



ANNUAL REPORT

Fiscal Year 2012

Profits benefit the
Vermont Education Fund

 .VERMONT
www.vtlottery.com

Nothing is more constant than change. In Northern New England we are used to regular changes in our weather and our seasons, which prepares us for accepting change in other aspects of our lives. The Vermont Lottery sees changes with some regularity, whether it is in our current games, or when we offer new ones as we have over the past few years. We are now encountering a new type of change that we have not experienced in fourteen years – that of a new Executive Director. Alan Yandow, who steered the Lottery with a steady hand since 1999 has left us, and Greg Smith was chosen to replace him. Alan’s thoughtful guidance got us to where we are now – contributing over \$22 million annually to the Education Fund – and it is Greg’s job to keep us moving forward.

What will remain the same is our dedication to these tasks:

- Provide trusted, entertaining and enjoyable Lottery games to Vermonters.
- Accurately reward the winning amounts to Lottery players and the commissions to Lottery agents.
- Manage the Lottery so we maximize the contribution to the Education Fund.

Technology continues to bring change and play a larger role in all of our lives. This year we introduced 100 WinStations (the self-service Lottery vending machines) at various agent locations. We now operate our 2nd chance prize drawing called “Play it Again” through our website, and regularly communicate with our Players Club with emails. You can also hear the topics of Internet gaming and Internet lottery being discussed by federal and state legislators as they tackle the issue of understanding and administering these ideas. They are complex issues that deserve thoughtful consideration.

The staff and the Commissioners of the Vermont Lottery are proud of what has been accomplished this year, and remain dedicated to serving all Vermonters.



Martha O’ Connor, Chair



Greg Smith, 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.

2012

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 \$ 100,927,079 in ticket revenue during fiscal year 2012.

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.

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

Tom Scala, Tri-State Chair
Brattleboro
Term Expires 02/15

Karen O'Hagan
Winooski
Term Expires 02/14

Virginia Barry
Barre
Term Expires 02/15

Arthur Ristau, Vice Chair
Barre
Term Expires 02/13

In fiscal year 2012, the Vermont Lottery offered ten different products to customers: Instant Games, Vermont Powerball, Vermont Mega Millions, Vermont Hot Lotto, Tri-State Megabucks Plus, Tri-State Weekly Grand Extra, Tri-State Daily Numbers Games - Pick 3/Pick 4, and Tri-State Fast Play. Weekly Grand Extra ended on March 9, 2012 and a new game began, Lucky for Life. 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 FY12, Instant tickets accounted for 74% 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 FY12, Instant ticket cash prizes ranged from \$1 to \$50,000. The Vermont Lottery released 59 Instant Games in FY12. Of those games, 13 were \$1 games, 13 were \$2 games, 5 were \$3 games, 21 were \$5 games, 5 were \$10 games and 2 were \$20 games. 19 to 28 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 2012, the Powerball game underwent some improvements. The jackpots changed to start at an annuitized \$40 million. In addition, four red Powerball numbers were removed for a total of 35. These changes to Powerball’s matrix increased the odds of winning the jackpot from 1 in 195.2 million to 1 in 175.2 million. At the same time, the overall odds of winning any prize decreased from 1 in 35 to 1 in 32. 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 \$40 million (paid in annual payments) and continue to roll until won. Other prize levels include a \$1 million second prize and six other prize levels with payouts from \$4 to \$10,000. One play costs two dollars. For an additional \$1, players may opt to Power Play their ticket, which will increase Powerball non-jackpot prizes won.



In FY12, 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 FY12, 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 million (paid in annual payments) and continue to roll until won. Other prize levels include a \$10,000 second prize and seven other prize levels with payouts from \$2 to \$500. One play costs \$1. For an additional \$1, players may opt to add a Sizzler ticket, which will multiply prizes (except the jackpot) three 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 million (paid in annual payments) and continue to roll until won. Other prize levels include a \$250,000 second prize and seven other prize levels with payouts from \$2 to \$10,000. One play costs \$1. 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).



