VERMONT LOTTERY

Vermont Lottery Commission

FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

DAVIS & HODGDON ASSOCIATES

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VERMONT LOTTERY COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

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INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS' AUDIT REPORT

To the Commissioners' of the
Vermont Lottery Commission
Barre, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the Vermont Lottery Commission, an enterprise fund of the State of Vermont, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Lottery Commission, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Vermont Lottery Commission and do not purport to, and do not present fairly the financial position of the State of Vermont, as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Vermont Lottery Commission's financial statements for the year ended June 30, 2015, and we expressed an unmodified audit opinion on those audited financials in our report dated November 2, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–6 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.

Accounting principles generally accepted in the United States of America require that the Schedule of the Lottery's Proportionate Share of the Net Pension Liability and the Schedule of Lottery Contributions on page 36 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because we did not perform the valuation and allocation of the State of Vermont's pension plan. The amounts used in the schedules were provided to us by the Department of Finance & Management of the State of Vermont. We do not express an opinion or provide any assurance on the information.

To the Commissioners' of the
Vermont Lottery Commission
Barre, Vermont
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2016, on our consideration of the Vermont Lottery Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vermont Lottery Commission's internal control over financial reporting and compliance.

Davis & Hodgdon Associates CPAs /a

Williston, Vermont
December 8, 2016

VERMONT LOTTERY COMMISSION

MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2016

This discussion of the Vermont Lottery Commission's financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements.

The Vermont Lottery Commission (the Lottery) is an enterprise fund of the State of Vermont. The Commission's operations are classified as business-type activities and reported in a manner similar to commercial entities.

Financial Highlights

- Gross revenues for lottery gaming activities increased by $12,505,170 or 11.19%.

- Total operating expenses for the year increased by $8,872,530 or 9.99%. Of this increase, prize expense increased by $7,430,396 facilities management fees increased by $419,913, agent commissions increased by $852,111, instant ticket printing costs increased by $91,496, and Tri-State expenses decreased by $272,365.

- Non-operating revenue in FY 2016 included an unrealized gain on investments of $21,761. The total investment income of $52,091 resulted in an overall increase of $45,100 from the non-operating loss in FY 2015.

- Income before operating transfers (net revenue) increased by $3,677,740.

Assets and Net Position

The assets of the Lottery are primarily cash and investments held for operating purposes. Total assets at June 30, 2016, of $9,669,084 include net capital assets of $15,298, restricted investments of $1,220,842, deferred pension outflows of $421,275 and current operating assets such as cash and cash equivalents, accounts receivable, and inventory of $8,011,669. Net position retained by the Lottery was $229,178.

Total assets at June 30, 2015, of $8,684,887 include net capital assets of $3,133, restricted investments of $1,312,188, deferred pension outflows of $107,570 and current operating assets such as cash and cash equivalents, accounts receivable, and inventory of $7,261,996. Net position retained by the Lottery was $27,812.

Liabilities

The Lottery's liabilities consist of operating liabilities and obligations for payment of prizes to lottery winners. Total liabilities at June 30, 2016, of $9,439,906 include long-term liabilities for prize obligations of $834,481, cash advances from the State of $300,000, pension liabilities of $1,240,524, and current operating liabilities of $7,064,901.

Total liabilities at June 30, 2015, of $8,657,075 include long-term liabilities for prize obligations of $947,520, cash advances from the State of $300,000, pension liabilities of $926,451, and current operating liabilities of $6,483,104.

VERMONT LOTTERY COMMISSION

MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2016

Sales

The following shows ticket sales by game:

	2016	2015
Instant scratch off games	$ 93,242,178	$ 85,510,664
Draw Games:		
Powerball	12,882,472	8,248,673
Mega Millions	3,291,228	3,673,978
Lucky for Life	1,779,688	1,880,839
Megabucks Plus	3,900,898	3,752,681
Pick 3	1,365,836	1,365,420
Pick 4	1,245,646	1,202,858
Gimme 5	762,909	760,929
Fast Play	5,790,984	5,358,839
Total sales	$ 124,261,839	$ 111,754,881

Prizes

In general, while the prize payout percentage is consistent, prize expense will increase or decrease from year to year in proportion to the increase or decrease in sales for a particular game. Prize expense for the instant games product category is controllable, to a large degree, by printing a predetermined number and value of winning tickets in the production of each instant game. Prize expense for draw games is predetermined by design to yield a certain ratio of prizes to sales over a large number of drawings. The Lottery has designated that at least 50% of draw sales revenue be reserved for prize awards. Each of the draw games actual prize payout is determined by lottery players' luck in matching the particular set of numbers randomly selected in each drawing for each game. If the value of prizes for the winning tickets selected is not at least the 50% of sales revenue, the difference between the designated prize pool and the value of the winning tickets is contributed to either a jackpot pool, in the case of Tri-State Megabucks, the Powerball game, and Mega Millions game, or is reported as prize contingencies by the Tri-State Lotto Commission in the case of Pick 3, Pick 4, Gimme 5, and Fast Play or by the Vermont Lottery Commission in the case of Lucky for Life.

	2016	2015
Prize expense - Instant scratch off games	$ 63,252,844	$ 58,333,653
Prize expense - Draw games	16,887,884	14,376,679
Total prizes	$ 80,140,728	$ 72,710,332

Other Potentially Significant Factors

Operating results for 2016 were improved over 2015. The overall improvement in sales was offset by the increased cost of sales. Much of the increased sales were in Instant Scratch games which had prize payouts that were higher than draw games. The increased sales in these games were the result of strategic planning for how we market and offer lottery games in retail. The increase in Powerball sales were the result of a record jackpot that was won in January 2016 for $1.5 billion.

