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virginia lottery

2016 Virginia Lottery
ANNUAL FINANCIAL REPORT
for year ended June 30, 2016

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Management's Discussion and Analysis

(unaudited)

The Virginia Lottery's Management's Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues and provides an overview of financial activity. All Virginia Lottery net income is transferred to the Commonwealth of Virginia (Commonwealth) each year in accordance with requirements in the Appropriations Act and the **Code of Virginia**. Therefore, the Virginia Lottery's MD&A focuses primarily on an overview of the financial results of operations. Please read it in conjunction with the accompanying financial statements.

Financial Highlights

Virginia Lottery ticket sales totaled $2,006.9 million for fiscal year 2016, the highest total ever for Virginia Lottery sales. Net proceeds totaling $588.2 million were earned for the Lottery Proceeds Fund, all of which are constitutionally mandated to support local K-12 public education. Highlights of the fiscal year include:

- **Sales increased by $163.0 million (8.8 percent) from last year to a record $2,006.9 million.**
- **Net income was $588.2 million, an increase of $54.4 million, a new record level.**
- **Prize expense increased $91.7 million (8.2 percent) to a record total of $1,208.3 million.**
- **With the sales increase, retailers earned $8.8 million (8.4 percent) more than last year, with compensation paid to retailers totaling a new record of $112.7 million. Retailers earned, on average, 5.6 cents on each dollar sold, the same as last year.**

Although by law, the Lottery may spend up to ten percent of sales on operating costs, which include all expenses except prizes and retailer compensation, these costs represented only 4.9 percent of sales for the fiscal year.

Overview of the Financial Statements

The activities of the Virginia Lottery are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate. The basis of accounting is an accrual basis where revenues are recognized when earned and expenses when incurred, regardless of when cash is exchanged.

This annual report consists of a series of financial statements, along with explanatory notes to the financial statements. The report includes the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the Virginia Lottery's net assets and their changes. By law, the Virginia Lottery transfers all of its net income to the Commonwealth, specifically to the Lottery Proceeds Fund, each year. As a result, the net assets of the Virginia Lottery consist largely of capital assets (equipment) and investments held to fund future payments on annuitized lottery prizes as shown in the Statement of Net Position. To assess the Virginia Lottery's financial position and financial health, the reader of these statements should pay particular attention to changes in operating revenues, expenses, and transfers to the Lottery Proceeds Fund as shown in the Statement of Revenues, Expenses, and Changes in Net Position. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating capital, financing, and investing activities.

Statement of Net Position

Table 1 reflects the condensed Statement of Net Position compared to the prior year

TABLE 1: STATEMENT OF NET POSITION

Assets:	2016	2015	Change
Current Assets	$193.03	$195.32	$(2.29)
Investments	116.47	118.16	($1.69)
Capital (Fixed) Assets, Net Of Accumulated Depreciation	7.01	6.50	$0.51
Total Assets	$316.51	$319.98	($3.47)
Deferred Outflows of Resources:			
	$4.45	$2.75	$1.70
Liabilities:			
Current Liabilities	199.17	201.25	($2.08)
Long-Term Liabilities	145.50	143.12	$2.38
Total Liabilities	$344.67	$344.37	$0.30
Deferred Inflows of Resources:			
	$2.03	$4.29	($2.26)
Net Position:			
Net Investment In Capital Assets	7.01	6.50	$0.51
Unrestricted	(32.74)	(32.43)	($0.31)
Total Net Position	($25.74)	($25.93)	($0.19)

* $ in millions

Current assets and liabilities decreased $2.29 million and $2.08 million respectively due to the change in cash balances on hand and cash held as collateral for Securities Lending. Fiscal year-end 2016 cash was higher due to a larger residual turnover amount due to the Lottery Proceeds fund that carried into fiscal year 2017; however, cash held as Collateral for Securities Lending decreased due to less activity for Lottery investments. Investments decreased $1.69 million and consist of U.S. Treasury STRIPS purchased to fund individual jackpot and "For Life" prizes, as winners continue to receive their annuity prizes. Winners are electing annuity payment options less frequently, requiring very few purchases of investments for future prize payments.

Long-term liabilities increased $2.38 million in fiscal year 2016. In fiscal year 2015, the Lottery reported for the first time a net pension liability of $24.0 million; in fiscal year 2016 the net pension liability increased $4.16 million. The increase is a result of the Lottery's total pension liability and the assets set aside to pay these pension benefits.

Deferred inflows of resources decreased $2.26 million due to the expected decrease in investment earnings set aside for future pension liabilities.

The increase in fixed assets reflects the slight increase in purchases of new capital assets in fiscal year 2016 compared to 2015.

Net position decreased $0.19 million due to the change in the Lottery's net pension liability.

Since the Virginia Lottery transfers all net income to the Commonwealth each fiscal year, changes in assets do not reflect the results of its operating activities. Those results are discussed later in this document.

TABLE 2: STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2016	2015	Change
Sales	$2,006.89	$1,843.87	8.8%
Prizes	(1,208.35)	(1,116.62)	8.2%
Retailer Compensation	(112.67)	(103.92)	8.4%
Ticket Printing & Gaming Services	(30.51)	(29.31)	4.1%
Operating Expenses	(68.16)	(61.44)	10.9%
Income From Operations	587.20	532.58	10.3%
Non-Operating Revenue & Expenses	0.99	1.18	-16.1%
Net Income	$588.19	$533.76	-10.2%

* $ in millions

Sales

Virginia Lottery products fall into two major categories: scratch games and computer terminal (on-line) games. Scratch games are games in which players scratch off tickets to see whether they have won and include $1, $2, $3, $5, $7, $10 and $20 games. Computer terminal games are games for which players buy tickets that are issued by a lottery terminal, for a chance to win prizes either instantly or from a future drawing. Computer terminal games include Pick 3, Pick 4, Cash 5, Mega Millions, Powerball, Fast Play (renamed Print and Play), Cash4Life and Raffle. The Virginia Lottery introduced a new terminal game in fiscal year 2016: Bank a Million replaced Million Dollar Money Ball (ended August 29, 2015).

Table 3 compares sales for each lottery product for fiscal years 2016 and 2015. Total sales revenue for fiscal year 2016 was the highest ever. Scratch, Pick 3, Pick 4, Powerball and Fast Play (renamed Print and Play) set individual sales records for those products.

