

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
For the Fiscal Years Ended
September 30, 2008 and 2007**

MICHIGAN



LOTTERY

**Bureau of State Lottery
An Enterprise Fund of the State of Michigan**





BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2008 and 2007

Prepared by Accounting Division



Bureau of State Lottery, State of Michigan
Comprehensive Annual Financial Report
for the fiscal years ended September 30, 2008 and 2007

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	1
GFOA Certificate of Achievement	8
Organization Chart and Principal Officials	9
FINANCIAL SECTION	
Independent Auditors' Report	11
Management's Discussion and Analysis	13
Basic Financial Statements	
Statement of Net Assets	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	25
Statement of Cash Flows	26
Notes to Financial Statements	28
Supplementary Information	
Schedule of Revenues and Expenses	40
Schedule of Other Operating Expenses	44
STATISTICAL SECTION	
Table of Contents	45
Michigan Statistics	
Financial Trends	47
Revenue Capacity	50
Debt Capacity	53
Demographic and Economic Information	54
Operating Information	57
U.S. Lottery Statistics	
Industry Comparative Information	60
Compliance Information	62
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	





INTRODUCTORY SECTION



The Michigan Lottery's mission is to maximize revenue for public education. The biggest winners will continue to be the children of this state.





JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING



M. SCOTT BOWEN
COMMISSIONER

December 10, 2008

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Bureau of State Lottery (Lottery) for the fiscal years ending September 30, 2008 and 2007. Lottery management is responsible for the accuracy of the financial data and the completeness of the contents of this report.

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

The mission statement of the Lottery is as follows:

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

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

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

Profile of the Lottery

History

The Lottery was established under the authority of Public Act 239 of 1972 to generate funds to support Michigan's public school system. The first lottery ticket was the Green Ticket which went on sale on November 13, 1972. On October 7, 1975, the first instant game ticket was sold. Online sales began June 6, 1977 with the introduction of the Daily 3 game. The first multi-state ticket sales for the Lottery were on August 31, 1996 for The Big Game (now called Mega Millions). Since its inception, more than \$14.5 billion has been contributed to the School Aid Fund.

Lottery Products

The Lottery offers a variety of games in several styles of play: instant also known as "scratch" games; online games, where daily or more frequent drawings are conducted to select winning numbers; and Pull Tabs, which are similar to instant games but players pull a perforated tab instead of scratching off the ticket. These games are available to the playing public through more than 10,000 licensed Lottery retailers.



Instant Games

Instant games are played by scratching latex covering on each ticket to reveal prize symbols. A variety of games with different themes, play styles, price points and prize structures are available with an ongoing product offering of over 70 new games a year. The games offered are priced between \$1 and \$20 and prizes range from \$1 to \$2 million dollars.



Online Games

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



Mega Millions

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

A total of 12 states participate in the Mega Millions game with Michigan, including California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia and Washington.



Classic Lotto 47

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



Fantasy 5

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



Daily 3 & 4 Games

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



Keno!

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



Raffle Games

The first online Raffle game, introduced on November 12, 2006, was Millionaire Raffle and Super Raffle was added in April 2007. Each Raffle has a defined and limited pool of tickets available for sale. Each ticket purchased contains a unique raffle number issued sequentially across the on-line gaming system network. When the last raffle number is issued, the game will close and no additional tickets will be available for purchase. The prizes range from \$500 to \$2 million.



Club Games

Club Games were introduced in October 2003. Club Games are played by patrons of bars, restaurants and bowling centers. Club Games consist of an online Club Keno game, Lucky Streak and Pull Tab games. To play Club Keno, players select up to 10 numbers from a pool of 80. The Lottery draws 20 numbers and the more numbers the player matches, the more he or she wins. Results of the drawings, which are conducted every four minutes, are displayed on TV monitors located in the retailers' establishments. Wagers can be placed from \$1 to \$20 and the top prize is \$2 million. The Kicker option allows players to multiply their Club Keno prizes as much as 10 times. Lucky Streak was discontinued in February 2008.

Pull Tab games are similar to instant tickets but players pull a perforated tab instead of scratching off the ticket. A variety of different Pull Tab games are offered at one time. Ticket prices are 50 cents, \$1 and \$2 and top prizes range from \$50 to \$500.



Player City Internet Club

In June 2005 the Lottery introduced an Internet-based VIP club for players called Player City. Player City offers a variety of on-site activities in which players can participate. Points are earned for participation in surveys and other activities and these points are redeemable for entry into drawings for event tickets and other prizes. In addition, players who become members receive many benefits such as special prize drawings, exclusive offers only for Player City members, anniversary rewards redeemable for exclusive members-only rewards, and email alerts for jackpots and winning numbers. Membership in Player City is free.

Highlights of Fiscal Year 2008

Contribution to the School Aid Fund

The Lottery disbursed \$740.7 million to the School Aid Fund. This was the Lottery's second largest contribution to the School Aid Fund. Lottery represents a steady source of revenue for our children's schools.

Sales

Sales for 2008 surpassed \$2.3 billion for the year.

Retailers Win Big with Commissions

Retailer commissions totaled \$172.1 million in 2008.

Instant Game \$2 Million Dollar Drawings

The Lottery conducted three separate instant game \$2 million grand prize drawings in October, February, and June of fiscal 2008. Players who win \$1,000 on any \$20 instant game are entered in the drawings automatically. The \$2 million drawings are held at special events such as Detroit Lions football games or Detroit Pistons basketball games and create a great deal of excitement.

Budgetary System and Controls

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

Economic Condition and Financial Information

Local Economy

The severe national financial crisis is having negative repercussions on overall economic activity, interest rates, availability of credit, consumer and business confidence. These negative factors not only will have negative impact on Michigan's economic performance, but also will have some negative repercussions on State and local governments. Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Michigan's unemployment rate in 2008 is at the highest level since September 1992. In September 2008, the rate is 8.9% well above the national average of 6.1%. The forecast for 2009 is an increase in the unemployment rate to 9.3%.

In addition to both steady job losses and high unemployment, the continued downturn in the housing market causes additional concern. These issues and uncertainties in the economy will impact spending patterns and could impact Lottery sales.

Financial Information

The sale of Lottery tickets provides all funding for operations and the net income is disbursed to the School Aid Fund for K-12 education. The operations involve sale of tickets, determination of winning tickets, payment of prizes, compensation to retailers, and administrative functions. The Lottery also provides \$1 million a year to the Department of Community Health for gambling addiction programs.

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

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

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

Accounting Systems and Policies

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

Internal Controls

The Michigan Lottery and the State of Michigan policies and procedures tightly control assets, inventory, computer systems, drawing studios and accounting. Separation of duties, internal controls, 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.

Debt Administration

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

Cash Management

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

Risk Management

The Michigan Department of Management and Budget (DMB) controls risk management through two internal service funds administratively established during fiscal year 1989-1990. These funds are self-insured for most general liability, property losses, portions of employee insurance benefit, employee bonding programs, employee theft, workers compensation and unemployment compensation claims. The Lottery is assessed annual premiums by DMB for risk management.

Long-term Financial Planning

The Lottery continues to work on new ways to attract players and increase sales. A marketing plan is developed each year. New games as well as variations of play on existing games are being researched. Promotions, ongoing retailer recruitment, and retailer incentive promotions for the Club Games segment will continue in the next fiscal year.

Promotions through the online player community Player City encourage new membership and player awareness. Instant game variety, promotion of base games and retailer sales incentive bonus are all part of the strategy to grow sales.

Lottery is currently undergoing a conversion of its retailer gaming system network. The conversion has limited new game development for 2008; therefore promotions, retailer incentives and player awareness have been very important to maintain sales. This new system, expected to be completed in April 2009, will bring a state of the art gaming system to the Lottery and its retailers and includes new retailer terminals, new communications network, and all new computer systems.

The benefits will be seen in 2009 with more game flexibility, better potential for revenue generation and more efficient operations. Because of current economic conditions and generally unfavorable retail climate in Michigan, only modest sales gains are anticipated for the next fiscal year.

Awards and Acknowledgements

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended September 30, 2007. This was the third consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



Margery S. Reh
Deputy Commissioner for Administration



M. Scott Bowen
Commissioner

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Bureau of State Lottery
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

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



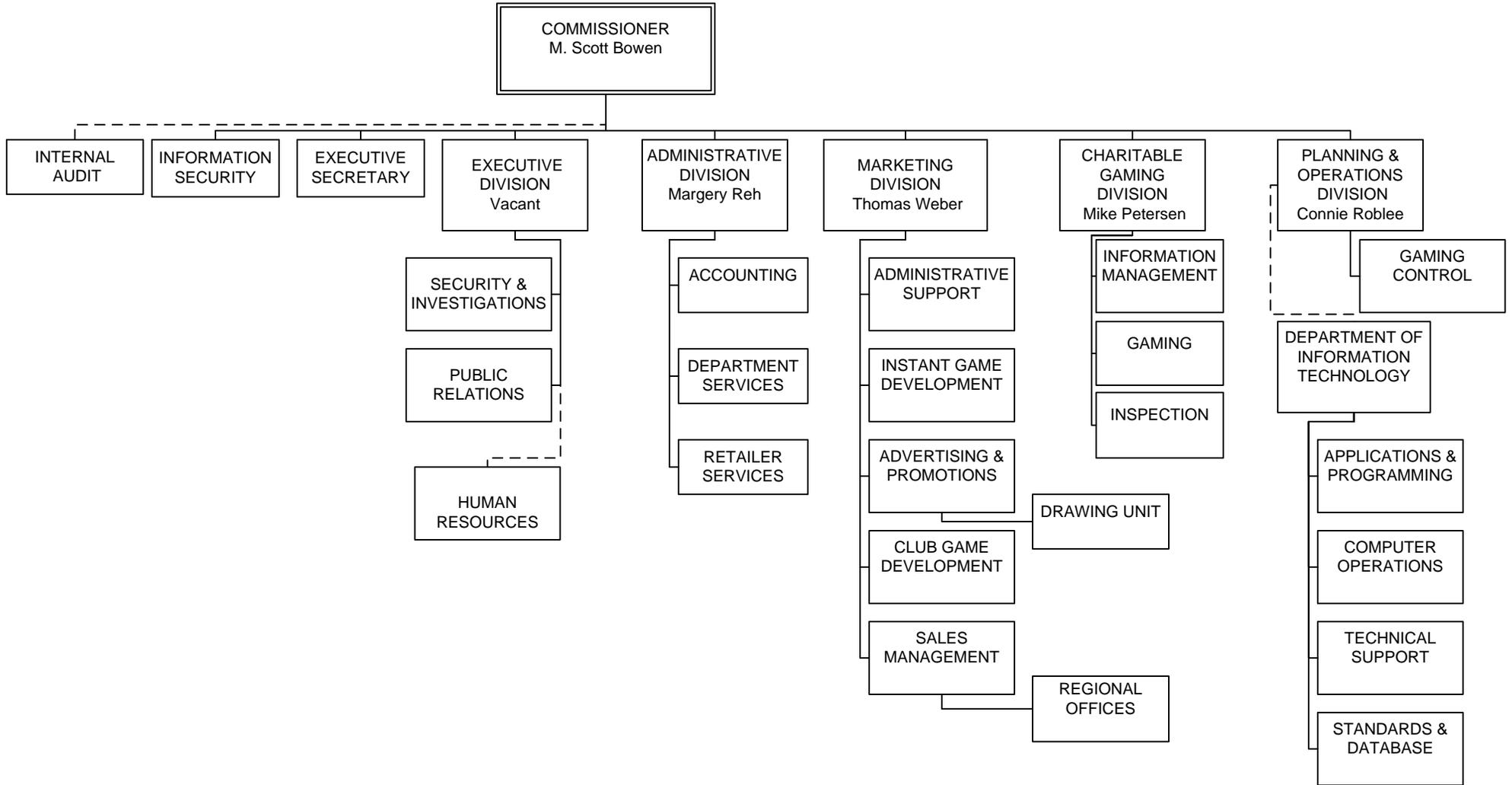
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

Bureau of State Lottery
 Organization Chart and Principal Officials
 September 2008







FINANCIAL SECTION



Thanks to our millions of loyal players!





6639 Centurion Drive, Suite 170
Lansing, MI 48917
Phone (517) 323-9500
Fax (517) 323-8360

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of the Bureau of State Lottery, State of Michigan (the "Lottery"), a proprietary fund of the State of Michigan, as of and for the six month periods and years ended, September 30, 2008 and 2007, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Bureau of State Lottery, State of Michigan, and are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of Michigan that is attributable to the Bureau of State Lottery. They do not purport to, and do not, present fairly the financial position of the State of Michigan, as of September 30, 2008 and 2007, and the changes in its financial position or where applicable, its cash flows for the years then ended in conformity accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lottery, as of September 30, 2008 and 2007, and the changes in its financial position and its cash flows for the six month periods and years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis presented on pages 13 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The introductory section on pages 1 through 9 and the statistical section on pages 45 through 61 have been furnished to us and have not been subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on the introductory or statistical sections.

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

Yeo & Yeo, P.C.

Lansing, Michigan
December 4, 2008

Management's Discussion and Analysis

The following discussion of the Michigan Bureau of State Lottery's (Lottery's) financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the financial statements, which begin on page 24.

Using This Report

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

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

Financial Highlights 2007 to 2008

- Operating revenues for Lottery gaming activities decreased by \$12.0 million, or 0.5%.
- Total revenues for all activities (including non-operating) decreased \$17.3 million or 0.7%.
- Non-operating revenues decreased by \$5.3 million. The decrease is attributable to the changing market values during 2008.
- Total operating expenses for 2008 decreased \$4.3 million, or 0.3%. Of this decrease, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities decreased by \$5.8 million, or 0.4%, retailer and vendor commissions decreased \$0.8 million, or 0.4%, while other operating expenses increased by \$1.7 million, or 3.8%.
- Total expenses (including non-operating) for all activities decreased \$26.4 million or 1.1%.
- As of September 30, 2008, Lottery's participation in the security lending program was terminated by the State Treasurer.

- Disbursements to the School Aid Fund were \$748.9 million in 2007 and \$740.7 million in 2008, a decrease of \$8.2 million or 1.1%. Net income disbursed to the General Fund related to Charitable Gaming activities decreased by \$.2 million or 1.9%.

