

FINANCIAL HIGHLIGHTS

Since the Lottery began selling tickets on April 17, 1990, hundreds of Scratch Games have been introduced, big jackpot games like Powerball® are now enjoyed by over 50 percent of Minnesota adults, retailers have earned millions of dollars in commissions and incentives and players have won billions of dollars in prizes. Over \$1 billion has been awarded to state beneficiaries.

Fiscal year 2004 was a year of change, growth and excitement for the Minnesota State Lottery.

THE LOTTERY TRANSFERRED A RECORD \$100.7 MILLION TO THE STATE OF MINNESOTA IN FISCAL YEAR 2004

The \$100.7 million transfer resulted from lottery sales of \$386.9 million. The contribution is an increase of 26.8 percent, or \$21.3 million, over fiscal year 2003. This breaks the Lottery's previous record fiscal year contribution, recorded in fiscal year 1997, by \$11.6 million.



A PRESS CONFERENCE WAS HELD AT DODGE NATURE CENTER IN WEST ST. PAUL WHERE THIS CEREMONIAL CHECK, REPRESENTING THE TRANSFER OF \$100 MILLION TO THE STATE OF MINNESOTA, WAS PRESENTED TO GOVERNOR TIM PAWLENTY.



***"MY HUSBAND GRABBED ME AND HUGGED ME. I THOUGHT, 'I'M RICH - I HAVE MONEY!'"
- CAROL CURRENT OF CEDAR CASH BLAST, \$100,000***

Sales from Scratch Games totaled \$215.7 million in FY04, or 55.75 percent of lottery sales — a 2.26 percent increase over fiscal year 2003. The increase in Scratch Game sales can be attributed to a greater number of price points, recognizable play styles, seasonal games, customized inventory control at retailer locations, increased ticket merchandising and second chance drawings.

Online Game sales reached a record \$171.2 million in fiscal year 2004. Sales from Powerball®, Hot Lotto®, Gopher 5®, Daily 3® and the two newest Online Games, Northstar Cash® and G3™ Games, increased 21.5 percent over fiscal year 2003.

Per capita sales for FY04 were \$76, with a high of \$165 in Polk County and a low of \$38 in Lincoln County. A record number of Minnesota adults, or 60 percent of those aged 18 years and older, played the Lottery in 2004.

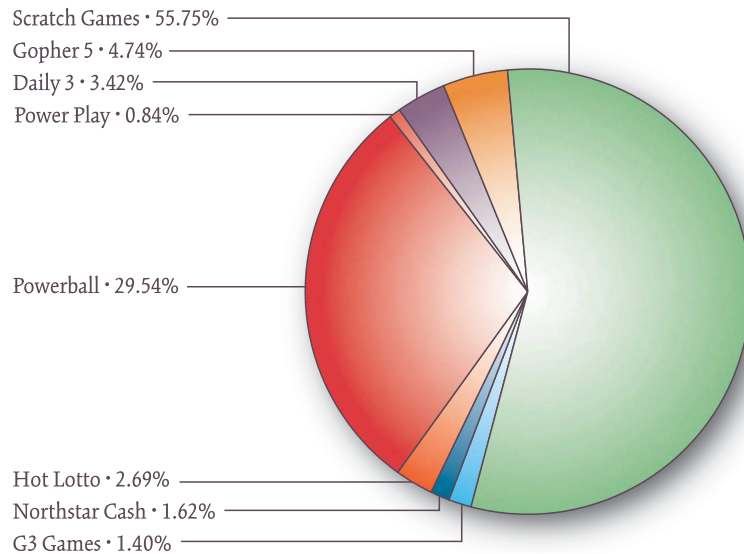


TO CELEBRATE THE LOTTERY'S 14TH ANNIVERSARY, A PLAY DAY WAS HELD AT SUPERAMERICA IN ROSEVILLE, WHERE MINNESOTA'S FIRST MULTI-MILLION DOLLAR JACKPOT WINNER PURCHASED HER WINNING TICKET.



**"I THOUGHT, 'I'M DREAMING; I CAN'T BE AWAKE.'"
- AMY SPICER OF BIG LAKE
NORTHSTAR CASH, \$179,711**

FY 2004 SALES BY GAME



WHERE THE MONEY GOES

Every time a player purchases a lottery ticket, Minnesota wins. The Minnesota State Lottery transferred \$100.7 million to the State of Minnesota in FY04. The Legislature determines how this money is distributed.

Forty percent of lottery net proceeds (the money remaining after the in-lieu-of sales tax, prizes, retailer commissions and operating costs are paid) is directed 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 that up to 5.5 percent of the market value of the fund can be utilized for projects each year. The principal of the Environment and Natural Resources Trust Fund was \$342.3 million on June 30, 2004.