TABLE 3: SALES

	2016	2015	Change
Scratch Sales	$1,100.57	$1,018.49	8.06%
Computer Terminal Sales			
Pick 3	$272.75	$272.25	0.18%
Pick 4	279.84	268.65	4.17%
Cash 5	30.42	29.90	1.74%
Fast Play/PNP	29.24	24.20	20.83%
Raffle	6.60	6.60	0.00%
Decades Of Dollars	0.0	9.36	N/A
Win For Life	0.0	2.98	N/A
Money Ball	2.62	16.77	-84.38%
Bank A Million	14.52	0.0	N/A
Cash4Life	19.04	3.81	399.74%
Powerball	163.89	94.28	73.83%

TABLE 3: SALES (continued)

	2016	2015	Change
Mega Millions	*87.40*	*96.58*	*-9.51%*
Total Computer Terminal Sales	*$906.32*	*$825.38*	*9.81%*
Total Combined Sales	***$2,006.89***	***$1,843.87***	***8.84%***

** $ in millions*

Scratch Game sales (54.8 percent of total sales) were higher than fiscal year 2015. Growth in scratch game sales increased due to the continued offering of a variety of games designed to meet player preferences, and an increase in the number of retailer outlets selling Lottery products.

Daily Game total sales (Pick 3, Pick 4, and Cash 5) represented 29.0 percent of total product sales for the fiscal year, an increase of $12.2 million from the prior year.

Mega Millions (4.4 percent of total sales) experienced lower sales, down $9.2 million from last year's total. This product is a multi-state lotto style game with long odds of winning the top prize. Sales in this product are extremely dependent on the amount of the advertised jackpot, with sales increasing significantly as jackpots exceed $300 million. During fiscal year 2016, there were six winning jackpot tickets sold, sharing in six jackpot prizes. Currently forty-four states, plus the District of Columbia and U.S. Virgin Islands now sell Mega Millions.

Powerball (8.2 percent of total sales) experienced record sales, up $69.6 million from last year's total. Powerball experienced a historic $1.58 billion jackpot in fiscal year 2016. This product is similar to Mega Millions, a lotto type game with long odds of winning the jackpot. During fiscal year 2016, there were nine winning jackpot tickets sold, sharing in seven jackpot prizes. Currently forty-four states plus the District of Columbia, Puerto Rico and U.S. Virgin Islands now sell Powerball.

Million Dollar Money Ball ("Money Ball") started on September 14, 2014 and ended on August 29, 2015. Money Ball tickets are offered at a two dollar price point. It is a game where players try to match five numbers from a field of thirty-five, with a top prize of $1,000,000 if the "moneyball" is also drawn. Money Ball sales totaled $2.6 million in fiscal year 2016, representing less than one-percent of total product sales.

Fast Play which was renamed Print and Play is an instant-win computer terminal product line that plays like a Scratch game. There were ten games in this category during fiscal year 2016. The Print and Play portfolio of games represents 1.5 percent of total sales, and sales increased $5.0 million from the prior year.

Raffle is a computer terminal game with a limited offering of tickets and prizes. The Lottery had one Raffle during the year, the 10th annual Millionaire Raffle, with a drawing held on January 1, 2016. Raffle sales represent less than one percent of total product sales.

Cash4Life started May 3, 2015. Cash4Life tickets are offered at a two dollar price point. Cash4Life has a top prize of $1,000 a day for life and a second tier prize of $1,000 a week for life. Cash4Life sales totaled $19.0 million in fiscal year 2016, representing less than one-percent of total product sales. During fiscal year 2016 New York, New Jersey, Pennsylvania, Maryland, Tennessee and Virginia sold Cash4Life.

Bank A Million started on August 30, 2015. Bank A Million tickets are offered at a two dollar price point. It is a game where players try to match six numbers from a field of forty, with a top prize of $1,000,000 and the Lottery pays the required tax withholding. Bank A Million sales totaled $14.5 million in fiscal year 2016, representing less than one-percent of total product sales.

Expenses

Prizes are the largest expense for the Virginia Lottery and vary with sales fluctuations and player luck. The fiscal year 2016 prize payout rate (percent of sales paid out in prizes) was 60.2 percent, down from 60.8 percent in fiscal year 2015. The total prize dollars paid to winners increased $91.73 million, a record payout to Lottery players.

A summary of Virginia Lottery expenses for fiscal years ending June 30, 2016 and 2015 is shown in Table 4.

TABLE 4: EXPENSES

	2016	2015	Change
Prize Expense	*$1,208.35 .... 85.1%*	*$1,116.62........... 85.2%*	*$91.73 .... 8.2%*
Retailer Compensation	*112.67 .... 7.9%*	*103.92 .... 7.9%*	*$8.75 .... 8.4%*
Operating Expenses	*68.16 .... 4.8%*	*61.44 .... 4.7%*	*$6.72 .... 10.9%*
Gaming Services	*30.51 .... 2.1%*	*29.31 .... 2.2%*	*$1.20 .... 4.1%*
Total Expenses	*$1,419.69 ....100.0%*	*$1,311.29 ....100.0%*	*$108.40 .... 8.3%*

** $ in millions*

Retailer compensation increased as a result of higher sales. The overall retailer compensation rate was the same as the prior year (5.6 percent of total sales) however; because of the increased sales, the dollar amount earned during fiscal year 2016 established a new record.

Operating expenses increased in fiscal year 2016 with higher employee compensation and benefit costs. The Lottery may spend up to ten percent of sales on operating costs; however, these costs represented only 4.9 percent of sales for the fiscal year.

With higher total sales, gaming services costs increased in fiscal year 2016. These contract arrangements are constructed primarily as percentage of sales agreements, and mainly represent payments to the Lottery's one major contract partner, International Gaming Technology (IGT). Effective starting in fiscal year 2015, the Lottery has product purchase contract arrangements with three vendors to produce scratch tickets, and owns the inventory of scratcher tickets until sold to retailers throughout Virginia. This arrangement continues to phase-in as existing ticket inventory (owned by a printing vendor) is sold through.

