



West Virginia Lottery

A Component Unit of the State of West Virginia



Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016



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.

Message From the Director

I am pleased to present the West Virginia Lottery Comprehensive Annual Financial Report for the fiscal year ending June 30, 2017 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, despite the evolving landscape of the gaming industry, helped to provide a continued revenue stream for programs that benefit the citizens of West Virginia for more than 31 years.

The Lottery was created in April 1985 pursuant to authority granted by the West Virginia Legislature and gaming operations began in January of 1986. Since that time, the Lottery has generated more than \$9.5 billion in gaming revenue for the State of West Virginia with the majority of proceeds going to education, seniors and tourism. Education has received a total of more than \$3.1 billion in net lottery profits, while over \$1.1 billion has been invested in senior services, and in excess of \$1 billion has been invested in the state's tourism industry.

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

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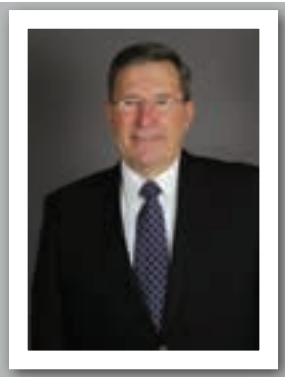


Alan Larrick
Director
West Virginia Lottery



West Virginia Lottery Commission

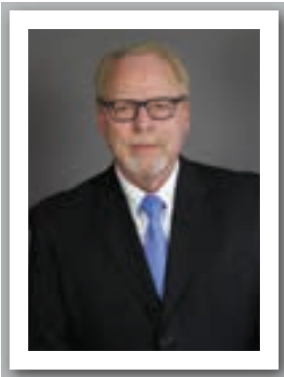
The Commission was created in 1985 to assist and advise the Director of the Lottery and to carry on a continuous study of West Virginia Lottery operations throughout the state. Members are appointed by the Governor with the approval of the Senate. In accordance with state law, the Lottery Commission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



Kenneth L. Greear, Chairman
Charleston, Computer Expert



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



Roy E. Shrewsberry II
Beckley, Public At Large



Douglas A. Bicksler, CPA
Lewisburg, Certified Public Accountant



Andrew B. Kniceley
Fairmont, Marketing



William R. Laird IV
Oak Hill, Law Enforcement



Dan A. Marshall
Parkersburg, Attorney

West Virginia Lottery

A Component Unit of the State of West Virginia



Prepared by

Finance and Administration Division

Dean W. Patrick, CPA/MBA

Deputy Director of Finance and Administration

and Chief Financial Officer

Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2017 and 2016

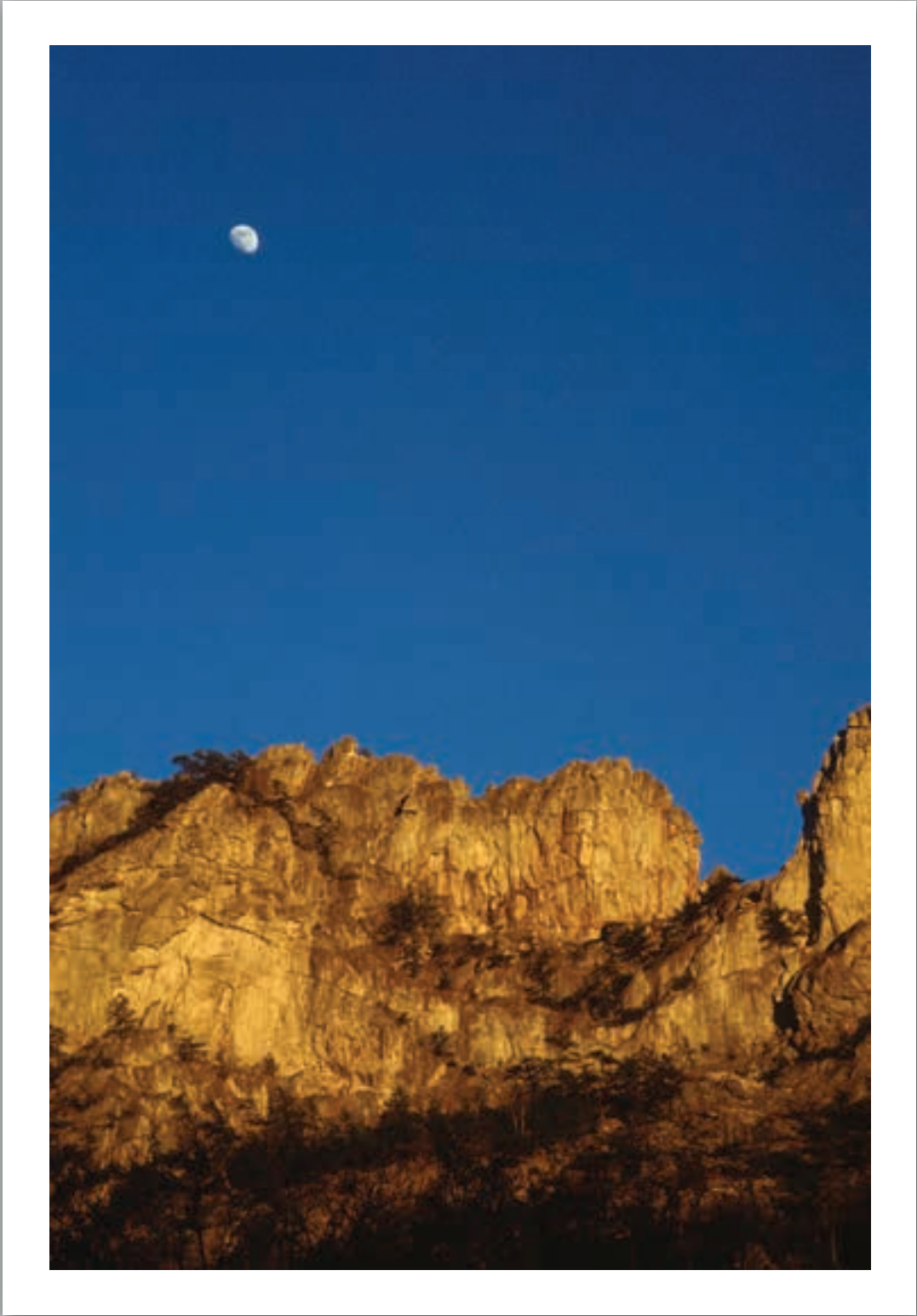


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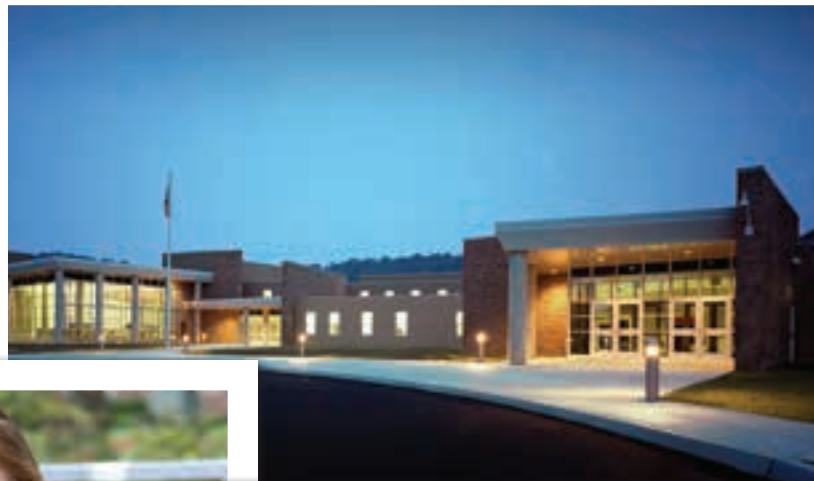
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Lottery Proceeds

The West Virginia Lottery has generated more than \$9.5 billion in proceeds for the State of West Virginia since it began operations in 1986.

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

Thanks to West Virginia Lottery proceeds, West Virginia has been able to invest more than \$3.1 billion in public education, over \$1.1 billion in senior programs and services, and in excess of \$1 billion into the state's growing tourism industry.



Lottery History

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

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

Today, the West Virginia Lottery produces sales of approximately \$1.1 billion annually and generates nearly \$480 million a year for the people of West Virginia. Since its inception, the Lottery has generated more than \$9.5 billion in proceeds that has helped public education, senior services and the state's tourism industry. West Virginia Lottery players have also won nearly \$2.9 billion in prizes.

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

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



Glen Stanley
First \$1 Million Winner



Lottery Retailers and Players

The West Virginia Lottery celebrated its 31st Anniversary in January 2017. In the Lottery's first 31 years, more than \$9.5 billion in lottery proceeds have made critical education, senior services and tourism programs possible. Approximately 1,500 traditional lottery retailers, nearly 1,400 limited video lottery retailers and the thousands of players who choose to play lottery games have helped contribute to the economy of the State of West Virginia.

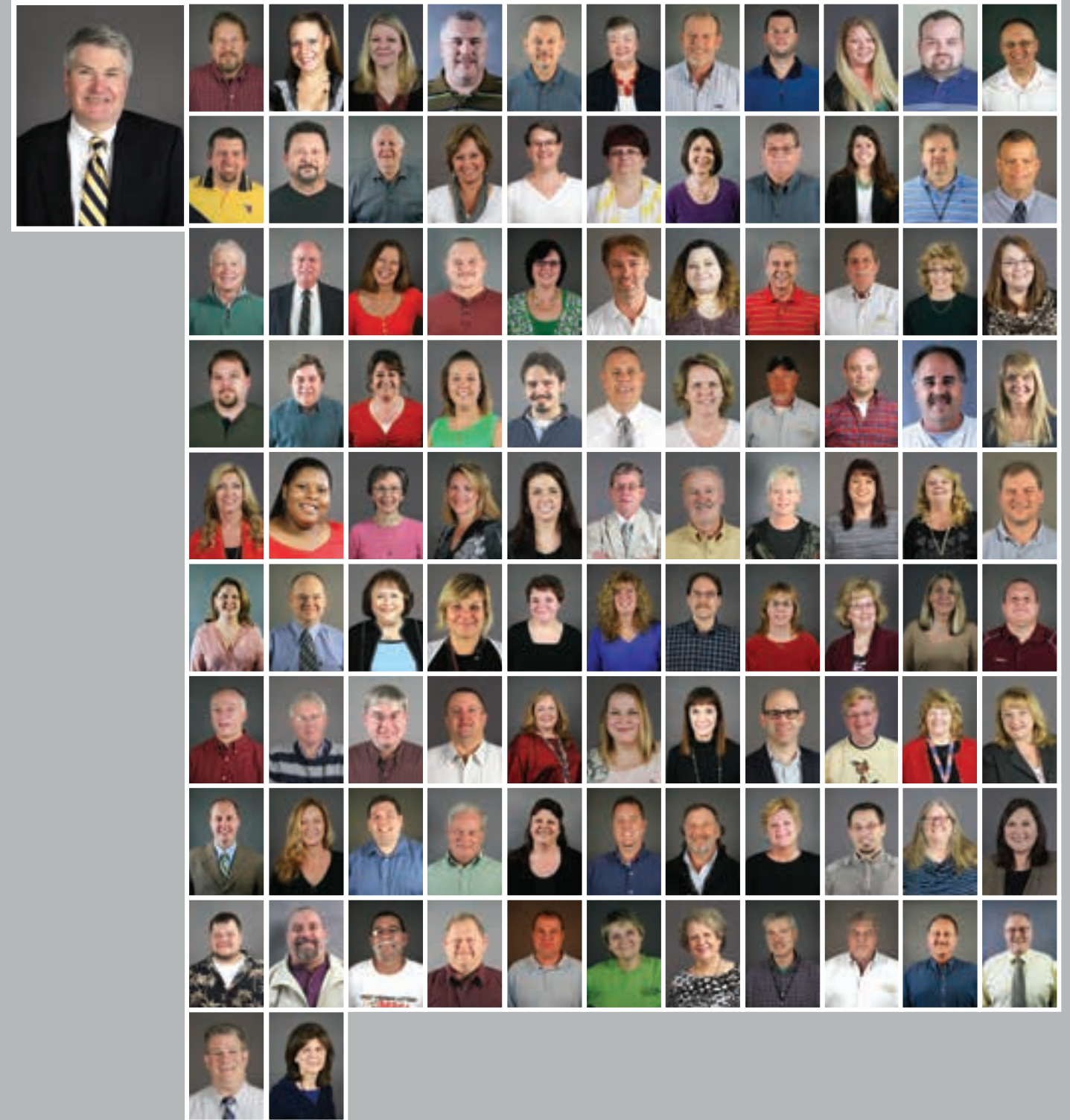
West Virginia Lottery players won more than \$85.3 million in prizes from traditional lottery games during fiscal year 2017. That includes Martin and Tommy Robinson of Princeton who won \$2 million, and Tim Varca of Shinnston who won \$1 million playing Powerball.



Lottery Headquarters 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 2017.

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 15 consecutive years.



Introductory Section

P.O. BOX 2067
CHARLESTON, WV 25327



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

James C. Justice
Governor

Alan Larrick
Director

December 1, 2017

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, 2017 and 2016. 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.

A handwritten signature in blue ink, appearing to read "Alan Larrick".

Alan Larrick
Director of West Virginia Lottery

A handwritten signature in blue ink, appearing to read "Dean W. Patrick".

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

Overview



The West Virginia Lottery continues to serve as an important source of revenue for the State of West Virginia. The Lottery has generated more than \$9.5 billion in proceeds for West Virginia since it began operations in 1986. More than \$3.1 billion of those proceeds have been invested in education, over \$1.1 billion in senior programs and services, and in excess of \$1 billion to the state's tourism industry.

In fiscal year 2017, Lottery sales exceeded the \$1 billion mark for the 15th 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, 2017, and resulted in a cash transfer of more than \$477 million to the State of West Virginia.

The Lottery continues to regulate several gaming environments and product types. In FY 2017, these operations provided the following transfers to the State: \$241.3 million from Racetrack Video Lottery, \$174.5 million from Limited Video Lottery, \$19.1 million from Racetrack Table Games, \$1.9 million from the Historic Resort, and \$40.2 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. In addition, the Lottery continues to regulate casino video lottery and table games at The Greenbrier Historic Resort, which serves as the State's only limited gaming facility.

The West Virginia State Budget included \$479.6 million in cash transfers from the Lottery. These included \$69.1 million for senior citizens, \$84.2 million for education, \$54.7 million for tourism, \$93 million to the State's General Fund, \$33.1 million to the Infrastructure Council, and \$116.5 million to other state agencies (including \$29 million to the PROMISE Scholarship Program).

A total of \$27.9 million was also paid to county and local municipalities across the state in FY 2017. These distributions are statutory transfers from Racetrack Video Lottery, Limited Video Lottery, Table Games and Historic Resort.

Overall sales in FY 2017 were \$1.1 billion, and total operating costs were under 2.9 percent. Continued fiscal responsibility resulted in the Lottery meeting its obligations to the State and generated a surplus in excess of budgeted amounts of \$59.3 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 2017 Lottery players won a total of \$85.3 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 2017, the payout rate averaged 90 percent, with an established payout range of 80 percent to 99 percent, that 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.

From 1994 to 2017, \$214.7 million of revenue generated by Racetrack Video Lottery was directed to advertising funds for the state tourism industry through a matching grants program established with the West Virginia Division of Tourism. In FY 2017, the Lottery contributed \$5.7 million to the Division of Tourism. In addition, Lottery revenue appropriated by the West Virginia Legislature from other gaming sources to the Division of Tourism totaled \$8.1 million. With additional appropriations for the Division of Natural Resources and the State Park Improvement Fund, the cash transfers used in enhancing the state's tourism industry was \$14.3 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 2017, a total of \$630,106 was generated to support these facilities.

In addition to Traditional Lottery dollars, West Virginia seniors also benefit from the license fees for Table Games which are directly deposited to the Bureau of Senior Services. In FY 2017, 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 \$69.1 million in Lottery revenue in FY 2017.

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 \$399.5 million to the PROMISE Scholarship Program.



Economic Outlook



The U.S. economy has experienced moderate growth since the economic downturn, with expansion expected to continue into the coming year. This expansion is supported by improvements in the labor market and growth in Gross Domestic Product (GDP)¹ and the value of exports. West Virginia is continuing to recover from the energy sector collapse in 2012. Growth in West Virginia exports, particularly non-manufacturing exports, and some potential gains associated with possible federal tax cuts could provide additional economic capacity in 2018.

The U.S. Bureau of Economic Analysis (BEA) reported annual average growth in GDP across all industries of roughly 4 percent from 2010 to 2016. This improvement was largely driven by the construction, accommodation and food services, professional and business services, and transportation and warehousing sectors. Despite these gains, the mining sector experienced an annual average decline in GDP of 3.4 percent from 2010 to 2016, primarily influenced by weakened energy prices and production in 2015 and 2016. The only other sector to experience decline during this timeframe, agriculture, forestry, fishing, and hunting, experienced a total decline of 0.2 percent from 2010 to 2016.

Nationally, the manufacturing sector exhibited annual average GDP growth of 3.1 percent, according to the BEA, driven by annual average growth of 4.0 percent in durable goods manufacturing, compared to a 2.2 percent per year average increase in non-durable goods GDP from 2010 to 2016. According to the U.S. International Trade Administration, the value of U.S. exports of manufacturing goods increased 2.5 percent per year on average from 2010 to 2016. Comparatively, the value of non-manufacturing exports increased 0.9 percent per year on average. The International Trade Administration noted year-over-year declines in the value of manufacturing exports in 2015 and 2016, indicating some weakening in the sector. The data indicate these declines are primarily driven by the value of non-durable manufactures. According to the U.S. Census Bureau, the deficit of U.S. trade in goods and services remains volatile but has generally exhibited some improvement since 2006. In the last decade, the value of goods and services exports has grown by nearly twice the rate as the value of imports.

According to the BEA, total U.S. employment rose by an annual average of 2.0 percent from 2010 to 2016, equating to roughly 20.6 million additional full- and part-time employees. This increase is largely attributed to employment gains in the health care and social assistance and accommodation and food services sectors, which contributed approximately 25.6 percent of additional employment over this period. Other top contributors include professional, scientific, and technical services and retail trade sectors. Sectors experiencing the largest employment losses included governments and telecommunications, which cumulatively lost approximately 470,000 employees.

The U.S. Bureau of Labor Statistics (BLS) reported the September 2017 unemployment rate to be 4.2 percent, the lowest level since prior to the economic recession. Monthly unemployment during the recession peaked at 10 percent in October 2009. Improvements in the labor market are contributing to nationwide average annual increases in personal consumption expenditures and personal income of 4.3 percent and 4.6 percent, respectively, from 2010 to 2016.

At the state level, the West Virginia economy has grown at a slower pace than the U.S., gaining an average of 1.5 percent per year in GDP across all industries from 2010 to 2016. Year-over-year GDP gains across all industries in the State have

slowed during this period, with year-over-year changes in 2015 and 2016 trending slightly negative. Sectors exhibiting the largest gains include accommodations and food services, administrative and waste management services, and health care and social assistance. The arts, entertainment, and recreation sector experienced the largest decline in GDP, falling by an average of 2.4 percent per year. Despite strong year-over-year gains in 2011, 2013, and 2014, GDP in the natural resources and mining sector fell by an annual average of 2.2 percent from 2010 to 2016. Reductions in natural resources prices and production contributed to this decline.

