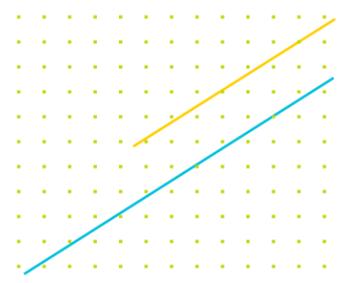
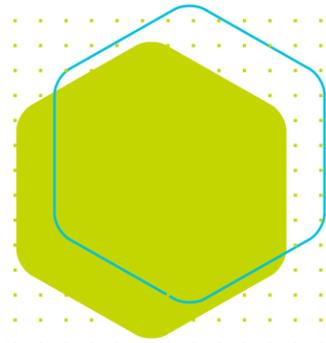




ANNUAL REPORT
FY2017

MINNESOTA LOTTERY™



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CONTACT INFORMATION

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Marshall, MN 56258
(507) 537-6041

Owatonna
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Owatonna, MN 55060
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Virginia
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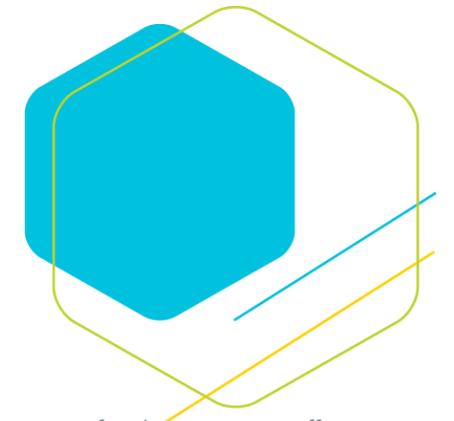
@mnlottery



MinnLottery



blog.mnlottery.com



Fellow Minnesotans,

The Minnesota State Lottery mission is to raise funds to support efforts in Minnesota that benefit all of us. Fueled by record scratch game sales, fiscal year 2017 (July 1, 2016 - June 30, 2017) generated \$139.2 million for the state of Minnesota on sales of \$563.5 million. The funds were allocated to:

- The State's General Fund, \$75.5 million
- The Environment and Natural Resources Trust Fund (ENRTF), \$35.3 million
- The Game & Fish Fund, \$13.3 million
- The Natural Resources Fund, \$13.3 million
- Compulsive Gambling Fund, \$1.8 million

In 2017, lottery proceeds also pushed the ENRTF value over \$1 billion! Each year, 5 percent of this important trust fund is allocated to projects across Minnesota by the State Legislature. The Legislative-Citizen Commission on Minnesota Resources recommends projects that, among other things, improve our lakes and rivers, save endangered species and support conservation, making the quality of life in our state better for all.

I am honored to be the new Executive Director of the Minnesota State Lottery. From my first day I have witnessed a dedicated lottery team working hard to ensure the lottery is fun to play, runs with integrity and delivers on its mission.

Since my gubernatorial appointment in May of 2017, lottery staff have made me feel welcome while educating me on the day-to-day operations of this vital state entity. The lottery team's creativity, passion, and professionalism are an asset to the state of Minnesota. I look forward to continuing to work with them, and our vendors and retail partners to make sure the Minnesota State Lottery ranks as one of the best in the world.

While I am pleased with our success this past year, everyone at the lottery is committed to doing even better. We work hard every day to advance the strategic vision of the Minnesota State Lottery. To ensure the Minnesota State Lottery remains well positioned for the future, we must be forward thinking, and well equipped for a competitive and ever changing marketplace, and remain leaders in our industry.

Sincerely,

Robert A. Doty
Executive Director

HOW LOTTERY DOLLARS BENEFIT MINNESOTA

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

Visit mnlottery.com to see how trust fund dollars have benefited Minnesota.

61.7%
Prizes
(\$348.3 million)

13.7%
General Fund
(\$77.3 million)

Includes \$1.8 million for problem gambling treatment.

2.4%
Natural Resources Fund
(\$13.3 million)

6.3%
**Environment & Natural
Resources Trust Fund**
(\$35.3 million)

2.4%
Game & Fish Fund
(\$13.3 million)

4.9%
Administration
(\$27.7 million)

2.6%
**Ticket & Lotto Game
Vendor Expense**
(\$14.8 Million)

6.0%
Retailer Commissions
(\$33.9 million)

ENVIRONMENT AND NATURAL RESOURCES TRUST FUND (ENRTF) HITS \$1 BILLION

In 1988, Minnesota voters went to the polls and approved two constitutional amendments. One created the Minnesota State Lottery. The other created the Environment and Natural Resources Trust Fund (ENRTF) in order to enhance, protect and restore Minnesota's environment and wildlife. In 1990, Minnesotans again voted via constitutional amendment to dedicate 40 percent of lottery proceeds to the ENRTF.

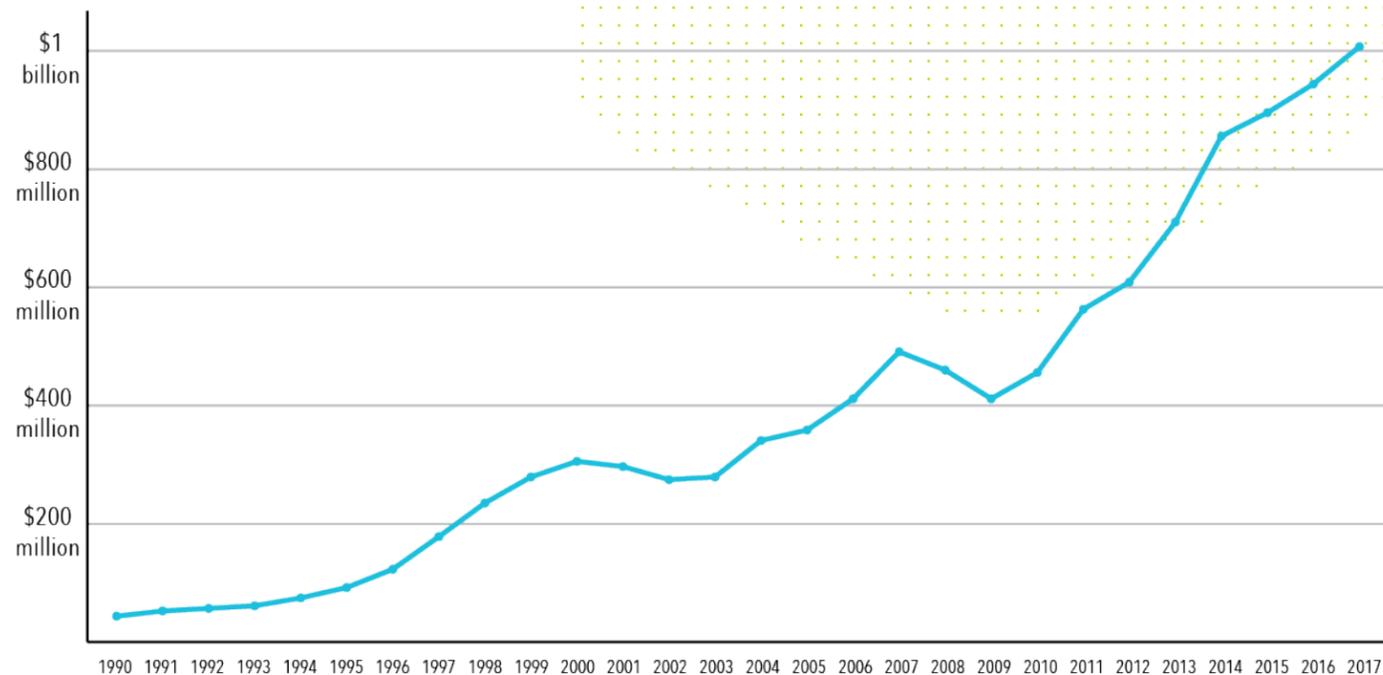
Since 1990, the lottery has contributed over \$758 million to the ENRTF. Pairing those funds with interest earned, the fund reached a milestone value of over \$1 billion at the end of fiscal year 2017.

