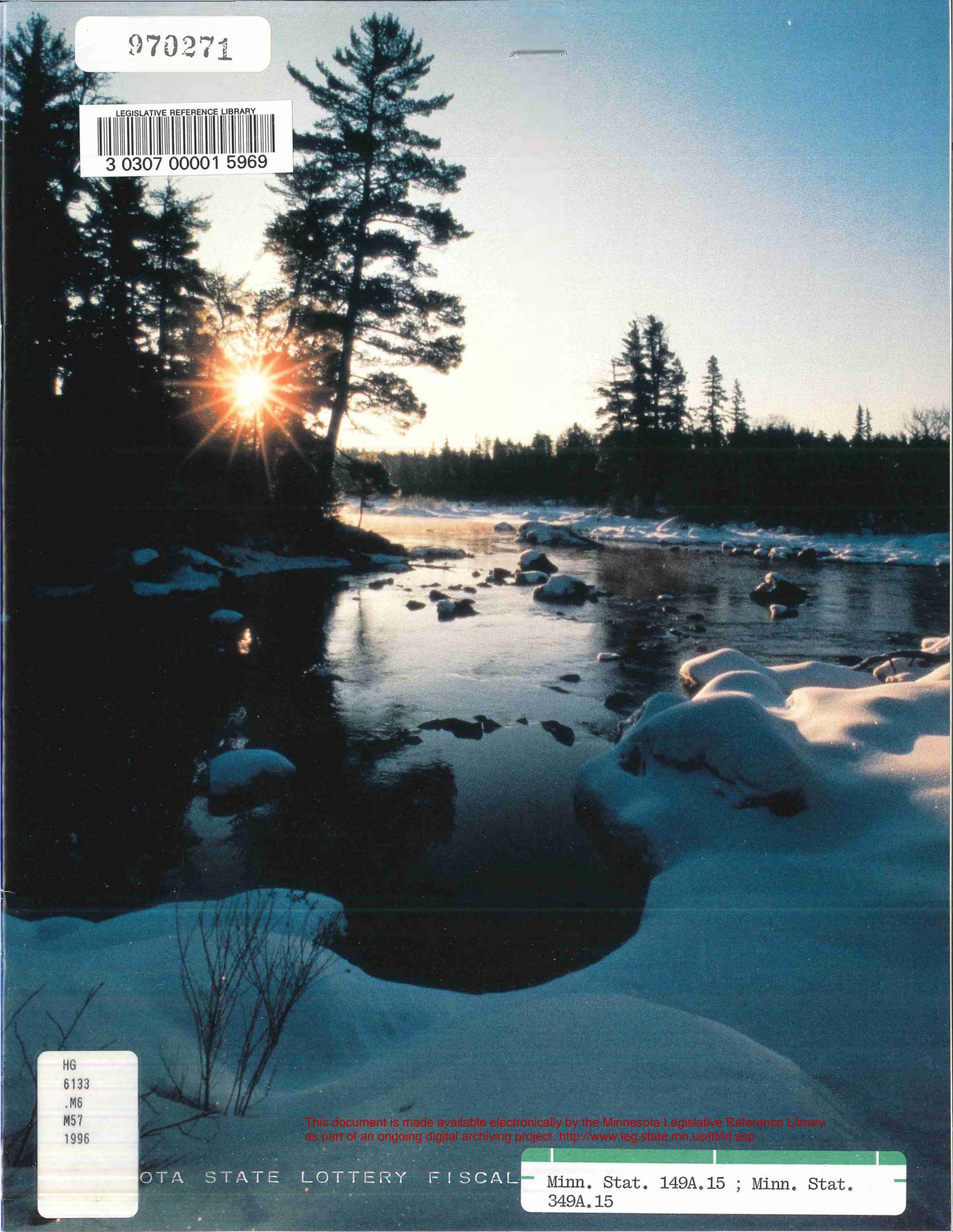


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MINNESOTA STATE LOTTERY FISCAL

Minn. Stat. 149A.15 ; Minn. Stat. 349A.15

LETTER FROM THE DIRECTOR

Thanks are sent out to the many thousands of folks who sell, market, support and care about the Lottery and its beneficiaries.

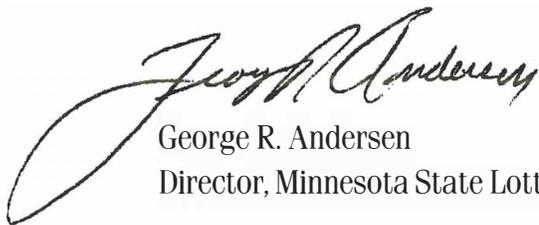


Proceeds Benefit Our Natural and Economic Environments.

Annual reports are more than mere presentation of balance sheets. They tell a story of the results of the involvement of all who work, deal with and play the Lottery.

Fiscal year 1996 was an extraordinary period. While Powerball sales fell off without a large jackpot event, instant games sales grew by more than 30 percent. Such growth comes only as a result of consumer acceptance, guided by team effort.

It was indeed a very good year, and thanks are sent out to the many thousands of folks who sell, market, support and care about the Lottery and its beneficiaries.



George R. Andersen
Director, Minnesota State Lottery

RECEIVED

HIGHLIGHTS

MAY 08 1997

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When the books were finally closed on fiscal year 1996, one thing was obvious: The Lottery had no shortage of highlights. There was a little bit of everything last year — record sales, multimillion-dollar jackpot winners and a leap into cyberspace via a World Wide Web site.

Records fell in nearly every area of the operation, but the most important mark set was the amount of money generated for the state of Minnesota: \$89.7 million. That's more than the Lottery has ever turned over to the state and \$5 million more than it generated the previous year. Those funds are used to support vital statewide services through the state General Fund and to improve, enhance and restore Minnesota's natural resources.

