Bureau of State Lottery, State of Michigan
(an Enterprise Fund of the State of Michigan)

Financial Report
with Supplementary Information

For the six-month periods ended March 31, 2016 and 2015

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery"), an enterprise fund of the State of Michigan, as of and for the six-month periods ended March 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Bureau of State Lottery, State of Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bureau of State Lottery, State of Michigan as of March 31, 2016 and 2015, and the respective changes in its financial position and cash flows for the six-month periods then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 1, 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 March 31, 2016 and 2015 or the changes in its financial position and the changes in its cash flows thereof for the six-month periods and years then ended in conformity with accounting principles generally accepted in the United States of America.

Additionally, as discussed in Note 1, the Lottery first adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as of September 30, 2015. Therefore, for the six months ended March 31, 2016, the implementation of GASB 68 is reflected; however, GASB 68 was not implemented for the six-month period ended March 31, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension systems schedules on pages 4-15 and 44-46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2016 on our consideration of the Bureau of State Lottery, State of Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bureau of State Lottery, State of Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

June 16, 2016

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 six months ended March 31, 2016. Please read it in conjunction with the financial statements, which begin on page 16.

Using This Report

The Lottery is accounted for as an enterprise activity/proprietary fund, reporting on all of the activity's assets and liabilities using the accrual basis of accounting, much like a private business entity. As such, this semi-annual report consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules. The Statement of Net Position on page 16 and the Statement of Revenues, Expenses and Changes in Net Position on page 17 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 of capital assets (leasehold improvements and equipment), unrealized gains on investments held to fund future payments due on Lottery prizes that are annuities, and the change in net pension liability and deferred inflows and outflows related to pensions. 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 $181.5 million, or 13.0% from the comparable six-month period in the last fiscal year.
- Total revenues for all activities (including non-operating) increased $175.6 million or 12.5% from the comparable six-month period in the last fiscal year.
- Non-operating revenues decreased by $5.9 million. The decrease is attributable to the changing market values during this six-month period.
- Total operating expenses for the six-month period increased $124.8 million or 12.6% over the comparable six-month period in the last fiscal year.
- Total expenses (including non-operating) for all activities increased $181.3 million or 12.9%.
- Total non-operating expenses increased by $56.4 million, or 13.9%. Of that amount, net income to be disbursed to the General Fund related to Charitable Gaming activities increased by $0.4 million or 40.0%, while net income from Lottery gaming activities disbursed to the State School Aid Fund increased by $56.5 million or 14.1%.

Net Position

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

Table 1 - Net Position
(in millions)

	March 2016	March 2015*	March 2014*
Current and other assets	$ 201.8	$ 210.5	$ 207.4
Investments - noncurrent	199.9	200.7	191.2
Capital assets (net of accumulated depreciation)	1.4	0.8	0.7
Total assets	403.1	412.0	399.3
Deferred Outflows of Resources			
Deferred outflows related to pensions	5.0	-	-
Current liabilities	197.6	198.3	187.3
Long-term liabilities	193.0	178.0	195.0
Total liabilties	390.6	376.3	382.3
Deferred Inflows of Resources			
Deferred inflows related to pensions	2.4	-	-
Net position			
Net investment in capital assets	1.4	0.8	0.7
Restricted for School Aid Fund	15.1	35.7	17.0
Unrestricted (deficit)	(1.4)	(0.8)	(0.7)
Total net position	$ 15.1	$ 35.7	$ 17.0

*2015 and 2014 columns were not restated for the adoption of GASB 68.

As shown in Table 1 above, the Lottery's net position decreased $20.6 million since March 2015, from $35.7 million to $15.1 million. Net position increased $18.7 million from March 2014 to March 2015, from $17.0 million to $35.7 million. The decrease above is primarily attributable to recognizing the Lottery's proportionate share of the Michigan State Employees' Retirement System net pension liability as part of GASB 68 implementation at September 30, 2015. The increase above is primarily attributable to the restricted for unrealized gains or loss on investments due to changes in the 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 10, respectively, in the accompanying financial statements.

Capital assets consist of equipment and leasehold improvements. For the six months ended March 2016, net capital assets increased by $0.6 million since March 2015, and increased by approximately $0.1 million from March 2014 to March 2015. Additional detailed information on capital assets may be found in Note 5 in the accompanying financial statements.

The Lottery's March 31, 2016 net position of $15.1 million reflects a $20.2 million negative entry at September 30, 2015 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. No adjustment was made to the net pension liability as of March 31, 2016. This action is further discussed in Note 10.

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)

	March 2016	March 2015*	March 2014*
Current:			
Warrants authorized and warrants outstanding	$ 1.5	$ 1.9	$ 4.0
Accounts payable and other liabilities	24.3	20.3	19.9
Due to other State Agencies	84.6	77.8	77.0
Prize awards payable (net of discount)	87.2	98.3	86.4
Total current	197.6	198.3	187.3
Non-current:			
Prize awards payable (net of discount)	170.9	176.6	193.4
Net pension liability	20.7	-	-
Compensated absences	1.4	1.4	1.5
Supplemental retirement	-	-	0.1
Total non-current	193.0	178.0	195.0
Total liabilities	$ 390.6	$ 376.3	$ 382.3

*2015 and 2014 columns were not restated for the adoption of GASB 68.

Non-current liabilities consist principally of prize liability for prizes paid in installments over several years and long-term pension liability recorded as a result of GASB 68 implementation. For the six months ended March 2016, long-term prize liability decreased by $5.7 million or 3.2% from March 2015 and decreased by $16.8 million or 8.7% from March 2014 to March 2015. The decrease from March 2015 to March 2016 and March 2014 to March 2015 is attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. Refer to Note 7 in the accompanying financial statements for more information.

A summary of the Lottery's change in net position for the six-month periods ended March 31 is presented in Table 3 below:

Table 3 - Changes in Net Position
(in millions)

	March 2016	March *2015	March *2014
Operating revenues	$ 1,581.2	$ 1,399.7	$ 1,314.7
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(938.2)	(834.7)	(764.2)
Commissions and game related expenses	(154.5)	(133.8)	(126.1)
Total prizes and direct game expenses	(1,092.7)	(968.5)	(890.3)
Income before other operating expenses	488.5	431.2	424.4
Other operating expenses	(28.9)	(28.3)	(27.0)
Operating income	459.6	402.9	397.4
Non-operating revenues and (expenses):			
Investment and interest revenues	4.1	4.3	4.7
Investment and interest expenses	(4.1)	(4.5)	(5.1)
Unrealized gain (loss) on investments	3.3	8.9	(0.9)
School Aid Fund disbursement expense	(457.7)	(401.2)	(395.1)
General Fund disbursement expense	(1.4)	(1.0)	(1.4)
Health and Human Services disbursement expense	(0.5)	(0.5)	(0.5)
Net non-operating revenue (expense)	(456.3)	(394.0)	(398.3)
Change in net position	3.3	8.9	(0.9)
Total net position beginning of period	32.0	26.8	17.9
Restatement due to change in accounting principle (Note 1)	(20.2)	-	-
Total net position end of period	$ 15.1	$ 35.7	$ 17.0

*2015 and 2014 columns were not restated for the adoption of GASB 68.