These lottery funds, administered by the Legislative-Citizen Commission on Minnesota Resources (LCCMR), have supported thousands of projects by the DNR, University of Minnesota and others that have helped improve Minnesota's environment and natural resources. The lottery takes great pride in the role it plays in making Minnesota a better place to live.

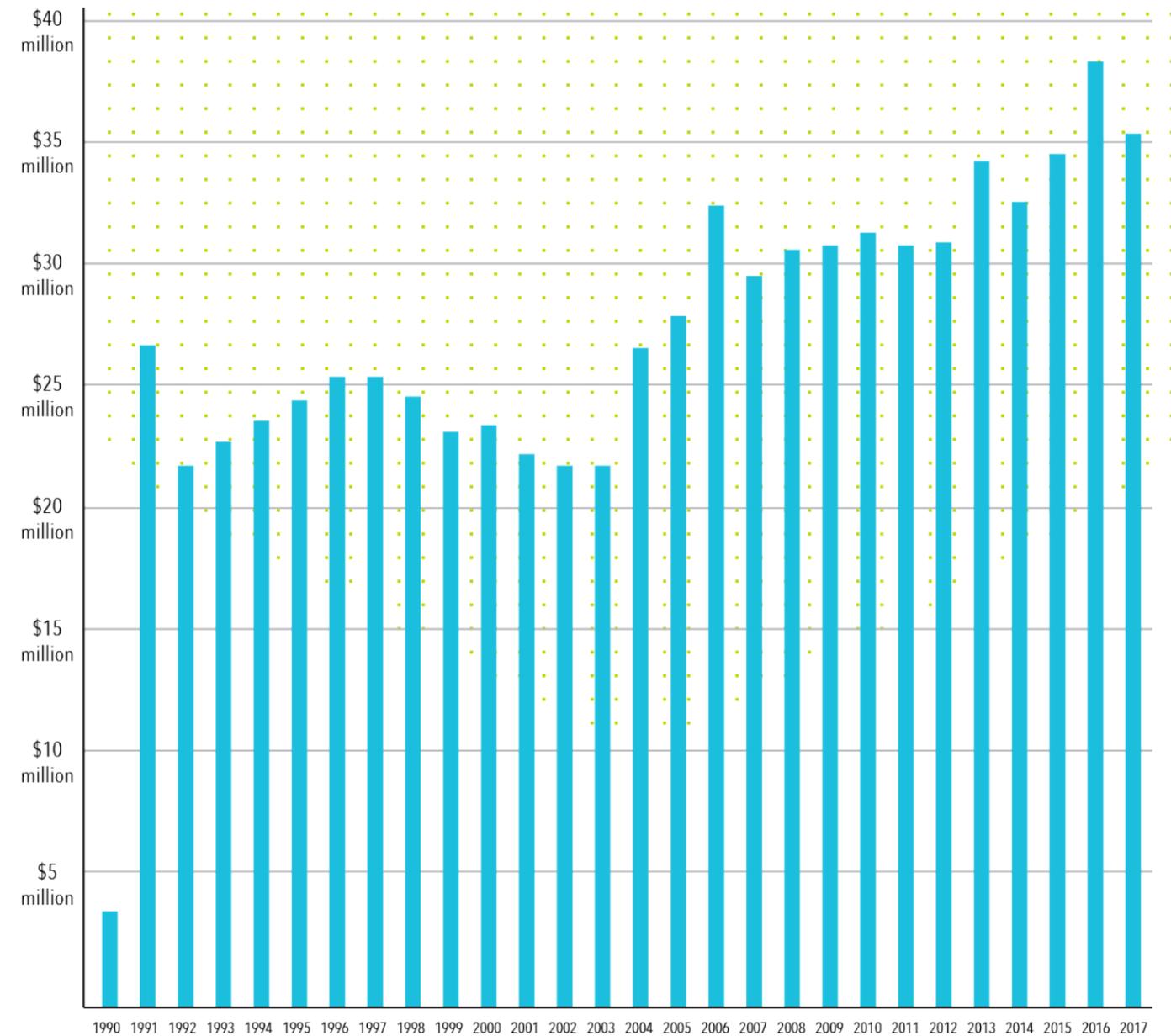
LCCMR recommends projects that fall into one of seven categories:

- Data and Research
- Water Resources
- Environmental Education
- Invasive Species
- Air Quality, Climate Change, and Renewable Energy
- Protecting and Restoring Land, Water and Habitat
- Land Acquisition, Habitat and Recreation

ENRTF VALUE



MINNESOTA LOTTERY CONTRIBUTIONS TO THE ENRTF



ENRTF PROJECTS

Projects from 2017 included:

- Protecting Minnesota prairies, lakes, rivers, forests and wetlands from invasive plant and pest species, including emerald ash borer, Eurasian watermilfoil, Asian carp and zebra mussel.
- Improving water clarity and habitat quality in Minnesota waterways by restoring and protecting Minnesota's native mussels, which are critically important to the health of Minnesota lakes and rivers. Their presence improves habitat and provides food for many other species.
- Helping bees and native butterflies, which play a vital role in the pollination of agricultural crops and in supporting natural ecosystems, including Minnesota prairies.



