



# Bureau of State Lottery

An Enterprise Fund of  
the State of Michigan

## Comprehensive Annual Financial Report

For the Fiscal Years Ended  
September 30, 2010 and 2009







# BUREAU OF STATE LOTTERY

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## Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2010 and 2009

Prepared by Accounting Division



Bureau of State Lottery, State of Michigan  
 Comprehensive Annual Financial Report  
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Michigan  
Lottery

Introductory Section





JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
BUREAU OF STATE LOTTERY

LANSING



M. SCOTT BOWEN  
COMMISSIONER

December 10, 2010

The Honorable Jennifer M. Granholm, Governor  
Members of the Legislature  
Citizens of the State of Michigan

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Bureau of State Lottery (Lottery) for the fiscal years ending September 30, 2010 and 2009. Lottery management is responsible for the accuracy of the financial data and the completeness of the contents of this report.

The Lottery is an enterprise fund within the State of Michigan and its financial statements are included in the State's Comprehensive Annual Financial Report. This report presents only the activity of the Lottery as a single enterprise fund and is an overview of the Lottery's operations.

The mission statement of the Lottery is as follows:

- To maximize net revenues to supplement state education programs.
- To provide fun and entertaining games of chance.
- To operate all games and bureau functions with nothing less than total integrity.

Within the financial section of this CAFR, the Lottery's Management Discussion and Analysis (MD&A) provides a detailed narrative of activities that occurred over this time period. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with the MD&A.

The enabling legislation of the Lottery requires biannual and special post audits of all accounts and transactions of the Lottery by the Auditor General or by an independent public accounting firm appointed by the Auditor General. The Auditor General has contracted with an independent public accounting firm for these audits. The financial statements have been audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Profile of the Lottery

### History

The Lottery was established under the authority of Public Act 239 of 1972 to generate funds to support Michigan's public school system. The first lottery ticket was the Green Ticket which went on sale on November 13, 1972. On October 7, 1975, the first instant game ticket was sold. Online sales began June 6, 1977 with the introduction of the Daily 3 game. The first multi-state ticket sales for the Lottery were on August 31, 1996 for The Big Game (now called Mega Millions). On January 31, 2010, sales of Powerball, a second multi-state game, began. Since the Lottery's inception, more than \$15.8 billion has been contributed to the School Aid Fund.

### Lottery Products

The Lottery offers a variety of games in several styles of play: instant also known as "scratch" games; online games, where daily or more frequent drawings are conducted to select winning numbers; and Pull Tabs, which are similar to instant games but players pull a perforated tab instead of scratching off the ticket. These games are available to the playing public through close to 11,000 licensed Lottery retailers.



#### Instant Games

Instant games are played by scratching latex covering on each ticket to reveal prize symbols. A variety of games with different themes, play styles, price points and prize structures are available with an ongoing product offering of over 75 new games a year. The games offered are priced between \$1 and \$20 and top prizes range from \$1 to \$2 million dollars.



#### Online Games

Online game tickets are generated by a terminal connected to a central system and drawings are conducted to determine the winning numbers. Drawings are every four minutes, twice a day, daily, or twice a week, depending on the game. Online games currently offered are Mega Millions, Powerball, Classic Lotto 47, Fantasy 5, Daily 3, Daily 4, Keno, Raffle, Lucky Lines and Club Keno and are played as follows:



#### Mega Millions

Mega Millions is a multi-state online game, formerly known as The Big Game. Players select from two pools of numbers: five numbers between 1 and 56 and one number between 1 and 46 for a chance to win a multi-million dollar jackpot prize. The jackpot starts at \$12 million. This game offers nine ways to win with guaranteed prize amounts on lower prize levels. Drawings are conducted twice a week on Tuesday and Friday.

On January 31, 2010, the Multi-State Lottery Association (MUSL), an association of 33 state lotteries, joined with the 12 participating Mega Millions states including California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia and Washington to participate in the Mega Millions game with Michigan



Powerball/Power Play

Powerball is a multi-state online game and is considered nationally to be the “marquee big jackpot game”. It was introduced January 31, 2010. Players select 5 of 59 white balls and 1 of 39 red balls for a chance to win a multi-million dollar jackpot prize. The jackpot starts at \$20 million. This game offers nine ways to win with guaranteed prize amounts on lower prize levels. Drawings are conducted twice a week on Wednesday and Saturday. Power Play is an add-on game to Powerball. The Power Play number is selected at random before each drawing. If a player wins a non-jackpot prize on their Powerball wager, their prize is multiplied by the Power Play number selected. Players matching 5 white balls and also playing Power Play will automatically win \$1 million, regardless of the Power Play number selected.

A total of 45 states, Mega Millions and MUSL states, participate in the Powerball game with Michigan.



Classic Lotto 47

Classic Lotto 47 is an in-state Lotto game. It was introduced May 15, 2005 and replaced the Winfall game. Players select 6 of 47 numbers in twice weekly drawings. Jackpots start at \$1 million. Classic Lotto 47 offers four ways to win, with guaranteed prize amounts at the lower prize levels.



Fantasy 5

Fantasy 5 was introduced September 12, 2004, replacing the Rolldown game. Players pick 5 of 39 numbers, with rolling jackpots starting at \$100,000 and daily drawings. Jackpots increase a minimum of \$5,000 per draw and roll until a player matches all five numbers in a drawing. This game offers four ways to win with guaranteed prize amounts at the lower prize levels.



Daily 3 & 4 Games

The Daily 3 & 4 games are the Lottery's longest running and most consistently popular games, representing 30% of total sales. Drawings are conducted twice a day, seven days a week. These games offer a wide variety of winning combinations and fixed prizes. The top prize for Daily 3 is \$500; for Daily 4, \$5,000.



## Keno!

Keno! is another long-running game which started in 1990. Although the sales are less than 1% of total sales, it has a very strong and loyal player base. In this game, players chose 10 numbers from a pool of 80. The Lottery draws 22 numbers and if the player matches 10 of those 22 numbers, they win the jackpot prize of \$250,000. There are also five other ways to win by matching combinations of the numbers drawn. Drawings are conducted daily.



## Raffle Games

The first online Raffle game, introduced on November 12, 2006, was Millionaire Raffle; Super Raffle was added in April 2007; Lucky 7's Raffle and Win for Life Raffle were added in 2009. In 2010, two new Raffle games were introduced into the lineup. Red Hot Raffle a \$10 game and The Ultimate 50/50 Raffle a \$5 game. In The Ultimate 50/50 Raffle, a single player matching their number in exact order to the number drawn by the Lottery wins the cash jackpot. Each Raffle has a defined and limited pool of tickets available for sale. Each ticket purchased contains a unique raffle number issued sequentially across the on-line gaming system network. When the last raffle number is issued, the game will close and no additional tickets will be available for purchase. The prizes range from \$20 to \$2 million.



## Lucky Lines

Lucky Lines, a new online game, was introduced on April 25, 2010. Players win instantly by matching 3, 4, 5, 6 or 7 numbers together on a horizontal, vertical or diagonal line. There are 49 different ways to play and the player can wager between \$1 and \$20. The top prize for Lucky Lines is \$10,000,000.



## Club Games

Club Games were introduced in October 2003. Club Games are played by patrons of bars, restaurants and bowling centers. Club Games consist of an online Club Keno game, Kicker, The Jack and Pull Tab games. To play Club Keno, players select up to 10 numbers from a pool of 80. The Lottery draws 20 numbers and the more numbers the player matches, the more he or she wins. Results of the drawings, which are conducted every four minutes, are displayed on TV monitors located in the retailers' establishments. Wagers can be placed from \$1 to \$20 and the top prize is \$2 million. The Kicker option allows players to multiply their Club Keno prizes as much as 10 times. The Jack is a progressive jackpot game that grows with every four minute drawing. A player wins the progressive jackpot by matching all seven of their numbers with the Club Keno numbers for that drawing. Pull Tab games are similar to instant tickets but players pull a perforated tab instead of scratching off the ticket. A variety of different Pull Tab games are offered at one time. Ticket prices are 50 cents, \$1 and \$2 and top prizes range from \$50 to \$2,000.



## Player's Club

As of September 30, 2010 nearly 100,000 registered members have joined the new Michigan Lottery's Player's Club with more than 65,000 opting into email communications and 20,000 opting into receiving text message communications from the Lottery. Players utilize the website to earn reward points and second chance entries for submitting non-winning instant game tickets online. Reward points can be redeemed by players in the catalog to enter additional drawings or to earn immediate reward items. The Michigan Lottery Player's Club can be accessed by visiting [www.michiganlottery.com](http://www.michiganlottery.com).

### Highlights of Fiscal Year 2010

#### **Contribution to the School Aid Fund**

The Lottery disbursed \$701.3 million to the School Aid Fund. Lottery represents a steady source of revenue for our children's schools.

#### **Sales**

Sales for 2010 surpassed \$2.3 billion for the year.

#### **Retailers Win Big with Commissions and Incentives**

Retailer commissions totaled \$170.5 million in 2010. The Lottery offers our business partners a performance-based retailer incentive program. Since its launch in January 2002, the retailer incentive commission program has awarded nearly \$20 million in additional commissions.

#### **New Lottery Game Show**

"Make Me Rich!" the Lottery's all-new game show, launched on October 16, 2009 with an outstanding and well know television personality and host: Christopher Knight. Contestants compete in many separate thrill-packed drawings for chances to win trips to Mackinac Island, cars, \$500,000, \$1 million, and \$2 million. "Make Me Rich!" promises to be a lottery game show like no other and new shows with exciting new prizes and contests are airing quarterly.

#### **Powerball Launches in Michigan**

This was an exciting and historic year for the Lottery as Powerball was launched in our state. The new agreement means that Michigan, along with other states across the United States and the U.S. Virgin Islands will be offering their players both Mega Millions and Powerball games.

#### **Player's Club**

The Player's Club began on May 28, 2010, replacing the Player City Internet Club, as the new Michigan Lottery internet site for player rewards, membership benefits, and second chance giveaways including the annual \$1,000,000 Instant Replay drawing.

## **Budgetary System and Controls**

The Lottery works with the Department of Technology, Management and Budget, Office of the Budget and the Legislature to create an annual appropriated budget for the administrative costs for the Lottery. The proposed appropriated budget is approved by the Legislature annually. This approved budget becomes a spending cap for administrative expenses and ticket revenues provide funding for operations. Revenue and net income forecasts are prepared throughout the fiscal year comparing estimates and forecasts to actual sales and expenses. This information is provided to the Office of the Budget and other state agencies in order to ensure Lottery projections are accurately reflected in State budget planning.

## **Economic Condition and Financial Information**

### **Local Economy**

Michigan's economy and State revenue will be significantly affected by the strength of the national recovery. The national economy has improved at a moderate, but healthy pace following the recession. More encouragingly, national non-farm employment has increased with job gains widespread and occurring in construction, manufacturing, business and professional services, education and health services, leisure and hospitality, and federal government (due to temporary hiring of census workers). The national expansion is on track, but the fading impact of the federal stimulus, continued tight credit conditions, and the European debt crisis will present ongoing challenges.

Michigan's wage and salary employment has trended downward since mid-2000; more recently the job losses have lessened. In September 2010, Michigan's unemployment rate of 13.0% was well above the national average of 9.6%. The forecast for 2011 is that Michigan will see overall job growth, the first yearly job growth in more than a decade, with modest projected gains and a decrease in the unemployment rate to 12.4%.

These issues and uncertainties in the economy will impact spending patterns and could impact Lottery sales.

### **Financial Information**

The sale of Lottery tickets provides all funding for operations and the net income is disbursed to the School Aid Fund for K-12 education.

The operations involve sale of tickets, determination of winning tickets, payment of prizes, compensation to retailers, and administrative functions. The Lottery also provides \$1 million a year to the Department of Community Health for gambling addiction programs.

The Lottery's Commissioner is responsible to the Governor, Legislature and the citizens of the State for Lottery operations.

The Lottery's goals and objectives ensure there is an ongoing effort to achieve operational efficiencies to not only maximize revenues but maximize profits for the School Aid Fund. Operational results are included in the Financial and Statistical Sections.

The Charitable Gaming Division's net proceeds are dedicated to the state's General Fund. These activities are discussed in the MD&A.

## **Accounting Systems and Policies**

As an enterprise fund of the State of Michigan, the Lottery operates as a business within state government structure. The Lottery uses the accrual basis of accounting, following generally accepted accounting principles (GAAP) and governmental accounting standards board (GASB) pronouncements.

## **Internal Controls**

The Michigan Lottery and the State of Michigan policies and procedures tightly control assets, inventory, computer systems, drawing studios and accounting. Separation of duties, internal control structure, ongoing monitoring and evaluation of information as well as stringent employee, retailer and contractor standards all minimize risk of loss or theft. All employees, retailers and contractor employees must pass a security background check prior to being hired.

The system of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

## **Debt Administration**

Long-term liabilities for the Lottery are for payments owed to Lotto, Mega Millions, Raffle and Instant Game grand prize installment winners. These prize liabilities are funded by investments in U. S. Treasury zero-coupon bonds and State of Michigan general obligation capital appreciation bonds which are held to maturity.

## **Cash Management**

Cash due from retailers for Lottery transactions is collected weekly by automated clearing house (ACH) electronic funds transfer. Monthly net income from Lottery operations is transferred to the School Aid Fund. Any excess cash is maintained in an account managed by the Michigan Department of Treasury. Short-term cash in the common cash fund is invested by Treasury following its policies and guidelines.

## **Risk Management**

The Michigan Department of Management and Budget (DMB) controls risk management through two internal service funds administratively established during fiscal year 1989-1990.

These funds are self-insured for most general liability, property losses, portions of employee insurance benefit, employee bonding programs, employee theft, workers compensation and unemployment compensation claims. The Lottery is assessed annual premiums by DMB for risk management.

## **Long-term Financial Planning**

The Lottery continues to work on new ways to attract players and increase sales. A marketing plan is developed each year. New games as well as variations of play on existing games are being researched.

With non-smoking legislation affecting Club Game Retailers, ongoing retailer recruitment will be focused on diversifying the Club retailer base to include non-alcoholic restaurant or social locations such as coffee shops and quick service restaurants. Club Keno "To Go" is a variation of Club Keno that enables players to purchase tickets at any Lottery Retailer location and take the ticket home to view drawings through the Lottery's website with a high-speed internet connection. There is planned to be an expansion later in the year to be able to use a low-speed internet connection for the Club Keno "To Go".

With the proliferation of mobile devices, the Club Keno product is perfectly positioned for a mobile phone application which can allow players to display drawings from a busy bar or in their neighborhood grocery store. A potential launch path for this enhancement is planned for later in 2011.

Promotions through the new online player community, Player's Club, encourage new membership and player awareness. Instant game variety, promotion of base games and continued emphasis on building the retailer network including the retailer incentive program to promote our Lottery products; are all part of the strategy to increase sales.

## Awards and Acknowledgements

### Awards

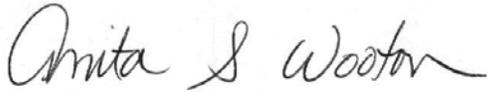
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended September 30, 2009. This was the fifth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgements

Preparation of this report would not be possible without the efficient and dedicated efforts of the Accounting Division of the Lottery. Their teamwork has greatly contributed to the success of this informative document.

Respectfully submitted,



Anita S. Wooton  
Deputy Commissioner for Administration



M. Scott Bowen  
Commissioner

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Bureau of State Lottery Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

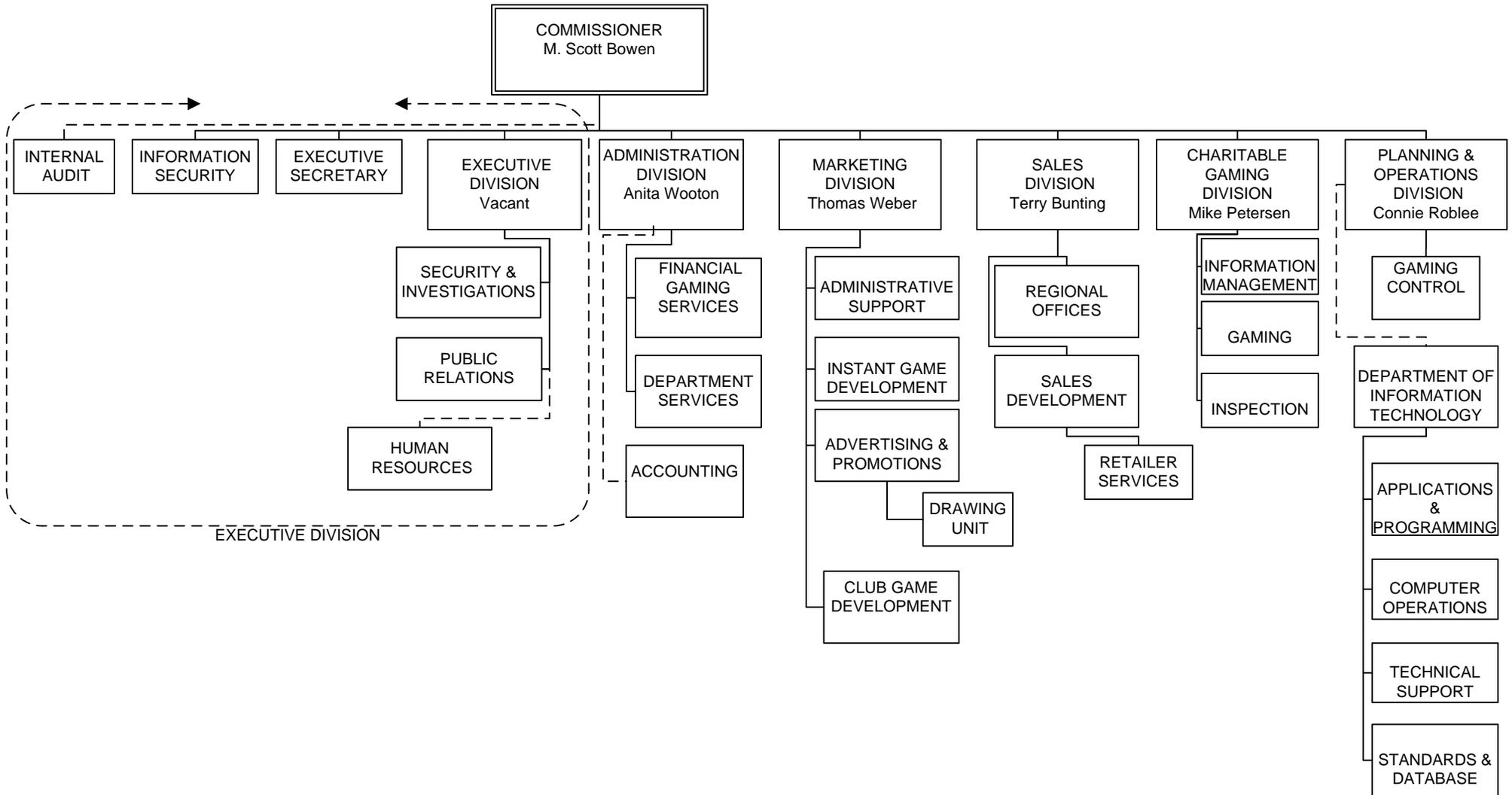


President

Executive Director



# Bureau of State Lottery Organization Chart and Principal Officials September 2010





## Financial Section





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## Independent Auditors' Report

Mr. M. Scott Bowen, Commissioner  
Bureau of State Lottery, State of Michigan  
and  
Mr. Thomas H. McTavish, Auditor General  
State of Michigan

We have audited the accompanying financial statements of the business-type activities of the Bureau of State Lottery, State of Michigan (the "Lottery"), a proprietary fund of the State of Michigan, as of and for the six month periods and years ended September 30, 2010 and 2009, which collectively comprise the Lottery's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Bureau of State Lottery, State of Michigan, are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of Michigan that is attributable to the Bureau of State Lottery. They do not purport to, and do not, present fairly the financial position of the State of Michigan as of September 30, 2010 and 2009, and the changes in its financial position or where applicable, its cash flows for the six month periods and years then ended in conformity accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lottery as of September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the six month periods and years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2010, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis presented on pages 13 through 22 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The introductory section on pages 1 through 10 and the statistical section on pages 45 through 61 have been furnished to us and have not been subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on the introductory or statistical sections.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lottery's basic financial statements. The accompanying supplementary schedules, as listed in the accompanying table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Lansing, Michigan  
December 6, 2010

## Management's Discussion and Analysis

The following discussion of the Michigan Bureau of State Lottery's (Lottery's) financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the financial statements, which begin on page 24.