Lucky for Life

For the first time in history, the six New England Lotteries joined together to offer their players a great new game, Lucky for Life. Lucky for Life tickets went on sale in Vermont March 11, 2012, with the first drawing held on March 15, 2012. Lucky for Life offers a top prize of \$1,000 a week for life with nine lower tier prize levels. The game has a matrix of 5 of 40 and 1 of 21. The odds of winning the jackpot are 1 in 13.8 million. The prize annuity will be paid for life, but for no less than 20 years. One play costs \$2. Drawings are held Monday and Thursday nights at 10:38 PM.



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 six 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 million annuitized and estimates grow from \$1 million to \$1.05 million to \$1.1 million and by approximately \$50,000 to \$100,000 thereafter.

Tri-State Weekly Grand Extra

Tri-State Weekly Grand Extra ended on March 9, 2012.



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 online 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 0 to 9. Pick 4 began on September 3, 1985 and has also played the same since its inception – by selecting a combination of four numbers from 0 to 9.



Vermont Lottery Agents

In FY12, there were approximately 685 Lottery agents in Vermont who sold online games and Instant tickets. Agents received commissions for 6% of their total Powerball, Hot Lotto, Mega Millions and Lucky for Life 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 FY12, the commission and bonuses paid to agents totaled over \$5.9 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 FY12, 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 FY12:

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 & Mega Millions Drawing

Responsible Gaming

During FY12, The Vermont Lottery Commission, in association with the Vermont Council on Problem Gambling, began its fourteenth 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 FY12:

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 VCPG maintained open lines of communication throughout the year, frequently discussing the Vermont Council's needs and made necessary adjustments.

Website: 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, "Signs," 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.

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 VCPG.

Vermont Council Reimbursement: The Lottery reimbursed 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 VCPG and other resources are 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 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 VCPG'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

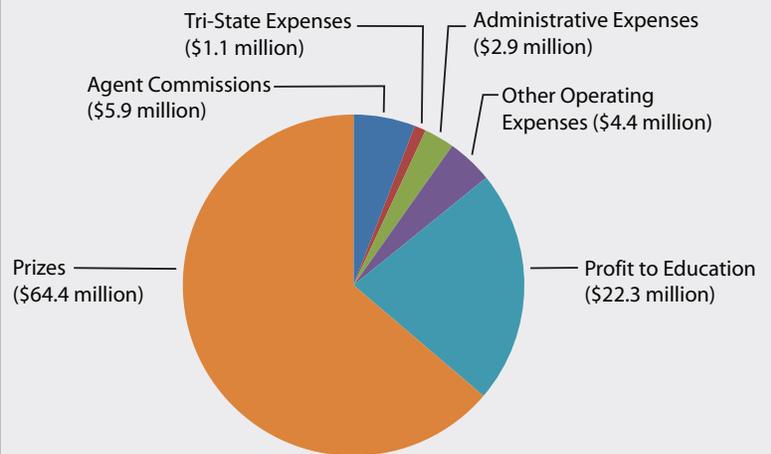
The Vermont Lottery's FY12 advertising strategy continued to focus on the fun of playing Lottery games while also stressing the importance of responsible gaming. Promoting Lottery games as a fun entertainment choice was achieved by advertising several promotions, including the new \$2 Powerball game and launch of New England's Lucky for Life game. The advertisements also reinforced that proceeds go to the Vermont Education Fund.

