

# BUREAU OF STATE LOTTERY

AN ENTERPRISE FUND OF THE STATE OF MICHIGAN



MICHIGAN



LOTTERY™

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED  
SEPTEMBER 30, 2016 AND 2015





# BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

## Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2016 and 2015

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, 2016 and 2015

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**TRY FREE**

**UP TO \$100 FREE** **LEARN MORE**

Make your first deposit and receive a **50% BONUS CREDIT!**

**DRAW GAMES ONLINE**

<p>TIME LEFT TO PURCHASE! 1 day</p> <p><b>POWERBALL</b></p> <p>Saturday's Est. Jackpot</p> <p><b>\$70,000,000</b></p> <p><b>BUY NOW</b></p>	<p>TIME LEFT TO PURCHASE! 11:22:36</p> <p><b>MICHIGAN MEGA MILLIONS</b></p> <p>Friday's Est. Jackpot</p> <p><b>\$30,000,000</b></p> <p><b>BUY NOW</b></p>	<p>TIME LEFT TO PURCHASE! 07:45:36</p> <p><b>Fantasy 5</b></p> <p>Friday's Est. Jackpot</p> <p><b>\$105,000</b></p> <p><b>BUY NOW</b></p>	<p>TIME LEFT TO PURCHASE! 1 day</p> <p><b>LOTTO 47</b></p> <p>Saturday's Est. Jackpot</p> <p><b>\$5,550,000</b></p> <p><b>BUY NOW</b></p>
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**ONLINE INSTANT GAMES**

<p><b>Roll the Dice!</b></p> <p>Roll the Dice</p> <p>Win up to \$20,000</p> <p><b>TRY FREE</b></p>	<p><b>INSTANT FOOTBALL PAYOUT</b></p> <p>Instant Football Payout</p> <p>Win up to \$50,000</p> <p><b>TRY FREE</b></p>
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**ONLINE KENO GAMES**

<p><b>INSTANT KENO MULTIPLIER</b></p> <p>Instant Keno Multiplier</p> <p>Win up to \$500,000</p> <p><b>TRY FREE</b></p>	<p><b>INSTANT KENO</b></p> <p>Instant Keno</p> <p>Win up to \$200,000</p> <p><b>TRY FREE</b></p>
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[View All Keno Games >](#)



# 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.





RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
BUREAU OF STATE LOTTERY  
LANSING



M. SCOTT BOWEN  
COMMISSIONER

December 16, 2016

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, 2016 and 2015. Lottery management is responsible for the accuracy of the financial data and the completeness of the contents of this report.

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

The mission statement of the Lottery is:

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

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

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

## Profile of the Lottery

### History

The Lottery was established under the authority of Public Act 239 of 1972 to generate funds to support Michigan's public school system. The first lottery game was called the Green Ticket and went on sale November 13, 1972. On October 7, 1975, the Lottery began selling instant games. Draw game sales began June 6, 1977 with the introduction of the Daily 3. The first multi-jurisdictional draw game, called The Big Game, included 10 states and went on sale August 31, 1996. The Lottery began selling lottery games over the internet on August 11, 2014. Since the Lottery was established, it has contributed more than \$20.5 billion to the School Aid Fund.

### Lottery Products

The Lottery offers a variety of games in several different styles of play: instant (also known as "scratch") games; draw games, where twice-a-week, daily or more frequent drawings are conducted to select winning numbers with instant-win features available at the time some draw game tickets are sold; pull tabs, another type of instant game in which players pull a perforated tab instead of scratching off the ticket; and Insta-Tab, which is a combination of a scratch and pull tab ticket. Digital versions of instant and draw games now may be purchased online. As of September 2016, 38 instant games and four draw games were available online. Lottery also sells the Online Game Card, a product that features a code that players redeem to purchase lottery games online.



#### Instant Ticket Games

Instant games are played by scratching off the latex covering on each ticket to reveal prize symbols. A variety of games with different themes, play styles, price points, and prize structures are available with an average of 35 to 40 games released each year. The games are priced between \$1 and \$30 and top prizes range from \$1,000 to \$4 million to "Cash for Life". Instant game sales topped \$1.1 billion in FY16. This was based in large part on the extremely popular Hot and Hit families introduced in January and April 2016, respectively. Each family offered four games at \$1, \$2, \$5, and \$10 price points. Together these games offered three top prizes of \$1 million and more than \$217 million in cash prizes ranging from \$1 to \$500,000.



#### Online Game Card

The Online Game Card was introduced on December 2, 2014 and may be purchased for \$20 at participating retail locations. The card features a web code hidden beneath a latex covering. When the code is entered online, the player receives \$25 for online game purchases. The pre-printed Online Game Card is being phased out and sales are scheduled to end on Dec. 31, 2016. It is being replaced by a new terminal-based Online Game Card which was introduced in April 2016 and is sold through terminals at close to 11,000 retail locations. The terminal-based card contains a web code that is redeemed online for online game purchases in the same manner as the original pre-printed card. Unlike the original card, the terminal-based card is offered at \$10, \$20, \$50, and \$100 price points.

The use of the terminal-based system provides flexibility for promotions throughout the year. Retailers receive sales commissions for both the original and terminal-based cards.



### Draw Games

Draw game tickets are generated by a retailer terminal connected to a central gaming system and drawings are conducted to determine the winning numbers. The frequency of the drawings varies, depending on the game. Draw games currently offered are Mega Millions, Powerball, Lotto 47, Fantasy 5, Daily 3, Daily 4, Keno, Raffle, Poker Lotto, Club Keno, and Lucky for Life. Beginning in January 2016, Mega Millions, Powerball, Lotto 47, and Fantasy 5 were added to the Lottery's online games selection for players.



### Mega Millions/Megaplier

Originally called The Big Game, Mega Millions is a multi-jurisdictional draw game with 46 participating jurisdictions. Players select five of 75 white ball numbers and one of 15 gold ball numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$15 million and is guaranteed to increase by a minimum of \$5 million after each drawing if the jackpot is not won. Players may win any of nine prizes including the jackpot and eight set prize amounts ranging from \$1 to \$1 million. The Megaplier is an add-on wager that allows players to increase their non-jackpot prize. The Megaplier multiplier ranges from 2X-to-5X and is selected at random before each drawing. If a player wins a non-jackpot prize and also purchased the Megaplier, his or her prize is multiplied by the Megaplier number. Mega Millions drawings are conducted twice a week on Tuesday and Friday.



### Powerball/Power Play

Powerball is a multi-jurisdictional draw game with 47 participating jurisdictions. Players select five of 69 white ball numbers and one of 26 red ball numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$40 million and is guaranteed to increase by a minimum of \$10 million after each drawing if the jackpot is not won. Players may win any of nine prizes including the jackpot and eight set prize amounts ranging from \$4 to \$1 million. Power Play is an add-on wager that allows players to increase their non-jackpot prizes. The Power Play multiplier ranges from 2X-to-5X, as well as 10X when the jackpot is less than \$150 million. It is selected at random before each drawing. If a player wins a non-jackpot prize and purchased the Power Play, his or her prize is multiplied by the Power Play number, up to a maximum of \$2 million. Powerball drawings are conducted twice a week on Wednesday and Saturday.



**Lotto 47 + EZMatch**



**Doublers Days**

Lotto 47 is a draw game in which players select six of 47 numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$1 million and is guaranteed to increase by a minimum of \$50,000 if the jackpot is not won. Players may win any of four prizes including the jackpot and three set prize amounts ranging from \$5 to \$2,500. EZMatch is an add-on game that offers players a chance to win instantly. Six EZMatch numbers are selected randomly and printed on the player's Lotto 47 ticket. If any of the EZMatch numbers match the player's selected Lotto 47 numbers, the player instantly wins a prize ranging from \$2 to \$500. In September 2016, the Doublers Days promotion was held for Lotto 47 for the first time. The message "Doublers" was printed randomly on Lotto 47 tickets purchased during the promotion period. Players with this message on their tickets won double their non-jackpot prizes. Lotto 47 drawings are conducted twice a week on Wednesday and Saturday.



**Fantasy 5 + EZMatch**



**Doublers Days**

Fantasy 5 is a draw game in which players select five of 39 numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$100,000 and increases a minimum of \$5,000 after each drawing if the jackpot is not won. Players may win any of four prizes including the jackpot and set prize amounts ranging from \$1 to \$100. EZMatch is an add-on game that offers players a chance to win instantly. Five EZMatch numbers are randomly selected and printed on the player's Fantasy 5 ticket. If any of the EZMatch numbers match the player's selected Fantasy 5 numbers, the player instantly wins a prize ranging from \$2 to \$500. In September 2016, the Doublers Days promotion was held for Fantasy 5 for the first time. The message "Doublers" was printed randomly on Fantasy 5 tickets purchased during the promotion period. Players with this message on their tickets won double their non-jackpot prizes. Fantasy 5 drawings are conducted daily.



**Keno!**

Keno! is a draw game in which players select 10 of 80 numbers. The Lottery draws 22 numbers and if the player matches 10 of those 22 numbers, he or she wins the jackpot prize of \$250,000. Players may win any of six prizes including the jackpot and lower-tier prizes ranging from a free instant ticket to \$2,500. Keno! drawings are conducted daily.



**Daily 3 & 4 Games**



The Daily 3 & 4 games are the Lottery's longest running and most consistently popular draw games, representing approximately 25 percent of total sales.

Players select three numbers ranging from 0 to 9 for the Daily 3 and four numbers ranging from 0 to 9 for the Daily 4. Numerous wager options are offered such as straight (match each number in order drawn), boxed (match numbers in any order for a reduced prize), and wheeled (match numbers in any order for full prize). The Daily 3 Red Ball Double Draw promotion was conducted in August of 2016. During the promotion period, a second set of winning Daily 3 numbers was drawn if a red ball was drawn from a separate machine. The Daily 4 Straight Back Bonus promotion was offered for the fourth year in a row in March 2016. During the promotion period, players could win by matching the four numbers in the order drawn or in the exact reverse order drawn. Daily 3 & 4 drawings are conducted twice a day, every day of the week.



**Veterans 50/50 Raffle    Big League Raffle**

The Veterans Day 50/50 Raffle took place in November 2015. For every raffle ticket sold, a portion of the proceeds was given to the National Guard Association of Michigan to support programs for Michigan veterans and their families. The top prize started at \$20,000 and 50 cents was added to the top prize for every ticket sold. This raffle also offered five weekly bonus drawings, each for a \$25,000 prize. The Big League Raffle was held in September 2016 and offered a grand prize of \$50,000, as well as two Detroit Tigers™ season ticket packages, three World Series® ticket packages, and more than 4,000 smaller cash prizes.



**Club Games**

**The Jack**

**Pull Tabs**

**Doubler Days**

**Insta Tab**

Club Games consist of Club Keno, The Kicker, The Jack, Pull Tabs, and Insta-Tabs and predominantly are played by patrons of bars, restaurants, and bowling facilities. Club Keno is a draw game in which players select from 1 to 10 of 80 numbers. The Lottery draws 20 numbers. Prizes are based on how many numbers the player matches and the selected ticket price. The Kicker is an add-on wager that allows players to multiply their Club Keno prizes by as much as 10 times. The Jack is an add-on wager that allows players to participate in a progressive jackpot starting at \$10,000. Club Keno drawings are conducted every 3.5 minutes and the results are displayed on TV monitors located at retailers. Club Keno “To Go” is a mobile application that allows players to view drawing results on their computer or mobile device. The introduction of this application increased sales opportunities for retailers that do not have a Club Keno monitor at their location. Club Keno Doubler Days promotions were held during the months of January, April, and September 2016. The message “Doubler” was printed randomly on Club Keno tickets purchased during the promotion period. Players with this message on their tickets doubled their non-jackpot prizes. 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 and range in price from \$0.50 to \$5 with top prizes ranging from \$50 to \$30,000, as well as \$200 a week for life. Insta-Tabs offer a unique play style, combining a scratch-off latex covering on the face of the ticket and a perforated tab on the back. More than 20 Insta-Tab games have been introduced since March 2014, ranging in price from \$1 to \$5 and with top prizes ranging from \$5,000 to \$25,000.



### Poker Lotto

Poker Lotto is a combination instant and draw game. Players randomly are assigned five of 52 cards. If the player's cards form one of the eligible winning poker hands, the player instantly wins a prize of \$2 to \$5,000. In addition to the instant game, the cards printed on the player's ticket are also eligible for a drawing. Five cards are drawn and players may win prizes ranging from \$3 to \$100,000 based on the number of cards matched. Poker Lotto drawings are conducted daily.



### Lucky for Life

Lucky for Life is a multi-jurisdiction draw game with 22 participating jurisdictions. Players select five of 48 white ball numbers and one of 18 yellow ball numbers for a chance to win lifetime prize payments. Players may win any of 10 prizes including the top prize of \$1,000 a day for life, the second prize of \$25,000 a year for life, or one of eight set prize amounts ranging from \$3 to \$5,000. Lucky for Life drawings are conducted every Monday and Thursday.



### Monopoly Millionaires' Club

Monopoly Millionaires' Club was a multi-jurisdictional draw game with 22 participating jurisdictions. Players selected five of 52 numbers and randomly were assigned a sixth number from a field of 28 represented by a property from the classic Monopoly® board game. Players could win 10 ways including a top prize of up to \$25 million and nine set prize amounts ranging from \$5 to \$100,000. Each time a top prize was won, a second drawing was held to award at least 10 additional \$1 million prizes. Players also could redeem a code on their tickets to collect the randomly assigned Monopoly properties and earn drawing entries for a chance to win a trip to Las Vegas and possibly become a contestant on the nationally syndicated Monopoly Millionaires' Club Game Show. The final Monopoly Millionaires' Club drawing was held on December 26, 2014. To replace the draw game, the Lottery introduced a Monopoly instant game on May 21, 2015, that continued to offer players a chance to be a contestant on the televised game show. The final episode of the game show aired April 30, 2016. The Monopoly instant game is no longer offered to players.



### Players Club

The Players Club is a free loyalty program that allows Lottery players to accumulate reward points by entering codes from non-winning instant, pull tab, draw game tickets, and through online game play. Players may redeem points for entries into drawings for prizes and once-in-a-lifetime experiences or for merchandise, including Lottery free-play coupons. Players Club members also receive exclusive promotional offers such as vouchers that may be redeemed at retail locations for free or discounted lottery games.

As of September 30, 2016, the Players Club had 398,375 registered members. More than 260,000 members opted-in to receive email communications and nearly 176,000 opted to receive text communications from the Lottery. Players redeemed more than 57 million non-winning tickets in FY2016.

## **Highlights of Fiscal Year 2016**

### **Record School Aid Fund Contribution**

- \$888.9 million, eclipsing the previous record contribution of \$795.5 set in FY15

### **Record Sales**

- More than \$3.1 billion in total sales, eclipsing the previous record of \$2.8 billion set in FY15
- Instant ticket sales exceeded \$1.1 billion, the second year in a row that they topped \$1 billion

### **Record Retailer Commissions and Incentives**

- \$231.7 million in retailer commissions and incentives, topping the previous mark of \$203.6 million from FY15

### **Expanded Online Sales**

- Online sales expanded to include Mega Millions, Powerball, Fantasy 5, and Lotto 47 in January of 2016
- Net instant gaming win of \$48 million from online game sales. (See Note 8 of the Financial Statements for details.)

### **Responsible Gaming Commitment**

- In October 2015, the Lottery became the first state lottery to receive Internet Compliance Assessment Program certification from the National Council on Problem Gambling.

## **Budgetary System and Controls**

The Lottery works with the Department of Technology, Management and Budget, the State Budget Office, and the Legislature to create an annual appropriated budget for the Lottery's administrative costs. The Legislature reviews and approves the Lottery's budget each year. Revenue from gross ticket sales is used for certain operating expenses (such as retailer commissions). Revenue and net income forecasts are prepared throughout the fiscal year comparing estimates and forecasts to actual sales and expenses. This information is provided to the State Budget Office and other state agencies in order to ensure Lottery projections are reflected accurately in State budgetary planning.

## **Economic Condition and Financial Information**

### **Local Economy**

The University of Michigan Research Seminar in Quantitative Economics highlighted in its most recent Michigan forecast issued November 18, 2016, that Michigan is now entering its eighth year of economic recovery since the previous recession's low point in 2009. Michigan job growth spiked in the first quarter of 2016 to 3.7 percent before easing back to an average annual rate of 0.9 percent in the last three quarters. Looking forward, about 41,600 new jobs are anticipated in 2017 and 50,000 new jobs in 2018.

Top job producers over the next two years are expected to be professional and business services; construction; trade, transportation, and utilities; and leisure and hospitality. Local inflation is expected to accelerate from 1.6 percent in 2016 to 2.2 percent in 2017, and then ease back down to 1.9 percent in 2018. The growth in personal income adjusted for taxes and inflation, also known as real disposable income, is expected to slow to 1.4 percent in 2017 from 2.1 percent in 2016, with the acceleration of inflation and a larger increase in federal personal taxes. It then is expected to rebound to 2.4 percent in 2018 with faster growth of nominal income and lower inflation. This and other economic forecasts from the University of Michigan Research Seminar in Quantitative Economics are available at: [www.rsqe.econ.lsa.umich.edu](http://www.rsqe.econ.lsa.umich.edu).

In September 2016, Michigan's unemployment rate fell to 4.6 percent, once again putting it below the September national unemployment rate of 5 percent. According to the Department of Technology, Management & Budget, all but one of Michigan's 83 counties recorded seasonal unemployment rate reductions in September and in all of the 17 major labor market areas. From September 2015 to September 2016, seasonally unadjusted payroll jobs increased statewide by 85,000 or 2 percent. Job gains over this period were visible in nearly all major job sectors in the state, and were led by increases in professional and business services (+25,000), and by education and health services (+20,000).

### **Financial Information**

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

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

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

The Lottery's goals and objectives ensure ongoing efforts to achieve operational efficiencies and maximize contributions to the School Aid Fund. Operational results are included in the Financial and Statistical Sections.

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

### **Accounting Systems and Policies**

As an enterprise fund of the State of Michigan, the Lottery operates as a business within state government structure. The Lottery uses the accrual basis of accounting, following Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) pronouncements.

### **Internal Controls**

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

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 installment payments owed to certain prize winners. These prize liabilities are funded by investments in U.S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, which are held to maturity.

### **Long-term Financial Planning**

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

In FY17, the Lottery plans to introduce 42 new instant games. This plan includes a re-launch of Lucky 7's, a series of instant games offered at the \$1, \$2, \$5, and \$10 price points and feature a 7X multiplier on cash prizes up to \$1 million. The Lottery also plans to launch a new \$20 Super Bonus Cashword game offering multiple second chance opportunities. Other planned instant games include a redesigned \$2 Cash for Life ticket and two new \$30 games. The Lottery's goal is to increase instant game sales by 5 percent in FY17.

A new instant-win style of game called Fast Play is scheduled for launch in the third quarter of FY17. Players win by matching numbers or symbols. Tickets are printed through a terminal at the time of purchase. The outcome of the game is determined at the time of sale and is printed on the ticket. Fast Play games also may feature a progressive jackpot that may be won at any time. Fast Play games have been launched in 12 other jurisdictions and have proven to be successful.

Lottery's Digital Gaming Division plans to introduce 26 new online games in FY17 with at least one new game launching every two to three weeks. New games will include Quick 6, an on-demand draw game, and Roaring 20's, the first online instant game to feature an annuitized prize option. Additionally, in order to keep content fresh, the Lottery plans to increase the number of third-party games integrated into its online platform. The sales target for FY17 is \$500 million in wagers online.

More than 50 percent of the Lottery's online sales occur through mobile devices. To improve the mobile experience for players, the Digital Gaming Division plans to develop a new mobile application and to make the Players Club accessible on mobile devices.

As part of its ongoing commitment to responsible gaming, the Lottery is participating in the Responsible Gambling Verification Program offered through the North American Association of State and Provincial Lotteries and the National Council on Problem Gambling. This program assesses responsible gaming initiatives at retail and online to help guide lotteries in the development, implementation, and sustainability of robust responsible gaming programs.

To enhance customer service, the Lottery is exploring several new ways for players to claim prizes. A pilot program is expected to begin in the second quarter that will allow players to claim certain prizes at four Secretary of State branch offices in northern Michigan. The goal is to improve customer service in that area by eliminating the need for players in northern Michigan to drive long distances or mail in their winning tickets. The Lottery also plans to give players the option of receiving certain prizes as a pre-paid gift cards instead of a paper checks. This will spare players who do not have a bank account from paying check-cashing fees. Another payment option being considered is offering players the option of redeeming winning online tickets at retail locations, and to redeem winning retail tickets online. Such an option would be expected to increase further the connection between online and retail sales, and provide additional opportunities for cross-promotions.

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 information, testimony and/or background material as requested.

## Awards and Acknowledgements

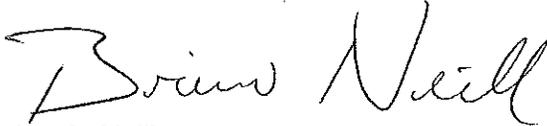
### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Lottery a Certificate of Achievement for Excellence in Financial Reporting for its FY 2015 CAFR. To receive this prestigious award, a government agency must publish an easily readable and efficiently organized comprehensive annual financial report that meets GAAP and applicable legal requirements. The Lottery is proud to have received a Certificate of Achievement from the GFOA for 11 consecutive years, and will submit this report to the GFOA for consideration.

