

# BUREAU OF STATE LOTTERY

AN ENTERPRISE FUND OF THE STATE OF MICHIGAN

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL  
YEARS ENDED  
SEPTEMBER 30,  
2014 AND 2013



**MICHIGAN  
LOTTERY**™





# BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

## Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2014 and 2013

Prepared by Financial Gaming Services & Accounting Division



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# INTRODUCTORY SECTION



## MISSION STATEMENT OF THE BUREAU OF STATE LOTTERY

- 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.







RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
BUREAU OF STATE LOTTERY  
LANSING



M. SCOTT BOWEN  
COMMISSIONER

December 2, 2014

The Honorable Rick Snyder, 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, 2014 and 2013. 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. Draw game 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. August 11, 2014 marked the historic date when iLottery instant games were made available to players over the internet. Since the Lottery's inception, more than \$18.8 billion has been contributed to the School Aid Fund.

## Lottery Products

The Lottery offers a variety of traditional games in several styles of play: instant also known as "scratch" games; draw games, where daily or more frequent drawings are conducted to select winning numbers with instant-win features at the time some draw game tickets are sold; pull tabs, which are similar to instant games but players pull a perforated tab instead of scratching off the ticket and insta tab which is a combination of an instant and pull tab ticket features all in one ticket. These games are available to the playing public through close to 11,000 licensed Lottery retailers and self-service machines. The new iLottery instant products include several electronic instant Scratch games and a keno game which are offered over the internet using web and mobile devices where players can win instantly.



### Instant Ticket 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 a dynamic product line offering an average of 40 games a year. The games offered are priced between \$1 and \$30 and top prizes range from \$1 million to Cash for Life based on life expectancy of prize winner. Instant game performance reached record breaking levels in 2014 primarily due to the first new \$30 instant game introduced in February 2014 called \$2,000,000 Cash that offers three top prizes of \$2 million and over \$30 million in total instant win prizes.



### Draw Games

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



### Mega Millions/Megaplier

Mega Millions is a multi-state draw game, formerly known as The Big Game. Beginning October 19, 2013, the Mega Millions prize matrix changed where players select from two pools of numbers: five numbers between 1 and 75 and one number between 1 and 15 for a chance to win a multi-million dollar jackpot prize. The jackpot now starts at \$15 million which is guaranteed to increase \$5 million with every time it rolls. The game now offers second prizes of \$1 million to make more millionaires. 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 December 12, 2010, Megaplier, an add-on game to Mega Millions, began where players can now increase their prize by two to five times. The Megaplier number is selected at random before each drawing. If a player wins a non-jackpot prize on their Mega Millions wager, their prize is increased by the Megaplier number drawn and they can win up to \$5 million. On January 31, 2010, the Multi-State Lottery Association (MUSL), an association of 37 member lotteries, joined with the 10 participating Mega Millions states including California, Georgia, Illinois, Massachusetts, New Jersey, New York, Ohio, Virginia and Washington to participate in the Mega Millions game with Michigan.



### Powerball/Power Play

Powerball is a multi-state draw 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. On January 15, 2012 the Powerball game was re-introduced at a \$2 price point with jackpots starting at \$40 million. This game offers nine ways to win with guaranteed prize amounts on lower prize levels and includes a \$1 million second prize. Drawings are conducted twice a week on Wednesday and Saturday. Power Play is an add-on game to Powerball with a fixed prize structure that includes prizes ranging from \$8 to \$2 million. A total of 47 member lotteries, Mega Millions and MUSL members, participate in the Powerball game with Michigan.



### Lotto 47 + EZMatch

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 and increase by a minimum of \$50,000 if no jackpot is won. Lotto 47 offers four ways to win, with guaranteed prize amounts at the lower prize levels. EZMatch is an add-on game to Lotto 47 that began April 13, 2014. Players select their Lotto 47 wager and choose to play EZMatch for an additional \$1 per play. Six EZMatch numbers will print on the player’s Lotto 47 ticket below his or her Lotto 47 numbers. If any of the EZMatch numbers match the player’s Lotto 47 numbers (regardless of order), the player instantly can win from \$2 up to \$500 in prizes.



### Fantasy 5 + EZMatch

Fantasy 5 was introduced September 12, 2004, replacing the Rolldown game. For a \$1 wager, 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. Beginning April 13, 2014, EZMatch was added to the Fantasy 5 game where players select their regular Fantasy five wager and choose to play EZMatch for an additional \$1 play. Five EZMatch numbers will print on the player's Fantasy 5 ticket below his Fantasy 5 numbers. Regardless of order, if any of the EZMatch numbers match the player's Fantasy 5 numbers, the player wins the prize amount printed next to the matched EZMatch numbers which range from \$2 up to \$500.



### 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 \$1 game, players choose 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 including a free instant ticket prize even if the player has no match. Drawings are conducted daily.



### Daily 3 & 4 Games

The Daily 3 & 4 games are the Lottery's longest running and most consistently popular games, representing approximately 27% 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. The popular Daily 4 Straight Back Bonus promotion was offered a second year and held during July 2014. Players were offered a bonus prize on straight wagers whose numbers match in exact reverse order of the Daily 4 winning numbers drawn. Beginning in August 2014, the Lottery added the Daily 3 & 4 1-off bet type where players can win by matching their numbers in exact order to the numbers drawn or if one of their numbers is one up or one down from the numbers drawn.



### Tax Free Raffle

### Halloween Millions Raffle

The first Raffle game, introduced on November 12, 2006 was Millionaire Raffle. It was subsequently followed by Super Raffle in April 2007; Lucky 7's Raffle and Win for Life Raffle in 2009; Red Hot Raffle and The Ultimate 50/50 Raffle in 2010; and Raffle of Riches in 2012. The \$40,000 Tax Free Raffle, introduced in March 2013, was on sale for 60 days and sold 510,000 tickets which had tax free top prizes of \$40,000.

This raffle featured for a second year in 2014 and included a pari-mutuel prize structure with a top prize awarded for every 30,000 tickets sold. The Lottery participated in its first multi-state raffle, Halloween Millions Raffle, which was introduced September 2013 to be drawn November 1, 2013. A total of seven states participated in this raffle which included grand prizes up to \$1.0 million which was awarded to a lucky player in Michigan. The Lottery also held an in-state drawing for additional Halloween Millions Raffle prizes.



Club Games:



The Jack



Pull Tabs



Doublor Days



Club Games were introduced in October 2003 and were predominantly played by patrons of bars, restaurants and bowling centers. Results of the drawings, which are conducted every four minutes, are displayed on TV monitors located in retailer establishments. Beginning in July 2013, Club Keno drawings are now conducted every three and a half minutes. In October 2010, Club Keno “To Go” was introduced allowing the traditional retailers to begin selling Club Keno. At that time drawings became available to view on the web and in May 2011 on a Michigan Lottery mobile application. Club Games consist of a draw Club Keno game, Club Keno Kicker, The Jack, Pull Tab, and Insta 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. 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 drawing where players match eight of their numbers to those numbers drawn to win the progressive jackpot and offers secondary prizes from \$1 to \$350 with a jackpot starting at \$10,000. Club Keno Doublor Days promotion was held during the month of September 2014. Club Keno tickets purchased during that time were eligible for the Doublor promotion where random Club Keno tickets printed with a Doublor message. Lucky players with this message will double their Club Keno winnings. 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, \$2, and \$5, and top prizes range from \$50 to a new \$100 a week for life top prize ticket introduced in January 2014. Four Insta Tab games were introduced in March 2014 which offers a player a new unique type of ticket. Insta Tabs resemble an instant ticket that has latex covering on the face of the ticket but players have a perforated tab on the back to pull to reveal prizes similar to a pull tab ticket. Insta Tab ticket prices range from \$1, \$2, and \$5 and top prizes range from \$5,000 to \$25,000.



### Poker Lotto

Poker Lotto, a new terminal base game began on October 19, 2013. This \$2 game features a nightly draw plus a chance for players to win instantly, all in one ticket. Each \$2 easy pick randomly chooses five cards from a standard 52-card deck. If the player's cards form a winning poker hand, the player can win \$5,000 instantly. The player cards printed on the ticket are also eligible for the nightly draw where five winning cards are selected. If the cards on the ticket match the cards drawn in any order, the player wins a prize up to \$100,000.



Player's Club



Play It Again Giveaway

As of September 30, 2014 there were 628,311 registered members that have joined the Michigan Lottery's Player's Club with 350,534 opting into email communications and 133,407 opting into receiving text message communications from the Lottery. Players utilize the website and the mobile application to earn loyalty reward points and second chance entries by submitting their non-winning instant, draw game and beginning in May 2014, pull tab tickets. There were over 53 million total non-winning tickets entered including 78,000 pull tab tickets. These entries give players a chance to win prizes up to \$1.0 million dollars for the exclusive Play It Again Giveaway. Lottery also issues electronic coupons to Player's Club members that must be redeemed at retail. Loyalty reward points can be used for merchandise, gift cards, entries into player's club drawings and much more in the Lottery Player's Club Rewards Catalog. The Michigan Lottery Player's Club can be accessed by visiting [www.michiganlottery.com](http://www.michiganlottery.com).

## Highlights of Fiscal Year 2014

### Sales

Sales for 2014 surpassed \$2.5 billion and remain at record setting levels.

### Retailers Win Big with Commissions and Incentives

Retailer commissions totaled \$188.5 million in 2014. 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 over \$47 million in additional commissions.

### iLottery Launch

August 11, 2014, Michigan Lottery's beta launch of online ticket sales ("iLottery") gives Michigan Lottery players a new and exciting opportunity to buy, play and win iLottery games which include iLottery instants and an instant win keno game from personal computers, tablets and mobile phone devices. In 2014, iLottery sales and prizes produced a net win of \$556,451. *Please refer to the Note 7 of the Financial Statements for detailed information.*

### Michigan Excellence in Education Award Program

The Michigan Lottery announced its very first Excellence in Education Awards Program as of September 23, 2014 in efforts to recognize outstanding public school educators across the state. One outstanding educator will be selected each week during the school year and will receive a \$500 cash prize as well as a \$500 grant to their classroom, school or school district. One annual winner will be selected from the weekly winners and will receive a \$10,000 prize. The public can nominate an outstanding public school educator by going to <http://bit.ly/ExcellenceInEducation>. Each nominee is evaluated by excellence, dedication, inspiration, leadership, and effectiveness qualities they portray.

## Budgetary System and Controls

The Lottery works with the Department of Technology, Management and Budget, the State Budget Office 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 State Budget Office and other state agencies in order to ensure Lottery projections are accurately reflected in State budgetary planning.

## **Economic Condition and Financial Information**

### **Local Economy**

University of Michigan Research Seminar in Quantitative Economics forecast that Michigan's economy will continue forward momentum during the next two years after the past five years have showed steady solid economic growth. It is expected the State of Michigan will add more than 132,000 jobs during that timeframe with the forecasted top job producers to be professional and business services, trade, transportation and utilities sector. Although the forecast is optimistic, the economists caution that the state continues to be among the states with the highest jobless rates and ranks in the bottom third in per capita personal income. Michigan's economy took a hit in first quarter 2014 attributed largely to the impact of the harsh winter weather but grew each quarter after that. According to the Bureau of Economic Analysis, per capita personal income in Michigan averages \$39,055 per year but is expected to increase 4.2% in 2015 as noted by the Michigan House Fiscal Agency. Michigan also lags in population growth among young and college-graduated adults and is home to numerous residents not yet vested in the recovery. The housing market would be negatively impacted should employment growth stagnate and/or Federal Reserve tightening increase mortgage rates substantially. In parallel, The U.S. housing market is expected to recover from the depths of the recession. This recovery will continue despite forecasts for rising mortgage interest rates that could hit 5% by the end of 2016. The cost of living in Michigan is measured by the Detroit Consumer Price Index for all Urban Consumers. Michigan's current average inflation rate is between 1.5% and 1.6%. Declining energy prices contribute to subdued inflation going forward.

In September 2014, Michigan's unemployment rate remained steady at 7.2% which was well above the national average of 5.9%. Employment in Michigan remains a major concern as employment growth has slowed in recent years. Michigan's wage and salary employment is forecast to continue growing but because labor force increases are anticipated to be even smaller, the unemployment rate is expected to continue to decline. The unemployment forecast for 2015 is that Michigan will see a decrease in the unemployment rate to an expected average of 6.7% as compared to a projected decrease in the national unemployment rate of 5.4%.

### **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 paper tickets and online games, 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.

Lottery has a long-standing commitment to promote Responsible Gaming to players. With the introduction of iLottery, there are new tools available for Lottery to strengthen that commitment further. Lottery has recently joined the National Council on Problem Gambling (NCPG) and the principles of the organization will help to shape future strategies for the Lottery.

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. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the costs and benefits require estimates and judgments by management.

### **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.

### **Long-term Financial Planning**

The Lottery continues to work on new ways to attract players and increase instant, draw game, pull tab, insta tab, and iLottery sales. A marketing plan is developed each year. New games as well as variations of play on existing games are being researched. Also, costs saving techniques are devised and implemented to minimize operational costs which increase our net amount to the School Aid Fund.

In 2015, 35 new Instant game introductions are planned including Cash for Life Games, the highest selling instant game series in Lottery history. The Lottery will offer a multiplier series play style instant ticket that will launch January 6, 2015 that has 10X, 20X, 50X, and 100X multiplier cash prize up to \$1 million dollars. Due to the great success Lottery had with its first \$30 instant ticket, a second \$30 instant game will be offered in the first quarter 2015 called \$100,000,000 Diamonds that will feature a prize structure built to provide more prizes, better overall odds and higher top prizes.



In addition, enhanced prize structures, promotion of base and new iLottery 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. A six percent sales increase in Instant games is targeted for 2015.

The Powerball game prize matrix will be changing in April 2015. Players will select five white balls of 66 available numbers and one red ball number of 32 available numbers at \$2 per play. The Power Play multiplier will be enhanced to include a 10X multiplier for every draw and will be included in the Powerball base game at the \$2 price. The prize levels will remain the same, except that the bottom two prizes levels will drop from \$4 to \$2. Each ticket (including one or multiple plays) will include five multipliers (2X, 3X, 4X, 5X, or 10X) printed below five letters that spell POWER. The multiplier applies to the bottom seven lower tier prizes and not to the Jackpot prize or the Match 5+0 prize. A drawing of one random letter from POWER will occur and display the letter drawn during the Powerball draw show. Players will then know which multiplier applies to the play(s) on their ticket. A new add-on draw will be added to Powerball, replacing the Power Play option which is now included in the base game. The new add-on draw costs an extra \$1 and is available only with the purchase of the base game Powerball play.

Monopoly, an exciting new national lottery draw game, has weekly drawings and more \$1 million prizes than any lottery game in U.S. history. Sales for the Monopoly game will begin October 19, 2014 offering players a top prize plus nine other ways to win. Players can win a top prize up to \$25 million in a national weekly drawing held every Friday. Every time a top prize is won, at least ten national \$1 million Millionaires Club prizes are awarded making more millionaires. Players collect Monopoly properties printed on their ticket to earn drawing entries for a chance to win a trip to Las Vegas to become a contestant on the Monopoly Millionaires Club TV Game Show where they can win a top prize up to \$1 million.

Michigan along with nine other jurisdictions anticipate to launch the multi-state \$2 per play Lucky for Life game in January 2015, currently offered in the New England lotteries. Players will have a chance to win top prizes of \$7,000 a week for life and second prizes of \$25,000 a year for life. This is a double-matrix game where players will select five balls from 1 to 48 and one Lucky Ball number from 1 to 18. Drawings will be held twice a week on Monday and Thursday.

Michigan will join Maryland, Georgia and Ohio in 2015 to offer The Jack, the first multi-state game associated with the Club Keno product. The Jack will replace the in-state Club Keno Jack game and become a 9-spot game with jackpots starting at \$25,000 for just \$1 more per draw. Players win by matching The Jack numbers with the Club Keno numbers drawn.

Beginning in January 2015, two new iLottery Scratch games will be introduced each month. Additionally, the Lottery plans to enhance this product by introducing a multi ticket concept. This will allow players to purchase more than one ticket per click and provide a winning experience nearly each time the player makes a bet. In 2015, Mega Millions, Powerball, Fantasy 5 and Lotto 47 draw games will be added to iLottery online game offerings. Michigan Lottery mobile and web portals will be updated to support the draw based games initiative to include a shopping cart functionality for a traditional checkout experience online.

The Online Game Card, a \$20 ticket, is anticipated to go live December 2, 2014 which can be purchased only at participating retailers. Once scratched, the card reveals an online web code that once entered at [www.michiganlottery.com](http://www.michiganlottery.com), the player receives \$25 towards iLottery ticket purchases online and retailers receive sales commissions on tickets sold.

As an enterprise fund of the State of Michigan, the management of the Lottery is in accordance with the rules and regulations of the State. The Lottery is a multi-billion dollar business that is housed within a government structure.

Legislation that would impact the Lottery in varying degrees has been introduced during the current legislative session. The Lottery continually monitors these initiatives and provides testimony and/or clarification as requested.

## Awards and Acknowledgements

### Awards

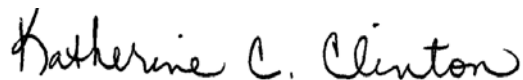
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended September 30, 2013. This was the ninth consecutive year 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 Financial Gaming Services and the Accounting Division of the Lottery. Their teamwork has greatly contributed to the success of this informative document.

