



West Virginia Lottery

A Component Unit of the State of West Virginia

Comprehensive Annual Financial Report
for the Fiscal Years Ended
June 30, **2018** and **2017**



MESSAGE FROM THE DIRECTOR



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

I am pleased to present this year's West Virginia Lottery Comprehensive Annual Financial Report for the fiscal year ending June 30, 2018 to the Honorable Jim Justice, Governor; Dave Hardy, Cabinet Secretary, Department of Revenue; and the West Virginia Legislature. Our mission to operate responsibly with the highest standards of integrity and security have helped to provide a continued revenue stream for programs that benefit the citizens of West Virginia for more than 32 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 that time, the Lottery has generated nearly \$10 billion in gaming revenue for the State of West Virginia with proceeds supporting education, seniors and tourism. Lottery operations have produced \$3.3 billion for education, more than \$1.2 billion for senior services, and nearly \$1.1 billion for tourism.



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 Director, West Virginia Lottery

WEST VIRGINIA LOTTERY COMMISSION



KENNETH L. GREEAR
Chairman
Charleston
Computer Expert



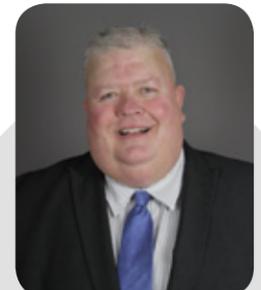
WILLIAM I. CLAYTON
Vice Chairman
Charleston
Public At Large



WILLIAM R. LAIRD IV
Oak Hill
Law Enforcement



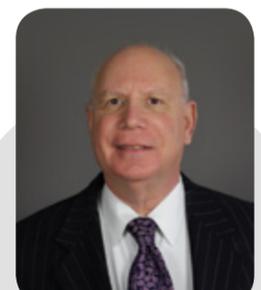
ROY E. SHREWSBERRY II
Beckley
Public At Large



ANDREW B. KNICELEY
Fairmont
Marketing



DOUGLAS A. BICKSLER, CPA
Lewisburg
Certified Public
Accountant



DAN A. MARSHALL
Parkersburg
Attorney

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.

WEST VIRGINIA LOTTERY

A Component Unit of the State of West Virginia



Prepared by
Finance and Administration Division

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

Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2018 and 2017

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LOTTERY PROCEEDS

The West Virginia Lottery has generated nearly \$10 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.

Since 1986, West Virginia has been able to invest:

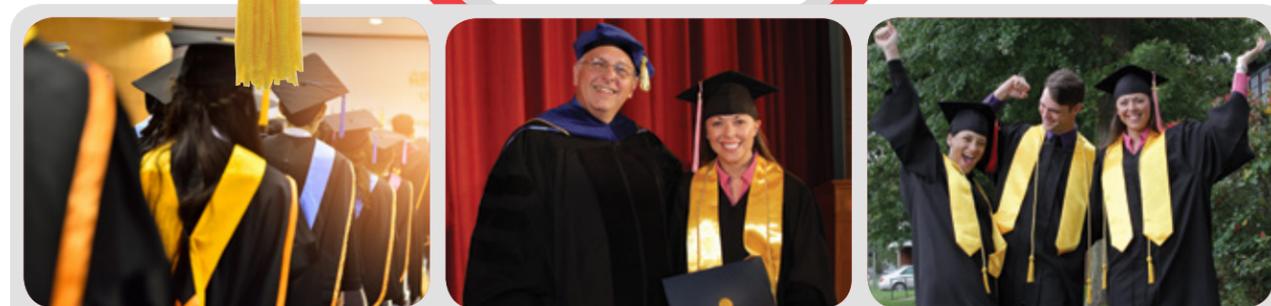
\$3.3 BILLION
IN PUBLIC
EDUCATION



MORE THAN
\$1.2 BILLION
IN SENIOR
PROGRAMS
AND
SERVICES



NEARLY
\$1.1 BILLION
INTO THE STATE'S
GROWING
TOURISM
INDUSTRY



ALLOWING MORE THAN 55,000 WEST VIRGINIA STUDENTS TO PURSUE THEIR COLLEGE DREAMS

Every West Virginia college student has hopes and dreams for a bright future and to realize their full potential. High school seniors entering colleges and universities across the State benefit from lottery dollars through the PROMISE Scholarship Program.

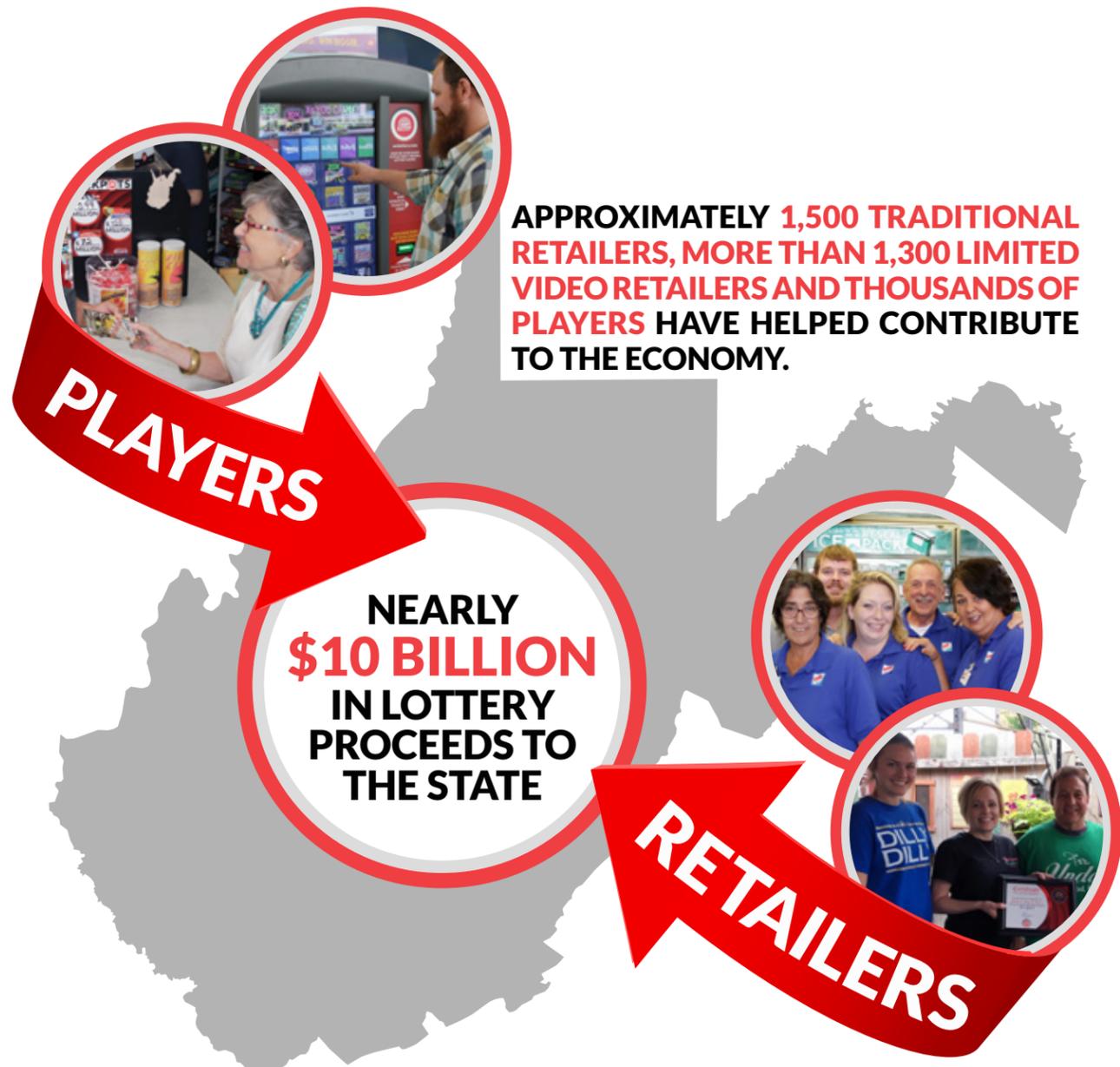
In FY 2018, approximately \$29 million from limited video lottery revenue was directed to the PROMISE Scholarship program to reward West Virginia's best and brightest students with the opportunity to attend an in-state college or university. Since 2002, the West Virginia Lottery has provided \$428.5 million to the PROMISE Scholarship Program and in turn has helped more than 55,000 West Virginia students pursue a college education without the burden of heavy debt. In many cases, the PROMISE Scholarship has been cited as the primary factor that allowed these deserving students to obtain a college degree.

LOTTERY RETAILERS AND PLAYERS



The West Virginia Lottery celebrated its 32nd Anniversary in January 2018. In the Lottery's first 32 years, more than \$10 billion in lottery proceeds have made critical education, senior services and tourism programs possible.

West Virginia Lottery players won more than \$105 million in prizes from traditional lottery games during fiscal year 2018.



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 nearly \$1.1 billion in fiscal year 2018.

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 16 consecutive years.



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James C. Justice
Governor

John A. Myers
Director

December 3, 2018

The Honorable James C. Justice II, Governor
Dave Hardy, 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, 2018 and 2017. This report has been prepared by the Finance and Administration Division of the Lottery. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. To the best of our knowledge and belief, the enclosed data and information are accurate and are reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

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

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

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

John A. Myers
Director of West Virginia Lottery

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



INTRODUCTORY SECTION



OVERVIEW

The West Virginia Lottery has generated nearly \$10 billion in proceeds for the State of West Virginia since it began operations in 1986 with \$3.3 billion invested in education, more than \$1.2 billion in senior programs and services, and nearly \$1.1 billion to the state's tourism industry.

In Fiscal Year (FY) 2018, Lottery sales exceeded the \$1 billion mark for the 16th consecutive year. Despite the challenges posed by growing competition from surrounding states, Lottery sales totaled nearly \$1.1 billion for the year ending June 30, 2018, and resulted in a cash transfer of nearly \$474.0 million to the State of West Virginia.

The Lottery continues to govern several gaming environments and product types. In FY 2018, these operations provided the following transfers to the State: \$226.1 million from Racetrack Video Lottery, \$186.2 million from Limited Video Lottery, \$17.3 million from Racetrack Table Games, \$2.4 million from the Historic Resort, and \$42.0 million from Traditional Lottery products.

The Lottery also continues to operate responsibly with the highest standards of integrity and security in its operational and regulatory duties. The Lottery regulates 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. Furthermore, 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.

The 2018 West Virginia State Budget included \$485.7

million in cash transfers from the Lottery. These included \$77.3 million for senior citizens, \$84.0 million for education, \$54.9 million for tourism, \$74.8 million to the State's General Fund, \$53.1 million to the Infrastructure Council, and \$112.6 million to other state agencies (including \$29.0 million to the PROMISE scholarship program).

A total of \$25.2 million was also paid to county and local municipalities across the state in FY 2018. These distributions are statutory transfers from Racetrack Video Lottery, Limited Video Lottery, Table Games and Historic Resort.

Overall sales in FY 2018 were \$1.1 billion, and the Lottery's total operating costs were under 2.9 percent of total sales. Continued fiscal responsibility resulted in the Lottery meeting its obligations to the State and generated a surplus in excess of budgeted amounts of \$44.8 million, which are available for additional legislative appropriations.

West Virginia State law mandates that players receive at least 45 percent of total traditional game sales in the form of cash prizes; however, this percentage has averaged approximately 50 percent annually since the Lottery's inception in 1986. In FY 2018 Lottery players won a total of \$84.1 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 validation of prizes. Profits from Traditional Lottery games are directed by statutory allocation to state programs and distributed accordingly.

The payout rate for video lottery machines varies by location and game type. In FY 2018, the payout rate averaged 91 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 by statutory allocation and legislative budget appropriations.

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

West Virginia's growing tourism industry also benefits from Lottery proceeds. In FY 2018, 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 Natural Resources and the State Park Improvement Fund, the cash transfers used in enhancing the state's tourism industry was \$14.5 million.

Legislation was passed to provide Lottery revenue from a special instant ticket game to help support funding for West Virginia veterans in FY 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 FY 2018, a total of \$698,976 was generated to support these facilities.

Besides the 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 FY 2018, deposits to in-home health care services for seniors totaled \$10 million from Racetrack Table Games and \$500,000 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 \$77.3 million in Lottery revenue in FY 2018.

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 and met the academic requirements. Since 2002, the West Virginia Lottery has provided \$428.5 million to the PROMISE Scholarship Program.



**IN FY18,
LOTTERY SALES
EXCEEDED
\$1 BILLION
FOR THE 16TH
CONSECUTIVE
YEAR**



ECONOMIC OUTLOOK



The U.S. economy is continuing to grow at a moderate pace. Supported by a healthy labor market and high GDP growth, the Congressional Budget Office (CBO) projects the national economy will grow by 3.1 percent in 2018 and by 2.4 percent in 2019. West Virginia's overall economic outlook is optimistic compared to the recent past, State GDP has experienced significant growth in 2017 and State revenues were up substantially in fiscal 2019 first quarter. State GDP growth rate outperformed the nation in 2017, largely because of increases in coal production, natural gas prices, and construction projects. Increases in coal production were responsible for 96 percent of the resurgence in total exports.

Economic indicators exhibit a strong and growing national economy. According to the U.S. Bureau of Economic Analysis (BEA), the U.S. experienced steady GDP growth of 2.2 percent in 2017 with similar trends for early 2018. The U.S. Bureau of Labor Statistics (BLS) reports a national unemployment rate of 3.9 percent for August 2018, which is the lowest rate reported since 2000. Consumer confidence has recently approached and remained near a 10-year high according to the University of Michigan: Consumer Sentiment Index.

The largest and most meaningful sectors that comprise U.S. GDP are manufacturing, retail trade, and natural resource extraction. BEA reports that the U.S. manufacturing sector, which comprised 11.7 percent of total GDP in 2017, grew at a modest rate of 1.9 percent in 2017. Most of the growth in manufacturing is due to the 3.4 percent increase in durable goods, whereas nondurable goods manufacturing growth was not significant in comparison. Retail trade comprised 5.9 percent of GDP in 2017 and had an annual growth rate of 3.5 percent. Natural resource extraction had an annual growth rate of 8.5 percent.

The BLS reported in August 2018 that nonfarm employment increased by 201,000, and a labor force participation rate of 62.7 percent. National nonfarm employment gains have been consistent for the past year and the unemployment rate has continued to

decline to the lowest rate in two decades. Employment in professional and business services exhibited the most gains, adding 53,000 jobs in August and 519,000 jobs over the past year. Mining employment increased by 6,000 in August and 56,000 over the past year.

Economic reports and indicators suggest that West Virginia's economy is expanding with employment numbers showing some improvement. According to the BEA, West Virginia's GDP grew at an annual rate of 2.7 percent, and outpaced national GDP growth in 2017. The U.S. Energy Information Administration (EIA) reported that coal production in West Virginia has increased by 4.2 percent so far in 2018 and overall increases of coal sales in the past two years have been the driving force in the 40.9 percent increase of State exports. Improving employment numbers reported by the BLS show that the monthly average of weekly jobless claims continues to trend downward with total employment growing modestly. West Virginia's fiscal outlook is optimistic given the strong fiscal 2019 first quarter. The general revenue fund was 12 percent over estimate in fiscal 2019 first quarter and nearly 18 percent over the prior fiscal year first quarter revenue.

Two of the larger components of West Virginia's GDP, natural resource extraction and Health Care and Social Assistance, have exhibited among the most substantial short-term growth. The natural resource extraction sector comprised nearly 16.0 percent of West Virginia's GDP and had the largest annual growth of 19.2 percent in 2017. The substantial gains in this sector are the result of the recent increases in coal production and the ongoing increases in natural gas production. Continued increases in natural gas production is expected in the short-term as natural gas pipelines and infrastructure are being developed. The Health Care and Social Assistance sector made up 9.7 percent of State GDP and grew at an annual rate of 2.7 percent in 2017. These increases are part of a long-term trend where a compounding annual growth rate of 1.8 percent over the past 10 years occurred and is largely due to the aging population of the State.

Other notable sectors that impacted West Virginia's GDP growth were construction, manufacturing, and retail trade. The construction sector grew at an annual rate of 4.4 percent in 2017. This growth is largely attributable to increased pipeline and highway construction projects around the State in recent months. Calendar year 2018 first quarter numbers showed continued expansion in construction activity in the near term. After the manufacturing and retail trade sectors fell by 2.3 percent and 0.6 percent respectively in 2017, GDP in the manufacturing and retail trade exhibited growth in the calendar year 2018 first quarter. Manufacturing GDP was up 1.1 percent and retail trade GDP rose 3.0 percent quarter over quarter in calendar year 2018 first quarter.

West Virginia's employment situation has shown modest improvements. According to the BLS, as of August 2018 West Virginia added 7,400 jobs over the course of a 12-month period, with nearly a third of those jobs being added to the construction sector. Additionally, it is important to note that most of the employment gains have been concentrated in counties experiencing Marcellus shale extraction, such as Doddridge and generally strong economic activity, such as Monongalia and Berkeley. Weekly unemployment insurance claims have trended downward and have approached an all-time low, while the statewide unemployment rate has increased slightly to 5.3 percent after dropping to 5.0 percent in March of 2017.

West Virginia's fiscal gains in the general revenue fund are driven by increased revenue in the fiscal 2019 first quarter from severance tax, personal income tax, and consumer sales and use tax. Severance tax revenue in FY19Q1 was nearly \$35 million above estimate and 71 percent over prior years collections. Personal income tax revenue in FY19Q1 was \$43.8 million above estimate and 16.0 percent above of prior year collections. Consumer sales and use tax revenue in FY19Q1 was \$21.2 million above estimate and 16.6 percent above prior year collections.

Recently, West Virginia's economy has experienced a period of expansion driven by increases in the extraction of the State's natural resources and by the various road construction and natural gas pipeline infrastructure projects underway around the State. Continued expansion of the West Virginia economy is expected in the short term and will be largely driven by the temporary impacts associated with construction activity. Coal production is expected to stabilize in the short term with some decline anticipated in out years. Continued growth in natural gas production and pricing is expected as pipeline

infrastructure work is completed in coming months. The modest short-term gains in the State's labor market are expected to continue as road bond monies are injected into the economy, leading to gains in Personal Income Tax collections, withholding taxes, and consumer sales taxes in coming years.

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

LOTTERY PRODUCTS



The West Virginia Lottery has introduced 18 different games since its inception but currently provides players the opportunity to participate at 1,470 retail locations in a variety of 11 games:



Scratch-offs games were the Lottery's first type of game introduced in January 1986. There are different ways to win in an instant or "scratch-off" game including matching three like dollar amounts, symbols or letters, or adding up numbers to a specified total for example. 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 2018, there were 44 new games introduced. Instant games provided approximately 7.2 percent of total 2018 fiscal sales.



Daily 3 is a draw 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 a draw 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 a draw game 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.



Keno is a draw game restricted to lottery retailers with specific types of West Virginia Alcohol Beverage Control Administration licenses. The game was introduced in December 1992. Each play costs \$1 where 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 236 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, 2018, the West Virginia Lottery Commission had an average of 5,841 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 46.2 percent of total 2018 fiscal 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 7,162 terminals were operating at licensed retail locations throughout the state as of June 30, 2018. Limited video lottery sales were 33.7 percent of total 2018 fiscal sales at 1,303 operating retailer locations.



Hot Lotto Sizzler was a draw game jointly operated by 14 states and the District of Columbia who are members of MUSL with drawings that were on Wednesday and Saturday. This game was introduced in April 2002 and ended in November 2017. When adding the Hot Lotto Sizzler®, you could triple prizes (except the jackpot). Jackpots started at a guaranteed \$1 million in cash and would increase by a minimum of \$50 thousand each time the jackpot was not won. Jackpot winners would collectively receive no less than the advertised jackpot amount. Hot Lotto® offered eight secondary prizes of fixed amounts ranging from \$2 to \$30 thousand.



Powerball is a draw game offering jackpots of \$40 Million or more paid either in a cash lump sum of the prize value or a 29 year annuity every Wednesday and Saturday. Prizes are also awarded in eight other win divisions ranging from \$4 to \$1 million. The game is jointly operated by 44 state lotteries, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and are members of either the Multi-State Lottery Association (MUSL) or the Mega Millions® Group. Powerball® was first introduced on April 22, 1992 with 15 participating lotteries. The Power Play® Multiplier feature was added in March 2001. Cross-selling with Mega Millions® Group members began January 31, 2010. On January 18, 2012, the price point for a single play increased to \$2 per and Power Play® no longer used a multiplier but was now set dollar values. The Power Play® option match 5+0 prize became \$2 million and all lower prizes were multiplied by 2, 3, 4, or 5 and a 10x option was added if the jackpot is \$150 million or less beginning October 4, 2015. Powerball® sales are approximately 33.4 percent of total 2018 sales.



Lotto America is a draw game jointly operated by 13 states who are members of MUSL. A game with the same name was launched in 1988 and the final drawing was held on April 18, 1992 when it became Powerball®. The name with a new game returned November 2017 with drawings on Wednesday and Saturday. Players choose five numbers from 1 to 52 for the red balls and one number from 1 to 10 for the Star Ball®. When adding the All Star Bonus® for \$1 per play, you can multiply your winnings (except for the grand prize) by 2 to 5 times. The grand prize starts at \$2 million and increases by a minimum of \$50 thousand per draw until it is won. Lotto America® offers eight secondary prizes of fixed amounts ranging from \$2 to \$20 thousand.



Mega Millions is a draw 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. 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. A feature called Megaplier® was added where non-jackpot winnings can be multiplied from a random number. Jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 29 years with a guaranteed minimum jackpot of \$40 million. Mega Millions® offers eight secondary prizes ranging from \$2 to \$1 million. On October 15, 2017, a special offer called Just the Jackpot became available allowing a player to pay \$3 for two plays towards the jackpot only. Drawings are held twice weekly on Tuesday and Friday.



