

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



*30 Years of Good Things for West Virginia*

*Comprehensive Annual Financial Report*

for the fiscal years ended June 30, 2016 and 2015

# Message from the Director

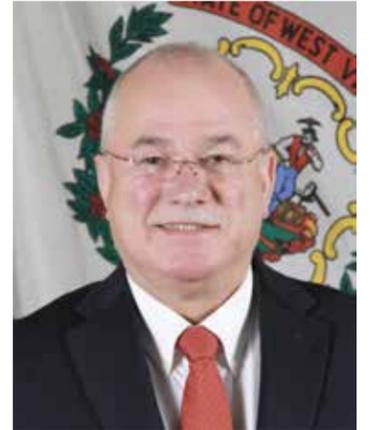


A PDF download of this Comprehensive Annual Financial Report is available at [wvlottery.com](http://wvlottery.com). Go to the News and Info tab and to Financial Reports.

I am pleased to present this year's West Virginia Lottery Comprehensive Annual Financial Report for the fiscal year ending June 30, 2016 to the Honorable Earl Ray Tomblin, Governor; Robert Kiss, Cabinet Secretary, Department of Revenue; and the West Virginia Legislature. Our mission to operate responsibly with the highest standards of integrity and security have, despite the evolving landscape of the gaming industry, helped to provide a continued revenue stream for programs that benefit the citizens of West Virginia for more than 30 years.

The Lottery was created in April 1985 pursuant to authority granted by the West Virginia Legislature with gaming operations beginning in January 1986. Since its inception, the Lottery has generated more than \$9 billion in gaming revenue for the State of West Virginia with proceeds supporting education, seniors and tourism. Education has received more than \$3 billion from Lottery operations, as well as more than \$1.1 billion invested in senior services, and more than \$979.3 million distributed to the state's tourism industry.

The financial, economic, demographic and statistical data contained in this report is intended to help provide a framework of understanding of the Lottery's financial performance, and represents only the activity for which the West Virginia Lottery exercises regulatory authority. Responsibility for both the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. An independent certified public accounting firm has audited the financial statements and accompanying notes contained in the financial section of this report.



John A. Myers  
Acting Director  
West Virginia Lottery

A handwritten signature in blue ink that reads "John A. Myers".

# 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, Computer Expert

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

Michael A. Adams, Esq.  
Weirton, Lawyer

Douglas A. Bicksler, CPA  
Lewisburg, Certified Public Accountant

David L. McCormick, Jr  
Morgantown, Marketing Specialist

Roy E. Shrewsbury, II  
Beckley, Public At Large



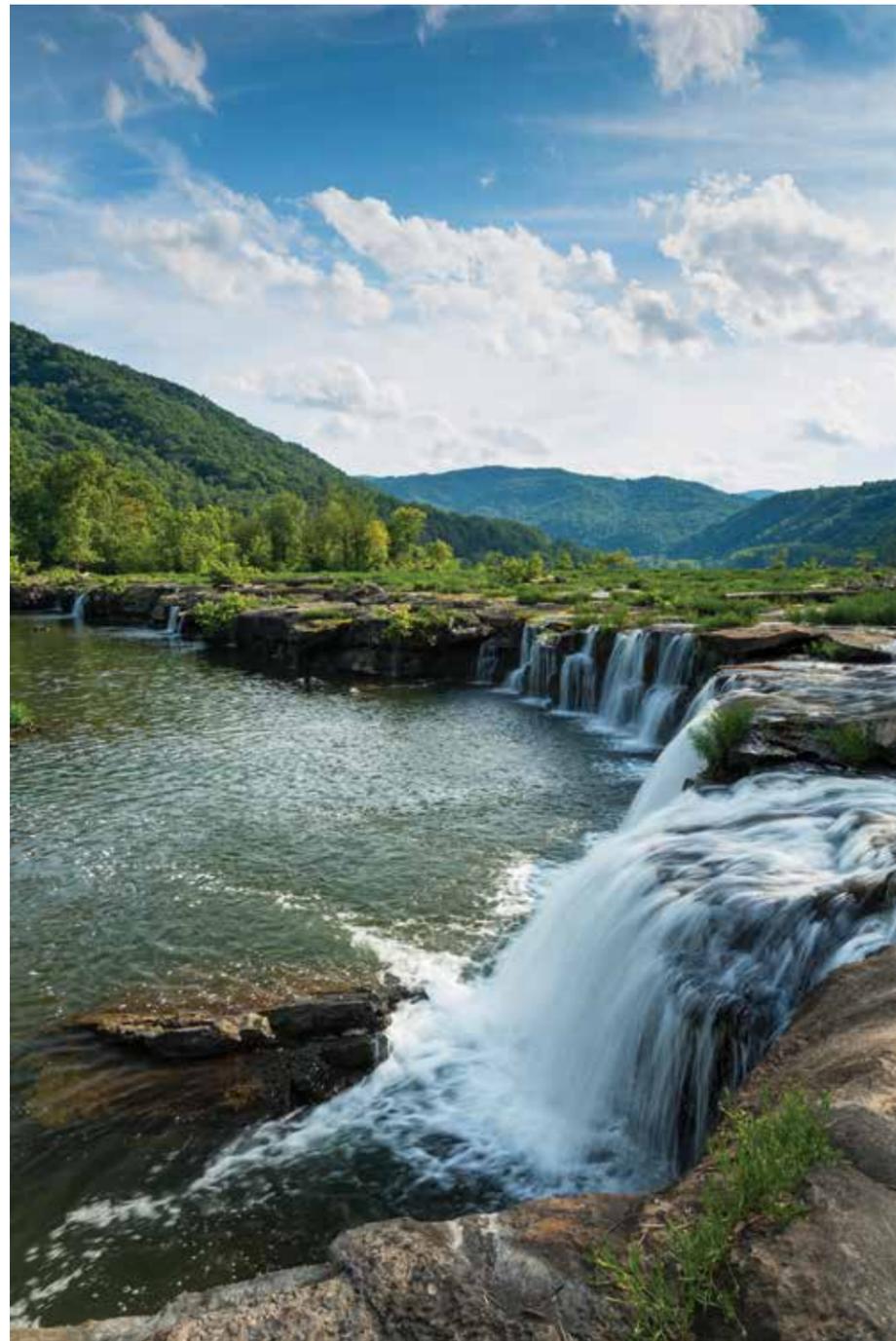
**West Virginia Lottery**  
a component unit of the State of West Virginia

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, 2016 and 2015

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# Lottery Proceeds

The West Virginia Lottery has generated more than \$9 billion in proceeds for the State of West Virginia since it began operations in 1986.

Lottery proceeds benefit the people of West Virginia in many ways. Lottery proceeds are used to help fund new school construction, school improvements and the PROMISE Scholarship Program. They also help fund very important senior services that improve the quality of life of West Virginia's senior citizens. Proceeds are also used to help the state's tourism industry and West Virginia Veterans.

Thanks to West Virginia Lottery proceeds, West Virginia has been able to invest more than \$3 billion in public education programs, more than \$1.1 billion in senior programs and services, and more than \$979.3 million into the state's growing tourism industry.



# Lottery History

West Virginia voters approved the Lottery Amendment to the State Constitution on November 6, 1984 with 67% voting in favor of the amendment. The West Virginia Legislature passed the Lottery Act in April of 1985 and it was signed into law that May by Governor Arch A. Moore, Jr.

West Virginia's first instant tickets were sold on January 9, 1986, with more than 1.5 million tickets distributed to retailers to sell on that first day. The West Virginia Lottery's first and only instant game at that time was "West Virginia Jackpot", and it carried a top prize of \$5,000. By year end, the Lottery closed FY 1986 with sales of more than \$53 million with West Virginia's General Revenue Fund receiving \$20 million of that total.

Today, the West Virginia Lottery produces sales of more than \$1.1 billion annually and generates more than \$500 million a year for the people of West Virginia. Since its inception, the Lottery has generated more than \$9 billion in proceeds that has helped public education, senior services and the state's tourism industry. West Virginia Lottery players have also won more than \$3 billion in prizes.

West Virginia Lottery proceeds have a direct impact on the quality of life for all West Virginians. The West Virginia Legislature uses lottery proceeds to help improve public education at every level from K through 12 to higher education through support of the School Building Authority, the West Virginia Department of Education, the Higher Education Policy Commission, education improvement bonds and the PROMISE Scholarship Program. Lottery proceeds also help the West Virginia Bureau of Senior Services provide nutrition programs, in-home care services and many other programs and services for West Virginia's senior citizens. Lottery proceeds also go toward enhancing the State's growing tourism industry and improving West Virginia's State Parks.

The Lottery now sells more than 40 different instant games a year as well as offering the popular in-state online drawing games of Keno, Daily 3, Daily 4, and Cash 25. Additionally, the Lottery offers the Multi-State Lottery games of Powerball, Mega Millions and Hot Lotto. The Lottery regulates Limited Video Lottery, Video Lottery and Table Games at the state's four racetrack casinos and the Greenbrier Resort.



## Lottery Retailers and Players



The West Virginia Lottery celebrated its 30th Anniversary in January 2016. In the Lottery's first 30 years, more than \$9 billion in lottery proceeds have made education, senior services and tourism programs possible. Approximately 1,500 traditional lottery retailers, nearly 1,400 limited video lottery retailers and the thousands of players who choose to play lottery games have helped contribute to the economy of the State of West Virginia.

West Virginia Lottery players won more than \$88 million in prizes from traditional lottery games during fiscal year 2016. That includes Vickie Walls of Morgantown who won the Lottery's Happy Birthday Second-Chance drawing and took home a \$1 million prize in June.

## Lottery Employees



The West Virginia Lottery began operations in 1986 with a single scratch off game called West Virginia Jackpot. By the end of that first year, the Lottery had recognized sales of more than \$53 million dollars. Today, the West Virginia Lottery regulates and governs several forms of gaming at four racetrack casinos, the Greenbrier Resort as well as video gaming parlors statewide. Included are; Traditional Lottery games, Racetrack Video Lottery, Limited Video Lottery and Table Games, realizing sales of more than \$1.1 billion in fiscal year 2016.

The Lottery owes much of its success to a dedicated and diverse team of professional employees performing a variety of key roles. Thanks to these employees, and those who served before them, the West Virginia Lottery has been able to exceed the \$1 billion mark in sales for 14 consecutive years.





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 2, 2016

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, 2016 and 2015. 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.

## Introductory Section



John A. Myers  
Acting Director



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

# Overview



The West Virginia Lottery has been making a difference for the people of West Virginia for more than 30 years. The Lottery has generated more than \$9 billion in proceeds for the State of West Virginia since it began operations in 1986. More than \$3 billion has been invested in education, more than \$1.1 billion in senior programs and services, and more than \$979.3 million in the state's tourism industry.

In fiscal year 2016, Lottery sales exceeded the \$1 billion mark for the 14th consecutive year. Despite the challenges posed by growing competition from surrounding states, Lottery sales totaled more than \$1.1 billion for the year ending June 30, 2016, and resulted in a cash transfer of more than \$501.3 million to the State of West Virginia.

The Lottery also 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 video 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.

Net profits to the State in fiscal year 2016 included \$247.3 million from Racetrack Video Lottery, \$181.1 million from Limited Video Lottery, \$21.4 million from Racetrack Table Games, \$2.4 million from the Historic Resort, and \$44.6 million from the sale of Traditional Lottery products.

The West Virginia State Budget included \$490 million in cash transfers from the Lottery. These included \$79 million for senior citizens, \$84.2 million for education, \$58.7 million for tourism, \$94.1 million to the State's General Fund, \$43.3 million to the Infrastructure Council, and \$101.7 million to other state agencies (including \$29 million to the PROMISE scholarship program).

A total of \$29.8 million was also paid to county and local municipalities across the state in fiscal year 2016. These distributions are statutory transfers from Racetrack Video Lottery, Limited Video Lottery, Table Games and the Historic Resort.

Overall sales in fiscal year 2016 were \$1.1 billion and total Lottery operating costs were 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 \$59.3 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 fiscal year 2016 Lottery players won a total of \$88.9 million in prizes. In addition, 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 fiscal year 2016, 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 the Excess Lottery Fund.

Since 1994, \$209 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 fiscal year 2016, the Lottery contributed \$5.7 million to the Division of Tourism. In addition, Lottery revenue appropriated by the West Virginia Legislature from other gaming sources to the Division of Tourism totaled \$8.2 million. With additional appropriations for the Division of Natural Resources and the State Park Improvement Fund, the cash transfers used in enhancing the state's tourism industry was \$16.2 million.

Legislation was passed to provide Lottery revenue from a special instant ticket game to help support funding for West Virginia veterans in fiscal year 2000. 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 fiscal year 2016, a total of \$744,513 was generated to support these facilities.

In addition to Traditional Lottery dollars, West Virginia seniors also benefit from the license fees for Table Games which are directly deposited to the Bureau of Senior Services. In fiscal year 2016, deposits to in-home health care services for seniors totaled \$10 million from Racetrack Table Games and \$500 thousand from The Greenbrier Historic Resort. Those amounts are in addition to Legislative appropriations to senior services and programs that come from Lottery proceeds. Overall, West Virginia senior citizens benefited from an estimated \$79 million in Lottery revenue during fiscal year 2016.

West Virginia students, who qualify academically, also benefit from Lottery dollars through the PROMISE Scholarship Program. Revenue from Limited Video Lottery provided \$29 million to in-state higher education for high school graduates who chose to further their education at an in-state college or university. Since 2002, the West Virginia Lottery has provided \$370.5 million to the PROMISE Scholarship Program.



# Economic Outlook

The U.S. economy has exhibited stability in recent years following the economic downturn that occurred nearly a decade ago. According to the U.S. Bureau of Economic Analysis (BEA), annual U.S. Gross Domestic Product (GDP) growth has been nearly 4 percent on average since 2012. Year-over-year changes in durable and non-durable goods GDP have shown slight downward trends since 2012, but maintain healthy increases of 1.9 percent and 3.5 percent, respectively, as of 2015. According to the U.S. Census Bureau (Census), the deficit of U.S. trade in goods and services has generally deepened since 2009 but has exhibited some slowing year-over-year since 2013. Much of this slower activity is attributable to a greater increase in exports of goods and services relative to imports.

National employment statistics have improved as well during this time. According to BEA data, U.S. full- and part-time employment increased approximately 1.8 percent per year on average from 2012 to 2015. Much of this recovery stems from employment gains in construction; transportation and warehousing; and accommodations and food services industries. The mining industry registered the only employment decline of a major sector, falling 5.8 percent from 2012 to 2015 after a post-recession peak in 2014.

Despite a weaker-than-expected September 2016 jobs report, the U.S. Bureau of Labor Statistics (BLS) reported that the unemployment rate remained relatively unchanged in September and anticipates national employment to increase nearly 12 percent over the next decade. The relative health exhibited in the employment trend is contributing to increases of approximately 3.7 percent since 2012 in personal consumption expenditures on goods and services. During this time, spending on gasoline and other energy goods is the only expenditure to exhibit a decrease from 2012 to 2015. This decline is largely attributable to falling fuel and natural gas prices in recent years.

The West Virginia economy has not fared as well as the U.S. in recent years. According to the BEA, the State's GDP increased a modest 4 percent from 2012 to 2015 following a regional economic downturn that primarily affected the mining industry. State GDP in this sector fell 19.2 percent year-over-year in 2012 alone; this decrease was driven primarily by the decline in GDP of natural resource extraction excluding oil and natural gas. Annual changes in total GDP have remained positive since this downturn until 2015 when data indicate a modest decline. Natural resources mining was again a major contributing factor. Despite the general downward trend of the sector, the data indicate relative health with respect to oil and gas extraction; GDP for this sub-sector more than doubled from 2012 to 2014.<sup>1</sup>

<sup>1</sup>2015 data for mining subsectors were not available at the time of this writing.



GDP in the agriculture, forestry, fishing and hunting and information industries exhibited the most strength from 2012 to 2015, increasing 40.2 percent and 11.6 percent, respectively. Unsurprisingly, GDP growth in the educational services, health care and social assistance industry was also strong at roughly 8 percent, with health care largely driving this increase. Much of this trend can be credited to West Virginia's aging population, leading to an increased need for health care and related assistance services. The accommodation and food services industry also exhibited growth during this time, and manufacturing GDP, largely influenced by a strong increase in nondurable goods manufacturing, matched the statewide GDP increase. Despite an overall positive trend, GDP in all West Virginia goods-producing sectors has exhibited instability since the recession.

As with many other energy producing states, West Virginia has experienced direct and indirect impacts from volatility in the mining industry. A mild winter in late 2015 and early 2016 reduced demand for energy inputs such as coal and natural gas, causing plummeting prices and slowed production. These reductions impacted employment and spending throughout the State. Nonfarm employment for individuals in the mining industry fell 17.7 percent from 2012 to 2015, driven largely reductions in employment for mining other than oil and gas and support activities for mining per BEA data. Year-over-year, mining employment fell nearly 10 percent in 2015 alone, with non-oil and gas extraction employment and support activities employment driving this decrease. Transportation and warehousing employment showed the strongest employment growth of 8.1 percent from 2012 to 2015, followed by a similar increase in real estate and rental/leasing employment. Statewide, total employment fell by 1.3 percent during this time.

Personal consumption expenditures in the State rose 7.1 percent from 2012 to 2015, compared to the national increase of 11.2 percent. Year-over-year changes in expenditures have maintained positive growth since 2012, but at a slower

pace than recorded growth immediately following the 2009 economic downturn. These trends could suggest some cautionary behavior in consumer confidence, likely influenced by employment and economic uncertainty. The largest statewide consumption expense increases from 2012 to 2015 occurred in health care spending, accommodation and food services and financial services and insurance. Similar to the national trend, expenses for gasoline and other energy goods fell substantially from 2012 to 2015. Much of this decline is attributable to falling fuel and other energy prices in 2015.

West Virginia personal income increased nearly 5 percent from 2012 to 2015, equating to approximately 1.6 percent per year on average. By comparison, the national increase in personal income exceeded the State growth by 6.3 percentage points total during this time, approximately 2.1 percentage points per year on average. In addition to divergent employment trends, the State population fell from 2012 to 2015 relative to continuing increases in the national population. West Virginia per capita income was just over three-quarters the per capita income of the U.S. in 2015.