Respectfully submitted,



Katherine C. Clinton  
Deputy Commissioner for Administration



M. Scott Bowen  
Commissioner



Government Finance Officers Association

**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, 2013**

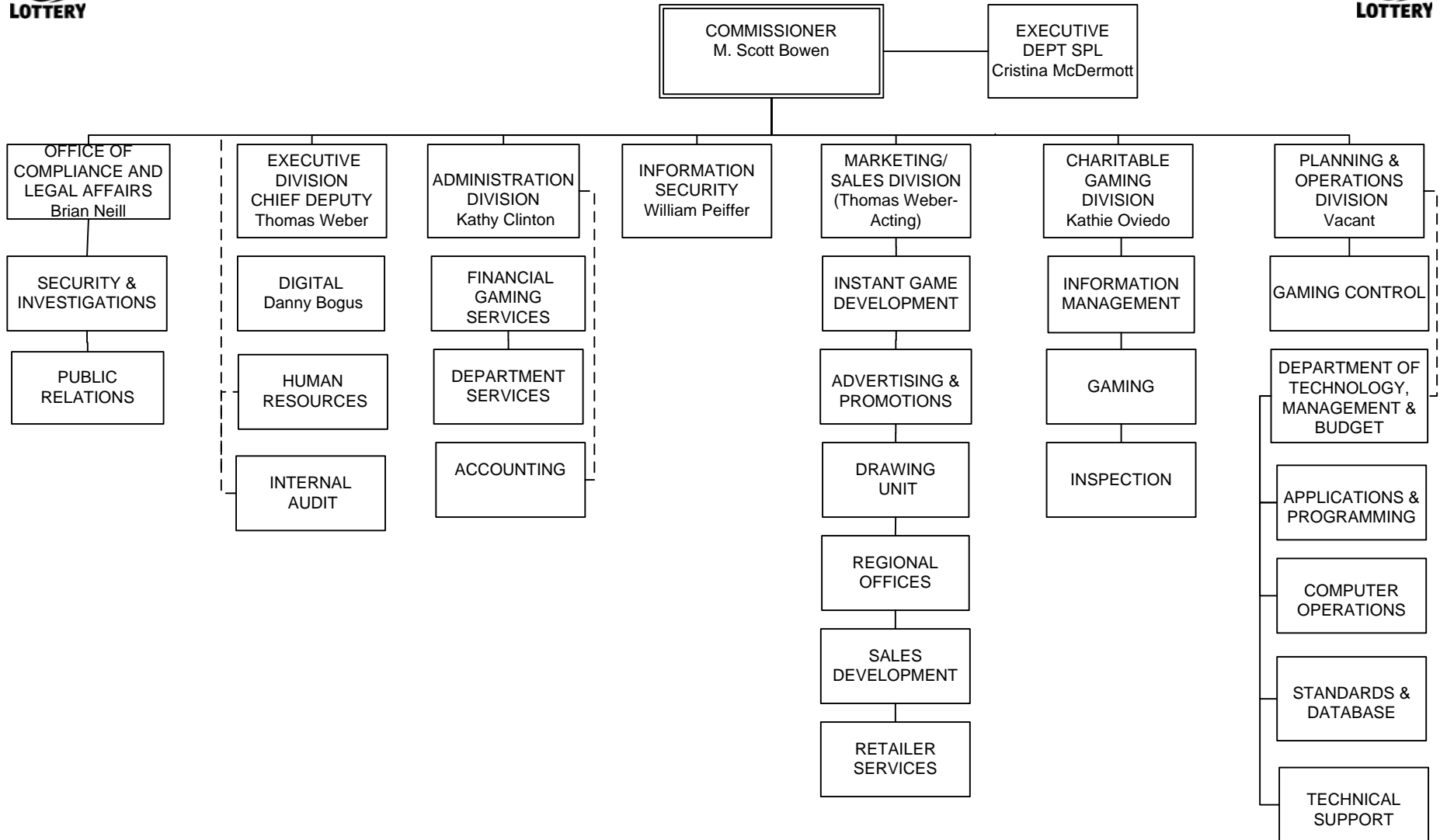
Executive Director/CEO



# Bureau of State Lottery

## Organization Chart and Principal Officials

September 2014



# FINANCIAL SECTION



## Independent Auditor's Report

Mr. M. Scott Bowen, Commissioner  
Bureau of State Lottery, State of Michigan  
and  
Mr. Doug Ringler, CPA, CIA  
Auditor General, State of Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Bureau of State Lottery, State of Michigan, (the "Lottery"), an enterprise fund of the State of Michigan, as of and for the sixth-month periods and years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Bureau of State Lottery, State of Michigan's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Mr. M. Scott Bowen, Commissioner  
Bureau of State Lottery, State of Michigan  
and  
Mr. Doug Ringler, CPA, CIA  
Auditor General, State of Michigan

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bureau of State Lottery, State of Michigan as of September 30, 2014 and 2013, and the respective changes in its financial position and cash flows for the sixth-month periods and the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

We draw attention to Note 1, which explains that these financial statements present only the Bureau of State Lottery, State of Michigan and do not purport to, and do not, present fairly the financial position of the State of Michigan as of September 30, 2014 and 2013 or the changes in its financial position and the changes in its cash flows thereof for the six-month periods and years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16-27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bureau of State Lottery, State of Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, and introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Mr. M. Scott Bowen, Commissioner  
Bureau of State Lottery, State of Michigan  
and  
Mr. Doug Ringler, CPA, CIA  
Auditor General, State of Michigan

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014 on our consideration of the Bureau of State Lottery, State of Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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, and 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* in considering the Bureau of State Lottery, State of Michigan's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

December 2, 2014





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

### **Management's Discussion and Analysis**

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The following discussion of the Michigan Bureau of State Lottery's (the "Lottery") financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the financial statements, which begin on page 28.

#### **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 Comprehensive Annual Financial Report (CAFR) consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules. The Statement of Net Position on page 28 and the Statement of Revenues, Expenses and Changes in Net Position on page 29, report the Lottery's net position and their changes.

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 position of the Lottery consists largely of capital assets (leasehold improvements and equipment) and unrealized gains on 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 Position, 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 Position. In addition, the reader should also refer to the accompanying notes to the financial statements.

#### **Financial Highlights**

- Operating revenues for Lottery gaming activities increased by \$117.8 million, or 4.7%. Ticket sales, the primary operating revenue, strengthened during 2014, increasing by \$120.0 million.
- Total revenues for all activities (including non-operating) increased \$143.0 million or 5.8%.
- Non-operating revenues increased by \$25.2 million. This increase is attributable to the changing market values of investments during 2014.
- Total operating expenses for 2014 increased \$113.5 million, or 6.5%. Of this increase, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities increased by \$98.3 million, or 6.7%, unclaimed prizes decreased by \$1.1 million, or 3.4%, retailer and vendor commissions increased \$11.1 million, or 5.2%, while other operating expenses increased by \$1.5 million, or 3.0%.
- Total expenses (including non-operating) for all activities increased \$117.0 million or 4.7%.
- Disbursements to the School Aid Fund were \$742.9 million in 2014 compared to \$734.3 million in 2013, an increase of \$8.6 million or 1.2%. Net income disbursed to the General Fund related to Charitable Gaming activities decreased by \$1.6 million or 35.6%.

**Bureau of State Lottery, State of Michigan**  
**Management's Discussion and Analysis**

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**Net Position**

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

Table 1 - Net Position  
(in millions)

	September 30,		
	2014	2013	2012
Current and other assets	\$ 137.6	\$ 135.2	\$ 135.6
Investments - noncurrent	203.2	205.4	225.0
Capital assets (net of accumulated depreciation)	0.6	0.8	0.3
<b>Total assets</b>	<b>341.4</b>	<b>341.4</b>	<b>360.9</b>
Current liabilities	126.2	117.7	112.9
Long-term liabilities	188.4	205.8	213.0
<b>Total liabilities</b>	<b>314.6</b>	<b>323.5</b>	<b>325.9</b>
Net position:			
Net investment in capital assets	0.6	0.8	0.3
Restricted for unrealized gains on investments	26.8	17.9	35.0
Unrestricted (deficit)	(0.6)	(0.8)	(0.3)
<b>Total net position</b>	<b>\$ 26.8</b>	<b>\$ 17.9</b>	<b>\$ 35.0</b>

As shown in Table 1 above, the Lottery's net position increased since September 2013 from \$17.9 million to \$26.8 million, an increase of \$8.9 million. The change from September 2012 to 2013 was a decrease of net position by \$17.1 million. The respective increase and decrease noted above are both primarily attributable to the restricted for unrealized gains or loss on investments due to 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 2014, net capital assets decreased by \$0.2 million. Capital assets increased \$0.5 million from September 2012 to 2013. Additional detailed information on capital assets may be found in Note 4 in the accompanying financial statements.

**Bureau of State Lottery, State of Michigan**  
**Management's Discussion and Analysis**

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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. The unrealized gain on investments is not available for disbursement to the School Aid Fund. 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.

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

Table 2 - Liabilities  
(in millions)

	September 30,		
	2014	2013	2012
<b>Current:</b>			
Warrants authorized and warrants outstanding	\$ 10.7	\$ 9.3	\$ 6.6
Accounts payable and other liabilities	7.8	4.5	5.2
Due to School Aid Fund	8.8		
Prize awards payable (net of discount)	98.9	103.9	101.0
<b>Total current</b>	<b>126.2</b>	<b>117.7</b>	<b>112.8</b>
<b>Non-current:</b>			
Prize awards payable (net of discount)	187.6	204.6	211.9
Compensated absences	0.8	1.1	1.0
Supplemental retirement	0.0	0.1	0.2
<b>Total non-current</b>	<b>188.4</b>	<b>205.8</b>	<b>213.1</b>
<b>Total liabilities</b>	<b>\$ 314.6</b>	<b>\$ 323.5</b>	<b>\$ 325.9</b>

Non-current liabilities consist principally of prize liability for prizes paid in installments over several years. Long-term prize liability decreased by \$17.0 million or 8.3% from 2013 to 2014 and decreased \$7.3 million or 3.5% from 2012 to 2013. The decreases from 2013 to 2014 and 2012 to 2013 are attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. Refer to Note 6 in the accompanying financial statements for more information.

**Bureau of State Lottery, State of Michigan**  
**Management's Discussion and Analysis**

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

Table 3 - Changes in Net Position  
(in millions)

	September 30,		
	2014	2013	2012
Operating revenues	\$ 2,608.9	\$ 2,491.1	\$ 2,430.2
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(1,559.9)	(1,461.6)	(1,369.8)
Commissions and game related expenses	(249.8)	(236.1)	(225.4)
Total prizes and direct game expenses	(1,809.7)	(1,697.7)	(1,595.2)
Income before other operating expenses	799.2	793.4	835.0
Other operating expenses	(51.9)	(50.4)	(45.9)
Operating income	747.3	743.0	789.1
Non-operating revenues and (expenses):			
Investment and interest revenues	18.1	(7.1)	15.6
Investment and interest expenses	(9.7)	(13.2)	(13.3)
School Aid Fund disbursement expense	(742.8)	(734.3)	(778.4)
School Aid Fund disbursement expense - Club Keno Advertising Fund	(0.1)	-	-
General Fund disbursement expense	(2.9)	(4.5)	(7.5)
Community Health disbursement expense	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(738.4)	(760.1)	(784.6)
Change in net position	8.9	(17.1)	4.5
Total net position beginning of period	17.9	35.0	30.5
Total net position end of period	\$ 26.8	\$ 17.9	\$ 35.0

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 position does not reflect the result of the Lottery's operating activities. The \$742.9 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2014. There was an increase of \$8.6 million or 1.2% from 2013 to 2014 and a decrease of \$44.1 million or 5.7% from 2012 to 2013. Public Act 293 of 2012 created a new Club Keno Advertising Fund, which allows the Lottery to contract with external parties to advertise on its Club Keno monitors. In fiscal year 2014, the Lottery collected \$55,000, which was disbursed to the School Aid Fund at the end of the fiscal year. The disbursement expense to the General Fund reflects Charitable Gaming activities.

**Bureau of State Lottery, State of Michigan  
Management's Discussion and Analysis**

Charitable Gaming activities experienced a decrease in net revenues for three fiscal years. Charitable Gaming net income is disbursed annually to the General Fund.

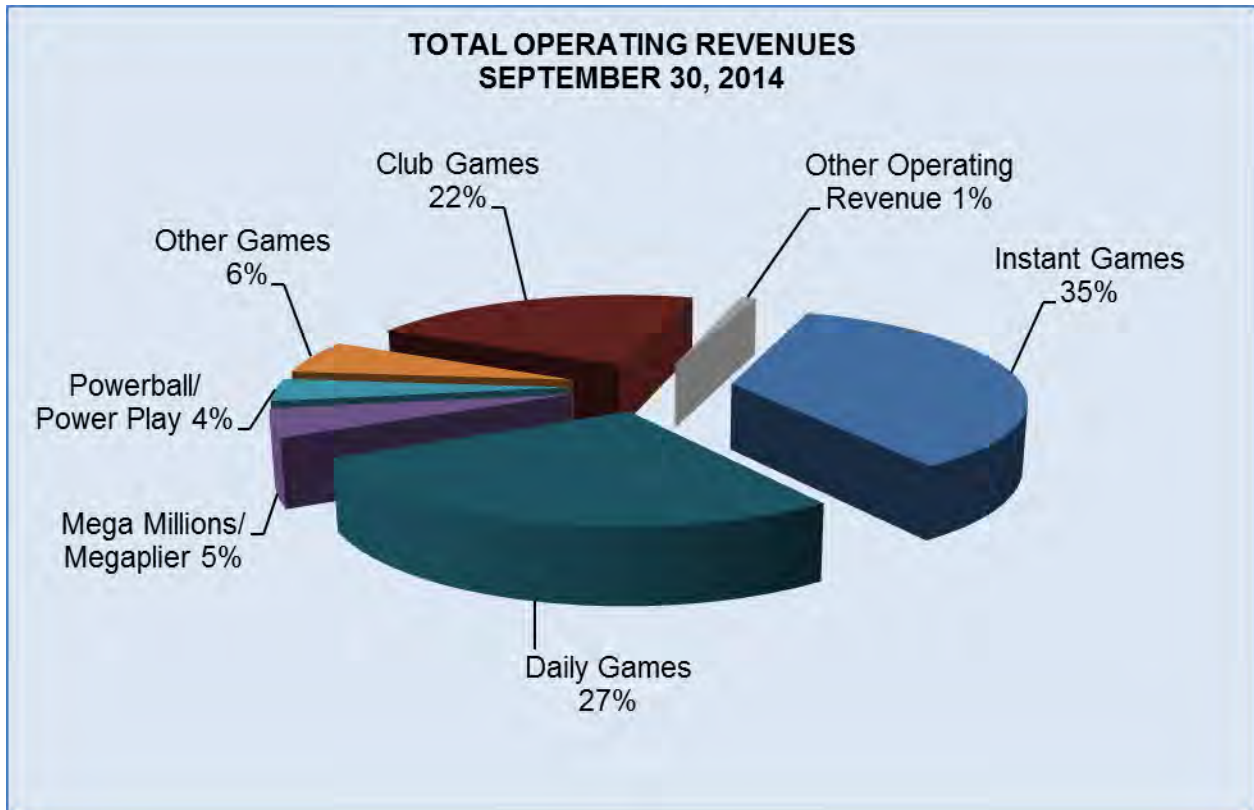
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds  
(in millions)

	September 30,		
	2014	2013	2012
School Aid Fund	\$ 742.8	\$ 734.3	\$ 778.4
School Aid Fund - Club Keno Advertising Fund	0.1	-	-
General Fund	2.9	4.5	7.5
Community Health	1.0	1.0	1.0
<b>Total Disbursements to Other Funds</b>	<b>\$ 746.8</b>	<b>\$ 739.8</b>	<b>\$ 786.9</b>

**Revenues**

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2014:



**Bureau of State Lottery, State of Michigan**  
**Management's Discussion and Analysis**

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

Table 5 - Revenues  
(in millions)

	September 30,		
	2014	2013	2012
Operating revenues:			
Instant tickets	\$ 913.1	\$ 827.0	\$ 771.7
iLottery Instants, Net Win	0.6	-	-
Daily games	693.3	672.2	681.1
Mega Millions/Megaplier	140.7	101.6	166.8
Powerball/Power Play	104.0	186.8	119.5
Club games	583.5	565.8	553.3
Other games	161.2	123.0	121.0
Other operating revenue	12.5	14.7	16.8
Total operating revenues	<u>2,608.9</u>	<u>2,491.1</u>	<u>2,430.2</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	8.9	(17.1)	4.5
Amortization on bonds	9.1	9.9	11.0
Other income	0.1	0.1	0.1
Total non-operating revenue	<u>18.1</u>	<u>(7.1)</u>	<u>15.6</u>
Total revenues	<u>\$ 2,627.0</u>	<u>\$ 2,484.0</u>	<u>\$ 2,445.8</u>

Operating revenues, primarily Lottery ticket sales, increased from fiscal year 2013 to 2014, and increased from 2012 to 2013. The increase in fiscal year September 2014 over 2013 was \$117.8 million or 4.7% and the increase in fiscal year 2013 over 2012 was \$60.9 million or 2.5%.

Instant game ticket sales increased by \$86.1 million or 10.4% for fiscal year 2014 compared to fiscal year 2013. The increase in fiscal year September 2013 over 2012 was \$55.3 million or 7.2%. Instant game sales performance was strong throughout the entire year. Much of this record-setting performance is attributed to the launch of the first \$30 instant game in February 2014 with over \$77 million in sales generated.

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, Massachusetts, New Jersey, New York, Ohio, Virginia, Washington, and the Multi-State Lottery Association (MUSL), an association of governmental lotteries. Sales for the fiscal year September 2014 increased by \$39.1 million or 38.5% compared to fiscal year 2013. Sales in fiscal year 2013 decreased by \$65.2 million or 39.1% compared to fiscal year 2012. The overall sales increase in 2014 can be primarily attributed to the fact that 33.3% of total Mega Millions drawings conducted had jackpot rolls over \$100.0 million, including a jackpot over \$600 million, which is the second largest jackpot in Mega Millions history. Also, matrix changes introduced in October 2013 increased starting jackpots to \$15.0 million, increased second (match 5) prizes to \$1.0 million, and provide better odds to win. Megaplier is an add-on to Mega Millions whereby players have an opportunity to increase their non-jackpot winnings.

## **Bureau of State Lottery, State of Michigan Management's Discussion and Analysis**

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Powerball is a multi-state game, similar to Mega Millions, offering larger jackpots. Participating in Powerball is the Multi-State Lottery Association (MUSL) and the Mega Million's Lotteries for a total of 44 states, including its newest member the State of California as of April 2013, Washington D.C., U.S. Virgin Islands, and Puerto Rico. Sales for fiscal year September 2014 decreased by \$82.8 million or 44.3% compared to fiscal year 2013. During 2014, while 34.3% of all Powerball drawings held were for jackpots \$100 million or greater, player game preference primarily attributed to the decrease in Powerball sales. Power Play is an add-on game to Powerball where players can increase their non-jackpot prizes.

