

BUREAU OF STATE LOTTERY

An Enterprise Fund of The State of Michigan



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Years Ended
September 30, 2012 And 2011





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Comprehensive Annual Financial Report

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Prepared by Accounting Division



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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.





GOVERNOR

STATE OF MICHIGAN
BUREAU OF STATE LOTTERY
LANSING



M. SCOTT BOWEN
COMMISSIONER

December 13, 2012

The Honorable Rick Snyder, Governor
Members of the Legislature
Citizens of the State of Michigan

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Bureau of State Lottery (Lottery) for the fiscal years ending September 30, 2012 and 2011. Lottery management is responsible for the accuracy of the financial data and the completeness of the contents of this report.

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

The mission statement of the Lottery is as follows:

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

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

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

Profile of the Lottery

History

The Lottery was established under the authority of Public Act 239 of 1972 to generate funds to support Michigan's public school system. The first lottery ticket was the Green Ticket which went on sale on November 13, 1972. On October 7, 1975, the first instant game ticket was sold. Online sales began June 6, 1977 with the introduction of the Daily 3 game. The first multi-state ticket sales for the Lottery were on August 31, 1996 for The Big Game (now called Mega Millions). On January 31, 2010, sales of Powerball, a second multi-state game, began. Since the Lottery's inception, more than \$17.4 billion has been contributed to the School Aid Fund.

Lottery Products

The Lottery offers a variety of games in several styles of play: instant also known as "scratch" games; online games, where daily or more frequent drawings are conducted to select winning numbers; and pull tabs, which are similar to instant games but players pull a perforated tab instead of scratching off the ticket. These games are available to the playing public through close to 11,000 licensed Lottery retailers.



Instant Games

Instant games are played by scratching latex covering on each ticket to reveal prize symbols. A variety of games with different themes, play styles, price points and prize structures are available with a dynamic product line offering more than 40 games a year. The games offered are priced between \$1 and \$20 and top prizes range from \$1 million to Cash for Life based on life expectancy of prize winner.



Online Games

Online game tickets are generated by a terminal connected to a central system and drawings are conducted to determine the winning numbers. Drawings are every four minutes, twice a day, daily, or twice a week, depending on the game. Online games currently offered are Mega Millions, Powerball, Classic Lotto 47, Fantasy 5, Daily 3, Daily 4, Keno, Raffle, Lucky Lines and Club Keno and are played as follows:



Mega Millions/Megaplier

Mega Millions is a multi-state online game, formerly known as The Big Game. Players select from two pools of numbers: five numbers between 1 and 56 and one number between 1 and 46 for a chance to win a multi-million dollar jackpot prize. The jackpot starts at \$12 million. This game offers nine ways to win with guaranteed prize amounts on lower prize levels. Drawings are conducted twice a week on Tuesday and Friday.

On December 12, 2010, Megaplier, an add-on game to Mega Millions, began where players can now increase their prize by two to four times. The Megaplier number is selected at random before each drawing. If a player wins a non-jackpot prize on their Mega Millions wager, their prize is increased by the Megaplier number drawn. Players matching five white balls with the Megaplier option win \$1 million, regardless of the Megaplier number drawn. On January 31, 2010, the Multi-State Lottery Association (MUSL), an association of 33 member lotteries, joined with the 12 participating Mega Millions states including California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia and Washington to participate in the Mega Millions game with Michigan.



Powerball is a multi-state online game and is considered nationally to be the “marquee big jackpot game”. It was introduced January 31, 2010. Players select 5 of 59 white balls and 1 of 39 red balls for a chance to win a multi-million dollar jackpot prize. The jackpot starts at \$20 million. On January 15, 2012 the Powerball game was re-introduced at a \$2 price point with jackpots starting at \$40 million. This game offers nine ways to win with guaranteed prize amounts on lower prize levels and includes a \$1 million second prize. Drawings are conducted twice a week on Wednesday and Saturday. Power Play is an add-on game to Powerball. Effective with the January 15, 2012 changes, the variable multiplier feature of Power Play was replaced with a fixed prize structure that includes prizes ranging from \$12 to \$2 million. A total of 45 member lotteries, Mega Millions and MUSL members, participate in the Powerball game with Michigan.



Classic Lotto 47 is an in-state Lotto game. It was introduced May 15, 2005 and replaced the Winfall game. Players select 6 of 47 numbers in twice weekly drawings. Jackpots start at \$1 million. Classic Lotto 47 offers four ways to win, with guaranteed prize amounts at the lower prize levels.



Fantasy 5 was introduced September 12, 2004, replacing the Rolldown game. Players pick 5 of 39 numbers, with rolling jackpots starting at \$100,000 and daily drawings. Jackpots increase a minimum of \$5,000 per draw and roll until a player matches all five numbers in a drawing. This game offers four ways to win, with guaranteed prize amounts at the lower prize levels.



The Daily 3 & 4 games are the Lottery’s longest running and most consistently popular games, representing over 28% of total sales. Drawings are conducted twice a day, seven days a week. These games offer a wide variety of winning combinations and fixed prizes. The top prize for Daily 3 is \$500; for Daily 4, \$5,000.



Keno!

Keno! is another long-running game which started in 1990. Although the sales are less than 1% of total sales, it has a very strong and loyal player base. In this game, players chose 10 numbers from a pool of 80. The Lottery draws 22 numbers and if the player matches 10 of those 22 numbers, they win the jackpot prize of \$250,000. There are also five other ways to win by matching combinations of the numbers drawn. Drawings are conducted daily.



Raffle Games

The first online Raffle game, introduced on November 12, 2006, was Millionaire Raffle; Super Raffle was added in April 2007; Lucky 7's Raffle and Win for Life Raffle were added in 2009; and Red Hot Raffle and The Ultimate 50/50 Raffle were added in 2010. The Raffle of Riches was introduced in 2012 and had 500,000 tickets available for sale. For all Raffles, each ticket purchased contains a unique raffle number issued sequentially across the online gaming system network. When the last raffle number is issued, the game closes and no additional tickets are available for purchase. The Raffle of Riches offers three bonus drawings for extra chances to win and the prizes range from \$100 to \$2 million.



Lucky Lines

Lucky Lines, introduced in April 2010, is an instant-win online game in which players win by matching numbers in patterns on a 7 x 7 grid printed on their ticket. Players win instantly by matching 3, 4, 5, 6 or 7 numbers together in any horizontal, vertical or diagonal line. There are 49 different ways to play and the player could wager between \$1 and \$5. The top prize for Lucky Lines is \$1,000,000. The Lucky Lines game was discontinued on January 15, 2012.



Club Games



Club Keno "To Go"



Full Tilt Promo

Club Games were introduced in October 2003 and are predominantly played by patrons of bars, restaurants and bowling centers. Previously, results of the drawings, which are conducted every four minutes, were displayed on TV monitors located in retailer establishments. Beginning in October 2010, Club Keno "To Go" was introduced allowing the traditional retailers to begin selling Club Keno. At that time drawings became available to view on the web and in May 2011 on a Michigan Lottery mobile application. Club Games consist of an online Club Keno game, Club Keno Kicker, The Jack and Pull Tab games. To play Club Keno, players select up to 10 numbers from a pool of 80. The Lottery draws 20 numbers and the more numbers the player matches, the more he or she wins. Wagers can be placed from \$1 to \$20 and the top prize is \$2 million. The Kicker option allows players to multiply their Club Keno prizes as much as 10 times. The Jack is a progressive jackpot game that grows with every four minute drawing.

On October 2, 2011, The Jack was modified from matching seven of the player's numbers to eight to win the progressive jackpot. The new play style has better odds and offers secondary prizes from \$1 to \$350 and a jackpot starting at \$10,000. The Club Keno Full Tilt promotion was executed from April 2, 2012 to April 22, 2012 and helped lift sales to record levels whereby players bought a 5 draw ticket with Kicker and The Jack and they got the 6th ticket free. Pull Tab games are similar to instant tickets but players pull a perforated tab instead of scratching off the ticket. A variety of different Pull Tab games are offered at one time. Ticket prices are 50 cents, \$1, \$2, and \$5, and top prizes range from \$50 to \$25,000.



Player's Club

As of September 30, 2012 there were 441,822 registered members that have joined the Michigan Lottery's Player's Club with 250,507 opting into email communications and 77,891 opting into receiving text message communications from the Lottery. Players utilize the website to earn reward points and second chance entries for submitting non-winning instant and online game tickets. Reward points can be redeemed by players in the catalog to enter additional drawings or to earn immediate reward items. New in 2012; free play reward e-Coupons were issued to Player's Club members; expansion of the Play It Again \$1 million second chance drawing; launch of the Cashword and Bingo interactive games for the web, Android and iPhone; launch of an interactive retailer finder that allows players to quickly find retailers that sell specific games; and launch of the Blazing 500's hourly giveaway that awarded \$500 prizes to Player's Club members over 500 consecutive hours. The Michigan Lottery Player's Club can be accessed by visiting www.michiganlottery.com.

Highlights of Fiscal Year 2012

Contribution to the School Aid Fund

The Lottery had an outstanding year in fiscal year 2012 with a record \$778.4 million being disbursed to the School Aid Fund. This was the Lottery's largest contribution to the School Aid Fund in history. Lottery represents a steady source of revenue for our children's schools.

Sales

Sales for 2012 surpassed \$2.4 billion for the year and were at a record high.

Retailers Win Big with Commissions and Incentives

Retailer commissions totaled \$172.1 million in 2012. The Lottery offers our business partners a performance-based retailer incentive program. Since its launch in January 2002, the retailer incentive commission program has awarded over \$39 million in additional commissions.

Largest Single Ticket Powerball Winner in Michigan

In August 2012, a single ticket purchased in Michigan won a total of \$337 million in the Powerball game. This was the largest single ticket winner in Michigan Lottery history, the third largest jackpot in Powerball history and the seventh largest U.S. jackpot ever won.

Budgetary System and Controls

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

Economic Condition and Financial Information

Local Economy

Michigan's economy and State revenue will be significantly affected by the strength of the national recovery. Economists forecast that Michigan's residents should continue to see modest but steady economic growth over the next two years that will lead to job growth, lower unemployment rates, a larger automotive market and modestly improved state finances. Legislative changes enacted in 2011 included pension income in the state's income tax, resulting in some growth in income tax revenues. At the same time, the state's changes to the business taxes mean small growth in state revenues. Manufacturing, particularly auto manufacturing, has been a major reason for Michigan's steady economic rebound and should continue to drive economic improvements. There are many factors to the predicted modest economic growth which include: sharp decline in farm inventories due to the drought; home building which gains momentum in 2013; and consumer spending which supports moderate economic expansion as job prospects brighten. The longer-term interest rates should remain low from the Federal Reserve and more encouragingly, national non-farm employment has increased with job gains widespread and occurring in construction, manufacturing, business and professional services, and education and health services as compared to those sectors that are declining which include government, information and leisure and hospitality services.

Michigan's wage and salary employment has trended downward for a decade-long economic slide; more recently the job losses have lessened and are steadily increasing. In September 2012, Michigan's unemployment rate fell to 9.3% which was well above the national average of 7.8%. The forecast for 2013 is that Michigan will see overall job growth with modest projected gains and a decrease in the unemployment rate to an expected average of 8.7%.

These issues and uncertainties in the economy will impact spending patterns and could impact Lottery sales.

Financial Information

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

The operations involve sale of 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 Community Health for gambling addiction 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 there is an ongoing effort to achieve operational efficiencies to not only maximize revenues but maximize profits for the School Aid Fund. Operational results are included in the Financial and Statistical Sections.

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

Accounting Systems and Policies

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

Internal Controls

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

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

Debt Administration

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

Long-term Financial Planning

The Lottery continues to work on new ways to attract players and increase instant, online, and pull-tab sales. A marketing plan is developed each year. New games as well as variations of play on existing games are being researched. Also, costs saving techniques are devised and implemented to minimize operational costs which increase our net amount to the School Aid Fund.

In 2013, 41 new Instant game introductions are planned including Cash for Life Games, the highest selling instant game series in Lottery history. In addition, enhanced prize structures, promotion of base games and continued emphasis on building the retailer network including the retailer incentive program to promote our Lottery products are all part of the strategy to increase sales.

Player's Club will be enhanced in 2013 to offer players a loyalty rewards debit card called the "WonCard" where players can purchase lottery tickets or a subscription to their favorite numbers, have winnings automatically credited to their card, and earn reward points for eligibility for second chance prizes. Expanding the program will help maximize membership growth opportunity and provide Lottery insight into the online games market, while also allowing the program to be fun for all Michigan Lottery players.

As an enterprise fund of the State of Michigan, the management of the Lottery is in accordance with the rules and regulations of the State. The Lottery is a multi-billion dollar business that is housed within a government structure. In fiscal year 2012, the Lottery began working to research play for fun interactive base games using technology to measure player demand for future online gaming growth opportunities and a way to attract players in the electronic era we live in.

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

Awards and Acknowledgements

Awards

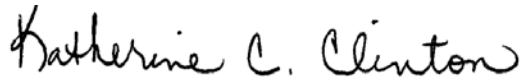
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended September 30, 2011. This was the seventh consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



Katherine C. Clinton
Deputy Commissioner for Administration



M. Scott Bowen
Commissioner

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Bureau of State Lottery
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Enos

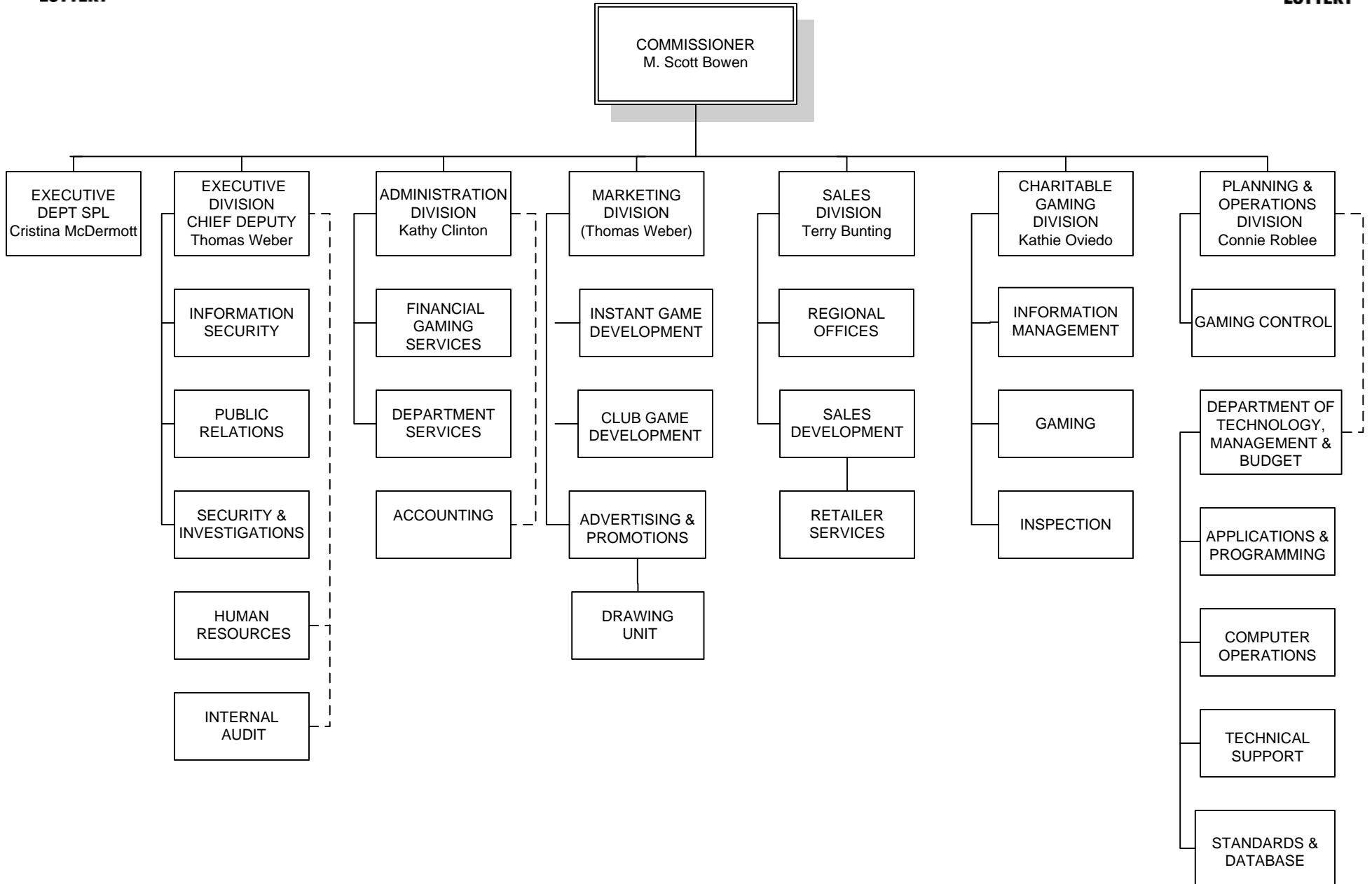
Executive Director



Bureau of State Lottery

Organization Chart and Principal Officials

September 2012



FINANCIAL SECTION





Independent Auditor's Report

Mr. M. Scott Bowen, Commissioner
Bureau of State Lottery, State of Michigan
and
Mr. Thomas H. McTavish, CPA
Auditor General State of Michigan

We have audited the accompanying financial statements of the Bureau of State Lottery, State of Michigan (an Enterprise Fund of the State of Michigan) (the "Lottery"), a proprietary fund of the State of Michigan, as of and for six-month periods and years ended September 30, 2012 and 2011, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of Michigan that is attributable to the Bureau of State Lottery. They do not purport to, and do not, present fairly the financial position of the State of Michigan as of September 30, 2012 and 2011 and the changes in its financial position and its cash flows for the six-month periods and years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lottery as of September 30, 2012 and 2011 and the respective changes in financial position and cash flows, where applicable, for the six-month periods and years then ended, in conformity with accounting principles generally accepted in the United States of America.

Mr. M. Scott Bowen, Commissioner
Bureau of State Lottery, State of Michigan
and
Mr. Thomas H. McTavish, Auditor General
State of Michigan

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

The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section and statistical section, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 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 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

December 7, 2012



Bureau of State Lottery, State of Michigan

Management's Discussion and Analysis

The following discussion of the Michigan Bureau of State Lottery's (the Lottery's) financial performance provides an overview of the Lottery's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the financial statements, which begin on page 24.

