

MICHIGAN LOTTERY
CHARITABLE GAMING DIVISION
2002 ANNUAL REPORT
October 1, 2001 to September 30, 2002

JAMES E. KIPP
Acting Commissioner

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YEAR IN REVIEW

The past year has been a challenging one for the charitable gaming community. A lagging economy, growth in internet gaming, and the proliferation of commercial gaming has intensified the competition for gaming dollars. Yet despite this difficult environment, charitable gaming revenue in Michigan increased nearly \$30 million and net profit, the monies you use to support your charitable works, increased by \$3.6 million to a total of \$77.9 million.

Initiatives introduced in recent years continue to impact your bottom line. The Michigan Progressive Jackpot game is now played by nearly 900 bingo licensees and has proven to be a highly profitable game. During 2002, player spending on the Michigan Progressive Jackpot game represented only 15% of bingo revenue but accounted for more than 44% of bingo profit. Additionally, the precipitous decline in the number of bingo games has begun to moderate. The past year marked the smallest decline in bingo licenses in nearly a decade. Average attendance at bingo games appears to have stabilized, showing a slight increase.

To keep this momentum going, the Charitable Gaming Division continues to look at new initiatives. In June, a test of electronic bingo card minding devices was undertaken in the Lansing market. Financial results and feedback from test participants have been overwhelmingly positive. Significant increases in average player spending and profitability have been realized since the introduction of electronic bingo. The Charitable Gaming Division expects to approve electronic bingo for statewide use in 2003 and will conduct training sessions throughout the state to provide you with additional information.

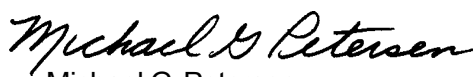
Charity game tickets continue to play an ever-increasing role in supporting your charitable endeavors. Sales of charity game tickets during 2002 accounted for \$31 million in net profit, an increase of 19% over the previous year. To illustrate the increasing importance of charity game ticket sales, 2002 marked the first time in history that sales of charity game tickets generated a greater share of bingo licensees' total profit than bingo. Average player spending at bingo games where charity game tickets are sold continues to increase at a greater rate than at games where they are not sold. Additionally, attendance increased at bingo games selling charity game tickets, while those that do sell charity game tickets saw declines in attendance.

The impact of the charitable gaming proceeds you raise is evident in a variety of ways. The **Fred E. Williams VFW Post # 3055** in St. Louis used their bingo proceeds to contribute to dozens of community programs including the St. Louis Public Schools for remodeling of an athletic field press box, the St. Louis Fire Department and State Police Post for portable defibrillators, and to the Salvation Army to assist families at Christmas. The **Harrison Moose Lodge 2235** used their bingo proceeds to make many donations to the local community including the Harrison Fire Department for the purchase of new fire suits, the Harrison Community Schools for drug awareness programs, and the Clare County Red Cross Food Pantry. The **American Legion Post #71** In Gladstone used proceeds from charity game ticket sales to remodel their hall. The Legion offered space in their lower level rent-free to St. Vincent DePaul Society after a fire took the Society's building. They have also supported the local Student Exchange program.

These are but a few examples among thousands in which your charitable gaming proceeds enhance the communities in which we all live. However, recent activity in Michigan poses a threat to your continued ability to support charitable causes. The latest challenge to the charitable gaming community is a product called "Ad Tabs". These are pull-tabs that are being sold throughout the state, mainly in bars. The Lottery and the Liquor Control Commission are currently in litigation with a company called Face Card Promotions based in Kenosha, Wisconsin.

The sale of Ad Tabs is an unregulated expansion of gambling that is directly competing with the charity game tickets sold by nonprofit licensees throughout the state. Unless we are successful in our litigation, we anticipate a large decrease in the sale of charity game tickets at bingo games and in fraternal clubs for the upcoming year. We will keep you informed as this litigation moves forward and promise to act as a vigorous advocate for the charitable gaming community on this issue.


James E. Kipp
Acting Commissioner


Michael G. Petersen
Deputy Commissioner
Charitable Gaming Division

Non-profit
organizations
in Michigan
made a net
profit of nearly
\$78 million for
their causes.

CHARITABLE CAUSES

Without the funding derived from charitable gaming, many community projects here in Michigan would not exist. From the net profit this year, organizations retained over \$77 million for their lawful purposes. Some of the community projects funded through the use of these proceeds include but are not limited to:

Organizations
made a net
profit of \$3.6
million more
than last year.