➤ *Prairies provide habitat for many plant and animal species, many of which are endangered.*



➤ *Projects to protect Minnesota's pollinators are designed to improve our understanding of Minnesota's native bees while helping to respond to Minnesota's declining bee population.*



➤ *Minnesota is known as the "Land of 10,000 Lakes" but did you know we have closer to 12,000 natural lakes? Our state is also home to the headwaters of the Mississippi and the north shore of the greatest of the Great Lakes.*

MINNESOTA WINNERS

People from all over Minnesota won big playing the lottery. How big? Over \$348 million in prizes were paid out in FY17.

It's no joke – **Amena Voss** of Andover won a \$64,762 Progressive Print-N-Play jackpot on a \$5 crossword ticket on April Fools' Day! Voss said she didn't believe it at first. "I was in shock for a little bit," she recalled. "I thought I missed a letter."

"I've been pretty lucky lately," said **Joyce Hubbard** of Glencoe, referring to winning "a couple of dollars here and there" when she plays Powerball® and Hot Lotto®. Hubbard's definition of "lucky" drastically changed after she won \$50,000 in the May 17 Powerball drawing.

Hubbard discovered her win after she had her tickets scanned at a local convenience store. Unsure of how much she won, Hubbard went home and checked the lottery website. "I saw that Casey's in Glencoe sold a \$50,000 winner and I thought that must be me!" Turns out, she was right!



Cynthia Pabelonia, a mother of five from Columbia Heights, won \$100,000 playing the Lucky Numbers scratch game.

Cynthia said she's "been lucky since she was young," so while this win was completely unexpected, it wasn't out of the realm of possibility for her. She plans to help her family with part of her winnings. "I'm really thankful," she said.

Faith DeVito of Minneapolis continued her husband's tradition of playing the lottery's Northstar Cash® jackpot game after his death earlier this year. DeVito uses his same play slip, which includes four lines of numbers that he picked himself, along with one quick-pick line. "It's a family thing now," DeVito said. Her daughter buys tickets for her each week, playing exactly as he did.



Spencer LaHue of New Brighton said he was a fan of the Did I Win? scratch game when it made its debut in April. In May he picked up a ticket worth \$100,000. "I jumped up, I was yelling," he recalled. La Hue stopped by his wife's office to show her the winning ticket before arriving at lottery headquarters in Roseville to claim the prize.



Being a little under the weather changed **Shawn Walcheski's** fortunes. "I was actually sick; I had bronchitis, so I told my sister I needed to stop for medicine. My total was \$13 and change, so I said, 'Powerball is big, give me three,'" he explained.

When Walcheski checked his ticket, he saw that the second line had matched the Powerball number drawn on Nov. 26 to win \$4 and did not check the third line on his ticket. Not realizing its actual worth, he said he wasn't careful with the ticket. "It was in and out of my pocket, on the floor, all over the place," he recalled.

"A couple of days later, my sister messaged me on Facebook and said to check my ticket again because somebody won \$1 million where we bought our tickets in St. Cloud." This time, he checked all three lines on the ticket and saw that the first five numbers on the third line were a match.



Shannon Jay attends WE Fest every year, and this year's event started out as usual for the Park Rapids man—until he bought two \$150,000 Gold Rush tickets from lottery staff selling tickets in the campgrounds.

As he scratched the first ticket, Jay said he saw that one of his numbers matched the number 35. "I looked at it again and said, 'I have to get my glasses.' I sat on the step [of his camper], looked at it again, and showed it to a friend. I said, 'What does this say?' She said, '\$150,000—did you win \$150,000?'"

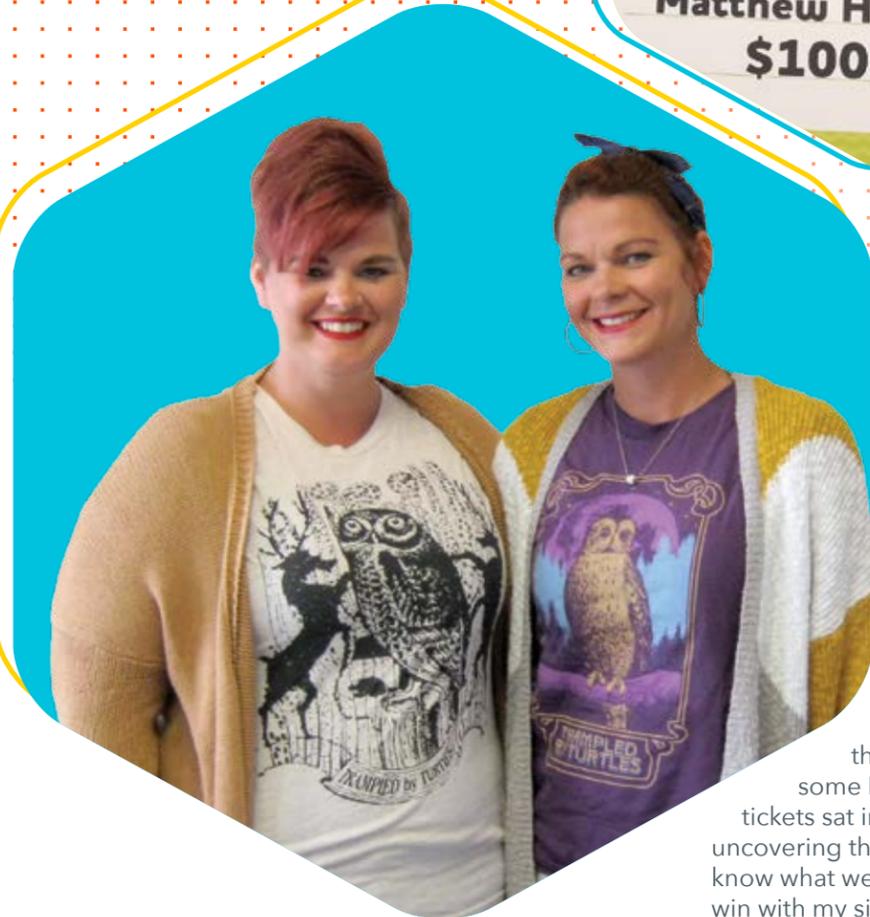
Jay and his friend drove to Park Rapids, where he told his wife, "We both need to take Monday off." She asked him "Why?" and he showed her the ticket. After the ticket was put in a safe spot, Jay drove back to the campground and WE Fest.



