



VERMONT
LOTTERY

Good. Clean. Fun.

ANNUAL REPORT

Fiscal Year 2011



Profits benefit the
Vermont Education Fund

 .VERMONT
www.vtlottery.com

When the General Assembly established the Lottery in 1977, after a statewide referendum, the Lottery's stated purpose in the enabling legislation was to "produce the maximum amount of net revenue consonant with the dignity of the state and the general welfare of the people." In support of this goal, the Vermont Lottery remains committed to contributing all proceeds to the Vermont Education Fund, while marketing Lottery products in a responsible way.

Since the sale of the first ticket in February of 1978, the Vermont Lottery has produced over \$1.8 billion in overall sales. From those sales, over \$1 billion has been returned to players in the form of prizes, over \$103 million has gone back to communities all over the state through sales commissions paid to local Lottery agents, and over \$474 million has gone to the State of Vermont, with \$261 million going specifically to the Vermont Education Fund since fiscal year 1999.

A major change to the Vermont Lottery in fiscal year 2011 was a switch to a new gaming system vendor, Intralot, Inc. This meant that all of the agent terminals were replaced by new state-of-the-art equipment. Also with this change, the Lottery began discussions with Intralot to provide new self-service lottery vending machines, called WinStations, to make it easier for players to purchase their favorite tickets. The WinStations will also allow for placement of Lottery products in new locations. Current public policy expects the Lottery to grow its contribution to the Vermont Education Fund, but in ways that do not expand gaming beyond our long-standing responsible gaming principles.

Looking forward, the Lottery will present other revenue enhancements in the next fiscal year for public policy discussions.

The staff and Commissioners of the Vermont Lottery are proud of their past contributions to the State of Vermont, and look forward to increasing the contributions to the State's Education Fund in the coming fiscal year, and beyond.



Martha O' Connor, Chair



Alan R. Yandow, Executive Director



Vermont Lottery Commission
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(802) 479-5686 • Fax: (802) 479-4294 • www.vtlottery.com



1976

In a 1976 referendum regarding the establishment of a state lottery, 66% of those casting ballots voted in favor of the proposal. Based on those results, Public Act No. 82 was enacted by the 1977 General Assembly establishing the Vermont Lottery Commission. The Act also provided for termination of the Lottery on June 30, 1980, unless the 1979 Assembly authorized continuation.

1978

The Vermont Lottery Commission was granted \$250,000 in seed money, which was paid back in full to the state eighteen months later. It took the Lottery seven months from the Commission's inception to produce its first ticket, Green Mountain Game, which went on sale to the public on February 14, 1978. The game was based on a weekly drawing of numbers matched to preprinted numbers on a game ticket. The Lottery's first Instant ticket, Scratch'N Match, went on sale to the public on June 20, 1978.

1979

A steady rise in lottery ticket sales resulted in approval by the 1979 legislature to continue the mission of the Vermont Lottery. Authorization providing for indefinite continuation of the Vermont Lottery was subsequently passed by the 1981 General Assembly.

1998

Since its inception, all profits generated by the Vermont Lottery were dedicated for use by the state's General Fund. In July 1998, the Vermont Legislature mandated that all profits from the Lottery go to the state's Education Fund.

2010

The Vermont Lottery continued to be run by a small, efficient staff of professionals consisting of 20 full-time employees and five Commissioners. It is still one of the smallest staffs of any lottery in the United States, yet it generated \$97,477,784 in ticket revenue during fiscal year 2010.

The Vermont Lottery Commission consists of five members appointed by the governor, with the advice and consent of the state senate. The members are appointed for a three-year term and may not have any pecuniary interest in any contract awarded pursuant to Chapter 14 of Title 31 V.S.A. The Commission is responsible for the public oversight and policies of the Vermont Lottery and no more than three Commission members may belong to the same political party.

Frank Cioffi, Chair
St. Albans
Term Expired 02/11

Arthur Ristau, Vice Chair
Barre
Term Expires 02/13

Richard Bailey
Hyde Park
Term Expired 02/11

Virginia Barry
Barre
Term Expires 02/12

Martha O'Connor, Chair
Battleboro
Term Expires 02/14

Tom Scala, Tri-State Chair
Battleboro
Term Expires 02/12

Karen O'Hagan
Winooski
Term Expires 02/14

In fiscal year 2011, the Vermont Lottery offered nine different products to customers: Instant Games, Vermont Powerball, Vermont Mega Millions, Vermont Hot Lotto, Tri-State Megabucks Plus!, Tri-State Weekly Grand/Extra, and Tri-State Daily Numbers Games - Pick 3/Pick 4, Tri-State Fast Play. Weekly Grand replaced the \$5 instant win with a weekly T.G.I.F. Raffle feature. Vermont Lottery games are designed to provide fun and entertainment to a broad consumer base by offering an assortment of game options, multiple price points, a range of prize levels, varying odds, and a mixture of themes and play styles.

Instant Games

Instant Games are sold by all licensed Vermont Lottery agents. Instant Games, also referred to as “scratch off” tickets are paper tickets with latex-covered play areas that instantly reveal if a player has won when scratched. In FY11, Instant tickets accounted for 75% of total lottery product sales, the largest revenue source for the Vermont Lottery. Multiple games were on the market simultaneously offering players a variety of price points, play styles, prize levels, top prizes and themes. In FY11, Instant ticket cash prizes ranged from \$1 to \$75,000. The Vermont Lottery released 53 Instant Games in FY11. Of those games, 11 were \$1 games, 12 were \$2 games, 4 were \$3 games, 19 were \$5 games, 5 were \$10 games and 2 were \$20 games. 20 to 25 Instant Games were on the market simultaneously throughout the fiscal year.



