



West Virginia Lottery

a component unit of the State of West Virginia



Celebrating West Virginia's people and places . . .

Comprehensive Annual Financial Report

for the fiscal years ended June 30, 2015 and 2014



A PDF download of this Comprehensive Annual Financial Report is available at wvlottery.com. Go to the News and Info tab and to Financial Reports.

Thank You John Musgrave



John C. Musgrave
Retired Director

John Musgrave, who served as Director of the West Virginia Lottery for more than 19 years, retired in October of 2015.

During his tenure at the Lottery, Musgrave had consecutive appointments by four different Governors, including his first appointment in April 1997 by Gov. Cecil Underwood, followed by Gov. Bob Wise, former West Virginia Governor and U.S. Senator Joe Manchin, and an appointment under Gov. Earl Ray Tomblin. Musgrave also served as Acting Cabinet Secretary of Revenue from 2003 to 2006, and again from 2010 to 2011. He was also appointed as Deputy Secretary of Revenue in 2013, where he served with oversight of the Alcohol Beverage Control Administration (ABCA), Athletic Commission, Racing Commission and the Lottery.

From fiscal year 1997 to 2015, Musgrave led the Lottery in generating more than \$20.6 billion in sales and more than \$8.2 billion in proceeds to the state to support Seniors, Education and Tourism. “West Virginia is one of the most beautiful states in the United States, and knowing that my position directly helped to preserve and enhance the cornerstones of West Virginia has been one of my greatest personal accomplishments and something that has given me unmatched satisfaction during my career,” Musgrave said.

Musgrave’s passion for being on the cutting edge of gaming across the U.S. positioned West Virginia as a leader in the Lottery industry, with West Virginia being one of the first Lotteries in the U.S. to implement and regulate casino operations in addition to its traditional gaming. Musgrave led the Lottery through historic changes in 1994 with the addition of Video Lottery, the addition of Limited Video Lottery in 2001, and Table Games in 2008. The successful implementation of these programs collectively allowed the Lottery to reach sales totaling more than a billion dollars for the first time in 2003, a benchmark that the West Virginia Lottery was able to meet and exceed every year thereafter under his leadership.



West Virginia Lottery Commission



Left to Right: Douglas Bicksler, CPA, David McCormick, Jr, Roy Shrewsbury, II, Michael Adams, Esq., William Clayton, Vice Chairman and Kenneth Greear, Chairman

The Commission was created in 1985 to assist and advise the Director of the Lottery and to carry on a continuous study of West Virginia Lottery operations throughout the state. Members are appointed by the Governor with the approval of the Senate. In accordance with state law, the Lottery Commission is required to have seven members comprised of a lawyer, a certified public accountant, a computer expert, a marketing specialist, and one member with not less than five years experience in law enforcement. An additional two members represent the “public at large.” No more than four members may be from the same political party. Unless filling an unexpired appointment, members serve overlapping terms of five years and are eligible for successive appointments to the Commission.

Kenneth L. Greear, Chairman
Charleston, WV, Computer Expert

William I. Clayton, Vice Chairman
South Charleston, WV, Public At Large

Michael A. Adams, Esq.
Weirton, WV, Lawyer

Douglas A. Bicksler, CPA
Lewisburg, WV, Certified Public Accountant

David L. McCormick, Jr
Morgantown, WV, Marketing
Specialist

Roy E. Shrewsbury, II
Beckley, WV, Public At Large



West Virginia Lottery
a component unit of the State of West Virginia

Prepared by
Finance and Administration Division

Dean W. Patrick, CPA/MBA
Deputy Director of Finance and Administration
and Chief Financial Officer

Comprehensive Annual Financial Report
for the fiscal years ended June 30, 2015 and 2014



Table Of Contents

INTRODUCTORY SECTION

| | |
|---|------|
| Letter of Transmittal | 1-11 |
| Certificate of Achievement for Excellence in Financial Reporting | 12 |
| Principal Officials and Organizational Chart | 13 |

FINANCIAL SECTION

| | |
|--|-------|
| Independent Auditors Report | 15-16 |
| Management's Discussion and Analysis | 17-25 |
| Financial Statements | |
| Statements of Net Position | 26 |
| Statements of Revenues, Expenses and Changes in Fund Net Position | 27 |
| Statements of Cash Flows | 28-29 |
| Notes to Financial Statements | 30-55 |
| Required Supplementary Information | 56-59 |

STATISTICAL SECTION

| | |
|---|-------|
| Statistical Section Overview | 61 |
| Sales by Product and Other Revenues | |
| Last Ten Fiscal Years (table) | 62-63 |
| Expenses, Distributions and Net Income | |
| Last Ten Fiscal Years (table) | 62-63 |
| Sales by Product Line | |
| Last Ten Fiscal Years (graph) | 64-65 |
| Sales by Product | |
| Last Ten Fiscal Years (graphs) | 66 |
| Total Revenues | |
| Last Ten Fiscal Years (pie chart) | 67 |
| Daily Averages | |
| Last Ten Fiscal Years (graphs) | 68 |
| Expenses and Nonoperating Distributions | |
| Last Ten Fiscal Years (graphs) | 69 |
| Total Expenses and Nonoperating Distributions | |
| Last Ten Fiscal Years (pie chart) | 70 |
| Total Net Position | 71 |
| U.S. Lotteries Unaudited Sales for Fiscal Year 2014 (NASPL) | 72 |
| U.S. Lotteries Unaudited Sales for Fiscal Year 2015 (NASPL) | 73 |
| U.S. Lotteries Unaudited Sales for Fiscal Year 2014 (LaFleur's) | 74 |
| U.S. Lotteries Unaudited Sales for Fiscal Year 2015 (LaFleur's) | 75 |
| Number of Employees | 76 |
| State Demographic and Economic Information | 76 |
| State Demographics (graphs) | 77 |
| Player and Population Demographics (graphs) | 78-79 |
| Principal Employers | 80 |

Lottery Proceeds

Education



Nearly \$3 Billion
For Education Since 1986



More Than \$341 Million
For PROMISE
Scholarships Since 2002



Senior Citizens

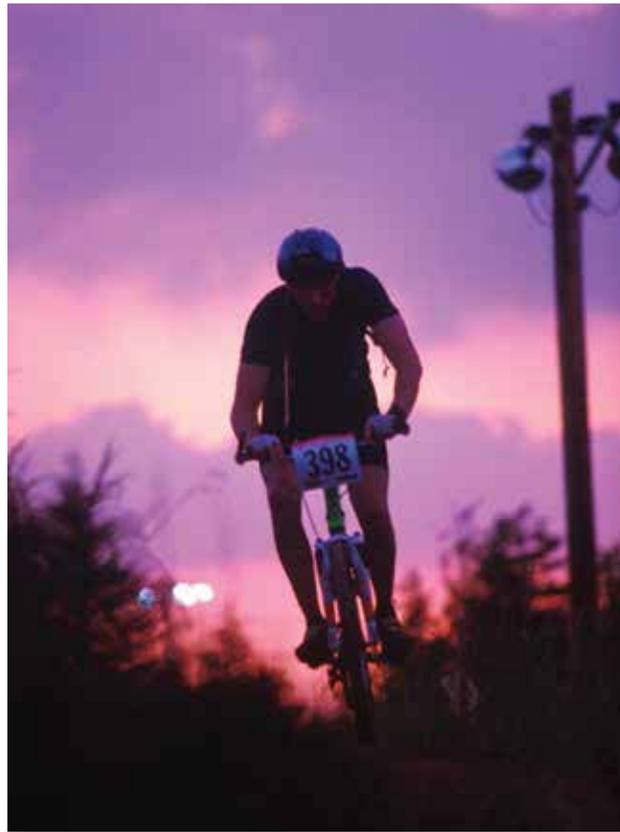


More Than \$1 Billion
For Seniors Since 1986



Lottery Proceeds

Tourism and State Parks

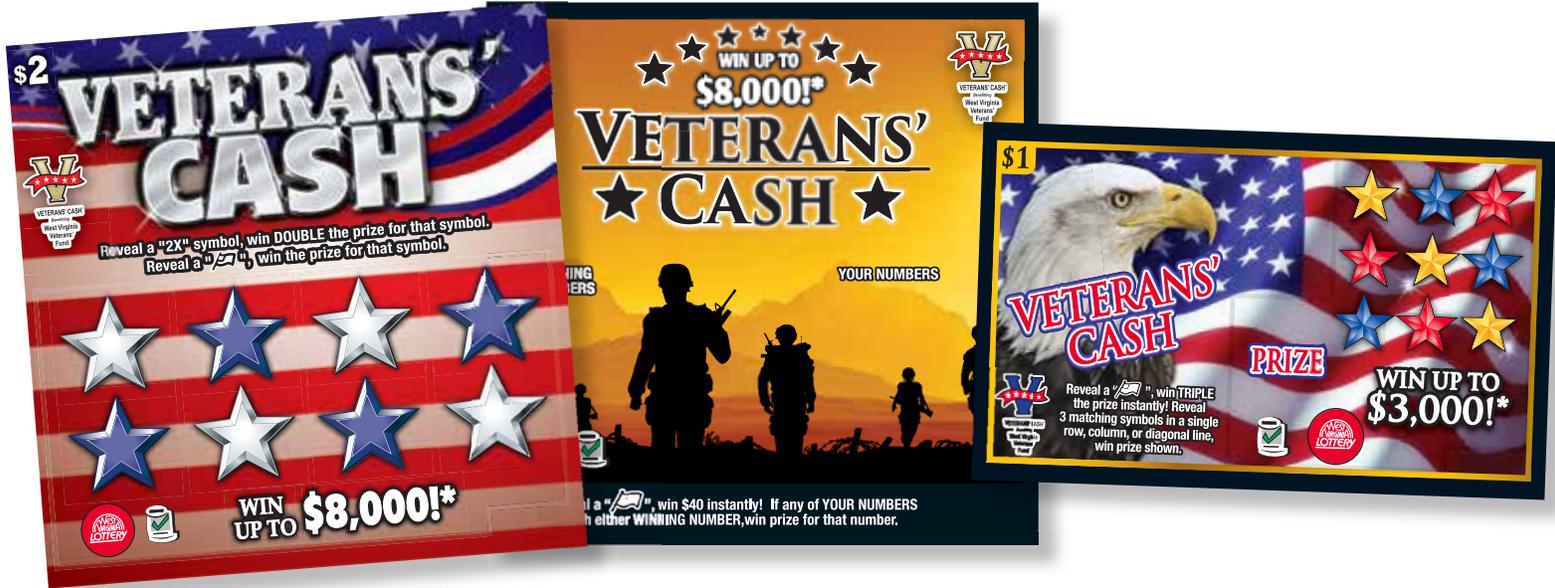


More Than \$920 Million
For Tourism and Parks Since 1986



Lottery Proceeds

Veterans



More Than \$12 Million
For Veterans Since 2000



Introductory Section



P.O. BOX 2067
CHARLESTON, WV 25327

PHONE: 304-558-0500
1-800-WVA-CASH

Earl Ray Tomblin
Governor

John A. Myers
Acting Director

December 4, 2015

The Honorable Earl Ray Tomblin, Governor
Robert S. Kiss, Cabinet Secretary, Department of Revenue
Kenneth L. Greear, Chairman, West Virginia Lottery Commission
Members of the West Virginia Lottery Commission

We are pleased to transmit to you the Comprehensive Annual Financial Report of the West Virginia Lottery (the Lottery) for the fiscal years ended June 30, 2015 and 2014. This report has been prepared by the Finance and Administration Division of the Lottery. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. To the best of our knowledge and belief, the enclosed data and information are accurate and are reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

Presented in this report is information about the Lottery, an agency under the Department of Revenue of the State of West Virginia. The State Lottery Act §29-22 was passed in April 1985 by the West Virginia Legislature. The Lottery operates as a business enterprise within the framework of State laws, rules and regulations. Its mission is to generate revenue to fund programs benefiting education, senior citizens, tourism and such other programs as the Legislature may determine. This mission is being performed with the utmost integrity to ensure public confidence.

The Lottery is considered a component unit of the State of West Virginia. This report presents Lottery activity in a single enterprise fund; the fund includes all activity for which the West Virginia Lottery Commission exercises oversight responsibility. The Lottery has no component units and this report includes only the activity of the Lottery. This report does not include data and information related to any other state agency or fund.

This letter of transmittal is designed to be read in conjunction with the complementary information offered in the Management's Discussion and Analysis (MD&A) which can be found immediately following the independent auditor's report.



John A. Myers
Acting Director



Dean W. Patrick, CPA/MBA
Deputy Director of Finance and Administration

Overview



The West Virginia Lottery has generated more than \$8.5 billion in proceeds for the State of West Virginia since its inception in 1986. These proceeds have proven to be a vital funding source for education, senior services and the state's tourism industry. Because of the West Virginia Lottery, nearly \$2.9 billion has been invested in education, more than \$1 billion in senior programs, and more than \$920.6 million in the state's tourism industry.

In fiscal year 2015, Lottery sales exceeded the \$1 billion mark for the 13th consecutive year. Despite the challenges posed by growing competition from surrounding states and an expected decline in revenue, Lottery sales totaled more than \$1.16 billion for the year ending June 30, 2015. The year's sales resulted in a transfer of more than \$508.3 million to the State of West Virginia.

The Lottery continued its regulatory duties by governing several forms of gaming including Traditional Lottery games (Instant Scratch-Off tickets and On-Line numbers games such as Powerball® and Mega Millions®); Racetrack Video Lottery (slot machines at the state's racetrack casinos);

Limited Video Lottery (slot machines at local bars and taverns); and Table Games which are fully operational at all racetrack casinos across the state. In addition, the Lottery continues to regulate casino video lottery and table games at The Greenbrier Historic Resort, which serves as the State's only limited gaming facility.

Total transfers to the State in FY 2015 included \$254.6 million from Racetrack Video Lottery, \$187.1 million from Limited Video Lottery, \$23 million from Racetrack Table Games, \$2.3 million from the Historic Resort, and \$41.3 million from the sale of Traditional Lottery products.

The West Virginia State Budget included \$499.3 million in transfers from the Lottery. Total Lottery transfers included \$88.7 million for senior citizens, \$90.3 million for education, \$62.5 million for tourism, \$94.5 million to the State's General Fund, \$34 million to the Infrastructure Council, and \$100.3 million to other state agencies (including \$29 million to the PROMISE scholarship program).

A total of \$31.4 million was also paid to county and local municipalities across the State in FY 2015. These

distributions are statutory transfers from Racetrack Video Lottery, Limited Video Lottery, Table Games and Historic Resort.

Overall sales in FY 2015 were \$1.16 billion, with total operating costs under 2.9 percent. Continued fiscal responsibility resulted in the Lottery meeting its obligations to the State and generating a surplus that returned an additional \$47.9 million, in excess of budgeted amounts. These amounts are available for additional legislative appropriations.

West Virginia State law mandates that players receive at least 45 percent of total traditional game sales in the form of cash prizes; however, this percentage has averaged approximately 50 percent annually since the Lottery's inception in 1986. In FY 2015 Lottery players won a total of \$106.5 million in cash prizes. Traditional Lottery operating costs have averaged approximately 12 percent, notably less than the 15 percent allowed by law. Licensed Lottery retailers receive a 7 percent sales commission on Traditional Lottery products, as well as bonuses based on total sales and prizes paid at their respective locations. Profits from Traditional Lottery games are directed by statutory allocation to state programs and distributed accordingly.

The payout rate for video lottery machines varies by location and game type. In FY 2015, the payout rate averaged 90 percent, with an established payout range of 80 percent to 99 percent, which is set by statute and approved by the Lottery Commission. Profits distributed from Racetrack Video Lottery, The Greenbrier Historic Resort and Limited Video Lottery are directed both by statutory allocation and legislative budget appropriations.

State revenues from Table Games are derived from a 35 percent privilege tax rate that is applied to the table "win" and is distributed by statutory allocation with the largest portion directed to Excess Lottery Fund.

Since 1994, \$203.3 million of revenue generated by Racetrack Video Lottery has been directed to advertising funds for the state tourism industry through a matching grants program established with the West Virginia Division of Tourism. In FY 2015, the Lottery contributed \$6.4 million to the Division of Tourism. In addition, Lottery revenue appropriated from other gaming sources to the Division of Tourism by the West Virginia Legislature totaled \$8.1 million. Through appropriations for the Division of Natural Resources and the State Park Improvement Fund, the overall total invested in enhancing the state's tourism industry increased to \$16.3 million.

In FY 2000, legislation was passed to provide Lottery revenue from a special instant ticket game to help support funding for West Virginia veterans. This special initiative has generated up to \$1 million each year to support a skilled nursing facility and a cemetery for West Virginia's veterans. In FY 2015, a total of \$510,503 was generated to support these projects.

In addition to Traditional Lottery dollars, West Virginia seniors also benefit from the license fees for Table Games, as these fees are directly deposited to the Bureau of Senior Services. In FY 2015, deposits to in-home health care services for seniors totaled \$10 million from Racetrack Table Games and \$500 thousand from The Greenbrier Historic Resort. Overall, West Virginia senior citizens benefited from an estimated \$88.7 million in Lottery revenue in FY 2015.

West Virginia's high school seniors entering colleges and universities across the State also benefit from Lottery dollars that help fund the PROMISE Scholarship Program. Revenue from Limited Video Lottery provided \$29 million to in-state higher education for West Virginia high school graduates in FY 2015. Since 2002, the West Virginia Lottery has provided \$341.5 million to the PROMISE Scholarship Program.

Economic Outlook

The U.S. economy continues a slow, volatile recovery from the 2009 economic recession. Consistent year-over-year (y/y) changes of nearly 3.5 percent in real personal consumption expenditures and an average annual growth of approximately 2 percent in U.S. real Gross Domestic Product (GDP) since 2009 from the U.S. Bureau of Economic Analysis (BEA) indicate strengthening consumer and producer confidence. However, the value of U.S. exports has declined 10.4 percent y/y as of August 2015, and real GDP in the Construction industry has yet to rebound to pre-recession levels, with a 25 percent decline from 2005 to 2014.

According to data from the U.S. Bureau of Labor Statistics (BLS), total U.S. nonfarm employment is trending upward during recovery, showing at least a 2 percent increase y/y each month since July 2014. These gains are the largest the U.S. labor force has experienced since at least 2001. Employment gained momentum through February 2015, but has slowed slightly according to preliminary August 2015 employment figures and weaker-than-expected job growth in September 2015. The national unemployment rate has fallen steadily since peaking at approximately 10 percent in late 2009, reaching 5.1 percent in August 2015. U.S. employment is projected to increase nearly 11 percent through 2022 (based on 2012 employment).

At the state level, West Virginia exports have declined approximately 43 percent since 2012, with non-manufacturing exports making up most of this impact. The value of non-manufacturing exports peaked in late 2012 and has since declined nearly 70 percent. By comparison, manufacturing exports have exhibited an overall increase since January 2007 (with the exception of a trough during the economic downturn in 2009-2010) but have declined 6 percent from February to July 2015.

Real GDP for most industries in West Virginia exhibited more volatility during recovery. Since the 2009 trough, West Virginia real GDP peaked in 2011 only to decline by 3.4 percent in 2012. This decline is largely due to a 22 percent decline in real GDP in the Mining industry (compared to gains of 10 percent nationally) influenced by a market shift away from southern West Virginia Coal and an increasingly strict regulatory environment. Between 2012 and 2013, overall

West Virginia real GDP growth was estimated to increase 1.3 percent. Manufacturing sector real GDP, which declined 0.4 percent between 2011 and 2012 experienced a modest rebound of 1.7 percent from 2012 to 2013. After recovering nearly 16 percent from 2009 to 2012, the Accommodations and Food Services industry real GDP declined 3 percent from 2012 to 2013.

Despite modest employment gains nationally, West Virginia nonfarm employment has experienced overall decline of nearly 3 percent from January to August 2015. Statewide employment experienced overall gains during the early recessionary recovery period of mid-2010 to late 2012, but has declined 4.4 percent since peaking in May 2012. State employment is expected to increase an average of 0.5 percent annually through 2020 according to the West Virginia University Bureau of Business and Economic Research (BBER).

The goods-producing sector experienced y/y employment decreases of as much as 15 percent during the economic downturn from late 2008 through mid-2010. The sector rebounded through mid-2012, but has experienced y/y declines since August of that year. Employment in the Mining industry experienced larger declines y/y from mid-2009 to mid-2010 before rebounding through December 2011. This peak was followed by a period of contraction in which West Virginia Mining employment fell nearly 24 percent and experienced some of the largest y/y declines in a decade.

Employment in the service-producing sector has experienced an overall increase since January 2007 despite some decline in recent months. The Accommodations and Food Services sector has declined more than 5 percent since peaking in January 2013. By contrast, one of West Virginia's strongest sectors is Health Care and Social Assistance. Industry employment has been increasing since at least January 2000 and was largely unaffected by the economic downturn. Although negligible y/y declines occurred during the first two quarters of 2014, Health Care and Social Assistance employment has increased 1.5 percent y/y as of August 2015. Other sectors exhibiting stronger growth in recent years include Management sectors and the Transportation and Warehousing industry.



Initial jobless claims in the State experienced an overall decline in the weeks following the recession, but began to increase y/y in early 2015 by as much as 54 percent in Week 10. This trend continues but at a slower rate as of September. This coincides with West Virginia's increasing unemployment rate, which has increased 1.7 percentage points since January 2015. Declining employment in the Mining, Construction and Arts, Entertainment and Recreation industries are largely driving this change.

A number of economic and demographic factors influence these decreasing employment trends. Negative market pressures on and increased regulations for major West Virginia industries have lowered natural gas and coal prices and forced mine closures throughout the State. Average coal prices have fallen by an approximate 25 percent and well-head natural gas prices by 30 percent from September 2012 to September 2015, according to estimates¹ calculated by the West Virginia Department of Revenue. Such downward trends have impacted production in these natural resource sectors and have affected employment statewide. An aging population in which key productive age groups are expected to decrease over the next decade is also problematic; between 2015 and 2030 the population of those aged

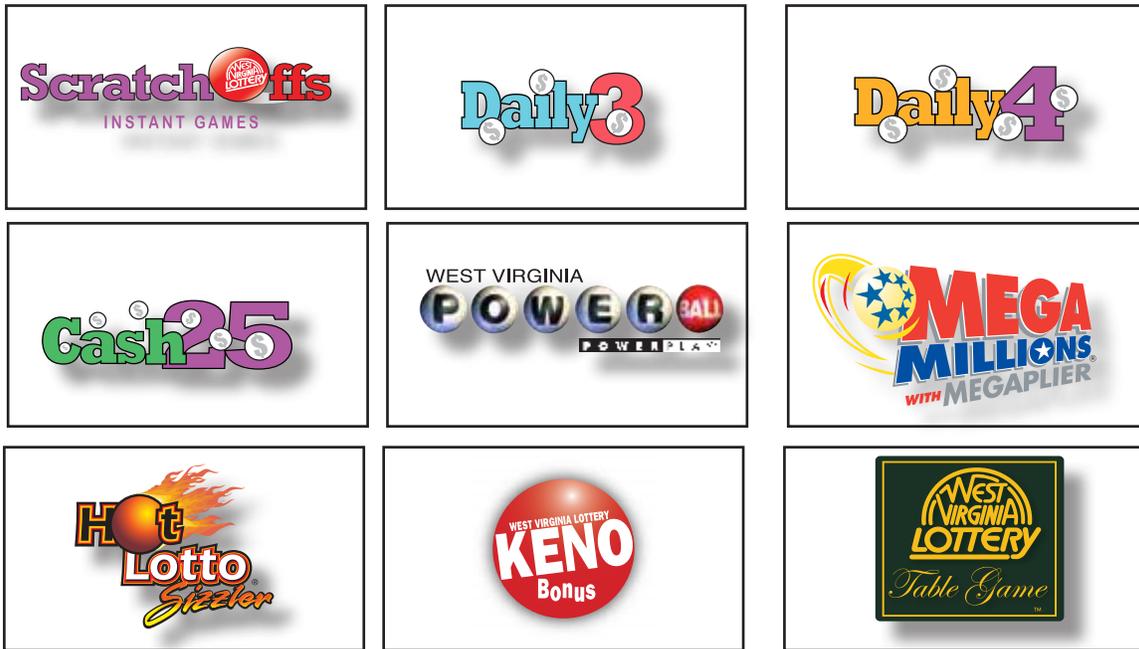
65 years and older is expected to increase by 26 percent while the population of those aged 20 to 44 is expected to decline by nearly 4 percent according to BBER. This trend suggests the West Virginia population is moving away from net producers (those who are typically more economically active) to net consumers.

Based on current economic trends, the outlook for the near term will likely include lower employment and sluggish incomes, particularly in goods-producing sectors such as natural resources and mining. Continued contraction in the leisure and hospitality industry is also anticipated as lowered employment opportunity and increased unemployment in other industries affects consumer spending in service-oriented sectors.

¹ These estimates represent 12-month trailing averages based on severance tax returns and assumptions including effective tax rates and alignment with timing of production. Industry price data may vary.

Written by Mark Muchow, Deputy Cabinet Secretary, Department of Revenue

Lottery Products



The West Virginia Lottery has introduced 16 different games since its inception, however currently provides players the opportunity to participate in a variety of 11 games:

INSTANT games were the Lottery's first type of game introduced in January 1986. There are different ways to win in an instant or "scratch" game including matching three like dollar amounts, symbols or letters, or adding up numbers to a specified total. If the correct combination appears, the player becomes an "instant winner" without having to wait for the results of a drawing. The instant game offers a wide variety of game themes. During fiscal year 2015, there were 61 new games introduced. Instant games provided approximately 8.9 percent of total FY 2015 sales at 1,511 retail locations.

DAILY 3 is an on-line game introduced in February of 1987. Players choose three numbers from 0 to 9 for prizes ranging from \$40 to \$500. Drawings are held six nights a week.

DAILY 4 is an on-line game also introduced in February of 1987. Players choose four numbers from 0 to 9 for prizes ranging from \$100 to \$5,000. Drawings are held six nights a week.

CASH 25 is an on-line game, which was introduced in February 1990. Players pick six numbers between 1 and 25 for a chance to win cash prizes ranging from \$1 to \$25,000. Drawings are held four nights a week every Monday, Tuesday, Thursday and Friday.

