

# BUREAU OF STATE LOTTERY

An Enterprise Fund Of The State Of Michigan



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended September 30, 2018 and 2017





# BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

## Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2018 and 2017

Prepared by Financial Gaming Services & Accounting Division



Bureau of State Lottery, State of Michigan  
 Comprehensive Annual Financial Report  
 for the fiscal years ended September 30, 2018 and 2017

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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.







GRETCHEN WHITMER  
GOVERNOR

STATE OF MICHIGAN  
BUREAU OF STATE LOTTERY  
LANSING



BRIAN O. NEILL  
COMMISSIONER

February 20, 2019

The Honorable Gretchen Whitmer, 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, 2018 and 2017. 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:

- 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.

## Fiscal Year 2018 Highlights

**Record School Aid Fund Contributions.** The Lottery contributed just under \$941.3 million to the School Aid Fund in FY2018, a new record and the fourth record-setting year in a row. The prior three records were \$924.1 million in FY2017, \$888.9 million in FY2016, and \$795.5 million in FY2015.

**Record Sales and Prizes.** Total sales in FY2018 were nearly \$3.6 billion, up from the prior record of \$3.3 billion set last year. Prizes also set a new record in FY2018 of more than \$2.2 billion, up from the prior record of \$2 billion set last year.

**Record Retailer Commissions and Incentives.** Lottery retailers, many of which are small, family-owned businesses, received more than \$266.5 million in commissions and incentives, topping last year's record of \$249.2 million.

**Responsible Gaming Commitment.** The Lottery attained Responsible Gaming Verification from the North American Association of State and Provincial Lotteries and the National Council on Problem Gambling. The Lottery also attained Internet Compliance Assessment Program certification from the National Council on Problem Gambling for the third consecutive year.

## 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 game was called the Green Ticket and went on sale November 13, 1972. On October 7, 1975, the Lottery began selling instant games. Draw game sales began June 6, 1977 with the introduction of the Daily 3. The first multi-jurisdictional draw game, called The Big Game, included 10 states and went on sale August 31, 1996. The Lottery began selling lottery games over the internet on August 11, 2014. Since the Lottery was established, it has contributed more than \$22.4 billion to the School Aid Fund.

### Lottery Products

The Lottery offers a variety of games in several different styles of play, including: Instant Tickets, Pull Tabs, Insta-Tabs, Draw Games, and Fast Cash. Digital versions of many games may also be purchased online.



#### Instant Ticket Games

Instant games are played by scratching off the latex covering on each ticket to reveal prize symbols. A variety of games with different themes, play styles, price points, and prize structures are available with an average of 40 games released each year. The games are priced between \$1 and \$30 and top prizes range from \$1,000 to "Cash for Life". Instant game sales set a new record in FY2018, topping \$1.4 billion.

Much of the success of the instant games is attributed to a resilient game portfolio, which includes the Cashword, Bingo, and Wild Time line of games. Also, higher price point games continue to drive sales growth.



MICHIGAN LOTTERY  
**Pull TABS** Pull Tabs

Pull Tab games are similar to instant tickets, but players pull a perforated tab instead of scratching off a latex covering. A variety of different Pull Tab games are offered and range in price from \$0.50 to \$5 with top prizes ranging from \$50 to \$30,000.



### Insta-Tabs

Insta-Tabs offer a unique play style, combining a scratch-off latex covering on the face of the ticket and a perforated tab on the back. Almost 30 Insta-Tab games have been introduced since 2014, ranging in price from \$1 to \$5 and with top prizes ranging from \$5,000 to \$30,000.



### Draw Games

Draw game tickets are printed by a retailer terminal connected to a central gaming system. Players can select their numbers or have numbers randomly selected. Drawings are conducted to select winning numbers and players win based on how many numbers they matched. The frequency of the drawings vary depending on the game. Draw games currently offered are Mega Millions, Powerball, Lucky for Life, Lotto 47, Fantasy 5, Daily 3, Daily 4, Poker Lotto, Keno!, and Club Keno. Many draw games can now also be purchased online.



### Mega Millions and Megaplier

Mega Millions is a multi-jurisdictional draw game with forty-six participating jurisdictions. Players select five of seventy white ball numbers and one of twenty-five gold ball numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$40 million and is guaranteed to increase by a minimum of \$5 million after each drawing if the jackpot is not won. Players may win any of nine prizes including the jackpot and eight set prize amounts ranging from \$2 to \$1 million. The Megaplier is an add-on wager that allows players to increase their non-jackpot prize. Mega Millions drawings are conducted twice a week on Tuesday and Friday.



### Powerball and Power Play

Powerball is a multi-jurisdictional draw game with forty-seven participating jurisdictions. Players select five of sixty-nine white ball numbers and one of twenty-six red ball numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$40 million and is guaranteed to increase by a minimum of \$10 million after each drawing if the jackpot is not won. Players may win any of nine prizes including the jackpot and eight set prize amounts ranging from \$4 to \$1 million.

Power Play is an add-on wager that allows players to increase their non-jackpot prize. Powerball drawings are conducted twice a week on Wednesday and Saturday.



### **Lucky for Life**

Lucky for Life is a multi-jurisdiction draw game with twenty-six participating jurisdictions. Players select five of forty-eight white ball numbers and one of eighteen yellow ball numbers for a chance to win lifetime prize payments. Players may win any of ten prizes including the top prize of \$1,000 a day for life, the second prize of \$25,000 a year for life, or one of eight set prize amounts ranging from \$3 to \$5,000. Lucky for Life drawings are conducted every Monday and Thursday.



### **Lotto 47 and EZMatch**

Lotto 47 is a draw game in which players select six of forty-seven numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$1 million and is guaranteed to increase by a minimum of \$50,000 after each drawing if the jackpot is not won. Players may win any of four prizes including the jackpot and three set prize amounts ranging from \$5 to \$2,500. EZMatch is an add-on game that offers players a chance to win instantly. Lotto 47 drawings are conducted twice a week on Wednesday and Saturday.



### **Fantasy 5 and EZMatch**

Fantasy 5 is a draw game in which players select five of thirty-nine numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$100,000 and increases by a minimum of \$5,000 after each drawing if the jackpot is not won. Players may win any of four prizes including the jackpot and set prize amounts ranging from \$1 to \$100. EZMatch is an add-on game that offers players a chance to win instantly. Fantasy 5 drawings are conducted daily.



### **Daily 3 and Daily 4**

The Daily 3 and Daily 4 are the Lottery's longest running and most consistently popular draw games. Players select three numbers ranging from zero to nine for the Daily 3 and four numbers ranging from zero to nine for the Daily 4. Numerous wager options are offered such as straight (match each number in order drawn), boxed (match numbers in any order for a reduced prize), and wheeled (match numbers in any order for full prize). Drawings for both games are conducted twice a day, every day of the week.



### **Poker Lotto**

Poker Lotto offers players a chance to win instantly and again during a drawing. Players randomly are assigned five of fifty-two cards at the time of purchase. If the player's cards form one of the eligible winning poker hands, the player instantly wins a prize of \$2 to \$5,000.

In addition to the instant game, the player's cards are also eligible for a drawing. Five cards are drawn and players may win prizes ranging from \$3 to \$100,000 based on the number of cards matched. Poker Lotto drawings are conducted daily.



### **Keno!**

Keno! is a draw game in which players select ten of eighty numbers. The Lottery draws twenty-two numbers and players matching ten of those numbers win the jackpot prize of \$250,000. Players may win any of six prizes including the jackpot and lower-tier prizes ranging from a free \$1 instant ticket to \$2,500. Keno! drawings are conducted daily.



### **Club Keno, Kicker, The Jack, and Extra**

Club Keno is a draw game predominantly played in bars, restaurants, and bowling facilities. Players select from one to ten of eighty numbers. The Lottery draws twenty numbers. Prizes are based on how many numbers the player matches and the selected ticket price. The Kicker is an add-on wager that allows players to multiply their prizes by as much as ten times. The Jack is an add-on wager that allows players to participate in a progressive jackpot starting at \$10,000. Extra is a new add-on wager that launched in February 2018. After each Club Keno drawing, ten "Extra" numbers are drawn from the remaining pool of sixty. Players can win in both drawings, but cannot combine numbers from both drawings. Club Keno and Extra drawings are conducted every 3.5 minutes, and the results are displayed both in-store and online.



### **Raffle**

Raffle is a draw game with a defined and limited pool of tickets available for sale. Super Raffle V was introduced in August 2018, with a price point of \$50. Each ticket purchased contains a unique raffle number issued sequentially across the on-line gaming network. When the last raffle number is issued, the game will close and no additional tickets will be available for purchase. The prizes range from \$100 to \$4 million.



### **Fast Cash**

Fast Cash is a new category of games that was introduced in July 2017. Tickets print from the Lottery terminal and offer players instant-win opportunities along with a progressive jackpot that can be won at any time. Games with different themes are offered at price points of \$1, \$2, \$5, \$10, and \$20. Players can win set prizes ranging from \$1 to \$250,000. All Fast Cash games also feature a progressive jackpot that grows based on sales, so no game has a static top prize. The newest addition to the game, 100X The Cash offers a top prize of \$250,000 plus the jackpot. Each game contributes 10% of sales to the jackpot and players can win either a share or the entire jackpot, depending on the price of their ticket.

## **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 Lottery's administrative costs.

The Legislature reviews and approves the Lottery's budget each year. 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 reflected accurately in State budgetary planning.

## **Economic Condition and Financial Information**

### **Local Economy**

The University of Michigan Research Seminar in Quantitative Economics provides the following highlights in its most recent Michigan forecast issued on November 16, 2018:

Michigan has now notched nine years of uninterrupted job growth between the fall quarters of 2009 and 2018. We examined data back to 1939, and Michigan's current streak of yearly job growth now matches the longest previous episode of job recovery. We are thus poised to set a new record for the longest period of job expansion in Michigan since the World War II era. Michigan's pace of job creation cooled from an annualized 2.2 percent in the first quarter of 2018 to an average of 1.1 percent in the second and third quarters. We expect growth to drop off a bit further in the fourth quarter before inching up slightly in 2019. The path of quarterly growth in 2020 is complicated by the 2020 Census, but job growth settles in at an annual pace of 0.6 percent by the end of 2020. Job growth averages 0.8 percent per year over 2019–2020. We expect Michigan's unemployment rate to tick up a bit from its September reading of 4.0 percent to 4.1 percent in the fourth quarter of 2018. It then declines to averages of 3.9 percent in 2019 and 3.8 percent in 2020. The level in 2020 would be the third-lowest annual average since the modern vintage data begin in 1976. Labor force participation rises slightly over the forecast period.

Driven largely by higher gas prices, local inflation picks up from 2.1 percent in 2017 to 2.5 percent this year, on pace with the U.S. inflation rate. We see local inflation moderating to 1.9 percent next year and 2.0 percent in 2020, as the recent increase in energy prices recedes into the rearview mirror. Nominal personal income growth accelerates by two-tenths of a percentage point to 3.76 percent in 2018, helped by strong growth in wage and salary income and a large increase in transfer income. Income growth stays roughly steady in 2019 before jumping to 4.3 percent in 2020. The acceleration that year is driven by a pickup in the wage and salary, proprietors', and property components of income, reflecting in part the tight labor market and higher interest rates that we foresee. We also see the growth of real disposable income ticking up two-tenths of a percentage point from 2017 to 2018. Its growth in 2018 is boosted by the decreased burden of federal taxation resulting from the TCJA of 2017. We see real disposable income growth staying roughly flat next year, as local inflation recedes but the boost from the tax cuts fades.

Real income growth jumps by six-tenths of a percentage point in 2020, reflecting faster nominal income growth and stable inflation.

The complete forecast and analysis from the University of Michigan Research Seminar in Quantitative Economics is available at <https://lsa.umich.edu/econ/rsqe.html>.

In September 2018, Michigan's seasonally adjusted unemployment rate fell to 4.0 percent, three-tenths of a percent higher than the September national rate of 3.7 percent. According to the Department of Technology, Management and Budget, jobless rates fell in all eighty-three Michigan counties and all seventeen Michigan labor market areas from September 2017 to September 2018. Seasonally unadjusted payroll jobs increased by 29,100, or 0.7 percent, over August 2018. Although private sector jobs fell by 29,000, an increase of 58,100 Government jobs pushed employment up considerably.

### **Financial Information**

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

Operations involve the sale of paper and digital tickets, determination of winning tickets, payment of prizes, compensation to retailers, and administrative functions. The Lottery also provides \$1 million a year to the Department of Health and Human Services for responsible gaming programs.

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

The Lottery's goals and objectives ensure ongoing efforts to achieve operational efficiencies and maximize contributions to 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.

The Lottery voluntarily follows the recommendations of the Government Finance Officers Association of United States, and Canada (GFOA) for the contents of government financial reports, and participates in GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The Lottery also adheres to financial reporting policies and procedures issued by the Michigan Department of Technology, Management and Budget.

During FY2018, the Lottery adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The impact of GASB 75 on the financial statements is further discussed in the MD&A.

## **Internal Controls**

The Lottery and State of Michigan policies and procedures tightly control assets, inventory, computer systems, drawings, 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 or licensed.

The system of internal controls 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 installment payments owed to certain prize 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 continuously works on new ways to attract players and increase sales. A strategic marketing plan is developed each year identifying new games to offer, variations of play for existing games, and promotions. Additionally, processes are reviewed for potential opportunities to streamline functions, reduce costs, and increase the Lottery's contribution to the School Aid Fund.

In FY2019, the Lottery plans to introduce forty-two new instant games. These games will continue to utilize unique themes, play styles, and new innovations, as well as tailored prize structures that provide players with the best play experience. Based on input from players and the previous success of "families" of instant games, Lottery plans to launch two new families of games in the first half of 2019. Two new \$30 price point games are also slated to be launched in 2019. The Lottery's goal is to increase instant-game sales by 5% over FY2018.

In FY2019, Lottery's Digital Gaming Division plans to introduce twenty-seven new digital instant games. Lottery plans to continue expanding game content for popular play styles such as single-ticket, multi-ticket, and instant-keno. Third-party game content will continue to grow during FY2019 with the launch of virtual events, a type of digital instant ticket featuring sports-themed visuals. There will also continue to be expanded integration between retail and online channels using promotions to drive online traffic to retail and back. The Lottery's goal is to increase online wagers by 9% in FY2019.



## Awards and Acknowledgements

### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Lottery a Certificate of Achievement for Excellence in Financial Reporting for its FY2017 CAFR. To receive this prestigious award, a government agency must publish an easily readable and efficiently organized comprehensive annual financial report that meets GAAP and applicable legal requirements. The Lottery is proud to have received a Certificate of Achievement from the GFOA for 13 consecutive years, and will submit this report to the GFOA for consideration.

### Acknowledgement

Preparation of this report would not be possible without the hard work and dedication of Lottery's Financial Gaming Services and Accounting division as well as the entire Lottery team. Their tremendous efforts and teamwork make this informative document possible.

Respectfully submitted,



Kristi L.B. Thompson  
Deputy Commissioner of Administration & CFO



Brian O. Neill  
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, 2017**

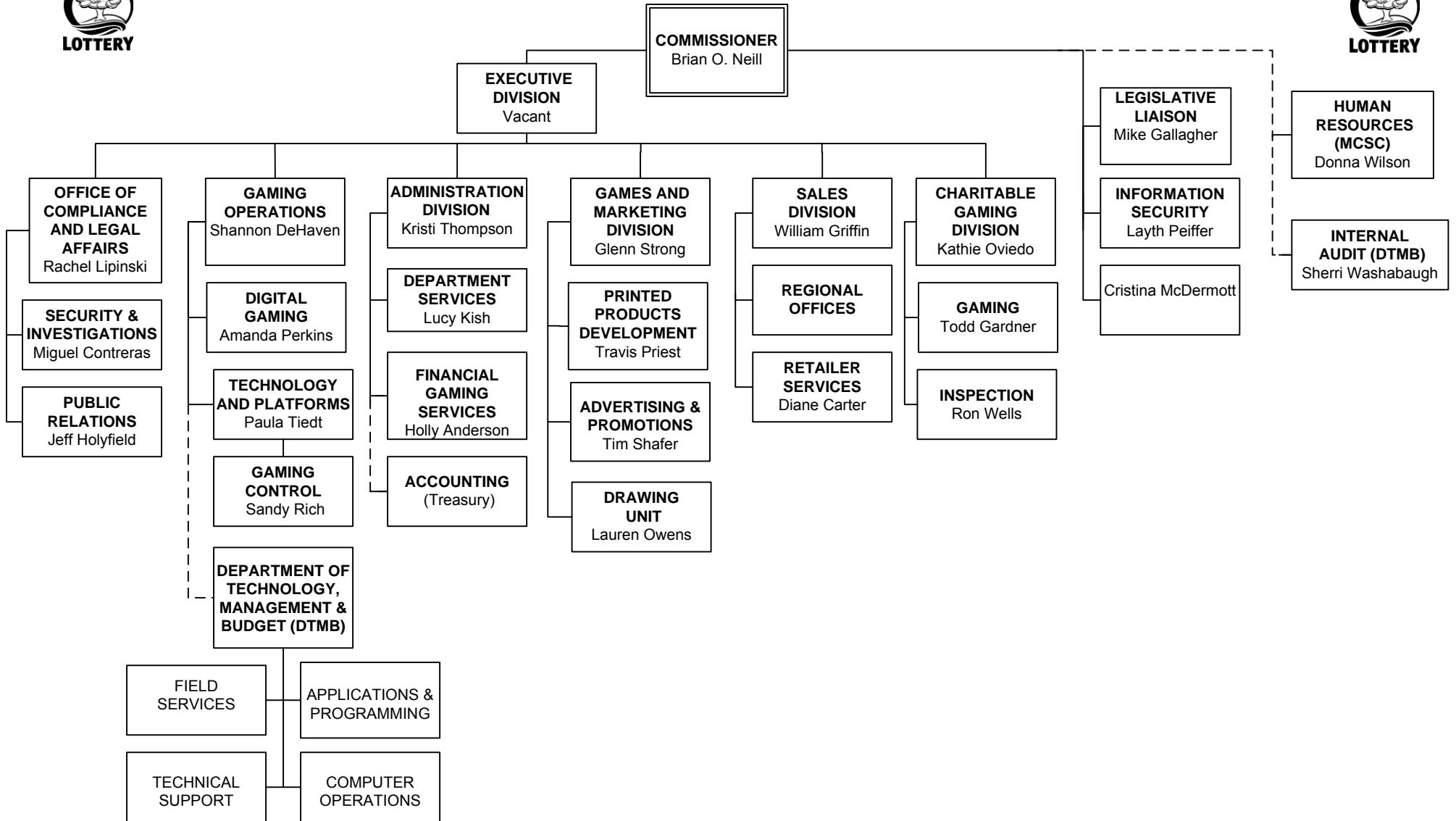
*Christopher P. Morill*

Executive Director/CEO



# Bureau of State Lottery

## Organization Chart and Principal Officials







# FINANCIAL SECTION



## Independent Auditor's Report

To Mr. Brian Neill, Commissioner,  
Bureau of State Lottery, State of Michigan;  
and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Bureau of State Lottery, 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 six-month periods and years ended September 30, 2018 and 2017 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 an opinion 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 opinion.

#### **Opinion**

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, 2018 and 2017 and the respective changes in its financial position and cash flows for the six-month periods and years then ended in accordance with accounting principles generally accepted in the United States of America.

To Mr. Brian Neill, Commissioner,  
Bureau of State Lottery, State of Michigan;  
and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Bureau of State Lottery, State of Michigan

### ***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, 2018 and 2017, 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.

As discussed in Note 1 to the basic financial statements, during the year ended September 30, 2018, the Lottery adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which established accounting and financial reporting standards for defined benefit OPEB plans provided to the employees of governmental employers. 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 and required supplemental information, as identified in the table of contents, 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 an opinion on the financial statements that collectively comprise Bureau of State Lottery, State of Michigan's basic financial statements. The other supplemental information, introductory section, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The other supplemental information 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections 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.



To Mr. Brian Neill, Commissioner,  
Bureau of State Lottery, State of Michigan;  
and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Bureau of State Lottery, State of Michigan

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2019 on our consideration of 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 Bureau of State Lottery, State of Michigan's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

February 20, 2019



## **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, 2018. 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 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 into 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 of capital assets, unrealized gains or losses on investments held to fund future payments due on Lottery prizes that are annuities, the impact of GASB 68 and GASB 75, as well as the change in pension and other postemployment benefits (OPEB) liabilities, deferred inflows, and outflows related to pension and OPEB. 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 to 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**

Compared to the fiscal year ended September 30, 2017:

- Operating revenues for Lottery gaming activities increased by \$244.8 million, or 7.3%.
- Non-operating revenues decreased by \$1.2 million, which reflects the current value of the unrealized loss on investments.
- Total revenues for all activities increased by \$243.6 million, or 7.3%.
- Operating expenses increased \$229.7 million, or 9.5%, which reflects an increase in net prize awards of \$198.6 million.
- Nonoperating expenses increased by \$17.3 million, or 1.9%, reflecting an increase in disbursements to the School Aid Fund of \$17.2 million and an increase in prize amortization of \$0.1 million.
- Total expenses increased \$247.0 million, or 7.4%.

**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,		
	2018	2017	2016
Current and other assets	\$ 187.8	\$ 168.8	\$ 158.5
Investments - noncurrent	157.7	177.7	191.8
Other assets	3.7	3.8	-
Capital assets (net of accumulated depreciation)	1.5	1.1	1.2
<b>Total assets</b>	<b>350.7</b>	<b>351.4</b>	<b>351.5</b>
Deferred Outflows of Resources -			
Deferred outflows related to pensions	3.1	3.7	3.3
Deferred outflows related to OPEB health	3.0	-	-
Deferred outflows related to OPEB life insurance	0.1	-	-
Current liabilities	177.9	160.9	141.9
Long-term liabilities	220.6	195.5	204.2
<b>Total liabilities</b>	<b>398.5</b>	<b>356.4</b>	<b>346.1</b>
Deferred Inflows of Resources -			
Deferred inflows related to pensions	1.3	-	-
Deferred inflows related to OPEB health	0.8	-	-
Deferred inflows related to OPEB life insurance	0.2	-	-
Net position:			
Net investment in capital assets	1.0	1.2	1.2
Restricted for School Aid Fund	-	-	8.7
Unrestricted (deficit)	(44.9)	(2.5)	(1.2)
<b>Total net position</b>	<b>\$ (43.9)</b>	<b>\$ (1.3)</b>	<b>\$ 8.7</b>

As shown in Table 1 above, the Lottery's net position decreased from September 2017 to 2018 by \$42.6 million, and decreased from September 2016 to 2017 by \$10.0 million. The decreases noted above are primarily attributable to recognizing the Lottery's share of the State's other postemployment benefit (OPEB) obligation. The decreases noted above are also attributable to the unrealized losses on investments that the Lottery holds to fund future payments due on annuitized Lottery prizes. Accounting principles dictate that the Lottery record 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.

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

The difference between the market value of these investments and the amortized book value is considered a restriction for unrealized gains on investments and is not available for disbursement to the School Aid Fund. Additional detailed information on investments and OPEB may be found in Note 3 and Note 11 respectively in the accompanying financial statements.