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 3.2 percent of total 2018 fiscal 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.



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 2018 increased 1.1 percent to \$1.09 billion from \$1.08 billion in fiscal year 2017. Distributions to the State of West Virginia decreased 0.7 percent from \$477.1 million in fiscal year 2017 to \$474.0 million in fiscal year 2018.



ACCOUNTING SYSTEM AND POLICIES

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

BUDGETARY CONTROLS

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



INTERNAL CONTROL ENVIRONMENT

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



To enhance controls over accounting procedures, the Lottery has segregated the following functions: personnel, payroll, purchasing, accounts payable, accounts



receivable and general ledger accounting. Data input and processing are separate from system programming with management providing approval and oversight. In addition, an internal auditor reviews all areas of Lottery operations and reports to the Finance and Audit Committee of the Lottery Commission.

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

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

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

INDEPENDENT AUDIT

West Virginia statutes require an annual audit by an independent certified public accountant. The independent auditors' 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; Sara Harpold, Advertising Manager; Michael Thaxton, Product Development 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.

ACCOMPLISHMENTS & FUTURE PROJECTS



ACCOMPLISHMENTS

- Lottery sales exceeded the \$1 billion mark for the 16th consecutive year in FY 2018. Lottery sales totaled nearly \$1.1 billion for the year ending June 30, 2018, and resulted in a cash transfer of nearly \$474.0 million to the State of West Virginia.
- Fiscal Year 2018 Lottery sales totaled \$1.1 billion, up nearly \$11.7 million from FY17 - the first year over year sales increase since 2012. Traditional sales of \$177.0 million in FY18 were up nearly \$10.6 million over FY17 and instant sales were up 5.1 percent in FY18.
- Thanks to legislation increasing the maximum number of machines and allowing Sunday brunch sales, Limited Video Lottery (LVL) sales were up 5.9 percent in FY18. LVL sales of \$368.1 million were \$20.5 million higher than FY17.
- The Lottery's Request for Quotation (RFQ) for an instant game printing services contract was released. IGT Global Solutions Corporation was awarded the bid and production under this new contract began May 2017.
- The conversion process to replace the current video lottery central monitoring and control system took place throughout the year. Scientific Games Corporation was awarded the contract and the company's latest central monitoring and control system, Connexus™ replaced the Scientific Games AEGIS™ video system. The new system operates and controls both limited video lottery at 1,303 retailers and video lottery at the state's casinos.
- The West Virginia Lottery and IGT Global Solutions Corporation entered into a seven-year contract for a new traditional-lottery central system, new lottery retail and self-service customer terminals, a redundant, multi-technology communications network, a Lottery mobile convenience app, and ongoing services. The planning, implementation and conversion to IGT's Aurora™ platform, including Aurora Navigator back-office applications, IGT's Aurora Performance Intel solution, and IGT's Aurora Retailer Wizard took place throughout the fiscal year.
- 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 21st consecutive year.

FUTURE PROJECTS

- The development and launch of the West Virginia Lottery's official Mobile Convenience App, that will be available to both iPhone and Android users, is expected to occur next fiscal year. The new app will allow players the ability to check their tickets, find retailers near them, check winning numbers, and see Bonus Keno draws among other features.
- West Virginia's four racetrack casinos and the Greenbrier Historic Resort are expected to begin sports wagering operations in fiscal year 2019 following the passage of legislation in the West Virginia Legislature and the subsequent United States Supreme Court Decision allowing States to offer sports wagering. West Virginia will be among the very first states to offer sports wagering. In addition to retail sports wagering, West Virginia's law allows for the use of mobile apps to place sports bets within the State's geographical boundaries.
- The conversion to IGT's Aurora™ platform for traditional lottery, including the Aurora Navigator back-office applications, IGT's Aurora Performance Intel solution, a comprehensive business intelligence and analytics tool that provides detailed insights, and IGT's Aurora Retailer Wizard is expected to be completed next fiscal year.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

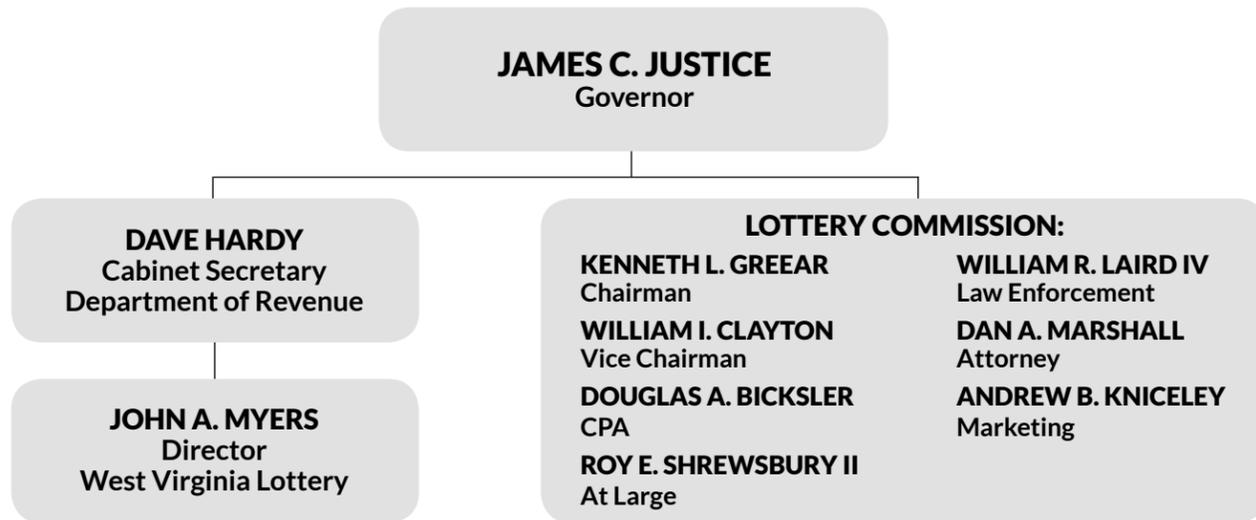
West Virginia Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

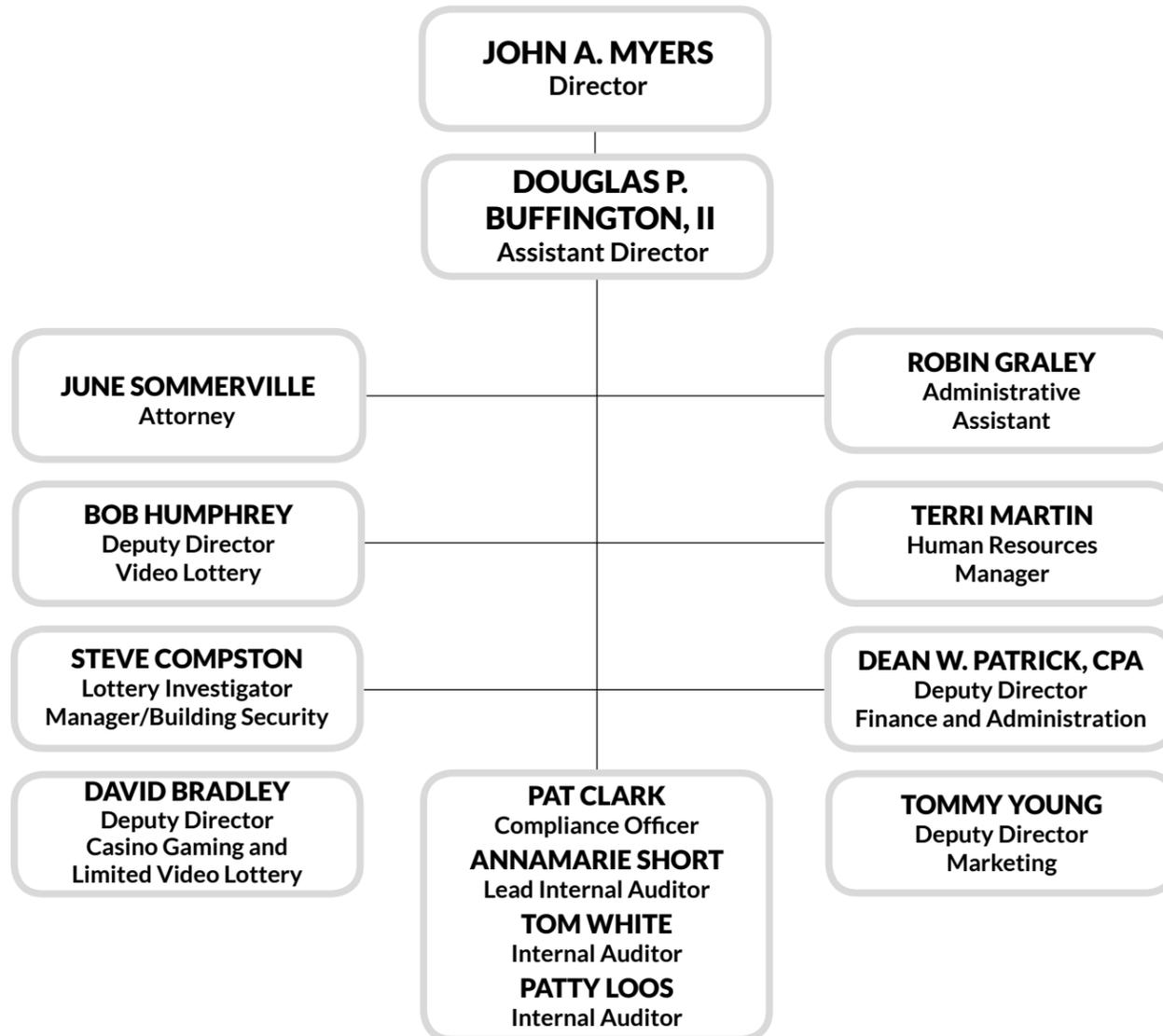
June 30, 2017

Christopher P. Morill

Executive Director/CEO



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, 2018 and 2017, 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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of June 30, 2017, were audited by Gibbons & Kawash, A.C., who merged with Brown, Edwards & Company, L.L.P. as of January 1, 2018, and whose report dated September 26, 2017, expressed an unmodified opinion on those statements.

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 26, and the schedule of the proportionate share of the net pension liability, the schedule of contributions to the PERS, the schedule of the proportionate share of the net OPEB liability, the schedule of contributions to the RHBT, and the notes to required supplementary information on pages 64 through 70 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 18, 2018

WEST VIRGINIA LOTTERY MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion of the West Virginia Lottery's (the Lottery) financial performance provides for an overview of the Lottery's financial activities for the fiscal years ended June 30, 2018 and 2017. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2018, and the prior year refers to fiscal year ending June 30, 2017. This analysis is to be considered in conjunction with the financial statements, which begin on page 27.

Financial Highlights

The Lottery's operating income increased in 2018 and decreased in 2017. The 2018 increase is due to improvement in economic conditions and the 2017 decrease was due to competition from neighboring states. The following summary is provided below:

- Lottery revenues for the current year increased \$11.7 million or 1.1% compared to the prior year, which decreased \$57.1 million or 5.0% from 2016.
- Commissions for the current year increased \$2.0 million or 0.4% compared to the prior year, which decreased \$17.9 million or 3.7% from 2016.
- Gross profit for the current year increased \$1.6 million or 0.3% compared to the prior year, which decreased \$25.2 million or 4.8% from 2016.
- Nonoperating expenses increased \$2.6 million or 0.5% compared to the prior year, which decreased \$27.6 million or 5.3% from 2016. The predominant nonoperating expense is the distributions to the State of West Virginia, which decreased \$3.1 million or 0.7% compared to the prior year, which decreased \$24.2 million or 4.8% from 2016.

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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – a replacement of GASB Statement No. 45 and an amendment of GASB Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* – an amendment of GASB Statement No. 68 during the year ending June 30, 2018. These statements require the Lottery to:

- (1) recognize a liability equal to its proportionate share of the net liability of the West Virginia Other Postemployment Benefits Plan (OPEB). As a result, the Lottery's beginning net position for 2018 was restated by \$1.3 million. Additionally, the Lottery has classified the ending balance of its net OPEB liability of \$3.5 million as a noncurrent liability in accordance with GASB Statement No. 75.

**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Statements of Net Position (Continued)

(2) record certain other postemployment benefit activity as deferred inflows of resources and deferred outflows of resources. As a result, the Lottery has recorded deferred outflows of resources of \$303 thousand and deferred inflows of resources of \$612 thousand. Please refer to Note 15 to the financial statements for more detailed information on these items.

As shown in Table 1, current assets for the current year decreased \$5.6 million or 3.0% compared to the prior year, which decreased \$9.3 million or 4.8% from 2016, due to the timing of distributions to the State of West Virginia at year-end.

Capital assets, net of accumulated depreciation and amortization, increased in the current year by \$4.3 million or 9.7% due to acquisition of assets compared to the prior year which decreased by \$1.1 million or 2.4% from 2016, due to depreciation. For additional information on capital assets, please refer to Note 5 to the financial statements.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Assets</u>			
Current assets	\$ 180,501	\$ 186,118	\$ 195,432
Capital assets, net of accumulated depreciation and amortization	<u>48,047</u>	<u>43,779</u>	<u>44,874</u>
Total assets	<u>\$ 228,548</u>	<u>\$ 229,897</u>	<u>\$ 240,306</u>
<u>Deferred Outflows of Resources</u>			
Deferred outflows of resources	<u>\$ 1,339</u>	<u>\$ 2,795</u>	<u>\$ 2,573</u>

As shown in Table 2, the Lottery's current liabilities for the current year decreased \$7 million or 4.0% compared to the prior year, which decreased \$11.0 million or 5.9% compared to 2016 due to the accumulation of prior year surplus transfers to the State of West Virginia combined with current year accrued transfers.

Net position - net investment in capital assets increased in the current year by \$4.3 million or 9.7% due acquisition of assets, compared to the prior year which decreased by \$1.1 million or 2.4% compared to 2016, due to depreciation. Refer to Note 5 to the financial statements for additional information on capital assets.

Net position – unrestricted decreased \$2.0 million or 22.6% for the year ended June 30, 2018 compared to fiscal year 2017.

**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Statements of Net Position (Continued)

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current liabilities	\$ 167,539	\$ 174,506	\$ 185,465
Noncurrent liabilities	<u>5,775</u>	<u>4,800</u>	<u>3,044</u>
Total liabilities	<u>\$ 173,314</u>	<u>\$ 179,306</u>	<u>\$ 188,509</u>
Deferred inflows of resources	<u>\$ 1,374</u>	<u>\$ 367</u>	<u>\$ 1,998</u>
Net position - net investment in capital assets	\$ 48,047	\$ 43,779	\$ 44,874
Net position - unrestricted	<u>7,152</u>	<u>9,240</u>	<u>7,498</u>
Total net position	<u>\$ 55,199</u>	<u>\$ 53,019</u>	<u>\$ 52,372</u>

Capital Assets

Capital assets as of June 30, 2018 amounted to \$61.6 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 10.4%.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Construction in progress	\$ 629	\$ 1,350	\$ 1,164
Land	1,681	1,434	1,434
Building	48,243	46,207	46,207
Equipment	<u>10,999</u>	<u>6,741</u>	<u>7,155</u>
Total assets	<u>\$ 61,552</u>	<u>\$ 55,732</u>	<u>\$ 55,960</u>

Capital asset activities included \$2.2 million in the building of a new backup data center and \$4.2 million in a new central system for video lottery during the year ending June 30, 2018. Additional information on capital assets can be found in Note 5 of the financial statements.

**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(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)

	2018	2017	2016
Revenues:			
On-line games	\$ 77,840	\$ 72,110	\$ 85,660
Instant games	99,195	94,369	102,542
Racetrack video lottery	504,295	521,318	537,729
Limited video lottery	368,067	347,555	360,814
Table games	35,152	38,958	43,545
Historic resort	<u>6,624</u>	<u>5,207</u>	<u>6,346</u>
	<u>1,091,173</u>	<u>1,079,517</u>	<u>1,136,636</u>
Less commissions:			
On-line games	5,436	5,043	6,001
Instant games	6,938	6,606	7,178
Racetrack video lottery	260,243	268,177	275,496
Limited video lottery	180,353	170,302	176,799
Table games	14,905	16,512	18,453
Historic resort	<u>3,511</u>	<u>2,733</u>	<u>3,302</u>
	<u>471,386</u>	<u>469,373</u>	<u>487,229</u>
Less on-line prize costs	39,639	36,227	43,132
Less instant ticket prize costs	65,557	61,959	67,695
Less ticket costs	1,373	1,408	1,618
Less vendor fees and costs	<u>7,958</u>	<u>6,915</u>	<u>8,116</u>
	<u>114,527</u>	<u>106,509</u>	<u>120,561</u>
Gross profit	<u>505,260</u>	<u>503,635</u>	<u>528,846</u>
Administrative expenses:			
Advertising and promotions	4,771	4,157	4,975
Wages and related benefits	10,082	10,305	9,885
Telecommunications	869	1,037	965
Contractual and professional	4,662	4,520	4,560
Rental	168	394	425
Depreciation and amortization	1,552	1,281	1,086
Other administrative expenses	<u>1,938</u>	<u>1,572</u>	<u>1,230</u>
	<u>24,042</u>	<u>23,266</u>	<u>23,126</u>
Other operating income	<u>12,734</u>	<u>10,677</u>	<u>10,528</u>
Operating income	<u>493,952</u>	<u>491,046</u>	<u>516,248</u>
Nonoperating income (expense):			
Investment income	1,573	934	788
Distributions to municipalities and counties	(7,214)	(6,812)	(7,072)
Distributions for capital reinvestment	(13,455)	(7,468)	(10,446)
Distributions to the State of West Virginia	<u>(473,948)</u>	<u>(477,053)</u>	<u>(501,302)</u>
Change in net position	<u>908</u>	<u>647</u>	<u>(1,784)</u>
Net position, beginning of year	53,019	52,372	54,156
Cumulative effect of adoption of accounting principle	<u>1,272</u>	<u>-</u>	<u>-</u>
Net position, beginning of year, as restated	<u>54,291</u>	<u>52,372</u>	<u>54,156</u>
Net position, end of year	<u>\$ 55,199</u>	<u>\$ 53,019</u>	<u>\$ 52,372</u>

**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

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 2018, 2017, and 2016. 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*		
	2018	2017	2016	2018	2017	2016
Gross sales	\$ 99,195	\$ 94,369	\$ 102,542	\$ 77,840	\$ 72,110	\$ 85,660
Less direct costs:						
Prizes and bonuses	65,557	61,959	67,695	39,639	36,227	43,132
Commissions	6,938	6,606	7,178	5,436	5,043	6,001
Ticket printing costs	1,373	1,408	1,618	-	-	-
Vendor fees and costs	3,359	3,913	4,389	4,599	3,002	3,727
Total direct costs	<u>77,227</u>	<u>73,886</u>	<u>80,880</u>	<u>49,674</u>	<u>44,272</u>	<u>52,860</u>
Gross Profit	<u>\$ 21,968</u>	<u>\$ 20,483</u>	<u>\$ 21,662</u>	<u>\$ 28,166</u>	<u>\$ 27,838</u>	<u>\$ 32,800</u>
Gross profit percentage	22.1%	21.7%	21.1%	36.2%	38.6%	38.3%
* 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		
	2018	2017	2016	2018	2017	2016
Gross sales	\$ 504,295	\$ 521,318	\$ 537,729	\$ 368,067	\$ 347,555	\$ 360,814
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	260,243	268,177	275,496	180,353	170,302	176,799
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	<u>260,243</u>	<u>268,177</u>	<u>275,496</u>	<u>180,353</u>	<u>170,302</u>	<u>176,799</u>
Gross Profit	<u>\$ 244,052</u>	<u>\$ 253,141</u>	<u>\$ 262,233</u>	<u>\$ 187,714</u>	<u>\$ 177,253</u>	<u>\$ 184,015</u>
Gross profit percentage	48.4%	48.6%	48.8%	51.0%	51.0%	51.0%

**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

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

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

	Table Games			Historic Resort			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Gross sales	\$ 35,152	\$ 38,958	\$ 43,545	\$ 6,624	\$ 5,207	\$ 6,346	\$ 1,091,173	\$ 1,079,517	\$ 1,136,636
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-	105,196	98,186	110,827
Commissions	14,905	16,512	18,453	3,511	2,733	3,302	471,386	469,373	487,229
Ticket printing costs	-	-	-	-	-	-	1,373	1,408	1,618
Vendor fees and costs	-	-	-	-	-	-	7,958	6,915	8,116
Total direct costs	14,905	16,512	18,453	3,511	2,733	3,302	585,913	575,882	607,790
Gross Profit	\$ 20,247	\$ 22,446	\$ 25,092	\$ 3,113	\$ 2,474	\$ 3,044	\$ 505,260	\$ 503,635	\$ 528,846
Gross profit percentage	57.6%	57.6%	57.6%	47.0%	47.5%	48.0%	46.3%	46.7%	46.5%

Instant Sales

Instant ticket sales for the current year increased by \$4.8 million or 5.1% compared to the prior year, which decreased \$8.2 million or 8.0% from 2016. Forty-four games were introduced in 2018 and approximately twenty-six game options were available for play. 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 price points, prize structures, play styles, and colors to create the best variety of games available. There were four ten-dollar, and two twenty-dollar tickets introduced in 2018. There were also eight five-dollar tickets and seven three-dollar tickets introduced. The Lottery continues 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. The Lottery began the consistent use of two twenty-dollar and two ten-dollar tickets in the field at all times in the spring of 2018.

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 2018, 2017, and 2016. 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.

**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

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 \$2.0 million or 5.7% compared to the prior year, which decreased \$12.0 million or 25.9% from 2016. 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.

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 increased \$3.8 million or 34.3% compared to the prior year, which decreased \$1.0 million or 8.1% from 2016.

