



tm

**MINNESOTA
LOTTERY**

25th ANNIVERSARY

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Dear Readers:

We are now well into our 25th year of operation. This last year was the second best sales year on record. Although we would have liked to make it seven years in a row of record sales, we are proud of the work we are doing, and will continue to do.

The Minnesota Lottery is committed to being one of the best lotteries in the world, and to do so we must remain relevant in this modern and technological era. Companies that do not maintain a presence on the Internet do not maintain relevance with today's consumers. We now have available to our players the ability to purchase and sample our games on our e-commerce website. The website includes the ability for real-time purchases of our draw games, as well as electronic instant tickets. And we continue to have a purchase limit of \$50 per week.

We have not entered into this task lightly. We have reviewed research from around the world regarding similar action by other lotteries. Most of the European lotteries have been offering their products on the Internet for more than 10 years. The Canadian lotteries, Australian lotteries and many Asian lotteries now sell their products on the Internet. There has not been one jurisdiction where this practice is done that has shown harm to retail—in fact, they all show stronger retail sales and no increase in problem gambling. The most recent research shows an increase in overall gambling worldwide, with a decrease in problem gambling. We are hopeful that all of the responsible efforts of our industry to control problem gambling are paying off and that this problem will be controlled. We know that our products are mere entertainment to the vast majority of players and we want that to be the case for all.

We at the Minnesota Lottery are very appreciative of the support we receive throughout the state, and are very proud of all the good initiatives that are funded by Lottery proceeds. During FY14, almost \$60 million went to the environment. Our parks are better and our waters are cleaner because of initiatives funded by the Minnesota Lottery. We have been as successful as we are because of forward thinking that has kept the interest of our players, and which we have a duty to continue. We are very thankful for our hard-working retailers as well as our players, and we hope that the Lottery serves all interests well.

Sincerely,



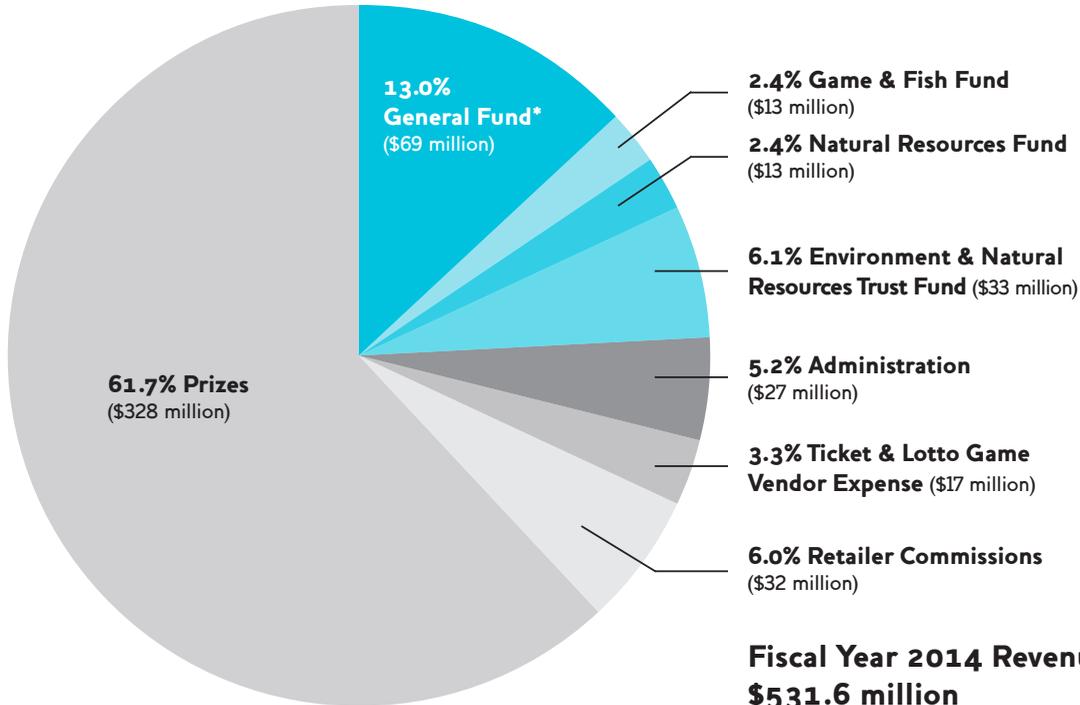
Ed Van Petten
Executive Director

Lottery Dollars Benefit Minnesota

Environmental funds that help to preserve, restore and enhance Minnesota’s environment and the state’s General Fund, which supports state services that include public education, local government assistance, public safety and environmental protection, receive a portion of every dollar played. Lottery sales have generated more than \$2.4 billion for these important programs since inception.

Ninety-two cents of every dollar spent on lottery tickets is returned to Minnesotans in the form of prize money, retailer commissions and contributions to the state.

For the eleventh consecutive year, the Lottery contributed more than \$100 million to state programs.



* Includes \$1 million for compulsive gambling treatment and prevention

Fiscal Year 2014 Revenue: \$531.6 million
Contributions to State Programs: \$127 million



Como Regional Park

Como Regional Park in St. Paul is Minnesota’s most visited park, attracting nearly 2 million people annually.

Steps away from the Park’s more well-known attractions is an 18-acre natural area that Lottery proceeds helped to revitalize through an Environment and Natural Resources Trust Fund grant: the Como Woodland Outdoor Classroom.

The \$218,000 grant from the Trust Fund allowed for removal of non-native invasive species, restoration, trail development, the creation of seven unique outdoor study areas, signs to help direct visitors, and the addition of propagation gardens.

