



BUREAU OF STATE LOTTERY

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**
For Fiscal Years Ended Sept. 30, 2020 & 2019





BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

Comprehensive Annual Financial Report

For the Fiscal Years Ended September 30, 2020 and 2019

Prepared by Financial Gaming Services & Accounting Division



Bureau of State Lottery, State of Michigan
Comprehensive Annual Financial Report
for the fiscal years ended September 30, 2020 and 2019

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MICHIGAN LOTTERY TM

INTRODUCTORY SECTION

MISSION STATEMENT OF THE BUREAU OF STATE LOTTERY

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





GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING



BRIAN O. NEILL
COMMISSIONER

February 9, 2021

The Honorable Gretchen Whitmer, Governor
Members of the Legislature
Citizens of the State of Michigan

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Bureau of State Lottery (Lottery) for the fiscal years ending September 30, 2020 and 2019. Lottery management is responsible for the accuracy of the financial data and the completeness of the contents of this report.

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

The mission statement of the Lottery is:

- To maximize net revenues to supplement state K-12 public education programs;
- To provide fun and entertaining games of chance;
- To operate all games and bureau functions with nothing less than total integrity.

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

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

Fiscal Year 2020 Highlights

Record School Aid Fund Contributions. The Lottery contributed over \$1,179,800,000 to the School Aid Fund in fiscal year 2020. This is a new record and marks the Lottery's sixth record-setting year in a row for school contributions.

Record Sales and Prizes. Total sales in fiscal year 2020 were \$4.2 billion, up from the prior record of \$3.9 billion set last year. Prizes also set a new record in fiscal year 2020 of more than \$2.5 billion, up from the prior record of \$2.4 billion set last year.

Record Retailer Commissions and Incentives. Lottery retailers, many of which are small, family-owned businesses, received more than \$307.7 million in commissions and incentives, topping last year's record of \$287.6 million.

Responsible Gaming Commitment. Michigan was the first State Lottery to receive Internet Compliance Assessment Program certification from the National Council on Problem Gambling and has continued to be certified since 2015. Lottery also maintains its Responsible Gaming Verification from the North American Association of State and Provincial Lotteries and the National Council on Problem Gambling and has continued to be certified since 2017.

Profile of the Lottery

History

The Lottery was established under the authority of Public Act 239 of 1972 to generate funds to support Michigan's public school system. The first lottery game was called the Green Ticket and went on sale November 13, 1972. On October 7, 1975, the Lottery began selling instant games. Draw game sales began June 6, 1977 with the introduction of the Daily 3. The first multi-jurisdictional draw game, called The Big Game, included 10 states, and went on sale August 31, 1996. The Lottery began selling lottery games over the internet on August 11, 2014. Since the Lottery was established, it has contributed more than \$24.6 billion to the School Aid Fund.

Lottery Products

The Lottery offers a variety of games in several different styles of play, including: Instant Tickets, Pull Tabs, Draw Games, and Fast Cash. Digital versions of many games may also be purchased online.



Instant Ticket Games

Instant games are played by scratching off the latex covering on each ticket to reveal prize symbols. A variety of games with different themes, play styles, price points, and prize structures are available with an average of 43 games released each year. The games are priced between \$1 and \$30 and top prizes range from \$1,000 to \$4.0 million. Instant game sales set a new record in fiscal year 2020, topping \$2.0 billion.



Pull Tabs

Pull Tab games are similar to instant tickets, but players pull a perforated tab instead of scratching off a latex covering. A variety of different Pull Tab games are offered and range in price from \$0.50 to \$5 with top prizes ranging from \$50 to \$30,000.



Draw Games

Draw game tickets are printed by a retailer terminal connected to a central gaming system. Players can select their numbers or have numbers randomly selected. Drawings are conducted to select winning numbers and players win based on how many numbers they matched. The frequency of the drawings varies depending on the game. Draw games currently offered are Mega Millions, Powerball, Lucky for Life, Lotto 47, Fantasy 5, Daily 3, Daily 4, Poker Lotto, Keno!, and Club Keno. Many draw games can also be purchased online.



Mega Millions and Megaplier

Mega Millions is a multi-jurisdictional draw game with forty-seven participating jurisdictions. Players select five of seventy white ball numbers and one of twenty-five gold ball numbers for a chance to win a progressive jackpot prize. There is not a fixed minimum starting jackpot amount or rate at which the jackpot increases for each draw. Players may win any of nine prizes including the jackpot and eight set prize amounts ranging from \$2 to \$1 million. The Megaplier is an add-on wager that allows players to increase their non-jackpot prize. Mega Millions drawings are conducted twice a week on Tuesday and Friday.



Powerball and Power Play

Powerball is a multi-jurisdictional draw game with forty-eight participating jurisdictions. Players select five of sixty-nine white ball numbers and one of twenty-six red ball numbers for a chance to win a progressive jackpot prize. There is not a fixed minimum starting jackpot amount or rate at which the jackpot increases for each draw. Players may win any of nine prizes including the jackpot and eight set prize amounts ranging from \$4 to \$1 million. Power Play is an add-on wager that allows players to increase their non-jackpot prize. Powerball drawings are conducted twice a week on Wednesday and Saturday.



Lucky for Life

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



Lotto 47, EZMatch, and Double Play

Lotto 47 is a draw game in which players select six of forty-seven numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$1 million and is guaranteed to increase by a minimum of \$50,000 after each drawing if the jackpot is not won. Players may win any of four prizes including the jackpot and three set prize amounts ranging from \$5 to \$2,500. EZMatch is an add-on game that offers players a chance to win instantly. Double Play is an add-on game that was launched in January 2019 and uses a player's Lotto 47 numbers for an additional draw that takes place after the regular drawing. Lotto 47 drawings are conducted twice a week on Wednesday and Saturday.



Fantasy 5, EZMatch, and Double Play

Fantasy 5 is a draw game in which players select five of thirty-nine numbers for a chance to win a progressive jackpot prize. The jackpot starts at \$100,000 and increases by a minimum of \$5,000 after each drawing if the jackpot is not won. Players may win any of four prizes including the jackpot and set prize amounts ranging from \$1 to \$100. EZMatch is an add-on game that offers players a chance to win instantly. Double Play is an add-on game that was launched in January 2019 and uses a player's Fantasy 5 numbers for an additional draw that takes place after the regular drawing. Fantasy 5 drawings are conducted daily.



Daily 3 and Daily 4

The Daily 3 and Daily 4 are the Lottery's longest running and most consistently popular draw games. Players select three numbers ranging from zero to nine for the Daily 3 and four numbers ranging from zero to nine for the Daily 4. Numerous wager options are offered such as straight (match each number in order drawn), boxed (match numbers in any order for a reduced prize), and wheeled (match numbers in any order for full prize). Drawings for both games are conducted twice a day, every day of the week.



Poker Lotto

Poker Lotto offers players a chance to win instantly and again during a drawing. Players randomly are assigned five of fifty-two cards at the time of purchase.

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



Keno!

Keno! is a draw game in which players select ten of eighty numbers. The Lottery draws twenty-two numbers and players matching ten of those numbers win the jackpot prize of \$250,000. Players may win any of six prizes including the jackpot and lower-tier prizes ranging from a free \$1 instant ticket to \$2,500. Keno! drawings are conducted daily.



Club Keno, Kicker, The Jack, and Extra

Club Keno is a draw game predominantly played in bars, restaurants, and bowling facilities. Players select from one to ten of eighty numbers. The Lottery draws twenty numbers. Prizes are based on how many numbers the player matches and the selected ticket price. The Kicker is an add-on wager that allows players to multiply their prizes by as much as ten times. The Jack is an add-on wager that allows players to participate in a progressive jackpot starting at \$10,000. Extra is an add-on wager where an additional drawing takes place after each Club Keno drawing. Ten "Extra" numbers are drawn from the remaining pool of sixty. Players can win in both drawings but cannot combine numbers from both drawings. Club Keno and Extra drawings are conducted every 3.5 minutes, and the results are displayed both in-store and online.



Fast Cash

Fast Cash tickets print from the Lottery terminal and offer players instant-win opportunities along with a progressive jackpot that can be won at any time. Games with different themes are offered at price points of \$1, \$2, \$5, \$10, and \$20. Players can win set prizes ranging from \$1 to \$250,000. All Fast Cash games feature a progressive jackpot that grows based on sales, so no game has a static top prize. Two of the games, 100X The Cash and Jumbo Jackpot Slots, offer a top prize of \$250,000 plus the jackpot. Each game contributes 10% of sales to the jackpot and players can win either a share or the entire jackpot, depending on the price of their ticket.

Budgetary System and Controls

The Lottery works with the Department of Technology, Management and Budget, the State Budget Office, and the Legislature to create an annual appropriated budget for the Lottery's administrative costs. The Legislature reviews and approves the Lottery's budget each year. This approved budget becomes a spending cap for administrative expenses and ticket revenues provide funding for operations.

Revenue and net income forecasts are prepared throughout the fiscal year comparing estimates and forecasts to actual sales and expenses. This information is provided to the State Budget Office and other state agencies in order to ensure Lottery projections are reflected accurately in State budgetary planning.

Economic Condition and Financial Information

Local Economy

The University of Michigan Research Seminar in Quantitative Economics provides the following highlights in its most recent Michigan forecast issued on November 20, 2020:

In response to Michigan's second wave of COVID-19, Governor Whitmer recently announced new restrictions temporarily prohibiting indoor dining and drinking, some other recreational activities, and in-person high school, college, and university instruction.

These restrictions could potentially reduce the state's payroll job count by about 50,000 jobs, but very few of those job losses will appear in the reported monthly job count due to a quirk in the procedure for estimating payroll employment.

Even prior to the new restrictions, the second wave of the pandemic is expected to inhibit Michigan's economic recovery this winter. Private precautions are likely to drive substantial short-term weakness in the leisure and hospitality sector, regardless of official mandates.

We expect the state's economic recovery to benefit from the wide rollout of a vaccine by mid-2021 and passage of a modest fiscal stimulus package. Payroll employment ends year 2022 152,000 jobs, or 3.4%, short of its pre-pandemic level in the first quarter of 2020.

Personal income in Michigan has decoupled from employment during the pandemic because of massive federal income support, but the boost from the federal government is fading fast. We estimate that personal income fell 8.6% from the second quarter to the third, but the third quarter level was still a bit higher than prior to the pandemic.

Personal income falls a bit further in the fourth quarter with very limited federal support, then takes a jagged-tooth path in the first half of 2021. Additional stimulus in the first quarter leads to 4.0% growth, which is followed by a 2.9% decline as the stimulus fades. Personal income growth returns to a smoother path in the fourth quarter of 2021 and stays there in 2022, with annualized growth rates hovering between 3.9% and 4.7%. The path for total personal income hides a more worrisome trend: employment has held up much better in higher-wage industries than in lower-wage industries, and we expect the recovery to be faster in higher-wage industries as well. The COVID-19 recession thus appears to be driving a substantial increase in income inequality.

The complete forecast and analysis from the University of Michigan Research Seminar in Quantitative Economics is available at <https://lsa.umich.edu/econ/rsqe.html>

In September 2020, Michigan's seasonally adjusted unemployment rate declined by two-tenths of a percentage point to 8.5%, which is six-tenths of a percent higher than the September national rate of 7.9%. The number of employed and unemployed both moved down in September, as the State workforce decreased by 23,000. Over the year, the state jobless rate advanced by 4.6 percentage points, while the national rate rose by 4.4 percentage points.

The total workforce in Michigan declined by 49,000, or 1.0%, since September 2019, which reflects the withdrawal of workers since the onset of the pandemic. Since the height of the pandemic-related layoffs in April 2020, total employment advanced by 985,000, or 28.2%. However, employment remains nearly 300,000 below February levels. The number of unemployed in the state increased by 224,000, or 116.1%, over the past year, which is similar to the large unemployment gain nationally of 118.7%.

According to the Department of Technology, Management and Budget, jobless rates rose over 2020 in all 17 Michigan labor market areas. Seasonally unadjusted payroll jobs decreased by 422,000, or 9.5 percent, compared to September 2019, reflecting pandemic-related job losses.

A large seasonal jobs gain in September 2020 occurred in the government sector. Jobs also rose in professional and business services. The state's leisure and hospitality industry registered a modest decline in jobs during the month.

Financial Information

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

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

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

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

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

Accounting Systems and Policies

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

The Lottery voluntarily follows the recommendations of the Government Finance Officers Association of United States, and Canada (GFOA) for the contents of government financial reports and participates in GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The Lottery also adheres to financial reporting policies and procedures issued by the Michigan Department of Technology, Management and Budget.

Internal Controls

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

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

Debt Administration

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

Long-Term Financial Planning

The Lottery continuously works to increase sales. Each year, a strategic marketing plan is developed that identifies new product initiatives, promotions, and advertising programs. Additionally, expenditures related to these product investments are continuously reviewed and analyzed so that net return to the School Aid Fund is maximized. In fiscal year 2021, Lottery is anticipating new competition in the market in the form of online casino gaming and sports betting.

In the retail channel, the Lottery plans to introduce forty-four new retail instant games, twenty-four new Pull Tabs games, and several new enhancements to its Club Keno game in fiscal year 2021. These games and enhancements will feature a variety of price points, play styles, and prize structures that will provide new and existing players with a fun and rewarding play experience.

In fiscal year 2021, Lottery's digital gaming division plans to introduce thirty-two new digital instant games. New games typically launch every two weeks, with some spaced closer together around holidays. Shifting to a new strategy in fiscal year 2021, Lottery will begin to explore seasonal content, which will help to create more timely and relevant content and increase the frequency of game releases during those periods, while avoiding cannibalization of sales between similar games. Lottery will also expand the online draw game offerings by adding Raffles to the online portfolio and will continue to expand integration between retail and online channels using promotions to drive online traffic to retail and back.

Awards and Acknowledgements

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Lottery a Certificate of Achievement for Excellence in Financial Reporting for its fiscal year 2019 CAFR. To receive this prestigious award, a government agency must publish an easily readable and efficiently organized comprehensive annual financial report that meets GAAP and applicable legal requirements. The Lottery is proud to have received a Certificate of Achievement from the GFOA for 15 consecutive years and will submit this report to the GFOA for consideration.

Acknowledgement

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

Respectfully submitted,



Kristi L.B. Thompson
Deputy Commissioner of Administration & CFO



Brian O. Neill
Commissioner



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Michigan Lottery

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

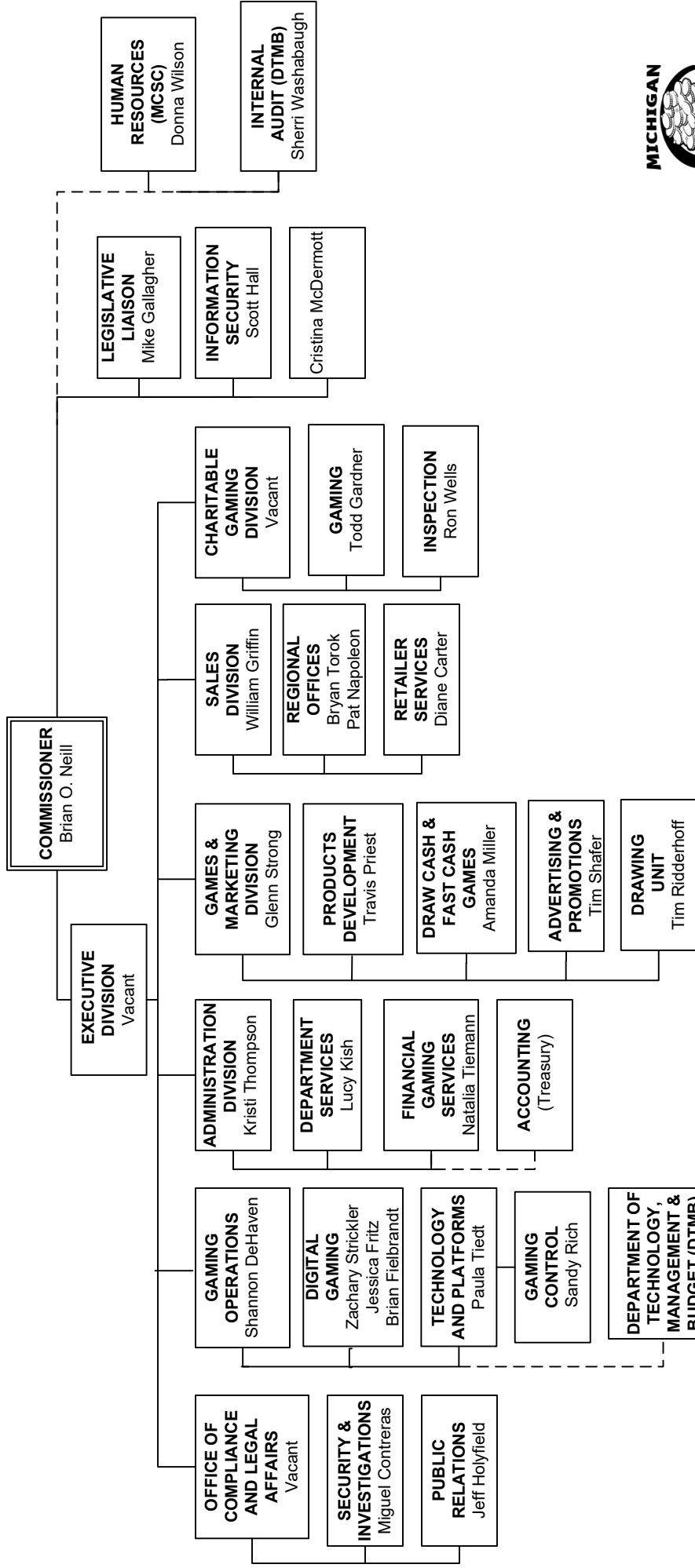
September 30, 2019

Christopher P. Morrell

Executive Director/CEO

Michigan State Lottery

Organization Chart and Principal Officials







**MICHIGAN
LOTTERY.**

| FINANCIAL SECTION



Independent Auditor's Report

To Mr. Brian Neill, Commissioner,
Bureau of State Lottery, State of Michigan,
and Mr. Doug Ringler, CPA, CIA,
Auditor General, State of Michigan
Bureau of State Lottery, State of Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery"), an enterprise fund of the State of Michigan, as of and for the six-month periods and years ended September 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the Bureau of State Lottery, State of Michigan's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bureau of State Lottery, State of Michigan as of September 30, 2020 and 2019 and the respective changes in its financial position and cash flows for the six-month periods and years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 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 September 30, 2020 and 2019 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.

To Mr. Brian Neill, Commissioner,
Bureau of State Lottery, State of Michigan,
and Mr. Doug Ringler, CPA, CIA,
Auditor General, State of Michigan
Bureau of State Lottery, State of Michigan

Other Matters

Required Supplemental Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2021 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 solely 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 effectiveness of the Bureau of State Lottery, State of Michigan's 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

February 9, 2021



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The following discussion of the Lottery's financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2020. Please read it in conjunction with the financial statements, which begin on page 27.

Using This Report

The Lottery is accounted for as an enterprise 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 CAFR consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules. The Statement of Net Position on page 27 and the Statement of Revenues, Expenses and Changes in Net Position on page 28, 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 into either the State School Aid Fund (for income related to Lottery gaming activities) or the General Fund (for income related to Charitable Gaming activities). The net position of the Lottery consists of capital assets, unrealized gains or losses on investments held to fund future payments due on Lottery prizes that are annuities, the impact of GASB 68 and GASB 75, as well as the change in pension and other postemployment benefits (OPEB) liabilities, deferred inflows, and outflows related to pension and OPEB. 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 to 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

Compared to the fiscal year ended September 30, 2019:

- Total revenues for all activities increased by \$352.3 million, or 9.0%.
 - Operating revenues for Lottery gaming activities increased by \$359.2 million, or 9.2%.
 - Non-operating revenues decreased by \$6.9 million, which reflects the current value of the unrealized gain on investments.
- Total expenses increased \$355.4 million, or 9.1%, consisting almost entirely of prize awards and contributions to the School Aid Fund.
 - Operating expenses increased \$247.4 million, or 8.7%, primarily due to an increase in net prize awards of \$218.9 million.
 - Nonoperating expenses increased by \$108.0 million, or 10.0%, reflecting an increase in disbursements to the School Aid Fund of \$109.3 million, a decrease in prize amortization of \$0.2 million, and a decrease in disbursements to the General Fund of \$1.1 million.

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

Net Position

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

Table 1 - Net Position
(in millions)

	September 30,		
	2020	2019	2018
Current and other assets	\$ 289.2	\$ 258.7	\$ 187.8
Investments - noncurrent	165.3	166.3	157.7
Other assets	2.1	3.0	3.7
Capital assets (net of accumulated depreciation)	1.1	1.6	1.5
Total assets	<u>457.7</u>	<u>429.6</u>	<u>350.7</u>
Deferred Outflows of Resources -			
Deferred outflows related to pensions	2.7	2.6	3.1
Deferred outflows related to OPEB health	9.2	6.6	3.0
Deferred outflows related to OPEB life insurance	0.5	0.2	0.1
Total deferred outflows of resources	<u>12.4</u>	<u>9.4</u>	<u>6.2</u>
Current liabilities	275.6	247.5	177.9
Long-term liabilities	211.6	217.5	220.6
Total liabilities	<u>487.2</u>	<u>465.0</u>	<u>398.5</u>
Deferred Inflows of Resources -			
Deferred inflows related to pensions	1.2	2.2	1.3
Deferred inflows related to OPEB health	6.8	4.7	0.8
Deferred inflows related to OPEB life insurance	0.9	0.5	0.2
Total deferred inflows of resources	<u>8.9</u>	<u>7.4</u>	<u>2.3</u>
Net position:			
Net investment in capital assets	0.7	1.1	1.0
Unrestricted (deficit)	(26.7)	(34.5)	(44.9)
Total net position	<u>\$ (26.0)</u>	<u>\$ (33.4)</u>	<u>\$ (43.9)</u>

As shown in Table 1 above, the Lottery's net position increased from September 2019 to 2020 by \$7.4 million, and increased from September 2018 to 2019 by \$10.5 million. The increases are primarily attributable to the unrealized gain on investments that the Lottery holds to fund future payments due on annuitized Lottery prizes. Accounting principles dictate that the Lottery record 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.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The difference between the market value of these investments and the amortized book value is considered a restriction for unrealized gains on investments and is not available for disbursement to the School Aid Fund.

