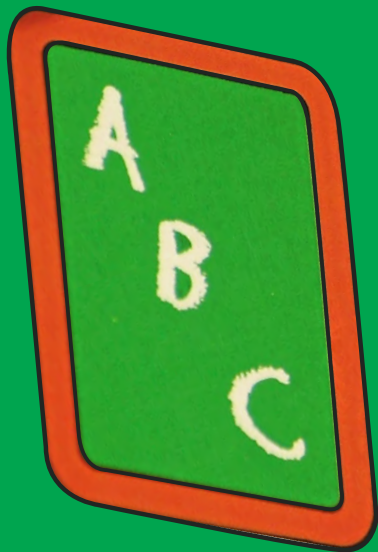




**MICHIGAN
LOTTERY**™

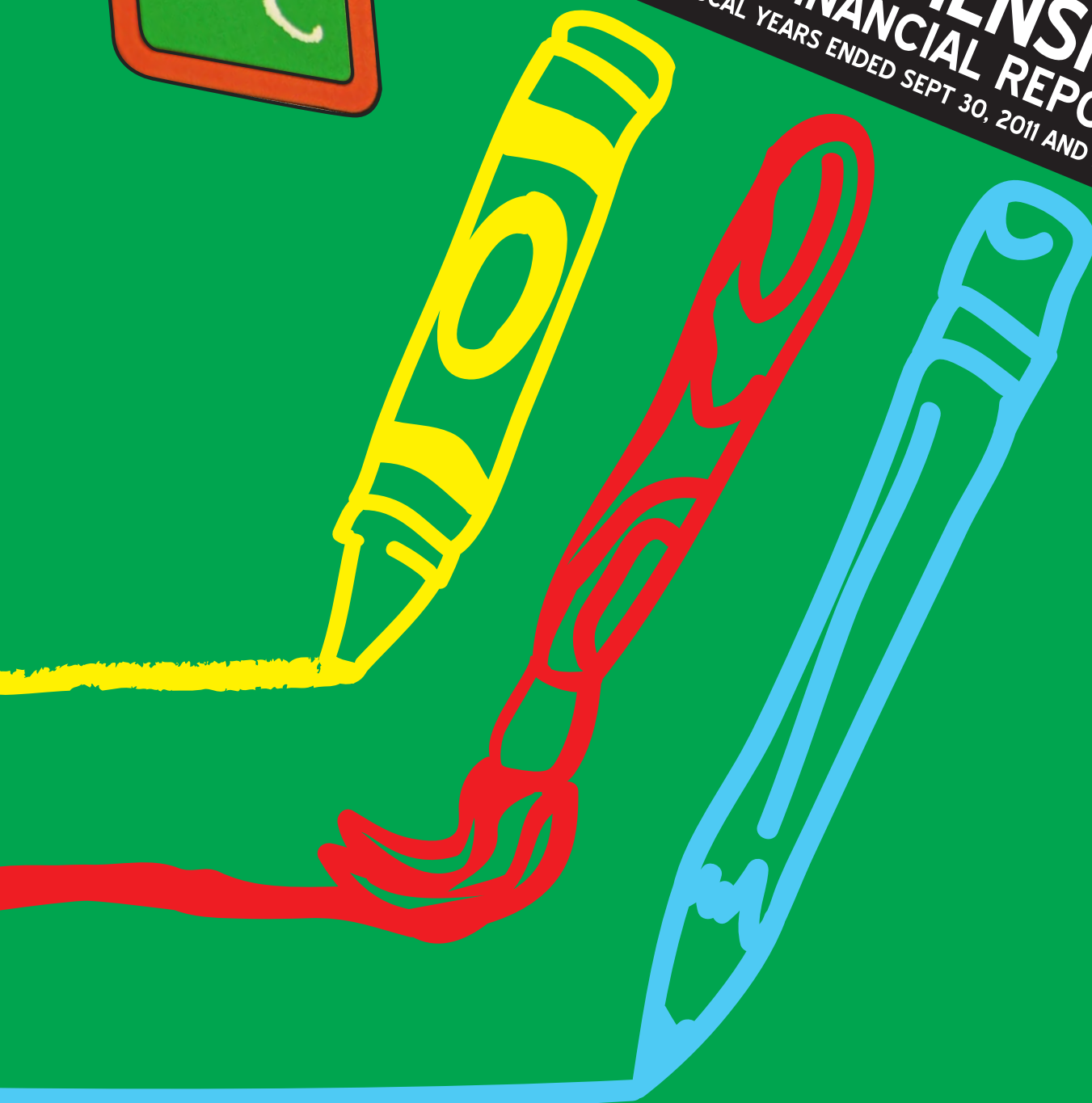


BUREAU OF STATE LOTTERY

AN ENTERPRISE FUND OF THE STATE OF MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED SEPT 30, 2011 AND 2010







BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2011 and 2010

Prepared by Accounting Division



Bureau of State Lottery, State of Michigan
Comprehensive Annual Financial Report
for the fiscal years ended September 30, 2011 and 2010

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal.....	1
GFOA Certificate of Achievement.....	9
Organization Chart and Principal Officials.....	10
FINANCIAL SECTION	
Independent Auditors' Report.....	11
Management's Discussion and Analysis.....	13
Basic Financial Statements	
Statement of Net Assets.....	24
Statement of Revenues, Expenses and Changes in Net Assets.....	25
Statement of Cash Flows.....	26
Notes to Financial Statements.....	28
Supplementary Information	
Supplementary Schedule of Revenues and Expenses September 2011.....	42
Supplementary Schedule of Revenues and Expenses September 2010.....	44
Supplementary Schedule of Other Operating Expenses.....	46
STATISTICAL SECTION	
Index.....	47
Michigan Statistics	
Financial Trends.....	49
Revenue Capacity.....	52
Debt Capacity.....	54
Demographic and Economic Information.....	55
Operating Information.....	59
U.S. Lottery Statistics	
Industry Comparative Information.....	62
Compliance Information	64
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	
Schedule of Findings and Questioned Costs	66





INTRODUCTORY SECTION





GOVERNOR

STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING



M. SCOTT BOWEN
COMMISSIONER

December 9, 2011

The Honorable Rick Snyder, Governor
Members of the Legislature
Citizens of the State of Michigan

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Bureau of State Lottery (Lottery) for the fiscal years ending September 30, 2011 and 2010. Lottery management is responsible for the accuracy of the financial data and the completeness of the contents of this report.

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

The mission statement of the Lottery is as follows:

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

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

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

Profile of the Lottery

History

The Lottery was established under the authority of Public Act 239 of 1972 to generate funds to support Michigan's public school system. The first lottery ticket was the Green Ticket which went on sale on November 13, 1972. On October 7, 1975, the first instant game ticket was sold. Online sales began June 6, 1977 with the introduction of the Daily 3 game. The first multi-state ticket sales for the Lottery were on August 31, 1996 for The Big Game (now called Mega Millions). On January 31, 2010, sales of Powerball, a second multi-state game, began. Since the Lottery's inception, more than \$16.6 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 a dynamic product line offering more than 75 new games a year. The games offered are priced between \$1 and \$20 and top prizes range from \$1 to \$2 million dollars.



Online Games

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



Mega Millions/Megaplier

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

On December 12, 2010, Megaplier, an add-on game to Mega Millions, began where players can now increase their prize by two to four times. The Megaplier number is selected at random before each drawing. If a player wins a non-jackpot prize on their Mega Millions wager, their prize is increased by the Megaplier number drawn. Players matching five white balls with the Megaplier option win \$1 million, regardless of the Megaplier number drawn. On January 31, 2010, the Multi-State Lottery Association (MUSL), an association of 33 member lotteries, joined with the 12 participating Mega Millions states including California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia and Washington to participate in the Mega Millions game with Michigan.



Powerball/Power Play

Powerball is a multi-state online game and is considered nationally to be the “marquee big jackpot game”. It was introduced January 31, 2010. Players select 5 of 59 white balls and 1 of 39 red balls for a chance to win a multi-million dollar jackpot prize. The jackpot starts at \$20 million. This game offers nine ways to win with guaranteed prize amounts on lower prize levels. Drawings are conducted twice a week on Wednesday and Saturday. Power Play is an add-on game to Powerball. The Power Play number is selected at random before each drawing. If a player wins a non-jackpot prize on their Powerball wager, their prize is multiplied by the Power Play number selected. Players matching 5 white balls and also playing Power Play will automatically win \$1 million, regardless of the Power Play number selected. A total of 45 member lotteries, Mega Millions and MUSL members, participate in the Powerball game with Michigan.



Classic Lotto 47

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



Fantasy 5

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



Daily 3 & 4 Games

The Daily 3 & 4 games are the Lottery's longest running and most consistently popular games, representing over 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; Super Raffle was added in April 2007; Lucky 7's Raffle and Win for Life Raffle were added in 2009; and Red Hot Raffle and The Ultimate 50/50 Raffle were added in 2010. Two Raffle drawings were performed in 2011 that included Millionaire Raffle and The Ultimate 50/50 Raffle. For all Raffles, each ticket purchased contains a unique raffle number issued sequentially across the online gaming system network. The Millionaire Raffle has a defined and limited pool of tickets available for sale. When the last raffle number is issued, the game will close and no additional tickets will be available for purchase. In the Ultimate 50/50 Raffle, a single player matching their number in exact order to the number drawn by the Lottery wins the cash jackpot. Both Raffles offer bonus drawings for extra chances for players to win. The prizes range from \$20 to over \$2 million.



Lucky Lines

Lucky Lines, introduced in April 2010, is an instant-win online game in which players win by matching numbers in patterns on a 7 x 7 grid printed on their ticket. Players win instantly by matching 3, 4, 5, 6 or 7 numbers together in any horizontal, vertical or diagonal line. There are 49 different ways to play and the player can wager between \$1 and \$5. The top prize for Lucky Lines is \$1,000,000.



Club Games



Club Keno "To Go"

Club Games were introduced in October 2003 and are predominantly played by patrons of bars, restaurants and bowling centers. Previously, results of the drawings, which are conducted every four minutes, were displayed on TV monitors located in retailer establishments. Beginning in October 2010, Club Keno "To Go" was introduced allowing the traditional retailers to begin selling Club Keno. At that time drawings became available to view on the web and in May 2011 on a Michigan Lottery mobile application. Club Games consist of an online Club Keno game, Club Keno Kicker, The Jack and Pull Tab games. To play Club Keno, players select up to 10 numbers from a pool of 80. The Lottery draws 20 numbers and the more numbers the player matches, the more he or she wins. Wagers can be placed from \$1 to \$20 and the top prize is \$2 million.

The Kicker option allows players to multiply their Club Keno prizes as much as 10 times. The Jack is a progressive jackpot game that grows with every four minute drawing. A player wins the progressive jackpot by matching all seven of their numbers with the Club Keno numbers for that drawing. Pull Tab games are similar to instant tickets but players pull a perforated tab instead of scratching off the ticket. A variety of different Pull Tab games are offered at one time. Ticket prices are 50 cents, \$1 and \$2 and top prizes range from \$50 to \$7,000.



Player's Club

As of September 30, 2011 nearly 275,000 registered members have joined the new Michigan Lottery's Player's Club with more than 162,000 opting into email communications and 47,000 opting into receiving text message communications from the Lottery. Players utilize the website to earn reward points and second chance entries for submitting non-winning instant game tickets online. Reward points can be redeemed by players in the catalog to enter additional drawings or to earn immediate reward items. In 2011, targeted offers and catalog reward e-Coupons were issued to player's club members. The Michigan Lottery Player's Club can be accessed by visiting www.michiganlottery.com.

Highlights of Fiscal Year 2011

Contribution to the School Aid Fund

The Lottery disbursed \$727.3 million to the School Aid Fund. Lottery represents a steady source of revenue for our children's schools. This was the Lottery's third largest contribution to the School Aid Fund.

Sales

Sales for 2011 surpassed \$2.3 billion for the year.

Retailers Win Big with Commissions and Incentives

Retailer commissions totaled \$168.4 million in 2011. The Lottery offers our business partners a performance-based retailer incentive program. Since its launch in January 2002, the retailer incentive commission program has awarded over \$23 million in additional commissions.

Club Keno "To Go"

Club Keno "To Go" was introduced in October 2010 which is a variation of Club Keno that enables players to purchase tickets at any Lottery Retailer location and take the ticket home to view drawings through the Lottery's website with a high-speed internet connection. Also, with the proliferation of mobile devices, the Club Keno product launched a mobile phone application which allows players to display drawings on their iPhone or Android.

Budgetary System and Controls

The Lottery works with the Department of Technology, Management and Budget, the State Budget Office and the Legislature to create an annual appropriated budget for the administrative costs for the Lottery. The proposed appropriated budget is approved by the Legislature annually.

This approved budget becomes a spending cap for administrative expenses and ticket revenues provide funding for operations. Revenue and net income forecasts are prepared throughout the fiscal year comparing estimates and forecasts to actual sales and expenses. This information is provided to the State Budget Office and other state agencies in order to ensure Lottery projections are accurately reflected in State budgetary planning.

Economic Condition and Financial Information

Local Economy

Michigan's economy and State revenue will be significantly affected by the strength of the national recovery. While threat of another recession has subsided, the national economy is anticipated to only grow moderately over the next two years. There are many culprits to the modest economic growth predicted; especially the distressed housing market and the retraction of government services but such slow growth will only provide a slower decline in the national unemployment rate during that time. More encouragingly, national non-farm employment has increased with job gains widespread and occurring in construction, manufacturing, business and professional services, and education and health services as compared to those sectors that are declining which include government, information and leisure & hospitality services. The national expansion is on track, but housing foreclosures, continued tight credit conditions, and the European debt crisis will continue to present ongoing challenges.

Michigan's wage and salary employment has trended downward since mid-2000; more recently the job losses have lessened and are steadily increasing. In September 2011, Michigan's unemployment rate of 11.1% was well above the national average of 9.1%. The forecast for 2012 is that Michigan will see overall job growth with modest projected gains and a decrease in the unemployment rate to 10.4%.

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

Financial Information

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

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

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

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

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

Accounting Systems and Policies

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

Internal Controls

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

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

Debt Administration

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

Long-term Financial Planning

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

In 2012, Instant game prize structures will be enhanced to provide more prizes with increased odds of winning along with re-introducing an instant game prize point of \$3. Instant game variety, promotion of base games and continued emphasis on building the retailer network including the retailer incentive program to promote our Lottery products; are all part of the strategy to increase sales.

Player's Club will be expanding in 2012 to allow the submission and entry of all games for points. The current Player's Club program is highly targeted toward the Instant ticket market. Expanding the program will help maximize membership growth opportunity and provide Lottery insight into the online games market, while also allowing the program to be fun and fair for all Michigan Lottery players.

In January 2012, the price point for Powerball will increase to \$2 and a new matrix will be introduced. The redesigned game offers players a larger starting jackpot of \$40 million, \$1,000,000 second-tier prizes and better overall odds of winning. The changes are being made to differentiate the two multi-state jackpot games. Players who want to continue spending \$1 for a chance at a multi-million dollar jackpot will still have the option to play Mega Millions.

As an enterprise fund of the State of Michigan, the management of the Lottery is in accordance with the rules and regulations of the State. The Lottery is a multi-billion dollar business that is housed within a government structure. In fiscal year 2011, the Lottery began working on efforts to modernize the Lottery. These efforts encompass several components: eliminate the winner anonymity option; reduce the prize claim period for terminal-based games from 365 to 180 days and for instant games from 18 to 12 months; establish the advertising budget at 1 percent of sales; establish the Lottery as a special purpose corporation; and implement electronic games.

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

Awards and Acknowledgements

Awards

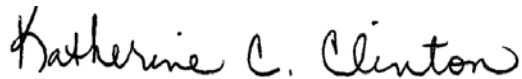
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended September 30, 2010. This was the sixth consecutive year 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,



Katherine C. Clinton
Deputy Commissioner for Administration



M. Scott Bowen
Commissioner

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Bureau of State Lottery
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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.