GDP in the West Virginia manufacturing sector grew by an annual average of 2.2 percent from 2010 to 2016, driven primarily by growth in durable goods manufacturing. Key subsectors contributing to this growth from 2010 to 2015 include the manufacture of motor vehicles and related parts and primary metals manufacturing. By comparison, nondurable goods manufacturing increased by an average of 1.1 percent per year, driven primarily by petroleum and coal products manufacturing, which increased by 11.3 percent per year on average from 2010 to 2015.

Despite moderate increases in manufacturing GDP, International Trade Administration data indicate that the value of West Virginia manufacturing exports increased by an average of 0.4 percent from 2010 to 2016. The value of West Virginia non-manufacturing exports fell by an average of 8.8 percent per year. While the value of oil and gas exports experienced an increase of roughly 3.9 percent per year on average, the value of minerals and ores exports declined by 9.1 percent. Overall, the total value of West Virginia exports fell by an average of 3.6 percent per year from 2010 to 2016. State economic growth accelerated in 2017, however, due largely to surges in exports. U.S. Census Bureau data indicate that the 12-month trailing trend of the value of foreign non-manufacturing goods exports is up 163 percent from October 2016 to August 2017.

A slower state economy has contributed to other impacts, including employment levels. According to the BEA, total full- and part-time employment in West Virginia fell by an average of 0.1 percent per year from 2010 to 2016, equating to roughly 7,200 full- and part-time jobs. This negative employment trend was largely influenced by employment reductions in the mining, government, and construction sectors. Employment in the health care and social assistance sector increased by roughly 0.7 percent per year on average, adding nearly 5,000 full- and part-time jobs from 2010 to 2016. Employment in the accommodations and food services sector increase by 1 percent per year on average, adding nearly 4,200 jobs during this period. The preliminary September 2017 unemployment rate for West Virginia was

5.1 percent, according to the BLS. Statewide, the rate fell 0.8 percentage points year-over-year, indicating continued post-recession improvement. Modest employment growth is expected in 2018.

Statewide personal consumption expenditures increased by 3.0 percent per year on average from 2010 to 2016, driven primarily by increased expenditures for services, including food, accommodations, and health care. Annual average expenditures on goods increased approximately 1.9 percent, driven largely by expenditures for motor vehicles and parts. Personal consumption expenditures for gasoline and other energy goods fell by 3.1 percent per year on average, largely due to falling prices for motor fuel and energy in 2015 and 2016. Year-over-year changes across all expenditures suggest some slowing in consumption, which could be indicative of cautious consumer confidence in light of recent reductions in employment.

West Virginia personal income increased by an average of 2.1 percent from 2010 to 2016, roughly 2.5 percentage points lower than the U.S. average. BEA data indicate that the rate of growth for personal income in the State is slowing. In addition, disposable income in West Virginia increased by an annual average of 1.9 percent from 2010 to 2016, compared to 4.1 percent per year on average at the national level. During this period, West Virginia has experienced a population decline of roughly 1.2 percent while the U.S. population has increased 4.5 percent. As of 2016, West Virginia per capita income was roughly 76.6 percent of U.S. per capita income.

Recent trends indicate that the West Virginia economy has experienced a period of growth over the last year. Natural resource production and prices have generally improved, the statewide unemployment rate is trending downward, and the value of non-manufacturing goods exports are increasing. Employment growth, however, remains fairly stagnant, contributing to slower growth in key General Revenue sources in FY2018 to date and cautious gains in personal consumption expenditures. Sluggish employment may be improved in the coming year as planned natural gas pipeline construction begins and highway construction and maintenance projects inject road bond improvement monies into the economy.

¹As of the time of this writing, 2016 GDP data was not available for all subsectors in West Virginia.

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

Lottery Products

The West Virginia Lottery currently provides players the opportunity to participate in a variety of 11 games:

INSTANT games the Lottery's first type of game, were introduced in January 1986. There are different ways to win in an instant or "scratch" game including matching three like dollar amounts, symbols or letters, or adding up numbers to a specified total. If the correct combination appears, the player becomes an "instant winner" without having to wait for the results of a drawing. The instant game offers a wide variety of game themes. During fiscal year 2017, there were 48 new games introduced. Instant games provided approximately 8.7 percent of total fiscal year 2017 sales at 1,482 retail locations.

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

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

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

POWERBALL® is an on-line game jointly operated by 44 state lotteries, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, who are members of the Multi-State Lottery Association (MUSL) or the Mega Millions® Group. This game was introduced in April 1992, revised in November 1997, October 2002, August 2005, January 2013, and October 4, 2015. Beginning March 2001, Powerball® added a feature called Power Play®, where winnings, other than the jackpot, can be multiplied from a random number drawn between 2 and 5. The game was expanded to new jurisdiction beginning January 31, 2010, when both Powerball® and Mega Millions® began cross-selling in most jurisdictions. January 12, 2013, the matrix changed to "5 of 59" for the first set and "1 of 35" for the second set. Also, the price point increased to \$2 per play plus \$1 for Power Play® where a multiplier was no longer used and the prizes are now set dollar values. October 4, 2015, the matrix changed to "5 of 69" for the first set and "1 of 26" for the second set. When playing the Power Play® option the match 5+0 prize becomes \$2 million and all lower prizes can be multiplied from a random number drawn between 2 and 5 and a 10x option was added if the jackpot is \$150 million or less. The jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 30 years with a guaranteed minimum jackpot of \$40 million. The jackpot increases each drawing if no winning ticket has matched the first set of 5 numbers and matched the "Powerball®" number of the second set. Powerball® offers eight secondary prizes of fixed amounts ranging from \$4 to \$1,000,000. Drawings are held twice weekly on Wednesday and Saturday. Powerball® sales are approximately 3.2 percent of total 2017 sales at 1,482 retail locations.

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

of \$15 million. Mega Millions® offers eight secondary prizes of fixed amounts ranging from \$1 to \$1,000,000. Drawings are held twice weekly on Tuesday and Friday. Mega Millions® sells at 1,482 retail locations.

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

KENO BONUS is a game restricted to lottery retailers with specific types of West Virginia Alcohol Beverage Control Administration licenses and was introduced in December 1992. The player selects from 1 to 10 numbers and the Lottery computer randomly picks 20 numbers between 1 and 80. With the Keno Bonus multiplier option, players have a chance to increase their winnings. Drawings are held every five minutes from 5:05 a.m. through 2:45 a.m. The winning numbers are displayed on monitors at 255 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, 2017, the West Virginia Lottery Commission had an average of 6,109 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 48.3 percent of total 2017 sales.

LIMITED VIDEO LOTTERY games were approved by the Legislature in April 2001. The legislation provides up to 9,000 video lottery terminals to be placed in retailer locations with specific types of West Virginia Alcohol Beverage Control Administration licenses. The first terminals were enabled for play on December 17, 2001. A total of 6,236 terminals were operating at licensed retail locations throughout the state as of June 30, 2017. Limited video lottery sales were 32.2 percent of total 2017 sales at 1,325 operating retailer locations.

TABLE GAMES were implemented in fiscal year 2008 when the West Virginia Legislature passed the Racetrack Table Games Act, making table games available to the four racetracks in the state subject to passage of local referendums. In October 2007, two racetracks (Mountaineer Casino Racetrack & Resort and Wheeling Island Hotel, Casino & Racetrack) began operating with poker tables only and added full table games in December 2007. In August 2008, a third racetrack (Mardi Gras Casino & Resort) began operating with poker tables only and added full table games in October 2008. The fourth racetrack (Hollywood Casino at Charles Town Races) began operating full table games on July 1, 2010. Games offered are Poker, Blackjack, Caribbean Stud, Craps, Roulette, Three and Four Card Poker, and other miscellaneous games. Racetrack Table Games sales were 3.6 percent of total 2017 sales.

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



Accomplishments

- Lottery sales exceeded the \$1 billion mark for the 15th consecutive year in FY 2017. Lottery sales totaled nearly \$1.1 billion for the year ending June 30, 2017, and resulted in a cash transfer of more than \$477 million to the State of West Virginia.
- The conversion process to replace the current video lottery central monitoring and control system began this fiscal year. Scientific Games Corporation was awarded the contract and the company's latest central monitoring and control system, Connexus™ will replace the Scientific Games AEGIS™ video system. The new system will operate and control both limited video lottery at 1,325 retailers and video lottery at the state's casinos.
- The Lottery's Request for Quotation (RFQ) for a comprehensive advertising contract that includes agency support in a variety of marketing and advertising aspects was released. Digital Relativity, a marketing agency based in Fayetteville was awarded the bid. Digital Relativity began work in January 2017.
- 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 Lottery's Request for Proposal (RFP) for its traditional gaming system and services contract was released in 2017. The conversion will include a new player convenience app for mobile phone users, along with other gaming and technological advances.
- 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 20th consecutive year.
- West Virginia residents continued to become millionaires in FY 2017 with five \$1 million or more cash prize wins from the Lottery's top-selling jackpot games – Powerball® and Mega Millions®.



Financial Information

ENTERPRISE OPERATIONS

The West Virginia Lottery operating activities include sales of instant and on-line tickets, the regulation of video lottery and table game operations to the general public and the related supporting functions: personnel, finance and administration, video, marketing, security, table games and licensing. No general government functions or operations are managed by the Lottery or included in this report. Sales in fiscal year 2017 decreased 5.0 percent to \$1.080 billion from \$1.137 billion in fiscal year 2016. Distributions to the State of West Virginia decreased 4.8 percent from \$501.3 million in fiscal year 2016 to \$477.1 million in fiscal year 2017.

ACCOUNTING SYSTEM AND POLICIES

The West Virginia Lottery operates as an enterprise fund that, like a private business, utilize 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 171 employees; the majority of the staff is located at Lottery headquarters. The drawing studio is located at the broadcast facility of the television station in Charleston, West Virginia, which produces the nightly drawings.

Financial Information

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the West Virginia Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the 20th consecutive year that the West Virginia Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

FUTURE PROJECTS

- The conversion to Scientific Games Corporation's new video lottery central monitoring and control system, Connexus™ video system will be completed in FY 2018. The term of the contract is 10 years with one-year extension options and the system will operate and control both limited video lottery and video lottery at the casinos throughout the State.
- The conversion process to replace the current traditional gaming system is scheduled to begin in the first quarter of fiscal 2018. IGT Global Solutions Corporation was awarded the contract and the company's latest system, Aurora, will replace the GTECH Enterprise gaming system. The term of the contract is 7 years with 3 one year extension options. The new system and equipment is slated to go live on July 1, 2019.

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; Michael Thaxton, Product Development Manager; Jennifer Miller, Product Development Assistant; Mike Ross, Advertising Manager; Sara Harpold, Advertising Manager; Kayla Brown-Gidordano, Corporate Accounts and Contract Compliance Manager; and Randy Burnside, Public Relations. We could not have successfully completed this report without their efficient and dedicated services. The Lottery continues its commitment to providing thorough and relevant financial information to the public.

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



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Lottery

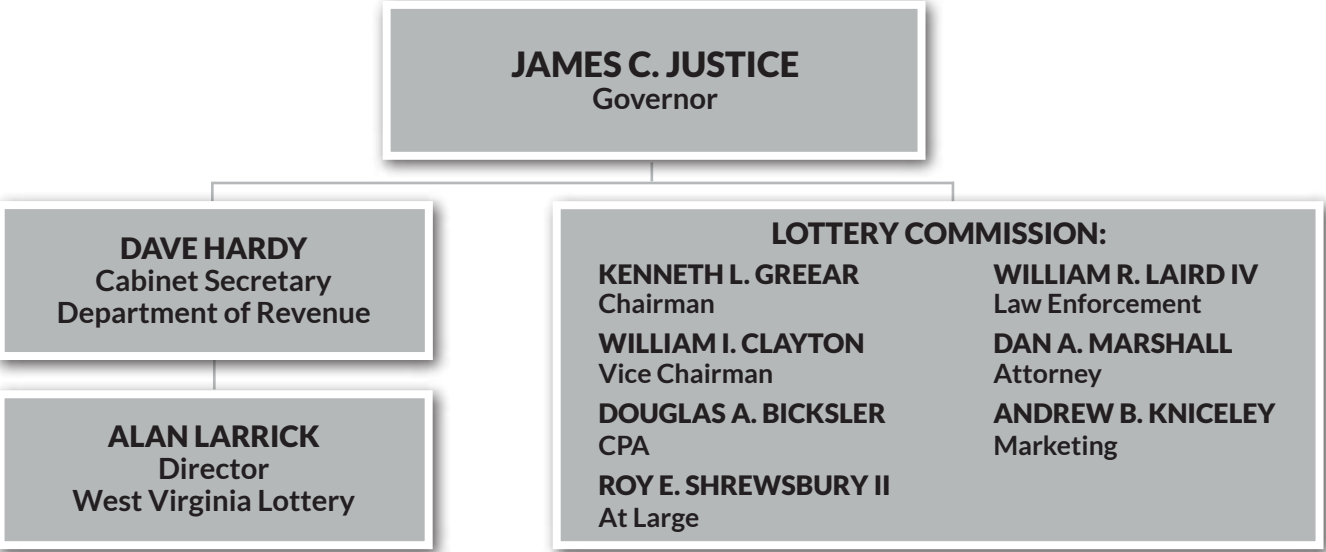
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

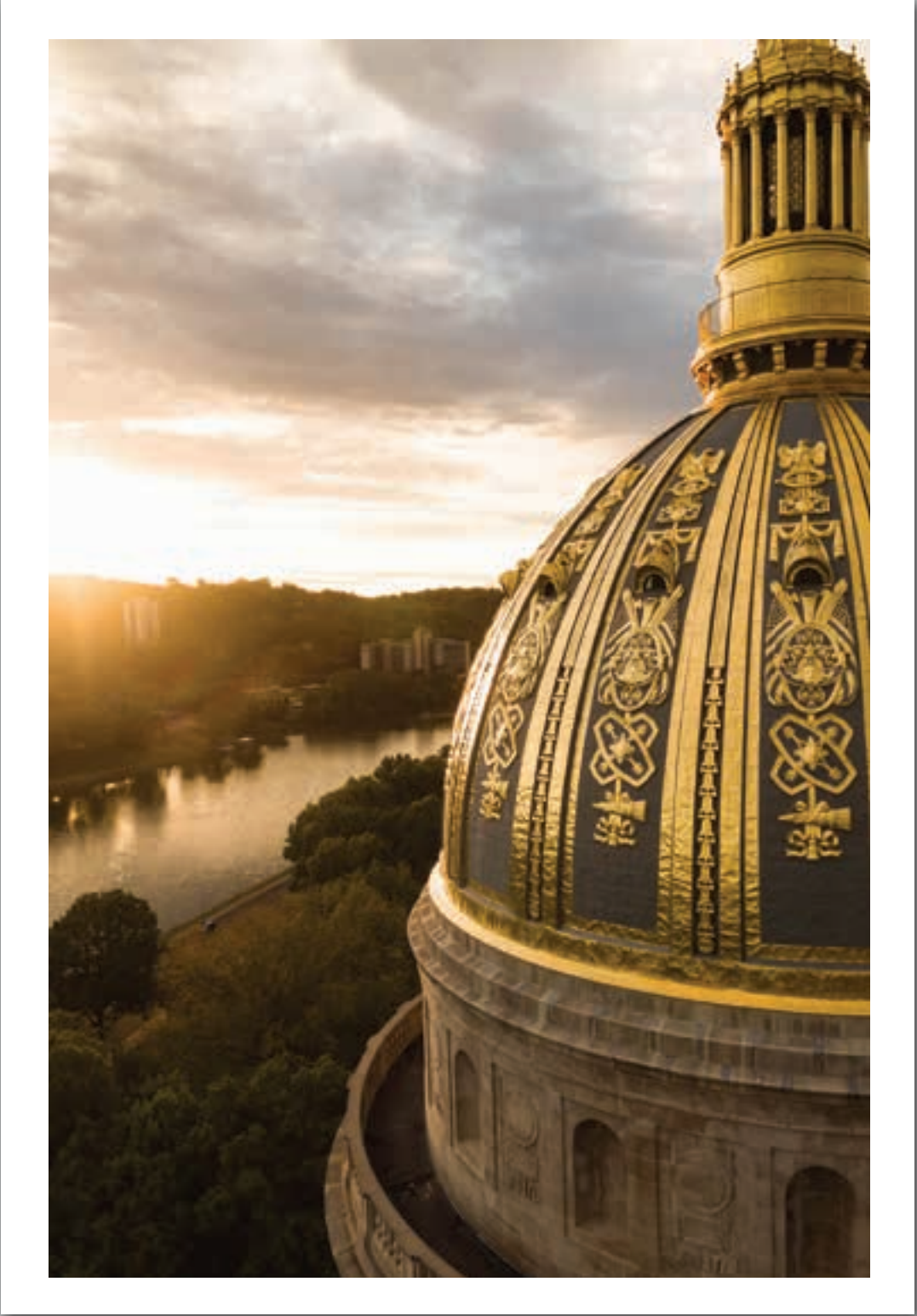
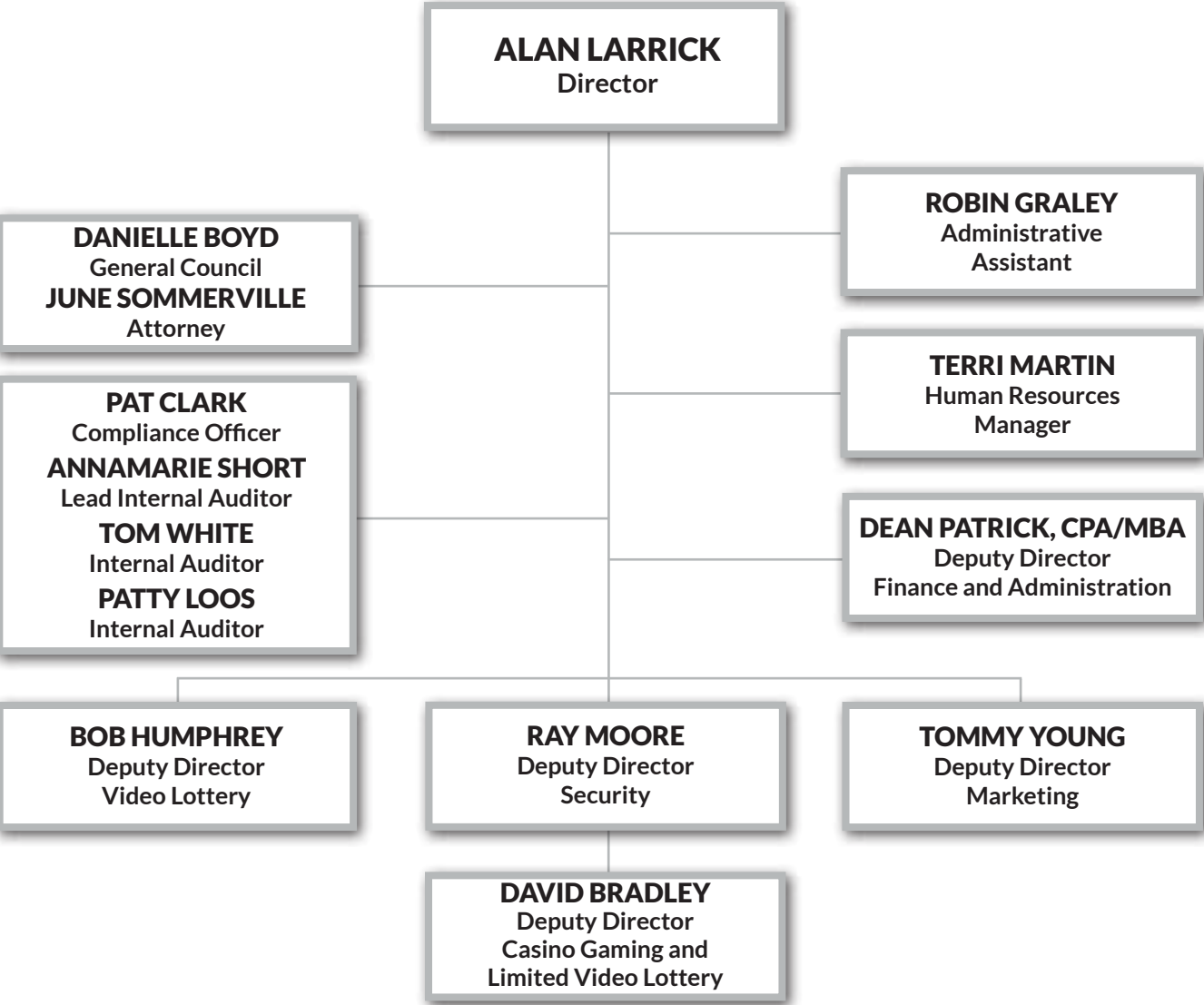
A handwritten signature in black ink, reading "Jeffrey R. Enen".