POWERBALL® is an on-line game jointly operated by 44 state lotteries, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, who are members of the Multi-State Lottery Association (MUSL) or the Mega Millions® Group. This game was introduced in April 1992, revised in November 1997, March 2001, October 2002, August 2005, and January 2013. Beginning March 2001, Powerball® added a feature called Power Play®, where winnings can be multiplied from a random number drawn between 2 and 5. Effective August 28, 2005, the matrix increased to "5 of 55" for the first set, while the second set remained the same and the second and third tier prizes were doubled. The matrix held previously was "5 of 53" for the first set and "1 of 42" for the second set. The game was expanded to new jurisdiction beginning January 31, 2010, when both Powerball® and Mega Millions® began cross-selling in most jurisdictions. January 12, 2013, the matrix changed to "5 of 59" for the first set and "1 of 35" for the second set. Also, the price point increased to \$2 per play plus \$1 for Power Play® where a multiplier is no longer used and the prizes are now set dollar values. The jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 30 years with a guaranteed minimum jackpot of \$40 million. The jackpot increases each drawing if no winning ticket has matched the first set of 5 numbers and matched the "Powerball®" number of the second set. Powerball® offers eight secondary prizes of fixed amounts ranging from \$4 to \$1,000,000. Drawings are held twice weekly on Wednesday and Saturday. Powerball® sales are approximately 2.9 percent of total FY 2015 sales at 1,511 retail locations.

MEGA MILLIONS® is an on-line game jointly operated by 44 state lotteries, the District of Columbia and the U.S. Virgin Islands, with members belonging to the same groups that operate Powerball®. The game was introduced on August 31, 1996 as the Big Game. The first drawing took place on September 6, 1996, with six states participating: Georgia, Illinois, Maryland, Massachusetts, Michigan and Virginia. The West Virginia Lottery and 22 other states began selling Mega Millions® January 31, 2010 in a cross-selling agreement. The game is similar to Powerball®, in play and jackpots. The matrix is “5 of 56” for the first set and “1 of 46” for the second set. October 19, 2013, the matrix changed to “5 of 75” for the first set and “1 of 15” for the second set. A feature called Megaplier® was added where winnings can be multiplied from a random number drawn between 2 and 5. The jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 30 years with a guaranteed minimum jackpot of \$15 million. Mega Millions® offers eight secondary prizes of fixed amounts ranging from \$1 to \$1,000,000. Drawings are held twice weekly on Tuesday and Friday. Mega Millions® sells at 1,511 retail locations.

HOT LOTTO® is an on-line game jointly operated by 14 states and the District of Columbia who are members of MUSL. This game was introduced in April 2002 and revised May 2013 with drawings on Wednesday and Saturday. Players choose five numbers from 1 of 47 in the “Pick 5” area and one number from 1 of 19 in the “Hot Ball” area. When adding the Hot Lotto Sizzler®, you can triple your prizes (except the jackpot). Jackpots start at a guaranteed \$1 million in cash and will increase by a minimum of \$50,000 cash each time the jackpot is not won. Plus, jackpot winners will collectively receive no less than the advertised jackpot amount. Hot Lotto® offers eight secondary prizes of fixed amounts ranging from \$2 to \$30,000.

TRAVEL KENO is a game restricted to lottery retailers with specific types of West Virginia Alcohol Beverage Control Administration licenses and was introduced in December 1992. The player selects 1 to 10 numbers and the Lottery computer randomly picks 20 numbers between 1 and 80. With the Keno Bonus multiplier option, players have a chance to increase their winnings. Drawings are held every five minutes from 5:05 a.m. through 2:45 a.m. The winning numbers are displayed on monitors at 269 Travel Keno locations.

RACETRACK VIDEO LOTTERY games were implemented in 1994 when the West Virginia Legislature passed the Racetrack Video Lottery Act, making video lottery terminals available to the four racetracks in the state subject to passage of local referendums. In September 1994, three racetracks (Mountaineer Casino Racetrack & Resort, Wheeling Island Hotel, Casino & Racetrack, and Mardi Gras Casino & Resort) began operating with 1,200 video lottery machines. A fourth racetrack (Hollywood Casino at Charles Town Races) began video gaming in September 1997. West Virginia is one of five state lotteries to regulate video gaming at racetracks. The other four states are Delaware, Rhode Island, New York and Pennsylvania. Games offered are poker, blackjack, keno, and spinning reel types. Effective June 1999, legislative action has allowed mechanical reel coin drop machines. As of June 30, 2015, the West Virginia Lottery Commission had an average of 6,378 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 47.9 percent of total FY 2015 sales.

LIMITED VIDEO LOTTERY games were approved by the Legislature in April 2001. The legislation provides up to 9,000 video lottery terminals to be placed in retailer locations with specific types of West Virginia Alcohol Beverage Control Administration licenses. West Virginia is one of three state lotteries to regulate and operate limited video lottery. The other two states are South Dakota and Oregon. The first terminals were enabled for play on December 17, 2001. A total of 6,457 terminals were operating at licensed retail locations throughout the state as of June 30, 2015. Limited video lottery sales were 32.1 percent of total FY 2015 sales at 1,402 operating retailer locations.

TABLE GAMES were implemented in fiscal year 2008 when the West Virginia Legislature passed the Racetrack Table Games Act, making table games available to the four racetracks in the state subject to passage of local referendums. In October 2007, two racetracks (Mountaineer Casino Racetrack & Resort and Wheeling Island Hotel, Casino & Racetrack) began operating with poker tables only and added full table games in December 2007. In August 2008, a third racetrack (Mardi Gras Casino & Resort) began operating with poker tables only and added full table games in October 2008. The fourth racetrack (Hollywood Casino at Charles Town Races) began operating full table games on July 1, 2010. Games offered are Poker, Blackjack, Caribbean Stud, Craps, Roulette, Three and Four Card Poker, and other miscellaneous games. Racetrack Table Games sales were 4.0 percent of total FY 2015 sales.

HISTORIC RESORT implemented video lottery and table games in fiscal year 2010 when the West Virginia Legislature passed the Casino Act, which also required the passage of local referendum. In October 2009, The Greenbrier began operating both video lottery and table games. Table Games offered are Blackjack, Roulette and Three Card Poker.

Accomplishments

ACCOMPLISHMENTS

- Lottery sales topped the \$1 billion mark for the 13th consecutive year with overall sales of more than \$1.16 billion in FY 2015.
- The West Virginia State Budget included \$499.3 million in transfers from the Lottery. Total Lottery transfers included \$88.7 million for senior citizens, \$90.3 million for education, \$62.5 million for tourism, \$94.5 million to the State's General Fund, \$34 million to the Infrastructure Council, and \$100.3 million to other state agencies (including \$29 million to the PROMISE scholarship program).
- The Lottery produced \$31.4 million that was paid to county and local municipalities across the State in FY 2015.
- The Lottery continues to improve operational efficiency and operated on less than 2.9 percent of gross sales for the fiscal year.
- The West Virginia Lottery partnered with Bulldog Creative Services in Huntington to rebuild, expand capabilities and relaunch the Lottery's official website – wvlottery.com.
- The Lottery launched a robust advertising, social media and grassroots marketing campaign titled "Random Acts of Lottery." The campaign was designed to inspire a "pay-it-forward" spirit among Lottery players. There were second-chance drawings where players won money for themselves, and someone in need. In addition, the Lottery conducted a "12 Days of Giving" second-chance promotion in November and December where players won prizes and also made a donation to a charity of their choice.
- The Lottery continued to increase its social media presence and encourage player engagement. The West Virginia Lottery's Facebook Page experienced a 184% increase in the number of page likes, growing from 4,600 to 13,252 over the course of the fiscal year.



Random Acts Of *Lottery*



Financial Information

ENTERPRISE OPERATIONS

The West Virginia Lottery operating activities include sales of instant and on-line tickets, the regulation of video lottery and table game operations to the general public and the related supporting functions: personnel, finance and administration, video, marketing, security, table games and licensing. No general government functions or operations are managed by the Lottery or included in this report. Sales in fiscal year 2015 decreased 4.1 percent to \$1.164 billion from \$1.214 billion in fiscal year 2014. Distributions to the State of West Virginia increased 2.0 percent from \$498.4 million in fiscal year 2014 to \$508.3 million in fiscal year 2015.

ACCOUNTING SYSTEM AND POLICIES

The West Virginia Lottery operates as an enterprise fund that, like a private business, utilizes the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

BUDGETARY CONTROLS

The Lottery's budgeted funds are the State Lottery Fund and State Excess Lottery Fund. Budgetary control for these funds are addressed through their enabling legislations, which provide specific limitations on operating and administrative expenses. For budgetary purposes, the State Lottery and Excess Lottery Funds are classified as non-appropriated special revenue funds and do not have a legally adopted budget. An estimate of expected expenditures is filed annually with the Budget Division of the Department of Revenue and is monitored throughout the year by this Division. In addition, Lottery financial management staff monitors actual expenditures for compliance with operational requirements and compliance with lottery statutes.

INTERNAL CONTROL ENVIRONMENT

Management of the Lottery is responsible for establishing and maintaining internal controls whose cost does not exceed the benefits to be derived, but whose objective is to provide reasonable, rather than absolute assurance, that assets are protected from loss, theft, or misuse, transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements that are free of material misstatement and in conformity with generally accepted accounting principles. Internal control is also designed to reduce, to an acceptable level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Management believes that the Lottery's internal control meets the above objectives.

To enhance controls over accounting procedures, the Lottery has segregated the following functions: personnel, payroll, purchasing, accounts payable, accounts receivable and general ledger accounting. Data input and processing are separate from system programming with management providing approval and oversight. In addition, an internal auditor reviews all areas of Lottery operations and reports to the Finance and Audit Committee of the Lottery Commission.

Since the Lottery manages a valuable ticket inventory and controls the disbursement of prizes, the following steps are taken to ensure the operations remain secure and meet the highest ethical standards:

- Hiring specialized security and law enforcement staff
- Maintaining secure Lottery facilities and limiting access
- Performing background checks on retailers, contractors and Lottery employees
- Printing lottery tickets with special inks, dyes and security codes
- Providing detailed procedures for random on-line drawings
- Hiring an independent CPA firm to witness the drawings
- Providing a variety of access and other controls to all computer systems
- Providing operating policies and procedures

The Lottery currently has 175 employees; the majority of the staff is located at Lottery headquarters. The drawing studio is located at the broadcast facility of the television station in Charleston, West Virginia, which produces the nightly drawings.

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the West Virginia Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the 18th consecutive year that the West Virginia Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

FUTURE PROJECTS

- The Lottery is finalizing technical specifications with a Request for Proposal (RFP) scheduled to be released in FY 2016 for the traditional gaming system.
- The Lottery issued a Request for Proposal (RFP) for the video lottery central system, which operates and controls both limited video lottery at 1,402 retailers and video lottery at the state's casinos. The term of this contract will be for 15 years and conversion is scheduled to begin in FY 2017.
- The Lottery continues to transition its human resources, facilities management and governmental accounting requirements in to the State's new Enterprise Resource Planning (ERP) system.

- Construction of a new Backup Data Center near Bridgeport will begin in FY 2016. The building will provide the Lottery and its vendors with a reliable backup facility to ensure the continuity of operations in the event of an emergency impacting headquarters in Charleston. The facility will feature a separate data center for traditional gaming, video lottery and internal lottery systems, as well as warehouse space, disaster recovery equipment and a validations center. It is expected to be completed in December 2015 with systems relocation occurring in January of 2016.
- Necessary renovations to three floors of the Lottery’s Headquarters in Charleston and its adjacent parking structure are scheduled to take place in FY 2016. The renovations will allow for the West Virginia Insurance Commission to move into the building and bring tenant occupancy to 100 percent.
- West Virginia is joining a group of 16 others states that already participate in a Multi-State Lottery game named Lucky For Life™. The game is a \$2 draw game with a top prize of \$1,000 a day for life and a second prize of \$25,000 a year for life. Players choose 5 out of 48 numbers, plus 1 number out of 18 for the “lucky” ball.
- The launch of a \$20 JUMBO Scratch Keno instant game is scheduled for August of 2015 to mark the 20th anniversary of the introduction of the Lottery’s most popular instant game of all-time, Scratch Keno.
- The Lottery will celebrate its 30th Anniversary in January of 2016 with a special \$30 Happy Birthday instant game that features a \$1 million second-chance prize component.

INDEPENDENT AUDIT

West Virginia statutes require an annual audit by an independent certified public accountant. The independent auditor’s opinion on the Lottery’s financial statements is included in the financial section of this report.

ACKNOWLEDGEMENTS

This report demonstrates the collaborative efforts of the Finance and Administration Division and Marketing Division of the West Virginia Lottery. We appreciate the contributions of this year’s project team comprised of Mara Dawson, Games Accounting Manager/Project Coordinator; Mike Ross, Advertising Manager; Kayla Brown-Gidordano, Corporate Accounts and Contract Compliance Manager, and Randy Burnside, Public Relations Manager. We could not have successfully completed this report without their efficient and dedicated services. The Lottery continues its commitment to providing thorough and relevant financial information to the public.

This comprehensive annual financial report reflects our commitment to maintain the highest standards of accountability while working to maintain public trust through ethics and integrity. The Lottery also extends its sincere gratitude to Commission Chairman Kenneth L. Greear and the members of the West Virginia Lottery Commission for their diligence to the law in operating the Lottery in a professional and forward-thinking manner.



Government Finance Officers Association

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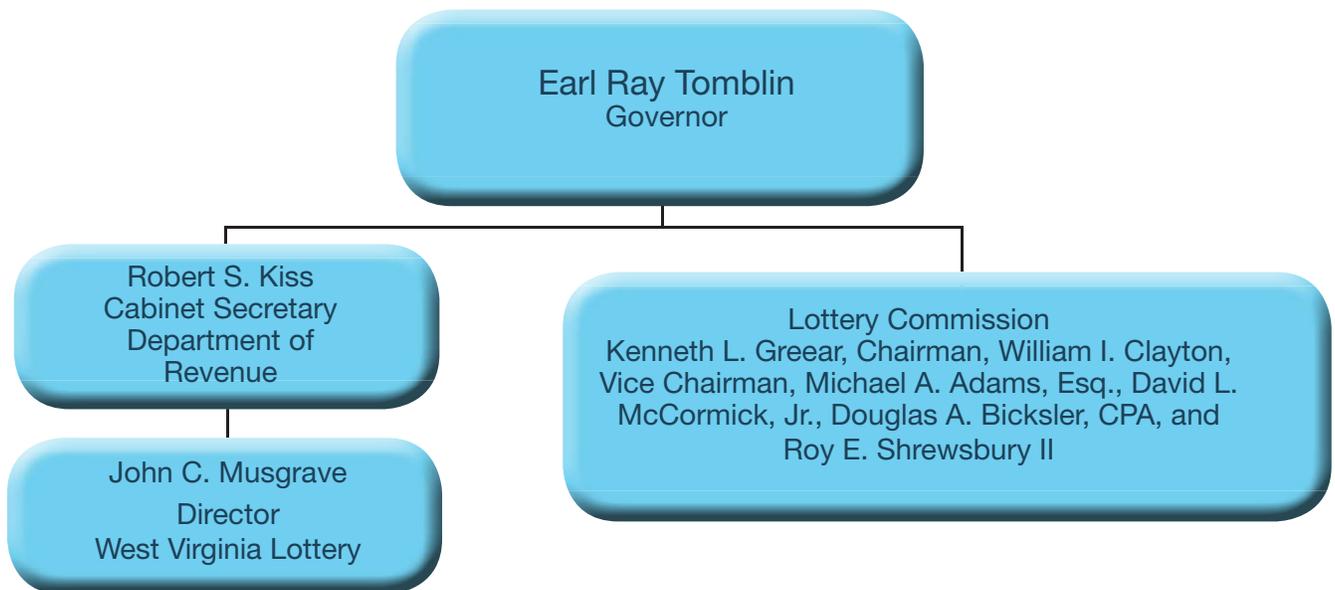
West Virginia Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

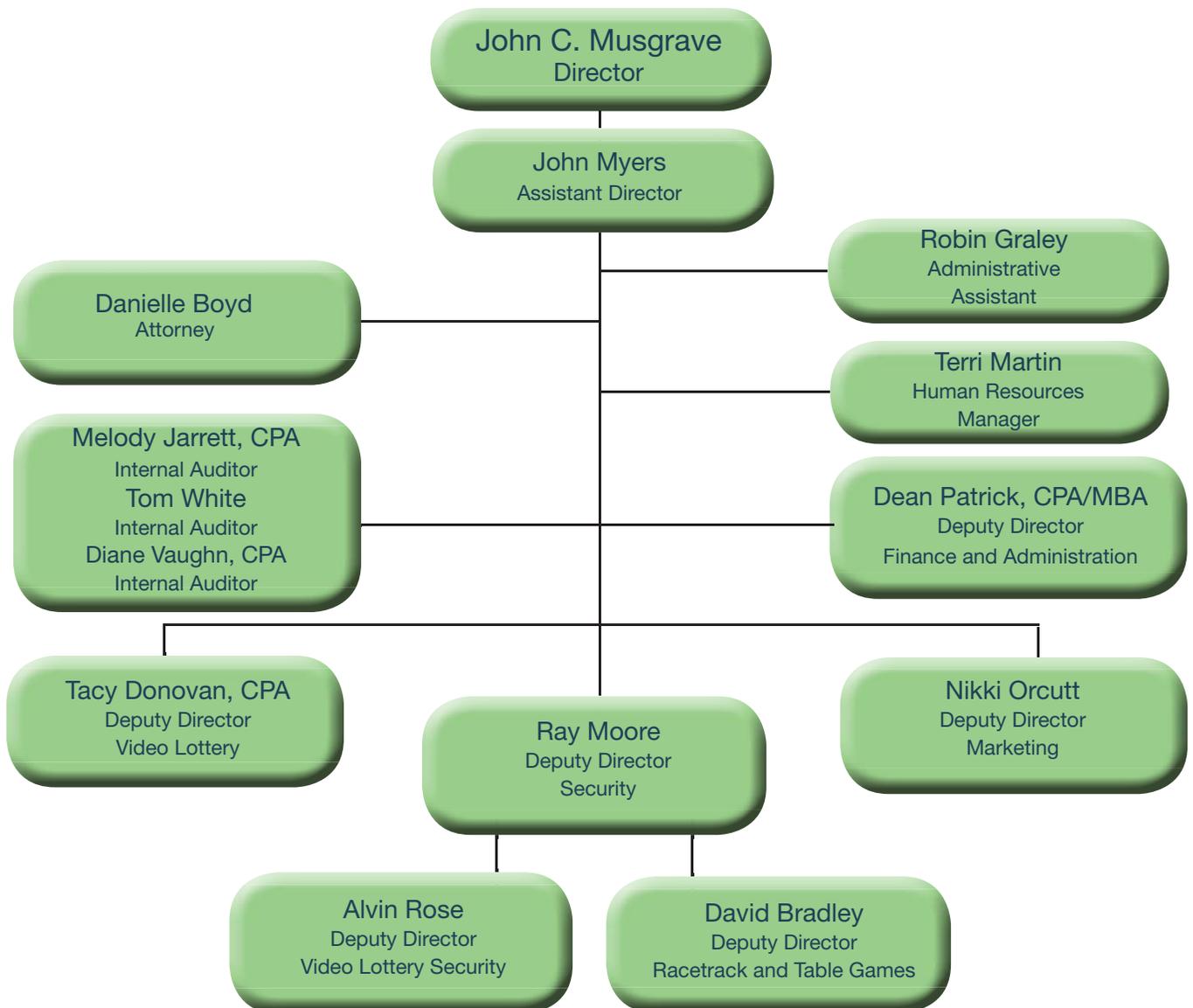
June 30, 2014

Executive Director/CEO

West Virginia Lottery



Executive Organizational Chart



Financial Section

INDEPENDENT AUDITOR'S REPORT

To the Members of the
West Virginia Lottery Commission
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Lottery (the Lottery), a component unit of the State of West Virginia, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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 West Virginia Lottery, as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 25, and the schedule of the proportionate share of the net pension liability and the schedule of contributions to the PERS on pages 56 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Charleston, West Virginia

September 29, 2015

West Virginia Lottery

Management's Discussion and Analysis

-Unaudited-

Our discussion of the West Virginia Lottery's (the Lottery) financial performance provides for an overview of the Lottery's financial activities for the fiscal years ended June 30, 2015 and 2014. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2015, and the prior year refers to fiscal year ending June 30, 2014. This analysis is to be considered in conjunction with the financial statements, which begin on page 26.

Financial Highlights

The Lottery's operating income increased in 2015 and decreased in 2014. The 2015 increase was due to changes in the laws that define how commissions and distributions are allocated and the 2014 decrease was due to competition from expanded gaming activities in neighboring states. The following summary is provided below:

- Lottery revenues for the current year decreased \$50.3 million or 4.1% compared to the prior year, which decreased \$114.1 million or 8.6% from 2013.
- Commissions for the current year decreased \$54.5 million or 9.7% compared to the prior year, which decreased \$54.8 million or 8.9% from 2013.
- Gross profit for the current year increased \$10.3 million or 1.9% compared to the prior year, which decreased \$54.5 million or 9.3% from 2013.
- Nonoperating expenses increased \$8.3 million or 1.6% compared to the prior year, which decreased \$52.9 million or 9.3% from 2013. The predominant nonoperating expense is the distributions to the State of West Virginia, which increased \$10.0 million or 2.0% compared to the prior year, which decreased \$46.8 million or 8.6% from 2013.

Using This Annual Report

The Lottery is a component unit of the State of West Virginia, and is accounted for as a proprietary type enterprise fund using the accrual basis of accounting much like a private business entity. As such, this report consists of a series of financial statements, along with explanatory notes to the financial statements. To assess the Lottery's financial position, the reader of these statements should pay particular attention to changes in the components of assets and liabilities as set forth in the Statements of Net Position and changes in operating revenues, expenses and nonoperating distributions to the State of West Virginia as set forth in the Statements of Revenues, Expenses and Changes in Fund Net Position.

Statements of Net Position

The Lottery implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68 during the year ending June 30, 2015. These statements require the Lottery to:

(1) recognize a liability equal to its proportionate share of the net pension liability of the Public Employees Retirement System (PERS). As a result, the Lottery's beginning net position for 2015 was restated by \$3.9 million. Additionally, the Lottery has classified the ending balance of its net pension liability of \$2.0 million as a noncurrent liability in accordance with GASB Statement No. 68.

(2) record certain defined benefit pension activity as deferred inflows of resources and deferred outflows of resources. As a result, the Lottery has recorded deferred outflows of resources of \$1.1 million and deferred inflows of resources of \$2.2 million. Please refer to Note 14 to the financial statements for more detailed information on these items.

West Virginia Lottery

Management's Discussion and Analysis

(Continued)

-Unaudited-

Statements of Net Position (Continued)

As shown in Table 1, current assets for the current year increased \$12.8 million or 6.8% compared to the prior year, which decreased \$125.0 million or 40.0% from 2013, due to the timing of distributions to the State of West Virginia at year-end.

Restricted net position continued to decrease as a result of activities related to capital spending for the Lottery headquarters building and the accrued distribution of surplus funds from the revenue center construction fund. See Note 13 to the financial statements for additional information on restricted net position.

Capital assets, net of accumulated depreciation and amortization, decreased in the current year by \$1.0 million or 2.5% compared to the prior year which decreased by \$1.5 million or 3.7% from 2013, both due to depreciation of the Lottery headquarters building. For additional information on capital assets, please refer to Note 5 to the financial statements.

Table 1
Assets and Deferred Outflows of Resources
(in \$000's)

| | 2015 | 2014 | 2013 |
|--|------------|------------|------------|
| <u>Assets</u> | | | |
| Current assets | \$ 199,872 | \$ 187,081 | \$ 312,032 |
| Restricted assets | 1,130 | 1,397 | 1,640 |
| Capital assets, net of accumulated depreciation and amortization | 37,763 | 38,745 | 40,220 |
| Total assets | \$ 238,765 | \$ 227,223 | \$ 353,892 |
| <u>Deferred Outflows of Resources</u> | | | |
| Deferred outflows of resources related to pension | \$ 1,099 | \$ - | \$ - |

As shown in Table 2, the Lottery's current liabilities for the current year increased \$9.3 million or 5.4% compared to the prior year, which decreased \$126.8 million or 42.4% compared to 2013 due to the accumulation of prior year surplus transfers to the State of West Virginia combined with current year accrued transfers.

Net position - restricted by enabling legislation decreased due to the refurbishing of the Lottery headquarters building. See Note 13 to the financial statements for additional information on restricted net position.

Net position - net investment in capital assets decreased in the current year by \$1.0 million or 2.5% compared to the prior year as a result of depreciation which decreased by \$1.5 million or 3.7% in the prior year compared to 2013 also due to depreciation. Refer to Note 5 to the financial statements for additional information on capital assets.

West Virginia Lottery

Management's Discussion and Analysis

(Continued)

-Unaudited-

Statements of Net Position (Continued)

Net position - unrestricted changed in fiscal years 2015, 2014, and 2013 as a result of rental income from tenants located at the Lottery headquarters building and the Lottery's administrative allowance from table games exceeding the actual operating expenses.

Table 2
Liabilities, Deferred Inflows of Resources and Net Position
(in \$000's)

| | 2015 | 2014 | 2013 |
|---|------------|------------|------------|
| Current liabilities | \$ 181,520 | \$ 172,203 | \$ 299,026 |
| Noncurrent liabilities | 2,035 | - | - |
| Total liabilities | \$ 183,555 | \$ 172,203 | \$ 299,026 |
| Deferred inflows of resources related to pension | \$ 2,153 | \$ - | \$ - |
| Net position - restricted by enabling legislation | \$ 1,130 | \$ 1,397 | \$ 1,640 |
| Net position - net investment in capital assets | 37,763 | 38,745 | 40,220 |
| Net position - unrestricted | 15,263 | 14,878 | 13,006 |
| Total net position | \$ 54,156 | \$ 55,020 | \$ 54,866 |

Capital Assets

Capital assets as of June 30, 2015 amounted to \$47.8 million (at cost). This investment in capital assets includes land, building, construction in progress and equipment. The total increase in capital assets for the current fiscal year was 0.8 %.

Table 3
Capital Assets
(in \$000's)

| | 2015 | 2014 | 2013 |
|--------------------------|-----------|-----------|-----------|
| Construction in progress | \$ 1,090 | \$ 792 | \$ 549 |
| Land | 1,434 | 1,434 | 1,434 |
| Building | 38,084 | 38,084 | 38,084 |
| Improvements | 260 | 260 | 260 |
| Equipment | 6,895 | 6,821 | 6,519 |
| Total assets | \$ 47,763 | \$ 47,391 | \$ 46,846 |

Capital asset activities included the following:

- Architectural fees for renovations to three floors of the Lottery headquarters building were incurred at a cost of \$30 thousand and \$243 thousand for the years ended June 30, 2015 and 2014, respectively.
- Costs of \$30 thousand were incurred toward a new document imaging system in 2015.

