



# **MINNESOTA STATE LOTTERY**

## **Annual Comprehensive Financial Report**

**An Enterprise Fund of the State of Minnesota**

**For the Fiscal Year Ended June 30, 2023**

**Prepared by  
Arthur Alexander III  
Chief Financial Officer  
Finance Department**

# TABLE OF CONTENTS

	PAGE
<b>■ INTRODUCTORY SECTION</b>	
▪ LETTER OF TRANSMITTAL	4
▪ ORGANIZATIONAL CHART	14
▪ CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING	15
<b>■ FINANCIAL SECTION</b>	
▪ INDEPENDENT AUDITOR'S REPORT	17
▪ MANAGEMENT DISCUSSION AND ANALYSIS	20
▪ FINANCIAL STATEMENTS	
○ STATEMENT OF NET POSITION	25
○ STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION	26
○ STATEMENT OF CASH FLOWS	27
○ NOTES TO THE FINANCIAL STATEMENTS	28
<b>■ REQUIRED SUPPLEMENTARY INFORMATION</b>	
▪ SCHEDULE OF THE MINNESOTA STATE LOTTERY'S SHARE OF NET PENSION LIABILITY- STATE AND LOTTERY CONTRIBUTIONS	50
▪ 2022 CHANGES IN ACTUARIAL ASSUMPTIONS – GENERAL EMPLOYEES FUND	51
▪ SCHEDULE OF CHANGES IN THE LOTTERY'S TOTAL OPEB LIABILITY AND RELATED RATIOS	52
<b>■ STATISTICAL SECTION</b>	
▪ INTRODUCTION	54
▪ SCHEDULE OF NET POSITION AND CHANGES IN NET POSITION – FISCAL YEARS 2014 THROUGH 2023	55
▪ REVENUE DISTRIBUTION – FISCAL YEARS 1990 THROUGH 2023	57
▪ SALES BY GAME – FISCAL YEARS 1990 THROUGH 2023	58
▪ EXPENSES AND PAYMENTS DISTRIBUTION – FISCAL YEARS 1990 THROUGH 2023	59
▪ FULL TIME EMPLOYEES – FISCAL YEARS 1990 THROUGH 2023	61
▪ CAPITAL ASSETS – FISCAL YEARS 1990 THROUGH 2023	62
▪ TOTAL LEASE LIABILITY	63
▪ PLAYER DEMOGRAPHICS – GENDER, AGE, EDUCATION, AND INCOME	64
▪ MINNESOTA TOP EMPLOYERS	65
▪ NATIONAL STATISTICS:	
○ FISCAL 2022 CONSOLIDATED US LOTTERY REVENUE, PRIZES & GOVERNMENT TRANSFERS BY GDP	66



## **INTRODUCTORY SECTION**

December 12, 2023

Mr. Adam Prock  
Executive Director  
Minnesota State Lottery  
2645 Long Lake Road  
Roseville, Minnesota 55113



## **INTRODUCTION**

I am pleased to transmit the Annual Comprehensive Financial Report of the Minnesota State Lottery for the fiscal year ending June 30, 2023. The Finance Division of the Lottery prepared this report, which provides information about the Minnesota State Lottery, an agency of the State of Minnesota.

The Minnesota State Lottery was created in July 1989 pursuant to authority granted by the Minnesota Legislature. The Lottery is operated as a business enterprise within the framework of State laws and regulations. The Lottery's mission is to "offer fun, innovative and secure games that provide responsible and ethical entertainment." This mission is performed with the utmost integrity to ensure public confidence in the Lottery.

The Lottery is an enterprise fund of the State of Minnesota and is included in the State's Annual Comprehensive Financial Report. Lottery activity is reported using the enterprise fund type. The fund includes all activity for which the Minnesota State Lottery is financially accountable. No data related to any other State agency or fund is included.

The accuracy of the financial data and the completeness of the presentation, including all disclosures, is the responsibility of the Minnesota State Lottery. Additional summarized financial information can also be found in the Management Discussion and Analysis beginning on page 20. To the best of my knowledge and belief, the data is accurate and is reported in a manner designed to fairly present the financial position, results of operations and cash flows of the Minnesota State Lottery. Included are all disclosures necessary to gain an understanding of the Lottery's financial activities.

## **LOTTERY INDUSTRY**

In 1964, New Hampshire established the first state-run lottery to raise money for education. New York followed in 1967. Since then, there have been significant advancements in lottery gaming. In 1971, Automated Wagering implemented the world's first lotto gaming system in New Jersey and Scientific Games developed the first secure scratch ticket in 1973. In 1988, the New York Lottery introduced Keno; then, South Dakota became the first state in the United States to license and regulate video lottery games in 1989. The Minnesota Lottery awarded the first Electronic Instant Ticket contract in February 2014. With the technology in place and lotteries becoming more accepted throughout the United States, there has been a rapid expansion of lotteries and available lottery games. As of June 30, 2023, forty-five states plus the District of Columbia, Puerto Rico and the US Virgin Islands operate a lottery.

## **LOTTERY PROFILE**

Minnesota voted to amend the Minnesota Constitution in 1988 to authorize a state-run lottery. In 1989, the Minnesota Legislature approved lottery legislation establishing the 33<sup>rd</sup> lottery in the country. The Minnesota State Lottery launched its first scratch game on April 17, 1990. Currently, Lottery net proceeds and proceeds from the in-lieu-of-sales tax on lottery tickets sales are dedicated to the General Fund, which includes funds dedicated to the Department of Human Services for the treatment and prevention of problem gambling; the Environment and Natural Resources Trust Fund; the Game and Fish Fund and the Natural Resources Fund are used to enhance Minnesota's natural resources including fish and game, parks, trails and zoos as well as public education, local government assistance, public safety and other programs. Through fiscal year 2023, the Minnesota State Lottery has provided over \$3.8 billion to its beneficiaries.

## **ECONOMIC CONDITION AND OUTLOOK<sup>1</sup>**

The near-term economic outlook for Minnesota has improved since Minnesota Management and Budget's Budget and Economic Forecast was prepared in February 2023. At that time, Minnesota's macroeconomic advisor, S&P Global Market Intelligence (SPGMI), expected a mild two-quarter recession, which the U.S. economy has managed to avoid. Since then, Minnesota's employment and wage income have continued to grow, the unemployment rate has remained below the U.S. rate, and jobs have surpassed the pre-pandemic level.

In this forecast, the strengthened near-term economic outlook raises our expectation for growth in Minnesota's employment and wages in 2023 and 2024 compared to our prior forecast. Beyond 2024, we now forecast slower growth in employment and wages than we expected in February.

Minnesota's economic outlook is informed by the SPGMI forecasts for both the U.S. and Minnesota, data from the Minnesota Department of Economic and Employment Development (DEED), Quarterly Census of Employment and Wages (QCEW), and Minnesota tax revenues.

In April 2022, Minnesota's unemployment rate reached a historic low of 2.3 percent, 1.3 percentage points below the U.S. unemployment rate of 3.6 percent. The gap between the U.S. unemployment rate and the Minnesota unemployment rate has narrowed. In October, Minnesota's unemployment rate was 3.2 percent, the 21st lowest among U.S. states and 0.7 percentage points below the U.S. rate of 3.9 percent.

In September, Minnesota's payroll employment surpassed its pre-pandemic level. During March and April 2020, Minnesota lost 416,000 jobs, approximately 14 percent of February 2020 payroll employment. Across the entire U.S., total employment surpassed the February 2020 level in June 2022. Minnesota's payroll employment increased by 7,000 jobs in October, pushing the total number of seasonally adjusted jobs in the state to a historic milestone of over 3 million for the first time. The state's employers have added an average of 4,200 jobs per month in January through October, 30 percent below the rate of 6,000 jobs added per month over the same period last year. However, this employment growth is stronger than we anticipated in February, when we expected employment growth to grow by about 1,600 jobs per month in 2023.

Following the 2.3 percent growth in fiscal year 2023, we expect Minnesota payroll employment growth to decelerate to 1.4 percent for the current fiscal year. We expect employment growth to be nearly flat at

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<sup>1</sup> Provided by the Minnesota Department of Revenue

0.1 percent in fiscal year 2025 and to average 0.2 percent, or 6,000 jobs per year, in fiscal years 2026 and 2027. This subdued trajectory for Minnesota's employment growth can be attributed to an aging workforce with an increasing number of individuals transitioning into retirement.

Data from the Bureau of Economic Analysis (BEA) reveals that wage and salary income in Minnesota expanded 5.3 percent in fiscal year 2023. Looking ahead, we anticipate robust wage growth to persist at a rate of 5.0 percent in fiscal year 2024 and 5.8 percent in fiscal year 2025. We expect wage growth to decelerate to an average of 5.0 percent per year for fiscal years 2026 and 2027.

Surging borrowing costs, rising sales prices, and limited inventory are keeping potential homebuyers on the sidelines. The 30-year fixed mortgage interest rate, the most popular home loan in the United States, recently approached eight percent for the first time since 2000. These high rates have discouraged buyers of both new and existing homes and have "locked in" owners of existing homes, who could lose lower rates on their current mortgages if they sell in such a high-rate environment. Sales of existing Minnesota homes are down 18.4 percent January through October, and new listings in Minnesota are down 12.8 percent over the same time period.

As total home inventory remains constrained, Minnesota home prices continue to rise. The median sales prices for both Minneapolis-Saint Paul metro-area homes and homes in greater Minnesota have continued to increase despite rising interest rates, declines in new listings, and declines in pending and closed sales. In October, the median price for metro-area homes was \$366,000, 1.7 percent higher than one year ago. On average, metro-area sellers received 98.5 percent of the original list price at closing. The median sales price in Minnesota was \$330,000 in October, up 3.1 percent from a year ago.

The combination of higher interest rates and rising home prices is challenging affordability. According to analysis from SPGMI, in the second quarter of 2023, Minnesota's home affordability index reached 112, its lowest level since the data has been recorded, dating back to 1991. An affordability index of 100 is the point where the median household has just enough income to afford a median priced home; a lower affordability index means homes are less affordable. A value below 100 means that the median household has less income than necessary to acquire a mortgage, and a value above 100 means the median household earns more income than required. The same study found that Minnesota ranks 20th among U.S. states for affordability. States in the Midwest tend to be among more affordable states, but recently affordability in even historically affordable regions is reaching historic lows. In this forecast, SPGMI does not expect improvements in affordability in the near-term. SPGMI expects the 30-Year fixed mortgage rate to peak at 7.64 percent in the fourth quarter of 2023, followed by a deceleration to less than 5.0 percent in 2027. According to data through September from the U.S. Census Bureau, the total year-to-date number of authorized residential building permits (not seasonally adjusted) in Minnesota is lagging last year by 25.3 percent. This is due to a 17.3 percent decline in single-family housing permits and a 31.3 percent decrease in multi-family permits. Last year Minnesota issued 32,000 housing permits, including 18,000 for multi-family units. In this forecast, we expect total housing permits to fall to 23,000 in 2023 and average 25,000 permits per year in years 2024-2027.

## **FINANCIAL INFORMATION**

**Enterprise Operations:** The Minnesota State Lottery operates only enterprise activities, namely sales of lottery tickets to the general public and the related supporting functions of administration, marketing, finance, security, licensing and data processing. No general government functions or operations are managed by the Lottery. Operating revenues in fiscal year 2023 were \$787 million.

**Budgetary Controls:** Budgetary controls for the Minnesota State Lottery are addressed through state laws that provide specific limitations on operation and administrative expenses. For budgetary purposes, the Minnesota State Lottery is classified as an unappropriated special revenue fund. An estimate of expected expenditures is filed annually with Minnesota Management and Budget and is monitored throughout the year. In addition, Lottery financial management staff monitors compliance with Lottery statutes.

**Debt Administration:** The prize structure of certain scratch games operated solely by the Lottery includes prizes in the form of lifetime annuities. Since 1991, the Lottery has awarded forty-four scratch and lotto game annuity prizes of which twenty-six are still active. Prior to fiscal year 2004, the Lottery had elected to fund payment of these annuities through the purchase of long-term investments consisting of zero-coupon government securities. The prize annuity obligations were recognized as liabilities equivalent to the estimated present value of the future prize payments discounted at interest rates for government securities. In fiscal year 2004, the Lottery sold the investments used to fund these prizes and purchased lifetime annuities in each winner's name to satisfy its obligation related to the lifetime annuity prizes.

**Cash Management:** Minnesota Statutes, Section 349A.10, Subdivision 7(a), requires the Lottery to transfer all excess funds to a Lottery cash flow account in the State Treasury. Funds in this account earn interest that is credited monthly to the Lottery's account. Treasury cash is invested by the State Board of Investment. Cash on deposit in the State Treasury and with financial institutions is insured. Cash on deposit with banks 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 collateral to the Lottery in an amount equal to the funds in excess of the FDIC insurance limit.

**Risk Management:** 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; see note 9 in the financial section.

**Internal Control Environment:** Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse and to ensure that the accounting system allows compilation of accurate and timely financial information. Internal controls are subject to inherent limitations the most basic of which are the costs versus the benefits of each control. The structure is designed to provide reasonable rather than absolute assurance that the financial statements are free from any material misstatements.

To enhance controls over accounting procedures, the Lottery has segregated the following functions: human resources and payroll, purchasing, accounts payable and accounts receivable, and general ledger. Data input and processing are separate from system programming and management provides approval and oversight. In addition, external auditors review certain areas of operation in conjunction with their internal control and financial statement audit and report their findings to the Lottery's Executive Director.

Since the Lottery manages valuable ticket inventory, controls lotto gaming materials and monitors the disbursement of prizes, the following steps are taken to ensure the integrity and accountability of Lottery's operations:

- Hiring specialized security and law enforcement staff.
- Maintaining secure Lottery facilities and limiting access to them.
- Performing background checks on retailers, contractors and Lottery employees.
- Printing and approving Lottery tickets that have special inks, dyes and security codes.

- Providing detailed procedures for all games, including lotto games' drawings.
- Hiring an independent CPA firm to witness, audit and certify drawings.
- Providing and monitoring physical and logical access controls to the computer systems.

As of June 30, 2023, the Lottery had 145 permanent, full-time (equivalent) employees distributed among the Roseville headquarters and the three regional offices.

## LOTTERY PRODUCTS

The Minnesota State Lottery has introduced 20 lotto games and numerous scratch games since its inception. In fiscal year 2023, the Lottery introduced a variety of 48 new scratch games and provided players the opportunity to participate in ten types of lotto games, including three types of Progressive Print-N-Play® games.



Pick 3, formerly Daily 3 Minnesota's first and longest running game, is a lotto game introduced in August 1990. Players choose three numbers from 0 to 9, the type of play and the amount to wager. There are eight different ways to play and a player can win by matching one, two or all three numbers with wagers ranging from \$.50 to \$5. Depending on the type of play, prizes range from \$5 to \$500. Drawings are held seven days a week. Pick 3 sales were approximately 2.6 percent of total fiscal year 2023 sales.



The Minnesota Lottery developed and introduced Print-N-Play® games in 2004. The games combine the instant win aspect of scratch games with the look of a lotto game. Generated by the lotto terminal, the tickets are quick to produce and easy to redeem since players do not have to wait for a future drawing to see if they win. In fiscal year 2011 the Print-N-Play name was changed to Progressive Print-N-Play™. Three popular games are available (bingo, crossword and slots) in price points of \$1, \$3 and \$5. Each game shares the progressive rolling jackpot in addition to instant cash prizes. The jackpot starts at \$5,000 and progressively grows higher with each ticket sold. Progressive Print-N-Play sales were approximately 1.1 percent of total fiscal year 2023 sales.



Gopher 5® is a lotto game introduced in May 1991 and revised in October 2008, by increasing the weekly drawings from 2 to 3. Players select five numbers from 1 to 47 and win by matching two, three, four or all five of the numbers drawn. The prizes awarded for matching the five numbers selected and winning the grand prize, are determined on a pari-mutual basis starting at \$100,000 in the grand prize pool. In addition, prizes of \$500, \$15 and \$1 are awarded for matching 4 of 5 numbers, 3 of 5 numbers and 2 of 5 numbers, respectively. Each ticket costs \$1 per play, per draw, and drawings are held on Monday, Wednesday and Friday each week. Gopher 5 sales were approximately 2.4 percent of total fiscal year 2023 sales.