Executive Director/CEO

West Virginia Lottery



Executive Organizational Chart



Financial Section



300 Chase Tower
202 Virginia Street, East
Charleston, West Virginia 25301
Office: 304.345.8400
Fax: 304.345.8451

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 25, and the schedule of the proportionate share of the net pension liability and the schedule of contributions to the PERS on pages 56 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

J. Gibbons & Kuwash, A.C.

Charleston, West Virginia
September 26, 2017

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, 2017 and 2016. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2017, and the prior year refers to fiscal year ending June 30, 2016. This analysis is to be considered in conjunction with the financial statements, which begin on page 26.

Financial Highlights

The Lottery's operating income decreased in 2017 and decreased in 2016. The 2017 and 2016 decreases were due to competition from neighboring states. The following summary is provided below:

- Lottery revenues for the current year decreased \$57.1 million or 5.0% compared to the prior year, which decreased \$27.4 million or 2.4% from 2015.
- Commissions for the current year decreased \$17.9 million or 3.7% compared to the prior year, which decreased \$18.0 million or 3.6% from 2015.
- Gross profit for the current year decreased \$25.2 million or 4.8% compared to the prior year, which decreased \$14.5 million or 2.7% from 2015.
- Nonoperating expenses decreased \$27.6 million or 5.3% compared to the prior year, which decreased \$8.9 million or 1.7% from 2015. The predominant nonoperating expense is the distributions to the State of West Virginia, which decreased \$24.2 million or 4.8% compared to the prior year, which decreased \$7.0 million or 1.4% from 2015.

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

As shown in Table 1, current assets for the current year decreased \$9.3 million or 4.8% compared to the prior year, which decreased \$4.4 million or 2.2% from 2015, due to the timing of distributions to the State of West Virginia at year-end.

Capital assets, net of accumulated depreciation and amortization, decreased in the current year by \$1.1 million or 2.4% compared to the prior year which increased by \$7.1 million or 18.8% from 2015, due to renovations and depreciation of the Lottery headquarters building. For additional information on capital assets, please refer to Note 4 to the financial statements.

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis (Continued)

-Unaudited-

Statements of Net Position (Continued)

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

	2017	2016	2015
Assets			
Current assets	\$ 186,118	\$ 195,432	\$ 199,872
Restricted assets	-	-	1,130
Capital assets, net of accumulated depreciation and amortization	43,779	44,874	37,763
Total assets	\$ 229,897	\$ 240,306	\$ 238,765
Deferred Outflows of Resources			
Deferred outflows of resources related to pension	\$ 2,795	\$ 2,573	\$ 1,099

As shown in Table 2, the Lottery's current liabilities for the current year decreased \$11.0 million or 5.9% compared to the prior year, which increased \$3.9 million or 2.2% compared to 2015 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 decreased in the current year by \$1.1 million or 2.4% due to depreciation, compared to the prior year which increased by \$7.1 million or 18.8% compared to 2015, due to renovations of the Lottery headquarters building. Refer to Note 4 to the financial statements for additional information on capital assets.

Net position - unrestricted changed in fiscal year 2016 due to the conversion of cash into capital assets. Net position remained stable for the year ended June 30, 2017, compared to fiscal year 2016.

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis (Continued)

-Unaudited-

Statements of Net Position (Continued)

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

	2017	2016	2015
Current liabilities	\$ 174,506	\$ 185,465	\$ 181,520
Noncurrent liabilities	4,800	3,044	2,035
Total liabilities	\$ 179,306	\$ 188,509	\$ 183,555
Deferred inflows of resources related to pension	\$ 367	\$ 1,998	\$ 2,153
Net position - restricted by enabling legislation	\$ -	\$ -	\$ 1,130
Net position - net investment in capital assets	43,779	44,874	37,763
Net position - unrestricted	9,240	7,498	15,263
Total net position	\$ 53,019	\$ 52,372	\$ 54,156

Capital Assets

Capital assets as of June 30, 2017 amounted to \$55.7 million (at cost). This investment in capital assets includes land, building, construction in progress and equipment. The total decrease in capital assets for the current fiscal year was 0.4%.

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

	2017	2016	2015
Construction in progress	\$ 1,350	\$ 1,164	\$ 1,090
Land	1,434	1,434	1,434
Building	46,207	46,207	38,084
Equipment	6,741	7,155	7,155
Total assets	\$ 55,732	\$ 55,960	\$ 47,763

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

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis (Continued)

-Unaudited-

Revenues, Expenses and Changes in Fund Net Position

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

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

	2017	2016	2015
Revenues:			
On-line games	\$ 72,110	\$ 85,660	\$ 76,724
Instant games	94,369	102,542	103,276
Racetrack video lottery	521,318	537,729	557,803
Limited video lottery	347,555	360,814	373,221
Table games	38,958	43,545	46,928
Historic resort	5,207	6,346	6,052
	<u>1,079,517</u>	<u>1,136,636</u>	<u>1,164,004</u>
Less commissions:			
On-line games	5,043	6,001	5,372
Instant games	6,606	7,178	7,229
Racetrack video lottery	268,177	275,496	286,778
Limited video lottery	170,302	176,799	182,878
Table games	16,512	18,453	19,885
Historic resort	2,733	3,302	3,069
	<u>469,373</u>	<u>487,229</u>	<u>505,211</u>
Less on-line prize costs	36,227	43,132	38,162
Less instant ticket prize costs	61,959	67,695	68,314
Less ticket costs	1,408	1,618	1,516
Less vendor fees and costs	6,915	8,116	7,456
	<u>106,509</u>	<u>120,561</u>	<u>115,448</u>
Gross profit	<u>503,635</u>	<u>528,846</u>	<u>543,345</u>
Administrative expenses:			
Advertising and promotions	4,157	4,975	5,229
Wages and related benefits	10,305	9,885	10,266
Telecommunications	1,037	965	944
Contractual and professional	4,520	4,560	5,160
Rental	394	425	271
Depreciation and amortization	1,281	1,086	1,354
Other administrative expenses	1,572	1,230	1,466
	<u>23,266</u>	<u>23,126</u>	<u>24,690</u>
Other operating income	<u>10,677</u>	<u>10,528</u>	<u>11,313</u>
Operating income	<u>491,046</u>	<u>516,248</u>	<u>529,968</u>
Nonoperating income (expense):			
Investment income	934	788	406
Distributions to municipalities and counties	(6,812)	(7,072)	(7,315)
Distributions for capital reinvestment	(7,468)	(10,446)	(11,717)
Distributions to the State of West Virginia	(477,053)	(501,302)	(508,329)
	<u>(490,399)</u>	<u>(518,032)</u>	<u>(526,955)</u>
Net Income	<u>647</u>	<u>(1,784)</u>	<u>3,013</u>
Net position, beginning of year	<u>52,372</u>	<u>54,156</u>	<u>51,143</u>
Net position, end of year	<u>\$ 53,019</u>	<u>\$ 52,372</u>	<u>\$ 54,156</u>

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis (Continued)

-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 2017, 2016, and 2015. 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*		
	2017	2016	2015	2017	2016	2015
Gross sales	\$ 94,369	\$ 102,542	\$ 103,276	\$ 72,110	\$ 85,660	\$ 76,724
Less direct costs:						
Prizes and bonuses	61,959	67,695	68,314	36,227	43,132	38,162
Commissions	6,606	7,178	7,229	5,043	6,001	5,372
Ticket printing costs	1,408	1,618	1,516	-	-	-
Vendor fees and costs	3,913	4,389	4,286	3,002	3,727	3,170
Total direct costs	73,886	80,880	81,345	44,272	52,860	46,704
Gross Profit	\$ 20,483	\$ 21,662	\$ 21,931	\$ 27,838	\$ 32,800	\$ 30,020
Gross profit percentage	21.7%	21.1%	21.2%	38.6%	38.3%	39.1%
* 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		
	2017	2016	2015	2017	2016	2015
Gross sales	\$ 521,318	\$ 537,729	\$ 557,803	\$ 347,555	\$ 360,814	\$ 373,221
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	268,177	275,496	286,778	170,302	176,799	182,878
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	268,177	275,496	286,778	170,302	176,799	182,878
Gross Profit	\$ 253,141	\$ 262,233	\$ 271,025	\$ 177,253	\$ 184,015	\$ 190,343
Gross profit percentage	48.6%	48.8%	48.6%	51.0%	51.0%	51.0%

	Table Games			Historic Resort			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Gross sales	\$ 38,958	\$ 43,545	\$ 46,928	\$ 5,207	\$ 6,346	\$ 6,052	\$ 1,079,517	\$ 1,136,636	\$ 1,164,004
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-	98,186	110,827	106,476
Commissions	16,512	18,453	19,885	2,733	3,302	3,069	480,373	487,229	505,211
Ticket printing costs	-	-	-	-	-	-	1,408	1,618	1,516
Vendor fees and costs	-	-	-	-	-	-	6,915	8,116	7,456
Total direct costs	16,512	18,453	19,885	2,733	3,302	3,069	575,882	607,790	620,659
Gross Profit	\$ 22,446	\$ 25,092	\$ 27,043	\$ 2,474	\$ 3,044	\$ 2,983	\$ 503,635	\$ 528,846	\$ 543,345
Gross profit percentage	57.6%	57.6%	57.6%	47.5%	48.0%	49.3%	46.7%	46.5%	46.7%

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis (Continued)

-Unaudited-

Instant Sales

Instant ticket sales for the current year decreased by \$8.2 million or 8.0% compared to the prior year, which decreased \$0.7 million or 0.7% from 2015. Forty-eight games were introduced in 2017 and approximately twenty-eight 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, play styles, and colors to create the best variety of games available. There were three ten-dollar, and two twenty-dollar tickets introduced in 2017. There were also eight five-dollar tickets and eight three-dollar tickets introduced. The Lottery has also implemented the use of pre-printed "shelf games" used to provide immediate stock should field inventory become low. These shelf games are worked into the schedule and used within one year in the event they are not used for emergency.

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

Vendor fees and costs are primarily 4.3% of instant and on-line ticket sales for 2017, 2016, and 2015. The Lottery (as is the case with most lotteries located in North America) has elected to enter into a long-term contract with a vendor to provide a central computer system, retailer terminals and related equipment to sell and cash all tickets for instant and on-line games.

Powerball® Sales

Powerball® is a \$2 Multi-State (MUSL) Lottery game designed to grow large jackpot amounts, with occasional jackpots in excess of \$400 million. Sales for the current year decreased \$12.0 million or 25.9% compared to the prior year, which increased \$12.5 million or 36.5% from 2015. 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 decreased \$1.0 million or 8.1% compared to the prior year, which decreased \$1.6 million or 11.7% from 2015.

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

All Other On-line Games

All other on-line games consist of Daily 3, Daily 4, Cash 25, Travel Keno and the Multi-State game Hot Lotto™. Sales for the current year decreased \$0.5 million or 2.0% compared to the prior year, which decreased \$1.9 million or 6.7% from 2015.

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis (Continued)

-Unaudited-

All Other On-line Games (Continued)

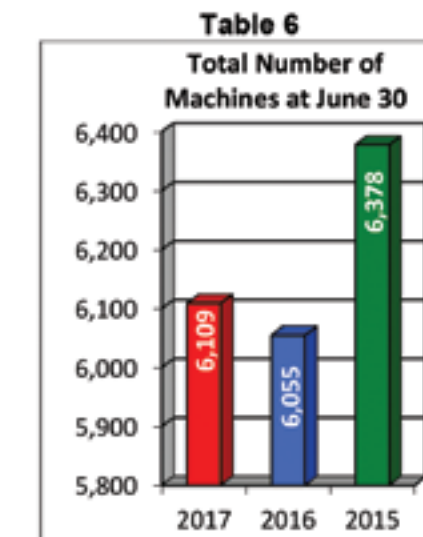
In general, prize costs by game will increase or decrease from year-to-year in proportion to the sales for a particular game. Prizes and commissions have remained consistent as presented in Table 4.

Racetrack Video Lottery

Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year decreased \$16.4 million or 3.1% compared to the prior year, which decreased \$20.1 million or 3.6% from 2015.

A portion of racetrack video lottery sales, as prescribed by statute, are paid to racetracks and other private entities associated with the racing industry and are reported as commissions. See Note 6 to the financial statements for further discussion of racetrack video lottery distributions. Commissions in the current year decreased \$7.3 million or 2.7% compared to the prior year which decreased \$11.3 million or 3.9% compared to 2015 due to competition from neighboring states.

During the year ended June 30, 2017, 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.



Limited Video Lottery

Sales for the current year decreased \$13.3 million or 3.7% compared to the prior year, which decreased \$12.4 million or 3.3% from 2015. Commissions are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales. For the current year, commissions decreased \$6.5 million or 3.7% compared to the prior year decrease of \$6.1 million or 3.3% from 2015.

Table 7 illustrates the number of machines which decreased by 70 machines for the current year compared to the prior year decrease of 151 machines from 2015.

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis (Continued)

-Unaudited-

Limited Video Lottery (Continued)

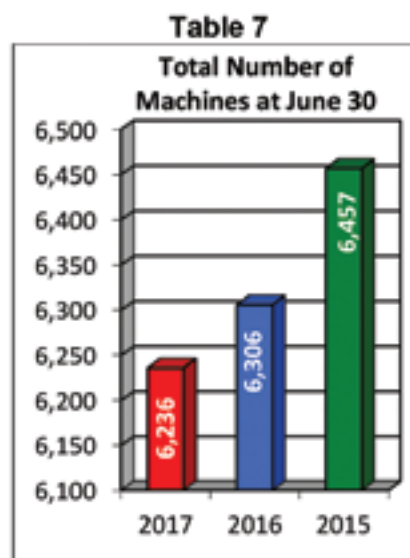


Table Games

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues for the current year decreased \$4.6 million or 10.5% compared to the prior year, which decreased \$3.4 million or 7.2% from 2015.

A portion of table games revenues are paid to entities associated with the racetracks and are reported as commissions. See Note 8 to the financial statements. Commissions for the current year decreased \$1.9 million or 10.5% compared to the prior year, which decreased \$1.4 million or 7.2% from 2015.

Historic Resort

Video Lottery revenues from Historic Resort are calculated as defined in Note 9 to the financial statements. Revenues from Historic Resort table games are calculated at a 35% privilege tax of adjusted gross receipts.

Combined revenues of video lottery and table games at the Historic Resort for the current year decreased \$1.1 million or 17.9% compared to the prior year, which increased \$294 thousand or 4.9% from 2015.

A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions for the current year decreased \$570 thousand or 17.3% compared to the prior year, which increased \$233 thousand or 7.6% from 2015.

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis (Continued)

-Unaudited-

Other Operating Income

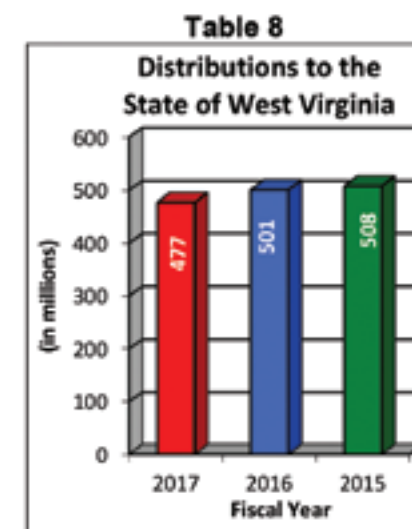
Refer to Table 4. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers.

Nonoperating Income (Expense)

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

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

Refer to Table 8. The Lottery's distributions to the State of West Virginia for the current fiscal year decreased by \$24.0 million compared to the prior year, which decreased by \$7.0 million from 2015.