Media Strategy

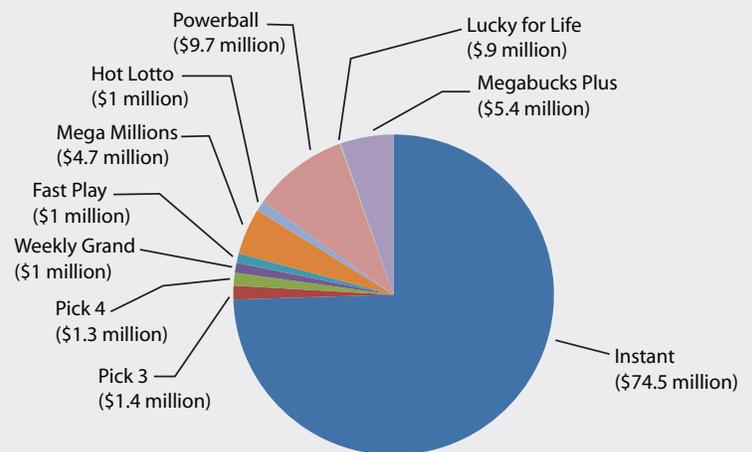
The media goals for FY12 were designed to provide a consistent level of communication, through public relations and advertising, at minimum frequency levels. The strategy was developed to ensure awareness of Vermont Lottery and Tri-State products. The media campaign consisted of a combination of "base game advertising" – in which the Lottery's base games such as Powerball, Megabucks Plus, 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

FY12 ended with overall revenue of over \$100 million. The total contribution to the state's Education Fund was \$22.3 million. In addition to the Education Fund contribution, \$64.4 million was returned to players in the form of prizes, and over \$5.9 million went to local lottery agents as commissions on sales.

Sales

Total FY12 sales equaled \$100,927,079. Ticket sales were as follows:

	<u>2012</u>	<u>2011</u>
Instant	\$ 74,537,161	\$ 71,325,609
Pick 3	1,383,792	1,490,025
Pick 4	1,297,613	1,226,174
Weekly Grand Extra	1,004,506	1,570,960
Fast Play	951,643	1,045,351
Mega Millions	4,682,208	3,410,850
Hot Lotto	1,060,724	1,282,782
Powerball	9,649,154	8,137,318
Lucky for Life	999,668	—
Megabucks Plus	<u>5,360,610</u>	<u>6,051,535</u>
Total Sales	<u>\$ 100,927,079</u>	<u>\$ 95,540,604</u>

Instant ticket sales were \$74,537,161 representing 74% of total sales.

Pick 3 and Pick 4 combined sales were \$2,681,405 representing 2% of total sales.

Megabucks Plus sales were \$5,360,610 this year, representing 5% of total sales.

Weekly Grand Extra sales were \$1,004,506, representing 1% of total sales.

Fast Play sales were \$951,643, representing 1% of total sales.

Powerball sales were \$9,649,154, representing 10% of total sales.

Hot Lotto sales were \$1,060,724, representing 1% of total sales.

Mega Millions sales were \$4,682,208, representing 5% of total sales.

Lucky for Life sales were \$999,668, representing 1% of total sales.

Operating Expenses

Administrative costs for the Lottery were \$2,907,408, an increase of \$248,209 over FY11. 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 FY12 was \$7,313,182, an increase of \$714,883 from FY11, which includes the administrative costs of \$2,907,408 mentioned above.

Tri-State Expenses

The Tri-State operating, communications, and facilities management costs totaled \$1,112,685, a decrease of \$176,914 over FY11.

Prizes and Commissions

As these costs were related to sales, prize expense and local lottery agent commissions increased by \$4,105,121 or 6.2% from FY11. The total prizes paid to players in FY12 were \$64,409,376 and the total commissions paid to agents were \$5,914,952.

Contribution to Vermont Education Fund

The total contribution to the Vermont Education Fund in FY12 was \$22,328,096.

VERMONT LOTTERY COMMISSION

FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
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, 2012 and 2011, 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.

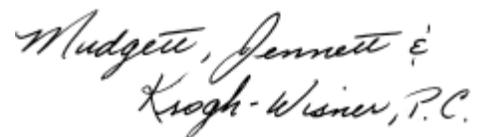
As discussed in Note 1, the financial statements present only the Vermont Lottery Commission and do not purport to, and do not, present fairly the financial position of the State of Vermont as of June 30, 2012 and 2011, the changes in its financial position, or where applicable, its cash flows for the 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, 2012 and 2011, 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 5, 2012, on our consideration of the Vermont Lottery Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

Montpelier, Vermont
September 5, 2012



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, 2012. Please read it in conjunction with the financial statements.