North 5, formerly Northstar Cash®, was introduced on October 7, 2003. For \$1, players select five numbers from 1 to 31 for a chance to win the jackpot that starts at \$25,000 and grows until won. The jackpot is paid in cash and if there is more than one winner, the jackpot is divided equally among all winning tickets. In addition, prizes of \$50, \$5 and \$1 are awarded for matching 4 of 5



numbers, 3 of 5 numbers and 2 of 5 numbers, respectively. Drawings are held seven days a week immediately following the Daily 3 drawing. North 5 sales were approximately 1.4 percent of total fiscal year 2023 sales.



Introduced in 1992, Powerball® is a lotto game sold by 48 U.S. lotteries. Players pick five numbers from 1 to 69 and one number from 1 to 26 (the Powerball). Players win the jackpot by matching all five numbers plus the Powerball. Currently, starting jackpots are established based on game sales and interest rates, with no fixed minimum increase amount. The jackpots are paid either in a cash lump sum equal to the discounted present value of the annuitized jackpot amount or 30 annual payments (graduated) over 29 years. In addition, there are eight secondary fixed prizes ranging from \$4 to \$1 million.

Powerball has gone through several revisions in its lifetime and has reached record jackpot levels. In November 2022, the Powerball jackpot reached a record \$2.0 billion. Drawings are held on Monday, Wednesday and Saturday each week. Powerball sales were approximately 11.3 percent of total fiscal year 2023 sales.



Introduced in March 2001, Power Play® is an enhancement to Powerball. For an additional \$1 per play, players can multiply their non-jackpot prizes by 2 to 5, or 10 times. The 10X multiplier is in play only when the advertised jackpot annuity is \$150 million or less. The Match 5 prize with Power Play is always \$2 million. Power Play sales are approximately 0.6 percent of total fiscal year 2023 sales.



Introduced on January 31, 2010, Mega Millions® is sold in 47 U.S. lotteries under a joint selling agreement with the Mega Millions group. Currently, starting jackpots are established based on game sales and interest rates, with no fixed minimum increase amount. In addition, there are eight secondary prizes of fixed amounts ranging from \$2 to \$1,000,000. Each ticket costs \$2 per play, per draw, and players must pick five numbers from 1 to 70 and one Mega Ball® number from 1 to 25. Players win the jackpot by matching all five numbers plus the Mega Ball. The payment of jackpots is either in a cash lump sum equal to the discounted present value of the annuitized jackpot amount or 30 annual payments (graduated) over 29 years. Drawings take place twice weekly on Tuesday and Friday. Mega Millions sales were approximately 7.7 percent of total fiscal year 2023 sales.



Megaplier® was launched on January 31, 2010 with Mega Millions and was amended on October 22, 2013. For an additional \$1 per play, players can multiply their non-jackpot prizes by 2 to 5 times (players can win \$4 to \$5,000,000). Drawings take place on Tuesday and Friday each week. Megaplier sales were approximately 0.4 percent of total fiscal year 2023 sales.



The original Lotto America® game was launched in 1988 by the Multi-State Lottery Association and ended on April 18, 1992. Lotto America® relaunched on November 12, 2017. Currently, there are 13 participating states. Starting jackpots and roll amounts are determined by sales and interest rates. Lotto America® jackpots typically start at \$2 million and grow in \$50,000 increments until

the guaranteed jackpot is fully funded and then grows, based on sales, until the jackpot is won. In addition, there are eight secondary prizes of fixed amounts ranging from \$2 to \$20,000. Each ticket costs \$1 per play, per draw. Players must choose 5 numbers from a set of 52 numbers and 1 number from a set of 10 numbers for the Lotto America Star Ball®. Players win the jackpot by matching all five numbers plus the Lotto America Star Ball®. Drawings take place each Monday, Wednesday and Saturday's before the Powerball drawing. Lotto America® sales were approximately 2.0 percent of total fiscal year 2023 sales.



Lotto America All Star Bonus® also launched on November 12, 2017. For an additional \$1 per play, players can multiply their non-jackpot prizes by 2 to 5 times (players can win \$4 to \$100,000). Drawings take place each Monday, Wednesday and Saturday's after the Powerball drawing.

Lotto America All Star Bonus® sales were approximately 0.2 percent of fiscal year 2023 sales.



The Lottery introduced its first raffle game in fiscal year 2007. The Minnesota Millionaire Raffle® is a lotto game that was established to sell 500,000 \$10 tickets. In fiscal year 2014, the number of tickets was increased to 700,000. Each ticket has a unique six-digit number between 000001 and 700000 and is issued via a retailer terminal. On the draw date, tickets matching the numbers

drawn win a range of cash and non-cash prizes including two grand prizes of \$1,000,000 each. Currently, the raffle game offers over 12,000 all-cash prizes that range from \$50 to \$1,000,000. During fiscal year 24 Raffle will be changing. Minnesota Millionaire Raffle sales were approximately .8 percent of total sales in fiscal year 2023.



The Lottery launched its first scratch game on April 17, 1990. Players play by scratching off the latex covering the ticket play area. There are different ways to win a scratch matching three like dollar amounts, symbols or letters, or

game including adding up numbers to a specified total. If the correct combination appears, the player wins the corresponding prize listed for the specific game. Scratch games offer a wide variety of game themes and were the first products offered to Minnesota Lottery players. Ticket costs range from \$1 to \$100. Scratch games provided approximately 69.3 percent of total fiscal year 2023 sales.

## **LOTTERY BENEFICIARIES**

In fiscal year 2023, the Minnesota State Lottery transferred \$196.1 million to the State of Minnesota. The State Legislature had determined that the money is to be distributed as follows:

**General Fund:** 60 percent of Lottery net proceeds, 100 percent of unclaimed prizes and 27.6 percent of in-lieu-of-sales taxes were transferred to the State General Fund in fiscal year 2023. Public education, local government assistance and public safety are just a few of the programs that receive funding from the General Fund. In fiscal year 2023, \$105.7 million was transferred to the General Fund.

**Environment and Natural Resources Trust Fund:** 40 percent of Lottery net proceeds were dedicated to the Environment and Natural Resources Trust Fund, a permanent fund established in the Minnesota Constitution. The Constitution requires that the Trust Fund receive Lottery proceeds through December 2024. Lottery proceeds are the primary source of funds used to build the principal of the Trust Fund; the Minnesota Constitution provides up to 5.5 percent of the market value of the fund, which can be utilized for projects each year. The Trust Fund is used to fund projects of long-term benefit to Minnesota's environment and natural resources and is administered by the Legislative Citizen's Commission on

Minnesota Resources (LCCMR). For the fiscal year 2022 and 2023 biennium, the Legislature made available \$70 million each year for funding from the Environment and Natural Resources Trust Fund. In fiscal year 2023, 86 appropriations totaling \$79.8 million were signed into law:

- Foundational Natural Resource Data and Information (\$8.2 million)
- Water Resources (\$8.3 million)
- Environmental Education (\$3.9 million)
- Aquatic and Terrestrial Invasive Species (\$5.1 million)
- Air Quality, Climate Change, and Renewable Energy (\$3.9 million)
- Methods to Protect, Restore, and Enhance Land, Water, and Habitat (\$16.1 million)
- Land Acquisition, Habitat, and Recreation (\$31.2 million)
- Administrative and Emerging Issues (\$3.1 million)

Since 1991, the Environment and Natural Resources Trust Fund has provided approximately \$900 million to approximately 1,900 projects around the State. In fiscal year 2023, \$51.9 million was transferred to the Fund. Over the years the Lottery has contributed approximately \$1.022 billion to the Fund that has grown in excess of \$1.5 billion.

**Game and Fish Fund:** 36.2 percent of the Lottery's in-lieu-of-sales tax was dedicated to the Game and Fish Fund for activities that improve, enhance or protect fish and wildlife resources, including conservation, restoration and enhancement of land, water and other natural resources of the State. In fiscal year 2023, the Lottery transferred \$18.5 million to the Game and Fish Fund.

**Natural Resources Fund:** 36.2 percent of the Lottery's in-lieu-of-sales tax was dedicated to the Natural Resources Fund for State and Twin Cities metropolitan area parks and trails, local trails and the Minnesota Zoological Garden, Como Zoo and Duluth Zoo. In fiscal year 2023, the Lottery transferred \$18.5 million to the Natural Resources Fund.

**Compulsive Gambling:** In fiscal year 2023, the Lottery contributed \$1.5 million to the Minnesota Department of Human Services for problem gambling treatment and prevention.

## **ACCOMPLISHMENTS AND SIGNIFICANT EVENTS**

In fiscal year 2023 the Minnesota State Lottery:

- Achieved its second-best record sales year of \$787.2 million.
- Paid out prizes of \$488.0 million, a 62.0 percent payout.
- Paid retailers \$51.9 million in commissions and incentives
- Transferred \$196.1 million to State of Minnesota beneficiaries. Funds were transferred as follows:
  - General Fund, \$105.7 million
  - Environment and Natural Resources Trust Fund, \$51.9 million
  - Game and Fish Fund, \$18.5 million
  - Natural Resources Fund, \$18.5 million
  - Problem Gambling Fund, \$1.5 million
- JDE Migration to SQL Sever
- Decommission of Marshall Regional Office
- Started process of evaluating and procuring a new central gaming system by conducting an RFP for consulting services.
- Implemented additional Lotto America draw, to three days per week
- Change the after-hours process related to stolen tickets.

- Improve tracking of deliveries through business intelligence
- Raffle game change configuration

The Minnesota State Lottery has generated over \$3.8 billion for the State of Minnesota since sales began on April 17, 1990, with proceeds enhancing Minnesotans' quality of life.

### **GFOA CERTIFICATE OF ACHIEVEMENT**

For twenty years in a row, the Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the Minnesota State Lottery for its Annual Comprehensive Financial Report (ACFR). In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year. We believe our current Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate.

### **FUTURE LOTTERY PROJECTS**

- ServiceNow training and system useability upgrades
- Cyber Security Risk Program Implementation
- Internal Business applications migration from iSeries to Windows Sever (GAVIA)
- Launch a Convenience App for our players.
- Add Jackpot signs to Walmart stores.
- Work with SCSU to develop and implement marketing study.
- Conduct an RFP for an advertising agency.
- Lotto games portfolio evaluation
- Debrief on IDI with all employees, administer IDI to new hires.
- Implement Rapid Response Team and certify certain employees on CPR.
- Implement PTR (Personal Transaction Request) System to track applicants through hiring process.

### **INDEPENDENT AUDIT**

Minnesota statutes require an annual audit by an independent certified public accountant. The independent auditor's opinion on the Minnesota Lottery's financial statements for the year ending June 30, 2023 is included in the financial section of this report.

## ACKNOWLEDGEMENTS

A special note of thanks to the Finance Department including: Jennifer Evangelista, Steffany Davis, Tina Pha, Mario Ricci, Tatyana Stewart, John Rugroden and Jennifer Schelin. Preparation of this report would not be possible without the efficiency and dedication of the entire Finance Department.

Publishing this Annual Comprehensive Financial Report reflects the Finance Department's commitment to maintaining the Minnesota State Lottery's financial statements and record-keeping systems in conformance with the highest standards of accountability.

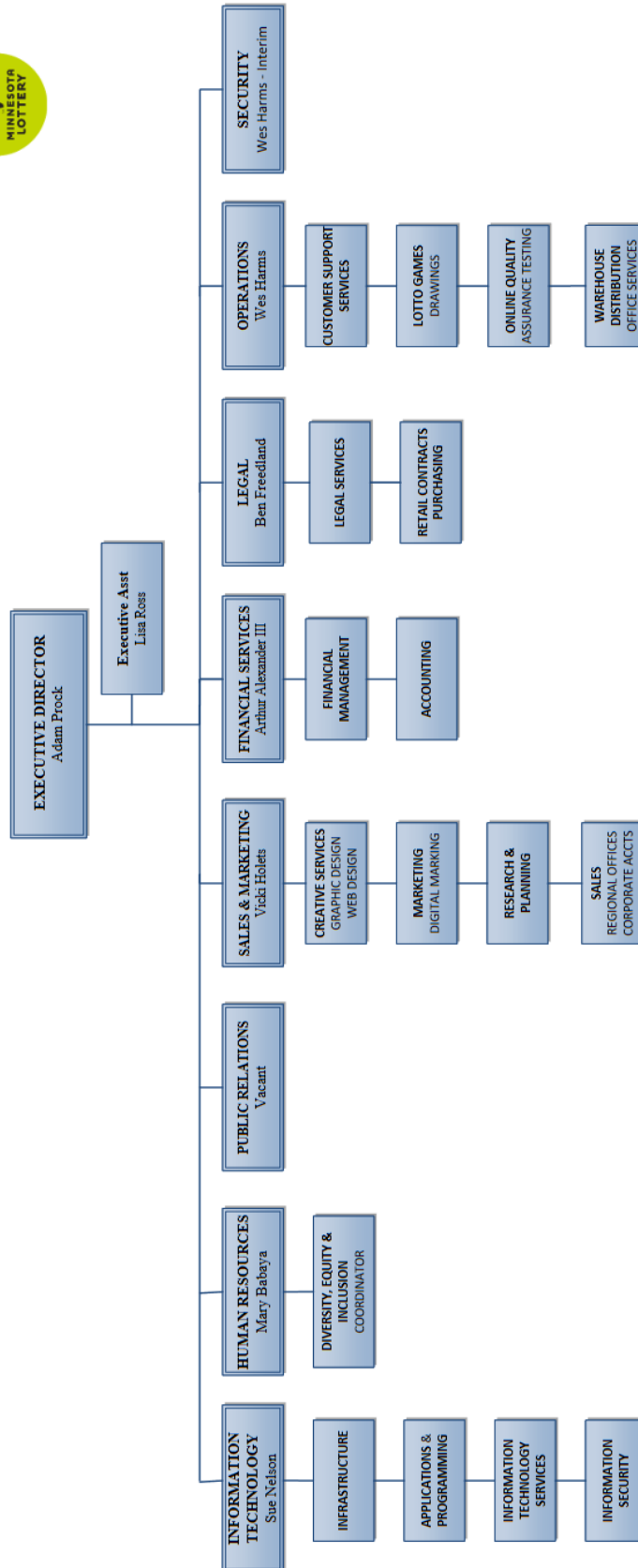
Respectfully submitted

A handwritten signature in black ink, appearing to read 'Arthur Alexander, III', with a long horizontal flourish extending to the right.

Arthur Alexander, III  
Chief Financial Officer



## Minnesota Lottery Organizational Chart





Government Finance Officers Association

Certificate of  
Achievement  
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Reporting

Presented to

**Minnesota State Lottery**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

June 30, 2022

*Christopher P. Morill*

Executive Director/CEO



**FINANCIAL SECTION**





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## INDEPENDENT AUDITOR'S REPORT

The Director  
Minnesota State Lottery  
Roseville, Minnesota

### Report on the Financial Statements

#### *Opinion*

We have audited the financial statements of the Minnesota State Lottery, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Minnesota State Lottery's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Minnesota State Lottery, as of June 30, 2023, and the 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Minnesota State Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *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, 2023, 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. Our opinion is not modified with respect to this matter.

As discussed in Notes 2 and 9 to the financial statements, the Lottery adopted new accounting guidance prescribed by Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription Based Information Technology Arrangements effective July 1, 2022, using the modified prospective method for fiscal year 2023. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Minnesota State Lottery's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnesota State Lottery's ability to continue as a going concern for one year after the date that the financial statements are issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Minnesota State Lottery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Minnesota State Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 31 through 33 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***

Management is responsible for the other information in the annual report. The other information comprises the introductory section and the statistical section but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2023 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 the Minnesota State Lottery's 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  
Andrew & Silver PA*

September 14, 2023  
Minneapolis, MN

MINNESOTA STATE LOTTERY  
MANAGEMENT DISCUSSION AND ANALYSIS

**Overview of the Financial Statements**

This discussion and analysis include an overview of financial activities regarding the financial performance of the Minnesota State Lottery (the Lottery) for the fiscal year ended June 30, 2023 and comparison for the one previous fiscal year ended June 30, 2022. The management discussion and analysis 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 and a condensed statement of net position for the years ended June 30, 2023 and 2022.

**Financial Highlights**

The Minnesota State Lottery had operating revenues of \$787.3 million in fiscal year 2023 and contributed \$196.1 million to the State. Both revenues and contributions to the State were up compared to last year. Operating revenues were our second best year behind fiscal year twenty-one and contributions to state was our biggest year ever.