Linda C. Davison

President

Jeffrey R. Enen

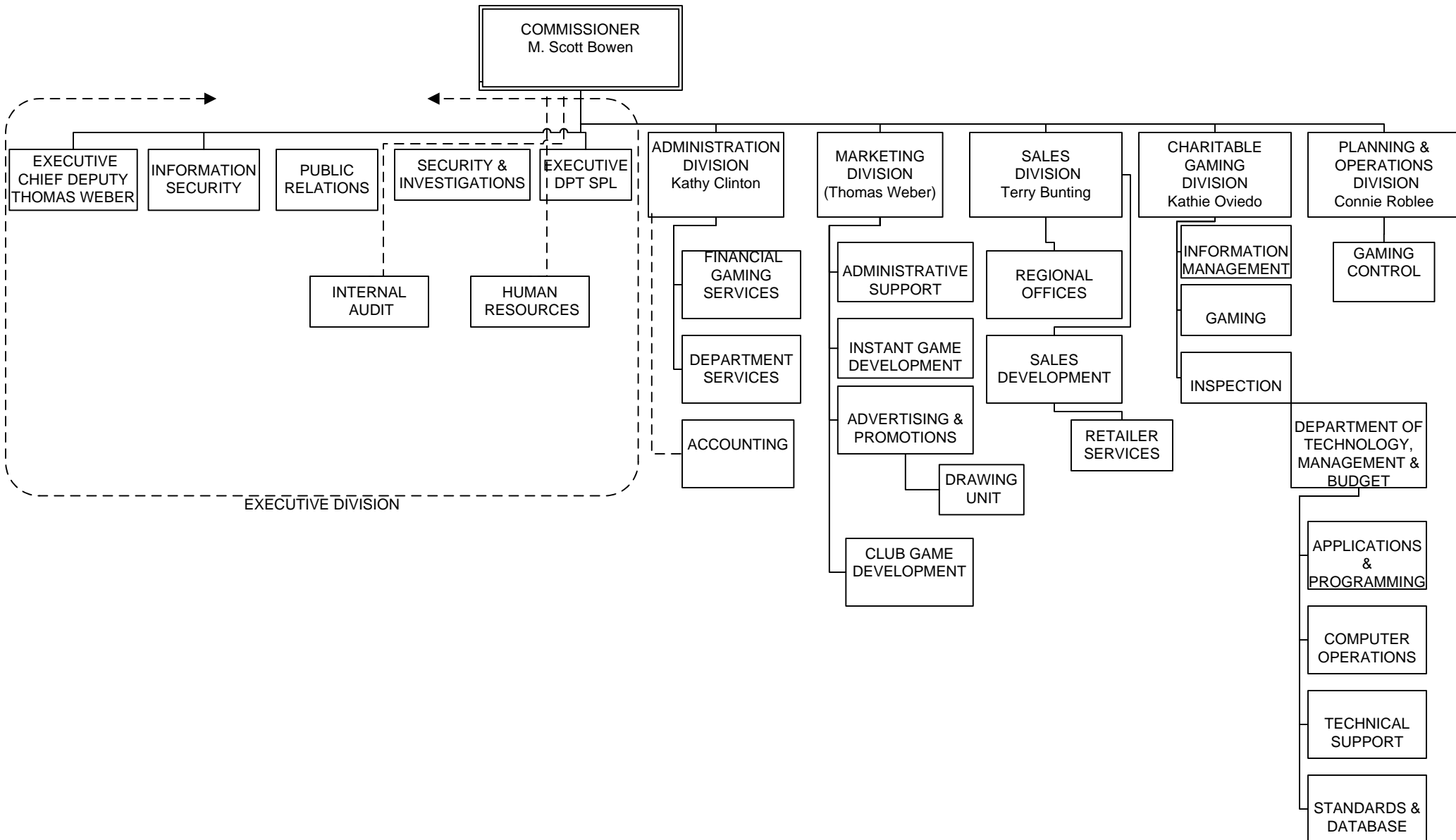
Executive Director



Bureau of State Lottery

Organization Chart and Principal Officials

September 2011





FINANCIAL SECTION



Independent Auditor's 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 Bureau of State Lottery, State of Michigan (an Enterprise Fund of the State of Michigan) (the "Lottery"), a proprietary fund of the State of Michigan, as of and for six-month period and year ended September 30, 2011, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Lottery for the six-month period and year ended September 30, 2010 were audited by other auditors, whose report dated December 6, 2010 expressed an unqualified opinion on those statements.

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. 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Lottery 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, 2011 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 our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lottery as of September 30, 2011 and the respective changes in financial position and cash flows, where applicable, for the six-month period and year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. 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.

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 introductory section, other supplementary information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions 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 read in conjunction with this report in considering the results of our audit.

Plante & Moreau, PLLC

December 2, 2011

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The following discussion of the Michigan Bureau of State Lottery's (the Lottery's) financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2011. 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 Comprehensive Annual Financial Report (CAFR) consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules. The Statement of Net 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 their changes.

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

Financial Highlights

- Operating revenues for Lottery gaming activities decreased by \$22.5 million, or 0.9%.
- Total revenues for all activities (including non-operating) decreased \$11.9 million or 0.5%.
- Non-operating revenues increased by \$10.6 million.
- Total operating expenses for 2011 decreased \$45.7 million, or 2.8%. Of this decrease, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities decreased by \$37.3 million, or 2.7%, unclaimed prizes decreased by \$3.4 million, or 12.5%, retailer and vendor commissions decreased \$1.6 million, or 0.8%, while other operating expenses decreased by \$7.2 million, or 12.7%.
- Total expenses (including non-operating) for all activities decreased \$21.4 million or 0.9%.
- Disbursements to the School Aid Fund were \$701.3 million in 2010 and \$727.3 million in 2011, an increase of \$26.0 million or 3.7%. Net income disbursed to the General Fund related to Charitable Gaming activities decreased by \$2 million or 17.7%.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Net Assets

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

(in millions)

	September 30,		
	2011	2010	2009
Current and other assets	\$ 135.6	\$ 139.1	\$ 146.2
Investments - noncurrent	250.7	174.9	211.0
Capital assets (net of accumulated depreciation)	0.4	0.6	0.7
Total assets	<u>386.7</u>	<u>314.6</u>	<u>357.9</u>
Current liabilities	119.2	119.2	133.7
Long-term liabilities	<u>237.0</u>	<u>181.1</u>	<u>216.6</u>
Total liabilities	<u>356.2</u>	<u>300.3</u>	<u>350.3</u>
Net assets:			
Invested in capital assets	0.4	0.6	0.7
Restricted for unrealized gains on investments	30.5	14.3	7.6
Unrestricted (deficit)	<u>(0.4)</u>	<u>(0.6)</u>	<u>(0.7)</u>
Total net assets	<u>\$ 30.5</u>	<u>\$ 14.3</u>	<u>\$ 7.6</u>

As shown in Table 1 above, the Lottery's net assets increased since September 2010 from \$14.3 million to \$30.5 million. The change from September 2009 to 2010 was an increase of net assets by \$6.7 million. The increases are attributable to the changes in market value of those investments that the Lottery holds to fund future payments due on annuitized lottery prizes. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2011, net capital assets decreased by approximately \$.2 million since September 2010. Capital assets decreased approximately \$0.1 million from September 2009 to 2010. 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.

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

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

Table 2 - Liabilities
(in millions)

	September 30,		
	2011	2010	2009
Current:			
Warrants authorized and warrants outstanding	\$ 9.1	\$ 11.3	\$ 10.7
Accounts payable and other liabilities	6.5	4.8	5.1
Prize awards payable (net of discount)	103.6	103.1	117.8
Total current	119.2	119.2	133.6
Non-current:			
Prize awards payable (net of discount)	236.1	179.9	215.3
Compensated absences	0.6	1.2	1.4
Supplemental retirement	0.3	-	-
Total non-current	237.0	181.1	216.7
Total liabilities	\$ 356.2	\$ 300.3	\$ 350.3

Non-current liabilities consist principally of prize liability for prizes paid in installments over several years. Long-term prize liability increased by \$56.2 million or 31.2% from 2010 to 2011 and decreased \$35.4 million or 16.4% from 2009 to 2010. The increase from 2010 to 2011 is attributable to additions to the pool of annuitized installment prizes. The decrease from 2009 to 2010 is attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. Refer to Note 6 in the accompanying financial statements for more information.

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

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

Table 3 - Changes in Net Assets
(in millions)

	September 30,		
	2011	2010	2009
Operating revenues	\$ 2,357.4	\$ 2,379.9	\$ 2,399.0
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(1,344.3)	(1,381.6)	(1,407.6)
Commissions and game related expenses	(222.3)	(223.5)	(228.0)
Total prizes and direct game expenses	(1,566.6)	(1,605.1)	(1,635.6)
Income before other operating expenses	790.8	774.8	763.4
Other operating expenses	(49.4)	(56.6)	(56.7)
Operating income	741.4	718.2	706.7
Non-operating revenues and (expenses):			
Investment and interest revenues	27.9	17.3	19.8
Investment and interest expenses	(15.5)	(15.2)	(18.4)
School Aid Fund disbursement expense	(727.3)	(701.3)	(724.5)
General Fund disbursement expense	(9.3)	(11.3)	(11.8)
Community Health disbursement expense	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(725.2)	(711.5)	(735.9)
Change in net assets	16.2	6.7	(29.2)
Total net assets beginning of period	14.3	7.6	36.8
Total net assets end of period	\$ 30.5	\$ 14.3	\$ 7.6

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 \$727.3 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2011. There was an increase of \$26.0 million or 3.7% from 2010 to 2011 and a decrease of \$23.2 million or 3.2% from 2009 to 2010. The disbursement expense to the General Fund reflects Charitable Gaming activities. Charitable Gaming activities experienced a decrease in net revenues for three fiscal years. Charitable Gaming net income is disbursed annually to the General Fund.

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

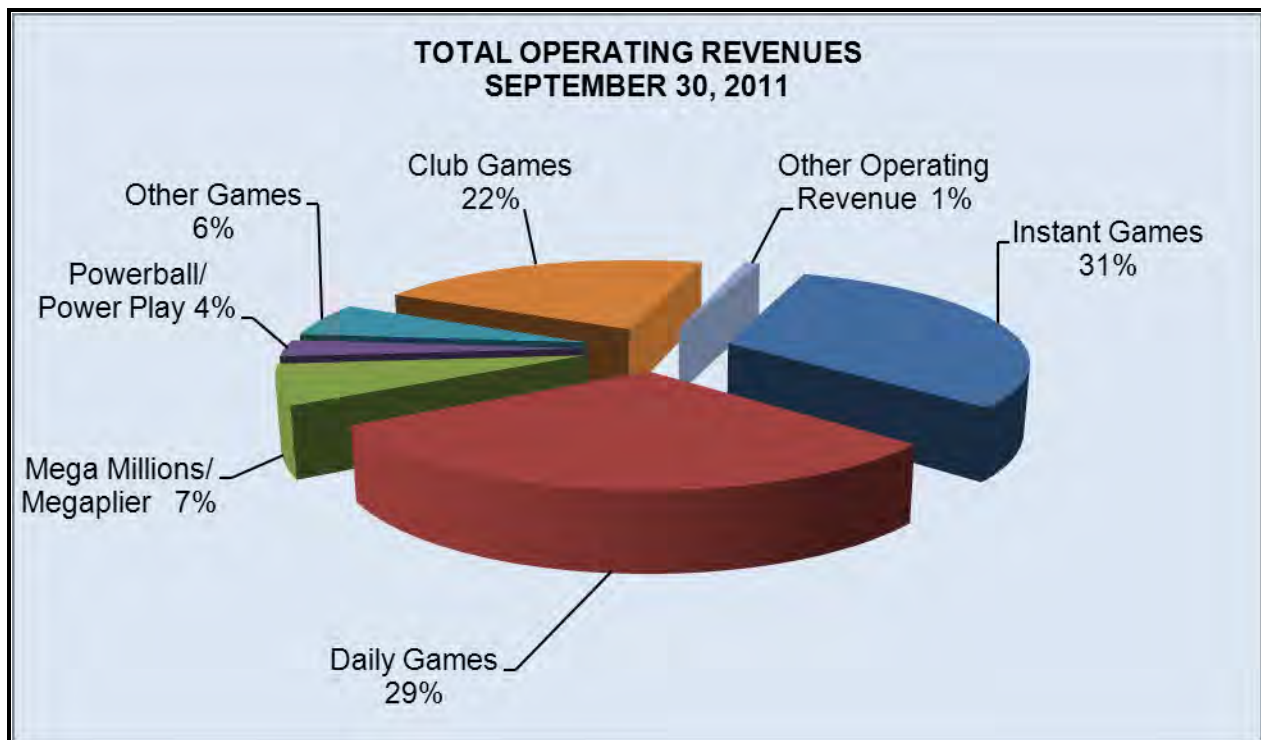
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds
(in millions)

	September 30,		
	2011	2010	2009
School Aid Fund	\$ 727.3	\$ 701.3	\$ 724.5
General Fund	9.3	11.3	11.8
Community Health	1.0	1.0	1.0
Total Disbursements to Other Funds	<u>\$ 737.6</u>	<u>\$ 713.6</u>	<u>\$ 737.3</u>

Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2011:



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

Table 5 - Revenues
(in millions)

	September 30,		
	2011	2010	2009
Operating revenues:			
Instant tickets	\$ 739.2	\$ 750.8	\$ 749.1
Daily games	685.6	703.2	686.9
Mega Millions/Megaplier	167.8	173.5	222.7
Powerball/Power Play	85.9	64.5	-
Club games	527.9	519.6	548.0
Other games	133.5	147.6	170.8
Other operating revenue	17.5	20.7	21.5
Total operating revenues	<u>2,357.4</u>	<u>2,379.9</u>	<u>2,399.0</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	16.2	6.6	(29.1)
Amortization on bonds	11.5	10.4	17.0
Other income	0.2	0.3	31.9
Total non-operating revenue	<u>27.9</u>	<u>17.3</u>	<u>19.8</u>
Total revenues	<u>\$ 2,385.3</u>	<u>\$ 2,397.2</u>	<u>\$ 2,418.8</u>

Operating revenues for fiscal year, primarily Lottery ticket sales, decreased from 2010 to 2011, and decreased from 2009 to 2010. The decrease in fiscal year September 2011 over 2010 was \$22.5 million or 0.9% and decreased in fiscal year 2010 over 2009 by \$19.1 million or 0.8%.

Instant game ticket sales decreased by \$11.6 million or 1.5% for fiscal year 2011 compared to fiscal year 2010. The increase in fiscal year September 2010 over 2009 was \$1.7 million or 0.2%.

Powerball is a multi-state game, similar to Mega Millions, offering larger jackpots. Participating in Powerball is the Multi-State Lottery Association (MUSL), an association of governmental lotteries, and the Mega Million's Lotteries for a total of 43 states, Washington D.C., and U.S. Virgin Islands. Sales for fiscal year September 2011 increased by \$21.4 million or 33.2% compared to fiscal year 2010. Powerball was introduced beginning January 2010. Power Play is an add-on game to Powerball where players can multiply non-jackpot prizes from two to five times.

Mega Millions is a multi-state game offering larger jackpots with an occasional "mega-jackpot". The states participating in Mega Millions with Michigan are California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia, Washington, and MUSL. Sales for the fiscal year September 2011 decreased by \$5.7 million or 3.3% compared to fiscal year 2010. Sales in fiscal year 2010 decreased by \$49.2 million or 22.1% compared to fiscal year 2009. This decrease is primarily due to lack of jackpot growth and the introduction of Powerball. Megaplier, introduced in December 2010, is an add-on to Mega Millions whereby players have an opportunity to increase their non-jackpot winnings.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

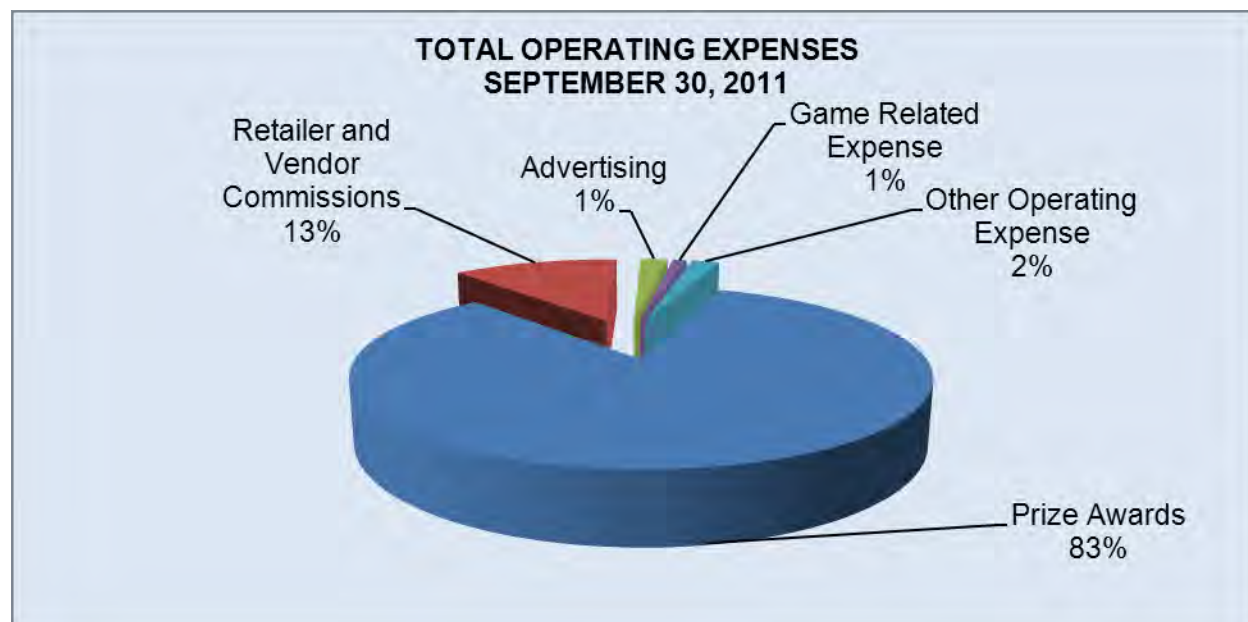
Club games include Club Keno, Club Keno Kicker, Pull Tabs, and The Jack. The Club Games sales increased in fiscal year September 2011 by \$8.3 million or 1.6% over 2010, and decreased by \$28.4 million or 5.2% from 2009 to 2010. The 2011 sales increase is attributable to the addition of Club Keno "To Go" on the web in October 2010. This allowed the sale of Club Keno, Club Keno Kicker, and The Jack from all traditional retailers. Prior to October 2010, Club games were primarily sold in bars and restaurants licensed for on-premise alcohol consumption. In May 2011, Club Keno "To Go" also launched mobile applications for iPhone and Android enabling players to be able to watch drawings anywhere. The sales decrease from 2010 compared to 2009 was due to the non-smoking legislation enacted on May 1, 2010 that had a significant impact on traffic to the Lottery's Club Game Retailers.

