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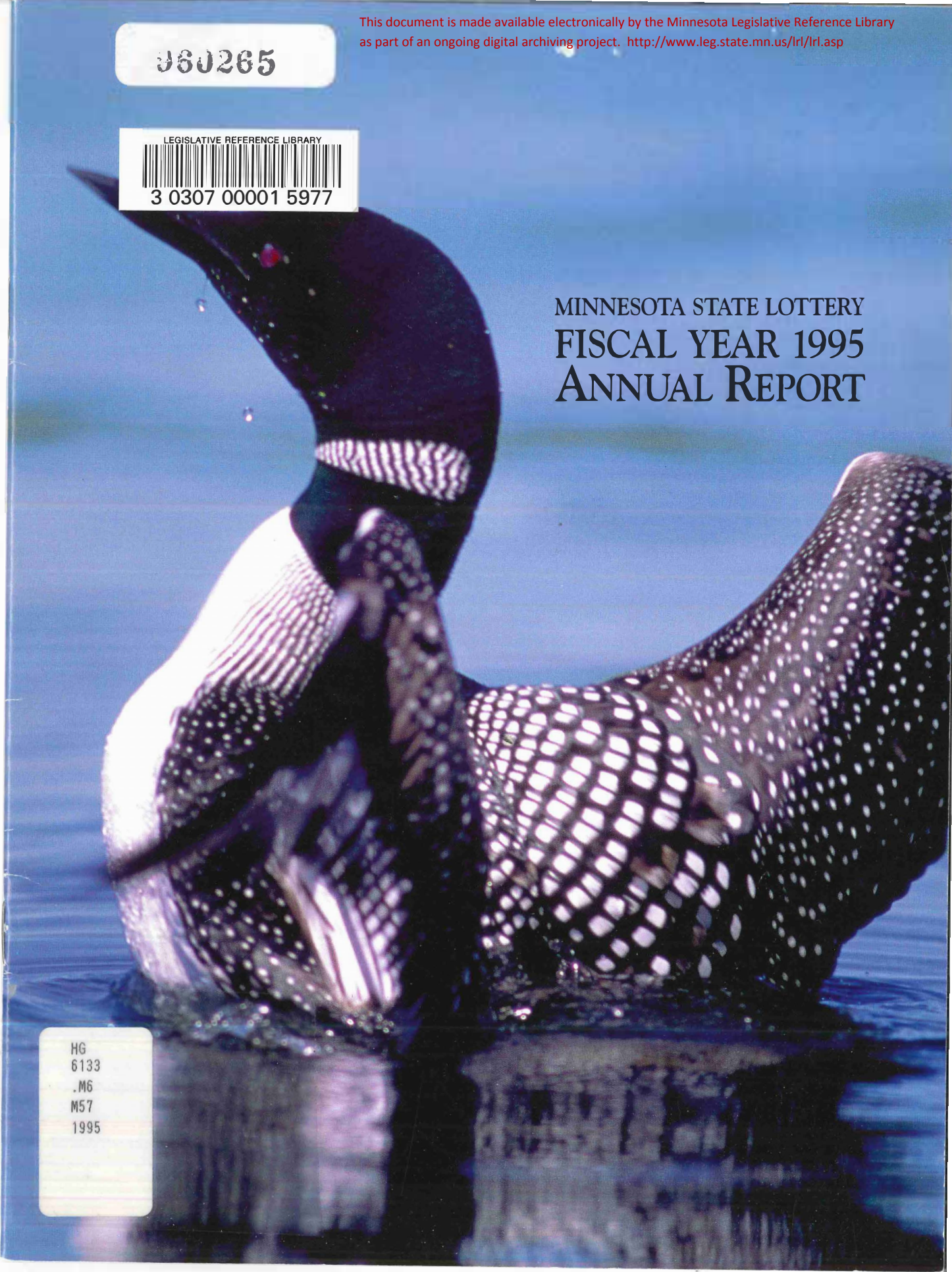
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MINNESOTA STATE LOTTERY FISCAL YEAR 1995 ANNUAL REPORT