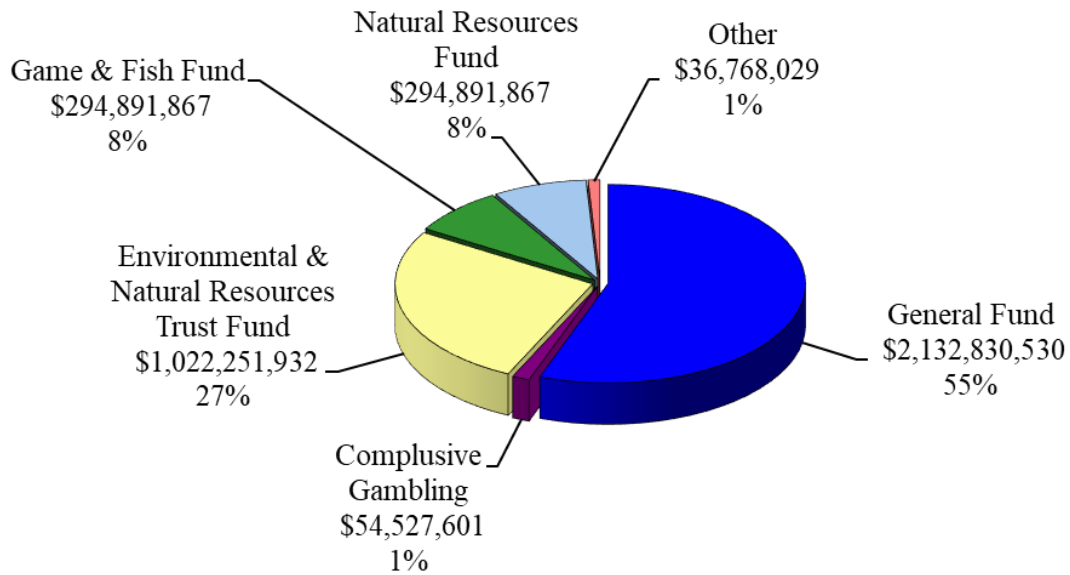
**Summary of Contributions to the State**

The Lottery contributed \$196.1 million to the State in fiscal year 2023. This was a \$23.5 million or a 13.6% increase from 2022. 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.

Summary of Contributions to the State

	<b>2023</b>	2022
Net proceeds to the State	<b>\$ 129,739,366</b>	\$ 110,742,164
In-lieu-of-sales tax	<b>51,165,544</b>	48,110,394
Compulsive gambling contribution	<b>1,459,580</b>	1,519,142
Unclaimed prizes to the State	<b><u>13,723,549</u></b>	<u>12,256,846</u>
 Total paid to the State	 <b><u>\$ 196,088,039</u></b>	 <u>\$ 172,628,546</u>

**The Lottery has contributed \$3.8 billion to the State since inception**



**Summary Results of Operations**

	<u>2023</u>	<u>2022</u>
Gross receipts	\$ 736,137,171	\$ 692,051,433
Prizes, commissions and ticket costs	<u>562,611,237</u>	<u>538,427,884</u>
Gross profit	173,525,934	153,623,549
Operating expenses	<u>27,502,556</u>	<u>22,152,863</u>
Operating income	<u>146,023,378</u>	<u>131,470,686</u>
Non-operating revenues (expenses):		
Interest earned on investments	1,851,121	181,462
Unused compulsive gambling contribution	776,420	716,859
Payments to state (not including in lieu of sales tax)	<u>(145,698,915)</u>	<u>(125,235,011)</u>
Total non-operating expense	<u>(143,071,374)</u>	<u>(124,336,690)</u>
Change in net position	2,952,004	7,133,996
Net position, beginning of year	<u>(6,018,003)</u>	<u>(13,151,999)</u>
Net position, end of year	<u>\$ (3,065,999)</u>	<u>\$ (6,018,003)</u>

Operating Income:

Operating Income has increased by \$14.6 million in 2023 from 2022. Gross receipts increased by \$44.1 million or 6.4% due to increased lotto sales by \$63.0 million. As a result of higher gross receipts operating income increased by \$14.6 million. Direct costs which include prizes, commissions and ticket costs as a percent of gross were 76.4% in 2023 compared to 77.8% in 2022.

Operating Expenses:

Operating Expenses increased by \$5.3 million in 2023 from 2022. This was primarily due to recognizing the change in the pension valuation.

Gross Receipts by Game:

	<u>2023</u>	<u>2022</u>
Scratch ticket sales	<u>\$ 545,670,840</u>	<u>\$ 561,636,704</u>
Lotto ticket sales:		
Pick 3 <sup>®</sup>	20,829,926	22,406,621
Gopher 5 <sup>®</sup>	18,612,995	17,002,602
Powerball <sup>®</sup>	89,002,098	68,928,118
Powerball <sup>®</sup> Power Play <sup>®</sup>	4,809,386	3,875,694
Mega Millions <sup>®</sup>	60,529,874	23,837,710
Mega Millions <sup>®</sup> Megaplier <sup>®</sup>	3,211,102	1,603,213
North 5 <sup>®</sup>	10,726,284	9,700,106
Minnesota Millionaire Raffle <sup>®</sup>	6,999,050	6,999,460
Lotto America <sup>®</sup>	16,009,153	9,605,978
Lotto America <sup>®</sup> All Star Bonus <sup>®</sup>	2,278,671	1,345,669
Progressive Print-N-Play <sup>®</sup>	<u>8,482,843</u>	<u>13,218,036</u>
Total lotto ticket sales	<u>241,491,382</u>	<u>178,523,207</u>
Operating revenue	787,162,222	740,159,911
Other income	<u>140,493</u>	<u>1,916</u>
Total operating revenue	787,302,715	740,161,827
Less in-lieu-of-sales tax	<u>51,165,544</u>	<u>48,110,394</u>
Gross receipts	<u>\$ 736,137,171</u>	<u>\$ 692,051,433</u>

### Scratch Games:

Scratch game sales accounted for 69.3% of operating revenue in fiscal year 2023, down from 75.9% in 2022. Total scratch sales were down \$16.0 million compared to 2022. The decrease in scratch sales was all in the first six months of the fiscal year. The last six months exceeded fiscal year 2022 by \$8.8 million.

### Lotto Games:

Lotto sales saw a large increase of \$63.0 million in 2023 from 2022. This was attributed to four large jackpot runs during the fiscal year between Powerball and Mega Millions.

## Summary

### Condensed Statements of Net Position:

	<u>2023</u>	<u>2022</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 37,580,849	\$ 42,631,461
Receivables	8,676,284	4,492,659
Inventory and prepaid expenses	2,615,655	2,143,672
Capital assets	916,953	731,716
Other Capital Assets (Right-to-use asset)	<u>3,105,784</u>	<u>1,500,735</u>
Total assets	<u>52,895,525</u>	<u>51,500,243</u>
<b>Deferred outflows</b>	<u>4,573,000</u>	<u>5,800,000</u>
<b>Liabilities:</b>		
Due to state and state agencies	21,090,907	19,398,247
Accounts payable and current accrued expenses	9,405,472	9,430,620
Prize liability	18,400,681	20,043,939
Lease and subscription liability	3,105,784	1,654,217
Long-term accrued expenses	<u>6,551,022</u>	<u>1,953,146</u>
Total liabilities	<u>58,553,866</u>	<u>52,480,169</u>
<b>Deferred inflows</b>	<u>1,980,658</u>	<u>10,918,077</u>
Net position:		
Unrestricted net position	(3,982,952)	(6,749,719)
Net investment in capital assets	<u>916,953</u>	<u>731,716</u>
Net position	<u>\$ (3,065,999)</u>	<u>\$ (6,018,003)</u>

### Net Position

Minnesota State Lottery's net position at the end of fiscal year 2023 was \$(3.1) million compared to \$(6.0) million in fiscal year 2022. The negative net position is attributable to the offset of the net pension liability and recognition of post-employment benefits liability.

### Cash and Cash Equivalents and Receivables:

The total of cash and cash equivalents and receivables decreased by \$876 thousand from 2022 to 2023. This was primarily due to spending more on capital activities.

### Capital Assets and Other Assets:

Net Capital assets increased by \$185 thousand in 2023 versus 2022. Purchase of capital assets totaled \$594 thousand comprised of \$97 thousand in computer equipment, \$396 thousand in software costs and \$101 thousand in vehicles. For a more detailed explanation see Footnote 5.

During the fiscal year the Lottery adopted GASB No. 96 Accounting for Subscription Based Information Technology Arrangements which accounts for \$2.2 million of the \$3.1 million right-to-use assets. The other \$884 thousand of the right-to-use asset is for GASB No. 87 Accounting for Leases which was adopted during the previous fiscal year. For a more detailed explanation see Footnotes 2, 5, 9 and 16.

### Due to State and State Agencies:

Payment due to state at the end of fiscal year 2023 was \$1.7 million higher than fiscal year 2022. This was due to a \$1.5 million increase in unclaimed prizes and a \$225 thousand increase in net proceeds due.

### Prize Liability:

Prize Liability decreased by \$1.6 million from 2022 to 2023 due to mid and high tier scratch game prizes.

### Accounts Payable and Current Accrued Expenses:

Accounts payable and current accrued expenses decreased slightly by \$25 thousand during the fiscal year twenty-three.



## MINNESOTA STATE LOTTERY

JUNE 30, 2023

**Assets:**

## Current Assets:

Cash and cash equivalents (Note 3)	\$ 37,580,849
Accounts receivable, net (Note 4)	8,461,351
Interest receivable	214,933
Scratch ticket inventory	1,967,260
Prepaid Expense	<u>648,395</u>
Total current assets	48,872,788

## Capital Assets:

Capital assets, net (Note 5)	916,953
Right-to-use asset, net (Note 5)	<u>3,105,784</u>
Total capital assets	4,022,737

Total assets	<u>52,895,525</u>
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<b>DEFERRED OUTFLOWS (Notes 14 and 15)</b>	<u>4,573,000</u>
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**Liabilities:**

## Current Liabilities:

Net proceeds due to state (Note 8)	\$ 7,367,358
Unclaimed prizes due to state (note 6)	13,723,549
Accounts payable	3,162,926
In-lieu-of-sales tax payable	3,809,260
Prize liability	18,400,681
Accrued salaries and benefits payable, current (Note 7)	1,637,944
Lease and subscription liability (Note 9)	1,428,568
Deferred revenue	<u>795,342</u>

Total current liabilities	<u>50,325,628</u>
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Accrued benefits payable, net of current portion (Note 7)	1,767,022
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Lease and subscription liability, net of current portion (Note 9)	1,677,216
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Net pension liability (Note 14)	4,784,000
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Total non-current liabilities	8,228,238
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Total liabilities	58,553,866
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<b>DEFERRED INFLOWS (Notes 14 and 15)</b>	<u>1,980,658</u>
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**Net Position**

Net investments in capital assets (Note 8)	916,953
Unrestricted	<u>(3,982,952)</u>

Total net position	<u>\$ (3,065,999)</u>
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See accompanying notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGE IN NET POSITION  
YEAR ENDED JUNE 30, 2023

**MINNESOTA STATE LOTTERY**

**Operating revenues:**

Scratch ticket sales	\$ 545,670,840
Online ticket sales	241,491,382
Other income	140,493
	Total operating revenues 787,302,715
	Less: in-lieu-of-sales tax 51,165,544
	Gross receipts 736,137,171

**Direct costs:**

Scratch ticket prizes	367,294,797
Online ticket prizes	120,703,500
Online vendor expense	13,955,934
Amortization of software (Note 5 & 9)	1,380,816
Ticket costs	7,374,730
Retailer commissions and incentives (Note 11)	51,901,460
	Total direct costs 562,611,237
	Gross profit 173,525,934

**Operating expenses: (Note 12)**

Advertising (Note 13)	7,381,958
Salaries and benefits (Note 14)	11,783,552
Promotion	1,257,990
Purchased services	1,755,237
Communication	510,881
Occupancy costs (Note 10)	201,318
Supplies and materials	1,360,066
Computer and omnipoint maintenance	822,769
Amortization of buildings (Note 5 & 9)	1,736,107
Depreciation	400,782
Other expense	291,896
	Total operating expenses 27,502,556

**Operating income**

146,023,378

**Nonoperating revenue (expense):**

Interest earned on investments	1,851,121
Compulsive gambling contribution from prize fund (Note 11)	(1,459,580)
Unclaimed prizes to state (Note 6)	(13,723,549)
Net proceeds to state (Note 8)	(129,739,366)
	Total nonoperating revenue (expense) (143,071,374)

**Change in net position**

2,952,004

**Net position at beginning of year (Note 8)**

(6,018,003)

**Net position at end of year (Note 8)**

\$ (3,065,999)

See accompanying notes to financial statements.

**MINNESOTA STATE LOTTERY**

YEAR ENDED JUNE 30, 2023

Cash flows from operating activities:	
Cash received from:	
Customers	\$ 783,155,691
Other income	140,493
Payments to:	
State (in-lieu-of-sales tax)	(51,038,147)
Employees	(15,164,093)
Suppliers	(38,517,551)
Retailers	(51,901,460)
Prize winners	(489,641,555)
Net cash provided by operating activities	<u>137,033,378</u>
Cash flows from non-capital financing activities:	
Net proceeds paid to state	(129,513,409)
Compulsive gambling contribution transfer	(1,459,580)
Unclaimed prizes transfer	(12,256,846)
Net cash used by non-capital financing activities	<u>(143,229,835)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(600,124)
Proceeds on sale of capital assets	77,033
Net cash used by capital financing activities	<u>(523,091)</u>
Cash flows provided by investing activities, investment income	<u>1,668,936</u>
Net (decrease) in cash and cash equivalents	(5,050,612)
Beginning of year cash and cash equivalents	<u>42,631,461</u>
End of year cash and cash equivalents	<u>\$ 37,580,849</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 146,023,378
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	400,782
Gain on the disposal of capital assets	(62,928)
Change in retirement activity	(2,952,000)
Net change in assets and liabilities:	
Inventory	(395,516)
Accounts receivable	(4,001,440)
Prepaid expenses	(76,467)
Right of use asset	(1,605,049)
Right of use liability	1,451,567
Other current liabilities	(2,272)
Change in deferred - lease	(103,420)
Prize awards payable	(1,643,257)
Net cash provided by operating activities	<u>\$ 137,033,378</u>

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See accompanying notes to financial statements.

## **MINNESOTA STATE LOTTERY**

### **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 33<sup>rd</sup> lottery in the country.

The Minnesota State Lottery (the Lottery), an Enterprise Fund of the State of Minnesota, is under the supervision and control of the Director of the Lottery, who is appointed by the Governor with the advice and consent of the Senate. The Lottery net proceeds and proceeds from the in-lieu-of-sales tax on ticket sales are dedicated to the General Fund, the Environmental 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: Pick 3<sup>®</sup>, North 5<sup>®</sup>, Progressive Print-N-Play<sup>®</sup>, Gopher 5<sup>®</sup>, Powerball<sup>®</sup>, Powerball<sup>®</sup> Power Play<sup>®</sup>, Mega Millions<sup>®</sup>, Mega Millions<sup>®</sup> Megaplier<sup>®</sup>, Lotto America<sup>®</sup>, Lotto America<sup>®</sup> All Star Bonus<sup>®</sup> and the Minnesota Millionaire Raffle<sup>®</sup> 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.

(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. With this measurement focus, all assets and all liabilities associated with the operations of the Lottery are included in the statements of net position. The proprietary fund type operating statement presents increases (revenues) and decreases (expenses) in total net position.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(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 Pick 3<sup>®</sup> is recorded based upon the actual winners on the date of the draw. Prize expense for Progressive Print-N-Play<sup>®</sup> games are based on actual winners and are recorded at the time of sale. The prize expense for North 5<sup>®</sup> is recorded at 55 percent of draw sales. The prize expense for Gopher 5<sup>®</sup> is recorded at 54 percent of draw sales.

