

A Component Unit of the
State of West Virginia



2021

Annual Comprehensive Financial Report
for the Fiscal Years Ended
June 30, 2021 and 2020





MESSAGE FROM JOHN A. MYERS

Director, West Virginia Lottery



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

I am pleased to present this year's West Virginia Lottery Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021 to the Honorable Jim Justice, Governor; Dave Hardy, Cabinet Secretary, Department of Revenue; and the West Virginia Legislature. Our mission to operate responsibly with the highest standards of integrity and security has helped to provide a continued revenue stream for programs that benefit the citizens of West Virginia for more than 35 years.

The Lottery was created in April 1985 pursuant to authority granted by the West Virginia Legislature with gaming operations beginning in January 1986. Since that time, the Lottery has generated nearly \$11.4 billion in gaming revenue for the State of West Virginia with proceeds supporting education, seniors, and tourism. Lottery operations have produced nearly \$3.6 billion for education, more than \$1.4 billion for senior services, and around \$1.3 billion for tourism.

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

WEST VIRGINIA LOTTERY COMMISSION

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



KENNETH L. GREEAR

Chairman
Charleston
Computer Expert



PEGGY J. POPE

Charleston
Public at Large



DAN A. MARSHALL

Parkersburg
Attorney



ROY E. SHREWSBERRY III

Beckley
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DOUGLAS A. BICKLER, CPA

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A Component Unit of the State of West Virginia

Prepared by Finance and Administration Division

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

Annual Comprehensive Financial Report
For the Fiscal Years Ended June 30, 2021 and 2020.



TABLE OF CONTENTS

INTRODUCTORY SECTION

| | |
|---|------|
| Letter of Transmittal..... | 1-10 |
| Certificate of Achievement for Excellence in Financial Reporting..... | 11 |
| Principal Officials and Organizational Chart..... | 13 |

FINANCIAL SECTION

| | |
|--|-------|
| Independent Auditor's Report..... | 15-16 |
| Management's Discussion and Analysis..... | 17-25 |
| Financial Statements | |
| Statements of Net Position..... | 26 |
| Statements of Revenues, Expenses and Changes in Fund Net Position..... | 27 |
| Statements of Cash Flows..... | 28-29 |
| Notes of Financial Statements..... | 30-67 |
| Required Supplementary Information..... | 68-75 |

STATISTICAL SECTION

| | |
|---|-------|
| Statistical Section Overview..... | 77 |
| Sales by Product and Other Revenues Last Ten Years (table)..... | 78-79 |
| Expenses, Distributions and Changes in Net Position Last Ten Years (table)..... | 78-79 |
| Sales by Product Line Last Ten Years (graph)..... | 80-82 |
| Total Revenue Last Ten Years (pie chart)..... | 83 |
| Daily Averages Last Ten Years (graph)..... | 84 |
| Expenses and Nonoperating Distributions Last Ten Years (graph)..... | 85 |
| Total Expenses and Nonoperating Distributions Last Ten Years (pie chart)..... | 86 |
| Total Net Position..... | 87 |
| U.S. Lotteries Unaudited Sales for Fiscal Year 2020 (NASPL)..... | 88 |
| U.S. Lotteries Unaudited Sales for Fiscal Year 2021 (NASPL)..... | 89 |
| U.S. Lotteries Unaudited Sales for Fiscal Year 2020 (LaFleur's)..... | 90 |
| U.S. Lotteries Unaudited Sales for Fiscal Year 2021 (LaFleur's)..... | 91 |
| Number of Employees..... | 92 |
| Principal Employers..... | 92 |
| State Demographic and Economic Information..... | 93 |
| Player and Population Demographics (graphs)..... | 94 |

LOTTERY PROCEEDS

The West Virginia Lottery has generated nearly \$11.4 billion in proceeds for the State of West Virginia since 1986. Lottery proceeds are used in variable ways to improve the quality of life of all West Virginians. Proceeds help fund new school construction and improvements, help finance the PROMISE Scholarship program, assist in providing important senior services, aide in the growth of the State's tourism industry, and support West Virginia veterans with services and needs.