As of September 30, 2020 and 2019, the Lottery recorded a deficit in the amount restricted for the School Aid Fund, which resulted in a negative overall net position. This deficit amount has been reported as unrestricted on the Statement of Net Position on page 27 in the financial statements, as a negative balance cannot be considered restricted.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2020, net capital assets decreased by \$0.5 million. Capital assets increased \$0.1 million from September 2018 to 2019. Additional detailed information on capital assets may be found in Note 5 in the accompanying financial statements.

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

Table 2 - Liabilities
(in millions)

	September 30,		
	2020	2019	2018
Current:			
Accounts payable and other liabilities	31.4	20.2	21.8
Due to School Aid Fund	52.0	26.8	5.0
Prize awards payable (net of discount)	192.2	200.5	151.1
Total current	275.6	247.5	177.9
Non-current:			
Prize awards payable (net of discount)	141.1	149.8	155.6
Net pension liability	29.3	26.3	22.4
Net OPEB liability - health	34.8	34.9	35.9
Net OPEB liability - life insurance	5.2	5.3	5.3
Capital lease obligation	0.3	0.4	0.5
Compensated absences	0.9	0.8	0.9
Total non-current	211.6	217.5	220.6
Total liabilities	\$ 487.2	\$ 465.0	\$ 398.5

Non-current liabilities consist of prize liability for prizes paid in installments over several years, long-term pension recorded as a result of GASB 68, and long-term OPEB obligation allocation recorded as a result of GASB 75. For the fiscal year ended September 2020, long-term prize liability decreased \$8.7 million, or 5.8%, from September 2019 and decreased by \$5.8 million, or 3.7%, from September 2018 to September 2019. The decreases from September 2019 to September 2020 and September 2018 to September 2019 are attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. Refer to Note 7 in the accompanying financial statements for more information.

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

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

Table 3 - Changes in Net Position
(in millions)

	September 30,		
	2020	2019	2018
Operating revenues	\$ 4,256.6	\$ 3,897.4	\$ 3,591.9
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(2,583.6)	(2,364.7)	(2,215.0)
Commissions and game related expenses	(435.9)	(392.4)	(367.9)
Total prizes and direct game expenses	(3,019.5)	(2,757.1)	(2,582.9)
Income before other operating expenses	1,237.1	1,140.3	1,009.0
Other operating expenses	(58.5)	(73.5)	(68.0)
Operating income	1,178.6	1,066.8	941.0
Non-operating revenues and (expenses):			
Investment and interest revenues (losses)	16.6	23.5	(3.3)
Investment and interest expenses	(6.1)	(6.3)	(6.9)
School Aid Fund disbursement expense	(1,179.9)	(1,070.6)	(941.3)
General Fund disbursement expense	(0.8)	(1.9)	(1.9)
Health & Human Services disbursement expense	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(1,171.2)	(1,056.3)	(954.4)
Change in net position	7.4	10.5	(13.4)
Total net position beginning of period	(33.4)	(43.9)	(1.3)
Restatement due to change in accounting principle related to GASB 75 implementation	-	-	(29.2)
Total net position end of period	\$ (26.0)	\$ (33.4)	\$ (43.9)

Because the Lottery is required by law to deposit all of its net income into the School Aid Fund or General Fund, change in net position does not reflect the result of the Lottery's operating activities. The \$1,179.9 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year ended September 2020. There was an increase in disbursement expense of \$109.3 million or 10.2% from September 2019. For the fiscal year ended September 2019 there was an increase of \$129.3 million or 13.7% from September 2018. The disbursement expense to the General Fund reflects Charitable Gaming activities for the fiscal year ended September 2020. Charitable Gaming activities experienced a decrease in net revenues for the fiscal year ended September 2020 compared to September 2019, and experienced no change for the fiscal year ended September 2019 compared to September 2018. The decrease from September 2019 to September 2020 is primarily due to the impact of the global Coronavirus Disease 2019 (COVID-19) pandemic on Lottery's operations. Refer to Note 17 for further details. Charitable Gaming net income is disbursed annually to the General Fund.

Disbursements to other funds are detailed in Table 4 below:

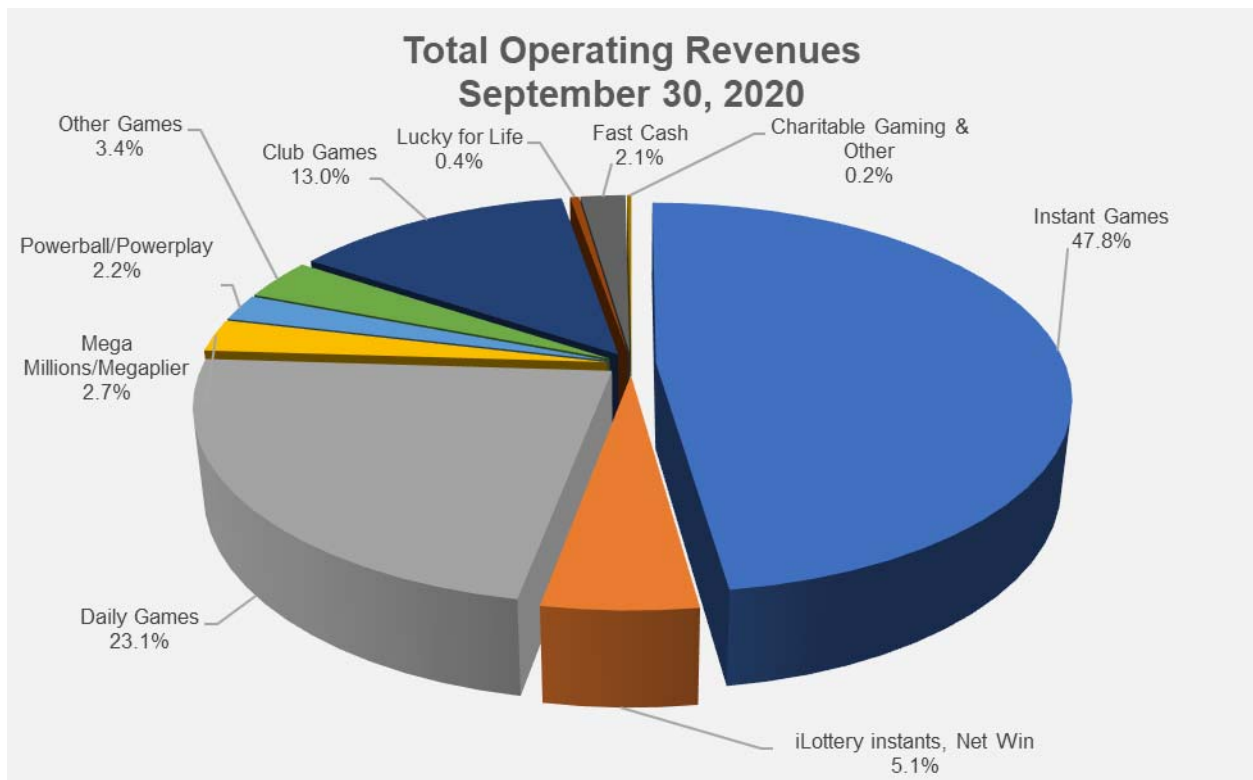
Bureau of State Lottery, State of Michigan Management's Discussion and Analysis

Table 4 - Disbursements to Other Funds
(in millions)

	September 30,		
	2020	2019	2018
School Aid Fund	\$ 1,179.9	\$ 1,070.6	\$ 941.3
General Fund	0.8	1.9	1.9
Health & Human Services	1.0	1.0	1.0
Total Disbursements to Other Funds	<u>\$ 1,181.7</u>	<u>\$ 1,073.5</u>	<u>\$ 944.2</u>

Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2020:



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

Table 5 - Revenues
(in millions)

	September 30,		
	2020	2019	2018
Operating revenues:			
Instant tickets	\$ 2,038.2	\$ 1,655.5	\$ 1,488.2
iLottery Instants, Net Win	219.1	116.3	93.7
Daily games	981.8	889.9	837.8
Mega Millions/Megaplier	115.3	192.4	153.2
Powerball/Power Play	92.1	144.1	125.8
Lucky for Life	15.2	14.2	14.9
Fast Cash	87.8	81.6	71.2
Club games	553.0	650.9	660.7
Other games and promotions	144.9	139.3	132.5
Other operating revenue	9.2	13.2	13.9
Total operating revenues	<u>4,256.6</u>	<u>3,897.4</u>	<u>3,591.9</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	8.9	15.1	(11.2)
Amortization on bonds	6.6	6.8	7.0
Other income	1.1	1.6	0.9
Total non-operating revenue	<u>16.6</u>	<u>23.5</u>	<u>(3.3)</u>
Total revenues	<u><u>\$ 4,273.2</u></u>	<u><u>\$ 3,920.9</u></u>	<u><u>\$ 3,588.6</u></u>

Operating revenues, primarily Lottery ticket sales, for the fiscal year ended September 2020 increased over September 2019 by \$359.2 million, or 9.2%, and increased \$305.5 million, or 8.5%, for the fiscal year ended September 2019 compared to September 2018.

Instant game sales continued to grow substantially throughout fiscal year 2020. Instant game ticket sales increased by \$382.7 million, or 23.1%, for the fiscal year ended September 2020 over September 2019 and increased by \$167.3 million, or 11.2% for the fiscal year ended September 2019 over September 2018. The \$10-\$30 price point games contributed the most to instant sales growth during fiscal year 2020. The closure of Michigan bars, restaurants, and casinos for a temporary period during 2020 due to the COVID-19 pandemic also caused a shift in Lottery player spending and led to an increase in instant ticket sales.

The iLottery program continued to experience tremendous sales growth for the sixth year in a row since launch of the iLottery platform in 2014. iLottery instant ticket net win, as described in Note 8, increased \$102.8 million, or 88.4%, for the fiscal year ended September 2020 compared to September 2019, and net win increased \$22.6 million, or 24.1%, for the fiscal year ended September 2019 compared to September 2018. Refer to Note 8 in the accompanying financial statements.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Much of the growth in iLottery instant game sales from fiscal year 2020 to 2019 continues to be largely attributed to maintaining a varied product portfolio, which includes different game themes, play mechanics, and prize structures that engages a diverse player base. The closure of Michigan bars, restaurants, and casinos for a temporary period during 2020 due to the COVID-19 pandemic also caused a shift in Lottery player spending and helped contribute to an increase in iLottery instant ticket net win for the fiscal year ended September 2020.

Fast Cash sales increased by \$6.2 million, or 7.6%, for the fiscal year ended September 2020 over September 2019, and increased \$10.4 million, or 14.6%, for the fiscal year ended September 30, 2019 over September 2018. The increase for the fiscal year ended September 2020 from September 2019 is primarily due to a record-setting Fast Cash progressive jackpot of \$1.8 million that was won in November 2019. The increase from the fiscal year ended September 30, 2019 over September 2018 is primarily due to a matrix change made in April 2019 that increased the odds of winning the Fast Cash jackpot in order to create larger jackpots and make the games more exciting for players. Currently, there are 10 Fast Cash games on sale, and the jackpot was hit on an average of once every thirteen days during the fiscal year ended September 2020.

Mega Millions sales for the fiscal year ended September 2020 decreased by \$77.1 million, or 40.1%, compared to September 2019. Sales for the fiscal year ended September 2019 increased by \$39.2 million, or 25.6%, compared to September 2018. The decrease in sales from the fiscal year ended September 2019 to September 2020 is primarily due to the elimination of a minimum starting jackpot and the guaranteed minimum amount by which the jackpot would increase for each drawing starting in April 2020. These changes were due to slowing sales as a result of the COVID-19 pandemic and helped ensure jackpots were supported by sales. There was also a decrease in the number of jackpots over \$100.0 million for the year ended September 2020 compared to September 2019. The sales increase from September 2018 to September 2019 is primarily due to a significant number of jackpots over \$100.0 million during fiscal year 2019, including a record-setting jackpot of \$1.6 billion on October 23, 2018.

Powerball sales for the fiscal year ended September 2020 decreased by \$52.0 million, or 36.1%, compared to September 2019, and increased by \$18.3 million, or 14.5%, for the fiscal year ended September 2019 compared to September 2018. The decrease in sales from the fiscal year ended September 2019 to September 2020 is primarily due to the elimination of a minimum starting jackpot and the guaranteed minimum amount by which the jackpot would increase for each drawing starting in April 2020. These changes were due to slowing sales as a result of the COVID-19 pandemic and helped ensure jackpots were supported by sales. The increase in sales for the fiscal year ended September 2019 compared to September 2018 is primarily attributed to a significant number of jackpots over \$100.0 million, including two jackpots that reached \$750.0 million in October 2018 and March 2019.

Lucky for Life sales increased by \$1.0 million, or 7.0% for the fiscal year ended September 2020 over September 2019, and decreased by \$0.7 million, or 4.7% for the fiscal year ended September 2019 compared to September 2018. The sales increase for the fiscal year ended September 2020 over September 2019 is primarily attributed to the addition of the Lucky for Life game to the iLottery platform in May 2020, which created an additional purchase channel for players.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Club games, as shown in Table 5 above, include Club Keno, Club Keno Kicker, The Jack, Extra, and Pull-Tabs. The Club Games sales for the fiscal year ended September 2020 decreased by \$97.9 million, or 15.0%, from September 2019. Sales for the fiscal year ended September 2019 decreased by \$9.8 million, or 1.5%, compared to September 2018. The decrease in Club games sales for the year ended September 2020 is primarily due to the closure of bars and restaurants for a temporary period during 2020 due to the COVID-19 pandemic. No new pull-tab games were introduced during April or May 2020 due to the temporary closure. The decrease in sales for the year ended September 2019 can be attributed to increased competition at bars and restaurants from the Fast Cash game.

Other games consist of Lotto 47, Lotto 47 EZ Match, Lotto 47 Double Play, Fantasy 5, Fantasy 5 EZ Match, Fantasy 5 Double Play, Keno, Raffle, Poker Lotto, Online Game Cards, and iLottery promotions. Other game sales for the fiscal year ended September 2020 increased \$5.6 million, or 4.0%, compared to the fiscal year ended September 2019, and increased \$6.8 million, or 5.1% for the fiscal year ended September 2019 compared to September 2018. The sales increase for the year ended September 2020 over September 2019 can be attributed to an increase in Lotto 47 sales, due to a growing jackpot during the last quarter. There was also a significant increase in Lotto 47 sales on the iLottery platform. The sales increase for the year ended September 2019 is due to the launch of the new Double-Play add-on game for Lotto 47 and Fantasy 5 in January 2019.

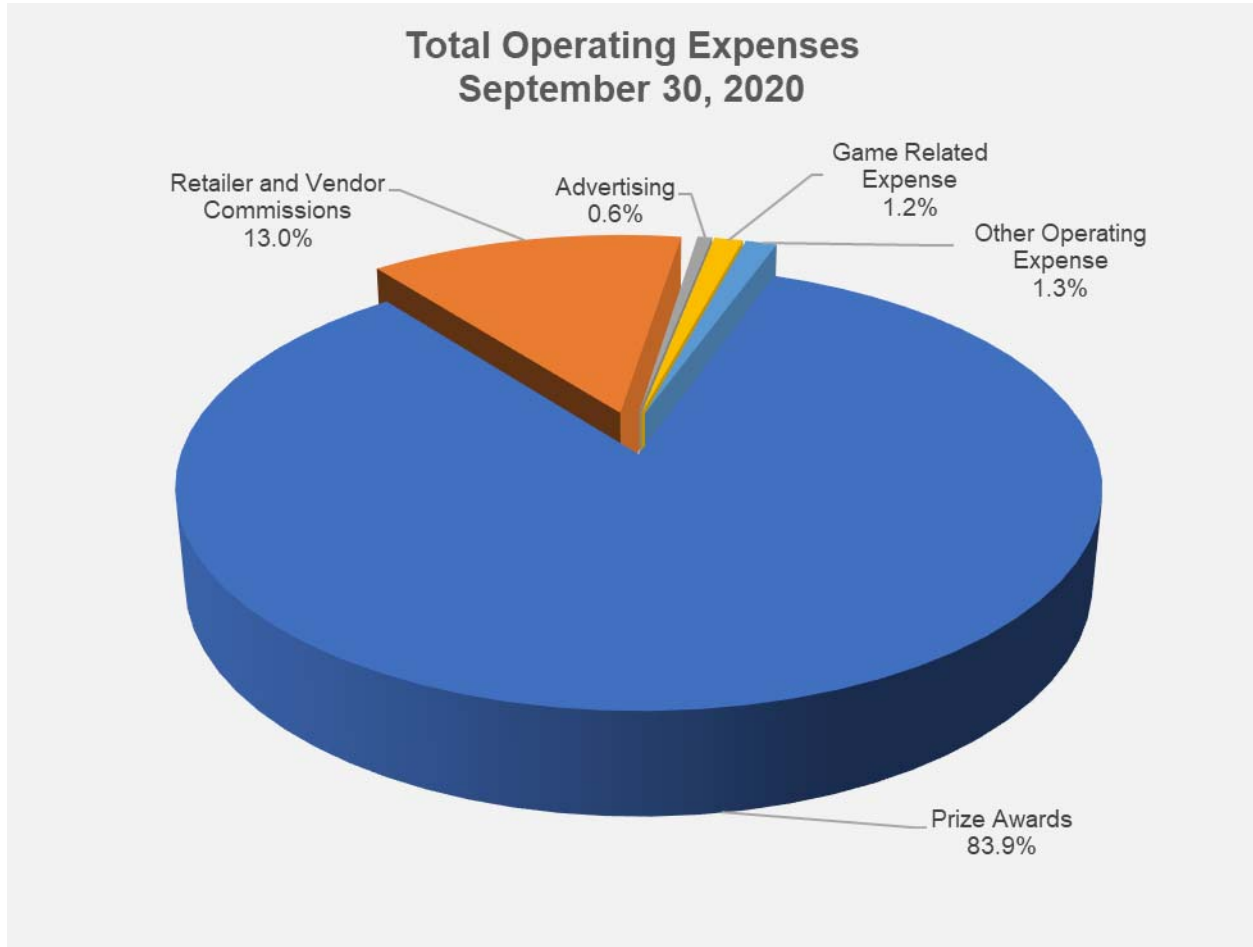
The decrease in non-operating revenues for the fiscal year ended September 2020 compared to September 2019 resulted from a decrease in unrealized gains on investments and other income. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact the disbursement to the School Aid Fund.

The decrease in bond amortization for the fiscal year ended September 2020 compared to September 2019 and for September 2019 compared to September 2018 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. Other income decreased for the fiscal year ended September 2020 compared to September 2019 due to a decrease in interest rates on common cash investments. Other income increased from September 2019 over September 2018 due to an increase in interest rates on common cash investments. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

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

Expenses

The following chart shows prizes, game costs, and other operating expenses as a percentage of total operating expenses for the fiscal year ended September 30, 2020:



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

Table 6 - Expenses
(in millions)

	September 30,		
	2020	2019	2018
Prizes:			
Instant prizes	\$ 1,512.1	\$ 1,220.0	\$ 1,087.2
Draw Game prizes	765.3	751.3	715.0
Club game prizes	362.6	433.9	434.6
Players Club all games	-	-	0.2
Total prizes	<u>2,640.0</u>	<u>2,405.2</u>	<u>2,237.0</u>
Less: unclaimed prizes	<u>56.4</u>	<u>40.5</u>	<u>22.0</u>
Net prize awards	<u>2,583.6</u>	<u>2,364.7</u>	<u>2,215.0</u>
Direct game expenses:			
Retailer commissions	307.7	287.6	266.5
Vendor commissions and other expenses	92.3	70.9	67.6
Game related expenses	35.9	33.9	33.8
Total direct game expenses	<u>435.9</u>	<u>392.4</u>	<u>367.9</u>
Other operating expenses:			
Salaries, wages and benefits	26.7	29.8	26.7
Other professional services	7.5	8.9	8.5
Printing and supplies	1.0	1.5	1.4
Other general and administrative	3.3	3.5	3.5
Promotion and advertising	20.0	29.8	27.9
Total other operating expenses	<u>58.5</u>	<u>73.5</u>	<u>68.0</u>
Total operating expenses	<u>3,078.0</u>	<u>2,830.6</u>	<u>2,650.9</u>
Non-operating expenses:			
Amortization of prize discount	6.1	6.3	6.9
School Aid Fund disbursement	1,179.9	1,070.6	941.3
General Fund disbursement	0.8	1.9	1.9
Health & Human Services disbursement	1.0	1.0	1.0
Total non-operating expenses	<u>1,187.8</u>	<u>1,079.8</u>	<u>951.1</u>
Total expenses	<u><u>\$ 4,265.8</u></u>	<u><u>\$ 3,910.4</u></u>	<u><u>\$ 3,602.0</u></u>

Instant games overall payout for the fiscal year ended September 2020 increased to 74.2% from 73.7% at September 2019 and from 73.1% at September 2018. The games vary in payout percentage depending on ticket price. Instant game prize payouts range from 60.0% for a \$1 game to 78.3% for a \$30 game for the fiscal year ended September 2020.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The combined Daily Games prize payout increased overall for the fiscal year ended September 2020 over September 2019. Daily 3 prize payout decreased slightly to 51.2% for the fiscal year ended September 2020 compared to 51.4% for September 2019, and increased from 49.3% for September 2018. Daily 4 prize payout increased to 50.6% for the fiscal year ended September 2020 compared to 46.9% for September 2019, and decreased from 54.7% for September 2018. Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 50.9% for the fiscal year ended September 2020. The increase in the prize payout for the fiscal year ended September 2020 can be attributed an increase in the number of daily 4 payouts exceeding \$5.0 million.