Included in the Lottery Prize Liability at June 30, 2023 is a prize reserve of \$1,195,726, 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(g) Prizes and reserves (continued)

Prize expenses for Powerball®, Powerball® Power Play®, Lotto America®, Lotto America® All Star Bonus® are recorded at 50 percent of draw sales. Mega Millions® and Mega Millions® Megaplier® are recorded at 50 percent of draw sales. All Multi-State Lottery Association (MUSL) games are recorded in accordance with the MUSL prize structure. The Powerball®, Powerball® Power Play®, Mega Millions®, Mega Millions® Megaplier®, Lotto America® and Lotto America® All Star Bonus® prizes are paid with funds held by MUSL. MUSL has established separate prize pool reserves for Powerball®, Powerball® Power Play®, Mega Millions®, Mega Millions® Megaplier®, Lotto America®, Lotto America® All Star Bonus® 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, 2023 were as follows:

Powerball®/Power Play®	\$ 3,085,177
Mega Millions® Megaplier®	1,838,307
Lotto America®/All Star Bonus®	<u>1,658,947</u>
	<u>\$ 6,582,431</u>

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

The Lottery participates in joint marketing campaigns for various events in order to maximize its marketing dollar and the exposure to the Lottery. In doing so, other entities may donate various prizes which are given out or awarded by the Lottery to its players. The Lottery recognizes other income when the donated prize is received and records prize expense when the prize is awarded to the player. The Lottery didn’t receive any donated prizes in fiscal year 2023.

(h) Scratch ticket inventory

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) In-lieu-of-sales tax**

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

**(j) Income taxes**

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

**(k) Use of estimates in the preparation of financial statements**

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

**(l) Leases, subscriptions and right-to-use assets**

GASB 87 Accounting for Leases was adopted by the Lottery as of July 1, 2021. The Lottery leases the property for its headquarters, regional offices and office equipment. Operating leases are included in operating lease right-to-use assets, current portion of operating lease liabilities, and operating lease liabilities on its statement of net position. Right-to-use assets and operating lease liabilities are recognized on the present value of lease payments over the lease term at the commencement date. Because most leases do not provide an implicit rate of return, the Lottery uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Leases, subscriptions and right-to-use assets (continued)**

Lease terms for the Lottery generally range from 5-10 years with one or more one to five-year renewal options. The Lottery elected the short-term lease exemption for certain qualifying leases with lease terms of twelve months or less and, accordingly, did not record right-to-use assets and lease liabilities. These leases with initial terms of less than 12 months are recorded directly to occupancy expense on a straight-line basis over the term of the lease. Rent expense is recognized on a straight-line basis for operating leases over the lease term.

GASB No. 96 Subscription Based Information Technology Arrangements was adopted by the Lottery as of July 1, 2022. The Lottery entered into a long-term lease arrangement with International Gaming Technology (IGT) to facilitate the IPS system for selling and tracking the scratch ticket process. The agreement for the Instant Processing System (IPS) was entered in April 10, 2015 which extends through November 2026 after the Lottery has exercised multiple extensions. The Lottery has recorded the remaining usage as right-to-use asset and right-to-use liability, respectively. There was no effect on net position related to the adoption of the Standard as of July 1, 2022.

**(m) Pensions**

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

**(n) Postemployment benefit plans**

GASB No. 75 was first applicable for the Lottery as of June 30, 2018. The information provided herein was determined as of June 30, 2022 ("Measurement Date") to be used for the June 30, 2023 reporting date. The Total OPEB Liability, Net OPEB Liability (Total OPEB Liability minus Fiduciary Net Position) and OPEB expense and certain sensitivity information are based on actuarial valuations performed as of June 30, 2021 with additional adjustments to some economic and demographic assumptions.

The majority of the State of Minnesota employees are participants in the Minnesota State Retirement System (MSRS), or the Minnesota Public Employees' Retirement System (PERA). For this reason, the mortality, withdrawal and retirement assumptions are based on the assumptions used for the respective plans' Actuarial Valuation Reports as of June 30, 2020. The assumptions related to trend rate and per capita claim costs are developed based on the State of Minnesota plan experience.



**3. CASH AND CASH EQUIVALENTS**

Minnesota Statutes, Section 349A.10, subdivision 7(a), requires the Lottery transfer all funds to a Lottery cash flow account in the State Treasury. Funds necessary to cover cash needs are transferred as needed from State Treasury to the Lottery fund. Funds in this account earn interest, which is credited monthly to the Lottery’s account. Cash on deposit in the State Treasury and with financial institutions is insured. Cash on deposit is covered up to \$250,000 per institution by the Federal Depository Insurance Corporation (FDIC). At times, cash balances may be in excess of the FDIC insurance limit. As a result, the financial institutions are required to pledge securities as collateral to the Lottery in an amount equal to the funds in excess of the FDIC insurance limit. The securities are held in the name of the Lottery. Cash on deposit in the State Treasury is secured by depository insurance or a combination of depository insurance and collateral securities. The following table summarizes the Lottery’s cash and cash equivalents at June 30, 2023:

Cash (checks issued but not yet presented for payment)	\$ (2,285,340)
Cash on deposit	<u>39,866,189</u>
Total cash and cash equivalents	<u>\$ 37,580,849</u>

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

**4. ACCOUNTS RECEIVABLE – ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The following table summarizes the Lottery’s accounts receivable at June 30, 2023:

Accounts receivable	\$ 8,615,599
Allowance for doubtful accounts	<u>(154,248)</u>
Accounts receivable, net	<u>\$ 8,461,351</u>

## 5. CAPITAL ASSETS AND RIGHT-TO-USE ASSETS

Summary of changes in capital assets and right-to-use assets for the years ended June 30, 2023 are as follows:

	<u>July 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30</u>
Depreciable capital assets:					
Office equipment and furniture	\$ 4,234,770	\$ -	\$ (33,485)		\$ 4,201,285
Software costs	1,226,278	-	-		1,226,278
Leasehold improvements	1,820,253	-	(61,000)		1,759,253
Vehicles	1,395,095	100,817	(91,528)		1,404,384
Computer equipment	2,268,973	97,350	-		2,366,323
Warehouse equipment	250,750	-	-		250,750
Capital assets not yet in service	-	395,500	-		395,500
Total	<u>11,196,119</u>	<u>593,667</u>	<u>(186,013)</u>		<u>11,603,773</u>
Less accumulated depreciation:					
Office equipment and furniture	(4,107,049)	(68,148)	33,485		(4,141,712)
Software costs	(1,226,278)	-	-		(1,226,278)
Leasehold improvements	(1,672,515)	(80,775)	61,000		(1,692,290)
Vehicles	(1,008,908)	(189,048)	83,880		(1,114,076)
Computer equipment	(2,209,052)	(59,843)	-		(2,268,895)
Warehouse equipment	(240,601)	(2,968)	-		(243,569)
Total accumulated depreciation	<u>(10,464,403)</u>	<u>(400,782)</u>	<u>178,365</u>		<u>(10,686,820)</u>
Net capital assets	<u>\$ 731,716</u>	<u>\$ 192,885</u>	<u>\$ (7,648)</u>		<u>\$ 916,953</u>
Right-to-use assets amortized:					
Buildings	\$ 4,798,790	\$ 1,119,615	\$ (798,606)		\$ 5,119,799
Software	3,309,575	1,673,598	-		4,983,173
Total right-to-use assets amortized	<u>8,108,365</u>	<u>2,793,213</u>	<u>(798,606)</u>		<u>10,102,972</u>
Accumulated amortization for:					
Buildings	(3,298,055)	(1,736,107)	798,066		(4,235,556)
Software	(1,380,816)	(1,380,816)	-		(2,761,632)
Total accumulated amortization	<u>(4,678,871)</u>	<u>(3,116,923)</u>	<u>798,606</u>		<u>(6,997,188)</u>
Total right-to-use assets amortized, net	<u>\$ 3,429,494</u>	<u>\$ (323,710)</u>	<u>\$ -</u>		<u>\$ 3,105,784</u>
Capital and right-to-use assets, net	<u>\$ 4,161,210</u>	<u>\$ (130,825)</u>	<u>\$ (7,648)</u>		<u>\$ 4,022,737</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 \$13,723,549 on June 30, 2023.

**7. ACCRUED SALARIES AND BENEFITS PAYABLE**

A liability is recognized for accrued salaries, net OPEB liability, 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 are as follows:

Current accrued salary and benefits payable:	
Salaries payable	\$ 474,966
Compensated absences	<u>1,162,978</u>
Total current accrued salaries and benefits payable	<u>\$ 1,637,944</u>
Non-current benefits payable:	
Compensated absences	\$ 669,022
Net OPEB liability	<u>1,098,000</u>
Total non-current accrued benefits payable	<u>\$ 1,767,022</u>

**Compensated Absences Payable:**

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
2023	\$ 1,749,000	\$ 1,558,000	\$ (1,475,000)	\$ 1,832,000

**8. NET POSITION**

Within 30 days after the end of each month, the Lottery is required by Minnesota Statutes, Section 349A.10, and subdivision 5 to deposit the net proceeds in the State Treasury. Net Proceeds Due to State on the accompanying statement of net position for the month ended June 30, 2023 was \$7,367,358. Net investment in capital assets, which is capital assets net of accumulated depreciation plus right-to-use assets minus right-to-use liabilities, for the year ended June 30, 2023 was \$916,953.

The ending net position of the Minnesota State Lottery of \$(3.1) million at June 30, 2023 relates solely to accounting for GASB Statement No. 68 and 75.

**9. LEASE AND SUBSCRIPTION LIABILITY**

The Lottery leases the property for its headquarters and regional offices under non-cancelable right-to-use leases with remaining minimum terms ranging from one to two years. The Lottery has \$1,736,107 of amortization expense related to the property leases. The Lottery also uses a vendor’s software system to facilitate its scratch ticket processing. The Lottery has \$1,380,816 of amortization expense related to the software subscription. The Lottery also pays the same software vendor a variable amount based on the percentage of Lotto Sales at 5.4565%. The amount paid for the year ended June 30, 2023 related to the variable amount was \$13,185,619.

Future maturities of lease and subscription liabilities, as of June 30, 2023, are as follows:

**Long-Term Liabilities  
Year Ended June 30, 2023**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>	<u>Amounts due within one year</u>
Lease liability, buildings	\$ 582,503	\$ 834,031	\$ (532,292)	\$ 884,242	\$ 532,292
Subscription liability, software	<u>1,444,220</u>	<u>1,673,598</u>	<u>(896,276)</u>	<u>2,221,542</u>	<u>896,276</u>
	<u>\$ 2,026,723</u>	<u>\$ 2,507,629</u>	<u>\$ (1,428,568)</u>	<u>\$ 3,105,784</u>	<u>\$ 1,428,568</u>

**Future Principal and Interest Payments  
June 30, 2023**

	<u>Lease liability, buildings</u>		<u>Subscription liability, software</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 532,292	\$ 26,636	\$ 896,276	\$ 44,814	\$ 1,428,568	\$ 71,450
2025	189,004	19,373	568,708	58,292	757,712	77,665
2026	162,947	25,684	541,626	85,374	704,573	111,058
2027	-	-	<u>214,931</u>	<u>46,319</u>	<u>214,931</u>	<u>46,319</u>
Total	<u>\$ 884,243</u>	<u>\$ 71,693</u>	<u>\$ 2,221,541</u>	<u>\$ 234,799</u>	<u>\$ 3,105,784</u>	<u>\$ 306,492</u>

**10. COMMITMENTS AND CONTINGENCIES**

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, 2023 are as follows:

<u>Coverage</u>	<u>Limits</u>	<u>Deductible</u>
Property	\$ 9,698,932	\$ 1,000
Auto:		
Bodily injury & property damage	\$ 500,000/\$1,500,000	\$ 1,000
Primary crime:		
Employee dishonesty, money & securities	\$ 50,000	\$ 1,000
General liability	\$ 500,000/\$1,500,000	None
Excess crime:		
Employee theft	\$ 2,000,000	\$ 50,000
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	\$ 2,000,000	\$ 50,000
Funds transfer	\$ 2,000,000	\$ 50,000
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 \$87,119 in fiscal year 2023.

As of June 30, 2023, the Lottery has purchased twenty-six 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.

**MINNESOTA STATE LOTTERY**

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**11. 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 2017, Chapter 6, Article 18, section 2, subdivision 2 appropriated \$1,896,000 for fiscal year 2023 from the Lottery Prize Fund of the Department of Human Services for statewide compulsive gambling treatment programs. The Department of Human Services utilized \$1,459,580 in 2023 for compulsive gambling programs of the allowable appropriated amount of \$2,236,000 for each year. The programs' services are designed to increase public awareness of the problems gamblers and their families face, and research relating to problem gambling.

**12. RETAILER COMMISSIONS AND INCENTIVES**

Retailer commissions are set by Minnesota Rule 7856.4030, subpart 1 as 5.5% of the price of each lottery ticket sold, 6% of the price of each scratch tick sold and 1.5% of the amount of each winning lottery ticket cashed by a retailer. Lottery retailers were paid \$51,901,460 in 2023.

**13. 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 6, states operating expenses shall not include expenses related solely to the noncash year-end adjustment required for government agencies to adjust the net actuarially determined pension liability and post-employment benefit obligations which includes deferred inflow, deferred outflows, noncash pension expense, unrestricted net deficit, and net pension liability, in accordance with Statements 68 and 75 of the Governmental Accounting Standards Board. Minnesota State Lottery Operating expenses excluding non-cash end-of-year pension and post-employment adjustments for fiscal year 2023 was \$30,454,563.

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 costs must not exceed \$36,500,000 in fiscal year 2023.

The Lottery is in compliance with the statutory limits on advertising and operating costs. Advertising costs as a percentage of gross revenue were 1.0 percent for fiscal year 2023. Operating costs as a percentage of gross revenue were 4.1 percent in fiscal year 2023.

**14. RETIREMENT PLANS****(a) Plan description**

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

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

**(b) Benefits provided**

MSRS provides retirement, disability, and death benefits through the State Employees Retirement Fund. Benefit provisions are established by State statute and can only be modified by the State legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided at 1.0% through December 31, 2023 and 1.5% thereafter. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors).

For employees hired prior to July 1, 1989 retirement benefits is the greater of: (a) 1.20% of Average Salary for each of the first ten years of Allowable Service and 1.70% of Average Salary for each subsequent year with reduction of .25% for each month the member is under age 65 at time of retirement or under age 62 if 30 or more years of Allowable Service. No reduction if age plus years of Allowable Service totals 90. (b) 1.70% of Average salary for each year of Allowable Service assuming augmentation to age 65 at 3.00% per year and actuarial reduction for each month the member is under age 65. Augmentation adjustment is phased out over a five-year period starting July 1, 2019, resulting in no augmentation after June 30, 2024. For employees hired after June 30, 1989 retirement benefits are 1.70% of Average Salary for each year of Allowable Service assuming augmentation to the age eligible for full Social Security retirement (but not higher than age 66) at 3.00% (2.50% if hired after June 30, 2006) per year and actuarial reduction for each month the member is under the normal retirement age. Augmentation adjustment is phased out over a five-year period starting July 1, 2019, resulting in no augmentation adjustment after June 30, 2024.

**14. RETIREMENT PLANS (CONTINUED)**

(c) Contributions

Minnesota Statutes Chapter 352.04 sets the rates for employer and employee contributions. Eligible General Plan members were required to contribute 6.00% of their annual covered salary and participating employers were required to contribute 6.25% of their annual covered salary for June 30, 2023. The Lottery's contributions to MSRS for the year ended June 30, 2023 were as follows:

Classified Plan	<u>2023</u>	<u>2022</u>
MSRS	<u>\$ 657,000</u>	<u>\$ 664,000</u>
Unclassified Plan		
MSRS	<u>\$ 33,503</u>	<u>\$ 31,610</u>

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

(d) Actuarial assumptions

The Minnesota State Lottery's net pension liability was measured as of June 30, 2022. Actuarial assumptions used in the June 30, 2022 valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent per year
Active Member Payroll Growth	3.00 percent per year
Investment Rate of Return	6.75 percent

Salary increases were based on a service-related table. Mortality rates for active members, survivors, and debilitants were based on Pub-2010 General Employee Mortality table for the General Employees Plan. Cost of living benefits increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

The resulting single discount rate as of June 30, 2022 is 6.75%.



**14. RETIREMENT PLANS (CONTINUED)**

The long-term expected rate of return on pension plan investments was determined using a building-block method. Estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectation from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio. For each major asset class that is included in the pension fund’s target asset allocation as of June 30, 2023, these best estimates are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>SBI’s Long-Term Expected Real Rate of Return (Geometric Mean)</b>
Domestic Stocks	33.5%	5.10%
International Stocks	16.5%	5.30%
Bonds	20.0%	0.75%
Alternative Assets	25.0%	5.90%
Cash	5.0%	0.00%

(e) Discount rate

A Single Discount Rate of 6.75% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 6.75%.