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, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 156,550	\$ 166,621
Accounts receivable	27,533	26,643
Inventory	553	380
Other assets	1,482	1,788
Total current assets	<u>186,118</u>	<u>195,432</u>
Noncurrent assets:		
Capital assets	55,732	55,960
Less accumulated depreciation and amortization	(11,953)	(11,086)
Total noncurrent assets	<u>43,779</u>	<u>44,874</u>
Total assets	<u>\$ 229,897</u>	<u>\$ 240,306</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension	<u>\$ 2,795</u>	<u>\$ 2,573</u>
LIABILITIES		
Current liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 132,693	\$ 135,265
Estimated prize claims	15,621	15,981
Accounts payable	1,404	1,961
Other accrued liabilities	24,788	32,258
Total current liabilities	<u>174,506</u>	<u>185,465</u>
Noncurrent liabilities:		
Net pension liability	<u>4,800</u>	<u>3,044</u>
Total liabilities	<u>\$ 179,306</u>	<u>\$ 188,509</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension	<u>\$ 367</u>	<u>\$ 1,998</u>
NET POSITION		
Net position:		
Net investment in capital assets	\$ 43,779	\$ 44,874
Unrestricted	9,240	7,498
Total net position	<u>\$ 53,019</u>	<u>\$ 52,372</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, 2017 and 2016

	2017	2016
Lottery revenues:		
On-line games	\$ 72,110	\$ 85,660
Instant games	94,369	102,542
Racetrack video lottery	521,318	537,729
Limited video lottery	347,555	360,814
Table games	38,958	43,545
Historic resort	5,207	6,346
	<u>1,079,517</u>	<u>1,136,636</u>
Less commissions:		
On-line games	5,043	6,001
Instant games	6,606	7,178
Racetrack video lottery	268,177	275,496
Limited video lottery	170,302	176,799
Table games	16,512	18,453
Historic resort	2,733	3,302
	<u>469,373</u>	<u>487,229</u>
Less on-line prize costs	36,227	43,132
Less instant prize costs	61,959	67,695
Less ticket costs	1,408	1,618
Less vendor fees and costs	6,915	8,116
	<u>106,509</u>	<u>120,561</u>
Gross profit	<u>503,635</u>	<u>528,846</u>
Administrative expenses:		
Advertising and promotions	4,157	4,975
Wages and related benefits	10,305	9,885
Telecommunications	1,037	965
Contractual and professional	4,520	4,560
Rental	394	425
Depreciation and amortization	1,281	1,086
Other administrative expenses	1,572	1,230
	<u>23,266</u>	<u>23,126</u>
Other operating income	10,677	10,528
Operating income	<u>491,046</u>	<u>516,248</u>
Nonoperating income (expense):		
Investment income	934	788
Distributions to municipalities and counties	(6,812)	(7,072)
Distributions for capital reinvestment	(7,468)	(10,446)
Distributions to the State of West Virginia	(477,053)	(501,302)
	<u>(490,399)</u>	<u>(518,032)</u>
Increase (decrease) in net position	<u>647</u>	<u>(1,784)</u>
Net position, beginning of year	<u>52,372</u>	<u>54,156</u>
Net position, end of year	<u>\$ 53,019</u>	<u>\$ 52,372</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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,089,304	\$ 1,154,450
Cash payments for:		
Personnel costs	(10,181)	(10,140)
Suppliers	(12,097)	(12,135)
Other operating costs	(580,168)	(607,531)
Cash provided by operating activities	<u>486,858</u>	<u>524,644</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(479,625)	(489,957)
Distributions to municipalities and counties	(6,808)	(7,117)
Distributions to racetracks from racetrack capital reinvestment fund	(11,309)	(18,203)
Cash used in noncapital financing activities	<u>(497,742)</u>	<u>(515,277)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>(186)</u>	<u>(8,197)</u>
Cash flows from investing activities:		
Investment earnings	<u>999</u>	<u>729</u>
Net increase (decrease) in cash and cash equivalents	(10,071)	1,899
Cash and cash equivalents, beginning of year	<u>166,621</u>	<u>164,722</u>
Cash and cash equivalents, end of year	<u>\$ 156,550</u>	<u>\$ 166,621</u>

(Continued)

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS
(In Thousands)
(Continued)

Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 491,046	\$ 516,248
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,281	1,086
Pension expense	766	360
Changes in operating accounts:		
(Increase) decrease in:		
Accounts receivable	(890)	7,286
Inventory	(173)	77
Other assets	241	165
Deferred outflows of resources	(863)	(980)
Increase (decrease) in:		
Estimated prize claims	(360)	70
Accounts payable	(557)	(197)
Other accrued liabilities	<u>(3,633)</u>	<u>529</u>
Cash provided by operating activities	<u>\$ 486,858</u>	<u>\$ 524,644</u>

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS

1 - LEGISLATIVE ENACTMENT

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

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Use of Estimates

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

Lottery Game Operations

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

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

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

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

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

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

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

Cash and Cash Equivalents

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

Inventory

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Assets

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

Capital Assets

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

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

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

Accrued Employee Benefits

Employees fully vest in all earned but unused annual leave. In accordance with State personnel policies, employees hired prior to July 1, 2001, vest in unused sick leave only upon retirement, at which time such unused leave can be converted into post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits. To the extent that eligible conversion benefits are determined, a liability has been accrued as a result of the Lottery's participation in the State's post-employment benefits plan, in accordance with GAAP. The Lottery accrues a liability for estimated liabilities that may arise in connection with compensated absences at the current rate of employee pay. The Lottery's annual leave transactions for years ending June 30, 2017 and June 30, 2016 are as follows (in thousands):

	Year Ending June 30	
	2017	2016
Beginning estimated liabilities	\$ 570	\$ 564
Leave expenses incurred	574	570
Leave expenses paid	570	564
Ending estimated liabilities	\$ 574	\$ 570
Liabilities estimated to be paid in one year	\$ 574	\$ 570

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments of the PERS are reported at fair value.

Deferred Outflows of Resources/Deferred Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Currently the Lottery has recognized deferred outflows of resources related to pensions (See Note 11). Deferred inflows of resources represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Currently the Lottery has recognized deferred inflows of resources related to pensions (See Note 11).

Net Position

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

Operating Revenues and Expenses

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

Advertising and Promotions

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

3 - CASH AND CASH EQUIVALENTS

At June 30, 2017 and 2016, the carrying amounts of deposits with financial institutions were \$468 thousand and \$1,430 thousand, respectively, with bank balances of \$553 and \$1,445 thousand, respectively. Deposits up to \$250 thousand are insured by the Federal Depositary 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, 2017 and 2016, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

	2017	2016
Deposits with financial institutions	\$ 468	\$ 1,430
Cash on hand at the Treasurer's Office	17,239	7,386
Investments with BTI reported as cash equivalents	138,843	157,805
	<u>\$ 156,550</u>	<u>\$ 166,621</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.

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

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

The BTI limits the exposure to credit risk in the West Virginia Money Market Pool by requiring all corporate bonds to be rated A+ by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. The pool must have at least 15% of its assets in United States Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America.

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 358,377	20.10%
	P-1	A-1	706,150	39.60
Corporate bonds and notes	Aa3	AA-	6,285	0.35
	A1	A	3,200	0.18
U.S. Treasury notes *	Aaa	AA+	97,823	5.49
U.S. Treasury bills *	P-1	A-1+	69,837	3.92

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Negotiable certificates of deposit	P-1	A-1+	174,000	9.76
	P-1	A-1	156,476	8.78
Money market funds	Aaa	AAAm	100,005	5.61
Repurchase agreements (underlying securities):				
U.S. Treasury notes *	P-1	A-1	50,000	2.80
U.S. Treasury notes *	NR	A-1	60,800	3.41
			<u>\$1,782,953</u>	<u>100.00%</u>

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

The BTI limits the exposure to credit risk in the West Virginia Short Term Bond Pool by requiring all corporate bonds to be rated BBB- or higher by Standard & Poor's (or its equivalent). Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's and Aaa by Moody's. The pool must have at least 15% of its assets in United States Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. The following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 9,963	1.32%
	P-1	A-1	13,940	1.85
Corporate asset backed securities	Aaa	AAA	68,441	9.06
	Aaa	NR	79,853	10.58
	NR	AAA	67,375	8.92
	NR	AA	2,003	0.26
Corporate bonds and notes	Aaa	AA+	2,935	0.39
	Aaa	AA+	4,019	0.53
	Aa1	AA+	5,027	0.67
	Aa2	AA+	4,036	0.53
	Aa2	AA	6,989	0.93
	Aa2	AA-	17,124	2.27
	Aa3	AA-	15,106	2.00
	Aa2	A	4,011	0.53
	Aa3	A+	1,104	0.15
	A1	AA-	16,588	2.20

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Corporate bonds and notes (continued)				
	A1	A+	19,078	2.53
	A1	A	6,355	0.84
	A1	A-	7,276	0.96
	A2	A+	2,616	0.35
	A2	A	25,032	3.32
	A2	A-	10,079	1.33
	A3	A	10,747	1.42
	A3	A-	30,242	4.01
	A3	BBB+	20,183	2.67
	Baa1	A	1,501	0.20
	Baa1	A-	11,991	1.59
	Baa1	BBB+	47,392	6.28
	Baa1	BBB	8,495	1.12
	Baa2	A-	1,018	0.13
	Baa2	BBB	28,770	3.81
	Baa2	BBB-	3,000	0.40
	Baa2	NR	2,000	0.26
	Baa2	BBB+	10,268	1.36
	Baa3	BBB	15,627	2.07
	Baa3	BBB-	7,166	0.95
	Ba1	BBB	2,005	0.27
	Ba1	BBB-	2,304	0.31
	Ba2	BBB-	824	0.11
	NR	BBB+	2,637	0.35
	NR	BBB-	1,990	0.26
U.S. agency mortgage backed securities	Aaa	AA+	37,287	4.94
Corporate mortgage backed securities	Aaa	AAA	4,217	0.56
	Aaa	NR	17,281	2.29
U.S. Treasury notes *	Aaa	AA+	87,588	11.60
Money market funds	Aaa	AAAm	11,479	1.52
			\$ 754,962	100.00%

NR = Not Rated

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 110,800	3
U.S. Treasury notes	97,823	44
U.S. Treasury bills	69,837	88
Commercial paper	1,064,527	36
Certificates of deposit	330,476	41
Corporate bonds and notes	9,485	79
Money market funds	100,005	3
	<u>\$ 1,782,953</u>	

The weighted average maturity of the investments of the West Virginia Money Market Pool as of June 30, 2017 is 36 days.

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

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
Corporate bonds and notes	\$ 355,535	412
Corporate asset backed securities	217,672	423
Commercial paper	23,903	113
U.S. Treasury bonds and notes	87,588	766
U.S. agency mortgage backed securities	37,287	148
Corporate mortgage backed securities	21,498	347
Money market funds	11,479	1
	<u>\$ 754,962</u>	

The effective duration of the investments in the West Virginia Short Term Bond Pool as of June 30, 2017 is 426 days.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single corporate issuer. West Virginia statutes prohibit the West Virginia Money Market Pool and West Virginia Short Term Bond Pool from investing more than 5% of its assets in securities issued by one corporate name or corporate issue. At June 30, 2017, the pool did not have any investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk – 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 the investment or collateral securities that are in the possession of an outside party. At June 30, 2017, neither the West Virginia Money Market Pool nor West Virginia Short Term Bond Pool held securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102%, and the collateral is held in the name of the BTI.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will affect the fair value of an investment or a deposit. At June 30, 2017, neither the West Virginia Money Market Pool nor West Virginia Short Term Bond Pool held securities that were subject to foreign currency risk.

4 - CAPITAL ASSETS

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

	Historical cost at June 30, 2015	Additions	Deletions	Historical cost at June 30, 2016	Additions	Deletions	Historical cost at June 30, 2017
Capital assets, not depreciated							
Construction in progress	\$ 1,090	\$ 74	\$ -	\$ 1,164	\$ 186	\$ -	\$ 1,350
Land	1,434	-	-	1,434	-	-	1,434
Capital assets, being depreciated							
Building	38,084	8,123	-	46,207	-	-	46,207
Improvements	260	-	-	260	-	(260)	-
Equipment	6,895	-	-	6,895	-	(154)	6,741
	<u>\$ 47,763</u>	<u>\$ 8,197</u>	<u>\$ -</u>	<u>\$ 55,960</u>	<u>\$ 186</u>	<u>\$ (414)</u>	<u>\$ 55,732</u>
	Accumulated depreciation at June 30, 2015	Additions	Deletions	Accumulated depreciation at June 30, 2016	Additions	Deletions	Accumulated depreciation at June 30, 2017
Building	\$ 3,093	\$ 971	\$ -	\$ 4,064	\$ 1,183	\$ -	\$ 5,247
Improvements	260	-	-	260	-	(260)	-
Equipment	6,847	115	-	6,762	98	(154)	6,706
	<u>\$ 10,000</u>	<u>\$ 1,086</u>	<u>\$ -</u>	<u>\$ 11,086</u>	<u>\$ 1,281</u>	<u>\$ (414)</u>	<u>\$ 11,953</u>

5 - PARTICIPATION IN THE MULTI-STATE LOTTERY

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

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

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

Revenues derived from the Lottery's participation in the MUSL POWERBALL® jackpot game were \$34,514,013 and \$46,553,463 for the years ended June 30, 2017 and 2016, respectively, and related prize costs were \$17,258,816 and \$23,293,171, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$4,848,437 and \$4,790,589 for the years ended June 30, 2017 and 2016, respectively, and related prize costs were \$2,424,609 and \$2,396,142, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$11,057,403 and \$12,035,877 for the years ended June 30, 2017 and 2016, respectively, and related prize costs were \$5,591,600 and \$6,022,537, respectively.

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

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

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

	2017		2016	
	Total Prize Reserve	Lottery Share	Total Prize Reserve	Lottery Share
POWERBALL ®	\$ 117,892	\$ 1,626	\$ 111,422	\$ 1,626
HOT LOTTO™	6,070	440	7,170	497
MEGA MILLIONS ®	38,041	542	38,541	545
	<u>\$ 162,003</u>	<u>\$ 2,608</u>	<u>\$ 157,133</u>	<u>\$ 2,668</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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above the expenses are credited to an unreserved fund. The Lottery records this interest when earned. This fund had a balance of \$15,316,619 and \$16,259,687 at June 30, 2017 and 2016, of which the Lottery's share was \$1,403,281 and \$1,565,451, respectively.

6 - RACETRACK VIDEO LOTTERY

The racetrack video lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Fifty-seven 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 10 titled "Nonoperating Distributions to the State of West Virginia."

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

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

The final benchmark occurs when the current year net terminal revenue meets the fiscal year 2001 net terminal revenue. At this point a 10% surcharge is applied to net terminal revenue, with 62% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 38% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack. After deduction of the surcharge, 49% of the net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (5%); and the local county and incorporated municipality governments (2%). The remaining net terminal revenue (51%) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 10.

Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. The Lottery, along with the Rhode Island and Delaware state lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee which is a percentage of the amount wagered. This fee was of 0.75% for years ended June 30, 2017 and June 30, 2016 respectively.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)**6 - RACETRACK VIDEO LOTTERY (Continued)**

A summary of racetrack video lottery revenues for the years ended June 30, 2017 and 2016, follows (in thousands):

	2017	2016
Total credits (bets) played	\$ 5,799,475	\$ 5,965,083
Credits (prizes) won	(5,203,814)	(5,350,676)
Promotional credits played	(74,278)	(76,444)
MWAP Contributions	(65)	(234)
Gross terminal income	521,318	537,729
Administrative costs	(14,765)	(14,909)
Net terminal income	506,553	522,820
Commissions	(268,177)	(275,496)
Racetrack video lottery revenues available for distribution	<u>\$ 238,376</u>	<u>\$ 247,324</u>

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

	2017	2016
State Lottery Fund	\$ 107,819	\$ 108,547
State Excess Lottery Revenue Fund	125,225	132,941
Capital Reinvestment Fund	5,332	5,836
Total nonoperating distributions	<u>\$ 238,376</u>	<u>\$ 247,324</u>

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 each of the years ended June 30, 2017 and 2016, the Lottery transferred \$4.5 million to the Racetrack Modernization Fund.

7 - LIMITED VIDEO LOTTERY

The limited video lottery legislation established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from limited gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act and is recorded as limited video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the years ended June 30, 2017 and 2016 follows (in thousands):

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)**7 - LIMITED VIDEO LOTTERY (Continued)**

	2017	2016
Total credits played	\$ 4,259,475	\$ 4,339,155
Credits (prizes) won	(3,911,920)	(3,978,341)
Gross terminal income	347,555	360,814
Administrative costs	(6,951)	(7,216)
Gross profit	340,604	353,598
Commissions	(170,302)	(176,799)
Distributions to municipalities and counties	(6,812)	(7,072)
Limited video lottery revenues available for distribution	<u>\$ 163,490</u>	<u>\$ 169,727</u>

8 - TABLE GAMES

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

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

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

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

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

- A transfer of 4%, into a special fund to be established by the West Virginia Racing Commission to be used for payment into the pension plan for all employees of each licensed racing association.
- A transfer of 10%, to be divided and paid in equal shares, to each county commission in the state where table games are not located.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - TABLE GAMES (Continued)

- A transfer of 10%, to be divided and paid in equal shares, to the governing bodies of each municipality in the state where table games are not located.
- A transfer of 76% to the Excess Lottery Fund.

The table games adjusted gross receipts for the year ended June 30, 2017 and 2016 were \$111,308,255 and \$124,415,228, respectively. A summary of table games revenues for the years ended June 30, 2017 and 2016 follows (in thousands):

	2017	2016
Table games privilege tax	\$ 38,958	\$ 43,545
Interest on table games fund	21	9
Administrative costs	(3,339)	(3,732)
Total available for distribution	35,640	39,822
<u>Less distributions:</u>		
Racetrack purse funds	2,504	2,799
Thoroughbred & greyhound development funds	2,004	2,239
Racing commission pension plan	980	1,096
Municipalities/counties	11,024	12,319
Total distributions	16,512	18,453
Table games distribution to the state		
Excess Lottery Fund	\$ 19,128	\$ 21,369

9 - HISTORIC RESORT HOTEL

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

Historic Resort Video Lottery

Historic Resort Hotel legislation, as amended, dictates the distribution of video lottery revenues. Thirty three and a half percent (33.5%) of gross terminal income is allocated to Historic Resort Hotel Fund, two and a half percent (2.5%) is allocated to the State Excess Lottery Revenue Fund, and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for the licensed historic resort hotel. After deduction of the surcharge, the remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the historic resort hotel. A summary of historic resort hotel video lottery revenues for the years ended June 30, 2017 and 2016 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - HISTORIC RESORT HOTEL (Continued)

	2017	2016
Total credits played	\$ 68,721	\$ 64,217
Credits (prizes) won	(63,853)	(58,842)
Promotional credits played	(1,129)	(888)
Gross terminal income	3,739	4,487
Capital reinvestment	(176)	(211)
Excess Lottery/Modernization	(33)	(40)
Hotel commissions	(1,581)	(1,898)
Net terminal income	\$ 1,949	\$ 2,338
Historic Resort Hotel Fund	\$ 1,314	\$ 1,575
Human Resource Benefit Fund	635	763
Total	\$ 1,949	\$ 2,338

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, 2017 and 2016 were \$4,193,851 and \$5,312,061, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2017 and 2016:

	2017	2016
Table games privilege tax	\$ 1,468	\$ 1,859
Historic Resort Hotel Fund	\$ 1,258	\$ 1,594
Human Resource Benefit Fund	210	265
Total distributions	\$ 1,468	\$ 1,859

Historic Resort Hotel Fund

Historic Resort Hotel Fund deposits are allocated after a fifteen percent (15%) lottery administrative cost. The remaining Historic Resort Hotel Fund net income (gross deposits less 15%) are distributed as follows:

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - HISTORIC RESORT HOTEL (Continued)

Historic Resort Hotel Fund (Continued)

- 4% is paid to the county where the gaming facility is located;
- 2.5% is paid to the municipality where the gaming facility is located as prescribed by statute;
- 2.5% is divided and paid in equal shares to the remaining municipalities in the county where the gaming facility is located;
- 2.5% is divided and paid in equal shares, to each county commission in the state where the gaming facility is not located;
- 2.5% is divided and paid in equal shares, to each municipality in the State not already receiving a distribution.
- 86% is transferred to the Excess Lottery Revenue Fund.