Other games consist of Classic Lotto 47, Fantasy Five, Keno, Raffle and Lucky Lines. Classic Lotto 47 enjoyed a slight increase in sales during 2011. In 2011, Raffle consisted of one \$20 game called Millionaire Raffle and one \$5 game called "The Ultimate 50/50 Raffle".

The increase in non-operating revenues from 2010 to 2011 resulted from an increase in unrealized gain on investments and bond amortization income. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact the disbursement to the School Aid Fund. The increase in bond amortization from 2011 from 2010 was a result of a purchase of additional investments held to maturity for annuity prizes awarded. The reduction in bond amortization and other income from 2010 to 2009 are due to the sale and purchase of investments in 2009 and fluctuation in the market resulting in lower interest rates on common cash. 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, 2011:



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

Table 6 - Expenses
(in millions)

	September 30,		
	2011	2010	2009
Prizes:			
Instant prizes	\$ 493.4	\$ 500.6	\$ 503.1
Online prizes	530.0	568.1	577.1
Club game prizes	344.8	340.2	356.1
Total prizes	1,368.2	1,408.9	1,436.3
Less: unclaimed prizes	23.9	27.3	28.7
Net prize awards	1,344.3	1,381.6	1,407.6
Direct game expenses:			
Retailer commissions	168.4	170.5	174.2
Vendor commissions	32.4	31.9	35.4
Game related expenses	21.5	21.1	18.4
Total direct game expenses	222.3	223.5	228.0
Other operating expenses:			
Salaries, wages and benefits	17.0	16.9	16.1
Other professional services	5.1	5.6	5.9
Printing and supplies	1.8	2.1	2.3
Other general and administrative	2.9	3.0	5.4
Promotion and advertising	22.6	29.0	27.0
Total other operating expenses	49.4	56.6	56.7
Total operating expenses	1,616.0	1,661.7	1,692.3
Non-operating expenses:			
Amortization of prize discount	15.5	15.2	18.4
School Aid Fund disbursement	727.3	701.3	724.5
General Fund disbursement	9.3	11.3	11.8
Community Health disbursement	1.0	1.0	1.0
Total non-operating expenses	753.1	728.8	755.7
Total expenses	\$ 2,369.1	\$ 2,390.5	\$ 2,448.0

The Daily Games prize payout decreased overall in 2011 compared to 2010 as well as 2010 compared to 2009. The Daily 3 prize payout had a decrease to 46.9% in 2011, compared to 48.2% in 2010, and 54.6% in 2009. The Daily 4 payout decreased to 49.0% in 2011, compared to 57.4% in 2010, and 54.4% in 2009. Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 48.0% in 2011, compared to 52.9% in 2010, and 54.5% in 2009.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The Club Games prize payout percentage decreased to 64.8% in 2011, compared to 64.9% in 2010, and a slight increase compared to 64.7% in 2009. 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 60%.

Instant games had an overall payout of 66.8% in 2011, compared to 66.7% in 2010, and 67.2% in 2009. 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 75% for a \$10 game.

Retailer commissions have decreased commensurate with lower overall sales. Vendor commission slightly increased primarily due to additional retailer equipment acquired. Game related expense has increased by \$0.4 million or 1.9% in 2011 from 2010 and increased by \$2.7 million or 14.7% in 2010 from 2009.

Other operating expenses have decreased by \$7.2 million or 12.7% from 2011 over 2010 and decreased \$0.1 million or 0.2% in 2010 from 2009.

Unclaimed Prizes

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

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

Unclaimed prizes decreased by \$3.4 million from 2010 to 2011 and decreased by \$1.4 million from 2009 to 2010.

Charitable Gaming

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

	September 30,		
	2011	2010	2009
Gross revenue	\$ 16.0	\$ 18.7	\$ 20.7
Operating expenses	(6.7)	(7.4)	(8.9)
Net income	<u>\$ 9.3</u>	<u>\$ 11.3</u>	<u>\$ 11.8</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 decreased by \$2.7 million or 14.4% for fiscal year 2011 compared to fiscal year 2010 and decreased \$2.0 million or 9.6% from fiscal year 2009 to 2010. The Lottery also oversees the distribution and sale of break-open tickets, (also for fund-raising purposes), to these same organizations. The decrease in revenues is due to a decrease in sales of break-open tickets.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

Other Potentially Significant Factors Impacting Next Year

The Mega Millions consortium and the Multi-State Lottery Association are restructuring the Powerball game from a \$1 to a \$2 dollar price point to begin January, 2012 which will offer higher starting jackpots of \$40 million, \$1 million second-tier prizes, and better overall odds of winning.

There will be enhancements to the Instant game prize structures that will create more winning experiences for players and drive increases in sales; the size of games will be increased to create larger pools of meaningful prizes and larger quantities create the need for fewer overall games; additional online instant games will be developed in FY2012 for the Player's Club internet site; and lastly, a \$3 price point will be re-introduced for the extended play category of games – specifically Bingo and Cashword – which offers excellent opportunity to increase instant game sales.

To attract and maximize player engagement and retention, marketing campaigns will increase utilization of social media sites such as Facebook, Twitter, You Tube, Lottery's Player's Club website, email, Mobile apps and SMS which will offer players club reward coupons, free play coupons, targeted email offers, point multiplier programs and second chance promotions.

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

Contacting the Lottery's Financial Management

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



Bureau of State Lottery, State of Michigan
Statement of Net Assets
September 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Equity in State Treasurer's Common Cash Fund	\$ 15,934,334	\$ 17,877,635
Investments, at fair value	48,850,728	52,593,622
Accounts receivable - net	65,739,010	63,268,186
Inventory	5,056,318	5,375,399
Total current assets	135,580,390	139,114,842
Noncurrent assets:		
Investments, at fair value	250,676,243	174,942,490
Capital assets:		
Leasehold improvements and equipment	4,398,529	4,413,666
Accumulated depreciation	(3,951,410)	(3,860,934)
Total capital assets	447,119	552,732
Total noncurrent assets	251,123,362	175,495,222
Total assets	386,703,752	314,610,064
Liabilities		
Current liabilities:		
Warrants outstanding	920,796	724,037
Warrants authorized	8,140,012	10,577,943
Accounts payable and other liabilities	6,546,910	4,797,094
Prize awards payable - net of discount	103,623,946	103,140,267
Total current liabilities	119,231,664	119,239,341
Noncurrent liabilities:		
Prize awards payable - net of discount	236,136,724	179,883,796
Accrual for compensated absences, less current portion	537,920	1,231,329
Accrual for supplemental retirement, less current portion	334,132	-
Total noncurrent liabilities	237,008,776	181,115,125
Total liabilities	356,240,440	300,354,466
Net Assets		
Invested in capital assets	447,119	552,732
Restricted for unrealized gains on investments	30,463,312	14,255,598
Unrestricted (deficit)	(447,119)	(552,732)
Total net assets	\$ 30,463,312	\$ 14,255,598

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, 2011 and 2010

	Six Months Ended		Years Ended	
	2011	2010	2011	2010
Operating revenues				
Ticket sales	\$ 1,132,257,888	\$ 1,143,373,021	\$ 2,339,954,260	\$ 2,359,228,029
Charitable gaming and other	8,278,814	9,161,169	17,462,254	20,746,834
Total operating revenues	1,140,536,702	1,152,534,190	2,357,416,514	2,379,974,863
Operating expenses				
Prize awards	669,467,726	673,933,522	1,368,238,382	1,408,918,449
Less - unclaimed prizes	(12,065,210)	(15,690,750)	(23,912,948)	(27,292,789)
Net prize awards	657,402,516	658,242,772	1,344,325,434	1,381,625,660
Retailer and vendor commission	97,284,546	98,476,745	200,749,372	202,449,172
Game-related expenses	10,014,810	10,568,148	21,538,126	21,052,353
Depreciation expense	98,571	119,040	210,720	238,007
Other operating expenses	23,231,177	27,418,219	49,202,167	56,399,858
Total operating expenses	788,031,620	794,824,924	1,616,025,819	1,661,765,050
Operating income	352,505,082	357,709,266	741,390,695	718,209,813
Non-operating revenues				
Investment revenue	32,395,380	13,751,959	27,752,549	17,010,147
Interest on equity in State Treasurer's Common Cash Fund	77,908	158,559	196,531	281,612
Total non-operating revenues	32,473,288	13,910,518	27,949,080	17,291,759
Non-operating expenses				
Bank fees	(2,501)	(2,324)	(5,000)	(4,472)
Amortization of prize award obligation discount	(7,542,046)	(7,241,624)	(15,458,515)	(15,219,449)
Loss on disposal of assets	-	-	-	(4,810)
Total non-operating expenses before disbursements	(7,544,547)	(7,243,948)	(15,463,515)	(15,228,731)
Disbursements to School Aid Fund	(345,944,630)	(350,099,326)	(727,324,851)	(701,327,800)
Disbursements to General Fund	(4,454,913)	(5,055,030)	(9,353,695)	(11,335,165)
Disbursements to Community Health	(495,000)	(495,000)	(990,000)	(990,000)
Total disbursements	(350,894,543)	(355,649,356)	(737,668,546)	(713,652,965)
Total non-operating expenses	(358,439,090)	(362,893,304)	(753,132,061)	(728,881,696)
Net non-operating revenue (expense)	(325,965,802)	(348,982,786)	(725,182,981)	(711,589,937)
Change in net assets	26,539,280	8,726,480	16,207,714	6,619,876
Total net assets at beginning of period	3,924,032	5,529,118	14,255,598	7,635,722
Total net assets at end of period	\$ 30,463,312	\$ 14,255,598	\$ 30,463,312	\$ 14,255,598

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, 2011 and 2010

	Six Months Ended		Years Ended	
	2011	2010	2011	2010
Cash Flows From Operating Activities				
Cash collections from customers	\$ 1,146,139,034	\$ 1,158,503,414	\$ 2,354,810,133	\$ 2,373,992,261
Payments to employees	(8,433,442)	(8,900,641)	(17,130,603)	(17,368,278)
Payments to suppliers	(27,741,870)	(32,514,397)	(54,202,443)	(58,563,053)
Payments to prize winners	(693,720,587)	(690,660,510)	(1,303,047,343)	(1,446,944,420)
Payments for retailer and vendor commissions	(97,284,546)	(98,476,745)	(200,749,372)	(202,449,172)
Net cash provided by operating activities	318,958,589	327,951,121	779,680,372	648,667,338
Cash Flows From Noncapital Financing Activities				
Disbursements to School Aid Fund	(422,324,851)	(426,327,800)	(727,324,851)	(701,327,800)
Disbursements to General Fund	(9,353,695)	(11,335,165)	(9,353,695)	(11,335,165)
Disbursements to Community Health	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	(432,668,546)	(438,652,965)	(737,668,546)	(713,652,965)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(5,975)	(18,035)	(105,107)	(70,448)
Cash Flows From Investing Activities				
Proceeds from the sale and maturity of investment securities	27,020,000	33,290,001	53,040,000	60,785,000
Purchase of investments	-	-	(97,278,310)	-
Interest received	142,161	211,115	196,531	281,612
Bank fees	(2,501)	(2,324)	(5,000)	(4,472)
Net cash provided by investing activities	27,159,660	33,498,792	(44,046,779)	61,062,140
Net decrease in cash and cash equivalents	(86,556,272)	(77,221,087)	(2,140,060)	(3,993,935)
Cash and cash equivalents at beginning of period	101,569,810	94,374,685	17,153,598	21,147,533
Cash and cash equivalents at end of period	\$ 15,013,538	\$ 17,153,598	\$ 15,013,538	\$ 17,153,598

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2011 and 2010

	Six Months Ended		Years Ended	
	2011	2010	2011	2010
Reconciliation of net operating income to net cash provided by operating activities				
Operating income	\$ 352,505,082	\$ 357,709,266	\$ 741,390,695	\$ 718,209,813
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	98,571	119,040	210,720	238,007
Bad debt expense	67,944	90,132	135,557	195,426
Amortization of prize award obligation discount	(7,542,046)	(7,241,624)	(15,458,515)	(15,219,449)
Net changes in assets and liabilities:				
Inventory	587,113	521,729	319,081	(112,211)
Receivables from retailers	5,602,332	5,969,225	(2,606,381)	(5,982,602)
Warrants authorized, compensated absences, supplemental retirement, accounts payable, other liabilities	(3,584,382)	(4,040,533)	(1,047,391)	1,437,665
Prize awards payable	(28,776,025)	(25,176,114)	56,736,606	(50,099,311)
Net cash provided by operating activities	\$ 318,958,589	\$ 327,951,121	\$ 779,680,372	\$ 648,667,338
Reconciliation of cash and cash equivalents				
Cash and cash equivalents at beginning of period				
Equity in State Treasurer's Common Cash Fund	\$ 103,272,965	\$ 96,215,976	\$ 17,877,635	\$ 23,174,823
Warrants outstanding	(1,703,155)	(1,841,291)	(724,037)	(2,027,290)
Net cash and cash equivalents at beginning of period	\$ 101,569,810	\$ 94,374,685	\$ 17,153,598	\$ 21,147,533
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 15,934,334	\$ 17,877,635	\$ 15,934,334	\$ 17,877,635
Warrants outstanding	(920,796)	(724,037)	(920,796)	(724,037)
Net cash and cash equivalents at end of period	\$ 15,013,538	\$ 17,153,598	\$ 15,013,538	\$ 17,153,598
Schedule of noncash investing, capital, and financing activities				
Increase in fair value of investments	\$ 26,539,279	\$ 8,726,480	\$ 16,207,714	\$ 6,619,876

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, a Mega Millions state, participates in Powerball and Power Play, a multi-state lottery game, with the Multi-State Lottery Association (MUSL), an association of governmental lotteries. The association is comprised of a combination of MUSL Lotteries and Mega Millions Lotteries. Michigan also participates in Mega Millions, a jointly operated multi-state lottery comprised of 12 states: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, Washington and MUSL. Net income from Mega Millions, Megaplier, Powerball and Power Play is disbursed to the School Aid Fund.

Basis of Presentation

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

Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Lottery distinguishes operating revenue and expenses from non-operating items. The principal operating revenue of the Lottery is primarily comprised of sales from instant 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 and up to \$1 million per year to the Department of Community Health for gambling addiction programs which are designated for payment to the State General Fund. All other revenues and expenses are reported as non-operating.

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

Revenue Recognition

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Statement of Cash Flows

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

Use of Estimates

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

Equity in State Treasurer's Common Cash Fund

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

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

Investments

Investments are reported at fair value. Investments are in U. S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, Series 2009B (Michigan CAB Bonds). These investments are purchased to meet future installment payments to prize winners. Gains and losses are generally not realized on investments, as it is the Lottery's and State Treasurer's policy to hold the Lottery's investments to maturity or liquidation. The difference between the fair value and the amortized cost is 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, 2011 and 2010. The inventory is valued at cost, primarily using the weighted average method.