The projection of cash flow used to determine this Single Discount Rate assumed that employee and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(f) Pension liability sensitivity

The following presents the Lottery’s proportionate share of the net pension liability for the general employees plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Lottery’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate.

<b>With 1% Decrease</b>		<b>Current Discount Rate</b>		<b>With 1% Increase</b>	
Rate	Net Pension Liability	Rate	Net Pension Liability	Rate	Net Pension Liability/(Asset)
5.75%	\$11,226,854	6.75%	\$4,784,000	7.75%	\$(545,794)

**14. RETIREMENT PLANS (CONTINUED)**

(g) Net Pension Liability

At June 30, 2023, the Minnesota State Lottery reported a liability of \$4,784,000 for its proportionate share of MSRS’ net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Minnesota State Lottery’s proportion of the net pension liability was based on the Minnesota State Lottery’s contributions received by MSRS during the measurement period July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of MSRS’s participating employers. At June 30, 2022, the Minnesota State Lottery’s proportion was 0.29112 percent.

(h) Pension plan fiduciary net position

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

(i) Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended June 30, 2022 the Minnesota State Lottery recognized a pension adjustment of \$3,004,000. This adjustment is reflected in salaries and benefits expense which decreased Lottery operating expense in fiscal year 2022. This amount is not subject to the State’s statutory operating expense maximum of \$36.5 million.

At June 30, 2023, the Minnesota State Lottery reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$37,000	\$31,000
Changes of assumptions	\$3,275,000	\$1,739,000
Net difference between projected and actual earnings on investments	\$228,000	\$-0-
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$166,000	\$9,000
Contributions paid to MSRS subsequent to the measurement date	\$657,000	\$-0-
<b>Total</b>	<b>\$4,363,000</b>	<b>\$1,779,000</b>

**14. RETIREMENT PLANS (CONTINUED)**

Amounts reported as deferred outflows of resources related to pensions resulting from Minnesota State Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

(i) Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

Deferred outflows of resources of \$657,000 resulting from payments subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30</u>	<u>Pension expense (income) amount</u>
2024	\$ 342,000
2025	297,000
2026	320,000
2027	968,000
2028	0

**15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

(a) Plan description

The State of Minnesota provides post-retirement medical coverage to retired participants and their spouses as allowed by Minnesota Statute §43A.27 subdivision 3 and §471.61 subdivision 2a and as required under the terms of selected employment contracts. The MN state’s OPEB plan operates on a pay-as-you-go basis and the state is the only participating employer in the plan. The plan is classified as a Non-Trust Single Employer Defined Benefit Plan in GASB 75 and as allowed by MN statutes 43A.27, Subdivision 3, and MN Statutes 471.61, Subdivision 2A.

(b) Benefits provided

Plan participants are covered by the Minnesota Advantage Health Plan. The monthly costs for the plan as of July 1, 2022 are as follows:

Single	\$	770.04
Family	\$	1,494.40

**15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)****(a) Benefits provided (continued)**

Coverage ends at the retiree's attainment of age 65 or Medicare eligibility.

Retirees not eligible for an explicit employer subsidy must pay 100% of the premiums listed in the "Medical Benefits" section above to continue receiving health coverage.

All pre-65 retirees are subsidized by contributions made for the active participants, resulting in an implicit "hidden" subsidy that is reflected in the valuation for those eligible and not eligible for an explicit employer subsidy.

If the employee retires prior to age 55 the employer contribution is frozen at retirement at a rate of 120 times the contribution in effect for active employees at that time divided by the number of months until the employee's 65th birthday. If the employee retires at age 55 or later the employer contribution will be consistent with the contributions for active employees each year (currently 100% of the single medical premium, 85% of the dependent medical premium, 90% of the single dental premium, 50% of the dependent dental premium).

**(b) Contributions**

Employer contributions for the year ended June 30, 2023 were \$57,000.

**(c) Actuarial assumptions**

The majority of the State of Minnesota employees are participants in the Minnesota State Retirement System (MSRS), Minnesota Teacher's Retirement Association (TRA), or the Minnesota Public Employees' Retirement System (PERA). For this reason, the aggregate payroll growth, individual salary increase, mortality, withdrawal, retirement, and age of spouse assumptions are based on the assumptions used for the respective plans' Actuarial Valuation Reports as of July 1, 2022.

The State of Minnesota elected to change its discount rate methodology to be consistent with the requirements of GASB 75 which became effective for the fiscal year ended June 30, 2018. Since the State's retiree health benefits are not funded by assets in a separate trust the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date, as prescribed by GASB No. 75. The State of Minnesota elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.

**15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

Effective with the July 1, 2022 actuarial valuation, the following assumption changes were made:

- The mortality assumption was updated to use the specific pension assumptions with the exception of the projected mortality improvement scale;
- The mortality, withdrawal, retirement, salary increase, and spouse age difference assumptions were updated to use the specific pension assumptions for MSRS, PERA, or TRA, as applicable;
- Annual medical and dental claims costs and premiums were updated based on recent experience;
- Discount rate was lowered from 2.16% to 3.54%
- Payroll growth rate remained the same at 3.00%
- Inflation rate remained the same at 2.25%

(d) Discount rate

A single discount rate of 3.54% was used to measure the Total OPEB Liability as of June 30, 2022. The single discount rate was based on a municipal bond rate of 3.54% (based on the 20-year Bond Buyer GO Index as of the end of June 2022). The State of Minnesota’s post-retirement medical plan will not be funded by assets in a separate trust. Therefore, the municipal bond rate was applied to all periods of the projected benefit payments to determine the Total OPEB Liability.

(e) OPEB Liability sensitivity

The following tables represent the Lottery’s proportionate share of the OPEB liability calculated using the corresponding discount rate and healthcare trend rate as well as what the Total OPEB liability would be if the rates were one percentage point higher or lower.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

With 1% Decrease		Current Discount Rate		With 1% Increase	
Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
2.54%	\$1,182,000	3.54%	\$1,098,000	4.54%	\$1,020,000

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Trend Rates**

With 1% Decrease		Current Discount Rate		With 1% Increase	
Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
2.70%	\$996,000	3.70%	\$1,098,000	4.70%	\$1,218,000

**15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

(g) Net OPEB liability

At June 30, 2023, the Minnesota State Lottery reported a net OPEB liability of \$1,098,000 for its proportionate share of MSRS’ net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Minnesota State Lottery’s proportion of the net pension liability was based on the Minnesota State Lottery’s contributions received by MSRS during the measurement period July 1, 2022.

(h) OPEB plan fiduciary net position

Detailed information about the OPEB plan fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website ([www.msrs.state.mn.us/financial-information](http://www.msrs.state.mn.us/financial-information)).

(i) OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended June 30, 2023 the Minnesota State Lottery recognized a OPEB adjustment of \$52,000. This adjustment is reflected in salaries and benefits expense which increase Lottery operating expense in fiscal year 2023. This amount is not subject to the State’s statutory operating expense maximum of \$36.5 million.

At June 30, 2023, the Minnesota State Lottery reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$65,000	\$84,000
Changes of assumptions	\$83,000	\$96,000
Net difference between projected and actual earnings on investments	\$0	\$0
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$0	\$0
Contributions paid to MSRS subsequent to the measurement date	\$62,000	\$-0-
<b>Total</b>	<b>\$210,000</b>	<b>\$180,000</b>

**15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

Deferred outflows of resources of \$62,000 resulting from payments subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>OPEB expense amount</u>
2024	\$ (16,000)
2025	(11,000)
2026	-
2027	3,000
2028	(3,000)
Thereafter	(5,000)

**16. LEASE DEFERRED INFLOW AND LEASE RECEIVABLE**

The Lottery implemented GASB Statement No. 87 “Leases” in fiscal year 2022. Under this statement, a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Lottery has entered into a lease arrangement where the Lottery is the lessor in the lease agreement for building space. This lease term will be renegotiated in the upcoming year. What is shown is the lessees remaining obligation to the Lottery. The lease receivable was calculated based on the interest rate obtained from the bank which the Lottery could borrow funds for.

**Deferred Outflows and Inflows of Resources  
Year Ended June 30, 2023**

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Lease	\$ -	\$ 21,658
Pension	\$ 4,525,000	\$ 1,779,000
OPEB	<u>48,000</u>	<u>180,000</u>
Total	<u>\$ 4,573,000</u>	<u>\$ 1,980,658</u>

**Leases Receivable and Revenue  
Year Ended June 30, 2023**

<u>Component Unit</u>	<u>Lease Receivable</u>	<u>Lease Revenue</u>
Gaming Vendor	\$ 10,829	\$ 136,448

**17. CHANGE IN ACCOUNTING PRINCIPLE**

During fiscal year 2023, the Lottery implemented GASB Statement No. 96 “Subscription Based Information Technology Arrangements” (SBITA) which established criteria for identifying right-to-use software assets and liabilities for use of International Gaming Technology (IGT) software. Under this Statement, a lessee recognizes a subscription liability and a right-to-use asset. This resulted in a change in accounting principle with no impact in net position. The right-to-use asset and subscription liability were \$2.2 million respectively. For more information, see Note 5 – Capital Assets and Right-to-use assets and Note 9, lease and subscription liability.





**REQUIRED SUPPLEMENTARY  
INFORMATION**

**Schedules of Required Supplementary Information**

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

<u>Plan year</u>	<u>Employer's portion (percentage) of the net pension liability</u>	<u>Employer's proportionate share of the net pension liability (a)</u>	<u>Employer's covered payroll (b) (b)**</u>	<u>Employer's proportionate share of the net pension liability as a percentage of its covered payroll (a/b)</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2022	0.29112%	\$ 4,784,000	\$ 10,339,027	46.27%	76.67%
2021	0.31523%	257,000	10,588,027	2.43%	87.00%
2020	0.30877%	4,101,000	10,411,321	39.39%	91.25%
2019	0.31318%	4,406,000	10,218,235	43.12%	90.73%
2018	0.31095%	4,310,000	9,782,133	44.06%	90.56%
2017	0.32358%	24,003,000	9,746,217	246.28%	79.60%
2016	0.32116%	39,820,000	9,353,603	425.71%	47.51%
2015	0.32832%	5,054,000	9,336,162	54.13%	88.32%
2014	0.32380%	5,250,000	8,951,059	58.65%	87.64%

**Schedule of the Minnesota State Lottery's Contributions  
State Employee Retirement Fund**

<u>Fiscal year</u>	<u>Contractually required employer contributions</u>	<u>Actual employer contributions made</u>	<u>Contribution deficiency</u>	<u>Minnesota State Lottery covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2023	\$ 623,309	\$ 623,309	\$ 0	\$ 10,681,746	5.84%
2022	614,758	614,758	0	10,339,027	5.940%
2021	644,361	644,361	0	10,588,027	6.086%
2020	637,718	637,718	0	10,411,321	6.125%
2019	568,990	568,990	0	10,218,235	5.557%
2018	535,953	535,953	0	9,782,132	5.480%
2017	505,072	505,072	0	9,746,218	5.182%
2016	517,686	517,686	0	9,353,603	5.535%
2015	526,388	526,388	0	9,336,163	5.638%

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

\*\*For purposes of this schedule, covered payroll is defined pensionable wages.

**Notes to Pension Required Supplementary Information  
General Employees Fund**

**2022 Changes**

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 6.50% to 6.75%.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020/

## Schedule of Required Supplementary Information

### Schedule of Changes in the Minnesota State Lottery's Total OPEB Liability and Related Ratios

Total OPEB liability	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ 74,000	\$ 69,000	\$ 67,000	\$ 74,000	\$ 80,000	\$ 82,000
Interest	(20,000)	3,000	33,000	39,000	39,000	30,000
Changes on benefit terms	(15,000)	1,000	22,000	18,000	26,000	(7,000)
Difference between expected and actual experience	162,000	31,000	(42,000)	(60,000)	-	-
Changes of assumptions or other inputs	(96,000)	(20,000)	(28,000)	(39,000)	(50,000)	(46,000)
Benefit payments	<u>(57,000)</u>	<u>(36,000)</u>	<u>(44,000)</u>	<u>(62,000)</u>	<u>(59,000)</u>	<u>(51,000)</u>
Net change in total OPEB liability	48,000	48,000	8,000	(30,000)	36,000	8,000
Total OPEB liability, beginning	<u>1,050,000</u>	<u>1,002,000</u>	<u>994,000</u>	<u>1,024,000</u>	<u>988,000</u>	<u>980,000</u>
Total OPEB liability, ending	<u>\$ 1,098,000</u>	<u>\$ 1,050,000</u>	<u>\$ 1,002,000</u>	<u>\$ 994,000</u>	<u>\$ 1,024,000</u>	<u>\$ 988,000</u>
Covered-employee payroll	\$ 10,681,746	\$ 10,339,027	\$ 10,588,028	\$ 10,411,321	\$ 10,218,235	\$ 10,065,000
Total OPEB liability as a percentage of covered-employee payroll	10.3%	10.2%	9.46%	9.55%	10.0%	9.8%

This schedule is presented to illustrate the requirements to show information for 10 years, However, we are only showing six years since the state of Minnesota adopted recording the OPEB liability.

NOTE: The postretirement medical plan is not pre-funded by assets in a separate irrevocable trust.



## **STATISTICAL SECTION**

## MINNESOTA STATE LOTTERY STATISTICAL SECTION INTRODUCTION

This section of the Minnesota State Lottery's Annual Comprehensive Financial Report presents detailed information as a supplement to the information presented in the financial statements and is disclosed in the notes. The following is a summary of the information contained in this statistical section.

### **NET ASSETS**

The schedules on pages 55-56 present Schedule of Net Position and Changes in Net Position for fiscal year 2014 through the current year. Lottery statutes require that net proceeds are deposited in the State Treasury each month. Net Assets invested in capital assets consist of capital assets net of accumulated depreciation plus right-to-use assets less right-to-use liabilities. In fiscal year 2022, the Lottery adopted GASB Statement No. 87, *Accounting for Leases* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* in fiscal year 2023.

### **FINANCIAL DATA AND TRENDS**

These schedules contain financial information from inception (1990) to date. This information gives the reader an understanding of how the Lottery's financial performance has changed over the years. Trend and chart schedules can be found on pages 57-63 and include the following information:

- Revenue Distribution by game. Revenue includes sales, interest income, increases or decreases in fair market value of investments, unused compulsive gambling contribution and other income.
- Sales by Game.
- Expenses and Payments Distribution displayed in 2 separate charts.
  - Prizes represent the accrued expenses for scratch and lotto winners based on established prize structures.
  - Retailer Commission & Incentives: Retailer commissions are 6 percent of scratch sales and 5.5 percent of lotto sales, cashing commissions of 1.5 percent and retailer incentives vary.
  - Operating & Other Expenses which includes administrative expenses and direct costs such as lotto vendor and ticket expenses.
  - State General and Special Funds: Payments to the state include in-lieu-of sales tax, compulsive gambling contribution, unclaimed prizes and net proceeds.
- Full Time Employees.
- Capital Assets.
- Lease Liability.

### **DEMOGRAPHIC AND ECONOMIC INFORMATION**

These schedules can be found on pages 64-65 and contain Player Demographics and Minnesota Top Employers to help the reader understand the environment in which the Lottery operates.

### **OPERATING INFORMATION**

The schedule on page 66 contains information about the Lottery's structure and financial performance indicators compared to other state lotteries. Additional operating information can be found on pages 60-62; these schedules include information about operational expenses and trends.