Additional information on capital assets can be found in Note 5 of the financial statements.

West Virginia Lottery

Management's Discussion and Analysis

(Continued)

-Unaudited-

Revenues, Expenses and Changes in Fund Net Position

The content of Table 4 is a summary of activities and is related to the discussion of Table 5.

Table 4
Revenues, Expenses and Changes in Fund Net Position
(in \$000's)

| | 2015 | 2014 | 2013 |
|--|-----------|-----------|-----------|
| Revenues: | | | |
| On-line games | \$ 76,724 | \$ 83,069 | \$ 86,986 |
| Instant games | 103,276 | 105,562 | 108,635 |
| Racetrack video lottery | 557,803 | 590,918 | 655,676 |
| Limited video lottery | 373,221 | 377,222 | 399,224 |
| Table games | 46,928 | 50,465 | 70,259 |
| Historic resort | 6,052 | 7,048 | 7,597 |
| | 1,164,004 | 1,214,284 | 1,328,377 |
| Less commissions: | | | |
| On-line games | 5,372 | 5,821 | 6,095 |
| Instant games | 7,229 | 7,390 | 7,604 |
| Racetrack video lottery | 286,778 | 336,205 | 370,828 |
| Limited video lottery | 182,878 | 184,839 | 195,620 |
| Table games | 19,885 | 22,032 | 30,675 |
| Historic resort | 3,069 | 3,455 | 3,705 |
| | 505,211 | 559,742 | 614,527 |
| Less on-line prize costs | 38,162 | 42,096 | 44,109 |
| Less instant ticket prize costs | 68,314 | 69,665 | 72,121 |
| Less ticket costs | 1,516 | 1,730 | 1,804 |
| Less vendor fees and costs | 7,456 | 8,044 | 8,325 |
| | 115,448 | 121,535 | 126,359 |
| Gross profit | 543,345 | 533,007 | 587,491 |
| Administrative expenses: | | | |
| Advertising and promotions | 5,229 | 5,755 | 4,622 |
| Wages and related benefits | 10,266 | 10,854 | 11,049 |
| Telecommunications | 944 | 881 | 983 |
| Contractual and professional | 5,160 | 4,682 | 4,421 |
| Rental | 271 | 267 | 239 |
| Depreciation and amortization | 1,354 | 2,020 | 2,095 |
| Other administrative expenses | 1,466 | 1,420 | 1,454 |
| | 24,690 | 25,879 | 24,863 |
| Other operating income | 11,313 | 11,719 | 11,860 |
| Operating income | 529,968 | 518,847 | 574,488 |
| Nonoperating income (expense): | | | |
| Investment income | 406 | 463 | 253 |
| Distributions to municipalities and counties | (7,315) | (7,394) | (7,825) |
| Distributions for capital reinvestment | (11,717) | (13,397) | (18,821) |
| Distributions to the State of West Virginia | (508,329) | (498,365) | (545,204) |
| | (526,955) | (518,693) | (571,597) |
| Net Income | 3,013 | 154 | 2,891 |

West Virginia Lottery

Management's Discussion and Analysis (Continued)

-Unaudited-

Revenues, Expenses and Changes in Fund Net Position (Continued)

Table 4 (Continued)

Revenues, Expenses and Changes in Fund Net Position
(in \$000's)

| | | | |
|---|----------------------|----------------------|----------------------|
| Net position, beginning of year | <u>55,020</u> | <u>54,866</u> | <u>51,975</u> |
| Cumulative effect of adoption of accounting principle | <u>(3,877)</u> | <u>-</u> | <u>-</u> |
| Net position, beginning of year, as restated | <u>51,143</u> | <u>54,866</u> | <u>51,975</u> |
| Net position, end of year | <u>\$ 54,156</u> | <u>\$ 55,020</u> | <u>\$ 54,866</u> |

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees

Table 5 compares sales (referred to as lottery revenues in financial statements), prizes, commissions, ticket printing costs, vendor fees and costs and gross profit for each lottery game category for fiscal years 2015, 2014, and 2013. Sales and gross profits fluctuated in certain categories; however, gross profit percentages remained relatively consistent from year to year.

**Table 5
Lottery Sales
(in \$000's)**

| | Instant | | | On-Line* | | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Gross sales | \$ 103,276 | \$ 105,562 | \$ 108,635 | \$ 76,724 | \$ 83,069 | \$ 86,986 |
| Less direct costs: | | | | | | |
| Prizes and bonuses | 68,314 | 69,665 | 72,121 | 38,162 | 42,096 | 44,109 |
| Commissions | 7,229 | 7,390 | 7,604 | 5,372 | 5,821 | 6,095 |
| Ticket printing costs | 1,516 | 1,730 | 1,804 | - | - | - |
| Vendor fees and costs | 4,286 | 4,510 | 4,537 | 3,170 | 3,534 | 3,788 |
| Total direct costs | <u>81,345</u> | <u>83,295</u> | <u>86,066</u> | <u>46,704</u> | <u>51,451</u> | <u>53,992</u> |
| Gross Profit | <u>\$ 21,931</u> | <u>\$ 22,267</u> | <u>\$ 22,569</u> | <u>\$ 30,020</u> | <u>\$ 31,618</u> | <u>\$ 32,994</u> |
| Gross profit percentage | <u>21.2%</u> | <u>21.1%</u> | <u>20.8%</u> | <u>39.1%</u> | <u>38.1%</u> | <u>37.9%</u> |

* On-line games include the results of Powerball® and Mega Millions which are significant components of the results described above.

| | Racetrack Video Lottery | | | Limited Video Lottery | | |
|-----------------------------|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Gross sales | \$ 557,803 | \$ 590,918 | \$ 655,676 | \$ 373,221 | \$ 377,222 | \$ 399,224 |
| Less direct costs: | | | | | | |
| Prizes and bonuses | - | - | - | - | - | - |
| Commissions | 286,778 | 336,205 | 370,828 | 182,878 | 184,839 | 195,620 |
| Ticket printing costs | - | - | - | - | - | - |
| Vendor fees and costs | - | - | - | - | - | - |
| Total direct costs | <u>286,778</u> | <u>336,205</u> | <u>370,828</u> | <u>182,878</u> | <u>184,839</u> | <u>195,620</u> |
| Gross Profit | <u>\$ 271,025</u> | <u>\$ 254,713</u> | <u>\$ 284,848</u> | <u>\$ 190,343</u> | <u>\$ 192,383</u> | <u>\$ 203,604</u> |
| Gross profit percentage | <u>48.6%</u> | <u>43.1%</u> | <u>43.4%</u> | <u>51.0%</u> | <u>51.0%</u> | <u>51.0%</u> |

West Virginia Lottery
Management's Discussion and Analysis
(Continued)

-Unaudited-

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees (Continued)

Table 5 (Continued)
Lottery Sales
(in \$000's)

| | Table Games | | | Historic Resort | | | Total | | |
|-------------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|-------------------|-------------------|-------------------|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Gross sales | \$ 46,928 | \$ 50,465 | \$ 70,259 | \$ 6,052 | \$ 7,048 | \$ 7,597 | \$ 1,164,004 | \$ 1,214,284 | \$ 1,328,377 |
| Less direct costs: | | | | | | | | | |
| Prizes and bonuses | - | - | - | - | - | - | \$ 106,476 | \$ 111,761 | \$ 116,230 |
| Commissions | 19,885 | 22,032 | 30,675 | 3,069 | 3,455 | 3,705 | \$ 505,211 | \$ 559,742 | \$ 614,527 |
| Ticket printing costs | - | - | - | - | - | - | \$ 1,516 | \$ 1,730 | \$ 1,804 |
| Vendor fees and costs | - | - | - | - | - | - | \$ 7,456 | \$ 8,044 | \$ 8,325 |
| Total direct costs | 19,885 | 22,032 | 30,675 | 3,069 | 3,455 | 3,705 | 620,659 | 681,277 | 740,886 |
| Gross Profit | <u>\$ 27,043</u> | <u>\$ 28,433</u> | <u>\$ 39,584</u> | <u>\$ 2,983</u> | <u>\$ 3,593</u> | <u>\$ 3,892</u> | <u>\$ 543,345</u> | <u>\$ 533,007</u> | <u>\$ 587,491</u> |
| Gross profit percentage | <u>57.6%</u> | <u>56.3%</u> | <u>56.3%</u> | <u>49.3%</u> | <u>51.0%</u> | <u>51.2%</u> | <u>46.7%</u> | <u>43.9%</u> | <u>44.2%</u> |

Instant Sales

Instant ticket sales for the current year decreased by \$2.3 million or 2.2% compared to the prior year, which decreased \$3.1 million or 2.8% from 2013. Sixty-one new games were introduced in 2015 and approximately twenty-six game options were available for play in the field in both years. The Lottery continues to implement the results of research and design efforts, including licensed or trademarked games, new play styles and continued monitoring of the mix of play styles and colors closely to create the best variety of game presentation available at one time. There were four ten-dollar tickets introduced in 2015. There were also eleven five-dollar tickets and eleven three-dollar tickets introduced. The Lottery has also implemented the use of pre-printed "shelf games" used to provide immediate stock should field inventory become low. These shelf games are worked into the schedule and used within one year in the event they are not used for emergency.

Instant prizes and commissions have a direct correlation to sales, therefore, as sales increase, so do the related prizes and commissions paid by the Lottery. Prize expenses for instant games are controllable by designing and printing a predetermined number and value of winning tickets. While each game has a designed prize payout structure, the overall amount paid as prize expense is consistent.

Vendor fees and costs are primarily 4.3% of instant and on-line ticket sales for 2015, 2014, and 2013. The Lottery (as is the case with most lotteries located in North America) has elected to enter into a long-term contract with a vendor to provide a central computer system, retailer terminals and related equipment to sell and cash all tickets for instant and on-line games.

Powerball® Sales

Powerball® is a \$2 Multi-State (MUSL) Lottery game designed to grow large jackpot amounts, with occasional jackpots in excess of \$400 million. Sales for the current year decreased \$5.4 million or 13.7% compared to the prior year, which decreased \$9.2 million or 18.9% from 2013. Sales are generally driven by the jackpot size.

Prize costs are 50% of sales and over time such prize payouts generally reflect the design of the game and the related mathematical odds of winning.

Traditional retailers are those retailers licensed by the Lottery to sell instant and on-line games (which includes Powerball®) and by statute were paid 7% of such sales.

West Virginia Lottery

Management's Discussion and Analysis (Continued)

-Unaudited-

Mega Millions® Sales

Mega Millions® sales offers jackpots starting at \$15 million and other prizes ranging from \$1 to \$1,000,000. Sales for the current year decreased \$1.2 million or 8.3% compared to the prior year, which increased \$5.6 million or 60.1% from 2013.

Approximately 50% of every dollar wagered goes back to the players in prizes and by statute 7% of sales are paid to retailer commissions.

All Other On-line Games

All other on-line games consist of Daily 3, Daily 4, Cash 25, Travel Keno and the Multi-State game Hot Lotto™. Sales for the current year increased \$272.7 thousand or 1.0% compared to the prior year, which decreased \$295 thousand or 1.0% from 2013.

In general, prize costs by game will increase or decrease from year-to-year in proportion to the sales for a particular game. Prizes and commissions have remained consistent as presented in Table 4.

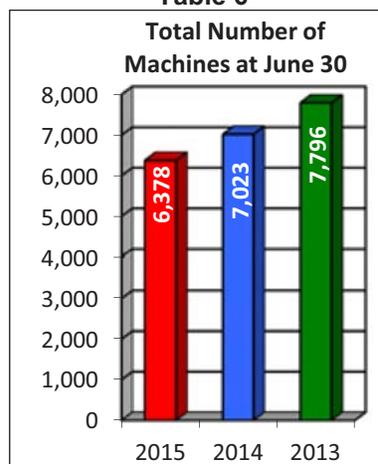
Racetrack Video Lottery

Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year decreased \$33.1 million or 5.6% compared to the prior year, which decreased \$64.8 million or 9.9% from 2013.

A portion of racetrack video lottery sales, as prescribed by statute, are paid to racetracks and other private entities associated with the racing industry and are reported as commissions. See Note 7 to the financial statements for further discussion of racetrack video lottery distributions. Commissions in the current year decreased \$49.4 million or 14.7% compared to the prior year which decreased \$34.6 million or 9.3% compared to 2013 due to competition from neighboring states. See Note 12 to the financial statements for further discussion of recent legislation and its impact on commissions and distributions related to racetrack video lottery sales.

During the year ended June 30, 2015, increased competition from gaming operations in neighboring states has led the racetracks to re-evaluate their gaming environments which have resulted in changes to the gaming floors. The changes in active machines are presented in Table 6 below which illustrates the last three fiscal years.

Table 6



West Virginia Lottery

Management's Discussion and Analysis (Continued)

-Unaudited-

Limited Video Lottery

Sales for the current year decreased \$4.0 million or 1.1% compared to the prior year, which decreased \$22.0 million or 5.5% from 2013. Commissions are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales. For the current year, commissions decreased \$2.0 million or 1.1% compared to the prior year decrease of \$10.8 million or 5.5% from 2013.

Table 7 illustrates the number of machines which decreased by 7 machines for the current year compared to the prior year decrease of 1,001 machines from 2013.

Table 7

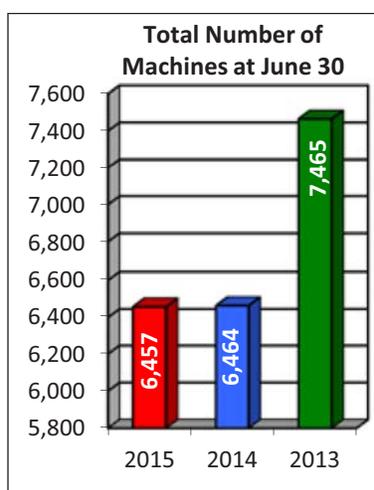


Table Games

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues for the current year decreased \$3.5 million or 7.0% compared to the prior year, which decreased \$19.8 million or 28.2% from 2013.

All table games revenues are distributed according to statute. A portion of table games revenues are paid to entities associated with the racetracks and are reported as commissions. See Note 9 to the financial statements. Commissions for the current year decreased \$2.1 million or 9.7% compared to the prior year, which decreased \$8.6 million or 28.2% from 2013.

Historic Resort

Video Lottery revenues from Historic Resort are calculated as defined in Note 10 to the financial statements. Revenues from Historic Resort table games are calculated at a 35% privilege tax of adjusted gross receipts.

Combined revenues of video lottery and table games at the Historic Resort for the current year decreased \$995.3 thousand or 14.1% compared to the prior year, which decreased \$549 thousand or 7.2% from 2013.

All revenues are distributed according to statute. A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions for the current year decreased \$386 thousand or 11.2% compared to the prior year, which decreased \$250 thousand or 6.8% from 2013.

West Virginia Lottery

Management's Discussion and Analysis (Continued)

-Unaudited-

Other Operating Income

Refer to Table 4. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers.

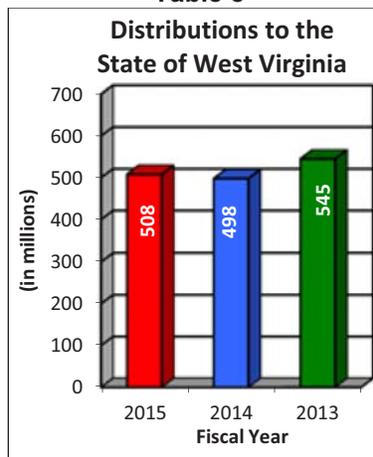
Nonoperating Income (Expense)

Refer to Table 4. Nonoperating expenses reflect a 2% distribution to counties and incorporated municipalities of net terminal income from limited video lottery operations. This distribution will fluctuate with any changes in limited video lottery revenues.

A portion of net revenue from racetrack video lottery is accrued and distributed to each racetrack for capital improvements.

Refer to Table 8. The Lottery's distributions to the State of West Virginia for the current fiscal year increased by \$10.0 million compared to the prior year, which decreased by \$46.8 million from 2013.

Table 8



Requests for Information

This financial report is designed to provide a general overview of the Lottery's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Deputy Director of Finance and Administration, West Virginia Lottery, 900 Pennsylvania Avenue, Charleston WV 25302.

WEST VIRGINIA LOTTERY
STATEMENTS OF NET POSITION
(In Thousands)

June 30, 2015 and 2014

| <u>ASSETS</u> | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 163,592 | \$ 149,712 |
| Accounts receivable | 33,929 | 34,790 |
| Inventory | 457 | 633 |
| Other assets | <u>1,894</u> | <u>1,946</u> |
| Total current assets | <u>199,872</u> | <u>187,081</u> |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 1,130 | 1,397 |
| Capital assets | 47,763 | 47,391 |
| Less accumulated depreciation and amortization | <u>(10,000)</u> | <u>(8,646)</u> |
| Total noncurrent assets | <u>37,763</u> | <u>38,745</u> |
| Total noncurrent assets | <u>38,893</u> | <u>40,142</u> |
| Total assets | <u>\$ 238,765</u> | <u>\$ 227,223</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | |
| Deferred outflows of resources related to pension | <u>\$ 1,099</u> | <u>\$ -</u> |
| <u>LIABILITIES</u> | | |
| Current liabilities: | | |
| Accrued nonoperating distributions to the State of West Virginia | \$ 123,920 | \$ 114,914 |
| Estimated prize claims | 15,911 | 14,983 |
| Accounts payable | 2,158 | 1,505 |
| Other accrued liabilities | <u>39,531</u> | <u>40,801</u> |
| Total current liabilities | <u>181,520</u> | <u>172,203</u> |
| Noncurrent liabilities: | | |
| Net pension liability | <u>2,035</u> | <u>-</u> |
| Total liabilities | <u>\$ 183,555</u> | <u>\$ 172,203</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | |
| Deferred inflows of resources related to pension | <u>\$ 2,153</u> | <u>\$ -</u> |
| <u>NET POSITION</u> | | |
| Net position: | | |
| Restricted by enabling legislation | \$ 1,130 | \$ 1,397 |
| Net investment in capital assets | 37,763 | 38,745 |
| Unrestricted | <u>15,263</u> | <u>14,878</u> |
| Total net position | <u>\$ 54,156</u> | <u>\$ 55,020</u> |

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(In Thousands)

Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|------------------|------------------|
| Lottery revenues: | | |
| On-line games | \$ 76,724 | \$ 83,069 |
| Instant games | 103,276 | 105,562 |
| Racetrack video lottery | 557,803 | 590,918 |
| Limited video lottery | 373,221 | 377,222 |
| Table games | 46,928 | 50,465 |
| Historic resort | 6,052 | 7,048 |
| | <u>1,164,004</u> | <u>1,214,284</u> |
| Less commissions: | | |
| On-line games | 5,372 | 5,821 |
| Instant games | 7,229 | 7,390 |
| Racetrack video lottery | 286,778 | 336,205 |
| Limited video lottery | 182,878 | 184,839 |
| Table games | 19,885 | 22,032 |
| Historic resort | 3,069 | 3,455 |
| | <u>505,211</u> | <u>559,742</u> |
| Less on-line prize costs | 38,162 | 42,096 |
| Less instant prize costs | 68,314 | 69,665 |
| Less ticket costs | 1,516 | 1,730 |
| Less vendor fees and costs | 7,456 | 8,044 |
| | <u>115,448</u> | <u>121,535</u> |
| Gross profit | <u>543,345</u> | <u>533,007</u> |
| Administrative expenses: | | |
| Advertising and promotions | 5,229 | 5,755 |
| Wages and related benefits | 10,266 | 10,854 |
| Telecommunications | 944 | 881 |
| Contractual and professional | 5,160 | 4,682 |
| Rental | 271 | 267 |
| Depreciation and amortization | 1,354 | 2,020 |
| Other administrative expenses | 1,466 | 1,420 |
| | <u>24,690</u> | <u>25,879</u> |
| Other operating income | <u>11,313</u> | <u>11,719</u> |
| Operating income | <u>529,968</u> | <u>518,847</u> |
| Nonoperating income (expense): | | |
| Investment income | 406 | 463 |
| Distributions to municipalities and counties | (7,315) | (7,394) |
| Distributions for capital reinvestment | (11,717) | (13,397) |
| Distributions to the State of West Virginia | (508,329) | (498,365) |
| | <u>(526,955)</u> | <u>(518,693)</u> |
| Net income | <u>3,013</u> | <u>154</u> |
| Net position, beginning of year | 55,020 | 54,866 |
| Cumulative effect of adoption of accounting principle | <u>(3,877)</u> | <u>-</u> |
| Net position, beginning of year, as restated | <u>51,143</u> | <u>54,866</u> |
| Net position, end of year | <u>\$ 54,156</u> | <u>\$ 55,020</u> |

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS
(In Thousands)

Years Ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers and other sources | \$ 1,176,178 | \$ 1,227,212 |
| Cash payments for: | | |
| Personnel costs | (10,752) | (10,932) |
| Suppliers | (12,388) | (13,019) |
| Other operating costs | <u>(620,065)</u> | <u>(681,302)</u> |
| Cash provided by operating activities | <u>532,973</u> | <u>521,959</u> |
| Cash flows from noncapital financing activities: | | |
| Nonoperating distributions to the State of West Virginia | (499,323) | (622,486) |
| Distributions to municipalities and counties | (7,300) | (7,428) |
| Distributions to racetracks from racetrack capital reinvestment fund | <u>(12,829)</u> | <u>(15,795)</u> |
| Cash used in noncapital financing activities | <u>(519,452)</u> | <u>(645,709)</u> |
| Cash flows from capital and related financing activities | | |
| Purchases of capital assets | <u>(372)</u> | <u>(545)</u> |
| Cash flows from investing activities: | | |
| Investment earnings | <u>464</u> | <u>346</u> |
| Increase (decrease) in cash and cash equivalents | 13,613 | (123,949) |
| Cash and cash equivalents (including restricted cash and cash equivalents), beginning of year | <u>151,109</u> | <u>275,058</u> |
| Cash and cash equivalents (including restricted cash and cash equivalents), end of year | <u>\$ 164,722</u> | <u>\$ 151,109</u> |

(Continued)

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS

(In Thousands)

(Continued)

Years Ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 529,968 | \$ 518,847 |
| Adjustments to reconcile operating income to cash provided by operating activities: | | |
| Depreciation and amortization | 1,354 | 2,020 |
| Pension expense | 250 | - |
| Changes in operating accounts: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 861 | 1,209 |
| Inventory | 176 | (141) |
| Other assets | (6) | 294 |
| Deferred outflows of resources | (1,039) | - |
| Increase (decrease) in: | | |
| Estimated prize claims | 928 | 839 |
| Accounts payable | 653 | (323) |
| Other accrued liabilities | (172) | (786) |
| Cash provided by operating activities | <u>\$ 532,973</u> | <u>\$ 521,959</u> |

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS

1 - LEGISLATIVE ENACTMENT

The West Virginia Lottery (the Lottery) was established by the State Lottery Act (the Act) passed April 13, 1985, which created a fund in the State Treasury designated as the "State Lottery Fund." The purpose of the Act was to establish and implement a state-operated lottery under the supervision of a state lottery commission (the Commission) and a Director. The Commission, consisting of seven members, and the Director are appointed by the Governor. Under the Act, the Commission has certain powers and the duty to establish rules for conducting games, to select the type and number of gaming systems or games, to enter into contracts and agreements, and to do all acts necessary or incidental to the performance of its duties and exercise of its power and duty to operate the Lottery in a highly efficient manner. The Act provides that a minimum annual average of 45% of the gross amount received from each lottery shall be allocated for prizes and also provides for certain limitations on expenses necessary for operation and administration of the Lottery. To the extent available, remaining net profits are to be distributed to the State of West Virginia (the State) and local governments as required by law. As the State is able to impose its will over the Lottery, the Lottery is considered a component unit of the State and its financial statements are presented in the comprehensive annual financial report of the State as a discretely presented component unit.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The West Virginia Lottery is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with accounting principles generally accepted in the United States of America for governmental entities, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain estimates and develop assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from management's estimates.

Lottery Game Operations

The West Virginia Lottery derives its revenues from four basic types of lottery games: instant, on-line, video type games, and table games. The Lottery develops multiple game themes and prize structures to comply with its enabling legislation, including aggregate annual minimum prize provisions. All bonded retailers and agents comprised principally of grocery and convenience stores serve as the primary distribution channel for instant and on-line lottery sales to the general public.

The Lottery has contracted with a private vendor to manufacture, distribute, and provide data processing support for instant and on-line lottery games. Under the terms of the agreements, the Lottery pays a percentage of gross revenues for the processing and manufacturing of the games.

Revenue from instant games is recognized when game tickets are sold to the retailers, and the related prize expense is recorded based on the specific game prize structure. Instant ticket sales and related prizes do not include the value of free plays issued for the purpose of increasing the odds of winning a prize.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

Sales of on-line lottery tickets are made by licensed agents to the public with the use of computerized terminals. On-line games include POWERBALL®, a multi-state “jackpot” game; HOT LOTTO™, a multi-state “lotto” game; MEGA MILLIONS®, a multi-state lotto game; Cash25 “lotto” game; Daily 3 and 4 “numbers” games; and Travel, an online “keno” game. Revenue is recognized when the agent sells the tickets to the public. Prize expense is recognized on the basis of actual drawing results.

Commissions are paid to instant game retailers and on-line agents at the rate of seven percent of gross sales. A portion of the commission not to exceed one and one quarter percent of gross sales may be paid from unclaimed prize moneys. The amount paid from unclaimed prize moneys is credited against prize costs. In addition, retailers and agents are paid limited bonus incentives that include prize shares on winning tickets they sold and a ticket cashing bonus on winning tickets they cash. On a weekly basis, retailers and agents must remit amounts due to the Lottery. Retailers may not be able to order additional instant tickets if payment has not been made for the previous billing period, while an agent’s on-line terminal may be rendered inactive if payment is not received. No one retailer or agent accounts for a significant amount of the Lottery’s sales or accounts receivable. Historically credit losses have been nominal and no allowance for doubtful accounts receivable is considered necessary.

Racetrack video lottery is a self-activated video version of lottery games. The board-operated games allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The games allow a player to use coins, currency, tokens, or tickets, to place bets for the chance to receive coins, tokens, or ticket awards which may be redeemed for cash or used for replay in the games. The racetrack video lottery games’ prize structures are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as racetrack video lottery revenue “gross terminal income” equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to private and local government entities are reported as commissions.

