

**Comprehensive Annual Financial Report
for the Fiscal Years Ended
June 30, 2019 and 2018**



A Component Unit of the State of West Virginia

MESSAGE FROM JOHN A. MYERS

I am pleased to present this year's West Virginia Lottery Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019 to the Honorable Jim Justice, Governor; Dave Hardy, Cabinet Secretary, Department of Revenue; and the West Virginia Legislature. Our mission to operate responsibly with the highest standards of integrity and security have helped to provide a continued revenue stream for programs that benefit the citizens of West Virginia for more than 34 years.

The Lottery was created in April 1985 pursuant to authority granted by the West Virginia Legislature with gaming operations beginning in January 1986. Since that time, the Lottery has generated more than \$10.4 billion in gaming revenue for the State of West Virginia with proceeds supporting education, seniors and tourism. Lottery operations have produced nearly \$3.4 billion for education, more than \$1.3 billion for senior services, and more than \$1.1 billion for tourism.

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



Director, West Virginia Lottery

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



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.



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.

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A Component Unit of the State of West Virginia

Prepared by

Finance and Administration Division

Dean W. Patrick, CPA

**Deputy Director of Finance and Administration
and Chief Financial Officer**

**Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018**

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LOTTERY PROCEEDS

The West Virginia Lottery has generated more than \$10.4 billion in proceeds for the State of West Virginia since 1986. Lottery proceeds are used in a myriad of ways to improve the quality of life of all West Virginians. Proceeds help fund new school construction and improvements, help fund the PROMISE Scholarship program, help provide important senior services, help grow the State's tourism industry, and help West Virginia veterans.



LOTTERY IMPACT

The West Virginia Lottery began operations in 1986 with a single scratch off game called "West Virginia Jackpot" that generated more than \$53.0 million in sales. Today, the West Virginia Lottery regulates several forms of gaming that include traditional lottery, racetrack video lottery, limited video lottery, table games, and sports wagering that collectively generate more than \$1.1 billion in total sales annually.

The Lottery's continued success is largely attributed to its partnerships with more than 1,400 traditional and more than 1,300 limited video lottery retailers who employ tens of thousands of West Virginians. Additionally, optimized products and ongoing communications have created satisfied Lottery players who have had a significant, positive impact on West Virginia's economy.





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James C. Justice
Governor

John A. Myers
Director

December 6, 2019

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, 2019 and 2018. 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 that reads "John A. Myers".

John A. Myers
Director of West Virginia Lottery

A handwritten signature in blue ink that reads "Dean W. Patrick".

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

INTRODUCTORY SECTION

OVERVIEW

The West Virginia Lottery exceeded expectations in 2019 by topping the \$1 billion mark in total revenue for the 17th consecutive year, despite projections that called for sales of \$997.7 million. The Lottery not only beat its own projections, but also exceeded the prior year's sales by generating \$1.1 billion in revenue for the year ended June 30, 2019.

The \$1.1 billion in sales marked a nearly \$52.0 million increase over the previous fiscal year and resulted in \$495.1 million in proceeds to the State. That total was up \$21.2 million or 4.5 percent. Every form of gaming - Traditional Lottery, Racetrack Video Lottery, Limited Video Lottery and Table Games showed sales increases over the previous year.

In FY 2019, these operations provided the following transfers to the State: \$227.2 million from Racetrack Video Lottery, \$198.3 million from Limited Video Lottery, \$47.6 million from Traditional Lottery, \$17.5 million from Racetrack Table Games, \$2.8 million from the Historic Resort, and \$1.7 million from Sports Wagering.

Lottery proceeds make a significant impact on a wide-range of programs that benefit the people of West Virginia. The 2019 West Virginia State Budget included \$453.3 million in cash transfers from the Lottery. These included \$84.3 million for education, \$54.6 million for seniors, \$54.7 million for tourism, \$66.2 million to the General Fund, \$70.6 million to the Infrastructure Council, and \$93.9 million to other state agencies that included \$29 million to the PROMISE Scholarship Program and more than \$512 thousand to the Veteran's Fund. A total of \$27.7 million in statutory transfers from Racetrack Video Lottery, Limited Video Lottery, Table Games and the Historic Resort were also paid to county and local municipalities in FY 2019.

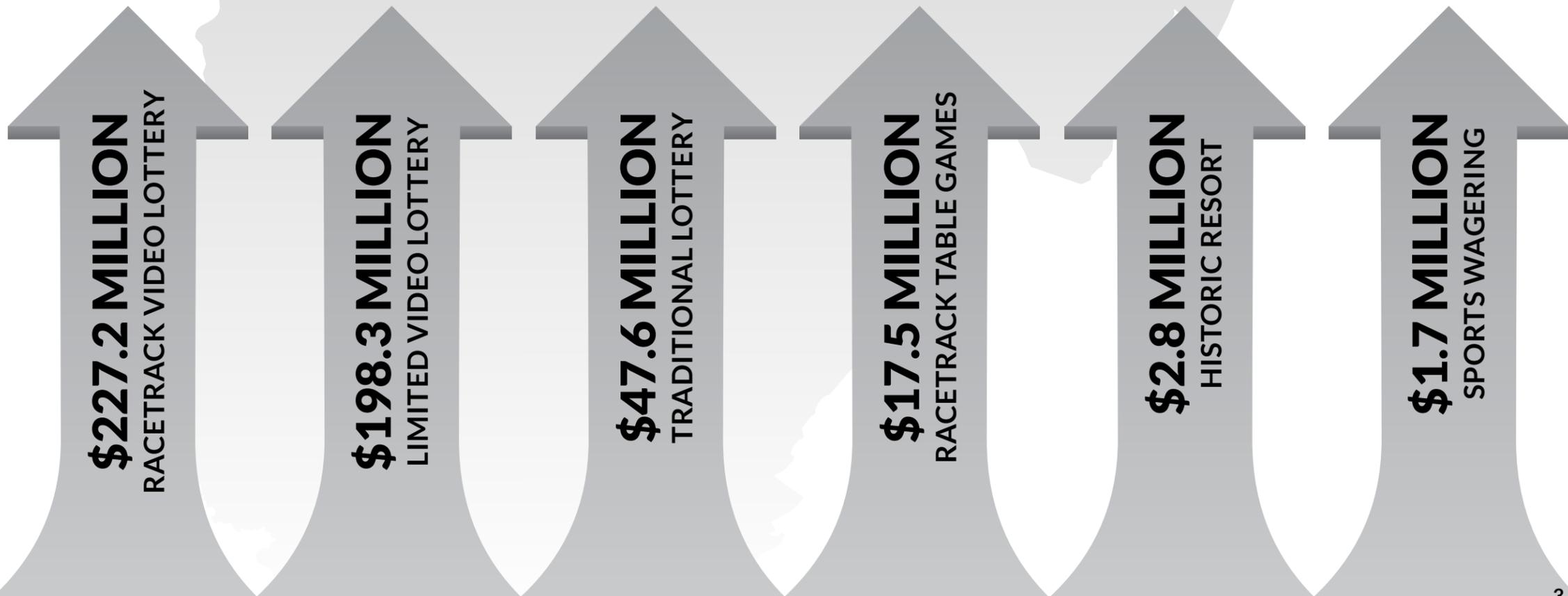
In addition to the strong sales, the West Virginia Lottery's total operating costs were 3.2 percent of total sales for the year. This resulted in the Lottery not only meeting its obligations to the State, but generating a surplus in excess of budgeted amounts of \$81.6 million, which are available for additional legislative appropriations.

Meanwhile, West Virginia Lottery players, retailers and casinos shared in a total of nearly \$607.7 million in prizes and commissions from all forms of gaming in FY 2019. More than \$120.7 million of that was prizes won by traditional lottery players alone. The state's five casinos, more than 1,400 traditional lottery retailers, and more than 1,300 limited video lottery retailers also supported tens of thousands of jobs across West Virginia.

EVERY FORM OF TRADITIONAL GAMING IMPROVED OVER THE PREVIOUS FISCAL YEAR RESULTING IN A

\$21.2 MILLION

INCREASE OF PROCEEDS TO THE STATE.



ECONOMIC OUTLOOK

The U.S. economy is expected to grow at a slower pace than in the prior year. The Congressional Budget Office (CBO) projects the national economy will grow by 2.3 percent in 2019, down from 3.1 percent in 2018, and then average annual growth of 1.7 percent through 2023. This projected decline in real gross domestic product, is a result of the diminishing effects of the Tax Cut and Jobs Act of 2017 on business investment. State revenues in first quarter FY2020 were 1.8 percent below the first quarter of the prior fiscal year partially due to the completion of natural gas pipeline construction projects and partially due to declining steam coal sales, declining coal exports and declining natural gas prices. In Fiscal Year 2019, West Virginia Coal Severance Tax collections rose by nearly 19 percent due to increasing export sales. However, a global economic slowdown and lower steel demand began exerting downward pressure on exports at the beginning of calendar year 2019. Subsequently, the value of foreign good exports from West Virginia fell by \$1.4 billion in a seven-month period between February and June of 2019. The decline in coal exports was a contributing factor in a 38.6 percent decrease in year to date Fiscal Year 2020 Severance Tax collections from the prior fiscal year.

Economic indicators continue to exhibit a strong and growing national economy, although trade tensions between the U.S. and various nations could significantly reduce the national economy's growth rate. IHS Global Insight has revised its GDP estimate for 2019 downward from 2.8% annual growth to 2.3% annual growth within the past year. The U.S. Bureau of Labor Statistics (BLS) reports a national unemployment rate of 3.5 percent in September 2019. According to the University of Michigan Consumer Sentiment Index, consumer confidence rebounded in early October 2019 as consumers anticipated larger income gains and lower inflation during the year ahead. Consumer spending will be strong enough to offset weakness in business investment spending to keep the economy expanding into 2020. However, there are significant global and domestic uncertainties that should temper overall spending growth, although income gains among lower- and middle-income households should result in higher spending among these groups of consumers.

The BLS reported in September 2019 that total nonfarm employment increased by 136,000 while the labor participation rate improved to 63.2 percent, an improvement of 0.6 percent from August 2018. Employment in health care and in professional and business services continue to trend upward in 2019. Nationally, the rate of job growth fell from last year's monthly average of 223,000 to 161,000 in 2019. Nationally, the number of coal mining jobs increased from 51,800 in September 2018 to 53,300 in September 2019, a gain of 2.9 percent. The number of oil and gas extraction jobs increased from 145,800 in September 2018 to 161,300 in September 2019, a gain of 10.6 percent.

According to the U.S. Bureau of Economic Analysis (BEA), the largest industry in West Virginia in 2018 was government and government enterprises which accounted for 15.3 percent of the State's GDP. The second largest industry was mining, quarrying, and oil and gas extraction which accounted for 10 percent of total GDP in West Virginia in 2018. According to the BEA, West Virginia's real GDP grew by 2.4 percent in 2018 from the prior calendar year, while the national change in real GDP was 2.9 percent. The largest contributor to real GDP growth in West Virginia was construction which accounted for 56 percent of the total growth in State real GDP. Most of this construction growth was attributable to the major natural gas pipeline construction activity in 2018. This growth in construction GDP is likely to decrease in the near future due to the completion of several major natural gas pipeline construction projects. However, increased road construction activities associated with the Governor's Road to Prosperity Program should help temper the slump in private industry activity.

According to the U.S. Bureau of Labor Statistics (BLS), West Virginia's unemployment rate in September 2019 was 4.7 percent, while the national unemployment rate was 3.5 percent during the same period. Workforce West Virginia reported that total nonfarm employment improved 0.7 percent between August 2018 and August 2019 with a total of 735,000 jobs in August 2019, compared to 729,900 jobs in August 2018. Mining jobs rose from 22,832 during the first quarter of 2018 to 23,803 in the first quarter of 2019, an improvement of 4.3 percent, while average annual wages for State mining jobs rose 0.5 percent. In a more recent period, the number of State mining and logging jobs decreased from 22,900 in September 2018 to 22,300 in September 2019.

Other notable sectors of importance to the West Virginia economy were construction, manufacturing, health care and retail trade. According to Workforce WV, 3,000 construction jobs were added in West Virginia between September 2018 and September 2019. West Virginia jobs related to health care and social assistance increased from 119,300 jobs in September 2018 to 121,300 jobs in September 2019, a gain of 1.7 percent. There were 700 new jobs added in manufacturing between September 2018 and September 2019. The State retail sector experienced a loss of 900 jobs between September 2018 and September 2019 partially due to the closure of several prominent retail stores within the last year.

According to published research by the West Virginia University Bureau of Business and Economic Research (BBER), eight West Virginia counties added 12,000 jobs since the first quarter of 2017, while the rest of the State remained generally unchanged. Roughly 10,000 added jobs were in coal mining, natural gas extraction and construction

while the remaining 2,000 jobs were dispersed among all other sectors of the State economy. These eight counties with the overall growth were Marshall, Monongalia, Berkeley, Harrison, Lewis, Jackson, Cabell, and Raleigh. County property tax revenues are growing faster than state revenues in large part due to increased local tax revenues associated with horizontal well natural gas production. For example, Doddridge County, which has the highest share of West Virginia natural gas production at 24.5 percent, experienced a property tax base increase of 33.2 percent between 2018 and 2019. Data from the WV Department of Environmental Protection (DEP) shows that the total State natural gas production was roughly 1.8 trillion cubic feet in calendar year 2018. Higher natural gas production relative to available market demand has contributed to lower Marcellus Shale natural gas prices and decreased State Natural Gas Severance Tax collections. Natural Gas Severance Tax collections over a twelve-month trailing trend, declined from \$156.8 million in March 2019 to \$146.8 million in September 2019, a six month decline of 6.4 percent.

Lower First Quarter FY2020 West Virginia General Revenue Fund collections were due to lower energy prices, lower demand for domestic steam coal and decline in demand of international exports, resulting in a 38.6 percent decline in FY2020 First Quarter Severance Tax revenues from the prior fiscal year. FY2020 First Quarter Severance Tax revenues were running \$26.4 million below estimate. These losses were partially offset by increased revenue from Consumer Sales and Use Tax, Personal Income Tax, Business & Occupation Tax and Corporation Net Income Tax. Consumers Sales and Use Tax revenue in FY20Q1 was 0.9 percent above prior year collections but \$2.0 million below estimate. Personal Income Tax revenue in FY20Q1 was \$21.5 million below estimate, but \$1.2 million above prior year collections. Business & Occupation Tax revenue in FY20Q1 was \$9.2 million above estimate and 37.6 percent above prior year collections. Corporation Net Income Tax was \$12.1 million above estimate and \$3.2 million above prior year collections.

The Energy Information Administration (EIA) forecasts Henry Hub natural gas prices to average \$2.43 per million British Thermal Units (BTU) in the fourth quarter of 2019, a decline of more than \$1 per million BTU from the fourth quarter of 2018. According to Natural Gas Intelligence, Dominion South natural gas prices have declined from \$2.21 per million BTU in September 2018 to \$1.74 per million BTU in September 2019, a decrease of 21.3%. U.S. natural gas prices have fallen in 2019 because of strong supply growth that has enabled natural gas inventories to build more than average during the April through October injection season. According to the EIA, estimated US year to date coal production as of October 5, 2019 was 547.2 million short tons, which was 4.8 percent lower than the

prior year. The decline in coal production and natural gas prices will cause the energy sector to produce declining tax revenues. Resolution of current trade disputes between the United States and various nations could lead to improvements in global economic growth in the future, resulting in a stronger energy sector for West Virginia.

According to September 2019 data from the U.S. Bureau of Economic Analysis (BEA), U.S. personal income increased 5.4 percent annually in the second quarter of calendar year 2019, which was 1.2 percent better than the second quarter of calendar year 2018. West Virginia personal income rose to 4.0 percent in the second quarter of 2019 as compared to 3.6 percent the same quarter last year. U.S. annual personal income increased 4.5 percent in 2018, while West Virginia annual personal income increased by 4.9 percent during this same time period. According to the BEA, the 5.6 percent annual personal income growth rate in West Virginia during the first quarter of 2019 was largely attributable to the construction industry. West Virginia personal income annual growth rate declined to 4.0 percent in the second quarter of 2019, primarily due to a 0.39 percent decline in State construction earnings.

West Virginia is starting to experience a period of mild economic contraction as evidenced by the decline of natural gas pipeline construction jobs and international coal exports during the second quarter of calendar year 2019. An aging population and opioid addiction among the younger State population continue to be barriers to West Virginia labor participation. Higher unemployment rates and lower labor participation rates are more prevalent in rural West Virginia counties in comparison to urban West Virginia counties due to insufficient educational opportunities, lack of jobs that match rural residents' skills, lack of health care access and inadequate transportation. There is a natural tendency for the younger college graduate population from the rural West Virginia counties to move to urban states in order to improve their access to further educational opportunities, health care, jobs and transportation, even when West Virginia has jobs in private and public sectors that are difficult to fill due to insufficient number of qualified applicants. According to published data from the Federal Reserve Bank of St. Louis, the August 2019 labor participation rate in West Virginia was 54.9 percent.

According to the U.S. Energy Information Administration (EIA), West Virginia's 1.8 trillion cubic feet of natural gas production was the seventh largest amount of among all states in the United States. Increased emphasis on converting a portion of this natural gas for use in petrochemical manufacturing may improve the West Virginia economic outlook in future years.

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

LOTTERY PRODUCTS

The West Virginia Lottery has introduced 13 different traditional lottery game products since its inception, but currently provides players the opportunity to participate at 1,447 retail locations in a variety of 8 products:



SCRATCH-OFF games were the Lottery's first type of game introduced in January 1986. There are different ways to win in an instant or "scratch-off" game including matching three like dollar amounts, symbols or letters, or adding up numbers to a specified total for example. If the correct combination is revealed, the player becomes an "instant winner" without having to wait for the results of a drawing. Instant games offer a wide variety of game themes. During fiscal year 2019, there were 45 new games introduced. Instant games provided approximately 10.1 percent of total fiscal year 2019 sales.



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



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



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



KENO BONUS is a draw game restricted to lottery retailers with specific types of West Virginia Alcohol Beverage Control Administration licenses. The game was introduced in December 1992. Each play costs \$1 where the player selects from 1 to 10 numbers and the Lottery computer randomly picks 20 numbers between 1 and 80. With the Keno Bonus multiplier option, players have a chance to increase their winnings. Drawings are held every five minutes from 5:05 a.m. through 2:45 a.m. The winning numbers are displayed on monitors at 242 Keno locations and on the Lottery's mobile convenience app.



POWERBALL is a draw game offering jackpots of \$40 million or more paid either in a cash lump sum of the prize value or a 29 year annuity with drawings every Wednesday and Saturday. Prizes are also awarded in eight other win divisions ranging from \$4 to \$1 million. The game is jointly operated by 44 state lotteries, the District of Columbia, Puerto Rico and the U.S. Virgin Islands who are members of either the Multi-State Lottery Association (MUSL) or the Mega Millions® Group. Powerball® was first introduced on April 22, 1992 with 15 participating lotteries. The Power Play® Multiplier feature was added in March 2001. Cross-selling with Mega Millions® Group members began January 31, 2010. On January 18, 2012, the price point for a single play increased to \$2 per and Power Play® no longer used a multiplier, but was now set dollar values. The Power Play® option match 5+0 prize became \$2 million and all lower prizes were multiplied by 2, 3, 4 or 5 and a 10x option was added if the jackpot is \$150 million or less beginning October 4, 2015. Powerball® sales are approximately 2.9 percent of total 2019 sales.