The Lottery is a highly visible governmental activity. Its mission is to operate a State Lottery that will produce the maximum amount of net revenue consonant with the dignity of the State and general welfare of the people. There are a number of revenue-enhancing opportunities generally available to the lottery industry. These options, if deemed to be consonant with the general welfare of the people by those in the executive branch and/or legislature, may be considered in future years.

VERMONT LOTTERY COMMISSION

STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,873,782	$ 4,549,990
Accounts receivable, net	2,316,857	1,983,966
Due from the State Education Fund	5,509	12,067
Inventory	815,521	715,973
Total current assets	8,011,669	7,261,996
PROPERTY AND EQUIPMENT, net	15,298	3,133
OTHER ASSETS		
Investments	1,220,842	1,312,188
Deferred pension outflows	421,275	107,570
Total other assets	1,642,117	1,419,758
Total assets	$ 9,669,084	$ 8,684,887
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 801,805	$ 620,792
Accrued payroll and compensated absences	149,156	157,604
Reserve for future and unclaimed prizes	5,738,191	5,357,948
Due to winners, current	166,438	166,505
Deferred revenue	209,311	180,255
Total current liabilities	7,064,901	6,483,104
NONCURRENT LIABILITIES		
Due to winners, net of current portion	834,481	947,520
Due to state treasurer	300,000	300,000
Deferred pension inflows	191,321	233,465
Net pension liability	1,049,203	692,986
Total noncurrent liabilities	2,375,005	2,173,971
Total liabilities	9,439,906	8,657,075
NET POSITION, unrestricted	229,178	27,812
Total liabilities and net position	$ 9,669,084	$ 8,684,887

See Independent Certified Public Accountants' Audit Report and Notes to Financial Statements.

VERMONT LOTTERY COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Ticket sales	$ 124,261,839	$ 111,754,881
Agents' license fees and other receipts	2,048	3,836
Total revenues	124,263,887	111,758,717
OPERATING EXPENSES		
Prize expenses	80,140,728	72,710,332
Agents commissions	7,746,050	6,893,939
Lottery tickets	1,683,440	1,591,944
Ticket dispensers	34,097	49,935
Courier system	182,990	192,099
Facilities management fee - instant	3,114,465	2,866,573
Facilities management fee - online	655,874	483,853
Tri-State expenses	1,241,122	968,757
MUSL expenses	44,905	27,557
Personal services	1,397,209	1,418,083
Retirement expense	170,131	151,873
Advertising	549,199	700,601
Other operating expenses	607,074	624,384
Depreciation	1,604	2,005
Department of Health	135,577	150,000
Total operating expenses	97,704,465	88,831,935
OPERATING INCOME	26,559,422	22,926,782
NON-OPERATING INCOME		
Investment income	52,091	6,991
Total non-operating income	52,091	6,991
INCOME BEFORE OPERATING TRANSFERS	26,611,513	22,933,773
NET PROFIT TRANSFERRED TO THE EDUCATION FUND	26,410,147	22,757,957
Change in net position	201,366	175,816
NET POSITION, beginning of year	27,812	688,993
Prior period adjustment of pension liability	---	(836,997)
NET POSITION, end of year	$ 229,178	$ 27,812

See Independent Certified Public Accountants' Audit Report and Notes to Financial Statements.

VERMONT LOTTERY COMMISSION

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 123,958,004	$ 111,846,449
Cash paid for prizes and agents' commissions	(87,619,641)	(79,409,860)
Cash paid for management fees, operations, and other	(8,167,278)	(7,987,996)
Cash paid to employees for services	(1,575,420)	(1,582,046)
Other operating revenue	2,048	3,836
Net cash provided by operating activities	26,597,713	22,870,383
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers	(26,403,589)	(22,751,457)
Net cash used by noncapital financing activities	(26,403,589)	(22,751,457)
CASH FLOWS FROM INVESTING ACTIVITIES		
Realized gains on investments	30,330	26,226
Proceeds from maturities of investments, net	113,107	200,904
Purchase of property and equipment	(13,769)	--
Net cash provided by investing activities	129,668	227,130
Net change in cash and cash equivalents	323,792	346,056
Cash and cash equivalents, beginning of year	4,549,990	4,203,934
Cash and cash equivalents, end of year	$ 4,873,782	$ 4,549,990
RECONCILATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 26,559,422	$ 22,926,782
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,604	2,005
Changes in:		
Accounts receivable	(332,891)	86,122
Inventory	(99,548)	(249,518)
Prepaid expenses	--	4,067
Deferred pension inflows and outflows	(355,849)	125,895
Accounts payable and accrued expenses	172,565	(76,749)
Due to winners	(113,106)	(200,904)
Reserve for future and unclaimed prizes	380,243	395,315
Deferred revenue	29,056	1,379
Net pension liability	356,217	(144,011)
Total adjustments	38,291	(56,399)
Net cash provided by operating activities	$ 26,597,713	$ 22,870,383

See Independent Certified Public Accountants' Audit Report and Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations

The Vermont Lottery Commission (the Lottery) was created by an enactment of the Vermont State Legislature and signed into law by the Governor on April 27, 1977. Title 31, Chapter 14 of the Vermont Statutes is the law under which the Lottery operates. The Lottery is an enterprise fund of the State of Vermont and is managed by a five-member Commission appointed by the Governor for three-year terms. The Commission, by law, has the authority to operate the State lottery, determine the type and forms of lottery games, set the price of lottery tickets, determine the number and size of prizes, select the ticket sales locations and may enter into agreements with another state or states to provide for the operation of the Lottery.

Fiscal operations of the Lottery commenced in October, 1977. The Lottery's net revenue was transferred to the State of Vermont's General Fund through June 30, 1998. Beginning July 1, 1998, the Lottery's revenue is committed to funding public education, and Lottery net revenue is transferred to the State of Vermont Education Fund on a monthly basis.