TABLE 5: OTHER INCOME

	2016	2015	Change
Interest Income	*$0.68*	*$0.68*	*0.0%*
Net Other Income	*.31*	*.50*	*-38.0%*
Total Other Income	*$0.99*	*$1.18*	*-16.1%*

** $ in millions*

Interest income is earned primarily on cash balances held and invested by the Virginia Department of Treasury on behalf of the Virginia Lottery. As Table 5 shows, interest income was unchanged in 2016. Interest income for 2016 with investment yields were comparable to last year.

Net other income is derived from securities lending income, as well as various fees assessed to retailers for licensing and processing fees, penalties for failure to remit monies owed when due, and other miscellaneous sources. Net other income decreased 38.0 percent in 2016. Securities lending income decreased from fiscal year 2015 due to declining lending activity of our portfolio in fiscal year 2016. The Lottery participates in the Commonwealth of Virginia's securities lending program and follows the investment guidelines promulgated by the Treasury Board.

Net Income

In fiscal year 2016, the Virginia Lottery generated $588.2 million in profits. As shown in Table 6, profits were higher than fiscal year 2015 by $54.4 million (10.2 percent). This was the highest net income in Virginia Lottery history. $534,700,516 of fiscal year 2016 net income was transferred to the Lottery Proceeds Fund during the year, as anticipated by the Appropriations Act. An amount of residual income totaling $53,486,355 will be transferred in fiscal year 2017.

TABLE 6: NET INCOME AND PERCENT OF SALES

	2016	2015	Change
Net Income	*$588.19 .... 29.3%*	*$533.76 .... 29.0%*	*$54.43 .... 10.2%*

** $ in millions*

Statement of Cash Flows

The Statement of Cash Flows, summarized in Table 7, presents detailed information pertaining to the cash activity of the Virginia Lottery during the year. The first part of the statement reflects operating cash flows and shows the net cash provided by operating activities of the Virginia Lottery. Receipts from the sale of tickets and related services totaled $2,016.9 million. Uses of cash include payment of prizes to winners ($1,215.7 million) and payments to retailers, suppliers, and employees for goods and services ($199.3 million). The net cash provided by operating activities of $601.9 million represents a 17.9% increase.

The cash flows from the non-capital financing activities portion of the statement reflects the $538.6 million used for non-capital financing activities, the major portion being the $538.9 million in total transfers from the Virginia Lottery during the year. This amount represents the $534.7 million initial estimate of fiscal year 2016 Virginia Lottery profits for transfer to the Lottery Proceeds Fund prior to July 1, 2016, and the $4.2 million transfer of residual 2015 profits.

Cash flows from capital financing activities reflect the purchase of capital assets acquired during the period ($3.4 million). The $13.0 million cash flows from investing activities reflect purchases of investments to fund win for life prizes due to Virginia Lottery winners ($6.1 million) and payable over time, proceeds from maturing investments previously purchased to fund Virginia Lottery prizes payable ($18.4 million), and investment income on cash balances ($0.68 million). The net increase in cash flows from activities totaled $72.8 million.

TABLE 7: STATEMENT OF CASH FLOWS

	2016	2015	Change
Cash Flows From:			
Operating Activities	*$601.96*	*$510.70*	*17.9%*
Non-Capital Financing Activities	*(538.64)*	*(557.06)*	*-3.3%*
Capital Financing Activities	*(3.43)*	*(2.75)*	*24.7%*
Investing Activities	*12.96*	*23.90*	*-45.8%*
Net Change In Cash	*72.85*	*(25.21)*	*-389.0%*
Ending Cash And Cash Equivalents	*$75.82*	*$2.98*	*2444.3%*

** $ in millions*

Potentially Significant Factors Impacting Next Year

Virginia will continue to actively participate in multi-state gaming consortia on both the national and regional level, to ensure that product offerings sufficiently meet consumer demand for jackpot and appealing grand-prize games. These efforts may include the enhancement of current game offerings and the introduction of additional multi-state offerings.

In addition, Virginia continues to monitor competition from other gaming venues. In addition to competition from lotteries along all of Virginia's borders, there continues to be an expansion of video lottery gaming at racetracks and other venues in West Virginia and Maryland, as well as Pennsylvania, Ohio and New York.

Finally, internet gaming will continue to be closely monitored in the lottery industry. A late 2011 Department of Justice ruling helped clarify the legality of internet gaming. While Virginia has a state statute that restricts internet gaming, several state lotteries – including North Carolina, Georgia, and Kentucky – have implemented internet gaming; many others have defined plans to do so in the near future. A study of internet gaming requested by the Virginia legislature was completed in late 2015, and the topic is expected to continue to be closely monitored and evaluated.

Contacting the Virginia Lottery

This financial report is designed to provide the legislative and executive branches of government, the public, and other interested parties with an overview of the financial results of the Virginia Lottery's activities and to demonstrate the Virginia Lottery's accountability for its revenues. If there are any questions about this report or any Virginia Lottery financial issue, please contact the Director of Finance at the Virginia Lottery, 600 East Main Street, Richmond, Virginia 23219.

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 10, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice-Chairman, Joint Legislative Audit
and Review Commission

Virginia Lottery Board
Virginia Lottery

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the Virginia Lottery as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Virginia Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Relationship to the Commonwealth of Virginia

As discussed in Note 1A, the basic financial statements of the Virginia Lottery are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and the major enterprise fund of the Commonwealth of Virginia that is attributable to the transactions of the Virginia Lottery. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2016, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the Virginia Lottery's 2015 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated September 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, the Schedule of Virginia Lottery's Share of Net Pension Liability on page 35, the Schedule of Virginia Lottery Contributions on page 35, and the Notes to Required Supplementary Information on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2016, on our consideration of the Virginia Lottery'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 in considering the Virginia Lottery's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

AVC/clj

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virginia lottery

2016 Virginia Lottery
FINANCIAL STATEMENTS
(AUDITED)

for fiscal year ended June 30, 2016
with comparative information for 2015

VIRGINIA LOTTERY: STATEMENT OF NET POSITION (audited)