Coupled with tax revenue deficits of more than \$81 million as of the end of the first quarter of Fiscal Year 2017, recent West Virginia economic trends do not bode well for economic resurgence in the near future. The State economy exhibited sluggish growth at best during most of Fiscal Year 2016, aided in large part due to the ripple effect of struggling industries on employment and wages. The June 2016 floods that caused extensive damage to homes and businesses in a dozen West Virginia counties, displacing thousands of residents and closing many businesses for several weeks and others permanently, further hindered any potential recovery. It is anticipated that employment declines and lagging incomes may be stabilizing. However, some economic suppression is likely to continue into 2017.

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 is revealed, the player becomes an "instant winner" without having to wait for the results of a drawing. Instant games offer a wide variety of game themes. During fiscal year 2016, there were 55 new games introduced. Instant games provided approximately 9.0 percent of total fiscal year 2016 sales at 1,496 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, October 2002, August 2005, January 2013, and October 4, 2015. Beginning March 2001, Powerball® added a feature called Power Play®, where winnings, other than the jackpot, can be multiplied from a random number drawn between 2 and 5. 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 was no longer used and the prizes are now set dollar values. October 4, 2015, the matrix changed to "5 of 69" for the first set and "1 of 26" for the second set. When playing the Power Play® option the match 5+0 prize becomes \$2 million and all lower prizes can be multiplied from a random number drawn between 2 and 5 and a 10x option was added if the jackpot is \$150 million or less. 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 4.1 percent of total fiscal year 2016 sales at 1,496 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 1,496 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 from 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 259 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. 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, 2016, the West Virginia Lottery Commission had an average of 6,055 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 47.3 percent of total fiscal year 2016 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. The first terminals were enabled for play on December 17, 2001. A total of 6,306 terminals were operating at licensed retail locations throughout the state as of June 30, 2016. Limited video lottery sales were 31.7 percent of total fiscal year 2016 sales at 1,374 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 3.8 percent of total fiscal year 2016 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 exceeded the \$1 billion mark for the 14<sup>th</sup> consecutive year in fiscal year 2016. Lottery sales totaled more than \$1.1 billion for the year ending June 30, 2016, and resulted in a cash transfer of more than \$501.3 million to the State of West Virginia.
- The Lottery concluded the Request for Proposal (RFP) process for the video lottery central system, which operates and controls both limited video lottery at 1,374 retailers and video lottery at the state's casinos. Scientific Games Corporation won the contract and the company's latest central monitoring and control system, Connexus™, will replace the Scientific Games AEGIS™ video system. The term of the contract is 15 years and conversion will begin in fiscal year 2017.

- A record Powerball® jackpot of more than \$1.5 billion in January 2016 led to West Virginia's Powerball® sales increasing by more than \$12 million over the prior fiscal year.



- The transition in human resources, facilities management, and governmental accounting to the State's new Enterprise Resource Planning (ERP) system was completed.
- The construction of a new Backup Data Center and the relocation of Lottery systems was completed. Located near Bridgeport, the building provides the Lottery and its vendors a reliable backup facility to ensure the continuity of operations in the event of an emergency impacting headquarters in Charleston. The facility features a fully operational data center for traditional gaming, video lottery, and internal lottery systems, as well as warehouse space, disaster recovery equipment, and a validation center.
- The West Virginia Insurance Commission moved into Lottery Headquarters in Charleston, bringing tenant occupancy of the Lottery building to 100 percent. Renovations to three floors of the building and adjacent parking structure were completed in 2016 to make the move possible.
- The WV Lottery celebrated its 30<sup>th</sup> Birthday, in January 2016, and launched a special \$30 Happy Birthday instant game that featured a \$1 million second-chance prize. The \$1 million prize winner was Vickie Walls of Morgantown.



- The West Virginia Lottery was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its comprehensive annual financial report for the 19<sup>th</sup> straight year.

# 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 2016 decreased 2.4 percent to \$1.137 billion from \$1.164 billion in fiscal year 2015. Distributions to the State of West Virginia decreased 1.4 percent from \$508.3 million in fiscal year 2015 to \$501.3 million in fiscal year 2016.

## 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.

# Financial Information

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 171 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, 2015. This was the 19th 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 conversion process to replace the current central monitoring and control system is scheduled to begin in fiscal year 2017. Scientific Games Corporation was awarded the contract and the company's latest central monitoring and control system, Connexus™, will replace the Scientific Games AEGIS™ video system. The term of the contract is 15 years and the new system will operate and control both limited video lottery and video lottery in the State's five casinos.
- The Lottery is planning to release a Request for Quotation (RFQ) for a comprehensive advertising contract that includes agency support in a variety of marketing and advertising aspects.

# Financial Information

- The Lottery has published a Request for Proposal (RFP) for a new traditional gaming system contract and will soon release an additional RFQ for instant game printing services in fiscal year 2017.

## **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; Tommy Young, Deputy Director of Marketing; Mike Ross, Advertising Manager; Kayla Brown-Gidordano, Corporate Accounts and Contract Compliance Manager; and Randy Burnside, Public Relations. 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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## West Virginia Lottery

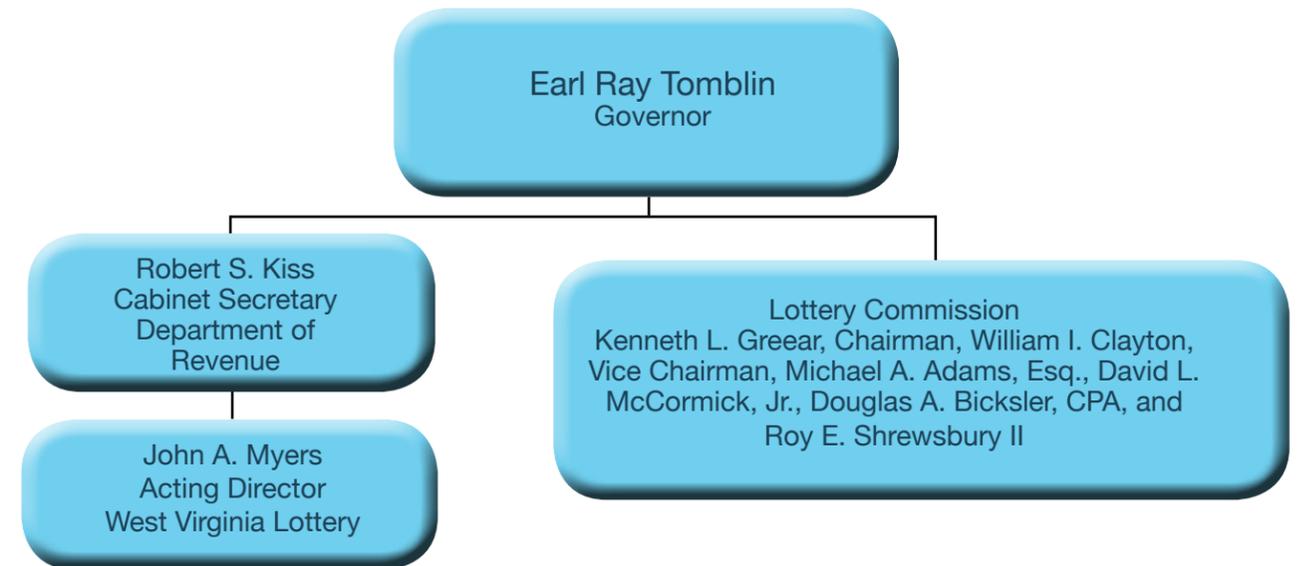
For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**June 30, 2015**

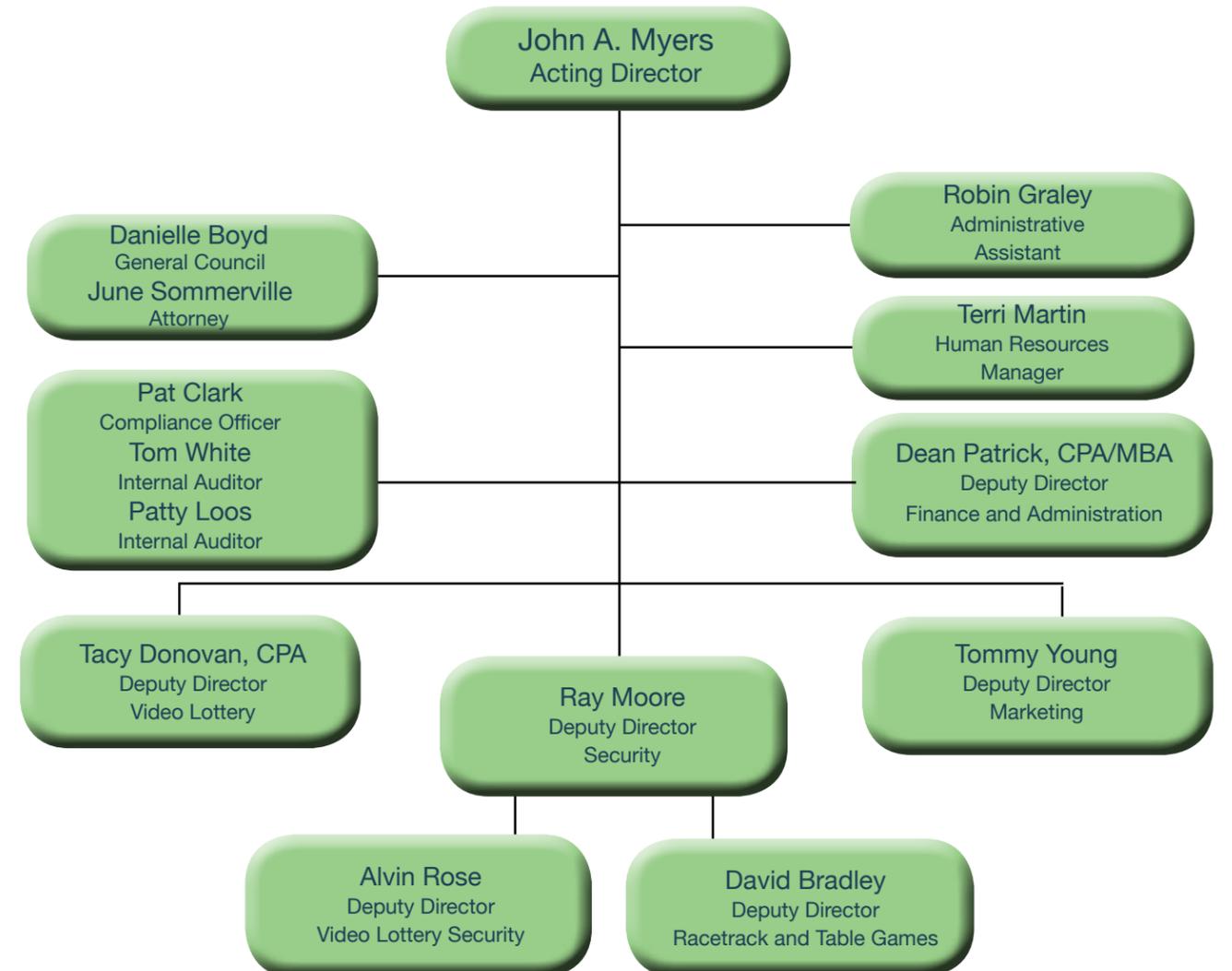


Executive Director/CEO

# West Virginia Lottery



## Executive Organizational Chart



## 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, 2016 and 2015, 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, 2016 and 2015, 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.

# Financial Section



## Management's Discussion and Analysis

-Unaudited-

**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 58 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  
October 11, 2016

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, 2016 and 2015. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2016, and the prior year refers to fiscal year ending June 30, 2015. This analysis is to be considered in conjunction with the financial statements, which begin on page 26.

**Financial Highlights**

The Lottery's operating income decreased in 2016 and increased in 2015. The 2016 decrease was due to competition from neighboring states and the 2015 increase was due to changes in the laws that define how commissions and distributions are allocated. The following summary is provided below:

- Lottery revenues for the current year decreased \$27.4 million or 2.4% compared to the prior year, which decreased \$50.3 million or 4.1% from 2014.
- Commissions for the current year decreased \$18.0 million or 3.6% compared to the prior year, which decreased \$54.5 million or 9.7% from 2014.
- Gross profit for the current year decreased \$14.5 million or 2.7% compared to the prior year, which increased \$10.3 million or 1.9% from 2014.
- Nonoperating expenses decreased \$8.9 million or 1.7% compared to the prior year, which increased \$8.3 million or 1.6% from 2014. The predominant nonoperating expense is the distributions to the State of West Virginia, which decreased \$7.0 million or 1.4% compared to the prior year, which increased \$10.0 million or 2.0% from 2014.

**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 as of July 1, 2014.

The Lottery recognizes a liability equal to its proportionate share of the net pension liability of the Public Employees Retirement System (PERS), and records certain defined benefit pension activity as deferred inflows of resources and deferred outflows of resources. Please refer to Note 12 to the financial statements for more detailed information on these items.

As shown in Table 1, current assets for the current year decreased \$4.4 million or 2.2% compared to the prior year, which increased \$12.8 million or 6.8% from 2014, due to the timing of distributions to the State of West Virginia at year-end.

## WEST VIRGINIA LOTTERY

Management's Discussion and Analysis  
(Continued)

-Unaudited-

**Statements of Net Position (Continued)**

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 11 to the financial statements for additional information on restricted net position.

Capital assets, net of accumulated depreciation and amortization, increased in the current by \$7.1 million or 18.8% compared to the prior year which decreased by \$1.0 million or 2.5% from 2014, due to renovations and depreciation of the Lottery headquarters building. For additional information on capital assets, please refer to Note 4 to the financial statements.

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

	2016	2015	2014
<b>Assets</b>			
Current assets	\$ 195,432	\$ 199,872	\$ 187,081
Restricted assets	-	1,130	1,397
Capital assets, net of accumulated depreciation and amortization	<u>44,874</u>	<u>37,763</u>	<u>38,745</u>
Total assets	<u>\$ 240,306</u>	<u>\$ 238,765</u>	<u>\$ 227,223</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to pension	<u>\$ 2,573</u>	<u>\$ 1,099</u>	<u>\$ -</u>

As shown in Table 2, the Lottery's current liabilities for the current year increased \$3.9 million or 2.2% compared to the prior year, which increased \$9.3 million or 5.4% compared to 2014 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 to \$0 as all restrictive conditions were met during the year ended June 30, 2016.

Net position - net investment in capital assets increased in the current year by \$7.1 million or 18.8% due to renovations of the Lottery headquarters building, compared to the prior year which decreased by \$1.0 million or 2.5% compared to 2014, due to depreciation. Refer to Note 4 to the financial statements for additional information on capital assets.

Net position - unrestricted changed in fiscal year 2016 due to the conversion of cash into capital assets. Fiscal years 2015, and 2014 changed 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.

## WEST VIRGINIA LOTTERY

Management's Discussion and Analysis  
(Continued)

-Unaudited-

**Statements of Net Position (Continued)**

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

	2016	2015	2014
Current liabilities	\$ 185,465	\$ 181,520	\$ 172,203
Noncurrent liabilities	<u>3,044</u>	<u>2,035</u>	<u>-</u>
Total liabilities	<u>\$ 188,509</u>	<u>\$ 183,555</u>	<u>\$ 172,203</u>
Deferred inflows of resources related to pension	<u>\$ 1,998</u>	<u>\$ 2,153</u>	<u>\$ -</u>
Net position - restricted by enabling legislation	\$ -	\$ 1,130	\$ 1,397
Net position - net investment in capital assets	44,874	37,763	38,745
Net position - unrestricted	<u>7,498</u>	<u>15,263</u>	<u>14,878</u>
Total net position	<u>\$ 52,372</u>	<u>\$ 54,156</u>	<u>\$ 55,020</u>

**Capital Assets**

Capital assets as of June 30, 2016 amounted to \$56.0 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 17.2%.

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

	2016	2015	2014
Construction in progress	\$ 1,164	\$ 1,090	\$ 792
Land	1,434	1,434	1,434
Building	46,207	38,084	38,084
Improvements	260	260	260
Equipment	<u>6,895</u>	<u>6,895</u>	<u>6,821</u>
Total assets	<u>\$ 55,960</u>	<u>\$ 47,763</u>	<u>\$ 47,391</u>

Capital asset activities included \$8.1 million in renovations to the Lottery headquarters building during the year ending June 30, 2016. Additional information on capital assets can be found in Note 4 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)

	2016	2015	2014
Revenues:			
On-line games	\$ 85,660	\$ 76,724	\$ 83,069
Instant games	102,542	103,276	105,562
Racetrack video lottery	537,729	557,803	590,918
Limited video lottery	360,814	373,221	377,222
Table games	43,545	46,928	50,465
Historic resort	6,346	6,052	7,048
	<u>1,136,636</u>	<u>1,164,004</u>	<u>1,214,284</u>
Less commissions:			
On-line games	6,001	5,372	5,821
Instant games	7,178	7,229	7,390
Racetrack video lottery	275,496	286,778	336,205
Limited video lottery	176,799	182,878	184,839
Table games	18,453	19,885	22,032
Historic resort	3,302	3,069	3,455
	<u>487,229</u>	<u>505,211</u>	<u>559,742</u>
Less on-line prize costs	43,132	38,162	42,096
Less instant ticket prize costs	67,695	68,314	69,665
Less ticket costs	1,618	1,516	1,730
Less vendor fees and costs	8,116	7,456	8,044
	<u>120,561</u>	<u>115,448</u>	<u>121,535</u>
Gross profit	<u>528,846</u>	<u>543,345</u>	<u>533,007</u>
Administrative expenses:			
Advertising and promotions	4,975	5,229	5,755
Wages and related benefits	9,885	10,266	10,854
Telecommunications	965	944	881
Contractual and professional	4,560	5,160	4,682
Rental	425	271	267
Depreciation and amortization	1,086	1,354	2,020
Other administrative expenses	1,230	1,466	1,420
	<u>23,126</u>	<u>24,690</u>	<u>25,879</u>
Other operating income	<u>10,528</u>	<u>11,313</u>	<u>11,719</u>
Operating income	<u>516,248</u>	<u>529,968</u>	<u>518,847</u>
Nonoperating income (expense):			
Investment income	788	406	463
Distributions to municipalities and counties	(7,072)	(7,315)	(7,394)
Distributions for capital reinvestment	(10,446)	(11,717)	(13,397)
Distributions to the State of West Virginia	(501,302)	(508,329)	(498,365)
	<u>(518,032)</u>	<u>(526,955)</u>	<u>(518,693)</u>
Net Income	<u>(1,784)</u>	<u>3,013</u>	<u>154</u>

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	54,156	55,020	54,866
Cumulative effect of adoption of accounting principle	-	(3,877)	-
Net position, beginning of year, as restated	<u>54,156</u>	<u>51,143</u>	<u>54,866</u>
Net position, end of year	<u>\$ 52,372</u>	<u>\$ 54,156</u>	<u>\$ 55,020</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 2016, 2015, and 2014. Sales and gross profits fluctuated in certain categories; however, gross profit percentages remained consistent from year to year.

