



Good. Clean. Fun.

ANNUAL REPORT

Fiscal Year
2010

Profits benefit
the Vermont
Education Fund



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 \$1.7 billion in overall sales. From those sales, over \$1 billion has been returned to players in the form of prizes, over \$97 million has gone back to communities all over the state through sales commissions paid to local lottery agents, and over \$453 million has gone to the State of Vermont, with \$240 million going specifically to the Vermont Education Fund since fiscal year 1999.

The Lottery introduced three new games in fiscal year 2010. The first was a major update to the Tri-State Megabucks game, now called Megabucks Plus, followed by the Multi-State Lottery games, Hot Lotto and Mega Millions. All three games contributed to increased sales for the year, as well as increased proceeds to the Vermont Education Fund. 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.

Last year we said good bye to long-time Commission Chair, Martha O'Connor, and thanked her for her years of commendable service to the Lottery, and the State of Vermont. We also said hello to Frank Cioffi, who replaced Martha as Commission Chair.

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.



Frank Cioffi, 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 Expires 02/11

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

Virginia Barry
Barre
Term Expires 02/12

Arthur Ristau, Vice Chair
Barre
Term Expires 02/13

Richard Bailey
Hyde Park
Term Expires 02/11

In fiscal year 2010, 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, and Tri-State Daily Numbers Games - Pick 3/Pick 4, Tri-State Fast Play. Hot Lotto and Mega Millions were two new games introduced, and our flagship game, Megabucks, was changed to have better odds, and is now called Megabucks Plus. 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 FY10, Instant tickets accounted for 73% 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 FY10, Instant ticket cash prizes ranged from \$1 to \$50,000. The prize payout, which is the percentage of money that goes back to the player in the form of prizes, ranged from 64% to 75% per game, with an overall payout of 68%. The Vermont Lottery released 56 Instant Games in FY10. Of those games, 13 were \$1 games, 14 were \$2 games, 4 were \$3 games, 18 were \$5 games, 5 were \$10 games and 2 were \$20 games. 19 to 24 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 FY10, 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 FY10, 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 Megaply 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 Plus Jackpots start at \$1,000,000 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

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. There is an instant



win prize where on average every 30th (or set of numbers wagered) ticket sold by state will win a \$5 instant prize. Drawings are held Tuesday and Friday nights at 6:50 PM.

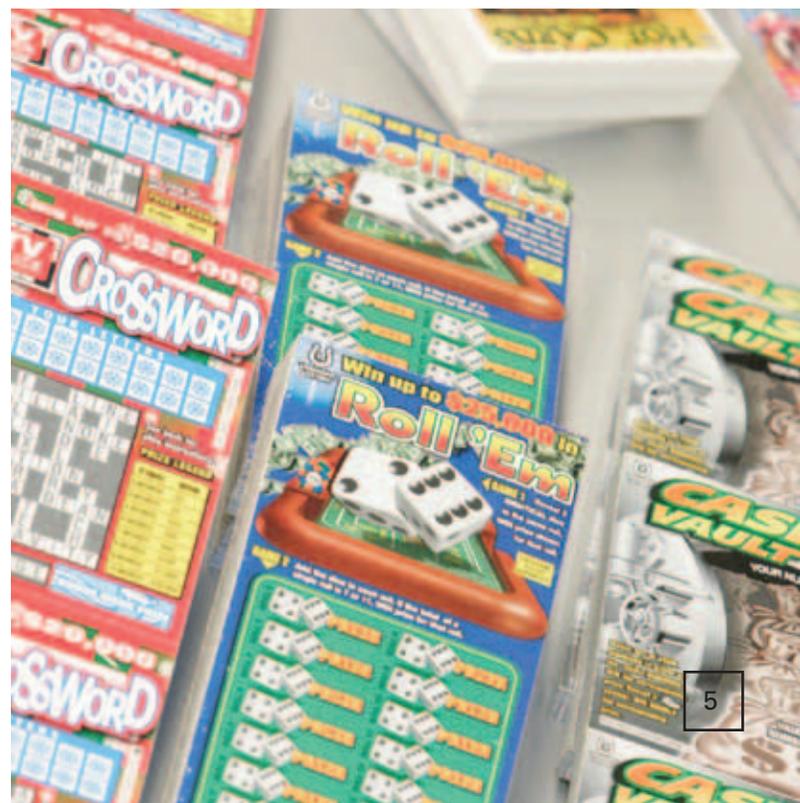
Fast Play

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 FY10, there were over 700 (total throughout the fiscal year) Lottery sales agents in Vermont who sold Powerball, Hot Lotto, Mega Millions, Tri-State products and instant games. Agents received 6% of their total Powerball 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 FY10, the commission and bonuses paid to agents totaled \$5.7 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 FY10, 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 30 minutes 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 FY10:

