



we're game

2017 VIRGINIA LOTTERY
ANNUAL FINANCIAL REPORT
for year ended June 30, 2017



Table of Contents

Management's Discussion and Analysis	3 – 9
Opinion	10-12
Financial Statements:	
Statement of Net Position	14
Statement of Revenues, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16
Notes to Financial Statements	17 – 35
Required Supplementary Information	36 – 37



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 \$1,989.9 million for fiscal year 2017, the second highest total ever for Virginia Lottery sales. Net proceeds totaling \$558.3 million were earned for the Lottery Proceeds Fund, all of which are constitutionally mandated to support local public education. Highlights of the fiscal year include:

- Sales decreased by \$17.0 million (0.85 percent) from last year to \$1,989.9 million.
- Net income was \$558.3 million, a decrease of \$29.9 million.
- Prize expense increased \$6.0 million (0.5 percent) to a record total of \$1,214.3 million.
- With the sales decrease, retailers earned \$719,000 (0.6 percent) less than last year, with compensation paid to retailers totaling \$111.9 million. Retailers earned, on average, 5.6 cents on each dollar sold, the same as last 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 U.S. Treasuries 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

	2017	2016	Change
Assets:			
Current assets	\$113.87	\$193.03	(\$79.16)
U.S. Treasuries	111.16	116.47	(5.31)
Capital (Fixed) Assets, Net of Accumulated Depreciation	13.22	7.01	6.21
Total Assets	\$238.25	\$316.51	(\$78.26)
Deferred outflows of resources:			
	\$5.78	\$4.45	\$1.33
Liabilities:			
Current Liabilities	126.46	199.17	(\$72.71)
Long-term Liabilities	142.43	145.50	(3.07)
Total Liabilities	\$268.89	\$344.67	(\$75.78)
Deferred inflows of resources:			
	\$0.83	\$2.03	(\$1.20)
Net position:			
Net Investment in Capital Assets	13.22	7.01	6.21
Unrestricted	(38.90)	(32.74)	(6.16)
Total Net Position	(\$25.69)	(\$25.74)	\$0.05

* \$ in millions

Current assets and liabilities decreased \$79.16 million and \$72.71 million respectively due to the change in cash balances on hand and cash held as collateral for Securities Lending. Fiscal year-end 2017 cash was lower due to a smaller residual turnover amount due to the Lottery Proceeds fund that carried into fiscal year 2018 and cash held as Collateral for Securities Lending decreased due to the suspension of securities lending activities. Lottery U.S. Treasuries decreased \$5.31 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 U.S. Treasuries for future prize payments.

Long-term liabilities decreased \$3.07 million in fiscal year 2017, primarily the result of a \$5.31 million decrease in the Lottery's U.S Treasuries liability needed to fund prizes for prior annuity winners.

Deferred inflows of resources decreased \$1.20 million due to the expected decrease in investment earnings set aside for future pension liabilities.

The increase in fixed assets reflects the increase in purchases of new capital assets in fiscal year 2017 compared to 2016, primarily consisting of equipment to sell products in licensed retailer locations across Virginia.

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

	2017	2016	Change
<i>Sales</i>	\$1,989.87	\$2,006.89	(\$17.02)
<i>Prizes</i>	(1,214.30)	(1,208.35)	(5.95)
<i>Retailer compensation</i>	(111.96)	(112.67)	0.71
<i>Ticket printing and gaming services</i>	(31.31)	(30.51)	(0.80)
<i>Operating expenses</i>	(75.03)	(68.16)	(6.87)
<i>Income from operations</i>	557.27	587.20	(29.93)
<i>Non-operating revenue and expenses</i>	1.04	0.99	0.05
<i>Net income</i>	\$558.31	\$588.19	(29.88)
<i>Beginning Net Position</i>	(25.73)	(25.93)	0.20
<i>Change in Pension Liability</i>	0.05	0.20	(0.15)
<i>Ending Net Position</i>	(\$25.69)	(\$25.73)	\$0.05

* \$ 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 reveal whether they have won and include \$1, \$2, \$3, \$5, \$10, \$20, and \$30 product offerings. 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 subsequent drawing. Computer terminal games include Pick 3, Pick 4, Cash 5, Mega Millions, Powerball, Print 'n Play, Cash4Life, Bank a Million, and Raffle.

