

**LAWFUL GAMBLING FUND OF  
LAKEVILLE HOCKEY ASSOCIATION**

**LICENSE #02059**

**FEDERAL ID #41-1638866 MINNESOTA ID #2914126**

**REGULATORY BASIS FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**Year Ended June 30, 2008**

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
LICENSE #02059  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members  
Lakeville Hockey Association  
Lakeville, Minnesota

We have audited the accompanying statement of assets, liabilities and profit carryover - regulatory basis of the Lawful Gambling Fund of Lakeville Hockey Association as of June 30, 2008, and the related statement of revenues, expenses and changes in profit carryover - regulatory basis for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Department of Revenue of the State of Minnesota as "regulatory basis," which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and profit carryover of the Lawful Gambling Fund of Lakeville Hockey Association as of June 30, 2008, and the results of its operations and changes in its profit carryover for the year then ended, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Board of Directors, members and management of Lakeville Hockey Association and for filing with the Department of Revenue of the State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

October 23, 2008

*Enestvedt & Christensen*

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
 LICENSE #02059  
 STATEMENT OF ASSETS, LIABILITIES AND PROFIT CARRYOVER -  
 REGULATORY BASIS  
 June 30, 2008

ASSETS

Cash		
Gambling bank accounts:		
Interest bearing		\$ 109,997
Cash - games closed		4,523
Cash - starting game banks		11,500
		11,500
Total cash		126,020
Inventory of games		2,151
		2,151
TOTAL ASSETS		\$ 128,171

LIABILITIES

Accounts payable		
State gambling taxes		\$ 4,272
Control board fee		85
		85
TOTAL LIABILITIES		4,357

Commitments

PROFIT CARRYOVER

Profit carryover		
		123,814
TOTAL LIABILITIES AND PROFIT CARRYOVER		\$ 128,171

See accompanying notes to financial statements.

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
 LICENSE #02059  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN PROFIT CARRYOVER -  
 REGULATORY BASIS  
 Year Ended June 30, 2008

	Amount	Percent
<b>REVENUES</b>		
Pull-tab receipts	\$ 1,455,642	92.2%
Bingo receipts	40,451	2.5%
Raffle receipts	83,344	5.3%
Interest income	138	0.0%
	<u>1,579,575</u>	<u>100.0%</u>
<b>REVENUES COLLECTED</b>		
<b>COST OF REVENUES</b>		
Pull-tab prizes	1,150,942	72.9%
Bingo prizes	27,966	1.8%
Raffle prizes	13,000	0.8%
	<u>1,191,908</u>	<u>75.5%</u>
<b>GROSS PROFIT</b>	387,667	24.5%
<b>ALLOWABLE EXPENSES</b>	<u>170,710</u>	<u>10.8%</u>
<b>REVENUES IN EXCESS OF ALLOWABLE EXPENSES</b>	<u>216,957</u>	<u>13.7%</u>
<b>LAWFUL PURPOSE EXPENDITURES</b>		
Gambling taxes		
State combined receipts tax	38,545	2.4%
State gambling tax on raffles and bingo	7,040	0.4%
State board fees	1,580	0.1%
State ideal gambling taxes	34,450	2.2%
State ideal gambling taxes refund	(10,412)	-0.7%
State license fees	1,200	0.1%
	<u>72,403</u>	<u>4.6%</u>
Total gambling taxes		
Program expenditures	<u>145,000</u>	<u>9.1%</u>
<b>TOTAL LAWFUL PURPOSE EXPENDITURES</b>	<u>217,403</u>	<u>13.8%</u>
<b>EXPENSES IN EXCESS OF REVENUES</b>	<u>(446)</u>	<u>0.0%</u>
<b>PROFIT CARRYOVER - BEGINNING OF YEAR</b>	<u>124,260</u>	
<b>PROFIT CARRYOVER - END OF YEAR</b>	<u>\$ 123,814</u>	

See accompanying notes to financial statements.

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
LICENSE #02059  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

**NOTE 1 - NATURE OF ORGANIZATION**

Beginning in March 1989, the Organization commenced lawful gambling. The Organization currently has four permitted gambling operation sites to increase its program services and thereby better serve youth hockey. The Organization has a charitable gambling license. The forms of gambling conducted by the Organization during the year ended June 30, 2008 included pull-tab, bingo and raffle games. Revenues in excess of allowable expenses generated by the Lawful Gambling Fund can only be used for lawful purposes and Board approved expenditures as defined by Minnesota statutes.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION** - The regulatory basis of accounting is the basis of accounting prescribed by the State of Minnesota, which is a comprehensive basis of accounting other than United States generally accepted accounting principles. The regulatory basis of accounting differs from the accrual method of accounting in that under the regulatory method, all costs other than the cost of the games and certain gaming taxes are expensed when paid. In addition, under the accrual method, state gambling taxes paid upon purchase of the game would be considered prepaid upon purchase and expensed during the period the game is used. Under the regulatory method, these state gambling taxes are expensed when paid. Also, under the regulatory method, the cost of equipment is expensed, whereas under United States generally accepted accounting principles, such expenditures are capitalized and depreciated over the asset's estimated useful life.