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 & Daily Numbers Powerball Tri-State Daily Numbers Weekly Grand
FOX 44	7:28 PM 8:58 PM	Tri-State Daily Numbers & Weekly Grand Tri-State Megabucks
WVNY	7:58 PM 8:55 PM (Wed. & Sat.)	Tri-State Daily Numbers & Weekly Grand Tri-State Megabucks
WCAX	11:00 PM	Powerball & MegaMillions Drawing

Responsible Gaming

During FY10, 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 FY10:

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, "People," 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. 5.3 % 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

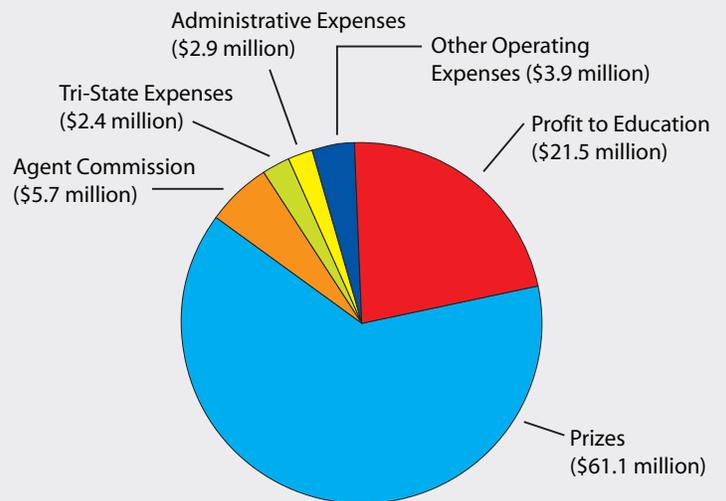
In FY10, Vermont Lottery advertising continued to promote the fun of playing Lottery games while also reminding our players about the importance of responsible gaming. Advertising programs focused on the introduction and support of three new games, Hot Lotto, MegaMillions, and the newly enhanced Megabucks Plus game. All Vermont Lottery messages continued to reinforce that proceeds go to the Vermont Education Fund.

Media Strategy

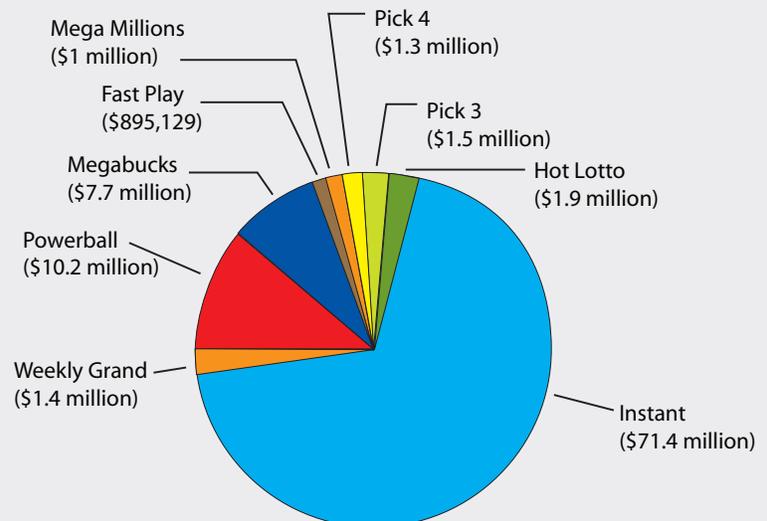
The media goals established for FY10 continued our core strategy of maximizing impressions, while utilizing marketing resources in the most efficient manner possible. Plans were designed to provide a consistent level of communications, through public relations and advertising, at minimum frequency levels. 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, MegaMillions, Hot Lotto, Megabucks Plus, and 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

FY10 ended with overall revenue of \$97.5 million. The total contribution to the state's Education Fund was \$21.5 million. In addition to the Education Fund contribution, \$61.1 million was returned to players in the form of prizes, and \$5.7 million went to local lottery agents as commissions on sales.