This is just one of the many projects that have been completed with funding from the Environment & Natural Resources Trust Fund. Projects in each of Minnesota’s 87 counties have received funding from the Trust Fund.

25th Anniversary Celebration

The Lottery’s 25th anniversary year kicked off with an updated logo and “Chance is a Beautiful Thing” brand campaign. The anniversary logo is meant to portray the thrill of playing, while keeping the classic Minnesota elements from the original, including the iconic loon.

Performance painter and former America’s Got Talent finalist David Garibaldi helped unveil the Lottery’s anniversary logo at Target Field™ before a Minnesota Twins® game on April 17.



Pictured at right is David Garibaldi painting the Lottery’s new logo at Target Field™ in celebration of the Lottery’s 25th anniversary.

New Media Initiatives

Social media sites have changed the way that people connect with brands. Whether people play the Lottery or not, they are now able to engage in the conversations that are taking place. Instagram and Pinterest are the newest additions to the Lottery’s social media presence, which also includes Facebook, Twitter and YouTube.

The mnlottery.com website was completely redesigned. The revamped site includes better content, an expanded winning numbers checker, social media sharing and mobile compatibility. Over 40 percent of all visitors are now on mobile and that number continues to grow.



Players have won \$5.9 billion in prizes since inception

Powerball® — Paul White of Ham Lake is Minnesota’s 22nd Powerball jackpot winner. His ticket, along with two sold in New Jersey, matched all six winning numbers to split the \$448.4 million jackpot on Aug. 7, 2013. White claimed his share the next morning. When asked by a reporter during his news conference why he didn’t wait a while to claim the prize, he replied, “I have been waiting my entire life for this day.”



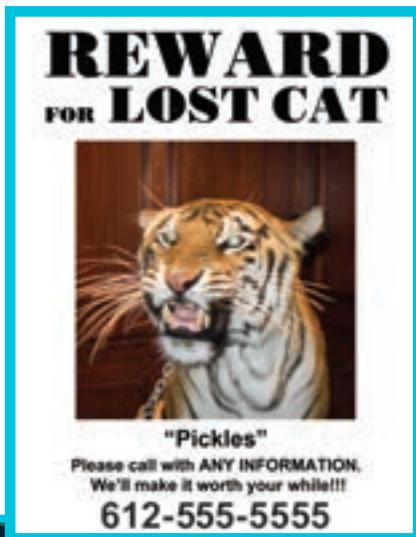
Paul White
Minnesota's
22nd Powerball
Winner

\$1,000,000 Caesars®

Jackpot — Adam Waller of Bethel won \$1 million instantly and 30 players (pictured below) won VIP trips to Caesars Palace® in Las Vegas to play in the Minnesota State Lottery jackpot party.



Adam Waller
\$1,000,000
Caesar's Jackpot®
Winner



“Pickles” was the star of a successful advertising campaign for the \$1,000,000 Caesars® Jackpot game. She was featured on television commercials as well as “lost cat” posters that were very attention-getting. People who called the phone number got information about the game and second-chance contest.



Mega Millions® — Mega Millions got a “mega-over.” The changes resulted in better overall odds of winning a prize, a \$1 million second prize, a 5x multiplier and larger starting jackpots.

All or Nothing™ — All or Nothing launched on Jan. 28, 2014; it is a lotto game with a twist. Match all the numbers: win \$100,000! Match no numbers: win \$100,000! Win either way! This is the first lotto game in Minnesota with twice-daily drawings

Minnesota Millionaire Raffle —

The sellout streak continued for the popular Minnesota Millionaire Raffle. For the eighth straight year, all tickets sold out prior to the Dec. 31 end date.



Brian Burton
\$1,000 Winner
All or Nothing



Carlos Vega Vega
\$1 Million Raffle
Winner



James Mattila
\$1 Million Raffle
Winner

New business owner Carlos Vega Vega of Cold Spring (middle) planned to use some of his \$1 million prize to pay bills.

James Mattila of Blackduck won a \$1 million Raffle prize. He and his wife Patricia (pictured) planned to use some of the prize to buy new vehicles and help out his parents.

Lucky

Lucky

LUCKY

On “lucky” Friday, June 13, Sherry Klatt-Villiard of Lake Park went to the store to purchase sugar. She ended up with something much sweeter: a \$100,000 winning scratch ticket. This was her third big win. The first was in 2003 to claim a Ford Ranger XLT, which she won in a second-chance contest. “I just traded it in last year,” she said. The second big win was in 2012 when she and her husband, Gary Villiard, claimed a \$1,074,739 Gopher 5® jackpot.

LUCKY

iLottery — Electronic instant tickets were added to the iLottery subscription site play options in February 2014. Lotto games have been available on the site since 2010.

iLottery is offered as a convenience to players who may need or want an alternative way to purchase their tickets.

Extensive controls in the system provide safeguards that prevent minors from purchasing tickets. Responsible gambling safeguards, including self-exclusion options and spending limits, are also part of the system. Geo-location technology ensures that purchases are made from within the state of Minnesota.



Mark McDonough
iLottery Winner



The Minnesota Lottery participated in the Stone Arch Bridge Festival in June 2014.



FIRST \$50 TICKET!

The Minnesota Lottery launched its first \$50 scratch game in June 2014.



The Minnesota Millionaire Raffle launch party was held at Mall of America® in November 2013.

GAMES AND WINNERS



Ryan Scott of Roseau
Win It All scratch game



Samuel Jones of Hibbing
Groovy 7s scratch game



Janet Nelson of Fergus Falls
Northstar Cash®



Susan Larsen of Isanti
Black Cherry Crossword scratch game



Tom Comeau of Minnetonka
Wild Game Cash scratch game



Robert Bailey of St. Paul
Powerball®



Annetta Allen of Minneapolis
Northstar Cash®



Betty Walters of Rochester
Silver and Gold scratch game

The approximately 3,100 lottery retailers in Minnesota earned an average of \$10,266 per business during the fiscal year.