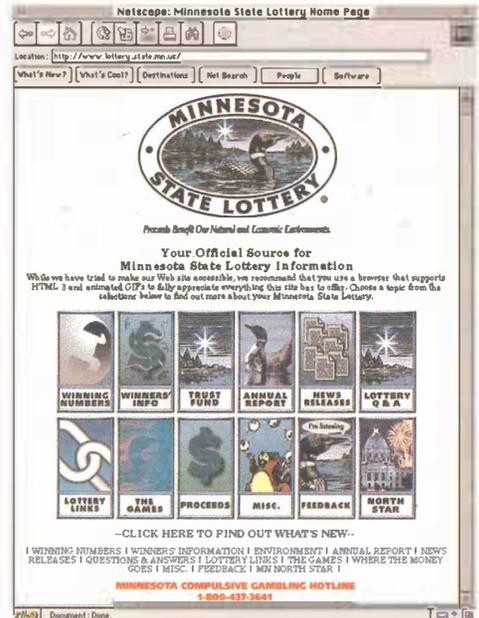
But it takes an overwhelmingly successful year in sales to raise that much money for the state. Here again, another record was set: Lottery sales hit \$375.6 million for the year, an 11.8 percent increase over fiscal year 1995 sales.

Those record sales were possible because of the salesmanship of the Lottery's retailers and a greater number and wider variety of instant games. Game design, new ticket dispensers, more appealing promotions and eye-catching point-of-sale material all contributed to the substantial bottom-line gain for Minnesota.

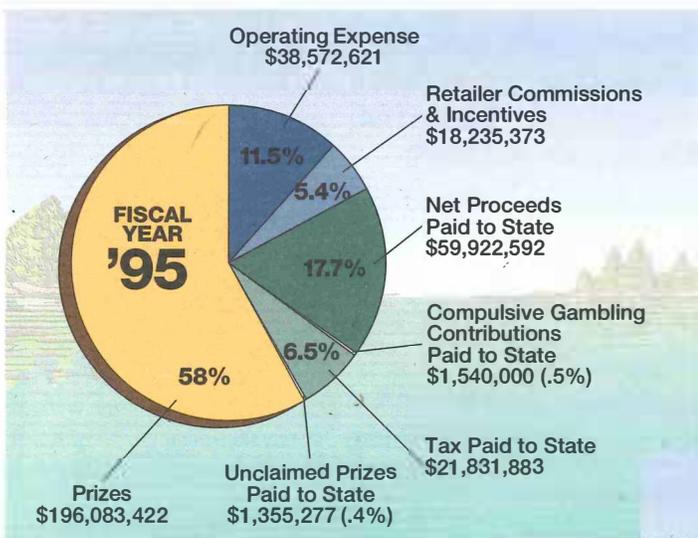
With record sales came record prize payouts, which totaled \$230.8 million and included two Powerball jackpot prizes that landed in southeast Minnesota. Carl Imhof of Pine Island and Hilde Yanz of Hastings hit Powerball jackpots 11 days apart last May, winning \$9.5 million and \$8.5 million, respectively. They are the fifth and sixth Powerball jackpot winners from Minnesota.

In addition to breaking sales records, the Lottery also entered cyberspace with a site (<http://www.lottery.state.mn.us>) on the World Wide Web. This colorful site has everything a player needs: winning numbers, odds, unclaimed prizes, current instant games, information on claiming a prize, a list of environmental projects financed by Lottery proceeds, addresses and phone numbers for the seven Lottery offices, details of big-prize winners, even the most current annual report. It's all just a mouse click away, any time of the day.

Lottery sales hit \$375.6 million for the year, an 11.8 percent increase over fiscal year 1995 sales.

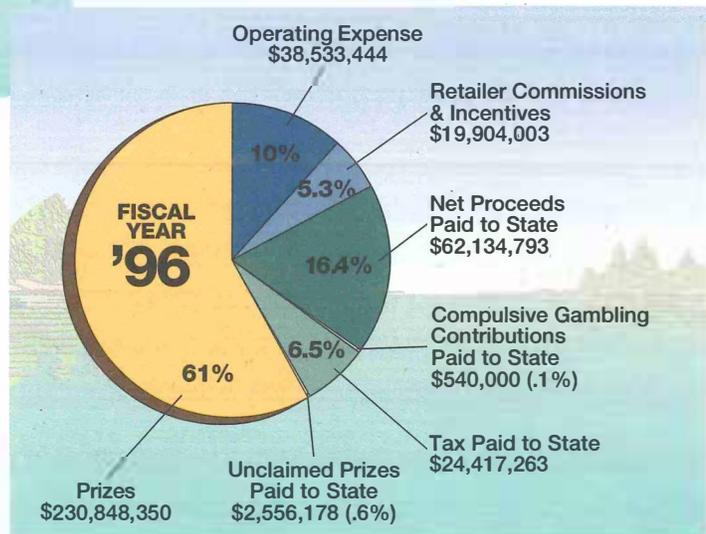


Where the money goes...



In fiscal year 1996, \$25.8 million was deposited in the Environment and Natural Resources Trust Fund.

In the Lottery's first six years of operation, the trust fund has received \$149 million.



The environment is easily Minnesota's most highly prized resource. From the vast wilderness and lakes in the Arrowhead to the rolling prairies and farmland in the southwest, Minnesota's great outdoors is diverse and plentiful.

That's why proceeds from the sale of Lottery tickets were directed to help preserve and protect the state's environment and natural resources through the Environment and Natural Resources Trust Fund, which receives 40 percent of net proceeds. In fiscal year 1996, \$25.8 million was deposited in the trust fund. In the Lottery's first six years of operation, the trust fund has received \$149 million.

The trust fund money is used for specific projects, like building recreational trails, fishing piers and boat ramps, taking inventory of the state's natural habitat, designing environmental curriculums for schools, conducting research on eradicating Eurasian water milfoil and purple loosestrife, increasing and improving wildlife and fish habitat, and bettering state parks. Thirty projects worth \$20 million are now under way. In all, 88 projects have received \$60 million in trust fund money.

The other 60 percent of net proceeds goes to the General Fund, which supports all state programs, like K-12 education, public safety, aid to local governments and health and human services. In fiscal year 1996, proceeds totaling \$63 million went to the General Fund. That amount included the 6.5 percent in-lieu-of-sales tax, which goes to the state before expenses are deducted and net proceeds are determined.

In all, Lottery sales have generated \$508 million for the state of Minnesota since start-up in 1990, which is why, "When Minnesota plays, everybody wins."

Proceeds from the sale of Lottery tickets help preserve and protect the state's environment and natural resources and support state programs like education, public safety and aid to local governments.



\$1

Turkey Lurkey



MINNESOTA STATE LOTTERY

Match the Winning Number to any of Your Ne
Get a Turkey symbol and win its prize automatically.
WIN UP TO 6 TIMES ON THIS TICKET!

