



Minnesota Gambling Control Board

Suite 300 South
1711 W. County Road B
Roseville, MN 55113
651-639-4000

Annual Report of the Minnesota Gambling Control Board

**Fiscal Year
2010**

July 1, 2009 - June 30, 2010



Message from the Board Chair and Executive Director

December 20, 2010

The mission of the Gambling Control Board (Board) is to regulate lawful gambling in Minnesota, so that citizens are assured of the integrity of the industry and nonprofit organizations may continue to raise funds for lawful/charitable purposes.

The Board continues to provide education, outreach, and guidance to the lawful gambling industry through its ongoing programs, including:

- compliance reviews and site inspections,
- issuing licenses and permits for licensed organizations,
- continuing education classes throughout the state,
- speaking engagements at state-level conventions,
- gambling manager seminars,
- individualized mentoring programs,
- a comprehensive web site, and
- a bi-monthly newsletter.

This annual report provides information for the fiscal year beginning July 1, 2009, through June 30, 2010. Portions of the data were obtained from the Minnesota Department of Revenue.

Respectfully submitted,

William Goede, Chair

Tom Barrett, Executive Director

Gambling Control Board Members and Staff

The Board has the power to issue, suspend, and revoke licenses. Under Minnesota Statutes, section 349.11, the Board's purpose is "to regulate lawful gambling, to insure the integrity of operations, and to provide for the use of net profits only for lawful purposes."

The Gambling Control Board is comprised of seven citizens. Five of the members are appointed by the Governor, and the Attorney General and Commissioner of Public Safety each appoint one member.

Members	City	Appointed by	Term
William Goede, Chair	Plainview	Governor	6/08 to 6/12
Shirleen Hoffman, Vice-Chair	Delano	Governor	7/06 to 6/10
Gerald Dexter, Secretary	White Bear Lake	Governor	7/06 to 6/10
Norm Pint	New Prague	Public Safety	7/07 to 6/11
Bill Gillespie	St. Paul	Attorney General	9/07 to 6/11
Robert Hyde	Plymouth	Governor	7/09 to 6/13
Christine Long	Owatonna	Governor	7/08 to 6/12 (resigned May 2010)

New members - effective July 1, 2010

Geno Fragnito	Woodbury	Governor	7/10 to 6/14
Susan McCarville	Hopkins	Governor	7/10 to 6/14
Gary Sigfrinius	Forest Lake	Governor	7/10 to 6/12

Executive Director

Tom Barrett

Board Counsel

Melissa Eberhart, Assistant Attorney General

FY 2010 expenditures: \$2,794,000

Board staff: 31 (FTE 29.1)

Statement of Cash Receipts and Industry Overview

Cash Receipts		
	Fee	Total Collected
Manufacturer license	\$9,000	\$ 117,000
Game approval/testing	25/100	181,575
Distributor license	6,000	78,000
Distributor salesperson license	100	9,900
Linked bingo game provider license	5,000	5,000
Organization license	350	453,250
Minnesota Statutes 349.16, subdivision 6 allows waivers of the organization license fee if estimated gross annual receipts are less than \$100,000. 16 waivers were granted at a cost of \$5,600.		
Gambling manager license	100	144,900
Premises permit	150	487,500
Regulatory fee [0.1% (.001) of gross receipts		988,229
Exempt Permit (up to 5 days of activity, total prizes valued at \$50,000 or less)	50/100	177,950
	Total dedicated fees	\$2,643,304
<hr/>		
Civil penalties and fines	vary	47,500
State gambling taxes, after refunds (collected by Department of Revenue)		35,808,000
	Total civil penalties, fines, and taxes pid to state's general fund	\$35,855,500
<hr/>		
	Total taxes, fees, and penalties	\$38,498,804

Industry Overview

During fiscal year 2010, the Minnesota lawful gambling industry consisted of:

Licensees and Activities	Description																												
11 Manufacturers	Sold product to licensed distributors. [In FY10, 4,413 new games and product approved.]																												
13 Distributors	Sold product to licensed lawful gambling organizations.																												
99 Distributor salespersons	Persons licensed to sell gambling equipment to nonprofit organizations.																												
1 Linked bingo game providers	Providing linked bingo games to licensed organizations.																												
1,292 Nonprofit organizations	Nonprofit organizations licensed to conduct gambling at permitted premises.																												
	TYPE OF ORGANIZATION																												
	Fraternals - Eagles & Auxiliary, Moose, Elks, Knights of Columbus 239 18%																												
	Veterans - American Legion, VFW, & Auxiliaries 364 28%																												
	Religious - Church/Cathedral 32 2%																												
	Other nonprofit - Fire relief, hockey, Jaycees, Lions, baseball, athletic, rod & gun, snowmobile, business/chamber/development, sportsman, community, other 657 51%																												
	TOTAL 1,292 100%																												
1,404 Gambling managers	Members of licensed nonprofit organizations responsible for supervising organizations' lawful gambling operations.																												
3,205 Charitable gambling sites	Locations in Minnesota where lawful gambling was approved.																												
1,031 Exempt organizations	Nonprofit organizations that applied for authorization to conduct limited gambling of up to five days per calendar year conducted 3,149 activities, with gross receipts of \$30,997,000 .																												
	<table border="1"> <thead> <tr> <th>Exempt activity</th> <th>Gross receipts</th> <th>Expense</th> <th>Profit</th> </tr> </thead> <tbody> <tr> <td>Raffle</td> <td>\$29,177,000</td> <td>\$12,519,000</td> <td>\$16,658,000</td> </tr> <tr> <td>Pull-tabs</td> <td>692,000</td> <td>514,000</td> <td>178,000</td> </tr> <tr> <td>Bingo</td> <td>945,000</td> <td>388,000</td> <td>557,000</td> </tr> <tr> <td>Paddlewheels</td> <td>117,000</td> <td>57,000</td> <td>60,000</td> </tr> <tr> <td>Tipboards</td> <td>66,000</td> <td>40,000</td> <td>26,000</td> </tr> <tr> <td>TOTAL</td> <td>\$30,997,000</td> <td>\$13,518,000</td> <td>\$17,479,000</td> </tr> </tbody> </table>	Exempt activity	Gross receipts	Expense	Profit	Raffle	\$29,177,000	\$12,519,000	\$16,658,000	Pull-tabs	692,000	514,000	178,000	Bingo	945,000	388,000	557,000	Paddlewheels	117,000	57,000	60,000	Tipboards	66,000	40,000	26,000	TOTAL	\$30,997,000	\$13,518,000	\$17,479,000
Exempt activity	Gross receipts	Expense	Profit																										
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TOTAL	\$30,997,000	\$13,518,000	\$17,479,000																										
517 Excluded organizations	Nonprofit organizations that applied for authorizations to conduct 546 excluded bingo activities. Excluded bingo is conducted for four or fewer events, or conducted up to 12 consecutive days in conjunction with a county fair, civic celebration, or state fair.																												

Lawful Gambling Statistics

2010 Fiscal Year Summary

ACTIVITY	Gross Receipts (sales)		Prizes Paid	Net Receipts (gross less prizes)		% Payout	
	FY 2010	% Change from FY09	FY 2010	FY 2010	% Change from FY09	FY10	FY09
Pull-tabs	\$ 893,100,000	-5.3	737,417,000	155,683,000	-5.6	82.6	82.5
Bingo	59,500,000	-2.6	44,754,000	14,746,000	1.0	75.2	76.1
Paddlewheels	13,549,000	-1.0	9,953,000	3,596,000	-1.1	73.5	73.4
Raffles	7,422,000	-4.0	3,670,000	3,752,000	-7.5	49.4	47.5
Tipboards	6,423,000	1.4	4,576,000	1,847,000	2.0	71.2	71.4
Interest income	150,000	-31.5	- 0 -	150,000	-31.5		
TOTALS	\$ 980,144,000	-5.0	\$800,370,000	\$179,744,000	-5.0	81.7	81.7