Retailers have earned more than \$594 million in incentives and commissions since the Lottery began.

Top 10 fiscal year 2014 retailers

1. MSP Airport Foundation, St. Paul
2. M & H Gas, Moorhead
3. Orton's Moorhead Food Mart, Moorhead
4. Rainbow Foods, Minneapolis
5. Cub Foods, Crystal
6. Holiday Stationstores (Rice St.), St. Paul
7. Cub Foods, Brooklyn Center
8. East Grand Station, East Grand Forks
9. M & H Gas, St. Paul
10. Kwik Trip (E. Broadway St.), Winona

Independent Auditor's Report

The Director
Minnesota State Lottery
Roseville, Minnesota



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Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota State Lottery as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Minnesota State Lottery's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Minnesota State Lottery, as of June 30, 2014 and 2013, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Minnesota State Lottery, an Enterprise Fund of the State of Minnesota, and do not purport to, and do not, present fairly the financial position of the State of Minnesota, as of June 30, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

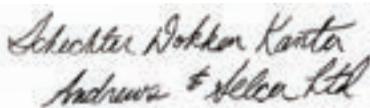
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2014 on our consideration of the Minnesota State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Minnesota State Lottery's internal control over financial reporting and compliance.



October 13, 2014

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, 2014 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, 2014 and 2013 and a condensed version of the balance sheets as of June 30, 2014 and 2013.

Financial Highlights

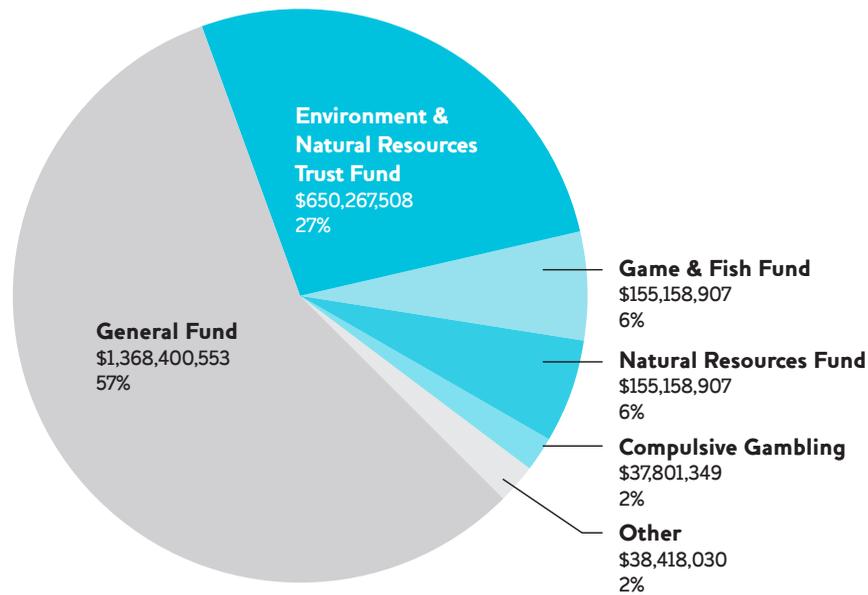
The Minnesota State Lottery had operating revenue of \$531.6 million in fiscal year 2014. This was a \$28.9 million decrease from operating revenue in fiscal year 2013. Lotto ticket sales and scratch ticket sales were down \$17.0 million and \$11.9 million respectively. A major factor in the decrease in operating revenues was Powerball sales which were \$26.7 million lower than the previous fiscal year. The lack of high jackpots in fiscal year 2014 compared to fiscal year 2013 was the leading cause of the decline in Powerball sales. The increase in Mega Millions sales in fiscal year 2014 of \$11.4 million over fiscal year 2013 along with the introduction of the new lotto game All or Nothing with sales of \$3.7 million in fiscal year 2014 helped compensate for a portion of the decline in Powerball sales.

Summary of Contributions to State

The Lottery contributed \$127.0 million to the State in fiscal year 2014, which was a 6.0 percent decrease from the \$135.1 million contributed in 2013. The following table provides detail on the total amounts transferred to the State as well as the source of the transfers provided to the State in the last two fiscal years.

CONTRIBUTIONS TO STATE	2014	2013
Net proceeds to the State	\$81,683,294	\$85,822,897
In-lieu-of-sales tax	34,548,528	36,425,843
Compulsive gambling contribution	1,188,372	1,718,101
Unclaimed prizes to the State	9,589,418	11,115,435
Total paid to State	<u>\$127,009,612</u>	<u>\$135,082,276</u>

The Lottery has contributed over \$2.4 billion to the State since inception



Summary Results of Operations

SUMMARY RESULTS OF OPERATIONS	2014	2013
Gross receipts	\$497,010,018	\$524,064,062
Prizes, commissions and ticket costs	377,256,458	399,314,147
Gross profit	119,753,560	124,749,915
Operating expenses	27,449,582	26,228,324
Operating income	92,303,978	98,521,591
Non-operating revenues (expense):		
Interest earned on investments	157,106	134,842
Unused Compulsive Gambling	1,041,628	511,899
Payments to State (not including sales tax)	(93,502,712)	(99,168,332)
Total non-operating revenue (expense)	(92,303,978)	(98,521,591)
Net Income	\$0	\$0

Operating Income

A decrease in operating revenue versus last year is due largely to an \$11.9 million decline in scratch ticket sales as well as a \$170 million decline in Lotto sales due mainly to a lack of high Powerball jackpots compared to the two jackpots that exceeded \$500 million in fiscal year 2013. Operating revenue decreased \$28.9 million or 5.2 percent in fiscal year 2014 versus fiscal year 2013.

