



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended
September 30, 2009 and 2008



Bureau of State Lottery

An Enterprise Fund of the State of Michigan





BUREAU OF STATE LOTTERY

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Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2009 and 2008

Prepared by Accounting Division



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



Lottery contributions to the School Aid Fund help support our state public school programs and ensure our kids receive a quality education.





JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING



M. SCOTT BOWEN
COMMISSIONER

December 10, 2009

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, 2009 and 2008. 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 \$15.2 billion has been contributed to the School Aid Fund.

Lottery Products

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



Instant Games

Instant games are played by scratching latex covering on each ticket to reveal prize symbols. A variety of games with different themes, play styles, price points and prize structures are available with an ongoing product offering of over 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 29% 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. In 2009, two new Raffle games were introduced into the lineup. Lucky 7's Raffle, the first \$10 game, and Win for Life Raffle which offers a chance to win \$1,000 a week for life. 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 \$70 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. A new addition to Club Games in 2009 is The Jack. The Jack is a progressive jackpot game that grows with every four minute drawing. A player wins the progressive jackpot by matching all seven of their numbers with the Club Keno numbers for that drawing.

Pull Tab games are similar to instant tickets but players pull a perforated tab instead of scratching off the ticket. A variety of different Pull Tab games are offered at one time. Bar-coding was added to Pull Tab tickets in 2009, allowing players to redeem their winning tickets at any Club Games retailer. Bar-coding has enhanced accountability and control of the tickets for the retailers. Ticket prices are 50 cents, \$1 and \$2 and top prizes range from \$50 to \$2,000.



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 2009

Contribution to the School Aid Fund

The Lottery disbursed \$724.5 million to the School Aid Fund. Lottery represents a steady source of revenue for our children's schools.

Sales

Sales for 2009 surpassed \$2.3 billion for the year.

Retailers Win Big with Commissions

Retailer commissions totaled \$174.2 million in 2009.

Conversion of Retailer Gaming System Network

The new system brought a state of the art gaming system to the Lottery and its retailers and included new retailer terminals, new communications network, and all new computer systems. With the implementation of the new system retailers sell online and instant/pull tab products. There are no longer instant-only retailers.

Instant Game \$2 Million Dollar Drawings

The Lottery conducted three separate instant game \$2 million grand prize drawings in December, March, and June of fiscal 2009. 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 Pistons basketball games or the Detroit Freedom Festival 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 economic recession is having negative repercussions in all major areas: personal consumption, business investment, employment, and foreign economies. Changes have been initiated by the Federal Reserve and U.S. Treasury to increase the flow of credit and stabilize the financial markets, but it will take time for the effects of these changes to be felt throughout the U.S. economy. Michigan's economy and state revenue continues to be significantly affected by the national recession, weakened level of motor vehicle sales, tight credit conditions, poor housing market, high foreclosure rates, and the financial condition (or bankruptcy) of General Motors (GM), Chrysler, and Ford – and their suppliers. Significant restructuring, in the form of employment losses and plant closings, is expected to continue to occur in the Michigan motor vehicle sector. In September 2009, Michigan had the highest unemployment rate in the nation at the rate of 15.3% well above the national average of 9.8%.

Economists forecast job losses to slow during the balance of 2009 and expect that slow progress to continue through 2010. Jobs will continue to contract for the next two years, but only by 2.5% in the first quarter of 2010, with reductions moderating to 0.7% by the end of the year. Unemployment in Michigan is forecast to peak in 2010 at 15.8% falling to 15.1% by the end of 2011.

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, Raffle and Instant Game grand prize installment winners. These prize liabilities are funded by investments in U. S. Treasury zero-coupon bonds and State of Michigan general obligation capital appreciation bonds which are held to maturity.

Cash Management

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

Risk Management

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

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

Long-term Financial Planning

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

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.

Two new games to be introduced in 2010 are Powerball and Lucky Lines. Powerball is a multi-state game currently available in 33 lotteries and will be cross-sold in Mega Millions states beginning in early 2010. According to sales projections provided by GTECH, the Lottery can expect a major boost in revenue from the addition of a second high-jackpot game. Lucky Lines, an instant-win online game, is planned to launch in spring of 2010. Data from focus groups for the Lucky Lines game supports an overall increase in lottery spending and not a mere reallocation of dollars from existing games.

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

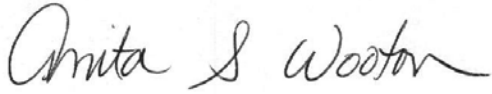
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended September 30, 2008. This was the fourth consecutive year 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,

A handwritten signature in black ink, reading "Anita S. Wooton". The signature is fluid and cursive, with the first name "Anita" being the most prominent part.

Anita S. Wooton
Deputy Commissioner for Administration

A handwritten signature in black ink, reading "M. Scott Bowen". The signature is fluid and cursive, with the first name "M. Scott" being the most prominent part.

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, 2008

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.



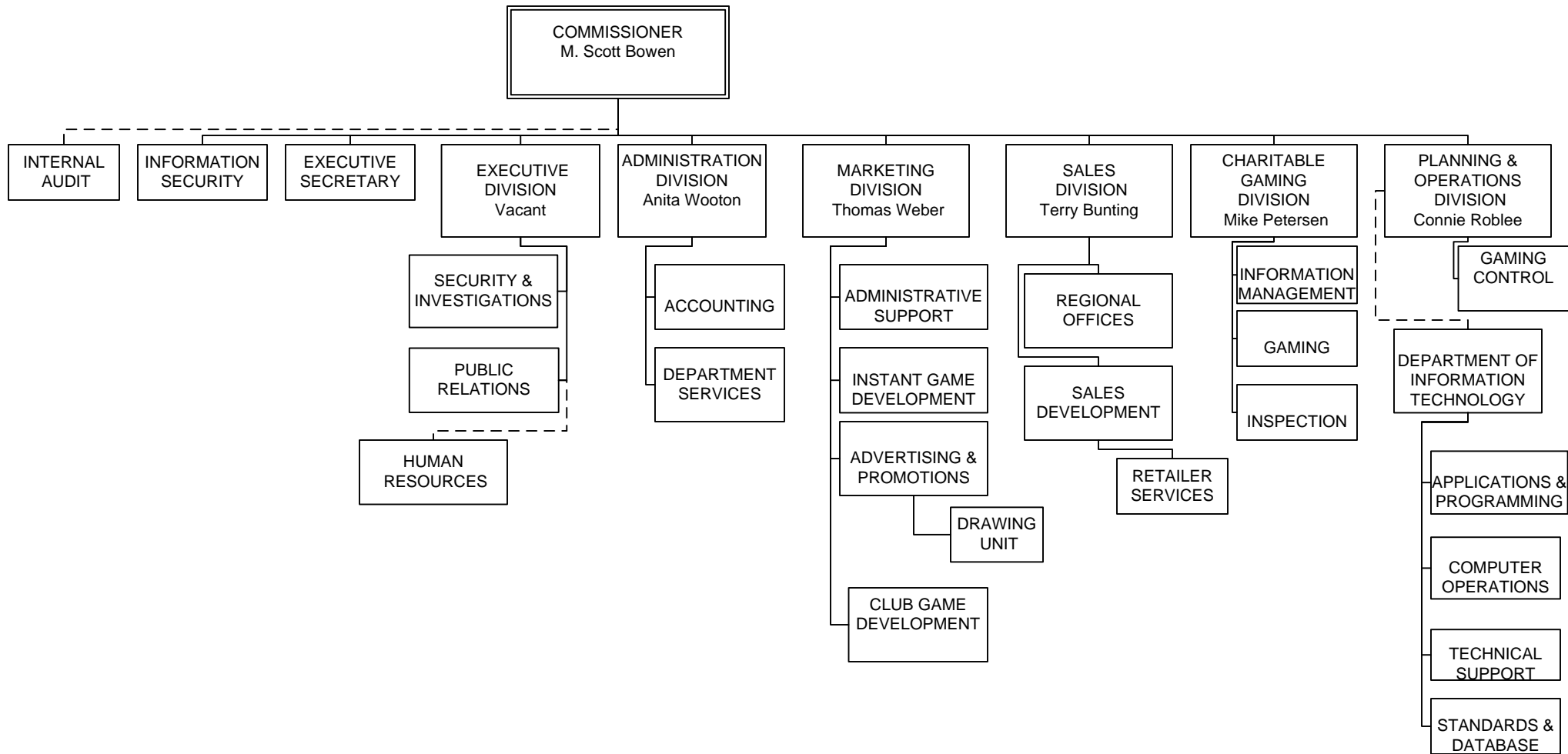
A handwritten signature in black ink, appearing to read "M. L. R.", is positioned above the title "President".

President

A handwritten signature in black ink, reading "Jeffrey R. Emer", is positioned above the title "Executive Director".

Executive Director

Bureau of State Lottery
Organization Chart and Principal Officials
September 2009



FINANCIAL SECTION



By selling or buying lottery products our retailers and winners help to strengthen our business community and reinvest in our state's economy.



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, 2009 and 2008, which collectively comprise the Lottery's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Bureau of State Lottery, State of Michigan, 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, 2009 and 2008, 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, 2009 and 2008, 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, 2009, 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 10 and the statistical section on pages 47 through 63 have been furnished to us and have not been subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on the introductory or statistical sections.

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

Yeo & Yeo, P.C.

Lansing, Michigan
December 4, 2009

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, 2009. Please read it in conjunction with the financial statements, which begin on page 24.

Using This Report

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

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

Financial Highlights

- Operating revenues for Lottery gaming activities increased by \$48.0 million, or 2.0%. Ticket sales, the primary operating revenue, strengthened during 2009 increasing by \$47.4 million.
- Total revenues for all activities (including non-operating) increased \$24.8 million or 1.0%.
- Non-operating revenues decreased by \$23.2 million. The decrease is attributable to the changing market values during 2009.
- Total operating expenses for 2009 increased \$86.5 million, or 5.4%. Of this increase, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities increased by \$84.3 million, or 6.4%, retailer and vendor commissions decreased \$6.2 million, or 2.9%, while other operating expenses increased by \$9.7 million, or 20.6%.
- Total expenses (including non-operating) for all activities increased \$58.9 million or 2.5%.

- Disbursements to the School Aid Fund were \$740.7 million in 2008 and \$724.5 million in 2009, a decrease of \$16.2 million or 2.2%. Net income disbursed to the General Fund related to Charitable Gaming activities increased by \$1.2 million or 11.3%.

Net Assets

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

Table 1 - Net Assets
(in millions)

	September 30,		
	2009	2008	2007
Current and other assets	\$ 146.2	\$ 152.7	\$ 515.3
Investments - noncurrent	211.0	251.5	295.5
Capital assets (net of accumulated depreciation)	0.7	0.8	0.3
Total assets	<u>357.9</u>	<u>405.0</u>	<u>811.1</u>
Current liabilities	133.7	146.7	509.6
Long-term liabilities	216.6	221.5	269.6
Total liabilities	<u>350.3</u>	<u>368.2</u>	<u>779.2</u>
Net assets			
Invested in capital assets	0.7	0.8	0.3
Restricted for unrealized gains on investments	7.6	36.8	31.9
Unrestricted (deficit)	(0.7)	(0.8)	(0.3)
Total net assets	<u>\$ 7.6</u>	<u>\$ 36.8</u>	<u>\$ 31.9</u>

As shown in Table 1 above, the Lottery's net assets decreased from \$31.9 million in September 2007 to \$7.6 million in September 2009. The State Treasurer, the Lottery's delegated investment fiduciary, initiated the sale of investments of U. S. Treasury zero-coupon bonds in the amount of \$249.4 million and the purchase of State of Michigan general obligation capital appreciation bonds in the amount of \$249.4 million during 2009. The decrease in net assets is attributable to the sale and repurchase of the bonds and the changes in market value of those investments that the Lottery holds to fund future payments due on annuitized lottery prizes. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2009, net capital assets decreased by approximately \$.1 million since September 2008 and increased approximately \$.4 million from September 2007. Information technology equipment was purchased during 2009. Additional detailed information on capital assets may be found in Note 4 in the accompanying financial statements.

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

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

Table 2 - Liabilities
(in millions)

	September 30,		
	2009	2008	2007
Current:			
Warrants authorized and warrants outstanding	\$ 10.7	\$ 11.4	\$ 10.5
Accounts payable and other liabilities	5.1	4.7	4.8
Due to School Aid Fund	-	11.7	10.9
Obligation for security lending	-	-	364.6
Prize awards payable (net of discount)	117.8	118.9	118.8
Total current	133.6	146.7	509.6
Non-current:			
Prize awards payable (net of discount)	215.3	220.0	267.7
Compensated absences	1.4	1.5	1.9
Total non-current	216.7	221.5	269.6
Total liabilities	\$ 350.3	\$ 368.2	\$ 779.2

Non-current liabilities consist principally of prize liability for prizes paid in installments over several years. Long-term prize liability decreased by \$4.7 million or 2.1% from 2008 to 2009 and decreased \$52.4 million or 19.6% from 2007 to 2009. 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.

On September 30, 2008, Lottery's participation in the security lending program was terminated by the State Treasurer.

The amount due to School Aid Fund decreased by \$11.7 million between 2008 and 2009. In 2008 and 2007, there was a timing issue and those amounts represent funds not yet disbursed to the School Aid Fund. In 2009, there was no timing issue therefore cash was available and all funds were disbursed.

