



BUREAU OF STATE LOTTERY



ANNUAL COMPREHENSIVE FINANCIAL REPORT
For Fiscal Years Ended Sept. 30, 2022 & 2021





BUREAU OF STATE LOTTERY

An Enterprise Fund of the State of Michigan

Annual Comprehensive Financial Report

For the Fiscal Years Ended September 30, 2022 and 2021

Prepared by Financial Gaming Services & Accounting Division



Bureau of State Lottery, State of Michigan
Annual Comprehensive Financial Report
for the fiscal years ended September 30, 2022 and 2021

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INTRODUCTORY SECTION



MISSION STATEMENT OF THE BUREAU OF STATE LOTTERY

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







GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING



BRIAN O. NEILL
COMMISSIONER

February 21, 2023

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

We are pleased to present to you the Annual Comprehensive Financial Report (ACFR) of the Bureau of State Lottery (Lottery) for the fiscal years ending September 30, 2022 and 2021. 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 ACFR. 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 ACFR, 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 2022 Highlights

Significant School Aid Fund Contributions. The Lottery contributed over \$1,248,600,000 to the School Aid Fund in fiscal year 2022 -- its second highest contribution ever.

Sales and Prizes. Total sales in fiscal year 2022 were \$4.9 billion. Prizes set a new record in fiscal year 2022 of \$3.1 billion, up from the prior record of \$3.0 billion set last year.

Retailer Commissions and Incentives. Lottery retailers, many of which are small, family-owned businesses, received more than \$356.6 million in commissions and incentives.

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 \$27.0 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 over 40 games released each year. The games are priced between \$1 and \$50 and top prizes range from \$1,000 to \$6.0 million.



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. The jackpot starts at \$20 million. 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, and Double 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. The jackpot starts at \$20 million. 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. Double Play is an add-on game that was launched in August 2021 and uses a player's Powerball numbers for an additional draw that takes place after the regular drawing. Powerball drawings are conducted three times per week on Monday, Wednesday and Saturday.



Lucky for Life

Lucky for Life is a multi-jurisdiction draw game with twenty-three 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 daily.



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 \$20 price point games 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 17, 2022:

Michigan added a healthy 34,000 jobs in the third quarter, but that welcome performance was still a deceleration from the 2021 pace. We project job gains to slow down from here, downshifting to an average pace of 9,200 per quarter in 2023 amid a mild national recession. The pace of job gains then picks up to an average of 11,000 per quarter in 2024 as we exit the national recession. We project Michigan to recover to its pre-pandemic employment level in the second half of 2024.

Our forecast calls for continued growth in Michigan's blue-collar industries, which have now recovered to their pre-pandemic employment level. The state's construction and non-automotive manufacturing industries face a challenging environment with rising interest rates, a strong dollar, and weak national growth. We are hoping that continued strength in the automotive sector will shield Michigan from the brunt of the recession.

We forecast Michigan's unemployment rate to hold steady at 4.1 percent through the middle of next year before rising to a cyclical peak of 4.7 percent by early 2024. It begins declining again in late 2024 as the national economy improves.

Personal income per capita in Michigan increased from 49,300 dollars in 2019 to 56,500 dollars in 2021 owing to federal stimulus. We expect that personal income per capita will largely tread water in 2022 as stimulus wanes but labor income grows. Personal income per capita returns to growth in 2023–24, though, averaging 4.3 percent per year. That would leave Michigan's personal income per capita at 61,500 dollars in 2024, or almost 25 percent higher than in 2019.

Unfortunately, we expect taxes and inflation to eat away nearly all of those gains. We project local inflation will average 8.2 percent this year before moderating to 4.5 percent in 2023 and 2.5 percent in 2024.

Michigan's real disposable income per capita skyrocketed by 8.3 percent in 2020 and dipped only slightly in 2021. We forecast real disposable income per capita in the state to decline by 10 percent in 2022, amid rising inflation and stagnant nominal income. Real disposable income per capita increases by 1.6 percent in 2023 and 1.7 percent in 2024, bringing its level in 2024 roughly in line with 2019's. 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 2022, Michigan's seasonally adjusted unemployment rate remained unchanged at 4.1%, while the national rate recorded a decrease by two-tenths of a percentage point to 3.1%. The statewide employment edged up by 2,000 while the number of unemployed was unchanged. Michigan's September jobless rate was 0.6 percentage points larger than the U.S. rate. The national rate declined by 1.2 percentage

points over the year, while the statewide rate fell by 1.6 percentage points since September 2021.

Michigan's September 2022 employment level was nearly unchanged over the month, comparable to the 0.1 percentage increase seen on a national level. The statewide over-the-year unemployment reduction of 25.8% was also similar to the unemployment reduction of 25.0% seen in the U.S. The September 2022 jobless rate of 4.1 percent was two-tenths of a percentage point below the unemployment rate seen during the prior quarter. According to the Department of Technology, Management and Budget, all 17 Michigan labor market areas exhibited unemployment rate decreases since 2020. Payroll jobs increased by 135,000, or 3.2%, over the year. Minor employment changes occurred throughout multiple industries during September. The most pronounced over-the-year industry employment gain of over 30,000 occurred in the state's professional and business services sector.

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 the retail channel, the Lottery plans to introduce forty-seven new retail instant games, twenty-five new Pull Tabs games, and several promotions for its Club Keno game in fiscal year 2023. The Lottery is in the process of conducting a research study on four new draw game concepts. The goal of the research is to evaluate the four concepts and determine which concept(s) offer the best opportunity to increase player engagement, overall revenue and provide fun and rewarding play experience.

Lottery's digital gaming team plans to introduce between twenty-five to thirty new digital instant games, including new game themes, prize structures, and play styles, that will create a wider portfolio of compelling options for players. The time-based online Raffle will benefit from a full year of sales as well as more variation in raffle prize structures in 2023. There are no plans for a retail Raffle in 2023. Retail and online integrations will continue as part of a holistic player engagement strategy.

Awards and Acknowledgements

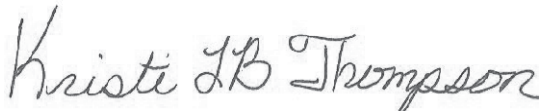
Awards

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 2021 ACFR. To receive this prestigious award, a government agency must publish an easily readable and efficiently organized annual comprehensive financial report that meets GAAP and applicable legal requirements. The Lottery is proud to have received a Certificate of Achievement from the GFOA for 17 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 Annual Comprehensive
Financial Report
For the Fiscal Year Ended

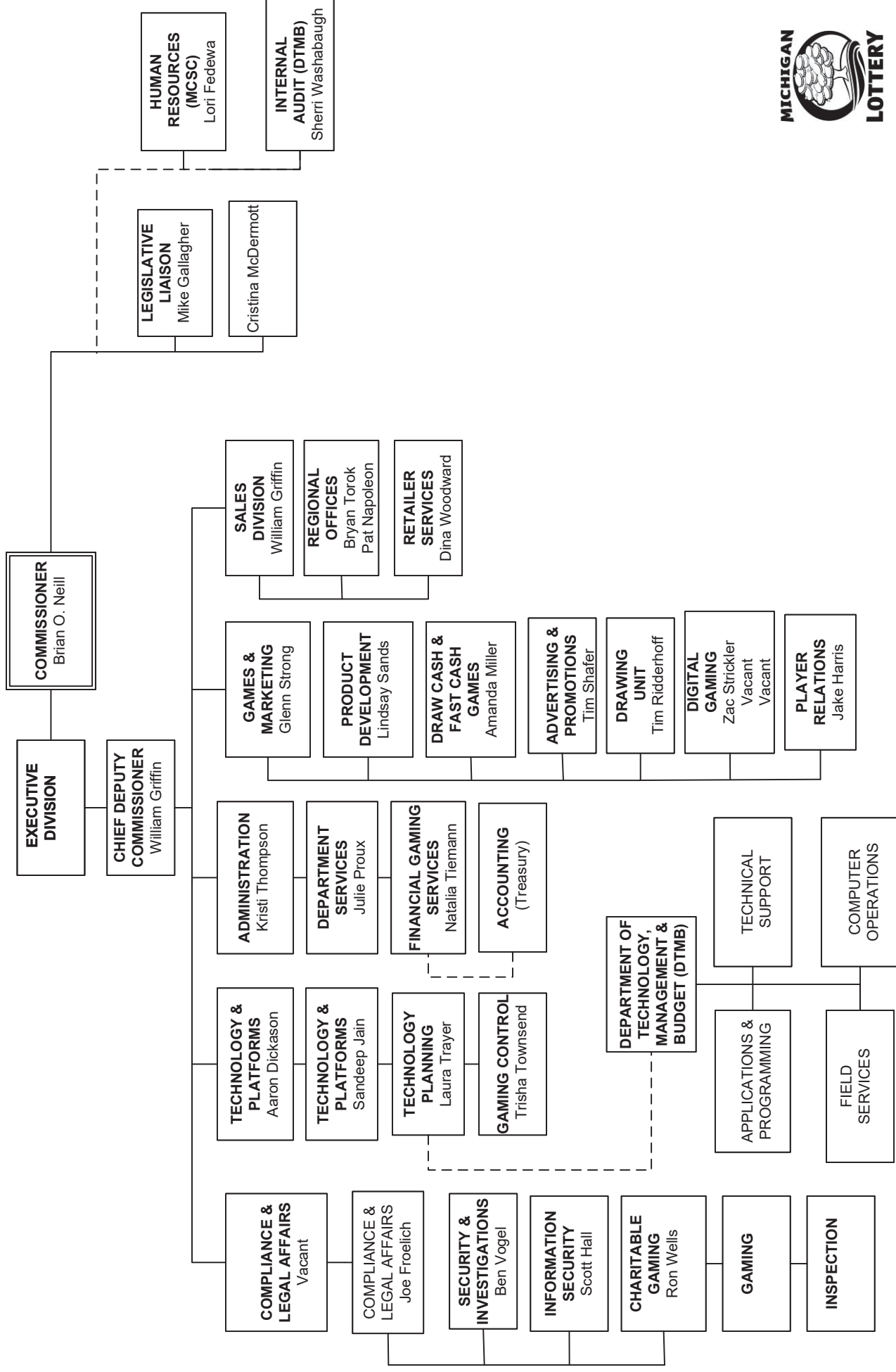
September 30, 2021

Christopher P. Morrell

Executive Director/CEO

Michigan State Lottery

Organization Chart and Principal Officials





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 Audits of the Financial Statements

Opinion

We have audited the financial statements of 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, 2022 and 2021 and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of September 30, 2022 and 2021 and the changes in its financial position and its cash flows for the six-month periods and years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Lottery and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2022 and 2021 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. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Lottery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

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

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

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the Annual Comprehensive Financial Report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2023 on our consideration of the Lottery'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 Lottery's internal control over financial reporting or on compliance. That report is an integral part of audits performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

Plante & Morse, PLLC

February 21, 2023



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The following discussion provides an overview of the Lottery's financial performance and activities for the fiscal year ended September 30, 2022. Please read it in conjunction with the financial statements, which begin on page 28.

Using This Report

The Lottery is accounted for as an enterprise 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 ACFR consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules. The Statement of Net Position on page 28 and the Statement of Revenues, Expenses and Changes in Net Position on page 29, report the Lottery's net position and their changes.

By law, the Lottery is required to deposit all of its net income each fiscal year 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 annuitized prize payments, 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, 2021:

- Total revenues for all activities decreased by \$160.0 million, or 3.1%.
 - Operating revenues for Lottery gaming activities decreased by \$146.5 million, or 2.8%.
 - Non-operating revenues decreased by \$13.5 million, which reflects the current value of the unrealized loss on investments.
- Total expenses decreased \$149.0 million, or 2.9%
 - Operating expenses increased \$22.3 million, or 0.6%
 - Non-operating expenses decreased by \$171.3 million, or 11.9%, reflecting a decrease in disbursements to the School Aid Fund of \$171.2 million, a decrease in prize amortization of \$1.0 million, and an increase in disbursements to the General Fund of \$0.9 million.

The fiscal year ending September 30, 2021, saw an exceptionally high increase of \$239.9 million, or 20.3%, over the fiscal year ending September 30, 2020 due to several factors, including impacts of the global pandemic. The fiscal year ending September 30, 2022, is more consistent with typical trends, and reflects an increase of 5.8% of the fiscal year ending September 30, 2020.

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,		
	2022	2021	2020
Current and other assets	\$ 252.6	\$ 254.2	\$ 289.2
Investments - non-current	120.0	148.7	165.3
Other assets	1.5	1.8	2.1
Capital assets (net of accumulated depreciation)	1.7	0.8	1.1
Total assets	<u>375.8</u>	<u>405.5</u>	<u>457.7</u>
Deferred Outflows of Resources:			
Deferred outflows related to pensions	2.9	2.9	2.7
Deferred outflows related to OPEB health	7.5	10.0	9.2
Deferred outflows related to OPEB life insurance	1.0	1.0	0.5
Total deferred outflows of resources	<u>11.4</u>	<u>13.9</u>	<u>12.4</u>
Current liabilities	245.5	241.6	275.6
Long-term liabilities	168.9	196.3	211.6
Total liabilities	<u>414.4</u>	<u>437.9</u>	<u>487.2</u>
Deferred Inflows of Resources:			
Deferred inflows related to pensions	7.8	-	1.2
Deferred inflows related to OPEB health	16.9	14.7	6.8
Deferred inflows related to OPEB life insurance	0.9	0.6	0.9
Total deferred inflows of resources	<u>25.6</u>	<u>15.3</u>	<u>8.9</u>
Net position:			
Net investment in capital assets	0.3	0.5	0.7
Unrestricted (deficit)	(53.1)	(34.3)	(26.7)
Total net position	<u>\$ (52.8)</u>	<u>\$ (33.8)</u>	<u>\$ (26.0)</u>

As shown in Table 1 above, the Lottery's net position decreased from September 2021 to 2022 by \$19.0 million, and decreased from September 2020 to 2021 by \$7.8 million. The decreases noted above are primarily attributable to the unrealized losses 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. 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. 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

As of September 30, 2022 and 2021, 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 28 in the financial statements, as a negative balance cannot be considered restricted.

Capital assets consist of equipment and leasehold improvements, plus right of use assets under lease arrangements. During fiscal year 2022, net capital assets increased by \$0.9 million. Capital assets decreased \$0.3 million from September 2020 to 2021. 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,		
	2022	2021	2020
Current:			
Accounts payable and other liabilities	31.3	29.2	31.4
Due to other State agencies	14.3	28.3	52.0
Prize awards payable (net of discount)	199.9	184.1	192.2
Total current	245.5	241.6	275.6
Non-current:			
Prize awards payable (net of discount)	126.6	135.0	141.1
Net pension liability	17.6	29.0	29.3
Net OPEB liability - health	16.6	25.0	34.8
Net OPEB liability - life insurance	5.8	6.1	5.2
Other non-current liabilities	1.3	0.3	0.3
Compensated absences	1.0	0.9	0.9
Total non-current	168.9	196.3	211.6
Total liabilities	\$ 414.4	\$ 437.9	\$ 487.2

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 2022, long-term prize liability decreased \$8.4 million, or 6.2%, from September 2021 and decreased by \$6.1 million, or 4.3%, from September 2020 to September 2021. The decreases from September 2021 to September 2022 and September 2020 to September 2021 are attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. Refer to Note 7 in the accompanying financial statements for more information.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

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

Table 3 - Changes in Net Position
(in millions)

	September 30,		
	2022	2021	2020
Operating revenues	\$ 4,911.5	\$ 5,058.0	\$ 4,256.6
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(3,097.0)	(3,057.0)	(2,583.6)
Commissions and game related expenses	(491.6)	(515.5)	(435.9)
Total prizes and direct game expenses	(3,588.6)	(3,572.5)	(3,019.5)
Income before other operating expenses	1,322.9	1,485.5	1,237.1
Other operating expenses	(62.6)	(56.2)	(58.5)
Operating income	1,260.3	1,429.3	1,178.6
Non-operating revenues and (expenses):			
Investment and interest revenues (losses)	(19.1)	(5.6)	16.6
Investment and interest expenses	(5.2)	(6.2)	(6.1)
School Aid Fund disbursement expense	(1,248.6)	(1,419.8)	(1,179.9)
General Fund disbursement expense	(5.4)	(4.5)	(0.8)
Health & Human Services disbursement expense	(1.0)	(1.0)	(1.0)
Net non-operating expense	(1,279.3)	(1,437.1)	(1,171.2)
Change in net position	(19.0)	(7.8)	7.4
Total net position beginning of period	(33.8)	(26.0)	(33.4)
Total net position end of period	\$ (52.8)	\$ (33.8)	\$ (26.0)

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 \$1,248.6 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year ended September 2022. There was a decrease in disbursement expense of \$171.2 million, or 12.0%, from September 2021. For the fiscal year ended September 2021 there was an increase of \$239.9 million, or 20.3%, from September 2020. The disbursement expense to the General Fund reflects Charitable Gaming activities for the fiscal year ended September 2022. Charitable Gaming activities experienced an increase in net revenues for the fiscal year ended September 2021 compared to September 2020, as well as for the fiscal year ended September 2022 compared to September 2021. The increases from September 2020 to September 2021 and September 2021 to September 2022 are primarily due to the re-opening of organizations that host Charitable Gaming events, after being closed for an extended period during 2020 due to the global COVID-19 pandemic, as well as minimized operating costs. Refer to Note 17 for further details. Charitable Gaming net income is disbursed annually to the General Fund.