Vermont Powerball

The Vermont Lottery began offering Powerball to consumers on July 1, 2003. Powerball is a multi-jurisdictional game that offers multi-million dollar jackpots. In January 2009, the Powerball game underwent some improvements. The jackpots changed to start at an annuitized \$20 Million. In addition, four white ball numbers were added to the game’s field for a total of 59, and three red Powerball numbers were removed for a total of 39. These changes to Powerball’s matrix increased the odds of winning the jackpot from 1 in 146.1 million to 1 in 195.2 million. At the same time, the overall odds of winning any prize decreased from 1 in 37 to 1 in 35. Players can choose to claim the entire jackpot amount in 30 graduated payments over 29 years or claim a reduced amount as a lump sum payment. Jackpots start at \$20,000,000 (paid in annual payments) and continue to roll until won. Other prize levels include a \$200,000 second prize and 6 other prize levels with payouts from \$3 to \$10,000. One play costs one dollar. For an additional \$1, players may opt to Power Play their ticket, which will multiply prizes (except the jackpot) by 2, 3, 4, or 5 times. The multiplier is determined by a prize wheel at the time of the Powerball drawing, but is always 5 at the \$200,000.



In FY11, Powerball draws were held on Wednesday and Saturday at 10:59 PM ET. In January 2009, Powerball draws were moved to Orlando, Florida. Draws were aired in Vermont on WCAX at 11:00 PM ET.

As of the end of FY11, there were no jackpot winners in Vermont.

Vermont Hot Lotto

Hot Lotto tickets went on sale in Vermont July 5, 2009, with the first drawing held on July 8, 2009.



Hot Lotto has a matrix of 5 of 39 and 1 of 19. The odds of winning the jackpot are 1 in 10.9 million. Players can choose to claim the entire jackpot amount in 30 graduated payments over 29 years or claim a reduced amount as a lump sum payment. Jackpots start at \$1,000,000 (paid in annual payments) and continue to roll until won. Other prize levels include a \$10,000 second prize and 7 other prize levels with pay outs from \$2 to \$500. One play costs one dollar. For an additional \$1, players may opt to add a Sizzler ticket, which will multiply prizes (except the jackpot) 3 times. The drawings take place Wednesday and Saturday at 10:59 PM (ET).

Vermont Mega Millions

Mega Millions went on sale in Vermont January 31, 2010, with the first drawing held on February 2, 2010. Mega Millions has a matrix of 5 of 56 and 1 of 46. The odds of winning the jackpot are 1 in 176 million. Players can choose to claim the entire jackpot amount in 26 annual payments or claim a reduced amount as a lump sum payment. Jackpots start at \$12,000,000 (paid in annual payments) and continue to roll until won. Other prize levels include a \$250,000 second prize and 7 other prize levels with pay outs from \$2 to \$10,000. One play costs one dollar. For an additional \$1, players may choose to Megaplier their ticket, which will multiply prizes (except the jackpot) by 2, 3, or 4 times. The drawings take place Tuesday and Friday at 11:00 PM (ET)



Tri-State Megabucks Plus

Vermont, Maine and New Hampshire formed Tri-State Megabucks in 1985. Sales began on September 3, 1985 and the first draw was held on September 14, 1985. It began with a 6 out of 30 matrix, jackpot odds of 1 in 593,775 and a Saturday night draw. In January 1986, the game was changed to a 6 out of 36 matrix, which increased the odds to 1 in 1.9 million. There was one draw held on Saturday night. In January 1988, the matrix was increased to 6 out of 40, increasing the odds to 1 in 3.8 million. In May 1990, the number of draws increased to twice a week, Wednesday and Saturday. In June 1996, the game was enhanced to include the MegaCash. This option allows jackpot winners to take their share of the money available in the jackpot prize pool in a one-time-only, lump sum payment. Players must decide within 60 days of claiming the jackpot how they want to receive their winnings.



In July 2009, Megabucks was replaced with Megabucks Plus. Presently, Megabucks Plus is a 5 out of 41 game with a Megaball. The odds of winning the jackpot are 1 in 4.5 million. Players can choose to claim the entire jackpot amount over 25 years or claim approximately half in a one-time-only, lump sum payment (MegaCash). Other prize levels include a \$30,000 second prize and 6 other lower tier prize levels. One play costs \$2. Subscriptions are available.

The draws are held on Wednesday and Saturday nights at 7:59 PM (ET). Megabucks jackpots ranged from \$500,000 (guaranteed) to our largest which was \$16.4 million. Megabucks Plus Jackpots start at \$1,000,000 annuitized and estimates grow from \$1,000,000 to \$1,050,000 to \$1,100,000 and by approximately \$50,000 to \$100,000 thereafter.

Tri-State Weekly Grand / Weekly Grand Extra

Tri-State Weekly Grand went on sale February 1, 2009 and the first drawing was February 4, 2009. Weekly Grand offers a top prize of \$1,000 a week for 20 years (cash option is offered) with 7 lower tier prize levels. A player chooses 4 numbers from a field of 35 and one number (the Lucky Ball) from a separate field of 35. In April of 2011, Weekly Grand became Weekly Grand Extra. The \$5 instant win was replaced with a T.G.I.F. Raffle feature in which each Weekly Grand play purchased also receives a raffle number for a



chance to win \$100 in a Raffle every Friday night. Drawings are held Tuesday and Friday nights at 6:50 PM.