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

	Instant			On-Line*		
	2016	2015	2014	2016	2015	2014
Gross sales	\$ 102,542	\$ 103,276	\$ 105,562	\$ 85,660	\$ 76,724	\$ 83,069
Less direct costs:						
Prizes and bonuses	67,695	68,314	69,665	43,132	38,162	42,096
Commissions	7,178	7,229	7,390	6,001	5,372	5,821
Ticket printing costs	1,618	1,516	1,730	-	-	-
Vendor fees and costs	4,389	4,286	4,510	3,727	3,170	3,534
Total direct costs	<u>80,880</u>	<u>81,345</u>	<u>83,295</u>	<u>52,860</u>	<u>46,704</u>	<u>51,451</u>
Gross Profit	<u>\$ 21,662</u>	<u>\$ 21,931</u>	<u>\$ 22,267</u>	<u>\$ 32,800</u>	<u>\$ 30,020</u>	<u>\$ 31,618</u>
Gross profit percentage	<u>21.1%</u>	<u>21.2%</u>	<u>21.1%</u>	<u>38.3%</u>	<u>39.1%</u>	<u>38.1%</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		
	2016	2015	2014	2016	2015	2014
Gross sales	\$ 537,729	\$ 557,803	\$ 590,918	\$ 360,814	\$ 373,221	\$ 377,222
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	275,496	286,778	336,205	176,799	182,878	184,839
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	<u>275,496</u>	<u>286,778</u>	<u>336,205</u>	<u>176,799</u>	<u>182,878</u>	<u>184,839</u>
Gross Profit	<u>\$ 262,233</u>	<u>\$ 271,025</u>	<u>\$ 254,713</u>	<u>\$ 184,015</u>	<u>\$ 190,343</u>	<u>\$ 192,383</u>
Gross profit percentage	<u>48.8%</u>	<u>48.6%</u>	<u>43.1%</u>	<u>51.0%</u>	<u>51.0%</u>	<u>51.0%</u>

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis  
(Continued)

-Unaudited-

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

	Table Games			Historic Resort			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Gross sales	\$ 43,545	\$ 46,928	\$ 50,465	\$ 6,346	\$ 6,052	\$ 7,048	\$ 1,136,636	\$ 1,164,004	\$ 1,214,284
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-	\$ 110,827	\$ 106,476	\$ 111,761
Commissions	18,453	19,885	22,032	3,302	3,069	3,455	\$ 487,229	\$ 505,211	\$ 559,742
Ticket printing costs	-	-	-	-	-	-	\$ 1,618	\$ 1,516	\$ 1,730
Vendor fees and costs	-	-	-	-	-	-	\$ 8,116	\$ 7,456	\$ 8,044
Total direct costs	18,453	19,885	22,032	3,302	3,069	3,455	607,790	620,659	681,277
Gross Profit	\$ 25,092	\$ 27,043	\$ 28,433	\$ 3,044	\$ 2,983	\$ 3,593	\$ 528,846	\$ 543,345	\$ 533,007
Gross profit percentage	57.6%	57.6%	56.3%	48.0%	49.3%	51.0%	46.5%	46.7%	43.9%

**Instant Sales**

Instant ticket sales for the current year decreased by \$0.7 million or 0.7% compared to the prior year, which decreased \$2.3 million or 2.2% from 2014. Fifty-five games were introduced in 2016 and approximately twenty-four 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 two ten-dollar, one twenty-dollar, and one thirty-dollar tickets introduced in 2016. There were also eight 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 2016, 2015, and 2014. 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 increased \$12.5 million or 36.5% compared to the prior year, which decreased \$5.4 million or 13.7% from 2014. 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 \$1.6 million or 11.7% compared to the prior year, which decreased \$1.2 million or 8.3% from 2014.

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 decreased \$1.9 million or 6.7% compared to the prior year, which increased \$272.7 thousand or 1.0% from 2014.

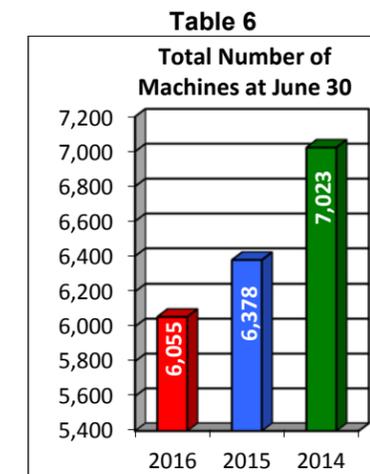
In general, prize costs by game will increase or decrease from year-to-year in proportion to the sales for a particular game. Prizes and commissions have remained consistent as presented in Table 4.

**Racetrack Video Lottery**

Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year decreased \$20.1 million or 3.6% compared to the prior year, which decreased \$33.1 million or 5.6% from 2014.

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 6 to the financial statements for further discussion of racetrack video lottery distributions. Commissions in the current year decreased \$11.3 million or 3.9% compared to the prior year which decreased \$49.4 million or 14.7% compared to 2014 due to competition from neighboring states.

During the year ended June 30, 2016, 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.



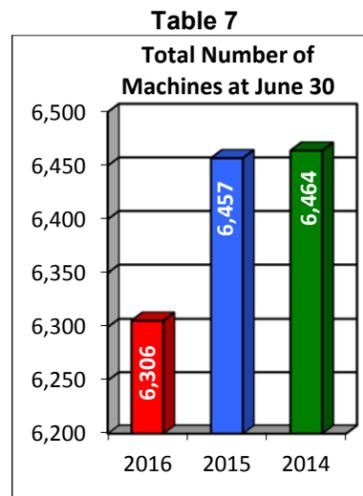
**Management's Discussion and Analysis**  
(Continued)

-Unaudited-

**Limited Video Lottery**

Sales for the current year decreased \$12.4 million or 3.3% compared to the prior year, which decreased \$4.0 million or 1.1% from 2014. 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 \$6.1 million or 3.3% compared to the prior year decrease of \$2.0 million or 1.1% from 2014.

Table 7 illustrates the number of machines which decreased by 151 machines for the current year compared to the prior year decrease of 7 machines from 2014.



**Table Games**

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues for the current year decreased \$3.4 million or 7.2% compared to the prior year, which decreased \$3.5 million or 7.0% from 2014.

A portion of table games revenues are paid to entities associated with the racetracks and are reported as commissions. See Note 8 to the financial statements. Commissions for the current year decreased \$1.4 million or 7.2% compared to the prior year, which decreased \$2.1 million or 9.7% from 2014.

**Historic Resort**

Video Lottery revenues from Historic Resort are calculated as defined in Note 9 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 increased \$294 thousand or 4.9% compared to the prior year, which decreased \$995.3 thousand or 14.1% from 2014.

A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions for the current year increased \$233 thousand or 7.6% compared to the prior year, which decreased \$386 thousand or 11.2% from 2014.

**Management's Discussion and Analysis**  
(Continued)

-Unaudited-

**Other Operating Income**

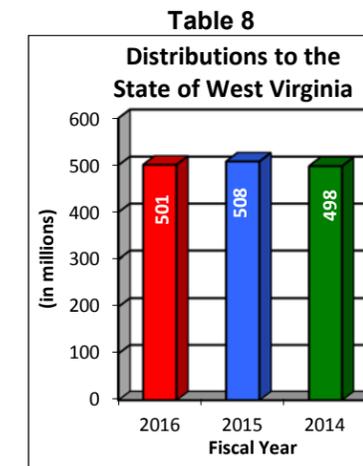
Refer to Table 4. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers.

**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 decreased by \$7.0 million compared to the prior year, which increased by \$10.0 million from 2014.



**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, 2016 and 2015

<u>ASSETS</u>	2016	2015
Current assets:		
Cash and cash equivalents	\$ 166,621	\$ 163,592
Accounts receivable	26,643	33,929
Inventory	380	457
Other assets	1,788	1,894
Total current assets	195,432	199,872
Noncurrent assets:		
Restricted cash and cash equivalents	-	1,130
Capital assets	55,960	47,763
Less accumulated depreciation and amortization	(11,086)	(10,000)
Total noncurrent assets	44,874	37,763
Total assets	\$ 240,306	\$ 238,765
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows of resources related to pension	\$ 2,573	\$ 1,099
 <u>LIABILITIES</u>		
Current liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 135,265	\$ 123,920
Estimated prize claims	15,981	15,911
Accounts payable	1,961	2,158
Other accrued liabilities	32,258	39,531
Total current liabilities	185,465	181,520
Noncurrent liabilities:		
Net pension liability	3,044	2,035
Total liabilities	\$ 188,509	\$ 183,555
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows of resources related to pension	\$ 1,998	\$ 2,153
 <u>NET POSITION</u>		
Net position:		
Restricted by enabling legislation	\$ -	\$ 1,130
Net investment in capital assets	44,874	37,763
Unrestricted	7,498	15,263
Total net position	\$ 52,372	\$ 54,156

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, 2016 and 2015

	2016	2015
Lottery revenues:		
On-line games	\$ 85,660	\$ 76,724
Instant games	102,542	103,276
Racetrack video lottery	537,729	557,803
Limited video lottery	360,814	373,221
Table games	43,545	46,928
Historic resort	6,346	6,052
Total lottery revenues	1,136,636	1,164,004
Less commissions:		
On-line games	6,001	5,372
Instant games	7,178	7,229
Racetrack video lottery	275,496	286,778
Limited video lottery	176,799	182,878
Table games	18,453	19,885
Historic resort	3,302	3,069
Total commissions	487,229	505,211
Less on-line prize costs	43,132	38,162
Less instant prize costs	67,695	68,314
Less ticket costs	1,618	1,516
Less vendor fees and costs	8,116	7,456
Total prizes and costs	120,561	115,448
Gross profit	528,846	543,345
Administrative expenses:		
Advertising and promotions	4,975	5,229
Wages and related benefits	9,885	10,266
Telecommunications	965	944
Contractual and professional	4,560	5,160
Rental	425	271
Depreciation and amortization	1,086	1,354
Other administrative expenses	1,230	1,466
Total administrative expenses	23,126	24,690
Other operating income	10,528	11,313
Operating income	516,248	529,968
Nonoperating income (expense):		
Investment income	788	406
Distributions to municipalities and counties	(7,072)	(7,315)
Distributions for capital reinvestment	(10,446)	(11,717)
Distributions to the State of West Virginia	(501,302)	(508,329)
Total nonoperating income (expense)	(518,032)	(526,955)
Net income (loss)	(1,784)	3,013
Net position, beginning of year	54,156	51,143
Net position, end of year	\$ 52,372	\$ 54,156

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

WEST VIRGINIA LOTTERY  
STATEMENTS OF CASH FLOWS  
(In Thousands)  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,154,450	\$ 1,176,178
Cash payments for:		
Personnel costs	(10,140)	(10,752)
Suppliers	(12,135)	(12,388)
Other operating costs	<u>(607,531)</u>	<u>(620,065)</u>
Cash provided by operating activities	<u>524,644</u>	<u>532,973</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(489,957)	(499,323)
Distributions to municipalities and counties	(7,117)	(7,300)
Distributions to racetracks from racetrack capital reinvestment fund	<u>(18,203)</u>	<u>(12,829)</u>
Cash used in noncapital financing activities	<u>(515,277)</u>	<u>(519,452)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	<u>(8,197)</u>	<u>(372)</u>
Cash flows from investing activities:		
Investment earnings	<u>729</u>	<u>464</u>
Increase in cash and cash equivalents	1,899	13,613
Cash and cash equivalents (including restricted cash and cash equivalents), beginning of year	<u>164,722</u>	<u>151,109</u>
Cash and cash equivalents (including restricted cash and cash equivalents), end of year	<u>\$ 166,621</u>	<u>\$ 164,722</u>

WEST VIRGINIA LOTTERY  
STATEMENTS OF CASH FLOWS  
(In Thousands)  
(Continued)  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 516,248	\$ 529,968
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,086	1,354
Pension expense	360	250
Changes in operating accounts:		
(Increase) decrease in:		
Accounts receivable	7,286	861
Inventory	77	176
Other assets	165	(6)
Deferred outflows of resources	(980)	(1,039)
Increase (decrease) in:		
Estimated prize claims	70	928
Accounts payable	(197)	653
Other accrued liabilities	<u>529</u>	<u>(172)</u>
Cash provided by operating activities	<u>\$ 524,644</u>	<u>\$ 532,973</u>

(Continued)

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

Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP). The significant estimates and assumptions that affect the reporting of amounts of assets and liabilities at the statement of net position dates and revenues and expenses for the years then ended are those required in the determination of estimated prize claims. Actual results in the near-term could differ from the estimates used to prepare these financial statements.

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 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, 2016 and June 30, 2015 are as follows:

	Year Ending June 30	
	2016	2015
Beginning estimated liabilities	\$ 563,913	\$ 573,313
Leave expenses incurred	569,988	553,835
Leave expenses paid	563,913	563,235
Ending estimated liabilities	\$ 569,988	\$ 563,913
Liabilities estimated to be paid in one year	\$ 569,988	\$ 563,913

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 of the PERS 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 12). 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 12).

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 - CASH AND CASH EQUIVALENTS**

At June 30, 2016 and 2015, the carrying amounts of deposits with financial institutions were \$1,430 thousand and \$477 thousand, respectively, with bank balances of \$1,445 and \$498 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, 2016 and 2015, 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):

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**3 - CASH AND CASH EQUIVALENTS (Continued)**

	2016	2015
Deposits with financial institutions	\$ 1,430	\$ 477
Cash on hand at the Treasurer's Office	7,386	21,525
Investments with BTI reported as cash equivalents	157,805	142,720
	\$ 166,621	\$ 164,722

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 A+ 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. The pool must have at least 15% of its assets in United States Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America.

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 Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 290,118	18.65%
	P-1	A-1	632,773	40.68
Corporate bonds and notes	Aa1	AA-	23,014	1.48
	Aa3	AA-	15,000	0.96
	A2	A	11,268	0.72
U.S. agency bonds	Aaa	AA+	9,499	0.61
U.S. Treasury notes*	Aaa	AA+	231,398	14.88
U.S. Treasury bills *	P-1	A-1+	19,982	1.28

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**3 - CASH AND CASH EQUIVALENTS (Continued)**

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Negotiable certificates of deposit	Aa2	AA-	3,000	0.19
	Aa3	AA-	6,000	0.39
	P-1	A-1+	78,006	5.02
	P-1	A-1	121,001	7.78
Money market funds	Aaa	AAAm	72,370	4.65
Repurchase agreement (underlying securities):				
U.S. Treasury notes*	Aaa	AA+	42,100	2.71
			<u>\$ 1,555,529</u>	<u>100.00%</u>

\* 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 pool must have at least 15% of its assets in United States Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. 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	\$ 75,096	9.50%
	Aaa	NR	80,990	10.24
	NR	AAA	71,821	9.08
Corporate bonds and notes	Aaa	AA+	4,088	0.52
	Aa1	AA+	4,993	0.63
	Aa2	AA+	4,105	0.52
	Aa2	AA	7,027	0.89
	Aa2	AA-	20,050	2.54
	Aa3	AA-	11,019	1.39
	Aa2	A	4,069	0.51
	Aa3	A+	10,010	1.27
	Aa3	A	1,495	0.19
	A1	AA	16,564	2.10
	A1	A+	11,714	1.48
	A1	A	8,214	1.04
	A2	A+	625	0.08
	A2	A	28,703	3.63
	A2	A-	18,082	2.29
	A3	AA-	1,510	0.19

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**3 - CASH AND CASH EQUIVALENTS (Continued)**

Security Type	Credit Rating		Carrying Value	Percent of Assets
	Moody's	S&P		
	A3	A	3,729	0.47
	A3	A-	41,669	5.27
	A3	BBB+	29,407	3.72
	Baa1	A	1,942	0.25
	Baa1	A-	11,241	1.42
	Baa1	BBB+	54,401	6.88
	Baa1	BBB	12,671	1.60
	Baa1	NR	2,048	0.26
	Baa2	A-	4,391	0.56
	Baa2	BBB+	5,942	0.75
	Baa2	BBB	19,286	2.44
	Baa2	BBB-	6,152	0.78
	Baa3	BBB+	3031	0.38
	Baa3	BBB	13,240	1.67
	Baa3	BBB-	15,979	2.02
	Ba1	BBB	2,339	0.30
	Ba1	BBB-	4,843	0.61
	NR	BBB-	1,977	0.25
U.S. agency mortgage backed securities *	Aaa	AA+	47,311	5.98
Corporate mortgage backed Securities	Aaa	AAA	10,687	1.35
	Aaa	NR	18,607	2.35
	NR	AAA	108	0.01
U.S. Treasury notes*	Aaa	AA+	89,497	11.32
Money market funds	Aaa	AAAm	10,077	1.27
			<u>\$ 790,750</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)

**3 - CASH AND CASH EQUIVALENTS (Continued)**

Security Type	Carrying Value (In Thousands)	Weighted Average Maturity In Days
Repurchase agreements	\$ 42,100	1
US Treasury notes	231,398	88
US Treasury bills	19,982	91
Commercial paper	922,891	48
Certificates of deposit	208,007	40
Corporate bonds and notes	49,282	14
U.S. agency bonds and notes	9,499	24
Money market funds	<u>72,370</u>	1
<b>Total assets</b>	<b>\$ <u>1,555,529</u></b>	

The weighted average maturity of the investments of the West Virginia Money Market Pool as of June 30, 2016, is 49 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):

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
Corporate bonds and notes	\$ 386,556	480
Corporate asset backed securities	227,907	302
U.S. Treasury notes	89,497	1,034
U.S. agency mortgage backed securities	47,311	175
Corporate mortgage backed securities	29,402	338
Money market funds	<u>10,077</u>	1
<b>Total assets</b>	<b>\$ <u>790,750</u></b>	

The effective duration of the investments in the West Virginia Short Term Bond Pool as of June 30, 2016 is 462 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, 2016, 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, 2016, 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)

**3 - 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.

**4 - CAPITAL ASSETS**

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

	Historical cost at June 30, 2014	Additions	Deletions	Historical cost at June 30, 2015	Additions	Deletions	Historical cost at June 30, 2016
Capital assets, not depreciated							
Construction in progress	\$ 792	\$ 298	\$ -	\$ 1,090	\$ 74	\$ -	\$ 1,164
Land	1,434	-	-	1,434	-	-	1,434
Capital assets, being depreciated							
Building	38,084	-	-	38,084	8,123	-	46,207
Improvements	260	-	-	260	-	-	260
Equipment	<u>6,821</u>	<u>74</u>	<u>-</u>	<u>6,895</u>	<u>-</u>	<u>-</u>	<u>6,895</u>
	<u>\$ 47,391</u>	<u>\$ 372</u>	<u>\$ -</u>	<u>\$ 47,763</u>	<u>\$ 8,197</u>	<u>\$ -</u>	<u>\$ 55,960</u>
Accumulated depreciation at June 30,							
	<u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>2016</u>
Building	\$ 2,141	\$ 952	\$ -	\$ 3,093	\$ 971	\$ -	\$ 4,064
Improvements	260	-	-	260	-	-	260
Equipment	<u>6,245</u>	<u>402</u>	<u>-</u>	<u>6,647</u>	<u>115</u>	<u>-</u>	<u>6,762</u>
	<u>\$ 8,646</u>	<u>\$ 1,354</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 11,086</u>

**5 - 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)

**5 - PARTICIPATION IN THE MULTI-STATE LOTTERY (Continued)**

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 \$46,553,463 and \$34,099,437 for the years ended June 30, 2016 and 2015, respectively, and related prize costs were \$23,293,171 and \$17,065,233, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$4,790,589 and \$5,745,617 for the years ended June 30, 2016 and 2015, respectively, and related prize costs were \$2,396,142 and \$2,873,122, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$12,035,877 and \$13,623,552 for the years ended June 30, 2016 and 2015, respectively, and related prize costs were \$6,022,537 and \$6,812,613, 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):

	2016		2015	
	Prize Reserve	Lottery Share	Prize Reserve	Lottery Share
POWERBALL®	\$ 111,422	\$ 1,626	\$ 109,940	\$ 1,887
HOT LOTTO™	7,170	497	8,022	548
MEGA MILLIONS®	38,541	545	37,272	561
	<u>\$ 157,133</u>	<u>\$ 2,668</u>	<u>\$ 155,234</u>	<u>\$ 2,996</u>

Lottery prize reserves held by the MUSL are invested in accordance with 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.