The Club Games prize payout percentage decreased to 65.2% for the fiscal year ended September 2020 compared to 66.4% for September 2019 and 65.5% for September 2018. The other draw games have an anticipated payout between 50.0% and 73.8%.

Retailer and vendor commissions have increased commensurate with higher overall sales. Game related expense increased \$2.0 million, or 5.9% for the fiscal year ended September 2020 compared to September 2019 and increased by \$0.1 million, or 0.3%, for the fiscal year ended September 2019 compared to September 2018.

Other operating expenses have decreased by \$15.0 million, or 20.4%, for the fiscal year ended September 2020 compared to September 2019 and increased by \$5.5 million, or 8.1%, for the fiscal year ended September 2019 compared to September 2018. The decrease for the year ended September 2020 compared to September 2019 is due primarily to a significant decrease in advertising expenses due to the temporary closure of bars and restaurants during the COVID-19 pandemic.

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. Refer to Note 1 for further details.

Unclaimed prizes for the fiscal year ended September 2020 increased by \$15.9 million compared to September 2019 and increased by \$18.5 million for the fiscal year ended September 2019 compared to September 2018. The increase in unclaimed prizes can be attributed to the expiration of a higher number of instant games each fiscal year, as well as a higher number of instant and draw-based game prizes \$1.0 million and greater that went unclaimed.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Charitable Gaming

A detail of the Lottery's charitable gaming revenues, expense, and net income for the fiscal years ended September 30 are presented in Table 7 below:

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

	September 30,		
	2020	2019	2018
Gross revenue	\$ 7.3	\$ 12.1	\$ 11.7
Operating expenses	(6.5)	(10.2)	(9.8)
Net income	<u>\$ 0.8</u>	<u>\$ 1.9</u>	<u>\$ 1.9</u>

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

Charitable Gaming activities overseen by the Lottery include the licensing and regulation of qualifying nonprofit organizations to conduct bingos, raffles, charity-game ticket sales, and other charitable gaming events for fundraising purposes.

Executive Order 2012-4 (EO 2012-4), effective June 10, 2012, transferred the licensing and regulation of Millionaire Party activities from the Lottery to the Michigan Gaming Control Board (MGCB). MGCB Millionaire Party licensing and regulation was later codified pursuant to Michigan Public Act 159 of 2019. According to E.O. 2012-4, Millionaire Party licensing revenue shall be remitted to the Lottery and all necessary expenses up to \$3.0 million shall be financed by the Lottery. Please refer to Note 14 in the accompanying financial statements for more information about transactions with other State agencies, including MGCB.

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

Other Potentially Significant Factors Impacting Next Year

The Lottery anticipates sales growth in certain sectors in fiscal year 2021. Revenue will be driven primarily by new retail and online instant games. There will be more seasonal digital instant game content, as well as implementation of a marketing platform that will allow for personalization across various media channels to create a seamless player experience. Also, Micro raffle games will be made available on the iLottery platform for the first time, which will modernize a classic Lottery product.

In fiscal year 2021, the Lottery faces pandemic-related challenges selling products in social environments (i.e. bars and restaurants), as well as direct competition in the form of legalized iGaming and sports betting in Michigan.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The United States and the State of Michigan declared a state of emergency in March 2020 due to the global Coronavirus Disease 2019 (COVID-19) pandemic. The Lottery's workforce and business operations continue at normal capacity with some from remote locations.

In an effort to minimize the impact of the pandemic on operations, the Lottery took actions such as allowing retailers an extension of time to pay for instant and pull-tab ticket inventory, reducing advertising spending by approximately \$12.5 million from what was originally budgeted, allowing a limited number of in-person prize winner appointments at regional offices and continuing to allow mail-in prize claims, and extending the window of time for players to claim expired prizes. Although there was a substantial decrease in Charitable Gaming ticket sales, as well as some Lottery game sales, due to the pandemic and the "Stay Home, Stay Safe" Executive Order (E.O.) 2020-21, there was not a material financial impact on the Lottery's financial position or results of operations for the fiscal year ended September 30, 2020.

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

Contacting the Lottery's Financial Management

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

Bureau of State Lottery, State of Michigan
Statement of Net Position
September 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Equity in State Treasurer's Common Cash Fund	\$ 13,252,536	\$ 5,880,080
Investments, at fair value	16,280,546	16,180,748
Accounts receivable - net	238,084,548	216,727,146
Inventory	21,717,799	19,935,247
Total current assets	289,335,429	258,723,221
Non-current assets:		
Investments, at fair value	165,268,298	166,285,519
Other assets	2,115,293	2,960,132
Capital assets:		
Leasehold improvements and equipment	5,811,648	5,806,864
Accumulated depreciation	(4,674,617)	(4,225,274)
Total capital assets	1,137,031	1,581,590
Total noncurrent assets	168,520,622	170,827,241
Total assets	457,856,051	429,550,462
Deferred Outflows of Resources:		
Deferred outflows related to pensions	2,658,934	2,620,385
Deferred outflows related to OPEB health	9,170,168	6,598,890
Deferred outflows related to OPEB life insurance	531,445	227,425
Total deferred outflows of resources	12,360,547	9,446,700
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	31,434,273	20,205,281
Due to School Aid Fund	51,983,337	26,822,429
Prize awards payable - net of discount	192,205,808	200,510,336
Total current liabilities	275,623,418	247,538,046
Noncurrent liabilities:		
Prize awards payable - net of discount	141,143,309	149,759,859
Net pension liability	29,293,732	26,317,640
Net OPEB liability - health	34,790,283	34,926,285
Net OPEB liability - life insurance	5,199,726	5,281,241
Capital lease obligation	337,642	399,688
Accrual for compensated absences, less current portion	881,859	844,900
Total noncurrent liabilities	211,646,551	217,529,613
Total liabilities	487,269,969	465,067,659
Deferred Inflows of Resources:		
Deferred inflows related to pensions	1,211,471	2,248,457
Deferred inflows related to OPEB health	6,832,748	4,652,467
Deferred inflows related to OPEB life insurance	911,639	486,127
Total deferred inflows of resources	8,955,858	7,387,051
Net Position		
Net investment in capital assets	737,342	1,108,326
Restricted for School Aid Fund	-	-
Unrestricted (deficit)	(26,746,571)	(34,565,874)
Total net position	\$ (26,009,229)	\$ (33,457,548)

See Accompanying Notes to Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Revenues, Expenses and Changes in Net Position
For the Six Months and Years Ended September 30, 2020 and 2019

	Six Months Ended		Years Ended	
	2020	2019	2020	2019
Operating revenues				
Ticket sales	\$ 2,315,666,802	\$ 1,911,477,614	\$ 4,247,423,112	\$ 3,884,160,098
Charitable gaming and other	2,599,455	6,641,221	9,195,229	13,244,885
Total operating revenues	2,318,266,257	1,918,118,835	4,256,618,341	3,897,404,983
Operating expenses				
Prize awards	1,429,981,407	1,182,326,825	2,640,003,597	2,405,223,661
Less - unclaimed prizes	(29,114,548)	(18,522,245)	(56,446,606)	(40,565,390)
Net prize awards	1,400,866,859	1,163,804,580	2,583,556,991	2,364,658,271
Retailer and vendor commissions and other expenses	220,541,961	175,961,542	399,952,527	358,480,390
Game related expenses	18,519,810	16,620,403	35,951,454	33,915,456
Depreciation expense	233,168	283,558	524,225	563,716
Other operating expenses	25,976,119	41,082,006	57,969,369	72,953,263
Total operating expenses	1,666,137,917	1,397,752,089	3,077,954,566	2,830,571,096
Operating income	652,128,340	520,366,746	1,178,663,775	1,066,833,887
Non-operating revenues				
Investment revenue - net	1,418,329	11,877,163	15,416,911	21,926,736
Interest on equity in State Treasurer's Common Cash Fund	261,548	1,298,044	1,143,764	1,618,121
Total non-operating revenues	1,679,877	13,175,207	16,560,675	23,544,857
Non-operating expenses				
Custody fees	(1,924)	(1,801)	(3,192)	(3,089)
Capital lease interest expense	(22,607)	(20,988)	(42,843)	(42,694)
Amortization of prize award obligation discount	(2,936,544)	(2,971,069)	(6,089,971)	(6,299,088)
Loss on disposal of assets	-	-	-	(4,583)
Total non-operating expenses before disbursements	(2,961,075)	(2,993,858)	(6,136,006)	(6,349,454)
Disbursement to School Aid Fund	(653,607,951)	(525,387,103)	(1,179,881,729)	(1,070,649,555)
Disbursement to General Fund	(768,396)	(819,043)	(768,396)	(1,898,268)
Disbursement to Health & Human Services	(495,000)	(495,000)	(990,000)	(990,000)
Total disbursements	(654,871,347)	(526,701,146)	(1,181,640,125)	(1,073,537,823)
Total non-operating expenses	(657,832,422)	(529,695,004)	(1,187,776,131)	(1,079,887,277)
Net non-operating expense	(656,152,545)	(516,519,797)	(1,171,215,456)	(1,056,342,420)
Change in net position	(4,024,205)	3,846,949	7,448,319	10,491,467
Total net position at beginning of period	(21,985,024)	(37,304,497)	(33,457,548)	(43,949,015)
Total net position at end of period	\$ (26,009,229)	\$ (33,457,548)	\$ (26,009,229)	\$ (33,457,548)

See Accompanying Notes to Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2020 and 2019

	Six Months Ended		Years Ended	
	2020	2019	2020	2019
Cash Flows From Operating Activities				
Cash collections from customers	\$ 2,252,706,210	\$ 1,869,617,481	\$ 4,234,719,722	\$ 3,827,928,317
Payments to employees	(11,852,652)	(12,300,986)	(25,050,873)	(24,900,222)
Payments to suppliers	(21,909,605)	(39,517,518)	(57,463,112)	(79,131,304)
Payments to prize winners	(1,409,611,783)	(1,112,508,110)	(2,606,568,040)	(2,327,334,841)
Payments for retailer and vendor commissions and other expenses	(220,154,347)	(175,605,832)	(399,107,687)	(357,776,987)
Net cash provided by operating activities	589,177,823	529,685,035	1,146,530,010	1,038,784,963
Cash Flows From Noncapital Financing Activities				
Disbursements to School Aid Fund	(722,898,392)	(546,827,126)	(1,154,720,821)	(1,048,827,126)
Disbursements to General Fund	(768,396)	(1,898,268)	(768,396)	(1,898,268)
Disbursements to Health & Human Services	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	(724,656,788)	(549,715,394)	(1,156,479,217)	(1,051,715,394)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(52,602)	(187,724)	(79,666)	(646,487)
Principal on capital leases	(37,183)	(35,640)	(73,576)	(70,563)
	(89,785)	(223,364)	(153,242)	(717,050)
Cash Flows From Investing Activities				
Proceeds from the sale and maturity of investment securities	9,020,333	9,545,333	16,334,333	16,859,332
Purchase of investments	-	(3,056,544)	-	(3,056,544)
Interest received	740,351	1,467,160	1,143,764	1,618,121
Bank fees	(1,924)	(1,801)	(3,192)	(3,089)
Net cash provided by investing activities	9,758,760	7,954,148	17,474,905	15,417,820
Net (decrease) increase in cash and cash equivalents	(125,809,990)	(12,299,575)	7,372,456	1,770,339
Cash and cash equivalents at beginning of period	139,062,526	18,179,655	5,880,080	4,109,741
Cash and cash equivalents at end of period	\$ 13,252,536	\$ 5,880,080	\$ 13,252,536	\$ 5,880,080

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2020 and 2019

	Six Months Ended		Years Ended	
	2020	2019	2020	2019
Reconciliation of net operating income to net cash provided by operating activities				
Operating income	\$ 652,128,340	520,366,746	\$ 1,178,663,775	1,066,833,887
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	233,168	283,558	524,225	563,716
Pension expense	4,559,491	7,898,477	4,559,491	7,898,477
OPEB expense	2,659,498	2,891,637	2,659,498	2,891,637
Deferred Outflows - Contributions subsequent to measurement date	(2,711,466)	(2,902,512)	(5,810,724)	(6,136,258)
Bad debt expense and other reconciling items	327,652	386,948	546,486	382,656
Interest on capital leases	(22,607)	(20,988)	(42,843)	(42,694)
Amortization of prize award obligation discount	(2,936,544)	(2,971,069)	(6,089,971)	(6,299,088)
Net Changes in Assets and Liabilities:				
Inventory	(1,886,034)	2,202,313	(1,782,551)	(555,383)
Receivables	(65,560,047)	(48,501,354)	(21,898,619)	(69,476,666)
Compensated absences, accounts payable, other liabilities	7,807,138	(4,571,970)	11,277,481	(1,601,241)
Prize awards payable	(5,808,380)	54,267,539	(16,921,078)	43,622,518
Other assets	387,614	355,710	844,840	703,402
Net cash provided by operating activities	\$ 589,177,823	\$ 529,685,035	\$ 1,146,530,010	\$ 1,038,784,963
Schedule of noncash investing, capital, and financing activities				
Capital lease obligations	\$ 37,183	35,640	\$ 73,576	\$ 70,563
Increase (Decrease) in fair value of investments	(1,816,514)	8,503,383	8,861,854	15,147,901
Gain (loss) on disposal of capital assets	-	-	-	(4,583)
Disbursements to other funds (accrual)	(51,983,337)	(26,822,429)	(51,983,337)	(26,822,429)
Total noncash investing, capital, and financing activities	\$ (53,762,668)	\$ (18,283,406)	\$ (43,047,907)	\$ (11,608,548)

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Public Act 95 of 1996 allows the Lottery to participate in joint enterprises, such as multi-state lotteries, with other sovereignties. Michigan, a Mega Millions state, participates in Powerball and Power Play, and 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, Maryland, Michigan, New Jersey, Ohio, Virginia, Washington and MUSL. Net income from Mega Millions, Megaplier, Powerball, Power Play, and Lucky for Life is disbursed to the School Aid Fund.

Basis of Presentation

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

Basis of Accounting

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

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

Revenue Recognition

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 to be cash equivalents.

Use of Estimates

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

Equity in State Treasurer's Common Cash Fund

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

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

Investments

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

Inventory

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandise prizes for games that have not started as of September 30, 2020 and 2019. The inventory is valued at cost, primarily using the weighted average method.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Provision for Doubtful Accounts

The Lottery establishes an allowance for bad debt for retailer receivables greater than 90 days old. A bad debt expense is recorded when the allowance is established for these receivables. The amount of the allowance for doubtful accounts totaled \$2,208,368 as of September 30, 2020 and \$1,733,376 as of September 30, 2019.

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 the estimated useful life of the assets. The Lottery has established a \$5 million threshold for intangible assets such as constructed computer software.

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

Advance Wagers

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

Unclaimed Prizes

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery reports deferred outflows of resources related to pensions and other postemployment benefit costs in this category.

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Pensions and Postemployment Benefits Other than Pensions (OPEB)

For the purposes of measuring the net pension liability, net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to pension and OPEB, and pension and OPEB expense, information about fiduciary net position and additions to/deductions from fiduciary net position of the State Employees' Retirement System (SERS) or the postemployment life insurance benefits plan (the "Plan") have been determined on the same basis as they are reported by SERS or the Plan. 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, less capital lease obligations. The difference between the fair value of investments and the amortized book value of investments is considered restricted for School Aid Fund and is not available for disbursement to the School Aid Fund until realized in accordance with Public Act 239. Additionally, the pension and OPEB liabilities recorded in accordance with GASB Statement No. 68 and Statement No. 75, as well as the change in net pension and OPEB liability and deferred inflows and outflows related to pensions and OPEB are also considered restricted for School Aid Fund. As of September 30, 2020, and 2019, the impact of the various amounts restricted for the School Aid Fund resulted in a negative net position. This negative position has been reported as unrestricted on the Statement of Net Position since restricted amounts cannot be negative. This created an overall deficit net position for the Lottery.

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 evidence 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.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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

The State Treasurer's policy requires the following criteria to lessen the custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits to secure the State's fund. A bank, savings and loan association or credit union holding State funds must be organized under the laws of Michigan or federal law and maintain a principal office or branch office in the State of Michigan. No deposit in any financial organization may be in excess of 50 percent of the net worth of the organization.

Foreign Currency Risk

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

Michigan Compiled Laws Section 487.714 requires State deposits to be held in a financial institution which maintains a principal office or branch office located in the State of Michigan. No deposits were exposed to foreign currency risk, as is precluded by State policy.

Common Cash Investments

Risk

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

Custodial Credit Risk

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

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

The counterparty, or

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2020 and 2019, common cash investments were not exposed to custodial credit risk.

Credit Risk

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

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services: Standard and Poor's (A-1); and Moody's (P-1). Borrowers must have at least \$400 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrower's outstanding debt. The investments are further limited to \$200 million in any borrower unless the borrower has an A-1+ rating in which case the investment is not to exceed \$300 million. As of September 30, 2020, and 2019, 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 \$181,548,844 at September 30, 2020 and \$182,466,267 at September 30, 2019 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 \$16,334,333 in the year ended September 30, 2020 and \$16,859,333 in the year ended September 30, 2019. For the six months ended September 30, 2020 and 2019, cash receipts from the maturity of investments totaled \$9,020,333 and \$9,545,333, respectively.

Investments at September 30 consist of the following:

	<u>2020</u>	<u>2019</u>
U. S. Treasury zero-coupon bonds	\$ 151,687,430	\$ 149,594,928
Michigan CAB bonds	<u>29,861,414</u>	<u>32,871,339</u>
Total Investments	<u><u>\$ 181,548,844</u></u>	<u><u>\$ 182,466,267</u></u>

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

As reported on the Statement of Net Position:	2020	2019
Current investments	\$ 16,280,546	\$ 16,180,748
Noncurrent investments	165,268,298	166,285,519
Total Investments	<u>\$ 181,548,844</u>	<u>\$ 182,466,267</u>

Policy Disclosures

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

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

Interest Rate Risk

Investments for prize annuities at September 30, 2020 and 2019 consist of the following:

September 30, 2020

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	\$ 11,727,037	1.37% to 4.99%	\$ 4,553,509	7.88% to 7.88%
1-5	49,612,294	1.57% to 4.98%	12,714,268	8.05% to 8.31%
6-10	41,104,338	2.16% to 4.78%	12,593,637	8.33% to 8.39%
11-15	34,351,098	2.43% to 4.79%	-	-
16-20	9,543,025	2.45% to 4.58%	-	-
21-25	5,086,852	2.57% to 3.68%	-	-
26-29	262,786	2.63% to 3.05%	-	-
Fair Value	<u>\$ 151,687,430</u>		<u>\$ 29,861,414</u>	

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

September 30, 2019

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	\$ 11,646,114	1.20% to 4.88%	\$ 4,534,634	7.65% to 7.65%
1-5	49,925,169	1.37% to 4.99%	15,303,210	7.88% to 8.29%
6-10	39,133,175	2.08% to 4.84%	13,033,495	8.31% to 8.39%
11-15	28,881,142	2.42% to 4.75%	-	-
16-20	14,601,604	2.43% to 4.79%	-	-
21-25	5,152,038	2.57% to 3.68%	-	-
26-29	255,686	2.63% to 3.06%	-	-
Fair Value	<u><u>\$ 149,594,928</u></u>		<u><u>\$ 32,871,339</u></u>	

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

Credit Risk

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

The Lottery's policy is that all long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase unless specific requirements are met.

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 September 30, 2020, and September 30, 2019 the Lottery's investments in Michigan CAB bonds were rated AA by Standard and Poor and Aa1 by Moody's.