Table 3 compares sales for each lottery product for fiscal years 2017 and 2016. Total sales revenue for fiscal year 2017 was lower than last year. Scratch, Pick 3, Pick 4, and Print and Play set individual sales records for those products.

Scratch Game sales (56.2 percent of total sales) were higher than fiscal year 2016. Growth in scratch game sales increased due to the continued offering of a variety of games designed to meet player preferences. In fiscal year 2017 the Lottery introduced its first \$30 ticket, 100 Times the Money, with a top prize of \$10 million dollars.

Daily Game total sales (Pick 3, Pick 4, and Cash 5) represented 30.1 percent of total product sales for the fiscal year, an increase of \$16.8 million from the prior year.

Mega Millions (4.2 percent of total sales) experienced lower sales, down \$3.1 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

TABLE 3: SALES

	2017	2016	Change
Scratch Sales	\$1,117.71	\$1,100.57	1.56%
Computer terminal sales:			
Pick 3	\$276.56	\$272.75	1.40%
Pick 4	291.85	279.84	4.29%
Cash 5	31.43	30.42	3.32%
Print 'n Play	39.89	29.24	36.42%
Raffle	6.60	6.60	0.00%
Money Ball	0.00	2.62	-100.00%
Bank A Million	13.46	14.52	-7.30%
Cash4Life	15.31	19.04	-19.59%
Powerball	112.71	163.89	-31.23%
Mega Millions	84.35	87.40	-3.49%
Total Computer Terminal Sales	\$872.16	\$906.32	-3.77%
Total Sales	\$1,989.87	\$2,006.89	-0.85%
* \$ in millions			

exceed \$500 million. During fiscal year 2017, there were ten winning jackpot tickets sold, sharing in nine jackpot prizes. Currently forty-four states, plus the District of Columbia and the U.S. Virgin Islands now sell Mega Millions.

Powerball (5.7 percent of total sales) also experienced lower sales, down \$51.2 million from last year's historic total bolstered by the record \$1.6 billion jackpot run in 2016. This product is similar to Mega Millions, a lotto type game with long odds of winning the jackpot. During fiscal year 2017, there were eight winning jackpot tickets sold, sharing in eight jackpot prizes. Currently forty-four states plus the District of Columbia, Puerto Rico and the U.S. Virgin Islands now sell Powerball.

Print 'n 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 2017. The Print and Play portfolio of games represents 2.0 percent of total sales, and sales increased \$10.6 million from the prior year.

Raffle is a computer terminal game with a limited offering of tickets and prizes. The Lottery offered one Raffle during the year, the 11th annual New Year's Millionaire Raffle, with a drawing held on January 1, 2017. Raffle sales represent less than one percent of total product sales.

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 prize of \$1,000 a week for life. Cash4Life sales totaled \$15.3 million in fiscal year 2017, representing less than one-percent of total product sales. During fiscal year 2017 New York, New Jersey, Pennsylvania, Maryland, Tennessee, Indiana, Florida, Georgia and Virginia sold Cash4Life.

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 withholdings. Bank A Million sales totaled \$13.4 million in fiscal year 2017, 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 2017 prize payout rate (percent of sales paid out in prizes) was 61.0 percent, up from 60.2 percent in fiscal year 2016. The total prize dollars paid to winners increased \$5.95 million, a record total won by Lottery players.

A summary of Virginia Lottery expenses for fiscal years ending June 30, 2017 and 2016 is shown in Table 4.

TABLE 4: EXPENSES

	2017	2016	Change
<i>Prize expense</i>	\$1,214.30 84.8%	\$1,208.35 85.1%	\$5.95 0.5%
<i>Retailer compensation</i>	111.96 7.8%	112.67 7.9%	(0.71) -0.6%
<i>Operating expenses</i>	75.03 5.2%	68.16 4.8%	6.87 10.1%
<i>Gaming Services</i>	31.31 2.2%	30.51 2.1%	0.80 2.6%
<i>Total</i>	\$1,432.60 100%	\$1,419.69 100%	\$12.91 0.9%
* \$ in millions			

Retailer compensation decreased slightly as a result of lower sales. The overall retailer compensation rate was the same as the prior year (5.6 percent of total sales).

