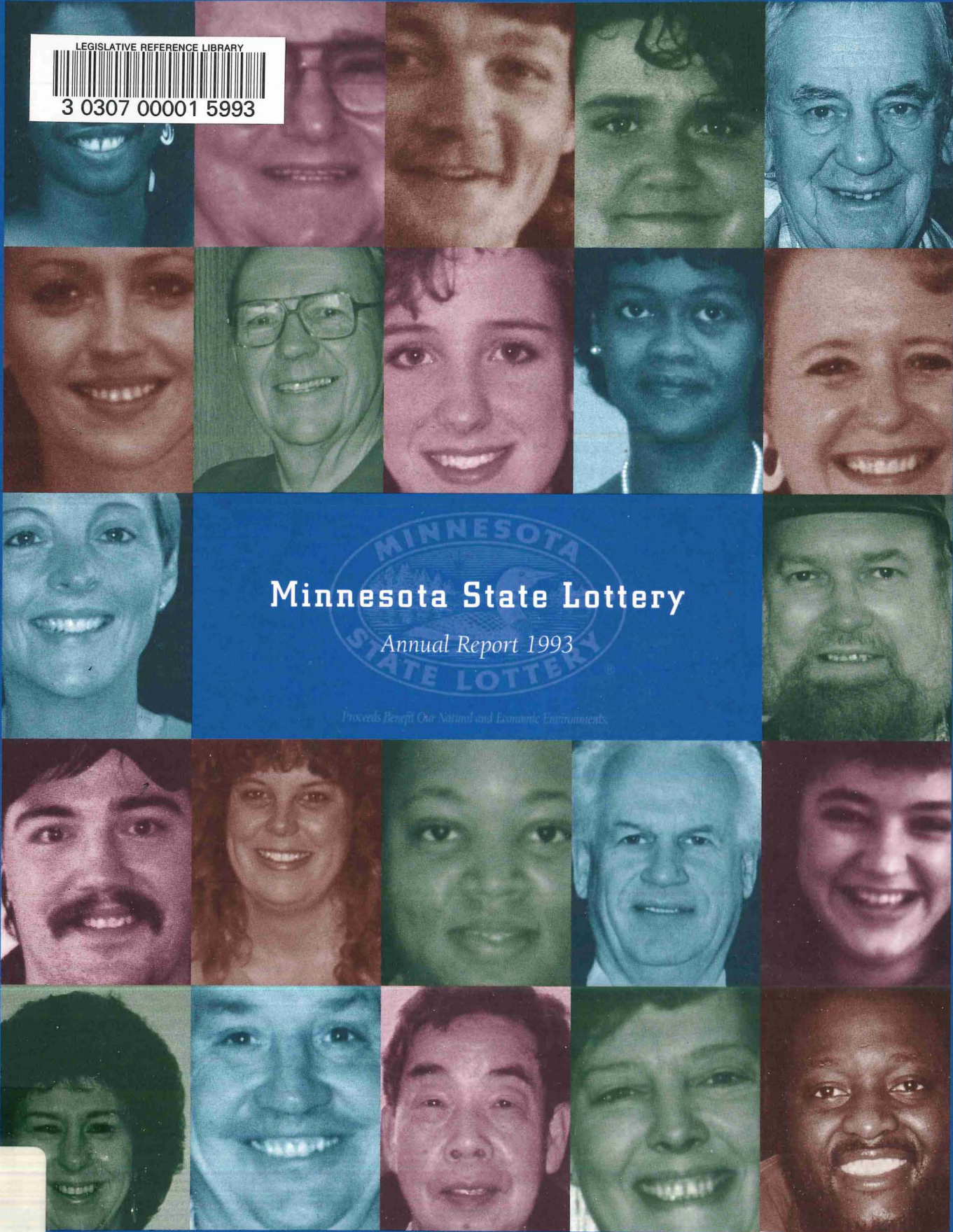


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Minnesota State Lottery
Annual Report 1993

Proceeds Benefit Our Natural and Economic Environments.

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Larry Rixe
1939-1993

Larry Rixe, a member of the Minnesota State Lottery Board, died on May 8, 1993. Husband, father, successful businessman, member of the Big Stone County Board, sportsman, and longtime concerned citizen, his counsel and advice are sorely missed by the staff of the Lottery and the Lottery Board. The Minnesota State Lottery's 1993 Annual Report is dedicated to his memory.

