



BUREAU OF STATE LOTTERY

AN ENTERPRISE FUND OF THE STATE OF MICHIGAN



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012





BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2013 and 2012

Prepared by Financial Gaming Services & Accounting Division



Bureau of State Lottery, State of Michigan
 Comprehensive Annual Financial Report
 for the fiscal years ended September 30, 2013 and 2012

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INTRODUCTORY SECTION

Mission Statement of the Bureau of State Lottery

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





GOVERNOR

STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING



M. SCOTT BOWEN
COMMISSIONER

December 6, 2013

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, 2013 and 2012. Lottery management is responsible for the accuracy of the financial data and the completeness of the contents of this report.

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

The mission statement of the Lottery is as follows:

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

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

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

Profile of the Lottery

History

The Lottery was established under the authority of Public Act 239 of 1972 to generate funds to support Michigan's public school system. The first lottery ticket was the Green Ticket which went on sale on November 13, 1972. On October 7, 1975, the first instant game ticket was sold. Draw game sales began June 6, 1977 with the introduction of the Daily 3 game. The first multi-state ticket sales for the Lottery were on August 31, 1996 for The Big Game (now called Mega Millions). On January 31, 2010, sales of Powerball, a second multi-state game, began. Since the Lottery's inception, more than \$18.1 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; draw 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



Raise the Stakes

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 close to 40 games a year. The games offered are priced between \$1 and \$20 and top prizes range from \$1 million to Cash for Life based on life expectancy of prize winner. New in 2013, Raise the Stakes is an instant game unlike any other the Lottery has offered before. Player's reveal their QR entry code on their ticket and can either enter the code at RaiseStakes.com or download the free mobile app. Every code is worth between 1 and 60 drawing entries and every raise the stakes instant ticket is eligible for entry, even cash-prize winning tickets. Players can choose to keep their entries for themselves or assign them to a team to increase their chances to win. Every entry a player or team member submits raises the potential progressive jackpot prize by \$500 to the maximum jackpot prize of \$30,000.



Draw Games

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



Mega Millions/Megaplier

Mega Millions is a multi-state draw game, formerly known as The Big Game. 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 draw game and is considered nationally to be the “marquee big jackpot game”. It was introduced January 31, 2010. Players select 5 of 59 white balls and 1 of 39 red balls for a chance to win a multi-million dollar jackpot prize. The jackpot starts at \$20 million. On January 15, 2012 the Powerball game was re-introduced at a \$2 price point with jackpots starting at \$40 million. This game offers nine ways to win with guaranteed prize amounts on lower prize levels and includes a \$1 million second prize. Drawings are conducted twice a week on Wednesday and Saturday. Power Play is an add-on game to Powerball with a fixed prize structure that includes prizes ranging from \$12 to \$2 million. A total of 46 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.



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.



Daily 3 & 4 Games

The Daily 3 & 4 games are the Lottery's longest running and most consistently popular games, representing over 27% of total sales. Drawings are conducted twice a day, seven days a week. These games offer a wide variety of winning combinations and fixed prizes. The top prize for Daily 3 is \$500; for Daily 4, \$5,000. A Daily 4 Straight Back Bonus promotion was held the month of August 2013 where players were offered a bonus prize on straight wagers whose numbers match in exact reverse order of the Daily 4 winning numbers drawn.



Raffle Games

The first Raffle game, introduced on November 12, 2006 was Millionaire Raffle subsequently followed by; Super Raffle in April 2007; Lucky 7's Raffle and Win for Life Raffle in 2009; Red Hot Raffle and The Ultimate 50/50 Raffle in 2010; and Raffle of Riches in 2012. The \$40,000 Tax Free Raffle, introduced in March 2013, was on sale for 60 days and sold 510,000 tickets which had tax free top prizes of \$40,000. This raffle featured a pari-mutuel prize structure with a top prize awarded for every 30,000 tickets sold. In total, 17 top prizes and 85,000 other cash prizes were awarded to winners. The Lottery is participating in its first multi-state raffle, Halloween Millions Raffle, which was introduced in September 2013 to be drawn November 1, 2013. A total of seven states are participating in this raffle which includes grand prizes up to \$1.0 million. The Lottery will also hold an in-state drawing for additional prizes.



Club Games: Club Keno "To Go"

Jack Pack

Pull-tabs

Club Games were introduced in October 2003 and are predominantly played by patrons of bars, restaurants and bowling centers. Results of the drawings, which are conducted every four minutes, are displayed on TV monitors located in retailer establishments. Beginning in July 2013, Club Keno drawings are now conducted every three and a half minutes. In October 2010, Club Keno "To Go" was introduced allowing the traditional retailers to begin selling Club Keno. At that time drawings became available to view on the web and in May 2011 on a Michigan Lottery mobile application. Club Games consist of a draw Club Keno game, Club Keno Kicker, The Jack 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 drawing.

The Jack was modified October 2011 from matching seven of the player's numbers to eight to win the progressive jackpot. The new play style has better odds and offers secondary prizes from \$1 to \$350 and a jackpot starting at \$10,000. From January 14, 2013 to February 10, 2013 a promotion named Jack Pack was introduced where players received one free draw for every five draws configured on a single Club Keno wager where the Jack was selected. Pull Tab games are similar to instant tickets but players pull a perforated tab instead of scratching off the ticket. A variety of different Pull Tab games are offered at one time. Ticket prices are 50 cents, \$1, \$2, and \$5, and top prizes range from \$50 to \$25,000.



Player's Club



Play It Again Giveaway

As of September 30, 2013 there were 548,592 registered members that have joined the Michigan Lottery's Player's Club with 315,245 opting into email communications and 111,349 opting into receiving text message communications from the Lottery. Players utilize the website and the newly redesigned, in 2013, mobile application to earn reward points and second chance entries by submitting their non-winning instant and draw game tickets. Over 53 million tickets were entered in 2013. These entries give players a chance to win prizes up to \$1.0 million dollars for the exclusive Play It Again Giveaway. Lottery also issues electronic coupons to Player's Club members that must be redeemed at retail. More than \$800,000 in coupons were redeemed in 2013 which originated as prizes, email offers or catalog rewards. The Michigan Lottery Player's Club can be accessed by visiting www.michiganlottery.com.

Highlights of Fiscal Year 2013

Sales

Sales for 2013 surpassed \$2.4 billion and remain at record setting levels.

Retailers Win Big with Commissions and Incentives

Retailer commissions totaled \$178.5 million in 2013. 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 \$43 million in additional commissions.

WonCard Launch

In July 2013, the WonCard, a Lottery player loyalty and reloadable Discover debit card was launched. The WonCard gives players a new cashless option for buying lottery tickets and retailer merchandise wherever the Discover Card is accepted. After registering their WonCard at www.mywoncard.com, players can load cash on their card, save their favorite wagers to their WonCard eliminating the need for play slips and link their card to Player's Club. Prizes won of \$600 or less purchased with a WonCard are automatically deposited to the card for players to use.

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

According to Governor Rick Snyder, although Michigan still has challenges ahead, it's well on its way to making a comeback. In 2013, Michigan's economy jumped to a 10-year high according to the Comerica Bank's Michigan Economic Activity Index which climbed two points in June 2013. This was the highest level for the index since December 2002. In July 2013, the Detroit News reported that Michigan is leading the country in economic growth, with positive numbers driven by statewide home sales and retail sales both of which are stronger here than elsewhere in the country. Housing prices are steadily rising and contribute to the growth. Also, with the elimination of the Michigan Business Tax and the shift to the Corporate Income Tax, the state's corporate tax climate has risen from second worst in the nation to the seventh best. Economists forecast that as the economy picks up steam over the next two years, Michigan's residents should see solid employment growth in the professional and business services; trade, transportation, utilities and construction industries. The ongoing recovery of Detroit's three automakers has paved the way for the economic climb, with resurgence in jobs and profitability. Personal income and employment have grown more than most of Michigan's peer states since 2009. Local inflation remains particularly modest over the forecast horizon, sitting well below 2.0% for each year from 2013 to 2015 due to a combination of slack in the labor markets, tame increases in energy prices, and moderate increases in food prices. U.S. economic growth is projected to be higher in the first three months of 2014, as consumers and businesses make purchases and investments that were delayed during the 16-day partial government shutdown that occurred in early October.

In September 2013, Michigan's unemployment rate remained steady at 9.0% which was well above the national average of 7.2%. Michigan's annual unemployment rate has dropped four times faster than the national average, but is still greater than 1.0% higher. High unemployment rates have discouraged many Americans from looking for work and remained at a 35-year low in September. The unemployment forecast for 2014 is that Michigan will see overall job growth with modest projected gains and a decrease in the unemployment rate to an expected average of 8.0% as compared to a projected decrease in the national unemployment rate of 6.9%.

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

Debt Administration

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

Long-term Financial Planning

The Lottery continues to work on new ways to attract players and increase instant, draw game, 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. Also, costs saving techniques are devised and implemented to minimize operational costs which increase our net amount to the School Aid Fund.

In 2014, 41 new Instant game introductions are planned including Cash for Life Games, the highest selling instant game series in Lottery history. A \$30 price point instant game is planned to launch second quarter of 2014. In addition, enhanced prize structures, 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.

Several instant game second chance interactive games are planned in 2014 to include Frogger, Zuma, Monopoly Jackpot, and Diamond Wild Time that will involve web and mobile web applications. New draw games to be offered to players are Poker Lotto in October 2013 that has an instant-win component and a nightly drawing; and EZ Match in March 2014 that has an instant-win component for Classic Lotto 47 and Fantasy 5 games. The Lottery continues to research new games using technology to measure player demand for future gaming growth opportunities and a way to attract players in the electronic era we live in.

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

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

Awards and Acknowledgements

Awards

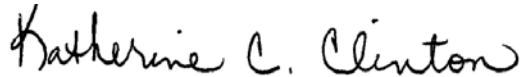
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended September 30, 2012. This was the eighth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



Katherine C. Clinton
Deputy Commissioner for Administration



M. Scott Bowen
Commissioner



Government Finance Officers Association

**Certificate of
Achievement
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Presented to

**Bureau of State Lottery
Michigan**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

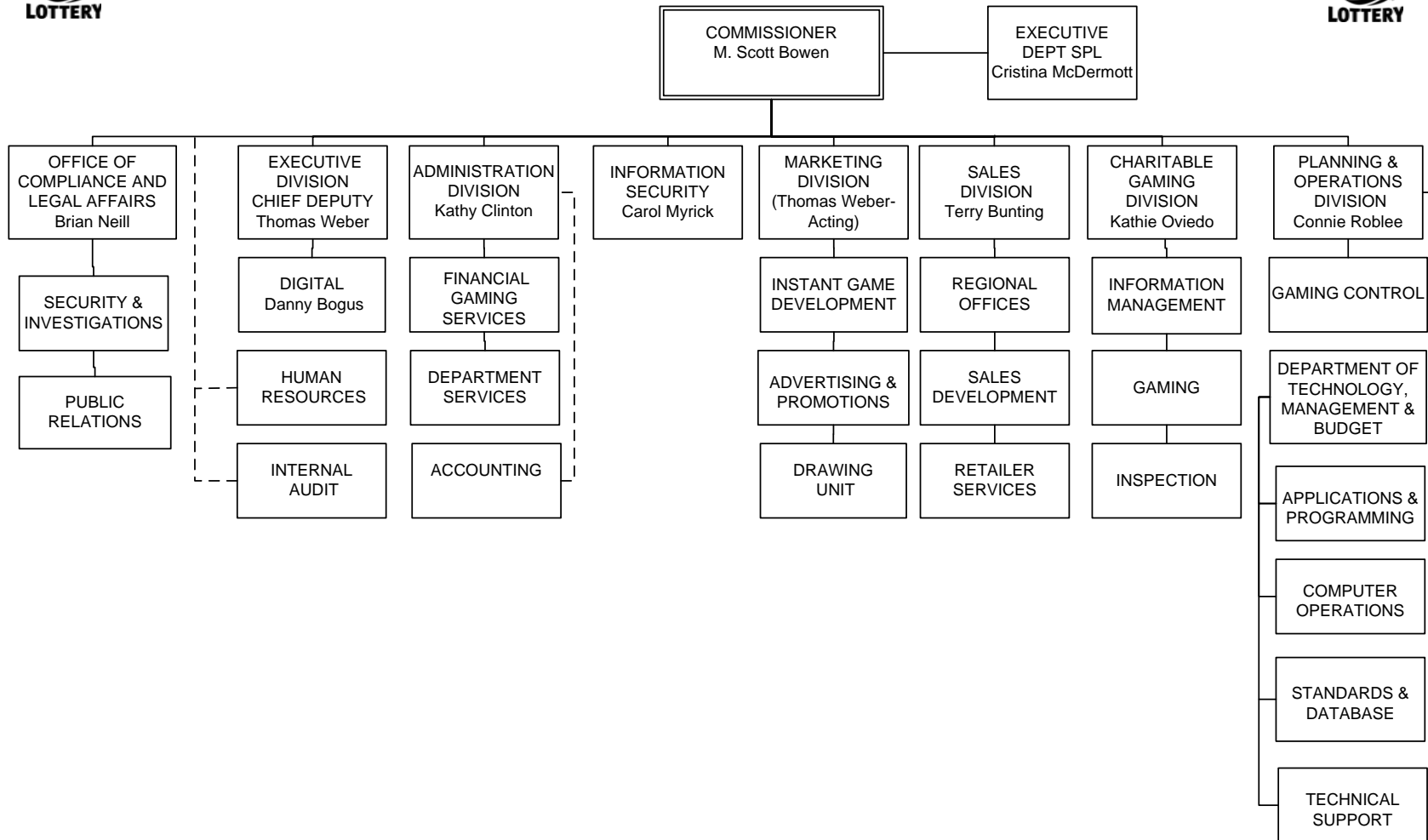
September 30, 2012

Executive Director/CEO

Bureau of State Lottery

Organization Chart and Principal Officials

September 2013





FINANCIAL SECTION

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Bureau of State Lottery, State of Michigan (an Enterprise Fund of the State of Michigan) (the "Lottery"), a proprietary fund of the State of Michigan, as of and for the six-month periods and years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Bureau of State Lottery, State of Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bureau of State Lottery, State of Michigan as of September 30, 2013 and 2012 and the respective changes in financial position and cash flows, where applicable, for the six-month periods and the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2013 and 2012 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14-25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 on our consideration of the Bureau of State Lottery, State of Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bureau of State Lottery, State of Michigan's internal control over financial reporting and compliance.

Plante & Morse, PLLC

December 6, 2013



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") financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the financial statements, which begin on page 26.

Using This Report

The Lottery is accounted for as an enterprise activity/proprietary fund, reporting on all of the activity's assets and liabilities using the accrual basis of accounting, much like a private business entity. As such, this Comprehensive Annual Financial Report (CAFR) consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules. The Statement of Net Position on page 26 and the Statement of Revenues, Expenses and Changes in Net Position on page 27, report the Lottery's net position and their changes.

By law, the Lottery is required to deposit all of its net income each fiscal year to either the State School Aid Fund (for income related to Lottery gaming activities) or the General Fund (for income related to Charitable Gaming activities). As a result, the net position of the Lottery 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 Position, and in changes in operating revenues, expenses, and disbursement expenses to other funds as set forth in the Statement of Revenues, Expenses and Changes in Net Position. In addition, the reader should also refer to the accompanying notes to the financial statements.