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands) for the years ended June 30, 2017 and 2016:

	2017	2016
Historic Resort Hotel video lottery	\$ 1,314	\$ 1,575
Historic Resort table games	1,258	1,594
Interest on Historic Resort Hotel Fund	2	-
Historic Resort Hotel Fund deposits	2,574	3,169
Administrative costs	(390)	(481)
Historic Resort Hotel Fund net income	\$ 2,184	\$ 2,688
Municipalities/Counties	\$ 307	\$ 376
Excess Lottery Revenue Fund	1,877	2,312
Total distributions	\$ 2,184	\$ 2,688

10 - NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

The Lottery periodically distributes surplus funds, exclusive of amounts derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the current governing legislation. For the years ended June 30, 2017 and 2016, the State Legislature budgeted \$157,257,444 and \$156,129,575 respectively of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000, \$1,000,000, and \$500,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently debt service payments are \$5,900,000 per month for the first ten months of each fiscal year. In addition, Legislation provides that, if in any month, there is a shortage of funds in the State Excess Lottery Revenue Fund to make debt service payments, the necessary amount shall be transferred from the State Lottery Fund to cover such shortfall, after the State Lottery Fund debt service payments have been made. Repayments to the State Lottery Fund are required to be made in subsequent months as funds become available. For the years ended June 30, 2017 and 2016, the Lottery made or accrued all budgeted distributions and accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$132,692,744 and \$135,264,932, respectively. The Lottery does not have a legally adopted annual budget.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

	2017	2016
<u>Budgetary distributions:</u>		
<u>Administrative Operations Account:</u>		
General Purpose Account	\$ -	\$ 4,631
<u>State Lottery Fund:</u>		
Bureau of Senior Services	59,139	69,027
Department of Education	18,006	17,953
Library Commission	11,429	11,421
Higher Education - Central Office	7,157	7,215
Tourism	6,216	8,000
Natural Resources	3,096	3,189
Division of Culture & History	4,332	4,745
Department of Education & Arts	1,186	1,586
General Reserve Fund	13,700	-
Economic Development Authority	9,998	9,995
School Building Authority	18,000	18,000
Community and Technical College	4,998	4,998
Total State Lottery Fund	157,257	156,129
<u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	65,000	69,265
Education Improvement Fund	29,000	29,000
WV Infrastructure Council Fund	26,000	36,000
Higher Education Improvement Fund	15,000	15,000
State Park Improvement Fund	5,000	5,000
School Building Authority	18,992	18,992
Economic Development Fund	18,986	18,989
Refundable Credit - General Revenue Fund	10,000	10,000
Racing Commission	2,000	2,000
WV Department of Health and Human Resources	61,378	44,512
General Revenue Fund	12,800	-
<u>Distributions to Statutory Funds and Purposes</u>		
Parking Garage Fund	754	755
Capitol Dome and Improvements Fund	2,155	2,201
Capitol Renovation and Improvements Fund	2,796	2,808
Development Office Promotion Fund	1,525	1,531
Research Challenge Fund	2,033	2,042
Tourism Promotion Fund	5,659	5,695
Cultural Facilities and Capitol Resources Fund	1,434	1,500
Worker's Compensation Debt Reduction Fund	5,500	6,735
State Debt Reduction Fund	20,000	20,000
General Revenue Fund	1,514	1,815
Historic Resort Hotel Fund	34	14
Racing Commission	4,066	4,084
Non-Governmental Budgeted Transfers	10,112	12,159
Excess Lottery Surplus (General Fund)	-	18,355
Total State Excess Lottery Revenue Fund	321,738	328,452

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	2017	2016
Total Required Statutory and Budgetary Distributions	478,995	489,212
Veterans Instant Ticket Fund	630	745
 Total nonoperating distributions to the State of West Virginia (cash basis)	 479,625	 489,957
Accrued nonoperating distributions, beginning of year	(135,265)	(123,920)
Accrued nonoperating distributions, end of year	132,693	135,265
Total nonoperating distributions to the State of West Virginia	\$ 477,053	\$ 501,302

11 - RETIREMENT BENEFITS

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

Plan Description

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

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For all employees hired after July 1, 2015, qualification for normal retirement is age 62 with 10 years of service or at least age 55 with age and service equal to 80 or greater. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired after July 1, 2015, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired after July 1, 2015, this age increases to 64.

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - RETIREMENT BENEFITS (Continued)

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 12.0%, 13.5% and 14.0% of covered employees' annual earnings for fiscal years ending June 30, 2017, 2016, and 2015, 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 \$862,728, \$979,596, and \$1,039,330 for the year ended June 30, 2017, 2016 and 2015, respectively.

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

At June 30, 2017 and 2016, respectively, the Lottery reported a liability of \$4,800,254 and \$3,044,279 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2017 was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016 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, 2016. At June 30, 2016, the Lottery's proportion was 0.52 percent, which is a decrease of .03 from its proportion as of June 30, 2015.

For the years ended June 30, 2017 and 2016, respectively, the Lottery recognized pension expense of \$765,956 and \$360,666. At June 30, 2017, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
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	863	-
 Total	 \$ 2,795	 \$ 367

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - RETIREMENT BENEFITS (Continued)

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 929	\$ 1,596
Differences between expected and actual experience	623	-
Difference in assumptions	-	366
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	42	36
Lottery contributions made subsequent to the measurement date of June 30, 2015	979	-
Total	\$ 2,573	\$ 1,998

The \$862,728 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 232
2019	218
2020	653
2021	462

Actuarial Assumptions

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

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

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

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

The actuarial assumptions used in the June 30, 2016 and 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - RETIREMENT BENEFITS (Continued)

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%
			8.66%

Discount Rate

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

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

	Net Pension Liability (Asset)	
1% decrease (6.5%)	\$	8,689
Current discount rate (7.5%)	\$	4,800
1% increase (8.5%)	\$	1,498

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Lottery participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

Funding Policy

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

The ARC rate is \$357 and \$429 per employee per month for the years ending June 30, 2017 and 2016, respectively. The Lottery's ARC was \$505,570, \$643,693, and \$600,469 and the Lottery has paid premiums of \$288,942, \$284,421, and \$287,861, which represent 57.2%, 44.2%, and 47.9% of the ARC, respectively, for the years ending June 30, 2017, 2016, and 2015. As of June 30, 2017, 2016, and 2015, the Lottery has recorded a liability of \$5,206,989, \$4,990,361, and \$4,631,089, respectively, for OPEB.

13 - 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, 2017 and 2016 approximated \$394,515 and \$424,517 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, 2017 and 2016 were \$1,004,928 and \$593,960, respectively.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - COMMITMENTS

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2017 and 2016, \$9,460,433 and \$9,655,947, respectively, are included in unrestricted net position for this purpose.

15 - 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, 2017, no changes in coverage were made and paid claims did not exceed coverage.

Workers Compensation Insurance

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

16 - 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.

17 - EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued two statements relating to accounting and financial reporting for pension and postemployment benefit plans: Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; and Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 7*. The provisions of Statement Nos. 75 and 82 are effective for periods beginning after June 15, 2017. Lottery management has not determined the effect these statements will have on its financial statements.

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.

Required Supplementary Information

West Virginia Lottery

Schedule of the Proportionate Share of the Net Pension Liability (in thousands)

Public Employees Retirement System Plan

	Years Ended June 30		
	2017	2016	2015
Lottery's proportion (percentage) of the net pension liability	0.52%	0.55%	0.55%
Lottery's proportionate share of the net pension liability	\$ 4,800	\$ 3,044	\$ 2,035
Lottery's covered payroll	\$ 7,259	\$ 7,421	\$ 7,415
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	66.12%	41.02%	27.44%
Plan fiduciary net position as a percentage of the total pension liability	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.

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

West Virginia Lottery

Schedule of Contributions to the PERS (in thousands)

	Years Ended June 30				
	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 863	\$ 980	\$ 1,039	\$ 1,075	\$ 1,072
Contributions in relation to the statutorily required contribution	863	980	1,039	1,075	1,072
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 7,192	\$ 7,259	\$ 7,421	\$ 7,415	\$ 7,658
Contributions as a percentage of covered-employee payroll	12.00%	13.50%	14.00%	14.50%	14.00%

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

West Virginia Lottery

Notes to Required Supplementary Information

1 - TREND INFORMATION PRESENTED

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

2 - PLAN AMENDMENT

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

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For employees hired July 1, 2015 and later, qualification for normal retirement is 62 with 10 years of service or at least age 55 with age and service equal to 80 or greater.
- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired July 1, 2015 and later, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired July 1, 2015 and later, this age increases to 64.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired July 1, 2015 and later, are required to contribute 6% of annual earnings.

3 - 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:

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



Statistical Section

Statistical Section

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

FINANCIAL TRENDS/REVENUE CAPACITY

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

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

OPERATING INFORMATION

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

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

West Virginia Lottery

Sales by Product and Other Revenues Last Ten Fiscal Years

	2008	2009	2010	2011
Instant	\$110,862,020	\$113,853,880	\$97,482,584	\$115,697,423
Powerball*	54,052,429	51,016,100	48,593,678	35,669,004
Hot Lotto Sizzler*	4,021,347	4,881,127	6,447,315	5,831,270
Daily 3	9,124,536	8,916,094	8,401,794	8,621,978
Daily 4	4,622,396	4,760,533	4,694,743	4,967,805
Cash 25	5,752,037	5,596,814	5,512,376	5,440,930
Travel Keno	9,603,308	9,070,501	7,412,987	6,423,516
Mega Millions*			2,678,674	10,915,389
Total On-line	\$87,176,053	\$84,241,169	\$83,741,567	\$77,869,892
Video (net of prizes)				
Racetrack	\$897,952,931	\$848,232,669	\$746,208,159	\$726,952,241
Limited	\$411,587,201	\$412,488,946	\$397,287,133	\$397,544,342
Table Games (privilege tax)	\$15,877,334	\$34,219,101	\$31,725,645	\$68,153,589
Video (net of prizes)	-	-	1,132,902	4,092,891
Table Games (privilege tax)	-	-	516,466	2,138,796
Total Historic Resort	-	-	\$1,649,368	\$6,231,687
Total Sales	\$1,523,455,539	\$1,493,035,765	\$1,358,094,456	\$1,392,449,174
License Fees	11,225,977	10,573,157	10,317,529	10,157,522
Miscellaneous	710,975	827,731	741,824	1,648,012
Other Operating Income	\$11,936,952	\$11,400,888	\$11,059,353	\$11,805,534
Nonoperating Income	\$10,031,139	\$2,719,936	\$390,334	\$297,669
Total Revenues	\$1,545,423,630	\$1,507,156,589	\$1,369,544,143	\$1,404,552,377

	2012	2013	2014	2015	2016	2017
Instant	\$117,676,396	\$108,634,752	\$105,561,992	\$103,276,392	\$102,541,884	\$94,368,751
Powerball*	38,686,528	48,688,807	39,490,788	34,099,437	46,553,463	34,514,013
Hot Lotto Sizzler*	4,736,542	5,063,704	5,310,353	5,745,617	4,790,589	4,848,437
Daily 3	8,698,349	8,301,649	8,269,965	8,109,719	8,176,541	8,144,181
Daily 4	5,028,983	4,748,002	4,905,892	4,849,937	4,904,381	4,796,895
Cash 25	5,465,460	5,237,499	5,191,451	5,191,526	5,062,256	4,938,032
Travel Keno	6,249,636	5,671,808	5,049,843	5,103,370	4,136,493	3,811,709
Mega Millions*	14,746,963	9,274,409	14,850,257	13,623,552	12,035,877	11,057,403
Total On-line	\$83,612,461	\$86,985,878	\$83,068,549	\$76,723,158	\$85,659,600	\$72,110,670
Video (net of prizes)						
Racetrack	\$764,898,326	\$655,676,762	\$590,918,374	\$557,802,811	\$537,729,110	\$521,317,604
Limited	\$406,108,085	\$399,223,893	\$377,222,264	\$373,220,741	\$360,814,338	\$347,555,459
Table Games (privilege tax)	\$78,121,131	\$70,258,634	\$50,464,934	\$46,928,173	\$43,545,330	\$38,957,889
Video (net of prizes)	4,950,083	4,737,669	4,440,596	4,070,270	4,486,215	3,739,067
Table Games (privilege tax)	2,163,962	2,858,962	2,607,435	1,982,451	1,859,221	1,467,848
Total Historic Resort	\$7,114,045	\$7,596,631	\$7,048,031	\$6,052,721	\$6,345,436	\$5,206,915
Total Sales	\$1,457,530,444	\$1,328,376,550	\$1,214,284,144	\$1,164,003,996	\$1,136,635,698	\$1,079,517,288
License Fees	71,847,082	9,871,021	9,776,116	10,024,323	9,396,576	9,245,717
Miscellaneous	1,504,260	1,989,230	1,943,345	1,288,429	1,131,369	1,431,996
Other Operating Income	\$73,351,342	\$11,860,251	\$11,719,461	\$11,312,752	\$10,527,945	\$10,677,713
Nonoperating Income	\$9,826,225	\$252,688	\$462,053	\$406,819	\$788,063	\$934,085
Total Revenues	\$1,540,708,011	\$1,340,489,489	\$1,226,465,658	\$1,175,723,567	\$1,147,951,706	\$1,091,129,086

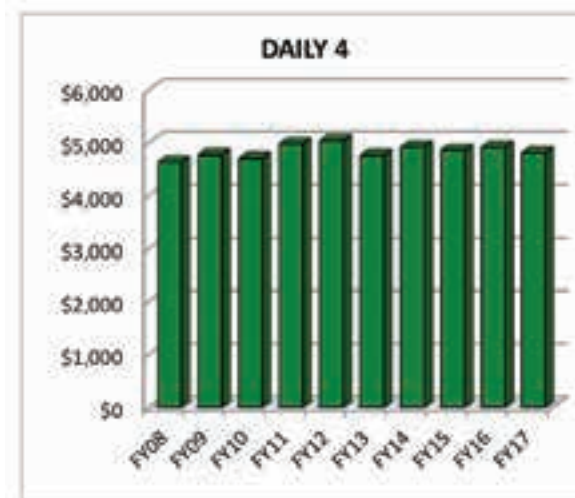
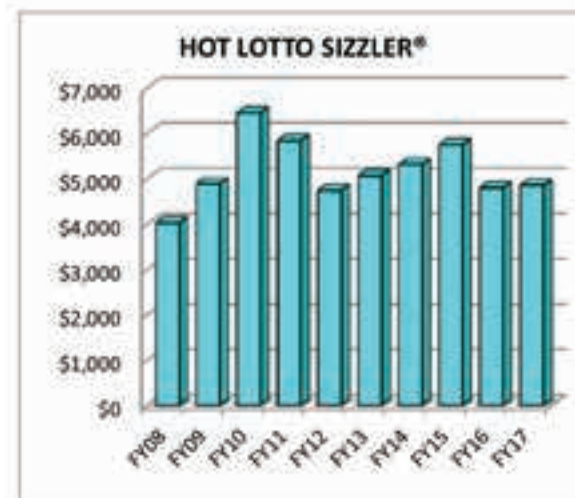
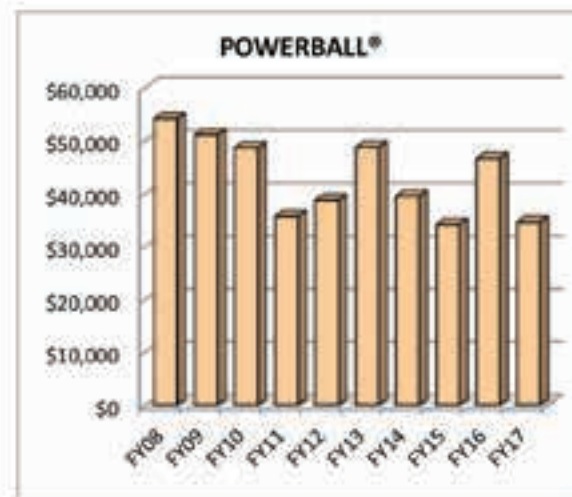
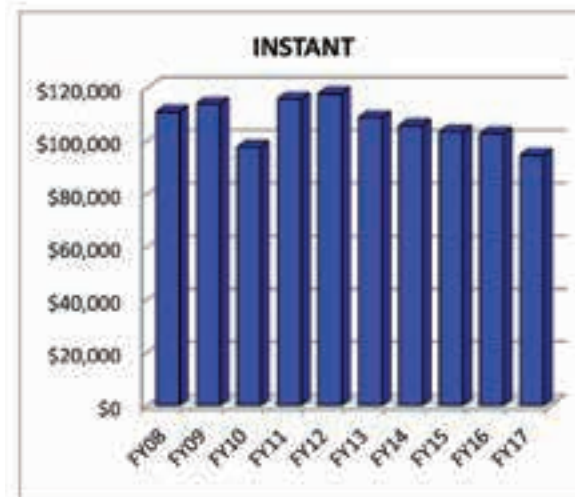
Expenses, Distributions and Net Income Last Ten Fiscal Years

	2008	2009	2010	2011
Prizes (traditional)	\$121,169,284	\$119,449,497	\$107,983,663	\$120,706,835
Commissions				
Instant	7,762,564	7,969,759	6,823,692	8,098,815
On-line	6,113,745	5,900,642	5,849,450	5,456,854
Racetrack	487,276,099	463,649,031	414,987,691	404,944,515
Limited	205,636,799	202,119,568	194,670,681	194,796,720
Table Games	6,249,023	13,458,369	12,473,391	29,288,210
Historic Resort	-	-	846,922	3,126,210
Total Commissions	\$713,038,230	\$693,097,369	\$635,651,827	\$645,711,324
Administration (includes ticket costs)	\$33,478,401	\$35,215,252	\$36,493,179	\$40,838,831
Total Operating Expenses	\$867,685,915	\$847,762,118	\$780,128,669	\$807,256,990
Nonoperating Distributions				
Municipalities and Counties	8,067,110	8,084,783	7,786,828	7,791,869
Capital Reinvestment Fund	17,987,933	15,983,212	11,968,468	21,558,438
State of West Virginia	631,155,117	616,622,965	616,465,269	565,256,651
Total Distributions	\$657,210,160	\$640,690,960	\$636,220,565	\$594,606,958
Net Income	\$20,527,555	\$18,703,511	(\$46,805,091)	\$2,688,429

	2012	2013	2014	2015	2016	2017
Prizes (traditional)	\$120,605,843	\$116,230,326	\$111,761,267	\$106,475,947	\$110,827,487	\$98,186,374
Commissions						
Instant	8,238,580	7,604,433	7,389,339	7,229,348	7,177,932	6,605,813
On-line	5,844,402	6,094,540	5,819,974	5,371,955	6,001,020	5,043,296
Racetrack	424,048,550	370,827,992	336,205,404	286,777,829	275,496,153	268,177,388
Limited	198,992,951	195,619,694	184,838,897	182,878,150	176,799,014	170,302,163
Table Games	33,570,927	30,674,243	22,032,440	19,885,019	18,453,051	16,512,256
Historic Resort	3,671,152	3,706,532	3,456,421	3,068,391	3,302,272	2,732,495
Total Commissions	\$674,366,562	\$614,527,434	\$559,742,475	\$505,210,692	\$487,229,442	\$469,373,411
Administration (includes ticket costs)	\$38,989,047	\$34,991,775	\$35,652,922	\$33,663,094	\$32,858,938	\$31,589,554
Total Operating Expenses	\$833,961,452	\$765,749,535	\$707,156,664	\$645,349,733	\$630,915,867	\$599,149,339
Nonoperating Distributions						
Municipalities and Counties	7,959,718	7,824,788	7,393,556	7,315,126	7,071,961	6,812,087
Capital Reinvestment Fund	22,900,376	18,820,278	13,397,148	11,716,851	10,445,577	7,467,510
State of West Virginia	662,982,476	545,203,685	498,364,762	508,328,566	501,301,537	477,053,471
Total Distributions	\$693,842,570	\$571,848,751	\$519,155,466	\$527,360,543	\$518,819,075	\$491,333,068
Net Income	\$12,903,989	\$2,891,203	\$153,528	\$3,013,291	(\$1,783,236)	\$646,679

