



MINNESOTA STATE LOTTERY ANNUAL REPORT 2009

CONTACT INFORMATION

**24-Hour Automated
Winning Numbers Hotline**
(651) 634-1111

E-mail
lottery@mnlottery.com

Web site
mnlottery.com

Players Club
luckymn.com

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
130 Chestnut Street
Virginia, MN 55792
(218) 748-2450

EXECUTIVE STAFF

Executive Director
Clint Harris

General Counsel/Assistant Director
Dale McDonnell

Director for Operations
Jenny Canfield

Director for Marketing and Sales
John Mellein

Chief Financial Officer
Joe Pahl

Chief of Security
Doug Wills

Research and Planning Director
Don Feeney

Public Relations Manager
Debbie Hoffmann

Pictured on cover: Deb Hildebrandt, Mary Olson and Teri Woodford of Redwood Falls; Martin Beil of Mapleton



2009 ANNUAL REPORT



Introduction	
From the Executive Director	2
How Lottery Dollars Benefit Minnesota	3
Games & Promotions	
Scratch Games	5
Lotto Games	6
Community and Retailers	
Player Commitment Statement	9
Commitment to Social Responsibility	10
Retailers	12
Financials	
Independent Auditor's Report	13
Management Discussion and Analysis	14
Financial Statements	18
Notes to the Financial Statements	21
Certificate of Achievement for Excellence in Financial Reporting	29
Certification of Executive Director and Chief Financial Officer	29

INTRODUCTION

Dear Readers:

Minnesota State Lottery sales set a record for the second consecutive year. Sales were \$481.2 million in fiscal year 2009, continuing the brisk pace that began in 2008. The biggest drivers behind the increase were the wide variety of scratch games and second-chance drawings that offered exciting prizes that appealed to our players.

In FY09 players again experienced record prize payouts, totaling \$295.1 million, while our hard-working retail partners earned a record \$28.9 million in commissions and incentives for selling Lottery products. This is an average of \$9,682 per business.

Important state programs and projects gained \$118.2 million from Lottery ticket sales. Among the beneficiaries, the Environment and Natural Resources Trust Fund earned \$30.8 million for critical environmental projects, while the Game & Fish Fund and Natural Resources Fund each received \$11.3 million. Programs supported by the state's General Fund netted \$64.7 million.

As a responsible corporate citizen, the Lottery continuously looks for ways to reduce costs and increase contributions to the state. During the past year we agreed to a three-year contract extension with our largest vendor, GTECH Corporation, which will result in significant cost savings and provide additional resources for the Lottery to use to continue to grow sales and revenue. The new contract reduces costs by \$1.8 million a year, or nearly \$12 million over the life of the contract.

We will continue to work hard to grow sales and maximize the contributions to state programs that benefit all Minnesotans.

Sincerely,



Clint Harris
Executive Director



RECORD LOTTERY SALES

For the second consecutive year, Minnesota State Lottery ticket sales set a new record. Sales reached \$481.2 million in fiscal year 2009, an increase of \$19.7 million, or 4.3 percent, from 2008. Record scratch game sales led the increase, ending the fiscal year at \$324.9 million, an increase of almost \$27.0 million, or 9.1 percent. Sales of lotto games (such as Powerball) totaled \$156.3 million, down \$7.2 million, or 4.4 percent, over the previous year due primarily to the lack of large Powerball jackpots. Scratch games continue to be the most popular with players, at 67.5 percent of total sales.

These record sales resulted in \$118.2 million for state projects and programs, which is up \$1.9 million, or 1.6 percent, over last year. This amount is also the second highest contribution made to the state since ticket sales began in 1990.

For the second consecutive year, the Minnesota State Lottery achieved record sales, totaling \$481.2 million in fiscal year 2009.



HOW LOTTERY DOLLARS BENEFIT MINNESOTA

The Environment and Natural Resources Trust Fund receives 40 percent of the Lottery's net proceeds — \$30.8 million in FY09. The state constitution limits annual appropriations to 5.5 percent of the Fund's market value as of the previous June 30, which was \$401.5 million on June 30, 2009. Since 1990, 449 projects have received funding of \$280 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 to support state services that include public education, local government assistance, public safety and environmental protection. The General Fund received \$64.7 million in FY09, 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 fiscal year 2009, these payments were allocated to the Game & Fish Fund for activities that improve, enhance or protect fish and wildlife resources in Minnesota (\$11.3 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 (\$11.3 million); and \$8.6 million to the General Fund. The Department of Natural Resources administers both the Game & Fish Fund and Natural Resources Fund.

GAMES & PROMOTIONS

The Lottery introduced many one-of-a-kind games, offered many fun promotions and paid players a record \$295.1 million in prizes in fiscal year 2009. Players won some great prizes, including cash, a 2010 Chevrolet Camaro 2SS, a 2009 Toyota Camry Hybrid and shopping sprees for Rapala® fishing merchandise.



SCRATCH GAMES

Fans of the *MINNESOTA TWINS*[®] had the chance to win great prizes by entering non-winning *MINNESOTA TWINS*[™] scratch tickets into one of three drawings. Prizes included trips to *SPRING TRAINING*[™] in Ft. Myers, Fla. in 2010; trips to a road game in 2010; regular season tickets to games at Target Field[™] in 2010; or *TWINS*[®] merchandise prize packs.

