

BUREAU OF STATE LOTTERY

AN ENTERPRISE FUND OF THE STATE OF MICHIGAN



2015 Educator
Of The Year



Excellence
in EducationSM MICHIGAN LOTTERYTM



MICHIGAN



LOTTERYTM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2015 AND 2014





BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2015 and 2014

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, 2015 and 2014

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INTRODUCTORY SECTION

Mission Statement of the Bureau of State Lottery

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





RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING



M. SCOTT BOWEN
COMMISSIONER

December 18, 2015

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, 2015 and 2014. Lottery management is responsible for the accuracy of the financial data and the completeness of the contents of this report.

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

The mission statement of the Lottery is as follows:

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

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

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

Profile of the Lottery

History

The Lottery was established under the authority of Public Act 239 of 1972 to generate funds to support Michigan's public school system. The first lottery ticket was the Green Ticket which went on sale on November 13, 1972. On October 7, 1975, the first instant game ticket was sold. Draw game sales began June 6, 1977 with the introduction of the Daily 3 game. The first multi-state ticket sales for the Lottery were on August 31, 1996 for The Big Game (now called Mega Millions). On January 31, 2010, sales of Powerball, a second multi-state game, began. August 11, 2014 marked the historic date when iLottery instant games were made available to players over the internet. Since the Lottery's inception, more than \$19.6 billion has been contributed to the School Aid Fund.

Lottery Products

The Lottery offers a variety of traditional games in several styles of play: instant also known as "scratch" games; draw games, where daily or more frequent drawings are conducted to select winning numbers with instant-win features at the time some draw game tickets are sold; pull tabs, which are similar to instant games but players pull a perforated tab instead of scratching off the ticket; and Insta Tab which is a combination of an instant and pull tab ticket features all in one ticket. The Lottery began selling a new online game card product in 2015 which looks like an instant ticket but has no prize value; rather, it reveals a web code to be entered for free iLottery play. These specific games are available to the playing public through close to 11,000 licensed Lottery retailers and self-service machines. As of September 2015, there were 27 iLottery instant scratch games and a keno game which are offered over the internet using desktop and mobile devices where players can win instantly.



Instant Ticket Games

Instant games are played by scratching latex covering on each ticket to reveal prize symbols. A variety of games with different themes, play styles, price points and prize structures are available with a dynamic product line offering an average of 40 games a year. The games offered are priced between \$1 and \$30 and top prizes range from \$1 million to Cash for Life based on life expectancy of prize winner. Instant game performance reached record breaking levels in 2015 primarily due to two additional \$30 instant games: \$100,000,000 Diamonds and World Class Millions. Both offer over 30 chances to win on each ticket, combined have seven top prizes of \$4 million, and offer over \$200 million in total cash prizes that range from \$30 to \$4,000.



Online Game Card

The Online Game Card is a \$20 ticket that was introduced on December 2, 2014 and can be purchased only at participating retailers. Once scratched, the card reveals an online web code. Once the code is entered online at www.michiganlottery.com, the player receives \$25 towards iLottery ticket purchases. Retailers receive sales commissions on all online game cards that are sold.



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. Drawings are every three and a half minutes, once or twice daily, or twice a week, 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 the new Lucky for Life game which are played as follows:



Mega Millions/Megaplier

Mega Millions is a multi-state draw game, formerly known as The Big Game. On January 31, 2010, the Multi-State Lottery Association (MUSL), an association of 37 member lotteries, joined with the 10 participating Mega Millions states including California, Georgia, Illinois, Massachusetts, New Jersey, New York, Ohio, Virginia and Washington to participate in the Mega Millions game with Michigan. On December 12, 2010, Megaplier, an add-on game to Mega Millions, began where players can increase their prize by two to five times. The Megaplier number is selected at random before each drawing. If a player wins a non-jackpot prize on their Mega Millions wager, their prize is increased by the Megaplier number drawn and they can win up to \$5 million. Beginning October 19, 2013, the Mega Millions prize matrix changed where players select from two pools of numbers: five white ball numbers between 1 and 75 and one gold mega ball number between 1 and 15 for a chance to win a multi-million dollar jackpot prize. The jackpot starts at \$15 million which is guaranteed to increase \$5 million with every time it rolls. This game offers a second prize of \$1 million and nine ways to win with guaranteed prize amounts at lower prize levels. Drawings are conducted twice a week on Tuesday and Friday.



Powerball/Power Play

Powerball is a multi-state draw game and is considered nationally to be the “marquee big jackpot game”. It was introduced January 31, 2010. Players select 5 of 59 white balls and 1 of 39 red balls for a chance to win a multi-million dollar jackpot prize. On January 15, 2012 the Powerball game was re-introduced at a \$2 price point with jackpots starting at \$40 million. This game offers nine ways to win with guaranteed prize amounts on lower prize levels and includes a \$1 million second prize. Drawings are conducted twice a week on Wednesday and Saturday. Power Play is an add-on game to Powerball with a fixed prize structure that includes prizes ranging from \$8 to \$2 million. A total of 47 member lotteries, Mega Millions and MUSL members, participate in the Powerball game with Michigan.



Lotto 47 + EZMatch

Lotto 47 is an in-state Lotto game. It was introduced May 15, 2005 and replaced the Winfall game. Players select 6 of 47 numbers. Jackpots start at \$1 million and increase by a minimum of \$50,000 if no jackpot is won in bi-weekly drawings held on Wednesday and Saturday. Lotto 47 offers four ways to win, with guaranteed prize amounts at the lower prize levels. EZMatch is an add-on game to Lotto 47 that began April 13, 2014. Players select their Lotto 47 wager and choose to play EZMatch for an additional \$1 per play. Six EZMatch numbers will print on the player's Lotto 47 ticket below his or her Lotto 47 numbers. If any of the EZMatch numbers match the player's Lotto 47 numbers (regardless of order), the player can instantly win from \$2 up to \$500 in prizes.



Fantasy 5 + EZMatch

Fantasy 5 was introduced September 12, 2004, replacing the Rolldown game. For a \$1 wager, players pick 5 of 39 numbers, with rolling jackpots starting at \$100,000 and daily drawings. Jackpots increase a minimum of \$5,000 per draw and roll until a player matches all five numbers in a drawing. This game offers four ways to win, with guaranteed prize amounts at the lower prize levels. Beginning April 13, 2014, EZMatch was added to the Fantasy 5 game where players select their regular Fantasy five wager and choose to play EZMatch for an additional \$1 play. Five EZMatch numbers will print on the player's Fantasy 5 ticket below his Fantasy 5 numbers. Regardless of order, if any of the EZMatch numbers match the player's Fantasy 5 numbers, the player wins the prize amount printed next to the matched EZMatch numbers which range from \$2 up to \$500.



Keno!

Keno! is another long-running game which started in 1990. Although the sales are less than 1% of total sales, it has a very strong and loyal player base. In this \$1 game, players choose 10 numbers from a pool of 80. The Lottery draws 22 numbers and if the player matches 10 of those 22 numbers, they win the jackpot prize of \$250,000. There are also five other ways to win by matching combinations of the numbers drawn including a free instant ticket prize even if the player has no match. Drawings are conducted daily.



Daily 3 & 4 Games

The Daily 3 & 4 games are the Lottery's longest running and most consistently popular games, representing approximately 27% of total sales. Drawings are conducted twice a day, seven days a week. These games offer a wide variety of winning combinations and fixed prizes. The top prize for Daily 3 is \$500; for Daily 4, \$5,000. The popular Daily 4 Straight Back Bonus promotion was offered a third year in a row in June 2015 of which 1,416 players were offered a bonus prize on straight wagers whose numbers match in exact reverse order of the Daily 4 winning numbers drawn.

The Lottery Daily 3 & 4 1-off bet type was introduced August 2014 where players can win by matching their numbers in exact order to the numbers drawn or if one of their numbers is one up or one down from the numbers drawn. The 1-off bet type generated over 75,000 winners in 2015.



Veterans 50/50 Raffle



Tax Free Raffle



Halloween Millions Raffle

The first Raffle game, introduced on November 12, 2006 was Millionaire Raffle. It was subsequently followed by Super Raffle in April 2007; Lucky 7's Raffle and Win for Life Raffle in 2009; Red Hot Raffle and The Ultimate 50/50 Raffle in 2010; and Raffle of Riches in 2012; and the \$40,000 Tax Free Raffle in March 2013. Sales for the Veterans Day 50/50 Raffle started September 28, 2015 for a drawing to be held on November 12, 2015. For every raffle ticket sold, a portion of the proceeds will go to Michigan veterans and their families. Additionally, fifty cents is added to the starting \$20,000 jackpot for every ticket sold. This raffle also offers five weekly bonus drawings, each for a \$25,000 prize.



Club Games:



The Jack



Pull Tabs



Doubler Days



Insta Tab

Club Games were introduced in October 2003 and were predominantly played by patrons of bars, restaurants and bowling centers. Results of the drawings, which are conducted every three and a half minutes, are displayed on TV monitors located in retailer establishments. In October 2010, Club Keno "To Go" was introduced allowing the traditional retailers to begin selling Club Keno. At that time drawings became available to view on the web and in May 2011 on a Michigan Lottery mobile application. Club Games consist of a draw Club Keno game, Club Keno Kicker, The Jack, Pull Tab, and Insta Tab games. To play Club Keno, players select up to 10 numbers from a pool of 80. The Lottery draws 20 numbers and the more numbers the player matches, the more he or she wins. Wagers can be placed from \$1 to \$20 and the top prize is \$2 million. The Kicker option allows players to multiply their Club Keno prizes as much as 10 times. The Jack is a progressive jackpot game that grows with every drawing where players match eight of their numbers to those numbers drawn to win the progressive jackpot and offers secondary prizes from \$1 to \$350 with a jackpot starting at \$10,000. Club Keno Doubler Days promotion was held during the months of March and September 2015. Club Keno tickets purchased during that time were eligible for the Doubler promotion where random Club Keno tickets printed with a Doubler message. Lucky players with this message doubled their Club Keno winnings. Pull Tab games are similar to instant tickets but players pull a perforated tab instead of scratching off the ticket. A variety of different Pull Tab games are offered at one time. Ticket prices are 50 cents, \$1, \$2, and \$5, and top prizes range from \$50 to a new \$100 a week for life top prize ticket introduced in January 2014. Since March 2014, there have been 12 Insta Tab games introduced which offer a player a new unique type of ticket. Insta Tabs resemble an instant ticket that has latex covering on the face of the ticket but players have a perforated tab on the back to pull to reveal prizes similar to a pull tab ticket. Insta Tab ticket prices range from \$1, \$2, and \$5 and top prizes range from \$5,000 to \$25,000.



POKERLOTTO

Poker Lotto

Poker Lotto, a terminal base game began on October 19, 2013. This \$2 game features a nightly draw plus a chance for players to win instantly, all in one ticket. Each \$2 easy pick wager randomly chooses five cards from a standard 52-card deck. If the player's cards form a winning poker hand match cards drawn, the player can win \$5,000 instantly. The player cards printed on the ticket are also eligible for the nightly draw where five winning cards are selected. If the cards on the ticket match the cards drawn in any order, the player wins a prize up to \$100,000.



Lucky for Life & Lucky Play Promotion

Michigan joined the New England lotteries on January 27, 2015 to begin offering the Lucky for Life draw game branded as the game of a lifetime. For \$2 per play and ten ways to win, a player selects 5 white ball numbers from 1 to 48 and a single yellow lucky ball number from 1 to 18. If all 5 white balls and the yellow lucky ball number selected match what was drawn, the player wins a top prize of \$1,000 a day for life. This game also offers a second top prize of \$25,000 a year for life. Drawings are conducted every Monday and Thursday. To increase player awareness of this new draw game, the Lucky Play promotion was offered in July 2015 where for every 2 tickets purchased, players received one free easy pick ticket eligible for the same draws.



Monopoly Millionaires Club

The Monopoly Millionaires Club (MMC) draw game began October 19, 2014 and the final drawing was held on December 26, 2014. Players could win nine ways including a top prize up to \$25 million in a national weekly drawing held every Friday. Every time a top prize was won, at least ten national \$1 million Millionaires Club prizes were awarded. Players collected Monopoly properties printed on their ticket to earn drawing entries for a chance to win a trip to Las Vegas to become a contestant on the Monopoly Millionaires Club TV Game Show where they can win a top prize up to \$1 million. To replace the draw game which ended in December 2014, the Lottery began offering a new Monopoly Instant Game on May 21, 2015. This game has second chance drawings where players can win a chance to be a contestant on the national Monopoly Las Vegas TV Game Show with the possibility of winning a top prize of \$1 million.



Player's Club



Play It Again Giveaway

As of September 30, 2015 there were 700,362 registered members that have joined the Michigan Lottery's Player's Club with 385,842 opting into email communications and 172,707 opting into receiving text message communications from the Lottery. Players utilize the website and the mobile application to earn loyalty reward points and second chance entries by submitting their non-winning instant, draw game and pull tab tickets. There were over 52 million total non-winning tickets entered including 29.2 million draw game tickets, 23.2 million instant tickets and 422,989 pull tab tickets.

These entries give players a chance to win prizes up to \$1 million dollars for the exclusive Play It Again Giveaway. Lottery also issues electronic coupons to Player's Club members that must be redeemed at retail. Loyalty reward points can be used for merchandise, gift cards, entries into Player's Club drawings and much more in the Lottery Player's Club Rewards Catalog. The Michigan Lottery Player's Club can be accessed by visiting www.michiganlottery.com.

Highlights of Fiscal Year 2015

Contribution to the School Aid Fund

The Lottery disbursed \$795.5 million to the School Aid Fund. This was the Lottery's largest contribution in history to the School Aid Fund.

Sales

Sales for 2015 surpassed \$2.7 billion for the year and remain at record setting levels. The year was highlighted by instant ticket sales which exceeded \$1.0 billion for the first time ever.

Retailers Win Big with Commissions and Incentives

Retailer commissions totaled \$203.6 million in 2015. The Lottery offers our business partners a performance-based retailer incentive program. In 2015, the retailer incentive commission program was expanded to include club keno retailers. The total additional retailer incentive commissions awarded since 2002 are over \$54 million.

iLottery

Michigan Lottery's 2014 launch of online ticket sales ("iLottery") gave Michigan Lottery players a new and exciting opportunity to buy, play and win iLottery games from personal computers, tablets and mobile phone devices. In 2015, iLottery sales and prizes produced a net win of \$18.5 million. Please refer to the Note 7 of the Financial Statements for detailed information.

Michigan Excellence in Education Award Program

The Michigan Lottery Excellence in Education Awards Program began September 23, 2014 to recognize outstanding public school educators across the state. One outstanding educator is selected each week during the school year and receives a \$500 cash prize as well as a \$500 grant to their classroom, school or school district. One annual winner is selected from the weekly winners and receives a \$10,000 prize. Each nominee is evaluated by excellence, dedication, inspiration, leadership, and effectiveness qualities they portray. The front and back covers of this publication highlight educators that have won this honorable award in 2015.

Budgetary System and Controls

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

Economic Condition and Financial Information

Local Economy

The University of Michigan Research Seminar in Quantitative Economics (RSQE) highlighted in its most recent Michigan forecast issued October 2015, that the summer marked Michigan's sixth year of economic recovery since the previous recession's low point from 2009. Michigan job growth spiked in the first quarter of 2015 to a vigorous, but unsustainable, annual rate of 3.8% before easing back to a healthy rate of 1.8% in the second quarter and then settling into an average pace of 1.4% during the second half of 2015. It is anticipated the State of Michigan will add more than 62,200 jobs during 2016. The forecasted top job producers will be professional and business services, contributing 27% of the total job gains. According to RSQE analysts, Michigan energy prices are expected to stabilize in 2016 and then grow slowly in 2017. Local inflation is expected to increase to 1.5% in 2016 and to 2.3% in 2017. Personal income adjusted for taxes and inflation, or known as real disposable income, is expected to fall back in 2016 to 2.8% from 4.9% in 2015 with the return of modest inflation. It is then expected to slow further to 2% in 2017 with the acceleration in inflation and larger increase in federal personal taxes.

In September 2015, Michigan's unemployment rate fell to 5.0%, putting it below the national unemployment rate for the first time in 15 years. The national unemployment rate in September 2015 was 5.1%. According to Governor Rick Snyder, this means more people in Michigan are able to use their skills and are finding fulfilling jobs to support themselves and their families, making cities and communities stronger in a variety of ways. According to the Department of Management & Budget, all of Michigan's 83 counties recorded seasonal unemployment rate reductions in September in all of the 17 major labor market areas. From September 2014 to September 2015, seasonally unadjusted payroll jobs increased statewide by 89,000 or 2.1%. Job gains over this period were widespread throughout most industry sectors and were led by significant advances in manufacturing (+26,000), professional and business services (+21,000), and education and health services (+15,000). US employment gains reached a total 142,000 jobs in September 2015 and nearly doubled the following month which could trigger the first interest rate hike by the Federal Reserve in over a decade.

Financial Information

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

The operations involve sale of 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 gambling addiction programs.

Lottery has a long-standing commitment to promote Responsible Gaming to players. With the introduction of iLottery in August 2014, there are existing tools available for the Lottery to further strengthen that commitment. Lottery joined the National Council on Problem Gambling (NCPG) and the principles of the organization will help to shape future strategies for the Lottery.

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

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

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

Accounting Systems and Policies

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

Internal Controls

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

The system of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the costs and benefits require estimates and judgments by management.

Debt Administration

Long-term liabilities for the Lottery are for payments owed to Lotto 47, Lotto, Mega Millions, Raffle, Lucky for Life and Instant game grand prize installment winners. These prize liabilities are funded by investments in U.S. Treasury zero-coupon bonds and State of Michigan general obligation capital appreciation bonds which are held to maturity.

Long-term Financial Planning

The Lottery continues to work on new ways to attract players and increase instant, draw game, pull tab, insta tab, and iLottery sales. A marketing plan is developed each year identifying new games to offer, as well as evaluating additional variations of play to existing games. Also, costs saving techniques are devised and implemented to minimize operational costs, which increase the net amount to the School Aid Fund.

In 2016, a total of 40 new Instant game introductions are planned. The Lottery will re-launch the multiplier family play style instant tickets, adding a higher multiplier value of a 200X multiplier of the cash prizes up to \$2 million. This series of tickets offer players 10X, 20X, 50X, and 100X multiplier cash prizes up to \$1 million dollars. The Cash for Life series of instant tickets will be replaced with a "Hot" family of instant games consisting of \$1, \$2, \$5, \$10, and \$20 price point to win up to \$2 million. A four percent instant sales growth is targeted for the year. Due to player demand, the Lottery plans to bring back the \$20 multi-page game book and will continue to offer players two \$30 price point instant games.

The Powerball game prize matrix will be changing October 4, 2015. Changes include increasing the number of total of white ball numbers from 59 to 69, while reducing the red ball numbers from 35 to 26. It is expected that this change will increase the average jackpot to \$310 million. Also, the matrix added a 10X multiplier for Power play which will be offered when the advertised jackpot is \$150 million or less.

Michigan will join Maryland, Georgia and Ohio in 2016 to offer The Jack, the first multi-state game associated with the Club Keno product. The Jack will replace the in-state Club Keno Jack game and become a 9-spot game with jackpots starting at \$25,000 for just \$1 more per draw. Players win by matching The Jack numbers with the Club Keno numbers drawn.

The Digital Gaming Division will be focused in 2016 on supporting many retail initiatives and advertising campaigns in efforts to increase online bets to a target of \$313 million. The Lottery plans to introduce new online games every two to three weeks to keep content and digital marketing activities fresh and exciting for players. A total of 25 online game launches are scheduled in 2016. This includes adding Mega Millions, Powerball, Fantasy 5 and Lotto 47 draw games which will allow the digital channel to attract additional online players who enjoy the traditional jackpot draw games. A prepaid iLottery gift card program and a new retailer terminal product called the online game card is set to launch in the second quarter and is expected to draw new players to the online iLottery channel. Third-party digital integrations will be added throughout the course of the year in efforts to double the digital portfolio of iLottery games available for play. Major renovations to the mobile app and creation of the first tablet app is expected to be made which will offer significant opportunities to increase the mobile market share while increasing online player engagement.