POWERBALL

** MAY 4/96 WED **
02 08 21 32 43
9500 4330 25504/00003
3101 59

\$1 00696459
1.00

WIN UP TO \$5,000 INSTANTLY!

VOID

DAILY 3
MAY 2/96 426 5T

00696389

\$0.50

QP 25504/00005

0310 5010 0103 28

DAILY MILLIONS

00696849

MINNESOTA STATE LOTTERY

BLACK JACK



GET A HIGHER TOTAL THAN THE DEALER, WIN PRIZE FOR THAT HAND. GET BLACKJACK AND WIN DOUBLE THE PRIZE AMOUNT. IF THE DEALER "BUSTS", WIN ALL 4 PRIZES.

| DEALER CARDS | PRIZE | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|-------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | PRIZE |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | PRIZE |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | PRIZE |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | PRIZE |

VOID

21 06

006

14 27

== -- ==

VOID

City



GET 3 LIKE SYMBOLS WITH 3 LIKE AMOUNTS, & WIN THAT AMOUNT.

\$1

WHOLE HOG

MINNESOTA STATE LOTTERY

PRIZE AMOUNTS - MATCH THE WORD "LIFE" 3 TIMES AND WIN \$1,000 A MONTH FOR LIFE!

WIN \$1,000 A MONTH FOR LIFE!

LIKE SYMBOLS-

MINNESOTA STATE LOTTERY

FISHBENDER

Rise n' Shine



Match 3 like card symbols in a hand and an "8" and win DOUBLE the prize for that hand. OR get 2 like card and an "8" and win DOUBLE the prize.

MINNESOTA STATE LOTTERY

THEIR SCORE

THEIR SCORE

VOID

Lottery players have demonstrated, once again, their love of scratch games. Instant game sales have always accounted for the majority of total sales. In fiscal year 1996, instant game sales increased 30 percent, topping off at \$269.2 million, or 72 percent of total sales, an all-time high.

These instant sales can be attributed to uncomplicated play styles, original game themes and the unmeasurable, indefinable mood of the playing public. Also, technological advances have made tickets look more attractive, and more games are being introduced more often for players who like variety.

Marketing strategies also played a role in the increase. For example, hundreds of retailers installed in-counter dispensers, a glass-topped ticket display that's inset right in the middle of the check-out counter. Smaller ticket dispensers are now found in grocery store check-out lanes, doubling as a platform on which to write checks.

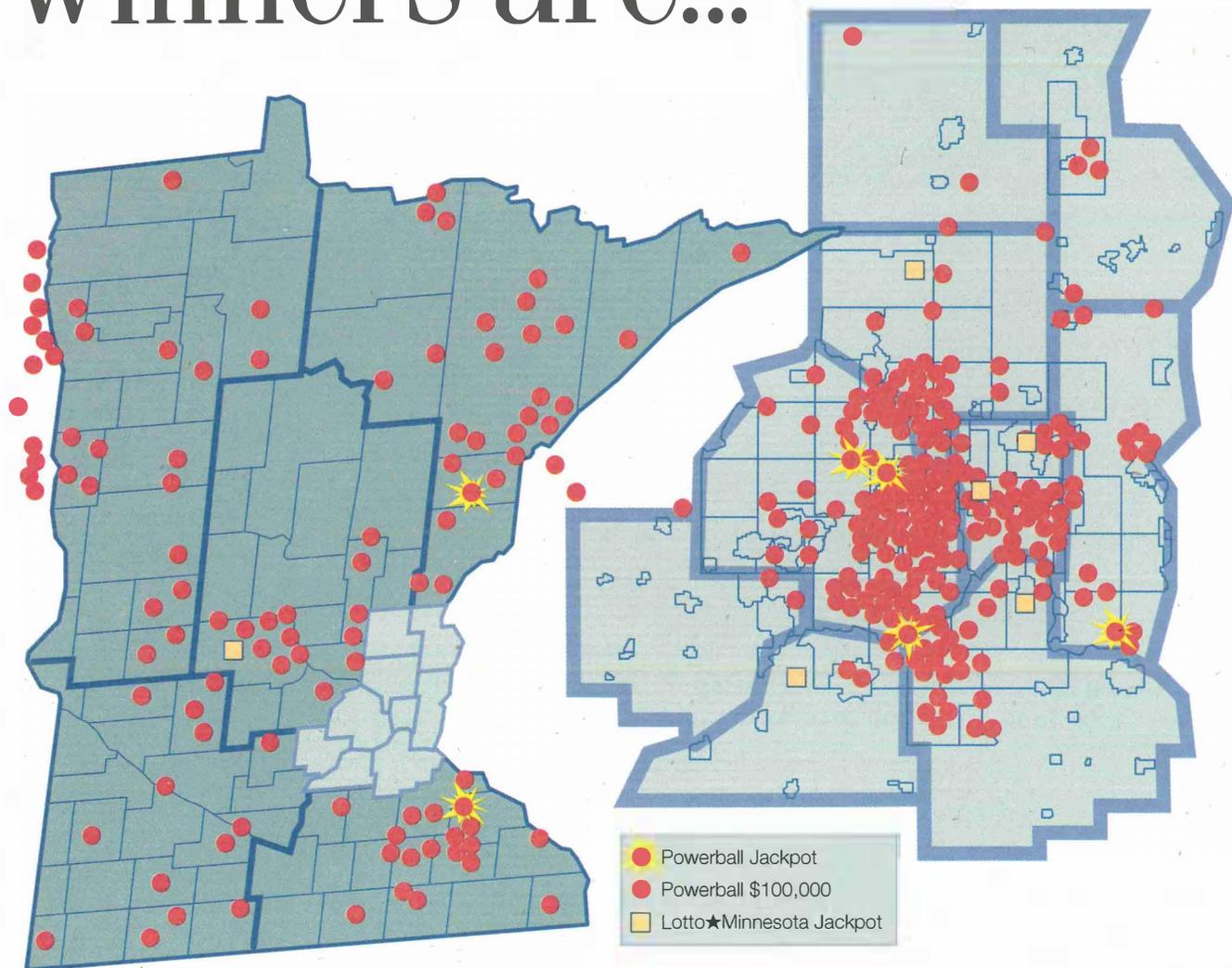
The Lottery introduced 16 new instant games in fiscal year 1996 and experienced sensational sales with animal-themed games, like Whole Hog, Lucky Kitty, Country Mouse-City Mouse, Rise 'N Shine and Turkey Lurkey. BULLWINKLE®, with its Minnesota connection, also was a big hit, and Win for Life, the game that awards top-prize winners with \$1,000 a month for the rest of their lives, went over well with scratch players.