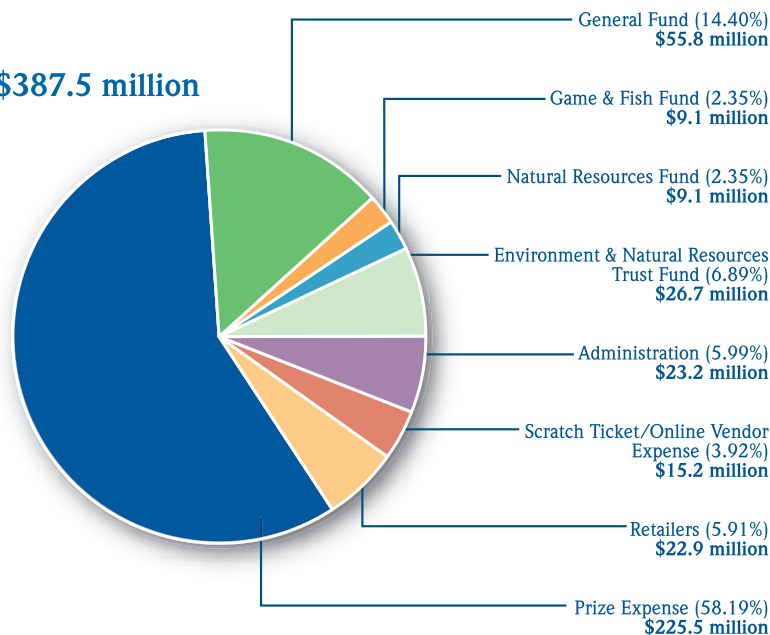
The Trust Fund is used to fund projects of long-term benefit to Minnesota's environment and natural resources. The Trust Fund may not be used as a substitute for traditional sources of environmental or natural resource funding. Applications for funding are made to the Legislative Commission on Minnesota Resources (LCMR), which makes project recommendations to the full Legislature. The Legislature must pass a bill allocating the funds. Once passed, the bill may be signed or vetoed by the Governor. The Minnesota State Lottery has no input into how the money is spent.

The Environment and Natural Resources Trust Fund received \$26.7 million in lottery net proceeds in FY04. Since the Lottery's start-up in 1990 through the current biennium (2003-05), the Trust Fund has financed 276 projects worth \$161.9 million to improve Minnesota's environment and natural resources.



ELMORE JERNIGAN OF ST. PAUL WON A \$100,000 GOPHER 5 JACKPOT ON SEPT. 15, 2003.

FY 2004 Revenue: \$387.5 million





"THE INTERNATIONAL WOLF CENTER WORKS TO ADVANCE THE SURVIVAL OF WOLF POPULATIONS BY TEACHING ABOUT WOLVES, THEIR RELATIONSHIP TO WILD LANDS AND THE HUMAN ROLE IN THEIR FUTURE."



DISTINCTIVE SIGNS THAT FEATURE THE PRAIRIE CONEFLOWER DESIGNATE PRAIRIE PASSAGE ROUTES IN MINNESOTA.



HISTORIC FORT RIDGELY LOCATED NORTHWEST OF NEW ULM.

The Environment and Natural Resources Trust Fund has funded projects large and small in each of Minnesota's 87 counties. Some projects include: the development of educational curriculum for students at the International Wolf Center in Ely; the production of *Uncommon Ground: An Educational Television Series* that chronicles the changes in Minnesota's landscape over the last 200 years; the purchase and designation of 3,683 acres of land in 14 counties to Wildlife Management Areas for hunting and recreational use; the designation and planting of 480 acres of prairie grass and wildflower seeds to the National Prairie Passage route, which runs through Minnesota from the Manitoba border to the Iowa border; and trail construction and installation of interpretive markers at Fort Ridgely, located on the banks of the Minnesota River northwest of New Ulm.

The remaining 60 percent of lottery net proceeds is transferred to the State General Fund. K-12 and higher education, health and human services and criminal justice are just a few of the programs that receive funding from the General Fund. The Lottery transferred \$55.8 million to the General Fund in FY04. This amount included a portion of the 6.5 percent in-lieu-of-sales tax, unclaimed prizes and funds used for problem gambling treatment and prevention. The Lottery has transferred over \$741.6 million to the General Fund since 1990.

Currently, 6.5 percent of lottery sales is transferred to the State as in-lieu-of-sales tax payments — in FY04, 36.2 percent of this payment was directed to the Game & Fish Fund for activities that improve, enhance or protect fish and wildlife resources in Minnesota; and 36.2 percent 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. The General Fund received the remaining 27.6 percent of in-lieu-of-sales tax payments.

The Game & Fish Fund and Natural Resources Fund each received more than \$9.1 million from lottery revenue in fiscal year 2004.

The Lottery contributed \$1.9 million to the Department of Human Services for problem gambling treatment and prevention. From fiscal year 1990 through fiscal year 2004, the Lottery contributed \$18.4 million to these programs.

Problem gambling prevention and treatment remains an important issue for the Minnesota State Lottery. The Lottery continues to develop materials, provides extensive problem gambling material on its Web site and places problem gambling materials at all lottery retail locations. The Lottery also continues as an active member of the National Council on Problem Gambling and Northstar Problem Gambling Alliance.

THIS YEAR'S WINNERS AND GAMES



PLAYERS WON \$225.5 MILLION IN PRIZES THIS YEAR

On Oct. 27, 2003, 16 school co-workers from Holdingford, Minn., who called themselves the "Happy Huskers," claimed half of the \$190.9 million Powerball® jackpot from the Oct. 25, 2003 drawing.

Each member of the group contributed 25 cents every paycheck for Powerball tickets — enough to purchase one ticket for each of the four Powerball drawings held during the two-week pay period.

Their quarters paid off when the group claimed their cash option prize of \$49.7 million. Each member of the group received \$3.1 million (before withholding).



NEWS OF THE HAPPY HUSKERS' POWERBALL WIN SPREAD QUICKLY. TV CREWS WAITED AT LOTTERY HEADQUARTERS AS THE WOMEN ARRIVED BY MOTOR COACH TO CLAIM THEIR PRIZE.



The Happy Huskers became Minnesota's 16th Powerball jackpot winners since Powerball began in 1992 and the first since Dec. 1, 2001. Minnesota has also had six jackpot winners of Lotto*America®, Powerball's predecessor.

The Holdingford winners inspired other lottery players, including 12 employees of Altru Hospital in Grand Forks, N.D. The group began pooling 50 cents per person per drawing after hearing the Happy Huskers' story. In only three short months, the 12 employees claimed a \$100,000 Powerball prize from the Jan. 21, 2004 drawing.

