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# PLAYING OUR PART

FY 2018 ANNUAL REPORT



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# MISSION

The Minnesota State Lottery exists to raise money for programs that positively impact the lives of Minnesotans.

# VISION

The Minnesota State Lottery benefits all Minnesotans by offering fun, secure, innovative entertainment while generating income for the State that is used to preserve, restore, and protect Minnesota's environment.

December 2018

Greetings,

This past year we asked Minnesotans to say I'MN (I am IN for Minnesota). The result was remarkable as fiscal year 2018 sales set a new record at \$596.5 million! This includes \$411.2 million in scratch game sales – also a new all time high.

Record sales means the Lottery delivered on our mission and our biggest win yet for Minnesota – returning \$145 million to our beneficiaries!

- \$77 million went to the state's General Fund;
- \$66 million went to environmental programs; and
- \$2 million went to support problem gambling prevention and treatment programs.

We are pleased with our back-to-back record sales years and are committed to continuing this success.

To position the Lottery well for the future, we are undertaking a number of key strategic initiatives in FY19 including:

- **Growing sales.** We are working closely with our retail partners and bringing on new retailers to ensure Lottery products are convenient for our players.
- **Improving products.** We must make sure our games are of interest to those who choose to spend entertainment dollars purchasing Lottery offerings.
- **Improving operational efficiencies.** This includes efforts to convert the Lottery's systems to more efficient 21st century platforms.
- **Working closely with our state partners and legislative oversight committees.** This will help ensure that the Lottery will continue to produce for Minnesota.
- **Investing in the Lottery team.** Minnesotans win when the Lottery delivers, and to ensure our continued success we must have a properly trained workforce.

At the Lottery everyone works hard to support our players and partners, ensure we are well-positioned for the future, remain leaders in our industry and raise money for programs that positively impact the lives of Minnesotans.

The fun the Lottery generates for our players results in us playing our part.

Minnesotans are saying I'MN for fun; the Lottery is all IN for MN!

Thank you,



Robert A. Doty





I'MN.

# HOW LOTTERY DOLLARS BENEFIT MINNESOTA

## FOR EVERY DOLLAR SPENT ON LOTTERY TICKETS IN FISCAL YEAR 2018:

- 62.2 cents were used to pay players prizes
- 7.5 cents were used to pay ticket, lotto and vendor and administrative costs
- 6 cents were used to pay retailers in the form of commissions and incentives

## THE REMAINING MONEY WENT TO THE STATE IN THE FOLLOWING WAYS:

- 12.9 cents went to the state General Fund to support services such as K-12 education, health care, aid to local governments and public safety. Of this amount, \$1.8 million was set aside to help combat problem gambling.
- 6.4 cents went to the Environment and Natural Resources Trust Fund to finance projects that preserve, restore and enhance our state's natural resources. The Trust Fund financed 67 projects in fiscal year 2018 totaling \$45.8 million.
- 5 cents went to other programs supporting Minnesota's environment. This money provides nearly \$29 million to fish and game, parks, trails and zoos through the Game and Fish Fund and the Natural Resources Fund each year.

## WHERE THE MONEY GOES



- PRIZES — 62.2%
- ADMINISTRATION — 4.8%
- TICKET & LOTTO GAME VENDOR EXPENSES — 2.7%
- RETAILER COMMISSIONS — 6%
- STATE PROGRAMS — 24.3%
  - GENERAL FUND — 12.9% (Includes Problem Gambling Treatment & Prevention)
  - ENVIRONMENT & NATURAL RESOURCES TRUST FUND — 6.4%
  - OTHER PROGRAMS SUPPORTING MINNESOTA ENVIRONMENT — 5%

# PLAYING OUR PART

The Lottery takes playing our part for Minnesota seriously. More Minnesotans are saying I'MN to the Minnesota Lottery than ever before. Lottery sales set a record during Fiscal Year 2018, reaching \$596.5 million, driven primarily by scratch game sales, which also set a record of \$411.2 million.

Record sales also means the Minnesota Lottery delivered its biggest win yet for Minnesota—returning a record of \$145 million to its beneficiaries, including \$77 million to the state's General Fund, \$66 million to environmental programs, and \$2 million to support problem gambling prevention and treatment programs.



## KEEPING MINNESOTA PRAIRIE BEAUTIFUL

Lottery proceeds are hard at work for our environment:

- Helping to keep water and air clean
- Fighting invasive species and protecting native species
- Helping to develop renewable energy resources

### REINTRODUCING BISON TO MINNEOPA STATE PARK

Bison feed on grasses and use their horns to create wallows (shallow depressions) in the earth. These activities provide a number of benefits that improve wildlife diversity.



**ONLY 1%** OF NATIVE PRAIRIE STILL EXISTS  
Lottery proceeds are helping restore and protect native prairie lands. Minnesota once had over 18 million acres of prairie.

### HELPING ENDANGERED NATIVE POLLINATORS

Lottery dollars are helping native pollinators, including native butterflies and native bees, to regain their habitat.



FOR MORE INFORMATION ON HOW MINNESOTA LOTTERY PROCEEDS HELP KEEP MINNESOTA BEAUTIFUL, VISIT [MNLOTTERY.COM](http://MNLOTTERY.COM)



## KEEPING MINNESOTA WATERS BEAUTIFUL

Lottery proceeds are hard at work for our environment:

- Helping to keep water and air clean
- Fighting invasive species and protecting native species
- Helping to develop renewable energy resources



**NATIVE SPECIES**  
Lottery proceeds are helping native species in many ways, including protecting the fragile shoreline of the Blackhoof River and trout stream restoration in Dakota County.

### WATER QUALITY

Lottery proceeds are helping restore stream and shoreline in a variety of ways including adding, native plants and storm water runoff management.

### PROTECTION

Native mussels cleanse the water they live in and are critical to the health of our lakes and rivers. Lottery proceeds help protect them so they can improve our environment.

### PROTECTING NEAR SHORE HABITAT

A conservation project on Lake Elysian in Waseca County is helping great blue herons, egrets and bald eagles.



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## KEEPING MINNESOTA PARKS BEAUTIFUL

Lottery proceeds are hard at work for our environment:

- Helping to keep water and air clean
- Fighting invasive species and protecting native species
- Helping to develop renewable energy resources

### RECREATION

Lottery dollars have been invested in many of Minnesota's state parks. Our state park system gives all Minnesotans the chance to experience diverse natural landscapes that provide habitat for wildlife while benefiting local economies and boosting tourism.

### STATE PARKS & TRAILS

Lottery proceeds help fund projects that provide opportunities for Minnesotans to enjoy nature, including hiking, biking, camping, fishing, swimming and cross country skiing.



### JUST A FEW EXAMPLES OF STATE PARKS & TRAILS LAND ACQUISITION

- ♦ 18 MILES FOR THE MESABI TRAIL BETWEEN SOUDAN AND ELY
- ♦ 75 ACRES FOR MILLE LACS KATHIO STATE PARK IN MILLE LACS COUNTY
- ♦ 48 ACRES FOR TETTEGOUCHE STATE PARK IN LAKE COUNTY

MORE THAN  
**50%**  
OF ALL  
STATE PARKS  
HAVE BENEFITED  
FROM LOTTERY  
PROCEEDS



FOR MORE INFORMATION ON HOW MINNESOTA LOTTERY PROCEEDS HELP KEEP MINNESOTA BEAUTIFUL, VISIT [MNLOTTERY.COM](http://MNLOTTERY.COM)

# ENRTF PROJECTS

## MINNESOTA'S ENVIRONMENT WINS

The Environment and Natural Resources Trust Fund is a permanent fund in the state treasury that was established in the Minnesota Constitution (Art. XI, Sec.14) through voter approval. It holds assets that can be appropriated by law "for the public purpose of protection, conservation, preservation, and enhancement of the state's air, water, land, fish, wildlife, and other natural resources."