Provision for Doubtful Accounts

The Lottery establishes an allowance for bad debt for retailer receivables greater than 90 days old. A bad debt expense is recorded when the allowance is established for these receivables. The amount of the allowance for doubtful accounts totaled \$1,253,371 as of September 30, 2011 and \$1,241,441 as of September 30, 2010.

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 are reported in the Statement of Net Assets. Such assets are recorded at historical cost. Depreciation of equipment is computed using the straight-line method over five years, the estimated useful life of the assets. Information technology equipment is depreciated over three years, the estimated useful life of the assets. Building leasehold improvements are depreciated over eight years, the estimated useful life of the improvements. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Advance Wagers

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

Warrants Authorized and Warrants Outstanding

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

Unclaimed Prizes

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

Net Assets

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 laws of Michigan or federal law and maintain a principal office or branch office in the State of Michigan. No deposit in any financial organization may be in excess of 50% 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, *Deposit and Investment Risk Disclosures*, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Custodial credit risk, credit risk and interest rate risk are discussed in the following paragraphs:

Custodial Credit Risk

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

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

The counterparty or

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

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2011 and 2010, common cash investments were not exposed to custodial credit risk.

Credit Risk

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

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services: Standard and Poor's (A-1); and Moody's (P-1). Borrowers must have at least \$400 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrower's outstanding debt. The investments are further limited to \$200 million in any borrower, unless the borrower has an A-1+ rating in which case the investment is not to exceed \$300 million. As of September 30, 2011 and 2010, the Lottery does not hold any investments in commercial paper.

Interest Rate Risk

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

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

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

NOTE 3 - INVESTMENTS

Investments totaling \$299,526,971 at September 30, 2011 and \$227,536,112 at September 30, 2010 are in the form of U. S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, series 2009B (Michigan CAB bonds).

These investments were purchased to fund future payments due to annuity prize winners. The bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 6. Cash receipts from the maturity of investments totaled \$53,040,000 in the year ended September 30, 2011 and \$60,785,000 in the year ended September 30, 2010. For the six months ended September 30, 2011 and 2010, cash receipts from the maturity of investments totaled \$27,020,000 and \$33,290,000, respectively.

Investments at September 30 consist of the following:

	<u>2011</u>	<u>2010</u>
U. S. Treasury zero-coupon bonds	\$ 173,770,297	\$ 64,016,667
Michigan CAB bonds	<u>125,756,674</u>	<u>163,519,445</u>
Total Investments	<u><u>\$ 299,526,971</u></u>	<u><u>\$ 227,536,112</u></u>

As reported on the Statement of Net Assets:

	<u>2011</u>	<u>2010</u>
Current investments	\$ 48,850,728	\$ 52,593,622
Noncurrent investments	<u>250,676,243</u>	<u>174,942,490</u>
Total Investments	<u><u>\$ 299,526,971</u></u>	<u><u>\$ 227,536,112</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 policy is to invest solely in U. S. Treasury zero-coupon bonds and Michigan CAB bonds and hold them to maturity.

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

Interest Rate Risk

Investments in prize annuities at September 30, 2011 and 2010 consist of the following:

September 30, 2011

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	\$ 13,164,625	0.17% to 7.07%	\$ 35,686,103	3.23% to 3.77%
1-5	60,424,731	0.51% to 7.19%	67,613,031	3.94% to 6.75%
6-10	32,634,053	2.20% to 4.99%	14,578,496	7.01% to 8.05%
11-15	31,050,766	3.52% to 4.98%	4,203,441	8.05% to 8.33%
16-20	23,072,092	4.20% to 4.70%	3,675,603	8.38% to 8.39%
21-26	13,424,030	4.35% to 4.79%	-	-
Fair Market Value	<u>\$ 173,770,297</u>		<u>\$ 125,756,674</u>	

September 30, 2010

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

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investment grade, as defined in MCL Section 38.1132, includes investments in the top four major grades, as determined by two national rating services. The State Treasurer's policy is to use Standard & Poor's (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). The Lottery's policy is that all long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase unless specific requirements are met.

U. S. Treasury zero-coupon bonds are explicitly guaranteed by the U. S. government and credit quality ratings are therefore not required. The Lottery procedure to invest in this type of bond does not require a specific credit rating, but credit quality is inherently high as the bonds are explicitly guaranteed by the U. S. government. As of September 30, 2011 and September 30, 2010, the Lottery's investments in Michigan CAB bonds were rated AA- by Standard and Poor and Aa2 by Moody's.

Concentration of Credit Risk

Investments are in U. S. Treasury zero-coupon bonds and Michigan CAB bonds. U. S. Treasury zero-coupon bonds are guaranteed by the United States government; therefore, there is no concentration of credit risk for those types of bonds. As of September 30, 2011, investments in Michigan CAB bonds account for 42.0% of the total Investments as compared to 71.9% as of September 30, 2010. This decrease of 29.9% is due to the purchase of additional U.S. Treasury zero-coupon bonds during the year ended September 30, 2011.

Custodial Credit Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. As of September 30, 2011 and 2010 the Lottery had no investments subject to foreign currency risk.

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

NOTE 4 - CAPITAL ASSETS

A summary of capital asset activity for the fiscal years ended September 30, 2011 and 2010 is as follows:

<u>Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2011</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,950,014	\$ 5,975	\$ -	\$ 1,955,989
Equipment	2,463,652	99,132	120,244	2,442,540
Total capital assets being depreciated	4,413,666	105,107	120,244	4,398,529
Less: accumulated depreciation				
Leasehold improvements	1,914,616	18,306	-	1,932,922
Equipment	1,946,318	192,406	120,236	2,018,488
Total accumulated depreciation	3,860,934	210,712	120,236	3,951,410
Total capital assets being depreciated, net	<u>\$ 552,732</u>	<u>\$ (105,605)</u>	<u>\$ 8</u>	<u>\$ 447,119</u>
<u>September 30, 2010</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,950,014	\$ -	\$ -	\$ 1,950,014
Equipment	2,405,079	70,448	11,875	2,463,652
Total capital assets being depreciated	4,355,093	70,448	11,875	4,413,666
Less: accumulated depreciation				
Leasehold improvements	1,875,167	39,449	-	1,914,616
Equipment	1,754,825	198,559	7,066	1,946,318
Total accumulated depreciation	3,629,992	238,008	7,066	3,860,934
Total capital assets being depreciated, net	<u>\$ 725,101</u>	<u>\$ (167,560)</u>	<u>\$ 4,809</u>	<u>\$ 552,732</u>

NOTE 5 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at September 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Accounts payable vendors	\$ 2,592,586	\$ 660,700
Retailer security deposits/accounts payable	2,211,645	2,632,929
Accrued salaries	578,256	532,472
Compensated absences	1,061,864	970,993
Supplemental retirement	102,559	-
Total	<u>\$ 6,546,910</u>	<u>\$ 4,797,094</u>

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

NOTE 6 - PRIZE AWARDS

Installment prize awards are recorded at their present value using discount rates ranging from 3.5% to 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:

	2011	2010
Current - at face amount	\$ 105,013,032	\$ 104,815,073
Less - unamortized discount	<u>(1,389,086)</u>	<u>(1,674,806)</u>
Current - at present value	<u>103,623,946</u>	<u>103,140,267</u>
Long-term - at face amount	352,388,567	260,406,000
Less - unamortized discount	<u>(116,251,843)</u>	<u>(80,522,204)</u>
Long-term - at present value	<u>236,136,724</u>	<u>179,883,796</u>
Total	<u><u>\$ 339,760,670</u></u>	<u><u>\$ 283,024,063</u></u>

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

2012	\$ 49,801,433
2013	40,716,234
2014	34,187,533
2015	29,144,400
2016	23,039,400
2017-2021	71,572,000
2022-2026	57,739,200
2027-2031	48,535,000
2032-2036	41,017,400
2037-2041	4,009,400
2042-2046	1,336,000
2047-2051	936,000
2052-2055	<u>156,000</u>
Total at face amount	402,190,000
Less - unamortized discount	<u>(117,640,929)</u>
Total installment prize awards payable at present value	284,549,071
Non-installment prize awards payable	<u>55,211,599</u>
Total prize awards payable	<u><u>\$ 339,760,670</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
2011	\$ 231,288,151	\$ 112,020,952	\$ 58,760,032	\$ 284,549,071	\$ 48,412,347
2010	\$ 272,864,446	\$ 18,138,000	\$ 59,714,295	\$ 231,288,151	\$ 51,404,355

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 through November 5, 2005 whereby eligible employees worked a regular schedule but received pay for a reduced number of hours. The banked leave time program was reinstated February 21, 2010 through September 4, 2010 for non-represented employees. Upon an employee's separation, death or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401(k) plans, and if applicable to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2011.

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
2011	\$ 2,202,322	\$ 1,196,183	\$ 1,798,721	\$ 1,599,784	\$ 1,061,864	\$ 537,920
2010	\$ 2,205,020	\$ 1,376,659	\$ 1,379,357	\$ 2,202,322	\$ 970,993	\$ 1,231,329

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

The cost of these pension and other post-employment 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 \$5,359,874, \$5,407,433, and \$5,134,506 for the six months ended September 30, 2011, 2010, and 2009, respectively and approximately \$10,642,910, \$10,871,968, and \$10,283,068 for the years ended September 30, 2011, 2010, and 2009, respectively. The Lottery's allocated contribution requirements and contributions actually made were \$1,876,414, \$1,813,029, and \$1,718,378 for the six month periods ended September 30, 2011, 2010, and 2009, respectively and approximately \$3,819,320, \$3,654,760, and \$3,423,080 for the years ended September 30, 2011, 2010, and 2009, respectively. Contributions represent approximately 35.9%, 33.6%, and 33.3% of annual covered payroll during 2011, 2010 and 2009, respectively.

Public Act 185 of 2010 established a supplemental pension for all State of Michigan employees who qualified and retired under the 2010 incentive. State of Michigan employees who retired under this incentive agreed to forfeit the lump sum payment of their accumulated annual, sick, and other deferred leave time payouts and will instead receive an equal amount through a supplemental pension payment over 60 monthly installments beginning January 1, 2011. The amount of the 60 monthly charges, once calculated, should remain constant unless 1) the retiree dies without a designated pension beneficiary in which case a lump sum of the remaining balance will be paid out to the refund beneficiary, b) the retiree returns to work in which case the supplemental pension benefit will be suspended, or c) there was an error in the initial calculation which required correction after benefit payments began.

Long-term liability activity of these benefits for the fiscal year ended September 30, 2011 was as follows:

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long- Term Liability
2011	\$ -	\$ 512,796	\$ 76,105	\$ 436,691	\$ 102,559	\$ 334,132

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.

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

NOTE 9 - LEASE AND RENTAL COMMITMENTS

The total operating lease expense on long-term lease commitments for years ended September 30, 2011 and 2010 were \$181,529 and \$198,779, respectively. For the six months ended September 30, 2011 and 2010 long term lease commitments were \$82,140 and \$99,389, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of remaining minimum building lease commitments follows:

<u>Year Ending September 30</u>	<u>Operating Leases</u>
2012	\$ 200,029
2013	210,629
2014	210,629
2015	187,379
2016	154,830
2017-2020	424,435

The total rent and lease expenses paid for all buildings for the years ended September 30, 2011 and 2010 were \$1,022,433 and \$1,026,187, respectively. For the six months ended September 30, 2011 and 2010 rent and lease expenses paid for all buildings were \$503,361 and \$502,682, 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.

NOTE 11 - 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
Notes to Financial Statements

NOTE 12 - TRANSACTIONS WITH OTHER STATE AGENCIES

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. The following is a summarization of these charges for the six month periods and years ended September 30, 2011 and 2010:

<u>September 30, 2011</u>	<u>Six Months Ended</u>	<u>Year Ended</u>
Department of Technology, Management and Budget:		
Information Technology:		
Direct costs	\$ 349,299	\$ 2,362,243
Lansing Metropolitan Area Network (LMAN)	23,814	31,881
Michigan.gov portal web charges	195,632	401,735
Overhead	128,060	254,767
Total Information Technology charges	696,805	3,050,626
Support services (including Internal Audit)	120,900	281,800
Space rental - Lottery Central, Detroit, Saginaw offices	416,605	833,209
Vehicle and travel services	393,074	779,507
Other - Telephone, mailing and other offices services	181,188	315,527
Total Department of Technology, Management & Budget	1,808,572	5,260,669
Civil Service Commission	129,376	277,116
Department of Treasury	220,665	462,073
Attorney General	159,043	246,560
Other Agencies	13,409	20,942
Total all State agencies	<u><u>\$ 2,331,065</u></u>	<u><u>\$ 6,267,360</u></u>
 <u>September 30, 2010</u>		
Department of Technology, Management and Budget:		
Information Technology:		
Direct costs	\$ 1,368,828	\$ 3,324,759
Lansing Metropolitan Area Network (LMAN)	16,788	33,050
Michigan.gov portal web charges	176,981	419,565
Overhead	188,143	283,890
Total Information Technology charges	1,750,740	4,061,264
Support services (including Internal Audit)	188,450	393,400
Space rental - Lottery Central, Detroit, Saginaw offices	400,215	821,399
Vehicle and travel services	403,085	774,366
Other - Telephone, mailing and other offices services	199,685	330,256
Total Department of Technology, Management and Budget	2,942,175	6,380,685
Civil Service Commission	131,860	272,178
Department of Treasury	63,870	127,877
Attorney General	101,126	228,126
Other Agencies	24,284	24,284
Total all State agencies	<u><u>\$ 3,263,315</u></u>	<u><u>\$ 7,033,150</u></u>

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2011

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 163,343,498	14.4%	\$ 327,387,055	14.0%
	Daily 4	180,467,448	15.9%	358,182,108	15.3%
	Classic Lotto 47	21,459,540	1.9%	44,074,100	1.9%
	Mega Millions	61,519,727	5.4%	161,796,210	6.9%
	Megaplier	3,159,004	0.3%	6,039,365	0.3%
	Powerball	42,303,542	3.7%	75,957,981	3.2%
	Power Play	4,733,149	0.4%	9,972,227	0.4%
	Keno	6,336,885	0.6%	12,548,819	0.5%
	Fantasy Five	27,054,971	2.4%	53,668,073	2.3%
	Raffle	4,973,965	0.4%	15,154,245	0.6%
	Lucky Lines	3,548,381	0.3%	8,085,299	0.3%
	Club Keno	182,613,207	16.1%	373,805,728	16.1%
	Club Keno Kicker	61,095,660	5.4%	124,097,532	5.3%
	The Jack	1,960,662	0.2%	3,097,355	0.1%
	Pull-Tab tickets	13,341,846	1.2%	26,869,375	1.1%
	Instant tickets	354,346,403	31.4%	739,218,788	31.7%
Total lottery ticket sales		1,132,257,888	100.0%	2,339,954,260	100.0%
Prize awards:	Daily 3	78,250,061	6.9%	153,578,018	6.6%
	Daily 4	96,084,779	8.5%	175,556,026	7.5%
	Classic Lotto 47	12,097,438	1.1%	24,758,923	1.1%
	Mega Millions/Megaplier	30,960,983	2.7%	82,112,285	3.5%
	Powerball/Power Play	22,856,191	2.0%	43,183,342	1.8%
	Keno	3,695,162	0.3%	6,797,221	0.3%
	Fantasy Five	13,846,129	1.2%	27,125,411	1.2%
	Raffle	2,622,982	0.2%	9,810,934	0.4%
	Lucky Lines	2,470,796	0.2%	7,080,019	0.3%
	Club Keno/Kicker/Jack	158,848,684	14.0%	324,564,346	13.9%
	Pull-Tab tickets	10,039,650	0.9%	20,223,106	0.9%
	Instant tickets	237,694,871	21.1%	493,448,751	21.0%
Total prize awards		669,467,726	59.1%	1,368,238,382	58.5%
Less: unclaimed prizes		(12,065,210)	-1.0%	(23,912,948)	-1.0%
Net prize awards		657,402,516	58.1%	1,344,325,434	57.5%
Gross margin		474,855,372	41.9%	995,628,826	42.5%
Retailer and vendor commission expense		(97,284,546)	-8.6%	(200,749,372)	-8.6%
Game-related expense		(10,014,810)	-0.9%	(21,538,126)	-0.9%
Net ticket revenue		367,556,016	32.4%	773,341,328	33.0%
Other operating expense		(20,098,395)	-1.9%	(42,764,614)	-1.8%
Other miscellaneous revenue		592,548	0.1%	1,460,286	0.1%
Net lottery operating income		348,050,169	30.6%	732,037,000	31.3%
Charitable gaming:					
Charitable gaming revenue		7,686,266	0.7%	16,001,968	0.7%
Charitable gaming expense		(3,231,353)	-0.3%	(6,648,273)	-0.3%
Net charitable gaming income		4,454,913	0.4%	9,353,695	0.4%