Cover: The cover illustrates the diversity of Minnesota State Lottery players by featuring photographs of lottery winners. From the top left, the winners are:

- Linda Ball, St. Paul
- Robert Hursh, Bloomington
- Walter Wessel, Sauk Centre
- Tracy Phillips, Le Centre
- Leonard Konkkel, Henderson
- Carolyn Worden, White Bear Lake
- Jim Peterson, St. Paul
- Linnea Brunette, Vadnais Heights
- Marsheela Outlaw, Bloomington
- Ann Cloutier-Petty, Hayfield
- Cassandra Barry, Little Canada
- William Harder, St. Paul
- Randy Behrends, Mason City, IA
- Darcie Endlund, Grand Forks, ND
- Regina Evans, Maplewood
- Wilfred Kelley, Wayzata
- Shelly Toulou, Winona
- Viola Kenyon, Minneapolis
- Donald Luethmers, Delano
- James Wong, Brooklyn Center
- Debbie Burgeson, Vadnais Heights
- Lee Smith, Oakdale

Contents

Financial Highlights	2-3
Lottery Players	4-5
Beneficiaries	6-7
Financial Statements	8-11
Lottery Board	12

From the Director...

The Minnesota State Lottery is involved in a wide range of activities, including the design of 16 instant games per year, developing and maintaining sophisticated computer software, the logistics of supplying nearly 4,000 retailers and the management of more than \$300 million. Prize payments range well into the millions of transactions and every winning ticket must be individually validated. Minnesota has the most sophisticated accounting and tracking system anywhere. It is our objective to provide both full accountability and maximum convenience to retailers and our players.

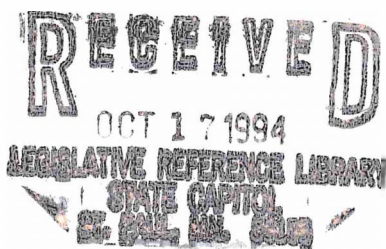
Sometimes we forget that we are involved in a unique association, a private/public sector partnership that is profit-motivated. This report presents the financial aspects of the business but focuses on the players — those folks who really make things work, who represent a majority of Minnesotans and who have woven the Lottery into their everyday lives. We should never discount the public's deep affection for Lottery games, even as we strive to recognize our social and governmental responsibilities with regard to gambling in Minnesota.

The Lottery is a business within state government, is overwhelmingly popular with the public, and is making significant contributions to programs vital to all of us. It was a good year for the Lottery and for Minnesota. Thanks to all who played a part.



George R. Andersen

Director



Proceeds Benefit Our Natural and Economic Environments.

■ **Minnesota State Lottery sales reached a record \$328.8 million in fiscal 1993.**

■ **Contributions to the Environment and Natural Resources Trust Fund and the state's General Fund rose by 6 percent from the previous year.**

■ **For the third consecutive year, operating expenses consumed less of the Lottery dollar.**

Financial Highlights

This was a record year for the Minnesota State Lottery. Sales reached an all-time high of more than \$328 million, up 10.5 percent from the previous year. The Lottery contributed more than \$78 million to the state of Minnesota while aggressively limiting administrative costs to a record low 11 percent of revenue.

Sales of both instant (scratch-off) and numbers games increased substantially. Instant sales rose by 8 percent, driven by the introduction of 14 new games and higher prize payouts. Numbers game sales rose by 17 percent, led by a 30 percent increase in Powerball® sales. Powerball sales were fueled by record jackpots of \$60 million on March 3, 1993, and June 30, 1993. (The Powerball jackpot set another record of \$110 million on July 7, 1993.)

Instant games accounted for 68 percent of Lottery sales, the highest percentage in the nation. Numbers games made up the remaining 32 percent, led by

Powerball with 21 percent. Gopher 5® comprised 7 percent of sales, with Daily 3® making up 5 percent.

The state of Minnesota received more than \$78.5 million from the sale of Lottery tickets, a 6 percent increase from fiscal 1992. The Environment and Natural Resources Trust Fund received more than \$22.8 million and the General Fund received more than \$34.2 million as net proceeds. The General Fund received an additional \$21.3 million from the 6.5 percent in-lieu-of-sales tax on Lottery tickets.