Operating expenses increased in fiscal year 2017 with higher employee compensation and benefit costs, and expenses to relocate the Lottery's headquarters facility during the year. The Lottery may spend up to ten percent of sales on operating costs; however, these costs represented only 5.3 percent of sales for the fiscal year.

Gaming services costs increased slightly in fiscal year 2017. 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 Technologies (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.

Other Income

TABLE 5: OTHER INCOME

	2017	2016	Change
<i>Interest income</i>	\$ 0.94	\$0.68	38.2%
<i>Net other income</i>	0.10	0.31	-67.7%
<i>Total</i>	\$1.04	\$0.99	5.1%
* \$ 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 increased in 2017 due to higher earnings rates.

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 67.7 percent in 2017. Securities lending income decreased from fiscal year 2016 due the suspension of lending activity of our portfolio in fiscal year 2017.

Net Income, and Transfers to the Lottery Proceeds Fund

In fiscal year 2017, the Virginia Lottery generated \$558.3 million in profits. As shown in Table 6, profits were lower than fiscal year 2016 by \$29.9 million (5.1 percent). This was the second highest net income in Virginia Lottery history. \$546,495,789 of fiscal year 2017 net income was transferred to the Lottery Proceeds Fund during the year, as anticipated by the Appropriations Act. An amount of residual income totaling \$11,819,169 will be transferred in fiscal year 2018.

TABLE 6: NET INCOME AND PERCENT OF SALES

	2017	2016	Change
Net Income	\$558.31 28.1%	\$588.19 29.3%	(\$29.88) -5.1%

* \$ in millions

Total Net Position

All Lottery profits are transferred to the Lottery Proceeds Fund. The negative Net Position of the Lottery at year end reflects Lottery's portion of net pension liability for the Virginia Retirement System. The implementation of GASB Statement 68 *Accounting and Financial Reporting for Pensions* for the year ending June 30, 2015, results in the Lottery's negative ending net position.

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 \$1,982.6 million. Uses of cash include payment of prizes to winners (\$1,240.5 million) and payments to retailers, suppliers, and employees for goods and services (\$197.3 million). The net cash provided by operating activities of \$544.8 million represents a 9.5% decrease.

The cash flows from the non-capital financing activities portion of the statement reflects the \$599.9 million used for non-capital financing activities, the major portion being the \$600.0 million in total transfers from the Virginia Lottery during the year. This amount represents the \$546.5 million initial estimate of fiscal year 2017 Virginia Lottery profits for transfer to the Lottery Proceeds Fund prior to July 1, 2017, and the \$53.5 million transfer of residual 2016 profits.

TABLE 7: STATEMENT OF CASH FLOWS

	2017	2016	Change
Cash flows from:			
Operating activities	\$544.75	\$601.96	-9.5 %
Non-capital financing activities	(599.88)	(538.64)	11.4 %
Capital financing activities	(8.82)	(3.43)	157.1 %
Investing activities	14.41	12.96	11.2 %
Net change in cash	(49.54)	72.85	-168.0%
Ending cash and cash equivalents	\$ 26.29	\$ 75.82	-65.3%

* \$ in millions

Cash flows from capital financing activities reflect the purchase of capital assets acquired during the period (\$8.9 million). The \$14.4 million cash flows from investing activities reflect purchases of U.S. Treasuries to fund win for life prizes due to Virginia Lottery winners (\$182,700) and payable over time, proceeds from maturing U.S. Treasuries previously purchased to fund Virginia Lottery U.S. Treasuries prizes payable (\$13.6 million), and interest income on cash balances (\$0.94 million). The net decrease in cash flows from activities totaled (\$49.5 million).

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 will include an enhancement of the Mega Millions game in late October 2017, and may also include the introduction or enhancement 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 to prepaid subscriptions for subsequent prize drawings, 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. The Virginia Lottery will continue to offer products and services within its statutory authority, while continuing to address the digital expectations of Lottery players.