Two new raffles are scheduled in 2016. The first is the Veteran's Day Raffle drawing to be held November 11, 2015, which offers a growing jackpot and five \$25,000 bonus drawings. A portion of the proceeds for this raffle game will go to help Michigan veterans and their families. The second is a new multi-state Major League Baseball (MLB) Raffle for \$10 per ticket. This raffle game offers players one top prize of \$40,000 and one World Series trip awarded for every 30,000 tickets that are sold. Sales will begin April 2016 for 100 days until the drawing to be held during all-star break.

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

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

Awards and Acknowledgements

Awards

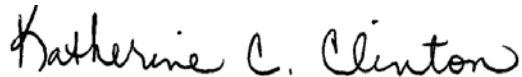
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended September 30, 2014. This was the tenth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



Katherine C. Clinton
Deputy Commissioner for Administration



M. Scott Bowen
Commissioner



Government Finance Officers Association

**Certificate of
Achievement
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, 2014



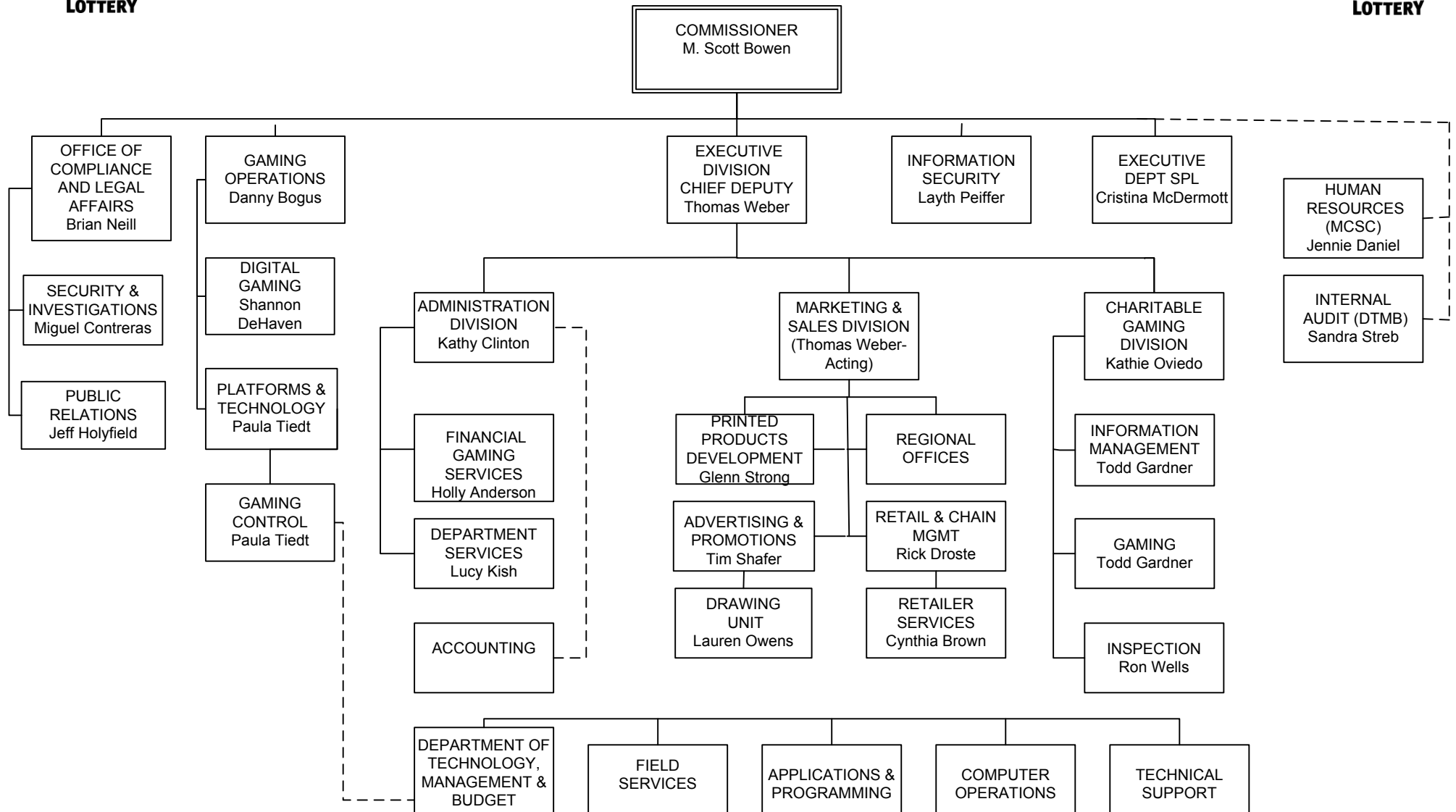
Executive Director/CEO



Bureau of State Lottery

Organization Chart and Principal Officials

September 2015





FINANCIAL SECTION

Independent Auditor's Report

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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Bureau of State Lottery, State of Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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, 2015 and 2014 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, 2015 and 2014 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, during the year ended September 30, 2015 the Lottery adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules on pages 17-28 and 57-58, 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

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

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

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audits 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 18, 2015 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 18, 2015



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The following discussion of the Michigan Bureau of State Lottery's (the "Lottery") financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the financial statements, which begin on page 28.

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 28 and the Statement of Revenues, Expenses and Changes in Net Position on page 29, 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) and unrealized gains on investments held to fund future payments due on Lottery prizes that are annuities. To assess the Lottery's financial position and financial health, the reader of these statements should pay particular attention to changes in the components of assets and liabilities as set forth in the Statement of Net Position, and in changes in operating revenues, expenses, and disbursement expenses to other funds as set forth in the Statement of Revenues, Expenses and Changes in Net Position. In addition, the reader should also refer to the accompanying notes to the financial statements.

Financial Highlights

- Operating revenues for Lottery gaming activities increased by \$176.2 million, or 6.8%. Ticket sales, the primary operating revenue, strengthened during 2015, increasing by \$175.5 million. Instant game ticket sales exceeded \$1.0 billion.
- Total revenues for all activities (including non-operating) increased \$171.1 million or 6.5%.
- Non-operating revenues decreased by \$5.1 million. This decrease is attributable to the changing market values of investments during 2015.
- Total operating expenses for 2015 increased \$123.4 million, or 6.6%. Of this increase, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities increased by \$105.6 million, or 6.8%, unclaimed prizes increased by \$0.7 million, or 2.3%, retailer and vendor commissions increased \$19.6 million, or 8.6%, while other operating expenses slightly increased by \$0.1 million, or 0.2%.
- Total expenses (including non-operating) for all activities increased \$174.8 million or 6.7%.
- Disbursements to the School Aid Fund were \$795.5 million in 2015 compared to \$742.8 million in 2014, an increase of \$52.7 million or 7.1%. Net income disbursed to the General Fund related to Charitable Gaming activities totaled \$2.9 million.
- The Lottery implemented GASB Statement No. 68 (GASB 68) during fiscal year 2014-2015. The requirements of GASB 68 incorporate provisions intended to reflect the effects of transactions and events related to pensions in the measurement of employer liabilities for pensions and recognition of pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Net Position

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

Table 1 - Net Position
(in millions)

| | September 30, | | |
|---|----------------|----------------|----------------|
| | 2015 | 2014* | 2013* |
| Current and other assets | \$ 336.9 | \$ 137.6 | \$ 135.2 |
| Investments - noncurrent | 194.2 | 203.2 | 205.4 |
| Capital assets (net of accumulated depreciation) | 1.5 | 0.6 | 0.8 |
| Total assets | <u>532.6</u> | <u>341.4</u> | <u>341.4</u> |
| Deferred Outflows of Resources - | | | |
| Deferred outflows related to pension: | 3.7 | - | - |
| Current liabilities | 322.2 | 126.2 | 117.7 |
| Long-term liabilities | 199.9 | 188.4 | 205.8 |
| Total liabilities | <u>522.1</u> | <u>314.6</u> | <u>323.5</u> |
| Deferred Inflows of Resources - | | | |
| Deferred inflows related to pensions | 2.4 | - | - |
| Net position: | | | |
| Net investment in capital assets | 1.5 | 0.6 | 0.8 |
| Restricted for School Aid Fund | 11.8 | 26.8 | 17.9 |
| Unrestricted (deficit) | (1.5) | (0.6) | (0.8) |
| Total net position | <u>\$ 11.8</u> | <u>\$ 26.8</u> | <u>\$ 17.9</u> |

*2014 and 2013 Columns were not restated for the adoption of GASB 68.

As shown in Table 1 above, the Lottery's net position decreased since September 2014 from \$26.8 million to \$11.8 million, a decrease of \$15.0 million. The change from September 2013 to 2014 was an increase of net position by \$8.9 million. The respective decrease noted above is attributable to recognizing Lottery's proportionate share of the Michigan State Employees' Retirement System net pension liability as part of GASB 68 implementation. The increase is primarily attributable to the restricted for unrealized gains or loss on investments due to changes in market value of those investments that the Lottery holds to fund future payments due on annuitized lottery prizes. Additional detailed information on investments and pensions may be found in Note 3 and Note 9 respectively in the accompanying financial statements.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2015, net capital assets increased by \$0.9 million. Capital assets decreased \$0.2 million from September 2013 to 2014. Additional detailed information on capital assets may be found in Note 4 in the accompanying financial statements.

The Lottery's September 30, 2015 net position of \$11.8 million reflects a \$20.2 million negative entry in order to recognize the Lottery's portion of the Michigan State Employees' Retirement System's net pension liability as a result of implementing GASB 68. This action is further discussed in Note 9.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

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

Table 2 - Liabilities
(in millions)

| | September 30, | | |
|--|---------------|----------|----------|
| | 2015 | 2014* | 2013* |
| Current: | | | |
| Warrants authorized and warrants outstanding | \$ 9.3 | \$ 10.7 | \$ 9.3 |
| Accounts payable and other liabilities | 8.9 | 7.8 | 4.5 |
| Due to School Aid Fund | 20.1 | 8.8 | |
| Prize awards payable (net of discount) | 283.9 | 98.9 | 103.9 |
| Total current | 322.2 | 126.2 | 117.7 |
| Non-current: | | | |
| Prize awards payable (net of discount) | 178.3 | 187.6 | 204.6 |
| Net pension liability | 20.7 | - | - |
| Compensated absences | 0.9 | 0.8 | 1.1 |
| Supplemental retirement | 0.0 | 0.0 | 0.1 |
| Total non-current | 199.9 | 188.4 | 205.8 |
| Total liabilities | \$ 522.1 | \$ 314.6 | \$ 323.5 |

*2014 and 2013 columns were 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 liability recorded as a result of GASB 68 implementation. Long-term prize liability decreased by \$9.3 million or 5.0% from 2014 to 2015 and decreased \$17.0 million or 8.3% from 2013 to 2014. The prize liability decreases from 2014 to 2015 and 2013 to 2014 are attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. Refer to Note 6 in the accompanying financial statements for more information.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

Table 3 - Changes in Net Position
(in millions)

| | September 30, | | |
|---|---------------|------------|------------|
| | 2015 | 2014* | 2013* |
| Operating revenues | \$ 2,785.1 | \$ 2,608.9 | \$ 2,491.1 |
| Operating expenses: | | | |
| Prizes and direct game expenses | | | |
| Prizes less unclaimed prizes | (1,665.5) | (1,559.9) | (1,461.6) |
| Commissions and game related expenses | (267.5) | (249.8) | (236.1) |
| Total prizes and direct game expenses | (1,933.0) | (1,809.7) | (1,697.7) |
| Income before other operating expenses | 852.1 | 799.2 | 793.4 |
| Other operating expenses | (52.0) | (51.9) | (50.4) |
| Operating income | 800.1 | 747.3 | 743.0 |
| Non-operating revenues and (expenses): | | | |
| Investment and interest revenues | 13.0 | 18.1 | (7.1) |
| Investment and interest expenses | (8.5) | (9.7) | (13.2) |
| School Aid Fund disbursement expense | (795.5) | (742.8) | (734.3) |
| School Aid Fund disbursement expense - Club Keno Advertising Fund | - | (0.1) | - |
| General Fund disbursement expense | (2.9) | (2.9) | (4.5) |
| Health & Human Services disbursement exp | (1.0) | (1.0) | (1.0) |
| Net non-operating revenue (expense) | (794.9) | (738.4) | (760.1) |
| Change in net position | 5.2 | 8.9 | (17.1) |
| Total net position beginning of period | 26.8 | 17.9 | 35.0 |
| Restatement due to change in accounting principle (Note 1) | (20.2) | - | - |
| Total net position end of period | \$ 11.8 | \$ 26.8 | \$ 17.9 |

*2014 and 2013 columns were not restated for the adoption of GASB 68.

Because the Lottery is required by law to deposit all of its net income (excluding the unrealized gain or loss on investments discussed above) to the School Aid Fund or General Fund, change in net position does not reflect the result of the Lottery's operating activities. The \$795.5 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2015. There was an increase of \$52.7 million or 7.1% from 2014 to 2015 and an increase of \$8.5 million or 1.2% from 2013 to 2014. 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.

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

In fiscal year 2015, the Lottery collected no revenue from Club Keno advertising activities. The disbursement expense to the General Fund reflects Charitable Gaming activities.

Charitable Gaming activities experienced a decrease in net revenues from 2013 to 2014, but remained the same from 2014 to 2015. Charitable Gaming net income is disbursed annually to the General Fund.

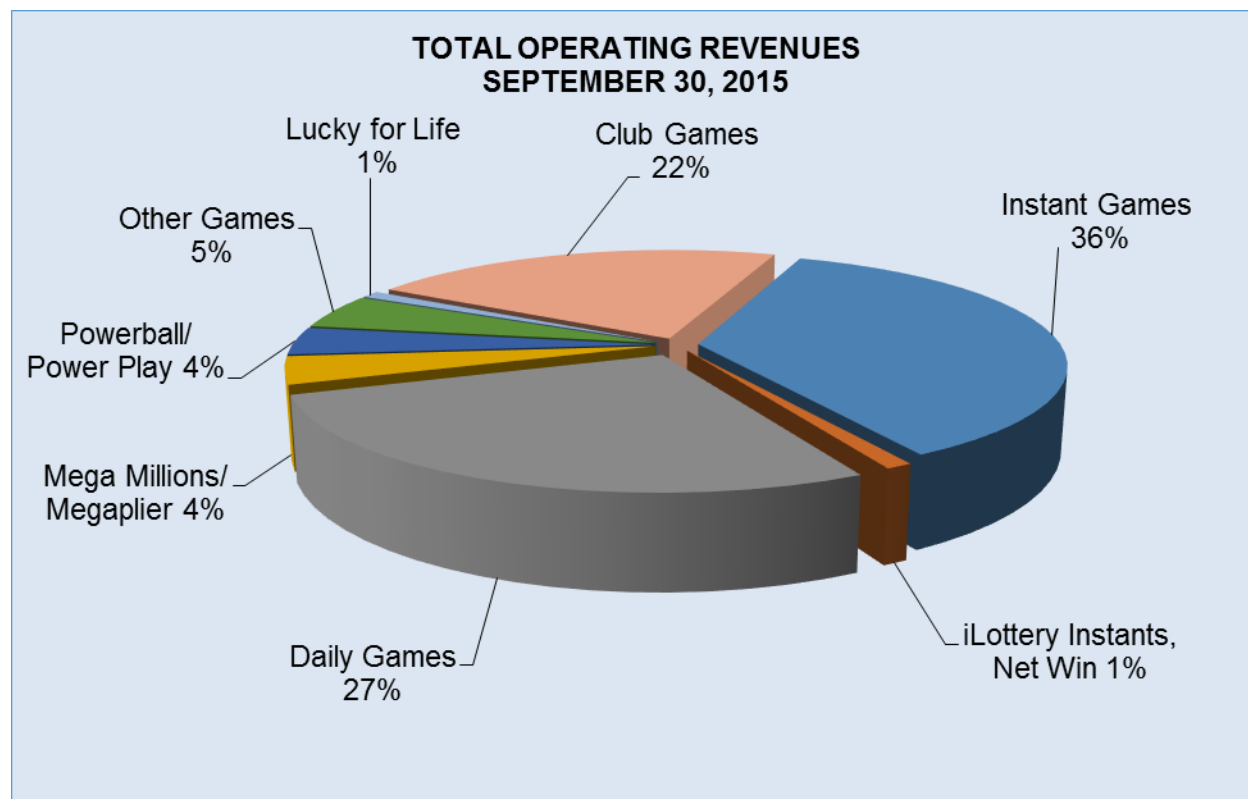
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds
(in millions)

| | September 30, | | |
|--|-----------------|-----------------|-----------------|
| | 2015 | 2014 | 2013 |
| School Aid Fund | \$ 795.5 | \$ 742.8 | \$ 734.3 |
| School Aid Fund - Club Keno Advertising Fund | - | 0.1 | - |
| General Fund | 2.9 | 2.9 | 4.5 |
| Health & Human Services | 1.0 | 1.0 | 1.0 |
| Total Disbursements to Other Funds | <u>\$ 799.4</u> | <u>\$ 746.8</u> | <u>\$ 739.8</u> |

Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2015:



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

Table 5 - Revenues
(in millions)

| | September 30, | | |
|---------------------------------------|--------------------------|--------------------------|--------------------------|
| | 2015 | 2014 | 2013 |
| Operating revenues: | | | |
| Instant tickets | \$ 1,013.2 | \$ 913.1 | \$ 827.0 |
| iLottery Instants, Net Win | 18.5 | 0.6 | - |
| Daily games | 742.9 | 693.3 | 672.2 |
| Mega Millions/Megaplier | 120.5 | 140.7 | 101.6 |
| Powerball/Power Play | 109.5 | 104.0 | 186.8 |
| Monopoly | 1.8 | - | - |
| Lucky for Life | 15.6 | - | - |
| Club games | 613.8 | 583.5 | 565.8 |
| Other games | 136.1 | 161.2 | 123.0 |
| Other operating revenue | 13.2 | 12.5 | 14.7 |
| Total operating revenues | <u>2,785.1</u> | <u>2,608.9</u> | <u>2,491.1</u> |
| Non-operating revenues: | | | |
| Unrealized gain (loss) on investments | 4.5 | 8.9 | (17.1) |
| Amortization on bonds | 8.4 | 9.1 | 9.9 |
| Other income | 0.1 | 0.1 | 0.1 |
| Total non-operating revenue | <u>13.0</u> | <u>18.1</u> | <u>(7.1)</u> |
| Total revenues | <u><u>\$ 2,798.1</u></u> | <u><u>\$ 2,627.0</u></u> | <u><u>\$ 2,484.0</u></u> |

Operating revenues, primarily Lottery ticket sales, increased from fiscal year 2014 to 2015, and increased from 2013 to 2014. The increase in fiscal year September 2015 over 2014 was \$176.2 million or 6.8% and the increase in fiscal year 2014 over 2013 was \$117.8 million or 4.7%.

Instant game ticket sales increased by \$100.1 million or 11.0% for fiscal year 2015 compared to fiscal year 2014. The increase in fiscal year September 2014 over 2013 was \$86.1 million or 10.4%. Instant game sales performance was strong throughout the entire year. Much of this record-setting performance is attributed to the new "Multiplier" family of instant games launched in January 2015, as well as the introduction of two new \$30 price point instant 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 2015 decreased by \$20.2 million or 14.4% compared to fiscal year 2014. Sales in fiscal year 2014 increased by \$39.1 million or 38.5% compared to fiscal year 2013. 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 whereby players have an opportunity to increase their non-jackpot winnings.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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. Sales for fiscal year 2015 increased by \$5.5 million or 5.3% compared to fiscal year 2014. During 2015, 42.9% of all Powerball drawings held were for jackpots \$100 million or greater and one jackpot reached \$500 million, contributing to the increase in Powerball sales. Power Play is an add-on game to Powerball where players can increase their non-jackpot prizes.