Club games include Club Keno, Club Keno Kicker, Pull Tabs, The Jack, and Insta Tabs. The Club Games sales increased in fiscal year September 2014 by \$17.7 million or 3.1% over 2013, and increased by \$12.5 million or 2.3% from 2012 to 2013. The 2014 and 2013 sales increase is attributable to efforts being focused on increasing awareness of Club Keno "To Go" and further supported by the promotion of the Lottery mobile applications for iPhone and Android enabling players to be able to watch Club Keno drawings anywhere. The Club Keno Doubler Days promotion was held during September 2014 to engage players to play Club Keno and offer a chance to double their winnings. Insta tab games, a new type of pull tab product, was launched in March 2014 and has attributed to the growth in club game sales.

Other games consist of Lotto 47, Lotto 47 EZMatch, Fantasy Five, Fantasy Five EZMatch, Keno, Raffle, and Poker Lotto. Poker Lotto was added to the Lottery's game portfolio on October 19, 2013. This new game includes a nightly drawing plus a chance to win instantly all in one ticket. Lottery numbers are replaced with five playing cards and the five cards are randomly selected from a standard 52-card deck. The player can win up to \$5,000 instantly at the time of purchase if the cards form a winning poker hand and they can also win up to \$100,000 nightly by matching the winning cards drawn. EZMatch was added to Lotto 47 and Fantasy Five games on April 13, 2014, which gives players a chance to win up to \$500 instantly. When a player selects EZmatch, a second set of numbers with corresponding prize amounts is printed under their regular Lotto 47 or Fantasy Five numbers. When the EZmatch number matches one or more of the player's regular numbers on their Lotto 47 or Fantasy Five ticket, they win the corresponding prize. In total, other games sales experienced an increase by \$38.2 million or 31.1% compared to fiscal year 2013, primarily attributable to the addition of new games as described above. Sales in fiscal year 2013 increased by \$2.0 million or 1.7% compared to fiscal year 2012. In 2014, there were two \$10 Raffle games, including a Multi-state Halloween Millions Raffle and a Tax Free Raffle.

The increase in non-operating revenues from 2013 to 2014 resulted from an increase in unrealized gain on investments. 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 decrease in bond amortization from 2013 to 2014 and from 2012 to 2013 is due to a decreasing bond portfolio from maturing investments and the fact that most prize winners have elected the cash option instead of installment payments. Other income remained unchanged from 2013 to 2014 due to stable interest rates on common cash investments. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

In August 2014, a beta launch of the Lottery's iLottery program was introduced, resulting in a new purchase measure of iLottery games. The iLottery program shows continued growth week to week. Players register and make a deposit to their iLottery account then can begin playing iLottery instants of their choice. iLottery instants currently include Scratch and Keno games.



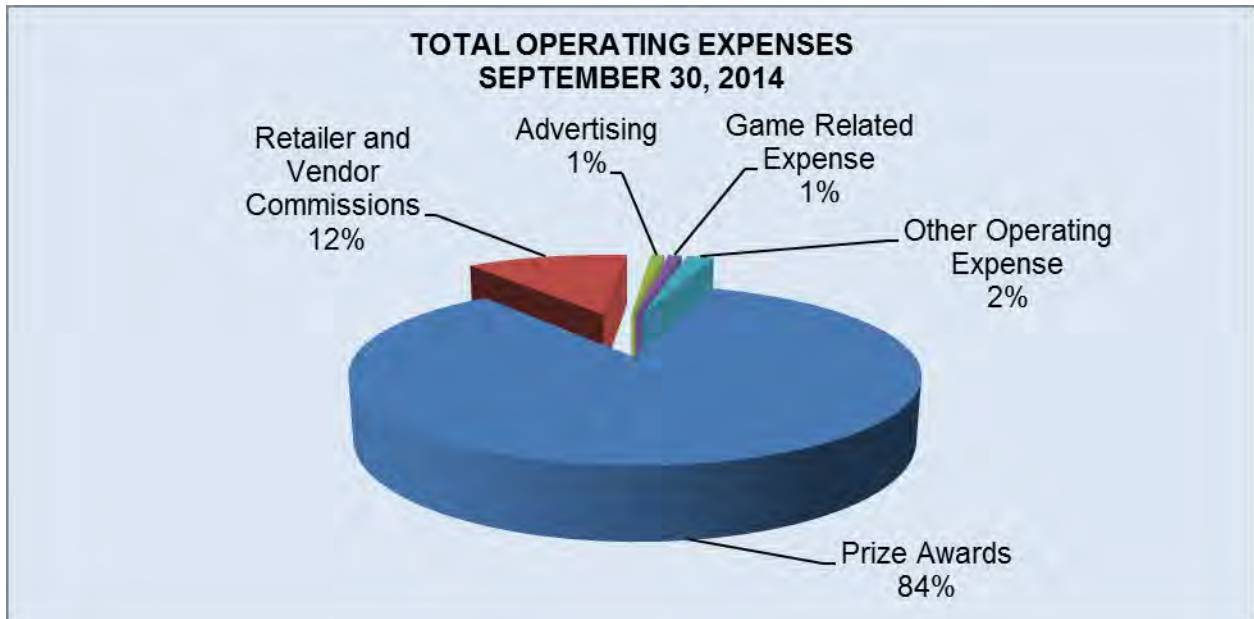
## Bureau of State Lottery, State of Michigan Management's Discussion and Analysis

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Prizes \$600 or less are deposited directly to their account while prizes greater than \$600 have an electronic claim created to be processed. iLottery sales in fiscal year 2014 total \$3.9 million and iLottery prize awards were \$3.3 million, reporting a net win of \$0.6 million (refer to Note 7 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, 2014:



**Bureau of State Lottery, State of Michigan**  
**Management's Discussion and Analysis**

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

Table 6 - Expenses  
(in millions)

	September 30,		
	2014	2013	2012
<b>Prizes:</b>			
Instant prizes	\$ 641.1	\$ 573.1	\$ 514.9
Draw Game prizes	567.2	549.4	521.3
Club game prizes	381.4	369.6	362.0
Player's Club all games	1.0	1.4	-
Total prizes	<u>1,590.7</u>	<u>1,493.5</u>	<u>1,398.2</u>
Less: unclaimed prizes	30.8	31.9	28.4
Net prize awards	<u>1,559.9</u>	<u>1,461.6</u>	<u>1,369.8</u>
<b>Direct game expenses:</b>			
Retailer commissions	188.5	178.5	172.1
Vendor commissions	38.1	37.0	33.8
Game related expenses	23.2	20.6	19.5
Total direct game expenses	<u>249.8</u>	<u>236.1</u>	<u>225.4</u>
<b>Other operating expenses:</b>			
Salaries, wages and benefits	21.9	21.1	19.2
Other professional services	7.9	7.3	5.5
Printing and supplies	1.5	1.5	1.8
Other general and administrative	3.0	2.9	2.7
Promotion and advertising	17.6	17.6	16.7
Total other operating expenses	<u>51.9</u>	<u>50.4</u>	<u>45.9</u>
Total operating expenses	<u>1,861.6</u>	<u>1,748.1</u>	<u>1,641.1</u>
<b>Non-operating expenses:</b>			
Amortization of prize discount	9.7	13.2	13.3
School Aid Fund disbursement	742.8	734.3	778.4
School Aid Fund disbursement - Club Keno Advertising Fund	0.1	-	-
General Fund disbursement	2.9	4.5	7.5
Community Health disbursement	1.0	1.0	1.0
Total non-operating expenses	<u>756.5</u>	<u>753.0</u>	<u>800.2</u>
Total expenses	<u>\$ 2,618.1</u>	<u>\$ 2,501.1</u>	<u>\$ 2,441.3</u>

The Daily 3 prize payout had a decrease to 48.5% in 2014, compared to 51.9% in 2013, and 48.6% in 2012. The Daily 4 payout increased to 53.5% in 2014, compared to 49.4% in 2013, and 43.9% in 2012. Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 51.1% in 2014, compared to 50.6% in 2013, and 46.1% in 2012. The respective Daily Games combined prize payout increased 0.5% from 2013 to 2014 and increased 4.5% from 2012 to 2013.

## Bureau of State Lottery, State of Michigan Management's Discussion and Analysis

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The Club Games prize payout percentage increased to 64.9% in 2014, compared to 64.8% in 2013, compared to 64.9% in 2012. The higher Club Games payout is an important part of the appeal of this style of game in this market. The other draw games have an anticipated payout between 50% and 66%.

Instant games had an overall payout of 70.2% in 2014, compared to 69.3% in 2013 and 66.7% in 2012. The games vary in payout percentage depending on selling price of a ticket for a game. Instant game prize payouts range from 59.0% for a \$1 game to 77.9% for a \$30 game.

Retailer commissions have increased commensurate with higher overall sales. Vendor commissions have increased commensurate with higher overall sales and due to an increase in interactive games commission and additional iLottery games commission, which launched in August 2014. Game related expense has increased by \$2.6 million or 12.6% in 2014 from 2013 and increased by \$1.1 million or 5.6% in 2013 from 2012.

Other operating expenses have increased by \$1.5 million or 3.0% from 2014 over 2013 and increased \$4.5 million or 9.8% in 2013 from 2012.

### 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 this 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 \$1.1 million from 2013 to 2014 and increased by \$3.5 million from 2012 to 2013.

### Charitable Gaming

A detail of the Lottery's charitable gaming revenues, expense, and net income are presented in Table 7 below:

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

	September 30,		
	2014	2013	2012
Gross revenue	\$ 11.8	\$ 13.5	\$ 14.5
Operating expenses	(8.9)	(9.0)	(7.0)
Net income	<u>\$ 2.9</u>	<u>\$ 4.5</u>	<u>\$ 7.5</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 and raffles for fund-raising purposes. By Executive Order 2012-4 dated April 2012, all millionaire party licensing and regulation activities were transferred from the Lottery to the Michigan Gaming Control Board. According to the Executive Order, Millionaire party licensing revenue shall be remitted to the Lottery and all necessary expenses shall be financed by the Lottery.

## **Bureau of State Lottery, State of Michigan Management's Discussion and Analysis**

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Charitable Gaming revenues decreased by \$1.7 million or 12.6% for fiscal year 2014 compared to fiscal year 2013 and decreased \$1.0 million or 6.9% from fiscal year 2012 to 2013.

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 primarily due to a decrease in sales of break-open tickets.

The Charitable Gaming mission of the Lottery is to examine the integrity of charitable gaming activities, ensure proceeds are accounted for and used for lawful purposes of qualified licensed non-profit organizations, encourage charity participation at licensed events and maximize proceeds for their charitable cause. 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**

Monopoly Millionaires' Club (MMC) is a new \$5 national premium game that starts in October 2014 that offers a top prize ranging from \$15 to \$25 million, plus nine other ways to win, in a national weekly drawing held every Friday. When a top prize is won, a second drawing occurs for \$1 million Millionaires' Club prizes, which are awarded to anywhere from 10 to hundreds of winners in a single week. Each MMC ticket prints with a web code that can be entered online at [playmmc.com](http://playmmc.com). When the code is entered, the contestant will receive the Monopoly property symbol that prints on their ticket. Players collect properties and when they make a Monopoly, they will earn an entry into a drawing for a chance to become a contestant on the Monopoly Millionaires' Club television Game show in Las Vegas with a top prize of \$1,000,000.

Online Game Card will be a new earning opportunity for retailers beginning in December 2014 and a way to introduce Lottery players to the newly added internet sales channel for iLottery games. The Online Game Card is a \$20 paper ticket that is purchased at a Lottery retailer and serves as a prepaid card. Each ticket reveals an online web code which players enter and submit at [MichiganLottery.com](http://MichiganLottery.com). Upon entering the online web code, each player will receive \$25 in value towards purchases of iLottery games to play online. Lottery retailers will earn regular sales commissions on online game cards sold and sales will be included towards applicable Lottery retailer incentive programs.

Lucky for Life, a new multi-state \$2 draw game that will offer \$1,000 a day for life top-prize winners and a second prize of \$25,000 a year for life. The New England lotteries originally launched this game in March 2012 and have had great success. Michigan, along with nine other jurisdictions, will join the game in January 2015. In total, 15 jurisdictions will be participating in Lucky for Life game, which is a double-matrix game where players will select five balls from 1 to 48, plus one Lucky Ball number from 1 to 18. Drawings will be held on Mondays and Thursdays.

The Powerball multi-state game will forego a complex matrix change planned for drawings to be held beginning April 15, 2015. The Powerball price will remain a \$2 per play but the numbers available to play will change to five of 66 white balls and one of 32 Powerball numbers. The former Power Play add-on game will now be included in the Powerball game at no extra cost and will be enhanced to include a 10X multiplier for every draw. The prize levels will remain the same, except that the bottom two prize levels will drop from \$4 to \$2.

## **Bureau of State Lottery, State of Michigan Management's Discussion and Analysis**

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Each Powerball ticket will include five multipliers (2X, 3X, 4X, 5X, or 10X) printed below five letters that spell the word POWER. This multiplier only applies to the seven low tier prizes and does not count for the jackpot or the second top available prize. A new optional Add-On Draw feature will also be added to the Powerball game. For an extra \$1 added to their Powerball ticket purchase, a player will be included in a second drawing. The multiplier drawn in the Powerball game shall also apply to the Add-On Draw option. The Add-On Draw is another chance for the player to win prizes. The same play could win on both the Powerball base game and the new Add-On Draw Game.

In 2015, "The Jack" will become the first multi-state game associated with the Club Keno product, replacing Michigan's current in-state "Jack". Michigan will join Maryland, Georgia, and Ohio in offering this add-on progressive jackpot game. "The Jack" will become a 9-spot game and will remain just \$1 more per Club Keno draw. The jackpot will start at \$25,000 and is projected to grow to \$690,000 within just a few days.

In 2015, the Lottery has planned frequent iLottery game introductions to include 11 web games and six mobile games by November 2014, which includes a holiday iLottery game launch. In January 2015, Lottery will shift to even more rigorous iLottery game introduction cycles of two games each month. It is critical the Lottery expand its iLottery portfolio quickly and effectively to ensure new players can be retained. In late fiscal year 2015, it is anticipated the iLottery game portfolio will be expanded to include four existing draw games, including Powerball, Mega Millions, Lotto 47, and Fantasy 5. Michigan Lottery mobile and web portals will be updated to support the draw based games initiative. Players will have the option to buy these tickets online using web, mobile or tablet applications using shopping cart functionality to allow users to experience a more traditional checkout experience including an expedited experience for those wanting to purchase easy picks.

To attract and maximize player engagement, retention, and promote winner awareness, marketing campaigns for the Player's Club Loyalty program will focus on being redesigned in February 2015 to include features that will support iLottery goals and objectives. Strategies and tactics of the redesigned program may include digital instant game play offers, or include a tiered loyalty program offering rewards specific to the activity level of a player's Michigan Lottery account. Specific strategies of the Loyalty program will be further explored in fiscal year 2015. YouTube will continue to provide access to the Lottery's televised drawings and be expanded to providing interactive demonstrations on how to play various lottery games to provide game education to our players. Second chance interactive instant game promotions will continue to be offered.

Management continues to expand the game line-up looking at adding new features to games, restructuring current games, promoting player loyalties through the internet website, and building strong relationships with the Lottery's retailers.

### **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 Position**  
**September 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets:		
Equity in State Treasurer's Common Cash Fund	\$ 3,609,257	\$ 12,909,672
Investments, at fair value	29,263,646	33,524,618
Accounts receivable - net	96,291,877	80,948,721
Inventory	8,416,692	7,876,400
Total current assets	<u>137,581,472</u>	<u>135,259,411</u>
Non-current assets:		
Investments, at fair value	<u>203,197,108</u>	<u>205,437,079</u>
Capital assets:		
Leasehold improvements and equipment	4,638,269	5,131,499
Accumulated depreciation	<u>(4,066,242)</u>	<u>(4,377,257)</u>
Total capital assets	<u>572,027</u>	<u>754,242</u>
Total noncurrent assets	<u>203,769,135</u>	<u>206,191,321</u>
Total assets	<u>341,350,607</u>	<u>341,450,732</u>
<b>Liabilities</b>		
Current liabilities:		
Warrants outstanding	852,269	886,157
Warrants authorized	9,825,944	8,453,735
Accounts payable and other liabilities	7,787,115	4,480,044
Due to School Aid Fund	8,759,196	-
Prize awards payable - net of discount	<u>98,926,346</u>	<u>103,862,725</u>
Total current liabilities	<u>126,150,870</u>	<u>117,682,661</u>
Noncurrent liabilities:		
Prize awards payable - net of discount	187,548,084	204,642,185
Accrual for compensated absences, less current portion	840,261	1,078,239
Accrual for supplemental retirement, less current portion	<u>26,454</u>	<u>129,014</u>
Total noncurrent liabilities	<u>188,414,799</u>	<u>205,849,438</u>
Total liabilities	<u>314,565,669</u>	<u>323,532,099</u>
<b>Net Position</b>		
Net investment in capital assets	572,027	754,242
Restricted for unrealized gains on investments	26,784,938	17,918,633
Unrestricted (deficit)	<u>(572,027)</u>	<u>(754,242)</u>
Total net position	<u>\$ 26,784,938</u>	<u>\$ 17,918,633</u>

See Accompanying Notes to Financial Statements

**Bureau of State Lottery, State of Michigan**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Six Months and Years Ended September 30, 2014 and 2013**