While instant game sales were booming, numbers games were quietly having a below-par sales year. Sales figures for numbers games (Powerball, Gopher 5 and Daily 3) actually showed a 17.6 percent decrease for fiscal year 1996. Powerball lacked fiscal '95's two \$100 million jackpots and two \$85 million-plus jackpots, so Powerball sales showed a 25.6 percent decline in sales while still totaling a hefty \$69 million, 65 percent of numbers games sales and 18 percent of total sales.

Gopher 5 and Daily 3, which are always steady performers, increased in sales by 9.3 percent and 4.4 percent, respectively, in fiscal year 1996. Gopher 5 sales were \$23.4 million and Daily 3 ended the year with \$13.8 million in sales, accounting for 6 percent and 4 percent of total sales, respectively.

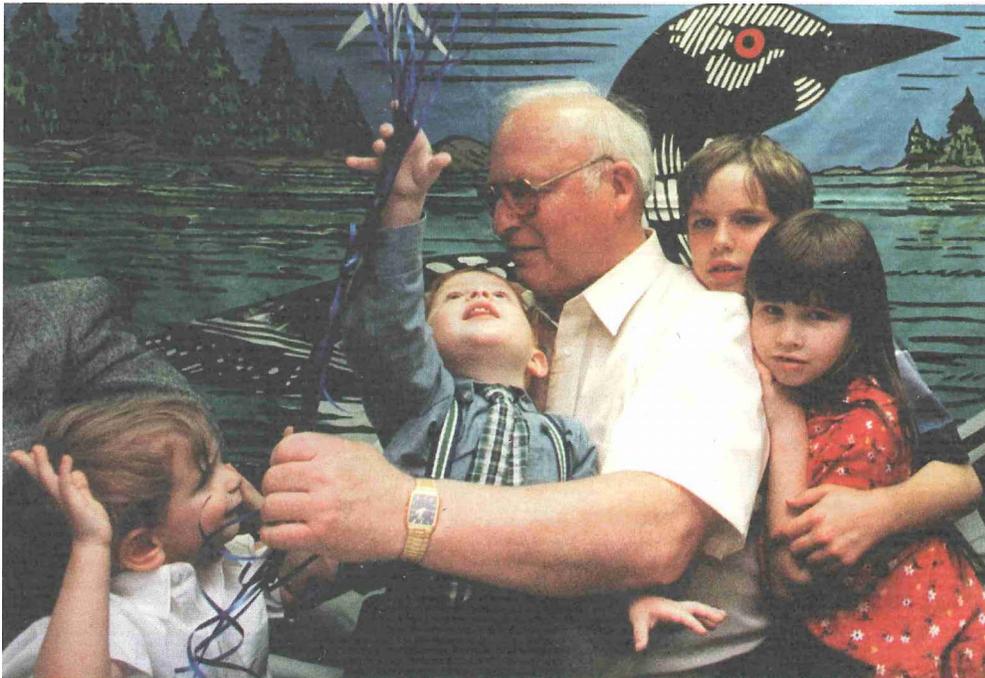
The Lottery introduced 16 new instant games in fiscal year 1996 and had sensational luck with animal-themed games, like Whole Hog, Lucky Kitty and Turkey Lurkey.

Where the winners are...



If you live near one of the dots on the above maps, you may have a neighbor who won a major Powerball or Lotto★Minnesota prize during the Lottery's first six years of operation.

It was a good year to play the Lottery. Players not only won more prize money (\$230.8 million) than in any other fiscal year, but the percentage of sales revenue returned to players in the form of prizes was also the highest in Lottery history: 61 percent.



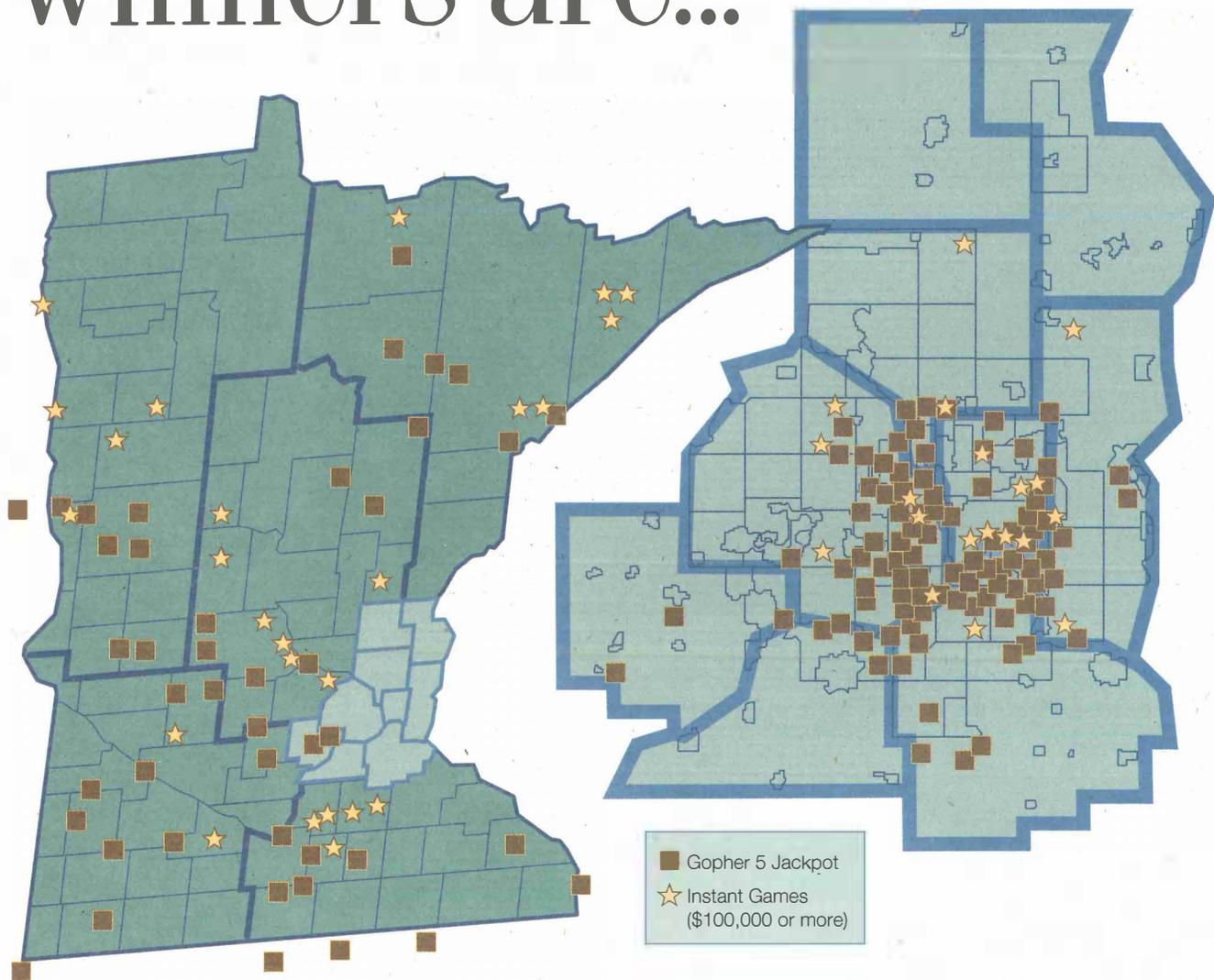
Carl Imhof's grandchildren help him celebrate his \$9.5 million Powerball jackpot win in May. He gave \$20,000 to his church and bought his mother a new house. Photo by Jerry Olson, courtesy of the *Rochester Post-Bulletin*.