### Acknowledgement

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

Respectfully submitted,



Brian O. Neill  
Chief Deputy Commissioner



M. Scott Bowen  
Commissioner



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Bureau of State Lottery  
Michigan**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2015**

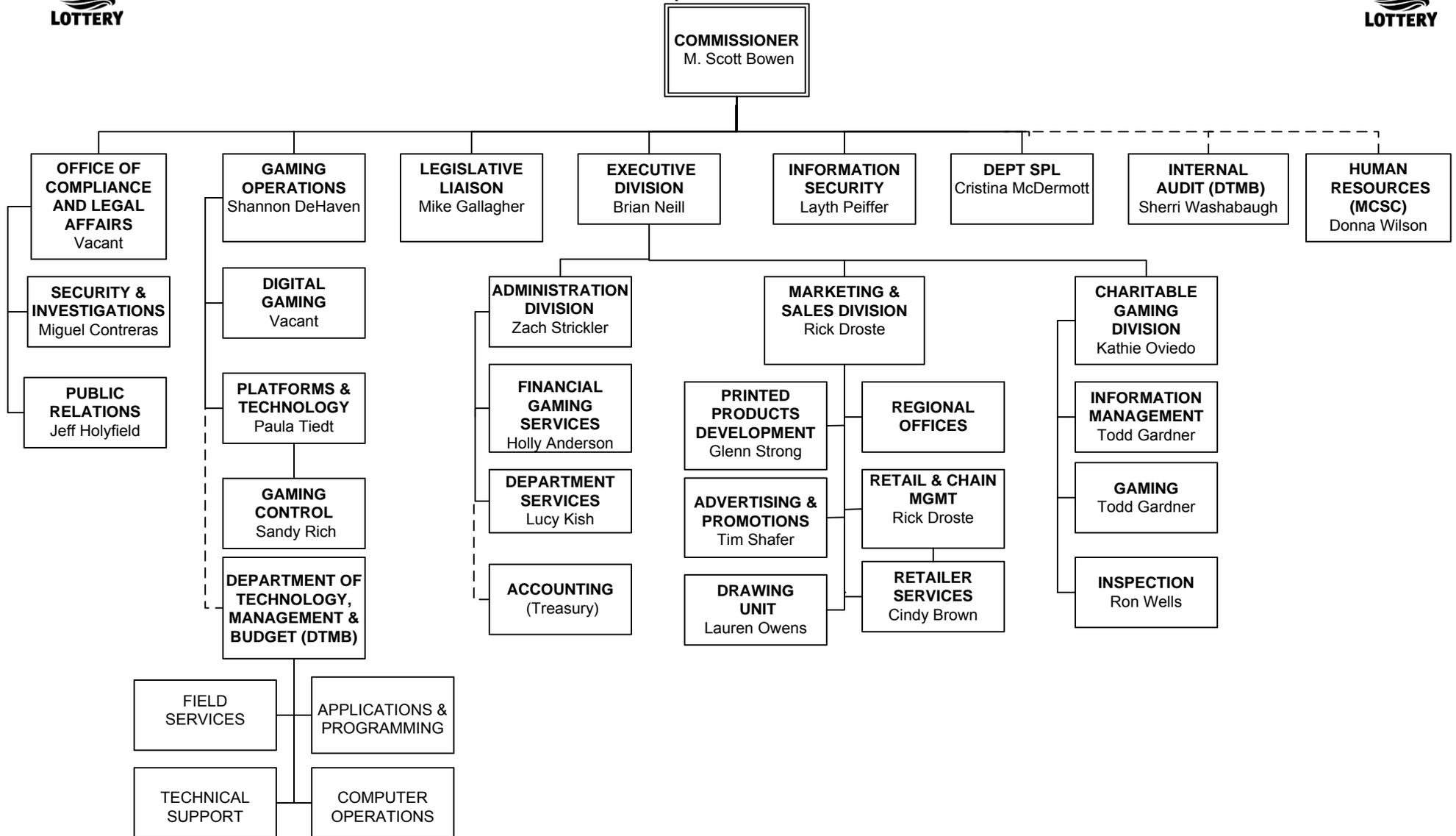
Executive Director/CEO



# Bureau of State Lottery

## Organization Chart and Principal Officials

September 2016







# FINANCIAL SECTION



## Independent Auditor's Report

To Mr. M. Scott Bowen, Commissioner,  
Bureau of State Lottery, State of Michigan,  
and Mr. Doug Ringler, CPA, CIA,  
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 (the "Lottery"), an enterprise fund of the State of Michigan, as of and for the six-month periods and years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Bureau of State Lottery, State of Michigan's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

To Mr. M. Scott Bowen, Commissioner,  
Bureau of State Lottery, State of Michigan,  
and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of State Lottery, State of Michigan as of September 30, 2016 and 2015 and the changes in its financial position and cash flows for the six-month periods and years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

We draw attention to Note I, which explains that these financial statements present only the Bureau of State Lottery, State of Michigan and do not purport to, and do not, present fairly the financial position of the State of Michigan as of September 30, 2016 and 2015 or the changes in its financial position and the changes in its cash flows thereof for the six-month periods and years then ended in conformity with accounting principles generally accepted in the United States of America.

Additionally, as discussed in Note I, the Lottery first adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as of September 30, 2015. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension systems schedules on pages 17-29 and 60-62, respectively, 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 supplementary 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.

To Mr. M. Scott Bowen, Commissioner,  
Bureau of State Lottery, State of Michigan,  
and Mr. Doug Ringler, CPA, CIA,  
Auditor General, State of Michigan

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion 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 introductory section and statistical section are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The other supplementary 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 supplementary 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 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016 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, 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 & Moran, PLLC*

December 16, 2016



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

### **Management's Discussion and Analysis**

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The following discussion of the Michigan Bureau of State Lottery's (the "Lottery") financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the financial statements, which begin on page 30.

#### **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 30 and the Statement of Revenues, Expenses and Changes in Net Position on page 31, 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 consists largely of capital assets (leasehold improvements and equipment), unrealized gains on investments held to fund future payments due on Lottery prizes that are annuities, the impact of GASB 68 related to the pension liability and the allocation of Lottery's share of the OPEB obligation from the State of Michigan. 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**

- Total revenues for all activities (including non-operating) increased \$333.8 million or 12.0%.
- Operating revenues for Lottery gaming activities increased by \$333.0 million, or 12.0%. Ticket sales, the primary operating revenue, surpassed \$3 billion during 2016, increasing by \$332.7 million. Instant game ticket sales exceeded \$1.1 billion.
- Non-operating revenues increased by \$0.8 million. This increase is attributable to the changing market values of investments and other income during 2016.
- Total expenses (including non-operating) for all activities increased \$342.1 million or 12.3%.
- Total operating expenses for 2016 increased \$249.6 million, or 12.6%. Of this increase, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities increased by \$190.8 million, or 11.5%, unclaimed prizes decreased by \$3.0 million, or 9.6%, retailer and vendor commissions increased \$39.8 million, or 16.2%, while other operating expenses increased by \$14.4 million, or 27.7%.
- Disbursements to the School Aid Fund were \$888.9 million in 2016 compared to \$795.5 million in 2015, an increase of \$93.4 million or 11.8%. Net income disbursed to the General Fund related to Charitable Gaming activities totaled \$3.0 million.

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

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**Net Position**

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

Table 1 - Net Position  
(in millions)

	September 30,		
	2016	2015	2014*
Current and other assets	\$ 158.5	\$ 336.9	\$ 137.6
Investments - noncurrent	191.8	194.2	203.2
Capital assets (net of accumulated depreciation)	1.2	1.5	0.6
<b>Total assets</b>	<b>351.5</b>	<b>532.6</b>	<b>341.4</b>
Deferred Outflows of Resources -			
Deferred outflows related to pensions	3.3	3.7	-
Current liabilities	141.9	322.2	126.2
Long-term liabilities	204.2	199.9	188.4
<b>Total liabilities</b>	<b>346.1</b>	<b>522.1</b>	<b>314.6</b>
Deferred Inflows of Resources -			
Deferred inflows related to pensions	-	2.4	-
Net position:			
Net investment in capital assets	1.2	1.5	0.6
Restricted for School Aid Fund	8.7	11.8	26.8
Unrestricted (deficit)	(1.2)	(1.5)	(0.6)
<b>Total net position</b>	<b>\$ 8.7</b>	<b>\$ 11.8</b>	<b>\$ 26.8</b>

\*2014 Column was not restated for the adoption of GASB 68.

As shown in Table 1 above, the Lottery's net position decreased from September 2015 to 2016 by \$3.1 million, and decreased from September 2014 to 2015 by \$15.0 million. The decreases noted above are primarily attributable to recognizing Lottery's proportionate share of the Michigan State Employees' Retirement System net pension liability as required by GASB 68, as well as recognizing the Lottery's share of the State's other postemployment benefit (OPEB) obligation. The decreases noted above are also 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, pensions, and OPEB may be found in Note 3 and Note 10 respectively in the accompanying financial statements. Current assets and liabilities experienced large increases in 2015 due to a large Powerball jackpot prize win that occurred in September 2015.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2016, net capital assets decreased by \$0.3 million. Capital assets increased \$0.9 million from September 2014 to 2015. Additional detailed information on capital assets may be found in Note 5 in the accompanying financial statements.

Accounting principles dictate that the Lottery record in the financial records the gain or loss related to the change in market value of investments.

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

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,		
	2016	2015	2014*
<b>Current:</b>			
Warrants authorized and warrants outstanding	\$ 11.9	\$ 9.3	\$ 10.7
Accounts payable and other liabilities	8.3	8.9	7.8
Due to School Aid Fund	34.0	20.1	8.8
Prize awards payable (net of discount)	87.7	283.9	98.9
Total current	<u>141.9</u>	<u>322.2</u>	<u>126.2</u>
<b>Non-current:</b>			
Prize awards payable (net of discount)	171.7	178.3	187.6
Net pension liability	22.4	20.7	-
Net OPEB obligation	9.3	-	-
Compensated absences	0.8	0.9	0.8
Total non-current	<u>204.2</u>	<u>199.9</u>	<u>188.4</u>
Total liabilities	<u>\$ 346.1</u>	<u>\$ 522.1</u>	<u>\$ 314.6</u>

\*2014 column was not restated for the adoption of GASB 68.

Non-current liabilities consist of prize liability for prizes paid in installments over several years and long-term pension and net OPEB obligation recorded as a result of GASB 68 and allocation from the State for the Lottery's share of the State's other postemployment benefit (OPEB) obligation. Long-term prize liability decreased \$6.6 million or 3.7% from 2015 to 2016 and decreased \$9.3 million or 5.0% from 2014 to 2015. The prize liability decreases from 2015 to 2016 and 2014 to 2015 are attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. Refer to Note 7 in the accompanying financial statements for more information.

**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,		
	2016	2015	2014*
Operating revenues	\$ 3,118.1	\$ 2,785.1	\$ 2,608.9
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(1,856.3)	(1,665.5)	(1,559.9)
Commissions and game related expenses	(311.9)	(267.5)	(249.8)
Total prizes and direct game expenses	(2,168.2)	(1,933.0)	(1,809.7)
Income before other operating expenses	949.9	852.1	975.4
Other operating expenses	(66.4)	(52.0)	(51.9)
Operating income	883.5	800.1	923.5
Non-operating revenues and (expenses):			
Investment and interest revenues	13.8	13.0	18.1
Investment and interest expenses	(7.5)	(8.5)	(9.7)
School Aid Fund disbursement expense	(888.9)	(795.5)	(742.8)
School Aid Fund disbursement expense - Club Keno Advertising Fund	-	-	(0.1)
General Fund disbursement expense	(3.0)	(2.9)	(2.9)
Health & Human Services disbursement exp	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(886.6)	(794.9)	(738.4)
Change in net position	(3.1)	5.2	185.1
Total net position beginning of period	11.8	26.8	17.9
Restatement due to change in accounting principle (Note 1)	-	(20.2)	-
Total net position end of period	\$ 8.7	\$ 11.8	\$ 26.8

\*2014 column was not restated for the adoption of GASB 68.

Because the Lottery is required by law to deposit all of its net income to the School Aid Fund or General Fund, change in net position does not reflect the result of the Lottery's operating activities. The \$888.9 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2016. There was an increase of \$93.4 million or 11.8% from 2015 to 2016 and an increase of \$52.7 million or 7.1% from 2014 to 2015. Public Act 293 of 2012 created a new Club Keno Advertising Fund, which allows the Lottery to contract with external parties to advertise on its Club Keno monitors. In fiscal years 2016 and 2015, the Lottery collected no revenue from Club Keno advertising activities. The disbursement expense to the General Fund reflects Charitable Gaming activities.

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

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Charitable Gaming activities experienced a slight increase in net revenues from 2015 to 2016, and remained the same from 2014 to 2015. Charitable Gaming net income is disbursed annually to the General Fund.

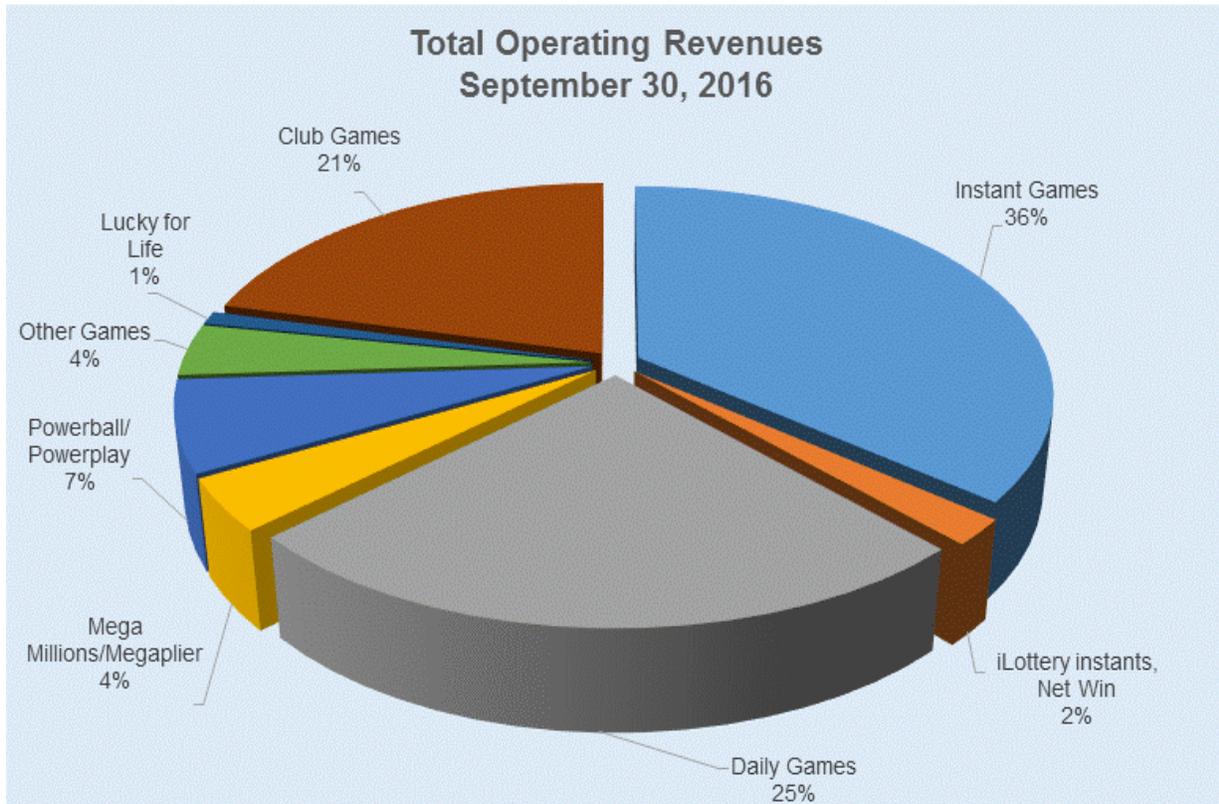
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds  
(in millions)

	September 30,		
	2016	2015	2014
School Aid Fund	\$ 888.9	\$ 795.5	\$ 742.8
School Aid Fund - Club Keno Advertising Fund	-	-	0.1
General Fund	3.0	2.9	2.9
Health & Human Services	1.0	1.0	1.0
<b>Total Disbursements to Other Funds</b>	<b>\$ 892.9</b>	<b>\$ 799.4</b>	<b>\$ 746.8</b>

**Revenues**

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2016:



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

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

Table 5 - Revenues  
(in millions)

	September 30,		
	2016	2015	2014
Operating revenues:			
Instant tickets	\$ 1,136.8	\$ 1,013.2	\$ 913.1
iLottery Instants, Net Win	48.0	18.5	0.6
Daily games	782.5	742.9	693.3
Mega Millions/Megaplier	127.1	120.5	140.7
Powerball/Power Play	206.6	109.5	104.0
Monopoly	-	1.8	-
Lucky for Life	16.7	15.6	-
Club games	658.2	613.8	583.5
Other games and promotions	128.6	136.1	161.2
Other operating revenue	13.6	13.2	12.5
Total operating revenues	<u>3,118.1</u>	<u>2,785.1</u>	<u>2,608.9</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	5.8	4.5	8.9
Amortization on bonds	7.7	8.4	9.1
Other income	0.3	0.1	0.1
Total non-operating revenue	<u>13.8</u>	<u>13.0</u>	<u>18.1</u>
Total revenues	<u>\$ 3,131.9</u>	<u>\$ 2,798.1</u>	<u>\$ 2,627.0</u>

Operating revenues, primarily Lottery ticket sales, increased from fiscal year 2015 to 2016, and increased from 2014 to 2015. The increase in fiscal year 2016 over 2015 was \$333.0 million or 12.0% and the increase in fiscal year 2015 over 2014 was \$176.2 million or 6.8%.

Instant game ticket sales increased by \$123.6 million or 12.2% for fiscal year 2016 compared to fiscal year 2015. The increase in fiscal year September 2015 over 2014 was \$100.1 million or 11.0%. Instant game sales performance was strong throughout fiscal year 2016. Much of this continued record-setting performance is attributed to the popularity of the "Hit" and "Hot" families of instant games, as well as the performance of the \$10, \$20, and \$30 price point games.

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, Massachusetts, New Jersey, New York, Ohio, Virginia, Washington, and the Multi-State Lottery Association (MUSL), an association of governmental lotteries. Sales for the fiscal year September 2016 increased by \$6.6 million or 5.5% compared to fiscal year 2015. Sales in fiscal year 2015 decreased by \$20.2 million or 14.4% compared to fiscal year 2014. During 2016 41.8% of the jackpots rolled to over \$100.0 million. The largest advertised jackpot of 2016 was \$540 million. Lack of significant jackpots contributed to the sales decrease in 2015, although 36.5% of total Mega Millions drawings conducted had jackpot rolls over \$100.0 million. Matrix changes introduced in October 2013 increased starting jackpots to \$15.0 million, increased second (match 5) prizes to \$1.0 million, and provided better odds of winning. Megaplier is an add-on to Mega Millions offering players an opportunity to increase their non-jackpot winnings.

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

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Powerball is a multi-state game, similar to Mega Millions, offering larger jackpots. Participating in Powerball is the Multi-State Lottery Association (MUSL) and the Mega Million's Lotteries for a total of 44 states, Washington D.C., Puerto Rico, and the U.S. Virgin Islands. Matrix changes introduced in October 2015 created higher than average jackpots and offered a new 10X multiplier for the add-on game Power Play when the advertised jackpot is less than or equal to \$150 million. Sales for fiscal year 2016 increased by \$97.1 million or 88.7% compared to fiscal year 2015. The large increase in sales during 2016 can be attributed to a record-setting jackpot on January 13, 2016 of \$1.5 billion. Sales for this jackpot surpassed \$104.5 million. This was the largest jackpot ever recorded for a lottery jackpot game. During 2016, 64.4% of the Powerball jackpots rolled to over \$100.0 million. Power Play is an add-on game to Powerball where players can increase their non-jackpot prizes.

Lucky for Life, known as "The Game of a Lifetime", is a multi-state \$2 draw game that launched on January 27, 2015. Along with Michigan, there are 20 other jurisdictions that participate in Lucky for Life. This game offers a top prize of \$7,000 a week for life and a second top prize of \$25,000 a year for life. Lucky for Life sales increased \$1.1 million or 7.1% in 2016 over 2015. The increase in sales can be attributed to the fact that 2016 was the first full year of sales. Michigan had two second top prize winners during 2016.

Club games include Club Keno, Club Keno Kicker, Pull-Tabs, The Jack, and Insta Tabs. The Club Games sales increased in fiscal year 2016 by \$44.4 million or 7.3% over 2015, and increased in 2015 by \$30.3 million or 5.2% over 2014. Club Keno experienced record-setting sales in 2016 primarily attributable to the Club Keno Doubler Days promotions, which were held during January, April, and September 2016. These three promotions engaged players by offering a chance to double their winnings, and generated sales of \$20.7 million or 46.7% of the total sales increase in 2016. The 2016 and 2015 sales increases also continue to be attributed to increased player awareness of Club Keno "To Go" and the promotion of the Lottery digital application that allows players to watch Club Keno drawings anywhere, from their personal computer, tablet, or mobile device.