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

MEGA MILLIONS is a draw game jointly operated by 44 state lotteries, the District of Columbia and the U.S. Virgin Islands, with members belonging to the same groups that operate Powerball®. The game was introduced on August 31, 1996 as The Big Game. The first drawing took place on September 6, 1996, with six states participating. The West Virginia Lottery and 22 other states began selling Mega Millions® January 31, 2010 in a cross-selling agreement. The game is similar to Powerball®, in play and jackpots. A feature called Megaplier® was added where non-jackpot winnings can be multiplied from a random number. Jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 29 years with a guaranteed minimum jackpot of \$40 million. Mega Millions® offers eight secondary prizes of fixed amounts ranging from \$2 to \$1 million. On October 15, 2017, a special offer called Just the Jackpot became available allowing a player to pay \$3 for two plays towards the jackpot only. Drawings are held twice weekly on Tuesday and Friday.



The West Virginia Lottery regulates several forms of gaming that include racetrack video lottery, limited video lottery, table games and sports wagering:

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, 2019, the West Virginia Lottery Commission had an average of 5,664 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 44.3 percent of total 2019 fiscal sales.



LIMITED VIDEO LOTTERY games were approved by the Legislature in April 2001. The legislation provides up to 9,000 video lottery terminals to be placed in retailer locations with specific types of West Virginia Alcohol Beverage Control Administration licenses. The first terminals were enabled for play on December 17, 2001. A total of 6,709 terminals were operating at licensed retail locations throughout the state as of June 30, 2019. Limited video lottery sales were 34.3 percent of total 2019 fiscal sales at 1,303 operating retailer locations.



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.



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 3.1 percent of total 2019 fiscal sales.



SPORTS WAGERING was implemented in fiscal year 2019 when the West Virginia Legislature passed Senate Bill 415 permitting wagering on the results of permitted professional or collegiate sports or athletic events and other events authorized as West Virginia Lottery sports wagering activities.



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 2019 increased 4.8 percent to \$1.14 billion from \$1.09 billion in fiscal year 2018. Distributions to the State of West Virginia increased 4.5 percent from \$473.9 million in fiscal year 2018 to \$495.1 million in fiscal year 2019.

ACCOUNTING SYSTEMS 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.

INDEPENDENT AUDIT

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

ACKNOWLEDGEMENTS

This report demonstrates the collaborative efforts of the Finance and Administration Division and Marketing Division of the West Virginia Lottery. We appreciate the contributions of this year's project team comprised of Mara Dawson, Games Accounting Manager/Project Coordinator; Sara Harpold, Advertising Manager; Michael Thaxton, Product Development Manager; and Randy Burnside, Public Relations. We could not have successfully completed this report without their efficient and dedicated services. The Lottery continues its commitment to providing thorough and relevant financial information to the public.

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

GFOA CERTIFICATE OF ACHIEVEMENT

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, 2018. This was the 22nd 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.

ACCOMPLISHMENTS & FUTURE PROJECTS

ACCOMPLISHMENTS

- Lottery sales exceeded the \$1 billion mark for the 17th consecutive year in FY 2019. Lottery sales totaled \$1.14 billion for the year ending June 30, 2019, and resulted in a cash transfer of more than \$495.1 million to the State of West Virginia. That was an increase of \$21.2 million in proceeds over the prior year.
- Legal sports wagering was introduced, following the passage of legislation and the subsequent U.S. Supreme Court Decision allowing states to offer it, in September of 2018. West Virginia was just the fifth state to offer sports wagering and one of the first to allow for online sports wagering.
- The conversion to IGT's Aurora™ platform for traditional lottery, including the Aurora Navigator back-office applications, IGT's Aurora Performance Intel solution, and IGT's Aurora Retailer Wizard took place.
- The development and launch of the West Virginia Lottery's official Mobile Convenience App, that is available to both iPhone and Android users, took place in fiscal year 2019. The app allows players the ability to check their tickets, find retailers near them, check winning numbers, and see Bonus Keno draws among other features.
- For the 22nd consecutive year, the West Virginia Lottery was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for the agency's comprehensive annual financial report.

FUTURE PROJECTS

- The West Virginia Lottery will prepare for and conduct the next 10-year competitive bid process for Limited Video Lottery (LVL) terminal permits in 2020. Under provisions of the law governing LVL, the Lottery is to provide for the rebidding of terminal permits every 10 years.
- Walmart Corporation is expanding its lottery offerings and West Virginia Lottery traditional games will be available at the thirty-six (36) West Virginia Walmart Supercenters by February 2020. Walmart Supercenters will offer a self-service vending solution, the Game Touch, that allows lottery players the convenience of purchasing instant "scratch-off" games as well as on-line "draw" games like Powerball® and Mega Millions®, directly from a user-friendly machine. The Supercenters will also have standard Lottery terminals in designated aisles at each location. Players can purchase draw games and cash prizes up to \$600 in these designated checkout aisles.
- The West Virginia Lottery Interactive Wagering Act became law in March of 2019, permitting online wagering via the five gambling facilities in West Virginia. The law allows the state's land-based gambling operators to offer online poker and online casino games. Licensing for interactive gaming will cost \$250,000 per operator and will be valid for five years. Every five years a renewal fee of \$100,000 will be due and gross gaming revenues from online gaming will be taxed at a rate of 15%. The West Virginia Lottery will be working with each of the five facilities over the course of the fiscal year to prepare for the launch of i-Gaming in the State.
- Several changes to in-state and multi-state lottery draw games are scheduled to take place over the next two years. The West Virginia Lottery's Keno game will be expanded through traditional lottery retail locations, while changes to the Lottery's Daily 3 and Daily 4 games, as well as the popular multi-state games Powerball® and Mega Millions® are expected.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

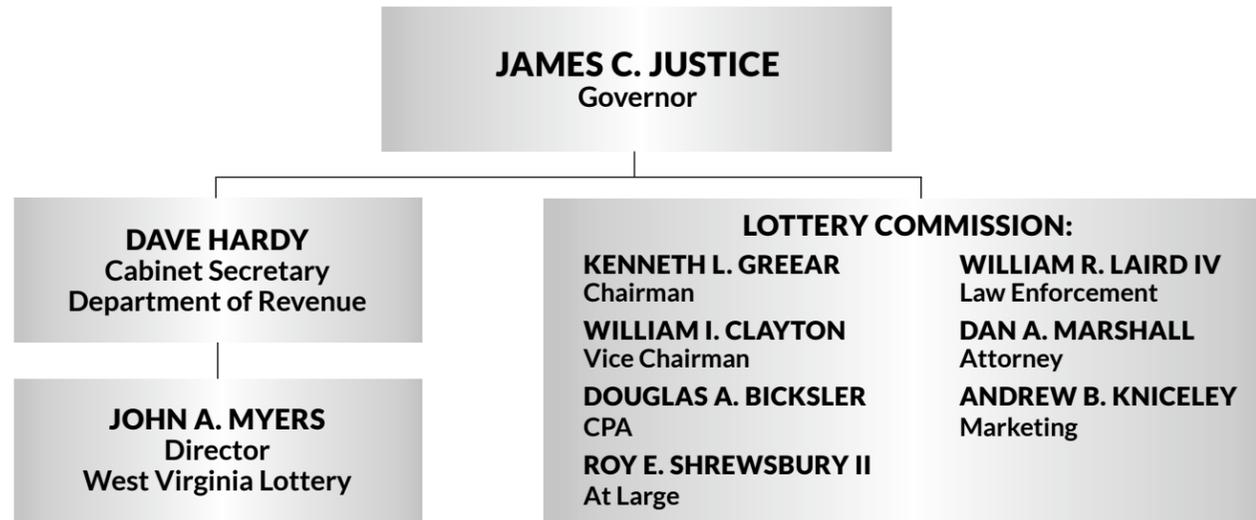
West Virginia Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

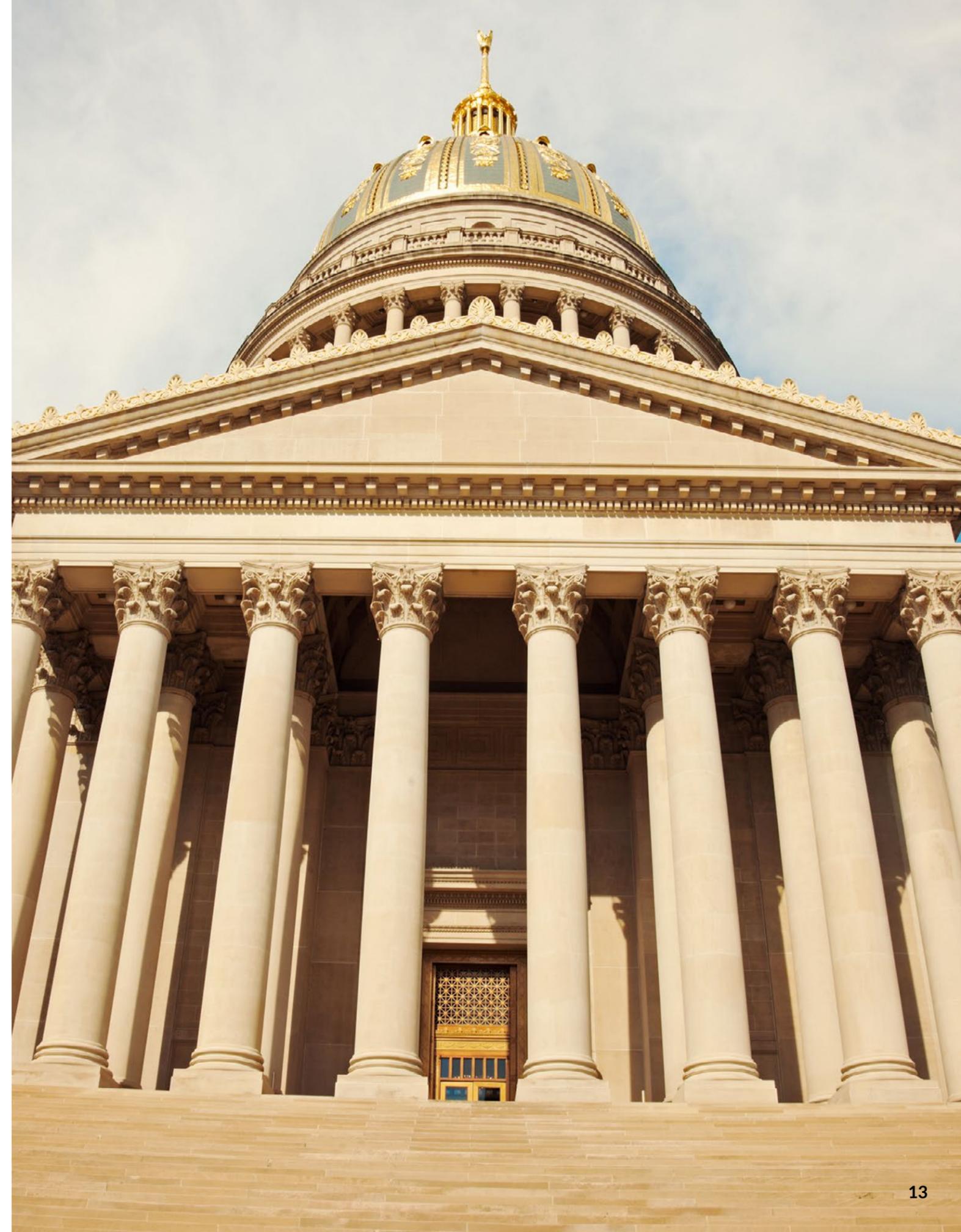
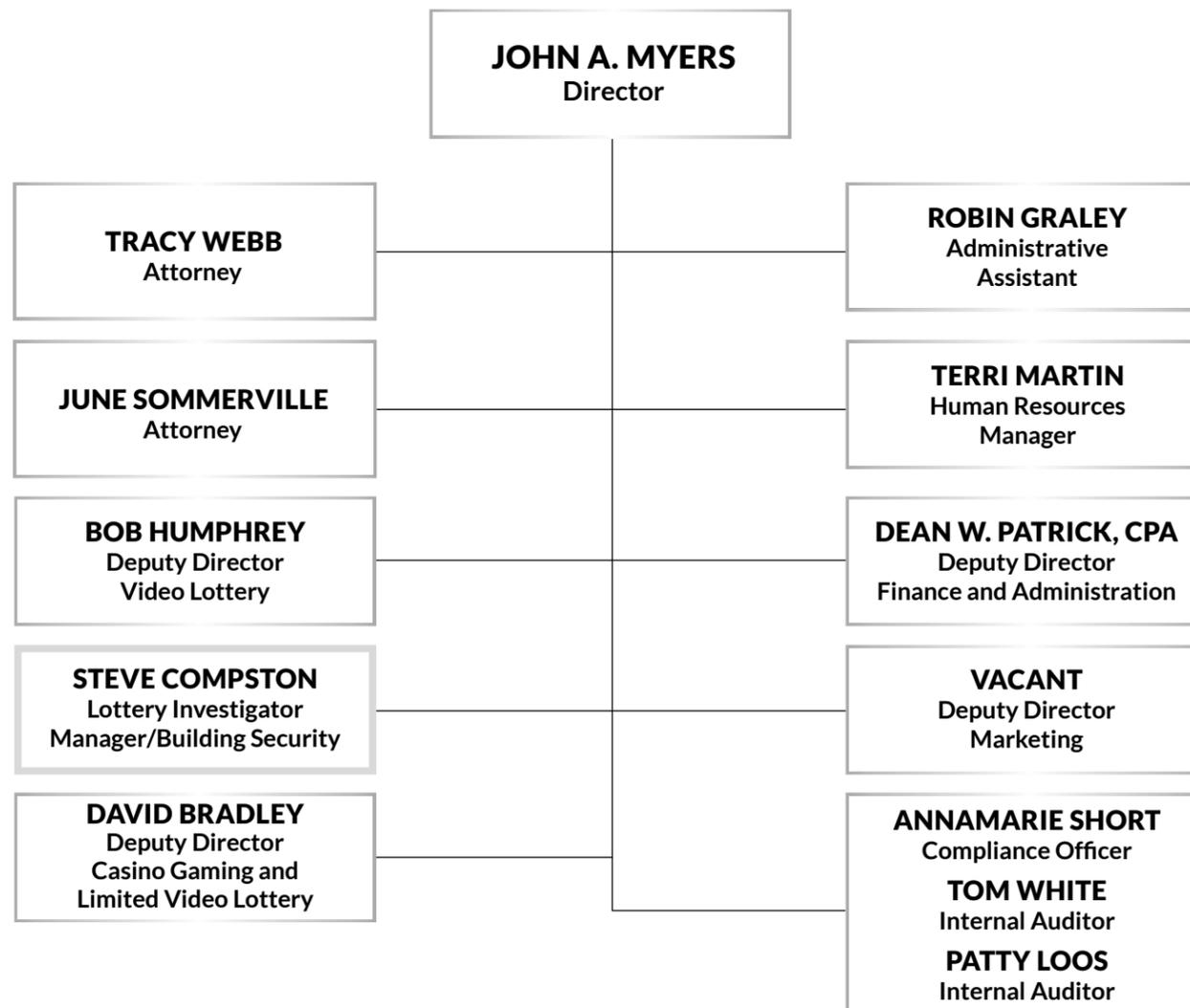
June 30, 2018

Christopher P. Morill

Executive Director/CEO



Executive Organizational Chart



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Lottery (the Lottery), a component unit of the State of West Virginia, as of and for the years ended June 30, 2019 and 2018, 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.

FINANCIAL SECTION

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, 2019 and 2018, and the changes in financial position and 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 26, and the schedules of the proportionate share of the net pension liability, the schedules of contributions to the PERS, the schedules of the proportionate share of the net OPEB liability, the schedules of contributions to the RHBT, and the notes to required supplementary information on pages 67 through 74 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 23, 2019

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, 2019 and 2018. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2019, and the prior year refers to fiscal year ending June 30, 2018. This analysis is to be considered in conjunction with the financial statements, which begin on page 27.

Financial Highlights

The Lottery's operating income increased in 2019 and 2018 due to improvement in economic conditions. The following summary is provided below:

- Lottery revenues for the current year increased \$52.0 million or 4.8% compared to the prior year, which increased \$11.7 million or 1.1% from 2017.
- Commissions for the current year increased \$15.6 million or 3.3% compared to the prior year, which increased \$2.0 million or 0.4% from 2017.
- Gross profit for the current year increased \$21.9 million or 4.3% compared to the prior year, which increased \$1.6 million or 0.3% from 2017.
- Nonoperating expenses increased \$19.5 million or 4.0% compared to the prior year, which increased \$2.6 million or 0.5% from 2017. The predominant nonoperating expense is the distributions to the State of West Virginia, which increased \$21.2 million or 4.5% compared to the prior year, which decreased \$3.1 million or 0.7% from 2017.

Using This Annual Report

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

Statements of Net Position

The Lottery implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – a replacement of GASB Statement No. 45 and an amendment of GASB Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* – an amendment of GASB Statement No. 68 during the year ending June 30, 2018. There are no other significant matters or accounting standards adopted which would significantly impact the comparability of the Lottery's financial statements for the periods presented.

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

Statements of Net Position (Continued)

As shown in Table 1, current assets for the current year increased \$46.3 million or 25.7% compared to the prior year, which decreased \$5.6 million or 3.0% from 2017, 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 \$1.7 million or 3.5% due to depreciation compared to the prior year which increased by \$4.3 million or 9.7% from 2017, due to acquisition of assets. For additional information on capital assets, please refer to Note 4 to the financial statements.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Current assets	\$ 226,849	\$ 180,501	\$ 186,118
Capital assets, net of accumulated depreciation and amortization	<u>46,373</u>	<u>48,047</u>	<u>43,779</u>
Total assets	<u>\$ 273,222</u>	<u>\$ 228,548</u>	<u>\$ 229,897</u>
<u>Deferred Outflows of Resources</u>			
Deferred outflows of resources	<u>\$ 1,306</u>	<u>\$ 1,339</u>	<u>\$ 2,795</u>

As shown in Table 2, the Lottery's current liabilities for the current year increased \$45.2 million or 27.0% compared to the prior year, which decreased \$7.0 million or 4.0% compared to 2017 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 \$1.7 million or 3.5% due to depreciation, compared to the prior year which increased by \$4.3 million or 9.7% compared to 2017, due to acquisition of assets. Refer to Note 5 to the financial statements for additional information on capital assets.

Net position - unrestricted increased \$2.1 million or 29.3% for the year ended June 30, 2019 compared to the prior year which decreased \$2.0 million or 22.6% compared to 2017.

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

Statements of Net Position (Continued)

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current liabilities	\$ 212,694	\$ 167,539	\$ 174,506
Noncurrent liabilities	<u>4,547</u>	<u>5,775</u>	<u>4,800</u>
Total liabilities	<u>\$ 217,241</u>	<u>\$ 173,314</u>	<u>\$ 179,306</u>
Deferred inflows of resources	<u>\$ 1,666</u>	<u>\$ 1,374</u>	<u>\$ 367</u>
Net position - net investment in capital assets	\$ 46,373	\$ 48,047	\$ 43,779
Net position - unrestricted	<u>9,248</u>	<u>7,152</u>	<u>9,240</u>
Total net position	<u>\$ 55,621</u>	<u>\$ 55,199</u>	<u>\$ 53,019</u>

Capital Assets

Capital assets as of June 30, 2019 amounted to \$61.6 million (at cost). This investment in capital assets includes land, building, construction in progress and equipment. Total capital assets for the current fiscal year did not change from the prior fiscal year.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Construction in progress	\$ 629	\$ 629	\$ 1,350
Land	1,681	1,681	1,434
Building	48,243	48,243	46,207
Equipment	<u>10,999</u>	<u>10,999</u>	<u>6,741</u>
Total assets	<u>\$ 61,552</u>	<u>\$ 61,552</u>	<u>\$ 55,732</u>

Capital asset activities included \$2.2 million in the building of a new backup data center and \$4.2 million in a new central system for video lottery during the year ending June 30, 2018. Additional information on capital assets can be found in Note 4 of the financial statements.

