

Audited Financial Statements

West Virginia Lottery

Years Ended June 30, 2016 and 2015

WEST VIRGINIA LOTTERY
Audited Financial Statements
Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

West Virginia Lottery Commission
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Lottery (the Lottery), a component unit of the State of West Virginia, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Lottery, as of June 30, 2016 and 2015, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

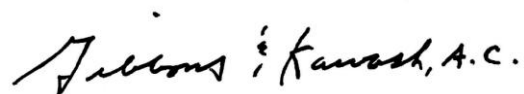
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, and the schedule of the proportionate share of the net pension liability, and the schedule of contributions to the PERS on pages 41 through 43 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.



Charleston, West Virginia
October 11, 2016

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis

(Continued)

-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, 2016 and 2015. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2016, and the prior year refers to fiscal year ending June 30, 2015. This analysis is to be considered in conjunction with the financial statements, which begin on page 12.

Financial Highlights

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

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

Using This Annual Report

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

Statements of Net Position

The Lottery implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68 as of July 1, 2014.

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

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

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis
(Continued)

-Unaudited-

Statements of Net Position (Continued)

Restricted net position continued to decrease as a result of activities related to capital spending for the Lottery headquarters building and the accrued distribution of surplus funds from the revenue center construction fund. See Note 11 to the financial statements for additional information on restricted net position.

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

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

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

As shown in Table 2, the Lottery's current liabilities for the current year increased \$3.9 million or 2.2% compared to the prior year, which increased \$9.3 million or 5.4% compared to 2014 due to the accumulation of prior year surplus transfers to the State of West Virginia combined with current year accrued transfers.

Net position - restricted by enabling legislation decreased to \$0 as all restrictive conditions were met during the year ended June 30, 2016.

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

Net position - unrestricted changed in fiscal year 2016 due to the conversion of cash into capital assets. Fiscal years 2015, and 2014 changed as a result of rental income from tenants located at the Lottery headquarters building and the Lottery's administrative allowance from table games exceeding the actual operating expenses.

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis
(Continued)

-Unaudited-

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

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

Capital Assets

Capital assets as of June 30, 2016 amounted to \$56.0 million (at cost). This investment in capital assets includes land, building, construction in progress and equipment. The total increase in capital assets for the current fiscal year was 17.2%.

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

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

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

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis
(Continued)

-Unaudited-

Revenues, Expenses and Changes in Fund Net Position

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

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

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

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis
(Continued)

-Unaudited-

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

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

Net position, beginning of year	<u>54,156</u>	<u>55,020</u>	<u>54,866</u>
Cumulative effect of adoption of accounting principle	<u>-</u>	<u>(3,877)</u>	<u>-</u>
Net position, beginning of year, as restated	<u>54,156</u>	<u>51,143</u>	<u>54,866</u>
Net position, end of year	<u>\$ 52,372</u>	<u>\$ 54,156</u>	<u>\$ 55,020</u>

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees

Table 5 compares sales (referred to as lottery revenues in financial statements), prizes, commissions, ticket printing costs, vendor fees and costs and gross profit for each lottery game category for fiscal years 2016, 2015, and 2014. Sales and gross profits fluctuated in certain categories; however, gross profit percentages remained consistent from year to year.

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

	Instant			On-Line*		
	2016	2015	2014	2016	2015	2014
Gross sales	\$ 102,542	\$ 103,276	\$ 105,562	\$ 85,660	\$ 76,724	\$ 83,069
Less direct costs:						
Prizes and bonuses	67,695	68,314	69,665	43,132	38,162	42,096
Commissions	7,178	7,229	7,390	6,001	5,372	5,821
Ticket printing costs	1,618	1,516	1,730	-	-	-
Vendor fees and costs	4,389	4,286	4,510	3,727	3,170	3,534
Total direct costs	<u>80,880</u>	<u>81,345</u>	<u>83,295</u>	<u>52,860</u>	<u>46,704</u>	<u>51,451</u>
Gross Profit	<u>\$ 21,662</u>	<u>\$ 21,931</u>	<u>\$ 22,267</u>	<u>\$ 32,800</u>	<u>\$ 30,020</u>	<u>\$ 31,618</u>
Gross profit percentage	<u>21.1%</u>	<u>21.2%</u>	<u>21.1%</u>	<u>38.3%</u>	<u>39.1%</u>	<u>38.1%</u>

