

WEST VIRGINIA LOTTERY

FINANCIAL REPORT

June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the West Virginia Lottery Commission
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Lottery (the Lottery), a component unit of the State of West Virginia, as of and for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – COVID-19 Uncertainty

As discussed in Note 18 to the financial statements, the outbreak of COVID-19, resulted in an estimated decrease in Lottery revenue of over \$198 million for the year ended June 30, 2020.

The extent to which the COVID-19 pandemic will continue to impact the Lottery is highly uncertain and cannot be reasonably predicted by the Lottery at this time. Our opinion is not modified with respect to this matter.

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 4 through 12, and the schedules of the proportionate share of the net pension liability, the schedules of contributions to the PERS, the schedules of the proportionate share of the net OPEB liability, the schedules of contributions to the RHBT, and the notes to required supplementary information on pages 55 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The accompanying schedules on pages 64 through 69 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other financial information on pages 64 through 69 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information on pages 64 through 69 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2020 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 solely 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 the effectiveness of the Lottery's 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 18, 2020

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion of the West Virginia Lottery's (the Lottery) financial performance provides for an overview of the Lottery's financial activities for the fiscal years ended June 30, 2020 and 2019. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2020, and the prior year refers to fiscal year ending June 30, 2019. This analysis is to be considered in conjunction with the financial statements, which begin on page 13.

Financial Highlights

The Lottery's operating income decreased in 2020 due to outcomes related to the COVID-19 Pandemic and increased in 2019 due to improvement in overall economic conditions. The following summary is provided below:

- Lottery revenues for the current year decreased \$187.4 million or 16.4% compared to the prior year, which increased \$52.0 million or 4.8% from 2018.
- Commissions for the current year decreased \$93.4 million or 19.2% compared to the prior year, which increased \$15.6 million or 3.3% from 2018.
- Gross profit for the current year decreased \$103.1 million or 19.6% compared to the prior year, which increased \$21.9 million or 4.3% from 2018.
- Nonoperating expenses decreased \$100.8 million or 19.7% compared to the prior year, which increased \$19.5 million or 4.0% from 2018. The predominant nonoperating expense is the distributions to the State of West Virginia, which decreased \$93.1 million or 18.8% compared to the prior year, which increased \$21.2 million or 4.5% from 2018.

Using This Annual Report

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

Statements of Net Position

As shown in Table 1, current assets for the current year increased \$60.4 million or 26.6% compared to the prior year, which increased \$46.3 million or 25.7% from 2018, due to the timing of distributions to the State of West Virginia at year-end.

Capital assets of land, building, and equipment, net of accumulated depreciation and amortization, decreased in the current year by \$1.7 million or 3.6% due to depreciation compared to the prior year which decreased by \$1.7 million or 3.5% from 2018, due to depreciation. For additional information on capital assets, please refer to Note 4 to the financial statements.

(Continued)

WEST VIRGINIA LOTTERY

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

Statements of Net Position (Continued)

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

	2020	2019	2018
<u>Assets</u>			
Current assets	\$ 287,228	\$ 226,849	\$ 180,501
Capital assets, net of accumulated depreciation and amortization	44,708	46,373	48,047
Total assets	\$ 331,936	\$ 273,222	\$ 228,548
<u>Deferred Outflows of Resources</u>			
Deferred outflows of resources	\$ 1,355	\$ 1,306	\$ 1,339

As shown in Table 2, the Lottery's current liabilities for the current year increased \$59.4 million or 27.9% compared to the prior year, which increased \$45.2 million or 27.0% compared to 2018 due to the accumulation of prior year surplus transfers to the State of West Virginia combined with current year accrued transfers.

Net position - net investment in capital assets decreased in the current year by \$1.7 million or 3.6% due to depreciation, compared to the prior year which decreased by \$1.7 million or 3.5% compared to 2018, due to depreciation. Refer to Note 4 to the financial statements for additional information on capital assets.

Net position – unrestricted increased \$1.6 million or 17.7% for the year ended June 30, 2020 compared to the prior year which increased \$2.1 million or 29.3% compared to 2018.

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

	2020	2019	2018
Current liabilities	\$ 272,097	\$ 212,694	\$ 167,539
Noncurrent liabilities	3,698	4,547	5,775
Total liabilities	\$ 275,795	\$ 217,241	\$ 173,314
Deferred inflows of resources	\$ 1,907	\$ 1,666	\$ 1,374
Net position - net investment in capital assets	\$ 44,708	\$ 46,373	\$ 48,047
Net position - unrestricted	10,881	9,248	7,152
Total net position	\$ 55,589	\$ 55,621	\$ 55,199

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Revenues, Expenses and Changes in Fund Net Position

The content of Table 3 is a summary of activities and is related to the discussion of Table 4.

Table 3
Revenues, Expenses and Changes in Fund Net Position
(in \$000's)

	2020	2019	2018
Revenues:			
On-line games	\$ 61,196	\$ 84,501	\$ 77,840
Instant games	145,436	115,596	99,195
Racetrack video lottery	384,972	506,647	504,295
Limited video lottery	329,844	392,330	368,067
Table games	27,144	35,530	35,152
Historic resort	5,228	7,350	6,624
Sports wagering	<u>1,915</u>	<u>1,193</u>	<u>-</u>
	955,735	1,143,147	1,091,173
Less commissions:			
On-line games	4,288	5,910	5,436
Instant games	10,181	8,076	6,938
Racetrack video lottery	203,211	261,875	260,243
Limited video lottery	161,624	192,242	180,353
Table games	11,513	15,070	14,905
Historic resort	<u>2,735</u>	<u>3,787</u>	<u>3,511</u>
	393,552	486,960	471,386
Less on-line prize costs	30,136	41,909	39,639
Less instant ticket prize costs	97,717	77,337	65,557
Less ticket costs	1,430	1,447	1,373
Less vendor fees and costs	<u>8,854</u>	<u>8,328</u>	<u>7,958</u>
	138,137	129,021	114,527
Gross profit	<u>424,046</u>	<u>527,166</u>	<u>505,260</u>
Administrative expenses:			
Advertising and promotions	3,923	4,714	4,771
Wages and related benefits	10,739	10,338	10,082
Telecommunications	477	887	869
Contractual and professional	5,920	6,798	4,662
Rental	211	203	168
Depreciation and amortization	1,665	1,674	1,552
Other administrative expenses	<u>2,416</u>	<u>1,574</u>	<u>1,938</u>
	25,351	26,188	24,042
Other operating income	<u>12,964</u>	<u>11,975</u>	<u>12,734</u>
Operating income	<u>411,659</u>	<u>512,953</u>	<u>493,952</u>
Nonoperating income (expense):			
Investment income	3,549	3,964	1,573
Distributions to municipalities and counties	(6,465)	(7,689)	(7,214)
Distributions for capital reinvestment	(6,773)	(13,664)	(13,455)
Distributions to the State of West Virginia	<u>(402,002)</u>	<u>(495,142)</u>	<u>(173,948)</u>
Change in net position	<u>(32)</u>	<u>422</u>	<u>908</u>
Net position, beginning of year	55,621	55,199	53,019
Cumulative effect of adopt of acct. principle	<u>-</u>	<u>-</u>	<u>1,272</u>
Net position, beginning of year, as restated	<u>55,621</u>	<u>55,199</u>	<u>54,291</u>
Net position, end of year	<u>\$ 55,589</u>	<u>\$ 55,621</u>	<u>\$ 55,199</u>

(Continued)

WEST VIRGINIA LOTTERY

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

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees

Table 4 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 2020, 2019, and 2018. Sales and gross profits fluctuated in certain categories; however, gross profit percentages remained consistent from year to year.