Continued

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2011

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (7,542,046)	-0.7%	\$ (15,458,515)	-0.7%
Amortization revenue - investment discount	5,856,101	0.5%	11,544,835	0.5%
Unrealized gain on investments	26,539,279	2.3%	16,207,714	0.7%
Interest revenue - common cash fund	77,908	0.0%	196,531	0.0%
Bank fees	(2,501)	0.0%	(5,000)	0.0%
Disbursement to School Aid Fund	(345,944,630)	-30.5%	(727,324,851)	-31.1%
Disbursement to General Fund	(4,454,913)	-0.4%	(9,353,695)	-0.4%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(325,965,802)	-28.8%	(725,182,981)	-31.0%
Change in net assets	<u>\$ 26,539,280</u>	<u>2.2%</u>	<u>\$ 16,207,714</u>	<u>0.7%</u>

Concluded

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

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

Continued

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

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

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months and Years Ended September 30, 2011 and 2010

	Six Months Ended		Years Ended	
	2011	2010	2011	2010
Salaries and wages	\$ 5,395,206	\$ 5,417,833	\$ 10,770,749	\$ 10,889,018
Employee benefits and taxes	3,354,886	2,899,868	6,260,778	6,005,239
Promotion and advertising	10,482,420	14,187,825	22,625,369	28,985,812
Talent	180,534	177,087	327,147	322,774
Printing and supplies, including purchase of charitable gaming tickets	899,480	1,000,331	1,821,160	2,102,926
Other contractual services	1,580,432	2,345,355	4,739,341	5,307,064
Building rent and leases	503,362	502,682	1,022,433	1,026,187
Travel	454,821	477,800	883,394	919,454
Utilities	131,337	139,868	255,432	266,676
Postage	145,007	147,413	283,757	294,955
Equipment maintenance and rental	33,774	26,037	72,283	74,758
Bad debt expense	67,944	90,133	135,557	195,426
Interest paid on security deposits	1,974	5,987	4,767	9,569
Total	<u>\$ 23,231,177</u>	<u>\$ 27,418,219</u>	<u>\$ 49,202,167</u>	<u>\$ 56,399,858</u>



STATISTICAL SECTION



Bureau of State Lottery, State of Michigan

Index

Statistical Section

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

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time.	
Net assets.....	49
Changes in net assets.....	50
Chart of financial trends.....	51
Revenue Capacity	
This schedule and graph contains information to help the reader assess the Lottery's most significant revenue source, ticket sales.	
• Instant Games – represent the face value of tickets activated by retailers.	
• Online Games – represents the face value of tickets sold to the public.	
• Club Games – represents the face value of tickets sold to the public.	
Revenues from ticket sales.....	52
Chart of ticket sales.....	53
Debt Capacity	
This schedule presents information to help the reader assess the installment prize awards liability of the Lottery. Prize liability is determined by prize structure and luck of the draw. Investments in U.S. Treasury zero-coupon bonds and Michigan CAB bonds are purchased to meet future installment payments to prize winners.	
Ratio of installment prize awards liability.....	54
Demographic and Economic Information	
These graphs offers demographic and economic indicators to help the reader understand the environment within which the Lottery's financial activities take place.	
Demographic general tracking study.....	55
Charts of general tracking study.....	56
Demographic and economic indicators.....	58
Operating Information	
This schedule contains service, retailer data, prize data, expenses and amounts disbursed to the state School Aid Fund and prize winner data to help the reader understand how the Lottery's financial report relates to the products the Lottery provides and the service it performs for the State.	
Operating information.....	59
Expenses and disbursements.....	60
Chart of expenses and disbursements.....	61
Industry Comparative Information	
These schedules show comparative information regarding sales, profits and expenses of all United States Lotteries.....	62
Compliance Information	
Independent Auditors' Report on Internal Control.....	64
Schedule of Findings and Questioned Costs.....	66

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2011.





Bureau of State Lottery, State of Michigan
Financial Trends
Net Assets
Fiscal Years Ending September 30, 2002 through September 30, 2011
(In Millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net assets										
Invested in capital assets	\$ 0.4	\$ 0.6	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.7	\$ 0.6	\$ 0.4
Restricted for unrealized gains on investments	128.0	105.2	77.1	52.4	36.1	31.9	36.8	7.6	14.3	30.5
Unrestricted (deficit)	<u>(0.4)</u>	<u>(0.6)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.8)</u>	<u>(0.7)</u>	<u>(0.6)</u>	<u>(0.4)</u>
Total net assets	<u>\$ 128.0</u>	<u>\$ 105.2</u>	<u>\$ 77.1</u>	<u>\$ 52.4</u>	<u>\$ 36.1</u>	<u>\$ 31.9</u>	<u>\$ 36.8</u>	<u>\$ 7.6</u>	<u>\$ 14.3</u>	<u>\$ 30.5</u>

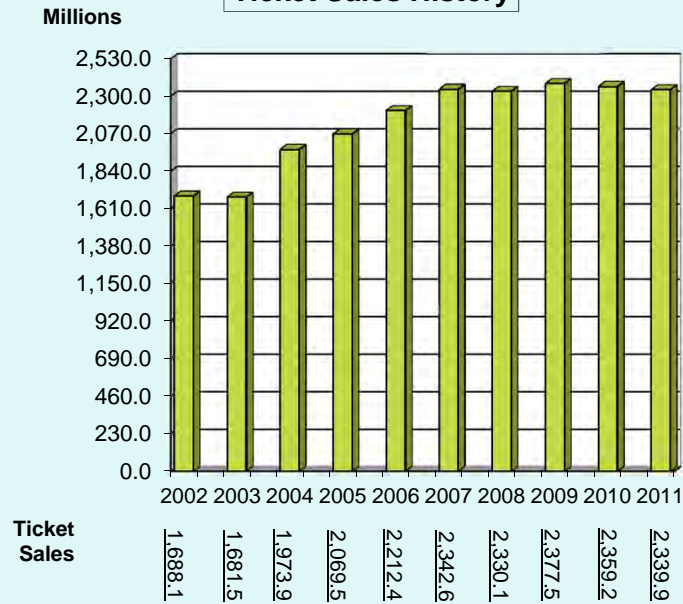


Bureau of State Lottery, State of Michigan
Financial Trends
Changes in Net Assets
Fiscal Years Ending September 30, 2002 through September 30, 2011
(In Millions)

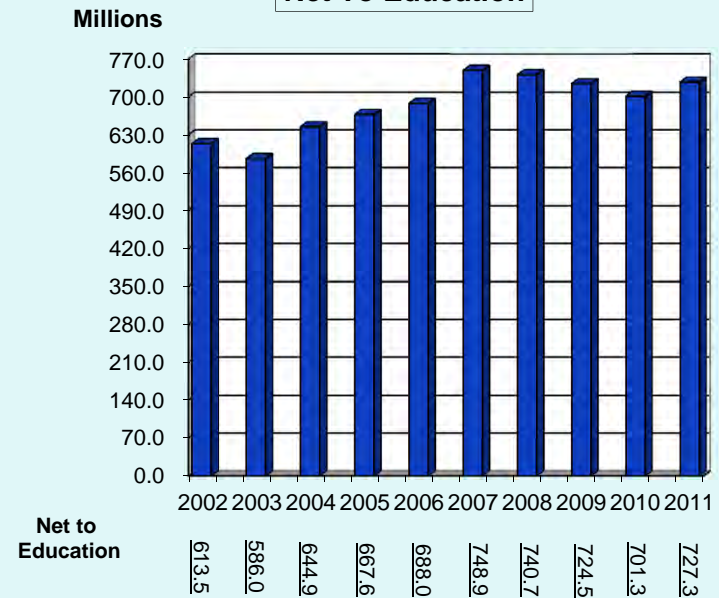
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating revenues										
Ticket sales	\$ 1,688.1	\$ 1,681.5	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9
Charitable gaming and other	20.6	20.3	21.4	20.6	19.8	20.4	20.9	21.5	20.7	17.5
Total operating revenues	<u>1,708.7</u>	<u>1,701.8</u>	<u>1,995.3</u>	<u>2,090.1</u>	<u>2,232.2</u>	<u>2,363.0</u>	<u>2,351.0</u>	<u>2,399.0</u>	<u>2,379.9</u>	<u>2,357.4</u>
Operating expenses										
Prize awards	918.1	919.2	1,130.8	1,179.6	1,298.5	1,355.3	1,350.7	1,436.3	1,408.9	1,368.2
Less - unclaimed prizes	(44.4)	(19.5)	(31.1)	(17.6)	(30.3)	(26.2)	(27.4)	(28.7)	(27.3)	(23.9)
Net prize awards	<u>873.7</u>	<u>899.7</u>	<u>1,099.7</u>	<u>1,162.0</u>	<u>1,268.2</u>	<u>1,329.1</u>	<u>1,323.3</u>	<u>1,407.6</u>	<u>1,381.6</u>	<u>1,344.3</u>
Retailer commissions	120.7	121.8	145.4	152.7	165.3	172.7	172.1	174.2	170.5	168.4
Game related expenses	44.1	45.1	54.1	56.8	60.0	63.0	63.4	53.8	53.0	53.9
Other operating expenses	40.0	40.3	41.2	43.4	45.3	45.3	47.0	56.7	56.6	49.4
Total operating expenses	<u>1,078.5</u>	<u>1,106.9</u>	<u>1,340.4</u>	<u>1,414.9</u>	<u>1,538.8</u>	<u>1,610.1</u>	<u>1,605.8</u>	<u>1,692.3</u>	<u>1,661.7</u>	<u>1,616.0</u>
Operating income	<u>630.2</u>	<u>594.9</u>	<u>654.9</u>	<u>675.2</u>	<u>693.4</u>	<u>752.9</u>	<u>745.2</u>	<u>706.7</u>	<u>718.2</u>	<u>741.4</u>
Non-operating revenues										
Investment revenue	75.1	23.2	13.0	11.8	14.7	22.2	26.9	18.7	17.0	27.7
Interest on equity in State Treasurer's										
Common Cash Fund	1.6	1.0	0.9	2.5	4.1	5.2	3.1	1.1	0.3	0.2
Revenue from security lending	5.6	3.6	4.7	6.4	16.3	20.9	13.0	-	-	-
Total non-operating revenues	<u>82.3</u>	<u>27.8</u>	<u>18.6</u>	<u>20.7</u>	<u>35.1</u>	<u>48.3</u>	<u>43.0</u>	<u>19.8</u>	<u>17.3</u>	<u>27.9</u>
Non-operating expenses										
Security lending expenses	(4.8)	(3.3)	(4.3)	(6.0)	(16.0)	(19.8)	(10.3)	-	-	-
Amortization of prize obligation discount	(48.7)	(44.1)	(39.2)	(34.2)	(29.4)	(24.9)	(20.7)	(18.4)	(15.2)	(15.5)
Non-operating expenses before disbursements	<u>(53.5)</u>	<u>(47.4)</u>	<u>(43.5)</u>	<u>(40.2)</u>	<u>(45.4)</u>	<u>(44.7)</u>	<u>(31.0)</u>	<u>(18.4)</u>	<u>(15.2)</u>	<u>(15.5)</u>
School Aid Fund disbursement	(613.5)	(586.0)	(644.9)	(667.6)	(688.0)	(748.9)	(740.7)	(724.5)	(701.3)	(727.3)
General Fund disbursement	(12.1)	(11.2)	(12.2)	(11.7)	(10.5)	(10.8)	(10.6)	(11.8)	(11.3)	(9.3)
Community Health disbursement	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total disbursements	<u>(626.6)</u>	<u>(598.2)</u>	<u>(658.1)</u>	<u>(680.3)</u>	<u>(699.5)</u>	<u>(760.7)</u>	<u>(752.3)</u>	<u>(737.3)</u>	<u>(713.6)</u>	<u>(737.6)</u>
Total non-operating expenses	<u>(680.1)</u>	<u>(645.6)</u>	<u>(701.6)</u>	<u>(720.5)</u>	<u>(744.9)</u>	<u>(805.4)</u>	<u>(783.3)</u>	<u>(755.7)</u>	<u>(728.8)</u>	<u>(753.1)</u>
Net non-operating revenue (expense)	<u>(597.8)</u>	<u>(617.8)</u>	<u>(683.0)</u>	<u>(699.8)</u>	<u>(709.8)</u>	<u>(757.1)</u>	<u>(740.3)</u>	<u>(735.9)</u>	<u>(711.5)</u>	<u>(725.2)</u>
Change in net assets	<u>\$ 32.4</u>	<u>\$ (22.9)</u>	<u>\$ (28.1)</u>	<u>\$ (24.6)</u>	<u>\$ (16.4)</u>	<u>\$ (4.2)</u>	<u>\$ 4.9</u>	<u>\$ (29.2)</u>	<u>\$ 6.7</u>	<u>\$ 16.2</u>

**Bureau of State Lottery, State of Michigan
Financial Trends 2002 through 2011**

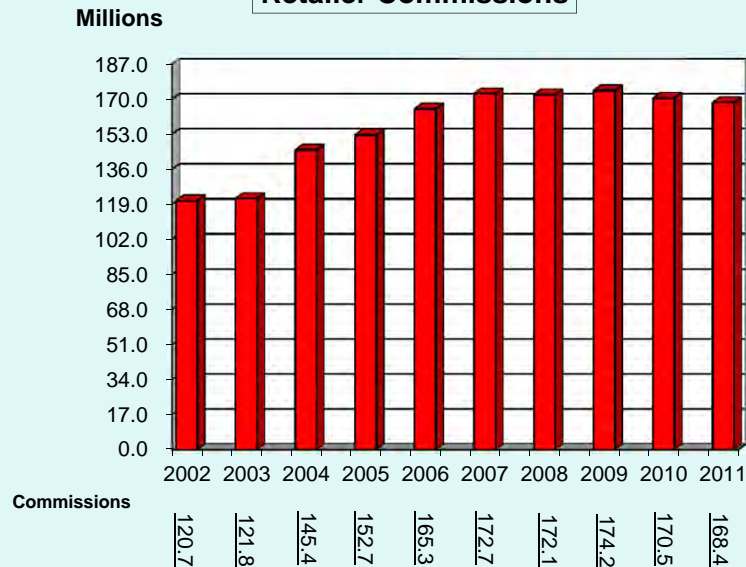
Ticket Sales History



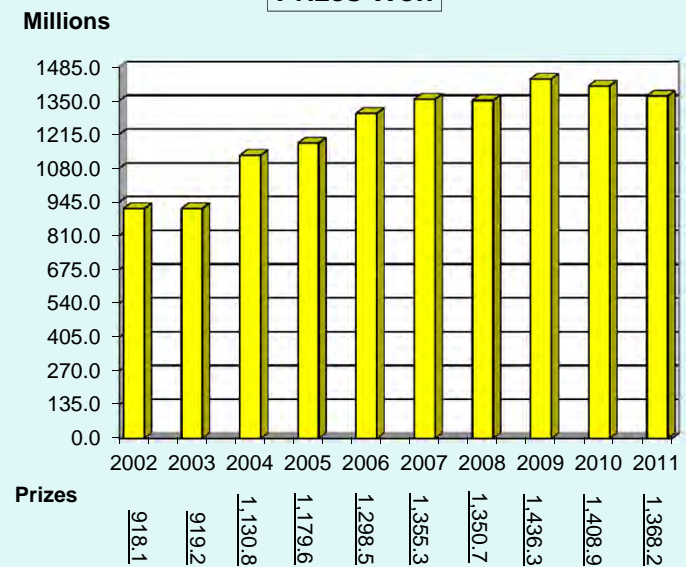
Net To Education



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, 2002 through September 30, 2011
(In Millions)