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 two Multi-State games Hot Lotto™ and Lotto America™. Sales for the current year decreased \$33.3 thousand or 0.1% compared to the prior year, which decreased \$531.0 thousand or 2.0% from 2016.

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

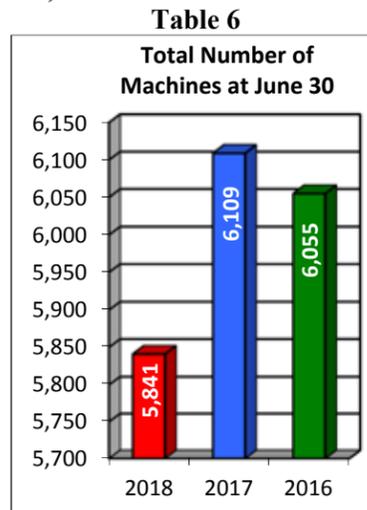
Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year decreased \$17.0 million or 3.3% compared to the prior year, which decreased \$16.4 million or 3.1% from 2016.

A portion of racetrack video lottery sales, as prescribed by statute, are paid to racetracks and other private entities associated with the racing industry and are reported as commissions. See Note 7 to the financial statements for further discussion of racetrack video lottery distributions. Commissions in the current year decreased \$7.9 million or 3.0% compared to the prior year which decreased \$7.3 million or 2.7% compared to 2016 due to competition from neighboring states.

During the year ended June 30, 2018, 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.

**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

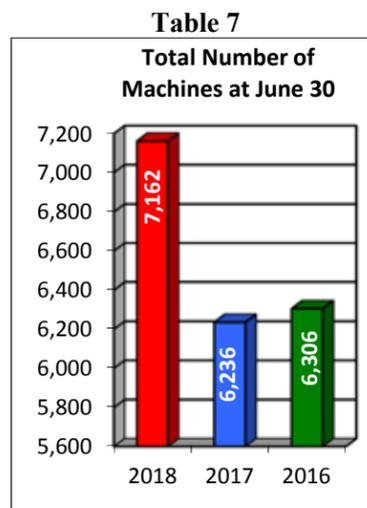
Racetrack Video Lottery (Continued)



Limited Video Lottery

Sales for the current year increased \$20.5 million or 5.9% compared to the prior year, which decreased \$13.3 million or 3.7% from 2016. 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 increased \$10.0 million or 5.9% compared to the prior year decrease of \$6.5 million or 3.7% from 2016.

Table 7 illustrates the number of machines which increased by 926 machines for the current year compared to the prior year decrease of 70 machines from 2016.



**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Table Games

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues for the current year decreased \$3.8 million or 9.8% compared to the prior year, which decreased \$4.6 million or 10.5% from 2016.

A portion of table games revenues are paid to entities associated with the racetracks and are reported as commissions. See Note 9 to the financial statements. Commissions for the current year decreased \$1.6 million or 9.7% compared to the prior year, which decreased \$1.9 million or 10.5% from 2016.

Historic Resort

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

Combined revenues of video lottery and table games at the Historic Resort for the current year increased \$1.4 million or 27.2% compared to the prior year, which decreased \$1.1 million or 17.9% from 2016.

A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions for the current year increased \$778 thousand or 28.5% compared to the prior year, which decreased \$570 thousand or 17.3% from 2016.

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. Legislation was passed March 31, 2017 allowing a licensed retailer to increase the number of machines from 5 to 7 at their location. A bid was held on August 2, 2017 to allow permit holders to bid on additional permits to increase the number of machines at their location.

Nonoperating Income / Expense

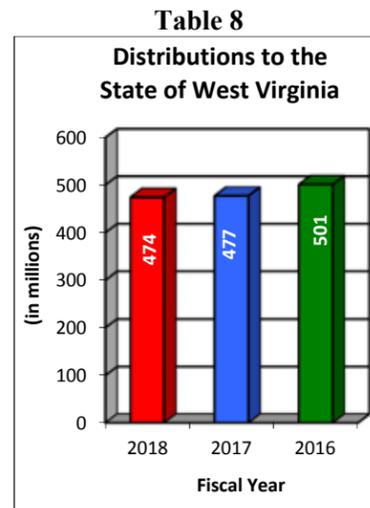
Refer to Table 4. Nonoperating expenses reflect a 2% distribution to counties and incorporated municipalities of net terminal income from limited video lottery operations. This distribution will fluctuate with any changes in limited video lottery revenues.

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 \$3.1 million compared to the prior year, which decreased by \$24.0 million from 2016.

**WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Nonoperating Income / Expense (Continued)



Sports Betting

On March 3, 2018, the West Virginia Legislature passed Senate Bill 415 which allowed for the four racetracks and historic resort in West Virginia to permit wagering on certain professional or collegiate sports or athletic events and other events authorized as Lottery sports wagering activities.

Sports Betting is expected to increase Lottery revenues due to the 10% tax rate that is imposed on this type of gaming regulated by the Lottery. The actual impact, however, cannot be determined at this time.

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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 4)	\$ 146,661	\$ 156,550
Accounts receivable	32,136	27,533
Inventory	529	553
Other assets	1,175	1,482
Total current assets	<u>180,501</u>	<u>186,118</u>
Noncurrent assets:		
Capital assets (Note 5)	61,552	55,732
Less accumulated depreciation and amortization (Note 5)	<u>(13,505)</u>	<u>(11,953)</u>
Total noncurrent assets	<u>48,047</u>	<u>43,779</u>
Total assets	<u>228,548</u>	<u>229,897</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension and OPEB (Note 12 and 13)	<u>1,339</u>	<u>2,795</u>
LIABILITIES		
CURRENT LIABILITIES		
Accrued nonoperating distributions to the State of West Virginia (Note 11)	120,860	132,693
Estimated prize claims	15,783	15,621
Accounts payable	1,581	1,404
Other accrued liabilities	29,315	24,788
Total current liabilities	<u>167,539</u>	<u>174,506</u>
NONCURRENT LIABILITIES		
Net OPEB liability (Note 13)	3,501	-
Net pension liability (Note 12)	2,274	4,800
Total noncurrent liabilities	<u>5,775</u>	<u>4,800</u>
Total liabilities	<u>173,314</u>	<u>179,306</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension and OPEB (Note 12 and 13)	<u>1,374</u>	<u>367</u>
NET POSITION		
Net investment in capital assets	48,047	43,779
Unrestricted	<u>7,152</u>	<u>9,240</u>
Total net position	<u>\$ 55,199</u>	<u>\$ 53,019</u>

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

WEST VIRGINIA LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

(In Thousands)

Years Ended June 30, 2018 and 2017

	2018	2017
LOTTERY REVENUES		
On-line games	\$ 77,840	\$ 72,110
Instant games	99,195	94,369
Racetrack video lottery (Note 7)	504,295	521,318
Limited video lottery (Note 8)	368,067	347,555
Table games (Note 9)	35,152	38,958
Historic resort (Note 10)	6,624	5,207
	<u>1,091,173</u>	<u>1,079,517</u>
LESS COMMISSIONS		
On-line games	5,436	5,043
Instant games	6,938	6,606
Racetrack video lottery (Note 7)	260,243	268,177
Limited video lottery (Note 8)	180,353	170,302
Table games (Note 9)	14,905	16,512
Historic resort (Note 10)	3,511	2,733
	<u>471,386</u>	<u>469,373</u>
Less on-line prize costs	39,639	36,227
Less instant prize costs	65,557	61,959
Less ticket costs	1,373	1,408
Less vendor fees and costs	7,958	6,915
	<u>114,527</u>	<u>106,509</u>
Gross profit	<u>505,260</u>	<u>503,635</u>
ADMINISTRATIVE EXPENSES		
Advertising and promotions	4,771	4,157
Wages and related benefits	10,082	10,305
Telecommunications	869	1,037
Contractual and professional	4,662	4,520
Rental	168	394
Depreciation and amortization	1,552	1,281
Other administrative expenses	1,938	1,572
	<u>24,042</u>	<u>23,266</u>
Other operating income	<u>12,734</u>	<u>10,677</u>
Operating income	<u>493,952</u>	<u>491,046</u>
NONOPERATING INCOME (EXPENSE)		
Investment income	1,573	934
Distributions to municipalities and counties	(7,214)	(6,812)
Distributions for capital reinvestment	(13,455)	(7,468)
Distributions to the State of West Virginia (Note 11)	(473,948)	(477,053)
	<u>(493,044)</u>	<u>(490,399)</u>
Change in net position	<u>908</u>	<u>647</u>
NET POSITION, beginning	53,019	52,372
Cumulative effect of adoption of accounting principle (Note 3)	1,272	-
NET POSITION, beginning of year, as restated	<u>54,291</u>	<u>52,372</u>
NET POSITION, ending	<u>\$ 55,199</u>	<u>\$ 53,019</u>

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

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS

(In Thousands)

Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,099,083	\$ 1,089,304
Cash payments for:		
Personnel costs	(6,800)	(10,181)
Suppliers	(11,516)	(12,097)
Other operating costs	(584,598)	(580,168)
Cash provided by operating activities	<u>496,169</u>	<u>486,858</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(485,781)	(479,625)
Distributions to municipalities and counties	(7,149)	(6,808)
Distributions to racetracks from racetrack capital reinvestment fund	(9,110)	(11,309)
Cash used in noncapital financing activities	<u>(502,040)</u>	<u>(497,742)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(5,820)	(186)
Cash flows from investing activities:		
Investment earnings	1,802	999
Net decrease in cash and cash equivalents	(9,889)	(10,071)
CASH AND CASH EQUIVALENTS, beginning	<u>156,550</u>	<u>166,621</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 146,661</u>	<u>\$ 156,550</u>

(Continued)

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
(In Thousands)
(Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 493,952	\$ 491,046
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,552	1,281
Pension expense	436	766
OPEB expense	399	-
OPEB support	(221)	-
Changes in operating accounts:		
(Increase) decrease in:		
Accounts receivable	(4,603)	(890)
Inventory	24	(173)
Other assets	78	241
Deferred outflows of resources	(1,111)	(863)
Increase (decrease) in:		
Estimated prize claims	162	(360)
Accounts payable	177	(557)
Other accrued liabilities	5,324	(3,633)
	\$ 496,169	\$ 486,858
Cash provided by operating activities		

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 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.

Note 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
June 30, 2018

Note 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; LOTTO AMERICA, 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
June 30, 2018

Note 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
June 30, 2018

Note 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

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, 2018 and June 30, 2017 are as follows (in thousands):

	<u>Year Ending June 30</u>	
	<u>2018</u>	<u>2017</u>
Beginning estimated liabilities	\$ 574	\$ 570
Leave expenses incurred	631	574
Leave expenses paid	<u>574</u>	<u>570</u>
Ending estimated liabilities	\$ <u>631</u>	\$ <u>574</u>
Liabilities estimated to be paid in one year	\$ <u>631</u>	\$ <u>574</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the West Virginia Retiree Health Benefit Trust OPEB Plan (RHBT) and additions to/deductions from RHBT's fiduciary net position have been determined on the same basis as they are reported by RHBT. For this purpose, RHBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for certain pooled investments, money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at amortized cost.

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 and OPEB (See Notes 12 and 13). 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 and OPEB (See Notes 12 and 13).

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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 3. Cumulative Effect of Adoption of Accounting Principle

Effective July 1, 2017, the Lottery adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The Lottery determined that it was not practical to restate all periods presented and has recorded the cumulative effect of the increase to beginning net position of implementing this change of \$1,271,912 as of July 1, 2017, which is the net OPEB liability of \$4,227,533 less deferred outflows of resources related to OPEB contributions of \$292,456 as of that date and the June 30, 2017, liability of \$5,206,989 for postemployment benefits reported in accordance with GASB Statement No. 45, which is superseded by GASB Statement No. 75. The Lottery further determined that it was not practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to OPEB as of July 1, 2017 and these amounts are not reported.

Note 4. Cash and Cash Equivalents

At June 30, 2018 and 2017, the carrying amounts of deposits with financial institutions were \$489 thousand and \$468 thousand, respectively, with bank balances of \$522 and \$553 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, 2018 and 2017, 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):

	<u>2018</u>	<u>2017</u>
Deposits with financial institutions	\$ 489	\$ 468
Cash on hand at the Treasurer's Office	5,022	17,239
Investments with BTI reported as cash equivalents	<u>141,150</u>	<u>138,843</u>
	<u>\$ 146,661</u>	<u>\$ 156,550</u>

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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 4. Cash and Cash Equivalents (Continued)

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 long-term corporate debt be rated A+ or higher by Standard & Poor's (or its equivalent) and short-term corporate debt be rated at A-1 or higher by Standard & Poor's (or its equivalent). The pool must have at least 15% of its assets in U.S. 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		
U.S. Treasury notes *	Aaa	AA+	\$ 90,330	2.77%
U.S. Treasury bills *	P-1	A-1+	252,084	7.72
Corporate bonds and notes	P-1	A-1	18,078	0.55
Commercial Paper	P-1	A-1+	473,172	14.50
	P-1	A-1	1,351,128	41.39
	P-2	A-1	44,600	1.37
Negotiable certificates of deposit	P-1	A-1+	205,501	6.30
	P-1	A-1	458,300	14.04
Money market funds	Aaa	AAAm	143,067	4.38
Repurchase agreements (underlying securities):				
U.S. agency bonds and notes	Aaa	AA+	227,800	6.98
			<u>\$3,264,060</u>	<u>100.00%</u>

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

The BTI limits the exposure to credit risk in the West Virginia Short Term Bond Pool by requiring all long-term corporate debt be rated BBB- or higher by Standard & Poor's (or its equivalent) and all short-term corporate debt be rated A-1 or higher by Standard & Poor's (or its equivalent). Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's (or its equivalent). The pool must have at least 15% of its assets in U.S. 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):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 4. Cash and Cash Equivalents (Continued)

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
U.S. Treasury notes *	Aaa	AA+	\$ 86,189	12.10%
U.S. agency collateralized mortgage obligations *	Aaa	AA+	32,546	4.57
Corporate fixed- and floating-rate bonds and notes	Aaa	AAA	2,878	0.40
	Aa1	AA+	5,012	0.70
	Aa2	AA+	3,990	0.56
	Aa2	AA-	7,094	1.00
	Aa2	A+	9,940	1.39
	Aa3	AA-	13,999	1.96
	Aa3	A+	5,084	0.71
	A1	AA-	11,813	1.66
	A1	A+	10,595	1.49
	A1	A	6,306	0.88
	A1	A-	3,273	0.46
	A2	A+	5,968	0.84
	A2	A	27,673	3.89
	A2	A-	11,531	1.62
	A3	A	8,974	1.26
	A3	A-	29,872	4.19
	A3	BBB+	27,112	3.80
	Baa1	A	2,828	0.40
	Baa1	A-	8,922	1.25
	Baa1	BBB+	28,242	3.96
	Baa1	BBB	13,078	1.84
	Baa2	A-	1,016	0.14
	Baa2	BBB+	8,353	1.17
	Baa2	BBB	30,250	4.25
	Baa2	BBB-	2,946	0.41
	Baa3	BBB+	3,003	0.42
	Baa3	BBB	8,548	1.20
	Baa3	BBB-	12,378	1.74
	Baa3	NR	2,135	0.30
	Ba1	A-	350	0.05
	Ba1	BBB	2,007	0.28
	Ba1	BBB-	6,219	0.87
	NR	BBB+	2,572	0.36
NR	BBB-	1,953	0.28	
Collateralized mortgage obligations	Aaa	AAA	14,773	2.07
	Aaa	NR	3,308	0.46
Commercial mortgage-backed securities	Aaa	NR	3,014	0.42

(Continued on next page)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 4. Cash and Cash Equivalents (Continued)

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Asset-backed securities	Aaa	AAA	87,146	12.23
	Aaa	NR	88,599	12.44
	NR	AAA	66,039	9.27
Money market funds	Aaa	AAAm	5,054	0.71
			<u>\$ 712,582</u>	<u>100.00%</u>

* U.S. Treasury issues and U.S. agency collateralized mortgage obligations are explicitly guaranteed by the United States government and are not considered to have credit risk.

NR = Not Rated

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 information on the weighted average maturities for the various asset types in the West Virginia Money Market Pool (in thousands):

Security Type	Carrying Value	WAM (Days)
U.S. Treasury notes	\$ 90,330	73
U.S. Treasury bills	252,084	69
Corporate bonds and notes	18,078	21
Commercial paper	1,868,900	36
Negotiable certificates of deposit	663,801	29
Repurchase agreements	227,800	3
Money market funds	143,067	3
	<u>\$ 3,264,060</u>	34

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):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 4. Cash and Cash Equivalents (Continued)

Interest rate risk (Continued)

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury notes and bonds	\$ 86,189	472
U.S. agency collateralized mortgage obligations	32,546	56
Corporate fixed-rate bonds and notes	178,097	696
Corporate floating-rate bonds and notes	147,817	44
Collateralized mortgage obligations	18,081	106
Commercial mortgage-backed securities	3,014	52
Asset-backed securities	241,784	374
Money market funds	5,054	-
	\$ 712,582	372

Other risks of investing

Other risks of investing can include concentration of credit risk, custodial credit risk, and foreign currency risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single corporate issuer. The BTI investment policy prohibit the West Virginia Money Market Pool and West Virginia Short Term Bond Pool from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Lottery will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The West Virginia Money Market Pool nor the West Virginia Short Term Bond Pool held securities that were subject to foreign currency risk.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 5. Capital Assets

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

	Historical cost at June 30, 2016			Historical cost at June 30, 2017			Historical cost at June 30, 2018
	Additions	Deletions	2016	Additions	Deletions	2017	2018
Capital assets, not depreciated							
Construction in progress	\$ 186	\$ -	\$ 1,164	\$ 20	\$ (741)	\$ 1,350	\$ 629
Land	-	-	1,434	247	-	1,434	1,681
Capital assets, being depreciated							
Building	-	-	46,207	2,036	-	46,207	48,243
Improvements	-	(260)	260	-	-	-	-
Equipment	-	(154)	6,895	4,258	-	6,741	10,999
	\$ 186	\$ (414)	\$ 55,960	\$ 6,561	\$ (741)	\$ 55,732	\$ 61,552
			Accumulated depreciation at June 30, 2016			Accumulated depreciation at June 30, 2017	Accumulated depreciation at June 30, 2018
Building	\$ 1,183	\$ -	\$ 4,064	\$ 1,219	\$ -	\$ 5,247	\$ 6,466
Improvements	-	(260)	260	-	-	-	-
Equipment	98	(154)	6,762	333	-	6,706	7,039
	\$ 1,281	\$ (414)	\$ 11,086	\$ 1,552	\$ -	\$ 11,953	\$ 13,505

Note 6. Participation in the Multi-State Lottery

The Lottery is a member of the Multi-State Lottery (MUSL), which operates the semi-weekly POWERBALL® jackpot lotto game, the HOT LOTTO™ game, the LOTTO AMERICA 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™, LOTTO AMERICA, and MEGA MILLIONS® games are performed by advisory committees or panels staffed by officers and independent contractors appointed by the board. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties and qualifications. The Executive Committee carries out the budgeting and financing of MUSL, while the board contracts the annual independent audit. A copy of the audit may be obtained by writing to the Multi-State Lottery Association, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. 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™, LOTTO AMERICA and MEGA MILLIONS® is 50% of each drawing period's sales, with minimum jackpot levels. During fiscal year 2018, MUSL discontinued the ®, HOT LOTTO™ game and replaced it with the LOTTO AMERICA game. The final draw for HOT LOTTO™ was conducted on October 28, 2017 and the first draw for LOTTO AMERICA was conducted on November 15, 2017.

Revenues derived from the Lottery's participation in the MUSL POWERBALL® jackpot game were \$36,483,389 and \$34,514,013 for the years ended June 30, 2018 and 2017, respectively, and related prize costs were \$18,243,174 and \$17,258,816, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$2,219,730 and \$4,848,437 for the years ended June 30, 2018 and 2017, respectively, and related prize costs were \$974,129 and \$2,424,609, respectively.

Revenues derived from the Lottery's participation in the LOTTO AMERICA game were \$3,126,972 for the year ended June 30, 2018, and related prize costs were \$1,563,566.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$14,850,547 and \$11,057,403 for the years ended June 30, 2018 and 2017, respectively, and related prize costs were \$7,640,522 and \$5,591,600, 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):

	<u>Required Contribution (% of Sales)</u>	<u>Reserve Fund Cap</u>
POWERBALL®	2%	\$125,000
HOT LOTTO™	3%	\$9,000
LOTTO AMERICA	3%	\$9,000
MEGA MILLIONS®	1%	\$45,000

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Participation in the Multi-State Lottery (Continued)

	<u>2018</u>		<u>2017</u>	
	<u>Total</u>		<u>Total</u>	
	<u>Prize Reserve</u>	<u>Lottery Share</u>	<u>Prize Reserve</u>	<u>Lottery Share</u>
POWERBALL®	\$ 117,157	\$ 1,523	\$ 117,892	\$ 1,626
HOT LOTTO™	-	-	6,070	440
LOTTO AMERICA	1,010	71	-	-
MEGA MILLIONS®	58,074	729	38,041	542
	<u>\$ 176,241</u>	<u>\$ 2,323</u>	<u>\$ 162,003</u>	<u>\$ 2,608</u>

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

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above the expenses are credited to an unreserved fund. The Lottery records this interest when earned. This fund had a balance of \$15,072,214 and \$15,316,619 at June 30, 2018 and 2017, of which the Lottery's share was \$1,350,652 and \$1,403,281, respectively.

Note 7. 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 percent (57%) 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 forty-three percent (43%) of 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 11 titled "Nonoperating Distributions to the State of West Virginia."

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

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Racetrack Video Lottery (Continued)

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 11.

Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. The Lottery, along with the 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, 2018 and June 30, 2017 respectively.