### Using This Report

The Lottery is accounted for as an enterprise activity/proprietary fund, reporting on all of the activity's assets and liabilities using the accrual basis of accounting, much like a private business entity. As such, this semi-annual report consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules. The Statement of Net Assets on page 24 and the Statement of Revenues, Expenses and Changes in Net Assets on page 25, report the Lottery's net assets and changes in them.

By law, the Lottery is required to deposit all of its net income each fiscal year to either the State School Aid Fund (for income related to Lottery gaming activities) or the General Fund (for income related to Charitable Gaming activities). As a result, the net assets of the Lottery consist largely of capital assets (leasehold improvements and equipment) and investments held to fund future payments due on Lottery prizes that are annuities. To assess the Lottery's financial position and financial health, the reader of these statements should pay particular attention to changes in the components of assets and liabilities as set forth in the Statement of Net Assets, and in changes in operating revenues, expenses, and disbursement expenses to other funds as set forth in the Statement of Revenues, Expenses, and Changes in Net Assets. In addition the reader should also refer to the accompanying notes to the financial statements.

### Financial Highlights

- Operating revenues for Lottery gaming activities decreased by \$19.1 million, or 0.8%.
- Total revenues for all activities (including non-operating) decreased \$21.6 million or 0.9%.
- Non-operating revenues decreased by \$2.5 million.
- Total operating expenses for 2010 decreased \$30.6 million, or 1.8%. Of this decrease, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities decreased by \$26.0 million, or 1.8%, retailer and vendor commissions decreased \$7.2 million, or 3.4%, while other operating expenses decreased by \$0.1 million, or 0.2%.
- Total expenses (including non-operating) for all activities decreased \$57.5 million or 2.3%.

- Disbursements to the School Aid Fund were \$724.5 million in 2009 and \$701.3 million in 2010, a decrease of \$23.2 million or 3.2%. Net income disbursed to the General Fund related to Charitable Gaming activities decreased by \$0.5 million or 4.2%.

## Net Assets

A summary of the Lottery's net assets is presented below:

Table 1 - Net Assets  
(in millions)

	September 30,		
	2010	2009	2008
Current and other assets	\$ 139.1	\$ 146.2	\$ 152.7
Investments - noncurrent	174.9	211.0	251.5
Capital assets (net of accumulated depreciation)	0.6	0.7	0.8
<b>Total assets</b>	<b>314.6</b>	<b>357.9</b>	<b>405.0</b>
Current liabilities	119.2	133.7	146.7
Long-term liabilities	181.1	216.6	221.5
<b>Total liabilities</b>	<b>300.3</b>	<b>350.3</b>	<b>368.2</b>
Net assets			
Invested in capital assets	0.6	0.7	0.8
Restricted for unrealized gains on investments	14.3	7.6	36.8
Unrestricted (deficit)	(0.6)	(0.7)	(0.8)
<b>Total net assets</b>	<b>\$ 14.3</b>	<b>\$ 7.6</b>	<b>\$ 36.8</b>

As shown in Table 1 above, the Lottery's net assets increased since September 2009 from \$7.6 million to \$14.3 million. The change from September 2008 was a decrease of net assets by \$22.5 million. The State Treasurer, the Lottery's delegated investment fiduciary, initiated the sale of investments of U. S. Treasury zero-coupon bonds in the amount of \$249.4 million and the purchase of State of Michigan general obligation capital appreciation bonds in the amount of \$249.4 million during 2009. The decrease from 2008 to 2009 in net assets is attributable to the sale and repurchase of the bonds and the increase from 2009 to 2010 is attributable to the changes in market value of those investments that the Lottery holds to fund future payments due on annuitized lottery prizes. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2010, net capital assets decreased by approximately \$.1 million since September 2009 and decreased approximately \$.2 million from September 2008. Additional detailed information on capital assets may be found in Note 4 in the accompanying financial statements.

Accounting principles dictate that the Lottery record in the financial records the gain or loss related to the change in market value of investments. U. S. Treasury zero-coupon bonds and State of Michigan general obligation capital appreciation bonds have been purchased for the payment of installment prize awards and are generally held to maturity. Therefore, the difference between the market value of these investments and the amortized book value is recorded as a restriction for unrealized gains on investments. The unrealized gain on investments is not available for disbursement to the School Aid Fund.

A detail of the Lottery's liabilities is presented in Table 2 below:

Table 2 - Liabilities  
(in millions)

	September 30,		
	2010	2009	2008
Current:			
Warrants authorized and warrants outstanding	\$ 11.3	\$ 10.7	\$ 11.4
Accounts payable and other liabilities	4.8	5.1	4.7
Due to School Aid Fund	-	-	11.7
Prize awards payable (net of discount)	103.1	117.8	118.9
Total current	119.2	133.6	146.7
Non-current:			
Prize awards payable (net of discount)	179.9	215.3	220.0
Compensated absences	1.2	1.4	1.5
Total non-current	181.1	216.7	221.5
Total liabilities	\$ 300.3	\$ 350.3	\$ 368.2

Non-current liabilities consist principally of prize liability for prizes paid in installments over several years. Long-term prize liability decreased by \$35.4 million or 16.4% from 2009 to 2010 and decreased \$40.1 million or 18.2% from 2008 to 2010. The decrease is attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes in all three years. Most prize winners eligible for annuity payments chose to have their payment in a lump sum rather than paid in installments. Refer to Note 6 in the accompanying financial statements for more information.

The amount due to School Aid Fund decreased by \$11.7 million between 2008 and 2009. This was due to a cash timing issue and those amounts represent funds not yet disbursed to the School Aid Fund. In 2010 and 2009, there were no timing issues therefore cash was available and all funds were disbursed.

A summary of the Lottery's change in net assets is presented in Table 3 below:

Table 3 - Changes in Net Assets  
(in millions)

	September 30,		
	2010	2009	2008
Operating revenues	\$ 2,379.9	\$ 2,399.0	\$ 2,351.0
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(1,381.6)	(1,407.6)	(1,323.3)
Commissions and game related expenses	(223.5)	(228.0)	(235.5)
Total prizes and direct game expenses	(1,605.1)	(1,635.6)	(1,558.8)
Income before other operating expenses	774.8	763.4	792.2
Other operating expenses	(56.6)	(56.7)	(47.0)
Operating income	718.2	706.7	745.2
Non-operating revenues and (expenses):			
Investment and interest revenues	17.3	19.8	43.0
Investment and interest expenses	(15.2)	(18.4)	(31.0)
School Aid Fund disbursement expense	(701.3)	(724.5)	(740.7)
General Fund disbursement expense	(11.3)	(11.8)	(10.6)
Community Health disbursement expense	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(711.5)	(735.9)	(740.3)
Change in net assets	6.7	(29.2)	4.9
Total net assets beginning of period	7.6	36.8	31.9
Total net assets end of period	\$ 14.3	\$ 7.6	\$ 36.8

Because the Lottery is required by law to deposit all of its net income (excluding the unrealized gain or loss on investments discussed above) to the School Aid Fund or General Fund, change in net assets does not reflect the result of the Lottery's operating activities. The \$701.3 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2010. There was a decrease of \$23.2 million or 3.2% from 2009 and a decrease of \$39.4 million or 5.3% over 2008. The disbursement expense to the General Fund reflects Charitable Gaming activities. Charitable Gaming activities experienced a slight decline in net revenue for the fiscal year 2010 compared to 2009 and an increase over 2008. Charitable Gaming net income is disbursed annually to the General Fund.

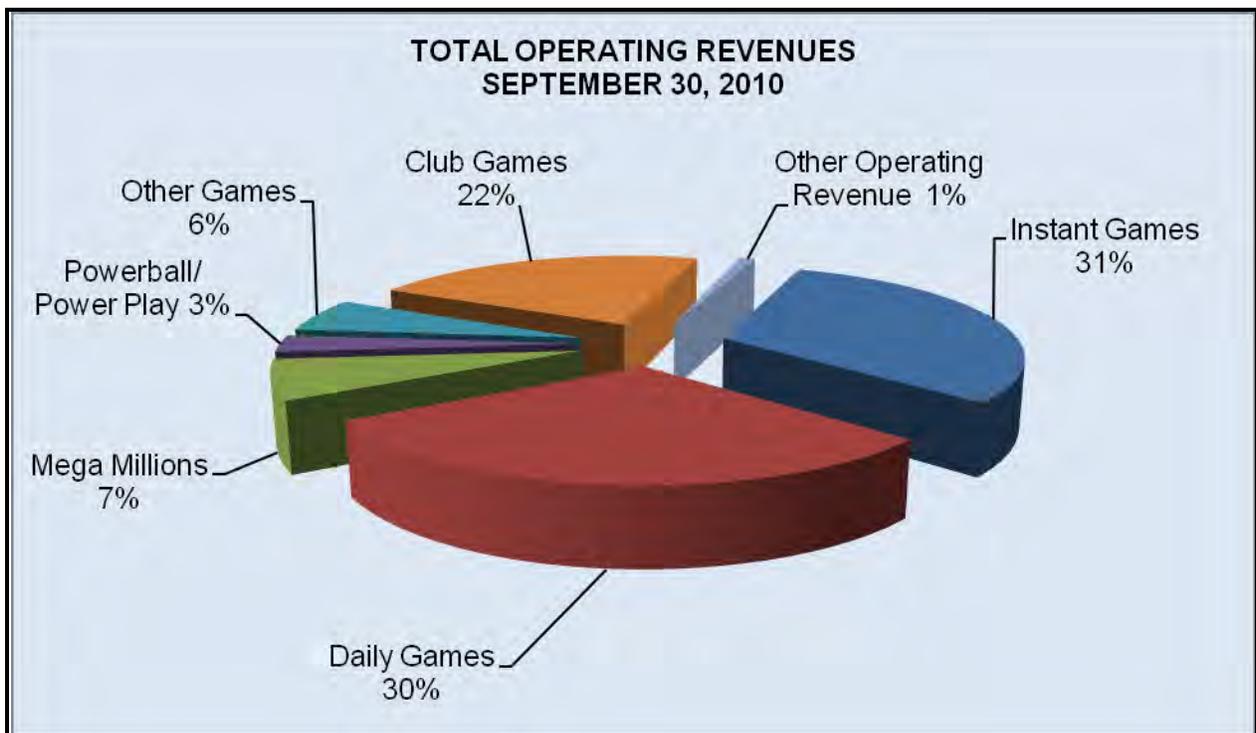
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds  
(in millions)

	September 30,		
	2010	2009	2008
School Aid Fund	\$ 701.3	\$ 724.5	\$ 740.7
General Fund	11.3	11.8	10.6
Community Health	1.0	1.0	1.0
<b>Total Disbursements to Other Funds</b>	<b>\$ 713.6</b>	<b>\$ 737.3</b>	<b>\$ 752.3</b>

### Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2010:



A detail of the Lottery's revenues is presented in Table 5 below:

Table 5 - Revenues  
(in millions)

	September 30,		
	2010	2009	2008
Operating revenues:			
Instant tickets	\$ 750.8	\$ 749.1	\$ 734.2
Daily games	703.2	686.9	672.4
Mega Millions	173.5	222.7	184.8
Powerball/Power Play	64.5	-	-
Club games	519.6	548.0	563.9
Other games	147.6	170.8	174.8
Other operating revenue	20.7	21.5	20.9
Total operating revenues	<u>2,379.9</u>	<u>2,399.0</u>	<u>2,351.0</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	6.6	(29.1)	4.9
Amortization on bonds	10.4	17.0	22.0
Other income	0.3	31.9	16.1
Total non-operating revenue	<u>17.3</u>	<u>19.8</u>	<u>43.0</u>
Total revenues	<u>\$ 2,397.2</u>	<u>\$ 2,418.8</u>	<u>\$ 2,394.0</u>

Operating revenues for the fiscal year 2010, primarily Lottery ticket sales, decreased over 2009 and increased over 2008. The decrease in fiscal year 2010 over 2009 was \$19.1 million or 0.8% and increased in fiscal year 2010 over 2008 by \$28.9 million or 1.2%.

Instant game ticket sales increased by \$1.7 million or 0.2% for fiscal year 2010 compared to fiscal year 2009. In October 2009, the Lottery introduced a televised game show entitled "Make Me Rich!" that aired quarterly throughout the year. Contestants in the game show compete for a chance to win millions of dollars in prizes. A strong marketing effort with more retailer involvement has been devoted to these games. This effort and several second chance drawing promotions through the game show has brought new excitement to the entire product line thus resulting in increased sales.

A new agreement, in January 2010, between the Mega Millions Lotteries and the Multi-State Lottery Association (MUSL), an association of 33 state lotteries, permitted all the member states to sell both Powerball and Mega Millions games. On January 31, 2010, the Lottery began selling Powerball and Power Play which are multi-state lotto games offering large jackpots with an occasional "mega-jackpot". Power Play is an add-on game to Powerball where players can multiply non-jackpot prizes from two to five times.

Mega Millions is a multi-state game offering larger jackpots with an occasional "mega-jackpot". The states participating in Mega Millions with Michigan are California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia and Washington. The MUSL group of lotteries joined the Mega Millions multi-state lottery in January. Mega Millions sales for the fiscal year ended 2010 decreased by \$49.2 million or 22.1% compared to the fiscal year ended 2009. Sales in 2010 were \$11.3 million less than in 2008. This decrease is primarily due to lack of jackpot growth and the introduction of Powerball. Although Mega Millions sales alone suffered with the introduction of Powerball, Michigan's multi-state game sales since the introduction of Powerball have increased.

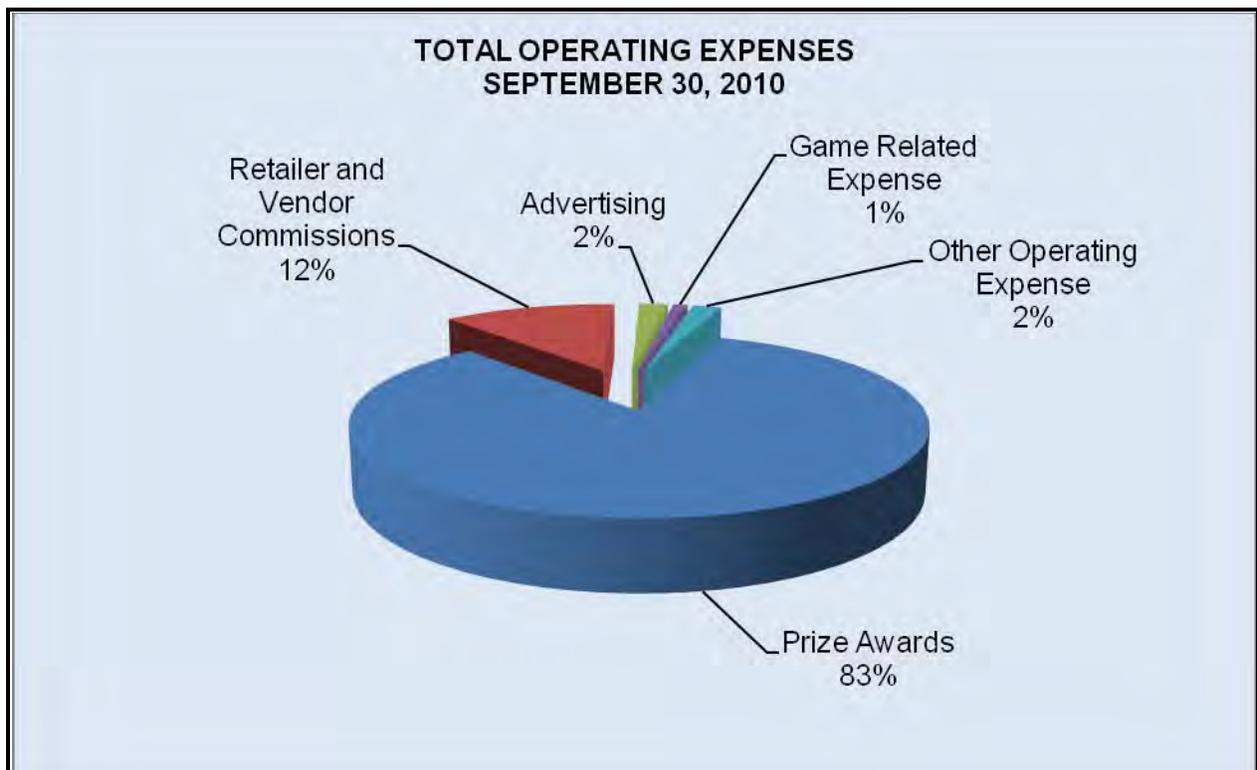
Club Games include Club Keno, Club Keno Kicker, Pull Tabs, and The Jack. The Club Games sales decreased in 2010 by \$28.4 million or 5.2% from 2009, and decreased by \$44.3 million or 7.9% over 2008. Non-smoking legislation enacted on May 1, 2010 had an immediate impact on traffic to the Lottery's Club Game Retailers which resulted in a significant sales decrease. Club Games were introduced October 27, 2003. Club Games are primarily sold in bars and restaurants licensed for on-premise alcohol consumption.

Other games consist of Classic Lotto 47, Fantasy Five, Keno, Raffle and Lucky Lines. Lucky Lines is a new online game that was introduced in April 2010 which offers the player a chance to win instantly. Fantasy Five enjoyed an increase in sales during 2010. In 2010, Raffle consisted of one Millionaire Raffle drawing, a \$20 game; a new variation of the \$10 game called "Red Hot Raffle"; and a new \$5 game called "The Ultimate 50/50 Raffle" which offered one winner a prize of 50 percent of the ticket sales.