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LETTER FROM THE DIRECTOR

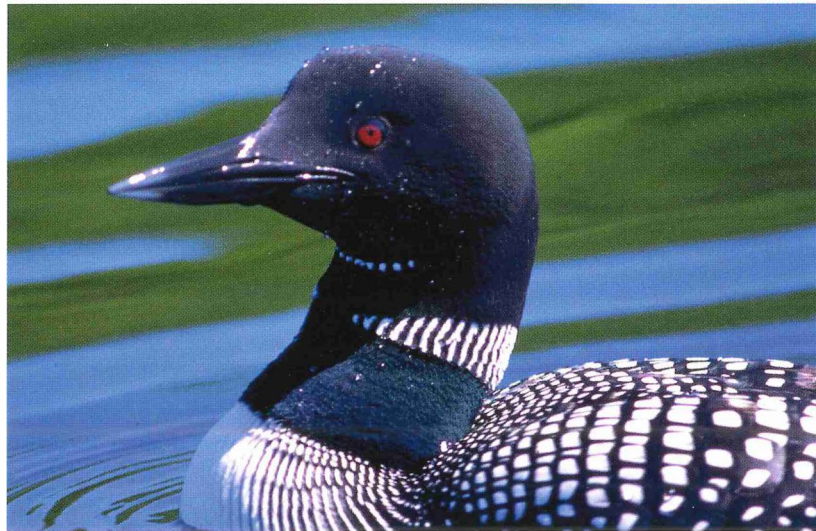
THE IMPACT OF any profit-generating organization can variously be measured in terms of its economic, social and cultural aspects. This represents the fifth annual report of the Minnesota State Lottery, a report that, by definition, focuses on financial statements, products and beneficiaries of the net profits generated.

The Lottery is by design a profit-motive organization. From market research to advertising, and sales training to new product development, it operates with an objective of maximizing revenues. The Lottery must also operate with a sense of social concern, as well as an understanding of the balance required of a state agency in an atypical role. These efforts are reflected rather than described in the annual report.

Certainly, this Lottery is popular, with two-thirds of adults participating. Certainly, the financials reflect that sales and budgeting objectives have been achieved. Thank you to all who contribute to the enterprise, be it by playing, selling, supplying services, oversight or analysis. Each plays a role that is appreciated.

—GEORGE R. ANDERSEN

Director, Minnesota State Lottery



THE MINNESOTA STATE LOTTERY benefits the environment by contributing 40 percent of its net proceeds to the Environment and Natural Resources Trust Fund.

The trust fund finances a variety of projects that preserve, restore and enhance Minnesota's natural resources. Trust fund dollars have turned miles of abandoned railroad beds into recreational trails, funded cleanup of the Minnesota River and measured state wildlife populations and habitat. It has improved campgrounds in 20 state parks (like Itasca, Lake Bronson and Lake Louise) and built fishing piers and public boat accesses on lakes and rivers in 17 counties.

MINNESOTA STATE LOTTERY



Some of the projects are less tangible, like environmental education training for teachers and studies of Minnesota's forest birds and other environmental indicators, but they share a common goal: They manage our state's environmental resources and preserve its ecological health for our enjoyment and that of future generations.

In the 1995-97 biennium, \$18 million from the trust fund will support 30 projects statewide. Much more than that will be raised by Lottery revenues, and the remaining dollars will be used to build the fund's principal for future projects. From 1991 to 1995, the trust fund has financed 58 projects totaling