Band Booster Programs	Junior Achievement
Big Brothers/Big Sisters	Leukemia Foundation
Blind Federation	Library Funds
Burn Projects	Little League Baseball
Cancer Research	Local Symphony Orchestra
Catholic Missions & Education	Mental Health Programs
Children & Youth Camps	Preschools and Co-op Nurseries
Crisis Intervention Centers	Public and Private Schools
Cystic Fibrosis Research	Scholarships
Diabetes Research	School Athletic Programs
Disabled Citizen Programs	Senior Citizen Projects
Easter Seals	Soup Kitchens
Fire Department Equipment	Special Olympics
Girl Scout Programs	Veteran Hospitals and Therapy
Historical Societies	Wildlife and Conservation Programs

FINANCIAL STATISTICS—ALL EVENTS

Financial statistics for charity game tickets and raffle tickets are included with the license under which those tickets were sold.

The following statistics are based on figures reported by licensees for events that occurred during FY 2002.

License	Revenue	Prizes	Expenses	Net Profit
Annual Charity Game	\$109,315,651	\$81,998,895	\$12,949,221	\$14,367,535
Special Charity Game	25,647	14,807	5,394	5,446
Large Bingo	254,312,169	191,091,035	31,351,690	31,869,444
Small Bingo	140,917	104,077	5,472	31,368
Special Bingo	2,297,330	1,346,455	226,360	724,515
Millionaire Party	7,898,170	3,394,456	861,073	3,642,641
Large Raffle	55,261,056	22,731,235	5,272,156	27,257,665
Total	\$429,250,940	\$300,680,960	\$50,671,366	\$77,898,614

ANNUAL CHARITY GAME TICKET

Qualified organizations that own or lease a location for the primary use of its members may apply for an annual charity game ticket license. The annual charity game ticket license is \$200 for the license year. For this fiscal year, licensees reported the following financial data:

Revenue	\$109,315,651
Prizes	\$81,998,895
Expenses	\$12,949,221
Net Profit	\$14,367,535

502 annual charity game ticket licenses were issued.

23 special charity game ticket licenses were issued.

SPECIAL CHARITY GAME TICKET

Qualified organizations may apply for a special charity game ticket license. The special charity game ticket license is \$15 per day for up to four consecutive days. For this fiscal year, licensees reported the following financial data:

Revenue	\$25,647
Prizes	\$14,807
Expenses	\$5,394
Net Profit	\$5,446

ALL CHARITY GAME TICKET SALES

Seven license types allow for the sale of charity game tickets. Licensees reported the following financial data for charity game ticket sales:

License	Revenue	Prizes	Expenses	Net Profit
Annual Charity Game	\$109,315,651	\$81,998,895	\$12,949,221	\$14,367,535
Special Charity Game	25,647	14,807	5,394	5,446
Large Bingo	110,148,171	82,502,064	10,974,195	16,671,912
Small Bingo	3,704	2,719	360	625
Special Bingo	563,602	418,607	52,678	92,317
Millionaire Party	96,363	71,158	9,559	15,646
Large Raffle	77,262	43,588	5,026	28,648
Total	\$220,230,400	\$165,051,838	\$23,996,433	\$31,182,129

Charity game tickets accounted for \$31 million in profit to the nonprofit organizations, an increase of \$4.8 million over last fiscal year.

BINGO

\$6.7 million in net profit was generated from the Michigan Progressive Jackpot Bingo Game.

Bingo licenses include large bingo, small bingo, and special bingo. The fee for a large bingo license is \$150, a small bingo license is \$55, and a special bingo license is \$25.

A qualified organization may obtain multiple bingo licenses, up to seven per week, but no more than one per day. Up to four special bingo licenses per year are allowed and are good for up to seven consecutive days.

Bingo licensees are allowed to sell charity game tickets. Below, bingo activity is shown separately from charity game ticket sales.

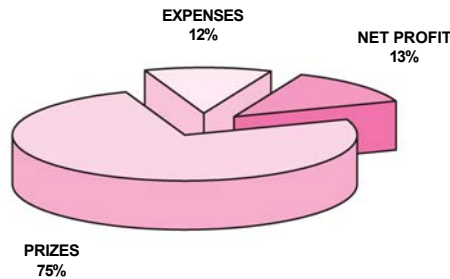
For this fiscal year, bingo licensees reported the following financial data for bingo activity:

Revenue	\$146,034,939
Prizes	\$109,618,177
Expenses	\$20,556,289
Net Profit	\$15,860,473