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**5 - PARTICIPATION IN THE MULTI-STATE LOTTERY (Continued)**

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 \$16,259,687 and \$15,446,835 at June 30, 2016 and 2015, of which the Lottery's share was \$1,565,451 and \$1,589,433, respectively.

**6 - RACETRACK VIDEO LOTTERY**

The racetrack video lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Fifty-seven and two tenths percent (57.2%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (46.5%); other private entities associated with the racing industry (8.7%); and the local county and municipal governments (2%). The remaining (42.8%) net terminal revenue is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 10 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 62% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 38% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack. After deduction of the surcharge, 49% of the net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (5%); and the local county and incorporated municipality governments (2%). The remaining net terminal revenue (51%) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 10.

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 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, 2016 and June 30, 2015 respectively.

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**6 - RACETRACK VIDEO LOTTERY (Continued)**

A summary of racetrack video lottery revenues for the years ended June 30, 2016 and 2015, follows (in thousands):

	2016	2015
Total credits (bets) played	\$ 5,965,083	\$ 6,269,246
Credits (prizes) won	(5,350,676)	(5,624,402)
Promotional credits played	(76,444)	(86,704)
MWAP Contributions	(234)	(337)
Gross terminal income	537,729	557,803
Administrative costs	(14,909)	(15,800)
Net terminal income	522,820	542,003
Commissions	(275,496)	(286,778)
Racetrack video lottery revenues available for distribution	\$ 247,324	\$ 255,225

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

	2016	2015
State Lottery Fund	\$ 108,547	\$ 114,965
State Excess Lottery Revenue Fund	132,941	134,504
Capital Reinvestment Fund	5,836	5,756
Total nonoperating distributions	\$ 247,324	\$ 255,225

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, 2016 and 2015, the Lottery transferred \$4.5 million and \$9 million to the Racetrack Modernization Fund respectively.

**7 - 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, 2016 and 2015 follows (in thousands):

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7 - LIMITED VIDEO LOTTERY (Continued)**

	2016	2015
Total credits played	\$ 4,339,155	\$ 4,462,898
Credits (prizes) won	(3,978,341)	(4,089,677)
Gross terminal income	360,814	373,221
Administrative costs	(7,216)	(7,465)
Gross profit	353,598	365,756
Commissions	(176,799)	(182,878)
Distributions to municipalities and counties	(7,072)	(7,315)
Limited video lottery revenues available for distribution	\$ 169,727	\$ 175,563

**8 - 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% 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% 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.

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8 - TABLE GAMES (Continued)**

- 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.

The table games adjusted gross receipts for the year ended June 30, 2016 and 2015 were \$124,415,228 and \$134,080,494, respectively. A summary of table games revenues for the years ended June 30, 2016 and 2015 follows (in thousands):

	2016	2015
Table games privilege tax	\$ 43,545	\$ 46,928
Interest on table games fund	9	4
Administrative costs	(3,732)	(4,022)
Total available for distribution	39,822	42,910
<u>Less distributions:</u>		
Racetrack purse funds	2,799	3,017
Thoroughbred & greyhound development funds	2,239	2,413
Racing commission pension plan	1,096	1,180
Municipalities/counties	12,319	13,275
Total distributions	18,453	19,885
Table games distribution to the state		
Excess Lottery Fund	\$ 21,369	\$ 23,025

**9 - 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, 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, 2016 and 2015 follows (in thousands):

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**9 - HISTORIC RESORT HOTEL (Continued)**

	2016	2015
Total credits played	\$ 64,217	\$ 62,289
Credits (prizes) won	(58,842)	(57,294)
Promotional credits played	(888)	(925)
Gross terminal income	4,487	4,070
Capital reinvestment	(211)	(191)
Excess Lottery/Modernization	(40)	(36)
Hotel commissions	(1,898)	(1,722)
Net terminal income	\$ 2,338	\$ 2,121
Historic Resort Hotel Fund	\$ 1,575	\$ 1,429
Human Resource Benefit Fund	763	692
Total	\$ 2,338	\$ 2,121

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, 2016 and 2015 were \$5,312,061 and \$5,664,146, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2016 and 2015:

	2016	2015
Table games privilege tax	\$ 1,859	\$ 1,982
Historic Resort Hotel Fund	\$ 1,594	\$ 1,699
Human Resource Benefit Fund	265	283
Total distributions	\$ 1,859	\$ 1,982

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:

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**9 - HISTORIC RESORT HOTEL (Continued)**

Historic Resort Hotel Fund (Continued)

- 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.
- 86% is transferred to the Excess Lottery Revenue Fund.

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands) for the years ended June 30, 2016 and 2015:

	2016	2015
Historic Resort Hotel video lottery	\$ 1,575	\$ 1,429
Historic Resort table games	1,594	1,699
Historic Resort Hotel Fund deposits	3,169	3,128
Administrative costs	(481)	(474)
 Historic Resort Hotel Fund net income	 \$ 2,688	 \$ 2,654
 Municipalities/Counties	 \$ 376	 \$ 372
Excess Lottery Revenue Fund	2,312	2,282
 Total distributions	 \$ 2,688	 \$ 2,654

**10 - 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, 2016 and 2015, the State Legislature budgeted \$156,129,575 and \$167,766,812 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 \$5,900,000 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, 2016 and 2015, the Lottery made or accrued all budgeted distributions and accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$135,264,932 and \$123,919,676, respectively. The Lottery does not have a legally adopted annual budget.

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**10 - 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):

	2016	2015
<u>Budgetary distributions:</u>		
<u>Administrative Operations Account:</u>		
General Purpose Account	\$ 4,631	\$ -
 <u>State Lottery Fund:</u>		
Bureau of Senior Services	69,027	78,682
Department of Education	17,953	19,633
Library Commission	11,421	11,457
Higher Education - Central Office	7,215	7,329
Tourism	8,000	8,060
Natural Resources	3,189	3,196
Division of Culture & History	4,745	4,746
Department of Education & Arts	1,586	1,673
Economic Development Authority	9,995	9,996
School Building Authority	18,000	18,000
Community and Technical College	4,998	4,995
Total State Lottery Fund	156,129	167,767
 <u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	69,265	65,000
Education Improvement Fund	29,000	29,000
WV Infrastructure Council Fund	36,000	26,000
Higher Education Improvement Fund	15,000	15,000
State Park Improvement Fund	5,000	5,000
School Building Authority	18,992	18,994
Economic Development Fund	18,989	18,986
Refundable Credit - General Revenue Fund	10,000	10,000
Racing Commission	2,000	2,000
WV Department of Health and Human Resources	44,512	36,770
Division of Justice and Community Services	-	200
Distributions to Statutory Funds and Purposes		
Parking Garage Fund	755	779
Capitol Dome and Improvements Fund	2,201	2,471
Capitol Renovation and Improvements Fund	2,808	3,074
Development Office Promotion Fund	1,531	1,677
Research Challenge Fund	2,042	2,236
Tourism Promotion Fund	5,695	6,232
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Worker's Compensation Debt Reduction Fund	6,735	11,000
State Debt Reduction Fund	20,000	20,119
General Revenue Fund	1,815	1,795
Historic Resort Hotel Fund	14	34
Racing Commission	4,084	4,471
Non-Governmental Budgeted Transfers	12,159	14,582
Excess Lottery Surplus (General Fund)	18,355	27,600
Excess Lottery Surplus		
(Teachers Retirement Savings Realized)	-	4,051
Total State Excess Lottery Revenue Fund	328,452	328,571

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

	2016	2015
Total Required Statutory and Budgetary Distributions	489,212	496,338
Veterans Instant Ticket Fund	745	511
<u>Other racetrack video lottery distributions</u>	-	510
<u>Table games distributions</u>	-	1,765
<u>Historic resort hotel distributions</u>	-	199
Total nonoperating distributions to the State of West Virginia (cash basis)	489,957	499,323
Accrued nonoperating distributions, beginning of year	(123,920)	(114,914)
Accrued nonoperating distributions, end of year	135,265	123,920
Total nonoperating distributions to the State of West Virginia	\$ 501,302	\$ 508,329

**11- 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, 2016 and 2015 (in thousands):

	2016	2015
Beginning restricted net position	\$ 1,130	\$ 1,397
Acquisition of assets in accordance with enabling legislation	(1,130)	(267)
Ending restricted net position	\$ -	\$ 1,130

**12 - 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](http://www.wvretirement.com).

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**12 - RETIREMENT BENEFITS (Continued)**

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. For all employees hired after July 1, 2015, qualification for normal retirement is age 62 with 10 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. For all employees hired after July 1, 2015, average salary is the average of the five 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. For all employees hired after July 1, 2015, this age increases to 64.

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.

Contributions

Per Chapter 5, Article 10, members hired prior to July 1, 2015 contribute 4.5% of annual earnings. All members hired July 1, 2015 and later, will contribute 6% of annual earnings. State and non-state governmental employers' contribution rates were 13.5%, 14.0% and 14.5% of covered employees' annual earnings for fiscal years ending June 30, 2016, 2015 and 2014, 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 \$979,596, \$1,039,330, and \$1,075,233 for the year ended June 30, 2016, 2015 and 2014, respectively.

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

At June 30, 2016 and 2015, respectively, the Lottery reported a liability of \$3,044,279 and \$2,035,113 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2016 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, rolled forward to the measurement date of June 30, 2015 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, 2015. At June 30, 2015, the Lottery's proportion was 0.55 percent, which is a decrease of less than .01 from its proportion as of June 30, 2014.

For the years ended June 30, 2016 and 2015, respectively, the Lottery recognized pension expense of \$360,666 and \$250,154. At June 30, 2016, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**12 - RETIREMENT BENEFITS (Continued)**

Contributions (Continued)

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 928,804	\$ 1,596,354
Differences between expected and actual experience	622,628	-
Difference in assumptions	-	366,178
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	41,644	35,594
Lottery contributions made subsequent to the measurement date of June 30, 2015	<u>979,596</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 2,572,672</u></b>	<b><u>\$ 1,998,126</u></b>

	June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
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>
<b>Total</b>	<b><u>\$ 1,099,320</u></b>	<b><u>\$ 2,152,870</u></b>

The \$979,596 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, 2017. 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>	
2017	\$ (207,942)
2018	(207,942)
2019	(221,352)
2020	232,186

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**12 - RETIREMENT BENEFITS (Continued)**

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	1.9 percent
Salary increases	3.0 - 6.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense

Mortality rates were based on 110% of the RP-2000 Non-Annuitant, Scale AA for healthy males, 101% of RP-2000 Non-Annuitant Scale AA for healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA for disabled females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	15.0%	2.9 - 4.8%
Domestic equity	27.5%	7.6%
International equity	27.5%	8.5%
Real estate	10.0%	6.8%
Private equity	10.0%	9.9%
Hedge funds	<u>10.0%</u>	5.0%
<b>Total</b>	<b><u>100%</u></b>	

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**12 - RETIREMENT BENEFITS (Continued)**

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):

	Net Pension Liability (Asset)
1% Decrease (6.5%)	\$ 7,021
Current Discount Rate (7.5%)	\$ 3,044
1% Increase (8.5%)	\$ (315)

**13 - 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 Employees 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 supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57<sup>th</sup> 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 \$429 and \$389 per employee per month for the years ending June 30, 2016 and 2015, respectively. The Lottery's ARC was \$643,693, \$600,469, and \$447,726 and the Lottery has paid premiums of \$284,421, \$287,861, and \$317,690, which represent 44.2%, 47.9%, and 71.0% of the ARC, respectively, for the years ending June 30, 2016, 2015, and 2014. As of June 30, 2016, 2015, and 2014, the Lottery has recorded a liability of \$4,990,361, \$4,631,089, and \$4,318,481, respectively, for OPEB.

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**14 - 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, 2016 and 2015 approximated \$424,517 and \$271,181 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, 2016 and 2015 were \$593,960 and \$734,211, respectively.

**15 - COMMITMENTS**

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2016 and 2015, \$9,655,947 and \$8,416,061, respectively, are included in unrestricted net position for this purpose.

**16 - 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.

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.

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**16 - RISK MANAGEMENT (Continued)**

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, 2016, 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.

**17 - 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.

**18 - EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued four 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*; Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. 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. The provisions of Statement No. 82 are effective for periods beginning after June, 15, 2016 and certain requirements of the statement are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Lottery management has not determined the effect, if any, these statements 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

	Years Ended June 30	
	2016	2015
Lottery's proportion (percentage) of the net pension liability	0.55%	0.55%
Lottery's proportionate share of the net pension liability	\$ 3,044	\$ 2,035
Lottery's covered employee payroll	\$ 7,421	\$ 7,415
Lottery's proportionate share of the net pension liability as a percentage of its covered employee payroll	41.02%	27.44%
Plan fiduciary net position as a percentage of the total pension liability	91.29%	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 Notes to Required Supplementary Information.

THE WEST VIRGINIA LOTTERY

SCHEDULE OF CONTRIBUTIONS TO THE PERS  
(In Thousands)

	Years Ended June 30			
	2016	2015	2014	2013
Statutorily required contribution	\$ 980	\$ 1,039	\$ 1,075	\$ 1,072
Contributions in relation to the statutorily required contribution	980	1,039	1,075	1,072
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Lottery's covered employee payroll	\$ 7,259	\$ 7,421	\$ 7,415	\$ 7,658
Contributions as a percentage of covered-employee payroll	13.50%	14.00%	14.50%	14.00%

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

THE WEST VIRGINIA LOTTERY

NOTES 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.

**2 - PLAN AMENDMENT**

The PERS was amended to make changes which apply to new employees hired July 1, 2015 and later, as follows:

- For employees hired prior to July 1, 2015, 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. For employees hired July 1, 2015 and later, qualification for normal retirement is 62 with 10 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. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired July 1, 2015 and later, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, 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. For all employees hired July 1, 2015 and later, this age increases to 64.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired July 1, 2015 and later, are required to contribute 6% of annual earnings.