Financial Highlights

- Operating revenues for Lottery gaming activities increased by \$60.9 million, or 2.5%. Ticket sales, the primary operating revenue, strengthened during 2013 increasing by \$63.0 million.
- Total revenues for all activities (including non-operating) increased \$38.2 million or 1.6%.
- Non-operating revenues decreased by \$22.7 million. This decrease is attributable to the changing market values of investments during 2013.
- Total operating expenses for 2013 increased \$107.0 million, or 6.5%. Of this increase, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities increased by \$91.8 million, or 6.7%, unclaimed prizes increased by \$3.5 million, or 12.3%, retailer and vendor commissions increased \$9.6 million, or 4.7%, while other operating expenses increased by \$4.5 million, or 9.8%.
- Total expenses (including non-operating) for all activities increased \$59.8 million or 2.4%.
- Disbursements to the School Aid Fund were \$734.3 million in 2013 compared to \$778.4 million in 2012, a decrease of \$44.1 million or 5.7%. Net income disbursed to the General Fund related to Charitable Gaming activities decreased by \$3.0 million or 40.0%.

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

Net Position

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

Table 1 - Net Position
(in millions)

	September 30,		
	2013	2012	2011
Current and other assets	\$ 135.2	\$ 135.6	\$ 135.6
Investments - noncurrent	205.4	225.0	250.7
Capital assets (net of accumulated depreciation)	0.8	0.3	0.4
Total assets	341.4	360.9	386.7
Current liabilities	117.7	112.9	119.2
Long-term liabilities	205.8	213.0	237.0
Total liabilities	323.5	325.9	356.2
Net position:			
Net investment in capital assets	0.8	0.3	0.4
Restricted for unrealized gains on investments	17.9	35.0	30.5
Unrestricted (deficit)	(0.8)	(0.3)	(0.4)
Total net position	\$ 17.9	\$ 35.0	\$ 30.5

As shown in Table 1 above, the Lottery's net position decreased since September 2012 from \$35.0 million to \$17.9 million, a decrease of \$17.1 million. The change from September 2011 to 2012 was an increase of net position by \$4.5 million. The respective decrease and increase noted above are both primarily attributable to the restricted for unrealized gains or loss on investments due to changes in market value of those investments that the Lottery holds to fund future payments due on annuitized lottery prizes. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2013, net capital assets increased by \$0.5 million since September 2012. Capital assets decreased \$0.1 million from September 2011 to 2012. Additional detailed information on capital assets may be found in Note 4 in the accompanying financial statements.

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

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

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

Table 2 - Liabilities
(in millions)

	September 30,		
	2013	2012	2011
Current:			
Warrants authorized and warrants outstanding	\$ 9.3	\$ 6.6	\$ 9.1
Accounts payable and other liabilities	4.5	5.2	6.5
Prize awards payable (net of discount)	103.9	101.0	103.6
Total current	<u>117.7</u>	<u>112.8</u>	<u>119.2</u>
Non-current:			
Prize awards payable (net of discount)	204.6	211.9	236.1
Compensated absences	1.1	1.0	0.6
Supplemental retirement	0.1	0.2	0.3
Total non-current	<u>205.8</u>	<u>213.1</u>	<u>237.0</u>
Total liabilities	<u>\$ 323.5</u>	<u>\$ 325.9</u>	<u>\$ 356.2</u>

Non-current liabilities consist principally of prize liability for prizes paid in installments over several years. Long-term prize liability decreased by \$7.3 million or 3.5% from 2012 to 2013 and decreased \$24.2 million or 10.2% from 2011 to 2012. The decrease from 2012 to 2013 and 2011 to 2012 are attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. Refer to Note 6 in the accompanying financial statements for more information.

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

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

Table 3 - Changes in Net Position
(in millions)

	September 30,		
	2013	2012	2011
Operating revenues	\$ 2,491.1	\$ 2,430.2	\$ 2,357.4
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(1,461.6)	(1,369.8)	(1,344.3)
Commissions and game related expenses	(236.1)	(225.4)	(222.3)
Total prizes and direct game expenses	(1,697.7)	(1,595.2)	(1,566.6)
Income before other operating expenses	793.4	835.0	790.8
Other operating expenses	(50.4)	(45.9)	(49.4)
Operating income	743.0	789.1	741.4
Non-operating revenues and (expenses):			
Investment and interest revenues	(7.1)	15.6	27.9
Investment and interest expenses	(13.2)	(13.3)	(15.5)
School Aid Fund disbursement expense	(734.3)	(778.4)	(727.3)
General Fund disbursement expense	(4.5)	(7.5)	(9.3)
Community Health disbursement expense	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(760.1)	(784.6)	(725.2)
Change in net position	(17.1)	4.5	16.2
Total net position beginning of period	35.0	30.5	14.3
Total net position end of period	\$ 17.9	\$ 35.0	\$ 30.5

Because the Lottery is required by law to deposit all of its net income (excluding the unrealized gain or loss on investments discussed above) to the School Aid Fund or General Fund, change in net position does not reflect the result of the Lottery's operating activities. The \$734.3 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2013. There was a decrease of \$44.1 million or 5.7% from 2012 to 2013 and an increase of \$51.1 million or 7.0% from 2011 to 2012. 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**

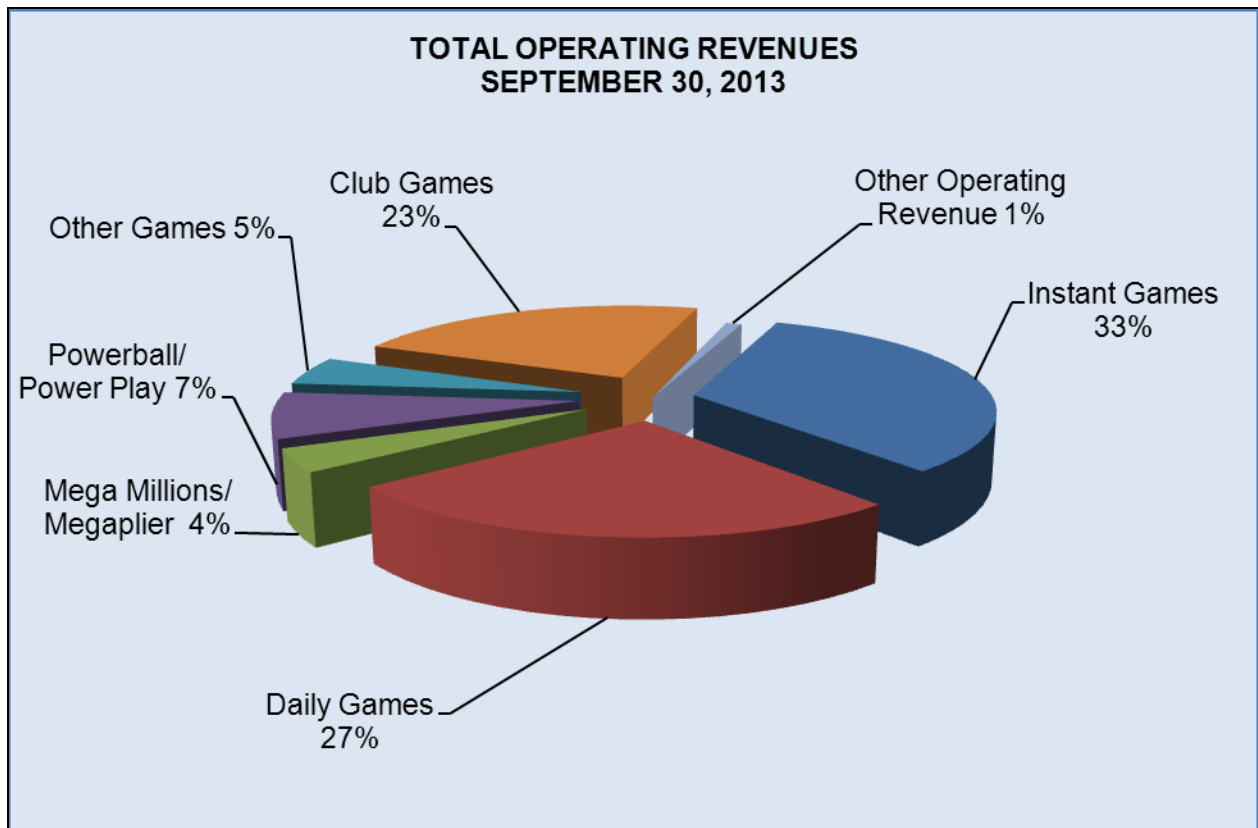
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds
(in millions)

	September 30,		
	2013	2012	2011
School Aid Fund	\$ 734.3	\$ 778.4	\$ 727.3
General Fund	4.5	7.5	9.3
Community Health	1.0	1.0	1.0
Total Disbursements to Other Funds	\$ 739.8	\$ 786.9	\$ 737.6

Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2013:



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,		
	2013	2012	2011
Operating revenues:			
Instant tickets	\$ 827.0	\$ 771.7	\$ 739.2
Daily games	672.2	681.1	685.6
Mega Millions/Megaplier	101.6	166.8	167.8
Powerball/Power Play	186.8	119.5	85.9
Club games	565.8	553.3	527.9
Other games	123.0	121.0	133.5
Other operating revenue	14.7	16.8	17.5
Total operating revenues	<u>2,491.1</u>	<u>2,430.2</u>	<u>2,357.4</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	(17.1)	4.5	16.2
Amortization on bonds	9.9	11.0	11.5
Other income	0.1	0.1	0.2
Total non-operating revenue	<u>(7.1)</u>	<u>15.6</u>	<u>27.9</u>
Total revenues	<u>\$ 2,484.0</u>	<u>\$ 2,445.8</u>	<u>\$ 2,385.3</u>

Operating revenues, primarily Lottery ticket sales, increased from fiscal year 2012 to 2013, and increased from 2011 to 2012. The increase in fiscal year September 2013 over 2012 was \$60.9 million or 2.5% and the increase in fiscal year 2012 over 2011 was \$72.8 million or 3.1%.

Instant game ticket sales increased by \$55.3 million or 7.2% for fiscal year 2013 compared to fiscal year 2012. The increase in fiscal year September 2012 over 2011 was \$32.5 million or 4.4%. The instant sales increase from 2012 to 2013 continues to be attributed to enhanced prize structures which provide more prizes with increased odds of winning to include additional cash for life type prizes to the instant game portfolio.

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 2013 decreased by \$65.2 million or 39.1% compared to fiscal year 2012. Sales in fiscal year 2012 decreased by \$1.0 million or 0.6% compared to fiscal year 2011. The overall sales decrease in 2013 can be primarily attributed to only 12.5% of the drawings that had jackpot rolls over \$100.0 million. Megaplier is an add-on to Mega Millions whereby players have an opportunity to increase their non-jackpot winnings.

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 44 states, including its newest member the State of California as of April 2013, Washington D.C., and U.S. Virgin Islands. Sales for fiscal year September 2013 increased by \$67.3 million or 56.3% compared to fiscal year 2012.

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Management's Discussion and Analysis

During 2013, 45.2% of all Powerball drawings held were for jackpots \$100 million or greater which primarily attributed to the increase in Powerball sales. Power Play is an add-on game to Powerball where players can increase their non-jackpot prizes.

Club games include Club Keno, Club Keno Kicker, Pull Tabs, and The Jack. The Club Games sales increased in fiscal year September 2013 by \$12.5 million or 2.3% over 2012, and increased by \$25.4 million or 4.8% from 2011 to 2012. As of July 2013, Club Keno drawings changed and are conducted every three and a half minutes which allows 43 more drawings a day. Continuing efforts were focused on increasing awareness of Club Keno "To Go" which was introduced in October 2010 that allowed the sale of Club Keno, Club Keno Kicker, and The Jack from all traditional retailers. This was further supported by the promotion of the Lottery mobile applications for iPhone and Android enabling players to watch Club Keno drawings anywhere. YouTube videos were made available providing virtual "how to play" experiences to reach an expanding market of players. Also, Club Keno Cash coupons were issued to eligible player's club members and free play interactive play-for-fun games were offered to further increase awareness about the game. In January 2013 to February 2013, the Jack Pack promotion was implemented to drive trial and adoption of The Jack add-on game.

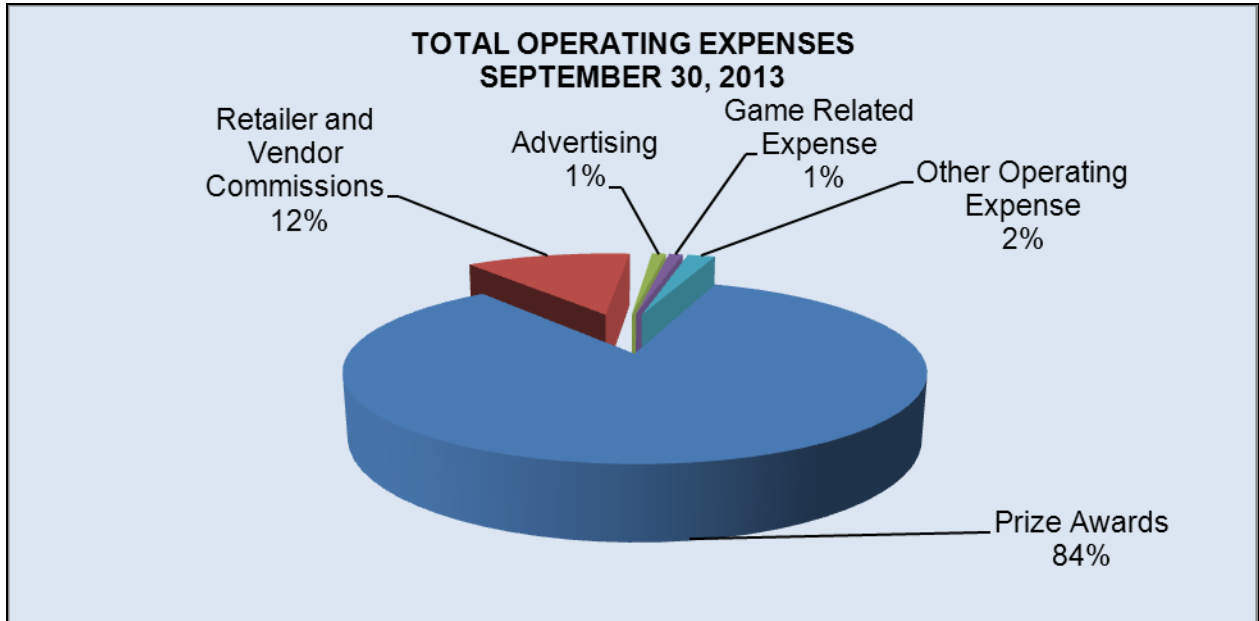
Other games consist of Classic Lotto 47, Fantasy Five, Keno and Raffle. Classic Lotto 47 and Fantasy Five enjoyed a slight increase in sales during 2013. In total, other games sales experienced an increase by \$2.0 million or 1.7% compared to fiscal year 2012. Sales in fiscal year 2012 decreased by \$12.5 million or 9.4% compared to fiscal year 2011. In 2013, Raffle consisted of one Tax Free Raffle, a \$10 game, which included more chances to win lower tier prizes of \$15, \$50 and \$100.