Fast Play

In May 2007, Add-A-Play was renamed Fast Play, and the game basics remained the same. Sales began in June of 2006. It is an online game that plays like an instant game and is generated by the lottery terminal at the time of purchase. A player determines if they have won instantly. The game has had nine prize levels ranging from \$1 to \$500 and the game changes approximately every three months.



Tri-State Daily Numbers

Pick 3 was Vermont's first on-line game. It began on November 10, 1980. Pick 3 has played the same since the game's inception – by selecting a combination of three numbers from zero to nine. Pick 4 began on September 3, 1985 and has also played the same since its inception – by selecting a combination of four numbers from zero to nine.



Vermont Lottery Agents

In FY11, there were 698 (total throughout the fiscal year) Lottery sales agents in Vermont who sold Powerball, Tri-State products and instant games. Agents received 6% of their total Powerball, Hot Lotto and Mega Millions ticket sales and 5.75% of all other Lottery product sales. In addition, agents received a 1% bonus for selling winning tickets of \$500 and up (agent bonus capped at \$30,000). In FY11, the commission and bonuses paid to agents totaled over \$5.6 million.

Tri-State Draws

In 1997, Tri-State draws no longer aired on live television. All draw equipment was moved from WMUR-TV in Manchester, NH (where the draws were held previously) to the New Hampshire Lottery’s draw room in Concord, NH. The New Hampshire Lottery draw room was built specifically to conduct draws. When Tri-State draws were held in FY11, the following Tri-State employees were present: draw supervisor, draw monitor and independent auditor. All draws were recorded utilizing the following recording devices: 8 mm camera, VHS recorder and 24 hour surveillance camera. After each drawing, the 8 mm footage was stored in a secure off-site facility, where it remains for 14 months.

Phone & Website

Approximately one hour after a draw was conducted, winning numbers were updated on the Lottery’s toll free line 1-800-322-8800 (in VT) and on the Lottery’s website www.vtlottery.com.

Lottery Agents

Lottery agents received the winning numbers shortly after a draw was conducted. In addition, the Lottery terminal could provide eight days of winning numbers.



Television

Winning number crawls were shown on the following stations in FY11:

WPTZ/WNNE	8:15-8:30 PM (Wed. & Sat.) 11:05-11:15 PM (Wed. & Sat.) 7:15 - 7:30 PM (Mon., Tue., Thur., Fri. & Sun.) 7:15 - 7:30 PM (Tue. & Fri.)	Tri-State Megabucks Plus & Daily Numbers Powerball Tri-State Daily Numbers Weekly Grand Extra
FOX 44	7:28 PM 8:58 PM	Tri-State Daily Numbers & Weekly Grand Extra Tri-State Megabucks Plus
WVNY	7:58 PM 8:55 PM (Wed. & Sat.)	Tri-State Daily Numbers & Weekly Grand Extra Tri-State Megabucks Plus
WCAX	11:00 PM	Powerball & MegaMillions Drawing

Responsible Gaming

During FY11, The Vermont Lottery Commission, in association with the Vermont Council on Problem Gambling, began its thirteenth year in support of efforts to create awareness of available resources to individuals who have concerns about gambling habits.

Responsible Play Support

The Lottery's "**Responsible Play**" campaign included the following efforts in FY11:

Partnership with the Vermont Council on Problem

Gambling: At the start of the year, the Vermont Lottery and the Vermont Council on Problem Gambling (VCPG) developed a Responsible Play plan. The Vermont Lottery and the VCPG maintained open lines of communication throughout the year, frequently discussing the Vermont Council's needs and made necessary adjustments.

Web Site: The Vermont Lottery continues to host, manage and edit the VCPG website.

Television Campaign: All television ads produced for the Vermont Lottery included a "**please play responsibly**" message. In addition, a television ad called, "Sounds," produced by the Vermont Lottery in collaboration with VCPG aired during Problem Gambling Awareness Week. The National Council on Problem Gambling used our VCPG ad as the Public Service Announcement for their campaign.

Radio Campaign: All radio ads produced for the Vermont Lottery included a "**please play responsibly**" message. Five percent of the Lottery's radio media was reserved for Responsible Play spots. In addition, many radio stations aired additional spots as public service announcements at no additional cost.

National Council on Problem Gambling: The Lottery's Executive Director, Alan Yandow, was a member the Board of Directors of the National Council on Problem Gambling.

Problem Gambling Awareness Week: During Problem Gambling Awareness Week, the Lottery only aired Responsible Gaming television and radio.

Vermont Council Toll-Free Funding: The Lottery provided the financial resources to pay 100% of the expenses for toll-free calls to the VCPG.

Vermont Council Reimbursement: The Lottery reimbursed the VCPG for costs associated with registration and attendance of conferences dealing with problem gambling.

Responsible Play Message: All print, broadcast and point of sale produced included the "**please play responsibly**" message.

Responsible Gaming on the Website: Information about the VCPG and links for other resources were included on the Lottery's website: www.vtlottery.com.

Logo and Toll Free Number on Lottery Tickets and Play Slips: The "**please play responsibly**" logo and the VCPG's toll free number were printed on all Vermont Lottery tickets and play slips.

18+ and Responsible Message: Agents prominently displayed "You must be 18 or older to purchase lottery tickets" stickers. These stickers included the "**please play responsibly**" logo and the Vermont Council's toll free number.