**3 - CHANGES IN ASSUMPTIONS**

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, several assumptions were changed for the actuarial valuation for the year ending June 30, 2015 as follows:

	2015	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	1.9%	2.2%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA	Healthy males - 1983 GAM Healthy females - 1971 GAM Disabled males - 1971 GAM Disabled females - Revenue ruling 96-7
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%

## 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**

	2007	2008	2009	2010
Instant	\$106,493,081	\$110,862,020	\$113,853,880	\$97,482,584
Powerball®	51,729,318	54,052,429	51,016,100	48,593,678
Hot Lotto Sizzler®	4,726,225	4,021,347	4,881,127	6,447,315
Daily 3	9,265,281	9,124,536	8,916,094	8,401,794
Daily 4	4,660,620	4,622,396	4,760,533	4,694,743
Cash 25	6,006,570	5,752,037	5,596,814	5,512,376
Travel Keno	9,769,174	9,603,308	9,070,501	7,412,987
Mega Millions®				2,678,674
Total On-line	\$86,157,188	\$87,176,053	\$84,241,169	\$83,741,567
Video (net of prizes)				
Racetrack	\$972,591,775	\$897,952,931	\$848,232,669	\$746,208,159
Limited	\$397,016,887	\$411,587,201	\$412,488,946	\$397,287,133
Table Games (privilege tax)	-	\$15,877,334	\$34,219,101	\$31,725,645
Video (net of prizes)	-	-	-	1,132,902
Table Games (privilege tax)	-	-	-	516,466
Total Historic Resort	-	-	-	\$1,649,368
<b>Total Sales</b>	<b>\$1,562,258,931</b>	<b>\$1,523,455,539</b>	<b>\$1,493,035,765</b>	<b>\$1,358,094,456</b>
License Fees	9,864,349	11,225,977	10,573,157	10,317,529
Miscellaneous	532,596	710,975	827,731	741,824
Other Operating Income	\$10,396,945	\$11,936,952	\$11,400,888	\$11,059,353
Nonoperating Income	\$7,556,505	\$10,031,139	\$2,719,936	\$390,334
<b>Total Revenues</b>	<b>\$1,580,212,381</b>	<b>\$1,545,423,630</b>	<b>\$1,507,156,589</b>	<b>\$1,369,544,143</b>

	2011	2012	2013	2014	2015	2016
Instant	\$115,697,423	\$117,676,396	\$108,634,752	\$105,561,992	\$103,276,392	\$102,541,884
Powerball®	35,669,004	38,686,528	48,688,807	39,490,788	34,099,437	46,553,463
Hot Lotto Sizzler®	5,831,270	4,736,542	5,063,704	5,310,353	5,745,617	4,790,589
Daily 3	8,621,978	8,698,349	8,301,649	8,269,965	8,109,719	8,176,541
Daily 4	4,967,805	5,028,983	4,748,002	4,905,892	4,849,937	4,904,381
Cash 25	5,440,930	5,465,460	5,237,499	5,191,451	5,191,526	5,062,256
Travel Keno	6,423,516	6,249,636	5,671,808	5,049,843	5,103,370	4,136,493
Mega Millions®	10,915,389	14,746,963	9,274,409	14,850,257	13,623,552	12,035,877
Total On-line	\$77,869,892	\$83,612,461	\$86,985,878	\$83,068,549	\$76,723,158	\$85,659,600
Video (net of prizes)						
Racetrack	\$726,952,241	\$764,898,326	\$655,676,762	\$590,918,374	\$557,802,811	\$537,729,110
Limited	\$397,544,342	\$406,108,085	\$399,223,893	\$377,222,264	\$373,220,741	\$360,814,338
Table Games (privilege tax)	\$68,153,589	\$78,121,131	\$70,258,634	\$50,464,934	\$46,928,173	\$43,545,330
Video (net of prizes)	4,092,891	4,950,083	4,737,669	4,440,596	4,070,270	4,486,215
Table Games (privilege tax)	2,138,796	2,163,962	2,858,962	2,607,435	1,982,451	1,859,221
Total Historic Resort	\$6,231,687	\$7,114,045	\$7,596,631	\$7,048,031	\$6,052,721	\$6,345,436
<b>Total Sales</b>	<b>\$1,392,449,174</b>	<b>\$1,457,530,444</b>	<b>\$1,328,376,550</b>	<b>\$1,214,284,144</b>	<b>\$1,164,003,996</b>	<b>\$1,136,635,698</b>
License Fees	10,157,522	71,847,082	9,871,021	9,776,116	10,024,323	9,396,576
Miscellaneous	1,648,012	1,504,260	1,989,230	1,943,345	1,288,429	1,131,369
Other Operating Income	\$11,805,534	\$73,351,342	\$11,860,251	\$11,719,461	\$11,312,752	\$10,527,945
Nonoperating Income	\$297,669	\$9,826,225	\$252,688	\$462,053	\$406,819	\$788,063
<b>Total Revenues</b>	<b>\$1,404,552,377</b>	<b>\$1,540,708,011</b>	<b>\$1,340,489,489</b>	<b>\$1,226,465,658</b>	<b>\$1,175,723,567</b>	<b>\$1,147,951,706</b>

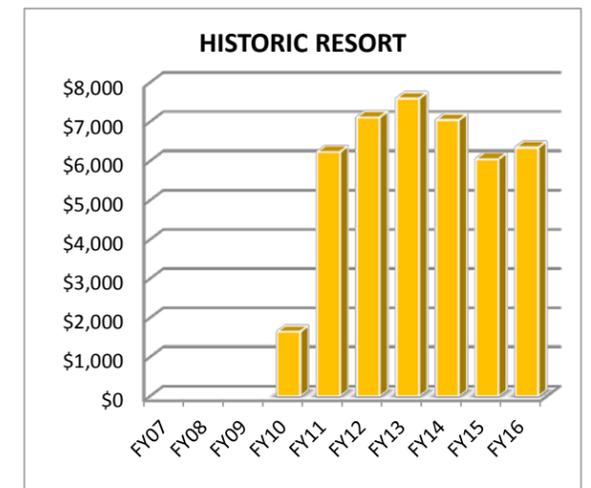
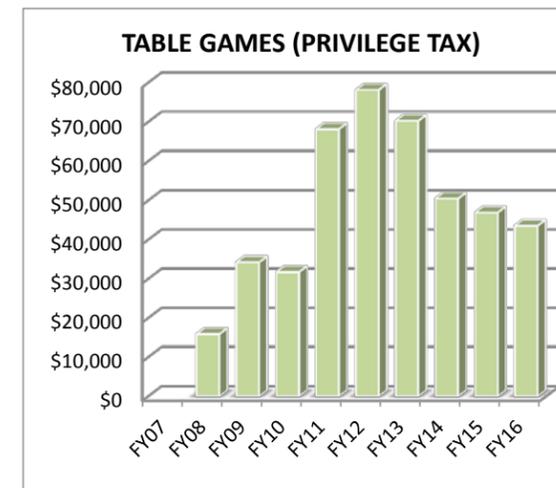
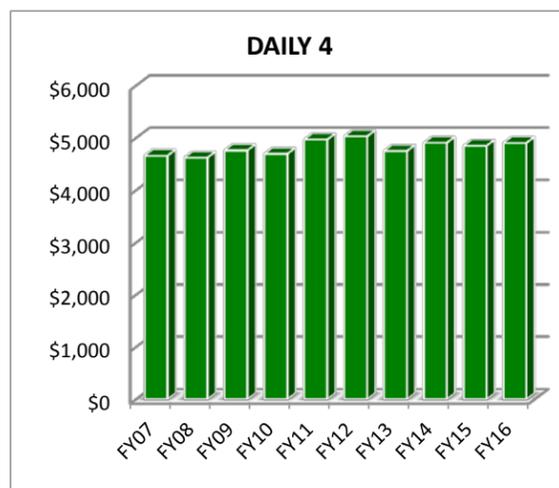
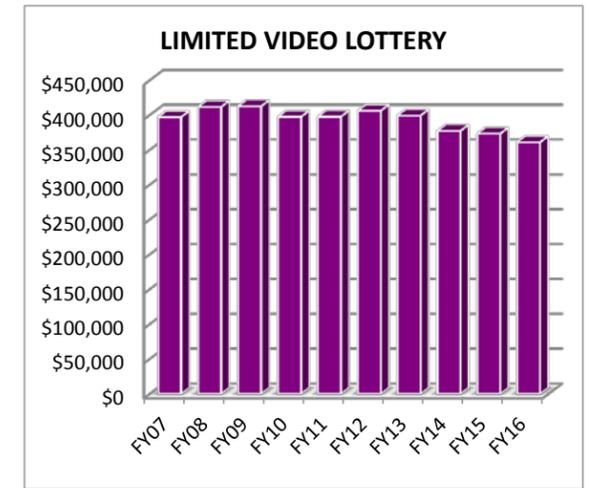
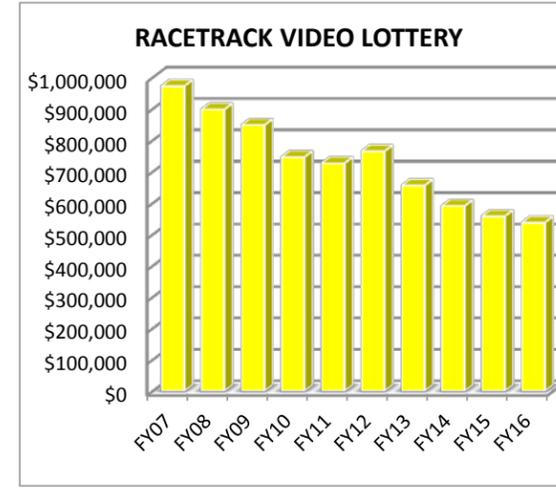
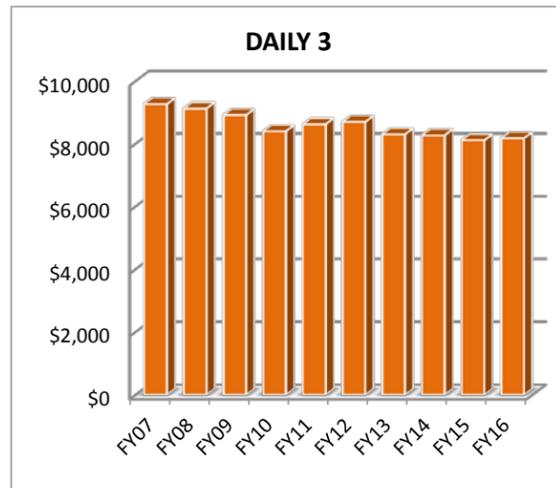
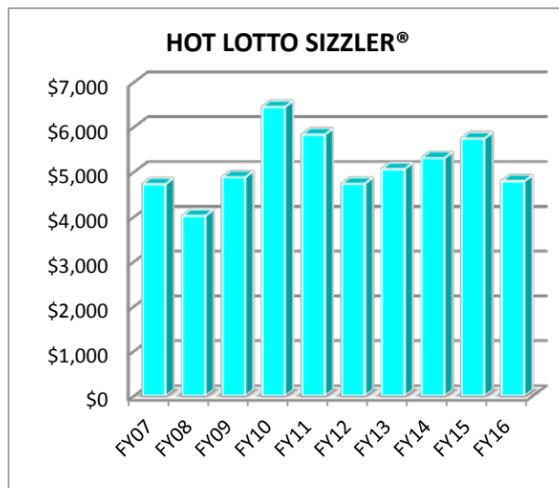
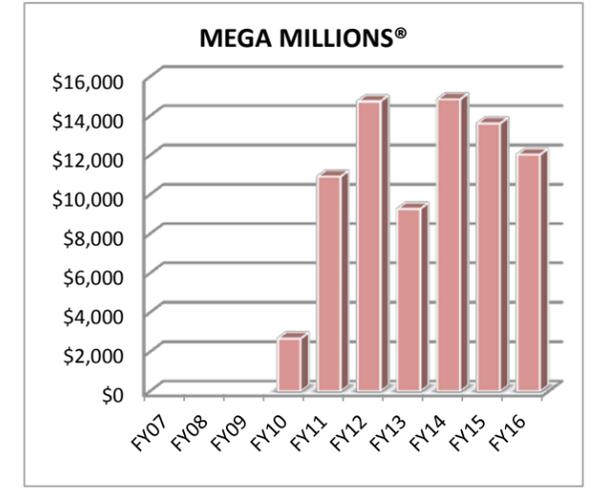
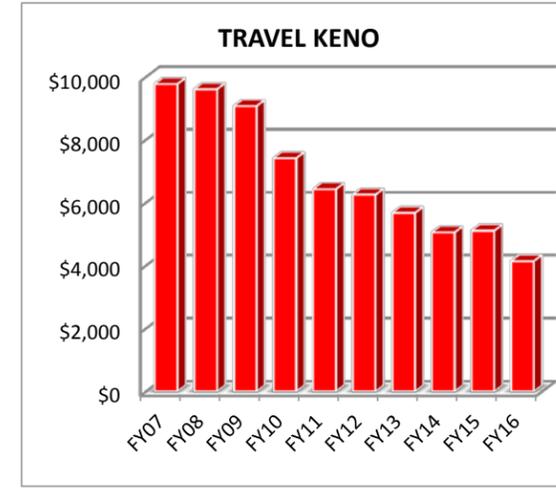
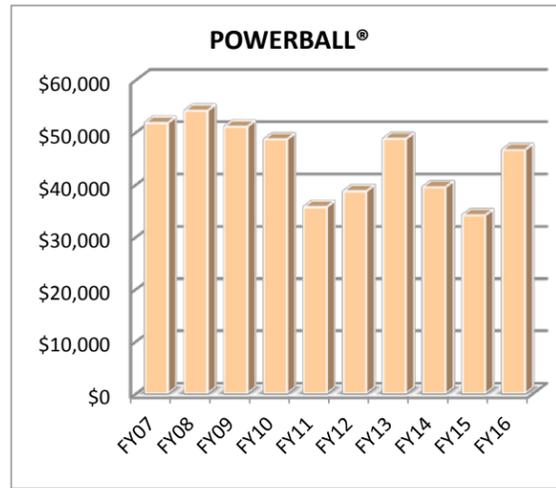
**Expenses, Distributions and Net Income  
Last Ten Fiscal Years**

	2007	2008	2009	2010
Prizes (traditional)	\$115,792,130	\$121,169,284	\$119,449,497	\$107,983,663
Commissions				
Instant	7,454,496	7,762,564	7,969,759	6,823,692
On-line	6,019,193	6,113,745	5,900,642	5,849,450
Racetrack	522,744,477	487,276,099	463,649,031	414,987,691
Limited	206,127,102	205,636,799	202,119,568	194,670,681
Table Games	-	6,249,023	13,458,369	12,473,391
Historic Resort	-	-	-	846,922
Total Commissions	\$742,345,268	\$713,038,230	\$693,097,369	\$635,651,827
Administration (includes ticket costs)	\$30,905,929	\$33,478,401	\$35,215,252	\$36,493,179
<b>Total Operating Expenses</b>	<b>\$889,043,327</b>	<b>\$867,685,915</b>	<b>\$847,762,118</b>	<b>\$780,128,669</b>
<b>Nonoperating Distributions</b>				
Municipalities and Counties	7,781,531	8,067,110	8,084,783	7,786,828
Capital Reinvestment Fund	20,997,371	17,987,933	15,983,212	11,968,468
State of West Virginia	639,150,849	631,155,117	616,622,965	616,465,269
<b>Total Distributions</b>	<b>\$667,929,751</b>	<b>\$657,210,160</b>	<b>\$640,690,960</b>	<b>\$636,220,565</b>
<b>Net Income</b>	<b>\$23,239,303</b>	<b>\$20,527,555</b>	<b>\$18,703,511</b>	<b>(\$46,805,091)</b>

	2011	2012	2013	2014	2015	2016
Prizes (traditional)	\$120,706,835	\$120,605,843	\$116,230,326	\$111,761,267	\$106,475,947	\$110,827,487
Commissions						
Instant	8,098,815	8,238,580	7,604,433	7,389,339	7,229,348	7,177,932
On-line	5,456,854	5,844,402	6,094,540	5,819,974	5,371,955	6,001,020
Racetrack	404,944,515	424,048,550	370,827,992	336,205,404	286,777,829	275,496,153
Limited	194,796,720	198,992,951	195,619,694	184,838,897	182,878,150	176,799,014
Table Games	29,288,210	33,570,927	30,674,243	22,032,440	19,885,019	18,453,051
Historic Resort	3,126,210	3,671,152	3,706,532	3,456,421	3,068,391	3,302,272
Total Commissions	\$645,711,324	\$674,366,562	\$614,527,434	\$559,742,475	\$505,210,692	\$487,229,442
Administration (includes ticket costs)	\$40,838,831	\$38,989,047	\$34,991,775	\$35,652,922	\$33,663,094	\$32,858,938
<b>Total Operating Expenses</b>	<b>\$807,256,990</b>	<b>\$833,961,452</b>	<b>\$765,749,535</b>	<b>\$707,156,664</b>	<b>\$645,349,733</b>	<b>\$630,915,867</b>
<b>Nonoperating Distributions</b>						
Municipalities and Counties	7,791,869	7,959,718	7,824,788	7,393,556	7,315,126	7,071,961
Capital Reinvestment Fund	21,558,438	22,900,376	18,820,278	13,397,148	11,716,851	10,445,577
State of West Virginia	565,256,651	662,982,476	545,203,685	498,364,762	508,328,566	501,301,537
<b>Total Distributions</b>	<b>\$594,606,958</b>	<b>\$693,842,570</b>	<b>\$571,848,751</b>	<b>\$519,155,466</b>	<b>\$527,360,543</b>	<b>\$518,819,075</b>
<b>Net Income</b>	<b>\$2,688,429</b>	<b>\$12,903,989</b>	<b>\$2,891,203</b>	<b>\$153,528</b>	<b>\$3,013,291</b>	<b>(\$1,783,236)</b>

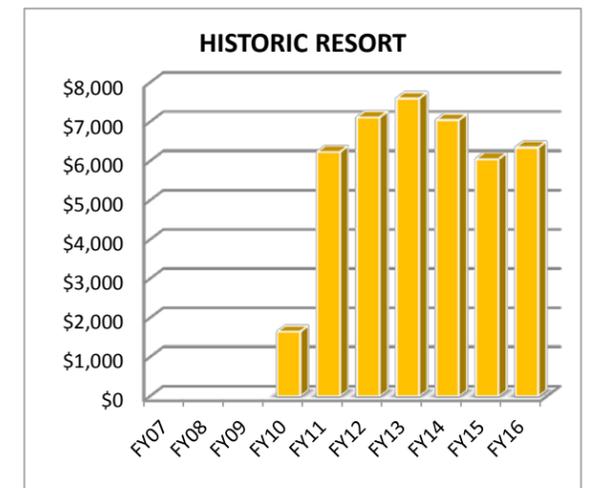
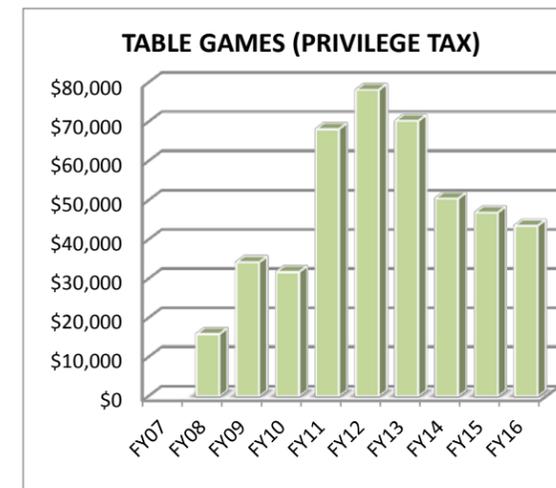
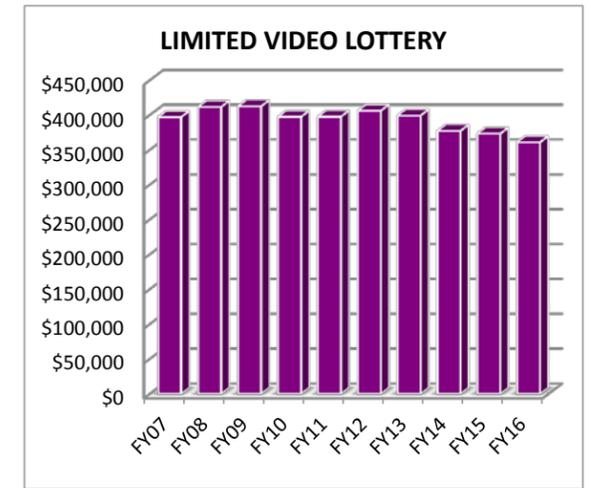
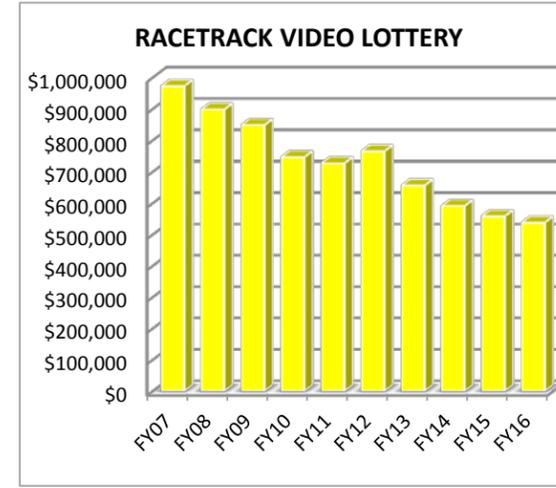
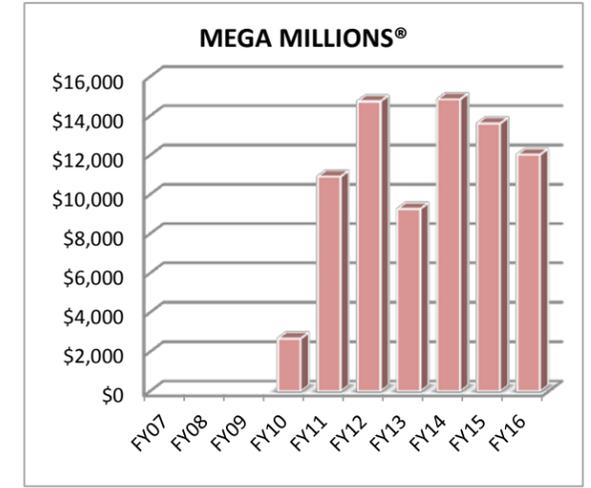
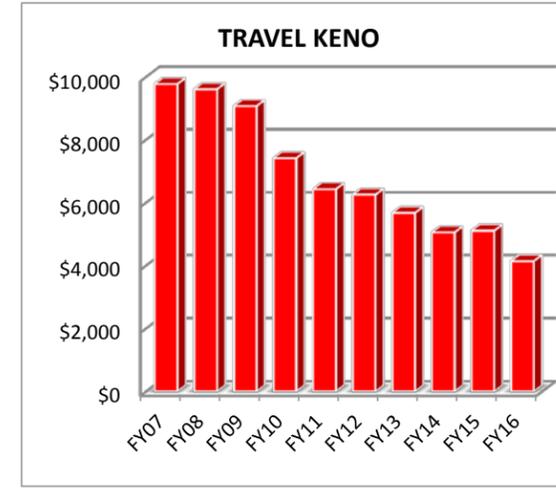
**WEST VIRGINIA LOTTERY**