	Six Months Ended		Years Ended	
	2014	2013	2014	2013
<b>Operating revenues</b>				
Ticket sales	\$ 1,287,961,571	\$ 1,258,535,266	\$ 2,596,411,145	\$ 2,476,398,393
Charitable gaming and other	6,232,027	7,215,261	12,509,334	14,732,838
Total operating revenues	<u>1,294,193,598</u>	<u>1,265,750,527</u>	<u>2,608,920,479</u>	<u>2,491,131,231</u>
<b>Operating expenses</b>				
Prize awards	810,995,227	768,518,916	1,590,693,610	1,493,437,982
Less - unclaimed prizes	<u>(15,321,500)</u>	<u>(15,944,714)</u>	<u>(30,830,086)</u>	<u>(31,894,577)</u>
Net prize awards	795,673,727	752,574,202	1,559,863,524	1,461,543,405
Retailer and vendor commission	112,666,111	110,207,079	226,667,257	215,453,227
Game related expenses	11,107,586	10,759,315	23,177,532	20,615,718
Depreciation expense	104,272	134,339	211,658	236,989
Other operating expenses	<u>24,774,829</u>	<u>25,284,275</u>	<u>51,673,345</u>	<u>50,219,193</u>
Total operating expenses	<u>944,326,525</u>	<u>898,959,210</u>	<u>1,861,593,316</u>	<u>1,748,068,532</u>
<b>Operating income</b>	<u>349,867,073</u>	<u>366,791,317</u>	<u>747,327,163</u>	<u>743,062,699</u>
<b>Non-operating revenues</b>				
Investment revenue - net	14,299,083	(7,593,229)	18,001,667	(7,202,326)
Interest on equity in State Treasurer's Common Cash Fund	<u>37,447</u>	<u>66,279</u>	<u>78,949</u>	<u>124,352</u>
Total non-operating revenues	<u>14,336,530</u>	<u>(7,526,950)</u>	<u>18,080,616</u>	<u>(7,077,974)</u>
<b>Non-operating expenses</b>				
Bank fees	(2,437)	(2,025)	(4,264)	(4,188)
Amortization of prize award obligation discount	<u>(4,569,328)</u>	<u>(7,207,142)</u>	<u>(9,715,320)</u>	<u>(13,188,590)</u>
Loss on disposal of assets	-	-	<u>(1,402)</u>	-
Total non-operating expenses before disbursements	<u>(4,571,765)</u>	<u>(7,209,167)</u>	<u>(9,720,986)</u>	<u>(13,192,778)</u>
Disbursement to School Aid Fund	<u>(347,754,761)</u>	<u>(361,795,902)</u>	<u>(742,852,314)</u>	<u>(734,344,328)</u>
Disbursement to School Aid Fund - Club Keno Advertising Fund	(55,000)	-	(55,000)	-
Disbursement to General Fund	<u>(1,510,144)</u>	<u>(2,152,056)</u>	<u>(2,923,174)</u>	<u>(4,514,066)</u>
Disbursement to Community Health	<u>(495,000)</u>	<u>(495,000)</u>	<u>(990,000)</u>	<u>(990,000)</u>
Total disbursements	<u>(349,814,905)</u>	<u>(364,442,958)</u>	<u>(746,820,488)</u>	<u>(739,848,394)</u>
Total non-operating expenses	<u>(354,386,670)</u>	<u>(371,652,125)</u>	<u>(756,541,474)</u>	<u>(753,041,172)</u>
<b>Net non-operating revenue (expense)</b>	<u>(340,050,140)</u>	<u>(379,179,075)</u>	<u>(738,460,858)</u>	<u>(760,119,146)</u>
<b>Change in net position</b>	9,816,933	(12,387,758)	8,866,305	(17,056,447)
<b>Total net position at beginning of period</b>	<u>16,968,005</u>	<u>30,306,391</u>	<u>17,918,633</u>	<u>34,975,080</u>
<b>Total net position at end of period</b>	<u>\$ 26,784,938</u>	<u>\$ 17,918,633</u>	<u>\$ 26,784,938</u>	<u>\$ 17,918,633</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, 2014 and 2013**

	Six Months Ended		Years Ended	
	2014	2013	2014	2013
<b>Cash Flows From Operating Activities</b>				
Cash collections from customers	\$ 1,299,361,389	\$ 1,260,771,942	\$ 2,593,490,150	\$ 2,485,263,812
Payments to employees	(11,249,171)	(10,233,096)	(22,117,938)	(20,912,218)
Payments to suppliers	(27,337,882)	(31,617,116)	(48,847,316)	(49,616,871)
Payments to prize winners	(793,590,690)	(753,020,265)	(1,591,609,324)	(1,479,140,269)
Payments for retailer and vendor commissions	(112,666,111)	(110,207,079)	(226,667,257)	(215,453,227)
Net cash provided by operating activities	<b>354,517,535</b>	355,694,386	<b>704,248,315</b>	720,141,227
<b>Cash Flows From Noncapital Financing Activities</b>				
Disbursements to School Aid Fund	(414,093,119)	(434,344,328)	(734,093,118)	(734,344,328)
Disbursement to School Aid Fund-Club Keno Advertising Fund	(55,000)	-	(55,000)	-
Disbursements to General Fund	(2,923,174)	(4,514,066)	(2,923,174)	(4,514,066)
Disbursements to Community Health	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	<b>(418,061,293)</b>	(439,848,394)	<b>(738,061,292)</b>	(739,848,394)
<b>Cash Flows From Capital and Related Financing Activities</b>				
Acquisition of capital assets	(9,700)	(106,473)	(30,845)	(732,970)
<b>Cash Flows From Investing Activities</b>				
Proceeds from the sale and maturity of investment securities	13,256,000	17,550,000	33,775,000	41,069,000
Purchase of investments	(9,272,390)	(11,181,680)	(9,272,390)	(21,536,492)
Interest received	59,504	79,686	78,949	124,352
Bank fees	(2,437)	(2,025)	(4,264)	(4,188)
Net cash provided by investing activities	<b>4,040,677</b>	6,445,981	<b>24,577,295</b>	19,652,672
<b>Net decrease in cash and cash equivalents</b>	<b>(59,512,781)</b>	(77,814,500)	<b>(9,266,527)</b>	(787,465)
<b>Cash and cash equivalents at beginning of period</b>	<b>62,269,769</b>	89,838,015	<b>12,023,515</b>	12,810,980
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,756,988</b>	\$ 12,023,515	<b>\$ 2,756,988</b>	\$ 12,023,515



**Bureau of State Lottery, State of Michigan**  
**Statement of Cash Flows**  
**For the Six Months and Years Ended September 30, 2014 and 2013**

	Six Months Ended		Years Ended	
	2014	2013	2014	2013
<b>Reconciliation of net operating income to net cash provided by operating activities</b>				
Operating income	\$ 349,867,073	\$ 366,791,317	\$ 747,327,163	\$ 743,062,699
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	104,272	134,339	211,658	236,989
Bad debt expense	56,742	18,677	87,171	95,317
Amortization of prize award obligation discount	(4,569,328)	(7,207,142)	(9,715,320)	(13,188,590)
Net changes in assets and liabilities:				
Inventory	1,233,103	149,979	(540,292)	(1,084,444)
Receivables from retailers	5,167,791	(4,978,586)	(15,430,328)	(5,867,419)
Warrants authorized, compensated absences, supplemental retirement, accounts payable, other liabilities	(3,994,483)	(5,975,277)	4,338,743	1,294,948
Prize awards payable	6,652,365	6,761,079	(22,030,480)	(4,408,273)
<b>Net cash provided by operating activities</b>	<b>\$ 354,517,535</b>	<b>\$ 355,694,386</b>	<b>\$ 704,248,315</b>	<b>\$ 720,141,227</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	\$ 65,276,492	\$ 89,892,897	\$ 12,909,672	\$ 12,974,439
Warrants outstanding	(3,006,723)	(54,882)	(886,157)	(163,459)
<b>Net cash and cash equivalents at beginning of period</b>	<b>\$ 62,269,769</b>	<b>\$ 89,838,015</b>	<b>\$ 12,023,515</b>	<b>\$ 12,810,980</b>
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 3,609,257	\$ 12,909,672	\$ 3,609,257	\$ 12,909,672
Warrants outstanding	(852,269)	(886,157)	(852,269)	(886,157)
<b>Net cash and cash equivalents at end of period</b>	<b>\$ 2,756,988</b>	<b>\$ 12,023,515</b>	<b>\$ 2,756,988</b>	<b>\$ 12,023,515</b>
<b>Schedule of noncash investing, capital, and financing activities</b>				
Increase (Decrease) in fair value of investments	\$ 9,816,933	\$ (12,387,758)	\$ 8,866,305	\$ (17,056,447)
Disbursements to other funds (accrual)	(8,759,196)	-	(8,759,196)	-
<b>Total noncash investing, capital, and financing activities</b>	<b>\$ 1,057,737</b>	<b>\$ (12,387,758)</b>	<b>\$ 107,109</b>	<b>\$ (17,056,447)</b>

# **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. Michigan, a Mega Millions state, participates in Powerball and Power Play, and Raffle multi-state lottery games, 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 10 states: California, Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia, Washington and MUSL. Net income from Mega Millions, Megaplier, 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, draw game, and iLottery. Operating expenses mainly consist of payments to instant, draw game, and iLottery prize winners and commissions to retailer agents and vendors. All other revenues and expenses are reported as non-operating. Excess revenue over expenses is designated for payment to the State School Aid Fund, except for unrealized gains on investments, excess of revenue over expenses from charitable gaming activities and up to \$1 million per year to the Department of Community Health for gambling addiction programs which are designated for payment to the State General Fund.

#### **Revenue Recognition**

Revenue is recognized for instant and pull tab games when tickets are activated by retailers. For draw 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. Revenues for iLottery games are recognized when sales to the public occur and are reported net of prizes awarded which are recognized as game play completes and prizes are known (refer to Note 7 for more information on iLottery revenue and expense). All revenues are reported net of free plays, discounts and allowances.

#### **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.

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

### **Notes to Financial Statements**

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#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 position 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, 2014 and 2013. 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 \$1,269,702 as of September 30, 2014 and \$1,298,672 as of September 30, 2013.

#### **Capital Assets**

The Lottery has established a \$5,000 threshold for capitalization of purchases of assets, which include equipment and leasehold improvements, and are reported in the Statement of Net Position. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Depreciation of equipment is computed using the straight-line method over five years, the estimated useful life of the assets. The Lottery has established a \$200,000 threshold for intangible assets such as constructed computer software.

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

### **Notes to Financial Statements**

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Information technology equipment including constructed computer software is depreciated over three years, the estimated useful life of the assets. Building leasehold improvements are depreciated over the lesser of eight years, the estimated useful life of the improvements, or the lease term. 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 draw games 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 draw game, instant and pull tab tickets which will not be claimed within one year after the drawing date for draw 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 Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Lottery has no items that qualify as deferred inflows or outflows of resources. Net investment in capital assets consists 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 in accordance with Public Act 239.

**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 pooling of cash allows the State Treasurer to invest monies not needed to pay immediate obligations so the investment earnings on available cash are maximized. 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's fund. A bank, savings and loan association or credit union holding State funds must be organized under the laws 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's name.

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2014 and 2013, 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. As of September 30, 2014 and 2013, the Lottery does not hold any investments in commercial paper.

##### 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.

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

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**NOTE 3 - INVESTMENTS**

Investments totaling \$232,460,754 at September 30, 2014 and \$238,961,697 at September 30, 2013 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).

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 \$33,775,000 in the year ended September 30, 2014 and \$41,069,000 in the year ended September 30, 2013. For the six months ended September 30, 2014 and 2013, cash receipts from the maturity of investments totaled \$13,256,000 and \$17,550,000, respectively.

Investments at September 30 consist of the following:

	<u>2014</u>	<u>2013</u>
U. S. Treasury zero-coupon bonds	\$ 171,426,488	\$ 169,455,425
Michigan CAB bonds	<u>61,034,266</u>	<u>69,506,272</u>
Total Investments	<u>\$ 232,460,754</u>	<u>\$ 238,961,697</u>

As reported on the Statement of Net Position:

	<u>2014</u>	<u>2013</u>
Current investments	\$ 29,263,646	\$ 33,524,618
Noncurrent investments	<u>203,197,108</u>	<u>205,437,079</u>
Total Investments	<u>\$ 232,460,754</u>	<u>\$ 238,961,697</u>

**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.

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

**Interest Rate Risk**

Investments in prize annuities at September 30, 2014 and 2013 consist of the following:

September 30, 2014

<u>Maturities in Years</u>	<u>Investments in United States Treasury Zero-Coupon Bonds</u>	<u>Interest Rate Low to High</u>	<u>Investments in Michigan CAB Bonds</u>	<u>Interest Rate Low to High</u>
Less than 1	\$ 16,242,494	0.30% to 7.16%	\$ 13,021,152	5.36% to 5.61%
1-5	57,494,381	0.49% to 7.19%	27,613,058	5.62% to 7.65%
6-10	40,713,536	2.37% to 4.99%	11,984,444	7.88% to 8.29%
11-15	28,703,099	3.99% to 4.84%	8,415,612	8.31% to 8.39%
16-20	19,348,447	4.35% to 4.75%	-	-
21-29	8,924,531	3.57% to 4.79%	-	-
Fair Market Value	<u>\$ 171,426,488</u>		<u>\$ 61,034,266</u>	

September 30, 2013

<u>Maturities in Years</u>	<u>Investments in United States Treasury Zero-Coupon Bonds</u>	<u>Interest Rate Low to High</u>	<u>Investments in Michigan CAB Bonds</u>	<u>Interest Rate Low to High</u>
Less than 1	\$ 15,209,482	0.19% to 7.14%	\$ 18,315,136	4.67% to 5.04%
1-5	54,830,730	0.30% to 7.19%	33,929,838	5.36% to 7.15%
6-10	46,203,282	1.24% to 4.99%	11,437,843	7.65% to 8.25%
11-15	28,477,030	3.02% to 4.84%	2,738,447	8.29% to 8.39%
16-20	19,173,667	4.33% to 4.71%	3,085,008	8.39% to 8.39%
21-26	5,561,234	4.58% to 4.79%	-	-
Fair Market Value	<u>\$ 169,455,425</u>		<u>\$ 69,506,272</u>	

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments. 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.



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

### **Notes to Financial Statements**

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#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investment grade, as defined in MCL Section 38.1132, includes investments in the top four major grades, as determined by two national rating services. The State Treasurer's policy is to use Standard & Poor's (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). 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, 2014 and September 30, 2013, 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. As of September 30, 2014, investments in Michigan CAB bonds account for 26.3% of the total Investments as compared to 29.1% as of September 30, 2013.

#### **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 investments 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 investments or deposits. As of September 30, 2014 and 2013 the Lottery had no investments subject to foreign currency risk.

**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, 2014 and 2013 is as follows:

<u>Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2014</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,955,989	\$ -	\$ -	\$ 1,955,989
Equipment	3,175,510	30,845	524,075	2,682,280
Total capital assets being depreciated	5,131,499	30,845	524,075	4,638,269
Less: accumulated depreciation				
Leasehold improvements	1,939,329	3,204	-	1,942,533
Equipment	2,437,928	208,454	522,673	2,123,709
Total accumulated depreciation	4,377,257	211,658	522,673	4,066,242
Total capital assets being depreciated, net	<u>\$ 754,242</u>	<u>\$ (180,813)</u>	<u>\$ 1,402</u>	<u>\$ 572,027</u>
<u>September 30, 2013</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,955,989	\$ -	\$ -	\$ 1,955,989
Equipment	2,442,540	732,970	-	3,175,510
Total capital assets being depreciated	4,398,529	732,970	-	5,131,499
Less: accumulated depreciation				
Leasehold improvements	1,936,126	3,203	-	1,939,329
Equipment	2,204,142	233,786	-	2,437,928
Total accumulated depreciation	4,140,268	236,989	-	4,377,257
Total capital assets being depreciated, net	<u>\$ 258,261</u>	<u>\$ 495,981</u>	<u>\$ -</u>	<u>\$ 754,242</u>

**NOTE 5 - DISAGGREGATION OF PAYABLE BALANCE**

Accounts payable and other liabilities at September 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Accounts payable vendors	\$ 3,594,374	\$ 1,170,509
Retailer security deposits/accounts payable	2,410,359	1,596,133
Accrued salaries	876,099	839,171
Compensated absences	803,723	771,672
Supplemental retirement	102,560	102,559
Total	<u>\$ 7,787,115</u>	<u>\$ 4,480,044</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 3.5% to 7.0%. 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:

	2014	2013
Current - at face amount	\$ 99,695,673	\$ 104,770,848
Less - unamortized discount	(769,327)	(908,123)
Current - at present value	98,926,346	103,862,725
Long-term - at face amount	280,380,800	303,298,200
Less - unamortized discount	(92,832,716)	(98,656,015)
Long-term - at present value	187,548,084	204,642,185
Total	\$ 286,474,430	\$ 308,504,910

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

2015	29,741,400
2016	23,688,400
2017	16,670,200
2018	14,668,200
2019	14,604,200
2020-2024	69,000,000
2025-2029	55,017,000
2030-2034	50,659,600
2035-2039	20,950,800
2040-2044	5,304,000
2045-2049	3,492,000
2050-2054	2,728,000
2055-2059	1,830,400
2060-2064	520,000
2065-2069	520,000
2070-2074	520,000
2075-2079	208,000
Total at face amount	310,122,200
Less - unamortized discount	(93,602,043)
Total installment prize awards payable at present value	216,520,157
Non-installment prize awards payable	69,954,273
Total prize awards payable	286,474,430

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year at Present Value
2014	\$ 238,362,595	\$ 12,890,095	\$ 34,732,533	\$ 216,520,157	\$ 28,972,073
2013	\$ 251,693,697	\$ 27,735,131	\$ 41,066,233	\$ 238,362,595	\$ 33,720,410

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

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**NOTE 7 – iLOTTERY NET WIN**

iLottery revenue is reported in ticket sales net of discounts and prize expense in the Statement of Revenues, Expenses, and Changes in Net Position (refer to Supplementary Schedule of Revenue and Expenses for details of sales and prize awards of each Lottery game). The following schedule details the iLottery sales and prize activity for the year ending September 30, 2014:

iLottery	<u>Year Ended 2014</u>
Sales	\$ 3,914,115
Prizes	(3,357,664)
iLottery Net Win	<u>\$ 556,451</u>

**NOTE 8 - 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 of employees hired prior to October 1, 1980, 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, 2014.

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long- Term Liability
2014	\$ 1,849,911	\$ 1,434,968	\$ 1,640,895	\$ 1,643,984	\$ 803,723	\$ 840,261
2013	\$ 1,779,996	\$ 1,445,238	\$ 1,375,323	\$ 1,849,911	\$ 771,672	\$ 1,078,239

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

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**NOTE 9 – PENSION AND POST-RETIREMENT BENEFITS**

Lottery employees are included in either the Defined Benefit Plan (Plan 1) or the Defined Contribution Plan (Plan 2) as described below.

Defined Benefit Plan (Plan 1)

The Lottery's employees hired prior to March 31, 1997, are enrolled in a noncontributory defined benefit plan through the State Employees' Retirement System upon meeting certain eligibility requirements. Changes in Public Act 264 of 2011 to the defined benefit plan granted members a choice regarding their future retirement plan. Members could voluntarily pay 4% of compensation to remain in this pension plan for future service or become a participant in the defined contribution plan for future years of service. Member elections were implemented on April 26, 2012. Generally, qualified participants in the defined benefit plan are eligible 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. Employees become vested for retiree health insurance benefits with 10 or more years of service.