The Holdingford Powerball winners also motivated a group of four kitchen staff and two custodians, who called themselves the “Pioneer Lucky Six,” to pool their money. The group from Pierz, Minn. began a Gopher 5® pool on Jan. 9, 2004. Each player contributed \$1 every week (50 cents per drawing) to purchase three Gopher 5 tickets. To their surprise, they won a \$55,000 Gopher 5 prize on Feb. 24, 2004.



"I WAS SO EXCITED!"
- TROY LEIBOLD OF
DUBUQUE, IOWA
MAGNIFICENT 7S, \$77,777

SCRATCH GAMES & WINNERS

The Lottery launched 41 Scratch Games in FY04 — sixteen \$1 games, twelve \$2 games, seven \$3 games, five \$5 games and one \$7 game.

Twenty-five players won cash prizes ranging from \$50,000 to \$100,000 and four players won a 100th Anniversary Harley-Davidson® Heritage Softail® Classic motorcycle as the top prize playing the Harley-Davidson® Scratch Game.



To help promote the Harley-Davidson® Scratch Game, which began in June 2003, the Lottery held a 10-month long Harley-Davidson® second chance drawing promotion. During the promotion, players mailed non-winning Harley-Davidson® Scratch tickets to the Lottery for a chance to win one of 702 Harley-Davidson® merchandise packs. Merchandise pack winners were automatically entered into the grand prize drawing held on March 15, 2004. Karen Billman of Pequot Lakes (previous page) was the lucky winner of the grand prize, a 100th Anniversary Harley-Davidson® Heritage Softail® Classic motorcycle.

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***"I WON A HARLEY-DAVIDSON!
I CAN'T BELIEVE THIS! I'VE
NEVER WON A GRAND PRIZE
LIKE THIS BEFORE."
- KEVIN LEWIS OF BROOKLYN
PARK, WINNER OF A HARLEY-
DAVIDSON® SCRATCH GAME
TOP PRIZE.***





SCRATCH GAMES

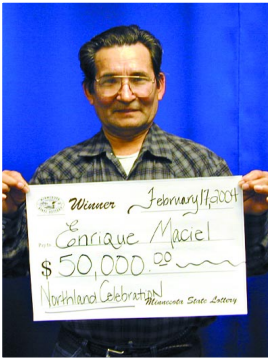


The Timberwolves Scratch Game, which launched on Dec. 30, 2003, was one of several Scratch Games to offer a second chance drawing component. For \$3, players took their chance at winning the game's top prize of \$25,000. Players who did not win a cash prize could enter their nonwinning Timberwolves Scratch Game ticket(s) into a second chance drawing to win a Timberwolves Getaway package (home or away game) or a Timberwolves/NBA merchandise pack.

Following the Timberwolves Scratch Game, the Lottery launched a \$3 NHL® All-Star Scratch Game, where players could win a cash prize of \$20,000. An NHL® All-Star Scratch Game second chance drawing promotion was also held for this game. Players mailed their non-winning NHL® All-Star Scratch Game tickets to the Lottery for a drawing. Twenty players won an NHL All-Star Experience package that included two tickets to the 2004 NHL® All-Star Game at Xcel Energy Center in St. Paul. The Lottery also awarded 700 NHL All-Star merchandise packs.

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Five lucky players won a Timberwolves Getaway package. These winners, along with an additional 835 players, also won Timberwolves/NBA merchandise packs that included two reserved seats to a Minnesota Timberwolves home game.



ENRIQUE MACIEL OF BUTTERFIELD WAS A LUCKY \$50,000 NORTHLAND CELEBRATION! SCRATCH GAME WINNER!



NORTHSTAR CASH



On Oct. 7, 2003, the Minnesota State Lottery launched Minnesota's newest all-cash lotto game called Northstar Cash®. 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 it is won. Northstar Cash was designed with the daily player in mind, combining the excitement of a daily drawing with higher payouts.

Northstar Cash took off quickly and continued to be a popular game throughout the fiscal year. Northstar Cash sales for fiscal year 2004 totaled \$6.3 million. There were 268 drawings that produced over 1 million winning tickets, including 40 jackpot prizes ranging from \$25,000 to \$179,711. A total of \$3.4 million was paid to Northstar Cash winners in fiscal year 2004.



"I THOUGHT IT WOULD BE FUN," JOAN MARSHALL OF RAMSEY SAID OF SENDING IN FIVE ENTRIES. "I'M A CHANCE TAKER. I WAS VERY EXCITED; I WAS JUST ELATED! I ALWAYS KNEW I'D WIN SOMETHING BIG."

To help introduce Northstar Cash, the Lottery conducted a player promotion. From Oct. 7 to Nov. 4, 2003, players who made a \$5 Northstar Cash purchase (on one ticket) received an entry for a drawing to win one of three Ford Ranger XLT trucks. Approximately 21,500 entries were received. Three lucky women won the Ford Rangers, including Joan Marshall (right).



A FAN OF THE LOTTERY, MICHAEL BRIDGEMAN OF MINNEAPOLIS WANTED TO GET IN ON THE NORTHSTAR CASH ACTION WHEN THE GAME BEGAN IN OCTOBER 2003. TO HIS DELIGHT, HE WON \$33,000. "I WAS PRETTY EXCITED," SAID BRIDGEMAN. "WE'RE GOING TO HAVE FUN WITH IT."

G3 GAMES



The Lottery launched a game like no other on Feb. 3, 2004. Called G3™ Games and developed by the Minnesota State Lottery, the game combines the instant-win aspect of Scratch Games with the look of an Online Game. Generated by the Online terminal, the tickets are quick to produce and easy to redeem, since players do not wait for a drawing to determine if they have a winning ticket. The first G3 Game offered to players was G3 1-card Bingo, a \$1 game with a top prize of \$1,000.