The Lottery's September 2018 net position of (\$43.9) million reflects a \$29.2 million negative restatement in order to recognize the Lottery's portion of the net healthcare and life insurance other postemployment benefits (OPEB) liability as a result of implementing GASB 75. This action is further discussed in Note 1.

As of September 30, 2018 and 2017, the Lottery recorded a deficit in the amount restricted for the School Aid Fund, which resulted in a negative overall net position. This deficit amount has been reported as unrestricted on the Statement of Net Position on page 28 in the financial statements, as a negative balance cannot be considered restricted.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2018, net capital assets increased by \$0.4 million. Capital assets decreased \$0.1 million from September 2016 to 2017. Additional detailed information on capital assets may be found in Note 5 in the accompanying financial statements.

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

Table 2 - Liabilities  
(in millions)

	September 30,		
	2018	2017	2016
<b>Current:</b>			
Warrants authorized and warrants outstanding	\$ -	\$ 3.1	\$ 11.9
Accounts payable and other liabilities	21.8	15.4	8.3
Due to School Aid Fund	5.0	38.6	34.0
Prize awards payable (net of discount)	151.1	103.8	87.7
Total current	177.9	160.9	141.9
<b>Non-current:</b>			
Prize awards payable (net of discount)	155.6	162.6	171.7
Net pension liability	22.4	22.2	22.4
Net OPEB liability - health	35.9	9.9	9.3
Net OPEB liability - life insurance	5.3	-	-
Capital lease obligation	0.5	-	-
Compensated absences	0.9	0.8	0.8
Total non-current	220.6	195.5	204.2
Total liabilities	\$ 398.5	\$ 356.4	\$ 346.1

Non-current liabilities consist of prize liability for prizes paid in installments over several years, long-term pension recorded as a result of GASB 68, and long-term OPEB obligation allocation recorded as a result of GASB 75. For the fiscal year ended September 2018, long-term prize liability decreased \$7.0 million, or 4.3%, from September 2017 and decreased by \$9.1 million, or 5.3%, from September 2016 to September 2017.

**Bureau of State Lottery, State of Michigan**  
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The decreases from September 2017 to September 2018 and September 2016 to September 2017 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 7 in the accompanying financial statements for more information.

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,		
	2018	2017	2016
Operating revenues	\$ 3,591.9	\$ 3,347.1	\$ 3,118.1
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(2,215.0)	(2,016.4)	(1,856.3)
Commissions and game related expenses	(367.9)	(343.1)	(311.9)
Total prizes and direct game expenses	(2,582.9)	(2,359.5)	(2,168.2)
Income before other operating expenses	1,009.0	987.6	949.9
Other operating expenses	(68.0)	(61.7)	(66.4)
Operating income	941.0	925.9	883.5
Non-operating revenues and (expenses):			
Investment and interest revenues (losses)	(3.3)	(2.1)	13.8
Investment and interest expenses	(6.9)	(6.8)	(7.5)
School Aid Fund disbursement expense	(941.3)	(924.1)	(888.9)
General Fund disbursement expense	(1.9)	(1.9)	(3.0)
Health & Human Services disbursement expense	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(954.4)	(935.9)	(886.6)
Change in net position	(13.4)	(10.0)	(3.1)
Total net position beginning of period	(1.3)	8.7	11.8
Restatement due to change in accounting principle (Note 1)	(29.2)	-	-
Total net position end of period	\$ (43.9)	\$ (1.3)	\$ 8.7

Because the Lottery is required by law to deposit all of its net income into the School Aid Fund or General Fund, change in net position does not reflect the result of the Lottery's operating activities. The \$941.3 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year ended September 2018. There was an increase in disbursement expense of \$17.2 million or 1.9% from September 2017. For the fiscal year ended September 2017 there was an increase of \$35.2 million or 4.0% from September 2016.

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

The disbursement expense to the General Fund reflects Charitable Gaming activities for the fiscal year ended September 2018. Charitable Gaming activities experienced a decrease in net revenues for the fiscal year ended September 2018 compared to September 2017, and for the fiscal year ended September 2017 compared to September 2016. Charitable Gaming net income is disbursed annually to the General Fund.

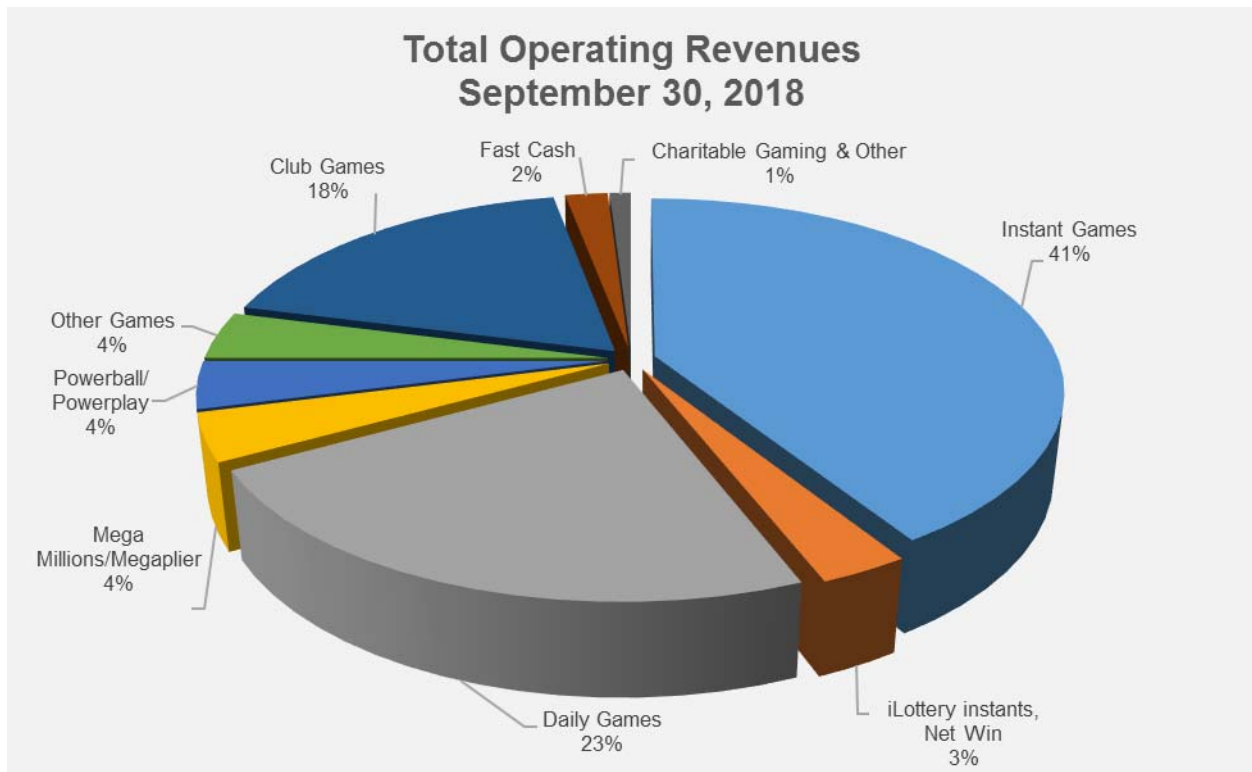
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds  
(in millions)

	September 30,		
	2018	2017	2016
School Aid Fund	\$ 941.3	\$ 924.1	\$ 888.9
General Fund	1.9	1.9	3.0
Health & Human Services	1.0	1.0	1.0
<b>Total Disbursements to Other Funds</b>	<b>\$ 944.2</b>	<b>\$ 927.0</b>	<b>\$ 892.9</b>

### Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2018:



**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,		
	2018	2017	2016
Operating revenues:			
Instant tickets	\$ 1,488.2	\$ 1,321.6	\$ 1,136.8
iLottery Instants, Net Win	93.7	77.9	48.0
Daily games	837.8	810.4	782.5
Mega Millions/Megaplier	153.2	102.7	127.1
Powerball/Power Play	125.8	153.9	206.6
Lucky for Life	14.9	14.7	16.7
Fast Cash	71.2	30.6	-
Club games	660.7	673.7	658.2
Other games and promotions	132.5	144.3	128.6
Other operating revenue	13.9	17.3	13.6
Total operating revenues	<u>3,591.9</u>	<u>3,347.1</u>	<u>3,118.1</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	(11.2)	(10.1)	5.8
Amortization on bonds	7.0	7.4	7.7
Other income	0.9	0.6	0.3
Total non-operating revenue	<u>(3.3)</u>	<u>(2.1)</u>	<u>13.8</u>
Total revenues	<u>\$ 3,588.6</u>	<u>\$ 3,345.0</u>	<u>\$ 3,131.9</u>

Operating revenues, primarily Lottery ticket sales, for the fiscal year ended September 2018 increased over September 2017 by \$244.8 million, or 7.3%, and increased \$229.0 million, or 7.4%, for the fiscal year ended September 2017 compared to September 2016.

Instant game sales continued to grow substantially throughout fiscal year 2018. Instant game ticket sales increased by \$166.6 million, or 12.6%, for the fiscal year ended September 2018 over September 2017 and increased in the fiscal year ended September 2017 over September 2016 by \$184.8 million, or 16.3%. Sales increases occurred in almost all price points. Much of the continued growth can be attributed to a strong set of core games and the popular "families" of instant games. Michigan instant game sales continue to have the highest growth in FY 2018 when compared to other U.S. Lotteries.

Fast Cash sales for the fiscal year ended September 2018 increased by \$40.6 million, or 132.7%, over sales of \$30.6 million for the fiscal year ended September 2017. Much of the increase in sales is due to having a full year of sales for the fiscal year ended September 2018. The first \$20 Fast Cash game launched on September 30, 2018. Currently, there are twelve Fast Cash games on sale, and the jackpot is hit on an average of once every seven days.

The iLottery program continued to experience sales growth for the fourth year in a row since launch of the iLottery platform in 2014.



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

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iLottery instant ticket net win increased \$15.8 million, or 20.3%, for the fiscal year ended September 2018 compared to September 2017, and net win increased \$29.9 million, or 62.3%, for the fiscal year ended September 2017 compared to September 2016. Refer to Note 8 in the accompanying financial statements. Much of the growth in iLottery instant game sales from fiscal year 2017 to 2018 continues to be attributed to the popularity of multi-ticket games that feature bonus rounds, as well as the continued offering of multiple play styles that appeal to a wide audience.

Mega Millions sales for the fiscal year ended September 2018 increased by \$50.5 million, or 49.2%, compared to September 2017. Sales for the fiscal year ended September 2017 decreased by \$24.4 million, or 19.2%, compared to September 2016. The increase in sales during fiscal year 2018 is primarily due to the game matrix being relaunched on October 28, 2017 at a \$2 price point. Along with the change in price point, the starting jackpot has been increased to \$40 million and the odds have been adjusted down in tandem. Additionally, low-tier prize values have increased, along with increased odds of winning the second-tier prize of \$1 million.

Powerball sales for the fiscal year ended September 2018 decreased by \$28.1 million, or 18.3%, compared to September 2017 and decreased for the fiscal year ended September 2017 over September 2016 by \$52.7 million, or 25.5%. The decrease in sales for the fiscal year ended September 2018 is due primarily to the Mega Millions matrix change that took place in October 2017, which drew players away from Powerball. The decrease in sales for the fiscal year ended September 2017 is due primarily to a record-setting jackpot of \$1.5 billion in January 2016, which was the largest jackpot ever recorded for a lottery jackpot game.

Lucky for Life sales increased by \$0.2 million, or 1.4% for the fiscal year ended September 2018 over September 2017, and decreased by \$2.0 million, or 12.0%, for the fiscal year ended September 2017 compared to September 2016. The decrease in sales for the fiscal years ended September 2018 and 2017 is due primarily to the lack of top prize winners in Michigan and competing in-state Lottery games.

Club games, as shown in Table 5 above, include Club Keno, Club Keno Kicker, The Jack, Extra, Pull-Tabs, and Insta Tabs. The Club Games sales for the fiscal year ended September 2018 decreased by \$13.0 million, or 1.9%, from September 2017. Sales for the fiscal year ended September 2017 increased by 15.5 million, or 2.4%, over September 2016. The decrease in sales for the year ended September 2018 can be attributed to one less Doubler Days promotion as compared to the year ended September 2017, as well as competition at bars and restaurants from the Fast Cash game. The Doubler Days promotions ran in June and September 2018 and offered players a chance to double their non-jackpot prizes.

Other games consist of Lotto 47, Lotto 47 EZ Match, Fantasy 5, Fantasy 5 EZ Match, Keno, Raffle, and Poker Lotto. Other game sales for the fiscal year ended September 2018 decreased \$11.8 million, or 8.2%, compared to the fiscal year ended September 2017, and increased \$15.7 million, or 12.2% for the fiscal year ended September 2017 over September 2016. The decrease in sales for the fiscal year ended September 2018 can be attributed to lack of significant jackpots, player preferences, and one less Doubler Days promotion as compared to the prior fiscal year. The increase in sales for the fiscal year ended September 2017 can be primarily attributed to a large Lotto 47 jackpot in February, which reached \$22.6 million. Together, Lotto 47 and Lotto 47 EZMatch sales set a record in fiscal year 2017 and made up more than \$70.1 million of other game sales. This marks the final year of a three-year licensed contract with Major League Baseball (MLB) to offer a branded game.

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

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In fiscal year 2018, the Home Run Riches game consisted of a digital instant game and offered one second chance prize of a World Series trip package. The Lottery also launched sales for Super Raffle V on August 12, 2018. Super Raffle V offered a limited pool of 300,000 tickets for sale at a price point of \$50. This raffle offered a top prize of \$4 million, two prizes of \$2 million, and many smaller cash prizes. The drawing for this raffle was not held until October 2018.

The decrease in non-operating revenues for the fiscal year ended September 2018 compared to September 2017 resulted from a decrease in unrealized gains on investments and other income. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact disbursements to the School Aid Fund.

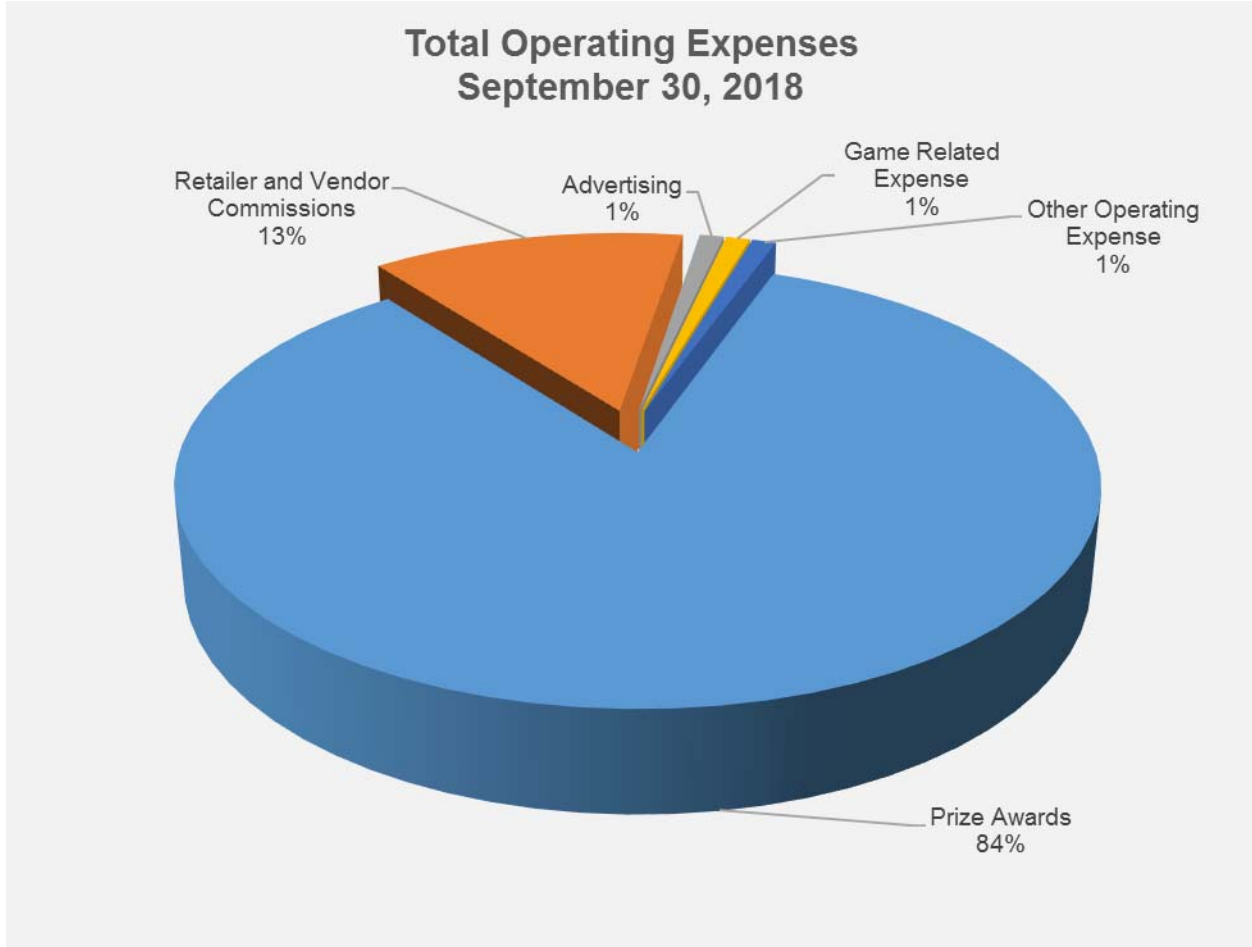
The decrease in bond amortization from September 2017 to September 2018 and September 2016 to September 2017 is due to a decreasing bond portfolio from maturing investments, as well as the fact that most prize winners have elected the cash option instead of installment payments. Other income increased from the fiscal year ended September 2018 compared to September 2017 due to an increase in interest rates on common cash investments. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

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

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**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, 2018:



**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,		
	2018	2017	2016
Prizes:			
Instant prizes	\$ 1,087.2	\$ 960.1	\$ 816.9
Draw Game prizes	715.0	637.2	631.2
Club game prizes	434.6	446.7	435.7
Players Club all games	0.2	-	1.0
Total prizes	<u>2,237.0</u>	<u>2,044.0</u>	<u>1,884.8</u>
Less: unclaimed prizes	22.0	27.6	28.5
Net prize awards	<u>2,215.0</u>	<u>2,016.4</u>	<u>1,856.3</u>
Direct game expenses:			
Retailer commissions	266.5	249.2	231.7
Vendor commissions and other expenses	67.6	61.6	54.3
Game related expenses	33.8	32.3	25.9
Total direct game expenses	<u>367.9</u>	<u>343.1</u>	<u>311.9</u>
Other operating expenses:			
Salaries, wages and benefits	26.7	23.9	31.8
Other professional services	8.5	8.6	7.9
Printing and supplies	1.4	1.4	1.5
Other general and administrative	3.5	3.8	3.2
Promotion and advertising	27.9	24.0	22.0
Total other operating expenses	<u>68.0</u>	<u>61.7</u>	<u>66.4</u>
Total operating expenses	<u>2,650.9</u>	<u>2,421.2</u>	<u>2,234.6</u>
Non-operating expenses:			
Amortization of prize discount	6.9	6.8	7.5
School Aid Fund disbursement	941.3	924.1	888.9
General Fund disbursement	1.9	1.9	3.0
Health & Human Services disbursement	1.0	1.0	1.0
Total non-operating expenses	<u>951.1</u>	<u>933.8</u>	<u>900.4</u>
Total expenses	<u>\$ 3,602.0</u>	<u>\$ 3,355.0</u>	<u>\$ 3,135.0</u>

Instant games overall payout for the fiscal year ended September 2018 increased to 73.05% from 72.6% at September 2017 and from 71.9% at September 2016. The games vary in payout percentage depending on ticket price. Instant game prize payouts range from 59.9% for a \$1 game to 78.0% for a \$30 game for the fiscal year ended September 2018.

The Daily Games prize payout increased overall for the fiscal year ended September 2018 compared to September 2017.

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

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Daily 3 prize payout increased to 49.3% for the fiscal year ended September 2018, compared to 48.7% for September 2017 and 52.7% for September 2016. Daily 4 prize payout increased to 54.7% for the fiscal year ended September 2018, compared to 48.6% for September 2017 and 45.9% for September 2016. Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 52.3% for the fiscal year ended September 2018. The higher than anticipated payout can be attributed to the Daily 4 Straight Back Bonus promotion, which ran from March 19, 2018 to April 14, 2018, as well as several large payouts. During the fiscal year ended September 2018, there were three Daily 4 drawings that paid out \$9 million or more in prizes.

The Club Games prize payout percentage decreased to 65.5% for the fiscal year ended September 2018 compared to 66.3% for September 2017 and 65.9% for September 2016. The other draw games have an anticipated payout between 50.0% and 72.5%.

Retailer commissions have increased commensurate with higher overall sales. Vendor commissions and other expenses have also increased, due to additional equipment and service expenses. Game related expense increased \$1.5 million, or 4.6% for the fiscal year ended September 2018 compared to September 2017 and increased by \$6.4 million, or 24.8%, for the fiscal year ended September 2017 compared to September 2016.

Other operating expenses have increased by \$6.3 million, or 10.2%, for the fiscal year ended September 2018 compared to September 2017 and decreased by \$4.7 million, or 7.1%, for the fiscal year ended September 2017 compared to September 2016.

### **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. Refer to Note 1 for further details.

Unclaimed prizes for the fiscal year ended September 2018 decreased by \$5.6 million compared to September 2017 and decreased by \$0.9 million for the fiscal year ended September 2017 compared to September 2016. The large decrease from September 2017 to September 2018 is due to a decrease in actual unclaimed prizes, as well as a decrease in the estimated unclaimed amount.

### **Charitable Gaming**

A detail of the Lottery's charitable gaming revenues, expense, and net income for the fiscal years ended September 30 are presented in Table 7 below:

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

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

	September 30,		
	2018	2017	2016
Gross revenue	\$ 11.7	\$ 12.0	\$ 12.3
Operating expenses	(9.8)	(10.1)	(9.3)
Net income	\$ 1.9	\$ 1.9	\$ 3.0

The mission of the Charitable Gaming Division is to review the integrity of charitable gaming activities, ensure proceeds are accounted for and used for lawful purposes of qualified licensed nonprofit 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 charity-game tickets cover the costs of overseeing the program. Any revenue in excess of program costs is disbursed annually to the State's General Fund.

Charitable Gaming activities overseen by the Lottery include the licensing and regulation of qualifying nonprofit organizations to conduct bingos, raffles, charity-game ticket sales, and other charitable gaming events for fundraising 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. Please refer to Note 14 in the accompanying financial statements for more information about transactions with other State agencies, including Michigan Gaming Control Board.

The Lottery also oversees the distribution and sale of charity-game tickets (also for fund-raising purposes) to licensed suppliers. Charitable Gaming launched a program in February 2015 to test the sale of charity tickets by licensed non-profit organizations through specialized vending machines at twenty different locations.

**Other Potentially Significant Factors Impacting Next Year**

In January 2019, the Lottery will launch a new add-on game, called DoublePlay, for Lotto 47 and Fantasy 5. For \$1 more per panel, players can use their numbers in a second drawing after the regular Lotto 47 and Fantasy 5 drawings to win additional prizes. DoublePlay is expected to lift Michigan Lottery's sales in national rankings for both game categories.