Matthew Hollermann of Elgin called his wife, boss, mom, sister and brother to let them know that he had won \$50,000 on a Big Money scratch ticket. Not long after making those calls, he called them all again to let them know he had been mistaken – he had actually won \$100,000.

Hollermann had uncovered a \$50,000 win before he left the convenience store. "I was pretty much in shock," he said. At the time, Hollermann did not see any reason to continue scratching the ticket because he did not expect to uncover any additional wins. After he got home, he decided to scratch the rest of the ticket and uncovered another \$50,000 win. "I had to call everybody again and say, 'It's actually \$100,000!'"

Dorothy Green of Fisher and her sister **Bonnie Egeland** of Grand Forks, N.D. were traveling through Minnesota when they decided to stop in Cass Lake to purchase some Kitty Cash scratch tickets. Green said the tickets sat in the cabin garage for over two days before uncovering the game's \$10,000 top prize. "We didn't know what we were seeing," recalled Green. "It was fun to win with my sister," she added.



A drive to dinner changed the lives of a father and son from Halstad. **Pedro Ruiz Jr.** was on his way to dinner on December 2, 2016 when he got a phone call from his father, **Pedro Ruiz Sr.**, to purchase some All or Nothing™ tickets for the weekend drawings. After Ruiz Jr. purchased his father's tickets at Farmer's Union Oil Company in Gary, he decided to purchase a ticket for himself as well. But he decided to play the exact opposite numbers that his father played.

A few hours after the drawing, the family soon realized that Ruiz Sr. was a \$100,000 winner after he matched zero of the twelve numbers drawn. Later that same evening, Ruiz Jr. found out that he too had won \$100,000 by matching all twelve of the numbers drawn. "It's a miracle, a true gift from God," said Ruiz Sr.

In the history of the Minnesota Lottery offering the All or Nothing game, no winners have ever won the "All" and "Nothing" in the same drawing, let alone won from the same family.



Alicia Gordon of Minneapolis fainted when she scratched off a \$100,000 prize playing the Fiery Hot Cash scratch game. "I felt myself getting lightheaded and I started shaking," she recalled. "Next thing I knew, I was on the floor."

Angie Geary of Hibbing had 100,000 reasons to smile in 2016. After hitting the top prize on the Diamond Crossword scratch ticket, she asked a coworker to confirm that it was indeed a \$100,000 winner. "The whole place went crazy and my bosses insisted that I go to Roseville and claim my prize right away."



RETAIL PARTNERS

Our 3,100 retail partners continue to be the drivers behind the success of the lottery. Retailers earned \$33.9 million in commissions and incentives in FY17, an average of nearly \$11,000 per business.

TOP RETAILERS

1. Airport MSP (Lottery Kiosk), St. Paul
\$1,635,495
2. M & H Gas, Moorhead
\$1,618,836
3. Orton's Moorhead Holiday #3804, Moorhead
\$1,152,076
4. Cub Foods, Crystal
\$1,018,332
5. BP on Rice, St. Paul
\$1,004,522
6. Micky's Liquor Store, Minneapolis
\$991,278
7. Cub Foods, Brooklyn Center
\$974,584
8. Kaposia Convenience Center, South St. Paul
\$956,621
9. Cub Foods, Maple Grove
\$927,684
10. Kwik Trip #824, Winona
\$921,063
11. East Grand Station, East Grand Forks
\$901,891
12. Cub Foods, St. Louis Park
\$896,431
13. Bill's Superette #9, Brooklyn Park
\$884,557
14. M & H Gas, St. Paul
\$881,495
15. Holiday Stationstores, Bloomington
\$873,859



BEAVER BAY RETAILER LOVES SERVING LOTTERY PLAYERS

Beaver Bay is a quintessential small town located along the picturesque North Shore of Lake Superior, just miles from some of the area's most popular tourist attractions, including Split Rock Lighthouse, Gooseberry Falls and Tettegouche State Park.

Along Main Street in downtown Beaver Bay, you'll find a few quaint cafes and restaurants, which serve freshly caught fish from Lake Superior, along with an agate shop, gift shops and Delvac Brothers, Inc.—a family-owned convenience store that's a popular pit stop for locals and tourists alike.

Wade LeBlanc is the current owner of North Shore Oil and Propane. He took over the family-operated business from his parents in the 1990s. The business includes a number of convenience stores along the North Shore, including Delvac Brothers, Inc. "I'm third generation so it's all I know," he said. Wade says his family places an importance on being active in the community and making sure they cater to their customers.

Delvac Brothers, Inc. offers all of the regular amenities of a typical convenience store like gas, pop, frozen pizzas, candy and of course lottery tickets, but they also have a few unique offerings in their product lineup.

"We are the only place north of Two Harbors that has an automatic car wash," said store manager Lyn Singleton. "We are also the only place within 20 miles that sells diesel gasoline," a draw for boaters, snowmobilers, and people who drive classic cars.

But what really sets them apart from the average C-store is their bicycle rental service. They have six bicycles available for rent so their customers can enjoy the popular Gitchi-



Store manager Lyn Singleton

Gami State Trail, which is steps away from the C-store. "It's a really nice bike path," said Singleton. "The bikes are really popular because so many visitors don't realize we have a really nice bike system here."

Singleton says one of the things she loves most about her job is selling lottery tickets. "I love seeing the reaction on customers' faces," she said. "They come in and ask if I'm going to sell them a winner today. Or else, they come in and say, 'You didn't sell me a winner!' But the best part is I've had more hugs from people for selling them winning lottery tickets. It's pretty funny!"

Singleton's most memorable moment was when a regular customer came in and told them they sold him a \$50,000-winning scratch ticket. "The look on his face was great," she recalled. "He gave me a \$200 tip and a

\$50 lottery ticket for being the manager and he gave the young man who sold him the winning ticket a \$500 tip plus a \$50 ticket. "I find people who play the lottery ... they appreciate it. I don't think I've ever had anyone who doesn't tip in some way or another."

"Selling the lottery makes it fun," Singleton added. "It's fun to watch people hoping that they are going to be the next millionaire!"



RETAILER SPOTLIGHT

GAMES AND MARKETING CAMPAIGNS

In FY17, the lottery launched 49 new scratch games to appeal to a wide range of players. A few of those games were highlighted with special promotions and innovative marketing campaigns to acquire new players and drive sales at our retail locations.