Ten-Year Comparison of Receipts and Prizes Paid with percent change from previous fiscal year

FY	Gross Receipts		Prizes Paid		Net Receipts	
10	\$ 980,144,000	-5.0%	\$ 800,370,000	-5.0%	\$179,774,000	-5.0%
09	1,031,699,000	-9.6%	842,507,000	-9.8%	189,192,000	-9.0%
08	1,141,443,000	-9.8%	933,591,000	-9.7%	207,852,000	-10.3%
07	1,265,707,000	-3.3%	1,033,863,000	-3.3%	231,844,000	-3.0%
06	1,308,264,000	-4.8%	1,069,325,000	-4.8%	238,939,000	-4.8%
05	1,373,783,000	-3.1%	1,122,783,000	-3.3%	251,000,000	-2.5%
04	1,418,109,000	0.0%	1,160,753,000	-0.3%	257,356,000	1.5%
03	1,418,200,000	-1.2%	1,164,591,000	-1.0%	253,609,000	-2.1%
02	1,435,426,000	-0.1%	1,176,268,000	0.2%	259,158,000	-1.1%
01	1,436,603,000	-4.2%	1,174,490,000	-4.2%	262,113,000	-4.4%

Lawful Purpose Expenditures

Proceeds from lawful gambling may be used for lawful purpose expenditures (contributions) in the following categories.



Youth activities



Wildlife management projects, grooming and maintaining snowmobile and all-terrain vehicle trails approved by MN Department of Natural Resources, and monitoring surface water quality



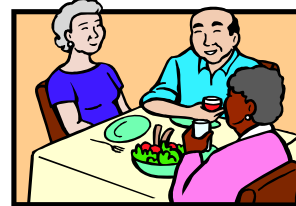
Recognition of military service



Scholarship funds, and private or public nonprofit educational institutions



Repair and maintenance projects of organization-owned buildings



Congregate dining, nutritional programs, or food shelves for the disabled or persons age 62 and older

Programs and projects by the United States, the state of Minnesota, or local units of government



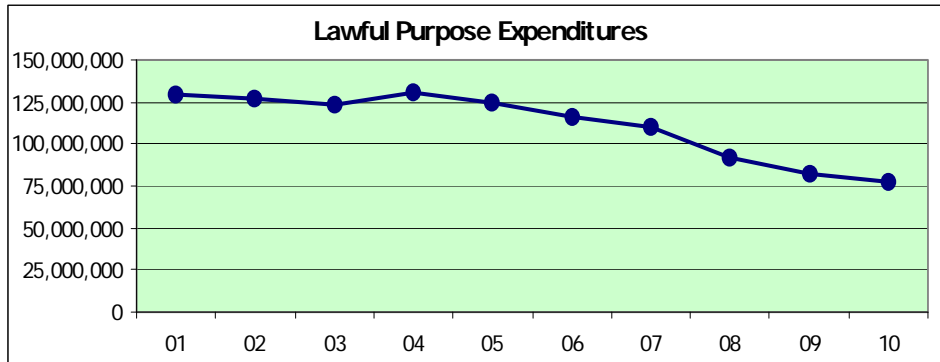
Other Lawful Purpose Expenditure Categories

- Community arts organizations or program sponsorships
- Religious purposes
- Donations to or expenditures by nonprofit organizations designated by the Internal Revenue Service as 501(c)(3) organizations or 501(c)(4) festival organizations
- Relieving effects of poverty, homelessness, or disabilities
- Treatment for compulsive gambling
- Recognition of humanitarian service
- Surface water quality testing
- Real estate taxes
- State, local, and federal gambling taxes; state lawful gambling license & regulatory fees
- Specific utility costs by licensed veterans and fraternal organizations
- Membership events by licensed veterans organizations

Lawful Purpose Expenditures

Ten-Year Comparison

10	\$ 77,607,000
09	\$ 82,247,000
08	\$ 92,311,000
07	\$ 110,144,000
06	\$ 116,011,000
05	\$ 124,974,000
04	\$ 130,944,000
03	\$ 123,138,000
02	\$ 126,514,000
01	\$ 129,153,000