Other games consist of Lotto 47, Lotto 47 EZMatch, Fantasy Five, Fantasy Five EZMatch, Keno, Raffle, Poker Lotto, and non-game specific promotions. Poker Lotto was added to the Lottery's game portfolio on October 19, 2013. This game includes a nightly drawing plus a chance to win instantly all in one ticket. Lottery numbers are replaced with five playing cards and the five cards are randomly selected from a standard 52-card deck. A player can win up to \$5,000 instantly at the time of purchase if the cards form a winning poker hand, and can also win up to \$100,000 nightly by matching the winning cards drawn. Non-game specific promotions are offered to players for iLottery instant games. These bonuses are not required to be redeemed for a specific iLottery instant game. Most of the iLottery instant game bonuses expire after twenty-four hours. Variations of bonuses are offered to create new and exciting opportunities for players. In total, other games sales experienced a decrease in 2016 of \$7.5 million or 5.9% compared to fiscal year 2015, and a decrease in 2015 of \$25.1 million or 15.6% compared to fiscal year 2014. Although both years experienced a decrease in sales, 2016 saw a smaller decrease, which can be attributed to the Doubler Days Promotion that took place during September. This promotion gave players a chance to double their Fantasy Five and Lotto 47 non-jackpot prizes. In 2016, Raffles consisted of the 50/50 Veterans Day Raffle, and the Big League Raffle.

The increase in non-operating revenues from 2015 to 2016 resulted primarily from an increase in unrealized gain on investments and other income.

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

### **Management's Discussion and Analysis**

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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 2015 to 2016 and from 2014 to 2015 is due to a decreasing bond portfolio from maturing investments and the fact that most prize winners have elected the one-time lump sum payment option instead of annual installment payments. Other income increased slightly from 2015 to 2016 due to an increase in interest rates on common cash investments. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

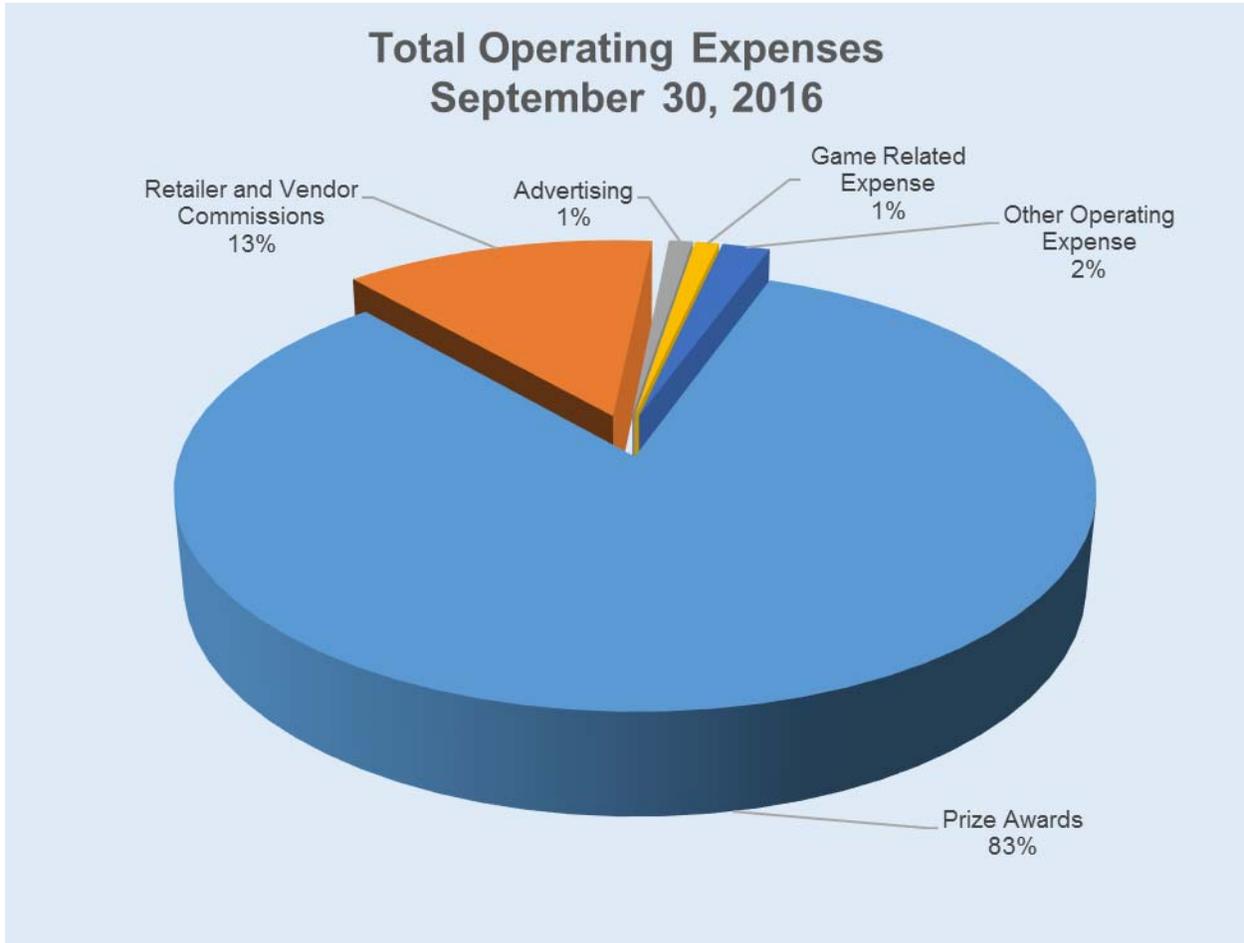
The iLottery instant games program continued to experience tremendous growth during fiscal year 2016. Beginning January 4, 2016, four draw-based games including Mega Millions, Powerball, Fantasy 5, and Lotto 47 became available on the iLottery platform. To play online, players must first register an iLottery account. Players have the option of playing via a desktop computer, tablet, or mobile device. Prizes of \$600 or less are automatically deposited into a player's account. For prizes over \$600, an electronic claim form is generated for processing. Play styles for iLottery instants currently include multi-ticket games, single ticket games, Keno games, and extended play games, at multiple price points. iLottery instant ticket net win increased \$29.5 million or 160% in fiscal year 2016 over 2015 (refer to Note 8 in the accompanying financial statements). Much of the growth in iLottery instant game sales from 2015 to 2016 can be attributed to the addition of four new popular multi-ticket games that offer their own unique bonus game: Hit, Queen of Diamonds, Roll the Dice, and Multiplier Max Out. Also, there was an increase in the availability of iLottery instant games on mobile devices, which led to mobile surpassing desktop as the primary sales channel in 2016. In September 2016, the Lottery also launched its first third-party iLottery instant game, Cash Buster, which brought new and exciting game content to the iLottery platform. The Lottery was the first in North America to successfully integrate a third-party developed instant game into its existing iLottery platform.

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

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**Expenses**

The following chart shows prizes, game costs, and other operating expenses as a percentage of total operating expenses for the fiscal year ended September 30, 2016:



**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,		
	2016	2015	2014*
<b>Prizes:</b>			
Instant prizes	\$ 816.9	\$ 721.4	\$ 641.1
Draw Game prizes	631.2	570.4	567.2
Club game prizes	435.7	404.2	381.4
Players Club all games	1.0	1.0	1.0
Total prizes	<u>1,884.8</u>	<u>1,697.0</u>	<u>1,590.7</u>
Less: unclaimed prizes	<u>28.5</u>	<u>31.5</u>	<u>30.8</u>
Net prize awards	<u>1,856.3</u>	<u>1,665.5</u>	<u>1,559.9</u>
<b>Direct game expenses:</b>			
Retailer commissions	231.7	203.6	188.5
Vendor commissions and other expenses	54.3	42.6	38.1
Game related expenses	<u>25.9</u>	<u>21.3</u>	<u>23.2</u>
Total direct game expenses	<u>311.9</u>	<u>267.5</u>	<u>249.8</u>
<b>Other operating expenses:</b>			
Salaries, wages and benefits	31.8	21.7	21.9
Other professional services	7.9	8.0	7.9
Printing and supplies	1.5	1.6	1.5
Other general and administrative	3.2	3.1	3.0
Promotion and advertising	<u>22.0</u>	<u>17.6</u>	<u>17.6</u>
Total other operating expenses	<u>66.4</u>	<u>52.0</u>	<u>51.9</u>
Total operating expenses	<u>2,234.6</u>	<u>1,985.0</u>	<u>1,861.6</u>
<b>Non-operating expenses:</b>			
Amortization of prize discount	7.5	8.5	9.7
School Aid Fund disbursement	888.9	795.5	742.8
School Aid Fund disbursement - Club Keno Advertising Fund	-	-	0.1
General Fund disbursement	3.0	2.9	2.9
Health & Human Services disbursement	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total non-operating expenses	<u>900.4</u>	<u>807.9</u>	<u>756.5</u>
Total expenses	<u>\$ 3,135.0</u>	<u>\$ 2,792.9</u>	<u>\$ 2,618.1</u>

\*2014 column was not restated for the adoption of GASB 68.

The Daily 3 prize payout had an increase to 52.7% in 2016, compared to 50.5% in 2015, and 48.5% in 2014. The Daily 4 prize payout decreased to 45.9% in 2016, compared to 49.1% in 2015, and 53.5% in 2014. Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 49.1% in 2016, compared to 49.8% in 2015, and 51.1% in 2014.

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

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The respective Daily Games combined prize payout decreased 0.7% from 2015 to 2016 and decreased 1.3% from 2014 to 2015.

The Club Games prize payout percentage increased to 65.9% in 2016, compared to 65.5% in 2015, compared to 64.9% in 2014. 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 66%.

Instant games had an overall payout of 71.9% in 2016, compared to 71.2% in 2015 and 70.2% in 2014. The games vary in payout percentage depending on selling price of a ticket for a game. Instant game prize payouts range from 59.0% for a \$1 game to 77.9% for a \$30 game.

Retailer commissions have increased commensurate with higher overall sales. Vendor commissions and other expenses have also increased, due to additional equipment and service expenses. Game related expense has increased by \$4.6 million or 21.6% in 2016 from 2015, and decreased by \$1.9 million or 8.2% in 2015 from 2014.

Other operating expenses have increased by \$14.4 million or 27.7% from 2016 over 2015 and increased \$0.1 million or 0.2% in 2015 from 2014.

### 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. Lottery unclaimed prizes are those actual claims that are created but expire if the winner does not claim the prize within one year.

Unclaimed prizes decreased by \$3.0 million from 2015 to 2016 and increased by \$0.7 million from 2014 to 2015.

### 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,		
	2016	2015	2014
Gross revenue	\$ 12.3	\$ 12.1	\$ 11.8
Operating expenses	(9.3)	(9.2)	(8.9)
Net income	\$ 3.0	\$ 2.9	\$ 2.9

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

### **Management's Discussion and Analysis**

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Charitable Gaming activities overseen by the Lottery include the licensing and regulation of qualifying non-profit organizations to conduct bingos, raffles, and other charitable gaming events 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. According to the Executive Order, millionaire party licensing revenue shall be remitted to the Lottery and all necessary expenses shall be financed by the Lottery. Please refer to Note 13 in the accompanying financial statements for more information about transactions with other State agencies, including Michigan Gaming Control Board.

Charitable Gaming revenues increased by \$0.2 million or 1.7% for fiscal year 2016 compared to fiscal year 2015 and increased by \$0.3 million or 2.5% for fiscal year 2015 compared to fiscal year 2014.

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

The Charitable Gaming mission of the Lottery is to examine the integrity of charitable gaming activities, ensure proceeds are accounted for and used for lawful purposes of qualified licensed non-profit organizations, encourage charity participation at licensed events and maximize proceeds for their charitable causes. Revenues received through the issuance of licenses and from the distribution of charity-game tickets cover the costs of overseeing the program. Any revenue in excess of program costs is disbursed annually to the State's General Fund.

#### **Other Potentially Significant Factors Impacting Next Year**

A new terminal-based instant win game called Fast Play is planned to launch in the spring of 2017. Fast Play games are instant play-style games generated through the Lottery terminal. The Fast Play ticket is printed at the time of purchase with a set of numbers/symbols, and players simply match their numbers/symbols to see if they have won. There are no drawings with these games. A key difference from other instant games is that the top prize offered can be a progressive jackpot that can be won at any time. Fast Play games have been launched in 12 other jurisdictions and have proven to be successful.

The Lottery has plans to join Georgia, Ohio and Missouri in late 2017 in the first multi-state game associated with the Club Keno product. This new game, "The Jack", will be an add-on progressive jackpot game and will replace Michigan's current in-state "Jack" game. The multi-state Jack will be a 9-spot game and will remain just \$1 more per Club Keno draw. The jackpot will start at \$25,000 and is projected to grow to \$690,000 within just a few days.

The iLottery program is expected to continue growing in 2017, with a targeted goal of over \$500 million in online bets for the year. Twenty-six games are planned for launch in 2017 with launch dates spread throughout the year to ensure fresh content for players. Approximately ten of these games will be provided by third-party vendors who offer unique game content for players. Quick 6, a new on-demand draw game, is designed to appeal to those players who strictly play draw games.

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

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A new instant game, Roaring 20s, is planned for launch by the end of the first quarter and will be the first iLottery instant game to offer an annuity prize option that will pay out over twenty years. Draw-based games will be cross-promoted with iLottery instant games to help support an increase in overall Lottery sales.

In 2017, Lottery will explore enhancing the player experience for claiming prizes at retail and online. One project is creating a method for players to print an iLottery voucher for cash redemption at any Lottery retailer across the State. This could increase the speed at which players receive prizes and player engagement with local retailers. A cashing commission may also be offered to retailers. Lottery is also researching the feasibility of an Online Claim Center, which would allow players to redeem tickets purchased at retailers online. In January 2017, the Lottery plans to launch a pilot program that will allow players to redeem winning tickets at select Secretary of State branch offices. This will reduce travel time for players that do not live near an existing Lottery claim center. Lottery is also exploring the possibility of giving players the option to receive a non-reloadable prepaid debit card instead of a check for prizes under a certain threshold. This will relieve players who do not have a bank account from paying check cashing fees.

The Lottery's loyalty program, Players Club, is continually growing and changing to ensure that it is successfully retaining and engaging Lottery players. In January 2017, the Players Club loyalty program will be made available for the first time on the Lottery's mobile website. This will increase the reach of the program to potentially attract new players and further engage current players. The Players Club is focused on creating more engaged and active players on both retail and online platforms, and creating new ways for players to earn and spend loyalty points. Some key objectives are to increase players who purchase lottery tickets at both retail and online, build a sense of community among players, and implement a retail tracking mechanism so players can receive points for Lottery purchases at retail.

In 2017 Lottery plans to introduce an affiliate marketing program. The goal is to increase the strength of partnerships with existing retailers and increase traffic to the iLottery platform. Retailers that promote and sell terminal-based online gift cards that result in the creation of new iLottery players will receive additional commissions related to that player's iLottery account.

Management continuously reviews and explores new game concepts and features, promotions, and opportunities to engage retailers.

### **Contacting the Lottery's Financial Management**

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

**Bureau of State Lottery, State of Michigan**  
**Statement of Net Position**  
**September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current assets:		
Equity in State Treasurer's Common Cash Fund	\$ 4,320,988	\$ 4,546,683
Investments, at fair value	21,677,645	22,889,326
Accounts receivable - net	116,755,743	298,272,973
Inventory	15,744,099	11,230,979
Total current assets	<u>158,498,475</u>	<u>336,939,961</u>
Non-current assets:		
Investments, at fair value	<u>191,747,948</u>	<u>194,165,863</u>
Capital assets:		
Leasehold improvements and equipment	5,895,627	5,846,948
Accumulated depreciation	<u>(4,671,967)</u>	<u>(4,322,790)</u>
Total capital assets	<u>1,223,660</u>	<u>1,524,158</u>
Total noncurrent assets	<u>192,971,608</u>	<u>195,690,021</u>
Total assets	<u>351,470,083</u>	<u>532,629,982</u>
Deferred Outflows of Resources:		
Deferred outflows related to pensions	3,339,768	3,645,346
<b>Liabilities</b>		
Current liabilities:		
Warrants outstanding	660,199	1,807,962
Warrants authorized	11,249,956	7,445,959
Accounts payable and other liabilities	8,266,152	8,882,313
Due to School Aid Fund	34,016,943	20,117,519
Prize awards payable - net of discount	<u>87,713,664</u>	<u>283,867,487</u>
Total current liabilities	<u>141,906,914</u>	<u>322,121,240</u>
Noncurrent liabilities:		
Prize awards payable - net of discount	171,667,535	178,339,708
Net pension liability	22,432,145	20,722,586
Net OPEB obligation	9,264,528	-
Accrual for compensated absences, less current portion	<u>797,664</u>	<u>849,006</u>
Total noncurrent liabilities	<u>204,161,872</u>	<u>199,911,300</u>
Total liabilities	<u>346,068,786</u>	<u>522,032,540</u>
Deferred Inflows of Resources:		
Deferred inflows related to pensions	777	2,430,571
<b>Net Position</b>		
Net investment in capital assets	1,223,660	1,524,158
Restricted for School Aid Fund	8,740,290	11,812,217
Unrestricted (deficit)	<u>(1,223,660)</u>	<u>(1,524,158)</u>
Total net position	<u>\$ 8,740,290</u>	<u>\$ 11,812,217</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, 2016 and 2015**

	Six Months Ended		Years Ended	
	2016	2015	2016	2015
<b>Operating revenues</b>				
Ticket sales	\$ 1,529,631,032	\$ 1,378,459,575	\$ 3,104,582,813	\$ 2,771,928,317
Charitable gaming and other	7,265,075	6,966,558	13,553,696	13,204,208
Total operating revenues	<u>1,536,896,107</u>	<u>1,385,426,133</u>	<u>3,118,136,509</u>	<u>2,785,132,525</u>
<b>Operating expenses</b>				
Prize awards	934,608,365	847,958,946	1,884,857,004	1,696,977,936
Less - unclaimed prizes	(16,430,385)	(17,184,151)	(28,514,533)	(31,527,234)
Net prize awards	918,177,980	830,774,795	1,856,342,471	1,665,450,702
Retailer and vendor commissions and other expenses	142,555,518	123,407,459	286,025,717	246,217,302
Game related expenses	14,822,630	10,368,588	25,886,133	21,348,806
Depreciation expense	206,922	156,026	410,547	256,548
Other operating expenses	37,263,474	23,558,846	65,963,674	51,785,898
Total operating expenses	<u>1,113,026,524</u>	<u>988,265,714</u>	<u>2,234,628,542</u>	<u>1,985,059,256</u>
<b>Operating income</b>	<u>423,869,583</u>	<u>397,160,419</u>	<u>883,507,967</u>	<u>800,073,269</u>
<b>Non-operating revenues</b>				
Investment revenue - net	6,320,201	(248,689)	13,518,287	12,926,817
Interest on equity in State Treasurer's Common Cash Fund	156,644	45,408	283,210	82,288
Total non-operating revenues	<u>6,476,845</u>	<u>(203,281)</u>	<u>13,801,497</u>	<u>13,009,105</u>
<b>Non-operating expenses</b>				
Bank fees	(2,561)	(2,222)	(4,377)	(4,613)
Amortization of prize award obligation discount	(3,416,024)	(3,972,515)	(7,481,172)	(8,474,707)
Loss on disposal of assets	(1)	-	(5)	-
Total non-operating expenses before disbursements	<u>(3,418,586)</u>	<u>(3,974,737)</u>	<u>(7,485,554)</u>	<u>(8,479,320)</u>
Disbursement to School Aid Fund	(431,157,356)	(394,288,145)	(888,906,596)	(795,501,693)
Disbursement to General Fund	(1,599,614)	(1,829,436)	(2,999,241)	(2,872,954)
Disbursement to Health & Human Services	(495,000)	(495,000)	(990,000)	(990,000)
Total disbursements	<u>(433,251,970)</u>	<u>(396,612,581)</u>	<u>(892,895,837)</u>	<u>(799,364,647)</u>
Total non-operating expenses	<u>(436,670,556)</u>	<u>(400,587,318)</u>	<u>(900,381,391)</u>	<u>(807,843,967)</u>
<b>Net non-operating revenue (expense)</b>	<u>(430,193,711)</u>	<u>(400,790,599)</u>	<u>(886,579,894)</u>	<u>(794,834,862)</u>
<b>Change in net position</b>	<u>(6,324,128)</u>	<u>(3,630,180)</u>	<u>(3,071,927)</u>	<u>5,238,407</u>
<b>Total net position at beginning of period</b>	<u>15,064,418</u>	<u>35,653,525</u>	<u>11,812,217</u>	<u>26,784,938</u>
<b>Restatement due to change in accounting principle (Note 1)</b>	-	(20,211,128)	-	(20,211,128)
<b>Total net position at end of period</b>	<u>\$ 8,740,290</u>	<u>\$ 11,812,217</u>	<u>\$ 8,740,290</u>	<u>\$ 11,812,217</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, 2016 and 2015**