The decrease in non-operating revenues from 2009 to 2010 resulted from less bond amortization income and less other income. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact the disbursement to the School Aid Fund. The reduction in bond amortization income is due to the sale and purchase of investments in 2009 and a decreasing bond portfolio from maturing investments as well as the fact that most prize winners have elected the cash option, instead of installment payments. Other income decreased from 2009 to 2010 due to fluctuation in the market resulting in lower interest rates on common cash and the sale and purchase of investments in 2009. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

### Expenses

The following chart shows prizes, game costs and other operating expenses as a percentage of total operating expenses for the fiscal year ended September 30, 2010:



A detail of the Lottery's expenditures is presented in Table 6 below:

Table 6 - Expenses  
(in millions)

	September 30,		
	2010	2009	2008
Prizes:			
Instant prizes	\$ 500.6	\$ 503.1	\$ 482.0
Online prizes	568.1	577.1	501.5
Club game prizes	340.2	356.1	367.2
Total prizes	<u>1,408.9</u>	<u>1,436.3</u>	<u>1,350.7</u>
Less: unclaimed prizes	<u>27.3</u>	<u>28.7</u>	<u>27.4</u>
Net prize awards	<u>1,381.6</u>	<u>1,407.6</u>	<u>1,323.3</u>
Direct game expenses:			
Retailer commissions	170.5	174.2	172.1
Vendor commissions	31.9	35.4	43.7
Game related expenses	<u>21.1</u>	<u>18.4</u>	<u>19.7</u>
Total direct game expenses	<u>223.5</u>	<u>228.0</u>	<u>235.5</u>
Other operating expenses:			
Salaries, wages and benefits	16.9	16.1	15.5
Other professional services	5.6	5.9	5.6
Printing and supplies	2.1	2.3	2.1
Other general and administrative	3.0	5.4	6.2
Promotion and advertising	<u>29.0</u>	<u>27.0</u>	<u>17.6</u>
Total other operating expenses	<u>56.6</u>	<u>56.7</u>	<u>47.0</u>
Total operating expenses	<u>1,661.7</u>	<u>1,692.3</u>	<u>1,605.8</u>
Non-operating expenses:			
Security lending expenses	-	-	10.3
Amortization of prize discount	15.2	18.4	20.7
School Aid Fund disbursement	701.3	724.5	740.7
General Fund disbursement	11.3	11.8	10.6
Community Health disbursement	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total non-operating expenses	<u>728.8</u>	<u>755.7</u>	<u>783.3</u>
Total expenses	<u>\$ 2,390.5</u>	<u>\$ 2,448.0</u>	<u>\$ 2,389.1</u>

The Daily Games prize payout decreased overall in 2010 compared to 2009. The Daily 3 prize payout had a decrease to 48.2% in 2010, compared to 54.6% in 2009 and 48.9% in 2008. The Daily 4 payout increased to 57.4% in 2010, compared to 54.4% in 2009 and 44.9% in 2008. Daily games are designed to yield an average prize payout of 50.0% and combined the games averaged a payout of 52.9% in 2010, compared to 54.5% in 2009 and 47.0% in 2008.

The Club Games prize payout percentage increased to 64.9% in 2010, compared to 64.7% in 2009 and 65.1% for 2008. The higher Club Games payout is an important part of the appeal of this style of game in this market. The other online games have an anticipated payout between 50% and 58%.

Instant games had an overall payout of 66.7% in 2010, compared to 67.2% in 2009 and 65.7% in 2008. The games vary in payout percentage depending on selling price of a ticket for a game. Instant game prize payouts range from 60% for a \$1 game to 73% for a \$10 game. The decrease in overall payout is related to decreases in the prize structure in the various price payouts. The decrease in instant game prize expense of 0.5% is related to the decrease in the overall prize payouts.

Retailer commissions have decreased commensurate with lower overall sales. Vendor commission has decreased due to the new vendor contract rates effective January 20, 2009. Game related expense has increased related to the increase in instant game sales.

Other operating expenses have decreased by \$0.1 million or 0.2% in 2010.

### Unclaimed Prizes

By law, Lottery prizes not claimed within one year of their drawing date are to be disbursed to the State School Aid Fund.

The Lottery recognizes the value of unclaimed prizes using an allowance methodology. Under the method, historical averages are utilized to estimate the amount of prizes awarded during the current year that will not be paid out due to claims not being filed for those prizes. The amounts estimated under the allowance method are recorded as a reduction of current year prize expense to match true prize expense to related sales.

Unclaimed prizes decreased by \$1.4 million from 2009 to 2010.

### Charitable Gaming

Table 7 - Charitable Gaming Revenue, Expense, and Net Income  
(in millions)

	September 30,		
	2010	2009	2008
Gross revenue	\$ 18.7	\$ 20.7	\$ 18.9
Operating expenses	(7.4)	(8.9)	(8.3)
Net income	<u>\$ 11.3</u>	<u>\$ 11.8</u>	<u>\$ 10.6</u>

Charitable Gaming activities overseen by the Lottery include the licensing and regulation of charitable and certain other not-for-profit organizations that conduct bingo games, millionaire parties and raffles for fund-raising purposes. Charitable Gaming revenues decreased by \$2.0 million or 9.6% for fiscal year 2010 compared to fiscal year 2009. The Lottery also oversees the distribution and sale of break-open tickets, (also for fund-raising purposes), to these same organizations. The decrease in revenues is due to a decrease in sales of break-open tickets.

The mission of the Lottery with respect to charitable gaming activities is to ensure that only qualified organizations are licensed to conduct fund-raising activities and that said activities are conducted in accordance with existing laws, rules and regulations. Revenues received through the issuance of licenses and from the distribution of break-open tickets are intended to cover the costs of overseeing the program activities and are not intended as a primary goal to generate revenue for the State. Any revenue in excess of program costs is disbursed annually to the State's General Fund.

### **Other Potentially Significant Factors Impacting Next Year**

A new add-on to the Mega Millions game called Megaplier will be introduced in December 2010. It will give players an opportunity to increase their non-jackpot winnings.

The Mega Millions consortium and the Multi-State Lottery Association are currently examining restructuring of the Powerball game.

Management continues to expand the game line-up looking at adding new features to games, restructuring current games, promoting player loyalties through the new internet website, and building strong relationships with the Lottery's retailers. In addition, the Lottery will be offering an expansion of the game line-up whereby traditional online/instant game retailers will also be offering Club Keno and Club Games retailers will be offering all online games and where applicable, Instant Games. This expansion features Club Keno "To Go". With these efforts we anticipate modest sales gains in this difficult economy.

### **Contacting the Lottery's Financial Management**

This financial report is designed to provide the Legislature and the executive branch of government, the public, and other interested parties with an overview of the financial results of the Lottery's activities and to show the Lottery's accountability for the money it receives. Percentages presented in the Management's Discussion and Analysis are based on the rounded figures presented in the tables. If you have questions about this report or need additional financial information, contact the Deputy Commissioner for Administration at the Michigan Lottery, P.O. Box 30023, Lansing, Michigan, 48909.



**Bureau of State Lottery, State of Michigan**  
**Statement of Net Assets**  
**September 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets		
Equity in State Treasurer's Common Cash Fund	\$ 17,877,635	\$ 23,174,823
Investments, at fair value	52,593,622	60,286,789
Accounts receivable - net	63,268,186	57,481,009
Inventory	5,375,399	5,263,188
Total current assets	<u>139,114,842</u>	<u>146,205,809</u>
Noncurrent assets		
Investments, at fair value	<u>174,942,490</u>	<u>211,024,177</u>
Capital assets		
Leasehold improvements and equipment	4,413,666	4,355,093
Accumulated depreciation	<u>(3,860,934)</u>	<u>(3,629,992)</u>
Total capital assets	<u>552,732</u>	<u>725,101</u>
Total noncurrent assets	<u>175,495,222</u>	<u>211,749,278</u>
Total assets	<u>314,610,064</u>	<u>357,955,087</u>
<b>Liabilities</b>		
Current liabilities		
Warrants outstanding	724,037	2,027,290
Warrants authorized	10,577,943	8,706,323
Accounts payable and other liabilities	4,797,094	5,105,156
Prize awards payable - net of discount	<u>103,140,267</u>	<u>117,821,647</u>
Total current liabilities	<u>119,239,341</u>	<u>133,660,416</u>
Noncurrent liabilities		
Prize awards payable - net of discount	179,883,796	215,301,727
Accrual for compensated absences, less current portion	<u>1,231,329</u>	<u>1,357,222</u>
Total noncurrent liabilities	<u>181,115,125</u>	<u>216,658,949</u>
Total liabilities	<u>300,354,466</u>	<u>350,319,365</u>
<b>Net assets</b>		
Invested in capital assets	552,732	725,101
Restricted for unrealized gains on investments	14,255,598	7,635,722
Unrestricted (deficit)	<u>(552,732)</u>	<u>(725,101)</u>
Total net assets	<u>\$ 14,255,598</u>	<u>\$ 7,635,722</u>

See Accompanying Notes to Financial Statements

**Bureau of State Lottery, State of Michigan**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Six Months and Years Ended September 30, 2010 and 2009**

	Six Months Ended		Years Ended	
	2010	2009	2010	2009
<b>Operating revenues</b>				
Ticket sales	\$ 1,143,373,021	\$ 1,175,949,739	\$ 2,359,228,029	\$ 2,377,437,183
Charitable gaming and other	9,161,169	10,877,668	20,746,834	21,557,466
Total operating revenues	<u>1,152,534,190</u>	<u>1,186,827,407</u>	<u>2,379,974,863</u>	<u>2,398,994,649</u>
<b>Operating expenses</b>				
Prize awards	673,933,522	715,172,412	1,408,918,449	1,436,372,709
Less - unclaimed prizes	<u>(15,690,750)</u>	<u>(14,206,536)</u>	<u>(27,292,789)</u>	<u>(28,730,205)</u>
Net prize awards	658,242,772	700,965,876	1,381,625,660	1,407,642,504
Retailer and vendor commission	98,476,745	100,555,694	202,449,172	209,625,888
Game related expenses	10,568,148	9,472,665	21,052,353	18,383,054
Depreciation expense	119,040	114,147	238,007	225,348
Other operating expenses	<u>27,418,219</u>	<u>26,387,126</u>	<u>56,399,858</u>	<u>56,432,599</u>
Total operating expenses	<u>794,824,924</u>	<u>837,495,508</u>	<u>1,661,765,050</u>	<u>1,692,309,393</u>
<b>Operating income</b>	<u>357,709,266</u>	<u>349,331,899</u>	<u>718,209,813</u>	<u>706,685,256</u>
<b>Non-operating revenues</b>				
Investment revenue	13,751,959	(786,931)	17,010,147	18,729,006
Interest on equity in State Treasurer's Common Cash Fund	158,559	439,837	281,612	1,081,202
Total non-operating revenues	<u>13,910,518</u>	<u>(347,094)</u>	<u>17,291,759</u>	<u>19,810,208</u>
<b>Non-operating expenses</b>				
Bank fees	(2,324)	(3,752)	(4,472)	(6,592)
Amortization of prize award obligation discount	(7,241,624)	(8,821,966)	(15,219,449)	(18,401,696)
Loss on disposal of assets	0	0	(4,810)	0
Total non-operating expenses before disbursements	<u>(7,243,948)</u>	<u>(8,825,718)</u>	<u>(15,228,731)</u>	<u>(18,408,288)</u>
Disbursements to School Aid Fund	(350,099,326)	(372,432,868)	(701,327,800)	(724,469,621)
Disbursements to General Fund	(5,055,030)	(5,832,314)	(11,335,165)	(11,764,332)
Disbursements to Community Health	<u>(495,000)</u>	<u>(495,000)</u>	<u>(990,000)</u>	<u>(990,000)</u>
Total disbursements	<u>(355,649,356)</u>	<u>(378,760,182)</u>	<u>(713,652,965)</u>	<u>(737,223,953)</u>
Total non-operating expenses	<u>(362,893,304)</u>	<u>(387,585,900)</u>	<u>(728,881,696)</u>	<u>(755,632,241)</u>
<b>Net non-operating revenue (expense)</b>	<u>(348,982,786)</u>	<u>(387,932,994)</u>	<u>(711,589,937)</u>	<u>(735,822,033)</u>
<b>Change in net assets</b>	8,726,480	(38,601,095)	6,619,876	(29,136,777)
<b>Total net assets at beginning of period</b>	<u>5,529,118</u>	<u>46,236,817</u>	<u>7,635,722</u>	<u>36,772,499</u>
<b>Total net assets at end of period</b>	<u>\$ 14,255,598</u>	<u>\$ 7,635,722</u>	<u>\$ 14,255,598</u>	<u>\$ 7,635,722</u>

See Accompanying Notes to Financial Statements

**Bureau of State Lottery, State of Michigan**  
**Statement of Cash Flows**  
**For the Six Months and Years Ended September 30, 2010 and 2009**

	Six Months Ended		Years Ended	
	2010	2009	2010	2009
<b>Cash Flows From Operating Activities</b>				
Cash collections from customers	\$ 1,158,503,414	\$ 1,213,952,810	\$ 2,373,992,261	\$ 2,416,861,480
Payments to employees	(8,900,641)	(7,905,827)	(17,368,278)	(15,898,979)
Payments to suppliers	(32,514,397)	(36,071,409)	(58,563,053)	(60,518,257)
Payments to prize winners	(690,660,510)	(725,866,573)	(1,446,944,420)	(1,431,767,794)
Payments for retailer and vendor commissions	(98,476,745)	(100,555,694)	(202,449,172)	(209,625,888)
Net cash provided by operating activities	<u>327,951,121</u>	<u>343,553,307</u>	<u>648,667,338</u>	<u>699,050,562</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
Disbursements to School Aid Fund	(426,327,800)	(444,469,621)	(701,327,800)	(736,204,776)
Disbursements to General Fund	(11,335,165)	(11,764,332)	(11,335,165)	(11,764,332)
Disbursements to Community Health	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	<u>(438,652,965)</u>	<u>(457,223,953)</u>	<u>(713,652,965)</u>	<u>(748,959,108)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Acquisition of capital assets	<u>(18,035)</u>	<u>(146,235)</u>	<u>(70,448)</u>	<u>(160,843)</u>
<b>Cash Flows From Investing Activities</b>				
Proceeds from the sale and maturity of investment securities	33,290,001	252,701,117	60,785,000	286,056,130
Purchase of investments	-	(193,694,878)	-	(217,650,431)
Interest received	211,115	673,561	281,612	1,081,202
Security lending proceeds	-	-	-	163,458
Bank fees	(2,324)	(3,752)	(4,472)	(6,592)
Net cash provided by investing activities	<u>33,498,792</u>	<u>59,676,048</u>	<u>61,062,140</u>	<u>69,643,767</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(77,221,087)</b>	<b>(54,140,833)</b>	<b>(3,993,935)</b>	<b>19,574,378</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>94,374,685</b>	<b>75,288,366</b>	<b>21,147,533</b>	<b>1,573,155</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 17,153,598</b>	<b>\$ 21,147,533</b>	<b>\$ 17,153,598</b>	<b>\$ 21,147,533</b>

**Bureau of State Lottery, State of Michigan**  
**Statement of Cash Flows**  
**For the Six Months and Years Ended September 30, 2010 and 2009**

	Six Months Ended		Years Ended	
	2010	2009	2010	2009
<b>Reconciliation of net operating income to net cash provided by operating activities</b>				
Operating income	\$ 357,709,266	\$ 349,331,899	\$ 718,209,813	\$ 706,685,256
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	119,040	114,147	238,007	225,348
Bad debt expense	90,132	166,263	195,426	335,072
Amortization of prize award obligation discount	(7,241,624)	(8,821,966)	(15,219,449)	(18,401,696)
Net changes in assets and liabilities:				
Inventory	521,729	(956,667)	(112,211)	(1,412,179)
Receivables from retailers	5,969,225	27,125,403	(5,982,602)	17,866,831
Warrants authorized, compensated absences, accounts payable, other liabilities	(4,040,533)	(7,327,041)	1,437,665	(524,476)
Prize awards payable	(25,176,114)	(16,078,731)	(50,099,311)	(5,723,594)
<b>Net cash provided by operating activities</b>	<b>\$ 327,951,121</b>	<b>\$ 343,553,307</b>	<b>\$ 648,667,338</b>	<b>\$ 699,050,562</b>
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents at beginning of period				
Equity in State Treasurer's Common Cash Fund	\$ 96,215,976	\$ 77,806,035	\$ 23,174,823	\$ 3,509,734
Warrants outstanding	(1,841,291)	(2,517,669)	(2,027,290)	(1,936,579)
<b>Net cash and cash equivalents at beginning of period</b>	<b>\$ 94,374,685</b>	<b>\$ 75,288,366</b>	<b>\$ 21,147,533</b>	<b>\$ 1,573,155</b>
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 17,877,635	\$ 23,174,823	\$ 17,877,635	\$ 23,174,823
Warrants outstanding	(724,037)	(2,027,290)	(724,037)	(2,027,290)
<b>Net cash and cash equivalents at end of period</b>	<b>\$ 17,153,598</b>	<b>\$ 21,147,533</b>	<b>\$ 17,153,598</b>	<b>\$ 21,147,533</b>
<b>Schedule of noncash investing, capital, and financing activities</b>				
Increase (decrease) in fair value of investments	\$ 8,726,480	\$ (7,822,688)	\$ 6,619,876	\$ 1,641,631

# Bureau of State Lottery, State of Michigan

## Notes to Financial Statements

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

The Bureau of State Lottery (the "Lottery") was established by Michigan Compiled Laws Section 432.5 under authority of Article 5, Section 4, of the State Constitution.

Public Act 95 of 1996 allows the Lottery to participate in joint enterprises, such as multi-state lotteries, with other sovereignties. In January 2010 Michigan, a Mega Millions state, began participation in Powerball and Power Play, a multi-state lottery game, with the Multi-State Lottery Association (MUSL), an association of governmental lotteries. The association is comprised of a combination of MUSL Lotteries and Mega Millions Lotteries. Michigan also participates in Mega Millions, a jointly operated multi-state lottery comprised of 12 states: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. In January 2010 MUSL joined the Mega Millions multi-state lottery game. Net income from Mega Millions, Powerball and Power Play is disbursed to the School Aid Fund.

#### **Basis of Presentation**

The Lottery is classified as an enterprise fund of the State of Michigan. Accordingly, the Lottery's financial statements are included in the State's Comprehensive Annual Financial Report. The accompanying financial statements are not intended to present the financial position and results of operations of the State of Michigan or its enterprise funds.

#### **Basis of Accounting**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Lottery distinguishes operating revenue and expenses from non-operating items. The principal operating revenue of the Lottery is primarily comprised of sales from instant and online tickets. Operating expenses mainly consist of payments to instant and online prize winners and commissions to retailer agents and vendors. Excess revenue over expenses is designated for payment to the State School Aid Fund, except for the excess of revenue over expenses from charitable gaming activities, which is designated for payment to the State General Fund. All other revenues and expenses are reported as non-operating.

In accordance with Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Lottery has elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, to its financial statements.

#### **Revenue Recognition**

Revenue is recognized for instant and pull tab games when tickets are activated by retailers. For online games, revenue is recognized and the related direct expenses of ticket sales are accrued based upon the known relationship of the amount of ticket sales to the amount of prizes for each game. This method of measuring revenue is necessary in order to properly match revenues and expenses.

## **Bureau of State Lottery, State of Michigan**

### **Notes to Financial Statements**

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#### **Statement of Cash Flows**

For the purposes of the statement of cash flows, the Lottery considers equity in the State Treasurer's Common Cash pool, net of warrants outstanding, to be cash equivalents.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U. S.) of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Equity in State Treasurer's Common Cash Fund**

The State Treasurer manages the State's Common Cash pool, which is used by the Lottery. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool and presented in this report as "Equity in State Treasurer's Common Cash."

Investment policies and risk categorization are included in the State of Michigan's Comprehensive Annual Financial Report.

#### **Investments**

Investments are reported at fair value. Investments are in U. S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, Series 2009B (Michigan CAB Bonds). These investments are purchased to meet future installment payments to prize winners. Gains and losses are generally not realized on investments, as it is the Lottery's and State Treasurer's policy to hold the Lottery's investments to maturity or liquidation. The difference between the fair value and the amortized cost is reflected as a restriction of Net Assets for unrealized gains on investments.

#### **Inventory**

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandise prizes for games that have not started as of September 30, 2010 and 2009. The inventory is valued at cost, primarily using the weighted average method.

#### **Provision for Doubtful Accounts**

The Lottery establishes an allowance for bad debt for retailer receivables greater than 90 days old. A bad debt expense is recorded when the allowance is established for these receivables. The amount of the allowance for doubtful accounts totaled \$1,241,441 as of September 30, 2010 and \$1,417,419 as of September 30, 2009.