Lucky for Life, a new multi-state \$2 draw game, was launched on January 27, 2015. Along with Michigan, there are 16 other jurisdictions that participate in Lucky for Life. Drawings are held twice per week on Monday and Thursday evenings. Players choose 5 white ball numbers from a field of 48 and 1 yellow Lucky ball number from a second field of 18. A top prize of \$7,000 a week for life is awarded to any player matching all 5 white ball numbers and the Lucky yellow ball number in a single wager. A second top prize of \$25,000 a week for life is awarded to any player matching all 5 white ball numbers in a single wager. Players also win prizes for matching lesser combinations of numbers. A Lucky Play promotion was held during July 2015 to award players with a free Lucky for Life wager for every 3 wagers purchased on a single ticket. During 2015, Lucky for Life ticket sales in Michigan surpassed \$15.5 million, and players won over \$8.4 million in prizes.

Club games include Club Keno, Club Keno Kicker, Pull-Tabs, The Jack, and Insta Tabs. The Club Games sales increased in fiscal year September 2015 by \$30.3 million or 5.2% over 2014, and increased by \$17.7 million or 3.1% from 2013 to 2014. The 2015 and 2014 sales increases continue to be attributed to increased player awareness of Club Keno "To Go" and the promotion of Lottery mobile applications that allow players to watch Club Keno drawings anywhere. The Club Keno Doubler Days promotion was held twice during 2015 to engage players to play Club Keno and offered a chance to double their winnings. Insta Tab games, which were introduced during 2014, continued to grow in popularity during 2015. Eight new Insta Tab games were launched and total Insta Tab sales increased \$1.2 million, or 90.0%, from 2014 to 2015.

Other games consist of Lotto 47, Lotto 47 EZMatch, Fantasy Five, Fantasy Five EZMatch, Keno, Raffle, and Poker Lotto. 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. The player can win up to \$5,000 instantly at the time of purchase if the cards form a winning poker hand and they can also win up to \$100,000 nightly by matching the winning cards drawn. EZMatch was added to Lotto 47 and Fantasy Five games on April 13, 2014, which gives players a chance to win up to \$500 instantly. When a player selects EZmatch, a second set of numbers with corresponding prize amounts is printed under their regular Lotto 47 or Fantasy Five numbers. When the EZmatch number matches one or more of the player's regular numbers on their Lotto 47 or Fantasy Five ticket, they win the corresponding prize. In total, other games sales experienced a decrease of \$25.1 million or 15.6% compared to fiscal year 2014. There were minimal raffle sales for the 2016 Veteran's Day Raffle drawing to occur in 2016 which contributed to the 2015 sales decrease. Sales in fiscal year 2014 increased by \$38.2 million or 31.1% compared to fiscal year 2013.

The decrease in non-operating revenues from 2014 to 2015 resulted primarily from a decrease in unrealized gain on investments and bond amortization. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact the disbursement to the School Aid Fund.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The decrease in bond amortization from 2014 to 2015 and from 2013 to 2014 is due to a decreasing bond portfolio from maturing investments and the fact that most prize winners have elected the cash option instead of installment payments. Other income remained unchanged from 2014 to 2015 due to stable interest rates on common cash investments. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

August 2015 marked the one year anniversary of the launch of iLottery instant games. Players register and make a deposit to their iLottery account then can begin playing iLottery instants of their choice. Prizes \$600 or less are deposited directly to their account while prizes greater than \$600 have an electronic claim created to be processed. iLottery instants currently include Keno games, multi-ticket games, extended play games, and single card games at multiple price points. Players now have the option of playing via the web, or on a tablet or mobile device. The iLottery program showed strong growth during 2015. iLottery sales in fiscal year 2015 totaled \$146.2 million and prize awards were \$127.7 million, resulting in a net win of \$18.5 million. iLottery sales in 2014 totaled \$3.9 million and prize awards were \$3.3 million, resulting in a net win of \$0.6 million (refer to Note 7 in the accompanying financial statements).

Expenses

The following chart shows prizes, game costs and other operating expenses as a percentage of total operating expenses for the fiscal year ended September 30, 2015:



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, | | |
|--|---------------|------------|------------|
| | 2015 | 2014* | 2013* |
| Prizes: | | | |
| Instant prizes | \$ 721.4 | \$ 641.1 | \$ 573.1 |
| Draw Game prizes | 570.4 | 567.2 | 549.4 |
| Club game prizes | 404.2 | 381.4 | 369.6 |
| Player's Club all games | 1.0 | 1.0 | 1.4 |
| Total prizes | 1,697.0 | 1,590.7 | 1,493.5 |
| Less: unclaimed prizes | 31.5 | 30.8 | 31.9 |
| Net prize awards | 1,665.5 | 1,559.9 | 1,461.6 |
| Direct game expenses: | | | |
| Retailer commissions | 203.6 | 188.5 | 178.5 |
| Vendor commissions | 42.6 | 38.1 | 37.0 |
| Game related expenses | 21.3 | 23.2 | 20.6 |
| Total direct game expenses | 267.5 | 249.8 | 236.1 |
| Other operating expenses: | | | |
| Salaries, wages and benefits | 21.7 | 21.9 | 21.1 |
| Other professional services | 8.0 | 7.9 | 7.3 |
| Printing and supplies | 1.6 | 1.5 | 1.5 |
| Other general and administrative | 3.1 | 3.0 | 2.9 |
| Promotion and advertising | 17.6 | 17.6 | 17.6 |
| Total other operating expenses | 52.0 | 51.9 | 50.4 |
| Total operating expenses | 1,985.0 | 1,861.6 | 1,748.1 |
| Non-operating expenses: | | | |
| Amortization of prize discount | 8.5 | 9.7 | 13.2 |
| School Aid Fund disbursement | 795.5 | 742.8 | 734.3 |
| School Aid Fund disbursement - Club Keno Advertising Fund | - | 0.1 | - |
| General Fund disbursement | 2.9 | 2.9 | 4.5 |
| Health & Human Services disbursement | 1.0 | 1.0 | 1.0 |
| Total non-operating expenses | 807.9 | 756.5 | 753.0 |
| Total expenses | \$ 2,792.9 | \$ 2,618.1 | \$ 2,501.1 |

*2014 and 2013 columns were not restated for the adoption of GASB 68.

The Daily 3 prize payout had an increase to 50.5% in 2015, compared to 48.5% in 2014, and 51.9% in 2013. The Daily 4 prize payout decreased to 49.1% in 2015, compared to 53.5% in 2014, and 49.4% in 2013.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 49.8% in 2015, compared to 51.1% in 2014, and 50.6% in 2013.

The respective Daily Games combined prize payout decreased 1.3% from 2014 to 2015 and increased 0.5% from 2013 to 2014.

The Club Games prize payout percentage increased to 65.5% in 2015, compared to 64.9% in 2014, compared to 64.8% in 2013. 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 71.2% in 2015, compared to 70.2% in 2014 and 69.3% in 2013. The games vary in payout percentage depending on selling price of a ticket for a game. Instant game prize payouts range from 58.9% for a \$1 game to 77.9% for a \$30 game.

Retailer commissions have increased commensurate with higher overall sales. Vendor commissions have increased commensurate with higher overall sales, including a full period of iLottery sales. Game related expense has decreased by \$1.9 million or 8.2% in 2015 from 2014 and increased by \$2.6 million or 12.6% in 2014 from 2013.

Other operating expenses have slightly increased by \$0.1 million or 0.2% from 2015 over 2014 and increased \$1.5 million or 3.0% in 2014 from 2013.

Unclaimed Prizes

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

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

Unclaimed prizes increased by \$0.7 million from 2014 to 2015 and decreased by \$1.1 million from 2013 to 2014.

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, | | |
|--------------------|---------------|---------------|---------------|
| | 2015 | 2014 | 2013 |
| Gross revenue | \$ 12.1 | \$ 11.8 | \$ 13.5 |
| Operating expenses | (9.2) | (8.9) | (9.0) |
| Net income | <u>\$ 2.9</u> | <u>\$ 2.9</u> | <u>\$ 4.5</u> |

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Charitable Gaming activities overseen by the Lottery include the licensing and regulation of charitable and certain other not-for-profit organizations that conduct bingo games and raffles for fund-raising purposes.

By Executive Order 2012-4 dated April 2012, all millionaire party licensing and regulation activities were transferred from the Lottery to the Michigan Gaming Control Board. 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.

Charitable Gaming revenues increased by \$0.3 million or 2.5% for fiscal year 2015 compared to fiscal year 2014 and decreased \$1.7 million or 12.6% from fiscal year 2013 to 2014.

The Lottery also oversees the distribution and sale of break-open tickets, (also for fund-raising purposes), to these same organizations. Charitable Gaming launched a pilot program in February 2015 to begin selling new charity tickets through specialized vending machines located at various not-for-profit organizations.

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 cause. Revenues received through the issuance of licenses and from the distribution of break-open tickets are intended to cover the costs of overseeing the program activities and are not intended as a primary goal to generate revenue for the State. Any revenue in excess of program costs is disbursed annually to the State's General Fund.

Other Potentially Significant Factors Impacting Next Year

A matrix change for Powerball to be made in October 2015 is expected to create higher average jackpots from \$174 million to \$310 million and offer a new 10X multiplier for the add-on game Power Play when the advertised jackpot is less than or equal to \$150 million.

Two new raffle games will be introduced in 2016. A Veterans Day 50/50 Raffle game is planned for November. Fifty percent of the sales will be awarded to one lucky winner. There are also five weekly bonus drawings totaling \$125,000. A percentage of the sales from the raffle will go to help Michigan veterans and their families. In April 2016, a Major League Baseball (MLB) \$40,000 Raffle game will be launched, with the drawing to occur during the all-star break in July 2016. One top prize of \$40,000 and one world series trip valued at \$10,000 will be awarded for every 30,000 tickets sold. Low tier prizes including season tickets and cash prizes will also be offered.

In February 2016, "The Jack" will become the first multi-state game associated with the Club Keno product, replacing Michigan's current in-state "Jack". Michigan will join Maryland, Georgia, and Ohio in offering this add-on progressive jackpot game. "The Jack" will become 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 grow significantly in 2016. Draw-based games will be introduced into desktop, tablet, and mobile portals early in the year. Mega Millions, Lotto 47, Fantasy 5, and Powerball are the first draw based games scheduled to be implemented as early as January 2016.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

A total of 25 new games are slated for launch in 2016, including the draw based games. iLottery games will be launched every two to three weeks to keep content new and exciting.

The web and mobile applications will be redeveloped to support games on a broader range of devices and web browsers. The player registration and deposit processes will be redesigned to create a more seamless user experience. Payment options will be expanding to include PayPal integration with player accounts, as well development of a Lottery terminal-based online game card, and a Lottery prepaid gift card for iLottery play that will be available for purchase at major retail stores and online.

The Lottery will be piloting a credit card acceptance program with an estimated 100 retailers to determine if acceptance of credit cards will have a direct impact on increasing lottery sales. Marketing efforts will be expanded to include direct mail, email, and digital advertising to help achieve target growth for the iLottery program.

The Player's Club customer rewards program is continually growing and changing to ensure that it is successfully retaining and engaging Lottery players. Throughout 2016 and beyond, the program is focusing 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 create more players who utilize both retail and internet Lottery games, implementing more "winning moments" for players, building a better sense of community among players, and implementing a retail tracking mechanism so players can receive points for Lottery purchases at retail.

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

Contacting the Lottery's Financial Management

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

Bureau of State Lottery, State of Michigan
Statement of Net Position
September 30, 2015 and 2014

| | 2015 | 2014 |
|---|---------------|---------------|
| Assets | | |
| Current assets: | | |
| Equity in State Treasurer's Common Cash Fund | \$ 4,546,683 | \$ 3,609,257 |
| Investments, at fair value | 22,889,326 | 29,263,646 |
| Accounts receivable - net | 298,272,973 | 96,291,877 |
| Inventory | 11,230,979 | 8,416,692 |
| Total current assets | 336,939,961 | 137,581,472 |
| Non-current assets: | | |
| Investments, at fair value | 194,165,863 | 203,197,108 |
| Capital assets: | | |
| Leasehold improvements and equipment | 5,846,948 | 4,638,269 |
| Accumulated depreciation | (4,322,790) | (4,066,242) |
| Total capital assets | 1,524,158 | 572,027 |
| Total noncurrent assets | 195,690,021 | 203,769,135 |
| Total assets | 532,629,982 | 341,350,607 |
| Deferred Outflows of Resources: | | |
| Deferred outflows related to pensions | 3,645,346 | - |
| Liabilities | | |
| Current liabilities: | | |
| Warrants outstanding | 1,807,962 | 852,269 |
| Warrants authorized | 7,445,959 | 9,825,944 |
| Accounts payable and other liabilities | 8,882,313 | 7,787,115 |
| Due to School Aid Fund | 20,117,519 | 8,759,196 |
| Prize awards payable - net of discount | 283,867,487 | 98,926,346 |
| Total current liabilities | 322,121,240 | 126,150,870 |
| Noncurrent liabilities: | | |
| Prize awards payable - net of discount | 178,339,708 | 187,548,084 |
| Net pension liability | 20,722,586 | - |
| Accrual for compensated absences, less current portion | 849,006 | 840,261 |
| Accrual for supplemental retirement, less current portion | - | 26,454 |
| Total noncurrent liabilities | 199,911,300 | 188,414,799 |
| Total liabilities | 522,032,540 | 314,565,669 |
| Deferred Inflows of Resources: | | |
| Deferred inflows related to pensions | 2,430,571 | - |
| Net Position | | |
| Net investment in capital assets | 1,524,158 | 572,027 |
| Restricted for School Aid Fund | 11,812,217 | 26,784,938 |
| Unrestricted (deficit) | (1,524,158) | (572,027) |
| Total net position | \$ 11,812,217 | \$ 26,784,938 |

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, 2015 and 2014

| | Six Months Ended | | Years Ended | |
|---|------------------|------------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Operating revenues | | | | |
| Ticket sales | \$ 1,378,459,575 | \$ 1,287,961,571 | \$ 2,771,928,317 | \$ 2,596,411,145 |
| Charitable gaming and other | 6,966,558 | 6,232,027 | 13,204,208 | 12,509,334 |
| Total operating revenues | 1,385,426,133 | 1,294,193,598 | 2,785,132,525 | 2,608,920,479 |
| Operating expenses | | | | |
| Prize awards | 847,958,946 | 810,995,227 | 1,696,977,936 | 1,590,693,610 |
| Less - unclaimed prizes | (17,184,151) | (15,321,500) | (31,527,234) | (30,830,086) |
| Net prize awards | 830,774,795 | 795,673,727 | 1,665,450,702 | 1,559,863,524 |
| Retailer and vendor commission | 123,407,459 | 112,666,111 | 246,217,302 | 226,667,257 |
| Game related expenses | 10,368,588 | 11,107,586 | 21,348,806 | 23,177,532 |
| Depreciation expense | 156,026 | 104,272 | 256,548 | 211,658 |
| Other operating expenses | 23,558,846 | 24,774,829 | 51,785,898 | 51,673,345 |
| Total operating expenses | 988,265,714 | 944,326,525 | 1,985,059,256 | 1,861,593,316 |
| Operating income | 397,160,419 | 349,867,073 | 800,073,269 | 747,327,163 |
| Non-operating revenues | | | | |
| Investment revenue - net | (248,689) | 14,299,083 | 12,926,817 | 18,001,667 |
| Interest on equity in State Treasurer's Common Cash Fund | 45,408 | 37,447 | 82,288 | 78,949 |
| Total non-operating revenues | (203,281) | 14,336,530 | 13,009,105 | 18,080,616 |
| Non-operating expenses | | | | |
| Bank fees | (2,222) | (2,437) | (4,613) | (4,264) |
| Amortization of prize award obligation discount | (3,972,515) | (4,569,328) | (8,474,707) | (9,715,320) |
| Loss on disposal of assets | - | - | - | (1,402) |
| Total non-operating expenses before disbursements | (3,974,737) | (4,571,765) | (8,479,320) | (9,720,986) |
| Disbursement to School Aid Fund | (394,288,145) | (347,754,761) | (795,501,693) | (742,852,314) |
| Disbursement to School Aid Fund - Club Keno Advertising Fund | - | (55,000) | - | (55,000) |
| Disbursement to General Fund | (1,829,436) | (1,510,144) | (2,872,954) | (2,923,174) |
| Disbursement to Health & Human Service: | (495,000) | (495,000) | (990,000) | (990,000) |
| Total disbursements | (396,612,581) | (349,814,905) | (799,364,647) | (746,820,488) |
| Total non-operating expenses | (400,587,318) | (354,386,670) | (807,843,967) | (756,541,474) |
| Net non-operating revenue (expense) | (400,790,599) | (340,050,140) | (794,834,862) | (738,460,858) |
| Change in net position | (3,630,180) | 9,816,933 | 5,238,407 | 8,866,305 |
| Total net position at beginning of period | 35,653,525 | 16,968,005 | 26,784,938 | 17,918,633 |
| Restatement due to change in accounting principle (Note 1) | (20,211,128) | - | (20,211,128) | - |
| Total net position at end of period | \$ 11,812,217 | \$ 26,784,938 | \$ 11,812,217 | \$ 26,784,938 |

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, 2015 and 2014

| | Six Months Ended | | Years Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Cash Flows From Operating Activities | | | | |
| Cash collections from customers | \$ 1,216,528,710 | \$ 1,299,361,389 | \$ 2,582,979,522 | \$ 2,593,490,150 |
| Payments to employees | (11,006,031) | (11,249,171) | (22,194,409) | (22,117,938) |
| Payments to suppliers | (28,130,809) | (27,337,882) | (55,588,487) | (48,847,316) |
| Payments to prize winners | (647,507,414) | (793,590,690) | (1,498,192,644) | (1,591,609,324) |
| Payments for retailer and vendor commissions | (123,407,459) | (112,666,111) | (246,217,302) | (226,667,257) |
| Net cash provided by operating activities | 406,476,997 | 354,517,535 | 760,786,680 | 704,248,315 |
| Cash Flows From Noncapital Financing Activities | | | | |
| Disbursements to School Aid Fund | (450,384,174) | (414,093,119) | (784,143,370) | (734,093,118) |
| Disbursement to School Aid Fund-Club Keno Advertising Fund | - | (55,000) | - | (55,000) |
| Disbursements to General Fund | (2,872,954) | (2,923,174) | (2,872,954) | (2,923,174) |
| Disbursements to Health & Human Services | (990,000) | (990,000) | (990,000) | (990,000) |
| Net cash used for noncapital financing activities | (454,247,128) | (418,061,293) | (788,006,324) | (738,061,292) |
| Cash Flows From Capital and Related Financing Activities | | | | |
| Acquisition of capital assets | (841,909) | (9,700) | (1,208,679) | (30,845) |
| Cash Flows From Investing Activities | | | | |
| Proceeds from the sale and maturity of investment securities | 11,391,000 | 13,256,000 | 29,360,000 | 33,775,000 |
| Purchase of investments | (1,027,619) | (9,272,390) | (1,027,619) | (9,272,390) |
| Interest received | 65,833 | 59,504 | 82,288 | 78,949 |
| Bank fees | (2,222) | (2,437) | (4,613) | (4,264) |
| Net cash provided by investing activities | 10,426,992 | 4,040,677 | 28,410,056 | 24,577,295 |
| Net decrease in cash and cash equivalents | (38,185,048) | (59,512,781) | (18,267) | (9,266,527) |
| Cash and cash equivalents at beginning of period | 40,923,769 | 62,269,769 | 2,756,988 | 12,023,515 |
| Cash and cash equivalents at end of period | \$ 2,738,721 | \$ 2,756,988 | \$ 2,738,721 | \$ 2,756,988 |