The holders of 65 million winning tickets won \$197 million in prizes in the year ending June 30, 1993. Two lucky players won \$1 million while five won \$100,000 in "Instant Millions," the Lottery's first \$5 instant game. Powerball produced 61 winners of \$100,000, and 33 winners received Gopher 5 jackpots ranging from \$100,000 to \$953,783.

Lottery retailers earned a record \$18.1 million in commissions and

GOPHER 5[®]
Minnesota's Own Cash Lotto Game

incentives. Retailers benefitted both from the public response to new Lottery products and from a large number of promotional partnerships with the Lottery. Lottery retailers ran almost 3,000 individual promotions during the year in addition to several statewide events involving all retailers. Of the 4,045 retailers, 1,852 sold both instant and numbers games, while 2,193 sold instant tickets only.

For the third consecutive year, operating expenses accounted for a smaller share of the Lottery dollar— only 11 percent in fiscal 1993.

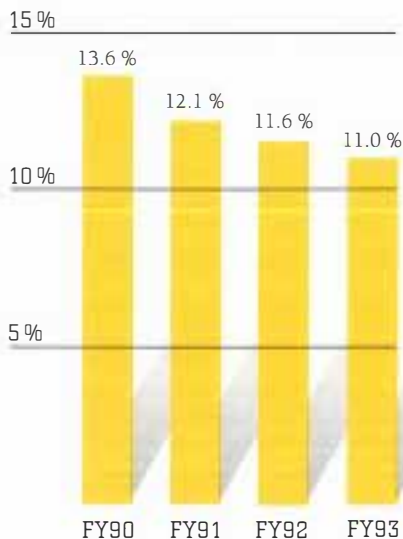
Administrative expenses were kept low through aggressive cost controls and the renegotiation of major procurement contracts at terms favorable to the Lottery.

Per capita Lottery sales reached \$73, ranging from a high of \$125 in Mower County to a low of \$27 in Rock County. Sales increased in 73 of Minnesota's 87 counties, led by a 31 percent increase in Big Stone County.

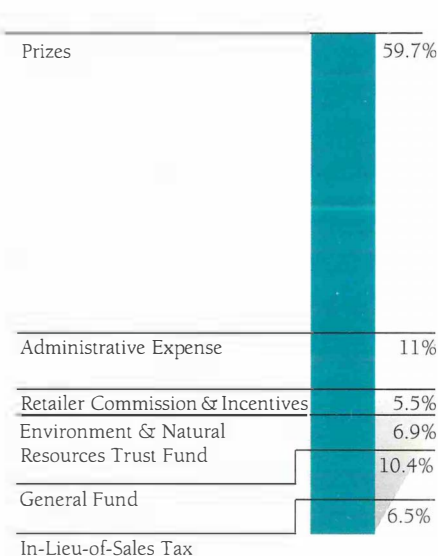
■ **Instant (scratch-off) tickets continue to account for 68 percent of total sales.**

■ **4,045 retailers in 87 counties and 716 cities sold Lottery tickets in fiscal 1993, earning more than \$18.1 million in commissions and incentives.**

Operating Expenses as % of Total Revenue



Minnesota State Lottery FY93 Revenue Distribution



- Nearly two of every three Minnesotans have played the Lottery, making it by far the most popular form of gaming in the state.
- Most Lottery players play for fun and entertainment. Economics are rarely cited as a reason for playing.
- A majority of men, women, young adults, the middle-aged, and those with high school or college educations play the Lottery. It is less popular with the elderly and those without a high school diploma.

Who Plays the Minnesota State Lottery?

Who is the typical Lottery player? One might just as well ask who is the typical Minnesotan. After all, almost two-thirds of Minnesota adults report having played the Lottery. Lottery players live in the cities and in the countryside. They are young and are old. They have a high school education and have advanced degrees. They are male, female, wealthy, of more modest means, business people, scientists, farmers and laborers.

A July 1993 survey conducted for the Lottery by St. Cloud State University illustrated this diversity. The survey found that 63 percent of Minnesota adults acknowledged having played the Lottery, while 50 percent recalled playing the Lottery in the two months prior to the survey.