The Lottery entered into a compact with the states of Maine and New Hampshire known as the Tri-State Lotto. The compact was enacted to implement the operation of Tri-State Lotto for the purpose of raising additional revenue for each of the party states. Vermont's portion of the Tri-State Lotto operations is accounted for by the Lottery.

In July 2003, the Lottery entered into an agreement with the Multi-State Lottery Association (MUSL) for the inclusion of the Powerball game. On January 31, 2010 the Lottery added the multi-jurisdictional game Mega Millions.

In March 2012, the Lottery entered into an agreement with the Connecticut Lottery Corporation, the Maine State Liquor & Lottery Commission, the Massachusetts State Lottery Commission, the New Hampshire Lottery Commission, and the Rhode Island Division of State Lottery to offer Lucky for Life, a New England regional lotto game. As of June 2016, Lucky for Life was expanded to include 14 other state lotteries.

A summary of the Corporation's significant accounting policies follows:

Reporting entity

The Lottery is included in the State of Vermont's financial statements as an enterprise fund. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Lottery's financial statements as a reporting agency.

Basis of accounting

The financial statement presentation follows the recommendations of the Governmental Accounting Standards Board (GASB) in its Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The Lottery uses the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when the obligation for payment is incurred. The Lottery is classified as an enterprise fund of the governmental proprietary fund type.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Basis of accounting (continued)

Enterprise funds account for operations similar to private business enterprises where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

Revenue recognition

Sales of instant lottery tickets are made to licensed retailers who market the tickets to the public on a commission basis. Revenue is recognized when the books of tickets are settled with the retailers. Tickets activated, but not sold by retailers, may be returned for credit. Sales of online lottery tickets are made to licensed retailers who market the tickets through the use of computerized terminals on a commission basis. Ticket revenue is recognized weekly. Tickets sold in advance of future drawing dates are recorded as deferred revenue until the ticket becomes valid for a drawing.

Expenses

Commissions and fees for the instant and online games are recognized weekly. Administrative expenses, such as salaries, benefits, contracted services, depreciation, equipment and supplies are included in the Lottery's annual operating budget appropriation from the Legislature. This budget appropriation came from Lottery revenues. Other Lottery operating expenses, which will vary with product sales volume, such as lottery tickets, courier system, agent network expenses and facilities management fees for the gaming systems vendor are considered "cost of goods", are part of an authorized amount approved by Finance and Management, and are derived from Lottery revenues. In addition, Vermont State Statute Title 31, Chapter 14, §658 provides that agent commissions may not exceed 6.25% of gross receipts and bank commissions may not exceed 1% of gross receipts. The statutes also provide that the Lottery must pay out no less than 50% of gross receipts as prizes.

Cash and cash equivalents

Cash includes demand deposits and short-term investments with a maturity date within three (3) months of the date acquired by the Lottery except for amounts included in the investment account.

Investments

Investments with readily determinable fair market values are reported at their fair market values on the balance sheet. The Lottery's policy is to retain in net position the unrealized gains and losses on long-term investments held for the purpose of paying long-term installment prizes due to winners. This policy is consistent with the provision for apportionment of Lottery revenues in Title 31, Chapter 14, §654 (11)(A).

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Fair value measurements

Professional literature defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance states that fair value is a market-based measurement, not an entity-specific measurement.

Therefore, a fair value measurement should be determined based on the assumptions market participants would use in pricing the asset or liability under current market conditions at the measurement date. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy that is based on the subjectivity of inputs.

It distinguishes between observable inputs (Levels 1 and 2) which are either observable from market data or corroborated by observable market data and those that are unobservable (Level 3).

Three levels of inputs that may be used to measure fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs include quoted prices (interest rates, yield curves, etc.) or inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities and alternative investments using net asset value (NAV) per share for which the Organization has the ability to redeem its investment at or close to the measurement date.

Level 3 – Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect the Organization's assumptions based on the best information available in the circumstances. This category generally includes certain private debt and equity instruments, alternative investments where the investee at NAV per share or the redemption date is not close to the measurement date. This category also includes investments held in trust where the Organization is not the trustee and the beneficial interest is in perpetual trust.

All long-term investments (see Note 4.) have been valued in accordance with the definition of Level 1 inputs as described above.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value.

Furthermore, although the Lottery's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Allowance for doubtful accounts

It is the policy of management to review the outstanding receivables at year end, as well as the bad debt write off experienced in the past, and establish an allowance for doubtful accounts for uncollectable amounts. Based on management's estimates, $24,281 and $34,231 was recorded as an allowance for doubtful accounts at June 30, 2016 and 2015, respectively.

Inventory

Inventory consists of lottery tickets on hand and prizes. Inventory is valued at the lower of cost or market using the first-in, first-out method.

Property and equipment

Property and equipment are stated at cost, recorded as a capital asset based on the nature of the item and depreciated over the estimated useful life of the asset. Capital assets are defined by the Lottery as assets with an initial individual cost of more than $5,000 and a useful life of more than two years. Capitalized costs include freight-in, licenses, title application and any other costs required to establish the initial operation of the asset. Improvements and additions to an asset are capitalized. Maintenance and repair costs are not capitalized. Depreciation expense is calculated using the straight-line method over the estimated lives of the assets which are:

Office furniture and equipment	3-7 years
Leasehold improvements	10-15 years

Compensated absences

Lottery employees are entitled to certain compensated absences based on their length of employment. Generally, compensated absences either vest or accumulate and are accrued when they are earned. Sick leave does not accrue beyond annual use.

Advertising

Advertising costs are expensed as incurred and totaled $549,199 and $700,601 for the years ended June 30, 2016 and 2015, respectively.

Estimates

The preparation of financial statements 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.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Risk management

The Lottery is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to individuals; and natural disasters. These are managed by the State of Vermont on behalf of the Lottery.

Reclassifications

Certain amounts for the year ended June 30, 2015, have been reclassified for comparative purposes to confirm to the presentation used in the June 30, 2016 financial statements. The reclassifications have no effect on total net position for the year ended June 30, 2016.