Of course, you can't talk about players and prizes without talking about the two biggest Lottery winners of the year. On May 18, Carl Imhof, 56, of Pine Island, claimed a \$9.5 million Powerball jackpot. A father of three and grandfather of four, Imhof graciously and quietly claimed the prize, pledging to give his church \$20,000, buy his mother a new house, keep his job and convince his wife, Leisel, to give up hers. "I am so wonderfully happy; I can't tell you..." he said that day.

(continued on next page)

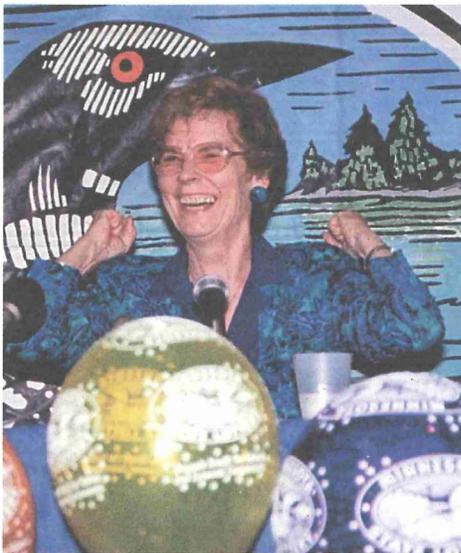
Two multi-million dollar Powerball winners within 11 days helped generate the highest percentage of sales revenue ever returned to players: 61 percent.

Where the winners are...



If you live near one of the dots on the above maps, you may have a neighbor who won a Gopher 5 jackpot or a major instant game prize during the Lottery's first six years of operation.

Eleven days and three drawings later, jackpot lightning struck again. This time Hilde Yanz of Hastings hit an \$8.5 million Powerball jackpot. With her three sons in tow, Yanz claimed her prize, charming everyone with an animated description of her win. She used her prize to buy a red Cadillac and looked forward to flying her four surviving siblings to Minnesota from Germany. "Never in my wildest dreams! Never in my wildest dreams!" was her excited reaction.



Hilde Yanz of Hastings celebrates after hitting an \$8.5 million Powerball jackpot May 29. She bought a red Cadillac with her prize and planned to fly her four siblings to Minnesota from Germany.

Second place in Powerball goes to those who match the first five numbers but miss the Powerball. That's worth \$100,000. In fiscal year 1996, Lottery players bought 63 winning \$100,000 tickets.

Matching five numbers is the name of the game in Gopher 5, and 35 players did just that in fiscal year 1996, winning prizes as large as \$624,000. Three players, in fact, won \$600,000-plus jackpots last year, while two others split a \$794,000 jackpot, each claiming almost \$400,000. Three other winners claimed jackpots of \$496,000, \$452,000 and \$364,000.

Instant tickets also produced big winners in fiscal year 1996, including seven players who won \$1,000 a month for life playing Win for Life. Another 19 players won \$100,000 prizes playing the \$5 instant games High Stakes and High Stakes II.

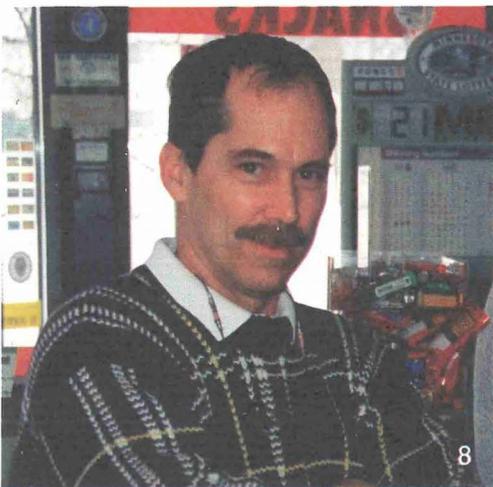
Matching five numbers is the name of the game in Gopher 5, and 35 players did just that in fiscal year 1996, winning prizes as large as \$624,000.



Lottery retailers received commissions and incentives that totaled \$19.9 million in fiscal year 1996.



Field and phone representatives help stores individually with promotions, point-of-sale materials and local advertising.



The Lottery's retail partners came through for Minnesota again this year. The retailer network is a complex mix of businesses that range from independently owned "mom-and-pop" stores to the well-known corporate convenience store chains. The network includes bars, restaurants, pharmacies, bait shops, grocery stores and even a campground.

