

2004 Annual Report

Michigan Bureau of State Lottery





Lottery makes largest contribution ever to School Aid Fund

The Michigan Lottery represents many things: for some it's the chance to "win big," for others, it's simply a small way to fill a holiday stocking. For me, nothing is more important than what the Lottery represents for education: a steady source of revenue for our children's schools. Indeed, the Michigan Lottery's primary goal is to generate revenue for the state School Aid Fund. I'm proud to report that in FY 2004, the Lottery set an all-time record with a \$644.8 million contribution to public education in Michigan.

The most frequent question I am asked as Lottery commissioner, is "Where does the money really go?" The question is always simple, and the answer is always the same: to our schools and into our communities. Looking at this year's net profit of \$644.8 million alone—not to mention the \$11 billion that the Lottery has contributed in the previous 31 years—one might think that the



Jennifer M. Granholm
GOVERNOR



Gary C. Peters
LOTTERY COMMISSIONER

Lottery is the sole solution to our state's education funding challenges.

However, the cost to provide an education for Michigan's 1.7 million children is staggering. In FY 2004, the state spent \$12.4 billion on K-12 education, and in FY 2005, that number is expected to grow to \$12.5 billion. Clearly, the Lottery's contribution is only a fraction of the overall revenue mix.

But the importance of that contribution is equally clear. Without Lottery revenue, the state would be forced to fill a \$600 million hole in our

education budget through other means—or cut enough books, pencils and lesson plans from our children's classrooms to make up the difference.

The Michigan Lottery recognizes the importance of its mission and strives to make its games attractive in an increasingly competitive environment. We are

continuing to build on past accomplishments, like the phenomenal success of Club Keno, which was introduced in late October of 2003. In its first year, Club Keno players generated an unprecedented \$204 million in ticket sales, which resulted in \$50 million for the state School Aid Fund. This was the most successful game launch in the history of the Michigan Lottery and one of the most successful launches of Club Keno anywhere in the country. We also expect to expand upon the nearly \$1.1 billion in prizes that we awarded to thousands of lucky Lottery winners.

Thanks to our network of nearly 11,000 dedicated retailers, and our millions of loyal players, the Lottery will continue its mission of maximizing revenue for public education in Michigan. And the biggest winners will continue to be the children of this state.



Sincerely,

Gary C. Peters
Lottery Commissioner

Club Keno is most successful game launch in Lottery history

One needn't look far to find the reason behind the Lottery's most successful year ever. The implementation of Club Keno, a fast-paced, interactive game that is played by patrons of Class C liquor establishments, is primarily responsible.

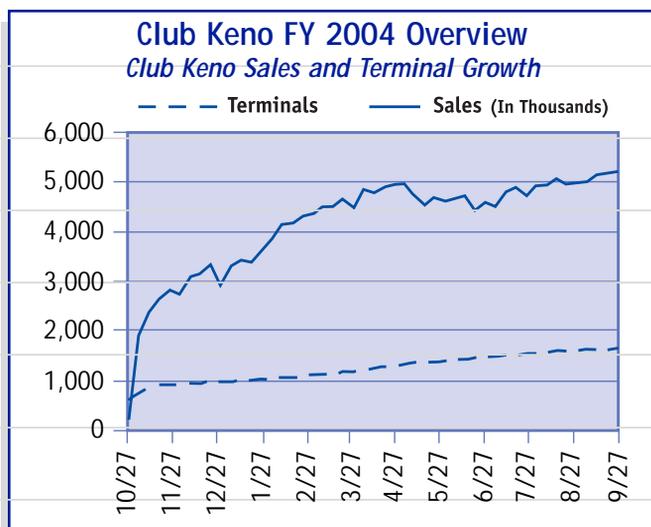
The introduction of this game on October 27, 2003 represented the most successful game launch in the 32-year history of the Michigan Lottery, and one of the most successful launches among the other 11 states and the District of Columbia in which Club Keno is offered. Throughout the fiscal year, the number of retailers offering the game grew steadily, and by year's end, the approximately 1,700 locations in which it was available generated a phenomenal \$204.5 million in sales—11 percent of total Lottery sales! This resulted in a contribution of \$50 million to the state School Aid Fund— from just one game!

Club Keno's incredible success can be attributed to several factors. Implementing a game in locations which did not already offer Michigan Lottery games created access to a previously untapped player base.



Equally important was the availability of Club Keno; players no longer needed to travel long distances to find a club-like atmosphere in which to spend their gaming dollars.