Because the Lottery is required by law to deposit all of its net income to the School Aid Fund or General Fund, change in net position does not reflect the result of the Lottery's operating activities. The $457.7 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the six months ended March 2016. There was an increase in disbursement expense to the School Aid Fund of $56.5 million or 14.1% from March 2015. For the six months ended March 2015, there was an increase of $6.1 million or 1.5% from March 2014. The disbursement expense to the General Fund reflects Charitable Gaming activities for the six months ended March 2016. Charitable Gaming activities experienced an increase in net revenues for the six-month period ended March 2016 compared to March 2015 and March 2014. Charitable Gaming net income is disbursed annually to the General Fund.

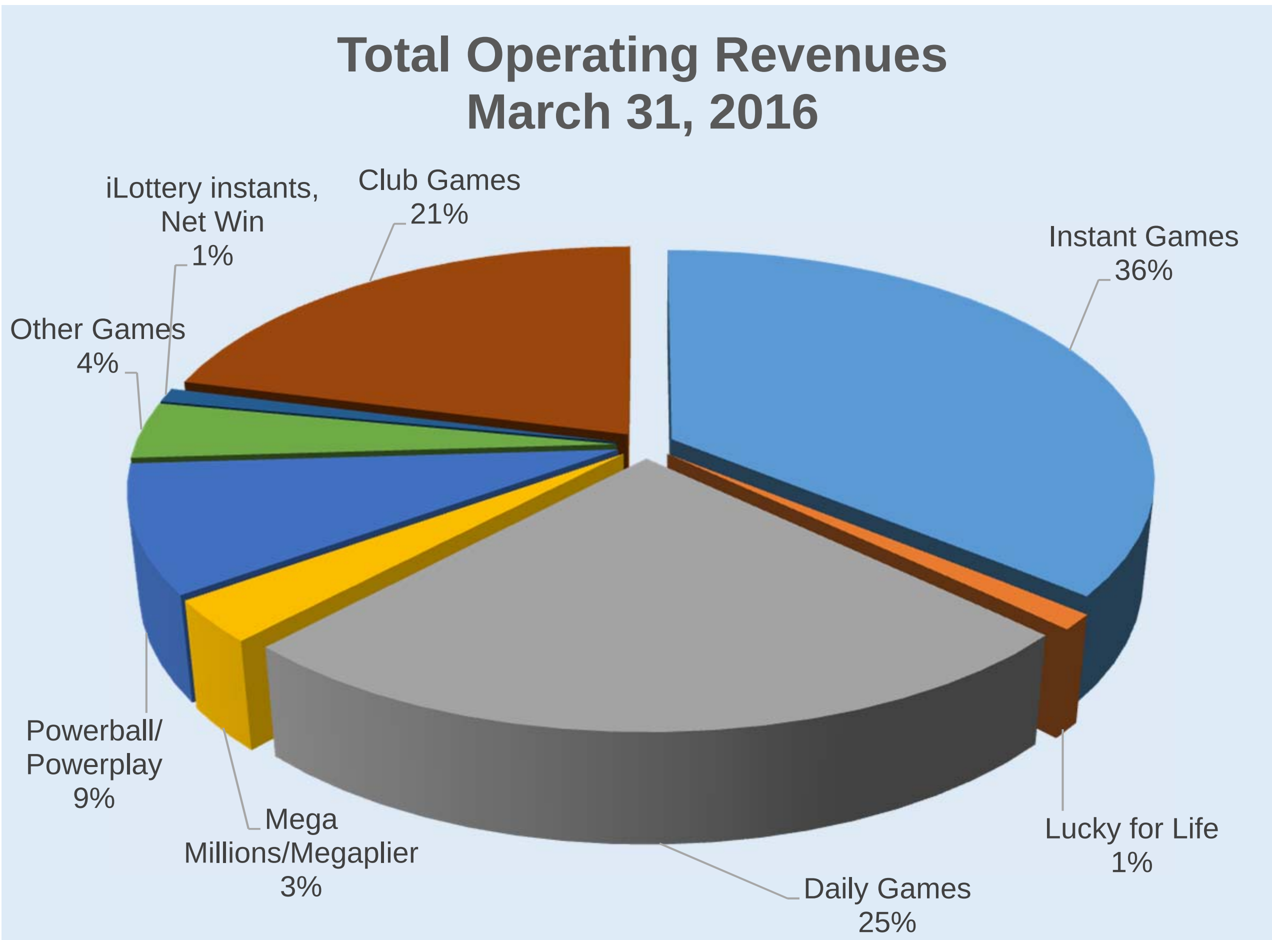
Disbursements to other funds for the six-month periods ended March 31 are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds
(in millions)

	March 2016	March 2015	March 2014
School Aid Fund	$ 457.7	$ 401.2	$ 395.1
General Fund	1.4	1.0	1.4
Health and Human Services	0.5	0.5	0.5
Total Disbursements to Other Funds	$ 459.6	$ 402.7	$ 397.0

Revenues

The following chart shows the major sources and the percentages of operating revenues for the six months ended March 2016:



A detail of the Lottery's revenues for the six-month periods ended March 31 are presented in Table 5 below:

Table 5 - Revenues
(in millions)

	March 2016	March 2015*	March 2014*
Operating revenues:			
Instant tickets	$ 568.0	$ 499.9	$ 446.7
iLottery Instants, Net Win	17.9	6.4	-
Daily games	394.8	373.9	338.0
Mega Millions/Megaplier	52.3	68.8	90.3
Powerball/Power Play	135.6	65.2	55.7
Monopoly	-	1.8	-
Lucky for Life	8.9	4.9	-
Club games	332.6	308.9	292.9
Other games	64.8	63.7	84.8
Other operating revenue	6.3	6.2	6.3
Total operating revenues	1,581.2	1,399.7	1,314.7
Non-operating revenues:			
Unrealized gain (loss) on investments	3.3	8.9	(0.9)
Amortization on bonds	4.0	4.3	4.7
Total non-operating revenues	7.3	13.2	3.8
Total revenues	$ 1,588.5	$ 1,412.9	$ 1,318.5

*2015 and 2014 columns were not restated for the adoption of GASB 68.

Operating revenues, primarily Lottery ticket sales, for the six months ended March 2016, increased over March 2015. The increase in the six months ended March 2016 over March 2015 was $181.5 million or 13.0%. The increase in the six months ended March 2015 from March 2014 was $85.0 million or 6.5%.

Instant game ticket sales increased by $68.1 million or 13.7% for the six months ended March 2016 over March 2015 and increased in the six months ended March 2015 over March 2014 by $53.2 million or 11.9%. Much of these increases are due to the continued popularity of higher price-point games with enhanced prize structures which provide more prizes with increased odds of winning.

Mega Millions is a multi-state draw 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 37 governmental lotteries. Sales, for the six months ended March 2016, decreased by $16.5 million or 24.0% compared to the six months ended March 2015. Sales for the six months ended March 2015 decreased by $21.5 million or 23.8% from March 2014.

The March 2016 and 2015 decreases are primarily due to having a lower number of large jackpot pools compared to the same time period ending March 2014, which included a jackpot over $600 million, the second highest jackpot in Mega Millions history. Mega Millions matrix changes were 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.

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. In October 2015, the Powerball game matrix was updated with the goal of delivering larger jackpots to players, while also increasing other significant prizes in the game. Sales for the six months ended March 2016 increased by $70.4 million or 108.0% compared to the six months ended March 2015 and increased in the six months ended March 2015 over March 2014 by $9.5 million or 17.1%. The increase in sales for the March 2016 period is due primarily to a record-setting Powerball jackpot of $1.5 billion, won in January 2016. This jackpot was not only record setting for the game of Powerball, but was the largest lottery jackpot prize ever recorded. Power Play is a $1 add-on game to Powerball whereby players can multiply non-jackpot prizes by two, three, four, five, or ten times, depending on the size of the jackpot.

