assets

Within 30 days after the end of each month, the Lottery is required by Minnesota Statutes, Section 349A.10, subdivision 5 to deposit the net proceeds in the State Treasury. The monthly transfer of net proceeds leaves a zero balance in Net Assets. Net Proceeds Due to State on the accompanying balance sheets for the month ended June 30, 2008 and 2007 were \$3,281,430 and \$5,105,953, respectively. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation.

9. Commitments and Contingencies

(a) Risk Management

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

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

The areas of insurance coverage, limits and deductibles as of June 30, 2008 are listed in Table 10.

The Lottery participates in the State's workers' compensation program. The Workers' Compensation Alternative Cost Allocation Account (WCACAA) funds approximately 15 percent 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 \$67,893 in fiscal year 2008 and \$62,040 in fiscal year 2007.

The Lottery purchased eighteen 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 the insurance companies defaulting on its obligations in a material sum in excess of the \$300,000 guaranteed by the State is remote.

Table 10. Areas of Insurance Coverage, Limits and Deductibles as of June 30, 2008

	Limits	Deductible
Property	\$4,507,355	\$1,000
Auto		
Bodily Injury and Property Damage	\$300,000/\$1,000,000	\$500
Primary Crime		
Employee Dishonesty, Money and Securities	\$25,000	\$1,000
General Liability	\$400,000/\$1,200,000	None
Excess Crime		
Employee Dishonesty	\$1,000,000	\$25,000
Forgery or Alteration	\$1,000,000	\$500
Computer Fraud	\$1,000,000	\$5,000
Robbery and Safe Burglary	\$50,000	\$100

(b) Operating Leases

The Lottery is committed under various leases for building and office space. The leases are classified as operating leases for accounting purposes. For the years ended June 30, 2008 and 2007, the lease expense was \$1,378,724 and \$1,363,685, respectively. This is net of sublease rental income of \$349,553 in fiscal year 2008 and \$346,555 in fiscal year 2007. Sublease rental income is included within occupancy costs on the financial statements. Future minimum lease payments for existing lease agreements are listed in Table 11.

appropriated \$1,456,000 in fiscal year 2007 from the prize fund to the Department of Human Services for statewide compulsive gambling treatment programs.

Minnesota Laws 2006, Chapter 225, section 1 appropriated \$150,000 for fiscal year 2007 to the Department of Human Services to be used for a grant to the state affiliate recognized by the National Council on Problem Gambling. Of the appropriation for fiscal year 2007, \$75,000 is contingent on the contribution of non-state matching funds.

Table 11. Future Minimum Lease Payments for Existing Lease Agreements

Year Ending June 30	Amount	Sub-Lease Amount	Net
2009	\$1,340,914	\$352,667	\$988,247
2010	1,361,254	350,216	1,011,038
2011	1,433,606	336,371	1,097,235
2012	1,144,214	336,371	807,843
2013	1,070,950	205,227	865,723
Total	\$6,350,938	\$1,580,852	\$4,770,086

(c) Sales Tax Contingency

The Lottery was subject to a sales and use tax audit in fiscal year 2006 for the period July 1, 2002 to June 30, 2005. The Lottery appealed an assessed tax liability of \$734,879 with the Department of Revenue and the appeal was denied. The Lottery is currently re-appealing the assessed tax liability. The financial statements reflect this amount plus the addition of \$450,815 for the sequential years as an amount due for sales tax assessment. If the assessment is overturned, the effect on the financial statements would be to decrease Scratch Ticket Expense by \$1,185,694 and increase Net Proceeds to State by the same amount. Because the sales tax is also payable to the State there is no change in the total amount the Lottery submits to the State.

Minnesota Laws 2007, Chapter 147, Article 19, section 3, subdivisions 8(e) and 9 appropriated \$2,185,000 from the prize fund to the Department of Human Services for statewide compulsive gambling treatment programs. Of this appropriation \$225,000 each year is a grant to the state affiliate recognized by the National Council on Problem Gambling, \$100,000 of which is contingent on contribution of non-state matching funds.

10. Compulsive Gambling Treatment Contribution Provided from Prize Fund

Minnesota Laws 1998, Chapter 407, Article 8, Section 11 appropriated \$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 2005, 1st Special Session, Chapter 4, Article 9, section 2, subdivisions 8(e) and 9

11. Retailer Commissions

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

12. Statutory Limitation on Operating and Advertising Expenses

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

Minnesota Statutes, Section 349A.10, subdivision 3 limits the Lottery's advertising costs to 2.75 percent and operating costs to 9 percent of gross revenue. Minnesota Laws 2005, Chapter 156, Article 1, section 20, provides that notwithstanding Minnesota Statutes, section 349A.10, the operating costs of the Lottery may not exceed \$27,350,000 in fiscal year 2007, and Minnesota Laws 2007, Chapter 148, Article 1, section 19, provides that notwithstanding Minnesota Statutes, section 349A.10, the operating costs of the Lottery may not exceed \$27,378,000 in fiscal year 2008.