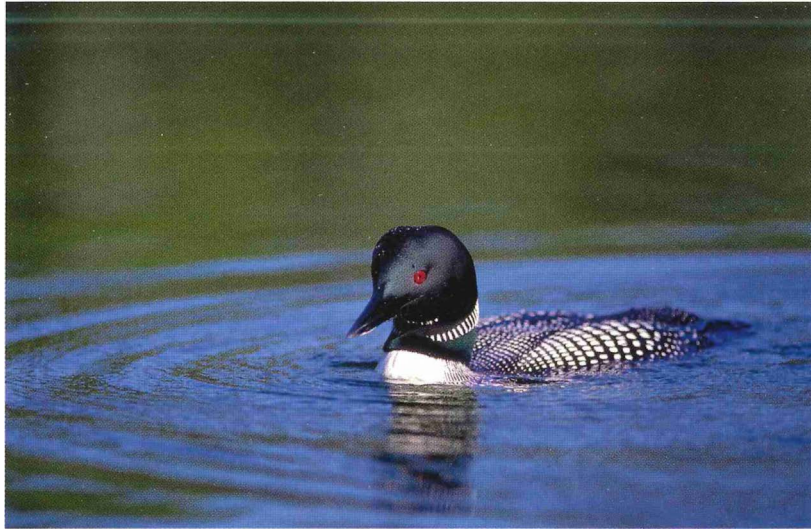


\$40 million. The projects are approved by the Legislature every two years, in the areas of recreation, water, forestry, education, agriculture, wildlife and wetlands.

The remaining 60 percent of Lottery net proceeds benefits Minnesotans every day through the state General Fund, which supports fundamental state programs including education, health care and local government.

Since its inception in 1990, the Lottery has transferred \$414.5 million collectively to the Environment and Natural Resources Trust Fund and the General Fund in proceeds and in-lieu-of-sales tax. An additional \$36.6 million was allocated

FINANCIAL HIGHLIGHTS



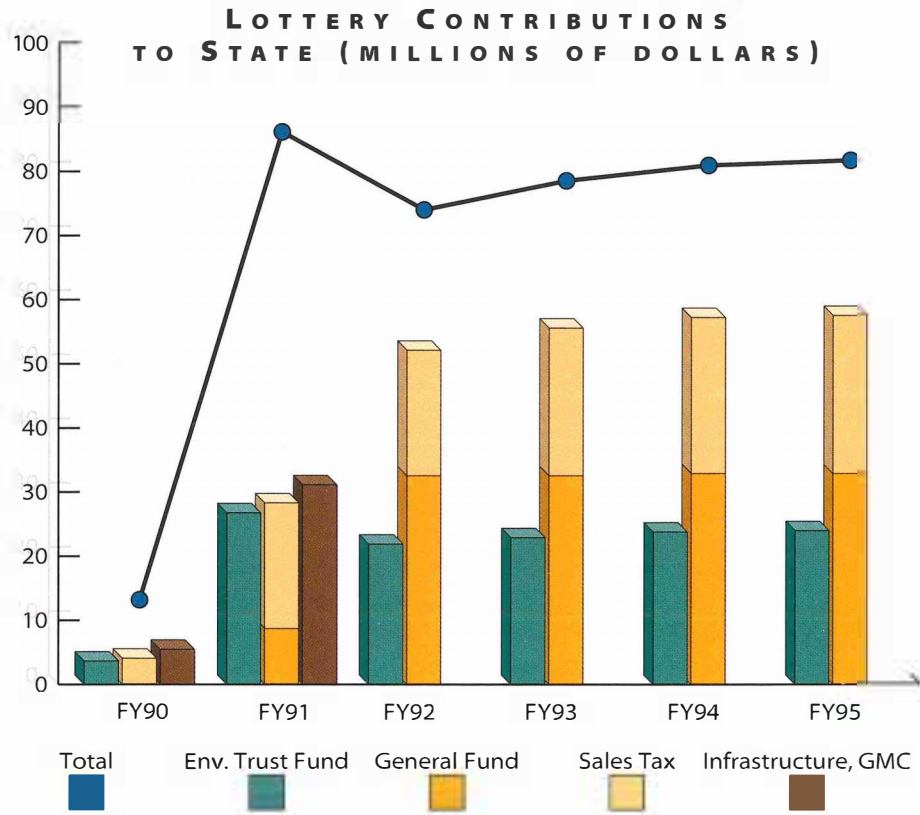
to the Greater Minnesota Corporation and an Infrastructure Trust Fund in fiscal years 1990 and 1991. The Lottery also contributes to compulsive gambling treatment programs through the state Department of Human Services. In fiscal year 1995, an additional \$1.54 million was transferred from the Lottery for compulsive gambling programs and \$1.4 million was transferred from the Lottery's unclaimed prizes to the state General Fund.