Advertising Guidelines: Advertising guidelines developed by the Vermont Lottery were observed in the development of all Lottery marketing materials.

**PLEASE PLAY
RESPONSIBLY**
www.vcpg.org

Helpline: 1-800-522-4700

Advertising Strategy

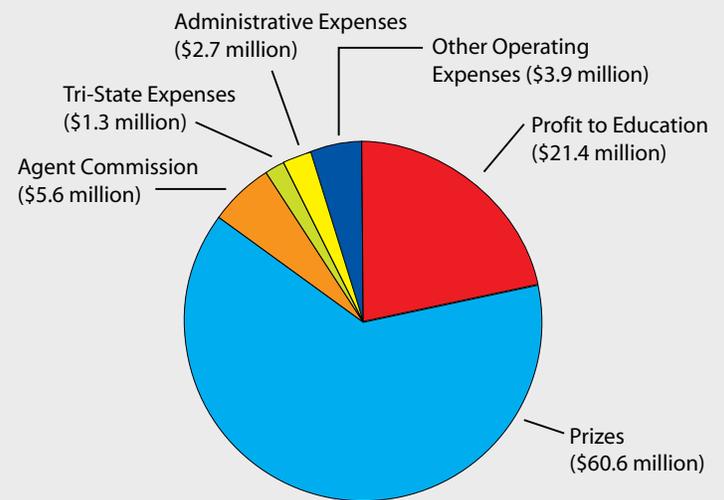
The Vermont Lottery's FY11 advertising strategy continued to focus on the fun of playing Lottery games while also stressing the importance of responsible gaming. Promoting Lottery games as a fun entertainment choice was achieved by advertising several promotions, including the change from Weekly Grand to Weekly Grand Extra. The advertisements also reinforced that proceeds go to the Vermont Education Fund.

Media Strategy

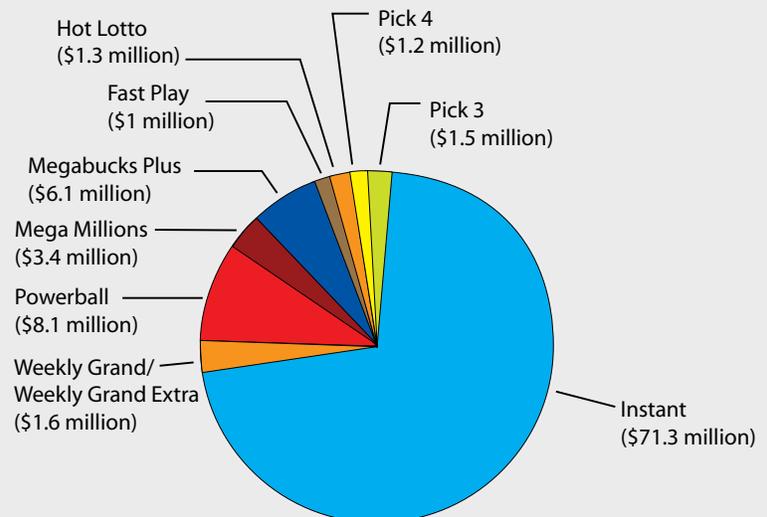
The media goals for FY11 were designed to provide a consistent level of communication, through public relations and advertising, at minimum frequency levels. The strategy was developed to ensure awareness of Vermont Lottery and Tri-State products. The media campaign consisted of a combination of "base game advertising" – in which the Lottery's base games such as Powerball, Megabucks Plus, Instant Games, were advertised throughout the year and "promotional advertising" – in which media dollars went to support specific short-term promotions.



Where the money went:



Where the sales were:



Results of Business Operations

FY11 ended with overall revenue of \$95 million. The total contribution to the state's Education Fund was \$21 million. In addition to the Education Fund contribution, \$60 million was returned to players in the form of prizes, and over \$5 million went to local lottery agents as commissions on sales.

Sales

Total FY11 sales equaled \$95,540,604. Ticket sales were as follows:

	<u>2011</u>	<u>2010</u>
Instant	\$ 71,325,609	\$ 71,416,510
Pick 3	1,490,025	1,555,995
Pick 4	1,226,174	1,292,447
Weekly Grand/ Weekly Grand Extra	1,570,960	1,467,071
Fast Play	1,045,351	895,129
Hot Lotto	1,282,782	1,915,481
Powerball	8,137,318	10,173,109
Megabucks Plus	6,051,535	7,705,339
Mega Millions	<u>3,410,850</u>	<u>1,056,703</u>
Total Sales	<u>\$ 95,540,604</u>	<u>\$ 97,477,784</u>

Instant ticket sales were \$71,325,609 representing 75% of total sales.

Pick 3 and Pick 4 combined sales were \$2,716,199 representing 3% of total sales.

Megabucks Plus sales were \$6,051,535 this year, representing 6% of total sales.

Weekly Grand sales were \$1,570,960, representing 2% of total sales.

Fast Play sales were \$1,045,351, representing 1% of total sales.

Powerball sales were \$8,137,318, representing 8% of total sales.

Hot Lotto sales were \$1,282,782, representing 1% of total sales.

Mega Millions sales were \$3,410,850, representing 4% of total sales.

Operating Expenses

Administrative costs for the Lottery were \$2,659,199, a decrease of \$270,576 over FY10. Administrative costs included salaries, benefits, contracted services, depreciation, equipment, and supplies which were included in the Lottery's annual operating budget appropriation from the Legislature. This budget appropriation came from Lottery revenues.