	Six Months Ended		Years Ended	
	2016	2015	2016	2015
<b>Cash Flows From Operating Activities</b>				
Cash collections from customers	\$ 1,532,582,973	\$ 1,216,528,710	\$ 3,299,504,344	\$ 2,582,979,522
Payments to employees	(11,221,150)	(11,006,031)	(22,793,676)	(22,194,409)
Payments to suppliers	(36,829,764)	(28,130,809)	(61,433,493)	(55,588,487)
Payments to prize winners	(920,343,960)	(647,507,414)	(2,066,649,639)	(1,498,192,644)
Payments for retailer and vendor commissions and other expenses	(142,555,518)	(123,407,459)	(286,025,717)	(246,217,302)
Net cash provided by operating activities	<u>421,632,581</u>	<u>406,476,997</u>	<u>862,601,819</u>	<u>760,786,680</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
Disbursements to School Aid Fund	(479,889,654)	(450,384,174)	(875,007,172)	(784,143,370)
Disbursements to General Fund	(2,999,241)	(2,872,954)	(2,999,241)	(2,872,954)
Disbursements to Health & Human Services	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	<u>(483,878,895)</u>	<u>(454,247,128)</u>	<u>(878,996,413)</u>	<u>(788,006,324)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Acquisition of capital assets	<u>(46,145)</u>	<u>(841,909)</u>	<u>(110,054)</u>	<u>(1,208,679)</u>
<b>Cash Flows From Investing Activities</b>				
Proceeds from the sale and maturity of investment securities	7,463,000	11,391,000	23,207,000	29,360,000
Purchase of investments	-	(1,027,619)	(6,059,117)	(1,027,619)
Interest received	260,850	65,833	283,210	82,288
Bank fees	(2,561)	(2,222)	(4,377)	(4,613)
Net cash provided by investing activities	<u>7,721,289</u>	<u>10,426,992</u>	<u>17,426,716</u>	<u>28,410,056</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(54,571,170)</b>	<b>(38,185,048)</b>	<b>922,068</b>	<b>(18,267)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>58,231,959</b>	<b>40,923,769</b>	<b>2,738,721</b>	<b>2,756,988</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,660,789</b>	<b>\$ 2,738,721</b>	<b>\$ 3,660,789</b>	<b>\$ 2,738,721</b>

**Bureau of State Lottery, State of Michigan**  
**Statement of Cash Flows**  
**For the Six Months and Years Ended September 30, 2016 and 2015**

	Six Months Ended		Years Ended	
	2016	2015	2016	2015
<b>Reconciliation of net operating income to net cash provided by operating activities</b>				
Operating income	\$ 423,869,583	397,160,419	\$ 883,507,967	800,073,269
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	206,922	156,026	410,547	256,548
Pension expense	959,720	2,341,888	2,590,921	2,341,888
OPEB expense	9,264,528	-	9,264,528	-
Deferred Outflows - Contributions subsequent to measurement date	-	(3,045,205)	(2,998,747)	(3,045,205)
Bad debt expense and other reconciling items	130,482	78,961	142,563	171,907
Amortization of prize award obligation discount	(3,416,024)	(3,972,515)	(7,481,172)	(8,474,707)
Net Changes in Assets and Liabilities:				
Inventory	(298,594)	824,007	(4,513,120)	(2,814,287)
Receivables	(4,313,134)	(168,897,423)	181,367,835	(202,153,003)
Warrants authorized, compensated absences, supplemental retirement, accounts payable, other liabilities	(6,020,946)	(5,409,057)	3,136,493	(1,302,495)
Prize awards payable	1,250,044	187,239,896	(202,825,996)	175,732,765
<b>Net cash provided by operating activities</b>	<b>\$ 421,632,581</b>	<b>\$ 406,476,997</b>	<b>\$ 862,601,819</b>	<b>\$ 760,786,680</b>
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents at beginning of period				
Equity in State Treasurer's Common Cash Fund	\$ 59,041,310	\$ 41,944,092	\$ 4,546,683	\$ 3,609,257
Warrants outstanding	(809,351)	(1,020,323)	(1,807,962)	(852,269)
<b>Net cash and cash equivalents at beginning of period</b>	<b>\$ 58,231,959</b>	<b>\$ 40,923,769</b>	<b>\$ 2,738,721</b>	<b>\$ 2,756,988</b>
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 4,320,988	\$ 4,546,683	\$ 4,320,988	\$ 4,546,683
Warrants outstanding	(660,199)	(1,807,962)	(660,199)	(1,807,962)
<b>Net cash and cash equivalents at end of period</b>	<b>\$ 3,660,789</b>	<b>\$ 2,738,721</b>	<b>\$ 3,660,789</b>	<b>\$ 2,738,721</b>
<b>Schedule of noncash investing, capital, and financing activities</b>				
Increase (Decrease) in fair value of investments	\$ 2,525,742	\$ (4,333,497)	\$ 5,777,944	\$ 4,535,090
Disbursements to other funds (accrual)	(34,016,943)	(20,117,519)	(34,016,943)	(20,117,519)
<b>Total noncash investing, capital, and financing activities</b>	<b>\$ (31,491,201)</b>	<b>\$ (24,451,016)</b>	<b>\$ (28,238,999)</b>	<b>\$ (15,582,429)</b>

# Bureau of State Lottery, State of Michigan

## Notes to Financial Statements

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

The Bureau of State Lottery (the "Lottery") was established by Michigan Compiled Laws Section 432.5 under authority of Article 5, Section 4, of the State Constitution.

Public Act 95 of 1996 allows the Lottery to participate in joint enterprises, such as multi-state lotteries, with other sovereignties. Michigan, a Mega Millions state, participates in Powerball and Power Play, Raffle, and Lucky for Life multi-state lottery games, with the Multi-State Lottery Association (MUSL), an association of governmental lotteries. The association is comprised of a combination of MUSL Lotteries and Mega Millions Lotteries. Michigan also participates in Mega Millions, a jointly operated multi-state lottery comprised of 10 states: California, Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia, Washington and MUSL. Net income from Mega Millions, Megaplier, Powerball, Power Play, and Lucky for Life is disbursed to the School Aid Fund.

#### **Basis of Presentation**

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

#### **Basis of Accounting**

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

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

#### **Revenue Recognition**

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

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

### **Notes to Financial Statements**

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Revenues for iLottery instant games are recognized when sales to the public occur and are reported net of prizes awarded which are recognized as game play completes and prizes are known (refer to Note 8 for more information on iLottery instant games revenue and expense). All revenues are reported net of free plays, discounts and allowances. Receivables represent amounts due from retailers and amounts due from members of multi-state lotteries related to jackpot prizes won in the State of Michigan.

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

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

#### **Use of Estimates**

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

#### **Equity in State Treasurer's Common Cash Fund**

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

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

#### **Investments**

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

#### **Inventory**

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandise prizes for games that have not started as of September 30, 2016 and 2015. The inventory is valued at cost, primarily using the weighted average method.

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

### **Notes to Financial Statements**

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#### **Provision for Doubtful Accounts**

The Lottery establishes an allowance for bad debt for retailer receivables greater than 90 days old. A bad debt expense is recorded when the allowance is established for these receivables. The amount of the allowance for doubtful accounts totaled \$1,295,156 as of September 30, 2016 and \$1,391,578 as of September 30, 2015.

#### **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.

Information technology equipment including constructed computer software is depreciated over five years, the estimated useful life of the assets. Building leasehold improvements are depreciated over the lesser of eight years, the estimated useful life of the improvements, or the lease term. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

#### **Advance Wagers**

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

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

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources.

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This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery reports deferred outflows of resources related to pensions in this category.

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

#### **Pensions**

The Lottery participates in the State of Michigan defined benefit pension plan. The Lottery regards a net pension liability for the difference between their proportionate share of the total pension liability calculated by the actuary and their proportionate share of the plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS), and additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **Other Postemployment Benefits**

The Lottery participates in the State of Michigan's single employer postemployment benefit plan. Beginning in fiscal year 2016, the Lottery recorded a net other postemployment benefit (OPEB) obligation for their share of the cumulative difference between the actuarial required contributions of the plan less actual contributions paid by the State to the plan. The State allocated a portion of this obligation to the Lottery based on actual contributions paid by the Lottery to the State.

#### **Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Net investment in capital assets consists of equipment and leasehold improvements. The difference between the fair value of investments and the amortized book value of investments is reported as restricted for school aid fund and is not available for disbursement to the School Aid Fund until realized in accordance with Public Act 239. Additionally, the impact of the restatement of net position related to the adoption of GASB Statement No. 68 discussed in the following paragraph, as well as the change in net pension liability, deferred inflows and outflows related to pensions, and the change in net OPEB obligation are also reported as restricted for school aid fund.

#### **Changes in Accounting**

The Lottery previously adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, for the six-month period and year ended September 30, 2015.

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

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As a result, the financial statements now include a net pension liability for Lottery's unfunded defined benefit plan legacy costs. Some of the changes in this net pension liability each year will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years.

As a result of implementing this statement for the six-month period ended September 30, 2015, the net position of the Lottery was restated by (\$20,211,128). Of the (\$20,211,128) restatement, (\$23,049,890) was related to beginning of the year net pension liability and \$2,838,762 was related to beginning of the year deferred outflows for employer contributions made subsequent to the measurement date. Refer to Note 10 for further details.

During fiscal year 2016, the Lottery adopted GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, the notes to the financial statements now include enhanced disclosures about fair value measurement, the level of fair value hierarchy, and valuation techniques. Refer to Note 4 for more details.

#### **NOTE 2 - EQUITY IN STATE TREASURER'S COMMON CASH**

The Lottery participates in the State Treasurer's Common Cash pool. The investment authority for the pool is found in Michigan Compiled Laws Sections 21.141 – 21.147. The pooling of cash allows the State Treasurer to invest monies not needed to pay immediate obligations so the investment earnings on available cash are maximized. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes and other evidences of indebtedness of the United States Government and its agencies and in prime commercial paper. The Treasurer invests excess cash in short-term investments or cash equivalents.

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

#### **Common Cash Deposits**

##### Custodial Credit Risk

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

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

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

The State Treasurer's policy requires the following criteria to lessen the custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits to secure the State's fund.

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

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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.

#### **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, 2016 and 2015, 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.

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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, 2016 and 2015, 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.

**NOTE 3 - INVESTMENTS**

Investments totaling \$213,425,593 at September 30, 2016 and \$217,055,189 at September 30, 2015 are in the form of U. S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, series 2009B (Michigan CAB bonds).

These investments were purchased to fund future payments due to annuity prize winners. The bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 7. Cash receipts from the maturity of investments totaled \$23,207,000 in the year ended September 30, 2016 and \$29,360,000 in the year ended September 30, 2015. For the six months ended September 30, 2016 and 2015, cash receipts from the maturity of investments totaled \$7,463,000 and \$11,391,000, respectively.

Investments at September 30 consist of the following:

	2016	2015
U. S. Treasury zero-coupon bonds	\$ 167,650,119	\$ 166,591,518
Michigan CAB bonds	45,775,474	50,463,671
Total Investments	\$ 213,425,593	\$ 217,055,189

As reported on the Statement of Net Position:

	2016	2015
Current investments	\$ 21,677,645	\$ 22,889,326
Noncurrent investments	191,747,948	194,165,863
Total Investments	\$ 213,425,593	\$ 217,055,189

**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.

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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.

**Interest Rate Risk**

Investments in prize annuities at September 30, 2016 and 2015 consist of the following:

**September 30, 2016**

<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	\$ 13,946,526	0.50% to 5.91%	\$ 7,731,119	6.75% to 6.75%
1-5	52,026,178	0.75% to 4.99%	22,112,017	7.01% to 8.05%
6-10	41,617,257	1.72% to 4.98%	7,845,183	8.05% to 8.33%
11-15	31,884,213	2.26% to 4.70%	8,087,155	8.38% to 8.39%
16-20	21,191,144	2.50% to 4.79%	-	-
21-25	4,400,972	2.57% to 3.64%	-	-
26-29	2,583,829	2.57% to 3.68%	-	-
Fair Market Value	<u>\$ 167,650,119</u>		<u>\$ 45,775,474</u>	

**September 30, 2015**

<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	\$ 15,580,426	0.19% to 7.19%	\$ 7,308,900	5.62% to 6.28%
1-5	43,491,194	0.51% to 5.91%	25,098,521	6.75% to 7.88%
6-10	43,721,884	1.57% to 4.99%	10,016,623	8.05% to 8.31%
11-15	31,713,545	2.14% to 4.84%	8,039,627	8.33% to 8.39%
16-20	21,815,574	2.42% to 4.75%	-	-
21-29	7,569,656	2.52% to 4.79%	-	-
30-34	2,699,240	2.57% to 3.68%	-	-
Fair Market Value	<u>\$ 166,591,518</u>		<u>\$ 50,463,671</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.

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

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The fair value at maturity is the face value of the bonds regardless of the fluctuations in value during the time period that the investments are outstanding, thus minimizing the interest rate risk, if held to maturity.

#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investment grade, as defined in MCL Section 38.1132, includes investments in the top four major grades, as determined by two national rating services. The State Treasurer's policy is to use Standard & Poor's (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). 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, 2016 and September 30, 2015, the Lottery's investments in Michigan CAB bonds were rated AA- by Standard and Poor and Aa1 by Moody's.

#### **Concentration of Credit Risk**

Investments are in U. S. Treasury zero-coupon bonds and Michigan CAB bonds. U. S. Treasury zero-coupon bonds are guaranteed by the United States government; therefore, there is no concentration of credit risk for those types of bonds. As of September 30, 2016, investments in Michigan CAB bonds account for 21.4% of the total Investments as compared to 23.2% as of September 30, 2015.

#### **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, 2016 and 2015 the Lottery had no investments subject to foreign currency risk.

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**NOTE 4 – FAIR VALUE MEASUREMENT**

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

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

The Lottery has the following recurring fair value measurements as of September 30, 2016:

- U.S. Treasury zero-coupons bonds of \$167,650,119 are valued using Level 2 inputs.
- Michigan CAB bonds of \$45,775,474 are valued using Level 2 inputs.

The fair value of U.S. Treasury zero-coupon bonds and Michigan CAB bonds at September 30, 2016 were determined primarily based on level 2 inputs. The Lottery estimates the fair value of these investments using the matrix pricing technique using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

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**NOTE 5 - CAPITAL ASSETS**

A summary of capital asset activity for the fiscal years ended September 30, 2016 and 2015 is as follows:

<u>Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2016</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,955,989	\$ -	\$ -	\$ 1,955,989
Equipment	3,890,959	110,054	61,375	3,939,638
Total capital assets being depreciated	<u>5,846,948</u>	<u>110,054</u>	<u>61,375</u>	<u>5,895,627</u>
Less: accumulated depreciation				
Leasehold improvements	1,945,736	3,204	-	1,948,940
Equipment	2,377,054	407,343	61,370	2,723,027
Total accumulated depreciation	<u>4,322,790</u>	<u>410,547</u>	<u>61,370</u>	<u>4,671,967</u>
Total capital assets being depreciated, net	<u>\$ 1,524,158</u>	<u>\$ (300,493)</u>	<u>\$ 5</u>	<u>\$ 1,223,660</u>
<u>September 30, 2015</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,955,989	\$ -	\$ -	\$ 1,955,989
Equipment	2,682,280	1,208,679	-	3,890,959
Total capital assets being depreciated	<u>4,638,269</u>	<u>1,208,679</u>	<u>-</u>	<u>5,846,948</u>
Less: accumulated depreciation				
Leasehold improvements	1,942,533	3,203	-	1,945,736
Equipment	2,123,709	253,345	-	2,377,054
Total accumulated depreciation	<u>4,066,242</u>	<u>256,548</u>	<u>-</u>	<u>4,322,790</u>
Total capital assets being depreciated, net	<u>\$ 572,027</u>	<u>\$ 952,131</u>	<u>\$ -</u>	<u>\$ 1,524,158</u>

**NOTE 6 - DISAGGREGATION OF PAYABLE BALANCE**

Accounts payable and other liabilities at September 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Accounts payable vendors	\$ 1,450,656	\$ 3,614,598
Retailer security deposits/accounts payable	4,761,777	3,338,099
Accrued salaries	1,163,824	1,030,007
Compensated absences	889,895	873,155
Supplemental retirement	-	26,454
Total	<u>\$ 8,266,152</u>	<u>\$ 8,882,313</u>

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**Notes to Financial Statements**

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**NOTE 7 - PRIZE AWARDS**

Installment prize awards are recorded at their present value using discount rates ranging from 3.4% 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:

	<u>2016</u>	<u>2015</u>
Current - at face amount	\$ 88,113,395	\$ 284,419,357
Less - unamortized discount	(399,731)	(551,870)
Current - at present value	<u>87,713,664</u>	<u>283,867,487</u>
Long-term - at face amount	255,114,724	267,405,400
Less - unamortized discount	(83,447,189)	(89,065,692)
Long-term - at present value	<u>171,667,535</u>	<u>178,339,708</u>
Total	<u>\$ 259,381,199</u>	<u>\$ 462,207,195</u>

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

2017	\$ 17,034,533
2018	15,032,533
2019	15,032,533
2020	15,032,533
2021	15,020,533
2022-2026	64,304,865
2027-2031	55,628,665
2032-2036	48,039,065
2037-2041	9,965,465
2042-2046	7,100,332
2047-2051	3,763,000
2052-2056	2,893,400
2057-2061	1,541,800
2062-2066	720,000
2067-2071	520,000
2072-2076	520,000
Total	<u>272,149,257</u>
Less - unamortized discount	(83,846,920)
Total installment prize awards payable at present value	<u>188,302,337</u>
Non-installment prize awards payable	71,078,862
Total prize awards payable	<u>\$ 259,381,199</u>

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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
2016	\$ 201,734,238	\$ 10,620,842	\$ 24,052,743	\$ 188,302,337	\$ 16,634,802
2015	\$ 216,520,157	\$ 15,213,481	\$ 29,999,400	\$ 201,734,238	\$ 23,394,530

**NOTE 8 – iLOTTERY NET WIN**

iLottery instant game revenue is reported in ticket sales net of discounts and prize expense in the Statement of Revenues, Expenses, and Changes in Net Position (refer to Supplementary Schedule of Revenue and Expenses for details of sales and prize awards of each Lottery game). The following schedule details the iLottery instant game sales and prize activity for the fiscal years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Sales	\$ 384,992,537	\$ 146,189,761
Prizes	\$(336,959,286)	\$(127,661,669)
iLottery Net Win	<u>\$ 48,033,251</u>	<u>\$ 18,528,092</u>

**NOTE 9 - COMPENSATED ABSENCES**

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

The State instituted a banked leave time program October 12, 2003 through November 5, 2005 whereby eligible employees worked a regular schedule but received pay for a reduced number of hours. The banked leave time program was reinstated February 21, 2010 through September 4, 2010 for non-represented employees. Upon an employee's separation, death or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401(k) plans, and if applicable to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2016.

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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
2016	\$ 1,722,161	\$ 1,259,048	\$ 1,293,651	\$ 1,687,558	\$ 889,895	\$ 797,664
2015	\$ 1,643,984	\$ 1,504,409	\$ 1,426,232	\$ 1,722,161	\$ 873,155	\$ 849,006

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

**Defined Pension Plan**

**A. Plan Description**

The Michigan State Employees Retirement System (the “System” or “SERS”) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the “State”) and created under Public Act 240 of 1943, as amended.

Section 2 of this act established the board’s authority to promulgate or amend the provisions of the System. The board consists of nine members – four appointed by the Governor which consist of two employee members and two retirant members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member. The System’s pension plan was established by the State to provide retirement, survivor and disability benefits to the State’s government employees.

The Michigan State Employees’ Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting [www.michigan.gov/ors](http://www.michigan.gov/ors) or by calling the Customer Information Center at (517) 322-5103 or (800)-381-5111.

**B. Benefits Provided**

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

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

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

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

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

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

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

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

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

## Bureau of State Lottery, State of Michigan

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The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

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

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime – for the six-year period ending on the FAC calculation date – will be added to that initial FAC calculation to get the final FAC number.

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

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

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

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

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

In either case, the three years immediately preceding retirement must have been in a covered position. Employees in covered positions are responsible for the custody and supervision of inmates.

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

**Non-Duty Disability Benefit** - A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension.

## Bureau of State Lottery, State of Michigan

### Notes to Financial Statements

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The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

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

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

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

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

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

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

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

## Bureau of State Lottery, State of Michigan

### Notes to Financial Statements

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

**Post Retirement Adjustments** - One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977 and 1987. Beginning October 1, 1988, a 3% non-compounding increase, up to a maximum of \$25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8% annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3% increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987, are not eligible for the supplemental payment.

#### C. Contributions

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

**Employer Contributions** - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal years ending 2016 and 2015, the Lottery's contribution rate was 26.05% and 27.46% of the defined benefit employee wages and 22.84% and 24.19% of the defined contribution employee wages. The Lottery's contribution to SERS for the fiscal years ending September 30, 2016 and 2015 was \$2,998,747 and \$3,045,205, respectively.