Operating Expenses

Operating expenses increased in fiscal year 2014 by \$1.2 million or 4.7 percent from fiscal year 2013 due primarily to increases in salaries and benefits, occupancy costs and advertising.

GROSS RECEIPTS BY GAME	2014	2013
Scratch ticket sales	\$351,912,194	\$363,835,268
Lotto ticket sales:		
Daily 3 [®]	14,374,236	12,939,238
Gopher 5 [®]	17,066,341	20,027,762
Powerball [®]	77,427,224	104,153,926
Powerball with Power Play [®]	2,485,438	2,969,839
Mega Millions [®]	25,408,255	14,019,200
Mega Millions with Megaplier [®]	1,536,563	1,102,376
Hot Lotto [®]	11,499,441	11,888,590
Sizzler [®]	1,156,486	1,076,822
Northstar Cash [®]	10,040,866	11,040,160
Minnesota Millionaire Raffle	5,999,680	5,991,700
All or Nothing [™]	3,652,456	0
Progressive Print-N-Play [®]	8,956,637	10,400,056
Total lotto ticket sales	179,603,623	196,562,316
Operating revenue	531,515,817	560,397,584
Other income	42,729	92,321
Total operating revenue	531,558,546	560,489,905
Less in-lieu-of-sales tax	34,548,528	36,425,843
Gross Receipts	\$497,010,018	\$524,064,062

Scratch Games

Scratch game sales accounted for 66.2 percent and 64.9 percent of total operating revenue respectively for fiscal years 2014 and 2013. Fiscal year 2014 scratch sales were down 3.3 percent versus fiscal year 2013. Total scratch sales were \$351.9 million in fiscal year 2014 and \$363.8 million in fiscal year 2013.

Lotto Games

Total lotto game sales decreased in fiscal year 2014 due largely to the \$26.7 million decrease in Powerball sales. The major factor leading to the decrease in Powerball sales were a lack of high jackpots compared to the two jackpots that exceeded \$500 million in fiscal year 2013 including the largest estimated Powerball jackpot ever of \$600 million in May 2013. A highlight of the year was that Mega Millions had record sales and experienced an 81.2 percent increase in sales over fiscal year 2013 due mainly to two high jackpots of \$636 million and \$400 million. Also, a new game, All or Nothing, was introduced in January of fiscal year 2014 and had sales of \$3.7 million for the year. Total lotto sales were \$179.6 million in fiscal year 2014 and \$196.6 million in fiscal year 2013.

Balance Sheet Summary

CONDENSED BALANCE SHEET	2014	2013
Assets:		
Cash and cash equivalents	\$22,000,524	\$14,488,291
Receivables	5,709,696	5,240,270
Inventory and prepaid expenses	1,447,510	1,393,423
Capital assets	1,354,219	1,681,910
Total Assets	<u>\$30,511,949</u>	<u>\$22,803,894</u>
Liabilities and net assets:		
Due to State and State Agencies	\$14,165,779	\$11,115,435
Accounts payable & current accrued expenses	7,324,891	9,367,640
Prize liability	8,055,281	1,641,417
Long-term accrued expenses	965,998	679,402
Unrestricted net position	(1,354,219)	(1,681,911)
Net Assets Invested in capital assets	1,354,219	1,681,911
Net Position	0	0
Total Liabilities and Net Position	<u>\$30,511,949</u>	<u>\$22,803,894</u>

The Lottery is required to advance net proceeds to the State of Minnesota and, therefore, net position 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.

Cash and Cash Equivalents and Receivables

Cash and cash equivalents and receivables increased by \$8.0 million from fiscal year 2013 to 2014. This is a direct result of higher sales at the end of the year relative to the prior year as well as a significant reduction in expenses taken in June of 2014 versus June of 2013.

Capital Assets and Other Assets

Net capital assets decreased \$328 thousand in fiscal year 2014 versus fiscal year 2013. Purchases of capital assets totaled over \$358 thousand with the significant purchases on vehicles of over \$199 thousand, computer equipment of over \$60 thousand and leasehold improvements of over \$51 thousand. Net of depreciation, total retirements were \$0. See note 5 for more detail.

Other assets increased by \$54 thousand in fiscal year 2014 from fiscal year 2013 due largely to prepaid expense which increased from \$459 thousand in fiscal year 2013 to \$503 thousand in fiscal year 2014.

Due to State and State Agencies

The fiscal year 2014 increase of \$3.1 million was due to higher than expected prize expenses in fiscal year 2013.

Prize Liability

Current accrued prizes increased by \$6.4 million in fiscal year 2014. Contributing factors include lotto tickets that were unclaimed as of the end of fiscal year 2014 including a \$1 million winning

Powerball ticket from the March 26th drawing and a \$100 thousand winning All or Nothing ticket from the March 16th drawing. Also, accrued scratch prizes expense was more reflective of our expectations in 2014. 2013 scratch prizes paid exceeded expectations as well as the expenses accrued for that period resulting in a much lower Prizes payable figure.

Accounts Payable and Current Accrued Expenses

Accounts payable and current accrued expenses are down \$2.0 million from 2013 to 2014 due to a \$2.4 million decrease in payables for invoices received in June of fiscal year 2013 but not paid until fiscal year 2014. The majority of the payables were invoices from the Minnesota Twins[®] as well as scratch game, online and advertising vendors. This was offset by increases in in-lieu-of-sales tax payable, accrued salaries and advance sales over fiscal year 2013. In-lieu-of-sales tax payable increased by \$216 thousand. Accrued salaries increased by \$100 thousand, as salaries increased and the number of days accrued in fiscal year 2014 was nine days versus only eight days accrued in fiscal year 2013. The increase of \$128 thousand in advance sales is due to fiscal year 2014 ending on a Sunday versus fiscal year 2013 ending on a Monday.