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

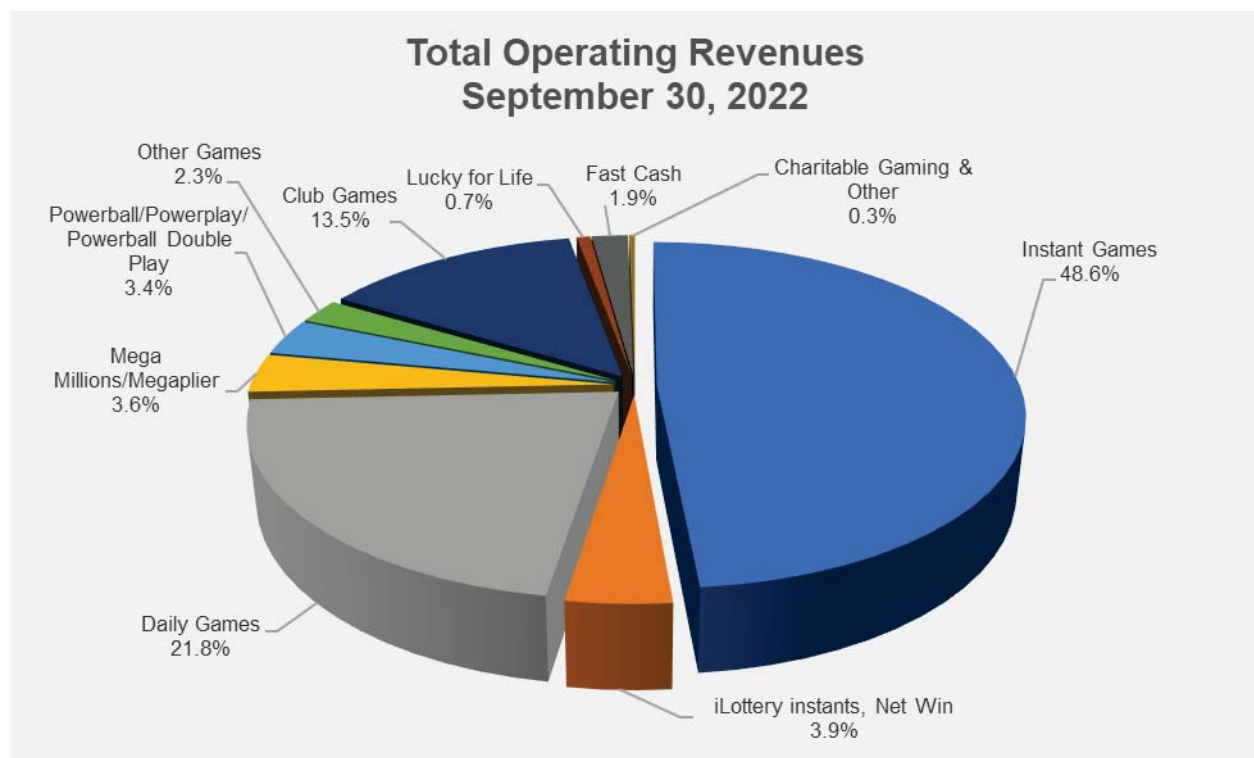
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds
(in millions)

	September 30,		
	2022	2021	2020
School Aid Fund	\$ 1,248.6	\$ 1,419.8	\$ 1,179.9
General Fund	5.4	4.5	0.8
Health & Human Services	1.0	1.0	1.0
Total Disbursements to Other Funds	<u>\$ 1,255.0</u>	<u>\$ 1,425.3</u>	<u>\$ 1,181.7</u>

Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2022:



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,		
	2022	2021	2020
Operating revenues:			
Instant tickets	\$ 2,381.0	\$ 2,448.6	\$ 2,038.2
iLottery Instants, Net Win	193.2	241.8	219.1
Daily games	1,070.7	1,170.0	981.8
Mega Millions/Megaplier	175.1	177.1	115.3
Powerball/Power Play/Powerball Double Play	169.4	151.1	92.1
Lucky for Life	36.6	23.6	15.2
Fast Cash	95.5	73.3	87.8
Club games	662.1	600.2	553.0
Other games and promotions	113.3	160.4	144.9
Other operating revenue	14.6	11.9	9.2
Total operating revenues	<u>4,911.5</u>	<u>5,058.0</u>	<u>4,256.6</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	(26.4)	(12.2)	8.9
Amortization on bonds	5.8	6.2	6.6
Other income	1.5	0.4	1.1
Total non-operating revenue	<u>(19.1)</u>	<u>(5.6)</u>	<u>16.6</u>
Total revenues	<u><u>\$ 4,892.4</u></u>	<u><u>\$ 5,052.4</u></u>	<u><u>\$ 4,273.2</u></u>

Operating revenues, primarily Lottery ticket sales, for the fiscal year ended September 2022 decreased from September 2021 by \$146.5 million, or 2.8%, and increased \$801.4 million, or 18.8%, for the fiscal year ended September 2021 compared to September 2020.

Instant game ticket sales decreased by \$67.6 million, or 2.7%, for the fiscal year ended September 2022 compared to September 2021 and increased by \$410.4 million, or 20.1% for the fiscal year ended September 2021 over September 2020. The sales decrease for the year ended September 30, 2022 is primarily due to an absence of pandemic-related factors that increased sales in fiscal year 2021, as well as increased direct competition from casinos now offering sports betting and online gaming (including significant marketing expenditures), reduction of disposable income by increased gas prices and inflationary pressures.

iLottery instant ticket net win, as described in Note 8, decreased \$48.6 million, or 20.0%, for the fiscal year ended September 2022 compared to September 2021, and net win increased \$22.7 million, or 10.4%, for the fiscal year ended September 2021 compared to September 2020. Refer to Note 8 in the accompanying financial statements.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

iLottery sales decrease for the fiscal year ended September 2022 is primarily due to an absence of pandemic-related factors that increased sales in fiscal year 2021, increased direct competition from casinos now offering sports betting and online gaming (including significant marketing expenditures), reduction of disposable income by increased gas prices and inflationary pressures, and lack of large jackpots that drive ancillary sales (most notably, a \$1.0 billion Mega Millions jackpot that boosted Lottery sales to record levels).

Daily Games sales, as shown in Table 5 above, includes Daily 3 and Daily 4. Daily games sales for the fiscal year ended September 2022 decreased by \$99.3 million, or 8.4%, from September 2021. Sales for the fiscal year ended September 2021 increased \$188.2 million, or 19.2%, over September 2020. The sales decrease for the fiscal year ended September 2022 is primarily due to an absence of pandemic-related factors that increased sales in fiscal year 2021, including direct competition from casinos now offering sports betting and online gaming (including significant marketing expenditures), and reduction of disposable income by increased gas prices and inflationary pressures.

Mega Millions sales for the fiscal year ended September 2022 decreased by \$2.0 million, or 1.1%, compared to the fiscal year ended September 2021. Sales for the fiscal year ended September 2021 increased by \$61.8 million, or 53.6%, compared to September 2020. The sales decrease for the fiscal year ended September 2022 compared to the fiscal year ended September 2021 can be primarily attributed to a decrease in the number of jackpots over \$100.0 million. The increase in sales for the fiscal year ended September 2021 over the fiscal year ended September 2020 can be attributed to an increase in the number of jackpots over \$100.0 million, particularly a \$1.0 billion jackpot that was won on January 22, 2021 in Michigan.

Powerball sales for the fiscal year ended September 2022 increased by \$18.3 million, or 12.1%, over September 2021, and increased by \$59.0 million, or 64.1%, for the fiscal year ended September 2021 compared to September 2020. The increase in sales for the fiscal year ended September 2022 is primarily due having a full year of drawings three times per week and a full year of Double-Play game sales, both of which began in August 2021. The sales increase from September 2020 to September 2021 is primarily due to an increase in the number of jackpots greater than \$100.0 million, with the highest being \$730.0 million in January 2021.

Lucky for Life sales increased by \$13.0 million, or 55.0%, for the fiscal year ended September 2022 over September 2021, and sales increased by \$8.4 million, or 55.3%, for the fiscal year ended September 2021 over September 2020. The sales increase for the fiscal year ended September 2022 compared to September 2021 can be primarily attributed having a full year of daily Lucky for Life drawings, which began in July 2021. The sales increase from September 2020 to September 2021 is primarily due to the addition of the Lucky for Life game to the iLottery platform in May 2020.

Fast Cash sales increased by \$22.2 million, or 30.2%, for the fiscal year ended September 2022 over September 2021, and sales decreased by \$14.5 million, or 16.5%, for the fiscal year ended September 2021 compared to September 2020. The sales increase for the fiscal year ended September 2022 over September 2021 is primarily due to the reopening and return to normal operations of bars and restaurants in 2021 through 2022 after temporary closures and capacity restrictions in 2020 due to the COVID-19 pandemic. Additionally, the odds of winning the progressive jackpot were increased in November of 2021 creating higher jackpots and driving sales.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The sales decrease for the fiscal year ended September 2021 compared to September 2020 can be primarily attributed to the temporary closures and capacity restrictions of Michigan bars and restaurants during 2020 due to the COVID-19 pandemic, which were in place until approximately June 2021. This contributed to a lack of jackpot growth in 2021, which is the main driver for Fast Cash sales. Currently, there are 10 Fast Cash games on sale, and the jackpot was hit on an average of once every twenty one days during the fiscal year ended September 2021.

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 2022 increased by \$61.9 million, or 10.3%, over September 2021. Sales for the fiscal year ended September 2021 increased by \$47.2 million, or 8.5%, compared to September 2020. The sales increase for the fiscal year ended September 2022 over September 2021 can be attributed to the re-opening and return to normal operations of Michigan bars and restaurants in 2021 through 2022 after temporary closures and capacity restrictions were imposed in 2020 due to the COVID-19 pandemic, as well as the return of the Tripler Time promotion in June 2022. Additionally, increased focus was placed on promoting the Pull Tabs product to retailers who do not currently sell it.

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 30, 2022 decreased by \$47.1 million, or 29.3%, compared to September 2021, and sales increased by \$15.5 million, or 10.7%, for the fiscal year ended September 2021 over September 2020. The sales decrease for the fiscal year ended September 30, 2022 is primarily due to an absence of pandemic-related factors that increased sales in the fiscal year 2021, increased direct competition from casinos now offering sports betting and online gaming (including significant marketing expenditures), and reduction of disposable income by increased gas prices and inflationary pressures. The sales increase for the fiscal year ended September 2021 over September 2020 can be primarily attributed to a record-setting Lotto 47 jackpot of \$32.2 million that was won on November 7, 2020.

The decrease in non-operating revenues for the fiscal year ended September 2022 compared to September 2021, as well as for the fiscal year ended September 2021 compared to September 2020, resulted primarily from an increase in the unrealized loss on investments. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact the disbursement to the School Aid Fund.

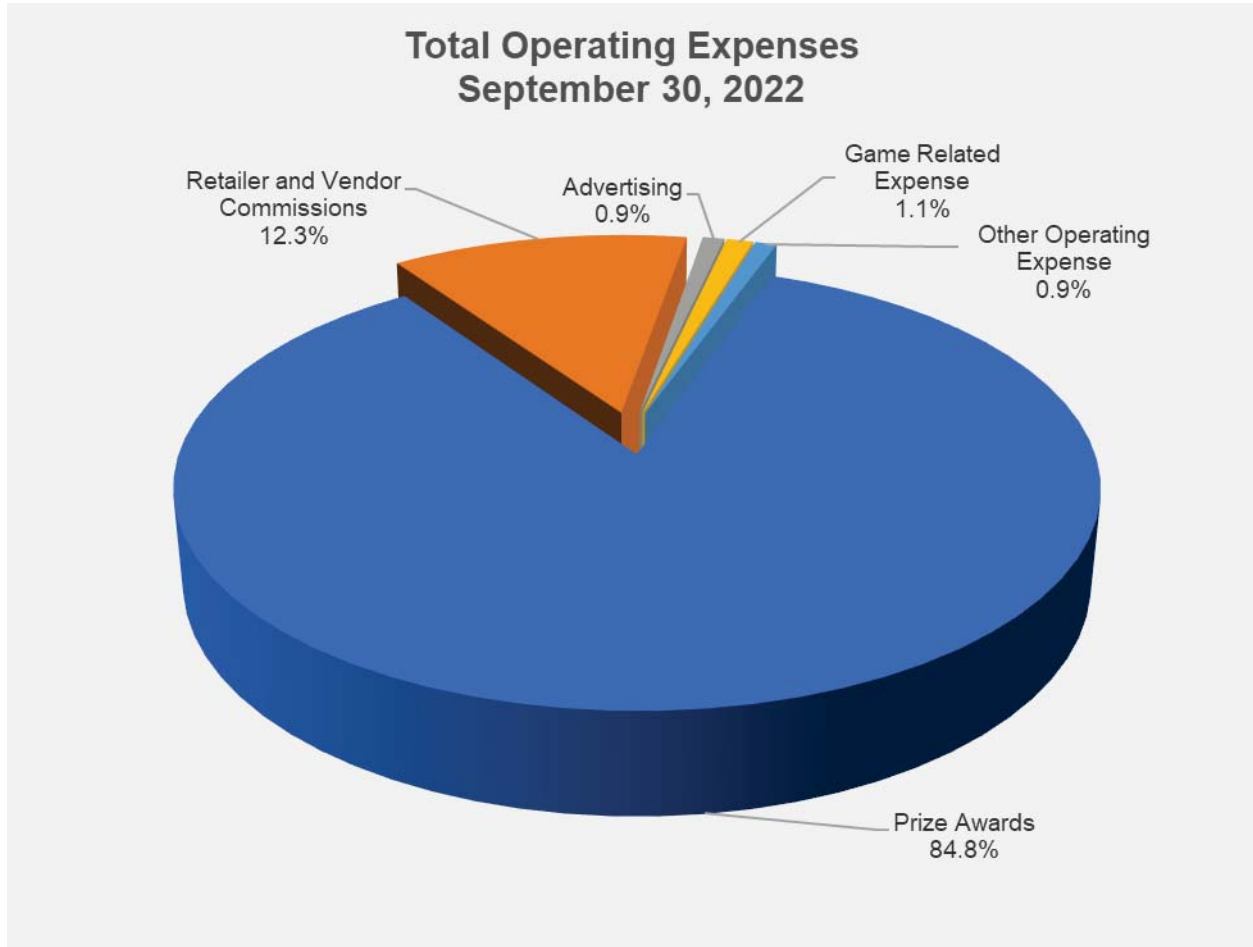
The decrease in bond amortization for the fiscal year ended September 2022 compared to September 2021 and September 2020 is due to a decreasing bond portfolio from maturing investments, as well as the fact that most prize winners have elected the cash option instead of installment payments.

Other income increased for the fiscal year ended September 2022 over September 2021 and decreased for the fiscal year ended September 2021 compared to September 2020. The increase and decrease are due to changes 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, 2022:



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,		
	2022	2021	2020
Prizes:			
Instant prizes	\$ 1,788.3	\$ 1,823.4	\$ 1,512.1
Draw Game prizes	905.4	918.4	765.3
Club game prizes	438.7	393.3	362.6
Total prizes	3,132.4	3,135.1	2,640.0
Less: unclaimed prizes	35.4	78.1	56.4
Net prize awards	3,097.0	3,057.0	2,583.6
Direct game expenses:			
Retailer commissions	356.6	370.9	307.7
Vendor commissions and other expenses	93.9	103.7	92.3
Game related expenses	41.1	40.9	35.9
Total direct game expenses	491.6	515.5	435.9
Other operating expenses:			
Salaries, wages and benefits	17.5	21.6	26.7
Other professional services	8.8	7.7	7.5
Printing and supplies	1.8	1.5	1.0
Other general and administrative	3.4	2.6	3.3
Promotion and advertising	31.1	22.8	20.0
Total other operating expenses	62.6	56.2	58.5
Total operating expenses	3,651.2	3,628.7	3,078.0
Non-operating expenses:			
Amortization of prize discount	5.2	6.2	6.1
School Aid Fund disbursement	1,248.6	1,419.8	1,179.9
General Fund disbursement	5.4	4.5	0.8
Health & Human Services disbursement	1.0	1.0	1.0
Total non-operating expenses	1,260.2	1,431.5	1,187.8
Total expenses	\$ 4,911.4	\$ 5,060.2	\$ 4,265.8

Instant games overall payout for the fiscal year ended September 2022 increased to 75.1% from 74.5% at September 2021 and from 74.2% at September 2020. The games vary in payout percentage depending on ticket price. Instant game prize payouts range from 60.0% for a \$1 game to 79.9% for a \$50 game for the fiscal year ended September 2022.

The combined Daily Games prize payout increased overall for the fiscal year ended September 2022 compared to September 2021. Daily 3 prize payout increased to 52.5% for the fiscal year ended September 2022, compared to 50.1% for the fiscal year ended September 2021 and 51.2% at September 2020.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Daily 4 prize payout increased to 53.9% for the fiscal year ended September 2022, compared to 50.0% for the fiscal year ended September 2021 and 50.6% at September 2020. Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 53.3% for the fiscal year ended September 2022.

The Club Games prize payout percentage increased to 65.8% for the fiscal year ended September 2022, compared to 65.1% for the fiscal year ended September 2021 and 65.2% for September 2020. The other draw games have an anticipated payout between 50.0% and 80.1%.

Retailer and vendor commissions have decreased commensurate with lower overall sales. Game related expense decreased \$24.1 million, or 5.0% for the fiscal year ended September 2022 compared to September 2021 and increased by \$5.0 million, or 13.9%, for the fiscal year ended September 2021 compared to September 2020.

Other operating expenses have increased by \$6.4 million, or 11.3%, for the fiscal year ended September 2022 compared to September 2021 and decreased by \$2.3 million, or 3.9%, for the fiscal year ended September 2021 compared to September 2020. Closures and other disruptions relating to the COVID-19 pandemic lessened in 2020 through 2021, which led to an increase in advertising expenses for the fiscal year ended September 2022 over September 2021. Decreases in salaries, wages, and benefits costs, as well as a decrease in other general and administrative costs, led to the overall decrease for the fiscal year ended September 2021 compared to September 2020.

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, a 3-year historical average of retail game sales and actual unclaimed prizes 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 2022 decreased by \$42.7 million compared to September 2021 and increased by \$21.7 million for the fiscal year ended September 2021 compared to September 2020. The large decrease in unclaimed prizes for the fiscal year ended September 2022 compared to September 2021 is primarily due to a revision to the unclaimed prize methodology effective in October 2021. The historical average of sales used in the calculation was updated to make it more consistent for instant and pull tab game sales. Also, all sales from the iLottery platform were excluded from the historical average of sales due to a historically low amount of unclaimed iLottery prizes. The increase in unclaimed prizes for the fiscal year ended September 2021 can be attributed to both an increasing historical average of yearly instant game sales, which increases the percentage used to estimate the annual allowance for unclaimed prizes.

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,		
	2022	2021	2020
Gross revenue	\$ 13.2	\$ 10.9	\$ 7.3
Operating expenses	(7.8)	(6.4)	(6.5)
Net income	<u>\$ 5.4</u>	<u>\$ 4.5</u>	<u>\$ 0.8</u>

The mission of the Charitable Gaming Division is to maintain the integrity of charitable gaming activities. Revenues received through the issuance of licenses and from the distribution of charity-game tickets cover the costs of oversight. 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. 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 sell charity tickets through specialized vending machines at twenty different licensed non-profit organizations.

Each year, qualifying nonprofit organizations generate millions of dollars in revenue through their charitable gaming activities. In FY 22, 337 nonprofit organizations were qualified by the Charitable Gaming Division to engage in charitable gaming activities. 8,466 license applications were processed and 8,067 licenses were issued, including 425 regular bingo licenses, 250 special bingo licenses, 4,382 large raffle licenses, 1,837 small raffle licenses, 537 combination raffle licenses, 561 annual charity game ticket licenses, 14 special charity game ticket licenses, 38 hall licenses and 23 supplier licenses.

The Charitable Gaming Division conducted 1,695 inspections of qualified nonprofit organizations and investigated 87 complaints. Inspections ensure proceeds are accounted for by the qualified licensed nonprofit organizations and used for lawful purposes, and assist qualified organizations in maximizing proceeds for their charitable cause. Abuses encountered by the Charitable Gaming Division include improper management of gaming proceeds and failure to obtain appropriate charitable gaming licenses.

Executive Order 2012-4 (E.O. 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 \$3.1 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.

Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

Other Potentially Significant Factors Impacting Next Year

In the retail channel, the Lottery plans to introduce forty-seven new retail instant games, an increase of one game compared to the previous fiscal year. Of these forty-seven games a relaunch of The Big Spin game and its associated live second chance events, as well as the two new families of games are planned for the fiscal year 2023. In Fiscal 2022 Michigan launched its first ever \$50 price point, \$300,000,000 Diamond Riches. Celebrating the 50th Anniversary brought remarkable success of not only highlighting the new price point but also driving sales. The first three weeks of sales generated an average of \$16 million each week. Diamond Riches made up 29% of total instant sales during its first five weeks and had a running average of over \$12 million since its time in market. One \$50 game launch is currently planned for FY23. The game \$6,000,000 Jackpot is set to launch December 6, 2022. The \$50 \$6,000,000 Jackpot is attractive to all players alike with its high payouts of over \$300,000,000 in total cash prizes as well as retailers with their opportunity for increased cashing and selling commissions.