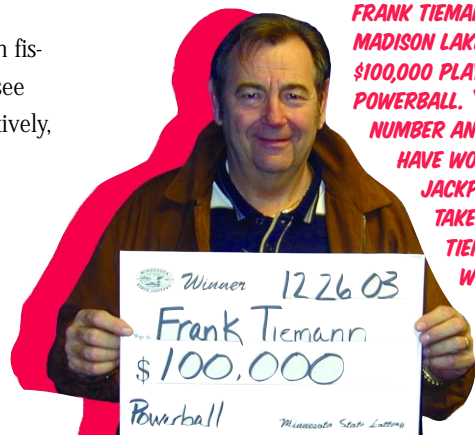
G3 1-card Bingo was such a success that on May 4, 2004, the Lottery introduced the second G3 Game — G3 3-card Bingo. For \$5, G3 Bingo players receive three bingo play cards on one ticket with the chance to win up to \$25,000.

Sales of the two G3 games totaled \$5.4 million in fiscal year 2004. G3 Games produced 863,555 winning tickets worth more than \$2.9 million.

POWERBALL

Powerball® remains a player favorite in Minnesota and throughout the country. In fiscal year 2004, North Dakota and Tennessee became the 27th and 28th lotteries, respectively, to sell the game.

Minnesota Powerball sales totaled \$114.3 million in fiscal year 2004. One Powerball jackpot ticket and 26 tickets winning \$100,000 each were sold in Minnesota — 3,073,132 winning tickets paid out over \$67.7 million in Powerball prizes.



FRANK TIEMANN OF MADISON LAKE WON \$100,000 PLAYING POWERBALL. "ONE MORE NUMBER AND I WOULD HAVE WON THE JACKPOT. BUT I'LL TAKE \$100,000," TIEMANN SAID WITH A SMILE.

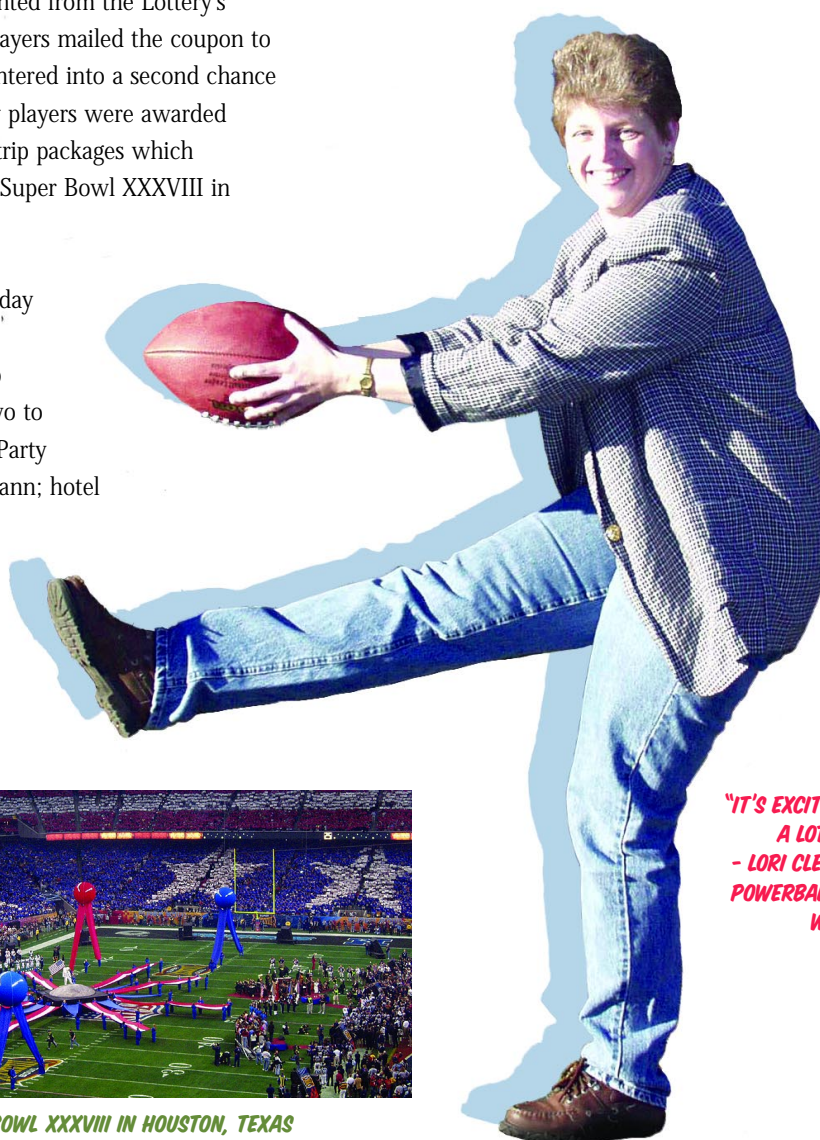
To promote Powerball® and Power Play®, the Minnesota State Lottery, along with 18 other lotteries, offered a Powerball® Sunday second chance drawing promotion.

From Sept. 7 to Dec. 28, 2003, players who made a \$10 (minimum) Powerball (or Powerball with Power Play) purchase on one ticket automatically received a Powerball Sunday coupon printed from the Lottery's Online terminal. Players mailed the coupon to the Lottery to be entered into a second chance drawing. Ten lucky players were awarded Powerball Sunday trip packages which included tickets to Super Bowl XXXVIII in Houston, Texas.

The Powerball Sunday trip package also included round-trip coach airfare for two to Houston; an MVP Party hosted by Lynn Swann; hotel accommodations; ground transportation; a \$500 spending allowance; and commemorative merchandise.