Players could scratch their way to a high score of up to \$75,000 by playing PAC-MAN® Money Hunt! Inspired by the classic '80s arcade game, scratch game players had three chances to chomp their way through the maze to prizes. Players could also enter non-winning PAC-MAN® Money Hunt scratch tickets for a chance to win one of 100 merchandise packages, 20 \$500 prizes, or the grand prize of a PAC-MAN® Arcade Console plus \$5,000 cash!

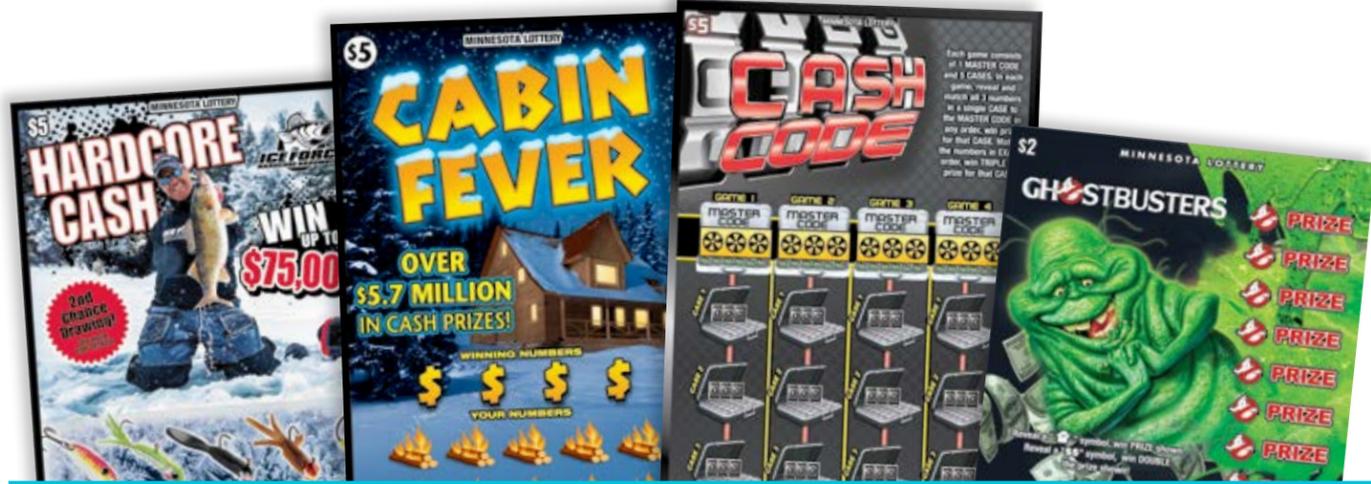
It's a Minnesota original! Partnering with Explore Minnesota Tourism, #OnlyinMN let players scratch their way through some of Minnesota's most unique landmarks and destinations for a chance to win up to \$75,000 instantly.



Calling all Vikings! The Minnesota Vikings scratch game was a big winner for the lottery and players. With top prizes of up to \$100,000 and second chance prizes including season tickets, the game was one of the biggest sellers for the lottery in FY17. The ticket featured three unique scenes, including the all new state-of-the-art U.S. Bank Stadium. The game was such a hit that the lottery will be offering the game again in FY18. SKOL Vikings!



SCRATCH GAMES ON SALE FY17



PRICE	GAME	FY17 SALES	FY17 TICKETS SOLD
\$5	Minnesota Vikings	\$12,721,255	2,544,251
\$1	Goat Load of Cash	\$2,038,666	2,038,666
\$3	Couch Potato Crossword	\$5,957,562	1,985,854
\$10	\$200,000 Payday	\$9,208,970	920,897
\$5	Cash Code	\$5,028,285	1,005,657
\$3	Lucky Charm Slingo®	\$6,926,952	2,308,984
\$3	Cash Multiplier Crossword	\$5,351,034	1,783,678
\$2	Power Slots	\$4,167,830	2,083,915
\$5	Fiery Hot Cash	\$8,122,810	1,624,562
\$1	Quick 6s	\$2,525,447	2,525,447
\$2	GHOSTBUSTERS™	\$3,699,300	1,849,650
\$10	Stacks of Cash	\$9,075,600	907,560
\$1	Lucky 7s	\$3,698,439	3,698,439
\$2	Lucky 7s Doubler	\$4,292,876	2,146,438
\$5	Lucky 7s Tripler	\$8,834,360	1,766,872
\$10	Super Lucky 7s	\$7,542,310	754,231
\$5	Cabin Fever	\$5,642,220	1,128,444
\$3	Classic Holiday Crossword	\$4,857,852	1,619,284
\$2	Happy Holidays	\$2,789,018	1,394,509
\$1	'Tis the Season	\$2,071,355	2,071,355
\$3	Lucky Lines	\$4,382,229	1,460,743
\$5	Hardcore Cash	\$5,544,985	1,108,997
\$3	One Word Crossword	\$6,532,848	2,177,616
\$3	Lucky Gems Bingo Emerald Green	\$5,609,376	1,869,792
\$5	Super Crossword	\$10,008,775	2,001,755

PRICE	GAME	FY17 SALES	FY17 TICKETS SOLD
\$20	\$500,000 Spectacular Riches	\$13,256,625	662,831
\$1	Loose Change®	\$3,186,796	3,186,796
\$5	Strike it Rich	\$6,224,485	1,244,897
\$10	Hit it Big	\$10,467,770	1,046,777
\$3	Loteria	\$3,852,765	1,284,255
\$2	Lucky Dog	\$4,206,846	2,103,423
\$5	PAC-MAN® Money Hunt	\$7,049,295	1,409,859
\$3	Double Bonus Crossword	\$7,289,496	2,429,832
\$3	Super Joker Slingo®	\$4,844,121	1,614,707
\$10	Multiplier Mania	\$9,347,490	934,749
\$1	Winner Winner Chicken Dinner	\$2,274,355	2,274,355
\$5	Lucky Numbers	\$5,966,540	1,193,308
\$20	\$50,000 Riches	\$6,597,020	329,851
\$2	Stacks of Gold	\$2,174,916	1,087,458
\$5	Did I Win?	\$6,208,885	1,241,777
\$3	Camping Crossword	\$3,496,929	1,165,643
\$1	Summer Cash	\$845,896	845,896
\$20	Cash Vault Crossword	\$2,818,760	140,938
\$5	#OnlyinMN	\$3,904,585	780,917
\$3	\$25,000 Cash Lines	\$1,988,877	662,959
\$2	Pinball	\$524,166	262,083
\$1	Great 8s	\$254,379	254,379
\$10	\$8,000,000 Cash Blowout	\$2,909,530	290,953
\$3	Blockbuster Crossword	\$1,412,682	470,894

*Sales figures do not include carryover games from 2016.