Because the retailer network is diverse in location, customer buying habits and demographics, successful marketing is a challenge. To that end, the Lottery supports its retailers with a team of field and phone representatives who help stores individually with promotions, point-of-sale materials and local advertising while offering a constant flow of marketing ideas to maximize sales.

For their sales efforts, Lottery retailers received commissions and incentives that totaled \$19.9 million in fiscal year 1996.

The Lottery's retailer network last year involved 3,364 retailers located in 692 cities statewide. All Lottery retailers sell instant games and 1,910 retailers had terminals that sell numbers games.

The Lottery's retailer network involves businesses that range from independently owned "mom-and-pop" stores to corporate convenience stores.

1. Deb Navratil, manager of the Runestone Eagles Aerie No. 3063 in Alexandria, used the commission from Lottery ticket sales to buy the club a food fryer.

2. Linda Murray, shift manager of the Holiday on Mill Avenue in Brainerd, helped police catch two thieves who broke into a store and stole its Lottery tickets.

3. Owner Al Miller, left, and Kevin Peterson have made the Rice Street Spur in St. Paul one of the Lottery's

top 20 retailers in the state.

4. Mike Quaife, owner of Mike's Holiday in Grand Marais, has the distinction of being the first Lottery retailer in that city.

5. Bob Henderson let the Lottery use his Long Branch Saloon in Worthington to film the numbers games TV commercial that features the hit song, "I Feel Lucky."

6. Peggy Waldrun, who owns Cottage Grocery with her husband, Floyd, uses her Lottery

commission to pay for an annual vacation to Las Vegas.

7. Owner Gary Nemitz has successfully added Lottery sales to Nemitz's Tobacco and Books in Austin.

8. Rob Breitenbach owns two AM-PM Foods convenience stores in Rochester, one of which is among the top five Lottery retailers in southeastern Minnesota.

9. Val "The Lottery Queen" Johnson, left, and Jeanne Truman keep Val's Quik Mart in

the Minneapolis skyway among the top 50 Lottery retailers in the state.

10. Larry Novotny, owner of Novotny's Sport Shop in Montgomery, doesn't just sell Lottery tickets and bait, he's also a one-man polka band.

INCOME AND EXPENSES

| INCOME | 1996 | 1995 |
|---------------------------------------------------|---------------|---------------|
| Sales | \$375,650,142 | \$335,875,077 |
| Less Tax (In-Lieu-of-Sales Tax) | 24,417,263 | 21,831,883 |
| Total Gross Receipts | \$351,232,879 | \$314,043,194 |
| Other Income | 3,283,889 | 1,666,091 |
| Total Gross Revenue | \$354,516,768 | \$315,709,285 |
| EXPENSES | 1996 | 1995 |
| Prize Expense | \$230,848,350 | \$196,083,422 |
| Prize Fund - Paid to State | | |
| Compulsive Gambling Treatment | — | 1,000,000 |
| Unclaimed Prizes Paid to State | 2,556,178 | 1,355,277 |
| Retail Commissions & Incentives | 19,904,003 | 18,235,373 |
| Operating Expense | | |
| Ticket Expense | 3,180,106 | 2,908,458 |
| Ticket Delivery | 632,842 | 489,286 |
| On-Line Vendor Commission | 6,525,007 | 8,340,444 |
| Contribution: Compulsive Gambling & Public Safety | 690,000 | 690,000 |
| Occupancy Costs | 1,679,552 | 1,694,125 |
| Depreciation | 868,143 | 1,173,304 |
| Advertising | 8,656,860 | 7,913,383 |
| Salaries & Benefits | 8,716,929 | 8,568,075 |
| Promotion | 3,368,456 | 3,165,246 |
| Purchased Services | 1,268,329 | 986,613 |
| Communications | 1,364,264 | 1,421,857 |
| Computer Maintenance | 207,464 | 270,719 |
| Supplies & Materials | 1,269,229 | 945,128 |
| Interest Expense | 7,181 | 19,987 |
| Other | 639,082 | 525,996 |
| Total Operating Expense | \$39,073,444 | \$39,112,621 |
| Net Proceeds | \$62,134,793 | \$59,922,592 |

Note: Complete financial statements are available upon request
Year ending June 30, 1996, compared to year ending June 30, 1995

STATEMENTS OF CASH FLOWS

| CASH FLOWS FROM OPERATING ACTIVITIES | 1996 | 1995 |
|----------------------------------------------------------------------------------------|---------------------|---------------------|
| Operating Income | \$58,858,085 | \$58,276,488 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | |
| Depreciation | \$868,143 | \$1,173,304 |
| Retailer Fees | 113,654 | 113,206 |
| Other Income | 1,566,281 | 37,480 |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | (1,366,211) | (1,258,275) |
| Interest Receivable | (147,952) | 64,943 |
| Instant Ticket Inventory | (419,904) | (55,941) |
| Merchandise Prize Inventory | 30,394 | 16,904 |
| Prepaid Expenses | 32,749 | 1,331 |
| Unclaimed Prizes Due to State | 1,200,901 | 1,355,277 |
| Due to Other State Agencies | 86,154 | 0 |
| Accounts Payable | 2,419,502 | 1,775,304 |
| Tax in-Lieu-of-Sales Tax Payable | 279,597 | 376,042 |
| Prize Liability | 3,935,259 | (3,454,828) |
| Retailer Incentives Payable | 1,109,178 | 495,492 |
| Compensated Absences Payable | 5,747 | 60,095 |
| Deferred Revenue | (180,018) | 107,089 |
| Net Cash Provided by Operating Activities | <u>68,391,559</u> | <u>59,083,911</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Net Proceeds Paid to State | <u>(60,284,984)</u> | <u>(60,890,015)</u> |
| Net Cash Used by Noncapital Financing Activities | <u>(60,284,984)</u> | <u>(60,890,015)</u> |
| Cash Flows from Capital Financing Activities | | |
| Purchases of Fixed Assets | (653,040) | (537,363) |
| Disposals of Fixed Assets | 4,487 | 0 |
| Interest Expense | (7,181) | (19,987) |
| Net Cash Used by Capital Financing Activities | <u>(655,734)</u> | <u>(557,350)</u> |
| Cash Flows from Investing Activities | | |
| Proceeds from Sales and Maturities of Investments | 0 | 15,820,682 |
| Purchases of Investments | 0 | (7,720,289) |
| Gain (Loss) from Sale of Investments | (65) | (70,865) |
| Interest Income | <u>1,604,019</u> | <u>1,586,270</u> |
| Net Cash Provided by Investing Activities | <u>1,603,954</u> | <u>9,615,798</u> |
| Net Increase in Cash and Cash Equivalents | 9,054,795 | 7,252,344 |
| Beginning-of-Year Cash and Cash Equivalents | <u>15,773,338</u> | <u>8,520,994</u> |
| End-of-Year Cash Equivalents | <u>\$24,828,133</u> | <u>\$15,773,338</u> |