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

Table 3 - Changes in Net Assets
(in millions)

	September 30,		
	2009	2008	2007
Operating revenues	\$ 2,399.0	\$ 2,351.0	\$ 2,363.0
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(1,407.6)	(1,323.3)	(1,329.1)
Commissions and game related expenses	(228.0)	(235.5)	(235.7)
Total prizes and direct game expenses	(1,635.6)	(1,558.8)	(1,564.8)
Income before other operating expenses	763.4	792.2	798.2
Other operating expenses	(56.7)	(47.0)	(45.3)
Operating income	706.7	745.2	752.9
Non-operating revenues and (expenses):			
Investment and interest revenues	19.8	43.0	48.3
Investment and interest expenses	(18.4)	(31.0)	(44.7)
School Aid Fund disbursement	(724.5)	(740.7)	(748.9)
General Fund disbursement	(11.8)	(10.6)	(10.8)
Community Health disbursement	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(735.9)	(740.3)	(757.1)
Change in net assets	(29.2)	4.9	(4.2)
Total net assets beginning of period	36.8	31.9	36.1
Total net assets end of period	\$ 7.6	\$ 36.8	\$ 31.9

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 \$724.5 million disbursement to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2009. There was a decrease of \$16.2 million or 2.2% from 2008 and a decrease of \$24.4 million or 3.3% over 2007. The disbursement to the General Fund reflects Charitable Gaming activities. Charitable Gaming activities experienced an increase in net revenue for the fiscal year 2009 compared to 2008 and 2007. Charitable Gaming net income is disbursed annually to the General Fund.

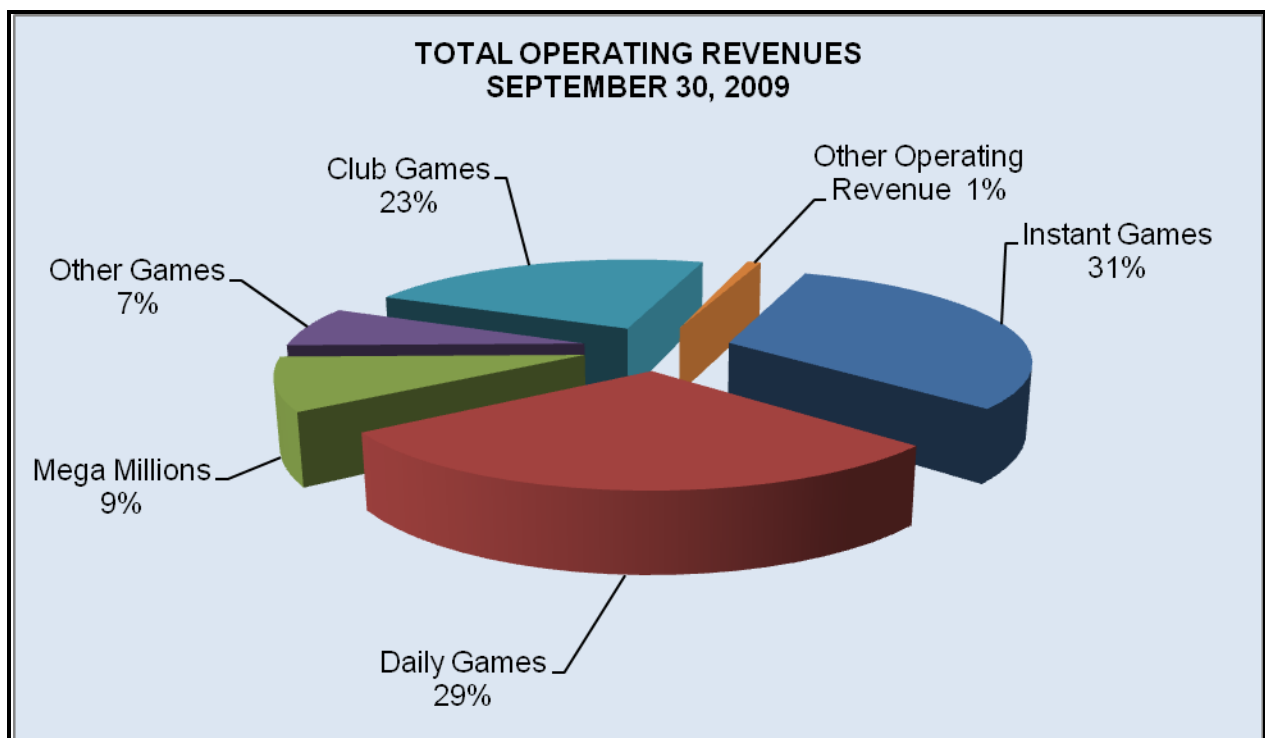
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds
(in millions)

	September 30,		
	2009	2008	2007
School Aid Fund	\$ 724.5	\$ 740.7	\$ 748.9
General Fund	11.8	10.6	10.8
Community Health	1.0	1.0	1.0
Total Disbursements to Other Funds	<u>\$ 737.3</u>	<u>\$ 752.3</u>	<u>\$ 760.7</u>

Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2009:



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

Table 5 - Revenues
(in millions)

	September 30,		
	2009	2008	2007
Operating revenues:			
Instant tickets	\$ 749.1	\$ 734.2	\$ 717.8
Daily games	686.9	672.4	704.2
Mega Millions	222.7	184.8	218.1
Club games	548.0	563.9	529.7
Other games	170.8	174.8	172.8
Other operating revenue	21.5	20.9	20.4
Total operating revenues	<u>2,399.0</u>	<u>2,351.0</u>	<u>2,363.0</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	(29.1)	4.9	(4.2)
Amortization on bonds	17.0	22.0	26.4
Other income	<u>31.9</u>	<u>16.1</u>	<u>26.1</u>
Total non-operating revenue	<u>19.8</u>	<u>43.0</u>	<u>48.3</u>
Total revenues	<u>\$ 2,418.8</u>	<u>\$ 2,394.0</u>	<u>\$ 2,411.3</u>

Operating revenues for the fiscal year 2009, primarily Lottery ticket sales, increased over 2008 and 2007. The overall revenues increase in fiscal year 2009 over 2008 was \$48.0 million or 2.0% and in fiscal year 2009 over 2007 by \$36.0 million or 1.5%.

Instant game ticket sales increased by \$14.9 million or 2.0% for fiscal year 2009 compared to fiscal year 2008. The new "spotlight" games are "Million Dollar Mega Play", "Wild Time Mania" and "Casino Game Book". A stronger marketing effort with more retailer involvement and an increase in advertising has been devoted to these games. This effort and several second chance drawing promotions has brought new excitement to the entire product line thus resulting in increased sales.

Mega Millions is a multi-state game offering larger jackpots with an occasional "mega-jackpot". The states participating in Mega Millions with Michigan are California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia and Washington. Sales for the fiscal year ended 2009 increased by \$37.9 million or 20.5% compared to the fiscal year ended 2008. Sales in 2009 were \$4.6 million more than in 2007. This increase is primarily due to more frequent large jackpot rolls (i.e. greater than \$100 million) in 2009 compared to 2008 and 2007.

Club Games include Club Keno, Club Keno Kicker, Pull Tabs, and The Jack. The Jack, a new addition to Club Keno in June 2009, is a progressive jackpot game that grows with every drawing. Pull Tab games changed in April 2009 to bar-coded tickets that allow players to redeem their winning tickets at any Club Games retailer. The Club Games sales decreased in 2009 by \$15.9 million or 2.8% from 2008, and increased by \$18.3 million or 3.5% over 2007. Club Games were introduced October 27, 2003.

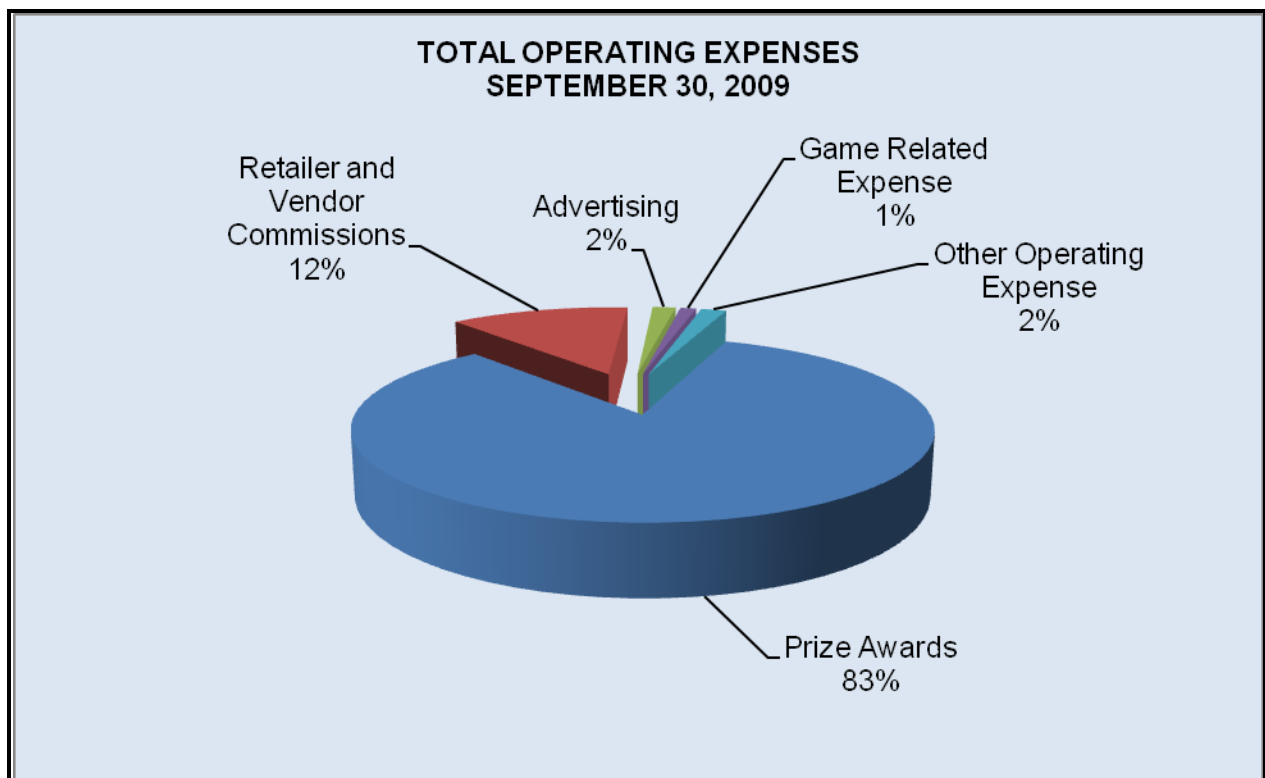
Currently there are approximately 2,478 active Club Games retailers. Club Games are primarily sold in bars and restaurants licensed for on-premise alcohol consumption. Recruitment is ongoing to continue retailer expansion into this market.

Other games consist of Classic Lotto 47, Fantasy Five, Keno and Raffle. Classic Lotto 47 enjoyed increased sales due to large jackpot rolls during 2009. Keno sales also increased slightly over 2008. Raffle consists of one Super Raffle drawing, a \$50 game and one Millionaire Raffle drawing, a \$20 game. In 2009, two new variations of Raffle were introduced. The first is Lucky 7's Raffle, a \$10 game, introduced in early March 2009 and because of its success was again back in the lineup in July 2009. The second is Win for Life, a \$20 game, introduced in May 2009 offering a top prize of \$1,000 a week for life.

The decrease in non-operating revenues from 2008 to 2009 resulted from the reduction in unrealized gain on investments and bond amortization. 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 increased from 2008 to 2009 due to the sale and purchase of investments. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

Expenses

The following chart shows prizes, game costs and other operating expenses as a percentage of total operating expenses for the fiscal year ended September 30, 2009:



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

Table 6 - Expenses
(in millions)

	September 30,		
	2009	2008	2007
Prizes:			
Instant prizes	\$ 503.1	\$ 482.0	\$ 465.7
Online prizes	577.1	501.5	545.1
Club game prizes	356.1	367.2	344.5
Total prizes	1,436.3	1,350.7	1,355.3
Less: unclaimed prizes	28.7	27.4	26.2
Net prize awards	1,407.6	1,323.3	1,329.1
Direct game expenses:			
Retailer commissions	174.2	172.1	172.7
Vendor commissions	35.4	43.7	43.9
Game related expenses	18.4	19.7	19.1
Total direct game expenses	228.0	235.5	235.7
Other operating expenses:			
Salaries, wages and benefits	16.1	15.5	14.3
Other professional services	5.9	5.6	5.3
Printing and supplies	2.3	2.1	2.2
Other general and administrative	5.4	6.2	6.0
Promotion and advertising	27.0	17.6	17.5
Total other operating expenses	56.7	47.0	45.3
Total operating expenses	1,692.3	1,605.8	1,610.1
Non-operating expenses:			
Security lending expenses	-	10.3	19.8
Amortization of prize discount	18.4	20.7	24.9
School Aid Fund disbursement	724.5	740.7	748.9
General Fund disbursement	11.8	10.6	10.8
Community Health disbursement	1.0	1.0	1.0
Total non-operating expenses	755.7	783.3	805.4
Total expenses	\$ 2,448.0	\$ 2,389.1	\$ 2,415.5

The Daily Games prize payout increased overall in 2009 compared to 2008. The Daily 3 prize payout had an increase to 54.6% in 2009, compared to 48.9% in 2008 and 48.5% in 2007. The Daily 4 payout increased to 54.4% in 2009, compared to 44.9% in 2008 and 50.5% in 2007. Daily games are designed to yield an average prize payout of 50.0% and combined the games averaged a payout of 54.5% in 2009, compared to 47.0% in 2008 and 49.5% in 2007.