FY 95 LOTTERY INCOME TO STATE

A RECORD YEAR

The Lottery's fiscal year 1995 efforts resulted in record-setting sales and substantial funds for the state.

Sales hit a record high in fiscal year 1995, surpassing projections for Lottery beneficiaries. Sales totaled \$335.9 million, topping fiscal year 1994 sales by 1 percent.



F I N A N C I A L H I G H L I G H T S

More than \$84.6 million was transferred to the state of Minnesota. The trust fund received \$23.9 million and more than \$60.6 million went to the state General Fund.

Much of the Lottery's success is a result of its marketing strategies and technology. For example, 1,800 Lottery retailers received new Ovation numbers games terminals last fall for Powerball, Gopher 5 and Daily 3 sales. Faster and smaller, the new terminal offers Lottery retailers new options for the future. The Lottery also added selling sites, promotions and new in-counter dispensers as part of stepped-up marketing strategies. Three Powerball mega-jackpots and an increased selection of instant games also contributed to the year's sales performance.

Despite intense marketing efforts and technological improvements, higher sales did not result in higher expenditures during fiscal year 1995. Stringent operating practices decreased expenses by \$723,000 from fiscal year 1994. Total expenditures were \$38.57 million, or 11.5 percent of total sales.

Players and retailers also counted the year as a success. The Lottery's 3,504 instant game retailers and 1,844 numbers games retailers collectively earned \$18.2 million, or 5.4 percent of sales, in commissions and incentives. Lottery players won \$196 million in prizes last fiscal year, or 58 percent of total sales.

State sales per capita were \$75, up \$2 from last year. Polk County had the highest per capita sales with \$134; Red Lake County had the lowest, \$22.

MINNESOTA LOTTERY GAMES



THE GAMES

Powerball and instant games were the most popular Lottery products of fiscal year 1995. Instant games claimed a 62 percent share of sales, totaling \$207 million, and collectively held an edge over numbers games — Powerball, Gopher 5 and Daily 3. Powerball continued to grow, but at a slower pace than recent years. Sales totaled \$93 million, 28 percent of total sales.

Hot scratch-off trends, such as animal-themed games and those with casino themes, contributed to a 1 percent increase in instant games. The top-selling instant tickets of the year included Lucky Dog, Wild Hare and Cows in the Corn. Higher-stakes, multiple-win games like Casino Action and

MINNESOTA LOTTERY GAMES



Winning Hands also did well. Thirteen instant games were introduced during the fiscal year: 10 \$1 games and three \$2 games. Other popular games were Hole in One, Minnesota Blizzard and Three Times Lucky.

Growing player interest in the big jackpot game Powerball has affected the instant game stronghold. Although numbers games sales increased 1 percent in fiscal year 1995, Powerball sales increased 4 percent, showing the biggest percentage growth among Minnesota's product mix for the second year.

The Powerball jackpot reached \$100 million twice during fiscal year 1995, in November 1994, and March 1995. Two more jackpots rolled to substantial size, one worth \$80 million in April 1995, and one worth \$87 million in June 1995.

Daily 3 sales dropped 10 percent, to \$13 million. Gopher 5 sales fell 5 percent to \$21 million, but not without turning out a few hefty jackpots. DATO! sales reached \$1.6 million

MINNESOTA LOTTERY GAMES



before the game was retired in June due to player preferences.