## **Bureau of State Lottery, State of Michigan**

### **Notes to Financial Statements**

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#### **Capital Assets**

The Lottery has established a \$5,000 threshold for capitalization of purchases of assets, which include equipment and leasehold improvements, and they are reported in the Statement of Net Assets. Such assets are recorded at historical cost. Depreciation of equipment is computed using the straight-line method over five years, the estimated useful life of the assets. Information technology equipment is depreciated over three years, the estimated useful life of the assets. Building leasehold improvements are depreciated over eight years, the estimated useful life of the improvements. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

#### **Advance Wagers**

All online games except Lucky Lines may be played on an advance wager basis. An associated liability is recognized for all wagers received for drawings to be conducted after the end of the reporting period.

#### **Warrants Authorized and Warrants Outstanding**

Most of the Lottery's disbursements are made through warrants issued by the State. Warrants requested by the Lottery are charged to the Lottery's equity in the State Treasurer's Common Cash Fund as they clear the State Treasurer's account. Therefore, warrants outstanding represent drafts issued against the State Treasurer's account, which have not cleared. Warrants requested by the Lottery, but not yet issued by the State, are reported as warrants authorized.

#### **Unclaimed Prizes**

Prizes not claimed within one year after the drawing date or after the expiration date indicated on the back of the instant and pull tab game tickets are forfeited by the ticket holder. The Lottery estimates the amount of winning online, instant and pull tab tickets which will not be claimed within one year after the drawing date for online tickets or after the expiration date for instant and pull tab tickets. All unclaimed prizes are disbursed to the State School Aid Fund as provided by State statute.

#### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of equipment and leasehold improvements. The difference between the fair value of investments and the amortized book value of investments is reported as restricted for unrealized gains on investments and is not available for disbursement to the School Aid Fund.

**Bureau of State Lottery, State of Michigan**  
**Notes to Financial Statements**

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**NOTE 2 - EQUITY IN STATE TREASURER'S COMMON CASH**

The Lottery participates in the State Treasurer's Common Cash pool. The investment authority for the pool is found in Michigan Compiled Laws Sections 21.141 – 21.147. The pool functions as both a cash management pool and a demand deposit account. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes and other evidences of indebtedness of the United States Government and its agencies and in prime commercial paper. The Treasurer invests excess cash in short-term investments or cash equivalents.

The following paragraphs provide disclosures about deposits and investments of the State Treasurer's Common Cash Fund:

**Common Cash Deposits**

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The State Treasurer's policy requires the following criteria to lessen the custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State funds. A bank, savings and loan association or credit union holding State funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the state of Michigan. No deposit in any financial organization may be in excess of 50 percent of the net worth of the organization.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

Michigan Compiled Laws Section 487.714 requires State deposits to be held in a financial institution which maintains a principal office or branch office located in the state of Michigan.

No deposits were exposed to foreign currency risk, as is precluded by State policy.

## Bureau of State Lottery, State of Michigan

### Notes to Financial Statements

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#### Common Cash Investments

##### Risk

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Custodial credit risk, credit risk and interest rate risk are discussed in the following paragraphs:

##### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of the outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

The counterparty or

The counterparty's trust department or agent but not in the government name.

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2010 common cash investments were not exposed to custodial credit risk.

##### Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services Standard and Poor's (A-1); and Moody's (P-1). Borrowers must have at least \$400 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrower's outstanding debt. The investments are further limited to \$200 million in any borrower, unless the borrower has an A-1+ rating in which case the investment is not to exceed \$300 million.

##### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk.

#### **NOTE 3 - INVESTMENTS**

Investments totaling \$227,536,112 at September 30, 2010, and \$271,310,966 at September 30, 2009, are in the form of U. S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, series 2009b (Michigan CAB bonds).

**Bureau of State Lottery, State of Michigan**  
**Notes to Financial Statements**

In May 2009, forty U. S. Treasury zero-coupon bonds were sold and forty Michigan CAB bonds were purchased. These investments were purchased to fund future payments due to annuity prize winners. The bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 6. Cash receipts from the maturity of investments totaled \$60,785,000 in the year ended September 30, 2010 and \$69,980,014 in the year ended September 30, 2009.

Investments at September 30 consist of the following:

	2010	2009
U. S. Treasury zero-coupon bonds	\$ 64,016,667	\$ 74,569,229
Michigan CAB bonds	163,519,445	196,741,737
Total Investments	\$ 227,536,112	\$ 271,310,966

As reported on the Statement of Net Assets:

	2010	2009
Current investments	\$ 52,593,622	\$ 60,286,789
Noncurrent investments	174,942,490	211,024,177
Total Investments	\$ 227,536,112	\$ 271,310,966

**Policy Disclosures**

Investment authority with regard to the State Lottery Fund is delegated to the State Treasurer per the Michigan Compiled Laws Section 432.41. This authority is the same investment authority with regard to the State's pension (and other employee benefit) trust funds which is found in Michigan Compiled Laws Section 38-1133. The law allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments.

The law has prudence standards and requires that the assets shall be invested solely in the interest of the participants and beneficiaries. The Lottery's policy is to invest solely in U. S. Treasury zero-coupon bonds and Michigan CAB bonds and hold them to maturity.

**Interest Rate Risk**

Investments in prize annuities at September 30, 2010 consist of the following:

Maturities in Years	Investments in United States Treasury Zero-Coupon Bonds	Interest Rate Low to High	Investments in Michigan CAB Bonds	Interest Rate Low to High
Less than 1	\$ 7,588,399	1.61% to 7.04%	\$ 45,005,223	2.51% to 3.06%
1-5	36,599,623	1.96% to 7.19%	93,481,726	3.23% to 6.28%
6-10	8,363,951	4.37% to 5.91%	16,328,241	6.75% to 7.88%
11-15	5,256,670	4.79% to 4.98%	5,189,170	8.05% to 8.31%
16-20	4,150,607	4.53% to 4.78%	3,515,085	8.33% to 8.39%
21-26	2,057,417	4.35% to 4.41%	-	-
Fair Market Value	\$ 64,016,667		\$ 163,519,445	

## **Bureau of State Lottery, State of Michigan**

### **Notes to Financial Statements**

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Interest rate risk is the risk that changes in interest rates of debt investment that will adversely affect the fair value of those investments. Typically, this risk is higher in debt securities with longer maturities. The State does not have a policy regarding interest rate risk for long-term debt investments. The investments are subject to fluctuations in fair value due to interest rate risk, but these bonds are held to maturity to satisfy the annual installment obligations to the prize winners. The fair value at maturity is the face value of the bonds regardless of the fluctuations in value during the time period that the investments are outstanding, thus minimizing the interest rate risk, if held to maturity.

#### **Credit Risk**

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. The Lottery's policy is that all long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase unless specific requirements are met.

U. S. Treasury zero-coupon bonds are explicitly guaranteed by the U. S. government and credit quality ratings are therefore not required. The Lottery procedure to invest in this type of bond does not require a specific credit rating, but credit quality is inherently high as the bonds are explicitly guaranteed by the U. S. government. As of September 30, 2010, the Lottery's investments in Michigan CAB bonds were rated AA- by Standard and Poor and Aa2 by Moody's.

#### **Concentration of Credit Risk**

Investments are in U. S. Treasury zero-coupon bonds and Michigan CAB bonds. U. S. Treasury zero-coupon bonds are guaranteed by the United States government. Therefore, there is no concentration of credit risk for those types of bonds. Investments in Michigan CAB bonds account for 71.9% of the total investments.

#### **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Lottery will not be able to recover the value of the investment that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the entity, and are held by either the counterparty, or by the counterparty's trust department or agent, but not in the entity's name. The Lottery does not have any of these types of investments.

#### **Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Lottery had no short-term external collateral investment pool deposits subject to foreign currency risk at September 30, 2010.

**Bureau of State Lottery, State of Michigan**  
**Notes to Financial Statements**

**NOTE 4 - CAPITAL ASSETS**

A summary of capital asset activity for the fiscal years ended September 30, 2010 and 2009 was as follows:

<u>Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2010</u>				
Capital assets, being depreciated:				
Leasehold improvements	\$ 1,950,014	\$ -	\$ -	\$ 1,950,014
Equipment	2,405,079	70,448	11,875	2,463,652
Total capital assets, being depreciated	4,355,093	70,448	11,875	4,413,666
Less: accumulated depreciation				
Leasehold improvements	1,875,167	39,449	-	1,914,616
Equipment	1,754,825	198,559	7,066	1,946,318
Total accumulated depreciation	3,629,992	238,008	7,066	3,860,934
Total capital assets, being depreciated, net	<u>\$ 725,101</u>	<u>\$ (167,560)</u>	<u>\$ 4,809</u>	<u>\$ 552,732</u>
<u>September 30, 2009</u>				
Capital assets, being depreciated:				
Leasehold improvements	\$ 1,950,014	\$ -	\$ -	\$ 1,950,014
Equipment	2,244,236	160,843	-	2,405,079
Total capital assets, being depreciated	4,194,250	160,843	-	4,355,093
Less: accumulated depreciation				
Leasehold improvements	1,835,718	39,449	-	1,875,167
Equipment	1,568,926	185,899	-	1,754,825
Total accumulated depreciation	3,404,644	225,348	-	3,629,992
Total capital assets, being depreciated, net	<u>\$ 789,606</u>	<u>\$ (64,505)</u>	<u>\$ -</u>	<u>\$ 725,101</u>

**NOTE 5 - DISAGGREGATION OF PAYABLE BALANCE**

Accounts payable and other liabilities at September 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Accounts payable vendors	\$ 660,700	\$ 1,309,726
Retailer security deposits/accounts payable	2,632,929	1,931,414
Accrued salaries	532,472	1,016,218
Compensated absences	970,993	847,798
Total	<u>\$ 4,797,094</u>	<u>\$ 5,105,156</u>

**Bureau of State Lottery, State of Michigan**  
**Notes to Financial Statements**

**NOTE 6 - PRIZE AWARDS**

Installment prize awards are recorded at their present value using discount rates ranging from 4.0% to 8.5%. U.S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds have been purchased to provide for the payment of installment prize awards in addition to cash maintained in the State's common cash fund. Prize awards payable as of September 30, were as follows:

	2010	2009
Current - at face amount	\$ 104,815,073	\$ 119,773,222
Less - unamortized discount	(1,674,806)	(1,951,575)
Current - at present value	103,140,267	117,821,647
Long-term - at face amount	260,406,000	309,724,161
Less - unamortized discount	(80,522,204)	(94,422,434)
Long-term - at present value	179,883,796	215,301,727
Total	\$ 283,024,063	\$ 333,123,374

Installment prize awards payable for the fiscal year ending September 30,

2011	\$ 53,079,161
2012	44,129,434
2013	35,044,233
2014	28,515,533
2015	23,472,400
2016-2020	52,321,200
2021-2025	32,849,600
2026-2030	20,809,000
2031-2035	15,426,500
2036-2040	5,034,100
2041-2045	1,452,000
2046-2050	1,040,000
2051-2054	312,000
Total at face amount	313,485,161
Less - unamortized discount	(82,197,010)
Total installment prize awards payable at present value	231,288,151
Non-installment prize awards payable	51,735,912
Total prize awards payable	\$ 283,024,063

Long-term liability activity of installment prize awards payable for the fiscal years ended September 30, was as follows:

Fiscal year	Beginning	Additions	Reductions	Ending	Due Within
Ending	Balance			Balance	One Year at
					Present Value
2010	\$ 272,864,446	\$ 18,138,000	\$ 59,714,295	\$ 231,288,151	\$ 51,404,355
2009	\$ 286,433,351	\$ 57,679,873	\$ 71,248,778	\$ 272,864,446	\$ 57,562,720

**Bureau of State Lottery, State of Michigan**  
**Notes to Financial Statements**

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**NOTE 7 - COMPENSATED ABSENCES**

The Lottery records as a liability estimated vested vacation, sick pay and longevity. Employees are granted vacation pay in varying amounts based on length of service. Accumulated unused vacation pay is paid to employees or their beneficiaries upon death, retirement or resignation. Sick leave accrues for all employees at the rate of four hours for each two week period worked. Up to 50% of accumulated, unused sick leave of employees hired prior to October 1, 1980, is paid to the employees or their beneficiaries upon death, retirement or resignation. For employees hired after September 30, 1980, unused sick leave is forfeited upon termination of employment. In accordance with state Civil Service Rules, longevity compensation payments, which are separate from regular compensation, are paid based on employee years of service. The Lottery accrues for vacation, vested sick leave and longevity to be paid upon death, retirement or resignation during the period of active employment.

The State instituted a banked leave time program October 12, 2003 through November 5, 2005 whereby eligible employees worked a regular schedule but received pay for a reduced number of hours. The banked leave time program was reinstated February 21, 2010 through September 4, 2010 for non-represented employees. Upon an employee's separation, death or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401(k) plans, and if applicable to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2010.

Long-term liability activity of these benefits for the fiscal years ended September 30 was as follows:

Fiscal Year	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long- Term Liability
2010	\$ 2,205,020	\$ 1,376,659	\$ 1,379,357	\$ 2,202,322	\$ 970,993	\$ 1,231,329
2009	\$ 2,146,402	\$ 1,177,788	\$ 1,119,170	\$ 2,205,020	\$ 847,798	\$ 1,357,222

**NOTE 8 – PENSION AND POST-RETIREMENT BENEFITS**

The Lottery's employees hired prior to March 31, 1997, are enrolled in a noncontributory defined benefit plan through the State Employees' Retirement System (Plan 1) upon meeting certain eligibility requirements. The Plan provides for pension, dental, vision and major medical coverage. A member may retire with an age and service allowance after completing: (1) at least 10 years of credited service and (2) attaining the minimum retirement age of 60, or at least age 55 with 30 years of service credit. Pension benefits are determined using 1.5% times a member's final average compensation, calculated as the average of a member's monthly pay during the period of 36 consecutive months of credited service producing the highest monthly average multiplied by length of service.

The Lottery's employees hired after March 31, 1997, are enrolled in a defined contribution plan through the State Employee's Retirement System (Plan 2) upon meeting certain eligibility requirements. Qualified participants are generally eligible to retire at age 55, with 30 years of service or at age 60 with 10 years of service. The Lottery contributes a mandatory 4% of the employees' salary and matches up to an additional 3% of the employees' contributions. Participants in Plan 2 are 100% vested for any employee contributions. Participants become vested for 50% of the employer contributions after 2 years of service, 75% after 3 years of service and 100% after 4 years of service. Employees become vested for retiree health insurance benefits with 10 or more years of service.

**Bureau of State Lottery, State of Michigan**  
**Notes to Financial Statements**

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The cost of these benefits is allocated to the Lottery as a percentage of gross payroll. The payroll for the Lottery employees covered by the Plan 1 and Plan 2 was approximately \$5,407,433, \$5,134,506, and \$5,084,674 for the six months ended September 30, 2010, 2009, and 2008, respectively and approximately \$10,871,968, \$10,283,068, and \$9,996,799 for the years ended September 30, 2010, 2009, and 2008, respectively. The Lottery's actuary determined contribution requirements and contributions actually made were \$1,813,029, \$1,718,378 and \$1,524,955 for the six month periods ended September 30, 2010, 2009, and 2008, respectively and approximately \$3,654,760, \$3,423,080, and \$3,109,849 for the years ended September 30, 2010, 2009, and 2008, respectively. Contributions represent approximately 33.6%, 33.3%, and 31.1% of annual covered payroll during 2010, 2009 and 2008, respectively.

Additional detail and data regarding Plan 1 and Plan 2 descriptions, vesting and eligibility requirements, actuarial cost methods and assumptions, funding requirements, accounting policies a three-year historical trend information and other postemployment benefits is provided in the State of Michigan Comprehensive Annual Financial Report and detailed financial reports issued by the Bureau of Retirement Systems. The reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Dr., P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

**NOTE 9 - LEASE AND RENTAL COMMITMENTS**

The total operating lease expense on long-term lease commitments for years ended September 30, 2010 and 2009 were \$198,779 and \$196,904, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of remaining minimum building lease commitments follows:

<u>Year Ending September 30</u>	<u>Operating Leases</u>
2011	\$ 168,591
2012	147,029
2013	147,029
2014	147,029
2015	123,779
2016-2019	197,665

The total rent and lease expenses paid for all buildings for the years ended September 30, 2010 and 2009 were \$1,026,187 and \$2,398,364, respectively.

**NOTE 10 - RISK MANAGEMENT**

The Lottery is exposed to various risks related to torts: property damage and destruction, errors and omissions, workers' compensation and unemployment compensation. The State of Michigan has elected not to purchase commercial insurance for many of the risks of losses to which the Lottery is exposed, but to self-insure for such risks. More detailed information on risk management is available in the State of Michigan's Comprehensive Annual Financial Report.

**Bureau of State Lottery, State of Michigan**  
**Notes to Financial Statements**

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**NOTE 11 - TRANSACTIONS WITH OTHER STATE AGENCIES**

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. Following is a summarization of these charges for the year ended September 30, 2010:

Department of Technology, Management and Budget		
Information Technology		
Direct costs	\$	3,324,759
Lansing Metropolitan Area Network (LMAN)		33,050
Michigan.gov portal web charges		419,565
Overhead		<u>283,890</u>
Total Information Technology Charges		4,061,264
Support services (including Internal Audit)		393,400
Space rental - Lottery Central, Detroit, Saginaw offices		821,399
Vehicle and travel services		774,366
Other - Telephone, mailing and other offices services		<u>330,256</u>
Total Department of Technology, Management and Budget	\$	6,380,685
Civil Service Commission		272,178
Department of Treasury		127,877
Attorney General		228,126
Other Agencies		<u>24,284</u>
Total all State agencies	\$	<u><u>7,033,150</u></u>

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

The Lottery has contracted with a third party to provide for the operation of the gaming system through January 19, 2015. The contract rate is 1.2757% of sales through January 19, 2014 and a rate of 1.1800% of sales from January 20, 2014 through January 19, 2015.

From time to time, the Lottery is party to lawsuits and claims arising in the normal course of business. The Lottery has defended and intends to continue to defend these actions vigorously and believes, based on currently available information, that adverse settlements, if any, will not be material to its financial position or results of operations.