**Table 4
Lottery Sales
(in \$000's)**

	2020	2019	2018	2020	2019	2018
Gross sales	\$ 145,436	\$ 115,596	\$ 99,195	\$ 61,196	\$ 84,501	\$ 77,840
Less direct costs:						
Prizes and bonuses	97,717	77,337	65,557	30,136	41,909	39,639
Commissions	10,181	8,076	6,938	4,288	5,910	5,436
Ticket printing costs	1,430	1,447	1,373	-	-	-
Vendor fees and costs	5,958	4,712	3,359	2,896	3,616	4,599
Total direct costs	<u>115,286</u>	<u>91,572</u>	<u>77,227</u>	<u>37,320</u>	<u>51,435</u>	<u>49,674</u>
Gross Profit	<u>\$ 30,150</u>	<u>\$ 24,024</u>	<u>\$ 21,968</u>	<u>\$ 23,876</u>	<u>\$ 33,066</u>	<u>\$ 28,166</u>
Gross profit percentage	<u>20.7%</u>	<u>20.8%</u>	<u>22.1%</u>	<u>39.0%</u>	<u>39.1%</u>	<u>36.2%</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		
	2020	2019	2018	2020	2019	2018
Gross sales	\$ 384,972	\$ 506,647	\$ 504,295	\$ 329,844	\$ 392,330	\$ 368,067
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	203,211	261,875	260,243	161,624	192,242	180,353
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	<u>203,211</u>	<u>261,875</u>	<u>260,243</u>	<u>161,624</u>	<u>192,242</u>	<u>180,353</u>
Gross Profit	<u>\$ 181,761</u>	<u>\$ 244,772</u>	<u>\$ 244,052</u>	<u>\$ 168,220</u>	<u>\$ 200,088</u>	<u>\$ 187,714</u>
Gross profit percentage	<u>47.2%</u>	<u>48.3%</u>	<u>48.4%</u>	<u>51.0%</u>	<u>51.0%</u>	<u>51.0%</u>
	Table Games			Historic Resort		
	2020	2019	2018	2020	2019	2018
Gross sales	\$ 27,144	\$ 35,530	\$ 35,152	\$ 5,228	\$ 7,350	\$ 6,624
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	11,513	15,070	14,905	2,735	3,787	3,511
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	<u>11,513</u>	<u>15,070</u>	<u>14,905</u>	<u>2,735</u>	<u>3,787</u>	<u>3,511</u>
Gross Profit	<u>\$ 15,631</u>	<u>\$ 20,460</u>	<u>\$ 20,247</u>	<u>\$ 2,493</u>	<u>\$ 3,563</u>	<u>\$ 3,113</u>
Gross profit percentage	<u>57.6%</u>	<u>57.6%</u>	<u>57.6%</u>	<u>47.7%</u>	<u>48.5%</u>	<u>47.0%</u>
	Sports Wagering			Total		
	2020	2019	2018	2020	2019	2018
Gross sales	\$ 1,915	\$ 1,193	\$ -	\$ 955,735	\$ 1,143,147	\$ 1,091,173
Less direct costs:						
Prizes and bonuses	-	-	-	127,853	119,246	105,196
Commissions	-	-	-	393,552	486,960	471,386
Ticket printing costs	-	-	-	1,430	1,447	1,373
Vendor fees and costs	-	-	-	8,854	8,328	7,958
Total direct costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>531,689</u>	<u>615,981</u>	<u>585,913</u>
Gross Profit	<u>\$ 1,915</u>	<u>\$ 1,193</u>	<u>\$ -</u>	<u>\$ 424,046</u>	<u>\$ 527,166</u>	<u>\$ 505,260</u>
Gross profit percentage	<u>100.0%</u>	<u>100.0%</u>	<u>0.0%</u>	<u>44.4%</u>	<u>46.1%</u>	<u>46.3%</u>

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Instant Sales

Instant ticket sales for the current year increased by \$29.8 million or 25.8% compared to the prior year, which increased \$16.4 million or 16.5% from 2018. Forty games were introduced in 2020 and approximately thirty game options were available for play. The Lottery continues to implement the results of research and design efforts, including families of games, varied play styles and continued monitoring of price points mix, prize structures, play styles, and colors to create the best variety of games available. There were five ten-dollar, and two twenty-dollar tickets introduced in 2020. There were also fourteen five-dollar tickets and four three-dollar tickets introduced. The Lottery continues to work toward delivering games three months in advance to provide immediate stock should field inventory become low. This strategy provided the needed ticket inventory as play increased for instant games during the pandemic due to visibility and availability. The Lottery began the use of two twenty-dollar and four ten-dollar tickets in the field at all times in the spring of 2020.

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 2020, 2019, and 2018. The Lottery (as is the case with most lotteries located in North America) has elected to enter into a long-term contract with a vendor to provide a central computer system, retailer terminals and related equipment to sell and cash all tickets for instant and on-line games.

Powerball® Sales

Powerball® is a \$2 Multi-State (MUSL) Lottery game designed to grow large jackpot amounts, with occasional jackpots in excess of \$400 million. Sales for the current year decreased \$11.4 million or 34.1% compared to the prior year, which decreased \$3.1 million or 8.6% from 2018. Sales are generally driven by the jackpot size. Although sales decreased during 2020, the State is proud to recognize a grand prize jackpot winner of \$136.4 million from a ticket sold in West Virginia for the Powerball drawing dated June 3, 2020.

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

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

Mega Millions® Sales

Mega Millions® sales offers jackpots starting at \$15 million and other prizes ranging from \$1 to \$1,000,000. Sales for the current year decreased \$11.0 million or 45.1% compared to the prior year, which increased \$9.6 million or 64.9% from 2018.

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

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

All Other On-line Games

All other on-line games consist of Daily 3, Daily 4, Cash 25, Travel Keno and one Multi-State games Lotto America™. Sales for the current year decreased \$906.9 thousand or 3.4% compared to the prior year, which increased \$172 thousand or 0.6% from 2018.

In general, prize costs by game will increase or decrease from year-to-year in proportion to the sales for a particular game. Prizes and commissions have remained consistent as presented in Tables 3 and 4.

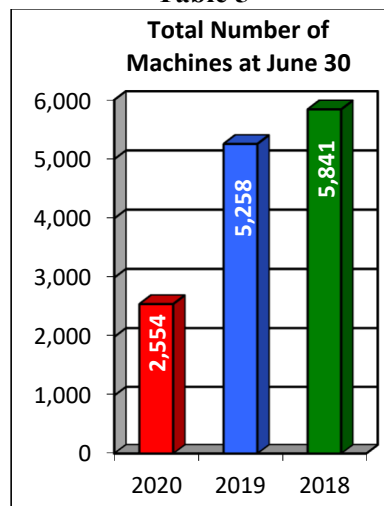
Racetrack Video Lottery

Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year decreased \$121.7 million or 24.0% compared to the prior year, which increased \$2.4 million or 0.5% from 2018.

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 \$58.7 million or 22.4% due to COVID-19 related conditions compared to the prior year which increased \$1.6 million or 0.6% compared to 2018.

Increased competition from gaming operations in neighboring states has led the racetracks to continually re-evaluate their gaming environments which have resulted in changes to the layout and design of gaming floors. The effects of COVID-19 greatly impacted the last quarter of 2020, including the available number of active machines in play. The changes in active machines are presented in Table 5 below over the the last three fiscal years.

Table 5



(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Limited Video Lottery

Sales, which were impacted by COVID-19, for the current year decreased \$62.5 million or 15.9% compared to the prior year, which increased \$24.3 million or 6.6% from 2018. 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 \$30.6 million or 15.9% compared to the prior year increase of \$11.9 million or 6.6% from 2018.

Table 6 illustrates the number of machines which decreased by 249 machines for the current year compared to the prior year decrease of 453 machines from 2018.

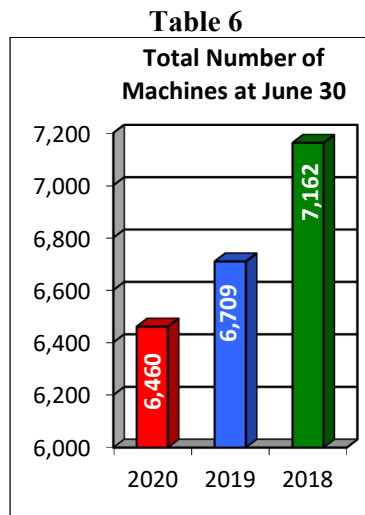


Table Games

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues, which were impacted by COVID-19, for the current year decreased \$8.4 million or 23.6% compared to the prior year, which increased \$378 thousand or 1.1% from 2018.

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 \$3.6 million or 23.6% compared to the prior year, which increased \$165 thousand or 1.1% from 2018.

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, which were impacted by COVID-19, for the current year decreased \$2.1 million or 2.9% compared to the prior year, which increased \$726 thousand or 11.0% from 2018.

A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions for the current year decreased \$1.1 million or 2.8% compared to the prior year, which increased \$276 thousand or 7.9% from 2018.

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Sports Wagering

On March 3, 2019, the West Virginia Legislature passed Senate Bill 415 which allowed for the four racetracks and historic resort in West Virginia to permit wagering on certain professional or collegiate sports or athletic events and other events authorized as Lottery sports wagering activities.

Hollywood Casino at Charles Town Races was the first to begin sports wagering in September 2019 followed shortly by the Greenbrier Historic Resort. Mountaineer Casino Racetrack & Resort began in late November 2019 with Wheeling Island Hotel Casino Racetrack and Mardi Gras Casino & Resort both beginning in late December 2019.

Sports wagering revenues, which were impacted by COVID-19, are calculated as defined in Note 10 to the financial statements and are derived from privilege taxes (of 10%) on the licensed racetracks and Historic Resort for sports wagering activities.

Other Operating Income

Refer to Table 3. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers. Legislation was passed March 31, 2018 allowing a licensed retailer to increase the number of machines from 5 to 7 at their location. A bid was held on August 2, 2018 to allow permit holders to bid on additional permits to increase the number of machines at their location.

Nonoperating Income / Expense

Refer to Table 3. 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 7. The Lottery's distributions to the State of West Virginia, which were impacted by COVID-19, for the current fiscal year decreased by \$93.1 million compared to the prior year, which increased by \$21.2 million from 2018.