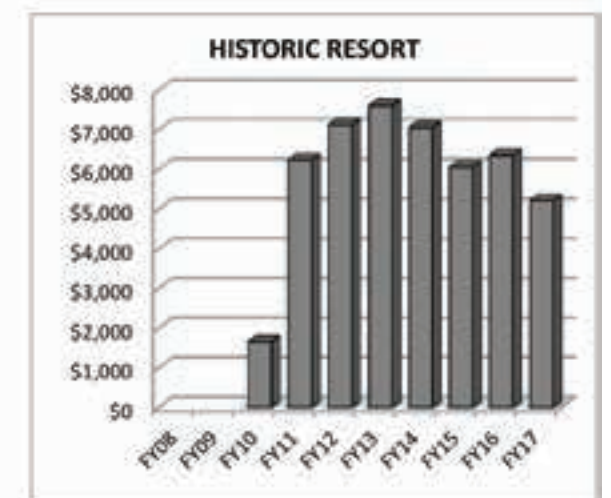
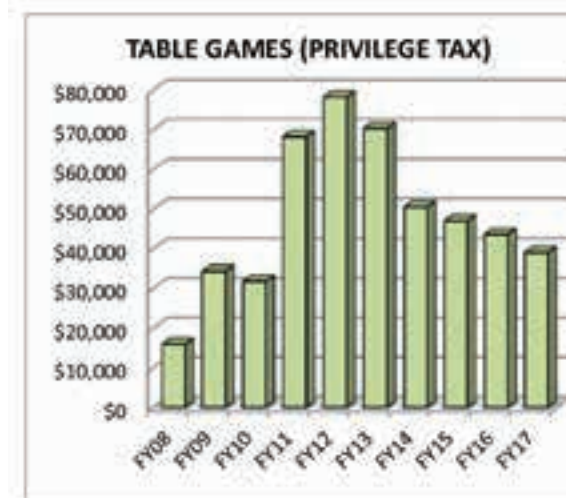
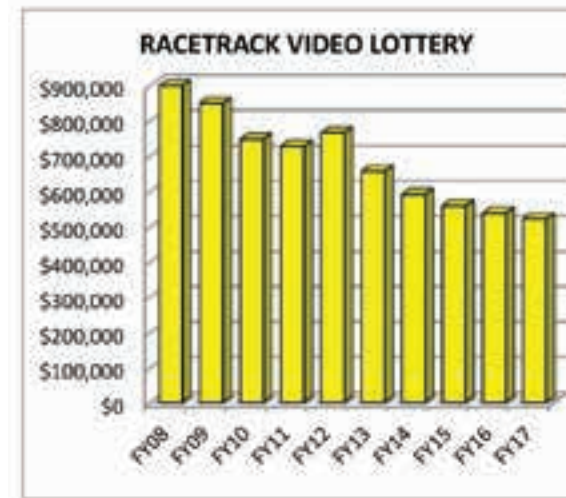
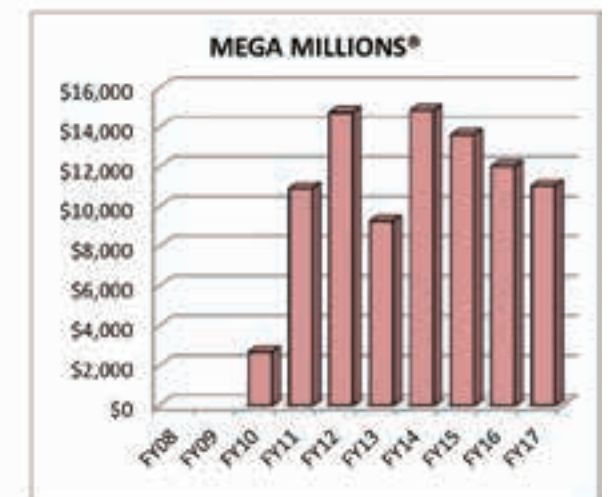
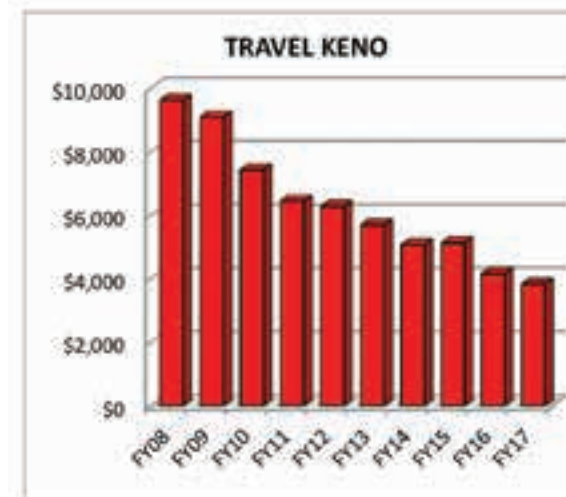
West Virginia Lottery

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



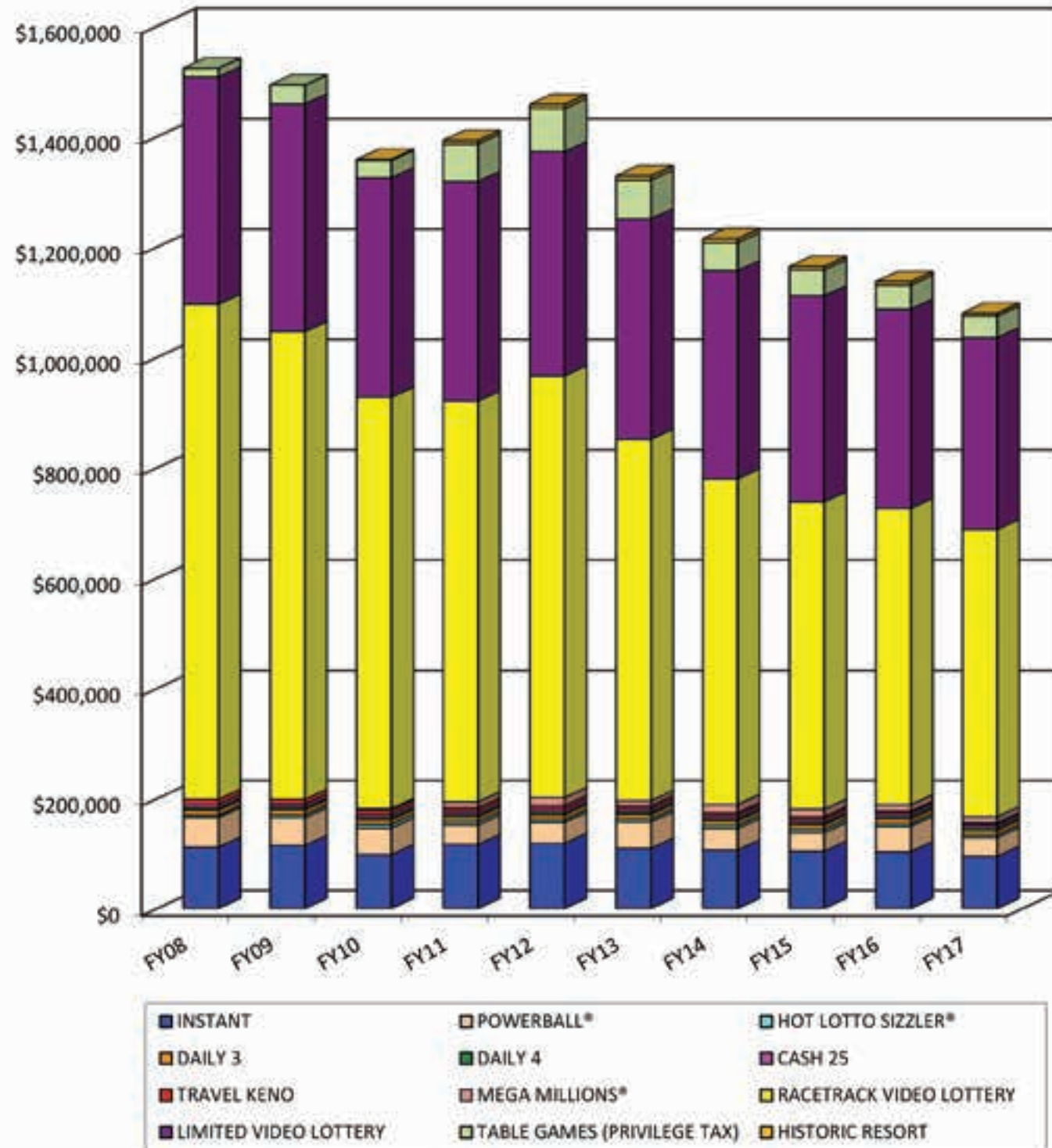
West Virginia Lottery

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



West Virginia Lottery

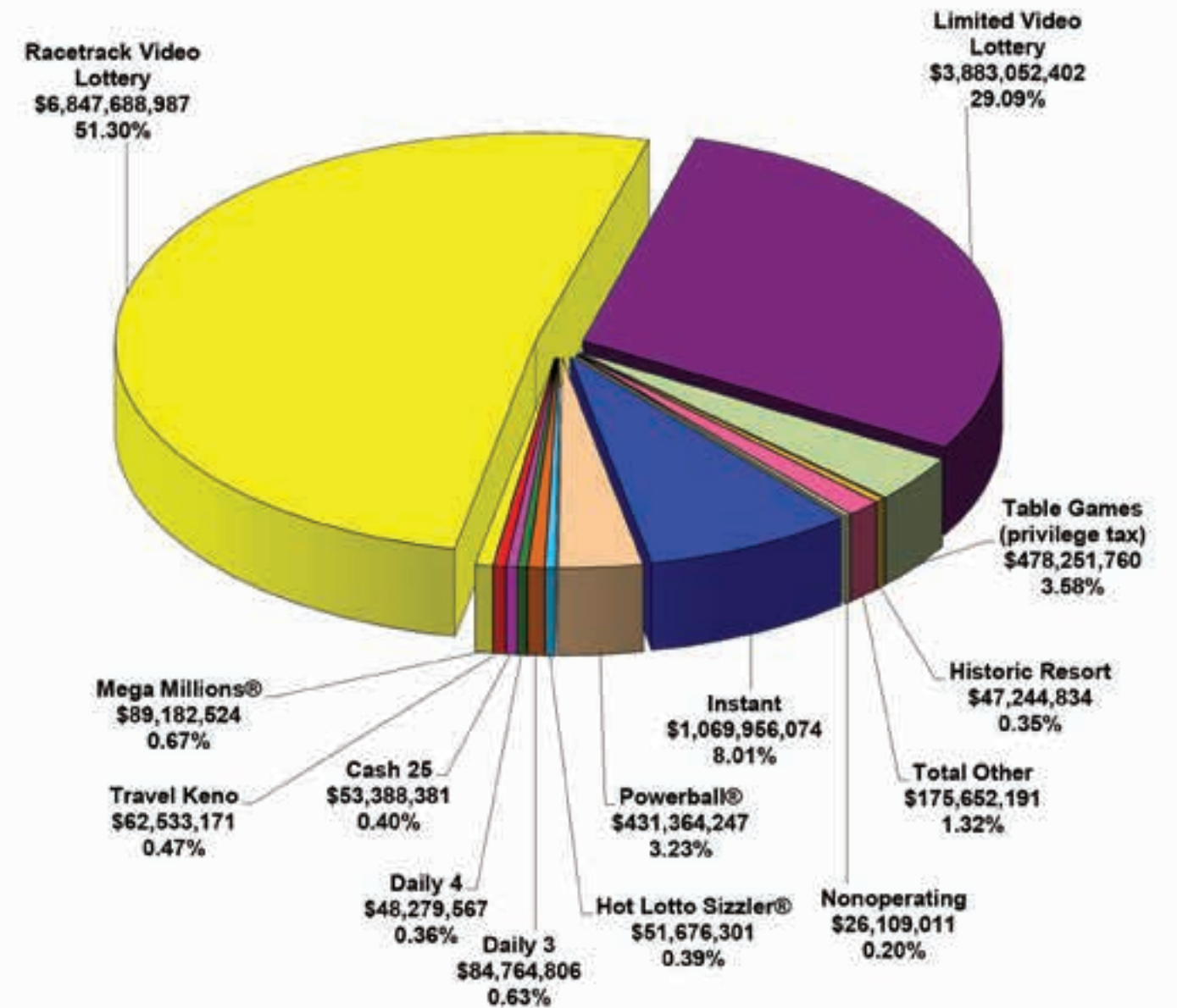
Sales by Product Line
Last Ten Fiscal Years
(000's)



Source: West Virginia Lottery

West Virginia Lottery

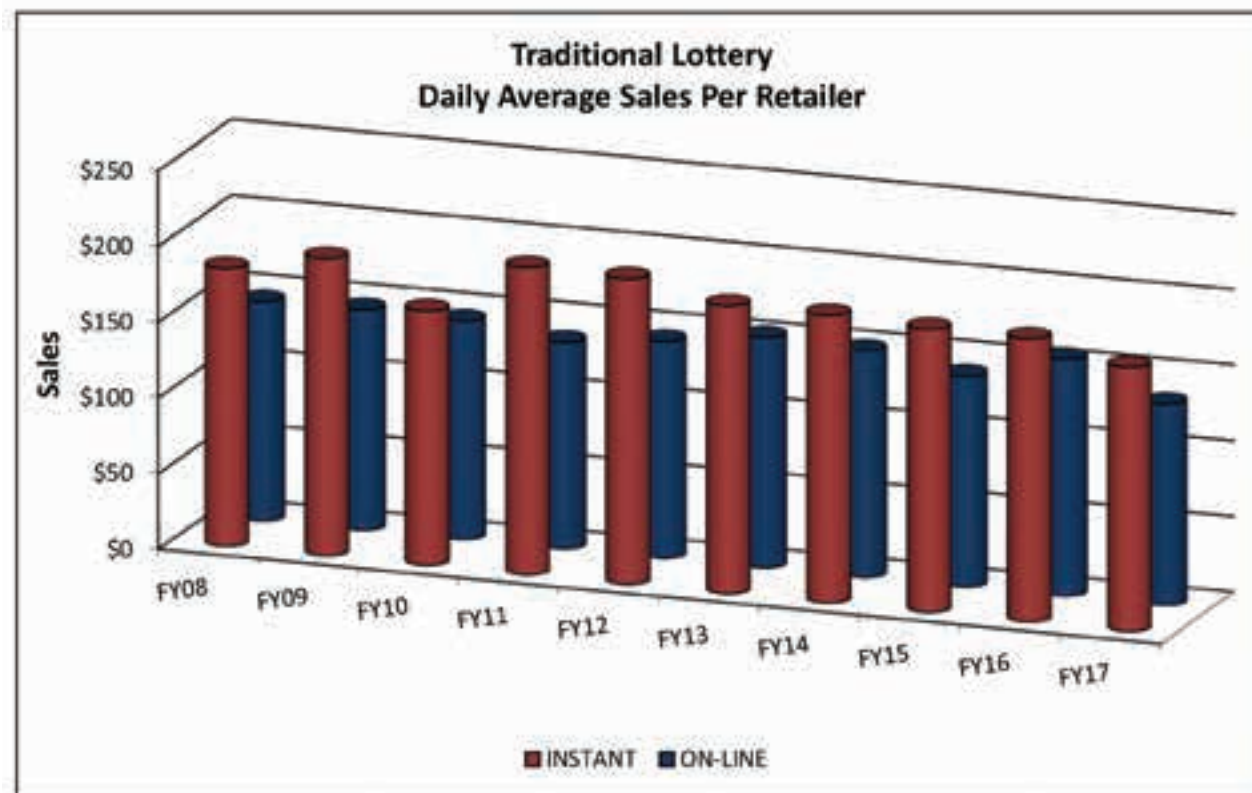
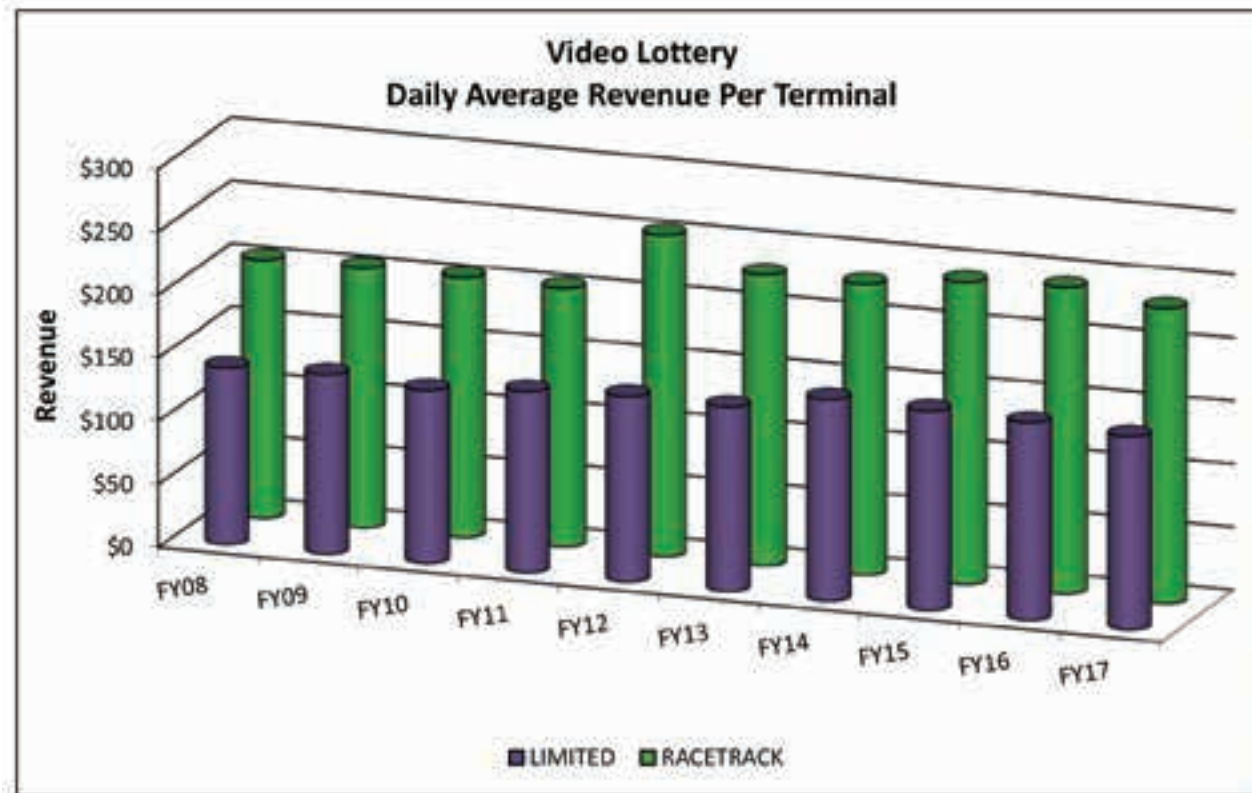
Total Revenue \$13,349,144,256
Last Ten Fiscal Years