**MINNESOTA STATE LOTTERY**  
**Schedule of Net Position and Changes in Net Position**  
**Fiscal Year Ending June 30 for the Years Shown**

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
<b>REVENUES</b>										
<b>Operating Revenues</b>										
Scratch Ticket Sales	\$ 351,912,194	\$ 376,195,747	\$ 394,761,644	\$ 398,311,141	\$ 411,165,885	\$ 435,268,778	\$ 519,348,731	\$ 615,569,031	\$ 561,636,704	\$ 545,670,840
Lotto Ticket Sales:										
Pick 3™	14,374,236	14,633,243	16,690,792	17,401,351	17,686,855	18,444,086	18,928,387	22,153,895	22,406,621	20,829,926
Gopher 5*	17,066,341	21,815,472	15,051,190	15,045,396	18,033,176	20,679,695	16,602,835	22,533,322	17,002,602	18,612,995
Powerball®	77,427,224	64,438,029	95,690,466	62,387,312	72,736,847	65,311,853	41,827,546	55,513,954	68,928,118	89,002,098
Powerball® Power Play®	2,485,438	2,195,749	2,800,853	2,373,937	2,653,052	2,646,918	2,157,398	2,839,036	3,875,694	4,809,386
Daily Millions®										
Hot Lotto®	11,499,441	12,813,117	8,642,473	9,938,710	5,678,088					
Hot Lotto® Sizzler	1,156,486	1,342,266	928,570	1,018,693	523,087					
Cash for Life™										
Rolldown™										
North 5™	10,040,866	9,510,151	10,096,816	9,249,570	10,338,153	8,857,293	9,705,109	10,480,827	9,700,106	10,726,284
Slots Plus										
Minnesota Millionaire Raffle	5,999,680	6,999,520	6,998,850	6,998,580	6,998,440	6,998,880	6,999,330	6,999,390	6,999,460	6,999,050
Mega Millions®	25,408,255	19,700,950	17,186,930	15,901,351	24,769,479	47,123,174	23,608,472	39,029,262	23,837,710	60,529,874
Mega Millions® Megaplier®	1,536,563	1,333,564	1,296,041	1,234,891	1,267,557	1,783,335	1,401,071	2,047,185	1,603,213	3,211,102
All or Nothing™	3,652,456	3,976,389	3,238,329	3,144,011						
Monopoly Millionaires' Club™		397,375								
Lucky for Life™		5,006,304	7,989,328	7,743,223	6,629,815	6,940,632	7,104,346	7,862,160		
Lotto America®					5,683,847	10,633,684	7,849,114	7,670,045	9,605,978	16,009,153
Lotto America® All Star Bonus®					616,120	1,126,562	934,244	1,021,076	1,345,669	2,278,671
Progressive Print-N-Play®	8,956,637	6,510,093	11,480,526	12,754,636	11,697,167	10,995,363	12,101,625	9,921,507	13,218,036	8,482,843
Total Lotto Ticket Sales	179,603,623	170,672,222	198,091,164	165,191,861	185,311,683	201,541,475	149,219,477	188,071,659	178,523,207	241,491,382
<b>Total Sales</b>	531,515,817	546,867,969	592,852,808	563,503,002	596,477,568	636,810,253	668,568,208	803,640,690	740,159,911	787,162,222
<b>Other Operating Revenues</b>										
Other Income	42,729	26,970	14,784	16,771	19,071	18,288	5,093	1,113	1,916	140,493
<b>Total Operating Revenues</b>	531,558,546	546,894,939	592,867,592	563,519,773	596,496,639	636,828,541	668,573,301	803,641,802	740,161,827	787,302,715
<b>Nonoperating Revenues</b>										
Interest Earned on Investments	157,106	168,997	253,532	390,486	439,504	709,518	670,071	184,388	181,462	1,851,121
Net Increase (Decrease) in the Fair Value of Investments	0	0	0	0	0	0	0	0	0	0
Unused Compulsive Gambling Contribution	0	0	0	0	0	0	0	0	0	0
<b>Total Nonoperating Revenues</b>	157,106	168,997	253,532	390,486	439,504	709,518	670,071	184,388	181,462	1,851,121
<b>Total Revenues</b>	531,715,652	547,063,936	593,121,124	563,910,259	596,936,142	637,538,059	669,243,372	803,826,190	740,343,289	789,153,837

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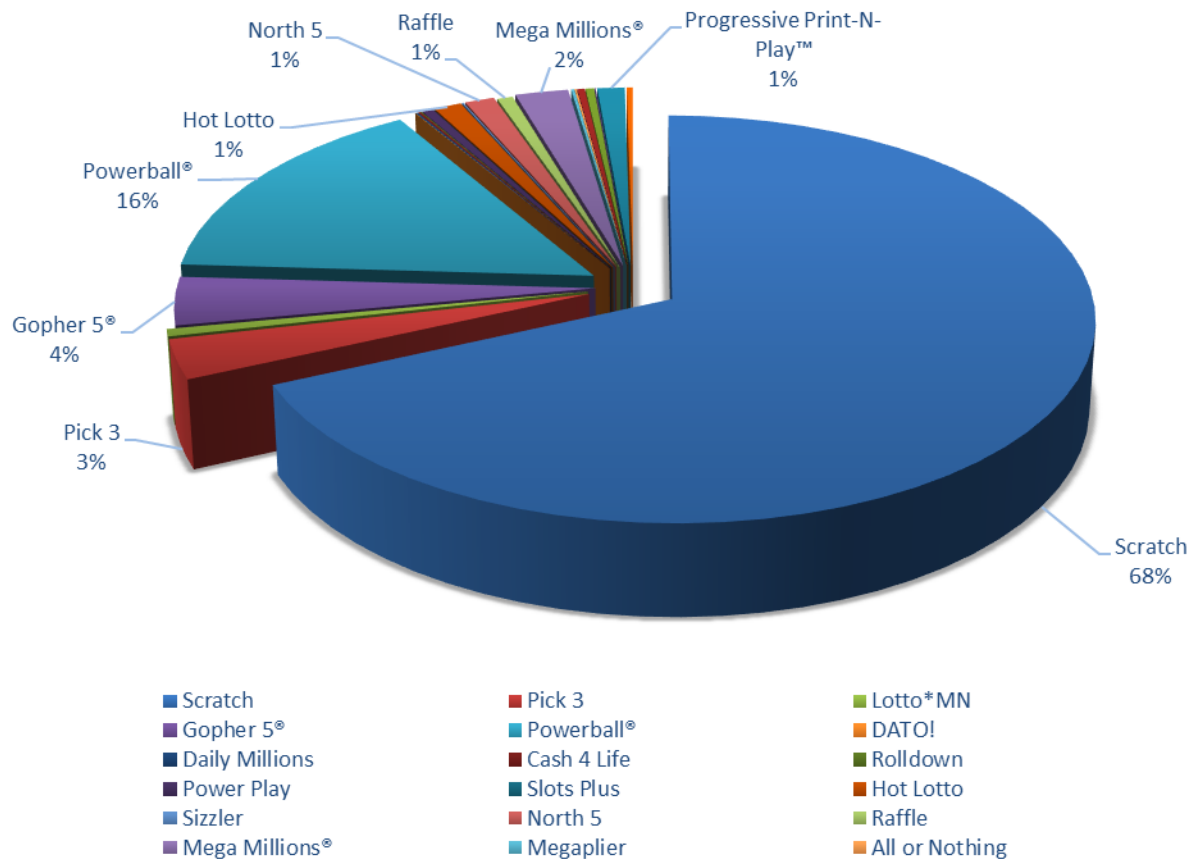
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
<b>OPERATING EXPENSES</b>										
<b>Direct Costs</b>										
Scratch Ticket Prizes	\$236,555,171	\$249,885,363	\$264,542,148	\$264,056,915	\$276,305,776	\$292,093,287	\$349,480,448	\$416,551,644	\$379,065,468	\$367,294,798
Lotto Ticket Prizes	91,637,479	85,313,450	101,358,068	84,325,743	94,318,730	103,498,719	74,158,058	97,121,245	90,707,672	120,703,501
Lotto Vendor Expenses	9,923,920	10,404,691	13,951,066	9,116,855	10,367,972	11,584,111	10,056,216	12,035,372	11,730,201	15,336,745
Ticket Costs	7,482,509	6,064,450	5,977,756	5,689,330	6,036,350	6,024,340	6,535,965	7,484,384	7,257,393	7,374,730
Retailer Commissions and Incentives	31,857,379	32,873,107	35,636,934	33,891,445	35,933,645	41,848,657	44,841,255	53,740,221	49,667,150	51,901,460
<b>Total Direct Costs</b>	377,256,458	384,541,061	421,465,972	397,080,288	422,962,491	455,049,115	485,071,942	586,933,167	538,427,884	562,611,234
<b>Administrative Expenses</b>	27,449,582	25,695,670	25,394,157	32,763,677	32,410,470	22,925,039	28,486,380	28,185,410	22,152,863	27,502,564
<b>Total Operating Expenses</b>	404,706,040	410,236,731	446,860,129	429,843,965	455,372,961	477,974,154	513,558,321	615,118,576	560,580,747	590,113,798
<b>NONOPERATING EXPENSES</b>										
<b>Payments to State:</b>										
In-Lieu-of-Sales Tax	34,548,528	35,546,418	38,535,433	36,627,696	38,771,042	41,392,666	43,456,934	52,236,645	48,110,394	51,165,544
Compulsive Gambling Contribution	1,188,372	1,922,954	1,617,462	1,774,794	1,803,623	1,774,544	1,752,021	1,606,471	1,519,142	1,459,580
Unclaimed Prizes	9,589,418	11,698,224	8,769,064	12,439,978	9,027,091	10,466,308	10,727,425	10,968,007	12,256,846	13,723,549
Net Proceeds	81,683,294	86,376,610	95,758,036	88,315,826	95,497,425	99,561,387	100,041,671	124,018,491	110,742,164	129,739,366
<b>Total Payments to State</b>	127,009,612	135,544,205	144,679,995	139,158,294	145,099,181	153,194,905	155,978,051	188,829,614	172,628,545	196,088,040
<b>Total Nonoperating Expenses</b>	127,009,612	135,544,205	144,679,995	139,158,294	145,099,181	153,194,905	155,978,051	188,829,614	172,628,545	196,088,040
<b>Total Expenses</b>	531,715,652	545,780,936	591,540,124	569,002,259	600,472,142	631,169,059	669,536,372	803,948,190	733,209,292	786,201,838
<b>CHANGES IN NET POSITION</b>	(\$0)	\$1,283,000	\$1,581,000	(\$5,092,000)	(\$3,536,000)	\$6,369,000	(\$293,000)	(\$122,000)	\$7,133,997	\$2,951,999

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
<b>NET POSITION</b>										
Net Investments in Capital Assets	\$1,354,219	\$1,207,356	\$1,285,402	\$1,376,418	\$1,393,029	\$1,256,310	\$1,168,419	\$1,122,333	\$731,716	\$916,953
Restricted	0	0	0	0	0	0	0	0	0	0
Unrestricted	(1,354,219)	(12,539,356)	(11,036,402)	(16,219,418)	(20,499,029)	(13,993,310)	(14,198,419)	(14,274,333)	(6,749,719)	(3,982,952)
<b>Total Net Position</b>	\$0	(\$11,332,000)	(\$9,751,000)	(\$14,843,000)	(\$19,106,000)	(\$12,737,000)	(\$13,030,000)	(\$13,152,000)	(\$6,018,003)	(\$3,065,999)
<b>NET POSITION AT BEGINNING OF YEAR</b>										
<b>NET POSITION AT END OF YEAR</b>										



# MINNESOTA STATE LOTTERY REVENUE DISTRIBUTION FISCAL YEARS 1990 (Inception) THROUGH 2023

**Total Revenues \$15.9 billion**



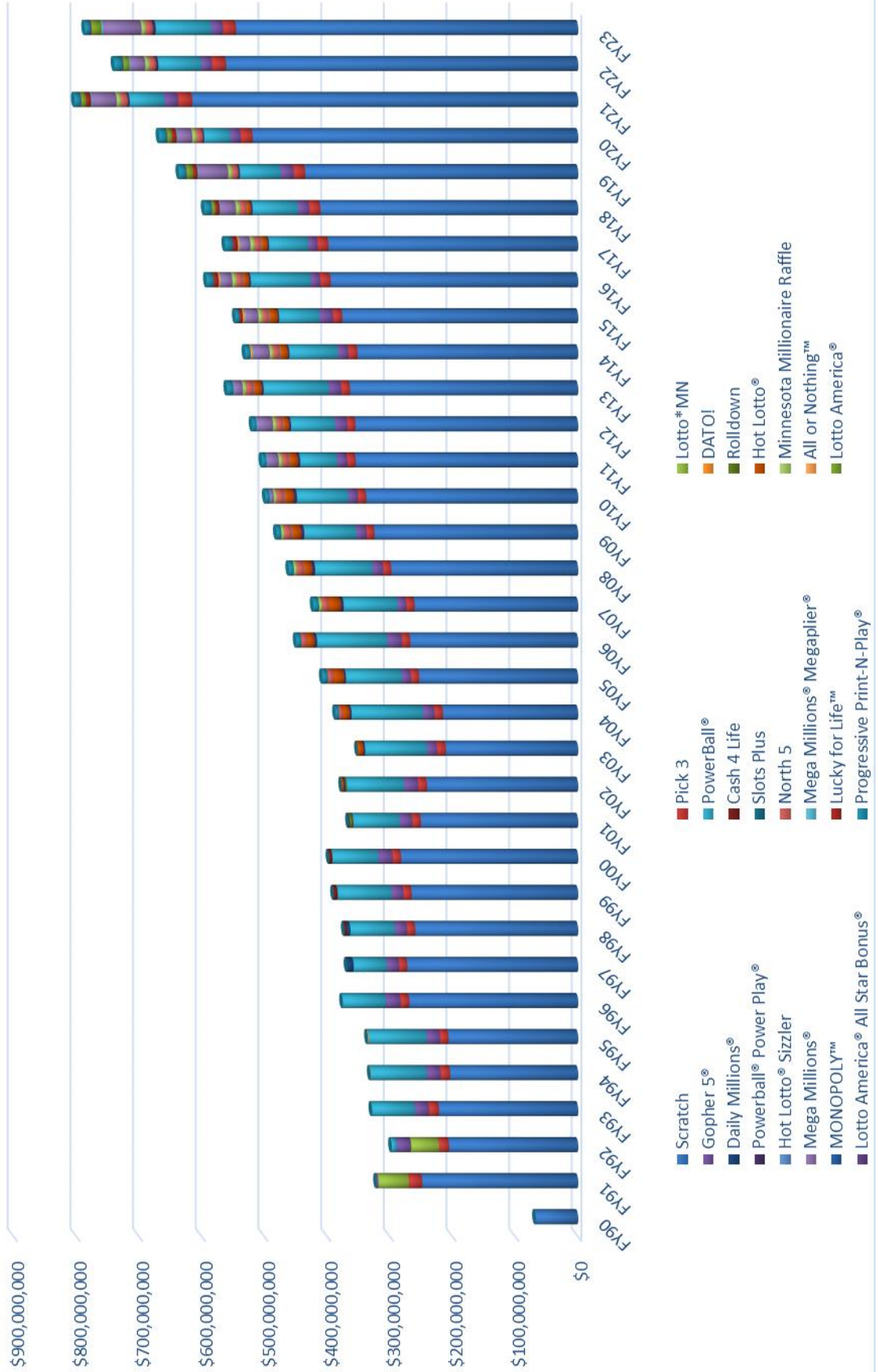
In Minnesota, lottery players prefer scratch games over lotto games two to one.

Scratch games sales are generated more from impulse buys versus lotto games sales, which are jackpot driven.

Scratch games have higher prize percentage versus lotto games. In fiscal year 2023, scratch game prizes were approximately 67.3 percent of scratch sales, lotto game prizes were 50 percent of lotto sales.

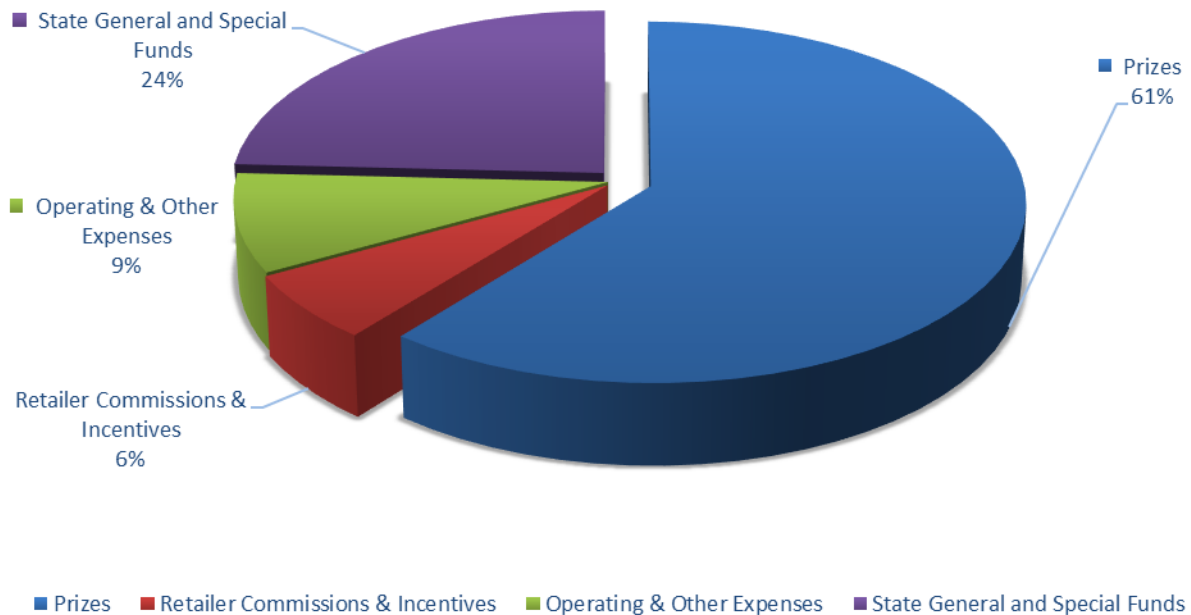
At the end of fiscal year 2023, there were 39 active scratch games, nine active Progressive Print-N-Play games and seven types of lotto games (Pick 3, Gopher 5, PowerBall/Power Play, North 5, Mega Millions/Megaplier and Lotto America/All Star Bonus).