To play Club Keno, players select up to 10 numbers between 1 and 80 and view the results of drawings, conducted every five minutes, on TV monitors. Club Keno can be played between 6:05 a.m. and 1:45 a.m.; wagers can be between \$1 and \$20, and the top prize is \$2 million!



Lottery offers wide variety of

Led by the astonishing success of Club Keno, the Michigan Lottery contributed a record \$644.8 million to the Michigan School Aid Fund at the close of FY 2004. In total, Lottery ticket sales equaled \$1.97 billion, surpassing the previous high of \$1.73 billion in 1999.

Sales of Fantasy 5 tickets were extremely strong from its beginning, almost doubling sales of Michigan Rolldown in its first few weeks.

Introduced on September 12, Fantasy 5 generated nearly \$2 million in ticket sales in its first two weeks.



A complement to Club Keno, Pull Tabs are also offered in Class C liquor establishments. Pull Tabs are similar to instant tickets but players pull off a perforated tab instead of scratching off the ticket. Ticket prices are 50 cents and \$1 and top prizes range from \$50 to \$300.

Pull Tabs generated \$25.1 million in ticket sales, which was 1 percent of total sales.



The Michigan Lottery's most recent entry into the online game lineup is Fantasy 5, which was introduced in the fall of 2004 to replace Michigan Rolldown. In this \$1 game, jackpots start at \$100,000 and increase daily by at least \$5,000 until someone matches all five numbers. Prizes are guaranteed for various matches: \$100 for matching four numbers, \$10 for matching three numbers, and \$1 for matching two numbers.



WINFALL sales, at \$1 per wager, generated \$66.6 million in ticket sales. Jackpots for this thrice-weekly drawing start at \$2 million. If the jackpot hits \$5 million, and no one matches all six numbers, the prize money is paid out to the match five, four, and three winners. Without a "WINFALL" there are guaranteed prizes for match five, four, and three winners.



With sales of \$206.6 million, or 10 percent of 2004 ticket sales, Mega Millions, a multi-state game in which Michigan is one of 11 participants, took a big leap from the previous year's \$147.5 million sales total. Jackpots, which start at \$10 million, reached near-record highs in this game which is drawn twice weekly. Players win the jackpot by matching all five white balls and the single gold Mega ball.

games to match all players



Daily 3&4

While they are the Michigan Lottery's longest-running games, the Daily 3 and Daily 4 are also its most consistently popular, representing 37 percent of total sales. In 2004, these two games generated \$420 million and \$308 million respectively. Daily 3 and Daily 4 offer players a variety of winning combinations and prizes, as well as an opportunity to play each twice a day, at midday and again in the evening. Prizes for Daily 3 can be as much as \$500; for Daily 4, \$5,000.



KENO! \$250,000

Representing 1 percent of total sales, Keno! generated \$14.9 million in revenue in 2004. The top prize in this game, which offers six different ways to win, is \$250,000. Players select 10 numbers from a pool of 80. The Lottery then draws 22 numbers and if the player matches 10 of those 22, he or she wins the jackpot. Keno! drawings are conducted daily.



INSTANT GAMES

As they have been for many years, instant games continued to be among the top-selling Lottery tickets in Michigan. In FY 2004, instant sales were a whopping \$690 million, for 35 percent of total Lottery sales, beating out 2003's \$682.7 million. To whet the appetites of instant players, the Lottery offered 75 new games in 2004, priced between \$1 and \$20, with prizes ranging from \$1 to \$2 million.

Michigan Lottery's Mission Statement

When Michigan's citizens voted by a 2-to-1 margin in 1972 to amend the state's constitution and establish the Michigan Lottery, it was created with three goals in mind:

1

To maximize net revenues to supplement state education programs.

2

To provide fun and entertaining games of chance.

3

To operate all games and bureau functions with nothing less than total integrity.

Lottery takes show on the road to fairs, festivals

Each year, the Michigan Lottery participates in a number of events throughout the state, taking the latest and greatest games on the road. In addition to selling instant and online tickets, the Lottery was able to provide fair and festival goers with the fun, fast-paced games of Club Keno and Pull Tabs.

During FY 2004, the Michigan Lottery participated in five events across the state. They included (followed by retail partners): The Bay City Pig Gig in Bay City (Meijer #48); the Michigan State Fair in Detroit (Hazel Park Raceway, Northville Downs); the Upper Peninsula State Fair in Escanaba (Holiday Stations); Arts, Beats & Eats in Pontiac (Lucky's Bar, Meijer #53); and the Jazz Festival in Detroit (Northville Downs).