Using This Report

The Lottery is accounted for as an enterprise activity/proprietary fund, reporting on all of the activity's assets and liabilities using the accrual basis of accounting, much like a private business entity. As such, this Comprehensive Annual Financial Report (CAFR) consists of a series of financial statements, along with explanatory notes to the financial statements and supplementary schedules. The Statement of Net Assets on page 24 and the Statement of Revenues, Expenses and Changes in Net Assets on page 25, report the Lottery's net assets and their changes.

By law, the Lottery is required to deposit all of its net income each fiscal year to either the State School Aid Fund (for income related to Lottery gaming activities) or the General Fund (for income related to Charitable Gaming activities). As a result, the net assets of the Lottery consist largely of capital assets (leasehold improvements and equipment) and unrealized gains on investments held to fund future payments due on Lottery prizes that are annuities. To assess the Lottery's financial position and financial health, the reader of these statements should pay particular attention to changes in the components of assets and liabilities as set forth in the Statement of Net Assets, and in changes in operating revenues, expenses, and disbursement expenses to other funds as set forth in the Statement of Revenues, Expenses and Changes in Net Assets. In addition, the reader should also refer to the accompanying notes to the financial statements.

Financial Highlights

- Operating revenues for Lottery gaming activities increased by \$72.8 million, or 3.1%. Ticket sales, the primary operating revenue, strengthened during 2012 increasing by \$73.5 million.
- Total revenues for all activities (including non-operating) increased \$60.5 million or 2.5%.
- Non-operating revenues decreased by \$12.3 million.
- Total operating expenses for 2012 increased \$25.1 million, or 1.6%. Of this increase, prize awards (net of unclaimed prizes) related to operating revenues from gaming activities increased by \$25.5 million, or 1.9%, unclaimed prizes increased by \$4.5 million, or 18.8%, retailer and vendor commissions increased \$5.1 million, or 2.5%, while other operating expenses decreased by \$3.5 million, or 7.1%.
- Total expenses (including non-operating) for all activities increased \$72.2 million or 3.0%.
- Record setting disbursements were made to the School Aid Fund in fiscal year 2012. Disbursements to the School Aid Fund were \$778.4 million in 2012 compared to \$727.3 million in 2011, an increase of \$51.1 million or 7.0%. Net income disbursed to the General Fund related to Charitable Gaming activities decreased by \$1.8 million or 19.4%.

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

Net Assets

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

Table 1 - Net Assets
(in millions)

	September 30,		
	2012	2011	2010
Current and other assets	\$ 135.6	\$ 135.6	\$ 139.1
Investments - noncurrent	225.0	250.7	174.9
Capital assets (net of accumulated depreciation)	0.3	0.4	0.6
Total assets	360.9	386.7	314.6
Current liabilities	112.9	119.2	119.2
Long-term liabilities	213.0	237.0	181.1
Total liabilities	325.9	356.2	300.3
Net assets:			
Invested in capital assets	0.3	0.4	0.6
Restricted for unrealized gains on investments	35.0	30.5	14.3
Unrestricted (deficit)	(0.3)	(0.4)	(0.6)
Total net assets	\$ 35.0	\$ 30.5	\$ 14.3

As shown in Table 1 above, the Lottery's net assets increased since September 2011 from \$30.5 million to \$35.0 million. The change from September 2010 to 2011 was an increase of net assets by \$16.2 million. The increases are primarily attributable to the restricted for unrealized gains on investments due to changes in market value of those investments that the Lottery holds to fund future payments due on annuitized lottery prizes. Additional detailed information on investments may be found in Note 3 in the accompanying financial statements.

Capital assets consist of equipment and leasehold improvements. During fiscal year 2012, net capital assets decreased by \$.1 million since September 2011. Capital assets decreased \$0.2 million from September 2010 to 2011. Additional detailed information on capital assets may be found in Note 4 in the accompanying financial statements.

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

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

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

Table 2 - Liabilities
(in millions)

	September 30,		
	2012	2011	2010
Current:			
Warrants authorized and warrants outstanding	\$ 6.6	\$ 9.1	\$ 11.3
Accounts payable and other liabilities	5.2	6.5	4.8
Prize awards payable (net of discount)	101.0	103.6	103.1
Total current	<u>112.8</u>	<u>119.2</u>	<u>119.2</u>
Non-current:			
Prize awards payable (net of discount)	211.9	236.1	179.9
Compensated absences	1.0	0.6	1.2
Supplemental retirement	0.2	0.3	-
Total non-current	<u>213.1</u>	<u>237.0</u>	<u>181.1</u>
Total liabilities	<u>\$ 325.9</u>	<u>\$ 356.2</u>	<u>\$ 300.3</u>

Non-current liabilities consist principally of prize liability for prizes paid in installments over several years. Long-term prize liability decreased by \$24.2 million or 10.2% from 2011 to 2012 and increased \$56.2 million or 31.2% from 2010 to 2011. The decrease from 2011 to 2012 is attributable to the maturing of some long-term prize liabilities as well as minimal additions to the pool of annuitized installment prizes. The increase from 2010 to 2011 is attributable to additions to the pool of annuitized installment prizes. Refer to Note 6 in the accompanying financial statements for more information.

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

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

Table 3 - Changes in Net Assets
(in millions)

	September 30,		
	2012	2011	2010
Operating revenues	\$ 2,430.2	\$ 2,357.4	\$ 2,379.9
Operating expenses:			
Prizes and direct game expenses			
Prizes less unclaimed prizes	(1,369.8)	(1,344.3)	(1,381.6)
Commissions and game related expenses	(225.4)	(222.3)	(223.5)
Total prizes and direct game expenses	(1,595.2)	(1,566.6)	(1,605.1)
Income before other operating expenses	835.0	790.8	774.8
Other operating expenses	(45.9)	(49.4)	(56.6)
Operating income	789.1	741.4	718.2
Non-operating revenues and (expenses):			
Investment and interest revenues	15.6	27.9	17.3
Investment and interest expenses	(13.3)	(15.5)	(15.2)
School Aid Fund disbursement expense	(778.4)	(727.3)	(701.3)
General Fund disbursement expense	(7.5)	(9.3)	(11.3)
Community Health disbursement expense	(1.0)	(1.0)	(1.0)
Net non-operating revenue (expense)	(784.6)	(725.2)	(711.5)
Change in net assets	4.5	16.2	6.7
Total net assets beginning of period	30.5	14.3	7.6
Total net assets end of period	\$ 35.0	\$ 30.5	\$ 14.3

Because the Lottery is required by law to deposit all of its net income (excluding the unrealized gain or loss on investments discussed above) to the School Aid Fund or General Fund, change in net assets does not reflect the result of the Lottery's operating activities. The \$778.4 million disbursement expense to the School Aid Fund reflects the Lottery's operating activities for the fiscal year 2012. There was an increase of \$51.1 million or 7.0% from 2011 to 2012 and an increase of \$26.0 million or 3.7% from 2010 to 2011. The disbursement expense to the General Fund reflects Charitable Gaming activities. Charitable Gaming activities experienced a decrease in net revenues for three fiscal years. Charitable Gaming net income is disbursed annually to the General Fund.

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

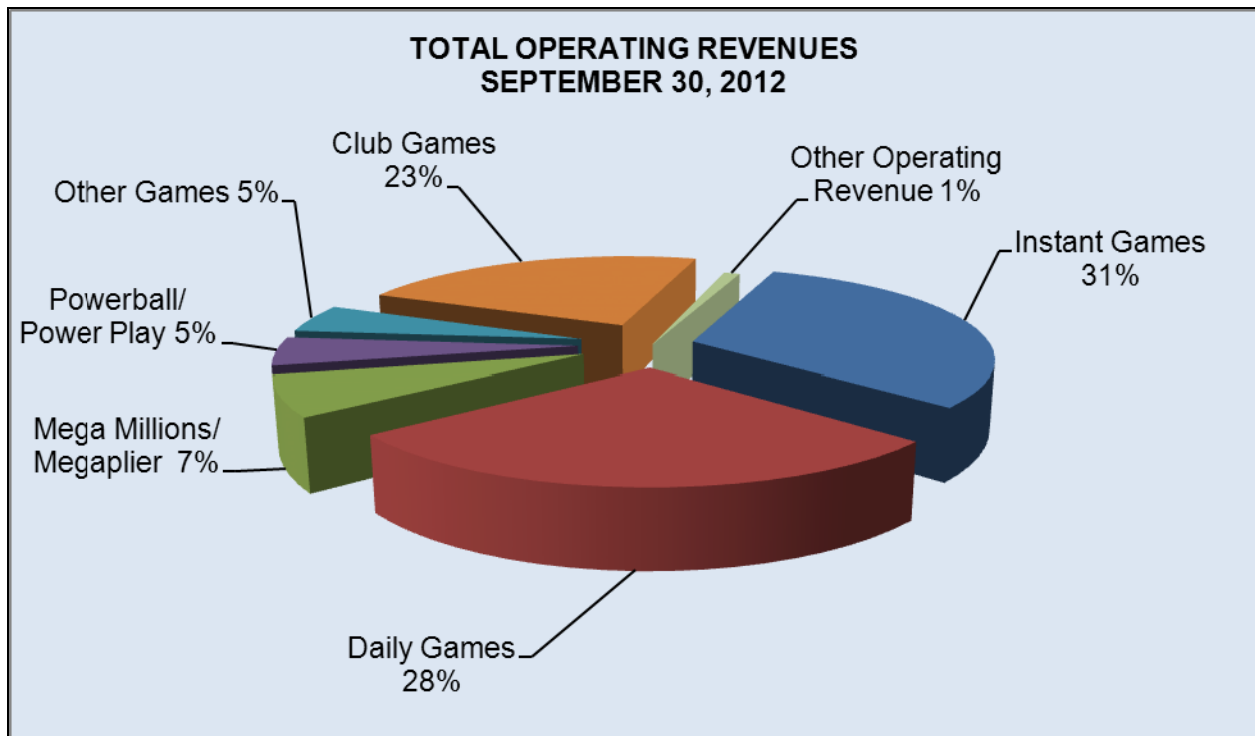
Disbursements to other funds are detailed in Table 4 below:

Table 4 - Disbursements to Other Funds
(in millions)

	September 30,		
	2012	2011	2010
School Aid Fund	\$ 778.4	\$ 727.3	\$ 701.3
General Fund	7.5	9.3	11.3
Community Health	1.0	1.0	1.0
Total Disbursements to Other Funds	\$ 786.9	\$ 737.6	\$ 713.6

Revenues

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended September 30, 2012:



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,		
	2012	2011	2010
Operating revenues:			
Instant tickets	\$ 771.7	\$ 739.2	\$ 750.8
Daily games	681.1	685.6	703.2
Mega Millions/Megaplier	166.8	167.8	173.5
Powerball/Power Play	119.5	85.9	64.5
Club games	553.3	527.9	519.6
Other games	121.0	133.5	147.6
Other operating revenue	16.8	17.5	20.7
Total operating revenues	<u>2,430.2</u>	<u>2,357.4</u>	<u>2,379.9</u>
Non-operating revenues:			
Unrealized gain (loss) on investments	4.5	16.2	6.6
Amortization on bonds	11.0	11.5	10.4
Other income	0.1	0.2	0.3
Total non-operating revenue	<u>15.6</u>	<u>27.9</u>	<u>17.3</u>
Total revenues	<u>\$ 2,445.8</u>	<u>\$ 2,385.3</u>	<u>\$ 2,397.2</u>

Operating revenues, primarily Lottery ticket sales, increased from fiscal year 2011 to 2012, and decreased from 2010 to 2011. The increase in fiscal year September 2012 over 2011 was \$72.8 million or 3.1% and decreased in fiscal year 2011 over 2010 by \$22.5 million or 0.9%.

Instant game ticket sales increased by \$32.5 million or 4.4% for fiscal year 2012 compared to fiscal year 2011. The decrease in fiscal year September 2011 over 2010 was \$11.6 million or 1.5%. The Instant sales increase from 2011 to 2012 can be attributed to enhanced prize structures which provide more prizes with increased odds of winning along with re-introducing an instant game price point of \$3.

Powerball is a multi-state game, similar to Mega Millions, offering larger jackpots. Participating in Powerball is the Multi-State Lottery Association (MUSL), an association of governmental lotteries, and the Mega Million's Lotteries for a total of 43 states, Washington D.C., and U.S. Virgin Islands. Sales for fiscal year September 2012 increased by \$33.6 million or 39.1% compared to fiscal year 2011. On January 15, 2012, the price point for Powerball increased to \$2 per ticket and a new prize matrix with better overall odds of winning was introduced which attributed to an increase in Powerball sales. Power Play is an add-on game to Powerball where players can increase their non-jackpot prizes.

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

Mega Millions is a multi-state game offering larger jackpots with an occasional "mega-jackpot". The states participating in Mega Millions with Michigan are California, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Texas, Virginia, Washington, and MUSL. Sales for the fiscal year September 2012 decreased by \$1.0 million or 0.6% compared to fiscal year 2011. Sales in fiscal year 2011 decreased by \$5.7 million or 3.3% compared to fiscal year 2010. Although 2012 saw the largest Mega Million jackpot in history of \$656.0 million, the overall sales decrease can be attributed to fewer jackpot rolls over \$100.0 million. Megaplier, introduced in December 2010, is an add-on to Mega Millions whereby players have an opportunity to increase their non-jackpot winnings.

Club games include Club Keno, Club Keno Kicker, Pull Tabs, and The Jack. The Club Games sales increased in fiscal year September 2012 by \$25.4 million or 4.8% over 2011, and increased by \$8.3 million or 1.6% from 2010 to 2011. The 2012 sales increase is attributable to redesigning of The Jack in October 2011 to greatly improve the odds of winning and also creating a prize matrix that would support higher jackpots. Efforts were focused on increasing awareness of Club Keno "To Go" which was introduced in October 2010 that allowed the sale of Club Keno, Club Keno Kicker, and The Jack from all traditional retailers. This was further supported by the promotion of the Lottery mobile applications for iPhone and Android enabling players to be able to watch Club Keno drawings anywhere.

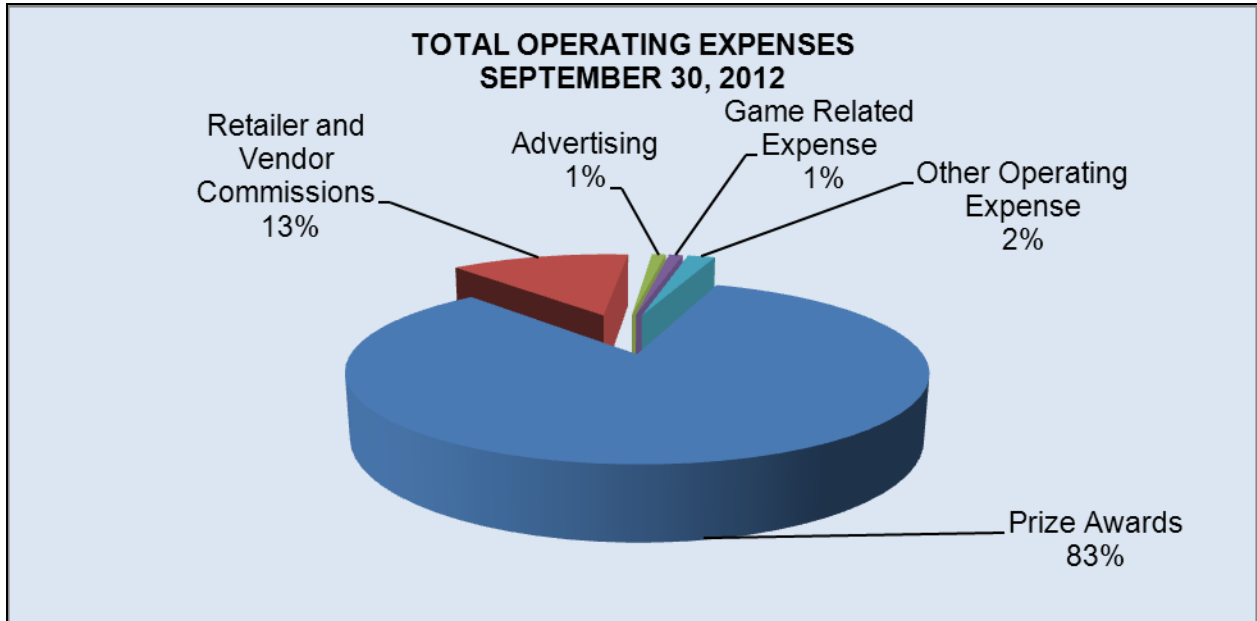
Other games consist of Classic Lotto 47, Fantasy Five, Keno, Raffle and Lucky Lines. Classic Lotto 47 enjoyed a slight increase in sales during 2012. In total, other games sales experienced a decrease by \$12.5 million or 9.4% compared to fiscal year 2011. Sales in fiscal year 2011 decreased by \$14.1 million or 9.6% compared to fiscal year 2010. In 2012, Raffle consisted of one Raffle of Riches, a \$20 game, which included added bonus drawings. The Lucky Lines game was discontinued January 2012.

The decrease in non-operating revenues from 2011 to 2012 resulted from a decrease in unrealized gain on investments, bond amortization and other income. As previously discussed, the unrealized gain or loss on investments is a reflection of the market value of the investments and does not impact the disbursement to the School Aid Fund. The slight decrease in bond amortization from 2011 to 2012 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. Bond amortization in 2011 increased over 2010 as a result of a purchase of additional investments held to maturity for annuity prizes awarded. Other income decreased from 2011 to 2012 due to declining 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, 2012:



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,		
	2012	2011	2010
Prizes:			
Instant prizes	\$ 514.9	\$ 493.4	\$ 500.6
Online prizes	521.3	530.0	568.1
Club game prizes	362.0	344.8	340.2
Total prizes	<u>1,398.2</u>	<u>1,368.2</u>	<u>1,408.9</u>
Less: unclaimed prizes	<u>28.4</u>	<u>23.9</u>	<u>27.3</u>
Net prize awards	<u>1,369.8</u>	<u>1,344.3</u>	<u>1,381.6</u>
Direct game expenses:			
Retailer commissions	172.1	168.4	170.5
Vendor commissions	33.8	32.4	31.9
Game related expenses	<u>19.5</u>	<u>21.5</u>	<u>21.1</u>
Total direct game expenses	<u>225.4</u>	<u>222.3</u>	<u>223.5</u>
Other operating expenses:			
Salaries, wages and benefits	19.2	17.0	16.9
Other professional services	5.5	5.1	5.6
Printing and supplies	1.8	1.8	2.1
Other general and administrative	2.7	2.9	3.0
Promotion and advertising	<u>16.7</u>	<u>22.6</u>	<u>29.0</u>
Total other operating expenses	<u>45.9</u>	<u>49.4</u>	<u>56.6</u>
Total operating expenses	<u>1,641.1</u>	<u>1,616.0</u>	<u>1,661.7</u>
Non-operating expenses:			
Amortization of prize discount	13.3	15.5	15.2
School Aid Fund disbursement	778.4	727.3	701.3
General Fund disbursement	7.5	9.3	11.3
Community Health disbursement	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total non-operating expenses	<u>800.2</u>	<u>753.1</u>	<u>728.8</u>
Total expenses	<u>\$ 2,441.3</u>	<u>\$ 2,369.1</u>	<u>\$ 2,390.5</u>

The Daily Games prize payout decreased overall in 2012 compared to 2011 as well as 2011 compared to 2010. The Daily 3 prize payout had an increase to 48.6% in 2012, compared to 46.9% in 2011, and 48.2% in 2010. The Daily 4 payout decreased to 43.9% in 2012, compared to 49.0% in 2011, and 57.4% in 2010. Daily games are designed to yield an average prize payout of 50.0% and combined, the games averaged a payout of 46.1% in 2012, compared to 48.0% in 2011, and 52.9% in 2010.