Year ending June 30, 1996, compared to year ending June 30, 1995

BALANCE SHEETS

| ASSETS | 1996 | 1995 |
|-----------------------------|---------------------|---------------------|
| Cash and Cash Equivalents | \$24,828,133 | \$15,773,338 |
| Accounts Receivable, Net | 3,939,520 | 2,573,309 |
| Interest Receivable, Net | 183,864 | 35,912 |
| Instant Ticket Inventory | 635,151 | 215,247 |
| Merchandise Prize Inventory | 281,858 | 312,252 |
| Prize Annuity Investments | 707,716 | 689,256 |
| Prepaid Expenses | 34,080 | 66,829 |
| Fixed Assets, Net | 1,474,154 | 1,693,744 |
| Total Assets | \$32,084,476 | \$21,359,887 |

LIABILITIES AND RETAINED EARNINGS

Liabilities:

| | | |
|----------------------------------|---------------------|---------------------|
| Net Proceeds Due to State | \$4,367,970 | \$2,518,161 |
| Unclaimed Prizes Due to State | 2,556,178 | 1,355,277 |
| Due to Other State Agencies | 86,154 | — |
| Accounts Payable | 6,652,263 | 4,232,761 |
| Tax in-Lieu-of-Sales Tax Payable | 2,124,478 | 1,844,881 |
| Prize Liability | 10,776,055 | 6,840,796 |
| On-Line Prize Reserve | 1,000,000 | 1,000,000 |
| Retailer Incentives Payable | 2,875,440 | 1,766,262 |
| Compensated Absences Payable | 754,175 | 748,428 |
| Deferred Revenue | 184,047 | 364,065 |
| Prize Annuity Payable | 707,716 | 689,256 |
| Total Liabilities | \$32,084,476 | \$21,359,887 |

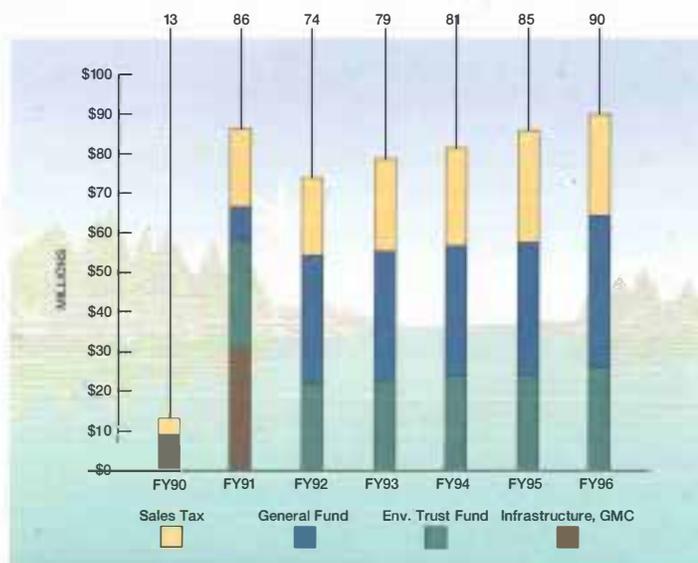
Commitments and Contingencies

Retained Earnings

| | | |
|------------------------------------------------|---------------------|---------------------|
| Total Liabilities and Retained Earnings | \$32,084,476 | \$21,359,887 |
|------------------------------------------------|---------------------|---------------------|

Year ending June 30, 1996, compared to year ending June 30, 1995

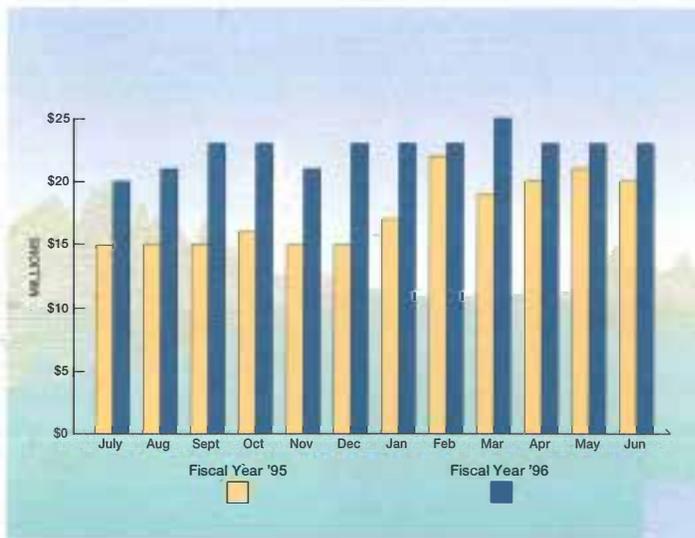
Lottery Contributions to State



LOTTERY INCOME TO THE STATE

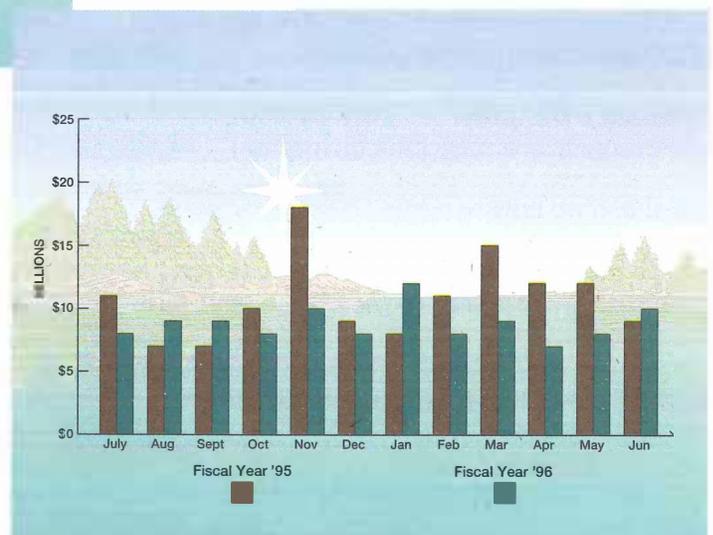
| NET PROCEEDS | 1996 | 1995 |
|------------------------------------------------|---------------------|---------------------|
| 40% Environment & Natural Resources Trust Fund | \$24,853,917 | \$23,969,037 |
| 60% General Fund | 37,280,876 | 35,953,555 |
| Subtotal Net Proceeds | \$62,134,793 | \$59,922,592 |
| Tax (In Lieu-of-Sales Tax) to General Fund | \$24,417,263 | \$21,831,883 |
| Compulsive Gambling | 540,000 | 1,540,000 |
| Public Safety | 150,000 | 150,000 |
| Unclaimed Prizes | 2,556,178 | 1,355,277 |
| Grand Total to State | \$89,798,234 | \$84,799,752 |