Net Assets

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

Table 1 - Net Assets
(in millions)

	September 30,		
	2008	2007	2006
Current and other assets	\$ 152.7	\$ 515.3	\$ 546.8
Investments - noncurrent	251.5	295.5	350.8
Capital assets (net of accumulated depreciation)	0.8	0.3	0.4
Total assets	405.0	811.1	898.0
Current liabilities	146.7	509.6	543.6
Long-term liabilities	221.5	269.6	318.3
Total liabilities	368.2	779.2	861.9
Net assets			
Invested in capital assets	0.8	0.3	0.4
Restricted for unrealized gains on investments	36.8	31.9	36.1
Unrestricted (deficit)	(0.8)	(0.3)	(0.4)
Total net assets	\$ 36.8	\$ 31.9	\$ 36.1

As shown in Table 1 above, the Lottery's net assets increased from \$36.1 million in September 2006 to \$36.8 million in September 2008. The increase is attributable to the changes during 2008 in the market value of investments the Lottery holds to fund future payments due on annuitized lottery prizes.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2008, net capital assets increased by approximately \$.5 million since September 2007 and \$.4 million from September 2006. New drawing equipment and information technology equipment were purchased during 2008. Additional detailed information on capital assets may be found in Note 4 in the accompanying financial statements.

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

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

Table 2 - Liabilities
(in millions)

	September 30,		
	2008	2007	2006
Current:			
Warrants authorized and warrants outstanding	\$ 11.4	\$ 10.5	\$ 9.7
Accounts payable and other liabilities	4.7	4.8	3.3
Due to School Aid Fund	11.7	10.9	18.0
Obligation for security lending	-	364.6	391.9
Prize awards payable (net of discount)	118.9	118.8	120.7
Total current	146.7	509.6	543.6
Non-current:			
Prize awards payable (net of discount)	220.0	267.7	316.3
Compensated absences	1.5	1.9	2.0
Total non-current	221.5	269.6	318.3
Total liabilities	\$ 368.2	\$ 779.2	\$ 861.9

Non-current liabilities consist principally of prize liability for prizes paid in installments over several years. Long-term prize liability decreased by \$47.7 million from 2007 to 2008 and decreased \$96.3 million from 2006 to 2008. The decrease is attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes in all three years. Most prize winners eligible for annuity payments chose to have their payment in a lump sum rather than paid in installments. Refer to Note 6 in the accompanying financial statements for more information.

Security lending liability is identical to and directly related to security lending collateral listed in current assets. These represent short-term lending of the Lottery's securities managed by the Department of Treasury. As of September 30, 2008, Lottery's participation in the security lending program was terminated by the State Treasurer.

The amount due to School Aid Fund increased by \$0.8 million between 2007 and 2008. This is due to a timing issue and represents funds not yet disbursed to the School Aid Fund as of the end of the fiscal year.

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

Table 3 - Changes in Net Assets
(in millions)

	September 30,		
	2008	2007	2006
Operating revenues	\$ 2,351.0	\$ 2,363.0	\$ 2,232.2
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(1,323.3)	(1,329.1)	(1,268.2)
Commissions and game related expenses	(235.5)	(235.7)	(225.3)
Total prizes and direct game expenses	(1,558.8)	(1,564.8)	(1,493.5)
Income before other operating expenses	792.2	798.2	738.7
Other operating expenses	(47.0)	(45.3)	(45.3)
Operating income	745.2	752.9	693.4
Non-operating revenues and (expenses):			
Investment and interest revenues	43.0	48.3	35.1
Investment and interest expenses	(31.0)	(44.7)	(45.4)
School Aid Fund disbursement	(740.7)	(748.9)	(688.0)
General Fund disbursement	(10.6)	(10.8)	(10.5)
Community Health disbursement	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(740.3)	(757.1)	(709.8)
Change in net assets	4.9	(4.2)	(16.4)
Total net assets beginning of period	31.9	36.1	52.5
Total net assets end of period	\$ 36.8	\$ 31.9	\$ 36.1

Because the Lottery is required by law to deposit all of its net income (excluding the unrealized gain or loss on investments discussed above) to the School Aid Fund or General Fund, change in net assets does not reflect the result of the Lottery's operating activities. The \$740.7 million disbursement to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2008. There was a decrease of \$8.2 million or 1.1% from 2007 and an increase of \$52.7 million or 7.7% over 2006. The disbursement to the General Fund reflects Charitable Gaming activities. Charitable Gaming activities experienced a slight decline in net revenue for the fiscal year 2008 compared to 2007 and an increase over 2006. Charitable Gaming net income is disbursed annually to the General Fund.

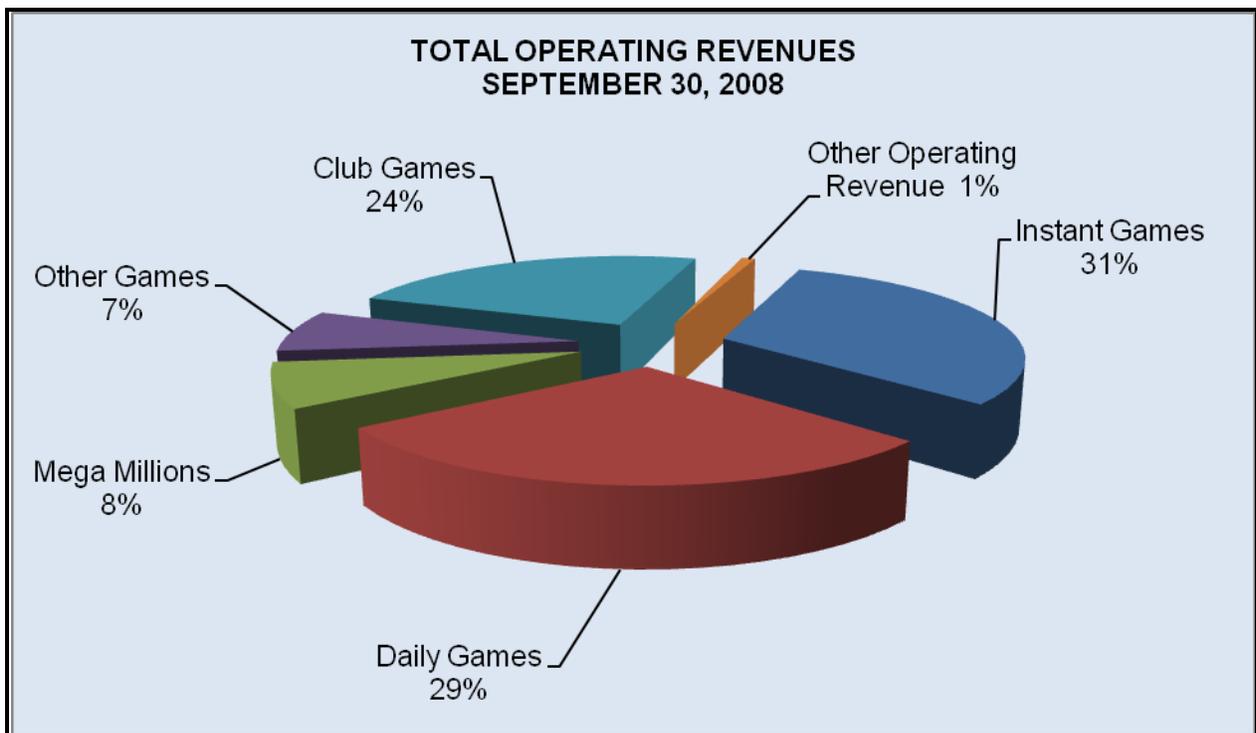
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds
(in millions)

	September 30,		
	2008	2007	2006
School Aid Fund	\$ 740.7	\$ 748.9	\$ 688.0
General Fund	10.6	10.8	10.5
Community Health	1.0	1.0	1.0
Total Disbursements to Other Funds	\$ 752.3	\$ 760.7	\$ 699.5

Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2008:



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

Table 5 - Revenues
(in millions)

	September 30,		
	2008	2007	2006
Operating revenues:			
Instant tickets	\$ 734.2	\$ 717.8	\$ 710.8
Daily games	672.4	704.2	708.7
Mega Millions	184.8	218.1	216.4
Club games	563.9	529.7	465.7
Other games	174.8	172.8	110.8
Other operating revenue	20.9	20.4	19.8
Total operating revenues	<u>2,351.0</u>	<u>2,363.0</u>	<u>2,232.2</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	4.9	(4.2)	(16.3)
Amortization on bonds	22.0	26.4	31.0
Other income	16.1	26.1	20.4
Total non-operating revenue	<u>43.0</u>	<u>48.3</u>	<u>35.1</u>
Total revenues	<u>\$ 2,394.0</u>	<u>\$ 2,411.3</u>	<u>\$ 2,267.3</u>

Operating revenues for the fiscal year 2008, primarily Lottery ticket sales, decreased from 2007 and increased over 2006. The overall sales decrease in fiscal year 2008 from 2007 was \$12.0 million or 0.5% and increased in fiscal year 2008 over 2006 by \$118.8 million or 5.3%. The Daily 3 Double and Daily 4 Double games were discontinued in March 2008 due to lack of player interest.

Instant game ticket sales increased by \$16.4 million or 2.3% for fiscal year 2008 compared to fiscal year 2007. The introduction of the new spotlight game "Million Dollar Madness" and several second chance drawing promotions has brought new excitement to the entire product line. The popular "Cashword", "Bingo Games", and "Wild Time" continued to be very successful and contributed to the increased sales in instant tickets.

Mega Millions is a multi-state game offering larger jackpots with an occasional "mega-jackpot". The sales are very dependent on large jackpot rolls (i.e. greater than \$100 million). The states participating in Mega Millions with Michigan are California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia and Washington. Sales for the fiscal year ended 2008 decreased by \$33.3 million or 15.3% compared to the fiscal year ended 2007. Sales in 2008 were \$31.6 million less than in 2006. This decrease is primarily due to fewer large jackpot rolls in 2008 compared to 2007 and 2006.

Club Games include Club Keno, Club Keno Kicker, Pull Tabs, Lucky Streak and Lucky Streak Plus. Specifically, Club Keno and Club Keno Kicker experienced solid growth with strong per terminal sales. A pilot program, Lucky Streak, was discontinued in February 2008 due to lack of player interest in this game. The Club Games sales increased in 2008 by \$34.2 million or 6.5% over 2007, and by \$98.2 million or 21.1% over 2006. Club Games were introduced October 27, 2003.

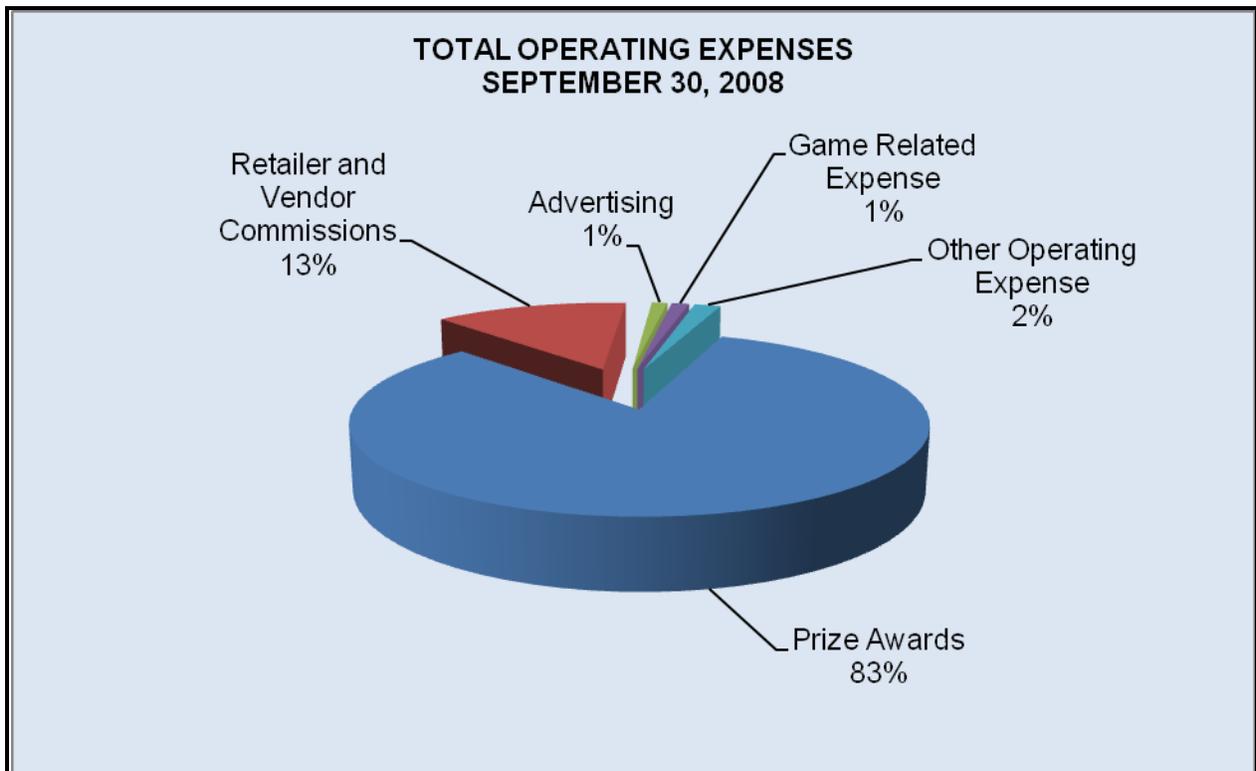
Currently there are approximately 2,474 active Club Games retailers. Club Games are primarily sold in bars and restaurants licensed for on-premise alcohol consumption. Recruitment is ongoing to continue retailer expansion into this market.

Other games consist of Classic Lotto 47, Fantasy Five, Keno and Raffle. Classic Lotto 47 enjoyed increased sales due to a large jackpot during the first six months of the year. Fantasy Five sales also increased slightly over 2007. Raffle consisted of two Millionaire Raffle drawings, a \$20 game, and two Super Raffle drawings, a \$50 game.

The decrease in non-operating revenues from 2007 to 2008 resulted from the reduction in bond amortization 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 the disbursement to the School Aid Fund. The reduction in bond amortization 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 decreased from 2007 to 2008 due to fluctuation in the market resulting in lower interest rates on common cash and also because of decreased gross security lending revenue.