On the draw games side, the Lottery is planning for three one-month long Club Keno promotions in fiscal year 2023, as well as some enhancements to the 10-spot game and the Kicker. The prize structure for the 10-spot game will be modified to allow an annuitized top-prize of \$1,000,000. And the frequency of multipliers for the Kicker will be adjusted to limit the number of times 1X is drawn. In 2023 the Lottery will run a new Doubler Days promotion for the Daily Games where all prizes won will be doubled. This promotion will exclude straight, wheel and 1-off winning tickets. The Lottery is in the process of conducting a research study on four new draw game concepts. The goal of the research is to evaluate the four concepts and determine which concept(s) offer the best opportunity to increase player engagement, overall revenue and provide fun and rewarding play experience.

In FY23, Lottery will add new game studios to provide online game content. The added game studios will allow for an increased launch schedule and an expanded library of games. Lottery's digital gaming team plans to introduce between twenty-five to thirty new digital instant games in fiscal 2023, including new game themes, prize structures, and play styles, that will create a wider portfolio of compelling options for players.

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, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Equity in State Treasurer's Common Cash Fund	\$ 10,854,388	\$ 23,107,086
Investments, at fair value	13,774,740	15,241,520
Accounts receivable - net	203,816,654	192,544,046
Inventory	24,317,916	23,457,393
Total current assets	252,763,698	254,350,045
Non-current assets:		
Investments, at fair value	119,979,658	148,676,720
Other assets	1,456,968	1,786,130
Capital assets:		
Leasehold improvements and equipment	4,919,251	5,354,321
Right-to-use assets	1,561,770	-
Accumulated depreciation	(4,777,580)	(4,546,259)
Total capital assets	1,703,441	808,062
Total noncurrent assets	123,140,067	151,270,912
Total assets	375,903,765	405,620,957
Deferred Outflows of Resources:		
Deferred outflows related to pensions	2,874,148	2,902,992
Deferred outflows related to OPEB health	7,559,314	9,975,888
Deferred outflows related to OPEB life insurance	959,630	978,043
Total deferred outflows of resources	11,393,092	13,856,923
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	31,297,108	29,168,923
Due to School Aid Fund	14,350,784	28,308,007
Prize awards payable - net of discount	199,858,773	184,116,746
Total current liabilities	245,506,665	241,593,676
Noncurrent liabilities:		
Prize awards payable - net of discount	126,618,702	135,044,626
Net pension liability	17,628,158	28,985,924
Net OPEB liability - health	16,590,706	25,009,194
Net OPEB liability - life insurance	5,825,534	6,069,835
Lease liability - net of current portion	1,302,731	301,759
Accrual for compensated absences, less current portion	991,182	903,169
Total noncurrent liabilities	168,957,013	196,314,507
Total liabilities	414,463,678	437,908,183
Deferred Inflows of Resources:		
Deferred inflows related to pensions	7,815,438	-
Deferred inflows related to OPEB health	16,927,486	14,744,323
Deferred inflows related to OPEB life insurance	917,737	640,699
Total deferred inflows of resources	25,660,661	15,385,022
Net Position		
Net investment in capital assets	292,336	470,418
Unrestricted (deficit)	(53,119,818)	(34,285,743)
Total net position	\$ (52,827,482)	\$ (33,815,325)

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, 2022 and 2021

	Six Months Ended		Years Ended	
	2022	2021	2022	2021
Operating revenues				
Ticket sales	\$ 2,511,124,975	\$ 2,572,006,850	\$ 4,896,852,419	\$ 5,046,089,845
Charitable gaming and other	7,112,462	7,763,805	14,597,599	11,885,409
Total operating revenues	2,518,237,437	2,579,770,655	4,911,450,018	5,057,975,254
Operating expenses				
Prize awards	1,611,281,085	1,611,642,926	3,132,406,516	3,135,103,687
Less - unclaimed prizes	(21,001,595)	(36,407,062)	(35,364,469)	(78,110,921)
Net prize awards	1,590,279,490	1,575,235,864	3,097,042,047	3,056,992,766
Retailer and vendor commissions and other expenses	231,858,119	238,679,284	450,495,823	474,617,290
Game related expenses	20,683,584	20,445,706	41,114,709	40,918,299
Depreciation expense	211,845	162,570	402,207	343,972
Other operating expenses	31,799,705	29,877,106	62,187,678	55,773,260
Total operating expenses	1,874,832,743	1,864,400,530	3,651,242,464	3,628,645,587
Operating income	643,404,694	715,370,125	1,260,207,554	1,429,329,667
Non-operating revenues				
Investment (loss) revenue - net	(12,475,720)	4,327,075	(20,542,145)	(5,905,681)
Interest on equity in State	-	-	-	-
Treasurer's Common Cash Fund	1,385,187	201,689	1,471,328	359,540
Total non-operating revenues	(11,090,533)	4,528,764	(19,070,817)	(5,546,141)
Non-operating expenses				
Custody fees	(1,640)	(2,135)	(2,015)	(2,650)
Lease interest expense	(13,907)	(20,629)	(21,039)	(36,085)
Amortization of prize award obligation discount	(2,512,575)	(3,297,828)	(5,231,633)	(6,246,353)
Loss on disposal of assets	-	(1,638)	-	(1,638)
Total non-operating expenses before disbursements	(2,528,122)	(3,322,230)	(5,254,687)	(6,286,726)
Disbursement to School Aid Fund	(634,554,794)	(706,859,629)	(1,248,594,939)	(1,419,805,619)
Disbursement to General Fund	(2,791,474)	(3,646,202)	(5,371,955)	(4,507,277)
Disbursement to Health & Human Services	(495,000)	(495,000)	(990,000)	(990,000)
Total disbursements	(637,841,268)	(711,000,831)	(1,254,956,894)	(1,425,302,896)
Total non-operating expenses	(640,369,390)	(714,323,061)	(1,260,211,581)	(1,431,589,622)
Net non-operating expense	(651,459,923)	(709,794,297)	(1,279,282,398)	(1,437,135,763)
Change in net position	(8,055,229)	5,575,828	(19,074,844)	(7,806,096)
Total net position at beginning of period	(44,834,940)	(39,391,153)	(33,815,325)	(26,009,229)
Restatement due to change in accounting principle (Note 1)	62,687	-	62,687	-
Total net position at end of period	<u>\$ (52,827,482)</u>	<u>\$ (33,815,325)</u>	<u>\$ (52,827,482)</u>	<u>\$ (33,815,325)</u>

See Accompanying Notes to Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2022 and 2021

	Six Months Ended		Years Ended	
	2022	2021	2022	2021
Cash Flows From Operating Activities				
Cash collections from customers	\$ 2,502,909,801	\$ 2,592,246,068	\$ 4,899,934,158	\$ 5,103,440,075
Payments to employees	(12,488,967)	(13,781,524)	(24,742,980)	(26,413,570)
Payments to suppliers	(44,555,139)	(42,136,552)	(84,356,901)	(78,481,861)
Payments to prize winners	(1,558,900,677)	(1,561,819,467)	(3,094,957,577)	(3,077,426,865)
Payments for retailer and vendor commissions and other expenses	(231,693,538)	(238,514,703)	(450,166,661)	(474,288,128)
Net cash provided by operating activities	655,271,480	735,993,822	1,245,710,039	1,446,829,651
Cash Flows From Noncapital Financing Activities				
Disbursements to School Aid Fund	(794,244,155)	(951,497,612)	(1,262,552,163)	(1,443,480,949)
Disbursements to General Fund	(5,371,955)	(4,507,277)	(5,371,955)	(4,507,277)
Disbursements to Health & Human Services	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	(800,606,110)	(956,994,889)	(1,268,914,118)	(1,448,978,226)
Cash Flows From Capital and Related Financing Activities				
Acquisition (disposal) of capital assets	85,537	(16,641)	(14,272)	(16,641)
Principal on leases	(74,326)	(24,035)	(125,358)	(62,047)
Net cash provided by capital and related financing activities	11,211	(40,676)	(139,630)	(78,688)
Cash Flows From Investing Activities				
Proceeds from the sale and maturity of investment securities	5,993,333	9,008,333	15,256,333	16,322,333
Purchase of investments	(5,634,635)	-	(5,634,635)	(4,597,410)
Interest received	1,446,365	328,070	1,471,328	359,540
Bank fees	(1,640)	(2,135)	(2,015)	(2,650)
Net cash provided by investing activities	1,803,423	9,334,268	11,091,011	12,081,813
Net (decrease) increase in cash and cash equivalents	(143,519,996)	(211,707,475)	(12,252,698)	9,854,550
Cash and cash equivalents at beginning of period	154,374,384	234,814,561	23,107,086	13,252,536
Cash and cash equivalents at end of period	\$ 10,854,388	\$ 23,107,086	\$ 10,854,388	\$ 23,107,086

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2022 and 2021

	Six Months Ended		Years Ended	
	2022	2021	2022	2021
Reconciliation of net operating income to net cash provided by operating activities				
Operating income	\$ 643,404,694	715,370,125	\$ 1,260,207,554	1,429,329,667
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	211,845	162,570	402,207	343,972
Pension expense	(639,337)	1,073,585	(639,337)	1,073,585
OPEB expense	(1,098,483)	916,591	(1,098,483)	916,591
Deferred Outflows - Contributions subsequent to measurement date	(2,718,891)	(3,619,163)	(5,545,026)	(6,335,572)
Bad debt expense and other reconciling items	17,711	75,885	119,640	135,080
Interest on leases	(13,907)	(20,629)	(21,039)	(36,085)
Amortization of prize award obligation discount	(2,512,575)	(3,297,828)	(5,231,633)	(6,246,353)
Net Changes in Assets and Liabilities:				
Inventory	(216,367)	1,887,607	(860,522)	(1,739,594)
Receivables	(15,200,438)	12,475,414	(11,453,174)	45,464,820
Compensated absences, accounts payable, other liabilities	(18,741)	(5,909,141)	2,184,586	(2,217,876)
Prize awards payable	33,891,388	16,714,225	7,316,103	(14,187,746)
Other assets	164,581	164,581	329,162	329,162
Net cash provided by operating activities	\$ 655,271,480	\$ 735,993,822	\$ 1,245,710,038	\$ 1,446,829,651
Schedule of noncash investing, capital, and financing activities				
Capital lease obligations	\$ (16,230)	24,035	\$ (1,098,802)	\$ 62,047
Increase (Decrease) in fair value of investments	(15,336,313)	1,228,610	(26,355,927)	(12,153,313)
Gain (loss) on disposal of capital assets	-	(1,638)	-	(1,638)
Disbursements to other funds (accrual)	(14,350,784)	(28,308,007)	(14,350,784)	(28,308,007)
Total noncash investing, capital, and financing activities	\$ (29,703,327)	\$ (27,057,000)	\$ (41,805,513)	\$ (40,400,911)

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
September 30, 2022 and 2021

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 Annual Comprehensive 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

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
September 30, 2022 and 2021

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

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Lottery considers equity in the State Treasurer's Common Cash pool 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 Annual Comprehensive 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, 2022 and 2021. The inventory is valued at cost, primarily using the weighted average method.

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
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Provision for Doubtful Accounts

The Lottery establishes an allowance for bad debt for retailer receivables greater than 90 days old. A bad debt expense is recorded when the allowance is established for these receivables. The amount of the allowance for doubtful accounts totaled \$2,367,946 as of September 30, 2022 and \$2,257,830 as of September 30, 2021.

Capital Assets

The Lottery has established a \$5,000 threshold for capitalization of purchases of assets, which include equipment, leasehold improvements, and right-to-use assets 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 assets that applies to future periods 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 assets that applies to future periods 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
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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.

Leases

The Lottery is a lessee for noncancellable leases of equipment and buildings. The Lottery recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. At the commencement of a lease, the Lottery initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

The Lottery uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Lottery generally uses the Published Prime Rate as of the beginning of the fiscal year. The lease term includes the noncancellable period of the lease. If the lease contains an option to extend and it is reasonably certain, based on all relevant factors, that the option will be exercised, then the lease term includes that additional period.

Lease payments included in the measurement of the lease liability are composed of fixed payments. The Lottery monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Change in Accounting

During the current fiscal year, the Lottery adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. As a result, Lottery's financial statements now include a liability for the present value of payments expected to be made and a right-to-use asset.

Due to the implementation of GASB Statement No. 87, lease assets and liabilities were remeasured for contracts previously classified as capital leases, and additional lease assets and liabilities were recognized for other contracts, including those previously classified as operating leases, that had been recognized as outflows of resources based on the payment provisions of the contract. These items resulted in the restatement of the State's financial statements and an increase in the net position of the Lottery by \$62,687 as of October 1, 2021. The increase represents restatement of beginning net position for GASB 87. The comparative period was not restated for GASB 87 due to the lease information of that period not being available.

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
September 30, 2022 and 2021

Some of the Lease activity is further described in Note 12.

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 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, 2022 and 2021, 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.

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

Bureau of State Lottery, State of Michigan
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- 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.

The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2022 and 2021, 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.

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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, 2022 and 2021, 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 \$133,754,398 at September 30, 2022 and \$163,918,240 at September 30, 2021 are in the form of U. S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, series 2009B (Michigan CAB bonds).

These investments were purchased to fund future payments due to annuity prize winners. The bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 7. Cash receipts from the maturity of investments totaled \$15,256,333 in the year ended September 30, 2022 and \$16,322,333 in the year ended September 30, 2021. For the six months ended September 30, 2022 and 2021, cash receipts from the maturity of investments totaled \$5,993,333 and \$9,008,333, respectively.

Investments at September 30 consist of the following:

	<u>2022</u>	<u>2021</u>
U. S. Treasury zero-coupon bonds	\$ 115,072,705	\$ 138,201,957
Michigan CAB bonds	<u>18,681,693</u>	<u>25,716,283</u>
Total Investments	<u><u>\$ 133,754,398</u></u>	<u><u>\$ 163,918,240</u></u>

Bureau of State Lottery, State of Michigan
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As reported on the Statement of Net Position:

	2022	2021
Current investments	\$ 13,774,740	\$ 15,241,520
Noncurrent investments	119,979,658	148,676,720
Total Investments	<u>\$ 133,754,398</u>	<u>\$ 163,918,240</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, 2022 and 2021 consist of the following:

September 30, 2022

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	\$ 10,915,185	1.72% to 4.98%	\$ 2,859,555	8.05% to 8.20%
1-5	45,443,535	1.88% to 4.94%	7,494,746	8.25% to 8.38%
6-10	31,620,427	1.65% to 4.71%	8,327,392	8.39% to 8.39%
11-15	21,438,944	2.03% to 4.79%	-	-
16-20	3,751,480	2.51% to 3.66%	-	-
21-25	1,677,335	2.57% to 3.68%	-	-
26-29	225,799	2.39% to 2.63%	-	-
Fair Value	<u>\$ 115,072,705</u>		<u>\$ 18,681,693</u>	

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September 30, 2021

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	\$ 10,679,737	1.57% to 4.98%	\$ 4,561,783	8.05% to 8.05%
1-5	47,298,281	1.72% to 4.98%	9,785,951	8.05% to 8.33%
6-10	38,275,367	1.65% to 4.70%	11,368,549	8.38% to 8.39%
11-15	31,986,422	2.03% to 4.79%	-	-
16-20	6,166,763	2.51% to 3.64%	-	-
21-25	3,438,266	2.57% to 3.68%	-	-
26-29	357,121	2.39% to 3.03%	-	-
Fair Value	<u>\$ 138,201,957</u>		<u>\$ 25,716,283</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, 2022, and September 30, 2021 the Lottery's investments in Michigan CAB bonds were rated AA by Standard and Poor's and Aa1 by Moody's.

Concentration of Credit Risk

Investments are in U. S. Treasury zero-coupon bonds and Michigan CAB bonds. U. S. Treasury zero-coupon bonds are guaranteed by the United States government. Therefore, there is no concentration of credit risk for those types of bonds. As of September 30, 2022, investments in Michigan CAB bonds account for 14.0% of the total Investments as compared to 15.7% as of September 30, 2021. This decrease is due to the maturities of Michigan CAB bonds in the past year.

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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, 2022, and 2021 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>2022</u>	<u>2021</u>
U.S. Treasury Zero coupon bonds	\$ 115,072,705	\$ 138,201,957
Michigan CAB bonds	18,681,693	25,716,283

The fair value of U.S. Treasury zero-coupon bonds and Michigan CAB bonds at September 30, 2022 and 2021 were determined primarily based on level 2 inputs. The Lottery estimates the fair value of these investments using the matrix pricing technique using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

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NOTE 5 - CAPITAL ASSETS

A summary of capital asset activity for the fiscal years ended September 30, 2022 and 2021 is as follows:

<u>Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>September 30, 2022</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 2,401,829	\$ -	\$ 445,841	\$ 1,955,988
Equipment	2,952,492	10,771	-	2,963,263
Right-to-use assets	1,561,770	-	-	1,561,770
Total capital assets being depreciated	6,916,091	10,771	445,841	6,481,021
Less: accumulated depreciation				
Leasehold improvements	2,157,592	2	170,886	1,986,708
Right-to-use assets	-	149,227	-	149,227
Equipment	2,388,667	252,978	-	2,641,645
Total accumulated depreciation	4,546,259	402,207	170,886	4,777,580
Total capital assets being depreciated, net	<u>\$ 2,369,832</u>	<u>\$ (391,436)</u>	<u>\$ 274,955</u>	<u>\$ 1,703,441</u>
<u>September 30, 2021</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 2,837,995	\$ -	\$ 436,166	\$ 2,401,829
Equipment	2,973,653	16,641	37,802	2,952,492
Total capital assets being depreciated	5,811,648	16,641	473,968	5,354,321
Less: accumulated depreciation				
Leasehold improvements	2,520,077	73,681	436,166	2,157,592
Equipment	2,154,540	270,291	36,164	2,388,667
Total accumulated depreciation	4,674,617	343,972	472,330	4,546,259
Total capital assets being depreciated, net	<u>\$ 1,137,031</u>	<u>\$ (327,331)</u>	<u>\$ 1,638</u>	<u>\$ 808,062</u>

The 2022 beginning balance amounts have been restated for the implementation of GASB 87.