Source: West Virginia Lottery

West Virginia Lottery

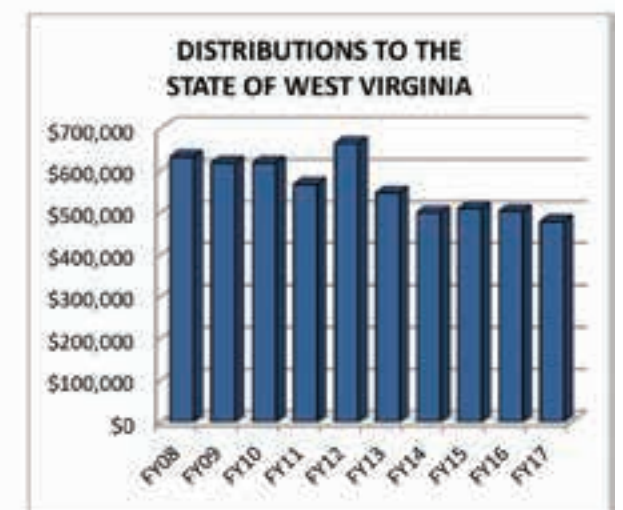
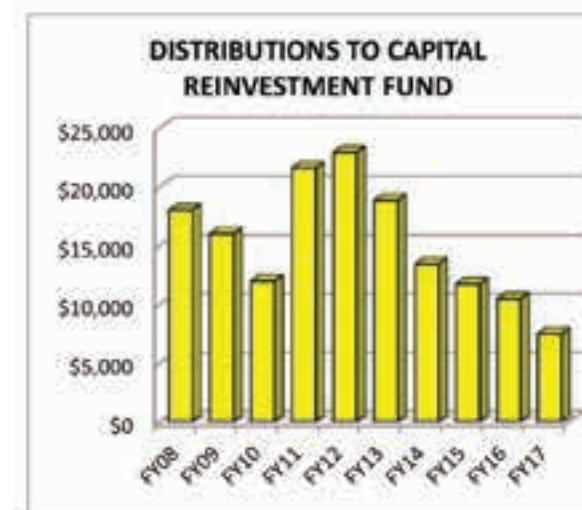
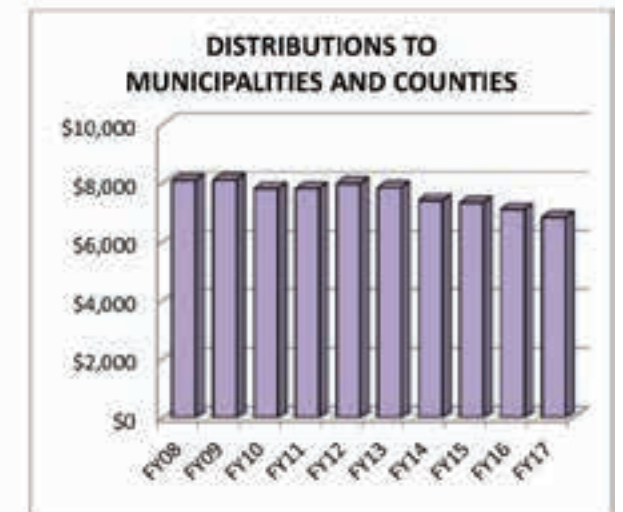
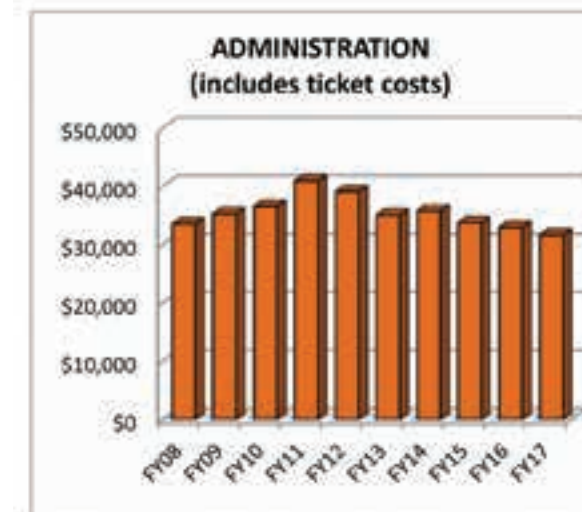
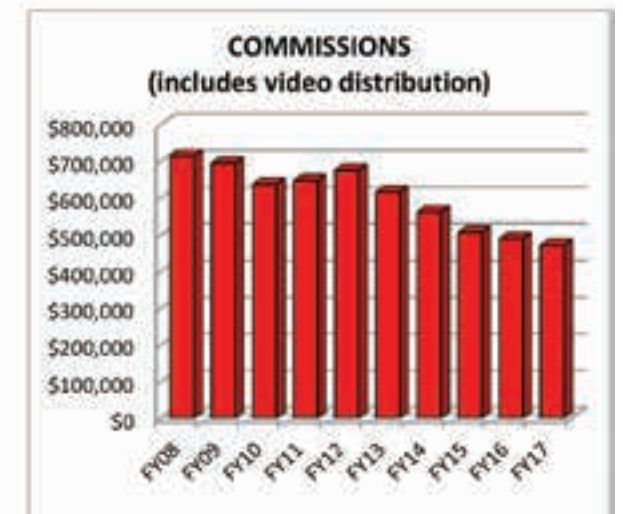
Daily Averages
Last Ten Fiscal Years



Source: West Virginia Lottery

West Virginia Lottery

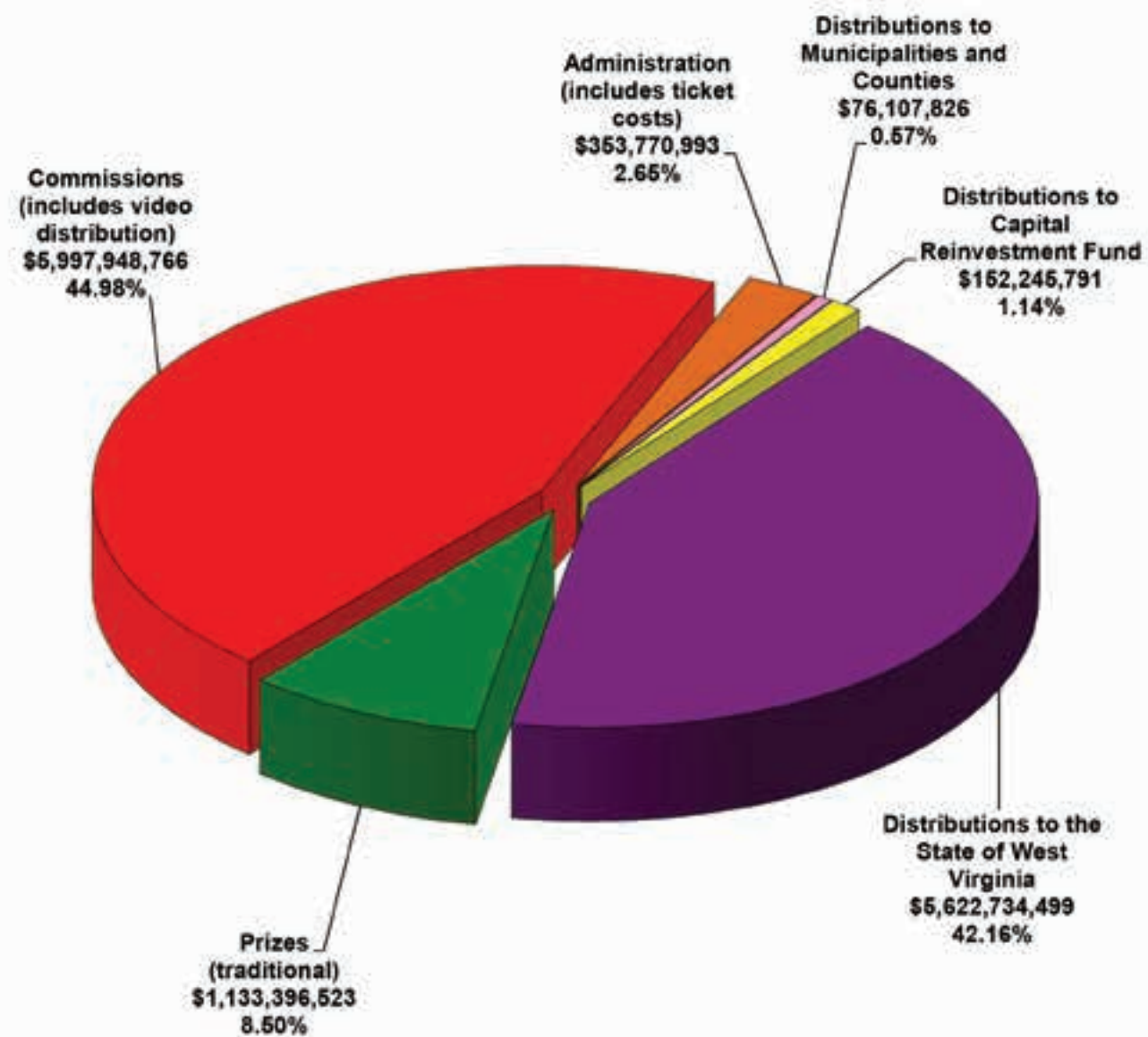
Expenses and Nonoperating Distributions
Last Ten Fiscal Years



Source: West Virginia Lottery

West Virginia Lottery

Total Expenses and Nonoperating Distributions \$13,336,204,398
Last Ten Fiscal Years



Source: West Virginia Lottery

West Virginia Lottery

Total Net Position
(in 000's)

	2008	2009	2010	2011	2012
Net Position					
Restricted by enabling legislation	\$ 58,487	\$ 69,871	\$ 8,355	\$ 2,039	\$ 1,690
Net investment in capital assets	5,251	3,306	23,349	30,421	42,285
Unrestricted (deficit)	747	10,011	4,679	6,612	8,000
Total net position	\$ 64,485	\$ 83,188	\$ 36,383	\$ 39,072	\$ 51,975

	2013	2014	2015	2016	2017
Net Position					
Restricted by enabling legislation	\$ 1,640	\$ 1,397	\$ 1,130	\$ -	\$ -
Net investment in capital assets	40,220	38,745	37,763	44,874	43,779
Unrestricted (deficit)	13,006	14,878	15,263	7,498	9,240
Total net position	\$ 54,866	\$ 55,020	\$ 54,156	\$ 52,372	\$ 53,019

Source: West Virginia Lottery

West Virginia Lottery

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

	Sales	Profit	Population	Sales/Capita
Arizona	\$870.95	\$205.69	6.8	\$128.08
Arkansas	\$455.60	\$85.27	3.0	\$151.87
California	\$6,275.60	\$1,589.52	39.1	\$160.50
Colorado	\$594.41	\$143.57	5.5	\$108.07
Connecticut	\$1,230.77	\$339.80	3.6	\$341.88
Delaware ^{1,2}	\$631.78	\$213.06	0.7	\$902.54
District of Columbia (9/30)	\$228.16	\$53.17	0.9	\$253.51
Florida	\$6,063.21	\$1,700.00	20.3	\$298.68
Georgia	\$4,555.89	\$1,097.57	10.2	\$446.66
Idaho	\$236.08	\$49.50	1.7	\$138.87
Illinois	\$2,859.82	\$694.39	12.9	\$221.69
Indiana	\$1,207.61	\$281.47	6.6	\$182.97
Iowa	\$366.91	\$88.02	3.1	\$118.36
Kansas	\$272.02	\$78.21	2.9	\$93.80
Kentucky	\$997.32	\$253.04	4.4	\$226.66
Louisiana	\$507.04	\$177.93	4.7	\$107.88
Maine	\$272.34	\$57.58	1.3	\$209.49
Maryland ^{1,2}	\$3,049.52	\$1,026.71	6.0	\$508.25
Massachusetts	\$5,222.06	\$989.41	6.8	\$767.95
Michigan (9/30)	\$3,104.58	\$889.90	9.9	\$313.59
Minnesota	\$592.85	\$144.68	5.5	\$107.79
Missouri	\$1,315.62	\$302.58	6.1	\$215.68
Montana	\$59.94	\$12.89	1.0	\$59.94
Nebraska	\$179.47	\$42.78	1.9	\$94.46
New Hampshire	\$303.34	\$79.18	1.3	\$233.34
New Jersey	\$3,289.85	\$987.00	9.0	\$365.54
New Mexico	\$154.35	\$46.30	2.1	\$73.50
New York (3/31) ¹	\$9,690.51	\$3,301.78	19.8	\$489.42
North Carolina	\$2,383.59	\$635.27	10.0	\$238.36
North Dakota	\$35.62	\$10.32	0.8	\$44.53
Ohio ¹	\$3,928.52	\$1,116.11	11.6	\$338.67
Oklahoma	\$189.62	\$67.16	3.9	\$48.62
Oregon ¹	\$1,229.50	\$572.93	4.0	\$307.37
Pennsylvania	\$4,135.16	\$1,121.32	12.8	\$323.06
Rhode Island ^{1,2}	\$875.36	\$369.76	1.1	\$795.78
South Carolina	\$1,600.38	\$398.91	4.9	\$326.61
South Dakota ¹	\$262.89	\$117.65	0.9	\$292.11
Tennessee	\$1,626.95	\$394.05	6.6	\$246.51
Texas (8/31)	\$5,067.52	\$1,392.31	27.5	\$184.27
Vermont	\$124.26	\$26.41	0.6	\$207.10
Virginia	\$2,006.90	\$588.19	8.4	\$238.92
Washington	\$694.88	\$175.52	7.2	\$96.51
West Virginia ^{1,2}	\$1,136.64	\$496.67	1.8	\$631.46
Wisconsin	\$627.16	\$158.45	5.8	\$108.13
Wyoming	\$33.39	\$2.04	0.6	\$55.64
Total	\$80,545.95	\$22,574.06	305.6	\$11,804.65

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

²Includes Table Games (net)

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

West Virginia Lottery

U.S. Lotteries Unaudited Sales for Fiscal Year 2017 Includes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Profit	Population	Sales/Capita
Arizona	\$852.00	\$198.17	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	\$205.67	0.7	\$892.13
District of Columbia (9/30)	\$218.72	\$45.60	1.0	\$218.72
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	\$924.69	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	\$624.51	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	\$261.70	\$118.14	0.9	\$290.78
Tennessee	\$1,611.90	\$386.70	6.6	\$244.23
Texas (8/31)	\$5,077.46	\$1,333.97	27.9	\$181.99
Vermont	\$122.38	\$25.50	0.6	\$203.96
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	\$480.43	1.8	\$599.73
Wisconsin	\$602.77	\$183.75	5.8	\$103.93
Wyoming	\$25.33	\$2.72	0.6	\$42.22
Total	\$80,388.52	\$22,309.02	306.9	\$11,632.82

2017 data source: NASPL website: www.NASPL.org

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

Note: All figures are preliminary

²Includes Table Games (net)

West Virginia Lottery

U.S. Lotteries Unaudited Sales for Fiscal Year 2016
Excludes Video Lottery Terminal (VLT) Sales and Table Games
(\$ millions)

	Total Sales	Instant Sales	Draw Sales	Population	Sales Per Capita
Arizona	\$870.2	\$590.7	\$279.5	6.8	\$127.97
Arkansas	\$455.6	\$360.0	\$95.6	3.0	\$151.87
California	\$6,275.6	\$4,351.8	\$1,923.8	39.1	\$160.50
Colorado	\$594.4	\$395.2	\$199.2	5.5	\$108.07
Connecticut	\$1,230.8	\$742.3	\$488.5	3.6	\$341.89
D.C.	\$228.6	\$50.8	\$177.8	0.7	\$326.57
Delaware	\$175.2	\$65.7	\$109.5	0.9	\$194.67
Florida	\$6,062.4	\$3,954.7	\$2,107.7	20.3	\$298.64
Georgia	\$4,555.9	\$3,100.7	\$1,455.2	10.2	\$446.66
Idaho	\$236.1	\$129.0	\$107.1	1.7	\$138.88
Illinois	\$2,858.2	\$1,811.8	\$1,046.4	12.9	\$221.57
Indiana	\$1,207.6	\$869.9	\$337.7	6.6	\$182.97
Iowa	\$366.9	\$233.7	\$133.2	3.1	\$118.35
Kansas	\$287.4	\$168.1	\$119.3	2.9	\$99.10
Kentucky	\$997.3	\$597.3	\$400.0	4.4	\$226.66
Louisiana	\$507.0	\$212.2	\$294.8	4.7	\$107.87
Maine	\$272.8	\$210.5	\$62.3	1.3	\$209.85
Maryland	\$1,898.6	\$611.3	\$1,287.3	6.0	\$316.43
Massachusetts	\$5,196.3	\$3,597.9	\$1,598.4	6.8	\$764.16
Michigan	\$3,104.6	\$1,136.8	\$1,967.8	9.9	\$313.60
Minnesota	\$592.9	\$394.7	\$198.2	5.5	\$107.80
Missouri	\$1,244.1	\$835.6	\$408.5	6.1	\$203.95
Montana	\$59.1	\$17.9	\$41.2	1.0	\$59.10
Nebraska	\$179.6	\$97.4	\$82.2	1.9	\$94.53
New Hampshire	\$301.9	\$218.1	\$83.8	1.3	\$232.23
New Jersey	\$3,290.0	\$1,842.4	\$1,447.6	9.0	\$365.56
New Mexico	\$154.3	\$83.1	\$71.2	2.1	\$73.48
New York	\$7,791.4	\$3,926.7	\$3,864.7	19.8	\$393.51
North Carolina	\$2,383.6	\$1,617.5	\$766.1	10.0	\$238.36
North Dakota	\$35.7		\$35.7	0.8	\$44.63
Ohio	\$3,056.7	\$1,560.4	\$1,496.3	11.6	\$263.51
Oklahoma	\$189.6	\$78.6	\$111.0	3.9	\$48.62
Oregon	\$353.0	\$131.6	\$221.4	4.0	\$88.25
Pennsylvania	\$4,135.2	\$2,792.7	\$1,342.5	12.8	\$323.06
Rhode Island	\$260.9	\$96.3	\$164.6	1.1	\$237.18
South Carolina	\$1,600.4	\$1,137.8	\$462.6	4.9	\$326.61
South Dakota	\$55.7	\$26.7	\$29.0	0.9	\$61.89
Texas	\$5,067.5	\$3,715.8	\$1,351.7	27.5	\$184.27
Vermont	\$124.3	\$93.2	\$31.1	0.6	\$207.17
Virginia	\$2,006.9	\$1,100.6	\$906.3	8.4	\$238.92
Washington	\$696.0	\$453.9	\$242.1	7.2	\$96.67
West Virginia	\$188.2	\$102.5	\$85.7	1.8	\$104.56
Wisconsin	\$627.2	\$378.8	\$248.4	5.8	\$108.14
Wyoming	\$36.9		\$36.9	0.6	\$61.50
Total	\$71,812.6	\$43,892.7	\$27,919.9	299.0	\$9,019.75