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

	Racetrack Video Lottery			Limited Video Lottery		
	2016	2015	2014	2016	2015	2014
Gross sales	\$ 537,729	\$ 557,803	\$ 590,918	\$ 360,814	\$ 373,221	\$ 377,222
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	275,496	286,778	336,205	176,799	182,878	184,839
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	<u>275,496</u>	<u>286,778</u>	<u>336,205</u>	<u>176,799</u>	<u>182,878</u>	<u>184,839</u>
Gross Profit	<u>\$ 262,233</u>	<u>\$ 271,025</u>	<u>\$ 254,713</u>	<u>\$ 184,015</u>	<u>\$ 190,343</u>	<u>\$ 192,383</u>
Gross profit percentage	<u>48.8%</u>	<u>48.6%</u>	<u>43.1%</u>	<u>51.0%</u>	<u>51.0%</u>	<u>51.0%</u>

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis
(Continued)

-Unaudited-

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

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

Instant Sales

Instant ticket sales for the current year decreased by \$0.7 million or 0.7% compared to the prior year, which decreased \$2.3 million or 2.2% from 2014. Fifty-five games were introduced in 2016 and approximately twenty-four game options were available for play in the field in both years. The Lottery continues to implement the results of research and design efforts, including licensed or trademarked games, new play styles and continued monitoring of the mix of play styles and colors closely to create the best variety of game presentation available at one time. There were two ten-dollar, one twenty-dollar, and one thirty-dollar tickets introduced in 2016. There were also eight five-dollar tickets and eleven three-dollar tickets introduced. The Lottery has also implemented the use of pre-printed "shelf games" used to provide immediate stock should field inventory become low. These shelf games are worked into the schedule and used within one year in the event they are not used for emergency.

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

Vendor fees and costs are primarily 4.3% of instant and on-line ticket sales for 2016, 2015, and 2014. The Lottery (as is the case with most lotteries located in North America) has elected to enter into a long-term contract with a vendor to provide a central computer system, retailer terminals and related equipment to sell and cash all tickets for instant and on-line games.

Powerball® Sales

Powerball® is a \$2 Multi-State (MUSL) Lottery game designed to grow large jackpot amounts, with occasional jackpots in excess of \$400 million. Sales for the current year increased \$12.5 million or 36.5% compared to the prior year, which decreased \$5.4 million or 13.7% from 2014. Sales are generally driven by the jackpot size.

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

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

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis
(Continued)

-Unaudited-

Mega Millions® Sales

Mega Millions® sales offers jackpots starting at \$15 million and other prizes ranging from \$1 to \$1,000,000. Sales for the current year decreased \$1.6 million or 11.7% compared to the prior year, which decreased \$1.2 million or 8.3% from 2014.

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

All Other On-line Games

All other on-line games consist of Daily 3, Daily 4, Cash 25, Travel Keno and the Multi-State game Hot Lotto™. Sales for the current year decreased \$1.9 million or 6.7% compared to the prior year, which increased \$272.7 thousand or 1.0% from 2014.

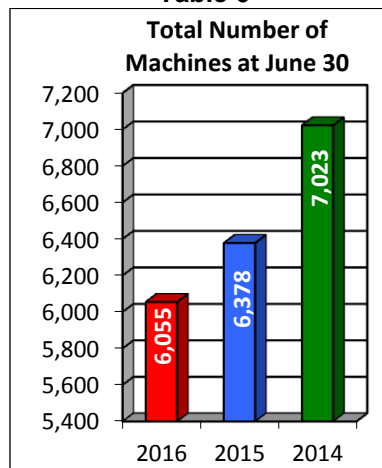
In general, prize costs by game will increase or decrease from year-to-year in proportion to the sales for a particular game. Prizes and commissions have remained consistent as presented in Table 4.