**NEARLY \$11.4 BILLION
IN LOTTERY PROCEEDS
HAVE BEEN GENERATED.**



LOTTERY IMPACT

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

The Lottery's continued success is largely attributed to its partnerships with more than 1,500 traditional and more than 1,200 limited video lottery retailers. These retailers employ thousands of West Virginians. Additionally, optimized products and ongoing communications have created satisfied Lottery players who continue to help us generate a significant, positive impact on West Virginia's economy.

**THESE RETAILERS EMPLOY
THOUSANDS OF WEST VIRGINIANS.**



INTRODUCTORY SECTION



P.O. BOX 2067
CHARLESTON, WV 25327

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

James C. Justice
Governor

John A. Myers
Director

December 6, 2021

The Honorable James C. Justice II, Governor
Dave Hardy, Cabinet Secretary, Department of Revenue
Kenneth L. Greear, Chairman, West Virginia Lottery Commission
Members of the West Virginia Lottery Commission

We are pleased to transmit to you the Annual Comprehensive Financial Report of the West Virginia Lottery (the Lottery) for the fiscal years ended June 30, 2021 and 2020. This report has been prepared by the Finance and Administration Division of the Lottery. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. To the best of our knowledge and belief, the enclosed data and information are accurate and are reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

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

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

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

Handwritten signature of John A. Myers in blue ink.

John A. Myers
Director of West Virginia Lottery

Handwritten signature of Dean W. Patrick in blue ink.

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

www.wvlottery.com

OVERVIEW

Like many other elements within West Virginia and its economy, the Lottery's fiscal year was once again impacted by a novel coronavirus pandemic, (COVID-19), which caused a statewide shutdown for non-essential businesses and several other restrictions effecting business sales and operations in FY 2020. As a result, FY 2021 was during an interesting time in society and business ventures, with establishments suffering shutdowns and closures and then being able to reopen just as sporadically.

Upon reopening, casinos and limited video lottery establishments were reduced to 50 percent capacity and the number of players on table games was limited, among other restrictions. They reopened at full capacity at the beginning of Fiscal Year 2021, allowing for a steady climb back to normal operating customs.

The West Virginia Lottery registered total gross sales of \$1.2 billion for the fiscal year ending on June 30, 2021, nearly \$195 million above projections. The Lottery was able to allocate \$559 million in proceeds to the State. While casinos seemed to suffer a decline in attendance, traditional lottery gaming and limited video lottery saw increases, with LVL revenues at their highest ever at \$480.6 million.

Overall, West Virginia Lottery players, retailers and casinos shared in a total of nearly \$636.5 million in prizes and commissions from all forms of gaming in FY 2021. Each of these gaming operations was able to provide the following in transfers: Traditional Lottery \$52.9 million, Racetrack Video Lottery \$178.8 million, Limited Video Lottery \$300.8 million, and \$13.2 million from table games. Additionally the Historic Resort at the Greenbrier supplied \$2.9 million in transfers, while sports wagering and iGaming were able to provide \$3.5 million and \$6.9 million, respectively.

Lottery proceeds leave a substantial imprint on a wide-range of programs that benefit the people and communities of West Virginia. The 2021 state budget included \$507.4 million in cash transfers from the Lottery. This included \$84.9 million for education, \$68.0 million for senior services, \$62.6 million for tourism, \$72.7 million to the General Fund, \$46.1 million towards the Infrastructure Council, with other agencies collecting \$143.4 million, including \$29.0 million towards the PROMISE Scholarship fund and \$658.7 thousand for veterans. A total of \$25.1 million in statutory transfers were paid to county and local municipalities in FY2021.

The West Virginia Lottery's total operating costs were 3.3 percent of total sales, and this allowed the Lottery to generate a surplus in excess amounts of \$90.2 million available for additional legislative appropriations.