Monopoly Millionaires' Club (MMC), a national premium game, launched in October 2014. This game offered top prizes ranging from $15 to $25 million and nine other ways to win. Sales for the six months ended March 2015 were $1.8 million. The game was discontinued in December 2014 due primarily to lack of player engagement.

Lucky for Life, a multi-state $2 draw game, was launched on January 27, 2015. Along with Michigan, there are 20 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 per year for life is awarded to any player matching all 5 white ball numbers on a single wager. Players also win prizes for matching lesser combinations of numbers. During the six months ended March 2016, Lucky for Life sales increased by $4.0 million or 81.7% over March 2015. This large increase is primarily due to the fact that the game was launched in 2015 and the March 2015 sales only included two months, as compared to a full six months of sales reported as of March 2016.

Club games include Club Keno, Club Keno Kicker, Pull-Tabs, The Jack and Insta Tabs. The Club games sales for the first six months in 2016 increased by $23.7 million or 7.7% from the six months ended March 2015. Sales for the six months ended March 2015 increased $16.0 million or 5.5% from the six months ended March 2014. The Club Keno Doubler promotion was held during both March 2015 and January 2016 to engage players to play Club Keno and offer a chance to double their winnings. This promotion resulted in record weekly sales of Club Keno. Insta Tab games, a type of pull tab product, was launched in March 2014 and has continued to contribute to the growth in Club game sales.

Other games consist of Lotto 47, Lotto 47 EZ Match, Fantasy Five, Fantasy Five EZ Match, Keno, Raffle, and Poker Lotto. Poker Lotto was added to the Lottery's game portfolio on October 19, 2013.

This game includes a nightly jackpot drawing plus a chance to win instantly all in one ticket. 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. Other games sales experienced an increase of $1.1 million or 1.8% for the six months ended March 2016 over the six months ended March 2015. Sales for the six months ended March 2015 decreased $21.1 million or 24.9% from the six months ended March 2014.

A Veterans Day 50/50 Raffle drawing was held on November 12, 2015, and offered five bonus drawings of $25,000 each from October 7 through November 4, 2015. The raffle generated $2.4 million in sales for the six-month period ended March 2016.

The decrease in non-operating revenues for the six-month period ended March 2016 compared to March 2015 resulted from a decrease in the unrealized gain on investments. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact the disbursement to the School Aid Fund.

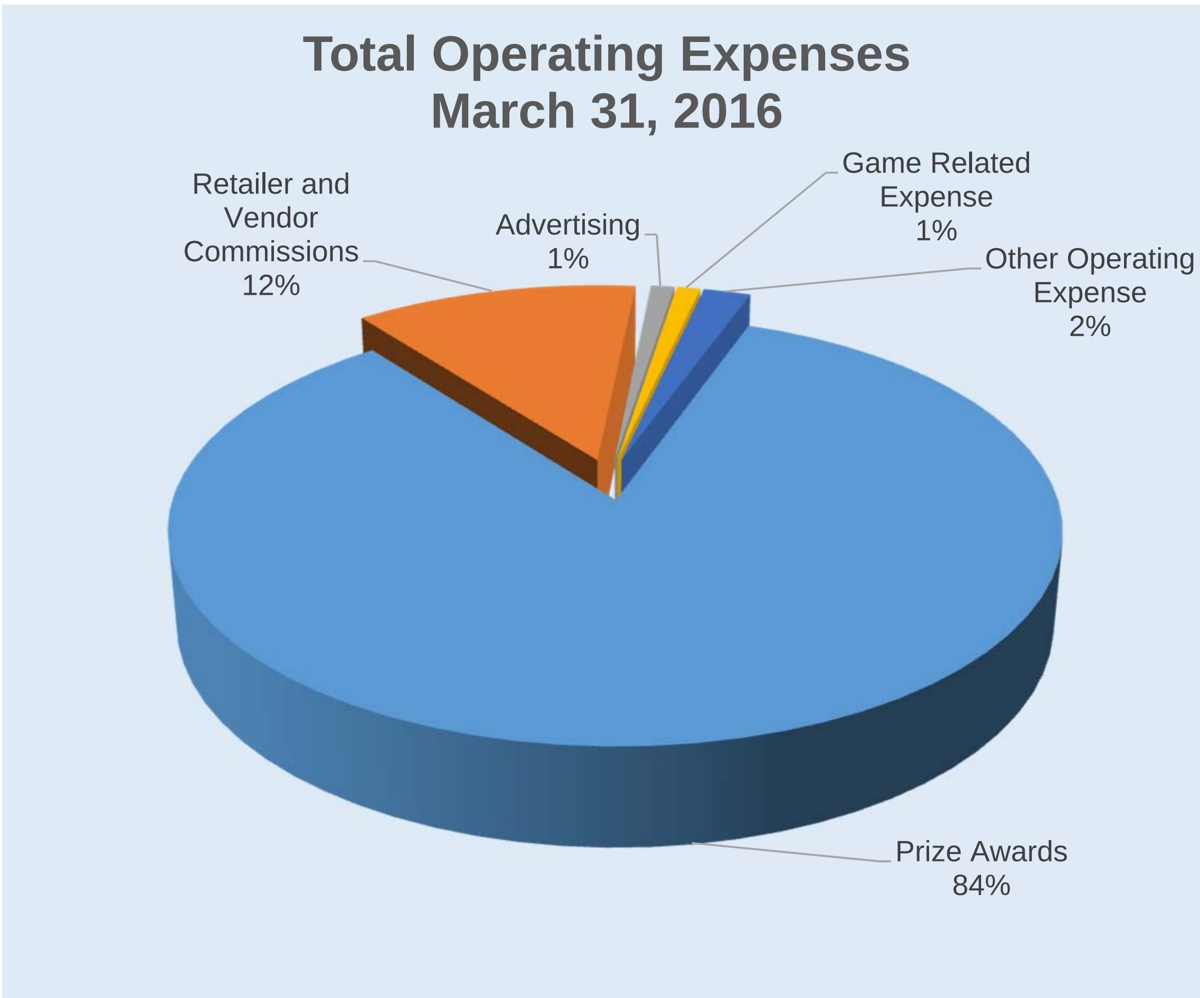
The decrease in bond amortization from March 2015 to March 2016 and March 2014 to March 2015 is due to a decreasing bond portfolio from maturing investments, as well as the fact that most prize winners have elected the cash option instead of installment payments. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

The iLottery instant game program that launched in August 2014 continued to experience strong growth during the six-month period ended March 31, 2016. iLottery instant games currently offered on desktop, tablet, and mobile portals include Keno games, multi-ticket games, extended play games, and single card games at multiple price points. iLottery instant game sales totaled $150.5 million and prizes awarded totaled $132.6 million as of March 2016, resulting in a net win of $17.9 million. iLottery instant game sales totaled $52.9 million and prizes awarded totaled $46.5 million as of March 2015, resulting in a net win of $6.4 million (refer to Note 8 in the accompanying financial statements). The sales increase of $11.5 million can be attributed to a continuously growing portfolio of instant games offered online, as well as increased marketing efforts to attract new players.

In January 2016, four draw-based games became available for purchase through the iLottery online platform. The games that were launched include Lotto 47, Fantasy 5, Mega Millions, and Powerball. iLottery draw-based game sales and prize awards are combined with traditional retailer draw-based game sales and prize awards in the accompanying financial statements.