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2010**

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 168,783,588	14.8%	\$ 344,197,540	14.6%
	Daily 4	175,986,564	15.4%	359,024,215	15.2%
	Classic Lotto 47	20,192,947	1.8%	43,829,857	1.9%
	Mega Millions	71,505,240	6.3%	173,462,322	7.4%
	Powerball	39,669,214	3.5%	54,621,953	2.3%
	Power Play	7,084,809	0.6%	9,837,858	0.4%
	Keno	6,141,645	0.5%	12,979,413	0.6%
	Fantasy Five	28,077,597	2.5%	56,051,318	2.4%
	Raffle	7,052,170	0.6%	19,047,550	0.8%
	Lucky Lines	15,738,967	1.3%	15,738,967	0.7%
	Club Keno	168,986,229	14.8%	370,958,281	15.7%
	Club Keno Kicker	52,888,263	4.6%	115,645,422	4.9%
	The Jack	1,536,254	0.1%	3,905,412	0.2%
	Pull-Tab tickets	12,730,086	1.1%	29,074,612	1.2%
	Instant tickets	366,999,448	32.1%	750,853,309	31.7%
Total lottery ticket sales		1,143,373,021	100.0%	2,359,228,029	100.0%
Prize awards:	Daily 3	79,742,198	7.0%	165,789,127	7.0%
	Daily 4	95,465,521	8.3%	206,007,831	8.7%
	Classic Lotto 47	11,750,136	1.0%	25,024,493	1.1%
	Mega Millions	36,301,321	3.2%	86,629,683	3.7%
	Powerball/Power Play	23,527,258	2.1%	31,563,286	1.3%
	Keno	2,909,256	0.3%	6,850,276	0.3%
	Fantasy Five	14,235,377	1.2%	28,216,844	1.2%
	Raffle	3,874,362	0.3%	10,914,474	0.5%
	Lucky Lines	7,079,188	0.6%	7,079,188	0.3%
	Club Keno/Kicker/Jack	144,908,382	12.7%	318,378,357	13.5%
	Pull-Tab tickets	9,568,553	0.8%	21,855,008	0.9%
	Instant tickets	244,571,970	21.4%	500,609,882	21.2%
Total prize awards		673,933,522	58.9%	1,408,918,449	59.7%
Less: unclaimed prizes		(15,690,750)	-1.3%	(27,292,789)	-1.1%
Net prize awards		658,242,772	57.6%	1,381,625,660	58.6%
Gross margin		485,130,249	42.4%	977,602,369	41.4%
Retailer and vendor commission expense		(98,476,745)	-8.6%	(202,449,172)	-8.5%
Game related expense		(10,568,148)	-0.9%	(21,052,353)	-0.9%
Net ticket revenue		376,085,356	32.9%	754,100,844	32.0%
Other operating expense		(24,057,453)	-2.1%	(49,235,605)	-2.1%
Other miscellaneous revenue		626,333	0.1%	2,009,409	0.1%
Net lottery operating income		352,654,236	30.9%	706,874,648	30.0%
Charitable gaming					
Charitable gaming revenue		8,534,836	0.7%	18,737,425	0.8%
Charitable gaming expense		(3,479,806)	-0.3%	(7,402,260)	-0.3%
Net charitable gaming income		5,055,030	0.4%	11,335,165	0.5%

Continued

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2010**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses)				
Amortization expense - prize discount	(7,241,624)	-0.6%	(15,219,449)	-0.6%
Amortization revenue - investment discount	5,025,479	0.4%	10,390,271	0.4%
Unrealized gain (loss) on investments	8,726,480	0.7%	6,619,876	0.3%
Interest revenue - common cash fund	158,559	0.0%	281,612	0.0%
Bank fees	(2,324)	0.0%	(4,472)	0.0%
Loss on disposal of assets	-	0.0%	(4,810)	0.0%
Disbursement to School Aid Fund	(350,099,326)	-30.6%	(701,327,800)	-29.7%
Disbursement to General Fund	(5,055,030)	-0.4%	(11,335,165)	-0.5%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	<u>(348,982,786)</u>	<u>-30.5%</u>	<u>(711,589,937)</u>	<u>-30.1%</u>
Change in net assets	<u>\$ 8,726,480</u>	<u>0.8%</u>	<u>\$ 6,619,876</u>	<u>0.4%</u>

Concluded

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2009**

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 175,800,723	14.9%	\$ 350,999,248	14.8%
	Daily 4	169,704,927	14.4%	335,906,876	14.1%
	Classic Lotto 47	30,410,401	2.6%	64,231,725	2.7%
	Mega Millions	122,680,179	10.4%	222,690,082	9.4%
	Keno	6,929,260	0.6%	13,986,922	0.6%
	Fantasy Five	25,884,161	2.2%	51,310,128	2.2%
	Raffle	18,868,450	1.6%	41,295,837	1.7%
	Club Keno	190,553,400	16.2%	392,542,888	16.5%
	Club Keno Kicker	59,724,842	5.1%	123,480,280	5.2%
	The Jack	3,903,681	0.3%	3,903,681	0.2%
	Pull-Tab tickets	12,028,500	1.0%	28,037,868	1.2%
	Instant tickets	359,461,215	30.6%	749,051,648	31.5%
	<b>Total lottery ticket sales</b>	<b>1,175,949,739</b>	<b>100.0%</b>	<b>2,377,437,183</b>	<b>100.0%</b>
Prize awards:	Daily 3	92,077,124	7.8%	191,812,761	8.1%
	Daily 4	101,538,308	8.6%	182,708,011	7.7%
	Classic Lotto 47	16,806,096	1.4%	35,111,625	1.5%
	Mega Millions	62,394,255	5.3%	110,949,225	4.7%
	Keno	3,273,440	0.3%	6,617,611	0.3%
	Fantasy Five	12,994,382	1.1%	26,528,416	1.1%
	Raffle	10,136,818	0.9%	23,483,161	1.0%
	Club Keno/Kicker/Jack	164,910,643	14.0%	336,588,585	14.2%
	Pull-Tab tickets	9,042,559	0.8%	19,477,526	0.8%
	Instant tickets	241,998,787	20.6%	503,095,788	21.2%
	<b>Total prize awards</b>	<b>715,172,412</b>	<b>60.8%</b>	<b>1,436,372,709</b>	<b>60.4%</b>
	Less: unclaimed prizes	(14,206,536)	-1.2%	(28,730,205)	-1.2%
	<b>Net prize awards</b>	<b>700,965,876</b>	<b>59.6%</b>	<b>1,407,642,504</b>	<b>59.2%</b>
Gross margin		474,983,863	40.4%	969,794,679	40.8%
Retailer and vendor commission expense		(100,555,694)	-8.6%	(209,625,888)	-8.8%
Game related expense		(9,472,665)	-0.8%	(18,383,054)	-0.8%
Net ticket revenue		364,955,504	31.0%	741,785,737	31.2%
Other operating expense		(21,745,062)	-1.8%	(47,759,400)	-2.0%
Other miscellaneous revenue		289,143	0.0%	894,587	0.0%
Net lottery operating income		<b>343,499,585</b>	<b>29.2%</b>	<b>694,920,924</b>	<b>29.2%</b>
Charitable gaming					
Charitable gaming revenue		10,588,525	0.9%	20,662,879	0.9%
Charitable gaming expense		(4,756,211)	-0.4%	(8,898,547)	-0.4%
Net charitable gaming income		<b>5,832,314</b>	<b>0.5%</b>	<b>11,764,332</b>	<b>0.5%</b>

Continued

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2009**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses)				
Amortization expense - prize discount	(8,821,966)	-0.8%	(18,401,696)	-0.8%
Amortization revenue - investment discount	7,035,757	0.6%	17,087,375	0.7%
Unrealized gain (loss) on investments	(7,822,688)	-0.7%	1,641,631	0.1%
Interest revenue - common cash fund	439,837	0.0%	1,081,202	0.0%
Net security lending income	(3,752)	0.0%	(6,592)	0.0%
Disbursement to School Aid Fund	(372,432,868)	-31.7%	(724,469,621)	-30.5%
Disbursement to General Fund	(5,832,314)	-0.5%	(11,764,332)	-0.5%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	<u>(387,932,994)</u>	<u>-33.1%</u>	<u>(735,822,033)</u>	<u>-31.0%</u>
Change in net assets	<u>\$ (38,601,095)</u>	<u>-3.3%</u>	<u>\$ (29,136,777)</u>	<u>-1.2%</u>

Concluded

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Other Operating Expenses**  
**For the Six Months and Years Ended September 30, 2010 and 2009**

	Six Months Ended		Years Ended	
	2010	2009	2010	2009
Salaries and wages	\$ 5,417,833	\$ 5,185,406	\$ 10,889,018	\$ 10,383,518
Employee benefits and taxes	2,899,868	2,691,327	6,005,239	5,723,288
Promotion and advertising	14,187,825	12,029,177	28,985,812	26,965,099
Talent	177,087	172,360	322,774	314,361
Printing and supplies, including purchase of charitable gaming tickets	1,000,331	1,159,153	2,102,926	2,277,072
Other contractual services	2,345,355	2,692,016	5,307,064	5,592,855
Building rent and leases	502,682	1,137,161	1,026,187	2,398,364
Travel	477,800	450,588	919,454	898,525
Utilities	139,868	158,365	266,676	288,702
Postage	147,413	170,708	294,955	365,361
Equipment maintenance and rental	26,037	285,531	74,758	795,054
Bad debt expense	90,133	166,264	195,426	335,072
Interest paid on security deposits	5,987	89,070	9,569	95,328
Total	<u>\$ 27,418,219</u>	<u>\$ 26,387,126</u>	<u>\$ 56,399,858</u>	<u>\$ 56,432,599</u>



## Statistical Section



**Bureau of State Lottery, State of Michigan  
Index  
Statistical Section**

This part of the Lottery’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Lottery’s overall financial health. The Michigan Bureau of State Lottery began operating in October 1972 and commenced ticket sales in November 1972. Data from the last 10 fiscal years of Lottery operations are presented in the following charts and graphs.

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These schedules contain trend information to help the reader understand how the Lottery’s financial performance and well-being have changed over time.

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**Revenue Capacity**

This schedule and graph contains information to help the reader assess the Lottery’s most significant revenue source, ticket sales.

- Instant Games – represent the face value of tickets activated by retailers.
- Online Games – represents the face value of tickets sold to the public.
- Club Games – represents the face value of tickets sold to the public.

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**Debt Capacity**

This schedule presents information to help the reader assess the installment prize awards liability of the Lottery. Prize liability is determined by prize structure and luck of the draw. Investments in U.S. Treasury zero-coupon bonds and Michigan CAB bonds are purchased to meet future installment payments to prize winners.

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**Demographic and Economic Information**

These graphs offers demographic and economic indicators to help the reader understand the environment within which the Lottery’s financial activities take place.

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**Operating Information**

This schedule contains service, retailer data, prize data, expenses and amounts disbursed to the state School Aid Fund and prize winner data to help the reader understand how the Lottery’s financial report relates to the products the Lottery provides and the service it performs for the State.

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**Industry Comparative Information**

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**Compliance Information**

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**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2010.





**Bureau of State Lottery, State of Michigan**  
**Financial Trends**  
**Net Assets**  
**Fiscal Years Ending September 30, 2001 through September 30, 2010**  
**(In Millions)**

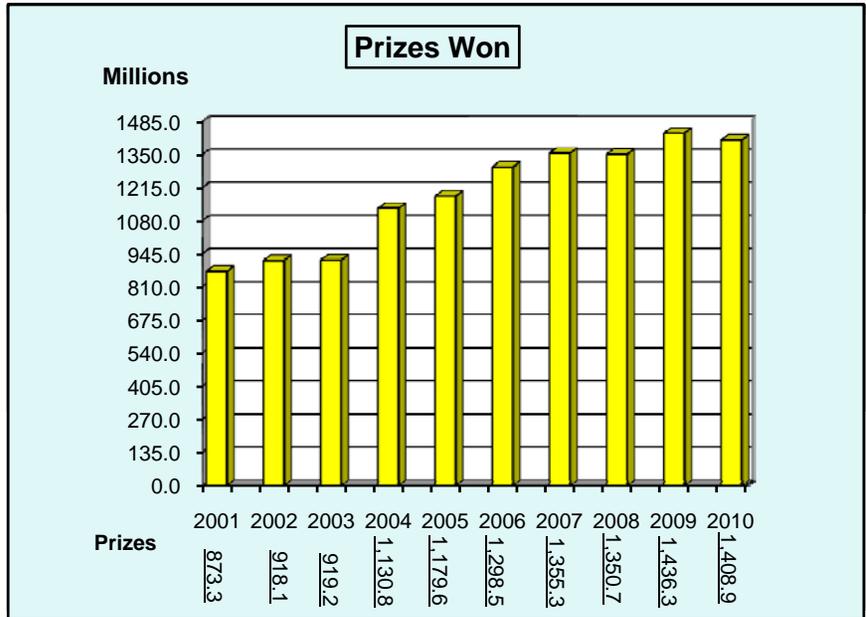
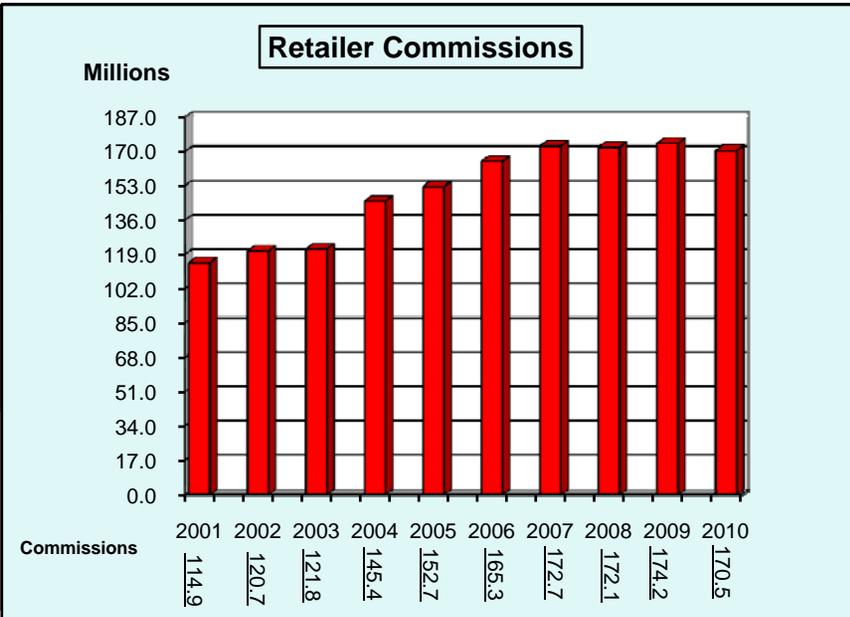
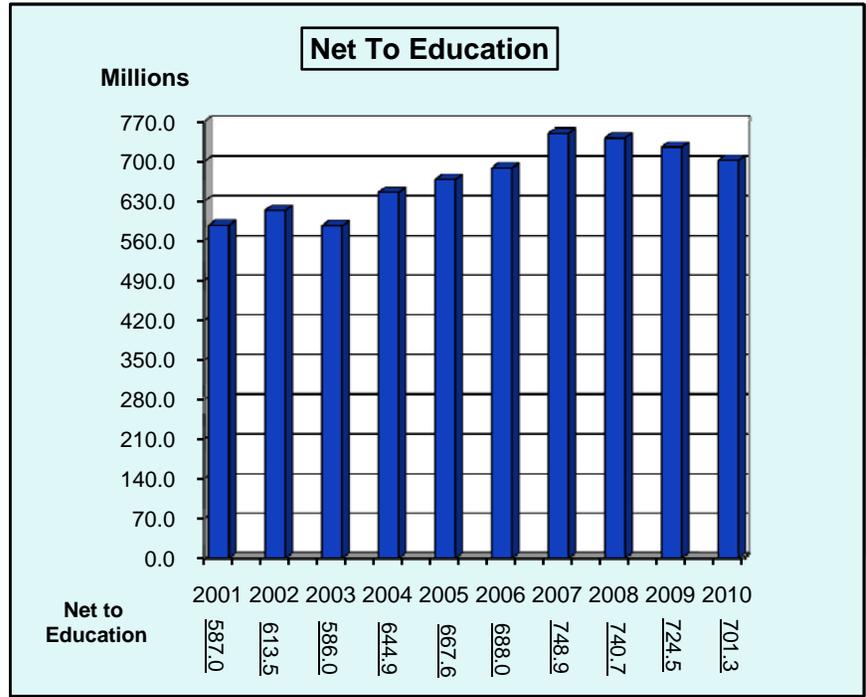
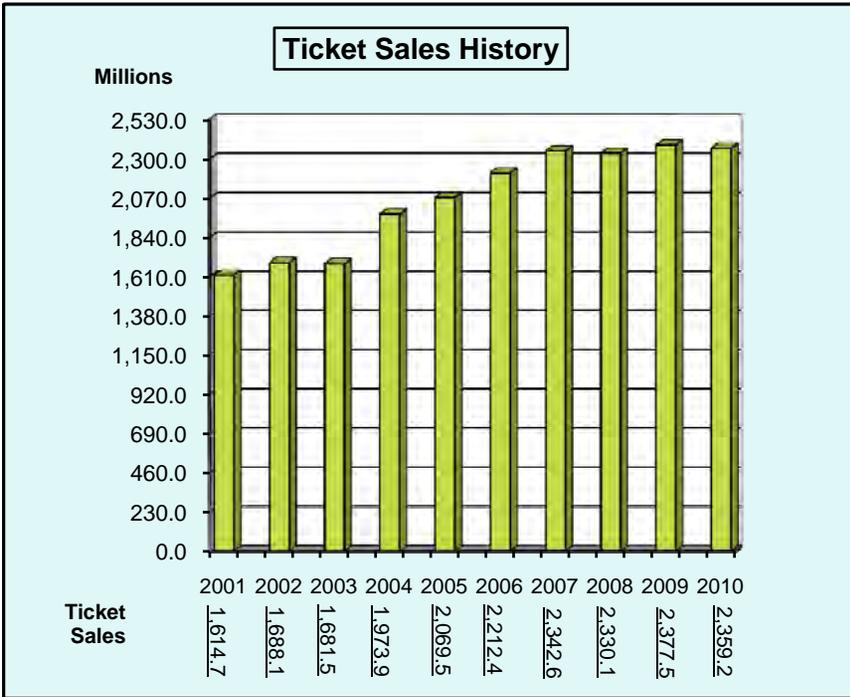
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Net assets</b>										
Invested in capital assets	\$ 0.3	\$ 0.4	\$ 0.6	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.7	\$ 0.6
Restricted for unrealized gains on investments	95.7	128.0	105.2	77.1	52.4	36.1	31.9	36.8	7.6	14.3
Unrestricted (deficit)	<u>(0.3)</u>	<u>(0.4)</u>	<u>(0.6)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.8)</u>	<u>(0.7)</u>	<u>(0.6)</u>
<b>Total net assets</b>	<u>\$ 95.7</u>	<u>\$ 128.0</u>	<u>\$ 105.2</u>	<u>\$ 77.1</u>	<u>\$ 52.4</u>	<u>\$ 36.1</u>	<u>\$ 31.9</u>	<u>\$ 36.8</u>	<u>\$ 7.6</u>	<u>\$ 14.3</u>