For fiscal year ended June 30, 2016 with comparative information for 2015

Assets & Deferred Outflows of Resources		
Current Assets:		
Cash and Cash Equivalents (2)	$75,828,245	$2,982,948
Cash Held as Collateral: (2)		
Lottery Securities Lending	34,935,903	99,374,586
Treasury Securities Lending	423,173	81,555
Accounts Receivable	63,069,514	72,343,144
Instant Ticket Inventory (4)	4,677,308	2,157,872
Prepaid Expenses	675,550	318,236
Short-term Investments (2)	13,422,322	18,064,184
Total Current Assets	193,032,015	195,322,525
Investments (2)	116,472,826	118,157,832
Capital Assets (3)		
Equipment and Intangible Assets	29,657,039	26,525,568
Less: Accumulated Depreciation/Amortization	(22,649,860)	(20,021,635)
Net Capital Assets	7,007,179	6,503,933
Total Assets	$316,512,020	$319,984,290
Deferred Outflows of Resources (11)	4,454,034	2,756,142
Total Assets & Deferred Outflows of Resources	**$320,966,054**	**$322,740,432**
Liabilities & Deferred Inflows of Resources		
Current Liabilities:		
Accounts Payable	$18,030,357	$12,305,654
Treasury Loan (5)	0	0
Due to the Lottery Proceeds Fund (6)	53,486,355	4,255,031
Accrued Compensated Absences (7)	1,212,365	1,110,992
Obligations Under Securities Lending: (2)		
Lottery	34,935,903	99,374,586
Treasury	423,173	81,555
Prizes Payable: (8)		
Investment Prizes Payable - Current	13,422,322	18,064,184
Other Prizes Payable	74,954,638	64,093,154
Unearned Revenue	2,711,457	1,967,343
Total Current Liabilities	199,176,570	201,252,499
Noncurrent Liabilities:		
Prizes Payable (8)	116,472,826	118,157,832
Net Pension Liability (11)	28,163,000	24,049,000
Accrued Compensated Absences (7)	862,624	920,101
Total Liabilities	**344,675,020**	**344,379,432**
Deferred Inflows of Resources (11)	2,026,000	4,292,000
Total Liabilities & Deferred Inflows of Resources	**$346,701,020**	**$348,671,432**
Net Position:		
Net Investment in Capital Assets	$7,007,179	$6,503,933
Unrestricted	(32,742,145)	(32,434,933)
Total Net Position	**$(25,734,966)**	**$(25,931,000)**

VIRGINIA LOTTERY: STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION *(audited)*

For fiscal year ended June 30, 2016 with comparative information for 2015

	2016	2015
Operating Revenues:		
Ticket Sales	*$2,006,897,950*	*$1,843,876,103*
Less:		
Prize Expense	*1,208,353,352*	*1,116,624,585*
Retailer Compensation	*112,674,453*	*103,917,036*
Instant Ticket & Gaming Services	*30,506,679*	*29,312,814*
Gross Margin	*655,363,466*	*594,021,668*
Operating Expenses:		
Advertising and Promotion	*27,806,958*	*24,168,825*
General and Administrative	*37,428,206*	*34,155,792*
Depreciation	*2,929,374*	*3,116,890*
Total Operating Expenses	*68,164,538*	*61,441,507*
Income from Operations	*587,198,928*	*532,580,161*
Nonoperating Revenues (Expenses)		
Interest Income	*677,771*	*680,540*
Net Other Income	*310,172*	*498,660*
Total Nonoperating Revenues (Expenses)	*987,943*	*1,179,200*
Net Income	*588,186,871*	*533,759,361*
Transfer to the Lottery Proceeds Fund	*(534,700,516)*	*(529,504,330)*
Due from (to) the Lottery Proceeds Fund	*(53,486,355)*	*(4,255,031)*
Change in Pension due to GASB 68 (1J)	*196,034*	*0*
Total Net Position, July 1, 2015	*(25,931,000)*	*(25,931,000)*
Net Position, June 30, 2016	*($25,734,966)*	*($25,931,000)*

VIRGINIA LOTTERY: STATEMENT OF CASH FLOWS *(audited)*

For fiscal year ended June 30, 2016 with comparative information for 2015

	2016	2015
Cash flows from operating activities:		
Cash received from ticket sales	$2,016,915,694	$1,844,359,590
Cash payments for prizes	(1,209,780,697)	(1,137,624,980)
Discounts for retailer compensation	(112,674,453)	(103,917,036)
Cash payments to supplier of instant and online services	(33,026,115)	(31,346,969)
Cash payments to suppliers of other goods and services	(24,126,720)	(21,340,579)
Cash payments to employees for services	(29,452,718)	(27,003,153)
Cash payments to the Literary Fund for unclaimed prizes (10)	(5,898,299)	(12,421,426)
Net cash provided by operating activities	601,956,692	510,695,447
Cash flows from noncapital financing activities:		
Proceeds from other income	310,172	498,660
Repayment of Treasury Loan	0	0
Proceeds from Treasury Loan	0	0
Transfers to the Lottery Proceeds Fund	(538,955,547)	(557,555,450)
Net cash used by noncapital financing activities	(538,645,375)	(557,056,790)
Cash flows from capital financing and related activities:		
Acquisition of capital assets	(3,436,025)	(2,681,000)
Disposal of capital assets	3,405	(66,509)
Principal payments on installment notes	0	0
Interest payment on installment notes	0	0
Net cash used for capital financing activities	(3,432,620)	(2,747,509)
Cash flows from investing activities:		
Purchase of investment securities	(6,128,171)	(577,767)
Sale of investment securities	0	0
Proceeds from maturing securities	18,417,000	23,798,000
Interest proceeds from cash balances	677,771	680,540
Net cash used for investing activities	12,966,600	23,900,773
Net increase in cash and cash equivalents	72,845,297	(25,208,079)
Cash and cash equivalents at July 1	2,982,948	28,191,027
Cash and cash equivalents at June 30	$75,828,245	$2,982,948
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	587,198,928	532,580,161
Adjustments to reconcile operating income to net cash:		
Depreciation	2,929,374	3,116,890
Accreted interest on investment securities	(5,961,961)	(6,748,660)
Changes in assets, liabilities & deferred inflows/outflows:		
Decrease (Increase) in accounts receivable	9,273,630	1,021,097
(Increase) in instant ticket inventory	(2,519,436)	(2,034,155)
(Increase) Decrease in prepaid expenses	(357,314)	(45,728)
Decrease (Increase) in deferred outflows	346,142	(346,142)
Increase (Decrease) in accounts payable	5,724,703	(2,159,717)
Increase (Decrease) in current prizes payable	6,219,622	(3,033,455)
Increase (Decrease) in unearned revenue	744,114	(547,610)
Increase in accrued compensated absences	43,896	111,046
(Decrease) in noncurrent prizes payable	(1,685,006)	(11,218,280)
Net cash provided by operating activities	$601,956,692	$510,695,447

The accompanying notes to financial statements are an integral part of this statement.