Due to its popularity last year, the Deal or No Deal scratch game, based on the television game show, was back again this year. Players could enter non-winning tickets into a second-chance drawing for the chance to win one of nine trips to Hollywood, Calif. and the chance to play the real Deal or No Deal game with Howie Mandel for the chance to win \$2.5 million. **Tim McMahon of Eagan** (left), who had that once-in-a-lifetime experience, won \$13,000.



▶ Players who entered non-winning Fishin' for Fortune scratch game tickets had the chance to win one of two \$5,000 Rapala[®] gift cards. **Gene Provost of Alexandria** (left) and Glenn Henriksen of Moorhead won these prizes after a lively race at the Rapala warehouse.

For players who enjoy playing poker, Minnesota Hold-Em Poker gave them the opportunity to win up to \$100,000 playing the scratch game. They could also play a Hold-Em Poker tutorial game online and win merchandise prizes.

Major League Baseball trademarks and copyrights are used with permission of Major League Baseball Properties, Inc. MLB.com MDI/MLBP 2009.

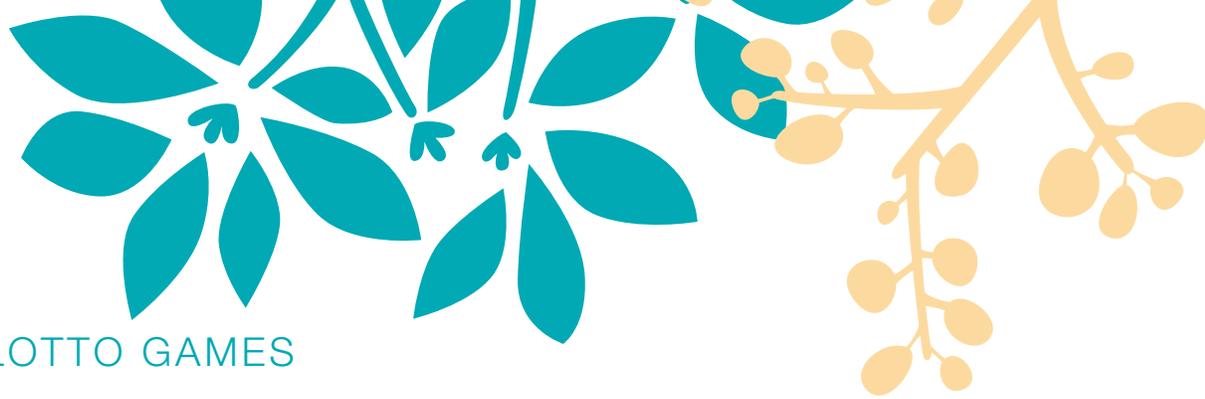
Deal or No Deal[™] ©2008 Endemol International B.V.



Pictured above (l-r): Robert Zimmerman of Prior Lake (sampler ticket pack winner), Peter Miller of Minneapolis (*SPRING TRAINING*[™] trip winner), Glen Larson of Rochester (road trip winner), Kathy Johnson of So. St. Paul (sampler ticket pack winner) and William Coon of Faribault (sampler ticket pack winner).

Anthony Alexander of Circle Pines won \$5,000 in VISA[®] gift cards in a Minnesota Hold-Em second-chance drawing.





LOTTO GAMES

The Lottery made some changes to its line-up of lotto games during the fiscal year. Players can now purchase tickets up to 14 drawings in advance for any of their favorite games.

Enhancements to Powerball beginning on Jan. 4, 2009 give players the opportunity to play for larger jackpots more often. The starting jackpot was increased to \$20 million, while players who purchase the Power Play® option and match the first five numbers automatically win five times the regular prize amount, no matter what the Power Play number was for that drawing. If the Match 5 prize is \$200,000*, the player will win \$1 million! The overall odds of the game improved to 1 in 35.1, which results in more than 3 million extra prizes won per year. There are four additional white ball numbers (now 59) and three fewer red ball (Powerball) numbers (now 39), for a net increase of one ball, which results in an increase in the size of the jackpot. The odds of winning the jackpot are now 1 in 195.2 million.

*The set prize amounts are based on the expected number of winners sharing the prize pool. In some cases, these prizes may be paid on a pari-mutuel basis and will be lower.

To introduce the redesigned game, players who made a \$10 Powerball purchase received an entry into a drawing for one of four \$1,000 prizes or a 2010 Chevrolet Camaro 2SS Coupe, courtesy of the Lottery and the Heartland Chevy Dealers Association. An entry submitted by Peter Ward of Rochester was drawn as the winner of the car from more than 92,800 entries received. The Camaro Ward won was the first one built for the state of Minnesota.



Peter Ward and his wife, Cindy, with their new Camaro.

Camaro is a trademark of General Motors Corporation, used with permission.



Gopher 5® players can now play three days a week!
Drawings are held on Monday, Wednesday and Friday.



Edward M. Ruiz of Canyon (pictured below with his wife, Mary Lou) became Minnesota's third Lottery millionaire in fiscal year 2009 after winning a \$3.62 million Hot Lotto® jackpot on Feb. 28, 2009. He was Minnesota's seventh Hot Lotto jackpot winner since the game began in 2002. Ruiz selected the \$2.37 million cash option.