Racetrack Video Lottery

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

A portion of racetrack video lottery sales, as prescribed by statute, are paid to racetracks and other private entities associated with the racing industry and are reported as commissions. See Note 6 to the financial statements for further discussion of racetrack video lottery distributions. Commissions in the current year decreased \$11.3 million or 3.9% compared to the prior year which decreased \$49.4 million or 14.7% compared to 2014 due to competition from neighboring states.

During the year ended June 30, 2016, increased competition from gaming operations in neighboring states has led the racetracks to re-evaluate their gaming environments which have resulted in changes to the gaming floors. The changes in active machines are presented in Table 6 below which illustrates the last three fiscal years.

Table 6

WEST VIRGINIA LOTTERY

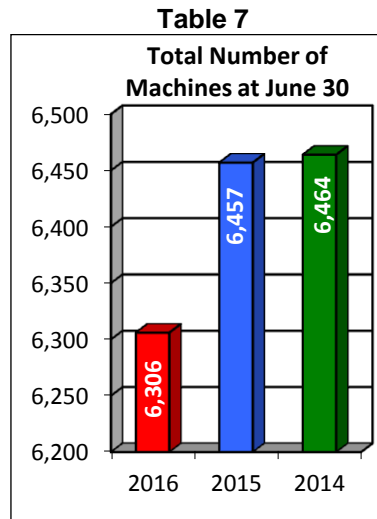
Management's Discussion and Analysis
(Continued)

-Unaudited-

Limited Video Lottery

Sales for the current year decreased \$12.4 million or 3.3% compared to the prior year, which decreased \$4.0 million or 1.1% from 2014. Commissions are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales. For the current year, commissions decreased \$6.1 million or 3.3% compared to the prior year decrease of \$2.0 million or 1.1% from 2014.

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

**Table Games**

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

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

Historic Resort

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

Combined revenues of video lottery and table games at the Historic Resort for the current year increased \$294 thousand or 4.9% compared to the prior year, which decreased \$995.3 thousand or 14.1% from 2014.

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

WEST VIRGINIA LOTTERY

Management's Discussion and Analysis
(Continued)

-Unaudited-

Other Operating Income

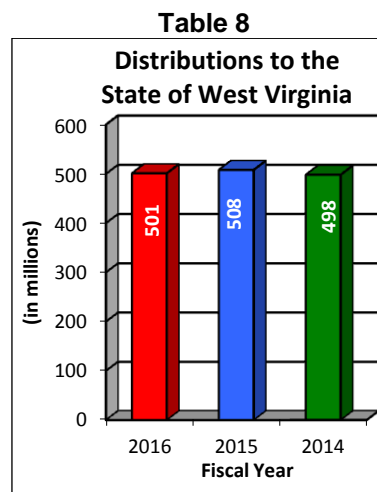
Refer to Table 4. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers.

Nonoperating Income (Expense)

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

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

Refer to Table 8. The Lottery's distributions to the State of West Virginia for the current fiscal year decreased by \$7.0 million compared to the prior year, which increased by \$10.0 million from 2014.

**Requests for Information**

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

WEST VIRGINIA LOTTERY
STATEMENTS OF NET POSITION
(In Thousands)

June 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 166,621	\$ 163,592
Accounts receivable	26,643	33,929
Inventory	380	457
Other assets	1,788	1,894
Total current assets	<u>195,432</u>	<u>199,872</u>
Noncurrent assets:		
Restricted cash and cash equivalents	-	1,130
Capital assets	55,960	47,763
Less accumulated depreciation and amortization	<u>(11,086)</u>	<u>(10,000)</u>
Total noncurrent assets	<u>44,874</u>	<u>37,763</u>
Total noncurrent assets	<u>44,874</u>	<u>38,893</u>
Total assets	<u>\$ 240,306</u>	<u>\$ 238,765</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows of resources related to pension	<u>\$ 2,573</u>	<u>\$ 1,099</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 135,265	\$ 123,920
Estimated prize claims	15,981	15,911
Accounts payable	1,961	2,158
Other accrued liabilities	32,258	39,531
Total current liabilities	<u>185,465</u>	<u>181,520</u>
Noncurrent liabilities:		
Net pension liability	<u>3,044</u>	<u>2,035</u>
Total liabilities	<u>\$ 188,509</u>	<u>\$ 183,555</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows of resources related to pension	<u>\$ 1,998</u>	<u>\$ 2,153</u>
 <u>NET POSITION</u>		
Net position:		
Restricted by enabling legislation	\$ -	\$ 1,130
Net investment in capital assets	44,874	37,763
Unrestricted	<u>7,498</u>	<u>15,263</u>
Total net position	<u>\$ 52,372</u>	<u>\$ 54,156</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, 2016 and 2015