The decrease in non-operating revenues from 2012 to 2013 resulted from a decrease in unrealized gain on investments and bond amortization. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact the disbursement to the School Aid Fund. The decrease in bond amortization from 2012 to 2013 and from 2011 to 2012 is due to a decreasing bond portfolio from maturing investments and the fact that most prize winners have elected the cash option instead of installment payments. Other income remained unchanged from 2012 to 2013 due to stable interest rates on common cash investments. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

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

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, 2013:



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,		
	2013	2012	2011
Prizes:			
Instant prizes	\$ 573.1	\$ 514.9	\$ 493.4
Online prizes	549.4	521.3	530.0
Club game prizes	369.6	362.0	344.8
Player's Club all games	1.4	-	-
Total prizes	<u>1,493.5</u>	<u>1,398.2</u>	<u>1,368.2</u>
Less: unclaimed prizes	<u>31.9</u>	<u>28.4</u>	<u>23.9</u>
Net prize awards	<u>1,461.6</u>	<u>1,369.8</u>	<u>1,344.3</u>
Direct game expenses:			
Retailer commissions	178.5	172.1	168.4
Vendor commissions	37.0	33.8	32.4
Game related expenses	<u>20.6</u>	<u>19.5</u>	<u>21.5</u>
Total direct game expenses	<u>236.1</u>	<u>225.4</u>	<u>222.3</u>
Other operating expenses:			
Salaries, wages and benefits	21.1	19.2	17.0
Other professional services	7.3	5.5	5.1
Printing and supplies	1.5	1.8	1.8
Other general and administrative	2.9	2.7	2.9
Promotion and advertising	<u>17.6</u>	<u>16.7</u>	<u>22.6</u>
Total other operating expenses	<u>50.4</u>	<u>45.9</u>	<u>49.4</u>
Total operating expenses	<u>1,748.1</u>	<u>1,641.1</u>	<u>1,616.0</u>
Non-operating expenses:			
Amortization of prize discount	13.2	13.3	15.5
School Aid Fund disbursement	734.3	778.4	727.3
General Fund disbursement	4.5	7.5	9.3
Community Health disbursement	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total non-operating expenses	<u>753.0</u>	<u>800.2</u>	<u>753.1</u>
Total expenses	<u>\$ 2,501.1</u>	<u>\$ 2,441.3</u>	<u>\$ 2,369.1</u>

The Daily 3 prize payout had an increase to 51.9% in 2013, compared to 48.6% in 2012, and 46.9% in 2011. The Daily 4 payout increased to 49.4% in 2013, compared to 43.9% in 2012, and 49.0% in 2011. Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 50.6% in 2013, compared to 46.1% in 2012, and 48.0% in 2011. The respective Daily Games combined prize payout increased 4.5% from 2012 to 2013 and decreased 1.9% from 2011 to 2012.

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

The Club Games prize payout percentage decreased to 64.8% in 2013, compared to 64.9% in 2012 and increased to 64.9% in 2012, compared to 64.8% in 2011. The higher Club Games payout is an important part of the appeal of this style of game in this market. The other draw games have an anticipated payout between 50% and 60%.

Instant games had an overall payout of 69.3% in 2013, compared to 66.7% in 2012 and 66.8% in 2011. The games vary in payout percentage depending on selling price of a ticket for a game. Instant game prize payouts range from 56.1% for a \$2 game to 76.9% for a \$20 game.

Retailer commissions have increased commensurate with higher overall sales. Vendor commissions have increased commensurate with higher overall sales and due to an increase in interactive games commission. Game related expense has increased by \$1.1 million or 5.6% in 2013 from 2012 and decreased by \$2.0 million or 9.3% in 2012 from 2011.

Other operating expenses have increased by \$4.5 million or 9.8% from 2013 over 2012 and decreased \$3.5 million or 7.1% in 2012 from 2011.

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 increased by \$3.5 million from 2012 to 2013 and increased by \$4.5 million from 2011 to 2012.

Charitable Gaming

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

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

	September 30,		
	2013	2012	2011
Gross revenue	\$ 13.5	\$ 14.5	\$ 16.0
Operating expenses	(9.0)	(7.0)	(6.7)
Net income	\$ 4.5	\$ 7.5	\$ 9.3

Charitable Gaming activities overseen by the Lottery include the licensing and regulation of charitable and certain other not-for-profit organizations that conduct bingo games and raffles for fund-raising purposes. By Executive Order 2012-4 dated April 2012, all millionaire party licensing and regulation activities were transferred from the Lottery to the Michigan Gaming Control Board. Millionaire party licensing revenue shall be remitted to the Lottery and all necessary expenses shall be financed by the Lottery.

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

Charitable Gaming revenues decreased by \$1.0 million or 6.9% for fiscal year 2013 compared to fiscal year 2012 and decreased \$1.5 million or 9.4% from fiscal year 2011 to 2012.

The Lottery also oversees the distribution and sale of break-open tickets, (also for fund-raising purposes), to these same organizations. The decrease in revenues is primarily due to a decrease in sales of break-open tickets.

The 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

Poker Lotto, a new draw game, will be offered beginning in October 2013 which has both an instant-win component along with a nightly drawing. Wagers cost \$2 and are easy picks only. The computer will randomly select five cards from a standard 52-card deck and print them on the player's ticket. For the instant-win component, players will be dealt five cards on the ESMM monitor displays. Cash prizes are awarded if the five cards dealt create a poker hand to include a royal flush, straight flush, four of a kind, full house, flush, straight, three of a kind, two pair, or a pair of face cards. In addition, there will be a nightly drawing where five cards from a standard 52-card deck will be randomly drawn. Players win by matching the cards printed on their ticket to the cards drawn, in any order.

Two prize matrix changes are planned for fiscal year 2014 that impact both the Mega Millions and Powerball games. A new Mega Millions matrix will be introduced in October 2013 which will maintain the \$1 price point. The re-designed multi-state game offers players a larger starting jackpot of \$15.0 million, \$1.0 million second-tier prizes, and better overall odds of winning. The new Megaplier matrix also gives players the opportunity to win up to \$5.0 million on a non-jackpot prize winning ticket. During January 2014, Powerball's Power Play matrix will return to a random jackpot multiplier option using 2X, 3X, 4X, and 5X the jackpot amount. There will be an optional 10X multiplier available for special promotions. The match 5 prize will not be eligible for the multiplier and will instead remain at a fixed \$2.0 million prize amount if the player chooses to add Power Play to their base wager.

Scheduled for March 2014, EZ Match will be added to both the Classic Lotto 47 and Fantasy 5 games. For an additional \$1 players will be able to add EZ match to their regular Classic Lotto 47 or Fantasy 5 wager for a chance to win cash instantly. When EZ match is selected, five EZ match numbers and corresponding prize amounts will be printed under the player's regular Classic Lotto 47 or Fantasy 5 numbers on their ticket. When an EZ match number matches one or more of a player's regular Classic Lotto 47 or Fantasy 5 numbers, they win the prize specified.

To attract and maximize player engagement, retention, and promote winner awareness, marketing campaigns for the Player's Club website will focus on further expanding the interactive channel mix to include tablets and mobile web. Additional mobile applications are planning to be built to include Wild Time and Keno "To-Go" including adding a Pinterest page for social media promotions.

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

YouTube content strategy will be enhanced which centers on providing access to the Lottery's televised drawings and expanded to providing interactive demonstrations on how to play various lottery games to provide game education to our players. Second chance interactive instant game promotions will continue to be offered.

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

Contacting the Lottery's Financial Management

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

Bureau of State Lottery, State of Michigan
Statement of Net Position
September 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Equity in State Treasurer's Common Cash Fund	\$ 12,909,672	\$ 12,974,439
Investments, at fair value	33,524,618	40,702,343
Accounts receivable - net	80,948,721	75,176,619
Inventory	7,876,400	6,791,956
Total current assets	<u>135,259,411</u>	<u>135,645,357</u>
Non-current assets:		
Investments, at fair value	<u>205,437,079</u>	<u>224,994,188</u>
Capital assets:		
Leasehold improvements and equipment	5,131,499	4,398,529
Accumulated depreciation	(4,377,257)	(4,140,268)
Total capital assets	<u>754,242</u>	<u>258,261</u>
Total noncurrent assets	<u>206,191,321</u>	<u>225,252,449</u>
Total assets	<u>341,450,732</u>	<u>360,897,806</u>
Liabilities		
Current liabilities:		
Warrants outstanding	886,157	163,459
Warrants authorized	8,453,735	6,413,818
Accounts payable and other liabilities	4,480,044	5,248,181
Prize awards payable - net of discount	103,862,725	101,048,712
Total current liabilities	<u>117,682,661</u>	<u>112,874,170</u>
Noncurrent liabilities:		
Prize awards payable - net of discount	204,642,185	211,864,471
Accrual for compensated absences, less current portion	1,078,239	952,512
Accrual for supplemental retirement, less current portion	129,014	231,573
Total noncurrent liabilities	<u>205,849,438</u>	<u>213,048,556</u>
Total liabilities	<u>323,532,099</u>	<u>325,922,726</u>
Net Position		
Net investment in capital assets	754,242	258,261
Restricted for unrealized gains on investments	17,918,633	34,975,080
Unrestricted (deficit)	(754,242)	(258,261)
Total net position	<u>\$ 17,918,633</u>	<u>\$ 34,975,080</u>

See Accompanying Notes to Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Revenues, Expenses and Changes in Net Position
For the Six Months and Years Ended September 30, 2013 and 2012

	Six Months Ended		Years Ended	
	2013	2012	2013	2012
Operating revenues				
Ticket sales	\$ 1,258,535,266	\$ 1,164,798,759	\$ 2,476,398,393	\$ 2,413,458,637
Charitable gaming and other	7,215,261	7,423,252	14,732,838	16,822,861
Total operating revenues	<u>1,265,750,527</u>	<u>1,172,222,011</u>	<u>2,491,131,231</u>	<u>2,430,281,498</u>
Operating expenses				
Prize awards	768,518,916	675,616,406	1,493,437,982	1,398,161,927
Less - unclaimed prizes	<u>(15,944,714)</u>	<u>(15,424,207)</u>	<u>(31,894,577)</u>	<u>(28,410,070)</u>
Net prize awards	752,574,202	660,192,199	1,461,543,405	1,369,751,857
Retailer and vendor commission	110,207,079	100,234,704	215,453,227	205,986,681
Game related expenses	10,759,315	8,648,676	20,615,718	19,460,815
Depreciation expense	134,339	93,995	236,989	188,858
Other operating expenses	<u>25,284,275</u>	<u>20,689,318</u>	<u>50,219,193</u>	<u>45,706,462</u>
Total operating expenses	<u>898,959,210</u>	<u>789,858,892</u>	<u>1,748,068,532</u>	<u>1,641,094,673</u>
Operating income	<u>366,791,317</u>	<u>382,363,119</u>	<u>743,062,699</u>	<u>789,186,825</u>
Non-operating revenues				
Investment revenue - net	(7,593,229)	14,343,368	(7,202,326)	15,448,561
Interest on equity in State Treasurer's Common Cash Fund	<u>66,279</u>	<u>78,007</u>	<u>124,352</u>	<u>124,695</u>
Total non-operating revenues	<u>(7,526,950)</u>	<u>14,421,375</u>	<u>(7,077,974)</u>	<u>15,573,256</u>
Non-operating expenses				
Bank fees	(2,025)	(2,325)	(4,188)	(4,835)
Amortization of prize award obligation discount	<u>(7,207,142)</u>	<u>(6,417,342)</u>	<u>(13,188,590)</u>	<u>(13,321,182)</u>
Total non-operating expenses before disbursements	<u>(7,209,167)</u>	<u>(6,419,667)</u>	<u>(13,192,778)</u>	<u>(13,326,017)</u>
Disbursements to School Aid Fund	(361,795,902)	(377,207,797)	(734,344,328)	(778,431,938)
Disbursements to General Fund	(2,152,056)	(3,620,649)	(4,514,066)	(7,500,358)
Disbursements to Community Health	<u>(495,000)</u>	<u>(495,000)</u>	<u>(990,000)</u>	<u>(990,000)</u>
Total disbursements	<u>(364,442,958)</u>	<u>(381,323,446)</u>	<u>(739,848,394)</u>	<u>(786,922,296)</u>
Total non-operating expenses	<u>(371,652,125)</u>	<u>(387,743,113)</u>	<u>(753,041,172)</u>	<u>(800,248,313)</u>
Net non-operating revenue (expense)	<u>(379,179,075)</u>	<u>(373,321,738)</u>	<u>(760,119,146)</u>	<u>(784,675,057)</u>
Change in net position	<u>(12,387,758)</u>	<u>9,041,381</u>	<u>(17,056,447)</u>	<u>4,511,768</u>
Total net position at beginning of period	<u>30,306,391</u>	<u>25,933,699</u>	<u>34,975,080</u>	<u>30,463,312</u>
Total net position at end of period	<u>\$ 17,918,633</u>	<u>\$ 34,975,080</u>	<u>\$ 17,918,633</u>	<u>\$ 34,975,080</u>

See Accompanying Notes to Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2013 and 2012

	Six Months Ended		Years Ended	
	2013	2012	2013	2012
Cash Flows From Operating Activities				
Cash collections from customers	\$ 1,260,771,942	\$ 1,207,535,833	\$ 2,485,263,812	\$ 2,420,760,505
Payments to employees	(10,233,096)	(9,687,307)	(20,912,218)	(19,098,050)
Payments to suppliers	(31,617,116)	(25,938,956)	(49,616,871)	(50,434,371)
Payments to prize winners	(753,020,265)	(693,673,426)	(1,479,140,269)	(1,409,920,525)
Payments for retailer and vendor commissions	(110,207,079)	(100,234,704)	(215,453,227)	(205,986,681)
Net cash provided by operating activities	355,694,386	378,001,440	720,141,227	735,320,878
Cash Flows From Noncapital Financing Activities				
Disbursements to School Aid Fund	(434,344,328)	(473,431,938)	(734,344,328)	(778,431,938)
Disbursements to General Fund	(4,514,066)	(7,500,358)	(4,514,066)	(7,500,358)
Disbursements to Community Health	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	(439,848,394)	(481,922,296)	(739,848,394)	(786,922,296)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(106,473)	-	(732,970)	-
Cash Flows From Investing Activities				
Proceeds from the sale and maturity of investment securities	17,550,000	21,335,000	41,069,000	49,279,000
Purchase of investments	(11,181,680)	-	(21,536,492)	-
Interest received	79,686	103,277	124,352	124,695
Bank fees	(2,025)	(2,325)	(4,188)	(4,835)
Net cash provided by investing activities	6,445,981	21,435,952	19,652,672	49,398,860
Net decrease in cash and cash equivalents	(77,814,500)	(82,484,904)	(787,465)	(2,202,558)
Cash and cash equivalents at beginning of period	89,838,015	95,295,884	12,810,980	15,013,538
Cash and cash equivalents at end of period	\$ 12,023,515	\$ 12,810,980	\$ 12,023,515	\$ 12,810,980

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2013 and 2012

	Six Months Ended		Years Ended	
	2013	2012	2013	2012
Reconciliation of net operating income to net cash provided by operating activities				
Operating income	\$ 366,791,317	\$ 382,363,119	\$ 743,062,699	\$ 789,186,825
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	134,339	93,995	236,989	188,858
Bad debt expense	18,677	61,920	95,317	83,383
Amortization of prize award obligation discount	(7,207,142)	(6,417,342)	(13,188,590)	(13,321,182)
Net changes in assets and liabilities:				
Inventory	149,979	(570,343)	(1,084,444)	(1,735,638)
Receivables from retailers	(4,978,586)	35,313,821	(5,867,419)	(9,520,992)
Warrants authorized, compensated absences, supplemental retirement, accounts payable, other liabilities	(5,975,277)	(5,779,845)	1,294,948	(2,712,890)
Prize awards payable	6,761,079	(27,063,885)	(4,408,273)	(26,847,486)
Net cash provided by operating activities	\$ 355,694,386	\$ 378,001,440	\$ 720,141,227	\$ 735,320,878
Reconciliation of cash and cash equivalents				
Cash and cash equivalents at beginning of period				
Equity in State Treasurer's Common Cash Fund	\$ 89,892,897	\$ 95,783,806	\$ 12,974,439	\$ 15,934,334
Warrants outstanding	(54,882)	(487,922)	(163,459)	(920,796)
Net cash and cash equivalents at beginning of period	\$ 89,838,015	\$ 95,295,884	\$ 12,810,980	\$ 15,013,538
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 12,909,672	\$ 12,974,439	\$ 12,909,672	\$ 12,974,439
Warrants outstanding	(886,157)	(163,459)	(886,157)	(163,459)
Net cash and cash equivalents at end of period	\$ 12,023,515	\$ 12,810,980	\$ 12,023,515	\$ 12,810,980
Schedule of noncash investing, capital, and financing activities				
(Decrease) increase in fair value of investments	\$ (12,387,758)	\$ 9,041,381	\$ (17,056,447)	\$ 4,511,768

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, and Raffle multi-state lottery games, with the Multi-State Lottery Association (MUSL), an association of governmental lotteries. The association is comprised of a combination of MUSL Lotteries and Mega Millions Lotteries. Michigan also participates in Mega Millions, a jointly operated multi-state lottery comprised of 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 draw game tickets. Operating expenses mainly consist of payments to instant and draw game prize winners and commissions to retailer agents and vendors. All other revenues and expenses are reported as non-operating. Excess revenue over expenses is designated for payment to the State School Aid Fund, except for unrealized gains on investments, excess of revenue over expenses from charitable gaming activities and up to \$1 million per year to the Department of Community Health for gambling addiction programs which are designated for payment to the State General Fund.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Lottery no longer needs to elect whether to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 to its financial statements. This GASB statement codifies all existing FASB, APB, and AICPA guidance currently in effect, which does not conflict with or contradict GASB pronouncements.