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

The Club Games prize payout percentage slightly increased to 64.9% in 2012, compared to 64.8% in 2011 and equally comparable to 64.9% in 2010. The higher Club Games payout is an important part of the appeal of this style of game in this market. The other online games have an anticipated payout between 50% and 60%.

Instant games had an overall payout of 66.7% in 2012, compared to 66.8% in 2011 and equally comparable to 66.7% in 2010. The games vary in payout percentage depending on selling price of a ticket for a game. Instant game prize payouts range from 56.0% for a \$2 game to 75.0% for a \$20 game.

Retailer commissions have increased commensurate with higher overall sales. Vendor commissions have increased commensurate with higher overall sales and due to additional retailer equipment acquired. Game related expense has decreased by \$2.0 million or 9.3% in 2012 from 2011 and increased by \$0.4 million or 1.9% in 2011 from 2010.

Other operating expenses have decreased by \$3.5 million or 7.1% from 2012 over 2011 and decreased \$7.2 million or 12.7% in 2011 from 2010.

Unclaimed Prizes

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

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

Unclaimed prizes increased by \$4.5 million from 2011 to 2012 and decreased by \$3.4 million from 2010 to 2011.

Charitable Gaming

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

	September 30,		
	2012	2011	2010
Gross revenue	\$ 14.5	\$ 16.0	\$ 18.7
Operating expenses	(7.0)	(6.7)	(7.4)
Net income	\$ 7.5	\$ 9.3	\$ 11.3

Charitable Gaming activities overseen by the Lottery include the licensing and regulation of charitable and certain other not-for-profit organizations that conduct bingo games and raffles for fund-raising purposes. By Executive Order 2012-4 dated April 2012, all millionaire party licensing and regulation activities were transferred from the Lottery to the Michigan Gaming Control Board. Millionaire party licensing revenue shall be remitted to the Lottery and all necessary expenses shall be financed by the Lottery. Charitable Gaming revenues decreased by \$1.5 million or 9.4% for fiscal year 2012 compared to fiscal year 2011 and decreased \$2.7 million or 14.4% from fiscal year 2010 to 2011.

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

The Lottery also oversees the distribution and sale of break-open tickets, (also for fund-raising purposes), to these same organizations. The decrease in revenues is primarily due to a decrease in sales of break-open tickets.

The mission of the Lottery with respect to charitable gaming activities is to ensure that only qualified organizations are licensed to conduct fund-raising activities and that said activities are conducted in accordance with existing laws, rules and regulations. Revenues received through the issuance of licenses and from the distribution of break-open tickets are intended to cover the costs of overseeing the program activities and are not intended as a primary goal to generate revenue for the State. Any revenue in excess of program costs is disbursed annually to the State's General Fund.

Other Potentially Significant Factors Impacting Next Year

A Player's Club loyalty card program which has been branded "WonCard" is anticipated to launch in April 2013. It is a pre-funded debit card authorized by Discover Payment Services that will allow players to purchase instant, pull tab and draw game wagers from Lottery retailers and have some of their winnings deposited directly to their card. Player's Club members who use the "WonCard" for purchases will accumulate loyalty reward points automatically. Subscriptions for draw games will be offered as well where players can subscribe via a web portal or mobile device using their favorite numbers.

There will be enhancements to the instant game prize payouts that will create more winning experiences for players and drive increases in sales. The Cash for Life instant game will be re-launched as it was the highest selling instant game in Lottery's history. Additional interactive web and mobile based versions of instant games will be developed in FY2013 for the Player's Club internet site, specifically a version of Raise the Stakes, a \$2 instant game. Raise the Stakes will provide players with the ability to enter daily drawings and bi-monthly progressive style drawings. Additionally, functionality will be provided to allow players to create and join teams for entries to be pooled with other players' entries to better their odds of winning.

To attract and maximize player engagement, retention, and promote winner awareness, marketing campaigns for the Player's Club website will focus on further expanding the interactive channel mix to include tablets and mobile web. A stronger YouTube content strategy will be implemented which centers around providing access to the Lottery's televised drawings. New play for fun leaderboard games will be introduced and continued second chance promotions will be offered.

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

Contacting the Lottery's Financial Management

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

Bureau of State Lottery, State of Michigan
Statement of Net Assets
September 30, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Equity in State Treasurer's Common Cash Fund	\$ 12,974,439	\$ 15,934,334
Investments, at fair value	40,702,343	48,850,728
Accounts receivable - net	75,176,619	65,739,010
Inventory	6,791,956	5,056,318
Total current assets	135,645,357	135,580,390
Noncurrent assets:		
Investments, at fair value	224,994,188	250,676,243
Capital assets:		
Leasehold improvements and equipment	4,398,529	4,398,529
Accumulated depreciation	(4,140,268)	(3,951,410)
Total capital assets	258,261	447,119
Total noncurrent assets	225,252,449	251,123,362
Total assets	360,897,806	386,703,752
Liabilities		
Current liabilities:		
Warrants outstanding	163,459	920,796
Warrants authorized	6,413,818	8,140,012
Accounts payable and other liabilities	5,248,181	6,546,910
Prize awards payable - net of discount	101,048,712	103,623,946
Total current liabilities	112,874,170	119,231,664
Noncurrent liabilities:		
Prize awards payable - net of discount	211,864,471	236,136,724
Accrual for compensated absences, less current portion	952,512	537,920
Accrual for supplemental retirement, less current portion	231,573	334,132
Total noncurrent liabilities	213,048,556	237,008,776
Total liabilities	325,922,726	356,240,440
Net Assets		
Invested in capital assets	258,261	447,119
Restricted for unrealized gains on investments	34,975,080	30,463,312
Unrestricted (deficit)	(258,261)	(447,119)
Total net assets	\$ 34,975,080	\$ 30,463,312

See Accompanying Notes to Financial Statements

Bureau of State Lottery, State of Michigan
Statement of Revenues, Expenses and Changes in Net Assets
For the Six Months and Years Ended September 30, 2012 and 2011

	Six Months Ended		Years Ended	
	2012	2011	2012	2011
Operating revenues				
Ticket sales	\$ 1,164,798,759	\$ 1,132,257,888	\$ 2,413,458,637	\$ 2,339,954,260
Charitable gaming and other	7,423,252	8,278,814	16,822,861	17,462,254
Total operating revenues	<u>1,172,222,011</u>	<u>1,140,536,702</u>	<u>2,430,281,498</u>	<u>2,357,416,514</u>
Operating expenses				
Prize awards	675,616,406	669,467,726	1,398,161,927	1,368,238,382
Less - unclaimed prizes	<u>(15,424,207)</u>	<u>(12,065,210)</u>	<u>(28,410,070)</u>	<u>(23,912,948)</u>
Net prize awards	660,192,199	657,402,516	1,369,751,857	1,344,325,434
Retailer and vendor commission	100,234,704	97,284,546	205,986,681	200,749,372
Game-related expenses	8,648,676	10,014,810	19,460,815	21,538,126
Depreciation expense	93,995	98,571	188,858	210,720
Other operating expenses	<u>20,689,318</u>	<u>23,231,177</u>	<u>45,706,462</u>	<u>49,202,167</u>
Total operating expenses	<u>789,858,892</u>	<u>788,031,620</u>	<u>1,641,094,673</u>	<u>1,616,025,819</u>
Operating income	<u>382,363,119</u>	<u>352,505,082</u>	<u>789,186,825</u>	<u>741,390,695</u>
Non-operating revenues				
Investment revenue	14,343,368	32,395,380	15,448,561	27,752,549
Interest on equity in State Treasurer's Common Cash Fund	<u>78,007</u>	<u>77,908</u>	<u>124,695</u>	<u>196,531</u>
Total non-operating revenues	<u>14,421,375</u>	<u>32,473,288</u>	<u>15,573,256</u>	<u>27,949,080</u>
Non-operating expenses				
Bank fees	(2,325)	(2,501)	(4,835)	(5,000)
Amortization of prize award obligation discount	<u>(6,417,342)</u>	<u>(7,542,046)</u>	<u>(13,321,182)</u>	<u>(15,458,515)</u>
Total non-operating expenses before disbursements	<u>(6,419,667)</u>	<u>(7,544,547)</u>	<u>(13,326,017)</u>	<u>(15,463,515)</u>
Disbursements to School Aid Fund	(377,207,797)	(345,944,630)	(778,431,938)	(727,324,851)
Disbursements to General Fund	(3,620,649)	(4,454,913)	(7,500,358)	(9,353,695)
Disbursements to Community Health	<u>(495,000)</u>	<u>(495,000)</u>	<u>(990,000)</u>	<u>(990,000)</u>
Total disbursements	<u>(381,323,446)</u>	<u>(350,894,543)</u>	<u>(786,922,296)</u>	<u>(737,668,546)</u>
Total non-operating expenses	<u>(387,743,113)</u>	<u>(358,439,090)</u>	<u>(800,248,313)</u>	<u>(753,132,061)</u>
Net non-operating revenue (expense)	<u>(373,321,738)</u>	<u>(325,965,802)</u>	<u>(784,675,057)</u>	<u>(725,182,981)</u>
Change in net assets	9,041,381	26,539,280	4,511,768	16,207,714
Total net assets at beginning of period	<u>25,933,699</u>	<u>3,924,032</u>	<u>30,463,312</u>	<u>14,255,598</u>
Total net assets at end of period	<u>\$ 34,975,080</u>	<u>\$ 30,463,312</u>	<u>\$ 34,975,080</u>	<u>\$ 30,463,312</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, 2012 and 2011

	Six Months Ended		Years Ended	
	2012	2011	2012	2011
Cash Flows From Operating Activities				
Cash collections from customers	\$ 1,207,535,833	\$ 1,146,139,034	\$ 2,420,760,505	\$ 2,354,810,133
Payments to employees	(9,687,307)	(8,433,442)	(19,098,050)	(17,130,603)
Payments to suppliers	(25,938,956)	(27,741,870)	(50,434,371)	(54,202,443)
Payments to prize winners	(693,673,426)	(693,720,587)	(1,409,920,525)	(1,303,047,343)
Payments for retailer and vendor commissions	(100,234,704)	(97,284,546)	(205,986,681)	(200,749,372)
Net cash provided by operating activities	378,001,440	318,958,589	735,320,878	779,680,372
Cash Flows From Noncapital Financing Activities				
Disbursements to School Aid Fund	(473,431,938)	(422,324,851)	(778,431,938)	(727,324,851)
Disbursements to General Fund	(7,500,358)	(9,353,695)	(7,500,358)	(9,353,695)
Disbursements to Community Health	(990,000)	(990,000)	(990,000)	(990,000)
Net cash used for noncapital financing activities	(481,922,296)	(432,668,546)	(786,922,296)	(737,668,546)
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	-	(5,975)	-	(105,107)
Cash Flows From Investing Activities				
Proceeds from the sale and maturity of investment securities	21,335,000	27,020,000	49,279,000	53,040,000
Purchase of investments	-	-	-	(97,278,310)
Interest received	103,277	142,161	124,695	196,531
Bank fees	(2,325)	(2,501)	(4,835)	(5,000)
Net cash provided by investing activities	21,435,952	27,159,660	49,398,860	(44,046,779)
Net decrease in cash and cash equivalents	(82,484,904)	(86,556,272)	(2,202,558)	(2,140,060)
Cash and cash equivalents at beginning of period	95,295,884	101,569,810	15,013,538	17,153,598
Cash and cash equivalents at end of period	\$ 12,810,980	\$ 15,013,538	\$ 12,810,980	\$ 15,013,538

Bureau of State Lottery, State of Michigan
Statement of Cash Flows
For the Six Months and Years Ended September 30, 2012 and 2011

	Six Months Ended		Years Ended	
	2012	2011	2012	2011
Reconciliation of net operating income to net cash provided by operating activities				
Operating income	\$ 382,363,119	\$ 352,505,082	\$ 789,186,825	\$ 741,390,695
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	93,995	98,571	188,858	210,720
Bad debt expense	61,920	67,944	83,383	135,557
Amortization of prize award obligation discount	(6,417,342)	(7,542,046)	(13,321,182)	(15,458,515)
Net changes in assets and liabilities:				
Inventory	(570,343)	587,113	(1,735,638)	319,081
Receivables from retailers	35,313,821	5,602,332	(9,520,992)	(2,606,381)
Warrants authorized, compensated absences, supplemental retirement, accounts payable, other liabilities	(5,779,845)	(3,584,382)	(2,712,890)	(1,047,391)
Prize awards payable	(27,063,885)	(28,776,025)	(26,847,486)	56,736,606
Net cash provided by operating activities	\$ 378,001,440	\$ 318,958,589	\$ 735,320,878	\$ 779,680,372
Reconciliation of cash and cash equivalents				
Cash and cash equivalents at beginning of period				
Equity in State Treasurer's Common Cash Fund	\$ 95,783,806	\$ 103,272,965	\$ 15,934,334	\$ 17,877,635
Warrants outstanding	(487,922)	(1,703,155)	(920,796)	(724,037)
Net cash and cash equivalents at beginning of period	\$ 95,295,884	\$ 101,569,810	\$ 15,013,538	\$ 17,153,598
Cash and cash equivalents at end of period				
Equity in State Treasurer's Common Cash Fund	\$ 12,974,439	\$ 15,934,334	\$ 12,974,439	\$ 15,934,334
Warrants outstanding	(163,459)	(920,796)	(163,459)	(920,796)
Net cash and cash equivalents at end of period	\$ 12,810,980	\$ 15,013,538	\$ 12,810,980	\$ 15,013,538
Schedule of noncash investing, capital, and financing activities				
Increase in fair value of investments	\$ 9,041,381	\$ 26,539,279	\$ 4,511,768	\$ 16,207,714

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Public Act 95 of 1996 allows the Lottery to participate in joint enterprises, such as multi-state lotteries, with other sovereignties. Michigan, a Mega Millions state, participates in Powerball and Power Play, a multi-state lottery game, 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 12 states: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, Washington and MUSL. Net income from Mega Millions, Megaplier, Powerball and Power Play is disbursed to the School Aid Fund.

Basis of Presentation

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

Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Lottery distinguishes operating revenue and expenses from non-operating items. The principal operating revenue of the Lottery is primarily comprised of sales from instant and online tickets. Operating expenses mainly consist of payments to instant and online prize winners and commissions to retailer agents and vendors. Excess revenue over expenses is designated for payment to the State School Aid Fund, except for the excess of revenue over expenses from charitable gaming activities and up to \$1 million per year to the Department of Community Health for gambling addiction programs which are designated for payment to the State General Fund. All other revenues and expenses are reported as non-operating.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Lottery no longer needs to elect whether to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 to its financial statements. This GASB statement codifies all existing FASB, APB, and AICPA guidance currently in effect, which does not conflict with or contradict GASB pronouncements.

Revenue Recognition

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Statement of Cash Flows

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

Use of Estimates

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

Equity in State Treasurer's Common Cash Fund

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

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

Investments

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

Inventory

Inventory consists of instant game tickets, pull tab game tickets and charity game tickets on hand and for sale at year end as well as merchandise prizes for games that have not started as of September 30, 2012 and 2011. The inventory is valued at cost, primarily using the weighted average method.

Provision for Doubtful Accounts

The Lottery establishes an allowance for bad debt for retailer receivables greater than 90 days old. A bad debt expense is recorded when the allowance is established for these receivables. The amount of the allowance for doubtful accounts totaled \$1,236,153 as of September 30, 2012 and \$1,253,371 as of September 30, 2011.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Capital Assets

The Lottery has established a \$5,000 threshold for capitalization of purchases of assets, which include equipment and leasehold improvements, and are reported in the Statement of Net Assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Depreciation of equipment is computed using the straight-line method over five years, the estimated useful life of the assets. The Lottery has established a \$200,000 threshold for intangible assets such as constructed computer software. Information technology equipment including constructed computer software is depreciated over three years, the estimated useful life of the assets. Building leasehold improvements are depreciated over eight years, the estimated useful life of the improvements. 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 online games may be played on an advance wager basis. An associated liability is recognized for all wagers received for drawings to be conducted after the end of the reporting period.

Warrants Authorized and Warrants Outstanding

Most of the Lottery's disbursements are made through warrants issued by the State. Warrants requested by the Lottery are charged to the Lottery's equity in the State Treasurer's Common Cash Fund as they clear the State Treasurer's account. Therefore, warrants outstanding represent drafts issued against the State Treasurer's account, which have not cleared. Warrants requested by the Lottery, but not yet issued by the State, are reported as warrants authorized.

Unclaimed Prizes

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of equipment and leasehold improvements. The difference between the fair value of investments and the amortized book value of investments is reported as restricted for unrealized gains on investments and is not available for disbursement to the School Aid Fund in accordance with Public Act 239.

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

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 pool functions as both a cash management pool and a demand deposit account. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes and other evidences of indebtedness of the United States Government and its agencies and in prime commercial paper. The Treasurer invests excess cash in short-term investments or cash equivalents.

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

Common Cash Deposits

Custodial Credit Risk

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

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

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

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

Foreign Currency Risk

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

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

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

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

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, 2012 and 2011, common cash investments were not exposed to custodial credit risk.