In the third quarter, Lottery plans to introduce a new \$10 instant game that features only \$50 and \$100 prizes. With only two prize amounts and no top prize, this game provides players with terrific odds of winning a memorable prize. In focus group research, players rated the game highly and similar concepts have been a major driver of sales growth in other lottery jurisdictions.

The Lottery is also planning to introduce "The Big Spin" during the summer of 2019. In addition to top instant win prizes of \$1,000,000, this \$10 instant ticket features a second chance spin-the-wheel experience and chances to win more. Players can enter their non-winning Big Spin instant tickets online for a chance to be selected as 1 of 20 participants in a televised spin-the-wheel event.

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

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Each contestant will get to spin the 7' tall Big Spin Wheel for a chance to win a guaranteed prize between \$100,000 and \$2,000,000. This game has performed well in other jurisdictions and could present a wealth of opportunities for marketing the Lottery as a whole.

Lottery will continue to lead the digital industry in 2019 by modernizing draw games offered online and launching over twenty instant games. Several of the new digital games will leverage the success of popular retail brand games, and will include promo codes that will drive traffic between the digital and retail platform. The Lottery is currently researching a subscription feature for players that purchase draw game tickets on the Lottery website. This feature will allow players to indefinitely subscribe to and purchase their favorite draw based game tickets week after week. This feature is only available on the digital platform and is expected to lift average draw based game sales.

Lottery will also work toward offering "Micro Raffles" online, which are a modification of the traditional raffle game that exists at retail. Micro Raffles are defined by a relatively small pool of contestants and are either based on time or number of tickets sold. These raffles are expected to appeal to both draw based and instant game players with the potential to drive players across categories.

The Lottery will continue to focus on providing better payment experiences for new and current players during 2019. A "Buy Lotto Now" initiative is currently being explored that will allow players to convert loyalty points they have accumulated with third-party partners, such as airlines and credit card companies, to cash value and use that cash to fund their Michigan Lottery online account. Lottery is also researching a project with two credit card processors to implement a new product known as "Fast Funds". Lottery winnings could be easily deposited onto an existing debit or credit card, including reloadable prepaid cards. Once the withdrawal is approved, the funds are automatically transferred into the bank account linked with the card. Funds are available for use often within thirty minutes or less. The Lottery is also currently exploring a Withdraw to Retail project that will allow players to withdraw funds from their Lottery account by printing a voucher from their computer or mobile device for redemption at any Lottery retailer across the State. This could increase the speed at which players receive prizes and help increase interaction between players and retailers in stores. Retailers will also receive a two percent cashing commission. During the last quarter of 2019, Lottery will research opportunities to expand cashless payment options at retail by having certain unattended vending machines retrofitted with cashless capabilities.

The Lottery is currently evaluating the recently issued 2018 Department of Justice Wire Act opinion and the impact on its operations, which cannot be determined at this time.

Management continuously reviews and explores new game concepts and features, promotions, and opportunities to engage 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, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Current assets:		
Equity in State Treasurer's Common Cash Fund	\$ 4,109,741	\$ 4,045,283
Investments, at fair value	16,656,104	14,194,065
Accounts receivable - net	147,630,557	131,900,361
Inventory	19,379,865	18,620,205
Total current assets	<u>187,776,267</u>	<u>168,759,914</u>
Non-current assets:		
Investments, at fair value	157,686,215	177,661,070
Other assets	3,663,535	3,821,306
Capital assets:		
Leasehold improvements and equipment	6,485,021	5,562,141
Accumulated depreciation	(4,981,619)	(4,401,195)
Total capital assets	<u>1,503,402</u>	<u>1,160,946</u>
Total noncurrent assets	<u>162,853,152</u>	<u>182,643,322</u>
Total assets	<u>350,629,419</u>	<u>351,403,236</u>
Deferred Outflows of Resources:		
Deferred outflows related to pensions	3,072,689	3,676,312
Deferred outflows related to OPEB health	3,043,818	-
Deferred outflows related to OPEB life insurance	139,274	-
<b>Liabilities</b>		
Current liabilities:		
Warrants outstanding	-	2,293,032
Warrants authorized	-	875,399
Accounts payable and other liabilities	21,774,293	15,401,335
Due to School Aid Fund	5,000,000	38,574,742
Prize awards payable - net of discount	151,082,248	103,794,191
Total current liabilities	<u>177,856,541</u>	<u>160,938,699</u>
Noncurrent liabilities:		
Prize awards payable - net of discount	155,565,429	162,612,692
Net pension liability	22,396,495	22,208,139
Net OPEB liability - health	35,925,905	9,845,865
Net OPEB liability - life insurance	5,319,247	-
Capital lease obligation	473,264	-
Accrual for compensated absences, less current portion	874,117	809,043
Total noncurrent liabilities	<u>220,554,457</u>	<u>195,475,739</u>
Total liabilities	<u>398,410,998</u>	<u>356,414,438</u>
Deferred Inflows of Resources:		
Deferred inflows related to pensions	1,343,853	1,476
Deferred inflows related to OPEB health	790,977	-
Deferred inflows related to OPEB life insurance	288,387	-
<b>Net Position</b>		
Net investment in capital assets	959,574	1,160,946
Unrestricted (deficit)	(44,908,589)	(2,497,312)
Total net position	<u>\$ (43,949,015)</u>	<u>\$ (1,336,366)</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, 2018 and 2017**

	Six Months Ended		Years Ended	
	2018	2017	2018	2017
<b>Operating revenues</b>				
Ticket sales	\$ 1,804,161,874	\$ 1,719,171,493	\$ 3,578,066,597	\$ 3,329,798,181
Charitable gaming and other	7,033,885	10,756,428	13,861,929	17,327,924
Total operating revenues	<u>1,811,195,759</u>	<u>1,729,927,921</u>	<u>3,591,928,526</u>	<u>3,347,126,105</u>
<b>Operating expenses</b>				
Prize awards	1,139,834,950	1,065,042,436	2,237,033,657	2,044,073,024
Less - unclaimed prizes	<u>(9,760,915)</u>	<u>(12,395,737)</u>	<u>(21,992,570)</u>	<u>(27,627,489)</u>
Net prize awards	1,130,074,035	1,052,646,699	2,215,041,087	2,016,445,535
Retailer and vendor commissions and other expenses	168,028,391	161,574,829	334,182,647	310,845,841
Game related expenses	17,135,564	18,819,738	33,770,843	32,306,534
Depreciation expense	501,336	210,720	731,551	422,179
Other operating expenses	<u>37,611,452</u>	<u>31,665,981</u>	<u>67,218,646</u>	<u>61,237,805</u>
Total operating expenses	<u>1,353,350,778</u>	<u>1,264,917,967</u>	<u>2,650,944,774</u>	<u>2,421,257,894</u>
<b>Operating income</b>	<u>457,844,981</u>	<u>465,009,954</u>	<u>940,983,752</u>	<u>925,868,211</u>
<b>Non-operating revenues (losses)</b>				
Investment revenue - net	(1,463,018)	6,638,558	(4,196,194)	(2,698,787)
Interest on equity in State Treasurer's Common Cash Fund	<u>628,585</u>	<u>393,994</u>	<u>921,317</u>	<u>585,465</u>
Total non-operating (losses) revenues	<u>(834,433)</u>	<u>7,032,552</u>	<u>(3,274,877)</u>	<u>(2,113,322)</u>
<b>Non-operating expenses</b>				
Custody fees	(1,583)	(2,600)	(3,255)	(4,618)
Capital lease interest expense	<u>(22,390)</u>	-	<u>(43,457)</u>	-
Amortization of prize award obligation discount	<u>(3,347,577)</u>	<u>(3,053,422)</u>	<u>(6,824,606)</u>	<u>(6,786,472)</u>
Loss on disposal of assets	-	(6)	-	(6)
Total non-operating expenses before disbursements	<u>(3,371,550)</u>	<u>(3,056,028)</u>	<u>(6,871,318)</u>	<u>(6,791,096)</u>
Disbursement to School Aid Fund	<u>(459,261,346)</u>	<u>(464,943,691)</u>	<u>(941,282,589)</u>	<u>(924,106,134)</u>
Disbursement to General Fund	<u>(994,722)</u>	<u>(547,997)</u>	<u>(1,932,473)</u>	<u>(1,944,315)</u>
Disbursement to Health & Human Services	<u>(495,000)</u>	<u>(495,000)</u>	<u>(990,000)</u>	<u>(990,000)</u>
Total disbursements	<u>(460,751,068)</u>	<u>(465,986,688)</u>	<u>(944,205,062)</u>	<u>(927,040,449)</u>
Total non-operating expenses	<u>(464,122,618)</u>	<u>(469,042,716)</u>	<u>(951,076,380)</u>	<u>(933,831,545)</u>
<b>Net non-operating revenue (expense)</b>	<u>(464,957,051)</u>	<u>(462,010,164)</u>	<u>(954,351,257)</u>	<u>(935,944,867)</u>
<b>Change in net position</b>	<u>(7,112,070)</u>	<u>2,999,790</u>	<u>(13,367,505)</u>	<u>(10,076,656)</u>
<b>Total net position at beginning of period</b>	<u>(7,591,801)</u>	<u>(4,336,156)</u>	<u>(1,336,366)</u>	<u>8,740,290</u>
<b>Restatement due to change in accounting principle (Note 1)</b>	<u>(29,245,144)</u>	-	<u>(29,245,144)</u>	-
<b>Total net position at end of period</b>	<u>\$ (43,949,015)</u>	<u>\$ (1,336,366)</u>	<u>\$ (43,949,015)</u>	<u>\$ (1,336,366)</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, 2018 and 2017**

	Six Months Ended		Years Ended	
	2018	2017	2018	2017
<b>Cash Flows From Operating Activities</b>				
Cash collections from customers	\$ 1,817,330,187	\$ 1,726,722,253	\$ 3,575,840,894	\$ 3,331,728,818
Payments to employees	(12,349,169)	(11,623,019)	(24,245,285)	(23,788,411)
Payments to suppliers	(46,344,398)	(44,665,304)	(69,260,005)	(75,585,874)
Payments to prize winners	(1,106,429,201)	(1,048,257,219)	(2,181,624,900)	(2,016,206,322)
Payments for retailer and vendor commissions and other expenses	(167,439,511)	(161,196,136)	(334,024,875)	(314,667,148)
Net cash provided by operating activities	<u>484,767,908</u>	<u>460,980,575</u>	<u>966,685,829</u>	<u>901,481,063</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
Disbursements to School Aid Fund	(556,282,589)	(512,481,392)	(974,857,331)	(919,498,334)
Disbursements to General Fund	(1,932,473)	(1,994,315)	(1,932,473)	(1,994,315)
Disbursements to Health & Human Services	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	<u>(559,205,062)</u>	<u>(515,465,707)</u>	<u>(977,779,804)</u>	<u>(922,482,649)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Acquisition of capital assets	(757,298)	(346,181)	(724,998)	(359,471)
Proceeds from the sale of capital assets	10,766	-	10,766	-
Principal on capital leases	(39,214)	-	(68,987)	-
	<u>(785,746)</u>	<u>(346,181)</u>	<u>(783,219)</u>	<u>(359,471)</u>
<b>Cash Flows From Investing Activities</b>				
Proceeds from the sale and maturity of investment securities	7,017,333	14,678,333	14,281,333	21,917,333
Purchase of investments	(493,965)	-	(964,711)	(3,045,662)
Interest received	921,317	511,326	921,317	585,465
Bank fees	(1,583)	(2,600)	(3,255)	(4,618)
Net cash provided by investing activities	<u>7,443,102</u>	<u>15,187,059</u>	<u>14,234,684</u>	<u>19,452,519</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(67,779,798)</b>	<b>(39,644,254)</b>	<b>2,357,490</b>	<b>(1,908,538)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>71,889,539</b>	<b>41,396,505</b>	<b>1,752,251</b>	<b>3,660,789</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,109,741</b>	<b>\$ 1,752,251</b>	<b>\$ 4,109,741</b>	<b>\$ 1,752,251</b>

**Bureau of State Lottery, State of Michigan**  
**Statement of Cash Flows**  
**For the Six Months and Years Ended September 30, 2018 and 2017**

	Six Months Ended		Years Ended	
	2018	2017	2018	2017
<b>Reconciliation of net operating income to net cash provided by operating activities</b>				
Operating income	\$ 457,844,981	465,009,954	\$ 940,983,752	925,868,211
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	501,336	210,720	731,551	422,179
Pension expense	4,980,034	1,018,707	4,980,034	2,494,873
OPEB expense	3,229,042	581,337	3,229,042	581,337
Deferred Outflows - Contributions subsequent to measurement date	(4,579,990)	-	(6,024,307)	(3,054,724)
Bad debt expense and other reconciling items	47,714	195,740	357,438	252,668
Interest on capital leases	(22,390)	-	(43,457)	-
Amortization of prize award obligation discount	(3,347,577)	(3,053,422)	(6,824,606)	(6,786,472)
Net Changes in Assets and Liabilities:				
Inventory	(481,453)	2,100,602	(759,660)	(2,876,105)
Receivables	6,134,428	(3,205,668)	(16,087,631)	(15,397,286)
Warrants authorized, compensated absences, accounts payable, other liabilities	(7,119,508)	(9,698,990)	5,745,108	(3,227,996)
Prize awards payable	26,992,411	7,442,902	40,240,793	7,025,685
Other assets	588,880	378,693	157,772	(3,821,307)
<b>Net cash provided by operating activities</b>	<b>\$ 484,767,908</b>	<b>\$ 460,980,575</b>	<b>\$ 966,685,829</b>	<b>\$ 901,481,063</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	\$ 71,889,539	\$ 41,900,567	\$ 1,752,251	\$ 4,320,988
Warrants outstanding	-	(504,062)	-	(660,199)
<b>Net cash and cash equivalents at beginning of period</b>	<b>\$ 71,889,539</b>	<b>\$ 41,396,505</b>	<b>\$ 1,752,251</b>	<b>\$ 3,660,789</b>
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 4,109,741	\$ 4,045,283	\$ 4,109,741	\$ 4,045,283
Warrants outstanding	-	(2,293,032)	-	(2,293,032)
<b>Net cash and cash equivalents at end of period</b>	<b>\$ 4,109,741</b>	<b>\$ 1,752,251</b>	<b>\$ 4,109,741</b>	<b>\$ 1,752,251</b>
<b>Schedule of noncash investing, capital, and financing activities</b>				
Capital lease obligations	\$ (9,524)	-	\$ (290,789)	\$ -
Increase (Decrease) in fair value of investments	4,927,300	3,021,276	(11,182,734)	(10,055,170)
Gain (loss) on disposal of capital assets	-	(6)	-	(6)
Disbursements to other funds (accrual)	(5,000,000)	(38,574,742)	(5,000,000)	(38,574,742)
<b>Total noncash investing, capital, and financing activities</b>	<b>\$ (82,224)</b>	<b>\$ (35,553,472)</b>	<b>\$ (16,473,523)</b>	<b>\$ (48,629,918)</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, Raffle, and Lucky for Life 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, Power Play, and Lucky for Life is disbursed to the School Aid Fund.

#### **Basis of Presentation**

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

#### **Basis of Accounting**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Lottery distinguishes operating revenue and expenses from non-operating items. The principal operating revenue of the Lottery is primarily comprised of sales from instant and draw game tickets and iLottery net wins. Operating expenses mainly consist of payments to instant and draw game 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 in the current year, except for unrealized gains on investments, and the cumulative impact of allocating the net pension liability and other postemployment benefit liability, which are included in amounts reserved for future state aid transfers, and the excess of revenue over expenses from charitable gaming activities and up to \$1 million per year to the Department of Health and Human Services for gambling addiction programs, which are both designated for payment to the State General Fund.

The accounting policies of the Lottery conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Lottery.

#### **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.

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

### **Notes to Financial Statements**

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Revenues for iLottery instant 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 8 for more information on iLottery instant games revenue and expense). All revenues are reported net of free plays, discounts and allowances. Receivables represent amounts due from retailers and amounts due from members of multi-state lotteries related to jackpot prizes won in the State of Michigan.

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

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

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 reported as restricted for school aid fund on the Statement of Net Position.

#### **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, 2018 and 2017. The inventory is valued at cost, primarily using the weighted average method.

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

### **Notes to Financial Statements**

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#### **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 \$1,543,452 as of September 30, 2018 and \$1,337,487 as of September 30, 2017.

#### **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 \$5 million threshold for intangible assets such as constructed computer software.

Information technology equipment including constructed computer software is depreciated over five 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 Outstanding**

For the fiscal year ended September 30, 2017, most of the Lottery's disbursements were made through warrants issued by the State. Warrants requested by the Lottery were charged to the Lottery's equity in the State Treasurer's Common Cash Fund as they cleared the State Treasurer's account. Warrants outstanding represented drafts issued against the State Treasurer's account, which had not cleared. Effective October 1, 2017, the State Treasury no longer issues disbursements via a warrant process. Disbursements are now made through checks issued from Lottery's equity in the State Treasurer's Common Cash Fund. All outstanding checks issued at September 30, 2018 are recorded as a reduction of cash in the Lottery's financial statements.

#### **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 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, including expired iLottery claims, are disbursed to the State School Aid Fund as provided by State statute.

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

### **Notes to Financial Statements**

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#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery reports deferred outflows of resources related to pensions and other postemployment benefit costs in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Lottery reports deferred inflows of resources related to pensions and other postemployment benefit costs in this category.

#### **Pensions and Postemployment Benefits Other than Pensions (OPEB)**

For the purposes of measuring the net pension liability, net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to pension and OPEB, and pension and OPEB expense, information about fiduciary net position and additions to/deductions from fiduciary net position of the State Employees' Retirement System (SERS) or the postemployment life insurance benefits plan (the "Plan") have been determined on the same basis as they are reported by SERS or the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **Change in Accounting**

During the current fiscal year, the Lottery adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the financial statements now include a net other postemployment benefit (OPEB) liability for the Lottery's unfunded postemployment benefit plan legacy costs. Some of the changes in this net OPEB liability each year will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to Note 11 for further details. As a result of implementing this statement, the net position of the Lottery as of October 1, 2017 has been restated by (\$29,245,144). Of the (\$29,245,144) restatement, (\$42,017,773) was related to beginning of the year net OPEB liability under GASB 75, \$9,845,865 was related to removing the previously recorded net OPEB obligation under GASB 45, and \$2,926,764 was related to beginning of the year deferred outflows for employer contributions made subsequent to the measurement date. The restatement of the fiscal year 2017 financial statements was not practical as all necessary information for such a restatement was not available from the OPEB plan. As such, the fiscal year 2017 financial statements have not been restated.

#### **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*. Net investment in capital assets consists of equipment and leasehold improvements, less capital lease obligations.

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

### **Notes to Financial Statements**

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The difference between the fair value of investments and the amortized book value of investments is considered restricted for School Aid Fund and is not available for disbursement to the School Aid Fund until realized in accordance with Public Act 239. Additionally, the pension and OPEB liabilities recorded in accordance with GASB Statement No. 68 and Statement No. 75, as well as the change in net pension and OPEB liability and deferred inflows and outflows related to pensions and OPEB are also considered restricted for School Aid Fund. As of September 30, 2018 and 2017, the impact of the various amounts restricted for the School Aid Fund resulted in a negative net position. This negative position has been reported as unrestricted on the Statement of Net Position since restricted amounts cannot be negative. This created an overall deficit net position for the Lottery.

#### **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.



## Bureau of State Lottery, State of Michigan

### Notes to Financial Statements

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#### 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.

#### **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, 2018 and 2017, 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, 2018 and 2017, the Lottery does not hold any investments in commercial paper.

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

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Interest Rate Risk

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

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

**NOTE 3 - INVESTMENTS**

Investments totaling \$174,342,319 at September 30, 2018 and \$191,855,135 at September 30, 2017 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 7. Cash receipts from the maturity of investments totaled \$14,281,333 in the year ended September 30, 2018 and \$21,917,333 in the year ended September 30, 2017. For the six months ended September 30, 2018 and 2017, cash receipts from the maturity of investments totaled \$7,017,333 and \$14,678,333, respectively.

Investments at September 30 consist of the following:

	<u>2018</u>	<u>2017</u>
U. S. Treasury zero-coupon bonds	\$ 140,478,461	\$ 151,758,634
Michigan CAB bonds	33,863,858	40,096,501
Total Investments	<u>\$ 174,342,319</u>	<u>\$ 191,855,135</u>

As reported on the Statement of Net Position:

	<u>2018</u>	<u>2017</u>
Current investments	\$ 16,656,104	\$ 14,194,065
Noncurrent investments	157,686,215	177,661,070
Total Investments	<u>\$ 174,342,319</u>	<u>\$ 191,855,135</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, 2018 and 2017 consist of the following:

September 30, 2018

Maturities in Years	Investments in United States Treasury Zero-Coupon Bonds	Interest Rate Low to High	Investments in Michigan CAB Bonds	Interest Rate Low to High
Less than 1	\$ 12,122,215	0.93% to 4.62%	\$ 4,533,889	7.15% to 7.15%
1-5	50,112,318	1.20% to 4.99%	17,343,819	7.65% to 8.25%
6-10	35,332,157	2.01% to 4.84%	5,233,227	8.29% to 8.39%
11-15	26,280,882	2.40% to 4.71%	6,752,923	8.39% to 8.39%
16-20	11,917,589	2.52% to 4.79%	-	-
21-25	4,443,832	2.62% to 3.68%	-	-
26-29	269,468	2.57% to 3.30%	-	-
Fair Market Value	<u>\$ 140,478,461</u>		<u>\$ 33,863,858</u>	

September 30, 2017

Maturities in Years	Investments in United States Treasury Zero-Coupon Bonds	Interest Rate Low to High	Investments in Michigan CAB Bonds	Interest Rate Low to High
Less than 1	\$ 8,546,247	0.75% to 4.46%	\$ 5,647,818	7.01% to 7.01%
1-5	53,062,311	0.93% to 4.99%	19,645,254	7.15% to 8.20%
6-10	39,013,237	1.88% to 4.94%	6,856,614	8.25% to 8.38%
11-15	29,058,454	2.32% to 4.71%	7,946,815	8.39% to 8.39%
16-20	16,545,828	2.52% to 4.79%	-	-
21-25	3,726,889	2.59% to 3.66%	-	-
26-29	1,805,668	2.57% to 3.68%	-	-
Fair Market Value	<u>\$ 151,758,634</u>		<u>\$ 40,096,501</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.

**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).

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

### **Notes to Financial Statements**

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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's 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, 2018 and September 30, 2017, the Lottery's investments in Michigan CAB bonds were rated AA and AA- by Standard and Poor, respectively, and Aa1 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, 2018, investments in Michigan CAB bonds account for 19.4% of the total Investments as compared to 20.9% as of September 30, 2017. This decrease is due to the maturities of Michigan CAB bonds in the past year.

#### **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, 2018 and 2017 the Lottery had no investments subject to foreign currency risk.