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Revenues, Expenses and Changes in Fund Net Position

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

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

	2019	2018	2017
Revenues:			
On-line games	\$ 84,501	\$ 77,840	\$ 72,110
Instant games	115,596	99,195	94,369
Racetrack video lottery	506,647	504,295	521,318
Limited video lottery	392,330	368,067	347,555
Table games	35,530	35,152	38,958
Historic resort	7,350	6,624	5,207
Sports wagering	1,193	-	-
	<u>1,143,147</u>	<u>1,091,173</u>	<u>1,079,517</u>
Less commissions:			
On-line games	5,910	5,436	5,043
Instant games	8,076	6,938	6,606
Racetrack video lottery	261,875	260,243	268,177
Limited video lottery	192,242	180,353	170,302
Table games	15,070	14,905	16,512
Historic resort	3,787	3,511	2,733
	<u>486,960</u>	<u>471,386</u>	<u>469,373</u>
Less on-line prize costs	41,909	39,639	36,227
Less instant ticket prize costs	77,337	65,557	61,959
Less ticket costs	1,447	1,373	1,408
Less vendor fees and costs	8,328	7,958	6,915
	<u>129,021</u>	<u>114,527</u>	<u>106,509</u>
Gross profit	<u>527,166</u>	<u>505,260</u>	<u>503,635</u>
Administrative expenses:			
Advertising and promotions	4,714	4,771	4,157
Wages and related benefits	10,338	10,082	10,305
Telecommunications	887	869	1,037
Contractual and professional	6,798	4,662	4,520
Rental	203	168	394
Depreciation and amortization	1,674	1,552	1,281
Other administrative expenses	1,574	1,938	1,572
	<u>26,188</u>	<u>24,042</u>	<u>23,266</u>
Other operating income	<u>11,975</u>	<u>12,734</u>	<u>10,677</u>
Operating income	<u>512,953</u>	<u>493,952</u>	<u>491,046</u>
Nonoperating income (expense):			
Investment income	3,964	1,573	934
Distributions to municipalities and counties	(7,689)	(7,214)	(6,812)
Distributions for capital reinvestment	(13,664)	(13,455)	(7,468)
Distributions to the State of West Virginia	(495,142)	(473,948)	(477,053)
Change in net position	<u>422</u>	<u>908</u>	<u>647</u>
Net position, beginning of year	<u>55,199</u>	<u>53,019</u>	<u>52,372</u>
Cumulative effect of adopt of acct. principle	-	1,272	-
Net position, beginning of year, as restated	<u>55,199</u>	<u>54,291</u>	<u>52,372</u>
Net position, end of year	<u>\$ 55,621</u>	<u>\$ 55,199</u>	<u>\$ 53,019</u>

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees

Table 5 compares sales (referred to as lottery revenues in financial statements), prizes, commissions, ticket printing costs, vendor fees and costs and gross profit for each lottery game category for fiscal years 2019, 2018, and 2017. 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*		
	2019	2018	2017	2019	2018	2017
Gross sales	\$ 115,596	\$ 99,195	\$ 94,369	\$ 84,501	\$ 77,840	\$ 72,110
Less direct costs:						
Prizes and bonuses	77,337	65,557	61,959	41,909	39,639	36,227
Commissions	8,076	6,938	6,606	5,910	5,436	5,043
Ticket printing costs	1,447	1,373	1,408	-	-	-
Vendor fees and costs	4,712	3,359	3,913	3,616	4,599	3,002
Total direct costs	<u>91,572</u>	<u>77,227</u>	<u>73,886</u>	<u>51,435</u>	<u>49,674</u>	<u>44,272</u>
Gross Profit	<u>\$ 24,024</u>	<u>\$ 21,968</u>	<u>\$ 20,483</u>	<u>\$ 33,066</u>	<u>\$ 28,166</u>	<u>\$ 27,838</u>
Gross profit percentage	<u>20.8%</u>	<u>22.1%</u>	<u>21.7%</u>	<u>39.1%</u>	<u>36.2%</u>	<u>38.6%</u>

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

	Racetrack Video Lottery			Limited Video Lottery		
	2019	2018	2017	2019	2018	2017
Gross sales	\$ 506,647	\$ 504,295	\$ 521,318	\$ 392,330	\$ 368,067	\$ 347,555
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	261,875	260,243	268,177	192,242	180,353	170,302
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	<u>261,875</u>	<u>260,243</u>	<u>268,177</u>	<u>192,242</u>	<u>180,353</u>	<u>170,302</u>
Gross Profit	<u>\$ 244,772</u>	<u>\$ 244,052</u>	<u>\$ 253,141</u>	<u>\$ 200,088</u>	<u>\$ 187,714</u>	<u>\$ 177,253</u>
Gross profit percentage	<u>48.3%</u>	<u>48.4%</u>	<u>48.6%</u>	<u>51.0%</u>	<u>51.0%</u>	<u>51.0%</u>

	Table Games			Historic Resort		
	2019	2018	2017	2019	2018	2017
Gross sales	\$ 35,530	\$ 35,152	\$ 38,958	\$ 7,350	\$ 6,624	\$ 5,207
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	15,070	14,905	16,512	3,787	3,511	2,733
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	<u>15,070</u>	<u>14,905</u>	<u>16,512</u>	<u>3,787</u>	<u>3,511</u>	<u>2,733</u>
Gross Profit	<u>\$ 20,460</u>	<u>\$ 20,247</u>	<u>\$ 22,446</u>	<u>\$ 3,563</u>	<u>\$ 3,113</u>	<u>\$ 2,474</u>
Gross profit percentage	<u>57.6%</u>	<u>57.6%</u>	<u>57.6%</u>	<u>48.5%</u>	<u>47.0%</u>	<u>47.5%</u>

	Sports Wagering			Total		
	2019	2018	2017	2019	2018	2017
Gross sales	\$ 1,193	\$ -	\$ -	\$ 1,143,147	\$ 1,091,173	\$ 1,079,517
Less direct costs:						
Prizes and bonuses	-	-	-	119,246	105,196	98,186
Commissions	-	-	-	486,960	471,386	469,373
Ticket printing costs	-	-	-	1,447	1,373	1,408
Vendor fees and costs	-	-	-	8,328	7,958	6,915
Total direct costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>615,981</u>	<u>585,913</u>	<u>575,882</u>
Gross Profit	<u>\$ 1,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 527,166</u>	<u>\$ 505,260</u>	<u>\$ 503,635</u>
Gross profit percentage	<u>100.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>46.1%</u>	<u>46.3%</u>	<u>46.7%</u>

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Instant Sales

Instant ticket sales for the current year increased by \$16.4 million or 16.5% compared to the prior year, which increased \$4.8 million or 5.1% from 2017. Forty-five games were introduced in 2019 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, varied play styles and continued monitoring of price points mix, prize structures, play styles, and colors to create the best variety of games available. There were four ten-dollar, and two twenty-dollar tickets introduced in 2019. There were also thirteen five-dollar tickets and six three-dollar tickets introduced. The Lottery has migrated from the use of pre-printed "shelf games" to delivering games three months in advance to provide immediate stock should field inventory become low. The Lottery began the consistent use of three ten-dollar and nine ten-dollar tickets in the field at all times in the spring of 2019.

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. 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 \$3.1 million or 8.6% compared to the prior year, which increased \$2.0 million or 5.7% from 2017. Sales are generally driven by the jackpot size.

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

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

Mega Millions® Sales

Mega Millions® sales offers jackpots starting at \$15 million and other prizes ranging from \$1 to \$1,000,000. Sales for the current year increased \$9.6 million or 64.9% compared to the prior year, which increased \$3.8 million or 34.3% from 2017.

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

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

All Other On-line Games

All other on-line games consist of Daily 3, Daily 4, Cash 25, Travel Keno and two Multi-State games Hot Lotto™ and Lotto America™. Sales for the current year increased \$172 thousand or 0.6% compared to the prior year, which decreased \$33.3 thousand or 0.1% from 2017.

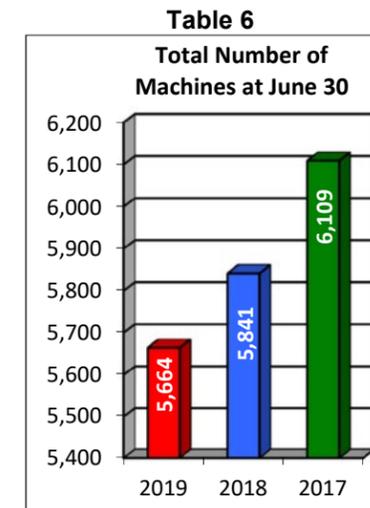
In general, prize costs by game will increase or decrease from year-to-year in proportion to the sales for a particular game. Prizes and commissions have remained consistent as presented in Tables 4 and 5.

Racetrack Video Lottery

Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year increased \$2.4 million or 0.5% compared to the prior year, which decreased \$17.0 million or 3.3% from 2017.

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 increased \$1.6 million or 0.6% compared to the prior year which decreased \$7.9 million or 3.0% compared to 2017 due to competition from neighboring states.

During the year ended June 30, 2018, increased competition from gaming operations in neighboring states has led the racetracks to re-evaluate their gaming environments which have resulted in changes to the gaming floors, and the number of active machines. The changes in active machines are presented in Table 6 below which illustrates the last three fiscal years.



WEST VIRGINIA LOTTERY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Limited Video Lottery

Sales for the current year increased \$24.3 million or 6.6% compared to the prior year, which increased \$20.5 million or 5.9% from 2017. Commissions are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales. For the current year, commissions increased \$11.9 million or 6.6% compared to the prior year increase of \$10.0 million or 5.9% from 2017.

Table 7 illustrates the number of machines which decreased by 453 machines for the current year compared to the prior year increase of 926 machines from 2017.

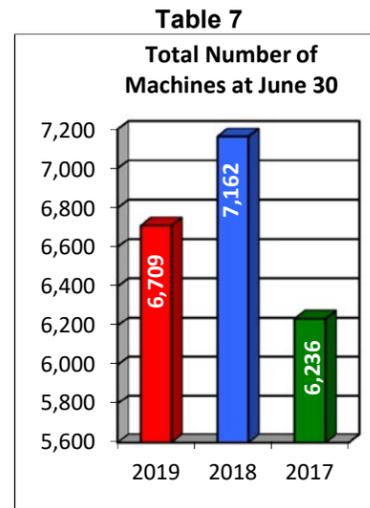


Table Games

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues for the current year increased \$378 thousand or 1.1% compared to the prior year, which decreased \$3.8 million or 9.8% from 2017.

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 increased \$165 thousand or 1.1% compared to the prior year, which decreased \$1.6 million or 9.7% from 2017.

Historic Resort

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

Combined revenues of video lottery and table games at the Historic Resort for the current year increased \$726 thousand or 11.0% compared to the prior year, which increased \$1.4million or 27.2% from 2017.

A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions for the current year increased \$276 thousand or 7.9% compared to the prior year, which increased \$778 thousand or 28.5% from 2017.

WEST VIRGINIA LOTTERY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

Sports Wagering

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

Hollywood Casino at Charles Town Race was the first to begin sports wagering in September 2018 followed shortly by the Greenbrier Historic Resort. Mountaineer Casino began in late November 2018 with Wheeling Island Hotel Casino & Racetrack and Mardi Gras Casino both beginning in late December 2018.

Sports wagering revenues are calculated as defined in Note 10 to the financial statements and are derived from privilege taxes (of 10%) on the licensed race tracks and Historic Resort for sports wagering activities.

Other Operating Income

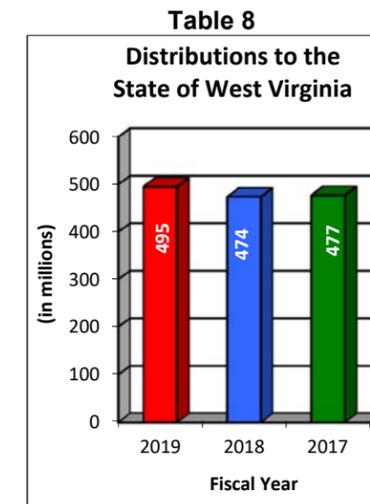
Refer to Table 4. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers. Legislation was passed March 31, 2017 allowing a licensed retailer to increase the number of machines from 5 to 7 at their location. A bid was held on August 2, 2017 to allow permit holders to bid on additional permits to increase the number of machines at their location.

Nonoperating Income / Expense

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

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

Refer to Table 8. The Lottery's distributions to the State of West Virginia for the current fiscal year increased by \$21.2 million compared to the prior year, which decreased by \$3.1 million from 2017.



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

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 190,837	\$ 146,661
Accounts receivable	33,581	32,136
Inventory	641	529
Other assets	1,790	1,175
Total current assets	<u>226,849</u>	<u>180,501</u>
Noncurrent assets:		
Capital assets (Note 4)	61,552	61,552
Less accumulated depreciation and amortization (Note 4)	<u>(15,179)</u>	<u>(13,505)</u>
Total noncurrent assets	<u>46,373</u>	<u>48,047</u>
Total assets	<u>273,222</u>	<u>228,548</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension and OPEB (Note 12 and 13)	<u>1,306</u>	<u>1,339</u>
LIABILITIES		
CURRENT LIABILITIES		
Accrued nonoperating distributions to the State of West Virginia (Note 11)	162,718	120,860
Estimated prize claims	14,918	15,783
Accounts payable	2,260	1,581
Other accrued liabilities	32,798	29,315
Total current liabilities	<u>212,694</u>	<u>167,539</u>
NONCURRENT LIABILITIES		
Net OPEB liability (Note 13)	3,187	3,501
Net pension liability (Note 12)	<u>1,360</u>	<u>2,274</u>
Total noncurrent liabilities	<u>4,547</u>	<u>5,775</u>
Total liabilities	<u>217,241</u>	<u>173,314</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension and OPEB (Note 12 and 13)	<u>1,666</u>	<u>1,374</u>
NET POSITION		
Net investment in capital assets	46,373	48,047
Unrestricted	<u>9,248</u>	<u>7,152</u>
Total net position	<u>\$ 55,621</u>	<u>\$ 55,199</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, 2019 and 2018

	2019	2018
LOTTERY REVENUES		
On-line games	\$ 84,501	\$ 77,840
Instant games	115,596	99,195
Racetrack video lottery (Note 6)	506,647	504,295
Limited video lottery (Note 7)	392,330	368,067
Table games (Note 8)	35,530	35,152
Historic resort (Note 9)	7,350	6,624
Sports wagering (Note 10)	1,193	-
	<u>1,143,147</u>	<u>1,091,173</u>
LESS COMMISSIONS		
On-line games	5,910	5,436
Instant games	8,076	6,938
Racetrack video lottery (Note 6)	261,875	260,243
Limited video lottery (Note 7)	192,242	180,353
Table games (Note 8)	15,070	14,905
Historic resort (Note 9)	3,787	3,511
	<u>486,960</u>	<u>471,386</u>
Less on-line prize costs	41,909	39,639
Less instant prize costs	77,337	65,557
Less ticket costs	1,447	1,373
Less vendor fees and costs	8,328	7,958
	<u>129,021</u>	<u>114,527</u>
Gross profit	<u>527,166</u>	<u>505,260</u>
ADMINISTRATIVE EXPENSES		
Advertising and promotions	4,714	4,771
Wages and related benefits	10,338	10,082
Telecommunications	887	869
Contractual and professional	6,798	4,662
Rental	203	168
Depreciation and amortization	1,674	1,552
Other administrative expenses	1,574	1,938
	<u>26,188</u>	<u>24,042</u>
Other operating income	11,975	12,734
Operating income	<u>512,953</u>	<u>493,952</u>
NONOPERATING INCOME (EXPENSE)		
Investment income	3,964	1,573
Distributions to municipalities and counties	(7,689)	(7,214)
Distributions for capital reinvestment	(13,664)	(13,455)
Distributions to the State of West Virginia (Note 11)	(495,142)	(473,948)
	<u>(512,531)</u>	<u>(493,044)</u>
Change in net position	<u>422</u>	<u>908</u>
NET POSITION, beginning	55,199	54,291
NET POSITION, ending	<u>\$ 55,621</u>	<u>\$ 55,199</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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,153,476	\$ 1,099,083
Cash payments for:		
Personnel costs	(11,016)	(6,800)
Suppliers	(14,216)	(11,516)
Other operating costs	(616,563)	(584,598)
Cash provided by operating activities	<u>511,681</u>	<u>496,169</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(453,284)	(485,781)
Distributions to municipalities and counties	(7,672)	(7,149)
Distributions to racetracks from racetrack capital reinvestment fund	(9,879)	(9,110)
Cash used in noncapital financing activities	<u>(470,835)</u>	<u>(502,040)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	-	(5,820)
Cash flows from investing activities:		
Investment earnings	<u>3,330</u>	<u>1,802</u>
Net increase (decrease) in cash and cash equivalents	44,176	(9,889)
CASH AND CASH EQUIVALENTS, beginning	<u>146,661</u>	<u>156,550</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 190,837</u>	<u>\$ 146,661</u>

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
(In Thousands)
(Continued)
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 512,953	\$ 493,952
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,674	1,552
Pension expense	122	436
OPEB expense	282	399
OPEB support	(201)	(221)
Changes in operating accounts:		
(Increase) decrease in:		
Accounts receivable	(1,445)	(4,603)
Inventory	(112)	24
Other assets	19	78
Deferred outflows of resources	(1,106)	(1,111)
Increase (decrease) in:		
Estimated prize claims	(865)	162
Accounts payable	679	177
Other accrued liabilities	(319)	5,324
	\$ 511,681	\$ 496,169
Cash provided by operating activities		

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 1. Legislative Enactment

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

Note 2. Summary of Significant Accounting Policies

Basis of presentation

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

Use of estimates

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

Lottery game operations

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

Lottery game operations (Continued)

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

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

Lottery game operations (Continued)

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

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

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

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

Sports wagering legislation has established specific requirements for sports wagering and imposed certain restrictions limiting the licensing for operation of sports wagering to horse and dog racetracks and the historic resort in West Virginia. Each location licensed as an agent of the Lottery to operate West Virginia sports wagering shall have written rules of play which must be approved by the Lottery. All wagers and pay-offs of winning wagers shall be made according to those rules of play. For the privilege of holding a sports wagering license, there is levied a privilege tax of ten percent of each licensee's adjusted gross sports wagering receipts from the operation of sports wagering which the Lottery records as revenue. The legislation requires any licensed location to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing sports wagering.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

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 the lower of cost or market as determined by the specific identification method.