Notes to Financial Statements

(as of June 30, 2016)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The State Lottery Department (Virginia Lottery) was established by Chapter 531 of the 1987 Acts of Assembly and operates as an independent agency in accordance with the provisions of Chapter 40 of Title 58.1 of the **Code of Virginia**.

The Virginia Lottery participates in three multi-state games, Mega Millions, Powerball and Cash4Life. Mega Millions member lotteries include California, Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia, Washington and the MUSL Group. Powerball member lotteries include Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia, Washington and the MUSL Group. Cash 4Life member lotteries include Maryland, New Jersey, New York, Pennsylvania and Tennessee. The financial activity included in the financial statements reflects only Virginia's portion of these multi-state games. Separate agreed-upon procedures reports are issued for Cash4Life, Mega Millions, and Powerball.

A separate report is prepared for the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Virginia Lottery is an agency of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

B. Basis of Accounting

The Virginia Lottery's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis revenues are recognized when earned and expenses when incurred. On-line ticket revenue is recognized as corresponding drawings are held. Instant ticket revenue is recognized when tickets are activated for sale by retailers to the public.

C. Deferred Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows or resources have a positive effect on net position similar to assets.

D. Deferred Inflows of Resources

Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position similar to liabilities.

E. Revenue and Expense Classifications

Operating revenues and expenses include activities related to the sale of lottery tickets. Operating expenses include prizes to winners, compensation to retailers, and instant ticket printing costs. Non-operating revenues and expenses include activities that have the characteristics of investing transactions and capital and non-capital financing activities as defined by Governmental Accounting Standards Board (GASB) Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34.

Non-operating revenues include interest income from its cash balances held with the Treasurer of Virginia.

F. Fund Accounting

The activities of the Virginia Lottery are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

G. Cash, Cash Equivalents, and Investments

The Virginia Lottery's cash and cash equivalents are considered to be cash on hand, cash with the Treasurer of Virginia, deposits, and overnight repurchase agreements.

Statutes authorize the Virginia Lottery to invest in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the Virginia Lottery may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated; overnight term or open repurchase agreements; and money market funds comprised of investments, which are otherwise legal investments of the Virginia Lottery.

Investments, both current and long-term, consist of U.S. Treasury STRIPS purchased to fund individual jackpot and "For Life" prizes. Investments are valued at cost plus accrued interest.

The Lottery has not implemented the Governmental Accounting Standards Board (GASB) Statement *72 Fair Value Measurement and Application*; the Lottery's investments are considered not applicable because it is management's intention to hold these securities to maturity to match the future payment obligations to winners.

H. Capital Assets

Equipment and intangible assets are capitalized and depreciated/amortized on a straight-line basis over their useful lives and are valued at historical or amortized cost. The Virginia Lottery capitalizes all equipment and intangible assets that have a cost or value equal to or greater than $5,000 and an expected useful life of more than one year. During fiscal year 2010, the Lottery began capitalizing intangible assets in accordance with Governmental Accounting Standards Board (GASB) Statement 51 *Accounting and Financial Reporting for Intangible Assets*..

I. Significant Contracts

On October 27, 2014 the Virginia Lottery contracted with (IGT) International Game Technology (formerly GTECH Corporation) for the warehousing and distribution of instant tickets. The contract is through October 27, 2017. IGT receives a fee of 0.4375% of net instant game tickets distributed and then activated for sale by retailers.

The Virginia Lottery has contracted with IGT to provide and operate the gaming network that consists of retailer ticket terminals and associated software. The service contract began on June 13, 2006 and was amended on April 22, 2013 and now continues through October 27, 2017. The amended estimated contract value is $147,000,000 for the entire contract period. Under the contract, IGT receives a fee of 0.7699% of total net sales that are processed through the IGT system.

IGT has established a facilities management agreement with the Lottery, through which IGT installs and manages retailer equipment, and manages transaction processing systems to record transactions originating throughout the Commonwealth. IGT also provides various professional services, software development and testing support, backup data processing, and a comprehensive satellite communications network to support gaming systems operations.

The Virginia Lottery competitively executed a new contract to provide and operate the gaming system and network effective beginning October 28, 2017. The contract provides new sales and peripheral equipment at all retailer locations throughout the Commonwealth, as well as the central gaming system and related applications. Primarily a percentage of sales agreement, IGT will receive 0.7840% of total net sales that are processed through the IGT system, 0.4375% of net instant game ticket sales for the warehousing and distribution of scratch tickets, and has a total estimated contract value of $185,000,000 for the 7-year contract period.

J. Pensions

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement 68 *Accounting and Financial Reporting for Pensions*, which requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability, which is the difference between the total pension liability and the assets set aside to pay pension benefits. The Virginia Lottery at June 30, 2015 implemented the new requirement which resulted in negative net position.

The Virginia Lottery made an adjustment of $196,034 to pension expense that did not affect the Lottery's net income but did result in a change of Net Position as of June 30, 2016.

The Virginia Retirement System (VRS) State Employee Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement 82 *Pension Issues* with respect to Statement 68. The definition in GASB 68 for Covered Employee Payroll included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition has been modified in Statement 82 and now is the payroll on which contributions to a pension plan are based. The Virginia Lottery implemented the new requirement at June 30, 2016.