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, 2008:



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

Table 6 - Expenses
(in millions)

	September 30,		
	2008	2007	2006
Prizes:			
Instant prizes	\$ 482.0	\$ 465.7	\$ 460.7
Online prizes	501.5	545.1	534.9
Club game prizes	367.2	344.5	302.9
Total prizes	<u>1,350.7</u>	<u>1,355.3</u>	<u>1,298.5</u>
Less: unclaimed prizes	27.4	26.2	30.3
Net prize awards	<u>1,323.3</u>	<u>1,329.1</u>	<u>1,268.2</u>
Direct game expenses:			
Retailer commissions	172.1	172.7	165.3
Vendor commissions	43.7	43.9	40.9
Game related expenses	19.7	19.1	19.1
Total direct game expenses	<u>235.5</u>	<u>235.7</u>	<u>225.3</u>
Other operating expenses:			
Salaries, wages and benefits	15.5	14.3	14.2
Other professional services	5.6	5.3	5.3
Printing and supplies	2.1	2.2	2.2
Other general and administrative	6.2	6.0	6.1
Advertising	17.6	17.5	17.5
Total other operating expenses	<u>47.0</u>	<u>45.3</u>	<u>45.3</u>
Total operating expenses	<u>1,605.8</u>	<u>1,610.1</u>	<u>1,538.8</u>
Non-operating expenses:			
Security lending expenses	10.3	19.8	16.0
Amortization of prize discount	20.7	24.9	29.4
School Aid Fund disbursement	740.7	748.9	688.0
General Fund disbursement	10.6	10.8	10.5
Community Health disbursement	1.0	1.0	1.0
Total non-operating expenses	<u>783.3</u>	<u>805.4</u>	<u>744.9</u>
Total expenses	<u>\$ 2,389.1</u>	<u>\$ 2,415.5</u>	<u>\$ 2,283.7</u>

The Daily Games prize payout decreased overall in 2008 compared to 2007. The Daily 3 players experienced a greater percentage of winning number combinations with a prize payout of 48.9% in 2008, compared to 48.5% in 2007 and 46.6% in 2006. The Daily 4 payout decreased to 44.9% in 2008, compared to 50.5% in 2007 and 58.8% in 2006. Daily games are designed to yield an average prize payout of 50.0% and combined the games averaged a payout of 47.0% in 2008, compared to 49.5% in 2007 and 52.2% in 2006.

The Club Games prize payout percentage increased to 65.1% in 2008, compared to 65.0% in 2007 and 65.0% for 2006. The higher Club Games payout is an important part of the appeal of this style of game in this market. The other online games have an anticipated payout between 50% and 58%.

Instant games had an overall payout of 65.7% in 2008, compared to 64.9% in 2007 and 64.8% in 2006. The games vary in payout percentage depending on selling price of a ticket for a game. Instant game prize payouts range from 60% for a \$1 game to 73% for a \$20 game. The increase in overall payout is related to increases in the prize structure in the various price payouts. The increase in instant game prize expense of 3.5% is related to the instant games sales increase and an increase in the overall payouts.

Retailer and vendor commissions have decreased commensurate with lower overall sales.

Salaries, wages and benefits increased due to a 2% salary increase for employees effective October 1, 2007, and a 2% salary increase effective April 7, 2008.

Unclaimed Prizes

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

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

Unclaimed prizes increased by \$1.2 million from 2007 to 2008.

Charitable Gaming

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

	September 30,		
	2008	2007	2006
Gross revenue	\$ 18.9	\$ 19.0	\$ 18.6
Operating expenses	(8.3)	(8.2)	(8.1)
Net income	<u>\$ 10.6</u>	<u>\$ 10.8</u>	<u>\$ 10.5</u>

Charitable Gaming activities overseen by the Lottery include the licensing and regulation of charitable and certain other not-for-profit organizations that conduct bingo games, millionaire parties and raffles for fund-raising purposes. The Lottery also oversees the distribution and sale of break-open tickets, (also for fund-raising purposes), to these same organizations.

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

Other Potentially Significant Factors Impacting Next Year

The Lottery had slightly decreased sales in 2008 due to the Michigan economy. Management anticipates steady Lottery sales in 2009. The Lottery is undergoing a gaming system conversion during fiscal year 2009. A gaming system conversion is generally done once every ten years. This will include all new retailer terminals, telecommunication system, and host central systems. This will allow the Lottery to provide the most technologically advanced service possible to our millions of players and thousands of retailers. In addition the new system is being provided at a 30% savings over the old system. This system will be totally operational by April 2009.

Contacting the Lottery's Financial Management

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



Bureau of State Lottery, State of Michigan
Statement of Net Assets
September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets		
Equity in State Treasurer's Common Cash Fund	\$ 3,509,734	\$ 4,586,019
Investments, at fair value	69,508,381	75,385,905
Security lending collateral	-	364,607,975
Accounts receivable including retailers - net	75,682,913	66,450,729
Inventory	3,851,009	4,048,567
Other current assets	163,458	163,876
Total current assets	<u>152,715,495</u>	<u>515,243,071</u>
Noncurrent assets		
Investments, at fair value	<u>251,479,279</u>	<u>295,508,199</u>
Capital assets		
Leasehold improvements and equipment	4,194,250	3,743,424
Accumulated depreciation	<u>(3,404,644)</u>	<u>(3,403,072)</u>
Total capital assets	<u>789,606</u>	<u>340,352</u>
Total noncurrent assets	<u>252,268,885</u>	<u>295,848,551</u>
Total assets	<u>404,984,380</u>	<u>811,091,622</u>
Liabilities		
Current liabilities		
Warrants outstanding	1,936,579	1,031,504
Warrants authorized	9,454,337	9,517,543
Accounts payable and other liabilities	4,730,903	4,751,860
Due to School Aid Fund	11,735,156	10,900,645
Obligations under security lending	-	364,607,975
Prize awards payable - net of discount	118,845,722	118,751,411
Total current liabilities	<u>146,702,697</u>	<u>509,560,938</u>
Noncurrent liabilities		
Prize awards payable - net of discount	220,001,247	267,719,251
Accrual for compensated absences	1,507,937	1,934,373
Total noncurrent liabilities	<u>221,509,184</u>	<u>269,653,624</u>
Total liabilities	<u>368,211,881</u>	<u>779,214,562</u>
Net assets		
Invested in capital assets	789,606	340,352
Restricted for unrealized gains on investments	36,772,499	31,877,060
Unrestricted (deficit)	<u>(789,606)</u>	<u>(340,352)</u>
Total net assets	<u>\$ 36,772,499</u>	<u>\$ 31,877,060</u>

See Accompanying Notes to Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Six Months and Years Ended September 30, 2008 and 2007

	Six Months Ended		Years Ended	
	2008	2007	2008	2007
Operating revenues				
Ticket sales	\$ 1,137,781,588	\$ 1,158,217,635	\$ 2,330,198,475	\$ 2,342,596,518
Charitable gaming and other	11,196,652	10,321,795	20,883,326	20,404,775
Total operating revenues	<u>1,148,978,240</u>	<u>1,168,539,430</u>	<u>2,351,081,801</u>	<u>2,363,001,293</u>
Operating expenses				
Prize awards	656,055,161	675,851,304	1,350,734,965	1,355,263,294
Less - unclaimed prizes	<u>(13,046,116)</u>	<u>(14,092,044)</u>	<u>(27,393,536)</u>	<u>(26,181,882)</u>
Net prize awards	643,009,045	661,759,260	1,323,341,429	1,329,081,412
Retailer and vendor commission	105,750,950	107,267,394	215,860,214	216,568,995
Game related expenses	9,909,900	9,421,144	19,651,039	19,136,199
Depreciation expense	74,064	65,567	133,693	139,961
Other operating expenses	<u>22,581,073</u>	<u>20,501,919</u>	<u>46,909,467</u>	<u>45,196,288</u>
Total operating expenses	<u>781,325,032</u>	<u>799,015,284</u>	<u>1,605,895,842</u>	<u>1,610,122,855</u>
Operating income	<u>367,653,208</u>	<u>369,524,146</u>	<u>745,185,959</u>	<u>752,878,438</u>
Non-operating revenues				
Investment revenue	582,490	12,368,976	26,963,645	22,170,828
Interest on equity in State Treasurer's Common Cash Fund	1,271,932	3,039,901	3,063,361	5,185,534
Revenue from security lending	<u>4,485,267</u>	<u>10,053,840</u>	<u>13,008,323</u>	<u>20,913,167</u>
Total non-operating revenues	<u>6,339,689</u>	<u>25,462,717</u>	<u>43,035,329</u>	<u>48,269,529</u>
Non-operating expenses				
Security lending expenses	<u>(3,470,292)</u>	<u>(9,354,930)</u>	<u>(10,261,883)</u>	<u>(19,816,414)</u>
Amortization of prize award obligation discount	<u>(9,853,702)</u>	<u>(11,909,943)</u>	<u>(20,700,446)</u>	<u>(24,883,874)</u>
Total non-operating expenses before disbursements	<u>(13,323,994)</u>	<u>(21,264,873)</u>	<u>(30,962,329)</u>	<u>(44,700,288)</u>
Disbursement to School Aid Fund	<u>(364,435,619)</u>	<u>(367,911,345)</u>	<u>(740,735,155)</u>	<u>(748,900,645)</u>
Disbursement to General Fund	<u>(5,566,185)</u>	<u>(5,470,250)</u>	<u>(10,638,365)</u>	<u>(10,758,853)</u>
Disbursement to Community Health	<u>(495,000)</u>	<u>(495,000)</u>	<u>(990,000)</u>	<u>(990,000)</u>
Total disbursements	<u>(370,496,804)</u>	<u>(373,876,595)</u>	<u>(752,363,520)</u>	<u>(760,649,498)</u>
Total non-operating expenses	<u>(383,820,798)</u>	<u>(395,141,468)</u>	<u>(783,325,849)</u>	<u>(805,349,786)</u>
Net non-operating revenue (expense)	<u>(377,481,109)</u>	<u>(369,678,751)</u>	<u>(740,290,520)</u>	<u>(757,080,257)</u>
Change in net assets	<u>(9,827,901)</u>	<u>(154,605)</u>	<u>4,895,439</u>	<u>(4,201,819)</u>
Total net assets at beginning of period	<u>46,600,400</u>	<u>32,031,665</u>	<u>31,877,060</u>	<u>36,078,879</u>
Total net assets at end of period	<u>\$ 36,772,499</u>	<u>\$ 31,877,060</u>	<u>\$ 36,772,499</u>	<u>\$ 31,877,060</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, 2008 and 2007

	Six Months Ended		Years Ended	
	2008	2007	2008	2007
Cash Flows From Operating Activities				
Cash collections from customers	\$ 1,149,427,842	\$ 1,169,095,211	\$ 2,341,729,756	\$ 2,357,674,267
Payments to employees	(7,699,745)	(6,824,062)	(15,194,996)	(14,347,084)
Payments to suppliers	(27,764,198)	(25,269,262)	(51,558,690)	(45,791,969)
Payments to prize winners	(682,038,130)	(705,051,089)	(1,391,665,568)	(1,404,491,142)
Payments for retailer commissions	(105,750,950)	(107,267,394)	(215,860,214)	(216,568,995)
Net cash provided by operating activities	326,174,819	324,683,404	667,450,288	676,475,077
Cash Flows From Noncapital Financing Activities				
Disbursement to School Aid Fund	(429,000,000)	(443,000,000)	(739,900,644)	(756,017,340)
Disbursement to General Fund	(10,638,365)	(10,758,853)	(10,638,365)	(10,758,853)
Disbursement to Community Health	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	(440,628,365)	(454,748,853)	(751,529,009)	(767,766,193)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(488,190)	(61,300)	(582,947)	(93,335)
Cash Flows From Investing Activities				
Proceeds from the sale and maturity of investment securities	39,490,028	44,400,033	76,870,089	87,130,065
Interest received	2,207,263	4,213,706	3,063,361	5,185,534
Security lending proceeds	4,714,893	9,948,645	13,008,741	20,810,615
Security lending payments	(3,470,292)	(9,354,930)	(10,261,883)	(19,816,414)
Net cash provided by investing activities	42,941,892	49,207,454	82,680,308	93,309,800
Net increase (decrease) in cash and cash equivalents	(71,999,844)	(80,919,295)	(1,981,360)	1,925,349
Cash and cash equivalents at beginning of period	73,572,999	84,473,810	3,554,515	1,629,166
Cash and cash equivalents at end of period	\$ 1,573,155	\$ 3,554,515	\$ 1,573,155	\$ 3,554,515

Continued
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, 2008 and 2007

	Six Months Ended		Years Ended	
	2008	2007	2008	2007
Reconciliation of net operating income to net cash provided by operating activities				
Operating income	\$ 367,653,208	\$ 369,524,146	\$ 745,185,959	\$ 752,878,438
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	74,064	65,567	133,693	139,961
Bad debt expense	69,461	78,122	119,861	186,909
Amortization of prize award obligation discount	(9,853,702)	(11,909,943)	(20,700,446)	(24,883,873)
Net changes in assets and liabilities:				
Inventory	223,840	1,921,692	197,558	255,911
Receivables from retailers	449,602	555,781	(9,352,045)	(5,327,026)
Warrants authorized, compensated absences, accounts payable, other liabilities	(3,266,271)	(4,170,075)	(510,599)	3,750,614
Prize awards payable	(29,175,383)	(31,381,886)	(47,623,693)	(50,525,857)
Net cash provided by operating activities	\$ 326,174,819	\$ 324,683,404	\$ 667,450,288	\$ 676,475,077
Reconciliation of cash and cash equivalents				
Cash and cash equivalents at beginning of period				
Equity in State Treasurer's Common Cash Fund	\$ 74,720,953	\$ 86,684,647	\$ 4,586,019	\$ 4,216,557
Warrants outstanding	(1,147,954)	(2,210,837)	(1,031,504)	(2,587,391)
Net cash and cash equivalents at beginning of period	\$ 73,572,999	\$ 84,473,810	\$ 3,554,515	\$ 1,629,166
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 3,509,734	\$ 4,586,019	\$ 3,509,734	\$ 4,586,019
Warrants outstanding	(1,936,579)	(1,031,504)	(1,936,579)	(1,031,504)
Net cash and cash equivalents at end of period	\$ 1,573,155	\$ 3,554,515	\$ 1,573,155	\$ 3,554,515
Schedule of noncash investing, capital, and financing activities				
Increase (Decrease) in fair value of investments	\$ (9,827,900)	\$ (154,605)	\$ 4,895,439	\$ (4,201,819)
Disbursements to other funds (accrual)	(11,735,156)	(10,900,645)	(11,735,156)	(10,900,645)
Total noncash investing, capital, and financing activities	\$ (21,563,056)	\$ (11,055,250)	\$ (6,839,717)	\$ (15,102,464)

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 participates in Mega Millions, a jointly operated multi-state lottery comprised of 12 states: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia and Washington. Net income from Mega Millions is disbursed to the School Aid Fund.