Other assets

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

Capital assets

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

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

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

Accrued employee benefits

The Lottery accrues a liability for estimated liabilities that may arise in connection with compensated absences at the current rate of employee pay. The Lottery's annual leave transactions for the years ended June 30, 2019 and June 30, 2018 are as follows (in thousands):

	<u>Year Ending June 30</u>	
	<u>2019</u>	<u>2018</u>
Beginning estimated liabilities	\$ 631	\$ 574
Leave expenses incurred	655	631
Leave expenses paid	<u>631</u>	<u>574</u>
Ending estimated liabilities	<u>\$ 655</u>	<u>\$ 631</u>
Liabilities estimated to be paid in one year	<u>\$ 655</u>	<u>\$ 631</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

Pensions

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

Postemployment benefits other than pensions (OPEB).

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

Deferred outflows of resources/deferred inflows of resources

Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Currently the Lottery has recognized deferred outflows of resources related to pensions and OPEB (See Notes 12 and 13). Deferred inflows of resources represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Currently the Lottery has recognized deferred inflows of resources related to pensions and OPEB (See Notes 12 and 13).

Net position

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

Operating revenues and expenses

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

Advertising and promotions

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 3. Cash and Cash Equivalents

At June 30, 2019 and 2018, the carrying amounts of deposits with financial institutions were \$448 thousand and \$489 thousand, respectively, with bank balances of \$477 and \$522 thousand, respectively. Deposits up to \$250 thousand are insured by the Federal Depository Insurance Corporation. Any balances over the insured amount are collateralized with securities held by the State of West Virginia's agent in the State's name.

At June 30, 2019 and 2018, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Deposits with financial institutions	\$ 448	\$ 489
Cash on hand at the Treasurer's Office	12,689	5,022
Investments with BTI reported as cash equivalents	<u>177,700</u>	<u>141,150</u>
	<u>\$ 190,837</u>	<u>\$ 146,661</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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 3. Cash and cash equivalents (Continued)

Credit risk (Continued)

The BTI limits the exposure to credit risk in the West Virginia Money Market Pool by requiring all long-term corporate debt be rated A+ or higher by Standard & Poor's (or its equivalent) and short-term corporate debt be rated at A-1 or higher by Standard & Poor's (or its equivalent). The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. The following table provides information on the credit ratings of the West Virginia Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value (in Thousands)	Percent of Pool Assets
	Moody's	S&P		
U.S. Treasury notes *	Aaa	AA+	\$ 24,927	0.63%
U.S. Treasury bills *	P-1	A-1+	329,390	8.33
Commercial Paper	P-1	A-1+	733,411	18.54
	P-1	A-1	1,494,297	37.77
	P-2	A-1	8,490	0.21
Negotiable certificates of deposit	P-1	A-1+	179,251	4.53
	P-1	A-1	534,891	13.52
Money market funds	Aaa	AAAm	178,619	4.51
Repurchase agreements (underlying securities):				
U.S. agency bonds and notes	Aaa	AA+	426,000	10.77
U.S. agency bonds and notes	Aaa	AA+	<u>47,200</u>	<u>1.19</u>
			<u>\$3,956,476</u>	<u>100.00%</u>

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 3. Cash and Cash Equivalents (Continued)

Credit risk (Continued)

Security Type	Credit Rating		Carrying Value (in Thousands)	Percent of Pool Assets
	Moody's	S&P		
U.S. Treasury notes *	Aaa	AA+	\$ 115,292	15.75%
U.S. agency collateralized mortgage obligations				
U.S. government guaranteed*	Aaa	AA+	26,472	3.62
Non-U.S. government guaranteed	Aaa	AA+	23,674	3.23
Corporate fixed-and floating-rate bonds and notes	Aaa	AA+	2,147	0.30
	Aa2	AA+	5,024	0.69
	Aa2	AA	5,577	0.76
	Aa2	A+	8,566	1.17
	Aa2	NR	2,784	0.38
	Aa3	AA+	5,042	0.69
	Aa3	AA-	16,616	2.27
	Aa3	A+	13,139	1.80
	Aa3	A	2,765	0.38
	A1	AA-	18,323	2.50
	A1	A+	15,880	2.17
	A1	A	7,426	1.01
	A1	A-	8,612	1.18
	A1	NR	5,223	0.71
	A2	A	19,418	2.65
	A2	A-	24,214	3.31
	A3	A+	8,592	1.17
	A3	A	13,148	1.80
	A3	A-	35,050	4.79
	A3	BBB+	30,732	4.20
	Baa1	A-	6,889	0.94
	Baa1	BBB+	14,806	2.02
	Baa1	BBB	5,213	0.71
	Baa2	A-	6,143	0.84
	Baa2	BBB+	14,524	1.98
	Baa2	BBB	37,277	5.09
	Baa2	BBB-	6,369	0.87
	Baa3	BBB+	1,091	0.15
	Baa3	BBB	9,193	1.26
	Baa3	BBB-	36,044	4.92
	Ba1	BBB	2,013	0.28
	Ba1	BBB-	4,214	0.58
	NR	A	8,761	1.20
	NR	BBB+	2,658	0.36
Collateralized mortgage obligations	NR	AAA	5,958	0.81
Commercial mortgage-backed securities	Aaa	NR	377	0.05

(Continued on next page)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 3. Cash and Cash Equivalents (Continued)

Credit risk (Continued)

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Asset-backed securities	Aaa	AAA	45,739	6.25
	Aaa	NR	75,441	10.31
	NR	AAA	35,020	4.78
Money market funds	Aaa	AAA	523	0.07
			<u>\$ 731,969</u>	<u>100.00%</u>

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

NR = Not Rated

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The overall weighted average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the West Virginia Money Market Pool (in thousands):

Security Type	Carrying Value (in Thousands)	WAM (Days)
U.S. Treasury notes	\$ 24,927	125
U.S. Treasury bills	329,390	34
Commercial paper	2,236,198	57
Negotiable certificates of deposit	714,142	33
Repurchase agreements	473,200	3
Money market funds	178,619	3
	<u>\$ 3,956,476</u>	<u>42</u>

The overall effective duration of the investments of the West Virginia Short Term Bond Pool is limited to a +/- 20 percent band around the effective duration of the portfolio's benchmark (the ICE BofAML 1-3 US Corporate & Government Index). As of June 30, 2019, the effective duration of the benchmark was 657 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the West Virginia Short Term Bond Pool (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 3. Cash and Cash Equivalents (Continued)

Interest rate risk (Continued)

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>Effective Duration (Days)</u>
U.S. Treasury notes and bonds	\$ 115,292	816
U.S. agency collateralized mortgage obligations	50,146	976
Corporate fixed-rate bonds and notes	365,352	847
Corporate floating-rate bonds and notes	38,121	286
Collateralized mortgage obligations	5,958	752
Commercial mortgage-backed securities	377	15
Asset-backed securities	156,200	393
Money market funds	523	-
	<u>\$ 731,969</u>	<u>723</u>

Other risks of investing

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 4. Capital Assets

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

	Historical cost at June 30, 2017			Historical cost at June 30, 2018			Historical cost at June 30, 2019
	2017	Additions	Deletions	2018	Additions	Deletions	2019
Capital assets, not depreciated							
Construction in progress	\$ 1,350	\$ 20	\$ (741)	\$ 629	\$ -	\$ -	\$ 629
Land	1,434	247	-	1,681	-	-	1,681
Capital assets, being depreciated							
Building	46,207	2,036	-	48,243	-	-	48,243
Equipment	6,741	4,258	-	10,999	-	-	10,999
	<u>\$ 55,732</u>	<u>\$ 6,561</u>	<u>\$ (741)</u>	<u>\$ 61,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,552</u>
	Accumulated depreciation at June 30, 2017			Accumulated depreciation at June 30, 2018			Accumulated depreciation at June 30, 2019
	2017	Additions	Deletions	2018	Additions	Deletions	2019
Building	\$ 5,247	\$ 1,219	\$ -	\$ 6,466	\$ 1,233	\$ -	\$ 7,699
Equipment	6,706	333	-	7,039	441	-	7,480
	<u>\$ 11,953</u>	<u>\$ 1,552</u>	<u>\$ -</u>	<u>\$ 13,505</u>	<u>\$ 1,674</u>	<u>\$ -</u>	<u>\$ 15,179</u>

Note 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, the LOTTO AMERICA game, and MEGA MILLIONS® jackpot game on behalf of other participating lotteries. MUSL is currently comprised of 33 member state lotteries, including the District of Columbia and the United States Virgin Islands. MUSL is managed by a Board of Directors, which is comprised of the lottery directors or their designee from each of the party states. The Board of Directors' responsibilities to administer the Multi-State Lottery POWERBALL®, HOT LOTTO™, LOTTO AMERICA, and MEGA MILLIONS® games are performed by advisory committees or panels staffed by officers and independent contractors appointed by the board. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties and qualifications. The Executive Committee carries out the budgeting and financing of MUSL, while the board contracts the annual independent audit. A copy of the audit may be obtained by writing to the Multi-State Lottery Association, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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

Revenues derived from the Lottery's participation in the POWERBALL® jackpot game were \$33,340,489 and \$36,483,389 for the years ended June 30, 2019 and 2018, respectively, and related prize costs were \$16,716,469 and \$18,243,174, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$2,219,730 for the year ended June 30, 2018, and related prize costs were \$974,129.

Revenues derived from the Lottery's participation in the LOTTO AMERICA game were \$5,351,712 and \$3,126,972 for the years ended June 30, 2019 and 2018, respectively, and related prize costs were \$2,676,265 and \$1,563,566, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$24,482,131 and \$14,850,547 for the years ended June 30, 2019 and 2018, respectively, and related prize costs were \$12,582,122 and \$7,640,522, respectively.

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

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

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 5. Participation in the Multi-State Lottery (Continued)

	<u>2019</u>		<u>2018</u>	
	<u>Prize Reserve</u>	<u>Lottery Share</u>	<u>Prize Reserve</u>	<u>Lottery Share</u>
POWERBALL®	\$ 120,324	\$ 1,536	\$ 117,157	\$ 1,523
LOTTO AMERICA	3,323	243	1,010	71
MEGA MILLIONS®	93,383	1,034	58,074	729
	<u>\$ 217,030</u>	<u>\$ 2,813</u>	<u>\$ 176,241</u>	<u>\$ 2,323</u>

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

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above the expenses are credited to an unreserved fund. The Lottery records this interest when earned. This fund had a balance of \$14,137,327 and \$15,072,214 at June 30, 2019 and 2018, of which the Lottery's share was \$1,331,935 and \$1,350,652, respectively.

Note 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 11 titled "Nonoperating Distributions to the State of West Virginia."

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 6. Racetrack Video Lottery (Continued)

The final benchmark occurs when the current year net terminal revenue meets the fiscal year 2001 net terminal revenue. At this point a 10% surcharge is applied to net terminal revenue, with 62% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 38% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack. After deduction of the surcharge, 49% of the net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (5%); and the local county and incorporated municipality governments (2%). The remaining net terminal revenue (51%) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 11.

Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. The Lottery, along with the Rhode Island and Delaware state lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee which is a percentage of the amount wagered. This fee was of 0.75% for years ended June 30, 2019 and 2018, respectively.

A summary of racetrack video lottery revenues for the years ended June 30, 2019 and 2018, follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total credits (bets) played	\$ 5,536,265	\$ 5,623,559
Credits (prizes) won	(4,957,776)	(5,043,140)
Promotional credits played	(73,070)	(76,098)
MWAP Contributions	<u>1,228</u>	<u>(26)</u>
Gross terminal income	506,647	504,295
Administrative costs	<u>(14,740)</u>	<u>(14,590)</u>
Net terminal income	491,907	489,705
Commissions	<u>(261,875)</u>	<u>(260,243)</u>
Racetrack video lottery revenues available for distribution	<u>\$ 230,032</u>	<u>\$ 229,462</u>

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

	<u>2019</u>	<u>2018</u>
State Lottery Fund	\$ 107,736	\$ 106,250
State Excess Lottery Revenue Fund	117,486	118,300
Capital Reinvestment Fund	<u>4,810</u>	<u>4,912</u>
Total nonoperating distributions	<u>\$ 230,032</u>	<u>\$ 229,462</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 6. Racetrack Video Lottery (Continued)

On March 12, 2011, the Legislature passed Senate Bill 550 which provides for the creation of the Racetrack Modernization Fund. The Modernization Fund is available to reimburse the licensed tracks \$1 for every \$2 spent on the costs of facility modernization. For the years ended June 30, 2015 through June 30, 2020, the Lottery is to transfer up to \$9 million from racetrack administrative surplus funds to the Modernization Fund, which is allocated to each track on a pro rata basis according to their administrative contribution for the fiscal year. For the years ended June 30, 2019 and 2018, the Lottery transferred \$9 million to the Racetrack Modernization Fund, respectively.

Note 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, 2019 and 2018 follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total credits played	\$ 4,991,127	\$ 4,580,347
Credits (prizes) won	<u>(4,598,797)</u>	<u>(4,212,280)</u>
Gross terminal income	392,330	368,067
Administrative costs	<u>(7,847)</u>	<u>(7,361)</u>
Gross profit	384,483	360,706
Commissions	(192,242)	(180,353)
Distributions to municipalities and counties	<u>(7,689)</u>	<u>(7,214)</u>
Limited video lottery revenues available for distribution	<u>\$ 184,552</u>	<u>\$ 173,139</u>

Note 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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 8. Table Games (Continued)

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

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

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

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

The table games adjusted gross receipts for the year ended June 30, 2019 and 2018 were \$101,514,818 and \$100,435,546, respectively. A summary of table games revenues for the years ended June 30, 2019 and 2018 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 8. Table Games (Continued)

	2019	2018
Table games privilege tax	\$ 35,530	\$ 35,152
Interest on table games fund	65	45
Administrative costs	(3,045)	(3,013)
Total available for distribution	32,550	32,184
<u>Less distributions:</u>		
Racetrack purse funds	2,284	2,260
Thoroughbred & greyhound development funds	1,827	1,808
Racing commission pension plan	896	886
Municipalities/counties	10,063	9,951
Total distributions	15,070	14,905
Table games distribution to the state		
Excess Lottery Fund	\$ 17,480	\$ 17,279

Note 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, 2019 and 2018 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 9. Historic Resort Hotel (Continued)

	<u>2019</u>	<u>2018</u>
Total credits played	\$ 82,927	\$ 78,759
Credits (prizes) won	(76,698)	(73,188)
Promotional credits played	<u>(1,134)</u>	<u>(726)</u>
Gross terminal income	5,095	4,845
Capital reinvestment	(239)	(228)
Excess Lottery/Modernization	(46)	(43)
Hotel commissions	<u>(2,155)</u>	<u>(2,049)</u>
Net terminal income	<u>\$ 2,655</u>	<u>\$ 2,525</u>
Historic Resort Hotel Fund	\$ 1,788	\$ 1,701
Human Resource Benefit Fund	<u>867</u>	<u>824</u>
Total	<u>\$ 2,655</u>	<u>\$ 2,525</u>

Historic resort table games

Each historic resort hotel licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts, of which thirty percent (30%) is deposited directly into the Historic Resort Hotel Fund and five percent (5%) is deposited directly into the Human Resource Benefit Fund. The historic resort hotel table games adjusted gross receipts for the years ended June 30, 2019 and 2018 were \$6,443,834 and \$5,081,754, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Table games privilege tax	<u>\$ 2,255</u>	<u>\$ 1,779</u>
Historic Resort Hotel Fund	\$ 1,933	\$ 1,525
Human Resource Benefit Fund	<u>322</u>	<u>254</u>
Total distributions	<u>\$ 2,255</u>	<u>\$ 1,779</u>

Historic resort hotel fund

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Historic Resort Hotel video lottery	\$ 1,788	\$ 1,701
Historic Resort table games	1,933	1,525
Interest on Historic Resort Hotel Fund	<u>10</u>	<u>7</u>
Historic Resort Hotel Fund deposits	<u>3,731</u>	<u>3,233</u>
Administrative costs	<u>(565)</u>	<u>(491)</u>
Historic Resort Hotel Fund net income	<u>\$ 3,166</u>	<u>\$ 2,742</u>
Municipalities/Counties	\$ 443	\$ 384
Excess Lottery Revenue Fund	<u>2,723</u>	<u>2,358</u>
Total distributions	<u>\$ 3,166</u>	<u>\$ 2,742</u>

Note 10. Sports Wagering

Sports Wagering legislation was enacted in 2018 per Senate Bill 415. Each racetrack and historic resort hotel licensee is subject to a privilege tax of ten percent (10%) of adjusted gross wagering receipts which will be deposited weekly into the Sports Wagering Fund.

From the privilege tax deposited into the Sports Wagering Fund, the Lottery, on a monthly basis shall:

Retain 15% for administrative expenses of which any surplus in excess of \$250,000 shall be reported to the Joint Committee on Government and Finance and remitted to the State Treasurer.

After the reduction for administrative expenses, the net profit shall be deposited into the State Lottery Fund until a total of \$15 million is deposited. The remainder of net profit shall be deposited into the Public Employees Insurance Agency Financial Stability Fund.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 10. Sports Wagering (Continued)

The following table shows the privilege tax and the accrued distributions (in thousands), for the year ended June 30, 2019:

	2019
Sports wagering privilege tax	\$ 1,193
Interest on sports wagering fund	-
Administrative costs	(179)
Total available for distribution	\$ 1,014

Note 11. Nonoperating Distributions to the State of West Virginia

The Lottery periodically distributes surplus funds, exclusive of amounts derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the current governing legislation. For the years ended June 30, 2019 and 2018, the State Legislature budgeted \$136,657,540 and \$150,710,008, 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 \$6,100,000 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, 2019 and 2018, the Lottery made or accrued all budgeted distributions and accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$162,717,502 and \$120,860,201, respectively. The Lottery does not have a legally adopted annual budget.

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

	2019	2018
<u>State Lottery Fund:</u>		
Bureau of Senior Services	\$ 45,169	\$ 67,329
Department of Education	18,527	18,006
Library Commission	11,454	11,423
Higher Education - Central Office	7,084	6,974
Tourism	6,550	6,456
Natural Resources	3,196	3,081
Division of Culture & History	4,078	3,500
Department of Education & Arts	250	948

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

	2019	2018
<u>State Lottery Fund (Continued):</u>		
Educational Broadcast Authority	7,359	-
Economic Development Authority	9,993	9,995
School Building Authority	18,000	18,000
Community and Technical College	4,997	4,998
Total State Lottery Fund	136,657	150,710

<u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	65,000	65,000
Education Improvement Fund	29,000	29,000
WV Infrastructure Council Fund	46,000	46,000
Higher Education Improvement Fund	15,000	15,000
State Park Improvement Fund	5,000	5,000
School Building Authority	18,989	18,995
Economic Development Fund	21,020	18,990
Refundable Credit - General Revenue Fund	9,456	10,000
Racing Commission	2,000	2,000
WV Department of Health and Human Resources	36,202	61,306
Office of Technology	18,425	-
Distributions to Statutory Funds and Purposes		
Parking Garage Fund	716	754
Capitol Dome and Improvements Fund	1,796	2,155
Capitol Renovation and Improvements Fund	2,381	2,796
Development Office Promotion Fund	1,299	1,525
Research Challenge Fund	1,732	2,033
Tourism Promotion Fund	4,808	5,659
Cultural Facilities and Capitol Resources Fund	1,251	1,433
Worker's Compensation Debt Reduction Fund	-	2,750
State Debt Reduction Fund	20,000	20,000
General Revenue Fund	1,168	9,764
Historic Resort Hotel Fund	24	34
Racing Commission	3,464	4,066
Non-Governmental Budgeted Transfers	11,383	10,112
Total State Excess Lottery Revenue Fund	316,114	334,372
Total Required Statutory and Budgetary Distributions	452,771	485,082

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

	<u>2019</u>	<u>2018</u>
Veterans Instant Ticket Fund	<u>513</u>	<u>699</u>
Total nonoperating distributions to the State of West Virginia (cash basis)	453,284	485,781
Accrued nonoperating distributions, beginning of year	(120,860)	(132,693)
Accrued nonoperating distributions, end of year	<u>162,718</u>	<u>120,860</u>
Total nonoperating distributions to the State of West Virginia	<u>\$ 495,142</u>	<u>\$ 473,948</u>

Note 12. Pension Benefits

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

Plan description

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

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

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
June 30, 2019

Note 12. Pension 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 10%, 11% and 12% of covered employees' annual earnings for fiscal years ending June 30, 2019, 2018, and 2017, 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 CPRB. Contributions to the pension plan from the Lottery were \$788,768, \$808,333, and \$862,728 for the years ended June 30, 2019, 2018 and 2017, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2019 and 2018, respectively, the Lottery reported a liability of \$1,360,051 and \$2,274,227 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2019 was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to the measurement date of June 30, 2018 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, 2018. At June 30, 2018, the Lottery's proportion was 0.53 percent, which is a decrease of less than .01 from its proportion as of June 30, 2017.