Fair and festival crowds had a chance to purchase online and instant tickets at the Bay City, Escanaba, and Pontiac events. Everything from Mega Millions, WINFALL, Daily 3 & 4 and Keno! to all current instant games could easily be acquired by visiting on-site retailer stations.

Patrons of the Club Keno tents at the Pontiac event and the two Detroit events were able to experience their favorite game in lively, community, festival-like settings. The club-like atmosphere at each venue allowed patrons to enjoy food and beverages while wagering bets on Club Keno and Pull Tabs.

Attendees of the fairs and festivals enjoyed their experience, especially one lucky man and his wife who visited the Club Keno

tent at the State Fair. The lucky players won \$10,000 on their first of three bets. "This is so fabulous," the man said. "I couldn't ask for a better experience at the State Fair!"

Players in the instant, online and Club Games party venues had an additional bonus of spinning the Lottery prize wheel for fabulous merchandise. For every \$10 spent on tickets, they were able to "Spin to Win." The more you bought, the more you won!

The constant sound of the spinning wheel could be heard throughout the events, causing curiosity and attracting more and more people to play Michigan Lottery games!



Live drawings bring excitement of winning to big audiences

When you see a person win \$2 million right before your eyes, it has an impact.

Recognizing the potential value of live drawings witnessed by huge crowds, the Michigan Lottery took the excitement of winning on the road in 2004.

On January 9, William Schad of Muskegon walked away with the grand prize in a live drawing conducted during halftime of a Detroit Pistons game at The Palace of Auburn Hills. Schad was one of five finalists whose names were selected from 973 eligible Lottery players. To be eligible, players had to win \$1,000 on the \$20 instant game “\$2,000,000 Fortune.”

On June 19, James Rutledge of Holt was the lucky winner at Michigan International Speedway in Brooklyn. Rutledge’s name was drawn from five finalists who gathered in the infield at MIS before the running of the DHL 400 NASCAR Nextel Cup race. In addition to being selected for the grand prize from a pool of 889 eligible players, all of whom had



won \$1,000 on a “Casino Millions” \$20 instant ticket, Rutledge was treated to a ride in the pace car that led the start of the race.

The value of a live drawing is hard to match. Media interest soared as reporters sought information about not only the winners and finalists, but the Lottery as well. Interest was also heightened on the part of both current and potential players who saw right before their eyes that people do win!





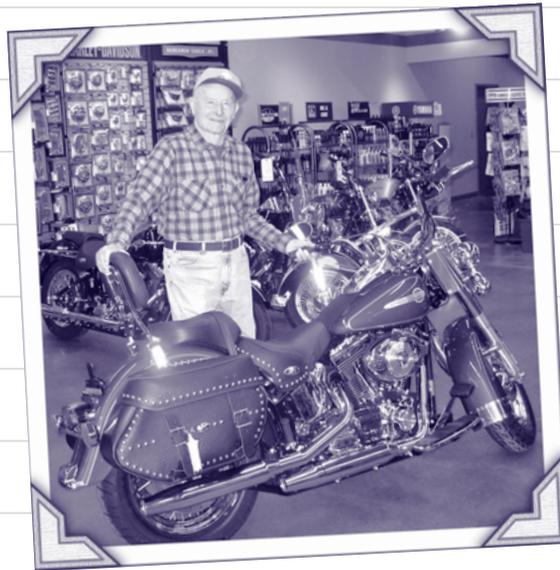
Trips, merchandise expand Lottery prize offerings

While most Lottery players dream of winning cash prizes, the Michigan Lottery offered a number of games in FY 2004 that also included "experience" prizes and merchandise.

In each of these games, players were invited to enter any one of several second chance drawings by submitting their non-winning tickets by mail. Winners were randomly selected in each drawing to receive either the grand prize award or a prize pack filled with merchandise related to the game. Grand prizes included all expenses paid trips to Hollywood; tickets to the Daytona 500 and National Basketball Association games; Harley-Davidson® motorcycles; and auditions for the chance to appear on TV's Wheel of Fortune.

In total, the Michigan Lottery received over 330,000 entries for these drawings and awarded 22 grand prizes, 800 racing event tickets to Michigan International Speedway, and nearly 4,000 prize packs of merchandise.

In the **Harley-Davidson® Instant Slots** game, three instant-win Harley-Davidson motorcycles were awarded, along with one grand prize drawing motorcycle and 960 prize packs of Harley-Davidson merchandise. William Frolo of Hemlock took home the grand prize, a Harley-Davidson® Heritage Softail® Classic motorcycle.