Racetrack video lottery legislation has established specific requirements for racetrack video lottery and imposed certain restrictions limiting the licensing for the operation of racetrack video lottery games to horse and dog racetracks in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from racetrack video lottery games, and requires any licensed racetrack to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Limited video lottery is also a self-activated video version of lottery games located in limited licensed retailer areas restricted for adult amusement. The games allow a player to use currency to place bets for the chance to receive free games or vouchers which may be redeemed for cash. The limited video lottery games’ prize structures are designed to award prizes, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as limited video lottery revenue “gross terminal income” equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to private entities are reported as commissions. Limited video lottery permit holders are statutorily responsible for acquiring equipment and bearing the risk associated with the costs of operating the games.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

Table games legislation has established specific requirements for table games and imposed certain restrictions limiting the licensing for operation of table games to horse and dog racetracks and a historic resort in West Virginia, subject to local county elections permitting the same. Each location licensed as an agent of the Commission to operate West Virginia table games shall have written rules of play for each table game it operates which must be approved by the Commission. All wagers and pay-offs of winning wagers shall be made according to those rules of play. For the privilege of holding a table games license, there is levied a privilege tax of thirty-five percent of each licensee's adjusted gross receipts from the operation of Lottery table games which the Lottery records as revenue. Amounts required by statute to be paid to private and local government entities are reported as commissions. The legislation further stipulates the distribution of revenues from West Virginia table games, and requires any licensed location to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Historic resort lottery games are a combination of self-activated video lottery games as well as table games which are located at a licensed historic resort hotel as defined by the WV Code. Video lotteries at the historic resort are board-operated games that allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The video lottery games allow a player to use coins, currency, tokens, or tickets, to place bets for the chance to receive coins, tokens, or ticket awards which may be redeemed for cash or used for replay in the games.

The historic resort video lottery games' prize structures are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes video lottery revenue consisting of "gross terminal income" equivalent to all wagers, net of related prizes; and historic resort table games revenue consisting of a privilege tax of thirty-five percent of adjusted gross receipts for the operation of table game as historic resort lottery revenues.

Amounts required by statute to be paid to the private and local government entities are reported as commissions. The Lottery Act as amended has established specific requirements for historic resort video and table games lotteries and imposed certain restrictions limiting the licensing for operation of historic resort lottery games in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from historic resort lottery games, and requires the licensed historic resort to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits on hand with the State Treasurer of West Virginia and interest-earning deposits in State investments pools maintained by the West Virginia Board of Treasury Investments (BTI). The West Virginia Money Market Pool is a 2a-7-like pool carried at amortized cost and the West Virginia Short Term Bond Pool is carried at fair value.

Inventory

Inventory consists of instant game tickets available for sale to approved Lottery retailers and are carried at cost as determined by the specific identification method.

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Assets

Other assets consist of deposits restricted for payment of certain Multi-State Lottery Association activities and prepaid expenses.

Capital Assets

The Lottery has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000 and a useful life greater than one year. These assets include a building, leasehold improvements, and purchased equipment comprised principally of technology property, office furnishings and equipment necessary to administer lottery games, and are carried at cost. Depreciation is computed by the straight-line method over the estimated economic useful lives of the assets, which are as follows:

| | |
|------------------------|-----------|
| Building | 40 years |
| Leasehold improvements | 5 years |
| Equipment | 3-5 years |

The Lottery leases, under a cancelable operating lease, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases.

Accrued Employee Benefits

Employees fully vest in all earned but unused annual leave. In accordance with State personnel policies, employees hired prior to July 1, 2001, vest in unused sick leave only upon retirement, at which time such unused leave can be converted into post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits. To the extent that eligible conversion benefits are determined, a liability has been accrued as a result of the Lottery's participation in the State's post-employment benefits plan, in accordance with GAAP. The Lottery accrues a liability for estimated liabilities that may arise in connection with compensated absences at the current rate of employee pay. The Lottery's annual leave transactions for years ending June 30, 2015 and June 30, 2014 are as follows:

| | <u>Year Ending June 30</u> | |
|--|----------------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| Beginning estimated liabilities | \$ 573,313 | \$ 555,325 |
| Leave expenses incurred | 553,835 | 573,313 |
| Leave expenses paid | <u>563,235</u> | <u>555,325</u> |
| Ending estimated liabilities | <u>\$ 563,913</u> | <u>\$ 573,313</u> |
| Liabilities estimated to be paid in one year | <u>\$ 563,913</u> | <u>\$ 573,313</u> |

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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 Public Employees Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. 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.

Deferred Outflows of Resources/Deferred Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Currently the Lottery has recognized deferred outflows of resources related to pensions (See Note 14). Deferred inflows of resources represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Currently the Lottery has recognized deferred inflows of resources related to pensions (See Note 14).

Net Position

Net position is presented as either unrestricted, restricted by enabling legislation for capital project, or as net investment in capital assets which represents the net book value of all property and equipment of the Lottery. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted resources are applied first.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds such as the Lottery are revenues and expenses that result from providing services and producing and delivering goods and/or services. Operating revenues for the Lottery are derived from providing various types of lottery games. Operating expenses include commissions, prize costs, other direct costs of providing lottery games, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Advertising and Promotions

The Lottery expenses the costs of advertising and promotions as they are incurred.

3 - CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE

Effective July 1, 2014, the Lottery adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*-an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*-an amendment of GASB Statement No. 68. The Lottery determined that it was not practical to restate all periods presented and has recorded the cumulative effect of the decrease to beginning net position of implementing this change of \$3,877 (in thousands) as of July 1, 2014, which is the net pension liability of \$4,949 (in thousands) less deferred outflows of resources related to pension plan contributions of \$1,072 (in thousands) as of that date. The Lottery further determined that it was not practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions as of July 1, 2014 and these amounts are not reported.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CASH AND CASH EQUIVALENTS

At June 30, 2015 and 2014, the carrying amounts of deposits with financial institutions were \$477 thousand and \$473 thousand, respectively, with bank balances of \$498 and \$500 thousand, respectively. Deposits up to \$250 thousand are insured by the Federal Depository Insurance Corporation. Any balances over the insured amount are collateralized with securities held by the State of West Virginia's agent in the State's name.

At June 30, 2015 and 2014, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

| | 2015 | 2014 |
|---|------------|------------|
| Deposits with financial institutions | \$ 477 | \$ 473 |
| Cash on hand at the Treasurer's Office | 21,525 | 21,310 |
| Investments with BTI reported as cash equivalents | 142,720 | 129,326 |
| | \$ 164,722 | \$ 151,109 |

The State Treasurer has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions and transfers funds to the BTI for investment in accordance with West Virginia statutes, policies set by the BTI and by provisions of bond indentures and trust agreements when applicable.

The Lottery's cash balances are invested by the BTI in the BTI's West Virginia Money Market Pool and the BTI's West Virginia Short Term Bond Pool. Investment income is pro-rated to the Lottery at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Investments in the West Virginia Money Market Pool are available to the Lottery with overnight notice. Investments in the West Virginia Short Term Bond Pool are available to the Lottery on the first day of each month.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The West Virginia Money Market Pool has been rated AAAm by Standard & Poor's. A fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. Neither the BTI itself nor the West Virginia Short Term Bond Pool has been rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the West Virginia Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CASH AND CASH EQUIVALENTS (Continued)

The following table provides information on the credit ratings of the West Virginia Money Market Pool's investments (in thousands):

| Security Type | Credit Rating | | Carrying Value | Percent of Assets |
|---|---------------|------|---------------------|-------------------|
| | Moody's | S&P | | |
| Commercial paper | P-1 | A-1+ | \$ 186,737 | 9.88% |
| Corporate bonds and notes | P-1 | A-1 | 660,027 | 34.91 |
| | Aa3 | A+ | 10,005 | 0.53 |
| | Aa3 | AA- | 10,000 | 0.53 |
| | Aa3 | NR | 10,000 | 0.53 |
| U.S. agency bonds | Aaa | AA+ | 81,994 | 4.34 |
| U.S. Treasury notes* | Aaa | AA+ | 229,760 | 12.15 |
| U.S. Treasury bills * | P-1 | A-1+ | 92,059 | 4.87 |
| Negotiable certificates of deposit | Aa2 | AA- | 10,000 | 0.53 |
| | P-1 | A-1+ | 51,000 | 2.70 |
| | P-1 | A-1 | 142,000 | 7.51 |
| U.S. agency discount notes | P-1 | A-1+ | 304,342 | 16.10 |
| Money market funds | Aaa | AAAm | 90,017 | 4.76 |
| Repurchase agreements (underlying securities): | | | | |
| U.S. Treasury notes* | Aaa | AA+ | 1,323 | 0.07 |
| U.S. agency notes | Aaa | AA+ | 11,200 | 0.59 |
| | | | <u>\$ 1,890,464</u> | <u>100.00%</u> |

NR=Not Rated

* U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

The BTI limits the exposure to credit risk in West Virginia Short Term Bond Pool by requiring all corporate bonds to be rated BBB- or higher by Standard & Poor's (or its equivalent). Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's and Aaa by Moody's. The following table provides information on the credit ratings of the West Virginia Short Term Bond Pool's investments (in thousands):

| Security Type | Credit Rating | | Carrying Value | Percent of Assets |
|-----------------------------------|---------------|-----|----------------|-------------------|
| | Moody's | S&P | | |
| Corporate asset backed securities | Aaa | AAA | \$ 106,301 | 13.96% |
| | Aaa | AA+ | 3,822 | 0.50 |
| | Aaa | NR | 105,366 | 13.84 |
| | NR | AAA | 80,008 | 10.51 |
| Corporate bonds and notes | Aaa | AA+ | 7,689 | 1.01 |
| | Aa1 | AA+ | 5,013 | 0.66 |
| | Aa1 | AA | 4,039 | 0.53 |

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CASH AND CASH EQUIVALENTS (Continued)

| <u>Security Type</u> | <u>Credit Rating</u> | | <u>Carrying Value</u> | <u>Percent of Assets</u> |
|--|----------------------|----------------|-----------------------|--------------------------|
| | <u>Moody's</u> | <u>S&P</u> | | |
| | Aa2 | AA+ | 4,041 | 0.53 |
| | Aa2 | AA | 6,987 | 0.92 |
| | Aa2 | AA- | 15,025 | 1.97 |
| | Aa2 | A | 1,496 | 0.20 |
| | Aa2 | A- | 1,001 | 0.13 |
| | Aa3 | AA- | 16,380 | 2.15 |
| | Aa3 | A+ | 15,787 | 2.07 |
| | A1 | AA+ | 7,097 | 0.93 |
| | A1 | AA- | 21,552 | 2.83 |
| | A1 | A+ | 24,116 | 3.17 |
| | A1 | A | 8,078 | 1.06 |
| | A2 | A+ | 4,617 | 0.61 |
| | A2 | A | 45,485 | 5.97 |
| | A2 | A- | 9,485 | 1.25 |
| | A3 | A- | 43,564 | 5.72 |
| | A3 | A | 20,699 | 2.72 |
| | A3 | BBB+ | 9,745 | 1.28 |
| | Baa1 | A | 2,001 | 0.26 |
| | Baa1 | A- | 27,754 | 3.64 |
| | Baa1 | BBB+ | 33,751 | 4.43 |
| | Baa1 | BBB | 12,788 | 1.68 |
| | Baa1 | BBB- | 500 | 0.07 |
| | Baa2 | BBB+ | 3,205 | 0.42 |
| | Baa2 | BBB | 19,066 | 2.50 |
| | Baa2 | BBB- | 3,008 | 0.40 |
| | Baa3 | BBB+ | 2,125 | 0.28 |
| | Baa3 | BBB | 6,265 | 0.82 |
| | Baa3 | BBB- | 17,460 | 2.29 |
| U.S. agency mortgage backed securities * | Aaa | AA+ | 32,198 | 4.23 |
| Money market funds | Aaa | AAAm | <u>34,012</u> | <u>4.46</u> |
| | | | <u>\$ 761,526</u> | <u>100.00%</u> |

NR = Not Rated

*U.S. agency mortgage backed securities are explicitly guaranteed by the United States government and are not subject to credit risk

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The overall weighted average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides the weighted average maturities for the various asset types in the West Virginia Money Market Pool.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CASH AND CASH EQUIVALENTS (Continued)

| <u>Security Type</u> | <u>Carrying Value (In Thousands)</u> | <u>Weighted Average Maturity In Days</u> |
|----------------------------|--|--|
| Repurchase agreements | \$ 12,523 | 1 |
| US Treasury notes | 229,760 | 75 |
| US Treasury bills | 92,059 | 123 |
| Commercial paper | 846,764 | 30 |
| Certificates of deposit | 203,005 | 51 |
| U.S. Agency discount notes | 304,342 | 60 |
| Corporate bonds and notes | 30,000 | 75 |
| U.S. agency bonds | 81,994 | 58 |
| Money market funds | <u>90,017</u> | 1 |
| Total assets | <u>\$ 1,890,464</u> | |

The weighted average maturity of the investments of the West Virginia Money Market Pool as of June 30, 2015, is 47 days.

The overall effective duration of the investments of the West Virginia Short Term Bond Pool cannot exceed 731 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the West Virginia Short Term Bond Pool (in thousands):

| <u>Security Type</u> | <u>Carrying Value (In Thousands)</u> | <u>Effective Duration (Days)</u> |
|--|--|--------------------------------------|
| Corporate bonds and notes | \$ 399,822 | 495 |
| Corporate asset backed securities | 295,494 | 357 |
| U.S. agency mortgage backed securities | 32,198 | 267 |
| Money market funds | <u>34,012</u> | 1 |
| Total assets | <u>\$ 761,526</u> | |

The effective duration of the investments in the West Virginia Short Term Bond Pool as of June 30, 2015 is 410 days.

Concentration of credit risk - West Virginia statutes prohibit the West Virginia Money Market Pool and West Virginia Short Term Bond Pool from investing more than 5% of its assets in securities issued by one corporate name or corporate issue. At June 30, 2015, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk - At June 30, 2015, neither the West Virginia Money Market Pool nor the West Virginia Short Term Bond Pool held securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102%, and the collateral is held in the name of the BTI.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CASH AND CASH EQUIVALENTS (Continued)

Foreign currency risk - Neither the West Virginia Money Market Pool nor the West Virginia Short Term Bond Pool has securities that are subject to foreign currency risk.

5 - CAPITAL ASSETS

A summary of capital asset activity is as follows (in thousands):

| | Historical cost at June 30, 2013 | Additions | Deletions | Historical cost at June 30, 2014 | Additions | Deletions | Historical cost at June 30, 2015 |
|-----------------------------------|--|-----------------|-------------|--|-----------------|-------------|--|
| Capital assets, not depreciated | | | | | | | |
| Construction in progress | \$ 549 | \$ 243 | \$ - | \$ 792 | \$ 298 | \$ - | \$ 1,090 |
| Land | 1,434 | - | - | 1,434 | - | - | 1,434 |
| Capital assets, being depreciated | | | | | | | |
| Building | 38,084 | - | - | 38,084 | - | - | 38,084 |
| Improvements | 260 | - | - | 260 | - | - | 260 |
| Equipment | 6,519 | 302 | - | 6,821 | 74 | - | 6,895 |
| | <u>\$ 46,846</u> | <u>\$ 545</u> | <u>\$ -</u> | <u>\$ 47,391</u> | <u>\$ 372</u> | <u>\$ -</u> | <u>\$ 47,763</u> |
| | | | | | | | |
| | Accumulated depreciation at June 30, 2013 | Additions | Deletions | Accumulated depreciation at June 30, 2014 | Additions | Deletions | Accumulated depreciation at June 30, 2015 |
| Building | \$ 1,189 | \$ 952 | \$ - | \$ 2,141 | \$ 952 | \$ - | \$ 3,093 |
| Improvements | 260 | - | - | 260 | - | - | 260 |
| Equipment | 5,177 | 1,068 | - | 6,245 | 402 | - | 6,647 |
| | <u>\$ 6,626</u> | <u>\$ 2,020</u> | <u>\$ -</u> | <u>\$ 8,646</u> | <u>\$ 1,354</u> | <u>\$ -</u> | <u>\$ 10,000</u> |

6 - PARTICIPATION IN THE MULTI-STATE LOTTERY

The Lottery is a member of the Multi-State Lottery (MUSL), which operates the semi-weekly POWERBALL® jackpot lotto game, the HOT LOTTO™ game, and MEGA MILLIONS® jackpot game on behalf of other participating lotteries. MUSL is currently comprised of 33 member state lotteries, including the District of Columbia and the United States Virgin Islands. MUSL is managed by a Board of Directors, which is comprised of the lottery directors or their designee from each of the party states. The Board of Directors' responsibilities to administer the Multi-State Lottery POWERBALL®, HOT LOTTO™, and MEGA MILLIONS® games are performed by advisory committees or panels staffed by officers and

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - PARTICIPATION IN THE MULTI-STATE LOTTERY (Continued)

independent contractors appointed by the board. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties and qualifications. The Executive Committee carries out the budgeting and financing of MUSL, while the board contracts the annual independent audit. A copy of the audit may be obtained by writing to the Multi-State Lottery Association, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the total prize pool less the amount of prizes won in each state. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL®, HOT LOTTO™, and MEGA MILLIONS® is 50% of each drawing period's sales, with minimum jackpot levels.

Revenues derived from the Lottery's participation in the MUSL POWERBALL® jackpot game were \$34,099,437 and \$39,490,788 for the years ended June 30, 2015 and 2014, respectively, and related prize costs were \$17,065,233 and \$19,747,242, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$5,745,617 and \$5,310,353 for the years ended June 30, 2015 and 2014, respectively, and related prize costs were \$2,873,122 and \$2,655,381, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$13,623,552 and \$14,850,257 for the years ended June 30, 2015 and 2014, respectively, and related prize costs were \$6,812,613 and \$7,536,658, respectively.

MUSL places a percentage of game sales from each game in separate prize reserve funds that serve as a contingency reserve to protect the respective MUSL Product Groups from unforeseen prize liabilities. These funds can only be used at the discretion of the respective MUSL Product Group. Once the prize reserve funds exceed the designated limit, the excess becomes part of that particular prize pool. Prize reserve fund monies are refundable to MUSL Product Group members if the MUSL disbands or, after one year, if a member leaves the MUSL. The applicable sales percentage contribution as well as the reserve fund limit for the MUSL games is as follows (in thousands):

| | POWERBALL® | HOT LOTTO™ | MEGA MILLIONS® |
|------------------------------------|------------|------------|----------------|
| Required Contribution (% of sales) | 2% | 3% | 1% |
| Reserve Fund Cap | \$125,000 | \$9,000 | 45,000 |

The Lottery's share of the prize reserve fund balances with MUSL as of June 30, were as follows (in thousands):

| | 2015 | | 2014 | |
|-----------------|------------------------|---------------|------------------------|---------------|
| | Total Prize Reserve | Lottery Share | Total Prize Reserve | Lottery Share |
| POWERBALL ® | \$ 109,940 | \$ 1,887 | \$ 111,576 | \$ 1,887 |
| HOT LOTTO ™ | 8,022 | 548 | 7,412 | 548 |
| MEGA MILLIONS ® | 37,272 | 561 | 35,843 | 583 |
| | \$ 155,234 | \$ 2,996 | \$ 154,831 | \$ 3,018 |

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

6 - PARTICIPATION IN THE MULTI-STATE LOTTERY (Continued)

Lottery prize reserves held by the MUSL are invested according to a Trust agreement the Lottery has with MUSL outlining investment policies. The policies restrict investments to direct obligations of the United States Government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States Government, and mutual funds of approved investments. The average portfolio maturity is never more than one year, except that up to one third of the portfolio may have an average maturity of up to two years. The maximum maturity for any one security does not exceed five years.

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above the expenses are credited to an unreserved fund. The Lottery records this interest when earned. This fund had a balance of \$15,446,835 and \$16,082,650 at June 30, 2015 and 2014, of which the Lottery's share was \$1,589,433 and \$1,617,659, respectively.

7 - RACETRACK VIDEO LOTTERY

Racetrack video lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended on a number of occasions to revise and modify revenue distribution based on revenue benchmarks. Most recently revisions included in House Bill (H.B.) 101, as passed during the first extraordinary session of the West Virginia legislature during 2014 (See Note 12), have been implemented during the year ended June 30, 2015. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. For the year ended June 30, 2015, fifty-seven percent (57%) and for the year ended June 30, 2014, sixty-six percent (66%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions as follows:

| | 2015 | 2014 |
|--|-------|-------|
| Racetracks | 46.5% | 46.5% |
| Other private entities associated with the racing industry | 8.7% | 17.5% |
| Local county and municipal governments | 2% | 2% |

The remaining revenues (42.8% for the year ended June 30, 2015 and 34% for the year ended June, 2014) of net terminal revenue is allocated for distribution to State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in the Note 11 titled "Nonoperating Distributions to the State of West Virginia."

The first benchmark occurs when the current year net terminal revenue meets the fiscal year 1999 net terminal revenue. The counties and incorporated municipalities split 50/50 the two percent (2%) net terminal revenue.

The second benchmark occurs when the current year gross terminal revenue meets the fiscal year 2001 gross terminal revenue. The four percent (4%) is no longer allocated for lottery administrative costs; instead the State receives this for distribution as specified by legislation or the State budget.

The final benchmark occurs when the current year net terminal revenue meets the fiscal year 2001 net terminal revenue. At this point a 10% surcharge is applied to net terminal revenue, with 58% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 42% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - RACETRACK VIDEO LOTTERY (Continued)

After deduction of the surcharge, for the year ended June 30, 2015 and 2014 respectively, 49% and 55% of net terminal revenue is allocated in lieu of commissions as follows:

| | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|
| Racetracks | 42% | 42% |
| Other private entities associated with the racing industry | 5% | 11% |
| Local county and municipal governments | 2% | 2% |

The remaining net terminal revenue (51% for the year ended June 30, 2015 and 45% for the year ended June 30, 2014) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 11.

Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. The Lottery, along with the Ohio, Rhode Island and Delaware state lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee which is a percentage of the amount wagered. This fee was of 0.75% for years ended June 30, 2015 and June 30, 2014 respectively.

A summary of racetrack video lottery revenues for the years ended June 30, 2015 and 2014, follows (in thousands):

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|
| Total credits (bets) played | \$ 6,269,246 | \$ 6,574,814 |
| Credits (prizes) won | (5,624,402) | (5,897,773) |
| Promotional credits played | (86,704) | (85,802) |
| MWAP Contributions | <u>(337)</u> | <u>(321)</u> |
| Gross terminal income | 557,803 | 590,918 |
| Administrative costs | <u>(15,800)</u> | <u>(16,586)</u> |
| Net terminal income | 542,003 | 574,332 |
| Commissions | <u>(286,778)</u> | <u>(336,205)</u> |
| Racetrack video lottery revenues available for distribution | <u>\$ 255,225</u> | <u>\$ 238,127</u> |

A summary of racetrack video lottery revenues paid or accrued for certain State funds to conform with the legislation follows (in thousands):

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------|-------------|-------------|
| State Lottery Fund | \$ 114,965 | \$ 120,729 |
| State Excess Lottery Revenue Fund | 134,504 | 77,443 |
| Capital Reinvestment Fund | 5,756 | 6,924 |
| Tourism Promotion Fund | - | 7,573 |

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - RACETRACK VIDEO LOTTERY (Continued)

| | 2015 | 2014 |
|--|------------|------------|
| Development Office Promotion Fund | - | 2,065 |
| Research Challenge Fund | - | 2,754 |
| Capitol Renovation and Improvement Fund | - | 3,787 |
| Parking Garage Fund | - | 844 |
| Cultural Facilities and Capitol Resources Fund | - | 1,500 |
| Capitol Dome and Capitol Improvements Fund | - | 3,508 |
| Workers Compensation Debt Reduction Fund | - | 11,000 |
| Total nonoperating distributions | \$ 255,225 | \$ 238,127 |

On March 12, 2011, the Legislature passed Senate Bill 550 which provides for the creation of the Racetrack Modernization Fund. The Modernization Fund is available to reimburse the licensed tracks \$1 for every \$2 spent on the costs of facility modernization. For each year ended June 30, 2011 through June 30, 2014, the Lottery is to transfer up to \$10 million from racetrack administrative surplus funds to the Modernization Fund, and up to \$9 million for the years ended June 30, 2015 through June 30, 2020, which is allocated to each track on a pro rata basis according to their administrative contribution for the fiscal year. For the years ended June 30, 2015 and 2014, the Lottery transferred \$9 million and \$10 million to the Racetrack Modernization Fund respectively.

8 - LIMITED VIDEO LOTTERY

The limited video lottery legislation established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from limited gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act and is recorded as limited video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the years ended June 30, 2015 and 2014 follows (in thousands):

| | 2015 | 2014 |
|--|--------------|--------------|
| Total credits played | \$ 4,462,898 | \$ 4,482,939 |
| Credits (prizes) won | (4,089,677) | (4,105,717) |
| Gross terminal income | 373,221 | 377,222 |
| Administrative costs | (7,465) | (7,544) |
| Gross profit | 365,756 | 369,678 |
| Commissions | (182,878) | (184,839) |
| Distributions to municipalities and counties | (7,315) | (7,394) |
| Limited video lottery revenues available for distribution | \$ 175,563 | \$ 177,445 |

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - TABLE GAMES

The passage of table games legislation allowed local referendums in each of the four counties in which a race track is located to approve table games. All four counties have authorized table games at their respective tracks.

Table games include blackjack, roulette, craps, and various types of poker. The Lottery receives a privilege tax of 35% of adjusted gross receipts, from each licensed racetrack, which is deposited weekly into the Lottery's racetrack table games fund.

From the gross amounts deposited into the table games fund, the Lottery, on a monthly basis retains 3% of the adjusted gross receipts for administrative expenses. From the administrative allowance, at least \$100,000 and not more than \$500,000 annually will be transferred to the Lottery's compulsive gambling treatment fund.

The Lottery then transfers 2.25% and 2.5% for the years ended June 30, 2015 and 2014, respectively of adjusted gross receipts from all thoroughbred and greyhound racetracks participating in licensed table games to the special funds established by each thoroughbred and greyhound racetrack table games licensee for the payment of regular racetrack purses to be divided equally among each licensee. A transfer of 1.8% and 2% for the years ended June 30, 2015 and 2014, respectively of the adjusted gross receipts is made from all licensed racetracks to the thoroughbred development fund and the greyhound breeding development fund to be divided pro rata among the development funds.