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

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

(Continued)

WEST VIRGINIA LOTTERY
 STATEMENTS OF CASH FLOWS
 (In Thousands)
 (Continued)

Years Ended June 30, 2016 and 2015

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS

1 - LEGISLATIVE ENACTMENT

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

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Use of Estimates

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

Lottery Game Operations

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

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

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

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

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

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

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

Cash and Cash Equivalents

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

Inventory

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Assets

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

Capital Assets

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

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

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

Accrued Employee Benefits

Employees fully vest in all earned but unused annual leave. In accordance with State personnel policies, employees hired prior to July 1, 2001, vest in unused sick leave only upon retirement, at which time such unused leave can be converted into post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits. To the extent that eligible conversion benefits are determined, a liability has been accrued as a result of the Lottery's participation in the State's post-employment benefits plan, in accordance with GAAP. The Lottery accrues a liability for estimated liabilities that may arise in connection with compensated absences at the current rate of employee pay. The Lottery's annual leave transactions for years ending June 30, 2016 and June 30, 2015 are as follows:

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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

Deferred Outflows of Resources/Deferred Inflows of Resources

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

Net Position

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

Operating Revenues and Expenses

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

Advertising and Promotions

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

3 - CASH AND CASH EQUIVALENTS

At June 30, 2016 and 2015, the carrying amounts of deposits with financial institutions were \$1,430 thousand and \$477 thousand, respectively, with bank balances of \$1,445 and \$498 thousand, respectively. Deposits up to \$250 thousand are insured by the Federal Depository Insurance Corporation. Any balances over the insured amount are collateralized with securities held by the State of West Virginia's agent in the State's name.

At June 30, 2016 and 2015, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

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

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

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

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

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

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

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

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

Security Type	Credit Rating		Carrying Value	Percent of Assets
	Moody's	S&P		
Corporate asset backed securities	Aaa	AAA	\$ 75,096	9.50%
	Aaa	NR	80,990	10.24
	NR	AAA	71,821	9.08
Corporate bonds and notes	Aaa	AA+	4,088	0.52
	Aa1	AA+	4,993	0.63
	Aa2	AA+	4,105	0.52
	Aa2	AA	7,027	0.89
	Aa2	AA-	20,050	2.54
	Aa3	AA-	11,019	1.39
	Aa2	A	4,069	0.51
	Aa3	A+	10,010	1.27
	Aa3	A	1,495	0.19
	A1	AA	16,564	2.10
	A1	A+	11,714	1.48
	A1	A	8,214	1.04
	A2	A+	625	0.08
	A2	A	28,703	3.63
	A2	A-	18,082	2.29
A3	AA-	1,510	0.19	

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value</u>	<u>Percent of Assets</u>
	<u>Moody's</u>	<u>S&P</u>		
	A3	A	3,729	0.47
	A3	A-	41,669	5.27
	A3	BBB+	29,407	3.72
	Baa1	A	1,942	0.25
	Baa1	A-	11,241	1.42
	Baa1	BBB+	54,401	6.88
	Baa1	BBB	12,671	1.60
	Baa1	NR	2,048	0.26
	Baa2	A-	4,391	0.56
	Baa2	BBB+	5,942	0.75
	Baa2	BBB	19,286	2.44
	Baa2	BBB-	6,152	0.78
	Baa3	BBB+	3031	0.38
	Baa3	BBB	13,240	1.67
	Baa3	BBB-	15,979	2.02
	Ba1	BBB	2,339	0.30
	Ba1	BBB-	4,843	0.61
	NR	BBB-	1,977	0.25
U.S. agency mortgage backed securities *	Aaa	AA+	47,311	5.98
Corporate mortgage backed Securities	Aaa	AAA	10,687	1.35
	Aaa	NR	18,607	2.35
	NR	AAA	108	0.01
U.S. Treasury notes*	Aaa	AA+	89,497	11.32
Money market funds	Aaa	AAA	10,077	1.27
			<u>\$ 790,750</u>	<u>100.00%</u>