TICKET SALES	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Instant Games										
Instant Tickets	\$ 655.4	\$ 682.7	\$ 690.2	\$ 662.5	\$ 710.8	\$ 717.8	\$ 734.2	\$ 749.1	\$ 750.8	\$ 739.2
Club Games										
Club Keno, Lucky Streak, The Jack			204.5	332.3	343.8	380.9	402.5	396.5	374.9	376.9
Club Keno Kicker, Lucky Streak Plus					80.3	110.3	124.0	123.5	115.6	124.1
Pull Tab Games			25.1	39.1	41.6	38.5	37.4	28.0	29.1	26.9
Total Club Games			229.6	371.4	465.7	529.7	563.9	548.0	519.6	527.9
Online Games										
Daily 3, Extra 3, Double 3	418.3	423.3	423.2	402.9	385.7	369.1	347.2	351.0	344.2	327.4
Daily 4, Extra 4, Double 4	289.2	297.2	310.2	309.7	323.0	335.1	325.2	335.9	359.0	358.2
Michigan Lotto, Michigan Millions, Winfall, Classic Lotto 47	71.7	79.3	66.6	55.7	50.7	53.1	64.1	64.2	43.8	44.1
Keno	10.3	13.5	14.9	13.5	14.6	14.0	13.9	14.0	13.0	12.5
Little Lotto: Cash Five, Michigan Rolldown, Fantasy 5 and Change Play	37.2	38.0	32.6	49.9	45.5	49.4	51.3	51.3	56.1	53.7
Raffle						56.3	45.5	41.3	19.0	15.1
Lucky Lines									15.7	8.1
Powerball/Powerplay									64.5	85.9
Mega Millions/Megaplier	206.0	147.5	206.6	203.9	216.4	218.1	184.8	222.7	173.5	167.8
Total On-line	1,032.7	998.8	1,054.1	1,035.6	1,035.9	1,095.1	1,032.0	1,080.4	1,088.8	1,072.8
TOTAL TICKET SALES	\$ 1,688.1	\$ 1,681.5	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9

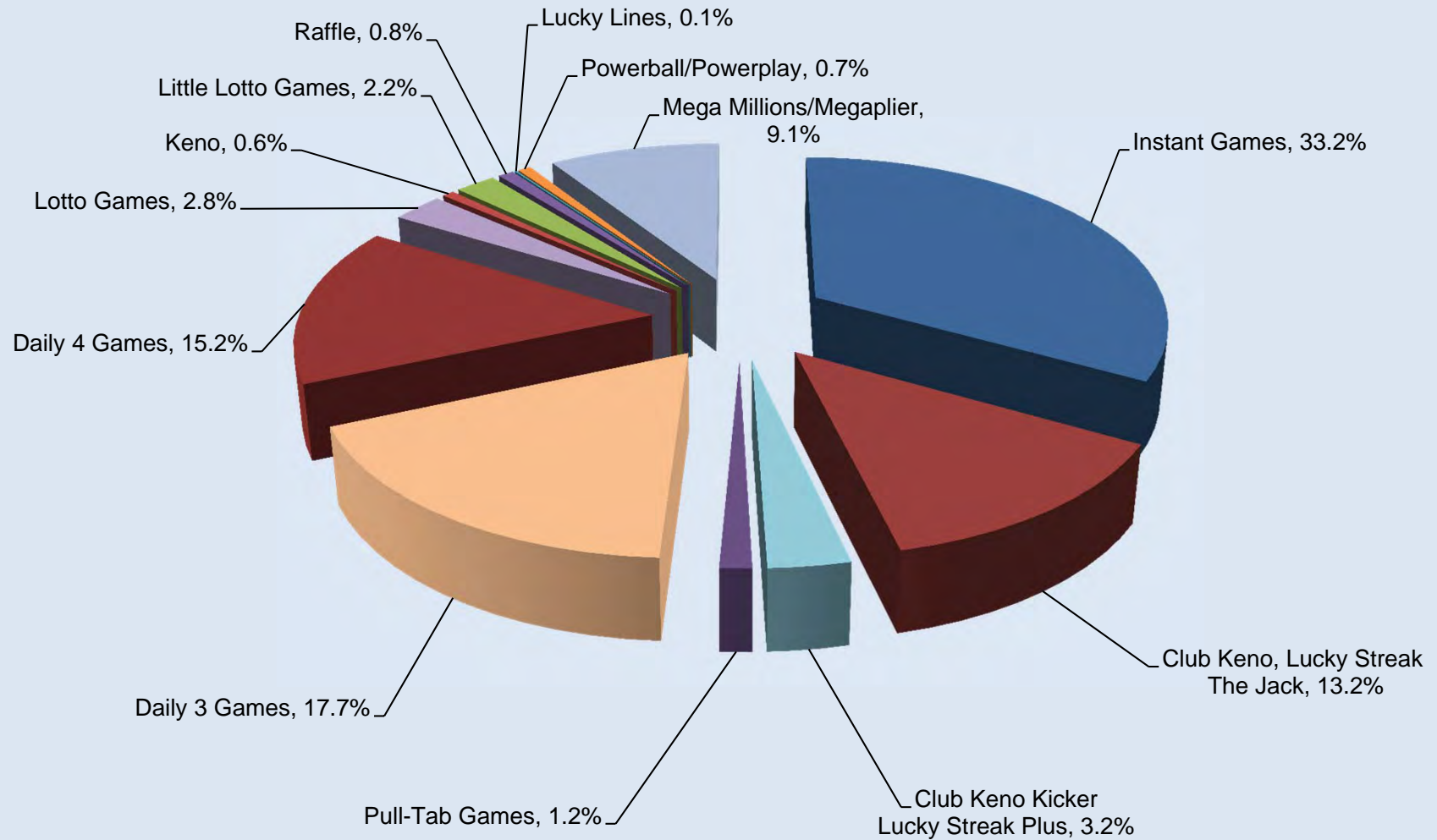
PRICE PER TICKET:

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 \$5 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 2002 through 2011**



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, 2002 through September 30, 2011
(In Millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>INSTALLMENT PRIZE AWARDS LIABILITY</u>										
Current - at face amount	\$ 109.8	\$ 109.6	\$ 103.4	\$ 94.7	\$ 86.5	\$ 75.9	\$ 68.8	\$ 59.5	\$ 53.1	\$ 49.8
Long-term - at face amount	<u>820.0</u>	<u>713.9</u>	<u>617.3</u>	<u>527.3</u>	<u>443.3</u>	<u>373.0</u>	<u>305.1</u>	<u>309.7</u>	<u>260.4</u>	<u>352.4</u>
Total installment prize awards	<u>\$ 929.8</u>	<u>\$ 823.5</u>	<u>\$ 720.7</u>	<u>\$ 622.0</u>	<u>\$ 529.8</u>	<u>\$ 448.9</u>	<u>\$ 373.9</u>	<u>\$ 369.2</u>	<u>\$ 313.5</u>	<u>\$ 402.2</u>
<u>INVESTMENTS</u>										
Face amount	<u>\$ 928.3</u>	<u>\$ 818.3</u>	<u>\$ 709.4</u>	<u>\$ 626.7</u>	<u>\$ 535.2</u>	<u>\$ 448.1</u>	<u>\$ 371.2</u>	<u>\$ 341.6</u>	<u>\$ 280.8</u>	<u>\$ 382.0</u>
Installment prize awards payable as a percentage of investments:	100.16%	100.64%	101.59%	99.25%	98.99%	100.18%	100.73%	108.08%	111.65%	105.29%

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



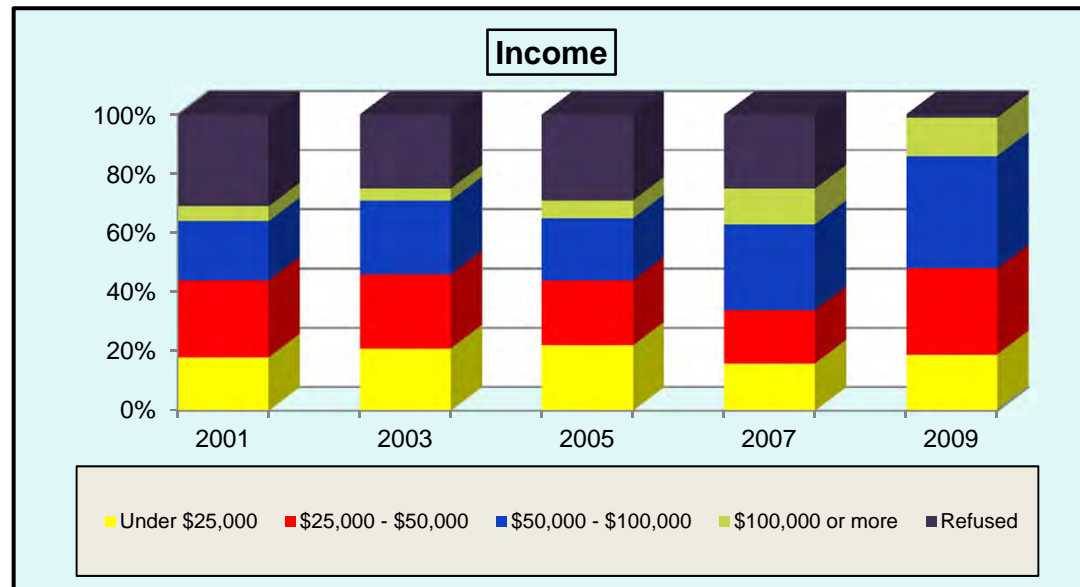
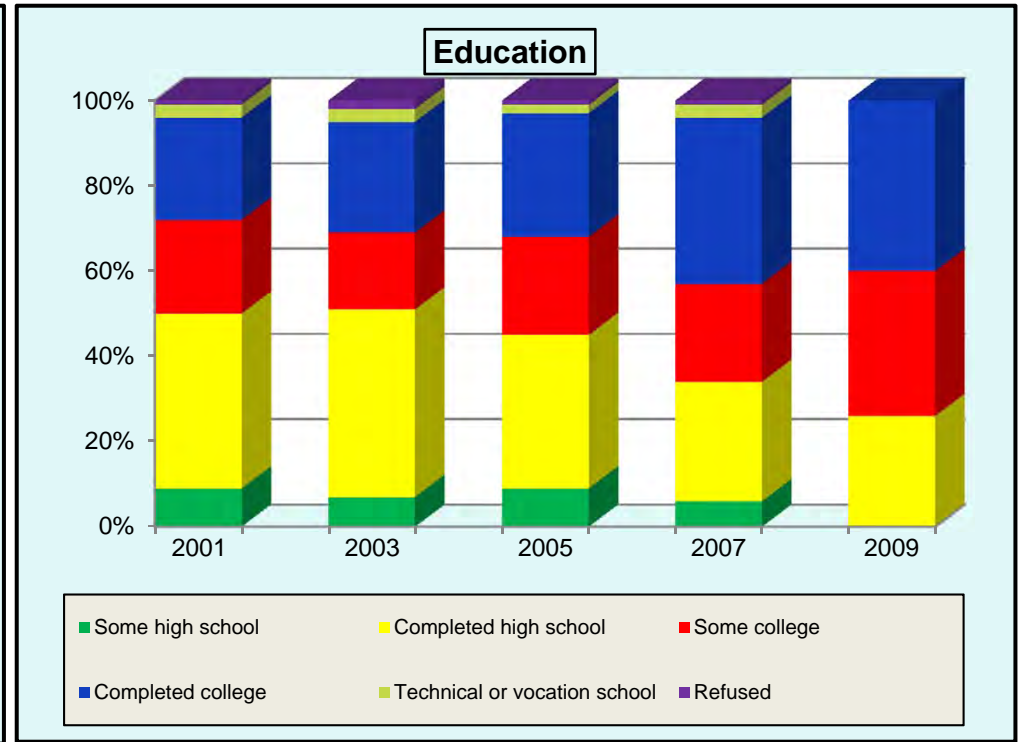
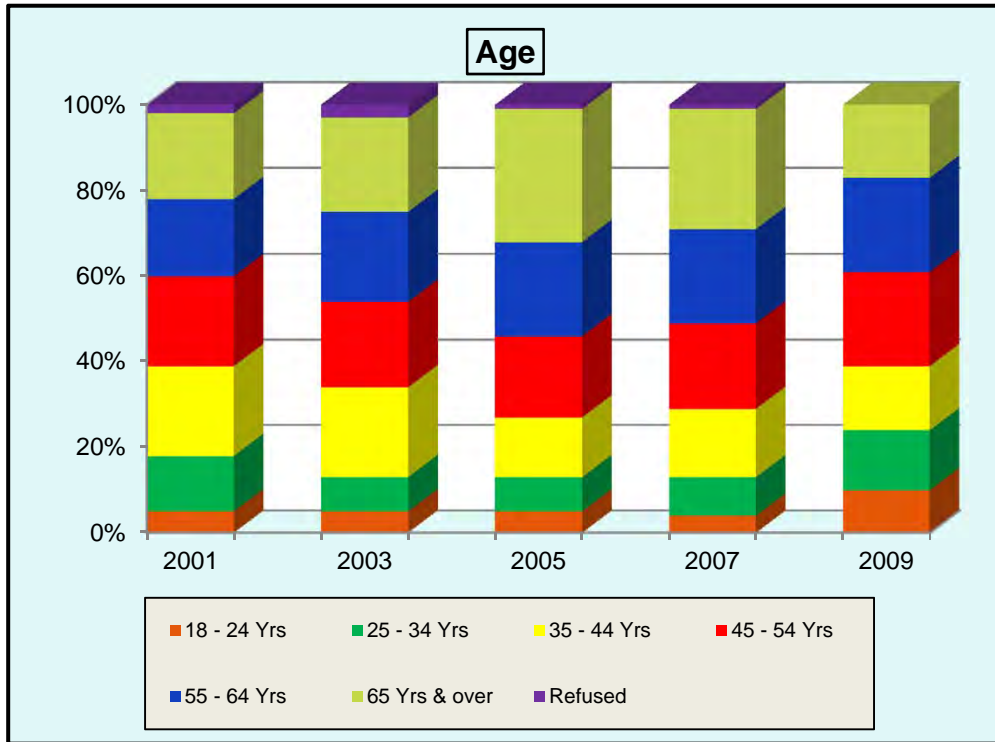
Bureau of State Lottery, State of Michigan
Demographic and Economic Information
Demographic General Tracking Study
Fiscal Years Ending September 30, 2002 through September 30, 2011

These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles.
 The demographic general tracking study for 2011 was not complete as of September 30.

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

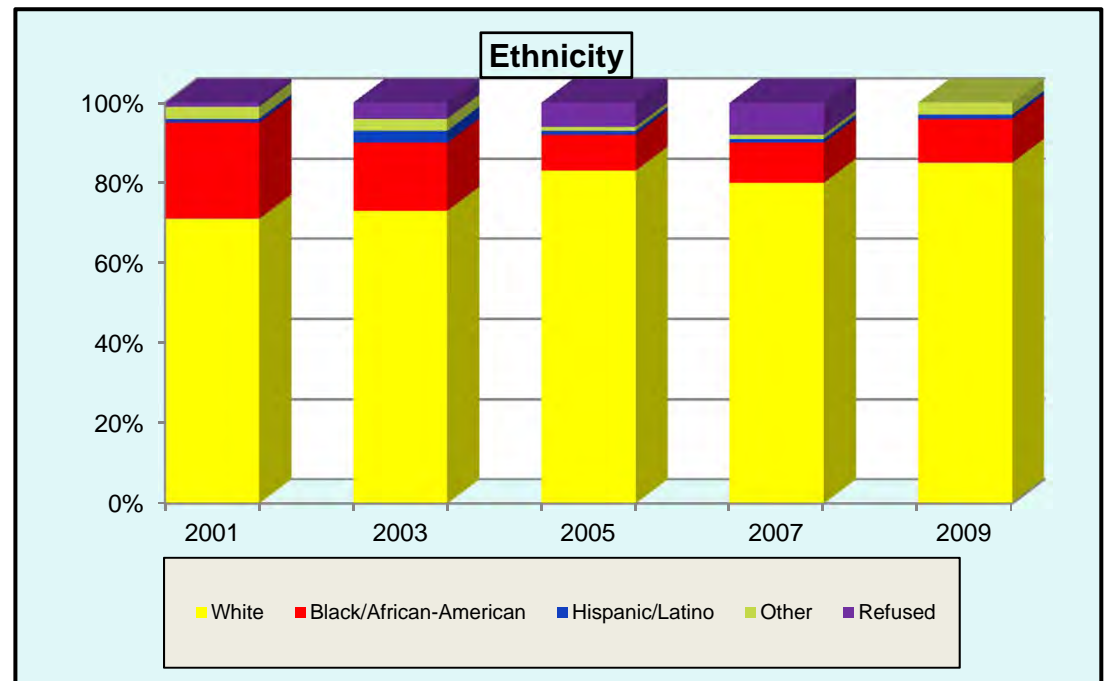
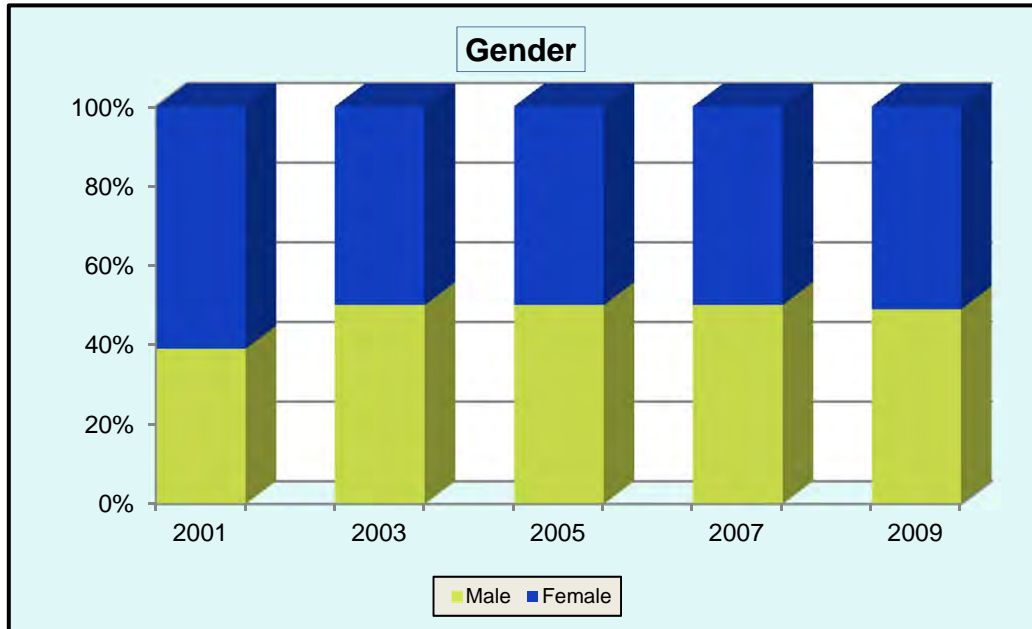
Source: Bureau of State Lottery
 General Tracking Study