**Bureau of State Lottery, State of Michigan**  
**Financial Trends**  
**Changes in Net Assets**  
**Fiscal Years Ending September 30, 2001 through September 30, 2010**  
**(In Millions)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Operating revenues</b>										
Ticket sales	\$ 1,614.7	\$ 1,688.1	\$ 1,681.5	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2
Charitable gaming and other	17.7	20.6	20.3	21.4	20.6	19.8	20.4	20.9	21.5	20.7
Total operating revenues	<u>1,632.4</u>	<u>1,708.7</u>	<u>1,701.8</u>	<u>1,995.3</u>	<u>2,090.1</u>	<u>2,232.2</u>	<u>2,363.0</u>	<u>2,351.0</u>	<u>2,399.0</u>	<u>2,379.9</u>
<b>Operating expenses</b>										
Prize awards	873.3	918.1	919.2	1,130.8	1,179.6	1,298.5	1,355.3	1,350.7	1,436.3	1,408.9
Less - unclaimed prizes	(23.3)	(44.4)	(19.5)	(31.1)	(17.6)	(30.3)	(26.2)	(27.4)	(28.7)	(27.3)
Net prize awards	<u>850.0</u>	<u>873.7</u>	<u>899.7</u>	<u>1,099.7</u>	<u>1,162.0</u>	<u>1,268.2</u>	<u>1,329.1</u>	<u>1,323.3</u>	<u>1,407.6</u>	<u>1,381.6</u>
Retailer commissions	114.9	120.7	121.8	145.4	152.7	165.3	172.7	172.1	174.2	170.5
Game related expenses	41.8	44.1	45.1	54.1	56.8	60.0	63.0	63.4	53.8	53.0
Other operating expenses	39.0	40.0	40.3	41.2	43.4	45.3	45.3	47.0	56.7	56.6
Total operating expenses	<u>1,045.7</u>	<u>1,078.5</u>	<u>1,106.9</u>	<u>1,340.4</u>	<u>1,414.9</u>	<u>1,538.8</u>	<u>1,610.1</u>	<u>1,605.8</u>	<u>1,692.3</u>	<u>1,661.7</u>
Operating income	<u>586.7</u>	<u>630.2</u>	<u>594.9</u>	<u>654.9</u>	<u>675.2</u>	<u>693.4</u>	<u>752.9</u>	<u>745.2</u>	<u>706.7</u>	<u>718.2</u>
<b>Non-operating revenues</b>										
Investment revenue	103.6	75.1	23.2	13.0	11.8	14.7	22.2	26.9	18.7	17.0
Interest on equity in State Treasurer's Common Cash Fund	4.2	1.6	1.0	0.9	2.5	4.1	5.2	3.1	1.1	0.3
Revenue from security lending	11.5	5.6	3.6	4.7	6.4	16.3	20.9	13.0	-	-
Total non-operating revenues	<u>119.3</u>	<u>82.3</u>	<u>27.8</u>	<u>18.6</u>	<u>20.7</u>	<u>35.1</u>	<u>48.3</u>	<u>43.0</u>	<u>19.8</u>	<u>17.3</u>
<b>Non-operating expenses</b>										
Security lending expenses	(10.6)	(4.8)	(3.3)	(4.3)	(6.0)	(16.0)	(19.8)	(10.3)	-	-
Net gain (loss) on sale of assets	(0.1)	-	-	-	-	-	-	-	-	-
Amortization of prize obligation discount	(53.1)	(48.7)	(44.1)	(39.2)	(34.2)	(29.4)	(24.9)	(20.7)	(18.4)	(15.2)
Non-operating expenses before disbursements	<u>(63.8)</u>	<u>(53.5)</u>	<u>(47.4)</u>	<u>(43.5)</u>	<u>(40.2)</u>	<u>(45.4)</u>	<u>(44.7)</u>	<u>(31.0)</u>	<u>(18.4)</u>	<u>(15.2)</u>
School Aid Fund disbursement	(587.0)	(613.5)	(586.0)	(644.9)	(667.6)	(688.0)	(748.9)	(740.7)	(724.5)	(701.3)
General Fund disbursement	(9.4)	(12.1)	(11.2)	(12.2)	(11.7)	(10.5)	(10.8)	(10.6)	(11.8)	(11.3)
Community Health disbursement	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total disbursements	<u>(597.4)</u>	<u>(626.6)</u>	<u>(598.2)</u>	<u>(658.1)</u>	<u>(680.3)</u>	<u>(699.5)</u>	<u>(760.7)</u>	<u>(752.3)</u>	<u>(737.3)</u>	<u>(713.6)</u>
Total non-operating expenses	<u>(661.2)</u>	<u>(680.1)</u>	<u>(645.6)</u>	<u>(701.6)</u>	<u>(720.5)</u>	<u>(744.9)</u>	<u>(805.4)</u>	<u>(783.3)</u>	<u>(755.7)</u>	<u>(728.8)</u>
Net non-operating revenue (expense)	<u>(541.9)</u>	<u>(597.8)</u>	<u>(617.8)</u>	<u>(683.0)</u>	<u>(699.8)</u>	<u>(709.8)</u>	<u>(757.1)</u>	<u>(740.3)</u>	<u>(735.9)</u>	<u>(711.5)</u>
<b>Change in net assets</b>	<u>\$ 44.8</u>	<u>\$ 32.4</u>	<u>\$ (22.9)</u>	<u>\$ (28.1)</u>	<u>\$ (24.6)</u>	<u>\$ (16.4)</u>	<u>\$ (4.2)</u>	<u>\$ 4.9</u>	<u>\$ (29.2)</u>	<u>\$ 6.7</u>

**Bureau of State Lottery, State of Michigan  
Financial Trends 2001 through 2010**



Source: Bureau of State Lottery, State of Michigan



**Bureau of State Lottery, State of Michigan**  
**Revenue Capacity**  
**Revenues from Ticket Sales**  
**Fiscal Years Ending September 30, 2001 through September 30, 2010**  
**(In Millions)**

<b>TICKET SALES</b>	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Instant Games</b>										
Instant Tickets	\$ 626.7	\$ 655.4	\$ 682.7	\$ 690.2	\$ 662.5	\$ 710.8	\$ 717.8	\$ 734.2	\$ 749.1	\$ 750.8
<b>Club Games</b>										
Club Keno, Lucky Streak, The Jack				204.5	332.3	343.8	380.9	402.5	396.5	374.9
Club Keno Kicker, Lucky Streak Plus						80.3	110.3	124.0	123.5	115.6
Pull Tab Games				25.1	39.1	41.6	38.5	37.4	28.0	29.1
Total Club Games				229.6	371.4	465.7	529.7	563.9	548.0	519.6
<b>Online Games</b>										
Daily 3, Extra 3, Double 3	404.2	418.3	423.3	423.2	402.9	385.7	369.1	347.2	351.0	344.2
Daily 4, Extra 4, Double 4	280.6	289.2	297.2	310.2	309.7	323.0	335.1	325.2	335.9	359.0
Michigan Lotto, Michigan Millions, Winfall, Classic Lotto 47	100.0	71.7	79.3	66.6	55.7	50.7	53.1	64.1	64.2	43.8
Keno	10.1	10.3	13.5	14.9	13.5	14.6	14.0	13.9	14.0	13.0
Little Lotto: Cash Five, Michigan Rolldown, Fantasy 5 and Change Play	41.1	37.2	38.0	32.6	49.9	45.5	49.4	51.3	51.3	56.1
Raffle							56.3	45.5	41.3	19.0
Lucky Lines										15.7
Powerball/Powerplay										64.5
Mega Millions	152.0	206.0	147.5	206.6	203.9	216.4	218.1	184.8	222.7	173.5
Total On-line	988.0	1,032.7	998.8	1,054.1	1,035.6	1,035.9	1,095.1	1,032.0	1,080.4	1,088.8
<b>TOTAL TICKET SALES</b>	<b>\$ 1,614.7</b>	<b>\$ 1,688.1</b>	<b>\$ 1,681.5</b>	<b>\$ 1,973.9</b>	<b>\$ 2,069.5</b>	<b>\$ 2,212.4</b>	<b>\$ 2,342.6</b>	<b>\$ 2,330.1</b>	<b>\$ 2,377.5</b>	<b>\$ 2,359.2</b>

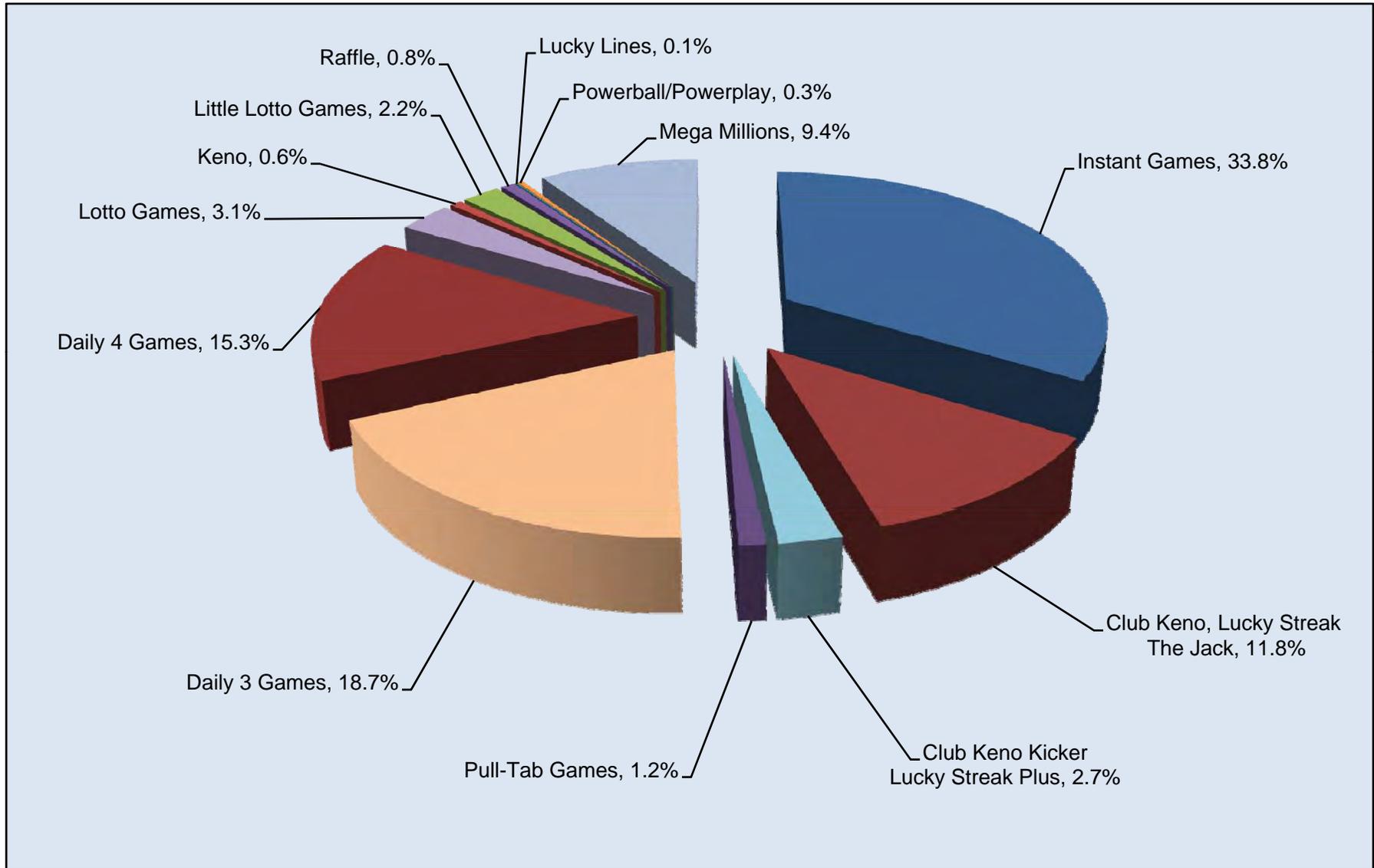
**PRICE PER TICKET:**

Instant Games:	Range from \$1 to \$20	Online Games: Daily 3	\$ .50 and \$1
Club Games: Club Keno, Kicker, Lucky Streak, Lucky Streak Plus, The Jack	\$1	Change Play	Range from \$.25 to \$.99
Pull Tab Games	Range from \$.50 to \$2	Raffle	Range from \$5 to \$50
		All other online games	\$1

Note: Principal revenue payers are the general public. Please see Demographic and Economic Information on page 54 for statistics.

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan  
Revenue Capacity  
Ticket Sales 2001 through 2010**



Source: Bureau of State Lottery, State of Michigan



**Bureau of State Lottery, State of Michigan**  
**Debt Capacity**  
**Ratio of Installment Prize Awards Liability**  
**Fiscal Years Ending September 30, 2001 through September 30, 2010**  
**(In Millions)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b><u>INSTALLMENT PRIZE AWARDS LIABILITY</u></b>										
Current - at face amount	\$ 110.1	\$ 109.8	\$ 109.6	\$ 103.4	\$ 94.7	\$ 86.5	\$ 75.9	\$ 68.8	\$ 59.5	\$ 53.1
Long-term - at face amount	<u>929.8</u>	<u>820.0</u>	<u>713.9</u>	<u>617.3</u>	<u>527.3</u>	<u>443.3</u>	<u>373.0</u>	<u>305.1</u>	<u>309.7</u>	<u>260.4</u>
Total installment prize awards	<u>\$ 1,039.9</u>	<u>\$ 929.8</u>	<u>\$ 823.5</u>	<u>\$ 720.7</u>	<u>\$ 622.0</u>	<u>\$ 529.8</u>	<u>\$ 448.9</u>	<u>\$ 373.9</u>	<u>\$ 369.2</u>	<u>\$ 313.5</u>
<b><u>INVESTMENTS</u></b>										
Face amount	<u>\$ 1,038.4</u>	<u>\$ 928.3</u>	<u>\$ 818.3</u>	<u>\$ 709.4</u>	<u>\$ 626.7</u>	<u>\$ 535.2</u>	<u>\$ 448.1</u>	<u>\$ 371.2</u>	<u>\$ 341.6</u>	<u>\$ 280.8</u>
Installment prize awards payable as a percentage of investments:	100.14%	100.16%	100.64%	101.59%	99.25%	98.99%	100.18%	100.73%	108.08%	111.65%

**Note:** Details regarding the Bureau's prize awards and investments can be found in the notes to the financial statements.



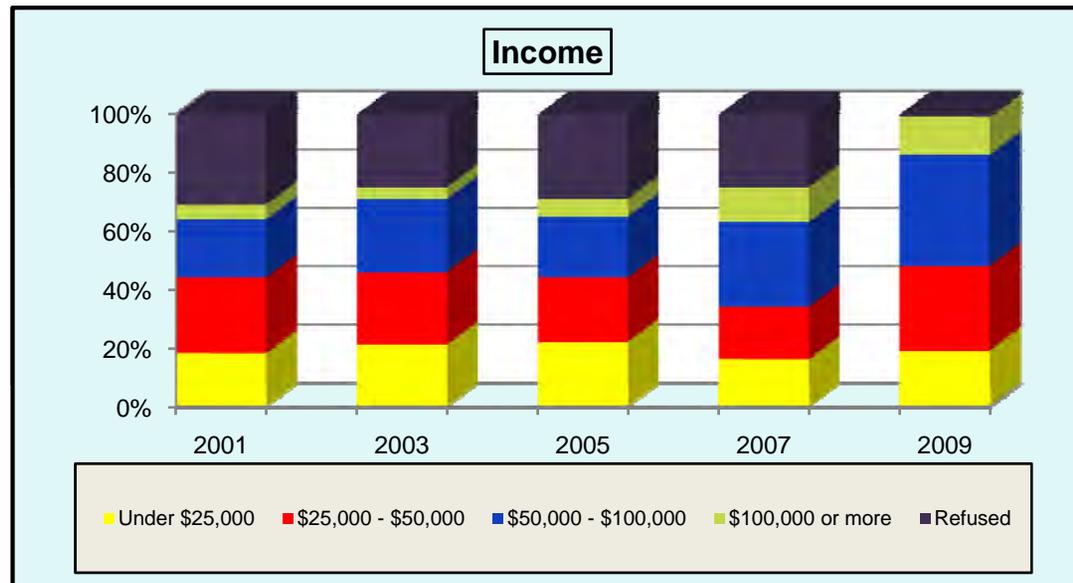
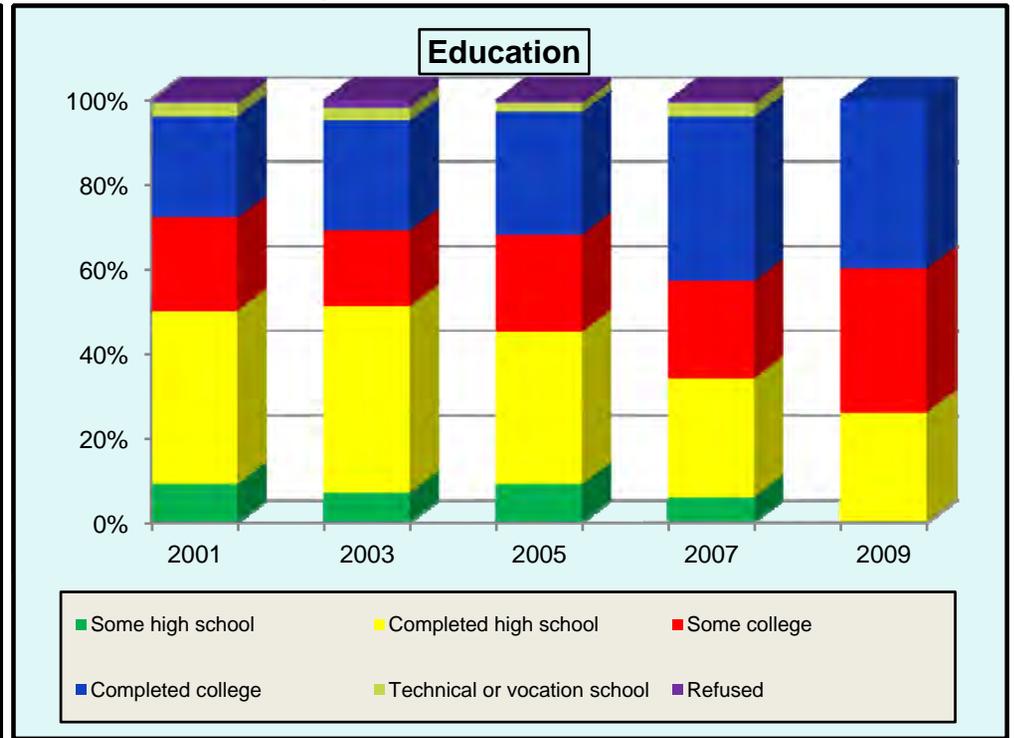
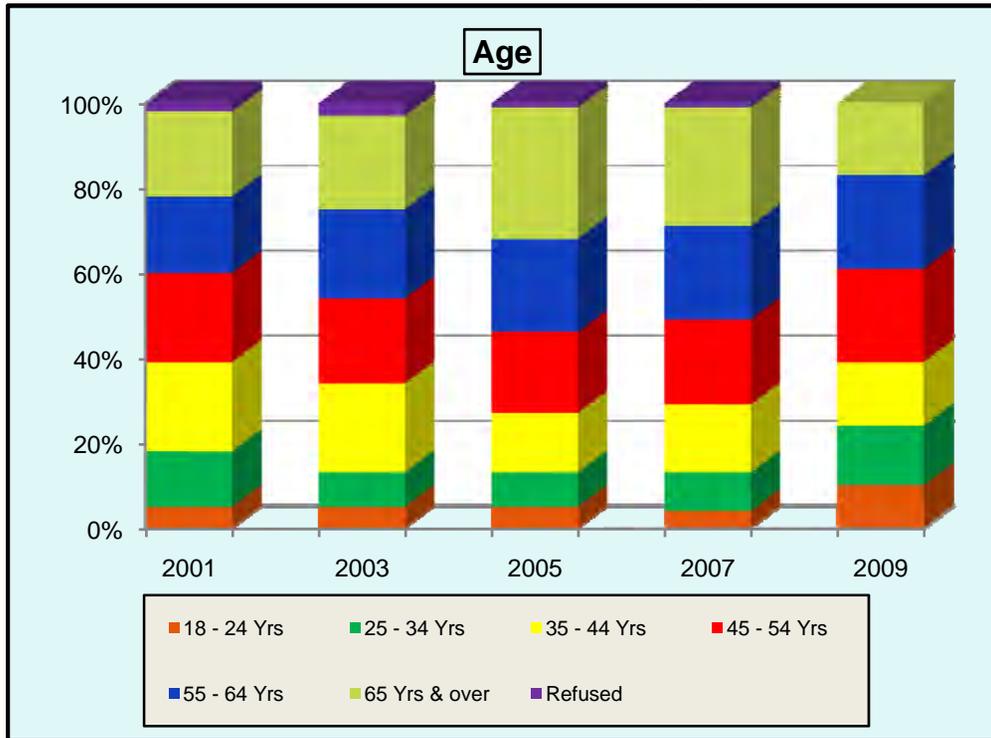
**Bureau of State Lottery, State of Michigan**  
**Demographic and Economic Information**  
**Demographic General Tracking Study**  
**Fiscal Years Ending September 30, 2001 through September 30, 2009**

These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles.  
 The demographic general tracking study for 2010 was not complete as of September 30.