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NOTE 6 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at September 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Accounts payable vendors	\$ 20,274,826.00	\$ 19,631,040
Retailer security deposits/accounts payable	9,221,723.00	7,664,601
Accrued salaries	893,638.00	723,859
Compensated absences	<u>906,921</u>	<u>1,149,423</u>
Total	<u>\$ 31,297,108</u>	<u>\$ 29,168,923</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>2022</u>	<u>2021</u>
Current - at face amount	\$ 200,133,442	\$ 184,424,485
Less - unamortized discount	<u>(274,669)</u>	<u>(307,739)</u>
Current - at present value	199,858,773	184,116,746
Long-term - at face amount	173,105,208	186,719,739
Less - unamortized discount	<u>(46,486,506)</u>	<u>(51,675,113)</u>
Long-term - at present value	126,618,702	135,044,626
Total	<u>\$ 326,477,475</u>	<u>\$ 319,161,372</u>

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

2023	\$ 13,882,531
2024	13,262,531
2025	11,993,131
2026	11,881,131
2027	11,781,131
2028-2032	56,509,655
2033-2037	41,280,955
2038-2042	10,261,755
2043-2047	7,542,989
2048-2052	3,560,330
2053-2057	2,009,800
2058-2062	1,115,800
2063-2067	920,000
2068-2072	570,000
2073-2077	416,000
Total	<u>186,987,739</u>
Less - unamortized discount	<u>(46,761,175)</u>
Total installment prize awards payable at present value	140,226,564
Non-installment prize awards payable	<u>186,250,911</u>
Total prize awards payable	<u><u>\$ 326,477,475</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
2022	\$ 149,435,418	\$ 5,231,633	\$ 14,440,487	\$ 140,226,564	\$ 13,607,862
2021	\$ 155,992,961	\$ 7,515,387	\$ 14,072,930	\$ 149,435,418	\$ 14,390,792

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, 2022 and 2021:

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	2022	2021
Sales	\$ 1,665,690,105	\$ 2,043,530,452
Prizes	(1,472,511,796)	(1,801,764,834)
iLottery Net Win	<u>\$ 193,178,309</u>	<u>\$ 241,765,618</u>

NOTE 9 - COMPENSATED ABSENCES

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

The State instituted a banked leave time program October 12, 2003 through November 5, 2005 whereby eligible employees worked a regular schedule but received pay for a reduced number of hours. The banked leave time program was reinstated February 21, 2010 through September 4, 2010 for non-represented employees. Upon an employee's separation, death or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401(k) plans, and if applicable to the State's 457 plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2022.

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
2022	\$ 2,052,592	\$ 1,513,268	\$ 1,667,757	\$ 1,898,103	\$ 906,921	\$ 991,182
2021	\$ 1,934,082	\$ 1,083,339	\$ 964,829	\$ 2,052,592	\$ 1,149,423	\$ 903,169

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

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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
- 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/ors.

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.

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

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

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

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

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

They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service.

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

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

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three

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

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

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

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

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

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

In either case, the three years immediately preceding retirement must have been in a covered position.

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.

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Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of \$6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

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

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

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

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

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

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

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

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estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.

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

C. Contributions

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

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles, so the contribution rates do not have to increase over time. For fiscal years ending 2022 and 2021, the Lottery's contribution rate was 23.97% and 23.90% of the defined benefit employee wages and 19.05% and 18.93% of the defined contribution employee wages. The Lottery's contribution to SERS for the fiscal years ending September 30, 2022 and 2021 was \$2,874,148 and \$2,835,697, respectively.

D. Actuarial Assumptions

The Lottery's net pension liability for the year ended September 30, 2022 was measured as of September 30, 2021, and the total pension liability used to calculate the net pension

liability was determined by an actuarial valuation as of September 30, 2020 and rolled-forward using general accepted actuarial procedures. Net pension liability for the year ended September 30, 2021 was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019 and rolled-forward using generally accepted actuarial procedures.

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

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	September 30	
	2021	2020
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	6.70%, net of investment expenses
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, 2020 and 2019 valuations were based on the results of an actuarial experience study covering the period from October 1, 2012 through September 30, 2017.

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

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percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2021 and September 30, 2020, are summarized in the following tables:

September 30, 2021

Asset Allocation

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.4 %
Private Equity Pools	16.0	9.1
International Equity Pools	15.0	7.5
Fixed Income Pools	10.5	(0.7)
Real Estate & Infrastructure Pools	10.0	5.4
Absolute Return Pools	9.0	2.6
Real Return and Opportunistic Pools	12.5	6.1
Short Term Investment Pools	2.0	(1.3)
TOTAL	100.0 %	

*Long-term rates of return are net of administrative expenses and 2.0% inflation

September 30, 2020

Asset Allocation

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.6 %
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate & Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return and Opportunistic Pools	12.5	6.6
Short Term Investment Pools	2.0	(0.1)
TOTAL	100.0 %	

*Long-term rates of return are net of administrative expenses and 2.1% inflation

E. Discount Rate

A single discount rate of 6.70% was used to measure the total pension liability as of September 30, 2021 and 2020. This discount rate was based on the long term expected rate of return on pension plan investments of 6.70%. The projection of cash flows used to determine this discount rate assumed that 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

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

F. Net Pension Liability

At September 30, 2022 net pension liability was measured as of September 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020 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, 2020 through September 30, 2021, relative to the total required employer contributions from all of SERS's participating employers.

At September 30, 2021 net pension liability was measured as of September 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019 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, 2019 through September 30, 2020, relative to the total required employer contributions from all of SERS's participating employers.

Net Pension Liability			
	Proportionate		Proportionate
	Share \$		Share %
2022	\$	17,628,158	0.434 %
2021		28,985,924	0.430

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:

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	September 30, 2022		
	1% Decrease	Current Discount	1% Increase
	5.7%	6.7%	7.7%
Lottery's proportionate share of the net pension liability	\$ 25,495,154	\$ 17,628,158	\$ 10,927,201

	September 30, 2021		
	1% Decrease	Current Discount	1% Increase
	5.7%	6.7%	7.7%
Lottery's proportionate share of the net pension liability	\$ 36,991,712	\$ 28,985,924	\$ 22,169,302

H. Pension Plan Fiduciary Net Position

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

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

The Lottery recognized pension (recovery) expense of (\$639,337) for the year ended September 30, 2022 and \$1,073,585 for the year ended September 30, 2021, respectively. The Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	September 30, 2022		September 30, 2021	
	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	-	7,815,438	67,295	-
Lottery's contributions subsequent to the measurement date	2,874,148	-	2,835,697	-
Total	<u>\$ 2,874,148</u>	<u>\$ 7,815,438</u>	<u>\$ 2,902,992</u>	<u>\$ -</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 ending September 30, 2023.

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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Year Ended September 30:	Pension Expense Amount
2023	\$ (2,081,351)
2024	(1,722,878)
2025	(1,921,810)
2026	(2,089,399)

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, 2022 and 2021, Lottery contributions to the plan totaled \$461,861 and \$447,012 respectively. Lottery's contributions to the plan were \$845,712 for the year ended September 30, 2022 and \$826,867 for the year ended September 30, 2021 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

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- 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 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/ors.

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, 2022, Lottery's contribution rate was 17.26% of the defined benefit and defined contribution employee wages. For the fiscal year ending September 30, 2021, Lottery's contribution rate was 23.09% of the defined benefit and defined contribution employee wages. The Lottery's contribution to SERS for the fiscal years ending September 30, 2022 and

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2021 were \$2,518,531 and \$3,335,059, 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, 2022 was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020 and rolled-forward using generally accepted actuarial procedures. Net OPEB liability for the year ended September 30, 2021 was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019 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	
	2021	2020
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	6.90%, net of investment expenses
Health Care Cost Trend Rate	Pre-65: 7.50% Year 1 graded to 3.50% in Year 15; 3.0% year 120 Post 65: 6.25% Year 1 graded to 3.50% in Year 15; 3.0% year 120	7.50% Year 1 graded to 3.50% in Year 15; 3.0% year 120
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

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

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, 2021 and 2020, are summarized in the following tables:

September 30, 2021		
Asset Allocation		
Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.4 %
Private Equity Pools	16.0	9.1
International Equity Pools	15.0	7.5
Fixed Income Pools	10.5	(0.7)
Real Estate & Infrastructure Pools	10.0	5.4
Absolute Return Pools	9.0	2.6
Real Return and Opportunistic Pools	12.5	6.1
Short Term Investment Pools	2.0	(1.3)
TOTAL	100.0 %	

*Long-term rates of return are net of administrative expenses and 2.0% inflation

September 30, 2020		
Asset Allocation		
Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.6 %
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate & Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return and Opportunistic Pools	12.5	6.6
Short Term Investment Pools	2.0	(0.1)
TOTAL	100.0 %	

*Long-term rates of return are net of administrative expenses and 2.1% inflation

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E. Discount Rate

A single discount rate of 6.90% was used to measure the total OPEB liability as of September 30, 2022 and 2021. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.90%. 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, 2022, the Lottery reported a liability of \$16,590,706 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020 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, 2020, through September 30, 2021, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2021, Lottery's proportion was 0.435%.

At September 30, 2021, the Lottery reported a liability of \$25,009,194 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019 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, 2019, through September 30, 2020, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2020, Lottery's proportion was 0.428%.

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:

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		September 30, 2022		
		1% Decrease 5.9%	Current Discount 6.9%	1% Increase 7.9%
Lottery's proportionate share of the net OPEB liability		\$ 20,975,769	\$ 16,590,706	\$ 12,894,544

		September 30, 2021		
		1% Decrease 5.9%	Current Discount 6.9%	1% Increase 7.9%
Lottery's proportionate share of the net OPEB liability		\$ 29,780,495	\$ 25,009,194	\$ 21,002,610

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, 2022		
		1% Trend Decrease (6.50% to 2.00%)	Current Trend Rate (7.50% to 3.00%)	1% Trend Increase (8.50% to 4.00%)
Lottery's proportionate share of the net OPEB liability		\$ 12,690,927	\$ 16,590,706	\$ 21,081,917

		September 30, 2021		
		1% Trend Decrease (6.50% to 2.50%)	Current Trend Rate (7.50% to 3.50%)	1% Trend Increase (8.50% to 4.50%)
Lottery's proportionate share of the net OPEB liability		\$ 20,801,156	\$ 25,009,194	\$ 29,873,052

H. OPEB Plan Fiduciary Net Position

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

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

For the years ended September 30, 2022 and 2021 the Lottery recognized OPEB (recovery) expense of (\$1,300,219) and \$661,313, respectively. At September 30, 2022 and 2021, the

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Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	September 30, 2022		September 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experiences	\$ -	\$ 13,080,181	\$ -	\$ 13,754,658
Changes of assumptions	4,470,155	798,030	6,233,547	-
Changes in proportions	570,628	774,542	264,383	989,665
Net difference between projected and actual earnings on investments	-	2,274,733	142,899	-
Lottery's contributions subsequent to the measurement date	2,518,531	-	3,335,059	-
Total	<u>\$ 7,559,314</u>	<u>\$ 16,927,486</u>	<u>\$ 9,975,888</u>	<u>\$ 14,744,323</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 ending September 30, 2023.

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

<u>Year Ended September 30:</u>	<u>Expense Amount</u>
2023	\$ (3,200,772)
2024	(2,986,492)
2025	(2,991,370)
2026	(2,326,379)
2027	(381,690)

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, 2022 and 2021, Lottery contributions to the plan totaled \$54,099 and \$47,874, respectively.

Lottery's contributions to the plan were \$97,522 for the year ended September 30, 2022 and \$86,573 for the year ended September 30, 2021 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 Insurance Company 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 Annual Comprehensive Financial Report (SOMACFR). 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 Insurance Company 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 2022 and 2021 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, 2022 was measured as of September 30, 2021 and is based on an actuarial valuation performed as of September 30, 2021. The Lottery's total OPEB liability as of the September 30, 2021 was measured as of September 30, 2020 and is based on an actuarial valuation performed as September 30, 2019 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, 2021
	2.75% per year at September 30, 2020

Investment Rate of Return (discount rate):	2.19% per year at September 30, 2021
	2.41% per year at September 30, 2020

Mortality: Healthy Life and Disabled Life Mortality, with 110% used in the pension valuations for SERS plan members at September 30, 2021 and 2020.

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 1.75% and 1.5% for SERS retirees at September 30, 2021 and 2020, respectively.

Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees at 1.75% for SERS retirees at September 30, 2021 and 2020.

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Compensation: For some SERS retirees, FAC was not reported. The FAC for these members was assumed to be \$54,575 for SERS retirees at September 30, 2021 and 2020 (the average of all SERS retiree records reported with FAC).

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 2021 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 2021 retirement valuations were included in this valuation of the Plan.

E. Discount Rate

A discount rate of 2.19% and 2.41%, respectively, was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2021 and 2020. 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, 2022, the Lottery reported a liability of \$5,825,534 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, 2021 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, 2020 through September 30, 2021, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2021, the Lottery's proportion was 0.428%.

As of September 30, 2021, the Lottery reported a liability of \$6,069,835 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, 2020 based on an actuarial valuation performed as of September 30, 2019 and rolled forward using general accepted actuarial procedures. The Lottery's proportion of the total OPEB liability was determined by dividing the Lottery's actual

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contributions to the Plan during the measurement period of October 1, 2019 through September 30, 2020, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2020, the Lottery's proportion was 0.432%.

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, 2021			
	1% Decrease 1.19%	Current Discount 2.19%	1% Increase 3.19%
Lottery's proportionate share of the total OPEB liability	\$ 7,023,495	\$ 5,825,534	\$ 4,906,915

September 30, 2020			
	1% Decrease 1.41%	Current Discount 2.41%	1% Increase 3.41%
Lottery's proportionate share of the total OPEB liability	\$ 7,260,903	\$ 6,069,835	\$ 5,147,016

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, 2022 and 2021, the Lottery recognized OPEB expense of \$201,736 and \$255,278, respectively.

At September 30, 2022 and 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	September 30, 2022		September 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experiences	\$ 823	\$ 729,535	\$ 1,781	\$ 389,339
Changes of assumptions	701,047	141,151	668,349	251,360
Changes in proportions	105,413	47,051	143,097	-
Lottery's contributions subsequent to the measurement date	152,347	-	164,816	-
Total	<u>\$ 959,630</u>	<u>\$ 917,737</u>	<u>\$ 978,043</u>	<u>\$ 640,699</u>

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
September 30, 2022 and 2021

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, 2022. 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
2023	\$ (60,717)
2024	(3,741)
2025	23,958
2026	(11,925)
2027	(58,029)

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

	2022	2021
Health	(\$1,300,219)	\$ 661,313
Life Insurance	\$ 201,736	\$ 255,278
	<u>\$ (1,098,483)</u>	<u>\$ 916,591</u>

NOTE 12 - LEASE AND RENTAL COMMITMENTS

The Lottery leases certain assets from various third parties. The assets leased include buildings and equipment. Payments are generally fixed monthly with certain variable payments not included in the measurement of the lease liability. For the year ended September 30, 2022 the Lottery recognized variable lease expenditures incurred for buildings and equipment of \$472. Also, see Footnote 15 for variable payments included within the IGT contract.

Lease asset activity is included in Note 5.

Future principal and interest payment requirements related to the Lottery lease liability at September 30, 2022 are as follows:

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
September 30, 2022 and 2021

	Principal	Interest	Executory Costs	Total
2023	\$ 133,713	\$ 22,858	\$ 116,756	\$ 273,328
2024	131,659	21,139	116,756	269,554
2025	116,662	19,430	116,756	252,849
2026	114,161	17,730	115,204	247,094
2027	108,032	16,084	110,547	234,663
Thereafter	832,216	77,017	580,454	1,489,687
	<u>\$ 1,436,443</u>	<u>\$ 174,258</u>	<u>\$ 1,156,473</u>	<u>\$ 2,767,175</u>

The current portion of capital lease obligation is reported under accounts payable and other liabilities in the Statement of Net Position on page 28.

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 Annual Comprehensive Financial Report.

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, 2022 and 2021:

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
September 30, 2022 and 2021

September 30, 2022	Six Months Ended	Year Ended
Department of Technology, Management & Budget:		
Information Technology:		
Direct costs	\$ 211,340	\$ 2,828,863
Lansing Metropolitan Area Network (LMAN)	18,593	24,559
Michigan.gov portal web charges	5,040	15,898
Overhead	146,233	146,233
Total Information Technology charges	381,206	3,015,553
Support services (including Internal Audit)	165,350	330,700
Space rental - Lottery Central, Detroit, Saginaw offices	582,610	1,165,220
Vehicle and travel services	598,012	885,601
Other - Telephone, mailing and other offices services	108,709	167,508
Total Department of Technology, Management & Budget	1,835,887	5,564,582
Gaming Control Board	1,646,518	2,758,928
Civil Service Commission	220,290	450,852
Department of Treasury	493,576	807,147
Attorney General	152,438	321,181
Other Agencies	23,239	34,081
Total all State agencies	\$ 4,371,948	\$ 9,936,771

September 30, 2021	Six Months Ended	Year Ended
Department of Technology, Management & Budget:		
Information Technology:		
Direct costs	\$ 653,484	\$ 3,229,524
Lansing Metropolitan Area Network (LMAN)	17,954	24,115
Michigan.gov portal web charges	10,815	21,727
Overhead	224,169	253,302
Total Information Technology charges	906,422	3,528,668
Support services (including Internal Audit)	212,950	424,600
Space rental - Lottery Central, Detroit, Saginaw offices	438,139	876,277
Vehicle and travel services	401,414	647,359
Other - Telephone, mailing and other offices services	89,792	149,601
Total Department of Technology, Management & Budget	2,048,717	5,626,505
Gaming Control Board	860,729	1,272,829
Civil Service Commission	218,851	444,703
Department of Treasury	486,477	785,156
Attorney General	182,534	349,238
Other Agencies	22,829	33,231
Total all State agencies	\$ 3,820,137	\$ 8,511,662

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
September 30, 2022 and 2021

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). The IGT contract includes a lease for equipment based on variable payments. These payments are based on future events and require subjectivity and extensive forecasting in estimating future amounts. The compensation for equipment is included in the base contract, for which compensation is calculated on a percentage of sales and therefore not included in the lease liability reported under GASB 87. Effective January 20, 2019, the contract rate is 1.06% of net sales. An upgrade to system hardware and software began in September 2021 and implementation is scheduled for January 2023.

The Lottery contracted with Pollard to provide the development, implementation, operational support, and maintenance of an iLottery System and iLottery Games. Effective December 1, 2020, the contract was extended from July 14, 2022 through July 17, 2026. The contract continues to include both an instant game and draw based game component, as well as reimbursable staffing and operational expenses. Under the contract extension effective December 1, 2020, the commission rate for instant games decreased from 18.4% to 17.4% for the first \$100 million in instant game total gross profit during the contract year. For instant game gross profit in excess of \$100 million during the contract year, the rate decreased to 18.4%, down from the previous rate of 19.6%. Draw based game commission is set at 6.0% of gross sales, down from the previous rate of 8.5% of gross sales.

The Lottery continues to receive a monthly incentive from Pollard equal to 0.5% of Pollard's commission during the prior month, down from the previous incentive of 1.0%, to be used for any services provided by Pollard under the contract. The contract extension also includes additional funding for enhanced marketing and promotions, channel mix and portal development, game development, responsible gaming program enhancements, enterprise development, supplemental reporting, and data center configuration maintenance.

The Lottery has also entered into contracts with vendors to provide third-party digital games on the iLottery platform. The Lottery extended its contract with Instant Win Gaming (IWG) from September 20, 2021 to July 17, 2026 to continue providing digital instant games on the iLottery instant game platform. The extension also increased the monthly royalty fee paid to IWG from 3.4% to 4.5% of net win for gross sales. Effective July 15, 2022, the Lottery entered into an agreement with IGT to begin providing instant win or other game products on the iLottery platform. The Lottery shall pay IGT a monthly royalty of 4.5% of the net win. The Lottery also entered into an agreement with EquiLottery, LLC (EQL) effective July 12, 2022 to begin providing instant win or other game products on the iLottery platform, and the Lottery will pay EQL a monthly royalty of 4.5% of the net win.

The Lottery also contracted with Interaction Gaming, LLC through January 29, 2025. A contract extension effective January 30, 2021 will allow for maintenance and refining of two new e-commerce mobile applications on IOS and Android devices and a new responsive e-commerce website. 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.