Miller Hill Super One Foods in Duluth earned a \$10,000 cash bonus for selling the winning ticket to Ruiz. The store made news after donating the entire bonus to the local food bank.



For the third year in a row, all 500,000 Minnesota Millionaire Raffle game tickets sold out before the Dec. 31 deadline. Raffle offers two \$1 million top prizes. After the New Year's Day 2009 drawing, **Lindsey Iskierka of Oak Grove** (pictured far right) and **Daryl Schmidt of Blaine** (pictured right) became the first \$1 million Lottery winners of 2009.



The Lottery had a sales and information booth at the 2008 Minnesota State Fair for the first time in the Lottery's history. Sales were brisk (reaching \$250,000) throughout the 12-day event. **Mark Ladeen of Ramsey** (pictured right) won a 2009 Toyota Camry Hybrid that was awarded during the Fair through a promotional partnership between the Lottery, KSTC-TV and the Twin Cities Toyota Dealers Association.



Lucky, MN, the Lottery's online players club (luckymn.com), continued to welcome new residents. The population of Lucky, MN at the end of the fiscal year approached 52,000. The free club offers monthly promotions, advance notification of new games and the opportunity to have the winning numbers sent via e-mail.



Rick Jackson of Coon Rapids became Lucky's 50,000th resident.



COMMUNITY & RETAILERS

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.



THE MINNESOTA STATE LOTTERY'S COMMITMENT TO SOCIAL RESPONSIBILITY

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

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

Business Integrity

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

Player Commitment

Lottery customers are entitled to Lottery games that can be purchased with complete confidence regarding their security and integrity. To this end the Lottery has adopted a Player Commitment Statement (pg. 9) that outlines the policies for achieving these aims. The Lottery has also initiated a retailer compliance program that ensures retailers follow the rules and regulations outlined in their contract when interacting with players and when paying winners. Additional efforts have been made to encourage players to sign tickets and self-service terminals have been introduced at many retail locations that allow players to check their own tickets.



NO MORE MINNESOTA NICE



Report Lottery and
Sweepstakes Scams
(866) 347-0911 (toll free)
www.MNSCAMs.org



Fraud Protection

Too many Minnesotans have been victimized by scam artists seeking to convince the vulnerable that they have won a prize in a drawing 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.

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 is also working with the World Lottery Association on the development of worldwide standards for lottery 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.



RETAILERS

Nearly 3,000 outlets across Minnesota are authorized Lottery retailers. These retail partners play a critical 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. Retailers earned bonuses totaling \$159,988 during fiscal year 2009. The bonus ranged from \$125 to \$10,000.

In fiscal year 2009, Lottery retailers earned \$28.9 million in commissions and incentives, an average of \$9,682 per business.

FY 2009 TOP 10 RETAILERS

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

FINANCIALS

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, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Minnesota State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota State Lottery as of June 30, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued separately our report dated September 11, 2009, on our consideration of the Minnesota State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

*Schechter Dikken Kanter
Andrews & Selzer Ltd*

September 11, 2009

Schechter Dikken Kanter
Andrews & Selzer 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

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, 2009 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, 2009, 2008 and 2007 and a condensed version of the balance sheets as of June 30, 2009, 2008 and 2007.

FINANCIAL HIGHLIGHTS

The Minnesota State Lottery achieved record operating revenue of \$481.2 million in fiscal year 2009. The Lottery attained this in part due to increased marketing efforts, higher prize payouts and the continuation of \$20 Scratch games which were introduced in 2008. Record sales contributed to the \$118.3 million transferred to the state in fiscal year 2009.

SUMMARY OF CONTRIBUTIONS TO STATE

The Lottery contributed \$118.2 million to the State in fiscal year 2009. This was a modest increase over the \$116.3 million contributed in 2008 or 1.6 percent which was again higher than 2007 by 3.5 percent. The following table provides detail on the total amounts transferred to the State as well as the source of the transfers provided to the state in the last three fiscal years.



Contributions to State	2009	2008	2007
Net proceeds to the State	\$77,024,023	\$76,587,446	\$73,917,531
In-lieu-of-sales tax	31,280,934	29,998,984	27,469,761
Compulsive gambling contribution	2,130,000	2,525,000	1,946,000
Unclaimed prizes to the State	7,812,399	7,154,188	9,018,487
Total paid to State	\$118,247,356	\$116,265,618	\$112,351,779