For the years ended June 30, 2019 and 2018, respectively, the Lottery recognized pension expense of \$122,405 and \$435,491. At June 30, 2019 and 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>June 30, 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 800
Differences between expected and actual experience	67	3
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	14	40
Lottery contributions made subsequent to the measurement date of June 30, 2018	<u>789</u>	<u>-</u>
Total	<u>\$ 870</u>	<u>\$ 843</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 12. Pension Benefits (Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Continued)

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

The \$788,768 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, 2020. 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:

2020	\$ 77
2021	(116)
2022	(588)
2023	(135)

Actuarial assumptions

The total pension liability in the June 30, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions:

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

Mortality rates were based on 100% of RP-2000 Non-Annuitant, Scale AA fully generational for active employees, 110% of the RP-2000 Non-Annuitant, Scale AA fully generational for healthy retired males, 101% of RP-2000 Non-Annuitant Scale AA fully generational for healthy retired females, 96% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled females.

The actuarial assumptions used in the June 30, 2018 and 2017 valuations 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
June 30, 2019

Note 12. Pension Benefits (Continued)

The long-term expected rate of return on pension plan investments was determined using the building-block method in which estimates 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 percentages and by adding expected inflation. Best estimates of long-term geometric rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return	Weighted Average Expected Real Rate of Return
Domestic equity	27.5%	4.5%	1.24%
International equity	27.5%	8.6%	2.37%
Fixed income	15.0%	3.3%	0.50%
Real estate	10.0%	6.0%	0.60%
Private equity	10.0%	6.4%	0.64%
Hedge funds	10.0%	4.0%	0.40%
Total	100.00%		5.75%
Inflation (CPI)			<u>2.10%</u>
			<u>7.85%</u>

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%)	\$ 5,477
Current discount rate (7.5%)	\$ 1,360
1% increase (8.5%)	\$ (2,123)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits

Plan description

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

Benefits provided

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

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

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

Contributions

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2019, 2018, and 2016, respectively, were:

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits (Continued)

Contributions (Continued)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>
			<small>1/1/17 - 6/30/17</small>	<small>7/1/16-12/31/16</small>
Paygo Premium	\$ 183	\$ 177	\$ 135	\$ 196

Contributions to the OPEB plan from the Lottery were \$316,653, \$302,857 and \$292,456 for the years ended June 30, 2019, 2018, and 2017, respectively.

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

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

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

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

Contributions by nonemployer contributing entities in special funding situations

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits (Continued)

Contributions by nonemployer contributing entities in special funding situations (Continued)

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

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB

At June 30, 2019 and 2018, the Lottery reported a liability for its proportionate share of the RHBT net OPEB liability that reflected a reduction for State OPEB support provided to the Lottery. The amount recognized by the Lottery as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Lottery was as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Lottery's proportionate share of net OPEB liability	\$ 3,187	\$ 3,501
State's special funding proportionate share of the net OPEB liability associated with the Lottery	<u>659</u>	<u>719</u>
Total portion of net OPEB liability associated with the Lottery	<u>\$ 3,846</u>	<u>\$ 4,220</u>

The net OPEB liability reported at June 30, 2019 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Lottery's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2018, the Lottery's proportion was .15 percent, which is an increase of .01 percent from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, respectively, the Lottery recognized OPEB expense of \$282,167 and \$398,524 and for support provided by the State under special funding situations revenue of \$201,359 and \$220,764. At June 30, 2019 and 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits (Continued)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB (Continued)

	<u>June 30, 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 48
Net difference between projected and actual earnings on OPEB plan investments	-	59
Changes in assumptions	-	318
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	119	398
Lottery contributions subsequent to the measurement date of June 30, 2018	<u>317</u>	<u>-</u>
Total	<u>\$ 436</u>	<u>\$ 823</u>

	<u>June 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 12
Net difference between projected and actual earnings on OPEB plan investments	-	56
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	-	544
Lottery contributions subsequent to the measurement date of June 30, 2017	<u>303</u>	<u>-</u>
Total	<u>\$ 303</u>	<u>\$ 612</u>

The amount of \$316,653 reported as deferred outflows of resources related to OPEB resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ended June 30:	
2020	\$ (234)
2021	(234)
2022	(191)
2023	(45)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits (Continued)

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2018. For fiscal years on and after 2019, trend starts at 8.00% and 10.00% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.13% and 0.00% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2022 to account for the Excise Tax.
Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll over a 20 year closed period
Remaining amortization period	20 years closed as of June 30, 2017

Post-retirement mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and Teachers' Retirement System (TRS) and RP-2014 Healthy Annuitant Mortality Table projected with scale MP-2016 on a fully generational basis for West Virginia Death, Disability, and Retirement Fund (Troopers A) and West Virginia State Police Retirement System (Troopers B). Pre-retirement mortality rates were based on RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS and RP-2014 Employee Mortality Table projected with Scale MP-2016 on a fully generational basis for Troopers A and B.

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

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll over a 21 year closed period
Remaining amortization period	21 years closed as of June 30, 2016

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

The actuarial assumptions used in the June 30, 2016 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2011 - June 30, 2015.

Certain assumptions have been changed since the prior measurement date. The assumption changes that most significantly impacted the Net OPEB Liability are as follows: the inclusion of waived annuitants increased the liability by approximately \$17 million; a 15% reduction in the retirement rate assumption decreased the liability by approximately \$68 million; a change in certain healthcare-related assumptions decreased the liability by approximately \$232 million; and an update to the mortality tables increased the liability by approximately \$25 million. Certain other assumption changes were noted but did not materially impact the Net OPEB Liability.

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

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

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

Discount rate

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits (Continued)

Other key assumptions

The projection assumes that the capped subsidy aggregate contribution limit of \$160 million for 2018 would increase by \$10 million per year on and after 2019. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2037, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

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

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

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

	<u>1% Decrease (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>1% Increase (8.15%)</u>
Lottery's proportionate share of the net OPEB liability	\$ 3,746	\$ 3,187	\$ 2,722

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 13. Other Postemployment Benefits (Continued)

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Lottery's proportionate share of the net OPEB liability	\$ 2,637	\$ 3,187	\$ 3,858

Subsequent event

Subsequent to the June 30, 2018, measurement date, on August 21, 2018 RHBT executed a contract renewal with Humana's Medicare Advantage Plan (Humana MAPD) for Plan years 2019 and 2020. This renewal included reduced per member per month capitation costs which decreased from \$224 to \$175 per member per month, due to favorable experience and the removal of the health insurance fee.

The estimated impact of these reduced rates is not recognized in the estimated net OPEB liability measured at June 30, 2018, since the contract was executed subsequent to the measurement date. Per GASB Statement 75, if a change occurs in a factor relevant to measurement of the net OPEB liability between the measurement date of the net OPEB liability and the employer's current fiscal year-end, the employer should report the effect on the net OPEB liability of that change as of the next measurement date. The estimated impact of the reduced capitation rates on the net OPEB liability is a decrease of approximately 9.0%, or \$280 million, which will be considered in the next actuarial valuation estimating the net OPEB liability measured as of June 30, 2019. The future actuarial measurement may differ significantly from this estimate due to various other factors such as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

Note 14. Leasing Activity

The Lottery leases, under cancelable operating leases, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the fiscal years ended June 30, 2019 and 2018 approximated \$203,388 and \$167,948, 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, 2019 and 2018 were \$1,099,449 and \$1,043,190, respectively.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Note 15. Commitments

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2019 and 2018, \$8,535,120 and \$9,414,970, respectively, are included in unrestricted net position for this purpose.

Note 16. Risk Management

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

Public Employees' Insurance Agency (PEIA)

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

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

Board of Risk and Insurance Management (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a risk pool currently operating as a risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims. During the year ended June 30, 2019, no changes in coverage were made and paid claims did not exceed coverage.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 16. Risk Management (Continued)

Workers compensation insurance

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

Note 17. Contingencies

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

Note 18. Effect of New Accounting Pronouncement

The GASB has 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

THE WEST VIRGINIA LOTTERY
SCHEDULES OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(In Thousands)

Public Employees Retirement System Plan

	Years Ended June 30				
	2019	2018	2017	2016	2015
Lottery's proportion (percentage) of the net pension liability	0.53%	0.53%	0.52%	0.55%	0.55%
Lottery's proportionate share of the net pension liability	\$ 1,360	\$ 2,274	\$ 4,800	\$ 3,044	\$ 2,035
Lottery's covered payroll	\$ 7,345	\$ 7,192	\$ 7,259	\$ 7,421	\$ 7,415
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	18.52%	31.62%	66.12%	41.02%	27.44%
Plan fiduciary net position as a percentage of the total pension liability	96.33%	93.67%	86.11%	91.29%	93.98%

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

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

THE WEST VIRGINIA LOTTERY
SCHEDULES OF CONTRIBUTIONS TO THE PERS
(In Thousands)

	Years Ended June 30						
	2019	2018	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 789	\$ 808	\$ 863	\$ 980	\$ 1,039	\$ 1,075	\$ 1,072
Contributions in relation to the statutorily required contribution	789	808	863	980	1,039	1,075	1,072
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 7,890	\$ 7,345	\$ 7,192	\$ 7,259	\$ 7,421	\$ 7,415	\$ 7,658
Contributions as a percentage of covered-employee payroll	10.00%	11.00%	12.00%	13.50%	14.00%	14.50%	14.00%

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

THE WEST VIRGINIA LOTTERY

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

Retirement Health Benefit Trust Plan

	Years Ended June 30	
	2019	2018
West Virginia Lottery's proportion (percentage) of the net OPEB liability	0.15%	0.14%
West Virginia Lottery's proportionate share of the net OPEB liability	\$ 3,187	\$ 3,501
State's proportionate share of the net OPEB liability associated with the Lottery	\$ 659	\$ 719
Total	\$ 3,846	\$ 4,220
West Virginia Lottery's covered-employee payroll	\$ 4,999	\$ 5,264
West Virginia Lottery's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	76.94%	80.17%
Plan fiduciary net position as a percentage of the total OPEB liability	30.98%	25.10%

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

THE WEST VIRGINIA LOTTERY

SCHEDULES OF CONTRIBUTIONS TO THE RHBT
(In Thousands)

	Years Ended June 30		
	2019	2018	2017
Statutorily required contribution	\$ 317	\$ 303	\$ 292
Contributions in relation to the statutorily required contribution	317	303	292
Contribution deficiency (excess)	\$ -	\$ -	\$ -
West Virginia Lottery's covered-employee payroll	\$ 4,909	\$ 4,999	\$ 5,264
Contributions as a percentage of covered-employee payroll	6.46%	6.06%	5.55%

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

THE WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019

Note 1. Trend Information Presented

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

Note 2. Pension Plan Amendment

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

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. A member may retire with the pension reduced actuarially if the member is at least age 55 and has at least 10 years of contributory service, or at any age with 30 years of contributory service. For employees hired July 1, 2015 and later, qualification for normal retirement is 62 with 10 years of service. A member hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between ages 60 and 62 with at least ten years of contributory service, between ages 57 and 62 with at least twenty years of contributory service, or between ages 55 and 62 with at least thirty years of contributory service.
- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired July 1, 2015 and later, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired July 1, 2015 and later, this age increases to 64 with at least ten years of contributory service, or age 63 with at least twenty years of contributory service..
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired July 1, 2015 and later, are required to contribute 6% of annual earnings.

Note 3. Pension Assumptions

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

THE WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019

Note 3. Pension Assumptions (Continued)

	<u>2015 - 2018</u>	<u>2014</u>
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	3.0% (2016 and 2018), 1.9% (2015)	2.2%
Mortality rates	Active-RP-2000 Non-Annuitant, Scale AA fully generational Active-RP-2000 Non-Annuitant, Scale AA, fully generational Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA fully generational Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA fully generational Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA fully generational Disabled females -107% of RP-2000 Disabled Annuitant, Scale AA fully generational	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%

Note 4. OPEB Assumptions

Below are changes in assumptions between the 2017 and 2016 valuations:

The assumption changes that most significantly impacted the Net OPEB Liability are as follows: the inclusion of waived annuitants increased the liability by approximately \$17 million; a 15% reduction in the retirement rate assumption decreased the liability by approximately \$68 million; a change in certain healthcare-related assumptions decreased the liability by approximately \$232 million; and an update to the mortality tables increased the liability by approximately \$25 million. Certain other assumption changes were noted but did not materially impact the Net OPEB Liability.

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

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

THE WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019

Note 4. OPEB Assumptions (Continued)

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

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

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 \$250 million will generate more sales than a jackpot of \$40 million. For our instant ticket games, the level of demand is impacted by many factors such as game themes, play-styles, price points and prize payouts. Racetrack Video Lottery and Table Games sales are largely driven by tourism. Weekends and holidays generate higher sales than weekdays. Limited Video Lottery sales are seasonally affected. Cold months tend to generate higher sales than warmer months. In an effort to minimize the effect of these nuances, the accompanying schedules contain information by year and game type to help the reader understand how the Lottery's financial performance and overall growth have trended.

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

SALES BY PRODUCT AND OTHER REVENUES - LAST TEN YEARS

	2010	2011	2012	2013
INSTANT	\$97,482,584	\$115,697,423	\$117,676,396	\$108,634,752
POWERBALL®	\$48,593,678	\$35,669,004	\$38,686,528	\$48,688,807
HOT LOTTO SIZZLER®	\$6,447,315	\$5,831,270	\$4,736,542	\$5,063,704
DAILY 3	\$8,401,794	\$8,621,978	\$8,698,349	\$8,301,649
DAILY 4	\$4,694,743	\$4,967,805	\$5,028,983	\$4,748,002
CASH 25	\$5,512,376	\$5,440,930	\$5,465,460	\$5,237,499
TRAVEL KENO	\$7,412,987	\$6,423,516	\$6,249,636	\$5,671,808
MEGA MILLIONS®	\$2,678,674	\$10,915,389	\$14,746,963	\$9,274,409
LOTTO AMERICA®	-	-	-	-
TOTAL ON-LINE	\$83,741,567	\$77,869,892	\$83,612,461	\$86,985,878
VIDEO (net of prizes)				
RACETRACK	\$746,208,159	\$726,952,241	\$764,898,326	\$655,676,762
LIMITED	\$397,287,133	\$397,544,342	\$406,108,085	\$399,223,893
TABLE GAMES (privilege tax)	\$31,725,645	\$68,153,589	\$78,121,131	\$70,258,634
VIDEO (net of prizes)	\$1,132,902	\$4,092,891	\$4,950,083	\$4,737,669
TABLE GAMES (privilege tax)	\$516,466	\$2,138,796	\$2,163,962	\$2,858,962
TOTAL HISTORIC RESORT	\$1,649,368	\$6,231,687	\$7,114,045	\$7,596,631
SPORTS WAGERING	-	-	-	-
TOTAL SALES	\$1,358,094,456	\$1,392,449,174	\$1,457,530,444	\$1,328,376,550
LICENSE FEE	\$10,317,529	\$10,157,522	\$71,847,082	\$9,871,021
MISCELLANEOUS	\$741,824	\$1,648,012	\$1,504,260	\$1,989,230
OTHER OPERATING INCOME	\$11,059,353	\$11,805,534	\$73,351,342	\$11,860,251
NONOPERATING INCOME	\$390,334	\$297,669	\$9,826,225	\$252,688
TOTAL REVENUES	\$1,369,544,143	\$1,404,552,377	\$1,540,708,011	\$1,340,489,489