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

West Virginia Lottery

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	6.9	\$123.48
Arkansas	\$449.5	\$368.5	\$81.0	3.0	\$149.83
California	\$6,244.7	\$4,587.2	\$1,657.5	39.3	\$158.90
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.	\$218.6	\$51.5	\$167.1	0.7	\$312.29
Delaware	\$169.8	\$69.3	\$100.5	1.0	\$169.80
Florida	\$6,156.5	\$4,243.6	\$1,912.9	20.6	\$298.86
Georgia	\$4,528.9	\$3,117.2	\$1,411.7	10.3	\$439.70
Idaho	\$239.6	\$137.1	\$102.5	1.7	\$140.94
Illinois	\$2,844.0	\$1,871.9	\$972.1	12.8	\$222.19
Indiana	\$1,202.6	\$897.1	\$305.5	6.6	\$182.21
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	\$3,221.1	\$1,282.2	\$1,938.9	9.9	\$325.36
Minnesota	\$563.5	\$398.3	\$165.2	5.5	\$102.45
Missouri	\$1,235.9	\$869.5	\$366.4	6.1	\$202.61
Montana	\$52.7	\$17.1	\$35.6	1.0	\$52.70
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	8.9	\$358.06
New Mexico	\$126.0	\$72.4	\$53.6	2.1	\$60.00
New York	\$7,666.8	\$4,058.6	\$3,608.2	19.7	\$389.18
North Carolina	\$2,428.1	\$1,695.2	\$732.9	10.1	\$240.41
North Dakota	\$27.6		\$27.6	0.8	\$34.50
Ohio	\$2,997.4	\$1,526.3	\$1,471.1	11.6	\$258.40
Oklahoma	\$151.5	\$68.0	\$83.5	3.9	\$38.85
Oregon	\$332.2	\$126.5	\$205.7	4.1	\$81.02
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	5.0	\$327.14
South Dakota	\$49.2	\$26.1	\$23.1	0.9	\$54.67
Texas	\$5,000.2	\$3,941.3	\$1,058.9	27.9	\$179.22
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	\$672.2	\$472.3	\$199.9	7.3	\$92.08
West Virginia	\$166.5	\$94.4	\$72.1	1.8	\$92.50
Wisconsin	\$602.8	\$384.8	\$218.0	5.8	\$103.93
Wyoming	\$28.1		\$28.1	0.6	\$46.83
Total	\$71,007.6	\$45,118.9	\$25,888.7	300.3	\$8,784.71

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

West Virginia Lottery

Number of Employees

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Executive	18	20	20	18	19
Finance & Administration	23	24	23	27	26
Marketing	7	7	7	7	8
Video	27	27	29	30	31
Security (traditional & video)	46	47	46	47	42
Table Games	39	47	51	69	69
Total	160	172	176	198	195

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Executive	19	20	20	19	20
Finance & Administration	25	25	22	23	22
Marketing	8	8	8	8	8
Video	31	29	30	31	29
Security (traditional & video)	40	41	38	38	39
Table Games	61	60	57	52	53
Total	184	183	175	171	171

Source: West Virginia Lottery

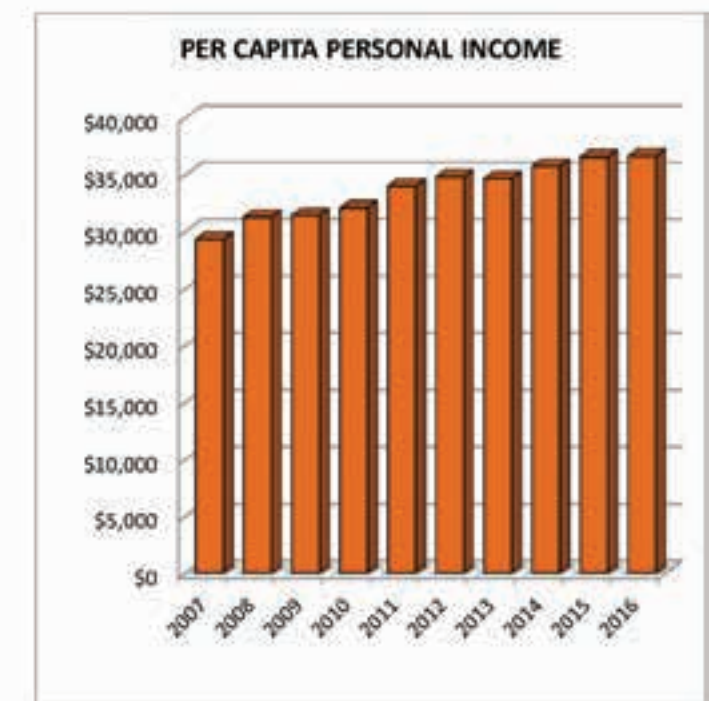
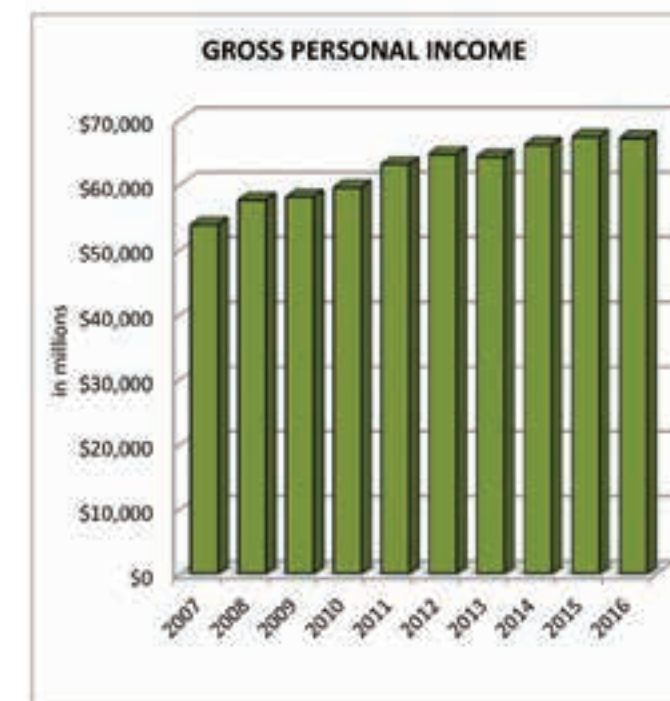
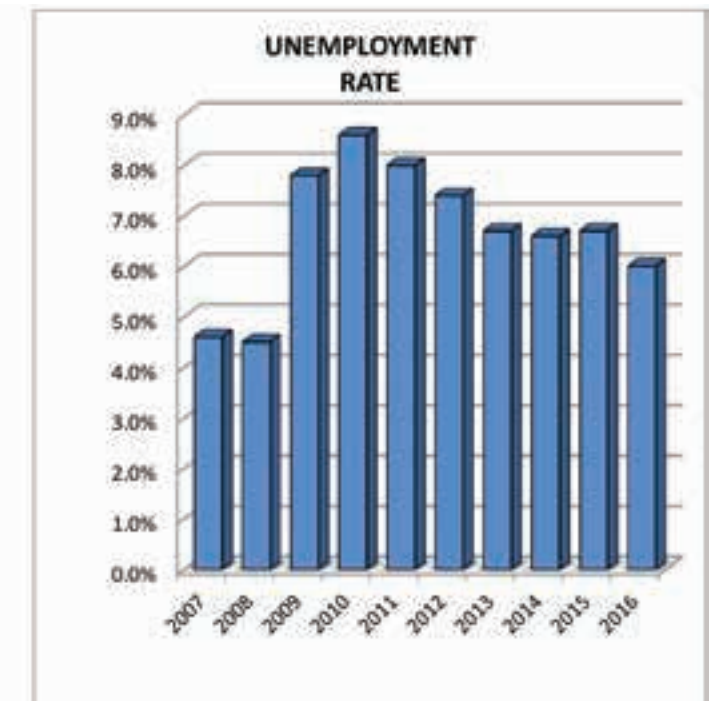
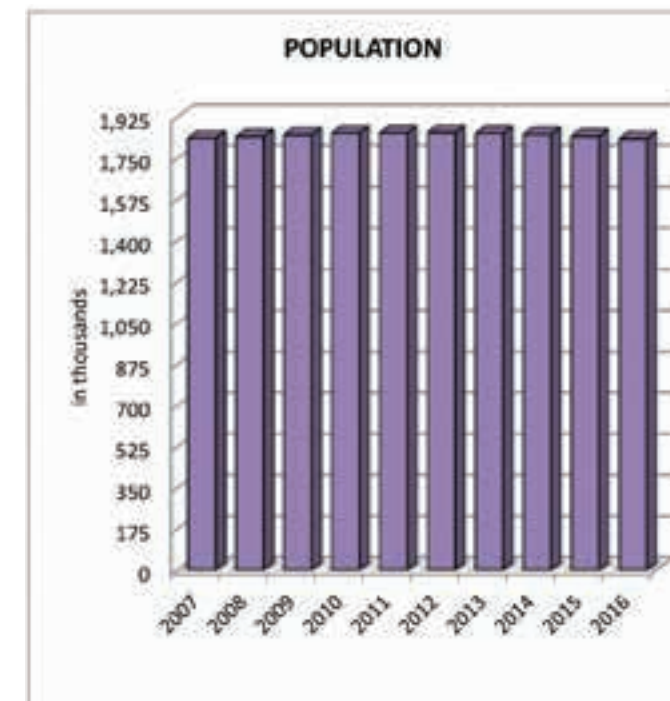
State Demographic and Economic Information

YEAR	POPULATION	PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2007	1,834,052	\$53,779	\$29,323	4.6%
2008	1,840,310	\$57,551	\$31,273	4.5%
2009	1,847,775	\$58,042	\$31,412	7.8%
2010	1,854,230	\$59,487	\$32,082	8.6%
2011	1,854,972	\$63,068	\$33,999	8.0%
2012	1,856,560	\$64,624	\$34,808	7.4%
2013	1,853,231	\$64,207	\$34,646	6.7%
2014	1,848,514	\$66,047	\$35,730	6.6%
2015	1,841,053	\$67,274	\$36,541	6.7%
2016	1,831,102	\$67,062	\$36,624	6.0%

Source: U.S. Bureau of Economic Analysis and Bureau of Labor Statistics based on calendar year.
Note: 2017 information is not available and therefore not presented.

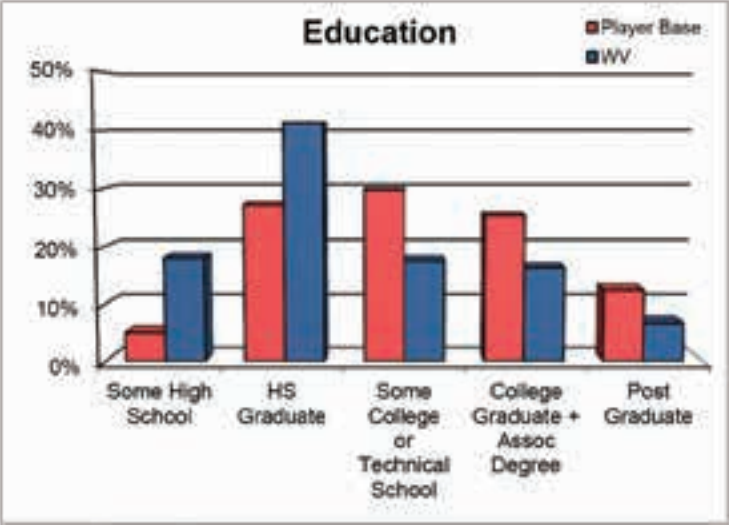
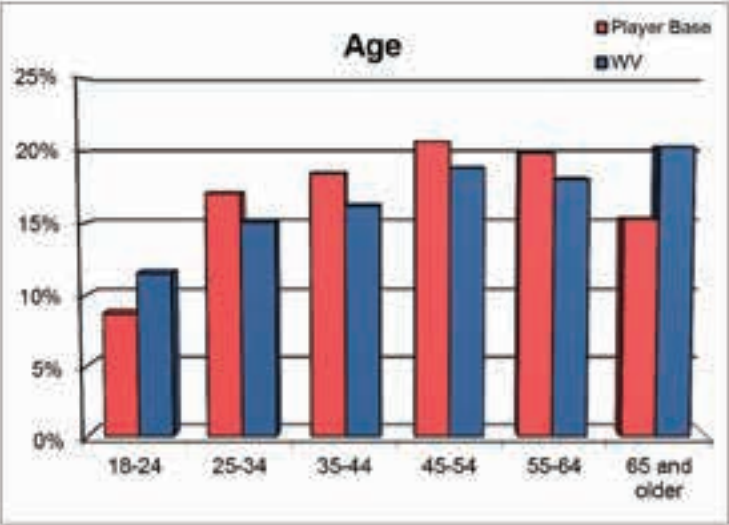
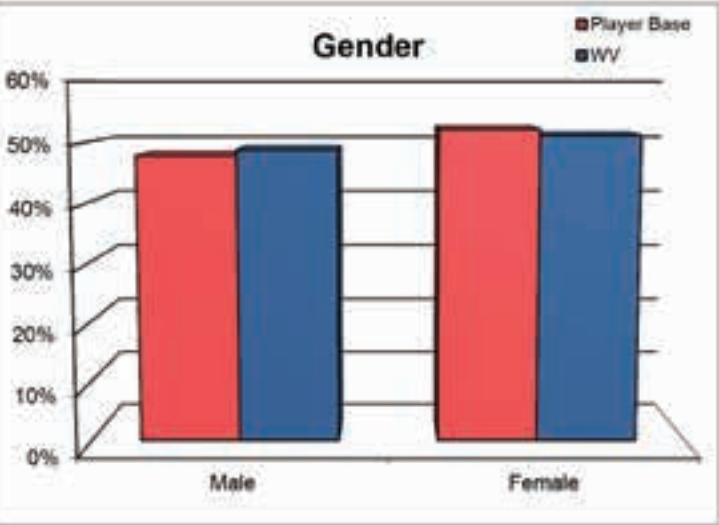
West Virginia Lottery

State Demographics



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

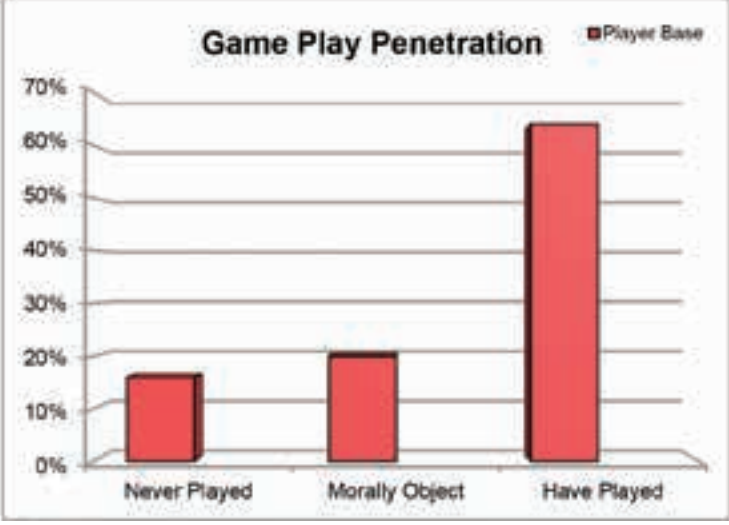
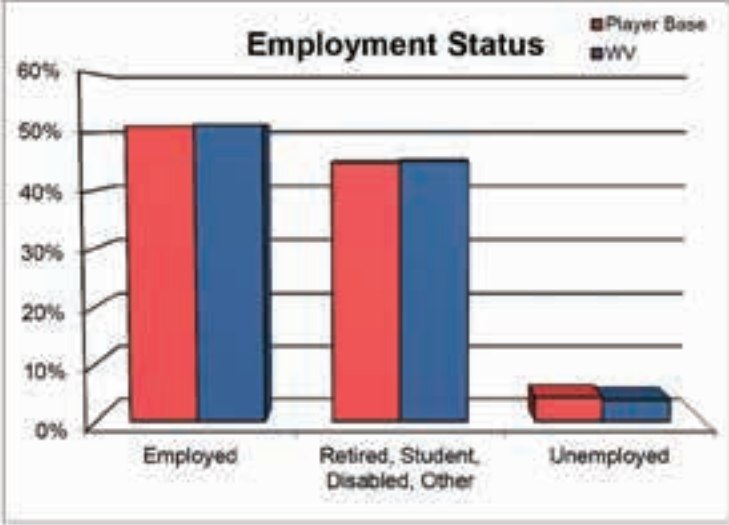
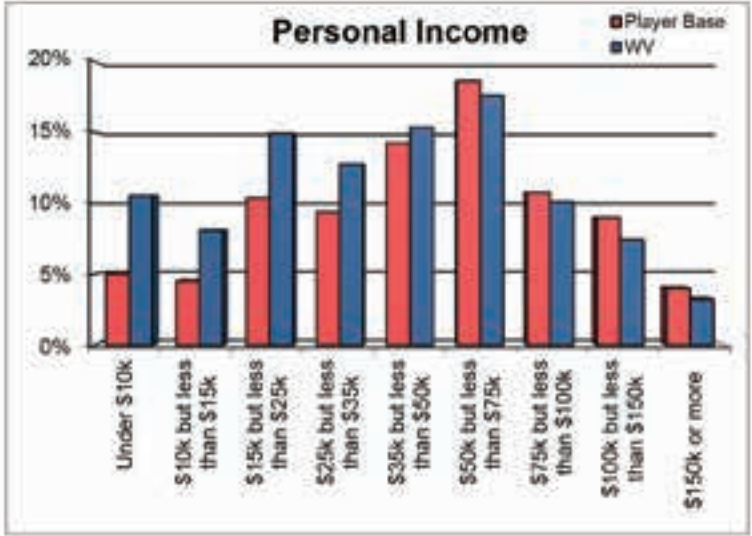
Player and Population Demographics



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 2017		
Business Name	Number of Employees	Percentage of Total Employed
Local Government	75,451	11.21%
State Government	42,500	6.32%
Federal Government	23,712	3.52%
1 WVU Medicine (formerly West Virginia United Health System)	14,000-16,999	2.30%
2 Wal-Mart Associates, Inc.	10,000-12,999	1.71%
3 Charleston Area Medical Center, Inc.	6,000-7,999	1.04%
4 Kroger	3,000-4,999	0.59%
5 Mylan Pharmaceuticals, Inc.	3,000-4,999	0.59%
6 Lowe's Home Centers, Inc.	1,000-2,999	0.30%
7 St. Mary's Medical Center, Inc.	1,000-2,999	0.30%
8 Cabell Huntington Hospital, Inc.	1,000-2,999	0.30%
9 Wheeling Hospital, Inc.	1,000-2,999	0.30%
10 Res-Care Inc.	1,000-2,999	0.30%

First Quarter 2008		
Business Name	Number of Employees	Percentage of Total Employed
Local Government	74,344	10.48%
State Government	39,675	5.59%
Federal Government	22,520	3.17%
1 Wal-Mart Associates, Inc.	13,000-14,999	1.97%
2 West Virginia University Hospitals/United Hospitals	7,000-8,999	1.13%
3 Charleston Area Medical Center, Inc.	5,000-6,999	0.85%
4 Kroger	4,000-5,999	0.70%
5 CSX / CSX Hotels Inc. (The Greenbrier and Railroad)	1,000-2,999	0.28%
6 American Electric Power	1,000-2,999	0.28%
7 Eldercare Resources Corporation	1,000-2,999	0.28%
8 Lowe's Home Center, Inc.	1,000-2,999	0.28%
9 St. Mary's Hospital	1,000-2,999	0.28%
10 Consolidation Coal Company	1,000-2,999	0.28%

Source: WORKFORCE West Virginia, Research, Information and Analysis

West Virginia Lottery 2017 CAFR Project

An in-house production of the West Virginia Lottery

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