Other Operating Expenses included lottery tickets, courier system, Agent network expenses and facilities management fees to our online vendor Intralot, and Instant ticket gaming system vendor, Scientific Games, International. The total cost of other operations for FY11 was \$6,598,299 a decrease of \$206,156 from FY10, which includes the administrative costs of \$2,659,199 mentioned above.

Tri-State Expenses

The Tri-State operating, communications, and facilities management costs totaled \$1,289,599, a decrease of \$1,079,874 over FY10.

Prizes and Commissions

As these costs were related to sales, prize expense and local lottery agent commissions decreased by \$596,575 or .89% from FY10. The total prizes paid to players in FY11 were \$60,613,105 and the total commissions paid to Agents were \$5,606,102.

Contribution to Vermont Education Fund

The total contribution to the Vermont Education Fund in FY11 was \$21,435,868.

VERMONT LOTTERY COMMISSION
FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
AND
INDEPENDENT AUDITOR’S REPORTS

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**Mudgett
Jennett &
Krogh-Wisner, P.C.**
Certified Public Accountants #435

INDEPENDENT AUDITOR'S REPORT

The Commissioners
Vermont Lottery Commission

We have audited the accompanying basic financial statements of the Vermont Lottery Commission, an enterprise fund of the State of Vermont, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Vermont Lottery Commission'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 audits 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 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, 2011 and 2010, the changes in its financial position, or where applicable, its cash flows for the 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 financial position of the Vermont Lottery Commission as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011, on our consideration of the Vermont Lottery Commission's internal control over financial reporting and 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 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Montpelier, Vermont
October 11, 2011

*Mudgett, Jennett &
Krogh-Wisner, P.C.*

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, 2011. Please read it in conjunction with the financial statements.

The Vermont Lottery Commission 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 decreased by \$1,942,360 or 1.99%.
- Total operating expenses for the year decreased by \$1,767,805 or 2.33%. Of this decrease, prize expense decreased by \$506,195, facilities management fees increased by \$399,192, agent commissions decreased by \$90,390, agent network expenses decreased by \$189,402, and Tri-State expenses decreased by \$1,079,874.
- Nonoperating revenue in FY 2011 included an unrealized loss on investments of \$37,987. The total investment loss of \$24,150 resulted in an overall decrease of \$109,143 from the nonoperating revenue in FY 2010.
- Income before operating transfers (net revenue) decreased by \$283,698.

Assets and Net Assets

The assets of the Commission are primarily cash and investments held for operating purposes. Total assets at June 30, 2011, of \$6,257,278 include net capital assets of \$31,057, restricted investments of \$2,079,970 and current operating assets such as cash and cash equivalents, accounts receivable and inventory of \$4,146,251. Net assets retained by the Commission are \$697,838.

Total assets at June 30, 2010, of \$6,330,029 include net capital assets of \$45,967, restricted investments of \$2,279,384 and current operating assets such as cash and cash equivalents, accounts receivable and inventory of \$4,004,678. Net assets retained by the Commission are \$776,094.

Liabilities

The Commission's liabilities consist of operating liabilities and obligations for payment of prizes to lottery winners. Total liabilities at June 30, 2011, of \$5,559,440 include long-term liabilities for prize obligations of \$1,610,161, cash advances from the State of \$300,000 and current operating liabilities of \$3,649,279.

Total liabilities at June 30, 2010, of \$5,553,935 include long-term liabilities for prize obligations of \$1,776,380, cash advances from the State of \$300,000 and current operating liabilities of \$3,477,555.

Sales

The following shows ticket sales by game:

	<u>2011</u>	<u>2010</u>
Instant scratch off games	\$71,325,609	\$71,416,510
Online Games:		
Pick 3	1,490,025	1,555,995
Pick 4	1,226,174	1,292,447
Weekly Grand Extra/Weekly Grand	1,570,960	1,467,071
Fast Play	1,045,351	895,129
Mega Millions	3,410,850	1,056,703
Hot Lotto	1,282,782	1,915,481
Powerball	8,137,318	10,173,109
Megabucks Plus/Megabucks	<u>6,051,535</u>	<u>7,705,339</u>
Total sales	<u>\$95,540,604</u>	<u>\$97,477,784</u>

Prizes

In general, prize expense by game 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 online games is predetermined by design to yield a certain ratio of prizes to sales over a large number of drawings. Currently for online games the Commission has designated that at least 50% of online sales revenue be reserved for prize awards. Each of these lottery products 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 MUSL Powerball game, Mega Millions game and Hot Lotto game, or is reported as prize contingencies by the Tri-State Lotto Commission in the case of Pick 3, Pick 4, Weekly Grand Extra and Fast Play.

	<u>2011</u>	<u>2010</u>
Prize expense - Instant scratch off games	\$48,313,285	\$48,080,381
Prize expense - Online games	<u>12,299,820</u>	<u>13,038,919</u>
	<u>\$60,613,105</u>	<u>\$61,119,300</u>

Other Potentially Significant Factors

The financial position and operating results for 2011 remained relatively the same as 2010. The overall decline in sales was offset by the reduced facilities management fees for the Vermont Lottery and Tri-State Lotto online games. The Lottery also replaced Tri-State Weekly Grand with an improved game, Tri-State Weekly Grand Extra, in April 2011.

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.