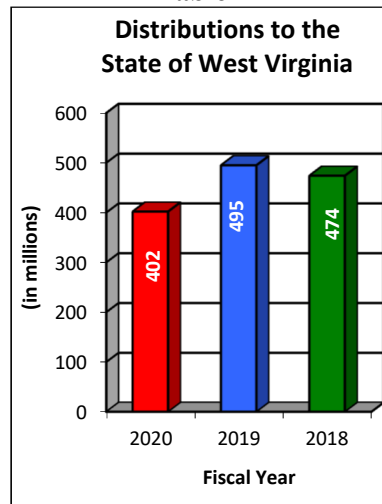
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WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Nonoperating Income / Expense (Continued)

Table 7



COVID-19 Pandemic

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. On March 16, 2020, Governor Jim Justice declared a state of emergency in the State of West Virginia and on March 18, 2020, Governor Justice issued an Executive Order formally directing all restaurants and bars in the State to limit service to carry out, drive-thru, and delivery operations only. The Executive Order also mandated the closure of all casinos and limited video lottery retailers in the State.

On April 29, 2020, Governor Justice released the “West Virginia Strong - The Comeback” initiative which outlined procedures for the re-opening of businesses and establishments in West Virginia. Limited video lottery retailers were officially permitted to reopen to the public on May 30, 2020 while casinos were permitted to reopen on June 5, 2020.

The West Virginia Lottery “the Lottery” estimates that the closure of limited video lottery retailers and casinos resulted in over \$198 million in lost revenue during the fiscal year ended June 30, 2020. The extent to which the COVID-19 pandemic impacts the Lottery in subsequent fiscal years will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak, and the actions taken to contain or treat the coronavirus outbreak. Additionally, COVID-19 may change the behavior of gaming patrons, who may reduce future visitation and play as a precaution.

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, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 132,073	\$ 190,837
Accounts receivable	152,449	33,581
Inventory	539	641
Other assets	2,167	1,790
Total current assets	287,228	226,849
Noncurrent assets:		
Capital assets (Note 4)	61,552	61,552
Less accumulated depreciation and amortization (Note 4)	(16,844)	(15,179)
Total noncurrent assets	44,708	46,373
Total assets	331,936	273,222
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension and OPEB (Note 12 and 13)	1,355	1,306
LIABILITIES		
CURRENT LIABILITIES		
Accrued nonoperating distributions to the State of West Virginia (Note 11)	115,331	162,718
Estimated prize claims	123,916	14,918
Accounts payable	2,382	2,260
Other accrued liabilities	30,468	32,798
Total current liabilities	272,097	212,694
NONCURRENT LIABILITIES		
Net OPEB liability (Note 13)	2,551	3,187
Net pension liability (Note 12)	1,147	1,360
Total noncurrent liabilities	3,698	4,547
Total liabilities	275,795	217,241
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension and OPEB (Note 12 and 13)	1,907	1,666
NET POSITION		
Net investment in capital assets	44,708	46,373
Unrestricted	10,881	9,248
Total net position	\$ 55,589	\$ 55,621

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, 2020 and 2019

	2020	2019
LOTTERY REVENUES		
On-line games	\$ 61,196	\$ 84,501
Instant games	145,436	115,596
Racetrack video lottery (Note 6)	384,972	506,647
Limited video lottery (Note 7)	329,844	392,330
Table games (Note 8)	27,144	35,530
Historic resort (Note 9)	5,228	7,350
Sports wagering (Note 10)	1,915	1,193
	955,735	1,143,147
LESS COMMISSIONS		
On-line games	4,288	5,910
Instant games	10,181	8,076
Racetrack video lottery (Note 6)	203,211	261,875
Limited video lottery (Note 7)	161,624	192,242
Table games (Note 8)	11,513	15,070
Historic resort (Note 9)	2,735	3,787
	393,552	486,960
Less on-line prize costs	30,136	41,909
Less instant prize costs	97,717	77,337
Less ticket costs	1,430	1,447
Less vendor fees and costs	8,854	8,328
	138,137	129,021
Gross profit	424,046	527,166
ADMINISTRATIVE EXPENSES		
Advertising and promotions	3,923	4,714
Wages and related benefits	10,739	10,338
Telecommunications	477	887
Contractual and professional	5,920	6,798
Rental	211	203
Depreciation and amortization	1,665	1,674
Other administrative expenses	2,416	1,574
	25,351	26,188
Other operating income	12,964	11,975
Operating income	411,659	512,953
NONOPERATING INCOME (EXPENSE)		
Investment income	3,549	3,964
Distributions to municipalities and counties	(6,465)	(7,689)
Distributions for capital reinvestment	(6,773)	(13,664)
Distributions to the State of West Virginia (Note 11)	(402,002)	(495,142)
	(411,691)	(512,531)
Change in net position	(32)	422
NET POSITION, beginning	55,621	55,199
NET POSITION, ending	\$ 55,589	\$ 55,621

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

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
(In Thousands)
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 849,677	\$ 1,153,476
Cash payments for:		
Personnel costs	(11,084)	(11,016)
Suppliers	(13,225)	(14,216)
Other operating costs	<u>(423,096)</u>	<u>(616,563)</u>
Cash provided by operating activities	<u>402,272</u>	<u>511,681</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(449,389)	(453,284)
Distributions to municipalities and counties	(6,292)	(7,672)
Distributions to racetracks from racetrack capital reinvestment fund	<u>(8,605)</u>	<u>(9,879)</u>
Cash used in noncapital financing activities	<u>(464,286)</u>	<u>(470,835)</u>
Cash flows from investing activities:		
Investment earnings	<u>3,250</u>	<u>3,330</u>
Net increase (decrease) in cash and cash equivalents	(58,764)	44,176
CASH AND CASH EQUIVALENTS, beginning	<u>190,837</u>	<u>146,661</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 132,073</u>	<u>\$ 190,837</u>

(Continued)

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
(In Thousands)
(Continued)
Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 411,659	\$ 512,953
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,665	1,674
Pension expense	473	122
OPEB expense	121	282
OPEB support	(154)	(201)
Changes in operating accounts:		
(Increase) decrease in:		
Accounts receivable	(118,868)	(1,445)
Inventory	102	(112)
Other assets	(78)	19
Deferred outflows of resources	(1,097)	(1,106)
Increase (decrease) in:		
Estimated prize claims	108,998	(865)
Accounts payable	122	679
Other accrued liabilities	(671)	(319)
	<u>\$ 402,272</u>	<u>\$ 511,681</u>
Cash provided by operating activities	<u>\$ 402,272</u>	<u>\$ 511,681</u>

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 1. Legislative Enactment

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

Note 2. Summary of Significant Accounting Policies

Basis of presentation

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

Use of estimates

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

Lottery game operations

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 2. Summary of Significant Accounting Policies (Continued)

Lottery game operations (Continued)

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

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 2. Summary of Significant Accounting Policies (Continued)

Lottery game operations (Continued)

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

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

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

Inventory

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

Other assets

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

Capital assets

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

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

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

Accrued employee benefits

The Lottery accrues a liability for estimated liabilities that may arise in connection with compensated absences at the current rate of employee pay. The Lottery's annual leave transactions for the years ended June 30, 2020 and June 30, 2019 are as follows (in thousands):

	<u>Year Ending June 30</u>	
	<u>2020</u>	<u>2019</u>
Beginning estimated liabilities	\$ 655	\$ 631
Leave expenses incurred	813	655
Leave expenses paid	<u>655</u>	<u>631</u>
Ending estimated liabilities	<u>\$ 813</u>	<u>\$ 655</u>
Liabilities estimated to be paid in one year	<u>\$ 813</u>	<u>\$ 655</u>

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 2. Summary of Significant Accounting Policies (Continued)

Pensions

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

Postemployment benefits other than pensions (OPEB).