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



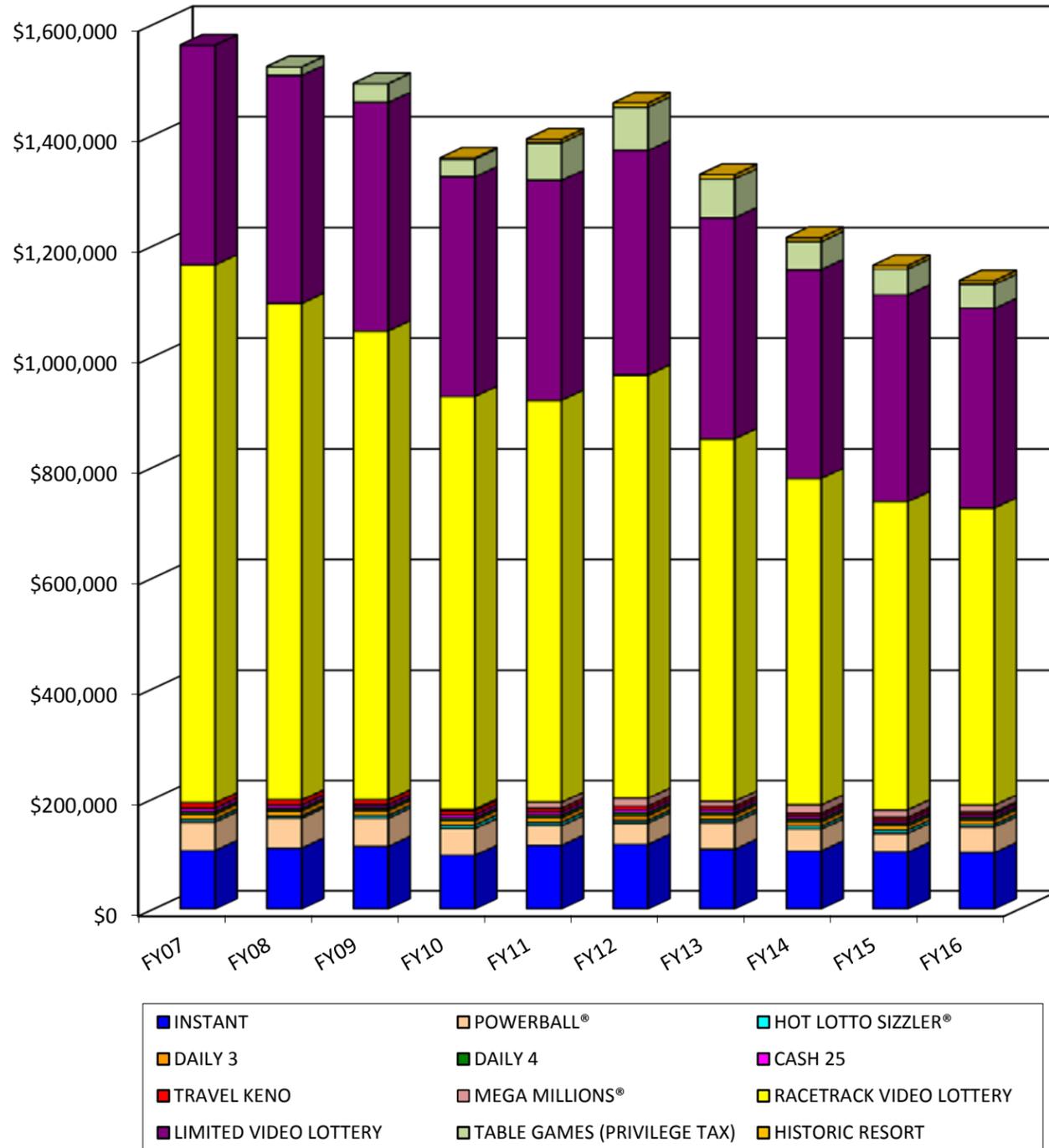
**WEST VIRGINIA LOTTERY**

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



**WEST VIRGINIA LOTTERY**

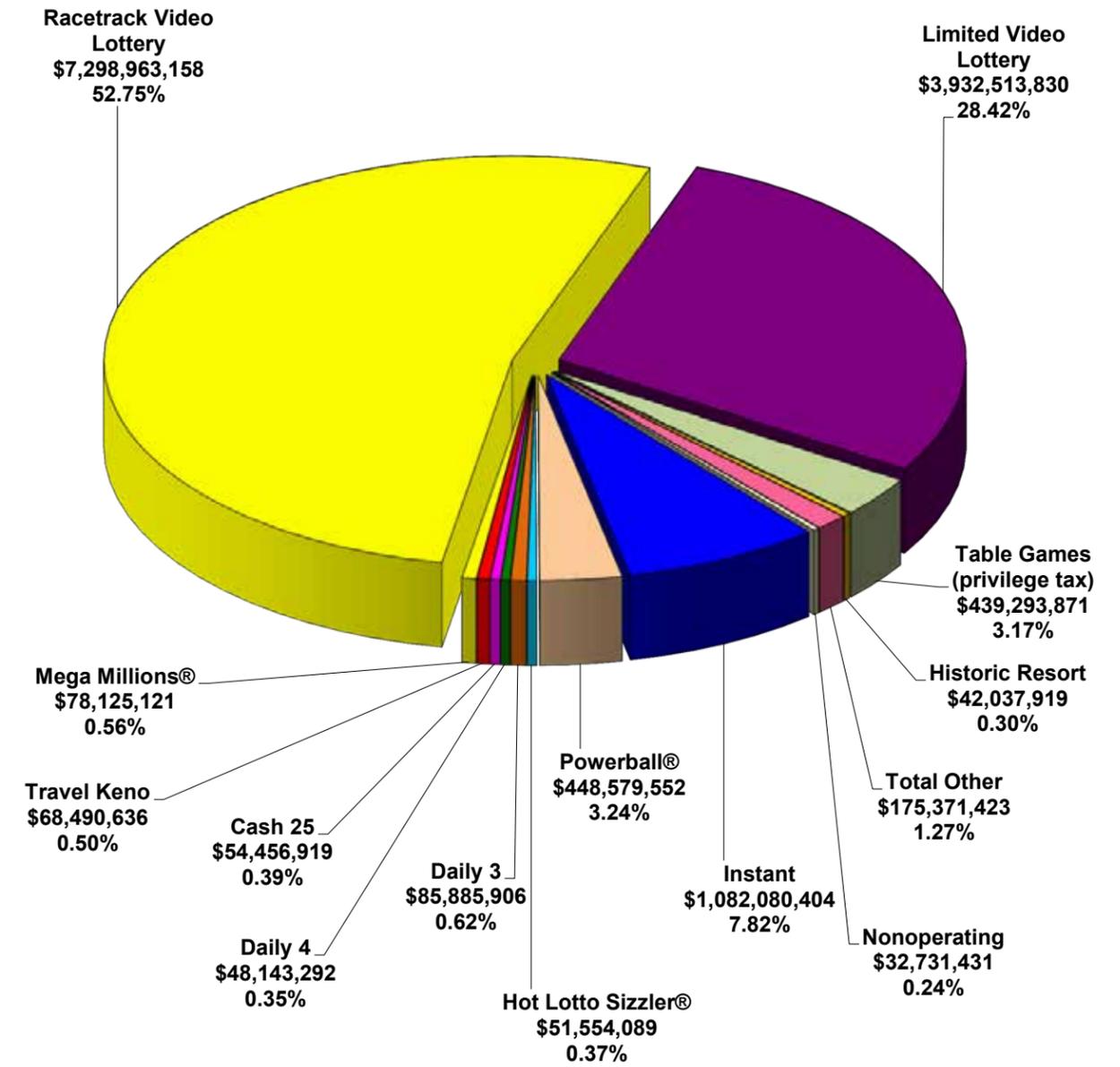
**Sales By Product  
Last Ten Fiscal Years  
(000's)**



Source: West Virginia Lottery

**WEST VIRGINIA LOTTERY**

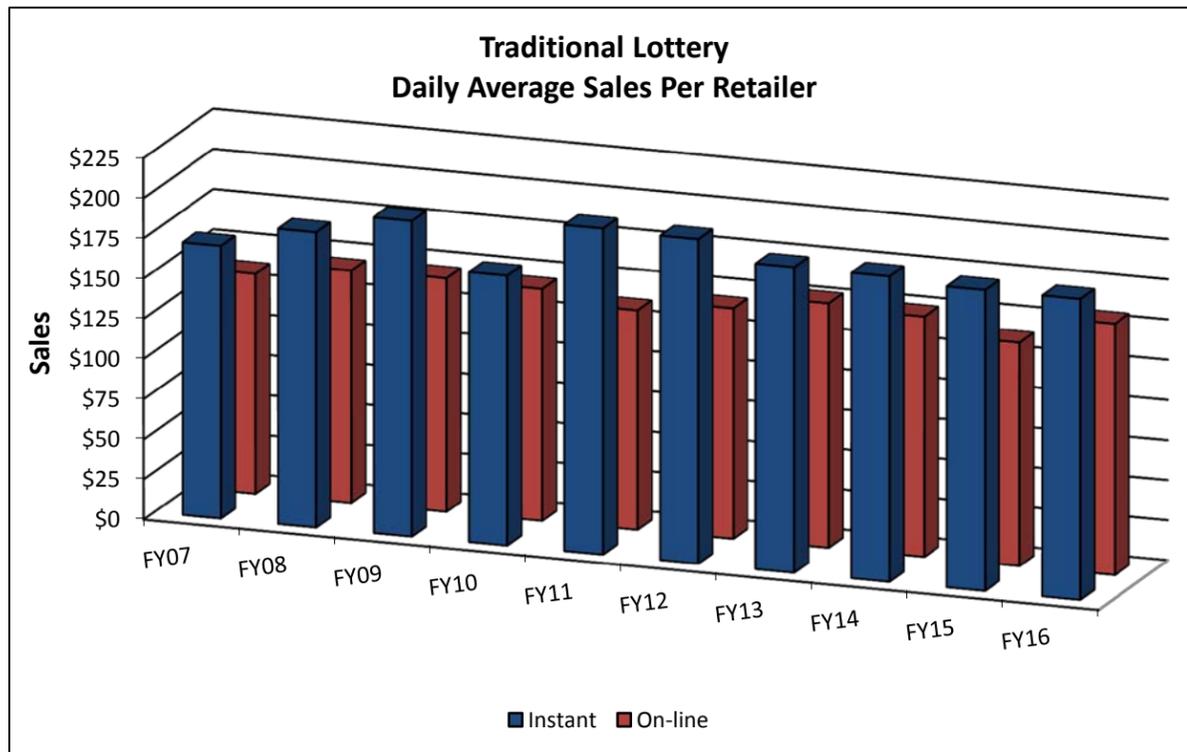
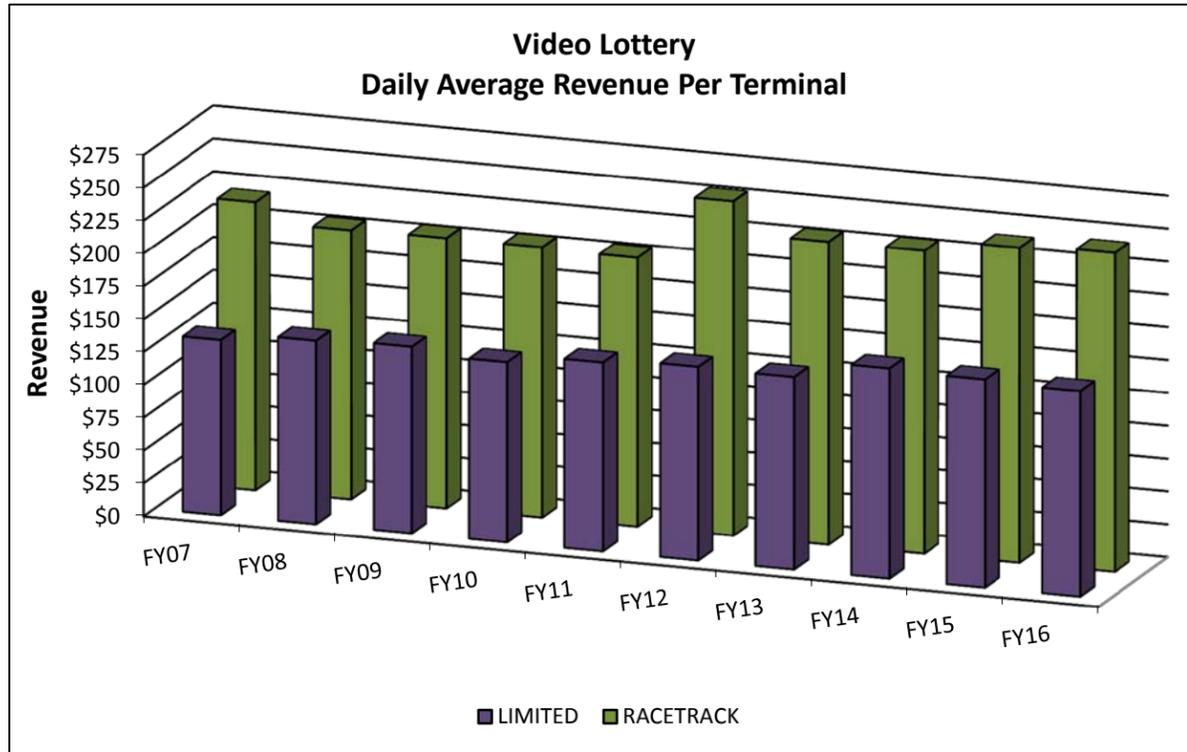
**Total Revenues \$13,838,227,551  
Last Ten Fiscal Years**