Revenue Recognition

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

Statement of Cash Flows

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Use of Estimates

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

Equity in State Treasurer's Common Cash Fund

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

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

Investments

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

Inventory

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandise prizes for games that have not started as of September 30, 2013 and 2012. 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 \$1,298,672 as of September 30, 2013 and \$1,236,153 as of September 30, 2012.

Capital Assets

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Information technology equipment including constructed computer software is depreciated over three years, the estimated useful life of the assets. Building leasehold improvements are depreciated over 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 draw games may be played on an advance wager basis. An associated liability is recognized for all wagers received for drawings to be conducted after the end of the reporting period.

Warrants Authorized and Warrants Outstanding

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

Unclaimed Prizes

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

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Net investment in capital assets, net of accumulated depreciation, consists of equipment and leasehold improvements and deferred inflows and outflows of resources attributable to the acquisition, construction, or improvement of those assets or related to debt. The difference between the fair value of investments and the amortized book value of investments is reported as restricted for unrealized gains on investments and is not available for disbursement to the School Aid Fund in accordance with Public Act 239.

Accounting and Reporting Change

Effective October 1, 2012, the Lottery adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement impacted the format and report of the Statement of Net Position.

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's fund. A bank, savings and loan association or credit union holding State funds must be organized under the laws of Michigan or federal law and maintain a principal office or branch office in the State of Michigan. No deposit in any financial organization may be in excess of 50 percent of the net worth of the organization.

Foreign Currency Risk

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

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

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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, 2013 and 2012, 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, 2013 and 2012, 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 \$238,961,697 at September 30, 2013 and \$265,696,531 at September 30, 2012 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 \$41,069,000 in the year ended September 30, 2013 and \$49,279,000 in the year ended September 30, 2012. For the six months ended September 30, 2013 and 2012, cash receipts from the maturity of investments totaled \$17,550,000 and \$21,335,000, respectively.

Investments at September 30 consist of the following:

	<u>2013</u>	<u>2012</u>
U. S. Treasury zero-coupon bonds	\$ 169,455,425	\$ 169,415,164
Michigan CAB bonds	<u>69,506,272</u>	<u>96,281,367</u>
Total Investments	<u>\$ 238,961,697</u>	<u>\$ 265,696,531</u>

As reported on the Statement of Net Assets:

	<u>2013</u>	<u>2012</u>
Current investments	\$ 33,524,618	\$ 40,702,343
Noncurrent investments	<u>205,437,079</u>	<u>224,994,188</u>
Total Investments	<u>\$ 238,961,697</u>	<u>\$ 265,696,531</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, 2013 and 2012 consist of the following:

September 30, 2013

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

September 30, 2012

<u>Maturities in Years</u>	<u>Investments in United States Treasury Zero-Coupon Bonds</u>	<u>Interest Rate Low to High</u>	<u>Investments in Michigan CAB Bonds</u>	<u>Interest Rate Low to High</u>
Less than 1	\$ 13,165,641	0.51% to 7.11%	\$ 27,536,701	3.94% to 4.50%
1-5	55,068,175	0.79% to 7.19%	47,648,485	4.67% to 7.01%
6-10	34,869,344	2.51% to 4.99%	13,542,773	7.15% to 8.20%
11-15	32,296,295	3.69% to 4.94%	3,800,364	8.25% to 8.38%
16-20	23,502,707	4.26% to 4.71%	3,753,044	8.39% to 8.39%
21-26	10,513,002	4.35% to 4.79%	-	-
Fair Market Value	<u>\$ 169,415,164</u>		<u>\$ 96,281,367</u>	

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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, 2013 and September 30, 2012, 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, 2013, investments in Michigan CAB bonds account for 29.1% of the total Investments as compared to 36.2% as of September 30, 2012.

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, 2013 and 2012 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, 2013 and 2012 is as follows:

<u>Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2013</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,955,989	\$ -	\$ -	\$ 1,955,989
Equipment	2,442,540	732,970	-	3,175,510
Total capital assets being depreciated	4,398,529	732,970	-	5,131,499
Less: accumulated depreciation				
Leasehold improvements	1,936,126	3,203	-	1,939,329
Equipment	2,204,142	233,786	-	2,437,928
Total accumulated depreciation	4,140,268	236,989	-	4,377,257
Total capital assets being depreciated, net	<u>\$ 258,261</u>	<u>\$ 495,981</u>	<u>\$ -</u>	<u>\$ 754,242</u>
<u>September 30, 2012</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,955,989	\$ -	\$ -	\$ 1,955,989
Equipment	2,442,540	-	-	2,442,540
Total capital assets being depreciated	4,398,529	-	-	4,398,529
Less: accumulated depreciation				
Leasehold improvements	1,932,922	3,204	-	1,936,126
Equipment	2,018,488	185,654	-	2,204,142
Total accumulated depreciation	3,951,410	188,858	-	4,140,268
Total capital assets being depreciated, net	<u>\$ 447,119</u>	<u>\$ (188,858)</u>	<u>\$ -</u>	<u>\$ 258,261</u>

NOTE 5 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at September 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Accounts payable vendors	\$ 1,170,509	\$ 1,314,793
Retailer security deposits/accounts payable	1,596,133	2,398,866
Accrued salaries	839,171	604,479
Compensated absences	771,672	827,484
Supplemental retirement	102,559	102,559
Total	<u>\$ 4,480,044</u>	<u>\$ 5,248,181</u>

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

NOTE 6 - PRIZE AWARDS

Installment prize awards are recorded at their present value using discount rates ranging from 3.5% to 7.0%. U.S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds have been purchased to provide for the payment of installment prize awards in addition to cash maintained in the State's common cash fund. Prize awards payable as of September 30, were as follows:

	2013	2012
Current - at face amount	\$ 104,770,848	\$ 102,152,119
Less - unamortized discount	(908,123)	(1,103,407)
Current - at present value	103,862,725	101,048,712
Long-term - at face amount	303,298,200	317,314,733
Less - unamortized discount	(98,656,015)	(105,450,262)
Long-term - at present value	204,642,185	211,864,471
Total	\$ 308,504,910	\$ 312,913,183

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

2014	34,628,533
2015	29,637,400
2016	23,584,400
2017	16,566,200
2018	14,564,200
2019-2023	70,523,000
2024-2028	56,270,400
2029-2033	51,040,400
2034-2038	28,853,800
2039-2043	4,913,600
2044-2048	3,284,000
2049-2053	2,376,000
2054-2059	1,684,800
Total at face amount	337,926,733
Less - unamortized discount	(99,564,138)
Total installment prize awards payable at present value	238,362,595
Non-installment prize awards payable	70,142,315
Total prize awards payable	308,504,910

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
2013	\$ 251,693,697	\$ 27,735,131	\$ 41,066,233	\$ 238,362,595	\$ 33,720,410
2012	\$ 284,549,071	\$ 17,162,459	\$ 50,017,833	\$ 251,693,697	\$ 39,829,226

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, 2013.

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-Term Liability
2013	\$ 1,779,996	\$ 1,445,238	\$ 1,375,323	\$ 1,849,911	\$ 771,672	\$ 1,078,239
2012	\$ 1,599,784	\$ 1,247,401	\$ 1,067,189	\$ 1,779,996	\$ 827,484	\$ 952,512

NOTE 8 – PENSION AND POST-RETIREMENT BENEFITS

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

Defined Benefit Plan (Plan 1)

The Lottery's employees hired prior to March 31, 1997, are enrolled in a noncontributory defined benefit plan through the State Employees' Retirement System upon meeting certain eligibility requirements. Changes in Public Act 264 of 2011 to the defined benefit plan granted members a choice regarding their future retirement plan. Members could voluntarily pay 4% of compensation to remain in this pension plan for future service or become a participant in the defined contribution plan for future years of service. Member elections were implemented on April 26, 2012. Generally, qualified participants in the defined benefit plan are eligible for pension, dental, vision and major medical coverage. A member may retire with an age and service allowance after completing: (1) at least 10 years of credited service and (2) attaining the minimum retirement age of 60, or at least age 55 with 30 years of service credit. Pension benefits are determined using 1.5% times a member's final average compensation, calculated as the average of a member's monthly pay during the period of 36 consecutive months of credited service producing the highest monthly average multiplied by length of service. Employees become vested for retiree health insurance benefits with 10 or more years of service.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Defined Contribution Plan (Plan 2)

The Lottery's employees hired after March 31, 1997, are enrolled in a defined contribution plan through the State Employee's Retirement System upon meeting certain eligibility requirements. Changes in Public Act 264 of 2011 included an option for former vested and non-vested members of the defined benefit plan to voluntarily elect to enroll in the defined contribution plan including those former employees returning to state employment between January 1, 2012 and January 1, 2014. Also, those currently in the defined contribution plan were given the option to change their retirement health care. Members could keep the graded premium subsidy to accrue credit towards insurance premiums in retirement, or choose the Personal Healthcare Fund plan to pay healthcare expenses in retirement. Generally, qualified participants in the defined contribution plan are eligible to retire at age 55, with 30 years of service or at age 60 with 10 years of service. The Lottery contributes a mandatory 4% of the employees' salary and matches up to an additional 3% of the employees' contributions. Participants in this plan are 100% vested for any employee contributions. Participants become vested for 50% of the employer contributions after two years of service, 75% after three years of service and 100% after four years of service. Employees become vested for retiree health insurance benefits with ten or more years of service.

The cost of these pension and other post-employment benefits are allocated to the Lottery as a percentage of gross payroll. Beginning with the October 25, 2012 pay date, the contribution rate to fund the unfunded actuarial accrued liability (UAAL) of Other Post-Employment Benefits (OPEB) was applied to combined payrolls of the defined benefit and defined contribution plans in accordance with MCL 38.38(3). The payroll for the Lottery employees covered by Plan 1 and Plan 2 was approximately \$5,716,829, \$5,442,671, and \$5,359,874 for the six months ended September 30, 2013, 2012 and 2011 respectively and approximately \$11,563,295, \$10,839,192, and \$10,642,910 for the years ended September 30, 2013, 2012, and 2011, respectively. The Lottery's allocated contribution requirements and contributions actually made were \$3,319,536, \$3,143,347, and \$1,876,414 for the six months ended September 30, 2013, 2012, and 2011, respectively and approximately \$6,727,234, \$5,365,424, and \$3,819,320 for the years ended September 30, 2013, 2012, and 2011, respectively. Contributions represent approximately 58.2%, 49.5%, and 35.9% of covered payroll during 2013, 2012, and 2011, respectively.

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

Supplemental Retirement

State of Michigan employees who retired under this incentive agreed to forfeit the lump sum payment of their accumulated annual, sick, and other deferred leave time payouts and will instead receive an equal amount through a supplemental pension payment over 60 monthly installments beginning January 1, 2011.

The amount of the 60 monthly charges, once calculated, should remain constant unless 1) the retiree dies without a designated pension beneficiary in which case a lump sum of the remaining balance will be paid out to the refund beneficiary, b) the retiree returns to work in which case the supplemental pension benefit will be suspended, or c) there was an error in the initial calculation which required correction after benefit payments began.

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

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long- Term Liability
2013	\$ 334,132	\$ -	\$ 102,559	\$ 231,573	\$ 102,559	\$ 129,014
2012	\$ 436,691	\$ -	\$ 102,559	\$ 334,132	\$ 102,559	\$ 231,573

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

NOTE 9 - LEASE AND RENTAL COMMITMENTS

The total operating lease expense on long-term lease commitments for years ended September 30, 2013 and 2012 were \$210,629 and \$200,029, respectively. For the six months ended September 30, 2013 and 2012 long term lease commitments were \$105,314 and \$105,314, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of remaining minimum building lease commitments follows:

<u>September 30</u>	<u>Leases</u>
2014	\$ 210,629
2015	187,379
2016	154,830
2017	154,830
2018	78,805
2019-2022	169,600

The total rent and lease expenses paid for all buildings for the years ended September 30, 2013 and 2012 were \$1,070,560 and \$959,514, respectively. For the six months ended September 30, 2013 and 2012 rent and lease expenses paid for all buildings were \$532,509 and \$485,122, respectively.