The Club Games prize payout percentage decreased to 64.7% in 2009, compared to 65.1% in 2008 and 65.0% for 2007. 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 62%.

Instant games had an overall payout of 67.2% in 2009, compared to 65.7% in 2008 and 64.9% in 2007. 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 74% 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 4.4% is related to the instant games sales increase and an increase in the overall payouts.

Retailer commissions have increased commensurate with higher overall sales. Vendor commissions and game related expenses have decreased due to the new vendor contract rates effective January 20, 2009.

Other operating expenses have increased by \$9.7 million or 20.6% in 2009 due to additional marketing support promotions and advertising during the year.

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 \$1.3 million from 2008 to 2009.

Charitable Gaming

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

	September 30,		
	2009	2008	2007
Gross revenue	\$ 20.7	\$ 18.9	\$ 19.0
Operating expenses	(8.9)	(8.3)	(8.2)
Net income	<u>\$ 11.8</u>	<u>\$ 10.6</u>	<u>\$ 10.8</u>

Charitable Gaming activities overseen by the Lottery include the licensing and regulation of charitable and certain other not-for-profit organizations that conduct bingo games, millionaire parties and raffles for fund-raising purposes. Charitable Gaming revenues increased by \$1.8 million or 9.5% for fiscal year 2009 compared to fiscal year 2008. This increase is in license revenue and is attributable to the increased popularity of millionaire parties such as Texas Hold'em. 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

Management anticipates an increase in Lottery sales in 2010 with the introduction of two new online games, Powerball and Lucky Lines. As a result of an agreement between the Mega Millions consortium of 12 states and the Multi-State Lottery Association representing Powerball, both tickets will be cross-sold in all U.S. lottery jurisdictions. Powerball will be introduced early next year and is drawn on Wednesday and Saturday nights. Lucky Lines is an online instant win game that will be introduced in late spring.

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets		
Equity in State Treasurer's Common Cash Fund	\$ 23,174,823	\$ 3,509,734
Investments, at fair value	60,286,789	69,508,381
Accounts receivable including retailers - net	57,481,009	75,682,913
Inventory	5,263,188	3,851,009
Other current assets	-	163,458
	<u>146,205,809</u>	<u>152,715,495</u>
Noncurrent assets		
Investments, at fair value	211,024,177	251,479,279
Capital assets		
Leasehold improvements and equipment	4,355,093	4,194,250
Accumulated depreciation	(3,629,992)	(3,404,644)
	<u>725,101</u>	<u>789,606</u>
Total capital assets	<u>725,101</u>	<u>789,606</u>
Total noncurrent assets	<u>211,749,278</u>	<u>252,268,885</u>
Total assets	<u>357,955,087</u>	<u>404,984,380</u>
Liabilities		
Current liabilities		
Warrants outstanding	2,027,290	1,936,579
Warrants authorized	8,706,323	9,454,337
Accounts payable and other liabilities	5,105,156	4,730,903
Due to School Aid Fund	-	11,735,156
Prize awards payable - net of discount	117,821,647	118,845,722
	<u>133,660,416</u>	<u>146,702,697</u>
Total current liabilities	<u>133,660,416</u>	<u>146,702,697</u>
Noncurrent liabilities		
Prize awards payable - net of discount	215,301,727	220,001,247
Accrual for compensated absences, less current portion	1,357,222	1,507,937
	<u>216,658,949</u>	<u>221,509,184</u>
Total noncurrent liabilities	<u>216,658,949</u>	<u>221,509,184</u>
Total liabilities	<u>350,319,365</u>	<u>368,211,881</u>
Net assets		
Invested in capital assets	725,101	789,606
Restricted for unrealized gains on investments	7,635,722	36,772,499
Unrestricted (deficit)	(725,101)	(789,606)
	<u>7,635,722</u>	<u>36,772,499</u>
Total net assets	<u>\$ 7,635,722</u>	<u>\$ 36,772,499</u>

See Accompanying Notes to Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Revenues, Expenses and Changes in Net Assets
For the Six Months and Years Ended September 30, 2009 and 2008

	Six Months Ended		Years Ended	
	2009	2008	2009	2008
Operating revenues				
Ticket sales	\$ 1,175,949,739	\$ 1,137,781,588	\$ 2,377,437,183	\$ 2,330,198,475
Charitable gaming and other	10,877,668	11,196,652	21,557,466	20,883,326
Total operating revenues	1,186,827,407	1,148,978,240	2,398,994,649	2,351,081,801
Operating expenses				
Prize awards	715,172,412	656,055,161	1,436,372,709	1,350,734,965
Less - unclaimed prizes	(14,206,536)	(13,046,116)	(28,730,205)	(27,393,536)
Net prize awards	700,965,876	643,009,045	1,407,642,504	1,323,341,429
Retailer and vendor commission	100,555,694	105,750,950	209,625,888	215,860,214
Game related expenses	9,472,665	9,909,900	18,383,054	19,651,039
Depreciation expense	114,147	74,064	225,348	133,693
Other operating expenses	26,387,126	22,581,073	56,432,599	46,909,467
Total operating expenses	837,495,508	781,325,032	1,692,309,393	1,605,895,842
Operating income	349,331,899	367,653,208	706,685,256	745,185,959
Non-operating revenues				
Investment revenue	(786,931)	582,490	18,729,006	26,963,645
Interest on equity in State				
Treasurer's Common Cash Fund	439,837	1,271,932	1,081,202	3,063,361
Revenue from security lending	-	4,485,267	-	13,008,323
Total non-operating revenues	(347,094)	6,339,689	19,810,208	43,035,329
Non-operating expenses				
Security lending expenses	(3,752)	(3,470,292)	(6,592)	(10,261,883)
Amortization of prize award obligation discount	(8,821,966)	(9,853,702)	(18,401,696)	(20,700,446)
Total non-operating expenses before disbursements	(8,825,718)	(13,323,994)	(18,408,288)	(30,962,329)
Disbursement to School Aid Fund	(372,432,868)	(364,435,619)	(724,469,621)	(740,735,155)
Disbursement to General Fund	(5,832,314)	(5,566,185)	(11,764,332)	(10,638,365)
Disbursement to Community Health	(495,000)	(495,000)	(990,000)	(990,000)
Total disbursements	(378,760,182)	(370,496,804)	(737,223,953)	(752,363,520)
Total non-operating expenses	(387,585,900)	(383,820,798)	(755,632,241)	(783,325,849)
Net non-operating revenue (expense)	(387,932,994)	(377,481,109)	(735,822,033)	(740,290,520)
Change in net assets	(38,601,095)	(9,827,901)	(29,136,777)	4,895,439
Total net assets at beginning of period	46,236,817	46,600,400	36,772,499	31,877,060
Total net assets at end of period	\$ 7,635,722	\$ 36,772,499	\$ 7,635,722	\$ 36,772,499

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, 2009 and 2008

	Six Months Ended		Years Ended	
	2009	2008	2009	2008
Cash Flows From Operating Activities				
Cash collections from customers	\$ 1,213,952,810	\$ 1,149,427,842	\$ 2,416,861,480	\$ 2,341,729,756
Payments to employees	(7,905,827)	(7,699,745)	(15,898,979)	(15,194,996)
Payments to suppliers	(36,071,409)	(27,764,198)	(60,518,257)	(51,558,690)
Payments to prize winners	(725,866,573)	(682,038,130)	(1,431,767,794)	(1,391,665,568)
Payments for retailer and vendor commissions	(100,555,694)	(105,750,950)	(209,625,888)	(215,860,214)
Net cash provided by operating activities	343,553,307	326,174,819	699,050,562	667,450,288
Cash Flows From Noncapital Financing Activities				
Disbursement to School Aid Fund	(444,469,621)	(429,000,000)	(736,204,776)	(739,900,644)
Disbursement to General Fund	(11,764,332)	(10,638,365)	(11,764,332)	(10,638,365)
Disbursement to Community Health	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	(457,223,953)	(440,628,365)	(748,959,108)	(751,529,009)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(146,235)	(488,190)	(160,843)	(582,947)
Cash Flows From Investing Activities				
Proceeds from the sale and maturity of investment securities	252,701,117	39,490,028	286,056,130	76,870,089
Purchase of investments	(193,694,878)	-	(217,650,431)	-
Interest received	673,561	2,207,263	1,081,202	3,063,361
Security lending proceeds	-	4,714,893	163,458	13,008,741
Security lending payments	(3,752)	(3,470,292)	(6,592)	(10,261,883)
Net cash provided by investing activities	59,676,048	42,941,892	69,643,767	82,680,308
Net increase (decrease) in cash and cash equivalents	(54,140,833)	(71,999,844)	19,574,378	(1,981,360)
Cash and cash equivalents at beginning of period	75,288,366	73,572,999	1,573,155	3,554,515
Cash and cash equivalents at end of period	\$ 21,147,533	\$ 1,573,155	\$ 21,147,533	\$ 1,573,155

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2009 and 2008

	Six Months Ended		Years Ended	
	2009	2008	2009	2008
Reconciliation of net operating income to net cash provided by operating activities				
Operating income	\$ 349,331,899	\$ 367,653,208	\$ 706,685,256	\$ 745,185,959
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	114,147	74,064	225,348	133,693
Bad debt expense	166,263	69,461	335,072	119,861
Amortization of prize award obligation discount	(8,821,966)	(9,853,702)	(18,401,696)	(20,700,446)
Net changes in assets and liabilities:				
Inventory	(956,667)	223,840	(1,412,179)	197,558
Receivables from retailers	27,125,403	449,602	17,866,831	(9,352,045)
Warrants authorized, compensated absences, accounts payable, other liabilities	(7,327,041)	(3,266,271)	(524,476)	(510,599)
Prize awards payable	(16,078,731)	(29,175,383)	(5,723,594)	(47,623,693)
Net cash provided by operating activities	\$ 343,553,307	\$ 326,174,819	\$ 699,050,562	\$ 667,450,288
Reconciliation of cash and cash equivalents				
Cash and cash equivalents at beginning of period				
Equity in State Treasurer's Common Cash Fund	\$ 77,806,035	\$ 74,720,953	\$ 3,509,734	\$ 4,586,019
Warrants outstanding	(2,517,669)	(1,147,954)	(1,936,579)	(1,031,504)
Net cash and cash equivalents at beginning of period	\$ 75,288,366	\$ 73,572,999	\$ 1,573,155	\$ 3,554,515
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 23,174,823	\$ 3,509,734	\$ 23,174,823	\$ 3,509,734
Warrants outstanding	(2,027,290)	(1,936,579)	(2,027,290)	(1,936,579)
Net cash and cash equivalents at end of period	\$ 21,147,533	\$ 1,573,155	\$ 21,147,533	\$ 1,573,155
Schedule of noncash investing, capital, and financing activities				
Increase (decrease) in fair value of investments	\$ (7,822,688)	\$ (9,827,900)	\$ 1,641,631	\$ 4,895,439
Disbursements to other funds (accrual)	-	(11,735,156)	-	(11,735,156)
Total noncash investing, capital, and financing activities	\$ (7,822,688)	\$ (21,563,056)	\$ 1,641,631	\$ (6,839,717)

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

Revenue Recognition

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Statement of Cash Flows

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

Use of Estimates

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

Equity in State Treasurer's Common Cash Fund

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

Investment policies and risk categorization are included in the State of Michigan's comprehensive annual financial report.

Investments

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

Inventory

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandise prizes for games that have not started as of September 30, 2009 and 2008. 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 \$1,417,419 for the year ended September 30, 2009 and \$1,144,529 for the year ended September 30, 2008.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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.

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 and pull tab tickets. All unclaimed prizes are disbursed to the state School Aid Fund as provided by state statute. Unclaimed prizes amount to \$28,730,205 and \$27,393,536 for the fiscal years ended September 30, 2009 and 2008, respectively.

Net Assets

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

NOTE 2 - EQUITY IN STATE TREASURER'S COMMON CASH

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

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

Common Cash Deposits

Custodial Credit Risk

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

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

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

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

Foreign Currency Risk

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

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

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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, 2009 Common Cash investments were not exposed to custodial credit risk.

Credit Risk

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

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

Interest Rate Risk

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

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

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

NOTE 3 - INVESTMENTS

Investments totaling \$271,310,966 at September 30, 2009, and \$320,987,660 at September 30, 2008, are in the form of U. S. Treasury zero-coupon bonds and State of Michigan general obligation capital appreciation bonds, series 2009b (Michigan CAB bonds). In May 2009, forty U. S. Treasury zero-coupon bonds were sold and forty Michigan CAB bonds were purchased. These investments were purchased to fund future payments due to annuity prize winners. The bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 6. Cash receipts from the maturity of investments totaled \$69,980,014 in the year ended September 30, 2009 and \$76,870,089 in the year ended September 30, 2008.