The **Speedway Cash** instant game awarded Elizabeth Abbott of Coopersville the grand prize trip for two to the 2005 Daytona 500. Another 400 lucky winners received two tickets each to NASCAR races at Michigan International Speedway, and 1,200 players won prize packs of MIS merchandise.

In the **Detroit Pistons** instant game, four all expenses paid "Dream Trips" for two were awarded to Hanna Musallam of Chesterfield Township, Ryan Hatcher of Kalamazoo, Cindy Winans of South Haven, and Patrick Frost of Olivet. Each trip winner had the option of receiving either a "Home Game Getaway" or a "Road Trip Getaway" travel package. Additionally, 800 prize packs of NBA Detroit Pistons merchandise were awarded.

Four grand prize winners in the **Wheel of Fortune** second chance drawings received tickets for two to attend a taping of TV's Wheel of Fortune in Hollywood, along with the opportunity to audition for a chance to appear on the show. The four winners were Laurel Berczak of Detroit, Barbara Poole of Wyoming, Judy Droski of Comstock Park and Michael Denman of Lansing. Another 1,000 lucky players received Wheel of Fortune prize packs.

In the **WINFALL Dream Drive** promotion, 12 lucky players received a 24-month, 30,000-mile lease on their choice of one of the following vehicles: 2004 Ford Mustang, Chrysler Pacifica, Buick Rendezvous or Dodge Ram. Over 356,000 players participated in the promotion.



Retailers are big winners with the Michigan Lottery

Retailers are big winners with the Michigan Lottery.

The thousands of retailers who sell Lottery tickets earned a total of \$145.4 million in commissions in FY 2004, adding to their bottom lines in a way that wouldn't have been possible without the Michigan Lottery. By selling Lottery tickets, they have an opportunity to make extra money for themselves while providing a unique form of entertainment and excitement to their customers.

Since the Lottery's inception in 1972, retailers have earned over \$750 million in commissions. Lottery retailers earn a 6 percent commission on all Lottery tickets sold; 2

percent of in-store redemptions on winning tickets valued up to \$600; 2 percent commission on redeemed winning tickets sold in their stores valued from \$601 to \$100,000; and a flat \$2,000 commission for redeemed winning tickets valued over \$100,000 sold in their stores.

Michigan Lottery retailers also participate in an incentive-based commission program that rewards those who meet or exceed their



quarterly instant ticket sales goal with an additional commission based upon their total instant ticket sales for the quarter. This program has been in place since January 2002.

In addition to their commissions—an obvious and tangible benefit to selling Lottery tickets—retailers report an increase in the sales of their floor products. Many Lottery players stop by to place a wager and end up doing some shopping at the same time.

MILLION DOLLAR RETAILERS Calendar Year 2004



- MGM Food Center, Detroit
- Oak Liquor and Wine, Oak Park
- Shoppers Market, Warren
- Shoppers Market, Center Line
- New Northend Market, Oak Park
- Angelo's Food Specialties, Benton Harbor
- Meijer #123, Southgate
- Pied Piper, Detroit
- Oakland Liquor Party Shoppe, Southfield
- Stop N Shop, Saginaw
- Glass Bottle Shoppe, Detroit
- Abbey Wine & Liquor Shop, Southfield
- Levan Wine & Deli Shoppe, Livonia
- Meijer #28, Flint
- Smokers Best Buy, Oak Park
- Meijer #23, Lansing
- Skip's Market, Center Line
- Greenfield Party Shoppe, Southfield
- Thrifty Scot, Detroit
- Toma Foods, Dearborn
- Boulevard Food Center, Detroit
- Nick's Party Store, Detroit
- Meijer #145, Fraser
- Sax Discount, Taylor
- College Liquor Shoppe, Detroit
- Country Farm Market, Pontiac
- M C Petro Inc., Detroit
- Meijer #29, Burton
- Barrel & Bottle, Detroit
- Joe's Liquor & Wine Shop, Detroit
- Scotia Stop Food Store, Oak Park
- Larry's Market, Detroit
- Treasure Island, Southfield
- Light House Liquor, Oak Park
- Meijer #20, Grand Rapids
- Suburban Pantry Shoppe, Southfield
- New Super Fair Foods, Detroit
- Athens Grocery Store, Detroit
- Kit Kat Market, Detroit
- Parklane Cork & Bottle, Detroit
- Cherry Belt Party Store, Inkster
- Northville Downs, Northville
- The Flying Machine, Chesterfield

Charitable gaming helps raise millions for worthy causes

FY 2004 was an exciting and productive one for charitable gaming in Michigan. In addition to regular bingo games which are operated every day, over 11,300 licensed events, generating more than \$79 million for the worthy causes of thousands of qualified organizations, occurred throughout the state.