BALANCE SHEETS — JUNE 30, 2014 AND 2013		
	2014	2013
Assets		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$22,000,524	\$14,488,291
Accounts Receivable, Net (Note 4)	5,699,367	5,044,635
Interest Receivable	10,329	8,835
Scratch Ticket Inventory	944,691	934,072
Due from State (Note 8)		186,800
Prepaid Expense	502,819	459,351
Total Current Assets	29,157,730	21,121,984
Capital Assets, Net (Note 5)	1,354,219	1,681,910
Total Assets	<u>\$30,511,949</u>	<u>\$22,803,894</u>
Liabilities and Net Position:		
Current Liabilities:		
Net Proceeds Due to State (Note 8)	\$4,576,361	\$0
Unclaimed Prizes Due to State (Note 6)	9,589,418	11,115,435
Accounts Payable	2,581,499	5,068,410
In-Lieu-of-Sales Tax Payable	2,774,384	2,558,605
Prize Liability	8,055,281	1,641,417
Accrued Salaries and Benefits, Current (Note 7)	1,304,355	1,204,412
Advance Sales	664,653	536,213
Total Current Liabilities	29,545,951	22,124,492
Accrued Salaries and Benefits, Net of Current Portion (Note 7)	735,136	679,402
Accrued Rent (Note 9)	230,862	
Total Noncurrent Liabilities	965,998	679,402
Total Liabilities	30,511,949	22,803,894
Net Position (Note 8):		
Unrestricted Net Position	(1,354,219)	(1,681,911)
Net Investment in Capital Assets (Note 8)	1,354,219	1,681,911
Total Net Position	0	0
Total Liabilities and Net Position	<u>\$30,511,949</u>	<u>\$22,803,894</u>

See Accompanying Notes to Financial Statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION — YEARS ENDED JUNE 30, 2014 AND 2013		
	2014	2013
Operating Revenues:		
Scratch Ticket Sales	\$351,912,194	\$363,835,268
Lotto Ticket Sales	179,603,623	196,562,316
Other Income	42,729	92,321
Total Operating Revenues	531,558,546	560,489,905
Less: In-Lieu-of-Sales Tax	34,548,528	36,425,843
Gross Receipts	497,010,018	524,064,062
Direct Costs:		
Scratch Ticket Prizes	236,355,171	248,336,306
Lotto Ticket Prizes	91,637,479	98,737,043
Online Vendor Expense	9,923,920	10,680,681
Ticket Costs	7,482,509	8,076,972
Retailer Commissions and Incentives (Note 11)	31,857,379	33,483,145
Total Direct Costs	377,256,458	399,314,147
Gross Profit	119,753,560	124,749,915
Operating Expenses: (Note 12)		
Advertising (Note 12)	7,259,771	6,876,833
Salaries and Benefits (Note 13)	12,009,934	11,212,065
Promotion	1,385,464	1,562,398
Purchased Services	1,767,946	1,643,988
Communication	617,198	560,299
Occupancy Costs (Note 9)	1,584,599	1,455,021
Supplies and Materials	1,156,897	1,150,457
Computer and Omnipoint Maintenance	359,474	341,139
Depreciation	686,017	836,044
Other Expense	622,282	590,080
Total Operating Expenses	27,449,582	26,228,324
Operating Income	92,303,978	98,521,591
Nonoperating Revenue (Expense)		
Interest Earned on Investments	157,106	134,842
Payments to State:		
Compulsive Gambling Contribution from Prize Fund (Note 10)	(1,188,372)	(1,718,101)
Unclaimed Prizes to State (Note 6)	(9,589,418)	(11,115,435)
Net Proceeds to State (Note 8)	(81,683,294)	(85,822,897)
Total Nonoperating Expense	(92,303,978)	(98,521,591)
Net Income	0	0
Net Position at Beginning of Year (Note 8)	0	0
Net Position at End of Year (Note 8)	\$0	\$0

See Accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2014 AND 2013	2014	2013
Cash Flows from Operating Activities:		
Cash Received from Customers	\$530,989,525	\$560,110,921
Cash Received from Other Income	42,729	92,321
Payments to State (In-Lieu-of-Sales Tax)	(34,332,749)	(36,734,539)
Payments to Employees	(11,854,257)	(11,212,280)
Payments to Suppliers	(34,477,463)	(31,686,188)
Payments to Retailers	(31,857,379)	(33,483,145)
Payments to Prize Winners	(321,578,786)	(349,780,221)
Net Cash Provided by Operating Activities	<u>96,931,620</u>	<u>97,306,869</u>
Cash Flows from Non-Capital Financing Activities:		
Net Proceeds Paid to State	(76,920,135)	(91,802,162)
Compulsive Gambling Contribution Transfer	(1,188,372)	(1,718,101)
Unclaimed Prizes Transfer	(11,115,435)	(10,250,589)
Net Cash Used by Non-Capital Financing Activities	<u>(89,223,942)</u>	<u>(103,770,852)</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of Capital Assets	(358,325)	(982,598)
Proceeds on Sale of Capital Assets	7,268	41,070
Net Cash Used by Capital Financing Activities	<u>(351,057)</u>	<u>(941,528)</u>
Cash Flows from Investing Activities:		
Investment Income	155,612	137,020
Net Cash Provided by Investing Activities	<u>155,612</u>	<u>137,020</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,512,233	(7,268,491)
Beginning of Year Cash and Cash Equivalents	14,488,291	21,756,782
End of Year Cash and Cash Equivalents	<u>\$22,000,524</u>	<u>\$14,488,291</u>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating Income	\$92,303,978	\$98,521,591
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	686,017	836,044
Gain on the Disposal of Capital Assets	(7,268)	(41,070)
Net Change in Assets and Liabilities:		
Scratch Ticket Inventory	(10,619)	(148,896)
Accounts Receivable	(654,732)	(335,571)
Prepaid Expenses	(43,467)	(80,288)
Other Liabilities	(1,756,153)	1,261,931
Prize Liability	6,413,864	(2,706,872)
Net Cash Provided by Operating Activities	<u>\$96,931,620</u>	<u>\$97,306,869</u>

See Accompanying Notes to Financial Statements.