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2015 and 2014

| | Six Months Ended | | Years Ended | |
|---|------------------------|-----------------------|------------------------|-----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Reconciliation of net operating income to net cash provided by operating activities | | | | |
| Operating income | \$ 397,160,419 | \$ 349,867,073 | \$ 800,073,269 | \$ 747,327,163 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation expense | 156,026 | 104,272 | 256,548 | 211,658 |
| Pension expense | 2,341,888 | - | 2,341,888 | - |
| Deferred Outflows - Contributions subsequent to measurement date | (3,045,205) | - | (3,045,205) | - |
| Bad debt expense | 78,961 | 56,742 | 171,907 | 87,171 |
| Amortization of prize award obligation discount | (3,972,515) | (4,569,328) | (8,474,707) | (9,715,320) |
| Net Changes in Assets and Liabilities: | | | | |
| Inventory | 824,007 | 1,233,103 | (2,814,287) | (540,292) |
| Receivables | (168,897,423) | 5,167,791 | (202,153,003) | (15,430,328) |
| Warrants authorized, compensated absences, supplemental retirement, accounts payable, other liabilities | (5,409,057) | (3,994,483) | (1,302,495) | 4,338,743 |
| Prize awards payable | 187,239,896 | 6,652,365 | 175,732,765 | (22,030,480) |
| Net cash provided by operating activities | \$ 406,476,997 | \$ 354,517,535 | \$ 760,786,680 | \$ 704,248,315 |
| Reconciliation of cash and cash equivalents | | | | |
| Cash and cash equivalents at beginning of period | | | | |
| Equity in State Treasurer's Common Cash Fund | \$ 41,944,092 | \$ 65,276,492 | \$ 3,609,257 | \$ 12,909,672 |
| Warrants outstanding | (1,020,323) | (3,006,723) | (852,269) | (886,157) |
| Net cash and cash equivalents at beginning of period | \$ 40,923,769 | \$ 62,269,769 | \$ 2,756,988 | \$ 12,023,515 |
| Cash and cash equivalents at end of period | | | | |
| Equity in State Treasurer's Common Cash Fund | \$ 4,546,683 | \$ 3,609,257 | \$ 4,546,683 | \$ 3,609,257 |
| Warrants outstanding | (1,807,962) | (852,269) | (1,807,962) | (852,269) |
| Net cash and cash equivalents at end of period | \$ 2,738,721 | \$ 2,756,988 | \$ 2,738,721 | \$ 2,756,988 |
| Schedule of noncash investing, capital, and financing activities | | | | |
| Increase (Decrease) in fair value of investments | \$ (4,333,497) | \$ 9,816,933 | \$ 4,535,090 | \$ 8,866,305 |
| Disbursements to other funds (accrual) | (20,117,519) | (8,759,196) | (20,117,519) | (8,759,196) |
| Total noncash investing, capital, and financing activities | \$ (24,451,016) | \$ 1,057,737 | \$ (15,582,429) | \$ 107,109 |

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Public Act 95 of 1996 allows the Lottery to participate in joint enterprises, such as multi-state lotteries, with other sovereignties. Michigan, a Mega Millions state, participates in Powerball and Power Play, 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 to Lottery, which are both 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 Community Health 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

Revenues for iLottery 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 7 for more information on iLottery 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 reflected as a restriction of net position for unrealized gains on investments.

Inventory

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandise prizes for games that have not started as of September 30, 2015 and 2014. The inventory is valued at cost, primarily using the weighted average method.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 \$1,391,578 as of September 30, 2015 and \$1,269,702 as of September 30, 2014.

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 three 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 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. 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.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

The Lottery has one item that qualifies for reporting in this category, which is the deferred outflow of resources related to the pension for changes in assumptions and contributions made subsequent to the measurement date.

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 has one item that qualifies for reporting in this category, which is the deferred inflow of resources related to the pension representing the net difference between projected and actual investment earnings of the plan.

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.

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 and deferred inflows and outflows related to pensions, are also reported as restricted for school aid fund.

Change in Accounting

During the current fiscal year, the Lottery adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. As a result, the financial statements now include a net pension liability for our 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. Refer to Note 9 for further details. As a result of implementing this statement, the net position of the Lottery during the year ended September 30, 2015 has been restated by (\$20,211,128) to \$6,573,810. 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.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

The restatement of fiscal year 2014 financial statements was not practical as all necessary information for such a restatement was not available from the pension plan. As such, the fiscal year 2014 financial statements have not been restated.

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. 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.

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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, 2015 and 2014, common cash investments were not exposed to custodial credit risk.

Credit Risk

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

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services: Standard and Poor's (A-1); and Moody's (P-1). Borrowers must have at least \$400 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrower's outstanding debt. The investments are further limited to \$200 million in any borrower, unless the borrower has an A-1+ rating in which case the investment is not to exceed \$300 million. As of September 30, 2015 and 2014, 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.

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Notes to Financial Statements

NOTE 3 - INVESTMENTS

Investments totaling \$217,055,189 at September 30, 2015 and \$232,460,754 at September 30, 2014 are in the form of U. S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, series 2009B (Michigan CAB bonds).

These investments were purchased to fund future payments due to annuity prize winners. The bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 6. Cash receipts from the maturity of investments totaled \$29,360,000 in the year ended September 30, 2015 and \$33,775,000 in the year ended September 30, 2014. For the six months ended September 30, 2015 and 2014, cash receipts from the maturity of investments totaled \$11,391,000 and \$13,256,000, respectively.

Investments at September 30 consist of the following:

| | <u>2015</u> | <u>2014</u> |
|----------------------------------|------------------------------|------------------------------|
| U. S. Treasury zero-coupon bonds | \$ 166,591,518 | \$ 171,426,488 |
| Michigan CAB bonds | <u>50,463,671</u> | <u>61,034,266</u> |
| Total Investments | <u><u>\$ 217,055,189</u></u> | <u><u>\$ 232,460,754</u></u> |

As reported on the Statement of Net Position:

| | <u>2015</u> | <u>2014</u> |
|------------------------|------------------------------|------------------------------|
| Current investments | \$ 22,889,326 | \$ 29,263,646 |
| Noncurrent investments | <u>194,165,863</u> | <u>203,197,108</u> |
| Total Investments | <u><u>\$ 217,055,189</u></u> | <u><u>\$ 232,460,754</u></u> |

Policy Disclosures

Investment authority with regard to the State Lottery Fund is delegated to the State Treasurer per the Michigan Compiled Laws Section 432.41. This authority is the same investment authority with regard to the State's pension (and other employee benefit) trust funds which is found in Michigan Compiled Laws Section 38.1133. The law allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments.

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

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

Interest Rate Risk

Investments in prize annuities at September 30, 2015 and 2014 consist of the following:

September 30, 2015

| Maturities in Years | Investments in United States Treasury Zero-Coupon Bonds | Interest Rate Low to High | Investments in Michigan CAB Bonds | Interest Rate Low to High |
|------------------------|---|------------------------------|---|------------------------------|
| Less than 1 | \$ 15,580,426 | 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>\$ 166,591,519</u> | | <u>\$ 50,463,671</u> | |

September 30, 2014

| Maturities in Years | Investments in United States Treasury Zero-Coupon Bonds | Interest Rate Low to High | Investments in Michigan CAB Bonds | Interest Rate Low to High |
|------------------------|---|------------------------------|---|------------------------------|
| Less than 1 | \$ 16,242,494 | 0.30% to 7.16% | \$ 13,021,152 | 5.36% to 5.61% |
| 1-5 | 57,494,381 | 0.49% to 7.19% | 27,613,058 | 5.62% to 7.65% |
| 6-10 | 40,713,536 | 2.37% to 4.99% | 11,984,444 | 7.88% to 8.29% |
| 11-15 | 28,703,099 | 3.99% to 4.84% | 8,415,612 | 8.31% to 8.39% |
| 16-20 | 19,348,447 | 4.35% to 4.75% | - | - |
| 21-29 | 8,924,531 | 3.57% to 4.79% | - | - |
| Fair Market Value | <u>\$ 171,426,488</u> | | <u>\$ 61,034,266</u> | |

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

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.

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Notes to Financial Statements

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, 2015 and September 30, 2014, 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, 2015, investments in Michigan CAB bonds account for 23.2% of the total Investments as compared to 26.3% as of September 30, 2014.

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, 2015 and 2014 the Lottery had no investments subject to foreign currency risk.

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

NOTE 4 - CAPITAL ASSETS

A summary of capital asset activity for the fiscal years ended September 30, 2015 and 2014 is as follows:

| <u>Year Ending</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</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 | 4,638,269 | 1,208,679 | - | 5,846,948 |
| 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 | 4,066,242 | 256,548 | - | 4,322,790 |
| Total capital assets being depreciated, net | <u>\$ 572,027</u> | <u>\$ 952,131</u> | <u>\$ -</u> | <u>\$ 1,524,158</u> |
| <u>September 30, 2014</u> | | | | |
| Capital assets being depreciated: | | | | |
| Leasehold improvements | \$ 1,955,989 | \$ - | \$ - | \$ 1,955,989 |
| Equipment | 3,175,510 | 30,845 | 524,075 | 2,682,280 |
| Total capital assets being depreciated | 5,131,499 | 30,845 | 524,075 | 4,638,269 |
| Less: accumulated depreciation | | | | |
| Leasehold improvements | 1,939,329 | 3,204 | - | 1,942,533 |
| Equipment | 2,437,928 | 208,454 | 522,673 | 2,123,709 |
| Total accumulated depreciation | 4,377,257 | 211,658 | 522,673 | 4,066,242 |
| Total capital assets being depreciated, net | <u>\$ 754,242</u> | <u>\$ (180,813)</u> | <u>\$ 1,402</u> | <u>\$ 572,027</u> |

NOTE 5 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at September 30, 2015 and 2014 were as follows:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Accounts payable vendors | \$ 3,614,598 | \$ 3,594,374 |
| Retailer security deposits/accounts payable | 3,338,099 | 2,410,359 |
| Accrued salaries | 1,030,007 | 876,099 |
| Compensated absences | 873,155 | 803,723 |
| Supplemental retirement | 26,454 | 102,560 |
| Total | <u>\$ 8,882,313</u> | <u>\$ 7,787,115</u> |

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

NOTE 6 - PRIZE AWARDS

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

| | 2015 | 2014 |
|------------------------------|-----------------------|-----------------------|
| Current - at face amount | \$ 284,419,357 | \$ 99,695,673 |
| Less - unamortized discount | (551,870) | (769,327) |
| Current - at present value | <u>283,867,487</u> | <u>98,926,346</u> |
| Long-term - at face amount | 267,405,400 | 280,380,800 |
| Less - unamortized discount | (89,065,692) | (92,832,716) |
| Long-term - at present value | <u>178,339,708</u> | <u>187,548,084</u> |
| Total | <u>\$ 462,207,195</u> | <u>\$ 286,474,430</u> |

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

| | |
|---|---------------------------|
| 2016 | 23,946,400 |
| 2017 | 16,928,200 |
| 2018 | 14,926,200 |
| 2019 | 14,926,200 |
| 2020 | 14,914,200 |
| 2021-2025 | 67,185,600 |
| 2026-2030 | 55,955,000 |
| 2031-2035 | 49,720,500 |
| 2036-2040 | 15,860,500 |
| 2041-2045 | 6,726,000 |
| 2046-2050 | 3,794,000 |
| 2051-2055 | 2,832,400 |
| 2056-2060 | 1,747,600 |
| 2061-2065 | 745,000 |
| 2066-2070 | 520,000 |
| 2071-2075 | 520,000 |
| 2076-2080 | 104,000 |
| Total at face amount | <u>291,351,800</u> |
| Less - unamortized discount | (89,617,562) |
| Total installment prize awards payable at present value | <u>201,734,238</u> |
| Non-installment prize awards payable | 260,472,957 |
| Total prize awards payable | <u><u>462,207,195</u></u> |

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

| Fiscal Year Ending | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year at Present Value |
|-----------------------|----------------------|---------------|---------------|-------------------|--|
| 2015 | \$ 216,520,157 | \$ 15,213,481 | \$ 29,999,400 | \$ 201,734,238 | \$ 23,394,530 |
| 2014 | \$ 238,362,595 | \$ 12,890,095 | \$ 34,732,533 | \$ 216,520,157 | \$ 28,972,073 |

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Notes to Financial Statements

NOTE 7 – iLOTTERY NET WIN

iLottery 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 sales and prize activity for the fiscal years ended September 30, 2015 and 2014 is as follows:

| | <u>2015</u> | <u>2014</u> |
|------------------|----------------------|-------------------|
| Sales | \$ 146,189,761 | \$ 3,914,115 |
| Prizes | \$(127,661,669) | \$ (3,357,664) |
| iLottery Net Win | <u>\$ 18,528,092</u> | <u>\$ 556,451</u> |

NOTE 8 - 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, 2015.

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 |
|--------------------------|----------------------|--------------|--------------|-------------------|---------------------------|----------------------------|
| 2015 | \$ 1,643,984 | \$ 1,504,409 | \$ 1,426,232 | \$ 1,722,161 | \$ 873,155 | \$ 849,006 |
| 2014 | \$ 1,849,911 | \$ 1,434,968 | \$ 1,640,895 | \$ 1,643,984 | \$ 803,723 | \$ 840,261 |

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Notes to Financial Statements

NOTE 9 – 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 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.

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.

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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. 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.

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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 Community Health 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. 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.

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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.

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.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 year 2015, the Lottery's contribution rate was 27.46% of the defined benefit employee wages and 24.19% of the defined contribution employee wages. The Lottery's contribution to SERS for the fiscal year ending September 30, 2015 was \$3,045,205.

D. Actuarial Assumptions

The Lottery's net pension liability 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 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------------|---|
| 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.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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, 2014, are summarized in the following table:

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

* Rate of return does not include 2.5% inflation

E. Discount Rate

A discount rate of 8.0% was used to measure the total pension liability. 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, 2015, the Lottery reported a liability of \$20,722,586 for its proportionate share of SERS' net pension liability. The net pension liability 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.

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

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. At September 30, 2014, the Lottery's proportion was .403 percent.

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, in thousands, 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 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

| | 1% Decrease 7.0% | Current Discount 8.0% | 1% Increase 9.0% |
|--|-----------------------------|----------------------------------|-----------------------------|
| Lottery's proportionate share of the net pension liability | \$ 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).

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

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

| | Deferred Outflows of Resource | Deferred Inflows of Resources |
|---|-------------------------------------|-------------------------------------|
| Changes of assumptions | \$ 600,141 | \$ - |
| Net difference between projected and actual earnings on investments | \$ - | \$ 2,430,571 |
| Lottery's contributions subsequent to the measurement date | \$ 3,045,205 | \$ - |
| Total | <u>\$ 3,645,346</u> | <u>\$ 2,430,571</u> |

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended September 30: | Pension Expense Amount |
|-------------------------------------|---------------------------------------|
| 2016 | \$ (7,670) |
| 2017 | \$ (607,643) |
| 2018 | \$ (607,643) |
| 2019 | \$ (607,643) |

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, 2015 and 2014, Lottery contributions to the plan totaled \$262,893 and \$229,832 respectively. Lottery's contributions to the plan were \$588,181 for the year ended September 30, 2015 and \$529,472 for the year ended September 30, 2014, and are recorded in salaries and benefits expense.

Postemployment Benefits

The Lottery participates in the State of Michigan's cost-sharing, multi-employer postemployment benefit plan. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan. The contributions paid to this plan for the year ended September 30, 2015 and 2014 totaled 22.76 percent and 24.19 percent of payroll, respectively. Employees hired on or before March 30, 1997 who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements will receive the full amount of healthcare benefits from the State of Michigan. For employees who were hired after March 30, 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.

Supplemental Retirement

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

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

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

| <u>Fiscal Year Ending</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> | <u>Long- Term Liability</u> |
|-----------------------------------|------------------------------|------------------|-------------------|---------------------------|------------------------------------|-------------------------------------|
| 2015 | \$ 129,013 | \$ - | \$ 102,559 | \$ 26,454 | \$ 26,454 | \$ - |
| 2014 | \$ 231,573 | \$ - | \$ 102,560 | \$ 129,013 | \$ 102,559 | \$ 26,454 |

NOTE 10 - LEASE AND RENTAL COMMITMENTS

The total operating lease expense on long-term lease commitments for years ended September 30, 2015 and 2014 were \$210,625 and \$210,629, respectively. For the six months ended September 30, 2015 and 2014 long term lease commitments were \$105,310 and \$105,314, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of remaining minimum building lease commitments follows:

| <u>Year Ending September 30</u> | <u>Operating Leases</u> |
|-------------------------------------|-----------------------------|
| 2016 | \$ 187,372 |
| 2017 | 154,830 |
| 2018 | 78,805 |
| 2019 | 63,600 |
| 2020 | 63,600 |
| 2021-2024 | 42,400 |

The total rent and lease expenses paid for all buildings for the years ended September 30, 2015 and 2014 were \$1,106,059 and \$1,096,844, respectively. For the six months ended September 30, 2015 and 2014 rent and lease expenses paid for all buildings were \$553,028 and \$548,422, respectively.

NOTE 11 - RISK MANAGEMENT

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

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

NOTE 12 - TRANSACTIONS WITH OTHER STATE AGENCIES

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. The Charitable Gaming millionaire party activities were transferred to the Gaming Control Board by Executive Order in April 2012. The following is a summarization of these charges for the six month periods and years ended September 30, 2015 and 2014:

| September 30, 2015 | Six Months Ended | Year Ended |
|--|---------------------|---------------------|
| Department of Technology, Management & Budget: | | |
| 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 |
| Total Department of Technology, Management & Budget | 2,092,223 | 5,894,214 |
| Gaming Control Board | 1,542,804 | 2,563,859 |
| Civil Service Commission | 192,957 | 385,915 |
| Department of Treasury | 422,575 | 651,953 |
| Attorney General | 126,701 | 296,251 |
| Other Agencies | 3,623 | 15,353 |
| Total all State agencies | \$ 4,380,883 | \$ 9,807,545 |
| September 30, 2014 | Six Months Ended | Year Ended |
| Department of Technology, Management & Budget: | | |
| Information Technology: | | |
| Direct costs | \$ 730,814 | \$ 3,012,908 |
| Lansing Metropolitan Area Network (LMAN) | 31,198 | 41,640 |
| Michigan.gov portal web charges | 107,193 | 224,880 |
| Overhead | 5,900 | 162,334 |
| Total Information Technology charges | 875,105 | 3,441,762 |
| Support services (including Internal Audit) | 168,650 | 352,600 |
| Space rental - Lottery Central, Detroit, Saginaw offices | 431,420 | 880,059 |
| Vehicle and travel services | 479,855 | 808,494 |
| Other - Telephone, mailing and other offices services | 334,827 | 520,579 |
| Total Department of Technology, Management & Budget | 2,289,857 | 6,003,494 |
| Gaming Control Board | 1,155,285 | 2,330,093 |
| Civil Service Commission | 184,138 | 368,276 |
| Department of Treasury | 346,261 | 727,609 |
| Attorney General | 124,098 | 288,448 |
| Other Agencies | 11,862 | 16,730 |
| Total all State agencies | \$ 4,111,501 | \$ 9,734,650 |

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Lottery has contracted with a third party to provide for the operation of the gaming system through January 19, 2017. 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 addendum signed December 31, 2011, a gaming service was contracted for a player card loyalty prepaid debit card program known as the WonCard which was implemented on July 30, 2013 and ended on June 7, 2015. The compensation for this program was 2.0% for the WonCard validations of \$600 or less that are automatically credited to the WonCard.

The Lottery contracted with another third party to provide the development, implementation, operational support and maintenance of an iLottery System and iLottery Games through August 2018. The contract rate for instant games are 19.60% of total gross profit. Per Amendment No. 2, effective March 30, 2015, provided an extension of the delivery date for iLottery Draw Based Games (DBG) and provided draw based game system pricing.