For the first time since 1993, requests for Millionaire Party licenses increased. At 684, the licenses requested were up 8.5 percent over 2003. Much of this can be attributed to the new Texas Hold 'em card games which are continuing to grow in popularity. Two new groundbreaking charity game tickets, the \$5 Michigan Wild and the first progressive seal card game, Rock & Rollover, were introduced. Both of these games have been very successful and well received by players.

One of the rewards of charitable gaming work is that each year, the Michigan Lottery receives numerous letters from organizations anxious to share stories of how monies raised enabled them to fund many wonderful and worthy projects for their communities. Among the many efforts were support of local food banks, assistance in providing transportation to medical facilities, and funding a place for seniors to meet. The list goes on and on.



In the course of learning of these projects, the Charitable Gaming Division staff has had the privilege of meeting many dedicated volunteers who give of themselves so unselfishly. Conducting a licensed gaming event requires a significant amount of time and effort, and true dedication is necessary to run a successful bingo, millionaire party, raffle, or charity game ticket program.

In FY 2005 the Charitable Gaming Division has set a goal of increasing the growth of bingo in Michigan. Although over 100 weekly bingos netted \$50,000 or more, bingo revenues in

Mission Statement

- Provide services to the general public in a professional, positive, and efficient manner.
- Ensure that only organizations that qualify in accordance with the statute receive licenses.
- Ensure that licensed gaming events are conducted in a fair and honest manner.
- Ensure that funds received from the general public through licensed gaming events are accounted for and used for the lawful purposes of the organization.

2004 were down 3.5 percent from 2003. Increased competition from other forms of gaming is forcing bingo licensees to either develop a more exciting program or incur losses. These demands require fresh, inviting formats on the part of licensees in order to retain and grow their player base.

The Michigan Lottery and its Charitable Gaming Division are proud to be part of a program that benefits so many people in our state!

Charitable gaming events generated more than \$79 million in profits in 2004.

2004 Financials



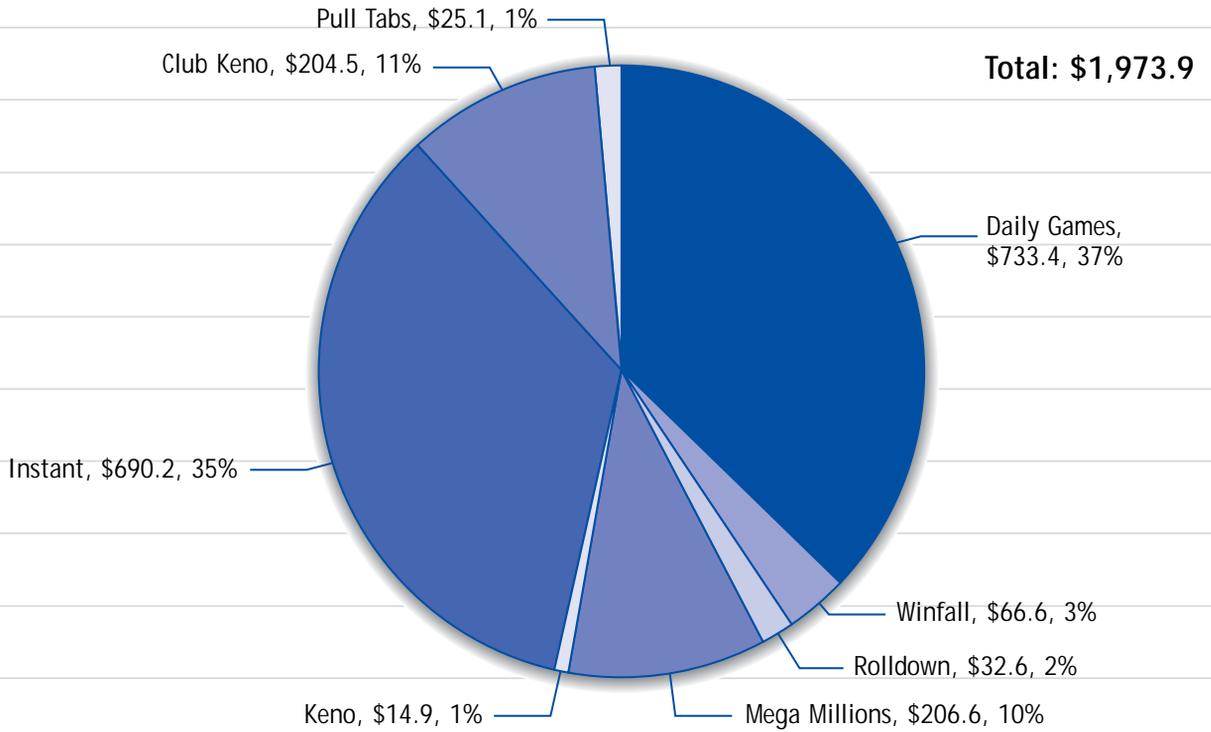
Statement of Revenues, Expenses and Transfers