Table 1. Summary Results of Operations	2009	2008	2007
Gross receipts	\$450,059,496	\$431,537,976	\$395,156,103
Prizes, commissions and ticket costs	339,222,479	322,667,987	288,958,944
Gross profit	110,837,017	108,869,989	106,197,159
Operating expenses	24,610,483	24,121,715	22,933,423
Operating income	<u>\$86,226,534</u>	<u>\$84,748,274</u>	<u>\$83,263,736</u>
Non-operating revenues (expense):			
Interest earned on investments	\$674,888	\$1,518,360	\$1,618,282
Unused Compulsive Gambling Contribution	65,000	0	0
Payments to State (not including sales tax)	(86,966,422)	(86,266,634)	(84,882,018)
Total non-operating revenue (expense)	<u>\$(86,226,534)</u>	<u>\$(84,748,274)</u>	<u>\$(83,263,736)</u>
Net Income	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Table 2. Gross Receipts by Game	2009	2008	2007
Scratch ticket sales	\$324,941,996	\$297,972,532	\$260,841,696
Lotto ticket sales:			
Daily 3 [®]	12,417,213	12,896,317	13,198,769
Gopher 5 [®]	16,485,360	16,860,714	13,451,496
Powerball [®]	83,265,951	91,984,559	86,770,299
Power Play [®]	5,070,512	5,183,767	4,822,784
Hot Lotto [®]	13,565,974	11,718,951	18,241,635
Sizzler [®]	1,026,762	480,279	0
Northstar Cash [®]	11,671,586	11,381,159	10,974,105
Minnesota Millionaire Raffle	4,989,042	4,983,459	4,992,260
Print-N-Play [™]	7,810,737	8,061,088	9,318,669
Total Lotto Ticket Sales	156,303,137	163,550,293	161,770,017
Operating revenue	481,245,133	461,522,825	422,611,713
Other income	95,297	14,135	14,152
Total operating revenue	481,340,430	461,536,960	422,625,865
Less in-lieu-of-sales tax	31,280,934	29,998,984	27,469,761
Gross revenue	<u>\$450,059,496</u>	<u>\$431,537,976</u>	<u>\$395,156,104</u>

Table 3. Balance Sheet Summary – Condensed Balance Sheet	2009	2008	2007
Assets:			
Cash and cash equivalents	\$14,694,086	\$13,817,893	\$19,582,548
Receivables	6,265,725	5,772,330	4,579,018
Capital assets & other current assets	3,859,259	2,651,190	2,672,838
Total Assets	<u>\$24,819,070</u>	<u>\$22,241,413</u>	<u>\$26,834,404</u>
Liabilities and fund equity:			
Due to State and State Agencies	\$13,336,177	\$10,435,618	\$14,124,440
Accounts payable & current accrued expenses	4,244,286	5,976,005	6,210,628
Current accrued prizes	6,654,080	5,294,565	6,043,724
Long-term accrued expenses	584,527	535,225	455,612
Unrestricted Net Assets	(1,811,785)	(1,135,109)	(1,403,218)
Net Assets Invested in Capital Assets	1,811,785	1,135,109	1,403,218
Net Assets	0	0	0
Total Liabilities	<u>\$24,819,070</u>	<u>\$22,241,413</u>	<u>\$26,834,404</u>



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 as well as higher Scratch sales; due in part to the introduction of a \$20 Scratch game in February of 2008. Prize payouts in fiscal year 2008 and 2009 increased in relation to Operating income. Operating revenue has increased steadily in the last two fiscal years: an increase of \$19.8 million or 4.3 percent in fiscal year 2009 over fiscal year 2008 and an increase of \$38.9 million or 9.2 percent in fiscal year 2008 over fiscal year 2007.

Operating Expenses:

Operating expenses increased by \$489 thousand or 2.0 percent in fiscal year 2009 over fiscal year 2008 due in most part to salary increases. 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. Operating expenses have decreased as a percentage of gross receipts for the past three fiscal years totaling 5.8 percent in fiscal year 2007, 5.6 percent in 2008 and 5.5 percent in 2009 (Table 1).

Scratch Games:

Scratch Game sales were \$324.9 million or 67.5 percent, \$298.0 million or 64.6 percent and \$260.8 million or 61.7 percent of total sales in fiscal year 2009, 2008 and 2007 respectively. The Lottery's steady increase in marketing efforts in fiscal year 2008 and 2009 and the introduction of the \$20 Scratch games in fiscal year 2008 has helped contribute to the increase in Scratch Game sales in each of the last two fiscal years. \$20 Scratch Games sales in fiscal year 2008 and 2009 were \$22.2 million and \$57 million respectively. Scratch Games have played a major role in the record sales achieved in fiscal year 2008 and 2009 increasing over \$64 million or 24.6 percent in the last two fiscal years combined (Table 2).

Lotto Games:

Total Lotto Game sales remained fairly constant over the last three years varying less than \$7 million from year to year. The most significant Lotto Game sales variation occurred in Powerball® which decreased \$8.7 million or 9.5 percent from fiscal year 2008 to fiscal year 2009. This significant drop in Powerball® sales was due mainly to the higher jackpots for Powerball® in fiscal year 2008, which was also the main reason for the \$5.2 million or 6 percent increase in Powerball® sales from fiscal year 2007 to fiscal year 2008. Top Powerball® jackpots were \$254 million, \$314 million and \$207 million for fiscal year 2007, 2008 and 2009 respectively.

Gopher 5® sales increased 25.3 percent in fiscal year 2008 because of higher jackpots than in fiscal year 2007. Gopher 5® sales remained fairly consistent in fiscal year 2009 with fiscal year 2008 noting a similar trend in jackpot size in fiscal year 2009 and fiscal year 2008.