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

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 22, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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, 2017, 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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated October 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 36, the Schedule of Virginia Lottery Contributions on page 36, and the Notes to Required Supplementary Information on page 37 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 September 22, 2017, 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.



AUDITOR OF PUBLIC ACCOUNTS

AVC/alh



we're game

**2017 VIRGINIA LOTTERY
ANNUAL FINANCIAL STATEMENTS
(AUDITED)**

*for fiscal year ended June 30, 2017
with comparative information for 2016*

VIRGINIA LOTTERY: STATEMENT OF NET POSITION (audited)

For fiscal year ended June 30, 2017 with comparative information for 2016

Assets & Deferred Outflows of Resources	2017	2016
<i>Current Assets:</i>		
Cash and Cash Equivalents (2)	\$26,290,192	\$75,828,245
Cash Held as Collateral: (2)		
Lottery Securities Lending	0	34,935,903
Treasury Securities Lending	0	423,173
Accounts Receivable	69,395,908	63,069,514
Instant Ticket Inventory (4)	6,664,322	4,677,308
Prepaid Expenses	678,025	675,550
Short-term U.S. Treasuries (2)	10,846,977	13,422,322
Total Current Assets	113,875,424	193,032,015
U.S. Treasuries (2)	111,162,242	116,472,826
<i>Capital Assets (3)</i>		
Equipment and Intangible Assets	32,740,317	29,657,039
Less: Accumulated Depreciation/Amortization	(19,522,520)	(22,649,860)
Net Capital Assets	13,217,797	7,007,179
Total Assets	\$238,255,463	\$316,512,020
Deferred Outflows of Resources (11)	5,785,045	4,454,034
Total Assets & Deferred Outflows of Resources	\$244,040,508	\$320,966,054

Liabilities & Deferred Inflows of Resources	2017	2016
<i>Current Liabilities:</i>		
Accounts Payable	\$26,072,706	\$18,030,357
Treasury Loan (5)	0	0
Due to the Lottery Proceeds Fund (6)	11,819,169	53,486,355
Accrued Compensated Absences (7)	1,477,767	1,212,365
Obligations Under Securities Lending: (2)		
Lottery	0	34,935,903
Treasury	0	423,173
Prizes Payable: (8)		
U.S. Treasuries Prizes Payable - Current	10,846,977	13,422,322
Other Prizes Payable	74,482,342	74,954,638
Unearned Revenue	1,760,016	2,711,457
Total Current Liabilities	126,458,977	199,176,570
<i>Noncurrent Liabilities:</i>		
U.S. Treasuries Prizes Payable (8)	111,162,233	116,472,826
Net Pension Liability (11)	30,637,000	28,163,000
Accrued Compensated Absences (7)	634,253	862,624
Total Liabilities	268,892,463	344,675,020
Deferred Inflows of Resources (11)	834,000	2,026,000
Total Liabilities & Deferred Inflows of Resources	\$269,726,463	\$346,701,020
Net Position:		
Net Investment in Capital Assets	\$13,217,797	\$7,007,179
Unrestricted	(38,903,752)	(32,742,145)
Total Net Position	(\$25,685,955)	(\$25,734,966)