Subsequent events

Subsequent events have been evaluated through December 8, 2016, which is the date the financial statements were issued.

Note 2. Cash and Cash Equivalents

Custodial credit risk on deposits

Custodial credit risk is the risk that in the event of a bank failure, the Lottery's deposits may not be returned to it. The Lottery does not have a deposit policy for custodial credit risk. As of June 30, 2016, all of the Lottery's bank balance of $1,284,067 was insured or collateralized. As of June 30, 2015, all of the Lottery's bank balance of $2,709,942 was insured or collateralized. Collateralized amounts are held by the pledging bank's trust department in the Lottery's name.

Cash with the State of Vermont Treasurer

Cash with the State Treasurer represents cash held by the Vermont State Treasurer's Office for the purpose of funding expenditures of the Lottery and transfers to the State of Vermont Education Fund. The expenditures are provided for by an appropriation from the State of Vermont which is derived from Lottery revenues for the operation of the Lottery. The balance in this account is reduced by transfers of net revenue of the Lottery to the State of Vermont Education Fund.

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2016	2015
MUSL	$ 683,662	$ 730,002
Tri-State	682,443	668,380
Intralot	48,653	55,103
Regular Agents	552,659	304,336
Chain Agents	373,721	260,376
Total accounts receivable	2,341,138	2,018,197
Less allowance for doubtful accounts	(24,281)	(34,231)
Accounts receivable, net	$ 2,316,857	$ 1,983,966

Note 4. Investments

Investments consisted of U.S. Treasury Strips which totaled $1,220,842 and $1,312,188 at June 30, 2016 and 2015, respectively.

Interest rate risk

The Lottery purchases investments in government securities that will mature in future years to pay multi-year payment prizes won by certain instant ticket winners (see Note 8). These are held by the Trust Department of the People's United Bank in Burlington, Vermont, and are reported at market value. Because these investments are scheduled to be paid to winners as they mature, the Lottery has an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 5. Inventory

Inventory consisted of the following at June 30:

	2016	2015
Tickets on hand	$ 813,205	$ 645,989
Prizes	2,316	69,984
Total inventory	$ 815,521	$ 715,973

Note 6. Property and Equipment

The following is a summary of the changes in property and equipment over the fiscal years:

	Balance July 1, 2015	Balance June 30, 2016	Accumulated Depreciation	Net Property & Equipment June 30, 2016
Computer equipment	$ 5,584	$ 5,584	$ 5,584	$ --
Furniture & fixtures	56,114	56,114	56,114	--
Other equipment	117,004	130,773	117,578	13,195
Leasehold improv.	59,935	59,935	57,832	2,103
Total	$ 238,637	$ 252,406	$ 237,108	$ 15,298

	Balance July 1, 2014	Balance June 30, 2015	Accumulated Depreciation	Net Property & Equipment June 30, 2015
Computer equipment	$ 5,584	$ 5,584	$ 5,584	$ --
Furniture & fixtures	56,114	56,114	56,114	-
Other equipment	117,004	117,004	117,004	--
Leasehold improv.	59,935	59,935	56,802	3,133
Total	$ 238,637	$ 238,637	$ 235,504	$ 3,133

Note 7. Accounts Payable

Accounts payable consisted of the following at June 30:

	2016	2015
Tri-State	$ 23,171	$ 75,448
MUSL	60,955	35,862
Vendors	717,679	509,482
Total accounts payable	$ 801,805	$ 620,792

Note 8. Due to Winners

The following is a summary of requirements to maturity for long-term installment prizes due to winners awarded as of June 30, 2016 and payable through the year 2033:

	Principal	Interest	Total
Current Portion:			
For the year ending June 30,			
2017	$ 166,438	$ 3,562	$ 170,000
Long-Term Portion:			
For the year ending June 30,			
2018	110,282	9,718	120,000
2019	104,091	15,909	120,000
2020	98,101	21,899	120,000
2021	92,383	27,617	120,000
2022	87,239	32,761	120,000
2023 - 2027	214,000	106,000	320,000
2028 - 2032	108,765	91,235	200,000
2033	19,620	20,380	40,000
Total long-term portion	834,481	325,519	1,160,000
Total requirements to maturity	$ 1,000,919	$ 329,081	$ 1,330,000

Due to winners represents annual payments owed to jackpot winners and is fully funded by investments in U.S. Government Treasury Strips that mature on a schedule coinciding with the installments (see Note 4).

Note 9. Prize Expense and Reserve for Future and Unclaimed Prizes

By law, the Lottery must pay a minimum of 50% of gross revenue to participants in the form of prizes. Prize expense is calculated on the basis of total sales multiplied by an approved prize payout percentage. The reserve for future and unclaimed prizes is increased by the prize expense as calculated and reduced by the dollar value of prizes actually paid out. Unclaimed prizes from online games can be used for special prizes, to supplement regular prizes or in the case of instant games can be transferred to the State of Vermont Education Fund.

For instant games, the Lottery calculated prize expense at varying percentages according to game design ranging from 62% to 75% for the years ended June 30, 2016 and 2015.

In September 1985, the states of Vermont, Maine and New Hampshire instituted Tri-State Megabucks (now known as Tri-State Megabucks Plus), with a calculated prize expense of 50% of ticket sales. Megabucks Plus ticket sales in Vermont were approximately $3.9 million for the year ended June 30, 2016 and $3.75 million for the year ended June 30, 2015.

Note 9. Prize Expense and Reserve for Future and Unclaimed Prizes (continued)

The Lottery began offering the Pick 3 and Pick 4 daily numbers games in November 1980 and September 1985, respectively, with calculated prize expense of 50% of ticket sales. Effective June 1995, the daily numbers games, Pick 3 and Pick 4, became Tri-State games. Pick 3 and Pick 4 sales in Vermont were approximately $2.6 million for the year ended June 30, 2016 and $2.56 million for the year ended June 30, 2015.