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 2,254,250	\$ 2,094,708
Accounts receivable	1,406,865	1,339,165
Due from the State Education Fund	-	15,724
Inventory	485,136	555,081
Total current assets	<u>4,146,251</u>	<u>4,004,678</u>
Restricted and noncurrent assets:		
Investments	2,079,970	2,279,384
Property and equipment, less accumulated depreciation	31,057	45,967
Total restricted and noncurrent assets	<u>2,111,027</u>	<u>2,325,351</u>
Total assets	<u>\$ 6,257,278</u>	<u>\$ 6,330,029</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 449,310	\$ 433,060
Accrued leave	91,119	98,536
Accrued payroll	45,656	111,738
Current - Due to winners	244,014	239,223
Reserve for future and unclaimed prizes	2,659,643	2,467,522
Deferred revenue	159,537	127,476
Total current liabilities	<u>3,649,279</u>	<u>3,477,555</u>
Liabilities payable from restricted assets:		
Non-current - Due to winners	1,610,161	1,776,380
Cash advances by State Treasurer	300,000	300,000
Total long-term liabilities	<u>1,910,161</u>	<u>2,076,380</u>
Total liabilities	<u>5,559,440</u>	<u>5,553,935</u>
 NET ASSETS:		
Invested in capital assets	31,057	45,967
Unrestricted	666,781	730,127
Total net assets	<u>697,838</u>	<u>776,094</u>
Total liabilities and net assets	<u>\$ 6,257,278</u>	<u>\$ 6,330,029</u>

STATEMENTS OF
REVENUES, EXPENSES & CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Ticket sales	\$ 95,540,604	\$ 97,477,784
Agents' license fees and other receipts	<u>2,369</u>	<u>7,549</u>
Total operating revenues	<u>95,542,973</u>	<u>97,485,333</u>
 OPERATING EXPENSES:		
Prize expense	60,613,105	61,119,300
Commissions - agents	5,606,102	5,696,492
Lottery tickets	1,176,780	1,074,138
Instant ticket dispensers	71,053	31,179
Courier system	221,371	252,941
Facilities management fee - instant	2,130,524	795,391
Facilities management fee - online	375,234	1,311,175
Tri-State expenses	1,289,599	2,369,473
MUSL expenses	27,299	17,812
Agent network expenses	14,565	203,967
Other costs of sales and services	530	127,373
Personal services	1,427,886	1,484,362
Advertising	546,342	725,709
Other operating expenses	495,911	554,017
Depreciation	14,910	15,687
Department of Health	150,000	150,000
Total operating expenses	<u>74,161,211</u>	<u>75,929,016</u>
 OPERATING INCOME	 <u>21,381,762</u>	 <u>21,556,317</u>
 NONOPERATING REVENUES (EXPENSES):		
Investment income (loss)	<u>(24,150)</u>	<u>84,993</u>
Total nonoperating revenues (expenses)	<u>(24,150)</u>	<u>84,993</u>
 INCOME BEFORE OPERATING TRANSFERS	 21,357,612	 21,641,310
 NET PROFIT TRANSFERRED TO THE STATE OF VERMONT:		
Education Fund	<u>(21,435,868)</u>	<u>(21,580,606)</u>
 INCREASE (DECREASE) IN NET ASSETS	 (78,256)	 60,704
 NET ASSETS, beginning of year	 <u>776,094</u>	 <u>715,390</u>
 NET ASSETS, end of year	 \$ <u>697,838</u>	 \$ <u>776,094</u>

STATEMENTS OF
CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 • PAGE 1 OF 2

VERMONT LOTTERY COMMISSION
 ANNUAL REPORT
 FISCAL YEAR 2011

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 95,504,965	\$ 97,369,940
Cash paid for prizes and agents' commissions	(66,143,929)	(67,171,166)
Cash paid for management fees, operations and other	(6,457,599)	(7,435,726)
Cash paid to employees for services	(1,501,384)	(1,457,568)
Other operating revenue	<u>2,369</u>	<u>7,549</u>
Net cash provided by operating activities	<u>21,404,422</u>	<u>21,313,029</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers	<u>(21,420,144)</u>	<u>(21,571,928)</u>
Net cash used in noncapital financing activities	<u>(21,420,144)</u>	<u>(21,571,928)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income (loss)	(66,955)	(73,749)
Proceeds from maturities of investments, net	<u>242,219</u>	<u>437,668</u>
Net cash provided (used) by investing activities	<u>175,264</u>	<u>363,919</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 159,542	 105,020
 CASH AND CASH EQUIVALENTS, beginning of year	 <u>2,094,708</u>	 <u>1,989,688</u>
 CASH AND CASH EQUIVALENTS, end of year	 \$ <u>2,254,250</u>	 \$ <u>2,094,708</u>

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ <u>21,381,762</u>	\$ <u>21,556,317</u>
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation	14,910	15,687
(Increase) decrease in the following assets:		
Accounts receivable	(67,700)	(20,513)
Inventory	69,945	(93,947)
Due from State	-	3,169
Increase (decrease) in the following liabilities:		
Accounts payable	16,250	177,449
Accrued salaries and benefits	(73,499)	26,794
Due to winners	(161,428)	(350,105)
Reserve for future and unclaimed prizes	192,121	88,678
Deferred revenue	<u>32,061</u>	<u>(90,500)</u>
Total adjustments	<u>22,660</u>	<u>(243,288)</u>
Net cash provided by operating activities	\$ <u>21,404,422</u>	\$ <u>21,313,029</u>

1. Summary of significant accounting policies:

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.

A. 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.

B. Measurement focus and 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. 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. Under this basis of accounting and measurement focus, the Lottery applies all GASB pronouncements and Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Lottery has elected not to follow subsequent private sector guidance.