Lawful Purpose Expenditures

	FY 2010	FY 2009	% Change
Available for Lawful and Charitable Contributions	\$ 41,799,000	\$ 44,403,000	-5.9
State Gambling Taxes Paid	35,808,000	37,844,000	-5.4
Gross receipts state tax	15,359,000	16,027,000	-4.2
Net receipts state tax	1,889,000	1,912,000	-1.2
Combined receipts state tax	18,560,000	19,905,000	-6.8
TOTALS	\$ 77,607,000	82,247,000	-5.6

State Gambling Taxes

	<u>Taxes paid</u>	<u>Refund</u>	<u>Net taxes (after refund)</u>	<u>Net taxes as % of Gross receipts</u>	<u>Net receipts</u>
10	\$42,628,000	6,820,000	35,808,000	3.65%	19.92%
09	44,761,000	6,917,000	37,844,000	3.67%	20.00%
08	50,019,000	7,328,000	42,691,000	3.74%	20.54%
07	56,461,000	7,477,000	48,984,000	3.87%	21.13%
06	58,519,000	7,381,000	51,138,000	3.91%	21.40%
05	61,621,000	7,333,000	54,288,000	3.95%	21.63%
04	63,539,000	6,900,000	56,639,000	3.99%	22.01%
03	62,698,000	6,566,000	56,132,000	3.96%	22.13%
02	62,655,000	6,232,000	56,423,000	3.92%	21.73%
01	62,147,000	6,246,000	55,901,000	3.89%	21.33%

The three state gambling taxes included as lawful purpose expenditures are:

Gross Receipts Tax

1.7 percent of the gross receipts on pull-tab and tipboard games.

Net Receipts Tax

8.5 percent on the net receipts on bingo, raffles, and paddlewheels.

Combined Receipts Tax

A progressive tax calculated on the gross receipts from pull-tab games, tipboards, and interest.

Allowable Expenses

An allowable expense is an expense or a proportion of an expense directly related to the conduct of lawful gambling.

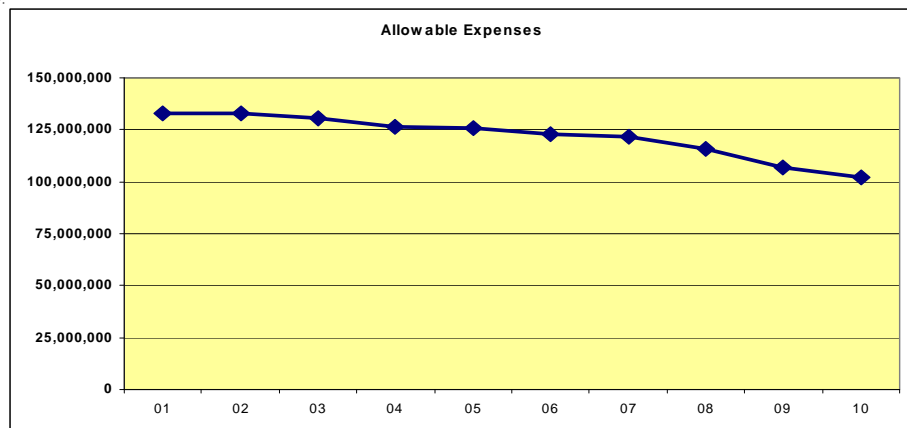
Allowable expenses as reported to the Department of Revenue included:

Operating Cost	FY10	FY09	% Change
Compensation and payroll taxes ¹	49,966,000	\$52,206,000	-4.3
Gambling equipment (pull-tabs, bingo paper, tipboards, paddletickets)	18,157,000	18,665,000	-2.7
Rent ²	17,760,000	19,258,000	-7.8
Accounting and legal work	6,563,000	6,965,000	-5.8
Office supplies and miscellaneous expenses	5,324,000	5,673,000	-6.2
Gambling device purchase, storage, maintenance (paddlewheel & table, bingo number selection device, pull-tab dispensing device)	2,253,000	2,282,000	-1.3
Penalty and interest paid on taxes	54,000	87,000	-37.9
Cash shortages (see next page)	1,163,000	1,249,000	-6.9
Utilities (premises owned by organization)	402,000	432,000	-6.9
Bond; local government investigation fee ³	251,000	292,000	-14.0
Advertising	438,000	457,000	-4.2
Theft and liability insurance	563,000	614,000	-8.3
Expenses were offset by reimbursements from a source of nongambling funds for the following:			
Excess cash shorts	(603,000)	(610,000)	-1.1
Negative expense calculations	<u>(124,000)</u>	<u>(625,000)</u>	<u>-80.2</u>
TOTAL	\$102,167,000	\$106,945,000	-4.5%

1. Lessors and their employees may not be paid compensation.
2. Rent is all-inclusive (utilities, etc.) and for bar operations, the lessor must reimburse all cash shortages.
3. License and permit fees paid to the state are reported as a lawful purpose instead of as an allowable expense.

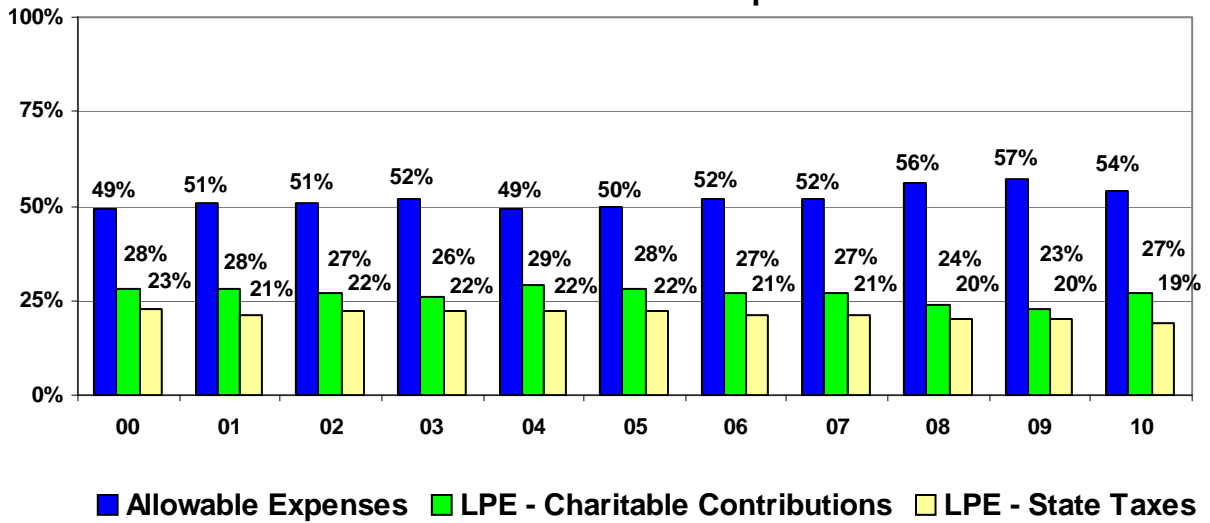
Ten-Year Comparison of Allowable Expenses

10	\$102,167,000
09	\$106,945,000
08	\$115,541,000
07	\$121,700,000
06	\$122,928,000
05	\$126,026,000
04	\$126,412,000
03	\$130,471,000
02	\$132,644,000
01	\$132,960,000