#### **NOTE 4 – FAIR VALUE MEASUREMENT**

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Lottery's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

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

The Lottery has the following recurring fair value measurements as of September 30:

	2018	2017
U.S. Treasury Zero coupon bonds	\$ 140,478,461	\$ 151,758,634
Michigan CAB bonds	33,863,858	40,096,501

The fair value of U.S. Treasury zero-coupon bonds and Michigan CAB bonds at September 30, 2018 and 2017 were determined primarily based on level 2 inputs. The Lottery estimates the fair value of these investments using the matrix pricing technique using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

**NOTE 5 - CAPITAL ASSETS**

A summary of capital asset activity for the fiscal years ended September 30, 2018 and 2017 is as follows:

Year Ending	Beginning Balance	Additions	Deletions	Ending Balance
<b><u>September 30, 2018</u></b>				
Capital assets being depreciated:				
Leasehold improvements	\$ 2,252,789	\$ 882,006	\$ 296,800	\$ 2,837,995
Equipment	3,309,352	500,149	162,475	3,647,026
Total capital assets being depreciated	5,562,141	1,382,155	459,275	6,485,021
Less: accumulated depreciation				
Leasehold improvements	1,950,008	393,607	-	2,343,615
Equipment	2,451,187	337,944	151,127	2,638,004
Total accumulated depreciation	4,401,195	731,551	151,127	4,981,619
Total capital assets being depreciated, net	\$ 1,160,946	\$ 650,604	\$ 308,148	\$ 1,503,402
<b><u>September 30, 2017</u></b>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,955,989	\$ 296,800	\$ -	\$ 2,252,789
Equipment	3,939,638	62,671	692,957	3,309,352
Total capital assets being depreciated	5,895,627	359,471	692,957	5,562,141
Less: accumulated depreciation				
Leasehold improvements	1,948,940	1,068	-	1,950,008
Equipment	2,723,027	421,111	692,951	2,451,187
Total accumulated depreciation	4,671,967	422,179	692,951	4,401,195
Total capital assets being depreciated, net	\$ 1,223,660	\$ (62,708)	\$ 6	\$ 1,160,946

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

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**NOTE 6 - DISAGGREGATION OF PAYABLE BALANCE**

Accounts payable and other liabilities at September 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Accounts payable vendors	\$ 13,788,509	\$ 7,537,065
Retailer security deposits/accounts payable	5,819,679	5,765,922
Accrued salaries	1,250,372	1,217,886
Compensated absences	<u>915,733</u>	<u>880,462</u>
Total	<u>\$ 21,774,293</u>	<u>\$ 15,401,335</u>

**NOTE 7 - PRIZE AWARDS**

Installment prize awards are recorded at their present value using discount rates ranging from 2.3% to 6.5%. U.S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds have been purchased to provide for the payment of installment prize awards in addition to cash maintained in the State's common cash fund. Prize awards payable as of September 30, were as follows:

	<u>2018</u>	<u>2017</u>
Current - at face amount	\$ 151,406,675	\$ 104,117,909
Less - unamortized discount	<u>(324,427)</u>	<u>(323,718)</u>
Current - at present value	151,082,248	103,794,191
Long-term - at face amount	223,068,458	236,120,991
Less - unamortized discount	<u>(67,503,029)</u>	<u>(73,508,299)</u>
Long-term - at present value	<u>155,565,429</u>	<u>162,612,692</u>
Total	<u>\$ 306,647,677</u>	<u>\$ 266,406,883</u>

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

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

2019	\$ 15,107,533
2020	15,107,533
2021	15,107,533
2022	14,540,533
2023	13,724,533
2024-2028	59,531,065
2029-2033	54,261,065
2034-2038	31,706,465
2039-2043	7,369,865
2044-2048	5,229,666
2049-2053	2,368,000
2054-2058	1,675,200
2059-2063	920,000
2064-2068	695,000
2069-2073	520,000
2074-2078	312,000
Total	238,175,991
Less - unamortized discount	(67,827,456)
Total installment prize awards payable at present value	170,348,535
Non-installment prize awards payable	136,299,142
Total prize awards payable	\$ 306,647,677

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
2018	\$ 177,346,507	\$ 8,109,560	\$ 15,107,532	\$ 170,348,535	\$ 14,783,105
2017	\$ 188,302,337	\$ 10,231,815	\$ 21,187,645	\$ 177,346,507	\$ 14,733,815

**NOTE 8 – iLOTTERY NET WIN**

iLottery instant game 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 instant game sales and prize activity for the fiscal years ended September 30, 2018 and 2017:

	2018	2017
Sales	\$ 770,064,903	\$ 613,382,462
Prizes	\$ (676,315,594)	\$ (535,477,984)
iLottery Net Win	\$ 93,749,309	\$ 77,904,478

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

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**NOTE 9 - 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, 2018.

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
2018	\$ 1,689,505	\$ 1,379,062	\$ 1,278,717	\$ 1,789,850	\$ 915,733	\$ 874,117
2017	\$ 1,687,558	\$ 1,333,818	\$ 1,331,871	\$ 1,689,505	\$ 880,462	\$ 809,043

**NOTE 10 – PENSION PLAN & OTHER EMPLOYEE BENEFITS**

**Defined Pension Plan**

**A. Plan Description**

The Michigan State Employees Retirement System (the "System" or "SERS") is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. Executive Order 2015-13 signed by the Governor on October 27, 2015 established the State of Michigan Retirement Board. The executive order establishes the board's authority to promulgate or amend the provision of the System.



## Bureau of State Lottery, State of Michigan

### Notes to Financial Statements

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The board consists of nine members:

- The Attorney General
- The State Treasurer
- The Legislative Auditor General
- The State Personnel Director
- One member or retirant of the State Employees' Retirement System appointed by the Governor
- One member of the Judges Retirement System appointed by the Governor
- One current or former member or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions appointed by the Governor
- One retirant member of the State Employees' Retirement System appointed by the Governor
- One member of the general public appointed by the Governor

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees. The System is accounted for in a separate pension trust fund and is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the system. The System's financial statements are available online at <http://www.michigan.gov/ors>.

#### **B. Benefits Provided**

**Introduction** - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

Public Act 185 of 2010, established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning January 1, 2011.

## Bureau of State Lottery, State of Michigan

### Notes to Financial Statements

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**Pension Reform of 2012** - On December 15, 2011, the Governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- Option 1: DB Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate state employment. The 4% contribution began on April 1, 2012.
- Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's DC plan. The 4% contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.
- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2012 and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members (with less than 10 years of service) of the DB plan who are reemployed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation to a 401(k) or 457 account, earning a matching 2% employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

**Regular Retirement** - The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5% of a member's FAC multiplied by the years and partial year of credited service and is payable monthly over the member's lifetime.

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011).

## Bureau of State Lottery, State of Michigan

### Notes to Financial Statements

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If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime – for the six-year period ending on the FAC calculation date – will be added to that initial FAC calculation to get the final FAC number.

For members who switch to the DC plan for future service, the pension calculation FAC (times 1.5% times years of service) will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

A member may retire and receive a monthly benefit after attaining:

1. age 60 with 10 or more years of credited service; or
2. age 55 with 30 or more years of credited service; or
3. age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5% for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:

1. age 51 with 25 or more years in a covered position; or
2. age 56 with 10 or more years in a covered position.

In either case, the three years immediately preceding retirement must have been in a covered position.

**Deferred Retirement** - Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for State employees occupying unclassified positions in the executive and legislative branches and certain Department of Health and Human Services employees subject to reduction in force lay-offs by reason of deinstitutionalization.

**Non-Duty Disability Benefit** - A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

**Duty Disability Benefit** - A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of \$6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

## Bureau of State Lottery, State of Michigan

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**Survivor Benefit** - Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of Duty Death benefits and redefines eligibility for deceased member's survivors. The new minimum duty-related death benefit has been increased to \$6,000.

**Pension Payment Options** - When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100%, 75% or 50% of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows.

**Regular Pension** - The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

**100% Survivor Pension** - Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

**75% Survivor Pension** - Under this option, after the retiree's death, the beneficiary will receive 75% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

**50% Survivor Pension** - Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% or 75% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

**Equated Pension** - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100%, 75% or 50% option. At age 65 the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide ORS with an estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.

**Post Retirement Adjustments** - One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977 and 1987.

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Beginning October 1, 1988, a 3% non-compounding increase, up to a maximum of \$25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8% annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3% increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987, are not eligible for the supplemental payment.

#### C. Contributions

**Member Contributions** - Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

**Employer Contributions** - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal years ending 2018 and 2017, the Lottery's contribution rate was 24.60% and 25.50% of the defined benefit employee wages and 19.73% and 22.24% of the defined contribution employee wages. The Lottery's contribution to SERS for the fiscal years ending September 30, 2018 and 2017 was \$2,845,679 and \$3,054,724, respectively.

#### D. Actuarial Assumptions

The Lottery's net pension liability for the year ended September 30, 2018 was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, and rolled-forward using general accepted actuarial procedures. Net pension liability for the year ended September 30, 2017 was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, and rolled-forward using generally accepted actuarial procedures.

The total pension liability for both years was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	3.5%
Projected Salary Increases	3.5 - 12.5%
Investment Rate of Return	7.5% at September 30, 2017 8.0% at September 30, 2016
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible

Mortality rates were based on RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2015 projections scale BB.

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For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

Actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study covering the period from October 1, 2007 through September 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017 and September 30, 2016, are summarized in the following tables:

**September 30, 2017**

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**Asset Allocation**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0 %	5.6%
Private Equity Pools	18.0	8.7
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate & Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
<b>TOTAL</b>	<b>100.0 %</b>	

\*Long-term Rate of Returns are net of administrative expenses and 2.3% inflation

**September 30, 2016**

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**Asset Allocation**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0 %	5.9%
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate & Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
<b>TOTAL</b>	<b>100.0 %</b>	

\*Long-term Rate of Returns are net of administrative expenses and 2.1% inflation

**E. Discount Rate**

A discount rate of 7.5% and 8.0% was used to measure the total pension liability as of September 30, 2017 and 2016, respectively. This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% and 8.0%, respectively. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

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Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Net Pension Liability**

At September 30, 2018 net pension liability was measured as of September 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net pension liability was based on the Lottery's required pension contributions received by SERS during the measurement period October 1, 2016 through September 30, 2017, relative to the total required employer contributions from all of SERS's participating employers.

At September 30, 2017 net pension liability was measured as of September 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net pension liability was based on the Lottery's required pension contributions received by SERS during the measurement period October 1, 2015 through September 30, 2016, relative to the total required employer contributions from all of SERS's participating employers.

**Net Pension Liability**

	<u>Proportionate Share \$</u>	<u>Proportionate Share %</u>	
2018	\$ 22,396,495	0.431	%
2017	22,208,139	0.420	

**G. Pension Liability Sensitivity**

The following presents the Lottery's proportionate share of the net pension liability calculated using the discount rate as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:



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September 30, 2018		
1% Decrease 6.5%	Current Discount 7.5%	1% Increase 8.5%
\$ 29,259,928	\$ 22,396,495	\$ 16,481,228

September 30, 2017		
1% Decrease 7.0%	Current Discount 8.0%	1% Increase 9.0%
\$ 28,514,762	\$ 22,208,139	\$ 16,765,382

**H. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting ([www.michigan.gov/ors](http://www.michigan.gov/ors)).

**I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The Lottery recognized pension expense of \$4,980,034 for the year ended September 30, 2018 and \$2,494,873 for the year ended September 30, 2017, respectively. The Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	September 30, 2018		September 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experiences	\$ 5,136	\$ -	\$ 2,656	\$ -
Changes of assumptions	184,361	-	-	-
Changes in proportions	37,513	-	119,994	1,476
Net difference between projected and actual earnings on investments	-	1,343,853	498,938	-
Lottery's contributions subsequent to the measurement date	2,845,679	-	3,054,724	-
Total	\$ 3,072,689	\$ 1,343,853	\$ 3,676,312	\$ 1,476

Amounts reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019.

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Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30:</u>	<u>Expense</u> <u>Amount</u>
2019	\$ (314,836)
2020	109,103
2021	(431,417)
2022	(479,693)

**Defined Contribution Plan**

The Lottery participates in the State of Michigan's defined contribution plan system. The Lottery is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Lottery are established and may be amended by the State legislature. The State legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. For the six months ended September 30, 2018 and 2017, Lottery contributions to the plan totaled \$342,266 and \$375,182 respectively. Lottery's contributions to the plan were \$696,292 for the year ended September 30, 2018 and \$682,605 for the year ended September 30, 2017, and are recorded in salaries and benefits expense.

**NOTE 11 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

**Defined Benefit OPEB Plan - Health**

**A. Plan Description**

The Michigan State Employees Retirement System (the "System" or "SERS") is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. Executive Order 2015-13 signed by the Governor on October 27, 2015 established the State of Michigan Retirement Board. The executive order establishes the board's authority to promulgate or amend the provision of the System.

The board consists of nine members:

- The Attorney General
- The State Treasurer
- The Legislative Auditor General
- The State Personnel Director
- One member or retirant of the State Employees' Retirement System appointed by the Governor
- One member of the Judges Retirement System appointed by the Governor

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- One current or former member or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions appointed by the Governor
- One retirant member of the State Employees' Retirement System appointed by the Governor
- One member of the general public appointed by the Governor

The System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees' Retirement Act. The System is accounted for in a separate OPEB trust fund and is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the system. The System's financial statements are available online at <http://www.michigan.gov/ors>.

#### **B. Benefits Provided**

Benefit provisions of the other postemployment benefit (OPEB) plan are established by State statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan. Defined Benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined Contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health, prescription drug, dental and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the Premium Subsidy benefit contribute 20% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earnings a 30% subsidy with ten years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80%. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans. Defined Contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011, and those hired on or after January 1, 2012, are not eligible for any subsidized health, prescription drug, dental or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are reemployed by the state on or after January 1, 2014 are not eligible for retiree health insurance coverage premium subsidy but will become a participant in the Personal Healthcare Fund.

This plan is closed to new hires.

#### **C. Contributions**

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent of payroll value funding principles so the contribution rates do not have to increase over time.

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For fiscal year ending September 30, 2018, Lottery's contribution rate was 22.14% of the defined benefit and defined contribution employee wages. For the fiscal year ending September 30, 2017, Lottery's contribution rate was 21.05% of the defined benefit and defined contribution employee wages. The Lottery's contribution to SERS for the fiscal years ending September 30, 2018 and 2017 were \$3,043,818 and \$2,801,003, respectively. Active employees are not required to contribute to SERS OPEB.

#### D. Actuarial Assumptions

The Lottery's net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	3.5%
Investment Rate of Return	7.5%
Projected Salary Increases	3.5 – 12.5%
Health Care Cost Trend Rate	9.0% Year 1 graded to 3.5% Year 10
Mortality	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements For active members, 50% of the male table rates were used. For women, 50% of the female table rates were used.

The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2007 through September 30, 2012.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

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**Notes to Financial Statements**

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<b>Asset Allocation</b>		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.6 %
International Equity Pools	18.0	8.7
Alternative Investment Pools	16.0	7.2
Real Estate and Infrastructure Pools	10.5	(0.1)
Fixed Income Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	<u>2.0</u>	(0.9)
<b>TOTAL</b>	<u><u>100.0 %</u></u>	

\* Long-term rates of return are net of administrative expenses and 2.3% inflation

**E. Discount Rate**

A Single Discount Rate of 7.5% was used to measure the total OPEB liability. This Single Discount Rate was based on the expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this Single Discount Rate assumed that in the future, plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member (retiree) rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**F. Net OPEB Liability**

At September 30, 2018, the Lottery reported a liability of \$35,925,905 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016, and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net OPEB liability was based on Lottery's required OPEB contributions received by SERS during the measurement period October 1, 2016, through September 30, 2017, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2017, Lottery's proportion was 0.436%.

At September 30, 2017, the Lottery's net OPEB obligation totaled \$9,845,865 under GASB 45. The State allocates the fully accrued actuarial required contribution (ARC) expense among its funds, including the Lottery, based on the funds' respective percentage of actual contributions to the plan. The State requires Lottery to contribute to the plan at a rate of covered payroll necessary to fund its share of the annual "pay as you go" contributions, which is significantly less than the ARC rate.

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The cumulative difference between the amounts the State requires the Lottery to contribute and Lottery's allocation of the total plan ARC expense is recorded as other postemployment benefit (OPEB) obligation on the Statement of Net Position.

The investment return assumption was updated beginning with the September 30, 2016 valuation to reflect reductions in capital market assumptions for the asset classes in which the System invests. The investment return assumption was updated again beginning with the September 30, 2017 valuation in accordance with the Dedicated Gains Policy adopted by the Board of Trustees. This assumption change will increase the computed liabilities.

**G. Sensitivity of the NET OPEB Liability to Changes in the Discount Rate**

The following presents the Lottery's proportionate share of the net OPEB liability calculated using the discount rate as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<b>1% Decrease</b> <b>6.5%</b>	<b>Current Discount</b> <b>7.5%</b>	<b>1% Increase</b> <b>8.5%</b>
Lottery's proportionate share of the net OPEB liability	\$ 40,900,779	\$ 35,925,905	\$ 31,710,321

**Sensitivity of the NET OPEB Liability to Healthcare Cost Trend Rates**

The following table presents the Lottery's proportionate share of the net OPEB liability calculated using the assumed trend rates as well as what the proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current trend rate:

	<b>1% Trend</b> <b>Decrease</b> <b>(8.0% to 2.5%)</b>	<b>Current</b> <b>Trend Rate</b> <b>(9.0% to 3.5%)</b>	<b>1% Trend</b> <b>Increase</b> <b>(10.0% to 4.5%)</b>
Lottery's proportionate share of the net OPEB liability	\$ 31,465,063	\$ 35,925,905	\$ 41,041,920

**H. OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting ([www.michigan.gov/ors](http://www.michigan.gov/ors)).

**I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended September 30, 2018, the Lottery recognized OPEB expense of \$2,943,037. At September 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experiences	\$ -	\$ 260,607
Changes in proportions	-	219,219
Net difference between projected and actual earnings on investments	-	311,151
Lottery's contributions subsequent to the measurement date	3,043,818	-
Total	\$ 3,043,818	\$ 790,977

Amounts reported as deferred outflows of resources related to OPEB resulting from the Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ended September 30:</b>	<b>Expense Amount</b>
2019	\$ (174,030)
2020	(174,030)
2021	(174,030)
2022	(174,030)
2023	(94,857)

**Defined Contribution Plan**

The Lottery participates in the State of Michigan's defined contribution plan system. The Lottery is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Lottery are established and may be amended by the State legislature. The State legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. For the six months ended September 30, 2018 and 2017, Lottery contributions to the plan totaled \$33,547 and \$30,148, respectively. Lottery's contributions to the plan were \$62,526 for the year ended September 30, 2018 and \$52,634 for the year ended September 30, 2017, and are recorded in salaries and benefits expense.

**Postemployment Life Insurance Benefits**

**A. Plan Description**

The State of Michigan provides postemployment life insurance benefits (the Plan) to eligible individuals upon retirement from State employment. Members of the State Employees Retirement System (SERS), the State Police Retirement System (SPRS), the Judges' Retirement System (JRS), and certain members of the Military Retirement Provisions (MMRP) may receive a life insurance benefit if they meet the benefit eligibility requirements.

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The Plan is a single-employer, state-wide, defined benefit other postemployment benefits (OPEB) plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. The Plan is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963 and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (Fund), an internal service fund in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

#### **B. Benefits Provided**

The State's group policy with Minnesota Life includes any active employee in the category of classified State service with an appointment of at least 720 hours duration, but excluding employees with non-career appointments and those working less than 40% of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County employees who a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage (which amount is rounded to the next higher \$100 provided the retiree retired after July 1, 1974), \$1,000 for spouse and \$1,000 for each dependent under age 23.

The active life insurance amount is either a) two times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$100,000 and a maximum of \$200,000; or b) one times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$50,000.

#### **C. Contributions**

The State requires the employer to contribute to finance 100% of the premiums for employee and retiree life insurance coverage. The premium rate for fiscal years 2018 and 2017 were \$.28 and \$.24, respectively, for each \$1,000 of coverage. The employee contributes 100% of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies.



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More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

#### **D. Actuarial Valuations and Assumptions**

The Lottery's total OPEB liability as of the September 30, 2018 was measured as of September 30, 2017 and is based on an actuarial valuation performed as of that date.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method with these characteristics: a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and b) each annual normal cost is a constant percentage of the members' year by year projected covered pay.

The total OPEB liability was measured using the following actuarial assumptions:

Wage Inflation Rate: 3.5%

Investment Rate of Return (discount rate): 3.5% per year

Mortality: Healthy Life and Disabled Life Mortality, with 115% of the Male rates and 121% of the Female rates used in the pension valuations for SERS plan members.

IBNR: A liability equal to 25% of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).

Spouse Benefits for Future Retirees: The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees at 3% for SERS retirees.

Spouse Benefits for Current Retirees: Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees at 4% for SERS retirees.

Compensation: For some MSERS retirees, FAC was not reported. The FAC for these members was assumed to be \$51,045 (the average of all MSERS retiree records reported with FAC).

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For purposes of valuing the postemployment life insurance benefit policies for retirees, base wage at retirement was not available and was approximated by applying a factor to the reported FAC at retirement.

The factor used to convert an FAC to a base wage is based on the length of the FAC period for each group. The factor used for SERS was 0.983092 (2 year FAC) for Conservation and 0.966565 (3 year FAC) for Corrections and All Others.

For SERS DC plan retirees, compensation at retirement and other information was not provided to the actuary. The postemployment life insurance benefit policies for this group were assumed to have the same average value as the policies for retirees in the SERS DB plan.

Other: The face values of The Plan policies currently in force were requested by the actuary but were not available for use in this valuation. The actuary estimated the value of the postemployment life insurance benefit policies for retirees as follows:

Individuals retired after July 1974: 50% x compensation at retirement (compensation reported for the 2017 retirement system valuations)

Spousal benefits: \$1,000

Individuals retired on or before July 1974: \$3,000  
Spousal benefits: \$1,000

Data for current retiree members of the Plan was not available for use in this valuation. All current retiree members of the retirement plans deemed eligible for postemployment life insurance benefits and reported in connection with the 2017 retirement valuations were included in this valuation of the Plan.

#### **E. Discount Rate**

A discount rate of 3.5% was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2017. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the plan has no assets. The municipal bond rate of 3.1% was used for determining the beginning total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2016.

#### **F. Total OPEB Liability for Postemployment Life Insurance Benefits**

As of September 30, 2018, the Lottery reported a liability of \$5,319,247 for its proportionate share of the State's Postemployment Life Insurance Benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2017 based on an actuarial valuation as of that date. The Lottery's proportion of the total OPEB liability was determined by dividing the Lottery's actual contributions to the Plan during the measurement period of October 1, 2016 through September 30, 2017, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2018, the Lottery's proportion was 0.416%.