Sales

Total FY10 sales equaled \$97,477,784

Ticket sales were as follows:

	<u>2010</u>	<u>2009</u>
Instant	\$ 71,416,510	\$ 73,785,815
Pick 3	1,555,995	1,719,375
Pick 4	1,292,447	1,360,004
Weekly Grand	1,467,071	1,060,539
Paycheck	–	761,638
Fast Play	895,129	795,390
Hot Lotto	1,915,481	–
Powerball	10,173,109	11,410,165
Megabucks	7,705,339	5,082,611
Mega Millions	<u>1,056,703</u>	<u>–</u>
Total Sales	<u>\$97,477,784</u>	<u>\$95,975,537</u>

Instant ticket sales were \$71,416,510 representing 73% of total sales.

Pick 3 and Pick 4 combined sales were \$2,848,442 representing 3 % of total sales.

Megabucks Plus sales were \$7,705,339 this year, representing 8% of total sales.

Weekly Grand sales were \$1,467,071, representing 2% of total sales.

Fast Play sales were \$895,129, representing 1% of total sales.

Powerball sales were \$10,173,109, representing 10% of total sales. The Lottery received license fees and other receipts of \$7,549. Interest income of \$13,813 was recorded as well as an unrealized gain on investments of \$71,180.

Hot Lotto sales were \$1,915,481, representing 2% of total sales.

Mega Millions sales were \$1,056,703, representing 1% of total sales.

Operating Expenses

Administrative costs for the Lottery were \$2,929,775, an increase of \$289,091 over FY09. 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 and Instant ticket gaming system vendor, Scientific Games, International. The total cost of other operations for FY10 was \$6,804,455 a decrease of \$266,933 from FY09, which includes the administrative costs of \$2,929,775 mentioned above.

Tri-State Expenses

The Tri-State operating, communications, and facilities management costs totaled \$2,369,473, an increase of \$114,384 over FY09.

Prizes and Commissions

As these costs were related to sales, prize expense and local lottery agent commissions increased by \$442,863 or .67% over FY09. The total prizes paid to players in FY10 were \$61,119,300 and the total commissions paid to Agents were \$5,696,492.

Contribution to Vermont Education Fund

The total contribution to the Vermont Education Fund in FY10 was \$21,580,606.

VERMONT LOTTERY COMMISSION
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 September 30, 2010, 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
September 30, 2010

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

**VERMONT LOTTERY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

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, 2010. 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 increased by \$1,502,531 or 1.57%.
- Total operating expenses for the year increased by \$891,241 or 1.19%. Of this increase, prize expense increased by \$382,251, facilities management fees increased by \$133,915, agent commissions increased by \$60,612, agent network expenses increased by \$67,684, and Tri-State expenses increased by \$114,384.
- Nonoperating revenue in FY 2010 included an unrealized gain on investments of \$71,180. The total investment income of \$84,993 resulted in an overall decrease of \$46,397 from the nonoperating revenue in FY 2009.
- Income before operating transfers (net revenue) increased by \$564,893.

Assets and Net Assets

The assets of the Commission are primarily cash and investments held for operating purposes. 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.

Total assets at June 30, 2009, of \$6,417,009 include net capital assets of \$61,654, restricted investments of \$2,558,310 and current operating assets such as cash and cash equivalents, accounts receivable and inventory of \$3,797,045. Net assets retained by the Commission at June 30, 2009 were \$715,390.

Liabilities

The Commission's liabilities consist of operating liabilities and obligations for payment of prizes to lottery winners. 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.

Total liabilities at June 30, 2009, of \$5,701,619 include long-term liabilities for prize obligations of \$1,934,399, cash advances from the State of \$300,000 and current operating liabilities of \$3,467,220.

Sales

The following shows ticket sales by game:

	<u>2010</u>	<u>2009</u>
Instant scratch off games	\$ 71,416,510	\$ 73,785,815
Online games:		
Pick 3	1,555,995	1,719,375
Pick 4	1,292,447	1,360,004
Weekly Grand	1,467,071	1,060,539
Paycheck	-	761,638
Fast Play	895,129	795,390
Mega Millions	1,056,703	-
Hot Lotto	1,915,481	-
Powerball	10,173,109	11,410,165
Megabucks Plus/Megabucks	<u>7,705,339</u>	<u>5,082,611</u>
Total sales	\$ <u>97,477,784</u>	\$ <u>95,975,537</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 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 equal to the 50% of sales revenue, the difference between the 50% 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 and Fast Play.