Investments at September 30 consist of the following:

	<u>2009</u>	<u>2008</u>
U. S. Treasury zero-coupon bonds	\$ 74,569,229	\$ 320,987,660
Michigan CAB bonds	<u>196,741,737</u>	<u>-</u>
Total Investments	<u><u>\$ 271,310,966</u></u>	<u><u>\$ 320,987,660</u></u>

As reported on the Statement of Net Assets:

	<u>2009</u>	<u>2008</u>
Current investments	\$ 60,286,789	\$ 69,508,381
Noncurrent investments	<u>211,024,177</u>	<u>251,479,279</u>
Total Investments	<u><u>\$ 271,310,966</u></u>	<u><u>\$ 320,987,660</u></u>

Policy Disclosures

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

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Interest Rate Risk

Investments at September 30, 2009 consist of the following:

Maturities in Years	Investments in United States Treasury Zero-Coupon Bonds	Interest Rate Low to High	Investments in Michigan CAB Bonds	Interest Rate Low to High
Less than 1	\$ 15,640,518	1.36% to 8.05%	\$ 44,646,271	1.92% to 2.29%
1-5	35,487,106	1.61% to 7.16%	125,166,824	2.51% to 5.61%
6-10	12,518,409	4.07% to 7.19%	17,519,518	5.62% to 7.65%
11-15	4,713,031	4.79% to 4.99%	5,965,990	7.88% to 8.29%
16-20	3,724,291	4.55% to 4.84%	3,443,134	8.31% to 8.39%
21-26	2,485,874	4.35% to 4.53%	-	-
Fair Market Value	<u>\$ 74,569,229</u>		<u>\$ 196,741,737</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

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. The Lottery's policy is that all long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase unless specific requirements are met. U. S. Treasury zero-coupon bonds are explicitly guaranteed by the U. S. government and credit quality ratings are therefore not required. The Lottery procedure to invest in this type of bond does not require a specific credit rating, but credit quality is inherently high as the bonds are explicitly guaranteed by the U. S. government. As of September 30, 2009, the Lottery's investments in Michigan CAB bonds were rated AA- by Standard and Poor and Aa3 by Moody's.

Concentration of Credit Risk

Investments are in U. S. Treasury zero-coupon bonds and Michigan CAB bonds. U. S. Treasury zero-coupon bonds are guaranteed by the United States government. Therefore, there is no concentration of credit risk for those types of bonds. Investments in Michigan CAB bonds account for 72.5% of the total investments.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 does not have any of these types of investments.

Security Lending Transactions

On September 30, 2008, Lottery's participation in the security lending program was terminated by the State Treasurer.

State statutes allowed the Lottery to participate in securities lending transactions prior to September 30, 2008; however, the investments remained in the name of the Lottery and 102% collateral was required as explained below.

During the fiscal year ending September 30, 2008, the agent bank, at the direction of the State Treasurer, loaned the Lottery's securities and received cash 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; or 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 loaned securities.

The Lottery did not impose any restrictions during the fiscal year ending September 30, 2008 on the amount of the 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 ending September, 2008 resulting from the default of the borrower, as the agent bank has indemnified the State and replaced all outstanding loans with Lehman Brothers.

During the fiscal year ending September 30, 2008, 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 account dedicated to the Lottery. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

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, 2009.

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

NOTE 4 - CAPITAL ASSETS

A summary of capital asset activity for the fiscal years ended September 30, 2009 and 2008 was as follows:

<u>Period Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2009</u>				
Capital assets, being depreciated:				
Leasehold improvements	\$ 1,950,014	\$ -	\$ -	\$ 1,950,014
Equipment	2,244,236	160,843	-	2,405,079
Total capital assets, being depreciated	4,194,250	160,843	-	4,355,093
Less: accumulated depreciation				
Leasehold improvements	1,835,718	39,449	-	1,875,167
Equipment	1,568,926	185,899	-	1,754,825
Total accumulated depreciation	3,404,644	225,348	-	3,629,992
Total capital assets, being depreciated, net	<u>\$ 789,606</u>	<u>\$ (64,505)</u>	<u>\$ -</u>	<u>\$ 725,101</u>
<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	1,796,263	39,455	-	1,835,718
Equipment	1,606,804	94,238	132,116	1,568,926
Total accumulated depreciation	3,403,067	133,693	132,116	3,404,644
Total capital assets, being depreciated, net	<u>\$ 340,357</u>	<u>\$ 449,254</u>	<u>\$ 5</u>	<u>\$ 789,606</u>

NOTE 5 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at September 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Accounts payable vendors	\$ 1,309,726	\$ 1,029,005
Retailer security deposits/accounts payable	1,931,414	2,184,493
Accrued salaries	1,016,218	878,940
Compensated absences	847,798	638,465
Total	<u>\$ 5,105,156</u>	<u>\$ 4,730,903</u>

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

NOTE 6 - PRIZE AWARDS

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

	<u>2009</u>	<u>2008</u>
Current - at face amount	\$ 119,773,222	\$ 121,183,688
Less - unamortized discount	<u>(1,951,575)</u>	<u>(2,337,966)</u>
Current - at present value	<u>117,821,647</u>	<u>118,845,722</u>
Long-term - at face amount	309,724,161	305,173,156
Less - unamortized discount	<u>(94,422,434)</u>	<u>(85,171,909)</u>
Long-term - at present value	<u>215,301,727</u>	<u>220,001,247</u>
Total	<u><u>\$ 333,123,374</u></u>	<u><u>\$ 338,846,969</u></u>

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

2010	\$ 59,514,295
2011	52,854,161
2012	43,904,433
2013	34,819,233
2014	28,302,533
2015-2019	66,574,400
2020-2024	35,426,000
2025-2029	20,791,000
2030-2034	17,801,600
2035-2039	6,070,800
2040-2044	1,568,000
2045-2049	1,144,000
2050-2054	<u>468,000</u>
Total at face amount	369,238,455
Less - unamortized discount	<u>(96,374,009)</u>
Total installment prize awards payable at present value	272,864,446
Non-installment prize awards payable	<u>60,258,928</u>
Total prize awards payable	<u><u>\$ 333,123,374</u></u>

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

Fiscal year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year at Present Value
2009	\$ 286,433,351	\$ 57,679,873	\$ 71,248,778	\$ 272,864,446	\$ 57,562,720
2008	\$ 341,038,617	\$ 21,350,304	\$ 75,955,570	\$ 286,433,351	\$ 66,432,104

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

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 401(k) plans, and if applicable to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2009.

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long- Term Liability
2009	\$ 2,146,402	\$ 1,177,788	\$ 1,119,170	\$ 2,205,020	\$ 847,798	\$ 1,357,222
2008	\$ 2,096,660	\$ 923,221	\$ 873,479	\$ 2,146,402	\$ 638,465	\$ 1,507,937

NOTE 8 – PENSION AND POST-RETIREMENT BENEFITS

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

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 \$5,134,506, \$5,084,674, and \$4,733,757 for the six months ended September 30, 2009, 2008, and 2007, respectively and approximately \$10,283,068, \$9,996,799, and \$9,584,885 for the years ended September 30, 2009, 2008, and 2007, respectively. The Lottery's actuary determined contribution requirements and contributions actually made were \$1,718,378, \$1,524,955 and \$971,839 for the six month periods ended September 30, 2009, 2008, and 2007, respectively and approximately \$3,423,080, \$3,109,849, and \$2,603,908 for the years ended September 30, 2009, 2008, and 2007, respectively. Contributions represent approximately 33.3%, 31.1%, and 27.2% of annual covered payroll during 2009, 2008 and 2007, respectively.

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

NOTE 9 - LEASE AND RENTAL COMMITMENTS

The total lease payments on long-term lease commitments for years ended September 30, 2009 and 2008 were \$196,904 and \$179,074, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of remaining minimum building lease commitments follows:

Year Ending September 30	Operating Leases
2010	\$ 198,779
2011	168,591
2012	147,029
2013	147,029
2014	147,029
2015-2018	321,444
	<u>\$ 1,129,901</u>

The total rent and lease expenses paid for all buildings for the years ended September 30, 2009 and 2008 were \$2,398,364 and \$2,717,250, respectively.

NOTE 10 - RISK MANAGEMENT

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

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

NOTE 11 - TRANSACTIONS WITH OTHER STATE AGENCIES

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. Following is a summarization of these charges for the year ended September 30, 2009:

Department of Management and Budget		
Support services	\$ 204,700	
Space rental - Lottery Central, Detroit, Saginaw offices	2,195,598	
Vehicle and travel services	762,270	
Internal audit	132,700	
Other - Telephone, mailing and other offices services	<u>367,974</u>	
Total Department of Management and Budget		\$ 3,663,242
Civil Service Commission		266,040
Department of Treasury		126,934
Attorney General		220,377
Department of Information Technology (DIT)		
Direct costs	3,536,246	
Lansing Metropolitan Area Network (LMAN) and		
Unisys platform charges	31,044	
Michigan.gov portal web charges	487,532	
Overhead	<u>474,138</u>	
Total DIT Charges		4,528,960
History, Arts, & Library		20,400
Other agencies		<u>36,169</u>
 Total all State agencies		 <u>\$ 8,862,122</u>

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

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



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

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 175,800,723	14.9%	\$ 350,999,248	14.8%
	Daily 4	169,704,927	14.4%	335,906,876	14.1%
	Classic Lotto 47	30,410,401	2.6%	64,231,725	2.7%
	Mega Millions	122,680,179	10.4%	222,690,082	9.4%
	Keno	6,929,260	0.6%	13,986,922	0.6%
	Fantasy Five	25,884,161	2.2%	51,310,128	2.2%
	Raffle	18,868,450	1.6%	41,295,837	1.7%
	Club Keno	190,553,400	16.2%	392,542,888	16.5%
	Club Keno Kicker	59,724,842	5.1%	123,480,280	5.2%
	The Jack	3,903,681	0.3%	3,903,681	0.2%
	Pull-Tab tickets	12,028,500	1.0%	28,037,868	1.2%
	Instant tickets	359,461,215	30.6%	749,051,648	31.5%
Total lottery ticket sales		1,175,949,739	100.0%	2,377,437,183	100.0%
Prize awards:	Daily 3	92,077,124	7.8%	191,812,761	8.1%
	Daily 4	101,538,308	8.6%	182,708,011	7.7%
	Classic Lotto 47	16,806,096	1.4%	35,111,625	1.5%
	Mega Millions	62,394,255	5.3%	110,949,225	4.7%
	Keno	3,273,440	0.3%	6,617,611	0.3%
	Fantasy Five	12,994,382	1.1%	26,528,416	1.1%
	Raffle	10,136,818	0.9%	23,483,161	1.0%
	Club Keno/Kicker/Jack	164,910,643	14.0%	336,588,585	14.2%
	Pull-Tab tickets	9,042,559	0.8%	19,477,526	0.8%
	Instant tickets	241,998,787	20.6%	503,095,788	21.2%
	Total prize awards	715,172,412	60.8%	1,436,372,709	60.4%
Less: unclaimed prizes		(14,206,536)	-1.2%	(28,730,205)	-1.2%
Net prize awards		700,965,876	59.6%	1,407,642,504	59.2%
Gross margin		474,983,863	40.4%	969,794,679	40.8%
Retailer and vendor commission expense		(100,555,694)	-8.6%	(209,625,888)	-8.8%
Game related expense		(9,472,665)	-0.8%	(18,383,054)	-0.8%
Net ticket revenue		364,955,504	31.0%	741,785,737	31.2%
Other operating expense		(21,745,062)	-1.8%	(47,759,400)	-2.0%
Other miscellaneous revenue		289,143	0.0%	894,587	0.0%
Net lottery operating income		343,499,585	29.2%	694,920,924	29.2%
Charitable gaming					
Charitable gaming revenue		10,588,525	0.9%	20,662,879	0.9%
Charitable gaming expense		(4,756,211)	-0.4%	(8,898,547)	-0.4%
Net charitable gaming income		5,832,314	0.5%	11,764,332	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, 2009

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

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of 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>

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months and Years Ended September 30, 2009 and 2008

	Six Months Ended		Years Ended	
	2009	2008	2009	2008
Salaries and wages	\$ 5,185,406	\$ 5,106,424	\$ 10,383,518	\$ 10,034,565
Employee benefits and taxes	2,691,327	2,439,140	5,723,288	5,433,671
Promotion and advertising	12,029,177	8,100,502	26,965,099	17,631,802
Talent	172,360	161,629	314,361	306,099
Printing and supplies, including purchase of charitable gaming tickets	1,159,153	1,165,094	2,277,072	2,145,556
Other contractual services	2,692,016	2,580,656	5,592,855	5,305,480
Building rent and leases	1,137,161	1,358,126	2,398,364	2,717,250
Travel	450,588	510,488	898,525	954,330
Utilities	158,365	175,213	288,702	370,183
Postage	170,708	231,644	365,361	430,861
Equipment maintenance and rental	285,531	658,437	795,054	1,405,525
Bad debt expense	166,264	69,461	335,072	119,861
Interest paid on security deposits	89,070	24,259	95,328	54,284
Total	<u>\$ 26,387,126</u>	<u>\$ 22,581,073</u>	<u>\$ 56,432,599</u>	<u>\$ 46,909,467</u>

STATISTICAL SECTION



Michigan Lottery participates in a number of events throughout the state, taking the latest and greatest games on the road and getting the message out that Lottery sales support Michigan public education.