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

Deferred outflows of resources/deferred inflows of resources

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

Net position

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

Operating revenues and expenses

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

Advertising and promotions

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 3. Cash and Cash Equivalents

At June 30, 2020 and 2019, the carrying amounts of deposits with financial institutions were \$498 thousand and \$448 thousand, respectively, with bank balances of \$589 and \$477 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, 2020 and 2019, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Deposits with financial institutions	\$ 498	\$ 448
Cash on hand at the Treasurer's Office	20,485	12,689
Investments with BTI reported as cash equivalents	<u>111,090</u>	<u>177,700</u>
	<u>\$ 132,073</u>	<u>\$ 190,837</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 long-term corporate debt be rated A+ or higher by Standard & Poor's (or its equivalent) and short-term corporate debt be rated at A-1 or higher by Standard & Poor's (or its equivalent). The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. The following table provides information on the credit ratings of the West Virginia Money Market Pool's investments (in thousands):

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 3. Cash and cash equivalents (Continued)

Credit risk (Continued)

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value (in Thousands)</u>	<u>Percent of Pool Assets</u>
	<u>Moody's</u>	<u>S&P</u>		
U.S. Treasury bills *	P-1	A-1+	\$ 1,017,343	19.76%
Commercial Paper	P-1	A-1+	861,472	16.73
	P-1	A-1	1,834,384	35.62
Negotiable certificates of deposit	P-1	A-1+	302,738	5.88
	P-1	A-1	469,111	9.11
Money market funds	Aaa	AAAm	1,581	0.03
	NR	AAAm	217,022	4.21
Repurchase agreements (underlying securities):				
U.S. Treasury bonds and notes	Aaa	AA+	445,700	8.66
			<u>\$ 5,149,351</u>	<u>100.00%</u>

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

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

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value (in Thousands)</u>	<u>Percent of Pool Assets</u>
	<u>Moody's</u>	<u>S&P</u>		
U.S. Treasury notes *	Aaa	AA+	\$ 121,838	15.04%
U.S. agency collateralized mortgage obligations				
U.S. government guaranteed*	Aaa	AA+	20,539	2.54
Non-U.S. government guaranteed	Aaa	AA+	15,762	1.95
Corporate fixed- and floating-rate bonds and notes	Aaa	AAA	3,694	0.46
	Aaa	AA+	6,719	0.83
	Aa1	AA	2,565	0.32
	Aa2	AA+	5,181	0.64

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 3. Cash and Cash Equivalents (Continued)

Credit risk (Continued)

Security Type	Credit Rating		Carrying Value (in Thousands)	Percent of Pool Asset
	Moody's	S&P		
	As2	AA	5,753	0.71
	Aa2	AA-	6,432	0.79
	Aa2	NR	5,954	0.73
	Aa3	AA+	2,076	0.26
	Aa3	AA-	18,385	2.27
	Aa3	A+	5,759	0.71
	Aa3	A	12,477	1.54
	A1	AA-	7,480	0.92
	A1	A+	30,064	3.71
	A1	A	5,150	0.64
	A1	A-	10,553	1.30
	A1	NR	5,283	0.65
	A2	A+	17,992	2.22
	A2	A	33,012	4.08
	A2	A-	28,326	3.50
	A2	NR	3,100	0.38
	A3	A+	9,595	1.18
	A3	A	9,366	1.16
	A3	A-	28,248	3.49
	A3	BBB+	44,538	5.50
	Baa1	A-	11,726	1.45
	Baa1	BBB+	17,585	2.17
	Baa1	BBB	8,656	1.07
	Baa1	NR	2,132	0.26
	Baa2	A-	10,242	1.26
	Baa2	BBB+	10,361	1.28
	Baa2	BBB	38,950	4.81
	Baa2	BBB-	4,404	0.54
	Baa3	BBB	10,276	1.27
	Baa3	BBB-	25,583	3.16
	Ba1	BBB	2,005	0.25
	Ba1	BBB-	8,289	1.02
	NR	A	6,478	0.80
	NR	AA-	1,817	0.22
	NR	BBB+	4,575	0.56
Collateralized mortgage obligations	NR	AAA	2,668	0.33
Municipal Securities	Aaa	AAA	4,060	0.50
	Aa1	AA+	6,475	0.80
	Aa1	AA	8,928	1.10
	Aa1	NR	7,054	0.87
	Aa2	AA	9,872	1.22

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 3. Cash and Cash Equivalents (Continued)

Credit risk (Continued)

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value (in Thousands)</u>	<u>Percent of Pool Assets</u>
	<u>Moody's</u>	<u>S&P</u>		
	Aa2	AA	8,337	1.03
	Aa2	NR	3,528	0.44
	NR	AAA	2,618	0.32
	NR	AA+	3,187	0.39
Asset-backed securities	Aaa	AAA	29,701	3.66
	Aaa	NR	40,232	4.97
	Aa1	NR	7,961	0.98
	NR	AAA	38,951	4.81
Money market funds	Aaa	AAAm	7,585	0.94
			<u>\$ 810,077</u>	<u>1.32%</u>

NR = Not Rated

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

Interest rate risk

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

<u>Security Type</u>	<u>Carrying Value (in Thousands)</u>	<u>WAM (Days)</u>
U.S. Treasury bills	\$ 1,017,343	37
Commercial paper	2,695,856	52
Negotiable certificates of deposit	771,849	58
Repurchase agreements	445,700	1
Money market funds	218,603	1
	<u>\$ 5,149,351</u>	44

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 3. Cash and Cash Equivalents (Continued)

Interest rate risk (Continued)

The overall effective duration of the investments of the West Virginia Short Term Bond Pool is limited to a +/- 20 percent band around the effective duration of the portfolio's benchmark (the ICE BofAML 1-3 US Corporate & Government Index). As of June 30, 2020, the effective duration of the benchmark was 662 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the West Virginia Short Term Bond Pool (in thousands):

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury notes and bonds	\$ 121,838	773
U.S. agency collateralized mortgage obligations	36,301	366
Corporate fixed-rate bonds and notes	454,306	641
Corporate floating-rate bonds and notes	16,475	377
Collateralized mortgage obligations	2,668	752
Municipal securities	54,059	800
Asset-backed securities	116,845	442
Money market funds	7,585	-
	\$ 810,077	620

Other risks of investing

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

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

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

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 4. Capital Assets

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

	Historical cost at June 30, 2018	Additions	Deletions	Historical cost at June 30, 2019	Additions	Deletions	Historical cost at June 30, 2020
Capital assets, not depreciated							
Construction in progress	\$ 629	\$ -	\$ -	\$ 629	\$ -	\$ -	\$ 629
Land	1,681	-	-	1,681	-	-	1,681
Capital assets, being depreciated							
Building	48,243	-	-	48,243	-	-	48,243
Equipment	10,999	-	-	10,999	-	-	10,999
	<u>\$ 61,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,552</u>
	Accumulated depreciation at June 30, 2018	Additions	Deletions	Accumulated depreciation at June 30, 2019	Additions	Deletions	Accumulated depreciation at June 30, 2020
Building	\$ 6,466	\$ 1,233	\$ -	\$ 7,699	\$ 1,233	\$ -	\$ 8,932
Equipment	7,039	441	-	7,480	432	-	7,912
	<u>\$ 13,505</u>	<u>\$ 1,674</u>	<u>\$ -</u>	<u>\$ 15,179</u>	<u>\$ 1,665</u>	<u>\$ -</u>	<u>\$ 16,844</u>

Note 5. Participation in the Multi-State Lottery

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

Revenues derived from the Lottery's participation in the POWERBALL® jackpot game were \$21,977,553 and \$33,340,489 for the years ended June 30, 2020 and 2019, respectively, and related prize costs were \$11,035,207 and \$16,716,469, respectively.

Revenues derived from the Lottery's participation in the LOTTO AMERICA game were \$4,593,875 and \$5,351,712 for the years ended June 30, 2020 and 2019, respectively, and related prize costs were \$1,804,924 and \$2,676,265, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$13,446,828 and \$24,482,131 for the years ended June 30, 2020 and 2019, respectively, and related prize costs were \$6,724,330 and \$12,582,122, respectively.

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

	2020		2019	
	Total		Total	
	Prize Reserve	Lottery Share	Prize Reserve	Lottery Share
POWERBALL ®	\$ 121,889	\$ 1,552	\$ 120,324	\$ 1,536
LOTTO AMERICA	4,264	317	3,323	243
MEGA MILLIONS ®	89,580	958	93,383	1,034
	\$ 215,733	\$ 2,827	\$ 217,030	\$ 2,813

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

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above the expenses are credited to an unreserved fund. The Lottery records this interest when earned. This fund had a balance of \$18,113,814 and \$14,137,327 at June 30, 2020 and 2019, of which the Lottery's share was \$1,414,345 and \$1,331,935, respectively.

Note 6. Racetrack Video Lottery

The racetrack video lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Fifty-seven percent (57%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (46.5%); other private entities associated with the racing industry (8.7%); and the local county and municipal governments (2%). The remaining forty-three percent (43%) of net terminal revenue is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 11 titled "Nonoperating Distributions to the State of West Virginia."

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 6. Racetrack Video Lottery (Continued)

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

Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. The Lottery, along with the Rhode Island and Delaware state lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee which is a percentage of the amount wagered. This fee was of 0.75% for years ended June 30, 2020 and 2019, respectively.

A summary of racetrack video lottery revenues for the years ended June 30, 2020 and 2019, follows (in thousands):

	2020	2019
Total credits (bets) played	\$ 4,244,096	\$ 5,536,265
Credits (prizes) won	(3,801,989)	(4,957,776)
Promotional credits played	(57,135)	(73,070)
MWAP Contributions	-	1,228
Gross terminal income	384,972	506,647
Administrative costs	(12,596)	(14,740)
Net terminal income	372,376	491,907
Commissions	(203,211)	(261,875)
Racetrack video lottery revenues available for distribution	\$ 169,165	\$ 230,032

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

	2020	2019
State Lottery Fund	\$ 91,892	\$ 107,736
State Excess Lottery Revenue Fund	74,882	117,486
Capital Reinvestment Fund	2,391	4,810
Total nonoperating distributions	\$ 169,165	\$ 230,032

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 6. Racetrack Video Lottery (Continued)

On March 12, 2011, the Legislature passed Senate Bill 550 which provides for the creation of the Racetrack Modernization Fund. The Modernization Fund is available to reimburse the licensed tracks \$1 for every \$2 spent on the costs of facility modernization. For the years ended June 30, 2015 through June 30, 2020, the Lottery is to transfer up to \$9 million from racetrack administrative surplus funds to the Modernization Fund, which is allocated to each track on a pro rata basis according to their administrative contribution for the fiscal year. For the years ended June 30, 2020 and 2019, the Lottery transferred approximately \$7.8 million and \$9 million to the Racetrack Modernization Fund, respectively.