**USE OF ESTIMATES** - The preparation of financial statements in conformity with the regulatory basis of accounting 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.

**PULL-TAB RECEIPTS** - Gross receipts represent amounts collected from sale of pull-tabs.

**BINGO RECEIPTS** - Gross receipts represent amounts collected from customers.

**RAFFLE RECEIPTS** - Raffle receipts and the related prizes are reported in the period the raffle is conducted.

**CASH-STARTING GAME BANKS** - Starting game banks consist of imprest amounts which are used to fund open play of games.

**INVENTORY OF GAMES** - Inventory consists of the vendor costs of the games purchased. State gambling taxes paid upon purchase of the games are not included in inventory.

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
 LICENSE #02059  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 June 30, 2008

**NOTE 3 - COMMITMENTS**

The Organization leases space for the sites of its lawful gambling activities within the City of Lakeville, Minnesota. The lease agreements require 10% of gross profits per month with a maximum of \$1,750 per month at two sites and 20% of gross profits per month with a maximum of \$2,500 per month at the other locations. The term of each lease agreement is concurrent with the premise permit issued by the Gambling Control Board, unless terminated sooner by mutual consent of the lessor and lessee. Rent expense for the year ended June 30, 2008 was \$42,903.

In addition to lawful gambling sites, the Organization leases office space within the City of Lakeville, Minnesota at \$260 per month. This expense is included in bank charges and other expenses.

**NOTE 4 - INCOME TAXES**

The Organization is exempt from state and federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as other than a private foundation. However, the Organization is required to pay state and federal income taxes on unrelated business income. Under the regulatory method of accounting, income taxes are recognized when paid.

**NOTE 5 - RESULTS OF GAME TESTING**

Subsequent to year end, the Organization's independent auditors selected 20 pull-tab games, including games with unsold tickets, and 8 bingo sessions from all active sites to be tested as part of their audit.

The exceptions (greater than \$2) of their testing, as reported to the Organization, are as follows:

Game Serial Number	Unsold Tickets		Prizes Paid	
	As Reported on Gambling Tax Return	Amount as Tested	As Reported on Gambling Tax Return	Amount as Tested
320008	\$ 940	\$ 943		
3232485	768	765		
3262590	61	66		
P003553	1,398	1,399	\$ 1,437	\$ 1,637
P104386			2,416	2,412
7752751	626	627	2,080	2,083
	<u>\$ 3,793</u>	<u>\$ 3,800</u>	<u>\$ 5,933</u>	<u>\$ 6,132</u>

On June 30, 2008, the inventory of pull-tab games was observed by the Organization's independent auditors. No exceptions in the Organization's perpetual inventory records were noted. At all locations, the pull-tab games in play, either the bar and/or the booth, were operating and cash on hand of \$3,053 was counted.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors and Members  
Lakeville Hockey Association  
Lakeville, Minnesota

Our report on our audit of the basic financial statements - regulatory basis of the Lawful Gambling Fund of Lakeville Hockey Association for the year ended June 30, 2008 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 7 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, members and management of Lakeville Hockey Association and the Department of Revenue of the State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Christensen*

October 23, 2008

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
 LICENSE #02059  
 RECONCILIATION OF GAMES USED - REGULATORY BASIS  
 Year Ended June 30, 2008

	<u>Amount</u>	<u>Number of Games</u>
PULL-TABS		
Cost of games used		
Beginning inventory	\$ 1,446	33
Purchases	<u>29,662</u>	<u>630</u>
	31,108	663
 Less: Ending inventory	 <u>2,007</u>	 <u>45</u>
 Total cost of games used	 <u><u>\$ 29,101</u></u>	 <u><u>618</u></u>
 Reconciliation of games used:		
Games used per books above		618
Games used and reported per monthly reports		<u>618</u>
 Difference		 <u><u>-</u></u>

See independent auditor's report on supplementary information.