Basis of Presentation

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

Basis of Accounting

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

In accordance with Governmental Accounting Standards Board Statement 20, the Lottery has elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, to its financial statements.

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 U. S. of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 are purchased to meet future installment payments to prize winners. Gains and losses are generally not realized on investments, as it is the State Treasurer's policy to hold the Lottery's investments to maturity or liquidation. The difference between the fair value and the amortized cost is reflected as a restriction of Net Assets for unrealized gains on investments.

Inventory

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandize prizes for games that have not started as of September 30, 2008 and 2007. The inventory is valued at cost, primarily using the weighted average method.

Provision for Doubtful Accounts

The Lottery establishes an allowance for bad debt for any retailer accounts receivable greater than 90 days old. A bad debt expense is recorded when the allowance is set up for these receivables. The amount of the allowance for doubtful accounts totaled \$1,144,529 for the year ended September 30, 2008 and \$1,255,592 for the year ended September 30, 2007.

Capital Assets

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

Advance Wagers

All on line 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.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Warrants Authorized and Warrants Outstanding

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

Unclaimed Prizes

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

NOTE 2 - EQUITY IN STATE TREASURER'S COMMON CASH

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

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

Common Cash Deposits

Custodial Credit Risk

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

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

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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

Foreign Currency Risk

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

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

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

Common Cash Investments

Risk

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

Custodial Credit Risk

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

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

The counterparty or

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

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2008 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.

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

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

Interest Rate Risk

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

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

NOTE 3 - INVESTMENTS

Investments totaling \$320,987,660 at September 30, 2008, and \$370,894,104 at September 30, 2007, are in the form of U. S. Treasury zero-coupon bonds. These investments were purchased to fund future payments due to annuity prize winners. The zero-coupon bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 6. Cash receipts from the maturity of investments totaled \$76,870,089 in the year ended September 30, 2008 and \$87,130,065 in the year ended September 30, 2007.

Investments at September 30 consist of the following:

As reported on the Statement of Net Assets:	2008	2007
Current investments	\$ 69,508,381	\$ 75,385,905
Noncurrent investments	251,479,279	295,508,199
Total Investments	\$ 320,987,660	\$ 370,894,104

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. However, the Lottery had no such investments at September 30, 2008 and 2007, respectively. The Lottery has no policy, but the procedure is to invest solely in U. S. Treasury zero-coupon bonds and hold them to maturity.

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

Interest Rate Risk

Investments at September 30, 2008 consist of the following:

<u>Maturities</u> In years	<u>Investments in United States</u> <u>Treasury Zero Coupon Bonds</u>	<u>Interest Rate</u> Low to High
Less than 1	\$ 69,508,381	5.62% to 11.10%
1-5	194,936,560	5.65% to 11.10%
6-10	38,728,089	5.15% to 7.76%
11-15	10,595,861	5.14% to 6.54%
16-20	3,126,294	5.04% to 5.13%
21-26	<u>4,092,475</u>	5.00% to 5.00%
Fair Market Value	<u>\$ 320,987,660</u>	

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

Credit Risk

U. S. Treasury zero-coupon bonds are explicitly guaranteed by the U. S. government and credit quality ratings are therefore not required. The Lottery procedure to invest in this type of bond does not require a specific credit rating, but credit quality is inherently high as the bonds are explicitly guaranteed by the U. S. government.

Concentration of Credit Risk

Investments are in U. S. Treasury zero-coupon bonds which are guaranteed by the United States government. Therefore, there is no concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Lottery will not be able to recover the value of the investment or collateral securities 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 the counterparty's trust department or agent, but not in the entity's name. The Lottery had securities on loan with a market value of \$301,148,815 that were secured with an indemnification agreement and 102% collateral which is held by the State Treasurer.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Security Lending Transactions

State statutes allow the Lottery to participate in securities lending transactions; however the investments remain in the name of the Lottery and 102% collateral is required as explained below.

During the fiscal year, the agent bank lent, at the direction of the State Treasurer, the Lottery's securities and received collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: 1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of market value of the loaned securities; and 2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The Lottery did not impose any restrictions during the year on the amount of loans that the agent bank made on its behalf. The agent bank indemnified the Lottery by agreeing to purchase replacement securities, or return cash collateral in the event the borrower failed to return the loaned securities or pay distributions thereon. There was one such failure by a borrower during the fiscal year, Lehman Brothers, Inc. in September 2008. However, there were no losses during the fiscal year resulting from the default of the borrower, as the agent bank has indemnified the State and has actively been replacing all outstanding loans with Lehman Brothers.

During the fiscal year, the Lottery and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a collateral pool dedicated to the Lottery. As of September 30, 2008, such account had an average weighted maturity to next reset of 31 days and an average weighted maturity of 3.3 years. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2008, Lottery's participation in the security lending program was terminated by the State Treasurer.

Gross income from security lending for the six months and year ended September 30, 2008, with Credit Suisse was \$4,485,267 and \$13,008,323, respectively. Expenses associated with this income for the six months and year ended September 30, 2008, were \$3,256,477 and \$9,664,725, respectively, for the borrower's rebates and \$213,815 and \$597,158, respectively, for bank fees and fees paid to the agent.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Lottery had no short-term external collateral investment pool deposits subject to foreign currency risk at September 30, 2008.

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

NOTE 4 - CAPITAL ASSETS

A summary of capital asset activity for the years ended September 30, 2008 and 2007 was as follows:

<u>Period Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2008</u>				
Capital assets, being depreciated:				
Leasehold improvements	\$ 1,950,014	\$ -	\$ -	\$ 1,950,014
Equipment	1,793,410	582,947	132,121	2,244,236
Total capital assets, being depreciated	3,743,424	582,947	132,121	4,194,250
Less: accumulated depreciation				
Leasehold improvements	1,796,268	39,450	-	1,835,718
Equipment	1,606,804	94,238	132,116	1,568,926
Total accumulated depreciation	3,403,072	133,688	132,116	3,404,644
Total capital assets, being depreciated, net	<u>\$ 340,352</u>	<u>\$ 449,259</u>	<u>\$ 5</u>	<u>\$ 789,606</u>
<u>September 30, 2007</u>				
Capital assets, being depreciated:				
Leasehold improvements	\$ 1,917,979	\$ 32,035	\$ -	\$ 1,950,014
Equipment	2,101,015	61,300	368,905	1,793,410
Total capital assets, being depreciated	4,018,994	93,335	368,905	3,743,424
Less: accumulated depreciation				
Leasehold improvements	1,753,258	43,010	-	1,796,268
Equipment	1,878,758	96,934	368,888	1,606,804
Total accumulated depreciation	3,632,016	139,944	368,888	3,403,072
Total capital assets, being depreciated, net	<u>\$ 386,978</u>	<u>\$ (46,609)</u>	<u>\$ 17</u>	<u>\$ 340,352</u>

NOTE 5 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at September 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Accounts payable vendors	\$ 1,029,005	\$ 1,776,088
Retailer security deposits/accounts payable	2,184,493	2,135,325
Accrued salaries	878,940	678,160
Compensated absences	638,465	162,287
Total	<u>\$ 4,730,903</u>	<u>\$ 4,751,860</u>

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

NOTE 6 - PRIZE AWARDS

Installment prize awards are recorded at their present value using discount rates ranging from 5.0% to 8.5%. U.S. Treasury zero-coupon 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>2008</u>	<u>2007</u>
Current - at face amount	\$ 121,183,688	\$ 121,337,615
Less - unamortized discount	<u>(2,337,966)</u>	<u>(2,586,204)</u>
Current - at present value	<u>118,845,722</u>	<u>118,751,411</u>
Long-term - at face amount	305,173,156	372,993,226
Less - unamortized discount	<u>(85,171,909)</u>	<u>(105,273,975)</u>
Long-term - at present value	<u>220,001,247</u>	<u>267,719,251</u>
Total	<u><u>\$ 338,846,969</u></u>	<u><u>\$ 386,470,662</u></u>

Installment prize awards payable for the twelve-month period ending September 30,

2009	\$ 68,770,070
2010	56,996,595
2011	50,336,462
2012	41,386,733
2013	32,301,533
2014-2018	74,270,233
2019-2023	25,332,500
2024-2028	10,309,900
2029-2033	6,851,900
2034-2038	3,675,300
2039-2043	1,828,000
2044-2048	1,260,000
2049-2053	572,000
2054	52,000
Total at face amount	<u>373,943,226</u>
Less - unamortized discount	<u>(87,509,875)</u>
Total installment prize awards payable at present value	<u>286,433,351</u>
Non-installment prize awards payable	<u>52,413,618</u>
Total prize awards payable	<u><u>\$ 338,846,969</u></u>

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

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

Period Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year at Present Value
2008	\$ 341,038,617	\$ 21,350,304	\$ 75,955,570	\$ 286,433,351	\$ 66,432,104
2007	\$ 399,757,284	\$ 27,944,278	\$ 86,662,945	\$ 341,038,617	\$ 73,319,366

NOTE 7 - COMPENSATED ABSENCES

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

The State instituted a banked leave time program October 12, 2003 whereby eligible employees worked a regular schedule but received pay for a reduced number of hours. The banked leave time program was discontinued November 5, 2005. 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 401k 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, 2008.

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2008	\$ 2,096,660	\$ 923,221	\$ 873,479	\$ 2,146,402	\$ 638,465
2007	\$ 2,147,718	\$ 1,320,205	\$ 1,371,263	\$ 2,096,660	\$ 162,287

NOTE 8 - PENSION

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

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

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

The cost of these benefits is allocated to the Lottery as a percentage of gross payroll. The payroll for the Lottery employees covered by the Plan 1 and Plan 2 was approximately \$5,084,674, \$4,733,757, and \$4,667,446 for the six months ended September 30, 2008, 2007, and 2006, respectively and approximately \$9,996,799, \$9,584,885, and \$9,191,425 for the years ended September 30, 2008, 2007, and 2006, respectively. The Lottery's actuary determined contribution requirements and contributions actually made were \$1,524,955, \$971,839 and \$1,469,618 for the six month periods ended September 30, 2008, 2007, and 2006, respectively and approximately \$3,109,849, \$2,603,908, and \$2,903,256 for the years ended September 30, 2008, 2007, and 2006, respectively. Contributions represent approximately 31.1%, 27.2%, and 31.6% of annual covered payroll during 2008, 2007 and 2006, respectively.

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

NOTE 9 - LEASE AND RENTAL COMMITMENTS

The total lease payments on long-term lease commitments for years ended September 30, 2008 and 2007 were \$179,074 and \$102,224, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of building lease commitments follows:

<u>Year Ended September 30</u>	<u>Operating Leases</u>
2009	\$ 196,904
2010	198,779
2011	168,591
2012	147,029
2013	147,029
2014-2017	468,473
	<u>\$ 1,326,805</u>

The total rent and lease expenses paid for all buildings for the years ended September 30, 2008 and 2007 were \$2,717,250 and \$2,393,535, respectively.

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

NOTE 10 - TRANSACTIONS WITH OTHER STATE AGENCIES

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. Following is a summarization of these charges for the year ended September 30, 2008:

Department of Management and Budget		
Support services	\$ 191,000	
Space rental - Lottery Central, Detroit, Saginaw offices	2,496,135	
Vehicle and Travel Services	829,102	
Other - Telephone, mailing and other offices services	<u>373,253</u>	
Total Department of Management and Budget		\$ 3,889,490
Civil Service		133,747
Department of Treasury		179,806
Attorney General		203,644
Department of Information Technology (DIT)		
Direct costs	3,955,550	
Lansing Metropolitan Area Network (LMAN) and		
Unisys Platform Charges	28,297	
Michigan Gov Portal Web Charges	471,858	
Overhead	<u>223,251</u>	
Total DIT Charges		4,678,956
History, Arts, & Library		18,339
Other Agencies		<u>51,292</u>
 Total all State agencies		 <u><u>\$ 9,155,274</u></u>

NOTE 11 - RISK MANAGEMENT

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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 operation.

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2008

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 171,166,108	15.0%	\$ 346,660,743	14.9%
	Daily 3 Double	-	0.0%	581,155	0.0%
	Daily 4	158,847,936	14.0%	324,961,438	13.9%
	Daily 4 Double	-	0.0%	262,790	0.0%
	Classic Lotto 47	26,981,137	2.4%	64,128,502	2.8%
	Mega Millions	91,452,173	8.0%	184,766,268	7.9%
	Keno	6,987,343	0.6%	13,848,846	0.6%
	Fantasy Five	24,646,215	2.2%	51,322,356	2.2%
	Raffle	18,336,770	1.6%	45,545,570	2.0%
	Club Keno	195,368,214	17.2%	402,438,730	17.3%
	Club Keno Kicker	60,696,220	5.3%	124,036,562	5.3%
	Lucky Streak	-	0.0%	9,458	0.0%
	Lucky Streak Plus	-	0.0%	3,799	0.0%
	Pull-Tab tickets	17,816,088	1.6%	37,431,984	1.6%
	Instant tickets	365,483,384	32.1%	734,200,274	31.5%
Total lottery ticket sales		1,137,781,588	100.0%	2,330,198,475	100.0%
Prize awards:	Daily 3	81,817,782	7.2%	169,535,921	7.3%
	Daily 3 Double	-	0.0%	337,950	0.0%
	Daily 4	71,201,808	6.3%	145,861,784	6.3%
	Daily 4 Double	-	0.0%	140,625	0.0%
	Classic Lotto 47	14,476,005	1.3%	34,984,731	1.5%
	Mega Millions	45,333,002	4.0%	92,412,943	4.0%
	Keno	2,811,754	0.3%	5,631,367	0.3%
	Fantasy Five	12,876,605	1.1%	26,787,235	1.1%
	Raffle	10,721,239	0.9%	25,772,162	1.1%
	Club Keno	127,600,972	11.2%	263,023,527	11.3%
	Club Keno Kicker	38,750,946	3.4%	79,801,499	3.4%
	Lucky Streak	-	0.0%	2,075	0.0%
	Lucky Streak Plus	-	0.0%	1,505	0.0%
	Pull-Tab tickets	11,609,245	1.0%	24,404,293	1.0%
	Instant tickets	238,855,803	21.0%	482,037,348	20.7%
Total prize awards		656,055,161	57.7%	1,350,734,965	58.0%
Less: unclaimed prizes		(13,046,116)	-1.2%	(27,393,536)	-1.2%
Net prize awards		643,009,045	56.5%	1,323,341,429	56.8%
Gross margin		494,772,543	43.5%	1,006,857,046	43.2%
Retailer and vendor commission expense		(105,750,950)	-9.3%	(215,860,214)	-9.3%
Game related expense		(9,909,900)	-0.9%	(19,651,039)	-0.8%
Net ticket revenue		379,111,693	33.3%	771,345,793	33.1%
Other operating expense		(18,270,737)	-1.6%	(38,740,195)	-1.7%
Other miscellaneous revenue		1,246,066	0.1%	1,941,996	0.1%
Net lottery operating income		362,087,022	31.8%	734,547,594	31.5%
Charitable gaming					
Charitable gaming revenue		9,950,586	0.9%	18,941,330	0.8%
Charitable gaming expense		(4,384,400)	-0.4%	(8,302,965)	-0.3%
Net charitable gaming income		5,566,186	0.5%	10,638,365	0.5%