K. Summarized Comparative Data

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Virginia Lottery's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents represent cash with the Treasurer of Virginia, deposits, and overnight repurchase agreements. Cash with the Treasurer of Virginia is held pursuant to Section 2.2-1800, et seq., Code of Virginia. These funds are held in pooled accounts and, accordingly, are not categorized as to credit risk as defined by GASB Statement 40. Cash on deposit is held in demand deposit accounts maintained for prize payments and is covered by federal depository insurance with the balance in excess of this insurance collateralized in accordance with the Virginia Security for Public Deposits Act. Under this Act, banks holding public deposits in excess of the amounts insured by FDIC pledge collateral in the amount of 50 percent of deposits in excess of FDIC insurance coverage to a collateral pool held in the name of the State Treasury Board. For June 30, 2016, the total cash and cash equivalents equaled $75,828,245. This included petty cash on hand of $1,100.

In accordance with the State Treasurer and the Virginia Lottery's investment policy, funds are invested in U.S Treasury obligations for the purpose of payment of deferred prizes to winners. These investments held for future prize payments are available for lending to broker-dealers and other entities (borrowers) for cash collateral that will be returned for the same securities in the future.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the state and Virginia Lottery will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All security loan agreements are collateralized at loan inception at no less than 100 percent of market value by cash or U.S. government obligations and adjusted to market daily, at a minimum, to cover market value fluctuations. Collateral cash is invested in accordance with the investment policies of the State Treasury Board of the Commonwealth of Virginia, and credit rating categories are detailed as part of this footnote. Management assumes reasonable credit risk in these investments, and fluctuations in market conditions may value the invested cash Collateral less than the original investment.

Interest Rate Risk – Interest rate risk is the risk that investment's fair value decreases as market interest rates increase. The investments in prize annuities are subject to fluctuations in fair value due to interest rate risk, but these bonds are held to maturity to satisfy annual installment obligations to the prize winners. The fair value at maturity is the face value of the bonds, regardless of the fluctuations in the value during the time period that the investments are outstanding.

Investments consist of the following:

CREDIT RATING	*(unrated)*
Prize annuities:	
Treasury bonds	*129,895,148*
Total	*$129,895,148*

INVESTMENT SECURITIES	*Less Then 1 Year*	*1-5 Years*	*6-10 Years*	*11-20 Years*	*Over 20 Years*
Prize Annuities:					
Treasury Bonds (1)	*13,422,322*	*45,810,852*	*33,116,277*	*33,778,847*	*3,766,850*
	$13,422,322	*$45,810,852*	*$33,116,277*	*$33,778,847*	*$3,766,850*

(1) Virginia Lottery prize investments are insured or registered, or for which the securities are held by the Virginia Lottery or its safekeeping agent in the Virginia Lottery's name. All investments are made through U.S. government and agency securities that are explicitly guaranteed by the U.S. government.

Securities Lending

Securities Lending – Collateral for securities lending reported on the statement of net position represents cash collateral received by the Lottery that is subsequently reinvested through the State Treasury's securities lending program. The Commonwealth's policy is to record unrealized gains and losses for the State Treasury's securities lending program in the General Fund in the Commonwealth's basic financial statements.

When the Commonwealth realizes gains or losses, or determines that a security is other than temporarily impaired, the State Treasury allocates the actual gains and losses to the affected agencies for recording. Detailed information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. CAPITAL ASSETS

The following schedule presents the changes in capital assets.

	Balance As Of July 1, 2015	Additions	Reductions	Balance As Of June 30, 2016
Equipment & Intangible Assets:	*$26,525,568*	*$3,436,025*	*$(304,554)*	*$29,657,039*
Less: Accumulated Depreciation/Amortization	*20,021,635*	*2,929,374*	*(301,149)*	*22,649,860*
Net Capital Assets	*$6,503,933*	*$506,651*	*$(3,405)*	*$7,007,179*

4. INSTANT TICKET INVENTORY

Inventories are valued at cost, using a weighted average basis, and are expensed over the life of each game as it is activated by retailers.

5. LINE OF CREDIT

The State Comptroller has provided the Virginia Lottery with a line of credit not to exceed $40 million in accordance with Section 3-2.03 of the 2016, Virginia Acts of Assembly – Chapter 732, to fund administrative and operating expenses in the event unreserved cash is insufficient to cover these short-term costs. There were no borrowings as of June 30, 2016.

6. DUE FROM/ (TO) THE LOTTERY PROCEEDS FUND

The amount due from/(to) the Lottery Proceeds Fund represents Virginia Lottery net income payable to the Commonwealth of Virginia's Lottery Proceeds Fund in accordance with 2016 Appropriation Act, Chapter 732 and Section 58.1-4022.1, Code of Virginia. The Lottery Proceeds Fund is a special non-reverting fund established solely for the purpose of public education in the Commonwealth. For the year ended June 30, 2016 the net income was $588,186,871, with a net income transfer through June 30 of $534,700,516 and a balance due to the Lottery Proceeds Fund of $53,486,355.

7. COMPENSATED ABSENCES

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by employees of the Virginia Lottery, but not taken at June 30, 2016 and 2015. Compensated absences were calculated in accordance with GASB Statement 16, *Accounting for Compensated Absences*. The amount reflects all earned leave payable under the Virginia Lottery's leave payout policies. Information on the Commonwealth's leave policy is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

Balance As Of July 1, 2015	Increases	Decreases	Balance As Of June 30, 2016	Due Within One Year
$2,031,093	*$1,379,583*	*$1,335,687*	*$2,074,989*	*$1,212,365*

8. PRIZES PAYABLE

Jackpot prize annuities are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery on the first business day following the winning draw. Jackpot winners also have the option of accepting their winnings in a lump sum cash payout. When a winner selects this option, the securities purchased are sold and the winner receives the cash proceeds. "For Life" prizes payable represents estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance and funded with a pool of U.S. Treasury STRIPS.

Investment prizes payable represents the future annual prize payments valued at cost plus accrued interest (current value) of the investment securities funding the payments.

INVESTMENT PRIZES PAYABLE
Balance as of June 30, 2016

Investment Prizes Payable	Jackpot	Instant For Life	Online For Life	Total
Due within one year	8,339,546	3,750,409	1,332,367	13,422,322
Due in subsequent years	51,599,365	47,869,336	17,004,125	116,472,826
Total (current value)	59,938,911	51,619,745	18,336,492	129,895,148
Add: Interest to maturity	23,199,089	27,660,255	7,603,508	58,462,852
Total at Maturity	$83,138,000	$79,280,000	$25,940,000	$188,358,000

Other prizes payable represents prizes won but not yet claimed, from drawings or other games which may or may not have ended, and where these prizes are redeemable for up to 180 days after the drawing or game end. "For Life" prizes, for which bonds have not yet been purchased, are also reported as other prizes payable.