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
 LICENSE #02059  
 ANALYSIS OF MAXIMUM ALLOWABLE EXPENSES - REGULATORY BASIS  
 Year Ended June 30, 2008

GROSS PROFIT	<u>\$ 387,667</u>
Allowable expenses	
Cost of games used	\$ 29,321
Compensation and payroll taxes	69,082
Accounting services	14,300
Bank charges and other expenses	12,256
Rent	42,903
Cash shortages	3,561
License, permits and bond	520
Equipment and maintenance	1,562
Reimbursement for cash shortages	<u>(2,795)</u>
Total allowable expenses	170,710
 Maximum allowable expenses by Minnesota State Statute	 <u>233,849</u>
 Maximum allowable expenses in excess of allowable expenses - current year	 63,139
 Beginning cumulative maximum allowable expenses in excess of allowable expenses	 751,307
 Adjustment to Department of Revenue amount License renewal adjustment - 15% carryforward	 (4,373) <u>(689,734)</u>
 Ending cumulative maximum allowable expenses in excess of allowable expenses	 <u>\$ 120,339</u>

See independent auditor's report on supplementary information.

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
 LICENSE #02059  
 RECONCILIATION OF PROFIT CARRYOVER - REGULATORY BASIS  
 Year Ended June 30, 2008

Additions:

Cash in gambling bank accounts	\$ 109,997
Cash in starting game banks	11,500
Ending inventory	2,151
Cash receipts not deposited from games closed and reported on Schedule B	<u>4,523</u>
 Total additions	 <u>128,171</u>

Subtractions:

Tax to be paid to Department of Revenue	<u>4,357</u>
 Total subtractions	 <u>4,357</u>

Profit carryover from financial statements	123,814
Profit carryover from tax report	<u>123,814</u>
 Variance from balance	 <u><u>\$ -</u></u>

See independent auditor's report on supplementary information.

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## REPORT ON REGULATORY CHECKLIST QUESTIONNAIRE

To the Board of Directors and Members  
Lakeville Hockey Association  
Lakeville, Minnesota

We have audited the financial statements - regulatory basis of the Lawful Gambling Fund of Lakeville Hockey Association as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Gambling Fund is the responsibility of Lakeville Hockey Association. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we completed the Regulatory Checklist Questionnaire that is attached to this report. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

This report is intended for the information and use of the Board of Directors, members and management of Lakeville Hockey Association and for filing with the Department of Revenue of the State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Enestvedt & Christensen*

October 23, 2008

LAWFUL GAMBLING FUND OF LAKEVILLE HOCKEY ASSOCIATION  
 LICENSE #02059  
 REGULATORY CHECKLIST QUESTIONNAIRE  
 June 30, 2008

Name of Organization Lakeville Hockey Association

Organization License Number B-02059 Date of Audit 06-30-08

Instructions: Based on the information obtained during the course of the audit, respond to the following statements for the period being audited. If there was not sufficient information available during the audit to respond to a statement, circle "N/A" for that statement.

- |  |                              |    |                              |
|--|------------------------------|----|------------------------------|
| 1. The Organization conducted gambling only at sites for which it had obtained a premises permit or a one day off-site permit.                                       | <input type="checkbox"/> Yes | No | N/A                          |
| 2. The Organization had a licensed gambling manager at all times gambling was conducted.   | <input type="checkbox"/> Yes | No | N/A                          |
| 3. A lessor, a member of a lessor's immediate family, or an employee of a lessor was not a gambling manager of the Organization.                                     | <input type="checkbox"/> Yes | No | N/A                          |
| 4. The Organization's gambling manager was bonded for an amount of at least \$10,000.  | <input type="checkbox"/> Yes | No | N/A                          |
| 5. Checks for the expenditure of gross profits from gambling were signed by at least two active members of the Organization who have been authorized to sign checks. | <input type="checkbox"/> Yes | No | N/A                          |
| 6. The Organization did not pre-sign gambling account checks.  | <input type="checkbox"/> Yes | No | N/A                          |
| 7. The Organization did not use signature stamps to sign gambling account checks.  | <input type="checkbox"/> Yes | No | N/A                          |
| 8. If the Organization has terminated all gambling activity, a termination plan has been filed with the Gambling Control Board.                                      | Yes                          | No | <input type="checkbox"/> N/A |
| 9. The Organization has paid all rent for the lease of premises in accordance with its lease agreements.   | <input type="checkbox"/> Yes | No | N/A                          |

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## REPORT ON INTERNAL CONTROL

To the Board of Directors and Members  
Lakeville Hockey Association  
Lakeville, Minnesota

In planning and performing our audit of the financial statements - regulatory basis of the Lawful Gambling Fund of Lakeville Hockey Association for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Lakeville Hockey Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies, either in the design or implementation of internal control. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We believe management's request for us to prepare a draft of your financial statements, including the related notes to financial statements, constitutes a material weakness. Management has reviewed, approved, and accepted responsibility for those financial statements prior to their issuance.

This report is intended solely for the information and use of the Board of Directors, members and management of Lakeville Hockey Association and the Department of Revenue of the State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

*Enestvedt & Christensen*

October 23, 2008