MINNESOTA PARTNERSHIPS

Building the Lottery's Brand

Partnerships are a vital part of the lottery's marketing outreach. The lottery collaborates with sports teams, media outlets and community organizations to reach all across the state of Minnesota to build the brand and create new lottery fans and customers.

The MN Lottery has been a great partner to Mall of America, offering great lottery events and custom MOA tickets to Mall guests while benefiting from the great exposure to the built-in MOA traffic. The MN Lottery team is open to ideas and easy to work with, and together we've been able to create some unique events here at Mall of America to increase brand and product awareness and help create new lottery fans.

—Kevin Robb, Strategic Alliance Manager
Mall of America

I am proud to work with the MN Lottery. We have worked together on several projects, including Rock the Garden last June.

Rock the Garden is such a great event to showcase MN Lottery. The event is a public event, held outdoors and a zero waste event which I know is important to MN Lottery. The team at MN Lottery are creative, thorough and dynamic—they make it easy to work out details and to make their presence impactful for everyone attending.

—Kerry Henke, Senior Account Executive
Minnesota Public Radio



We have really enjoyed every aspect of our partnership with the Minnesota State Lottery. We jointly launched a very successful Minnesota Vikings scratch ticket, which was great entertainment for players and generated important proceeds for Minnesota's outdoors. The lottery did a great job of presenting the Vikings brand in the most professional and entertaining way possible across 3,000+ state-wide, retail stores and within various forms of media. Their television commercials to promote our tickets were amazing examples of creative brand immersion and collaboration between two partners.

—John Penhollow, Vice President of Corporate
& Technology Partnerships
Minnesota Vikings Football LLC



INDEPENDENT AUDITOR'S REPORT



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The Director
Minnesota State Lottery
Roseville, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota State Lottery as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Minnesota State Lottery's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Minnesota State Lottery, as of June 30, 2017 and 2016, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2017 and 2016, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 and Schedule of Minnesota State Lottery's Share of Net Pension Liability and Schedule of Minnesota State Lottery's Contributions on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2017 on our consideration of the Minnesota State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Minnesota State Lottery's internal control over financial reporting and compliance.

Schechter Dokken Kanter
Auditors, dated 10/2/17

October 2, 2017

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis includes an overview of financial activities regarding the financial performance of the Minnesota State Lottery for the fiscal year ended June 30, 2017 and fiscal year ended June 30, 2016 and should be read in conjunction with the transmittal letter and supplementary information included in this report. This report consists of three parts: management's discussion and analysis, the basic financial statements and the notes to the financial statements. Included below and on the following pages are the financial highlights, summary of contributions to the state, summary results of operations for years ended June 30, 2017 and 2016 and a condensed version of the balance sheets as of June 30, 2017 and 2016. The complete report, including referenced notes, is available at mnlottery.com.

FINANCIAL HIGHLIGHTS

A major milestone for the Environment and Natural Resources Trust Fund was reached in fiscal year 2017 as the Fund balance eclipsed the \$1 billion mark. The lottery has been the sole source of original funding of \$758 million for the Fund which may use up to 5.5% of its fair market value annually for environment.

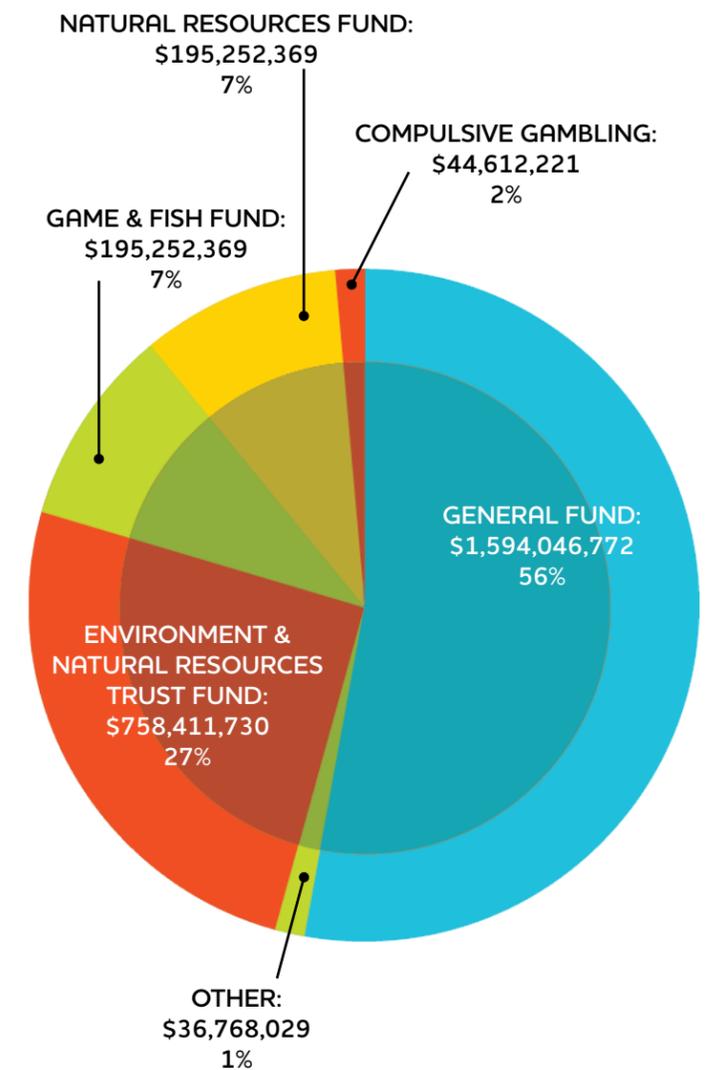
The Minnesota State Lottery had operating revenues of \$563.5 million in fiscal year 2017 and contributed over \$139 million to the state. This was the second largest contribution to the state in lottery history. A record year in scratch sales of \$398.3 million, a \$3.5 million increase over 2016 contributed to the lottery's success in fiscal year 2017.

SUMMARY OF CONTRIBUTIONS TO STATE

The lottery contributed \$139.2 million to the state in fiscal year 2017. This was a \$5.5 million or 3.8% decrease from 2016. The following table provides detail on the total amounts transferred to the state as well as the source of the transfers provided to the state.