The Legislative-Citizen Commission on Minnesota Resources (LCCMR) selected 67 projects totaling \$45.8 million to recommend to the 2018 Minnesota Legislature for funding from the ENRTF. The recommendations were the result of the LCCMR's 2018 Request for Proposal (RFP) process, in which 217 proposals requesting a total of approximately \$183 million were received and considered through a competitive, multi-stage evaluation process.

The projects fall under these categories:

- Methods to Protect or Restore Land, Water and Habitat – \$2.5 million
- Land Acquisition, Habitat and Recreation – \$17.4 million
- Foundational Natural Resource Data and Information – \$4.5 million
- Invasive Species – \$5.8 million
- Air Quality, Climate Change and Renewable Energy - \$1.2 million
- Water Resources – \$5.9 million
- Environmental Education – \$5 million
- Administration and Contract Agreement Reimbursement – \$135,000
- Emerging Issues Account – \$439,000
- ENRTF Appropriation Bonds and Appropriations – \$2.9 million

## ENRTF PROJECTS

The Environment and Natural Resources Trust Fund has provided the primary funding for the Minnesota Zoo's Prairie Butterfly Conservation Program since 2014. The Minnesota Zoo is working with the

Minnesota Department of Natural Resources for this joint Trust Fund project.

## MINNESOTA ZOO'S PRAIRIE BUTTERFLY CONSERVATION PROGRAM

The Minnesota Zoo's Prairie Butterfly Conservation Program is partnering with the Minnesota DNR, US Fish and Wildlife Service, Nature Conservancy, and many other organizations to help save Minnesota prairie butterflies at risk of extinction. This project is helping Minnesota's native prairie butterflies and to help protect our native pollinators.

## MINNESOTA LANDSCAPE ARBORETUM ORCHID PROTECTION

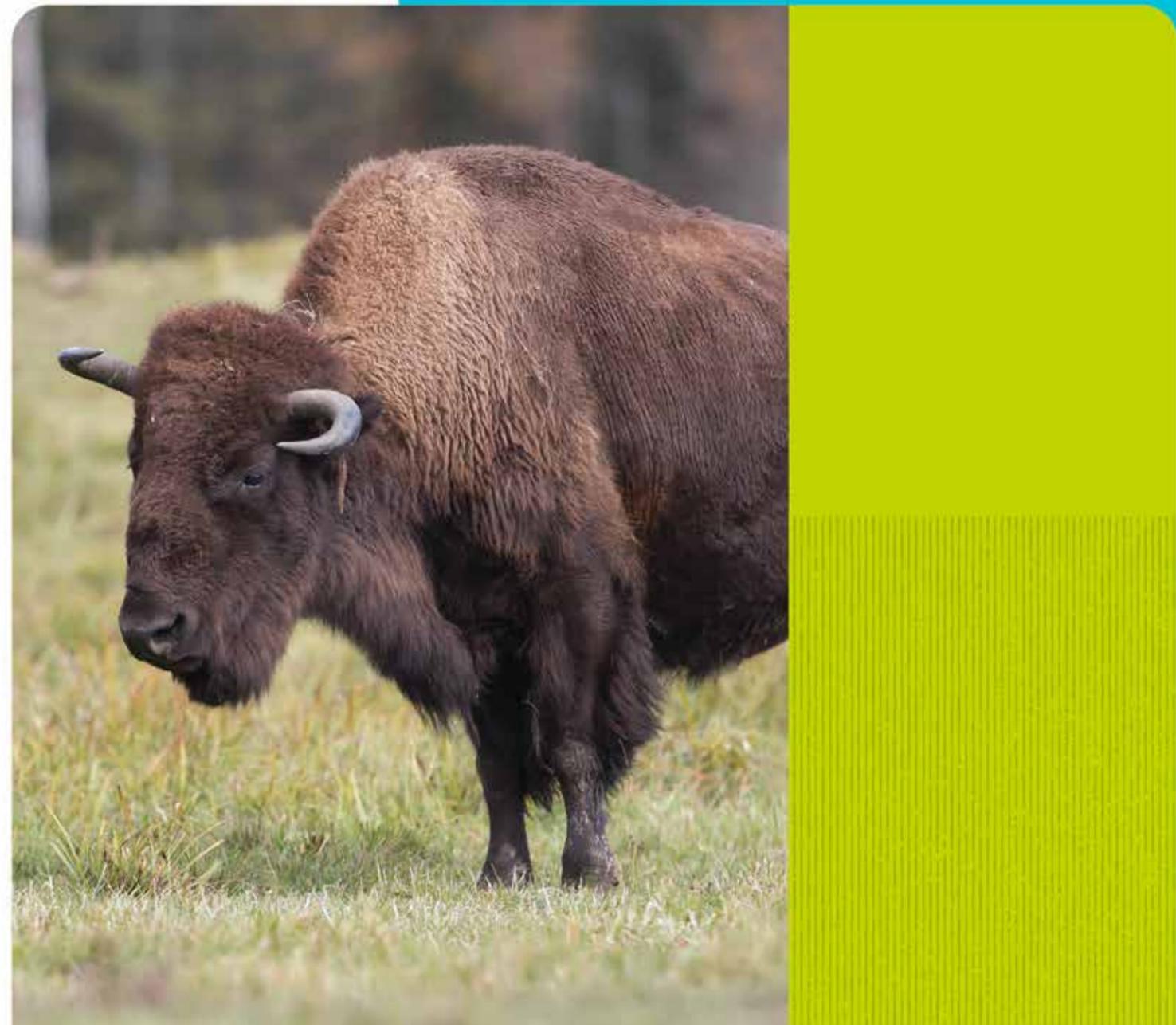
The Minnesota Landscape Arboretum is working to preserve and protect Minnesota's native orchids. The Environment and Natural Resources Trust Fund, which receives a portion of Minnesota Lottery proceeds, has supported this project.

David Remucal, Curator of Endangered Plants at the Minnesota Landscape Arboretum, speaks about why protecting the Minnesota state flower, the Showy Lady Slipper, and other native orchids is important.

"As beautiful and as popular as orchids are, there's a lot about native orchids that we just don't know. We're trying to protect the genetics of all orchid species and, as part of that work, we're creating a seed bank. We have to know how to grow those seeds up to plants, and put those plants back out in the landscape. Our mission is to protect all of Minnesota orchids, and bring orchids to the Arboretum so we can educate people about them because orchids are a pretty fantastic resource. There's something that I think a lot of Minnesotans can emotionally connect to. If we get people enthusiastic about orchids, we can get them enthusiastic about conserving orchids ... but maybe getting them interested in conserving native species in general."