Note 7. Limited Video Lottery

The limited video lottery legislation established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from limited gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act and is recorded as limited video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the years ended June 30, 2020 and 2019 follows (in thousands):

	2020	2019
Total credits played	\$ 4,223,766	\$ 4,991,127
Credits (prizes) won	<u>(3,893,922)</u>	<u>(4,598,797)</u>
Gross terminal income	329,844	392,330
Administrative costs	<u>(6,597)</u>	<u>(7,847)</u>
Gross profit	323,247	384,483
Commissions	(161,624)	(192,242)
Distributions to municipalities and counties	<u>(6,465)</u>	<u>(7,689)</u>
Limited video lottery revenues available for distribution	<u>\$ 155,158</u>	<u>\$ 184,552</u>

Note 8. Table Games

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 8. Table Games (Continued)

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

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

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

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

The table games adjusted gross receipts for the year ended June 30, 2020 and 2019 were \$77,554,634 and \$101,514,818, respectively. A summary of table games revenues for the years ended June 30, 2020 and 2019 follows (in thousands):

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 8. Table Games (Continued)

	2020	2019
Table games privilege tax	\$ 27,144	\$ 35,530
Interest on table games fund	46	65
Administrative costs	(2,327)	(3,045)
Total available for distribution	24,863	32,550
 <u>Less distributions:</u>		
Racetrack purse funds	1,745	2,284
Thoroughbred & greyhound development funds	1,396	1,827
Racing commission pension plan	684	896
Municipalities/counties	7,688	10,063
Total distributions	11,513	15,070
Table games distribution to the state		
Excess Lottery Fund	\$ 13,350	\$ 17,480

Note 9. Historic Resort Hotel

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

Historic resort video lottery

Historic Resort Hotel legislation, as amended, dictates the distribution of video lottery revenues. Thirty three and a half percent (33.5%) of gross terminal income is allocated to Historic Resort Hotel Fund, two and a half percent (2.5%) is allocated to the State Excess Lottery Revenue Fund, and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for the licensed historic resort hotel. After deduction of the surcharge, the remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the historic resort hotel. A summary of historic resort hotel video lottery revenues for the years ended June 30, 2020 and 2019 follows (in thousands):

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 9. Historic Resort Hotel (Continued)

Historic resort video lottery (continued)

	2020	2019
Total credits played	\$ 67,204	\$ 82,927
Credits (prizes) won	(62,110)	(76,698)
Promotional credits played	(1,364)	(1,134)
Gross terminal income	3,730	5,095
Capital reinvestment	(175)	(239)
Excess Lottery/Modernization	(34)	(46)
Hotel commissions	(1,578)	(2,155)
Net terminal income	\$ 1,943	\$ 2,655
Historic Resort Hotel Fund	\$ 1,309	\$ 1,788
Human Resource Benefit Fund	634	867
Total	\$ 1,943	\$ 2,655

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, 2020 and 2019 were \$4,281,893 and \$6,443,834, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2020 and 2019:

	2020	2019
Table games privilege tax	\$ 1,499	\$ 2,255
Historic Resort Hotel Fund	\$ 1,285	\$ 1,933
Human Resource Benefit Fund	214	322
Total distributions	\$ 1,499	\$ 2,255

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:

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 9. Historic Resort Hotel (Continued)

Historic resort hotel fund (Continued)

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

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands) for the years ended June 30, 2020 and 2019:

	2020	2019
Historic Resort Hotel video lottery	\$ 1,309	\$ 1,788
Historic Resort table games	1,285	1,933
Interest on Historic Resort Hotel Fund	9	10
Historic Resort Hotel Fund deposits	2,603	3,731
Administrative costs	(394)	(565)
 Historic Resort Hotel Fund net income	 \$ 2,209	 \$ 3,166
 Municipalities/Counties	 \$ 309	 \$ 443
Excess Lottery Revenue Fund	1,900	2,723
 Total distributions	 \$ 2,209	 \$ 3,166

Note 10. Sports Wagering

Each racetrack and historic resort hotel licensee is subject to a privilege tax of ten percent (10%) of adjusted gross wagering receipts which will be deposited weekly into the Sports Wagering Fund.

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 10. Sports Wagering (Continued)

The following table shows the privilege tax and the accrued distributions is as follows (in thousands), for the years ended June 30, 2020 and 2019:

	2020	2019
Sports wagering privilege tax	\$ 1,915	\$ 1,193
Interest on sports wagering fund	-	-
Administrative costs	(287)	(179)
Total available for distribution	\$ 1,628	\$ 1,014

Note 11. Nonoperating Distributions to the State of West Virginia

The Lottery periodically distributes surplus funds, exclusive of amounts derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the current governing legislation. For the years ended June 30, 2020 and 2019, the State Legislature budgeted \$166,844,018 and \$136,657,540, respectively, of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000, \$1,000,000, and \$500,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently debt service payments are \$6,600,000 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 year ended June 30, 2020, due to the impacts of COVID-19 as more fully described in Note 18 on the Lottery's operations, the Lottery was unable to satisfy funding certain budgetary appropriations of the State Legislature and by applicable State Code of \$55,114 (in thousands). All budgetary appropriations were satisfied for the year ending June 30, 2019. The Lottery accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$115,330,915 and \$162,717,502, for the years ended June 30, 2020 and 2019 respectively. The Lottery does not have a legally adopted annual budget.

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

	2020	2019
<u>State Lottery Fund:</u>		
Bureau of Senior Services	\$ 63,606	\$ 45,169
Department of Education	18,883	18,527
Library Commission	11,514	11,454
Higher Education - Central Office	7,264	7,084
Tourism	6,732	6,550
Natural Resources	3,443	3,196
Division of Culture & History	4,115	4,078
Department of Education & Arts	-	250

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

	2020	2019
<u>State Lottery Fund (Continued):</u>		
Educational Broadcast Authority	-	7,359
Economic Development Authority	9,994	9,993
School Building Authority	18,000	18,000
General Revenue Fund	18,295	-
Community and Technical College	4,998	4,997
Total State Lottery Fund	166,844	136,657
<u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	52,323	65,000
Education Improvement Fund	23,344	29,000
WV Infrastructure Council Fund	38,198	46,000
Higher Education Improvement Fund	15,000	15,000
State Park Improvement Fund	1,211	5,000
School Building Authority	18,993	18,989
Economic Development Fund	25,416	21,020
Refundable Credit - General Revenue Fund	9,909	9,456
Racing Commission	1,610	2,000
WV Department of Health and Human Resources	17,000	36,202
Office of Technology	-	18,425
<u>Distributions to Statutory Funds and Purposes</u>		
Parking Garage Fund	576	716
Capitol Dome and Improvements Fund	1,446	1,796
Capitol Renovation and Improvements Fund	1,917	2,381
Development Office Promotion Fund	1,046	1,299
Research Challenge Fund	1,394	1,732
Tourism Promotion Fund	3,870	4,808
Cultural Facilities and Capitol Resources Fund	1,007	1,251
State Debt Reduction Fund	16,099	20,000
General Revenue Fund	30,599	1,168
Historic Resort Hotel Fund	19	24
Racing Commission	2,788	3,464
Non-Governmental Budgeted Transfers	18,018	11,383
Total State Excess Lottery Revenue Fund	281,783	316,114
Total Distributions	448,627	452,771

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

	2020	2019
Veterans Instant Ticket Fund	762	513
Total nonoperating distributions to the State of West Virginia (cash basis)	449,389	453,284
Accrued nonoperating distributions, beginning of year	(162,718)	(120,860)
Accrued nonoperating distributions, end of year	115,331	162,718
Total nonoperating distributions to the State of West Virginia	\$ 402,002	\$ 495,142

Note 12. Pension Benefits

Plan description

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.

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.

Benefits provided

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 12. Pension Benefits (Continued)

Contributions

Per Chapter 5, Article 10, members hired prior to July 1, 2015 contribute 4.5% of annual earnings. All members hired July 1, 2015 and later, will contribute 6% of annual earnings. State and non-state governmental employers' contribution rates were 10%, 10% and 11% of covered employees' annual earnings for fiscal years ending June 30, 2020, 2019, and 2018, respectively. Contribution rates for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contribution rates for employers are established by the CPRB. Contributions to the pension plan from the Lottery were \$809,424, \$788,768, and \$808,333 for the years ended June 30, 2020, 2019 and 2018, respectively.