The Tri-State Lotto Commission's net position for the years ending June 30, 2016 and 2015 were $8,831,886 and $8,384,974, respectively. Of these amounts, $4,345,585 represented designated prize reserves for each year and $4,486,301 and $4,039,389 represented unrealized gains on investments held for installment prize obligations for the years ended June 30, 2016 and 2015, respectively. The Tri-State Lotto Commission's annual financial report may be obtained by writing to the Tri-State Lotto Commission, 1311 US Route 302, Suite 100, Barre, Vermont 05641.

Effective July 1, 2003, the Lottery became a member of the Multi-State Lottery Association (MUSL) which operates online games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays non-jackpot prizes directly to the winners. The MUSL operates the Powerball game and is a member of the Mega Millions group offering the Mega Millions game. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in these reserve funds is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board. Vermont Powerball sales were approximately $12.9 million for the year ended June 30, 2016 and approximately $8.2 million for the year ended June 30, 2015. In January 2010, Vermont began offering Vermont Mega Millions with the Megaplier feature, both with a calculated prize expense currently at no more than 50% of ticket sales. Vermont Mega Millions sales were approximately $3.3 million for the year ended June 30, 2016 and $3.7 million for the year ended June 30, 2015. On behalf of the Lottery, the MUSL held in trust prize reserve accounts for Powerball, and Mega Millions totaling $517,439 for the fiscal year ended June 30, 2016 and $519,229 for the fiscal year ended June 30, 2015. The MUSL annual financial report may be obtained by writing to the Multi-State Lottery Association, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322-7919.

In May 2013, Tri-State instituted the Gimme 5 game with a calculated prize expense of 53%. Gimme 5 sales in Vermont were approximately $763,000 for the year ended June 30, 2016 and $761,000 for the year ended June 30, 2015.

In March 2012, the states of Vermont, Maine, New Hampshire, Connecticut, Massachusetts and Rhode Island instituted Lucky for Life, with a calculated prize expense of 60% of ticket sales. Lucky for Life ticket sales in Vermont were approximately $1.8 million for the year ended June 30, 2016, and $1.9 million for the year ended June 30, 2015. As of June 30, 2016, Lucky for Life has been expanded to include 14 other state lotteries.

Note 10. Deferred Revenue

Deferred revenue consists of subscription receipts for Megabucks Plus, Powerball and Mega Millions games, advance tickets sold for the Powerball, Mega Millions, and Lucky for Life games, and refundable terminal deposits for new agents. The sales revenue will be recognized as the drawings are held and the terminal deposits are refundable after one year.

Note 11. Net Position

Net position consisted of the following at June 30:

	2016	2015
Invested in capital assets, net of depreciation	$ 15,298	$ 3,133
Reserved for inventory	813,205	645,397
Reserved for Lottery's portion of pension liability due to State of Vermont	(819,249)	(818,881)
Unrealized gains on investments held for future winner payouts	219,924	198,163
Total net position	$ 229,178	$ 27,812

These reserves are consistent with the provision for apportionment of Lottery revenues in Title 31, Chapter 14, §654(11)(A) & (B).

Note 12. Appropriations

The following are the cash basis appropriations compared to expenses at June 30:

	2016	2015
Appropriation	$ 3,254,943	$ 3,319,443
Expenses	2,840,962	3,042,649
Appropriations in exess of expenses	$ 413,981	$ 276,794

There was $100,677 and $153,333 encumbered for personal services and equipment at June 30, 2016 and 2015, respectively.

Note 13. Retirement Plan

The Vermont State Retirement Defined Benefit Plan, which is a single employer plan, covers substantially all Lottery employees except employees hired in a temporary capacity. Membership in the plan is a condition of employment. All eligible employees of the Lottery are Group F members.

Note 13. Retirement Plan (continued)

The Lottery reports on its defined benefit retirement plan under GASB Statement No. 68, *Accounting and Reporting for Pensions* and GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, and requires that employers report a net pension liability (NPL) and related pension expense as determined by the plan under the requirements contained in GASB Statement No. 67, *Financial Reporting for Pension Plans*. GASB Statement No. 71 requires that upon implementation of GASB Statement No. 68, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability

Implementation of these new financial reporting standards required that the Lottery restate its beginning net position as of July 1, 2014, for the cumulative effects of applying this statement. In addition, in accordance with the provisions of these statements, beginning balances of deferred pension outflows of resources and deferred pension inflows of resources had not been reported, except for recognizing the beginning balance for deferred outflows of resources for pension contributions made subsequent to the measurement date of the beginning pension liability but before the start of the Lottery's fiscal year.

In order to provide the necessary disclosures that are required under the various GASB Statements, the disclosures below are separated into two sections. The first section (Disclosures about the Defined Benefit Retirement Plans) offers disclosures about the plan itself - descriptions of the plan and who is covered; an analysis of the membership of the various groups of the plan as of the end of the fiscal year; a discussion of benefits provided by each of the plans. The financial statements of the defined benefit plan are included in the State of Vermont Comprehensive Annual Financial Report (CAFR) and can be found on the Department of Finance and Management web page at www.finance.vermont.gov and going to reports and publications.

The second section (Financial Reporting of Net Pension Liability and Pension Expense by the Employer as required by GASB Statement No. 68) provides additional information regarding the pension plan that are required by GASB Statement No. 68 - changes in net pension liability, balances of deferred pension outflows of resources and deferred pension inflows of resources (including prospective schedules of amortization of the deferred outflows and inflows), and the calculation of pension expense for the year.