## MINNESOTA STATE PARKS

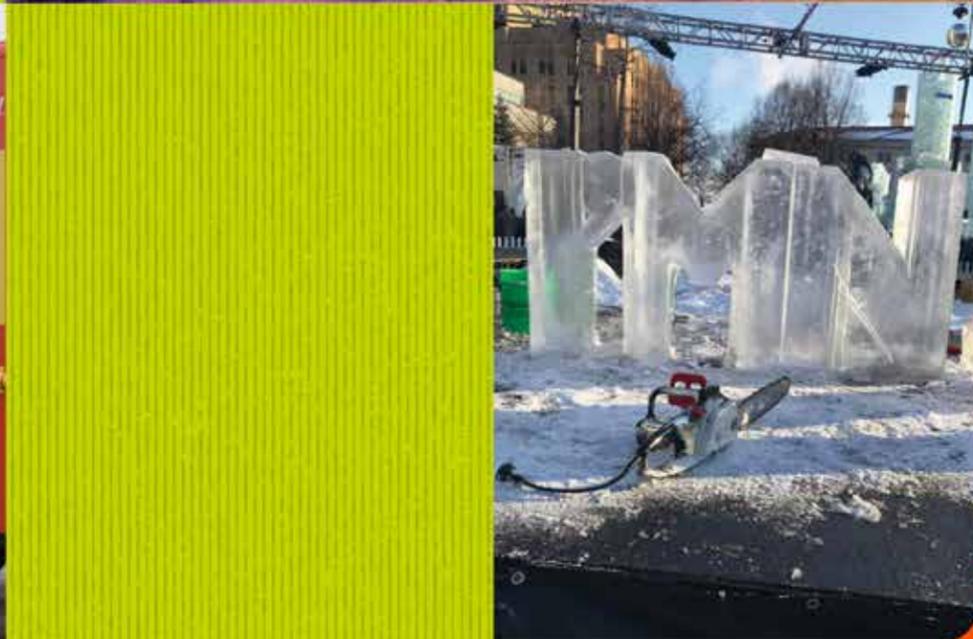
Our state park system permanently protects some of Minnesota's most unique and beautiful features, including pristine wilderness, beaches, waterfalls, underground mines, fishing piers, water access, caves and more! The Minnesota State Parks system includes 75 state parks and recreation areas and 13 state trails. More than half have benefited from lottery proceeds.



PROTECTION  
CONSERVATION  
PRESERVATION  
ENHANCEMENT



**BOLD**  
**ADVENTUROUS**  
**MN PROUD**  
**SPONTANEOUS**



## I'MN CAMPAIGN

The Minnesota Lottery launched a new campaign to show our commitment to the State of Minnesota. This campaign celebrates Minnesota and all the things that make it special. The Lottery used the ticket to showcase the hardy, adventurous and lively spirit of Minnesotans. This game generated nearly \$4 million in sales.



# WINNERS

We may be known as the land of 10,000 lakes, but here in MN we are home to an average of 86,000 winners Lottery winners. Every. Single. Day. During FY18, we had winners from all over our great state – from way up north on the Iron Range to small towns gems in southern Minnesota and just about everywhere in between.



**Lor Her** of St. Paul scored \$100,000 on the Ultimate Getaway scratch game! He has some serious ideas for what to do with his winnings—including helping his parents buy a car and paying for his upcoming wedding!

**Taylor Hansen** was in for a big surprise when she scratched off a \$100,000 top prize playing The Big \$5 Ticket. The Annandale resident plans to save most of it.



Congrats to the **DeSaer family** who claimed their \$1 million winnings from the Minnesota Millionaire Raffle on Jan. 19, 2018!

The lucky ticket was given to Dad, Don DeSaer, as a Christmas gift from one of his daughters, Amber DeSaer. After realizing they had the winning ticket on New Year's Day, Don tried to give the ticket back to Amber, but Amber refused! Instead, Mom and Dad decided to split the \$1 million between their four adult daughters.

"My hand was shaking so hard when I signed the back of the ticket," said **Lawrence Chmiel** of Coon Rapids.



**Lawrence Chmiel**  
\$100,000



The "**Hibbing Courthouse Annex Pool**" arrived at the Minnesota Lottery's headquarters in Roseville by bus to claim a \$250,000 Powerball® prize!

This group of 22 pools their money and tries their luck once a week.

**Brittney Williams** of Minneapolis described her \$200,000 win as "amazing!" Congratulations to this mother of three who is pictured with her oldest son, Denajamere.



**Jacob Kaul**  
\$200,000

**Jacob Kaul** of Dundas won \$200,000 playing Quest for Cash scratch game.



**Brittney Williams**  
\$200,000

**Rich Reyant** of West Concord: "Man, it would be nice to get something."

**Brian Aase** of West Concord: "One of these days." One minute later: \$100,000 win.



**Rich Reyant & Brian Aase**  
\$100,000

It only took two months of pooling their money together for this group to hit it big!

These eight co-workers from Abbott Laboratories in Little Canada chose to play Minnesota's Gopher 5 game because of its odds, saying, "It seems more winnable than Powerball® or Mega Millions®!"



Congrats to **Patty Loberg** from Bloomington who had the lucky \$1 million Mega Millions® ticket from the Jan. 30, 2018 drawing!



"Wouldn't it be crazy if we had the winner," said Dawn. Turns out, her husband **James Krenik** had the winning ticket. It wasn't until the Montgomery couple drove to Roseville that he spilled the beans.



These two co-workers won \$100,000 on their lunch break! **Krista McQuaid** and **Tricia Nihart** submitted a winning bid for a basket that included lottery tickets at a silent auction fundraiser. They won \$8 on the scratch tickets and Nihart used their winnings to purchase additional scratch tickets.

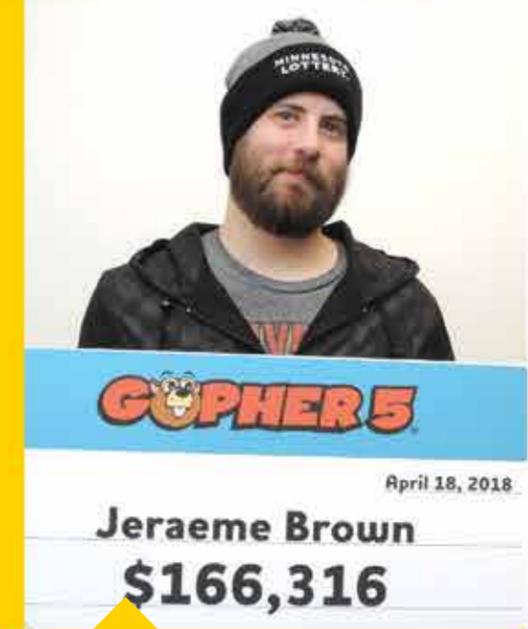
Over her lunch break, McQuaid scratched one of the newly purchased tickets and uncovered a \$100,000 win!

"I ran to her desk, she wasn't there because she was at lunch too, so I left a note to 'see me A.S.A.P.' I was shaking, I didn't believe it," said McQuaid.

"When I saw the note, I had a feeling we won, but I didn't know how much, said Nihart. "Our co-workers heard us screaming and all came running to find out why. We filled out our time off slips and left!"