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

For fiscal year ended June 30, 2017 with comparative information for 2016

	2017	2016
<i>Operating Revenues:</i>		
<i>Ticket Sales</i>	\$1,989,872,193	\$2,006,897,950
<i>Less:</i>		
<i>Prize Expense</i>	1,214,303,447	1,208,353,352
<i>Retailer Compensation</i>	111,955,474	112,674,453
<i>Instant Ticket & Gaming Services</i>	31,311,036	30,506,679
<i>Gross Margin</i>	632,302,236	655,363,466
<i>Operating Expenses:</i>		
<i>Advertising and Promotion</i>	25,960,177	27,806,958
<i>General and Administrative</i>	46,461,419	37,428,206
<i>Depreciation</i>	2,609,639	2,929,374
<i>Total Operating Expenses</i>	75,031,235	68,164,538
<i>Income from Operations</i>	557,271,001	587,198,928
<i>Nonoperating Revenues (Expenses)</i>		
<i>Interest Income</i>	944,245	677,771
<i>Net Other Income</i>	99,712	310,172
<i>Total Nonoperating Revenues (Expenses)</i>	1,043,957	987,943
<i>Net Income</i>	558,314,958	588,186,871
<i>Transfer to the Lottery Proceeds Fund</i>	(546,495,789)	(534,700,516)
<i>Due from (to) the Lottery Proceeds Fund</i>	(11,819,169)	(53,486,355)
<i>Change in Pension due to GASB 68 (1J)</i>	49,011	196,034
<i>Total Net Position, July 1, 2016</i>	(25,734,966)	(25,931,000)
<i>Net Position, June 30, 2017</i>	(\$25,685,955)	(\$25,734,966)

VIRGINIA LOTTERY: STATEMENT OF CASH FLOWS (audited)

For fiscal year ended June 30, 2017 with comparative information for 2016

	2017	2016
<i>Cash flows from operating activities:</i>		
Cash received from ticket sales	\$1,982,594,358	\$2,016,915,694
Cash payments for prizes	(1,228,244,034)	(1,209,780,697)
Discounts for retailer compensation	(111,955,474)	(112,674,453)
Cash payments to supplier of instant and online services	(33,298,050)	(33,026,115)
Cash payments to suppliers of other goods and services	(21,876,140)	(24,126,720)
Cash payments to employees for services	(30,170,054)	(29,452,718)
Cash payments to the Literary Fund for unclaimed prizes (10)	(12,298,497)	(5,898,299)
Net cash provided by operating activities	544,752,109	601,956,692
<i>Cash flows from noncapital financing activities:</i>		
Proceeds from other income	99,712	310,172
Repayment of Treasury Loan	0	0
Proceeds from Treasury Loan	0	0
Transfers to the Lottery Proceeds Fund	(599,982,144)	(538,955,547)
Net cash used by noncapital financing activities	(599,882,432)	(538,645,375)
<i>Cash flows from capital financing and related activities:</i>		
Acquisition of capital assets	(10,556,676)	(3,436,025)
Disposal of capital assets	1,736,419	3,405
Principal payments on installment notes	0	0
Interest payment on installment notes	0	0
Net cash used for capital financing activities	(8,820,257)	(3,432,620)
<i>Cash flows from investing activities:</i>		
Purchase of U.S. Treasuries	(182,718)	(6,128,171)
Sale of U.S. Treasuries	0	0
Proceeds from maturing U.S. Treasuries	13,651,000	18,417,000
Interest proceeds from cash balances	944,245	677,771
Net cash used for U.S. Treasuries and investing activities	14,412,527	12,966,600
Net increase in cash and cash equivalents	(49,538,053)	72,845,297
Cash and cash equivalents at July 1	75,828,245	2,982,948
Cash and cash equivalents at June 30	\$26,290,192	\$75,828,245
<i>Reconciliation of operating income to net cash provided by operating activities:</i>		
Income from operations	557,271,001	587,198,928
Adjustments to reconcile operating income to net cash:		
Depreciation	2,609,639	2,929,374
Accreted interest on U.S. Treasuries	(5,582,353)	(5,961,961)
Changes in assets, liabilities & deferred inflows/outflows:		
(Increase)Decrease in accounts receivable	(6,326,394)	9,273,630
(Increase) in instant ticket inventory	(1,987,014)	(2,519,436)
(Increase) in prepaid expenses	(2,475)	(357,314)
Decrease in deferred outflows	0	346,142
Increase in accounts payable	8,042,349	5,724,703
(Decrease)Increase in current prizes payable	(3,047,641)	6,219,622
(Decrease)Increase in unearned revenue	(951,441)	744,114
Increase in accrued compensated absences	37,031	43,896
(Decrease) in noncurrent prizes payable	(5,310,593)	(1,685,006)
Net cash provided by operating activities	\$544,752,109	\$601,956,692

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



Notes to Financial Statements

(as of June 30, 2017)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Lottery (formerly State Lottery Department) 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 and Powerball member lotteries include California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia, Washington and the Multi-State Lottery (MUSL) Group. Cash4Life member lotteries include Florida, Georgia, Indiana, Maryland, New Jersey, New York, Pennsylvania, Tennessee and Virginia. 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, which includes sales of tickets generated through Lottery terminals and subscription purchases, is recognized as corresponding drawings are held. Instant ticket revenue, which includes sales of instant-win preprinted tickets, is recognized when tickets are activated for sale to the public by retailers.