#### D. Actuarial Assumptions

The Lottery's net pension liability for the year ended September 30, 2016 was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, and rolled-forward using general accepted actuarial procedures. Net pension liability for the year ended September 30, 2015 was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The total pension liability for both years was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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Wage Inflation Rate	3.5%
Projected Salary Increases	3.5 – 12.5%, including wage inflation at 3.5%
Investment Rate of Return	8%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible

Mortality rates were based on RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2015 projections scale BB. For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

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

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 and September 30, 2014, are summarized in the following tables:

**Asset Allocation**

September 30, 2015

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

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

September 30, 2014

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	4.8%
International Equity Pools	16.0	6.1
Alternative Investment Pools	18.0	8.5
Real Estate & Infrastructure Pools	10.0	5.3
Fixed Income Pools	10.5	1.5
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	<u>2.0</u>	(0.2)
	<u><u>100.0 %</u></u>	

\*Rate of Return does not include 2.5% inflation

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

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**E. Discount Rate**

A discount rate of 8.0% was used to measure the total pension liability as of September 30, 2015 and 2014. This discount rate was based on the long term expected rate of return on pension plan investments of 8.0%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Net Pension Liability**

At September 30, 2016 net pension liability was measured as of September 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net pension liability was based on the Lottery's required pension contributions received by SERS during the measurement period October 1, 2014 through September 30, 2015, relative to the total required employer contributions from all of SERS's participating employers.

At September 30, 2015 net pension liability was measured as of September 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013 and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net pension liability was based on the Lottery's required pension contributions received by SERS during the measurement period October 1, 2013 through September 30, 2014, relative to the total required employer contributions from all of SERS's participating employers.

**Net Pension Liability**

	Proportionate Share \$	Proportionate Share %	
2016	\$ 22,432,145	0.408	%
2015	20,722,586	0.403	

For the year ended September 30, 2015 assumption changes, based on the adoption of the findings of the experience study covering the period October 1, 2007 through September 30, 2012, increased the computed liabilities.

**G. Pension Liability Sensitivity**

The following presents the Lottery's proportionate share of the net pension liability calculated using the discount rate of 8% as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

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

	1% Decrease 7.0%	Current Discount 8.0%	1% Increase 9.0%
2016	\$ 28,666,546	\$ 22,432,145	\$ 17,060,228
2015	26,963,715	20,722,586	15,353,130

**H. Pension Plan Fiduciary Net Position**

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

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

The Lottery recognized pension expense of \$2,590,921 for the year ended September 30, 2016 and \$2,341,888 for the year ended September 30, 2015. The Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources	2015 Deferred Outflows of Resources	2015 Deferred Inflows of Resources
Changes in experiences	\$ 63,282	\$ -	\$ -	\$ -
Changes of assumptions	-	-	600,141	-
Changes in proportions	79,972	777	-	-
Net difference between projected and actual earnings on investments	197,767	-	-	2,430,571
Lottery's contributions subsequent to the measurement date	2,998,747	-	3,045,205	-
Total	\$ 3,339,768	\$ 777	\$ 3,645,346	\$ 2,430,571

Amounts reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017.

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

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

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<u>Year Ended</u> <u>September 30:</u>	<u>Expense</u> <u>Amount</u>
2017	\$ 38,097
2018	\$ (104,380)
2019	\$ (104,380)
2020	\$ 510,907

**Defined Contribution Plan**

The Lottery participates in the State of Michigan's defined contribution plan system. The Lottery is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Lottery are established and may be amended by the State legislature. The State legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. For the six months ended September 30, 2016 and 2015, Lottery contributions to the plan totaled \$363,981 and \$262,893 respectively. Lottery's contributions to the plan were \$658,614 for the year ended September 30, 2016 and \$588,181 for the year ended September 30, 2015, and are recorded in salaries and benefits expense.

**Postemployment Benefits**

The cost of retiree healthcare benefits is a cost allocation calculated by the State of Michigan. The State allocates the fully accrued actuarial required contribution (ARC) expense among its funds, including the Lottery, based on the funds' respective percentage of actual contributions to the plan. The State requires Lottery to contribute to the plan at a rate of covered payroll necessary to fund its share of the annual "pay as you go" contributions, which is significantly less than the ARC rate. The cumulative difference between the amounts the State requires the Lottery to contribute and Lottery's allocation of the total plan ARC expense is recorded as other postemployment benefit (OPEB) obligation on the Statement of Net Position. For the year ended September 30, 2016, the Lottery's net OPEB obligation totaled \$9,264,528.

The contributions paid to this plan for the year ended September 30, 2016 and 2015 totaled 20.63 percent and 22.76 percent of payroll, respectively. The State pays 80% of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending upon years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

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

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**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.

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
2016	\$ 26,454	\$ -	\$ 26,454	\$ -	\$ -	\$ -
2015	\$ 129,013	\$ -	\$ 102,559	\$ 26,454	\$ 26,454	\$ -

**NOTE 11 - LEASE AND RENTAL COMMITMENTS**

The total operating lease expense on long-term lease commitments for years ended September 30, 2016 and 2015 were \$210,608 and \$210,625, respectively. For the six months ended September 30, 2016 and 2015 long term lease commitments were \$105,305 and \$105,310, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of remaining minimum building lease commitments follows:

Year Ending September 30	Operating Leases
2017	\$ 187,369
2018	78,805
2019	63,600
2020	63,600
2021	42,400

The total rent and lease expenses paid for all buildings for the years ended September 30, 2016 and 2015 were \$1,180,524 and \$1,106,059, respectively.

For the six months ended September 30, 2016 and 2015 rent and lease expenses paid for all buildings were \$589,906 and \$553,028, respectively.

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

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**NOTE 12 - RISK MANAGEMENT**

The Lottery is exposed to various risks related to general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. 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 13 - TRANSACTIONS WITH OTHER STATE AGENCIES**

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. The following is a summarization of these charges for the six month periods and years ended September 30, 2016 and 2015:

September 30, 2016	Six Months Ended	Year Ended
<b>Department of Technology, Management &amp; Budget:</b>		
Information Technology:		
Direct costs	\$ 510,771	\$ 2,926,711
Lansing Metropolitan Area Network (LMAN)	31,843	42,479
Michigan.gov portal web charges	6,533	13,272
Overhead	29,871	199,309
Total Information Technology charges	579,018	3,181,771
Support services (including Internal Audit)	150,700	301,400
Space rental - Lottery Central, Detroit, Saginaw offices	482,618	965,236
Vehicle and travel services	393,407	702,549
Other - Telephone, mailing and other offices services	308,254	556,437
<b>Total Department of Technology, Management &amp; Budget</b>	<b>1,913,997</b>	<b>5,707,393</b>
<b>Gaming Control Board</b>	<b>1,462,727</b>	<b>2,597,429</b>
<b>Civil Service Commission</b>	<b>227,865</b>	<b>390,625</b>
<b>Department of Treasury</b>	<b>447,522</b>	<b>702,212</b>
<b>Attorney General</b>	<b>158,253</b>	<b>283,126</b>
<b>Other Agencies</b>	<b>20,344</b>	<b>34,258</b>
Total all State agencies	\$ 4,230,708	\$ 9,715,043
September 30, 2015	Six Months Ended	Year Ended
<b>Department of Technology, Management &amp; Budget:</b>		
Information Technology:		
Direct costs	\$ 594,849	\$ 2,966,038
Lansing Metropolitan Area Network (LMAN)	31,779	42,221
Michigan.gov portal web charges	6,402	54,130
Overhead	49,087	225,277
Total Information Technology charges	682,117	3,287,666
Support services (including Internal Audit)	174,200	348,400
Space rental - Lottery Central, Detroit, Saginaw offices	445,378	890,755
Vehicle and travel services	408,284	760,156
Other - Telephone, mailing and other offices services	382,244	607,237
<b>Total Department of Technology, Management &amp; Budget</b>	<b>2,092,223</b>	<b>5,894,214</b>
<b>Gaming Control Board</b>	<b>1,542,804</b>	<b>2,563,859</b>
<b>Civil Service Commission</b>	<b>192,957</b>	<b>385,915</b>
<b>Department of Treasury</b>	<b>422,575</b>	<b>651,953</b>
<b>Attorney General</b>	<b>126,701</b>	<b>296,251</b>
<b>Other Agencies</b>	<b>3,623</b>	<b>15,353</b>
Total all State agencies	\$ 4,380,883	\$ 9,807,545

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

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**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

The Lottery has contracted with International Game Technologies (IGT) to provide for the operation of the gaming system through January 19, 2021. 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. After this date, per an amendment, the contract was extended for an additional two years through January 19, 2017 with a new rate of 1.18% and incorporating a monthly equipment maintenance fee of \$33,333 per year for designated equipment during the extended contract term. Per an amendment effective March 1, 2016, the contract was extended for an additional four years through January 19, 2021, with the contract rate remaining at 1.18%.

The Lottery contracted with Pollard to provide the development, implementation, operational support and maintenance of an iLottery System and iLottery Games through August 2018. This contract was amended February 2014 to add a draw based games component and additional reimbursable staffing and operational expenses. In August 2015, the contract was amended further to define the timing of delivery of the draw based game component and the commission rate for the draw based games. The commission rate for instant games is 19.60% of total gross profit. January 2016 marked the launch of Lotto 47, Fantasy 5, Mega Millions, and Powerball sales on the iLottery draw based game platform. The commission rate varies between 8.25% and 9.28% of gross draw game sales.

The Lottery also contracted with Instant Win Gaming Limited (IWG) in September 2016 to provide third-party digital instant games on the iLottery instant game platform. The Lottery will pay a royalty fee to IWG of 35% of net win for the first \$1.8 million in gross sales and 3.4% of net win for gross sales over \$1.8 million.

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 15 – UPCOMING ACCOUNTING PRONOUNCEMENTS**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Lottery to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan State Employees' Retirement System. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Lottery reported \$9.3 million as its proportionate share of net OPEB liability as of September 30, 2016, but did not report the full unfunded obligation that will be required by Statement 75. The provisions of this statement are effective for the Lottery's financial statements for the six-month period ending March 31, 2018 and for the year ending September 30, 2018.

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

	2016		2015
Lottery's proportion of the net pension liability	0.408%		0.403%
Lottery's proportionate share of the net pension liability	\$ 22,432,145	\$	20,722,586
Lottery's covered-employee payroll	12,681,633		12,056,738
Lottery's proportionate share of the net pension liability as a percentage of its covered-employee payroll	177%		172%
Plan fiduciary net position as a percentage of the total pension liability	66.11%		68.07%

The amounts presented for each fiscal year were determined as of the measurement date of September 30, 2015 and September 30, 2014.

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

	2016	2015
Statutorily required contribution	\$ 2,998,747	\$ 3,045,205
Contributions in relation to the statorily required contribution	2,998,747	3,045,205
Contribution deficiency (excess)	-	-
Lottery's covered-employee payroll	12,681,633	12,056,738
Contributions as a percentage of covered-employee payroll	23.6%	25.3%

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

**Bureau of State Lottery, State of Michigan**  
**Notes to Pension Required Supplemental Information Schedules**  
**Year Ended September 30, 2016**

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

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

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

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

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

**Methods and Assumptions Used to Determine Contribution for Fiscal Year 2016**

Actuarial cost method	Entry Age, Normal
Amortization method	Level Dollar, Closed
Remaining amortization period	22 years
Asset valuation method	5-Year Smoothed Market
Inflation	2.5%
Salary Increases	3.5% wage inflation
Investment rate of return	8.00% net of investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2016**

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 185,233,116	12.2%	\$ 366,841,419	11.8%
	Daily 4	202,355,589	13.3%	415,584,131	13.4%
	Lotto 47	21,490,067	1.5%	43,116,053	1.4%
	Lotto 47 EZ Match	1,116,062	0.1%	2,263,340	0.1%
	Mega Millions	69,838,519	4.7%	118,743,920	3.8%
	Megaplier	4,960,159	0.3%	8,385,855	0.3%
	Powerball	67,530,213	4.5%	199,174,001	6.4%
	Power Play	3,436,644	0.2%	7,396,265	0.2%
	Keno	4,642,519	0.3%	9,591,661	0.3%
	Fantasy Five	29,725,868	2.0%	54,952,846	1.8%
	Fantasy Five EZ Match	2,429,216	0.2%	4,653,689	0.1%
	Raffle	398,670	0.0%	2,821,825	0.1%
	Club Keno	222,954,077	14.7%	450,505,073	14.5%
	Club Keno Kicker	81,807,132	5.3%	164,022,793	5.3%
	The Jack	5,431,408	0.4%	11,211,741	0.4%
	Poker Lotto	6,436,252	0.4%	13,612,433	0.4%
	Lucky for Life	7,868,500	0.5%	16,748,045	0.5%
	Pull-Tab tickets	15,410,466	1.0%	32,509,793	1.0%
	Instant tickets	568,826,312	37.3%	1,136,785,043	36.7%
	iLottery Instants, Net Win	30,041,426	2.0%	48,033,251	1.5%
	iLottery Sales - OGC Promotions	(251,434)	0.0%	(320,614)	0.0%
	iLottery Promos-Non Game Specific	(2,049,749)	-0.1%	(2,049,749)	-0.1%
	<b>Total lottery ticket sales</b>	<b>1,529,631,032</b>	<b>100.0%</b>	<b>3,104,582,813</b>	<b>100.0%</b>
Prize awards:	Daily 3	94,262,362	6.2%	193,251,718	6.2%
	Daily 4	97,667,676	6.4%	190,685,161	6.1%
	Lotto 47	11,842,102	0.8%	25,546,161	0.8%
	Lotto 47 EZ Match	742,761	0.0%	1,466,725	0.0%
	Mega Millions/Megaplier	37,760,387	2.5%	64,349,004	2.1%
	Powerball/Power Play	35,339,216	2.3%	99,764,391	3.2%
	Monopoly	-	0.0%	222	0.0%
	Keno	1,617,710	0.1%	3,870,408	0.1%
	Fantasy Five	15,304,614	1.0%	28,136,310	0.9%
	Fantasy Five EZ Match	1,595,123	0.1%	2,999,907	0.1%
	Raffle	200,132	0.0%	1,409,706	0.0%
	Club Keno/Kicker/Jack	205,750,706	13.5%	412,487,825	13.3%
	Players Club all games	211,500	0.0%	946,992	0.0%
	Merchandise Prizes	90,502	0.0%	92,137	0.0%
	Poker Lotto	4,002,609	0.3%	8,331,906	0.3%
	Lucky for Life	5,167,001	0.3%	11,260,311	0.4%
	Interactive	1,998	0.0%	10,000	0.0%
	Pull-Tab tickets	10,179,725	0.7%	23,254,021	0.7%
	Instant tickets	412,872,241	27.0%	816,994,099	26.3%
	<b>Total prize awards</b>	<b>934,608,365</b>	<b>62.1%</b>	<b>1,884,857,004</b>	<b>60.6%</b>
	Less: unclaimed prizes	(16,430,385)	-1.1%	(28,514,533)	-0.9%
	<b>Net prize awards</b>	<b>918,177,980</b>	<b>61.0%</b>	<b>1,856,342,471</b>	<b>59.7%</b>
Gross margin		611,453,052	40.0%	1,248,240,342	40.2%
Retailer and vendor commissions and other expenses		(142,555,518)	-9.3%	(286,025,717)	-9.2%
Game-related expense		(14,822,630)	-1.0%	(25,886,133)	-0.8%
Net ticket revenue		454,074,904	29.7%	936,328,492	30.2%
Other operating expense		(32,845,491)	-2.1%	(57,105,307)	-1.8%
Other miscellaneous revenue		1,040,555	0.1%	1,285,539	0.0%
Net lottery operating income		422,269,969	27.6%	880,508,724	28.4%

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2016**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	6,224,519	0.4%	12,268,157	0.4%
Charitable gaming expense	(4,624,905)	-0.3%	(9,268,916)	-0.3%
Net charitable gaming income	<u>1,599,614</u>	<u>0.1%</u>	<u>2,999,241</u>	<u>0.1%</u>
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (3,416,024)	-0.2%	\$ (7,481,172)	-0.2%
Amortization revenue - investment discount	3,794,459	0.2%	7,740,343	0.2%
Unrealized gain on investments	2,525,742	0.2%	5,777,943	0.2%
Loss on disposal of assets	(1)	0.0%	(5)	0.0%
Interest revenue - common cash fund	156,644	0.0%	283,210	0.0%
Bank fees	(2,561)	0.0%	(4,377)	0.0%
Disbursement to School Aid Fund	(431,157,356)	-28.2%	(888,906,596)	-28.6%
Disbursement to General Fund	(1,599,614)	-0.1%	(2,999,241)	-0.1%
Disbursement to Health & Human Services	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	<u>(430,193,711)</u>	<u>-28.1%</u>	<u>(886,579,895)</u>	<u>-28.5%</u>
Change in net position	<u>\$ (6,324,128)</u>	<u>-0.4%</u>	<u>\$ (3,071,927)</u>	<u>-0.1%</u>

Concluded

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2015**

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 171,798,544	12.5%	\$ 344,608,651	12.4%
	Daily 4	197,225,523	14.3%	398,329,508	14.4%
	Lotto 47	30,827,320	2.2%	51,202,446	1.8%
	Lotto 47 EZ Match	1,557,632	0.1%	2,715,987	0.1%
	Mega Millions	48,368,571	3.5%	113,200,553	4.1%
	Megaplier	3,333,816	0.2%	7,255,551	0.3%
	Powerball	42,133,581	3.1%	104,752,224	3.8%
	Power Play	2,171,670	0.2%	4,786,952	0.2%
	Monopoly	-	0.0%	1,775,955	0.1%
	Keno	4,817,881	0.3%	9,808,758	0.4%
	Fantasy Five	25,196,188	1.8%	50,908,170	1.8%
	Fantasy Five EZ Match	2,380,098	0.2%	5,229,478	0.2%
	Raffle	160,290	0.0%	160,290	0.0%
	Club Keno	207,682,156	15.1%	419,292,326	15.1%
	Club Keno Kicker	75,053,580	5.4%	150,438,489	5.4%
	The Jack	6,452,479	0.5%	11,240,371	0.4%
	Poker Lotto	7,389,503	0.5%	16,042,732	0.6%
	Lucky for Life	10,706,727	0.8%	15,578,962	0.6%
	Pull-Tab tickets	15,768,683	1.1%	32,869,045	1.2%
	Instant tickets	513,338,319	37.3%	1,013,203,777	36.4%
	iLottery Instants, Net Win	12,097,014	0.9%	18,528,092	0.7%
	<b>Total lottery ticket sales</b>	<b>1,378,459,575</b>	<b>100.0%</b>	<b>2,771,928,317</b>	<b>100.0%</b>
Prize awards:	Daily 3	86,120,636	6.2%	173,890,026	6.3%
	Daily 4	99,333,876	7.2%	195,753,839	7.1%
	Lotto 47	16,810,090	1.2%	28,332,559	1.0%
	Lotto 47 EZ Match	982,872	0.1%	1,713,713	0.1%
	Mega Millions/Megaplier	27,651,541	2.0%	61,297,489	2.2%
	Powerball/Power Play	22,440,852	1.6%	55,213,538	2.0%
	Monopoly	-	0.0%	2,113,200	0.1%
	Keno	2,238,047	0.2%	4,304,576	0.2%
	Fantasy Five	12,759,267	0.9%	26,364,815	1.0%
	Fantasy Five EZ Match	1,500,382	0.1%	3,301,308	0.1%
	Raffle	207,273	0.0%	207,273	0.0%
	Club Keno/Kicker/Jack	189,943,141	13.8%	380,696,527	13.7%
	Players Club all games	-	0.0%	735,492	0.0%
	Merchandise Prizes	15,338	0.0%	29,329	0.0%
	Poker Lotto	4,353,135	0.3%	9,647,916	0.3%
	Lucky for Life	5,691,107	0.4%	8,403,405	0.3%
	Pull-Tab tickets	11,282,962	0.8%	23,510,509	0.8%
	Instant tickets	366,628,427	26.7%	721,462,422	26.0%
	<b>Total prize awards</b>	<b>847,958,946</b>	<b>61.5%</b>	<b>1,696,977,936</b>	<b>61.2%</b>
	Less: unclaimed prizes	(17,184,151)	-1.2%	(31,527,234)	-1.1%
	<b>Net prize awards</b>	<b>830,774,795</b>	<b>60.3%</b>	<b>1,665,450,702</b>	<b>60.1%</b>
Gross margin		547,684,780	39.7%	1,106,477,615	39.9%
Retailer and vendor commissions and other expenses:		(123,407,459)	-8.9%	(246,217,302)	-8.8%
Game-related expense		(10,367,228)	-0.8%	(21,348,806)	-0.8%
Net ticket revenue		413,910,093	30.0%	838,911,507	30.3%
Other operating expense		(19,249,989)	-1.4%	(42,834,971)	-1.5%
Other miscellaneous revenue		670,878	0.0%	1,123,779	0.0%
<b>Net lottery operating income</b>		<b>395,330,983</b>	<b>28.7%</b>	<b>797,200,315</b>	<b>28.8%</b>

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Revenues and Expenses**  
**For the Six Months and Year Ended September 30, 2015**

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	6,295,680	0.5%	12,080,429	0.5%
Charitable gaming expense	(4,466,244)	-0.3%	(9,207,475)	-0.3%
Net charitable gaming income	<u>1,829,436</u>	<u>0.2%</u>	<u>2,872,954</u>	<u>0.2%</u>
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (3,972,515)	-0.3%	\$ (8,474,707)	-0.3%
Amortization revenue - investment discount	4,084,808	0.3%	8,391,727	0.3%
Unrealized gain on investments	(4,333,497)	-0.3%	4,535,090	0.2%
Interest revenue - common cash fund	45,408	0.0%	82,288	0.0%
Bank fees	(2,222)	0.0%	(4,613)	0.0%
Disbursement to School Aid Fund	(394,288,145)	-28.7%	(795,501,693)	-28.8%
Disbursement to General Fund	(1,829,436)	-0.1%	(2,872,954)	-0.1%
Disbursement to Health & Human Services	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	<u>(400,790,599)</u>	<u>-29.1%</u>	<u>(794,834,862)</u>	<u>-28.7%</u>
Change in net position	<u>\$ (3,630,180)</u>	<u>-0.3%</u>	<u>\$ 5,238,407</u>	<u>0.3%</u>

Concluded

**Bureau of State Lottery, State of Michigan**  
**Supplementary Schedule of Other Operating Expenses**  
**For the Six Months and Years Ended September 30, 2016 and 2015**

	Six Months Ended		Years Ended	
	2016	2015	2016	2015
Salaries and wages	<b>\$ 5,986,234</b>	5,468,303	<b>\$ 12,485,265</b>	11,616,544
Employee benefits and taxes	<b>15,234,163</b>	4,728,538	<b>19,260,728</b>	10,100,411
Promotion and advertising	<b>10,561,025</b>	8,092,559	<b>22,011,543</b>	17,630,639
Printing and supplies, including purchase of charitable gaming tickets	<b>808,727</b>	763,314	<b>1,543,296</b>	1,555,776
Other contractual services	<b>3,286,458</b>	3,320,259	<b>7,881,771</b>	8,016,587
Building rent and leases	<b>590,879</b>	553,028	<b>1,181,497</b>	1,106,059
Travel	<b>376,220</b>	413,913	<b>794,298</b>	870,216
Utilities	<b>152,653</b>	172,527	<b>333,193</b>	349,484
Postage	<b>103,340</b>	152,248	<b>223,460</b>	283,361
Equipment maintenance and rental	<b>32,348</b>	(185,510)	<b>97,736</b>	82,925
Bad debt expense	<b>130,482</b>	78,961	<b>149,393</b>	171,907
Interest paid on security deposits	<b>945</b>	706	<b>1,494</b>	1,989
Total	<b>\$ 37,263,474</b>	<b>\$ 23,558,846</b>	<b>\$ 65,963,674</b>	<b>\$ 51,785,898</b>





# 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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**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2016.