Expenses

The following chart shows prizes, game costs, and operating expenses as a percentage of total operating expenses for the six months ended March 2016:



A detail of the Lottery's expenditures for the six-month periods ended March 31 are presented in Table 6 below:

Table 6 - Expenses
(in millions)

	March 2016	March 2015*	March 2014*
Prizes:			
Instant prizes	$ 405.0	$ 354.8	$ 311.5
Draw Game prizes	325.6	290.3	277.8
Club game prizes	219.0	202.9	190.4
Player's Club all Games	0.7	1.0	-
Total prizes	950.3	849.0	779.7
Less: unclaimed prizes	12.1	14.3	15.5
Net prize awards	938.2	834.7	764.2
Direct game expenses:			
Retailer commissions	118.2	102.3	94.3
Vendor commissions	25.3	20.5	19.7
Game related expenses	11.0	11.0	12.1
Total direct game expenses	154.5	133.8	126.1
Other operating expenses:			
Salaries, wages and benefits	10.6	11.5	11.0
Other professional services	4.6	4.7	4.7
Printing and supplies	0.8	0.8	0.7
Other general and administrative	1.5	1.8	1.5
Promotion and Advertising	11.4	9.5	9.1
Total other operating expenses	28.9	28.3	27.0
Total operating expenses	1,121.6	996.8	917.3
Non-operating expenses:			
Amortization of prize discount	4.0	4.5	5.1
School Aid Fund disbursement	457.7	401.2	395.1
General Fund disbursement	1.4	1.0	1.4
Health and Human Services disbursement	0.5	0.5	0.5
Total non-operating expenses	463.6	407.2	402.1
Total expenses	$ 1,585.2	$ 1,404.0	$ 1,319.4

*2015 and 2014 columns were not restated for the adoption of GASB 68.

The Daily Games prize payout increased overall for the six months ended March 2016 over the six months ended March 2015. Daily 3 prize payout had increased to 54.5% for the six months ended March 2016, compared to 50.8% for March 2015 and 47.7% for March 2014. Daily 4 prize payout decreased to 43.6% for the six months ended March 2016, compared to 47.9% for March 2015 and 45.0% for March 2014.

Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 48.6% for the six months ended March 2016.

The Club games prize payout percentage increased for the six months ended March 2016 to 65.8% compared to 65.7% from March 2015 and 65.0% from March 2014. The higher Club games payout is an important part of the appeal of this style of game in this market. The other draw games have an anticipated payout between 50.0% and 59.4%.

Instant games overall payout for the six months ended March 2016 increased to 71.3% from 71.0% for the six months ended March 2015 and 69.7% for the six months ended March 2014. The games vary in payout percentage depending on selling price of a ticket for a game. Instant game prize payouts range from 59.0% for a $1 game to 77.9% for a $30 game for the six-month period ended March 2016.

Retailer commissions have increased commensurate with higher overall sales. Vendor commissions, including iLottery instant game commission and the newly added draw-based game commission, have increased commensurate with higher overall sales. Game related expenses remained the same for the six months ended March 2016 compared to the six months ended March 2015 and decreased by $1.1 million or 9.1% for the six months ended March 2015 compared to the six months ended March 2014.

Other operating expenses have increased by $0.6 million or 2.2% for the six months ended March 2016 compared to the six months ended March 2015 and increased by $1.3 million or 4.8% for the six months ended March 2015 compared to the six months ended March 2014.

Unclaimed Prizes

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

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

Unclaimed prizes for the six months ended March 2016 decreased by $2.2 million compared to the six months ended March 2015 and decreased by $1.2 million for the six months ended March 2015 compared to the six months ended March 2014.

Charitable Gaming

A detail of the Lottery's charitable gaming revenues, expense, and net income for the six-month periods ended March 31 are presented in Table 7 below:

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

	March 2016	March 2015	March 2014
Gross revenue	$ 6.0	$ 5.7	$ 5.9
Operating expenses	(4.6)	(4.7)	(4.5)
Net income	$ 1.4	$ 1.0	$ 1.4

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 5.3% for the six months ended March 2016 compared to March 2015 and decreased by $0.2 million or 3.4% from the six months ended March 2015 to March 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, distribution of break-open tickets and charity tickets issued by new charity ticket vending machines 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.

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, PO Box 30023, Lansing, Michigan 48909.

Bureau of State Lottery, State of Michigan
Statement of Net Position
March 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Equity in State Treasurer's Common Cash Fund	**$ 59,041,310**	$ 41,944,092
Investments, at fair value	**14,668,220**	26,994,019
Accounts receivable - net	**112,573,091**	129,454,511
Inventory	**15,445,506**	12,054,986
Other current assets	**104,206**	20,425
Total current assets	**201,832,333**	210,468,033
Non-current assets:		
Investments, at fair value	**199,900,172**	200,673,240
Capital assets:		
Leasehold improvements and equipment	**5,852,813**	5,005,039
Accumulated depreciation	**(4,468,375)**	(4,166,764)
Total capital assets	**1,384,438**	838,275
Total non-current assets	**201,284,610**	201,511,515
Total assets	**403,116,943**	411,979,548
Deferred Outflows of Resources:		
Deferred outflows related to pensions	**5,019,723**	-
Liabilities		
Current liabilities:		
Warrants outstanding	**809,351**	1,020,323
Warrants authorized	**665,652**	893,213
Accounts payable and other liabilities	**24,254,528**	20,290,464
Due to other State Agencies	**84,643,867**	77,752,065
Prize awards payable - net of discount	**87,204,782**	98,347,349
Total current liabilities	**197,578,180**	198,303,414
Non-current liabilities:		
Prize awards payable - net of discount	**170,926,374**	176,619,950
Net pension liability	**20,722,586**	
Accrual for compensated absences, less current portion	**1,414,536**	1,402,659
Total non-current liabilities	**193,063,496**	178,022,609
Total liabilities	**390,641,676**	376,326,023
Deferred Inflows of Resources:		
Deferred inflows related to pensions	**2,430,571**	-
Net Position		
Net investment in capital assets	**1,384,438**	838,275
Restricted for School Aid Fund	**15,064,419**	35,653,525
Unrestricted (deficit)	**(1,384,438)**	(838,275)
Total net position	**$ 15,064,419**	$ 35,653,525

See Accompanying Notes to the Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Revenues, Expenses and Changes in Net Position
For the Six Months Ended March 31, 2016 and 2015

	2016	2015
Operating revenues		
Ticket sales	$ 1,574,951,781	$ 1,393,468,742
Charitable gaming and other	6,288,621	6,237,651
Total operating revenues	1,581,240,402	1,399,706,393
Operating expenses		
Prize awards	950,248,639	849,018,990
Less - unclaimed prizes	(12,084,148)	(14,343,083)
Net prize awards	938,164,491	834,675,907
Retailer and vendor commission	143,470,199	122,809,843
Game related expenses	11,063,502	10,980,217
Depreciation expense	203,626	100,522
Other operating expenses	28,700,200	28,227,054
Total operating expenses	1,121,602,018	996,793,543
Operating income	459,638,384	402,912,850
Non-operating revenues		
Investment revenue - net	7,198,086	13,175,506
Interest on equity in State Treasurer's Common Cash Fund	126,567	36,880
Total non-operating revenues	7,324,653	13,212,386
Non-operating expenses		
Bank fees	(1,816)	(2,391)
Amortization of prize award obligation discount	(4,065,148)	(4,502,192)
Loss on disposal of assets	(4)	-
Total non-operating expenses before disbursements	(4,066,968)	(4,504,583)
Disbursements to School Aid Fund	(457,749,241)	(401,213,548)
Disbursements to General Fund	(1,399,626)	(1,043,518)
Disbursements to Health and Human Services	(495,000)	(495,000)
Total disbursements	(459,643,867)	(402,752,066)
Total non-operating expenses	(463,710,835)	(407,256,649)
Net non-operating revenue (expense)	(456,386,182)	(394,044,263)
Change in net position	3,252,202	8,868,587
Total net position at beginning of period	32,023,345	26,784,938
Restatement due to change in accounting principle (Note 1)	(20,211,128)	-
Total net position at end of period	$ 15,064,419	$ 35,653,525