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**G. Sensitivity of the Total OPEB Liability for Postemployment Life Insurance**

The following presents the Lottery's proportionate share of the total OPEB liability calculated using the discount rate as well as what the proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount:

	<u>1% Decrease</u> <u>2.5%</u>	<u>Current Discount</u> <u>3.5%</u>	<u>1% Increase</u> <u>4.5%</u>
Lottery's proportionate share of the total OPEB liability	\$ 6,252,241	\$ 5,319,247	\$ 4,575,518

**H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits**

For the year ended September 30, 2018, the Lottery recognized OPEB expense of \$286,005. At September 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Changes in experiences	\$ 4,464	\$ -
Changes of assumptions	-	288,387
Lottery's contributions subsequent to the measurement date	134,810	-
Total	<u>\$ 139,274</u>	<u>\$ 288,387</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended</u> <u>September 30:</u>	<u>Expense</u> <u>Amount</u>
2019	\$ (58,264)
2020	(58,264)
2021	(58,264)
2022	(58,264)
2023	(50,867)

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**NOTE 12 - LEASE AND RENTAL COMMITMENTS**

Lease and rental commitments for the six months and years ended September 30, 2018 and 2017 were for office space.

Rental expenditures incurred under operating leases totaled \$27,891 and \$73,506 for the six months ended September 30, 2018 and 2017, and totaled \$55,781 and \$147,011 for the years ended September 30, 2018 and 2017, respectively.

Payments for capital lease principal, interest, and executory costs totaled \$160,635 for the fiscal year ended September 30, 2018.

The future minimum lease payments under capital leases are as follows:

<u>Years Ending September 30</u>	<u>Capital Leases Amount</u>
2019	\$ 113,257
2020	113,257
2021	98,417
2022	68,737
2023	74,543
Thereafter	315,432
Total	<u>\$ 783,643</u>
Less amount representing interest	<u>239,816</u>
Present value of net minimum lease payments	543,827
Less current obligations	<u>70,563</u>
Long-term obligations under capital leases	<u>\$ 473,264</u>

**NOTE 13 - RISK MANAGEMENT**

The Lottery is exposed to various risks related to general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims.

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

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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. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. More detailed information on risk management is available in the State of Michigan's Comprehensive Annual Financial Report.

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

**NOTE 14 - 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 following is a summarization of these charges for the six month periods and years ended September 30, 2018 and 2017:

September 30, 2018	Six Months Ended	Year Ended
<b>Department of Technology, Management &amp; Budget:</b>		
Information Technology:		
Direct costs	\$ 788,464	\$ 2,934,268
Lansing Metropolitan Area Network (LMAN)	18,287	24,281
Michigan.gov portal web charges	15,824	31,957
Overhead	508,430	687,398
Total Information Technology charges	1,331,005	3,677,904
Support services (including Internal Audit)	169,600	339,200
Space rental - Lottery Central, Detroit, Saginaw offices	460,264	920,528
Vehicle and travel services	423,571	742,337
Other - Telephone, mailing and other offices services	102,765	273,880
<b>Total Department of Technology, Management &amp; Budget</b>	<b>2,487,205</b>	<b>5,953,849</b>
<b>Gaming Control Board</b>	<b>1,575,522</b>	<b>2,736,019</b>
<b>Civil Service Commission</b>	<b>214,641</b>	<b>429,281</b>
<b>Department of Treasury</b>	<b>383,896</b>	<b>707,769</b>
<b>Attorney General</b>	<b>176,602</b>	<b>305,676</b>
<b>Other Agencies</b>	<b>24,646</b>	<b>41,899</b>
Total all State agencies	<u>\$ 4,862,512</u>	<u>\$ 10,174,493</u>
September 30, 2017	Six Months Ended	Year Ended
<b>Department of Technology, Management &amp; Budget:</b>		
Information Technology:		
Direct costs	\$ 935,948	\$ 3,355,871
Lansing Metropolitan Area Network (LMAN)	26,812	37,738
Michigan.gov portal web charges	11,719	24,960
Overhead	474,246	649,957
Total Information Technology charges	1,448,725	4,068,526
Support services (including Internal Audit)	170,750	341,500
Space rental - Lottery Central, Detroit, Saginaw offices	454,058	908,116
Vehicle and travel services	464,609	778,582
Other - Telephone, mailing and other offices services	182,807	326,888
<b>Total Department of Technology, Management &amp; Budget</b>	<b>2,720,949</b>	<b>6,423,612</b>
<b>Gaming Control Board</b>	<b>1,646,369</b>	<b>2,771,160</b>
<b>Civil Service Commission</b>	<b>206,324</b>	<b>412,647</b>
<b>Department of Treasury</b>	<b>387,954</b>	<b>731,173</b>
<b>Attorney General</b>	<b>166,030</b>	<b>297,336</b>
<b>Other Agencies</b>	<b>32,921</b>	<b>51,387</b>
Total all State agencies	<u>\$ 5,160,546</u>	<u>\$ 10,687,314</u>

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

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**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

The Lottery has contracted with International Game Technologies (IGT) to provide for the operation of the gaming system. The contract rate in effect as of September 30, 2018 and 2017 is 1.18% of net sales.

A contract amendment effective July 31, 2018 extended the contract an additional ten years, from January 20, 2021 through January 19, 2031. Effective with the date of the amendment, IGT will begin receiving compensation of \$62 per retail location, per month, for retail communications network and management, regardless of whether there are multiple terminals at one location. IGT will also be compensated for the costs of personnel for the merchandiser program, as well as ongoing equipment maintenance fees for all equipment provided (whether equipment is new or was previously provided under the contract) in the fixed monthly amount of \$33,333.33. Effective January 20, 2019, the contract rate will decrease to 1.06% of net sales. An upgrade to system hardware and software will begin in September 2021 and implementation is scheduled to last approximately one year.

The Lottery contracted with Pollard to provide the development, implementation, operational support and maintenance of an iLottery System and iLottery Games. A contract amendment effective June 27, 2018 extended the contract an additional four years, from July 18, 2018 through July 17, 2022. This contract includes both an instant game and draw based game component, as well as reimbursable staffing and operational expenses. The commission rate for instant games was 19.60% of total gross profit, and the commission rate varied between 8.25% and 9.28% of gross draw game sales through June 26, 2018. Effective June 27, 2018, a new commission rate structure went into effect. For the first \$100 million in instant game gross profit per contract year, the commission rate is set at 18.4%. The rate increases to 19.6% for instant game gross profit in excess of \$100 million during the contract year. Draw based game commission is set at 8.5% of gross sales. The Lottery will also receive a monthly incentive from Pollard equal to 1% of Pollard's commission during the prior month, to be used solely for services provided by Pollard under the contract.

The Lottery entered into a three-year license agreement with MLB Advanced Media, L.P. (MLBAM) through September 1, 2018. This agreement allows the Lottery to use the licensed Major League Baseball logo to promote, sell, and award prizes in a retail and digital baseball-themed raffle game during the 2016, 2017, and 2018 Major League Baseball seasons. The Lottery is required to pay a monthly royalty of 3% of gross sales to MLBAM. If royalties do not meet an agreed-upon threshold at the conclusion of each Major League Baseball season, the Lottery is required to pay the shortfall to MLBAM. This agreement has not been renewed beyond 2018.

The Lottery has also entered into contracts with vendors to provide third-party digital games on the iLottery platform. The Lottery currently contracts with Instant Win Gaming (IWG) to provide digital instant games on the iLottery instant game platform. IWG receives a royalty fee of 3.4% of net win for gross sales.

The Lottery also contracted with Interaction Gaming, LLC from January 31, 2017 through January 11, 2021 to redesign, implement, and support the Lottery's mobile application on IOS and Android mobile devices. The Lottery will pay the project costs according to an agreed-upon payment schedule, as well as remit quarterly payments to the vendor for ongoing maintenance costs.

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

### **Notes to Financial Statements**

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In April 2017, the contract was amended to include building a new responsive design website, which will increase profitability and enhance the user experience for all aspects of the site.

The Lottery is currently evaluating the recently issued 2018 Department of Justice Wire Act opinion and the impact on its operations, which cannot be determined at this time.

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.

#### **NOTE 16 – UPCOMING ACCOUNTING PRONOUNCEMENTS**

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 Lottery's financial statements for the six-month period ending March 31, 2021 and for the year ending September 30, 2021.



**Bureau of State Lottery, State of Michigan**  
**Required Supplemental Information**  
**Schedule of Lottery's Proportionate Share of Net Pension Liability**  
**State Employees' Retirement System**  
**For the Fiscal Years Ended September 30**

	2018	2017	2016	2015
Lottery's proportion of the net pension liability	0.431%	0.420%	0.408%	0.403%
Lottery's proportionate share of the net pension liability	\$ 22,396,495	\$ 22,208,139	\$ 22,432,145	\$ 20,722,586
Lottery's covered payroll	13,312,723	12,681,633	12,056,738	N/A
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	168%	175%	186%	N/A
Plan fiduciary net position as a percentage of the total pension liability	69.45%	67.48%	66.11%	68.07%

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year.

This schedule is required to show information for ten years, additional years will be displayed as it becomes available.

**Bureau of State Lottery, State of Michigan  
 Required Supplemental Information  
 Schedule of Lottery's Pension Contributions  
 State Employees' Retirement System  
 For the Fiscal Years Ended September 30**

	2018	2017	2016	2015
Statutorily required contribution	\$ 2,845,679	\$ 3,054,724	\$ 2,998,747	\$ 3,045,205
Contributions in relation to the statorily required contribution	2,845,679	3,054,724	2,998,747	3,045,205
Contribution deficiency (excess)	-	-	-	-
Lottery's covered payroll	13,751,250	13,312,723	12,681,633	12,056,738
Contributions as a percentage of covered payroll	20.7%	22.9%	23.6%	25.3%

This schedule is required to show information for ten years, additional years will be displayed as it becomes available.

**Bureau of State Lottery, State of Michigan**  
**Notes to Pension Required Supplemental Information Schedules**  
**Year Ended September 30, 2018**

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The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The schedule of contributions for pensions is presented to show the responsibility of the Lottery in meeting the actuarial requirements to maintain the System on a sound financial basis.

The schedule of the proportionate share of the net pension liability and schedule of contributions for pensions are schedules that are required in implementing GASB Statement No. 68. The schedule of the proportionate share of the net pension liability represents in actuarial terms, the accrued liability less the market value of assets. The schedule of contributions for pensions is a comparison of the Lottery's contributions to the actuarially determined contributions.

The information presented in the schedule of contributions was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the pension plan follows.

**Valuation** – Actuarially determined contribution amounts are calculated as of September 30 each year.

**Methods and Assumptions Used to Determine Contribution for Fiscal Year 2018**

Actuarial cost method	Entry Age, Normal
Amortization method	Level Dollar, Closed
Remaining amortization period	20 years
Asset valuation method	5-Year Smoothed Fair Value
Inflation	2.5%
Salary Increases	3.5% wage inflation
Investment rate of return	7.5% net of investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2015 using projections scale BB. For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

**Bureau of State Lottery, State of Michigan**  
**Required Supplemental Information**  
**Schedule of Lottery's Proportionate Share of Net OPEB Liability**  
**State Employees' Retirement System - Healthcare**  
**For the Fiscal Years Ended September 30**

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	2018
Lottery's proportion of the net OPEB liability	0.436%
Lottery's proportionate share of the net OPEB liability	\$ 35,925,905
Lottery's covered payroll	13,312,723
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	270%
Plan fiduciary net position as a percentage of the total OPEB liability	19.9%

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year.

This schedule is required to show information for ten years, additional years will be displayed as it becomes available.

**Bureau of State Lottery, State of Michigan**  
**Required Supplemental Information**  
**Schedule of Lottery's OPEB Contributions**  
**State Employees' Retirement System - Healthcare**  
**For the Fiscal Years Ended September 30**

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	<u>2018</u>
Statutorily required contribution	\$ 3,043,818
Contributions in relation to the statorily required contribution	3,043,818
Contribution deficiency (excess)	-
Lottery's covered payroll	13,751,250
Contributions as a percentage of covered payroll	22.1%

This schedule is required to show information for ten years, additional years will be displayed as it becomes available.

**Bureau of State Lottery, State of Michigan**  
**Notes to OPEB Required Supplemental Information Schedules**  
**Year Ended September 30, 2018**

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The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the other postemployment benefit obligations as a factor.

The schedule of contributions for OPEB is presented to show the responsibility of the Lottery in meeting the actuarial requirements to maintain the System on a sound financial basis.

The schedule of the proportionate share of the net OPEB liability and schedule of contributions for OPEB are schedules that are required in implementing GASB Statement No. 75. The schedule of contributions is a comparison of the Lottery's contributions to the actuarially determined contributions.

The information presented in the schedule of contributions was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the OPEB plan follows.

**Valuation** – Actuarially determined contribution amounts are calculated as of September 30 each year.

**Methods and Assumptions Used to Determine Contribution for Fiscal Year 2018**

Actuarial cost method	Entry Age, Normal
Amortization method	Level –Percent of Payroll, Closed
Remaining amortization period	20 years
Asset valuation method	Market Value of Assets
Salary Increases	3.5% to 12.5%
Investment rate of return	7.5% Per Year
Health Care Cost Trend Rate	9.0% Year 1 Graded to 3.5% Year 10
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2015 using projections scale BB. For men and women, 50% of the male table rates were used.

**Bureau of State Lottery, State of Michigan**  
**Required Supplemental Information**  
**Schedule of Lottery's Proportionate Share of Total OPEB Liability**  
**Postemployment Life Insurance Benefit**  
**For the Fiscal Years Ended September 30**

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	<u>2018</u>
Lottery's proportion of the total OPEB liability	0.416%
Lottery's proportionate share of the total OPEB liability	\$ 5,319,247
Lottery's covered employee payroll	12,158,951
Lottery's proportionate share of the total OPEB liability as a percentage of its covered employee payroll	43.7%

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year.

This schedule is required to show information for ten years, additional years will be displayed as it becomes available.

The plan is not a trust and has no assets.

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2018**

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 191,594,194	10.6%	\$ 371,283,234	10.4%
	Daily 4	236,846,779	13.1%	466,474,011	13.0%
	Lotto 47	25,899,591	1.4%	47,783,167	1.3%
	Lotto 47 EZ Match	1,276,601	0.1%	2,432,615	0.1%
	Mega Millions	68,941,968	3.8%	143,721,305	4.0%
	Megaplier	4,696,917	0.3%	9,488,817	0.3%
	Powerball	47,355,058	2.6%	117,441,133	3.3%
	Power Play	3,725,618	0.2%	8,376,723	0.2%
	Keno	4,476,917	0.2%	8,988,481	0.3%
	Fantasy Five	27,051,067	1.5%	53,153,461	1.5%
	Fantasy Five EZ Match	2,052,694	0.1%	4,075,372	0.1%
	Raffle	14,998,400	0.8%	14,998,400	0.4%
	Club Keno	203,946,904	11.4%	429,478,374	12.0%
	Club Keno Kicker	73,872,233	4.1%	157,306,166	4.4%
	The Jack	4,360,537	0.2%	9,042,268	0.3%
	Club Keno Extra	22,692,057	1.3%	32,028,157	0.9%
	Poker Lotto	3,876,768	0.2%	7,886,335	0.2%
	Lucky for Life	7,625,872	0.4%	14,853,747	0.4%
	Fast Cash	31,629,658	1.8%	71,181,428	2.0%
	Pull-Tab tickets	16,255,823	0.9%	32,895,016	0.9%
	Instant tickets	767,191,533	42.6%	1,488,232,496	41.6%
	iLottery Instants, Net Win	47,352,511	2.6%	93,749,309	2.6%
	iLottery Sales - OGC Promotions	(1,464)	0.0%	(8,065)	0.0%
	iLottery Promos-Non Game Specific	(3,556,362)	-0.2%	(6,795,352)	-0.2%
	<b>Total lottery ticket sales</b>	<b>1,804,161,874</b>	<b>100.0%</b>	<b>3,578,066,597</b>	<b>100.0%</b>
Prize awards:	Daily 3	97,168,487	5.4%	183,183,833	5.1%
	Daily 4	133,763,289	7.4%	255,205,030	7.1%
	Lotto 47	14,564,497	0.8%	27,343,228	0.8%
	Lotto 47 EZ Match	881,316	0.0%	1,620,671	0.0%
	Mega Millions/Megaplier	37,476,056	2.1%	78,655,759	2.2%
	Powerball/Power Play	24,525,386	1.4%	60,746,008	1.7%
	Keno	2,129,125	0.1%	4,777,594	0.1%
	Fantasy Five	14,280,601	0.8%	27,431,759	0.8%
	Fantasy Five EZ Match	1,387,927	0.1%	2,685,003	0.1%
	Raffle	8,924,613	0.5%	8,924,613	0.2%
	Club Keno/Kicker/Jack/Extra	200,625,828	11.1%	411,008,828	11.5%
	Players Club all games	-	0.0%	46,000	0.0%
	Merchandise Prizes	149,060	0.0%	152,628	0.0%
	Poker Lotto	2,290,958	0.1%	4,779,280	0.1%
	Lucky for Life	4,185,084	0.2%	8,033,232	0.2%
	Fast Cash	22,948,482	1.3%	51,599,601	1.4%
	Pull-Tab tickets	11,623,517	0.6%	23,632,526	0.7%
	Instant tickets	562,910,724	31.3%	1,087,208,064	30.4%
	<b>Total prize awards</b>	<b>1,139,834,950</b>	<b>63.2%</b>	<b>2,237,033,657</b>	<b>62.4%</b>
	Less: unclaimed prizes	(9,760,915)	-0.5%	(21,992,570)	-0.6%
	<b>Net prize awards</b>	<b>1,130,074,035</b>	<b>62.7%</b>	<b>2,215,041,087</b>	<b>61.8%</b>
Gross margin		674,087,839	37.3%	1,363,025,510	38.2%
Retailer and vendor commissions and other expenses		(168,028,391)	-9.3%	(334,182,647)	-9.5%
Game-related expense		(17,135,564)	-0.9%	(33,770,843)	-0.9%
Net ticket revenue		488,923,884	27.1%	995,072,020	27.8%
Other operating expense		(32,661,289)	-1.9%	(57,656,498)	-1.7%
Depreciation expense		(380,472)	0.0%	(486,992)	0.0%
Other miscellaneous revenue		968,136	0.1%	2,122,749	0.1%
<b>Net lottery operating income</b>		<b>456,850,259</b>	<b>25.3%</b>	<b>939,051,279</b>	<b>26.2%</b>



**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2018**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	6,065,749	0.2%	11,739,180	0.2%
Charitable gaming expense	<u>(5,071,027)</u>	<u>-0.3%</u>	<u>(9,806,707)</u>	<u>-0.3%</u>
Net charitable gaming income	<u>994,722</u>	<u>0.1%</u>	<u>1,932,473</u>	<u>0.1%</u>
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (3,347,577)	-0.2%	(6,824,606)	-0.2%
Amortization revenue - investment discount	3,464,282	0.2%	6,986,540	0.2%
Unrealized gain (loss) on investments	(4,927,300)	-0.3%	(11,182,734)	-0.3%
Interest revenue - common cash fund	628,585	0.0%	921,317	0.0%
Bank fees	(1,583)	0.0%	(3,255)	0.0%
Interest costs - capital leases	(22,390)	0.0%	(43,457)	0.0%
Disbursement to School Aid Fund	(459,261,346)	-25.4%	(941,282,589)	-26.2%
Disbursement to General Fund	(994,722)	-0.1%	(1,932,473)	-0.1%
Disbursement to Health & Human Services	<u>(495,000)</u>	<u>0.0%</u>	<u>(990,000)</u>	<u>0.0%</u>
Net non-operating revenues (expenses)	<u>(464,957,051)</u>	<u>-25.8%</u>	<u>(954,351,257)</u>	<u>-26.6%</u>
Change in net position	<u>\$ (7,112,070)</u>	<u>-0.4%</u>	<u>\$ (13,367,505)</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, 2017**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:				
Daily 3	\$ 185,532,167	10.8%	\$ 369,008,109	11.1%
Daily 4	225,627,459	13.1%	441,407,665	13.3%
Lotto 47	22,830,308	1.3%	66,653,905	2.0%
Lotto 47 EZ Match	1,338,644	0.1%	3,442,349	0.1%
Mega Millions	52,911,090	3.1%	94,826,381	2.8%
Megaplier	4,494,023	0.3%	7,843,238	0.2%
Powerball	84,792,366	4.9%	145,823,544	4.4%
Power Play	4,820,204	0.3%	8,031,546	0.2%
Keno	4,476,989	0.3%	9,000,828	0.3%
Fantasy Five	27,766,253	1.6%	54,898,753	1.6%
Fantasy Five EZ Match	2,406,179	0.1%	4,825,028	0.1%
Raffle	174,760	0.0%	201,540	0.0%
Club Keno	230,623,066	13.4%	459,592,606	13.8%
Club Keno Kicker	86,026,405	5.0%	169,088,486	5.1%
The Jack	6,082,936	0.4%	12,170,383	0.4%
Poker Lotto	4,942,998	0.3%	10,956,423	0.3%
Lucky for Life	7,369,944	0.4%	14,698,752	0.4%
Fast Cash	30,586,461	1.8%	30,586,461	0.9%
Pull-Tab tickets	15,955,127	0.9%	32,896,362	1.0%
Instant tickets	682,233,496	39.7%	1,321,643,705	39.9%
iLottery Instants, Net Win	41,160,801	2.4%	77,904,478	2.3%
iLottery Sales - OGC Promotions	(67,444)	0.0%	(615,840)	0.0%
iLottery Promos-Non Game Specific	(2,912,737)	-0.2%	(5,086,520)	-0.2%
<b>Total lottery ticket sales</b>	<b>1,719,171,493</b>	<b>100.0%</b>	<b>3,329,798,181</b>	<b>100.0%</b>
Prize awards:				
Daily 3	88,451,137	5.1%	179,602,770	5.4%
Daily 4	112,957,173	6.6%	214,367,150	6.4%
Lotto 47	13,047,561	0.8%	37,983,192	1.1%
Lotto 47 EZ Match	921,602	0.1%	2,331,952	0.1%
Mega Millions/Megaplier	31,019,334	1.8%	54,401,422	1.6%
Powerball/Power Play	44,383,059	2.6%	75,476,756	2.3%
Keno	1,649,297	0.1%	3,246,203	0.1%
Fantasy Five	14,994,488	0.9%	28,935,965	0.9%
Fantasy Five EZ Match	1,636,388	0.1%	3,232,927	0.1%
Raffle	91,824	0.0%	100,792	0.0%
Club Keno/Kicker/Jack	214,763,579	12.5%	422,994,592	12.7%
Players Club all games	6,000	0.0%	6,000	0.0%
Merchandise Prizes	240,055	0.0%	314,895	0.0%
Poker Lotto	2,949,869	0.2%	6,570,312	0.2%
Lucky for Life	5,043,817	0.3%	9,218,234	0.3%
Fast Cash	21,577,380	1.3%	21,577,380	0.6%
Pull-Tab tickets	11,472,463	0.7%	23,658,798	0.7%
Instant tickets	499,837,410	28.9%	960,053,684	28.8%
<b>Total prize awards</b>	<b>1,065,042,436</b>	<b>62.0%</b>	<b>2,044,073,024</b>	<b>61.3%</b>
Less: unclaimed prizes	(12,395,737)	-0.7%	(27,627,489)	-0.8%
<b>Net prize awards</b>	<b>1,052,646,699</b>	<b>61.3%</b>	<b>2,016,445,535</b>	<b>60.5%</b>
Gross margin	666,524,794	38.8%	1,313,352,646	39.4%
Retailer and vendor commissions and other expenses	(161,574,829)	-9.4%	(310,845,841)	-9.3%
Game-related expense	(18,819,738)	-1.1%	(32,306,534)	-1.0%
Net ticket revenue	486,130,227	28.3%	970,200,271	29.1%
Other operating expense	(26,550,881)	-1.6%	(51,543,762)	-1.6%
Other miscellaneous revenue	4,830,772	0.3%	5,267,386	0.2%
<b>Net lottery operating income</b>	<b>464,410,118</b>	<b>27.0%</b>	<b>923,923,895</b>	<b>27.7%</b>