**Bureau of State Lottery, State of Michigan**  
**Financial Trends**  
**Net Position**  
**Fiscal Years Ending September 30, 2007 through September 30, 2016**  
**(In Millions)**

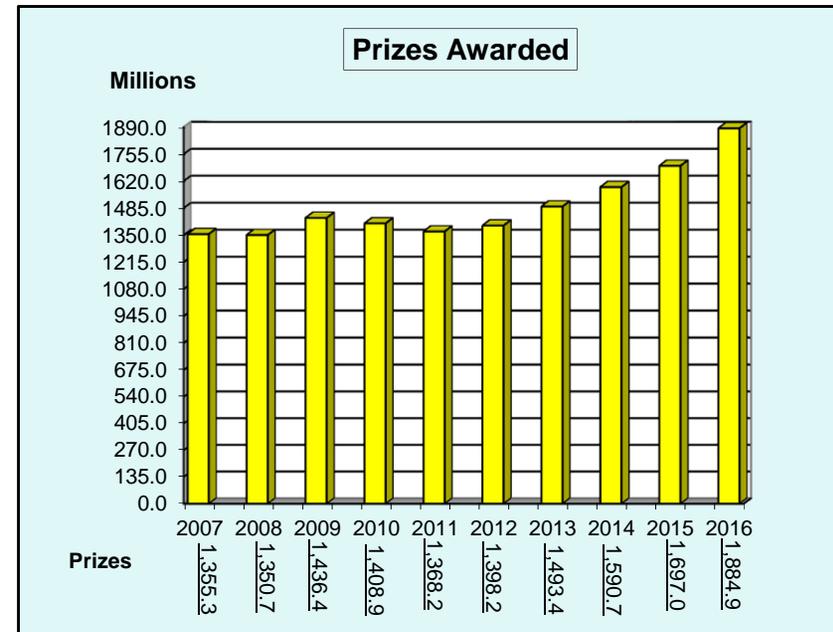
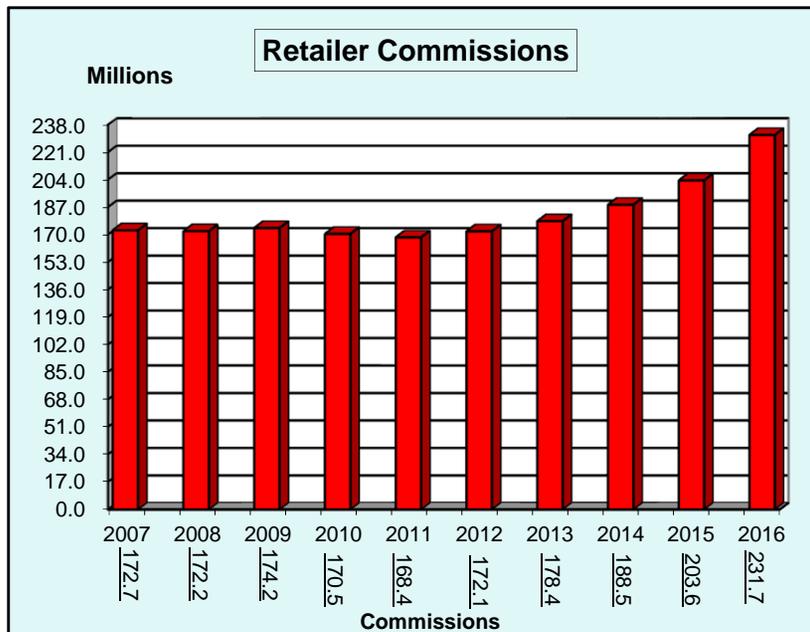
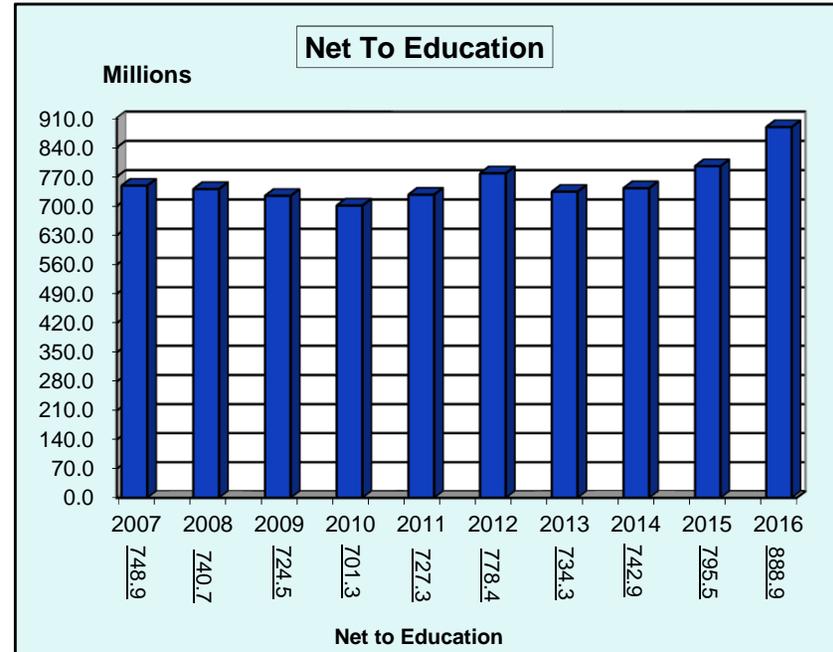
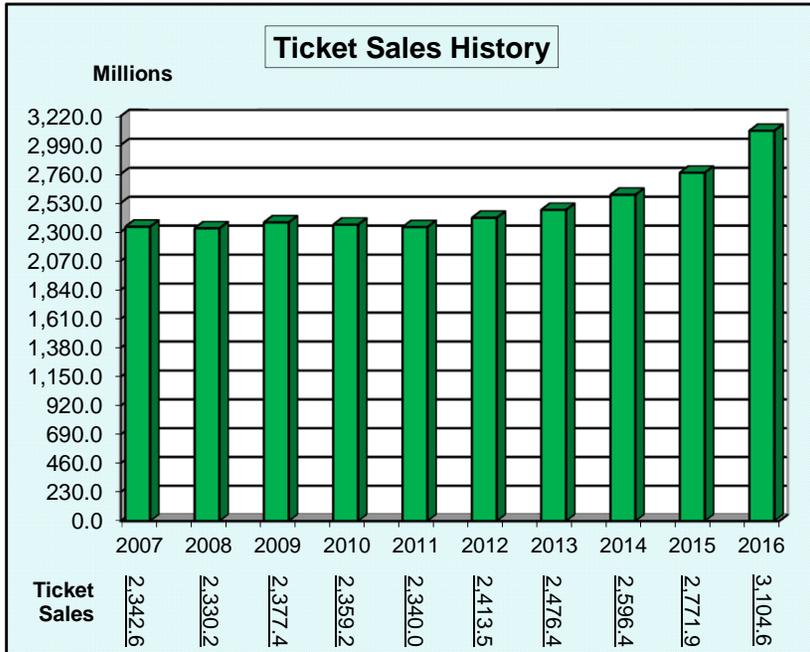
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Net position</b>										
Net investment in capital assets	\$ 0.3	\$ 0.8	\$ 0.7	\$ 0.6	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.6	\$ 1.5	\$ 1.2
Restricted for School Aid Fund	31.9	36.8	7.6	14.3	30.5	35.0	17.9	26.8	11.8	8.7
Unrestricted (deficit)	<u>(0.3)</u>	<u>(0.8)</u>	<u>(0.7)</u>	<u>(0.6)</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.8)</u>	<u>(0.6)</u>	<u>(1.5)</u>	<u>(1.2)</u>
<b>Total net position</b>	<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>	<u>\$ 26.8</u>	<u>\$ 11.8</u>	<u>\$ 8.7</u>



**Bureau of State Lottery, State of Michigan**  
**Financial Trends**  
**Changes in Net Position**  
**Fiscal Years Ending September 30, 2007 through September 30, 2016**  
**(In Millions)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Operating revenues</b>										
Ticket sales	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9	\$ 2,413.4	\$ 2,476.4	\$ 2,596.4	\$ 2,771.9	\$ 3,104.5
Charitable gaming and other	20.4	20.9	21.5	20.7	17.5	16.8	14.7	12.5	13.2	13.6
Total operating revenues	<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>	<u>2,608.9</u>	<u>2,785.1</u>	<u>3,118.1</u>
<b>Operating expenses</b>										
Prize awards	1,355.3	1,350.7	1,436.3	1,408.9	1,368.2	1,398.2	1,493.5	1,590.7	1,697.0	1,884.8
Less - unclaimed prizes	<u>(26.2)</u>	<u>(27.4)</u>	<u>(28.7)</u>	<u>(27.3)</u>	<u>(23.9)</u>	<u>(28.4)</u>	<u>(31.9)</u>	<u>(30.8)</u>	<u>(31.5)</u>	<u>(28.5)</u>
Net prize awards	1,329.1	1,323.3	1,407.6	1,381.6	1,344.3	1,369.8	1,461.6	1,559.9	1,665.5	1,856.3
Retailer commissions	172.7	172.1	174.2	170.5	168.4	172.1	178.5	188.5	203.6	231.7
Game related expenses	63.0	63.4	53.8	53.0	53.9	53.3	57.6	61.3	63.9	80.2
Other operating expenses	45.3	47.0	56.7	56.6	49.4	45.9	50.4	51.9	52.0	66.4
Total operating expenses	<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>	<u>1,861.6</u>	<u>1,985.0</u>	<u>2,234.6</u>
Operating income	<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>	<u>747.3</u>	<u>800.1</u>	<u>883.5</u>
<b>Non-operating revenues</b>										
Investment revenue	22.2	26.9	18.7	17.0	27.7	15.5	(7.2)	18.0	12.9	13.5
Interest on equity in State Treasurer's Common Cash Fund	5.2	3.1	1.1	0.3	0.2	0.1	0.1	0.1	0.1	0.3
Revenue from security lending	20.9	13.0	-	-	-	-	-	-	-	-
Total non-operating revenues	<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>	<u>18.1</u>	<u>13.0</u>	<u>13.8</u>
<b>Non-operating expenses</b>										
Security lending expenses	(19.8)	(10.3)	-	-	-	-	-	-	-	-
Amortization of prize obligation discount	<u>(24.9)</u>	<u>(20.7)</u>	<u>(18.4)</u>	<u>(15.2)</u>	<u>(15.5)</u>	<u>(13.3)</u>	<u>(13.2)</u>	<u>(9.7)</u>	<u>(8.5)</u>	<u>(7.5)</u>
Non-operating expenses before disbursements	<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>	<u>(9.7)</u>	<u>(8.5)</u>	<u>(7.5)</u>
School Aid Fund disbursement	(748.9)	(740.7)	(724.5)	(701.3)	(727.3)	(778.4)	(734.3)	(742.8)	(795.5)	(888.9)
School Aid Fund disbursement-Club Keno Advertising	-	-	-	-	-	-	-	(0.1)	-	-
General Fund disbursement	(10.8)	(10.6)	(11.8)	(11.3)	(9.3)	(7.5)	(4.5)	(2.9)	(2.9)	(3.0)
Health and Human Services disbursement	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total disbursements	<u>(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>	<u>(746.8)</u>	<u>(799.4)</u>	<u>(892.9)</u>
Total non-operating expenses	<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>	<u>(756.5)</u>	<u>(807.9)</u>	<u>(900.4)</u>
Net non-operating revenue (expense)	<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>	<u>(738.4)</u>	<u>(794.9)</u>	<u>(886.6)</u>
<b>Change in net position</b>	<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>	<u>\$ 8.9</u>	<u>\$ 5.2</u>	<u>\$ (3.1)</u>

**Bureau of State Lottery, State of Michigan  
Financial Trends 2007 through 2016**



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, 2007 through September 30, 2016**  
**(In Millions)**

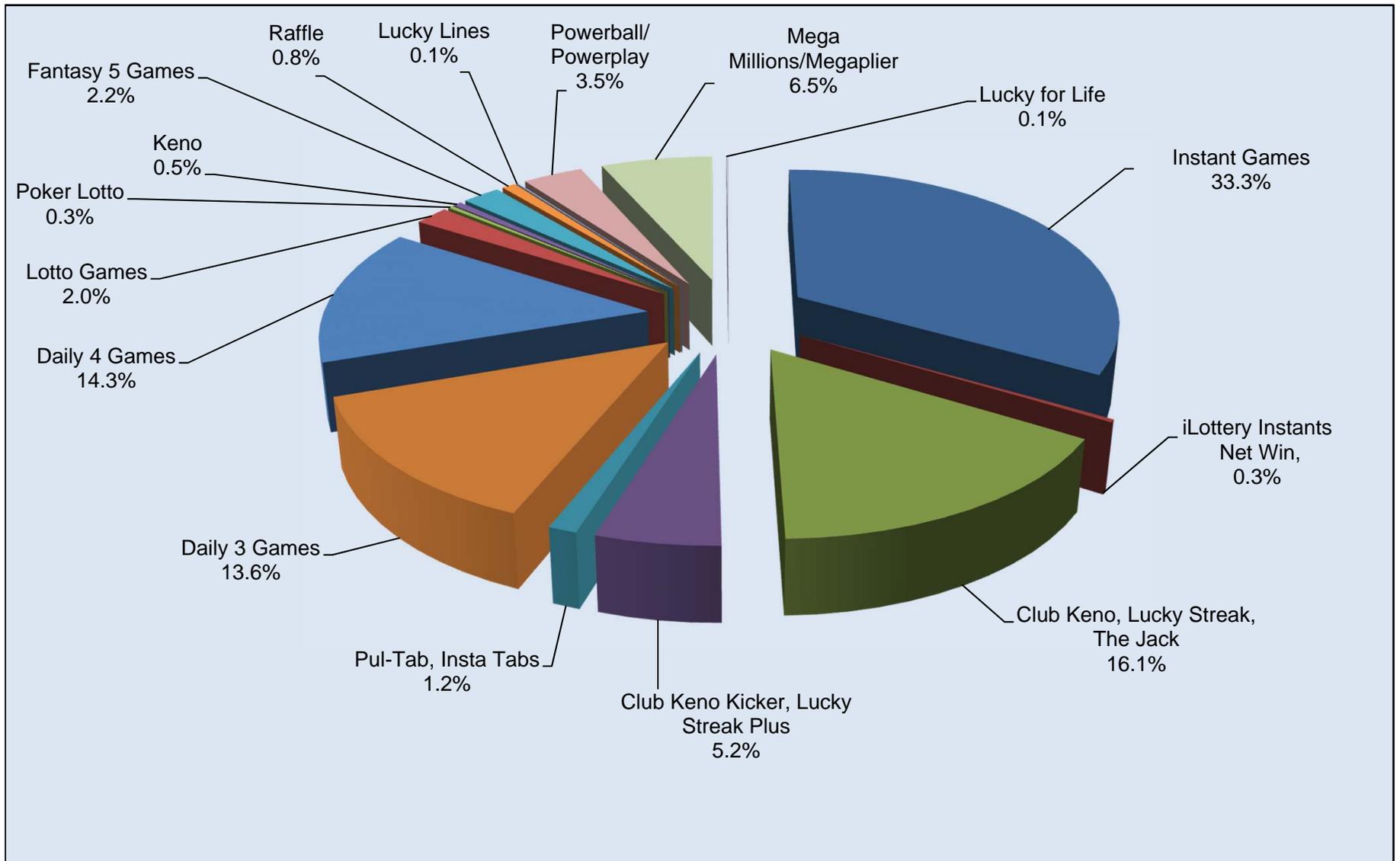
<b>TICKET SALES</b>	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Instant Games</b>										
Instant Tickets	\$ 717.8	\$ 734.2	\$ 749.1	\$ 750.8	\$ 739.2	\$ 771.7	\$ 827.0	\$ 913.1	\$ 1,013.2	\$ 1,136.8
<b>iLottery Games</b>										
iLottery Instants, Net Win								0.6	18.5	48.0
iLottery Online Game Card Promos										(0.3)
iLottery Non-Game Specific Promos										(2.0)
<b>Club Games</b>										
Club Keno, Lucky Streak, The Jack	380.9	402.5	396.5	374.9	376.9	397.8	399.6	410.4	430.5	461.7
Club Keno Kicker, Lucky Streak Plus	110.3	124.0	123.5	115.6	124.1	128.2	134.5	140.7	150.4	164.0
Pull Tab, Insta Tabs	38.5	37.4	28.0	29.1	26.9	27.3	31.7	32.4	32.9	32.5
Total Club Games	529.7	563.9	548.0	519.6	527.9	553.3	565.8	583.5	613.8	658.2
<b>Draw Games</b>										
Daily 3, Double 3	369.1	347.2	351.0	344.2	327.4	323.5	321.1	327.0	344.6	366.9
Daily 4, Double 4	335.1	325.2	335.9	359.0	358.2	357.6	351.1	366.3	398.3	415.6
Winfall, Lotto 47, Lotto 47 EZ Match	53.1	64.1	64.2	43.8	44.1	48.3	52.4	45.9	53.9	45.4
Poker Lotto								39.1	16.1	13.6
Lucky for Life									15.6	16.7
Monopoly									1.8	-
Keno	14.0	13.9	14.0	13.0	12.5	12.4	11.4	10.3	9.8	9.5
Fantasy 5, Fantasy 5 EZ Match	49.4	51.3	51.3	56.1	53.7	51.9	53.2	60.1	56.1	59.6
Raffle	56.3	45.5	41.3	19.0	15.1	6.8	6.0	5.8	0.2	2.8
Lucky Lines				15.7	8.1	1.6	-	-	-	-
Powerball/Powerplay				64.5	85.9	119.5	186.8	104.0	109.5	206.6
Mega Millions/Megaplier	218.1	184.8	222.7	173.5	167.8	166.8	101.6	140.7	120.5	127.1
Total Draw Games	1,095.1	1,032.0	1,080.4	1,088.8	1,072.8	1,088.4	1,083.6	1,099.2	1,126.4	1,263.8
<b>TOTAL TICKET SALES</b>	<b>\$ 2,342.6</b>	<b>\$ 2,330.1</b>	<b>\$ 2,377.5</b>	<b>\$ 2,359.2</b>	<b>\$ 2,339.9</b>	<b>\$ 2,413.4</b>	<b>\$ 2,476.4</b>	<b>\$ 2,596.4</b>	<b>\$ 2,771.9</b>	<b>\$ 3,104.5</b>

**PRICE PER TICKET:**

Instant Games	Range from \$1 to \$30	Draw Games: Daily 3	\$ .50 and \$1
iLottery Instants	Range from \$.05 to \$20	Raffle	Range from \$5 to \$50
Club Games: Club Keno, Kicker, Lucky Streak,	\$1	Powerball	\$2
Lucky Streak Plus, The Jack	\$1	Poker Lotto & Lucky for Life	\$2
Pull Tab, Insta 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 76 for statistics.