After awarding three Powerball jackpots in fiscal year 1994, a jackpot winner eluded Minnesota in fiscal year 1995. The Lottery fared well with \$100,000 prizes: 81 were awarded. In all, Powerball paid out a total of \$18.9 million among 2.6 million winning tickets last year.

Thirty players won Gopher 5 jackpots totaling \$7.1 million. William Bloom Jr. of Big Fork won the year's largest, worth \$684,751. Gopher 5's total payout for the year was almost \$11 million. Daily 3 players won \$6.5 million.

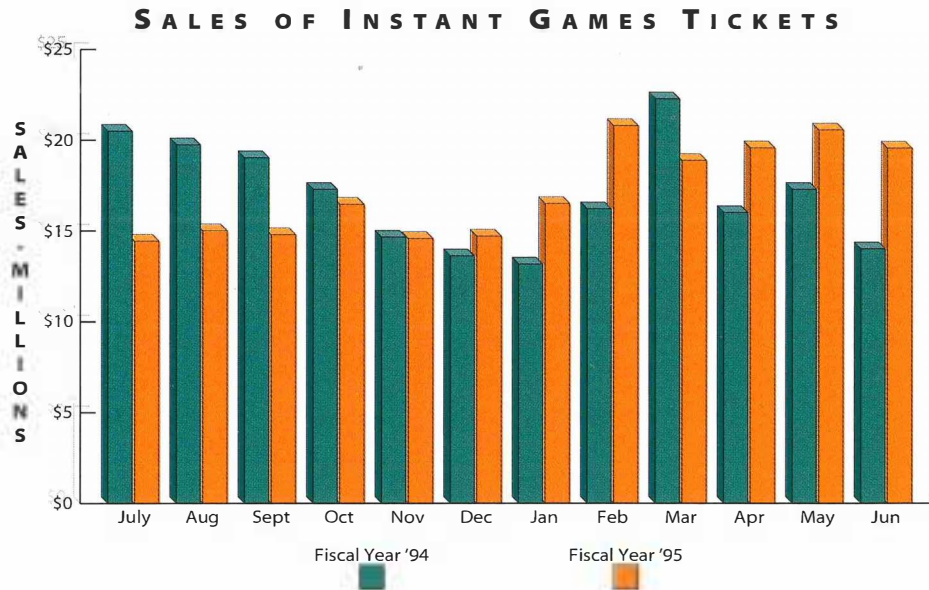


FINANCIAL HIGHLIGHTS

THE LOTTERY'S LIFELINE

The retail network is the Lottery's indispensable link to its players. From small, family-owned markets to major metropolitan grocery store chains, Lottery retailers provide marketing excellence, service and convenience to players. Tickets are sold in more than 3,400 locations in 694 cities statewide in a wide range of outlets, from convenience stores to pharmacies, restaurants to liquor stores.

The Lottery supports its retail network in a variety of ways. Field and phone representatives assist in promotions that range