GASB Statement No. 68 also requires that government units with stand-alone financial statements present a schedule presenting the employer's proportion and proportionate share of the net pension liability; the employer's covered-employee payroll; the employer's proportionate share of the net pension liability as a percentage of the employer's covered-employee payroll; and the plans fiduciary net position as a percentage of the total pension liability. In addition, GASB Statement No. 68 requires that if the contribution requirements are statutorily established, the employer present a 10-year schedule presenting the statutorily required contribution; the amount of contributions made; the difference between the two; the employer's covered payroll; and the amount of contributions as a percentage of covered payroll. These two schedules are presented as Required Supplementary Information (see page 36).

Note 13. Retirement Plan (continued)

Disclosures about the Defined Benefit Retirement Plans

This first section provides the disclosures about the defined benefit retirement plan required by GASB Statement No. 68.

Plan Descriptions

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer defined benefit pension plan which covers substantially all general State employees and State Police, except employees hired in a temporary capacity. Membership in the system is a condition of employment.

Management of the plan is vested in the VSRS Retirement Board, which consists of an appointee of the governor; state treasurer; commissioner of human resources; commissioner of finance and management; three members of the Vermont State Employees' Association who are active members of the system (each chosen by such association in accordance with its articles of association) and one retired state employee who is a beneficiary of the system (to be elected by the Vermont Retired State Employees' Association).

Membership of the Vermont State Retirement System is made up of the following:

- General employees who did not join the non-contributory system on July 1, 1981 (Group A)
- State police, law enforcement positions, and airport firefighters (Group C)
- Judges (Group D)
- Terminated vested members of the non-contributory system (Group E)
- All other general employees (Group F).

At June 30, 2016, VSRS membership consisted of the following:

	Total	Group A	Group C	Group D	Group F
Total active members	8,436	4	450	52	7,930
Retirees currently receiving benefits	6,542	192	416	62	5,872
Terminated & vested employees not yet receiving benefits	728	4	27	1	696
Inactive members	1,012	--	33	--	979
Total members	16,718	200	926	115	15,477

Note 13. Retirement Plan (continued)

Disclosures about the Defined Benefit Retirement Plans (continued)

Benefits Provided

Details of the pension benefits provided by the retirement plan are as follows:

	Group A	Group C	Group D	Group F Hired Before 7/1/2008	Group F Hired After 7/1/2008
Benefit formula	1.67% X creditable service	2.5% X creditable service	3.33% X creditable service (after 12 years in Group D)	1.25% X service prior to 12/31/90 + 1.67% X service after 1/1/91	Same
Max benefit payable	100% of AFC	50% of AFC	100% of final salary	50% of AFC	60% of AFC
Average final compensation (AFC)	Highest 3 consecutive years, including unused annual leave payoff	Highest 2 consecutive years, including unused annual leave payoff	Final salary at retirement	Highest 3 consecutive years, excluding unused annual leave payoff	Same
Normal retirement	Age 65 or 62 with 20 years of service	Age 55 (mandatory) with 5 years of service	Age 62 with 5 years of service	Age 62 or with 30 years of service	Age 65 or combination of age & service credit that equals 87
Early retirement eligibility	Age 55 with 5 years of service or 30 years of service (any age)	Age 50 with 20 years of service	Age 55 with 5 years of service	Age 55 with 5 years of service	Same

Note 13. Retirement Plan (continued)

Disclosures about the Defined Benefit Retirement Plans (continued)

Benefits Provided (continued)

	Group A	Group C	Group D	Group F Hired Before 7/1/2008	Group F Hired After 7/1/2008
Early retirement reduction	Actuarially reduced benefit if under 30 years of service	No reduction	3% per year from age 62	6% per year from age 62	Monthly reduction based on years of service: 35+ years - 1/8 of 1%; 30-34 years - 1/4 of 1%; 25-29 years 1/3 of 1%; 20-24 years - 5/12 of 1%; less than 20 years - 5/9 of 1%
Post-retirement COLA	Full CPI, from a min of 1% up to a max of 5%, after 12 months of retirement	Full CPI, from a min of 1% up to a max of 5%, after 12 months of retirement	Full CPI, from a min of 1% up to a max of 5%, after 12 months of retirement	50 % of CPI until 1/1/2014; 100% of CPI thereafter, from a min of 1% up to a max of 5%, after reaching age 62, or (if retired after 6/30/97) 30 years of service	50 % of CPI until 1/1/2014; 100% of CPI thereafter, from a min of 1% up to a max of 5%, after reaching age 65 or age and service credit to equal 87

Note 13. Retirement Plan (continued)

Disclosures about the Defined Benefit Retirement Plans (continued)

Benefits Provided (continued)

	Group A	Group C	Group D	Group F Hired Before 7/1/2008	Group F Hired After 7/1/2008
Disability benefit	Unreduced accrued benefit with min of 25% of AFC	Unreduced accrued benefit with min of 25% of AFC, with children's benefit of 10% of AFC to max of three concurrently	Unreduced accrued benefit with min of 25% of AFC	Unreduced accrued benefit with min of 25% of AFC	Same
Death-in-service benefit	Disability benefit or early retirement benefit, whichever greater, with 100% survivorship factor applied plus children's benefits up to max of three concurrently	70% of accrued benefit with no actuarial reduction applied, plus children's benefit	Disability benefit or early retirement benefit, whichever greater, with 100% survivorship factor applied plus children's benefits up to max of three concurrently	Disability benefit or early retirement benefit, whichever greater, with 100% survivorship factor applied plus children's benefits up to max of three concurrently	Same

Benefit terms are established or amended in accordance with 3 V.S.A. Chapter 16.