CONTRIBUTIONS TO THE STATE	2017	2016
Net proceeds to the state	\$88,315,826	\$95,758,036
In-lieu-of-sales tax	36,627,696	38,535,433
Compulsive gambling contribution	1,774,794	1,617,462
Unclaimed prizes to the state	12,439,978	8,769,064
Total paid to state	\$139,158,294	\$144,679,995

The lottery has contributed over \$2.8 billion to the state since inception.



SUMMARY RESULTS OF OPERATIONS	2017	2016
Gross receipts	\$526,892,077	\$554,332,158
Prizes, commissions and ticket costs	397,080,288	421,465,971
Gross profit	129,811,789	132,866,187
Operating expenses	32,763,677	25,394,157
Operating income	97,048,112	107,472,030
Non-operating revenues (expense):		
Interest earned on investments	390,486	253,532
Unused Compulsive Gambling	455,206	612,538
Payments to State (not including in-lieu-of-sales tax)	(102,985,804)	(106,757,100)
Total non-operating revenue (expense)	(102,140,112)	(105,891,030)
Net (Loss) Income	<u>(\$5,092,000)</u>	<u>\$1,581,000</u>

OPERATING INCOME

Operating income has decreased by \$10.4 million from 2016. Gross receipts decreased by 4.95% or \$27.4 million in fiscal year 2017 primarily due to lower Powerball receipts. Direct costs which include prizes, commissions and ticket costs as a percent of gross receipts were 75.4% in 2017 as compared to 76.0% in 2016.

OPERATING EXPENSES

Operating expenses increased in fiscal year 2017 by \$7.4 million or 29%. This was due to the year-end pension expense adjustment for a change in actuarial assumption and a slight increase in advertising expense.

GROSS RECEIPTS BY GAME	2017	2016
Scratch ticket sales	\$398,311,141	\$394,761,644
Lotto ticket sales:		
Daily 3 [®]	17,401,351	16,690,792
Gopher 5 [®]	15,045,596	15,051,190
Powerball [®]	62,387,312	95,690,466
Powerball [®] Power Play [®]	2,373,937	2,800,853
Mega Millions [®]	15,901,351	17,186,930
Mega Millions [®] Megaplier [®]	1,234,891	1,296,041
Hot Lotto [®]	9,938,710	8,642,473
Hot Lotto [®] Sizzler [®]	1,018,693	928,570
Northstar Cash [®]	9,249,570	10,096,816
Minnesota Millionaire Raffle	6,998,580	6,998,850
All or Nothing [™]	3,144,011	3,238,329
Lucky for Life [®]	7,743,223	7,989,328
Progressive Print-N-Play [®]	12,754,636	11,480,526
Total Lotto Ticket Sales	<u>165,191,861</u>	<u>198,091,164</u>
Operating revenue	563,503,002	592,852,808
Other income	16,771	14,783
Total operating revenue	<u>563,519,773</u>	<u>592,867,591</u>
Less in-lieu-of-sales tax	<u>36,627,696</u>	<u>38,535,433</u>
Gross Receipts	<u>\$526,892,077</u>	<u>\$554,332,158</u>

SCRATCH GAMES

Scratch game sales accounted for 70.7% of operating revenue in 2017, up from 66.6% in 2016. Total scratch sales were up \$3.5 million to \$398.3 million. The increase in scratch sales were due to continued marketing efforts for new players through games like Minnesota Vikings, PAC-MAN[®], and #OnlyinMN.

LOTTO GAMES

Lotto games sales for fiscal year 2017 decreased \$32.9 million to \$165.2 million. This was primarily due to the lack of sizeable Powerball jackpots.

SUMMARY

CONDENSED STATEMENTS OF NET POSITION	2017	2016
Assets:		
Cash and cash equivalents	\$27,315,686	\$29,806,441
Receivables	5,202,969	5,018,607
Inventory and prepaid expenses	1,707,214	1,755,997
Capital assets	1,376,418	1,285,402
Total assets	\$35,602,287	\$37,866,447
Deferred Outflows	\$27,884,000	\$1,678,000
Liabilities:		
Due to State and State Agencies	\$18,595,624	\$15,057,296
Accounts payable & current accrued expenses	9,037,854	12,119,286
Prize liability	6,699,585	9,477,024
Long-term accrued expenses	41,089,224	6,266,841
Total Liabilities	\$75,422,287	\$42,920,447
Deferred Inflows	\$2,907,000	\$6,375,000
Net Position:		
Unrestricted net position	(16,219,418)	(11,036,402)
Net investment in capital assets	1,376,418	1,285,402
Net Position	(14,843,000)	(9,751,000)

NET POSITION

Minnesota State Lottery's net position at the end of fiscal year 2017 was \$(14.8) million compared to \$(9.8) million in fiscal year 2016. The negative net position is mainly attributable to the offset to the net position liability. This is solely attributable to the reduction in the discount rate used in the actuarial assumption from 7.9% for 2015 to 4.17% for 2016.

CASH AND CASH EQUIVALENTS AND RECEIVABLES

Cash and cash equivalents and receivables decreased by \$2.3 million from fiscal year 2016 to 2017. This is a direct result of lower sales compared to the previous fiscal year.

CAPITAL ASSETS AND OTHER ASSETS

Net capital assets increased by \$91 thousand in fiscal year 2017 versus fiscal year 2016. Purchases of capital assets totaled over \$623 thousand with the significant purchase of vehicles of over \$290 thousand, computer equipment of over \$108 thousand and office equipment of over \$133 thousand.

DUE TO STATE AND STATE AGENCIES

Payment due to the state at the end of fiscal year 2017 was \$3.5 million higher than the previous fiscal year. This was due to a \$3.7 million increase in unclaimed prizes offset by a decrease in net proceeds of \$133 thousand at the end of the fiscal year.

PRIZE LIABILITY

Prize liability decreased by \$2.8 million in fiscal year 2017. This was due to a decrease of \$1.0 million in Powerball prize liability due to not having a sizeable jackpot at the end of the current year compared to the prior year and scratch liability decreasing \$1.6 million.

ACCOUNTS PAYABLE AND CURRENT ACCRUED EXPENSES

Accounts payable and current accrued expenses decreased by \$3.1 million in fiscal year 2017. In 2016 the lottery transitioned to a new online gaming system contract with IGT which put processing of invoices on hold for four months until fiscal year end. In 2017 the lottery paid those invoices, causing the decrease in payables.