# MINNESOTA STATE LOTTERY SALES BY GAME FISCAL YEARS 1990 (Inception) THROUGH 2023



## MINNESOTA STATE LOTTERY EXPENSES AND PAYMENTS DISTRIBUTION FISCAL YEARS 1990 (Inception) THROUGH 2023 (in billions)

**Total Expenses and Payments \$15.9 billion**



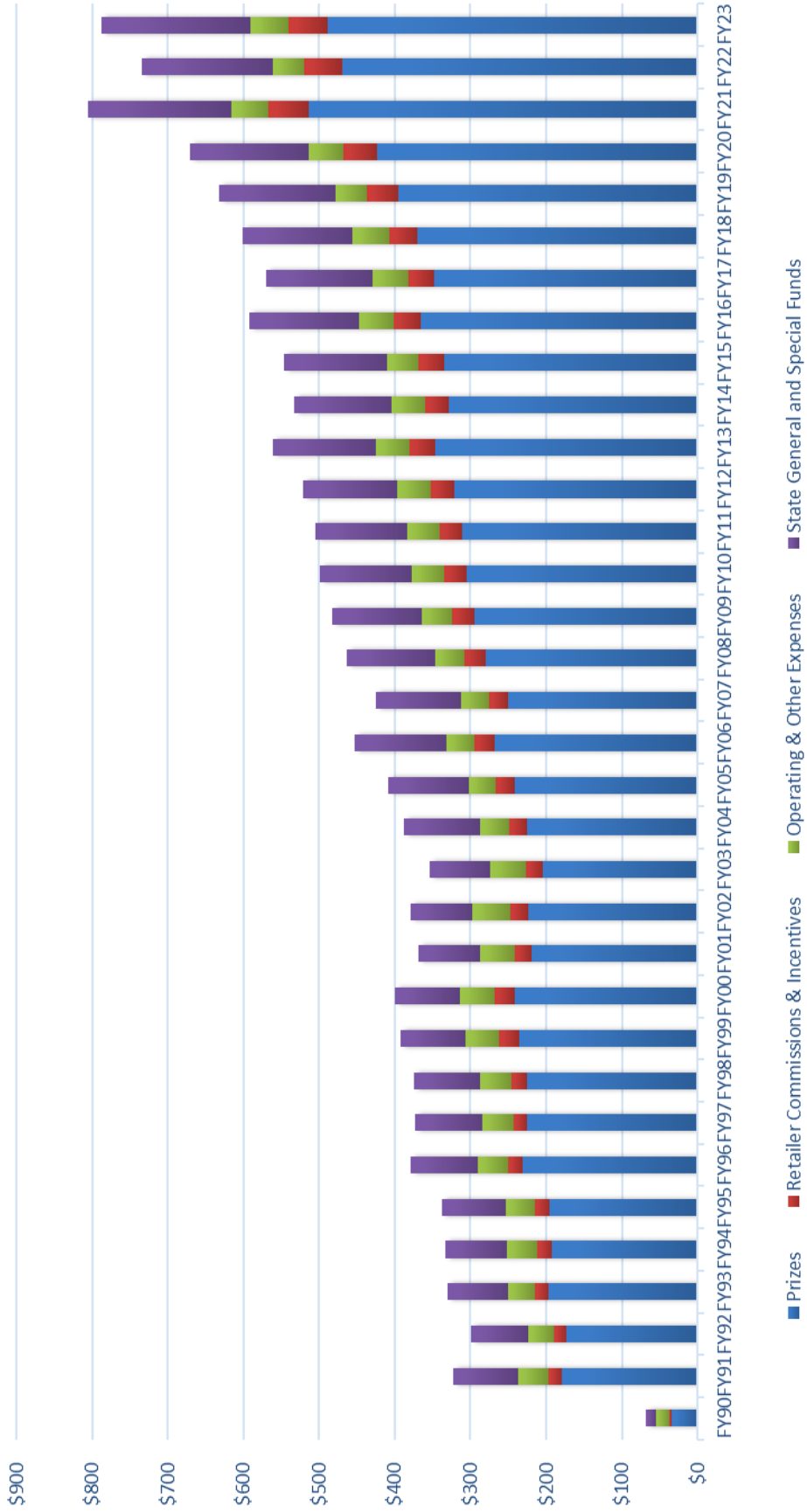
**Prizes:** Minnesota State Lottery statute states lotto prizes must be at least 45 percent of lotto games. Sales and scratch prizes must be at least 60 percent of scratch games sales. For fiscal year 2023, lotto prizes and scratch prizes were approximately 50 percent and 67.3 percent, respectively.

**State General & Special Funds:** The Minnesota State Lottery is required by state to transfer Net Proceeds (Net Profits), In-Lieu-of-Sales Tax and Unclaimed Prizes to the State's General and Special Funds. The Minnesota State Lottery is also required to transfer a specified amount to the state for Problem Gambling.

**Operating Expense:** By law, Minnesota State Lottery's operating expenses are restricted. In fiscal year 2023, operating expenses, excluding pension adjustments, were restricted to no more than 9 percent of Gross Revenue with a spending limit of \$36,500,000. Operating Expenses in fiscal year 2023 were \$30,454,563 or 4.1 percent of Gross Revenue, not including pension adjustments.

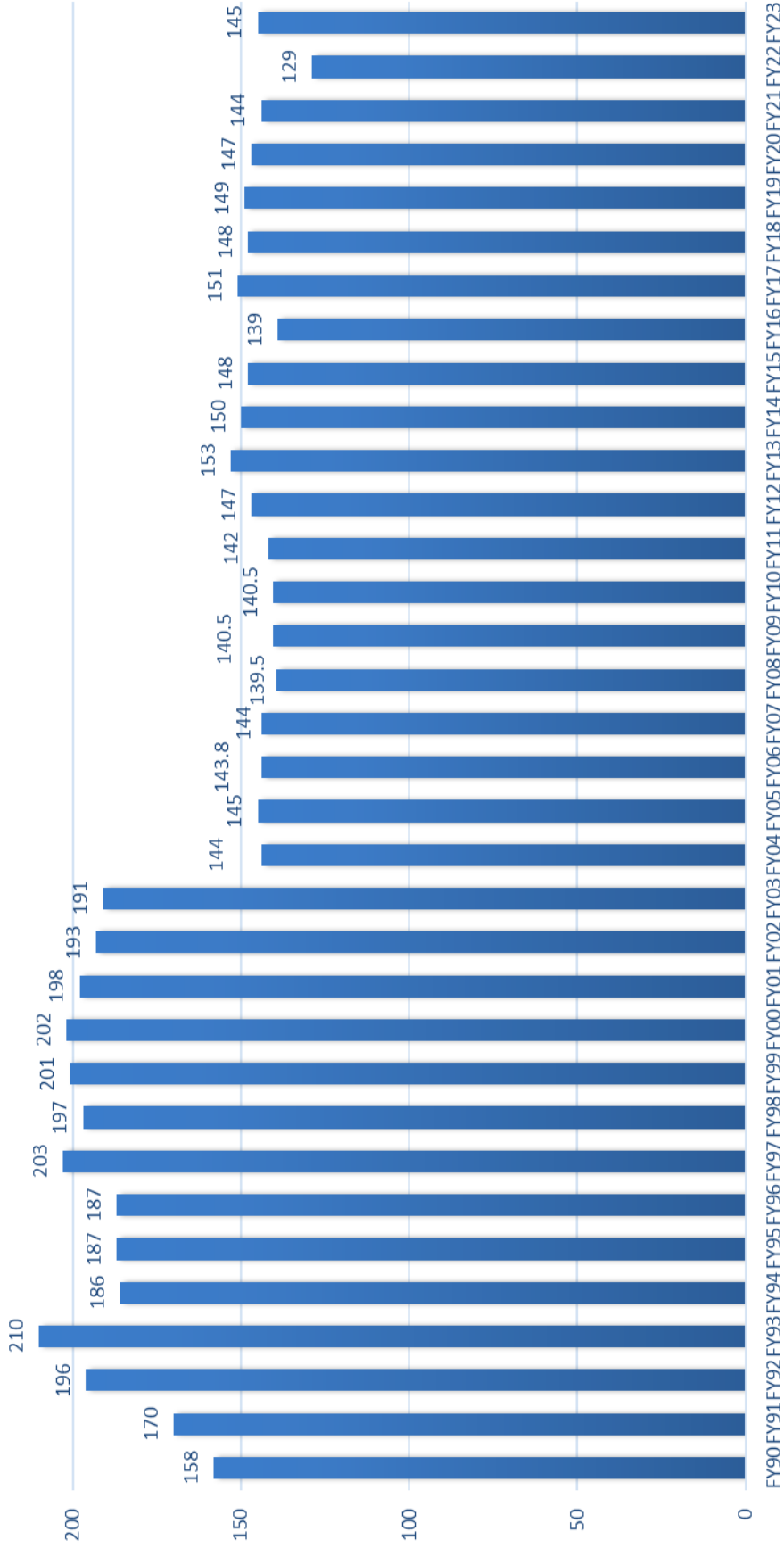
**Retailer Commissions & Incentives:** Retailers are paid commissions on sales and cashing of winning tickets. The director may also establish lottery retailer incentive programs. At the end of fiscal year 2023, retailers were paid scratch sales commissions of 6 percent and lotto sales commission of 5.5%, cashing commissions of 1.5 percent and earned incentives of \$313 thousand.

## MINNESOTA STATE LOTTERY EXPENSES AND PAYMENTS DISTRIBUTION FISCAL YEARS 1990 (Inception) THROUGH 2023



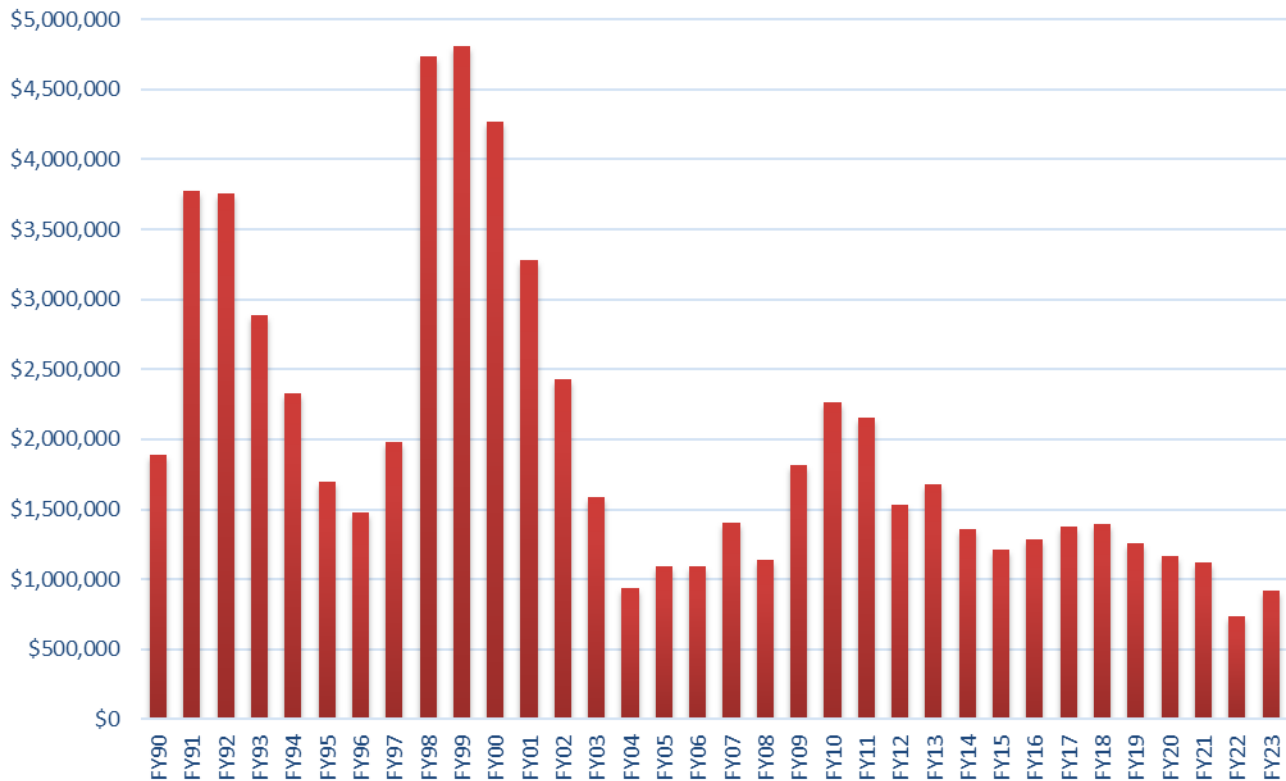
In FY04, the Minnesota State Lottery implemented cost cutting measures that decreased operating expenses resulting in increased payments to State General & Special Funds.

# MINNESOTA STATE LOTTERY FULL TIME EMPLOYEES FISCAL YEARS 1990 (Inception) THROUGH 2023



In FY04, the Minnesota State Lottery implemented cost cutting measures that included downsizing of employees.

## MINNESOTA STATE LOTTERY CAPITAL ASSETS FISCAL YEARS 1990 (Inception) THROUGH 2023



Capital Asset is defined as tangible asset owned and used by the Lottery that is relatively fixed or permanent in nature with an expected useful life of more than one year and costing equal to or greater than \$5,000. Before fiscal year 2004, cost threshold was equal to or greater than \$1,000.

Major capital increases in fiscal year 1991 included:

- \$1 million in computer equipment. This was mostly for back-up computer equipment which was purchased and installed off-site at the Eagan regional office.
- \$700,000 for office furniture. New furniture purchased to replace old used furniture borrowed from state.

Major capital increases in fiscal year 1998 included:

- \$2 million for Omnipoint Equipment. Purchase and installation of new retailer ticket terminals.
- \$700,000 for vehicles. Decision made to purchase fleet of vehicles vs. leasing.

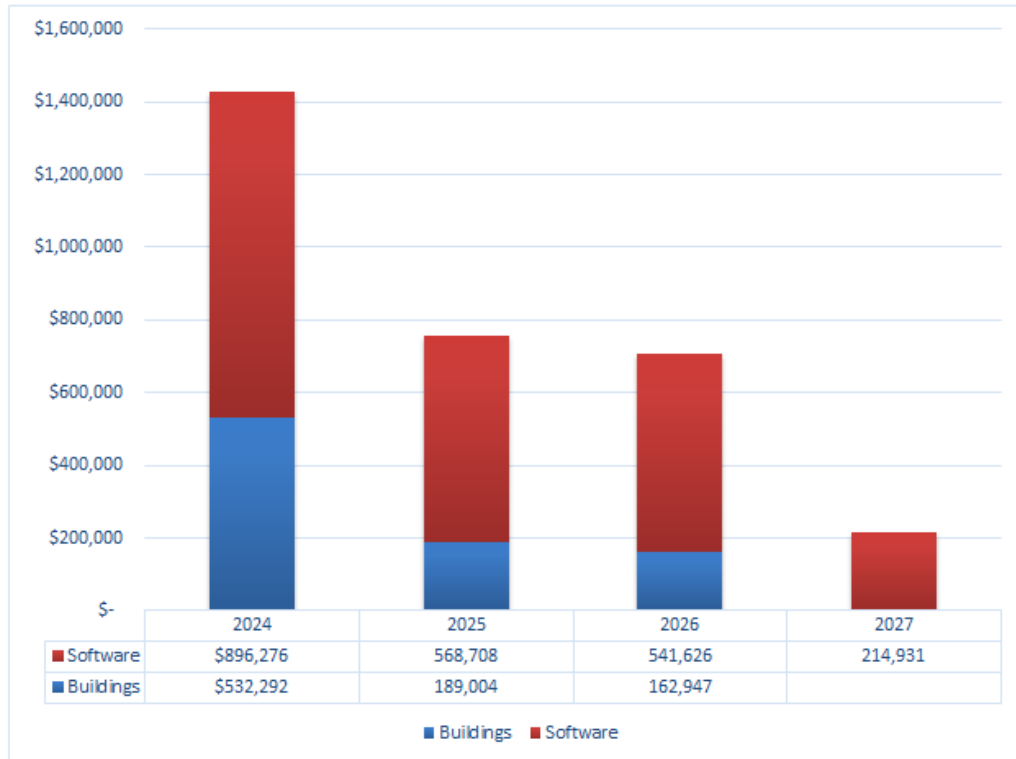
Major capital increases in fiscal year 2009 included:

- \$700,000 for Express Point Machines.