Notes to the Financial Statements June 30, 2014 and 2013

1. ORGANIZATION OF THE MINNESOTA STATE LOTTERY

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

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

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

Lottery revenue is generated by sales of scratch games and lotto games that include: Daily 3[®], Northstar Cash[®], Progressive Print-N-Play[®], Gopher 5[®], Powerball[®], Power Play[®], Mega Millions[®], Megaplier[®], Hot Lotto[®], Sizzler[®], All or Nothing[™] and the Minnesota Millionaire Raffle game.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Accounting

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

In March 2012, the GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for the Lottery's fiscal year 2014; therefore, it has been adopted as of June 30, 2014. This Statement did not have a significant impact on the Lottery's fiscal year 2014 financial statements.

(b) Budgetary Data

The Lottery is not legally required to adopt a budget and therefore budgetary comparison schedules are not included as supplementary information.

(c) Measurement Focus

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

(d) Operating Revenues and Expenses

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

Packs of scratch tickets are consigned to retail sales outlets and revenue is recognized upon settlement of ticket packs by retailers and are recorded at the sale price to the consumer. Sales of lotto tickets are recognized as operating revenue on the date of the draw for which the tickets were purchased. Revenues from future lotto ticket draw sales are not recognized until the date of the draw for which the tickets were purchased.

(e) Nonoperating Revenue and Expense

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

(f) Cash and Cash Equivalents

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

(g) Prizes and Reserves

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

Prize expense for Daily 3[®] is recorded based upon the actual winners on the date of the draw. Prize expense for Progressive Print-N-Play[®] games are based on actual winners and are recorded at the time of sale. The prize expense for Northstar Cash[®] is recorded at 53.3 percent of draw sales. The prize expense for Gopher 5[®] is recorded at 54 percent of draw sales.

Included in the Lottery Prize Liability at June 30, 2014 is a \$1,040,682 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, 2013 was \$1,073,713.

Prize expenses for Powerball[®], Power Play[®], Hot Lotto[®] and Sizzler[®] are recorded at 50 percent of draw sales; Mega Millions[®] and the Megaplier[®] are recorded at 51 percent and 50 percent of draw sales, respectively. All or Nothing[™] is recorded at 60.51%. All Multi-State Lottery Association (MUSL) games are recorded in accordance with the MUSL prize structure. The Powerball[®], Power Play[®], Hot Lotto[®], Sizzler[®], Mega Millions[®], Megaplier[®], and All or Nothing[™] prizes are paid with funds held by MUSL. MUSL has established separate prize pool reserves for Powerball[®], Power Play[®], Hot Lotto[®], Sizzler[®], Mega Millions[®], and Megaplier[®] to support payment of prizes in light of the remote possibility of claims greatly exceeding the expected amounts. In the event that the Lottery ceases to participate in one of these games, the Lottery may make claim to assets, if any, in the related prize pool reserve. The Lottery's share of these prize reserves as of June 30, 2014 was as follows:

Powerball [®] /Power Play [®]	\$4,038,778
Mega Millions [®] /Megaplier [®]	1,015,308
Hot Lotto [®] /Sizzler [®]	1,511,072
All or Nothing [™]	275,329
Total	<u>\$6,840,487</u>

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

The Lottery participates in joint marketing campaigns for various events in order to maximize its marketing dollar and the exposure to the Lottery. In doing so, other entities may donate various prizes which are given out by the Lottery to its players. The Lottery recognizes other income when the donated prize is received and records prize expense when the prize is given to the player. The Lottery received \$17,450 and \$88,238 in donated prizes in fiscal year 2014 and 2013 respectively, which were subsequently given to players.

(h) Scratch Ticket Inventory

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

(i) Capital Assets

Assets costing \$5,000 or more are capitalized and are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line basis using estimated useful lives from three to seven years. Computer equipment, printers, and software costs are depreciated over three years. Vehicles, other than the warehouse truck, are depreciated over four years. Office equipment, lotto drawing equipment and signs are depreciated over five years. Office furniture and the warehouse truck and equipment are depreciated over seven years. Leasehold improvements are depreciated on a straight-line basis over the shorter of the useful life or length of the lease. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized.

(j) In-Lieu-of-Sales Tax

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

(k) Income Taxes

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

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

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

3. CASH AND CASH EQUIVALENTS

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

CASH AND CASH EQUIVALENTS AT JUNE 30, 2014 AND 2013	2014	2013
Cash (checks issued but not yet presented for payment)	(\$389,738)	(\$136,013)
Cash on Deposit	22,390,262	14,624,304
Total Cash and Cash Equivalents	\$22,000,524	\$14,488,291

Available cash in the State Treasury is invested by the State Board of Investment. In accordance with Minnesota Statutes, Section 11A.24, the State Board of Investment must invest in obligations and stocks of U.S. and Canadian governments, their agencies and their registered corporations, short-term obligations of specified high quality, restricted participation as a limited partner in venture capital, real estate, or resource equity investments, and restricted participation in registered mutual funds. Cash on deposit in the State Treasury cannot be tied to specific investment securities.