	<u>2010</u>	<u>2009</u>
Prize expense - Instant scratch off games	\$ 48,080,381	\$ 49,640,124
Prize expense - Online games	<u>13,038,919</u>	<u>11,096,925</u>
	\$ <u>61,119,300</u>	\$ <u>60,737,049</u>

Other Potentially Significant Factors

The financial position and operating results for 2010 improved from 2009 due primarily to new large jackpot games being offered, Mega Millions and Hot Lotto. The Lottery also replaced Tri-State Megabucks with an improved game, Tri-State Megabucks Plus, in July 2009. The Lottery had replaced Tri-State Paycheck with a new game, Tri-State Weekly Grand in February 2009.

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>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 2,094,708	\$ 1,989,688
Accounts receivable	1,339,165	1,318,652
Due from the State Education Fund	15,724	24,402
Due from the State Internal Service Fund	-	3,169
Inventory	<u>555,081</u>	<u>461,134</u>
Total current assets	<u>4,004,678</u>	<u>3,797,045</u>
Restricted and noncurrent assets:		
Investments	2,279,384	2,558,310
Property and equipment, less accumulated depreciation	<u>45,967</u>	<u>61,654</u>
Total restricted and noncurrent assets	<u>2,325,351</u>	<u>2,619,964</u>
Total assets	\$ <u>6,330,029</u>	\$ <u>6,417,009</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 433,060	\$ 255,611
Accrued leave	98,536	90,778
Accrued payroll	111,738	92,702
Current - Due to winners	239,223	431,309
Reserve for future and unclaimed prizes	2,467,522	2,378,844
Deferred revenue	<u>127,476</u>	<u>217,976</u>
Total current liabilities	<u>3,477,555</u>	<u>3,467,220</u>
Liabilities payable from restricted assets:		
Non-current - Due to winners	1,776,380	1,934,399
Cash advances by State Treasurer	<u>300,000</u>	<u>300,000</u>
Total long-term liabilities	<u>2,076,380</u>	<u>2,234,399</u>
Total liabilities	<u>5,553,935</u>	<u>5,701,619</u>
NET ASSETS:		
Invested in capital assets	45,967	61,654
Unrestricted	<u>730,127</u>	<u>653,736</u>
Total net assets	<u>776,094</u>	<u>715,390</u>
Total liabilities and net assets	\$ <u>6,330,029</u>	\$ <u>6,417,009</u>

STATEMENTS OF
REVENUES, EXPENSES & CHANGES IN NET ASSETS
FOR THE YEARS ENDING JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES:		
Ticket sales	\$ 97,477,784	\$ 95,975,537
Agents' license fees and other receipts	<u>7,549</u>	<u>7,265</u>
Total operating revenues	<u>97,485,333</u>	<u>95,982,802</u>
OPERATING EXPENSES:		
Prize expense	61,119,300	60,737,049
Commissions - agents	5,696,492	5,635,880
Lottery tickets	1,074,138	1,232,545
Instant ticket dispensers	31,179	64,455
Courier system	252,941	250,141
Facilities management fee - instant	795,391	834,724
Facilities management fee - online	1,311,175	1,137,927
Tri-State expenses	2,369,473	2,255,089
MUSL expenses	17,812	20,000
Agent network expenses	203,967	136,283
Other costs of sales and services	127,373	96,309
Personal services	1,484,362	1,420,582
Advertising	725,709	494,319
Other operating expenses	554,017	556,624
Depreciation	15,687	15,848
Department of Health	<u>150,000</u>	<u>150,000</u>
Total operating expenses	<u>75,929,016</u>	<u>75,037,775</u>
OPERATING INCOME	<u>21,556,317</u>	<u>20,945,027</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	<u>84,993</u>	<u>131,390</u>
Total nonoperating revenues (expenses)	<u>84,993</u>	<u>131,390</u>
INCOME BEFORE OPERATING TRANSFERS	21,641,310	21,076,417
NET PROFIT TRANSFERRED TO THE STATE OF VERMONT:		
Education Fund	(21,580,606)	(20,948,652)
General Fund	<u>-</u>	<u>(3,311)</u>
INCREASE (DECREASE) IN NET ASSETS	60,704	124,454
NET ASSETS, beginning of year	<u>715,390</u>	<u>590,936</u>
NET ASSETS, end of year	\$ <u>776,094</u>	\$ <u>715,390</u>