NR = Not Rated

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

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

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

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

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

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

Concentration of credit risk - West Virginia statutes prohibit the West Virginia Money Market Pool and West Virginia Short Term Bond Pool from investing more than 5% of its assets in securities issued by one corporate name or corporate issue. At June 30, 2016, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk - At June 30, 2016, neither the West Virginia Money Market Pool nor the West Virginia Short Term Bond Pool held securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102%, and the collateral is held in the name of the BTI.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

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

4 - CAPITAL ASSETS

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

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

5 - PARTICIPATION IN THE MULTI-STATE LOTTERY

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Revenues derived from the Lottery's participation in the MUSL POWERBALL® jackpot game were \$46,553,463 and \$34,099,437 for the years ended June 30, 2016 and 2015, respectively, and related prize costs were \$23,293,171 and \$17,065,233, respectively.

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

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

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

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above the expenses are credited to an unreserved fund. The Lottery records this interest when earned. This fund had a balance of \$16,259,687 and \$15,446,835 at June 30, 2016 and 2015, of which the Lottery's share was \$1,565,451 and \$1,589,433, respectively.

6 - RACETRACK VIDEO LOTTERY

The racetrack video lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Fifty-seven and two tenths percent (57.2%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (46.5%); other private entities associated with the racing industry (8.7%); and the local county and municipal governments (2%). The remaining (42.8%) net terminal revenue is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 10 titled "Nonoperating Distributions to the State of West Virginia."

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

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

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

Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. The Lottery, along with the Rhode Island and Delaware state lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee which is a percentage of the amount wagered. This fee was of 0.75% for years ended June 30, 2016 and June 30, 2015 respectively.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - RACETRACK VIDEO LOTTERY (Continued)

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

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

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

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

On March 12, 2011, the Legislature passed Senate Bill 550 which provides for the creation of the Racetrack Modernization Fund. The Modernization Fund is available to reimburse the licensed tracks \$1 for every \$2 spent on the costs of facility modernization. For each year ended June 30, 2011 through June 30, 2014, the Lottery is to transfer up to \$10 million from racetrack administrative surplus funds to the Modernization Fund, and up to \$9 million for the years ended June 30, 2015 through June 30, 2020, which is allocated to each track on a pro rata basis according to their administrative contribution for the fiscal year. For the years ended June 30, 2016 and 2015, the Lottery transferred \$4.5 million and \$9 million to the Racetrack Modernization Fund respectively.

7 - LIMITED VIDEO LOTTERY

The limited video lottery legislation established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from limited gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act and is recorded as limited video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the years ended June 30, 2016 and 2015 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - LIMITED VIDEO LOTTERY (Continued)

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

8 - TABLE GAMES

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

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

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

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

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

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)**8 - TABLE GAMES (Continued)**

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

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

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

9 - HISTORIC RESORT HOTEL

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

Historic Resort Video Lottery

Historic Resort Hotel legislation, as amended, dictates the distribution of video lottery revenues. Thirty three and a half percent (33.5%) of gross terminal income is allocated to Historic Resort Hotel Fund, two and a half percent (2.5%) is allocated to the State Excess Lottery Revenue Fund, and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for the licensed historic resort hotel. After deduction of the surcharge, the remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the historic resort hotel. A summary of historic resort hotel video lottery revenues for the years ended June 30, 2016 and 2015 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - HISTORIC RESORT HOTEL (Continued)