See Accompanying Notes to the Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months Ended March 31, 2016 and 2015

		2016	2015
Cash Flows From Operating Activities			
Cash collections from customers	$	**1,766,921,372**	1,366,450,813
Payments to employees		**(12,946,903)**	(11,188,378)
Payments to suppliers		**(23,229,353)**	(27,457,678)
Payments to prize winners		**(1,146,305,679)**	(850,685,230)
Payments for retailer and vendor commissions		**(143,470,199)**	(122,809,843)
Net cash provided by operating activities		**440,969,238**	354,309,684
Cash Flows From Noncapital Financing Activities			
Disbursements to other funds		**(395,117,519)**	(333,759,197)
Cash Flows From Capital and Related Financing Activities			
Acquisition of capital assets		**(63,909)**	(366,770)
Cash Flows From Investing Activities			
Proceeds from the sale and maturity of investment securities		**15,744,000**	17,969,000
Purchase of investments		**(6,059,117)**	-
Interest received		**22,361**	16,455
Bank fees		**(1,816)**	(2,391)
Net cash provided by investing activities		**9,705,428**	17,983,064
Net increase in cash and cash equivalents		**55,493,238**	38,166,781
Cash and cash equivalents at beginning of period		**2,738,721**	2,756,988
Cash and cash equivalents at end of period	$	**58,231,959**	40,923,769

Continued

See Accompanying Notes to the Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months Ended March 31, 2016 and 2015

	2016	2015
Reconciliation of net operating income to net cash provided by operating activities		
Operating income	**$ 459,638,384**	$ 402,912,850
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	**203,626**	100,522
Deferred outflows - Contributions subsequent to measurement date	**(1,374,377)**	-
Bad debt expense	**18,912**	92,946
Amortization of prize award obligation discount	**(4,065,148)**	(4,502,192)
Net Changes in Assets and Liabilities:		
Inventory	**(4,214,527)**	(3,638,294)
Receivables from retailers	**185,680,970**	(33,255,579)
Warrants authorized, compensated absences, supplemental retirement, accounts payable and other liabilities	**9,157,438**	4,106,562
Prize awards payable	**(204,076,040)**	(11,507,131)
Net cash provided by operating activities	**$ 440,969,238**	$ 354,309,684
Reconciliation of cash and cash equivalents		
Cash and cash equivalents at beginning of period		
Equity in State Treasurer's Common Cash Fund	**$ 4,546,683**	$ 3,609,257
Warrants outstanding	**(1,807,962)**	(852,269)
Net cash and cash equivalents at beginning of period	**$ 2,738,721**	$ 2,756,988
Cash and cash equivalents at end of period		
Equity in State Treasurer's Common Cash Fund	**$ 59,041,310**	$ 41,944,092
Warrants outstanding	**(809,351)**	(1,020,323)
Net cash and cash equivalents at end of period	**$ 58,231,959**	$ 40,923,769
Schedule of noncash investing, capital, and financing activities		
Increase in fair value of investments	**$ 3,252,202**	$ 8,868,587
Disbursements to other funds (accrual)	**(64,526,348)**	(68,992,869)
Total noncash investing, capital, and financing activities	**$ (61,274,146)**	$ (60,124,282)

Concluded

See Accompanying Notes to the 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, except for unrealized gains on investments, excess of revenue over expenses from charitable gaming activities and up to $1 million per year to the Department of Health and Human Services for gambling addiction programs which are 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. Revenues for iLottery instant games are recognized when sales to the public occur and are reported net of prizes awarded which are recognized as game play completes and prizes are known (refer to Note 8 for more information on iLottery instant games revenue and expense). All revenues are reported net of free plays, discounts, and allowances.

Receivables represent amounts due from retailers and amounts due from members of multi-state lotteries related to jackpot prizes won in the state of Michigan.

Statement of Cash Flows

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

Use of Estimates

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

Equity in State Treasurer's Common Cash Fund

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

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

Investments

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

Inventory

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandise prizes for games that have not started as of March 31, 2016 and 2015. The inventory is valued at cost, primarily using the weighted average method.

Provision for Doubtful Accounts

The Lottery establishes an allowance for bad debt for retailer receivables greater than 90 days old. A bad debt expense is recorded when the allowance is established for these receivables. The amount of the allowance for doubtful accounts totaled $1,175,121 as of March 31, 2016 and $1,314,495 as of March 31, 2015.

Capital Assets

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

Information technology equipment, including constructed computer software, is depreciated over 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, pull tab, and insta-tab tickets which will not be claimed within one year after the drawing date for draw tickets or after the expiration date for instant and pull tab tickets. All unclaimed prizes, including expired iLottery claims, are disbursed to the State School Aid Fund as provided by State statute.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Lottery 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 the 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 the School Aid Fund.

Changes in Accounting

For the six-month period ended March 31, 2016, the Lottery adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which was first adopted for the six-month period ended September 30, 2015. As a result, the financial statements now include a net pension liability for the Lottery's unfunded defined benefit plan legacy costs. Some of the changes in this net pension liability each year will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. As a result of implementing this statement for the six-month periods ended September 30, 2015 and March 31, 2016, the net position of the Lottery has been restated by ($20,211,128). Of the ($20,211,128) restatement, ($23,049,890) was related to beginning of the year net pension liability and $2,838,762 was related to beginning of the year deferred outflows for employer contributions made subsequent to the measurement date. In addition, for the six-month period ended March 31, 2016, the Lottery recorded an additional $1,374,377 in defined benefit plan contributions, which is deferred to future years. Refer to Note 10 for further details.

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

NOTE 2 - EQUITY IN STATE TREASURER'S COMMON CASH

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

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

Common Cash Deposits

Custodial Credit Risk

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

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

a. Uncollateralized,

b. Collateralized with securities held by the pledging financial institution, or

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

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

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

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

Common Cash Investments

Risk

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Custodial credit risk, credit risk, and interest rate risk are discussed in the following paragraphs:

Custodial Credit Risk

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

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

a. The counterparty, or

b. 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 March 31, 2016 and 2015, common cash investments were not exposed to custodial credit risk.

Credit Risk

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

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services: Standard & 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 March 31, 2016 and 2015, the Lottery does not hold any investments in commercial paper.

Interest Rate Risk

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

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

NOTE 3 - INVESTMENTS

Investments totaling $214,568,392 at March 31, 2016 and $227,667,259 at March 31, 2015 are in the form of U.S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, series 2009B (Michigan CAB bonds).

These investments were purchased to fund future payments due to annuity prize winners. The bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 7. Cash receipts from the maturity of investments totaled $15,744,000 in the six-month period ended March 31, 2016 and $17,969,000 in the six-month period ended March 31, 2015.