STATEMENTS OF
CASH FLOWS

FOR THE YEARS ENDING JUNE 30, 2010 AND 2009 • PAGE 1 OF 2

VERMONT LOTTERY COMMISSION
 ANNUAL REPORT
 FISCAL YEAR 2010

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 97,369,940	\$ 96,321,974
Cash paid for prizes and agents' commissions	(67,171,166)	(66,952,474)
Cash paid for management fees, operations and other	(7,435,726)	(7,497,361)
Cash paid to employees for services	(1,457,568)	(1,396,181)
Other operating revenue	<u>7,549</u>	<u>7,265</u>
Net cash provided by operating activities	<u>21,313,029</u>	<u>20,483,223</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers	(21,571,928)	(20,952,852)
Net cash used in noncapital financing activities	<u>(21,571,928)</u>	<u>(20,952,852)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	(73,749)	13,176
Purchase of investments	-	(591,650)
Proceeds from maturities of investments, net	437,668	497,403
Acquisition of property and equipment	<u>-</u>	<u>(10,300)</u>
Net cash provided (used) by investing activities	<u>363,919</u>	<u>(91,371)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	105,020	(561,000)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,989,688</u>	<u>2,550,688</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>2,094,708</u>	\$ <u>1,989,688</u>

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ <u>21,556,317</u>	\$ <u>20,945,027</u>
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation	15,687	15,848
(Increase) decrease in the following assets:		
Accounts receivable	(20,513)	310,906
Inventory	(93,947)	(109,209)
Due from State	3,169	-
Increase (decrease) in the following liabilities:		
Accounts payable	177,449	(268,945)
Accrued salaries and benefits	26,794	24,401
Due to winners	(350,105)	191,668
Reserve for future and unclaimed prizes	88,678	(662,004)
Deferred revenue	<u>(90,500)</u>	<u>35,531</u>
Total adjustments	<u>(243,288)</u>	<u>(461,804)</u>
Net cash provided by operating activities	\$ <u>21,313,029</u>	\$ <u>20,483,223</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>
Keypoint Life Insurance Company	November 14, 2014
Keypoint 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, 2010, all of the Lottery's bank balance of \$1,749,319 was insured or collateralized. As of June 30, 2009, all of the Lottery's bank balance of \$1,711,889 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 were deficits in this account at June 30, 2010 and 2009 due to the timing of transfers with other cash accounts.

4. Investments/due to winners:

Investments at June 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Money Market Funds	\$ -	\$ 100,000
U.S. Treasury Strips	1,866,337	1,977,594
Annuity contracts	<u>413,047</u>	<u>480,716</u>
	<u>\$ 2,279,384</u>	<u>\$ 2,558,310</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, 2010 are \$2,279,384 and \$2,015,603, respectively. Investments and Due to winners as of June 30, 2009 are \$2,558,310 and \$2,365,708, respectively.

5. Accounts receivable:

Accounts receivable at June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
MUSL	\$ 636,811	\$ 621,521
Tri-State	339,314	311,413
Regular Agents	374,456	343,576
Chain Agents	<u>45,518</u>	<u>104,361</u>
Total	1,396,099	1,380,871
Less: Allowance for doubtful accounts	<u>(56,934)</u>	<u>(62,219)</u>
Net accounts receivable	<u>\$ 1,339,165</u>	<u>\$ 1,318,652</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

VERMONT LOTTERY COMMISSION
ANNUAL REPORT
FISCAL YEAR 2010

6. Inventory:

The Lottery had inventory consisting of lottery tickets on hand and prizes valued at a cost of \$452,546 and \$102,535 at June 30, 2010 and \$447,334 and \$13,800 at June 30, 2009, respectively.

7. Property and equipment:

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

	2010					Net Property and Equipment June 30, 2010
	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Accumulated Depreciation	
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>

	2009					Net Property and Equipment June 30, 2009
	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Accumulated Depreciation	
Computer equipment	\$ 41,239	\$ -	\$ -	\$ 41,239	\$ (41,239)	\$ -
Furniture & fixtures	56,114	-	-	56,114	(51,752)	4,362
Other equipment	130,754	-	-	130,754	(108,772)	21,982
Leasehold improvements	<u>49,635</u>	<u>10,300</u>	<u>-</u>	<u>59,935</u>	<u>(24,625)</u>	<u>35,310</u>
	<u>\$ 277,742</u>	<u>\$ 10,300</u>	<u>\$ -</u>	<u>\$ 288,042</u>	<u>\$ (226,388)</u>	<u>\$ 61,654</u>