Bureau of State Lottery, State of Michigan
Notes to Financial Statements
September 30, 2022 and 2021

Effective September 11, 2022, the Lottery extended its existing contract with Diamond Game Enterprises for five years until September 10, 2027. The extension allows five 1-year contract renewal options, adds \$1.6 million in funding to allow the continued purchase of Charitable Gaming paper instant tickets, and provides funding for continued maintenance of the ticket dispensing equipment located at twenty non-profit locations in Michigan.

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

NOTE 16 – UPCOMING ACCOUNTING PRONOUNCEMENTS

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this Statement will establish the definitions of PPPs and APAs and provide uniform accounting guidance on accounting and financial reporting for transactions that meets these definitions. It will provide more relevant and reliable information for financial statement users and create greater consistency in practice, as well as enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The Lottery is currently evaluating the impact this standard will have on the financial statements when adopted. The requirements of this Statement are effective for Lottery's financial statements for the fiscal year ending September 30, 2023.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which improves the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Lottery is currently evaluating the impact this standard will have on the financial statements when adopted. The requirements of this Statement are effective for Lottery's financial statements for the fiscal year ending September 30, 2023.

In June 2022, the Governmental Accounting Standards Board issued GASB Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences under a unified model. This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means and establishes guidance for measuring a liability for leave that has not been used. It also updates disclosure requirements for compensated absences. The provisions of this statement are effective for the Lottery's financial statements for the fiscal year ending September 30, 2025.

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

	2022	2021	2020	2019	2018	2017	2016	2015
Lottery's proportion of the net pension liability	0.434%	0.430%	0.439%	0.435%	0.431%	0.420%	0.408%	0.403%
Lottery's proportionate share of the net pension liability	\$ 17,628,158	\$ 28,985,924	\$ 29,293,732	\$ 26,317,640	\$ 22,396,495	\$ 22,208,139	\$ 22,432,145	\$ 20,722,586
Lottery's covered payroll	14,508,773	14,371,539	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	121%	202%	207%	191%	168%	175%	186%	N/A
Plan fiduciary net position as a percentage of the total pension liability	78.08%	64.07%	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

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 2,874,148	\$ 2,835,697	\$ 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	2,874,148	2,835,697	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	\$ 14,657,814	\$ 14,508,773	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	19.6%	19.5%	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, 2022

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. The September 30, 2019 valuation determined the contribution rate for the State of Michigan's fiscal year ending September 30, 2022.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2022

Actuarial cost method	Entry Age, Normal
Amortization method	Level Dollar, Closed
Remaining amortization period	15 years, closed ending on September 30, 2036
Asset valuation method	5-Year Smoothed Fair Value
Inflation	2.25%
Salary Increases	2.75% - 11.75%, including wage inflation at 2.75%
Investment rate of return	6.70% net of investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	Active members and disabled retirees: RP-2014 Male and Female Employee Annuitant Mortality Tables scaled by 100% for males and females and adjusted for mortality improvements using projection scale MP-2017 from 2006. Retirees: RP-2014 Male and Female Annuitant Mortality Tables scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

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

	2022	2021	2020	2019	2018
Lottery's proportion of the net OPEB liability	0.435%	0.428%	0.442%	0.440%	0.436%
Lottery's proportionate share of the net OPEB liability	\$ 16,590,706	\$ 25,009,194	\$ 34,790,283	\$ 34,926,285	\$ 35,925,905
Lottery's covered payroll	14,508,773	14,371,539	14,178,535	13,751,447	13,312,723
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	114%	174%	245%	254%	270%
Plan fiduciary net position as a percentage of the total OPEB liability	57.12%	38.29%	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

	2022	2021	2020	2019	2018
Statutorily required contribution	\$ 2,518,531	\$ 3,335,059	\$ 3,010,364	\$ 3,369,182	\$ 3,043,818
Contributions in relation to the stautorily required contribution	2,518,531	3,335,059	3,010,364	3,369,182	3,043,818
Contribution deficiency (excess)	-	-	-	-	-
Lottery's covered payroll	14,657,814	14,508,773	14,371,539	14,178,535	13,751,447
Contributions as a percentage of covered payroll	17.2%	23.0%	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, 2022

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, 2019 valuation determined the contribution rate for the State of Michigan's fiscal year ending September 30, 2022.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2022

Actuarial cost method	Entry Age, Normal
Amortization method	Level – Percent of Payroll, Closed
Remaining amortization period	15 years, closed ending September 30, 2036
Asset valuation method	5-year smoothed value
Inflation	2.25%
Salary Increases	2.75% - 11.75%, including wage inflation at 2.75%
Investment rate of return	6.90% net of OPEB plan investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Health Care Cost Trend Rate	7.50% in year 1, gradually decreasing to 3.50% year 15
Aging Factors	Based on the 2013 SOA "Health Care Costs-From Birth to Death"
Mortality	Active members and disabled retirees: RP-2014 Male and Female Employee Annuitant Mortality Tables scaled by 100% for males and females and adjusted for mortality improvements using projection scale MP-2017 from 2006. Retirees: RP-2014 Male and Female Annuitant Mortality Tables scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

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

	2022	2021	2020	2019	2018
Lottery's proportion of the total OPEB liability	0.428%	0.432%	0.425%	0.423%	0.416%
Lottery's proportionate share of the total OPEB liability	\$ 5,825,534	\$ 6,069,835	\$ 5,199,726	\$ 5,281,241	\$ 5,319,247
Lottery's covered employee payroll	13,667,033	13,622,113	13,719,049	11,122,483	12,158,951
Lottery's proportionate share of the total OPEB liability as a percentage of its covered employee payroll	42.6%	44.6%	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, 2022

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 240,236,325	9.6%	\$ 486,175,522	9.9%
	Daily 4	280,818,000	11.2%	584,504,962	11.9%
	Lotto 47	23,073,817	0.9%	43,462,521	0.9%
	Lotto 47 Double Play	909,515	0.0%	1,784,418	0.0%
	Lotto 47 EZ Match	2,997,813	0.1%	5,771,804	0.1%
	Mega Millions	101,981,330	4.1%	153,810,122	3.1%
	Megaplier	13,819,978	0.6%	21,305,430	0.4%
	Powerball	64,192,457	2.6%	141,588,972	2.9%
	Power Play	10,510,938	0.4%	21,674,421	0.4%
	Powerball Double Play	2,907,213	0.1%	6,164,709	0.1%
	Keno	4,052,853	0.2%	8,121,757	0.2%
	Fantasy Five	26,594,263	1.1%	53,534,572	1.1%
	Fantasy Five Double Play	1,373,534	0.1%	2,756,982	0.1%
	Fantasy Five EZ Match	5,083,482	0.2%	10,186,697	0.2%
	Raffle	1,008,592	0.0%	1,646,462	0.0%
	Club Keno	202,297,412	8.1%	403,336,410	8.2%
	Club Keno Kicker	80,812,872	3.2%	161,509,653	3.3%
	The Jack	4,406,548	0.2%	7,823,996	0.2%
	Club Keno Extra	23,329,933	0.9%	46,244,134	0.9%
	Poker Lotto	2,932,863	0.1%	5,863,364	0.1%
	Lucky for Life	18,455,120	0.7%	36,591,626	0.7%
	Fast Cash	39,762,588	1.6%	95,493,523	2.0%
	Pull-Tab tickets	21,400,689	0.9%	43,172,941	0.9%
	Instant tickets	1,250,025,214	49.8%	2,380,954,304	48.6%
	iLottery Instant, Net Win	97,143,314	3.9%	193,178,309	3.8%
	iLottery Sales - OGC Promotions	-	0.0%	(456)	0.0%
	iLottery Promos-Non Game Specific	(9,001,688)	-0.3%	(19,804,736)	-0.4%
Total lottery ticket sales		2,511,124,975	100.0%	4,896,852,419	100.0%
Prize awards:	Daily 3	121,579,388	4.8%	255,167,754	5.2%
	Daily 4	144,872,246	5.8%	315,061,257	6.4%
	Lotto 47/Lotto 47 Double Play	14,835,361	0.6%	27,452,948	0.6%
	Lotto 47 EZ Match	582,667	0.0%	1,143,174	0.0%
	Mega Millions/Megaplier	57,103,200	2.3%	86,595,119	1.8%
	Powerball/Power Play/Powerball Double Play	38,624,574	1.5%	82,708,467	1.7%
	Keno	1,945,590	0.1%	3,965,964	0.1%
	Fantasy Five/Fantasy Five Double Play	16,894,272	0.7%	33,310,644	0.7%
	Fantasy Five EZ Match	881,828	0.0%	1,767,581	0.0%
	Raffle	593,741	0.0%	1,154,637	0.0%
	Club Keno/Kicker/Jack/Extra	207,329,799	8.3%	407,428,474	8.3%
	Poker Lotto	1,742,414	0.1%	3,475,541	0.1%
	Lucky for Life	11,039,729	0.4%	21,913,999	0.4%
	Fast Cash	31,321,831	1.2%	71,634,419	1.5%
	Pull-Tab tickets	15,522,959	0.6%	31,293,688	0.6%
	Instant tickets	946,411,486	37.8%	1,788,332,850	36.5%
Total prize awards		1,611,281,085	64.2%	3,132,406,516	64.0%
Less: unclaimed prizes		(21,001,595)	-0.8%	(35,364,469)	-0.8%
Net prize awards		1,590,279,490	63.3%	3,097,042,047	63.2%
Gross margin		920,845,485	36.7%	1,799,810,372	36.8%
Retailer and vendor commissions and other expenses		(231,858,119)	-9.2%	(450,495,823)	-9.2%
Game-related expense		(20,683,584)	-0.8%	(41,114,709)	-0.9%
Net ticket revenue		668,303,782	26.6%	1,308,199,840	26.7%
Other operating expense		(27,861,333)	-1.1%	(54,333,761)	-1.1%
Depreciation expense		(211,845)	0.0%	(402,207)	0.0%
Other miscellaneous revenue		382,616	0.0%	1,371,727	0.0%
Net lottery operating income		640,613,220	25.5%	1,254,835,599	25.6%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2022

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	6,729,846	0.3%	13,225,872	0.3%
Charitable gaming expense	(3,938,372)	-0.2%	(7,853,917)	-0.2%
Net charitable gaming income	2,791,474	0.1%	5,371,955	0.1%
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (2,512,575)	-0.1%	\$ (5,231,633)	-0.1%
Amortization revenue - investment discount	2,860,593	0.1%	5,813,782	0.0%
Unrealized gain (loss) on investments	(15,336,313)	-0.6%	(26,355,927)	-0.5%
Loss on disposal of assets	-	0.0%	-	0.0%
Interest revenue - common cash fund	1,385,187	0.1%	1,471,328	0.0%
Bank fees	(1,640)	0.0%	(2,015)	0.0%
Interest costs - capital leases	(13,907)	0.0%	(21,039)	0.0%
Disbursement to School Aid Fund	(634,554,794)	-24.7%	(1,248,594,939)	-24.7%
Disbursement to General Fund	(2,791,474)	-0.1%	(5,371,955)	-0.1%
Disbursement to Health & Human Services	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(651,459,923)	-25.3%	(1,279,282,398)	-25.4%
Change in net position	\$ (8,055,229)	-0.3%	\$ (19,074,844)	-0.4%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2021

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 275,103,703	10.7%	\$ 535,866,643	10.6%
	Daily 4	317,076,164	12.3%	634,092,580	12.6%
	Lotto 47	36,971,551	1.4%	82,010,905	1.6%
	Lotto 47 Double Play	5,020,311	0.2%	8,814,402	0.2%
	Lotto 47 EZ Match	1,285,783	0.0%	2,595,770	0.1%
	Mega Millions	64,312,606	2.5%	157,632,268	3.1%
	Megaplier	8,207,540	0.3%	19,505,485	0.4%
	Powerball	60,920,665	2.4%	132,867,798	2.6%
	Power Play	8,285,236	0.3%	17,358,730	0.3%
	Powerball Double Play	857,776	0.0%	857,776	0.0%
	Keno	4,376,117	0.2%	8,848,365	0.2%
	Fantasy Five	27,823,849	1.1%	57,059,401	1.1%
	Fantasy Five Double Play	6,430,728	0.3%	10,668,388	0.2%
	Fantasy Five EZ Match	1,549,019	0.1%	3,158,858	0.1%
	Raffle	1,947,090	0.1%	3,246,510	0.1%
	Club Keno	209,095,815	8.1%	368,578,391	7.3%
	Club Keno Kicker	83,436,483	3.2%	146,484,153	2.9%
	The Jack	4,197,990	0.2%	9,350,505	0.2%
	Club Keno Extra	23,986,659	0.9%	42,162,331	0.8%
	Poker Lotto	3,277,294	0.1%	6,630,243	0.1%
	Lucky for Life	13,465,284	0.5%	23,554,592	0.5%
	Fast Cash	40,597,257	1.6%	73,315,609	1.5%
	Pull-Tab tickets	20,841,243	0.8%	33,671,641	0.7%
	Instant tickets	1,257,107,311	48.9%	2,448,568,782	48.5%
	iLottery Instant, Net Win	106,298,293	4.1%	241,765,618	4.7%
	iLottery Sales - OGC Promotions	(516)	0.0%	(1,084)	0.0%
	iLottery Promos-Non Game Specific	(10,464,401)	-0.3%	(22,574,815)	-0.4%
Total lottery ticket sales		2,572,006,850	100.0%	5,046,089,845	100.0%
Prize awards:	Daily 3	141,009,126	5.5%	268,324,008	5.3%
	Daily 4	148,413,503	5.8%	316,963,743	6.3%
	Lotto 47/Lotto 47 Double Play	23,968,288	0.9%	50,731,726	1.0%
	Lotto 47 EZ Match	823,464	0.0%	1,662,368	0.0%
	Mega Millions/Megaplier	34,626,526	1.3%	86,145,003	1.7%
	Powerball/Power Play/Powerball Double Play	35,894,554	1.4%	76,126,389	1.5%
	Keno	1,961,356	0.1%	3,609,771	0.1%
	Fantasy Five/Fantasy Five Double Play	17,834,039	0.7%	36,029,003	0.7%
	Fantasy Five EZ Match	992,182	0.0%	2,024,274	0.0%
	Raffle	1,726,673	0.1%	2,600,116	0.1%
	Club Keno/Kicker/Jack/Extra	209,604,326	8.1%	368,877,676	7.3%
	Poker Lotto	1,931,008	0.1%	3,899,032	0.1%
	Lucky for Life	8,106,122	0.3%	16,251,109	0.3%
	Fast Cash	30,102,345	1.2%	54,129,651	1.1%
	Pull-Tab tickets	15,078,653	0.6%	24,377,653	0.5%
	Instant tickets	939,570,761	36.6%	1,823,352,165	36.1%
Total prize awards		1,611,642,926	62.7%	3,135,103,687	62.1%
Less: unclaimed prizes		(36,407,062)	-1.4%	(78,110,921)	-1.6%
Net prize awards		1,575,235,864	61.2%	3,056,992,766	60.6%
Gross margin		996,770,986	38.8%	1,989,097,079	39.4%
Retailer and vendor commissions and other expenses		(238,679,284)	-9.3%	(474,617,290)	-9.4%
Game-related expense		(20,445,706)	-0.8%	(40,918,299)	-0.9%
Net ticket revenue		737,645,996	28.7%	1,473,561,490	29.2%
Other operating expense		(26,501,396)	-1.0%	(49,418,218)	-1.0%
Depreciation expense		(162,570)	0.0%	(343,972)	0.0%
Other miscellaneous revenue		741,893	0.0%	1,023,090	0.0%
Net lottery operating income		711,723,923	27.7%	1,424,822,390	28.2%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2021

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Charitable gaming:				
Charitable gaming revenue	7,021,912	0.3%	10,862,319	0.2%
Charitable gaming expense	(3,375,710)	-0.1%	(6,355,042)	-0.1%
Net charitable gaming income	3,646,202	0.1%	4,507,277	0.1%
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (3,297,828)	-0.1%	\$ (6,246,353)	-0.1%
Amortization revenue - investment discount	3,098,465	0.1%	6,247,632	0.0%
Unrealized gain (loss) on investments	1,228,610	0.0%	(12,153,313)	-0.2%
Loss on disposal of assets	(1,638)	0.0%	(1,638)	0.0%
Interest revenue - common cash fund	201,689	0.0%	359,540	0.0%
Bank fees	(2,135)	0.0%	(2,650)	0.0%
Interest costs - capital leases	(20,629)	0.0%	(36,085)	0.0%
Disbursement to School Aid Fund	(706,859,629)	-27.5%	(1,419,805,619)	-28.1%
Disbursement to General Fund	(3,646,202)	-0.1%	(4,507,277)	-0.1%
Disbursement to Health & Human Services	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(709,794,297)	-27.6%	(1,437,135,763)	-28.5%
Change in net position	\$ 5,575,828	0.2%	\$ (7,806,096)	-0.2%

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months and Years Ended September 30, 2022 and 2021

	Six Months Ended		Years Ended	
	2022	2021	2022	2021
Salaries and wages	\$ 7,452,272	7,399,520	\$ 14,798,049	14,593,034
Employee benefits and taxes	251,043	3,665,375	2,695,143	6,905,355
Promotion and advertising	17,949,805	13,575,915	31,093,167	22,753,398
Printing and supplies, including purchase of charitable gaming tickets	933,239	844,175	1,751,501	1,464,529
Other contractual services	3,664,650	3,249,139	8,845,995	7,742,155
Building rent and leases	644,108	509,418	1,286,136	999,472
Travel	524,301	340,318	907,391	659,501
Utilities	174,442	173,681	433,823	378,945
Postage	77,493	52,259	115,271	82,565
Equipment maintenance and rental	(16,297)	49,633	78,403	99,179
Bad debt expense	143,149	16,490	180,566	75,683
Interest paid on security deposits	1,500	1,183	2,233	19,444
Total	<u>\$ 31,799,705</u>	<u>\$ 29,877,106</u>	<u>\$ 62,187,678</u>	<u>\$ 55,773,260</u>



STATISTICAL SECTION





Bureau of State Lottery, State of Michigan

Index

Statistical Section

This part of the Lottery's annual comprehensive 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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Revenue Capacity	
This schedule and graph contains information to help the reader assess the Lottery's most significant revenue source, ticket sales.	
<ul style="list-style-type: none"> • Instant Games – represent the face value of tickets activated by retailers. • Draw Games – represents the face value of tickets sold to the public. • Club Games – represents the face value of tickets sold to the public • iLottery Instant Games – represents sales less promotional tickets and prizes paid. 	
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Sources: Unless otherwise noted, the information in these schedules is derived from the annual comprehensive reports for September 30, 2022.