RACETRACK
VIDEO LOTTERY

**\$178.8
MILLION**

LIMITED
VIDEO LOTTERY

**\$300.8
MILLION**

TRADITIONAL
LOTTERY

**\$52.9
MILLION**

RACETRACK
TABLE GAMES

**\$13.2
MILLION**

HISTORIC
RESORT

**\$2.9
MILLION**

SPORTS
WAGERING

**\$3.5
MILLION**

IGAMING

**\$6.9
MILLION**

ECONOMIC OUTLOOK

The West Virginia economy is in full recovery mode, with leading indicators near or above pre-pandemic levels. Strong consumer spending, partially due to stimulus, has contributed to the current short-term inflation problems, largely the result of weakening supply chains. Higher natural gas prices have increased demand for steam coal, which may improve West Virginia's energy sector in the short term. Between August 2020 and August 2021, monthly non-manufacturing exports from West Virginia increased from \$86.8 million to \$252.4 million, and almost tripled its value, possibly due to an increased post-pandemic demand of metallurgical coal from India and China. During this same period in August, monthly manufacturing exports from West Virginia increased from \$232.2 million to \$270.3 million, an increase of 16.4%. Due to a recent surge in Covid-19, the service sector of the economy is still lagging in its recovery. During the year preceding the pandemic, 75,000 people were employed in the leisure and hospitality sector of the economy in West Virginia. Although service sector employment has been trending upward in 2021, there were 68,200 leisure and hospitality workers as of August 2021. Overall employment is on a gradual path to recovery. The national unemployment rate has decreased every month since June 2020; similarly, West Virginia's unemployment rate has improved consistently since April of last year.

The U.S. economy is expected to grow in 2021 at a real GDP annual growth rate of 5.7 percent, however this growth has been revised downward from 6.1 percent. The downward revision for the year is the result of a downgrade in projected third quarter growth, from 6.1 percent to 3.4 percent, due to a slowdown in personal consumer expenditures resulting from the rapid spread of the Delta strain of the Covid-19 virus. The Bureau of Economic Analysis (BEA) reports real GDP increased at an annual rate of 6.6 percent during the second quarter of 2021. This second quarter growth was affected by an increase in government assistance payments of loans to businesses and grants to state and local governments. At the same time, social benefits to households, in the form of direct payments, have decreased. Inflation levels are expected to slow towards the end of 2021, as supply chains recover, and adults return to the work force. Furthermore, automobile and parts prices are expected to see a sharp reversal, which should help restrain core inflation in personal consumption expenditures to around 2 percent by 2022 - 2023. IHS Markit forecasts GDP growth of 4.5 percent in 2022. This is due to a recovery in growth lost in 2021 into the following year caused by the resolving of supply-chain problems and ongoing progress of vaccinations.

The U.S. Bureau of Labor Statistics (BLS) reports a national unemployment rate of 4.8 percent in September 2021, an improvement of 0.4 percent from the prior month. The most significant national employment gains

during September are in the sectors of leisure and hospitality, professional and business services, retail trade, and transportation and warehousing. State employment data is approaching pre-pandemic levels. Employment trends over the past year indicate a growing labor force, an increase in persons employed, and an improvement in the unemployment rate for West Virginia. In a release from Workforce West Virginia, the state's unemployment rate improved from 5.0 percent in July to 4.8 percent in August. This represents the lowest seasonally adjusted unemployment rate for the state since June 2019. In terms of economic sectors, state employment increased by 1,500 jobs in government due to restaffing at state and local schools, following lockdown measures enacted due to the Covid-19 pandemic; 1,000 in leisure and hospitality; 200 in professional and business services; and 100 in the information sector. Employment decreased by 1,000 jobs in mining and logging; 600 in manufacturing; and 200 in construction.

Personal income in West Virginia decreased from an annualized rate of \$87.2 billion in the second quarter of calendar year 2020 to an annualized rate of \$82.3 billion during the same period in calendar year 2021, a decline of 5.6 percent. This represented an increase from the pre-pandemic annualized level of \$76.2 billion during the second quarter of calendar year 2019. The majority of West Virginia's personal income decline was attributable to the decrease in federal economic stimulus payments, which declined by 74 percent between the second quarters of calendar years 2020 and 2021. Pandemic unemployment assistance benefits, which were recently terminated, had declined in West Virginia from \$199.4 million in the second quarter of calendar year 2020 to \$58.4 million in the second quarter of calendar year 2021, a decrease of 71 percent. The BEA reported that West Virginia's wages and salaries increased from an annualized rate of \$30.9 billion in the second quarter of calendar year 2020 to \$33.5 billion in the second quarter of calendar year 2021, an increase of 8.4 percent. This is comparable to the pre-pandemic level of \$33.2 billion during the same time period of calendar year 2019. Overall, national personal income decreased by 21.8 percent at an annual rate in the second quarter of 2021. This followed a 56.9 percent increase in the first quarter.