The Lottery was found to be by far the most popular form of gaming in the state. By contrast, only 18 percent of Minnesota adults had purchased pull tabs in the last two months and 18 percent had visited a Minnesota casino.

Why do Lottery players play? The overwhelming majority play for entertainment. Seventy-four percent of the Lottery players sur-

veyed agreed that "playing the Lottery is fun and exciting." By contrast, only 17 percent agreed that "I play the Lottery because it is a good way to make money." About half of those surveyed cited the proceeds going to a good cause as a reason to play.

Is the Lottery most popular among the poor? The survey's answer was a resounding "no!" Low-income Minnesotans are less likely to play than those of greater means, and those who do participate play less frequently.

Average weekly Lottery expenditures ranged from \$0.52 for households with incomes under \$10,000 to \$1.93 for households with incomes of \$50,000 or more. Lottery play is highest in households with incomes between \$40,000 and \$50,000, and lowest among those with incomes less than \$10,000.

Forty-two percent of adults living in households with annual incomes of \$10,000 or less and 54 percent with incomes between \$10,000 and \$20,000 have played the Lottery, compared with 71 percent of those with incomes of \$20,000 or more. In fact, while the Lottery is overwhelmingly the game of choice among upper-income households, its popularity among low-income households is

virtually identical to that of pull tabs and bingo.

The Lottery is played statewide. When surveyed, the number of adults stating they had played the Lottery ranged from 68 percent in the Twin Cities area to 51 percent in northwestern Minnesota. Tickets are sold in 716 Minnesota cities in all 87 counties.

Gambling in general is strongly related to age and the Lottery is no exception. While between two-thirds and three-quarters of people in every age group between 18 and 64 years old have played the Lottery, only 31 percent of Minnesota's seniors (persons 65 and older) have played. Lottery play is highest among Minnesotans between the ages of 25 and 34. The Lottery is the most popular form of gaming for all age groups except those between the ages of 18 and 20 (where it is second to social bets) and those 65 and older (where it is third to bingo and playing cards for money).

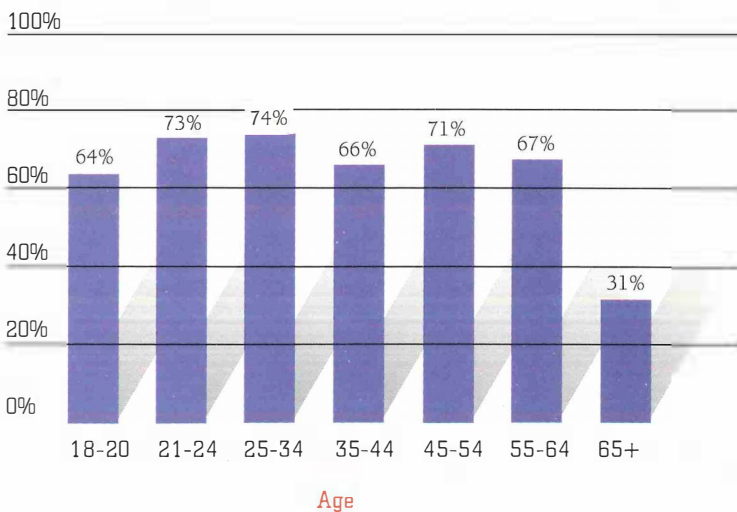
The Lottery is the most popular form of gaming in Minnesota among both men and women, though men are somewhat more likely to play than women. The survey found that 68 percent of Minnesota men had played the Lottery as had 58 percent of Minnesota women. Cards were the next most popular form of gambling for men, while the second most popular game for women was bingo.

Except for those not completing high school, education has little bearing on Lottery play. Sixty-one percent of Minnesotans with college degrees have played the Lottery, as have 68 percent of those with some college and 66 percent of those completing high school. Among those with less than a high school education, however, Lottery participation drops to 41 percent.

The Minnesota State Lottery: It's everybody's game.

"Have You Ever Played the Minnesota Lottery?"

Percent Answering "Yes"



■ Minnesotans with moderate or high incomes are more likely to buy Lottery tickets and spend more money on the Lottery than those with low incomes.