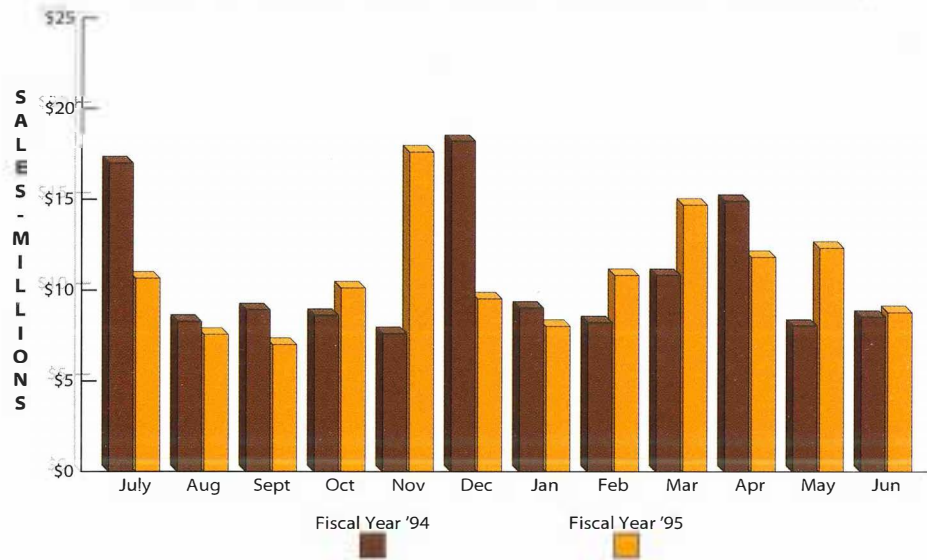


FINANCIAL HIGHLIGHTS

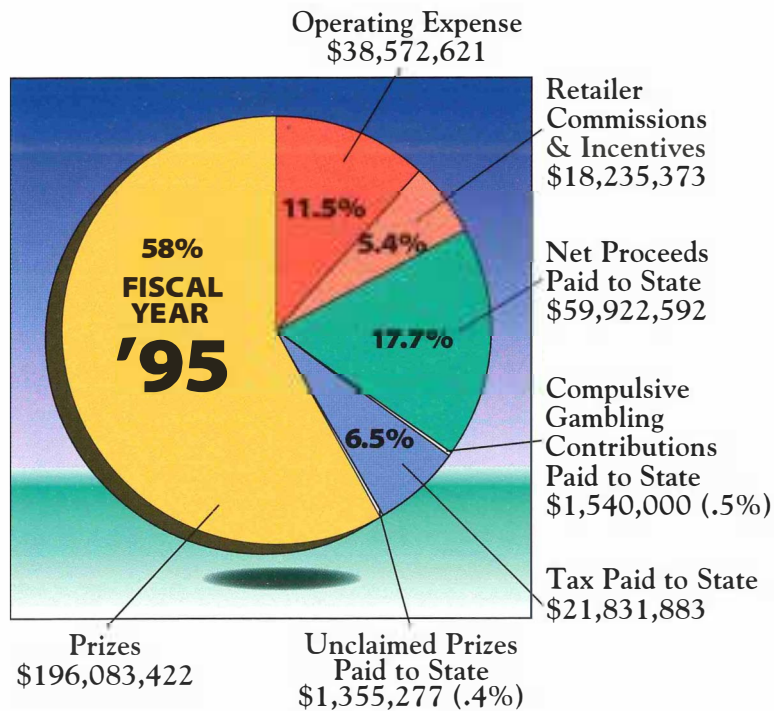
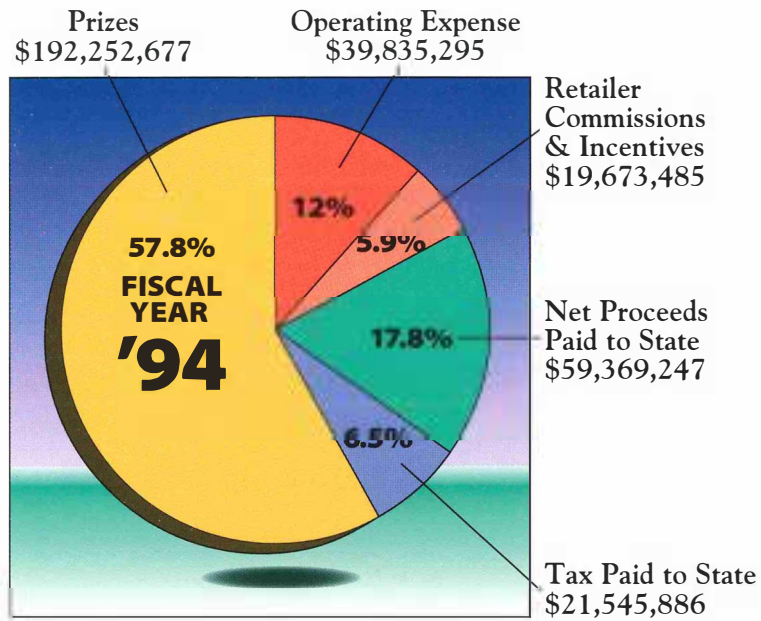
from in-store game promotions to large, multi-level co-promotions with non-Lottery retailers such as car dealerships, music festivals, shopping malls and regional events. Lottery staff also assist retailers with point-of-sale and local media advertising, and provide them with a steady supply of marketing ideas.