**Ben Hill** of St. Louis Park won after scratching off a \$100,000 prize by playing The Big \$5 Ticket!

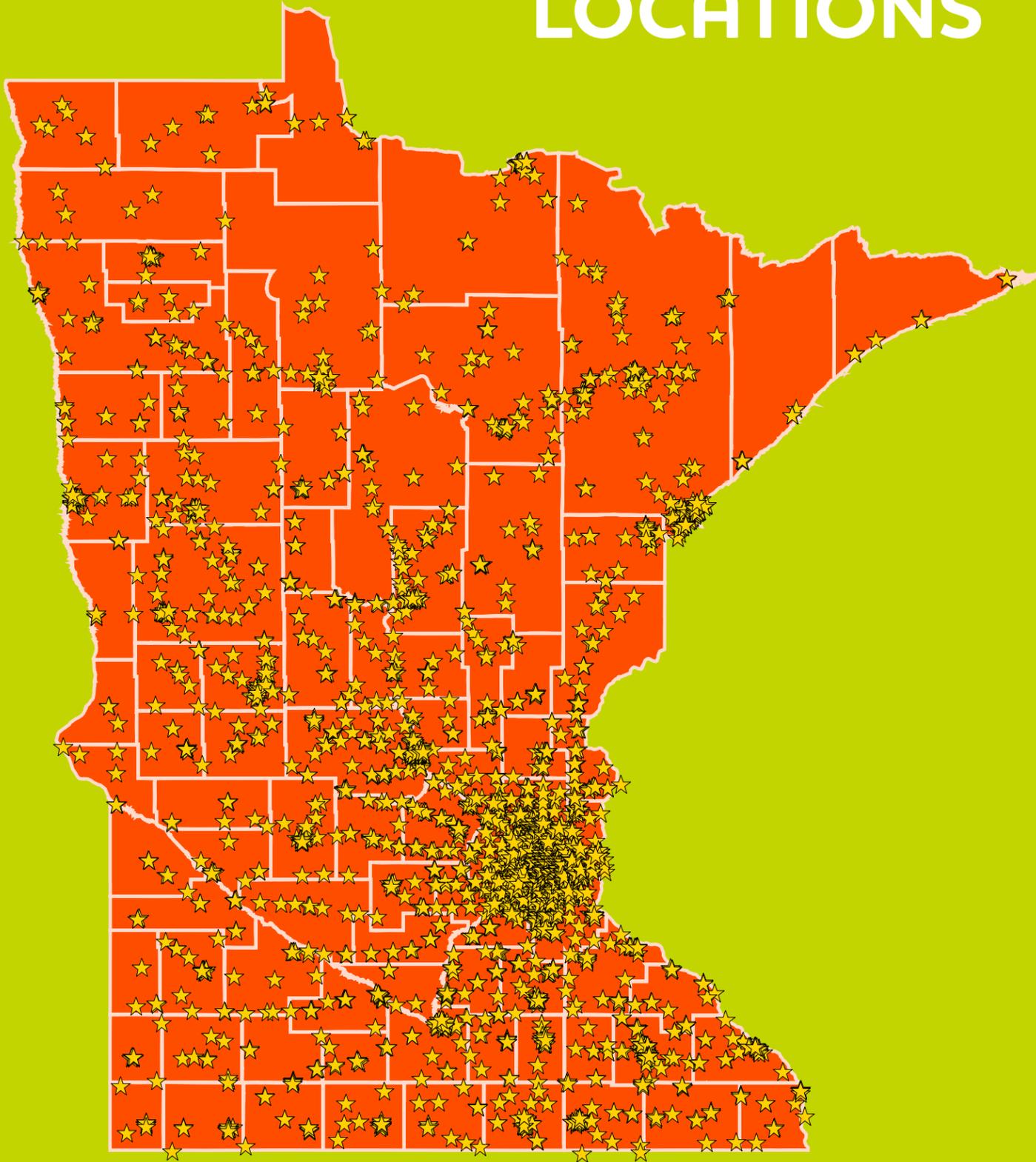


**Jeraeme Brown** of Minneapolis won \$166,316 playing Gopher 5®.



Congrats to **Pam Lestico** from Little Falls who claimed her \$1 million Powerball® prize from the Minnesota Lottery!

# LOTTERY RETAILER LOCATIONS



## Retail Partner Spotlight

3,100 retailers across the state make a difference for Minnesota:

- M&H Gas in Crookston uses great customer service and effective merchandising to be a strong retailer of lottery tickets.
- Roger's Amoco in Maple Lake uses winner awareness to drive in a successful lottery program.
- The Barklow Grain Exchange in Minneapolis understands great customer service and knowing the product line helps drive their success.
- At Reed's 4th Avenue Food N Fuel in Austin, they make sure to use clerk incentives and promotions to keep the excitement going in their store.
- CHS in Pine Island uses eye catching signage to bring energy to their store.
- The Edwards Oil/Lucky 7 chain, which includes stores located throughout the Iron Range, knows that customer loyalty is a key to their success.
- Cenex Travel Plaza/Farmer's Union Oil in Thief River Falls always has the full game offering with great presentation so players are ready for excitement.
- Freedom in Windom recognizes that having on-counter dispensers makes a big difference for their players being ready and seeing everything that is being offered.
- Storman's Food Fuel in Corcoran understands the importance and excitement of paying prizes at their store.
- BP in Marshall does a great job at trying new lottery signage to see what works for their store.
- All Stop LLC in Alexandria does all the basics right and pays attention to making sure the lottery area is always neat, organized and that their staff is well informed about the lottery.

With retail partners using these best practices and more throughout the state, the lottery wins and Minnesota wins.

## TOP RETAILERS FY18

1. M&H Gas, Moorhead  
\$1,880,288
2. Airport Foundation MSP (Lottery Kiosk), St. Paul  
\$1,763,667
3. Orton's Moorhead Holiday #3804, Moorhead  
\$1,530,150
4. Cub Foods, Crystal  
\$1,140,049
5. Cub Foods, St. Louis Park  
\$1,089,320
6. Micky's Liquor Store, Minneapolis  
\$1,068,460
7. Cub Foods, Brooklyn Center  
\$1,058,655
8. Cub Foods, Maple Grove  
\$1,040,863
9. Cub Foods, Midway  
\$957,664
10. Kaposia Convenience Center, South St. Paul  
\$941,290
11. Bill's Superette #9, Minneapolis  
\$935,678
12. East Grand Station, East Grand Forks  
\$925,260
13. M&H Gas, St. Paul  
\$925,188
14. SuperAmerica #4445, Blaine  
\$908,208
15. BP on Rice, St. Paul  
\$903,524
16. Cub Foods #6690, Bloomington  
\$897,775
17. Cub Foods, Maplewood (West)  
\$893,942
18. Cub Foods, St. Anthony  
\$892,189
19. Cub Foods, Blaine (South)  
\$863,395
20. Cub Foods, Maplewood (East)  
\$786,533