	<u>2016</u>	<u>2015</u>
Total credits played	\$ 64,217	\$ 62,289
Credits (prizes) won	(58,842)	(57,294)
Promotional credits played	<u>(888)</u>	<u>(925)</u>
Gross terminal income	4,487	4,070
Capital reinvestment	(211)	(191)
Excess Lottery/Modernization	(40)	(36)
Hotel commissions	<u>(1,898)</u>	<u>(1,722)</u>
Net terminal income	<u>\$ 2,338</u>	<u>\$ 2,121</u>
Historic Resort Hotel Fund	\$ 1,575	\$ 1,429
Human Resource Benefit Fund	<u>763</u>	<u>692</u>
Total	<u>\$ 2,338</u>	<u>\$ 2,121</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, 2016 and 2015 were \$5,312,061 and \$5,664,146, respectively.

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

	<u>2016</u>	<u>2015</u>
Table games privilege tax	<u>\$ 1,859</u>	<u>\$ 1,982</u>
Historic Resort Hotel Fund	\$ 1,594	\$ 1,699
Human Resource Benefit Fund	<u>265</u>	<u>283</u>
Total distributions	<u>\$ 1,859</u>	<u>\$ 1,982</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
(Continued)

9 - HISTORIC RESORT HOTEL (Continued)

Historic Resort Hotel Fund (Continued)

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

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

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

10 - NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

The Lottery periodically distributes surplus funds, exclusive of amounts derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the current governing legislation. For the years ended June 30, 2016 and 2015, the State Legislature budgeted \$156,129,575 and \$167,766,812 respectively of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000, \$1,000,000, and \$500,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently debt service payments are \$5,900,000 per month for the first ten months of each fiscal year. In addition, Legislation provides that, if in any month, there is a shortage of funds in the State Excess Lottery Revenue Fund to make debt service payments, the necessary amount shall be transferred from the State Lottery Fund to cover such shortfall, after the State Lottery Fund debt service payments have been made. Repayments to the State Lottery Fund are required to be made in subsequent months as funds become available. For the years ended June 30, 2016 and 2015, the Lottery made or accrued all budgeted distributions and accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$135,264,932 and \$123,919,676, respectively. The Lottery does not have a legally adopted annual budget.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

11- RESTRICTED NET POSITION

Beginning in the year ended June 30, 2006, the West Virginia Legislature set aside certain unexpended administrative funds of the Lottery for the design and construction of a building in the West Virginia Capitol Complex to be used by the Lottery and certain other State of West Virginia entities. During the year ended June 30, 2010, the Legislature approved the use of these funds to purchase and improve an existing building. The building was acquired and improvements have been substantially completed. The unexpended balance of these funds are reported as restricted net position. Restricted net position activity is as follows for the years ended June 30, 2016 and 2015 (in thousands):

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

12 - RETIREMENT BENEFITS

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - RETIREMENT BENEFITS (Continued)

Plan Description

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

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

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

Contributions

Per Chapter 5, Article 10, members hired prior to July 1, 2015 contribute 4.5% of annual earnings. All members hired July 1, 2015 and later, will contribute 6% of annual earnings. State and non-state governmental employers' contribution rates were 13.5%, 14.0% and 14.5% of covered employees' annual earnings for fiscal years ending June 30, 2016, 2015 and 2014, respectively. Contribution rates for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contribution rates for employers are established by the Legislature. Although contributions are not actuarially determined, actuarial valuations are performed to assist the legislature in establishing appropriate contribution rates for employers. Contributions to the pension plan from the Lottery were \$979,596, \$1,039,330, and \$1,075,233 for the year ended June 30, 2016, 2015 and 2014, respectively.

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

At June 30, 2016 and 2015, respectively, the Lottery reported a liability of \$3,044,279 and \$2,035,113 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2016 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, rolled forward to the measurement date of June 30, 2015 using the actuarial assumptions and methods described in the *Actuarial Assumptions* section of this note. The Lottery's proportion of the net pension liability was based on the Lottery's share of contributions to the pension plan relative to the contributions of all participating plan employers for the year ended June 30, 2015. At June 30, 2015, the Lottery's proportion was 0.55 percent, which is a decrease of less than .01 from its proportion as of June 30, 2014.