Hot Lotto® sales have fluctuated greatly over the last three year period ranging from \$18.2 million, \$11.7 million and \$13.6 million in fiscal year 2007, 2008 and 2009 respectively. The fluctuation in sales is as expected in direct correlation to average jackpot size which was \$8.2, \$2.8 and \$4.5 million for fiscal year 2007, 2008 and 2009 respectively.

For the third year in a row the Lottery sold out its Minnesota Millionaire Raffle game, generating close to \$5 million in sales annually (Table 2).

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 and the timing of the year end cut-off related to our business cycle (Table 3).

Cash and cash equivalents:

The fiscal year 2009 increase of \$876 thousand was mainly due to an increase in liabilities of \$2.6 million, particularly an increase of Net Proceeds Due to State of \$2.2 million and an increase of Unclaimed Prizes Due to State of \$658 thousand offset by a reduction of Accounts Payable and Current Accrued Expenses of \$1.7 million.

Receivables:

Receivables increased in fiscal year 2009 by \$504 thousand which was due mainly to a timing difference between the day of the week in the fiscal year ended in 2009 versus 2008. Receivables accrued for eight days at the end of fiscal year 2009 versus seven days at the end of fiscal year 2008. In fiscal year 2008, the increase of \$1.2 million was due mainly to a timing difference of seven days versus five days at the end of the period.

Capital assets and other assets:

Increases in capital assets of \$676 thousand in fiscal year 2009 resulted from purchases of office equipment and furniture, computer software and equipment, vehicles, online drawing equipment, warehouse equipment and express point machines. Additions to capital assets in fiscal year 2008 mainly consisted of office equipment and furniture, software, leasehold improvements and vehicles. Retirements of capital assets in fiscal year 2009 were \$71 thousand consisting of vehicles. Retirements of capital assets in fiscal year 2008 were \$254 thousand consisting mainly of office equipment and furniture, computer equipment and vehicles. Net of depreciation, total retirements were zero. See note 5 on page 23 for more detail.

Other assets increased by \$531 thousand in fiscal year 2009 due to an increase in prepaid expenses of \$159 thousand and an increase in ticket inventory of \$372 thousand. 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.

Due to State and State Agencies:

The fiscal year 2009 increase of \$2.9 million over fiscal year 2008 was due to an increase in net proceeds and unclaimed prize money due to the state. 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.



FINANCIAL STATEMENTS

Balance Sheets – June 30, 2009 and 2008	2009	2008
Assets		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$14,694,086	\$13,817,893
Accounts Receivable, net (Note 4)	6,218,564	5,714,454
Interest Receivable	47,161	57,876
Scratch Ticket Inventory	1,459,353	1,087,330
Prepaid Expense	588,122	428,751
Total Current Assets	23,007,286	21,106,304
Capital Assets, Net (Note 5)	1,811,784	1,135,109
Total Assets	\$24,819,070	\$22,241,413
Liabilities and Net Assets		
Current Liabilities:		
Net Proceeds Due to State (Note 8)	\$5,523,778	\$3,281,430
Unclaimed Prizes Due to State (Note 6)	7,812,399	7,154,188
Accounts Payable	2,821,184	4,444,756
In-Lieu-of-Sales Tax Payable	0	287,628
Prize Liability	6,654,080	5,294,565
Compensated Absences Payable, current (Note 7)	738,328	715,483
Deferred Revenue	684,774	528,138
Total Current Liabilities	24,234,543	21,706,188
Compensated Absences Payable, net of current portion (Note 7)	584,527	535,225
Net Assets:		
Unrestricted Net Assets	(1,811,784)	(1,135,109)
Net Assets Invested in Capital Assets (Note 8)	1,811,784	1,135,109
Total Net Assets	0	0
Total Liabilities and Net Assets	\$24,819,070	\$22,241,413

See Accompanying Notes to Financial Statements

Statements of Revenues, Expenses and Changes in Net Assets		
Years Ended June 30, 2009 and 2008	2009	2008
Operating Revenues:		
Scratch Ticket Sales	\$324,941,996	\$297,972,532
Lotto Ticket Sales	156,303,137	163,550,293
Other Income	95,297	14,135
Total Operating Revenues	481,340,430	461,536,960
Less: In-Lieu-of-Sales Tax	31,280,934	29,998,984
Gross Receipts	450,059,496	431,537,976
Direct Costs:		
Scratch Ticket Prizes	217,652,167	199,227,777
Lotto Ticket Prizes	77,388,857	80,407,544
Online Vendor Expense	9,525,314	10,031,368
Ticket Costs	5,809,317	5,338,261
Retailer Commissions and Incentives (Note 11)	28,846,824	27,663,037
Total Direct Costs	339,222,479	322,667,987
Gross Profit	110,837,017	108,869,989
Operating Expenses: (Note 12)		
Advertising (Note 12)	6,402,302	6,355,108
Salaries and Benefits (Note 13)	10,781,942	10,481,515
Promotion	1,579,992	1,940,916
Purchased Services	1,435,084	1,335,230
Communication	499,389	495,766
Occupancy Costs (Note 9)	1,345,471	1,346,955
Supplies and Materials	974,672	933,197
Computer Maintenance	359,745	250,143
Depreciation	634,717	518,911
Other Expense	597,169	463,974
Total Operating Expenses	24,610,483	24,121,715
Operating Income	86,226,534	84,748,274
Non-operating Revenue (Expense)		
Interest Earned on Investments	674,888	1,518,360
Unused Compulsive Gambling Contribution	65,000	
Payments to State:		
Compulsive Gambling Contribution from Prize Fund (Note 10)	(2,130,000)	(2,525,000)
Unclaimed Prizes to State (Note 6)	(7,812,399)	(7,154,188)
Net Proceeds to State (Note 8)	(77,024,023)	(76,587,446)
Total Non-operating Revenue (Expense)	(86,226,534)	(84,748,274)
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