	2001	2003	2005	2007	2009
<b>Gender</b>					
Male	39%	50%	50%	50%	49%
Female	61%	50%	50%	50%	51%
<b>Education</b>					
Some high school	9%	7%	9%	6%	
Completed high school	41%	44%	36%	28%	26%
Some college	22%	18%	23%	23%	34%
Completed college	24%	26%	29%	39%	40%
Technical or vocation school	3%	3%	2%	3%	
Refused	1%	2%	1%	1%	
<b>Age</b>					
18 - 24 Yrs	5%	5%	5%	4%	10%
25 - 34 Yrs	13%	8%	8%	9%	14%
35 - 44 Yrs	21%	21%	14%	16%	15%
45 - 54 Yrs	21%	20%	19%	20%	22%
55 - 64 Yrs	18%	21%	22%	22%	22%
65 Yrs & over	20%	22%	31%	28%	17%
Refused	2%	3%	1%	1%	
<b>Income</b>					
Under \$25,000	18%	21%	22%	16%	19%
\$25,000 - \$50,000	26%	25%	22%	18%	29%
\$50,000 - \$100,000	20%	25%	21%	29%	38%
\$100,000 or more	5%	4%	6%	12%	13%
Refused	31%	25%	29%	25%	1%
<b>Ethnicity</b>					
White	71%	73%	83%	80%	85%
Black/African-American	24%	17%	9%	10%	11%
Hispanic/Latino	1%	3%	1%	1%	1%
Other	3%	3%	1%	1%	3%
Refused	1%	4%	6%	8%	

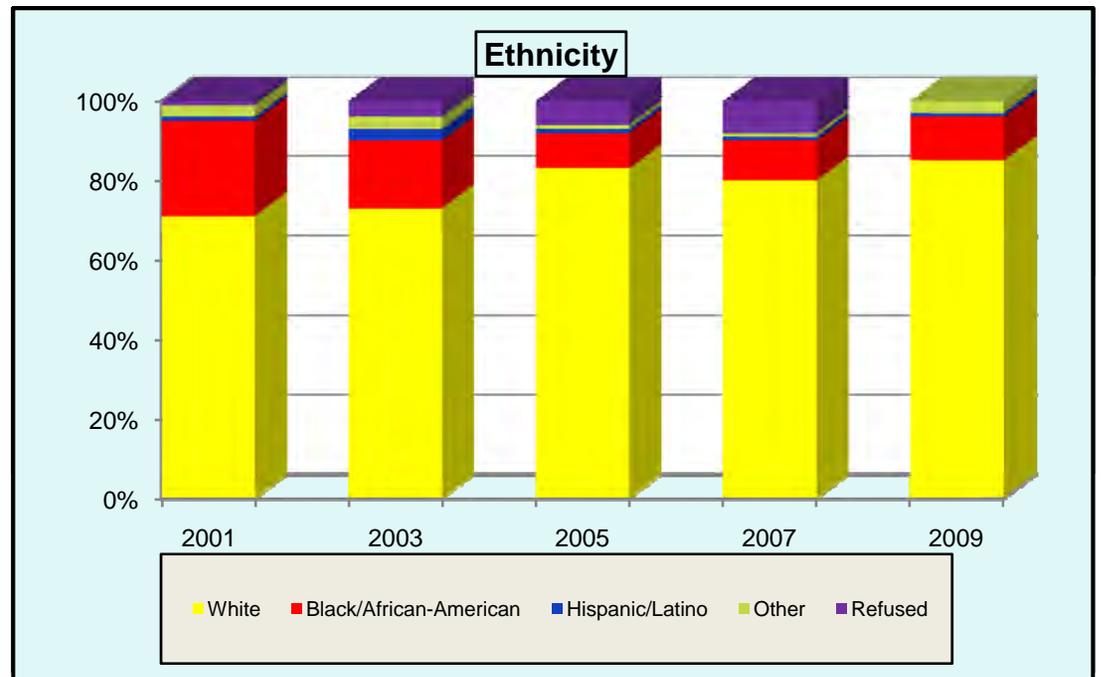
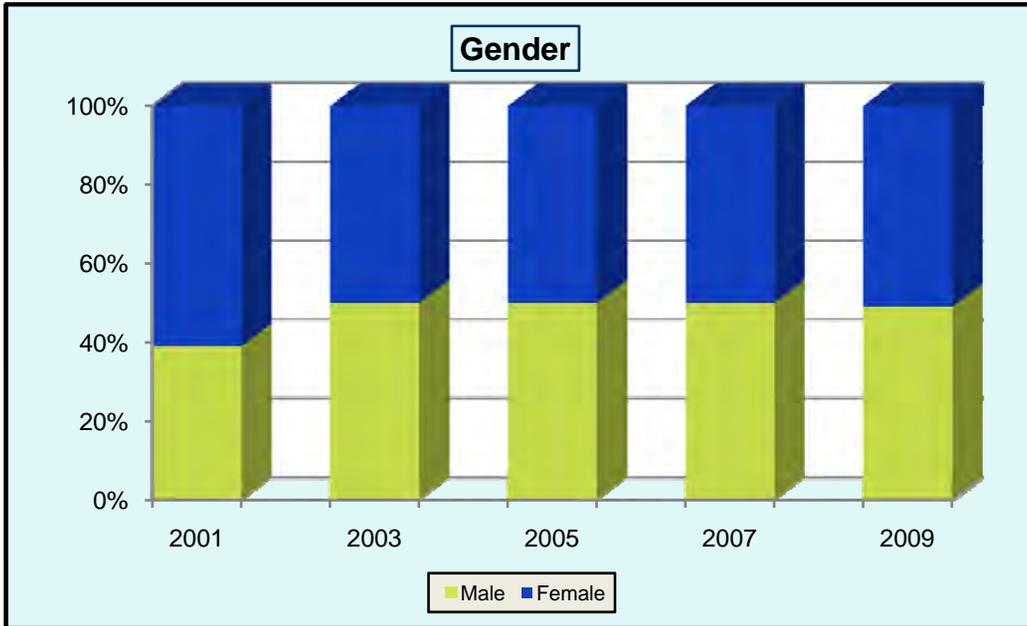
Source: Bureau of State Lottery  
 General Tracking Study

**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information 2001 though 2009**



Source: Bureau of State Lottery  
General Tracking Study

**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information 2001 through 2009**



Source: Bureau of State Lottery  
General Tracking Study



**Bureau of State Lottery, State of Michigan**  
**Demographic and Economic Indicators**  
**Fiscal Years Ending September 30, 2001 through September 30, 2009**  
(In Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Population (a)</b>									
Michigan	10,007	10,044	10,075	10,103	10,108	10,102	10,072	10,002	9,970
United States	285,112	287,888	290,448	293,192	295,896	298,755	301,621	304,375	307,007
<b>Total Personal Income (b)</b>									
Michigan	\$ 299.5	\$ 303.5	\$ 313.5	\$ 318.7	\$ 325.3	\$ 332.7	\$ 345.9	\$ 349.6	\$ 342.3
United States	\$ 8,717.0	\$ 8,872.9	\$ 9,150.3	\$ 9,711.4	\$ 10,252.8	\$ 10,977.3	\$ 11,631.6	\$ 12,225.6	\$ 12,165.5
<b>Per Capita Income (b)</b>									
Michigan	\$ 29,933	\$ 30,214	\$ 31,116	\$ 31,550	\$ 32,182	\$ 32,928	\$ 34,342	\$ 34,949	\$ 34,334
United States	\$ 30,574	\$ 30,821	\$ 31,504	\$ 33,123	\$ 34,650	\$ 36,744	\$ 38,564	\$ 40,208	\$ 39,626
<b>Unemployment Rate (c)</b>									
Michigan	5.2%	6.2%	7.1%	7.1%	6.9%	6.9%	7.2%	8.4%	15.3%
United States	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.8%
<b>Michigan estimated wage and salary employees (c)</b>									
<b>Goods Producing:</b>									
Natural Resources and Mining	9.3	8.6	8.1	8.2	8.4	8.0	7.6	7.8	7.2
Construction	206.1	199.6	190.6	191.5	189.1	178.0	166.2	153.7	132.3
Manufacturing	823.1	763.5	719.7	700.7	680.0	650.8	616.8	575.3	463.8
<b>Total Goods Producing</b>	<b>1,038.5</b>	<b>971.7</b>	<b>918.4</b>	<b>900.3</b>	<b>877.5</b>	<b>836.9</b>	<b>790.5</b>	<b>736.8</b>	<b>603.3</b>
<b>Service-Providing:</b>									
<b>Private Service-Providing</b>									
<b>Trade, Transportation, and Utilities:</b>									
Wholesale Trade	180.4	175.4	172.6	170.5	170.7	170.6	169.1	166.7	150.2
Retail Trade	548.8	530.7	518.7	513.6	506.0	496.0	489.7	478.4	449.0
Transportation and Utilities	132.0	128.2	125.8	125.7	128.3	128.4	129.1	124.2	113.2
Information	76.0	73.8	70.3	68.6	67.3	66.1	65.6	61.8	54.3
<b>Financial Activities:</b>									
Finance and Insurance	154.8	159.2	162.3	161.3	161.8	160.9	157.8	152.3	139.8
Real Estate and Rental and Leasing	55.5	55.7	56.0	56.1	56.1	54.9	53.6	52.1	49.2
<b>Professional and Business Services:</b>									
Professional, Scientific, and Technical Services	268.0	257.4	247.9	244.2	246.4	244.9	244.2	240.1	215.6
Management of Companies and Enterprises	69.1	69.5	68.6	67.0	64.6	61.7	57.3	54.4	50.9
Administrative, Support Services, and Waste Management	267.0	267.0	266.4	270.1	277.5	275.1	271.8	262.5	239.8
<b>Educational and Health Services:</b>									
Educational Services	61.2	63.1	66.4	70.6	74.8	76.1	78.0	80.3	78.4
Health Care and Social Assistance	456.7	472.0	480.5	490.3	501.0	507.2	517.0	528.1	530.5
<b>Leisure and Hospitality:</b>									
Accommodation and Food Services	332.7	336.2	335.9	339.7	341.9	343.8	341.8	335.5	328.0
Other	61.6	61.7	62.2	62.3	62.6	61.8	62.7	62.6	65.5
<b>Other Services</b>	<b>176.9</b>	<b>179.3</b>	<b>179.1</b>	<b>179.6</b>	<b>179.6</b>	<b>177.5</b>	<b>176.7</b>	<b>175.6</b>	<b>168.2</b>
<b>Total Private Service-Providing</b>	<b>2,840.7</b>	<b>2,829.2</b>	<b>2,812.7</b>	<b>2,819.5</b>	<b>2,838.7</b>	<b>2,824.9</b>	<b>2,814.3</b>	<b>2,774.5</b>	<b>2,632.6</b>
<b>Government:</b>	<b>685.0</b>	<b>686.6</b>	<b>685.4</b>	<b>679.7</b>	<b>674.1</b>	<b>665.3</b>	<b>657.2</b>	<b>647.9</b>	<b>643.8</b>
<b>Total Service-Providing</b>	<b>3,525.7</b>	<b>3,515.8</b>	<b>3,498.0</b>	<b>3,499.2</b>	<b>3,512.8</b>	<b>3,490.3</b>	<b>3,471.4</b>	<b>3,422.4</b>	<b>3,276.4</b>
<b>Total Wage and Salary Employment</b>	<b>4,564.2</b>	<b>4,487.5</b>	<b>4,416.5</b>	<b>4,399.5</b>	<b>4,390.3</b>	<b>4,327.1</b>	<b>4,262.0</b>	<b>4,159.2</b>	<b>3,879.7</b>

NOTES: Calendar year 2009 is the most recent year for which data is available.  
Wage and Salary Employment based on North American Industry Classification System.  
Components in Wage and Salary Employment may not total due to truncation.

SOURCES: (a) U.S. Census Bureau, Population Division  
(b) U.S. Department of Commerce, Bureau of Economic Analysis  
(c) Michigan Department of Labor & Economic Growth and U.S. Department of Labor, Bureau of Labor Statistics



**Bureau of State Lottery, State of Michigan**  
**Operating Information**  
**Fiscal Years Ending September 30, 2001 through September 30, 2010**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Number of Employees</b>	175	175	159	161	166	173	162	168	171	181
<b>Number of Retailers</b>										
Instant only	2,141	1,869	1,760	1,600	1,497	816	680	575	-	-
Club Games	-	-	-	1,829	2,077	2,216	2,371	2,474	2,478	-
Online	7,076	7,291	7,288	7,377	7,502	7,848	7,922	7,920	8,202	-
*All Games	-	-	-	-	-	-	-	-	-	10,797
<b>Total Retailers</b>	<b>9,217</b>	<b>9,160</b>	<b>9,048</b>	<b>10,806</b>	<b>11,076</b>	<b>10,880</b>	<b>10,973</b>	<b>10,969</b>	<b>10,680</b>	<b>10,797</b>
<b>Prize Payout Percentage</b>	54.09%	54.39%	54.67%	57.29%	57.00%	58.69%	57.85%	57.97%	60.42%	59.72%
<b>Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund</b>	36.35%	36.35%	34.85%	32.67%	32.26%	31.10%	31.97%	31.79%	30.47%	29.73%
<b>Number of Millionaire Prize Winners</b>	18	16	11	20	21	17	42	37	40	39
<b>Number of Prize Winners Greater than \$600</b>	27,777	25,921	44,162	44,962	44,692	52,124	49,585	44,962	53,986	60,543

\*In FY2010, retailers do not have a distinction by game type

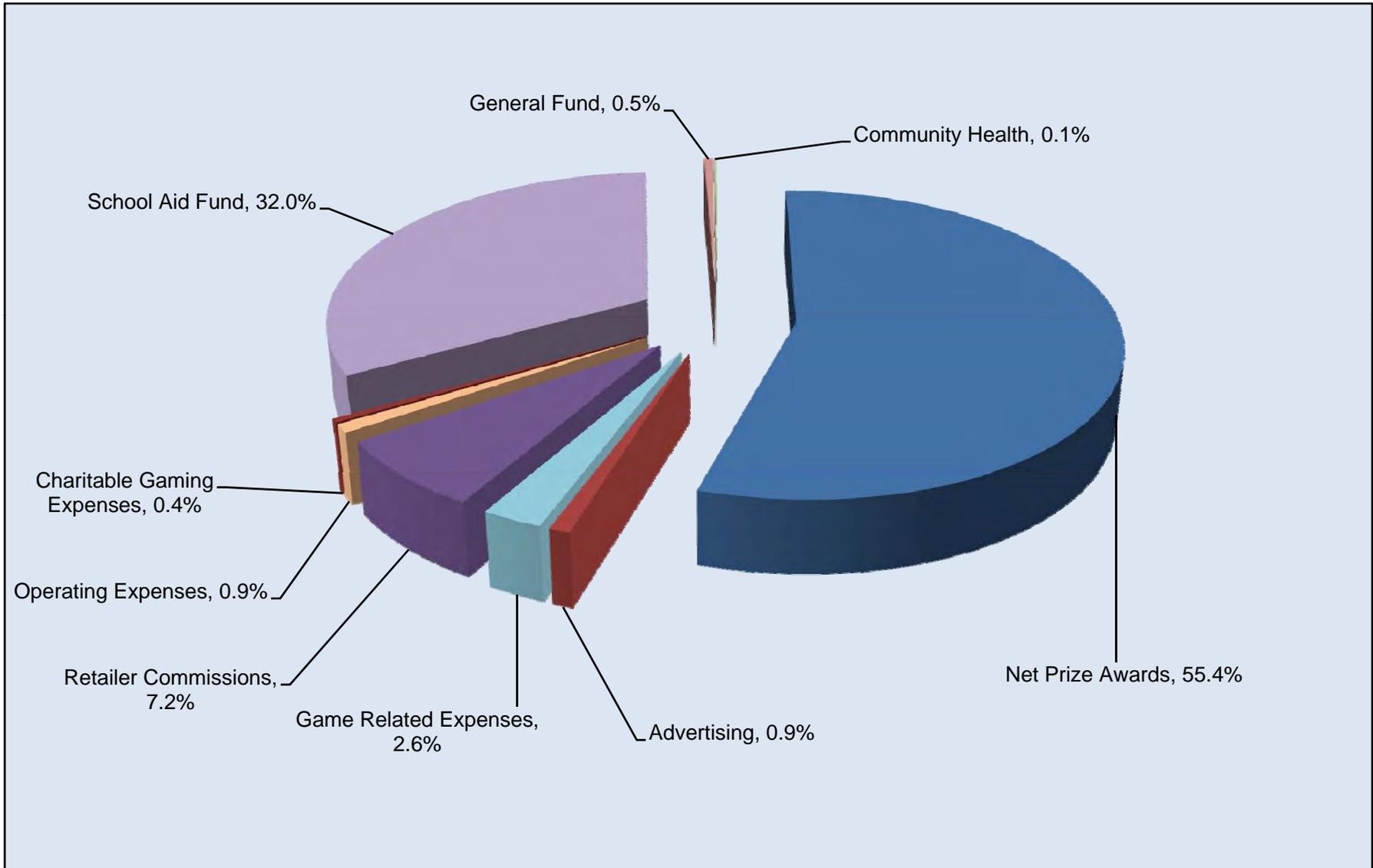


**Bureau of State Lottery, State of Michigan  
Operating Information**

**Expenses and Disbursements to the State's School Aid Fund, General Fund, and Community Health  
Fiscal Years Ending September 30, 2001 through September 30, 2010  
(In Millions)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>EXPENSES</b>										
Prize Awards	\$ 873.3	\$ 918.1	\$ 919.2	\$ 1,130.8	\$ 1,179.6	\$ 1,298.5	\$ 1,355.3	\$ 1,350.7	\$ 1,436.3	\$ 1,408.9
Unclaimed Prizes	<u>(23.3)</u>	<u>(44.4)</u>	<u>(19.6)</u>	<u>(31.1)</u>	<u>(17.6)</u>	<u>(30.3)</u>	<u>(26.2)</u>	<u>(27.4)</u>	<u>(28.7)</u>	<u>(27.3)</u>
Net Prize Awards	850.0	873.7	899.6	1,099.7	1,162.0	1,268.2	1,329.1	1,323.3	1,407.6	1,381.6
Promotion and Advertising	16.9	17.1	17.1	17.5	17.6	17.5	17.5	17.6	27.0	29.0
Game Related Expenses	41.8	44.1	45.2	54.1	56.8	60.0	63.0	63.4	53.8	53.0
Retailer Commissions	114.9	120.7	121.8	145.4	152.7	165.3	172.7	172.1	174.2	170.5
Operating Expenses	14.7	15.3	15.3	15.9	17.9	19.7	19.6	21.1	20.8	20.2
Charitable Gaming Expenses	<u>7.4</u>	<u>7.6</u>	<u>7.9</u>	<u>7.8</u>	<u>7.9</u>	<u>8.1</u>	<u>8.2</u>	<u>8.3</u>	<u>8.9</u>	<u>7.4</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 1,045.7</u></b>	<b><u>\$ 1,078.5</u></b>	<b><u>\$ 1,106.9</u></b>	<b><u>\$ 1,340.4</u></b>	<b><u>\$ 1,414.9</u></b>	<b><u>\$ 1,538.8</u></b>	<b><u>\$ 1,610.1</u></b>	<b><u>\$ 1,605.8</u></b>	<b><u>\$ 1,692.3</u></b>	<b><u>\$ 1,661.7</u></b>
<b>DISBURSEMENTS TO THE STATE</b>										
School Aid Fund	587.0	613.5	586.0	644.9	667.6	688.0	748.9	740.7	724.5	701.3
General Fund	9.4	12.1	11.2	12.2	11.7	10.5	10.8	10.6	11.8	11.3
Community Health	<u>1.0</u>									
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$ 597.4</u></b>	<b><u>\$ 626.6</u></b>	<b><u>\$ 598.2</u></b>	<b><u>\$ 658.1</u></b>	<b><u>\$ 680.3</u></b>	<b><u>\$ 699.5</u></b>	<b><u>\$ 760.7</u></b>	<b><u>\$ 752.3</u></b>	<b><u>\$ 737.3</u></b>	<b><u>\$ 713.6</u></b>