4. ACCOUNTS RECEIVABLE – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following table summarizes the Lottery's accounts receivable at June 30, 2014 and 2013:

ACCOUNTS RECEIVABLE AT JUNE 30, 2014 AND 2013	2014	2013
Accounts Receivable	\$6,018,689	\$5,388,114
Allowance for Doubtful Accounts	<u>(319,322)</u>	<u>(343,479)</u>
Accounts Receivable, Net	<u>\$5,699,367</u>	<u>\$5,044,635</u>

5. CAPITAL ASSETS

Summary of changes in capital assets for the years ended June 30, 2014 and 2013 are as follows:

CAPITAL ASSETS 2014	BEGINNING BALANCE	ADDITIONS	DISPOSALS	TRANSFERS	ENDING BALANCE
Depreciable Capital Assets:					
Office Equipment & Furniture	\$1,896,211	\$19,538			\$1,915,749
Software Costs	1,134,251	23,342			1,157,593
Leasehold Improvements	1,485,847	51,812			1,537,659
Vehicles	999,202	199,566	(22,511)		1,176,257
Computer Equipment	1,330,320	60,856			1,391,176
Lotto Drawing Equipment	775,528				775,528
Express Point Machines	1,607,938				1,607,938
Signs	79,151	3,211			82,362
Warehouse Equipment	236,121				236,121
Total	9,544,569	358,325	(22,511)	0	9,880,383
Less-accumulated Depreciation:					
Office Equipment & Furniture	(1,717,085)	(75,484)			(1,792,569)
Software Costs	(903,412)	(98,108)			(1,001,520)
Leasehold Improvements	(1,388,202)	(13,254)			(1,401,456)
Vehicles	(660,156)	(151,760)	22,511		(789,405)
Computer Equipment	(870,987)	(183,540)			(1,054,527)
Lotto Drawing Equipment	(759,394)	(16,133)			(775,527)
Express Point Machines	(1,266,627)	(142,485)			(1,409,112)
Signs	(79,153)	(215)			(79,368)
Warehouse Equipment	(217,642)	(5,038)			(222,680)
Total Accumulated Depreciation	(7,862,658)	(686,017)	22,511	0	(8,526,164)
Net Capital Assets	<u>\$1,681,911</u>	<u>(\$327,692)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,354,219</u>

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

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 \$9,589,418 and \$11,115,435 on June 30, 2014 and June 30, 2013, respectively.

7. ACCRUED SALARIES AND BENEFITS

A liability is recognized for accrued salaries, post-employment benefit obligations, unpaid vacation, compensatory hours, vested severance and anticipated severance pay when earned. Non-vested severance pay is estimated based upon historical trends and current demographics. A schedule of the accrued salaries and benefits is as follows:

ACCRUED SALARIES BENEFIT	2014	2013
Accrued Salaries and Benefits:		
Salaries Payable	\$419,942	\$356,294
Compensated Absences	884,413	848,118
Total Current Accrued Salaries and Benefits	<u>\$1,304,355</u>	<u>\$1,204,412</u>
Compensated Absences Payable	\$622,136	\$581,402
Post Employment Obligations	113,000	98,000
Total Non-Current Accrued Salaries and Benefits	<u>\$735,136</u>	<u>\$679,402</u>

COMPENSATED ABSENCES PAYABLE	BEGINNING	ADDITIONS	RETIREMENTS	ENDING
2014	\$1,429,520	\$1,168,564	(\$1,091,535)	\$1,506,549
2013	\$1,424,154	\$1,052,865	(\$1,047,499)	\$1,429,520

8. NET POSITION

Within 30 days after the end of each month, the Lottery is required by Minnesota Statutes, Section 349A.10, and subdivision 5 to deposit the net proceeds in the State Treasury. The monthly transfer of net proceeds leaves a zero balance in net position. Net Proceeds Due to State on the accompanying balance sheet for the month ended June 30, 2014 was \$4,576,361. In fiscal year 2013, the Lottery made deposits in excess of the net proceeds available for transfer; therefore, \$186,800 was due from the State. Net investment 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, checking, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

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

The areas of insurance coverage, limits and deductibles as of June 30, 2014 are as follows:

COVERAGE	LIMITS	DEDUCTIBLES
Property	\$6,741,515	\$1,000
Auto		
Bodily Injury & Property Damage	\$500,000/\$1,500,000	\$500
Primary Crime		
Employee Dishonesty, Money & Securities	\$25,000	\$1,000
General Liability	\$500,000/\$1,500,000	None
Excess Crime		
Employee Theft	\$1,000,000	\$25,000
Forgery or Alteration	\$1,000,000	\$25,000
Theft of Money & Securities	\$75,000	\$25,000
Robbery, Safe Burglary—Other Prop.	\$75,000	\$25,000
Outside Premises	\$75,000	\$25,000
Computer Fraud	\$1,000,000	\$25,000
Funds Transfer	\$1,000,000	\$25,000
Money Orders & Counterfeit Paper Currency	\$1,000,000	\$25,000

The Lottery participates in the State's workers' compensation program. The Workers' Compensation Alternative Cost Allocation Account (WCACAA) funds approximately 15% of the total workers' compensation costs annually. Funds are collected up-front through a premium based on each agency's unique exposure and experience. The Lottery paid a premium of \$30,949 in fiscal year 2014 and \$31,649 in fiscal year 2013.