Transfers of 2% of the adjusted gross receipts are made from each licensed racetrack to the county commissions of the counties where racetracks participating in licensed table games are located to be divided pro rata among the counties. Transfers of 3% of the adjusted gross receipts are made from each licensed racetrack to the governing bodies of municipalities within counties where racetracks participating in licensed table games are located as prescribed by statute. A transfer of .5% of the adjusted gross receipts to the governing bodies of municipalities in which a racetrack table games licensee is located is to be divided equally among the municipalities. The Lottery, in accordance with the enabling legislation, will distribute the remaining amounts hereinafter referred to as the net amounts in the racetrack table games funds as follows:

- A transfer of 4%, into a special fund to be established by the West Virginia Racing Commission to be used for payment into the pension plan for all employees of each licensed racing association.
- A transfer of 10%, to be divided and paid in equal shares, to each county commission in the state where table games are not located.
- A transfer of 10%, to be divided and paid in equal shares, to the governing bodies of each municipality in the state where table games are not located.
- A transfer of 76% to the Excess Lottery Fund for the year ended June 30, 2015, and a transfer of 76% to the state debt reduction fund for the year ended June 30, 2014.

The transfer to the state debt reduction fund is included in Note 11. The table games adjusted gross receipts for the year ended June 30, 2015 and 2014 was \$134,080,494 and \$144,185,524, respectively. A summary of table games revenues for the years ended June 30, 2015 and 2014 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - TABLE GAMES (Continued)

| | 2015 | 2014 |
|--|-----------|-----------|
| Table games privilege tax | \$ 46,928 | \$ 50,465 |
| Interest on table games fund | 4 | 4 |
| Administrative costs | (4,022) | (4,326) |
| Total available for distribution | 42,910 | 46,143 |
| <u>Less distributions:</u> | | |
| Racetrack purse funds | 3,017 | 3,605 |
| Thoroughbred & greyhound development funds | 2,413 | 2,884 |
| Racing commission pension plan | 1,180 | 1,269 |
| Municipalities/counties | 13,275 | 14,274 |
| Total distributions | 19,885 | 22,032 |
| Table games distribution to the state debt reduction fund/ Excess Lottery Fund | \$ 23,025 | \$ 24,111 |

10 - HISTORIC RESORT HOTEL

The Historic Resort Hotel legislation authorizes video lottery and table games at a licensed historic resort hotel which is defined as “a resort hotel registered with the United States Department of the Interior as a national historic landmark in its National Registry of Historic Places having not fewer than five hundred guest rooms under common ownership and having substantial recreational guest amenities in addition to the gaming facility.”

Historic Resort Video Lottery

Historic Resort Hotel legislation, as amended, dictates the distribution of video lottery revenues. Thirty three and a half percent (33.5%) of gross terminal income is allocated to Historic Resort Hotel Fund, two and a half percent (2.5%) is allocated to the State Excess Lottery Revenue Fund for the year ended June 30, 2015, and two and a half percent (2.5%) is allocated to the licensed historic resort hotel modernization fund for the year ended June 30, 2014, and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for the licensed historic resort hotel. After deduction of the surcharge, the remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the historic resort hotel. A summary of historic resort hotel video lottery revenues for the years ended June 30, 2015 and 2014 follows (in thousands):

| | 2015 | 2014 |
|------------------------------|-----------|-----------|
| Total credits played | \$ 62,289 | \$ 63,726 |
| Credits (prizes) won | (57,294) | (58,302) |
| Promotional credits played | (925) | (980) |
| MWAP contribution | - | (3) |
| Gross terminal income | 4,070 | 4,441 |
| Capital reinvestment | (191) | (209) |
| Excess Lottery/Modernization | (36) | (40) |
| Hotel commissions | (1,722) | (1,878) |
| Net terminal income | \$ 2,121 | \$ 2,314 |

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

10 - HISTORIC RESORT HOTEL (Continued)

Historic Resort Video Lottery (Continued)

| | 2015 | 2014 |
|-----------------------------|----------|----------|
| Historic Resort Hotel Fund | \$ 1,429 | \$ 1,559 |
| Human Resource Benefit Fund | 692 | 775 |
| Total | \$ 2,121 | \$ 2,314 |

Historic Resort Table Games

Each historic resort hotel licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts, of which thirty percent (30%) is deposited directly into the Historic Resort Hotel Fund and five percent (5%) is deposited directly into the Human Resource Benefit Fund. The historic resort hotel table games adjusted gross receipts for the years ended June 30, 2015 and 2014 were \$5,664,146 and \$7,449,814, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|-----------------------------|----------|----------|
| Table games privilege tax | \$ 1,982 | \$ 2,607 |
| Historic Resort Hotel Fund | \$ 1,699 | \$ 2,235 |
| Human Resource Benefit Fund | 283 | 372 |
| Total distributions | \$ 1,982 | \$ 2,607 |

Historic Resort Hotel Fund

Historic Resort Hotel Fund deposits are allocated after a fifteen percent (15%) lottery administrative cost. The remaining Historic Resort Hotel Fund net income (gross deposits less 15%) are distributed as follows for the years ended June 30, 2015 and 2014:

- 4% is paid to the county where the gaming facility is located;
- 2.5% is paid to the municipality where the gaming facility is located as prescribed by statute;
- 2.5% is divided and paid in equal shares to the remaining municipalities in the county where the gaming facility is located;
- 2.5% is divided and paid in equal shares, to each county commission in the state where the gaming facility is not located;
- 2.5% is divided and paid in equal shares, to each municipality in the State not already receiving a distribution.

For the year ended June 30, 2015, the remaining 86% is transferred to the Excess Lottery Revenue Fund.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - HISTORIC RESORT HOTEL (Continued)

For the year ended June 30, 2014, the remaining 86% is allocated as follows:

- 64% is paid to the State of West Virginia General Revenue Fund;
- 19% is paid to the State Debt Reduction Fund;
- 3% is paid to the State of West Virginia Tourism Promotion Fund.

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands) for the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|---------------------------------------|-----------------|-----------------|
| Historic Resort Hotel video lottery | \$ 1,429 | \$ 1,559 |
| Historic Resort table games | <u>1,699</u> | <u>2,235</u> |
| Historic Resort Hotel Fund deposits | <u>3,128</u> | <u>3,794</u> |
| Administrative costs | <u>(474)</u> | <u>(575)</u> |
| Historic Resort Hotel Fund net income | <u>\$ 2,654</u> | <u>\$ 3,219</u> |
| Municipalities/Counties | \$ 372 | \$ 450 |
| State General Revenue Fund | - | 2,060 |
| State Debt Reduction Fund | - | 612 |
| State Tourism Promotion Fund | - | 97 |
| Excess Lottery Revenue Fund | <u>2,282</u> | <u>-</u> |
| Total distributions | <u>\$ 2,654</u> | <u>\$ 3,219</u> |

11 - NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

The Lottery periodically distributes surplus funds, exclusive of amounts derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the current governing legislation. For the years ended June 30, 2015 and 2014, the State Legislature budgeted \$167,766,812 and \$200,086,988 respectively of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000, \$1,000,000, and \$500,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently debt service payments are \$5,300,000 per month for the first ten months of each fiscal year. In addition, Legislation provides that, if in any month, there is a shortage of funds in the State Excess Lottery Revenue Fund to make debt service payments, the necessary amount shall be transferred from the State Lottery Fund to cover such shortfall, after the State Lottery Fund debt service payments have been made. Repayments to the State Lottery Fund are required to be made in subsequent months as funds become available. For the years ended June 30, 2015 and 2014, the Lottery made or accrued all budgeted distributions and accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$123,919,676 and \$112,439,263, respectively. The Lottery does not have a legally adopted annual budget.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA (Continued)

A summary of the required statutory and budgeted distributions to certain state agencies to conform with the various legislation follows (in thousands):

| | <u>2015</u> | <u>2014</u> |
|--|----------------|----------------|
| <u>Budgetary distributions:</u> | | |
| <u>Revenue Center Construction Fund:</u> | | |
| General Purpose Account | \$ - | \$ 724 |
| <u>Administrative Operations Account:</u> | | |
| General Purpose Account | - | 7,500 |
| <u>State Lottery Fund:</u> | | |
| Bureau of Senior Services | 78,682 | 94,837 |
| Department of Education | 19,633 | 27,451 |
| Library Commission | 11,457 | 11,467 |
| Higher Education - Central Office | 7,329 | 7,582 |
| Tourism | 8,060 | 8,922 |
| Natural Resources | 3,196 | 9,796 |
| Division of Culture & History | 4,746 | 5,228 |
| Department of Education & Arts | 1,673 | 1,812 |
| Economic Development Authority | 9,996 | 9,999 |
| School Building Authority | 18,000 | 17,996 |
| Community and Technical College | 4,995 | 4,997 |
| Total State Lottery Fund | <u>167,767</u> | <u>200,087</u> |
| <u>State Excess Lottery Revenue Fund:</u> | | |
| General Purpose Account | 65,000 | 65,000 |
| Education Improvement Fund | 29,000 | 29,000 |
| WV Infrastructure Council Fund | 26,000 | 46,000 |
| Higher Education Improvement Fund | 15,000 | 15,000 |
| State Park Improvement Fund | 5,000 | 5,000 |
| School Building Authority | 18,994 | 18,993 |
| Economic Development Fund | 18,986 | 20,387 |
| Refundable Credit - General Revenue Fund | 10,000 | 10,000 |
| Racing Commission | 2,000 | 2,000 |
| WV Department of Health and Human Resources | 36,770 | 96,544 |
| Division of Justice and Community Services | 200 | - |
| Distributions to Statutory Funds and Purposes | | |
| Parking Garage Fund | 779 | - |
| Capitol Dome and Improvements Fund | 2,471 | - |
| Capitol Renovation and Improvements Fund | 3,074 | - |
| Development Office Promotion Fund | 1,677 | - |
| Research Challenge Fund | 2,236 | - |
| Tourism Promotion Fund | 6,232 | - |
| Cultural Facilities and Capitol Resources Fund | 1,500 | - |
| Worker's Compensation Debt Reduction Fund | 11,000 | - |
| State Debt Reduction Fund | 20,119 | - |
| General Revenue Fund | 1,795 | - |
| Historic Resort Hotel Fund | 34 | - |
| Racing Commission | 4,471 | - |

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA (Continued)

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Non-Governmental Budgeted Transfers | 14,582 | - |
| Excess Lottery Surplus (General Fund) | 27,600 | 27,600 |
| Excess Lottery Surplus (Teachers Retirement Savings Realized) | <u>4,051</u> | <u>17,522</u> |
| Total State Excess Lottery Revenue Fund | <u>328,571</u> | <u>353,046</u> |
| Total Required Statutory and Budgetary Distributions | <u>496,338</u> | <u>561,357</u> |
| Veterans Instant Ticket Fund | <u>511</u> | <u>512</u> |
| <u>Other racetrack video lottery distributions:</u> | | |
| Tourism Promotion Fund | 175 | 7,578 |
| Development Office Promotion Fund | 47 | 2,067 |
| Research Challenge Fund | 64 | 2,756 |
| Capitol Renovation and Improvement Fund | 88 | 3,789 |
| Parking Garage Funds | 8 | 844 |
| Cultural Facilities and Capitol Resources Fund | - | 1,500 |
| Capitol Dome and Capitol Improvements Fund | 128 | 3,511 |
| Workers Compensation Debt Reduction Fund | - | 11,000 |
| | <u>510</u> | <u>33,045</u> |
| <u>Table games distributions:</u> | | |
| State Debt Reduction Fund | <u>1,765</u> | <u>24,702</u> |
| <u>Historic resort hotel distributions:</u> | | |
| State General Revenue Fund | 148 | 2,135 |
| State Debt Reduction Fund | 44 | 635 |
| Tourism Promotion Fund | <u>7</u> | <u>100</u> |
| Total | <u>199</u> | <u>2,870</u> |
| Total nonoperating distributions to the State of West Virginia (cash basis) | 499,323 | 622,486 |
| Accrued nonoperating distributions, beginning of year | (114,914) | (239,035) |
| Accrued nonoperating distributions, end of year | <u>123,920</u> | <u>114,914</u> |
| Total nonoperating distributions to the State of West Virginia | <u>\$ 508,329</u> | <u>\$ 498,365</u> |

12 - LEGISLATIVE IMPACT ON FINANCIAL REPORTING

The West Virginia Legislature enacted House Bill 101(H.B.101) during the first extraordinary session of 2014, which included a modification to the allocation of commissions and distributions from certain Lottery operations. Certain revenues previously distributed to specified entities pursuant to statutory direction with residual amounts being deposited in either the State Lottery Fund or the State Excess Lottery Revenue Fund are now deposited directly to the State Excess Lottery Revenue Fund under H.B.

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

12 - LEGISLATIVE IMPACT ON FINANCIAL REPORTING (Continued)

101 and are available for appropriation by the West Virginia Legislature. H.B. 101 was effective for the year ended June 30, 2015 modifying the amounts deposited for: (i) certain video lottery net terminal income (Note 7), (ii) table games adjusted gross receipts (Note 9) from the State's four racetrack casinos; and (iii) certain gross terminal income and certain net income from the Historic Resort Hotel (Note 10). The effect of this legislation increased gross profit (by reducing commissions) and increased nonoperating expenses by approximately \$4,615,000 for the year ended June 30, 2015. H.B. 101 had no effect on reported net income for the year ended June 30, 2015.

13 - RESTRICTED NET POSITION

Beginning in the year ended June 30, 2006, the West Virginia Legislature set aside certain unexpended administrative funds of the Lottery for the design and construction of a building in the West Virginia Capitol Complex to be used by the Lottery and certain other State of West Virginia entities. During the year ended June 30, 2010, the Legislature approved the use of these funds to purchase and improve an existing building. The building was acquired and improvements have been substantially completed. The unexpended balance of these funds are reported as restricted net position. Restricted net position activity is as follows for the years ended June 30, 2015 and 2014 (in thousands):

| | 2015 | 2014 |
|---|----------|----------|
| Beginning restricted net position | \$ 1,397 | \$ 1,640 |
| Acquisition of assets in accordance with enabling legislation | (267) | (243) |
| Ending restricted net position | \$ 1,130 | \$ 1,397 |

14 - RETIREMENT BENEFITS

All full-time Lottery employees are eligible and required to participate in the West Virginia Public Employees' Retirement System (PERS). The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement Board (CPRB). The CPRB issues a publicly available financial report that includes financial statements for PERS that can be obtained at www.wvretirement.com

Plan Description

PERS is a multiple employer defined benefit cost sharing public employee retirement system covering substantially all employees of the State and its component units, as well as employees of participating non-State governmental entities who are not participants of another state or municipal retirement system.

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62.

Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - RETIREMENT BENEFITS (Continued)

Contributions

Per Chapter 5, Article 10, members contribute 4.5% of annual earnings. State and non-state governmental employers' contribution rates were 14.0%, 14.5% and 14.0% of covered employees' annual earnings for fiscal years ending June 30, 2015, 2014 and 2013, respectively. Contribution rates for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contribution rates for employers are established by the Legislature. Although contributions are not actuarially determined, actuarial valuations are performed to assist the legislature in establishing appropriate contribution rates for employers. Contributions to the pension plan from the Lottery were \$1,039,330, \$1,075,233 and \$1,072,160 for the year ended June 30, 2015, 2014 and 2013, respectively.

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

At June 30, 2015, the Lottery reported a liability of \$2,035,113 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013, rolled forward to the measurement date of June 30, 2014 using the actuarial assumptions and methods described in the *Actuarial Assumptions* section of this note. The Lottery's proportion of the net pension liability was based on the Lottery's share of contributions to the pension plan relative to the contributions of all participating plan employers for the year ended June 30, 2014. At June 30, 2014, the Lottery's proportion was 0.55 percent, which is an increase of .01 from its proportion as of June 30, 2013.

For the year ended June 30, 2015, the Lottery recognized pension expense of \$250,154. At June 30, 2015, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 2,152,870 |
| Changes in proportion and differences between Lottery contributions and proportionate share of contributions | 59,990 | - |
| Lottery contributions made subsequent to the measurement date of June 30, 2014 | <u>1,039,330</u> | <u>-</u> |
| Total | <u>\$ 1,099,320</u> | <u>\$ 2,152,870</u> |

The \$1,039,330 reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | |
|----------------------------|--------------|
| 2016 | \$ (519,872) |
| 2017 | (519,872) |
| 2018 | (519,872) |
| 2019 | (533,264) |

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

14 - RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.2 percent |
| Salary increases | 4.25 - 6.0 percent, average, including inflation |
| Investment rate of return | 7.5 percent, net of pension plan investment expense |

Mortality rates were based on the 1983 GAM for healthy males, 1971 GAM for healthy females, 1971 GAM for disabled males, and Revenue Ruling 96-7 for disabled females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projections of cash flows used to determine the discount rates assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the fiduciary net position of the plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liabilities of the plan. Although discount rates are subject to change between measurement dates, there were no changes in the current period.

Regarding the sensitivity of the net pension liability to changes in the discount rate, the following table presents the Lottery's proportionate share of the net pension liability calculated using the current discount rate of 7.5% as well as what the Lottery's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (in thousands):

| | <u>Net Pension Liability (Asset)</u> | |
|------------------------------|--------------------------------------|---------|
| 1% Decrease (6.5%) | \$ | 5,750 |
| Current Discount Rate (7.5%) | \$ | 2,035 |
| 1% Increase (8.5%) | \$ | (1,131) |

15 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Lottery participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS (Continued)

15 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Plan Description (Continued)

supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The ARC rate is \$389 and \$270 per employee per month for the years ending June 30, 2015 and 2014, respectively. The Lottery's ARC was \$600,469, \$447,726, and \$445,479 and the Lottery has paid premiums of \$287,861, \$317,690, and \$332,615, which represent 47.9%, 71.0%, and 74.7% of the ARC, respectively, for the years ending June 30, 2015, 2014, and 2013. As of June 30, 2015, 2014, and 2013, the Lottery has recorded a liability of \$4,631,089, \$4,318,481, and \$4,188,445, respectively, for OPEB.

16 - LEASING ACTIVITY

The Lottery leases, under cancelable operating leases, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the fiscal years ended June 30, 2015 and 2014 approximated \$271,181 and \$267,083 respectively.

The Lottery is a lessor of certain office space under the terms of cancellable operating leases to various tenants. Rental revenues for the years ended June 30, 2015 and 2014 were \$734,211 and \$1,423,729, respectively.

17 - COMMITMENTS

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2015 and 2014, \$8,416,061 and \$7,653,177, respectively, are included in unrestricted net position for this purpose.

18 - RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery participates in several risk management programs administered by the State of West Virginia and other providers. Each of the state administered risk pools have issued separate audited financial reports on their operations. Those reports include the required supplementary information regarding the reconciliation of claims liabilities by type of contract and ten-year claim development information. Complete financial statements of the individual risk pools can be obtained directly from their respective administrative offices.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS (Continued)

18 - RISK MANAGEMENT (Continued)

Public Employees' Insurance Agency (PEIA)

The Lottery participates in the Public Employees Insurance Agency (PEIA) which provides an employee benefit insurance program to employees. PEIA was established by the State of West Virginia for State agencies, institutions of higher education, Boards of Education and component units of the State. In addition, local governmental entities and certain charitable and public service organizations may request to be covered by PEIA. PEIA provides a base employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Underwriting and rate setting policies are established by PEIA. The cost of all coverage, as determined by PEIA shall be paid by the participants. Premiums are established by PEIA and are paid monthly, and are dependent upon, among other things, coverage required, number of dependents, state vs. non state employees and active employees vs. retired employees and level of compensation. Coverage under these programs is limited to \$1 million for lifetime for health and \$10,000 of life insurance coverage.

The PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has fully transferred the risks of coverage of the Managed Care Organization (MCO) Plan to the plan provider, and has transferred the risks of the life insurance coverage to a third party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 205,000 individuals, including participants and dependents.

Board of Risk and Insurance Management (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a risk pool currently operating as a risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims. During the year ended June 30, 2014, no changes in coverage were made and paid claims did not exceed coverage.

Workers Compensation Insurance

The Lottery carries workers compensation insurance coverage through a commercial insurance carrier. The commercial insurance carrier is paid a monthly rated premium to provide compensation for injuries sustained in the course of employment.

19 - CONTINGENCIES

The Lottery is involved in certain claims and legal actions arising from the ordinary course of conducting business. Although the outcome of these claims and legal actions are presently indeterminable; it is the opinion of the Lottery's management, after a review of legal activities, that no adjustments to the financial statements are warranted and that any resolution of outstanding claims or legal actions are not expected to have a material adverse effect on the accompanying financial statements.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

20 - EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Lottery management has not determined the effect, if any, this statement will have on its financial statements.

The GASB has issued three statements relating to accounting and financial reporting for pension and postemployment benefit plans: Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions of Statements No. 73 and 74 are effective for financial statements for periods beginning after June 15, 2016, and the provisions of Statement No. 75 are effective for periods beginning after June 15, 2017. Lottery management has not determined the effect, if any, these statements will have on its financial statements.

The GASB has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies the hierarchy of generally accepted accounting principles used to prepare financial statements of state and local governments. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Lottery management has not determined the effect, if any, this statement will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

THE WEST VIRGINIA LOTTERY

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(In Thousands)

Public Employees Retirement System Plan

| | <u>Year Ended June 30</u> |
|---|---------------------------|
| | <u>2015</u> |
| Lottery's proportion (percentage) of the net pension liability | 0.55% |
| Lottery's proportionate share of the net pension liability | \$ 2,035 |
| Lottery's covered employee payroll | \$ 7,415 |
| Lottery's proportionate share of the net pension's liability as a percentage of its covered employee payroll | 27.44% |
| Plan fiduciary net position as a percentage of the total pension liability | 93.98% |

Note: All amounts presented are as of the measurement date,
which is one year prior to the fiscal year end date.

See Independent Auditor's Report and accompanying Note to Required Supplementary Information.

THE WEST VIRGINIA LOTTERY

SCHEDULE OF CONTRIBUTIONS TO THE PERS
(In Thousands)

| | Years Ended June 30 | | |
|---|---------------------|--------------|--------------|
| | 2015 | 2014 | 2013 |
| Statutorily required contribution | \$ 1,039 | \$ 1,075 | \$ 1,072 |
| Contributions in relation to the statutorily required contribution | <u>1,039</u> | <u>1,075</u> | <u>1,072</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Lottery's covered employee payroll | \$ 7,421 | \$ 7,415 | \$ 7,658 |
| Contributions as a percentage of covered- employee payroll | 14.00% | 14.50% | 14.00% |

See Independent Auditor's Report and accompanying Note to Required Supplementary Information.

THE WEST VIRGINIA LOTTERY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1 - TREND INFORMATION PRESENTED

The accompanying schedules of the Lottery's proportionate share of the net pension liability and contributions to PERS are required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedules for those years for which information is available.

Statistical Section

STATISTICAL SECTION

This section of the West Virginia Lottery's comprehensive annual financial report depicts charts and graphs to aid in understanding the information presented in the financial statements and note disclosures about the Lottery's overall financial health.

Financial Trends/Revenue Capacity

The accompanying schedules, depicting financial and revenue trends, contain information to help the reader understand how the financial performance and well-being have changed over time and how the Lottery assesses its most significant revenue sources; traditional instant and on-line games, the video lottery segment and table games. The continued expansion of venues that offer a variety of gaming options has sustained revenues for the Lottery.

Demographic and Economic Information

The accompanying schedules, depicting demographic and other economic relationships, offer indicators to help the reader understand the environment within which the Lottery's financial activities take place. Indexes such as player income distribution, per capita income and competitive revenues generated by other lottery systems are relevant in assessing the Lottery's performance.

Operating Information

There are many factors that impact the level of demand for Lottery products. For our on-line games, the sizes of the publicized jackpots drive the sales level. As an example, a Powerball® jackpot of \$200 million will generate more sales than a jackpot of \$40 million. For our instant ticket games, the level of demand is impacted by many factors such as game themes, play-styles, price points and prize payouts. Racetrack Video Lottery and Table Games sales are largely driven by tourism. Weekends and holidays generate higher sales than weekdays. Limited Video Lottery sales are seasonally affected. Cold months tend to generate higher sales than warmer months. In an effort to minimize the effect of these nuances, the accompanying schedules contain information by year and game type to help the reader understand how the Lottery's financial performance and overall growth have trended.

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive financial reports or the audited financial statements for the relevant year.