NOTE 10 - RISK MANAGEMENT

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

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

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

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

NOTE 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 Charitable Gaming millionaire party activities were transferred to the Gaming Control Board by Executive Order in April 2012. The following is a summarization of these charges for the six month periods and years ended September 30, 2013 and 2012:

<u>September 30, 2013</u>	<u>Six Months Ended</u>	<u>Year Ended</u>
Department of Technology, Management & Budget:		
Information Technology:		
Direct costs	\$ 375,803	\$ 2,580,700
Lansing Metropolitan Area Network (LMAN)	24,332	32,274
Michigan.gov portal web charges	112,453	220,367
Overhead	<u>46,450</u>	<u>270,077</u>
Total Information Technology charges	559,038	3,103,418
Support services (including Internal Audit)	160,450	295,000
Space rental - Lottery Central, Detroit, Saginaw offices	424,117	853,776
Vehicle and travel services	425,232	831,376
Other - Telephone, mailing and other offices services	<u>138,399</u>	<u>278,381</u>
Total Department of Technology, Management & Budget	1,707,236	5,361,951
Gaming Control Board	1,516,836	2,543,321
Civil Service Commission	165,415	331,855
Department of Treasury	257,076	502,456
Attorney General	134,040	264,721
Other Agencies	<u>12,213</u>	<u>19,027</u>
Total all State agencies	<u><u>\$ 3,792,816</u></u>	<u><u>\$ 9,023,331</u></u>

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

September 30, 2012	Six Months Ended	Year Ended
Department of Technology, Management & Budget:		
Information Technology:		
Direct costs	\$ 764,570	\$ 2,977,559
Lansing Metropolitan Area Network (LMAN)	24,912	33,240
Michigan.gov portal web charges	179,155	388,896
Overhead	176,237	264,133
Total Information Technology charges	1,144,874	3,663,828
Support services (including Internal Audit)	117,850	269,100
Space rental - Lottery Central, Detroit, Saginaw offices	376,730	753,460
Vehicle and travel services	394,709	785,534
Other - Telephone, mailing and other offices services	206,587	353,291
Total Department of Technology, Management & Budget	2,240,750	5,825,213
Civil Service Commission	133,249	282,877
Department of Treasury	238,707	460,652
Attorney General	136,361	261,361
Other Agencies	8,559	13,995
Total all State agencies	<u>\$ 2,757,626</u>	<u>\$ 6,844,098</u>

NOTE 13 – UPCOMING ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Lottery as of the 2013-2014 fiscal year.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the proprietary statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Lottery is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the financial statements for fiscal years beginning after June 15, 2014.



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

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

Continued

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

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

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2012

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 161,336,901	13.9%	\$ 323,478,305	13.4%
	Daily 4	174,542,883	15.0%	357,647,279	14.8%
	Classic Lotto 47	22,598,469	1.9%	48,302,889	2.0%
	Mega Millions	54,672,802	4.7%	159,949,665	6.6%
	Megaplier	2,792,012	0.2%	6,804,938	0.3%
	Powerball	60,233,876	5.2%	112,952,515	4.7%
	Power Play	2,772,325	0.2%	6,588,462	0.3%
	Keno	6,076,607	0.5%	12,372,877	0.5%
	Fantasy Five	25,853,950	2.2%	51,916,769	2.2%
	Raffle	(20)	0.0%	6,787,670	0.3%
	Lucky Lines	-	0.0%	1,625,039	0.1%
	Club Keno	189,164,119	16.2%	385,244,516	16.0%
	Club Keno Kicker	65,052,001	5.6%	128,216,693	5.3%
	The Jack	5,487,343	0.5%	12,548,444	0.5%
	Pull-Tab tickets	13,339,709	1.1%	27,307,572	1.1%
	Instant tickets	380,875,782	32.8%	771,715,004	31.9%
	Total lottery ticket sales	1,164,798,759	100.0%	2,413,458,637	100.0%
Prize awards:	Daily 3	78,216,024	6.7%	157,247,605	6.5%
	Daily 4	75,910,438	6.5%	157,069,815	6.5%
	Classic Lotto 47	12,547,816	1.1%	26,694,137	1.1%
	Mega Millions/Megaplier	27,888,087	2.4%	82,924,357	3.4%
	Powerball/Power Play	30,515,870	2.6%	57,576,421	2.4%
	Keno	2,723,534	0.2%	5,798,897	0.2%
	Fantasy Five	13,610,197	1.2%	27,048,570	1.1%
	Raffle	-	0.0%	5,981,796	0.2%
	Lucky Lines	-	0.0%	926,897	0.0%
	Club Keno/Kicker/Jack	168,637,194	14.5%	341,578,992	14.2%
	Players Club all games	218,668	0.0%	218,668	0.0%
	Merchandise Prizes	1,404,147	0.1%	1,474,912	0.1%
	Pull-Tab tickets	9,919,777	0.9%	20,387,269	0.8%
	Instant tickets	254,024,654	21.8%	513,233,591	21.4%
	Total prize awards	675,616,406	58.0%	1,398,161,927	57.9%
	Less: unclaimed prizes	(15,424,207)	-1.3%	(28,410,070)	-1.2%
	Net prize awards	660,192,199	56.7%	1,369,751,857	56.7%
	Gross margin	504,606,560	43.3%	1,043,706,780	43.2%
	Retailer and vendor commission expense	(100,234,704)	-8.6%	(205,986,681)	-8.5%
	Game-related expense	(8,648,676)	-0.7%	(19,460,815)	-0.8%
	Net ticket revenue	395,723,180	34.0%	818,259,284	33.9%
	Other operating expense	(17,476,933)	-1.6%	(38,929,286)	-1.6%
	Other miscellaneous revenue	496,223	0.0%	2,356,469	0.1%
	Net lottery operating income	378,742,470	32.4%	781,686,467	32.4%
Charitable gaming:	Charitable gaming revenue	6,927,029	0.6%	14,466,392	0.6%
	Charitable gaming expense	(3,306,380)	-0.3%	(6,966,034)	-0.3%
	Net charitable gaming income	3,620,649	0.3%	7,500,358	0.3%

Continued

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2012

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (6,417,342)	-0.6%	\$ (13,321,182)	-0.6%
Amortization revenue - investment discount	5,301,987	0.5%	10,936,792	0.5%
Unrealized gain on investments	9,041,381	0.8%	4,511,769	0.2%
Interest revenue - common cash fund	78,007	0.0%	124,695	0.0%
Bank fees	(2,325)	0.0%	(4,835)	0.0%
Disbursement to School Aid Fund	(377,207,797)	-33.4%	(778,431,938)	-33.3%
Disbursement to General Fund	(3,620,649)	-0.3%	(7,500,358)	-0.3%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(373,321,738)	-33.0%	(784,675,057)	-33.5%
Change in net position	\$ 9,041,381	0.8%	\$ 4,511,768	0.2%

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months and Years Ended September 30, 2013 and 2012

	Six Months Ended		Years Ended	
	2013	2012	2013	2012
Salaries and wages	\$ 5,868,969	\$ 5,582,216	\$ 11,896,436	\$ 11,006,219
Employee benefits and taxes	4,290,377	3,795,243	9,245,963	8,215,686
Promotion and advertising	10,177,908	7,187,348	17,631,708	16,700,900
Talent	-	290,650	-	442,706
Printing and supplies, including purchase of charitable gaming tickets	714,901	862,609	1,498,378	1,748,012
Other contractual services	2,971,871	1,702,509	7,279,821	5,071,923
Building rent and leases	532,509	485,122	1,070,560	959,514
Travel	479,042	444,910	917,265	878,026
Utilities	113,459	108,267	251,616	241,780
Postage	137,488	140,200	260,161	278,719
Equipment maintenance and rental	(21,407)	27,661	70,598	78,285
Bad debt expense	18,677	61,920	95,317	83,383
Interest paid on security deposits	481	663	1,370	1,309
Total	<u>\$ 25,284,275</u>	<u>\$ 20,689,318</u>	<u>\$ 50,219,193</u>	<u>\$ 45,706,462</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.

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These schedules contain trend information to help the reader understand how the Lottery’s financial performance and well-being have changed over time.	
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This schedule and graph contains information to help the reader assess the Lottery’s most significant revenue source, ticket sales.	
<ul style="list-style-type: none"> • Instant Games – represent the face value of tickets activated by retailers. • Draw Games – represents the face value of tickets sold to the public. • Club Games – represents the face value of tickets sold to the public. 	
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2013.





Bureau of State Lottery, State of Michigan
Financial Trends
Net Position
Fiscal Years Ending September 30, 2004 through September 30, 2013
(In Millions)

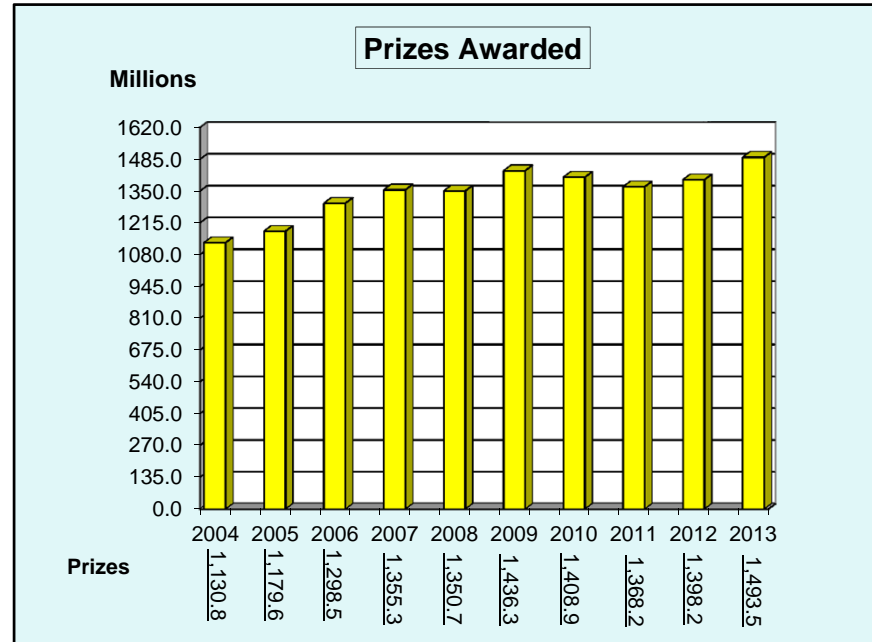
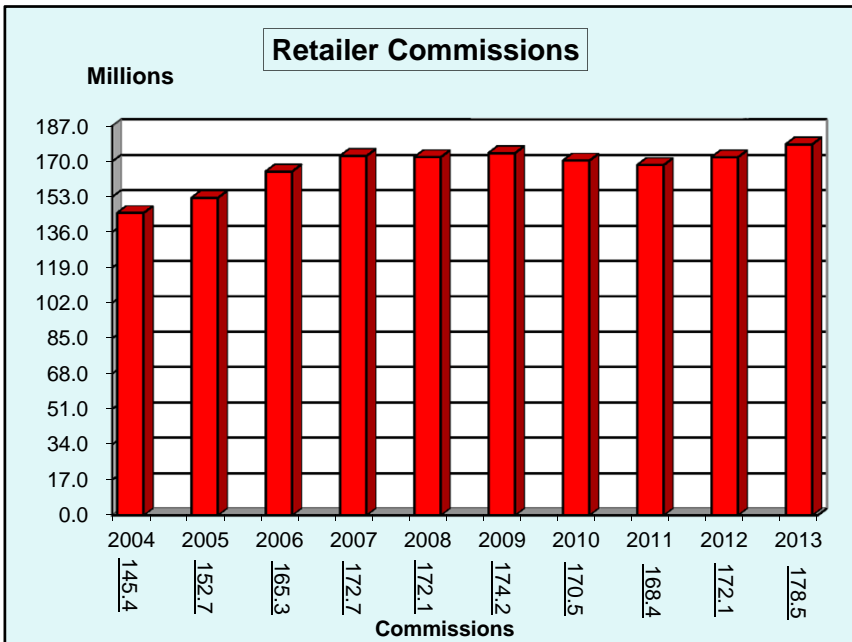
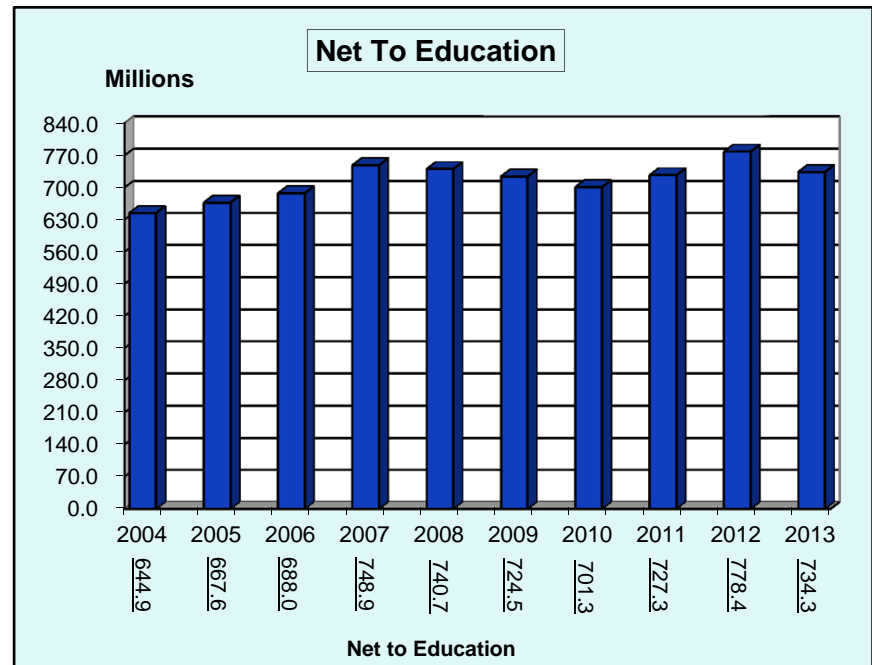
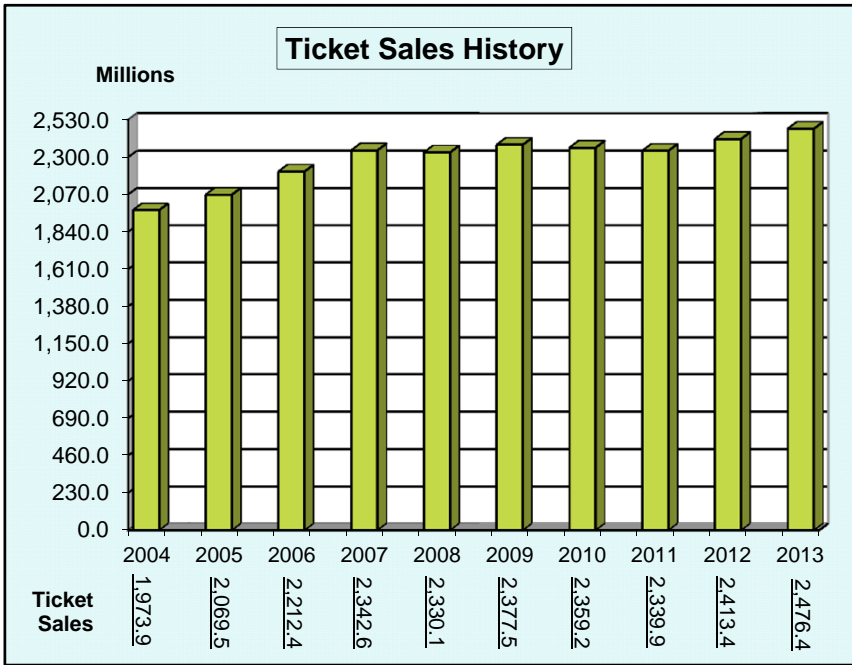
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net position										
Invested in capital assets	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.7	\$ 0.6	\$ 0.4	\$ 0.3	\$ 0.8
Restricted for unrealized gains on investments	77.1	52.4	36.1	31.9	36.8	7.6	14.3	30.5	35.0	17.9
Unrestricted (deficit)	<u>(0.5)</u>	<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>	<u>(0.3)</u>	<u>(0.8)</u>
Total net position	<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>	<u>\$ 35.0</u>	<u>\$ 17.9</u>