# SCRATCH GAMES FY18



PRICE	GAME	FY18 SALES	FY18 TICKETS SOLD
\$20	50X the Money	\$23,566,260	1,178,313
\$50	High Roller	\$13,401,100	268,022
\$5	Minnesota Vikings	\$12,796,115	2,559,223
\$10	Win Big	\$12,106,050	1,210,605
\$10	Super Triple 10s	\$11,760,780	1,176,078
\$5	Gold & Silver Crossword	\$9,180,090	1,836,018
\$5	Frogger®	\$8,937,295	1,787,459
\$10	Xtreme Cash	\$8,786,500	878,650
\$5	Ruby Red 7s	\$8,657,960	1,731,592
\$5	\$100,000 Crossword Doubler	\$8,551,365	1,710,273
\$3	5X Crossword	\$8,469,468	2,823,156
\$5	\$100,000 Ultimate Getaway	\$8,157,455	1,631,491
\$5	Lucky Break	\$7,876,745	1,575,349
\$20	\$50,000 Jackpot	\$7,475,180	373,759
\$3	Bonus Crossword	\$6,922,830	2,307,610
\$10	X	\$6,883,640	688,364
\$3	Sparkling Winter Slingo®	\$6,487,344	2,162,448
\$3	Pot O' Gold Crossword	\$6,335,373	2,111,791
\$3	Fruit Explosion	\$6,257,712	2,085,904
\$10	Minnesota Treasures	\$6,199,630	619,963
\$3	Fast Cash Crossword	\$6,046,737	2,015,579
\$5	The Big \$5 Ticket	\$5,827,175	1,165,435
\$5	Wheel of Fortune®	\$5,760,825	1,152,165
\$5	\$100,000 Shopping Spree	\$5,396,730	1,079,346



PRICE	GAME	FY18 SALES	FY18 TICKETS SOLD
\$3	Bonus Numbers Bingo	\$5,252,748	1,750,916
\$3	Skee Ball®	\$5,211,753	1,737,251
\$3	Bazinga Bingo	\$4,785,582	1,595,194
\$2	Triple Win	\$4,420,602	2,210,301
\$2	Snowball Surprise	\$4,087,836	2,043,918
\$5	I'MN to Win	\$3,973,890	794,778
\$20	Super Bonus Crossword	\$3,953,260	197,663
\$2	Lucky Chicks	\$3,760,544	1,880,272
\$1	Loose Change	\$3,560,936	3,560,936
\$2	Skol	\$3,417,704	1,708,852
\$1	21 Tripler	\$3,212,095	3,212,095
\$10	\$16,000,000 Cash Blowout	\$2,848,410	284,841
\$1	Winter Wins	\$2,834,559	2,834,559
\$3	Ruby Red Crossword	\$2,784,615	928,205
\$2	Buck, Buck, Moose	\$2,754,296	1,377,148
\$2	Lucky Deal	\$2,682,238	1,341,119
\$1	Cool Cat	\$2,497,534	2,497,534
\$1	Cash Fireworks	\$2,374,888	2,374,888
\$2	Money Bag Multiplier	\$2,107,256	1,053,628
\$1	A Latte Cash	\$2,076,890	2,076,890
\$5	Double Your Money	\$2,013,975	402,795
\$1	Booya	\$1,434,393	1,434,393
\$3	Summer Blast	\$1,060,020	353,340
\$1	Luck	\$333,079	333,079

\*Sales figures do not include carryover games from 2016.

# LOTTERY AROUND MINNESOTA

## EARTH DAY

With a snow-covered Earth Day (April 22), the Minneapolis Park & Rec Board's Earth Day Cleanup was rescheduled for Saturday, May 12. Cleanup sites were held at 30+ locations throughout the city of Minneapolis. Earth Day Cleanup has become the largest community-service project in Minneapolis.

As a sponsor of the event, the Lottery's logo was included in all of the Minneapolis Park & Rec Board's event advertising and media outreach.

Volunteers at the Lake of the Isles Parkway cleanup site received a free Playing our Part T-shirt as a thank you for helping keep our parks beautiful.

The Minneapolis Park & Rec Board has received nearly \$4 million from the Environment and Natural Resources Trust Fund to help make improvements to their parks, trails and waterways all over the city of Minneapolis.

## LIVE STREAM

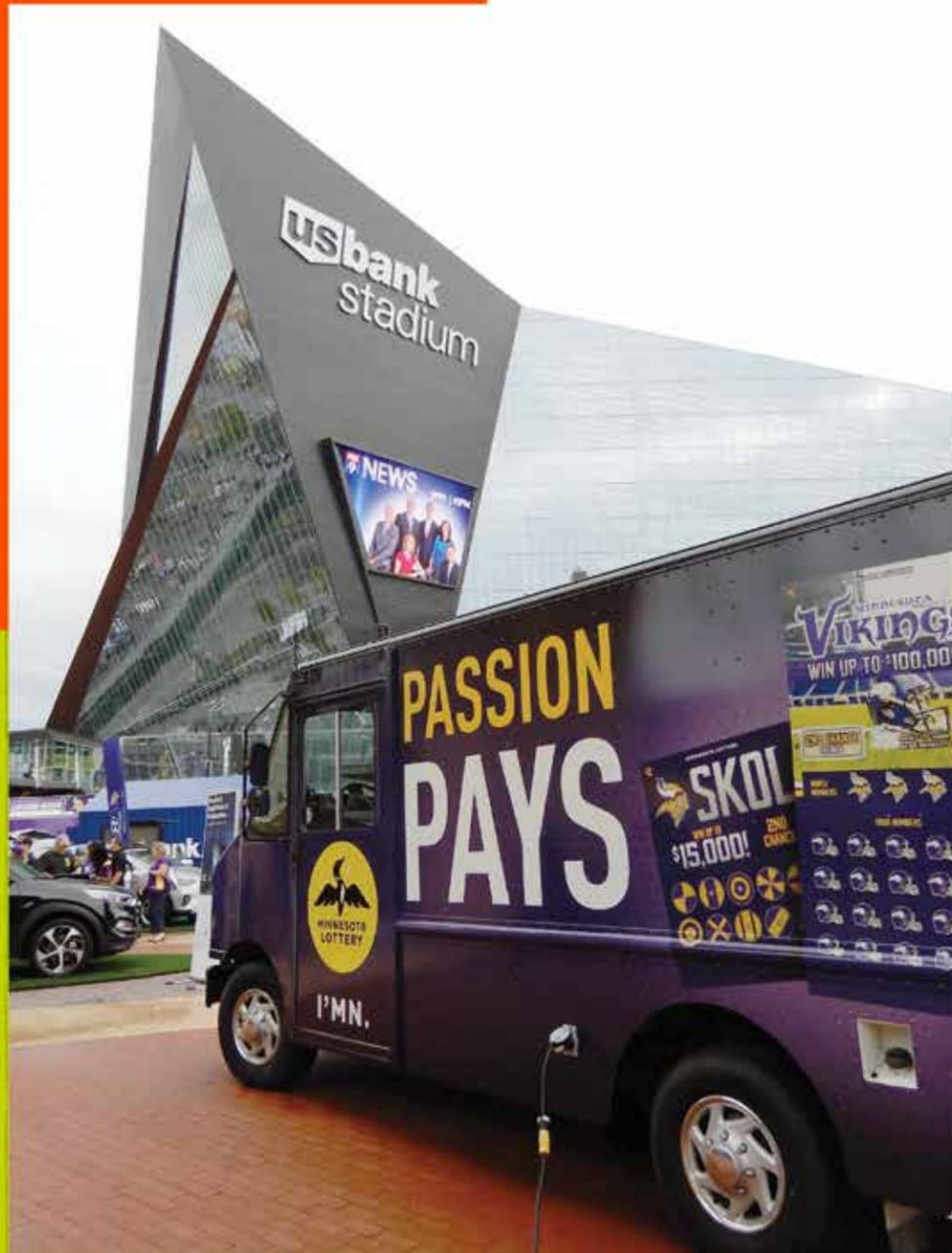
In celebration of National Get Outdoors Day on June 9, the Lottery livestreamed a live stream to help highlight how Lottery dollars give back to Minnesota nature. The sights and sounds of the soothing stream were captured on June 8, 2018 at Nine Mile Creek in Bloomington.