Continued

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2008

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses)				
Amortization expense - prize discount	(9,853,702)	-0.9%	(20,700,446)	-0.9%
Amortization revenue - investment discount	10,410,391	0.9%	22,068,206	0.9%
Unrealized gain (loss) on investments	(9,827,901)	-0.9%	4,895,439	0.2%
Interest revenue - common cash fund	1,271,932	0.1%	3,063,361	0.1%
Net security lending income	1,014,976	0.1%	2,746,440	0.1%
Disbursement to School Aid Fund	(364,435,619)	-32.0%	(740,735,155)	-31.8%
Disbursement to General Fund	(5,566,186)	-0.5%	(10,638,365)	-0.4%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	<u>(377,481,109)</u>	<u>-33.2%</u>	<u>(740,290,520)</u>	<u>-31.8%</u>
 Net income (loss)	 <u>\$ (9,827,901)</u>	 <u>-0.9%</u>	 <u>\$ 4,895,439</u>	 <u>0.2%</u>

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2007

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 179,893,279	15.5%	\$ 367,701,618	15.7%
	Daily 3 Double	696,498	0.1%	1,414,549	0.1%
	Daily 4	165,657,086	14.3%	334,506,488	14.3%
	Daily 4 Double	302,377	0.0%	619,010	0.0%
	Classic Lotto 47	29,000,409	2.5%	53,111,729	2.3%
	Mega Millions	103,458,747	8.9%	218,081,620	9.3%
	Keno	6,906,666	0.6%	14,022,008	0.6%
	Fantasy Five	25,363,533	2.2%	49,439,347	2.1%
	Raffle	34,265,360	3.0%	56,259,519	2.4%
	Club Keno	187,174,780	16.2%	380,771,482	16.3%
	Club Keno Kicker	54,446,581	4.7%	110,178,457	4.7%
	Lucky Streak	111,609	0.0%	111,609	0.0%
	Lucky Streak Plus	52,538	0.0%	52,538	0.0%
	Pull-Tab tickets	18,079,620	1.5%	38,522,948	1.6%
	Instant tickets	352,808,552	30.5%	717,803,596	30.6%
Total lottery ticket sales		1,158,217,635	100.0%	2,342,596,518	100.0%
Prize awards:	Daily 3	89,654,387	7.7%	178,136,855	7.6%
	Daily 3 Double	414,150	0.0%	828,800	0.0%
	Daily 4	84,824,005	7.3%	169,008,379	7.2%
	Daily 4 Double	184,250	0.0%	375,875	0.0%
	Classic Lotto 47	15,750,685	1.4%	29,052,105	1.2%
	Mega Millions	51,298,705	4.4%	106,715,457	4.6%
	Keno	3,028,018	0.3%	5,790,322	0.2%
	Fantasy Five	12,697,632	1.1%	24,935,816	1.1%
	Raffle	19,198,794	1.7%	30,198,794	1.3%
	Club Keno	122,454,775	10.6%	248,993,085	10.6%
	Club Keno Kicker	34,632,933	3.0%	70,373,970	3.0%
	Lucky Streak	27,330	0.0%	27,330	0.0%
	Lucky Streak Plus	29,154	0.0%	29,154	0.0%
	Pull-Tab tickets	11,788,896	1.0%	25,123,070	1.1%
	Instant tickets	229,867,590	19.8%	465,674,282	19.9%
Total prize awards		675,851,304	58.3%	1,355,263,294	57.8%
Less: unclaimed prizes		(14,092,044)	-1.2%	(26,181,882)	-1.1%
Net prize awards		661,759,260	57.1%	1,329,081,412	56.7%
Gross margin		496,458,375	42.9%	1,013,515,106	43.3%
Retailer and vendor commission expense		(107,267,394)	-9.3%	(216,568,995)	-9.2%
Game related expense		(9,421,144)	-0.8%	(19,136,199)	-0.8%
Net ticket revenue		379,769,837	32.8%	777,809,912	33.3%
Other operating expense		(16,510,055)	-1.4%	(37,188,028)	-1.8%
Other miscellaneous revenue		793,537	0.1%	1,497,701	0.1%
Net lottery operating income		364,053,319	31.5%	742,119,585	31.6%
Charitable gaming					
Charitable gaming revenue		9,528,258	0.8%	18,907,074	0.8%
Charitable gaming expense		(4,057,431)	-0.4%	(8,148,221)	-0.3%
Net charitable gaming income		5,470,827	0.4%	10,758,853	0.5%

Continued

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2007

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses)				
Amortization expense - prize discount	(11,909,943)	-1.0%	(24,883,874)	-1.0%
Amortization revenue - investment discount	12,523,581	1.0%	26,372,647	1.1%
Unrealized (loss) on investments	(154,605)	0.0%	(4,201,819)	-0.1%
Interest revenue - common cash fund	3,039,901	0.3%	5,185,534	0.2%
Net security lending income	698,910	0.1%	1,096,753	0.0%
Disbursement to School Aid Fund	(367,911,345)	-31.8%	(748,900,645)	-32.0%
Disbursement to General Fund	(5,470,250)	-0.5%	(10,758,853)	-0.5%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	<u>(369,678,751)</u>	<u>-31.9%</u>	<u>(757,080,257)</u>	<u>-32.3%</u>
 Net income (loss)	 <u>\$ (154,605)</u>	 <u>0.0%</u>	 <u>\$ (4,201,819)</u>	 <u>-0.2%</u>

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months and Years Ended September 30, 2008 and 2007

	Six Months Ended		Years Ended	
	2008	2007	2008	2007
Salaries and wages	\$ 5,106,424	\$ 4,733,757	\$ 10,034,565	\$ 9,610,353
Employee benefits and taxes	2,439,140	1,737,758	5,433,671	4,723,374
Advertising	8,100,502	7,572,524	17,631,802	17,541,733
Talent	161,629	155,058	306,099	296,132
Printing and supplies, including purchase of charitable gaming tickets	1,165,094	1,107,144	2,145,556	2,177,671
Other contractual services	2,580,656	2,370,496	5,305,480	5,037,123
Building rent and leases	1,358,126	1,194,045	2,717,250	2,393,535
Travel	510,488	400,189	954,330	890,066
Utilities	175,213	192,251	370,183	397,240
Postage	231,644	216,922	430,861	435,472
Equipment maintenance and rental	658,437	722,855	1,405,525	1,474,995
Bad debt expense	69,461	78,122	119,861	186,909
Interest paid on security deposits	24,259	20,798	54,284	31,685
Total	<u>\$ 22,581,073</u>	<u>\$ 20,501,919</u>	<u>\$ 46,909,467</u>	<u>\$ 45,196,288</u>



STATISTICAL SECTION



Thanks to our network of nearly 11,000 dedicated retailers!



Bureau of State Lottery, State of Michigan 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.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time.	47
Revenue Capacity	
This schedule and graph contains information to help the reader assess the Lottery's most significant revenue source, ticket sales.	50
<ul style="list-style-type: none"> • Instant Games – represent the face value of tickets activated by retailers. • Online Games – represents the face value of tickets sold to the public. • Club Games – represents the face value of tickets sold to the public. 	
Debt Capacity	
This schedule presents information to help the reader assess the installment prize awards liability of the Lottery. Prize liability is determined by prize structure and luck of the draw. Investments in U.S. Treasury zero-coupon bonds are purchased to meet future installment payments to prize winners.	53
Demographic and Economic Information	
These graphs offers demographic and economic indicators to help the reader understand the environment within which the Lottery's financial activities take place.	54
Operating Information	
This schedule contains service, retailer data, prize data, expenses and amounts transferred 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.	57
Industry Comparative Information	
These schedules show comparative information regarding sales, profits and expenses of all United States Lotteries.	60
Compliance Information	
Independent Auditors' Report on Internal Control	62

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2008. The Lottery implemented GASB Statement 34 in 2001; schedules include information beginning in the preceding year.





Bureau of State Lottery, State of Michigan
Financial Trends
Net Assets
Fiscal Years Ending September 30, 2001 through September 30, 2008
(In Millions)

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

Note: The Lottery implemented GASB Statement 34 in 2001; schedules include information beginning in the preceding year.

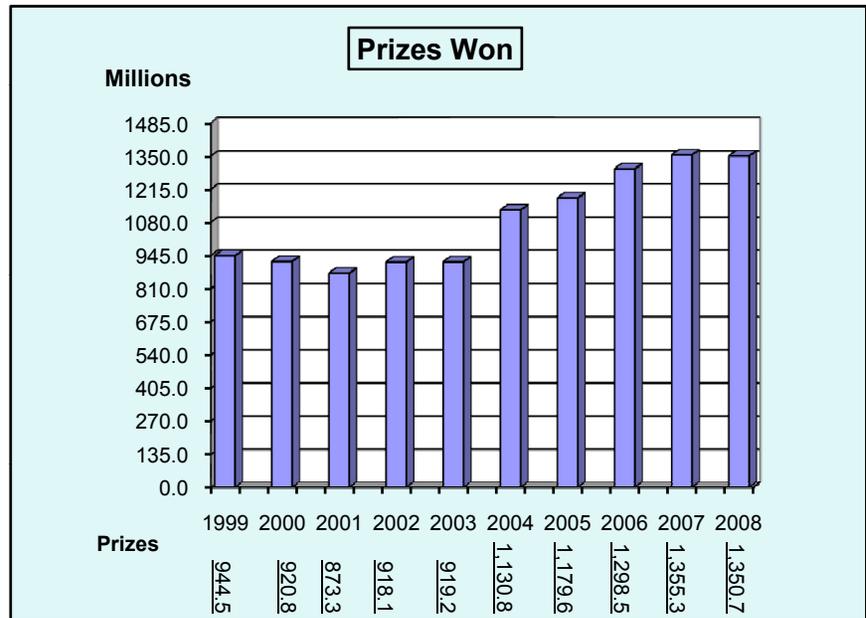
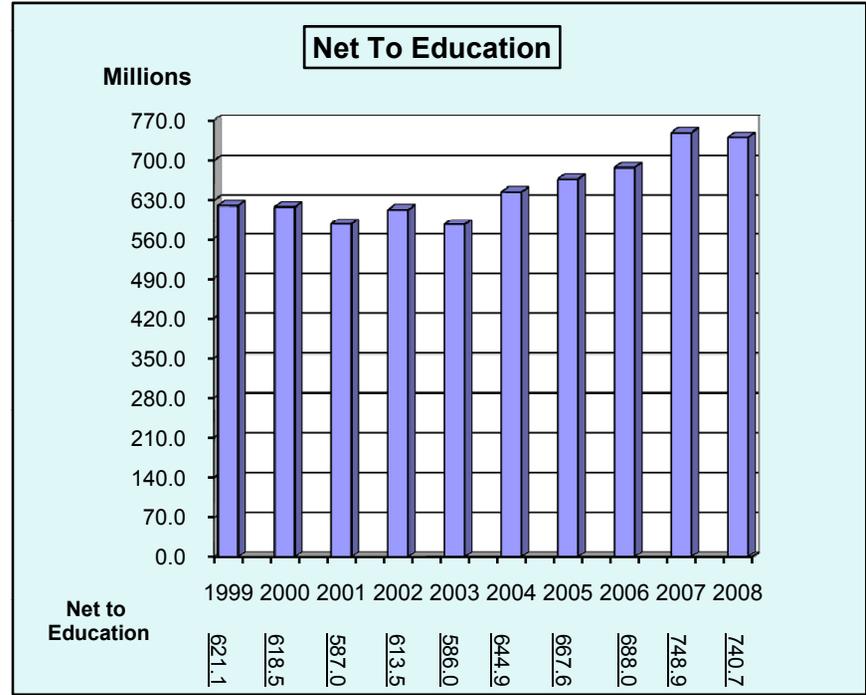


Bureau of State Lottery, State of Michigan
Financial Trends
Changes in Net Assets
Fiscal Years Ending September 30, 2001 through September 30, 2008
(In Millions)

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

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan
Financial Trends 1999 through 2008**



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, 1999 through September 30, 2008
(In Millions)

TICKET SALES	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Instant Games										
Instant Tickets	\$ 629.9	\$ 643.3	\$ 626.7	\$ 655.4	\$ 682.7	\$ 690.2	\$ 662.5	\$ 710.8	\$ 717.8	\$ 734.2
Club Games										
Club Keno, Lucky Streak						204.5	332.3	343.8	380.9	402.5
Club Keno Kicker, Lucky Streak Plus								80.3	110.3	124.0
Pull Tab Games						25.1	39.1	41.6	38.5	37.4
Total Club Games						229.6	371.4	465.7	529.7	563.9
Online Games										
Daily 3, Extra 3, Double 3	424.5	416.8	404.2	418.3	423.3	423.2	402.9	385.7	369.1	347.2
Daily 4, Extra 4, Double 4	293.9	284.7	280.6	289.2	297.2	310.2	309.7	323.0	335.1	325.2
Michigan Lotto, Michigan Millions, Michigan Classic, Michigan 4	161.5	106.2	100.0	71.7	79.3	66.6	55.7	50.7	53.1	64.1
Keno	11.6	10.7	10.1	10.3	13.5	14.9	13.5	14.6	14.0	13.9
Little Lotto: Cash Five, Michigan Rolldown, Fantasy 5 and Change Play	28.5	44.4	41.1	37.2	38.0	32.6	49.9	45.5	49.4	51.3
Raffle									56.3	45.5
Mega Millions	181.0	188.6	152.0	206.0	147.5	206.6	203.9	216.4	218.1	184.8
Total On-line	1,101.0	1,051.4	988.0	1,032.7	998.8	1,054.1	1,035.6	1,035.9	1,095.1	1,032.0
TOTAL TICKET SALES	\$ 1,730.9	\$ 1,694.7	\$ 1,614.7	\$ 1,688.1	\$ 1,681.5	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1