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 of 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 U.S. Treasuries

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

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 U.S. Treasuries, which are otherwise legal U.S. Treasuries of the Virginia Lottery.

U.S. Treasuries, both current and long-term, consist of U.S. Treasury STRIPS purchased to fund individual jackpot and "For Life" prizes. U.S. Treasuries are valued at cost plus accrued interest, not at fair market value, as it is management's intention to hold these U.S. Treasuries 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 estimated useful lives and are valued at historical or amortized cost. The Virginia Lottery capitalizes all equipment, property 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.

I. Significant Contracts

The Virginia Lottery on October 27, 2014 has 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 the face value 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 \$49,011 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, 2017.

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, 2016, from which the summarized information was derived.

2. CASH AND CASH EQUIVALENTS AND U.S. TREASURIES

Cash and cash equivalents represent cash with the Treasurer of Virginia, and deposits. 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, 2017, the total cash and cash equivalents equaled \$26,290,192. This included petty cash on hand of \$1,067.

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. The U.S. Treasuries 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 the U.S. Treasuries, 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 U.S. Treasuries 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 U.S. Treasuries are outstanding.

U.S. Treasuries consist of the following:

CREDIT RATING

(unrated)

Prize annuities:	
Treasury bonds	122,009,219
Total	\$122,009,219

U.S. TREASURIES

	Less than 1 year	1-5 years	6-10 years	11-20 years	Over 20 years
Prize annuities:					
Treasury bonds(1)	10,846,977	44,993,350	31,801,653	31,853,983	2,513,256
	\$10,846,977	\$44,993,350	\$31,801,653	\$31,853,983	\$2,513,256

(1) Virginia Lottery prize annuities of U.S. Treasuries 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 annuities of U.S. Treasuries are made through the 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.

In conjunction with the State Treasury, the Lottery suspended participation in the Securities Lending program during the 2017 fiscal year. Participation may resume in the future depending upon future market conditions.

3. CAPITAL ASSETS

The following schedule presents the changes in capital assets.

	<i>Balance as of July 1, 2016</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance as of June 30, 2017</i>
<i>Equipment & Intangible Assets:</i>	<i>\$29,657,039</i>	<i>\$10,556,676</i>	<i>(\$7,473,398)</i>	<i>\$32,740,317</i>
<i>Less: Accumulated Depreciation/Amortization</i>	<i>22,649,860</i>	<i>2,609,639</i>	<i>(5,736,979)</i>	<i>19,522,520</i>
<i>Net Capital Assets</i>	<i>\$7,007,179</i>	<i>\$7,947,037</i>	<i>(\$1,736,419)</i>	<i>\$13,217,797</i>

4. INSTANT TICKET INVENTORY

Inventories are valued at cost, using a weighted average basis, and are expensed over the life of each game as instant-win scratch tickets are activated for sale 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 2017, Virginia Acts of Assembly – Chapter 836, to fund administrative and operating expenses in the event unreserved cash is insufficient to cover these short-term costs. There were no borrowings during the year ended June 30, 2017.

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 2017 Appropriation Act, Chapter 836 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, 2017 the net income was \$558,314,958, with a net income transfer through June 30 of \$546,495,789 and a balance due to the Lottery Proceeds Fund of \$11,819,169.

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, 2017 and 2016. 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.

<i>Balance As Of July 1, 2016</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance As Of June 30, 2017</i>	<i>Due Within One Year</i>
\$2,074,989	\$1,424,535	\$1,387,504	\$2,112,020	\$1,477,767

8. PRIZES PAYABLE

Jackpot prize annuities are paid in 20, 25, 26, or 30 installments. The first installment is paid on or about the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery following a winner's irrevocable election of an annuity option. Jackpot winners also have the option of accepting their winnings in a lump sum cash payout. "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.