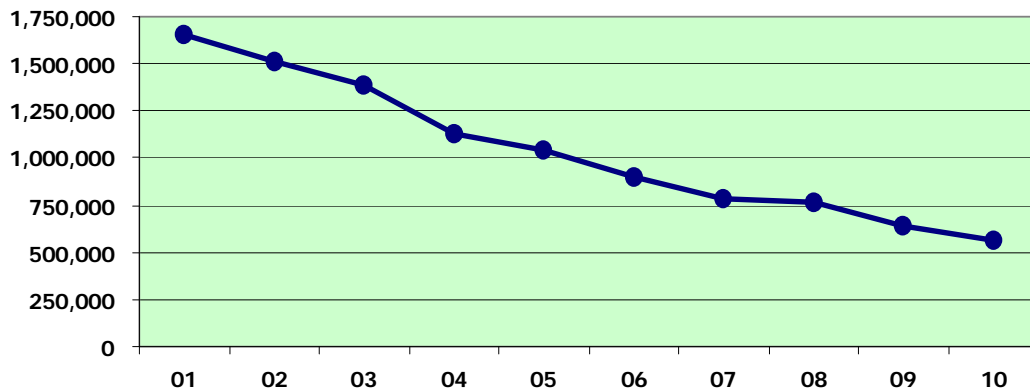


Lawful Gambling Statistics

Distribution of Net Receipts



Net Cash Shortages



FY	Net cash shortages	As % of gross receipts
10	\$ 560,000	0.06%
09	639,000	0.06%
08	763,000	0.07%
07	788,000	0.06%
06	896,000	0.07%
05	1,038,000	0.08%
04	1,132,000	0.08%
03	1,383,000	0.10%
02	1,513,000	0.11%
01	1,656,000	0.12%

A cash shortage is the difference between the reported net receipts for a game and the actual cash on hand to be deposited for that game.

For reporting purposes, shortages may not exceed three-tenths of one percent (.3%) of gross receipts (sales) and are treated as an allowable expense.

For bar operation leases, cash shortages must be reimbursed by the lessor.

The Board closely monitors cash shortages, because shortages may indicate theft or mismanagement.

Government

Legislative Changes

Lawful purpose expenditures Effective May 28, 2010, veteran and fraternal organizations may pay a proportional amount of utilities (water, heating, electricity, and sewer costs) for the portion of a building used as the primary headquarters, with prior approval of the Gambling Control Board director [Minn. Stat. 349.12, Subd. 25(a)(16)(ii)].

This will allow organizations that lease out a portion of the building, such as an apartment or office, to pay for a portion of the utilities related to the portion of the building used for its headquarters (with prior approval).

Rule Changes

Rulemaking process In October 2009 the Board initiated a rulemaking process with a Request for Comments published in the State Register.

The proposed rules pertaining to lawful gambling, chapters 7861, 7863, 7864, and 7865, are being amended to address statutory changes that occurred in 2007, 2008, and 2009; to repeal obsolete language; delete unnecessary language; provide clarification of rule language; and consolidate similar requirements for manufacturing standards of pull-tabs and tipboards.

It is expected that the rules process will be completed in early 2011.

Local Government

Voluntary A10 LPE contributions

- Organizations may provide voluntary contributions to units of government (under lawful purpose code A-10) for government programs and projects of the United States, the state of Minnesota, or local units of government.
- The city or county is not required to report the receipt of these contributions to the Board.

10% fund contributions, when mandated by ordinance

As established by ordinance, a city or county (not a township) may require an organization to contribute up to 10% per year of net profits to a fund that the city or county administers.

- The city or county may only spend the fund for charitable contributions (Minn. Stat. 349.12, subd. 7a), or for police, fire, and other emergency or public safety-related services, equipment, and training.
- The fund may not be used for the payment of pension obligations or general government functions.
- A licensed organization that contributes to the 10% fund may not be a beneficiary of the fund.
- A city or county that has a 10% fund must submit a report to the Gambling Control Board by March 15.

- In fiscal year 2010, a total of **\$6,589,000** was contributed to units of government for contributions allowed under code A-10.
- In calendar year 2009, 97 cities required 10% fund contributions as mandated by city ordinance. A total of \$774,000 was contributed to cities for 10% funds. Cities reported a balance of \$1,200,000 for future distribution.

Education Program

An integral part of the Board’s mission is educating the lawful gambling industry. To ensure the integrity of the industry, education is provided to organizations through the following opportunities.