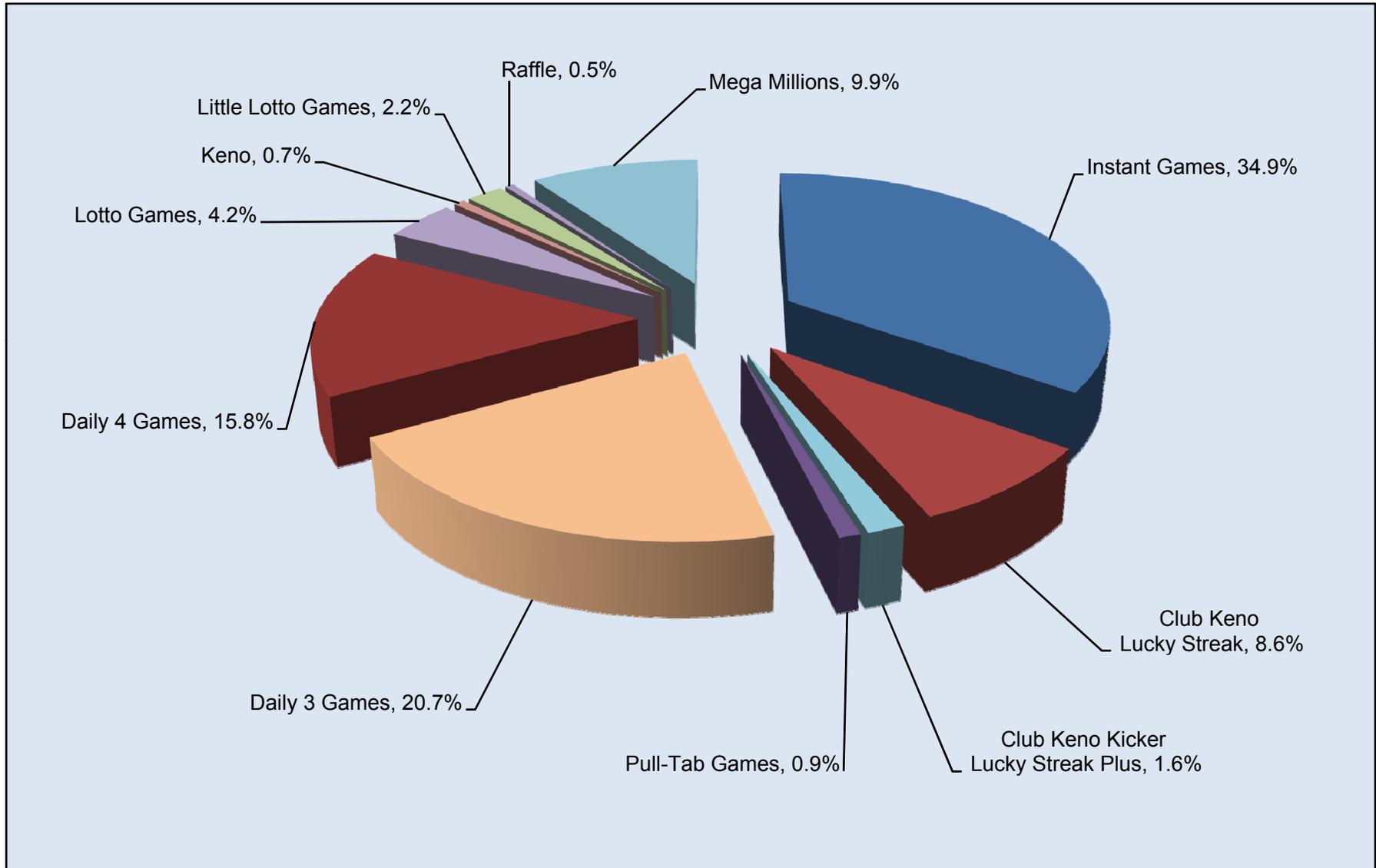
PRICE PER TICKET:

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

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

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan
Revenue Capacity
Ticket Sales 1999 through 2008**



Source: Bureau of State Lottery, State of Michigan



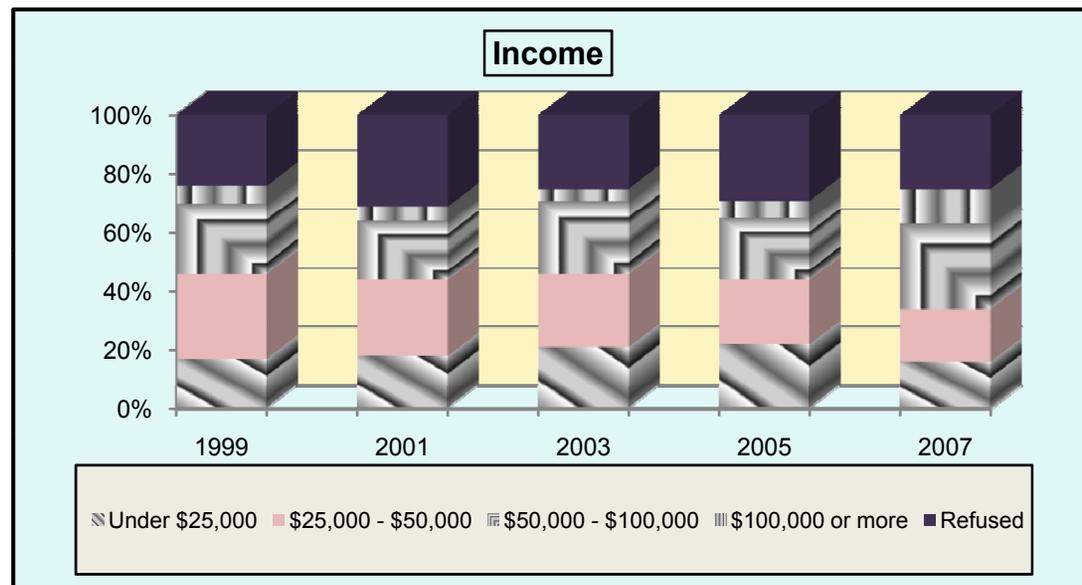
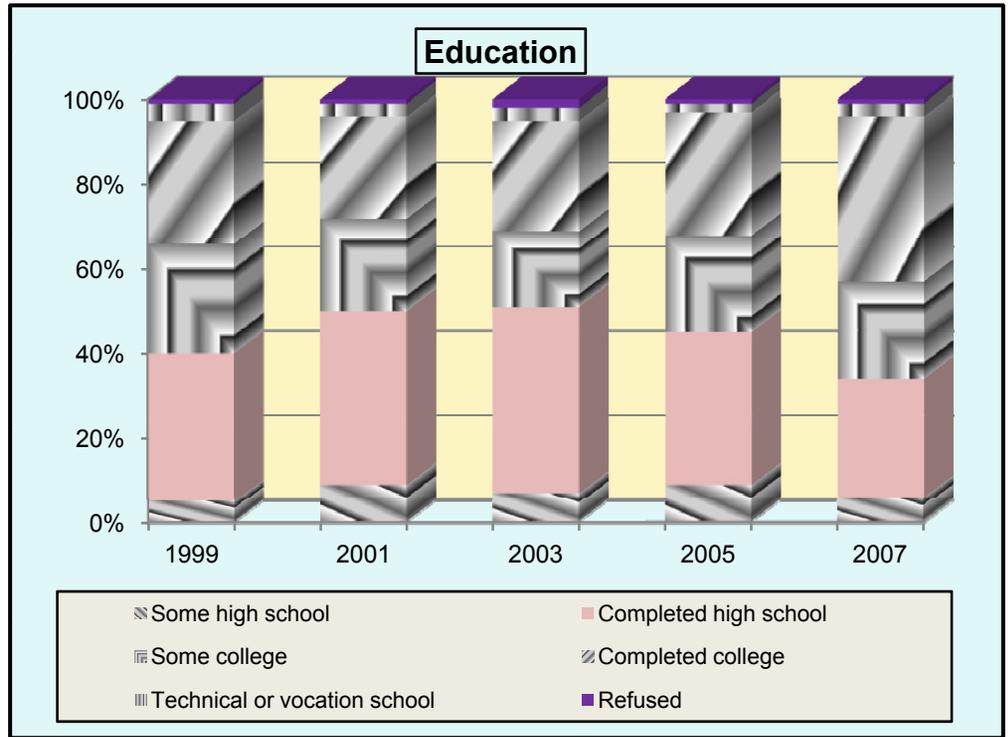
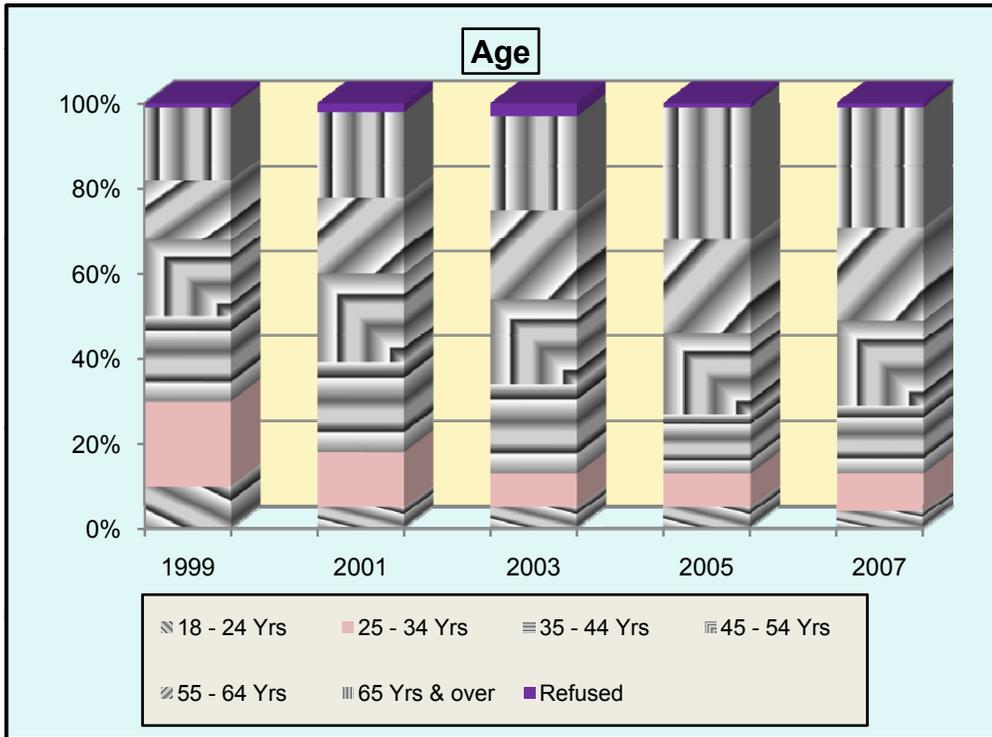


Bureau of State Lottery, State of Michigan
Debt Capacity
Ratio of Installment Prize Awards Liability
Fiscal Years Ending September 30, 1999 through September 30, 2008
(In Millions)