LIVE STREAM, June 9, 2018

LOTTERY  
DOLLARS  
GIVE BACK  
TO NATURE

**PARTNERING  
FOR THE  
BENEFIT OF  
MINNESOTA**



# PARTNERS AND EVENTS

## PARTNERS

- Canterbury Park
- iHeart Radio (Cities 97, KFAN)
- Minnesota Lynx
- Minnesota Timberwolves
- Minnesota Twins
- Minnesota Vikings
- Minnesota Wild
- Minnesota Zoo
- University of Minnesota Golden Gophers: Basketball (men's & women's), Hockey (men's and women's), Football, Volleyball (women's)

## EVENTS

- Rock the Garden (July 2017 and June 2018)
- Cities 97 Live at the Lake (June - August 2017)
- WE Fest (August 2017)
- Minnesota Vikings Training Camp (August 2017)
- State Fair (August - September 2017)
- Minnesota Vikings Tailgating (September 2017)
- St. Paul Winter Carnival (January-February 2018)
- Winter Beer Dabbler (February 2018)
- Minnesota Zoo Adult Night Out (April 2018)
- Cinco De Mayo (May 2018)
- Governor's Fishing Opener (May 2018)
- Earth Day (May 2018)
- KFAN Road Trip (May - July 2018: Mankato, Rochester, Duluth, Detroit Lakes)
- RochesterFest (June 2018)
- Pride Dabbler (June 2018)
- Stone Arch Bridge Festival (June 2018)
- Live stream (June 2018)
- City Pages Beer Festival (June 2018)



# Independent Auditor's Report



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www.sdkcpa.com

The Director  
Minnesota State Lottery  
Roseville, Minnesota

## Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota State Lottery as of and for the year ended June 30, 2018, 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 audit. We conducted our audit 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, 2018, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matters

As discussed in Note 1, the financial statements present only the Minnesota State Lottery, an Enterprise Fund of the State of Minnesota, and do not purport to, and do not, present fairly the financial position of the State of Minnesota, as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, in 2018, the Lottery adopted new accounting guidance prescribed by GASB #75 for its postemployment benefits other than the pension. Because GASB #75 implements new measurement criteria and reporting provisions, significant information has been added. The Statement of Net Position discloses the accrued postretirement benefits, deferred inflows and deferred outflows related to the postretirement benefits. Statement of Revenues and Expenses and Change in Net Position discloses the restated beginning net position. Our opinion is not modified with respect to the matter.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 and Schedule of Minnesota State Lottery's Share of Net Pension Liability, Schedule of Minnesota State Lottery's Contributions and Schedule of Changes in the Minnesota State Lottery's Total OPEB Liability and Related Ratios on pages 29 through 31 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 September 27, 2018 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Minnesota State Lottery's internal control over financial reporting and compliance.

*Schechter Dokken Kanter  
Auditors & Advisors PLLC*

September 27, 2018

# Management and Discussion 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, 2018 and fiscal year ended June 30, 2017 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, 2018 and 2017 and a condensed version of the balance sheets as of June 30, 2018 and 2017.

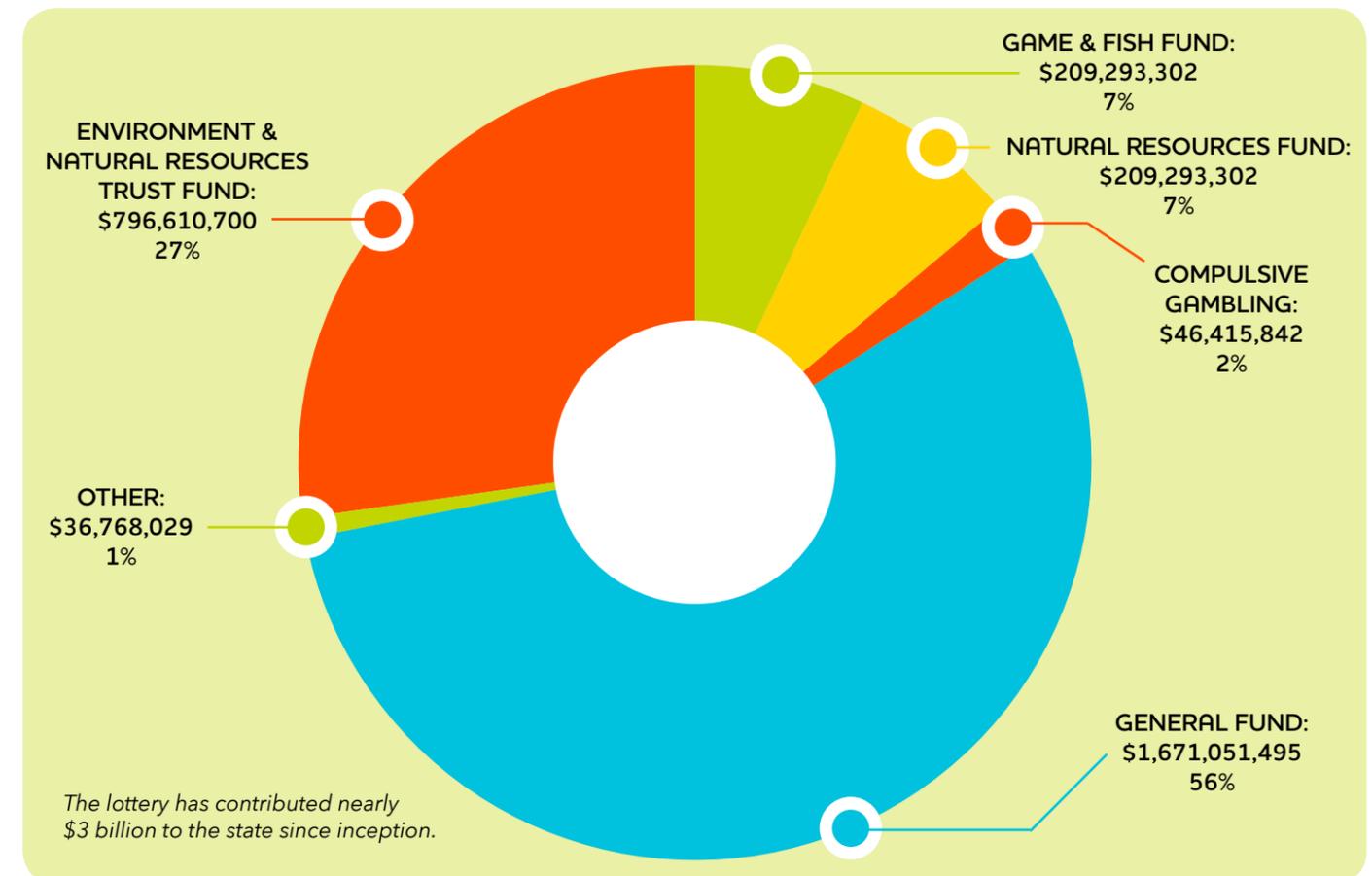
## FINANCIAL HIGHLIGHTS

The Minnesota State Lottery had operating revenues of \$596.5 million in fiscal year 2018 and contributed over \$145.1 million to the state. Both revenues and contributions to the state were records as the Minnesota State Lottery exceeded fiscal year 2016 levels, which was the previous record year. A record year in scratch sales was recognized by recording \$411.2 million.