Bureau of State Lottery, State of Michigan

Index

Statistical Section

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

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These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time.	
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Chart of financial trends.....	51
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This schedule and graph contains information to help the reader assess the Lottery's most significant revenue source, ticket sales.	
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Debt Capacity	
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These graphs offers demographic and economic indicators to help the reader understand the environment within which the Lottery's financial activities take place.	
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2009. 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, 2009
(In Millions)

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

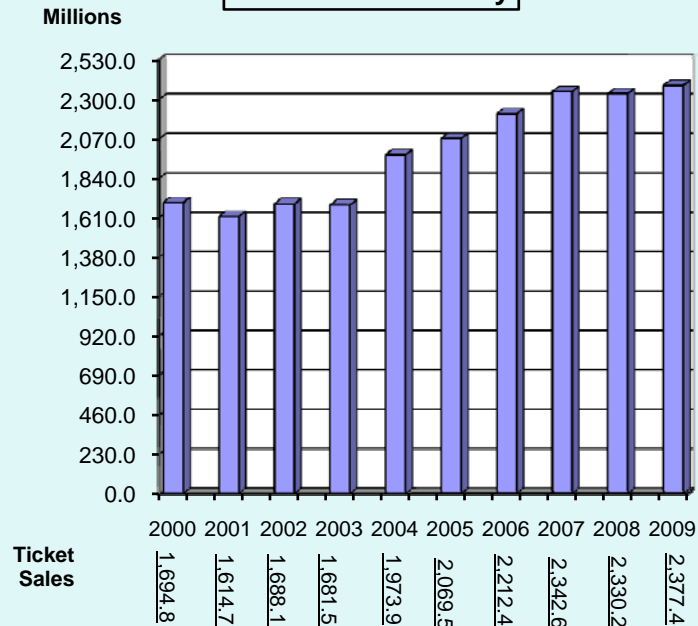
Fiscal Years Ending September 30, 2001 through September 30, 2009

(In Millions)

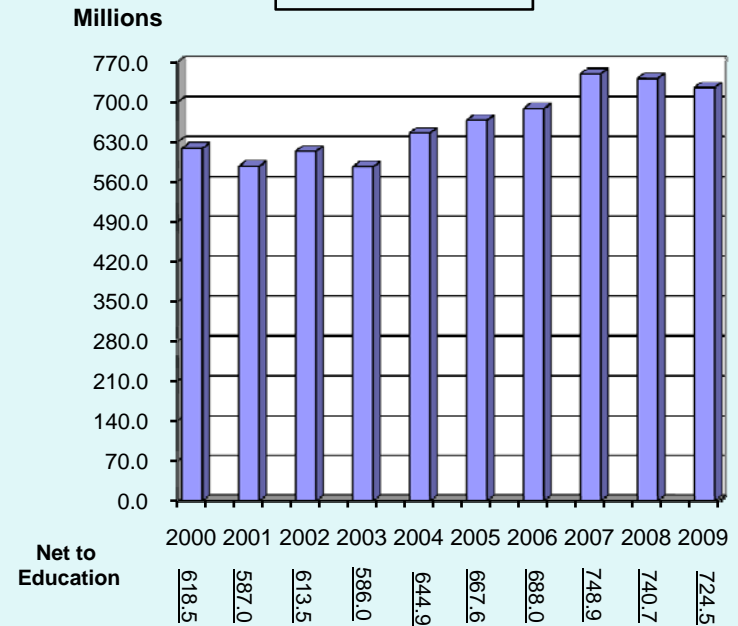
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Operating revenues									
Ticket sales	\$ 1,614.7	\$ 1,688.1	\$ 1,681.5	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5
Charitable gaming and other	17.7	20.6	20.3	21.4	20.6	19.8	20.4	20.9	21.5
Total operating revenues	1,632.4	1,708.7	1,701.8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

**Bureau of State Lottery, State of Michigan
Financial Trends 2000 through 2009**

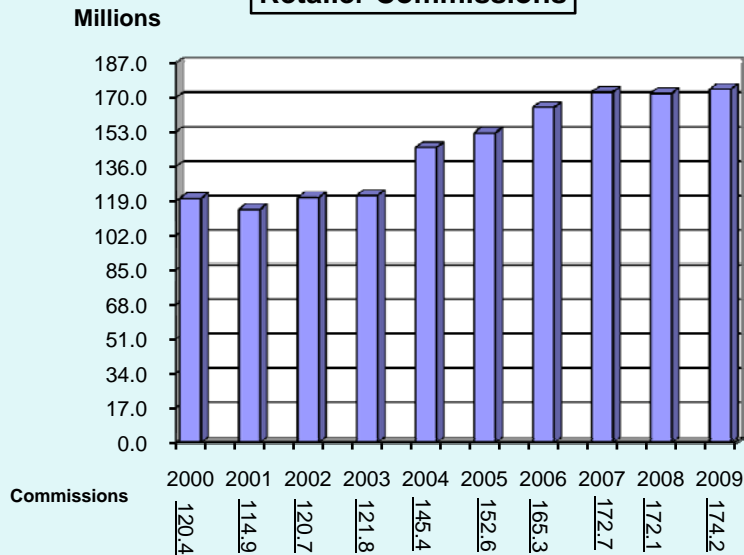
Ticket Sales History



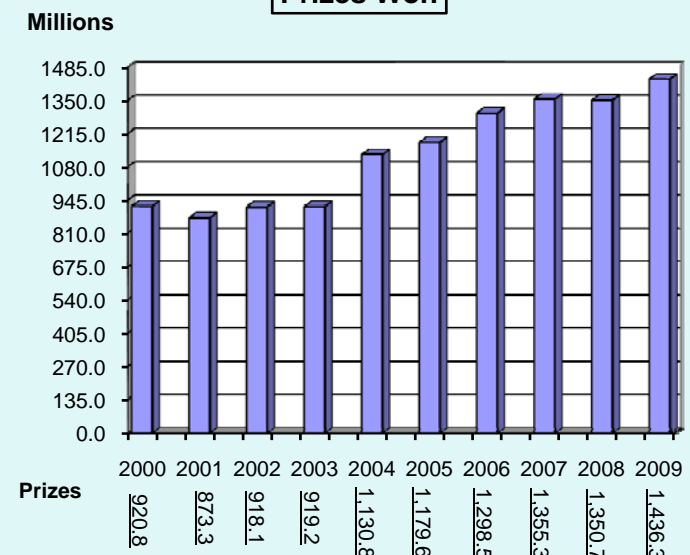
Net To Education



Retailer Commissions



Prizes Won



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, 2000 through September 30, 2009
(In Millions)

TICKET SALES	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Instant Games										
Instant Tickets	\$ 643.3	\$ 626.7	\$ 655.4	\$ 682.7	\$ 690.2	\$ 662.5	\$ 710.8	\$ 717.8	\$ 734.2	\$ 749.1
Club Games										
Club Keno, Lucky Streak, The Jack					204.5	332.3	343.8	380.9	402.5	396.5
Club Keno Kicker, Lucky Streak Plus							80.3	110.3	124.0	123.5
Pull Tab Games					25.1	39.1	41.6	38.5	37.4	28.0
Total Club Games					229.6	371.4	465.7	529.7	563.9	548.0
Online Games										
Daily 3, Extra 3, Double 3	416.8	404.2	418.3	423.3	423.2	402.9	385.7	369.1	347.2	351.0
Daily 4, Extra 4, Double 4	284.7	280.6	289.2	297.2	310.2	309.7	323.0	335.1	325.2	335.9
Michigan Lotto, Michigan Millions, Michigan Winfall, Classic Lotto 47	106.2	100.0	71.7	79.3	66.6	55.7	50.7	53.1	64.1	64.2
Keno	10.7	10.1	10.3	13.5	14.9	13.5	14.6	14.0	13.9	14.0
Little Lotto: Cash Five, Michigan Rolldown, Fantasy 5 and Change Play	44.4	41.1	37.2	38.0	32.6	49.9	45.5	49.4	51.3	51.3
Raffle								56.3	45.5	41.3
Mega Millions	188.6	152.0	206.0	147.5	206.6	203.9	216.4	218.1	184.8	222.7
Total On-line	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	1,080.4
TOTAL TICKET SALES	\$ 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	\$ 2,377.5

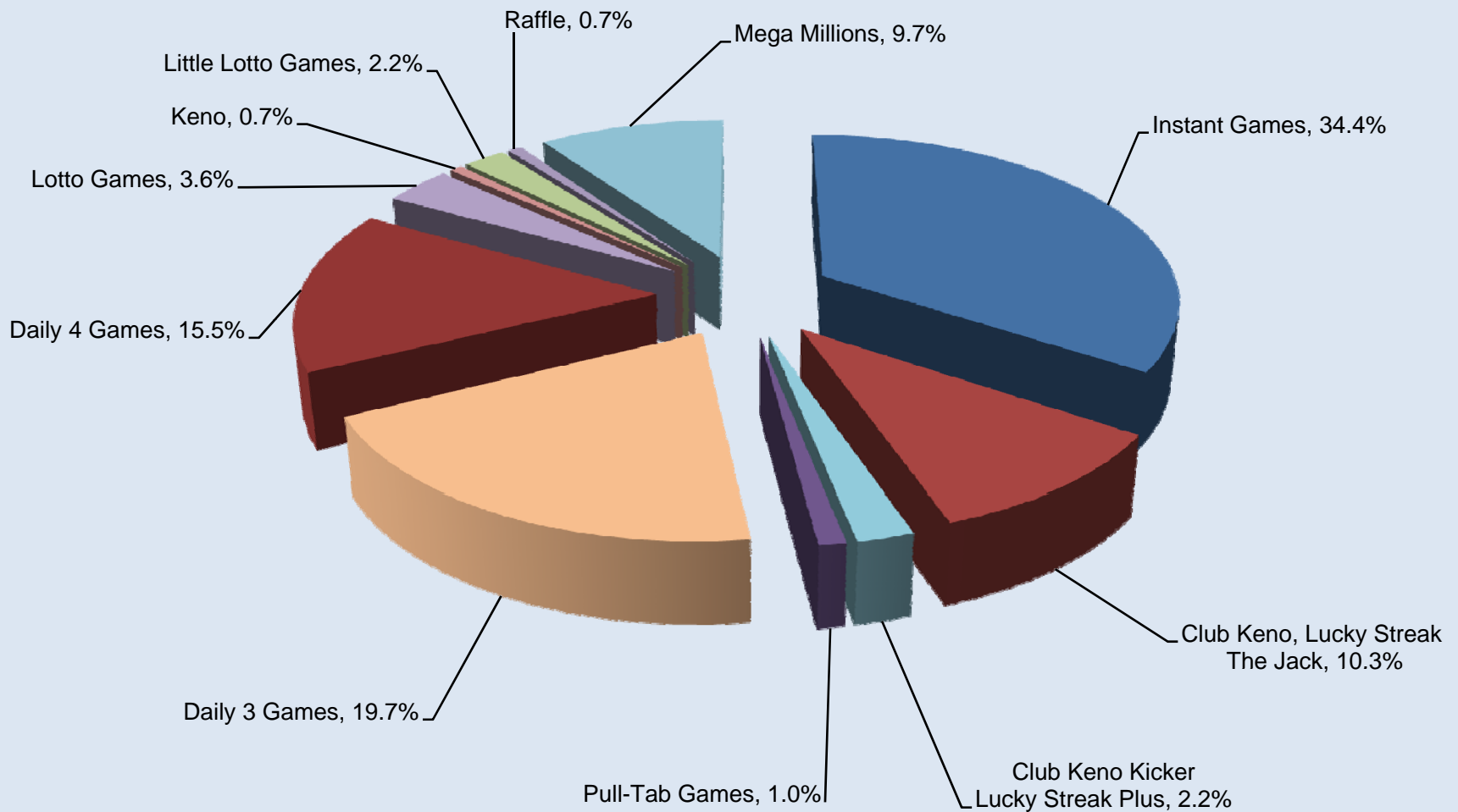
PRICE PER TICKET:

Instant Games:	Range from \$1 to \$20	Online Games:	Daily 3	\$.50 and \$1
Club Games: Club Keno, Kicker, Lucky Streak,	\$1		Change Play	Range from \$.25 to \$.99
Lucky Streak Plus, The Jack	\$1		Raffle	Range from \$10 to \$50
Pull Tab Games	Range from \$.50 to \$2		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 2000 through 2009**



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, 2000 through September 30, 2009
(In Millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<u>INSTALLMENT PRIZE AWARDS LIABILITY</u>										
Current - at face amount	\$ 110.4	\$ 110.1	\$ 109.8	\$ 109.6	\$ 103.4	\$ 94.7	\$ 86.5	\$ 75.9	\$ 68.8	\$ 59.5
Long-term - at face amount	<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>	<u>309.7</u>
Total installment prize awards	<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>\$ 369.2</u>
<u>INVESTMENTS</u>										
Face amount	<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>	<u>\$ 341.6</u>
Installment prize awards payable as a percentage of investments:	100.10%	100.14%	100.16%	100.64%	101.59%	99.25%	98.99%	100.18%	100.73%	108.08%