SHELDON POSS OF FARGO, N.D. DECIDED TO PURCHASE A \$10 POWERBALL TICKET AFTER A STORE CLERK TOLD HIM THAT HE WOULD GET AN ENTRY FOR THE POWERBALL SUNDAY PROMOTION. "I HAD A FUNNY FEELING ABOUT IT. I THOUGHT, 'I AM DEFINITELY GOING TO MAIL THIS IN,'" HE RECALLED.



***"IT'S EXCITING - IT WILL BE A LOT OF FUN!"
- LORI CLEMENS OF EYOTA POWERBALL SUNDAY TRIP WINNER***



SUPER BOWL XXXVIII IN HOUSTON, TEXAS

POWER PLAY®

For an extra \$1 per Powerball® play, players can purchase the Power Play® option to multiply their Powerball prizes (except the jackpot) by two, three, four or five times.

THANKS TO POWER PLAY, ELMER SALO OF PRINCETON MULTIPLIED HIS MATCH 5 POWERBALL PRIZE BY THE POWER PLAY NUMBER OF 5 TO WIN \$500,000. "IT'S MORE MONEY," SALO SAID OF HIS POWER PLAY PURCHASE. "I LOOK FORWARD TO RETIREMENT A LITTLE SOONER THAN I PLANNED."



HOT LOTTO



While Minnesota did not have a Hot Lotto® jackpot winner in fiscal year 2004, players and the State of Minnesota benefited from a jackpot that began at \$1 million on Dec. 24, 2003 and continued to roll through the end of the fiscal year, when it stood at a record \$5.68 million. The growing jackpot fueled Hot Lotto sales, which totaled \$10.4 million for the fiscal year. Hot Lotto produced a total of 654,191 winning tickets with prizes of over \$2.4 million.

GOPHER 5



**"I CAME TO GET MY 'GREEN' TODAY!"
- MARY GRAY OF COLOGNE
GOPHER 5, \$249,633**

Minnesota's own cash lotto game, Gopher 5®, was good to players in fiscal year 2004. The game produced a record \$1.39 million jackpot on Jan. 20, 2004. Another 18 jackpots were won during the year, with prizes ranging from \$55,000 to \$572,304. The record \$1.39 million Gopher 5 jackpot was claimed by two residents of Grand Marais on Jan. 27, 2004. Gopher 5 sales reached \$18.3 million, paying the holders of 281,283 winning tickets over \$10.6 million.



DAILY 3



On April 24, 2004, the Lottery held its 5000th Daily 3® drawing. Daily 3 sales of \$13.2 million for the fiscal year can be attributed to the game's dedicated players. Daily 3 produced 57,813 winning tickets paying players more than \$6.9 million this year.

POWERBALL INSTANT MILLIONAIRE



From Aitkin to Zimmerman, Minnesota State Lottery players continued to enjoy the *Powerball Instant Millionaire*™ television game show.

Each week one contestant from Minnesota was selected to appear as an on-air contestant while other players (at-home players) were selected to win prizes playing from home. The on-air contestants received round-trip airfare for two to Las Vegas and three-nights lodging at The Venetian® resort, hotel and casino,

where the game show was filmed. On-air contestants also won a minimum of \$1,000 with the chance to win up to \$1 million in the bonus round. Contestants selected to play from home won at least \$100. If their state's contestant advanced to the bonus round, the prize increased to \$500 — that amount increased to \$10,000 if their TV contestant won \$1 million.

In fiscal year 2004, fifty-two TV contestants won a total of \$359,329 in prizes — of these players, five won their way to the bonus round and won a total of \$287,817.

Thanks to the TV contestants, at-home players in Minnesota won too — \$243,300 was awarded to 1,761 at-home players during the fiscal year.



MARVIN REEDSTROM OF WORTHINGTON (LEFT) WON \$101,000 ON THE SHOW THAT AIRED ON AUG. 3, 2003. REEDSTROM WAS UNABLE TO MAKE THE TRIP TO LAS VEGAS SO HIS DAUGHTER, ROBIN WALTER OF HUFFMAN, TEXAS (PICTURED FAR LEFT) APPEARED AS HIS PROXY.

RETAILERS

During the fiscal year, Minnesota State Lottery tickets were sold at approximately 3,000 retail locations throughout Minnesota.

Retailers continued to receive 5.5 cents for each ticket sold at their location, as well as 1 percent of the amount of each winning ticket cashed at their store (up to \$599).

In fiscal year 2004, lottery retailers earned \$22.9 million in commissions and incentives.



Twelve retailers won tickets to a Minnesota Vikings football game and 14 retailers won an autographed football.

Holiday Stationstores won a Ford Ranger XLT truck in the Northstar Cash® retailer incentive. From Oct. 7 to Nov. 3, 2003, retailers automatically earned a computer tracked entry for every \$50 in Northstar Cash sales made at their store. Along with the Ford truck, the Lottery also awarded more than 12,000 lottery T-shirts and 5,000 thermal mugs to its retailers throughout the state.



LOTTERY GENERATES ADDITIONAL TRAFFIC AT LAKE OF THE WOODS FOODS IN BAUDETTE

The Lottery offered two retailer incentive programs in the fall of 2003. For one week in September, retailers participated in a Powerball® Sunday retailer incentive in conjunction with the Powerball Sunday player promotion.

Retailers received an entry to win prizes each time their store sold a \$10 or higher Powerball ticket.