<i>In Thousands</i>	FY 2004	FY 2003
Revenues		
Daily 3	\$ 420,454	\$ 418,589
Daily 4	\$ 308,163	\$ 293,088
Extra/Daily Double	\$ 4,827	\$ 8,816
Winfall	\$ 66,569	\$ 79,289
Rolldown	\$ 32,566	\$ 33,747
Mega Millions	\$ 206,620	\$ 147,534
Keno	\$ 14,856	\$ 13,471
Instant	\$ 690,158	\$ 682,703
Change Play	\$ 88	\$ 4,311
Club Keno	\$ 204,519	
Pull Tabs	\$ 25,080	
Total Ticket Sales	\$ 1,973,900	\$ 1,681,548
Charitable Gaming Receipts	\$ 19,981	\$ 19,155
Investment Income	\$ 3,202	\$ 3,315
Unrealized Investment Income (Loss)	\$ (28,079)	\$ (22,884)
Other Income	\$ 1,430	\$ 1,127
Total Revenues	\$ 1,970,434	\$ 1,682,261
Expenses		
Retailer Commissions	\$ 145,367	\$ 121,830
Administrative Expenses	\$ 15,940	\$ 15,280
Advertising	\$ 17,534	\$ 17,122
Game-Related Expenses	\$ 54,146	\$ 45,066
Charitable Gaming Expenses	\$ 7,777	\$ 7,922
Total Operating Expenses	\$ 240,764	\$ 207,220
Prizes Awarded	\$ 1,130,844	\$ 919,222
Less Unclaimed Prizes	\$ 31,171	\$ 19,568
Net Prizes Awarded	\$ 1,099,673	\$ 899,654
Net Income	\$ 629,997	\$ 575,387
Charitable Gaming Net Income		
Transferred to General Fund	\$ 12,203	\$ 11,233
Transfer to Dept. of Community Health for Compulsive Gaming Hotline	\$ 990	\$ 990
Reserved Unrealized Gain (Loss) on Investments	\$ (28,079)	\$ (22,884)
Net Income Transferred to School Aid Fund	\$ 644,883	\$ 586,048