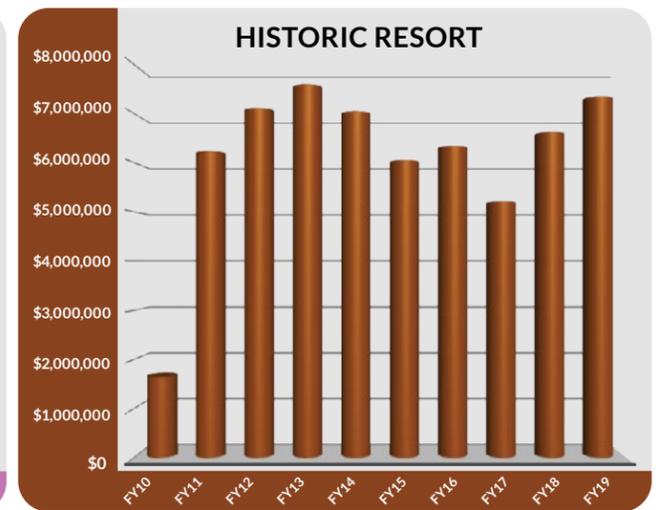
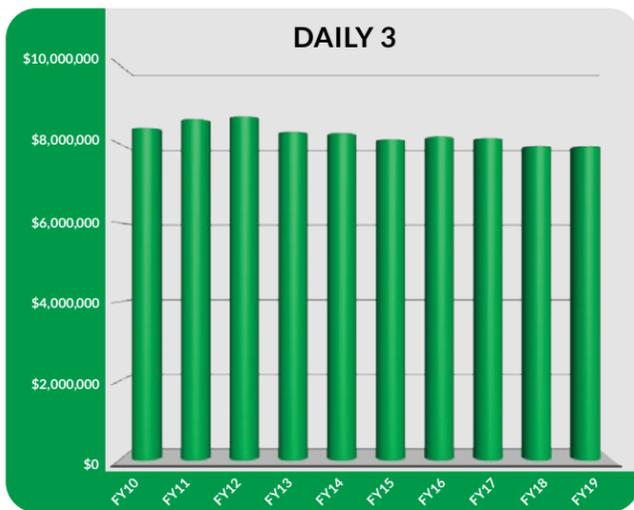
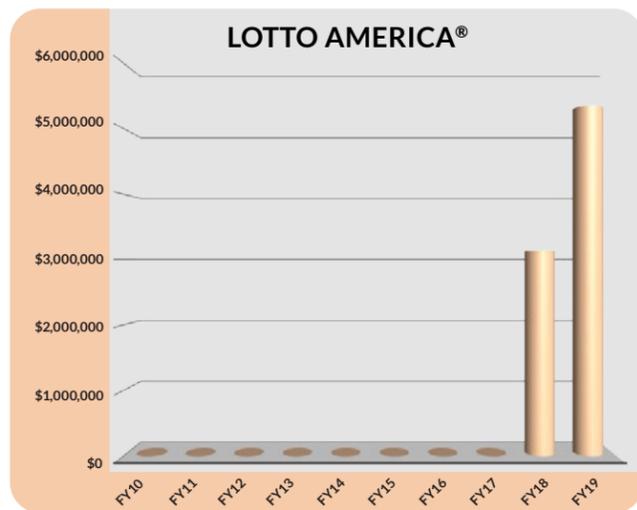
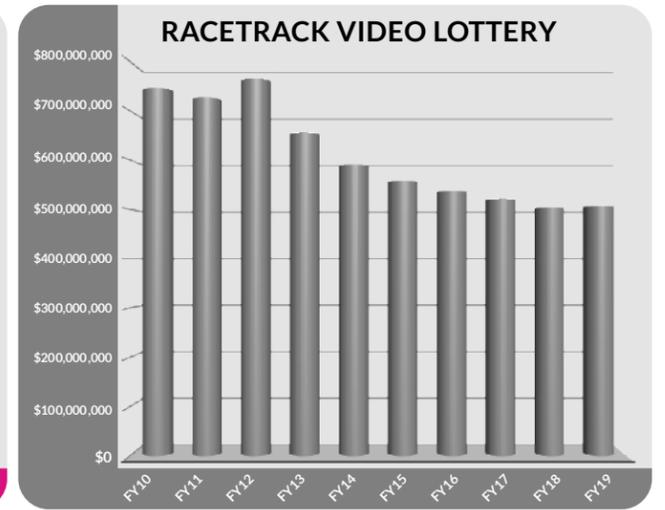
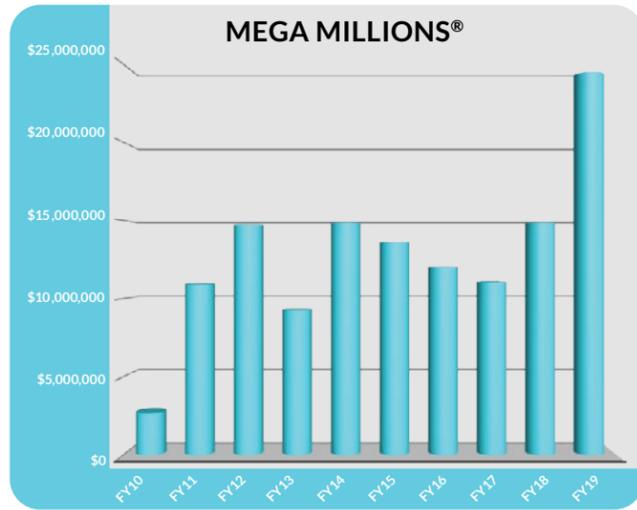
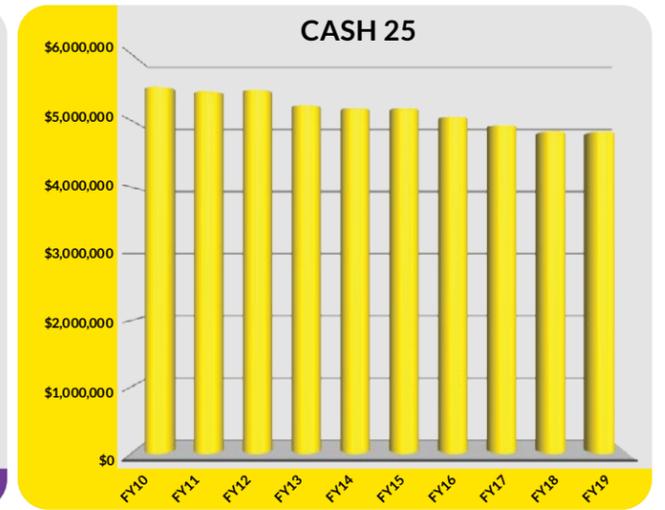
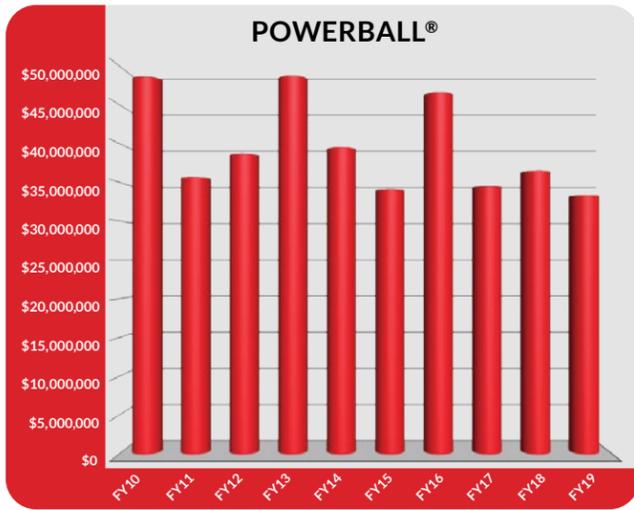
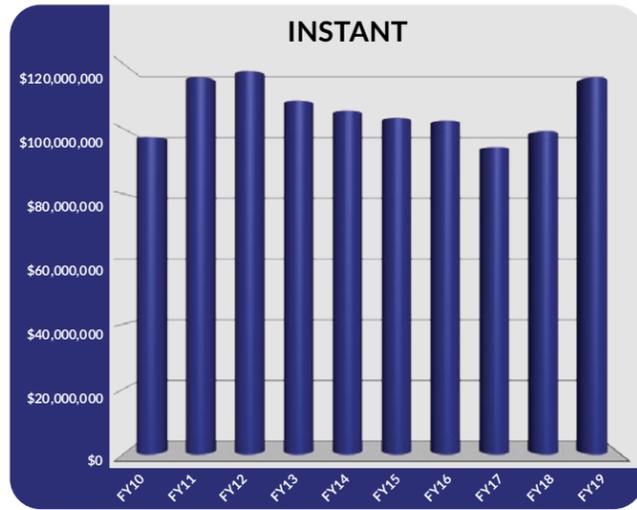
	2014	2015	2016	2017	2018	2019
	\$105,561,992	\$103,276,392	\$102,541,884	\$94,368,751	\$99,194,790	\$115,596,133
	\$39,490,788	\$34,099,437	\$46,553,463	\$34,514,013	\$36,483,389	\$33,340,489
	\$5,310,353	\$5,745,617	\$4,790,589	\$4,848,437	\$2,219,730	-
	\$8,269,965	\$8,109,719	\$8,176,541	\$8,144,181	\$7,940,388	\$7,936,802
	\$4,905,892	\$4,849,937	\$4,904,381	\$4,796,895	\$4,746,084	\$4,639,723
	\$5,191,451	\$5,191,526	\$5,062,256	\$4,938,032	\$4,833,798	\$4,831,831
	\$5,049,843	\$5,103,370	\$4,136,493	\$3,811,709	\$3,639,022	\$3,917,999
	\$14,850,257	\$13,623,552	\$12,035,877	\$11,057,403	\$14,850,547	\$24,482,131
	-	-	-	-	\$3,126,972	\$5,351,712
TOTAL ON-LINE	\$83,068,549	\$76,723,158	\$85,659,600	\$72,110,670	\$77,839,930	\$84,500,687
VIDEO (net of prizes)						
RACETRACK	\$590,918,374	\$557,802,811	\$537,729,110	\$521,317,604	\$504,294,811	\$506,646,755
LIMITED	\$377,222,264	\$373,220,741	\$360,814,338	\$347,555,459	\$368,067,327	\$392,329,925
TABLE GAMES (privilege tax)	\$50,464,934	\$46,928,173	\$43,545,330	\$38,957,889	\$35,152,441	\$35,530,186
VIDEO (net of prizes)	\$4,440,596	\$4,070,270	\$4,486,215	\$3,739,067	\$4,845,200	\$5,094,820
TABLE GAMES (privilege tax)	\$2,607,435	\$1,982,451	\$1,859,221	\$1,467,848	\$1,778,614	\$2,255,342
TOTAL HISTORIC RESORT	\$7,048,031	\$6,052,721	\$6,345,436	\$5,206,915	\$6,623,814	\$7,350,162
SPORTS WAGERING	-	-	-	-	-	\$1,193,403
TOTAL SALES	\$1,214,284,144	\$1,164,003,996	\$1,136,635,698	\$1,079,517,288	\$1,091,173,113	\$1,143,147,251
LICENSE FEE	\$9,776,116	\$10,024,323	\$9,396,576	\$9,245,717	\$10,806,586	\$10,152,290
MISCELLANEOUS	\$1,943,345	\$1,288,429	\$1,131,369	\$1,431,996	\$1,926,990	\$1,822,894
OTHER OPERATING INCOME	\$11,719,461	\$11,312,752	\$10,527,945	\$10,677,713	\$12,733,576	\$11,975,184
NONOPERATING INCOME	\$462,053	\$406,819	\$788,063	\$934,085	\$1,573,220	\$3,964,409
TOTAL REVENUES	\$1,226,465,658	\$1,175,723,567	\$1,147,951,706	\$1,091,129,086	\$1,105,479,909	\$1,159,086,844

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

	2010	2011	2012	2013
PRIZES (traditional)	\$107,983,663	\$120,706,835	\$120,605,843	\$116,230,326
COMMISSIONS				
INSTANT	\$6,823,692	\$8,098,815	\$8,238,580	\$7,604,433
ON-LINE	\$5,849,450	\$5,456,854	\$5,844,402	\$6,094,540
RACETRACK	\$414,987,691	\$404,944,515	\$424,048,550	\$370,827,992
LIMITED	\$194,670,681	\$194,796,720	\$198,992,951	\$195,619,694
TABLE GAMES	\$12,473,391	\$29,288,210	\$33,570,927	\$30,674,243
HISTORIC RESORT	\$846,922	\$3,126,210	\$3,671,152	\$3,706,532
TOTAL COMMISSIONS	\$635,651,827	\$645,711,324	\$674,366,562	\$614,527,434
ADMINISTRATION (includes ticket costs)	\$36,493,179	\$40,838,831	\$38,989,047	\$34,991,775
TOTAL OPERATING EXPENSES	\$780,128,669	\$807,256,990	\$833,961,452	\$765,749,535
NONOPERATING DISTRIBUTIONS				
MUNICIPALITIES AND COUNTIES	\$7,786,828	\$7,791,869	\$7,959,718	\$7,824,788
CAPITAL REINVESTMENT FUND	\$11,968,468	\$21,558,438	\$22,900,376	\$18,820,278
STATE OF WEST VIRGINIA	\$616,465,269	\$565,256,651	\$662,982,476	\$545,203,685
TOTAL DISTRIBUTIONS	\$636,220,565	\$594,606,958	\$693,842,570	\$571,848,751
CHANGES IN NET POSITION	(\$46,805,091)	\$2,688,429	\$12,903,989	\$2,891,203

	2014	2015	2016	2017	2018	2019
	\$111,761,267	\$106,475,947	\$110,827,487	\$98,186,374	\$105,195,719	\$119,246,794
	\$7,389,339	\$7,229,348	\$7,177,932	\$6,605,813	\$6,938,222	\$8,075,627
	\$5,819,974	\$5,371,955	\$6,001,020	\$5,043,296	\$5,436,726	\$5,910,620
	\$336,205,404	\$286,777,829	\$275,496,153	\$268,177,388	\$260,243,206	\$261,874,733
	\$184,838,897	\$182,878,150	\$176,799,014	\$170,302,163	\$180,352,974	\$192,241,651
	\$22,032,440	\$19,885,019	\$18,453,051	\$16,512,256	\$14,905,401	\$15,070,193
	\$3,456,421	\$3,068,391	\$3,302,272	\$2,732,495	\$3,511,074	\$3,786,770
	\$559,742,475	\$505,210,692	\$487,229,442	\$469,373,411	\$471,387,603	\$486,959,594
	\$35,652,922	\$33,663,094	\$32,858,938	\$31,589,554	\$33,372,668	\$35,963,214
	\$707,156,664	\$645,349,733	\$630,915,867	\$599,149,339	\$609,955,990	\$642,169,602
	\$7,393,556	\$7,315,126	\$7,071,961	\$6,812,087	\$7,214,120	\$7,689,667
	\$13,397,148	\$11,716,851	\$10,445,577	\$7,467,510	\$13,455,200	\$13,663,976
	\$498,364,762	\$508,328,566	\$501,301,537	\$477,053,471	\$473,947,597	\$495,141,920
	\$519,155,466	\$527,360,543	\$518,819,075	\$491,333,068	\$494,616,917	\$516,495,563
CHANGES IN NET POSITION	\$153,528	\$3,013,291	(\$1,783,236)	\$646,679	\$907,002	\$421,679