A summary of racetrack video lottery revenues for the years ended June 30, 2018 and 2017, follows (in thousands):

	<u>2018</u>	<u>2017</u>
Total credits (bets) played	\$ 5,623,559	\$ 5,799,475
Credits (prizes) won	(5,043,140)	(5,203,814)
Promotional credits played	(76,098)	(74,278)
MWAP Contributions	<u>(26)</u>	<u>(65)</u>
Gross terminal income	504,295	521,318
Administrative costs	<u>(14,590)</u>	<u>(14,765)</u>
Net terminal income	489,705	506,553
Commissions	<u>(260,243)</u>	<u>(268,177)</u>
Racetrack video lottery revenues available for distribution	<u>\$ 229,462</u>	<u>\$ 238,376</u>

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

	<u>2018</u>	<u>2017</u>
State Lottery Fund	\$ 106,250	\$ 107,819
State Excess Lottery Revenue Fund	118,300	125,225
Capital Reinvestment Fund	<u>4,912</u>	<u>5,332</u>
Total nonoperating distributions	<u>\$ 229,462</u>	<u>\$ 238,376</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Racetrack Video Lottery (Continued)

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 the years ended June 30, 2015 through June 30, 2020, the Lottery is to transfer up to \$9 million from racetrack administrative surplus funds to the Modernization Fund, 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, 2018 and 2017, the Lottery transferred \$9 million and \$4.5 million to the Racetrack Modernization Fund respectively.

Note 8. Limited Video Lottery

The limited video lottery legislation established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from limited gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act and is recorded as limited video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the years ended June 30, 2018 and 2017 follows (in thousands):

	<u>2018</u>	<u>2017</u>
Total credits played	\$ 4,580,347	\$ 4,259,475
Credits (prizes) won	<u>(4,212,280)</u>	<u>(3,911,920)</u>
Gross terminal income	368,067	347,555
Administrative costs	<u>(7,361)</u>	<u>(6,951)</u>
Gross profit	360,706	340,604
Commissions	(180,353)	(170,302)
Distributions to municipalities and counties	<u>(7,214)</u>	<u>(6,812)</u>
Limited video lottery revenues available for distribution	<u>\$ 173,139</u>	<u>\$ 163,490</u>

Note 9. Table Games

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Table Games (Continued)

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.
- 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, 2018 and 2017 were \$100,435,546 and \$111,308,255, respectively. A summary of table games revenues for the years ended June 30, 2018 and 2017 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Table Games (Continued)

	2018	2017
Table games privilege tax	\$ 35,152	\$ 38,958
Interest on table games fund	45	21
Administrative costs	(3,013)	(3,339)
Total available for distribution	32,184	35,640
<u>Less distributions:</u>		
Racetrack purse funds	2,260	2,504
Thoroughbred & greyhound development funds	1,808	2,004
Racing commission pension plan	886	980
Municipalities/counties	9,951	11,024
Total distributions	14,905	16,512
Table games distribution to the state		
Excess Lottery Fund	\$ 17,279	\$ 19,128

Note 10. Historic Resort Hotel

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

Historic Resort Video Lottery

Historic Resort Hotel legislation, as amended, dictates the distribution of video lottery revenues. Thirty three and a half percent (33.5%) of gross terminal income is allocated to Historic Resort Hotel Fund, two and a half percent (2.5%) is allocated to the State Excess Lottery Revenue Fund, 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, 2018 and 2017 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Historic Resort Hotel (Continued)

	<u>2018</u>	<u>2017</u>
Total credits played	\$ 78,759	\$ 68,721
Credits (prizes) won	(73,188)	(63,853)
Promotional credits played	<u>(726)</u>	<u>(1,129)</u>
Gross terminal income	4,845	3,739
Capital reinvestment	(228)	(176)
Excess Lottery/Modernization	(43)	(33)
Hotel commissions	<u>(2,049)</u>	<u>(1,581)</u>
Net terminal income	<u>\$ 2,525</u>	<u>\$ 1,949</u>
Historic Resort Hotel Fund	\$ 1,701	\$ 1,314
Human Resource Benefit Fund	<u>824</u>	<u>635</u>
Total	<u>\$ 2,525</u>	<u>\$ 1,949</u>

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, 2018 and 2017 were \$5,081,754 and \$4,193,851, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Table games privilege tax	<u>\$ 1,779</u>	<u>\$ 1,468</u>
Historic Resort Hotel Fund	\$ 1,525	\$ 1,258
Human Resource Benefit Fund	<u>254</u>	<u>210</u>
Total distributions	<u>\$ 1,779</u>	<u>\$ 1,468</u>

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
June 30, 2018

Note 10. 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Historic Resort Hotel video lottery	\$ 1,701	\$ 1,314
Historic Resort table games	1,525	1,258
Interest on Historic Resort Hotel Fund	<u>7</u>	<u>2</u>
Historic Resort Hotel Fund deposits	<u>3,233</u>	<u>2,574</u>
Administrative costs	<u>(491)</u>	<u>(390)</u>
Historic Resort Hotel Fund net income	<u>\$ 2,742</u>	<u>\$ 2,184</u>
Municipalities/Counties	\$ 384	\$ 307
Excess Lottery Revenue Fund	<u>2,358</u>	<u>1,877</u>
Total distributions	<u>\$ 2,742</u>	<u>\$ 2,184</u>

Note 11. Nonoperating Distributions to the State of West Virginia

The Lottery periodically distributes surplus funds, exclusive of amounts derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the current governing legislation. For the years ended June 30, 2018 and 2017, the State Legislature budgeted \$150,710,008 and \$157,257,444 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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Nonoperating Distributions to the State of West Virginia (Continued)

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, 2018 and 2017, the Lottery made or accrued all budgeted distributions and accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$120,860,201 and \$132,692,744, respectively. The Lottery does not have a legally adopted annual budget.

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

	<u>2018</u>	<u>2017</u>
<u>State Lottery Fund:</u>		
Bureau of Senior Services	\$ 67,329	\$ 59,139
Department of Education	18,006	18,006
Library Commission	11,423	11,429
Higher Education - Central Office	6,974	7,157
Tourism	6,456	6,216
Natural Resources	3,081	3,096
Division of Culture & History	3,500	4,332
Department of Education & Arts	948	1,186
General Reserve Fund	-	13,700
Economic Development Authority	9,995	9,998
School Building Authority	18,000	18,000
Community and Technical College	4,998	4,998
Total State Lottery Fund	<u>150,710</u>	<u>157,257</u>
<u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	65,000	65,000
Education Improvement Fund	29,000	29,000
WV Infrastructure Council Fund	46,000	26,000
Higher Education Improvement Fund	15,000	15,000
State Park Improvement Fund	5,000	5,000
School Building Authority	18,995	18,992
Economic Development Fund	18,990	18,986
Refundable Credit - General Revenue Fund	10,000	10,000
Racing Commission	2,000	2,000
WV Department of Health and Human Resources	61,306	61,378
General Revenue Fund	-	12,800
<u>Distributions to Statutory Funds and Purposes</u>		
Parking Garage Fund	754	754
Capitol Dome and Improvements Fund	2,155	2,155
Capitol Renovation and Improvements Fund	2,796	2,796
Development Office Promotion Fund	1,525	1,525
Research Challenge Fund	2,033	2,033
Tourism Promotion Fund	5,659	5,659
Cultural Facilities and Capitol Resources Fund	1,433	1,434

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 11. Nonoperating Distributions to the State of West Virginia (Continued)

	<u>2018</u>	<u>2017</u>
<u>Distributions to Statutory Funds and Purposes (Continued)</u>		
Worker's Compensation Debt Reduction Fund	2,750	5,500
State Debt Reduction Fund	20,000	20,000
General Revenue Fund	9,764	1,514
Historic Resort Hotel Fund	34	34
Racing Commission	4,066	4,066
Non-Governmental Budgeted Transfers	10,112	10,112
Total State Excess Lottery Revenue Fund	<u>334,372</u>	<u>321,738</u>
<u>Total Required Statutory and Budgetary Distributions</u>		
	<u>485,082</u>	<u>478,995</u>
Veterans Instant Ticket Fund	<u>699</u>	<u>630</u>
<u>Total nonoperating distributions to the State of West Virginia (cash basis)</u>		
	485,781	479,625
<u>Accrued nonoperating distributions, beginning of year</u>		
	(132,693)	(135,265)
<u>Accrued nonoperating distributions, end of year</u>		
	<u>120,860</u>	<u>132,693</u>
<u>Total nonoperating distributions to the State of West Virginia</u>		
	<u>\$ 473,948</u>	<u>\$ 477,053</u>

Note 12. Pension Benefits

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

Plan description

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

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For all employees hired after July 1, 2015, qualification for normal retirement is age 62 with 10 years of service. A member hired after July 1, 2015, may retire with the pension reduced actuarially if the

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Pension Benefits (Continued)

Plan description (Continued)

member is between ages 60 and 62 with at least ten years of contributory service, between ages 57 and 62 with at least twenty years of contributory service, or between ages 55 and 62 with at least thirty years of contributory service. 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 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service.

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 11%, 12.0% and 13.5% of covered employees' annual earnings for fiscal years ending June 30, 2018, 2017, and 2016, 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 \$808,333, \$862,728, and \$979,596 for the year ended June 30, 2018, 2017 and 2016, respectively.

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

At June 30, 2018 and 2017, respectively, the Lottery reported a liability of \$2,274,227 and \$4,800,254 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, rolled forward to the measurement date of June 30, 2017 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, 2017. At June 30, 2017, the Lottery's proportion was 0.53 percent, which is a increase of .01 from its proportion as of June 30, 2016.

For the years ended June 30, 2018 and 2017, respectively, the Lottery recognized pension expense of \$435,491 and \$765,956. At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Pension Benefits (Continued)

	<u>June 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 553
Differences between expected and actual experience	202	5
Difference in assumptions	-	118
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	26	86
Lottery contributions made subsequent to the measurement date of June 30, 2017	<u>808</u>	<u>-</u>
Total	<u>\$ 1,036</u>	<u>\$ 762</u>

	<u>June 30, 2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 1,509	\$ -
Differences between expected and actual experience	400	-
Difference in assumptions	-	234
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	23	133
Lottery contributions made subsequent to the measurement date of June 30, 2016	<u>863</u>	<u>-</u>
Total	<u>\$ 2,795</u>	<u>\$ 367</u>

The \$808,333 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, 2019. 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>	
2019	\$ (248)
2020	191
2021	(3)
2022	(474)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Pension Benefits (Continued)

Actuarial assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0 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 100% of RP-2000 Non-Annuitant, Scale AA fully generational for active employees, 110% of the RP-2000 Non-Annuitant, Scale AA fully generational for healthy males, 101% of RP-2000 Non-Annuitant Scale AA fully generational for healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled females.

The actuarial assumptions used in the June 30, 2017 and 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

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:

Asset Class	Target Allocation	Long-term Expected Rate of Return	Weighted Average Expected Real Rate of Return
US equity	27.5%	7.0%	1.92%
International equity	27.5%	7.7%	2.12%
Core fixed income	7.5%	2.7%	0.20%
High yield fixed income	7.5%	5.5%	0.41%
Real estate	10.0%	7.0%	0.70%
Private equity	10.0%	9.4%	0.94%
Hedge funds	10.0%	4.7%	0.47%
Total	100.00%		6.76%
Inflation (CPI)			1.90%
			<u>8.66%</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Pension 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):

	<u>Net Pension Liability (Asset)</u>	
1% decrease (6.5%)	\$	6,296
Current discount rate (7.5%)	\$	2,274
1% increase (8.5%)	\$	(1,126)

Note 13. Other Postemployment Benefits

Plan description

The West Virginia Other Postemployment Benefit Plan (the OPEB Plan) is a cost-sharing, multiple-employer, defined benefit other post-employment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code Section 5-16D-2 (the Code). The financial activities of the OPEB Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The OPEB Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. OPEB Plan benefits are established and revised by PEIA and the RHBT management with approval of their Finance Board. The PEIA issues a publically available financial report of the RHBT that can be obtained at www.peia.wv.gov or by writing to the West Virginia Public Employees Insurance Agency, 601 571h Street, SE Suite 2, Charleston, WV 25304.

Benefits provided

The Lottery employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the PERS or meet certain other eligibility requirements of other CPRB sponsored retirement plans. RHBT provides medical and prescription drug insurance and life insurance benefits to those qualified participants. Life insurance is provided through a vendor and is fully funded by member contributions. The medical and prescription drug insurance is provided through two options; Self-Insured Preferred Provider Benefit Plan - primarily for non-Medicare-eligible retirees and spouses or External Managed Care Organizations - primarily for Medicare-eligible retirees and spouses.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Other Postemployment Benefits (Continued)

Benefits provided (Continued)

The RHBT Medicare-eligible retired employees and their Medicare-eligible dependents receive medical and drug coverage from a Medicare Advantage Plan. Under this arrangement, the vendor assumes the financial risk of providing comprehensive medical and drug coverage with limited copayments. Non-Medicare retirees continue enrollment in PEIA's Preferred Provider Benefit or the Managed Care Option. The RHBT collects employer contributions for Managed Care Organization (MCO) participants and remits capitation payments to the MCO. Survivors of retirees have the option of purchasing the medical and prescription drug coverage.

Eligible participants hired after June 30, 2010, will be required to fully fund premium contributions upon retirement. The Plan is a closed plan to new entrants.

Contributions

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2018, 2017, and 2016, respectively, were:

	<u>2018</u>	<u>2017</u>	<u>2017</u>	<u>2016</u>
		<small>1/1/17 - 6/30/17</small>	<small>7/1/16-12/31/16</small>	
Paygo Premium	\$ 177	\$ 135	\$ 196	\$ 163

Contributions to the OPEB plan from the Lottery were \$302,857, \$292,456 and \$291,218 for the years ended June 30, 2018, 2017, and 2016, respectively.

Members retired before July 1, 1997, pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired between July 1, 1997 and June 30, 2010, pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below;

- Members hired before July 1, 1988, may convert accrued sick or leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988, to June 30, 2001, may convert accrued sick or leave days into 50% of the required retiree healthcare contribution.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Other Postemployment Benefits (Continued)

The conversion rate is two days of unused sick and annual leave days per month for single healthcare coverage and three days of unused sick and annual leave days per month for family healthcare coverage.

Contributions by Nonemployer Contributing Entities in Special Funding Situations

The State of West Virginia is a nonemployer contributing entity that provides funding through SB 419, effective July 1, 2012, amended by West Virginia Code §11-21-96. The State provides a supplemental pre-funding source dedicating \$30 million annually to the RHBT Fund from annual collections of the Personal Income Tax Fund and dedicated for payment of the unfunded liability of the RHBT. The \$30 million transferred pursuant to this Code shall be transferred until the Governor certifies to the Legislature that an independent actuarial study has determined that the unfunded liability of RHBT has been provided for in its entirety or July 1, 2037, whichever date is later. This funding is to the advantage of all RHBT contributing employers.

The State is a nonemployer contributing entity that provides funding through West Virginia State Code §11B-2-32. The Financial Stability Fund is a plan to transfer an annual amount of \$5 million to the RHBT from special revenue funds to be used to lower retiree premiums, to help reduce benefit cuts, to help reduce premium increases or any combination thereof. The \$5 million transferred pursuant to this Code shall be transferred annually into the RHBT through June 30, 2020. This funding is to the advantage of all RHBT contributing employers.

The State is a nonemployer contributing entity that provides funding through SB 469 which was passed February 10, 2012, granting OPEB liability relief to the 55 County Boards of Education effective July 1, 2012. The public school support plan (PSSP) is a basic foundation allowance program that provides funding to the local school boards for "any amount of the employer's annual required contribution allocated and billed to the county boards for employees who are employed as professional employees, employees who are employed as service personnel and employees who are employed as professional student support personnel", within the limits authorized by the State Code. This special funding under the school aid formula subsidizes employer contributions of the county boards of education.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Lottery reported a liability for its proportionate share of the RHBT net OPEB liability that reflected a reduction for State OPEB support provided to the Lottery. The amount recognized by the Lottery as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Lottery was as follows (in thousands):

Lottery's proportionate share of the net OPEB liability	\$ 3,501
State's special funding proportionate share of the net OPEB liability associated with the Lottery	<u>719</u>
Total portion of net OPEB liability associated with the Lottery	<u>\$ 4,220</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The Lottery's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2017, the Lottery's proportion was .14 percent, which is a decrease of .03 percent from its proportion measured as of June 30, 2016.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Other Postemployment Benefits (Continued)

For the year ended June 30, 2018, the Lottery recognized OPEB expense of \$398,524 and for support provided by the State under special funding situations revenue of \$220,764. At June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 12
Net difference between projected and actual earnings on OPEB plan investments	-	56
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	-	544
Lottery contributions subsequent to the measurement date of June 30, 2017	303	-
Total	<u>\$ 303</u>	<u>\$ 612</u>

The amount of \$302,857 reported as deferred outflows of resources related to OPEB resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year ended June 30:	
2019	\$(164)
2020	(164)
2021	(164)
2022	(120)

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Other Postemployment Benefits (Continued)

Healthcare cost trend rates Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll over a 21 year closed period
Remaining amortization period	21 years closed as of June 30, 2016

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS). RP-2000 Healthy Annuitant Mortality Table projected to 2025 with scale BB for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Non-Annuitant Mortality Table projected to 2020 with Scale BB for Troopers A and B.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010- June 30, 2015.

The long-term expected rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board (WVIMB) and an expected short-term rate of return of 3.0% for assets invested with the WVBTI. Long-term pre-funding assets are invested with the WVIMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the WVBTI.

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Other Postemployment Benefits (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

Discount rate

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2036, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates. The discount rate used to measure the total OPEB liability at June 30, 2016 is a 0.45% increase from the June 30, 2015 valuation.

Other key assumptions

The projection assumes that the capped subsidy aggregate contribution limit of \$150 million for 2017 would increase by \$10 million per year on and after 2018. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2035, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Other Postemployment Benefits (Continued)

Members hired on or after July 1, 2010, are required to pay 100% of expected cost of coverage, resulting in no implicit or explicit employer cost. Consequently, these members are excluded from the actuarial valuation.

Sensitivity of the Lottery's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the Lottery's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the Lottery's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate (in thousands):

	<u>1% Decrease (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>1% Increase (8.15%)</u>
Lottery's proportionate share of the net OPEB liability	\$ 4,077	\$ 3,501	\$ 3,023

Sensitivity of the Lottery's proportionate share of net OPEB liability to changes in the healthcare cost trend rates.

The following presents the Lottery's proportionate share of the net OPEB liability, as well as what the Lottery's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage point higher than the current rates (in thousands):

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Lottery's proportionate share of the net OPEB liability	\$ 2,941	\$ 3,501	\$ 4,186

Note 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, 2018 and 2017 approximated \$167,948 and \$394,515 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, 2018 and 2017 were \$1,043,190 and \$1,004,928, respectively.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 15. Commitments

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2018 and 2017, \$9,414,970 and \$9,460,433, respectively, are included in unrestricted net position for this purpose.

Note 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.

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, 2018, no changes in coverage were made and paid claims did not exceed coverage.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 16. Risk Management (Continued)

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.

Note 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.

Note 18. Effect of New Accounting Pronouncements

The GASB has also issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Lottery management has not determined the effect, if any, this statement will have on its financial statements.

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			
	2018	2017	2016	2015
Lottery's proportion (percentage) of the net pension liability	0.53%	0.52%	0.55%	0.55%
Lottery's proportionate share of the net pension liability	\$ 2,274	\$ 4,800	\$ 3,044	\$ 2,035
Lottery's covered payroll	\$ 7,192	\$ 7,259	\$ 7,421	\$ 7,415
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	31.62%	66.12%	41.02%	27.44%
Plan fiduciary net position as a percentage of the total pension liability	93.67%	86.11%	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.

REQUIRED SUPPLEMENTARY INFORMATION

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					
	2018	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 808	\$ 863	\$ 980	\$ 1,039	\$ 1,075	\$ 1,072
Contributions in relation to the statutorily required contribution	808	863	980	1,039	1,075	1,072
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 7,345	\$ 7,192	\$ 7,259	\$ 7,421	\$ 7,415	\$ 7,658
Contributions as a percentage of covered-employee payroll	11.00%	12.00%	13.50%	14.00%	14.50%	14.00%

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

THE WEST VIRGINIA LOTTERY

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

Retirement Health Benefit Trust Plan

	Years Ended June 30 2018
West Virginia Lottery's proportion (percentage) of the net OPEB liability	0.14%
West Virginia Lottery's proportionate share of the net OPEB liability	\$ 3,501
State's proportionate share of the net OPEB liability associated with the Lottery	\$ 719
Total	\$ 4,220
West Virginia Lottery's covered-employee payroll	\$ 5,264
West Virginia Lottery's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	80.17%
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%

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 RHBT
(In Thousands)

	Years Ended June 30	
	2018	2017
Statutorily required contribution	\$ 303	\$ 292
Contributions in relation to the statutorily required contribution	303	292
Contribution deficiency (excess)	\$ -	\$ -
West Virginia Lottery's covered-employee payroll	\$ 4,999	\$ 5,264
Contributions as a percentage of covered-employee payroll	6.06%	5.55%

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

THE WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Note 1. Trend Information Presented

The accompanying schedules of the Lottery's proportionate share of the net pension liability and contributions to PERS and the Lottery's proportional share of the Net OPEB liability and contributions to RHBT, 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.

Note 2. Pension 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. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For employees hired July 1, 2015 and later, qualification for normal retirement is 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between ages 57 and 62 with at least twenty years of contributory service, or between ages 55 and 62 with at least thirty years of contributory service.
- 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 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service..
- 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.