Investments at March 31 consist of the following:

	2016	2015
U.S. Treasury zero-coupon bonds	$ 168,855,518	$ 173,165,572
Michigan CAB bonds	45,712,874	54,501,687
Total investments	$ 214,568,392	$ 227,667,259

As reported on the Statement of Net Position:	2016	2015
Current investments	$ 14,668,220	$ 26,994,019
Noncurrent investments	199,900,172	200,673,240
Total Investments	$ 214,568,392	$ 227,667,259

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.

Interest Rate Risk

Investments in prize annuities at March 31, 2016 and 2015 consist of the following:

March 31, 2016

Maturities In Years	Investments in United States Treasury Zero-Coupon Bonds	Interest Rate Low to High	Investments in Michigan CAB Bonds	Interest Rate Low to High
Less than 1	$ 13,574,149	0.24% to 7.14%	$ 1,094,071	6.28% to 6.28%
1-5	56,999,810	0.54% to 5.91%	25,589,683	6.75% to 7.88%
6-10	41,351,577	1.68% to 4.98%	10,448,270	8.05% to 8.31%
11-15	30,476,607	2.20% to 4.70%	8,580,850	8.33% to 8.39%
16-20	19,917,307	2.49% to 4.79%	-	-
21-25	3,582,747	2.57% to 3.63%	-	-
26-29	2,953,321	2.57% to 3.68%	-	-
Fair Market Value	$ 168,855,518		$ 45,712,874	

March 31, 2015

Maturities In Years	States Treasury Zero-Coupon Bonds	Interest Rate Low to High	Michigan CAB Bonds	Interest Rate Low to High
Less than 1	$ 16,237,072	0.30% to 7.19%	$ 10,756,947	5.57% to 6.20%
1-5	55,645,111	0.49% to 7.14%	25,732,720	6.28% to 7.88%
6-10	43,565,552	2.37% to 4.98%	8,846,585	8.05% to 8.29%
11-15	29,692,464	4.13% to 4.78%	9,165,435	8.31% to 8.39%
16-20	20,620,439	4.35% to 4.79%	-	-
21-25	4,537,181	3.57% to 4.58%	-	-
26-29	2,867,753	3.63% to 3.68%	-	-
Fair Market Value	$ 173,165,572		$ 54,501,687	

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.

U.S. Treasury zero-coupon bonds are explicitly guaranteed by the U.S. government and credit quality ratings are therefore not required. The Lottery's 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 March 31, 2016 and March 31, 2015, the Lottery's investments in Michigan CAB bonds were rated AA- by Standard & Poor's 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 March 31, 2016, investments in Michigan CAB bonds account for 21.3% of the total investments as compared to 23.9% as of March 31, 2015. This decrease is due to the maturities of Michigan CAB bonds in the past year.

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 March 31, 2016 and 2015 the Lottery had no investments subject to foreign currency risk.

NOTE 4 - FAIR VALUE MEASUREMENT

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

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

The Lottery has the following recurring fair value measurements as of March 31, 2016:

- U.S. Treasury securities of $168,855,518 are valued using Level 2 inputs.
- Michigan Capital Appreciation Bonds of $45,712,874 are valued using Level 2 inputs.

The fair value of U.S. Treasury zero-coupon bonds and Michigan CAB bonds at March 31, 2016 were determined primarily based on Level 2 inputs. The Lottery estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

NOTE 5 - CAPITAL ASSETS

A summary of capital asset activity for the six months ended March 31, 2016 and 2015 was as follows:

Period Ending	Beginning Balance	Additions	Deletions	Ending Balance
March 31, 2016				
Capital assets being depreciated:				
Leasehold improvements	$ 1,955,989	$ -	$ -	$ 1,955,989
Equipment	3,890,959	63,909	58,044	3,896,824
Total capital assets being depreciated	5,846,948	63,909	58,044	5,852,813
Less: accumulated depreciation				
Leasehold improvements	1,945,736	1,602	-	1,947,338
Equipment	2,377,054	202,023	58,040	2,521,037
Total accumulated depreciation	4,322,790	203,625	58,040	4,468,375
Total capital assets being depreciated, net	$ 1,524,158	$ (139,716)	$ 4	$ 1,384,438

Period Ending	Beginning Balance	Additions	Deletions	Ending Balance
March 31, 2015				
Capital assets being depreciated:				
Leasehold improvements	$ 1,955,989	$ -	$ -	$ 1,955,989
Equipment	2,682,280	366,770	-	3,049,050
Total capital assets being depreciated	4,638,269	366,770	-	5,005,039
Less: accumulated depreciation				
Leasehold improvements	1,942,533	1,602	-	1,944,135
Equipment	2,123,709	98,920	-	2,222,629
Total accumulated depreciation	4,066,242	100,522	-	4,166,764
Total capital assets being depreciated, net	$ 572,027	$266,248	$ -	$ 838,275

NOTE 6 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at March 31, 2016 and 2015 were as follows:

	2016	2015
Accounts payable vendors	$ 14,867,588	$ 13,418,674
Retailer security deposits/accounts payable	5,803,173	3,272,640
Accrued intragovernmental expenses	1,921,097	2,057,135
Accrued salaries	1,138,282	993,887
Compensated absences	524,388	470,395
Supplemental Retirement	-	77,733
Total	$ 24,254,528	$ 20,290,464

NOTE 7 - PRIZE AWARDS

Installment prize awards are recorded at their present value using discount rates ranging from 3.2% 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 March 31 were as follows:

	2016	2015
Current - at face amount	$ 87,607,602	$ 99,041,170
Less - unamortized discount	(402,820)	(693,821)
Current - at present value	87,204,782	98,347,349
Long-term - at face amount	256,573,000	265,664,200
Less - unamortized discount	(85,646,626)	(89,044,250)
Long-term - at present value	170,926,374	176,619,950
Total	$ 258,131,156	$ 274,967,299

Installment prize awards payable as of March 31, 2016 are summarized as follows:

2017	$ 20,043,200
2018	16,901,200
2019	14,951,200
2020	14,939,200
2021	14,939,200
2022-2026	65,493,800
2027-2031	55,564,000
2032-2036	47,608,400
2037-2041	9,390,800
2042-2046	6,671,000
2047-2051	3,867,000
2052-2056	2,893,400
2057-2061	1,593,800
2062-2066	720,000
2067-2071	520,000
2072-2076	520,000
Total	276,616,200
Less - unamortized discount	(86,049,446)
Total installment prize awards payable at present value	190,566,754
Noninstallment prize awards payable	67,564,402
Total prize awards payable	$ 258,131,156

Long-term liability activity of installment prize awards payable for the six-month periods ended March 31 was as follows:

Period Ending March 31	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year at Present Value
2016	$ 201,734,238	$ 4,668,113	$ 15,835,597	$ 190,566,754	$ 19,640,380
2015	$ 216,520,157	$ 4,930,972	$ 18,838,400	$ 202,612,729	$ 25,992,779

NOTE 8 - iLOTTERY NET WIN

iLottery instant game revenue is reported in ticket sales net of discounts and prize expense in the Statement of Revenues, Expenses, and Changes in Net Position (refer to Supplementary Schedule of Revenue and Expenses for details of sales and prize awards of each Lottery game). The following schedule details the iLottery instant game sales and prize activity for the six-month periods ended March 31:

	2016	2015
Sales	$ 150,557,201	$ 52,908,825
Prizes	(132,634,556)	(46,477,747)
iLottery Net Win	$ 17,922,645	$ 6,431,078

NOTE 9 - COMPENSATED ABSENCES

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

The State instituted a banked leave time program from 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 March 31, 2016.