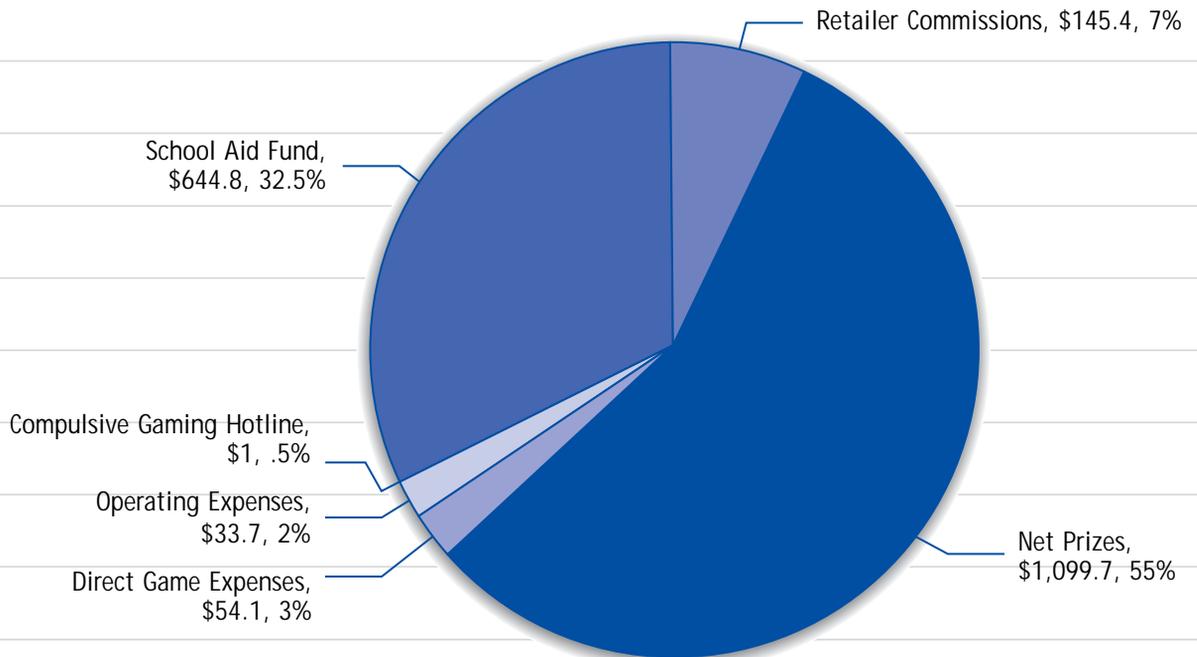


2004 Financials

Ticket Sales - FY 2004 (In Millions)



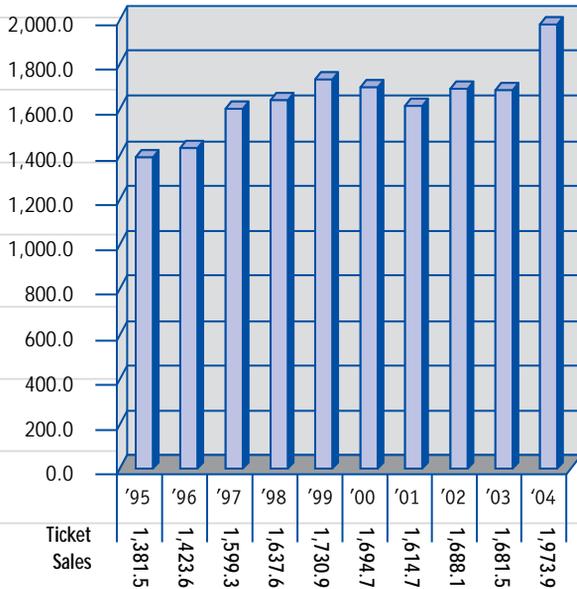
Where the Money Goes - FY 2004 (In Millions)



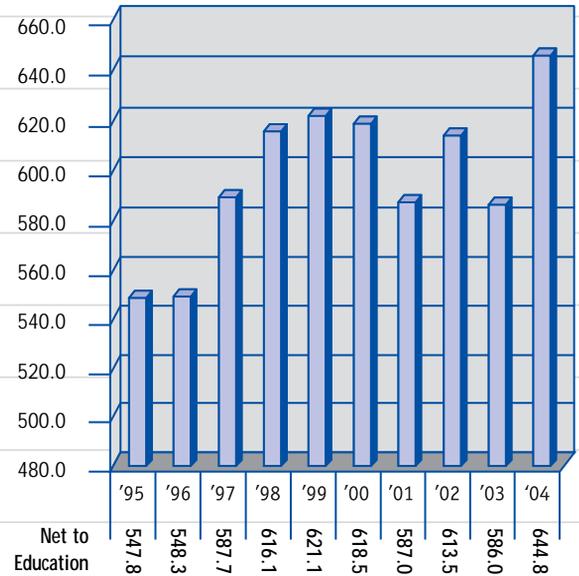
Percentages are based on total Lottery sales and other income, plus \$28.1 million unrealized investment loss.

2004 Financials

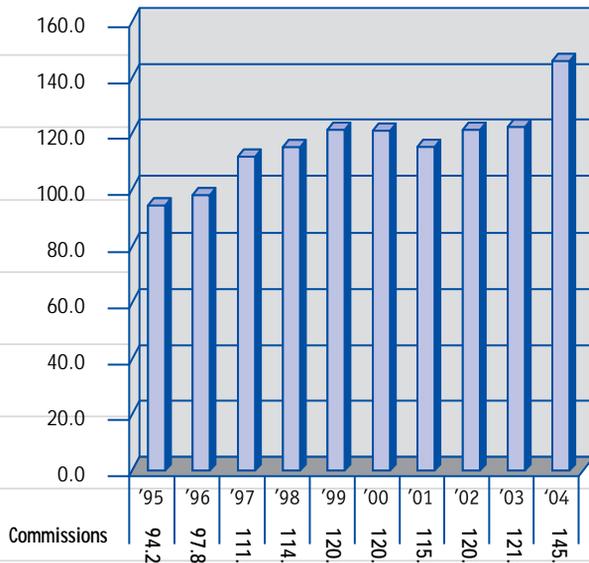
Ticket Sales History (In Millions)