Defined Contribution Plan (Plan 2)

The Lottery's employees hired after March 31, 1997, are enrolled in a defined contribution plan through the State Employee's Retirement System upon meeting certain eligibility requirements. Changes in Public Act 264 of 2011 included an option for former vested and non-vested members of the defined benefit plan to voluntarily elect to enroll in the defined contribution plan including those former employees returning to state employment between January 1, 2012 and January 1, 2014. Also, those currently in the defined contribution plan were given the option to change their retirement health care. Members could keep the graded premium subsidy to accrue credit towards insurance premiums in retirement, or choose the Personal Healthcare Fund plan to pay healthcare expenses in retirement. Generally, qualified participants in the defined contribution plan are 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 this plan are 100% vested for any employee contributions. Participants become vested for 50% of the employer contributions after two years of service, 75% after three years of service and 100% after four years of service. Employees become vested for retiree health insurance benefits with ten or more years of service.

The cost of these pension and other post-employment benefits are allocated to the Lottery as a percentage of gross payroll. Beginning with the October 25, 2012 pay date, the contribution rate to fund the unfunded actuarial accrued liability (UAAL) of Other Post-Employment Benefits (OPEB) was applied to combined payrolls of the defined benefit and defined contribution plans in accordance with MCL 38.38(3). The payroll for the Lottery employees covered by Plan 1 and Plan 2 was \$6,111,526, \$5,716,829, and \$5,442,671 for the six months ended September 30, 2014, 2013 and 2012 respectively and \$11,917,270, \$11,563,295, and \$10,839,192 for the years ended September 30, 2014, 2013, and 2012, respectively. The Lottery's allocated contribution requirements and contributions actually made were \$3,744,601, \$3,319,536, and \$3,143,347 for the six months ended September 30, 2014, 2013, and 2012, respectively and \$7,349,913, \$6,727,234, and \$5,365,424 for the years ended September 30, 2014, 2013, and 2012, respectively.

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

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Contributions represent approximately 61.7%, 58.2%, and 49.5% of covered payroll during 2014, 2013, and 2012, respectively.

Public Act 185 of 2010 established a supplemental pension for all State of Michigan employees who qualified and retired under the 2010 incentive.

Supplemental Retirement

State of Michigan employees who retired under this incentive agreed to forfeit the lump sum payment of their accumulated annual, sick, and other deferred leave time payouts and will instead receive an equal amount through a supplemental pension payment over 60 monthly installments beginning January 1, 2011. The amount of the 60 monthly charges, once calculated, should remain constant unless 1) the retiree dies without a designated pension beneficiary in which case a lump sum of the remaining balance will be paid out to the refund beneficiary, b) the retiree returns to work in which case the supplemental pension benefit will be suspended, or c) there was an error in the initial calculation which required correction after benefit payments began.

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long- Term Liability
2013	\$ 231,573	\$ -	\$ 102,560	\$ 129,013	\$ 102,559	\$ 26,454
2013	\$ 334,132	\$ -	\$ 102,559	\$ 231,573	\$ 102,559	\$ 129,014

Additional detail and data regarding Plan 1 and Plan 2 descriptions, vesting and eligibility requirements, actuarial cost methods and assumptions, funding requirements, accounting policies, 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 Office of Retirement Systems. The reports may be obtained by writing to the Department of Technology, Management and Budget, Office of Retirement Services, 7150 Harris Dr., P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

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

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**NOTE 10 - LEASE AND RENTAL COMMITMENTS**

The total operating lease expense on long-term lease commitments for years ended September 30, 2014 and 2013 were \$210,629. For the six months ended September 30, 2014 and 2013 long term lease commitments were \$105,314. 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>
2015	\$ 187,379
2016	154,830
2017	154,830
2018	78,805
2019	63,600
2020-2023	106,000

The total rent and lease expenses paid for all buildings for the years ended September 30, 2014 and 2013 were \$1,096,844 and \$1,070,560, respectively. For the six months ended September 30, 2014 and 2013 rent and lease expenses paid for all buildings were \$548,422 and \$532,509, respectively.

**NOTE 11 - 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.

**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 was 1.2757% of sales through July 31, 2012. Per an amendment effective August 1, 2012, additional equipment was acquired, increasing this rate to 1.32587% through January 19, 2014 and to 1.23017% from January 20, 2014 through January 19, 2015. Per an addendum signed December 31, 2011, a gaming service was contracted for a player card loyalty prepaid debit card program known as the WonCard which was implemented on July 30, 2013. The compensation for this program is 2.0% for the WonCard validations of \$600 or less that are automatically credited to the WonCard.

The Lottery has contracted with another third party to provide the development, implementation, operational support and maintenance of an iLottery System and iLottery Games through August 2018. The contract rate is 19.60% of total gross profit.

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**  
**Notes to Financial Statements**

**NOTE 13 - TRANSACTIONS WITH OTHER STATE AGENCIES**

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. The Charitable Gaming millionaire party activities were transferred to the Gaming Control Board by Executive Order in April 2012. The following is a summarization of these charges for the six month periods and years ended September 30, 2014 and 2013:

September 30, 2014	Six Months Ended	Year Ended
<b>Department of Technology, Management &amp; Budget:</b>		
Information Technology:		
Direct costs	\$ 730,814	\$ 3,012,908
Lansing Metropolitan Area Network (LMAN)	31,198	41,640
Michigan.gov portal web charges	107,193	224,880
Overhead	5,900	162,334
Total Information Technology charges	875,105	3,441,762
Support services (including Internal Audit)	168,650	352,600
Space rental - Lottery Central, Detroit, Saginaw offices	431,420	880,059
Vehicle and travel services	479,855	808,494
Other - Telephone, mailing and other offices services	334,827	520,579
<b>Total Department of Technology, Management &amp; Budget</b>	<b>2,289,857</b>	<b>6,003,494</b>
<b>Gaming Control Board</b>	<b>1,155,285</b>	<b>2,330,093</b>
<b>Civil Service Commission</b>	<b>184,138</b>	<b>368,276</b>
<b>Department of Treasury</b>	<b>346,261</b>	<b>727,609</b>
<b>Attorney General</b>	<b>124,098</b>	<b>288,448</b>
<b>Other Agencies</b>	<b>11,862</b>	<b>16,730</b>
Total all State agencies	<b>\$ 4,111,501</b>	<b>\$ 9,734,650</b>
September 30, 2013	Six Months Ended	Year Ended
<b>Department of Technology, Management &amp; Budget:</b>		
Information Technology:		
Direct costs	\$ 375,803	\$ 2,580,700
Lansing Metropolitan Area Network (LMAN)	24,332	32,274
Michigan.gov portal web charges	112,453	220,367
Overhead	46,450	270,077
Total Information Technology charges	559,038	3,103,418
Support services (including Internal Audit)	160,450	295,000
Space rental - Lottery Central, Detroit, Saginaw offices	424,117	853,776
Vehicle and travel services	425,232	831,376
Other - Telephone, mailing and other offices services	138,399	278,381
<b>Total Department of Technology, Management &amp; Budget</b>	<b>1,707,236</b>	<b>5,361,951</b>
<b>Gaming Control Board</b>	<b>1,516,836</b>	<b>2,543,321</b>
<b>Civil Service Commission</b>	<b>165,415</b>	<b>331,855</b>
<b>Department of Treasury</b>	<b>257,076</b>	<b>502,456</b>
<b>Attorney General</b>	<b>134,040</b>	<b>264,721</b>
<b>Other Agencies</b>	<b>12,213</b>	<b>19,027</b>
Total all State agencies	<b>\$ 3,792,816</b>	<b>\$ 9,023,331</b>



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

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**NOTE 14 – UPCOMING ACCOUNTING PRONOUNCEMENTS**

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the proprietary statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Lottery is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the financial statements for the 2014-2015 fiscal year.

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2014**

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 165,960,673	12.9%	\$ 327,030,215	12.6%
	Daily 4	189,348,389	14.7%	366,322,891	14.1%
	Lotto 47	22,926,154	1.8%	44,237,876	1.7%
	Lotto 47 EZ Match	1,714,448	0.1%	1,714,448	0.1%
	Mega Millions	47,216,606	3.7%	133,279,985	5.1%
	Megaplier	3,185,802	0.2%	7,411,559	0.3%
	Powerball	45,970,504	3.6%	99,252,820	3.8%
	Power Play	2,341,321	0.2%	4,733,183	0.2%
	Keno	5,078,544	0.4%	10,314,354	0.4%
	Fantasy Five	27,827,632	2.2%	55,545,205	2.1%
	Fantasy Five EZ Match	4,518,023	0.4%	4,518,023	0.2%
	Raffle	1,693,890	0.1%	5,788,120	0.2%
	Club Keno	198,562,371	15.4%	399,753,197	15.4%
	Club Keno Kicker	70,138,409	5.4%	140,656,201	5.4%
	The Jack	5,444,250	0.4%	10,695,413	0.4%
	Poker Lotto	12,687,167	1.0%	39,084,583	1.5%
	Pull-Tab tickets	16,338,219	1.3%	32,362,857	1.2%
	Instant tickets	466,452,718	36.2%	913,153,764	35.3%
	iLottery Instants, Net Win	556,451	0.0%	556,451	0.0%
Total lottery ticket sales		1,287,961,571	100.0%	2,596,411,145	100.0%
Prize awards:	Daily 3	81,943,893	6.4%	158,689,389	6.1%
	Daily 4	116,392,524	9.0%	195,960,309	7.5%
	Lotto 47	12,085,429	0.9%	24,253,558	0.9%
	Lotto 47 EZ Match	1,084,005	0.1%	1,084,005	0.0%
	Mega Millions/Megaplier	24,359,047	1.9%	70,078,857	2.7%
	Powerball/Power Play	24,760,059	1.9%	52,738,877	2.0%
	Keno	2,556,240	0.2%	4,640,587	0.2%
	Fantasy Five	15,076,386	1.2%	29,281,511	1.1%
	Fantasy Five EZ Match	2,853,406	0.2%	2,853,406	0.1%
	Raffle	1,092,437	0.1%	3,598,012	0.1%
	Poker Lotto	7,990,197	0.6%	24,105,920	0.9%
	Club Keno/Kicker/Jack	179,168,771	13.9%	357,620,046	13.8%
	Players Club all games	-	0.0%	735,492	0.0%
	Merchandise Prizes	167,872	0.0%	172,370	0.0%
	Pull-Tab tickets	11,782,787	0.9%	23,746,117	0.9%
	Instant tickets	329,682,174	25.7%	641,135,154	24.9%
Total prize awards		810,995,227	63.0%	1,590,693,610	61.2%
Less: unclaimed prizes		(15,321,500)	-1.2%	(30,830,086)	-1.2%
Net prize awards		795,673,727	61.8%	1,559,863,524	60.1%
Gross margin		492,287,844	38.2%	1,036,547,621	39.9%
Retailer and vendor commission expense		(112,666,111)	-8.7%	(226,667,257)	-8.7%
Game-related expense		(11,107,586)	-0.9%	(23,177,532)	-0.9%
Net ticket revenue		368,514,147	28.6%	786,702,832	30.3%
Other operating expense		(20,524,246)	-1.6%	(42,999,911)	-1.7%
Other miscellaneous revenue		367,028	0.0%	701,068	0.0%
Net lottery operating income		348,356,929	27.0%	744,403,989	28.6%

Continued

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2014**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	5,864,999	0.5%	11,808,266	0.5%
Charitable gaming expense	(4,354,855)	-0.3%	(8,885,092)	-0.3%
Net charitable gaming income	<u>1,510,144</u>	<u>0.2%</u>	<u>2,923,174</u>	<u>0.2%</u>
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (4,569,328)	-0.4%	\$ (9,715,320)	-0.4%
Amortization revenue - investment discount	4,482,150	0.3%	9,135,362	0.4%
Unrealized gain on investments	9,816,933	0.8%	8,866,305	0.3%
Interest revenue - common cash fund	37,447	0.0%	78,949	0.0%
Bank fees	(2,437)	0.0%	(4,264)	0.0%
Loss on disposal of assets	-	0.0%	(1,402)	0.0%
Disbursement to School Aid Fund	(347,754,761)	-27.0%	(742,852,314)	-28.6%
Disbursement to School Aid Fund-Club Keno Adv	(55,000)	0.0%	(55,000)	0.0%
Disbursement to General Fund	(1,510,144)	-0.1%	(2,923,174)	-0.1%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	<u>(340,050,140)</u>	<u>-26.4%</u>	<u>(738,460,858)</u>	<u>-28.4%</u>
Change in net position	<u>\$ 9,816,933</u>	<u>0.8%</u>	<u>\$ 8,866,305</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, 2013**

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 163,148,368	13.0%	\$ 321,124,099	13.0%
	Daily 4	177,501,011	14.1%	351,040,750	14.2%
	Classic Lotto 47	30,680,278	2.4%	52,357,520	2.1%
	Mega Millions	52,967,671	4.2%	96,510,944	3.9%
	Megaplier	2,723,768	0.2%	5,067,608	0.2%
	Powerball	93,199,956	7.4%	180,517,576	7.3%
	Power Play	3,211,084	0.3%	6,296,318	0.3%
	Keno	5,593,126	0.4%	11,393,756	0.5%
	Fantasy Five	26,184,023	2.1%	53,261,306	2.2%
	Raffle	2,158,280	0.2%	5,954,230	0.2%
	Club Keno	190,402,453	15.1%	389,451,093	15.7%
	Club Keno Kicker	65,862,127	5.2%	134,539,694	5.4%
	The Jack	4,357,840	0.3%	10,151,805	0.4%
	Pull-Tab tickets	15,908,324	1.3%	31,684,717	1.3%
	Instant tickets	424,636,957	33.8%	827,046,977	33.3%
	<b>Total lottery ticket sales</b>	<b>1,258,535,266</b>	<b>100.0%</b>	<b>2,476,398,393</b>	<b>100.0%</b>
Prize awards:	Daily 3	84,810,856	6.7%	166,610,894	6.7%
	Daily 4	92,998,126	7.4%	173,562,660	7.0%
	Classic Lotto 47	17,405,267	1.4%	29,211,246	1.2%
	Mega Millions/Megaplier	27,325,522	2.2%	49,789,887	2.0%
	Powerball/Power Play	46,506,932	3.7%	93,145,641	3.8%
	Keno	2,616,515	0.2%	5,553,277	0.2%
	Fantasy Five	13,220,464	1.1%	27,605,017	1.1%
	Raffle	1,459,225	0.1%	3,964,565	0.2%
	Club Keno/Kicker/Jack	168,652,849	13.4%	345,970,591	14.0%
	Players Club all games	370,000	0.0%	1,355,492	0.1%
	Merchandise Prizes	37,746	0.0%	37,495	0.0%
	Pull-Tab tickets	11,866,424	0.9%	23,576,799	1.0%
	Instant tickets	301,248,990	23.9%	573,054,418	23.0%
	<b>Total prize awards</b>	<b>768,518,916</b>	<b>61.0%</b>	<b>1,493,437,982</b>	<b>60.3%</b>
	Less: unclaimed prizes	(15,944,714)	-1.3%	(31,894,577)	-1.3%
	<b>Net prize awards</b>	<b>752,574,202</b>	<b>59.7%</b>	<b>1,461,543,405</b>	<b>59.0%</b>
	<b>Gross margin</b>	<b>505,961,064</b>	<b>40.3%</b>	<b>1,014,854,988</b>	<b>41.0%</b>
	Retailer and vendor commission expense	(110,207,079)	-8.8%	(215,453,227)	-8.7%
	Game-related expense	(10,759,315)	-0.9%	(20,615,718)	-0.8%
	<b>Net ticket revenue</b>	<b>384,994,670</b>	<b>30.6%</b>	<b>778,786,043</b>	<b>31.5%</b>
	Other operating expense	(21,002,402)	-1.7%	(41,516,829)	-1.7%
	Other miscellaneous revenue	646,993	0.1%	1,279,419	0.1%
	<b>Net lottery operating income</b>	<b>364,639,261</b>	<b>29.0%</b>	<b>738,548,633</b>	<b>29.9%</b>
Charitable gaming:	Charitable gaming revenue	6,568,268	0.5%	13,453,419	0.5%
	Charitable gaming expense	(4,416,212)	-0.4%	(8,939,353)	-0.4%
	<b>Net charitable gaming income</b>	<b>2,152,056</b>	<b>0.1%</b>	<b>4,514,066</b>	<b>0.1%</b>

Continued

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2013**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (7,207,142)	-0.6%	\$ (13,188,590)	-0.5%
Amortization revenue - investment discount	4,794,529	0.4%	9,854,121	0.4%
Unrealized loss on investments	(12,387,758)	-1.0%	(17,056,447)	-0.7%
Interest revenue - common cash fund	66,279	0.0%	124,352	0.0%
Bank fees	(2,025)	0.0%	(4,188)	0.0%
Disbursement to School Aid Fund	(361,795,902)	-28.7%	(734,344,328)	-29.7%
Disbursement to General Fund	(2,152,056)	-0.2%	(4,514,066)	-0.2%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(379,179,075)	-30.1%	(760,119,146)	-30.6%
Change in net position	\$ (12,387,758)	-1.0%	\$ (17,056,447)	-0.7%

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Other Operating Expenses**  
**For the Six Months and Years Ended September 30, 2014 and 2013**

	Six Months Ended		Years Ended	
	2014	2013	2014	2013
Salaries and wages	\$ 6,271,799	\$ 5,868,969	\$ 12,149,463	\$ 11,896,436
Employee benefits and taxes	4,579,701	4,290,377	9,724,634	9,245,963
Promotion and advertising	8,505,827	10,177,908	17,632,000	17,631,708
Printing and supplies, including purchase of charitable gaming tickets	789,958	714,901	1,537,630	1,498,378
Other contractual services	3,274,288	2,971,871	7,929,450	7,279,821
Building rent and leases	548,422	532,509	1,096,844	1,070,560
Travel	463,200	479,042	902,618	917,265
Utilities	132,908	113,459	270,362	251,616
Postage	149,849	137,488	272,316	260,161
Equipment maintenance and rental	1,458	(21,407)	69,413	70,598
Bad debt expense	56,742	18,677	87,171	95,317
Interest paid on security deposits	677	481	1,444	1,370
Total	<u>\$ 24,774,829</u>	<u>\$ 25,284,275</u>	<u>\$ 51,673,345</u>	<u>\$ 50,219,193</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.

<b><u>Contents</u></b>	<b><u>Page</u></b>
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**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2014.