Source: West Virginia Lottery

**WEST VIRGINIA LOTTERY**

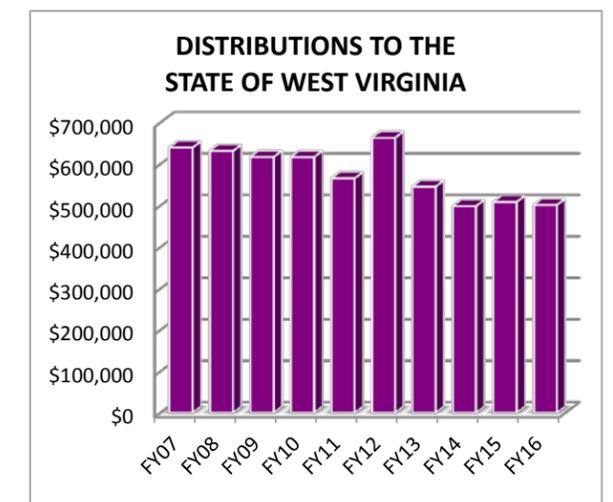
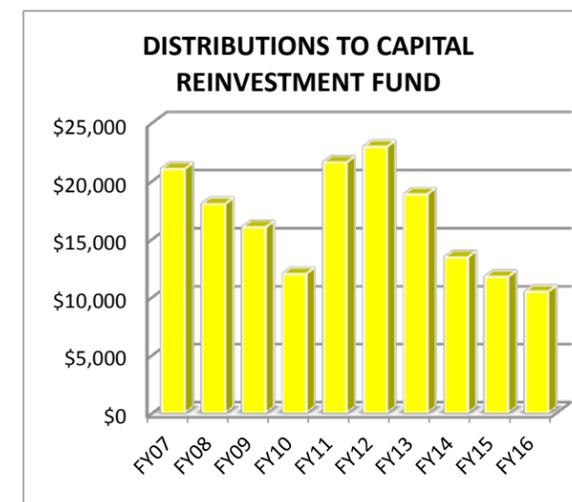
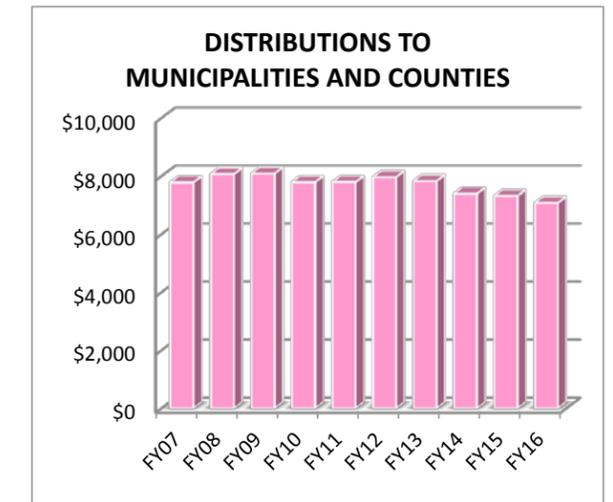
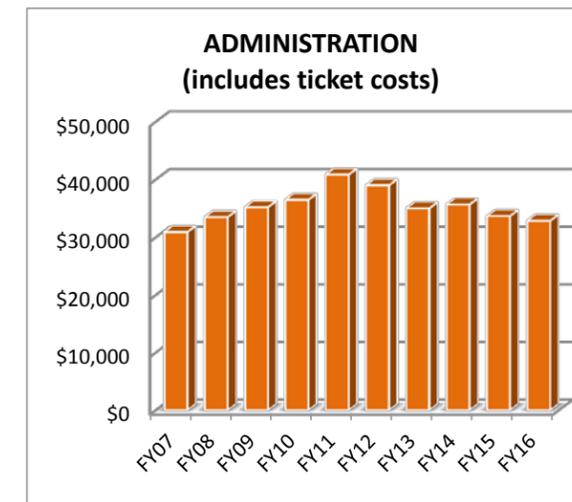
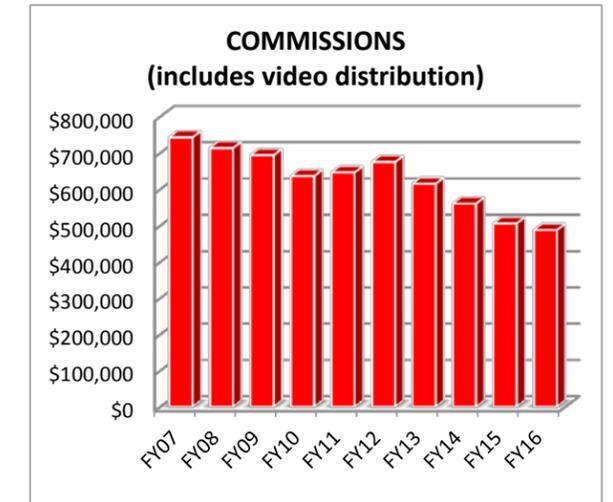
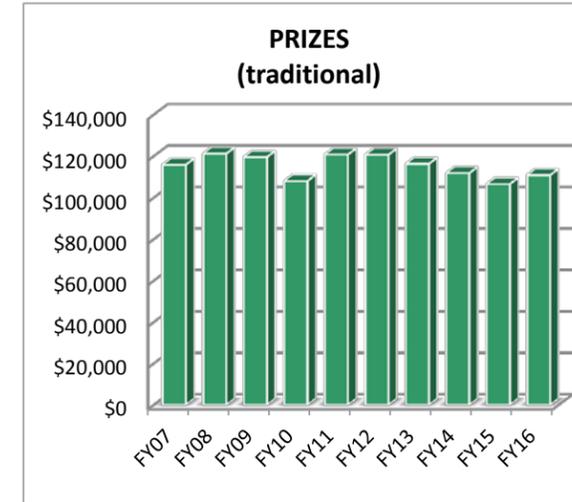
**Daily Averages  
Last Ten Fiscal Years**



Source: West Virginia Lottery

**WEST VIRGINIA LOTTERY**

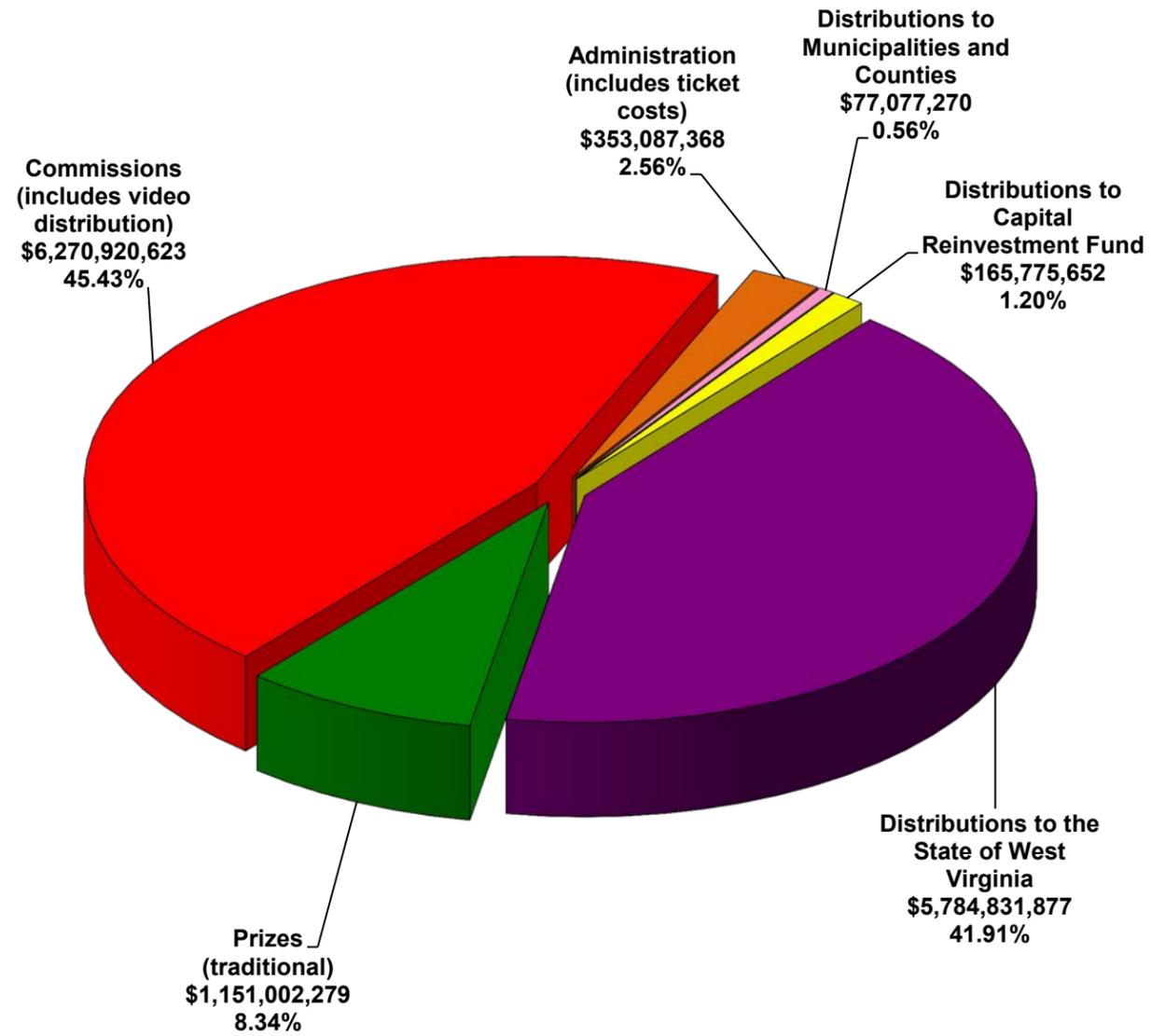
**Expenses and Nonoperating Distributions  
Last Ten Fiscal Years  
(000's)**



Source: West Virginia Lottery

**WEST VIRGINIA LOTTERY**

**Total Expenses and Nonoperating Distributions \$13,802,695,069  
Last Ten Fiscal Years**



Source: West Virginia Lottery

**WEST VIRGINIA LOTTERY**

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Position					
Restricted by enabling legislation	\$ 30,367	\$ 58,487	\$ 69,871	\$ 8,355	\$ 2,039
Net investment in capital assets	1,451	5,251	3,306	23,349	30,421
Unrestricted (deficit)	11,671	747	10,011	4,679	6,612
Total net assets	<u>\$ 43,489</u>	<u>\$ 64,485</u>	<u>\$ 83,188</u>	<u>\$ 36,383</u>	<u>\$ 39,072</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net Position					
Restricted by enabling legislation	\$ 1,690	\$ 1,640	\$ 1,397	\$ 1,130	\$ -
Net investment in capital assets	42,285	40,220	38,745	37,763	44,874
Unrestricted (deficit)	8,000	13,006	14,878	15,263	7,498
Total net assets	<u>\$ 51,975</u>	<u>\$ 54,866</u>	<u>\$ 55,020</u>	<u>\$ 54,156</u>	<u>\$ 52,372</u>

**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 <sup>1,2</sup>	\$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 <sup>1,2</sup>	\$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) <sup>1</sup>	\$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 <sup>1</sup>	\$3,665.00	\$1,095.02	11.6	\$315.95
Oklahoma	\$171.63	\$60.86	3.9	\$44.01
Oregon <sup>1</sup>	\$1,116.86	\$544.46	4.0	\$279.22
Pennsylvania	\$3,819.64	\$1,060.86	12.8	\$298.41
Rhode Island <sup>1,2</sup>	\$866.00	\$381.94	1.1	\$787.27
South Carolina	\$1,401.66	\$343.52	4.8	\$292.01
South Dakota <sup>1</sup>	\$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 <sup>1,2</sup>	\$1,164.00	\$508.33	1.9	\$612.63
Wisconsin	\$574.63	-	5.8	\$99.07
Wyoming	\$17.53	-	0.6	\$29.22
<b>Total</b>	<b>\$73,871.28</b>	<b>\$20,715.99</b>	<b>303.1</b>	<b>\$10,951.87</b>

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

<sup>2</sup>Includes Table Games (net)

<sup>1</sup>Includes net VLT sales (Cash in less cash out)

**WEST VIRGINIA LOTTERY**

**U.S. Lotteries Unaudited Sales For Fiscal Year 2016  
Excludes Video Lottery Terminal (VLT) Sales  
(\$ millions)**

	Sales	Profit	Population	Sales/Capita
Arizona	\$870.95	\$205.69	6.8	\$128.08
Arkansas	\$455.60	\$85.27	3.0	\$151.87
California	\$6,275.60	\$1,589.52	39.1	\$160.50
Colorado	\$594.41	\$143.57	5.5	\$108.07
Connecticut	\$1,230.77	\$339.80	3.6	\$341.88
Delaware <sup>1,2</sup>	\$631.78	\$213.06	0.7	\$902.54
District of Columbia (9/30)	\$228.16	\$53.17	0.9	\$253.51
Florida	\$6,063.21	\$1,700.00	20.3	\$298.68
Georgia	\$4,555.89	\$1,097.57	10.2	\$446.66
Idaho	\$236.08	\$49.50	1.7	\$138.87
Illinois	\$2,859.82	\$694.39	12.9	\$221.69
Indiana	\$1,207.61	\$281.47	6.6	\$182.97
Iowa	\$366.91	\$88.02	3.1	\$118.36
Kansas	\$272.02	\$78.21	2.9	\$93.80
Kentucky	\$997.32	\$253.04	4.4	\$226.66
Louisiana	\$507.04	\$177.93	4.7	\$107.88
Maine	\$272.34	\$57.58	1.3	\$209.49
Maryland <sup>1,2</sup>	\$3,049.52	\$1,026.71	6.0	\$508.25
Massachusetts	\$5,222.06	\$989.41	6.8	\$767.95
Michigan (9/30)	\$3,104.58	\$889.90	9.9	\$313.59
Minnesota	\$592.85	\$144.68	5.5	\$107.79
Missouri	\$1,315.62	\$302.58	6.1	\$215.68
Montana	\$59.94	\$12.89	1.0	\$59.94
Nebraska	\$179.47	\$42.78	1.9	\$94.46
New Hampshire	\$303.34	\$79.18	1.3	\$233.34
New Jersey	\$3,289.85	\$987.00	9.0	\$365.54
New Mexico	\$154.35	\$46.30	2.1	\$73.50
New York (3/31) <sup>1</sup>	\$9,690.51	\$3,301.78	19.8	\$489.42
North Carolina	\$2,383.59	\$635.27	10.0	\$238.36
North Dakota	\$35.62	\$10.32	0.8	\$44.53
Ohio <sup>1</sup>	\$3,928.52	\$1,116.11	11.6	\$338.67
Oklahoma	\$189.62	\$67.16	3.9	\$48.62
Oregon <sup>1</sup>	\$1,229.50	\$572.93	4.0	\$307.37
Pennsylvania	\$4,135.16	\$1,121.32	12.8	\$323.06
Rhode Island <sup>1,2</sup>	\$875.36	\$369.76	1.1	\$795.78
South Carolina	\$1,600.38	\$398.91	4.9	\$326.61
South Dakota <sup>1</sup>	\$262.89	\$117.65	0.9	\$292.11
Tennessee	\$1,626.95	\$394.05	6.6	\$246.51
Texas (8/31)	\$5,067.52	\$1,392.31	27.5	\$184.27
Vermont	\$124.26	\$26.41	0.6	\$207.10
Virginia	\$2,006.90	\$588.19	8.4	\$238.92
Washington	\$694.88	\$175.52	7.2	\$96.51
West Virginia <sup>1,2</sup>	\$1,136.64	\$496.67	1.8	\$631.46
Wisconsin	\$627.16	\$0.00	5.8	\$108.13
Wyoming	\$33.39	\$2.04	0.6	\$55.64
<b>Total</b>	<b>\$80,545.95</b>	<b>\$22,415.61</b>	<b>305.6</b>	<b>\$11,804.65</b>

2016 data source: NASPL website: www.NASPL.org

<sup>2</sup>Includes Table Games (net)

<sup>1</sup>Includes net VLT sales (Cash in less cash out)

**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. <sup>1</sup>	\$211.0			0.7	\$301.43
Delaware <sup>2,3</sup>	\$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 <sup>2,3</sup>	\$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 <sup>1,6</sup>	\$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 <sup>2,3,4</sup>	\$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 <sup>2,3</sup>	\$2,890.9	\$1,884.0	\$990.0	11.6	\$249.22
Oklahoma	\$171.6	\$87.8	\$60.1	3.9	\$44.00
Oregon <sup>2,3</sup>	\$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 <sup>2,3</sup>	\$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 <sup>2,3</sup>	\$51.8	\$29.7	\$109.9	0.9	\$57.56
Tennessee	\$1,475.0		\$347.7	6.5	\$226.92
Texas <sup>1,5</sup>	\$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 <sup>2,3,7</sup>	\$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
<b>Total</b>	<b>\$67,054.8</b>	<b>\$39,392.4</b>	<b>\$19,858.1</b>	<b>303.1</b>	<b>\$8,484.64</b>

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

<sup>1</sup>Estimated Sales

<sup>5</sup>Fiscal Year ends 8/31

<sup>2</sup>Doesn't include VLT prizes

<sup>6</sup>Fiscal Year ends 9/30

<sup>3</sup>Includes transfers for VLT operations

<sup>7</sup>Gross sales were \$1,164, including VLT sales of \$935.1

<sup>4</sup>Fiscal Year ends 3/31

and Table Games sales of \$48.9

**WEST VIRGINIA LOTTERY**

**U.S. Lotteries Unaudited Sales For Fiscal Year 2016**  
**Includes Video Lottery Terminal (VLT) Sales**  
**(\$ millions)**

	Ticket		Gov't		Sales
	Sales	Prizes	Transfers	Population	Per Capita
Arizona	\$870.9	\$484.6	\$205.8	6.8	\$128.07
Arkansas	\$455.6	\$308.9	\$85.3	3.0	\$151.87
California	\$6,275.6		\$1,500.0	39.1	\$160.50
Colorado	\$594.4	\$370.5	\$143.6	5.5	\$108.07
Connecticut	\$1,230.8	\$760.3	\$337.5	3.6	\$341.89
D.C. <sup>1</sup>	\$228.5			0.9	\$253.89
Delaware <sup>2,3</sup>	\$214.6		\$211.0	0.7	\$306.57
Florida	\$6,062.4	\$3,898.2	\$1,674.0	20.3	\$298.64
Georgia	\$4,555.9		\$1,090.0	10.2	\$446.66
Idaho	\$236.1	\$153.6	\$51.8	1.7	\$138.88
Illinois	\$2,858.2	\$1,837.4		12.9	\$221.57
Indiana	\$1,207.6	\$772.0	\$281.5	6.6	\$182.97
Iowa	\$366.9	\$221.8	\$88.0	3.1	\$118.35
Kansas	\$287.4	\$157.3	\$78.2	2.9	\$99.10
Kentucky	\$989.6	\$620.6	\$253.0	4.4	\$224.91
Louisiana	\$507.0	\$272.9	\$177.9	4.7	\$107.87
Maine	\$272.8	\$178.2	\$57.0	1.3	\$209.85
Maryland <sup>2,3</sup>	\$1,905.5	\$1,135.4	\$569.8	6.0	\$317.58
Massachusetts	\$5,196.3	\$3,842.0	\$986.9	6.8	\$764.16
Michigan <sup>1,6</sup>	\$3,047.1	\$1,814.0	\$880.9	9.9	\$307.79
Minnesota	\$592.9	\$365.9	\$144.7	5.5	\$107.80
Missouri	\$1,241.1	\$883.3	\$309.0	6.1	\$203.46
Montana	\$60.0	\$33.7	\$12.9	1.0	\$60.00
Nebraska	\$179.6	\$104.6	\$42.8	1.9	\$94.53
New Hampshire	\$301.9	\$193.0	\$75.8	1.3	\$232.23
New Jersey	\$3,290.0			9.0	\$365.56
New Mexico	\$154.3	\$84.8	\$46.3	2.1	\$73.48
New York <sup>2,3,4</sup>	\$7,703.1	\$4,629.7	\$3,301.8	19.8	\$389.05
North Carolina	\$2,383.6	\$1,491.0	\$620.6	10.0	\$238.36
North Dakota	\$35.7	\$18.3	\$10.3	0.8	\$44.63
Ohio <sup>2,3</sup>	\$3,056.7	\$1,932.6	\$1,066.1	11.6	\$263.51
Oklahoma	\$189.6	\$95.5	\$66.4	3.9	\$48.62
Oregon <sup>2,3</sup>	\$353.0	\$225.6	\$572.9	4.0	\$88.25
Pennsylvania	\$4,135.2	\$2,639.8	\$1,121.3	12.8	\$323.06
Rhode Island <sup>2,3</sup>	\$260.9	\$161.7	\$360.8	1.1	\$237.18
South Carolina	\$1,600.4	\$1,047.2	\$404.6	4.9	\$326.61
South Dakota <sup>2,3</sup>	\$55.5		\$116.9	0.9	\$61.67
Tennessee	\$1,626.0		\$394.0	6.6	\$246.36
Texas <sup>5</sup>	\$5,067.5	\$3,018.0	\$1,270.8	27.5	\$184.27
Vermont	\$124.3	\$80.1	\$26.4	0.6	\$207.17
Virginia	\$2,006.9	\$1,208.4	\$588.2	8.4	\$238.92
Washington	\$696.0	\$432.3	\$172.5	7.2	\$96.67
West Virginia <sup>2,3,7</sup>	\$188.2	\$109.6	\$482.7	1.8	\$104.56
Wisconsin	\$629.8			5.8	\$108.59
Wyoming	\$33.4	\$18.4	\$2.0	0.6	\$55.67
<b>Total</b>	<b>\$73,328.8</b>	<b>\$35,601.2</b>	<b>\$19,882.0</b>	<b>305.6</b>	<b>\$9,289.37</b>