WEST VIRGINIA LOTTERY

Sales By Product and Other Revenues Last Ten Fiscal Years

| | 2006 | 2007 | 2008 | 2009 |
|-----------------------------|------------------------|------------------------|------------------------|------------------------|
| Instant | \$119,123,846 | \$106,493,081 | \$110,862,020 | \$113,853,880 |
| Powerball® | 65,530,836 | 51,729,318 | 54,052,429 | 51,016,100 |
| Hot Lotto Sizzler® | 3,324,293 | 4,726,225 | 4,021,347 | 4,881,127 |
| Daily 3 | 9,394,009 | 9,265,281 | 9,124,536 | 8,916,094 |
| Daily 4 | 4,523,509 | 4,660,620 | 4,622,396 | 4,760,533 |
| Cash 25 | 5,936,395 | 6,006,570 | 5,752,037 | 5,596,814 |
| Travel Keno | 10,249,487 | 9,769,174 | 9,603,308 | 9,070,501 |
| Mega Millions® | | | | |
| Total On-line | \$98,958,529 | \$86,157,188 | \$87,176,053 | \$84,241,169 |
| Video (net of prizes) | | | | |
| Racetrack | \$942,250,631 | \$972,591,775 | \$897,952,931 | \$848,232,669 |
| Limited | \$362,181,294 | \$397,016,887 | \$411,587,201 | \$412,488,946 |
| Table Games (privilege tax) | - | - | \$15,877,334 | \$34,219,101 |
| Video (net of prizes) | | | | |
| Table Games (privilege tax) | | | | |
| Total Historic Resort | - | - | - | - |
| Total Sales | \$1,522,514,300 | \$1,562,258,931 | \$1,523,455,539 | \$1,493,035,765 |
| License Fees | 10,445,040 | 9,864,349 | 11,225,977 | 10,573,157 |
| Miscellaneous | 748,276 | 532,596 | 710,975 | 827,731 |
| Other Operating Income | \$11,193,316 | \$10,396,945 | \$11,936,952 | \$11,400,888 |
| Nonoperating Income | \$5,152,532 | \$7,556,505 | \$10,031,139 | \$2,719,936 |
| Total Revenues | \$1,538,860,148 | \$1,580,212,381 | \$1,545,423,630 | \$1,507,156,589 |

Expenses, Distributions and Net Income Last Ten Fiscal Years

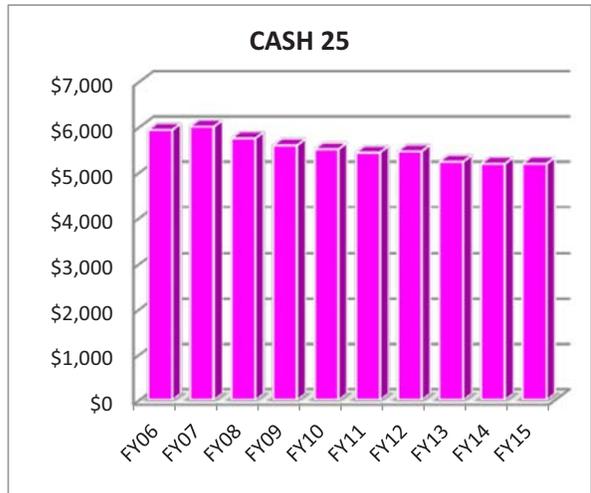
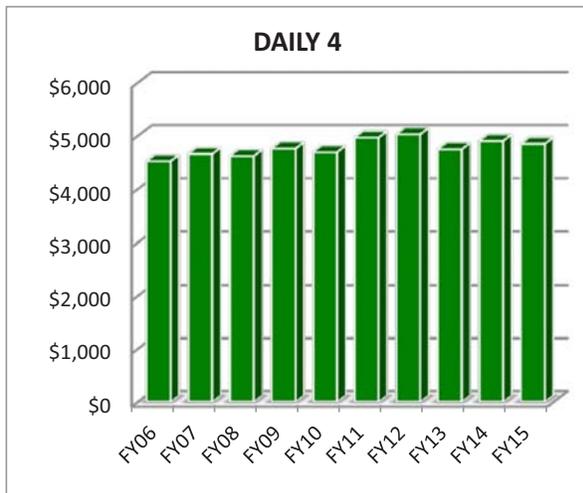
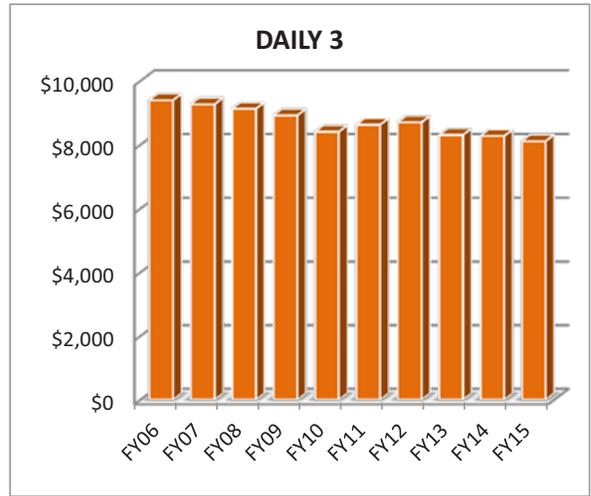
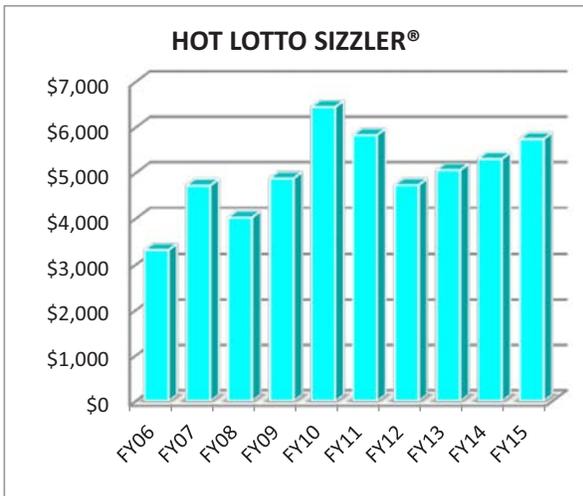
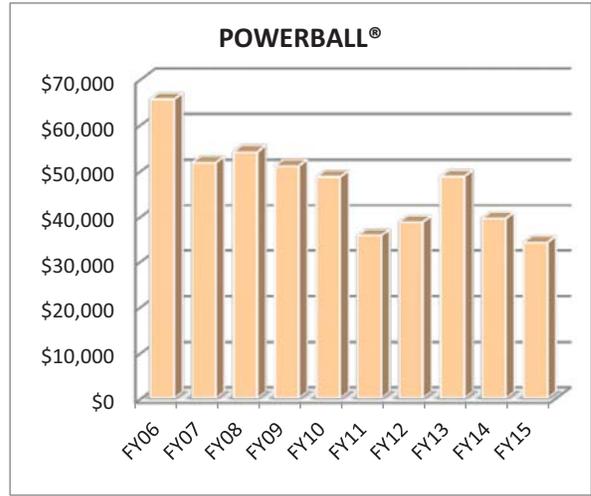
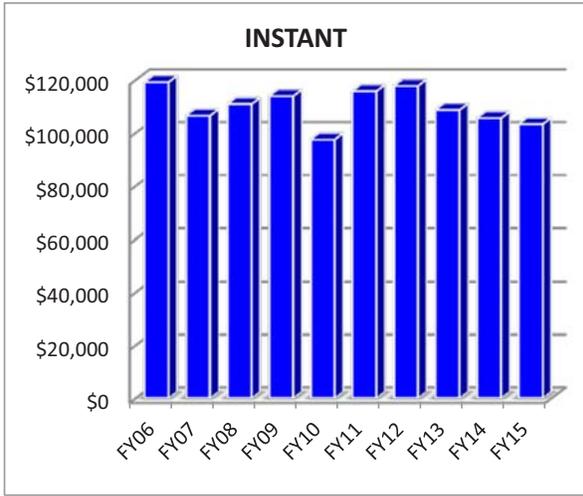
| | 2006 | 2007 | 2008 | 2009 |
|--|----------------------|----------------------|----------------------|----------------------|
| Prizes (traditional) | \$131,903,210 | \$115,792,130 | \$121,169,284 | \$119,449,497 |
| Commissions | | | | |
| Instant | 8,338,753 | 7,454,496 | 7,762,564 | 7,969,759 |
| On-line | 6,936,315 | 6,019,193 | 6,113,745 | 5,900,642 |
| Racetrack | 508,326,365 | 522,744,477 | 487,276,099 | 463,649,031 |
| Limited | 195,112,272 | 206,127,102 | 205,636,799 | 202,119,568 |
| Table Games | - | - | 6,249,023 | 13,458,369 |
| Historic Resort | - | - | - | - |
| Total Commissions | \$718,713,705 | \$742,345,268 | \$713,038,230 | \$693,097,369 |
| Administration (includes ticket costs) | \$31,329,670 | \$30,905,929 | \$33,478,401 | \$35,215,252 |
| Total Operating Expenses | \$881,946,585 | \$889,043,327 | \$867,685,915 | \$847,762,118 |
| Nonoperating Distributions | | | | |
| Municipalities and Counties | 7,098,999 | 7,781,531 | 8,067,110 | 8,084,783 |
| Capital Reinvestment Fund | 19,774,016 | 20,997,371 | 17,987,933 | 15,983,212 |
| State of West Virginia | 610,040,548 | 639,150,849 | 631,155,117 | 616,622,965 |
| Total Distributions | \$636,913,563 | \$667,929,751 | \$657,210,160 | \$640,690,960 |
| Net Income | \$20,000,000 | \$23,239,303 | \$20,527,555 | \$18,703,511 |

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| \$97,482,584 | \$115,697,423 | \$117,676,396 | \$108,634,752 | \$105,561,992 | \$103,276,392 |
| 48,593,678 | 35,669,004 | 38,686,528 | 48,688,807 | 39,490,788 | 34,099,437 |
| 6,447,315 | 5,831,270 | 4,736,542 | 5,063,704 | 5,310,353 | 5,745,617 |
| 8,401,794 | 8,621,978 | 8,698,349 | 8,301,649 | 8,269,965 | 8,109,719 |
| 4,694,743 | 4,967,805 | 5,028,983 | 4,748,002 | 4,905,892 | 4,849,937 |
| 5,512,376 | 5,440,930 | 5,465,460 | 5,237,499 | 5,191,451 | 5,191,526 |
| 7,412,987 | 6,423,516 | 6,249,636 | 5,671,808 | 5,049,843 | 5,103,370 |
| 2,678,674 | 10,915,389 | 14,746,963 | 9,274,409 | 14,850,257 | 13,623,552 |
| \$83,741,567 | \$77,869,892 | \$83,612,461 | \$86,985,878 | \$83,068,549 | \$76,723,158 |
| \$746,208,159 | \$726,952,241 | \$764,898,326 | \$655,676,762 | \$590,918,374 | \$557,802,811 |
| \$397,287,133 | \$397,544,342 | \$406,108,085 | \$399,223,893 | \$377,222,264 | \$373,220,741 |
| \$31,725,645 | \$68,153,589 | \$78,121,131 | \$70,258,634 | \$50,464,934 | \$46,928,173 |
| 1,132,902 | 4,092,891 | 4,950,083 | 4,737,669 | 4,440,596 | 4,070,270 |
| 516,466 | 2,138,796 | 2,163,962 | 2,858,962 | 2,607,435 | 1,982,451 |
| \$1,649,368 | \$6,231,687 | \$7,114,045 | \$7,596,631 | \$7,048,031 | \$6,052,721 |
| \$1,358,094,456 | \$1,392,449,174 | \$1,457,530,444 | \$1,328,376,550 | \$1,214,284,144 | \$1,164,003,996 |
| 10,317,529 | 10,157,522 | 71,847,082 | 9,871,021 | 9,776,116 | 10,024,323 |
| 741,824 | 1,648,012 | 1,504,260 | 1,989,230 | 1,943,345 | 1,288,429 |
| \$11,059,353 | \$11,805,534 | \$73,351,342 | \$11,860,251 | \$11,719,461 | \$11,312,752 |
| \$390,334 | \$297,669 | \$9,826,225 | \$252,688 | \$462,053 | \$406,819 |
| \$1,369,544,143 | \$1,404,552,377 | \$1,540,708,011 | \$1,340,489,489 | \$1,226,465,658 | \$1,175,723,567 |

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$107,983,663 | \$120,706,835 | \$120,605,843 | \$116,230,326 | \$111,761,267 | \$106,475,947 |
| 6,823,692 | 8,098,815 | 8,238,580 | 7,604,433 | 7,389,339 | 7,229,348 |
| 5,849,450 | 5,456,854 | 5,844,402 | 6,094,540 | 5,819,974 | 5,371,955 |
| 414,987,691 | 404,944,515 | 424,048,550 | 370,827,992 | 336,205,404 | 286,777,829 |
| 194,670,681 | 194,796,720 | 198,992,951 | 195,619,694 | 184,838,897 | 182,878,150 |
| 12,473,391 | 29,288,210 | 33,570,927 | 30,674,243 | 22,032,440 | 19,885,019 |
| 846,922 | 3,126,210 | 3,671,152 | 3,706,532 | 3,456,421 | 3,068,391 |
| \$635,651,827 | \$645,711,324 | \$674,366,562 | \$614,527,434 | \$559,742,475 | \$505,210,692 |
| \$36,493,179 | \$40,838,831 | \$38,989,047 | \$34,991,775 | \$35,652,922 | \$33,663,094 |
| \$780,128,669 | \$807,256,990 | \$833,961,452 | \$765,749,535 | \$707,156,664 | \$645,349,733 |
| 7,786,828 | 7,791,869 | 7,959,718 | 7,824,788 | 7,393,556 | 7,315,126 |
| 11,968,468 | 21,558,438 | 22,900,376 | 18,820,278 | 13,397,148 | 11,716,851 |
| 616,465,269 | 565,256,651 | 662,982,476 | 545,203,685 | 498,364,762 | 508,328,566 |
| \$636,220,565 | \$594,606,958 | \$693,842,570 | \$571,848,751 | \$519,155,466 | \$527,360,543 |
| (\$46,805,091) | \$2,688,429 | \$12,903,989 | \$2,891,203 | \$153,528 | \$3,013,291 |

WEST VIRGINIA LOTTERY

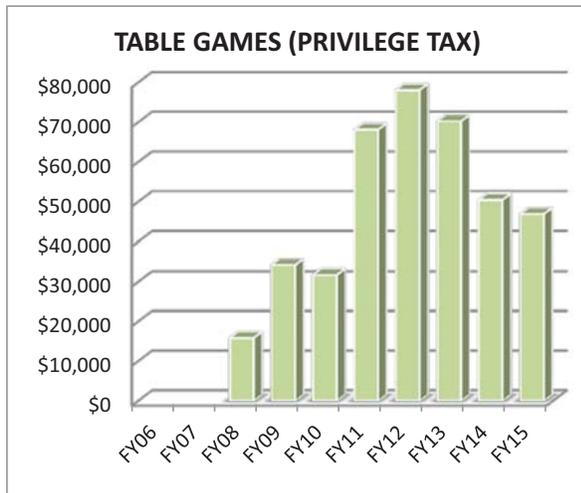
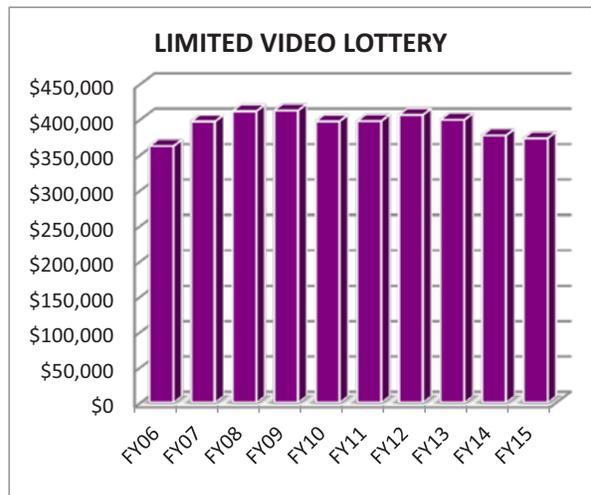
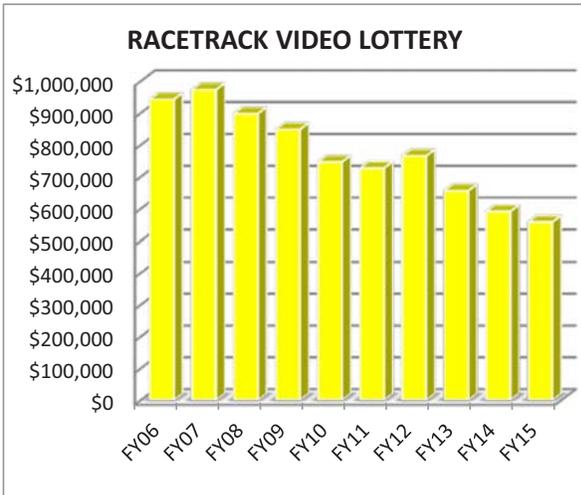
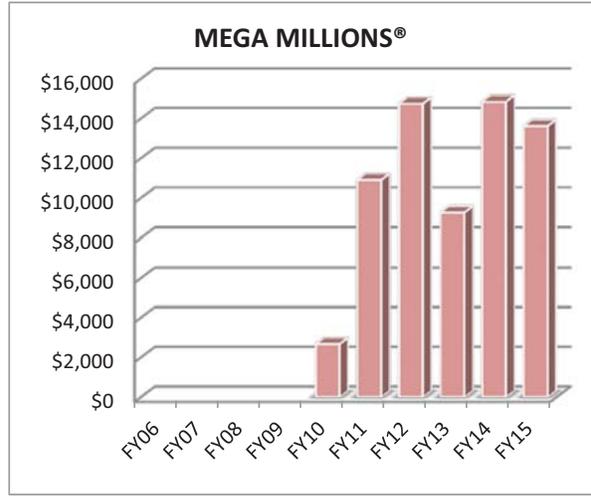
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

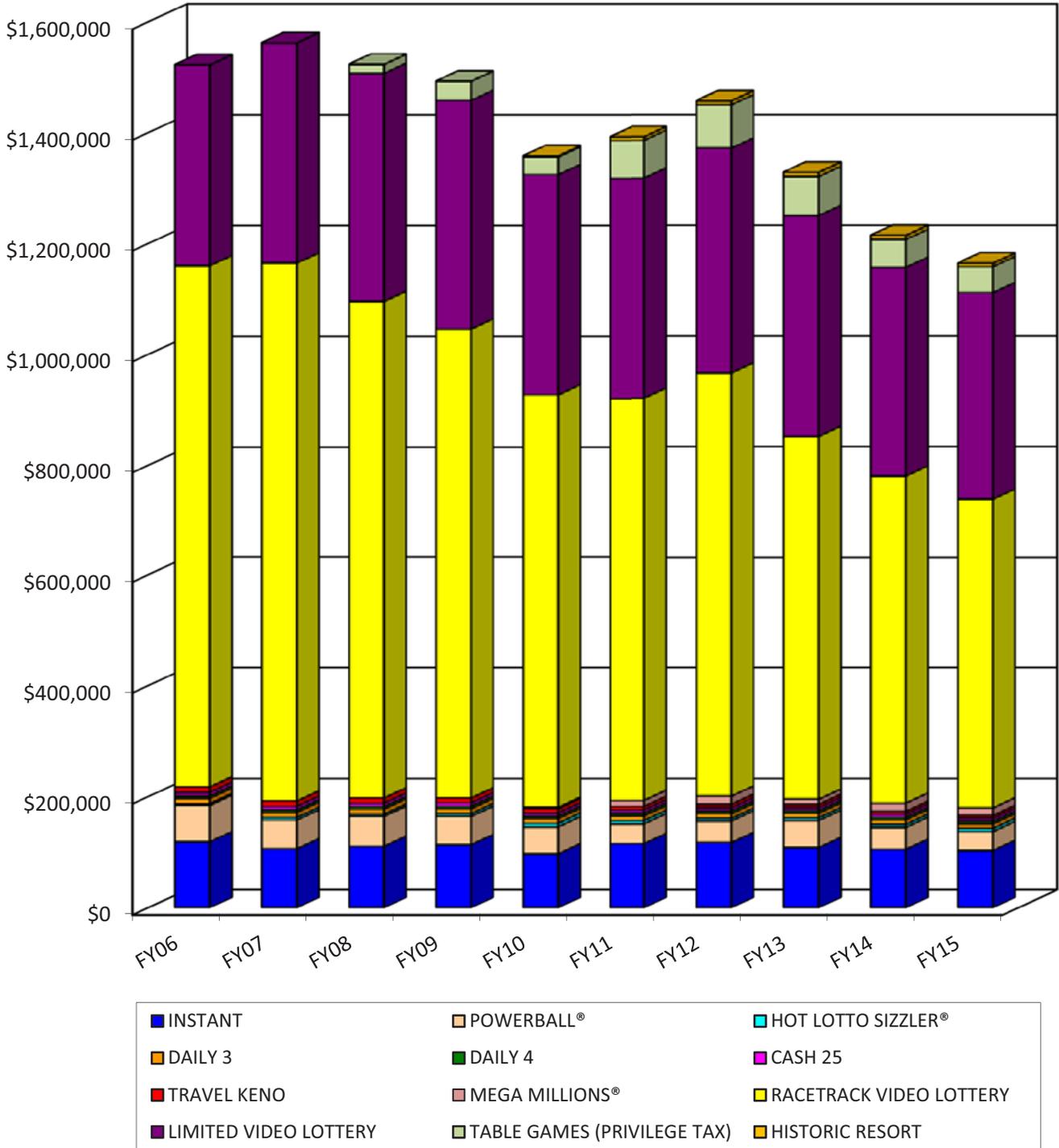
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

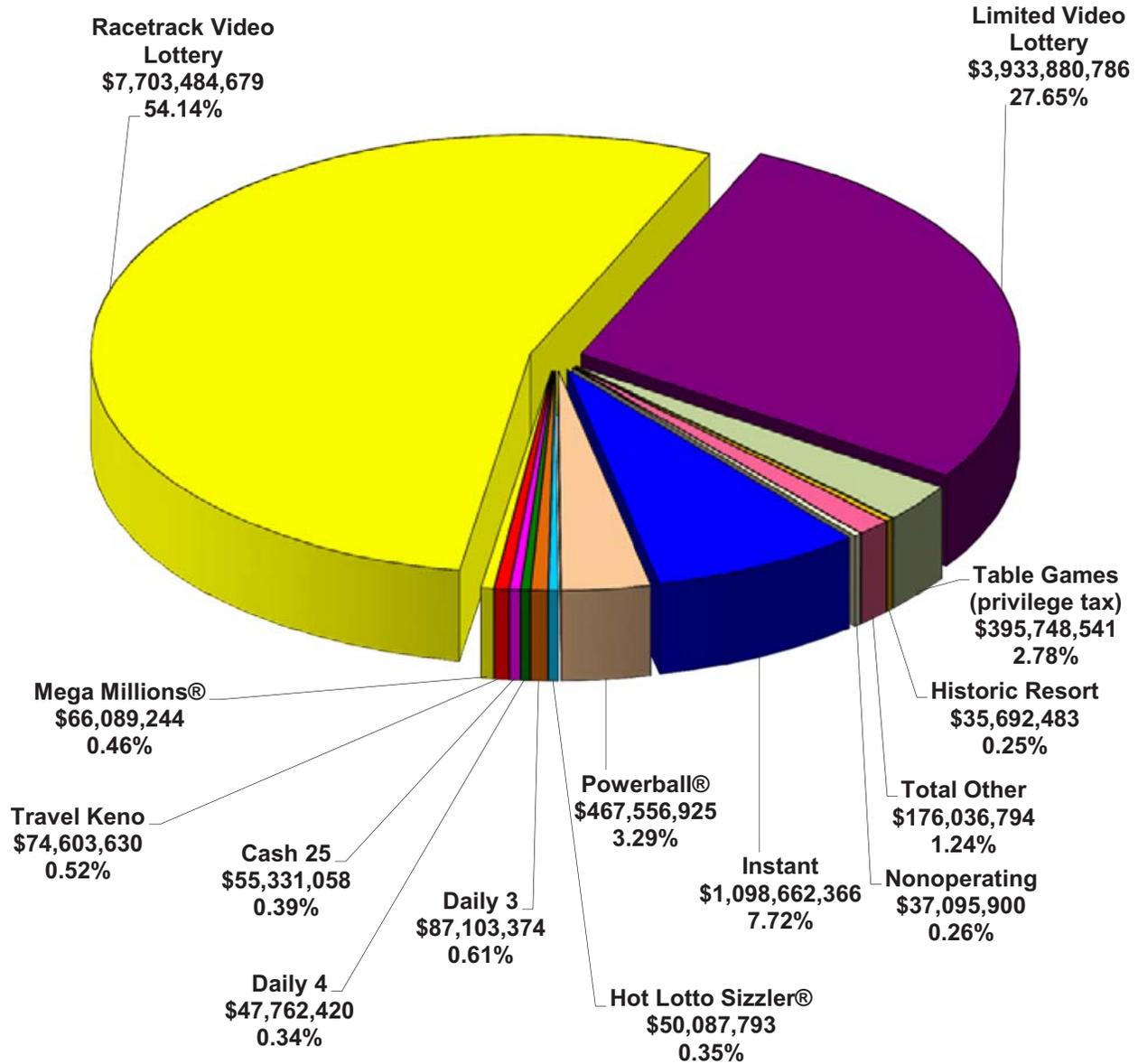
Sales By Product Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