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



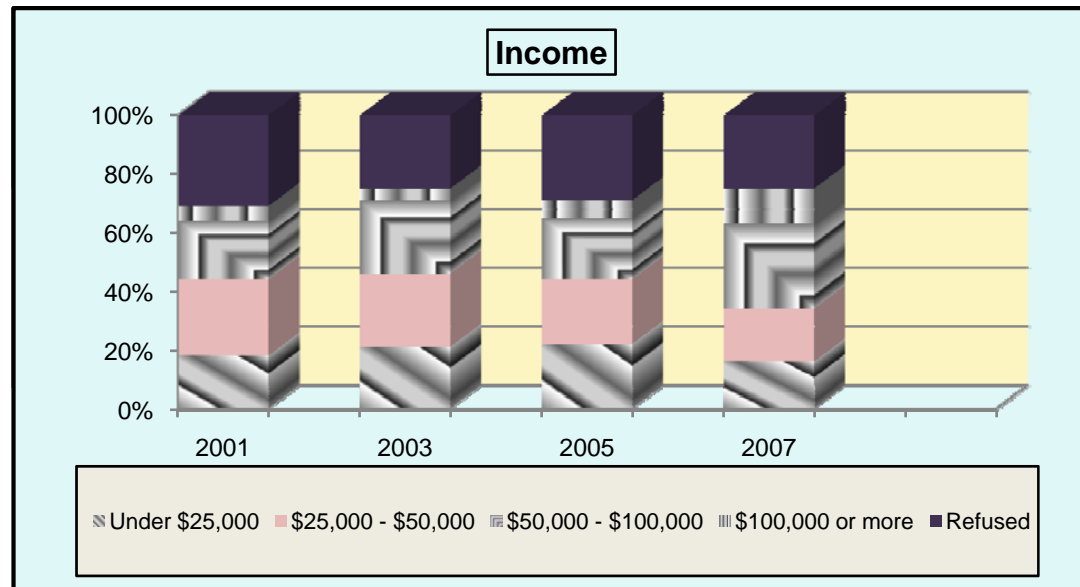
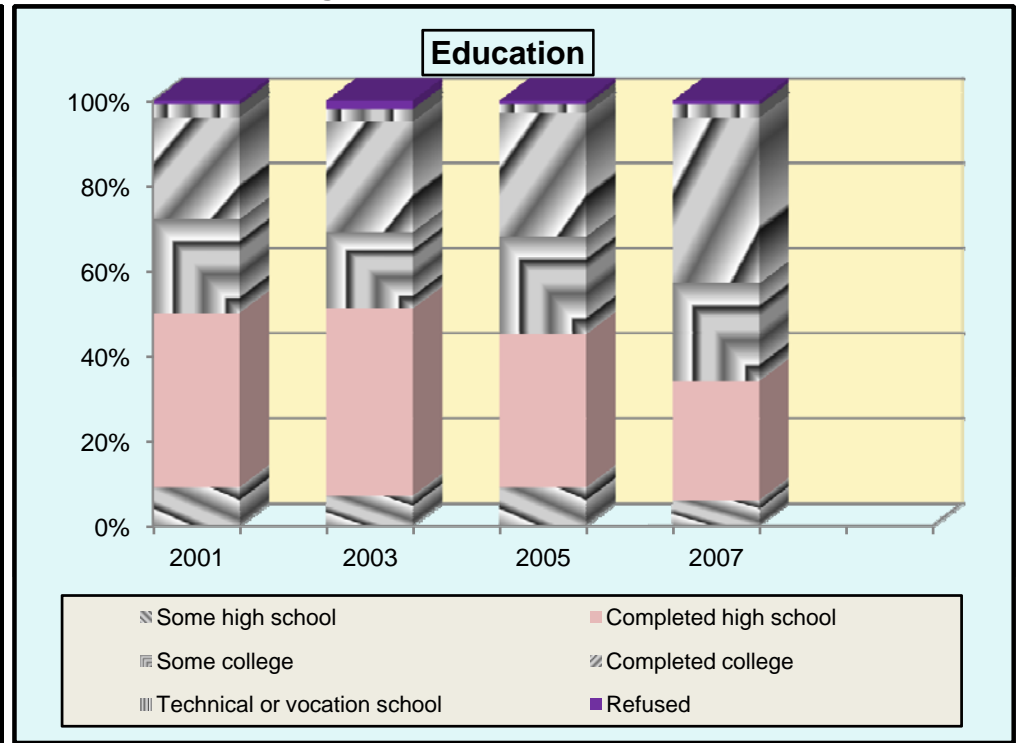
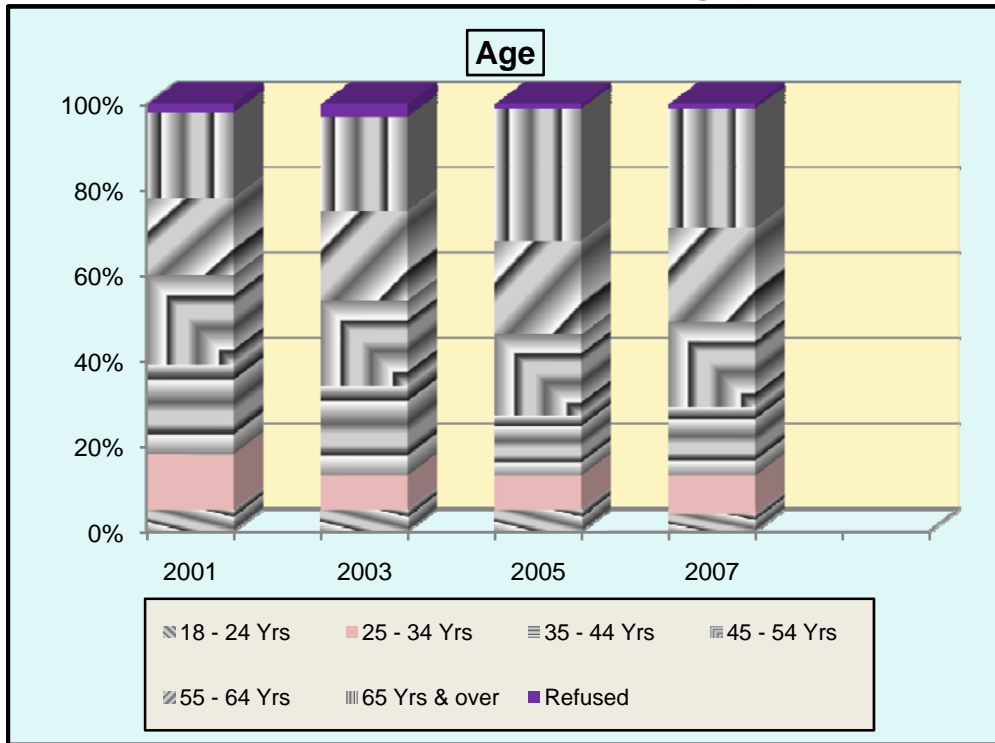
Bureau of State Lottery, State of Michigan
Demographic and Economic Information
Demographic General Tracking Study
Fiscal Years Ending September 30, 2000 through September 30, 2009

These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles.
 The demographic general tracking study for 2009 was not complete as of September 30.

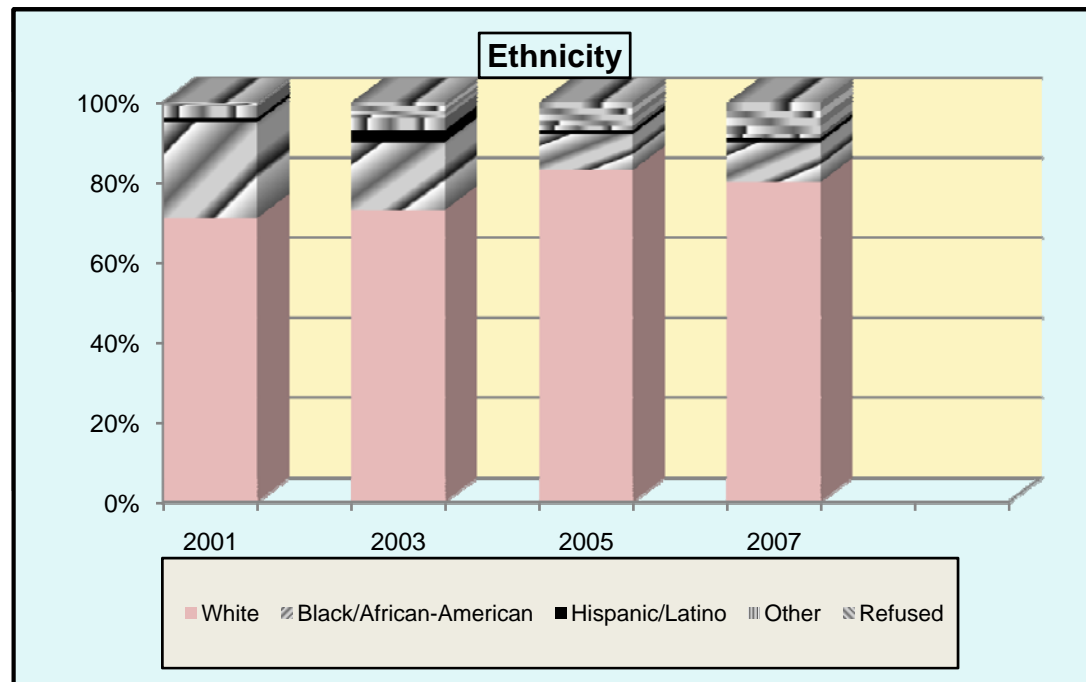
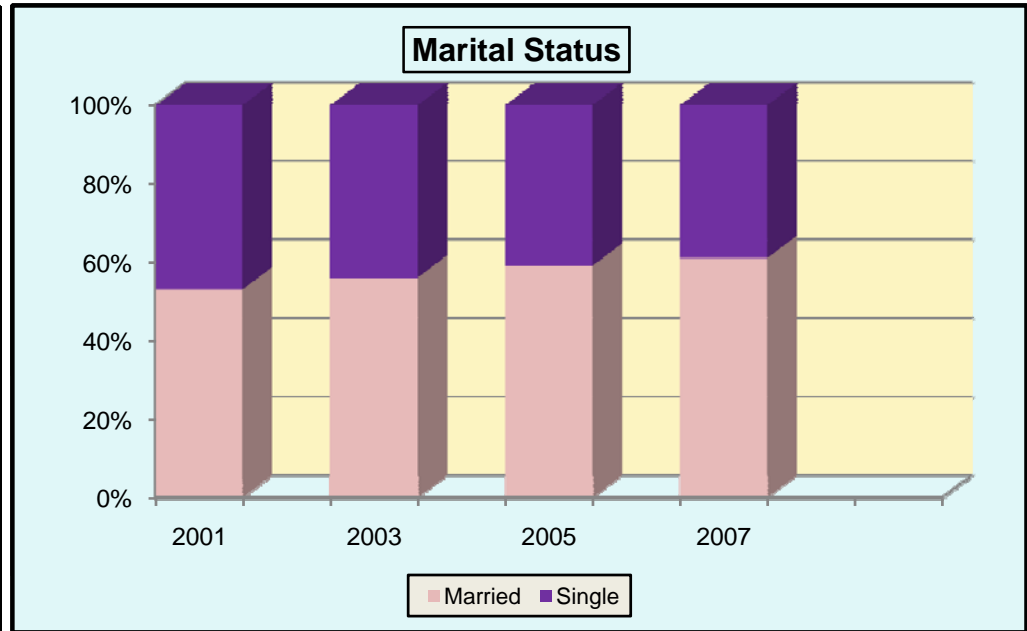
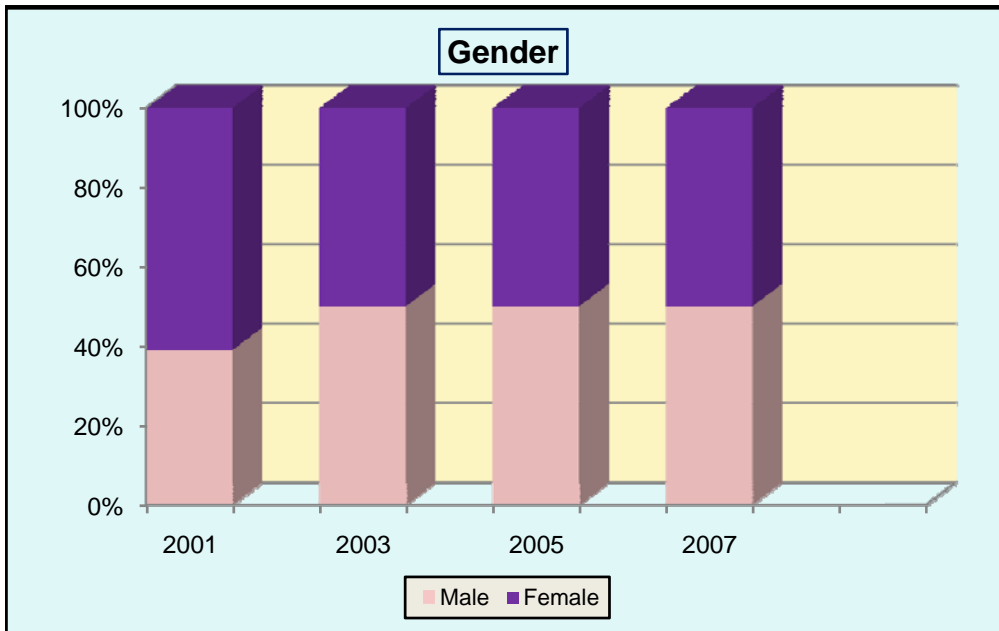
	2001	2003	2005	2007
Gender				
Male	39%	50%	50%	50%
Female	61%	50%	50%	50%
Education				
Some high school	9%	7%	9%	6%
Completed high school	41%	44%	36%	28%
Some college	22%	18%	23%	23%
Completed college	24%	26%	29%	39%
Technical or vocation school	3%	3%	2%	3%
Refused	1%	2%	1%	1%
Age				
18 - 24 Yrs	5%	5%	5%	4%
25 - 34 Yrs	13%	8%	8%	9%
35 - 44 Yrs	21%	21%	14%	16%
45 - 54 Yrs	21%	20%	19%	20%
55 - 64 Yrs	18%	21%	22%	22%
65 Yrs & over	20%	22%	31%	28%
Refused	2%	3%	1%	1%
Marital Status				
Married	53%	56%	59%	61%
Single	47%	44%	41%	39%
Income				
Under \$25,000	18%	21%	22%	16%
\$25,000 - \$50,000	26%	25%	22%	18%
\$50,000 - \$100,000	20%	25%	21%	29%
\$100,000 or more	5%	4%	6%	12%
Refused	31%	25%	29%	25%
Ethnicity				
White	71%	73%	83%	80%
Black/African-American	24%	17%	9%	10%
Hispanic/Latino	1%	3%	1%	1%
Other	3%	3%	1%	1%
Refused	1%	4%	6%	8%