The Vermont Lottery Commission (the 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 \$5,387,547 or 5.64%.
- Total operating expenses for the year increased by \$4,411,158 or 5.95%. Of this increase, prize expense increased by \$3,796,271, facilities management fees increased by \$228,791, agent commissions increased by \$308,850, and Tri-State expenses decreased by \$176,914.
- Nonoperating revenue in FY 2012 included an unrealized gain on investments of \$135,372. The total investment income of \$147,771 resulted in an overall increase of \$171,921 from the nonoperating revenue in FY 2011.
- Income before operating transfers (net revenue) increased by \$1,148,310.

Assets and Net Assets

The assets of the Commission are primarily cash and investments held for operating purposes. Total assets at June 30, 2012, of \$7,868,983 include net capital assets of \$17,917, restricted investments of \$2,045,324 and current operating assets such as cash and cash equivalents, accounts receivable, prepaid expenses and inventory of \$5,805,742. Net assets retained by the Commission are \$875,664.

Total assets at June 30, 2011, of \$6,257,278 included 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 were \$697,838.

Liabilities

The Commission's liabilities consist of operating liabilities and obligations for payment of prizes to lottery winners. Total liabilities at June 30, 2012, of \$6,993,319 include long-term liabilities for prize obligations of \$1,435,101, cash advances from the State of \$300,000 and current operating liabilities of \$5,258,218.

Total liabilities at June 30, 2011, of \$5,559,440 included 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.

Sales

The following shows ticket sales by game:

	<u>2012</u>	<u>2011</u>
Instant scratch off games	\$74,537,161	\$71,325,609
Online Games:		
Pick 3	1,383,792	1,490,025
Pick 4	1,297,613	1,226,174
Weekly Grand Extra/Weekly Grand	1,004,506	1,570,960
Fast Play	951,643	1,045,351
Mega Millions	4,682,208	3,410,850
Hot Lotto	1,060,724	1,282,782
Powerball	9,649,154	8,137,318
Lucky for Life	999,668	-
Megabucks Plus/Megabucks	<u>5,360,610</u>	<u>6,051,535</u>
Total sales	<u>\$100,927,079</u>	<u>\$95,540,604</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 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 or by the Vermont Lottery Commission in the case of Lucky for Life.

	<u>2012</u>	<u>2011</u>
Prize expense - Instant scratch off games	\$50,393,672	\$48,313,285
Prize expense - Online games	<u>14,015,704</u>	<u>12,299,820</u>
	<u>\$64,409,376</u>	<u>\$60,613,105</u>

Other Potentially Significant Factors

The financial position and operating results for 2012 were improved over 2011. The overall improvement in sales was offset by the increased cost of sales as would be expected as most of these expenses are paid as a percentage of sales. The robust instant sales as well as a world record Mega Millions jackpot were factors in the improved sales for FY 2012. The Lottery also replaced Tri-State Weekly Grand Extra with a New England regional game, Lucky for Life, in March 2012.

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>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 3,480,721	\$ 2,254,250
Accounts receivable	1,821,371	1,406,865
Prepaid expenses	5,819	-
Inventory	497,831	485,136
Total current assets	<u>5,805,742</u>	<u>4,146,251</u>
Restricted and noncurrent assets:		
Investments	2,045,324	2,079,970
Property and equipment, less accumulated depreciation	<u>17,917</u>	<u>31,057</u>
Total restricted and noncurrent assets	<u>2,063,241</u>	<u>2,111,027</u>
Total assets	<u>\$ 7,868,983</u>	<u>\$ 6,257,278</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 905,682	\$ 449,310
Accrued leave	93,202	91,119
Accrued payroll	56,151	45,656
Current - Due to winners	249,057	244,014
Reserve for future and unclaimed prizes	3,791,589	2,659,643
Deferred revenue	162,537	159,537
Total current liabilities	<u>5,258,218</u>	<u>3,649,279</u>
Liabilities payable from restricted assets:		
Non-current - Due to winners	1,435,101	1,610,161
Cash advances by State Treasurer	300,000	300,000
Total long-term liabilities	<u>1,735,101</u>	<u>1,910,161</u>
Total liabilities	<u>6,993,319</u>	<u>5,559,440</u>
 NET ASSETS:		
Invested in capital assets	17,917	31,057
Unrestricted	857,747	666,781
Total net assets	<u>875,664</u>	<u>697,838</u>
Total liabilities and net assets	<u>\$ 7,868,983</u>	<u>\$ 6,257,278</u>