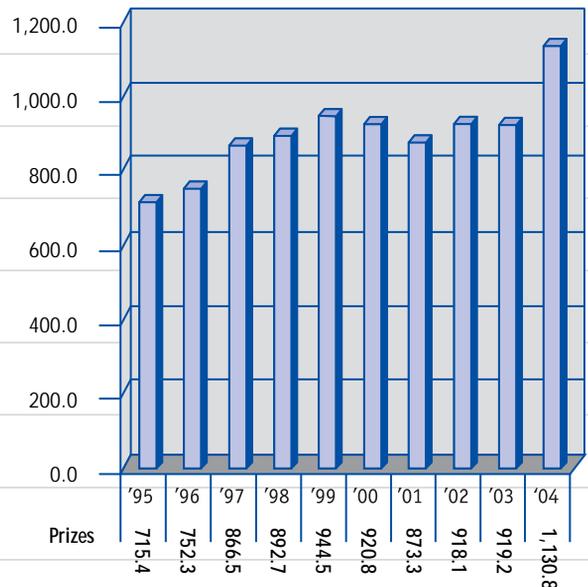
Net to Education (In Millions)



Retailer Commissions (In Millions)



Prizes Won (In Millions)



Lottery supports gaming hotline

Lottery and other games of chance are prevalent in Michigan and worldwide. In Michigan, at least 75 percent of the adult population has purchased a Lottery ticket in the last 12 months.

Fortunately, the vast majority of these Lottery enthusiasts play responsibly and do so in the spirit the games are intended. However, as with any form of gambling, abuses can and do occur.

The Michigan Lottery believes in offering a fun product at a fair price, all in the name of benefiting a worthy cause. The Lottery is entertaining, it's a game of chance and it's fun. The Lottery is not, and was never intended to be, a stepping stone to success. It's not a good investment, not a retirement plan, and is not meant to replace hard work and ambition as a means to a better life.

Because the Lottery is aware there are those who may need

support in understanding the difference, answers are available. Compulsive gambling can be treated and help is just a phone call away.

If you would like more information about problem gambling and the programs available, call the Michigan Problem Gambling Helpline at 1-800-270-7117.

In FY 2004, the Michigan Lottery provided \$1 million for compulsive gambling programs, including the toll-free Helpline.

Web site reaches millions of Lottery players

The growth of the Internet has greatly expanded the reach of communication between the Michigan Lottery and its players. In fact, the Lottery's Web site is one of the most popular in all of state government! Information including current game jackpots, most recent winning numbers, education funding, archives of past winning numbers, drawing schedules, broadcast stations, game rules, the prize claims process, special offers, top remaining instant game prizes, press releases, historical background and problem gaming assistance is all immediately available at michigan.gov/lottery. In addition to fast access to Lottery statistics, players can communicate instantly with the Lottery through a direct e-mail link, milottery@michigan.gov. This has proven popular with the players, as the Lottery receives and responds to thousands of e-mails each year!



Month.....	Total Web Site Page Views
October 2003	3,011,037
November 2003.....	2,802,379
December 2003	3,610,468
January 2004	3,665,230
February 2004	4,672,071
March 2004.....	3,602,968
April 2004	3,444,830
May 2004	3,218,164
June 2004	4,393,247
July 2004	3,956,269
August 2004	3,265,707
September 2004	3,525,746
Total FY 2004	43,168,116

Visit the Michigan Lottery at michigan.gov/lottery

Lottery contact information



There are several ways to contact
the Michigan Lottery:

By e-mail: milottery@michigan.gov

By U.S. mail: Michigan Lottery

By fax: (517) 335-5644

101 E. Hillsdale

P.O. Box 30023

By phone: (517) 335-5600

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989-758-1670

WYOMING

1288 28th Street SW
Suite 3
Wyoming, MI 49509
616-538-9588

Prizes of \$600 or more can be claimed at Lottery regional offices and at various bank locations in the northern Michigan area. For a complete list, visit the Lottery Web site at michigan.gov/lottery and click on *Lottery Information*, then on *How To Claim Your Prize*.

Michigan Lottery Leadership Team

Gary C. Peters	Lottery Commissioner
Margie Reh	Deputy Commissioner, Administration
Mike Petersen	Deputy Commissioner, Charitable Gaming
Tom Weber	Deputy Commissioner, Marketing
Connie Souza	Deputy Commissioner, Planning and Operations

This report was produced by the Public Relations Division of the Michigan Bureau of State Lottery.



Printed under the authority of P.A. 239, 1972, as amended. 12,500 copies at \$.50424 per copy; total cost \$6,303.00.