STATEMENTS OF NET POSITION – JUNE 30, 2017 and 2016	2017	2016
Assets		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$27,315,686	\$29,806,441
Accounts Receivable (Note 4)	5,174,652	4,996,914
Interest Receivable	28,317	21,693
Scratch Ticket Inventory	1,216,855	1,283,447
Prepaid Expense	490,359	472,550
Total Current Assets	34,225,869	36,581,045
Capital Assets, Net (Note 5)	1,376,418	1,285,402
Total Assets	35,602,287	37,866,447
Deferred Outflows (Note 13)	27,884,000	1,678,000
Liabilities and Net Assets		
Current Liabilities:		
Net Proceeds Due to State (Note 8)	6,155,646	6,288,232
Unclaimed Prizes Due to State (Note 6)	12,439,978	8,769,064
Accounts Payable	3,636,701	6,796,896
In-Lieu-of-Sales Tax Payable	3,135,774	3,003,809
Prize Liability	6,699,585	9,477,024
Accrued Salaries and Benefits Payable, Current (Note 7)	1,655,982	1,518,721
Unearned Revenue	609,397	799,860
Total Current Liabilities	34,333,063	36,653,606
Accrued Benefits Payable, Net of Current Portion (Note 7)	851,406	820,084
Commitments and Contingencies (Note 9)	417,818	392,757
Net Pension Liability (Note 13)	39,820,000	5,054,000
Total Noncurrent Liabilities	41,089,224	6,266,841
Total Liabilities	75,422,287	42,920,447
Deferred Inflows (Note 13)	2,907,000	6,375,000
Net Position:		
Net Assets Invested in Capital Assets (Note 8)	1,376,418	1,285,402
Unrestricted	(16,219,418)	(11,036,402)
Total Net Position (Note 8)	\$(14,843,000)	\$(9,751,000)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED JUNE 30, 2017 AND 2016	2017	2016
Operating Revenues:		
Scratch Ticket Sales	\$398,311,141	\$394,761,644
Lotto Ticket Sales	165,191,861	198,091,164
Other Income	16,771	14,783
Total Operating Revenues	563,519,773	592,867,591
Less: In-Lieu-of-Sales Tax	36,627,696	38,535,433
Gross Receipts	526,892,077	554,332,158
Direct Costs:		
Scratch Ticket Prizes	264,056,915	264,542,148
Lotto Ticket Prizes	84,325,743	101,358,067
Lotto Vendor Expense	9,116,855	13,951,066
Ticket Costs	5,689,330	5,977,756
Retailer Commissions and Incentives (Note 11)	33,891,445	35,636,934
Total Direct Costs	397,080,288	421,465,971
Gross Profit	129,811,789	132,866,187
Operating Expenses:		
Advertising (Note 12)	6,569,681	5,969,027
Salaries and Benefits (Note 13)	18,281,660	10,968,961
Promotion	1,506,232	2,278,754
Purchased Services	1,714,295	1,657,079
Communication	437,577	590,146
Occupancy Costs (Note 9)	1,697,042	1,567,685
Supplies and Materials	1,136,915	962,875
Computer and Omnipoint Maintenance	529,905	466,069
Depreciation	532,586	598,425
Other Expense	357,784	335,136
Total Operating Expenses (Note 12)	32,763,677	25,394,157
Operating Income	97,048,112	107,472,030
Nonoperating Revenue (Expenses):		
Interest Earned on Investments	390,486	253,532
Compulsive Gambling Contribution from Prize Fund (Note 10)	(1,774,794)	(1,617,462)
Unclaimed Prizes to State (Note 6)	(12,439,978)	(8,769,064)
Net Proceeds to State (Note 8)	(88,315,826)	(95,758,036)
Total Nonoperating Revenue (Expenses)	(102,140,112)	(105,891,030)
Change in Net Position	(5,092,000)	1,581,000
Net Position at Beginning of Year (Note 8)	(9,751,000)	(11,332,000)
Net Position at End of Year (Note 8)	\$(14,843,000)	\$(9,751,000)

STATEMENT OF CASH FLOWS – YEARS ENDED JUNE 30, 2017 AND 2016	2017	2016
Cash Flows from Operating Activities:		
Cash Received from Customers	\$563,134,801	\$594,585,251
Cash Received from Other Income	16,771	14,783
Payments to State (In-Lieu-of-Sales Tax)	(36,495,731)	(38,408,482)
Payments to Employees	(13,021,077)	(12,391,042)
Payments to Suppliers	(31,855,178)	(31,810,134)
Payments to Retailers	(33,891,445)	(35,636,934)
Payments to Prize Winners	(351,160,097)	(362,751,676)
Net Cash Provided by Operating Activities	96,728,044	113,601,766
Cash Flows from Non-Capital Financing Activities:		
Net Proceeds Paid to State	(88,448,412)	(95,005,401)
Compulsive Gambling Contribution Transfer	(1,774,794)	(1,617,462)
Unclaimed Prizes Transfer	(8,769,064)	(11,698,224)
Net Cash Used by Non-Capital Financing Activities	(98,992,270)	(108,321,087)
Cash Flows from Capital and Related Financing Activities:		
Purchases of Capital Assets	(623,602)	(684,752)
Proceeds on sale of Capital Assets	13,211	59,509
Net Cash Used by Capital Financing Activities	(610,391)	(625,243)
Cash Flows from Investing Activities:		
Investment Income	383,862	244,812
Net Cash Provided by Investing Activities	383,862	244,812
Net Increase (Decrease) in Cash and Cash Equivalents	(2,490,755)	4,900,248
Beginning of Year Cash and Cash Equivalents	29,806,441	24,906,193
End of Year Cash and Cash Equivalents	\$27,315,686	\$29,806,441
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$97,048,112	\$107,472,030
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities:		
Depreciation	532,586	598,425
Gain on the disposal of capital assets	(13,211)	(51,228)
Change in pension activity	5,092,000	(1,581,000)
Net Change in Assets and Liabilities:		
Inventory	66,592	(65,856)
Accounts Receivable	(177,738)	1,690,731
Prepaid Expenses	(17,809)	197,415
Current Liabilities	(3,025,049)	2,192,710
Prize Awards Payable	(2,777,439)	3,148,539
Net Cash Provided by Operating Activities	\$96,728,044	\$113,601,766

For the complete Minnesota State Lottery Comprehensive Annual Financial Report, including referenced Notes, please visit mnlotttery.com.

The Minnesota Lottery is committed to actively supporting responsible gambling and the prevention of problem gambling. Problem gambling treatment and awareness material, like the lottery-created brochures shown here, are distributed to every lottery retailer in Minnesota. During especially high jackpots, the lottery runs television and radio ads encouraging responsible play.

The lottery has contributed \$42.8 million to problem gambling treatment and prevention since its inception.