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2017**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	5,925,656	0.3%	12,060,538	0.4%
Charitable gaming expense	<u>(5,325,820)</u>	<u>-0.3%</u>	<u>(10,116,222)</u>	<u>-0.3%</u>
Net charitable gaming income	<u>599,836</u>	<u>0.0%</u>	<u>1,944,316</u>	<u>0.1%</u>
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (3,053,422)	-0.2%	\$ (6,786,472)	-0.2%
Amortization revenue - investment discount	3,617,281	0.2%	7,356,383	0.2%
Unrealized gain (loss) on investments	3,021,277	0.2%	(10,055,170)	-0.3%
Loss on disposal of assets	(6)	0.0%	(6)	0.0%
Interest revenue - common cash fund	393,994	0.0%	585,465	0.0%
Bank fees	(1,842)	0.0%	(3,860)	0.0%
Interest costs - capital leases	(758)	0.0%	(758)	0.0%
Disbursement to School Aid Fund	(464,943,691)	-27.1%	(924,106,134)	-27.7%
Disbursement to General Fund	(547,997)	0.0%	(1,944,315)	-0.1%
Disbursement to Health & Human Services	<u>(495,000)</u>	<u>0.0%</u>	<u>(990,000)</u>	<u>0.0%</u>
Net non-operating revenues (expenses)	<u>(462,010,164)</u>	<u>-26.9%</u>	<u>(935,944,867)</u>	<u>-28.1%</u>
Change in net position	<u>\$ 2,999,790</u>	<u>0.2%</u>	<u>\$ (10,076,656)</u>	<u>-0.3%</u>

Concluded

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Other Operating Expenses**  
**For the Six Months and Years Ended September 30, 2018 and 2017**

	Six Months Ended		Years Ended	
	2018	2017	2018	2017
Salaries and wages	\$ 6,827,163	6,006,870	\$ 13,871,553	12,887,140
Employee benefits and taxes	8,549,971	6,890,972	12,741,559	11,015,203
Promotion and advertising	15,973,438	12,641,902	27,875,235	24,009,633
Printing and supplies, including purchase of charitable gaming tickets	755,841	739,709	1,373,392	1,406,748
Other contractual services	4,323,176	3,876,220	8,590,090	8,591,806
Building rent and leases	487,867	517,554	1,036,772	1,079,707
Travel	393,910	453,331	807,031	876,868
Utilities	171,563	164,253	329,553	367,430
Postage	74,696	111,352	162,082	204,192
Equipment maintenance and rental	1,419	57,156	63,975	105,967
Bad debt expense	47,714	195,740	357,436	252,669
Accounts receivable write-off - prior year	-	-	-	427,400
Interest paid on security deposits	4,694	10,922	9,968	13,042
Total	<u>\$ 37,611,452</u>	<u>\$ 31,665,981</u>	<u>\$ 67,218,646</u>	<u>\$ 61,237,805</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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These schedules contain trend information to help the reader understand how the Lottery’s financial performance and well-being have changed over time.	
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Chart of financial trends.....	85
<b>Revenue Capacity</b>	
This schedule and graph contains information to help the reader assess the Lottery’s most significant revenue source, ticket sales.	
<ul style="list-style-type: none"> <li>• Instant Games – represent the face value of tickets activated by retailers.</li> <li>• Draw Games – represents the face value of tickets sold to the public.</li> <li>• Club Games – represents the face value of tickets sold to the public.</li> </ul>	
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This schedule presents information to help the reader assess the installment prize awards liability of the Lottery. Prize liability is determined by prize structure and luck of the draw. Investments in U.S. Treasury zero-coupon bonds and Michigan CAB bonds are purchased to meet future installment payments to prize winners.	
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<b>Operating Information</b>	
This schedule contains service, retailer data, prize data, expenses and amounts disbursed to the state School Aid Fund and prize winner data to help the reader understand how the Lottery’s financial report relates to the products the Lottery provides and the service it performs for the State.	
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**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2018.







**Bureau of State Lottery, State of Michigan**  
**Financial Trends**  
**Net Position**  
**Fiscal Years Ending September 30, 2009 through September 30, 2018**  
**(In Millions)**

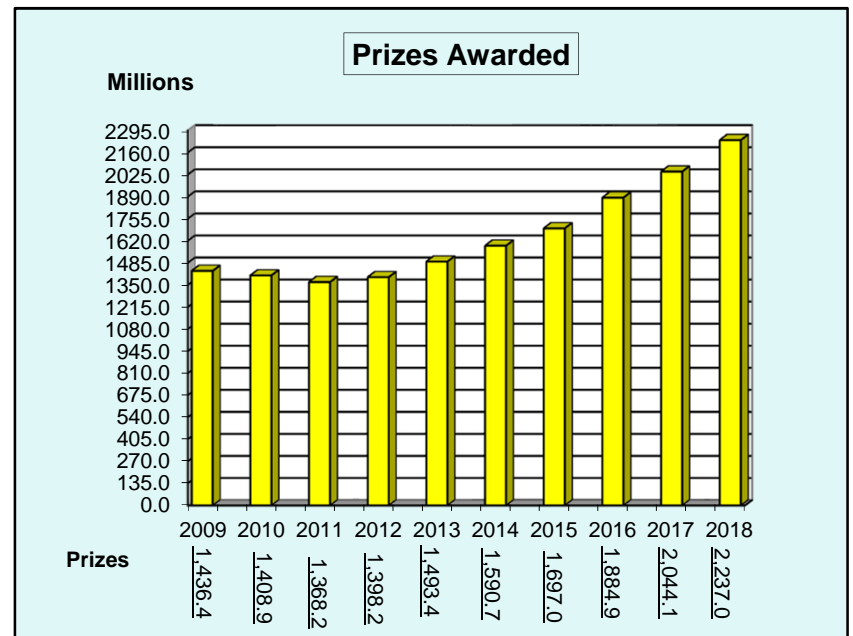
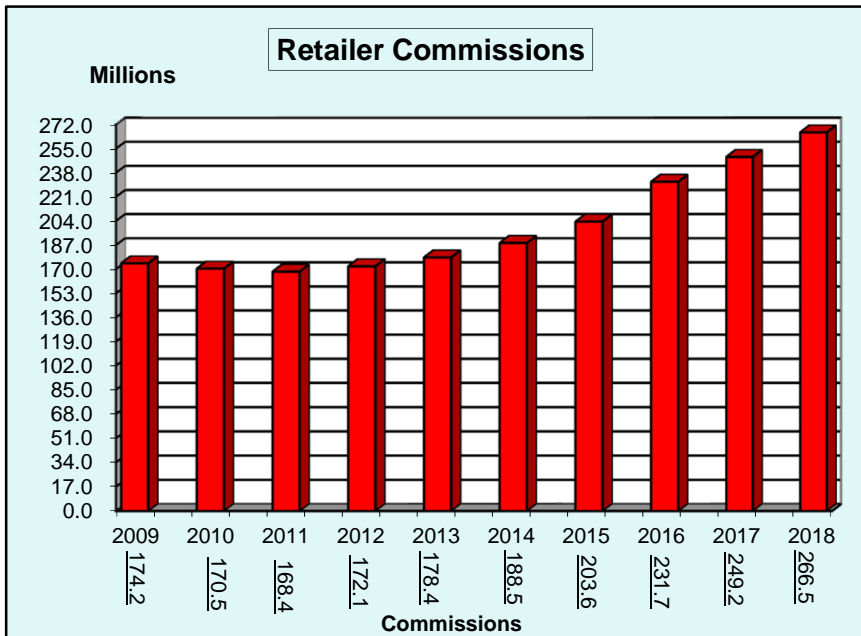
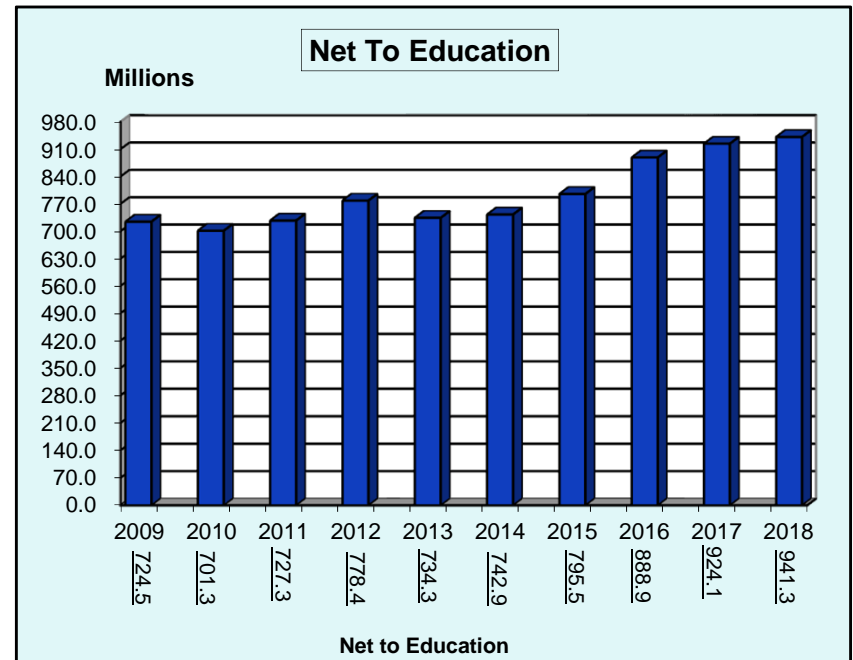
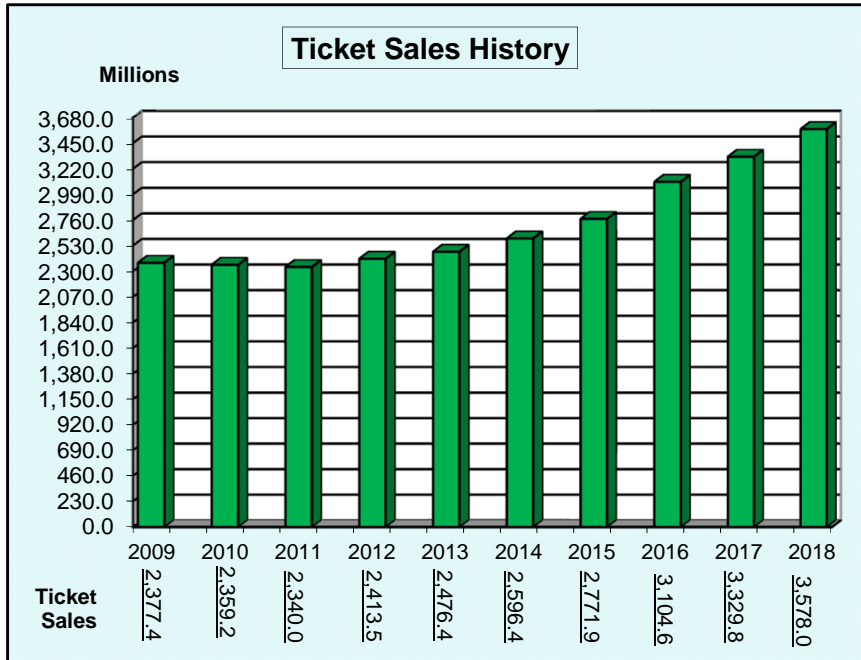
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Net position</b>										
Net investment in capital assets	\$ 0.7	\$ 0.6	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.6	\$ 1.5	\$ 1.2	\$ 1.2	\$ 1.0
Restricted for School Aid Fund	7.6	14.3	30.5	35.0	17.9	26.8	11.8	8.7	-	-
Unrestricted (deficit)	<u>(0.7)</u>	<u>(0.6)</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.8)</u>	<u>(0.6)</u>	<u>(1.5)</u>	<u>(1.2)</u>	<u>(2.5)</u>	<u>(44.9)</u>
<b>Total net position</b>	<u>\$ 7.6</u>	<u>\$ 14.3</u>	<u>\$ 30.5</u>	<u>\$ 35.0</u>	<u>\$ 17.9</u>	<u>\$ 26.8</u>	<u>\$ 11.8</u>	<u>\$ 8.7</u>	<u>\$ (1.3)</u>	<u>\$ (43.9)</u>



**Bureau of State Lottery, State of Michigan**  
**Financial Trends**  
**Changes in Net Position**  
**Fiscal Years Ending September 30, 2009 through September 30, 2018**  
**(In Millions)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Operating revenues</b>										
Ticket sales	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9	\$ 2,413.4	\$ 2,476.4	\$ 2,596.4	\$ 2,771.9	\$ 3,104.5	\$ 3,329.8	\$ 3,578.0
Charitable gaming and other	21.5	20.7	17.5	16.8	14.7	12.5	13.2	13.6	17.3	13.9
Total operating revenues	<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>	<u>2,785.1</u>	<u>3,118.1</u>	<u>3,347.1</u>	<u>3,591.9</u>
<b>Operating expenses</b>										
Prize awards	1,436.3	1,408.9	1,368.2	1,398.2	1,493.5	1,590.7	1,697.0	1,884.8	2,044.0	2,237.0
Less - unclaimed prizes	(28.7)	(27.3)	(23.9)	(28.4)	(31.9)	(30.8)	(31.5)	(28.5)	(27.6)	(22.0)
Net prize awards	<u>1,407.6</u>	<u>1,381.6</u>	<u>1,344.3</u>	<u>1,369.8</u>	<u>1,461.6</u>	<u>1,559.9</u>	<u>1,665.5</u>	<u>1,856.3</u>	<u>2,016.4</u>	<u>2,215.0</u>
Retailer commissions	174.2	170.5	168.4	172.1	178.5	188.5	203.6	231.7	249.2	266.5
Game related expenses	53.8	53.0	53.9	53.3	57.6	61.3	63.9	80.2	93.9	101.4
Other operating expenses	56.7	56.6	49.4	45.9	50.4	51.9	52.0	66.4	61.7	68.0
Total operating expenses	<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>	<u>1,985.0</u>	<u>2,234.6</u>	<u>2,421.2</u>	<u>2,650.9</u>
Operating income	<u>706.7</u>	<u>718.2</u>	<u>741.4</u>	<u>789.1</u>	<u>743.0</u>	<u>747.3</u>	<u>800.1</u>	<u>883.5</u>	<u>925.9</u>	<u>941.0</u>
<b>Non-operating revenues</b>										
Investment revenue	18.7	17.0	27.7	15.5	(7.2)	18.0	12.9	13.5	(2.7)	(4.2)
Interest on equity in State Treasurer's Common Cash Fund	1.1	0.3	0.2	0.1	0.1	0.1	0.1	0.3	0.6	0.9
Revenue from security lending	-	-	-	-	-	-	-	-	-	-
Total non-operating revenues	<u>19.8</u>	<u>17.3</u>	<u>27.9</u>	<u>15.6</u>	<u>(7.1)</u>	<u>18.1</u>	<u>13.0</u>	<u>13.8</u>	<u>(2.1)</u>	<u>(3.3)</u>
<b>Non-operating expenses</b>										
Security lending expenses	-	-	-	-	-	-	-	-	-	-
Amortization of prize obligation discount	(18.4)	(15.2)	(15.5)	(13.3)	(13.2)	(9.7)	(8.5)	(7.5)	(6.8)	(6.9)
Non-operating expenses before disbursements	<u>(18.4)</u>	<u>(15.2)</u>	<u>(15.5)</u>	<u>(13.3)</u>	<u>(13.2)</u>	<u>(9.7)</u>	<u>(8.5)</u>	<u>(7.5)</u>	<u>(6.8)</u>	<u>(6.9)</u>
School Aid Fund disbursement	(724.5)	(701.3)	(727.3)	(778.4)	(734.3)	(742.8)	(795.5)	(888.9)	(924.1)	(941.3)
School Aid Fund disbursement-Club Keno Advertising	-	-	-	-	-	(0.1)	-	-	-	-
General Fund disbursement	(11.8)	(11.3)	(9.3)	(7.5)	(4.5)	(2.9)	(2.9)	(3.0)	(1.9)	(1.9)
Health and Human Services disbursement	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total disbursements	<u>(737.3)</u>	<u>(713.6)</u>	<u>(737.6)</u>	<u>(786.9)</u>	<u>(739.8)</u>	<u>(746.8)</u>	<u>(799.4)</u>	<u>(892.9)</u>	<u>(927.0)</u>	<u>(944.2)</u>
Total non-operating expenses	<u>(755.7)</u>	<u>(728.8)</u>	<u>(753.1)</u>	<u>(800.2)</u>	<u>(753.0)</u>	<u>(756.5)</u>	<u>(807.9)</u>	<u>(900.4)</u>	<u>(933.8)</u>	<u>(951.1)</u>
Net non-operating revenue (expense)	<u>(735.9)</u>	<u>(711.5)</u>	<u>(725.2)</u>	<u>(784.6)</u>	<u>(760.1)</u>	<u>(738.4)</u>	<u>(794.9)</u>	<u>(886.6)</u>	<u>(935.9)</u>	<u>(954.4)</u>
<b>Change in net position</b>	<b>\$ (29.2)</b>	<b>\$ 6.7</b>	<b>\$ 16.2</b>	<b>\$ 4.5</b>	<b>\$ (17.1)</b>	<b>\$ 8.9</b>	<b>\$ 5.2</b>	<b>\$ (3.1)</b>	<b>\$ (10.0)</b>	<b>\$ (13.4)</b>

**Bureau of State Lottery, State of Michigan  
Financial Trends 2009 through 2018**



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, 2009 through September 30, 2018**  
**(In Millions)**

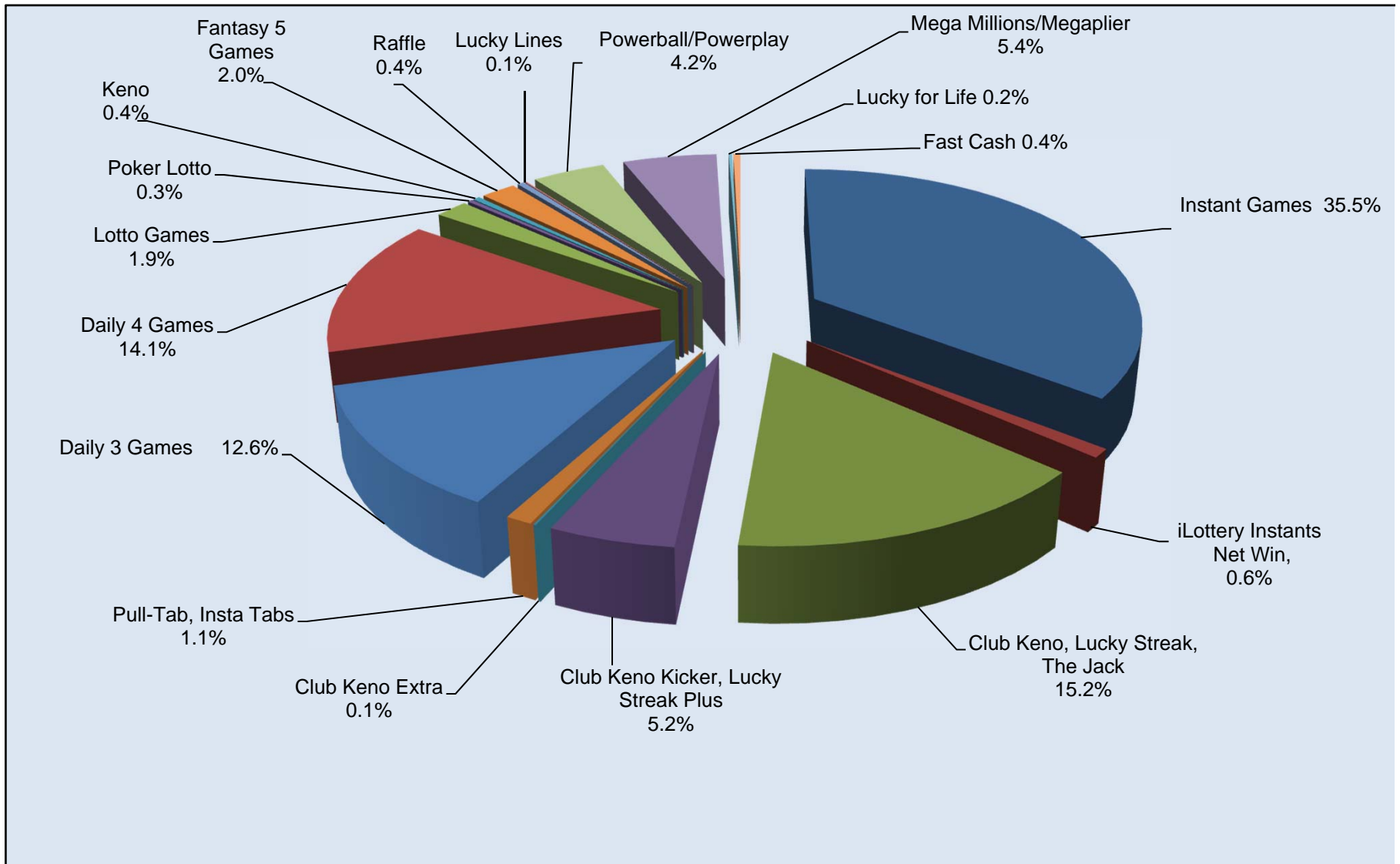
<b>TICKET SALES</b>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Instant Games</b>										
Instant Tickets	\$ 749.1	\$ 750.8	\$ 739.2	\$ 771.7	\$ 827.0	\$ 913.1	\$ 1,013.2	\$ 1,136.8	\$ 1,321.6	\$ 1,488.2
<b>iLottery Games</b>										
iLottery Instants, Net Win						0.6	18.5	48.0	77.9	93.7
iLottery Online Game Card Promos								(0.3)	(0.6)	
iLottery Non-Game Specific Promos								(2.0)	(5.1)	(6.8)
<b>Club Games</b>										
Club Keno, Lucky Streak, The Jack	396.5	374.9	376.9	397.8	399.6	410.4	430.5	461.7	471.8	438.5
Club Keno Kicker, Lucky Streak Plus	123.5	115.6	124.1	128.2	134.5	140.7	150.4	164.0	169.0	157.3
Club Keno Extra										32.0
Pull Tab, Insta Tabs	28.0	29.1	26.9	27.3	31.7	32.4	32.9	32.5	32.9	32.9
Total Club Games	548.0	519.6	527.9	553.3	565.8	583.5	613.8	658.2	673.7	660.7
<b>Draw Games</b>										
Daily 3, Double 3	351.0	344.2	327.4	323.5	321.1	327.0	344.6	366.9	369.0	371.3
Daily 4, Double 4	335.9	359.0	358.2	357.6	351.1	366.3	398.3	415.6	441.4	466.5
Winfall, Lotto 47, Lotto 47 EZ Match	64.2	43.8	44.1	48.3	52.4	45.9	53.9	45.4	70.1	50.2
Poker Lotto						39.1	16.1	13.6	11.0	7.9
Lucky for Life							15.6	16.7	14.7	14.9
Monopoly							1.8			
Keno	14.0	13.0	12.5	12.4	11.4	10.3	9.8	9.5	9.0	9.0
Fantasy 5, Fantasy 5 EZ Match	51.3	56.1	53.7	51.9	53.2	60.1	56.1	59.6	59.7	57.2
Raffle	41.3	19.0	15.1	6.8	6.0	5.8	0.2	2.8	0.2	15.0
Lucky Lines		15.7	8.1	1.6						
Powerball/Powerplay		64.5	85.9	119.5	186.8	104.0	109.5	206.6	153.9	125.8
Mega Millions/Megaplier	222.7	173.5	167.8	166.8	101.6	140.7	120.5	127.1	102.7	153.2
Fast Cash									30.6	71.2
Total Draw Games	1,080.4	1,088.8	1,072.8	1,088.4	1,083.6	1,099.2	1,126.4	1,263.8	1,262.3	1,342.2
<b>TOTAL TICKET SALES</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>	<b>\$ 2,771.9</b>	<b>\$ 3,104.5</b>	<b>\$ 3,329.8</b>	<b>\$ 3,578.0</b>

**PRICE PER TICKET:**

Instant Games	Range from \$1 to \$30	Draw Games: Daily 3	\$ .50 and \$1
iLottery Instants	Range from \$.05 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 & Lucky for Life	\$2
Club Keno Extra	\$1	Fast Cash	Range from \$1 to \$20
Pull Tab, Insta Tab Games	Range from \$.50 to \$5	Mega Millions	\$2
		All other draw games	\$1

Note: Principal revenue payers are the general public. Please see Demographic and Economic Information on page 76 for statistics.