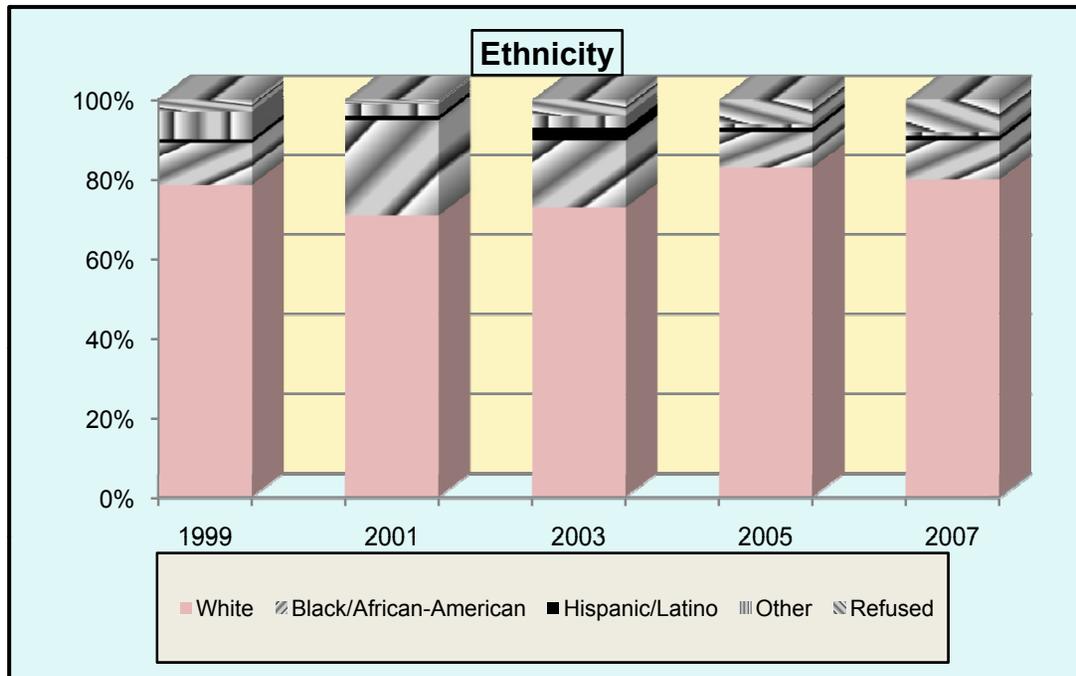
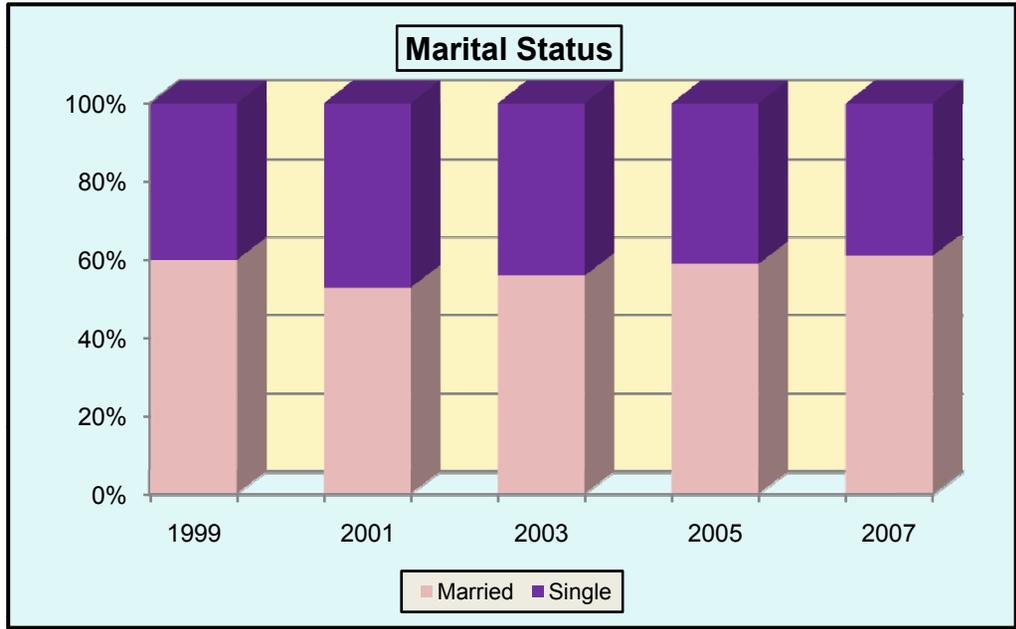
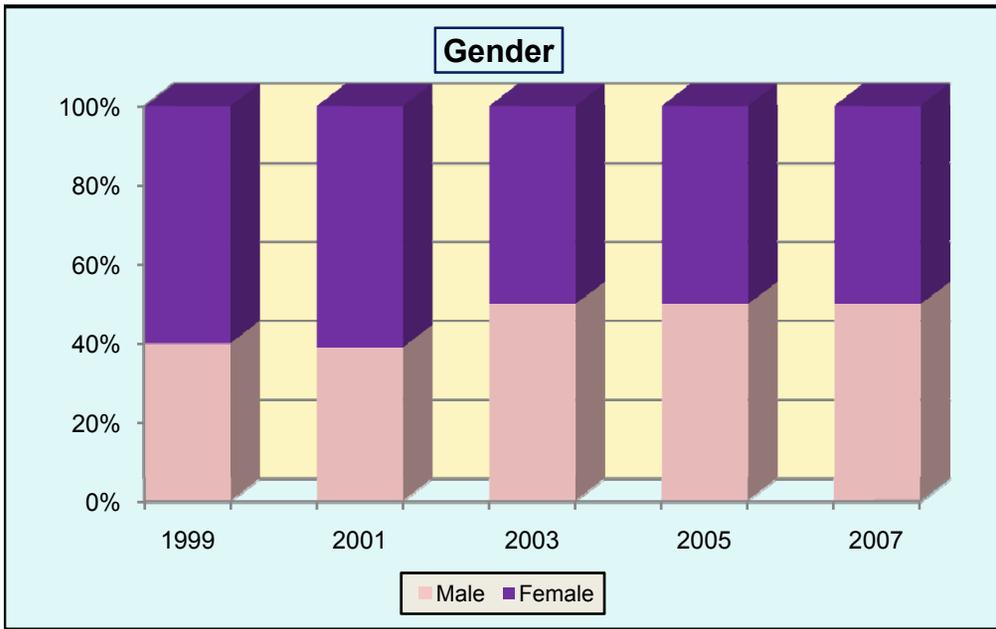
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<u>INSTALLMENT PRIZE AWARDS LIABILITY</u>										
Current - at face amount	\$ 133.2	\$ 110.4	\$ 110.1	\$ 109.8	\$ 109.6	\$ 103.4	\$ 94.7	\$ 86.5	\$ 75.9	\$ 68.8
Long-term - at face amount	<u>1,373.4</u>	<u>1,039.7</u>	<u>929.8</u>	<u>820.0</u>	<u>713.9</u>	<u>617.3</u>	<u>527.3</u>	<u>443.3</u>	<u>373.0</u>	<u>305.1</u>
Total installment prize awards	<u>\$ 1,506.6</u>	<u>\$ 1,150.1</u>	<u>\$ 1,039.9</u>	<u>\$ 929.8</u>	<u>\$ 823.5</u>	<u>\$ 720.7</u>	<u>\$ 622.0</u>	<u>\$ 529.8</u>	<u>\$ 448.9</u>	<u>\$ 373.9</u>
<u>INVESTMENTS</u>										
Face amount	<u>\$ 1,467.6</u>	<u>\$ 1,148.9</u>	<u>\$ 1,038.4</u>	<u>\$ 928.3</u>	<u>\$ 818.3</u>	<u>\$ 709.4</u>	<u>\$ 626.7</u>	<u>\$ 535.2</u>	<u>\$ 448.1</u>	<u>\$ 371.2</u>
Installment prize awards payable as a percentage of investments:	102.66%	100.10%	100.14%	100.16%	100.64%	101.59%	99.25%	98.99%	100.18%	100.73%

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 1999 though 2008**



**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 1999 through 2008**







Bureau of State Lottery, State of Michigan
Operating Information
Fiscal Years Ending September 30, 1999 through September 30, 2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of Employees	189	184	175	175	159	161	166	173	162	168
Number of Retailers										
Instant only	2,891	2,630	2,141	1,869	1,760	1,600	1,497	816	680	575
Club Games	-	-	-	-	-	1,829	2,077	2,216	2,371	2,474
Online	6,415	6,641	7,076	7,291	7,288	7,377	7,502	7,848	7,922	7,920
Total Retailers	9,306	9,271	9,217	9,160	9,048	10,806	11,076	10,880	10,973	10,969
Prize Payout Percentage	54.57%	54.33%	54.09%	54.39%	54.67%	57.29%	57.00%	58.69%	57.85%	57.97%
Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund	35.88%	36.50%	36.35%	36.35%	34.85%	32.67%	32.26%	31.10%	31.97%	31.79%
Number of Millionaire Prize Winners	15	22	18	16	11	20	21	17	42	37
Number of Prize Winners Greater than \$600	36,147	32,563	27,777	25,921	44,162	44,962	44,692	52,124	49,585	44,962

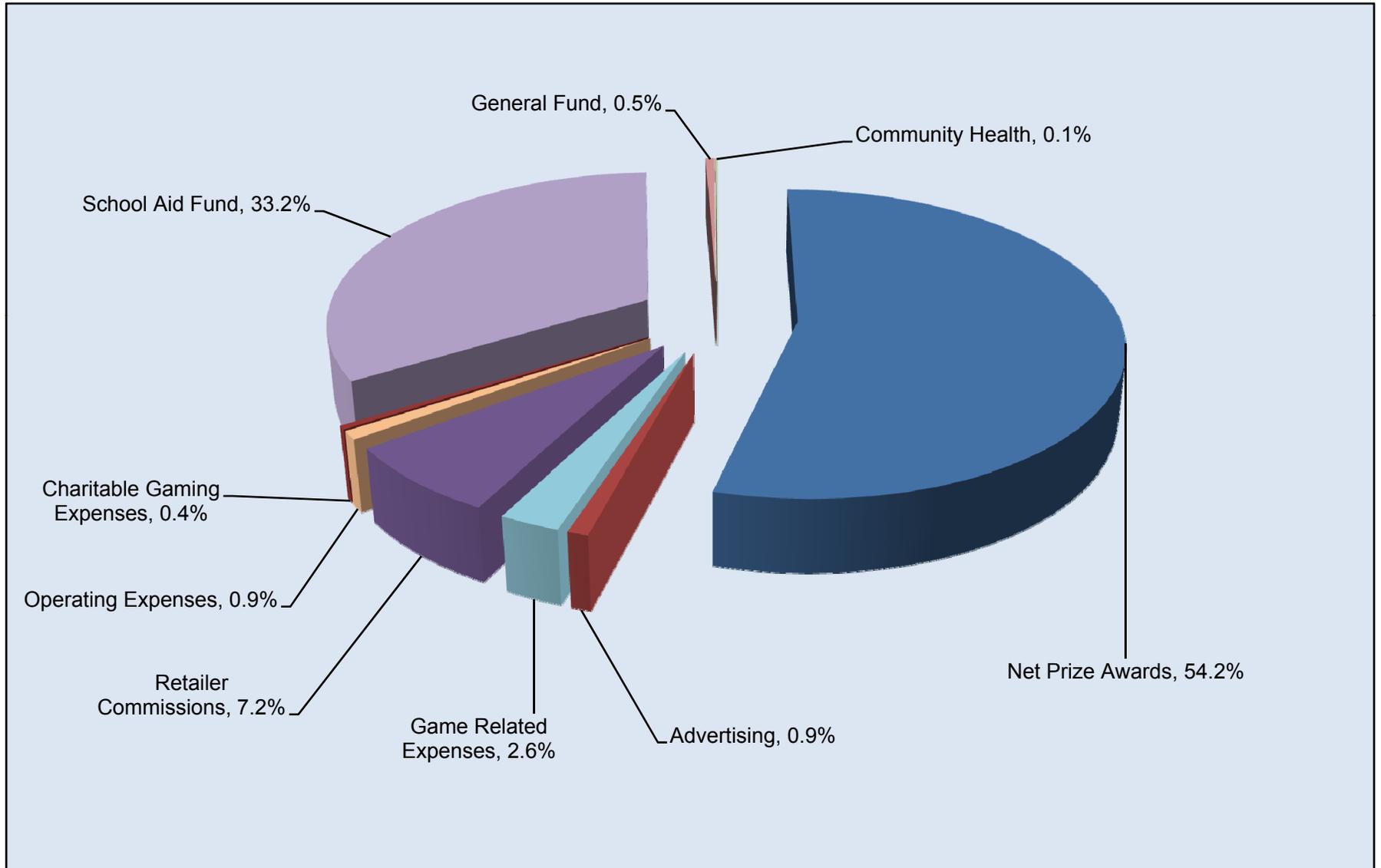
Source: Bureau of State Lottery, State of Michigan



Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements to the State's School Aid Fund, General Fund, and Community Health
Fiscal Years Ending September 30, 1999 through September 30, 2008
(In Millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EXPENSES										
Prize Awards	\$ 944.5	\$ 920.8	\$ 873.3	\$ 918.1	\$ 919.2	\$ 1,130.8	\$ 1,179.6	\$ 1,298.5	\$ 1,355.3	\$ 1,350.7
Unclaimed Prizes	<u>(20.3)</u>	<u>(26.5)</u>	<u>(23.3)</u>	<u>(44.4)</u>	<u>(19.6)</u>	<u>(31.1)</u>	<u>(17.6)</u>	<u>(30.3)</u>	<u>(26.2)</u>	<u>(27.4)</u>
Net Prize Awards	924.2	894.3	850.0	873.7	899.6	1,099.7	1,162.0	1,268.2	1,329.1	1,323.3
Advertising	15.0	17.3	16.9	17.1	17.1	17.5	17.6	17.5	17.5	17.6
Game Related Expenses	44.3	43.0	41.8	44.1	45.2	54.1	56.8	60.0	63.0	63.4
Retailer Commissions	120.8	120.4	114.9	120.7	121.8	145.4	152.7	165.3	172.7	172.1
Operating Expenses	16.0	14.5	14.7	15.3	15.3	15.9	17.9	19.7	19.6	21.1
Charitable Gaming Expenses	<u>6.5</u>	<u>6.6</u>	<u>7.4</u>	<u>7.6</u>	<u>7.9</u>	<u>7.8</u>	<u>7.9</u>	<u>8.1</u>	<u>8.2</u>	<u>8.3</u>
TOTAL EXPENSES	<u>\$ 1,126.8</u>	<u>\$ 1,096.1</u>	<u>\$ 1,045.7</u>	<u>\$ 1,078.5</u>	<u>\$ 1,106.9</u>	<u>\$ 1,340.4</u>	<u>\$ 1,414.9</u>	<u>\$ 1,538.8</u>	<u>\$ 1,610.1</u>	<u>\$ 1,605.8</u>
DISBURSEMENTS TO THE STATE										
School Aid Fund	621.1	618.5	587.0	613.5	586.0	644.9	667.6	688.0	748.9	740.7
General Fund	7.3	7.0	9.4	12.1	11.2	12.2	11.7	10.5	10.8	10.6
Community Health	<u>1.0</u>									
TOTAL DISBURSEMENTS	<u>\$ 629.4</u>	<u>\$ 626.5</u>	<u>\$ 597.4</u>	<u>\$ 626.6</u>	<u>\$ 598.2</u>	<u>\$ 658.1</u>	<u>\$ 680.3</u>	<u>\$ 699.5</u>	<u>\$ 760.7</u>	<u>\$ 752.3</u>

**Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Transfers 1999 through 2008**



Source: Bureau of State Lottery, State of Michigan

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

Fiscal Year 2007 U.S. Lottery Sales, Profit and Expense Analysis

Lottery	Pop (Mil)	Millions of Dollars							As Percentage of Revenues				PC Sales	PC Net Income
		Ticket Sales*	Other Income	Total Revenue	Prizes	Retailer Comm.	Expense	Net Income	Prizes	Retailer Comm.	Expense	Net		
Arizona	6.3	462.20	0.88	\$ 463.08	\$ 257.49	\$ 31.12	\$ 34.46	\$ 140.00	55.6%	6.7%	7.4%	30.2%	\$ 73	\$ 22
California	36.6	3,318.35	15.58	\$ 3,333.93	\$ 1,765.64	\$ 233.79	\$ 166.48	\$ 1,168.02	53.0%	7.0%	5.0%	35.0%	\$ 91	\$ 32
Colorado	4.9	455.92	2.83	\$ 458.75	\$ 276.92	\$ 33.67	\$ 29.10	\$ 119.06	60.4%	7.3%	6.3%	26.0%	\$ 94	\$ 24
Connecticut	3.5	957.03	0.18	\$ 957.21	\$ 579.85	\$ 53.60	\$ 45.43	\$ 278.33	60.6%	5.6%	4.7%	29.1%	\$ 273	\$ 80
Delaware	0.9	118.29	(0.03)	\$ 118.26	\$ 61.32	\$ 7.02	\$ 12.93	\$ 36.99	51.9%	5.9%	10.9%	31.3%	\$ 136	\$ 43
D.C.	0.6	256.82	0.94	\$ 257.76	\$ 145.34	\$ 15.99	\$ 31.01	\$ 65.43	56.4%	6.2%	12.0%	25.4%	\$ 435	\$ 111
Florida	18.3	4,122.12	4.34	\$ 4,126.45	\$ 2,484.52	\$ 234.29	\$ 151.31	\$ 1,256.33	60.2%	5.7%	3.7%	30.4%	\$ 226	\$ 69
Georgia	9.6	3,178.40	10.68	\$ 3,189.08	\$ 1,978.38	\$ 225.66	\$ 128.97	\$ 856.08	62.0%	7.1%	4.0%	26.8%	\$ 333	\$ 90
Idaho	1.5	130.53	0.28	\$ 130.81	\$ 78.88	\$ 7.66	\$ 12.77	\$ 31.50	60.3%	5.9%	9.8%	24.1%	\$ 87	\$ 21
Illinois	12.9	1,998.97	22.81	\$ 2,021.78	\$ 1,177.16	\$ 100.68	\$ 110.19	\$ 633.76	58.2%	5.0%	5.5%	31.3%	\$ 156	\$ 49
Indiana	6.4	789.05	4.50	\$ 793.55	\$ 477.81	\$ 55.08	\$ 44.68	\$ 215.98	60.2%	6.9%	5.6%	27.2%	\$ 124	\$ 34
Iowa	3.0	235.08	0.73	\$ 235.80	\$ 133.36	\$ 14.67	\$ 29.03	\$ 58.74	56.6%	6.2%	12.3%	24.9%	\$ 79	\$ 20
Kansas	2.8	240.00	1.50	\$ 241.50	\$ 134.21	\$ 13.94	\$ 22.78	\$ 70.57	55.6%	5.8%	9.4%	29.2%	\$ 86	\$ 25
Kentucky	4.2	744.22	1.05	\$ 745.28	\$ 456.37	\$ 47.73	\$ 46.30	\$ 194.88	61.2%	6.4%	6.2%	26.1%	\$ 176	\$ 46
Louisiana	4.3	354.19	2.75	\$ 356.94	\$ 179.41	\$ 19.66	\$ 29.52	\$ 128.35	50.3%	5.5%	8.3%	36.0%	\$ 83	\$ 30
Maine	1.3	230.02	2.27	\$ 232.30	\$ 143.77	\$ 16.48	\$ 20.62	\$ 51.44	61.9%	7.1%	8.9%	22.1%	\$ 174	\$ 39
Maryland	5.6	1,577.31	(2.00)	\$ 1,575.31	\$ 927.01	\$ 112.19	\$ 54.83	\$ 481.28	58.8%	7.1%	3.5%	30.6%	\$ 281	\$ 86
Massachusetts	6.5	4,436.50	24.28	\$ 4,460.78	\$ 3,225.04	\$ 251.66	\$ 91.89	\$ 892.20	72.3%	5.6%	2.1%	20.0%	\$ 688	\$ 138
Michigan	10.1	2,342.60	23.98	\$ 2,366.57	\$ 1,329.08	\$ 172.74	\$ 108.30	\$ 756.45	56.2%	7.3%	4.6%	32.0%	\$ 233	\$ 75
Minnesota	5.2	420.61	1.63	\$ 422.24	\$ 250.12	\$ 25.25	\$ 36.52	\$ 110.35	59.2%	6.0%	8.6%	26.1%	\$ 81	\$ 21
Missouri	5.9	934.27	17.46	\$ 951.73	\$ 595.02	\$ 58.26	\$ 40.92	\$ 257.53	62.5%	6.1%	4.3%	27.1%	\$ 159	\$ 44
Montana	1.0	41.56	0.26	\$ 41.83	\$ 21.42	\$ 2.47	\$ 6.53	\$ 11.42	51.2%	5.9%	15.6%	27.3%	\$ 43	\$ 12
Nebraska	1.8	114.49	0.59	\$ 115.08	\$ 65.40	\$ 7.18	\$ 13.32	\$ 29.19	56.8%	6.2%	11.6%	25.4%	\$ 64	\$ 16
New Hampshire	1.3	263.56	1.68	\$ 265.24	\$ 155.94	\$ 14.31	\$ 16.08	\$ 78.91	58.8%	5.4%	6.1%	29.8%	\$ 200	\$ 60
New Jersey	8.7	2,351.28	47.24	\$ 2,398.51	\$ 1,359.40	\$ 131.24	\$ 81.82	\$ 826.05	56.7%	5.5%	3.4%	34.4%	\$ 271	\$ 95
New Mexico	2.0	148.14	0.65	\$ 148.79	\$ 85.12	\$ 9.75	\$ 19.09	\$ 34.83	57.2%	6.6%	12.8%	23.4%	\$ 75	\$ 18
New York	19.3	6,652.44	21.54	\$ 6,673.98	\$ 3,970.74	\$ 398.44	\$ 264.12	\$ 2,040.69	59.5%	6.0%	4.0%	30.6%	\$ 345	\$ 106
North Carolina	9.1	861.67	9.13	\$ 870.80	\$ 451.79	\$ 61.93	\$ 41.71	\$ 315.37	51.9%	7.1%	4.8%	36.2%	\$ 95	\$ 35
North Dakota	0.6	22.64	0.23	\$ 22.87	\$ 11.29	\$ 1.16	\$ 3.61	\$ 6.80	49.4%	5.1%	15.8%	29.7%	\$ 35	\$ 11
Ohio	11.5	2,259.40	(41.17)	\$ 2,218.23	\$ 1,338.37	\$ 139.96	\$ 109.79	\$ 630.11	60.3%	6.3%	4.9%	28.4%	\$ 197	\$ 55
Oklahoma	3.6	215.07	6.57	\$ 221.65	\$ 115.97	\$ 13.43	\$ 15.63	\$ 76.62	52.3%	6.1%	7.1%	34.6%	\$ 59	\$ 21
Oregon	3.8	354.62	1.31	\$ 355.93	\$ 233.56	\$ 31.02	\$ 29.09	\$ 62.26	65.6%	8.7%	8.2%	17.5%	\$ 95	\$ 17
Pennsylvania	12.4	3,076.34	32.98	\$ 3,109.32	\$ 1,832.63	\$ 166.32	\$ 161.30	\$ 949.07	58.9%	5.3%	5.2%	30.5%	\$ 247	\$ 76
Rhode Island	1.1	244.85	2.64	\$ 247.48	\$ 143.89	\$ 29.83	\$ 9.63	\$ 64.13	58.1%	12.1%	3.9%	25.9%	\$ 231	\$ 61
South Carolina	4.4	988.16	4.80	\$ 992.96	\$ 600.09	\$ 70.04	\$ 45.73	\$ 277.11	60.4%	7.1%	4.6%	27.9%	\$ 224	\$ 63
South Dakota	0.8	39.81	0.67	\$ 40.48	\$ 22.32	\$ 2.18	\$ 5.33	\$ 10.65	55.1%	5.4%	13.2%	26.3%	\$ 50	\$ 13
Tennessee	6.2	1,058.13	6.17	\$ 1,064.30	\$ 584.92	\$ 69.16	\$ 52.89	\$ 357.33	55.0%	6.5%	5.0%	33.6%	\$ 172	\$ 58
Texas	23.9	3,774.18	14.36	\$ 3,788.54	\$ 2,315.31	\$ 193.17	\$ 182.61	\$ 1,097.45	61.1%	5.1%	4.8%	29.0%	\$ 158	\$ 46
Vermont	0.6	104.51	0.22	\$ 104.73	\$ 66.22	\$ 6.10	\$ 8.89	\$ 23.52	63.2%	5.8%	8.5%	22.5%	\$ 169	\$ 38
Virginia	7.7	1,362.34	11.17	\$ 1,373.51	\$ 791.79	\$ 76.48	\$ 68.06	\$ 437.18	57.6%	5.6%	5.0%	31.8%	\$ 177	\$ 57
Washington	6.5	492.59	(0.44)	\$ 492.15	\$ 304.83	\$ 31.19	\$ 42.40	\$ 113.73	61.9%	6.3%	8.6%	23.1%	\$ 76	\$ 18
West Virginia	1.8	192.65	17.96	\$ 210.60	\$ 115.79	\$ 13.47	\$ 5.44	\$ 75.90	55.0%	6.4%	2.6%	36.0%	\$ 106	\$ 42
Wisconsin	5.6	492.79	3.88	\$ 496.67	\$ 292.07	\$ 34.13	\$ 28.94	\$ 141.54	58.8%	6.9%	5.8%	28.5%	\$ 88	\$ 25
Total	283.6	52,413.7	279.1	52,692.8	\$ 31,535.6	\$ 3,234.1	\$ 2,460.1	\$ 15,463.1	Average Percentages:				\$ 185	\$ 55
									59.8%	6.1%	4.7%	29.3%		

Notes to Table: Fiscal year 2007 is latest data available. Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30).

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

Source: LaFleur's 2008 World Lottery Almanac

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

Fiscal Year 2007 U.S. Lottery Sales by Game*

(in \$millions)			Online Games										Total Sales	VLT (net) ¹	Gov't Transfer
Lottery	Pop (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Mega Millions	Power Ball	Hot Lotto	Keno	Other			
Arizona	6.3	261.02		8.93		52.41	12.57		127.28				462.20		139.92
California	36.6	1,824.36		152.38		629.43	147.44	393.61			143.18	27.95	3,318.35		1,176.93
Colorado	4.9	297.11				39.84	17.41		101.56				455.92		119.00
Connecticut	3.5	594.93		112.17	85.42	30.39	41.37		92.75				957.03		278.33
Delaware ¹	0.9	33.07		26.87	17.62	7.08			32.64			1.00	118.29	635.68	326.96
D.C.	0.6	40.40		69.76	84.61	4.40	3.65		35.75	3.54	13.44	1.29	256.82		65.38
Florida	18.3	2,283.62		348.69	225.29	735.59	326.24					202.69	4,122.12		1,263.27
Georgia	9.6	2,077.76		545.36	176.29		82.96	219.12			66.92	10.00	3,178.40		853.55
Idaho	1.5	83.20	1.24	1.42		6.37			38.29				130.53		34.00
Illinois	12.9	1,039.61		308.65	170.20	111.91	127.85	195.86				44.90	1,998.97		631.17
Indiana	6.4	510.18	15.23	29.32	28.45	69.13	6.42		118.86			11.46	789.05		217.57
Iowa	3.0	125.15	21.06	6.28	2.22		4.36		61.55	14.45			235.08		58.15
Kansas	2.8	114.70	9.40	5.60		1.70	20.00		39.40	11.50	33.60	4.10	240.00		71.02
Kentucky	4.2	439.63	18.39	116.80	35.01		14.55		108.60			11.24	744.22		196.29
Louisiana	4.3	134.65		46.34	30.51	34.79	5.12		102.79				354.19		128.23
Maine	1.3	169.47		5.36	4.29		3.87		45.37				230.02		51.44
Maryland	5.6	425.09		291.92	240.08	30.12	22.88	98.19			412.68	56.37	1,577.31		494.12
Massachusetts	6.5	3,066.44	1.33		344.16	39.36	88.43	119.79			775.49	1.51	4,436.50		920.00
Michigan	10.1	717.80	38.52	369.12	335.13	53.11	49.44	218.08			504.97	56.42	2,342.60		748.90
Minnesota	5.2	260.84		13.20			24.42		89.59	18.24		14.31	420.61		112.35
Missouri	5.9	590.05	17.41	65.09	24.02	33.96	19.68		130.80		53.27		934.27		257.88
Montana	1.0	12.41				3.16	4.67		16.98	3.90		0.45	41.56		11.42
Nebraska	1.8	59.63		2.81		2.00	12.14		37.91				114.49		29.27
New Hampshire	1.3	188.57		10.87			4.08		54.05	4.63		1.37	263.56		79.04
New Jersey	8.7	1,193.12		448.81	256.01	87.45	119.27	236.63				10.00	2,351.28		828.33
New Mexico	2.0	91.39		2.06	0.65		7.93		42.63	3.48			148.14		34.88
New York ¹	19.3	3,517.96		850.27	698.18	216.57	326.78	454.91			444.98	142.79	6,652.44	522.67	2,358.35
North Carolina	9.1	466.66		89.54			36.50		258.97			10.00	861.67		315.37
North Dakota	0.6					3.21	3.50		12.24	3.70			22.64		6.50
Ohio	11.5	1,353.80		370.90	183.00	43.60	72.90	196.10				39.10	2,259.40		669.33
Oklahoma	3.6	98.09		8.01			5.55		102.82			0.60	215.07		69.38
Oregon ¹	3.8	127.64	1.17		1.40	40.16			48.66		113.20	22.39	354.62	853.51	644.03
Pennsylvania	12.4	1,703.50		412.84	271.89	141.95	194.85		326.94			24.36	3,076.34		949.07
Rhode Island ¹	1.1	79.98		27.84			5.71		47.08		83.19	1.05	244.85	416.71	320.99
South Carolina	4.4	617.47		138.43	62.13		26.75		134.31			9.06	988.16		279.24
South Dakota ¹	0.8	18.22				2.89	2.22		12.90	3.58			39.81	222.82	121.07
Tennessee	6.2	771.13		66.29	25.30	27.82			156.85			10.74	1,058.13		294.69
Texas	23.9	2,857.50		312.68		232.51	86.30	236.79				48.41	3,774.18		1,093.02
Vermont	0.6	79.95		1.72	1.40		2.32		18.43			0.70	104.51		23.57
Virginia	7.7	698.27		265.40	179.92		27.52	171.62				19.61	1,362.34		437.18
Washington	6.5	325.20		18.98		57.11	27.37	57.20			6.74		492.59		117.89
West Virginia ¹	1.8	106.49		9.27	4.66		6.01		51.73	4.73	9.77		192.65	1,369.61	639.15
Wisconsin	5.6	280.04	4.09	25.87	11.67	28.39	51.18		88.09			3.46	492.79		160.65
Total	283.6	29,736.08	127.85	5,585.82	3,499.49	2,766.38	2,042.20	2,597.90	2,535.82	71.75	2,661.43	788.99	52,413.7	4,020.99	17,626.85
% of total		56.7%	0.2%	10.7%	6.7%	5.3%	3.9%	5.0%	4.8%	0.1%	5.1%	1.5%	100.0%		

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

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

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

We have audited the financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery") a proprietary fund of the State of Michigan, as of and for the six month period and year ended September 30, 2008, and have issued our report thereon dated December 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Yeo & Yeo, P.C.

Lansing, Michigan
December 4, 2008





Printed under the authority of PA 239, 1972 as amended.
50 copies: \$530.16, \$10.60 per copy

MICHIGAN



LOTTERY

**Bureau of State Lottery
State of Michigan
101 East Hillsdale
P.O. Box 30023
Lansing, Michigan 48909**

517-335-5600

www.michigan.gov/lottery

PLEASE PLAY RESPONSIBLY