Retailers earn a 5 percent commission on Lottery sales and are periodically offered additional incentives. In February, more than 2,600 retailers participated in a special cash bonus incentive program and earned an extra \$1.1 million in incentive commissions.

SALES OF NUMBERS GAMES TICKETS



D O L L A R D I S T R I B U T I O N



F I N A N C I A L H I G H L I G H T S

INCOME	1995	1994
Sales	\$335,875,077	\$331,475,147
Less Tax (In-Lieu-of-Sales Tax)	21,831,883	21,545,886
Total Gross Receipts	314,043,194	309,929,261
Other Income	1,666,091	1,202,443
Total Gross Revenue	315,709,285	311,131,704
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EXPENSES	1995	1994
Prize Expense	\$196,083,422	\$192,253,677
Prize Fund - Paid to State		
Compulsive Gambling Treatment	1,000,000	—
Unclaimed Prizes Paid to State	1,355,277	—
Retail Commissions & Incentives	18,235,373	19,673,485
Operating Expense		
Ticket Cost	2,908,458	3,613,567
Ticket Delivery	489,286	548,085
On-Line Vendor Commission	8,340,444	8,178,766
Contribution:		
Compulsive Gambling & Public Safety	690,000	685,000
Occupancy Costs	1,694,125	1,647,460
Depreciation	1,173,304	1,195,519
Advertising	7,913,383	8,410,787
Salaries & Benefits	8,568,075	8,120,033
Promotion	3,165,246	2,682,911
Purchased Services	986,613	1,137,467
Communications	1,421,857	1,440,490
Computer Maintenance	270,719	343,904
Supplies & Materials	945,128	1,135,725
Interest Expense	19,987	29,835
Other	525,996	665,746
Total Operating Expense	39,112,621	39,835,295
Net Proceeds	59,922,592	59,369,249

Note: Complete financial statements are available upon request

F I N A N C I A L H I G H L I G H T S

CASH FLOWS FROM OPERATING ACTIVITIES	1995	1994
Operating Income	\$58,276,488	\$58,196,641
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	1,173,304	1,195,519
Changes in Assets and Liabilities:		
Accounts Receivable	(1,258,275)	7,018,330
Interest Receivable	64,943	(20,787)
Instant Ticket Inventory	(55,941)	294,949
Merchandise Prize Inventory	16,904	89,137
Prepaid Expenses	1,331	19,260
Accounts Payable	1,775,304	(1,111,532)
Tax in Lieu of Sales Tax Payable	376,042	(902,010)
Prize Liability	(3,454,828)	2,853,004
Retailer Incentives Payable	495,492	(979,289)
Compensated Absences Payable	60,095	172,378
Deferred Revenue	<u>107,089</u>	<u>98,637</u>
Net Cash Provided by Operating Activities	<u>57,577,948</u>	<u>66,924,237</u>
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Cash Flows from Noncapital Financing Activities		
Proceeds Paid to Beneficiaries	(59,534,738)	(62,695,038)
Retailer Fees	113,206	110,883
Other Income	<u>37,480</u>	<u>309,513</u>
Net Cash Used by Noncapital Financing Activities	<u>(59,384,052)</u>	<u>(62,274,642)</u>
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Cash Flows from Capital Financing Activities		
Purchases of Fixed Assets	(537,363)	(642,942)
Interest Expense	<u>(19,987)</u>	<u>(29,835)</u>
Net Cash Used by Capital Financing Activities	<u>(557,350)</u>	<u>(672,777)</u>
<hr/>		
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investments	15,820,682	14,630,643
Purchases of Investments	(7,720,289)	(15,641,343)
Gain (Loss) from Sale of Investments	(70,865)	—
Interest Income	1,586,270	782,047
Net Cash Provided (Used) by Investing Activities	<u>9,615,798</u>	<u>(228,653)</u>
Net Increase in Cash and Cash Equivalents	7,252,344	3,748,165
Beginning of Year Cash and Cash Equivalents	<u>8,520,994</u>	<u>4,772,829</u>
End of Year Cash Equivalents	<u>\$15,773,338</u>	<u>\$8,520,994</u>