Note 13. Retirement Plan (continued)

Disclosures about the Defined Benefit Retirement Plans (continued)

Contributions

Title 3 VSA Chapter 16 of Vermont Statutes grant the authority to the retirement board to review annually the amount of contribution recommended by the actuary of the retirement system as necessary to achieve and preserve the financial integrity of the fund, and submit this recommendation to the Governor and both houses of the legislature. Employee contributions are established in Chapter 16. Contribution rates for the fiscal year ended June 30, 2016, for the various groups are as follows:

	Group A	Group C	Group D	Group F Hired Before 7/1/2008	Group F Hired After 7/1/2008
Employee contributions	6.40% of gross payroll	8.28% of gross payroll	6.40% of gross payroll	6.40% of gross payroll	Same
Employer contributions	10.04% of gross payroll	10.04% of gross payroll	10.04% of gross payroll	10.04% of gross payroll	Same

Financial Reporting of Net Pension Liability and Pension Expense by the Employer

This section includes the information that is required by GASB Statement No. 68. It reports information regarding the calculation of the net pension liability, including changes during the measurement period in both total pension liability and plan net position; balances in the various components of deferred pension outflows of resources and deferred pension inflows of resources and the amounts to be recognized in pension expense in future periods; and the calculation of pension expense.

The Lottery is a separate fund of the State of Vermont, and information is presented in this section for the Lottery's proportionate share of the various components of the plan. The proportionate share was determined by dividing the Lottery's Employer Contribution by the total Employer Contributions by all of the State's funds and component units. The Lottery's proportionate share of the collective net pension liability was 0.1849% on the reporting date, and was 0.1925% on the measurement date.

Reporting Date, Measurement Date, and Valuation Date

Net pension liabilities, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the Lottery's reporting date (June 30, 2016) and for the Lottery's reporting period (the year ended June 30, 2016). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date of June 30, 2016, the State has chosen to use the end of the prior fiscal year (June 30, 2015) as the measurement date, and the year ended June 30, 2015 as the measurement period.

Note 13. Retirement Plan (continued)

Financial Reporting of Net Pension Liability and Pension Expense by the Employer (continued)

Reporting Date, Measurement Date, and Valuation Date (continued)

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of June 30, 2014, to the measurement date of June 30, 2015.

Net Pension Liabilities

The net pension liability (NPL) is measured as the portion of the actuarial present value of projected benefit payments that is attributable to past periods of employee service, net of the pension plan's fiduciary net position. The changes in the components for the measurement period are as follows:

	Net Pension Liability
Balance - June 30, 2014	$ 692,986
Changes for the year:	
Service cost	80,438
Interest	316,474
Difference between expected and actual experience	7,660
Change in proportional share	(16,085)
Change of assumptions	119,824
Contributions - employer	(107,570)
Contributions - employee	(64,094)
Net investment income	16,334
Administrative expenses	3,578
Other changes	(342)
Net changes	356,217
Balance - June 30, 2015	$ 1,049,203

Note 13. Retirement Plan (continued)

Financial Reporting of Net Pension Liability and Pension Expense by the Employer (continued)

Net Pension Liabilities (continued)

The following presents the net pension liability, calculated using the discount rate of 7.95%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.95%) or 1-percentage point higher (8.95%) than the current rate:

One-percent decrease	
Discount rate	6.95%
Net pension liability (asset)	$ 1,545,244
Net pension liability, as reported	
Discount rate	7.95%
Net pension liability (asset)	$ 1,049,203
One-percent increase	
Discount rate	8.95%
Net pension liability (asset)	$ 631,548

Deferred Pension Outflows of Resources and Deferred Pension Inflows of Resources

Most changes in the net pension liability are included in pension expense during the year of change. Changes resulting from current-period service cost, interest on the total pension liability, and changes in benefit terms are required to be included in pension expense immediately. Similarly, projected earnings on the pension plan's investments are also required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs, (2) differences between expected and actual experience and (3) changes in proportion and the effect of certain employee contributions on the employer's net pension liability are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. This treatment arises from the concept that pensions arise from an exchange between employer and employee of salaries and benefits for employee service each period and that these transactions and related pension measurements are viewed in the context of ongoing, career-long employment relationships.

Note 13. Retirement Plan (continued)

Financial Reporting of Net Pension Liability and Pension Expense by the Employer (continued)

Deferred Pension Outflows of Resources and Deferred Pension Inflows of Resources (continued)

The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. This treatment arises from the concept that these changes result from the use of estimates, where probabilities of events range from zero to 100 percent, while actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will occur with every measurement that incorporates future events.

Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

As of June 30, 2016, the Lottery reported the following deferred pension outflows of resources and deferred pension inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on plan investments	$ 214,525	$ 132,831
Changes of assumptions	99,853	--
Differences between expected and actual experience	6,383	--
Change in the proportion and the effect of certain employer contributions on the employer's net pension liability	--	58,490
Employer contributions made subsequent to the measurement date	100,514	--
Total	$ 421,275	$ 191,321

Note 13. Retirement Plan (continued)

Financial Reporting of Net Pension Liability and Pension Expense by the Employer (continued)

Deferred Pension Outflows of Resources and Deferred Pension Inflows of Resources (continued)

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

2017	$ 117,164
2018	16,650
2019	16,650
2020	60,925
2021	18,565
Total	$ 229,954

Pension Expense

As discussed above, most changes in the net pension liability are included in pension expense in the year of change, including changes resulting from current-period service cost, interest on the total pension liability, changes in benefit terms, and projected earnings on the pension plan's investments. Other changes in net pension liability are recorded as deferred pension outflows of resources and deferred pension inflows of resources, and included in pension expense on a systematic and rational manner over current and future periods.