Year ending June 30, 1996, compared to year ending June 30, 1995

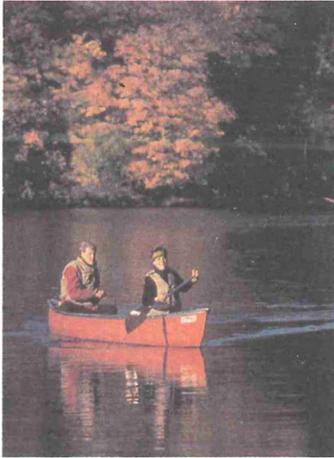


**Instant Games Sales
FY 1995 vs. FY 1996**

**Numbers Games Sales
FY 1995 vs. FY 1996**



1995 - 97 ENVIRONMENTAL PROJECTS *



Improving Metropolitan Regional Parks **\$3.95 million**

Bettering state parks and recreation areas **\$3.15 million**

Widening and repairing sections of the Heartland and Luce Line state trails **\$250,000**

Building new boat ramps, fishing piers and shoreline structures..... **\$600,000**

Cleaning up the Cannon River **\$245,000**

Protecting southeast Minnesota's blufflands **\$630,000**

Encouraging environmental development by industry and land developers..... **\$200,000**

Studying timber harvest practices..... **\$160,000**

Maintaining native grasses along roadsides **\$150,000**

Training educators to teach environmental education in grades 6-12..... **\$100,000**

Developing environmental courses for college students training to be teachers..... **\$500,000**

Creating a computer network to share environmental education information.... **\$200,000**

Establishing nature areas near K-12 schools **\$200,000**

Monitoring the health of the state's environment **\$350,000**

Identifying plants and animals that indicate wetland quality **\$275,000**

Locating natural areas and rare plants and animals **\$900,000**

Locating and monitoring forest birds **\$500,000**

Digitizing the state's aerial photographs **\$600,000**

Restoring Lake Phalen's wetlands..... **\$115,000**

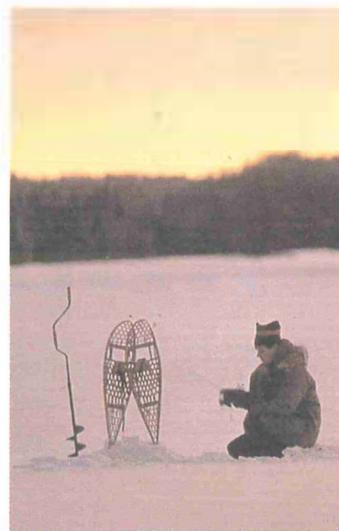
Restoring and enhancing five communities' wetlands **\$200,000**

Acquiring access to lakes and streams for fishing **\$300,000**

Improving fish habitat and stocking efforts **\$1 million**

Buying land for wildlife habitat..... **\$650,000**

Providing matching funds to protect fish and wildlife habitat **\$880,000**



Researching ways to control Eurasian water milfoil and purple loosestrife **\$300,000**

Studying the use of a soil fungi to restore prairies and wetlands **\$100,000**

Acquiring privately owned land within state parks and recreation areas **\$2.12 million**

Expanding several Metropolitan Regional Parks **\$1.12 million**

Repairing the Cannon Valley Trail..... **\$175,000**

Using computers to better predict groundwater contamination in the Twin Cities **\$250,000**

*These projects were funded entirely or in part by the Environment and Natural Resources Trust Fund with proceeds from the sale of Lottery tickets.

Headquarters

Roseville
2645 Long Lake Road
Roseville, Minnesota
55113
(612) 297-7456,
635-8100

Customer Service

(Weekdays 8 a.m.-5 p.m.)
1-800-475-4000,
297-7456
(Twin Cities area)

24-hour Player Hotline
1-800-657-3946,
297-7371
(Twin Cities area)

Regional Offices

Virginia
327 Chestnut Street
Virginia, Minnesota
55792
(218) 749-9650
Tom Durham,
Regional Manager

Detroit Lakes
1111 U.S. Highway 10 E.
P.O. Box 70
Detroit Lakes,
Minnesota 56501
(218) 846-0700
Sandy Buchholtz,
Regional Manager

Marshall
750 West College Drive
P.O. Box 834
Marshall, Minnesota
56258
(507) 537-6041
Doug Landsman,
Regional Manager

Brainerd
523 South Sixth Street
Brainerd, Minnesota
56401
(218) 828-2722
Gloria Vande Brake,
Regional Manager

Owatonna
1836 South Cedar
Avenue
Owatonna, Minnesota
55060
(507) 444-2400
Mark Heiling,
Regional Manager

Eagan
1060 Lone Oak Road,
Suite 112
Eagan, Minnesota
55121
(612) 456-5454
Ron Wilkinson,
Regional Manager

George R. Andersen
Director

Don Masterson
Director for Operations

Zoann Attwood
Director for Marketing

Mary Ellen Hennen
Director for
Administration

Dick Bacon
Chief of Security

Don Feeney
Director for Research

Kate McCarthy
Public Relations
Manager

Debbie Hoffmann
Executive Assistant

Dale McDonnell
Legal Counsel

Web site
www.lottery.state.mn.us

E-mail
lottery@winternet.com

Special thanks to the Minnesota Office of Tourism for
the Kawishiwi River photo on our cover.

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