Bureau of State Lottery, State of Michigan

Financial Trends

Net Position

Fiscal Years Ending September 30, 2013 through September 30, 2022

(In Millions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net position										
Net investment in capital assets	\$ 0.8	\$ 0.6	\$ 1.5	\$ 1.2	\$ 1.2	\$ 1.0	\$ 1.1	\$ 0.7	\$ 0.5	\$ 0.3
Restricted for School Aid Fund	17.9	26.8	11.8	8.7	-	-	-	-	-	-
Unrestricted (deficit)	<u>(0.8)</u>	<u>(0.6)</u>	<u>(1.5)</u>	<u>(1.2)</u>	<u>(2.5)</u>	<u>(44.9)</u>	<u>(34.5)</u>	<u>(26.7)</u>	<u>(34.3)</u>	<u>(53.1)</u>
Total net position	<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>	<u>\$ (33.8)</u>	<u>\$ (52.8)</u>



Bureau of State Lottery, State of Michigan

Financial Trends

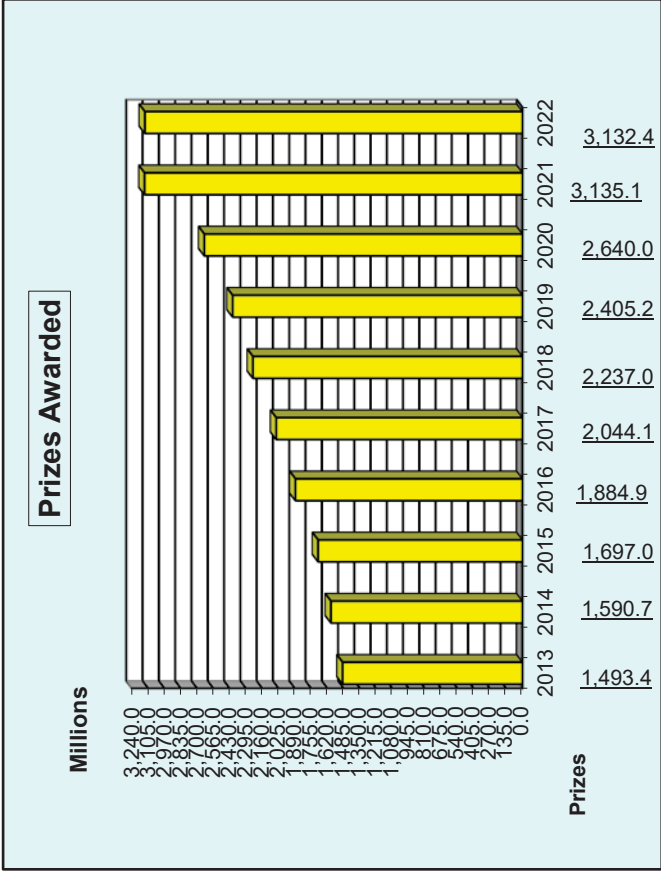
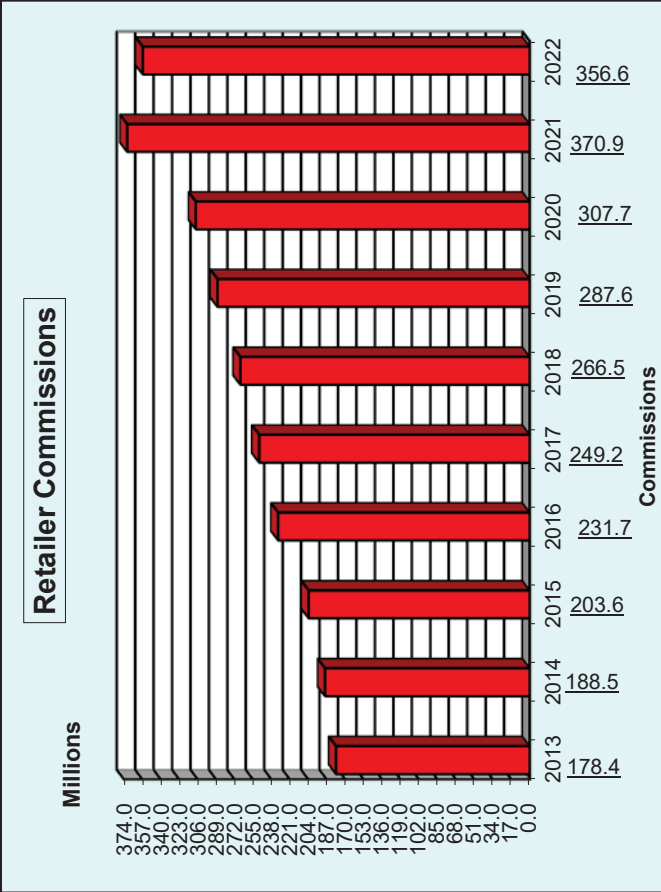
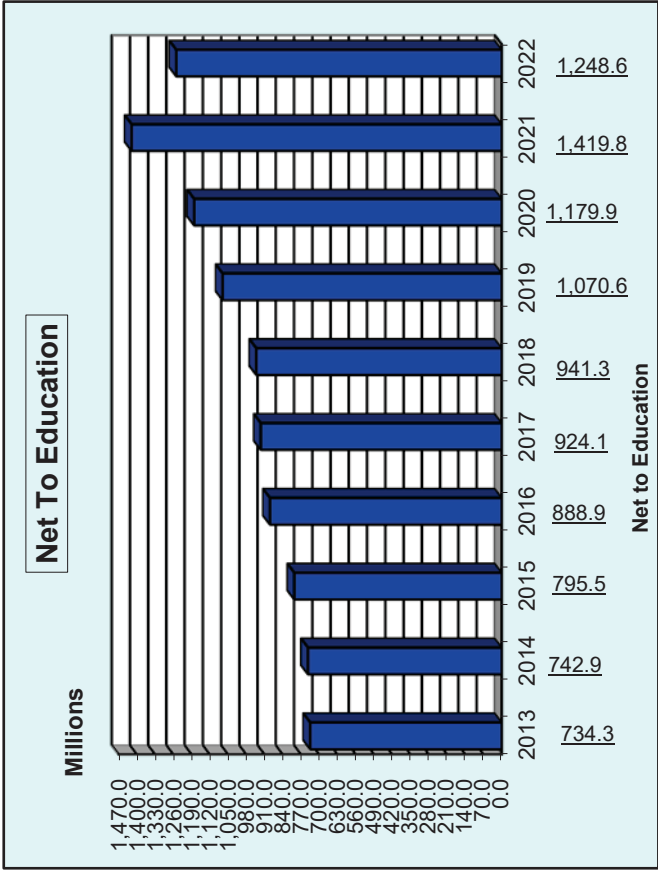
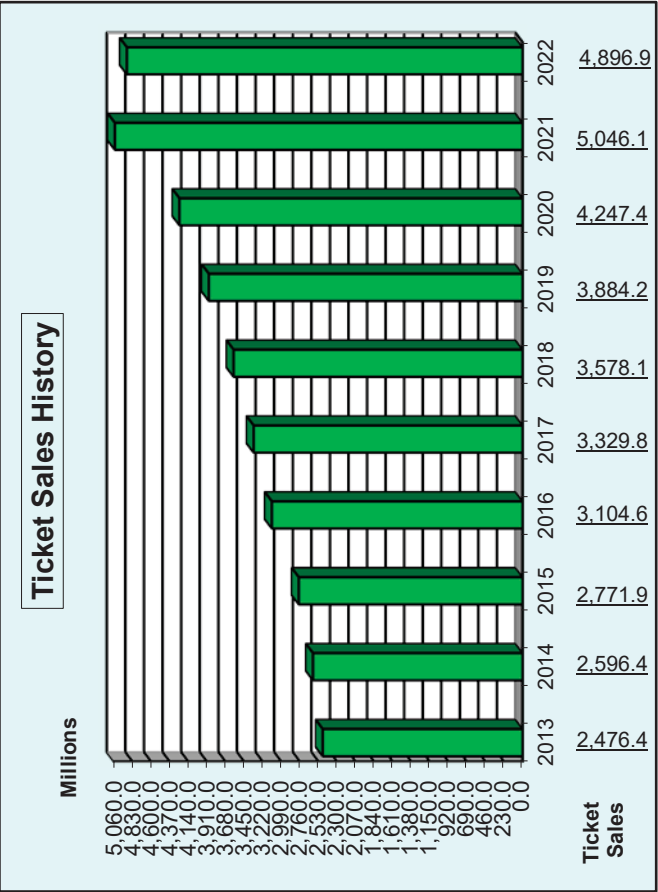
Changes in Net Position

Fiscal Years Ending September 30, 2013 through September 30, 2022

(In Millions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating revenues										
Ticket sales	\$ 2,476.4	\$ 2,596.4	\$ 2,771.9	\$ 3,104.5	\$ 3,329.8	\$ 3,578.0	\$ 3,884.2	\$ 4,247.4	\$ 5,046.1	\$ 4,896.9
Charitable gaming and other	14.7	12.5	13.2	13.6	17.3	13.9	13.2	9.2	11.9	14.6
Total operating revenues	2,491.1	2,608.9	2,785.1	3,118.1	3,347.1	3,591.9	3,897.4	4,256.6	5,058.0	4,911.5
Operating expenses										
Prize awards	1,493.5	1,590.7	1,697.0	1,884.8	2,044.0	2,237.0	2,405.2	2,640.0	3,135.1	3,132.4
Less - unclaimed prizes	(31.9)	(30.8)	(31.5)	(28.5)	(27.6)	(22.0)	(40.5)	(56.4)	(78.1)	(35.4)
Net prize awards	1,461.6	1,559.9	1,665.5	1,856.3	2,016.4	2,215.0	2,364.7	2,583.6	3,057.0	3,097.0
Retailer commissions	178.5	188.5	203.6	231.7	249.2	266.5	287.6	307.7	370.9	356.6
Game related expenses	57.6	61.3	63.9	80.2	93.9	101.4	104.8	128.3	144.6	135.0
Other operating expenses	50.4	51.9	52.0	66.4	61.7	68.0	73.5	58.4	56.2	62.6
Total operating expenses	1,748.1	1,861.6	1,985.0	2,234.6	2,421.2	2,650.9	2,830.6	3,078.0	3,628.7	3,651.2
Operating income	743.0	747.3	800.1	883.5	925.9	941.0	1,066.8	1,178.6	1,429.3	1,260.3
Non-operating revenues										
Investment revenue	(7.2)	18.0	12.9	13.5	(2.7)	(4.2)	21.9	15.5	(6.0)	(20.6)
Interest on equity in State Treasurer's										
Common Cash Fund	0.1	0.1	0.1	0.3	0.6	0.9	1.6	1.1	0.4	1.5
Total non-operating revenues	(7.1)	18.1	13.0	13.8	(2.1)	(3.3)	23.5	16.6	(5.6)	(19.1)
Non-operating expenses										
Amortization of prize obligation discount	(13.2)	(9.7)	(8.5)	(7.5)	(6.8)	(6.9)	(6.3)	(6.1)	(6.2)	(5.2)
Non-operating expenses before disbursements	(13.2)	(9.7)	(8.5)	(7.5)	(6.8)	(6.9)	(6.3)	(6.1)	(6.2)	(5.2)
School Aid Fund disbursement	(734.3)	(742.8)	(795.5)	(888.9)	(924.1)	(941.3)	(1,070.6)	(1,179.9)	(1,419.8)	(1,248.6)
School Aid Fund disbursement-Club Keno Advertising	-	(0.1)	-	-	-	-	-	-	-	-
General Fund disbursement	(4.5)	(2.9)	(2.9)	(3.0)	(1.9)	(1.9)	(1.9)	(0.8)	(4.5)	(5.4)
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	(739.8)	(746.8)	(799.4)	(892.9)	(927.0)	(944.2)	(1,073.5)	(1,181.7)	(1,425.3)	(1,255.0)
Total non-operating expenses	(753.0)	(756.5)	(807.9)	(900.4)	(933.8)	(951.1)	(1,079.8)	(1,187.8)	(1,431.5)	(1,260.2)
Net non-operating revenue (expense)	(760.1)	(738.4)	(794.9)	(886.6)	(935.9)	(954.4)	(1,056.3)	(1,171.2)	(1,437.1)	(1,279.3)
Change in net position	\$ (17.1)	\$ 8.9	\$ 5.2	\$ (3.1)	\$ (10.0)	\$ (13.4)	\$ 10.5	\$ 7.4	\$ (7.8)	\$ (19.0)

Bureau of State Lottery, State of Michigan
Financial Trends 2012 through 2021



Source: Bureau of State Lottery, State of Michigan

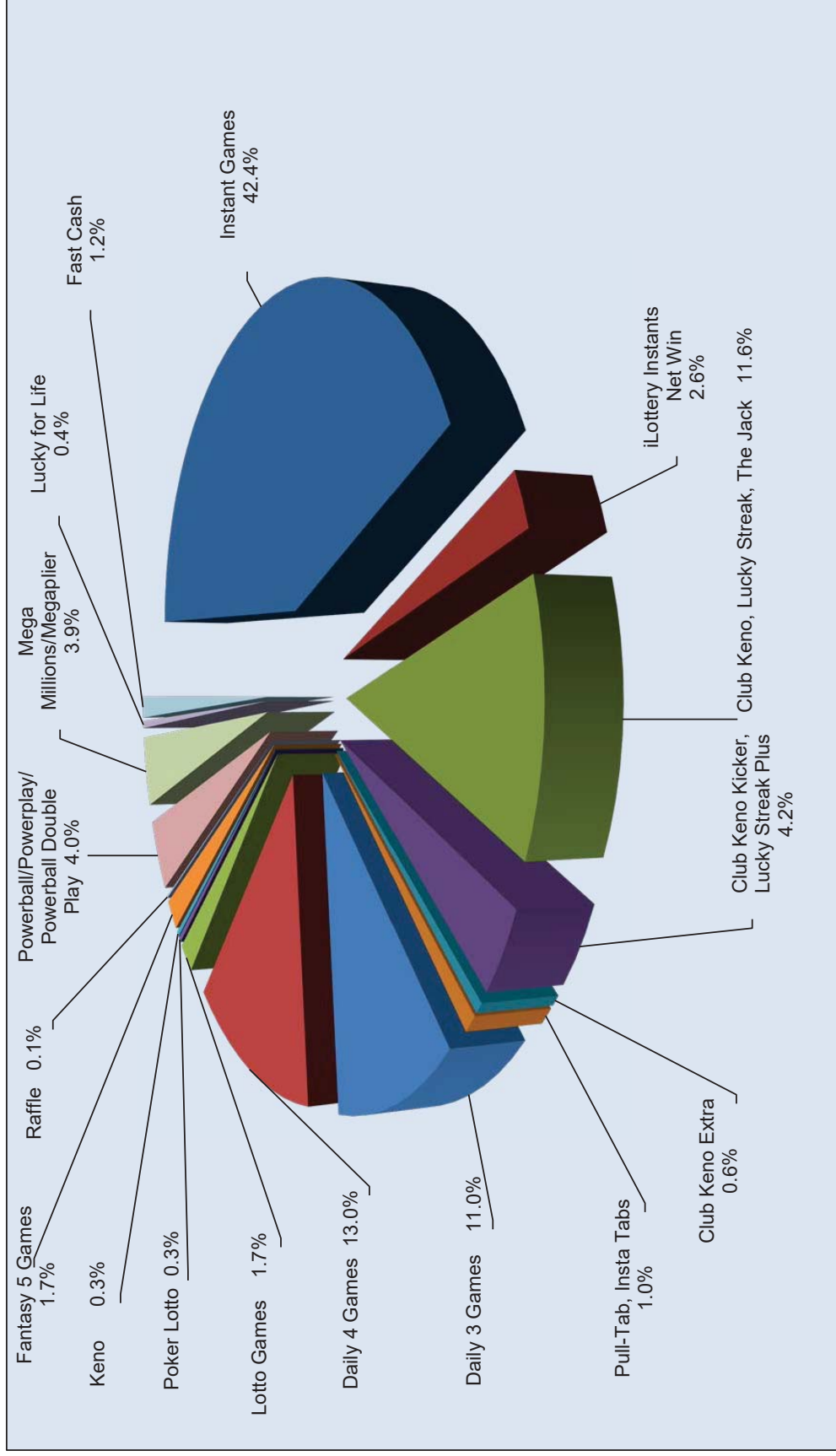


Bureau of State Lottery, State of Michigan
Revenue Capacity
Revenues from Ticket Sales
Fiscal Years Ending September 30, 2013 through September 30, 2022
(In Millions)

TICKET SALES	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Instant Games										
Instant Tickets	\$ 827.0	\$ 913.1	\$ 1,013.2	\$ 1,136.8	\$ 1,321.6	\$ 1,488.2	\$ 1,655.5	\$ 2,038.2	\$ 2,448.6	\$ 2,381.0
iLottery Games										
iLottery Instant, Net Win		0.6	18.5	48.0	77.9	93.7	116.3	219.1	241.8	193.2
iLottery Online Game Card Promos				(0.3)	(0.6)					
iLottery Non-Game Specific Promos				(2.0)	(5.1)	(6.8)	(8.2)	(14.8)	(22.6)	(19.8)
Club Games										
Club Keno, Lucky Streak, The Jack	399.6	410.4	430.5	461.7	471.8	438.5	421.9	354.9	377.9	411.2
Club Keno Kicker, Lucky Streak Plus	134.5	140.7	150.4	164.0	169.0	157.3	152.5	131.6	146.4	161.5
Club Keno Extra						32.0	42.9	38.2	42.2	46.2
Pull Tab, Insta Tabs	31.7	32.4	32.9	32.5	32.9	32.9	33.6	28.3	33.7	43.2
Total Club Games	565.8	583.5	613.8	658.2	673.7	660.7	650.9	553.0	600.2	662.1
Draw Games										
Daily 3, Double 3	321.1	327.0	344.6	366.9	369.0	371.3	395.9	447.6	535.9	486.2
Daily 4, Double 4	351.1	366.3	398.3	415.6	441.4	466.5	493.9	534.2	634.1	584.5
Winfall, Lotto 47, Lotto 47 EZ Match, Lotto 47 Double Play	52.4	45.9	53.9	45.4	70.1	50.2	67.2	75.6	93.4	51.0
Poker Lotto		39.1	16.1	13.6	11.0	7.9	7.1	6.3	6.7	5.9
Lucky for Life			15.6	16.7	14.7	14.9	14.2	15.2	23.6	36.6
Monopoly			1.8							
Keno	11.4	10.3	9.8	9.5	9.0	9.0	8.8	8.6	8.8	8.1
Fantasy 5, Fantasy 5 EZ Match, Fantasy 5 Double Play	53.2	60.1	56.1	59.6	59.7	57.2	64.5	69.2	70.9	66.5
Raffle	6.0	5.8	0.2	2.8	0.2	15.0			3.2	1.6
Lucky Lines										
Powerball, Powerplay, Powerball Double Play	186.8	104.0	109.5	206.6	153.9	125.8	144.1	92.1	151.1	169.4
Mega Millions, Megaplier	101.6	140.7	120.5	127.1	102.7	153.2	192.4	115.3	177.1	175.1
Fast Cash					30.6	71.2	81.6	87.8	73.3	95.5
Total Draw Games	1,083.6	1,099.2	1,126.4	1,263.8	1,262.3	1,342.2	1,469.7	1,451.9	1,778.1	1,680.4
TOTAL TICKET SALES	\$ 2,476.4	\$ 2,596.4	\$ 2,771.9	\$ 3,104.5	\$ 3,329.8	\$ 3,578.0	\$ 3,884.2	\$ 4,247.4	\$ 5,046.1	\$ 4,896.9
PRICE PER TICKET:										
Instant Games			Range from \$1 to \$30			Draw Games:	Daily 3			\$.50 and \$1
iLottery Instant			Range from \$.05 to \$20			Raffle				Range from \$5 to \$50
Club Games:			\$1			Powerball				\$2
Club Keno, Kicker, Lucky Streak,			\$1			Poker Lotto & Lucky for Life				\$2
Lucky Streak Plus, The Jack			\$1			Fast Cash				Range from \$1 to \$20
Club Keno Extra			\$1			Mega Millions				\$2
Pull Tab, Insta Tab Games			Range from \$.50 to \$5			All other draw games				\$1

Note: Principal revenue payers are the general public. Please see Demographic and Economic Information on page 92 for statistics.