■ Though somewhat more popular in the Twin Cities, the Lottery has been played by a majority of adults in all regions of the state.

■ The Lottery contributed more than \$55.6 million to the state General Fund and more than \$22.8 million to the Environment and Natural Resources Trust Fund in fiscal 1993.

■ From April 1990 through June 1993, the Lottery contributed more than \$250 million to the State of Minnesota, including more than \$75 million to the Environment and Natural Resources Trust Fund.

Beneficiaries

At the Science Museum of Minnesota in St. Paul, a student plays a computer game which demonstrates the links between modern American lifestyles and environmental problems...

In Cass County a snowmobile rides through the wilderness along the Paul Bunyan Trail. The trail, a former railroad bed, will eventually run from Brainerd to Bemidji...

At the University of Minnesota, a researcher uses a new computer data base to help identify a plant so that the proper antidote can be given to a poisoned child...

The common element in each story is funding from the Lottery to the state's Environment and Natural Resources Trust Fund and General Fund.

The Minnesota State Lottery returned more than \$78.5 million to the state of Minnesota in fiscal 1993, an increase of 6 percent (or \$4.5 million), from the previous year. The Environment and Natural Resources Trust Fund receives 40 percent of net Lottery proceeds (money left over after prizes, expenses, taxes and retailer commissions are paid); the General Fund receives the remaining 60 percent plus all funds collected through the 6.5 percent in-

lieu-of-sales tax on Lottery tickets.

The General Fund received more than \$55.6 million from the Lottery in fiscal 1993. Of this amount, more than \$34.2 million came from the fund's share of net proceeds and more than \$21.3 million from the in-lieu-of-sales tax on Lottery tickets.

The General Fund accounts for the vast majority of state government spending, with kindergarten through 12th grade and post-secondary education being the main recipients. The General Fund will receive and spend more than \$16 billion during the 1993-1995 biennium, with most of the money coming from income and sales taxes. Education, health care and local government assistance account for 79 percent of expenditures from the General Fund.

The Environment and Natural Resources Trust Fund received more than \$22.8 million in fiscal 1993. The Legislative Commission on Minnesota Resources (LCMR) appropriates money from the trust fund on a biennial basis to projects submitted by state, local and non-profit agencies. Much of the money received by the trust fund is not appropriated to projects but is added to the principal of the fund. Lottery proceeds are dedicated to the fund through 2001.

1991-1993 Projects

In 1991 the Legislature appropriated \$14.8 million from the Fund to 29 projects. The largest projects, as defined by dollar amount include:

Base Maps for the 1990s - \$1,900,000; County Geological Atlas and Groundwater Sensitivity Mapping - \$1,400,000; Minnesota County Biological Survey - \$1,000,000; Rails-to-Trails Acquisition and Development - \$1,000,000; Environmental Education Program - \$790,000; Statewide National Wetlands Inventory, Protected Water Inventory Map Digitization - \$750,000; Well Sealing Cost Share Grants - \$750,000; Clean Water Partnership Grants to Local Units of Government - \$700,000; Minnesota River Basin Water Quality Monitoring - \$700,000; Insecticide Impact on Wetland and Upland Wildlife - \$650,000

DNR biologists check a live trap to determine the presence of endangered species in Dakota County. The Minnesota County Biological Survey received \$1,000,000 from the Environment and Natural Resources Trust Fund in fiscal years 1992 and 1993.



A young cyclist enjoys the Gateway portion of the Willard Munger Trail, one of several new trails developed through the Environment and Natural Resources Trust Fund.

1993 - 1995 Projects

The 1993 Legislature appropriated \$24.6 million to a new set of 29 projects for the fiscal years 1994 and 1995. Major projects for the current biennium include:

Reinvest In Minnesota (RIM) - Critical Habitat Match - \$4,000,000; State Park Betterment - \$3,000,000; State Trail Development - \$2,327,000; Trail Linkage, Metropolitan Regional Network - \$2,327,000; Minnesota River Implementation - \$1,110,000; Access to Lakes and Rivers - \$1,000,000; St. Louis River Land Acquisition - \$1,000,000; Minnesota County Biological Survey - \$900,000; RIM-Wildlife Habitat Stewardship and Property Development - \$900,000; County Geologic Atlases, Assessments and Groundwater Sensitivity Mapping - \$850,000

- The Legislature appropriated \$14.8 million to 29 projects from the Environment and Natural Resources Trust Fund during the 1991-1993 biennium.
- Another 29 projects will receive almost \$25 million during the 1993-1995 biennium.
- Contributions to the state were up by \$4.5 million from last year.