**Bureau of State Lottery, State of Michigan  
Operating Information  
Expenses and Disbursements 2001 through 2010**



Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan  
Industry Comparative Information**

**Fiscal Year 2009 U.S. Lottery Sales, Profit and Expense Analysis**

Lottery	Pop (Mil)	Millions of Dollars							As Percentage of Revenues				PC Sales	PC Net Income
		Ticket Sales*	Other Income	Total Revenue	Prizes	Retailer Comm.	Expense	Net Income	Prizes	Retailer Comm.	Expense	Net		
Arizona	6.6	484.49	1.30	\$ 485.79	\$ 282.48	\$ 32.47	\$ 42.85	\$ 127.99	58.1%	6.7%	8.8%	26.3%	\$ 73	\$ 19
California	37.0	2,954.84	7.16	\$ 2,962.00	\$ 1,556.12	\$ 208.11	\$ 188.08	\$ 1,009.69	52.5%	7.0%	6.3%	34.1%	\$ 80	\$ 27
Colorado	5.0	493.36	1.70	\$ 495.06	\$ 301.67	\$ 36.48	\$ 35.04	\$ 121.87	60.9%	7.4%	7.1%	24.6%	\$ 98	\$ 24
Connecticut	3.5	991.30	0.17	\$ 991.47	\$ 604.71	\$ 55.77	\$ 48.10	\$ 282.89	61.0%	5.6%	4.9%	28.5%	\$ 282	\$ 80
Delaware	0.9	123.25	(0.08)	\$ 123.17	\$ 66.80	\$ 7.39	\$ 13.63	\$ 35.36	54.2%	6.0%	11.1%	28.7%	\$ 140	\$ 40
D.C.	0.6	245.37	0.08	\$ 245.45	\$ 128.06	\$ 15.32	\$ 33.25	\$ 68.82	52.2%	6.2%	13.5%	28.0%	\$ 409	\$ 115
Florida	18.5	3,938.04	4.20	\$ 3,942.24	\$ 2,340.37	\$ 220.55	\$ 131.10	\$ 1,250.22	59.4%	5.6%	3.3%	31.7%	\$ 212	\$ 67
Georgia	9.8	3,395.64	11.31	\$ 3,406.95	\$ 2,148.68	\$ 240.91	\$ 140.19	\$ 877.17	63.1%	7.1%	4.1%	25.7%	\$ 345	\$ 89
Idaho	1.6	139.65	0.94	\$ 140.58	\$ 85.00	\$ 8.31	\$ 12.47	\$ 34.80	60.5%	5.9%	8.9%	24.8%	\$ 90	\$ 22
Illinois	12.9	2,077.17	4.92	\$ 2,082.09	\$ 1,225.86	\$ 104.59	\$ 113.26	\$ 638.38	58.9%	5.0%	5.4%	30.7%	\$ 161	\$ 49
Indiana	6.4	732.66	0.91	\$ 733.57	\$ 453.23	\$ 50.50	\$ 50.90	\$ 178.94	61.8%	6.9%	6.9%	24.4%	\$ 114	\$ 28
Iowa	3.0	243.34	0.44	\$ 243.78	\$ 138.43	\$ 15.30	\$ 30.75	\$ 59.30	56.8%	6.3%	12.6%	24.3%	\$ 81	\$ 20
Kansas	2.8	230.51	1.63	\$ 232.14	\$ 130.91	\$ 13.45	\$ 20.69	\$ 67.09	56.4%	5.8%	8.9%	28.9%	\$ 82	\$ 24
Kentucky	4.3	765.03	(0.52)	\$ 764.51	\$ 470.44	\$ 50.25	\$ 42.14	\$ 201.68	61.5%	6.6%	5.5%	26.4%	\$ 178	\$ 47
Louisiana	4.5	378.52	2.63	\$ 381.15	\$ 193.33	\$ 21.06	\$ 31.33	\$ 135.43	50.7%	5.5%	8.2%	35.5%	\$ 84	\$ 30
Maine	1.3	210.67	2.71	\$ 213.38	\$ 129.96	\$ 13.55	\$ 19.30	\$ 50.57	60.9%	6.4%	9.0%	23.7%	\$ 160	\$ 38
Maryland	5.7	1,698.07	0.73	\$ 1,698.80	\$ 1,025.90	\$ 121.89	\$ 59.37	\$ 491.64	60.4%	7.2%	3.5%	28.9%	\$ 298	\$ 86
Massachusetts	6.6	4,425.48	17.44	\$ 4,442.92	\$ 3,217.78	\$ 266.12	\$ 99.60	\$ 859.42	72.4%	6.0%	2.2%	19.3%	\$ 672	\$ 130
<b>Michigan</b>	<b>10.0</b>	<b>2,377.44</b>	<b>22.96</b>	<b>\$ 2,400.40</b>	<b>\$ 1,407.64</b>	<b>\$ 174.20</b>	<b>\$ 110.47</b>	<b>\$ 708.09</b>	<b>58.6%</b>	<b>7.3%</b>	<b>4.6%</b>	<b>29.5%</b>	<b>\$ 238</b>	<b>\$ 71</b>
Minnesota	5.3	481.25	0.84	\$ 482.09	\$ 295.04	\$ 28.85	\$ 39.95	\$ 118.25	61.2%	6.0%	8.3%	24.5%	\$ 91	\$ 22
Missouri	6.0	968.45	14.27	\$ 982.72	\$ 629.28	\$ 60.11	\$ 36.54	\$ 256.79	64.0%	6.1%	3.7%	26.1%	\$ 162	\$ 43
Montana	1.0	43.83	(0.03)	\$ 43.80	\$ 23.08	\$ 2.52	\$ 8.07	\$ 10.13	52.7%	5.8%	18.4%	23.1%	\$ 45	\$ 10
Nebraska	1.8	123.25	0.71	\$ 123.96	\$ 71.86	\$ 7.67	\$ 15.14	\$ 29.29	58.0%	6.2%	12.2%	23.6%	\$ 68	\$ 16
New Hampshire	1.3	239.58	0.68	\$ 240.26	\$ 142.05	\$ 13.07	\$ 16.79	\$ 68.35	59.1%	5.4%	7.0%	28.4%	\$ 180	\$ 51
New Jersey	8.7	2,503.27	37.37	\$ 2,540.64	\$ 1,455.25	\$ 139.49	\$ 72.50	\$ 873.40	57.3%	5.5%	2.9%	34.4%	\$ 287	\$ 100
New Mexico	2.0	143.93	(1.37)	\$ 142.56	\$ 80.09	\$ 9.27	\$ 14.17	\$ 39.03	56.2%	6.5%	9.9%	27.4%	\$ 72	\$ 19
New York	19.5	6,695.07	48.13	\$ 6,743.20	\$ 4,003.27	\$ 400.66	\$ 257.62	\$ 2,081.65	59.4%	5.9%	3.8%	30.9%	\$ 343	\$ 107
North Carolina	9.4	1,283.43	8.28	\$ 1,291.71	\$ 731.69	\$ 90.37	\$ 54.73	\$ 414.92	56.6%	7.0%	4.2%	32.1%	\$ 137	\$ 44
North Dakota	0.7	21.72	0.13	\$ 21.85	\$ 11.31	\$ 1.10	\$ 3.70	\$ 5.74	51.8%	5.0%	16.9%	26.3%	\$ 33	\$ 9
Ohio	11.5	2,417.68	22.75	\$ 2,440.43	\$ 1,459.05	\$ 150.06	\$ 124.29	\$ 707.03	59.8%	6.1%	5.1%	29.0%	\$ 210	\$ 61
Oklahoma	3.7	193.17	0.75	\$ 193.92	\$ 95.92	\$ 13.43	\$ 13.78	\$ 70.79	49.5%	6.9%	7.1%	36.5%	\$ 52	\$ 19
Oregon	3.8	313.78	0.35	\$ 314.13	\$ 205.35	\$ 26.72	\$ 28.30	\$ 53.76	65.4%	8.5%	9.0%	17.1%	\$ 82	\$ 14
Pennsylvania	12.6	3,088.16	(27.47)	\$ 3,060.69	\$ 1,852.50	\$ 165.07	\$ 132.64	\$ 910.48	60.5%	5.4%	4.3%	29.7%	\$ 245	\$ 72
Rhode Island	1.1	238.48	1.59	\$ 240.07	\$ 141.82	\$ 29.04	\$ 9.36	\$ 59.85	59.1%	12.1%	3.9%	24.9%	\$ 227	\$ 57
South Carolina	4.6	1,005.11	3.51	\$ 1,008.62	\$ 633.20	\$ 71.26	\$ 42.96	\$ 261.20	62.8%	7.1%	4.3%	25.9%	\$ 220	\$ 57
South Dakota	0.8	41.05	0.73	\$ 41.78	\$ 23.32	\$ 2.35	\$ 5.53	\$ 10.58	55.8%	5.6%	13.2%	25.3%	\$ 51	\$ 13
Tennessee	6.3	1,014.94	5.05	\$ 1,019.99	\$ 618.66	\$ 71.03	\$ 50.23	\$ 280.07	60.7%	7.0%	4.9%	27.5%	\$ 161	\$ 44
Texas	24.8	3,720.11	7.35	\$ 3,727.46	\$ 2,299.75	\$ 186.15	\$ 194.37	\$ 1,047.19	61.7%	5.0%	5.2%	28.1%	\$ 150	\$ 42
Vermont	0.6	95.98	0.14	\$ 96.12	\$ 60.74	\$ 5.64	\$ 8.51	\$ 21.23	63.2%	5.9%	8.9%	22.1%	\$ 155	\$ 34
Virginia	7.9	1,365.61	5.15	\$ 1,370.76	\$ 781.02	\$ 76.88	\$ 73.71	\$ 439.15	57.0%	5.6%	5.4%	32.0%	\$ 173	\$ 56
Washington	6.7	487.72	3.38	\$ 491.10	\$ 301.28	\$ 30.75	\$ 45.50	\$ 113.57	61.3%	6.3%	9.3%	23.1%	\$ 73	\$ 17
West Virginia	1.8	198.10	14.12	\$ 212.22	\$ 119.45	\$ 13.87	\$ 9.44	\$ 69.46	56.3%	6.5%	4.4%	32.7%	\$ 109	\$ 38
Wisconsin	5.7	473.42	0.49	\$ 473.91	\$ 279.88	\$ 32.41	\$ 32.23	\$ 129.39	59.1%	6.8%	6.8%	27.3%	\$ 84	\$ 23
<b>Total</b>	<b>288.5</b>	<b>53,061.9</b>	<b>227.5</b>	<b>\$ 53,289.4</b>	<b>\$ 32,222.2</b>	<b>\$ 3,284.0</b>	<b>\$ 2,512.6</b>	<b>\$ 15,270.7</b>	<b>Average Percentages:</b>				<b>\$ 184</b>	<b>\$ 53</b>
									<b>60.5%</b>	<b>6.2%</b>	<b>4.7%</b>	<b>28.7%</b>		

Notes to Table: Fiscal year 2009 is latest data available. Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30).

\*Data represents only revenue from traditional lottery games and not video lottery terminal operations.

Source: LaFleur's 2009 World Lottery Almanac

**Bureau of State Lottery, State of Michigan  
Industry Comparative Information**

**Fiscal Year 2009 U.S. Lottery Sales by Game\***

Lottery	(in \$Millions)			Online Games									Total Sales	VLT (net) <sup>1</sup>	Gov't Transfer
	Pop (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Mega Millions	Power Ball	Hot Lotto	Keno	Other			
Arizona	6.6	278.92		9.41	3.04	45.49	17.00		117.24			13.39	484.49		129.08
California	37.0	1,615.37		132.08	38.64	536.16	143.33	347.69				126.36	2,954.84		1,027.73
Colorado	5.0	328.25				43.54	20.83		100.73				493.36		119.60
Connecticut	3.5	610.01		113.12	93.23	32.94	40.42		92.13			9.45	991.30		282.90
Delaware <sup>1</sup>	0.9	36.47		27.01	18.06	5.84			31.54	3.44		0.90	123.25	578.98	311.84
D.C.	0.6	45.25		60.83	79.91		9.58		33.00	3.83	12.58	0.39	245.37		68.78
Florida	18.5	2,064.14		320.16	238.96	650.60	287.29		233.40			143.50	3,938.04		1,287.86
Georgia	9.8	2,243.71		504.11	209.27	23.55	91.42	205.81			116.25	1.52	3,395.64		872.08
Idaho	1.6	88.43	2.41	1.88		3.15			36.79	4.13		2.86	139.65		35.28
Illinois	12.9	1,119.74		297.70	176.87	122.67	129.00	204.57				26.61	2,077.17		634.67
Indiana	6.4	473.83	10.80	29.33	28.35	54.88			114.27			21.19	732.66		178.93
Iowa	3.0	136.27	21.32	6.53	2.56		4.11		58.22	14.33			243.34		60.55
Kansas	2.8	115.72	8.75	5.97		1.70	14.82		40.00	10.73	28.42	4.39	230.51		68.19
Kentucky	4.3	458.63	14.22	124.43	36.11	20.61	14.15		96.89				765.03		204.39
Louisiana	4.5	141.39		49.09	36.16	33.48	14.51		103.89				378.52		135.91
Maine	1.3	153.43		5.31	4.15	15.58	3.60		27.57			1.03	210.67		50.57
Maryland	5.7	507.06		276.35	249.17	32.90	23.46	125.96			394.20	88.98	1,698.07		493.21
Massachusetts	6.6	3,069.33	0.90		353.64	35.89	84.62	119.31			741.83	19.99	4,425.48		859.41
<b>Michigan</b>	<b>10.0</b>	<b>749.05</b>	<b>28.04</b>	<b>351.00</b>	<b>335.91</b>	<b>64.23</b>	<b>51.31</b>	<b>222.69</b>			<b>533.91</b>	<b>41.30</b>	<b>2,377.44</b>		<b>737.22</b>
Minnesota	5.3	324.94		12.42			28.16		88.34	14.59		12.80	481.25		118.25
Missouri	6.0	636.58	6.46	67.67	26.43	28.12	22.17		120.68		57.38	2.97	968.45		256.29
Montana	1.0	13.23				2.53	4.14		16.86	4.15		2.92	43.83		10.13
Nebraska	1.8	64.76		3.12		2.12	11.87		39.41			1.97	123.25		30.25
New Hampshire	1.3	170.82		5.59	4.90	8.69	4.24		39.99	4.32		1.03	239.58		68.15
New Jersey	8.7	1,270.53		448.18	265.45	90.17	138.97	282.50				7.46	2,503.27		887.21
New Mexico	2.0	82.18		2.90			6.45		43.98	8.42			143.93		40.81
New York <sup>1</sup>	19.5	3,666.09		850.33	740.16	178.08	328.43	467.14			424.42	40.42	6,695.07	965.07	2,543.95
North Carolina	9.4	789.10		208.80	15.79		60.00		209.75				1,283.43		414.93
North Dakota	0.7					2.08	3.59		11.80	4.26			21.72		6.38
Ohio	11.5	1,349.39		382.51	205.87	43.92	67.20	193.05			110.79	64.97	2,417.68		702.29
Oklahoma	3.7	77.88		6.86			4.14		91.03	13.25			193.17		69.73
Oregon <sup>1</sup>	3.8	112.11			1.39	38.07	6.65		51.84		99.18	4.54	313.78	786.75	594.31
Pennsylvania	12.6	1,757.65		399.11	260.39	153.50	187.29		311.06			19.16	3,088.16		910.48
Rhode Island <sup>1</sup>	1.1	82.35		25.81			5.19		46.58		76.04	2.51	238.48	460.90	344.29
South Carolina	4.6	650.04		136.61	61.82	19.08	19.40		118.17				1,005.11		261.52
South Dakota <sup>1</sup>	0.8	20.18				1.87	1.92		13.78	3.30			41.05	220.13	119.88
Tennessee	6.3	768.92		57.20	24.50	23.40	13.90		126.70			0.80	1,015.43		280.15
Texas	24.8	2,791.53		290.79	52.25	200.52	70.75	262.75				51.52	3,720.11		1,062.15
Vermont	0.6	73.79		1.72	1.36	5.08	1.82		11.41			0.80	95.98		21.10
Virginia	7.9	690.38		250.63	185.42	32.13	29.27	162.10				15.68	1,365.61		430.24
Washington	6.7	307.01		18.34	14.59	58.25	24.43	59.58			5.52		487.72		120.39
West Virginia <sup>1</sup>	1.8	113.85		8.92	4.76		5.60		51.02	4.88	9.07		198.10	1,260.72	616.62
Wisconsin	5.7	275.34	1.46	26.26	11.97	20.74	27.41		85.40	24.84			473.42		133.30
<b>Total</b>	<b>288.5</b>	<b>30,323.65</b>	<b>94.36</b>	<b>5,518.08</b>	<b>3,781.08</b>	<b>2,631.56</b>	<b>2,022.44</b>	<b>2,653.15</b>	<b>2,563.47</b>	<b>118.47</b>	<b>2,735.95</b>	<b>620.26</b>	<b>53,062.4</b>	<b>4,272.55</b>	<b>17,601.00</b>
<b>% of total</b>		<b>57.1%</b>	<b>0.2%</b>	<b>10.4%</b>	<b>7.1%</b>	<b>5.0%</b>	<b>3.8%</b>	<b>5.0%</b>	<b>4.8%</b>	<b>0.2%</b>	<b>5.2%</b>	<b>1.2%</b>	<b>100.0%</b>		

<sup>1</sup> Denotes VLT net machine income. \*Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30).



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## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Mr. M. Scott Bowen, Commissioner  
Bureau of State Lottery, State of Michigan  
and  
Mr. Thomas H. McTavish, Auditor General  
State of Michigan

We have audited the financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery"), a proprietary fund of the State of Michigan, as of and for the six month period and year ended September 30, 2010, and have issued our report thereon dated December 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported herein under *Government Auditing Standards* as described below.

Enrolled Senate Bill No. 245 (The "Appropriations Bill") limited the Lottery's promotion and advertising expense to \$ 18,622,000 for the fiscal year ended September 30, 2010. The Lottery's promotion and advertising expense for the year ended September 30, 2010 was \$ 28,985,812. Promotion and advertising expenses exceeded appropriations as a result of the Lottery contracting with an instant ticket vendor for additional promotion and advertising services.

Provisions Concerning Appropriations, Section 960 of the Appropriations Bill allows in addition to funds appropriated above, additional appropriations from Lottery revenues in the *"amount necessary for, and directly related to, implementing and operating lottery games. Appropriations under this section shall only be expended for contractually mandated payment for vendor commissions, contractually mandated payments for instant tickets intended for resale, the contractual costs of providing and maintaining the on-line system communications network, and incentive payments to the lottery retailers."*

Since Section 960 was used as the basis for exceeding the \$18,622,000 appropriation, we recommend obtaining external guidance to determine whether the additional promotion and advertising expense incurred is in compliance with the appropriations bill and the intent of the Legislature.

This report is intended solely for the information and use of the Commissioners, management, others within the Lottery and the Office of Auditor General, State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Lansing, Michigan  
December 6, 2010





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