Note 3. Pension 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 valuations as follows:



THE WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

Note 3. Pension Assumptions (Continued)

	2015 - 2017	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	3.0% (2016 and 2017), 1.9% (2015)	2.2%
Mortality rates	Active-RP-2000 Non-Annuitant, Scale AA fully generational	Healthy males - 1983 GAM
	Active-RP-2000 Non-Annuitant, Scale AA, fully generational	Healthy females - 1971 GAM
	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA fully generational	Disabled males - 1971 GAM
	Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA fully generational	Disabled females - Revenue ruling 96-7
	Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational	
	Disabled females -107% of RP-2000 Disabled Annuitant, Scale AA fully generational	
Withdrawal rates		
State	1.75-35.1%	1 - 26%
Non-state	2-35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%

Note 4. OPEB Assumptions

Below are changes in the assumptions between the 2016 and 2015 valuations:

Certain economic and behavioral assumptions are unique to healthcare benefits. These assumptions include the healthcare trend, per capita claims costs, the likelihood that a member selects healthcare coverage and the likelihood that a retiree selects one-person, two person or family coverage. These assumptions were updated based on a recent experience study performed by the RHBT actuaries using five-year experience data through June 30, 2015. The updated per capita claims costs were also based on recent claims, enrollment and premium information as of the valuation date.

For the June 30, 2016 valuation, the retiree healthcare participation assumption for each retirement plan is slightly higher than the previous assumption used in the June 30, 2015 OPEB valuation. More members who were covered as actives will be assumed to participate as retirees.

The 2016 and 2015 valuations include consideration of the \$30 million annual appropriations under Senate Bill 419, through July 1, 2037, or if earlier, the year the benefit obligation is fully funded. Additionally, the presentation of covered payroll was changed for the June 30, 2015, actuarial valuation. Participating employees hired before July 1, 2010, pay retiree premiums that are subsidized based on years of service at retirement. Participating employees hired on or after July 1, 2010, are required to fully fund premium contributions upon retirement. Consequently, beginning June 30, 2015, actuarial valuation covered payroll represents only the payroll for those OPEB eligible participating employees that were hired before July 1, 2010, allowing a better representation of the UAAL as a percentage of covered payroll, whereas, for the prior years, covered payroll is in total for all participating employees.

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 \$250 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.



SALES BY PRODUCT AND OTHER REVENUES - LAST TEN YEARS

	2009	2010	2011	2012
INSTANT	\$113,853,880	\$97,482,584	\$115,697,423	\$117,676,396
POWERBALL®	\$51,016,100	\$48,593,678	\$35,669,004	\$38,686,528
HOT LOTTO SIZZLER®	\$4,881,127	\$6,447,315	\$5,831,270	\$4,736,542
DAILY 3	\$8,916,094	\$8,401,794	\$8,621,978	\$8,698,349
DAILY 4	\$4,760,533	\$4,694,743	\$4,967,805	\$5,028,983
CASH 25	\$5,596,814	\$5,512,376	\$5,440,930	\$5,465,460
TRAVEL KENO	\$9,070,501	\$7,412,987	\$6,423,516	\$6,249,636
MEGA MILLIONS®	-	\$2,678,674	\$10,915,389	\$14,746,963
LOTTO AMERICA®	-	-	-	-
TOTAL ON-LINE	\$84,241,169	\$83,741,567	\$77,869,892	\$83,612,461
VIDEO (net of prizes)				
RACETRACK	\$848,232,669	\$746,208,159	\$726,952,241	\$764,898,326
LIMITED	\$412,488,946	\$397,287,133	\$397,544,342	\$406,108,085
TABLE GAMES (privilege tax)	\$34,219,101	\$31,725,645	\$68,153,589	\$78,121,131
VIDEO (net of prizes)	-	\$1,132,902	\$4,092,891	\$4,950,083
TABLE GAMES (privilege tax)	-	\$516,466	\$2,138,796	\$2,163,962
TOTAL HISTORIC RESORT	-	\$1,649,368	\$6,231,687	\$7,114,045
TOTAL SALES	\$1,493,035,765	\$1,358,094,456	\$1,392,449,174	\$1,457,530,444
LICENSE FEE	\$10,573,157	\$10,317,529	\$10,157,522	\$71,847,082
MISCELLANEOUS	\$827,731	\$741,824	\$1,648,012	\$1,504,260
OTHER OPERATING INCOME	\$11,400,888	\$11,059,353	\$11,805,534	\$73,351,342
NONOPERATING INCOME	\$2,719,936	\$390,334	\$297,669	\$9,826,225
TOTAL REVENUES	\$1,507,156,589	\$1,369,544,143	\$1,404,552,377	\$1,540,708,011

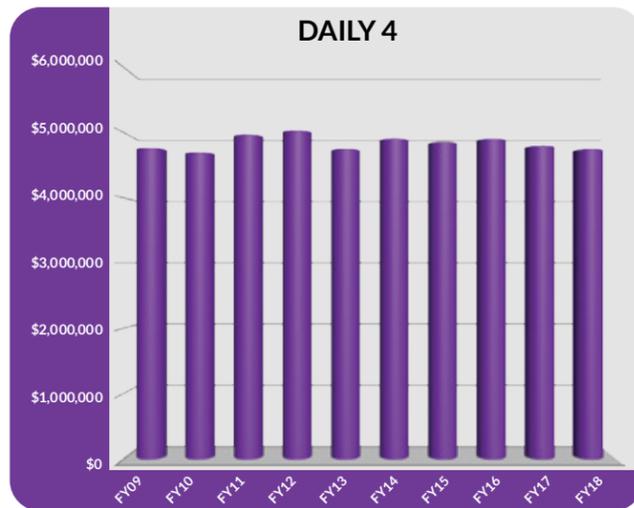
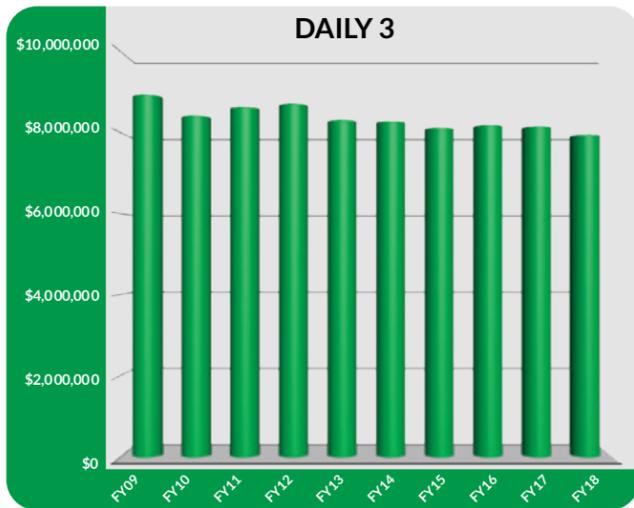
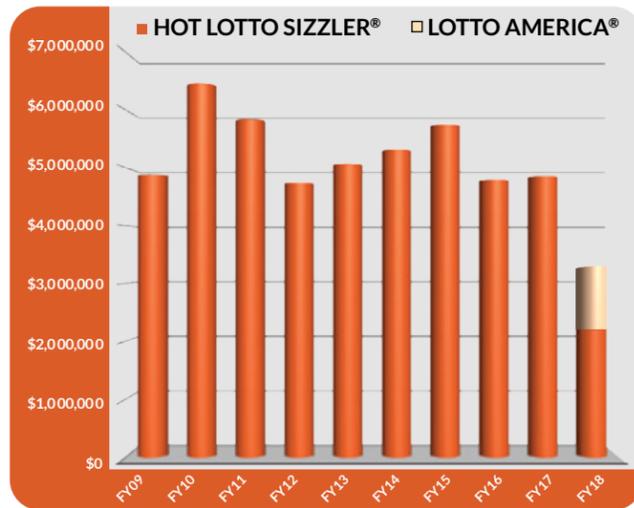
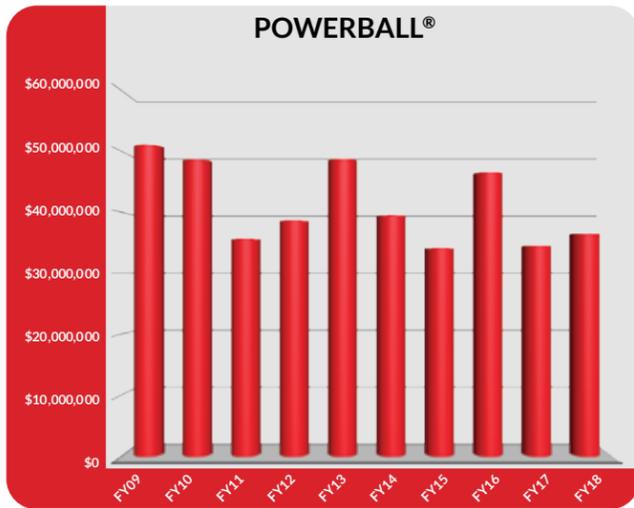
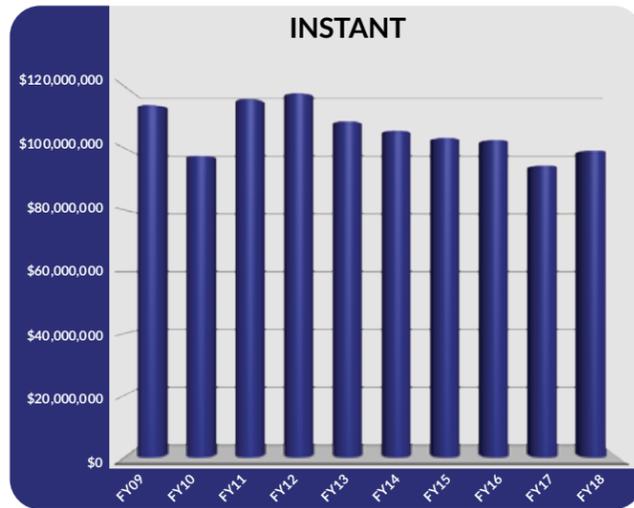
	2013	2014	2015	2015	2017	2018
	\$108,634,752	\$105,561,992	\$103,276,392	\$102,541,884	\$94,368,751	\$99,194,790
	\$48,688,807	\$39,490,788	\$34,099,437	\$46,553,463	\$34,514,013	\$36,483,389
	\$5,063,704	\$5,310,353	\$5,745,617	\$4,790,589	\$4,848,437	\$2,219,730
	\$8,301,649	\$8,269,965	\$8,109,719	\$8,176,541	\$8,144,181	\$7,940,388
	\$4,748,002	\$4,905,892	\$4,849,937	\$4,904,381	\$4,796,895	\$4,746,084
	\$5,237,499	\$5,191,451	\$5,191,526	\$5,062,256	\$4,938,032	\$4,833,798
	\$5,671,808	\$5,049,843	\$5,103,370	\$4,136,493	\$3,811,709	\$3,639,022
	\$9,274,409	\$14,850,257	\$13,623,552	\$12,035,877	\$11,057,403	\$14,850,547
	-	-	-	-	-	\$3,126,972
	\$86,985,878	\$83,068,549	\$76,723,158	\$85,659,600	\$72,110,670	\$77,839,930
	\$655,676,762	\$590,918,374	\$557,802,811	\$537,729,110	\$521,317,604	\$504,294,811
	\$399,223,893	\$377,222,264	\$373,220,741	\$360,814,338	\$347,555,459	\$368,067,327
	\$70,258,634	\$50,464,934	\$46,928,173	\$43,545,330	\$38,957,889	\$35,152,441
	\$4,737,669	\$4,440,596	\$4,070,270	\$4,486,215	\$3,739,067	\$4,845,200
	\$2,858,962	\$2,607,435	\$1,982,451	\$1,859,221	\$1,467,848	\$1,778,614
	\$7,596,631	\$7,048,031	\$6,052,721	\$6,345,436	\$5,206,915	\$6,623,814
	\$1,328,376,550	\$1,214,284,144	\$1,164,003,996	\$1,136,635,698	\$1,079,517,288	\$1,091,173,113
	\$9,871,021	\$9,776,116	\$10,024,323	\$9,396,576	\$9,245,717	\$10,806,586
	\$1,989,230	\$1,943,345	\$1,288,429	\$1,131,369	\$1,431,996	\$1,926,990
	\$11,860,251	\$11,719,461	\$11,312,752	\$10,527,945	\$10,677,713	\$12,733,576
	\$252,688	\$462,053	\$406,819	\$788,063	\$934,085	\$1,573,220
	\$1,340,489,489	\$1,226,465,658	\$1,175,723,567	\$1,147,951,706	\$1,091,129,086	\$1,105,479,909

EXPENSES, DISTRIBUTIONS AND CHANGES IN NET POSITION - LAST TEN YEARS

	2009	2010	2011	2012
PRIZES (traditional)	\$119,449,497	\$107,983,663	\$120,706,835	\$120,605,843
COMMISSIONS				
INSTANT	\$7,969,759	\$6,823,692	\$8,098,815	\$8,238,580
ON-LINE	\$5,900,642	\$5,849,450	\$5,456,854	\$5,844,402
RACETRACK	\$463,649,031	\$414,987,691	\$404,944,515	\$424,048,550
LIMITED	\$202,119,568	\$194,670,681	\$194,796,720	\$198,992,951
TABLE GAMES	\$13,458,369	\$12,473,391	\$29,288,210	\$33,570,927
HISTORIC RESORT	-	\$846,922	\$3,126,210	\$3,671,152
TOTAL COMMISSIONS	\$693,097,369	\$635,651,827	\$645,711,324	\$674,366,562
ADMINISTRATION (includes ticket costs)	\$35,215,252	\$36,493,179	\$40,838,831	\$38,989,047
TOTAL OPERATING EXPENSES	\$847,762,118	\$780,128,669	\$807,256,990	\$833,961,452
NONOPERATING DISTRIBUTIONS				
MUNICIPALITIES AND COUNTIES	\$8,084,783	\$7,786,828	\$7,791,869	\$7,959,718
CAPITAL REINVESTMENT FUND	\$15,983,212	\$11,968,468	\$21,558,438	\$22,900,376
STATE OF WEST VIRGINIA	\$616,622,965	\$616,465,269	\$565,256,651	\$662,982,476
TOTAL DISTRIBUTIONS	\$640,690,960	\$636,220,565	\$594,606,958	\$693,842,570
CHANGES IN NET POSITION	\$18,703,511	(\$46,805,091)	\$2,688,429	\$12,903,989

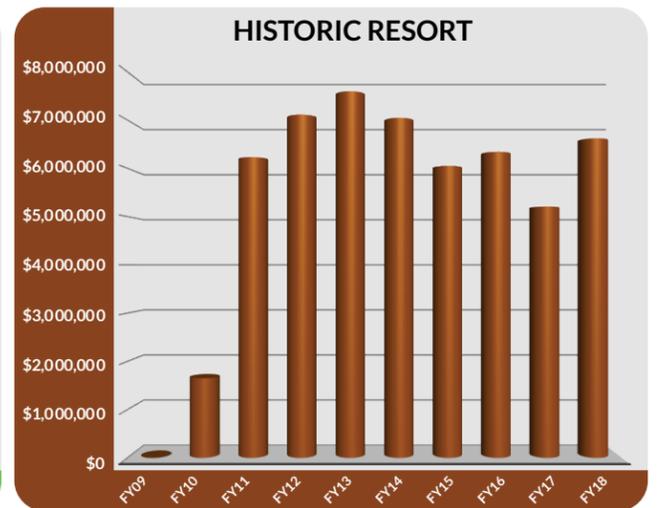
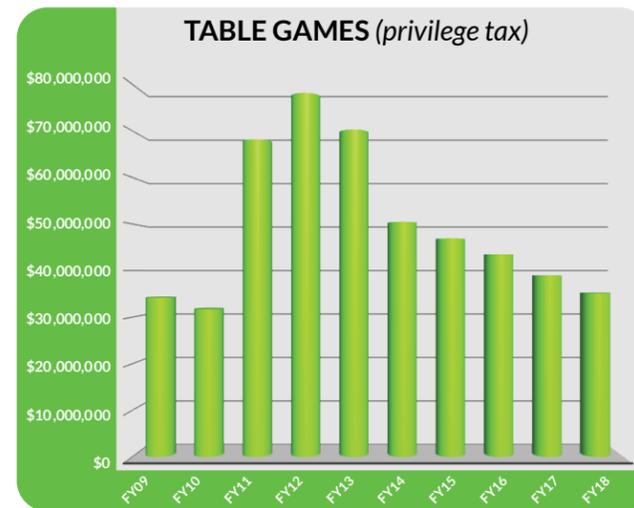
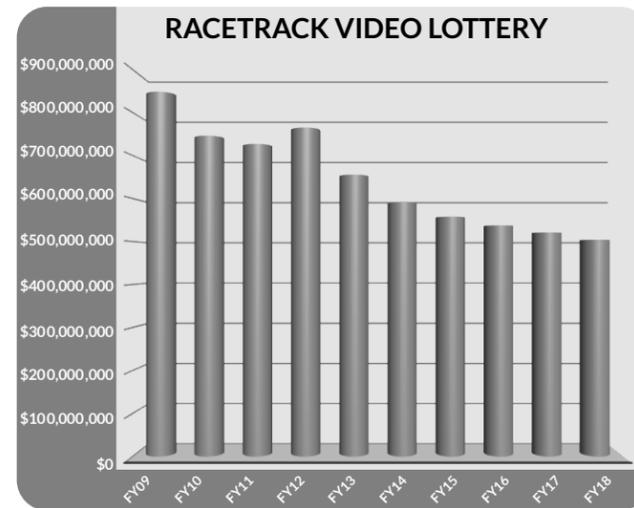
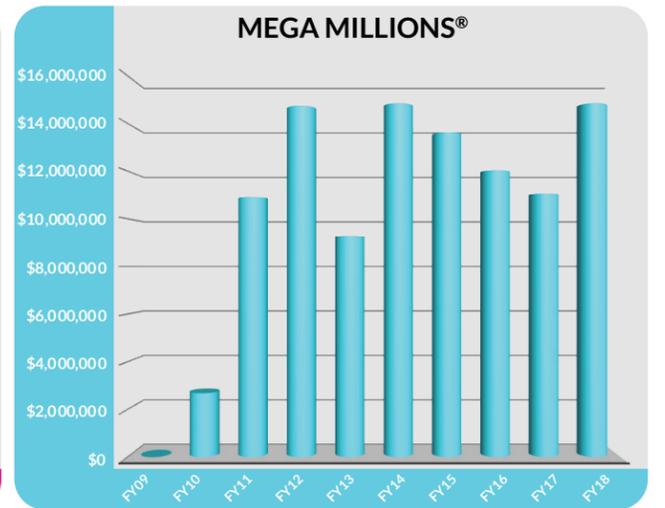
	2013	2014	2015	2016	2017	2018
	\$116,230,326	\$111,761,267	\$106,475,947	\$110,827,487	\$98,186,374	\$105,195,719
	\$7,604,433	\$7,389,339	\$7,229,348	\$7,177,932	\$6,605,813	\$6,938,222
	\$6,094,540	\$5,819,974	\$5,371,955	\$6,001,020	\$5,043,296	\$5,436,726
	\$370,827,992	\$336,205,404	\$286,777,829	\$275,496,153	\$268,177,388	\$260,243,206
	\$195,619,694	\$184,838,897	\$182,878,150	\$176,799,014	\$170,302,163	\$180,352,974
	\$30,674,243	\$22,032,440	\$19,885,019	\$18,453,051	\$16,512,256	\$14,905,401
	\$3,706,532	\$3,456,421	\$3,068,391	\$3,302,272	\$2,732,495	\$3,511,074
	\$614,527,434	\$559,742,475	\$505,210,692	\$487,229,442	\$469,373,411	\$471,387,603
	\$34,991,775	\$35,652,922	\$33,663,094	\$32,858,938	\$31,589,554	\$33,372,668
	\$765,749,535	\$707,156,664	\$645,349,733	\$630,915,867	\$599,149,339	\$609,955,990
	\$7,824,788	\$7,393,556	\$7,315,126	\$7,071,961	\$6,812,087	\$7,214,120
	\$18,820,278	\$13,397,148	\$11,716,851	\$10,445,577	\$7,467,510	\$13,455,200
	\$545,203,685	\$498,364,762	\$508,328,566	\$501,301,537	\$477,053,471	\$473,947,597
	\$571,848,751	\$519,155,466	\$527,360,543	\$518,819,075	\$491,333,068	\$494,616,917
	\$2,891,203	\$153,528	\$3,013,291	(\$1,783,236)	\$646,679	\$907,002