Credit Risk

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

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services: Standard and Poor's (A-1); and Moody's (P-1). Borrowers must have at least \$400 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrower's outstanding debt. The investments are further limited to \$200 million in any borrower, unless the borrower has an A-1+ rating in which case the investment is not to exceed \$300 million. As of September 30, 2012 and 2011, 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.

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

NOTE 3 - INVESTMENTS

Investments totaling \$265,696,531 at September 30, 2012 and \$299,526,971 at September 30, 2011 are in the form of U. S. Treasury zero-coupon bonds and State of Michigan General Obligation Capital Appreciation Bonds, series 2009B (Michigan CAB bonds).

These investments were purchased to fund future payments due to annuity prize winners. The bonds are reported at fair value. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in Note 6. Cash receipts from the maturity of investments totaled \$49,279,000 in the year ended September 30, 2012 and \$53,040,000 in the year ended September 30, 2011. For the six months ended September 30, 2012 and 2011, cash receipts from the maturity of investments totaled \$21,335,000 and \$27,020,000, respectively.

Investments at September 30 consist of the following:

	<u>2012</u>	<u>2011</u>
U. S. Treasury zero-coupon bonds	\$ 169,415,164	\$ 173,770,297
Michigan CAB bonds	<u>96,281,367</u>	<u>125,756,674</u>
Total Investments	<u>\$ 265,696,531</u>	<u>\$ 299,526,971</u>

As reported on the Statement of Net Assets:

	<u>2012</u>	<u>2011</u>
Current investments	\$ 40,702,343	\$ 48,850,728
Noncurrent investments	<u>224,994,188</u>	<u>250,676,243</u>
Total Investments	<u>\$ 265,696,531</u>	<u>\$ 299,526,971</u>

Policy Disclosures

Investment authority with regard to the State Lottery Fund is delegated to the State Treasurer per the Michigan Compiled Laws Section 432.41. This authority is the same investment authority with regard to the State's pension (and other employee benefit) trust funds which is found in Michigan Compiled Laws Section 38-1133. The law allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments.

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

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

Interest Rate Risk

Investments in prize annuities at September 30, 2012 and 2011 consist of the following:

September 30, 2012

<u>Maturities in Years</u>	<u>Investments in United States Treasury Zero-Coupon Bonds</u>	<u>Interest Rate Low to High</u>	<u>Investments in Michigan CAB Bonds</u>	<u>Interest Rate Low to High</u>
Less than 1	\$ 13,165,641	0.51% to 7.11%	\$ 27,536,701	3.94% to 4.50%
1-5	55,068,175	0.79% to 7.19%	47,648,485	4.67% to 7.01%
6-10	34,869,344	2.51% to 4.99%	13,542,773	7.15% to 8.20%
11-15	32,296,295	3.69% to 4.94%	3,800,364	8.25% to 8.38%
16-20	23,502,707	4.26% to 4.71%	3,753,044	8.39% to 8.39%
21-26	10,513,002	4.35% to 4.79%	-	-
Fair Market Value	<u>\$ 169,415,164</u>		<u>\$ 96,281,367</u>	

September 30, 2011

<u>Maturities in Years</u>	<u>Investments in United States Treasury Zero-Coupon Bonds</u>	<u>Interest Rate Low to High</u>	<u>Investments in Michigan CAB Bonds</u>	<u>Interest Rate Low to High</u>
Less than 1	\$ 13,164,625	0.17% to 7.07%	\$ 35,686,103	3.23% to 3.77%
1-5	60,424,731	0.51% to 7.19%	67,613,031	3.94% to 6.75%
6-10	32,634,053	2.20% to 4.99%	14,578,496	7.01% to 8.05%
11-15	31,050,766	3.52% to 4.98%	4,203,441	8.05% to 8.33%
16-20	23,072,092	4.20% to 4.70%	3,675,603	8.38% to 8.39%
21-26	13,424,030	4.35% to 4.79%	-	-
Fair Market Value	<u>\$ 173,770,297</u>		<u>\$ 125,756,674</u>	

Interest rate risk is the risk that changes in interest rates of debt investment 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.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investment grade, as defined in MCL Section 38.1132, includes investments in the top four major grades, as determined by two national rating services. The State Treasurer's policy is to use Standard & Poor's (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). The Lottery's policy is that all long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase unless specific requirements are met.

U. S. Treasury zero-coupon bonds are explicitly guaranteed by the U. S. government and credit quality ratings are therefore not required. The Lottery procedure to invest in this type of bond does not require a specific credit rating, but credit quality is inherently high as the bonds are explicitly guaranteed by the U. S. government. As of September 30, 2012 and September 30, 2011, the Lottery's investments in Michigan CAB bonds were rated AA- by Standard and Poor and Aa2 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, 2012, investments in Michigan CAB bonds account for 36.2% of the total Investments as compared to 42.0% as of September 30, 2011.

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, 2012 and 2011 the Lottery had no investments subject to foreign currency risk.

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

NOTE 4 - CAPITAL ASSETS

A summary of capital asset activity for the fiscal years ended September 30, 2012 and 2011 is as follows:

Year Ending	Beginning Balance	Additions	Deletions	Ending Balance
<u>September 30, 2012</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,955,989	\$ -	\$ -	\$ 1,955,989
Equipment	2,442,540	-	-	2,442,540
Total capital assets being depreciated	4,398,529	-	-	4,398,529
Less: accumulated depreciation				
Leasehold improvements	1,932,922	3,204	-	1,936,126
Equipment	2,018,488	185,654	-	2,204,142
Total accumulated depreciation	3,951,410	188,858	-	4,140,268
Total capital assets being depreciated, net	<u>\$ 447,119</u>	<u>\$ (188,858)</u>	<u>\$ -</u>	<u>\$ 258,261</u>
<u>September 30, 2011</u>				
Capital assets being depreciated:				
Leasehold improvements	\$ 1,950,014	\$ 5,975	\$ -	\$ 1,955,989
Equipment	2,463,652	99,132	120,244	2,442,540
Total capital assets being depreciated	4,413,666	105,107	120,244	4,398,529
Less: accumulated depreciation				
Leasehold improvements	1,914,616	18,306	-	1,932,922
Equipment	1,946,318	192,406	120,236	2,018,488
Total accumulated depreciation	3,860,934	210,712	120,236	3,951,410
Total capital assets being depreciated, net	<u>\$ 552,732</u>	<u>\$ (105,605)</u>	<u>\$ 8</u>	<u>\$ 447,119</u>

NOTE 5 - DISAGGREGATION OF PAYABLE BALANCE

Accounts payable and other liabilities at September 30, 2012 and 2011 were as follows:

	2012	2011
Accounts payable vendors	\$ 1,314,793	\$ 2,592,586
Retailer security deposits/accounts payable	2,398,866	2,211,645
Accrued salaries	604,479	578,256
Compensated absences	827,484	1,061,864
Supplemental retirement	102,559	102,559
Total	<u>\$ 5,248,181</u>	<u>\$ 6,546,910</u>

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

NOTE 6 - PRIZE AWARDS

Installment prize awards are recorded at their present value using discount rates ranging from 3.5% to 8.5%. 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>2012</u>	<u>2011</u>
Current - at face amount	\$ 102,152,119	\$ 105,013,032
Less - unamortized discount	<u>(1,103,407)</u>	<u>(1,389,086)</u>
Current - at present value	<u>101,048,712</u>	<u>103,623,946</u>
Long-term - at face amount	317,314,733	352,388,567
Less - unamortized discount	<u>(105,450,262)</u>	<u>(116,251,843)</u>
Long-term - at present value	<u>211,864,471</u>	<u>236,136,724</u>
Total	<u><u>\$ 312,913,183</u></u>	<u><u>\$ 339,760,670</u></u>

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

2013	\$ 40,932,633
2014	34,403,933
2015	29,360,800
2016	23,255,800
2017	16,225,600
2018-2022	69,904,000
2023-2027	55,609,800
2028-2032	48,709,000
2033-2037	33,736,300
2038-2042	3,204,700
2043-2047	1,636,000
2048-2052	1,040,000
2053-2056	<u>228,800</u>
Total at face amount	358,247,366
Less - unamortized discount	<u>(106,553,669)</u>
Total installment prize awards payable at present value	251,693,697
Non-installment prize awards payable	<u>61,219,486</u>
Total prize awards payable	<u><u>\$ 312,913,183</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
2012	\$ 284,549,071	\$ 17,162,459	\$ 50,017,833	\$ 251,693,697	\$ 39,829,226
2011	\$ 231,288,151	\$ 112,020,952	\$ 58,760,032	\$ 284,549,071	\$ 48,412,347

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

NOTE 7 - 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 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, 2011.

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
2012	\$ 1,599,784	\$ 1,247,401	\$ 1,067,189	\$ 1,779,996	\$ 827,484	\$ 952,512
2011	\$ 2,202,322	\$ 1,196,183	\$ 1,798,721	\$ 1,599,784	\$ 1,061,864	\$ 537,920

NOTE 8 – PENSION AND POST-RETIREMENT BENEFITS

Public Act 264 of 2011 reformed the State Employees' Retirement Act and the Public Employee Retirement Health Care Funding Act as signed into law on December 15, 2011. Changes for both the Defined Benefit Plan (Plan 1) and Defined Contribution Plan (Plan 2) are included respectively below.

Defined Benefit Plan (Plan 1)

The Lottery's employees hired prior to March 31, 1997, are enrolled in a noncontributory defined benefit plan through the State Employees' Retirement System upon meeting certain eligibility requirements. Recent changes in Public Act 264 of 2011 to the defined benefit plan granted members a choice regarding their future retirement plan. Members can voluntarily pay 4% of compensation to remain in this pension plan for future service, or decide not to make that choice and become a participant in the defined contribution plan for future years of service. Member elections were to be made by March 2, 2012 and were implemented for the pay period ending April 26, 2012. Generally, qualified participants in the defined benefit plan are eligible for pension, dental, vision and major medical coverage.

Bureau of State Lottery, State of Michigan

Notes to Financial Statements

A member may retire with an age and service allowance after completing: (1) at least 10 years of credited service and (2) attaining the minimum retirement age of 60, or at least age 55 with 30 years of service credit. Pension benefits are determined using 1.5% times a member's final average compensation, calculated as the average of a member's monthly pay during the period of 36 consecutive months of credited service producing the highest monthly average multiplied by length of service. Employees become vested for retiree health insurance benefits with 10 or more years of service.

Defined Contribution Plan (Plan 2)

The Lottery's employees hired after March 31, 1997, are enrolled in a defined contribution plan through the State Employee's Retirement System upon meeting certain eligibility requirements. Recent changes in Public Act 264 of 2011 include where former vested and non-vested members of the defined benefit plan can voluntarily elect to enroll in the defined contribution plan including those former employees returning to state employment between January 1, 2012 and January 1, 2014. Also, those currently in the defined contribution plan were given the option to change their retirement health care. Members could keep the graded premium subsidy where they can accrue credit towards insurance premiums in retirement, or they can choose the Personal Healthcare Fund (PHF) plan that can be used to pay healthcare expenses in retirement. Generally, qualified participants in the defined contribution plan are eligible to retire at age 55, with 30 years of service or at age 60 with 10 years of service. The Lottery contributes a mandatory 4% of the employees' salary and matches up to an additional 3% of the employees' contributions. Participants in this plan are 100% vested for any employee contributions. Participants become vested for 50% of the employer contributions after 2 years of service, 75% after 3 years of service and 100% after 4 years of service. Employees become vested for retiree health insurance benefits with 10 or more years of service.

The cost of these pension and other post-employment benefits are allocated to the Lottery as a percentage of gross payroll. The payroll for the Lottery employees covered by the Plan 1 and Plan 2 was approximately \$5,442,671, \$5,359,874, and \$5,407,433 for the six months ended September 30, 2012, 2011 and 2010 respectively and approximately \$10,839,192, \$10,642,910, and \$10,871,968 for the years ended September 30, 2012, 2011, and 2010, respectively. The Lottery's allocated contribution requirements and contributions actually made were \$3,143,347, \$1,876,414, and \$1,813,029 for the six months ended September 30, 2012, 2011, and 2010, respectively and approximately \$5,365,424, \$3,819,320, and \$3,654,760 for the years ended September 30, 2012, 2011, and 2010, respectively. Contributions represent approximately 49.5%, 35.9 %, and 33.6% of covered payroll during 2012, 2011, and 2010, respectively.

Public Act 185 of 2010 established a supplemental pension for all State of Michigan employees who qualified and retired under the 2010 incentive.

Supplemental Retirement

State of Michigan employees who retired under this incentive agreed to forfeit the lump sum payment of their accumulated annual, sick, and other deferred leave time payouts and will instead receive an equal amount through a supplemental pension payment over 60 monthly installments beginning January 1, 2011.

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

The amount of the 60 monthly charges, once calculated, should remain constant unless 1) the retiree dies without a designated pension beneficiary in which case a lump sum of the remaining balance will be paid out to the refund beneficiary, b) the retiree returns to work in which case the supplemental pension benefit will be suspended, or c) there was an error in the initial calculation which required correction after benefit payments began.

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
2012	\$ 436,691	\$ -	\$ 102,559	\$ 334,132	\$ 102,559	\$ 231,573
2011	\$ -	\$ 512,796	\$ 76,105	\$ 436,691	\$ 102,559	\$ 334,132

Additional detail and data regarding Plan 1 and Plan 2 descriptions, vesting and eligibility requirements, actuarial cost methods and assumptions, funding requirements, accounting policies, three-year historical trend information, and other postemployment benefits is provided in the State of Michigan Comprehensive Annual Financial Report and detailed financial reports issued by the Bureau of Retirement Systems. The reports may be obtained by writing to the Department of Technology, Management and Budget, Office of Retirement Services, 7150 Harris Dr., P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

NOTE 9 - LEASE AND RENTAL COMMITMENTS

The total operating lease expense on long-term lease commitments for years ended September 30, 2012 and 2011 were \$200,029 and \$181,529, respectively. For the six months ended September 30, 2012 and 2011 the expenses for long term lease commitments were \$105,314 and \$82,140, respectively. These leases represent leases for buildings. There were no capital lease obligations.

A summary of remaining minimum building lease commitments follows:

Year Ending September 30	Operating Leases
2013	\$ 210,629
2014	210,629
2015	187,379
2016	154,830
2017	154,830
2018-2021	248,405

The total rent and lease expenses paid for all buildings for the years ended September 30, 2012 and 2011 were \$959,514 and \$1,022,433, respectively. For the six months ended September 30, 2012 and 2011 rent and lease expenses paid for all buildings were \$485,122 and \$503,361, respectively.

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

NOTE 10 - RISK MANAGEMENT

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

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Lottery has contracted with a third party to provide for the operation of the gaming system through January 19, 2015. The contract rate was 1.2757% of sales through July 31, 2012. Per an amendment effective August 1, 2012, additional equipment was acquired, increasing this rate to 1.32587% through January 19, 2014 and to 1.23017% from January 20, 2014 through January 19, 2015.

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 12 - TRANSACTIONS WITH OTHER STATE AGENCIES

As a State agency, the Lottery is required to utilize services, supplies and equipment provided by other State agencies. The following is a summarization of these charges for the six month periods and years ended September 30, 2012 and 2011:

<u>September 30, 2012</u>	<u>Six Months Ended</u>	<u>Year Ended</u>
Department of Technology, Management & Budget:		
Information Technology:		
Direct costs	\$ 764,570	\$ 2,977,559
Lansing Metropolitan Area Network (LMAN)	24,912	33,240
Michigan.gov portal web charges	179,155	388,896
Overhead	<u>176,237</u>	<u>264,133</u>
Total Information Technology charges	1,144,874	3,663,828
Support services (including Internal Audit)	117,850	269,100
Space rental - Lottery Central, Detroit, Saginaw offices	376,730	753,460
Vehicle and travel services	394,709	785,534
Other - Telephone, mailing and other offices services	<u>206,587</u>	<u>353,291</u>
Total Department of Technology, Management & Budget	2,240,750	5,825,213
Civil Service Commission	133,249	282,877
Department of Treasury	238,707	460,652
Attorney General	136,361	261,361
Other Agencies	<u>8,559</u>	<u>13,995</u>
Total all State agencies	<u><u>\$ 2,757,626</u></u>	<u><u>\$ 6,844,098</u></u>

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

September 30, 2011	Six Months Ended	Year Ended
Department of Technology, Management & Budget:		
Information Technology:		
Direct costs	\$ 349,299	\$ 2,362,243
Lansing Metropolitan Area Network (LMAN)	23,814	31,881
Michigan.gov portal web charges	195,632	401,735
Overhead	128,060	254,767
Total Information Technology charges	696,805	3,050,626
Support services (including Internal Audit)	120,900	281,800
Space rental - Lottery Central, Detroit, Saginaw offices	416,605	833,209
Vehicle and travel services	393,074	779,507
Other - Telephone, mailing and other offices services	181,188	315,527
Total Department of Technology, Management & Budget	1,808,572	5,260,669
Civil Service Commission	129,376	277,116
Department of Treasury	220,665	462,073
Attorney General	159,043	246,560
Other Agencies	13,409	20,942
Total all State agencies	\$ 2,331,065	\$ 6,267,360

NOTE 13 – UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Lottery's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Once implemented, this statement will impact the format and reporting of the statement of net assets.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Lottery as of the 2013-2014 fiscal year.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the proprietary statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Lottery is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for the financial statements for fiscal years beginning after June 15, 2014.



Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2012

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 161,336,901	13.9%	\$ 323,478,305	13.4%
	Daily 4	174,542,883	15.0%	357,647,279	14.8%
	Classic Lotto 47	22,598,469	1.9%	48,302,889	2.0%
	Mega Millions	54,672,802	4.7%	159,949,665	6.6%
	Megaplier	2,792,012	0.2%	6,804,938	0.3%
	Powerball	60,233,876	5.2%	112,952,515	4.7%
	Power Play	2,772,325	0.2%	6,588,462	0.3%
	Keno	6,076,607	0.5%	12,372,877	0.5%
	Fantasy Five	25,853,950	2.2%	51,916,769	2.2%
	Raffle	(20)	0.0%	6,787,670	0.3%
	Lucky Lines	-	0.0%	1,625,039	0.1%
	Club Keno	189,164,119	16.2%	385,244,516	16.0%
	Club Keno Kicker	65,052,001	5.6%	128,216,693	5.3%
	The Jack	5,487,343	0.5%	12,548,444	0.5%
	Pull-Tab tickets	13,339,709	1.1%	27,307,572	1.1%
	Instant tickets	380,875,782	32.8%	771,715,004	31.9%
	Total lottery ticket sales	1,164,798,759	100.0%	2,413,458,637	100.0%
Prize awards:	Daily 3	78,216,024	6.7%	157,247,605	6.5%
	Daily 4	75,910,438	6.5%	157,069,815	6.5%
	Classic Lotto 47	12,547,816	1.1%	26,694,137	1.1%
	Mega Millions/Megaplier	27,888,087	2.4%	82,924,357	3.4%
	Powerball/Power Play	30,515,870	2.6%	57,576,421	2.4%
	Keno	2,723,534	0.2%	5,798,897	0.2%
	Fantasy Five	13,610,197	1.2%	27,048,570	1.1%
	Raffle	-	0.0%	5,981,796	0.2%
	Lucky Lines	-	0.0%	926,897	0.0%
	Club Keno/Kicker/Jack	168,637,194	14.5%	341,578,992	14.2%
	Players Club all games	218,668	0.0%	218,668	0.0%
	Merchandise Prizes	1,404,147	0.1%	1,474,912	0.1%
	Pull-Tab tickets	9,919,777	0.9%	20,387,269	0.8%
	Instant tickets	254,024,654	21.8%	513,233,591	21.4%
	Total prize awards	675,616,406	58.0%	1,398,161,927	57.9%
	Less: unclaimed prizes	(15,424,207)	-1.3%	(28,410,070)	-1.2%
	Net prize awards	660,192,199	56.7%	1,369,751,857	56.7%
Gross margin		504,606,560	43.3%	1,043,706,780	43.2%
Retailer and vendor commission expense		(100,234,704)	-8.6%	(205,986,681)	-8.5%
Game-related expense		(8,648,676)	-0.7%	(19,460,815)	-0.8%
Net ticket revenue		395,723,180	34.0%	818,259,284	33.9%
Other operating expense		(17,476,933)	-1.6%	(38,929,286)	-1.6%
Other miscellaneous revenue		496,223	0.0%	2,356,469	0.1%
Net lottery operating income		378,742,470	32.4%	781,686,467	32.4%
Charitable gaming:					
Charitable gaming revenue		6,927,029	0.6%	14,466,392	0.6%
Charitable gaming expense		(3,306,380)	-0.3%	(6,966,034)	-0.3%
Net charitable gaming income		3,620,649	0.3%	7,500,358	0.3%

Continued

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2012

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (6,417,342)	-0.6%	\$ (13,321,182)	-0.6%
Amortization revenue - investment discount	5,301,987	0.5%	10,936,792	0.5%
Unrealized gain on investments	9,041,381	0.8%	4,511,769	0.2%
Interest revenue - common cash fund	78,007	0.0%	124,695	0.0%
Bank fees	(2,325)	0.0%	(4,835)	0.0%
Disbursement to School Aid Fund	(377,207,797)	-33.4%	(778,431,938)	-33.3%
Disbursement to General Fund	(3,620,649)	-0.3%	(7,500,358)	-0.3%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(373,321,738)	-33.0%	(784,675,057)	-33.5%
Change in net assets	\$ 9,041,381	0.8%	\$ 4,511,768	0.2%

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2011

		Six Months Ended		Year Ended	
		Amount	Percent of Sales	Amount	Percent of Sales
Lottery ticket sales:	Daily 3	\$ 163,343,498	14.4%	\$ 327,387,055	14.0%
	Daily 4	180,467,448	15.9%	358,182,108	15.3%
	Classic Lotto 47	21,459,540	1.9%	44,074,100	1.9%
	Mega Millions	61,519,727	5.4%	161,796,210	6.9%
	Megaplier	3,159,004	0.3%	6,039,365	0.3%
	Powerball	42,303,542	3.7%	75,957,981	3.2%
	Power Play	4,733,149	0.4%	9,972,227	0.4%
	Keno	6,336,885	0.6%	12,548,819	0.5%
	Fantasy Five	27,054,971	2.4%	53,668,073	2.3%
	Raffle	4,973,965	0.4%	15,154,245	0.6%
	Lucky Lines	3,548,381	0.3%	8,085,299	0.3%
	Club Keno	182,613,207	16.1%	373,805,728	16.1%
	Club Keno Kicker	61,095,660	5.4%	124,097,532	5.3%
	The Jack	1,960,662	0.2%	3,097,355	0.1%
	Pull-Tab tickets	13,341,846	1.2%	26,869,375	1.1%
	Instant tickets	354,346,403	31.4%	739,218,788	31.7%
Total lottery ticket sales		1,132,257,888	100.0%	2,339,954,260	100.0%
Prize awards:	Daily 3	78,250,061	6.9%	153,578,018	6.6%
	Daily 4	96,084,779	8.5%	175,556,026	7.5%
	Classic Lotto 47	12,097,438	1.1%	24,758,923	1.1%
	Mega Millions/Megaplier	30,960,983	2.7%	82,112,285	3.5%
	Powerball/Power Play	22,856,191	2.0%	43,183,342	1.8%
	Keno	3,695,162	0.3%	6,797,221	0.3%
	Fantasy Five	13,846,129	1.2%	27,125,411	1.2%
	Raffle	2,622,982	0.2%	9,810,934	0.4%
	Lucky Lines	2,470,796	0.2%	7,080,019	0.3%
	Club Keno/Kicker/Jack	158,848,684	14.0%	324,564,346	13.9%
	Pull-Tab tickets	10,039,650	0.9%	20,223,106	0.9%
	Instant tickets	237,694,871	21.1%	493,448,751	21.0%
Total prize awards		669,467,726	59.1%	1,368,238,382	58.5%
Less: unclaimed prizes		(12,065,210)	-1.0%	(23,912,948)	-1.0%
Net prize awards		657,402,516	58.1%	1,344,325,434	57.5%
Gross margin		474,855,372	41.9%	995,628,826	42.5%
Retailer and vendor commission expense		(97,284,546)	-8.6%	(200,749,372)	-8.6%
Game-related expense		(10,014,810)	-0.9%	(21,538,126)	-0.9%
Net ticket revenue		367,556,016	32.4%	773,341,328	33.0%
Other operating expense		(20,098,395)	-1.9%	(42,764,614)	-1.8%
Other miscellaneous revenue		592,548	0.1%	1,460,286	0.1%
Net lottery operating income		348,050,169	30.6%	732,037,000	31.3%
Charitable gaming:	Charitable gaming revenue	7,686,266	0.7%	16,001,968	0.7%
	Charitable gaming expense	(3,231,353)	-0.3%	(6,648,273)	-0.3%
Net charitable gaming income		4,454,913	0.4%	9,353,695	0.4%

Continued

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Revenues and Expenses
For the Six Months and Year Ended September 30, 2011

	Six Months Ended		Year Ended	
	Amount	Percent of Sales	Amount	Percent of Sales
Non-operating revenues (expenses):				
Amortization expense - prize discount	\$ (7,542,046)	-0.7%	\$ (15,458,515)	-0.7%
Amortization revenue - investment discount	5,856,101	0.5%	11,544,835	0.5%
Unrealized gain on investments	26,539,279	2.3%	16,207,714	0.7%
Interest revenue - common cash fund	77,908	0.0%	196,531	0.0%
Bank fees	(2,501)	0.0%	(5,000)	0.0%
Disbursement to School Aid Fund	(345,944,630)	-30.5%	(727,324,851)	-31.1%
Disbursement to General Fund	(4,454,913)	-0.4%	(9,353,695)	-0.4%
Disbursement to Community Health	(495,000)	0.0%	(990,000)	0.0%
Net non-operating revenues (expenses)	(325,965,802)	-28.8%	(725,182,981)	-31.0%
Change in net assets	\$ 26,539,280	2.2%	\$ 16,207,714	0.7%

Concluded

Bureau of State Lottery, State of Michigan
Supplementary Schedule of Other Operating Expenses
For the Six Months and Years Ended September 30, 2012 and 2011

	Six Months Ended		Years Ended	
	2012	2011	2012	2011
Salaries and wages	\$ 5,582,216	\$ 5,395,206	\$ 11,006,219	\$ 10,770,749
Employee benefits and taxes	3,795,243	3,354,886	8,215,686	6,260,778
Promotion and advertising	7,187,348	10,482,420	16,700,900	22,625,369
Talent	290,650	180,534	442,706	327,147
Printing and supplies, including purchase of charitable gaming tickets	862,609	899,480	1,748,012	1,821,160
Other contractual services	1,702,509	1,580,432	5,071,923	4,739,341
Building rent and leases	485,122	503,362	959,514	1,022,433
Travel	444,910	454,821	878,026	883,394
Utilities	108,267	131,337	241,780	255,432
Postage	140,200	145,007	278,719	283,757
Equipment maintenance and rental	27,661	33,774	78,285	72,283
Bad debt expense	61,920	67,944	83,383	135,557
Interest paid on security deposits	663	1,974	1,309	4,767
Total	<u>\$ 20,689,318</u>	<u>\$ 23,231,177</u>	<u>\$ 45,706,462</u>	<u>\$ 49,202,167</u>

STATISTICAL SECTION





**Bureau of State Lottery, State of Michigan
Index
Statistical Section**

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

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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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Chart of financial trends.....	53
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. • Online Games – represents the face value of tickets sold to the public. • Club Games – represents the face value of tickets sold to the public. 	
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual reports for September 30, 2012.





Bureau of State Lottery, State of Michigan
Financial Trends
Net Assets
Fiscal Years Ending September 30, 2003 through September 30, 2012
(In Millions)

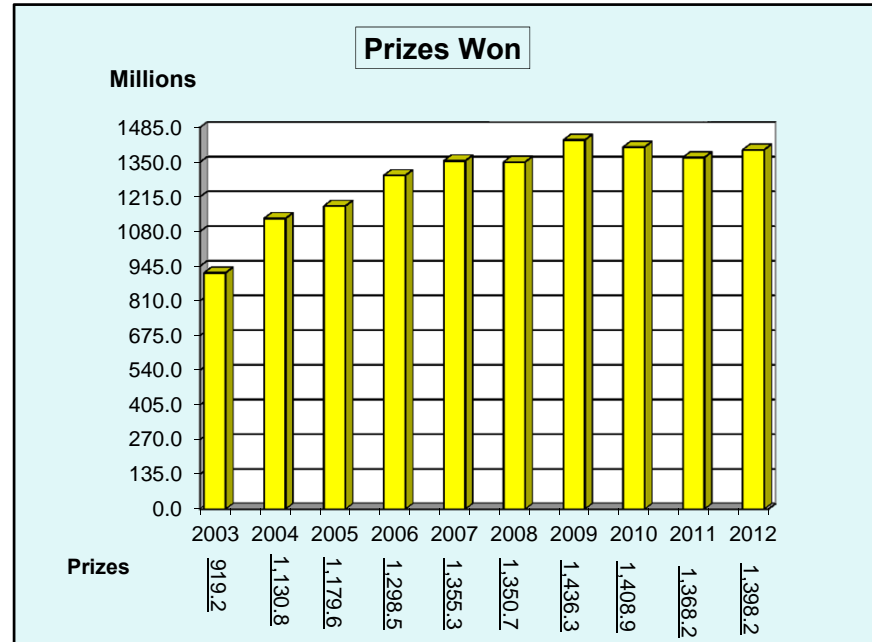
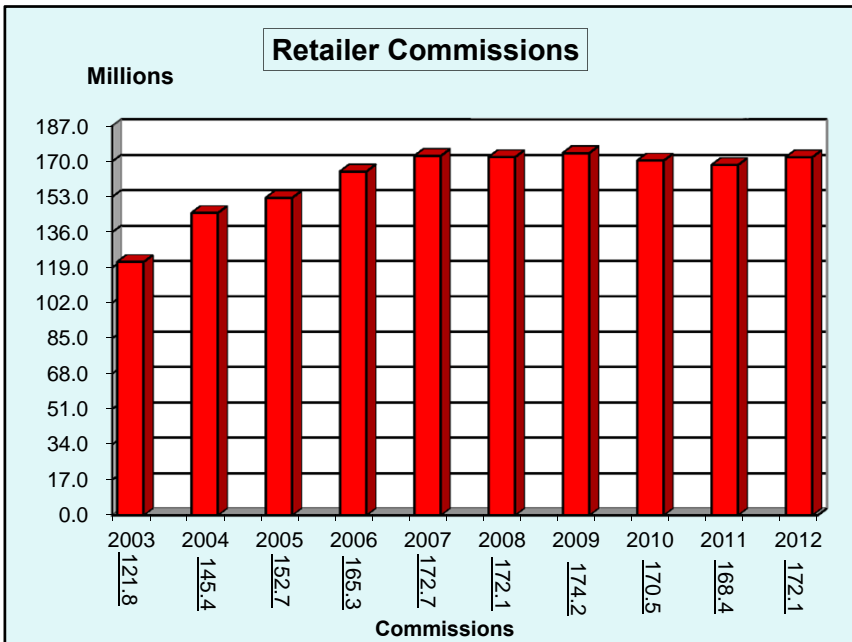
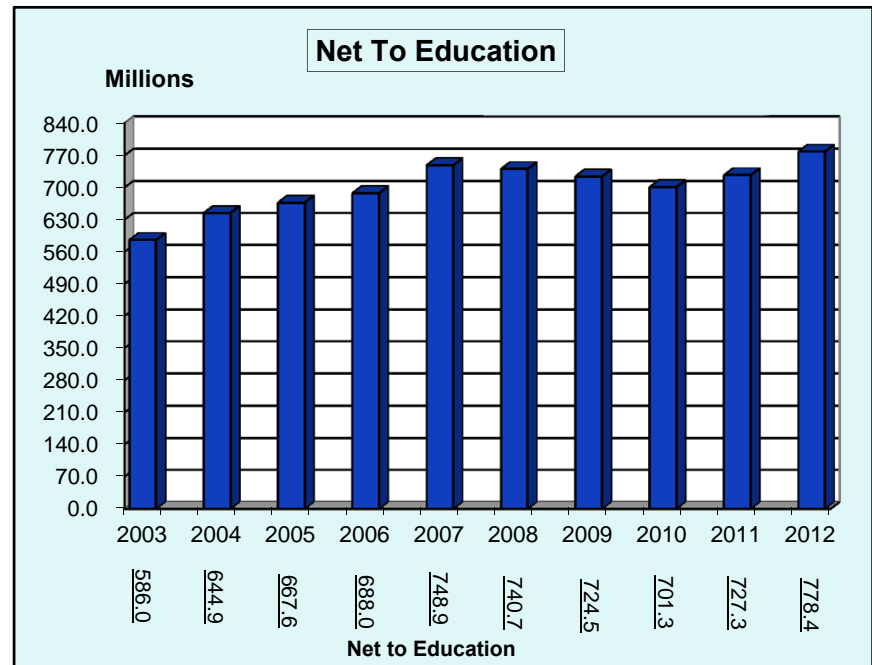
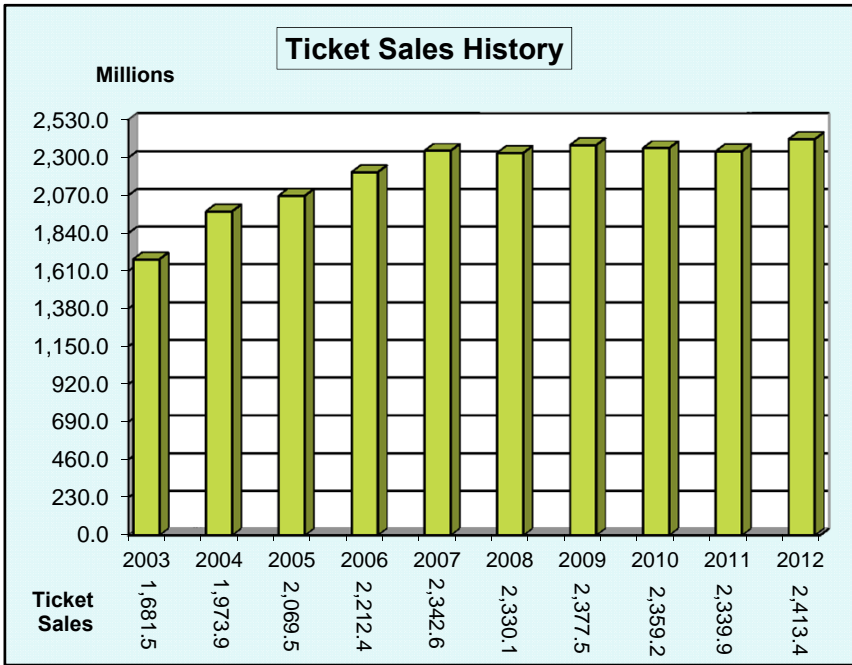
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net assets										
Invested in capital assets	\$ 0.6	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.8	\$ 0.7	\$ 0.6	\$ 0.4	\$ 0.3
Restricted for unrealized gains on investments	105.2	77.1	52.4	36.1	31.9	36.8	7.6	14.3	30.5	35.0
Unrestricted (deficit)	<u>(0.6)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.8)</u>	<u>(0.7)</u>	<u>(0.6)</u>	<u>(0.4)</u>	<u>(0.3)</u>
Total net assets	<u>\$ 105.2</u>	<u>\$ 77.1</u>	<u>\$ 52.4</u>	<u>\$ 36.1</u>	<u>\$ 31.9</u>	<u>\$ 36.8</u>	<u>\$ 7.6</u>	<u>\$ 14.3</u>	<u>\$ 30.5</u>	<u>\$ 35.0</u>