Prizes payable increases when jackpot winners select annuities and securities are purchased. Prizes payable decreases when securities mature to pay prior jackpot winners.

The following schedule presents the changes in investment prizes payable.

CHANGES/PRIZES PAYABLE

Balance As Of July 1, 2015	Increases	Decreases	Balance As Of June 30, 2016
$136,222,016	$6,128,171	$12,455,039	$129,895,148

9. OPERATING LEASE COMMITMENTS

The Virginia Lottery is committed under various operating lease agreements. The operating leases are for customer service centers. Expenses under operating lease agreements were $1,519,489 for the year ended June 30, 2016. A summary of future obligations under these agreements as of June 30, 2016, follows:

Year Ended June 30, 2016 Obligation	*Operating Lease Principal*
2017	*965,462*
2018	*507,728*
2019	*211,562*
2020	*158,417*
Total	*$1,843,169*

10. LITERARY FUND AND SETOFF DEBT COLLECTION PAYMENTS

Prizes unclaimed after 180 days are paid to the Literary Fund of the Commonwealth. Payments totaled $5,898,299 for the year ended June 30, 2016.

The Virginia Lottery participates in the Setoff Debt Collection Act whereby certain prize payments are withheld to set-off state obligations the prizewinner owes. Payments totaled $2,050,344 for the year ended June 30, 2016. The Literary Fund and state debt setoff payments are reported as prize expense on the financial statements.

11. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

General Information about the Pension Plan — Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

Plan 1	*Plan 2*	*Hybrid Retirement Plan*
About Plan 1	***About Plan 2***	***About the Hybrid Retirement Plan***
Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	*Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.*	*The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")* • *The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.*

(Chart continued on next page)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE (CONTINUED)

Plan 1	Plan 2	Hybrid Retirement Plan
Eligible Members *Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.*	***Eligible Members*** *Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.*	• *The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.* • *In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.*
Hybrid Opt-In Election *VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.* *The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.* *If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.* *Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.*	***Hybrid Opt-In Election*** *Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.* *The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.* *If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.* *Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.*	***Eligible Members*** *Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:* • *State employees** *Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.* ****Non-Eligible Members*** *Some employees are not eligible to participate in the Hybrid Retirement Plan.* *Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.*
Retirement Contributions *State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.*	***Retirement Contributions*** *State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.*	***Retirement Contributions*** *A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally,*

(Chart continued on next page)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE (CONTINUED)

Plan 1	*Plan 2*	*Hybrid Retirement Plan*
Retirement Contributions (Continued) *Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.*	***Retirement Contributions (Continued)***	***Retirement Contributions (Continued)*** *members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.*
Creditable Service *Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.*	***Creditable Service*** *(Same as Plan 1)*	***Creditable Service*** ***Defined Benefit Component:*** *Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.* ***Defined Contributions Component:*** *Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.*
Vesting *Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for*	***Vesting*** *(Same as Plan 1)*	***Vesting*** ***Defined Benefit Component:*** *Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit.* *Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five*

(Chart continued on next page)

Plan 1	Plan 2	Hybrid Retirement Plan
Vesting (Continued) *retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.* *Members are always 100% vested in the contributions that they make.*	***Vesting (Continued)***	***Vesting (Continued)*** *years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.* ***<u>Defined Contributions Component:</u>*** *Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.* *Members are always 100% vested in the contributions that they make.* *Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.* • *After two years, a member is 50% vested and may withdraw 50% of employer contributions.* • *After three years, a member is 75% vested and may withdraw 75% of employer contributions.* • *After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.* *Distribution is not required by law until age 70½.*
Calculating the Benefit *The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one the benefit payout options available to a member at retirement.* *An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.*	***Calculating the Benefit*** *(See definition under Plan 1)*	***Calculating the Benefit*** ***<u>Defined Benefit Component:</u>*** *(See definition under Plan 1)* ***<u>Defined Contributions Component:</u>*** *The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.*

(Chart continued on next page)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE (CONTINUED)

Plan 1	Plan 2	Hybrid Retirement Plan
Average Final Compensation *A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.*	***Average Final Compensation*** *A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.*	***Average Final Compensation*** *Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.*
Service Retirement Multiplier / VRS: *The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.*	***Service Retirement Multiplier / VRS:*** *Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For nonhazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.*	***Service Retirement Multiplier / VRS:*** ***<u>Defined Benefit Component:</u>*** *The retirement multiplier for the defined benefit component is 1.00%.* *For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.* ***<u>Defined Contribution Component:</u>*** *Not applicable.*
Normal Retirement Age / VRS: *Age 65*	***Normal Retirement Age / VRS:*** *Age 65*	***Normal Retirement Age / VRS:*** *(Same as Plan 2)* ***<u>Defined Contribution Component:</u>*** *Members are eligible to receive distributions upon leaving employment, subject to restrictions.*
Earliest Unreduced Retirement Eligibility / VRS: *Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.*	***Earliest Unreduced Retirement Eligibility / VRS:*** *Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.*	***Earliest Unreduced Retirement Eligibility / VRS:*** ***<u>Defined Benefit Component:</u>*** *Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.* ***<u>Defined Contribution Component:</u>*** *Members are eligible to receive distributions upon leaving employment, subject to restrictions.*
Earliest Reduced Retirement Eligibility / VRS: *Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.*	***Earliest Reduced Retirement Eligibility / VRS:*** *Age 60 with at least five years (60 months) of creditable service.*	***Earliest Unreduced Retirement Eligibility / VRS:*** ***<u>Defined Benefit Component:</u>*** *Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.* ***<u>Defined Contribution Component:</u>*** *Members are eligible to receive distributions upon leaving employment, subject to restrictions.*

(Chart continued on next page)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE (CONTINUED)