Bureau of State Lottery, State of Michigan
Revenue Capacity
Ticket Sales 2012 through 2021





Bureau of State Lottery, State of Michigan
Debt Capacity
Ratio of Outstanding Debt By Type
Fiscal Years Ending September 30, 2013 through September 30, 2022
(Dollars In Millions, except Per Capita)

FISCAL YEAR	BUSINESS-TYPE ACTIVITIES		PRIMARY GOVERNMENT		
	LEASES	TOTAL OUTSTANDING DEBT	PERCENTAGE OF PERSONAL INCOME	PER CAPITA	
2013	\$ -	\$ -	N/A		N/A
2014	\$ -	\$ -	N/A		N/A
2015	\$ -	\$ -	N/A		N/A
2016	\$ -	\$ -	N/A		N/A
2017	\$ -	\$ -	N/A		N/A
2018	\$ 0.5	\$ 0.5	0.0001%	\$	0.05
2019	\$ 0.5	\$ 0.5	0.0001%	\$	0.05
2020	\$ 0.4	\$ 0.4	0.0001%	\$	0.04
2021	\$ 0.3	\$ 0.3	0.0001%	\$	0.03
2022	\$ 1.4	\$ 1.4	Unavailable		Unavailable

Effective October 1, 2021 GASB 87 was adopted

SOURCES: U.S. Census Bureau, Population Division, U.S. Department of Commerce, Bureau of Economic Analysis.
Michigan Department of Technology, Management, and Budget

Personal Income and Debt figures are updated annually to coincide with demographic and economic indicators.
These amounts are not available for the current fiscal year.



Bureau of State Lottery, State of Michigan
Debt Capacity
Ratio of Installment Prize Awards Liability
Fiscal Years Ending September 30, 2013 through September 30, 2022
(In Millions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<u>INSTALLMENT PRIZE AWARDS LIABILITY</u>										
Current - at face amount	\$ 34.6	\$ 29.7	\$ 23.9	\$ 17.0	\$ 15.1	\$ 15.1	\$ 15.2	\$ 15.2	\$ 14.7	\$ 13.9
Long-term - at face amount	303.3	280.4	267.4	255.1	236.1	223.1	212.9	198.3	186.7	173.1
Total installment prize awards	<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>	<u>\$ 201.4</u>	<u>\$ 187.0</u>
<u>INVESTMENTS</u>										
Face amount	<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>	<u>\$ 187.4</u>	<u>\$ 178.8</u>
Installment prize awards payable as a percentage of investments:	107.10%	103.78%	107.53%	106.16%	105.19%	105.40%	106.64%	108.10%	107.47%	104.59%

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, 2013 through September 30, 2022

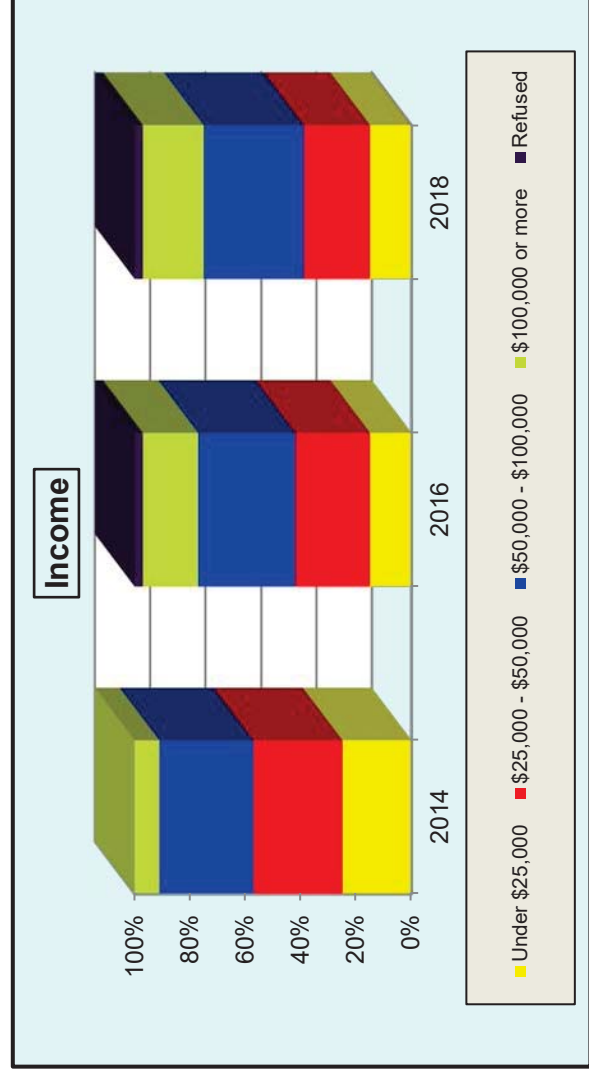
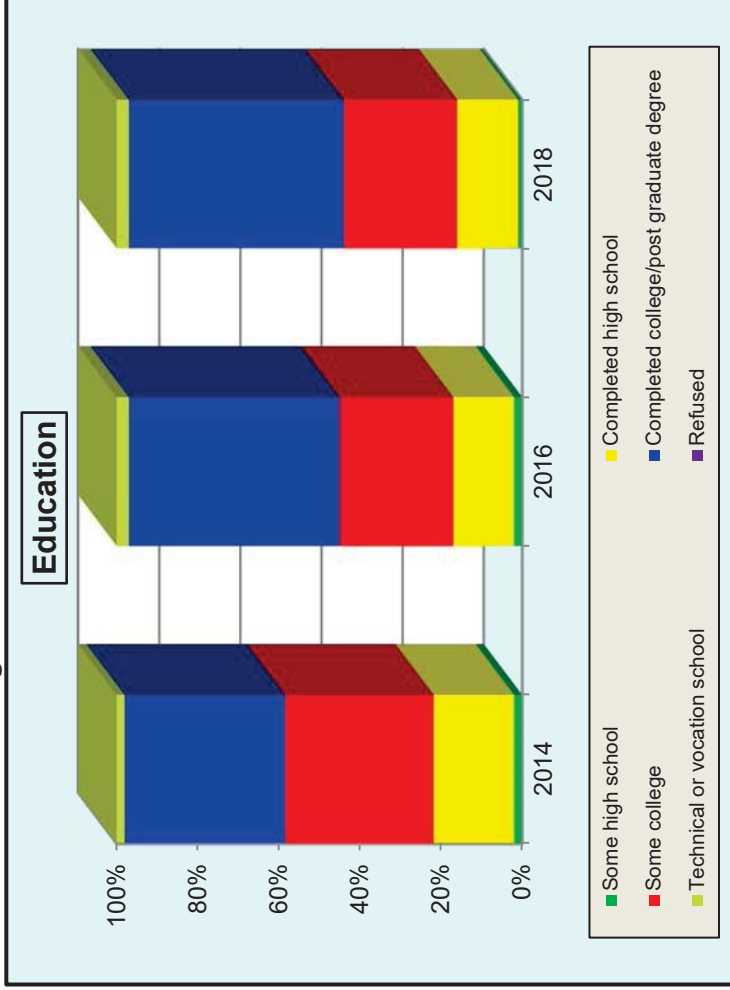
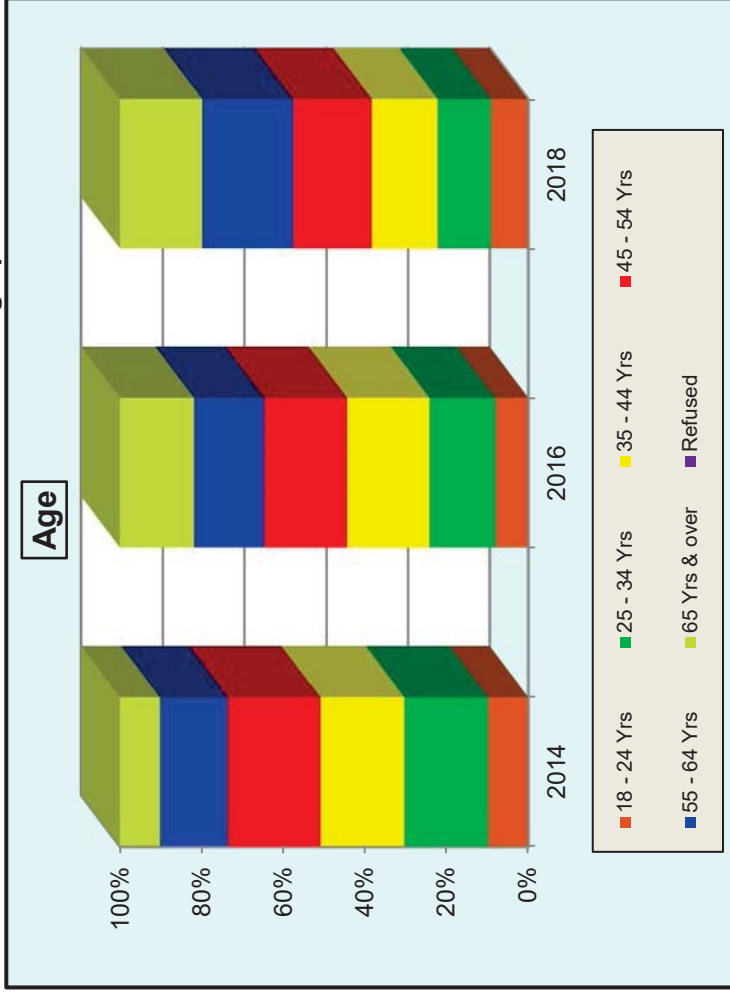
These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles.

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

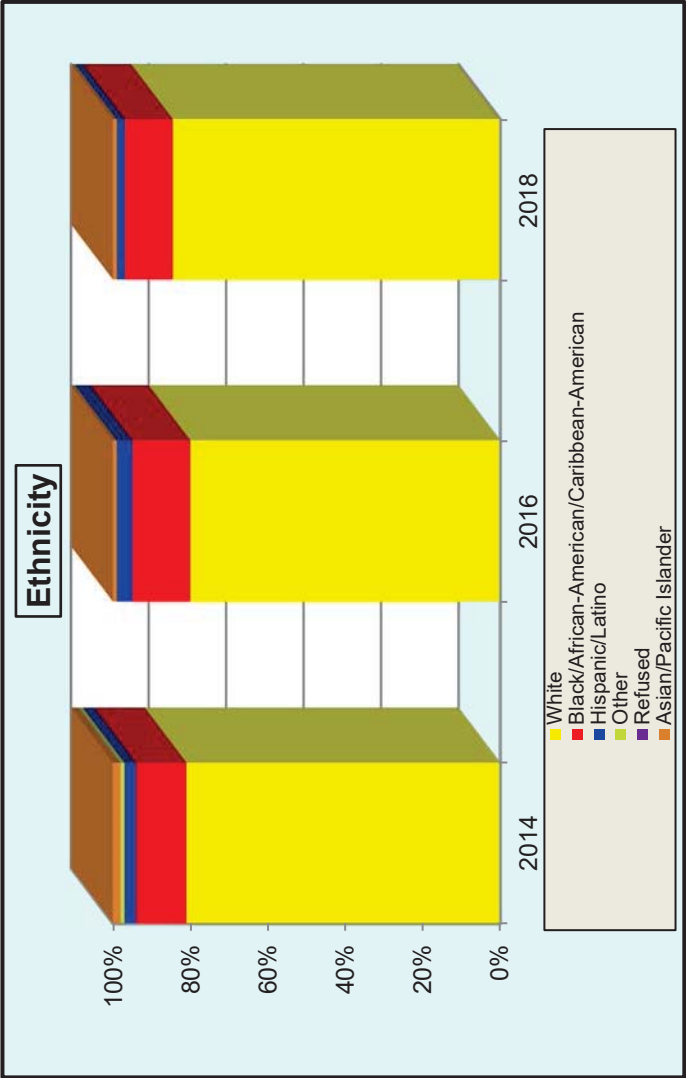
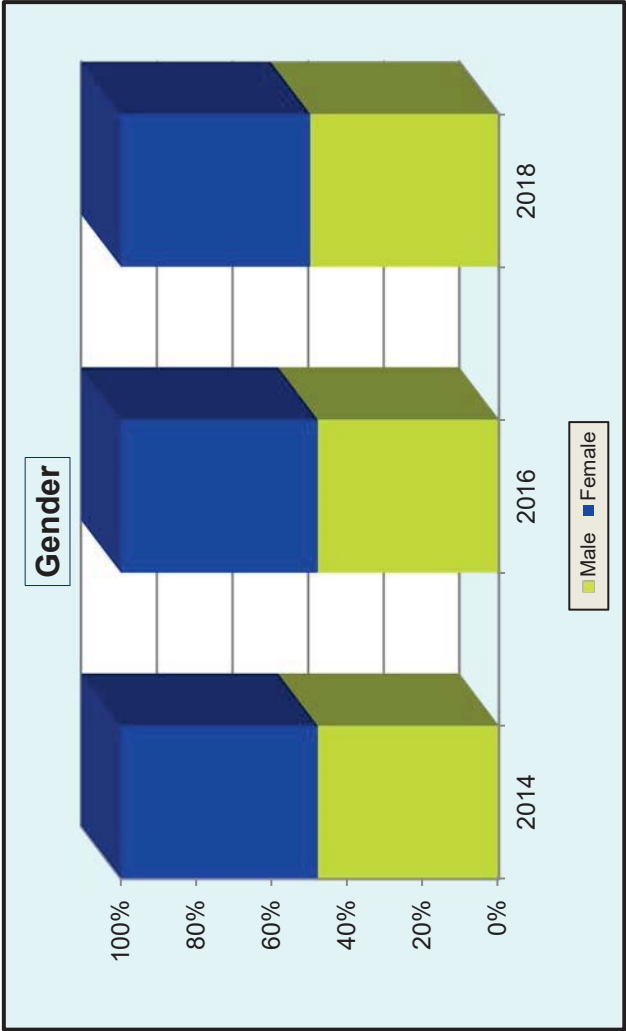
NOTES: Calendar year 2018 is the most recent year for which data is available.

Source: Bureau of State Lottery
General Tracking Study

Bureau of State Lottery, State of Michigan Demographic and Economic Information 2012 through 2021



Bureau of State Lottery, State of Michigan
Demographic and Economic Information 2012 through 2021



Source: Bureau of State Lottery
General Tracking Study



Bureau of State Lottery, State of Michigan
Demographic and Economic Indicators
Fiscal Years Ending September 30, 2012 through September 30, 2021
(In Thousands)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Population (a)										
Michigan	9,883	9,896	9,909	9,923	9,928	9,962	9,996	9,987	9,967	10,038
United States	313,914	316,129	318,857	321,419	323,128	325,719	327,167	328,240	329,484	332,032
Total Personal Income (b)										
Michigan	\$ 378.4	\$ 386.5	\$ 403.7	\$ 424.8	\$ 439.4	\$ 460.3	\$ 484.0	\$ 491.6	\$ 530.8	\$ 558.3
United States	\$ 13,729.1	\$ 14,151.4	\$ 14,683.1	\$ 15,464.0	\$ 15,913.0	\$ 16,820.0	\$ 17,813.0	\$ 18,542.3	\$ 19,607.4	\$ 21,056.6
Per Capita Income (b)										
Michigan	\$ 38.3	\$ 39.1	\$ 40.7	\$ 42.8	\$ 44.3	\$ 46.2	\$ 48.4	\$ 49.2	\$ 53.3	\$ 55.6
United States	\$ 43.7	\$ 44.8	\$ 46.0	\$ 48.1	\$ 49.2	\$ 51.6	\$ 54.4	\$ 56.5	\$ 59.5	\$ 63.4
Unemployment Rate (c)										
Michigan	9.0%	7.2%	5.0%	4.6%	4.3%	4.0%	3.9%	3.9%	8.2%	5.7%
United States	7.2%	5.9%	5.1%	5.0%	4.2%	3.7%	3.7%	3.5%	7.9%	4.7%
Michigan estimated wage and salary employees (c)										
Goods Producing:										
Natural Resources and Mining	7.8	7.9	8.3	7.2	6.7	7.0	6.9	7.0	6.7	7.1
Construction	124.6	127.2	139.0	144.9	151.3	161.1	168.5	170.4	168.8	173.2
Manufacturing	546.5	566.3	588.5	595.9	603.6	619.1	636.6	630.2	573.7	599.4
Total Goods Producing	678.9	701.4	735.8	748.0	761.6	787.2	812.0	807.6	749.2	779.7
Service-Providing:										
Private Service-Providing										
Trade, Transportation, and Utilities:										
Wholesale Trade	159	163.8	169.7	173.5	172.2	174.1	172.1	171.9	161.8	164.9
Retail Trade	448.9	474.1	476.6	479.5	483.0	484.1	480.5	476.5	453.0	463.1
Transportation and Utilities	123.2	130.3	132.0	137.8	284.0	294.2	316.6	193.0	190.7	198.2
Information	52.1	56.2	57.0	56.8	57.5	55.9	55.5	54.3	48.3	52.7
Financial Activities:										
Finance and Insurance	148.5	151.6	154.1	158.9	162.1	165.1	164.0	170.8	174.7	178.8
Real Estate and Rental and Leasing	47.8	49.1	51.9	52.1	53.9	53.5	56.1	56.6	49.8	54.1
Professional and Business Services:										
Professional, Scientific, and Technical Services	250	264.6	272.8	292.1	297.4	293.4	301.5	296.4	292.6	309.4
Management of Companies and Enterprises	54.1	59	58.3	59.7	61.9	66.5	69.2	70.4	69.5	71.3
Administrative, Support Services, and Waste Management	271.9	281.7	302.6	294.8	302.0	291.6	292.2	286.2	245.1	271.1
Educational and Health Services:										
Educational Services	72.2	76.2	80.1	79.1	75.6	75.8	75.6	77.1	65.6	74.8
Health Care and Social Assistance	559.4	564.2	574.5	585.2	596.9	600.6	606.0	610.8	577.4	576.6
Leisure and Hospitality:										
Accommodation and Food Services	344.3	349.8	351.4	362.4	373.5	379.5	375.6	373.4	233.8	332.8
Other	42.5	36.8	40.4	40.5	43.6	42.0	41.7	43.5	22.0	38.3
Other Services	169.4	171.2	171.0	171	172.1	170.2	166.7	163.9	143.2	157.3
Total Private Service-Providing	2,743.3	2,828.6	2,892.4	2,943.4	3,135.7	3,146.5	3,173.3	3,044.8	2,727.5	2,943.4
Government:	606.7	614.3	609.3	612.4	624.3	623.6	620.3	632.6	576.4	591.1
Total Service-Providing	3,350.0	3,442.9	3,501.7	3,555.8	3,760.0	3,770.1	3,793.6	3,677.4	3,303.9	3,534.5
Total Wage and Salary Employment	4,028.9	4,144.3	4,237.5	4,303.8	4,521.6	4,557.3	4,605.6	4,485.0	4,053.1	4,314.2

NOTES: Calendar year 2021 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, 2013 through September 30, 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of Employees	178	174	174	175	172	178	184	174	175	179
Number of Retailers	10,848	10,684	10,654	10,650	10,645	10,792	10,508	10,492	10,423	10,419
Prize Payout Percentage	60.31%	61.27%	61.22%	60.71%	61.39%	62.52%	61.92%	62.16%	62.13%	63.97%
Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund	29.65%	28.61%	28.70%	28.63%	27.75%	26.31%	27.56%	27.78%	28.14%	25.50%
Number of Millionaire Prize Winners	36	39	42	46	38	39	42	42	70	53
Number of Prize Winners Greater than \$600	52,365	56,735	68,359	74,352	82,435	91,984	94,046	115,829	139,050	130,113