Bureau of State Lottery, State of Michigan
Financial Trends
Changes in Net Assets
Fiscal Years Ending September 30, 2003 through September 30, 2012
(In Millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating revenues										
Ticket sales	\$ 1,681.5	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9	\$ 2,413.4
Charitable gaming and other	20.3	21.4	20.6	19.8	20.4	20.9	21.5	20.7	17.5	16.8
Total operating revenues	<u>1,701.8</u>	<u>1,995.3</u>	<u>2,090.1</u>	<u>2,232.2</u>	<u>2,363.0</u>	<u>2,351.0</u>	<u>2,399.0</u>	<u>2,379.9</u>	<u>2,357.4</u>	<u>2,430.2</u>
Operating expenses										
Prize awards	919.2	1,130.8	1,179.6	1,298.5	1,355.3	1,350.7	1,436.3	1,408.9	1,368.2	1,398.2
Less - unclaimed prizes	(19.5)	(31.1)	(17.6)	(30.3)	(26.2)	(27.4)	(28.7)	(27.3)	(23.9)	(28.4)
Net prize awards	<u>899.7</u>	<u>1,099.7</u>	<u>1,162.0</u>	<u>1,268.2</u>	<u>1,329.1</u>	<u>1,323.3</u>	<u>1,407.6</u>	<u>1,381.6</u>	<u>1,344.3</u>	<u>1,369.8</u>
Retailer commissions	121.8	145.4	152.7	165.3	172.7	172.1	174.2	170.5	168.4	172.1
Game related expenses	45.1	54.1	56.8	60.0	63.0	63.4	53.8	53.0	53.9	53.3
Other operating expenses	40.3	41.2	43.4	45.3	45.3	47.0	56.7	56.6	49.4	45.9
Total operating expenses	<u>1,106.9</u>	<u>1,340.4</u>	<u>1,414.9</u>	<u>1,538.8</u>	<u>1,610.1</u>	<u>1,605.8</u>	<u>1,692.3</u>	<u>1,661.7</u>	<u>1,616.0</u>	<u>1,641.1</u>
Operating income	<u>594.9</u>	<u>654.9</u>	<u>675.2</u>	<u>693.4</u>	<u>752.9</u>	<u>745.2</u>	<u>706.7</u>	<u>718.2</u>	<u>741.4</u>	<u>789.1</u>
Non-operating revenues										
Investment revenue	23.2	13.0	11.8	14.7	22.2	26.9	18.7	17.0	27.7	15.5
Interest on equity in State Treasurer's Common Cash Fund	1.0	0.9	2.5	4.1	5.2	3.1	1.1	0.3	0.2	0.1
Revenue from security lending	3.6	4.7	6.4	16.3	20.9	13.0	-	-	-	-
Total non-operating revenues	<u>27.8</u>	<u>18.6</u>	<u>20.7</u>	<u>35.1</u>	<u>48.3</u>	<u>43.0</u>	<u>19.8</u>	<u>17.3</u>	<u>27.9</u>	<u>15.6</u>
Non-operating expenses										
Security lending expenses	(3.3)	(4.3)	(6.0)	(16.0)	(19.8)	(10.3)	-	-	-	-
Amortization of prize obligation discount	(44.1)	(39.2)	(34.2)	(29.4)	(24.9)	(20.7)	(18.4)	(15.2)	(15.5)	(13.3)
Non-operating expenses before disbursements	<u>(47.4)</u>	<u>(43.5)</u>	<u>(40.2)</u>	<u>(45.4)</u>	<u>(44.7)</u>	<u>(31.0)</u>	<u>(18.4)</u>	<u>(15.2)</u>	<u>(15.5)</u>	<u>(13.3)</u>
School Aid Fund disbursement	(586.0)	(644.9)	(667.6)	(688.0)	(748.9)	(740.7)	(724.5)	(701.3)	(727.3)	(778.4)
General Fund disbursement	(11.2)	(12.2)	(11.7)	(10.5)	(10.8)	(10.6)	(11.8)	(11.3)	(9.3)	(7.5)
Community Health disbursement	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total disbursements	<u>(598.2)</u>	<u>(658.1)</u>	<u>(680.3)</u>	<u>(699.5)</u>	<u>(760.7)</u>	<u>(752.3)</u>	<u>(737.3)</u>	<u>(713.6)</u>	<u>(737.6)</u>	<u>(786.9)</u>
Total non-operating expenses	<u>(645.6)</u>	<u>(701.6)</u>	<u>(720.5)</u>	<u>(744.9)</u>	<u>(805.4)</u>	<u>(783.3)</u>	<u>(755.7)</u>	<u>(728.8)</u>	<u>(753.1)</u>	<u>(800.2)</u>
Net non-operating revenue (expense)	<u>(617.8)</u>	<u>(683.0)</u>	<u>(699.8)</u>	<u>(709.8)</u>	<u>(757.1)</u>	<u>(740.3)</u>	<u>(735.9)</u>	<u>(711.5)</u>	<u>(725.2)</u>	<u>(784.6)</u>
Change in net assets	\$ (22.9)	\$ (28.1)	\$ (24.6)	\$ (16.4)	\$ (4.2)	\$ 4.9	\$ (29.2)	\$ 6.7	\$ 16.2	\$ 4.5

**Bureau of State Lottery, State of Michigan
Financial Trends 2003 through 2012**



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, 2003 through September 30, 2012
(In Millions)

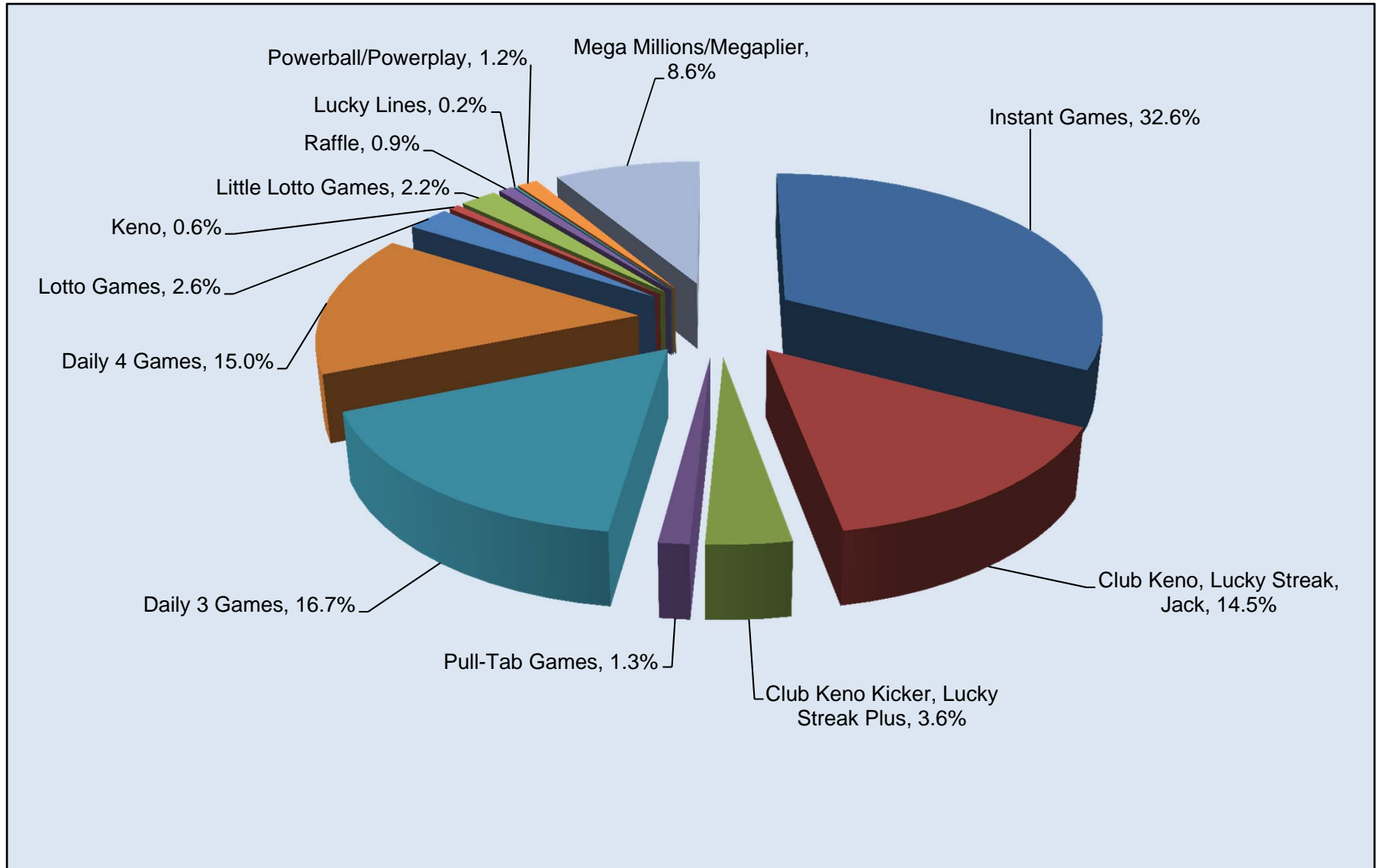
TICKET SALES	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Instant Games										
Instant Tickets	\$ 682.7	\$ 690.2	\$ 662.5	\$ 710.8	\$ 717.8	\$ 734.2	\$ 749.1	\$ 750.8	\$ 739.2	\$ 771.7
Club Games										
Club Keno, Lucky Streak, The Jack		204.5	332.3	343.8	380.9	402.5	396.5	374.9	376.9	397.8
Club Keno Kicker, Lucky Streak Plus				80.3	110.3	124.0	123.5	115.6	124.1	128.2
Pull Tab Games		25.1	39.1	41.6	38.5	37.4	28.0	29.1	26.9	27.3
Total Club Games		229.6	371.4	465.7	529.7	563.9	548.0	519.6	527.9	553.3
Online Games										
Daily 3, Extra 3, Double 3	423.3	423.2	402.9	385.7	369.1	347.2	351.0	344.2	327.4	323.5
Daily 4, Extra 4, Double 4	297.2	310.2	309.7	323.0	335.1	325.2	335.9	359.0	358.2	357.6
Michigan Lotto, Michigan Millions, Winfall, Classic Lotto 47	79.3	66.6	55.7	50.7	53.1	64.1	64.2	43.8	44.1	48.3
Keno	13.5	14.9	13.5	14.6	14.0	13.9	14.0	13.0	12.5	12.4
Little Lotto: Cash Five, Michigan Rolldown, Fantasy 5 and Change Play	38.0	32.6	49.9	45.5	49.4	51.3	51.3	56.1	53.7	51.9
Raffle					56.3	45.5	41.3	19.0	15.1	6.8
Lucky Lines								15.7	8.1	1.6
Powerball/Powerplay								64.5	85.9	119.5
Mega Millions/Megaplier	147.5	206.6	203.9	216.4	218.1	184.8	222.7	173.5	167.8	166.8
Total On-line	998.8	1,054.1	1,035.6	1,035.9	1,095.1	1,032.0	1,080.4	1,088.8	1,072.8	1,088.4
TOTAL TICKET SALES	\$ 1,681.5	\$ 1,973.9	\$ 2,069.5	\$ 2,212.4	\$ 2,342.6	\$ 2,330.1	\$ 2,377.5	\$ 2,359.2	\$ 2,339.9	\$ 2,413.4

PRICE PER TICKET:

Instant Games:	Range from \$1 to \$20	Online Games: Daily 3	\$.50 and \$1
Club Games: Club Keno, Kicker, Lucky Streak, Lucky Streak Plus, The Jack	\$1	Change Play	Range from \$.25 to \$.99
Pull Tab Games	Range from \$.50 to \$5	Raffle	Range from \$5 to \$50
		Powerball	\$2
			\$1

Note: Principal revenue payers are the general public. Please see Demographic and Economic Information on page 57 for statistics.

**Bureau of State Lottery, State of Michigan
Revenue Capacity
Ticket Sales 2003 through 2012**



Source: Bureau of State Lottery, State of Michigan



Bureau of State Lottery, State of Michigan
Debt Capacity
Ratio of Installment Prize Awards Liability
Fiscal Years Ending September 30, 2003 through September 30, 2012
(In Millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>INSTALLMENT PRIZE AWARDS LIABILITY</u>										
Current - at face amount	\$ 109.6	\$ 103.4	\$ 94.7	\$ 86.5	\$ 75.9	\$ 68.8	\$ 59.5	\$ 53.1	\$ 49.8	\$ 40.9
Long-term - at face amount	<u>713.9</u>	<u>617.3</u>	<u>527.3</u>	<u>443.3</u>	<u>373.0</u>	<u>305.1</u>	<u>309.7</u>	<u>260.4</u>	<u>352.4</u>	<u>317.3</u>
Total installment prize awards	<u>\$ 823.5</u>	<u>\$ 720.7</u>	<u>\$ 622.0</u>	<u>\$ 529.8</u>	<u>\$ 448.9</u>	<u>\$ 373.9</u>	<u>\$ 369.2</u>	<u>\$ 313.5</u>	<u>\$ 402.2</u>	<u>\$ 358.2</u>
<u>INVESTMENTS</u>										
Face amount	<u>\$ 818.3</u>	<u>\$ 709.4</u>	<u>\$ 626.7</u>	<u>\$ 535.2</u>	<u>\$ 448.1</u>	<u>\$ 371.2</u>	<u>\$ 341.6</u>	<u>\$ 280.8</u>	<u>\$ 382.0</u>	<u>\$ 332.7</u>
Installment prize awards payable as a percentage of investments:	100.64%	101.59%	99.25%	98.99%	100.18%	100.73%	108.08%	111.65%	105.29%	107.66%

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



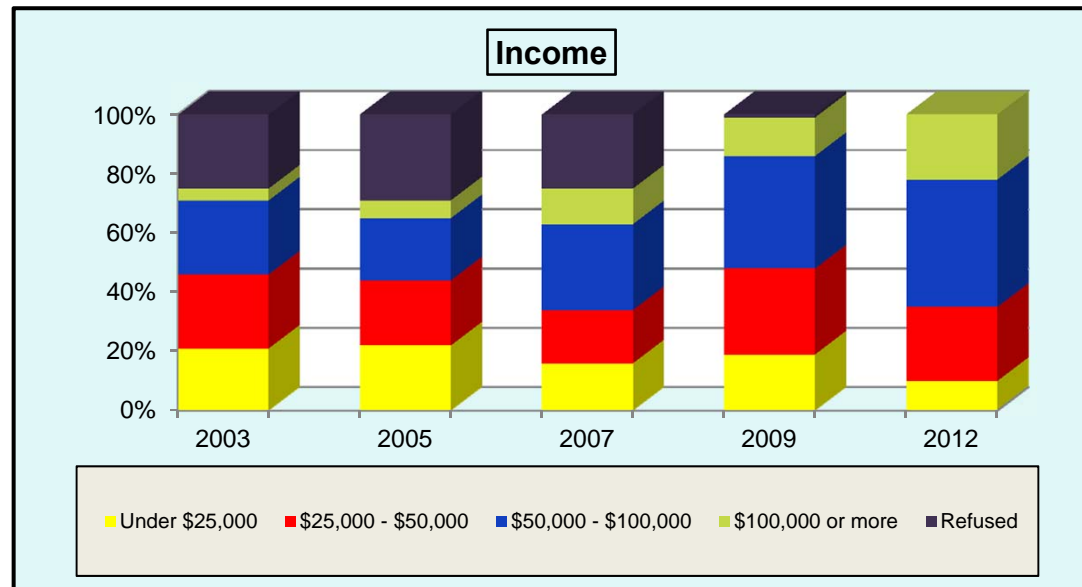
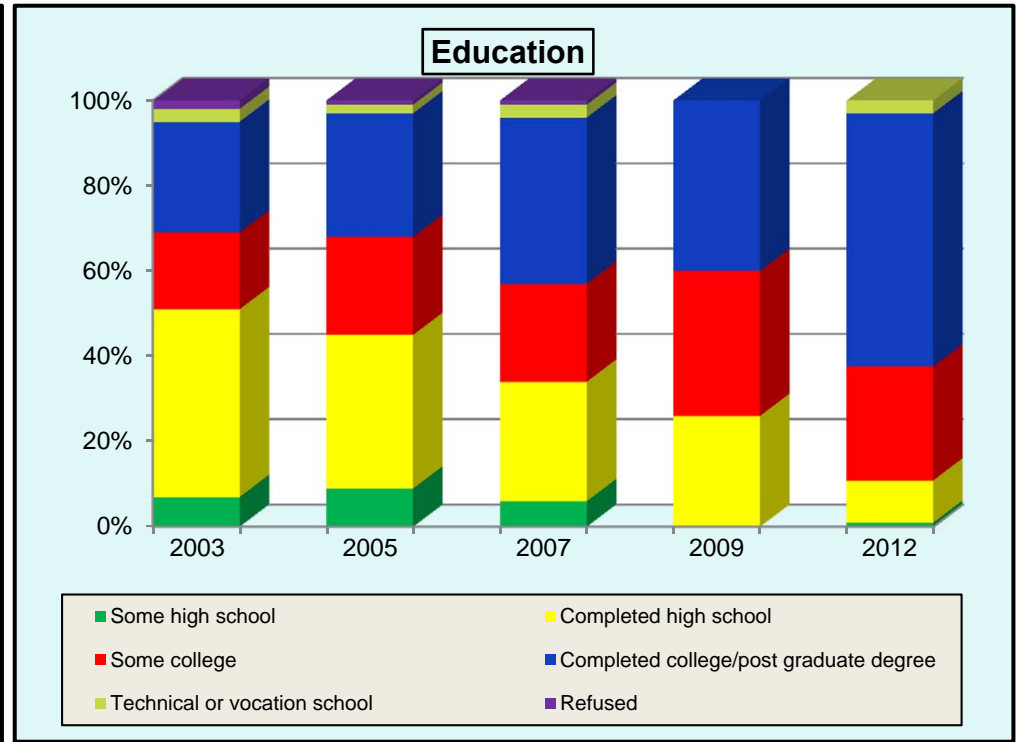
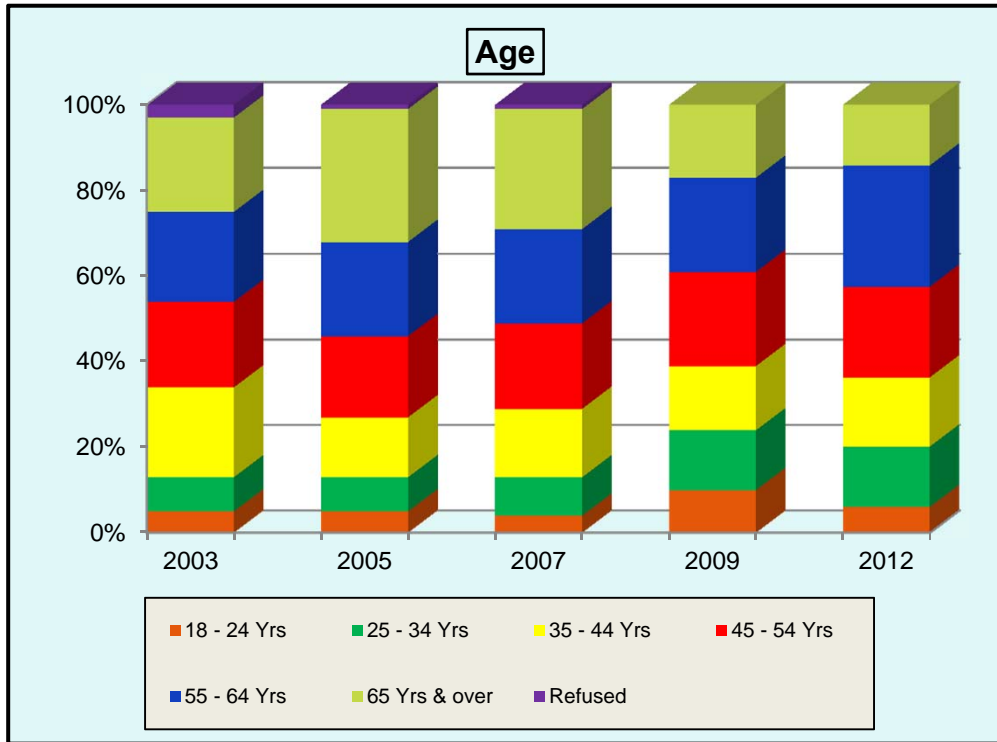
Bureau of State Lottery, State of Michigan
Demographic and Economic Information
Demographic General Tracking Study
Fiscal Years Ending September 30, 2003 through September 30, 2012

These are the results of the Lottery's demographic general tracking study prepared biennially of Lottery Player profiles.
 The demographic general tracking study for 2011 was not complete as of September 30, 2011, rather was performed in June 2012.