Source: Bureau of State Lottery
 General Tracking Study

**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 1999 through 2009**



**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 1999 through 2009**



Source: Bureau of State Lottery
General Tracking Study



Bureau of State Lottery, State of Michigan
Demographic and Economic Indicators
Fiscal Years Ending September 30, 2000 through September 30, 2009
(In Thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population (a)									
Michigan	9,955	10,007	10,044	10,075	10,103	10,108	10,102	10,072	10,003
United States	282,194	285,112	287,888	290,448	293,192	295,896	298,755	301,621	304,060
Total Personal Income (b)									
Michigan	\$ 294.2	\$ 299.5	\$ 303.5	\$ 313.5	\$ 318.7	\$ 325.3	\$ 332.7	\$ 345.9	\$ 349.6
United States	\$ 8,422.1	\$ 8,717.0	\$ 8,872.9	\$ 9,150.3	\$ 9,711.4	\$ 10,252.8	\$ 10,977.3	\$ 11,631.6	\$ 12,225.6
Per Capita Income (b)									
Michigan	\$ 29,554	\$ 29,933	\$ 30,214	\$ 31,116	\$ 31,550	\$ 32,182	\$ 32,928	\$ 34,342	\$ 34,949
United States	\$ 29,845	\$ 30,574	\$ 30,821	\$ 31,504	\$ 33,123	\$ 34,650	\$ 36,744	\$ 38,564	\$ 40,208
Unemployment Rate (c)									
Michigan	3.7%	5.2%	6.2%	7.1%	7.1%	6.9%	6.9%	7.2%	15.3%
United States	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	9.8%
Estimated wage and salary employees (c)									
Goods Producing:									
Natural Resources and Mining	9.5	9.3	8.6	8.1	8.2	8.4	8.0	7.6	7.4
Construction	209.6	206.1	199.6	190.6	191.5	189.1	178.0	166.2	117.0
Manufacturing	898.4	823.1	763.5	719.7	700.7	680.0	650.8	616.8	463.8
Total Goods Producing	1,117.5	1,038.5	971.7	918.4	900.3	877.5	836.9	790.5	588.2
Service-Providing:									
Private Service-Providing									
Trade, Transportation, and Utilities:									
Wholesale Trade	186.0	180.4	175.4	172.6	170.5	170.7	170.6	169.1	147.0
Retail Trade	559.8	548.8	530.7	518.7	513.6	506.0	496.0	489.7	444.3
Transportation and Utilities	135.4	132.0	128.2	125.8	125.7	128.3	128.4	129.1	111.7
Information	76.7	76.0	73.8	70.3	68.6	67.3	66.1	65.6	54.9
Financial Activities:									
Finance and Insurance	152.8	154.8	159.2	162.3	161.3	161.8	160.9	157.8	141.3
Real Estate and Rental and Leasing	56.6	55.5	55.7	56.0	56.1	56.1	54.9	53.6	48.2
Professional and Business Services:									
Professional, Scientific, and Technical Services	274.3	268.0	257.4	247.9	244.2	246.4	244.9	244.2	215.0
Management of Companies and Enterprises	70.5	69.1	69.5	68.6	67.0	64.6	61.7	57.3	47.8
Administrative, Support Services, and Waste Management	290.5	267.0	267.0	266.4	270.1	277.5	275.1	271.8	222.5
Educational and Health Services:									
Educational Services	54.3	61.2	63.1	66.4	70.6	74.8	76.1	78.0	81.1
Health Care and Social Assistance	447.9	456.7	472.0	480.5	490.3	501.0	507.2	517.0	532.7
Leisure and Hospitality:									
Accommodation and Food Services	336.4	332.7	336.2	335.9	339.7	341.9	343.8	341.8	323.3
Other	61.8	61.6	61.7	62.2	62.3	62.6	61.8	62.7	60.2
Other Services	175.3	176.9	179.3	179.1	179.6	179.6	177.5	176.7	170.8
Total Private Service-Providing	2,878.0	2,840.7	2,829.2	2,812.7	2,819.5	2,838.7	2,824.9	2,814.3	2,600.8
Government:	681.4	685.0	686.6	685.4	679.7	674.1	665.3	657.2	636.8
Total Service-Providing	3,559.4	3,525.7	3,515.8	3,498.0	3,499.2	3,512.8	3,490.3	3,471.4	3,237.6
Total Wage and Salary Employment	4,676.9	4,564.2	4,487.5	4,416.5	4,399.5	4,390.3	4,327.1	4,262.0	3,825.8

NOTES: Calendar year 2008 is the most recent year for which data is available.
Wage and Salary Employment based on North American Industry Classification System.
Components in Wage and Salary Employment may not total due to truncation.

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



Bureau of State Lottery, State of Michigan
Operating Information
Fiscal Years Ending September 30, 2000 through September 30, 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of Employees	184	175	175	159	161	166	173	162	168	171
Number of Retailers										
Instant only	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	2,478
Online	6,641	7,076	7,291	7,288	7,377	7,502	7,848	7,922	7,920	8,202
Total Retailers	9,271	9,217	9,160	9,048	10,806	11,076	10,880	10,973	10,969	10,680
Prize Payout Percentage	54.33%	54.09%	54.39%	54.67%	57.29%	57.00%	58.69%	57.85%	57.97%	60.42%
Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund	36.50%	36.35%	36.35%	34.85%	32.67%	32.26%	31.10%	31.97%	31.79%	30.47%
Number of Millionaire Prize Winners	22	18	16	11	20	21	17	42	37	40
Number of Prize Winners Greater than \$600	32,563	27,777	25,921	44,162	44,962	44,692	52,124	49,585	44,962	53,986

Source: Bureau of State Lottery, State of Michigan



Bureau of State Lottery, State of Michigan

Operating Information

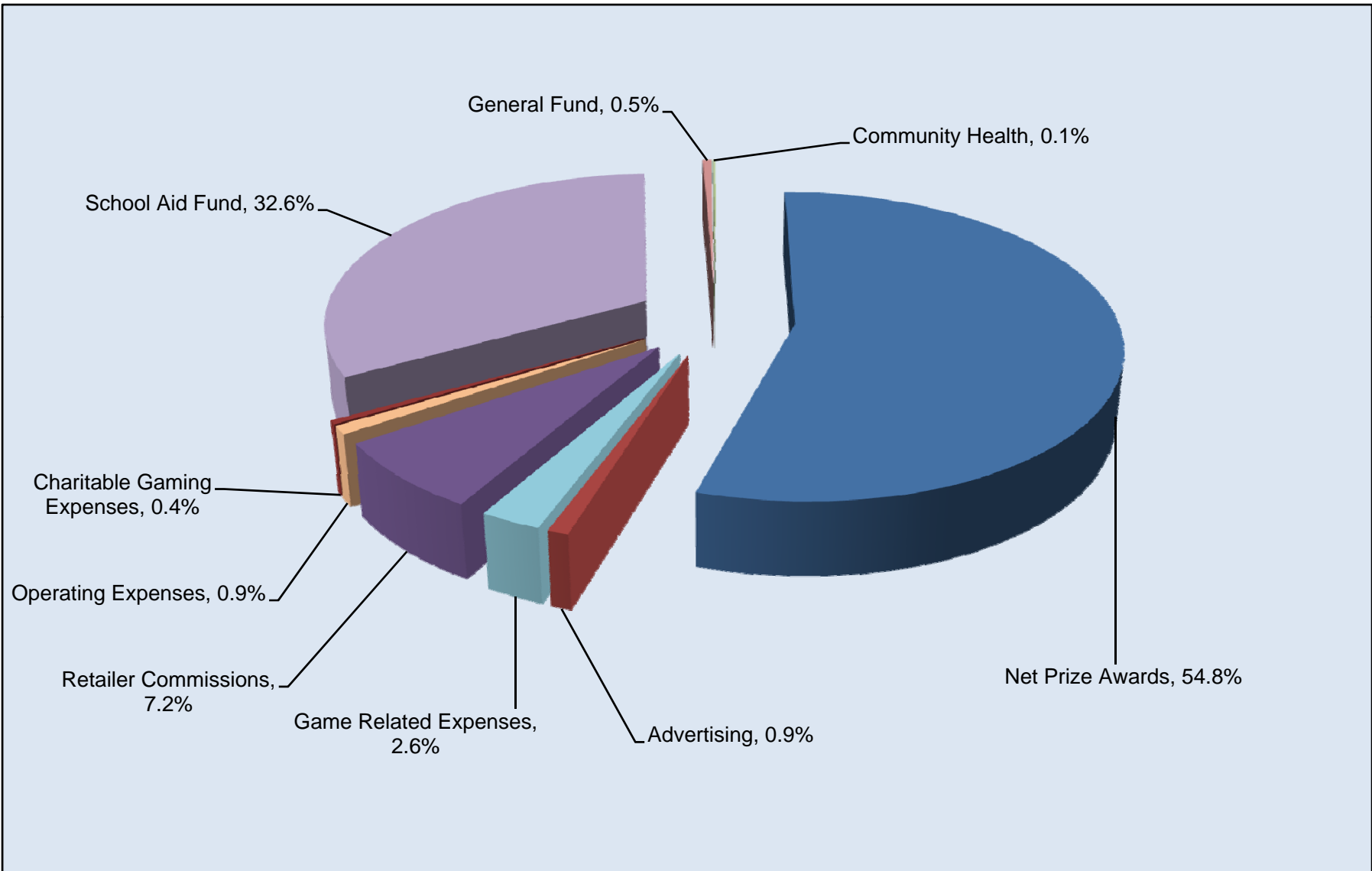
Expenses and Disbursements to the State's School Aid Fund, General Fund, and Community Health

Fiscal Years Ending September 30, 2000 through September 30, 2009

(In Millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EXPENSES										
Prize Awards	\$ 920.8	\$ 873.3	\$ 918.1	\$ 919.2	\$ 1,130.8	\$ 1,179.6	\$ 1,298.5	\$ 1,355.3	\$ 1,350.7	\$ 1,436.3
Unclaimed Prizes	<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>	<u>(28.7)</u>
Net Prize Awards	894.3	850.0	873.7	899.6	1,099.7	1,162.0	1,268.2	1,329.1	1,323.3	1,407.6
Promotion and Advertising	17.3	16.9	17.1	17.1	17.5	17.6	17.5	17.5	17.6	27.0
Game Related Expenses	43.0	41.8	44.1	45.2	54.1	56.8	60.0	63.0	63.4	53.8
Retailer Commissions	120.4	114.9	120.7	121.8	145.4	152.7	165.3	172.7	172.1	174.2
Operating Expenses	14.5	14.7	15.3	15.3	15.9	17.9	19.7	19.6	21.1	20.8
Charitable Gaming Expenses	<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>	<u>8.9</u>
TOTAL EXPENSES	<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>	<u>\$ 1,692.3</u>
DISBURSEMENTS TO THE STATE										
School Aid Fund	618.5	587.0	613.5	586.0	644.9	667.6	688.0	748.9	740.7	724.5
General Fund	7.0	9.4	12.1	11.2	12.2	11.7	10.5	10.8	10.6	11.8
Community Health	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
TOTAL DISBURSEMENTS	<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>	<u>\$ 737.3</u>

**Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements 2000 through 2009**



Source: Bureau of State Lottery, State of Michigan

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

Fiscal Year 2008 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 Income		
Arizona	6.5	472.94	1.65	\$ 474.59	\$ 262.49	\$ 31.71	\$ 35.78	\$ 144.61	55.3%	6.7%	7.5%	30.5%	\$ 73	\$ 22
California	36.8	3,049.62	89.19	\$ 3,138.81	\$ 1,619.47	\$ 213.02	\$ 167.22	\$ 1,139.10	51.6%	6.8%	5.3%	36.3%	\$ 83	\$ 31
Colorado	4.9	505.81	2.80	\$ 508.61	\$ 314.93	\$ 38.39	\$ 33.02	\$ 122.27	61.9%	7.5%	6.5%	24.0%	\$ 102	\$ 25
Connecticut	3.5	998.15	0.21	\$ 998.36	\$ 608.22	\$ 55.95	\$ 50.63	\$ 283.56	60.9%	5.6%	5.1%	28.4%	\$ 285	\$ 81
Delaware	0.9	125.35	(0.44)	\$ 124.91	\$ 65.90	\$ 7.72	\$ 13.84	\$ 37.46	52.8%	6.2%	11.1%	30.0%	\$ 144	\$ 43
D.C.	0.6	252.72	0.63	\$ 253.35	\$ 135.06	\$ 15.78	\$ 32.14	\$ 70.37	53.3%	6.2%	12.7%	27.8%	\$ 428	\$ 119
Florida	18.3	4,174.78	41.91	\$ 4,216.69	\$ 2,476.03	\$ 235.65	\$ 154.56	\$ 1,350.45	58.7%	5.6%	3.7%	32.0%	\$ 228	\$ 74
Georgia	9.7	3,272.05	22.54	\$ 3,294.59	\$ 2,049.54	\$ 230.73	\$ 137.33	\$ 876.99	62.2%	7.0%	4.2%	26.6%	\$ 338	\$ 91
Idaho	1.5	136.85	1.41	\$ 138.25	\$ 81.46	\$ 8.19	\$ 12.41	\$ 36.19	58.9%	5.9%	9.0%	26.2%	\$ 90	\$ 24
Illinois	12.9	2,057.27	32.22	\$ 2,089.49	\$ 1,226.07	\$ 103.93	\$ 108.99	\$ 650.50	58.7%	5.0%	5.2%	31.1%	\$ 159	\$ 50
Indiana	6.4	822.85	7.09	\$ 829.94	\$ 503.30	\$ 59.50	\$ 50.07	\$ 217.07	60.6%	7.2%	6.0%	26.2%	\$ 129	\$ 34
Iowa	3.0	249.22	0.64	\$ 249.86	\$ 144.67	\$ 15.65	\$ 31.68	\$ 57.86	57.9%	6.3%	12.7%	23.2%	\$ 83	\$ 19
Kansas	2.8	236.67	1.69	\$ 238.36	\$ 132.97	\$ 13.77	\$ 24.48	\$ 67.14	55.8%	5.8%	10.3%	28.2%	\$ 85	\$ 24
Kentucky	4.3	778.21	7.68	\$ 785.89	\$ 493.06	\$ 50.14	\$ 46.50	\$ 196.19	62.7%	6.4%	5.9%	25.0%	\$ 182	\$ 46
Louisiana	4.4	373.69	3.05	\$ 376.74	\$ 192.80	\$ 20.91	\$ 31.21	\$ 131.82	51.2%	5.6%	8.3%	35.0%	\$ 85	\$ 30
Maine	1.3	228.52	2.92	\$ 231.44	\$ 142.44	\$ 16.26	\$ 19.32	\$ 53.42	61.5%	7.0%	8.3%	23.1%	\$ 173	\$ 40
Maryland	5.6	1,673.04	4.68	\$ 1,677.72	\$ 956.89	\$ 117.82	\$ 58.85	\$ 544.16	57.0%	7.0%	3.5%	32.4%	\$ 297	\$ 97
Massachusetts	6.5	4,689.50	19.84	\$ 4,709.34	\$ 3,419.71	\$ 275.21	\$ 101.38	\$ 913.04	72.6%	5.8%	2.2%	19.4%	\$ 721	\$ 140
Michigan	10.0	2,330.20	32.95	\$ 2,363.15	\$ 1,323.34	\$ 172.16	\$ 110.40	\$ 757.25	56.0%	7.3%	4.7%	32.0%	\$ 233	\$ 76
Minnesota	5.2	461.52	1.53	\$ 463.05	\$ 279.64	\$ 27.66	\$ 39.49	\$ 116.26	60.4%	6.0%	8.5%	25.1%	\$ 88	\$ 22
Missouri	5.9	995.49	18.34	\$ 1,013.83	\$ 641.12	\$ 61.51	\$ 41.87	\$ 269.33	63.2%	6.1%	4.1%	26.6%	\$ 168	\$ 46
Montana	1.0	43.82	0.09	\$ 43.91	\$ 22.84	\$ 2.56	\$ 7.47	\$ 11.04	52.0%	5.8%	17.0%	25.1%	\$ 45	\$ 11
Nebraska	1.8	121.91	0.77	\$ 122.68	\$ 69.24	\$ 7.41	\$ 15.00	\$ 31.03	56.4%	6.0%	12.2%	25.3%	\$ 68	\$ 17
New Hampshire	1.3	260.69	1.25	\$ 261.94	\$ 154.69	\$ 14.28	\$ 17.33	\$ 75.64	59.1%	5.5%	6.6%	28.9%	\$ 197	\$ 57
New Jersey	8.7	2,539.06	45.49	\$ 2,584.55	\$ 1,471.12	\$ 141.39	\$ 78.05	\$ 893.99	56.9%	5.5%	3.0%	34.6%	\$ 293	\$ 103
New Mexico	2.0	147.20	0.60	\$ 147.80	\$ 80.09	\$ 9.68	\$ 17.23	\$ 40.80	54.2%	6.5%	11.7%	27.6%	\$ 75	\$ 21
New York	19.5	6,673.18	60.13	\$ 6,733.31	\$ 3,952.76	\$ 400.79	\$ 253.03	\$ 2,126.73	58.7%	6.0%	3.8%	31.6%	\$ 342	\$ 109
North Carolina	9.2	1,048.45	10.61	\$ 1,059.06	\$ 588.49	\$ 75.37	\$ 45.79	\$ 349.41	55.6%	7.1%	4.3%	33.0%	\$ 114	\$ 38
North Dakota	0.6	22.12	0.16	\$ 22.28	\$ 11.36	\$ 1.14	\$ 3.70	\$ 6.08	51.0%	5.1%	16.6%	27.3%	\$ 35	\$ 10
Ohio	11.5	2,325.14	41.78	\$ 2,366.92	\$ 1,397.02	\$ 143.93	\$ 110.28	\$ 715.69	59.0%	6.1%	4.7%	30.2%	\$ 202	\$ 62
Oklahoma	3.6	214.28	1.26	\$ 215.54	\$ 112.84	\$ 13.43	\$ 15.85	\$ 73.42	52.4%	6.2%	7.4%	34.1%	\$ 59	\$ 20
Oregon	3.8	338.68	1.09	\$ 339.77	\$ 219.96	\$ 29.40	\$ 27.53	\$ 62.88	64.7%	8.7%	8.1%	18.5%	\$ 89	\$ 17
Pennsylvania	12.5	3,089.19	14.26	\$ 3,103.45	\$ 1,845.40	\$ 170.05	\$ 159.96	\$ 928.04	59.5%	5.5%	5.2%	29.9%	\$ 248	\$ 75
Rhode Island	1.1	241.24	2.51	\$ 243.75	\$ 144.51	\$ 29.39	\$ 9.71	\$ 60.14	59.3%	12.1%	4.0%	24.7%	\$ 230	\$ 57
South Carolina	4.5	992.49	4.53	\$ 997.02	\$ 620.47	\$ 70.43	\$ 42.22	\$ 263.90	62.2%	7.1%	4.2%	26.5%	\$ 222	\$ 59
South Dakota	0.8	42.43	0.81	\$ 43.24	\$ 23.94	\$ 2.36	\$ 5.58	\$ 11.36	55.4%	5.5%	12.9%	26.3%	\$ 53	\$ 14
Tennessee	6.2	990.38	5.96	\$ 996.34	\$ 588.56	\$ 69.57	\$ 52.10	\$ 286.11	59.1%	7.0%	5.2%	28.7%	\$ 159	\$ 46
Texas	24.3	3,671.48	81.56	\$ 3,753.04	\$ 2,281.13	\$ 185.72	\$ 167.50	\$ 1,118.69	60.8%	4.9%	4.5%	29.8%	\$ 151	\$ 46
Vermont	0.6	101.99	0.35	\$ 102.34	\$ 64.76	\$ 5.97	\$ 8.87	\$ 22.74	63.3%	5.8%	8.7%	22.2%	\$ 165	\$ 37
Virginia	7.8	1,386.41	12.61	\$ 1,399.02	\$ 792.34	\$ 77.75	\$ 73.68	\$ 455.25	56.6%	5.6%	5.3%	32.5%	\$ 178	\$ 59
Washington	6.6	521.10	17.91	\$ 539.01	\$ 314.92	\$ 32.39	\$ 43.52	\$ 148.18	58.4%	6.0%	8.1%	27.5%	\$ 80	\$ 23
West Virginia	1.8	198.04	21.97	\$ 220.01	\$ 121.17	\$ 13.88	\$ 7.72	\$ 77.24	55.1%	6.3%	3.5%	35.1%	\$ 109	\$ 43
Wisconsin	5.6	494.73	6.41	\$ 501.14	\$ 286.70	\$ 34.28	\$ 32.81	\$ 147.35	57.2%	6.8%	6.5%	29.4%	\$ 88	\$ 26
Total	285.7	53,348.5	624.6	53,973.1	\$ 32,233.4	\$ 3,302.8	\$ 2,496.1	\$ 15,940.8	Average Percentages:				\$ 187	\$ 56
									59.7%	6.1%	4.6%	29.5%		

Notes to Table: Fiscal year 2008 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 2008 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	6.5	252.45		9.53		52.55	14.19		130.42			13.79	472.94	144.50
California	36.8	1,551.05		153.18	7.24	7.24	604.49	152.54	418.37		137.58	25.17	3,049.62	1,069.33
Colorado	4.9	336.04				41.06	19.15		109.56				505.81	122.30
Connecticut	3.5	618.97		114.01	93.61	32.20	41.16		98.20				998.15	283.56
Delaware ¹	0.9	35.58		26.76	17.33	7.14			35.52	2.02		1.00	125.35	319.84
D.C.	0.6	45.02		66.41	84.16		7.38		32.77	2.94	13.64	0.40	252.72	70.30
Florida	18.3	2,368.78		336.10	227.94	778.95	309.45					153.56	4,174.78	1,283.41
Georgia	9.7	2,157.60		505.71	176.91	26.12	82.83	217.49			90.58	14.82	3,272.05	867.69
Idaho	1.5	84.39	1.70	1.84		4.19			39.47	2.76		2.50	136.85	35.34
Illinois	12.9	1,093.61		299.02	167.79	112.91	128.43	221.14				34.37	2,057.27	648.46
Indiana	6.4	525.92	13.40	28.86	28.51	91.16	6.25		116.55			12.18	822.85	217.07
Iowa	3.0	137.92	21.41	6.37	2.32		4.29		63.76	11.72		1.43	249.22	56.55
Kansas	2.8	116.12	7.60	5.81			17.43		42.92	9.23	31.27	6.29	236.67	70.05
Kentucky	4.3	470.94	15.48	120.34	34.62	23.60	13.74		98.39			1.10	778.21	192.08
Louisiana	4.4	132.05		49.94	34.03	32.00	14.86		107.81			3.00	373.69	131.86
Maine	1.3	165.36		5.19	4.10	19.52	3.03		28.85			2.47	228.52	52.35
Maryland	5.6	513.86		274.29	234.89	31.20	23.41	129.40			386.58	79.40	1,673.04	529.40
Massachusetts	6.5	3,341.49	1.13		343.69	40.52	79.03	128.43			739.88	15.33	4,689.50	935.03
Michigan	10.0	734.20	37.43	347.24	325.22	64.13	51.32	184.77			540.32	45.56	2,330.20	740.74
Minnesota	5.2	297.97		12.90			28.24		97.17	12.20		13.04	461.52	116.27
Missouri	5.9	638.53	15.09	68.68	25.75	29.96	18.84		138.39		57.75	2.50	995.49	266.66
Montana	1.0	12.84				2.49	4.23		17.58	3.36		3.32	43.82	11.03
Nebraska	1.8	63.64		3.08		2.14	11.52		41.53				121.91	31.01
New Hampshire	1.3	183.99		10.51		10.46	3.43		46.42	3.54		2.35	260.69	75.55
New Jersey	8.7	1,283.99		457.01	265.28	86.22	132.50	299.22				14.85	2,539.06	882.06
New Mexico	2.0	86.59		2.33	0.22		6.55		44.50	6.00		1.00	147.20	40.81
New York ¹	19.5	3,594.01		856.54	718.52	208.40	319.81	481.64			444.26	50.02	6,673.18	2,556.14
North Carolina	9.2	606.15		147.16			58.52		229.26			7.37	1,048.45	349.31
North Dakota	0.6					2.27	3.40		13.06	3.39			22.12	5.92
Ohio	11.5	1,364.82		387.15	198.82	41.21	70.49	201.00			17.96	43.69	2,325.14	672.18
Oklahoma	3.6	87.34		7.07			6.09		107.04	6.74			214.28	71.61
Oregon ¹	3.8	124.70	0.86		1.40	37.15	6.68		55.97		109.79	2.13	338.68	648.41
Pennsylvania	12.5	1,706.85		416.09	270.26	77.65	236.24		356.93			25.16	3,089.19	928.05
Rhode Island ¹	1.1	81.56		27.45			5.14		48.86		77.65	0.59	241.24	355.57
South Carolina	4.5	622.86		137.07	62.04	10.69	26.35		133.48				992.49	265.29
South Dakota ¹	0.8	20.68				1.89	2.24		14.13	2.69		0.80	42.43	123.31
Tennessee	6.2	721.42		59.26	23.34	8.06	22.87		149.49			6.14	990.58	286.14
Texas	24.3	2,783.84		292.90	50.56	204.62	75.77		215.87			47.93	3,671.48	1,034.88
Vermont	0.6	77.33		1.60	1.31	5.92	1.76		12.54			1.52	101.99	22.72
Virginia	7.8	694.90		256.61	183.99	37.72	29.02	166.14				18.03	1,386.41	455.26
Washington	6.6	330.52		19.80		56.92	29.80	65.45			6.51	12.11	521.10	130.29
West Virginia ¹	1.8	110.86		9.12	4.62		5.75		54.05	4.02	9.60		198.04	631.16
Wisconsin	5.6	284.26	3.17	25.84	11.87	19.00	53.24		93.67			3.68	494.73	147.31
Total	285.7	30,461.00	117.27	5,548.77	3,600.34	2,207.26	2,578.92	2,247.22	3,192.53	70.61	2,663.37	668.60	53,348.7	17,876.80
% of total		57.1%	0.2%	10.4%	6.7%	4.1%	4.8%	4.2%	6.0%	0.1%	5.0%	1.3%	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).

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

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

We have audited the financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery") a proprietary fund of the State of Michigan, as of and for the six month period and year ended September 30, 2009, and have issued our report thereon dated December 4, 2009. 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 an instance of noncompliance or other matter that is required to be reported herein under *Government Auditing Standards* as described below.

Enrolled House Bill No. 5816 (Appropriations Bill) limits the Lottery's promotion and advertising expense to \$ 18,622,000 for the fiscal year ended September 30, 2009. The Lottery's promotion and advertising expense for the year ended September 30, 2009 was \$ 26,965,099. Promotion and advertising expenses exceeded appropriations as a result of the Lottery contracting with an Instant ticket vendor for additional promotion and advertising services.

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

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

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

Yeo & Yeo, P.C.

Lansing, Michigan
December 4, 2009





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