Concentration of Credit Risk

Investments are in U. S. Treasury zero-coupon bonds and Michigan CAB bonds. U. S. Treasury zero-coupon bonds are guaranteed by the United States government. Therefore, there is no concentration of credit risk for those types of bonds. As of September 30, 2020, investments in Michigan CAB bonds account for 16.5% of the total Investments as compared to 18.0% as of September 30, 2019. This decrease is due to the maturities of Michigan CAB bonds in the past year.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Custodial Credit Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. As of September 30, 2020, and 2019 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 September 30:

	<u>2020</u>	<u>2019</u>
U.S. Treasury Zero coupon bonds	\$ 151,687,430	\$ 149,594,928
Michigan CAB bonds	29,861,414	32,871,339

The fair value of U.S. Treasury zero-coupon bonds and Michigan CAB bonds at September 30, 2020 and 2019 were determined primarily based on level 2 inputs. The Lottery estimates the fair value of these investments using the matrix pricing technique using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

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

NOTE 5 - CAPITAL ASSETS

A summary of capital asset activity for the fiscal years ended September 30, 2020 and 2019 is as follows:

<u>Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2020</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 2,837,995	\$ -	\$ -	\$ 2,837,995
Equipment	2,968,869	79,666	74,882	2,973,653
Total capital assets being depreciated	5,806,864	79,666	74,882	5,811,648
Less: accumulated depreciation				
Leasehold improvements	2,431,815	88,262	-	2,520,077
Equipment	1,793,459	435,963	74,882	2,154,540
Total accumulated depreciation	4,225,274	524,225	74,882	4,674,617
Total capital assets being depreciated, net	<u>\$ 1,581,590</u>	<u>\$ (444,559)</u>	<u>\$ -</u>	<u>\$ 1,137,031</u>
<u>September 30, 2019</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 2,837,995	\$ -	\$ -	\$ 2,837,995
Equipment	3,647,026	646,487	1,324,644	2,968,869
Total capital assets being depreciated	6,485,021	646,487	1,324,644	5,806,864
Less: accumulated depreciation				
Leasehold improvements	2,343,615	88,200	-	2,431,815
Equipment	2,638,004	475,516	1,320,061	1,793,459
Total accumulated depreciation	4,981,619	563,716	1,320,061	4,225,274
Total capital assets being depreciated, net	<u>\$ 1,503,402</u>	<u>\$ 82,771</u>	<u>\$ 4,583</u>	<u>\$ 1,581,590</u>

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

NOTE 6 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at September 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Accounts payable vendors	\$ 17,652,084	\$ 12,694,806
Retailer security deposits/accounts payable	11,210,524	5,116,670
Accrued salaries	1,519,442	1,475,620
Compensated absences	<u>1,052,223</u>	<u>918,185</u>
Total	<u>\$ 31,434,273</u>	<u>\$ 20,205,281</u>

NOTE 7 - PRIZE AWARDS

Installment prize awards are recorded at their present value using discount rates ranging from 1.7% to 6.5%. U.S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds have been purchased to provide for the payment of installment prize awards in addition to cash maintained in the State's common cash fund. Prize awards payable as of September 30, were as follows:

	<u>2020</u>	<u>2019</u>
Current - at face amount	\$ 192,543,021	\$ 200,836,599
Less - unamortized discount	<u>(337,213)</u>	<u>(326,263)</u>
Current - at present value	192,205,808	200,510,336
 Long-term - at face amount	 198,273,356	 212,924,221
Less - unamortized discount	<u>(57,130,047)</u>	<u>(63,164,362)</u>
Long-term - at present value	<u>141,143,309</u>	<u>149,759,859</u>
Total	<u>\$ 333,349,117</u>	<u>\$ 350,270,195</u>

Bureau of State Lottery, State of Michigan
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Installment prize awards payable for the fiscal year ending September 30:

2021	\$ 15,186,865
2022	14,683,865
2023	13,815,865
2024	13,183,865
2025	11,914,465
2026-2030	57,542,325
2031-2035	51,313,825
2036-2040	17,471,425
2041-2045	7,846,325
2046-2050	4,535,996
2051-2055	2,286,000
2056-2060	1,390,400
2061-2065	995,000
2066-2070	670,000
2071-2075	520,000
2076-2080	104,000
Total	<u>213,460,221</u>
Less - unamortized discount	<u>(57,467,260)</u>
Total installment prize awards payable at present value	155,992,961
Non-installment prize awards payable	<u>177,356,156</u>
Total prize awards payable	<u><u>\$ 333,349,117</u></u>

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year at Present Value
2020	\$ 164,647,461	\$ 6,711,092	\$ 15,365,592	\$ 155,992,961	\$ 14,849,652
2019	\$ 170,348,535	\$ 10,048,574	\$ 15,749,648	\$ 164,647,461	\$ 14,887,602

NOTE 8 – iLOTTERY NET WIN

iLottery instant game revenue is reported in ticket sales net of discounts and prize expense in the Statement of Revenues, Expenses, and Changes in Net Position (refer to Supplementary Schedule of Revenue and Expenses for details of sales and prize awards of each Lottery game). The following schedule details the iLottery instant game sales and prize activity for the fiscal years ended September 30, 2020 and 2019:

	2020	2019
Sales	\$ 1,807,001,741	\$ 961,444,089
Prizes	(1,587,944,220)	(845,128,490)
iLottery Net Win	<u><u>\$ 219,057,521</u></u>	<u><u>\$ 116,315,599</u></u>

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

NOTE 9 - COMPENSATED ABSENCES

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

The State instituted a banked leave time program October 12, 2003 through November 5, 2005 whereby eligible employees worked a regular schedule but received pay for a reduced number of hours. The banked leave time program was reinstated February 21, 2010 through September 4, 2010 for non-represented employees. Upon an employee's separation, death or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401(k) plans, and if applicable to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2020.

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

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Long- Term Liability
2020	\$ 1,763,085	\$ 1,209,624	\$ 1,038,627	\$ 1,934,082	\$ 1,052,223	\$ 881,859
2019	\$ 1,789,850	\$ 1,348,619	\$ 1,375,384	\$ 1,763,085	\$ 918,185	\$ 844,900

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. Executive Order 2015-13 signed by the Governor on October 27, 2015 established the State of Michigan Retirement Board. The executive order establishes the board's authority to promulgate or amend the provision of the System.

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Notes to Financial Statements

The board consists of nine members:

- The Attorney General
- The State Treasurer
- The Legislative Auditor General
- The State Personnel Director
- One member or retirant of the State Employees' Retirement System appointed by the Governor
- One member of the Judges Retirement System appointed by the Governor
- One current or former member or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions appointed by the Governor
- One retirant member of the State Employees' Retirement System appointed by the Governor
- One member of the general public appointed by the Governor

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees. The System is accounted for in a separate pension trust fund and is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the system. The System's financial statements are available online at michigan.gov/ORSstatedb.

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.

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:

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Notes to Financial Statements

- 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.

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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.

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.

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Notes to Financial Statements

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.

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Notes to Financial Statements

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

C. Contributions

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

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles, so the contribution rates do not have to increase over time. For fiscal years ending 2020 and 2019, the Lottery's contribution rate was 23.82% and 21.98% of the defined benefit employee wages and 16.99% and 17.69% of the defined contribution employee wages. The Lottery's contribution to SERS for the fiscal years ending September 30, 2020 and 2019 was \$2,658,934 and \$2,620,385, respectively.

D. Actuarial Assumptions

The Lottery's net pension liability for the year ended September 30, 2020 was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 and rolled-forward using general accepted actuarial procedures. Net pension liability for the year ended September 30, 2019 was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 and rolled-forward using generally accepted actuarial procedures.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

The total pension liability was determined using the following actuarial assumptions at the measurement dates:

	September 30	
	2019	2018
Wage Inflation Rate	2.75%	2.75%
Projected Salary Increases	2.75 - 11.75, including inflation at 2.75	2.75 - 11.75, including inflation at 2.75
Investment Rate of Return	6.70%, net of investment expenses	7.0%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible	3% Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible
Mortality	For active members and disabled retirees, RP-2014 Male and Female Employee Annuitant Mortality Tables were used, scaled by 100% for males and 100% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006	For active members and disabled retirees, RP-2014 Male and Female Employee Annuitant Mortality Tables were used, scaled by 100% for males and 100% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006
	For retirees, RP-2014 Male and Female Employee Annuitant Mortality Tables were used, scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006	For retirees, RP-2014 Male and Female Employee Annuitant Mortality Tables were used, scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006

Actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study covering the period from October 1, 2012 through September 30, 2017. The investment rate of return assumption was reduced from 7.0% to 6.7% beginning with the September 30, 2018 valuation. The assumption changes increased the computed liability.

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.

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

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, 2019 and September 30, 2018, are summarized in the following tables:

September 30, 2019

Asset Allocation

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.5%
Private Equity Pools	18.0	8.6
International Equity Pools	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate & Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short Term Investment Pools	2.0	0.8
TOTAL	100.0 %	

*Long-term Rate of Returns are net of administrative expenses and 2.3% inflation

September 30, 2018

Asset Allocation

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7%
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate & Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	0.0
TOTAL	100.0 %	

*Long-term Rate of Returns are net of administrative expenses and 2.3% inflation

E. Discount Rate

A discount rate of 6.7% and 7.0% was used to measure the total pension liability as of September 30, 2019 and 2018, respectively. This discount rate was based on the long term expected rate of return on pension plan investments of 6.7% and 7.0%, respectively. 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.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Net Pension Liability

At September 30, 2020 net pension liability was measured as of September 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net pension liability was based on the Lottery's required pension contributions received by SERS during the measurement period October 1, 2018 through September 30, 2019, relative to the total required employer contributions from all of SERS's participating employers.

At September 30, 2019 net pension liability was measured as of September 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net pension liability was based on the Lottery's required pension contributions received by SERS during the measurement period October 1, 2017 through September 30, 2018, relative to the total required employer contributions from all of SERS's participating employers.

Net Pension Liability

	Proportionate Share \$	Proportionate Share %
2020	\$ 29,293,732	0.439 %
2019	26,317,640	0.435

G. Pension Liability Sensitivity

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

September 30, 2020		
1% Decrease 5.7%	Current Discount 6.7%	1% Increase 7.7%
\$ 37,691,786	\$ 29,293,732	\$ 22,156,515

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Notes to Financial Statements

September 30, 2019		
1% Decrease 6.0%	Current Discount 7.0%	1% Increase 8.0%
\$ 34,423,093	\$ 26,317,640	\$ 19,414,677

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 (michigan.gov/ORSstatedb).

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

The Lottery recognized pension expense of \$4,559,491 for the year ended September 30, 2020 and \$7,898,477 for the year ended September 30, 2019, respectively. The Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	September 30, 2020		September 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experiences	\$ -	\$ -	\$ -	\$ -
Changes of assumptions	-	-	-	-
Changes in proportions	-	-	-	-
Net difference between projected and actual earnings on investments	-	1,211,471	-	2,248,457
Lottery's contributions subsequent to the measurement date	2,658,934	-	2,620,385	-
Total	<u>\$ 2,658,934</u>	<u>\$ 1,211,471</u>	<u>\$ 2,620,385</u>	<u>\$ 2,248,457</u>

Amounts reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021.

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

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Notes to Financial Statements

Year Ended September 30:	Pension Expense Amount
2021	\$ (601,102)
2022	(650,278)
2023	(161,640)
2024	201,549

Defined Contribution Plan

The Lottery participates in the State of Michigan's defined contribution plan system. The Lottery is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Lottery are established and may be amended by the State legislature. The State legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. For the six months ended September 30, 2020 and 2019, Lottery contributions to the plan totaled \$392,312 and \$392,542 respectively. Lottery's contributions to the plan were \$782,514 for the year ended September 30, 2020 and \$756,144 for the year ended September 30, 2019 and are recorded in salaries and benefits expense.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

Defined Benefit OPEB Plan - Health

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. Executive Order 2015-13 signed by the Governor on October 27, 2015 established the State of Michigan Retirement Board. The executive order establishes the board's authority to promulgate or amend the provision of the System.

The board consists of nine members:

- The Attorney General
- The State Treasurer
- The Legislative Auditor General
- The State Personnel Director
- One member or retirant of the State Employees' Retirement System appointed by the Governor
- One member of the Judges Retirement System appointed by the Governor
- One current or former member or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions appointed by the Governor
- One retirant member of the State Employees' Retirement System appointed by the Governor

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- One member of the general public appointed by the Governor

The System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees' Retirement Act. The System is accounted for in a separate OPEB trust fund and is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the system. The System's financial statements are available online at michigan.gov/ORSstatedb.

B. Benefits Provided

Benefit provisions of the other postemployment benefit (OPEB) plan are established by State statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan. Defined Benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined Contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health, prescription drug, dental and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the Premium Subsidy benefit contribute 20% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earning a 30% subsidy with ten years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80%. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans. Defined Contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011, and those hired on or after January 1, 2012, are not eligible for any subsidized health, prescription drug, dental or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are reemployed by the state on or after January 1, 2014 are not eligible for retiree health insurance coverage premium subsidy but will become a participant in the Personal Healthcare Fund.

This plan is closed to new hires.

C. 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-percent of payroll value funding principles, so the contribution rates do not have to increase over time.

For fiscal years ending September 30, 2020, Lottery's contribution rate was 20.67% of the defined benefit and defined contribution employee wages. For the fiscal year ending September 30, 2019, Lottery's contribution rate was 23.80% of the defined benefit and defined contribution employee wages.

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The Lottery's contribution to SERS for the fiscal years ending September 30, 2020 and 2019 were \$3,010,364 and \$3,369,182, respectively. Active employees are not required to contribute to SERS OPEB.

D. Actuarial Assumptions

The Lottery's net OPEB liability for the year ended September 30, 2020 was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018 and rolled-forward using generally accepted actuarial procedures.

Net OPEB liability for the year ended September 30, 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The total OPEB liability was determined using the following actuarial assumptions at the measurement dates:

	September 30	
	2019	2018
Wage Inflation Rate	2.75%	2.75%
Projected Salary Increases	2.75 - 11.75, including inflation at 2.75	2.75 - 11.75, including inflation at 2.75
Investment Rate of Return	6.90%, net of investment expenses	7.0%
Health Care Cost Trend Rate	8.25% Year 1 graded to 3.50% in Year 10	8.25% Year 1 graded to 3.0% in Year 10
Mortality	For active members and disabled retirees, RP-2014 Male and Female Employee Annuitant Mortality Tables were used, scaled by 100% for males and 100% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006	For active members and disabled retirees, RP-2014 Male and Female Employee Annuitant Mortality Tables were used, scaled by 100% for males and 100% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006
	For retirees, RP-2014 Male and Female Employee Annuitant Mortality Tables were used, scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006	For retirees, RP-2014 Male and Female Employee Annuitant Mortality Tables were used, scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006

The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2012 through September 30, 2017.

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The investment rate of return assumption was reduced from 7.0% to 6.9% beginning with the September 30, 2018 valuation. The assumption changes increased the computed liability.

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2019 and 2018, are summarized in the following tables:

September 30, 2019		
Asset Allocation		
Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.5 %
Private Equity Pools	18.0	8.6
International Equity Pools	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short-Term Investment Pools	2.0	0.8
TOTAL	100.0 %	

* Long-term rates of return are net of administrative expenses and 2.3% inflation

September 30, 2018		
Asset Allocation		
Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short-Term Investment Pools	2.0	0.0
TOTAL	100.0 %	

* Long-term rates of return are net of administrative expenses and 2.3% inflation

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E. Discount Rate

A single discount rate of 6.9% and 7.0% was used to measure the total OPEB liability as of September 30, 2019 and 2018, respectively. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.9% and 7.0%, respectively. The projection of cash flows used to determine this single discount rate assumed that in the future, 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 (retiree) rate. Based on these assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

F. Net OPEB Liability

At September 30, 2020, the Lottery reported a liability of \$34,790,283 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net OPEB liability was based on Lottery's required OPEB contributions received by SERS during the measurement period October 1, 2018, through September 30, 2019, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2019, Lottery's proportion was 0.442%.

At September 30, 2019, the Lottery reported a liability of \$34,926,285 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The Lottery's proportion of the net OPEB liability was based on Lottery's required OPEB contributions received by SERS during the measurement period October 1, 2017, through September 30, 2018, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2018, Lottery's proportion was 0.440%.

G. Sensitivity of the NET OPEB Liability to Changes in the Discount Rate

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

	September 30, 2020		
	1% Decrease	Current Discount	1% Increase
	5.9%	6.9%	7.9%
Lottery's proportionate share of the net OPEB liability	\$ 40,564,929	\$ 34,790,283	\$ 29,954,531

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	September 30, 2019		
	1% Decrease 6.0%	Current Discount 7.0%	1% Increase 8.0%
Lottery's proportionate share of the net OPEB liability	\$ 40,334,014	\$ 34,926,285	\$ 30,390,691

Sensitivity of the NET OPEB Liability to Healthcare Cost Trend Rates

The following table presents the Lottery's proportionate share of the net OPEB liability calculated using the assumed trend rates as well as what the proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current trend rate:

	September 30, 2020		
	1% Trend Decrease (7.25% to 2.50%)	Current Trend Rate (8.25% to 3.50%)	1% Trend Increase (9.25% to 4.50%)
Lottery's proportionate share of the net OPEB liability	\$ 29,695,222	\$ 34,790,283	\$ 40,703,993

	September 30, 2019		
	1% Trend Decrease (7.25% to 2.0%)	Current Trend Rate (8.25% to 3.0%)	1% Trend Increase (9.25% to 4.0%)
Lottery's proportionate share of the net OPEB liability	\$ 30,114,767	\$ 34,926,285	\$ 40,516,803

H. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting (michigan.gov/ORSstatedb).

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended September 30, 2020 and 2019, the Lottery recognized OPEB expense of \$2,483,365 and \$2,676,022, respectively. At September 30, 2020 and 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	September 30, 2020		September 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experiences	\$ -	\$ 6,527,379	\$ -	\$ 4,011,692
Changes of assumptions	5,799,615	-	2,913,332	-
Changes in proportions	360,189	140,968	316,376	175,249
Net difference between projected and actual earnings on investments	-	164,401	-	465,526
Lottery's contributions subsequent to the measurement date	3,010,364	-	3,369,182	-
Total	<u>\$ 9,170,168</u>	<u>\$ 6,832,748</u>	<u>\$ 6,598,890</u>	<u>\$ 4,652,467</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from the Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2021.

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

Year Ended September 30:	OPEB Expense Amount
2021	\$ (268,956)
2022	(268,956)
2023	(188,674)
2024	28,922
2025	24,720

Defined Contribution Plan

The Lottery participates in the State of Michigan's defined contribution plan system. The Lottery is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and the Lottery are established and may be amended by the State legislature. The State legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. For the six months ended September 30, 2020 and 2019, Lottery contributions to the plan totaled \$39,779 and \$38,126, respectively. Lottery's contributions to the plan were \$79,750 for the year ended September 30, 2020 and \$71,290 for the year ended September 30, 2019 and are recorded in salaries and benefits expense.

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Postemployment Life Insurance Benefits

A. Plan Description

The State of Michigan provides postemployment life insurance benefits (the Plan) to eligible individuals upon retirement from State employment. Members of the State Employees Retirement System (SERS), the State Police Retirement System (SPRS), the Judges' Retirement System (JRS), and certain members of the Military Retirement Provisions (MMRP) may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, state-wide, defined benefit other postemployment benefits (OPEB) plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. The Plan is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963, and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (Fund), an internal service fund in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

B. Benefits Provided

The State's group policy with Minnesota Life includes any active employee in the category of classified State service with an appointment of at least 720 hours duration, but excluding employees with non-career appointments and those working less than 40% of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County employees who a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage (which amount is rounded to the next higher \$100 provided the retiree retired after July 1, 1974), \$1,000 for spouse and \$1,000 for each dependent under age 23. The active life insurance amount is either a) two times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$200,000; or b) one times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$50,000.

C. Contributions

The State requires the employer to contribute 100% of the premiums for employee and retiree life insurance coverage. The premium rate for fiscal years 2020 and 2019 was \$.28 for each \$1,000 of coverage.

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The employee contributes 100% of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies. More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

D. Actuarial Valuations and Assumptions

The Lottery's total OPEB liability as of September 30, 2020 was measured as of September 30, 2019 and is based on an actuarial valuation performed as of September 30, 2019. The Lottery's total OPEB liability as of the September 30, 2019 was measured as of September 30, 2018 and is based on an actuarial valuation performed as September 30, 2017 and rolled forward using generally accepted actuarial procedures.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. The normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method with these characteristics: a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and b) each annual normal cost is a constant percentage of the members' year by year projected covered pay.

The total OPEB liability was measured using the following actuarial assumptions:

Wage Inflation Rate:	2.75% per year at September 30, 2019
	3.50% per year at September 30, 2018

Investment Rate of Return (discount rate):	2.75% per year at September 30, 2019
	3.83% per year at September 30, 2018

Mortality: Healthy Life and Disabled Life Mortality, with 110% used in the pension valuations for SERS plan members at September 30, 2019 and 115% of the Male rates and 121% of the Female rates used in the pension valuations for SERS plan members at September 30, 2018.

IBNR: A liability equal to 25.0% of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).

Spouse Benefits for Future Retirees: The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees at 1.5% and 3.0% for SERS retirees at September 30, 2019 and September 30, 2018, respectively.

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Spouse Benefits for Current Retirees: Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees at 2.0% and 4.0% for SERS retirees at September 30, 2019 and September 30, 2018, respectively.

Compensation: For some SERS retirees, FAC was not reported. The FAC for these members was assumed to be \$54,575 and \$51,045 for SERS retirees at September 30, 2019 and September 30, 2018, respectively (the average of all MSERS retiree records reported with FAC).

For purposes of valuing the postemployment life insurance benefit policies for retirees, base wage at retirement was not available and was approximated by applying a factor to the reported FAC at retirement.

The factor used to convert an FAC to a base wage is based on the length of the FAC period for each group. The factor used for SERS was 0.986618 (2-year FAC) for Conservation and 0.973475 (3-year FAC) for Corrections and All Others at September 30, 2019. The factor used for SERS was 0.983092 (2-year FAC) for Conservation and 0.966565 (3-year FAC) for Corrections and All Others at September 30, 2018.

For SERS DC plan retirees, compensation at retirement and other information was not provided to the actuary. The postemployment life insurance benefit policies for this group were assumed to have the same average value as the policies for retirees in the SERS DB plan.

Other: The face values of The Plan policies currently in force were requested by the actuary but were not available for use in this valuation. The actuary estimated the value of the postemployment life insurance benefit policies for retirees as follows:

Individuals retired after July 1974: 50% x compensation at retirement (compensation reported for the 2019 retirement system valuations)

Spousal benefits: \$1,000

Individuals retired on or before July 1974: A minimum benefit of \$1,000 and a maximum benefit of \$5,000 for an average of \$3,000

Spousal benefits: \$1,000

Data for current retiree members of the Plan was not available for use in this valuation. All current retiree members of the retirement plans deemed eligible for postemployment life insurance benefits and reported in connection with the 2019 retirement valuations were included in this valuation of the Plan.

E. Discount Rate

As of September 30, 2019 and 2018, a discount rate of 2.75% and 3.83%, respectively, was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2019 and 2018.