Bureau of State Lottery, State of Michigan

Operating Information

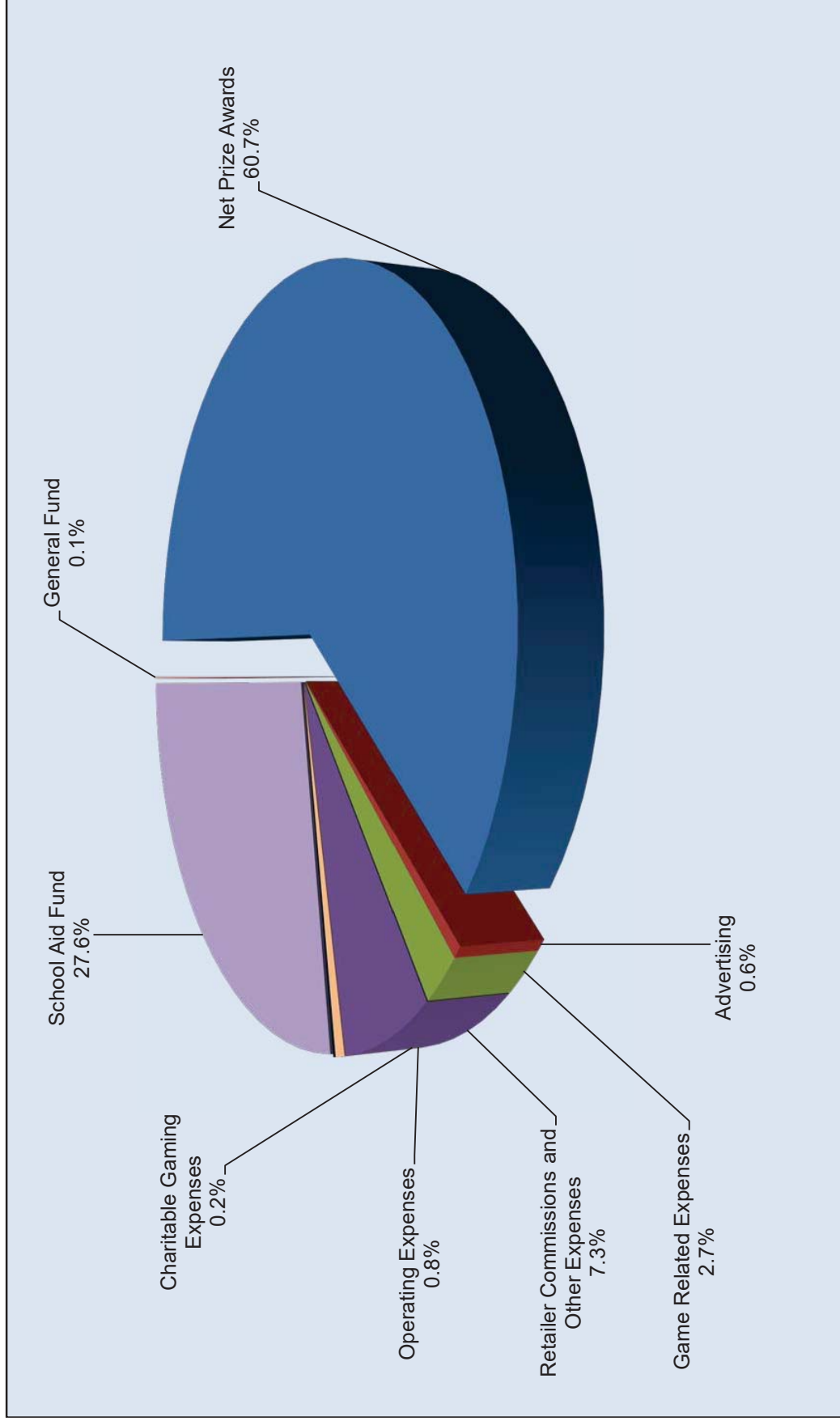
Expenses & Disbursements to the State's School Aid Fund, General Fund, and Health & Human Services

Fiscal Years Ending September 30, 2013 through September 30, 2022

(In Millions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
EXPENSES										
Prize Awards	\$ 1,493.5	\$ 1,590.7	\$ 1,697.0	\$ 1,884.8	\$ 2,044.0	\$ 2,237.0	\$ 2,405.2	\$ 2,640.0	\$ 3,135.1	\$ 3,132.4
Unclaimed Prizes	(31.9)	(30.8)	(31.5)	(28.5)	(27.6)	(22.0)	(40.5)	(56.4)	(78.1)	(35.4)
Net Prize Awards	1,461.6	1,559.9	1,665.5	1,856.3	2,016.4	2,215.0	2,364.7	2,583.6	3,057.0	3,097.0
Promotion and Advertising	17.6	17.6	17.6	22.0	24.0	27.9	29.8	20.0	22.8	31.1
Game Related Expenses	57.6	61.3	63.9	80.2	93.9	101.4	104.8	128.2	144.6	135.0
Retailer Commissions	178.5	188.5	203.6	231.7	249.2	266.5	287.6	307.7	370.9	356.6
Operating Expenses	23.9	25.4	25.2	35.1	27.6	30.3	33.5	32.0	27.0	23.7
Charitable Gaming Expenses	8.9	8.9	9.2	9.3	10.1	9.8	10.2	6.5	6.4	7.8
TOTAL EXPENSES	\$ 1,748.1	\$ 1,861.6	\$ 1,985.0	\$ 2,234.6	\$ 2,421.2	\$ 2,650.9	\$ 2,830.6	\$ 3,078.0	\$ 3,628.7	\$ 3,651.2
DISBURSEMENTS TO THE STATE										
School Aid Fund	734.3	742.8	795.5	888.9	924.1	941.3	1,070.6	1,179.9	1,419.8	1,248.6
School Aid Fund-Club Keno Adv	-	0.1	-	-	-	-	-	-	-	-
General Fund	4.5	2.9	2.9	3.0	1.9	1.9	1.9	0.8	4.5	5.4
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	\$ 739.8	\$ 746.8	\$ 799.4	\$ 892.9	\$ 927.0	\$ 944.2	\$ 1,073.5	\$ 1,181.7	\$ 1,425.3	\$ 1,255.0

Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements 2012 through 2021



Bureau of State Lottery, State of Michigan
Industry Comparative Information

Fiscal Year 2021 U.S. Lottery Sales, Prizes & Government Transfers Measured by GDP*

Lottery	2021 Pop. ¹ (Mil)	2021 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	415,561	1,439.38			977.81	287.83	\$198	\$40	0.346%
Arkansas	3.0	145,924	631.94			440.15	106.42	\$209	\$35	0.433%
California 6	39.2	3,384,335	8,417.94			5,610.61	1,871.58	\$215	\$48	0.249%
Colorado	5.8	426,477	794.93			516.93	169.35	\$137	\$29	0.186%
Connecticut	3.6	298,612	1,497.77			929.75	423.52	\$415	\$117	0.502%
Delaware 4, 5	1.0	81,546	233.79	366.4	169.9	138.27	263.24	\$233	\$262	0.287%
D.C.	0.7	153,168	225.58			124.29	48.15	\$337	\$72	0.147%
Florida	21.8	1,242,300	9,076.22			6,135.20	2,236.64	\$417	\$103	0.731%
Georgia	10.8	690,040	5,634.40			3,709.29	1,544.95	\$522	\$143	0.817%
Idaho	1.9	94,850	372.02			252.89	72.64	\$196	\$38	0.392%
Illinois 6	12.7	945,654	3,447.69			2,329.35	776.33	\$272	\$61	0.365%
Indiana	6.8	423,729	1,737.73			1,143.86	375.55	\$255	\$55	0.410%
Iowa	3.2	223,685	452.59			288.88	101.75	\$142	\$32	0.202%
Kansas	2.9	194,278	326.01			200.19	180.23	\$111	\$61	0.168%
Kentucky	4.5	236,301	1,586.33			1,067.45	355.10	\$352	\$79	0.150%
Louisiana	4.6	257,161	624.95			353.85	207.50	\$135	\$45	0.243%
Maine	1.4	76,664	390.74			267.65	71.12	\$285	\$52	0.510%
Maryland 4, 5	6.2	439,028	2,611.15	1,160.4	585.3	1,655.96	1,392.76	\$424	\$226	0.595%
Massachusetts	7.0	642,038	5,820.88			4,283.58	1,112.58	\$833	\$159	0.907%
Michigan	10.1	574,150	5,046.09			3,056.99	1,425.30	\$502	\$142	0.879%
Minnesota	5.7	417,194	803.64			513.67	188.83	\$141	\$33	0.193%
Mississippi	2.9	126,264	476.32			283.49	137.72	\$161	\$47	0.377%
Missouri	6.2	362,956	1,811.49			1,266.03	397.16	\$294	\$64	0.499%
Montana 6	1.1	60,020	112.29			80.35	13.30	\$102	\$12	0.187%
Nebraska	2.0	152,222	205.28			122.34	48.18	\$105	\$25	0.135%
N. Hampshire	1.4	99,030	511.87			310.92	144.24	\$369	\$104	0.517%
New Jersey	9.3	677,006	3,795.10			2,245.24	1,105.10	\$410	\$119	0.561%
New Mexico	2.1	109,603	154.89			84.77	46.48	\$73	\$22	0.141%
New York 4, 5	19.8	1,867,929	7,666.14	739.8	188.9	4,414.50	2,901.95	\$386	\$146	0.410%
N. Carolina	10.6	660,327	3,805.35			2,462.43	939.92	\$361	\$89	0.576%
N. Dakota 6	0.8	64,583	30.38			16.28	7.42	\$39	\$10	0.047%
Ohio 4, 5	11.8	741,400	4,330.23	1,186.2		2,841.59	1,359.01	\$368	\$115	0.584%
Oklahoma	4.0	208,765	346.75			224.00	80.99	\$87	\$20	0.166%
Oregon 4, 5	4.2	268,864	408.97	860.3		286.07	654.44	\$96	\$154	0.152%
Pennsylvania	13.0	846,123	5,420.02			3,539.94	1,324.96	\$418	\$102	0.641%
R. Island 4, 5	1.1	66,894	295.94	345.1	79.5	185.16	301.80	\$270	\$275	0.442%
S. Carolina	5.2	272,097	2,415.77			1,593.67	609.04	\$465	\$117	0.888%
S. Dakota 4, 5	0.9	61,980	73.61	300.2		46.60	161.88	\$82	\$181	0.119%
Tennessee	7.0	421,352	1,938.39			1,236.25	501.51	\$278	\$72	0.460%
Texas	29.5	2,006,650	8,107.20			5,418.27	1,998.31	\$275	\$68	0.404%
Vermont	0.6	36,302	161.54			108.16	31.89	\$250	\$49	0.445%
Virginia	8.6	596,025	3,258.98			2,206.75	766.73	\$377	\$89	0.547%
Washington	7.7	674,091	950.73			603.09	229.05	\$123	\$30	0.141%
W. Virginia 4, 5	1.8	88,446	249.25	890.4	29.1	155.30	577.43	\$140	\$324	0.282%
Wisconsin 6	5.9	367,887	894.54			559.69	165.63	\$152	\$28	0.243%
Wyoming	0.6	42,102	31.69			17.47	4.33	\$55	\$7	0.075%
Total	318.2	22,241,613	98,624.5	5,848.8	1,427.4	64,285.0	27,719.8	\$310	\$87	0.443%

* 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 2021 U.S. Lottery Sales by Game*

(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
Arizona	7.3	1,109.8	12.0	17.4	0.0	66.1	0.0	98.9	90.1	0.0	45.1	0.0	0.0	1,439.4
Arkansas	3.0	529.4	0.0	12.0	6.5	10.3	0.0	26.7	23.8	3.4	19.7	0.0	0.0	631.9
California	39.2	6,409.5	0.0	186.2	37.8	435.9	0.0	408.3	529.1	0.0	0.0	411.2	0.0	8,417.9
Colorado	5.8	573.0	0.0	15.9	0.0	66.5	0.0	66.9	57.1	15.5	0.0	0.0	0.0	794.9
Connecticut	3.6	837.7	0.0	150.9	143.3	53.8	0.0	64.2	57.1	17.8	37.1	136.0	0.0	1,497.8
Delaware	1.0	111.5	0.0	36.6	29.4	4.7	2.7	19.3	16.7	3.2	0.0	9.7		233.8
DC	0.7	46.7	0.0	42.8	58.7		0.0	7.8	6.7	2.2	10.6	13.9	36.2	225.6
Florida	21.8	6,827.9	0.0	465.1	293.3	594.7	0.0	363.7	337.1	69.2	20.8	0.0	104.5	9,076.2
Georgia	10.8	3,605.9	0.0	639.9	418.7	142.3	0.0	125.4	159.6	23.2	6.3	305.6	207.4	5,634.4
Idaho	1.9	227.2	66.8	2.7	0.6	6.4	2.3	26.3	19.8	3.3	14.1	0.0	2.5	372.0
Illinois 1	12.7	1,384.5	0.0	352.4	342.7	220.2	0.0	126.9	157.9	0.0	35.6	0.0	0.0	2,620.1
Indiana	6.8	1,384.5	0.0	50.3	45.7	80.7	0.0	78.7	60.0	7.4	24.2	0.0	6.3	1,737.7
Iowa	3.2	316.9	12.8	9.5	5.5	0.0	6.4	43.4	29.0	5.6	23.5	0.0	0.0	452.6
Kansas	2.9	218.5	0.0	8.9	0.0	11.3	7.1	29.4	23.0	5.4	0.0	19.6	3.0	326.1
Kentucky	4.5	961.7	0.0	194.2	60.2	18.4	0.0	61.3	50.2	7.8	13.6	100.2	118.9	1,586.3
Louisiana	4.6	333.4	0.0	77.0	65.6	36.2	0.0	64.1	48.2	0.0	0.0	0.0	0.0	624.5
Maine	1.4	314.6	0.0	6.8	5.2	1.1	12.9	18.9	13.7	3.5	13.9	0.0	0.0	390.7
Maryland	6.2	993.4	0.0	290.8	395.7	60.0	0.0	93.2	107.9	20.9	66.5	572.2	0.0	2,600.6
Massachusetts	7.0	4,030.0	0.0	0.0	370.7	123.6	0.0	97.7	116.7	24.4	0.0	1,057.2	0.6	5,820.9
Michigan	10.1	2,448.6	33.7	535.9	634.1	171.0	0.0	151.1	177.1	23.6	73.3	566.6	231.3	5,046.1
Minnesota	5.7	615.6	0.0	22.2	0.0	33.0	8.7	58.4	41.1	7.9	9.9	0.0	7.0	803.6
Mississippi	2.9	393.3	0.0	15.4	0.0	1.9	0.0	34.6	31.1	0.0	0.0	0.0	0.0	476.3
Missouri	6.2	1,215.7		109.9	75.0	58.4	0.0	71.3	58.8	10.9	0.0	58.5		1,658.6
Montana 1	1.1	28.5	0.0	0.0	0.0	8.8	1.9	10.4	7.6	2.8	7.2	0.0	45.2	112.3
Nebraska	2.0	123.3	0.0	7.8	0.0	17.2	2.3	30.0	20.4	4.3	0.0	0.0	0.0	205.3
N. Hampshire	1.4	320.3	0.0	5.9	5.3	0.0	11.8	31.2	26.9	5.6	16.5	47.9	40.4	511.9
New Jersey	9.3	2,183.5	0.0	453.3	291.0	237.0	0.0	175.3	213.8	59.7	28.8	152.7	0.0	3,795.1
New Mexico	2.1	95.5	0.0	5.9	1.9	5.8	3.8	22.8	18.1	0.0	1.1	0.0	0.0	154.9
New York	19.8	4,231.7	0.0	942.3	903.2	278.4	0.0	257.1	333.9	119.7	0.0	567.9	31.8	7,666.1
N. Carolina	10.6	2,560.8	0.0	498.6	227.8	90.5	0.0	138.4	118.9	24.9	64.9	80.6	0.0	3,805.4
N. Dakota	0.8	0.0	0.0	0.0	0.0	0.0	7.6	10.5	8.8	3.4	0.0	0.0	0.0	30.3
Ohio	11.8	2,315.8	0.0	485.9	284.0	85.1	0.0	120.1	152.7	22.2	192.1	606.1	66.1	4,330.1
Oklahoma	4.0	256.0	0.0	7.0	0.0	4.3	5.4	37.9	32.0	4.1	0.0	0.0	0.0	346.8
Oregon	4.2	196.0	0.0	0.0	2.0	35.3	0.0	40.5	33.6	0.0	0.0	98.9	2.5	408.9
Pennsylvania	13.0	3,757.9	0.0	305.8	260.9	318.4	0.0	186.9	170.0	26.6	143.9	54.8	194.7	5,419.9
Rhode Island	1.1	134.6	0.0	0.0	24.3	8.3	0.0	20.9	15.7	4.8	0.0	78.8	8.4	296.0
S. Carolina	5.2	1,763.0	0.0	311.5	154.2	29.1	0.0	79.5	65.1	13.4	0.0	0.0	0.0	2,415.8
South Dakota	0.9	47.5	0.0	0.0	0.0	2.9	1.8	11.2	7.3	3.0	0.0	0.0	0.0	73.7
Tennessee	7.0	1,591.2	0.0	84.2	52.9	18.4	9.7	84.7	67.5	13.5	0.0	16.1	0.2	1,938.4
Texas	29.5	6,617.0	0.0	310.3	141.8	329.3	0.0	328.2	380.6	0.0	0.0	0.0	0.0	8,107.2
Vermont	0.6	131.7	0.0	1.4	1.3	0.0	4.6	8.0	6.5	1.9	6.3	0.0	0.0	161.5
Virginia	8.6	1,302.1	0.0	390.3	376.1	50.1	0.0	103.4	129.5	31.3	61.7	46.2	768.3	3,259.0
Washington	7.7	701.2	0.0	23.2	0.0	76.0	0.0	57.8	71.0	0.0	0.0	0.0	21.6	950.7
West Virginia	1.8	173.1	0.0	8.7	5.0	4.7	27.4	19.4	0.0	0.0	0.0	5.8		249.2
Wisconsin ¹	5.9	634.7	0.5	28.9	18.6	77.8	0.0	74.7	58.5	0.0	0.0	0.0	0.9	894.5
Wyoming	0.6	0.0	0.0	0.0	0.0	12.1	1.0	8.9	7.1	2.7	0.0	0.0	0.0	31.7
Total	318.2	64,054.6	125.8	7,113.5	5,739.1	3,886.1	94.7	4,002.4	4,176.4	598.8	936.7	5,006.5	1,897.9	97,632.7
% of total				7.3%	5.9%	4.0%	0.1%	4.1%	4.3%	0.6%	1.0%	5.1%	1.9%	100.0%

Notes to Table: Fiscal year 2020 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,
the 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 ended and year ended September 30, 2022 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 21, 2023.

Report on 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 opinion 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 or significant deficiencies may exist that were not identified.

Report on 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,
the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

February 21, 2023



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BUREAU OF STATE LOTTERY

STATE OF MICHIGAN
101 E HILLSDALE
P.O. BOX 30023
LANSING, MI 48909



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