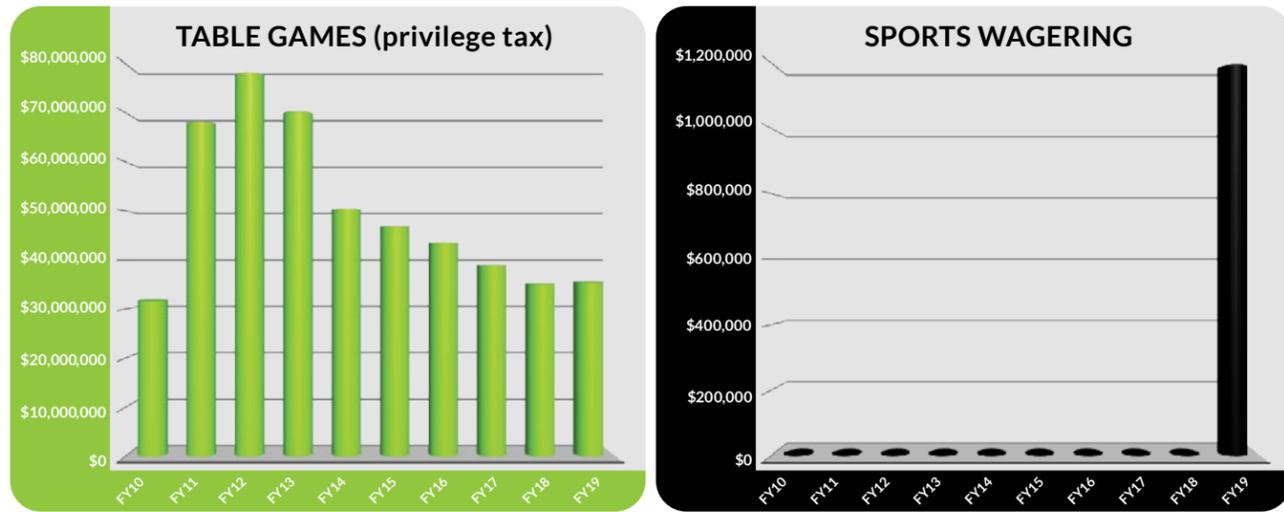
SALES BY PRODUCT LINE - LAST TEN YEARS



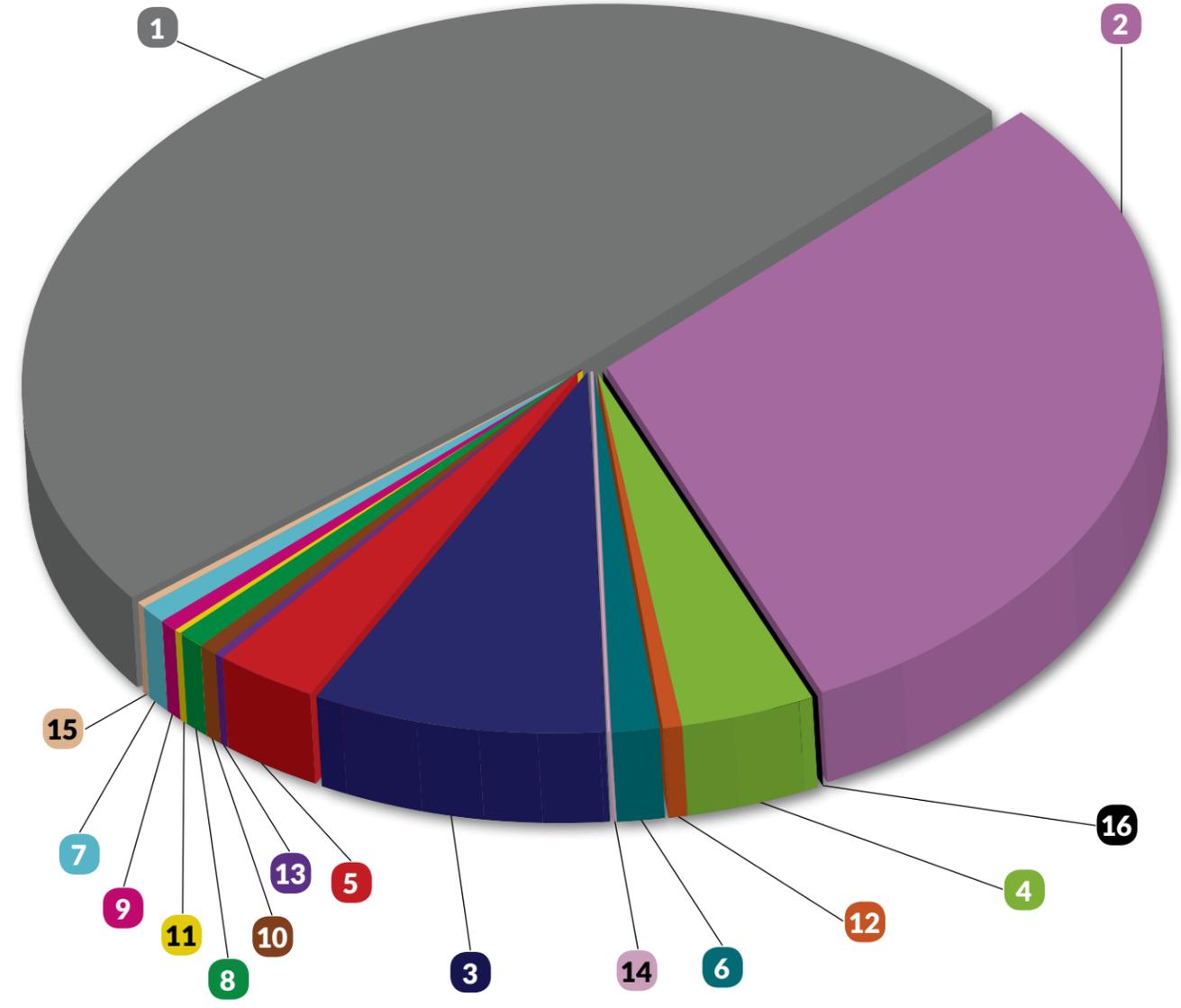
Source: West Virginia Lottery

Source: West Virginia Lottery

SALES BY PRODUCT LINE - LAST TEN YEARS



TOTAL REVENUE: \$12,561,130,790 - LAST TEN YEARS

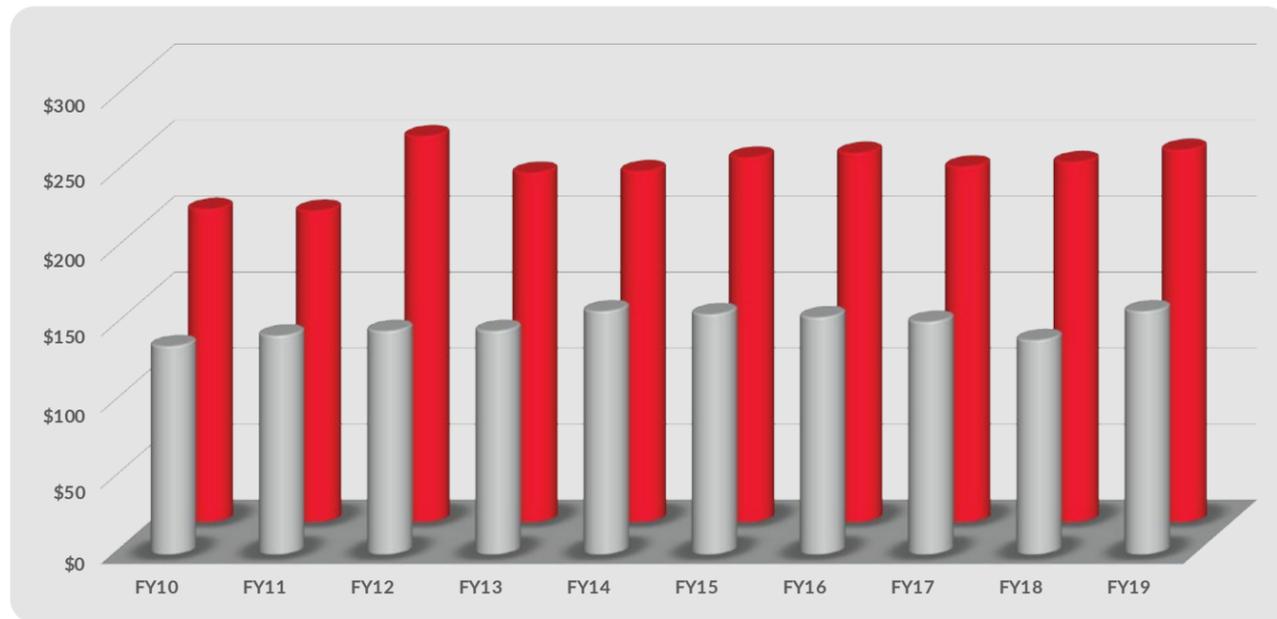


1 RACETRACK VIDEO LOTTERY: \$6,112,444,953 • 54.62%	9 TRAVEL KENO: 51,416,383 • 0.46%
2 LIMITED VIDEO LOTTERY: \$3,819,373,507 • 34.13%	10 HISTORIC RESORT: \$61,218,810 • 0.55%
3 INSTANT: \$1,060,031,097 • 9.47%	11 CASH 25: \$51,705,159 • 0.41%
4 TABLE GAMES (privilege tax): \$498,837,952 • 4.46%	12 HOT LOTTO SIZZLER®: \$44,993,557 • 0.40%
5 POWERBALL®: \$398,119,596 • 3.54%	13 DAILY 4: \$48,282,445 • 0.43%
6 TOTAL OTHER: \$177,023,111 • 1.58%	14 NONOPERATING: \$18,895,565 • 0.17%
7 MEGA MILLIONS®: \$128,515,202 • 1.15%	15 LOTTO AMERICA®: \$8,478,684 • 0.08%
8 DAILY 3: \$82,601,366 • 0.74%	16 SPORTS WAGERING: \$1,193,403 • 0.01%

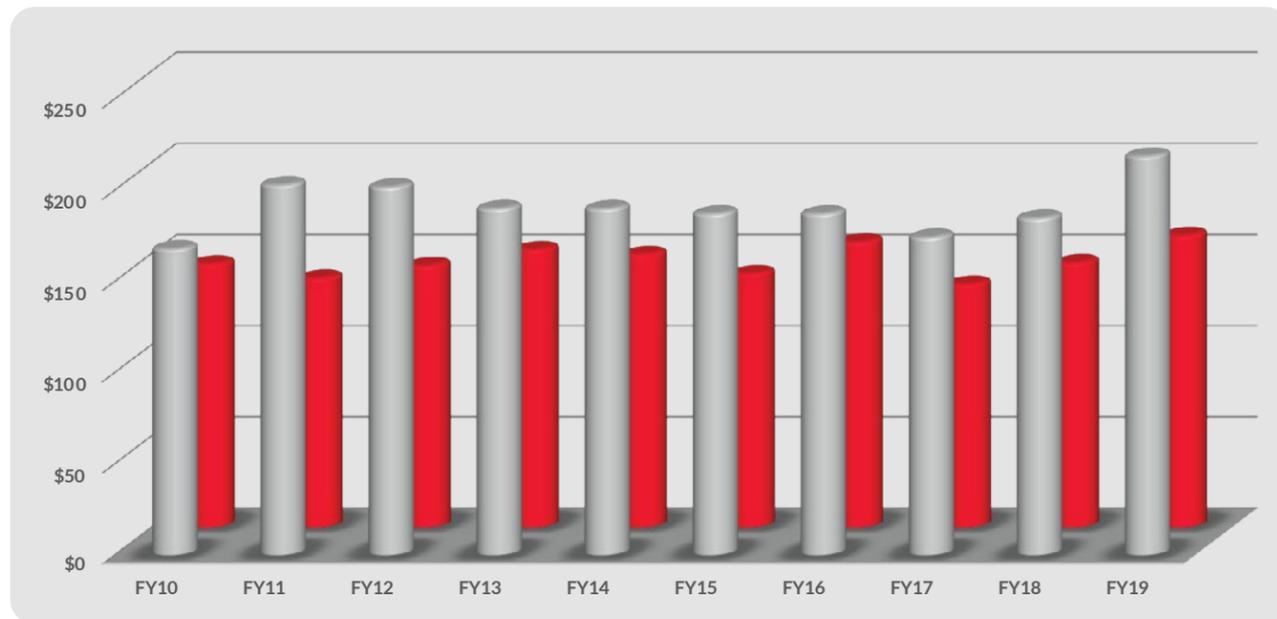
Source: West Virginia Lottery

Source: West Virginia Lottery

DAILY AVERAGES - LAST TEN FISCAL YEARS



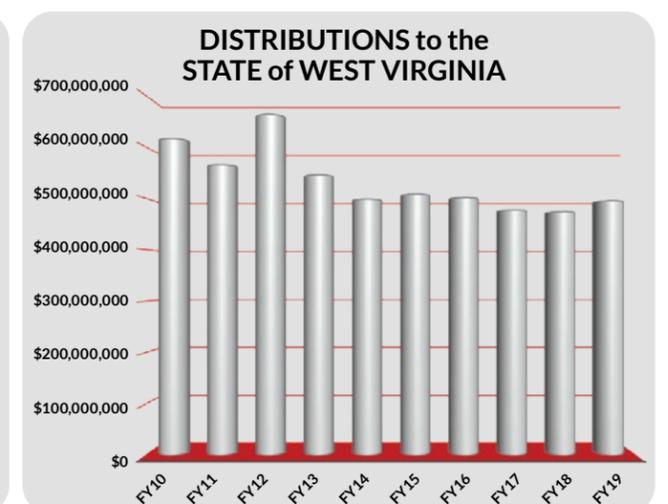
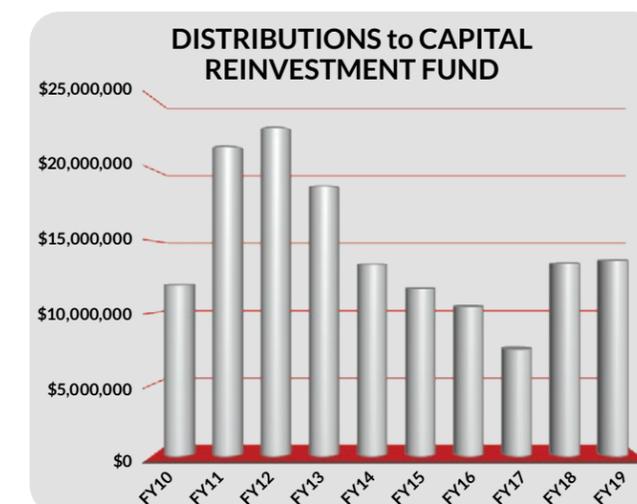
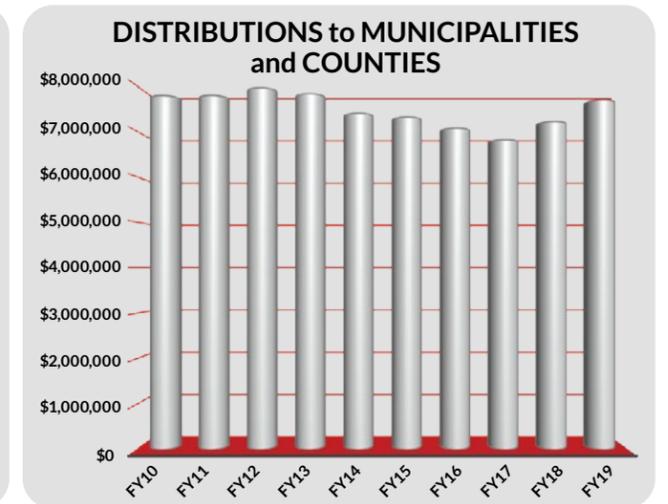
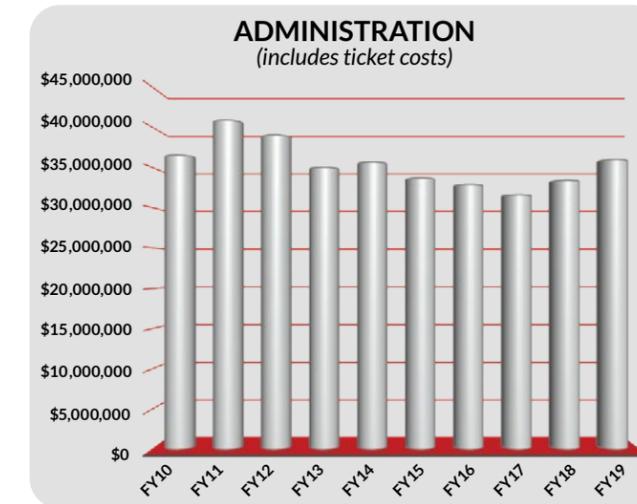
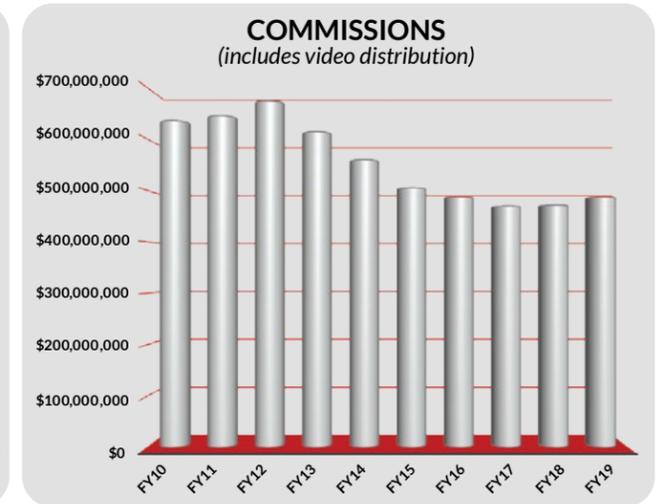
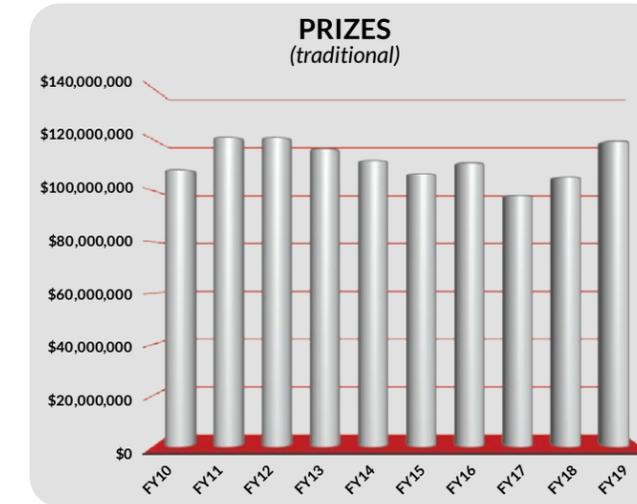
■ LIMITED ■ RACETRACK



■ INSTANT ■ ON-LINE

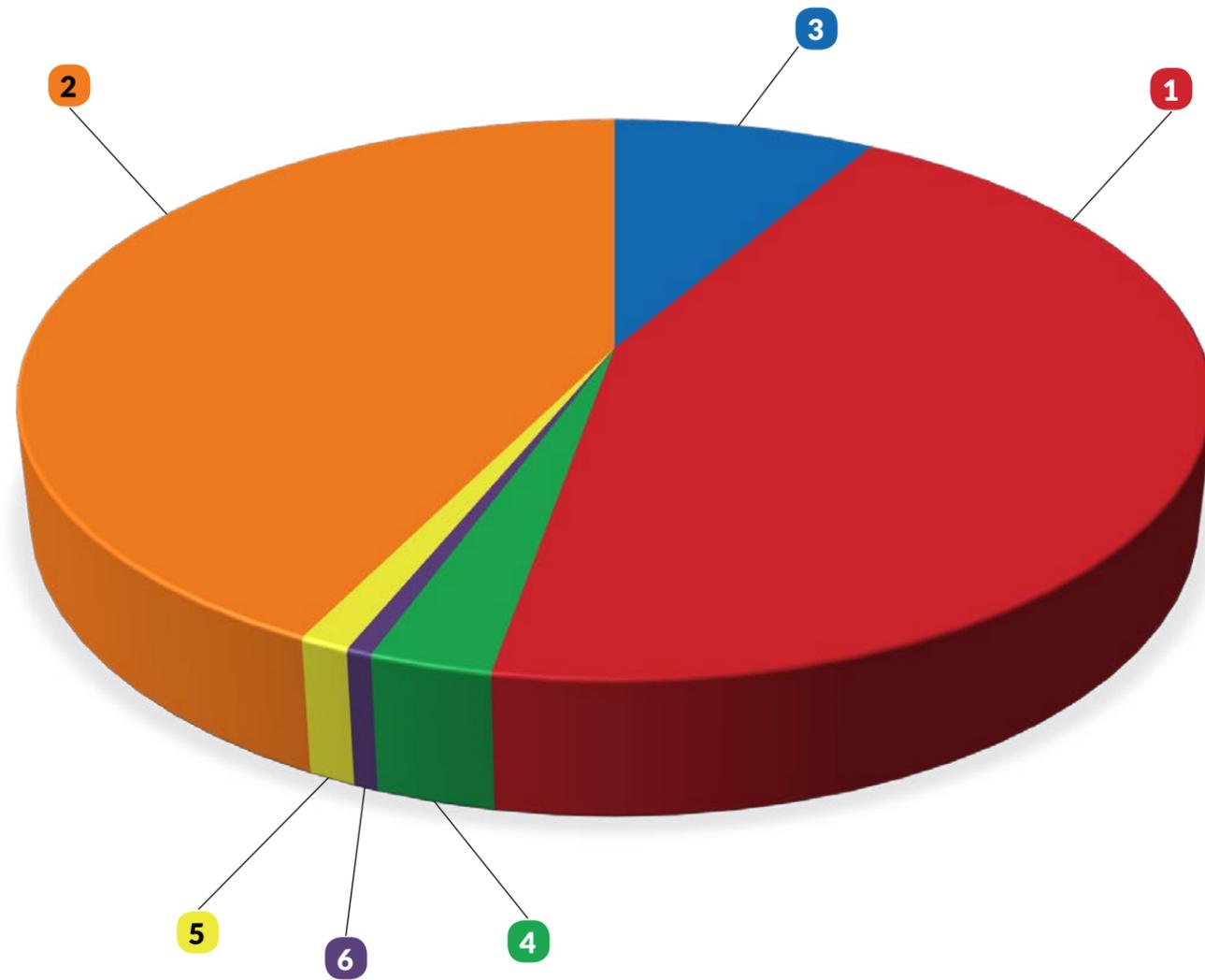
Source: West Virginia Lottery

EXPENSES AND NONOPERATING DISTRIBUTIONS - LAST TEN FISCAL YEARS



Source: West Virginia Lottery

**TOTAL EXPENSES AND NONOPERATING DISTRIBUTIONS: \$12,586,093,317
LAST TEN FISCAL YEARS**



- 1 COMMISSIONS (includes video distribution):** \$5,550,160,364 • 44.10%
- 2 DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA:** \$5,344,045,934 • 42.46%
- 3 PRIZES (traditional):** \$1,060,031,097 • 8.88%
- 4 ADMINISTRATION (includes ticket costs):** \$354,413,222 • 2.82%
- 5 DISTRIBUTIONS TO CAPITAL REINVESTMENT FUND:** \$145,393,822 • 1.16%
- 6 DISTRIBUTIONS TO MUNICIPALITIES AND COUNTIES:** \$74,859,720 • 0.59%

Source: West Virginia Lottery

**TOTAL NET POSITION
(IN 000'S)**

	2010	2011	2012	2013	2014
NET POSITION					
RESTRICTED BY ENABLING LEGISLATION	\$8,355	\$2,039	\$1,690	\$1,640	\$1,397
NET INVESTMENT IN CAPITAL ASSETS	\$23,349	\$30,421	\$42,285	\$40,220	\$38,745
UNRESTRICTED	\$4,679	\$6,612	\$8,000	\$13,006	\$14,878
TOTAL NET POSITION	\$36,383	\$39,072	\$51,975	\$54,866	\$55,020

	2015	2016	2017	2018	2019
NET POSITION					
RESTRICTED BY ENABLING LEGISLATION	\$1,130	\$-	\$-	\$-	\$-
NET INVESTMENT IN CAPITAL ASSETS	\$37,763	\$44,874	\$43,779	\$48,047	\$46,373
UNRESTRICTED	\$15,263	\$7,498	\$9,240	\$7,152	\$9,248
TOTAL NET POSITION	\$54,156	\$52,372	\$53,019	\$55,199	\$55,621