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

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

NOTE 14 – UPCOMING ACCOUNTING PRONOUNCEMENTS

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Lottery is currently evaluating the impact this standard will have on the financial statements when adopted, during the Lottery's 2015-2016 fiscal year.

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 is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Lottery's financial statements 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 Year Ended September 30, 2015

| | <u>September 30, 2015</u> |
|--|---------------------------|
| Lottery's proportion of the net pension liability | 0.403% |
| Lottery's proportionate share of the net pension liability | \$ 20,722,586 |
| Lottery's covered-employee payroll | 12,056,738 |
| Lottery's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 172% |
| Plan fiduciary net position as a percentage of the total pension liability | 68.07% |

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

Bureau of State Lottery, State of Michigan
Required Supplemental Information
Schedule of Lottery's Contributions
State Employees' Retirement System
For the Year Ended September 30, 2015

| | <u>September 30, 2015</u> |
|--|---------------------------|
| Statutorily required contribution | \$ 3,045,205 |
| Contributions in relation to the statutorily required contribution | 3,045,205 |
| Contribution deficiency (excess) | - |
| Lottery's covered-employee payroll | 12,056,738 |
| Contributions as a percentage of covered-employee payroll | 25.3% |

Bureau of State Lottery, State of Michigan
Notes to Pension Required Supplemental Information Schedules
Year Ended September 30, 2015

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 2015

| | |
|-------------------------------|--|
| Actuarial cost method | Entry Age, Normal |
| Amortization method | Level Dollar, Closed |
| Remaining amortization period | 23 years |
| Asset valuation method | 5-Year Smoothed Market |
| Inflation | 2.50% |
| 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 2020 using projection scale AA (set forward 2 years for men, with 81% of the male rates used to ages 80-103 and 107% of the female rates. |

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% |
| Total lottery ticket sales | | 1,378,459,575 | 100.0% | 2,771,928,317 | 100.0% |
| 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% |
| Total prize awards | | 847,958,946 | 61.5% | 1,696,977,936 | 61.2% |
| Less: unclaimed prizes | | (17,184,151) | -1.2% | (31,527,234) | -1.1% |
| Net prize awards | | 830,774,795 | 60.3% | 1,665,450,702 | 60.1% |
| Gross margin | | 547,684,780 | 39.7% | 1,106,477,615 | 39.9% |
| Retailer and vendor commission expense | | (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% |
| Net lottery operating income | | 395,330,983 | 28.7% | 797,200,315 | 28.8% |

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 | 1,829,436 | 0.2% | 2,872,954 | 0.2% |
| 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) | (400,790,599) | -29.1% | (794,834,862) | -28.7% |
| Change in net position | \$ (3,630,180) | -0.3% | \$ 5,238,407 | 0.3% |

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2014

| | | Six Months Ended | | Year Ended | |
|--|----------------------------|------------------|------------------|----------------|------------------|
| | | Amount | Percent of Sales | Amount | Percent of Sales |
| Lottery ticket sales: | Daily 3 | \$ 165,960,673 | 12.9% | \$ 327,030,215 | 12.6% |
| | Daily 4 | 189,348,389 | 14.7% | 366,322,891 | 14.1% |
| | Lotto 47 | 22,926,154 | 1.8% | 44,237,876 | 1.7% |
| | Lotto 47 EZ Match | 1,714,448 | 0.1% | 1,714,448 | 0.1% |
| | Mega Millions | 47,216,606 | 3.7% | 133,279,985 | 5.1% |
| | Megaplier | 3,185,802 | 0.2% | 7,411,559 | 0.3% |
| | Powerball | 45,970,504 | 3.6% | 99,252,820 | 3.8% |
| | Power Play | 2,341,321 | 0.2% | 4,733,183 | 0.2% |
| | Keno | 5,078,544 | 0.4% | 10,314,354 | 0.4% |
| | Fantasy Five | 27,827,632 | 2.2% | 55,545,205 | 2.1% |
| | Fantasy Five EZ Match | 4,518,023 | 0.4% | 4,518,023 | 0.2% |
| | Raffle | 1,693,890 | 0.1% | 5,788,120 | 0.2% |
| | Club Keno | 198,562,371 | 15.4% | 399,753,197 | 15.4% |
| | Club Keno Kicker | 70,138,409 | 5.4% | 140,656,201 | 5.4% |
| | The Jack | 5,444,250 | 0.4% | 10,695,413 | 0.4% |
| | Poker Lotto | 12,687,167 | 1.0% | 39,084,583 | 1.5% |
| | Pull-Tab tickets | 16,338,219 | 1.3% | 32,362,857 | 1.2% |
| | Instant tickets | 466,452,718 | 36.2% | 913,153,764 | 35.3% |
| | iLottery Instants, Net Win | 556,451 | 0.0% | 556,451 | 0.0% |
| Total lottery ticket sales | | 1,287,961,571 | 100.0% | 2,596,411,145 | 100.0% |
| Prize awards: | Daily 3 | 81,943,893 | 6.4% | 158,689,389 | 6.1% |
| | Daily 4 | 116,392,524 | 9.0% | 195,960,309 | 7.5% |
| | Lotto 47 | 12,085,429 | 0.9% | 24,253,558 | 0.9% |
| | Lotto 47 EZ Match | 1,084,005 | 0.1% | 1,084,005 | 0.0% |
| | Mega Millions/Megaplier | 24,359,047 | 1.9% | 70,078,857 | 2.7% |
| | Powerball/Power Play | 24,760,059 | 1.9% | 52,738,877 | 2.0% |
| | Keno | 2,556,240 | 0.2% | 4,640,587 | 0.2% |
| | Fantasy Five | 15,076,386 | 1.2% | 29,281,511 | 1.1% |
| | Fantasy Five EZ Match | 2,853,406 | 0.2% | 2,853,406 | 0.1% |
| | Raffle | 1,092,437 | 0.1% | 3,598,012 | 0.1% |
| | Poker Lotto | 7,990,197 | 0.6% | 24,105,920 | 0.9% |
| | Club Keno/Kicker/Jack | 179,168,771 | 13.9% | 357,620,046 | 13.8% |
| | Players Club all games | - | 0.0% | 735,492 | 0.0% |
| | Merchandise Prizes | 167,872 | 0.0% | 172,370 | 0.0% |
| | Pull-Tab tickets | 11,782,787 | 0.9% | 23,746,117 | 0.9% |
| | Instant tickets | 329,682,174 | 25.7% | 641,135,154 | 24.9% |
| Total prize awards | | 810,995,227 | 63.0% | 1,590,693,610 | 61.2% |
| Less: unclaimed prizes | | (15,321,500) | -1.2% | (30,830,086) | -1.2% |
| Net prize awards | | 795,673,727 | 61.8% | 1,559,863,524 | 60.1% |
| Gross margin | | 492,287,844 | 38.2% | 1,036,547,621 | 39.9% |
| Retailer and vendor commission expense | | (112,666,111) | -8.7% | (226,667,257) | -8.7% |
| Game-related expense | | (11,107,586) | -0.9% | (23,177,532) | -0.9% |
| Net ticket revenue | | 368,514,147 | 28.6% | 786,702,832 | 30.3% |
| Other operating expense | | (20,524,246) | -1.6% | (42,999,911) | -1.7% |
| Other miscellaneous revenue | | 367,028 | 0.0% | 701,068 | 0.0% |
| Net lottery operating income | | 348,356,929 | 27.0% | 744,403,989 | 28.6% |

Continued

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2014

| | Six Months Ended | | Year Ended | |
|---|------------------|------------------|----------------|------------------|
| | Amount | Percent of Sales | Amount | Percent of Sales |
| Charitable gaming: | | | | |
| Charitable gaming revenue | 5,864,999 | 0.5% | 11,808,266 | 0.5% |
| Charitable gaming expense | (4,354,855) | -0.3% | (8,885,092) | -0.3% |
| Net charitable gaming income | 1,510,144 | 0.2% | 2,923,174 | 0.2% |
| Non-operating revenues (expenses): | | | | |
| Amortization expense - prize discount | \$ (4,569,328) | -0.4% | \$ (9,715,320) | -0.4% |
| Amortization revenue - investment discount | 4,482,150 | 0.3% | 9,135,362 | 0.4% |
| Unrealized gain on investments | 9,816,933 | 0.8% | 8,866,305 | 0.3% |
| Interest revenue - common cash fund | 37,447 | 0.0% | 78,949 | 0.0% |
| Bank fees | (2,437) | 0.0% | (4,264) | 0.0% |
| Loss on disposal of assets | - | 0.0% | (1,402) | 0.0% |
| Disbursement to School Aid Fund | (347,754,761) | -27.0% | (742,852,314) | -28.6% |
| Disbursement to School Aid Fund-Club Keno Adv | (55,000) | 0.0% | (55,000) | 0.0% |
| Disbursement to General Fund | (1,510,144) | -0.1% | (2,923,174) | -0.1% |
| Disbursement to Community Health | (495,000) | 0.0% | (990,000) | 0.0% |
| Net non-operating revenues (expenses) | (340,050,140) | -26.4% | (738,460,858) | -28.4% |
| Change in net position | \$ 9,816,933 | 0.8% | \$ 8,866,305 | 0.4% |

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months and Years Ended September 30, 2015 and 2014

| | Six Months Ended | | Years Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Salaries and wages | \$ 5,468,303 | \$ 6,271,799 | \$ 11,616,544 | \$ 12,149,463 |
| Employee benefits and taxes | 4,728,538 | 4,579,701 | 10,100,411 | 9,724,634 |
| Promotion and advertising | 8,092,559 | 8,505,827 | 17,630,639 | 17,632,000 |
| Printing and supplies, including purchase of charitable gaming tickets | 763,314 | 789,958 | 1,555,776 | 1,537,630 |
| Other contractual services | 3,320,259 | 3,274,288 | 8,016,587 | 7,929,450 |
| Building rent and leases | 553,028 | 548,422 | 1,106,059 | 1,096,844 |
| Travel | 413,913 | 463,200 | 870,216 | 902,618 |
| Utilities | 172,527 | 132,908 | 349,484 | 270,362 |
| Postage | 152,248 | 149,849 | 283,361 | 272,316 |
| Equipment maintenance and rental | (185,510) | 1,458 | 82,925 | 69,413 |
| Bad debt expense | 78,961 | 56,742 | 171,907 | 87,171 |
| Interest paid on security deposits | 706 | 677 | 1,989 | 1,444 |
| Total | <u>\$ 23,558,846</u> | <u>\$ 24,774,829</u> | <u>\$ 51,785,898</u> | <u>\$ 51,673,345</u> |





STATISTICAL SECTION



Bureau of State Lottery, State of Michigan
Index
Statistical Section

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

| <u>Contents</u> | <u>Page</u> |
|--|--------------------|
| Financial Trends | |
| These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time. | |
| Net position..... | 67 |
| Changes in net position..... | 68 |
| Chart of financial trends..... | 69 |
| Revenue Capacity | |
| This schedule and graph contains information to help the reader assess the Lottery's most significant revenue source, ticket sales. | |
| <ul style="list-style-type: none">• Instant Games – represent the face value of tickets activated by retailers.• Draw Games – represents the face value of tickets sold to the public.• Club Games – represents the face value of tickets sold to the public. | |
| Revenues from ticket sales..... | 70 |
| Chart of ticket sales..... | 71 |
| Debt Capacity | |
| This schedule presents information to help the reader assess the installment prize awards liability of the Lottery. Prize liability is determined by prize structure and luck of the draw. Investments in U.S. Treasury zero-coupon bonds and Michigan CAB bonds are purchased to meet future installment payments to prize winners. | |
| Ratio of installment prize awards liability..... | 72 |
| Demographic and Economic Information | |
| These graphs offers demographic and economic indicators to help the reader understand the environment within which the Lottery's financial activities take place. | |
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| Operating Information | |
| This schedule contains service, retailer data, prize data, expenses and amounts disbursed to the state School Aid Fund and prize winner data to help the reader understand how the Lottery's financial report relates to the products the Lottery provides and the service it performs for the State. | |
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| Industry Comparative Information | |
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2015.





Bureau of State Lottery, State of Michigan
Financial Trends
Net Position
Fiscal Years Ending September 30, 2006 through September 30, 2015
(In Millions)

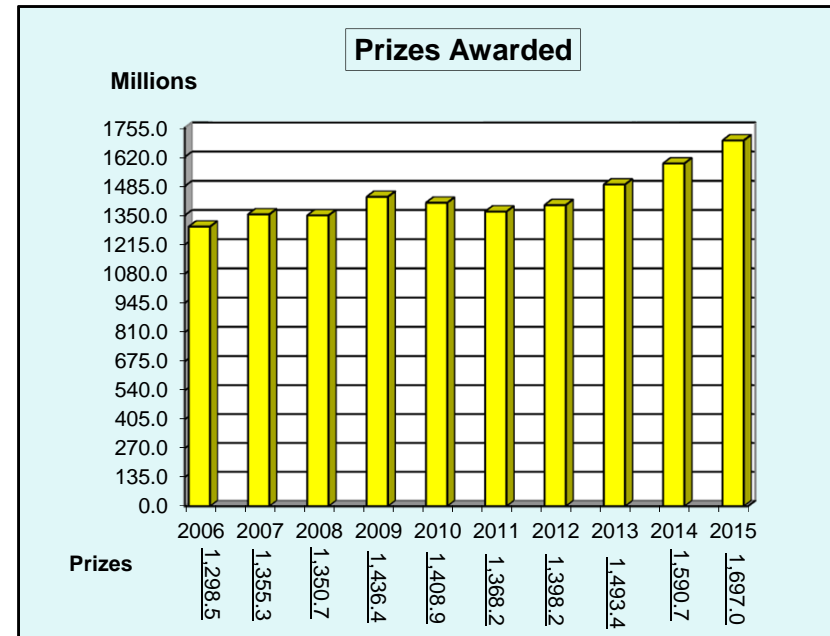
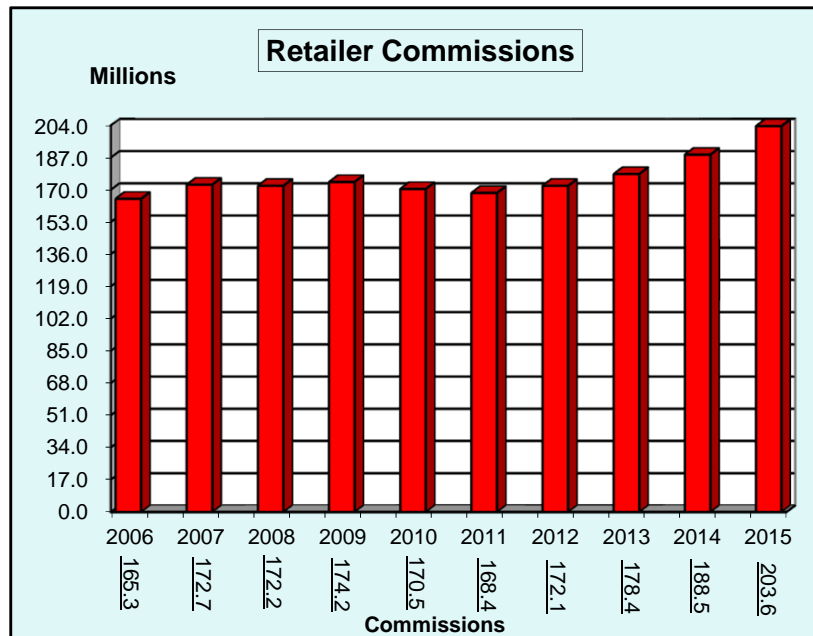
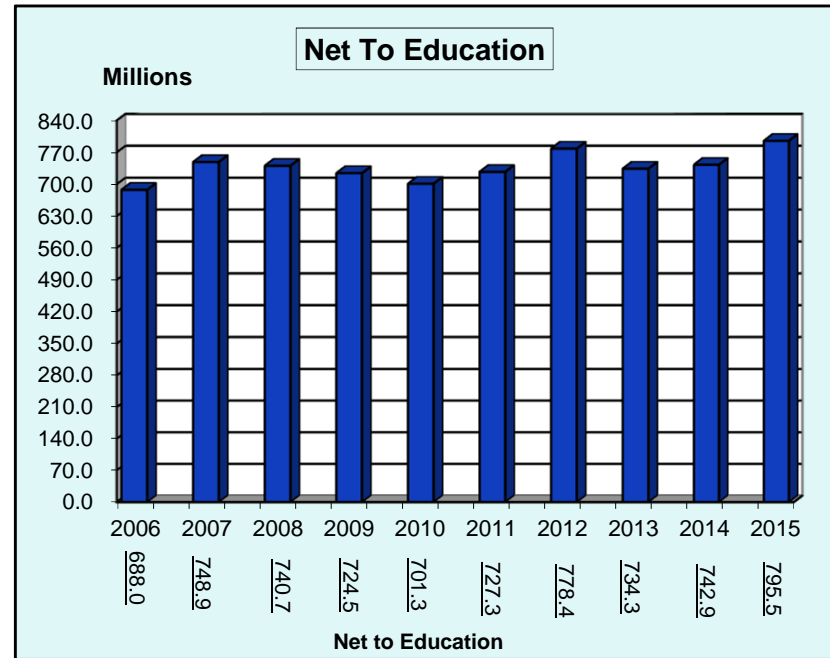
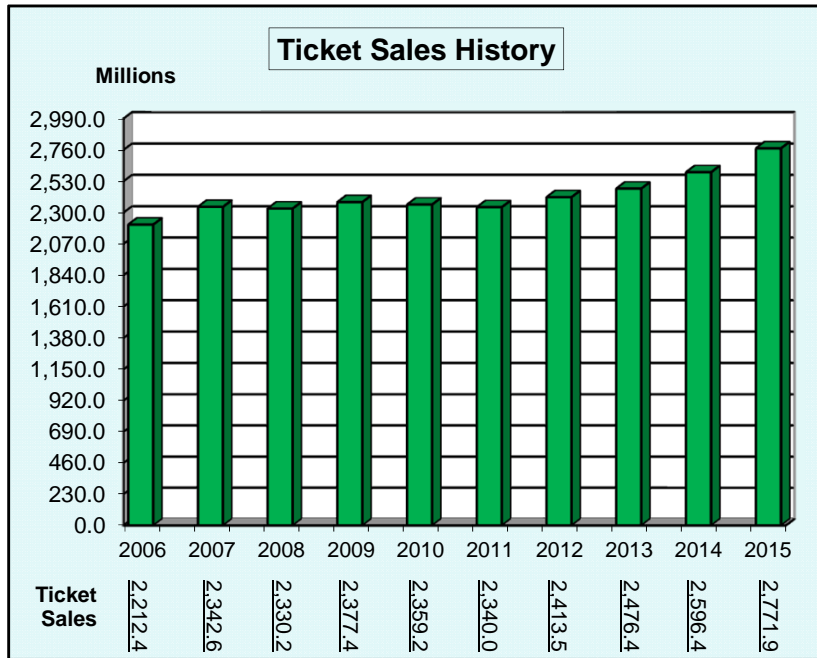
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------------------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net position | | | | | | | | | | |
| Net investment in capital assets | \$ 0.4 | \$ 0.3 | \$ 0.8 | \$ 0.7 | \$ 0.6 | \$ 0.4 | \$ 0.3 | \$ 0.8 | \$ 0.6 | \$ 1.5 |
| Restricted for School Aid Fund | 36.1 | 31.9 | 36.8 | 7.6 | 14.3 | 30.5 | 35.0 | 17.9 | 26.8 | 11.8 |
| Unrestricted (deficit) | <u>(0.4)</u> | <u>(0.3)</u> | <u>(0.8)</u> | <u>(0.7)</u> | <u>(0.6)</u> | <u>(0.4)</u> | <u>(0.3)</u> | <u>(0.8)</u> | <u>(0.6)</u> | <u>(1.5)</u> |
| Total net position | <u>\$ 36.1</u> | <u>\$ 31.9</u> | <u>\$ 36.8</u> | <u>\$ 7.6</u> | <u>\$ 14.3</u> | <u>\$ 30.5</u> | <u>\$ 35.0</u> | <u>\$ 17.9</u> | <u>\$ 26.8</u> | <u>\$ 11.8</u> |