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Ticket sales	\$ 100,927,079	\$ 95,540,604
Agents' license fees and other receipts	<u>3,441</u>	<u>2,369</u>
Total operating revenues	<u>100,930,520</u>	<u>95,542,973</u>
OPERATING EXPENSES:		
Prize expense	64,409,376	60,613,105
Commissions - agents	5,914,952	5,606,102
Lottery tickets	1,158,847	1,176,780
Instant ticket dispensers	46,491	71,053
Courier system	218,610	221,371
Facilities management fee - instant	2,238,913	2,130,524
Facilities management fee - online	495,636	375,234
Tri-State expenses	1,112,685	1,289,599
MUSL expenses	32,405	27,299
Agent network expenses	-	14,565
Other costs of sales and services	37,046	530
Personal services	1,480,387	1,427,886
Advertising	687,950	546,342
Other operating expenses	575,931	495,911
Depreciation	13,140	14,910
Department of Health	150,000	150,000
Total operating expenses	<u>78,572,369</u>	<u>74,161,211</u>
OPERATING INCOME	<u>22,358,151</u>	<u>21,381,762</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income (loss)	<u>147,771</u>	<u>(24,150)</u>
Total nonoperating revenues (expenses)	<u>147,771</u>	<u>(24,150)</u>
INCOME BEFORE OPERATING TRANSFERS	22,505,922	21,357,612
NET PROFIT TRANSFERRED TO THE STATE OF VERMONT:		
Education Fund	<u>(22,328,096)</u>	<u>(21,435,868)</u>
INCREASE (DECREASE) IN NET ASSETS	177,826	(78,256)
NET ASSETS, beginning of year	<u>697,838</u>	<u>776,094</u>
NET ASSETS, end of year	\$ <u>875,664</u>	\$ <u>697,838</u>

STATEMENTS OF
CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 • PAGE 1 OF 2

VERMONT LOTTERY COMMISSION
 ANNUAL REPORT
 FISCAL YEAR 2012

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 100,509,754	\$ 95,504,965
Cash paid for prizes and agents' commissions	(69,375,094)	(66,143,929)
Cash paid for management fees, operations and other	(6,298,142)	(6,457,599)
Cash paid to employees for services	(1,467,809)	(1,501,384)
Other operating revenue	<u>3,441</u>	<u>2,369</u>
Net cash provided by operating activities	<u>23,372,150</u>	<u>21,404,422</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers	<u>(22,328,096)</u>	<u>(21,420,144)</u>
Net cash used in noncapital financing activities	<u>(22,328,096)</u>	<u>(21,420,144)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Unrealized gains on investments	(64,660)	(66,955)
Proceeds from maturities of investments, net	<u>247,077</u>	<u>242,219</u>
Net cash provided (used) by investing activities	<u>182,417</u>	<u>175,264</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,226,471	159,542
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,254,250</u>	<u>2,094,708</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>3,480,721</u>	\$ <u>2,254,250</u>

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ <u>22,358,151</u>	\$ <u>21,381,762</u>
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation	13,140	14,910
(Increase) decrease in the following assets:		
Accounts receivable	(414,506)	(67,700)
Prepaid expenses	(5,819)	-
Inventory	(12,695)	69,945
Increase (decrease) in the following liabilities:		
Accounts payable	456,372	16,250
Accrued salaries and benefits	12,578	(73,499)
Due to winners	(170,017)	(161,428)
Reserve for future and unclaimed prizes	1,131,946	192,121
Deferred revenue	<u>3,000</u>	<u>32,061</u>
Total adjustments	<u>1,013,999</u>	<u>22,660</u>
Net cash provided by operating activities	\$ <u><u>23,372,150</u></u>	\$ <u><u>21,404,422</u></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.