The Lottery purchased 20 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, 2014 and 2013, the lease expense was \$1,271,868 and \$1,183,116, respectively. This is net of sublease rental income of \$346,085 and \$336,371 in 2014 and 2013, respectively. Sublease rental income is included within occupancy costs in the financial statements. Future minimum lease payments for existing lease agreements are:

OPERATING LEASES—YEAR ENDING JUNE 30	LEASE AMOUNT
2015	\$1,422,711
2016	1,449,351
2017	1,436,159
2018	1,351,613
2019	1,173,557
2020 to 2023	<u>4,935,388</u>
Total	<u>\$11,768,779</u>

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

10. COMPULSIVE GAMBLING TREATMENT CONTRIBUTION PROVIDED FROM PRIZE FUND

Minnesota Laws 1998, Chapter 407, Article 8, Section 11 directed the Lottery to pay \$340,000 annually from the prize fund to a special Indian Gaming account in the State Treasury. Funds in this account are transferred to the Department of Human Services for compulsive gambling treatment programs.

Minnesota Laws 2011, Chapter 101, Article 1, section 36 appropriated \$225,000 for fiscal year 2013 from the prize fund to the Gambling Control Board for a grant to the state affiliate recognized by the National Council on Problem Gambling to be used for public awareness, education, training of treatment providers, and research (of this appropriation \$50,000 each year is contingent on contribution of non-state matching funds).

Minnesota Laws 2013, Chapter 108, Article 14, section 2, subdivision 1 appropriated \$1,890,000 for fiscal years 2015 and 2014 from the Lottery Prize Fund to the Department of Human Services for statewide compulsive gambling treatment programs. The programs’ services are designed to increase public awareness of problem gamblers and their families, and research relating to problem gambling.

11. RETAILER COMMISSIONS AND INCENTIVES

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

12. STATUTORY LIMITATION ON OPERATING AND ADVERTISING EXPENSES

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

Minnesota Statutes, Section 349A.10, subdivision 3 limits the Lottery's advertising costs to 2.75 percent and operating costs to 9 percent of gross revenue. Minnesota Laws 2011 1st Special Session, Chapter 10, Article 1, section 33 and Minnesota Laws 2009, Chapter 101, Article 1, section 18 provides that notwithstanding Minnesota Statutes, section 349A.10, subdivision 3, the operating budget must not exceed \$29,000,000 in fiscal year 2013.

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 2013, Chapter 142, Article 1, section 17 provides that notwithstanding Minnesota Statutes, section 349A.10, subdivision 3, the operating budget must not exceed \$30,500,000 in both fiscal years 2014 and 2015.

The Lottery is in compliance with the statutory limits on advertising and operating costs. Advertising costs as a percentage of gross revenue were 1.46 percent and 1.31 percent for the years ended June 30, 2014 and 2013, respectively. Operating costs as a percentage of gross revenue were 5.52 percent and 5.00 percent for the years ended June 30, 2014 and 2013, 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 5.5% of their annual covered salary and the Lottery is required to contribute at an actuarially-determined rate. The Lottery's current rate is 5.5% of annual covered payroll. The contribution requirements of plan members and the Lottery are established and may be amended by state statute. The Lottery contributed 100% of the required contributions for the years ending June 30, 2014, 2013 and 2012.

The Lottery's contributions to MSRS for the years ending June 30, 2014, 2013, and 2012 were as follows:

DEFINED BENEFIT PENSION PLAN — GENERAL PLAN CONTRIBUTIONS TO MSRS — YEAR ENDING JUNE 30	2014	2013	2012
	\$424,617	\$400,410	\$363,195

(b) Unclassified Plan — Defined Contribution Plan — Statewide:

Plan Description

The Lottery contributes to the MSRS, which is a multiple-employer defined contribution plan administered by the MSRS. The plan provides retirement and disability benefits, and death benefits to qualifying plan members and beneficiaries. Benefit provisions are established and may be amended by state statute and vest immediately. MSRS issues a publicly available financial report that includes financial statements and required supplementary information for MSRS. That report may be obtained by contacting MSRS at 651-296-2761 or www.msrs.state.mn.us.

Funding Policy

Plan members are required to contribute 5.5% of their annual covered salary and the Lottery is required to contribute 6.5% of the annual covered payroll. The contribution requirements of plan members and the Lottery are established and may be amended by state statute. The Lottery contributed 100% of the required contributions for the years ending June 30, 2014, 2013 and 2012.

The Lottery’s contributions to MSRS for the years ending June 30, 2014, 2013 and 2012 were as follows:

DEFINED BENEFIT PENSION PLAN — UNCLASSIFIED PLAN			
CONTRIBUTIONS TO MSRS — YEAR ENDING JUNE 30	2014	2013	2012
	\$32,908	\$31,020	\$34,131

The Lottery provides other postemployment benefits (OPEB) as part of its total employee compensation package. GASB statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions” requires the Lottery to report OPEB on the face of its financial statements. The Lottery implemented GASB Statement No. 45 in Fiscal Year 2008. Total adjustments related to the OPEB Liability for fiscal years 2014, 2013 and 2012 were \$15,000, (\$11,000) and \$21,000, respectively.



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Minnesota State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO



CERTIFICATION OF EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER

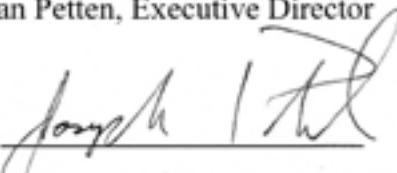
I, Ed Van Petten, Executive Director of the Minnesota State Lottery and Joseph Pahl, Chief Financial Officer of the Minnesota State Lottery, certify that:

1. I have reviewed these Financial Statements for the fiscal year ended June 30, 2014 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 13, 2014

By: 

Ed Van Petten, Executive Director

By: 

Joseph Pahl, Chief Financial Officer

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