Bureau of State Lottery, State of Michigan
Financial Trends
Changes in Net Position
Fiscal Years Ending September 30, 2006 through September 30, 2015
(In Millions)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------------------|-----------------|----------------|------------------|----------------|----------------|----------------|------------------|----------------|----------------|
| Operating revenues | | | | | | | | | | |
| Ticket sales | \$ 2,212.4 | \$ 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 |
| Charitable gaming and other | 19.8 | 20.4 | 20.9 | 21.5 | 20.7 | 17.5 | 16.8 | 14.7 | 12.5 | 13.2 |
| Total operating revenues | <u>2,232.2</u> | <u>2,363.0</u> | <u>2,351.0</u> | <u>2,399.0</u> | <u>2,379.9</u> | <u>2,357.4</u> | <u>2,430.2</u> | <u>2,491.1</u> | <u>2,608.9</u> | <u>2,785.1</u> |
| Operating expenses | | | | | | | | | | |
| Prize awards | 1,298.5 | 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 |
| Less - unclaimed prizes | <u>(30.3)</u> | <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> |
| Net prize awards | 1,268.2 | 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 |
| Retailer commissions | 165.3 | 172.7 | 172.1 | 174.2 | 170.5 | 168.4 | 172.1 | 178.5 | 188.5 | 203.6 |
| Game related expenses | 60.0 | 63.0 | 63.4 | 53.8 | 53.0 | 53.9 | 53.3 | 57.6 | 61.3 | 63.9 |
| Other operating expenses | 45.3 | 45.3 | 47.0 | 56.7 | 56.6 | 49.4 | 45.9 | 50.4 | 51.9 | 52.0 |
| Total operating expenses | <u>1,538.8</u> | <u>1,610.1</u> | <u>1,605.8</u> | <u>1,692.3</u> | <u>1,661.7</u> | <u>1,616.0</u> | <u>1,641.1</u> | <u>1,748.1</u> | <u>1,861.6</u> | <u>1,985.0</u> |
| Operating income | <u>693.4</u> | <u>752.9</u> | <u>745.2</u> | <u>706.7</u> | <u>718.2</u> | <u>741.4</u> | <u>789.1</u> | <u>743.0</u> | <u>747.3</u> | <u>800.1</u> |
| Non-operating revenues | | | | | | | | | | |
| Investment revenue | 14.7 | 22.2 | 26.9 | 18.7 | 17.0 | 27.7 | 15.5 | (7.2) | 18.0 | 12.9 |
| Interest on equity in State Treasurer's Common Cash Fund | 4.1 | 5.2 | 3.1 | 1.1 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Revenue from security lending | 16.3 | 20.9 | 13.0 | - | - | - | - | - | - | - |
| Total non-operating revenues | <u>35.1</u> | <u>48.3</u> | <u>43.0</u> | <u>19.8</u> | <u>17.3</u> | <u>27.9</u> | <u>15.6</u> | <u>(7.1)</u> | <u>18.1</u> | <u>13.0</u> |
| Non-operating expenses | | | | | | | | | | |
| Security lending expenses | (16.0) | (19.8) | (10.3) | - | - | - | - | - | - | - |
| Amortization of prize obligation discount | <u>(29.4)</u> | <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> |
| Non-operating expenses before disbursements | <u>(45.4)</u> | <u>(44.7)</u> | <u>(31.0)</u> | <u>(18.4)</u> | <u>(15.2)</u> | <u>(15.5)</u> | <u>(13.3)</u> | <u>(13.2)</u> | <u>(9.7)</u> | <u>(8.5)</u> |
| School Aid Fund disbursement | (688.0) | (748.9) | (740.7) | (724.5) | (701.3) | (727.3) | (778.4) | (734.3) | (742.8) | (795.5) |
| School Aid Fund disbursement-Club Keno Advertising | - | - | - | - | - | - | - | - | (0.1) | - |
| General Fund disbursement | (10.5) | (10.8) | (10.6) | (11.8) | (11.3) | (9.3) | (7.5) | (4.5) | (2.9) | (2.9) |
| Community Health disbursement | <u>(1.0)</u> | <u>(1.0)</u> | <u>(1.0)</u> | <u>(1.0)</u> | <u>(1.0)</u> | <u>(1.0)</u> | <u>(1.0)</u> | <u>(1.0)</u> | <u>(1.0)</u> | <u>(1.0)</u> |
| Total disbursements | <u>(699.5)</u> | <u>(760.7)</u> | <u>(752.3)</u> | <u>(737.3)</u> | <u>(713.6)</u> | <u>(737.6)</u> | <u>(786.9)</u> | <u>(739.8)</u> | <u>(746.8)</u> | <u>(799.4)</u> |
| Total non-operating expenses | <u>(744.9)</u> | <u>(805.4)</u> | <u>(783.3)</u> | <u>(755.7)</u> | <u>(728.8)</u> | <u>(753.1)</u> | <u>(800.2)</u> | <u>(753.0)</u> | <u>(756.5)</u> | <u>(807.9)</u> |
| Net non-operating revenue (expense) | <u>(709.8)</u> | <u>(757.1)</u> | <u>(740.3)</u> | <u>(735.9)</u> | <u>(711.5)</u> | <u>(725.2)</u> | <u>(784.6)</u> | <u>(760.1)</u> | <u>(738.4)</u> | <u>(794.9)</u> |
| Change in net position | <u>\$ (16.4)</u> | <u>\$ (4.2)</u> | <u>\$ 4.9</u> | <u>\$ (29.2)</u> | <u>\$ 6.7</u> | <u>\$ 16.2</u> | <u>\$ 4.5</u> | <u>\$ (17.1)</u> | <u>\$ 8.9</u> | <u>\$ 5.2</u> |

**Bureau of State Lottery, State of Michigan
Financial Trends 2006 through 2015**



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, 2006 through September 30, 2015
(In Millions)

| TICKET SALES | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Instant Games | | | | | | | | | | |
| Instant Tickets | \$ 710.8 | \$ 717.8 | \$ 734.2 | \$ 749.1 | \$ 750.8 | \$ 739.2 | \$ 771.7 | \$ 827.0 | \$ 913.1 | \$ 1,013.2 |
| iLottery Instants, Net Win | - | - | - | - | - | - | - | - | 0.6 | 18.5 |
| Club Games | | | | | | | | | | |
| Club Keno, Lucky Streak, The Jack | 343.8 | 380.9 | 402.5 | 396.5 | 374.9 | 376.9 | 397.8 | 399.6 | 410.4 | 430.5 |
| Club Keno Kicker, Lucky Streak Plus | 80.3 | 110.3 | 124.0 | 123.5 | 115.6 | 124.1 | 128.2 | 134.5 | 140.7 | 150.4 |
| Pull Tab, Insta Tabs | 41.6 | 38.5 | 37.4 | 28.0 | 29.1 | 26.9 | 27.3 | 31.7 | 32.4 | 32.9 |
| Total Club Games | 465.7 | 529.7 | 563.9 | 548.0 | 519.6 | 527.9 | 553.3 | 565.8 | 583.5 | 613.8 |
| Draw Games | | | | | | | | | | |
| Daily 3, Double 3 | 385.7 | 369.1 | 347.2 | 351.0 | 344.2 | 327.4 | 323.5 | 321.1 | 327.0 | 344.6 |
| Daily 4, Double 4 | 323.0 | 335.1 | 325.2 | 335.9 | 359.0 | 358.2 | 357.6 | 351.1 | 366.3 | 398.3 |
| Winfall, Lotto 47, Lotto 47 EZ Match | 50.7 | 53.1 | 64.1 | 64.2 | 43.8 | 44.1 | 48.3 | 52.4 | 45.9 | 53.9 |
| Poker Lotto | | | | | | | | | 39.1 | 16.1 |
| Lucky for Life | | | | | | | | | | 15.6 |
| Monopoly | | | | | | | | | | 1.8 |
| Keno | 14.6 | 14.0 | 13.9 | 14.0 | 13.0 | 12.5 | 12.4 | 11.4 | 10.3 | 9.8 |
| Fantasy 5, Fantasy 5 EZ Match | 45.5 | 49.4 | 51.3 | 51.3 | 56.1 | 53.7 | 51.9 | 53.2 | 60.1 | 56.1 |
| Raffle | | 56.3 | 45.5 | 41.3 | 19.0 | 15.1 | 6.8 | 6.0 | 5.8 | 0.2 |
| Lucky Lines | | | | | 15.7 | 8.1 | 1.6 | - | - | - |
| Powerball/Powerplay | | | | | 64.5 | 85.9 | 119.5 | 186.8 | 104.0 | 109.5 |
| Mega Millions/Megaplier | 216.4 | 218.1 | 184.8 | 222.7 | 173.5 | 167.8 | 166.8 | 101.6 | 140.7 | 120.5 |
| Total Draw Games | 1,035.9 | 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 |
| TOTAL TICKET SALES | \$ 2,212.4 | \$ 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 |

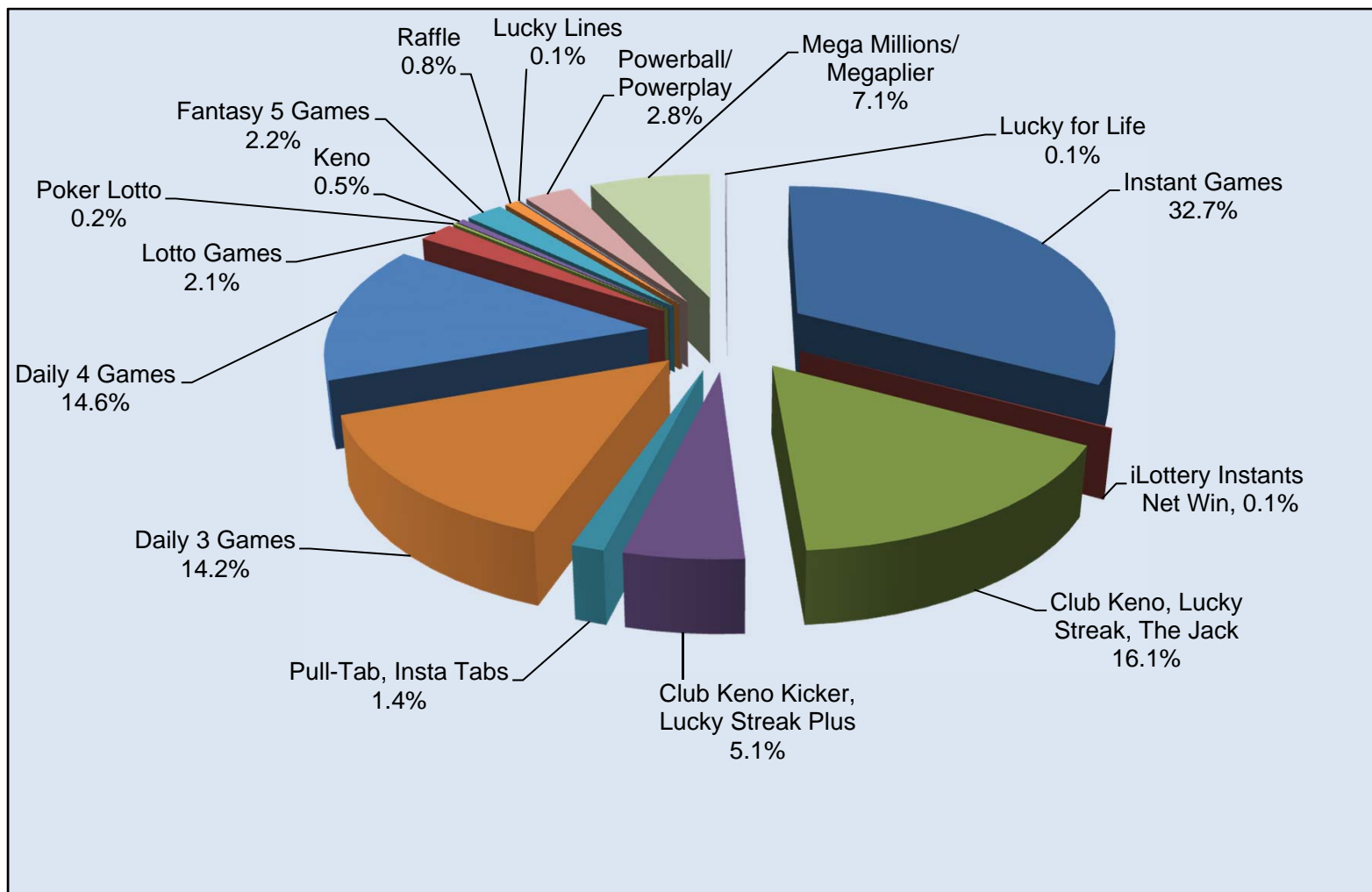
PRICE PER TICKET:

| | | | |
|--|--------------------------|------------------------------|------------------------|
| 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 57 for statistics.

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan
Revenue Capacity
Ticket Sales 2006 through 2015**



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, 2006 through September 30, 2015
(In Millions)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>INSTALLMENT PRIZE AWARDS LIABILITY</u> | | | | | | | | | | |
| Current - at face amount | \$ 86.5 | \$ 75.9 | \$ 68.8 | \$ 59.5 | \$ 53.1 | \$ 49.8 | \$ 40.9 | \$ 34.6 | \$ 29.7 | \$ 23.9 |
| Long-term - at face amount | <u>443.3</u> | <u>373.0</u> | <u>305.1</u> | <u>309.7</u> | <u>260.4</u> | <u>352.4</u> | <u>317.3</u> | <u>303.3</u> | <u>280.4</u> | <u>267.4</u> |
| Total installment prize awards | <u>\$ 529.8</u> | <u>\$ 448.9</u> | <u>\$ 373.9</u> | <u>\$ 369.2</u> | <u>\$ 313.5</u> | <u>\$ 402.2</u> | <u>\$ 358.2</u> | <u>\$ 337.9</u> | <u>\$ 310.1</u> | <u>\$ 291.3</u> |
| <u>INVESTMENTS</u> | | | | | | | | | | |
| Face amount | <u>\$ 535.2</u> | <u>\$ 448.1</u> | <u>\$ 371.2</u> | <u>\$ 341.6</u> | <u>\$ 280.8</u> | <u>\$ 382.0</u> | <u>\$ 332.7</u> | <u>\$ 315.5</u> | <u>\$ 298.8</u> | <u>\$ 270.9</u> |
| Installment prize awards payable as a percentage of investments: | 98.99% | 100.18% | 100.73% | 108.08% | 111.65% | 105.29% | 107.66% | 107.10% | 103.78% | 107.53% |

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



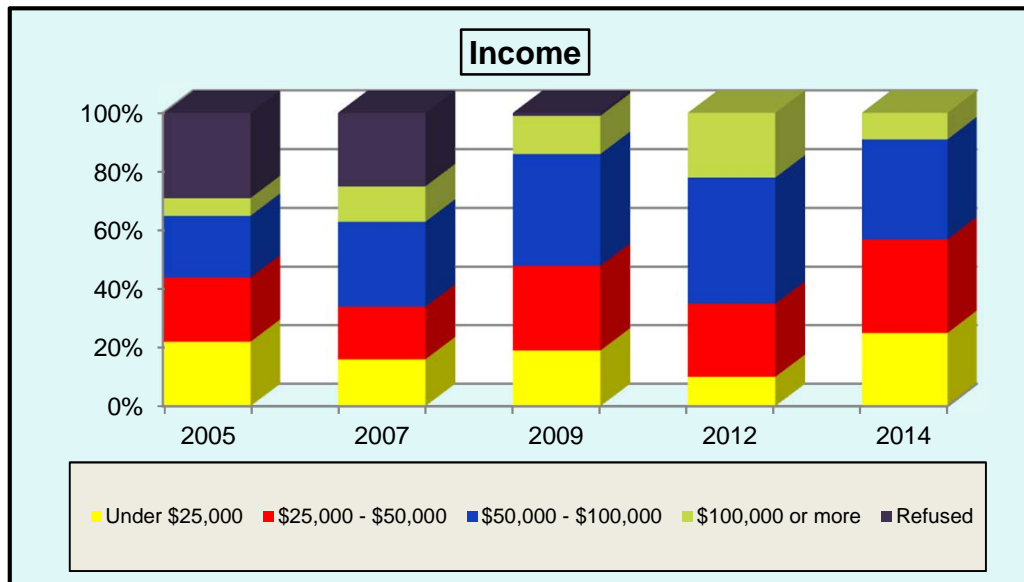
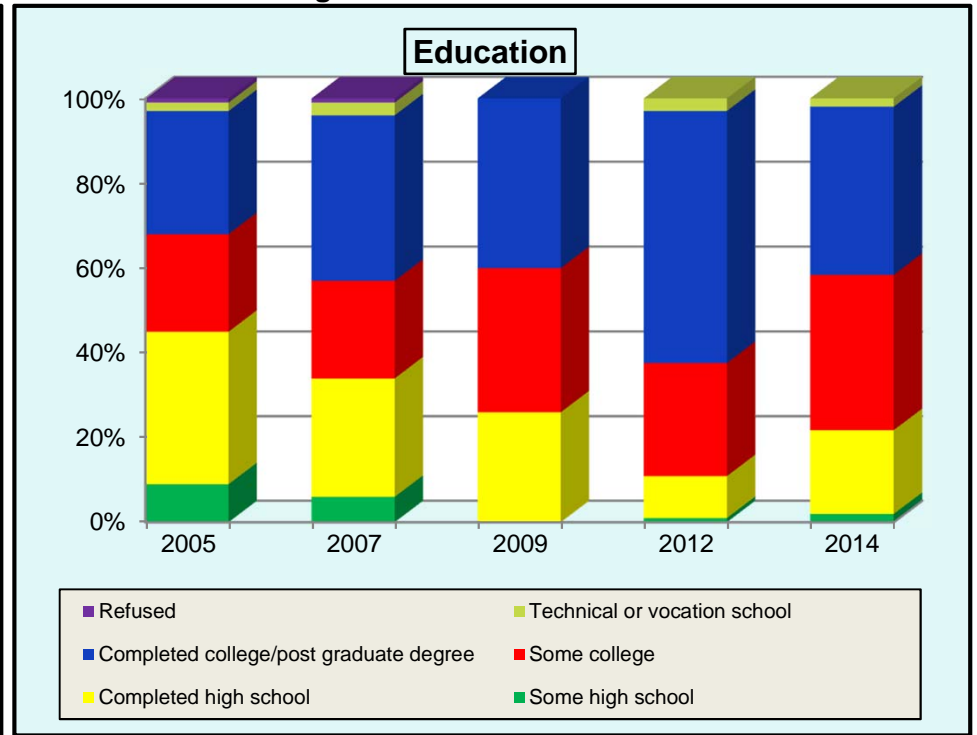
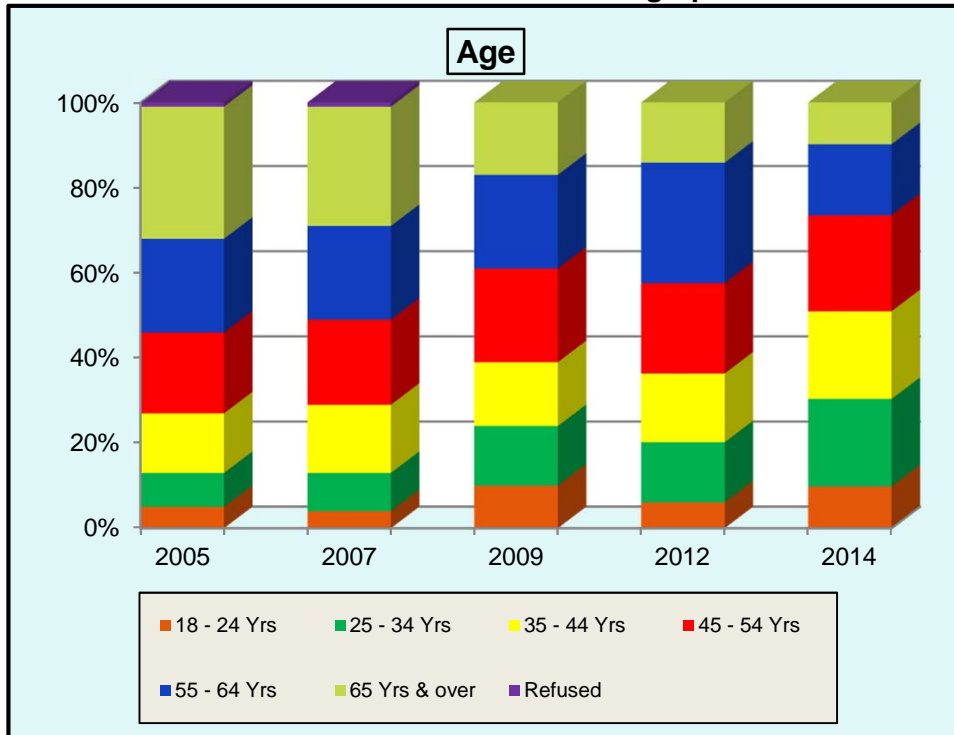
Bureau of State Lottery, State of Michigan
Demographic and Economic Information
Demographic General Tracking Study
Fiscal Years Ending September 30, 2005 through September 30, 2014