**Bureau of State Lottery, State of Michigan**  
**Financial Trends**  
**Net Position**  
**Fiscal Years Ending September 30, 2005 through September 30, 2014**  
**(In Millions)**

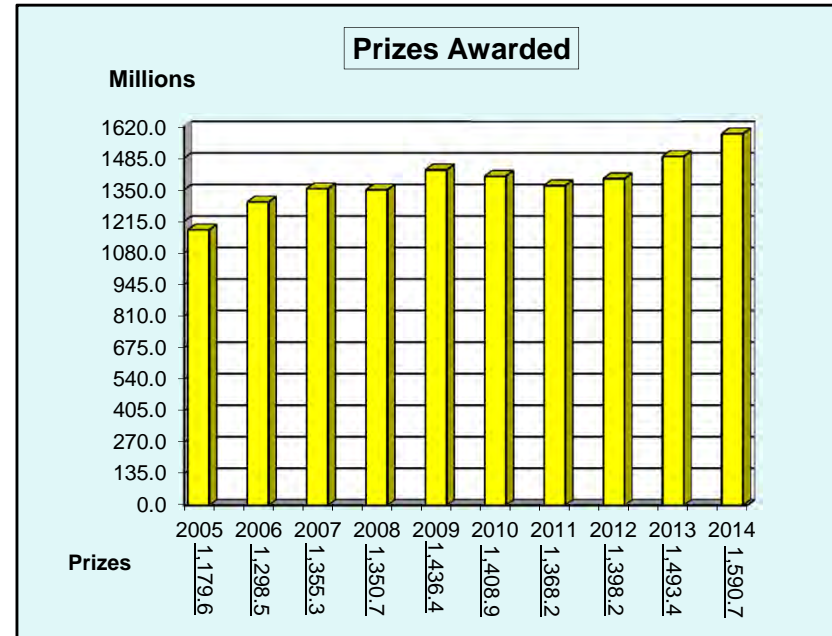
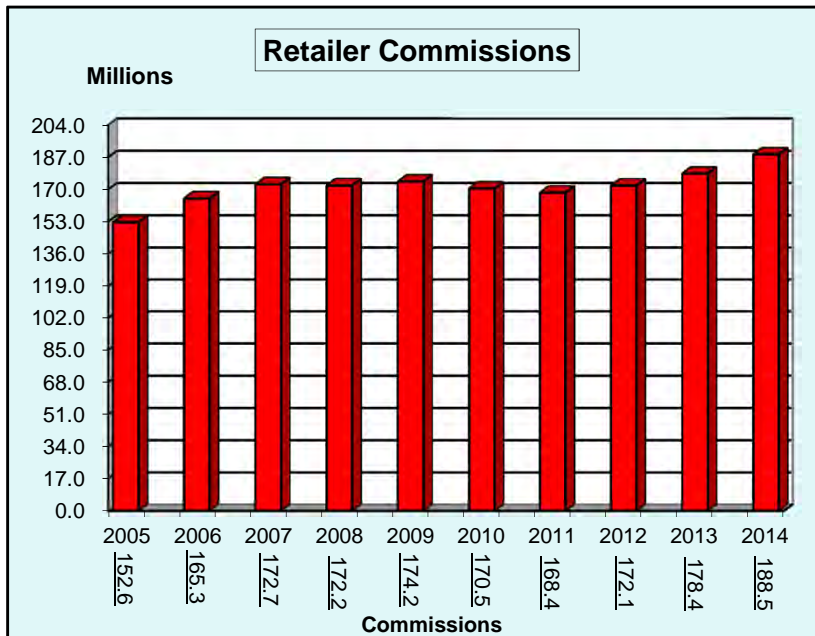
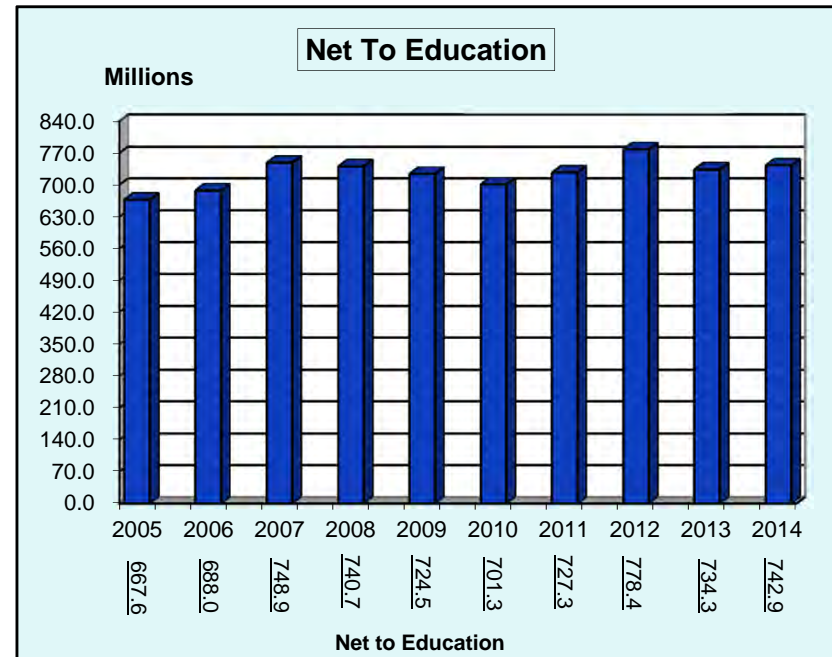
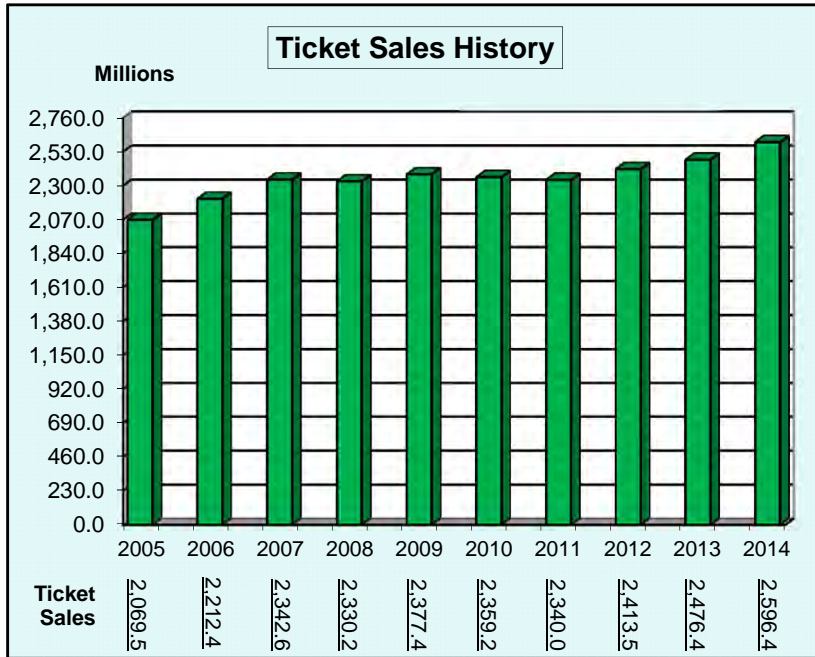
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Net position</b>										
Net investment in capital assets	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.7	\$ 0.6	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.6
Restricted for unrealized gains on investments	52.4	36.1	31.9	36.8	7.6	14.3	30.5	35.0	17.9	26.8
Unrestricted (deficit)	<u>(0.5)</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.8)</u>	<u>(0.7)</u>	<u>(0.6)</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.8)</u>	<u>(0.6)</u>
<b>Total net position</b>	<u>\$ 52.4</u>	<u>\$ 36.1</u>	<u>\$ 31.9</u>	<u>\$ 36.8</u>	<u>\$ 7.6</u>	<u>\$ 14.3</u>	<u>\$ 30.5</u>	<u>\$ 35.0</u>	<u>\$ 17.9</u>	<u>\$ 26.8</u>



**Bureau of State Lottery, State of Michigan**  
**Financial Trends**  
**Changes in Net Position**  
**Fiscal Years Ending September 30, 2005 through September 30, 2014**  
**(In Millions)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Operating revenues</b>										
Ticket sales	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9	\$ 2,413.4	\$ 2,476.4	\$ 2,596.4
Charitable gaming and other	20.6	19.8	20.4	20.9	21.5	20.7	17.5	16.8	14.7	12.5
Total operating revenues	<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>	<u>2,357.4</u>	<u>2,430.2</u>	<u>2,491.1</u>	<u>2,608.9</u>
<b>Operating expenses</b>										
Prize awards	1,179.6	1,298.5	1,355.3	1,350.7	1,436.3	1,408.9	1,368.2	1,398.2	1,493.5	1,590.7
Less - unclaimed prizes	<u>(17.6)</u>	<u>(30.3)</u>	<u>(26.2)</u>	<u>(27.4)</u>	<u>(28.7)</u>	<u>(27.3)</u>	<u>(23.9)</u>	<u>(28.4)</u>	<u>(31.9)</u>	<u>(30.8)</u>
Net prize awards	1,162.0	1,268.2	1,329.1	1,323.3	1,407.6	1,381.6	1,344.3	1,369.8	1,461.6	1,559.9
Retailer commissions	152.7	165.3	172.7	172.1	174.2	170.5	168.4	172.1	178.5	188.5
Game related expenses	56.8	60.0	63.0	63.4	53.8	53.0	53.9	53.3	57.6	61.3
Other operating expenses	43.4	45.3	45.3	47.0	56.7	56.6	49.4	45.9	50.4	51.9
Total operating expenses	<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>	<u>1,616.0</u>	<u>1,641.1</u>	<u>1,748.1</u>	<u>1,861.6</u>
Operating income	<u>675.2</u>	<u>693.4</u>	<u>752.9</u>	<u>745.2</u>	<u>706.7</u>	<u>718.2</u>	<u>741.4</u>	<u>789.1</u>	<u>743.0</u>	<u>747.3</u>
<b>Non-operating revenues</b>										
Investment revenue	11.8	14.7	22.2	26.9	18.7	17.0	27.7	15.5	(7.2)	18.0
Interest on equity in State Treasurer's Common Cash Fund	2.5	4.1	5.2	3.1	1.1	0.3	0.2	0.1	0.1	0.1
Revenue from security lending	6.4	16.3	20.9	13.0	-	-	-	-	-	-
Total non-operating revenues	<u>20.7</u>	<u>35.1</u>	<u>48.3</u>	<u>43.0</u>	<u>19.8</u>	<u>17.3</u>	<u>27.9</u>	<u>15.6</u>	<u>(7.1)</u>	<u>18.1</u>
<b>Non-operating expenses</b>										
Security lending expenses	(6.0)	(16.0)	(19.8)	(10.3)	-	-	-	-	-	-
Amortization of prize obligation discount	<u>(34.2)</u>	<u>(29.4)</u>	<u>(24.9)</u>	<u>(20.7)</u>	<u>(18.4)</u>	<u>(15.2)</u>	<u>(15.5)</u>	<u>(13.3)</u>	<u>(13.2)</u>	<u>(9.7)</u>
Non-operating expenses before disbursements	<u>(40.2)</u>	<u>(45.4)</u>	<u>(44.7)</u>	<u>(31.0)</u>	<u>(18.4)</u>	<u>(15.2)</u>	<u>(15.5)</u>	<u>(13.3)</u>	<u>(13.2)</u>	<u>(9.7)</u>
School Aid Fund disbursement	(667.6)	(688.0)	(748.9)	(740.7)	(724.5)	(701.3)	(727.3)	(778.4)	(734.3)	(742.8)
School Aid Fund disbursement-Club Keno Advertising	-	-	-	-	-	-	-	-	-	(0.1)
General Fund disbursement	(11.7)	(10.5)	(10.8)	(10.6)	(11.8)	(11.3)	(9.3)	(7.5)	(4.5)	(2.9)
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>(680.3)</u>	<u>(699.5)</u>	<u>(760.7)</u>	<u>(752.3)</u>	<u>(737.3)</u>	<u>(713.6)</u>	<u>(737.6)</u>	<u>(786.9)</u>	<u>(739.8)</u>	<u>(746.8)</u>
Total non-operating expenses	<u>(720.5)</u>	<u>(744.9)</u>	<u>(805.4)</u>	<u>(783.3)</u>	<u>(755.7)</u>	<u>(728.8)</u>	<u>(753.1)</u>	<u>(800.2)</u>	<u>(753.0)</u>	<u>(756.5)</u>
Net non-operating revenue (expense)	<u>(699.8)</u>	<u>(709.8)</u>	<u>(757.1)</u>	<u>(740.3)</u>	<u>(735.9)</u>	<u>(711.5)</u>	<u>(725.2)</u>	<u>(784.6)</u>	<u>(760.1)</u>	<u>(738.4)</u>
<b>Change in net position</b>	<u>\$ (24.6)</u>	<u>\$ (16.4)</u>	<u>\$ (4.2)</u>	<u>\$ 4.9</u>	<u>\$ (29.2)</u>	<u>\$ 6.7</u>	<u>\$ 16.2</u>	<u>\$ 4.5</u>	<u>\$ (17.1)</u>	<u>\$ 8.9</u>

**Bureau of State Lottery, State of Michigan  
Financial Trends 2005 through 2014**



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, 2005 through September 30, 2014**  
**(In Millions)**

<b>TICKET SALES</b>	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Instant Games</b>										
Instant Tickets	\$ 662.5	\$ 710.8	\$ 717.8	\$ 734.2	\$ 749.1	\$ 750.8	\$ 739.2	\$ 771.7	\$ 827.0	\$ 913.1
iLottery Instants, Net Win	-	-	-	-	-	-	-	-	-	0.6
<b>Club Games</b>										
Club Keno, Lucky Streak, The Jack	332.3	343.8	380.9	402.5	396.5	374.9	376.9	397.8	399.6	410.4
Club Keno Kicker, Lucky Streak Plus		80.3	110.3	124.0	123.5	115.6	124.1	128.2	134.5	140.7
Pull Tab, Insta Tabs	39.1	41.6	38.5	37.4	28.0	29.1	26.9	27.3	31.7	32.4
Total Club Games	371.4	465.7	529.7	563.9	548.0	519.6	527.9	553.3	565.8	583.5
<b>Draw Games</b>										
Daily 3, Double 3	402.9	385.7	369.1	347.2	351.0	344.2	327.4	323.5	321.1	327.0
Daily 4, Double 4	309.7	323.0	335.1	325.2	335.9	359.0	358.2	357.6	351.1	366.3
Winfall, Lotto 47, Lotto 47 EZ Match	55.7	50.7	53.1	64.1	64.2	43.8	44.1	48.3	52.4	45.9
Poker Lotto	-	-	-	-	-	-	-	-	-	39.1
Keno	13.5	14.6	14.0	13.9	14.0	13.0	12.5	12.4	11.4	10.3
Fantasy 5, Fantasy 5 EZ Match	49.9	45.5	49.4	51.3	51.3	56.1	53.7	51.9	53.2	60.1
Raffle			56.3	45.5	41.3	19.0	15.1	6.8	6.0	5.8
Lucky Lines						15.7	8.1	1.6	-	-
Powerball/Powerplay						64.5	85.9	119.5	186.8	104.0
Mega Millions/Megaplier	203.9	216.4	218.1	184.8	222.7	173.5	167.8	166.8	101.6	140.7
Total Draw Games	1,035.6	1,035.9	1,095.1	1,032.0	1,080.4	1,088.8	1,072.8	1,088.4	1,083.6	1,099.2
<b>TOTAL TICKET SALES</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>	<b>\$ 2,339.9</b>	<b>\$ 2,413.4</b>	<b>\$ 2,476.4</b>	<b>\$ 2,596.4</b>

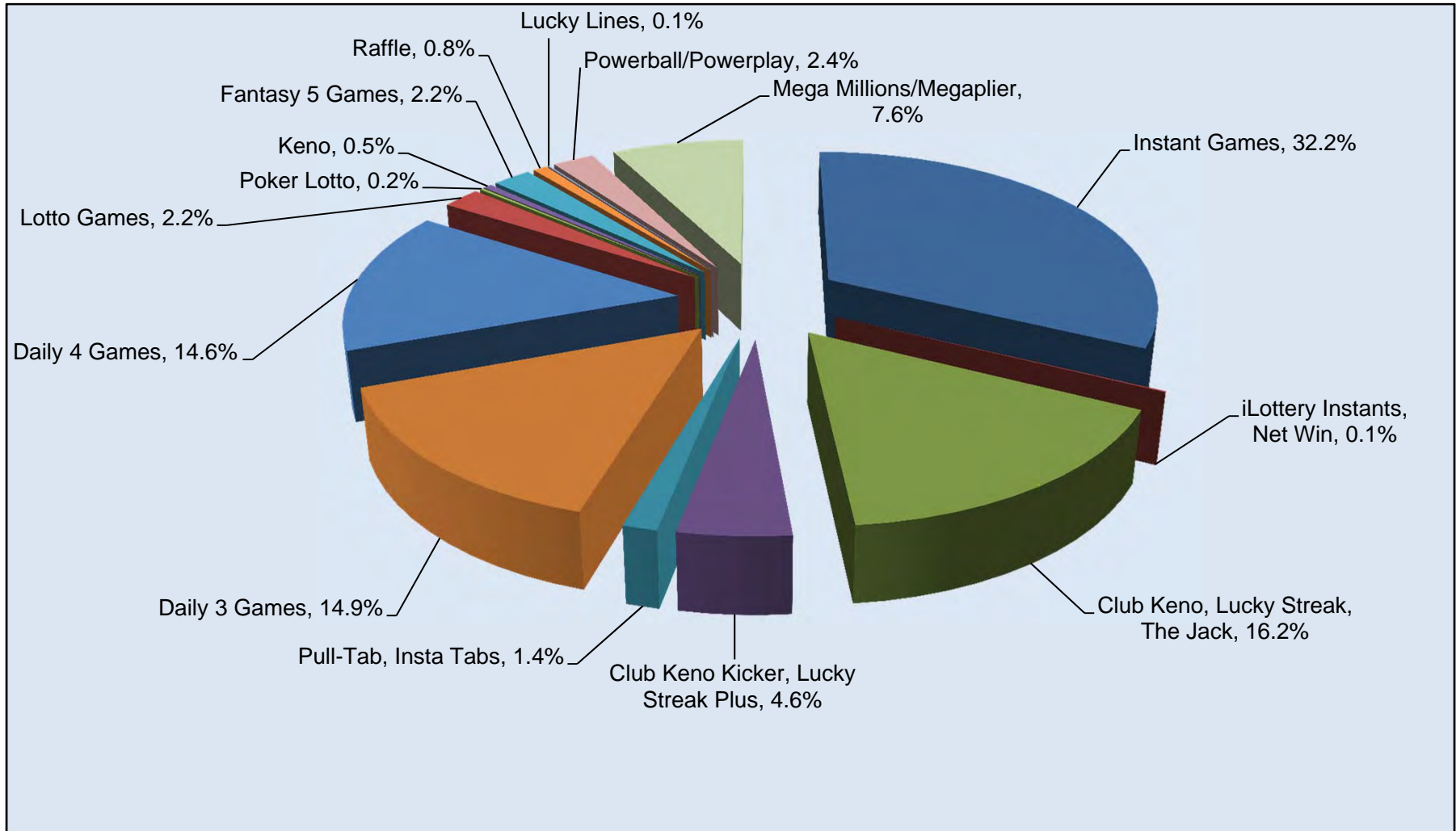
**PRICE PER TICKET:**

Instant Games	Range from \$1 to \$30	Draw Games: Daily 3	\$ .50 and \$1
iLottery Instants	Range from \$.25 to \$20	Raffle	Range from \$5 to \$50
Club Games: Club Keno, Kicker, Lucky Streak,	\$1	Powerball	\$2
Lucky Streak Plus, The Jack	\$1	Poker Lotto	\$2
Pull Tab, Insta Tab Games	Range from \$.50 to \$5	All other draw games	\$1

Note: Principal revenue payers are the general public. Please see Demographic and Economic Information on page 57 for statistics.