U.S. Treasuries prizes payable represents the future annual prize payments valued at cost plus accrued interest (current value of securities held to maturity) of the investment securities funding the payments.

INVESTMENT PRIZES PAYABLE

Balance as of June 30, 2017

<i>Investment Prizes Payable</i>	<i>Jackpot</i>	<i>Instant For Life</i>	<i>Online For Life</i>	<i>Total</i>
<i>Due within one year</i>	5,900,675	3,615,141	1,331,161	10,846,977
<i>Due in subsequent years</i>	48,427,056	46,454,426	16,280,751	111,162,233
<i>Total (current value)</i>	54,327,731	50,069,567	17,611,912	122,009,210
<i>Add: Interest to maturity</i>	20,378,269	25,571,433	6,976,088	52,925,790
<i>Total at Maturity</i>	\$74,706,000	\$75,641,000	\$24,588,000	\$174,935,000

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 U.S. Treasuries prizes payable.

<i>Balance As Of July 1, 2016</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance As Of June 30, 2017</i>
\$129,895,148	\$182,718	\$8,068,656	\$122,009,210

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 \$592,655 for the year ended June 30, 2017. A summary of future obligations under these agreements as of June 30, 2017, follows:

<i>Year Ended June 30, 2017 Obligation</i>	<i>Operating Lease Principal</i>
2018	559,712
2019	292,329
2020	241,795
2021	244,088
Total	\$1,337,924

10. LITERARY FUND AND SETOFF DEBT COLLECTION PAYMENTS

Prizes unclaimed after 180 days are paid to the Literary Fund of the Commonwealth. Payments totaled \$12,298,497 for the year ended June 30, 2017.

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 \$2,152,503 for the year ended June 30, 2017. 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

<i>Plan 1</i>	<i>Plan 2</i>	<i>Hybrid Retirement Plan</i>
About Plan 1 <i>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.</i>	About Plan 2 <i>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.</i>	About the Hybrid Retirement Plan <i>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")</i> <i>The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</i>

(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.

(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) Additionally, 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 <u>Defined Benefit Component:</u> 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. <u>Defined Contributions Component:</u> 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 <u>Defined Benefit Component:</u> 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)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE (CONTINUED)

Plan 1

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.

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.

Plan 2

Vesting (Continued)

Calculating the Benefit (See definition under Plan 1)

Hybrid Retirement Plan

Vesting (Continued)

years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

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

Defined Benefit Component:
(See definition under Plan 1)

Defined Contributions Component:

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.

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: Defined Benefit Component: 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. Defined Contribution Component: Not applicable.
Normal Retirement Age / VRS: Age 65	Normal Retirement Age / VRS: Age 65	Normal Retirement Age / VRS: (Same as Plan 2) Defined Contribution Component: 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: Defined Benefit Component: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Defined Contribution Component: 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: Defined Benefit Component: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Defined Contribution Component: 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%. <u>COLA Eligibility:</u> 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. <u>Exceptions to COLA Effective Dates:</u> 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).	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%. <u>COLA Eligibility:</u> (Same as Plan 1) <u>Exceptions to COLA Effective Dates:</u> (Same as Plan 1)	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> (Same as Plan 2) <u>Defined Contribution Component:</u> Not applicable <u>COLA Eligibility:</u> (Same as Plan 1 and Plan 2) <u>Exceptions to COLA Effective Dates:</u> (Same as Plan 1 and Plan 2)

(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 (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)

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE (CONTINUED)

Plan 1	Plan 2	Hybrid Retirement Plan
Purchase of Prior Service <i>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.</i>	Purchase of Prior Service <i>(Same as Plan 1)</i>	Purchase of Prior Service <u>Defined Benefit Component:</u> <i>Same as Plan 1, with the following exceptions:</i> • 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> <i>Not applicable</i>

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, 2017 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of \$162,406,273 as an accelerated payback of the deferred contribution in the 2010-2012 biennium. 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. Contributions from the Virginia Lottery to the VRS State Employee Retirement Plan were \$2,431,045 and \$2,525,034 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the Virginia Lottery reported a liability of \$30,637,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 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, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the Virginia Lottery's proportion of the VRS State Employee Retirement Plan was 0.46485% as compared to 0.45999% at June 30, 2015.