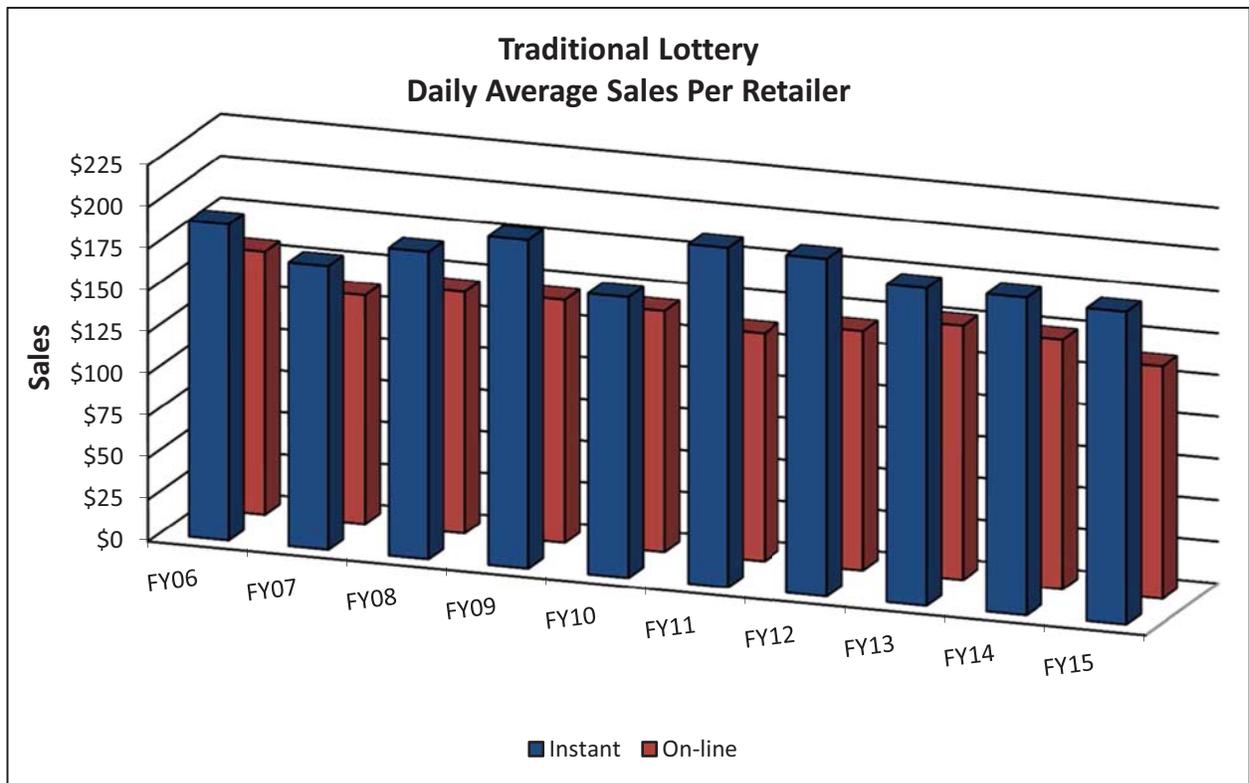
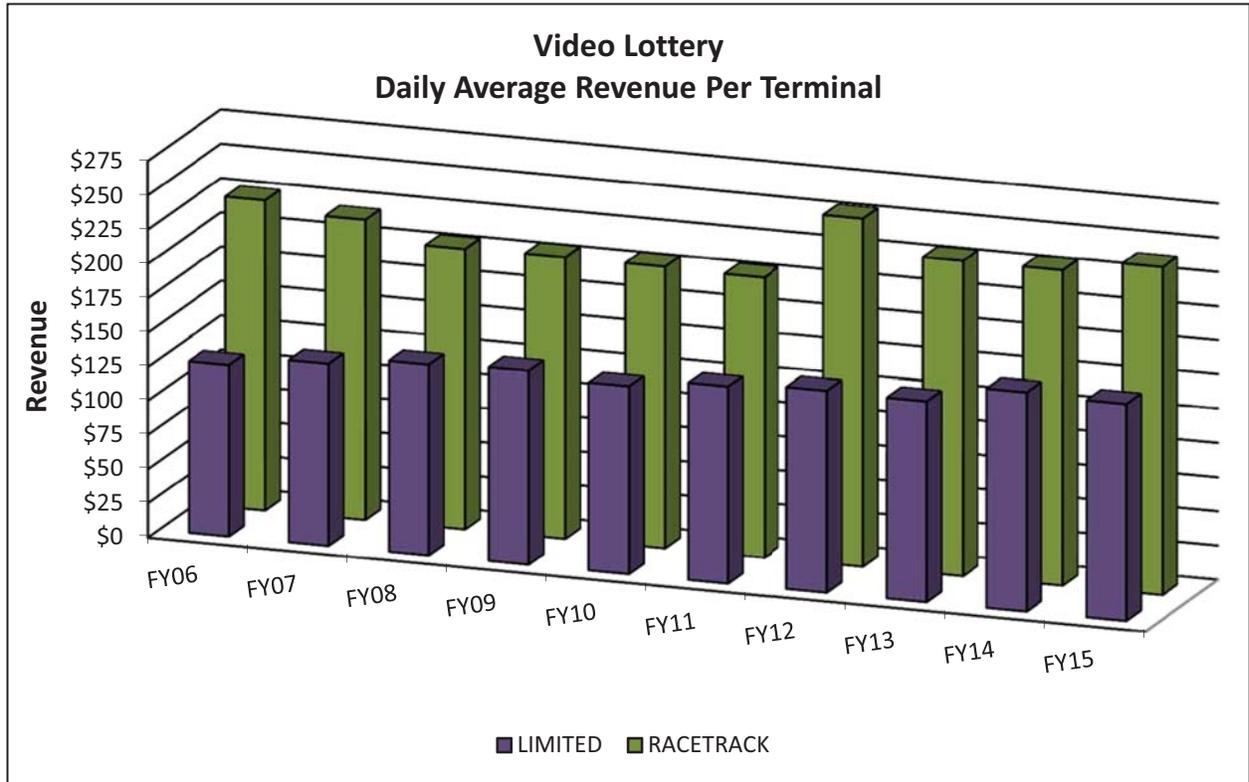
Total Revenues \$14,229,135,993
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

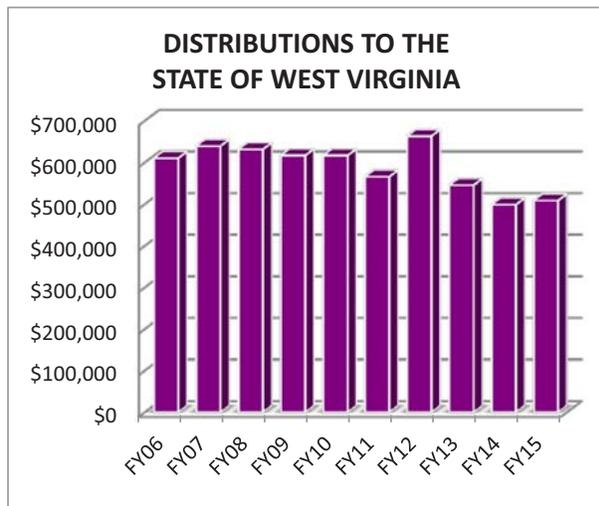
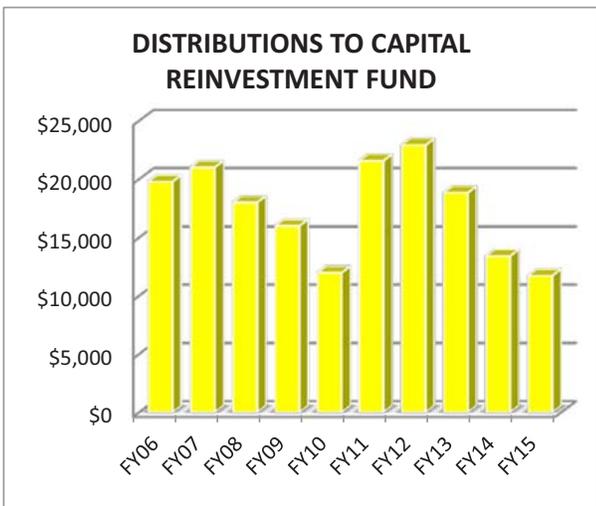
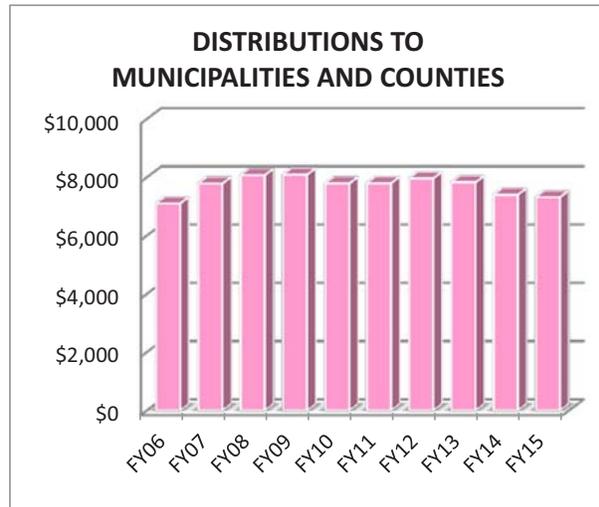
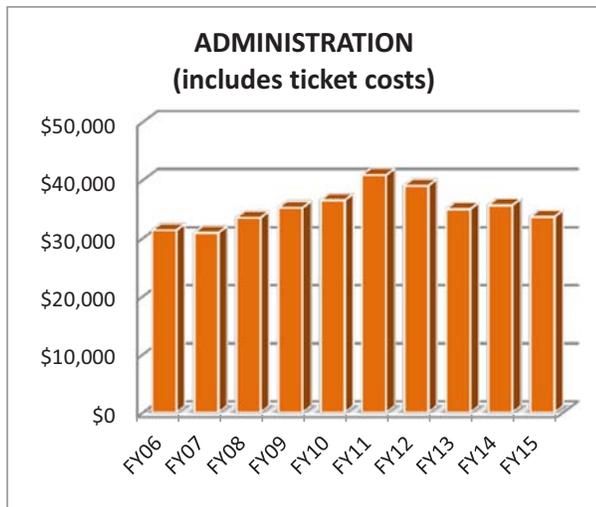
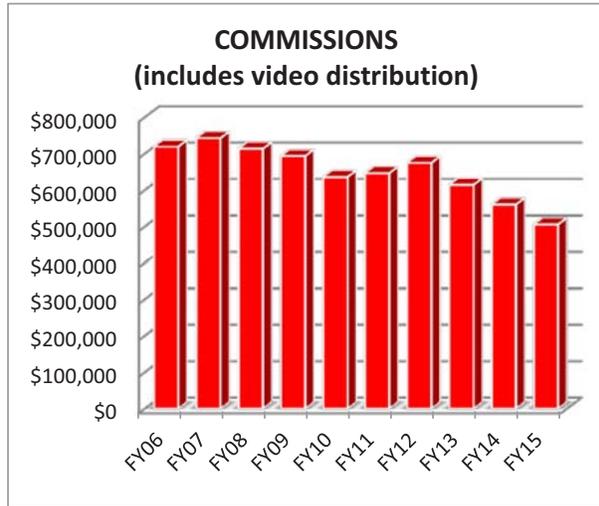
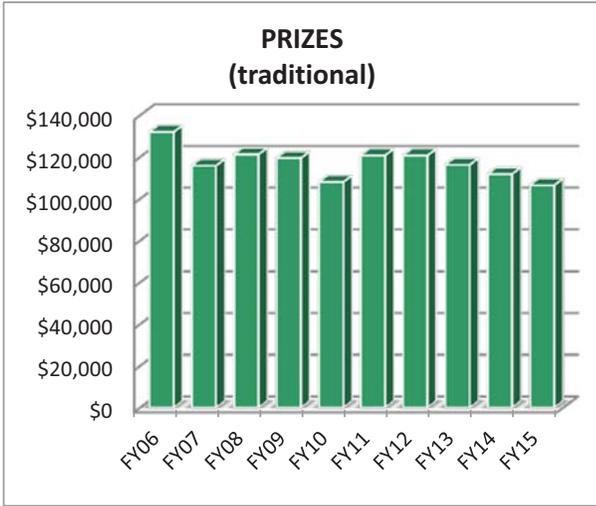
Daily Averages Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

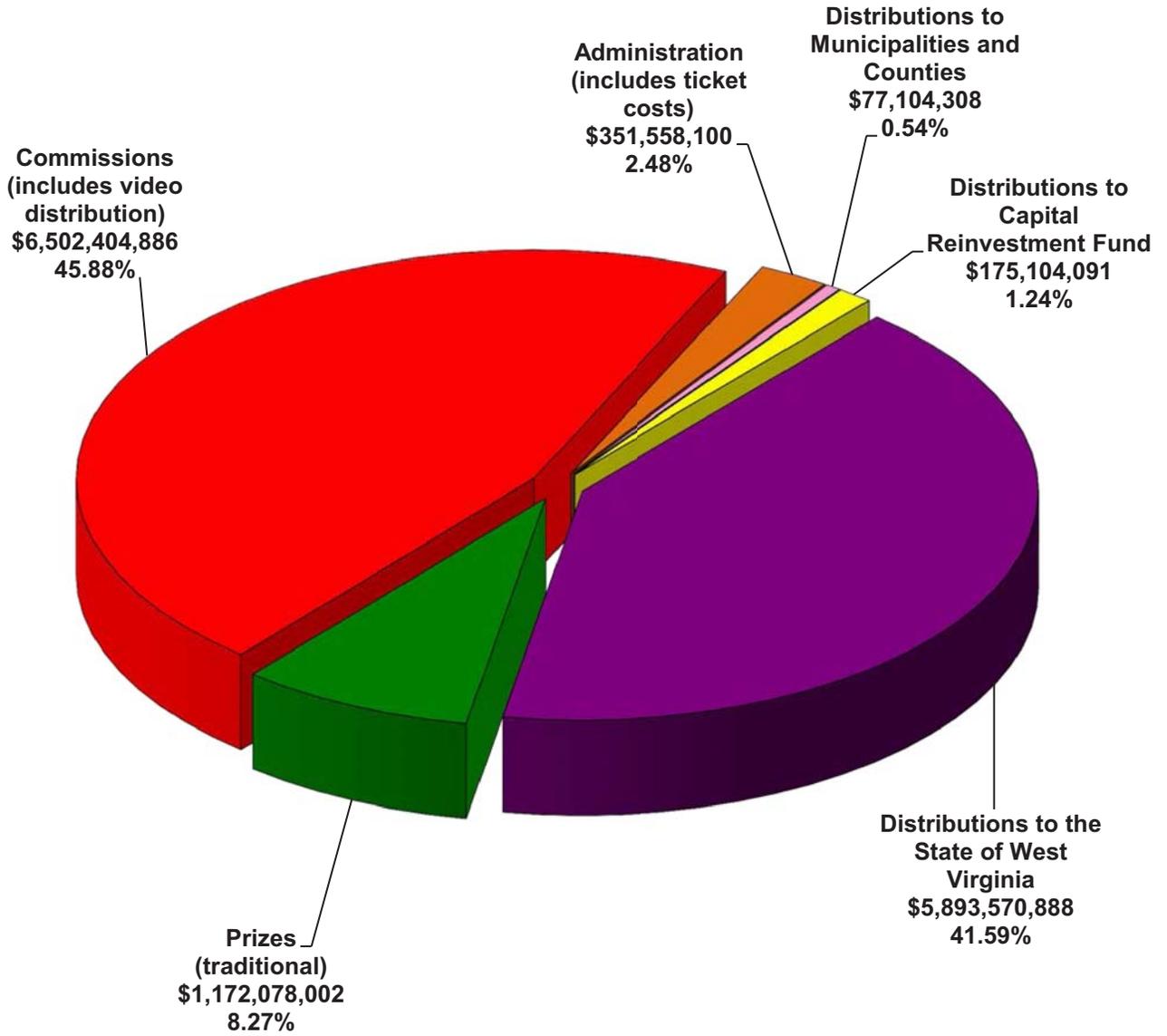
Expenses and Nonoperating Distributions Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

Total Expenses and Nonoperating Distributions \$14,171,820,275
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

**Total Net Position
(000's)**

| | <u>2006</u> | | <u>2007</u> | | <u>2008</u> | | <u>2009</u> | | <u>2010</u> |
|------------------------------------|-------------|----|-------------|----|-------------|----|-------------|----|-------------|
| Net Position | | | | | | | | | |
| Restricted by enabling legislation | \$ 20,000 | \$ | 30,367 | \$ | 58,487 | \$ | 69,871 | \$ | 8,355 |
| Net investment in capital assets | 1,149 | | 1,451 | | 5,251 | | 3,306 | | 23,349 |
| Unrestricted (deficit) | (899) | | 11,671 | | 747 | | 10,011 | | 4,679 |
| Total net position | \$ 20,250 | \$ | 43,489 | \$ | 64,485 | \$ | 83,188 | \$ | 36,383 |
| | | | | | | | | | |
| | <u>2011</u> | | <u>2012</u> | | <u>2013</u> | | <u>2014</u> | | <u>2015</u> |
| Net Position | | | | | | | | | |
| Restricted by enabling legislation | \$ 2,039 | \$ | 1,690 | \$ | 1,640 | \$ | 1,397 | \$ | 1,130 |
| Net investment in capital assets | 30,421 | | 42,285 | | 40,220 | | 38,745 | | 37,763 |
| Unrestricted (deficit) | 6,612 | | 8,000 | | 13,006 | | 14,878 | | 15,263 |
| Total net position | \$ 39,072 | \$ | 51,975 | \$ | 54,866 | \$ | 55,020 | \$ | 54,156 |

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2014 Excludes Video Lottery Terminal (VLT) Sales (\$ millions)

| | Sales | Profit | Population | Sales/Capita |
|------------------------------|--------------------|--------------------|--------------|--------------------|
| Arizona | \$723.95 | \$175.62 | 6.6 | \$109.69 |
| Arkansas | \$410.07 | \$81.69 | 3.0 | \$136.69 |
| California | \$5,034.66 | \$1,349.60 | 38.3 | \$131.45 |
| Colorado | \$545.03 | \$130.11 | 5.3 | \$102.84 |
| Connecticut | \$1,112.40 | \$321.80 | 3.6 | \$309.00 |
| Delaware ^{1,3} | \$597.19 | \$216.29 | 0.6 | \$995.32 |
| District of Columbia (9/30) | \$215.98 | \$54.97 | 0.9 | \$239.98 |
| Florida | \$5,368.23 | \$1,495.41 | 19.6 | \$273.89 |
| Georgia | \$4,022.20 | \$945.10 | 10.0 | \$402.22 |
| Idaho | \$208.89 | \$49.00 | 1.6 | \$130.56 |
| Illinois | \$2,802.71 | \$815.41 | 12.9 | \$217.26 |
| Indiana | \$1,018.73 | \$250.71 | 6.6 | \$154.35 |
| Iowa | \$314.06 | \$73.97 | 3.1 | \$101.31 |
| Kansas | \$245.71 | \$74.29 | 2.9 | \$84.73 |
| Kentucky | \$858.86 | \$226.13 | 4.4 | \$195.20 |
| Louisiana | \$448.97 | \$170.66 | 4.6 | \$97.60 |
| Maine | \$229.96 | \$52.38 | 1.3 | \$176.89 |
| Maryland ^{1,3} | \$2,557.99 | \$891.87 | 5.9 | \$433.56 |
| Massachusetts | \$4,852.38 | \$974.56 | 6.7 | \$724.24 |
| Michigan (9/30) | \$2,596.44 | \$744.10 | 9.9 | \$262.27 |
| Minnesota | \$531.52 | \$128.21 | 5.4 | \$98.43 |
| Missouri | \$1,157.05 | \$277.54 | 6.0 | \$192.84 |
| Montana | \$53.29 | \$12.09 | 1.0 | \$53.29 |
| Nebraska | \$157.90 | \$38.00 | 1.9 | \$83.10 |
| New Hampshire | \$275.61 | \$72.38 | 1.3 | \$212.01 |
| New Jersey | \$2,901.65 | \$965.01 | 8.9 | \$326.03 |
| New Mexico | \$136.00 | \$40.94 | 2.1 | \$64.76 |
| New York (3/31) ¹ | \$9,226.49 | \$3,172.96 | 19.7 | \$468.35 |
| North Carolina | \$1,839.28 | \$504.13 | 9.8 | \$187.68 |
| North Dakota | \$26.95 | \$7.82 | 0.7 | \$38.50 |
| Ohio ¹ | \$3,180.72 | \$1,004.34 | 11.6 | \$274.20 |
| Oklahoma | \$191.13 | \$67.68 | 3.9 | \$49.01 |
| Oregon ² | \$1,052.81 | \$516.67 | 3.9 | \$269.95 |
| Pennsylvania | \$3,799.57 | \$1,081.50 | 12.8 | \$296.84 |
| Rhode Island ^{2,3} | \$837.95 | \$376.33 | 1.1 | \$761.77 |
| South Carolina | \$1,264.44 | \$330.70 | 4.8 | \$263.42 |
| South Dakota ² | \$239.33 | \$106.22 | 0.8 | \$299.16 |
| Tennessee | \$1,417.07 | \$337.27 | 6.5 | \$218.01 |
| Texas (8/31) | \$4,384.60 | \$1,220.72 | 26.4 | \$166.08 |
| Vermont | \$102.31 | \$22.56 | 0.6 | \$170.52 |
| Virginia | \$1,810.82 | \$538.55 | 8.3 | \$218.17 |
| Washington | \$594.52 | \$147.67 | 7.0 | \$84.93 |
| West Virginia ^{1,3} | \$1,214.28 | \$553.13 | 1.9 | \$639.10 |
| Wisconsin | \$568.84 | \$168.77 | 5.7 | \$99.80 |
| Total | \$71,128.52 | \$20,784.87 | 299.9 | \$10,814.99 |

2014 data source: NASPL website: www.NASPL.org

²Includes gross VLT sales (Cash in)

¹Includes net VLT sales (Cash in less cash out)

³Includes Table Games

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2015 Excludes Video Lottery Terminal (VLT) Sales (\$ millions)

| | Sales | Profit | Population | Sales/Capita |
|------------------------------|--------------------|--------------------|--------------|--------------------|
| Arizona | \$749.97 | \$176.02 | 6.7 | \$111.94 |
| Arkansas | \$409.05 | \$72.82 | 3.0 | \$136.35 |
| California | \$5,524.85 | \$1,390.25 | 38.8 | \$142.39 |
| Colorado | \$538.03 | \$127.98 | 5.4 | \$99.64 |
| Connecticut | \$1,143.97 | \$319.70 | 3.6 | \$317.77 |
| Delaware ^{1,2} | \$598.40 | \$203.34 | 0.7 | \$854.86 |
| District of Columbia (9/30) | \$212.35 | \$54.29 | 0.9 | \$235.94 |
| Florida | \$5,583.33 | \$1,477.00 | 19.9 | \$280.57 |
| Georgia | \$4,195.15 | \$980.50 | 10.1 | \$415.36 |
| Idaho | \$210.19 | \$45.00 | 1.6 | \$131.37 |
| Illinois | \$2,841.45 | \$690.34 | 12.9 | \$220.27 |
| Indiana | \$1,040.66 | \$242.67 | 6.6 | \$157.68 |
| Iowa | \$324.77 | \$74.52 | 3.1 | \$104.76 |
| Kansas | \$250.03 | \$75.02 | 2.9 | \$86.22 |
| Kentucky | \$899.12 | \$236.10 | 4.4 | \$204.35 |
| Louisiana | \$452.45 | \$184.75 | 4.6 | \$98.36 |
| Maine | \$253.07 | \$54.65 | 1.3 | \$194.67 |
| Maryland ^{1,2} | \$2,799.09 | \$964.68 | 6.0 | \$466.52 |
| Massachusetts | \$5,003.44 | \$985.88 | 6.7 | \$746.78 |
| Michigan (9/30) | \$2,771.93 | \$796.49 | 9.9 | \$279.99 |
| Minnesota | \$546.87 | \$135.83 | 5.5 | \$99.43 |
| Missouri | \$1,127.35 | \$270.70 | 6.1 | \$184.81 |
| Montana | \$52.53 | \$11.66 | 1.0 | \$52.53 |
| Nebraska | \$159.97 | \$37.11 | 1.9 | \$84.19 |
| New Hampshire | \$281.41 | \$74.31 | 1.3 | \$216.47 |
| New Jersey | \$3,000.53 | \$960.00 | 8.9 | \$337.14 |
| New Mexico | \$137.02 | \$41.12 | 2.1 | \$65.25 |
| New York (3/31) ¹ | \$9,156.34 | \$3,110.57 | 19.7 | \$464.79 |
| North Carolina | \$1,972.22 | \$520.64 | 9.9 | \$199.21 |
| North Dakota | \$27.01 | \$6.72 | 0.7 | \$38.59 |
| Ohio ¹ | \$3,665.00 | \$1,095.02 | 11.6 | \$315.95 |
| Oklahoma | \$171.63 | \$60.86 | 3.9 | \$44.01 |
| Oregon ¹ | \$1,116.86 | \$544.46 | 4.0 | \$279.22 |
| Pennsylvania | \$3,819.64 | \$1,060.86 | 12.8 | \$298.41 |
| Rhode Island ^{1,2} | \$866.00 | \$381.94 | 1.1 | \$787.27 |
| South Carolina | \$1,401.66 | \$343.52 | 4.8 | \$292.01 |
| South Dakota ¹ | \$250.31 | \$112.07 | 0.9 | \$278.12 |
| Tennessee | \$1,475.79 | \$347.79 | 6.5 | \$227.04 |
| Texas (8/31) | \$4,529.70 | \$1,242.70 | 27.0 | \$167.77 |
| Vermont | \$111.75 | \$22.76 | 0.6 | \$186.25 |
| Virginia | \$1,843.88 | \$533.76 | 8.3 | \$222.15 |
| Washington | \$600.35 | \$141.26 | 7.1 | \$84.56 |
| West Virginia ^{1,2} | \$1,164.00 | \$508.33 | 1.9 | \$612.63 |
| Wisconsin | \$574.63 | - | 5.8 | \$99.07 |
| Wyoming | \$17.53 | - | 0.6 | \$29.22 |
| Total | \$73,871.28 | \$20,715.99 | 303.1 | \$10,951.87 |

2015 data source: NASPL website: www.NASPL.org

²Includes Table Games (net)

¹Includes net VLT sales (Cash in less cash out)

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2014 Includes Video Lottery Terminal (VLT) Sales (\$ millions)

| | | | Gov't | | Sales |
|--------------------------------|-------------------|-------------------|-------------------|--------------|-------------------|
| | Sales | Prizes | Transfers | Population | Per Capita |
| Arizona | \$724.0 | \$460.0 | \$175.0 | 6.6 | \$109.70 |
| Arkansas | \$410.1 | \$275.0 | \$135.1 | 3.0 | \$136.70 |
| California | \$5,034.7 | \$3,073.6 | \$1,357.1 | 38.3 | \$131.45 |
| Colorado | \$545.0 | \$336.6 | \$130.1 | 5.3 | \$102.83 |
| Connecticut | \$1,112.4 | \$668.8 | \$319.5 | 3.6 | \$309.00 |
| D.C. | \$219.4 | \$120.6 | \$98.7 | 0.6 | \$365.67 |
| Delaware ^{2,3} | \$148.4 | \$31.5 | \$544.7 | 0.9 | \$164.89 |
| Florida | \$5,368.2 | \$3,625.1 | \$1,490.0 | 19.6 | \$273.89 |
| Georgia | \$4,022.2 | \$2,413.8 | \$940.1 | 10.0 | \$402.22 |
| Idaho | \$209.0 | \$133.2 | \$49.0 | 1.6 | \$130.63 |
| Illinois | \$2,791.8 | | | 12.9 | \$216.42 |
| Indiana | \$1,018.7 | \$636.6 | \$250.2 | 6.6 | \$154.35 |
| Iowa | \$314.1 | \$186.2 | \$73.9 | 3.1 | \$101.32 |
| Kansas | \$258.2 | \$139.8 | \$74.3 | 2.9 | \$89.03 |
| Kentucky | \$856.4 | \$547.6 | \$226.0 | 4.4 | \$194.64 |
| Louisiana | \$449.0 | \$237.4 | \$170.7 | 4.6 | \$97.61 |
| Maine | \$219.1 | \$148.1 | \$51.8 | 1.3 | \$168.54 |
| Maryland ^{2,3} | \$1,724.0 | \$254.9 | \$1,024.2 | 5.9 | \$292.20 |
| Massachusetts | \$4,824.7 | \$3,515.0 | \$971.0 | 6.7 | \$720.10 |
| Michigan ^{1,6} | \$2,609.1 | \$1,548.4 | \$763.1 | 9.9 | \$263.55 |
| Minnesota | \$531.5 | \$328.0 | \$127.9 | 5.4 | \$98.43 |
| Missouri | \$1,143.4 | \$771.0 | \$267.3 | 6.0 | \$190.57 |
| Montana | \$53.3 | \$29.5 | \$12.1 | 1.0 | \$53.30 |
| Nebraska | \$157.8 | \$92.8 | \$37.6 | 1.9 | \$83.05 |
| New Hampshire | \$275.0 | \$171.8 | \$72.4 | 1.3 | \$211.54 |
| New Jersey | \$2,895.8 | | | 8.9 | \$325.37 |
| New Mexico | \$136.0 | \$74.1 | \$40.9 | 2.1 | \$64.76 |
| New York ^{2,3,4} | \$7,314.2 | \$4,407.9 | \$3,173.0 | 19.7 | \$371.28 |
| North Carolina | \$1,839.3 | \$1,068.3 | \$503.1 | 9.8 | \$187.68 |
| North Dakota | \$27.0 | \$14.2 | | 0.7 | \$38.57 |
| Ohio ^{2,3} | \$2,735.0 | \$1,714.2 | \$904.3 | 11.6 | \$235.78 |
| Oklahoma | \$191.1 | \$97.5 | \$66.9 | 3.9 | \$49.00 |
| Oregon ^{2,3} | \$310.1 | \$202.0 | \$542.8 | 3.9 | \$79.51 |
| Pennsylvania | \$3,799.6 | \$2,376.7 | \$1,081.5 | 12.8 | \$296.84 |
| Rhode Island ^{2,3} | \$242.8 | \$148.6 | \$376.3 | 1.1 | \$220.73 |
| South Carolina | \$1,264.4 | \$811.1 | \$323.4 | 4.8 | \$263.42 |
| South Dakota ^{2,3} | \$54.9 | \$437.3 | \$104.7 | 0.8 | \$68.63 |
| Tennessee | \$1,417.0 | | | 6.5 | \$218.00 |
| Texas ⁵ | \$4,384.6 | \$2,817.3 | \$1,220.7 | 26.4 | \$166.08 |
| Vermont | \$102.3 | \$65.0 | \$22.6 | 0.6 | \$170.50 |
| Virginia | \$1,810.8 | \$1,082.5 | \$532.7 | 8.3 | \$218.17 |
| Washington | \$595.1 | \$362.7 | \$148.3 | 7.0 | \$85.01 |
| West Virginia ^{2,3,7} | \$188.6 | \$110.7 | \$1,103.6 | 1.9 | \$99.26 |
| Wisconsin | \$568.8 | | | 5.7 | \$99.79 |
| Total | \$64,896.9 | \$35,535.4 | \$19,506.6 | 299.9 | \$8,320.00 |