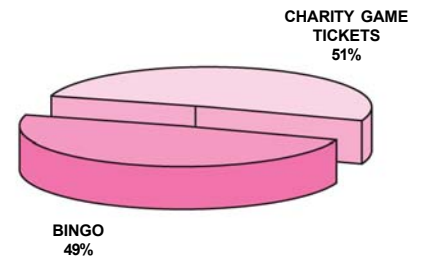
The 1,159 bingo licensees that sold charity game tickets reported the following financial data for charity game ticket sales:

Revenue	\$110,715,477
Prizes	\$82,923,390
Expenses	\$11,027,233
Net Profit	\$16,764,854

Allocation of Total Bingo Revenue



Source of Total Bingo Net Profit



LARGE BINGO STATISTICS

The following statistics are based on figures reported by large bingo licensees for FY 2002. (These do not include the small bingo games or special bingo games.)

Total attendance	5,332,206
Average number of players per bingo occasion	74
Average bingo prizes paid per occasion	\$1,584

	Where Charity Game Tickets Are Sold:	Where Charity Game Tickets Are Not Sold:
Average player spending per occasion	\$52.55	\$28.04
Average annual net profit	\$26,800	\$13,146

BINGO LICENSES ISSUED

<u>Year</u>	<u>Large</u>	<u>Small</u>	<u>Special</u>	<u>Total</u>
2002	1,328	24	646	1,998
2001	1,369	26	657	2,052
2000	1,432	28	752	2,212
1999	1,601	54	814	2,469
1998	1,699	54	882	2,635
1997	1,790	58	903	2,751
1996	1,904	58	1,044	3,006
1995	2,014	58	1,118	3,190
1994	2,106	63	1,114	3,283
1993	2,127	63	1,112	3,302
1992	2,203	66	1,193	3,462
1991	2,108	59	996	3,163
1990	2,294	70	1,157	3,521
1989	2,204	52	1,215	3,471
1988	2,242	54	1,216	3,512
1987	2,293	53	1,432	3,778
1986	2,363	58	1,377	3,798
1985	2,473	63	1,353	3,889
1984	2,536	66	1,415	4,017
1983	2,480	63	1,311	3,854
1982	2,454	63	1,316	3,833
1981	2,350	70	1,242	3,662
1980	2,219	69	1,294	3,582
1979	2,217	35	1,303	3,555
1978	2,197	43	1,311	3,551
1977	2,154	50	1,234	3,438
1976	2,075	53	1,145	3,273
1975	1,897	80	1,090	3,067
1974	1,666	101	1,014	2,781
1973	1,329	156	575	2,060

BINGO GAME LOCATIONS

Licensed bingo games may be conducted in the licensee's own facility, a related organization's facility, or a licensed hall. Rent, when it is charged, is required by the Act to be reasonable. All terms of the rental agreement must be approved by and on file with the bureau.

In FY 2002, licensed bingo games operated in facilities as follows:

Own	50%
Related Organization	13%
Licensed Hall.....	37%

The division licensed 130 halls for use by qualified organizations.

MILLIONAIRE PARTY

Millionaire parties, also called “Las Vegas Nights,” are a popular form of licensed fundraising because of the entertainment appeal of the event. A millionaire party license allows for the awarding of cash or merchandise prizes, the sale of charity game tickets, and the conduct of raffles in conjunction with the event.

A millionaire party can be licensed for up to four consecutive days at \$50 per day.

For this fiscal year, millionaire party licensees reported the following financial data for millionaire party activity:

Revenue	\$3,401,265
Cash Redemptions	\$1,610,337
Merchandise Prizes	\$48,481
Expenses	\$542,862
Net Profit	\$1,199,585

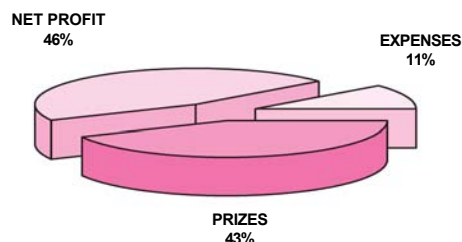
The 28 licensed millionaire parties that sold charity game tickets reported the following financial data for charity game ticket sales:

Revenue	\$96,363
Prizes	\$71,158
Expenses	\$9,559
Net Profit	\$15,646

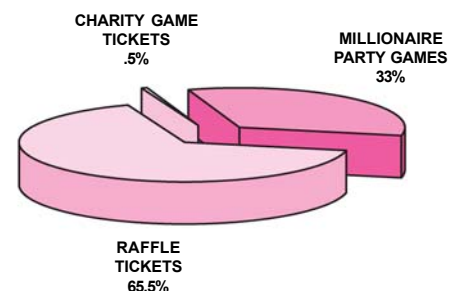
The 354 licensed millionaire parties that sold raffle tickets reported the following financial data for raffle ticket sales:

Revenue	\$4,400,542
Prizes	\$1,664,480
Expenses	\$308,652
Net Profit	\$2,427,410

Allocation of Total
Millionaire Party Revenue



Source of Total
Millionaire Party Net Profit



67% of
millionaire
party profit is
from raffle
ticket sales.