Bureau of State Lottery, State of Michigan
Financial Trends
Changes in Net Position
Fiscal Years Ending September 30, 2004 through September 30, 2013
(In Millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues										
Ticket sales	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9	\$ 2,413.4	\$ 2,476.4
Charitable gaming and other	21.4	20.6	19.8	20.4	20.9	21.5	20.7	17.5	16.8	14.7
Total operating revenues	<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>	<u>2,430.2</u>	<u>2,491.1</u>
Operating expenses										
Prize awards	1,130.8	1,179.6	1,298.5	1,355.3	1,350.7	1,436.3	1,408.9	1,368.2	1,398.2	1,493.5
Less - unclaimed prizes	(31.1)	(17.6)	(30.3)	(26.2)	(27.4)	(28.7)	(27.3)	(23.9)	(28.4)	(31.9)
Net prize awards	<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>	<u>1,369.8</u>	<u>1,461.6</u>
Retailer commissions	145.4	152.7	165.3	172.7	172.1	174.2	170.5	168.4	172.1	178.5
Game related expenses	54.1	56.8	60.0	63.0	63.4	53.8	53.0	53.9	53.3	57.6
Other operating expenses	41.2	43.4	45.3	45.3	47.0	56.7	56.6	49.4	45.9	50.4
Total operating expenses	<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>	<u>1,641.1</u>	<u>1,748.1</u>
Operating income	<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>	<u>789.1</u>	<u>743.0</u>
Non-operating revenues										
Investment revenue	13.0	11.8	14.7	22.2	26.9	18.7	17.0	27.7	15.5	(7.2)
Interest on equity in State Treasurer's Common Cash Fund	0.9	2.5	4.1	5.2	3.1	1.1	0.3	0.2	0.1	0.1
Revenue from security lending	4.7	6.4	16.3	20.9	13.0	-	-	-	-	-
Total non-operating revenues	<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>	<u>15.6</u>	<u>(7.1)</u>
Non-operating expenses										
Security lending expenses	(4.3)	(6.0)	(16.0)	(19.8)	(10.3)	-	-	-	-	-
Amortization of prize obligation discount	(39.2)	(34.2)	(29.4)	(24.9)	(20.7)	(18.4)	(15.2)	(15.5)	(13.3)	(13.2)
Non-operating expenses before disbursements	<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>	<u>(13.3)</u>	<u>(13.2)</u>
School Aid Fund disbursement	(644.9)	(667.6)	(688.0)	(748.9)	(740.7)	(724.5)	(701.3)	(727.3)	(778.4)	(734.3)
General Fund disbursement	(12.2)	(11.7)	(10.5)	(10.8)	(10.6)	(11.8)	(11.3)	(9.3)	(7.5)	(4.5)
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>(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>	<u>(786.9)</u>	<u>(739.8)</u>
Total non-operating expenses	<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>	<u>(800.2)</u>	<u>(753.0)</u>
Net non-operating revenue (expense)	<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>	<u>(784.6)</u>	<u>(760.1)</u>
Change in net position	<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>	<u>\$ 4.5</u>	<u>\$ (17.1)</u>

**Bureau of State Lottery, State of Michigan
Financial Trends 2004 through 2013**



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, 2004 through September 30, 2013
(In Millions)

TICKET SALES	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Instant Games										
Instant Tickets	\$ 690.2	\$ 662.5	\$ 710.8	\$ 717.8	\$ 734.2	\$ 749.1	\$ 750.8	\$ 739.2	\$ 771.7	\$ 827.0
Club Games										
Club Keno, Lucky Streak, The Jack	204.5	332.3	343.8	380.9	402.5	396.5	374.9	376.9	397.8	399.6
Club Keno Kicker, Lucky Streak Plus			80.3	110.3	124.0	123.5	115.6	124.1	128.2	134.5
Pull Tab Games	25.1	39.1	41.6	38.5	37.4	28.0	29.1	26.9	27.3	31.7
Total Club Games	229.6	371.4	465.7	529.7	563.9	548.0	519.6	527.9	553.3	565.8
Draw Games										
Daily 3, Extra 3, Double 3	423.2	402.9	385.7	369.1	347.2	351.0	344.2	327.4	323.5	321.1
Daily 4, Extra 4, Double 4	310.2	309.7	323.0	335.1	325.2	335.9	359.0	358.2	357.6	351.1
Winfall, Classic Lotto 47	66.6	55.7	50.7	53.1	64.1	64.2	43.8	44.1	48.3	52.4
Keno	14.9	13.5	14.6	14.0	13.9	14.0	13.0	12.5	12.4	11.4
Little Lotto: Michigan Rolldown, Fantasy 5	32.6	49.9	45.5	49.4	51.3	51.3	56.1	53.7	51.9	53.2
Raffle				56.3	45.5	41.3	19.0	15.1	6.8	6.0
Lucky Lines							15.7	8.1	1.6	-
Powerball/Powerplay							64.5	85.9	119.5	186.8
Mega Millions/Megaplier	206.6	203.9	216.4	218.1	184.8	222.7	173.5	167.8	166.8	101.6
Total Draw Games	1,054.1	1,035.6	1,035.9	1,095.1	1,032.0	1,080.4	1,088.8	1,072.8	1,088.4	1,083.6
TOTAL TICKET SALES	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9	\$ 2,413.4	\$ 2,476.4

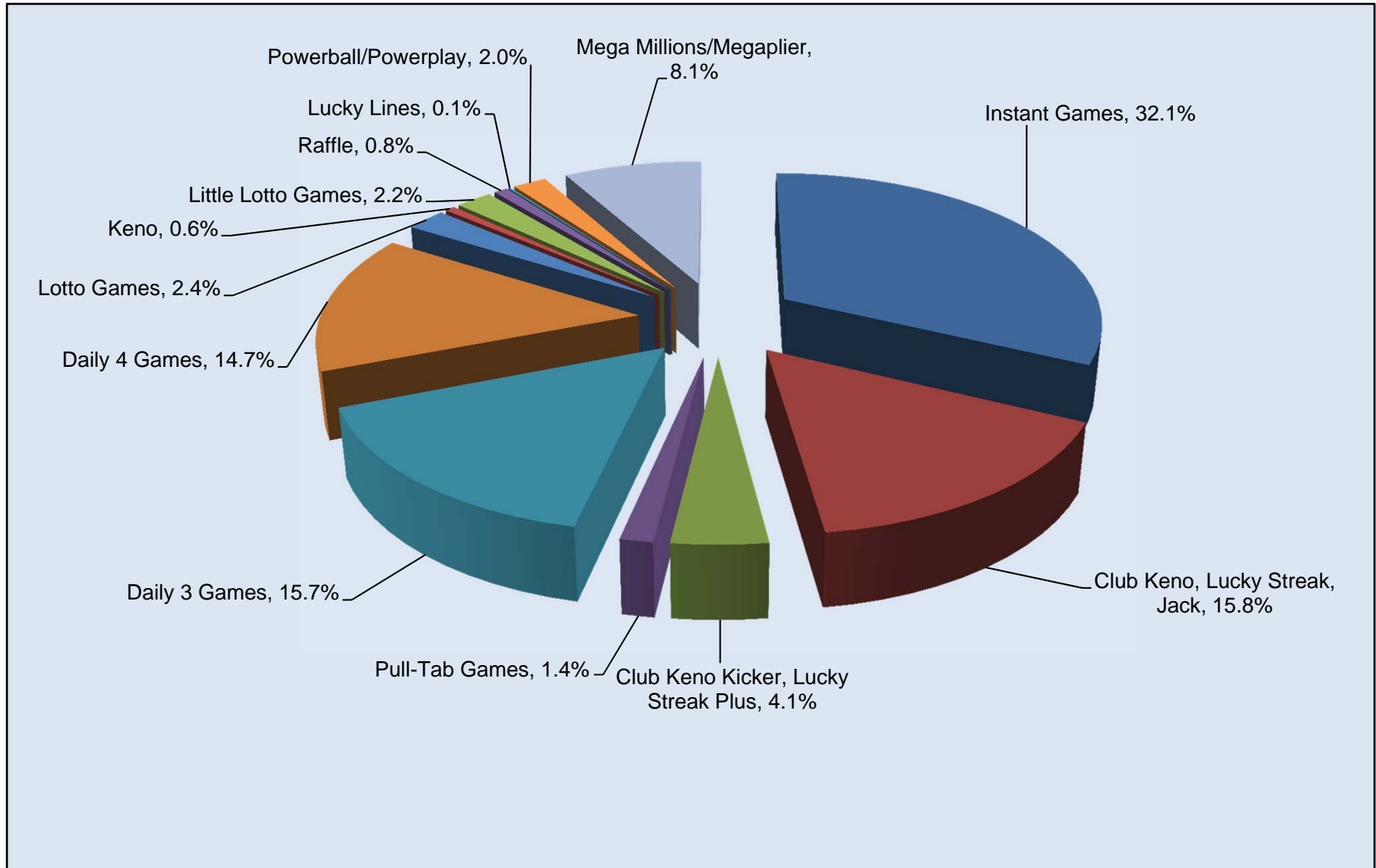
PRICE PER TICKET:

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

Note: Principal revenue payers are the general public. Please see Demographic and Economic Information on page 59 for statistics.

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan
Revenue Capacity
Ticket Sales 2004 through 2013**



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, 2004 through September 30, 2013
(In Millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>INSTALLMENT PRIZE AWARDS LIABILITY</u>										
Current - at face amount	\$ 103.4	\$ 94.7	\$ 86.5	\$ 75.9	\$ 68.8	\$ 59.5	\$ 53.1	\$ 49.8	\$ 40.9	\$ 34.6
Long-term - at face amount	<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>	<u>317.3</u>	<u>303.3</u>
Total installment prize awards	<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>\$ 358.2</u>	<u>\$ 337.9</u>
<u>INVESTMENTS</u>										
Face amount	<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>	<u>\$ 332.7</u>	<u>\$ 315.5</u>
Installment prize awards payable as a percentage of investments:	101.59%	99.25%	98.99%	100.18%	100.73%	108.08%	111.65%	105.29%	107.66%	107.10%

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



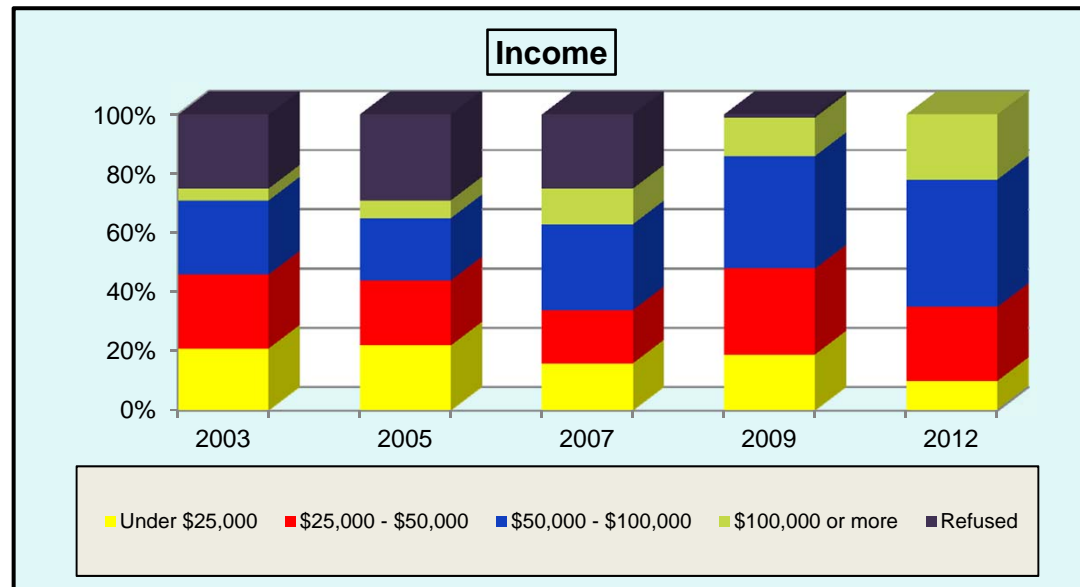
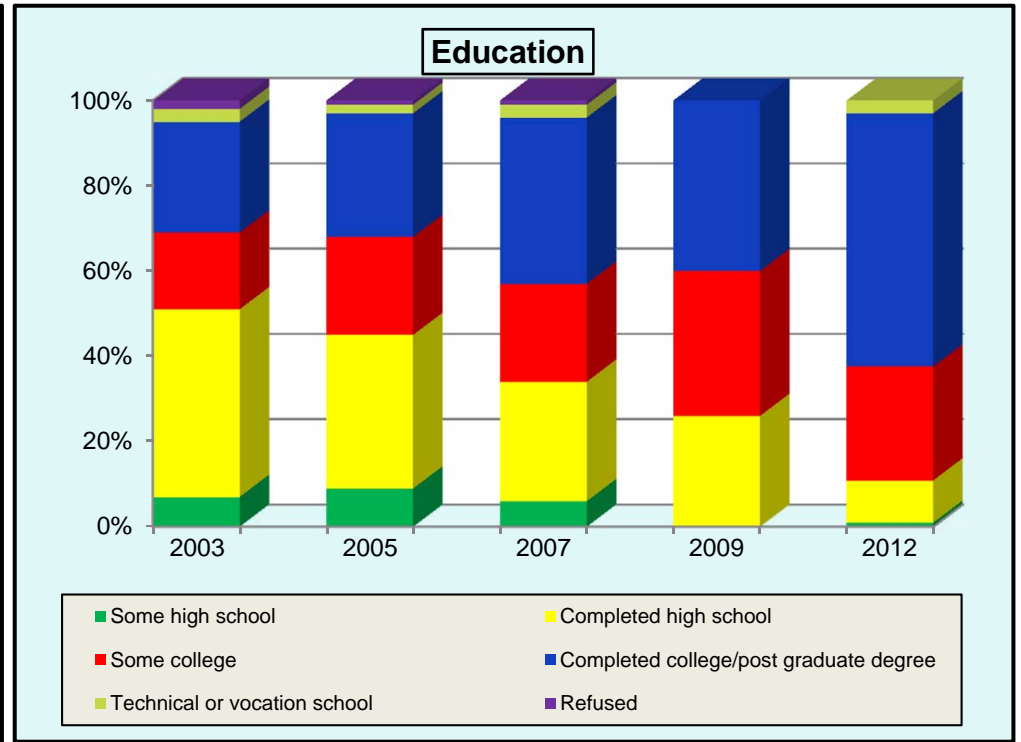
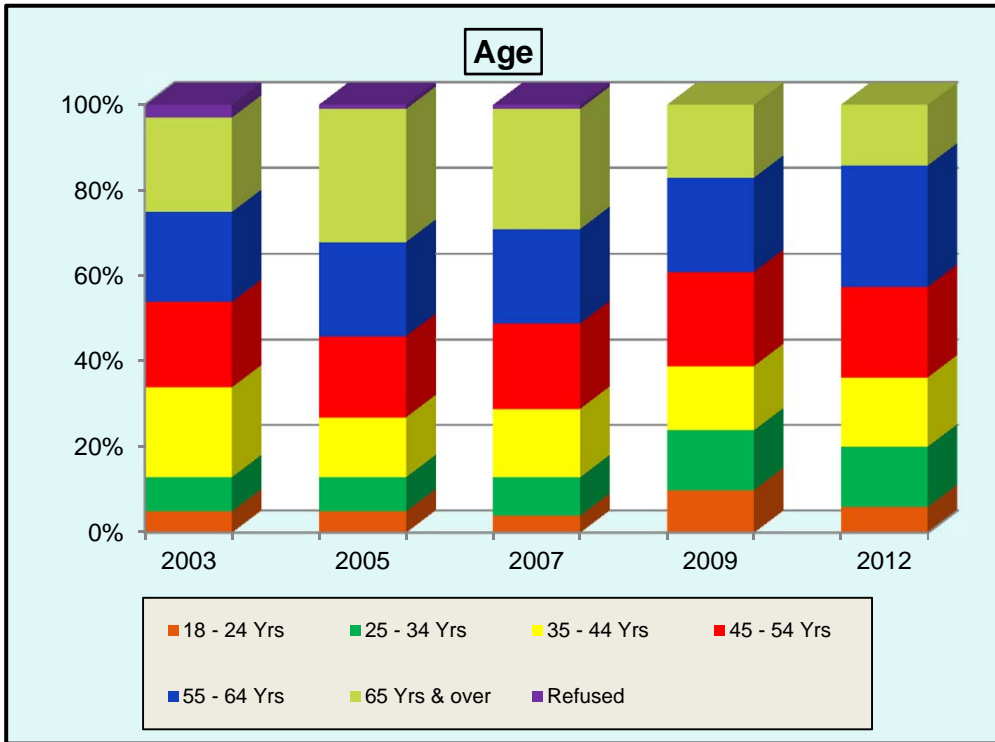
Bureau of State Lottery, State of Michigan
Demographic and Economic Information
Demographic General Tracking Study
Fiscal Years Ending September 30, 2003 through September 30, 2012

These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles. The demographic general tracking study for 2013 was not complete as of September 30.