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This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the plan has no assets.

F. Total OPEB Liability for Postemployment Life Insurance Benefits

As of September 30, 2020, the Lottery reported a liability of \$5,199,726 for its proportionate share of the State's Postemployment Life Insurance Benefit's total OPEB liability.

The total OPEB liability was measured as of September 30, 2019 based on an actuarial valuation performed as of that date. The Lottery's proportion of the total OPEB liability was determined by dividing the Lottery's actual contributions to the Plan during the measurement period of October 1, 2018 through September 30, 2019, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2019, the Lottery's proportion was 0.425%.

As of September 30, 2019, the Lottery reported a liability of \$5,281,241 for its proportionate share of the State's Postemployment Life Insurance Benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2018 based on an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. The Lottery's proportion of the total OPEB liability was determined by dividing the Lottery's actual contributions to the Plan during the measurement period of October 1, 2017 through September 30, 2018, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2018, the Lottery's proportion was 0.423%.

G. Sensitivity of the Total OPEB Liability for Postemployment Life Insurance

The following presents the Lottery's proportionate share of the total OPEB liability calculated using the discount rate as well as what the proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount:

	September 30, 2020		
	1% Decrease	Current Discount	1% Increase
	1.75%	2.75%	3.75%
Lottery's proportionate share of the total OPEB liability	\$ 6,200,052	\$ 5,199,726	\$ 4,421,510
	September 30, 2019		
	1% Decrease	Current Discount	1% Increase
	2.83%	3.83%	4.83%
Lottery's proportionate share of the total OPEB liability	\$ 6,174,933	\$ 5,281,241	\$ 4,567,361

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits

For the years ended September 30, 2020 and 2019, the Lottery recognized OPEB expense of \$176,133 and \$215,615, respectively.

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At September 30, 2020 and 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	September 30, 2020		September 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experiences	\$ 2,687	\$ 557,369	\$ 3,607	\$ 26,784
Changes of assumptions	305,416	354,270	-	459,343
Changes in proportions	81,916	-	77,127	-
Lottery's contributions subsequent to the measurement date	141,426	-	146,691	-
Total	<u>\$ 531,445</u>	<u>\$ 911,639</u>	<u>\$ 227,425</u>	<u>\$ 486,127</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended September 30, 2021. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30:	Expense Amount
2021	\$ (141,531)
2022	(141,531)
2023	(133,976)
2024	(77,430)
2025	(27,152)

The aggregate amount of OPEB expense by plan for the fiscal years ending September 30 is as follows:

	2020	2019
Health	\$ 2,483,365	\$ 2,676,022
Life Insurance	\$ 176,133	\$ 215,615
	<u>\$ 2,659,498</u>	<u>\$ 2,891,637</u>

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NOTE 12 - LEASE AND RENTAL COMMITMENTS

Lease and rental commitments for the six months and years ended September 30, 2020 and 2019 were for office space. Rental expenditures incurred under operating leases totaled \$26,678 and \$26,321 for the six months ended September 30, 2020 and 2019 and totaled \$53,712 and \$54,212 for the years ended September 30, 2020 and 2019, respectively. A summary of the remaining minimum operating lease commitments follows:

Years Ending September 30	Operating Leases Amount
2021	\$ 52,856
2022	52,000
2023	30,042
Total	<u>\$ 134,898</u>

Payments for capital lease principal, interest, and executory costs totaled \$164,958 for the year ended September 30, 2020 and \$164,809 for the fiscal year ended September 30, 2019.

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The future minimum lease payments under capital leases are as follows:

Years Ending September 30	Capital Leases Amount
2021	\$ 98,418
2022	68,738
2023	74,543
2024	75,704
2025	75,703
Thereafter	164,025
Total	<u>\$ 557,131</u>
Less amount representing interest	<u>157,442</u>
Present value of net minimum lease payments	399,689
Less current obligations	<u>62,047</u>
Long-term obligations under capital leases	<u>\$ 337,642</u>

The current portion of capital lease obligation is reported under accounts payable and other liabilities in the State of Net Position on page 27.

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NOTE 13 - RISK MANAGEMENT

The Lottery is exposed to various risks related to general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims.

The State of Michigan has elected not to purchase commercial insurance for many of the risks of losses to which the Lottery is exposed, but to self-insure for such risks. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. More detailed information on risk management is available in the State of Michigan's Comprehensive Annual Financial Report.

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NOTE 14 - TRANSACTIONS WITH OTHER STATE AGENCIES

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. The following is a summarization of these charges for the six-month periods and years ended September 30, 2020 and 2019:

September 30, 2020	Six Months Ended	Year Ended
Department of Technology, Management & Budget:		
Information Technology:		
Direct costs	\$ 742,124	\$ 3,383,221
Lansing Metropolitan Area Network (LMAN)	18,509	24,892
Michigan.gov portal web charges	11,049	22,969
Overhead	342,951	342,951
Total Information Technology charges	1,114,633	3,774,033
Support services (including Internal Audit)	211,650	423,300
Space rental - Lottery Central, Detroit, Saginaw offices	403,303	812,406
Vehicle and travel services	360,782	706,824
Other - Telephone, mailing and other offices services	101,749	206,489
Total Department of Technology, Management & Budget	2,192,117	5,923,052
Gaming Control Board	(8,383)	1,196,456
Civil Service Commission	217,047	443,243
Department of Treasury	453,660	755,439
Attorney General	178,271	330,731
Other Agencies	14,280	30,887
Total all State agencies	\$ 3,046,992	\$ 8,679,808
September 30, 2019	Six Months Ended	Year Ended
Department of Technology, Management & Budget:		
Information Technology:		
Direct costs	\$ 392,498	\$ 3,071,080
Lansing Metropolitan Area Network (LMAN)	18,759	24,947
Michigan.gov portal web charges	12,873	26,186
Overhead	381,771	513,920
Total Information Technology charges	805,901	3,636,133
Support services (including Internal Audit)	215,775	369,900
Space rental - Lottery Central, Detroit, Saginaw offices	469,087	938,175
Vehicle and travel services	478,290	799,893
Other - Telephone, mailing and other offices services	177,661	302,873
Total Department of Technology, Management & Budget	2,146,714	6,046,974
Gaming Control Board	1,821,888	2,983,363
Civil Service Commission	209,031	427,552
Department of Treasury	343,544	686,701
Attorney General	183,959	327,191
Other Agencies	17,658	37,700
Total all State agencies	\$ 4,722,794	\$ 10,509,481

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Notes to Financial Statements

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Lottery has contracted with International Game Technologies (IGT) to provide for the operation of the gaming system through January 19, 2031.

A contract amendment effective July 31, 2018 extended the contract an additional ten years, from January 20, 2021 through January 19, 2031. Effective with the date of the amendment, IGT began receiving compensation of \$62 per retail location, per month, for retail communications network and management, regardless of whether there are multiple terminals at one location. IGT is also compensated for the costs of personnel for the merchandiser program, as well as ongoing equipment maintenance fees for all equipment provided (whether equipment is new or was previously provided under the contract) in the fixed monthly amount of \$33,333.33. Effective January 20, 2019, the contract rate is 1.06% of net sales. An upgrade to system hardware and software will begin in September 2021 and implementation is scheduled to last approximately one year.

The Lottery contracted with Pollard to provide the development, implementation, operational support, and maintenance of an iLottery System and iLottery Games. A contract amendment effective June 26, 2018 extended the contract an additional four years, from July 14, 2018 through July 14, 2022. This contract includes both an instant game and draw based game component, as well as reimbursable staffing and operational expenses. Effective June 26, 2018, a new commission rate structure went into effect. For the first \$100 million in instant game gross profit per contract year, the commission rate is set at 18.4%. The rate increases to 19.6% for instant game gross profit in excess of \$100 million during the contract year. Draw based game commission is set at 8.5% of gross sales. The Lottery also receives a monthly incentive from Pollard equal to 1.0% of Pollard's commission during the prior month, to be used solely for services provided by Pollard under the contract.

The Lottery has also entered into contracts with vendors to provide third-party digital games on the iLottery platform. The Lottery currently contracts with Instant Win Gaming (IWG) to provide digital instant games on the iLottery instant game platform. IWG receives a monthly royalty fee of 3.4% of net win for gross sales.

The Lottery also contracted with Interaction Gaming, LLC from January 31, 2017 through January 11, 2021 to redesign, implement, and support the Lottery's mobile application on IOS and Android mobile devices. The Lottery pays the project costs according to an agreed-upon payment schedule, as well as remits quarterly payments to the vendor for ongoing maintenance costs. In April 2017, the contract was amended to include building a new responsive design website, which will increase profitability and enhance the user experience for all aspects of the site.

In November 2018, the Department of Justice issued an updated Wire Act opinion that could be interpreted to have impact on various Lottery operations, including the Michigan Bureau of State Lottery. In February 2019, the New Hampshire Lottery Commission filed a lawsuit that was eventually appealed to the U.S. First Circuit Court of Appeals. On January 20, 2021, the U.S. First Circuit Court of Appeals held that the Wire Act only applies to sporting betting. The decision has resulted in no impact on the Michigan Bureau of State Lottery.

From time to time, the Lottery is party to lawsuits and claims arising in the normal course of business.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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 16 – UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Lottery is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Lottery's financial statements for the year ending September 30, 2021 but were extended to September 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

NOTE 17 – COVID-19 PANDEMIC

The United States and the State of Michigan declared a state of emergency in March 2020 due to the global Coronavirus Disease 2019 (COVID-19) pandemic. Lottery's workforce and business operations continue at normal capacity with some from remote locations. In an effort to minimize the impact of the pandemic on operations, the Lottery took actions such as allowing retailers an extension of time to pay for instant and pull tab ticket inventory, reducing advertising spending by approximately \$12.5 million from what was originally budgeted, allowing a limited number of in-person prize winner appointments at regional offices and continuing to allow mail-in prize claims, and extending the window of time for players to claim expired prizes. Although there was a substantial decrease in Charitable Gaming ticket sales due to the pandemic and the "Stay Home, Stay Safe" Executive Order (E.O.) 2020-21, there was not a material financial impact on the Lottery's financial position or results of operations for the fiscal year ended September 30, 2020.

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

	2020	2019	2018	2017	2016	2015
Lottery's proportion of the net pension liability	0.439%	0.435%	0.431%	0.420%	0.408%	0.403%
Lottery's proportionate share of the net pension liability	\$ 29,293,732	\$ 26,317,640	\$ 22,396,495	\$ 22,208,139	\$ 22,432,145	\$ 20,722,586
Lottery's covered payroll	14,178,535	13,751,447	13,312,723	12,681,633	12,056,738	N/A
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	207%	191%	168%	175%	186%	N/A
Plan fiduciary net position as a percentage of the total pension liability	64.71%	67.22%	69.45%	67.48%	66.11%	68.07%

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

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

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

	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 2,658,934	\$ 2,620,385	\$ 2,845,679	\$ 3,054,724	\$ 2,998,747	\$ 3,045,205
Contributions in relation to the statutorily required contribution	2,658,934	2,620,385	2,845,679	3,054,724	2,998,747	3,045,205
Contribution deficiency (excess)	-	-	-	-	-	-
Lottery's covered payroll	14,371,539	14,178,535	13,751,447	13,312,723	12,681,633	12,056,738
Contributions as a percentage of covered payroll	18.5%	18.5%	20.7%	22.9%	23.6%	25.3%

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

Bureau of State Lottery, State of Michigan
Notes to Pension Required Supplemental Information Schedules
Year Ended September 30, 2020

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 liability as a factor.

The schedule of contributions for pensions 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 for pensions 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 for pensions 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 2020

Actuarial cost method	Entry Age, Normal
Amortization method	Level Dollar, Closed
Remaining amortization period	18 years
Asset valuation method	5-Year Smoothed Fair Value
Inflation	2.5%
Salary Increases	3.5% - 12.5%, including wage inflation at 3.5%
Investment rate of return	7.5% net of investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2015 using projections scale BB. For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

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

	2020	2019	2018
Lottery's proportion of the net OPEB liability			
Lottery's proportionate share of the net OPEB liability	0.442%	0.440%	0.436%
Lottery's covered payroll	\$ 34,790,283	\$ 34,926,285	\$ 35,925,905
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	14,178,535	13,751,447	13,312,723
Plan fiduciary net position as a percentage of the total OPEB liability	245%	254%	270%
	27.88%	24.41%	19.9%

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

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

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

	2020	2019	2018
Statutorily required contribution	\$ 3,010,364	\$ 3,369,182	\$ 3,043,818
Contributions in relation to the statutorily required contribution	3,010,364	3,369,182	3,043,818
Contribution deficiency (excess)	\$ -	-	-
Lottery's covered payroll	14,371,539	14,178,535	13,751,447
Contributions as a percentage of covered payroll	20.9%	23.8%	22.1%

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

Bureau of State Lottery, State of Michigan
Notes to OPEB Required Supplemental Information Schedules
Year Ended September 30, 2020

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 other postemployment benefit liability as a factor.

The schedule of contributions for OPEB 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 OPEB liability and schedule of contributions for OPEB are schedules that are required in implementing GASB Statement No. 75. 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 OPEB plan follows.

Valuation – Actuarially determined contribution amounts are calculated as of September 30 each year. The September 30, 2017 valuation determined the contribution rate for the State of Michigan's fiscal year ending September 30, 2020.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2020

Actuarial cost method	Entry Age, Normal
Amortization method	Level – Percent of Payroll, Closed
Remaining amortization period	17 years, closed ending September 30, 2036
Asset valuation method	Fair Value of Assets
Inflation	2.5%
Salary Increases	3.5% - 12.5%, including wage inflation at 3.5%
Investment rate of return	7.35% net of OPEB plan investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Health Care Cost Trend Rate	8.25% in year 1, gradually decreasing to 3.5% year 9
Aging Factors	Based on the 2013 SOA "Health Care Costs-From Birth to Death"
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2015 using projections scale BB. For active members, 50% of the table rates were used for males and females.

Bureau of State Lottery, State of Michigan
Required Supplemental Information
Schedule of Lottery's Proportionate Share of Total OPEB Liability
Postemployment Life Insurance Benefit
For the Fiscal Years Ended September 30

	2020	2019	2018
Lottery's proportion of the total OPEB liability			
Lottery's proportionate share of the total OPEB liability	0.425%	0.423%	0.416%
Lottery's covered employee payroll	\$ 5,199,726	\$ 5,281,241	\$ 5,319,247
Lottery's proportionate share of the total OPEB liability as a percentage of its covered employee payroll	13,719,049	11,122,483	12,158,951
	37.9%	47.5%	43.7%

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

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

The plan is not a trust and has no assets.

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2020

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 251,723,592	10.9%	\$ 447,595,382	10.5%
	Daily 4	285,450,946	12.3%	534,187,543	12.6%
	Lotto 47	43,622,657	1.9%	66,606,383	1.6%
	Lotto 47 Double Play	4,249,761	0.2%	6,575,222	0.2%
	Lotto 47 EZ Match	1,374,558	0.1%	2,414,325	0.1%
	Mega Millions	49,564,869	2.1%	103,810,493	2.4%
	Megaplier	6,759,019	0.3%	11,485,749	0.3%
	Powerball	33,357,026	1.4%	82,693,317	1.9%
	Power Play	4,704,124	0.2%	9,432,771	0.2%
	Keno	4,350,667	0.2%	8,566,239	0.2%
	Fantasy Five	27,913,945	1.2%	57,972,366	1.4%
	Fantasy Five Double Play	3,870,286	0.2%	7,964,017	0.2%
	Fantasy Five EZ Match	1,579,873	0.1%	3,283,245	0.1%
	Raffle	-	0.0%	-	0.0%
	Club Keno	148,938,463	6.4%	347,238,348	8.2%
	Club Keno Kicker	58,119,066	2.5%	131,535,848	3.1%
	The Jack	3,166,842	0.1%	7,667,587	0.2%
	Club Keno Extra	17,321,592	0.7%	38,247,042	0.9%
	Poker Lotto	3,200,380	0.1%	6,347,501	0.1%
	Lucky for Life	8,484,992	0.4%	15,196,074	0.4%
	Fast Cash	34,922,019	1.5%	87,808,152	2.1%
	Pull-Tab tickets	11,485,854	0.5%	28,314,307	0.7%
	Instant tickets	1,175,470,335	50.8%	2,038,248,900	47.9%
	iLottery Instants, Net Win	145,664,113	6.3%	219,057,521	5.1%
	iLottery Sales - OGC Promotions	(524)	0.0%	(1,084)	0.0%
	iLottery Promos-Non Game Specific	(9,627,653)	-0.4%	(14,824,136)	-0.4%
Total lottery ticket sales		2,315,666,802	100.0%	4,247,423,112	100.0%
Prize awards:	Daily 3	131,826,593	5.7%	229,234,549	5.4%
	Daily 4	137,970,643	6.0%	270,168,463	6.4%
	Lotto 47/Lotto 47 Double Play	26,420,836	1.1%	40,342,527	0.9%
	Lotto 47 EZ Match	880,348	0.0%	1,546,281	0.0%
	Mega Millions/Megaplier	29,791,799	1.3%	57,679,042	1.4%
	Powerball/Power Play	20,067,786	0.9%	46,369,444	1.1%
	Keno	1,781,818	0.1%	3,823,129	0.1%
	Fantasy Five/Fantasy Five Double Play	17,661,981	0.8%	36,238,273	0.9%
	Fantasy Five EZ Match	1,011,089	0.0%	2,102,795	0.0%
	Club Keno/Kicker/Jack/Extra	147,495,059	6.4%	342,140,594	8.1%
	Merchandise Prizes	-	0.0%	91,500	0.0%
	Poker Lotto	1,974,159	0.1%	3,924,940	0.1%
	Lucky for Life	5,066,899	0.2%	9,048,993	0.2%
	Fast Cash	25,673,042	1.1%	64,785,768	1.5%
	Pull-Tab tickets	8,346,523	0.4%	20,436,543	0.5%
	Instant tickets	874,012,832	37.7%	1,512,070,756	35.6%
Total prize awards		1,429,981,407	61.8%	2,640,003,597	62.2%
Less: unclaimed prizes		(29,114,548)	-1.3%	(56,446,606)	-1.4%
Net prize awards		1,400,866,859	60.5%	2,583,556,991	60.8%
Gross margin		914,799,943	39.5%	1,663,866,121	39.2%
Retailer and vendor commissions and other expenses		(220,541,961)	-9.5%	(399,952,527)	-9.4%
Game-related expense		(18,519,810)	-0.8%	(35,951,454)	-0.9%
Net ticket revenue		675,738,172	29.2%	1,227,962,140	28.9%
Other operating expense		(24,175,459)	-1.0%	(51,597,071)	-1.2%
Depreciation expense		(179,704)	0.0%	(359,594)	0.0%
Other miscellaneous revenue		771,092	0.0%	1,889,904	0.0%
Net lottery operating income		652,154,101	28.2%	1,177,895,379	27.7%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2020

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	1,828,363	0.1%	7,305,325	0.2%
Charitable gaming expense	(1,854,124)	-0.1%	(6,536,929)	-0.2%
Net charitable gaming (loss) income	(25,761)	0.0%	768,396	0.0%
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (2,936,544)	-0.1%	\$ (6,089,971)	-0.1%
Amortization revenue - investment discount	3,234,843	0.1%	6,555,057	0.1%
Unrealized gain (loss) on investments	(1,816,514)	-0.1%	8,861,854	0.2%
Loss on disposal of assets	-	0.0%	-	0.0%
Interest revenue - common cash fund	261,548	0.0%	1,143,764	0.0%
Bank fees	(1,924)	0.0%	(3,192)	0.0%
Interest costs - capital leases	(22,607)	0.0%	(42,843)	0.0%
Disbursement to School Aid Fund	(653,607,951)	-28.2%	(1,179,881,729)	-27.8%
Disbursement to General Fund	(768,396)	0.0%	(768,396)	0.0%
Disbursement to Health & Human Services	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(656,152,545)	-28.3%	(1,171,215,456)	-27.6%
Change in net position	\$ (4,024,205)	-0.2%	\$ 7,448,319	0.2%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2019