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - RETIREMENT BENEFITS (Continued)

Contributions (Continued)

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

	June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 2,152,870
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	59,990	-
Lottery contributions made subsequent to the measurement date of June 30, 2014	1,039,330	-
Total	\$ 1,099,320	\$ 2,152,870

The \$979,596 reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	
2017	\$ (207,942)
2018	(207,942)
2019	(221,352)
2020	232,186

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

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

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

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

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

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

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

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - RETIREMENT BENEFITS (Continued)

Discount Rate

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

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

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

13 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

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

Funding Policy

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

The ARC rate is \$429 and \$389 per employee per month for the years ending June 30, 2016 and 2015, respectively. The Lottery's ARC was \$643,693, \$600,469, and \$447,726 and the Lottery has paid premiums of \$284,421, \$287,861, and \$317,690, which represent 44.2%, 47.9%, and 71.0% of the ARC, respectively, for the years ending June 30, 2016, 2015, and 2014. As of June 30, 2016, 2015, and 2014, the Lottery has recorded a liability of \$4,990,361, \$4,631,089, and \$4,318,481, respectively, for OPEB.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - LEASING ACTIVITY

The Lottery leases, under cancelable operating leases, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the fiscal years ended June 30, 2016 and 2015 approximated \$424,517 and \$271,181 respectively.

The Lottery is a lessor of certain office space under the terms of cancellable operating leases to various tenants. Rental revenues for the years ended June 30, 2016 and 2015 were \$593,960 and \$734,211, respectively.

15 - COMMITMENTS

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

16 - RISK MANAGEMENT

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

Public Employees' Insurance Agency (PEIA)

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

16 - RISK MANAGEMENT (Continued)

Board of Risk and Insurance Management (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a risk pool currently operating as a risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims. During the year ended June 30, 2016, no changes in coverage were made and paid claims did not exceed coverage.

Workers Compensation Insurance

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

17 - CONTINGENCIES

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

18 - EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued four statements relating to accounting and financial reporting for pension and postemployment benefit plans: Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. The provisions of Statements No. 73 and 74 are effective for financial statements for periods beginning after June 15, 2016, and the provisions of Statement No. 75 are effective for periods beginning after June 15, 2017. The provisions of Statement No. 82 are effective for periods beginning after June, 15, 2016 and certain requirements of the statement are effective for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Lottery management has not determined the effect, if any, these statements will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

THE WEST VIRGINIA LOTTERY

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

Public Employees Retirement System Plan

	Years Ended June 30	
	2016	2015
Lottery's proportion (percentage) of the net pension liability	0.55%	0.55%
Lottery's proportionate share of the net pension liability	\$ 3,044	\$ 2,035
Lottery's covered employee payroll	\$ 7,421	\$ 7,415
Lottery's proportionate share of the net pension liability as a percentage of its covered employee payroll	41.02%	27.44%
Plan fiduciary net position as a percentage of the total pension liability	91.29%	93.98%

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

THE WEST VIRGINIA LOTTERY

SCHEDULE OF CONTRIBUTIONS TO THE PERS
(In Thousands)

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

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

THE WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1 - TREND INFORMATION PRESENTED

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

2 - PLAN AMENDMENT

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

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

3 - CHANGES IN ASSUMPTIONS

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

	2015	2014
Projected salary increases:		
State	3.0-4.6%	4.25-6.0%
Nonstate	3.35-6.0%	4.25-6.0%
Inflation rate	1.9%	2.2%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA	Healthy males - 1983 GAM
	Healthy females - 101% of RP-2000 Non-Annuitant, Scale AA	Healthy females - 1971 GAM
	Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA	Disabled males - 1971 GAM
	Disabled females -107% of RP-2000 Disabled Annuitant, Scale AA	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%

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

West Virginia Lottery Commission
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Lottery (the Lottery), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated October 11, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Lottery's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

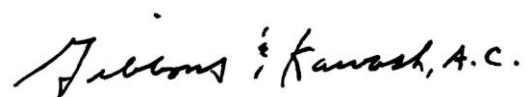
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charleston, West Virginia
October 11, 2016