Long-term liability activity of these benefits for the six-month periods ended March 31 was as follows:

Period Ending March 31	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-term Liability
2016	$ 1,722,161	$ 558,859	$ 342,095	$ 1,938,924	$ 524,388	$ 1,414,536
2015	$ 1,643,984	$ 800,085	$ 571,016	$ 1,873,053	$ 470,394	$ 1,402,659

NOTE 10 - PENSION PLAN & OTHER EMPLOYEE BENEFITS

Defined Pension Plan

A. Plan Description

The Michigan State Employees Retirement System (the "System" or "SERS") is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. The board consists of nine members – four appointed by the Governor which consist of two employee members and two retirant members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to the State's government employees.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors 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.

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.

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

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

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

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:
1. age 51 with 25 or more years in a covered position; or
2. age 56 with 10 or more years in a covered position.

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

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

Non-Duty Disability Benefit - A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Duty Disability Benefit - A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment.

If the member is under age 60, the duty disability allowance is now a minimum of $6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

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

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

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

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

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

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

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

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

C. Contributions

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

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members.

These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For the six-month period ended March 31, 2016, the Lottery's contribution rate was 26.05% of the defined benefit employee wages. The Lottery's contribution to SERS for the six-month period ended March 31, 2016 was $1,374,377.

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 Lottery's proportionate share of SERS' net pension liability and related deferrals using a measurement date of September 30, 2015 is not yet available; however, the Lottery has determined that the difference between the September 30, 2015 and September 30, 2014 net pension liability and deferrals would not be material to the Lottery. 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.

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 the fiscal year ended 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. The Lottery's proportionate share of SERS' net pension liability and related deferrals using a measurement date of September 30, 2015 is not yet available; however, the Lottery has determined that the difference between the September 30, 2015 and September 30, 2014 net pension liability and deferrals would not be material to the Lottery.

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 was 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 six-month period ended March 31, 2016, the Lottery did not recognize pension expense, as this amount will not be determined until the next actuarial report is available for the fiscal year ending September 30, 2016. The Lottery's proportionate share of SERS' net pension liability and related deferrals using a measurement date of September 30, 2015 is not yet available; however, the Lottery has determined that the difference between the September 30, 2015 and September 30, 2014 net pension liability and deferrals would not be material to the Lottery. The Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at March 31, 2016:

	Deferred Outflows of Resources	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	$ 4,419,582	$ -
Total	$ 5,019,723	$ 2,430,571

Amounts reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending 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 Ending 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 employers and employees are required to make contributions and establishes the benefit provisions for the plan. For the six-month period ended March 31, 2016, the Lottery's contribution rate was 22.84% of the defined contribution employee wages. For the six months ended March 31, 2016 and 2015, Lottery contributions to the plan totaled $294,633 and $262,893, respectively, 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 six months ended March 31, 2016 and 2015 totaled 20.63 percent and 22.76 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.

Short-term liability activity of these benefits for the six-month period ended March 31 was as follows:

Period Ended March 31	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long-Term Liability
2016	$ 26,454	$ -	$ 26,454	$ -	$ -	$ -
2015	$ 129,013	$ -	$ 51,280	$ 77,733	$ 77,733	$ -

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.

NOTE 12 - LEASE AND RENTAL COMMITMENTS

The total operating lease payments on long-term lease commitments for the six months ended March 31, 2016 and 2015 were $105,303 and $105,315, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of remaining minimum building lease commitments follows:

	Operating Leases		
Year	Six Months Ending March 31,	Six Months Ending September 30,	Year Ending September 30,
2016	$ 105,303	$ 82,063	$ 187,366
2017	105,306	82,063	187,369
2018	47,005	31,800	78,805
2019	31,800	31,800	63,600
2020	31,800	31,800	63,600
2021	31,800	10,600	42,400
2022-2025	-	-	-
	$ 353,014	$ 270,126	$ 623,140

The total rent and lease expenses paid for all buildings for the six months ended March 31, 2016 and 2015 were $592,327 and $553,032, respectively.

NOTE 13 - TRANSACTIONS WITH OTHER STATE AGENCIES

As a State agency, the Lottery is required to utilize services, supplies, and equipment provided by other State agencies. The following is a summarization of these charges for the six months ended March 31, 2016 and 2015:

March 31, 2016		
Department of Technology, Management and Budget:		
Information Technology		
Direct costs	$ 2,415,938	
Lansing Metropolitan Area Network (LMAN)	10,636	
Michigan.gov portal web charges	6,739	
Overhead	169,438	
Total Information Technology Charges	$ 2,602,751	
Support services (including Internal audit)	150,700	
Space rental - Lottery Central, Detroit, Saginaw offices	482,618	
Vehicle and travel services	309,142	
Other - Telephone, mailing and other offices services	248,185	
Total Department of Technology, Management and Budget		**$ 3,793,396**
Gaming Control Board		**1,134,702**
Civil Service Commission		**162,760**
Department of Treasury		**254,690**
Attorney General		**124,873**
Other Agencies		**13,914**
Total all State agencies		$ 5,484,335

March 31, 2015		
Department of Technology, Management and Budget:		
Information Technology:		
Direct costs	$ 2,371,189	
Lansing Metropolitan Area Network (LMAN)	10,442	
Michigan.gov portal web charges	47,728	
Overhead	176,190	
Total Information Technology Charges	$ 2,605,549	
Support services (including Internal audit)	174,200	
Space rental - Lottery Central, Detroit, Saginaw offices	445,377	
Vehicle and travel services	351,872	
Other - Telephone, mailing and other offices services	224,993	
Total Department of Technology, Management and Budget		**$ 3,801,991**
Gaming Control Board		**1,021,055**
Civil Service Commission		**192,958**
Department of Treasury		**229,378**
Attorney General		**169,550**
Other Agencies		**11,730**
Total all State agencies		$ 5,426,662

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Lottery has contracted with a third party to provide for the operation of the gaming system through January 19, 2021. The contract rate was 1.2757% of sales through July 31, 2012.

Per an amendment effective August 1, 2012, additional equipment was acquired, increasing this rate to 1.32587% through January 19, 2014 and to 1.23017% from January 20, 2014 through January 19, 2015. After this date, per an amendment, the contract was extended for an additional two years through January 19, 2017 with a new rate of 1.18% and incorporating a monthly equipment maintenance fee of $33,333 per year for designated equipment during the extended contract term. Per an amendment effective March 1, 2016, the contract was extended for an additional four years through January 19, 2021, with the contract rate remaining at 1.18%. 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 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. This contract was amended February 2014 to add a draw based games component and additional reimbursable staffing and operational expenses. In August 2015, the contract was amended further to define the timing of delivery of the draw based game component and the commission rate for the draw based games. The commission rate for instant games is 19.60% of total gross profit. For draw based games, the commission rate varies between 8.25% and 9.28% of gross sales.

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

NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Lottery to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan State Employees' Retirement System. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Lottery 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 six-month period ending March 31, 2018 and 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 Six Months Ended March 31, 2016

		March 31, 2016
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 liabilty		68.07%

The amounts presented for each fiscal year were determined as of the measurement date of September 30, 2014. The amounts remain unchanged from those presented in the September 30, 2015 report as the Lottery's proportionate share of SERS' net pension liability using a measurement date of September 30, 2015 has not been determined at this time.