2016 data source: La Fleur's Magazine/Vol. 24, No. 1 September/October 2016

<sup>1</sup>Estimated Sales

<sup>5</sup>Fiscal Year ends 8/31

<sup>2</sup>Represents only revenue from traditional games

<sup>6</sup>Fiscal Year ends 9/30

<sup>3</sup>Prizes do not include VLT prizes paid

<sup>7</sup>Gross sales were \$1,137, including VLT sales of \$903

<sup>4</sup>Fiscal Year ends 3/31

and Table Games sales of \$45.4

## WEST VIRGINIA LOTTERY

### Number of Employees

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Executive	14	18	20	20	18
Finance & Administration	23	23	24	23	27
Marketing	7	7	7	7	7
Video	28	27	27	29	30
Security (traditional & video)	37	46	47	46	47
Table Games	-	39	47	51	69
<b>Total</b>	<b>109</b>	<b>160</b>	<b>172</b>	<b>176</b>	<b>198</b>

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Executive	19	19	20	20	19
Finance & Administration	26	25	25	22	23
Marketing	8	8	8	8	8
Video	31	31	29	30	31
Security (traditional & video)	42	40	41	38	38
Table Games	69	61	60	57	52
<b>Total</b>	<b>195</b>	<b>184</b>	<b>183</b>	<b>175</b>	<b>171</b>

Source: West Virginia Lottery

## WEST VIRGINIA LOTTERY

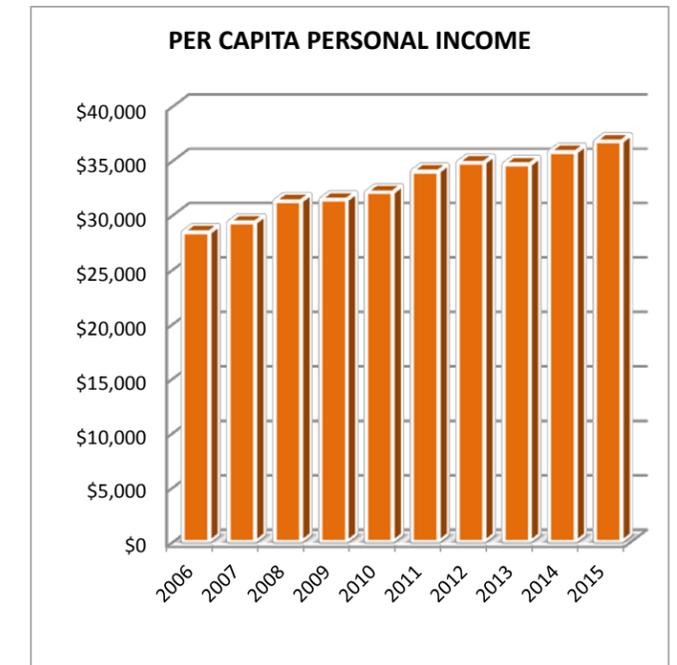
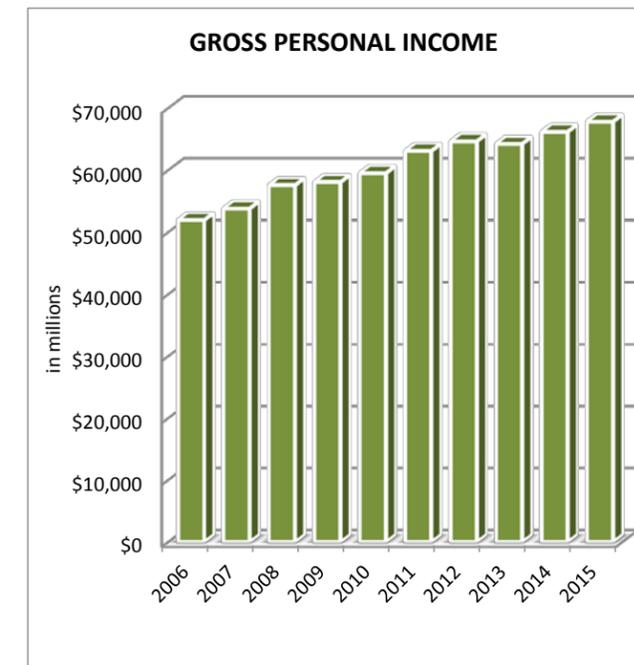
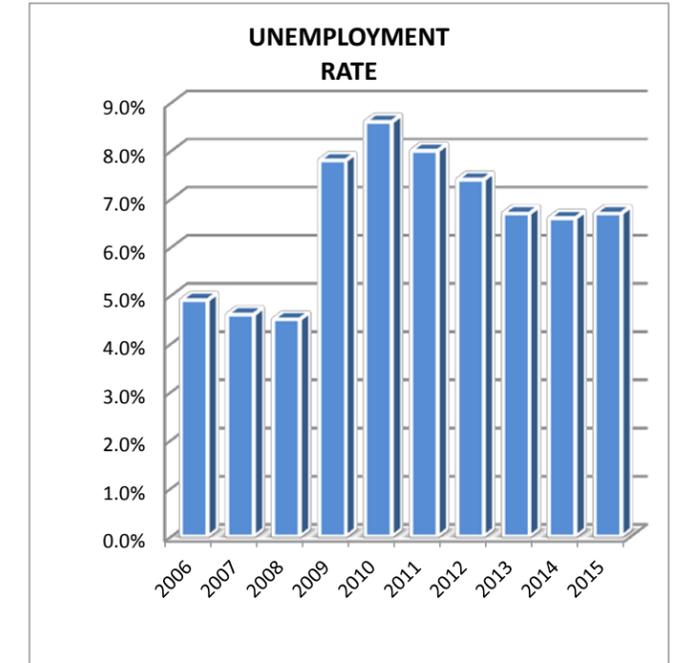
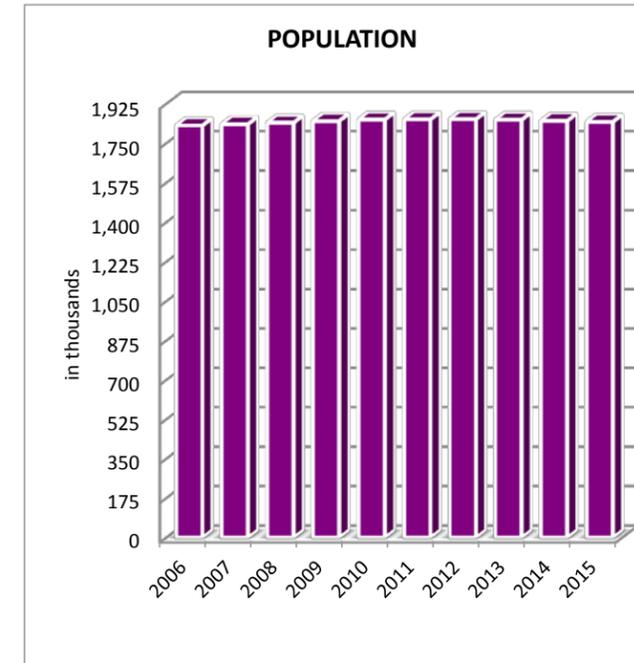
### State Demographic and Economic Information

YEAR	POPULATION	PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2006	1,827,912	\$51,924	\$28,406	4.9%
2007	1,834,052	\$53,779	\$29,323	4.6%
2008	1,840,310	\$57,551	\$31,273	4.5%
2009	1,847,775	\$58,042	\$31,412	7.8%
2010	1,854,225	\$59,487	\$32,082	8.6%
2011	1,854,948	\$63,068	\$34,000	8.0%
2012	1,856,283	\$64,624	\$34,814	7.4%
2013	1,852,985	\$64,207	\$34,651	6.7%
2014	1,848,751	\$66,145	\$35,778	6.6%
2015	1,844,128	\$67,787	\$36,758	6.7%

Source: U.S. Bureau of Economic Analysis and Bureau of Labor Statistics based on calendar year.  
 Note: 2016 information is not available and therefore not presented.

## WEST VIRGINIA LOTTERY

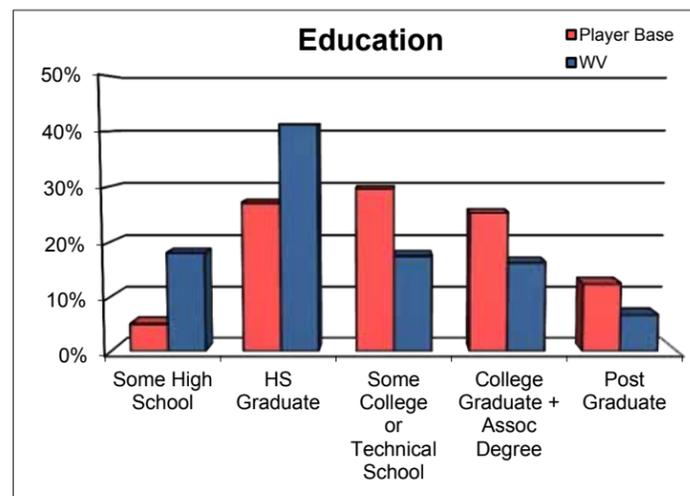
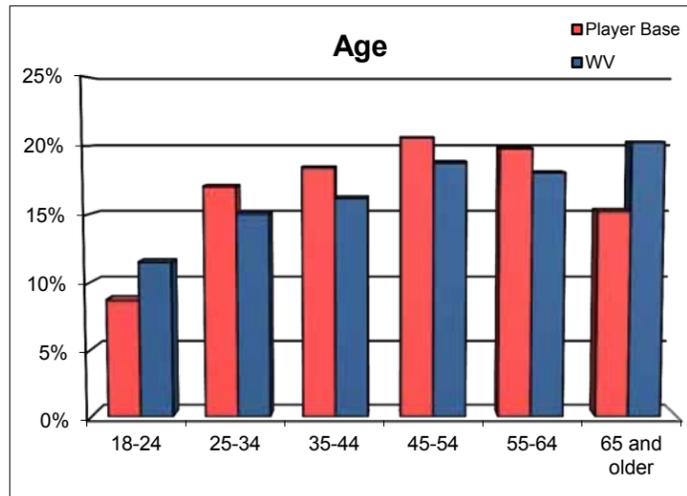
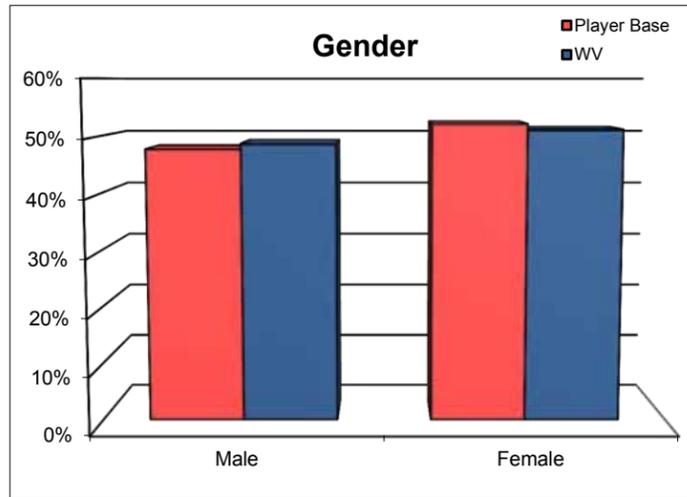
### State Demographics



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

**WEST VIRGINIA LOTTERY**

**Player and Population Demographics**

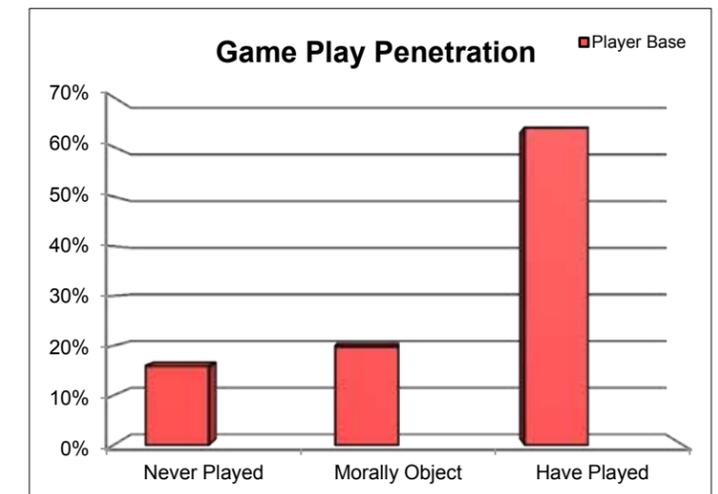
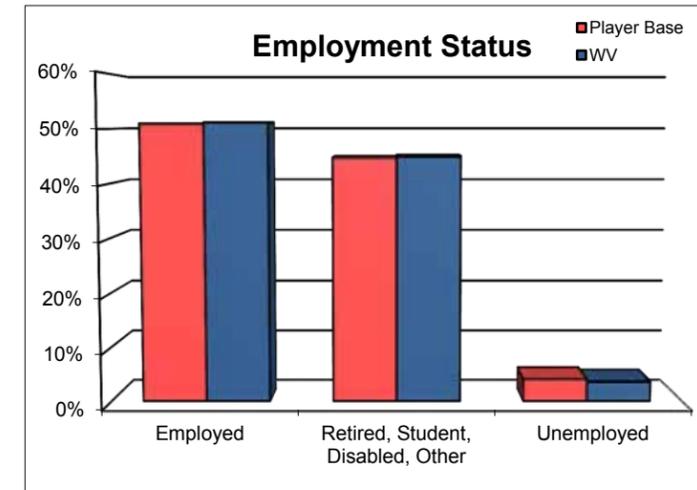
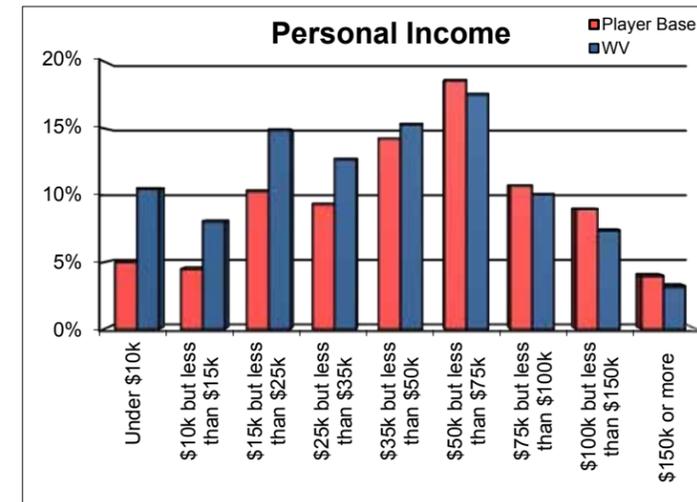


Source: West Virginia Lottery Segmentation Study, August 2015 Repass Inc.

**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 2016		
Business Name	Number of Employees	Percentage of Total Employed
Local Government	75,667	11.13%
State Government	42,153	6.20%
Federal Government	23,290	3.43%
1 WVU Medicine (formerly West Virginia United Health System)	13,000-14,999	2.06%
2 Wal-Mart Associates, Inc.	10,000-12,999	1.69%
3 Charleston Area Medical Center, Inc.	5,000-6,999	0.88%
4 Kroger	3,000-4,999	0.59%
5 Mylan Pharmaceuticals, Inc.	3,000-4,999	0.59%
6 Lowe's Home Centers, Inc.	1,000-2,999	0.29%
7 St. Mary's Medical Center, Inc.	1,000-2,999	0.29%
8 Cabell Huntington Hospital, Inc.	1,000-2,999	0.29%
9 Wheeling Hospital, Inc.	1,000-2,999	0.29%
10 Res-Care Inc.	1,000-2,999	0.29%

First Quarter 2007		
Business Name	Number of Employees	Percentage of Total Employed
Local Government	73,902	10.43%
State Government	39,278	5.55%
Federal Government	22,365	3.16%
1 Wal-Mart Associates, Inc.	10,000-13,000	1.62%
2 West Virginia University Hospitals/United Hospitals	3,000-5,999	0.64%
3 Charleston Area Medical Center, Inc.	3,000-5,999	0.64%
4 Kroger	3,000-5,999	0.64%
5 American Electric Power	3,000-5,999	0.64%
6 Eldercare Resources Corporation	1,000-2,999	0.28%
7 Lowe's Home Center, Inc.	1,000-2,999	0.28%
8 CSX / CSX Hotels Inc. (The Greenbrier and Railroad)	1,000-2,999	0.28%
9 Pilgrim's Pride Corporation of West Virginia	1,000-2,999	0.28%
10 St. Mary's Hospital	1,000-2,999	0.28%

Source: WORKFORCE West Virginia, Research, Information and Analysis

**West Virginia Lottery 2016 CAFR Project**  
An in-house production of the West Virginia Lottery

**Acting Lottery Director**  
John Myers

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

**Project Coordinator**  
Mara Dawson

**Layout and Design**  
Mike Ross

**Charts and Graphs**  
Mara Dawson

**Contributors**  
Mark Muchow, Deputy Cabinet Secretary, Department of Revenue  
and Randy Burnside

**Photographs:**  
West Virginia Department of Commerce  
Mike Ross  
and  
istock photos (used with permission)



**West Virginia Lottery**  
**900 Pennsylvania Avenue**  
**Charleston, WV 25302**

**P.O. Box 2067**  
**Charleston, WV 25327**

**Phone: 304.558.0500**  
**[wvlottery.com](http://wvlottery.com)**