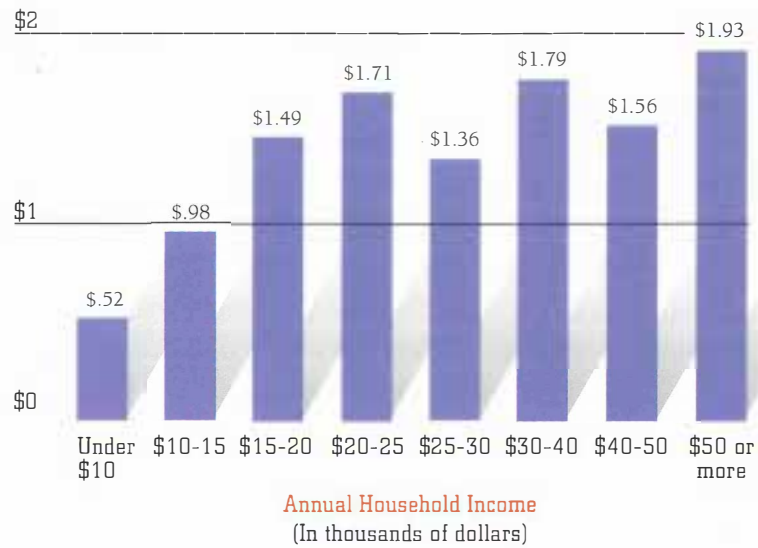
**Where the General Fund Dollars Go
1994-95 Approved Budget**

All Other	5.8 %
Education Finance	31.1 %
Higher Education	12.4 %
Local Aids & Credits	14.3 %
Other Major Local Assistance	3.9 %
Health Care	16.9 %
Family Support	3.4 %
State Institutions	4.7 %
State Operations	7.6 %

**Lottery Income to State
Year Ending June 30, 1993, Compared to Year Ending
June 30, 1992**

Net Proceeds	1993	1992
40% Environment and Natural Resources Trust Fund	\$ 22,857,915	\$ 21,860,291
60% General Fund	34,286,873	32,790,436
Subtotal Net Proceeds	57,144,788	54,650,727
Tax (In-Lieu-of-Sales Tax)	21,374,335	19,344,186
Compulsive Gambling & Public Safety	450,000	450,000
Total to State	\$78,969,123	\$74,444,913

Average Weekly Lottery Spending



Minnesota State Lottery
 Statements of Revenues, Expenses
 and Changes in Retained Earnings
 Years Ended June 30, 1993, and June 30, 1992

<u>Operating Revenues:</u>	1993	1992
Instant Ticket Sales	\$221,999,991	\$205,906,353
On-line Ticket Sales	106,835,931	91,696,540
Total Operating Revenues	328,835,922	297,602,893

<u>Direct Costs:</u>	1993	1992
Instant Prizes	143,120,524	128,444,218
On-line Prizes	53,752,656	44,164,794
Tax-in-Lieu-of-Sales Tax	21,374,335	19,344,186
Retailer Commissions and Incentives	18,160,627	17,533,322
On-line Vendor Expense	7,089,270	6,153,204
Ticket Costs	3,952,288	3,611,959
Total Direct Costs	247,449,700	219,251,683
Gross Profit	81,386,222	78,351,210

<u>Operating Expenses*:</u>	1993	1992
Advertising *	7,800,355	7,608,818
Salaries and Benefits *	7,583,765	7,146,278
Promotion	2,540,684	1,680,109
Purchased Services	939,751	1,204,560
Communication	1,681,496	1,581,881
Occupancy Costs *	1,649,365	1,561,085
Supplies and Materials	592,617	1,298,684
Computer Maintenance	325,309	534,917
Depreciation	1,077,799	971,000
State Agency Fees	450,000	450,000
Other	432,857	533,714
Total Operating Expenses	25,073,998	24,571,046
Operating Income	56,312,224	53,780,164