See accompanying notes to financial statements.

F I N A N C I A L H I G H L I G H T S

YEAR ENDING JUNE 30, 1995 COMPARED TO YEAR ENDING JUNE 30, 1994

NET PROCEEDS	1995	1994
40% Environment & Natural Resources Trust Fund	\$23,969,037	\$23,747,699
60% General Fund	35,953,555	35,621,548
Subtotal Net Proceeds	\$59,922,592	\$59,369,247
Tax (In lieu-of-Sales Tax) to General Fund	\$21,831,883	\$21,545,886
Compulsive Gambling	1,540,000	535,000
Public Safety	150,000	150,000
Unclaimed Prizes	1,355,277	—
Grand Total to State	\$84,799,752	\$81,600,133

F I N A N C I A L H I G H L I G H T S

June 30, 1995 and 1994

ASSETS	1995	1994
Cash and Cash Equivalents (Note 3)	\$15,773,338	\$8,520,994
Investments (Note 3)	—	8,100,393
Accounts Receivable, Net	2,573,309	1,315,034
Interest Receivable, Net	35,912	100,855
Instant Ticket Inventory	215,247	159,306
Merchandise Prize Inventory	312,252	329,156
Prize Investments	689,256	667,529
Prepaid Expenses	66,829	68,160
Fixed Assets, Net (Note 5)	1,693,744	2,329,685
Total Assets	\$21,359,887	\$21,591,112
LIABILITIES AND RETAINED EARNINGS		
Liabilities:		
Net Proceeds Due to State Treasurer (Note 10)	\$2,518,161	\$3,485,584
Unclaimed Prizes Due to State (Note 9)	1,355,277	—
Accounts Payable	4,232,761	2,457,457
Tax in Lieu of Sales Tax Payable	1,844,881	1,468,839
Prize Liability	6,840,796	10,295,624
On-Line Prize Reserve	1,000,000	1,000,000
Retailer Incentives Payable	1,766,262	1,270,770
Compensated Absences Payable	748,428	688,333
Deferred Revenue	364,065	256,976
Prize Annuity Payable	689,256	667,529
Total Liabilities	\$21,359,887	\$21,591,112
Commitments and Contingencies (Note 6)	—	—
Retained Earnings (Note 10)	—	—
Total Liabilities and Retained Earnings	\$21,359,887	\$21,591,112

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Minnesota State Lottery.
Annual report.

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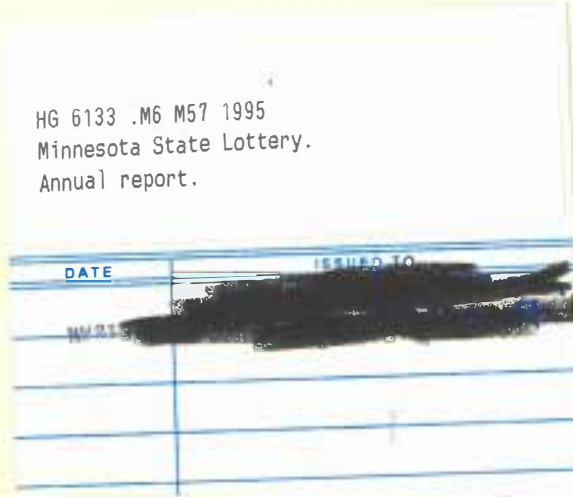
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