Plan 1	Plan 2	Hybrid Retirement Plan
Cost-of-Living Adjustment (COLA) in Retirement *The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.*	***Cost-of-Living Adjustment (COLA) in Retirement*** *The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.*	***Cost-of-Living Adjustment (COLA) in Retirement*** ***Defined Benefit Component:*** *(Same as Plan 2)* ***Defined Contribution Component:*** *Not applicable*
COLA Eligibility: *For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.* *For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.*	***COLA Eligibility:*** *(Same as Plan 1)*	***COLA Eligibility:*** *(Same as Plan 1 and Plan 2)*
Exceptions to COLA Effective Dates: *The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:* • *The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.* • *The member retires on disability.* • *The member retires directly from short-term or long term disability under the Virginia Sickness and* • *Disability Program (VSDP).*	***Exceptions to COLA Effective Dates:*** *(Same as Plan 1)*	***Exceptions to COLA Effective Dates:*** *(Same as Plan 1 and Plan 2)*

(Chart continued on next page)

Plan 1	Plan 2	Hybrid Retirement Plan
Cost-of-Living Adjustment (COLA) in Retirement (Continued) • *The member retires directly from short-term or long term disability under the Virginia Sickness and Disability Program (VSDP).* • *The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.* *The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins*	***Cost-of-Living Adjustment (COLA) in Retirement (Continued)***	***Cost-of-Living Adjustment (COLA) in Retirement (Continued)***
Disability Coverage *Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.* *Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.* *VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.*	***Disability Coverage*** *Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.* *Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.* *VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.*	***Disability Coverage*** *State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.* *Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.*

(Chart continued on next page)

Plan 1	Plan 2	Hybrid Retirement Plan
Purchase of Prior Service *Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.*	***Purchase of Prior Service*** *(Same as Plan 1)*	***Purchase of Prior Service*** ***<u>Defined Benefit Component:</u>*** *Same as Plan 1, with the following exceptions:* • *Hybrid Retirement Plan members are ineligible for ported service.* • *The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.* • *Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that on-year period, the rate for most categories of service will change to actuarial cost.* ***<u>Defined Contribution Component:</u>*** *Not applicable*

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2016 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28% for August 2015 and 14.22% for September 2015 through June 2016. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate for the year ended June 30, 2016. Additional funding provided by the General Assembly moved the contribution rate to 90% of the actuarial rate by September 2015 and for the remainder of FY 2016. Contributions from the Virginia Lottery to the VRS State Employee Retirement Plan were $2,525,034 and $1,815,000 for the years ended June 30, 2016 and June 30, 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Virginia Lottery reported a liability of $28,163,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Virginia Lottery's proportion of the Net Pension Liability was based on the Virginia Lottery's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the Virginia Lottery's proportion of the VRS State Employee Retirement Plan was 0.45999% as compared to 0.42957% at June 30, 2014.

For the year ended June 30, 2016, the Virginia Lottery recognized pension expense of $2,537,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the Virginia Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	*203,000*	*0*
Change in assumptions	*0*	*0*
Net difference between projected and actual earnings plan investments		*2,026,000*
Changes in proportion and differences between Employer contributions and proportionate share of contributions	*1,726,000*	*0*
Employer contributions subsequent to the measurement date	*2,525,034*	*0*
Total	*$4,454,034*	*$2,026,000*

$2,525,034 reported as deferred outflows of resources related to pensions resulting from the Virginia Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30	Total
2017	*$(33,000)*
2018	*$(56,000)*
2019	*$(364,000)*
2020	*$356,000*

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	*Salary Increases, Including Inflation*	*Investment Rate Of Return*
2.5%	*3.5% – 5.35%*	*7.0%, net of pension plan investment expense, including inflation**

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.*

Mortality Rates

Pre-Retirement: RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement: RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement: RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- **Update mortality table**
- **Decrease in rates of service retirement**
- **Decrease in rates of withdrawals for less than 10 years of service**
- **Decrease in rates of male disability retirement**
- **Reduce rates of salary increase by 0.25% per year**

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2015, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

State Employee Retirement Plan	
Total Pension Liability	*$22,531,130*
Plan Fiduciary Net Position	*16,398,575*
Employers' Net Pension Liability (Asset)	*$6,122,555*
Plan Fiduciary Net Position as a Percentage of the Total Pension Liablity	*72.81%*

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate Of Return	Weighted Average Long-Term Expected Rate Of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
	Expected Arithmetic Nominal Return*		8.33%

** Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.*

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the Virginia Lottery for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Virginia Lottery's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Virginia Lottery's proportionate share of the VRS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

VIRGINIA LOTTERY'S PROPORTIONATE SHARE OF THE VRS STATE EMPLOYEE RETIREMENT PLAN NET PENSION LIABILITY

1% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
$40,451,000	$28,163,000	$17,859,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at **http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf**, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

12. RISK MANAGEMENT

The Virginia Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Virginia Lottery participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Virginia Lottery pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

13. CONTINGENCIES

The Virginia Lottery is currently not named as a party in any legal proceedings.

Required Supplementary Information

Schedule Of Virginia Lottery's Share Of Net Pension Liability VRS State Employee Retirement Plan For The Year Ended June 30, 2016 and 2015*

	2016	2015
Lottery's Proportion of the Net Pension Liability (Asset)	*0.45999%*	*0.42957%*
Lottery's Proportionate Share of the Net Pension Liability (Asset)	*$28,163,000*	*$24,049,000*
Lottery's Covered-Employee Payroll	*$17,768,288*	*$17,124,458*
Lottery's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	*158.50%*	*140.43%*
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	*72.81%*	*74.28%*

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

** The amounts presented have a measurement date of the previous fiscal year end.*

Schedule Of Virginia Lottery Contributions VRS State Employee Retirement Plan For The Year Ended June 30, 2015 through 2016

	2016	2015
Contractually Required Contribution	*$2,535,629*	*$2,190,830*
Contributions in Relation to Contractually Required Contribution	*$2,525,034*	*$2,161,142*
Contribution Deficiency (Excess)	*$10,595*	*$29,688*
Employer's Covered Employee Payroll	*$18,124,580*	*$17,768,288*
Contributions as a Percent of Covered Employee Payroll	*13.93%*	*12.16%*

Virginia Lottery Notes To Required Supplementary Information For The Year Ended June 30, 2016

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS–State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- **Update mortality table**
- **Decrease in rates of service retirement**
- **Decrease in rates of withdrawals for less than 10 years of service**
- **Decrease in rates of male disability retirement**
- **Reduce rates of salary increase by 0.25% per year.**