1. Summary of significant accounting policies (continued):

C. 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.

D. 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.

E. 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.

F. 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 assets 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).

G. 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

H. 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.

I. Advertising - Advertising costs are expensed as incurred.

1. Summary of significant accounting policies (continued):

J. Annuities - The Lottery is the owner of two annuities that were purchased for grand prizes won by two individuals in 1995. The cost of the annuities was charged against the reserve for future prizes at the time of purchase. The annuities were purchased from the following insurance company and have the following expiration dates:

<u>Insurance Company</u>	<u>Annuity Expiration Date</u>
Keyport Life Insurance Company	November 14, 2014
Keyport Life Insurance Company	December 15, 2014

K. 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.

L. 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.

2. Cash and cash equivalents:

Custodial credit risk - 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, 2011, all of the Lottery's bank balance of \$2,322,556 was insured or collateralized. As of June 30, 2010, all of the Lottery's bank balance of \$1,749,319 was insured or collateralized. Collateralized amounts are held by the pledging bank's trust department in the Lottery's name.

3. Cash with 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. There was a deficit in this account at June 30, 2010 due to the timing of transfers with other cash accounts.

4. Investments/due to winners:

Investments at June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
U.S. Treasury Strips	\$ 1,739,142	\$ 1,866,337
Annuity contracts	<u>340,828</u>	<u>413,047</u>
	<u>\$ 2,079,970</u>	<u>\$ 2,279,384</u>

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 9). These are held by the Trust Department of the People's United Bank in Burlington, Vermont, and are reported at market value. The Lottery also owns two annuity contracts purchased for winners which are reported at amortized cost. 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.

Credit and custodial credit risk - Investments in the two annuity contracts are both with Keyport Life Insurance Company (see Note 1.J.). These contracts are unrated.

Investments and Due to winners as of June 30, 2011 are \$2,079,970 and \$1,854,175, respectively. Investments and Due to winners as of June 30, 2010 are \$2,279,384 and \$2,015,603, respectively.

5. Accounts receivable:

Accounts receivable at June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
MUSL	\$ 635,948	\$ 636,811
Tri-State	37,710	339,314
Regular Agents	557,146	374,456
Chain Agents	<u>226,167</u>	<u>45,518</u>
Total	1,456,971	1,396,099
Less: Allowance for doubtful accounts	<u>(50,106)</u>	<u>(56,934)</u>
Net accounts receivable	<u>\$ 1,406,865</u>	<u>\$ 1,339,165</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

VERMONT LOTTERY COMMISSION
ANNUAL REPORT
FISCAL YEAR 2011

6. Inventory:

The Lottery had inventory consisting of lottery tickets on hand and prizes valued at a cost of \$427,186 and \$57,950 at June 30, 2011 and \$452,546 and \$102,535 at June 30, 2010, respectively.

7. Property and equipment:

The following is a summary of changes in property and equipment during the fiscal years.

2011						
	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Accumulated Depreciation	Net Property & Equipment June 30, 2011
Computer equipment	\$ 41,239	\$ -	\$ 18,797	\$ 22,442	\$ 22,442	\$ -
Furniture & fixtures	56,114	-	-	56,114	53,928	2,186
Other equipment	130,754	-	-	130,754	124,606	6,148
Leasehold improvements	<u>59,935</u>	<u>-</u>	<u>-</u>	<u>59,935</u>	<u>37,212</u>	<u>22,723</u>
	<u>\$ 288,042</u>	<u>\$ -</u>	<u>\$ 18,797</u>	<u>\$ 269,245</u>	<u>\$ 238,188</u>	<u>\$ 31,057</u>
2010						
	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Accumulated Depreciation	Net Property & Equipment June 30, 2010
Computer equipment	\$ 41,239	\$ -	\$ -	\$ 41,239	\$ 41,239	\$ -
Furniture & fixtures	56,114	-	-	56,114	53,228	2,886
Other equipment	130,754	-	-	130,754	116,690	14,064
Leasehold improvements	<u>59,935</u>	<u>-</u>	<u>-</u>	<u>59,935</u>	<u>30,918</u>	<u>29,017</u>
	<u>\$ 288,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,042</u>	<u>\$ 242,075</u>	<u>\$ 45,967</u>

8. Accounts payable:

The Lottery's accounts payable at June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Tri-State	\$ 36,470	\$ 155,216
MUSL	41,638	96,267
Vendors	<u>371,202</u>	<u>181,577</u>
	<u>\$ 449,310</u>	<u>\$ 433,060</u>

9. Due to winners:

Presented below is a summary of requirements to maturity for long-term installment prizes due to winners awarded as of June 30, 2011, and payable through the year 2034:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current portion:			
Fiscal year -			
2012	<u>\$ 244,014</u>	<u>\$ 25,986</u>	<u>\$ 270,000</u>
Long-term:			
Fiscal year -			
2013	240,824	29,176	270,000
2014	238,243	31,757	270,000
2015	235,993	34,007	270,000
2016	133,433	36,567	170,000
2017	125,483	44,517	170,000
2018-2022	369,139	230,861	600,000
2023-2027	164,716	155,284	320,000
2028-2032	86,542	113,458	200,000
2033-2034	<u>15,788</u>	<u>24,212</u>	<u>40,000</u>
Total long-term portion	<u>1,610,161</u>	<u>699,839</u>	<u>2,310,000</u>
Total requirements to maturity	<u>\$1,854,175</u>	<u>\$ 725,825</u>	<u>\$2,580,000</u>

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

10. 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 State and local funding of public education.