In March 2012, the Lottery entered into an agreement with the Connecticut Lottery Corporation, the Maine State Liquor & Lottery Commission, the Massachusetts State Lottery Commission, the New Hampshire Lottery Commission, and the Rhode Island Division of State Lottery to offer Lucky for Life, a New England regional lotto game.

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.

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, 2012, all of the Lottery's bank balance of \$2,375,305 was insured or collateralized. As of June 30, 2011, all of the Lottery's bank balance of \$2,322,556 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.

4. Investments/due to winners:

Investments at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
U.S. Treasury Strips	\$ 1,781,572	\$ 1,739,142
Annuity contracts	<u>263,752</u>	<u>340,828</u>
	<u>\$ 2,045,324</u>	<u>\$ 2,079,970</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, 2012 are \$2,045,324 and \$1,684,158, respectively. Investments and Due to winners as of June 30, 2011 are \$2,079,970 and \$1,854,175, respectively.

5. Accounts receivable:

Accounts receivable at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
MUSL	\$ 885,305	\$ 635,948
Tri-State	129,037	37,710
Regular Agents	706,166	557,146
Chain Agents	<u>159,819</u>	<u>226,167</u>
Total	1,880,327	1,456,971
Less: Allowance for doubtful accounts	<u>(58,956)</u>	<u>(50,106)</u>
Net accounts receivable	<u>\$ 1,821,371</u>	<u>\$ 1,406,865</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

VERMONT LOTTERY COMMISSION
ANNUAL REPORT
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6. Inventory:

The Lottery had inventory consisting of lottery tickets on hand and prizes valued at a cost of \$496,581 and \$1,250 at June 30, 2012 and \$427,186 and \$57,950 at June 30, 2011, respectively.

7. Property and equipment:

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

2012						
	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Accumulated Depreciation	Net Property & Equipment June 30, 2012
Computer equipment	\$ 22,442	\$ -	\$ 16,859	\$ 5,583	\$ 5,583	\$ -
Furniture & fixtures	56,114	-	-	56,114	54,627	1,487
Other equipment	130,754	-	-	130,754	130,754	-
Leasehold improvements	<u>59,935</u>	<u>-</u>	<u>-</u>	<u>59,935</u>	<u>43,505</u>	<u>16,430</u>
	<u>\$ 269,245</u>	<u>\$ -</u>	<u>\$ 16,859</u>	<u>\$ 252,386</u>	<u>\$ 234,469</u>	<u>\$ 17,917</u>
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>

8. Accounts payable:

The Lottery's accounts payable at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Tri-State	\$ 42,578	\$ 36,470
MUSL	272,148	41,638
Vendors	<u>590,956</u>	<u>371,202</u>
	<u>\$ 905,682</u>	<u>\$ 449,310</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, 2012, and payable through the year 2033:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current portion:			
Fiscal year -			
2013	<u>\$ 249,057</u>	<u>\$ 20,943</u>	<u>\$ 270,000</u>
Long-term:			
Fiscal year -			
2014	246,158	23,842	270,000
2015	243,658	26,342	270,000
2016	141,002	28,998	170,000
2017	132,753	37,247	170,000
2018	87,803	32,197	120,000
2019-2023	368,588	231,412	600,000
2024-2028	127,695	112,305	240,000
2029-2033	<u>87,444</u>	<u>112,556</u>	<u>200,000</u>
Total long-term portion	<u>1,435,101</u>	<u>604,899</u>	<u>2,040,000</u>
Total requirements to maturity	<u>\$1,684,158</u>	<u>\$ 625,842</u>	<u>\$2,310,000</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 61% to 75% for the years ended June 30, 2012 and 2011.

In September 1985, the states of Vermont, Maine and New Hampshire instituted Tri-State Megabucks (now known as Tri-State Megabucks Plus), with a calculated prize expense of 50% of ticket sales. Megabucks Plus ticket sales in Vermont were approximately \$5.4 million for the year ended June 30, 2012 and \$6.1 million for the year ended June 30, 2011.