The Lottery is in compliance with the statutory limits on advertising and operating costs. Advertising costs as a percentage of gross revenue were 1.64 percent and 1.47 percent for the years ended June 30, 2007 and 2008, respectively. Operating costs as a percentage of gross revenue were 5.80 percent and 5.60 percent for the years ended June 30, 2007 and 2008, respectively.

13. Retirement Plans and Post Retirement Benefits

The Lottery is involved in two pension programs as follows:

(a) *General Plan—*

Defined Benefit Pension Plan—Statewide:

Plan Description

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

Funding Policy

Plan members are required to contribute 4.0% of their annual covered salary and the Lottery is

required to contribute at an actuarially-determined rate. The Lottery's current rate is 4.0 percent of annual covered payroll. The contribution requirements of plan members and the Lottery are established and may be amended by state statute.

Table 12 shows contributions to MSRS for the years ending June 30, 2008, 2007, and 2006.

(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 4.0 percent 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.

Table 12 shows contributions to MSRS for the years ending June 30, 2008, 2007 and 2006.

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

Table 12. Retirement Plan Contributions to MSRS for the Years Ending June 30, 2008, 2007, and 2006

	2008	2007	2006
General Plan—MSRS	\$320,039	\$297,352	\$293,890
Unclassified Plan—MSRS	\$33,038	\$36,403	\$34,924

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Minnesota State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



Charles S. Cox

President

Jeffrey R. Enos

Executive Director



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

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

1. I have reviewed these Financial Statements for the fiscal year ended June 30, 2008 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 20, 2008

By: *Clint Harris*
Clint Harris, Executive Director

By: *Joseph Pahl*
Joseph Pahl, Chief Financial Officer





Schechter Dokken Kanter
Andrews & Selcer Ltd

Suite 1600

100 Washington Avenue South

Minneapolis, MN

55401-2192

Phone 612-332-5500

Fax 612-332-1529

E-mail info@sdkepa.com

www.sdkepa.com

INDEPENDENT PRACTITIONER'S SYSTRUST REPORT ON SYSTEM RELIABILITY

To the Management of Minnesota State Lottery:

We have examined the effectiveness of the Minnesota State Lottery's (the Lottery's) controls over the reliability of its AS/400, Novell, BPCS, ACCLAIMS, and ICS systems during the period of October 1, 2007 through March 31, 2008, based on the AICPA/CICA Trust Services Criteria¹ for systems reliability. Maintaining the effectiveness of these controls is the responsibility of the Lottery's management. Our responsibility is to express an opinion based on our examination.

A reliable system is one that is capable of operating without material error, fault or failure during a specified period in a specified environment. The AICPA/CICA Trust Services Security and Processing Integrity Criteria are used to evaluate whether the Lottery's controls over the reliability of its AS/400, Novell, BPCS, ACCLAIMS, and ICS systems are effective.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included (1) obtaining an understanding of the Lottery's relevant security and processing integrity controls; (2) testing and evaluating the operating effectiveness of the controls; and (3) performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Lottery maintained, in all material respects, effective controls over the reliability of the AS/400, Novell, BPCS, ACCLAIMS, and ICS systems to provide reasonable assurance that:

- The System was protected against unauthorized access (both physical and logical); and
- The System processing was complete, accurate, timely, and authorized during the period of October 1, 2007 to March 31, 2008, based on the AICPA/CICA Trust Services criteria for systems reliability.

Because of inherent limitations in controls, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that the validity of such conclusions may be altered because of changes made to the system or controls, the failure to make needed changes to the system or controls, or a deterioration in the degree of effectiveness of the controls.

The SysTrust seal on the Lottery's Web site constitutes a symbolic representation of the contents of this report and it is not intended, nor should it be construed, to update this report or provide any additional assurance.

*Schechter Dokken Kanter
Andrews & Selcer Ltd*

Minneapolis, Minnesota
May 16, 2008

¹ http://infotech.aicpa.org/NR/rdonlyres/05A9970C-A574-406D-BE82-5BE60D17F90F/0/Trust_Services_PC_10_2006.pdf



© 2009 Minnesota State Lottery

Printed on 100% recycled paper
made with 100% post-consumer fiber.