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

At June 30, 2020 and 2019, respectively, the Lottery reported a liability of \$1,146,879 and \$1,360,051 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2020 was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018, rolled forward to the measurement date of June 30, 2019 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, 2019. At June 30, 2019, the Lottery's proportion was 0.53 percent, which is a increase of less than .01 from its proportion as of June 30, 2018.

For the years ended June 30, 2020 and 2019, respectively, the Lottery recognized pension expense of \$472,335 and \$122,405. At June 30, 2020 and 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 415
Differences between expected and actual experience	44	100
Changes in assumptions	-	211
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	26	4
Lottery contributions made subsequent to the measurement date of June 30, 2019	810	-
Total	\$ 880	\$ 730

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 12. Pension Benefits (Continued)

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

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

The \$809,424 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2021	\$ (116)
2022	(594)
2023	(69)
2024	119

Actuarial assumptions

The total pension liability in the June 30, 2019 actuarial valuations was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.0 percent
Salary increases	3.1 - 6.5 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense

Mortality rates were based on 100% of Pub-2010 General Employees table, below-median, headcount weighted, projected with scale MP-2018 for active employees, 108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018 for retired healthy males, 122% of Pub-2010 Annuitant, Scale AA fully generational General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018 for retired healthy females, 118% of Pub-2010 General/Teachers Disabled Male table, below-median, headcount weighted, projected with scale MP-2018 for disabled males, and 118% of Pub-2010 General/Teachers Disabled Female table, below-median, headcount weighted, projected with scale MP-2018 for disabled females.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 12. Pension Benefits (Continued)

Actuarial assumptions (continued)

An experience study, which was based on the years 2013 through 2018, was completed prior to the 2019 actuarial valuation

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

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

Mortality rates were based on 100% of RP-2000 Non-Annuitant, scale AA fully generational for active employees, 110% of the RP-2000 Non-Annuitant, scale AA fully generational for retired healthy males, 101% of RP-2000 Non-Annuitant, scale AA fully generational for retired healthy females, 196% of RP-2000 Disabled Annuitant scale AA fully generational for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA fully generational for disabled females.

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>	<u>Weighted Average Expected Real Rate of Return</u>
Domestic equity	27.5%	5.8%	1.60%
International equity	27.5%	7.7%	2.12%
Fixed income	15.0%	3.3%	0.50%
Real estate	10.0%	6.1%	0.61%
Private equity	10.0%	8.8%	0.88%
Hedge funds	10.0%	4.4%	0.44%
Total	100.00%		6.15%
Inflation (CPI)			2.00%
			<u>8.15%</u>

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 12. Pension Benefits (Continued)

Actuarial assumptions (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%)	\$	5,342
Current discount rate (7.5%)	\$	1,147
1% increase (8.5%)	\$	(2,402)

Note 13. Other Postemployment Benefits

Plan description

The West Virginia Other Postemployment Benefit Plan (the OPEB Plan) is a cost-sharing, multiple-employer, defined benefit other post-employment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code Section 5-16D-2 (the Code). The financial activities of the OPEB Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The OPEB Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. OPEB Plan benefits are established and revised by PEIA and the RHBT management with approval of their Finance Board. The PEIA issues a publically available financial report of the RHBT that can be obtained at www.peia.wv.gov or by writing to the West Virginia Public Employees Insurance Agency, 601 57th Street, SE Suite 2, Charleston, WV 25304.

Benefits provided

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 13. Other Postemployment Benefits (Continued)

Benefits provided (continued)

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

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

Contributions

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2020, 2019, and 2018, respectively, were:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Paygo Premium	<u>\$ 168</u>	<u>\$ 183</u>	<u>\$ 177</u>

Contributions to the OPEB plan from the Lottery were \$287,367, \$316,653 and \$302,857 for the years ended June 30, 2020, 2019, and 2018, respectively.

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 13. Other Postemployment Benefits (Continued)

Contributions by nonemployer contributing entities in special funding situations

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

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

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

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

At June 30, 2020 and 2019, the Lottery reported a liability for its proportionate share of the RHBT net OPEB liability that reflected a reduction for State OPEB support provided to the Lottery. The amount recognized by the Lottery as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Lottery was as follows (in thousands):

	2020	2019
Lottery's proportionate share of net OPEB liability	\$ 2,551	\$ 3,187
State's special funding proportionate share of the net OPEB liability associated with the Lottery	522	659
Total portion of net OPEB liability associated with the Lottery	\$ 3,073	\$ 3,846

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 13. Other Postemployment Benefits (Continued)

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

The net OPEB liability reported at June 30, 2020 was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The Lottery's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2019, the Lottery's proportion was .15 percent, which is unchanged from its proportion measured as of June 30, 2018.

For the years ended June 30, 2020 and 2019, respectively, the Lottery recognized OPEB expense of \$121,648 and \$282,167 and for support provided by the State under special funding situations revenue of \$154,674 and \$201,359. At June 30, 2020 and 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 298
Net difference between projected and actual earnings on OPEB plan investments	15	42
Changes in assumptions	-	517
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	172	251
Reallocation of opt out employer change in proportionate share	1	69
Lottery contributions subsequent to the measurement date of June 30, 2019	287	-
Total	\$ 475	\$ 1,177

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 13. Other Postemployment Benefits (Continued)

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

The amount of \$287,367 reported as deferred outflows of resources related to OPEB resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ended June 30:

2021	\$ (399)
2022	(355)
2023	(197)
2024	(38)

Actuarial assumptions

The total OPEB liability, reported as of June 30, 2020, was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Trend rate for pre-Medicare per capita costs of 8.5% for plan year end 2020, decreasing by 0.5% each year thereafter, until ultimate trend rate of 4.5% is reached in plan year 2028. Trend rate for Medicare per capita costs of 3.1% for plan year end 2020. 9.5% for plan year end 2021, decreasing by 0.5% each year thereafter, until ultimate trend rate of 4.5% is reached in plan year end 2031.
Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll over a 20 year closed period
Remaining amortization period	20 years closed as of June 30, 2017

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 13. Other Postemployment Benefits (Continued)

Actuarial assumptions (continued)

The total OPEB liability, reported as of June 30, 2019, was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2018. For fiscal years on and after 2019, trend starts at 8.0% and 10.0% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.13% and 0.0% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2022 to account for the Excise Tax.
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll over a 20 year closed period
Remaining amortization period	20 years closed as of June 30, 2017

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

The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

Certain assumptions have been changed since the prior actual valuation of June 30, 2017 and measurement date of June 30, 2019. The net effect of assumption changes was approximately \$236 million. The assumption changes that most significantly impacted the total OPEB liability were an approximate \$11.8 million decrease in the per capita claims costs for Pre-Medicare and Medicare, as well as an approximate \$224.2 million decrease due to capped subsidy costs implemented in December 2019. Certain other assumption changes were noted but did not materially impact the total OPEB liability.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 13. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

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

The long-term rate of return on OPEB plan investments were determined using a building block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Target asset allocations, capital market assumptions, and a 10-year forecast of nominal geometric returns by major asset class were provided by the plan's investment advisors, including the WVIMB. The projected nominal return for the Money Market Pool held with the BTI was estimated based on the WVIMB assumed inflation rate of 2.0% plus a 25 basis point spread. The target allocation and estimates of annualized long-term expected real returns assuming a 10-year horizon are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	49.5%	4.8%
Core Plus Fixed Income	13.5%	2.1%
Hedge Fund	9.0%	2.4%
Private Equity	9.0%	6.8%
Core Real Estate	9.0%	4.1%
Cash and cash equivalents	10.0%	0.3%

Discount rate

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will be made in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2033, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 13. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

Other key assumptions

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

OPEB subsequent event

Subsequent to the OPEB valuation with a measurement date of June 30, 2019 a global pandemic was declared by the World Health Organization due to an outbreak and spread of the coronavirus COVID-19 virus. The pandemic is impacting local and national economies. The extent of the impact of the pandemic on the Plans operations and net OPEB liability is unknown and will depend on certain developments, including the duration and spread of the virus, impact on plan participants, employees and vendors, and governmental, regulatory and private sector responses. On March 10, 2020, PEIA issued a policy for COVID-19 effective through September 30, 2020, which provides for certain COVID-19 related benefits and coverage. It also extended telemedicine, certain precertification requirements, dependent coverage and COBRA benefits. Certain benefits are further extended to the end of the COVID-19 emergency period.

This policy was not deemed to require re-measurement of the OPEB valuation. The OPEB valuation with a measurement date of June 30, 2019, does not reflect the recent and still developing impact of COVID-19, which is likely to influence healthcare claims experience, demographic experience and economic expectations. As these factors related to the pandemic develop, they could result in significant changes in assumptions for future valuations, which could result in significant changes to reported estimated net OPEB liability.