Statements of Cash Flows – Years Ended June 30, 2009 and 2008	2009	2008
Cash Flows from Operating Activities:		
Cash Received from Customers	\$480,992,956	\$460,662,711
Cash Received from Other Income	82,440	83,395
Payments to State (In-Lieu-of-Sales Tax)	(31,568,562)	(31,843,337)
Payments to Employees	(10,709,795)	(10,352,245)
Payments to Suppliers	(30,705,106)	(27,549,824)
Payments to Retailers	(28,929,264)	(27,746,432)
Payments to Prize Winners	(293,681,510)	(280,384,480)
Net Cash Provided by Operating Activities	<u>85,481,159</u>	<u>82,869,788</u>
Cash Flows from Non-Capital Financing Activities:		
Net Proceeds Paid to State	(74,781,675)	(78,411,969)
Compulsive Gambling Contribution Transfer Out	(2,130,000)	(2,525,000)
Compulsive Gambling Contribution Transfer In	65,000	0
Unclaimed Prizes Transfer	(7,154,188)	(9,018,487)
Net Cash Used by Non-Capital Financing Activities	<u>(84,000,863)</u>	<u>(89,955,456)</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of Capital Assets	(1,311,392)	(250,800)
Proceeds from Sale of Capital Assets	21,686	14,918
Net Cash Used by Capital Financing Activities	<u>(1,289,706)</u>	<u>(235,882)</u>
Cash Flows from Investing Activities:		
Investment Income	685,603	1,556,897
Net Cash Provided by Investing Activities	<u>685,603</u>	<u>1,556,897</u>
Net Increase (Decrease) in Cash and Cash Equivalents	876,193	(5,764,655)
Beginning of Year Cash and Cash Equivalents	13,817,893	19,582,548
End of Year Cash and Cash Equivalents	<u>\$14,694,086</u>	<u>\$13,817,893</u>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating Income	\$86,226,534	\$84,748,274
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	634,717	518,911
Gain on the Disposal of Capital Assets	(21,686)	(14,918)
Net Change in Assets and Liabilities:		
Inventory	(372,023)	(212,796)
Other Assets	(663,481)	(1,265,514)
Other Liabilities	(1,682,417)	(155,010)
Prize Awards Payable	1,359,515	(749,159)
Net Cash Provided by Operating Activities	<u>\$85,481,159</u>	<u>\$82,869,788</u>

See Accompanying Notes to Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

1. ORGANIZATION OF THE MINNESOTA STATE LOTTERY

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

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

Lottery revenue is generated by sales of scratch games and lotto games that include: Daily 3[®], Northstar Cash[®], Print-N-Play[™], 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 significant accounting policies:

a) Basis of Accounting

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

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

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

(b) Accounting Standard: GASB No. 34

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

(c) Measurement Focus

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



(d) Operating Revenue and Expenses

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

Packs of Scratch tickets are 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 lotto tickets are recognized as operating revenue on the date of the draw for which the tickets were purchased. Revenues from future lotto ticket draw sales are deferred until the date of the draw for which the tickets were purchased.

(e) Cash and Cash Equivalents

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

(f) Prizes and Reserves

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

Prize expense for Daily 3[®] is recorded based upon the actual winners on the date of the draw. Prize expense for Print-N-Play[™] games are based on actual winners and are recorded at the time of sale. The prize expense for Northstar Cash[®] is recorded at 53.3 percent of draw sales. The prize expense for Gopher 5[®] is recorded at 55 percent of draw sales.

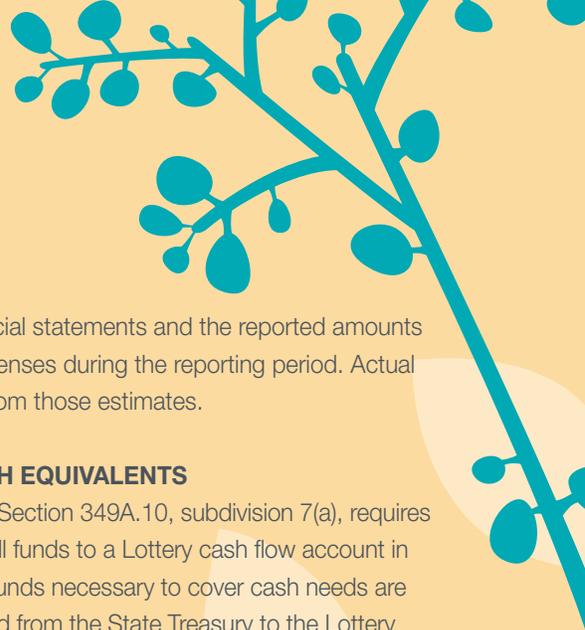
Included in the Lottery Prize Liability at June 30, 2009 is a \$1,000,000 prize reserve which reflects funds due to the State Treasury that have been set aside in the Lottery prize fund by the Director in accordance with Minnesota Statutes, Section 349A.10, subdivision 2(b) to assure proper funding for future lottery prizes. The prize reserve at June 30, 2008 was \$462,380.