	2003	2005	2007	2009	2012
Gender					
Male	50%	50%	50%	49%	41%
Female	50%	50%	50%	51%	59%
Education					
Some high school	7%	9%	6%		1%
Completed high school	44%	36%	28%	26%	10%
Some college	18%	23%	23%	34%	27%
Completed college/post graduate degree	26%	29%	39%	40%	60%
Technical or vocation school	3%	2%	3%		3%
Refused	2%	1%	1%		
Age					
18 - 24 Yrs	5%	5%	4%	10%	6%
25 - 34 Yrs	8%	8%	9%	14%	14%
35 - 44 Yrs	21%	14%	16%	15%	16%
45 - 54 Yrs	20%	19%	20%	22%	21%
55 - 64 Yrs	21%	22%	22%	22%	28%
65 Yrs & over	22%	31%	28%	17%	14%
Refused	3%	1%	1%		
Income					
Under \$25,000	21%	22%	16%	19%	10%
\$25,000 - \$50,000	25%	22%	18%	29%	25%
\$50,000 - \$100,000	25%	21%	29%	38%	43%
\$100,000 or more	4%	6%	12%	13%	22%
Refused	25%	29%	25%	1%	
Ethnicity					
White	73%	83%	80%	85%	83%
Black/African-American	17%	9%	10%	11%	11%
Hispanic/Latino	3%	1%	1%	1%	3%
Other	3%	1%	1%	3%	3%
Refused	4%	6%	8%		

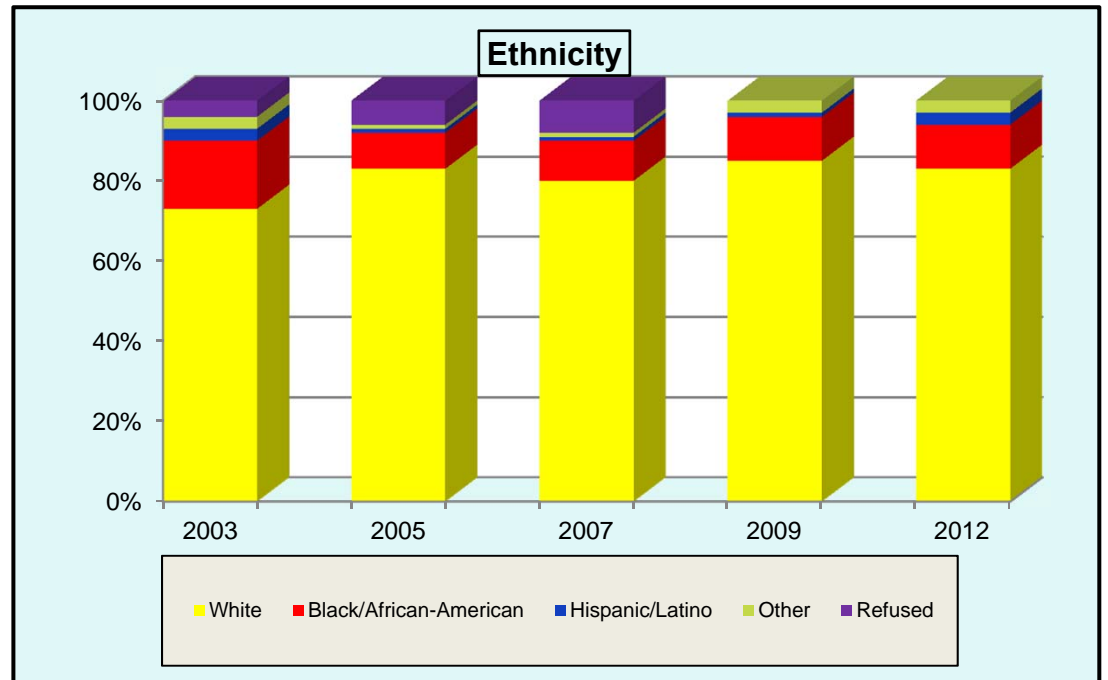
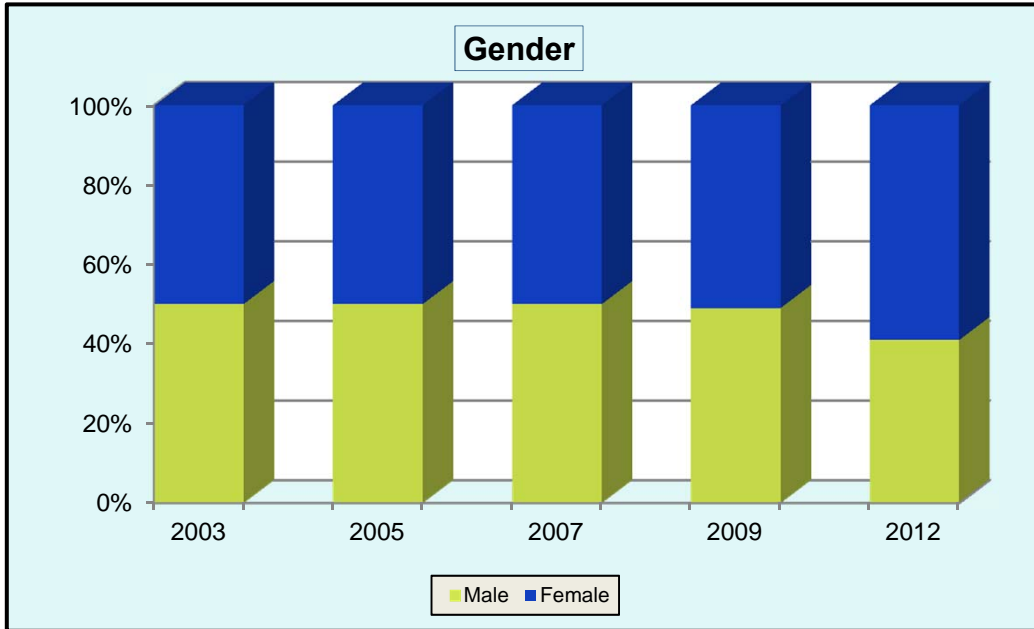
Source: Bureau of State Lottery
 General Tracking Study

**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 2003 though 2012**



Source: Bureau of State Lottery
General Tracking Study

**Bureau of State Lottery, State of Michigan
Demographic and Economic Information 2003 through 2012**



Source: Bureau of State Lottery
General Tracking Study



**Bureau of State Lottery, State of Michigan
Demographic and Economic Indicators
Fiscal Years Ending September 30, 2002 through September 30, 2011
(In Thousands)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population (a)										
Michigan	10,044	10,075	10,103	10,108	10,102	10,072	10,002	9,970	9,877	9,876
United States	287,888	290,448	293,192	295,896	298,755	301,621	304,375	307,007	309,349	311,592
Total Personal Income (b)										
Michigan	\$ 303.5	\$ 313.5	\$ 318.7	\$ 325.3	\$ 332.7	\$ 345.9	\$ 349.6	\$ 342.3	\$ 342.7	\$ 358.2
United States	\$ 8,872.9	\$ 9,150.3	\$ 9,711.4	\$ 10,252.8	\$ 10,977.3	\$ 11,631.6	\$ 12,225.6	\$ 12,165.5	\$ 12,357.1	\$ 12,949.9
Per Capita Income (b)										
Michigan	\$ 30,214	\$ 31,116	\$ 31,550	\$ 32,182	\$ 32,928	\$ 34,342	\$ 34,949	\$ 34,334	\$ 34,691	\$ 36,264
United States	\$ 30,821	\$ 31,504	\$ 33,123	\$ 34,650	\$ 36,744	\$ 38,564	\$ 40,208	\$ 39,626	\$ 39,945	\$ 41,560
Unemployment Rate (c)										
Michigan	6.2%	7.1%	7.1%	6.9%	6.9%	7.2%	8.4%	15.3%	13.0%	9.3%
United States	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.8%	9.6%	7.8%
Michigan estimated wage and salary employees (c)										
Goods Producing:										
Natural Resources and Mining	8.6	8.1	8.2	8.4	8.0	7.6	7.8	7.2	7.3	7.3
Construction	199.6	190.6	191.5	189.1	178.0	166.2	153.7	132.3	113.3	123.4
Manufacturing	763.5	719.7	700.7	680.0	650.8	616.8	575.3	463.8	464.1	510.8
Total Goods Producing	971.7	918.4	900.3	877.5	836.9	790.5	736.8	603.3	584.7	641.5
Service-Providing:										
Private Service-Providing										
Trade, Transportation, and Utilities:										
Wholesale Trade	175.4	172.6	170.5	170.7	170.6	169.1	166.7	150.2	152.3	158.0
Retail Trade	530.7	518.7	513.6	506.0	496.0	489.7	478.4	449.0	446.6	446.2
Transportation and Utilities	128.2	125.8	125.7	128.3	128.4	129.1	124.2	113.2	108.8	121.5
Information	73.8	70.3	68.6	67.3	66.1	65.6	61.8	54.3	52.5	54.6
Financial Activities:										
Finance and Insurance	159.2	162.3	161.3	161.8	160.9	157.8	152.3	139.8	135.2	144.5
Real Estate and Rental and Leasing	55.7	56.0	56.1	56.1	54.9	53.6	52.1	49.2	45.5	50.4
Professional and Business Services:										
Professional, Scientific, and Technical Services	257.4	247.9	244.2	246.4	244.9	244.2	240.1	215.6	214.8	235.0
Management of Companies and Enterprises	69.5	68.6	67.0	64.6	61.7	57.3	54.4	50.9	50.8	53.5
Administrative, Support Services, and Waste Management	267.0	266.4	270.1	277.5	275.1	271.8	262.5	239.8	248.3	271.4
Educational and Health Services:										
Educational Services	63.1	66.4	70.6	74.8	76.1	78.0	80.3	78.4	80.3	77.1
Health Care and Social Assistance	472.0	480.5	490.3	501.0	507.2	517.0	528.1	530.5	535.0	548.7
Leisure and Hospitality:										
Accommodation and Food Services	336.2	335.9	339.7	341.9	343.8	341.8	335.5	328.0	322.0	328.2
Other Services	61.7	62.2	62.3	62.6	61.8	62.7	62.6	65.5	51.8	46.9
Total Private Service-Providing	179.3	179.1	179.6	179.6	177.5	176.7	175.6	168.2	164.4	170.4
Government:										
Total Service-Providing	2,829.2	2,812.7	2,819.5	2,838.7	2,824.9	2,814.3	2,774.5	2,632.6	2,608.3	2,706.4
Total Service-Providing	686.6	685.4	679.7	674.1	665.3	657.2	647.9	643.8	629.8	612.5
Total Service-Providing	3,515.8	3,498.0	3,499.2	3,512.8	3,490.3	3,471.4	3,422.4	3,276.4	3,238.1	3,318.9
Total Wage and Salary Employment	4,487.5	4,416.5	4,399.5	4,390.3	4,327.1	4,262.0	4,159.2	3,879.7	3,822.8	3,960.4

NOTES: Calendar year 2011 is the most recent year for which data is available.
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, 2003 through September 30, 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Employees	159	161	166	173	162	168	171	181	174	177
Number of Retailers										
Instant only	1,760	1,600	1,497	816	680	575	-	-	-	-
Club Games	-	1,829	2,077	2,216	2,371	2,474	2,478	-	-	-
Online	7,288	7,377	7,502	7,848	7,922	7,920	8,202	-	-	-
*All Games	-	-	-	-	-	-	-	10,797	10,746	10,879
Total Retailers	9,048	10,806	11,076	10,880	10,973	10,969	10,680	10,797	10,746	10,879
Prize Payout Percentage	54.67%	57.29%	57.00%	58.69%	57.85%	57.97%	60.42%	59.72%	58.47%	57.93%
Percentage of Lottery Ticket Sales disbursed to the State School Aid Fund	34.85%	32.67%	32.26%	31.10%	31.97%	31.79%	30.47%	29.73%	31.08%	32.25%
Number of Millionaire Prize Winners	11	20	21	17	42	37	40	39	28	31
Number of Prize Winners Greater than \$600	44,162	44,962	44,692	52,124	49,585	44,962	53,986	60,543	48,567	44,904

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

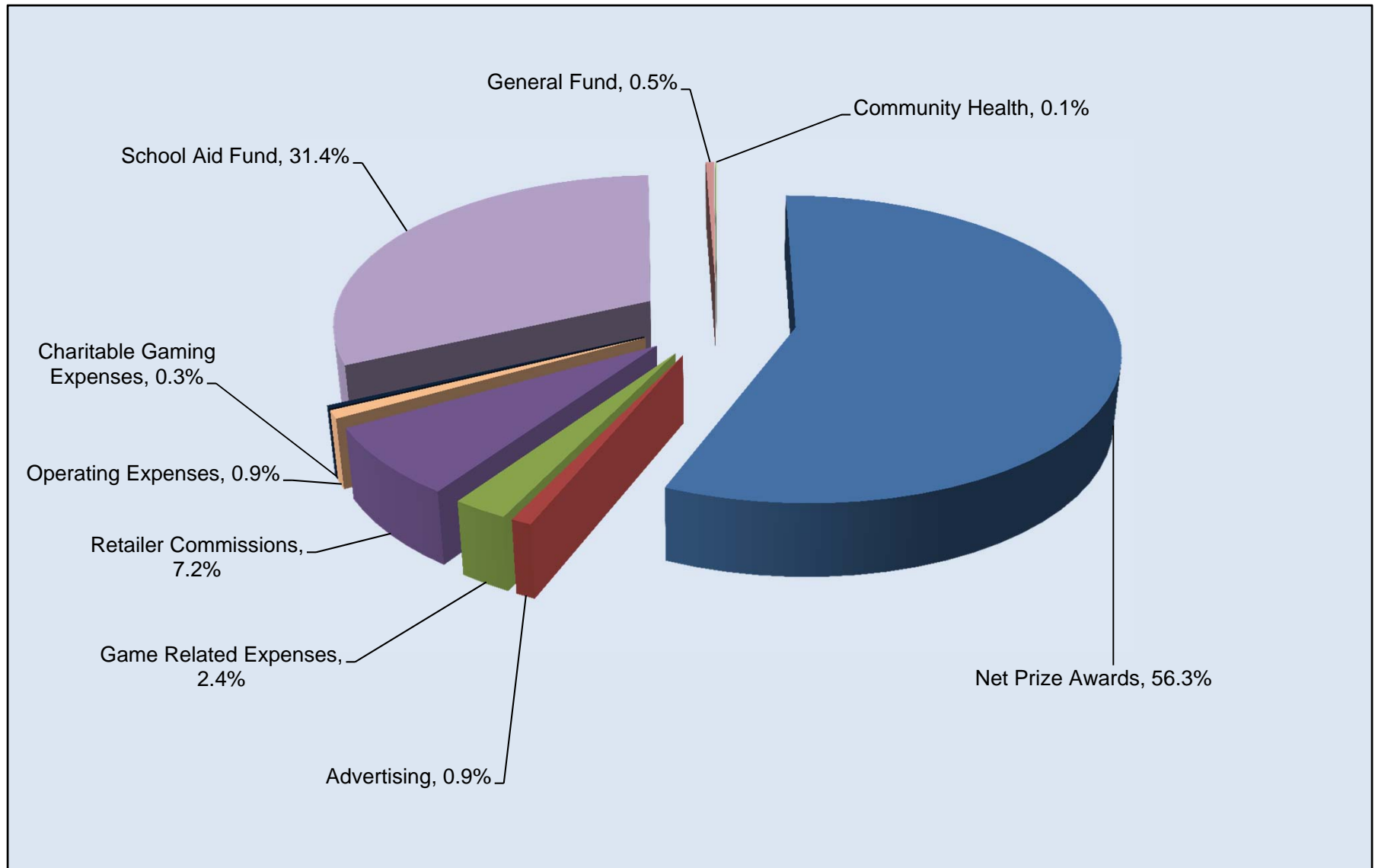


Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements to the State's School Aid Fund, General Fund, and Community Health
Fiscal Years Ending September 30, 2003 through September 30, 2012
(In Millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EXPENSES										
Prize Awards	\$ 919.2	\$ 1,130.8	\$ 1,179.6	\$ 1,298.5	\$ 1,355.3	\$ 1,350.7	\$ 1,436.3	\$ 1,408.9	\$ 1,368.2	\$ 1,398.2
Unclaimed Prizes	(19.6)	(31.1)	(17.6)	(30.3)	(26.2)	(27.4)	(28.7)	(27.3)	(23.9)	(28.4)
Net Prize Awards	899.6	1,099.7	1,162.0	1,268.2	1,329.1	1,323.3	1,407.6	1,381.6	1,344.3	1,369.8
Promotion and Advertising	17.1	17.5	17.6	17.5	17.5	17.6	27.0	29.0	22.6	16.7
Game Related Expenses	45.2	54.1	56.8	60.0	63.0	63.4	53.8	53.0	53.9	53.3
Retailer Commissions	121.8	145.4	152.7	165.3	172.7	172.1	174.2	170.5	168.4	172.1
Operating Expenses	15.3	15.9	17.9	19.7	19.6	21.1	20.8	20.2	20.1	22.2
Charitable Gaming Expenses	7.9	7.8	7.9	8.1	8.2	8.3	8.9	7.4	6.7	7.0
TOTAL EXPENSES	\$ 1,106.9	\$ 1,340.4	\$ 1,414.9	\$ 1,538.8	\$ 1,610.1	\$ 1,605.8	\$ 1,692.3	\$ 1,661.7	\$ 1,616.0	\$ 1,641.1
DISBURSEMENTS TO THE STATE										
School Aid Fund	586.0	644.9	667.6	688.0	748.9	740.7	724.5	701.3	727.3	778.4
General Fund	11.2	12.2	11.7	10.5	10.8	10.6	11.8	11.3	9.3	7.5
Community Health	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
TOTAL DISBURSEMENTS	\$ 598.2	\$ 658.1	\$ 680.3	\$ 699.5	\$ 760.7	\$ 752.3	\$ 737.3	\$ 713.6	\$ 737.6	\$ 786.9