Pension expense for the year ended June 30, 2016 is as follows:

Service cost	$ 80,438
Interest on total pension liability	316,474
Employee contributions	(64,094)
Plan administrative costs and other changes	3,237
Projected earnings on plan investments	(251,823)
Recognition (amortization) of deferred pension ouflows (inflows) of resources	
Difference between expected and actual experience	1,277
Change in assumptions	19,971
Net difference between projected and actual investment earnings	9,354
Changes in proportional share of contributions	(13,952)
Total pension expense	$ 100,882

Note 13. Retirement Plan (continued)

Financial Reporting of Net Pension Liability and Pension Expense by the Employer (continued)

Pension Expense (continued)

The following is a summary of System participants as of June 30, 2015, the measurement date:

Active employees	
Vested	5,465
Non-vested	2,981
Total active employees	8,446
Retirees and beneficiaries of deceased retirees currently receiving benefits	6,204
Terminated employees entitled to benefits but not yet receiving them (vested)	735
Inactive members	891
Total particpants	16,276

Actuarial Methods and Assumptions

Methods and assumptions used to determine the annual pension cost and net pension obligation are based on a valuation date of June 30, 2014. The chart below summarizes these methods and assumptions:

Valuation date	6/30/2014
Inflation assumptions	3.0% - 3.25%
Investment rate of return	6.25% - 9.0%
Projected salary increases	3.0% - 7.79%
Cost of living adjustments	1.5% - 3.0%

Note 13. Retirement Plan (continued)

Financial Reporting of Net Pension Liability and Pension Expense by the Employer (continued)

Actuarial Methods and Assumptions (continued)

Post retirement adjustments:

Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C & D - 5%
Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in the CPI but not in excess of percentage indicated	Group F - 5%
Assumed annual rate of cost-of-living increases	For those eligible for increases of 100% of CPI change - 3% For those eligible for increases of 150% of CPI change - 1.5%

Note 14. Retirement Expense

Retirement expense consisted of the following for the years ended June 30:

		2016		2015
GASB Statement No. 68 pension expense	$	100,882	$	89,454
Reclassification of fiscal year contributions made after measurement date		(100,514)		(107,570)
Cash employer contributions to retirement plans		169,763		169,537
Adjustment for changes to payroll accrual made after measurement date		--		452
Total retirement expense	$	170,131	$	151,873

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with section 457 of the Internal Revenue Code. The plan, available to all Lottery employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or an unforeseeable emergency.

In compliance with Federal mandates, the Vermont State Retirement Board adopted a Plan Trust Declaration for the State of Vermont's Deferred Compensation Plan effective January 1, 1999. The Federal mandate was established to protect the assets of deferred compensation plans by requiring the assets be placed in a trust to be used for the sole purpose of plan participants. After January 1, 1999, the plan assets are no longer considered assets of the State of Vermont.

Note 16. Concentrations

Lottery utilized Intralot, Inc., a service organization, to process all of its online games and generate the accounting reports the Lottery used to record this activity during the years ended June 30, 2016 and 2015. The Lottery also utilized Intralot to validate and settle its instant ticket lottery games. The Lottery utilized Pollard Banknote during the years ended June 30, 2016 and 2015 to print its instant games. Other service providers are available; however, an interruption in service by Intralot or Pollard Banknote could have an adverse impact on the Lottery's revenues.

Note 17. Commitments

The State of Vermont entered into an agreement on behalf of the Lottery for office space. The lease commenced September 1, 2004 for ten years. The lease provides for annual rent of $129,675 for the first five years and $142,576 for the remaining five years through August 31, 2014. The State renewed the lease for an additional five years at an annual rate of $156,834 plus allowance for property tax increases. The annual rent was $166,052 and $163,409 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments for the next five years and in the aggregate required under the above office space lease agreement are as follows:

2017	$ 156,834
2018	156,834
2019	156,834
2020	26,139
2021	--
Total	$ 496,641

The Lottery has a three-year agreement with Pollard Banknote Limited to print instant game tickets through January 15, 2017. The total cost of the contract is not to exceed $6.3 million.

The Lottery is contracted with Intralot, Inc. to provide for the operation of an online gaming system through June 30, 2018. The estimated total contract price is approximately $25 million over the eight-year contract.

Note 18. Prior Period Adjustment

As discussed in Note 13, the Lottery implemented GASB Statement No. 68, Accounting and Reporting for Pensions and GASB Statement No. 71, Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, for the fiscal year ending June 30, 2015. Implementation of these new financial reporting standards required that the Lottery restate its beginning net position as of July 1, 2014, for the cumulative effects of applying this statement.

In addition, in accordance with the provisions of these statements, beginning balances of deferred pension outflows of resources and deferred pension inflows of resources have not been reported, except for recognizing the beginning balance for deferred outflows of resources for pension contributions made subsequent to the measurement date of the beginning pension liability but before the start of the Lottery's fiscal year. Accordingly, a net adjustment of $836,997 was made to reduce the beginning balance of net position for the year ended June 30, 2015.

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Commissioners' of
The Vermont Lottery Commission
Barre, Vermont

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Vermont Lottery Commission (the Lottery), an enterprise fund of the State of Vermont, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated December 8, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

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To the Commissioners' of
The Vermont Lottery Commission
Barre, Vermont
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Purpose of this Report

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

Davis & Hodgdon Associates CPA's, PLC

Williston, Vermont
December 8, 2016

VERMONT LOTTERY COMMISSION

SCHEDULE OF THE LOTTERY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Vermont State Retirement System
Last 10 Fiscal Years**

	2016	2015
Lottery's proportion of the net pension liability	0.1925%	0.1971%
Lottery's proportionate share of the net pension liability	$ 1,049,203	$ 692,986
Lottery's covered-employee payroll	$ 814,156	$ 910,977
Lottery's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	128.870%	76.071%
Plan fiduciary net position as a percentage of the total pension liability	74.88%	82.50%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only years for which information is available are presented.

VERMONT LOTTERY COMMISSION

SCHEDULE OF LOTTERY CONTRIBUTIONS
Vermont State Retirement System
Last 10 Fiscal Years**

	2016	2015
Contractually required contribution	$ 107,570	$ 107,570
Contributions in relation to the contractually required contribution	107,570	107,570
Contribution deficiency (excess)	--	--
Lottery's covered-employee payroll	$ 814,156	$ 910,977
Contributions as a percentage of covered-employee payroll	13.21%	11.81%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only years for which information is available are presented.