For instant games, the Lottery calculated prize expense at varying percentages according to game design ranging from 63% to 75% for the years ended June 30, 2011 and 2010.

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/Megabucks Plus ticket sales in Vermont were approximately \$6.1 million for the year ended June 30, 2011 and \$7.7 million for the year ended June 30, 2010.

10. 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 \$2.7 million for the year ended June 30, 2011 and \$2.8 million for the year ended June 30, 2010.

The Tri-State Lotto Commission's net assets for the years ending June 30, 2011 and 2010 were \$12,603,055 and \$15,036,475, respectively. Of these amounts, \$4,345,585 represented designated prize reserves for each year and \$8,257,470 and \$10,690,890 represented unrealized gains on investments held for installment prize obligations for the years ended June 30, 2011 and 2010, 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, 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 wire 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 as well as Hot Lotto 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 \$8.1 million for the year ended June 30, 2011 and approximately \$10.2 million for the year ended June 30, 2010. In July 2009 Vermont began offering Vermont Hot Lotto with the Sizzler feature, both with a calculated prize expense of 50% of ticket sales. Vermont Hot Lotto sales were approximately \$1.3 million for the year ended June 30, 2011 and \$1.9 million for the year ended June 30, 2010. In January 2010 Vermont began offering Vermont Mega Millions with the Megaplier feature, both with a calculated prize expense currently at 52.5% of ticket sales. Vermont Mega Millions sales were approximately \$3.4 million for the year ended June 30, 2011 and \$1.1 million for the year ended June 30, 2010. On behalf of the Lottery, the MUSL held in trust prize reserve accounts for Powerball, Hot Lotto and Mega Millions totaling \$559,251 for the fiscal year ended June 30, 2011 and \$495,812 for the fiscal year ended June 30, 2010. 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 April 2011, Tri-State replaced Weekly Grand with Weekly Grand Extra. The sales of Weekly Grand and Weekly Grand Extra combined in Vermont were approximately \$1.6 million for the year ended June 30, 2011 and \$1.5 million for the year ended June 30, 2010.

11. Deferred revenue:

Deferred revenue consists of subscription receipts for the Megabucks game, advance tickets sold for the Powerball, Hot Lotto and Mega Millions 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.

12. Net assets:

Net assets invested in capital assets of \$31,057 include furniture, equipment and leasehold improvements net of depreciation. Unrestricted net assets at June 30, 2011 include net assets reserved for inventory of \$440,986 and for unrealized gains on investments held for the purpose of paying long-term installment prizes due to winners of \$225,795. These reserves are consistent with the provision for apportionment of Lottery revenues in Title 31, Chapter 14, §654(11)(A) & (B).

13. Appropriations:

The following are the cash basis appropriations compared to expenses at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Appropriation	\$ 2,755,684	\$ 2,914,045
Expenses	<u>2,692,270</u>	<u>2,882,590</u>
Variance	<u>\$ 63,414</u>	<u>\$ 31,455</u>

At June 30, 2011, \$32,918 was encumbered for personal services. At June 30, 2010, \$483 was encumbered for equipment purchases.

14. Retirement plan:

The Vermont State Retirement System (VSRS), a defined benefit plan, covers substantially all Lottery employees except employees hired in a temporary capacity. Membership in the system is a condition of employment. The membership consists of employees who belong to the original contributory system with a contribution range of 5.1% to 6.98% of payroll (Groups A, C and D), vested members of the non-contributory system (Group E) as well as members of a new contributory system whose current contribution rate is 5.10% (Group F). All eligible employees of the Lottery are Group F members. The total amount of employer contributions was \$155,606. The Lottery's current year payroll for all employees totaled \$1,020,613 all of which is covered payroll for the plan. Funding and benefit information for this plan is maintained in the aggregate, not by Agency or Commission. Additional information regarding this plan is available upon request from the State of Vermont.

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.

16. Concentrations:

The 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 in FY 2011. The Lottery also utilized Intralot to validate and settle its instant ticket lottery games. The Lottery utilized Scientific Games, Intl. (SGI) to print its instant games. Other service providers are available; however, an interruption in service by Intralot or SGI could have an adverse impact on the Lottery's revenues.

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 annual rent was \$142,576 and \$140,426 for the years ended June 30, 2011 and 2010, respectively.

The Lottery has a two-year agreement with Scientific Games International to print instant game tickets through January 16, 2012 with an option to renew for two, one-year extensions. The total cost of the contract is not to exceed \$3.5 million.

The Lottery was contracted with Intralot, Inc. to provide for the operation of an online gaming system through June 30, 2016. The estimated total contract price is approximately \$25 million over the six-year contract.

**Mudgett
Jennett &
Krogh-Wisner, P.C.**
Certified Public Accountants #435

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

The Commissioners
Vermont Lottery Commission

We have audited the basic financial statements of the Vermont Lottery Commission (the Lottery) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 11, 2011. We conducted our audit 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

In planning and performing our audit, we considered the Vermont Lottery Commission'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 Vermont Lottery Commission'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 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.

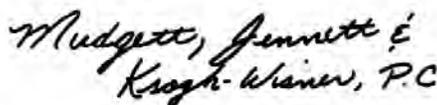
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 the Lottery Commission, management and the State of Vermont and is not intended to be and should not be used by anyone other than those specified parties.

Montpelier, Vermont
October 11, 2011





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