Source: Bureau of State Lottery, State of Michigan

**Bureau of State Lottery, State of Michigan
Operating Information
Expenses and Disbursements 2003 through 2012**



Source: Bureau of State Lottery, State of Michigan

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

Fiscal Year 2011 U.S. Lottery Sales, Profit and Expense Analysis

Lottery	Pop (Mil)	Millions of Dollars							As Percentage of Revenues				PC Sales	PC Net Income
		Ticket Sales*	Other Income	Total Revenue	Prizes	Retailer Comm.	Expense	Net Income	Prizes	Retailer Comm.	Expense	Net		
Arizona	6.5	583.54	0.36	\$ 583.90	\$ 360.49	\$ 39.25	\$ 39.33	\$ 144.84	61.7%	6.7%	6.7%	24.8%	\$ 90	\$ 22
Arkansas	2.9	464.02	1.52	\$ 465.54	\$ 307.45	\$ 26.22	\$ 38.04	\$ 93.83	66.0%	5.6%	8.2%	20.2%	\$ 158	\$ 32
California	37.7	3,438.58	(20.79)	\$ 3,417.79	\$ 1,904.79	\$ 233.57	\$ 199.40	\$ 1,080.03	55.7%	6.8%	5.8%	31.6%	\$ 91	\$ 29
Colorado	5.1	518.92	0.75	\$ 519.67	\$ 326.74	\$ 39.58	\$ 40.04	\$ 113.30	62.9%	7.6%	7.7%	21.8%	\$ 101	\$ 22
Connecticut	3.6	1,016.61	0.12	\$ 1,016.73	\$ 620.13	\$ 56.96	\$ 48.34	\$ 291.30	61.0%	5.6%	4.8%	28.7%	\$ 284	\$ 81
Delaware	0.9	136.85	-	\$ 136.85	\$ 75.85	\$ 9.25	\$ 18.52	\$ 33.23	55.4%	6.8%	13.5%	24.3%	\$ 151	\$ 37
D.C.	0.6	231.77	0.02	\$ 231.79	\$ 125.86	\$ 14.77	\$ 28.90	\$ 62.24	54.3%	6.4%	12.5%	26.9%	\$ 375	\$ 101
Florida	19.1	4,008.72	(10.72)	\$ 3,998.00	\$ 2,460.22	\$ 223.39	\$ 134.71	\$ 1,179.68	61.5%	5.6%	3.4%	29.5%	\$ 210	\$ 62
Georgia	9.8	3,335.61	(2.21)	\$ 3,333.40	\$ 2,120.84	\$ 230.93	\$ 142.53	\$ 839.10	63.6%	6.9%	4.3%	25.2%	\$ 340	\$ 85
Idaho	1.6	147.15	0.80	\$ 147.94	\$ 90.23	\$ 8.98	\$ 12.79	\$ 35.96	61.0%	6.1%	8.6%	24.3%	\$ 93	\$ 23
Illinois	12.9	2,264.69	4.99	\$ 2,269.68	\$ 1,368.47	\$ 111.94	\$ 120.85	\$ 668.42	60.3%	4.9%	5.3%	29.4%	\$ 176	\$ 52
Indiana	6.5	791.45	(3.26)	\$ 788.19	\$ 494.52	\$ 56.24	\$ 49.20	\$ 188.23	62.7%	7.1%	6.2%	23.9%	\$ 121	\$ 29
Iowa	3.1	271.39	0.24	\$ 271.63	\$ 158.96	\$ 17.29	\$ 27.41	\$ 67.98	58.5%	6.4%	10.1%	25.0%	\$ 89	\$ 22
Kansas	2.9	232.37	2.37	\$ 234.74	\$ 132.33	\$ 13.78	\$ 22.43	\$ 66.20	56.4%	5.9%	9.6%	28.2%	\$ 81	\$ 23
Kentucky	4.4	719.37	(3.05)	\$ 716.32	\$ 422.51	\$ 47.29	\$ 37.71	\$ 208.80	59.0%	6.6%	5.3%	29.1%	\$ 165	\$ 48
Louisiana	4.6	383.59	1.43	\$ 385.02	\$ 202.90	\$ 21.37	\$ 24.84	\$ 135.91	52.7%	5.6%	6.5%	35.3%	\$ 84	\$ 30
Maine	1.3	216.43	1.56	\$ 217.99	\$ 134.18	\$ 13.93	\$ 18.68	\$ 51.19	61.6%	6.4%	8.6%	23.5%	\$ 163	\$ 39
Maryland	5.8	1,817.53	7.05	\$ 1,824.58	\$ 1,029.04	\$ 113.69	\$ 111.25	\$ 570.61	56.4%	6.2%	6.1%	31.3%	\$ 312	\$ 98
Massachusetts	6.6	4,416.29	11.68	\$ 4,427.97	\$ 3,199.44	\$ 251.97	\$ 88.63	\$ 887.92	72.3%	5.7%	2.0%	20.1%	\$ 671	\$ 135
Michigan	9.9	2,339.96	29.95	\$ 2,369.91	\$ 1,344.33	\$ 168.37	\$ 103.33	\$ 753.88	56.7%	7.1%	4.4%	31.8%	\$ 237	\$ 76
Minnesota	5.4	504.44	0.21	\$ 504.65	\$ 310.86	\$ 30.35	\$ 41.55	\$ 121.89	61.6%	6.0%	8.2%	24.2%	\$ 94	\$ 23
Missouri	6.0	1,000.68	8.92	\$ 1,009.60	\$ 639.01	\$ 61.85	\$ 45.21	\$ 263.53	63.3%	6.1%	4.5%	26.1%	\$ 166	\$ 44
Montana	1.0	46.04	(0.08)	\$ 45.96	\$ 24.78	\$ 2.72	\$ 7.79	\$ 10.68	53.9%	5.9%	16.9%	23.2%	\$ 46	\$ 11
Nebraska	1.8	131.92	0.38	\$ 132.30	\$ 76.87	\$ 8.21	\$ 16.55	\$ 30.67	58.1%	6.2%	12.5%	23.2%	\$ 72	\$ 17
New Hampshire	1.3	228.87	0.35	\$ 229.22	\$ 139.26	\$ 12.93	\$ 14.78	\$ 62.25	60.8%	5.6%	6.4%	27.2%	\$ 174	\$ 47
New Jersey	8.8	2,636.45	40.80	\$ 2,677.25	\$ 1,543.67	\$ 146.97	\$ 55.97	\$ 930.62	57.7%	5.5%	2.1%	34.8%	\$ 299	\$ 106
New Mexico	2.1	135.54	0.03	\$ 135.57	\$ 73.61	\$ 8.86	\$ 11.80	\$ 41.31	54.3%	6.5%	8.7%	30.5%	\$ 77	\$ 23
New York	19.5	6,758.66	399.39	\$ 7,158.05	\$ 3,967.67	\$ 404.65	\$ 246.96	\$ 2,538.75	55.4%	5.7%	3.5%	35.5%	\$ 347	\$ 130
North Carolina	9.7	1,461.11	4.71	\$ 1,465.82	\$ 863.00	\$ 102.13	\$ 63.39	\$ 437.31	58.9%	7.0%	4.3%	29.8%	\$ 151	\$ 45
North Dakota	0.7	23.00	0.09	\$ 23.09	\$ 11.94	\$ 1.18	\$ 3.95	\$ 6.02	51.7%	5.1%	17.1%	26.1%	\$ 34	\$ 9
Ohio	11.6	2,600.99	(6.40)	\$ 2,594.59	\$ 1,603.05	\$ 161.33	\$ 109.29	\$ 720.93	61.8%	6.2%	4.2%	27.8%	\$ 225	\$ 62
Oklahoma	3.8	198.15	0.42	\$ 198.57	\$ 106.60	\$ 13.22	\$ 12.49	\$ 66.27	53.7%	6.7%	6.3%	33.4%	\$ 52	\$ 17
Oregon	3.9	317.45	1.51	\$ 318.96	\$ 208.67	\$ 26.83	\$ 25.02	\$ 58.44	65.4%	8.4%	7.8%	18.3%	\$ 82	\$ 15
Pennsylvania	12.7	3,207.91	5.81	\$ 3,213.72	\$ 1,958.43	\$ 168.59	\$ 126.09	\$ 960.61	60.9%	5.2%	3.9%	29.9%	\$ 252	\$ 75
Rhode Island	1.1	230.59	1.17	\$ 231.76	\$ 140.16	\$ 28.15	\$ 9.09	\$ 54.36	60.5%	12.1%	3.9%	23.5%	\$ 219	\$ 52
South Carolina	4.7	1,047.06	3.56	\$ 1,050.62	\$ 667.64	\$ 74.05	\$ 37.64	\$ 271.30	63.5%	7.0%	3.6%	25.8%	\$ 224	\$ 58
South Dakota	0.8	47.17	0.41	\$ 47.58	\$ 27.18	\$ 2.57	\$ 5.12	\$ 12.72	57.1%	5.4%	10.8%	26.7%	\$ 57	\$ 17
Tennessee	6.4	1,102.58	-	\$ 1,102.58	\$ 683.51	\$ 77.46	\$ 51.98	\$ 289.63	62.0%	7.0%	4.7%	26.3%	\$ 172	\$ 45
Texas	25.7	3,811.27	2.23	\$ 3,813.50	\$ 2,387.24	\$ 212.23	\$ 184.32	\$ 1,029.70	62.6%	5.6%	4.8%	27.0%	\$ 148	\$ 40
Vermont	0.6	95.54	(0.02)	\$ 95.52	\$ 60.61	\$ 5.61	\$ 7.94	\$ 21.36	63.5%	5.9%	8.3%	22.4%	\$ 153	\$ 34
Virginia	8.1	1,482.69	1.31	\$ 1,484.00	\$ 881.03	\$ 83.84	\$ 74.92	\$ 444.21	59.4%	5.6%	5.0%	29.9%	\$ 183	\$ 55
Washington	6.8	510.46	(8.45)	\$ 502.01	\$ 295.16	\$ 31.94	\$ 45.53	\$ 129.37	58.8%	6.4%	9.1%	25.8%	\$ 75	\$ 19
West Virginia	1.9	193.57	12.40	\$ 205.97	\$ 120.71	\$ 13.56	\$ 15.21	\$ 56.50	58.6%	6.6%	7.4%	27.4%	\$ 104	\$ 30
Wisconsin	5.7	502.66	(0.95)	\$ 501.71	\$ 290.49	\$ 35.25	\$ 32.16	\$ 143.81	57.9%	7.0%	6.4%	28.7%	\$ 88	\$ 25

Notes to Table: Fiscal year 2011 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).

*Data represents only revenue from traditional lottery games and not video lottery terminal operations.

Source: LaFleur's 2012 World Lottery Almanac (except Michigan)

Michigan Source: Bureau of State Lottery, State of Michigan

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

Fiscal Year 2011 U.S. Lottery Sales by Game*
(in \$millions)

Lottery	Pop (M)			Online Games									Total Sales	VLT (net) ¹	Gov't Transfer
	Instant	Pulltab		3-digit	4-digit	Lotto	Cash Lotto	Mega Millions	Power Ball	Hot Lotto	Keno	Other			
Arizona	6.5	373.45	1.01	8.34		34.62	15.60	47.32	89.10			14.09	583.54		146.33
Arkansas	2.9	390.12		5.81	3.09			24.11	34.96			5.93	464.02		74.43
California	37.7	2,002.09		130.70	29.50	434.63	159.64	538.55			130.47	13.00	3,438.58		1,102.86
Colorado	5.1	344.95				39.26	19.15	25.13	70.05			20.39	518.92		113.36
Connecticut	3.6	610.57		124.95	100.43	24.34	34.24	33.18	60.28			28.62	1,016.61		291.20
Delaware ¹	0.9	40.86		25.39	18.04	5.00	0.73	9.88	20.40	3.35		13.29	136.94	573.62	339.90
D.C.	0.6	56.11		53.38	65.37	12.88	0.49	8.69	13.92	3.32	11.55	6.05	231.75		62.18
Florida	19.1	2,225.68		313.27	235.69	411.39	88.97		392.97			340.70	4,008.72		1,191.82
Georgia	9.8	2,161.44		467.57	191.50	21.69	97.35	147.92	77.92		144.28	25.94	3,335.61		846.11
Idaho	1.6	90.63	6.57	1.65		1.25	2.36	8.96	29.68	3.13		2.91	147.15		37.11
Illinois	12.9	1,263.68		290.64	190.99	107.66	119.85	172.01	97.18			22.68	2,264.69		668.42
Indiana	6.5	508.48	10.83	28.96	30.21	61.35	4.32	36.27	86.09			24.95	791.45		188.23
Iowa	3.1	165.33	18.32	6.57	2.70		3.69	16.05	47.12	11.61			271.39		68.00
Kansas	2.9	118.61	8.15	5.83		1.78	14.86	11.40	32.56	8.78	24.05	6.36	232.37		71.51
Kentucky	4.4	424.65	1.80	121.52	35.97	10.01	11.63	33.49	71.96			8.33	719.37		212.25
Louisiana	4.6	148.08		49.01	37.38	32.92			98.50			17.70	383.59		136.36
Maine	1.3	156.95		5.34	4.17	18.28	3.41	5.31	19.77	3.21			216.43		50.19
Maryland ¹	5.8	493.55		260.82	254.65	27.95	21.39	101.61	57.71		380.57	116.17	1,714.40	103.13	586.62
Massachusetts	6.6	3,008.07	0.88		344.44	30.63	77.51	104.91	60.83		768.22	20.80	4,416.29		887.91
Michigan	9.9	739.22	26.87	327.39	358.18	44.07	53.67	167.84	85.93	513.55	23.24		2,339.96		737.67
Minnesota	5.4	354.81		13.26			27.33	19.54	62.85	13.32		13.33	504.44		121.89
Missouri	6.0	666.32		64.08	29.56	25.21	29.50	34.85	83.32		65.30	2.54	1,000.68		265.18
Montana	1.0	15.10				2.34	3.80	3.50	14.50	3.90		3.14	46.20		10.82
Nebraska	1.8	71.92		3.28	2.08	1.79	11.37	10.74	30.75				131.92		32.06
New Hampshire	1.3	161.38		5.15	5.23	10.54	3.76	11.60	26.54	3.70		0.97	228.87		62.21
New Jersey	8.8	1,364.54		435.31	258.28	68.53	146.36	230.63	132.78				2,636.45		930.00
New Mexico	2.1	75.76		3.73			8.75	10.66	29.08	7.56			135.54		41.31
New York ¹	19.5	3,546.39		854.43	776.58	132.67	328.23	463.05	202.63		424.19	30.50	6,758.66	1,109.60	3,049.15
North Carolina	9.7	862.09		258.44	65.31		57.76	72.85	138.67			5.99	1,461.11		437.31
North Dakota	0.7					1.73	3.42	4.52	9.86	3.47			23.00		5.92
Ohio	11.6	1,462.78		364.44	209.04	42.71	62.39	164.97	76.37		157.89	60.40	2,600.99		738.81
Oklahoma	3.8	102.97		5.85			4.71	20.96	54.15	9.52			198.15		69.90
Oregon ¹	3.9	115.90			1.28	40.78	5.87	17.45	33.49		93.27	9.42	317.45	720.51	548.44
Pennsylvania	12.7	1,922.11		379.67	254.49	79.03	172.25	126.22	214.18			59.95	3,207.91		960.61
Rhode Island ¹	1.1	77.22			24.93		5.26	11.54	28.18		81.06	2.40	230.59	492.59	354.86
South Carolina	4.7	698.20		132.78	65.97		20.90	41.87	84.13			3.21	1,047.12		271.39
South Dakota ¹	0.8	22.22				2.16	2.75	3.22	12.86	3.97			47.17	191.77	107.98
Tennessee	6.4	864.73		58.08	25.53		18.53	45.34	90.37				1,102.58		293.49
Texas	25.7	2,842.27		279.77	63.08	172.50	64.72	213.77	124.18			50.98	3,811.27		1,023.78
Vermont	0.6	71.33		1.49	1.23	6.05	1.57	3.41	8.14	1.28		1.00	95.54		21.44
Virginia	8.1	756.84		241.96	207.17	29.43	26.66	138.50	66.61			15.52	1,482.69		435.20
Washington	6.8	309.05		16.74	11.17	54.56	20.65	55.04	35.59		5.55	2.12	510.46		150.13
West Virginia ¹	1.9	115.70		8.62	4.97		5.44	10.92	35.67	5.83	6.42		193.57	1,128.59	594.61
Wisconsin	5.7	299.05	3.47	24.77	12.14	16.93	25.87	28.71	65.13			26.58	502.66		144.87
Total	295.6	32,101.20	77.89	5,378.98	3,920.36	2,006.66	1,786.70	3,236.44	3,106.94	85.93	2,806.37	999.28	55,506.8	4,319.78	18,483.82
% of total		57.8%	0.1%	9.7%	7.1%	3.6%	3.2%	5.8%	5.6%	0.2%	5.1%	1.8%	100.0%		

¹ Denotes VLT net machine income. *Fiscal year ends June 30 for most states except New York (March 31), Texas (August 31), D.C. and Michigan (September 30).

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

Independent Auditor's Report

Mr. M. Scott Bowen, Commissioner
Bureau of State Lottery, State of Michigan
and
Mr. Thomas H. McTavish, CPA
Auditor General State of Michigan

We have audited the financial statements of the Bureau of State Lottery, State of Michigan (an Enterprise Fund of the State of Michigan) (the "Lottery"), a proprietary fund of the State of Michigan, as of and for the six-month periods and years ended September 30, 2012 and have issued our report thereon dated December 7, 2012. We have conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Lottery is responsible for establishing and maintaining an effective internal control over financial reporting. In planning and performing our audits, we considered the Lottery's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Lottery Commissioner and the Auditor General, others within the Lottery, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 7, 2012





Printed under the authority of PA 239, 1972 as amended.
40 copies: \$648.69, \$16.22 per copy

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