Bureau of State Lottery, State of Michigan
Required Supplemental Information
Schedule of Lottery's Contributions
State Employees' Retirement System
For the Six Months Ended March 31, 2016

		March 31, 2016
Statutorily required contribution	$	1,374,377
Contributions in relation to the stautorily required contribution		1,374,377
Contribution deficiency (excess)		-
Lottery's covered-employee payroll		6,017,412
Contributions as a percentage of covered-employee payroll		22.8%

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 Ended March 31, 2016 and 2015

		2016		2015	
		Amount	**Percent of Sales**	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	**$ 181,608,302**	**11.5%**	$ 172,810,107	12.4%
	Daily 4	**213,228,543**	**13.5%**	201,103,985	14.4%
	Lotto 47	**21,625,986**	**1.4%**	20,375,126	1.5%
	Lotto 47 EZ Match	**1,147,278**	**0.1%**	1,158,355	0.1%
	Mega Millions	**48,905,401**	**3.1%**	64,831,982	4.7%
	Megaplier	**3,425,696**	**0.2%**	3,921,735	0.3%
	Powerball	**131,643,788**	**8.4%**	62,618,643	4.5%
	Power Play	**3,959,621**	**0.3%**	2,615,282	0.2%
	Monopoly	**-**	**0.0%**	1,775,955	0.1%
	Keno	**4,949,142**	**0.3%**	4,990,877	0.4%
	Fantasy Five	**25,226,978**	**1.6%**	25,711,982	1.8%
	Fantasy Five EZ Match	**2,224,473**	**0.1%**	2,849,380	0.2%
	Raffle	**2,423,155**	**0.2%**	-	0.0%
	Club Keno	**227,550,996**	**14.4%**	211,610,170	15.2%
	Club Keno Kicker	**82,215,661**	**5.2%**	75,384,909	5.4%
	The Jack	**5,780,333**	**0.4%**	4,787,892	0.3%
	Poker Lotto	**7,176,181**	**0.5%**	8,653,229	0.6%
	Lucky for Life	**8,879,545**	**0.6%**	4,872,235	0.3%
	Pull-Tab tickets	**17,099,327**	**1.1%**	17,100,362	1.2%
	Instant tickets	**567,958,730**	**36.0%**	499,865,458	35.9%
	iLottery Instants, Net Win	**17,922,645**	**1.1%**	6,431,078	0.5%
Total lottery ticket sales		**1,574,951,781**	**100.0%**	1,393,468,742	100.0%
Prize awards:	Daily 3	**98,989,356**	**6.3%**	87,769,390	6.3%
	Daily 4	**93,017,485**	**5.9%**	96,419,963	6.9%
	Lotto 47	**13,704,059**	**0.9%**	11,522,469	0.8%
	Lotto 47 EZ Match	**723,964**	**0.0%**	730,841	0.1%
	Mega Millions/Megaplier	**26,588,617**	**1.7%**	33,645,948	2.4%
	Powerball/Power Play	**64,425,175**	**4.1%**	32,772,686	2.4%
	Monopoly	**222**	**0.0%**	2,113,199	0.2%
	Keno	**2,252,698**	**0.1%**	2,066,529	0.1%
	Fantasy Five	**12,831,696**	**0.8%**	13,605,548	1.0%
	Fantasy Five EZ Match	**1,404,784**	**0.1%**	1,800,926	0.1%
	Raffle	**1,209,574**	**0.1%**	-	0.0%
	Club Keno/Kicker/Jack	**206,737,119**	**13.1%**	190,753,386	13.7%
	Players Club all games	**735,492**	**0.0%**	735,492	0.1%
	Merchandise	**1,635**	**0.0%**	13991	0.0%
	Interactive	**8,002**	**0.0%**	-	0.0%
	Poker Lotto	**4,329,297**	**0.3%**	5,294,781	0.4%
	Lucky for Life	**6,093,310**	**0.4%**	2,712,298	0.2%
	Pull-Tab tickets	**12,239,050**	**0.8%**	12,227,547	0.9%
	Instant tickets	**404,957,104**	**25.5%**	354,833,996	25.3%
Total prize awards		**950,248,639**	**60.1%**	849,018,990	60.9%
Less: unclaimed prizes		**(12,084,148)**	**-0.8%**	(14,343,083)	-1.0%
Net prize awards		**938,164,491**	**59.3%**	834,675,907	59.9%
Gross margin		**636,787,290**	**40.7%**	558,792,835	40.1%
Retailer and vendor commission expense		**(143,470,199)**	**-9.1%**	(122,809,843)	-8.8%
Game related expense		**(11,063,502)**	**-0.7%**	(10,980,217)	-0.8%
Net ticket revenue		**482,253,589**	**30.9%**	425,002,775	30.5%
Other operating expense		**(24,259,815)**	**-1.5%**	(23,586,345)	-1.7%
Other miscellaneous revenue		**244,984**	**0.0%**	452,902	0.0%
Net lottery operating income		**458,238,758**	**29.4%**	401,869,332	28.8%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months Ended March 31, 2016 and 2015

	2016		2015	
	Amount	**Percent of Sales**	Amount	Percent of Sales
Charitable gaming				
Charitable gaming revenue	**$ 6,043,637**	**0.4%**	$ 5,784,749	0.4%
Charitable gaming expense	**(4,644,011)**	**-0.3%**	(4,741,231)	-0.3%
Net charitable gaming income	**1,399,626**	**0.1%**	1,043,518	0.1%
Non-operating revenues (expenses)				
Amortization expense - prize discount	**(4,065,148)**	**-0.3%**	(4,502,192)	-0.3%
Amortization revenue - investment discount	**3,945,884**	**0.3%**	4,306,919	0.3%
Unrealized (loss) on investments	**3,252,202**	**0.2%**	8,868,587	0.6%
Interest revenue - common cash fund	**126,567**	**0.0%**	36,880	0.0%
Bank fees	**(1,816)**	**0.0%**	(2,391)	0.0%
Loss on disposal of assets	**(4)**	**0.0%**	-	0.0%
Disbursement to School Aid Fund	**(457,749,241)**	**-29.1%**	(401,213,548)	-28.8%
Disbursement to General Fund	**(1,399,626)**	**-0.1%**	(1,043,518)	-0.1%
Disbursement to Health and Human Services	**(495,000)**	**0.0%**	(495,000)	0.0%
Net non-operating revenues (expenses)	**(456,386,182)**	**-29.0%**	(394,044,263)	-28.3%
Change in net position	**$ 3,252,202**	**0.5%**	$ 8,868,587	0.6%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months Ended March 31, 2016 and 2015

	2016	2015
Salaries and wages	**$ 6,499,032**	$ 6,148,240
Employee benefits and taxes	**4,026,565**	5,371,873
Promotion and advertising	**11,450,517**	9,538,080
Printing and supplies, including purchase of charitable gaming tickets	**734,569**	792,463
Other contractual services	**4,595,312**	4,696,328
Building rent and leases	**590,619**	553,032
Travel	**418,078**	456,303
Utilities	**180,540**	176,958
Postage	**120,120**	131,113
Equipment maintenance and rental	**65,388**	268,435
Bad debt expense	**18,912**	92,946
Interest paid on security deposits	**548**	1,283
Total	**$ 28,700,200**	$ 28,227,054

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery"), an enterprise fund of the State of Michigan, as of and for the six-month periods ended March 31, 2016 and 2015, and related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated June 16, 2016.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Plante & Moran, PLLC

June 16, 2016