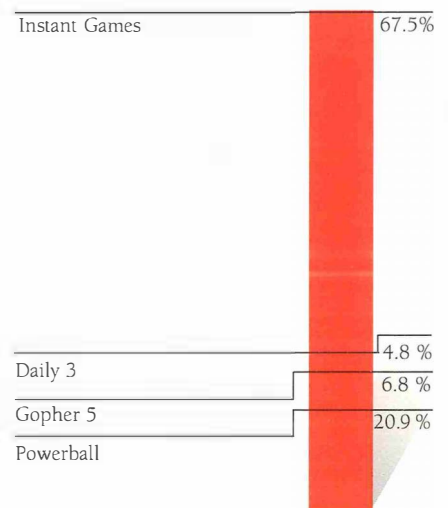
<u>Nonoperating Revenues (Expenses):</u>	1993	1992
Interest Income	929,579	1,038,521
Retailer Fees	108,533	136,165
Other Income	31,160	14,862
Interest Expense	(59,666)	(118,298)
Other Expense	(177,041)	(200,687)
Net Nonoperating Revenues (Expenses)	832,565	870,563
Net Income	57,144,789	54,650,727

<u>Retained Earnings at Beginning of Year *</u>	1993	1992
Net Proceeds to Beneficiaries	57,144,789	54,650,727
Retained Earnings at End of Year *	\$ -	\$ -

Minnesota State Lottery
 Sales by Fiscal Year



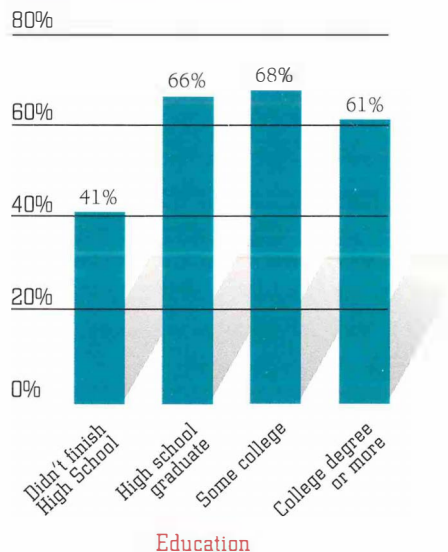
Minnesota State Lottery
 Sales Fiscal Year 1993



* A full financial statement is available on request.

"Have You Ever Played the Minnesota Lottery?"

Percent Answering "Yes"



Minnesota State Lottery Balance Sheets June 30, 1993, and June 30, 1992

Assets	1993	1992
Cash and Cash Equivalents *	\$ 4,772,829	\$ 3,949,921
Investments *	7,089,693	6,859,049
Accounts Receivable, Net	8,333,364	3,722,146
Interest Receivable	80,068	71,947
Instant Ticket Inventory	454,255	252,295
Merchandise Prize Inventory	418,293	1,422,457
Fixed Assets, Net *	2,882,262	3,760,206
Prize Investments	642,487	614,173
Prepaid Expenses	87,420	-
Total Assets	\$24,760,671	\$20,652,194

Liabilities and Retained Earnings

Liabilities:

Net Proceeds Due to State Treasurer *	\$ 6,811,373	\$ 3,496,567
Accounts Payable	3,568,989	3,088,874
Tax-in-Lieu-of-Sales Tax Payable	2,370,849	1,659,495
Prize Liability	7,442,620	8,109,134
Reserve for Prizes and Incentives	1,877,343	3,012,287
Retailer Incentives Payable	1,372,716	-
Compensated Absences Payable	515,955	398,351
Deferred Revenue	158,339	273,313
Prize Annuity Payable	642,487	614,173
Total Liabilities	\$24,760,671	\$20,652,194

Commitments and Contingencies *

Retained Earnings *

Total Liabilities and Retained Earnings	\$24,760,671	\$20,652,194
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* A full financial statement is available on request.