For the year ended June 30, 2017, the Virginia Lottery recognized pension expense of \$2,431,045 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, 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, 2017, 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	\$131,000	\$ 0
Change in assumptions	1,953,000	0
Net difference between projected and actual earnings plan investments		834,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,270,000	0
Employer contributions subsequent to the measurement date	2,431,045	0
Total	\$5,785,045	\$834,000

\$2,431,045 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, 2018. 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
2018	\$513,000
2019	\$205,000
2020	\$1,002,000
2021	\$800,000
2022	\$ -

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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, 2015 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	\$22,958,593
Plan Fiduciary Net Position	16,367,842
Employers' Net Pension Liability (Asset)	\$6,590,751
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.29%

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
<i>U.S. Equity</i>	19.50%	6.46%	1.26%
<i>Developed Non U.S Equity</i>	16.50%	6.28%	1.04%
<i>Emerging Market Equity</i>	6.00%	10.00%	0.60%
<i>Fixed Income</i>	15.00%	0.09%	0.01%
<i>Emerging Debt</i>	3.00%	3.51%	0.11%
<i>Rate Sensitive Credit</i>	4.50%	3.51%	0.16%
<i>Non Rate Sensitive Credit</i>	4.50%	5.00%	0.23%
<i>Convertibles</i>	3.00%	4.81%	0.14%
<i>Public Real Estate</i>	2.25%	6.12%	0.14%
<i>Private Real Estate</i>	12.75%	7.10%	0.91%
<i>Private Equity</i>	12.00%	10.41%	1.25%
<i>Cash</i>	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		<i>Inflation</i>	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% Increase (8.00%)
\$43,116,000	\$30,637,000	\$20,160,000

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 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-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.

14. OTHER POSTEMPLOYMENT BENEFITS

The Virginia Lottery participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program.

The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, who die or become disabled as a result of the performance of their duties as a public safety officer. The Virginia Lottery is required to contribute to the costs of participating in these programs.

The Virginia Lottery also participates in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resources Management. The plan provides the option for retirees who are not yet eligible to participate in Medicare to participate in the Commonwealth's healthcare plan for its active employees. The Virginia Lottery does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the Virginia Lottery effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of premiums for active employees.

Additional information related to all of these plans is available at the state-wide level in the Commonwealth's Comprehensive Annual Financial Report.



Required Supplementary Information

Schedule Of Virginia Lottery's Share Of Net Pension Liability VRS State Employee Retirement Plan For The Year Ended June 30, 2017, 2016 and 2015*

	2017	2016	2015
<i>Lottery's Proportion of the Net Pension Liability (Asset)</i>	0.46485%	0.45999%	0.42957%
<i>Lottery's Proportionate Share of the Net Pension Liability (Asset)</i>	\$30,637,000	\$28,163,000	\$24,049,000
<i>Lottery's Covered Payroll</i>	\$18,124,580	\$17,768,288	\$17,124,458
<i>Lottery's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</i>	169.04%	158.50%	140.43%
<i>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</i>	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two 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 2017

	2017	2016	2015
<i>Contractually Required Contribution</i>	\$2,453,084	\$2,535,629	\$2,190,830
<i>Contributions in Relation to Contractually Required Contribution</i>	\$2,431,045	\$2,525,034	\$2,161,142
<i>Contribution Deficiency (Excess)</i>	\$22,039	\$10,595	\$29,688
<i>Lottery's Covered Payroll</i>	\$18,184,464	\$18,124,580	\$17,768,288
<i>Contributions as a Percent of Covered Payroll</i>	13.37%	13.93%	12.16%

Virginia Lottery Notes To Required Supplementary Information For The Year Ended June 30, 2017

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, 2016 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.