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan  
Revenue Capacity  
Ticket Sales 2005 through 2014**



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, 2005 through September 30, 2014**  
**(In Millions)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b><u>INSTALLMENT PRIZE AWARDS LIABILITY</u></b>										
Current - at face amount	\$ 94.7	\$ 86.5	\$ 75.9	\$ 68.8	\$ 59.5	\$ 53.1	\$ 49.8	\$ 40.9	\$ 34.6	\$ 29.7
Long-term - at face amount	<u>527.3</u>	<u>443.3</u>	<u>373.0</u>	<u>305.1</u>	<u>309.7</u>	<u>260.4</u>	<u>352.4</u>	<u>317.3</u>	<u>303.3</u>	<u>280.4</u>
Total installment prize awards	<u>\$ 622.0</u>	<u>\$ 529.8</u>	<u>\$ 448.9</u>	<u>\$ 373.9</u>	<u>\$ 369.2</u>	<u>\$ 313.5</u>	<u>\$ 402.2</u>	<u>\$ 358.2</u>	<u>\$ 337.9</u>	<u>\$ 310.1</u>
<b><u>INVESTMENTS</u></b>										
Face amount	<u>\$ 626.7</u>	<u>\$ 535.2</u>	<u>\$ 448.1</u>	<u>\$ 371.2</u>	<u>\$ 341.6</u>	<u>\$ 280.8</u>	<u>\$ 382.0</u>	<u>\$ 332.7</u>	<u>\$ 315.5</u>	<u>\$ 298.8</u>
Installment prize awards payable as a percentage of investments:	99.25%	98.99%	100.18%	100.73%	108.08%	111.65%	105.29%	107.66%	107.10%	103.78%

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





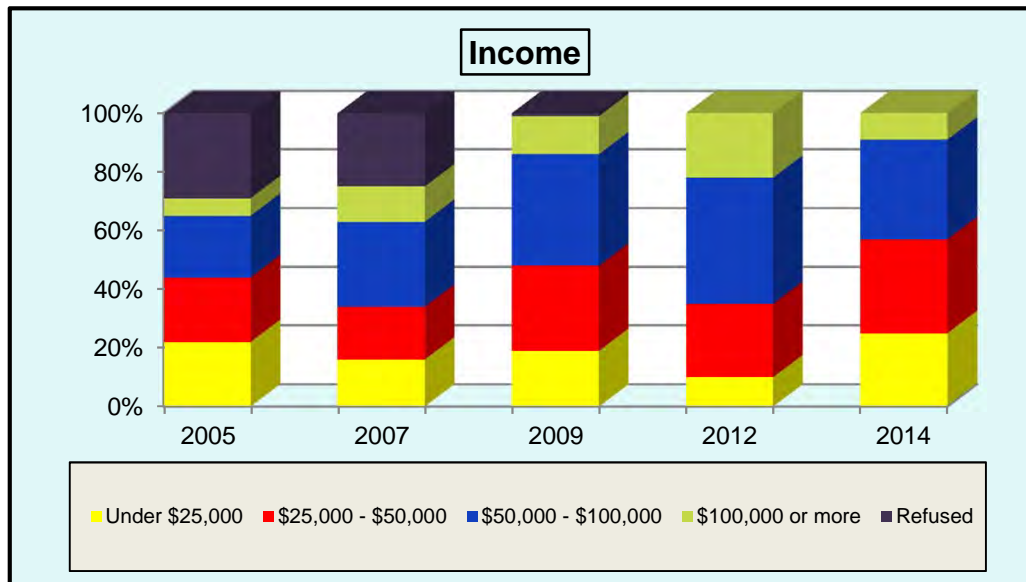
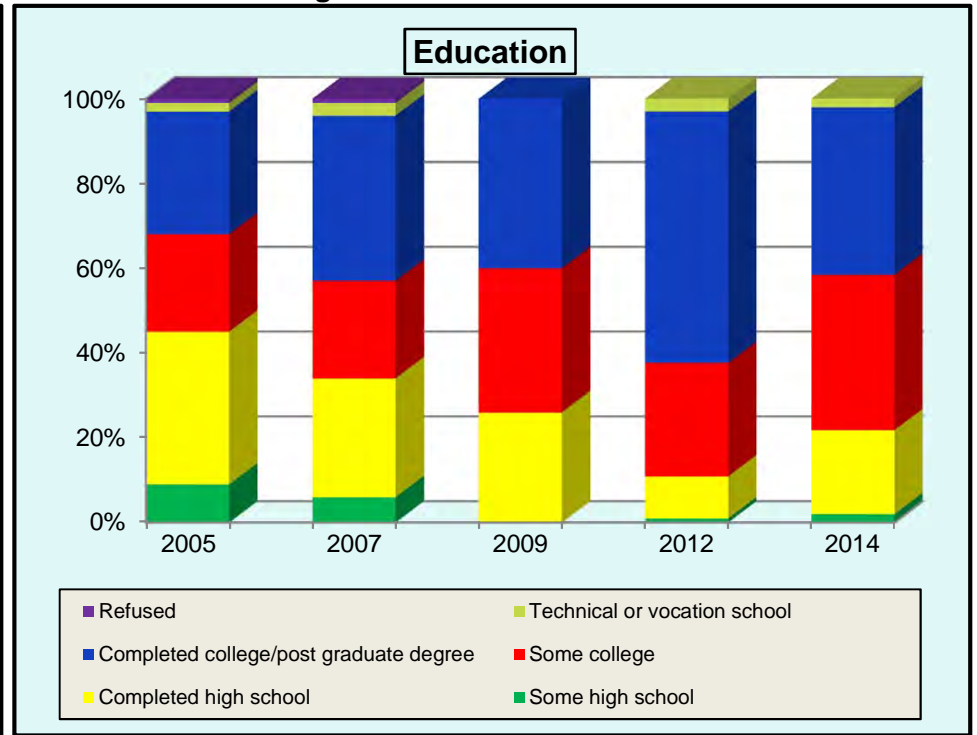
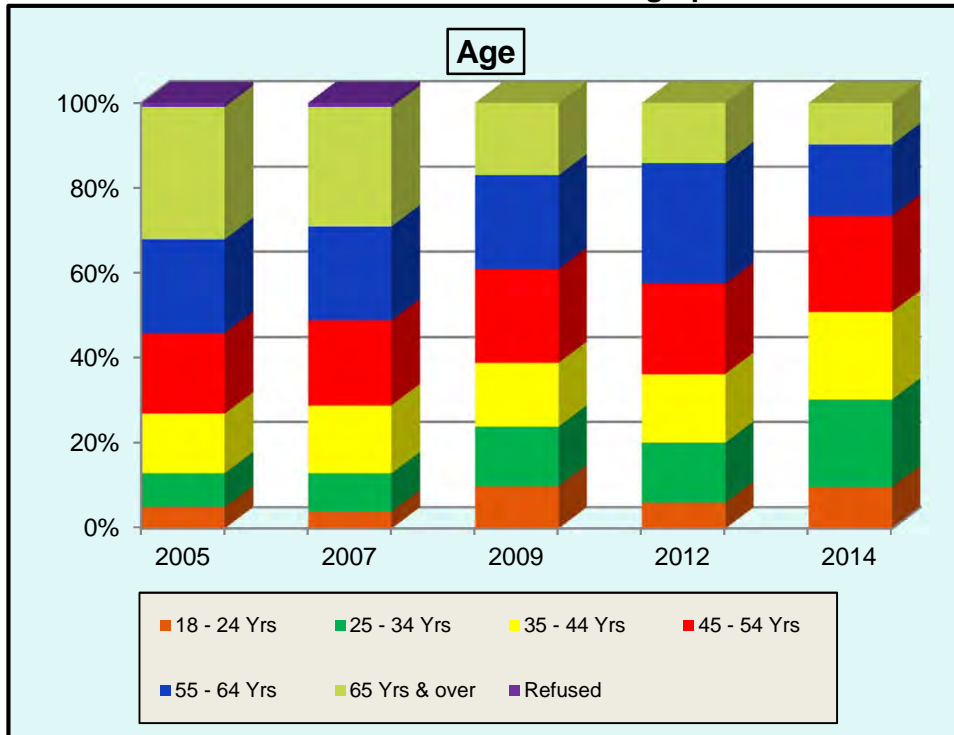
**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information  
Demographic General Tracking Study  
Fiscal Years Ending September 30, 2005 through September 30, 2014**

These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles.

	2005	2007	2009	2012	2014
<b>Gender</b>					
Male	50%	50%	49%	41%	48%
Female	50%	50%	51%	59%	52%
<b>Education</b>					
Some high school	9%	6%		1%	2%
Completed high school	36%	28%	26%	10%	20%
Some college	23%	23%	34%	27%	37%
Completed college/post graduate degree	29%	39%	40%	60%	40%
Technical or vocation school	2%	3%		3%	2%
Refused	1%	1%			
<b>Age</b>					
18 - 24 Yrs	5%	4%	10%	6%	10%
25 - 34 Yrs	8%	9%	14%	14%	21%
35 - 44 Yrs	14%	16%	15%	16%	21%
45 - 54 Yrs	19%	20%	22%	21%	23%
55 - 64 Yrs	22%	22%	22%	28%	17%
65 Yrs & over	31%	28%	17%	14%	10%
Refused	1%	1%			
<b>Income</b>					
Under \$25,000	22%	16%	19%	10%	25%
\$25,000 - \$50,000	22%	18%	29%	25%	32%
\$50,000 - \$100,000	21%	29%	38%	43%	34%
\$100,000 or more	6%	12%	13%	22%	9%
Refused	29%	25%	1%		
<b>Ethnicity</b>					
White	83%	80%	85%	83%	81%
Black/African-American/Caribbean-American	9%	10%	11%	11%	13%
Hispanic/Latino	1%	1%	1%	3%	3%
Asian/Pacific Islander					2%
Other	1%	1%	3%	3%	1%
Refused	6%	8%			

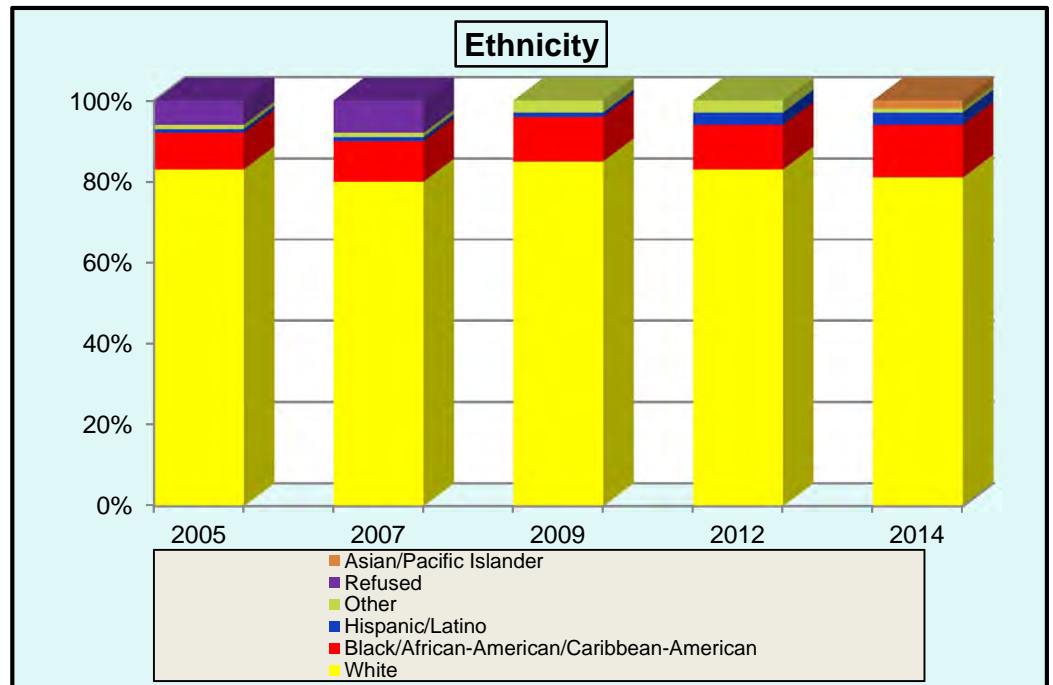
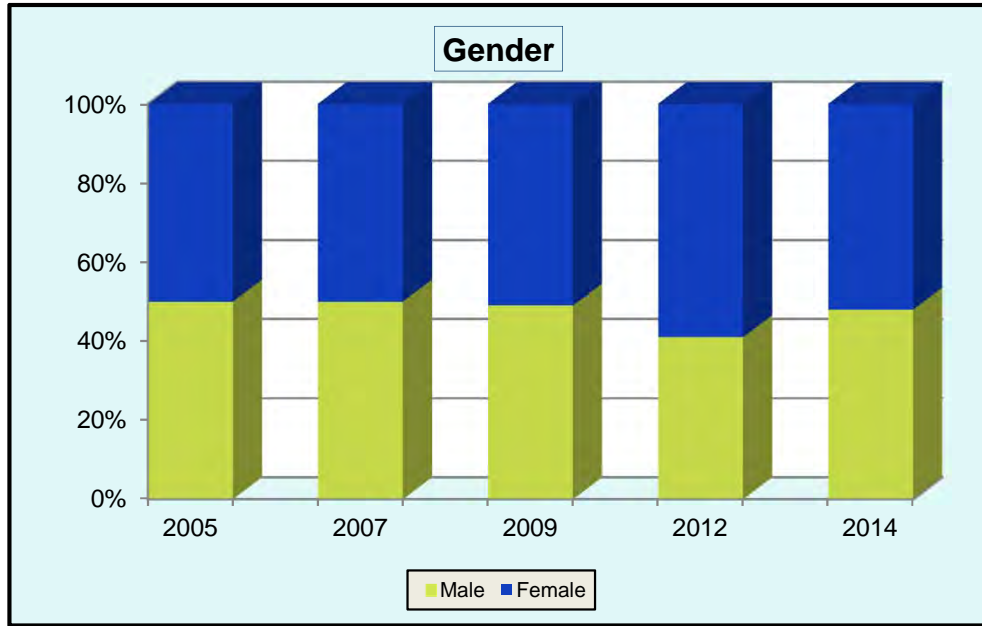
Source: Bureau of State Lottery  
General Tracking Study