## SUMMARY OF CONTRIBUTIONS TO STATE

The Lottery contributed \$145.1 million to the State in fiscal year 2018. This was a \$5.9 million or 4.3% increase from 2017. 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.

CONTRIBUTIONS TO THE STATE	2018	2017
Net proceeds to the state	\$95,497,426	\$88,315,826
In-lieu-of-sales tax	38,771,042	36,627,696
Compulsive gambling contribution	1,803,623	1,774,794
Unclaimed prizes to the state	9,027,091	12,439,978
<b>Total paid to state</b>	<b>\$145,099,182</b>	<b>\$139,158,294</b>



SUMMARY RESULTS OF OPERATIONS	2018	2017
Gross receipts	\$557,725,597	\$526,892,077
Prizes, commissions and ticket costs	422,962,491	397,080,288
Gross profit	134,763,106	129,811,789
Operating expenses	32,410,470	32,763,677
Operating income	102,352,636	97,048,112
Non-operating revenues (expense):		
Interest earned on investments	439,504	390,486
Unused Compulsive Gambling	426,377	455,206
Payments to State (not including in-lieu-of-sales tax)	(106,754,517)	(102,985,804)
Total non-operating revenue (expense)	(105,888,636)	(102,140,112)
Net (Loss) Income	(\$3,536,000)	(\$5,092,000)

### OPERATING INCOME

Operating Income has increased by \$5.4 million from 2017. Gross receipts increased by 5.9% or \$30.8 million in fiscal year 2018 primarily due to higher lotto ticket sales across the board along with a slight increase in scratch ticket sales. Direct costs which include prizes, commissions and ticket costs as a percent of gross receipts were 75.8% in 2018 as compared to 75.4% in 2017.

### OPERATING EXPENSES

Operating expenses decreased in fiscal year 2018 by \$353 thousand or 1.1%. This was due to the year-end pension expense adjustment being less than last year due to changes in actuarial assumptions.

GROSS RECEIPTS BY GAME	2018	2017
Scratch ticket sales	\$411,165,885	\$398,311,141
Lotto ticket sales:		
Daily 3 <sup>®</sup>	17,686,855	17,401,351
Gopher 5 <sup>®</sup>	18,033,176	15,045,596
Powerball <sup>®</sup>	72,736,847	62,387,312
Powerball <sup>®</sup> Power Play <sup>®</sup>	2,653,052	2,373,937
Mega Millions <sup>®</sup>	24,769,479	15,901,351
Mega Millions <sup>®</sup> Megaplier <sup>®</sup>	1,267,557	1,234,891
Hot Lotto <sup>®</sup>	5,678,088	9,938,710
Hot Lotto <sup>®</sup> Sizzler <sup>®</sup>	523,087	1,018,693
Northstar Cash <sup>®</sup>	10,338,153	9,249,570
Minnesota Millionaire Raffle	6,998,440	6,998,580
All or Nothing <sup>™</sup>	0	3,144,011
Lucky for Life <sup>®</sup>	6,629,815	7,743,223
Lotto America <sup>®</sup>	5,683,847	
Lotto America All Star Bonus <sup>®</sup>	616,120	
Progressive Print-N-Play <sup>®</sup>	11,697,167	12,754,636
Total Lotto Ticket Sales	185,311,683	165,191,861
Operating revenue	596,477,568	563,503,002
Other income	19,071	16,771
Total operating revenue	596,496,639	563,519,773
Less in-lieu-of-sales tax	38,771,042	36,627,696
Gross Receipts	\$557,725,597	\$526,892,077

### SCRATCH GAMES

Scratch game sales accounted for 68.9% of operating revenue in 2018, down from 70.7% in 2017. Total scratch sales were up \$12.9 million to \$411.2 million. The increase in scratch sales were due to continued marketing efforts for new players and the addition of new games.

### LOTTO GAMES

Lotto games sales for fiscal year 2018 increased \$20.1 million to \$185.3 million. This was primarily due to the addition of two new offerings and three reasonably sized jackpots throughout the year.

# Summary

CONDENSED STATEMENTS OF NET POSITION	2018	2017
<b>Assets:</b>		
Cash and cash equivalents	\$25,545,377	\$27,315,686
Receivables	5,516,265	5,202,969
Inventory and prepaid expenses	2,216,790	1,707,214
Capital assets	1,393,029	1,376,418
<b>Total assets</b>	<b>\$34,671,461</b>	<b>\$35,602,287</b>
Deferred Outflows	\$20,097,000	\$27,884,000
<b>Liabilities:</b>		
Due to State and State Agencies	\$15,614,269	\$18,595,624
Accounts payable & current accrued expenses	8,893,150	9,037,854
Prize liability	8,969,043	6,699,585
Long-term accrued expenses	25,983,999	41,816,224
<b>Total Liabilities</b>	<b>\$59,460,461</b>	<b>\$76,149,287</b>
Deferred Inflows	\$14,414,000	\$2,907,000
<b>Net Position:</b>		
Unrestricted net position	(20,499,029)	(16,946,418)
Net investment in capital assets	1,393,029	1,376,418
<b>Net Position</b>	<b>\$(19,106,000)</b>	<b>\$(15,570,000)</b>

## NET POSITION

Minnesota State Lottery's net position at the end of fiscal year 2018 was \$(19.1) million compared to \$(15.6) million in fiscal year 2017. The negative net position is attributable to the offset of the net pension liability and recognition of post-employment benefits.

## CASH AND CASH EQUIVALENTS AND RECEIVABLES

Cash and cash equivalents and receivables decreased by \$1.5 million from fiscal year 2017 to 2018. This is a direct result of higher unclaimed prize payments to the state compared to the previous fiscal year.

## CAPITAL ASSETS AND OTHER ASSETS

Net capital assets increased by \$17 thousand in fiscal year 2018 versus fiscal year 2017.

Purchases of capital assets totaled over \$619 thousand with the significant purchase of vehicles of over \$218 thousand, computer equipment of over \$218 thousand and office equipment of over \$146 thousand.

## DUE TO STATE AND STATE AGENCIES

Payment due to the State at the end of fiscal year 2018 was \$3.0 million lower than the previous fiscal year. This was due to a \$3.4 million decrease in Unclaimed Prizes offset by an increase in Net Proceeds of \$432 thousand at the end of the fiscal year.

## PRIZE LIABILITY

Prize Liability increased by \$2.3 million in fiscal year 2018. This is attributable to the scratch liability increasing due to shortening the processing of the June return cycle for scratch tickets.