**Bureau of State Lottery, State of Michigan  
Revenue Capacity  
Ticket Sales 2009 through 2018**



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, 2009 through September 30, 2018**  
**(In Millions)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b><u>INSTALLMENT PRIZE AWARDS LIABILITY</u></b>										
Current - at face amount	\$ 59.5	\$ 53.1	\$ 49.8	\$ 40.9	\$ 34.6	\$ 29.7	\$ 23.9	\$ 17.0	\$ 15.1	\$ 15.1
Long-term - at face amount	<u>309.7</u>	<u>260.4</u>	<u>352.4</u>	<u>317.3</u>	<u>303.3</u>	<u>280.4</u>	<u>267.4</u>	<u>255.1</u>	<u>236.1</u>	<u>223.1</u>
Total installment prize awards	<u>\$ 369.2</u>	<u>\$ 313.5</u>	<u>\$ 402.2</u>	<u>\$ 358.2</u>	<u>\$ 337.9</u>	<u>\$ 310.1</u>	<u>\$ 291.3</u>	<u>\$ 272.1</u>	<u>\$ 251.2</u>	<u>\$ 238.2</u>
<b><u>INVESTMENTS</u></b>										
Face amount	<u>\$ 341.6</u>	<u>\$ 280.8</u>	<u>\$ 382.0</u>	<u>\$ 332.7</u>	<u>\$ 315.5</u>	<u>\$ 298.8</u>	<u>\$ 270.9</u>	<u>\$ 256.3</u>	<u>\$ 238.8</u>	<u>\$ 226.0</u>
Installment prize awards payable as a percentage of investments:	108.08%	111.65%	105.29%	107.66%	107.10%	103.78%	107.53%	106.16%	105.19%	105.40%

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



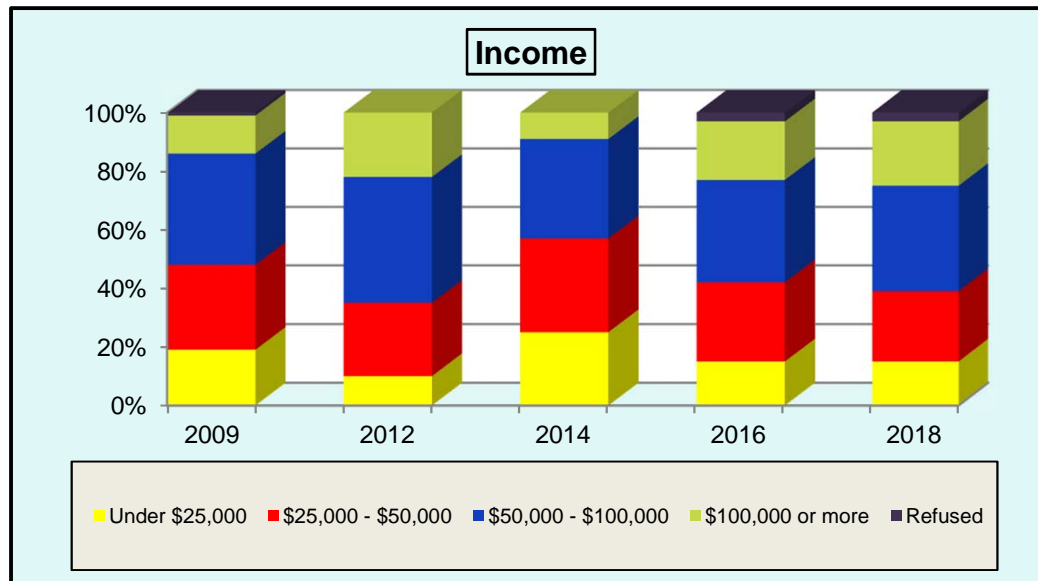
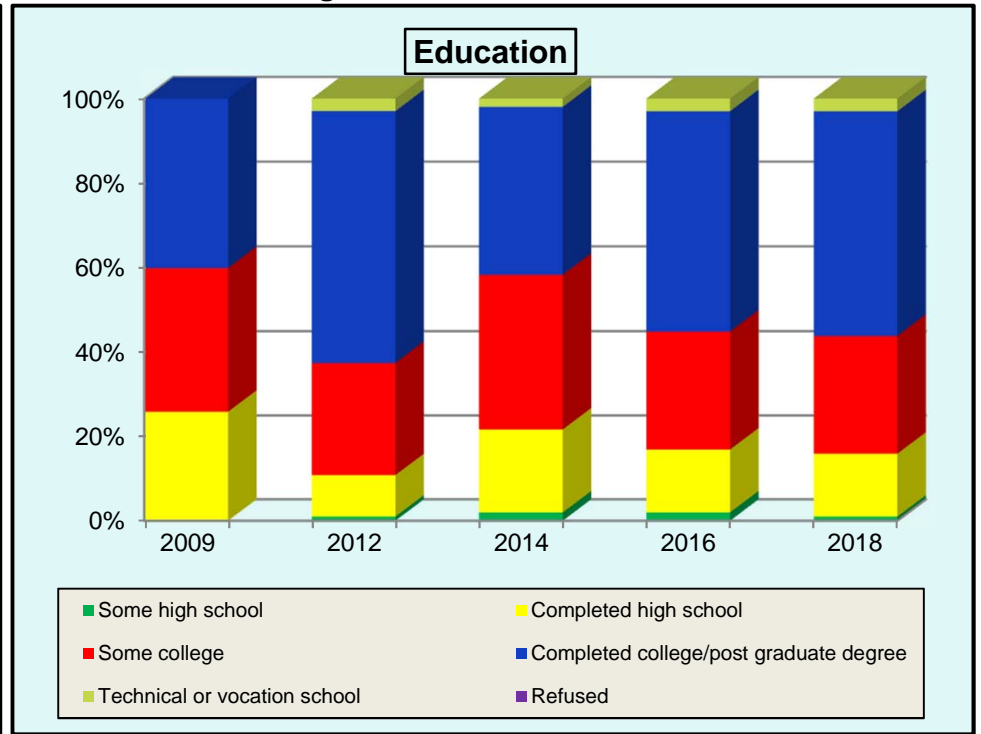
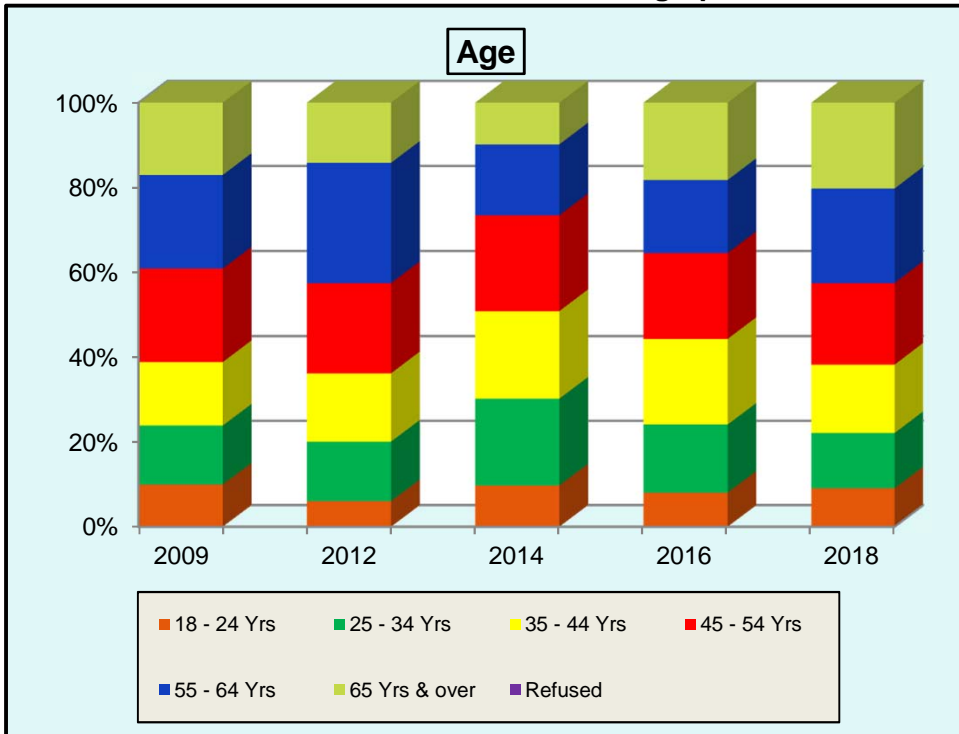
**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information  
Demographic General Tracking Study  
Fiscal Years Ending September 30, 2009 through September 30, 2018**

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

	2009	2012	2014	2016	2018
<b>Gender</b>					
Male	49%	41%	48%	48%	50%
Female	51%	59%	52%	52%	50%
<b>Education</b>					
Some high school		1%	2%	2%	1%
Completed high school	26%	10%	20%	15%	15%
Some college	34%	27%	37%	28%	28%
Completed college/post graduate degree	40%	60%	40%	52%	53%
Technical or vocation school		3%	2%	3%	3%
Refused					
<b>Age</b>					
18 - 24 Yrs	10%	6%	10%	8%	9%
25 - 34 Yrs	14%	14%	21%	16%	13%
35 - 44 Yrs	15%	16%	21%	20%	16%
45 - 54 Yrs	22%	21%	23%	20%	19%
55 - 64 Yrs	22%	28%	17%	17%	22%
65 Yrs & over	17%	14%	10%	18%	20%
Refused					
<b>Income</b>					
Under \$25,000	19%	10%	25%	15%	15%
\$25,000 - \$50,000	29%	25%	32%	27%	24%
\$50,000 - \$100,000	38%	43%	34%	35%	36%
\$100,000 or more	13%	22%	9%	20%	22%
Refused	1%			3%	3%
<b>Ethnicity</b>					
White	85%	83%	81%	80%	82%
Black/African-American/Caribbean-American	11%	11%	13%	15%	12%
Hispanic/Latino	1%	3%	3%	4%	2%
Asian/Pacific Islander			2%	1%	1%
Other	3%	3%	1%	0%	0%
Refused					

Source: Bureau of State Lottery  
General Tracking Study

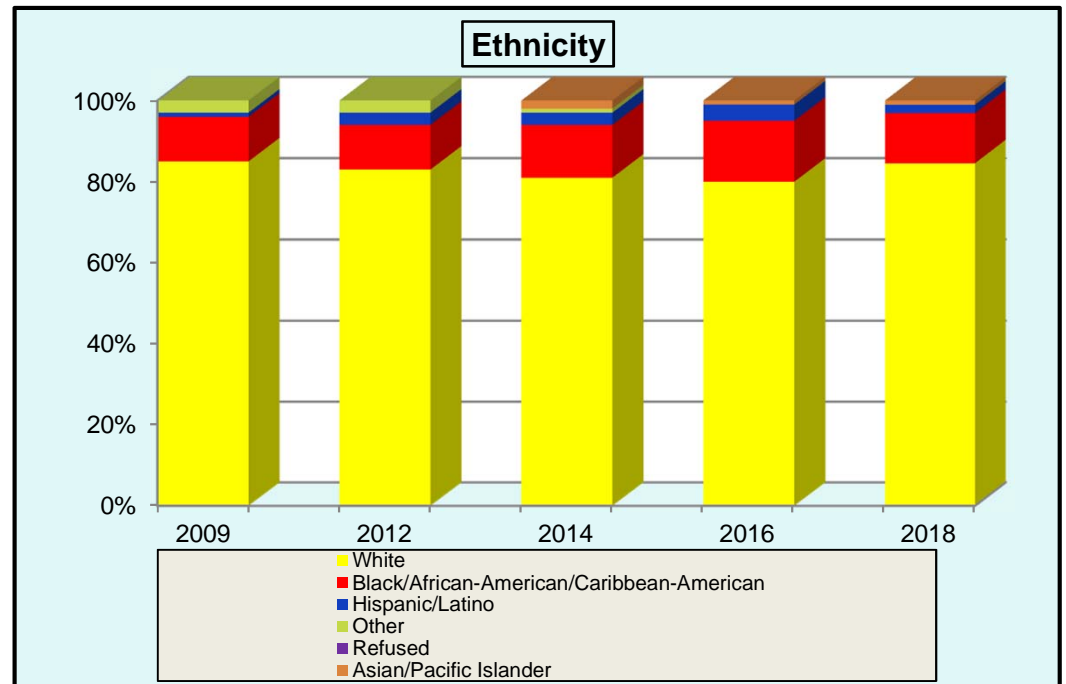
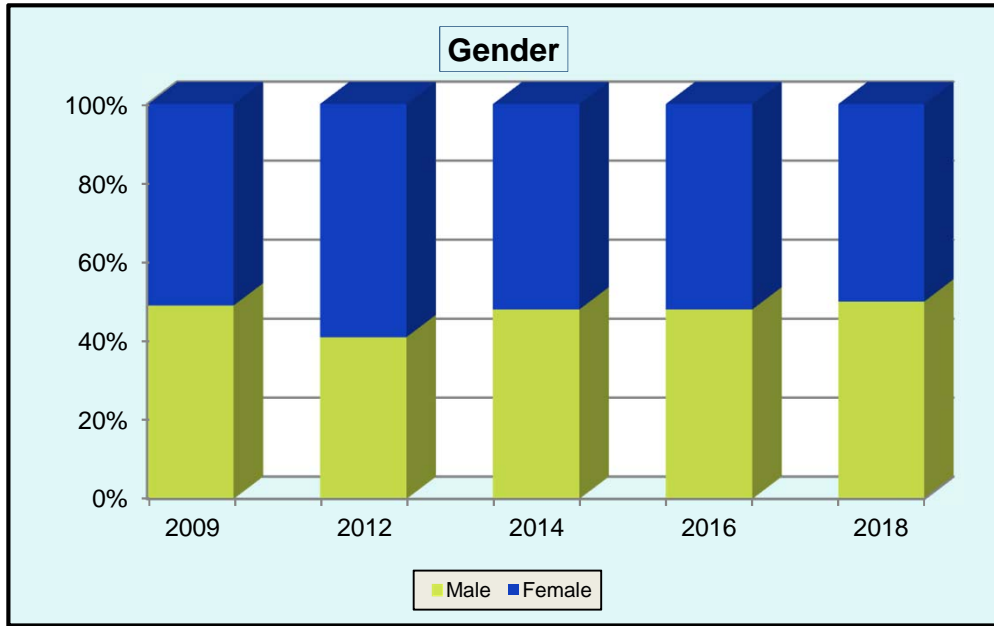
**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information 2009 through 2018**



Source: Bureau of State Lottery  
General Tracking Study



**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information 2009 through 2018**



Source: Bureau of State Lottery  
General Tracking Study



**Bureau of State Lottery, State of Michigan  
Demographic and Economic Indicators  
Fiscal Years Ending September 30, 2008 through September 30, 2017  
(In Thousands)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Population (a)</b>										
Michigan	10,002	9,970	9,877	9,876	9,883	9,896	9,909	9,923	9,928	9,962
United States	304,375	307,007	309,349	311,592	313,914	316,129	318,857	321,419	323,128	325,719
<b>Total Personal Income (b)</b>										
Michigan	\$ 349.6	\$ 342.3	\$ 342.7	\$ 358.2	\$ 378.4	\$ 386.5	\$ 403.7	\$ 424.8	\$ 439.4	\$ 460.3
United States	\$ 12,225.6	\$ 12,165.5	\$ 12,357.1	\$ 12,949.9	\$ 13,729.1	\$ 14,151.4	\$ 14,683.1	\$ 15,464.0	\$ 15,913.0	\$ 16,820.0
<b>Per Capita Income (b)</b>										
Michigan	\$ 34,949	\$ 34,334	\$ 34,691	\$ 36,264	\$ 38,291	\$ 39,055	\$ 40,740	\$ 42,812	\$ 44,253	\$ 46,201
United States	\$ 40,208	\$ 39,626	\$ 39,945	\$ 41,560	\$ 43,735	\$ 44,765	\$ 46,049	\$ 48,112	\$ 49,246	\$ 51,640
<b>Unemployment Rate (c)</b>										
Michigan	8.4%	15.3%	13.0%	9.3%	9.0%	7.2%	5.0%	4.6%	4.3%	4.0%
United States	5.8%	9.8%	9.6%	7.8%	7.2%	5.9%	5.1%	5.0%	4.2%	3.7%
<b>Michigan estimated wage and salary employees (c)</b>										
<b>Goods Producing:</b>										
Natural Resources and Mining	7.8	7.2	7.3	7.3	7.8	7.9	8.3	7.2	6.7	7.0
Construction	153.7	132.3	113.3	123.4	124.6	127.2	139.0	144.9	151.3	161.1
Manufacturing	575.3	463.8	464.1	510.8	546.5	566.3	588.5	595.9	603.6	619.1
Total Goods Producing	736.8	603.3	584.7	641.5	678.9	701.4	735.8	748.0	761.6	787.2
<b>Service-Providing:</b>										
<b>Private Service-Providing</b>										
<b>Trade, Transportation, and Utilities:</b>										
Wholesale Trade	166.7	150.2	152.3	158.0	159	163.8	169.7	173.5	172.2	174.1
Retail Trade	478.4	449.0	446.6	446.2	448.9	474.1	476.6	479.5	483.0	484.1
Transportation and Utilities	124.2	113.2	108.8	121.5	123.2	130.3	132.0	137.8	284.0	294.2
Information	61.8	54.3	52.5	54.6	52.1	56.2	57.0	56.8	57.5	55.9
<b>Financial Activities:</b>										
Finance and Insurance	152.3	139.8	135.2	144.5	148.5	151.6	154.1	158.9	162.1	165.1
Real Estate and Rental and Leasing	52.1	49.2	45.5	50.4	47.8	49.1	51.9	52.1	53.9	53.5
<b>Professional and Business Services:</b>										
Professional, Scientific, and Technical Services	240.1	215.6	214.8	235.0	250	264.6	272.8	292.1	297.4	293.4
Management of Companies and Enterprises	54.4	50.9	50.8	53.5	54.1	59	58.3	59.7	61.9	66.5
Administrative, Support Services, and Waste Management	262.5	239.8	248.3	271.4	271.9	281.7	302.6	294.8	302.0	291.6
<b>Educational and Health Services:</b>										
Educational Services	80.3	78.4	80.3	77.1	72.2	76.2	80.1	79.1	75.6	75.8
Health Care and Social Assistance	528.1	530.5	535.0	548.7	559.4	564.2	574.5	585.2	596.9	600.6
<b>Leisure and Hospitality:</b>										
Accommodation and Food Services	335.5	328.0	322.0	328.2	344.3	349.8	351.4	362.4	373.5	379.5
Other	62.6	65.5	51.8	46.9	42.5	36.8	40.4	40.5	43.6	42.0
Other Services	175.6	168.2	164.4	170.4	169.4	171.2	171.0	171	172.1	170.2
Total Private Service-Providing	2,774.5	2,632.6	2,608.3	2,706.4	2,743.3	2,828.6	2,892.4	2,943.4	3,135.7	3,146.5
<b>Government:</b>	647.9	643.8	629.8	612.5	606.7	614.3	609.3	612.4	624.3	623.6
Total Service-Providing	3,422.4	3,276.4	3,238.1	3,318.9	3,350.0	3,442.9	3,501.7	3,555.8	3,760.0	3,770.1
<b>Total Wage and Salary Employment</b>	<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>	<u>4,237.5</u>	<u>4,303.8</u>	<u>4,521.6</u>	<u>4,557.3</u>

NOTES: Calendar year 2017 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, 2009 through September 30, 2018**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Number of Employees</b>	171	181	174	177	178	174	174	175	172	178
<b>Number of Retailers</b>										
Instant only	-	-	-	-	-	-	-	-	-	-
Club Games	2,478	-	-	-	-	-	-	-	-	-
Online	8,202	-	-	-	-	-	-	-	-	-
*All Games	-	10,797	10,746	10,879	10,848	10,684	10,654	10,650	10,645	10,792
Total Retailers	10,680	10,797	10,746	10,879	10,848	10,684	10,654	10,650	10,645	10,792
<b>Prize Payout Percentage</b>	60.42%	59.72%	58.47%	57.93%	60.31%	61.27%	61.22%	60.71%	61.39%	62.52%
<b>Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund</b>	30.47%	29.73%	31.08%	32.25%	29.65%	28.61%	28.70%	28.63%	27.75%	26.31%
<b>Number of Millionaire Prize Winners</b>	40	39	28	31	36	39	42	46	38	39
<b>Number of Prize Winners Greater than \$600</b>	53,986	60,543	48,567	44,904	52,365	56,735	68,359	74,352	82,435	91,984