**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information 2005 through 2014**



Source: Bureau of State Lottery  
General Tracking Study

**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information 2005 through 2014**



Source: Bureau of State Lottery  
General Tracking Study



**Bureau of State Lottery, State of Michigan**  
**Demographic and Economic Indicators**  
**Fiscal Years Ending September 30, 2004 through September 30, 2013**  
(In Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Population (a)</b>										
Michigan	10,103	10,108	10,102	10,072	10,002	9,970	9,877	9,876	9,883	9,896
United States	293,192	295,896	298,755	301,621	304,375	307,007	309,349	311,592	313,914	316,129
<b>Total Personal Income (b)</b>										
Michigan	\$ 318.7	\$ 325.3	\$ 332.7	\$ 345.9	\$ 349.6	\$ 342.3	\$ 342.7	\$ 358.2	\$ 378.4	\$ 386.5
United States	\$ 9,711.4	\$ 10,252.8	\$ 10,977.3	\$ 11,631.6	\$ 12,225.6	\$ 12,165.5	\$ 12,357.1	\$ 12,949.9	\$ 13,729.1	\$ 14,151.4
<b>Per Capita Income (b)</b>										
Michigan	\$ 31,550	\$ 32,182	\$ 32,928	\$ 34,342	\$ 34,949	\$ 34,334	\$ 34,691	\$ 36,264	\$ 38,291	\$ 39,055
United States	\$ 33,123	\$ 34,650	\$ 36,744	\$ 38,564	\$ 40,208	\$ 39,626	\$ 39,945	\$ 41,560	\$ 43,735	\$ 44,765
<b>Unemployment Rate (c)</b>										
Michigan	7.1%	6.9%	6.9%	7.2%	8.4%	15.3%	13.0%	9.3%	9.0%	7.2%
United States	5.5%	5.1%	4.6%	4.6%	5.8%	9.8%	9.6%	7.8%	7.2%	5.9%
<b>Michigan estimated wage and salary employees (c)</b>										
<b>Goods Producing:</b>										
Natural Resources and Mining	8.2	8.4	8.0	7.6	7.8	7.2	7.3	7.3	7.8	7.9
Construction	191.5	189.1	178.0	166.2	153.7	132.3	113.3	123.4	124.6	127.2
Manufacturing	700.7	680.0	650.8	616.8	575.3	463.8	464.1	510.8	546.5	566.3
<b>Total Goods Producing</b>	<u>900.3</u>	<u>877.5</u>	<u>836.9</u>	<u>790.5</u>	<u>736.8</u>	<u>603.3</u>	<u>584.7</u>	<u>641.5</u>	<u>678.9</u>	<u>701.4</u>
<b>Service-Providing:</b>										
<b>Private Service-Providing</b>										
<b>Trade, Transportation, and Utilities:</b>										
Wholesale Trade	170.5	170.7	170.6	169.1	166.7	150.2	152.3	158.0	159	163.8
Retail Trade	513.6	506.0	496.0	489.7	478.4	449.0	446.6	446.2	448.9	474.1
Transportation and Utilities	125.7	128.3	128.4	129.1	124.2	113.2	108.8	121.5	123.2	130.3
Information	68.6	67.3	66.1	65.6	61.8	54.3	52.5	54.6	52.1	56.2
<b>Financial Activities:</b>										
Finance and Insurance	161.3	161.8	160.9	157.8	152.3	139.8	135.2	144.5	148.5	151.6
Real Estate and Rental and Leasing	56.1	56.1	54.9	53.6	52.1	49.2	45.5	50.4	47.8	49.1
<b>Professional and Business Services:</b>										
Professional, Scientific, and Technical Services	244.2	246.4	244.9	244.2	240.1	215.6	214.8	235.0	250	264.6
Management of Companies and Enterprises	67.0	64.6	61.7	57.3	54.4	50.9	50.8	53.5	54.1	59
Administrative, Support Services, and Waste Management	270.1	277.5	275.1	271.8	262.5	239.8	248.3	271.4	271.9	281.7
<b>Educational and Health Services:</b>										
Educational Services	70.6	74.8	76.1	78.0	80.3	78.4	80.3	77.1	72.2	76.2
Health Care and Social Assistance	490.3	501.0	507.2	517.0	528.1	530.5	535.0	548.7	559.4	564.2
<b>Leisure and Hospitality:</b>										
Accommodation and Food Services	339.7	341.9	343.8	341.8	335.5	328.0	322.0	328.2	344.3	349.8
Other	62.3	62.6	61.8	62.7	62.6	65.5	51.8	46.9	42.5	36.8
<b>Other Services</b>	<u>179.6</u>	<u>179.6</u>	<u>177.5</u>	<u>176.7</u>	<u>175.6</u>	<u>168.2</u>	<u>164.4</u>	<u>170.4</u>	<u>169.4</u>	<u>171.2</u>
<b>Total Private Service-Providing</b>	<u>2,819.5</u>	<u>2,838.7</u>	<u>2,824.9</u>	<u>2,814.3</u>	<u>2,774.5</u>	<u>2,632.6</u>	<u>2,608.3</u>	<u>2,706.4</u>	<u>2,743.3</u>	<u>2,828.6</u>
<b>Government:</b>	<u>679.7</u>	<u>674.1</u>	<u>665.3</u>	<u>657.2</u>	<u>647.9</u>	<u>643.8</u>	<u>629.8</u>	<u>612.5</u>	<u>606.7</u>	<u>614.3</u>
<b>Total Service-Providing</b>	<u>3,499.2</u>	<u>3,512.8</u>	<u>3,490.3</u>	<u>3,471.4</u>	<u>3,422.4</u>	<u>3,276.4</u>	<u>3,238.1</u>	<u>3,318.9</u>	<u>3,350.0</u>	<u>3,442.9</u>
<b>Total Wage and Salary Employment</b>	<u>4,399.5</u>	<u>4,390.3</u>	<u>4,327.1</u>	<u>4,262.0</u>	<u>4,159.2</u>	<u>3,879.7</u>	<u>3,822.8</u>	<u>3,960.4</u>	<u>4,028.9</u>	<u>4,144.3</u>

NOTES: Calendar year 2013 is the most recent year for which data is available except for the State and U.S. unemployment rate  
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 Technology, Management & Budget and U.S. Department of Labor, Bureau of Labor Statistics

Due to confidentiality issues, the names of the top individual employers are not available. The industry data provided are intended to provide similar alternative information regarding the concentration of employment in various sectors of the Michigan economy.



**Bureau of State Lottery, State of Michigan**  
**Operating Information**  
**Fiscal Years Ending September 30, 2005 through September 30, 2014**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Number of Employees</b>	166	173	162	168	171	181	174	177	178	174
<b>Number of Retailers</b>										
Instant only	1,497	816	680	575	-	-	-	-	-	-
Club Games	2,077	2,216	2,371	2,474	2,478	-	-	-	-	-
Online	7,502	7,848	7,922	7,920	8,202	-	-	-	-	-
*All Games	-	-	-	-	-	10,797	10,746	10,879	10,848	10,684
Total Retailers	11,076	10,880	10,973	10,969	10,680	10,797	10,746	10,879	10,848	10,684
<b>Prize Payout Percentage</b>	57.00%	58.69%	57.85%	57.97%	60.42%	59.72%	58.47%	57.93%	60.31%	61.27%
<b>Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund</b>	32.26%	31.10%	31.97%	31.79%	30.47%	29.73%	31.08%	32.25%	29.65%	28.61%
<b>Number of Millionaire Prize Winners</b>	21	17	42	37	40	39	28	31	36	39
<b>Number of Prize Winners Greater than \$600</b>	44,692	52,124	49,585	44,962	53,986	60,543	48,567	44,904	52,365	56,735

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



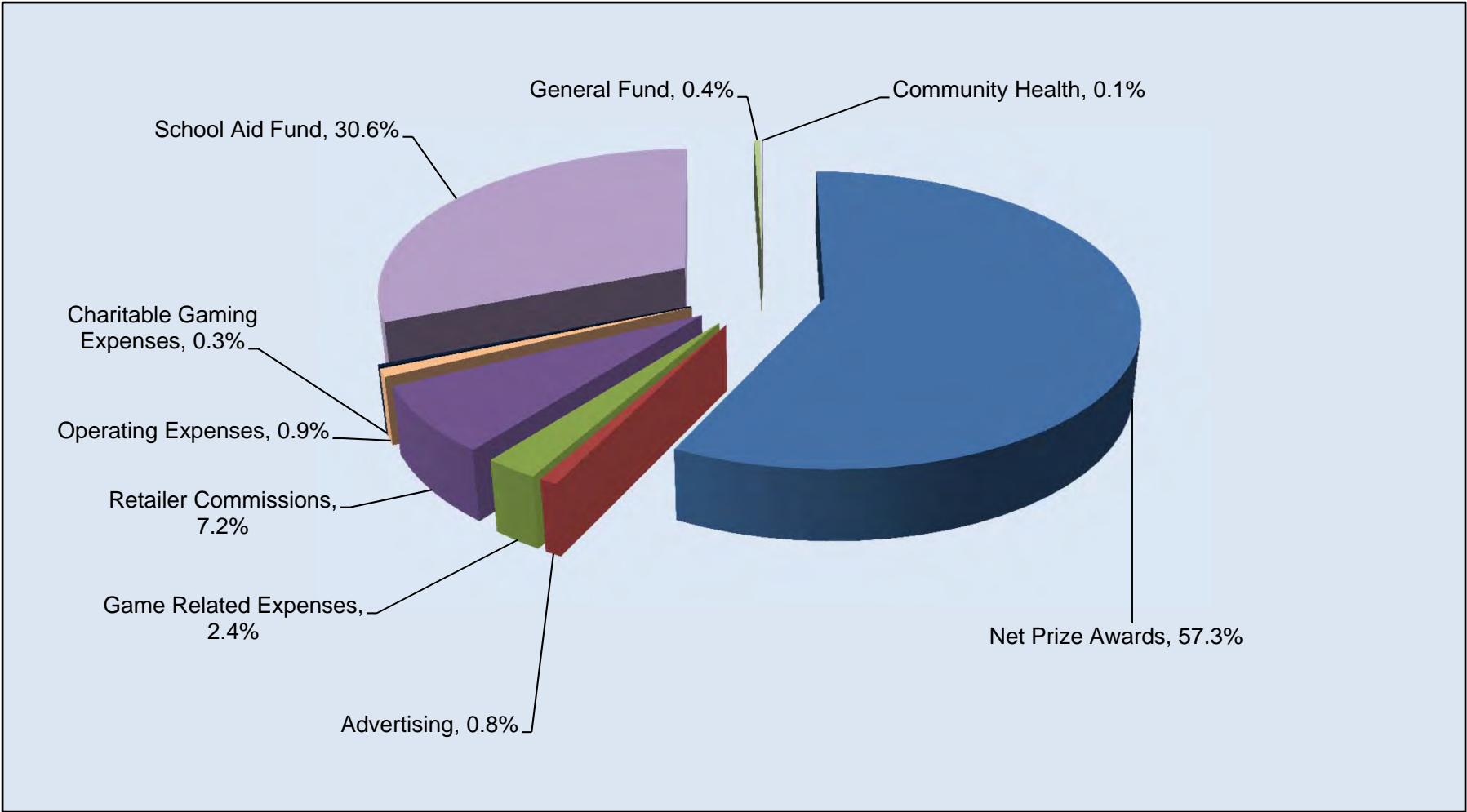
**Bureau of State Lottery, State of Michigan  
Operating Information**

**Expenses and Disbursements to the State's School Aid Fund, General Fund, and Community Health  
Fiscal Years Ending September 30, 2005 through September 30, 2014  
(In Millions)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>EXPENSES</b>										
Prize Awards	\$ 1,179.6	\$ 1,298.5	\$ 1,355.3	\$ 1,350.7	\$ 1,436.3	\$ 1,408.9	\$ 1,368.2	\$ 1,398.2	\$ 1,493.5	\$ 1,590.7
Unclaimed Prizes	(17.6)	(30.3)	(26.2)	(27.4)	(28.7)	(27.3)	(23.9)	(28.4)	(31.9)	(30.8)
Net Prize Awards	1,162.0	1,268.2	1,329.1	1,323.3	1,407.6	1,381.6	1,344.3	1,369.8	1,461.6	1,559.9
Promotion and Advertising	17.6	17.5	17.5	17.6	27.0	29.0	22.6	16.7	17.6	17.6
Game Related Expenses	56.8	60.0	63.0	63.4	53.8	53.0	53.9	53.3	57.6	61.3
Retailer Commissions	152.7	165.3	172.7	172.1	174.2	170.5	168.4	172.1	178.5	188.5
Operating Expenses	17.9	19.7	19.6	21.1	20.8	20.2	20.1	22.2	23.9	25.4
Charitable Gaming Expenses	7.9	8.1	8.2	8.3	8.9	7.4	6.7	7.0	8.9	8.9
<b>TOTAL EXPENSES</b>	<b>\$ 1,414.9</b>	<b>\$ 1,538.8</b>	<b>\$ 1,610.1</b>	<b>\$ 1,605.8</b>	<b>\$ 1,692.3</b>	<b>\$ 1,661.7</b>	<b>\$ 1,616.0</b>	<b>\$ 1,641.1</b>	<b>\$ 1,748.1</b>	<b>\$ 1,861.6</b>
<b>DISBURSEMENTS TO THE STATE</b>										
School Aid Fund	667.6	688.0	748.9	740.7	724.5	701.3	727.3	778.4	734.3	742.8
School Aid Fund-Club Keno Adv	-	-	-	-	-	-	-	-	-	0.1
General Fund	11.7	10.5	10.8	10.6	11.8	11.3	9.3	7.5	4.5	2.9
Community Health	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 680.3</b>	<b>\$ 699.5</b>	<b>\$ 760.7</b>	<b>\$ 752.3</b>	<b>\$ 737.3</b>	<b>\$ 713.6</b>	<b>\$ 737.6</b>	<b>\$ 786.9</b>	<b>\$ 739.8</b>	<b>\$ 746.8</b>

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan  
Operating Information  
Expenses and Disbursements 2005 through 2014**



Source: Bureau of State Lottery, State of Michigan

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

**Fiscal Year 2013 U.S. Lottery Sales, Prizes & Government Transfers Measured by GDP\***

Lottery	2013 Pop (Mil)	(in \$millions)					PC Sales	PC Gov't	Ticket Sales as % of GDP	Gov't Transfers as % of GDP
		2012 Gross Domestic Product	Traditional Ticket Sales <sup>1</sup>	VLT (net) <sup>2</sup>	Prizes <sup>3</sup>	Gov't Transfers <sup>4</sup>				
Arizona	6.6	230,641	692.94		426.14	177.81	\$105	\$27	0.300%	0.077%
Arkansas	3.0	93,892	439.55		292.12	90.46	\$149	\$31	0.468%	0.096%
California	38.3	1,751,002	4,445.87		2,652.10	1,262.06	\$116	\$33	0.254%	0.072%
Colorado	5.3	239,884	566.29		350.26	135.63	\$107	\$26	0.236%	0.057%
Connecticut	3.6	197,202	1,122.70		699.06	316.94	\$312	\$88	0.569%	0.161%
Delaware <sup>3, 4</sup>	0.9	56,110	144.11	396.78	99.26	277.80	\$156	\$300	0.257%	0.495%
D.C.	0.6	92,106	242.46		129.43	68.31	\$375	\$106	0.263%	0.074%
Florida	19.6	672,287	5,013.00		3,162.89	1,424.31	\$256	\$73	0.746%	0.212%
Georgia	10.0	374,000	3,635.93		2,332.45	927.48	\$364	\$93	0.972%	0.248%
Idaho	1.6	50,976	197.45		122.89	48.28	\$122	\$30	0.387%	0.095%
Illinois	12.9									
Indiana	6.6	255,380	934.03		581.35	224.66	\$142	\$34	0.366%	0.088%
Iowa	3.1	129,799	339.25		200.80	84.89	\$110	\$27	0.261%	0.065%
Kansas	2.9	118,523	244.77		138.56	161.70	\$85	\$56	0.207%	0.136%
Kentucky	4.4	146,289	810.84		494.91	223.80	\$184	\$51	0.554%	0.153%
Louisiana	4.6	198,548	447.42		236.16	160.22	\$97	\$35	0.225%	0.081%
Maine	1.3	45,986	227.72		142.68	53.52	\$171	\$40	0.495%	0.116%
Maryland <sup>3, 4</sup>	5.9	274,930	1,756.12	560.68	1,038.48	921.76	\$296	\$155	0.639%	0.335%
Massachusetts	6.7	353,717	4,839.27		3,523.86	955.80	\$723	\$143	1.368%	0.270%
<b>Michigan</b>	<b>9.9</b>	<b>348,867</b>	<b>2,476.40</b>		<b>1,461.54</b>	<b>739.85</b>	<b>\$250</b>	<b>\$75</b>	<b>0.710%</b>	<b>0.212%</b>
Minnesota	5.4	252,971	560.40		347.07	135.59	\$103	\$25	0.222%	0.054%
Missouri	6.0	221,702	1,140.83		752.96	280.01	\$189	\$46	0.515%	0.126%
Montana <sup>5</sup>	1.0	33,374	56.80		32.18	13.08	\$56	\$13	0.170%	0.039%
Nebraska	1.9	83,393	160.75		93.09	40.01	\$86	\$21	0.193%	0.048%
New Hampshire	1.3	56,735	279.34		173.36	74.34	\$211	\$56	0.492%	0.131%
New Jersey	8.9	438,173	2,821.40		1,670.40	1,085.01	\$317	\$122	0.644%	0.248%
New Mexico	2.1	70,699	141.76		77.07	43.69	\$68	\$21	0.201%	0.062%
New York <sup>3, 4</sup>	19.7	1,038,541	7,108.92	1,825.37	4,218.99	3,045.77	\$362	\$155	0.685%	0.293%
North Carolina	9.8	392,905	1,689.80		1,024.44	479.51	\$172	\$49	0.430%	0.122%
North Dakota	0.7	38,654	27.84		14.22	7.92	\$39	\$11	0.072%	0.020%
Ohio <sup>3, 4</sup>	11.6	435,104	2,697.92	165.53	1,668.04	898.13	\$233	\$78	0.620%	0.206%
Oklahoma	3.9	138,296	200.21		104.46	70.61	\$52	\$18	0.145%	0.051%
Oregon <sup>3, 4</sup>	3.9	187,440	330.46	737.37	211.43	546.92	\$84	\$139	0.176%	0.292%
Pennsylvania	12.8	511,345	3,699.67		2,299.01	1,067.38	\$290	\$84	0.724%	0.209%
Rhode Island <sup>3, 4</sup>	1.1	43,774	253.37	520.75	149.88	379.22	\$241	\$361	0.579%	0.866%
South Carolina	4.8	150,596	1,199.21		775.45	305.21	\$251	\$64	0.796%	0.203%
South Dakota <sup>3, 4</sup>	0.8	35,985	57.35	184.64	32.42	107.70	\$68	\$127	0.159%	0.299%
Tennessee	6.5	240,523	1,275.27		794.38	339.71	\$196	\$52	0.530%	0.141%
Texas	26.4	1,211,692	4,376.29		2,767.36	1,214.10	\$165	\$46	0.361%	0.100%
Vermont	0.6	23,912	102.09		64.56	22.93	\$163	\$37	0.427%	0.096%
Virginia	8.3	385,772	1,689.24		1,025.18	464.33	\$205	\$56	0.438%	0.120%
Washington	7.0	325,165	569.59		339.37	139.23	\$82	\$20	0.175%	0.043%
West Virginia <sup>3, 4</sup>	1.9	56,384	195.62	1,059.64	116.23	571.60	\$106	\$308	0.347%	1.014%
Wisconsin <sup>5</sup>	5.7	225,094	566.10		329.20	155.90	\$99	\$27	0.251%	0.069%
<b>Total</b>	<b>299.9</b>	<b>12,228,368</b>	<b>59,776.3</b>		<b>5,450.7</b>	<b>37,165.7</b>	<b>\$199</b>	<b>\$66</b>	<b>0.489%</b>	<b>0.161%</b>

Notes to Table: Fiscal year 2013 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).

<sup>1</sup> This data represents only revenue from traditional lottery games; <sup>2</sup> Denotes VLT net machine income; <sup>3</sup> Prizes do not include VLT; <sup>4</sup> Includes government transfers for VLT operations.

<sup>5</sup> Unaudited





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*

Independent Auditor's Report

To Management and Mr. M. Scott Bowen, Commissioner  
Bureau of State Lottery, State of Michigan  
and  
Mr. Doug Ringler, CPA, CIA  
Auditor General, State of Michigan

We have audited, in accordance with the 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, the financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery"), an enterprise fund of the State of Michigan, as of and for the sixth-month period and year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated December 2, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Bureau of State Lottery, State of Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control.

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 Lottery's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management and Mr. M. Scott Bowen, Commissioner  
Bureau of State Lottery, State of Michigan  
and  
Mr. Doug Ringler, CPA, CIA  
Auditor General, State of Michigan

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Bureau of State Lottery, State of Michigan's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

December 2, 2014





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# BUREAU OF STATE LOTTERY

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