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 199,460,386	10.4%	\$ 395,930,643	10.2%
	Daily 4	245,577,738	12.8%	493,922,675	12.7%
	Lotto 47	36,660,729	1.9%	60,157,500	1.5%
	Lotto 47 Double Play	3,533,559	0.2%	4,405,444	0.1%
	Lotto 47 EZ Match	1,445,782	0.1%	2,674,912	0.1%
	Mega Millions	61,559,098	3.2%	179,837,347	4.6%
	Megaplier	4,830,264	0.3%	12,522,741	0.3%
	Powerball	44,502,627	2.3%	133,592,439	3.4%
	Power Play	3,916,305	0.2%	10,542,758	0.3%
	Keno	4,294,786	0.2%	8,776,366	0.2%
	Fantasy Five	26,833,915	1.4%	55,070,056	1.4%
	Fantasy Five Double Play	3,721,458	0.2%	5,557,841	0.1%
	Fantasy Five EZ Match	1,751,834	0.1%	3,820,953	0.1%
	Raffle	-	0.0%	(1,100)	0.0%
	Club Keno	205,311,478	10.7%	414,308,072	10.7%
	Club Keno Kicker	75,832,152	4.0%	152,450,367	3.9%
	The Jack	4,167,284	0.2%	7,583,770	0.2%
	Club Keno Extra	21,647,466	1.1%	42,931,734	1.1%
	Poker Lotto	3,391,043	0.2%	7,087,482	0.2%
	Lucky for Life	7,006,491	0.4%	14,217,729	0.4%
	Fast Cash	46,356,574	2.4%	81,570,062	2.1%
	Pull-Tab tickets	16,632,131	0.9%	33,613,075	0.9%
	Instant tickets	836,634,476	43.8%	1,655,482,986	42.7%
	iLottery Instant, Net Win	60,559,499	3.2%	116,315,599	3.0%
	iLottery Sales - OGC Promotions	(927)	0.0%	(2,340)	0.0%
	iLottery Promos-Non Game Specific	(4,148,534)	-0.2%	(8,209,013)	-0.2%
Total lottery ticket sales		1,911,477,614	100.0%	3,884,160,098	100.0%
Prize awards:	Daily 3	92,739,233	4.9%	203,385,163	5.2%
	Daily 4	111,662,194	5.8%	231,492,182	6.0%
	Lotto 47/Lotto 47 Double Play	21,806,790	1.1%	35,572,086	0.9%
	Lotto 47 EZ Match	926,899	0.0%	1,713,520	0.0%
	Mega Millions/Megaplier	36,274,332	1.9%	99,293,184	2.6%
	Powerball/Power Play	21,868,909	1.1%	66,925,564	1.7%
	Keno	1,770,655	0.1%	4,191,375	0.1%
	Fantasy Five/Fantasy Five Double Play	16,234,442	0.8%	31,503,251	0.8%
	Fantasy Five EZ Match	1,121,266	0.1%	2,447,451	0.1%
	Raffle	-	0.0%	1,609	0.0%
	Club Keno/Kicker/Jack/Extra	204,199,482	10.7%	409,785,066	10.6%
	Merchandise Prizes	-	0.0%	130	0.0%
	Poker Lotto	2,103,339	0.1%	4,294,559	0.1%
	Lucky for Life	5,022,883	0.3%	9,473,020	0.2%
	Fast Cash	33,856,928	1.8%	61,017,602	1.6%
	Pull-Tab tickets	11,970,936	0.6%	24,140,625	0.6%
	Instant tickets	620,768,537	32.6%	1,219,987,274	31.4%
Total prize awards		1,182,326,825	61.9%	2,405,223,661	61.9%
Less: unclaimed prizes		(18,522,245)	-1.0%	(40,565,390)	-1.0%
Net prize awards		1,163,804,580	60.9%	2,364,658,271	60.9%
Gross margin		747,673,034	39.1%	1,519,501,827	39.1%
Retailer and vendor commissions and other expenses		(175,961,542)	-9.2%	(358,480,390)	-9.2%
Game-related expense		(16,620,403)	-0.9%	(33,915,456)	-0.9%
Net ticket revenue		555,091,089	29.0%	1,127,105,981	29.0%
Other operating expense		(35,711,745)	-1.8%	(62,993,548)	-1.6%
Depreciation expense		(166,032)	0.0%	(329,305)	0.0%
Other miscellaneous revenue		334,391	0.0%	1,152,491	0.0%
Net lottery operating income		519,547,703	27.2%	1,064,935,619	27.4%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2019

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	6,306,830	0.3%	12,092,393	0.3%
Charitable gaming expense	(5,487,787)	-0.3%	(10,194,125)	-0.3%
Net charitable gaming income	819,043	0.0%	1,898,268	0.0%
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (2,971,069)	-0.2%	\$ (6,299,088)	-0.2%
Amortization revenue - investment discount	3,373,779	0.2%	6,778,835	0.2%
Unrealized gain (loss) on investments	8,503,383	0.4%	15,147,901	0.4%
Loss on disposal of assets	-	0.0%	(4,583)	0.0%
Interest revenue - common cash fund	1,298,045	0.1%	1,618,121	0.0%
Bank fees	(1,801)	0.0%	(3,089)	0.0%
Interest costs - capital leases	(20,988)	0.0%	(42,694)	0.0%
Disbursement to School Aid Fund	(525,387,103)	-27.5%	(1,070,649,555)	-27.6%
Disbursement to General Fund	(819,043)	0.0%	(1,898,268)	0.0%
Disbursement to Health & Human Services	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(516,519,797)	-27.0%	(1,056,342,420)	-27.2%
Change in net position	\$ 3,846,949	0.2%	\$ 10,491,467	0.3%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months and Years Ended September 30, 2020 and 2019

	Six Months Ended		Years Ended	
	2020	2019	2020	2019
Salaries and wages	\$ 6,842,835	7,119,975	\$ 14,605,523	14,369,808
Employee benefits and taxes	9,396,095	12,942,931	12,096,415	15,433,466
Promotion and advertising	5,449,643	14,541,679	19,975,033	29,837,090
Printing and supplies, including purchase of charitable gaming tickets	325,024	816,061	1,046,758	1,547,376
Other contractual services	2,628,061	4,001,377	7,532,351	8,906,416
Building rent and leases	457,110	522,538	918,427	1,044,826
Travel	312,073	442,458	731,710	851,126
Utilities	150,575	178,830	325,321	342,790
Postage	46,555	64,687	86,208	113,942
Equipment maintenance and rental	29,802	50,779	92,451	99,212
Bad debt expense	327,651	386,948	541,216	380,078
Interest paid on security deposits	10,695	13,743	17,956	27,133
Total	<u>\$ 25,976,119</u>	<u>\$ 41,082,006</u>	<u>\$ 57,969,369</u>	<u>\$ 72,953,263</u>





**MICHIGAN
LOTTERY.**

| STATISTICAL SECTION



Bureau of State Lottery, State of Michigan

Index

Statistical Section

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

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These schedules contain trend information to help the reader understand how the Lottery's financial performance and well-being have changed over time.	
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This schedule and graph contains information to help the reader assess the Lottery's most significant revenue source, ticket sales.	
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2020.





Bureau of State Lottery, State of Michigan

Financial Trends

Net Position

Fiscal Years Ending September 30, 2011 through September 30, 2020

(In Millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net position										
Net investment in capital assets	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.6	\$ 1.5	\$ 1.2	\$ 1.2	\$ 1.0	\$ 1.1	\$ 0.7
Restricted for School Aid Fund	30.5	35.0	17.9	26.8	11.8	8.7	-	-	-	-
Unrestricted (deficit)	(0.4)	(0.3)	(0.8)	(0.6)	(1.5)	(1.2)	(2.5)	(44.9)	(34.5)	(26.7)
Total net position	<u>\$ 30.5</u>	<u>\$ 35.0</u>	<u>\$ 17.9</u>	<u>\$ 26.8</u>	<u>\$ 11.8</u>	<u>\$ 8.7</u>	<u>\$ (1.3)</u>	<u>\$ (43.9)</u>	<u>\$ (33.4)</u>	<u>\$ (26.0)</u>



Bureau of State Lottery, State of Michigan

Financial Trends

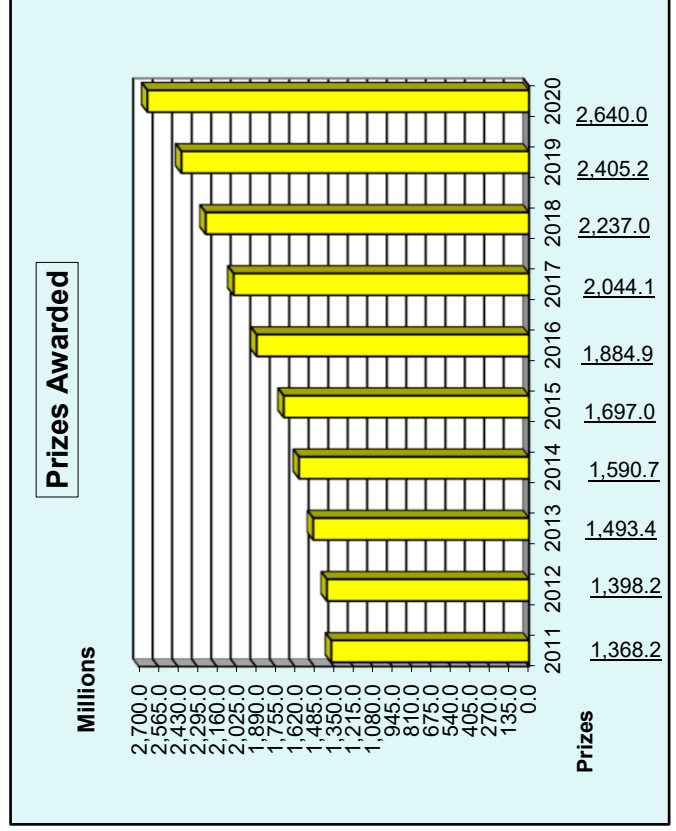
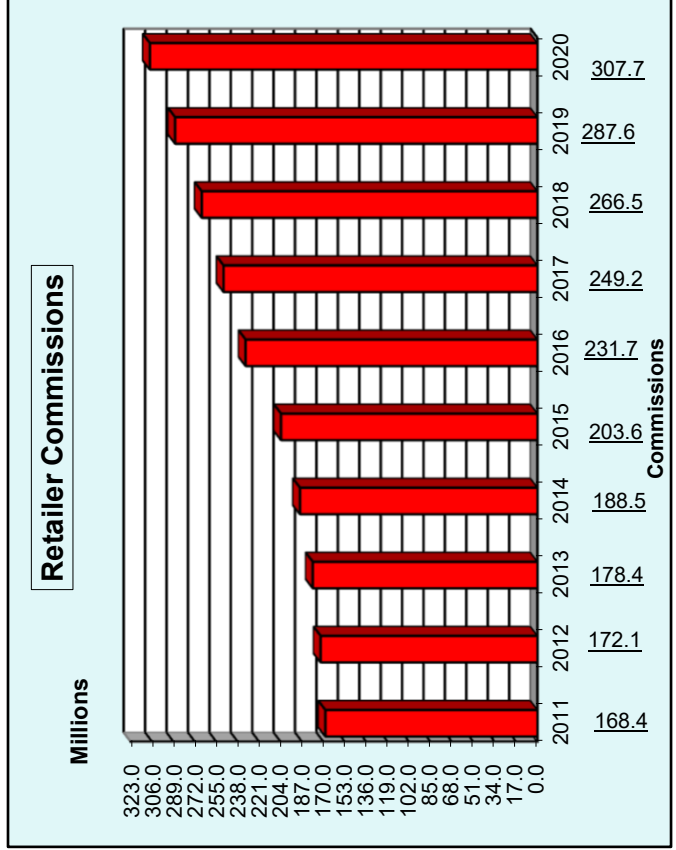
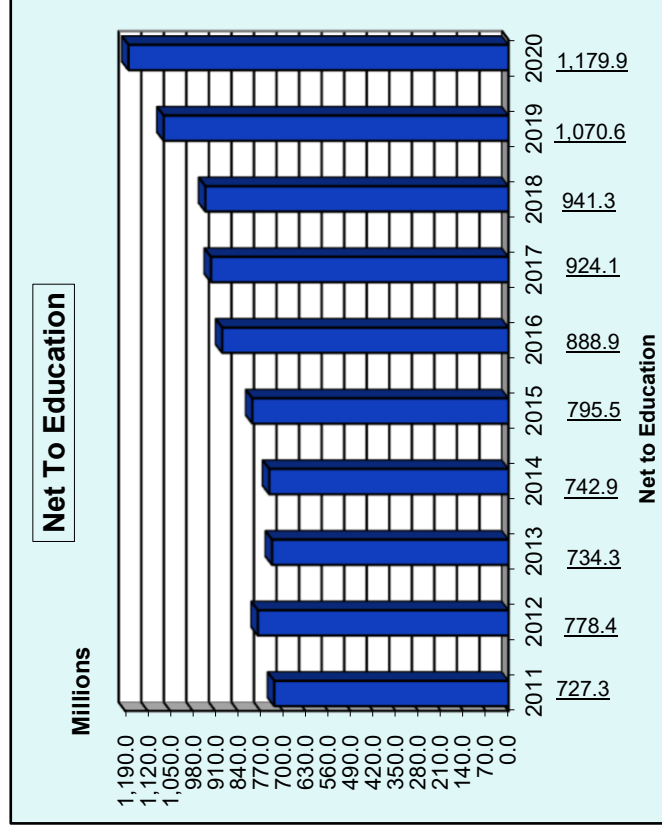
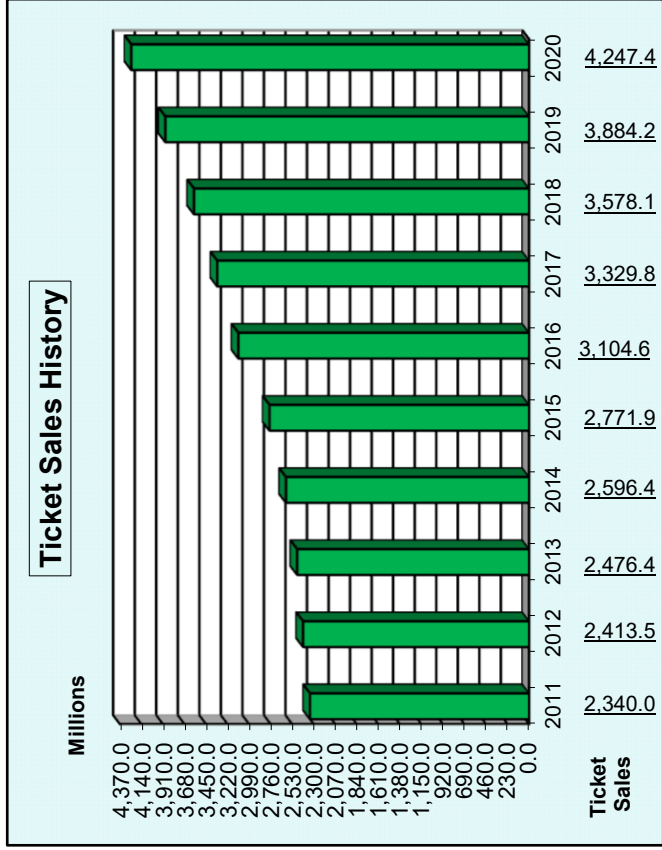
Changes in Net Position

Fiscal Years Ending September 30, 2011 through September 30, 2020

(In Millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating revenues										
Ticket sales	\$ 2,339.9	\$ 2,413.4	\$ 2,476.4	\$ 2,596.4	\$ 2,771.9	\$ 3,104.5	\$ 3,329.8	\$ 3,578.0	\$ 3,884.2	\$ 4,247.4
Charitable gaming and other	17.5	16.8	14.7	12.5	13.2	13.6	17.3	13.9	13.2	9.2
Total operating revenues	<u>2,357.4</u>	<u>2,430.2</u>	<u>2,491.1</u>	<u>2,608.9</u>	<u>2,785.1</u>	<u>3,118.1</u>	<u>3,347.1</u>	<u>3,591.9</u>	<u>3,897.4</u>	<u>4,256.6</u>
Operating expenses										
Prize awards	1,368.2	1,398.2	1,493.5	1,590.7	1,697.0	1,884.8	2,044.0	2,237.0	2,405.2	2,640.0
Less - unclaimed prizes	(23.9)	(28.4)	(31.9)	(30.8)	(31.5)	(28.5)	(27.6)	(22.0)	(40.5)	(56.4)
Net prize awards	<u>1,344.3</u>	<u>1,369.8</u>	<u>1,461.6</u>	<u>1,559.9</u>	<u>1,665.5</u>	<u>1,856.3</u>	<u>2,016.4</u>	<u>2,215.0</u>	<u>2,364.7</u>	<u>2,583.6</u>
Retailer commissions	168.4	172.1	178.5	188.5	203.6	231.7	249.2	266.5	287.6	307.7
Game related expenses	53.9	53.3	57.6	61.3	63.9	80.2	93.9	101.4	104.8	128.3
Other operating expenses	49.4	45.9	50.4	51.9	52.0	66.4	61.7	68.0	73.5	58.4
Total operating expenses	<u>1,616.0</u>	<u>1,641.1</u>	<u>1,748.1</u>	<u>1,861.6</u>	<u>1,985.0</u>	<u>2,234.6</u>	<u>2,421.2</u>	<u>2,650.9</u>	<u>2,830.6</u>	<u>3,078.0</u>
Operating income	<u>741.4</u>	<u>789.1</u>	<u>743.0</u>	<u>747.3</u>	<u>800.1</u>	<u>883.5</u>	<u>925.9</u>	<u>941.0</u>	<u>1,066.8</u>	<u>1,178.6</u>
Non-operating revenues										
Investment revenue	27.7	15.5	(7.2)	18.0	12.9	13.5	(2.7)	(4.2)	21.9	15.5
Interest on equity in State Treasurer's Common Cash Fund	0.2	0.1	0.1	0.1	0.1	0.3	0.6	0.9	1.6	1.1
Total non-operating revenues	<u>27.9</u>	<u>15.6</u>	<u>(7.1)</u>	<u>18.1</u>	<u>13.0</u>	<u>13.8</u>	<u>(2.1)</u>	<u>(3.3)</u>	<u>23.5</u>	<u>16.6</u>
Non-operating expenses										
Amortization of prize obligation discount	(15.5)	(13.3)	(13.2)	(9.7)	(8.5)	(7.5)	(6.8)	(6.9)	(6.3)	(6.1)
Non-operating expenses before disbursements	<u>(15.5)</u>	<u>(13.3)</u>	<u>(13.2)</u>	<u>(9.7)</u>	<u>(8.5)</u>	<u>(7.5)</u>	<u>(6.8)</u>	<u>(6.9)</u>	<u>(6.3)</u>	<u>(6.1)</u>
School Aid Fund disbursement	(727.3)	(778.4)	(734.3)	(742.8)	(795.5)	(888.9)	(924.1)	(941.3)	(1,070.6)	(1,179.9)
School Aid Fund disbursement-Club Keno Advertising	-	-	-	(0.1)	-	-	-	-	-	-
General Fund disbursement	(9.3)	(7.5)	(4.5)	(2.9)	(2.9)	(3.0)	(1.9)	(1.9)	(1.9)	(0.8)
Health and Human Services disbursement	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total disbursements	<u>(737.6)</u>	<u>(786.9)</u>	<u>(739.8)</u>	<u>(746.8)</u>	<u>(799.4)</u>	<u>(892.9)</u>	<u>(927.0)</u>	<u>(944.2)</u>	<u>(1,073.5)</u>	<u>(1,181.7)</u>
Total non-operating expenses	<u>(753.1)</u>	<u>(800.2)</u>	<u>(753.0)</u>	<u>(756.5)</u>	<u>(807.9)</u>	<u>(900.4)</u>	<u>(933.8)</u>	<u>(951.1)</u>	<u>(1,079.8)</u>	<u>(1,187.8)</u>
Net non-operating revenue (expense)	<u>(725.2)</u>	<u>(784.6)</u>	<u>(760.1)</u>	<u>(738.4)</u>	<u>(794.9)</u>	<u>(886.6)</u>	<u>(935.9)</u>	<u>(954.4)</u>	<u>(1,056.3)</u>	<u>(1,171.2)</u>
Change in net position	<u>\$ 16.2</u>	<u>\$ 4.5</u>	<u>\$ (17.1)</u>	<u>\$ 8.9</u>	<u>\$ 5.2</u>	<u>\$ (3.1)</u>	<u>\$ (10.0)</u>	<u>\$ (13.4)</u>	<u>\$ 10.5</u>	<u>\$ 7.4</u>