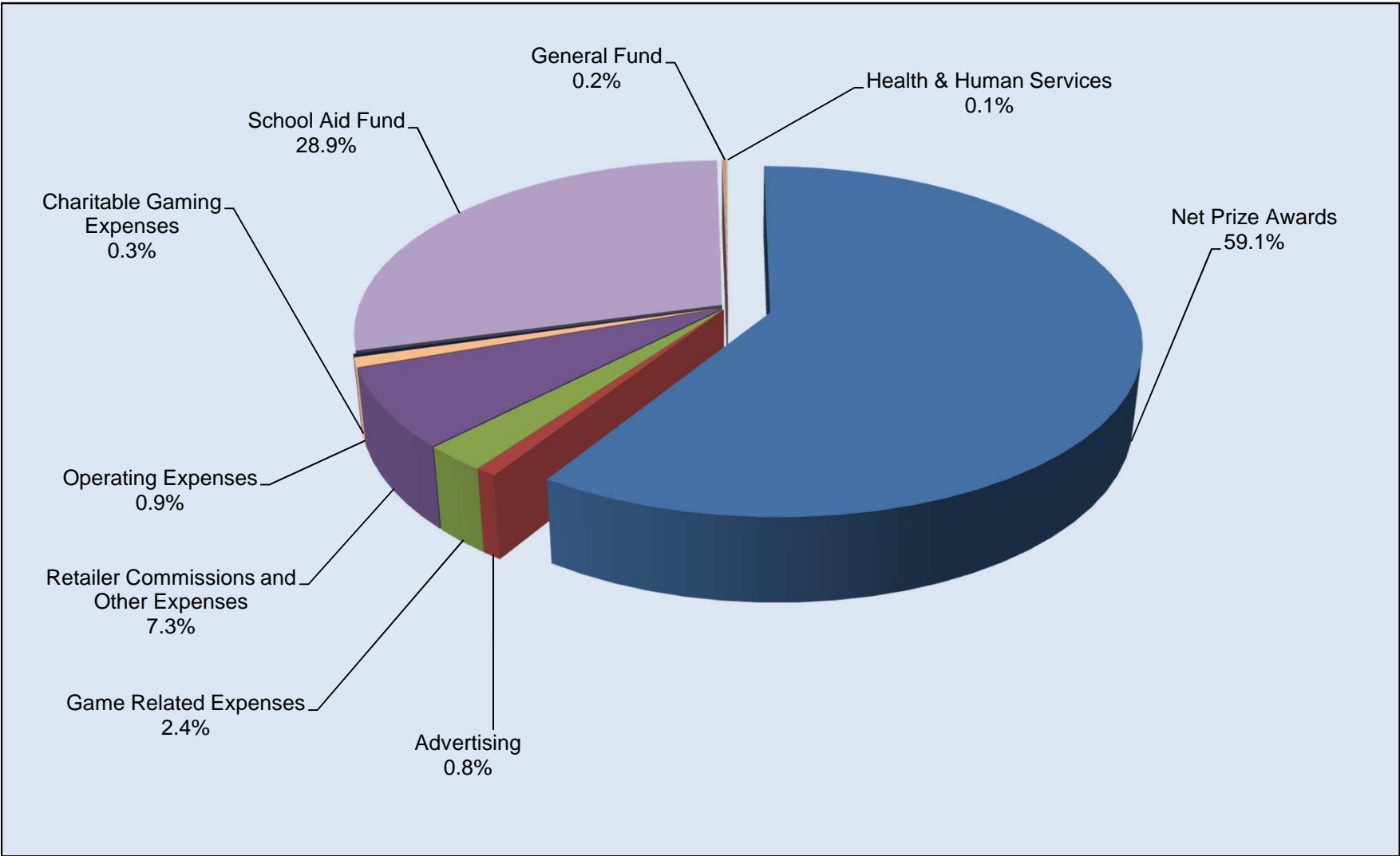
\*Beginning in FY2010, retailers do not have a distinction by game type



**Bureau of State Lottery, State of Michigan**  
**Operating Information**  
**Expenses & Disbursements to the State's School Aid Fund, General Fund, and Health & Human Services**  
**Fiscal Years Ending September 30, 2009 through September 30, 2018**  
**(In Millions)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>EXPENSES</b>										
Prize Awards	\$ 1,436.3	\$ 1,408.9	\$ 1,368.2	\$ 1,398.2	\$ 1,493.5	\$ 1,590.7	\$ 1,697.0	\$ 1,884.8	\$ 2,044.0	\$ 2,237.0
Unclaimed Prizes	(28.7)	(27.3)	(23.9)	(28.4)	(31.9)	(30.8)	(31.5)	(28.5)	(27.6)	(22.0)
Net Prize Awards	1,407.6	1,381.6	1,344.3	1,369.8	1,461.6	1,559.9	1,665.5	1,856.3	2,016.4	2,215.0
Promotion and Advertising	27.0	29.0	22.6	16.7	17.6	17.6	17.6	22.0	24.0	27.9
Game Related Expenses	53.8	53.0	53.9	53.3	57.6	61.3	63.9	80.2	93.9	101.4
Retailer Commissions	174.2	170.5	168.4	172.1	178.5	188.5	203.6	231.7	249.2	266.5
Operating Expenses	20.8	20.2	20.1	22.2	23.9	25.4	25.2	35.1	27.6	30.3
Charitable Gaming Expenses	8.9	7.4	6.7	7.0	8.9	8.9	9.2	9.3	10.1	9.8
<b>TOTAL EXPENSES</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>\$ 1,985.0</b>	<b>\$ 2,234.6</b>	<b>\$ 2,421.2</b>	<b>\$ 2,650.9</b>
<b>DISBURSEMENTS TO THE STATE</b>										
School Aid Fund	724.5	701.3	727.3	778.4	734.3	742.8	795.5	888.9	924.1	941.3
School Aid Fund-Club Keno Adv	-	-	-	-	-	0.1	-	-	-	-
General Fund	11.8	11.3	9.3	7.5	4.5	2.9	2.9	3.0	1.9	1.9
Health & Human Services	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>\$ 737.3</b>	<b>\$ 713.6</b>	<b>\$ 737.6</b>	<b>\$ 786.9</b>	<b>\$ 739.8</b>	<b>\$ 746.8</b>	<b>\$ 799.4</b>	<b>\$ 892.9</b>	<b>\$ 927.0</b>	<b>\$ 944.2</b>

**Bureau of State Lottery, State of Michigan  
Operating Information  
Expenses and Disbursements 2009 through 2018**



Source: Bureau of State Lottery, State of Michigan

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

**Fiscal Year 2017 U.S. Lottery Sales, Prizes & Government Transfers Measured by GDP\***

Lottery	2017 Pop <sup>1</sup> (Mil)	(in \$millions)							PC Sales	PC Gov't	Ticket Sales as % of GDP	Gov't Transfers as % of GDP
		2017 Gross Domestic Product <sup>2</sup>	Traditional Ticket Sales <sup>3</sup>	VLT (net) <sup>2</sup>	Gaming (net)	Prizes <sup>4</sup>	Gov't Transfers <sup>5</sup>					
Arizona	7.0	318,033	852.0			551.1	198.1	\$122	\$28	0.268%	0.062%	
Arkansas	3.0	126,622	449.1			306.4	85.2	\$150	\$28	0.355%	0.067%	
California	39.5	2,716,655	6,233.5			3,963.5	1,499.0	\$158	\$38	0.229%	0.055%	
Colorado	5.6	338,252	555.3			341.5	133.5	\$99	\$24	0.164%	0.039%	
Connecticut	3.6	260,124	1,216.3			756.3	335.0	\$338	\$93	0.468%	0.129%	
D.C.	0.7	130,987	218.7			130.0	45.6	\$312	\$65	0.167%	0.035%	
Delaware <sup>4,5</sup>	1.0	74,224	169.7	352.8	53.1	135.0	245.7	\$170	\$246	0.229%	0.331%	
Florida	21.0	964,880	6,156.5			3,966.6	1,656.4	\$293	\$79	0.638%	0.172%	
Georgia	10.4	551,174	4,218.4			2,737.5	1,101.1	\$406	\$106	0.765%	0.200%	
Idaho	1.7	71,407	239.9			160.3	48.8	\$141	\$29	0.336%	0.068%	
Illinois	12.8	812,431	2,844.0			1,820.1	732.7	\$222	\$57	0.350%	0.090%	
Indiana	6.7	357,221	1,213.1			774.4	288.0	\$181	\$43	0.340%	0.081%	
Iowa	3.1	188,076	352.2			215.6	80.8	\$114	\$26	0.187%	0.043%	
Kansas	2.9	151,760	258.0		371.1	149.7	162.9	\$89	\$56	0.170%	0.107%	
Kentucky	4.5	203,314	987.0			628.8	248.6	\$219	\$55	0.485%	0.122%	
Louisiana	4.7	242,060	455.0			243.0	159.2	\$97	\$34	0.188%	0.066%	
Maine	1.3	61,006	266.0			171.8	58.7	\$205	\$45	0.436%	0.096%	
Maryland <sup>4,5</sup>	6.1	393,205	1,931.6	885.9	535.1	1,196.5	1,124.5	\$317	\$184	0.491%	0.286%	
Massachusetts	6.9	523,348	5,087.9			3,670.6	1,039.7	\$737	\$151	0.972%	0.199%	
Michigan	10.0	511,196	3,329.8			2,016.5	927.0	\$333	\$93	0.651%	0.181%	
Minnesota	5.6	352,049	563.5			348.4	139.2	\$101	\$25	0.160%	0.040%	
Missouri	6.1	305,141	1,342.7			932.1	291.6	\$220	\$48	0.440%	0.096%	
Montana <sup>6</sup>	1.1	47,349	52.4			30.6	9.2	\$48	\$8	0.111%	0.019%	
Nebraska	1.9	118,892	173.8			101.9	41.3	\$91	\$22	0.146%	0.035%	
N. Hampshire	1.3	79,030	299.2			191.8	76.1	\$230	\$59	0.379%	0.096%	
New Jersey	9.0	585,726	3,235.8			1,927.3	1,023.0	\$360	\$114	0.552%	0.175%	
New Mexico	2.1	97,802	126.0			67.2	37.8	\$60	\$18	0.129%	0.039%	
New York <sup>4,5</sup>	19.8	1,539,081	7,679.1	1,996.6		4,639.0	3,267.9	\$388	\$165	0.499%	0.212%	
N. Carolina	10.3	538,769	2,428.1			1,543.2	625.6	\$236	\$61	0.451%	0.116%	
N. Dakota <sup>6</sup>	0.8	55,223	27.6			14.3	6.9	\$35	\$9	0.050%	0.012%	
Ohio <sup>4,5</sup>	11.7	646,657	3,001.7	926.7		1,910.0	1,040.6	\$257	\$89	0.464%	0.161%	
Oklahoma	3.9	188,846	151.5			73.3	53.8	\$39	\$14	0.080%	0.028%	
Oregon <sup>4,5</sup>	4.1	236,102	332.2	914.1		217.2	697.6	\$81	\$170	0.141%	0.295%	
Pennsylvania	12.8	741,620	4,001.0			2,588.3	1,045.7	\$313	\$82	0.539%	0.141%	
R. Island <sup>4,5</sup>	1.1	58,911	249.9	482.4	140.1	154.5	362.7	\$227	\$330	0.424%	0.616%	
S. Carolina	5.0	217,507	1,635.7			1,086.2	410.5	\$327	\$82	0.752%	0.189%	
S. Dakota <sup>4,5</sup>	0.9	48,555	49.1	212.4		28.7	118.1	\$55	\$131	0.101%	0.243%	
Tennessee	6.7	342,590	1,495.9			948.3	386.7	\$223	\$58	0.437%	0.113%	
Texas	28.3	1,677,944	5,077.5			3,257.4	1,334.0	\$179	\$47	0.303%	0.080%	
Vermont	0.6	31,874	122.4			79.7	25.5	\$204	\$43	0.384%	0.080%	
Virginia	8.5	508,202	1,989.9			1,214.3	558.3	\$234	\$66	0.392%	0.110%	
Washington	7.4	499,690	673.3			422.5	161.9	\$91	\$22	0.135%	0.032%	
W. Virginia <sup>4,5</sup>	1.8	76,836	166.5	872.6	40.4	98.2	491.3	\$93	\$273	0.217%	0.639%	
Wisconsin <sup>6</sup>	5.8	322,032	602.8			363.0	184.4	\$104	\$32	0.187%	0.057%	
Wyoming	0.6	40,931	25.3			14.5	2.7	\$42	\$5	0.062%	0.007%	
<b>Total</b>	<b>309.7</b>	<b>18,353,334</b>	<b>72,536.9</b>	<b>6,643.5</b>	<b>1,139.8</b>	<b>46,187.1</b>	<b>22,562.9</b>	<b>\$234</b>	<b>\$73</b>	<b>0.395%</b>	<b>0.123%</b>	

\* Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30).<sup>1</sup> Source: U.S. Census Bureau

<sup>2</sup> Source: U.S. Bureau of Economic Analysis; <sup>3</sup> This data represents only revenue from traditional lottery games; <sup>4</sup> Prizes do not include VLT

<sup>5</sup> Includes government transfers for VLT operations; <sup>6</sup> Unaudited

Note: If a lottery's operating statement did not include government transfers, then net income is reported.

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

**Fiscal Year 2017 U.S. Lottery Sales by Game\***

(in \$millions)

Lottery	Pop (Mil)	Instant Pulltab		Systems Games									Total Sales	PC Sales	VLT (net)	
				3-digit	4-digit	Lotto	Power Ball	Mega Millions	Bloc Lotto	ITG	Keno	Other				
Arizona	7.0	632.8	7.8	11.1	0.0	56.5	102.5	41.4	0.0			0.0	0.0	852.0	\$122	
Arkansas	3.0	368.5	0.0	7.1	4.2	7.0	32.8	14.3	2.9	12.3		0.0		449.1	\$150	
California	39.5	4,576.0	0.0	145.6	29.5	461.5	449.9	294.5	0.0			255.8	20.7	6,233.5	\$158	
Colorado	5.6	380.2	0.0	11.0	0.0	48.2	73.0	25.8	16.0			0.0	1.1	555.3	\$99	
Connecticut	3.6	720.6	0.0	121.8	118.3	55.2	78.6	29.1	20.4			72.2	0.0	1,216.3	\$338	
Delaware	0.7	50.3	0.0	42.0	56.3	0.0	11.5	5.2	2.8	8.6	7.9	34.1		218.7	\$312	0.0
D.C.	1.0	69.3	0.0	27.5	22.8	4.3	22.8	8.9	6.1			8.2	0.0	169.7	\$170	360.8
Florida	21.0	4,243.6	0.0	348.7	249.3	618.1	434.3	147.4	28.8			0.0	86.3	6,156.5	\$293	
Georgia	10.4	2,806.6	0.0	553.7	278.4	142.7	127.4	90.4	11.2	11.1	189.7	7.3		4,218.4	\$406	
Idaho	1.7	137.1	40.1	2.3	0.0	2.9	28.5	9.3	5.9	10.6		3.2		239.9	\$141	
Illinois	12.8	1,871.9	0.0	262.3	229.1	224.7	151.6	98.2	0.0			0.0	7.8	2,845.6	\$222	
Indiana	6.7	907.6	0.0	36.3	35.1	83.3	97.9	32.7	7.0	12.0		0.0	1.1	1,213.1	\$181	0.0
Iowa	3.1	237.6	11.3	7.3	3.9	3.2	54.3	15.0	13.8	5.8		0.0	0.0	352.2	\$114	
Kansas	2.9	142.6	8.4	6.8	0.0	18.1	36.8	12.3	10.9			15.5	6.6	258.0	\$89	
Kentucky	4.5	590.3	0.0	145.3	44.7	16.7	72.1	29.1	7.8			75.8	5.2	987.0	\$219	
Louisiana	4.7	206.3	0.0	52.3	47.3	35.8	85.0	28.3	0.0			0.0	0.0	455.0	\$97	
Maine	1.3	208.0	0.0	5.3	4.3	15.9	20.8	6.0	5.7			0.0	0.0	265.9	\$205	
Maryland	6.1	676.8	8.4	239.2	291.6	49.4	100.1	66.3	16.2	303.1	180.4			1,931.4	\$317	885.9
Massachusetts	6.9	3,517.8		0.0	324.5	121.0	119.3	61.0	25.6			914.8	3.9	5,087.9	\$737	
<b>Michigan</b>	<b>10.0</b>	<b>1,321.6</b>	<b>32.9</b>	<b>369.0</b>	<b>441.4</b>	<b>134.1</b>	<b>145.8</b>	<b>97.9</b>	<b>14.7</b>	<b>30.6</b>	<b>649.9</b>	<b>91.9</b>		<b>3,329.8</b>	<b>\$333</b>	<b>0.0</b>
Minnesota	5.6	398.3	0.0	17.4	0.0	27.4	64.8	17.1	18.7	12.8		0.0	7.0	563.5	\$101	
Missouri	6.1	868.9	107.2	74.4	48.3	52.3	94.9	32.2	7.8			56.7	0.0	1,342.7	\$220	
Montana <sup>1</sup>	1.1	17.1	0.0	0.0	0.0	6.4	12.0	3.5	5.4	4.9		0.0	3.0	52.4	\$48	
Nebraska	1.9	101.6	0.0	5.1		18.9	37.0	11.2	0.0			0.0	0.0	173.8	\$91	
New Hampshire	1.3	223.4	0.0	5.0	5.8	10.2	32.4	11.3	8.1	3.0		0.0	0.0	299.2	\$230	
New Jersey	9.0	1,887.9	0.0	429.6	273.5	228.0	213.5	135.5	41.0	26.9		0.0	-48.9	3,186.9	\$354	
New Mexico	2.1	72.4	0.0	5.4	0.0	7.1	26.3	9.7	4.3	0.7		0.0	0.1	126.0	\$60	
New York	19.8	4,001.2	0.0	897.6	920.8	313.3	348.7	284.7	89.3			823.5	0.0	7,679.1	\$388	1,996.6
North Carolina	10.3	1,695.2		306.0	135.8	68.3	148.5	54.3	19.9			0.0	0.0	2,428.1	\$236	
North Dakota <sup>1</sup>	0.8	0.0	0.0	0.0	0.0	4.5	12.6	4.4	6.2			0.0		27.6	\$34	
Ohio	11.7	1,527.1	0.0	339.6	201.0	86.5	129.8	93.3	19.9	166.4	396.3	41.7		3,001.7	\$257	926.6
Oklahoma	3.9	68.0	0.0	5.4		5.1	46.3	18.2	8.5			0.0	0.0	151.5	\$39	
Oregon	4.1	126.5	0.0	0.0	1.5	37.5	44.9	17.9	0.0			101.5	2.5	332.2	\$81	914.1
Pennsylvania	12.8	2,726.6	0.0	283.8	229.6	241.3	252.6	94.4	22.5	55.0		0.0	95.1	4,001.0	\$313	
Rhode Island	1.1	94.2		0.0	23.9	4.0	29.4	9.4	5.1			83.0	1.0	249.9	\$227	482.4
South Carolina	5.0	1,189.7	0.0	196.2	97.2	20.8	82.6	34.8	14.4			0.0	0.0	1,635.7	\$327	
South Dakota	0.9	26.1	0.0	0.0	0.0	2.9	13.5	3.6	3.2			0.0		49.3	\$55	212.4
Tennessee	6.7	1,215.1	0.0	63.6	37.6	16.5	102.3	37.0	22.7			0.0	1.1	1,495.9	\$223	
Texas	28.3	3,935.2	0.0	255.5	101.5	277.5	341.2	166.6	0.0			0.0	0.0	5,077.5	\$179	
Vermont	0.6	96.2	0.0	1.3	1.2	4.7	9.1	3.4	1.8	4.5		0.0	0.0	122.4	\$204	
Virginia	8.5	1,117.7	0.0	276.6	291.9	44.9	112.7	84.4	15.3	39.9		0.0	6.6	1,989.9	\$234	
Washington	7.4	472.3	0.0	17.7	0.0	78.2	60.0	39.3	0.0			5.8	0.0	673.3	\$91	
West Virginia	1.8	94.4	0.0	8.1	4.8	4.9	34.5	11.1	4.8			3.8	0.0	166.5	\$92	872.6
Wisconsin <sup>1</sup>	5.8	384.8	1.0	24.1	13.0	71.1	82.0	26.0	0.0			0.0	0.8	602.8	\$104	
Wyoming	0.6	0.0	0.0	0.0	0.0	10.0	9.2	4.0	2.1			0.0	0.0	25.3	\$42	
<b>Total</b>	<b>309.7</b>	<b>46,005.5</b>	<b>217.0</b>	<b>5,607.2</b>	<b>4,568.1</b>	<b>3,741.2</b>	<b>4,585.5</b>	<b>2,320.4</b>	<b>516.6</b>	<b>405.2</b>	<b>3,963.4</b>	<b>559.5</b>		<b>72,489.5</b>	<b>\$234</b>	<b>6,651.4</b>
<b>% of total</b>		<b>63.5%</b>	<b>0.3%</b>	<b>7.7%</b>	<b>6.3%</b>	<b>5.2%</b>	<b>6.3%</b>	<b>3.2%</b>	<b>0.7%</b>	<b>0.6%</b>	<b>5.5%</b>	<b>0.8%</b>		<b>100.0%</b>		

Notes to Table: Fiscal year 2017 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). 1 U<sup>1</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; Mr. Brian Neill, Commissioner,  
Bureau of State Lottery, State of Michigan;  
and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Bureau of State Lottery, State of Michigan

We have 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, the financial statements of Bureau of State Lottery, State of Michigan (the "Lottery"), an enterprise fund of the State of Michigan, as of and for the six-month period and year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated February 20, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Lottery'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings, that we consider to be a significant deficiency. See related finding number 2018-001 for a full discussion of the significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lottery'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*.



To Management; Mr. Brian Neill, Commissioner,  
Bureau of State Lottery, State of Michigan;  
and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan  
Bureau of State Lottery, State of Michigan

### **The Lottery's Response to the Finding**

The Lottery's response to the finding identified in our audit is described in the accompanying schedule of findings. The Lottery's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Lottery'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 Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

February 20, 2019

Financial Statement Audit Findings

Reference Number	Finding
2018-001	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - The Lottery's change in net position, excluding noncash activity, such as unrealized gains and losses and changes in pension and other postemployment benefits (OPEB) accounts, should be transferred to the School Aid Fund.</p> <p><b>Condition</b> - The School Aid Fund transfer for the fiscal year ended September 30, 2018 was reduced by previously recorded OPEB activity.</p> <p><b>Context</b> - The previously recorded OPEB liability amount of \$9,845,865 was misclassified in lottery reserve accounts that are used to determine amounts available for transfer to the School Aid Fund.</p> <p><b>Cause</b> - The finding was a result of incorrect implementation of the Governmental Accounting Standards Board (GASB) Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other than Pensions</i>, standard. In a previous fiscal year, the Lottery was required to record an estimate of \$9,845,865 for its portion of the State of Michigan's net OPEB obligation. In the current fiscal year, this amount was required to be adjusted to the Lottery's share of the net OPEB liability, as calculated in accordance with GASB 75. Due to the unique circumstances of these calculations and the adjustment from the Lottery's estimated share under the previous accounting standard to the new accounting standard, in the process of implementing GASB 75, the Lottery incorrectly adjusted the previously recorded \$9,845,865 estimate to the reserve accounts that are used to determine the School Aid Fund transfer. This resulted in the transfer being reduced by this amount.</p> <p><b>Effect</b> - The Lottery's School Aid Fund transfer should not be affected by the impact of noncash OPEB activity of \$9,845,865.</p> <p><b>Recommendation</b> - The Lottery should strengthen its financial statement reconciliation process of noncash activity to ensure the transfer to the School Aid Fund is appropriately calculated.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Lottery management has thoroughly reviewed and addressed the finding. The Lottery held \$9,845,865 in reserve to cover OPEB liability in accordance with implementation of GASB 75. The Lottery erroneously continued to hold this amount in reserve. The error was identified and corrected within 10 business days, and an additional \$9,845,865 was transferred to the School Aid Fund for the fiscal year ended September 30, 2018. Lottery management has modified its reconciliation checklist and process, including additional review. Given the unique and isolated circumstances surrounding the implementation of GASB 75 this year, lottery management does not anticipate this item reoccurring in the future.</p>



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