Prize expenses for Powerball[®], Power Play[®], Hot Lotto[®] and Sizzler[®] are recorded at 50 percent of 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, 2009 was as follows:

Powerball [®] /Power Play [®]	\$3,188,351
Hot Lotto [®] /Sizzler [®]	1,356,626
Total	\$4,544,977

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

The Lottery participates in joint marketing campaigns for various events in order to maximize its marketing dollar and the exposure to the Lottery. In doing so, other entities may donate various prizes which are given out by the Lottery to its players. The Lottery credits Prize Expense when the prize is received and debits Prize Expense when the prize is given to the player. The Lottery received \$97,487 in donated prizes in fiscal year 2009 which were subsequently given to players.



(g) Scratch Ticket Inventory

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

(h) Capital Assets

Assets costing \$5,000 or more are capitalized and are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line basis using estimated useful lives from three to seven years. Computer equipment, printers, and software costs are depreciated over three years. Vehicles, other than the warehouse truck, are depreciated over four years. Office equipment, lotto drawing equipment and signs are depreciated over five years. Office furniture and the warehouse 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% 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.

(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.

3. CASH AND CASH EQUIVALENTS

Minnesota Statutes, Section 349A.10, subdivision 7(a), requires the Lottery transfer all funds to a Lottery cash flow account in the State Treasury. Funds necessary to cover cash needs are transferred as needed from the State Treasury to the Lottery fund. Funds in this account earn interest, which is credited monthly to the Lottery's account. Cash on deposits in the State Treasury and with financial institutions are insured. Cash on deposit is covered up to \$250,000 per institution by the Federal Depository Insurance Corporation (FDIC). At times, cash balances may be in excess of the FDIC insurance limit. As a result, the financial institutions are required to pledge securities as collateral to the Lottery in an amount equal to the funds in excess of the FDIC insurance limit. The securities are held in the name of the Lottery.

Table 4 summarizes the Lottery's cash and cash equivalents at June 30, 2009 and 2008.

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 5 summarizes the Lottery's accounts receivable at June 30, 2009 and 2008.

5. CAPITAL ASSETS

Tables 6 and 7 summarize changes in capital assets for the years ended June 30, 2009 and 2008.

**Table 4
Cash and Cash Equivalents at June 30, 2009 and 2008**

	2009	2008
Cash (checks issued but not yet presented for payment)	\$ (909,786)	\$ (1,173,871)
Cash on Deposit	15,603,872	14,991,764
Total Cash and Cash Equivalents	\$14,694,086	\$13,817,893

**Table 5
Accounts Receivable at June 30, 2009 and 2008**

	2009	2008
Accounts Receivable	\$6,652,407	\$6,011,625
Allowance for Doubtful Accounts	(433,843)	(297,171)
Accounts Receivable, Net	\$6,218,564	\$5,714,454

**Table 6 — Capital Assets
Year Ended June 30, 2009**

	1-Jul-08	Additions	Deletions	Transfers	30-Jun-09
Depreciable Capital Assets:					
Office Equipment & Furniture	\$2,440,840	\$290,038	—	\$9,907	\$2,740,785
PC & Printer Equipment	765,129	—	—	—	765,129
Software Costs	169,944	41,946	—	—	211,890
Leasehold Improvements	1,624,598	—	—	—	1,624,598
Vehicles	797,843	125,171	(70,795)	—	852,219
Computer Equipment	1,427,518	29,648	—	—	1,457,166
Online Drawing Equipment	654,368	121,160	—	—	775,528
Express Point Machines	319,500	693,875	—	—	1,013,375
Signs	59,378	—	—	—	59,378
Warehouse Equipment	201,775	9,554	—	—	211,329
Capital Assets not yet					
Placed in Service	9,907	—	—	(9,907)	—
Total	8,470,800	1,311,392	(70,795)	—	9,711,397

Less - Accumulated Depreciation:

Office Equipment & Furniture	2,225,952	100,394	—	—	2,326,346
PC & Printer Equipment	765,129	—	—	—	765,129
Software Costs	73,858	62,287	—	—	136,145
Leasehold Improvements	1,589,400	8,963	—	—	1,598,363
Vehicles	417,151	182,385	(70,795)	—	528,741
Computer Equipment	1,325,670	70,902	—	—	1,396,572
Online Drawing Equipment	647,861	11,743	—	—	659,604
Express Point Machines	90,525	179,546	—	—	270,071
Signs	18,525	10,431	—	—	28,956
Warehouse Equipment	181,620	8,066	—	—	189,686
Total Accumulated Depreciation	7,335,691	634,717	(70,795)	—	7,899,613
Net Capital Assets	\$1,135,109	\$676,675	—	—	\$1,811,784



**Table 7 — Capital Assets
Year Ended June 30, 2008**

	1-Jul-07	Additions	Deletions	Transfers	30-Jun-08
Depreciable Capital Assets:					
Office Equipment & Furniture	\$2,486,067	\$23,279	\$(82,341)	\$13,835	2,440,840
PC & 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 & Furniture	2,234,693	73,600	(82,342)	—	2,225,952
PC & Printer Equipment	771,356	—	(6,227)	—	765,129
Software Costs	23,320	50,538	—	—	73,858
Leasehold Improvements	1,585,134	13,498	(9,232)	—	1,589,400
Vehicles	388,226	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)	—	7,335,691
Net Capital Assets	\$1,403,228	\$(268,109)	—	—	\$1,135,109

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 \$7,812,399 and \$7,154,188 on June 30, 2009 and 2008, 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.