Bureau of State Lottery, State of Michigan
Financial Trends 2011 through 2020



Source: Bureau of State Lottery, State of Michigan



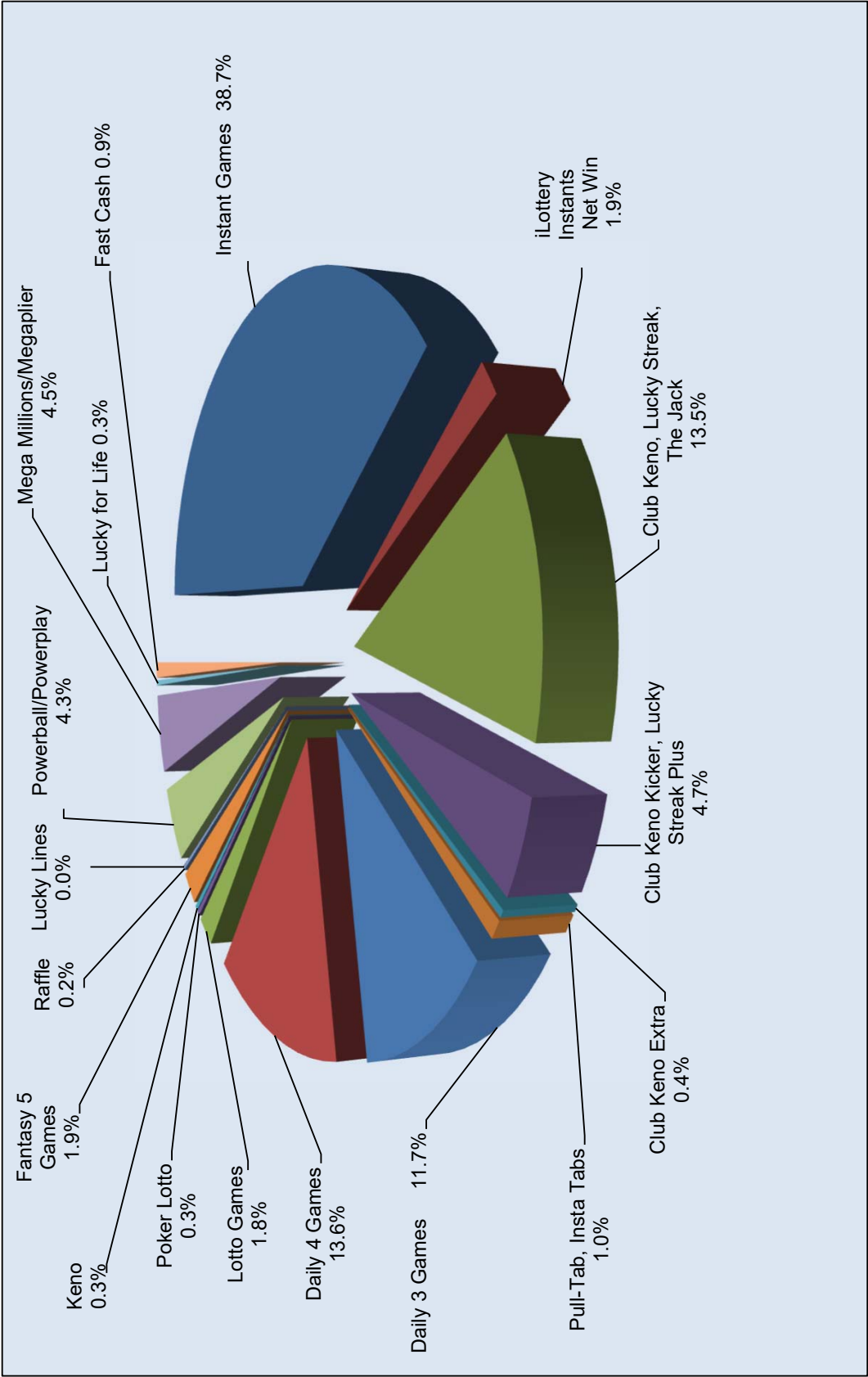
Bureau of State Lottery, State of Michigan
Revenue Capacity
Revenues from Ticket Sales
Fiscal Years Ending September 30, 2011 through September 30, 2020
(In Millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
TICKET SALES										
Instant Games										
Instant Tickets	\$ 739.2	\$ 771.7	\$ 827.0	\$ 913.1	\$ 1,013.2	\$ 1,136.8	\$ 1,321.6	\$ 1,488.2	\$ 1,655.5	\$ 2,038.2
iLottery Games										
iLottery Instantis, Net Win				0.6	18.5	48.0	77.9	93.7	116.3	219.1
iLottery Online Game Card Promos						(0.3)	(0.6)			
iLottery Non-Game Specific Promos						(2.0)	(5.1)	(6.8)	(8.2)	(14.8)
Club Games										
Club Keno, Lucky Streak, The Jack	376.9	397.8	399.6	410.4	430.5	461.7	471.8	438.5	421.9	354.9
Club Keno Kicker, Lucky Streak Plus	124.1	128.2	134.5	140.7	150.4	164.0	169.0	157.3	152.5	131.6
Club Keno Extra								32.0	42.9	38.2
Pull Tab, Insta Tabs	26.9	27.3	31.7	32.4	32.9	32.5	32.9	32.9	33.6	28.3
Total Club Games	527.9	553.3	565.8	583.5	613.8	658.2	673.7	660.7	650.9	553.0
Draw Games										
Daily 3, Double 3	327.4	323.5	321.1	327.0	344.6	366.9	369.0	371.3	395.9	447.6
Daily 4, Double 4	358.2	357.6	351.1	366.3	398.3	415.6	441.4	466.5	493.9	534.2
Winfall, Lotto 47, Lotto 47 EZ Match	44.1	48.3	52.4	45.9	53.9	45.4	70.1	50.2	67.2	75.6
Poker Lotto				39.1	16.1	13.6	11.0	7.9	7.1	6.3
Lucky for Life					15.6	16.7	14.7	14.9	14.2	15.2
Monopoly					1.8					
Keno	12.5	12.4	11.4	10.3	9.8	9.5	9.0	9.0	8.8	8.6
Fantasy 5, Fantasy 5 EZ Match	53.7	51.9	53.2	60.1	56.1	59.6	59.7	57.2	64.5	69.2
Raffle	15.1	6.8	6.0	5.8	0.2	2.8	0.2	15.0	-	
Lucky Lines	8.1	1.6								
Powerball/Powerplay	85.9	119.5	186.8	104.0	109.5	206.6	153.9	125.8	144.1	92.1
Mega Millions/Megaplier	167.8	166.8	101.6	140.7	120.5	127.1	102.7	153.2	192.4	115.3
Fast Cash							30.6	71.2	81.6	87.8
Total Draw Games	1,072.8	1,088.4	1,083.6	1,099.2	1,126.4	1,263.8	1,262.3	1,342.2	1,469.7	1,451.9
TOTAL TICKET SALES	\$ 2,339.9	\$ 2,413.4	\$ 2,476.4	\$ 2,596.4	\$ 2,771.9	\$ 3,104.5	\$ 3,329.8	\$ 3,578.0	\$ 3,884.2	\$ 4,247.4
PRICE PER TICKET:										
Instant Games										\$.50 and \$1
iLottery Instantis										Range from \$5 to \$50
Club Games: Club Keno, Kicker, Lucky Streak, Lucky Streak Plus, The Jack										\$2
Club Keno Extra										Range from \$1 to \$20
Pull Tab, Insta Tab Games										\$2
										\$1

Draw Games:	Daily 3	\$.50 and \$1
Raffle	Powerball	Range from \$5 to \$50
Poker Lotto & Lucky for Life	Poker Lotto & Lucky for Life	\$2
Fast Cash	Fast Cash	Range from \$1 to \$20
Mega Millions	Mega Millions	\$2
All other draw games	All other draw games	\$1

Note: Principal revenue payers are the general public. Please see Demographic and Economic Information on page 91 for statistics.

Bureau of State Lottery, State of Michigan
Revenue Capacity
Ticket Sales 2011 through 2020





Bureau of State Lottery, State of Michigan

Debt Capacity

Ratio of Installment Prize Awards Liability

Fiscal Years Ending September 30, 2011 through September 30, 2020

(In Millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<u>INSTALLMENT PRIZE AWARDS LIABILITY</u>										
Current - at face amount	\$ 49.8	\$ 40.9	\$ 34.6	\$ 29.7	\$ 23.9	\$ 17.0	\$ 15.1	\$ 15.1	\$ 15.2	\$ 15.2
Long-term - at face amount	352.4	317.3	303.3	280.4	267.4	255.1	236.1	223.1	212.9	198.3
Total installment prize awards	<u>\$ 402.2</u>	<u>\$ 358.2</u>	<u>\$ 337.9</u>	<u>\$ 310.1</u>	<u>\$ 291.3</u>	<u>\$ 272.1</u>	<u>\$ 251.2</u>	<u>\$ 238.2</u>	<u>\$ 228.1</u>	<u>\$ 213.5</u>

INVESTMENTS

Face amount	<u>\$ 382.0</u>	<u>\$ 332.7</u>	<u>\$ 315.5</u>	<u>\$ 298.8</u>	<u>\$ 270.9</u>	<u>\$ 256.3</u>	<u>\$ 238.8</u>	<u>\$ 226.0</u>	<u>\$ 213.9</u>	<u>\$ 197.5</u>
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Installment prize awards payable as a percentage of investments:	105.29%	107.66%	107.10%	103.78%	107.53%	106.16%	105.19%	105.40%	106.64%	108.10%
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Note: Details regarding the Bureau's prize awards and investments can be found in the notes to the financial statements.

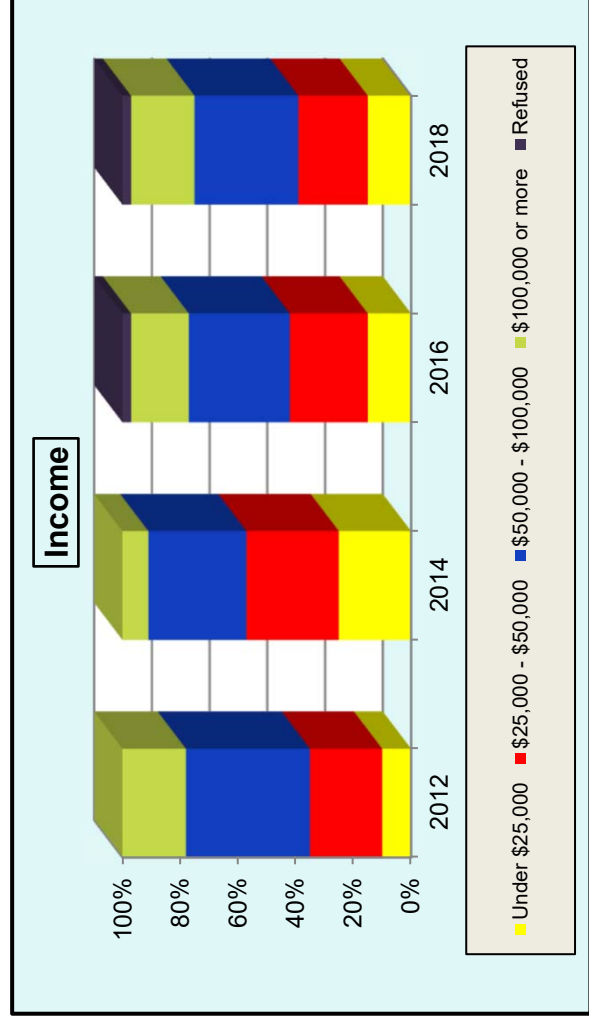
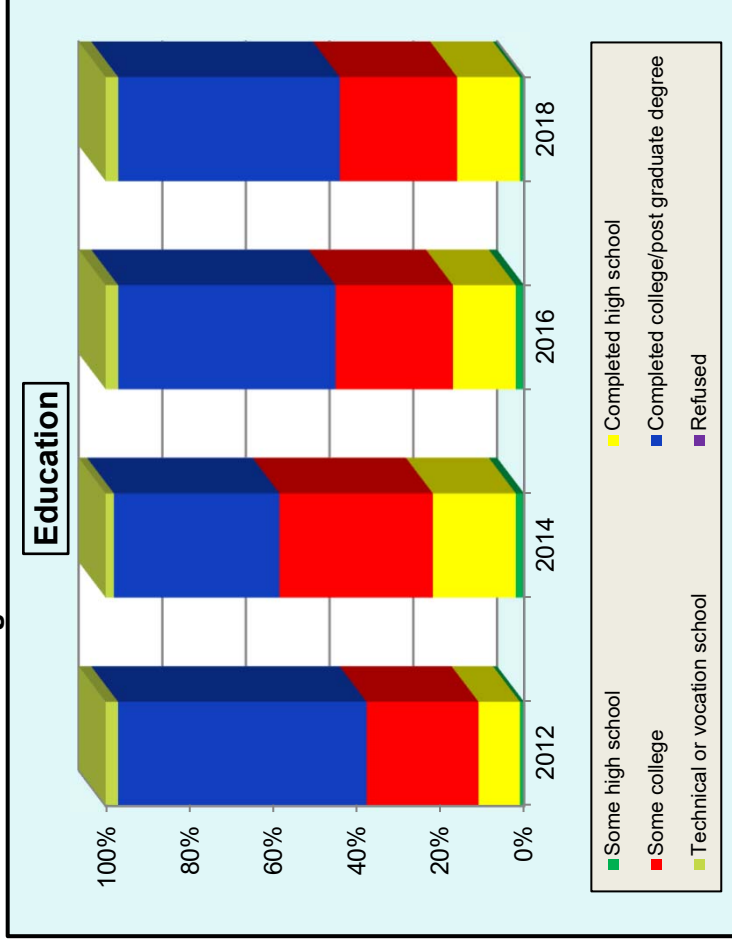
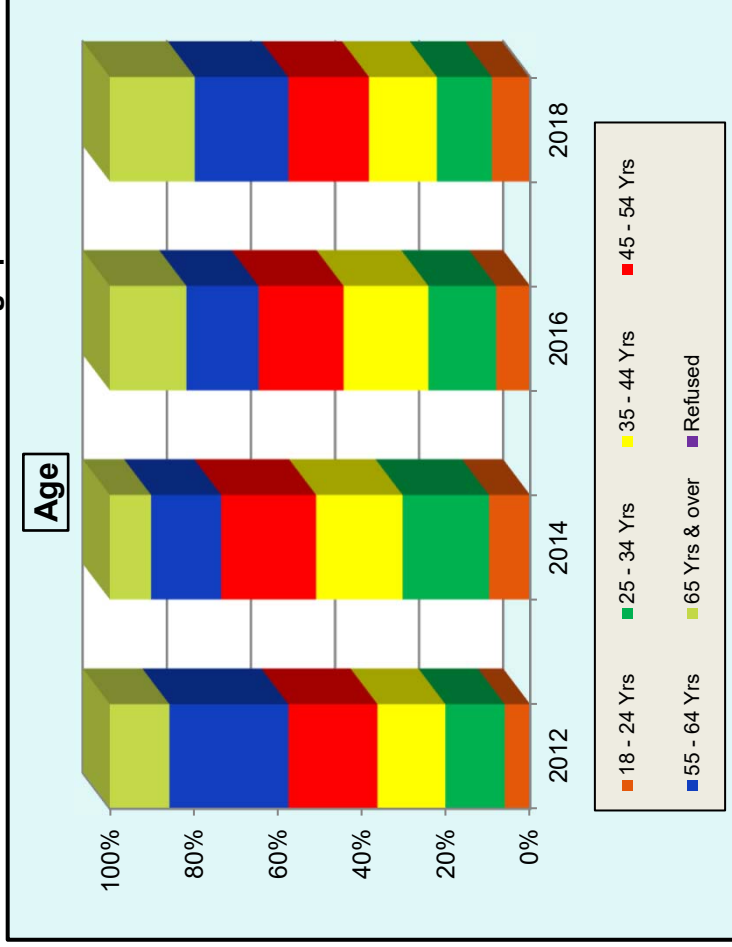


**Bureau of State Lottery, State of Michigan
Demographic and Economic Information
Demographic General Tracking Study
Fiscal Years Ending September 30, 2011 through September 30, 2020**

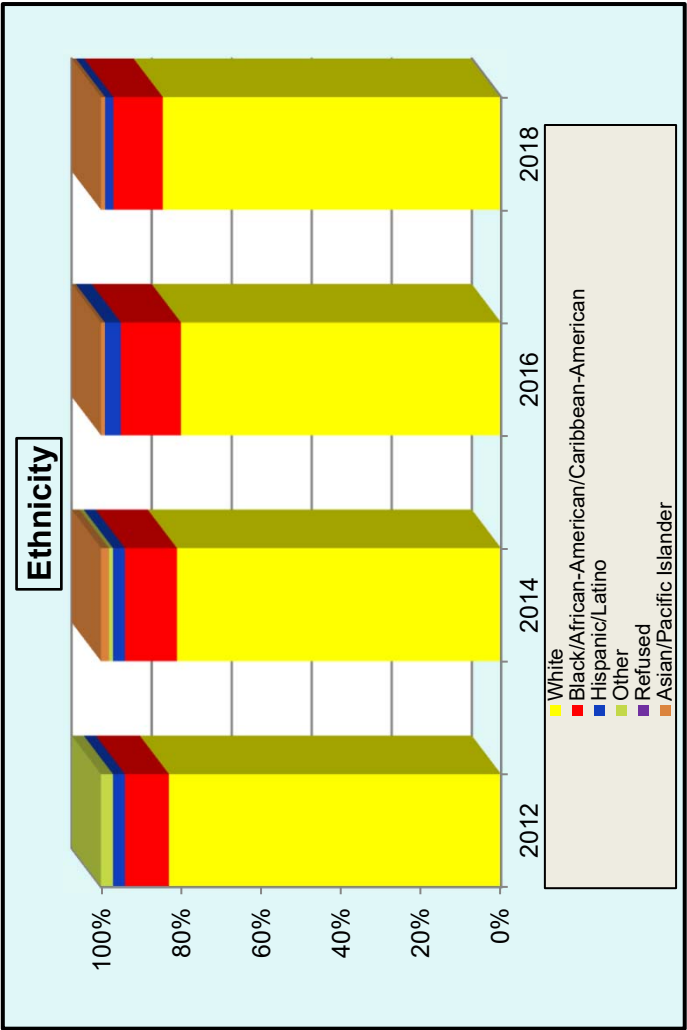
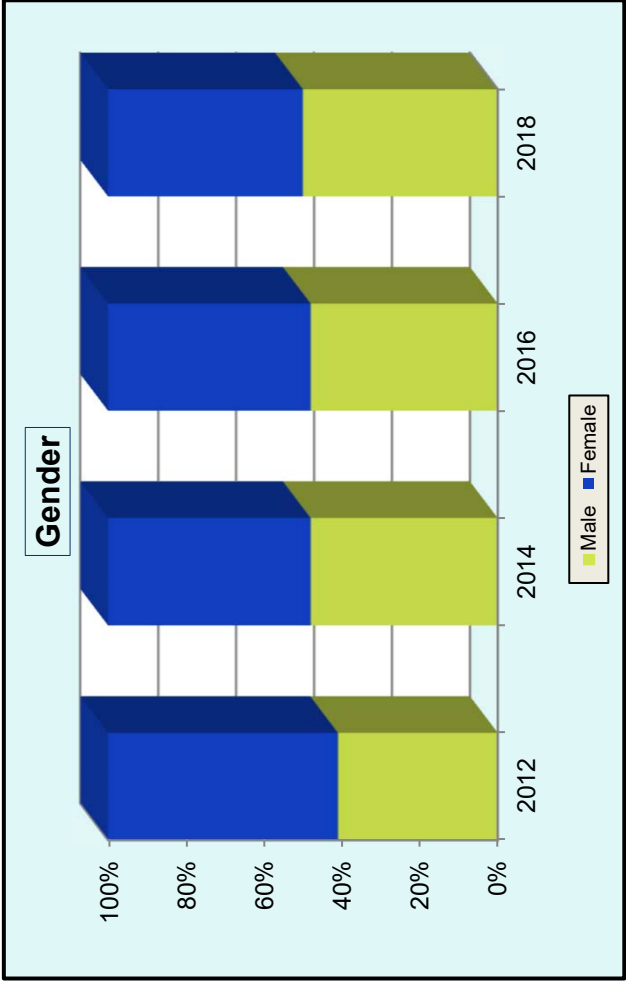
These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles.

	2012	2014	2016	2018
Gender				
Male	41%	48%	48%	50%
Female	59%	52%	52%	50%
Education				
Some high school	1%	2%	2%	1%
Completed high school	10%	20%	15%	15%
Some college	27%	37%	28%	28%
Completed college/post graduate degree	60%	40%	52%	53%
Technical or vocation school	3%	2%	3%	3%
Refused				
Age				
18 - 24 Yrs	6%	10%	8%	9%
25 - 34 Yrs	14%	21%	16%	13%
35 - 44 Yrs	16%	21%	20%	16%
45 - 54 Yrs	21%	23%	20%	19%
55 - 64 Yrs	28%	17%	17%	22%
65 Yrs & over	14%	10%	18%	20%
Refused				
Income				
Under \$25,000	10%	25%	15%	15%
\$25,000 - \$50,000	25%	32%	27%	24%
\$50,000 - \$100,000	43%	34%	35%	36%
\$100,000 or more	22%	9%	20%	22%
Refused			3%	3%
Ethnicity				
White	83%	81%	80%	82%
Black/African-American/Caribbean-American	11%	13%	15%	12%
Hispanic/Latino	3%	3%	4%	2%
Asian/Pacific Islander		2%	1%	1%
Other	3%	1%	0%	0%
Refused				

Bureau of State Lottery, State of Michigan Demographic and Economic Information 2011 through 2020



Bureau of State Lottery, State of Michigan
Demographic and Economic Information 2011 through 2020



Source: Bureau of State Lottery
General Tracking Study



**Bureau of State Lottery, State of Michigan
Demographic and Economic Indicators
Fiscal Years Ending September 30, 2010 through September 30, 2019
(In Thousands)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Population (a)										
Michigan	9,877	9,876	9,883	9,896	9,909	9,923	9,928	9,962	9,996	9,987
United States	309,349	311,592	313,914	316,129	318,857	321,419	323,128	325,719	327,167	328,240
Total Personal Income (b)										
Michigan	\$ 342.7	\$ 358.2	\$ 378.4	\$ 386.5	\$ 403.7	\$ 424.8	\$ 439.4	\$ 460.3	\$ 484.0	\$ 491.6
United States	\$ 12,357.1	\$ 12,949.9	\$ 13,729.1	\$ 14,151.4	\$ 14,683.1	\$ 15,464.0	\$ 15,913.0	\$ 16,820.0	\$ 17,813.0	\$ 18,542.3
Per Capita Income (b)										
Michigan	\$ 34.7	\$ 36.3	\$ 38.3	\$ 39.1	\$ 40.7	\$ 42.8	\$ 44.3	\$ 46.2	\$ 48.4	\$ 49.2
United States	\$ 39.9	\$ 41.6	\$ 43.7	\$ 44.8	\$ 46.0	\$ 48.1	\$ 49.2	\$ 51.6	\$ 54.4	\$ 56.5
Unemployment Rate (c)										
Michigan	13.0%	9.3%	9.0%	7.2%	5.0%	4.6%	4.3%	4.0%	3.9%	3.9%
United States	9.6%	7.8%	7.2%	5.9%	5.1%	5.0%	4.2%	3.7%	3.7%	3.5%
Michigan estimated wage and salary employees (c)										
Goods Producing:										
Natural Resources and Mining	7.3	7.3	7.8	7.9	8.3	7.2	6.7	7.0	6.9	7.0
Construction	113.3	123.4	124.6	127.2	139.0	144.9	151.3	161.1	168.5	170.4
Manufacturing	464.1	510.8	546.5	566.3	588.5	595.9	603.6	619.1	636.6	630.2
Total Goods Producing	584.7	641.5	678.9	701.4	735.8	748.0	761.6	787.2	812.0	807.6
Service-Providing:										
Private Service-Providing										
Trade, Transportation, and Utilities:										
Wholesale Trade	152.3	158.0	159	163.8	169.7	173.5	172.2	174.1	172.1	171.9
Retail Trade	446.6	446.2	448.9	474.1	476.6	479.5	483.0	484.1	480.5	476.5
Transportation and Utilities	108.8	121.5	123.2	130.3	132.0	137.8	284.0	294.2	316.6	193.0
Information	52.5	54.6	52.1	56.2	57.0	56.8	57.5	55.9	55.5	54.3
Financial Activities:										
Finance and Insurance	135.2	144.5	148.5	151.6	154.1	158.9	162.1	165.1	164.0	170.8
Real Estate and Rental and Leasing	45.5	50.4	47.8	49.1	51.9	52.1	53.9	53.5	56.1	56.6
Professional and Business Services:										
Professional, Scientific, and Technical Services	214.8	235.0	250	264.6	272.8	292.1	297.4	293.4	301.5	296.4
Management of Companies and Enterprises	50.8	53.5	54.1	59	58.3	59.7	61.9	66.5	69.2	70.4
Administrative, Support Services, and Waste Management	248.3	271.4	271.9	281.7	302.6	294.8	302.0	291.6	292.2	286.2
Educational and Health Services:										
Educational Services	80.3	77.1	72.2	76.2	80.1	79.1	75.6	75.8	75.6	77.1
Health Care and Social Assistance	535.0	548.7	559.4	564.2	574.5	585.2	596.9	600.6	606.0	610.8
Leisure and Hospitality:										
Accommodation and Food Services	322.0	328.2	344.3	349.8	351.4	362.4	373.5	379.5	375.6	373.4
Other	51.8	46.9	42.5	36.8	40.4	40.5	43.6	42.0	41.7	43.5
Other Services	164.4	170.4	169.4	171.2	171.0	171	172.1	170.2	166.7	163.9
Total Private Service-Providing	2,608.3	2,706.4	2,743.3	2,828.6	2,892.4	2,943.4	3,135.7	3,146.5	3,173.3	3,044.8
Government:	629.8	612.5	606.7	614.3	609.3	612.4	624.3	623.6	620.3	632.6
Total Service-Providing	3,238.1	3,318.9	3,350.0	3,442.9	3,501.7	3,555.8	3,760.0	3,770.1	3,793.6	3,677.4
Total Wage and Salary Employment	3,822.8	3,960.4	4,028.9	4,144.3	4,237.5	4,303.8	4,521.6	4,557.3	4,605.6	4,485.0

NOTES: Calendar year 2019 is the most recent year for which data is available except for the State and U.S. unemployment rate
Wage and Salary Employment based on North American Industry Classification System.
Components in Wage and Salary Employment may not total due to truncation.