CARROLL'S CORN IN ROCHESTER OFFERS MORE THAN POPCORN

TOP 10 RETAILERS IN FY2004

1. M & H GAS, MOORHEAD
2. METROPOLITAN PUBLIC AIRPORT FOUNDATION - MINNEAPOLIS/ST. PAUL INTERNATIONAL AIRPORT
3. ORTON'S MOORHEAD CITGO, MOORHEAD
4. RICE STREET SPUR, ST. PAUL
5. EAST GRAND STATION, EAST GRAND FORKS
6. WALLY'S C-STORES INC., EAST GRAND FORKS
7. HOLIDAY, ST. PAUL
8. HORNBACHER FOODS, MOORHEAD
9. M & H GAS, ST. PAUL
10. SUPERAMERICA, ROSEVILLE

BENEFICIARIES

In May 2004, the Lottery introduced TV and radio beneficiary ads that informed players that proceeds from the Minnesota State Lottery help Minnesota's environment. Multiple beneficiary spots were created to showcase projects that had been funded in specific regions of the state. The beneficiary spots portrayed the message that when you play, the environment wins.



ENVIRONMENT AND NATURAL RESOURCES TRUST FUND

The Legislature appropriated \$30.1 million from the Environment and Natural Resources Trust Fund for 39 projects for the 2003-2005 biennium. This money is to be spent as follows:

Restoring Minnesota's Fish and Wildlife Habitat Corridors - Phase II — \$4,850,000

Metropolitan Area Wildlife Corridors — \$4,850,000

Metropolitan Regional Parks Acquisition, Rehabilitation and Development — \$3,339,000

Local Initiative Grants - Parks and Natural Areas — \$2,579,000

State Park and Recreation Area Land Acquisition — \$1,500,000

Gitchi-Gami State Trail — \$1,300,000

Water Recreation Projects — \$1,150,000

County Biological Survey — \$900,000

Accelerating and Enhancing Surface Water Monitoring for Lakes and Streams — \$740,000

Native Plants and Alternative Crops for Water Quality — \$622,000

Wastewater Phosphorus Control and Reduction Initiative — \$540,000

Minnesota ReLeaf Community Forest Development and Protection — \$514,000

Local Initiative Grants - Conservation Partners and Environmental Partnerships — \$512,000

Acquisition and Development of Scientific and Natural Areas — \$480,000

Local Water Planning Matching Challenge Grants — \$444,000

Restoring RIM Match — \$400,000

Forest and Prairie Stewardship of Public and Private Lands — \$392,000

Mesabi Trail — \$380,000

Minnesota Landscape Arboretum Land Acquisition — \$350,000

Local and Regional Trail Grant Initiative Program — \$320,000

Continuous Indoor Air Quality Monitoring in Minnesota Schools — \$300,000

Bucks and Buckthorn: Engaging Young Hunters in Restoration — \$255,000

Mesabi Iron Range Geologic and Hydrogeological Maps and Data Bases — \$246,000

Development and Rehabilitation of Minnesota Shooting Ranges — \$240,000

Updating Outmoded Soil Surveys — \$236,000

Advancing Utilization of Manure Methane
Digester Electrical Generation — \$221,000

Biological Control of European Buckthorn and
Spotted Knapweed — \$198,000

Linking Communities: Design, Technology and
DNR Trail Resources — \$184,000

Healthy Schools: Indoor Air Quality and
Asthma Management — \$168,000

TAPwaters: Technical Assistance Program for
Watersheds — \$160,000

Fort Ridgely Historic Site Interpretive Trail —
\$150,000

Resources for Redevelopment of Brownfields to
Greenspaces — \$150,000

Putting Green Environmental Adventure Park:
Sustainability Education — \$132,000

Intercommunity Groundwater Protection —
\$125,000

Developing Pheromones for Use in Carp
Control — \$100,000

Economic-based Analysis of Children's
Environmental Health Risks — \$95,000

Dodge Nature Center Restoration Plan —
\$83,000

Maintaining Zooplankton (Daphnia) for Water
Quality: Square Lake — \$32,000

LCMR Study Commission on Park Systems —
\$26,000

THE NATURAL RESOURCES FUND



In fiscal year 2004, 36.2 percent of the in-lieu-of-sales tax on lottery tickets was dedicated to the Natural Resources Fund. For the 2003-05 biennium, the following projects received funding:

Metro Parks and Trails — \$8,304,000. This grant is to the Metropolitan Council for maintenance and operations at metropolitan area regional parks and trails.

State Park Operations — \$6,924,000. These funds will allow the DNR to restore camping and day use in state parks, make camping available in the spring and fall, provide facility maintenance and security and partially fund winter operations.

State Trail Operations — \$1,380,000

Local Trails — \$1,106,000. Through this program, the DNR will make grants to local units of government for trails. The local governments must agree to maintain the trails for at least 20 years.

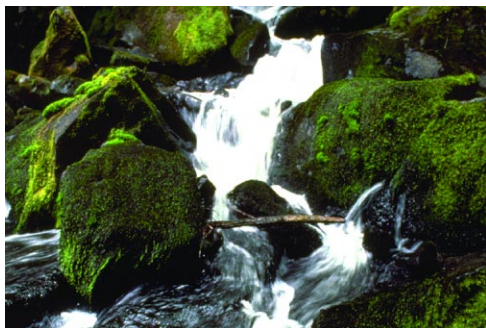
Como Zoo and Conservatory — \$164,000

Duluth Zoo — \$164,000

Minnesota Zoological Gardens — \$164,000

THE GAME & FISH FUND

In fiscal year 2004, 36.2 percent of the in-lieu-of-sales tax on lottery tickets was dedicated to the Game and Fish Fund. For the 2003-05 biennium, the following projects received funding:



Fish Management — \$7,996,000

Wildlife Management — \$5,120,000

Ecological Services — \$2,526,000

Enforcement — \$2,328,000

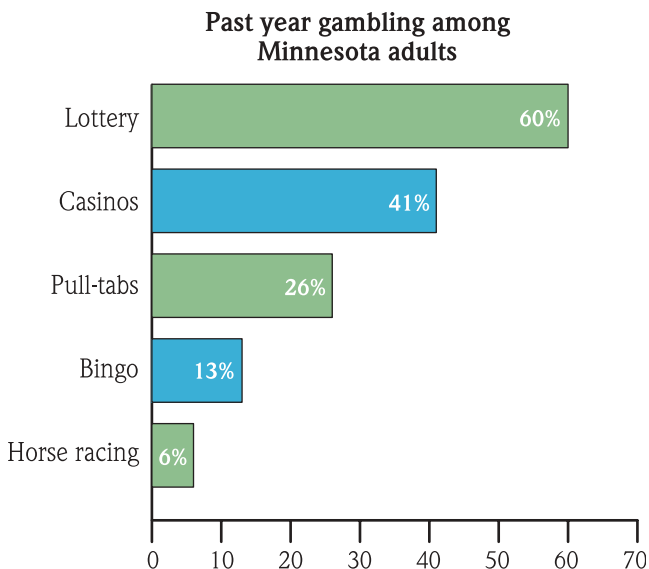
Forestry Management — \$484,000. This appropriation is to be used to implement ecological classification systems standards on forest landscapes.

RESEARCH

The Minnesota State Lottery worked with St. Cloud State University on a survey in April 2004 of the gambling behavior and attitudes of Minnesota adults.

This year's results showed that more than four out of every five Minnesota adults gambled on one activity or another in the year preceding the Lottery's April 2004 survey. The most popular form of gambling was the Minnesota State Lottery. According to the survey, a record 2.3 million adults purchased a lottery ticket in the past year, almost 50 percent more than the number who went to a casino, and more than twice the number who bought a pull-tab.

When asked why players bought lottery tickets, seven out of ten said they liked to daydream about winning. The same number mentioned that playing the lottery doesn't cost very much, and 63 percent said that convenience was a good reason to buy tickets. Fifty-nine percent cited the Lottery's profits going to a good cause as a reason to buy.



PLANS FOR THE FUTURE

On Feb. 19, 2004, the Minnesota Office of the Legislative Auditor (OLA) issued a report on Lottery operations. The purpose of the evaluation was to examine the finances and business practices of the Lottery.

The recommendations by the Office of the Legislative Auditor related to three areas of operations: marketing and advertising, financial accountability and internal operations, including personnel and office space.

The Lottery responded to all 49 of the OLA audit recommendations and submitted its response to the OLA on May 28, 2004.

To operate as a business-focused entity, the Lottery created its first written strategic plan to outline the future direction of the business and the steps needed to achieve the desired results. The strategic plan will drive the Lottery's business and hold it accountable.



Key elements of the strategic plan include core purpose, vision, mission, long-term goal, values and key strategies.

Core Purpose

To raise money for the State of Minnesota.

Vision

The Lottery will be the gaming choice of Minnesota.

Mission

The Lottery offers fun, innovative and secure games that create excitement, reflect Minnesota values and maximize contributions to the State.

Long-term Goal

Contribute \$250 million annually to the State by the year 2024.

To position the business for future growth, Lottery management prepared comprehensive marketing strategies as part of the strategic planning process. These strategies provide a blueprint for making decisions more like a profit-generating business model.

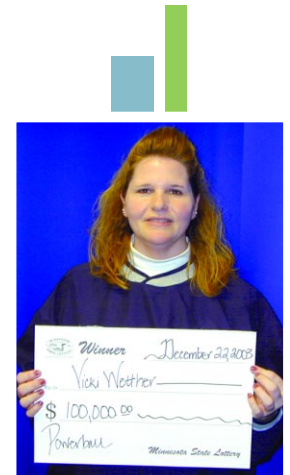


AS A WINNER OF THE NORTHSTAR CASH® SECOND CHANCE DRAWING, SHERRY KLATT OF LAKE PARK KNEW SHE WANTED A RED TRUCK WITH TAN TRIM, YET SHE DIDN'T KNOW HOW HER PERSONALIZED LICENSE PLATE SHOULD READ. KLATT COMMENTED, "MAYBE IT SHOULD READ 'NORTHSTAR CASH.'"

INCOME STATEMENT

	2004	2003
Operating Revenues		
Sales	\$386,918,771	\$351,816,604
Less In-Lieu-of-Sales Tax	<u>25,149,720</u>	<u>22,868,079</u>
Gross Receipts	361,769,051	328,948,525
Direct Costs		
Prize Expense	225,528,718	204,723,065
Scratch Ticket and Online Vendor Expense	15,156,219	15,204,832
Retailer Commissions & Incentives	<u>22,814,588</u>	<u>22,051,010</u>
Total Direct Costs	263,499,525	241,978,907
Gross Profit	98,269,526	86,969,618
Operating Expenses		
Advertising	5,069,953	7,503,607
Salaries and Benefits	11,003,729	12,271,807
Promotion	2,563,982	3,622,305
Purchased Services	864,956	1,540,656
Communication	469,978	850,314
Occupancy Costs	1,932,388	1,974,079
Supplies and Materials	561,877	567,527
Computer and OmniLink Maintenance	131,739	384,216
Depreciation	538,051	1,879,687
Other Expense	913,298	1,169,960
Gain on Settlement of Prize Annuity	<u>(879,724)</u>	<u>0</u>
Total Operating Expenses	23,170,227	31,764,158
Operating Income	75,099,299	55,205,460
Non-Operating Revenues		
Investment Income	461,033	1,329,727
Income Before Transfers	<u>75,560,332</u>	<u>56,535,187</u>
Transfers		
Net Proceeds	66,703,798	48,120,080
Unclaimed Prizes to State	6,960,534	6,619,107
Problem Gambling Contribution from Prize Fund	<u>1,896,000</u>	<u>1,796,000</u>
Total Transfers	<u>75,560,332</u>	<u>56,535,187</u>
Net Income	0	0
Net Assets at Beginning of Year	<u>0</u>	<u>0</u>
Net Assets at End of Year	<u>\$0</u>	<u>\$0</u>