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



Source: Bureau of State Lottery
General Tracking Study

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



Source: Bureau of State Lottery
General Tracking Study



Bureau of State Lottery, State of Michigan
Demographic and Economic Indicators
Fiscal Years Ending September 30, 2002 through September 30, 2011
(In Thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population (a)									
Michigan	10,044	10,075	10,103	10,108	10,102	10,072	10,002	9,970	9,877
United States	287,888	290,448	293,192	295,896	298,755	301,621	304,375	307,007	309,349
Total Personal Income (b)									
Michigan	\$ 303.5	\$ 313.5	\$ 318.7	\$ 325.3	\$ 332.7	\$ 345.9	\$ 349.6	\$ 342.3	\$ 342.7
United States	\$ 8,872.9	\$ 9,150.3	\$ 9,711.4	\$ 10,252.8	\$ 10,977.3	\$ 11,631.6	\$ 12,225.6	\$ 12,165.5	\$ 12,357.1
Per Capita Income (b)									
Michigan	\$ 30,214	\$ 31,116	\$ 31,550	\$ 32,182	\$ 32,928	\$ 34,342	\$ 34,949	\$ 34,334	\$ 34,691
United States	\$ 30,821	\$ 31,504	\$ 33,123	\$ 34,650	\$ 36,744	\$ 38,564	\$ 40,208	\$ 39,626	\$ 39,945
Unemployment Rate (c)									
Michigan	6.2%	7.1%	7.1%	6.9%	6.9%	7.2%	8.4%	15.3%	13.0%
United States	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.8%	9.6%
Michigan estimated wage and salary employees (c)									
Goods Producing:									
Natural Resources and Mining	8.6	8.1	8.2	8.4	8.0	7.6	7.8	7.2	7.3
Construction	199.6	190.6	191.5	189.1	178.0	166.2	153.7	132.3	113.3
Manufacturing	763.5	719.7	700.7	680.0	650.8	616.8	575.3	463.8	464.1
Total Goods Producing	971.7	918.4	900.3	877.5	836.9	790.5	736.8	603.3	584.7
Service-Providing:									
Private Service-Providing									
Trade, Transportation, and Utilities:									
Wholesale Trade	175.4	172.6	170.5	170.7	170.6	169.1	166.7	150.2	152.3
Retail Trade	530.7	518.7	513.6	506.0	496.0	489.7	478.4	449.0	446.6
Transportation and Utilities	128.2	125.8	125.7	128.3	128.4	129.1	124.2	113.2	108.8
Information	73.8	70.3	68.6	67.3	66.1	65.6	61.8	54.3	52.5
Financial Activities:									
Finance and Insurance	159.2	162.3	161.3	161.8	160.9	157.8	152.3	139.8	135.2
Real Estate and Rental and Leasing	55.7	56.0	56.1	56.1	54.9	53.6	52.1	49.2	45.5
Professional and Business Services:									
Professional, Scientific, and Technical Services	257.4	247.9	244.2	246.4	244.9	244.2	240.1	215.6	214.8
Management of Companies and Enterprises	69.5	68.6	67.0	64.6	61.7	57.3	54.4	50.9	50.8
Administrative, Support Services, and Waste Management	267.0	266.4	270.1	277.5	275.1	271.8	262.5	239.8	248.3
Educational and Health Services:									
Educational Services	63.1	66.4	70.6	74.8	76.1	78.0	80.3	78.4	80.3
Health Care and Social Assistance	472.0	480.5	490.3	501.0	507.2	517.0	528.1	530.5	535.0
Leisure and Hospitality:									
Accommodation and Food Services	336.2	335.9	339.7	341.9	343.8	341.8	335.5	328.0	322.0
Other	61.7	62.2	62.3	62.6	61.8	62.7	62.6	65.5	51.8
Other Services	179.3	179.1	179.6	179.6	177.5	176.7	175.6	168.2	164.4
Total Private Service-Providing	2,829.2	2,812.7	2,819.5	2,838.7	2,824.9	2,814.3	2,774.5	2,632.6	2,608.3
Government:	686.6	685.4	679.7	674.1	665.3	657.2	647.9	643.8	629.8
Total Service-Providing	3,515.8	3,498.0	3,499.2	3,512.8	3,490.3	3,471.4	3,422.4	3,276.4	3,238.1
Total Wage and Salary Employment	4,487.5	4,416.5	4,399.5	4,390.3	4,327.1	4,262.0	4,159.2	3,879.7	3,822.8

NOTES: Calendar year 2010 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

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



Bureau of State Lottery, State of Michigan
Operating Information
Fiscal Years Ending September 30, 2002 through September 30, 2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of Employees	175	159	161	166	173	162	168	171	181	174
Number of Retailers										
Instant only	1,869	1,760	1,600	1,497	816	680	575	-	-	-
Club Games	-	-	1,829	2,077	2,216	2,371	2,474	2,478	-	-
Online	7,291	7,288	7,377	7,502	7,848	7,922	7,920	8,202	-	-
*All Games	-	-	-	-	-	-	-	-	10,797	10,746
Total Retailers	9,160	9,048	10,806	11,076	10,880	10,973	10,969	10,680	10,797	10,746
Prize Payout Percentage	54.39%	54.67%	57.29%	57.00%	58.69%	57.85%	57.97%	60.42%	59.72%	58.47%
Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund	36.35%	34.85%	32.67%	32.26%	31.10%	31.97%	31.79%	30.47%	29.73%	31.08%
Number of Millionaire Prize Winners	16	11	20	21	17	42	37	40	39	28
Number of Prize Winners Greater than \$600	25,921	44,162	44,962	44,692	52,124	49,585	44,962	53,986	60,543	48,567

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



Bureau of State Lottery, State of Michigan

Operating Information

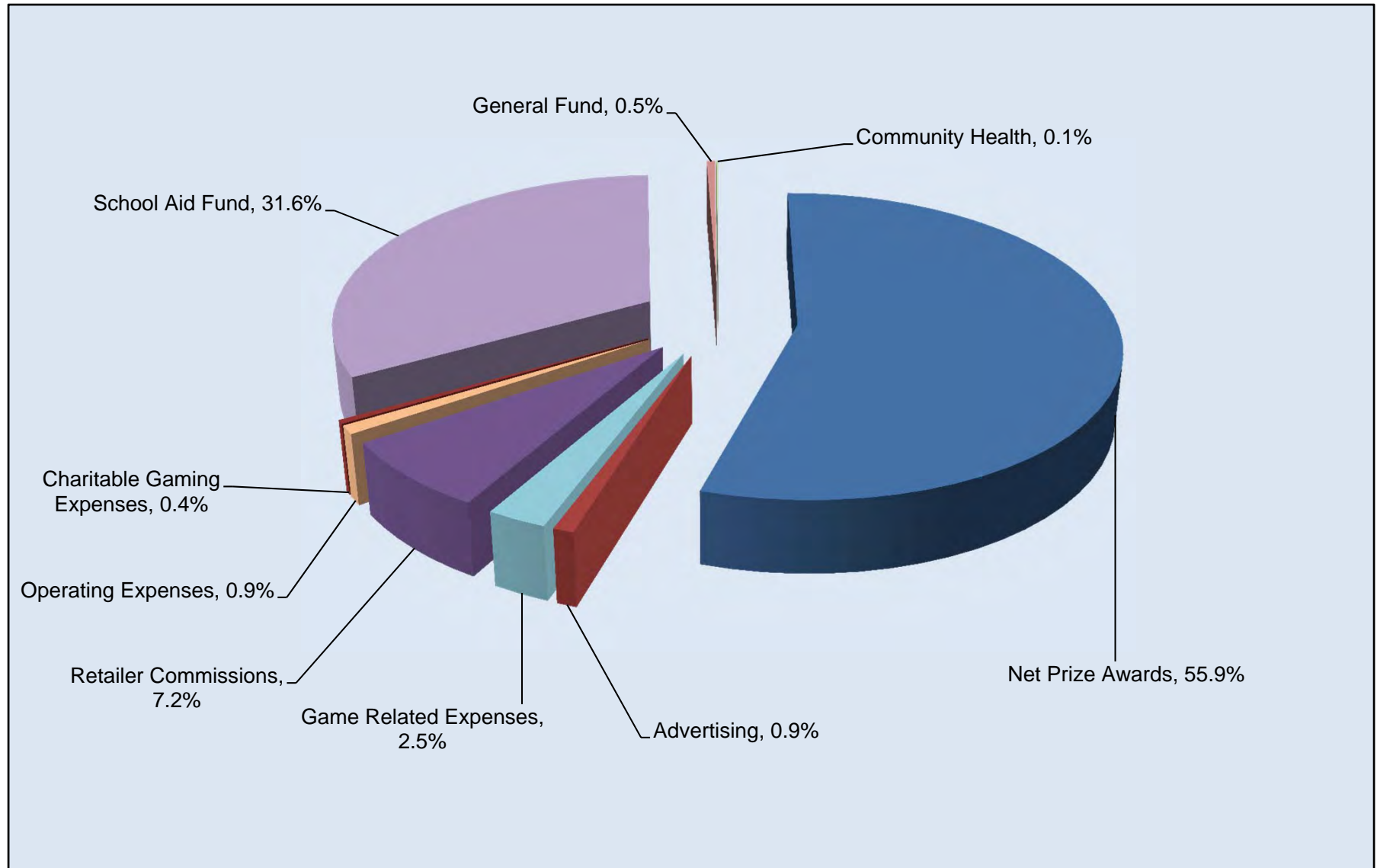
Expenses and Disbursements to the State's School Aid Fund, General Fund, and Community Health

Fiscal Years Ending September 30, 2002 through September 30, 2011

(In Millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EXPENSES										
Prize Awards	\$ 918.1	\$ 919.2	\$ 1,130.8	\$ 1,179.6	\$ 1,298.5	\$ 1,355.3	\$ 1,350.7	\$ 1,436.3	\$ 1,408.9	\$ 1,368.2
Unclaimed Prizes	(44.4)	(19.6)	(31.1)	(17.6)	(30.3)	(26.2)	(27.4)	(28.7)	(27.3)	(23.9)
Net Prize Awards	873.7	899.6	1,099.7	1,162.0	1,268.2	1,329.1	1,323.3	1,407.6	1,381.6	1,344.3
Promotion and Advertising	17.1	17.1	17.5	17.6	17.5	17.5	17.6	27.0	29.0	22.6
Game Related Expenses	44.1	45.2	54.1	56.8	60.0	63.0	63.4	53.8	53.0	53.9
Retailer Commissions	120.7	121.8	145.4	152.7	165.3	172.7	172.1	174.2	170.5	168.4
Operating Expenses	15.3	15.3	15.9	17.9	19.7	19.6	21.1	20.8	20.2	20.1
Charitable Gaming Expenses	7.6	7.9	7.8	7.9	8.1	8.2	8.3	8.9	7.4	6.7
TOTAL EXPENSES	\$ 1,078.5	\$ 1,106.9	\$ 1,340.4	\$ 1,414.9	\$ 1,538.8	\$ 1,610.1	\$ 1,605.8	\$ 1,692.3	\$ 1,661.7	\$ 1,616.0
DISBURSEMENTS TO THE STATE										
School Aid Fund	613.5	586.0	644.9	667.6	688.0	748.9	740.7	724.5	701.3	727.3
General Fund	12.1	11.2	12.2	11.7	10.5	10.8	10.6	11.8	11.3	9.3
Community Health	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
TOTAL DISBURSEMENTS	\$ 626.6	\$ 598.2	\$ 658.1	\$ 680.3	\$ 699.5	\$ 760.7	\$ 752.3	\$ 737.3	\$ 713.6	\$ 737.6

**Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements 2002 through 2011**



Source: Bureau of State Lottery, State of Michigan

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

Fiscal Year 2010 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	6.7	551.49	2.05	\$ 553.54	\$ 333.11	\$ 37.00	\$ 39.97	\$ 143.48	60.2%	6.7%	7.2%	25.9%	\$ 82	\$ 21
Arkansas	2.9	383.70	1.05	\$ 384.75	\$ 247.72	\$ 21.58	\$ 33.28	\$ 82.17	64.4%	5.6%	8.6%	21.4%	\$ 132	\$ 28
California	37.3	3,040.96	27.14	\$ 3,068.10	\$ 1,611.37	\$ 214.48	\$ 190.94	\$ 1,051.31	52.5%	7.0%	6.2%	34.3%	\$ 82	\$ 28
Colorado	5.1	501.20	1.49	\$ 502.69	\$ 310.36	\$ 38.15	\$ 39.63	\$ 114.55	61.7%	7.6%	7.9%	22.8%	\$ 98	\$ 22
Connecticut	3.5	996.85	0.17	\$ 997.02	\$ 608.76	\$ 55.89	\$ 44.26	\$ 288.12	61.1%	5.6%	4.4%	28.9%	\$ 285	\$ 82
Delaware	0.9	136.94	(0.08)	\$ 136.86	\$ 72.54	\$ 7.38	\$ 16.92	\$ 40.02	53.0%	5.4%	12.4%	29.2%	\$ 156	\$ 45
D.C.	0.6	230.16	0.03	\$ 230.19	\$ 118.93	\$ 14.48	\$ 29.98	\$ 66.79	51.7%	6.3%	13.0%	29.0%	\$ 377	\$ 109
Florida	18.7	3,900.50	50.39	\$ 3,950.89	\$ 2,346.16	\$ 216.21	\$ 129.81	\$ 1,258.72	59.4%	5.5%	3.3%	31.9%	\$ 209	\$ 67
Georgia	9.9	3,387.42	15.36	\$ 3,402.78	\$ 2,129.14	\$ 239.30	\$ 140.44	\$ 893.90	62.6%	7.0%	4.1%	26.3%	\$ 342	\$ 90
Idaho	1.6	147.23	0.84	\$ 148.06	\$ 88.28	\$ 8.73	\$ 13.20	\$ 37.86	59.6%	5.9%	8.9%	25.6%	\$ 95	\$ 24
Illinois	12.9	2,191.42	4.89	\$ 2,196.31	\$ 1,313.66	\$ 110.23	\$ 120.71	\$ 651.72	59.8%	5.0%	5.5%	29.7%	\$ 170	\$ 50
Indiana	6.5	740.34	6.19	\$ 746.53	\$ 456.30	\$ 51.08	\$ 49.50	\$ 189.66	61.1%	6.8%	6.6%	25.4%	\$ 115	\$ 29
Iowa	3.0	256.26	0.35	\$ 256.61	\$ 150.45	\$ 16.11	\$ 32.34	\$ 57.70	58.6%	6.3%	12.6%	22.5%	\$ 85	\$ 19
Kansas	2.8	235.41	2.42	\$ 237.83	\$ 132.61	\$ 13.67	\$ 21.96	\$ 69.59	55.8%	5.7%	9.2%	29.3%	\$ 83	\$ 24
Kentucky	4.3	723.43	(0.26)	\$ 723.17	\$ 421.91	\$ 47.33	\$ 40.28	\$ 213.65	58.3%	6.5%	5.6%	29.5%	\$ 167	\$ 49
Louisiana	4.5	372.39	3.22	\$ 375.61	\$ 189.75	\$ 20.63	\$ 31.14	\$ 134.08	50.5%	5.5%	8.3%	35.7%	\$ 82	\$ 30
Maine	1.3	217.03	2.61	\$ 219.64	\$ 133.44	\$ 13.85	\$ 19.50	\$ 52.85	60.8%	6.3%	8.9%	24.1%	\$ 166	\$ 40
Maryland	5.7	1,706.57	3.87	\$ 1,710.44	\$ 1,034.16	\$ 113.13	\$ 57.97	\$ 505.19	60.5%	6.6%	3.4%	29.5%	\$ 297	\$ 88
Massachusetts	6.6	4,412.09	11.64	\$ 4,423.73	\$ 3,174.89	\$ 259.12	\$ 86.24	\$ 903.48	71.8%	5.9%	1.9%	20.4%	\$ 665	\$ 136
Michigan	9.9	2,359.23	20.70	\$ 2,379.93	\$ 1,381.63	\$ 202.45	\$ 77.69	\$ 718.16	58.1%	8.5%	3.3%	30.2%	\$ 238	\$ 72
Minnesota	5.3	498.96	0.31	\$ 499.27	\$ 305.32	\$ 29.87	\$ 41.84	\$ 122.24	61.2%	6.0%	8.4%	24.5%	\$ 94	\$ 23
Missouri	6.0	971.86	13.86	\$ 985.72	\$ 628.06	\$ 59.90	\$ 36.92	\$ 260.85	63.7%	6.1%	3.7%	26.5%	\$ 162	\$ 43
Montana	1.0	46.85	1.58	\$ 48.43	\$ 25.94	\$ 2.34	\$ 8.00	\$ 12.15	53.6%	4.8%	16.5%	25.1%	\$ 48	\$ 12
Nebraska	1.8	130.58	0.40	\$ 130.98	\$ 75.03	\$ 8.11	\$ 15.80	\$ 32.03	57.3%	6.2%	12.1%	24.5%	\$ 72	\$ 18
New Hampshire	1.3	233.77	0.34	\$ 234.11	\$ 138.91	\$ 12.74	\$ 16.28	\$ 66.19	59.3%	5.4%	7.0%	28.3%	\$ 177	\$ 50
New Jersey	8.7	2,605.10	43.80	\$ 2,648.90	\$ 1,511.91	\$ 144.89	\$ 66.41	\$ 925.68	57.1%	5.5%	2.5%	34.9%	\$ 298	\$ 106
New Mexico	2.0	143.59	(0.05)	\$ 143.54	\$ 78.61	\$ 9.36	\$ 12.03	\$ 43.54	54.8%	6.5%	8.4%	30.3%	\$ 71	\$ 21
New York	19.6	6,781.07	(114.53)	\$ 6,666.54	\$ 3,952.01	\$ 405.87	\$ 252.62	\$ 2,056.04	59.3%	6.1%	3.8%	30.8%	\$ 346	\$ 105
North Carolina	9.5	1,421.33	6.93	\$ 1,428.26	\$ 835.30	\$ 99.34	\$ 59.25	\$ 434.37	58.5%	7.0%	4.1%	30.4%	\$ 150	\$ 46
North Dakota	0.7	24.42	0.09	\$ 24.51	\$ 12.64	\$ 1.25	\$ 4.28	\$ 6.33	51.6%	5.1%	17.5%	25.8%	\$ 37	\$ 10
Ohio	11.5	2,490.19	44.92	\$ 2,535.11	\$ 1,513.72	\$ 153.43	\$ 109.42	\$ 758.53	59.7%	6.1%	4.3%	29.9%	\$ 216	\$ 66
Oklahoma	3.7	199.75	0.62	\$ 200.37	\$ 105.09	\$ 13.15	\$ 13.90	\$ 68.22	52.4%	6.6%	6.9%	34.0%	\$ 54	\$ 18
Oregon	3.9	320.70	0.46	\$ 321.16	\$ 206.00	\$ 27.24	\$ 25.66	\$ 62.25	64.1%	8.5%	8.0%	19.4%	\$ 83	\$ 16
Pennsylvania	12.6	3,065.72	0.78	\$ 3,066.50	\$ 1,867.08	\$ 160.11	\$ 123.57	\$ 915.74	60.9%	5.2%	4.0%	29.9%	\$ 243	\$ 73
Rhode Island	1.1	234.62	1.03	\$ 235.65	\$ 141.17	\$ 28.67	\$ 9.63	\$ 56.18	59.9%	12.2%	4.1%	23.8%	\$ 221	\$ 53
South Carolina	4.6	1,007.16	3.62	\$ 1,010.78	\$ 628.34	\$ 71.17	\$ 39.04	\$ 272.23	62.2%	7.0%	3.9%	26.9%	\$ 219	\$ 59
South Dakota	0.8	45.54	0.60	\$ 46.14	\$ 25.52	\$ 2.53	\$ 5.15	\$ 12.93	55.3%	5.5%	11.2%	28.0%	\$ 56	\$ 16
Tennessee	6.3	1,060.11	4.08	\$ 1,064.19	\$ 651.15	\$ 74.33	\$ 49.83	\$ 288.88	61.2%	7.0%	4.7%	27.1%	\$ 167	\$ 46
Texas	25.2	3,738.37	56.84	\$ 3,795.21	\$ 2,300.18	\$ 196.16	\$ 185.28	\$ 1,113.58	60.6%	5.2%	4.9%	29.3%	\$ 148	\$ 44
Vermont	0.6	97.48	0.09	\$ 97.57	\$ 61.12	\$ 5.70	\$ 9.11	\$ 21.64	62.6%	5.8%	9.3%	22.2%	\$ 157	\$ 35
Virginia	8.0	1,435.13	2.07	\$ 1,437.20	\$ 852.71	\$ 80.40	\$ 73.84	\$ 430.25	59.3%	5.6%	5.1%	29.9%	\$ 181	\$ 54
Washington	6.8	491.02	4.63	\$ 495.65	\$ 291.83	\$ 31.01	\$ 43.17	\$ 129.65	58.9%	6.3%	8.7%	26.2%	\$ 73	\$ 19
West Virginia	1.8	181.23	11.45	\$ 192.68	\$ 107.98	\$ 12.67	\$ 10.96	\$ 61.06	56.0%	6.6%	5.7%	31.7%	\$ 99	\$ 33
Wisconsin	5.7	481.10	1.85	\$ 482.95	\$ 272.99	\$ 33.32	\$ 31.10	\$ 145.54	56.5%	6.9%	6.4%	30.1%	\$ 85	\$ 26

Notes to Table: Fiscal year 2010 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 2011 World Lottery Almanac (except Michigan)

Michigan Source: Bureau of State Lottery, State of Michigan

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

Fiscal Year 2010 U.S. Lottery Sales by Game*

(in \$millions)

Lottery	Pop			Online Games									Total Sales	VLT (net) ¹	Gov't Transfer
	(M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Mega Millions	Power Ball	Hot Lotto	Keno	Other			
Arizona	6.7	336.94		8.56	5.43	44.36	16.54	6.79	118.80			14.08	551.49		141.86
Arkansas	2.9	335.49		5.28				7.94	35.00				383.70		83.00
California	37.3	1,661.29		128.84	30.70	463.07	144.38	484.70			117.90	10.08	3,040.96		1,072.50
Colorado	5.1	328.11				41.62	21.31	2.40	101.57				501.20		112.94
Connecticut	3.5	593.37		115.58	95.73	29.90	35.04	11.23	85.28				996.85		288.12
Delaware ¹	0.9	36.12		25.86	17.78	5.56		3.32	29.95	3.76			136.94	547.70	331.61
D.C.	0.6	49.97		56.36	68.62		14.77	4.31	20.18	2.87	12.58	0.49	230.16		66.75
Florida	18.7	2,073.13		304.04	235.03	445.88	92.06		434.06			316.30	3,900.50		1,246.79
Georgia	9.9	2,155.52		488.25	219.88	17.42	112.57	203.00	42.53		129.18	19.09	3,387.43		883.88
Idaho	1.6	90.65	3.19	1.64		3.15	1.57	2.62	36.66	3.79			147.23		36.64
Illinois	12.9	1,172.37		301.43	191.04	111.08	119.61	222.61	51.74			21.55	2,191.42		651.73
Indiana	6.5	464.76	9.45	28.87	28.43	54.17	4.66	11.99	115.34			22.66	740.34		189.66
Iowa	3.0	143.76	20.22	6.53	2.66		3.91	5.54	59.19	13.65		0.79	256.26		57.91
Kansas	2.8	114.57	9.55	6.08		1.70	14.84	3.92	40.98	10.69	26.63	6.45	235.41		67.91
Kentucky	4.3	458.79	12.45	123.86	36.64	18.42	13.19	9.90	99.27				772.50		214.25
Louisiana	4.5	136.01		46.52	36.07	30.46	14.56		105.77			3.00	372.39		133.70
Maine	1.3	152.12		5.00	3.97	23.87	3.42	0.52	24.42	2.88		0.83	217.03		52.87
Maryland	5.7	490.85		266.95	246.67	35.23	20.76	125.27	28.85		391.80	100.20	1,706.57		510.61
Massachusetts	6.6	3,015.74	0.91		345.11	35.42	84.64	121.86	35.50		753.83	19.09	4,412.09		903.48
Michigan	9.9	750.85	29.08	344.20	359.02	43.83	56.05	173.46	64.46	499.58	38.69	2,359.23			713.65
Minnesota	5.3	338.11		12.94			27.35	6.48	87.25	14.90		11.93	498.96		122.25
Missouri	6.0	638.06		68.18	29.12	28.75	26.71	12.06	112.71		55.19	1.08	971.86		259.67
Montana	1.0	14.27				2.93	4.01	0.73	17.46	4.42		3.02	46.85		10.53
Nebraska	1.8	66.95		3.16		2.07	13.44	2.40	40.55			2.01	130.58		32.00
New Hampshire	1.3	160.30		5.24	5.13	12.70	4.28	3.02	37.41	4.12		0.97	233.15		66.22
New Jersey	8.7	1,301.54		435.27	264.13	81.92	143.98	307.10	71.22				2,605.15		924.01
New Mexico	2.0	78.42		3.41			7.65	3.85	41.13	9.13			143.59		43.61
New York ¹	19.6	3,611.05		845.40	765.85	178.24	341.92	558.17	36.32		411.90	32.23	6,781.07	1,037.30	2,666.38
North Carolina	9.5	855.58		222.78	57.37		60.87	25.97	198.76				1,421.33		433.21
North Dakota	0.7					2.42	3.58	1.73	12.66	4.03			24.42		5.72
Ohio	11.5	1,379.01		366.75	201.25	42.84	67.05	215.78	23.56		130.27	63.67	2,490.19		728.63
Oklahoma	3.7	88.97		6.28			5.45	6.94	79.65	12.47			199.75		70.47
Oregon ¹	3.9	113.27			1.26	40.14		3.49	51.22		95.34	15.99	320.70	706.98	541.05
Pennsylvania	12.6	1,748.71		387.75	260.35	81.47	180.43	40.83	313.48			52.72	3,065.72		915.74
Rhode Island ¹	1.1	77.98	0.10	25.18			4.76	4.07	42.69		77.71	2.26	234.72	467.77	344.67
South Carolina	4.6	646.18		136.42	63.39	8.80	20.30	15.12	116.95				1,007.16		272.49
South Dakota ¹	0.8	20.15				2.82	2.48	0.31	15.66	4.11			45.54	215.46	119.78
Tennessee	6.3	812.36		57.22	25.64	9.53	11.90	15.94	127.89				1,060.48		288.87
Texas	25.2	2,760.97		274.90	58.09	255.89	66.28	204.70	68.47			49.06	3,738.37		1,063.09
Vermont	0.6	71.42		1.56	1.29	7.71	1.47	1.06	10.17	1.92		0.90	97.48		21.58
Virginia	8.0	711.16		246.90	197.46	28.44	28.24	174.88	34.56			13.49	1,435.13		430.20
Washington	6.8	289.33		16.99	13.65	54.81	22.34	68.64	20.00		5.27		491.02		142.49
West Virginia ¹	1.8	97.48		8.40	4.70		5.51	2.68	48.59	6.45	7.41		181.22	1,144.63	580.91
Wisconsin	5.7	269.37	3.90	26.20	12.15	18.82	51.10	10.26	89.30				481.10		128.08
Total	293.3	30,711.03	88.85	5,414.77	3,883.62	2,265.41	1,874.97	3,087.57	3,227.18	99.18	2,714.60	878.04	54,245.2	4,119.79	17,971.51
% of total		56.6%	0.2%	10.0%	7.2%	4.2%	3.5%	5.7%	5.9%	0.2%	5.0%	1.6%	100.0%		

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

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the 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, 2011 and have issued our report thereon dated December 2, 2011. 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

Management of the Lottery is responsible for establishing and maintaining effective 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 Lottery's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questions costs as Finding 2011-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2011-2.

The Lottery's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Lottery's response and, accordingly, we express no opinion on it.

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

Plante & Morse, PLLC

December 2, 2011

Michigan Bureau of State Lottery

Schedule of Findings and Questioned Costs Year Ended September 30, 2011

Reference Number	Findings
2011-1	<p>Finding Description - Recording of prize obligations for instant games</p> <p>Finding Type - Significant deficiency</p> <p>Criteria - In accordance with generally accepted accounting principles, the Lottery's policy is to record prize payout obligations using present value of jackpots.</p> <p>Condition - The Lottery recorded prize payout obligations for four instant games at face value, as opposed to present value, and two instant games at an incorrect prize payout percentage.</p> <p>Context - For four instant games that started during 2011, the payout percentage was calculated using the face value of jackpot prizes, as opposed to the present value. For the other two instant games, the payout percentage was incorrect. As a result, prize expense and the related liability for instant games are overstated by \$1,375,834 at September 30, 2011.</p> <p>Cause - A software change during the year required the prize amounts for four of the six instant games to be entered into the gaming system at face value for validation purposes, as opposed to present value. However, the prize cost (present value), which differs from the prize amount (face value), was still required to be used for appropriate calculation of the payout percentage and related liabilities. Two of the six games were recorded at a cash value using a higher tax rate that was anticipated to take effect in FY 2011 by the IRS, so the games had incorrect prize values.</p> <p>Effect - Prize expense and the related liability for instant games are overstated by \$1,375,834 at September 30, 2011.</p> <p>Recommendation - We recommend the finance department review all instant game end-of-production prize structures to ensure the prize cost is properly reflected at present value.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Lottery will review each end-of-production prize structure and determine correct payout percentage. Notification will be given to the gaming vendor to modify the payout percentage within the report system to correctly calculate liability and expense. The Lottery will verify any modifications by reviewing data within the reporting system to assure accuracy.</p>

Michigan Bureau of State Lottery

Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2011

Reference Number	Findings
2011-2	<p>Finding Description - Promotion and advertising appropriation</p> <p>Finding Type - Noncompliance</p> <p>Criteria - Enrolled House Bill No. 5880 (the "Appropriations Bill") limited the Lottery's promotion and advertising expense to \$17,690,900 for the fiscal year ended September 30, 2011.</p> <p>Condition - The Lottery's promotion and advertising expense for the year ended September 30, 2011 exceeded the appropriated amount as a result of the Lottery contracting with an instant ticket vendor for additional promotion and advertising services.</p> <p>Context - Provisions Concerning Appropriations, Section 960 of the Appropriations Bill, allows in addition to funds appropriated above, additional appropriations from Lottery revenue 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 payments 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."</p> <p>Cause - Section 960 was used as the basis for exceeding appropriated amounts for promotion and advertising. The Lottery interpreted this section to apply to promotion and advertising expense, although not explicitly stated in the section.</p> <p>Effect - The Lottery's promotion and advertising expense for the year ended September 30, 2011 was \$22,625,369, resulting in expenditures in excess of the \$17,690,900 appropriation.</p> <p>Recommendation - We recommend the Lottery obtain external guidance, either legal or legislative, to support the Lottery's interpretation of Section 960 of the Appropriations Bill.</p> <p>Views of Responsible Officials and Planned Corrective Actions - At the time the additional services were established with the instant ticket vendor, the Lottery reviewed the arrangement with the Attorney General's office. The Attorney General's office indicated that a good faith argument could be made that the spending, as approved by the Administrative Board in conjunction with Lottery's authority to spend for contractually mandated payments for instant tickets intended for resale, is authorized. Additionally, Lottery Commissioner Scott Bowen has addressed the additional spending in remarks to the House Appropriations Subcommittee. Commissioner Bowen cited numerous examples of the effectiveness of past lottery advertising and indicated that the additional spending does increase sales and the Lottery's return to the School Aid Fund. Limiting our vendor participation in such activities would jeopardize maximum return to the School Aid Fund.</p>





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