**Bureau of State Lottery, State of Michigan  
Revenue Capacity  
Ticket Sales 2007 through 2016**



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, 2007 through September 30, 2016**  
**(In Millions)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b><u>INSTALLMENT PRIZE AWARDS LIABILITY</u></b>										
Current - at face amount	\$ 75.9	\$ 68.8	\$ 59.5	\$ 53.1	\$ 49.8	\$ 40.9	\$ 34.6	\$ 29.7	\$ 23.9	\$ 17.0
Long-term - at face amount	<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>	<u>280.4</u>	<u>267.4</u>	<u>255.1</u>
Total installment prize awards	<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>\$ 310.1</u>	<u>\$ 291.3</u>	<u>\$ 272.1</u>
<b><u>INVESTMENTS</u></b>										
Face amount	<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>	<u>\$ 298.8</u>	<u>\$ 270.9</u>	<u>\$ 256.3</u>
Installment prize awards payable as a percentage of investments:	100.18%	100.73%	108.08%	111.65%	105.29%	107.66%	107.10%	103.78%	107.53%	106.16%

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



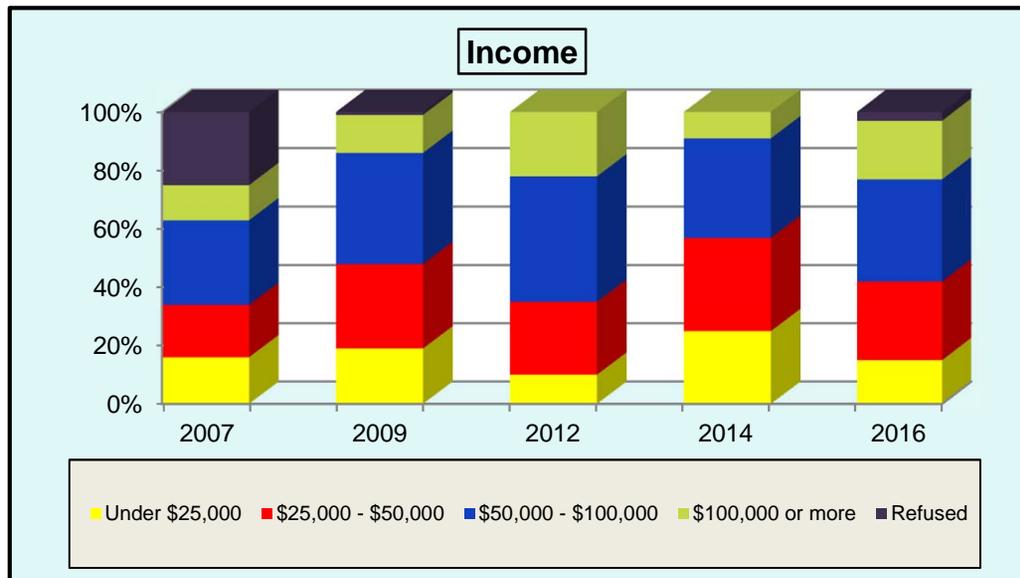
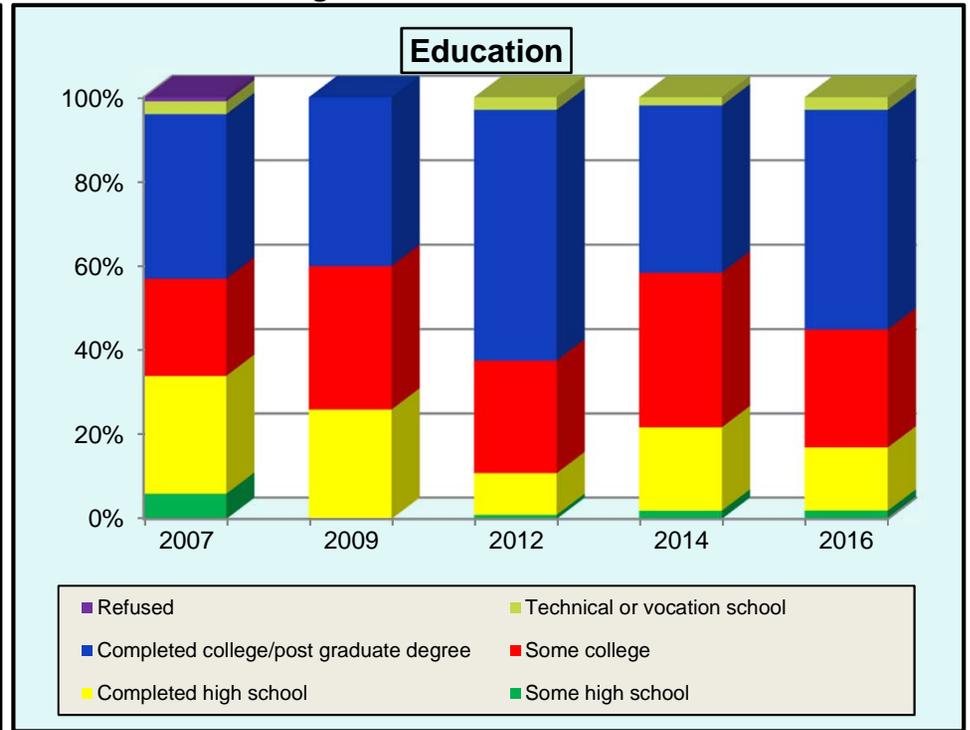
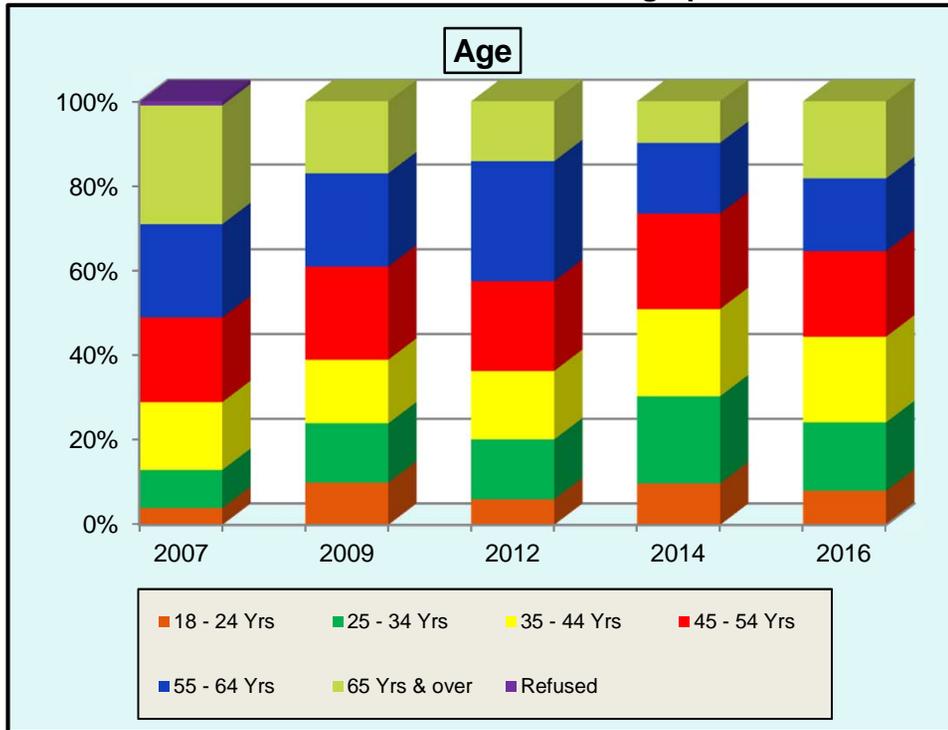
**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information  
Demographic General Tracking Study  
Fiscal Years Ending September 30, 2007 through September 30, 2016**

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

	2007	2009	2012	2014	2016
<b>Gender</b>					
Male	50%	49%	41%	48%	48%
Female	50%	51%	59%	52%	52%
<b>Education</b>					
Some high school	6%		1%	2%	2%
Completed high school	28%	26%	10%	20%	15%
Some college	23%	34%	27%	37%	28%
Completed college/post graduate degree	39%	40%	60%	40%	52%
Technical or vocation school	3%		3%	2%	3%
Refused	1%				
<b>Age</b>					
18 - 24 Yrs	4%	10%	6%	10%	8%
25 - 34 Yrs	9%	14%	14%	21%	16%
35 - 44 Yrs	16%	15%	16%	21%	20%
45 - 54 Yrs	20%	22%	21%	23%	20%
55 - 64 Yrs	22%	22%	28%	17%	17%
65 Yrs & over	28%	17%	14%	10%	18%
Refused	1%				
<b>Income</b>					
Under \$25,000	16%	19%	10%	25%	15%
\$25,000 - \$50,000	18%	29%	25%	32%	27%
\$50,000 - \$100,000	29%	38%	43%	34%	35%
\$100,000 or more	12%	13%	22%	9%	20%
Refused	25%	1%			3%
<b>Ethnicity</b>					
White	80%	85%	83%	81%	80%
Black/African-American/Caribbean-American	10%	11%	11%	13%	15%
Hispanic/Latino	1%	1%	3%	3%	4%
Asian/Pacific Islander				2%	1%
Other	1%	3%	3%	1%	0%
Refused	8%				

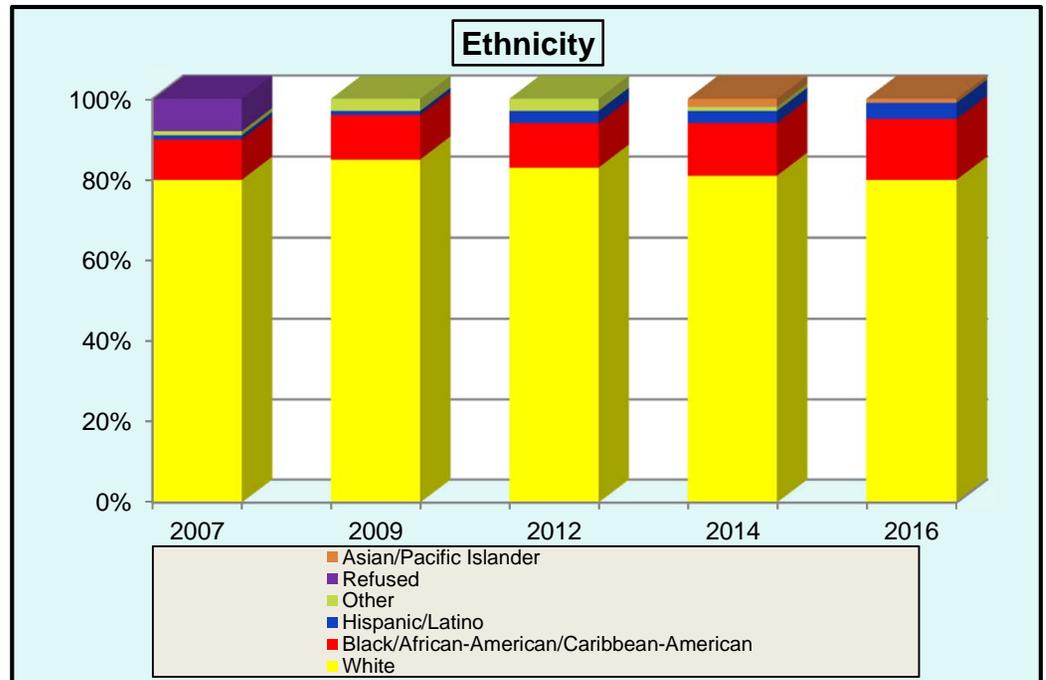
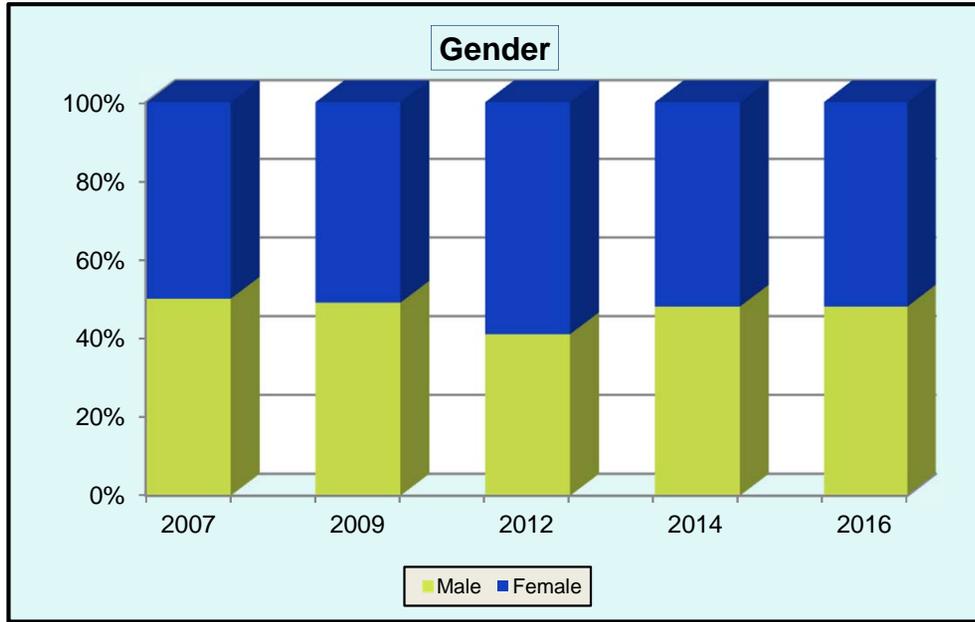
Source: Bureau of State Lottery  
General Tracking Study

**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information 2007 though 2016**



Source: Bureau of State Lottery  
General Tracking Study

**Bureau of State Lottery, State of Michigan  
Demographic and Economic Information 2007 through 2016**



Source: Bureau of State Lottery  
General Tracking Study



**Bureau of State Lottery, State of Michigan  
Demographic and Economic Indicators  
Fiscal Years Ending September 30, 2006 through September 30, 2015  
(In Thousands)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Population (a)</b>										
Michigan	10,102	10,072	10,002	9,970	9,877	9,876	9,883	9,896	9,909	9,923
United States	298,755	301,621	304,375	307,007	309,349	311,592	313,914	316,129	318,857	321,419
<b>Total Personal Income (b)</b>										
Michigan	\$ 332.7	\$ 345.9	\$ 349.6	\$ 342.3	\$ 342.7	\$ 358.2	\$ 378.4	\$ 386.5	\$ 403.7	\$ 424.8
United States	\$ 10,977.3	\$ 11,631.6	\$ 12,225.6	\$ 12,165.5	\$ 12,357.1	\$ 12,949.9	\$ 13,729.1	\$ 14,151.4	\$ 14,683.1	\$ 15,464.0
<b>Per Capita Income (b)</b>										
Michigan	\$ 32,928	\$ 34,342	\$ 34,949	\$ 34,334	\$ 34,691	\$ 36,264	\$ 38,291	\$ 39,055	\$ 40,740	\$ 42,812
United States	\$ 36,744	\$ 38,564	\$ 40,208	\$ 39,626	\$ 39,945	\$ 41,560	\$ 43,735	\$ 44,765	\$ 46,049	\$ 48,112
<b>Unemployment Rate (c)</b>										
Michigan	6.9%	7.2%	8.4%	15.3%	13.0%	9.3%	9.0%	7.2%	5.0%	4.6%
United States	4.6%	4.6%	5.8%	9.8%	9.6%	7.8%	7.2%	5.9%	5.1%	5.0%
<b>Michigan estimated wage and salary employees (c)</b>										
<b>Goods Producing:</b>										
Natural Resources and Mining	8.0	7.6	7.8	7.2	7.3	7.3	7.8	7.9	8.3	7.2
Construction	178.0	166.2	153.7	132.3	113.3	123.4	124.6	127.2	139.0	144.9
Manufacturing	650.8	616.8	575.3	463.8	464.1	510.8	546.5	566.3	588.5	595.9
<b>Total Goods Producing</b>	<b>836.9</b>	<b>790.5</b>	<b>736.8</b>	<b>603.3</b>	<b>584.7</b>	<b>641.5</b>	<b>678.9</b>	<b>701.4</b>	<b>735.8</b>	<b>748.0</b>
<b>Service-Providing:</b>										
<b>Private Service-Providing</b>										
<b>Trade, Transportation, and Utilities:</b>										
Wholesale Trade	170.6	169.1	166.7	150.2	152.3	158.0	159	163.8	169.7	173.5
Retail Trade	496.0	489.7	478.4	449.0	446.6	446.2	448.9	474.1	476.6	479.5
Transportation and Utilities	128.4	129.1	124.2	113.2	108.8	121.5	123.2	130.3	132.0	137.8
Information	66.1	65.6	61.8	54.3	52.5	54.6	52.1	56.2	57.0	56.8
<b>Financial Activities:</b>										
Finance and Insurance	160.9	157.8	152.3	139.8	135.2	144.5	148.5	151.6	154.1	158.9
Real Estate and Rental and Leasing	54.9	53.6	52.1	49.2	45.5	50.4	47.8	49.1	51.9	52.1
<b>Professional and Business Services:</b>										
Professional, Scientific, and Technical Services	244.9	244.2	240.1	215.6	214.8	235.0	250	264.6	272.8	292.1
Management of Companies and Enterprises	61.7	57.3	54.4	50.9	50.8	53.5	54.1	59	58.3	59.7
Administrative, Support Services, and Waste Management	275.1	271.8	262.5	239.8	248.3	271.4	271.9	281.7	302.6	294.8
<b>Educational and Health Services:</b>										
Educational Services	76.1	78.0	80.3	78.4	80.3	77.1	72.2	76.2	80.1	79.1
Health Care and Social Assistance	507.2	517.0	528.1	530.5	535.0	548.7	559.4	564.2	574.5	585.2
<b>Leisure and Hospitality:</b>										
Accommodation and Food Services	343.8	341.8	335.5	328.0	322.0	328.2	344.3	349.8	351.4	362.4
Other	61.8	62.7	62.6	65.5	51.8	46.9	42.5	36.8	40.4	40.5
<b>Other Services</b>	<b>177.5</b>	<b>176.7</b>	<b>175.6</b>	<b>168.2</b>	<b>164.4</b>	<b>170.4</b>	<b>169.4</b>	<b>171.2</b>	<b>171.0</b>	<b>171</b>
<b>Total Private Service-Providing</b>	<b>2,824.9</b>	<b>2,814.3</b>	<b>2,774.5</b>	<b>2,632.6</b>	<b>2,608.3</b>	<b>2,706.4</b>	<b>2,743.3</b>	<b>2,828.6</b>	<b>2,892.4</b>	<b>2,943.4</b>
<b>Government:</b>	<b>665.3</b>	<b>657.2</b>	<b>647.9</b>	<b>643.8</b>	<b>629.8</b>	<b>612.5</b>	<b>606.7</b>	<b>614.3</b>	<b>609.3</b>	<b>612.4</b>
<b>Total Service-Providing</b>	<b>3,490.3</b>	<b>3,471.4</b>	<b>3,422.4</b>	<b>3,276.4</b>	<b>3,238.1</b>	<b>3,318.9</b>	<b>3,350.0</b>	<b>3,442.9</b>	<b>3,501.7</b>	<b>3,555.8</b>
<b>Total Wage and Salary Employment</b>	<b>4,327.1</b>	<b>4,262.0</b>	<b>4,159.2</b>	<b>3,879.7</b>	<b>3,822.8</b>	<b>3,960.4</b>	<b>4,028.9</b>	<b>4,144.3</b>	<b>4,237.5</b>	<b>4,303.8</b>

NOTES: Calendar year 2015 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, 2007 through September 30, 2016**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Number of Employees</b>	162	168	171	181	174	177	178	174	174	175
<b>Number of Retailers</b>										
Instant only	680	575	-	-	-	-	-	-	-	-
Club Games	2,371	2,474	2,478	-	-	-	-	-	-	-
Online	7,922	7,920	8,202	-	-	-	-	-	-	-
*All Games	-	-	-	10,797	10,746	10,879	10,848	10,684	10,654	10,650
<b>Total Retailers</b>	<b>10,973</b>	<b>10,969</b>	<b>10,680</b>	<b>10,797</b>	<b>10,746</b>	<b>10,879</b>	<b>10,848</b>	<b>10,684</b>	<b>10,654</b>	<b>10,650</b>
<b>Prize Payout Percentage</b>	57.85%	57.97%	60.42%	59.72%	58.47%	57.93%	60.31%	61.27%	61.22%	60.71%
<b>Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund</b>	31.97%	31.79%	30.47%	29.73%	31.08%	32.25%	29.65%	28.61%	28.70%	28.63%
<b>Number of Millionaire Prize Winners</b>	42	37	40	39	28	31	36	39	42	46
<b>Number of Prize Winners Greater than \$600</b>	49,585	44,962	53,986	60,543	48,567	44,904	52,365	56,735	68,359	74,352