SALES BY PRODUCT LINE LAST TEN YEARS



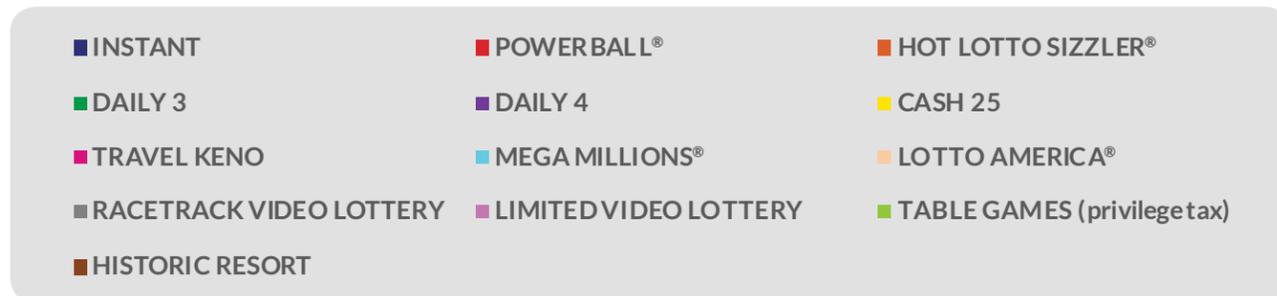
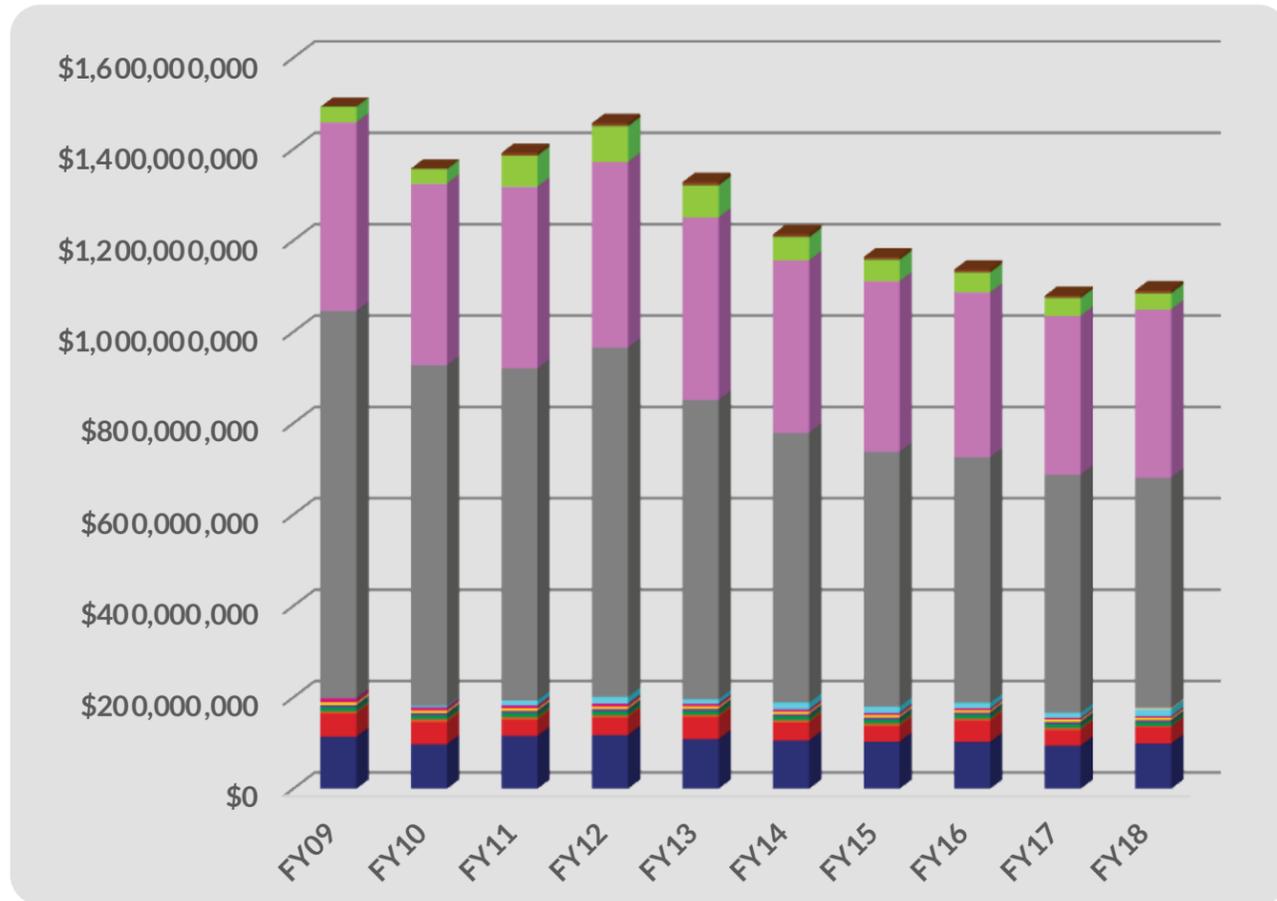
Source: West Virginia Lottery

SALES BY PRODUCT LINE LAST TEN YEARS



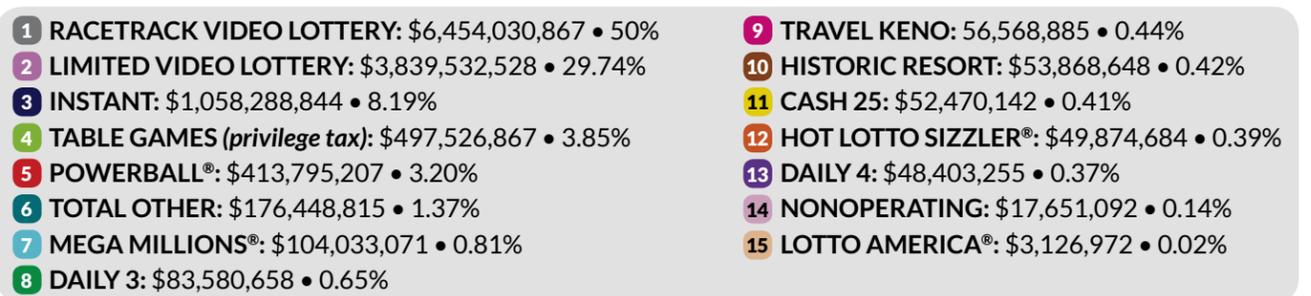
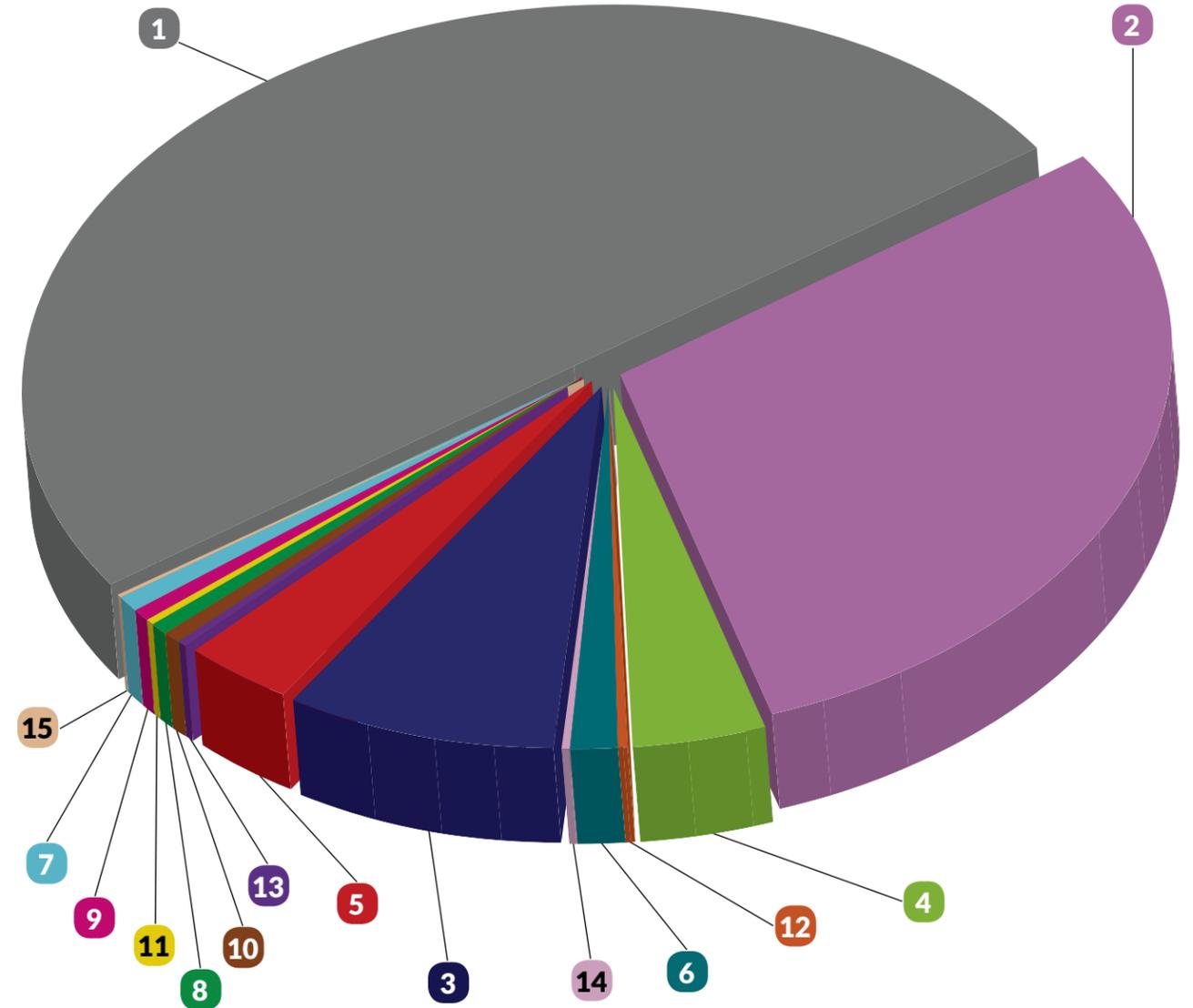
Source: West Virginia Lottery

**SALES BY PRODUCT LINE
LAST TEN YEARS**



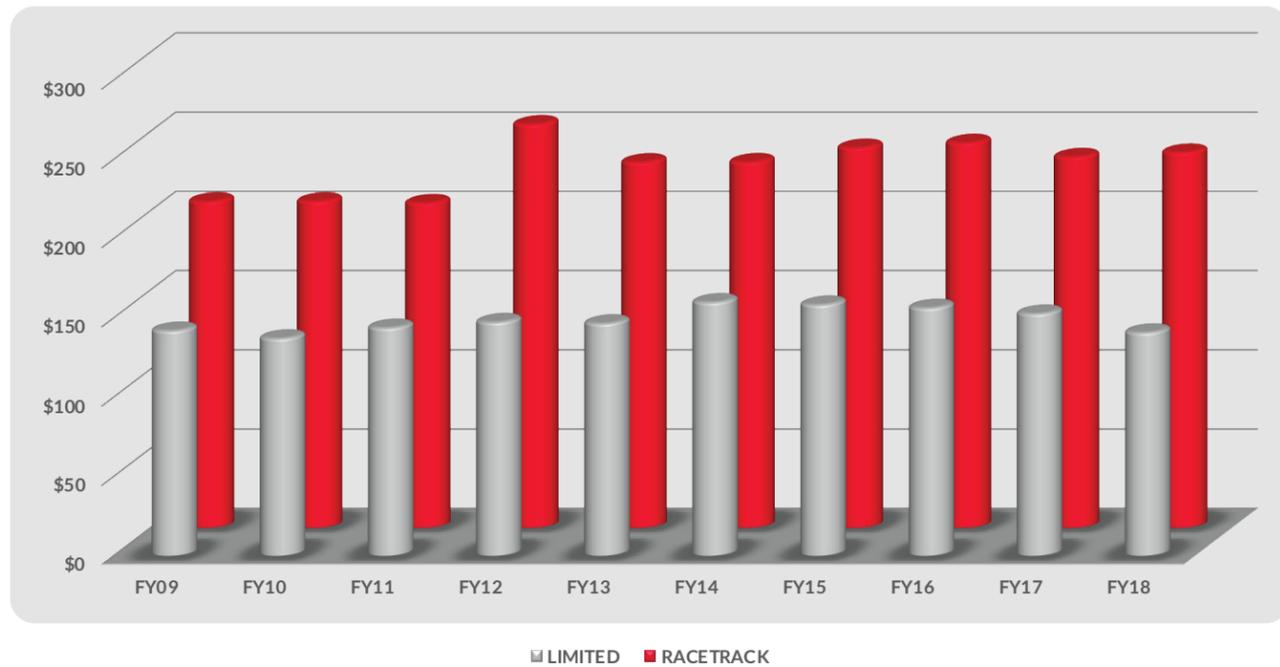
Source: West Virginia Lottery

**TOTAL REVENUE: \$12,909,200,535
LAST TEN FISCAL YEARS**

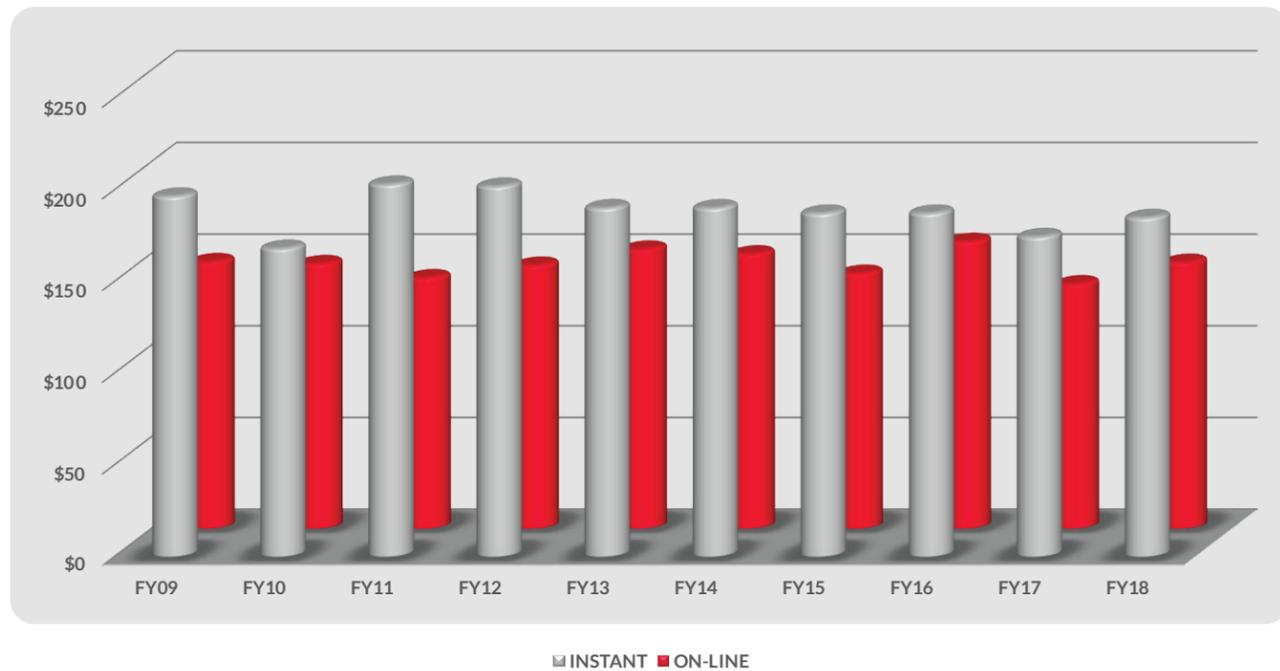


Source: West Virginia Lottery

DAILY AVERAGES LAST TEN FISCAL YEARS

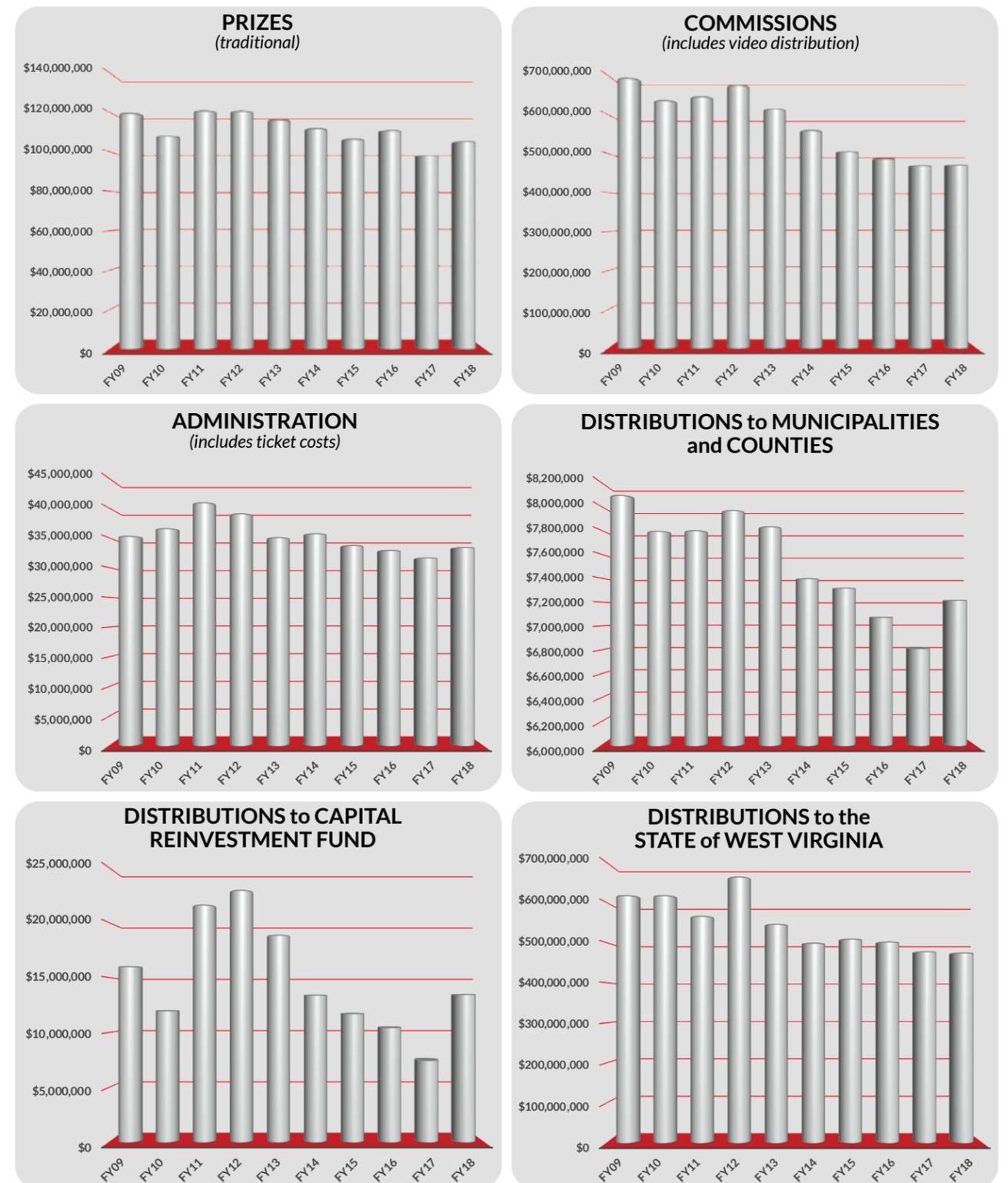


TRADITIONAL LOTTERY DAILY AVERAGE SALES PER RETAILER



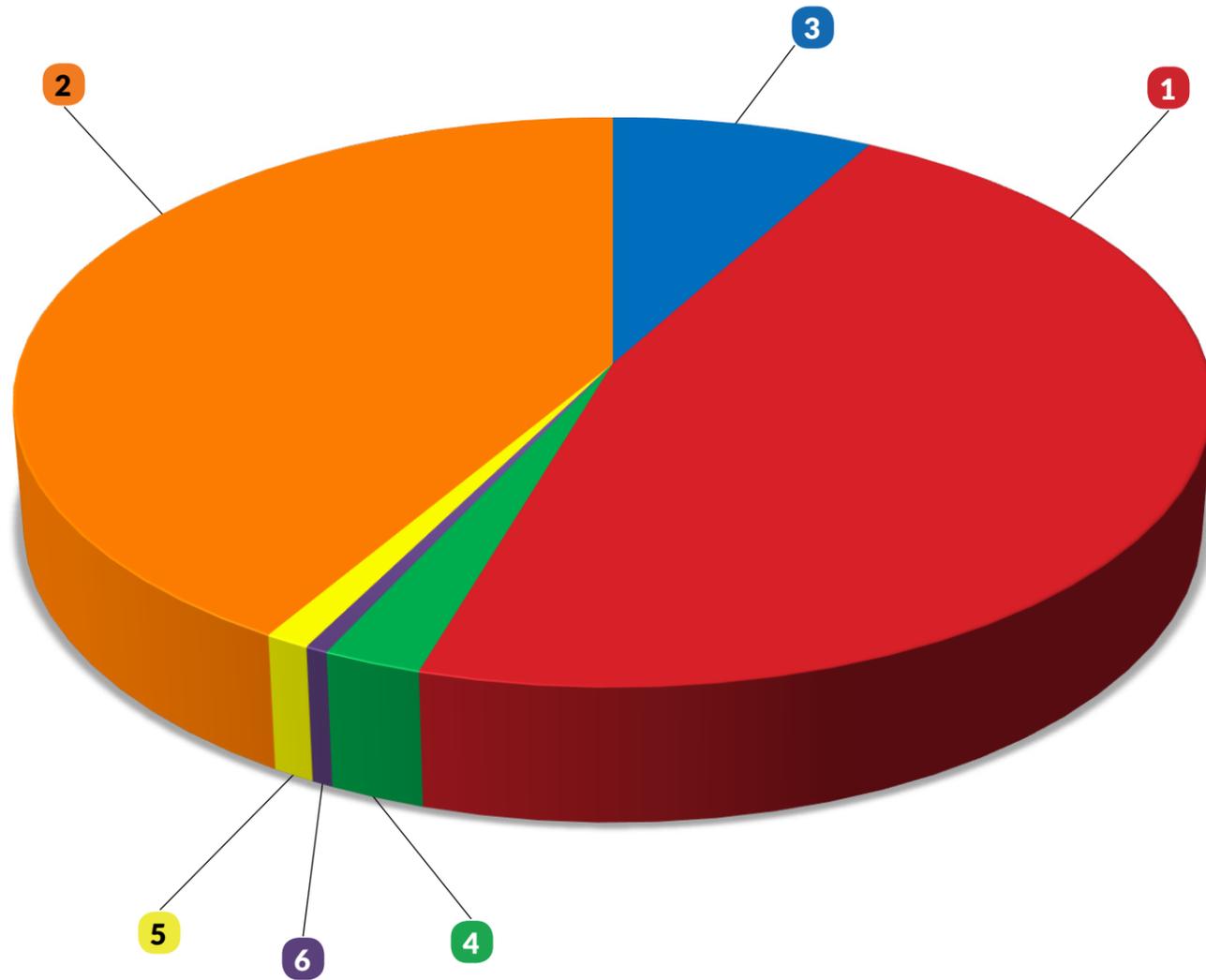
Source: West Virginia Lottery

EXPENSES AND NONOPERATING DISTRIBUTIONS LAST TEN FISCAL YEARS



Source: West Virginia Lottery

**TOTAL EXPENSES AND NONOPERATING DISTRIBUTIONS: \$12,915,881,230
LAST TEN FISCAL YEARS**



- 1** COMMISSIONS (includes video distribution): \$5,756,298,139 • 44.57%
- 2** DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA: \$5,465,526,979 • 42.32%
- 3** PRIZES (traditional): \$1,117,422,958 • 8.65%
- 4** ADMINISTRATION (includes ticket costs): \$353,665,260 • 2.74%
- 5** DISTRIBUTIONS TO CAPITAL REINVESTMENT FUND: \$147,713,058 • 1.14%
- 6** DISTRIBUTIONS TO MUNICIPALITIES AND COUNTIES: \$75,254,836 • 0.58%