651 millionaire party
licenses were issued.

SMALL RAFFLE

A small raffle license is issued for a raffle drawing when the total value of all prizes awarded on that date will not exceed \$500. A small raffle license can be issued for more than one drawing date.

Small raffle licensees are not required to submit financial statements to the bureau.

2,848 small raffle licenses were issued.

4,529 large raffle licenses were issued.

LARGE RAFFLE

When the total value of all prizes exceeds \$500, the raffle must be licensed for a fee of \$50 per drawing date. A large raffle license allows for the sale of charity game tickets.

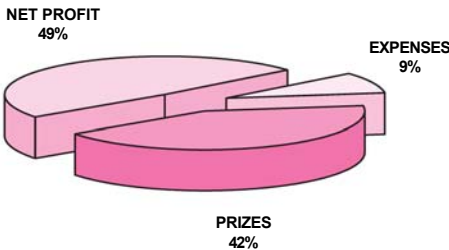
For this fiscal year, large raffle licensees reported the following financial data for raffle ticket sales:

Revenue	\$55,183,794
Prizes	\$22,687,647
Expenses	\$5,267,130
Net Profit	\$27,229,017

The 19 licensed raffles that sold charity game tickets reported the following financial data for charity game ticket sales:

Revenue	\$77,262
Prizes	\$43,588
Expenses	\$5,026
Net Profit	\$28,648

Allocation of Total Large Raffle Revenue



Raffles yield the highest margin of net profit. Overall, 49% of raffle ticket sales is profit to the organizations.

DIVISION BUDGET

The Charitable Gaming Division is required by law to be self supporting with license fees and charity game ticket revenue as the only source of funding. Revenue collected in excess of the division's operating expenses, including the payment of charity game ticket program costs, are turned over to the state's General Fund.

In FY 2002, division gross revenue was \$19,637,083*. Gross revenue includes fees from charity game ticket, bingo, millionaire party, raffle, supplier, manufacturer, and hall licenses; charity game ticket sales; and costs recovered from the processing of requests for data under the Michigan Freedom of Information Act.

*estimated

Suppliers
grossed over
\$5.6 million in
the sales and
rental of bingo
and millionaire
party equipment.

SUPPLIERS

The Act requires the licensing of all suppliers of gambling equipment wishing to do business with nonprofit organizations licensed by the bureau. Licensed nonprofit organizations are required to purchase or rent the gambling equipment they use from a licensed supplier. Licensed suppliers are required to post a performance bond to sell charity game or approved numeral game tickets.

The suppliers annual license fee is \$300. Each supplier is required to file a report of financial activity pertaining to sales or rentals to the licensed organizations.

For FY 2002, licenses were issued to 37 suppliers who reported the following financial data:

Sales and rental of bingo equipment	\$5,224,905
Sales and rental of millionaire party equipment	\$402,647

REGULATORY ACTIVITY

During FY 2002, the following inspections and administrative activities were conducted:

<u>Inspections</u>	<u>Administrative Activities</u>
Bingo 2,301	Complaint Investigations 87
Charity Game Ticket 1,216	Violation Notices 105
Millionaire Party 182	Warning Notices 378
Raffle 607	Informal Meetings 15
Supplier 11	Compliance Meetings 56
Hall 31	License Suspensions 58
Manufacturer 0	License Revocations 0
	License Surrender 14

EVENT TRAINING

As one of the division’s major objectives is to assist nonprofit organizations in conducting licensed events in a successful manner, the division held the following training meetings:

	<u>Training Meetings</u>	<u>Total Attendance</u>
New bingo licenses	82	556
New charity game ticket licenses	83	411
Area training seminars	13	445
Special training meetings	74	267
Total	252	1,679

To assist nonprofit organizations in conducting successful events, 252 training meetings were held.

AUDIT ACTIVITY

During the year, the following audit activities were conducted:

Charity game ticket audits 63
Organization audits 4
Financial statement delinquencies issued 3,713
Financial statements entered 13,192
Record reviews 52

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.

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