2014 data source: La Fleur's Magazine/Vol. 22, No. 1 Sept/Oct 2014

¹Estimated Sales

⁵Fiscal Year ends 8/31

²Doesn't include VLT prizes

⁶Fiscal Year ends 9/30

³Includes transfers for VLT operations

⁷Gross sales were \$1,214.3, including VLT sales of \$972.6 and Table Games sales of \$53.1

⁴Fiscal Year ends 3/31

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2015 Includes Video Lottery Terminal (VLT) Sales (\$ millions)

| | Ticket | | Gov't | | Sales |
|--------------------------------|-------------------|-------------------|-------------------|--------------|-------------------|
| | Sales | Prizes | Transfers | Population | Per Capita |
| Arizona | \$750.0 | \$431.1 | \$176.0 | 6.7 | \$111.94 |
| Arkansas | \$408.7 | \$280.5 | \$72.3 | 3.0 | \$136.23 |
| California | \$5,524.9 | \$3,502.3 | \$1,395.2 | 38.8 | \$142.39 |
| Colorado | \$538.0 | \$333.9 | \$128.0 | 5.4 | \$99.63 |
| Connecticut | \$1,144.0 | \$707.7 | \$319.7 | 3.6 | \$317.78 |
| D.C. ¹ | \$211.0 | | | 0.7 | \$301.43 |
| Delaware ^{2,3} | \$150.5 | \$109.0 | \$240.5 | 0.9 | \$167.22 |
| Florida | \$5,583.3 | \$3,644.2 | \$1,477.0 | 19.9 | \$280.57 |
| Georgia | \$4,195.2 | \$2,528.9 | \$980.5 | 10.1 | \$415.37 |
| Idaho | \$210.2 | \$136.8 | \$45.0 | 1.6 | \$131.38 |
| Illinois | \$2,837.3 | \$1,874.5 | \$774.0 | 12.9 | \$219.95 |
| Indiana | \$1,041.3 | \$671.0 | \$242.9 | 6.6 | \$157.77 |
| Iowa | \$324.8 | \$194.5 | \$74.8 | 3.1 | \$104.77 |
| Kansas | \$265.0 | \$144.9 | \$75.0 | 2.9 | \$91.38 |
| Kentucky | \$896.4 | \$556.3 | \$231.1 | 4.4 | \$203.73 |
| Louisiana | \$452.5 | \$239.2 | \$158.9 | 4.6 | \$98.37 |
| Maine | \$253.1 | \$156.2 | \$54.6 | 1.3 | \$194.69 |
| Maryland ^{2,3} | \$1,757.1 | \$1,049.9 | \$1,023.8 | 6.0 | \$292.85 |
| Massachusetts | \$4,990.9 | \$3,641.0 | \$983.5 | 6.7 | \$744.91 |
| Michigan ^{1,6} | \$2,758.2 | \$1,652.2 | \$795.9 | 9.9 | \$278.61 |
| Minnesota | \$546.9 | \$335.2 | \$135.5 | 5.5 | \$99.44 |
| Missouri | \$1,098.3 | \$756.1 | \$270.7 | 6.1 | \$180.05 |
| Montana | \$52.5 | \$29.2 | \$11.7 | 1.0 | \$52.50 |
| Nebraska | \$160.0 | \$94.9 | \$36.8 | 1.9 | \$84.21 |
| New Hampshire | \$279.6 | \$176.4 | \$74.4 | 1.3 | \$215.08 |
| New Jersey | \$3,013.6 | | | 8.9 | \$338.61 |
| New Mexico | \$137.0 | \$75.6 | \$41.1 | 2.1 | \$65.24 |
| New York ^{2,3,4} | \$7,251.0 | \$4,396.9 | \$3,110.6 | 19.7 | \$368.07 |
| North Carolina | \$1,972.2 | \$1,367.2 | \$605.0 | 9.9 | \$199.21 |
| North Dakota | \$27.0 | \$14.3 | \$7.1 | 0.7 | \$38.57 |
| Ohio ^{2,3} | \$2,890.9 | \$1,884.0 | \$990.0 | 11.6 | \$249.22 |
| Oklahoma | \$171.6 | \$87.8 | \$60.1 | 3.9 | \$44.00 |
| Oregon ^{2,3} | \$318.4 | \$206.4 | \$581.7 | 4.0 | \$79.60 |
| Pennsylvania | \$3,819.6 | \$2,411.7 | \$1,060.9 | 12.8 | \$298.41 |
| Rhode Island ^{2,3} | \$243.1 | \$150.1 | \$381.1 | 1.1 | \$221.00 |
| South Carolina | \$1,401.7 | \$924.1 | \$348.9 | 4.8 | \$292.02 |
| South Dakota ^{2,3} | \$51.8 | \$29.7 | \$109.9 | 0.9 | \$57.56 |
| Tennessee | \$1,475.0 | | \$347.7 | 6.5 | \$226.92 |
| Texas ^{1,5} | \$4,524.5 | \$2,933.3 | \$1,242.0 | 27.0 | \$167.57 |
| Vermont | \$111.8 | \$72.7 | \$22.8 | 0.6 | \$186.33 |
| Virginia | \$1,843.9 | \$1,116.6 | \$533.8 | 8.3 | \$222.16 |
| Washington | \$599.7 | \$365.9 | \$141.3 | 7.1 | \$84.46 |
| West Virginia ^{2,3,7} | \$180.0 | \$105.6 | \$496.3 | 1.9 | \$94.74 |
| Wisconsin | \$574.5 | | | 5.8 | \$99.05 |
| Wyoming | \$17.8 | \$4.6 | | 0.6 | \$29.67 |
| Total | \$67,054.8 | \$39,392.4 | \$19,858.1 | 303.1 | \$8,484.64 |

2015 data source: La Fleur's Magazine/Vol. 23, No. 1 September/October 2015

¹Estimated Sales

⁵Fiscal Year ends 8/31

²Doesn't include VLT prizes

⁶Fiscal Year ends 9/30

³Includes transfers for VLT operations

⁷Gross sales were \$1,164, including VLT sales of \$935.1 and Table Games sales of \$48.9

⁴Fiscal Year ends 3/31

WEST VIRGINIA LOTTERY

Number of Employees

| | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|--------------------------------|------------|------------|------------|------------|------------|
| Executive | 15 | 14 | 18 | 20 | 20 |
| Finance & Administration | 30 | 23 | 23 | 24 | 23 |
| Marketing | 7 | 7 | 7 | 7 | 7 |
| Video | 26 | 28 | 27 | 27 | 29 |
| Security (traditional & video) | 32 | 37 | 46 | 47 | 46 |
| Table Games | - | - | 39 | 47 | 51 |
| Total | 110 | 109 | 160 | 172 | 176 |

| | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|--------------------------------|------------|------------|------------|------------|------------|
| Executive | 18 | 19 | 19 | 20 | 20 |
| Finance & Administration | 27 | 26 | 25 | 25 | 22 |
| Marketing | 7 | 8 | 8 | 8 | 8 |
| Video | 30 | 31 | 31 | 29 | 30 |
| Security (traditional & video) | 47 | 42 | 40 | 41 | 38 |
| Table Games | 69 | 69 | 61 | 60 | 57 |
| Total | 198 | 195 | 184 | 183 | 175 |

Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

State Demographic and Economic Information

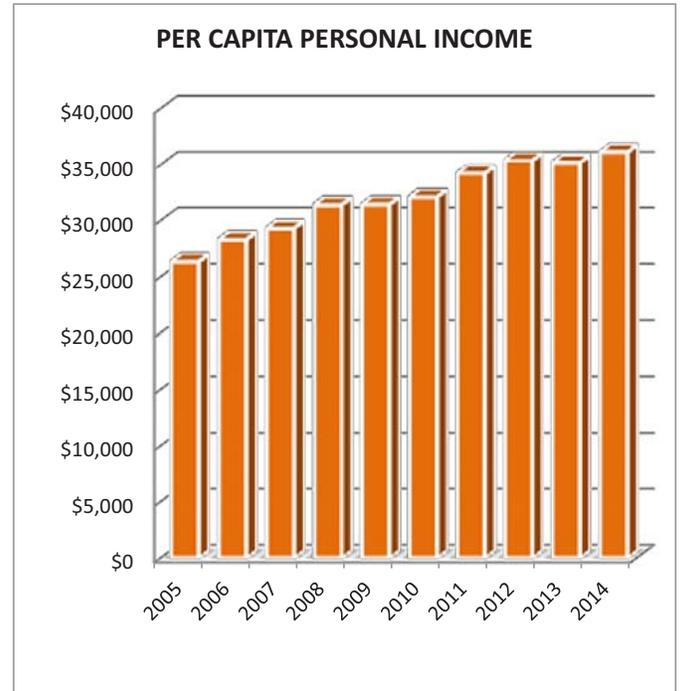
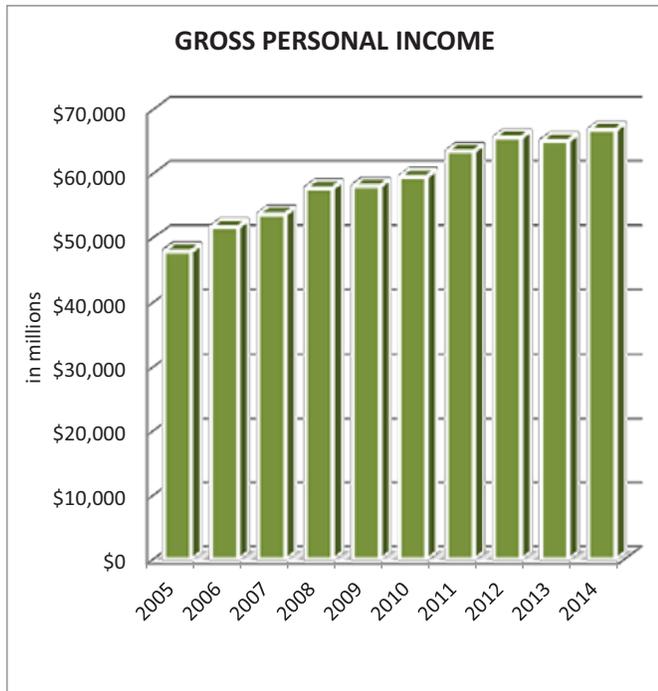
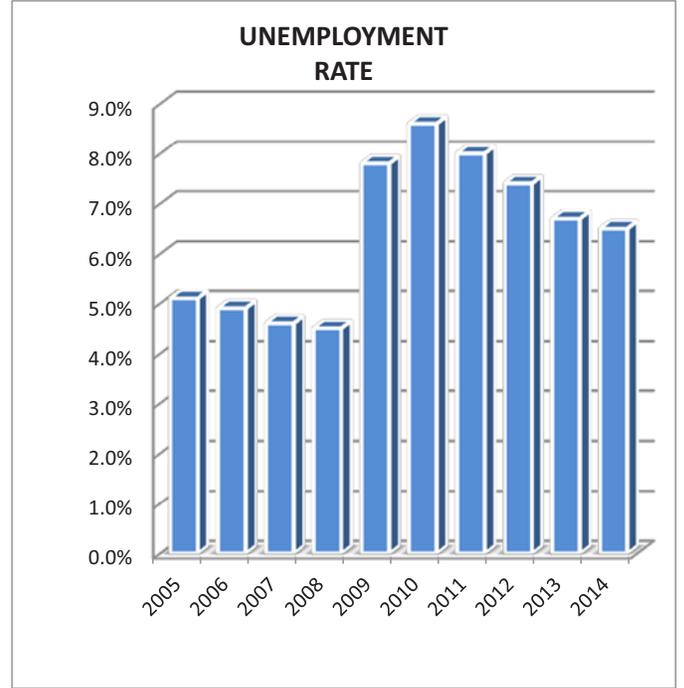
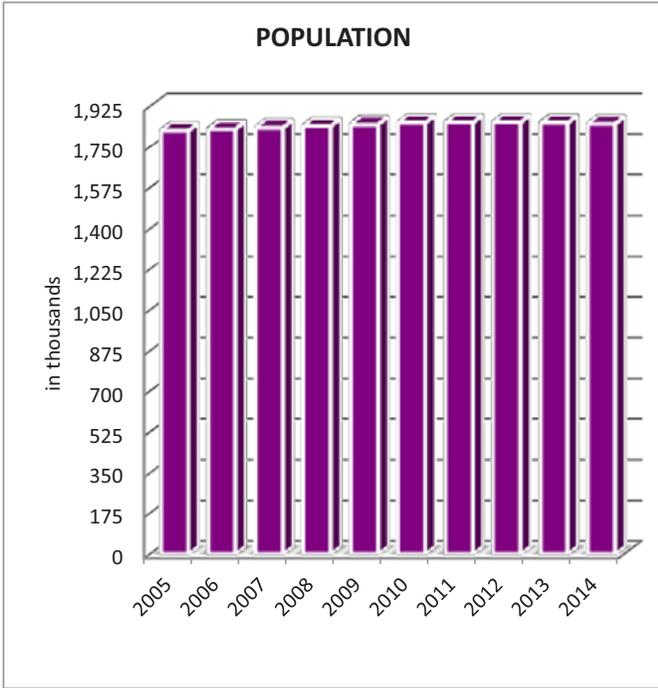
| YEAR | POPULATION | PERSONAL INCOME (in millions) | PER CAPITA PERSONAL INCOME | UNEMPLOYMENT RATE |
|------|------------|----------------------------------|----------------------------|-------------------|
| 2005 | 1,820,492 | \$47,989 | \$26,360 | 5.1% |
| 2006 | 1,827,912 | \$51,764 | \$28,319 | 4.9% |
| 2007 | 1,834,052 | \$53,767 | \$29,316 | 4.6% |
| 2008 | 1,840,310 | \$57,780 | \$31,397 | 4.5% |
| 2009 | 1,847,775 | \$58,074 | \$31,429 | 7.8% |
| 2010 | 1,854,176 | \$59,526 | \$32,104 | 8.6% |
| 2011 | 1,854,982 | \$63,461 | \$34,211 | 8.0% |
| 2012 | 1,856,313 | \$65,665 | \$35,374 | 7.4% |
| 2013 | 1,853,595 | \$65,178 | \$35,163 | 6.7% |
| 2014 | 1,850,326 | \$66,857 | \$36,132 | 6.5% |

Source: U.S. Bureau of Economic Analysis and Bureau of Labor Statistics based on calendar year.

Note: 2015 information is not available and therefore not presented.

WEST VIRGINIA LOTTERY

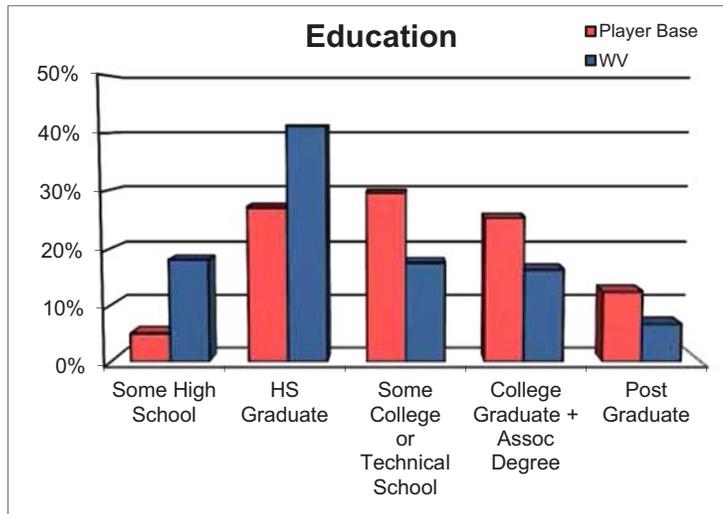
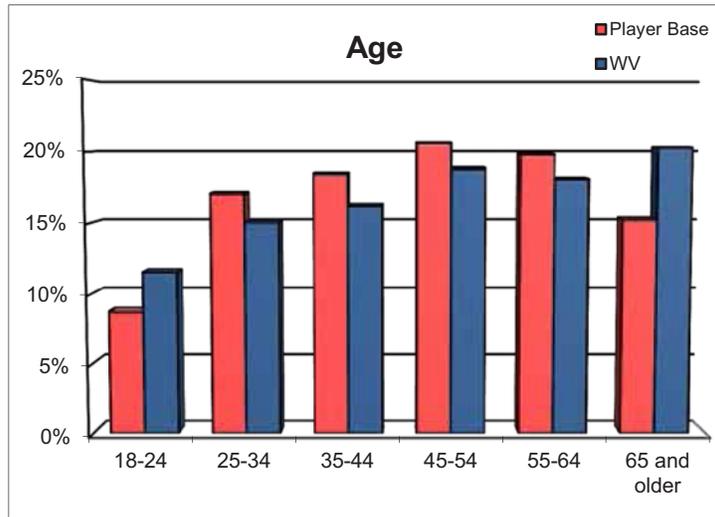
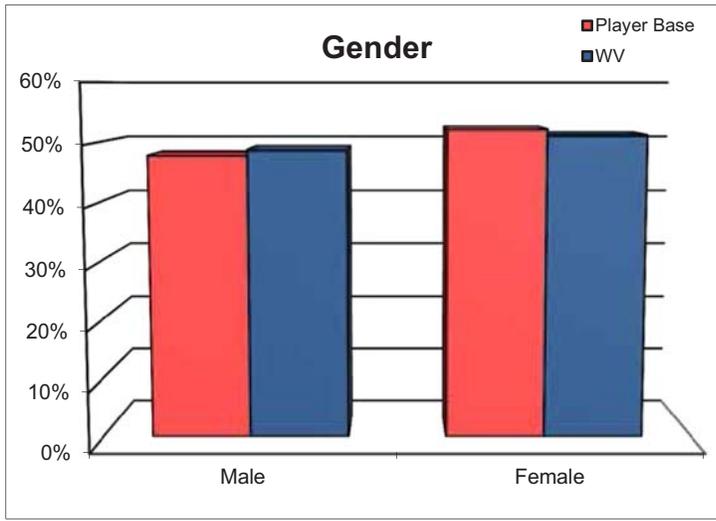
State Demographics



Source: U.S. Bureau of Economic Analysis and Bureau of Labor Statistics based on calendar year.

WEST VIRGINIA LOTTERY

Player and Population Demographics

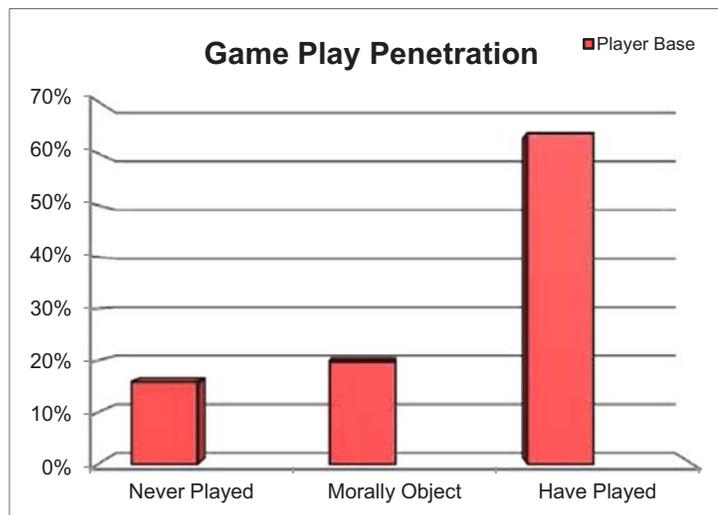
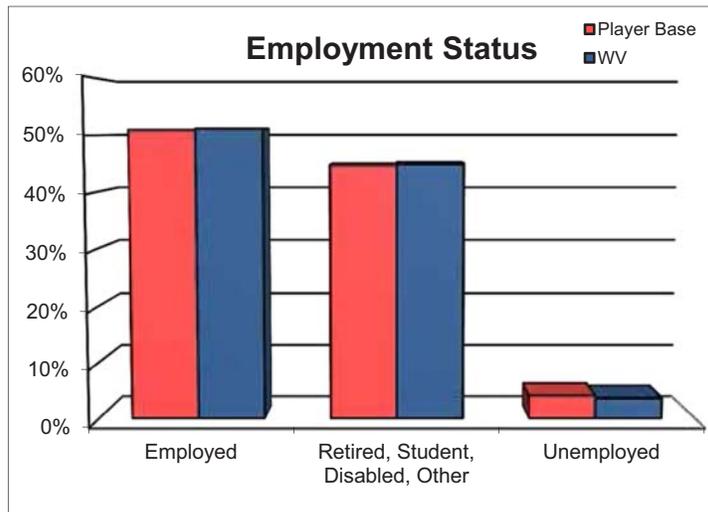
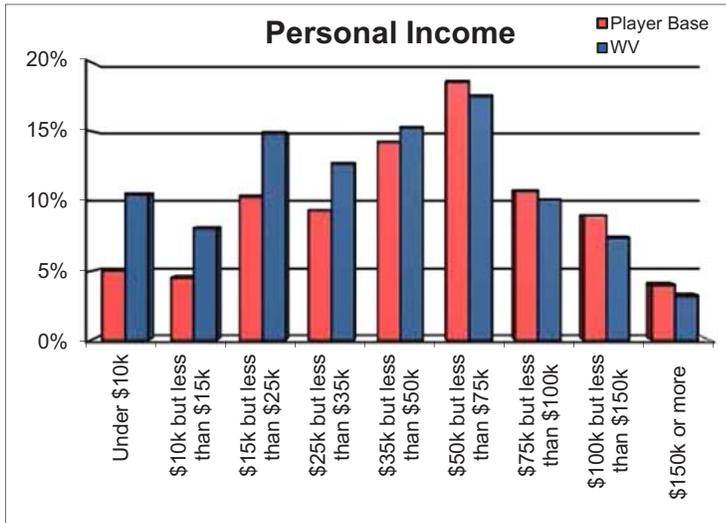


Source: West Virginia Lottery
Segmentation Study, August 2015
Repass Inc.

**ACS Demographic and Housing
2010 Census**

WEST VIRGINIA LOTTERY

Player and Population Demographics



Source: West Virginia Lottery
Segmentation Study, August 2015
Repass Inc.

ACS Demographic and Housing
2010 Census

STATE OF WEST VIRGINIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

| First Quarter 2015 | | |
|--|----------------------------|-------------------------------------|
| Business Name | Number of Employees | Percentage of Total Employed |
| Local Government | 75,415 | 10.63% |
| State Government | 41,989 | 5.92% |
| Federal Government | 23,115 | 3.26% |
| 1 Wal-Mart Associates, Inc. | 10,000-13,000 | 1.62% |
| 2 West Virginia United Health System | 7,000-9,999 | 1.20% |
| 3 Charleston Area Medical Center, Inc. | 5,000-6,999 | 0.85% |
| 4 Kroger | 3,000-4,999 | 0.56% |
| 5 Mylan Pharmaceuticals, Inc. | 3,000-4,999 | 0.56% |
| 6 Murray American Energy, Inc. | 1,000-2,999 | 0.28% |
| 7 St. Mary's Medical Center, Inc. | 1,000-2,999 | 0.28% |
| 8 Lowe's Home Centers, Inc. | 1,000-2,999 | 0.28% |
| 9 Cabell Huntington Hospital, Inc. | 1,000-2,999 | 0.28% |
| 10 Res-Care Inc. | 1,000-2,999 | 0.28% |

| First Quarter 2006 | | |
|---|----------------------------|-------------------------------------|
| Business Name | Number of Employees | Percentage of Total Employed |
| Local Government | 73,405 | 9.74% |
| State Government | 41,331 | 5.48% |
| Federal Government | 21,873 | 2.90% |
| 1 Wal-Mart Associates, Inc. | 10,000-13,000 | 1.53% |
| 2 West Virginia University Hospitals | 3,000-5,999 | 0.60% |
| 3 Charleston Area Medical Center, Inc. | 3,000-5,999 | 0.60% |
| 4 Kroger | 3,000-5,999 | 0.60% |
| 5 CSX / CSX Hotels Inc. (The Greenbrier and Railroad) | 3,000-5,999 | 0.60% |
| 6 American Electric Power | 1,000-2,999 | 0.27% |
| 7 Lowe's Home Center, Inc. | 1,000-2,999 | 0.27% |
| 8 Consolidated Coal Company | 1,000-2,999 | 0.27% |
| 9 Verizon | 1,000-2,999 | 0.27% |
| 10 St. Mary's Hospital | 1,000-2,999 | 0.27% |

Source: WORKFORCE West Virginia, Research, Information and Analysis

West Virginia Lottery 2015 CAFR Project
An in-house production of the West Virginia Lottery

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