These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles.
 The demographic general tracking study for 2015 was not complete as of September 30.

| | 2005 | 2007 | 2009 | 2012 | 2014 |
|---|------|------|------|------|------|
| Gender | | | | | |
| Male | 50% | 50% | 49% | 41% | 48% |
| Female | 50% | 50% | 51% | 59% | 52% |
| Education | | | | | |
| Some high school | 9% | 6% | | 1% | 2% |
| Completed high school | 36% | 28% | 26% | 10% | 20% |
| Some college | 23% | 23% | 34% | 27% | 37% |
| Completed college/post graduate degree | 29% | 39% | 40% | 60% | 40% |
| Technical or vocation school | 2% | 3% | | 3% | 2% |
| Refused | 1% | 1% | | | |
| Age | | | | | |
| 18 - 24 Yrs | 5% | 4% | 10% | 6% | 10% |
| 25 - 34 Yrs | 8% | 9% | 14% | 14% | 21% |
| 35 - 44 Yrs | 14% | 16% | 15% | 16% | 21% |
| 45 - 54 Yrs | 19% | 20% | 22% | 21% | 23% |
| 55 - 64 Yrs | 22% | 22% | 22% | 28% | 17% |
| 65 Yrs & over | 31% | 28% | 17% | 14% | 10% |
| Refused | 1% | 1% | | | |
| Income | | | | | |
| Under \$25,000 | 22% | 16% | 19% | 10% | 25% |
| \$25,000 - \$50,000 | 22% | 18% | 29% | 25% | 32% |
| \$50,000 - \$100,000 | 21% | 29% | 38% | 43% | 34% |
| \$100,000 or more | 6% | 12% | 13% | 22% | 9% |
| Refused | 29% | 25% | 1% | | |
| Ethnicity | | | | | |
| White | 83% | 80% | 85% | 83% | 81% |
| Black/African-American/Caribbean-American | 9% | 10% | 11% | 11% | 13% |
| Hispanic/Latino | 1% | 1% | 1% | 3% | 3% |
| Asian/Pacific Islander | | | | | 2% |
| Other | 1% | 1% | 3% | 3% | 1% |
| Refused | 6% | 8% | | | |

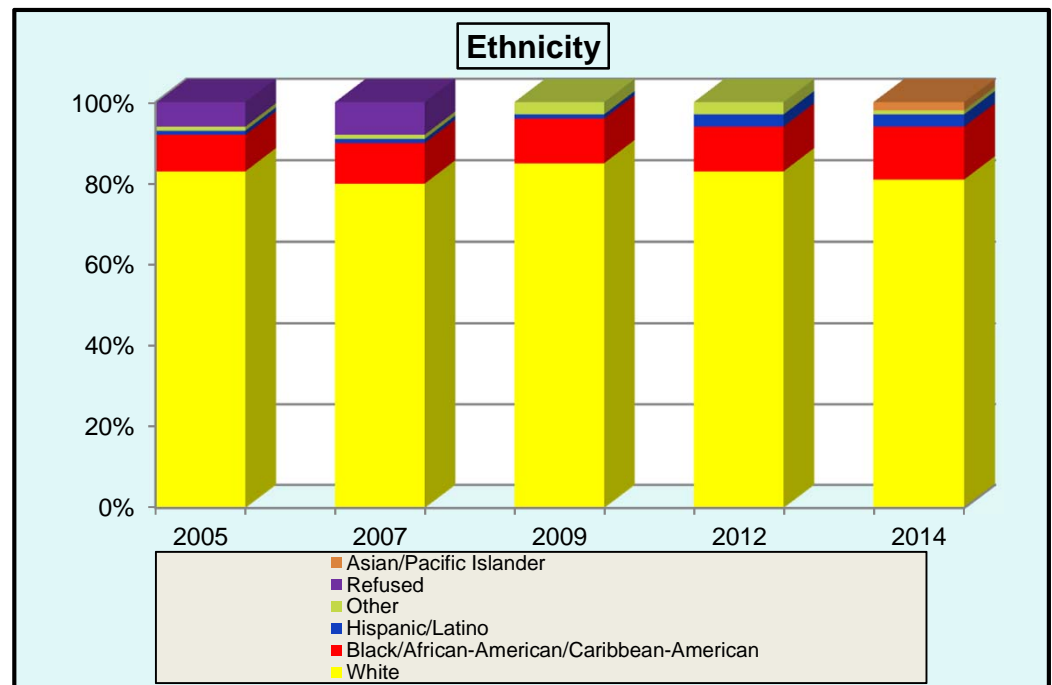
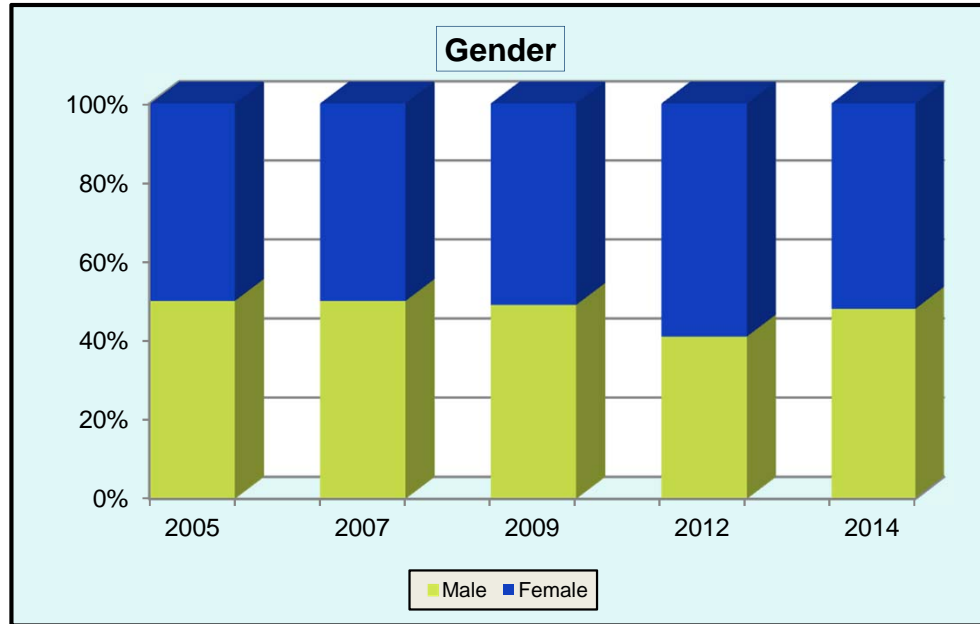
Source: Bureau of State Lottery
 General Tracking Study

**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 2005 through 2014**



Source: Bureau of State Lottery
General Tracking Study

**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 2005 through 2014**



Source: Bureau of State Lottery
General Tracking Study



Bureau of State Lottery, State of Michigan
Demographic and Economic Indicators
Fiscal Years Ending September 30, 2005 through September 30, 2014
(In Thousands)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Population (a) | | | | | | | | | | |
| Michigan | 10,108 | 10,102 | 10,072 | 10,002 | 9,970 | 9,877 | 9,876 | 9,883 | 9,896 | 9,909 |
| United States | 295,896 | 298,755 | 301,621 | 304,375 | 307,007 | 309,349 | 311,592 | 313,914 | 316,129 | 318,857 |
| Total Personal Income (b) | | | | | | | | | | |
| Michigan | \$ 325.3 | \$ 332.7 | \$ 345.9 | \$ 349.6 | \$ 342.3 | \$ 342.7 | \$ 358.2 | \$ 378.4 | \$ 386.5 | \$ 403.7 |
| United States | \$ 10,252.8 | \$ 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 |
| Per Capita Income (b) | | | | | | | | | | |
| Michigan | \$ 32,182 | \$ 32,928 | \$ 34,342 | \$ 34,949 | \$ 34,334 | \$ 34,691 | \$ 36,264 | \$ 38,291 | \$ 39,055 | \$ 40,740 |
| United States | \$ 34,650 | \$ 36,744 | \$ 38,564 | \$ 40,208 | \$ 39,626 | \$ 39,945 | \$ 41,560 | \$ 43,735 | \$ 44,765 | \$ 46,049 |
| Unemployment Rate (c) | | | | | | | | | | |
| Michigan | 6.9% | 6.9% | 7.2% | 8.4% | 15.3% | 13.0% | 9.3% | 9.0% | 7.2% | 5.0% |
| United States | 5.1% | 4.6% | 4.6% | 5.8% | 9.8% | 9.6% | 7.8% | 7.2% | 5.9% | 5.1% |
| Michigan estimated wage and salary employees (c) | | | | | | | | | | |
| Goods Producing: | | | | | | | | | | |
| Natural Resources and Mining | 8.4 | 8.0 | 7.6 | 7.8 | 7.2 | 7.3 | 7.3 | 7.8 | 7.9 | 8.3 |
| Construction | 189.1 | 178.0 | 166.2 | 153.7 | 132.3 | 113.3 | 123.4 | 124.6 | 127.2 | 139.0 |
| Manufacturing | 680.0 | 650.8 | 616.8 | 575.3 | 463.8 | 464.1 | 510.8 | 546.5 | 566.3 | 588.5 |
| Total Goods Producing | 877.5 | 836.9 | 790.5 | 736.8 | 603.3 | 584.7 | 641.5 | 678.9 | 701.4 | 735.8 |
| Service-Providing: | | | | | | | | | | |
| Private Service-Providing | | | | | | | | | | |
| Trade, Transportation, and Utilities: | | | | | | | | | | |
| Wholesale Trade | 170.7 | 170.6 | 169.1 | 166.7 | 150.2 | 152.3 | 158.0 | 159 | 163.8 | 169.7 |
| Retail Trade | 506.0 | 496.0 | 489.7 | 478.4 | 449.0 | 446.6 | 446.2 | 448.9 | 474.1 | 476.6 |
| Transportation and Utilities | 128.3 | 128.4 | 129.1 | 124.2 | 113.2 | 108.8 | 121.5 | 123.2 | 130.3 | 132.0 |
| Information | 67.3 | 66.1 | 65.6 | 61.8 | 54.3 | 52.5 | 54.6 | 52.1 | 56.2 | 57.0 |
| Financial Activities: | | | | | | | | | | |
| Finance and Insurance | 161.8 | 160.9 | 157.8 | 152.3 | 139.8 | 135.2 | 144.5 | 148.5 | 151.6 | 154.1 |
| Real Estate and Rental and Leasing | 56.1 | 54.9 | 53.6 | 52.1 | 49.2 | 45.5 | 50.4 | 47.8 | 49.1 | 51.9 |
| Professional and Business Services: | | | | | | | | | | |
| Professional, Scientific, and Technical Services | 246.4 | 244.9 | 244.2 | 240.1 | 215.6 | 214.8 | 235.0 | 250 | 264.6 | 272.8 |
| Management of Companies and Enterprises | 64.6 | 61.7 | 57.3 | 54.4 | 50.9 | 50.8 | 53.5 | 54.1 | 59 | 58.3 |
| Administrative, Support Services, and Waste Management | 277.5 | 275.1 | 271.8 | 262.5 | 239.8 | 248.3 | 271.4 | 271.9 | 281.7 | 302.6 |
| Educational and Health Services: | | | | | | | | | | |
| Educational Services | 74.8 | 76.1 | 78.0 | 80.3 | 78.4 | 80.3 | 77.1 | 72.2 | 76.2 | 80.1 |
| Health Care and Social Assistance | 501.0 | 507.2 | 517.0 | 528.1 | 530.5 | 535.0 | 548.7 | 559.4 | 564.2 | 574.5 |
| Leisure and Hospitality: | | | | | | | | | | |
| Accommodation and Food Services | 341.9 | 343.8 | 341.8 | 335.5 | 328.0 | 322.0 | 328.2 | 344.3 | 349.8 | 351.4 |
| Other | 62.6 | 61.8 | 62.7 | 62.6 | 65.5 | 51.8 | 46.9 | 42.5 | 36.8 | 40.4 |
| Other Services | 179.6 | 177.5 | 176.7 | 175.6 | 168.2 | 164.4 | 170.4 | 169.4 | 171.2 | 171.0 |
| Total Private Service-Providing | 2,838.7 | 2,824.9 | 2,814.3 | 2,774.5 | 2,632.6 | 2,608.3 | 2,706.4 | 2,743.3 | 2,828.6 | 2,892.4 |
| Government: | 674.1 | 665.3 | 657.2 | 647.9 | 643.8 | 629.8 | 612.5 | 606.7 | 614.3 | 609.3 |
| Total Service-Providing | 3,512.8 | 3,490.3 | 3,471.4 | 3,422.4 | 3,276.4 | 3,238.1 | 3,318.9 | 3,350.0 | 3,442.9 | 3,501.7 |
| Total Wage and Salary Employment | 4,390.3 | 4,327.1 | 4,262.0 | 4,159.2 | 3,879.7 | 3,822.8 | 3,960.4 | 4,028.9 | 4,144.3 | 4,237.5 |

NOTES: Calendar year 2014 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, 2006 through September 30, 2015

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Number of Employees | 173 | 162 | 168 | 171 | 181 | 174 | 177 | 178 | 174 | 174 |
| Number of Retailers | | | | | | | | | | |
| Instant only | 816 | 680 | 575 | - | - | - | - | - | - | - |
| Club Games | 2,216 | 2,371 | 2,474 | 2,478 | - | - | - | - | - | - |
| Online | 7,848 | 7,922 | 7,920 | 8,202 | - | - | - | - | - | - |
| *All Games | - | - | - | - | 10,797 | 10,746 | 10,879 | 10,848 | 10,684 | 10,654 |
| Total Retailers | 10,880 | 10,973 | 10,969 | 10,680 | 10,797 | 10,746 | 10,879 | 10,848 | 10,684 | 10,654 |
| Prize Payout Percentage | 58.69% | 57.85% | 57.97% | 60.42% | 59.72% | 58.47% | 57.93% | 60.31% | 61.27% | 61.22% |
| Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund | 31.10% | 31.97% | 31.79% | 30.47% | 29.73% | 31.08% | 32.25% | 29.65% | 28.61% | 28.70% |
| Number of Millionaire Prize Winners | 17 | 42 | 37 | 40 | 39 | 28 | 31 | 36 | 39 | 42 |
| Number of Prize Winners Greater than \$600 | 52,124 | 49,585 | 44,962 | 53,986 | 60,543 | 48,567 | 44,904 | 52,365 | 56,735 | 56,178 |

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

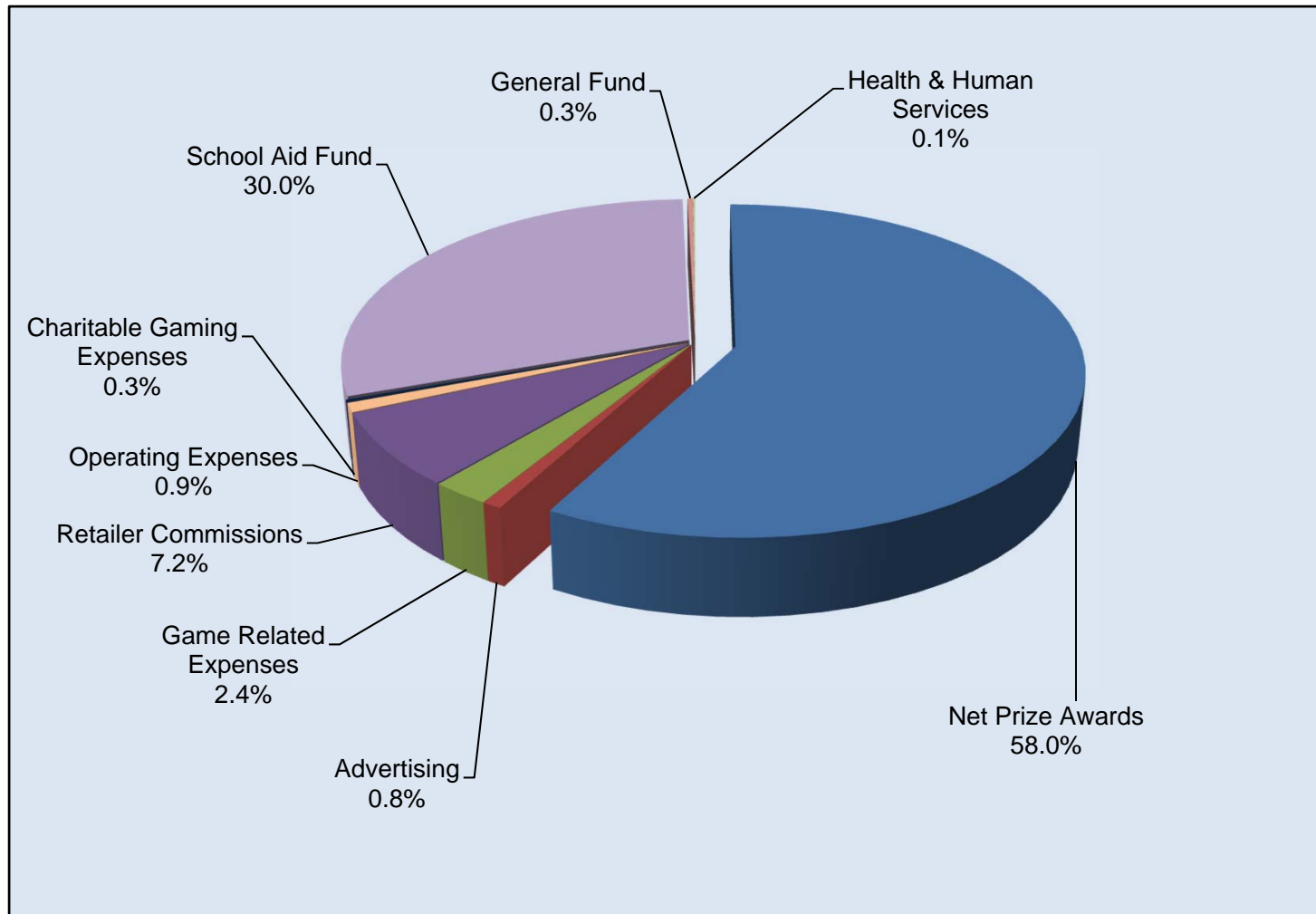


Bureau of State Lottery, State of Michigan
Operating Information

Expenses & Disbursements to the State's School Aid Fund, General Fund, and Health & Human Services
Fiscal Years Ending September 30, 2006 through September 30, 2015
(In Millions)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| EXPENSES | | | | | | | | | | |
| Prize Awards | \$ 1,298.5 | \$ 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 |
| Unclaimed Prizes | (30.3) | (26.2) | (27.4) | (28.7) | (27.3) | (23.9) | (28.4) | (31.9) | (30.8) | (31.5) |
| Net Prize Awards | 1,268.2 | 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 |
| Promotion and Advertising | 17.5 | 17.5 | 17.6 | 27.0 | 29.0 | 22.6 | 16.7 | 17.6 | 17.6 | 17.6 |
| Game Related Expenses | 60.0 | 63.0 | 63.4 | 53.8 | 53.0 | 53.9 | 53.3 | 57.6 | 61.3 | 63.9 |
| Retailer Commissions | 165.3 | 172.7 | 172.1 | 174.2 | 170.5 | 168.4 | 172.1 | 178.5 | 188.5 | 203.6 |
| Operating Expenses | 19.7 | 19.6 | 21.1 | 20.8 | 20.2 | 20.1 | 22.2 | 23.9 | 25.4 | 25.2 |
| Charitable Gaming Expenses | 8.1 | 8.2 | 8.3 | 8.9 | 7.4 | 6.7 | 7.0 | 8.9 | 8.9 | 9.2 |
| TOTAL EXPENSES | \$ 1,538.8 | \$ 1,610.1 | \$ 1,605.8 | \$ 1,692.3 | \$ 1,661.7 | \$ 1,616.0 | \$ 1,641.1 | \$ 1,748.1 | \$ 1,861.6 | \$ 1,985.0 |
| DISBURSEMENTS TO THE STATE | | | | | | | | | | |
| School Aid Fund | 688.0 | 748.9 | 740.7 | 724.5 | 701.3 | 727.3 | 778.4 | 734.3 | 742.8 | 795.5 |
| School Aid Fund-Club Keno Adv | - | - | - | - | - | - | - | - | 0.1 | - |
| General Fund | 10.5 | 10.8 | 10.6 | 11.8 | 11.3 | 9.3 | 7.5 | 4.5 | 2.9 | 2.9 |
| Health & Human Services | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| TOTAL DISBURSEMENTS | \$ 699.5 | \$ 760.7 | \$ 752.3 | \$ 737.3 | \$ 713.6 | \$ 737.6 | \$ 786.9 | \$ 739.8 | \$ 746.8 | \$ 799.4 |

**Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements 2006 through 2015**



Source: Bureau of State Lottery, State of Michigan

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

Fiscal Year 2014 U.S. Lottery Sales, Prizes & Government Transfers Measured by GDP*

| Lottery | 2014 Pop ¹ (Mil) | (in \$millions) | | | | | | PC Sales | PC Gov't | Ticket Sales as % of GDP | Gov't Transfers as % of GDP |
|------------------------------|--------------------------------|--|---------------------------------------|------------------------|--------------|---------------------|------------------------------|--------------|-------------|--------------------------|-----------------------------|
| | | 2013 Gross Domestic Product ² | Traditional Ticket Sales ³ | VLT (net) ² | Gaming (net) | Prizes ⁴ | Gov't Transfers ⁵ | | | | |
| Arizona | 6.7 | 261,924 | 724.00 | | | 456.40 | 175.60 | \$108 | \$26 | 0.276% | 0.067% |
| Arkansas | 3.0 | 115,745 | 410.10 | | | 266.00 | 81.70 | \$138 | \$28 | 0.354% | 0.071% |
| California | 38.8 | 2,050,693 | 5,034.70 | | | 3,082.40 | 1,327.90 | \$130 | \$34 | 0.246% | 0.065% |
| Colorado | 5.4 | 273,721 | 545.00 | | | 336.50 | 130.10 | \$102 | \$24 | 0.199% | 0.048% |
| Connecticut | 3.6 | 233,996 | 1,112.40 | | | 668.80 | 324.40 | \$309 | \$90 | 0.475% | 0.139% |
| Delaware ^{4,5} | 0.9 | 58,028 | 148.40 | 363.40 | 52.50 | 102.00 | 257.40 | \$159 | \$275 | 0.256% | 0.444% |
| D.C. | 0.7 | 105,465 | 216.00 | | | 121.30 | 55.00 | \$328 | \$83 | 0.205% | 0.052% |
| Florida | 19.9 | 750,511 | 5,368.20 | | | 3,431.10 | 1,495.40 | \$270 | \$75 | 0.715% | 0.199% |
| Georgia | 10.1 | 424,606 | 3,739.90 | | | 2,413.80 | 945.10 | \$370 | \$94 | 0.881% | 0.223% |
| Idaho | 1.6 | 57,029 | 208.90 | | | 133.20 | 49.10 | \$128 | \$30 | 0.366% | 0.086% |
| Illinois | 12.9 | 671,407 | 2,791.80 | | | | | \$217 | | 0.416% | |
| Indiana | 6.6 | 294,212 | 1,018.70 | | | 636.60 | 251.20 | \$154 | \$38 | 0.346% | 0.085% |
| Iowa | 3.1 | 150,512 | 314.10 | | | 186.90 | 74.00 | \$101 | \$24 | 0.209% | 0.049% |
| Kansas | 2.9 | 132,153 | 245.70 | | 353.00 | 138.70 | 159.00 | \$85 | \$55 | 0.186% | 0.120% |
| Kentucky | 4.4 | 170,667 | 843.30 | | | 523.80 | 226.10 | \$191 | \$51 | 0.494% | 0.132% |
| Louisiana | 4.6 | 222,008 | 449.00 | | | 237.40 | 170.70 | \$97 | \$37 | 0.202% | 0.077% |
| Maine | 1.3 | 51,163 | 230.00 | | | 146.90 | 52.40 | \$173 | \$39 | 0.449% | 0.102% |
| Maryland ^{4,5} | 6.0 | 322,234 | 1,724.00 | 579.10 | 254.90 | 1,022.00 | 941.70 | \$288 | \$158 | 0.535% | 0.292% |
| Massachusetts | 6.7 | 420,748 | 4,853.60 | | | 3,514.60 | 974.60 | \$720 | \$144 | 1.154% | 0.232% |
| Michigan | 9.9 | 408,218 | 2,596.40 | | | 1,559.90 | 746.80 | \$262 | \$75 | 0.636% | 0.183% |
| Minnesota | 5.5 | 289,125 | 531.50 | | | 328.00 | 127.00 | \$97 | \$23 | 0.184% | 0.044% |
| Missouri | 6.1 | 258,135 | 1,157.10 | | | 766.20 | 277.50 | \$191 | \$46 | 0.448% | 0.108% |
| Montana ⁶ | 1.0 | 39,846 | 53.10 | | | 29.50 | 12.20 | \$52 | \$12 | 0.133% | 0.031% |
| Nebraska | 1.7 | 98,250 | 157.90 | | | 92.80 | 38.00 | \$84 | \$20 | 0.161% | 0.039% |
| New Hampshire | 1.3 | 64,118 | 275.60 | | | 171.80 | 72.40 | \$208 | \$55 | 0.430% | 0.113% |
| New Jersey | 8.9 | 509,067 | 2,908.10 | | | 1,732.00 | 965.00 | \$325 | \$108 | 0.571% | 0.190% |
| New Mexico | 2.1 | 84,310 | 136.00 | | | 74.10 | 40.90 | \$65 | \$20 | 0.161% | 0.049% |
| New York ^{4,5} | 19.7 | 1,226,619 | 7,314.20 | 1,912.30 | | 4,407.90 | 3,173.00 | \$370 | \$161 | 0.596% | 0.259% |
| North Carolina | 9.9 | 439,672 | 1,839.30 | | | 1,135.10 | 504.10 | \$185 | \$51 | 0.418% | 0.115% |
| North Dakota ⁶ | 0.7 | 49,772 | 26.90 | | | 13.80 | 7.80 | \$36 | \$11 | 0.054% | 0.016% |
| Ohio ^{4,5} | 11.6 | 526,196 | 2,743.10 | 437.60 | | 1,698.00 | 1,004.30 | \$237 | \$87 | 0.521% | 0.191% |
| Oklahoma | 3.9 | 164,303 | 191.10 | | | 97.50 | 67.70 | \$49 | \$17 | 0.116% | 0.041% |
| Oregon ^{4,5} | 4.0 | 211,241 | 310.10 | 742.70 | | 202.00 | 508.90 | \$78 | \$128 | 0.147% | 0.241% |
| Pennsylvania | 12.8 | 603,872 | 3,799.60 | | | 2,376.70 | 1,079.60 | \$297 | \$84 | 0.629% | 0.179% |
| Rhode Island ^{4,5} | 1.1 | 49,962 | 242.80 | 507.10 | 88.10 | 146.00 | 376.30 | \$230 | \$357 | 0.486% | 0.753% |
| South Carolina | 4.8 | 172,176 | 1,264.40 | | | 811.10 | 330.70 | \$262 | \$68 | 0.734% | 0.192% |
| South Dakota ^{4,5} | 0.9 | 41,142 | 54.10 | 185.20 | | 31.20 | 106.20 | \$63 | \$125 | 0.131% | 0.258% |
| Tennessee | 6.5 | 269,602 | 1,319.10 | | | 836.50 | 337.30 | \$201 | \$51 | 0.489% | 0.125% |
| Texas | 27.0 | 1,387,598 | 4,384.60 | | | 2,741.20 | 1,220.70 | \$163 | \$45 | 0.316% | 0.088% |
| Vermont | 0.6 | 27,723 | 102.30 | | | 65.00 | 22.60 | \$163 | \$36 | 0.369% | 0.081% |
| Virginia | 8.3 | 426,423 | 1,810.80 | | | 1,082.50 | 538.60 | \$217 | \$65 | 0.425% | 0.126% |
| Washington | 7.1 | 381,017 | 594.50 | | | 371.50 | 147.70 | \$84 | \$21 | 0.156% | 0.039% |
| West Virginia ^{4,5} | 1.9 | 68,541 | 188.60 | 972.60 | 50.50 | 111.80 | 519.20 | \$102 | \$281 | 0.275% | 0.758% |
| Wisconsin ⁶ | 5.8 | 264,126 | 568.80 | | | 326.70 | 168.40 | \$99 | \$29 | 0.215% | 0.064% |
| Total | 302.5 | 14,827,876 | 64,547.8 | 5,700.0 | | 38,627.1 | 20,084.3 | 213.0 | \$66 | 0.435% | 0.135% |

Notes to Table: Fiscal year 2014 is latest data available. Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30).

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

⁵ Includes government transfers for VLT operations; ⁶ Unaudited

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

Fiscal Year 2014 U.S. Lottery Sales by Game*

(in \$millions)

| (in \$millions) | | | | Systems Games | | | | | | | | | Total Sales | VLT (net) ¹ |
|----------------------------|-------|-----------|---------|---------------|----------|----------|----------|----------|----------|-------|----------|----------|-------------|------------------------|
| Pop | | Instant | Pulltab | 3-digit | 4-digit | Lotto | Cash | Power | Mega | Hot | Keno | Other | | |
| Lottery | (Mil) | | | | | | Lotto | Ball | Millions | Lotto | | | | |
| Arizona | 6.7 | 483.90 | 4.40 | 9.20 | | 30.40 | 16.40 | 113.00 | 56.30 | | | 10.30 | 724.00 | 363.40 |
| Arkansas | 3.0 | 322.40 | | 6.30 | 3.60 | 2.30 | 8.90 | 35.00 | 19.80 | | | 11.70 | 410.10 | |
| California | 38.8 | 3,288.90 | | 135.60 | 27.90 | 329.90 | 143.90 | 473.20 | 427.60 | | 188.40 | 19.30 | 5,034.70 | |
| Colorado | 5.4 | 362.00 | | 8.70 | | 33.80 | 19.20 | 84.50 | 36.80 | | | | 545.00 | |
| Connecticut | 3.6 | 660.20 | | 127.10 | 108.80 | 21.60 | 32.30 | 82.70 | 37.60 | | | 42.10 | 1,112.40 | |
| Delaware ¹ | 0.9 | 50.70 | | 24.80 | 19.90 | 0.90 | 4.20 | 26.90 | 12.60 | 3.10 | 5.20 | | 148.40 | |
| D.C. | 0.7 | 40.40 | | 46.20 | 56.90 | 16.70 | | 11.90 | 8.90 | 3.60 | 11.60 | 19.90 | 216.00 | |
| Florida | 19.9 | 3,417.10 | | 339.60 | 257.80 | 349.10 | 79.50 | 469.30 | 167.60 | | | 288.20 | 5,368.20 | |
| Georgia | 10.1 | 2,445.20 | | 481.90 | 212.60 | 18.10 | 98.70 | 132.50 | 128.40 | | 193.20 | 29.40 | 3,739.90 | |
| Idaho | 1.6 | 123.30 | 23.20 | 1.90 | | 2.80 | 2.00 | 36.50 | 13.40 | 3.20 | | 2.50 | 208.90 | |
| Illinois | 12.9 | 1,757.40 | | 258.40 | 202.30 | 114.30 | 134.70 | 163.30 | 145.00 | | | 16.50 | 2,791.80 | |
| Indiana | 6.6 | 702.60 | | 31.10 | 30.00 | 48.70 | | 106.60 | 46.40 | | | 53.30 | 1,018.70 | |
| Iowa | 3.1 | 188.80 | 15.70 | 6.90 | 3.20 | | 2.50 | 61.20 | 21.80 | 10.40 | | 3.40 | 314.10 | |
| Kansas | 2.9 | 122.90 | 11.20 | 6.00 | | | 13.00 | 41.30 | 16.80 | 7.40 | 19.10 | 8.20 | 245.70 | |
| Kentucky | 4.4 | 505.90 | | 125.50 | 38.80 | 5.90 | 10.00 | 79.60 | 39.80 | | 29.40 | 8.30 | 843.20 | |
| Louisiana | 4.6 | 178.90 | | 50.00 | 39.60 | 28.20 | | 102.30 | 39.00 | | | 11.00 | 449.00 | |
| Maine | 1.3 | 170.80 | | 5.10 | 4.10 | 12.00 | 1.60 | 22.10 | 6.90 | 2.00 | | 5.40 | 230.00 | |
| Maryland ¹ | 6.0 | 479.60 | | 244.50 | 270.80 | 26.70 | 21.40 | 105.80 | 100.50 | | 308.10 | 166.50 | 1,724.00 | |
| Massachusetts | 6.7 | 3,382.80 | | | 322.60 | 23.20 | 73.00 | 113.10 | 82.80 | | 814.20 | 41.90 | 4,853.60 | |
| Michigan | 9.9 | 913.20 | 32.40 | 327.00 | 366.30 | 46.00 | 60.10 | 104.00 | 140.70 | | 561.40 | 45.40 | 2,596.40 | |
| Minnesota | 5.5 | 351.60 | | 14.40 | | | 27.10 | 79.90 | 26.90 | 12.70 | | 18.90 | 531.50 | |
| Missouri | 6.1 | 766.60 | | 69.30 | 38.80 | 22.60 | 31.80 | 100.50 | 42.50 | | 60.20 | 24.70 | 1,157.10 | |
| Montana | 1.0 | 16.50 | | | | 1.90 | 3.70 | 15.60 | 5.20 | 3.20 | | 7.00 | 53.10 | |
| Nebraska | 1.9 | 84.80 | | 4.10 | | 1.70 | 10.80 | 40.40 | 14.10 | | | 2.00 | 157.90 | |
| New Hampshire | 1.3 | 195.30 | | 5.10 | 4.80 | 8.10 | 6.40 | 35.00 | 13.50 | 3.20 | | 4.30 | 275.60 | |
| New Jersey | 8.9 | 1,531.80 | | 436.70 | 268.40 | 77.50 | 148.20 | 233.70 | 205.90 | | | 6.00 | 2,908.10 | |
| New Mexico | 2.1 | 69.80 | | 3.80 | | | 8.60 | 34.00 | 13.40 | 5.70 | | 0.60 | 136.00 | |
| New York ¹ | 19.7 | 3,677.10 | | 873.80 | 831.20 | 94.60 | 288.60 | 463.00 | 400.50 | | 654.20 | 31.20 | 7,314.20 | |
| North Carolina | 9.9 | 1,170.30 | | 261.00 | 113.20 | | 70.80 | 149.20 | 74.80 | | | | 1,839.30 | |
| North Dakota | 0.7 | | | | | 3.90 | 1.60 | 12.70 | 6.00 | 2.70 | | | 26.90 | |
| Ohio ¹ | 11.6 | 1,426.80 | | 339.00 | 185.80 | 54.10 | 63.40 | 122.80 | 133.40 | | 298.10 | 119.70 | 2,743.10 | |
| Oklahoma | 3.9 | 85.90 | | 4.80 | 0.40 | | 4.40 | 58.80 | 27.70 | 8.90 | | 0.20 | 191.10 | |
| Oregon ¹ | 4.0 | 109.00 | | | 1.40 | 28.40 | 4.50 | 45.00 | 22.30 | | 92.40 | 6.90 | 310.10 | |
| Pennsylvania | 12.8 | 2,444.90 | | 329.70 | 238.60 | 95.90 | 151.50 | 301.40 | 145.90 | | | 91.70 | 3,799.60 | |
| Rhode Island ¹ | 1.1 | 84.00 | | | 24.10 | 4.50 | | 31.50 | 12.60 | 6.70 | 78.20 | 1.10 | 242.80 | |
| South Carolina | 4.8 | 875.50 | | 148.40 | 71.70 | 19.90 | 3.80 | 93.60 | 51.60 | | | | 1,264.40 | |
| South Dakota ¹ | 0.7 | 25.50 | | | | 2.30 | 1.90 | 16.30 | 4.80 | 3.20 | | | 54.10 | |
| Tennessee | 6.5 | 1,051.20 | | 57.60 | 30.80 | | 18.30 | 100.90 | 47.00 | 13.10 | | 0.20 | 1,319.10 | |
| Texas | 27.0 | 3,280.20 | | 259.40 | 88.50 | 154.30 | 52.40 | 222.10 | 224.10 | | | 103.50 | 4,384.60 | |
| Vermont | 0.6 | 76.00 | | 1.40 | 1.20 | 3.90 | 0.90 | 9.50 | 4.00 | 0.80 | | 4.70 | 102.30 | |
| Virginia | 8.3 | 988.60 | | 265.10 | 244.10 | 27.10 | 30.10 | 113.70 | 115.30 | | | 26.70 | 1,810.80 | |
| Washington | 7.1 | 379.40 | | 16.70 | | 47.40 | 23.90 | 56.40 | 53.00 | | 5.80 | 12.00 | 594.50 | |
| West Virginia ¹ | 1.9 | 105.60 | | 8.30 | 4.90 | | 5.20 | 39.50 | 14.90 | 5.30 | 5.00 | | 188.60 | |
| Wisconsin | 5.8 | 337.70 | 1.30 | 24.50 | 12.60 | 18.10 | 24.50 | 86.90 | 33.90 | | | 29.40 | 568.80 | |
| Total | 302.5 | 38,731.20 | 88.10 | 5,358.80 | 4,125.70 | 1,776.90 | 1,704.10 | 4,827.20 | 3,242.00 | 95.00 | 3,324.40 | 1,274.40 | 64,547.8 | 5,700.00 |
| % of total | | 60.0% | 0.1% | 8.3% | 6.4% | 2.8% | 2.6% | 7.5% | 5.0% | 0.1% | 5.2% | 2.0% | 100.0% | |

Notes to Table: Fiscal year 2014 is latest data available. ¹ Denotes VLT net machine income. *Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30)

Source: LaFleur's 2014 World Lottery Almanac



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

Independent Auditor's Report

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

We have 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, the financial statements of the 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, 2015, 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 18, 2015.

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 and 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 & Morse, PLLC

December 18, 2015





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