	2003	2005	2007	2009	2012
Gender					
Male	50%	50%	50%	49%	41%
Female	50%	50%	50%	51%	59%
Education					
Some high school	7%	9%	6%		1%
Completed high school	44%	36%	28%	26%	10%
Some college	18%	23%	23%	34%	27%
Completed college/post graduate degree	26%	29%	39%	40%	60%
Technical or vocation school	3%	2%	3%		3%
Refused	2%	1%	1%		
Age					
18 - 24 Yrs	5%	5%	4%	10%	6%
25 - 34 Yrs	8%	8%	9%	14%	14%
35 - 44 Yrs	21%	14%	16%	15%	16%
45 - 54 Yrs	20%	19%	20%	22%	21%
55 - 64 Yrs	21%	22%	22%	22%	28%
65 Yrs & over	22%	31%	28%	17%	14%
Refused	3%	1%	1%		
Income					
Under \$25,000	21%	22%	16%	19%	10%
\$25,000 - \$50,000	25%	22%	18%	29%	25%
\$50,000 - \$100,000	25%	21%	29%	38%	43%
\$100,000 or more	4%	6%	12%	13%	22%
Refused	25%	29%	25%	1%	
Ethnicity					
White	73%	83%	80%	85%	83%
Black/African-American	17%	9%	10%	11%	11%
Hispanic/Latino	3%	1%	1%	1%	3%
Other	3%	1%	1%	3%	3%
Refused	4%	6%	8%		

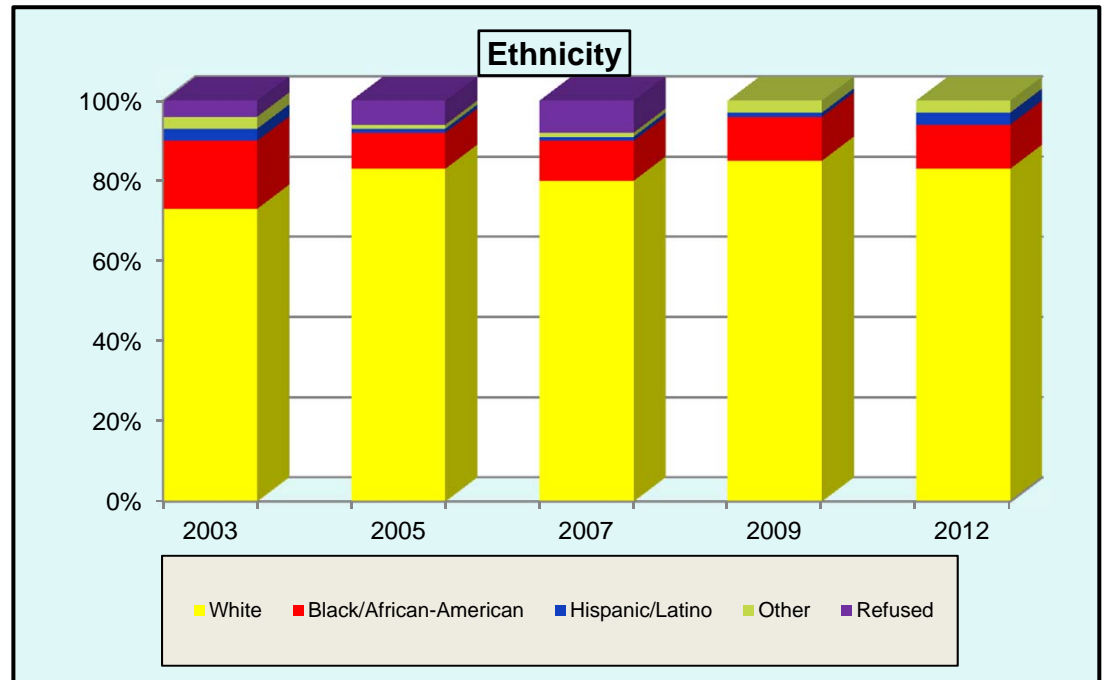
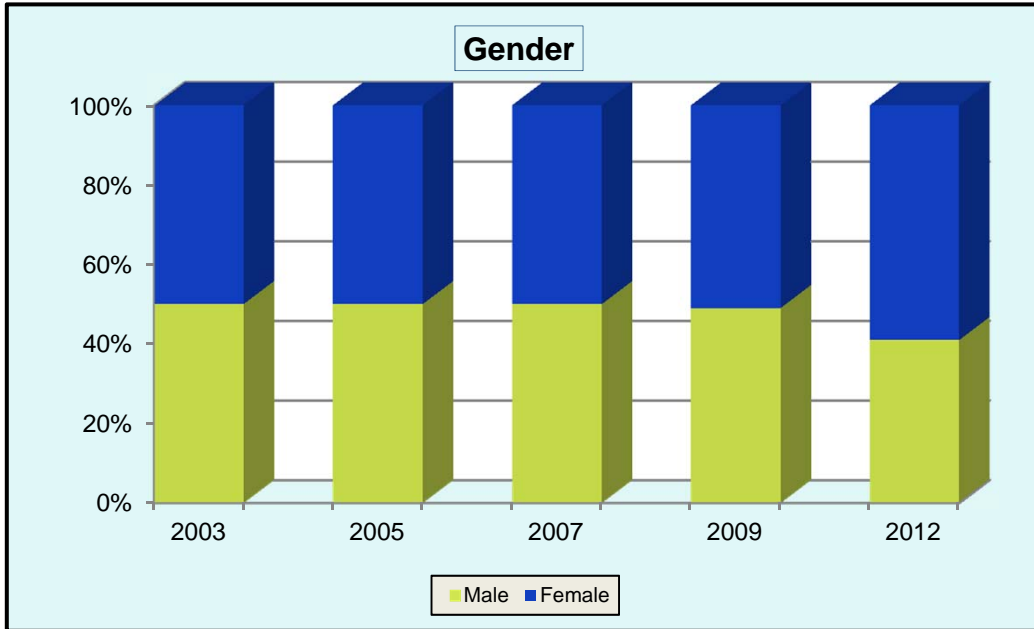
Source: Bureau of State Lottery
General Tracking Study

**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 2003 though 2012**



Source: Bureau of State Lottery
General Tracking Study

**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 2003 through 2012**



Source: Bureau of State Lottery
General Tracking Study



Bureau of State Lottery, State of Michigan
Demographic and Economic Indicators
Fiscal Years Ending September 30, 2003 through September 30, 2012
(In Thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population (a)										
Michigan	10,075	10,103	10,108	10,102	10,072	10,002	9,970	9,877	9,876	9,883
United States	290,448	293,192	295,896	298,755	301,621	304,375	307,007	309,349	311,592	313,914
Total Personal Income (b)										
Michigan	\$ 313.5	\$ 318.7	\$ 325.3	\$ 332.7	\$ 345.9	\$ 349.6	\$ 342.3	\$ 342.7	\$ 358.2	\$ 378.4
United States	\$ 9,150.3	\$ 9,711.4	\$ 10,252.8	\$ 10,977.3	\$ 11,631.6	\$ 12,225.6	\$ 12,165.5	\$ 12,357.1	\$ 12,949.9	\$ 13,729.1
Per Capita Income (b)										
Michigan	\$ 31,116	\$ 31,550	\$ 32,182	\$ 32,928	\$ 34,342	\$ 34,949	\$ 34,334	\$ 34,691	\$ 36,264	\$ 38,291
United States	\$ 31,504	\$ 33,123	\$ 34,650	\$ 36,744	\$ 38,564	\$ 40,208	\$ 39,626	\$ 39,945	\$ 41,560	\$ 43,735
Unemployment Rate (c)										
Michigan	7.1%	7.1%	6.9%	6.9%	7.2%	8.4%	15.3%	13.0%	9.3%	9.0%
United States	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.8%	9.6%	7.8%	7.2%
Michigan estimated wage and salary employees (c)										
Goods Producing:										
Natural Resources and Mining	8.1	8.2	8.4	8.0	7.6	7.8	7.2	7.3	7.3	7.8
Construction	190.6	191.5	189.1	178.0	166.2	153.7	132.3	113.3	123.4	124.6
Manufacturing	719.7	700.7	680.0	650.8	616.8	575.3	463.8	464.1	510.8	546.5
Total Goods Producing	918.4	900.3	877.5	836.9	790.5	736.8	603.3	584.7	641.5	678.9
Service-Providing:										
Private Service-Providing										
Trade, Transportation, and Utilities:										
Wholesale Trade	172.6	170.5	170.7	170.6	169.1	166.7	150.2	152.3	158.0	159
Retail Trade	518.7	513.6	506.0	496.0	489.7	478.4	449.0	446.6	446.2	448.9
Transportation and Utilities	125.8	125.7	128.3	128.4	129.1	124.2	113.2	108.8	121.5	123.2
Information	70.3	68.6	67.3	66.1	65.6	61.8	54.3	52.5	54.6	52.1
Financial Activities:										
Finance and Insurance	162.3	161.3	161.8	160.9	157.8	152.3	139.8	135.2	144.5	148.5
Real Estate and Rental and Leasing	56.0	56.1	56.1	54.9	53.6	52.1	49.2	45.5	50.4	47.8
Professional and Business Services:										
Professional, Scientific, and Technical Services	247.9	244.2	246.4	244.9	244.2	240.1	215.6	214.8	235.0	250
Management of Companies and Enterprises	68.6	67.0	64.6	61.7	57.3	54.4	50.9	50.8	53.5	54.1
Administrative, Support Services, and Waste Management	266.4	270.1	277.5	275.1	271.8	262.5	239.8	248.3	271.4	271.9
Educational and Health Services:										
Educational Services	66.4	70.6	74.8	76.1	78.0	80.3	78.4	80.3	77.1	72.2
Health Care and Social Assistance	480.5	490.3	501.0	507.2	517.0	528.1	530.5	535.0	548.7	559.4
Leisure and Hospitality:										
Accommodation and Food Services	335.9	339.7	341.9	343.8	341.8	335.5	328.0	322.0	328.2	344.3
Other Services	62.2	62.3	62.6	61.8	62.7	62.6	65.5	51.8	46.9	42.5
Total Private Service-Providing	2,812.7	2,819.5	2,838.7	2,824.9	2,814.3	2,774.5	2,632.6	2,608.3	2,706.4	2,743.3
Government:	685.4	679.7	674.1	665.3	657.2	647.9	643.8	629.8	612.5	606.7
Total Service-Providing	3,498.0	3,499.2	3,512.8	3,490.3	3,471.4	3,422.4	3,276.4	3,238.1	3,318.9	3,350.0
Total Wage and Salary Employment	4,416.5	4,399.5	4,390.3	4,327.1	4,262.0	4,159.2	3,879.7	3,822.8	3,960.4	4,028.9

NOTES: Calendar year 2012 is the most recent year for which data is available except for the State and U.S. unemployment rate
Wage and Salary Employment based on North American Industry Classification System.
Components in Wage and Salary Employment may not total due to truncation.

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

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



Bureau of State Lottery, State of Michigan
Operating Information
Fiscal Years Ending September 30, 2004 through September 30, 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of Employees	161	166	173	162	168	171	181	174	177	178
Number of Retailers										
Instant only	1,600	1,497	816	680	575	-	-	-	-	-
Club Games	1,829	2,077	2,216	2,371	2,474	2,478	-	-	-	-
Online	7,377	7,502	7,848	7,922	7,920	8,202	-	-	-	-
*All Games	-	-	-	-	-	-	10,797	10,746	10,879	10,848
Total Retailers	10,806	11,076	10,880	10,973	10,969	10,680	10,797	10,746	10,879	10,848
Prize Payout Percentage	57.29%	57.00%	58.69%	57.85%	57.97%	60.42%	59.72%	58.47%	57.93%	60.31%
Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund	32.67%	32.26%	31.10%	31.97%	31.79%	30.47%	29.73%	31.08%	32.25%	29.65%
Number of Millionaire Prize Winners	20	21	17	42	37	40	39	28	31	36
Number of Prize Winners Greater than \$600	44,962	44,692	52,124	49,585	44,962	53,986	60,543	48,567	44,904	52,365