## ACCOUNTS PAYABLE AND CURRENT ACCRUED EXPENSES

Accounts payable and current accrued expenses decreased by \$144 thousand fiscal year 2018. This was primarily due to slightly higher than normal receiving of vendor invoices at year end.

## \*STATEMENTS OF NET POSITION – JUNE 30, 2018

2018

<b>Assets</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents (Note 3)	\$25,545,377
Accounts Receivable (Note 4)	5,468,723
Interest Receivable	47,542
Scratch Ticket Inventory	1,636,994
Prepaid Expense	579,796
<b>Total Current Assets</b>	<b>33,278,432</b>
Capital Assets, Net (Note 5)	1,393,029
<b>Total Assets</b>	<b>34,671,461</b>
<b>Deferred Outflows (Note 13)</b>	<b>20,097,000</b>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities:</b>	
Net Proceeds Due to State (Note 8)	6,587,178
Unclaimed Prizes Due to State (Note 6)	9,027,091
Accounts Payable	3,764,816
In-Lieu-of-Sales Tax Payable	3,097,558
Prize Liability	8,969,043
Accrued Salaries and Benefits Payable, Current (Note 7)	1,676,289
Deferred Revenue	354,487
<b>Total Current Liabilities</b>	<b>33,476,462</b>
Accrued Benefits Payable, Net of Current Portion (Note 7 and 14)	1,563,033
Commitments and Contingencies (Note 9)	417,966
Net Pension Liability (Note 13)	24,003,000
<b>Total Noncurrent Liabilities</b>	<b>25,983,999</b>
<b>Total Liabilities</b>	<b>59,460,461</b>
<b>Deferred Inflows (Notes 13 and 14)</b>	<b>14,414,000</b>
<b>Net Position:</b>	
Net Assets Invested in Capital Assets (Note 8)	1,393,029
Unrestricted	(20,499,029)
<b>Total Net Position (Note 8)</b>	<b>\$(19,106,000)</b>

\*Due to the adoption of new accounting guidance prescribed by GA5B#75, the Lottery is not required to report comparative financial statements for fiscal year 2018.

*STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED JUNE 30, 2018	2018
<b>Operating Revenues:</b>	
Scratch Ticket Sales	\$411,165,88
Lotto Ticket Sales	185,311,683
Other Income	19,071
Total Operating Revenues	596,496,639
Less: In-Lieu-of-Sales Tax	38,771,042
Gross Receipts	557,725,597
<b>Direct Costs:</b>	
Scratch Ticket Prizes	276,305,774
Lotto Ticket Prizes	94,318,750
Lotto Vendor Expense	10,367,972
Ticket Costs	6,036,350
Retailer Commissions and Incentives (Note 11)	35,933,645
Total Direct Costs	422,962,491
Gross Profit	134,763,106
<b>Operating Expenses:</b>	
Advertising (Note 12)	7,399,208
Salaries and Benefits (Note 13)	16,969,760
Promotion	1,187,259
Purchased Services	2,006,003
Communication	427,428
Occupancy Costs (Note 9)	1,704,886
Supplies and Materials	1,172,236
Computer and Ominpoint Maintenance	530,127
Depreciation	572,238
Other Expense	441,324
Total Operating Expenses (Note 12)	32,410,469
<b>Operating Income</b>	<b>102,352,636</b>
<b>Nonoperating Revenue (Expenses):</b>	
Interest Earned on Investments	439,504
Compulsive Gambling Contribution from Prize Fund (Note 10)	(1,803,623)
Unclaimed Prizes to State (Note 6)	(9,027,091)
Net Proceeds to State (Note 8)	(95,497,426)
Total Nonoperating Revenue (Expenses)	(105,888,636)
<b>Change in Net Position</b>	<b>(3,536,000)</b>
<b>Net Position at Beginning of Year (Note 8)</b>	<b>(15,570,000)</b>
<b>Net Position at End of Year (Note 8)</b>	<b>\$ (19,106,000)</b>

\*Due to the adoption of new accounting guidance prescribed by GA5B#75, the Lottery is not required to report comparative financial statements for fiscal year 2018.

*STATEMENT OF CASH FLOWS – YEARS ENDED JUNE 30, 2018	2018
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Customers	\$595,928,587
Cash Received from Other Income	19,071
Payments to State (In-Lieu-of-Sales Tax)	(38,809,258)
Payments to Employees	(13,487,826)
Payments to Suppliers	(31,697,981)
Payments to Retailers	(35,933,645)
Payments to Prize Winners	(368,355,066)
Net Cash Provided by Operating Activities	107,663,882
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Net Proceeds Paid to State	(95,065,894)
Compulsive Gambling Contribution Transfer	(1,803,623)
Unclaimed Prizes Transfer	(12,439,978)
Net Cash Used by Non-Capital Financing Activities	(109,309,495)
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Purchases of Capital Assets	(619,818)
Proceeds on sale of Capital Assets	74,843
Net Cash Used by Capital Financing Activities	(544,975)
<b>Cash Flows from Investing Activities:</b>	
Investment Income	420,279
Net Cash Provided by Investing Activities	420,279
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,770,309)</b>
<b>Beginning of Year Cash and Cash Equivalents</b>	<b>27,315,686</b>
<b>End of Year Cash and Cash Equivalents</b>	<b>\$25,545,377</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$102,352,636
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities:	
Depreciation	572,238
Gain on the disposal of capital assets	(43,874)
Change in pension activity	3,536,000
Net Change in Assets and Liabilities:	
Inventory	(420,140)
Accounts Receivable	(294,071)
Prepaid Expenses	(89,436)
Current Liabilities	(218,929)
Prize Awards Payable	(2,269,458)
Net Cash Provided by Operating Activities	\$107,663,882

\*Due to the adoption of new accounting guidance prescribed by GA5B#75, the Lottery is not required to report comparative financial statements for fiscal year 2018.

**For the complete Minnesota State Lottery Comprehensive Annual Financial Report, including referenced Notes, please visit [mnlottery.com](http://mnlottery.com).**

# CONCERNED ABOUT YOUR GAMBLING?

Ask yourself these questions:

During the past 12 months...

- Have you become restless, irritable, or anxious when trying to stop or cut down on your gambling?
- Have you tried to keep your family or friends from knowing how much you gambled?
- Did you have financial troubles because of your gambling that meant you had to get help with living expenses from family, friends, or the government?

If you answer yes to any of these questions, maybe it's time to start the conversation. Call 800-333-HOPE, text HOPE to 61222, or go to [getgamblinghelp.com](http://getgamblinghelp.com). It's free and confidential.

PROBLEM GAMBLING. START THE CONVERSATION.

**NO MATTER WHO YOU ARE THERE IS HOPE.**



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## PROBLEM GAMBLING

The Minnesota Lottery is committed to actively supporting responsible gambling and the prevention of problem gambling. Problem gambling treatment and awareness material, like the lottery-created brochures shown here, are distributed to every lottery retailer in Minnesota.

### LOTTERY HEADQUARTERS

2645 Long Lake Road  
Roseville, MN 55113  
(651) 635-8273

### REGIONAL OFFICES

Detroit Lakes  
1641 Highway 10 W.  
Detroit Lakes, MN 56501  
(218) 846-0700

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

Owatonna  
205 Cedardale Drive  
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(507) 444-2400

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

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[mnlottery.com/blog](http://mnlottery.com/blog)