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

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

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Lottery's proportionate share of the net OPEB liability	\$ 3,045	\$ 2,551	\$ 2,138

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 13. Other Postemployment Benefits (Continued)

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

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Lottery's proportionate share of the net OPEB liability	\$ 2,057	\$ 2,551	\$ 3,150

Note 14. Leasing Activity

The Lottery leases, under cancelable operating leases, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the fiscal years ended June 30, 2020 and 2019 approximated \$211,270 and \$203,388, 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, 2020 and 2019 were \$1,069,385 and \$1,099,449, respectively.

Note 15. Commitments

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2020 and 2019, \$8,073,287 and \$8,535,120, respectively, are included in unrestricted net position for this purpose.

Note 16. Risk Management

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 16. Risk Management (Continued)

Public Employees' Insurance Agency (PEIA)

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

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

Board of Risk and Insurance Management (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a risk pool currently operating as a risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims. During the year ended June 30, 2020, 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.

Note 17. Contingencies

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 18. COVID-19 Uncertainty

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. On March 16, 2020, Governor Jim Justice declared a state of emergency in the State and on March 18, 2020, Governor Justice issued an Executive Order formally directing all restaurants and bars in the State to limit service to carry out, drive-thru, and delivery operations only. The Executive Order also mandated the closure of all casinos and limited video lottery retailers in the State.

On April 29, 2020, Governor Justice released the “West Virginia Strong-Comeback” initiative which outlined procedures for the re-opening of businesses and establishments in West Virginia. Limited video lottery retailers were officially permitted to reopen to the public on May 30, 2020, while casinos were permitted to reopen on June 5, 2020.

The Lottery estimates that the closure of limited video lottery retailers and casinos resulted in over \$198 million in lost revenue leaving the State with unfunded appropriations of \$55 million (see Note 11) for year ended June 30, 2020. The extent to which the COVID-19 pandemic impacts the Lottery in subsequent fiscal years will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak, and the actions taken to contain or treat the coronavirus outbreak. Additionally, COVID-19 may change the behavior of gaming patrons, who may reduce future visitation and play as a precaution. At this time, the Lottery is unable to determine the impact of this continuing COVID-19 uncertainty on the financial statements.

Note 19. Effect of New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after June 15, 2021.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2020. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 19. Effect of New Accounting Pronouncements (Continued)

majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The GASB issued **Statement No. 91**, *Conduit Debt Obligations* in May 2019. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

The GASB issued **Statement No. 92**, *Omnibus 2020* in January 2020. This Statement enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for periods beginning after June 15, 2021.

The GASB issued **Statement No. 93**, *Replacement of Interbank Offered Rates* in March 2020. This Statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate. The removal of the London Interbank Offered Rate as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. Paragraphs 13 and 14 of Statement No. 93, related to lease modifications is effective for fiscal years beginning after June 15, 2021. All other requirements of this Statement are effective for periods beginning after June 15, 2020.

The GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* in March 2020. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for periods beginning after June 15, 2022.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 19. Effect of New Accounting Pronouncements (Continued)

The GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements* in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for periods beginning after June 15, 2022.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WEST VIRGINIA LOTTERY

**SCHEDULES OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(In Thousands)**

Public Employees Retirement System Plan

	Years Ended June 30					
	2020	2019	2018	2017	2016	2015
Lottery's proportion (percentage) of the net pension liability	0.53%	0.53%	0.53%	0.52%	0.55%	0.55%
Lottery's proportionate share of the net pension liability	\$ 1,147	\$ 1,360	\$ 2,274	\$ 4,800	\$ 3,044	\$ 2,035
Lottery's covered payroll	\$ 7,890	\$ 7,345	\$ 7,192	\$ 7,259	\$ 7,421	\$ 7,415
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	14.54%	18.52%	31.62%	66.12%	41.02%	27.44%
Plan fiduciary net position as a percentage of the total pension liability	96.99%	96.33%	93.67%	86.11%	91.29%	93.98%

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

WEST VIRGINIA LOTTERY

**SCHEDULES OF CONTRIBUTIONS TO THE PERS
(In Thousands)**

	Years Ended June 30							
	2020	2019	2018	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 810	\$ 789	\$ 808	\$ 863	\$ 980	\$ 1,039	\$ 1,075	\$ 1,072
Contributions in relation to the statutorily required contribution	810	789	808	863	980	1,039	1,075	1,072
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$8,100	\$ 7,890	\$ 7,345	\$ 7,192	\$ 7,259	\$ 7,421	\$ 7,415	\$ 7,658
Contributions as a percentage of covered- employee payroll	10.00%	10.00%	11.00%	12.00%	13.50%	14.00%	14.50%	14.00%

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

WEST VIRGINIA LOTTERY

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

Retirement Health Benefit Trust Plan

	Years Ended June 30		
	2020	2019	2018
West Virginia Lottery's proportion (percentage) of the net OPEB liability	0.15%	0.15%	0.14%
West Virginia Lottery's proportionate share of the net OPEB liability	\$ 2,551	\$ 3,187	\$ 3,501
State's proportionate share of the net OPEB liability associated with the Lottery	<u>\$ 522</u>	<u>\$ 659</u>	<u>\$ 719</u>
Total	\$ 3,073	\$ 3,846	\$ 4,220
West Virginia Lottery's covered-employee payroll	\$ 4,909	\$ 4,999	\$ 5,264
West Virginia Lottery's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	62.60%	76.94%	80.17%
Plan fiduciary net position as a percentage of the total OPEB liability	39.69%	30.98%	25.10%

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

WEST VIRGINIA LOTTERY

**SCHEDULES OF CONTRIBUTIONS TO THE RHBT
(In Thousands)**

	Years Ended June 30			
	2020	2019	2018	2017
Statutorily required contribution	\$ 287	\$ 317	\$ 303	\$ 292
Contributions in relation to the statutorily required contributor	287	317	303	292
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
West Virginia Lottery's covered-employee payroll	\$ 4,942	\$ 4,909	\$ 4,999	\$ 5,264
Contributions as a percentage of covered-employee payroll	5.81%	6.46%	6.06%	5.55%

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

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2020

Note 1. Trend Information Presented

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

Note 2. Pension Plan Amendment

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

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

Note 3. Pension Assumptions

Experience studies, which were based on the years 2009 through 2014 and 2013 through 2018, were completed prior to the 2015 and 2019 actuarial valuations, respectively. As a result, several assumptions were changed for the actuarial valuations as follows:

(Continued)

WEST VIRGINIA LOTTERY

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020**

Note 3. Pension Assumptions (Continued)

<u>PERS</u>	<u>2019</u>	<u>2015-2018</u>	<u>2014</u>
Projected salary increase			
State	3.1 - 5.3%	3.0 - 4.6%	4.25 - 6.0%
Nonstate	3.35 - 6.5%	3.35 - 6.0%	4.25 - 6.0%
Inflation rate	3.0%	3.0% (2016-2018); 1.9% (2015)	2.2%
Mortality rates	Active-100% of Pub-2010 General Employees table, below median, headcount weighted, projected with scale MP-2018 Retired healthy males-108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018 Retired healthy females-122% of Pub-2010 Annuitant, Scale AA fully generational General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018 Disabled males-118% of Pub-2010 General / Teachers Disabled Male table, below-median, headcount weighted, projected with scale MP-2018 Disabled females-118% of Pub-2010 General / Teachers Disabled Female table, below-median, headcount weighted, projected with scale MP-2018	Active-RP-2000 Non-Annuitant tables, Scale AA fully generational Retired healthy males – 110% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy females – 101% of RP-2000 Non-Annuitants, Scale AA fully generational Disabled males – 96% of RP-2000 Disabled Annuitant, Scale AA fully generational Disabled females – 107% of RP-2000 Disabled Annuitant, Scale AA fully generational	Healthy males – 1983 GAM Healthy females – 1971 GAM Disabled males-1971 GAM Disabled females-Revenue ruling 96-7
Withdrawal rates			
State	2.28-45.63%	1.75 - 35.1%	1 – 26%
Nonstate	2.00-35.88%	2 - 35.8	2 – 31.2%
Disability rates	0.005-0.540%	0. - 67.5%	0 – 8%

Note 4. OPEB Assumptions

Below are changes in assumptions between the 2018 and 2017 valuations:

The assumption changes that most significantly impacted the total OPEB liability were an approximate \$11.8 million decrease in the per capita claims costs for Pre-Medicare and Medicare, as well as an approximate \$224.2 million decrease due to capped subsidy costs implemented in December 2019. Certain other assumptions were noted but did not materially impact the total OPEB liability.

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2020

Note 4. OPEB Assumptions (Continued)

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

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



**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**

To the 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, 2020, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated September 18, 2020.

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) as a basis for designing 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 financial statements. 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.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 18, 2020

OTHER FINANCIAL INFORMATION

GAAP REPORTING FORM - DEPOSITS DISCLOSURE

Audited Agency West Virginia Lottery - June 30, 2020

Per GASB Statement 40 the Agency must disclose its deposit policy. The deposit policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Agency's deposit policy.