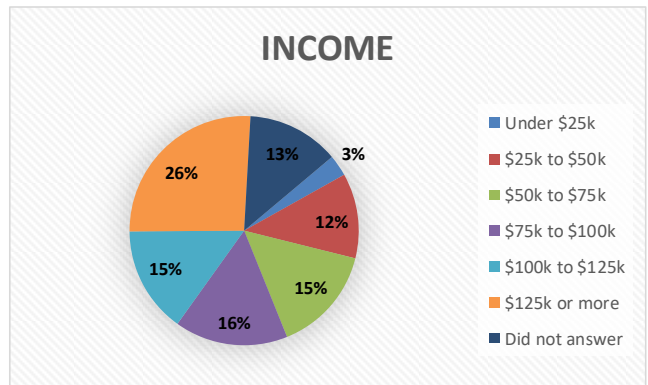
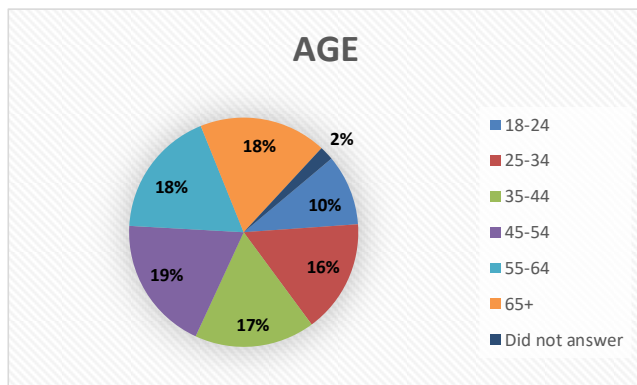
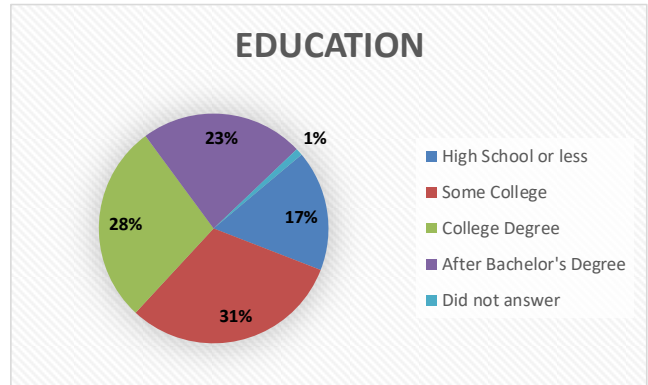
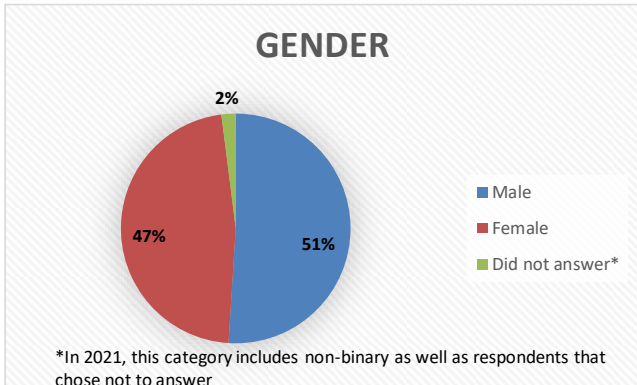
Major capital increases in fiscal year 2010 included:

- \$540,000 for Enterprise Accounting Package.

## MINNESOTA STATE LOTTERY TOTAL LEASE LIABILITY



# MINNESOTA STATE LOTTERY PLAYER DEMOGRAPHICS

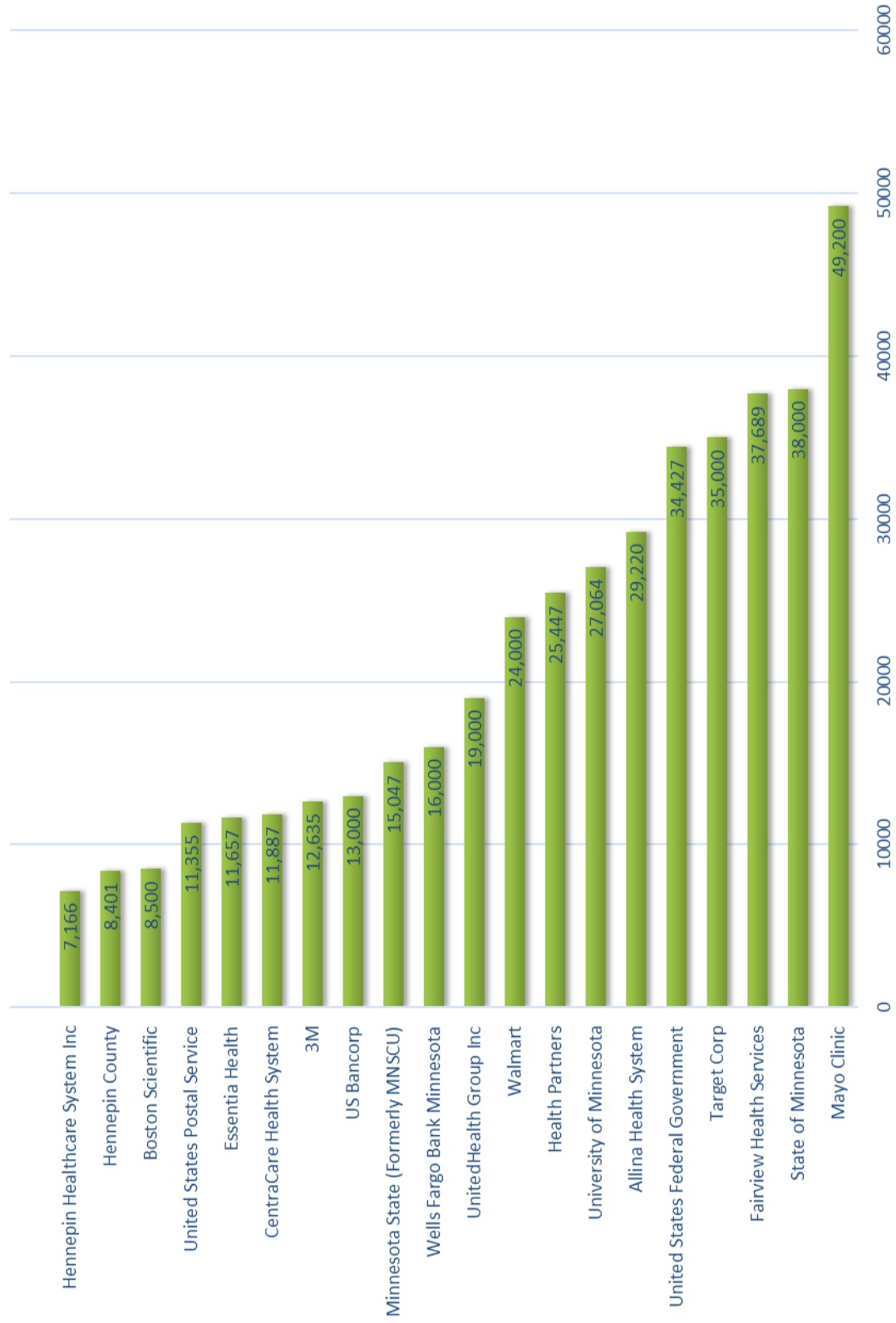


Player demographics have basically remained the same over the years.

Source: St. Cloud State University  
2021



## Minnesota Top Employers



Source: Minnesota Employment and Economic Development

## FY22 Consolidated U.S. Lottery Revenues, Prizes & Government Transfers by GDP\*

Lottery	2022 Pop. <sup>1</sup> (MIL)	2022 Gross Domestic Product <sup>2</sup> (MIL)	(In Millions)			PC		Consolidated Revenue as % of GDP	Govt Transfers as % of GDP	Prizes as % of Revenue	Govt Transfers as % of Revenue
			Consolidated Revenue <sup>3</sup> (MIL)	Prizes <sup>4</sup> (MIL)	Govt Transfers <sup>5</sup> (MIL)	Rev.	Govt				
Arizona	7.4	435,310	1,368.37	925.42	269.52	\$186	\$37	0.314%	0.062%	67.6%	19.7%
Arkansas	3.0	153,715	579.56	402.41	99.39	\$190	\$33	0.377%	0.065%	69.4%	17.1%
California <sup>6</sup>	39.0	3,568,888	8,853.25	5,825.67	2,020.88	\$227	\$52	0.248%	0.057%	65.8%	22.8%
Colorado	5.8	447,520	826.88	538.89	180.32	\$142	\$31	0.185%	0.040%	65.2%	21.8%
Connecticut	3.6	312,212	1,603.23	1,041.16	410.08	\$442	\$113	0.514%	0.131%	64.9%	25.6%
Delaware <sup>4,5</sup>	1.0	85,220	825.22	223.55	284.63	\$811	\$280	0.968%	0.334%		34.5%
D.C.	0.7	157,671	207.26	114.07	40.67	\$309	\$61	0.131%	0.026%	55.0%	19.6%
Florida	22.2	1,303,945	9,324.63	6,245.46	2,333.50	\$419	\$105	0.715%	0.179%	67.0%	25.0%
Georgia	10.9	725,984	5,421.14	3,585.30	1,474.00	\$497	\$135	0.747%	0.203%	66.1%	27.2%
Idaho	1.9	100,798	376.32	257.12	73.21	\$194	\$38	0.373%	0.073%	68.3%	19.5%
Illinois <sup>6</sup>	12.6	987,388	3,393.76	2,211.36	699.65	\$270	\$56	0.344%	0.071%	65.2%	20.6%
Indiana	6.8	447,236	1,702.86	1,138.52	346.81	\$249	\$51	0.381%	0.078%	66.9%	20.4%
Iowa	3.2	231,651	432.66	274.21	97.95	\$135	\$31	0.187%	0.042%	63.4%	22.6%
Kansas	2.9	202,279	713.96	191.47	187.38	\$243	\$64	0.353%	0.093%	26.8%	26.2%
Kentucky	4.5	249,047	1,676.50	1,152.01	359.33	\$372	\$80	0.673%	0.144%	68.7%	21.4%
Louisiana	4.6	271,519	582.93	328.42	191.20	\$127	\$42	0.215%	0.070%	56.3%	32.8%
Maine	1.4	80,455	385.80	262.40	72.09	\$279	\$52	0.480%	0.090%	68.0%	18.7%
Maryland <sup>4,5</sup>	6.2	458,827	4,712.16	1,689.11	1,527.11	\$764	\$248	1.027%	0.333%		32.4%
Massachusetts	7.0	673,789	5,855.59	4,311.15	1,105.44	\$839	\$158	0.869%	0.164%	73.6%	18.9%
Michigan	10.0	603,911	4,896.85	3,097.04	1,254.96	\$488	\$125	0.811%	0.208%	63.2%	25.6%
Minnesota	5.7	436,382	740.16	469.77	172.63	\$129	\$30	0.170%	0.040%	63.5%	23.3%
Mississippi	2.9	132,606	421.89	251.26	122.81	\$144	\$42	0.318%	0.093%	59.6%	29.1%
Missouri	6.2	379,232	1,779.95	1,264.39	386.44	\$288	\$63	0.469%	0.102%	71.0%	21.7%
Montana <sup>6</sup>	1.1	63,245	116.04	78.52	16.81	\$103	\$15	0.183%	0.027%	67.7%	14.5%
Nebraska	2.0	157,892	202.27	119.57	49.43	\$103	\$25	0.128%	0.031%	59.1%	24.4%
N. Hampshire	1.4	104,436	527.86	321.75	146.56	\$378	\$105	0.505%	0.140%	61.0%	27.8%
New Jersey	9.3	709,181	3,634.15	2,209.07	1,111.00	\$392	\$120	0.512%	0.157%	60.8%	30.6%
New Mexico	2.1	116,734	136.87	74.11	41.07	\$65	\$19	0.117%	0.035%	54.1%	30.0%
New York <sup>4,5</sup>	19.7	1,931,539	10,355.48	4,901.59	3,608.10	\$526	\$183	0.536%	0.187%		34.8%
N. Carolina	10.7	696,520	3,887.05	2,543.96	932.93	\$363	\$87	0.558%	0.134%	65.4%	24.0%
N. Dakota	0.8	68,449	29.18	15.36	6.72	\$37	\$9	0.043%	0.010%	52.6%	23.0%
Ohio <sup>4,5</sup>	11.8	777,870	5,628.99	2,791.67	1,405.36	\$479	\$120	0.724%	0.181%		25.0%
Oklahoma	4.0	223,333	350.34	226.71	79.34	\$87	\$20	0.157%	0.036%	64.7%	22.6%
Oregon <sup>4,5</sup>	4.2	268,864	1,675.35	257.17	910.50	\$395	\$215	0.623%	0.339%		54.3%
Pennsylvania	13.0	888,137	5,121.29	3,376.12	1,220.95	\$395	\$94	0.577%	0.137%	65.9%	23.8%
R. Island <sup>4,5</sup>	1.1	69,751	1,428.52	673.70	388.64	\$1306	\$355	2.048%	0.557%		27.2%
S. Carolina	5.3	286,535	2,253.56	1,486.91	561.82	\$427	\$106	0.786%	0.196%	66.0%	24.9%
S. Dakota <sup>4,5</sup>	0.9	64,025	400.64	42.93	179.25	\$440	\$197	0.626%	0.280%		44.7%
Tennessee	7.1	447,507	1,886.95	1,202.36	487.82	\$268	\$69	0.422%	0.109%	63.7%	25.9%
Texas	30.0	2,149,054	8,296.89	5,599.72	1,998.42	\$276	\$67	0.386%	0.093%	67.5%	24.1%
Vermont	0.6	38,425	151.47	100.69	31.14	\$234	\$48	0.394%	0.081%	66.5%	20.6%
Virginia	8.7	622,989	3,752.42	2,676.93	779.57	\$432	\$90	0.602%	0.125%	71.3%	20.8%
Washington	7.8	703,117	907.69	573.99	216.84	\$117	\$28	0.129%	0.031%	63.2%	23.9%
W. Virginia <sup>4,5</sup>	1.8	93,891	1,270.05	152.45	567.93	\$716	\$320	1.353%	0.605%		44.7%
Wisconsin <sup>6</sup>	5.9	387,972	887.82	557.12	268.63	\$151	\$46	0.229%	0.069%	62.8%	30.3%
Wyoming	0.6	45,208	27.41	15.72	3.18	\$47	\$5	0.061%	0.007%	57.4%	11.6%
<b>Total</b>	<b>319.5</b>	<b>23,360,259</b>	<b>109,609.18</b>	<b>65,798.27</b>	<b>28,722.00</b>	<b>\$343</b>	<b>\$90</b>	<b>0.469%</b>	<b>0.123%</b>		<b>26.2%</b>

\* Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30). <sup>1</sup> Source: U.S. Census Bureau

<sup>2</sup> Source: U.S. Bureau of Economic Analysis; <sup>3</sup> Represents revenue from traditional and VLT/casino games; <sup>4</sup> Does not include VLT/casino prizes

<sup>5</sup> Includes government transfers for VLT/casino operations; <sup>6</sup> Unaudited

Note: If a lottery's operating statement did not include government transfers, then net income is reported.

Excel\Fiscal 2022 Sales (Analysis)\(FY Sales Analysis\_US.xls)Consolidated Fiscal Revenues