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, 2012 and \$2.7 million for the year ended June 30, 2011.

The Tri-State Lotto Commission's net assets for the years ending June 30, 2012 and 2011 were \$13,611,421 and \$12,603,055, respectively. Of these amounts, \$4,345,585 represented designated prize reserves for each year and \$9,265,836 and \$8,257,470 represented unrealized gains on investments held for installment prize obligations for the years ended June 30, 2012 and 2011, respectively. The Tri-State Lotto Commission's annual financial report may be obtained by writing to the Tri-State Lotto Commission, 1311 US Route 302, Suite 100, Barre, Vermont 05641.

Effective July 1, 2003, the Lottery became a member of the Multi-State Lottery Association (MUSL) which operates online games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly 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 \$9.6 million for the year ended June 30, 2012 and approximately \$8.1 million for the year ended June 30, 2011. 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 \$1.1 million for the year ended June 30, 2012 and \$1.3 million for the year ended June 30, 2011. 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 \$4.7 million for the year ended June 30, 2012 and \$3.4 million for the year ended June 30, 2011. On behalf of the Lottery, the MUSL held in trust prize reserve accounts for Powerball, Hot Lotto and Mega Millions totaling \$614,226 for the fiscal year ended June 30, 2012 and \$559,251 for the fiscal year ended June 30, 2011. 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. In March 2012, Tri-State ended the Weekly Grand Extra game; it was not replaced with another Tri-State game. The sales of Weekly Grand Extra in Vermont were approximately \$1.0 million for the year ended June 30, 2012 and the sales of Weekly Grand and Weekly Grand Extra combined in Vermont were \$1.6 million for the year ended June 30, 2011.

In March 2012, the states of Vermont, Maine, New Hampshire, Connecticut, Massachusetts and Rhode Island instituted Lucky for Life, with a calculated prize expense of 60% of ticket sales. Lucky for Life ticket sales in Vermont were approximately \$1.0 million for the year ended June 30, 2012.

11. Deferred revenue:

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

12. Net assets:

Net assets invested in capital assets of \$17,917 include furniture, equipment and leasehold improvements net of depreciation. Unrestricted net assets at June 30, 2012 include net assets reserved for inventory of \$496,581 and for unrealized gains on investments held for the purpose of paying long-term installment prizes due to winners of \$361,166. 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Appropriation	\$ 2,892,961	\$ 2,755,684
Expenses	<u>2,869,970</u>	<u>2,692,270</u>
Variance	<u>\$ 22,991</u>	<u>\$ 63,414</u>

At June 30, 2012, \$46,584 was encumbered for personal services. At June 30, 2011, \$32,918 was encumbered for personal services.

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 6.40% (Group F). All eligible employees of the Lottery are Group F members. The total amount of employer contributions was \$153,767. The Lottery's current year payroll for all employees totaled \$954,978 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 2012. The Lottery also utilized Intralot to validate and settle its instant ticket lottery games. The Lottery utilized Scientific Games, International. (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 for the years ended June 30, 2012 and 2011.

The Lottery has a three-year agreement with Scientific Games International to print instant game tickets through January 16, 2013 with an option to renew for one, one-year extension. The total cost of the contract is not to exceed \$5.25 million.

The Lottery is 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, 2012, and have issued our report thereon dated September 5, 2012. 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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

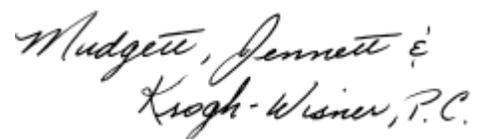
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 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
September 5, 2012





Vermont Lottery Staff:

Aimee Drown

Lou Chap

Alan Yandow

Mark Anderson

Ann-Marie Mears

Mark Cayia

Beth Plante

Mary Cassani

Carole Lacasse

Meredith Putvain

Connie Goss

Michael Lancour

Denise Huntington

Sylvia Buzzell

Ellen Pulsifer

Timothy White

Fran McAvoy

Wendy Dickinson

Ginger Radke

Hadley Melendy