Source: West Virginia Lottery

**TOTAL NET POSITION
(in 000's)**

	2009	2010	2011	2012	2013
NET POSITION					
RESTRICTED BY ENABLING LEGISLATION	\$69,871	\$8,355	\$2,039	\$1,690	\$1,640
NET INVESTMENT IN CAPITAL ASSETS	\$3,306	\$23,349	\$30,421	\$42,285	\$40,220
UNRESTRICTED	\$10,011	\$4,679	\$6,612	\$8,000	\$13,006
TOTAL NET POSITION	\$83,188	\$36,383	\$39,072	\$51,975	\$54,866

	2014	2015	2016	2017	2018
NET POSITION					
RESTRICTED BY ENABLING LEGISLATION	\$1,397	\$1,130	\$-	\$-	\$-
NET INVESTMENT IN CAPITAL ASSETS	\$38,745	\$37,763	\$44,874	\$43,779	\$48,047
UNRESTRICTED	\$14,878	\$15,263	\$7,498	\$9,240	\$7,152
TOTAL NET POSITION	\$55,020	\$54,156	\$52,372	\$53,019	\$55,199

Source: West Virginia Lottery

U.S. LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2017
INCLUDES VIDEO LOTTERY TERMINAL (VLT) SALES
(\$ millions)

	SALES	PROFIT	POPULATION	SALES PER CAPITA
ARIZONA	\$852.00	\$198.10	6.9	\$123.48
ARKANSAS	\$449.14	\$85.16	3.0	\$149.71
CALIFORNIA	\$6,233.47	\$1,545.53	39.3	\$158.61
COLORADO	\$555.33	\$133.47	5.5	\$100.97
CONNECTICUT	\$1,216.26	\$332.30	3.6	\$337.85
DELAWARE ^{1,2}	\$624.49	\$205.96	0.7	\$892.13
DISTRICT OF COLUMBIA (9/30)	\$218.71	\$45.60	1.0	\$218.71
FLORIDA	\$6,156.48	\$1,656.35	20.6	\$298.86
GEORGIA	\$4,528.95	\$1,101.06	10.3	\$439.70
IDAHO	\$239.93	\$48.50	1.7	\$141.14
ILLINOIS	\$2,846.17	\$723.24	12.8	\$222.36
INDIANA	\$1,213.08	\$288.04	6.6	\$183.80
IOWA	\$352.24	\$80.77	3.1	\$113.63
KANSAS	\$258.03	\$75.26	2.9	\$88.98
KENTUCKY	\$1,000.50	\$248.57	4.4	\$227.39
LOUISIANA	\$454.97	\$159.19	4.7	\$96.80
MAINE	\$265.95	\$58.66	1.3	\$204.58
MARYLAND ^{1,2}	\$3,352.49	\$1,040.23	6.0	\$558.75
MASSACHUSETTS	\$5,084.78	\$1,039.70	6.8	\$747.76
MICHIGAN (9/30)	\$3,329.80	\$925.10	9.9	\$336.34
MINNESOTA	\$563.50	\$139.16	5.5	\$102.46
MISSOURI	\$1,342.67	\$291.58	6.1	\$220.11
MONTANA	\$52.71	\$9.22	1.0	\$52.71
NEBRASKA	\$173.82	\$41.28	1.9	\$91.48
NEW HAMPSHIRE	\$299.15	\$76.12	1.3	\$230.12
NEW JERSEY	\$3,186.91	\$994.00	8.9	\$358.08
NEW MEXICO	\$126.04	\$37.84	2.1	\$60.02
NEW YORK (3/31) ¹	\$9,675.72	\$3,267.88	19.7	\$491.15
NORTH CAROLINA	\$2,428.07	\$623.51	10.1	\$240.40
NORTH DAKOTA	\$27.62	\$6.94	0.8	\$34.53
OHIO ¹	\$3,928.35	\$1,043.72	11.6	\$338.65
OKLAHOMA	\$151.50	\$53.81	3.9	\$38.85
OREGON ¹	\$1,246.30	\$662.43	4.1	\$303.98
PENNSYLVANIA	\$4,001.04	\$1,045.73	12.8	\$312.58
RHODE ISLAND ^{1,2}	\$872.38	\$362.70	1.1	\$793.07
SOUTH CAROLINA	\$1,635.70	\$410.53	5.0	\$327.14
SOUTH DAKOTA ¹	\$261.45	\$118.14	0.9	\$290.51
TENNESSEE	\$1,611.90	\$386.70	6.6	\$244.23
TEXAS (8/31)	\$5,077.46	\$1,333.97	27.9	\$181.99
VERMONT	\$122.37	\$25.65	0.6	\$203.95
VIRGINIA	\$1,989.87	\$558.31	8.4	\$236.89
WASHINGTON	\$673.33	\$161.90	7.3	\$92.24
WEST VIRGINIA ^{1,2}	\$1,079.52	\$477.05	1.8	\$599.73
WISCONSIN	\$602.77	\$183.75	5.8	\$103.93
WYOMING	\$25.33	\$2.72	0.6	\$42.22
TOTAL	\$80,388.26	\$22,305.42	306.9	\$11,632.53

2017 data source: NASPL website: www.NASPL.org ¹Includes net VLT sales (Cash in less cash out) ²Includes Table Games (net)
Note: All figures are preliminary

U.S. LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2018
INCLUDES VIDEO LOTTERY TERMINAL (VLT) SALES
(\$ millions)

	SALES	PROFIT	POPULATION	SALES PER CAPITA
ARIZONA	\$981.38	\$211.91	6.9	\$142.23
ARKANSAS	\$499.71	\$91.84	3.0	\$166.57
CALIFORNIA	\$6,965.79	\$1,698.35	39.3	\$177.25
COLORADO	\$611.99	\$140.74	5.5	\$111.27
CONNECTICUT	\$1,267.59	\$347.30	3.6	\$352.11
DELAWARE ^{1,2}	\$642.12	\$214.91	0.7	\$917.32
DISTRICT OF COLUMBIA (9/30)	\$210.26	\$46.10	1.0	\$210.26
FLORIDA	\$6,700.81	\$1,758.33	20.6	\$325.28
GEORGIA	\$4,597.78	\$1,143.91	10.3	\$446.39
IDAHO	\$265.08	\$53.50	1.7	\$155.93
ILLINOIS	\$2,928.42	\$722.38	12.8	\$228.78
INDIANA	\$1,270.07	\$306.08	6.6	\$192.43
IOWA	\$370.96	\$87.10	3.1	\$119.66
KANSAS	\$268.95	\$74.73	2.9	\$92.74
KENTUCKY	\$1,042.51	\$263.27	4.4	\$236.93
LOUISIANA	\$490.98	\$171.96	4.7	\$104.46
MAINE	\$294.13	\$63.03	1.3	\$226.26
MARYLAND ^{1,2}	\$3,721.76	\$1,148.85	6.0	\$620.29
MASSACHUSETTS	\$5,276.90	\$997.06	6.8	\$776.01
MICHIGAN (9/30)	\$3,578.36	\$935.39	9.9	\$361.45
MINNESOTA	\$596.48	\$145.10	5.5	\$108.45
MISSOURI	\$1,400.22	\$306.07	6.1	\$229.54
MONTANA	\$56.60	\$10.70	1.0	\$56.60
NEBRASKA	\$183.37	\$45.25	1.9	\$96.51
NEW HAMPSHIRE	\$332.75	\$87.39	1.3	\$255.96
NEW JERSEY	\$3,299.70	\$1,030.30	8.9	\$370.75
NEW MEXICO	\$134.03	\$40.22	2.1	\$63.82
NEW YORK (3/31) ¹	\$9,973.52	\$3,371.87	19.7	\$506.27
NORTH CAROLINA	\$2,605.31	\$671.26	10.1	\$257.95
NORTH DAKOTA	\$31.31	\$8.04	0.8	\$39.14
OHIO ¹	\$4,147.41	\$1,087.72	11.6	\$357.54
OKLAHOMA	\$221.11	\$63.98	3.9	\$56.69
OREGON ¹	\$1,302.33	\$726.09	4.1	\$317.64
PENNSYLVANIA	\$4,221.38	\$1,093.65	12.8	\$329.80
RHODE ISLAND ^{1,2}	\$885.57	\$364.97	1.1	\$805.07
SOUTH CAROLINA	\$1,750.16	\$430.98	5.0	\$350.03
SOUTH DAKOTA ¹	\$278.81	\$124.75	0.9	\$309.78
TENNESSEE	\$1,735.91	\$421.68	6.6	\$263.02
TEXAS (8/31)	\$5,626.85	\$1,450.47	27.9	\$201.68
VERMONT	\$132.42	\$27.15	0.6	\$220.70
VIRGINIA	\$2,139.82	\$606.22	8.4	\$254.74
WASHINGTON	\$733.94	\$182.97	7.3	\$100.54
WEST VIRGINIA ^{1,2}	\$1,091.17	\$473.95	1.8	\$606.21
WISCONSIN	\$667.39	\$170.66	5.8	\$115.07
WYOMING	\$28.75	\$5.03	0.6	\$47.91
TOTAL	\$85,561.87	\$23,423.19	306.9	\$12,285.05

2018 data source: NASPL website: www.NASPL.org ¹Includes net VLT sales (Cash in less cash out) ²Includes Table Games (net)
Note: All figures are preliminary

U.S. LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2017
EXCLUDES VIDEO LOTTERY TERMINAL (VLT) SALES AND TABLE GAMES
(\$ millions)

	TOTAL SALES	INSTANT SALES	DRAW SALES	POPULATION	SALES PER CAPITA
ARIZONA	\$852.0	\$632.8	\$219.2	6.8	\$125.29
ARKANSAS	\$449.1	\$368.5	\$80.6	3.0	\$149.70
CALIFORNIA	\$6,233.5	\$4,576.0	\$1,657.5	39.1	\$159.42
COLORADO	\$555.3	\$380.2	\$175.1	5.5	\$100.96
CONNECTICUT	\$1,216.3	\$720.6	\$495.7	3.6	\$337.86
D.C.	\$217.2	\$51.1	\$166.1	0.7	\$310.29
DELAWARE	\$215.9	\$69.3	\$146.6	0.9	\$239.89
FLORIDA	\$6,156.5	\$4,243.6	\$1,912.9	20.3	\$303.28
GEORGIA	\$4,528.9	\$3,117.2	\$1,411.7	10.2	\$444.01
IDAHO	\$239.6	\$137.1	\$102.5	1.7	\$140.94
ILLINOIS	\$2,844.0	\$1,871.9	\$972.1	12.9	\$220.47
INDIANA	\$1,213.2	\$907.7	\$305.5	6.6	\$183.82
IOWA	\$352.3	\$237.7	\$114.6	3.1	\$113.65
KANSAS	\$272.2	\$164.3	\$107.9	2.9	\$93.86
KENTUCKY	\$1,000.5	\$603.8	\$396.7	4.4	\$227.39
LOUISIANA	\$455.0	\$206.3	\$248.7	4.7	\$96.81
MAINE	\$270.4	\$212.4	\$58.0	1.3	\$208.00
MARYLAND	\$1,923.2	\$676.8	\$1,246.4	6.0	\$320.53
MASSACHUSETTS	\$5,077.8	\$3,518.6	\$1,559.2	6.8	\$746.74
MICHIGAN	\$3,329.8	\$1,321.6	\$2,008.2	9.9	\$336.34
MINNESOTA	\$563.5	\$398.3	\$165.2	5.5	\$102.45
MISSOURI	\$1,235.9	\$869.5	\$366.4	6.1	\$202.61
MONTANA	\$53.2	\$17.7	\$35.5	1.0	\$53.20
NEBRASKA	\$173.5	\$101.3	\$72.2	1.9	\$91.32
NEW HAMPSHIRE	\$297.5	\$223.6	\$73.9	1.3	\$228.85
NEW JERSEY	\$3,186.7	\$1,839.6	\$1,347.1	9.0	\$354.08
NEW MEXICO	\$126.0	\$72.4	\$53.6	2.1	\$60.00
NEW YORK	\$7,679.1	\$4,001.2	\$3,677.9	19.8	\$387.83
NORTH CAROLINA	\$2,428.1	\$1,695.2	\$732.9	10.0	\$242.81
NORTH DAKOTA	\$27.6		\$27.6	0.8	\$34.50
OHIO	\$3,001.7	\$1,527.1	\$1,474.6	11.6	\$258.77
OKLAHOMA	\$151.5	\$68.0	\$83.5	3.9	\$38.85
OREGON	\$332.2	\$126.5	\$205.7	4.0	\$83.05
PENNSYLVANIA	\$4,001.0	\$2,726.6	\$1,274.4	12.8	\$312.58
RHODE ISLAND	\$249.9	\$94.2	\$155.7	1.1	\$227.18
SOUTH CAROLINA	\$1,635.7	\$1,189.7	\$446.0	4.9	\$333.82
SOUTH DAKOTA	\$49.2	\$26.1	\$23.1	0.9	\$54.67
TEXAS	\$5,077.5	\$3,935.2	\$1,142.3	27.5	\$184.64
VERMONT	\$122.4	\$96.3	\$26.1	0.6	\$204.00
VIRGINIA	\$1,989.9	\$1,117.7	\$872.2	8.4	\$236.89
WASHINGTON	\$673.3	\$472.3	\$201.0	7.2	\$93.51
WEST VIRGINIA	\$166.5	\$94.4	\$72.1	1.8	\$92.50
WISCONSIN	\$602.8	\$384.8	\$218.0	5.8	\$103.93
WYOMING	\$25.4		\$25.4	0.6	\$42.33
TOTAL	\$71,252.8	\$45,095.2	\$26,157.6	299.0	\$238.30

2017 data source: La Fleur's Magazine/Vol. 25, No. 1 September/October 2017

U.S. LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2018
EXCLUDES VIDEO LOTTERY TERMINAL (VLT) SALES AND TABLE GAMES
(\$ millions)

	TOTAL SALES	INSTANT SALES	DRAW SALES	POPULATION	SALES PER CAPITA
ARIZONA	\$981.4	\$710.9	\$270.5	6.9	\$142.23
ARKANSAS	\$499.7	\$407.6	\$92.1	3.0	\$166.57
CALIFORNIA	\$6,977.2	\$5,088.8	\$1,888.4	39.3	\$177.54
COLORADO	\$612.0	\$407.5	\$204.5	5.5	\$111.27
CONNECTICUT	\$1,267.6	\$730.7	\$536.9	3.6	\$352.11
D.C.	\$212.1	\$49.1	\$163.0	0.7	\$303.00
DELAWARE	\$231.6	\$70.6	\$161.0	1.0	\$231.60
FLORIDA	\$6,700.8	\$4,652.3	\$2,048.5	20.6	\$325.28
GEORGIA	\$4,597.8	\$3,163.4	\$1,434.4	10.3	\$446.39
IDAHO	\$265.1	\$146.9	\$118.2	1.7	\$155.94
ILLINOIS	\$2,928.4	\$1,880.5	\$1,047.9	12.8	\$228.78
INDIANA	\$1,270.1	\$935.0	\$335.1	6.6	\$192.44
IOWA	\$371.0	\$244.3	\$126.7	3.1	\$119.68
KANSAS	\$284.3	\$171.6	\$112.7	2.9	\$98.03
KENTUCKY	\$1,042.5	\$613.1	\$429.4	4.4	\$236.93
LOUISIANA	\$491.0	\$217.2	\$273.8	4.7	\$104.47
MAINE	\$288.9	\$219.1	\$69.8	1.3	\$222.23
MARYLAND	\$2,033.7	\$750.9	\$1,282.8	6.0	\$338.95
MASSACHUSETTS	\$5,340.4	\$3,651.3	\$1,689.1	6.8	\$785.35
MICHIGAN	\$3,543.7	\$1,465.3	\$2,078.4	9.9	\$357.95
MINNESOTA	\$596.5	\$411.2	\$185.3	5.5	\$108.45
MISSOURI	\$1,314.5	\$907.3	\$407.2	6.1	\$215.49
MONTANA	\$57.2	\$18.6	\$38.6	1.0	\$57.20
NEBRASKA	\$183.4	\$100.8	\$82.6	1.9	\$96.53
NEW HAMPSHIRE	\$330.9	\$239.0	\$91.9	1.3	\$254.54
NEW JERSEY	\$3,299.5	\$1,852.3	\$1,447.2	8.9	\$370.73
NEW MEXICO	\$134.0	\$72.3	\$61.7	2.1	\$63.81
NEW YORK	\$7,938.8	\$4,178.5	\$3,760.3	19.7	\$402.98
NORTH CAROLINA	\$2,605.3	\$1,782.8	\$822.5	10.1	\$257.95
NORTH DAKOTA	\$31.3		\$31.3	0.8	\$39.13
OHIO	\$3,160.1	\$1,600.6	\$1,559.5	11.6	\$272.42
OKLAHOMA	\$221.1	\$127.6	\$93.5	3.9	\$56.69
OREGON	\$368.4	\$130.4	\$238.0	4.1	\$89.85
PENNSYLVANIA	\$4,200.6	\$2,824.2	\$1,376.4	12.8	\$328.17
RHODE ISLAND	\$258.4	\$98.7	\$159.7	1.1	\$234.91
SOUTH CAROLINA	\$1,750.2	\$1,260.6	\$489.6	5.0	\$350.04
SOUTH DAKOTA	\$58.1	\$30.2	\$27.9	0.9	\$64.56
TEXAS	\$5,613.3	\$4,406.2	\$1,207.1	27.9	\$201.19
VERMONT	\$132.4	\$102.0	\$30.4	0.6	\$220.67
VIRGINIA	\$2,139.8	\$1,184.6	\$955.2	8.4	\$254.74
WASHINGTON	\$733.9	\$507.9	\$226.0	7.3	\$100.53
WEST VIRGINIA	\$177.0	\$99.2	\$77.8	1.8	\$98.33
WISCONSIN	\$667.4	\$419.4	\$248.0	5.8	\$115.07
WYOMING	\$28.8		\$28.8	0.6	\$48.00
TOTAL	\$75,940.2	\$47,930.5	\$28,009.7	300.3	\$252.88

2018 data source: La Fleur's Magazine/Vol. 26, No. 1 September/October 2018

NUMBER OF EMPLOYEES

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
EXECUTIVE	20	20	18	19	19
FINANCE & ADMINISTRATION	24	23	27	26	25
MARKETING	7	7	7	8	8
VIDEO	27	29	30	31	31
SECURITY (traditional & video)	47	46	47	42	40
TABLE GAMES	47	51	69	69	61
TOTAL	172	176	198	195	184

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
EXECUTIVE	20	20	19	20	20
FINANCE & ADMINISTRATION	25	22	23	22	24
MARKETING	8	8	8	8	9
VIDEO	29	30	31	29	30
SECURITY (traditional & video)	41	38	38	39	38
TABLE GAMES	60	57	52	53	54
TOTAL	183	175	171	171	175