Accrued Benefits	Beginning	Additions	Retirements	Ending
2009	\$1,250,708	\$1,111,760	\$(1,039,613)	\$1,322,855
2008	1,121,438	1,108,150	(978,880)	1,250,708

8. NET ASSETS

Within 30 days after the end of each month, the Lottery is required by Minnesota Statutes, Section 349A.10, and subdivision 5 to deposit the net proceeds in the State Treasury. The monthly transfer of net proceeds leaves a zero balance in Net Assets. Net Proceeds Due to State on the accompanying balance sheets for the month ended June 30, 2009 and 2008 were \$5,523,778 and \$3,281,430, 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.

Areas of Insurance Coverage, Limits and Deductibles as of June 30, 2009		
	Limits	Deductible
Property	\$7,641,772	\$1,000
Auto		
Bodily Injury & Property Damage	\$400,000/\$1,200,000	\$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 \$38,044 in fiscal year 2009 and \$67,893 in fiscal year 2008.

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 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 years ended June 30, 2009 and 2008, the lease expense was \$1,064,058 and \$1,029,171, respectively. This is net of sublease rental income of \$352,667 and \$349,553 in 2009 and 2008, respectively. Sublease rental income is included within occupancy costs in the financial statements.

Future Minimum Lease Payments for Existing Lease Agreements — Year Ending June 30	Amount	Sub-Lease Amount	Net
2010	\$1,422,081	\$350,216	\$1,071,865
2011	1,411,151	336,371	1,074,780
2012	1,205,041	366,371	868,670
2013	1,131,777	205,227	926,550
2014	\$60,827	0	60,827
Thereafter	415,651	0	415,651
Total	\$5,646,528	\$1,228,185	\$4,418,343

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 2007, Chapter 147, Article 19, section 3, subdivision 8(e) and 9 appropriated \$2,185,000 for Fiscal Year 2008 and \$1,790,000 for Fiscal Year 2009 from the prize fund to the Department of Human Services for statewide compulsive gambling treatment programs. Of this appropriation \$225,000 each year is to a grant to the state affiliate recognized by the National Council of Problem Gambling, \$100,000 of which is contingent on contribution of non-state matching funds. Also, of this appropriation \$100,000 in Fiscal Year 2008 is for a grant to develop programs and services for problem gambling treatment in immigrant communities; \$300,000 in Fiscal Year 2008 and \$100,000 in Fiscal Year 2009 is for the purpose of compulsive gambling education, assessment, and treatment under Minnesota Statutes, section 245.98; and \$100,000 in Fiscal Year 2008 is to continue the study on compulsive gambling treatment effectiveness and long-term effects of gambling.

11. RETAILER COMMISSIONS

Retailer commission is set by Minnesota Rule 7856.4030 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 online 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 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 and \$28,141,000 in fiscal year 2009.



The Lottery is in compliance with the statutory limits on advertising and operating costs. Advertising costs as a percentage of gross revenue were 1.47 percent and 1.42 percent for the years ended June 30, 2008 and 2009, respectively. Operating costs as a percentage of gross revenue were 5.60 percent and 5.47 percent for the years ended June 30, 2008 and 2009, 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 4.5% of their annual covered salary and the Lottery is required to contribute at an actuarially-determined rate. The Lottery's current rate is 4.5% of annual covered payroll. The contribution requirements of plan members and the Lottery are established and may be amended by state statute.

(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% of their annual covered salary and the Lottery is required to contribute 6.0% of the annual covered payroll. The contribution requirements of plan members and the Lottery are established and may be amended by state statute.

The Lottery provides other post-employment benefits (OPEB) as part of its total employee compensation package. GASB statement No. 45 "Accounting and Financial Reporting by Employers for Post-Employment 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. Total expenses related to OPEB for fiscal year 2009 was \$42,000.

Retirement Plan Contributions to MSRS for the Years Ending June 30, 2009, 2008 and 2007	2009	2008	2007
General Plan — MSRS	\$348,431	\$320,039	\$297,352
Unclassified Plan — MSRS	38,019	33,038	36,403

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, 2008

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.



Kim L. Post
President

Jeffrey R. Enow
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, 2009 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: September 11, 2009

By: *Clint Harris*
Clint Harris, Executive Director

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



Minnesota State Lottery • 2045 Long Lake Road, Roseville, Minnesota 55113 • PH: 651-435-8100 • FAX: 651-297-7488 • TTY: 651-435-8268
An Equal Opportunity Employer