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

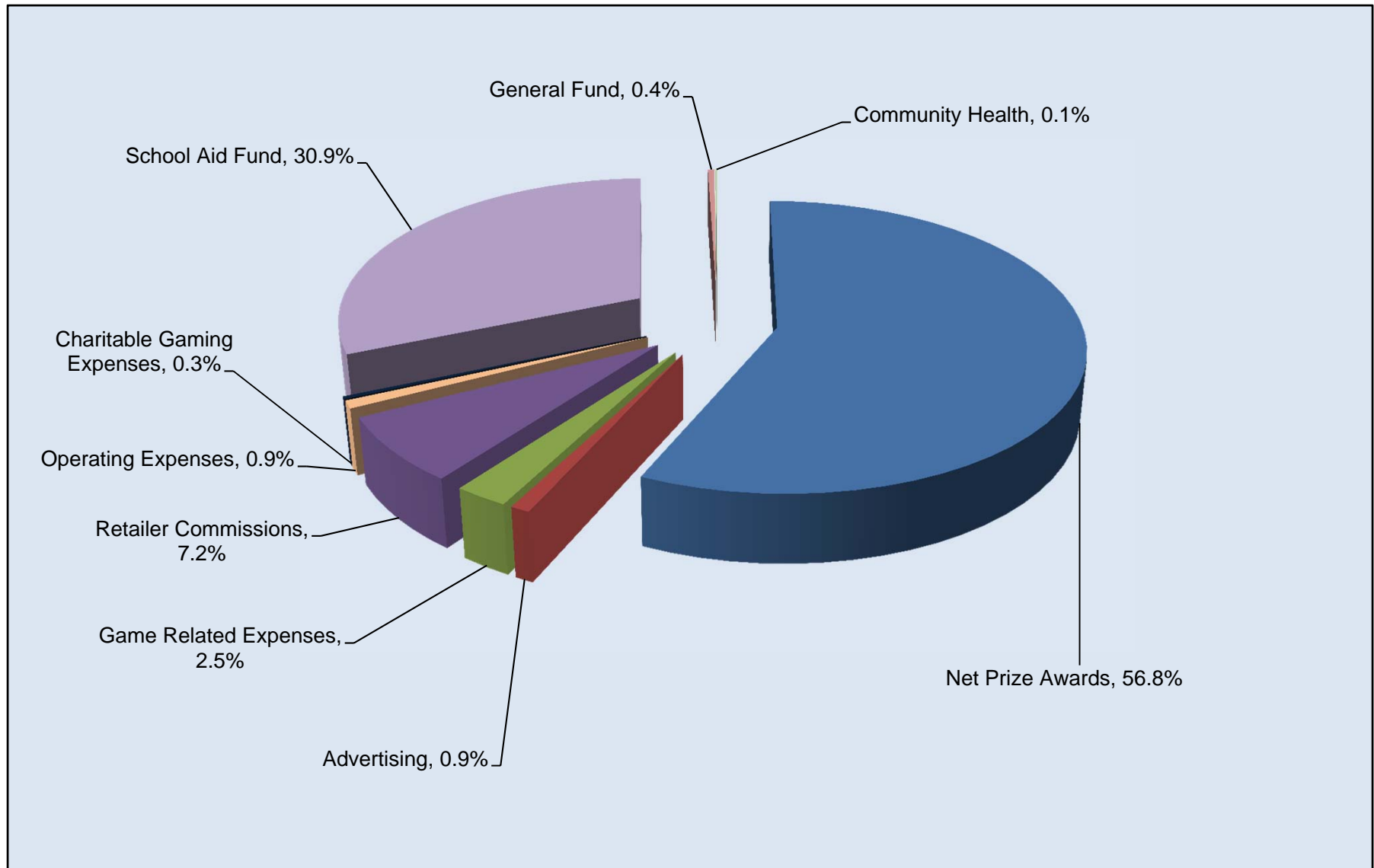


Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements to the State's School Aid Fund, General Fund, and Community Health
Fiscal Years Ending September 30, 2004 through September 30, 2013
(In Millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EXPENSES										
Prize Awards	\$ 1,130.8	\$ 1,179.6	\$ 1,298.5	\$ 1,355.3	\$ 1,350.7	\$ 1,436.3	\$ 1,408.9	\$ 1,368.2	\$ 1,398.2	\$ 1,493.5
Unclaimed Prizes	(31.1)	(17.6)	(30.3)	(26.2)	(27.4)	(28.7)	(27.3)	(23.9)	(28.4)	(31.9)
Net Prize Awards	1,099.7	1,162.0	1,268.2	1,329.1	1,323.3	1,407.6	1,381.6	1,344.3	1,369.8	1,461.6
Promotion and Advertising	17.5	17.6	17.5	17.5	17.6	27.0	29.0	22.6	16.7	17.6
Game Related Expenses	54.1	56.8	60.0	63.0	63.4	53.8	53.0	53.9	53.3	57.6
Retailer Commissions	145.4	152.7	165.3	172.7	172.1	174.2	170.5	168.4	172.1	178.5
Operating Expenses	15.9	17.9	19.7	19.6	21.1	20.8	20.2	20.1	22.2	23.9
Charitable Gaming Expenses	7.8	7.9	8.1	8.2	8.3	8.9	7.4	6.7	7.0	8.9
TOTAL EXPENSES	<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>	<u>\$ 1,641.1</u>	<u>\$ 1,748.1</u>
DISBURSEMENTS TO THE STATE										
School Aid Fund	644.9	667.6	688.0	748.9	740.7	724.5	701.3	727.3	778.4	734.3
General Fund	12.2	11.7	10.5	10.8	10.6	11.8	11.3	9.3	7.5	4.5
Community Health	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
TOTAL DISBURSEMENTS	<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>	<u>\$ 786.9</u>	<u>\$ 739.8</u>

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements 2004 through 2013**



Source: Bureau of State Lottery, State of Michigan

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

Fiscal Year 2012 U.S. Lottery Sales, Prizes & Government Transfers Measured by GDP*

Lottery	2012 Pop (Mil)	Millions of Dollars					PC Sales	PC Gov't	Ticket Sales as % of GDP	Gov't Transfers as % of GDP
		2011 Gross Domestic Product	Traditional Ticket Sales ¹	VLT (net) ²	Prizes ³	Gov't Transfers ⁴				
Arizona	6.6	227,098	646.67		396.71	164.72	\$99	\$25	0.285%	0.073%
Arkansas	2.9	91,496	473.09		315.32	97.71	\$160	\$33	0.517%	0.107%
California	38.0	1,735,360	4,371.49		2,560.31	1,300.24	\$115	\$34	0.252%	0.075%
Colorado	5.2	234,308	545.30		342.64	123.25	\$105	\$24	0.233%	0.053%
Connecticut	3.6	201,386	1,081.74		659.90	311.90	\$301	\$87	0.537%	0.155%
Delaware ^{3,4}	0.9	57,293	134.68	475.73	85.65	329.06	\$147	\$359	0.235%	0.574%
D.C.	0.6	91,643	249.68		137.31	66.40	\$395	\$105	0.272%	0.072%
Florida	19.3	661,091	4,449.90		2,766.12	1,321.60	\$230	\$68	0.673%	0.200%
Georgia	9.9	365,809	3,559.89		2,289.81	901.33	\$359	\$91	0.973%	0.246%
Idaho	1.6	51,463	175.84		108.86	41.60	\$110	\$26	0.342%	0.081%
Illinois	12.9	582,094	2,670.40		1,675.02	705.08	\$207	\$55	0.459%	0.121%
Indiana	6.5	240,933	855.58		532.96	205.25	\$131	\$31	0.355%	0.085%
Iowa	3.1	128,597	310.85		182.44	78.73	\$101	\$26	0.242%	0.061%
Kansas	2.9	113,367	246.14		138.90	71.00	\$85	\$25	0.217%	0.063%
Kentucky	4.4	141,266	767.89		459.16	216.44	\$175	\$49	0.544%	0.153%
Louisiana	4.6	205,877	429.61		226.28	156.91	\$93	\$34	0.209%	0.076%
Maine	1.3	44,821	228.35		142.83	54.33	\$172	\$41	0.509%	0.121%
Maryland ^{3,4}	5.9	264,373	1,794.89	195.09	1,065.65	685.15	\$305	\$116	0.679%	0.259%
Massachusetts	6.6	348,577	4,729.60		3,396.83	983.79	\$712	\$148	1.357%	0.282%
Michigan	9.9	337,427	2,413.46		1,369.75	786.92	\$244	\$80	0.715%	0.233%
Minnesota	5.4	244,912	520.03		320.61	123.81	\$97	\$23	0.212%	0.051%
Missouri	6.0	216,099	1,097.43		722.08	273.60	\$182	\$45	0.508%	0.127%
Montana	1.0	31,983	52.76		28.62	13.06	\$52	\$13	0.165%	0.041%
Nebraska	1.9	79,889	150.61		87.39	36.08	\$81	\$19	0.189%	0.045%
New Hampshire	1.3	56,572	254.66		158.89	66.77	\$193	\$51	0.450%	0.118%
New Jersey	8.9	426,765	2,758.90		1,617.77	950.08	\$311	\$107	0.646%	0.223%
New Mexico	2.1	70,497	133.79		72.03	41.33	\$64	\$20	0.190%	0.059%
New York ^{3,4}	19.6	1,016,350	7,012.69	1,426.78	4,130.41	2,877.99	\$358	\$147	0.690%	0.283%
North Carolina	9.8	385,092	1,596.69		961.56	460.47	\$164	\$47	0.415%	0.120%
North Dakota	0.7	34,262	26.04		13.41	7.62	\$37	\$11	0.076%	0.022%
Ohio ^{3,4}	11.5	418,881	2,738.98	11.08	1,680.79	771.03	\$237	\$67	0.654%	0.184%
Oklahoma	3.8	134,146	199.86		103.05	70.49	\$52	\$18	0.149%	0.053%
Oregon ^{3,4}	3.9	186,228	323.16	727.15	238.28	525.11	\$83	\$135	0.174%	0.282%
Pennsylvania	12.8	500,433	3,480.90		2,120.50	1,060.89	\$273	\$83	0.696%	0.212%
Rhode Island ^{3,4}	1.1	43,663	249.48	527.32	152.62	377.71	\$238	\$360	0.571%	0.865%
South Carolina	4.7	143,278	1,135.53		721.38	300.08	\$240	\$64	0.793%	0.209%
South Dakota ^{3,4}	0.8	34,443	53.14	176.64	29.24	103.70	\$64	\$124	0.154%	0.301%
Tennessee	6.5	233,997	1,215.86		757.48	323.44	\$188	\$50	0.520%	0.138%
Texas	26.1	1,149,908	4,190.82		2,632.62	1,155.52	\$161	\$44	0.364%	0.100%
Vermont	0.6	22,968	100.93		64.61	22.33	\$161	\$36	0.439%	0.097%
Virginia	8.2	375,747	1,616.00		962.28	464.09	\$197	\$57	0.430%	0.124%
Washington	6.9	310,906	535.20		311.55	138.04	\$78	\$20	0.172%	0.044%
West Virginia ^{3,4}	1.9	55,765	201.29	1,175.96	120.61	693.84	\$109	\$374	0.361%	1.244%
Wisconsin	5.7	221,741	547.68		320.12	149.95	\$96	\$26	0.247%	0.068%
Total	297.8	12,518,804	60,327.5	4,715.8	37,180.4	19,608.4	\$203	\$66	0.482%	0.157%

Notes to Table: Fiscal year 2012 is latest data available. *Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30).

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

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

Fiscal Year 2012 U.S. Lottery Sales by Game*

(in \$millions)

Lottery	Pop			Draw Games									Total Sales	VLT (net) ¹
	(Mil)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Power Ball	Mega Millions	Hot Lotto	Keno	Other		
Arizona	6.6	409.78	3.27	8.49		34.63	18.09	104.21	56.07			12.15	646.68	
Arkansas	2.9	391.29		6.18	3.33			37.90	25.57			8.82	473.09	
California	38.0	2,755.38		135.32	29.53	423.76	164.03		720.08		131.06	12.33	4,371.49	
Colorado	5.2	364.24				33.28	19.52	81.87	37.12			9.27	545.30	
Connecticut	3.6	653.31		121.52	98.54	27.37	33.78	74.28	40.63			32.31	1,081.74	
Delaware ¹	0.9	45.71		25.03	18.63	4.52	1.12	24.96	11.97	2.62		0.13	134.69	475.73
D.C.	0.6	59.94		53.07	65.67		15.10	17.14	10.63	2.75	12.48	12.91	249.68	
Florida	19.3	2,566.99		314.75	244.71	419.04	92.35	503.70				308.40	4,449.90	
Georgia	9.9	2,310.18		468.84	195.69	28.74	94.97	110.99	159.00		174.26	17.22	3,559.89	
Idaho	1.6	99.83	15.58	1.77		0.14	2.10	34.75	14.09	2.70		4.88	175.84	
Illinois	12.9	1,624.59		278.55	194.14	104.88	131.59	147.92	188.72				2,670.40	
Indiana	6.5	557.79		29.74	30.21	56.93	4.06	101.12	46.18			29.57	855.58	
Iowa	3.1	188.81	17.44	6.74	2.79		4.31	57.93	22.29	10.53			310.85	
Kansas	2.9	124.01	9.04	6.01			15.59	37.67	15.66	6.98	23.13	8.07	246.14	
Kentucky	4.4	450.25		123.29	37.57	7.91	10.66	83.07	40.06			15.08	767.89	
Louisiana	4.6	158.03		48.96	38.51	31.02		106.85	32.82			13.42	429.62	
Maine	1.3	165.14		5.27	4.30	16.40	4.73	22.08	7.96	2.47			228.35	
Maryland ¹	5.9	506.80		254.59	265.54	30.71	21.87	82.86	110.85		387.41	134.26	1,794.89	195.09
Massachusetts	6.6	3,251.48	0.86		333.86	33.58	84.59	82.91	101.48		790.46	50.39	4,729.60	
Michigan	9.9	771.72	27.31	323.48	357.65	48.30	51.92	119.54	166.76		538.38	8.41	2,413.46	
Minnesota	5.4	355.26		12.84			29.55	73.66	26.24	9.43		13.05	520.03	
Missouri	6.0	742.54		65.07	31.38	22.57	28.97	94.69	42.79		65.33	4.09	1,097.43	
Montana	1.0	16.53				1.90	4.15	15.94	5.56	3.15		5.54	52.76	
Nebraska	1.9	81.95		3.51		1.78	11.56	36.41	13.43			1.97	150.61	
New Hampshire	1.3	176.91		5.18	5.13	9.46	2.43	33.02	14.99	3.18		4.36	254.66	
New Jersey	8.9	1,417.66		431.48	261.76	84.16	142.22	183.89	238.19			(0.47)	2,758.90	
New Mexico	2.1	68.74		3.64			7.51	33.77	14.26	5.43		0.45	133.79	
New York ¹	19.6	3,578.93		880.54	813.75	122.27	323.24	296.58	464.58		502.04	30.76	7,012.69	1,426.80
North Carolina	9.8	959.96		247.75	91.53		57.97	153.92	85.56				1,596.69	
North Dakota	0.7							11.74	6.20	2.73		5.37	26.04	
Ohio	11.5	1,507.46		357.41	207.93	42.28	63.79	105.34	179.30		209.78	65.69	2,738.98	11.08
Oklahoma	3.8	95.98		4.65	2.05		4.21	58.24	27.33	7.41			199.85	
Oregon ¹	3.9	117.52			1.35	37.54	5.55	38.78	22.21		93.46	6.76	323.16	727.15
Pennsylvania	12.8	2,134.58		359.92	245.60	66.01	159.85	277.69	151.23			86.01	3,480.90	
Rhode Island ¹	1.1	83.95			25.41		4.89	32.86	13.94		82.25	6.17	249.48	527.32
South Carolina	4.7	758.44		138.85	66.78		22.28	96.15	53.03				1,135.53	
South Dakota ¹	0.8	24.77				1.96	2.29	16.22	4.63	3.27			53.14	176.64
Tennessee	6.5	955.25		57.97	27.69		19.22	102.75	53.96				1,216.85	
Texas	26.1	3,086.14		279.64	73.41	169.69	65.61	198.67	252.69			64.97	4,190.82	
Vermont	0.6	74.54		1.38	1.30	5.36	1.00	9.65	4.68	1.06		2.00	100.93	
Virginia	8.2	842.12		243.27	222.77	33.15	26.68	89.05	140.24			18.72	1,616.00	
Washington	6.9	318.15		16.60	12.41	54.47	22.96	42.86	59.20		5.63	2.93	535.20	
West Virginia ¹	1.9	117.68		8.70	5.03		5.47	38.69	14.75	4.74	6.25		201.29	1,175.96
Wisconsin	5.7	320.13	2.35	24.14	12.17	24.83	47.66	78.21	36.99			1.20	547.68	
Total	297.8	35,290.45	75.84	5,354.14	4,028.11	1,978.63	1,829.44	3,950.50	3,733.93	68.42	3,021.91	997.09	60,328.5	4,715.75
% of total		58.5%	0.1%	8.9%	6.7%	3.3%	3.0%	6.5%	6.2%	0.1%	5.0%	1.7%	100.0%	

Notes to Table: Fiscal year 2012 is latest data available. ¹ Denotes VLT net machine income. *Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30).

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery"), a proprietary fund of the State of Michigan, as of and for the six-month period and year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

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

Plante & Moran, PLLC

East Lansing, Michigan
December 6, 2013





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