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

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



Bureau of State Lottery, State of Michigan
Operating Information
Fiscal Years Ending September 30, 2011 through September 30, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of Employees	174	177	178	174	174	175	172	178	184	174
Number of Retailers	10,746	10,879	10,848	10,684	10,654	10,650	10,645	10,792	10,508	10,492
Prize Payout Percentage	58.47%	57.93%	60.31%	61.27%	61.22%	60.71%	61.39%	62.52%	61.92%	62.16%
Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund	31.08%	32.25%	29.65%	28.61%	28.70%	28.63%	27.75%	26.31%	27.56%	27.78%
Number of Millionaire Prize Winners	28	31	36	39	42	46	38	39	42	42
Number of Prize Winners Greater than \$600	48,567	44,904	52,365	56,735	68,359	74,352	82,435	91,984	94,046	115,829



Bureau of State Lottery, State of Michigan

Operating Information

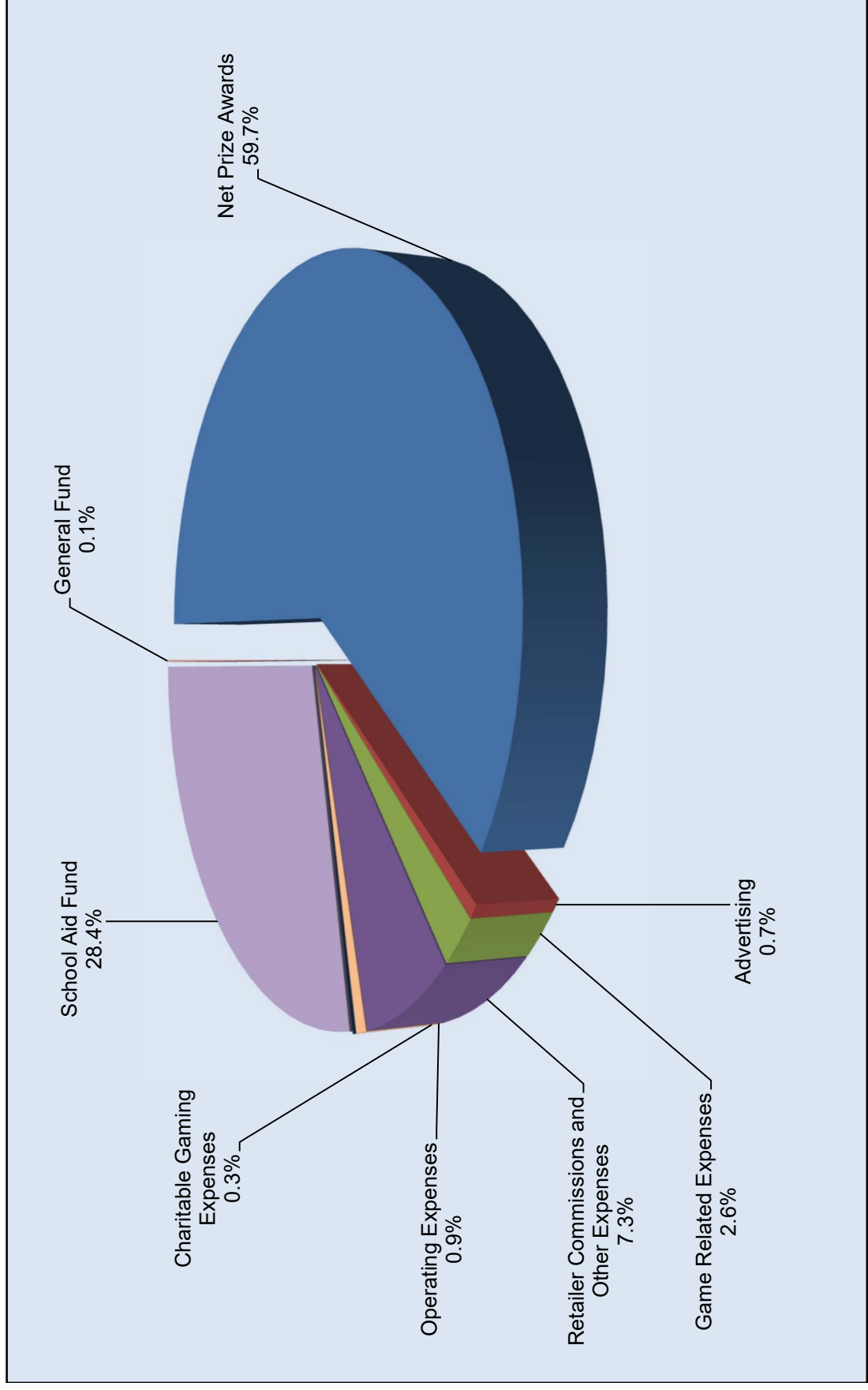
Expenses & Disbursements to the State's School Aid Fund, General Fund, and Health & Human Services

Fiscal Years Ending September 30, 2011 through September 30, 2020

(In Millions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EXPENSES										
Prize Awards	\$ 1,368.2	\$ 1,398.2	\$ 1,493.5	\$ 1,590.7	\$ 1,697.0	\$ 1,884.8	\$ 2,044.0	\$ 2,237.0	\$ 2,405.2	\$ 2,640.0
Unclaimed Prizes	(23.9)	(28.4)	(31.9)	(30.8)	(31.5)	(28.5)	(27.6)	(22.0)	(40.5)	(56.4)
Net Prize Awards	1,344.3	1,369.8	1,461.6	1,559.9	1,665.5	1,856.3	2,016.4	2,215.0	2,364.7	2,583.6
Promotion and Advertising	22.6	16.7	17.6	17.6	17.6	22.0	24.0	27.9	29.8	20.0
Game Related Expenses	53.9	53.3	57.6	61.3	63.9	80.2	93.9	101.4	104.8	128.2
Retailer Commissions	168.4	172.1	178.5	188.5	203.6	231.7	249.2	266.5	287.6	307.7
Operating Expenses	20.1	22.2	23.9	25.4	25.2	35.1	27.6	30.3	33.5	32.0
Charitable Gaming Expenses	6.7	7.0	8.9	8.9	9.2	9.3	10.1	9.8	10.2	6.5
TOTAL EXPENSES	\$ 1,616.0	\$ 1,641.1	\$ 1,748.1	\$ 1,861.6	\$ 1,985.0	\$ 2,234.6	\$ 2,421.2	\$ 2,650.9	\$ 2,830.6	\$ 3,078.0
DISBURSEMENTS TO THE STATE										
School Aid Fund	727.3	778.4	734.3	742.8	795.5	888.9	924.1	941.3	1,070.6	1,179.9
School Aid Fund-Club Keno Adv	-	-	-	0.1	-	-	-	-	-	-
General Fund	9.3	7.5	4.5	2.9	2.9	3.0	1.9	1.9	1.9	0.8
Health & Human Services	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
TOTAL DISBURSEMENTS	\$ 737.6	\$ 786.9	\$ 739.8	\$ 746.8	\$ 799.4	\$ 892.9	\$ 927.0	\$ 944.2	\$ 1,073.5	\$ 1,181.7

Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements 2011 through 2020



Bureau of State Lottery, State of Michigan
Industry Comparative Information

Fiscal Year 2019 U.S. Lottery Sales, Prizes & Government Transfers Measured by GDP*

Lottery	2019 Pop. ¹ (Mil.)	2019 Gross Domestic Product ²	(in \$millions)			PC Sales Gov't	Ticket Sales as % of GDP	Gov't Transfers as % of GDP
			Traditional Ticket Sales ³	VLT (net)	Gaming (net)	Prizes ⁴	Gov't Transfers ⁵	
Arizona	7.3	360,032	1,076.79			706.49	230.36	0.064%
Arkansas	3.0	130,800	515.49			349.88	98.64	0.075%
California	39.5	3,051,623	7,388.05			4,715.59	1,825.22	0.060%
Colorado	5.8	380,684	679.78			416.94	166.46	0.044%
Connecticut	3.6	282,002	1,333.91			822.86	375.30	0.133%
Delaware ^{4, 5}	1.0	144,051	196.32	367.8	218.4	111.89	259.69	0.180%
D.C.	0.7	77,084	213.07			123.38	45.05	0.058%
Florida	21.5	1,072,672	7,151.24			4,638.49	1,927.05	0.180%
Georgia	10.6	608,058	4,454.97			2,876.42	1,207.37	0.199%
Idaho	1.8	79,500	287.91			190.05	60.77	0.076%
Illinois ⁶	12.7	888,233	2,974.54			1,907.05	754.17	0.085%
Indiana	6.7	374,664	1,347.76			860.00	312.22	0.083%
Iowa	3.2	193,726	390.90			241.94	92.87	0.048%
Kansas	2.9	171,215	295.28		420.8	172.68	186.33	0.109%
Kentucky	4.5	213,313	1,129.54			724.81	283.61	0.133%
Louisiana	4.6	256,450	523.97			285.33	184.21	0.072%
Maine	1.3	66,022	299.45			196.80	63.20	0.096%
Maryland ^{4, 5}	6.0	421,874	2,196.91	1,125.2	635.2	1,357.48	1,314.12	0.311%
Massachusetts	6.9	581,718	5,492.29			3,986.84	1,104.22	0.190%
Michigan	10.0	542,760	3,384.16			2,364.66	1,073.54	0.198%
Minnesota	5.6	378,047	636.81			395.59	153.19	0.041%
Missouri	6.1	326,020	1,466.03			1,015.09	319.38	0.098%
Montana ⁶	1.1	50,038	60.26			34.49	12.22	0.024%
Nebraska	1.9	125,959	192.18			112.46	46.57	0.037%
N. Hampshire	1.4	87,009	384.37			240.81	105.85	0.122%
New Jersey	8.9	639,841	3,548.51			2,086.63	1,105.00	0.173%
New Mexico	2.1	101,904	143.63			77.04	43.11	0.042%
New York ^{4, 5}	19.5	1,720,788	8,208.11	1,663.1	419.3	4,919.62	3,474.04	0.202%
N. Carolina	10.5	580,187	2,859.63			1,845.29	712.30	0.123%
N. Dakota ⁶	0.8	55,604	35.35			18.24	9.34	0.017%
Ohio ^{4, 5}	11.7	694,830	3,360.76	1,058.6		2,139.84	1,153.93	0.166%
Oklahoma	4.0	202,555	241.69			141.32	68.30	0.034%
Oregon ^{4, 5}	4.2	246,186	380.05	966.5		234.97	716.61	0.291%
Pennsylvania	12.8	809,311	4,503.33			2,927.07	1,132.92	0.140%
R. Island ^{4, 5}	1.1	61,928	263.28	522.8	291.0	162.22	397.32	0.642%
S. Carolina	5.1	236,753	1,980.94			1,312.06	488.09	0.206%
S. Dakota ^{4, 5}	0.9	53,075	62.99	230.2		37.70	129.42	0.244%
Tennessee	6.8	377,088	1,689.70			1,065.35	447.19	0.119%
Texas	29.0	1,828,042	6,251.48			4,056.49	1,636.59	0.090%
Vermont	0.6	34,515	139.27			90.89	29.18	0.085%
Virginia	8.5	549,997	2,293.56			1,401.70	649.70	0.118%
Washington	7.6	584,034	803.28			490.36	215.78	0.037%
W. Virginia ^{4, 5}	1.8	79,482	201.29	904.1	37.8	119.25	516.50	0.650%
Wisconsin ⁶	5.8	345,390	713.14			431.95	196.24	0.057%
Wyoming	0.6	39,428	36.93			19.81	6.62	0.017%
Total	311.9	20,104,492	82,288.9	6,838.3	2,022.6	52,425.8	25,329.8	0.126%

* Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30).¹ Source: U.S. Census Bureau

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

⁵ Includes government transfers for VLT operations; ⁶ Unaudited

Note: If a lottery's operating statement did not include government transfers, then net income is reported.

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

Fiscal Year 2019 U.S. Lottery Sales by Game*
(in \$millions)

(in \$millions)																
Systems Games																
Lottery	Pop. (M)	Instant	Pull tab	3-digit	4-digit	In-State Lotto	Small Bloc	Power Ball	Mega Millions	For Life	ITG	Monitor Games	Other	Total Sales	PC Sales	VLT (net)
Arizona	7.3	750.3	9.6	12.3	7.7	72.4	9.3	111.7	103.0	3.2	17.8			1,077.0	\$148	
Arkansas	3.0	407.8		7.7	4.4	9.3	34.2	33.6		3.2	15.3			515.5	\$171	
California	39.5	5,170.8		153.2	30.7	429.8	521.1	736.3			0.0	346.1		7,388.0	\$187	
Colorado	5.8	443.4		12.9		47.6	86.1	72.7		17.0				679.8	\$118	
Connecticut	3.6	736.4		126.7	123.0	71.9	81.4	72.6	18.9			102.9		1,333.9	\$374	
Delaware	1.0	79.8		27.5	23.7	4.5	3.4	25.2	20.7	2.1		8.6		196.3	\$202	
DC	0.7	52.3		38.6	51.8			9.8	9.6	2.1	10.4	15.5	23.0	213.1	\$302	367.8
Florida	21.5	4,937.8		380.3	253.4	556.5	459.4	417.0	50.3	50.3	21.0		75.5	7,151.2	\$333	
Georgia	10.6	2,898.4		518.4	302.5	120.9	148.3	199.1	9.7	9.7	6.7	201.8	49.2	4,455.0	\$420	
Idaho	1.8	170.5	2.0	2.5		3.7	2.8	30.3	23.5	3.3	46.7		2.9	287.9	\$161	
Illinois	12.7	1,856.8		274.6	250.9	223.3		158.6	213.3					2,977.6	\$235	
Indiana	6.7	974.9		39.2	37.9	99.1		96.2	77.7	4.6	14.4		3.7	1,347.8	\$200	
Iowa	3.2	250.6	10.9	7.9	4.3		8.8	54.8	36.3	5.4	11.9			390.9	\$124	
Kansas	2.9	158.3	7.3	7.1		21.1	8.2	35.7	29.0	5.7		18.9	4.0	295.3	\$101	
Kentucky	4.5	669.1		149.9	44.6	20.2		73.5	63.1	7.5		84.3	17.4	1,129.5	\$253	
Louisiana	4.6	225.6		54.8	50.3	32.6		90.6	70.2					524.0	\$113	
Maine	1.3	224.6		5.4	4.3		1.3	14.9	16.3	3.7	6.6			299.5	\$223	
Maryland	6.0	812.4		245.6	312.2	54.8		114.1	137.7	12.4		498.1		2,187.3	\$362	1,125.2
Massachusetts	6.9	3,673.9		325.4	325.4	117.8		133.7	158.8	25.2		1,054.9	2.5	5,492.3	\$797	
Michigan	10.0	1,655.5	33.6	395.9	493.9	128.2		131.7	176.9	14.2	81.6	617.3	155.3	3,884.2	\$389	
Minnesota	5.6	435.3		18.4		29.5	11.8	68.0	48.9	6.9	11.0		7.0	636.8	\$113	
Missouri	6.1	914.8	114.1	83.4	54.7	54.5		97.7	81.8	8.3		57.3		1,466.7	\$239	
Montana ¹	1.1	18.5				7.6	2.4	12.5	9.4	2.7	4.0		3.2	60.5	\$57	
Nebraska	1.9	104.3		5.8		15.8	1.9	35.8	24.4	4.1				192.2	\$99	
N. Hampshire	1.4	250.4		5.4	4.8		12.2	37.6	31.6	5.6	5.1	27.0	4.5	384.3	\$283	
New Jersey	8.9	1,930.5		410.6	259.1	237.2		236.3	285.3	37.1	22.8	129.7	-66.2	3,482.3	\$392	
New Mexico	2.1	74.9		5.5	1.1	7.3	4.5	26.9	22.5		0.9		0.1	143.6	\$68	
New York	19.5	4,226.7		911.9	955.5	311.6		389.8	480.1	87.9		814.1	30.6	8,208.1	\$422	1,663.1
N. Carolina	10.5	1,908.9		352.1	161.6	73.3		158.7	142.1	20.5		42.5		2,859.6	\$273	
N. Dakota	0.8			0.0			7.9	12.8	11.2	3.5				35.4	\$46	
Ohio	11.7	1,663.0		354.0	216.9	83.5		143.3	192.7	20.4	171.6	470.8	44.5	3,360.8	\$288	1,058.6
Oklahoma	4.0	136.0		5.7		4.0	7.2	44.4	39.8	4.6				241.7	\$61	
Oregon	4.2	131.2			1.8	42.0		49.8	50.2			102.7	2.3	380.1	\$90	966.5
Pennsylvania	12.8	2,989.7		269.2	225.3	271.9		260.5	229.5	16.7	103.3	46.7	90.6	4,503.3	\$352	
Rhode Island	1.1	102.9			23.0	3.9		27.2	20.2	5.0		79.8	1.2	263.3	\$249	522.8
S. Carolina	5.1	1,450.4		217.6	103.7	23.5		92.9	80.1	12.6				1,980.9	\$385	
South Dakota	0.9	32.2				3.9	2.4	13.1	8.7	2.6				63.0	\$71	230.2
Tennessee	6.8	1,325.4		64.2	40.6	17.0	14.1	109.0	93.4	8.2		13.8	3.9	1,689.7	\$247	
Texas	29.0	4,845.6		259.1	121.1	275.6		342.6	407.5					6,251.5	\$216	
Vermont	0.6	107.0		1.2	1.2		5.0	9.4	8.0	1.8	5.7			139.3	\$223	
Virginia	8.5	1,221.9		329.2	326.4	47.0		125.5	167.0	18.2	50.6		7.9	2,293.6	\$269	
Washington	7.6	523.9		19.5		92.7		69.4	91.9				5.9	803.3	\$105	
West Virginia	1.8	115.6		7.9	4.6	4.8	5.4	33.3	24.5			3.9	1.2	201.3	\$112	904.1
Wisconsin ¹	5.8	450.4	1.0	23.6	14.1	75.2		84.8	63.3				0.8	713.1	\$122	
Wyoming	0.6					15.0		9.7	9.3	2.7			0.1	36.9	\$64	
Total	311.9	51,109.0	178.4	5,804.9	4,828.7	3,712.0	112.7	4,910.0	5,291.2	455.4	607.2	4,736.7	471.0	82,217.2	\$264	6,838.3
% of total		62.2%	0.2%	7.1%	5.9%	4.5%	0.1%	6.0%	6.4%	0.6%	0.7%	5.8%	0.6%	100.0%		

Notes to Table: Fiscal year 2019 is latest data available. *Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30). ¹ Unaudited

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

Independent Auditor's Report

To Management; Mr. Brian Neill, Commissioner,
Bureau of State Lottery, State of Michigan;
and Mr. Doug Ringler, CPA, CIA,
Auditor General, State of Michigan
Bureau of State Lottery, State of Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Bureau of State Lottery, State of Michigan (the "Lottery") as of and for the six-month period and year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated February 9, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) as a basis for designing 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery'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 financial statements. 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*.

To Management; Mr. Brian Neill, Commissioner,
Bureau of State Lottery, State of Michigan;
and Mr. Doug Ringler, CPA, CIA,
Auditor General, State of Michigan
Bureau of State Lottery, State of Michigan

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 & Moreau, PLLC

February 9, 2021





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