Minnesota State Lottery
 Statements of Cash Flows
 Years Ended June 30, 1993 and June 30, 1992

Cash Flows from Operating Activities:	1993	1992
Operating Income	\$56,312,224	\$53,780,164
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,077,799	971,000
Changes in Assets and Liabilities:		
Accounts Receivable	(4,611,218)	(1,057,627)
Interest Receivable	(8,121)	61,130
Instant Ticket Inventory	(201,960)	292,463
Merchandise Prize Inventory	1,004,164	(1,422,457)
Prepaid Expenses	(87,420)	-
Accounts Payable	480,115	(1,035,913)
Tax-in-Lieu-of-Sales Tax Payable	711,354	318,153
Prize Liability	(666,514)	839,103
Reserve for Prizes and Incentives	(1,134,944)	1,114,944
Retailer Incentives Payable	1,372,716	-
Compensated Absences Payable	117,604	27,487
Deferred Revenue	(114,974)	125,183
Net Cash Provided by Operating Activities	54,250,825	54,013,630
Cash Flows from Noncapital Financing Activities:		
Proceeds Paid to Beneficiaries	(53,829,983)	(54,108,002)
Retailer Fees	108,533	136,165
Other Income	31,160	14,862
Other Expense	(177,041)	(200,687)
Net Cash Used by Noncapital Financing Activities	(53,867,331)	(54,157,662)
Cash Flows from Capital Financing Activities:		
Purchases of Fixed Assets	(207,767)	(959,105)
Proceeds from Disposal of Fixed Assets	7,912	-
Interest Expense	(59,666)	(118,298)
Net Cash Used by Capital Financing Activities	(259,521)	(1,077,403)
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investments	15,501,346	18,528,364
Purchases of Investments	(15,731,990)	(17,293,121)
Interest Income	929,579	1,038,521
Net Cash Provided by Investing Activities	698,935	2,273,764
Net Increase in Cash and Cash Equivalents	822,908	1,052,329
Beginning of Year Cash and Cash Equivalents	3,949,921	2,897,592
End of Year Cash and Cash Equivalents	\$ 4,772,829	\$ 3,949,921

Minnesota State Lottery Board



1993 MINNESOTA STATE LOTTERY BOARD

From left: Jim Evans, Ruth Simmons, Gail Rubin, Grace Nelson, Wes Lane, Jean Rixe, John Milne

Grace Nelson, Welch, is chair of the Lottery Board. She recently retired from Welch Village Ski Area, a family owned business. Nelson was appointed to the Board in 1992.

Jim Evans, Detroit Lakes, serves on the board of directors of First American Bank, Detroit Lakes. He was a state representative from 1976 to 1984 and formerly owned Evans Markets, Detroit Lakes. Evans has served on the Board since 1991.

Wes Lane, Roseville, is a representative for the Teamsters' Democratic-Republican-Independent-Voter Education (D.R.I.V.E.) program. Lane was first named to the board in 1989.

John Milne, Mendota Heights, is sales operations director for the Traffic Control Materials Division of 3M Company. He was first appointed to the Board in 1989.

Jean Rixe, Clinton, is activities director for the Good Samaritan Center Nursing Home and a member of the Clinton City Council. Rixe was appointed to the Lottery Board in July, 1993.

Gail Rubin, Minneapolis, is a consultant specializing in idea synthesis and written communications. She was appointed to the Lottery Board in 1992.

Ruth Simmons, Gilbert, is a high school educator. She was named to the Lottery Board in 1992.

Minnesota State Lottery

Headquarters

Roseville

2645 Long Lake Road
Roseville, Minnesota 55113
612-635-8100

Customer Service

(Weekdays 8 a.m. - 5 p.m.)
1-800-475-4000
297-7456 (Twin Cities area)
24-hour Player Hotline
1-800-657-3496
297-7371 (Twin Cities area)

Regional Offices

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Virginia, Minnesota 55792
218-749-9650
Mark Staniger, *Regional Manager*

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Detroit Lakes, Minnesota 56501
218-846-0700
Sandy Buchholtz, *Regional Manager*

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612-456-5454
Ron Wilkinson, *Regional Manager*

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Lottery Director

Jim Burleson
Director for Marketing

Mary Ellen Hennen
Director for Administration

Don Masterson
Director for Operations

Dick Bacon
Chief of Security

Don Feeney
Research and Planning Director

Debbie Hoffmann
Executive Assistant

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of Natural Resources

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