Continuing Education Classes Speaking Engagements

Gambling managers are required to attend one class each year.

Continuing education classes are conducted at various locations throughout the state free of charge and are open to the public. The chief executive officer, members, and employees of the organizations are invited as well.

During the fiscal year, 67 continuing education classes were conducted.

Staff also participated in 12 speaking engagements throughout the state at conferences and conventions, such as American Legion, VFW, Eagles, and Lions.



Other Education Programs

Gambling Manager Seminars

Gambling manager seminars are conducted each month by Board staff. Each seminar consisted of two days of training and included information on statutes, rules, conduct of lawful gambling, internal controls, reporting and licensing requirements, and the organization’s responsibilities.

Mentoring

The Board’s mentoring program provides one-on-one training to organizations on how to properly manage their gambling operation and comply with all reporting requirements. The program also provides guidance to licensed organizations that have experienced serious operational difficulties. New organizations or existing organizations with a new gambling manager may voluntarily participate in this program.

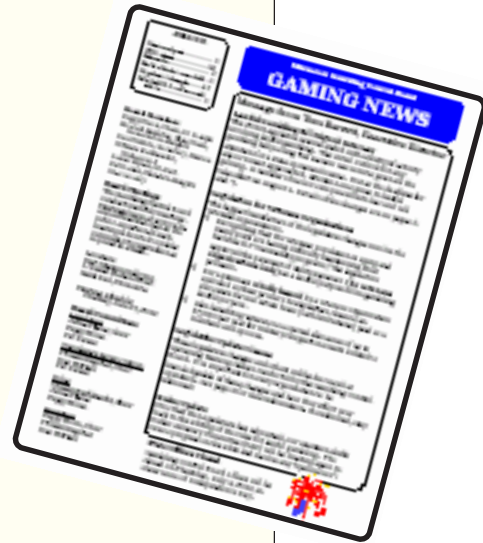
Gaming News

The Board publishes the bi-monthly *Gaming News* newsletter on its web site at www.gcb.state.mn.us. The newsletter is mailed to all licensed gambling managers. Subscriptions to the newsletter are available through Minnesota's Bookstore.

Gaming News provides up-to-date information on compliance, licensing, and education issues.

Gaming News also includes information on legislative and rule changes, scheduled continuing education classes, forms, and Board activities.

The Departments of Revenue and Public Safety and the Internal Revenue Service periodically contribute articles for the newsletter.



The *Lawful Gambling Manual* is a handy reference guide for CEO's, gambling managers, and organizations--whether new or experienced.

The *Manual* provides information on statute and rule requirements in an easy to understand format, and was last updated in 2009.

The *Manual* is divided into chapters that are easily referenced for:

- √ licensing requirements,
- √ conduct for each form of lawful gambling: pull-tabs, bingo, raffles, paddlewheels, and tipboards,
- √ managing gambling equipment inventory,
- √ guidelines for internal controls of the gambling operation including accounting and administrative controls, with a section on monthly oversight,
- √ how net receipts may be spent, and
- √ a cross-reference index.

“Everything you always wanted to know about lawful gambling...” can be found on the Board’s web site at:



www.gcb.state.mn.us

BOARD INFORMATION



Minnesota Gambling Control Board

- ✓ Meeting dates and agenda
- ✓ Summary of monthly Board meetings

PUBLICATIONS

- Gaming News
- CEO Guidebook
- Illegal Gambling
- Lawful Gambling Manual
- Who May and May Not Play
- Raffle Ticket Requirements
- Bingo FAQ

LOCAL GOVERNMENT

- authority and restrictions
- local tax or investigation fee
- contribution fund
- reports

LINKS

- Links to other agencies
- Link to legislature
- E-mail links to staff

EDUCATION AND OTHER INFORMATION

“We’re here to help”



- Continuing education; training dates
- Request for mentoring
- Forms
- Lawful gambling statutes and rules
- List of licensees
 - nonprofit organizations
 - distributors and manufacturers
 - linked bingo game providers

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This publication will be made available in alternative format
(large print, Braille) upon request.