8. Accounts payable:

The Lottery's accounts payable at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Tri-State MUSL	\$ 155,216	\$ 132,390
Vendors	<u>181,577</u>	<u>66,035</u>
	<u>\$ 433,060</u>	<u>\$ 255,611</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, 2010 and payable through the year 2033:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current portion:			
Fiscal year -			
2011	\$ <u>239,223</u>	\$ <u>30,777</u>	\$ <u>270,000</u>
Long-term:			
Fiscal year -			
2012	236,156	33,844	270,000
2013	233,043	36,957	270,000
2014	230,763	39,237	270,000
2015	228,752	41,248	270,000
2016	126,287	43,713	170,000
2017-2021	405,580	244,420	650,000
2022-2026	199,084	200,916	400,000
2027-2031	86,283	113,717	200,000
2032-2033	<u>30,432</u>	<u>49,568</u>	<u>80,000</u>
Total long-term portion	<u>1,776,380</u>	<u>803,620</u>	<u>2,580,000</u>
Total requirements to maturity	\$ <u>2,015,603</u>	\$ <u>834,397</u>	\$ <u>2,850,000</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, 2010 and 2009.

In September 1985, the states of Vermont, Maine and New Hampshire instituted Tri-State Megabucks (now know as Tri-State Megabucks Plus), with a calculated prize expense of 50% of ticket sales. Megabucks/Megabucks Plus ticket sales in Vermont were approximately \$7.7 million for the year ended June 30, 2010 and \$5.1 million for the year ended June 30, 2009.

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 \$2.8 million for the year ended June 30, 2010 and \$3.1 million for the year ended June 30, 2009.

The Tri-State Lotto Commission's net assets for the years ending June 30, 2010 and 2009 were \$15,036,475 and \$15,575,707, respectively. Of these amounts, \$4,345,585 represented designated prize reserves for each year and \$10,690,890 and \$11,230,122 represented unrealized gains on investments held for installment prize obligations for the years ended June 30, 2010 and 2009, 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.

10. Prize expense and reserve for future and unclaimed prizes:

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 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 \$10.2 million for the year ended June 30, 2010 and approximately \$11.4 million for the year ended June 30, 2009. 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 \$1.9 million for the year ended June 30, 2010. In January 2010 Vermont began offering Vermont Mega Millions with the Megaplier feature, Mega Millions with a calculated prize expense of 51% of ticket sales and the Megaplier with a calculated prize expense of 50% of ticket sales. Vermont Mega Millions sales were approximately \$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 \$495,812 for the fiscal year ended June 30, 2010 and \$479,899 for the fiscal year ended June 30, 2009. 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 January 2007, the states of Vermont, Maine and New Hampshire began a two dollar game Paycheck with an estimated overall payout of 50% of ticket sales. The total sales in Vermont for Paycheck were approximately \$760,000 for the year ended June 30, 2009.

In February 2009, Tri-State replaced Paycheck with a new two dollar game Weekly Grand. The sales of Weekly Grand in Vermont were approximately \$1.5 million for the year ended June 30, 2010 and \$1.1 million for the year ended June 30, 2009.

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 \$45,967 include furniture, equipment and leasehold improvements net of depreciation. Unrestricted net assets at June 30, 2010 include net assets reserved for inventory of \$466,346 and for unrealized gains on investments held for the purpose of paying long-term installment prizes due to winners of \$263,781. 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Appropriation	\$ 2,914,045	\$ 2,685,982
Expenses	<u>2,882,590</u>	<u>2,576,994</u>
Variance	\$ <u>31,455</u>	\$ <u>108,988</u>

At June 30, 2010, \$483 was encumbered for personal services. At June 30, 2009, \$44,440 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 \$122,315. The Lottery's current year payroll for all employees totaled \$1,019,832 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 Scientific Games International (SGI), a service organization, to process all of its online games and generate the accounting reports the Lottery used to record this activity in FY 2010. The Lottery has contracted with Intralot, Inc. to provide these services for FY 2011. The Lottery also utilized SGI to produce, validate and settle its instant ticket lottery games and will continue to do so for FY 2011. Other service providers are available; however, an interruption in service by SGI or Intralot 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 \$140,426 and \$129,675 for the years ended June 30, 2010 and 2009, 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 Scientific Games International to provide for the operation of an online gaming system through June 30, 2010. The estimated total contract price was approximately \$45 million over the ten-year contract.

The Lottery has 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.

18. Reclassifications:

Certain prior year amounts in these financial statements have been reclassified to be more comparable to the current year presentation.

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, 2010, and have issued our report thereon dated September 30, 2010. 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*.



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