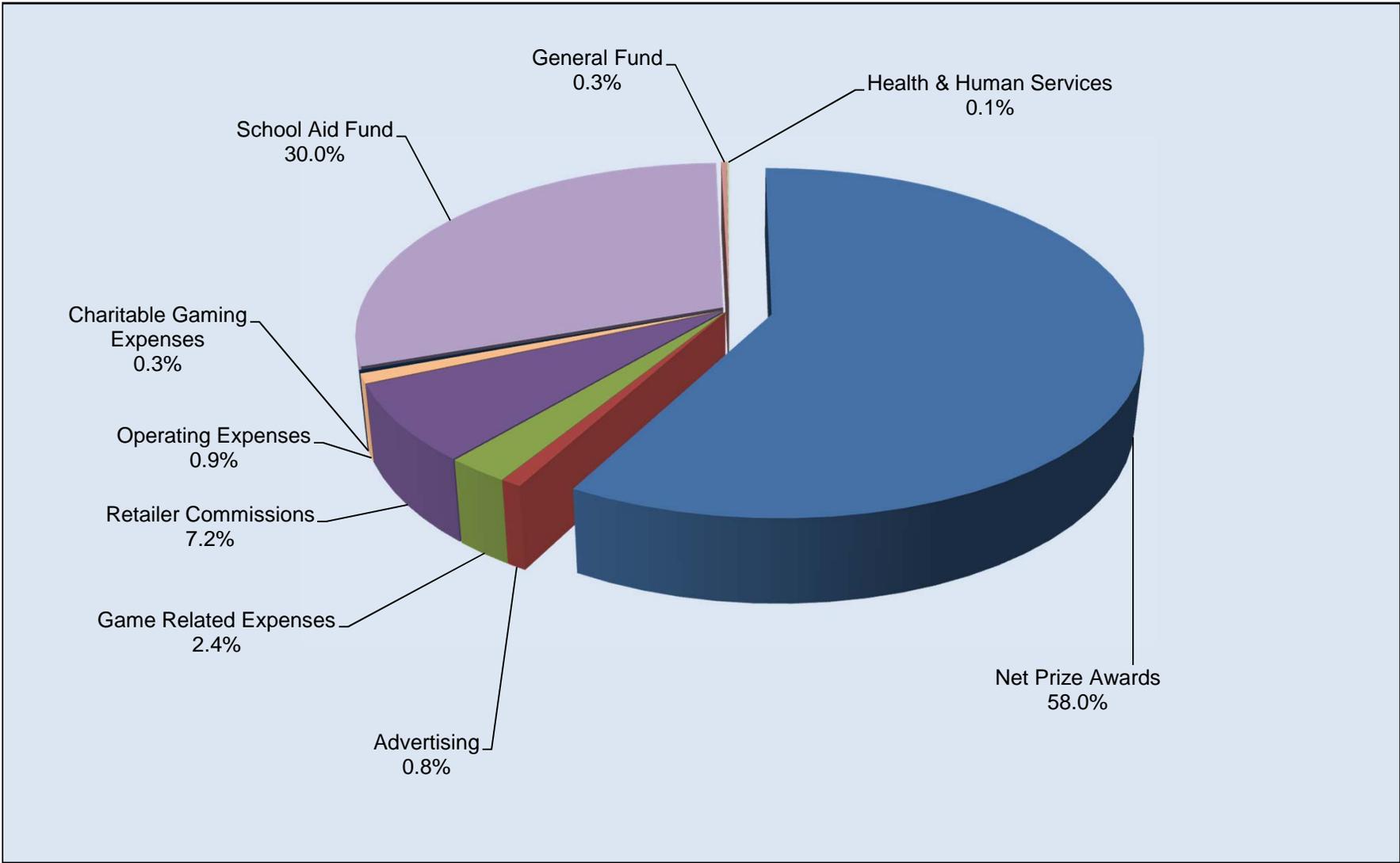
\*Beginning in FY2010, retailers do not have a distinction by game type



**Bureau of State Lottery, State of Michigan**  
**Operating Information**  
**Expenses & Disbursements to the State's School Aid Fund, General Fund, and Health & Human Services**  
**Fiscal Years Ending September 30, 2007 through September 30, 2016**  
**(In Millions)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>EXPENSES</b>										
Prize Awards	\$ 1,355.3	\$ 1,350.7	\$ 1,436.3	\$ 1,408.9	\$ 1,368.2	\$ 1,398.2	\$ 1,493.5	\$ 1,590.7	\$ 1,697.0	\$ 1,884.8
Unclaimed Prizes	(26.2)	(27.4)	(28.7)	(27.3)	(23.9)	(28.4)	(31.9)	(30.8)	(31.5)	(28.5)
Net Prize Awards	1,329.1	1,323.3	1,407.6	1,381.6	1,344.3	1,369.8	1,461.6	1,559.9	1,665.5	1,856.3
Promotion and Advertising	17.5	17.6	27.0	29.0	22.6	16.7	17.6	17.6	17.6	22.0
Game Related Expenses	63.0	63.4	53.8	53.0	53.9	53.3	57.6	61.3	63.9	80.2
Retailer Commissions	172.7	172.1	174.2	170.5	168.4	172.1	178.5	188.5	203.6	231.7
Operating Expenses	19.6	21.1	20.8	20.2	20.1	22.2	23.9	25.4	25.2	35.1
Charitable Gaming Expenses	8.2	8.3	8.9	7.4	6.7	7.0	8.9	8.9	9.2	9.3
<b>TOTAL EXPENSES</b>	<b>\$ 1,610.1</b>	<b>\$ 1,605.8</b>	<b>\$ 1,692.3</b>	<b>\$ 1,661.7</b>	<b>\$ 1,616.0</b>	<b>\$ 1,641.1</b>	<b>\$ 1,748.1</b>	<b>\$ 1,861.6</b>	<b>\$ 1,985.0</b>	<b>\$ 2,234.6</b>
<b>DISBURSEMENTS TO THE STATE</b>										
School Aid Fund	748.9	740.7	724.5	701.3	727.3	778.4	734.3	742.8	795.5	888.9
School Aid Fund-Club Keno Adv	-	-	-	-	-	-	-	0.1	-	-
General Fund	10.8	10.6	11.8	11.3	9.3	7.5	4.5	2.9	2.9	3.0
Health & Human Services	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 760.7</b>	<b>\$ 752.3</b>	<b>\$ 737.3</b>	<b>\$ 713.6</b>	<b>\$ 737.6</b>	<b>\$ 786.9</b>	<b>\$ 739.8</b>	<b>\$ 746.8</b>	<b>\$ 799.4</b>	<b>\$ 892.9</b>

**Bureau of State Lottery, State of Michigan  
Operating Information  
Expenses and Disbursements 2007 through 2016**



Source: Bureau of State Lottery, State of Michigan

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

**Fiscal Year 2015 U.S. Lottery Sales, Prizes & Government Transfers Measured by GDP\***

Lottery	2015 Pop <sup>1</sup> (Mil)	(in \$millions)							PC Sales	PC Gov't	Ticket Sales as % of GDP	Gov't Transfers as % of GDP
		2014 Gross Domestic Product <sup>2</sup>	Traditional Ticket Sales <sup>3</sup>	VLT (net) <sup>2</sup>	Gaming (net)	Prizes <sup>4</sup>	Gov't Transfers <sup>5</sup>					
Arizona	6.8	260,799	750.00			486.60	176.00	\$110	\$26	0.288%	0.067%	
Arkansas	3.0	110,746	408.70			280.50	72.80	\$137	\$24	0.369%	0.066%	
California	39.1	2,113,280	5,524.90			3,501.70	1,364.50	\$141	\$35	0.261%	0.065%	
Colorado	5.5	279,650	538.00			331.50	128.00	\$99	\$23	0.192%	0.046%	
Connecticut	3.6	232,620	1,144.00			707.70	324.40	\$319	\$90	0.492%	0.139%	
Delaware <sup>4,5</sup>	0.9	56,652	149.80	357.50	51.50	109.00	244.00	\$159	\$258	0.264%	0.431%	
D.C.	0.7	105,018	212.50			115.30	55.60	\$316	\$83	0.202%	0.053%	
Florida	20.3	769,662	5,583.30			3,627.90	1,496.40	\$275	\$74	0.725%	0.194%	
Georgia	10.2	435,511	3,903.50			2,528.90	980.50	\$382	\$96	0.896%	0.225%	
Idaho	1.7	57,591	210.20			136.80	45.10	\$127	\$27	0.365%	0.078%	
Illinois <sup>6</sup>	12.9	680,448	2,837.80			1,823.60	743.90	\$221	\$58	0.417%	0.109%	
Indiana	6.6	289,346	1,040.70			671.00	242.70	\$157	\$37	0.360%	0.084%	
Iowa	3.1	152,482	324.80			196.90	74.50	\$104	\$24	0.213%	0.049%	
Kansas	2.9	132,904	250.00		365.00	144.90	162.20	\$86	\$56	0.188%	0.122%	
Kentucky	4.4	171,850	886.90			556.30	236.10	\$200	\$53	0.516%	0.137%	
Louisiana	4.7	215,968	452.50			219.20	184.80	\$97	\$40	0.210%	0.086%	
Maine	1.3	50,979	253.10			165.20	54.70	\$190	\$41	0.496%	0.107%	
Maryland <sup>4,5</sup>	6.0	321,288	1,760.90	681.80	356.40	1,051.50	1,026.20	\$293	\$171	0.548%	0.319%	
Massachusetts	6.8	424,991	5,005.70			3,641.30	985.90	\$737	\$145	1.178%	0.232%	
<b>Michigan</b>	<b>9.9</b>	<b>417,306</b>	<b>2,771.90</b>			<b>1,665.50</b>	<b>799.40</b>	<b>\$279</b>	<b>\$81</b>	<b>0.664%</b>	<b>0.192%</b>	
Minnesota	5.5	288,145	546.90			335.20	135.50	\$100	\$25	0.190%	0.047%	
Missouri	6.1	259,847	1,127.40			755.40	271.30	\$185	\$45	0.434%	0.104%	
Montana <sup>6</sup>	1.0	39,448	52.30			29.30	12.40	\$51	\$12	0.133%	0.031%	
Nebraska	1.9	99,200	160.00			94.70	37.10	\$84	\$20	0.161%	0.037%	
New Hampshire	1.3	66,276	281.10			176.40	74.30	\$211	\$56	0.424%	0.112%	
New Jersey	9.0	504,159	3,027.30			1,825.20	960.00	\$338	\$107	0.600%	0.190%	
New Mexico	2.1	83,592	137.00			75.60	41.10	\$66	\$20	0.164%	0.049%	
New York <sup>4,5</sup>	19.8	1,279,921	7,251.00	1,905.30		4,396.90	3,110.60	\$366	\$157	0.567%	0.243%	
North Carolina	10.0	440,333	1,972.20			1,231.20	527.40	\$196	\$53	0.448%	0.120%	
North Dakota <sup>6</sup>	0.8	48,233	27.00			14.00	6.70	\$36	\$9	0.056%	0.014%	
Ohio <sup>4,5</sup>	11.6	532,018	3,665.00	437.60		1,875.30	1,095.00	\$316	\$94	0.689%	0.206%	
Oklahoma	3.9	162,377	171.60			87.80	60.90	\$44	\$16	0.106%	0.037%	
Oregon <sup>4,5</sup>	4.0	203,788	318.30	798.60		211.40	547.80	\$79	\$136	0.156%	0.269%	
Pennsylvania	12.8	609,141	3,819.60			2,411.70	1,060.90	\$298	\$83	0.627%	0.174%	
Rhode Island <sup>4,5</sup>	1.1	50,544	243.10	516.30	106.60	147.40	381.90	\$230	\$362	0.481%	0.756%	
South Carolina	4.9	174,573	1,401.70			924.10	343.50	\$286	\$70	0.803%	0.197%	
South Dakota <sup>4,5</sup>	0.9	39,833	51.20	199.10		29.70	112.10	\$60	\$131	0.128%	0.281%	
Tennessee	6.6	275,826	1,368.50			881.10	347.80	\$207	\$53	0.496%	0.126%	
Texas	27.5	1,467,342	4,529.70			2,858.30	1,242.70	\$165	\$45	0.309%	0.085%	
Vermont	0.6	27,164	111.80			72.70	22.80	\$179	\$36	0.411%	0.084%	
Virginia	8.4	427,451	1,843.90			1,116.60	533.80	\$220	\$64	0.431%	0.125%	
Washington	7.2	390,489	600.30			365.90	141.30	\$84	\$20	0.154%	0.036%	
West Virginia <sup>4,5</sup>	1.8	68,035	180.00	935.10	46.90	106.50	527.40	\$98	\$286	0.265%	0.775%	
Wisconsin <sup>6</sup>	5.8	268,677	574.60			342.40	167.60	\$100	\$29	0.214%	0.062%	
Wyoming	0.6	37,566	17.50			9.70		\$30		0.047%	0.000%	
<b>Total</b>	<b>305.5</b>	<b>15,123,069</b>	<b>67,488.0</b>	<b>5,831.3</b>	<b>926.5</b>	<b>42,335.9</b>	<b>21,159.3</b>	<b>221.0</b>	<b>\$69</b>	<b>0.446%</b>	<b>0.140%</b>	

Notes to Table: Fiscal year 2015 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).

<sup>1</sup> Source: U.S. Census Bureau; <sup>2</sup> Source: U.S. Bureau of Economic Analysis; <sup>3</sup> This data represents only revenue from traditional lottery games; <sup>4</sup> Prizes do not include VLT

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

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

**Fiscal Year 2015 U.S. Lottery Sales by Game\***

(in \$Millions)

Lottery	Pop (Mil)			Systems Games										Total Sales	VLT (net)
	Instant	Pulltab		3-digit	4-digit	Lotto	Cash Lotto	Power Ball	Mega Millions	Lucky for Life	Hot Lotto	Keno	Other		
Arizona	6.8	542.00	5.20	9.70		25.80	17.10	93.60	45.90				10.60	750.00	
Arkansas	3.0	335.00		6.70	3.80	0.60	7.00	27.10	15.20	2.00			11.20	408.70	
California	39.1	3,915.40		140.20	28.80	287.70	145.80	372.40	404.40			206.40	23.70	5,524.90	
Colorado	5.5	377.20		8.70		29.80	19.30	72.00	31.00					538.00	
Connecticut	3.6	688.00		122.90	108.80	20.10	31.20	66.50	32.40	21.50			52.50	1,144.00	
Delaware	0.9	54.40		25.60	21.10	4.20	0.50	20.90	10.80	2.30	3.20	6.70		149.80	357.50
D.C.	0.7	32.60		43.90	55.30			11.00	6.50	2.50	3.00	9.80	47.80	212.50	
Florida	20.3	3,724.00		363.30	276.20	301.00	103.20	375.10	147.40				293.30	5,583.30	
Georgia	10.2	2,578.20		516.20	242.70	94.40	12.40	111.50	106.40			206.50	35.20	3,903.50	
Idaho	1.7	129.80	25.60	2.10		2.40	1.70	29.30	11.30	1.90	3.10		3.00	210.20	
Illinois <sup>1</sup>	12.9	1,821.60		263.80	223.30	107.70	150.60	133.40	119.50				17.30	2,837.30	
Indiana	6.6	759.50		33.40	32.90	43.30		86.80	35.80				49.00	1,040.70	
Iowa	3.1	212.00	16.00	7.00	3.20	4.50		52.20	18.00		11.10		0.60	324.80	
Kansas	2.9	146.30		6.10			12.70	35.30	14.70		8.60	18.20	8.20	250.00	
Kentucky	4.4	548.30		131.30	38.50	10.00	7.70	65.00	33.20	3.00		47.30	2.50	886.90	
Louisiana	4.7	202.20		51.90	41.60	26.80		86.60	32.50				10.70	452.50	
Maine	1.3	199.50		5.10	4.00	10.90	1.40	18.80	6.20	4.70	2.20		0.20	253.10	
Maryland	6.0	546.10		240.90	277.00	34.50	21.30	89.50	82.00			303.00	162.70	1,757.00	681.80
Massachusetts	6.8	3,522.40		322.80	221.20	21.20	75.10	101.90	78.60	27.50		850.50	5.70	5,005.70	
<b>Michigan</b>	<b>9.9</b>	<b>1,013.20</b>	<b>32.90</b>	<b>344.60</b>	<b>398.30</b>	<b>53.90</b>	<b>56.10</b>	<b>109.50</b>	<b>120.50</b>	<b>15.60</b>		<b>590.80</b>	<b>36.50</b>	<b>2,771.90</b>	
Minnesota	5.5	375.20		14.60		21.80	9.50	66.60	21.00	5.00	18.10		14.90	546.90	
Missouri	6.1	745.50		70.50	44.70	20.70	30.40	81.60	34.90	3.70		58.40	8.00	1,098.30	
Montana	1.0	17.50				1.60	4.40	12.50	4.00	1.80	3.20		7.20	52.30	
Nebraska	1.9	91.90		4.40		12.00	1.70	35.60	12.40				2.00	160.00	
New Hampshire	1.3	208.90		5.20	4.70	7.40	4.60	28.70	12.50	5.30	3.40		0.30	281.10	
New Jersey	9.0	1,709.10		437.80	271.80	57.60	148.40	165.40	162.50	71.40			3.30	3,027.30	
New Mexico	2.1	80.00		4.60			6.20	27.70	11.20		6.00		1.30	137.00	
New York	19.8	3,760.10		870.50	852.00	84.00	239.00	304.50	287.80	120.30		693.80	38.90	7,251.00	1,905.30
North Carolina	10.0	1,294.00		278.10	122.90	19.50	64.90	130.10	61.30				1.40	1,972.20	
North Dakota <sup>1</sup>	0.8					4.20	1.60	12.30	5.70		3.20			27.00	
Ohio	11.6	1,551.00		338.00	192.80	31.00	62.60	105.10	113.30			329.50	168.80	2,892.00	437.60
Oklahoma	3.9	81.60		5.30			4.20	46.50	22.10		9.90		2.00	171.60	
Oregon	4.0	119.60			1.40	33.30	4.10	37.10	20.50			93.00	9.30	318.30	798.60
Pennsylvania	12.8	2,591.60		310.90	234.80	68.00	136.20	239.80	124.90	11.30			102.00	3,819.60	
Rhode Island	1.1	90.50			24.20	3.70		26.00	11.50	5.50		80.50	1.20	243.10	516.30
South Carolina	4.9	1,002.50		163.00	84.90	20.00		80.00	42.20	9.00				1,401.70	
South Dakota	0.9	25.80				2.20	2.00	13.50	3.90		3.50		0.20	51.20	199.10
Tennessee	6.6	1,113.30		58.90	33.40		21.10	87.80	39.20		15.30			1,368.90	
Texas	27.5	3,481.40		256.80	91.60	143.00	50.20	227.00	184.00				95.70	4,529.70	
Vermont	0.6	85.50		1.40	1.20	3.80	0.80	8.20	3.70	1.90			5.40	111.80	
Virginia	8.4	1,018.50		272.30	268.60	12.30	29.90	94.30	96.60	3.80			47.60	1,843.90	
Washington	7.2	404.10		16.90		44.80	23.40	47.60	44.80			5.80	12.90	600.30	
West Virginia	1.8	103.30		8.10	4.80		5.20	34.10	13.60		5.70	5.10		180.00	935.10
Wisconsin <sup>1</sup>	5.8	356.20	1.10	24.10	12.70	25.20	24.30	70.90	26.90				33.00	574.50	
Wyoming	0.6					3.50		9.10	4.90					17.50	
<b>Total</b>	<b>305.5</b>	<b>41,654.70</b>	<b>80.70</b>	<b>5,464.90</b>	<b>4,325.30</b>	<b>1,698.80</b>	<b>1,537.90</b>	<b>3,950.60</b>	<b>2,717.90</b>		<b>99.70</b>	<b>3,505.20</b>	<b>1,326.20</b>	<b>66,682.0</b>	<b>5,831.30</b>
<b>% of total</b>		<b>62.5%</b>	<b>0.1%</b>	<b>8.2%</b>	<b>6.5%</b>	<b>2.5%</b>	<b>2.3%</b>	<b>5.9%</b>	<b>4.1%</b>		<b>0.1%</b>	<b>5.3%</b>	<b>2.0%</b>	<b>100.0%</b>	

Notes to Table: Fiscal year 2015 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) <sup>1</sup> Unaudited



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

Independent Auditor's Report

To Management, Mr. M. Scott Bowen, Commissioner,  
Bureau of State Lottery, State of Michigan,  
and Mr. Doug Ringler, CPA, CIA,  
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"), an enterprise fund of the State of Michigan, as of and for the six-month period and year ended September 30, 2016, 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 16, 2016.

**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 Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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, Mr. M. Scott Bowen, Commissioner,  
Bureau of State Lottery, State of Michigan,  
and Mr. Doug Ringler, CPA, CIA,  
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 Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

December 16, 2016



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# BUREAU OF STATE LOTTERY

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