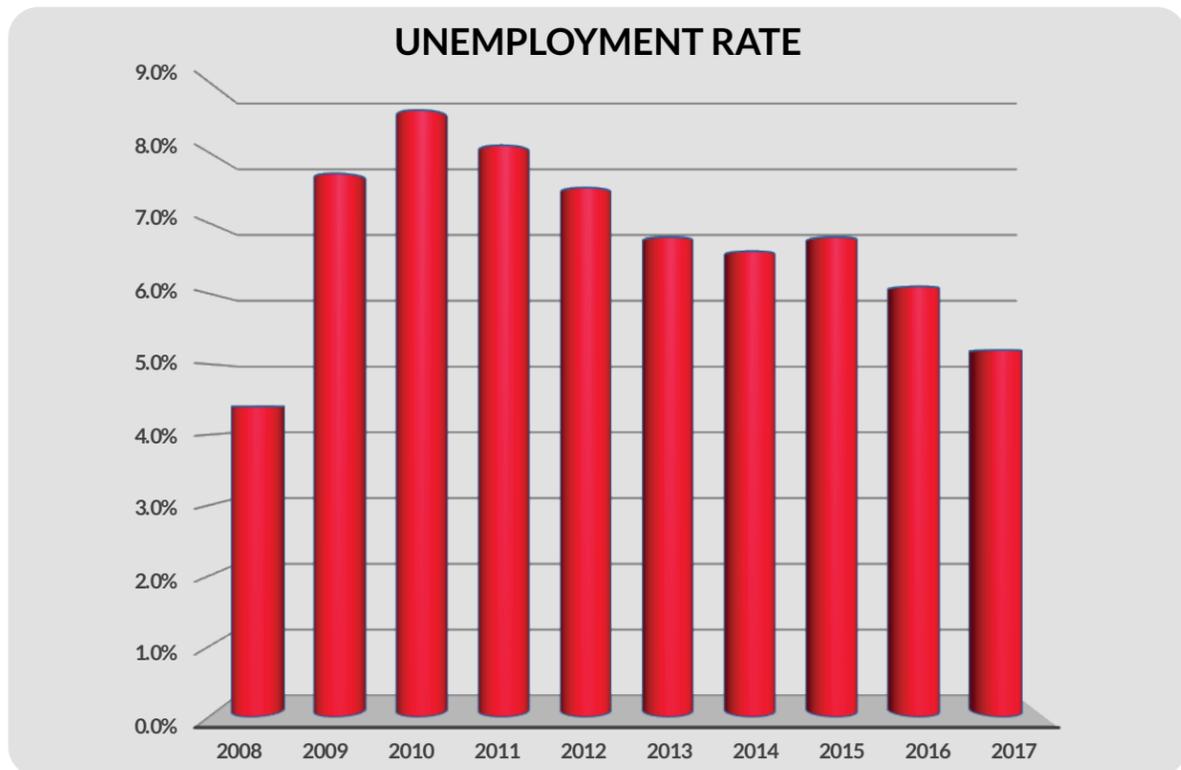
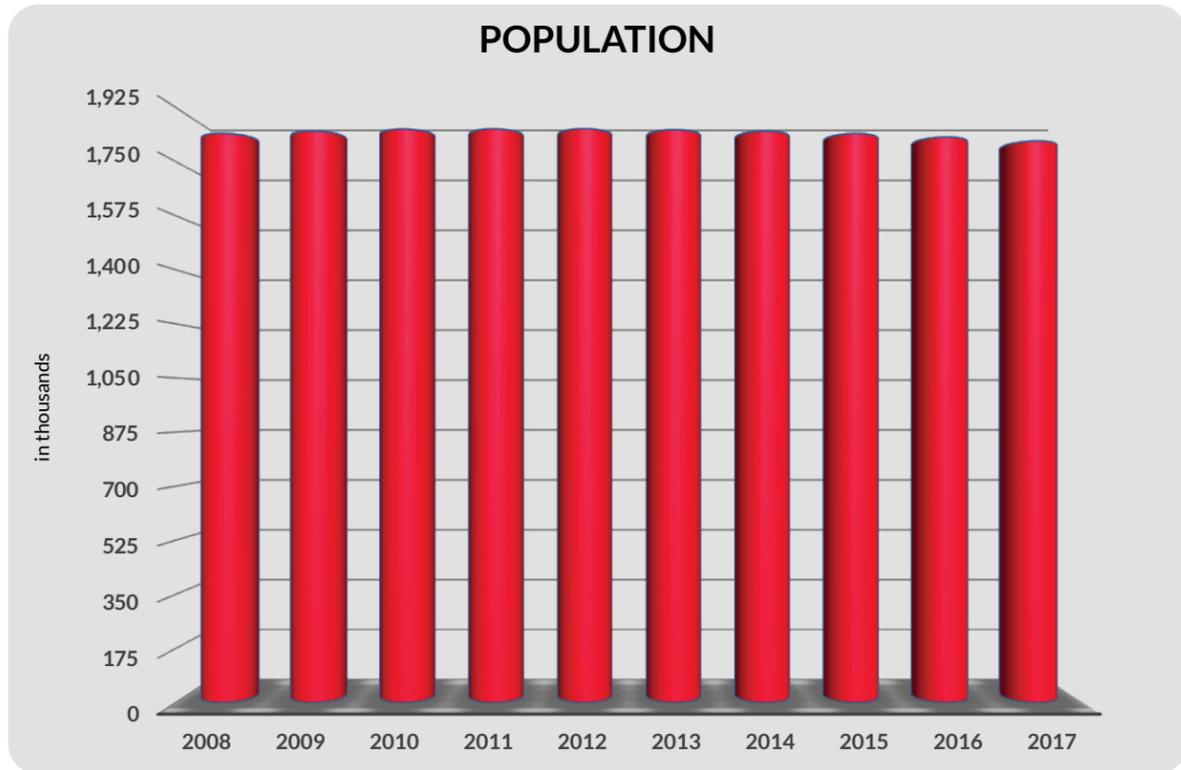
Source: West Virginia Lottery

STATE DEMOGRAPHIC AND ECONOMIC INFORMATION

YEAR	POPULATION	GROSS PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2008	1,840,310	\$57,652	\$31,328	4.4%
2009	1,847,775	\$58,150	\$31,470	7.7%
2010	1,854,315	\$60,062	\$32,390	8.6%
2011	1,854,891	\$63,449	\$34,206	8.1%
2012	1,855,360	\$65,252	\$35,169	7.5%
2013	1,852,333	\$64,793	\$34,979	6.8%
2014	1,847,624	\$66,680	\$36,089	6.6%
2015	1,839,767	\$67,737	\$36,818	6.8%
2016	1,828,637	\$67,583	\$36,958	6.1%
2017	1,815,857	\$69,873	\$38,479	5.2%

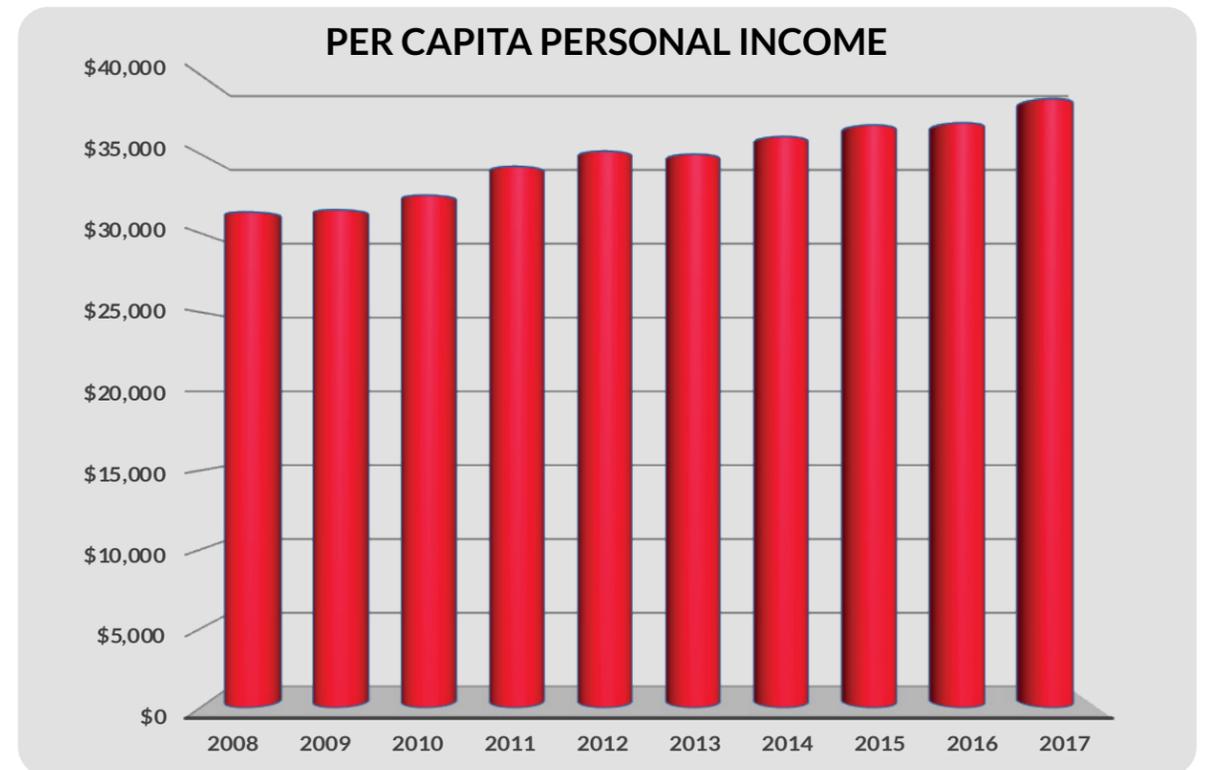
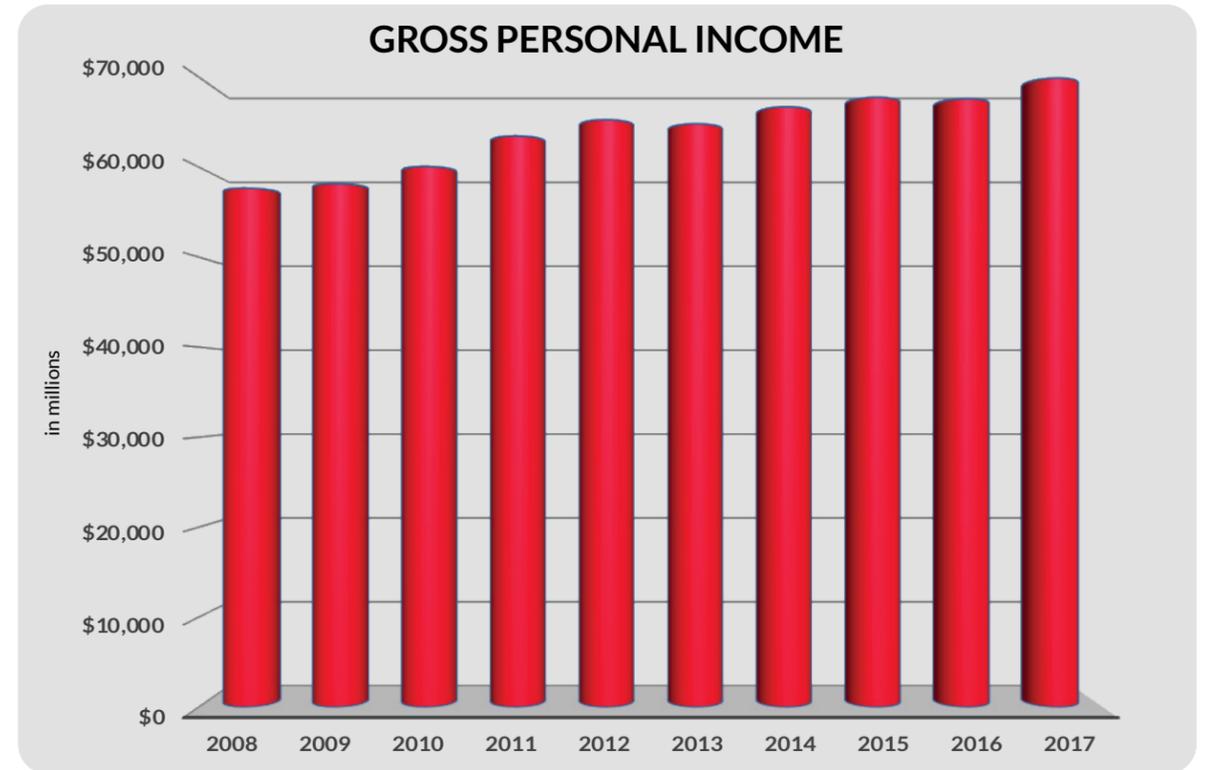
Source: U.S. Bureau of Economic Analysis and Bureau of Labor Statistics based on calendar year.
 Note: 2018 information is not available and therefore not presented.

STATE DEMOGRAPHICS



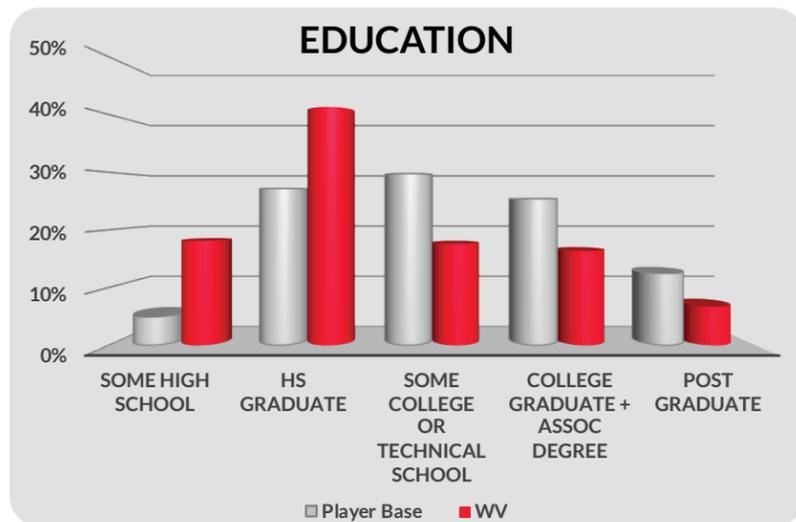
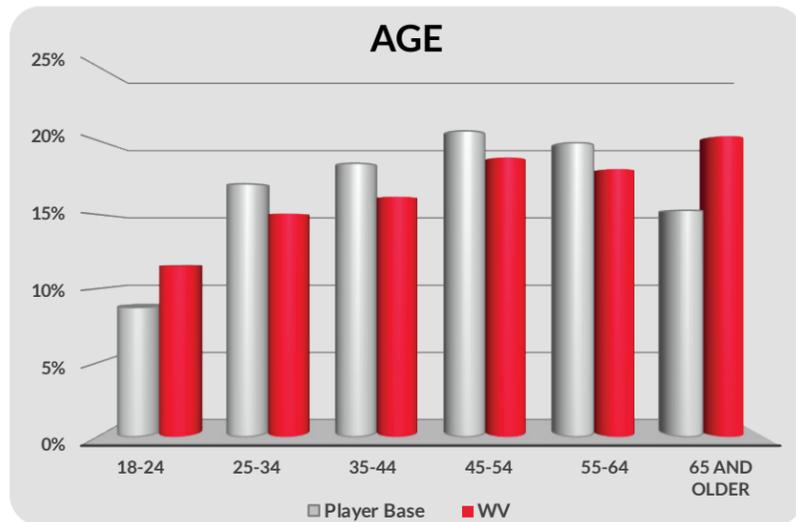
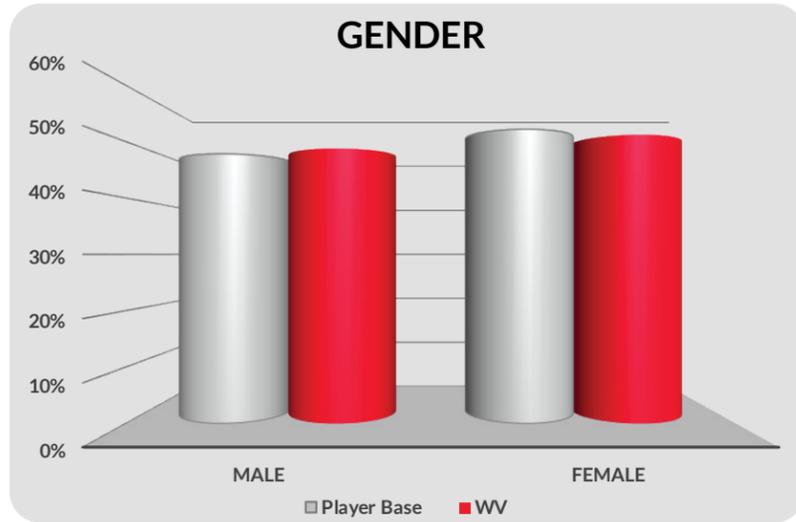
Source: U.S. Bureau of Economic Analysis and Bureau of Labor Statistics based on calendar year.

STATE DEMOGRAPHICS



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

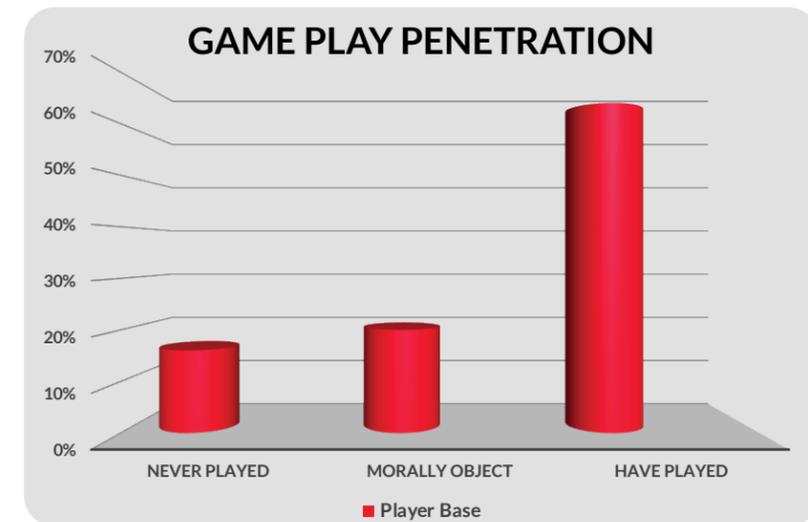
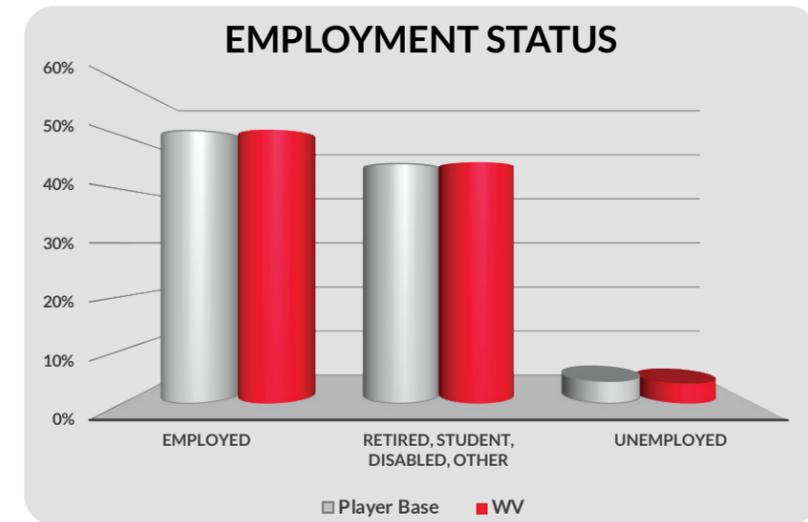
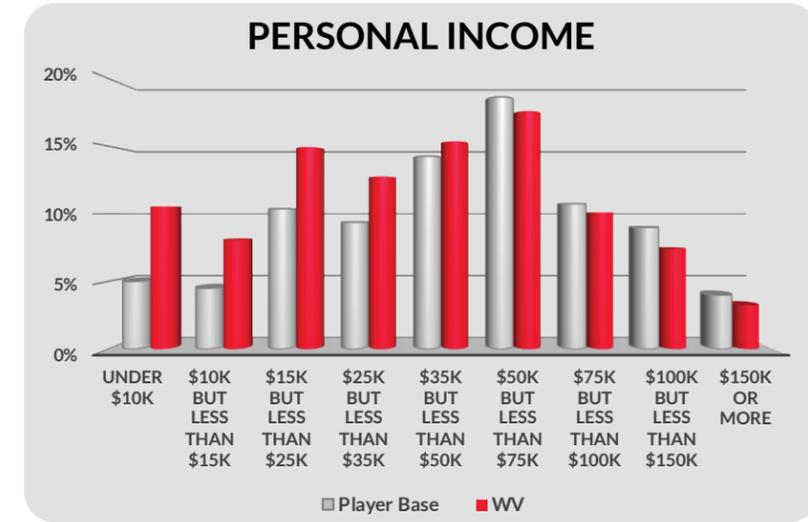
PLAYER AND POPULATION DEMOGRAPHICS



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

ACS Demographic and Housing 2010 Census

PLAYER AND POPULATION DEMOGRAPHICS



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

ACS Demographic and Housing 2010 Census

**PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

FIRST QUARTER 2018		
BUSINESS NAME	NUMBER OF EMPLOYEES	PERCENTAGE OF TOTAL EMPLOYEED
LOCAL GOVERNMENT	73,635	9.95%
STATE GOVERNMENT	41,750	5.64%
FEDERAL GOVERNMENT	23,512	3.18%
1 WVU MEDICINE	14,000 - 17,999	2.16%
2 WAL-MART ASSOCIATES, INC.	10,000 - 12,999	1.55%
3 CHARLESTON AREA MEDICAL CENTER, INC.	6,000 - 7,999	0.95%
4 KROGER	4,000 - 4,999	0.61%
5 CABELL HUNTINGTON HOSPITAL, INC.	3,000 - 3,999	0.47%
6 MYLAN PHARMACEUTICALS, INC.	3,000 - 3,999	0.47%
7 LOWES HOME CENTER, INC.	3,000 - 3,999	0.47%
8 ST. MARY'S MEDICAL CENTER, INC.	1,000 - 2,999	0.27%
9 WHEELING HOSPITAL, INC.	1,000 - 2,999	0.27%
10 RES-CARE INC.	1,000 - 2,999	0.27%

FIRST QUARTER 2009		
BUSINESS NAME	NUMBER OF EMPLOYEES	PERCENTAGE OF TOTAL EMPLOYEED
LOCAL GOVERNMENT	75,153	10.07%
STATE GOVERNMENT	40,064	5.37%
FEDERAL GOVERNMENT	23,089	3.09%
1 WAL-MART ASSOCIATES, INC.	13,000-14,999	1.88%
2 WEST VIRGINIA UNIVERSITY HOSPITALS/UNITED HOSPITALS	7,000-9,999	1.14%
3 CHARLESTON AREA MEDICAL CENTER, INC.	5,000-6,999	0.80%
4 KROGER	4,000-5,999	0.67%
5 AMERICAN ELECTRIC POWER	1,000-2,999	0.27%
6 ELDERCARE RESOURCES CORPORATION	1,000-2,999	0.27%
7 ST. MARY'S HOSPITAL	1,000-2,999	0.27%
8 CSX/CSX HOTELS INC. (THE GREENBRIER AND RAILROAD)	1,000-2,999	0.27%
9 CONSOLIDATION AND COAL COMPANY	1,000-2,999	0.27%
10 LOWE'S HOME CENTER, INC.	1,000-2,999	0.27%

Source: WORKFORCE West Virginia, Research, Information and Analysis



2018 CAFR PROJECT

An in-house production of the West Virginia Lottery

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