Source: West Virginia Lottery

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

	SALES	PROFIT	POPULATION	SALES PER CAPITA
ARIZONA	\$981.38	\$211.91	6.9	\$142.23
ARKANSAS	\$499.71	\$91.84	3.0	\$166.57
CALIFORNIA	\$6,965.79	\$1,700.94	39.3	\$177.25
COLORADO	\$611.99	\$140.74	5.5	\$111.27
CONNECTICUT	\$1,267.59	\$347.30	3.6	\$352.11
DELAWARE ^{1,2}	\$605.94	\$214.91	0.7	\$865.62
DISTRICT OF COLUMBIA (9/30)	\$210.26	\$49.50	1.0	\$210.26
FLORIDA	\$6,700.81	\$1,758.33	20.6	\$325.28
GEORGIA	\$4,597.78	\$1,143.91	10.3	\$446.39
IDAHO	\$265.08	\$53.50	1.7	\$155.93
ILLINOIS	\$2,928.42	\$722.38	12.8	\$228.78
INDIANA	\$1,270.07	\$306.08	6.6	\$192.43
IOWA	\$370.96	\$87.10	3.1	\$119.66
KANSAS	\$268.95	\$74.73	2.9	\$92.74
KENTUCKY	\$1,042.51	\$266.42	4.4	\$236.93
LOUISIANA	\$490.98	\$171.96	4.7	\$104.46
MAINE	\$294.13	\$63.03	1.3	\$226.26
MARYLAND ^{1,2}	\$3,721.76	\$1,148.85	6.0	\$620.29
MASSACHUSETTS	\$5,276.90	\$997.06	6.8	\$776.01
MICHIGAN (9/30)	\$3,578.07	\$942.27	9.9	\$361.42
MINNESOTA	\$596.48	\$145.10	5.5	\$108.45
MISSOURI	\$1,400.22	\$333.39	6.1	\$229.54
MONTANA	\$56.60	\$10.70	1.0	\$56.60
NEBRASKA	\$183.37	\$45.25	1.9	\$96.51
NEW HAMPSHIRE	\$332.75	\$87.28	1.3	\$255.96
NEW JERSEY	\$3,299.70	\$1,030.30	8.9	\$370.75
NEW MEXICO	\$134.03	\$40.22	2.1	\$63.82
NEW YORK (3/31) ¹	\$9,973.52	\$3,371.87	19.7	\$506.27
NORTH CAROLINA	\$2,605.31	\$676.47	10.1	\$257.95
NORTH DAKOTA	\$31.31	\$8.04	0.8	\$39.13
OHIO ¹	\$4,147.41	\$1,087.72	11.6	\$357.54
OKLAHOMA	\$221.11	\$63.98	3.9	\$56.69
OREGON ¹	\$1,302.33	\$726.09	4.1	\$317.64
PENNSYLVANIA	\$4,221.38	\$1,093.65	12.8	\$329.80
RHODE ISLAND ^{1,2}	\$885.57	\$364.97	1.1	\$805.07
SOUTH CAROLINA	\$1,750.16	\$430.98	5.0	\$350.03
SOUTH DAKOTA ¹	\$278.81	\$124.75	0.9	\$309.78
TENNESSEE	\$1,735.91	\$421.68	6.6	\$263.02
TEXAS (8/31)	\$5,626.85	\$1,450.47	27.9	\$201.68
VERMONT	\$132.42	\$27.15	0.6	\$220.70
VIRGINIA	\$2,139.82	\$606.22	8.4	\$254.74
WASHINGTON	\$733.94	\$182.97	7.3	\$100.54
WEST VIRGINIA ^{1,2}	\$1,159.76	\$473.95	1.8	\$644.31
WISCONSIN	\$667.39	\$170.66	5.8	\$115.07
WYOMING	\$28.75	\$5.03	0.6	\$47.91
TOTAL	\$85,593.98	\$23,471.63	306.9	\$12,271.43

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

U.S LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2019
INCLUDES VIDEO LOTTERY TERMINAL (VLT) SALES
(\$ MILLIONS)

	SALES	PROFIT	POPULATION	SALES PER CAPITA
ARIZONA	\$1,076.79	\$230.36	6.9	\$156.06
ARKANSAS	\$515.49	\$98.41	3.0	\$171.83
CALIFORNIA	\$7,388.05	\$1,847.06	39.3	\$187.99
COLORADO	\$679.78	\$166.46	5.5	\$123.60
CONNECTICUT	\$1,333.90	\$372.30	3.6	\$370.53
DELAWARE ^{1,2}	\$649.65	\$215.56	0.7	\$928.07
DISTRICT OF COLUMBIA (9/30)	\$213.06	\$46.10	1.0	\$213.06
FLORIDA	\$7,151.24	\$1,927.00	20.6	\$347.15
GEORGIA	\$4,776.01	\$1,207.77	10.3	\$463.69
IDAHO	\$287.91	\$60.00	1.7	\$169.36
ILLINOIS	\$2,977.59	\$735.51	12.8	\$232.62
INDIANA	\$1,347.76	\$312.22	6.6	\$204.21
IOWA	\$390.90	\$92.86	3.1	\$126.10
KANSAS	\$295.28	\$74.91	2.9	\$101.82
KENTUCKY	\$1,129.66	\$283.61	4.4	\$256.74
LOUISIANA	\$523.97	\$184.32	4.7	\$111.48
MAINE	\$299.45	\$63.20	1.3	\$230.35
MARYLAND ^{1,2}	\$3,957.32	\$1,201.68	6.0	\$659.55
MASSACHUSETTS	\$5,490.37	\$1,104.22	6.8	\$807.41
MICHIGAN (9/30)	\$3,884.16	\$1,069.99	9.9	\$392.34
MINNESOTA	\$636.81	\$153.19	5.5	\$115.78
MISSOURI	\$1,466.03	\$346.72	6.1	\$240.33
MONTANA	\$61.26	\$12.20	1.0	\$61.26
NEBRASKA	\$192.18	\$46.57	1.9	\$101.15
NEW HAMPSHIRE	\$384.37	\$105.61	1.3	\$295.67
NEW JERSEY	\$3,482.39	\$1,100.00	8.9	\$391.28
NEW MEXICO	\$143.63	\$43.11	2.1	\$68.40
NEW YORK (3/31) ¹	\$10,290.55	\$3,474.04	19.7	\$522.36
NORTH CAROLINA	\$2,859.63	\$710.20	10.1	\$283.13
NORTH DAKOTA	\$35.35	\$9.34	0.8	\$44.19
OHIO ¹	\$4,419.40	\$1,153.93	11.6	\$380.98
OKLAHOMA	\$241.69	\$67.55	3.9	\$61.97
OREGON ¹	\$1,346.53	\$730.14	4.1	\$328.42
PENNSYLVANIA	\$4,884.79	\$1,143.23	12.8	\$381.62
RHODE ISLAND ^{1,2}	\$956.34	\$397.32	1.1	\$869.40
SOUTH CAROLINA	\$1,980.94	\$488.09	5.0	\$396.19
SOUTH DAKOTA ¹	\$293.23	\$129.75	0.9	\$325.81
TENNESSEE	\$1,812.60	\$447.19	6.6	\$274.64
TEXAS (8/31)	\$6,251.48	\$1,636.59	27.9	\$224.07
VERMONT	\$139.25	\$29.10	0.6	\$232.09
VIRGINIA	\$2,293.56	\$649.70	8.4	\$273.04
WASHINGTON	\$803.28	\$215.78	7.3	\$110.04
WEST VIRGINIA ^{1,2}	\$1,224.06	\$495.14	1.8	\$680.03
WISCONSIN	\$713.13	\$235.96	5.8	\$122.95
WYOMING	\$36.86	\$6.62	0.6	\$61.43
TOTAL	\$91,317.69	\$25,120.62	306.9	\$13,100.21

2019 data source: NASPL website: www.NASPL.org ¹Includes net VLT sales (Cash in less cash out) ²Includes Table Games (net)
Note: All figures are preliminary

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

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

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

U.S LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2019
EXCLUDES VIDEO LOTTERY TERMINAL (VLT) SALES AND TABLE GAMES
(\$ MILLIONS)

	TOTAL SALES	INSTANT SALES	DRAW SALES	POPULATION	SALES PER CAPITA
ARIZONA	\$1,073.0	\$750.3	\$322.7	7.2	\$149.03
ARKANSAS	\$515.5	\$407.8	\$107.7	3.0	\$171.83
CALIFORNIA	\$7,392.1	\$5,174.8	\$2,217.3	39.6	\$186.67
COLORADO	\$679.8	\$443.4	\$236.4	5.7	\$119.26
CONNECTICUT	\$1,333.9	\$736.4	\$597.5	3.6	\$370.53
D.C.	\$213.3	\$52.2	\$161.1	0.7	\$304.71
DELAWARE	\$354.7	\$79.8	\$274.9	1.0	\$354.70
FLORIDA	\$7,151.2	\$4,937.8	\$2,213.4	21.3	\$335.74
GEORGIA	\$4,776.0	\$3,219.4	\$1,556.6	10.5	\$454.86
IDAHO	\$287.9	\$159.0	\$128.9	1.8	\$159.94
ILLINOIS	\$2,977.6	\$1,856.8	\$1,120.8	12.7	\$234.46
INDIANA	\$1,347.8	\$974.9	\$372.9	6.7	\$201.16
IOWA	\$390.9	\$250.6	\$140.3	3.2	\$122.16
KANSAS	\$308.2	\$178.0	\$130.2	2.9	\$106.28
KENTUCKY	\$1,129.7	\$669.2	\$460.5	4.5	\$251.04
LOUISIANA	\$524.0	\$225.6	\$298.4	4.7	\$111.49
MAINE	\$299.5	\$224.6	\$74.9	1.3	\$230.38
MARYLAND	\$2,187.3	\$812.4	\$1,374.9	6.0	\$364.55
MASSACHUSETTS	\$5,480.1	\$3,673.3	\$1,806.8	6.9	\$794.22
MICHIGAN	\$3,830.8	\$1,654.7	\$2,176.1	10.0	\$383.08
MINNESOTA	\$636.8	\$435.3	\$201.5	5.6	\$113.71
MISSOURI	\$1,352.6	\$914.8	\$437.8	6.1	\$221.74
MONTANA	\$61.3	\$19.3	\$42.0	1.1	\$55.73
NEBRASKA	\$192.0	\$104.1	\$87.9	1.9	\$101.05
NEW HAMPSHIRE	\$375.9	\$250.6	\$125.3	1.4	\$268.50
NEW JERSEY	\$3,479.1	\$1,868.4	\$1,610.7	8.9	\$390.91
NEW MEXICO	\$143.6	\$74.9	\$68.7	2.1	\$68.38
NEW YORK	\$8,227.6	\$4,226.7	\$4,000.9	19.5	\$421.93
NORTH CAROLINA	\$2,859.6	\$1,908.9	\$950.7	10.4	\$274.96
NORTH DAKOTA	\$35.4		\$35.4	0.8	\$44.25
OHIO	\$3,360.8	\$1,663.0	\$1,697.8	11.7	\$287.25
OKLAHOMA	\$241.7	\$136.0	\$105.7	3.9	\$61.97
OREGON	\$380.1	\$131.2	\$248.9	4.2	\$90.50
PENNSYLVANIA	\$4,503.3	\$2,989.7	\$1,513.6	12.8	\$351.82
RHODE ISLAND	\$263.3	\$102.9	\$160.4	1.1	\$239.36
SOUTH CAROLINA	\$1,980.9	\$1,450.4	\$530.5	5.1	\$388.41
SOUTH DAKOTA	\$63.1	\$32.4	\$30.7	0.9	\$70.11
TEXAS	\$6,247.2	\$4,844.4	\$1,402.8	28.7	\$217.67
VERMONT	\$139.3	\$107.0	\$32.3	0.6	\$232.17
VIRGINIA	\$2,293.6	\$1,221.9	\$1,071.7	8.5	\$269.84
WASHINGTON	\$803.3	\$523.9	\$279.4	7.5	\$107.11
WEST VIRGINIA	\$201.3	\$115.6	\$85.7	1.8	\$111.83
WISCONSIN	\$713.1	\$450.4	\$262.7	5.8	\$122.95
WYOMING	\$37.6		\$37.6	0.6	\$62.67
TOTAL	\$80,845.8	\$50,052.8	\$30,793.0	304.3	\$265.68

2019 data source: La Fleur's Magazine/Vol. 27, No. 1 September/October 2019

NUMBER OF EMPLOYEES

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
EXECUTIVE	20	18	19	19	20
FINANCE & ADMINISTRATION	23	27	26	25	25
MARKETING	7	7	8	8	8
VIDEO	29	30	31	31	29
SECURITY (traditional & video)	46	47	42	40	41
TABLE GAMES	51	69	69	61	60
TOTAL	176	198	195	184	183
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
EXECUTIVE	20	19	20	20	18
FINANCE & ADMINISTRATION	22	23	22	24	26
MARKETING	8	8	8	9	9
VIDEO	30	31	29	30	31
SECURITY (traditional & video)	38	38	39	38	38
TABLE GAMES	57	52	53	54	49
TOTAL	175	171	171	175	171

Source: West Virginia Lottery

PRINCIPAL EMPLOYERS - CURRENT YEAR AND NINE YEARS AGO

FIRST QUARTER 2019		
BUSINESS NAME	NUMBER OF EMPLOYEES	PERCENTAGE OF TOTAL EMPLOYED
LOCAL GOVERNMENT	74,007	10.82%
STATE GOVERNMENT	41,576	6.08%
FEDERAL GOVERNMENT	23,686	3.46%
1 WVU MEDICINE	13,000-17,999	2.27%
2 WAL-MART ASSOCIATES, INC.	10,000-12,999	1.68%
3 CHARLESTON AREA MEDICAL CENTER HEALTH SYSTEMS	7,000-9,999	1.24%
4 MOUNTAIN HEALTH NETWORK	3,000-4,999	0.58%
5 KROGER	3,000-4,999	0.58%
6 LOWE'S HOME CENTERS, INC.	3,000-4,999	0.58%
7 CONTURA ENERGY (FORMERLY ALPHA NATURAL RESOURCES CO.)	1,000-2,999	0.29%
8 WHEELING HOSPITAL, INC.	1,000-2,999	0.29%
9 MYLAN PHARMACEUTICALS, INC.	1,000-2,999	0.29%
10 MURRAY AMERICAN ENERGY, INC.	1,000-2,999	0.29%

FIRST QUARTER 2010		
BUSINESS NAME	NUMBER OF EMPLOYEES	PERCENTAGE OF TOTAL EMPLOYED
LOCAL GOVERNMENT	76,408	11.03%
STATE GOVERNMENT	42,348	6.11%
FEDERAL GOVERNMENT	25,230	3.64%
1 WAL-MART ASSOCIATES, INC.	13,000-14,999	2.02%
2 WEST VIRGINIA UNIVERSITY HOSPITALS/UNITED HOSPITALS	7,000-9,999	1.23%
3 CHARLESTON AREA MEDICAL CENTER, INC.	6,000-6,999	0.94%
4 KROGER	4,000-5,999	0.72%
5 AMERICAN ELECTRIC POWER	1,000-2,999	0.29%
6 CONSOLIDATION COAL COMPANY	1,000-2,999	0.29%
7 LOWE'S HOME CENTERS, INC.	1,000-2,999	0.29%
8 ST. MARY'S HOSPITAL	1,000-2,999	0.29%
9 RES-CARE, INC.	1,000-2,999	0.29%
10 MYLAN PHARMACEUTICALS, INC.	1,000-2,999	0.29%

Source: WORKFORCE West Virginia, Research, Information and Analysis

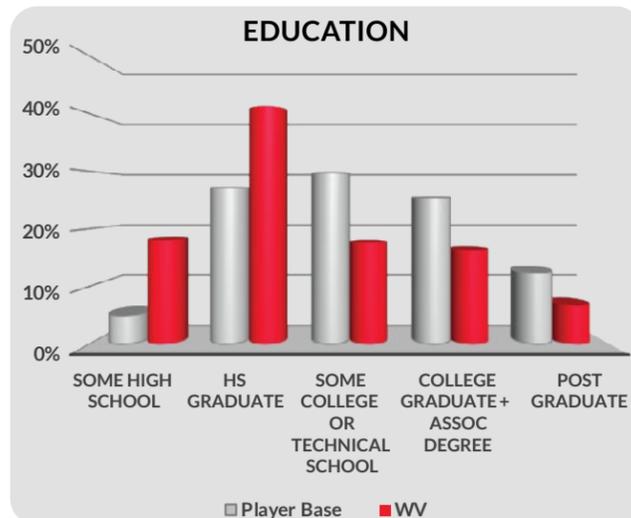
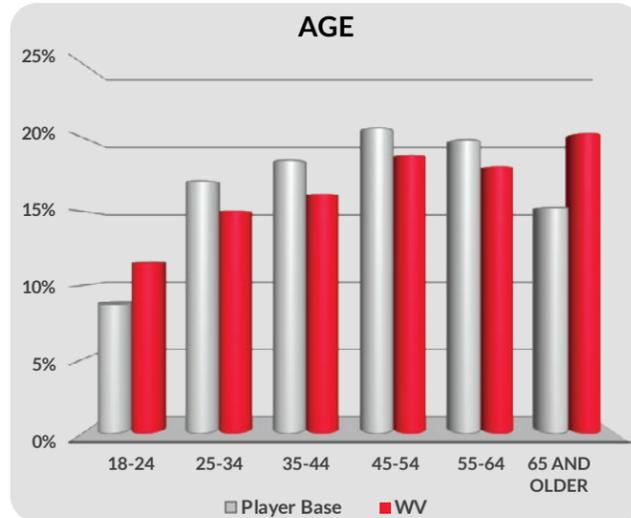
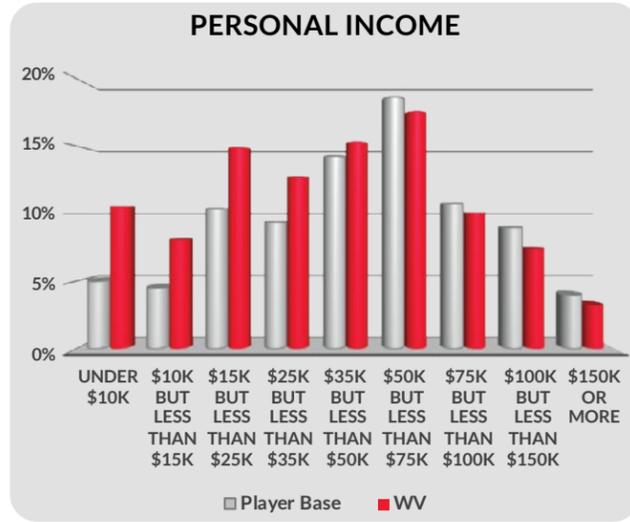
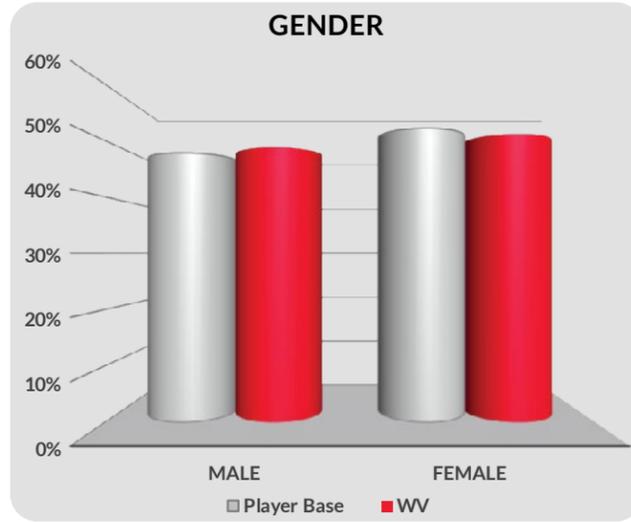
STATE DEMOGRAPHIC AND ECONOMIC INFORMATION

YEAR	POPULATION	GROSS PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2009	1,847,775	\$57,949	\$31,361	7.7%
2010	1,854,214	\$59,928	\$32,320	8.6%
2011	1,856,074	\$63,349	\$34,131	8.1%
2012	1,856,764	\$65,206	\$35,118	7.5%
2013	1,853,873	\$64,785	\$34,946	6.8%
2014	1,849,467	\$66,864	\$36,153	6.6%
2015	1,841,996	\$67,997	\$36,915	6.7%
2016	1,830,929	\$67,618	\$36,931	6.1%
2017	1,817,048	\$70,218	\$38,644	5.2%
2018	1,805,832	\$73,809	\$40,873	5.2%

Source: U.S. Bureau of Economic Analysis and Bureau of Labor Statistics based on calendar year.
Note: 2019 information is not available and therefore not presented.



PLAYER AND POPULATION DEMOGRAPHICS



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

ACS Demographic and Housing, 2010 Census



2019 CAFR PROJECT

An in-house production of the West Virginia Lottery

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