See Note (3)

Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	FDIC Insured Amount	Collateralized Amount	2 Amount Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name	3A Amount Uninsured and Uncollateralized	3B Collateralized with securities held by the pledging financial institution but not in the name of the depositor	3C Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor	Foreign Currency Risk		
										Currency Type	Maturity	Fair Value
Balances as of June 30, 2020												
Cash with Treasurer												
Per wvOASIS Opening Balance Rep	22,793	22,793										
Cash with Municipal Bond Commission		0										
Cash on Hand		0										
Cash in Transit to wvOASIS		0										
Cash with Board of Trustees		0										
Cash in Outside Bank Accounts	498	498	589	250	339	339						
Cash in Escrow		0										
Certificates of Deposits (Non-Negotiable)		0										
Other:		0										
Total	23,291	0	23,291	589	250	339	339	0	0	0		0

PLEASE SEND COMPLETED FORMS TO:

State of West Virginia
Financial Accounting and Reporting Section
2101 Washington Street East
Building 17, 3rd Floor
Charleston, WV 25305

Telephone Number (304) 558-4083
Fax Number (304) 558-4084

See Independent Auditor's Report

Audited Agency

West Virginia Lottery - June 30, 2020

Per GASB Statement 40 the Agency must disclose its investment policy. The investment policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Agency's investment policy.

See Note (3)

	Reported Amount Unrestricted	Reported Amount Restricted	Fair Value Measurement's Using					Total Reported Value	Credit Ratings			Interest Rate Risk - Segmented Time Distribution Investment Maturities (in years)				Foreign Currency Risk			
			Level 1	Level 2	Level 3	Fair Value	Cost Value		Standard & Poor's	Moody's	Fitch	Less than 1	1 - 5	6 -10	More than 10	Currency Type	Maturity	Fair Value	
Investments with Investment Mgmt Board (IMB) Per wvOASIS Opening Balance Report Investment Earnings not Posted to wvOASIS As of 6/30/20																			
Investments with Board of Treasury Investments (BTI) Per Opening Balance Report Investment Earnings not Posted to wvOASIS As of 6/30/20	111,597		31,804			31,804	79,793	111,597											
Investments Outside IMB:	130					0	130	130											
U.S. Treasury Obligations																			
U.S. Government Agencies																			
Other Government Bonds																			
Corporate Bonds																			
Corporate Stocks																			
Mutual Bond Funds																			
Mutual Stock Funds																			
Mutual Money Market Funds																			
Commercial Paper																			
Bank Investment Contract																			
Guaranteed Investment Contract																			
Repurchase Agreements ****																			
State/Local Gov't Securities																			
Certificates of Deposit (Negotiable)																			
Other Investments (describe):																			
Total Outside Investments	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0	0
Investments by Fair Value Level																			
Debt Securities																			
U.S. Treasury securities																			
Commercial mortgage-backed securities																			
Collateralized debt obligations																			
Residential mortgage-backed securities																			
Corporate Bonds																			
Total Debt Securities	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0	0
Equity Securities																			
Other																			
Total Equity Securities	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0	0
Venture Capital Investments																			
Direct venture capital -																			
Direct venture capital																			
Total Venture Capital Investments	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0	0
Private Equity Funds - International																			
Total Private Equity Funds	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0	0
Investments Measured at the Net Asset Value (NAV)																			
Equity long/short hedge funds																			
Event-driven hedge funds																			
Global opportunities hedge funds																			
Multi-strategy hedge funds																			
Real estate funds																			
Total Investments Measured at the NAV	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0	0
Total Investments Measured at Fair Value	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0	0
Investments Derivative Instruments																			
Interest Rate Swaps																			
Foreign exchange contracts (liabilities)																			
Total Investment Derivative Instruments	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0	0

**** MUST COMPLETE THE BELOW INFORMATION IF REPURCHASE AGREEMENTS WERE IDENTIFIED ABOVE:

Collateral Description On The Repurchase Agreements	Fair Market Value of Collateral	Credit Rating	
		Moody's	S&P

PLEASE SEND COMPLETED FORMS TO:

State of West Virginia
Financial Accounting and Reporting Section
2101 Washington Street East
Building 17, 3rd Floor
Charleston, WV 25305

**WEST VIRGINIA LOTTERY
DUE TO OTHER FUNDS - PRIMARY GOVERNMENT
FOR FISCAL YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)
FORM 10A**

<u>Payable to</u>	<u>Amount</u>	<u>Fund</u>
Amounts reported as accrued nonoperating distributions to the State of West Virginia:		
Bureau of Senior Services	\$ 16,590	5405
Department of Education-Public Ed	7,310	3951
Library Commission	4,457	3559
Division of Tourism	2,606	3067
Natural Resources	1,333	3267
Culture and History	1,593	3534
Building Commission	999	2252
School Building Authority	1,800	3963
School Building Authority	1,899	3514
Veterans Instant Ticket Fund	52	1338
Community and Technical College	499	4908
West Virginia Infrastructure Council	600	3390
Surplus	68,739	Unappropriated
Total amounts payable to primary government	\$ 108,477	
Total amounts payable to primary government per above	\$ 108,477	
Total amounts payable to component units per Form 11	6,854	
Accrued nonoperating distributions to State of West Virginia	\$ 115,331 (1)	

(1) Agrees to audited balance sheet

WEST VIRGINIA LOTTERY - DUE FROM/TO OTHER FUNDS - COMPONENT UNITS
FOR FISCAL YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)
FORM 11

<u>Payable to</u>	<u>Amount</u>		<u>Fund</u>	<u>Amount</u>
5	\$ 2,541		9065	1,899
12	<u>4,313</u>	>	9067	203
			9068	439
			4925	1,169
			4297	1,500
Total	\$ <u>6,854</u>		4185	1,412
			4896	232

Total amounts payable to component units per above	\$ 6,854
Total amounts payable to primary government per Form 10	<u>108,477</u>
	\$
(1) Agrees to audited balance sheet	<u>115,331</u> (1)

Note: There were no amounts due from component units as of June 30, 2020

Component Units	
1. Water Development Auth.	8. Parkways & Economic Dev., and Tourism Authority
2. Solid Waste Management	9. Regional Jail Authority
3. Educational Broadcasting	10. Racing Commission
4. WV State Rail Authority	11. Public Defenders Corporation
5. Economic Development	12. Higher Education Institutions
6. Jobs Investment Trust	
7. Housing Development Fund	

**WEST VIRGINIA LOTTERY
TRANSFERS IN/OUT
FOR FISCAL YEAR ENDED JUNE 30, 2020
(Expressed in Thousands)
FORM 15**

WV OASIS FUND FROM Agency Transferring From	Amount	Agency Transferring To	WV OASIS FUND TO	Amount
		<u>Lottery Fund</u>		
		WV Development Office	2252	\$ 9,994
		Division of Tourism	3067	6,732
		Division of Natural Resources	3267	3,443
		Division of Culture & History	3534	4,115
		Library Commission	3559	11,514
		Dept. of Educ. - Public Education	3951	18,883
		School Bldg Authority	3963	18,000
		Community and Technical College-Capital Imp	4908	4,998
		Higher Education- Policy Commission	4925	3,019
		Higher Education- Policy Commission	4185	3,647
		Higher Education- Policy Commission	4896	598
7202 Traditional Lottery	\$ 46,882	Bureau of Senior Services	5405	63,606
7203 Racetrack Video Lottery	118,974	General Revenue Fund	0116	18,295
7214 Sports Wagering	1,750	Veterans Instant Ticket Fund	1338	762
	<u>\$ 167,606</u>			<u>\$ 167,606</u>
		<u>Excess Lottery Fund</u>		
		WV Racing Commission	7308	\$ 1,610
		State Park Improvement Fund	3277	1,211
		Refundable Credit	7207	9,909
		Higher Education Improvement Fund	4297	15,000
		Economic Development Fund	9065	18,990
		Economic Development Fund	9067	2,031
		Economic Development Fund	9068	4,395
		School Bldg Authority	3514	18,993
		Education Improvement	4295	23,344
		West Virginia Infrastructure Council	3390	38,198
7203 Racetrack Video Lottery	\$ 93,795	General Purpose	7206	52,323
7205 Limited Video Lottery	171,613	WV Lottery Statutory Transfers	*	49,121
7210 Table Games	14,401	Division of Human Services	5365	17,000
7212 Historic Resort Hotel	1,974	General Revenue Fund	0116	29,658
	<u>\$ 281,783</u>			<u>\$ 281,783</u>
		Grand Total		449,389

*7213 Pass Through Account	Fund	Amount
General Revenue Fund	0614	941
Tourism Promotion Fund	3072	3,870
Historic Resort Hotel	7212	19
Development Office Promotion Fund	3171	1,046
Research Challenge Fund	4931	1,394
Capitol Renovation & Improvement Fund	2462	1,917
Parking Garage Fund	2461	174
Parking Garage Fund	2255	402
Cultural Facilities & Capitol Resources Fund	3537	1,007
Capitol Dome & Capitol Improvements Fund	2257	1,446
State Debt Reduction Fund	7007	16,099
Non-State Agencies	N/A	20,806
Total Statutory Pass Through Account		49,121

See Independent Auditor's Report