Year ending June 30, 2004 compared to June 30, 2003



**- VICKI WETHER OF
BROOKLYN PARK
POWERBALL®, \$100,000**

BALANCE SHEET

	2004	2003
Assets		
Cash and Cash Equivalents	\$17,134,901	\$19,441,653
Accounts Receivable	6,222,444	6,138,421
Scratch Ticket Inventory	687,372	463,487
Merchandise Prize Inventory	7,701	386,921
Prepaid Expense	515,322	2,730,190
Prize Annuity Investments	0	3,467,327
Capital Assets, Net	933,703	1,588,746
Total Assets	<u>\$25,501,443</u>	<u>\$34,216,745</u>
Liabilities and Net Assets		
Liabilities		
Net Proceeds Due to State	\$3,665,821	\$4,658,550
Unclaimed Prizes Due to State	6,960,534	6,619,107
Due to Other State Agencies	16,108	29,965
Accounts Payable	3,244,043	4,540,06
In-Lieu-of-Sales Tax Payable	16,000	1,958,163
Prize Liability	10,486,948	9,877,328
Compensated Absences Payable	908,212	1,233,186
Deferred Revenue	203,777	950,071
Prize Annuity Payable	0	4,350,311
Total Liabilities	<u>25,501,443</u>	<u>34,216,745</u>
Net Assets	<u>0</u>	<u>0</u>
Total Liabilities and Net Assets	<u>\$25,501,443</u>	<u>\$34,216,745</u>

TOTAL PAID TO STATE BENEFICIARIES

	2004	2003
General Fund		
In-Lieu-of-Sales Tax	\$6,933,778	\$2,972,850
Net Proceeds	40,022,279	28,872,048
Unclaimed Prizes	6,960,534	3,971,464
Problem Gambling Contribution from Prize Fund	1,896,000	1,796,000
Total General Fund	<u>55,812,591</u>	<u>37,612,362</u>
Environment and Natural Resources Trust Fund		
Net Proceeds	26,681,519	19,248,032
Unclaimed Prizes	0	2,647,643
Total Env. & Nat. Resources Trust Fund	<u>26,681,519</u>	<u>21,895,675</u>
Game & Fish Fund		
In-Lieu-of-Sales Tax	9,107,971	9,947,614
Natural Resources Fund		
In-Lieu-of-Sales Tax	9,107,971	9,947,614
Total Paid to State	<u>\$100,710,053</u>	<u>\$79,403,266</u>

Year ending June 30, 2004 compared to June 30, 2003

STATEMENT OF CASH FLOWS

	2004	2003
Cash Flows from Operating Activities		
Cash Received from Customers	\$386,088,453	\$349,482,320
Cash Received from Other Income	109,725	188,917
Payments to State (In-Lieu-of-Sales Tax)	(27,091,883)	(22,661,190)
Payments to Employees	(11,328,704)	(12,194,624)
Payments to Suppliers	(27,270,306)	(31,311,138)
Payments to Retailers	(22,924,313)	(22,192,549)
Payments to Prize Winners	(229,269,409)	(203,643,547)
Net Cash Provided by Operating Activities	<u>68,313,563</u>	<u>57,668,189</u>
Cash Flows from Non-Capital Financing Activities		
Net Proceeds Paid to State	(67,696,527)	(46,472,463)
Problem Gambling Contribution Transfer	0	(3,692,000)
Unclaimed Prizes Transfer	(6,619,107)	(5,115,452)
Net Cash Used by Non-Capital Financing Activities	<u>(74,315,634)</u>	<u>(55,279,915)</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of Capital Assets	(233,042)	(1,039,670)
Net Cash Used by Capital Financing Activities	<u>(233,042)</u>	<u>(1,039,670)</u>
Cash Flows from Investing Activities		
Proceeds from Redemption of Prize Annuity Investments	3,467,328	232,000
Investment Income	461,033	716,262
Net Cash Provided by Investing Activities	<u>3,928,361</u>	<u>948,262</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,306,752)	2,296,866
Beginning of Year Cash and Cash Equivalents	<u>19,441,653</u>	<u>17,144,787</u>
End of Year Cash and Cash Equivalents	<u>\$17,134,901</u>	<u>\$19,441,653</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$75,099,299	\$55,205,460
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	538,051	1,879,687
Loss on Disposal of Capital Assets	350,034	0
Net Change in Assets and Liabilities:		
Inventory	155,335	(25,234)
Other Assets	234,844	(3,317,725)
Current Liabilities	(4,323,309)	2,523,763
Prize Awards Payable	(3,740,691)	1,402,238
Net Cash Provided by Operating Activities	<u>\$68,313,563</u>	<u>\$57,668,189</u>
Noncash Investing Activities		
Net Increase in the Fair Value of Investments	<u>\$0</u>	<u>\$613,464</u>

Year ending June 30, 2004 compared to June 30, 2003



"SIMPLY AMAZING!"
- ROB BARKER AND HIS WIFE
DENISE, OF CLEAR LAKE
NORTHSTAR CASH®, \$70,936

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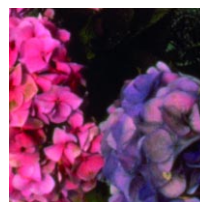
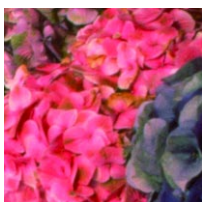
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