Though total national retail trade and food services sales declined by 1.1 percent during the Delta variant surge of Covid-19 in July, consumer spending largely rebounded in September, with an increase of 1.4 percent. According to IHS Markit, this monthly recovery may be exemplified by an increase in average consumer credit and debit card spending during the month of September. This type of spending was 13.5 percent above the corresponding pre-pandemic level in January 2020. According to the Opportunity Insights Economic Tracker, from January 2020 to September 2021 total retail spending by

consumers in West Virginia increased by 23 percent. While real personal consumption expenditures on services have demonstrated a gradual increase in recent months, expectations have been somewhat tempered from prior forecasts due to the surge of the Delta variant. However, growth in personal consumption expenditures is still expected to rise for at least the rest of the year. According to the BEA, the personal consumption expenditures price index increased from 3.6 percent in April 2021 to 4.2 percent in July 2021. While spending on services is still below the pre-Covid totals, spending on goods surpasses that of pre-Covid times.

The Energy Information Administration (EIA) forecasts that Henry Hub natural gas prices will reach \$4.25 per million BTU in January 2022 and will then recede to an average of \$3.47 per million BTU for the remainder of calendar year 2022, as a result of increasing U.S. natural gas production and slowing growth of liquefied natural gas exports. The local Marcellus shale (Eastern Gas) natural gas price increased from \$1.20 per million BTU in September 2020 to \$4.32 per million BTU in September 2021. The share of electricity generation produced by natural gas in the United States is anticipated to decrease from 39 percent in 2020 to 35 percent in 2021 and 34 percent in 2022 due to an expectation of a higher delivered natural gas price of \$4.69 per million BTU in 2021. This increase makes alternative fuel sources more competitive. Further, EIA predicts that the natural gas share of U.S. electricity generation will decline due to an expected increase in generation from renewable sources. However, because of the higher forecasted natural gas prices, the forecasted share of electricity generation from coal rises from 20 percent in 2020 to 24 percent in both 2021 and 2022. U.S. coal production is forecasted to climb to 601 million short tons in 2021, which is 12.3 percent higher than 2020 production levels. Demand for coal from the electric power sector is expected to increase by 100 million short tons in 2021 as natural gas prices are expected to rise; likewise, coal exports are expected to increase by 21 million short tons. Coal production is unlikely to match those increases in demand in the near term due to limited capacity at coal mines and constraints on available transportation. In 2022, coal production is expected to rise to 648 million short tons, an increase of 8 percent, with an easing of coal supply constraints.

Excluding the \$200 million in deferred income tax collections in fiscal year 2021, first quarter fiscal year 2022 West Virginia General Revenue Fund collections of \$1.19 billion are \$155.0 million ahead of prior fiscal year first quarter collections. Personal Income Tax collections during this quarter are \$43 million above fiscal year 2021 first quarter collections and Corporation Net Income Tax collections are running \$26 million ahead of the prior fiscal year. First quarter fiscal year 2022 Sales and Use Tax collections of roughly \$370 million are running 5.5

percent ahead of the prior fiscal year first quarter collections, partially due to increased use of federal economic stimulus payments, higher prices of goods and services resulting from inflation, and increased purchases from remote sellers (e.g., Internet sales) as a result of the Supreme Court's South Dakota v. Wayfair decision and marketplace facilitator rules. First quarter fiscal year 2022 Severance Tax collections of \$96.8 million are \$74.2 million ahead of the prior fiscal year's first quarter primarily due to higher natural gas prices and increased demand for steam coal.

State Lottery revenues continue to rise, despite the recent Covid-19 surge. In August, gross revenues from nearly all categories of Lottery revenue increased from the previous year-to-date. Additionally, gross revenue for all games exceeded their monthly projections, with the exception of racetrack video lottery, which remained relatively flat. Cumulatively, racetrack video lottery revenue has experienced the largest increase in year-over-year gross revenue, as of August 2021. Overall lottery gross revenues have increased by 15.6 percent from the previous fiscal year. Pre-pandemic, Lottery gross revenue routinely surpassed the \$1 billion level, and for fiscal year 2021, this milestone has returned. This improvement suggests that patrons are more comfortable visiting casinos and continue to feel confident in such settings as more people continue to get vaccinated for Covid-19. Overall, the outlook for the West Virginia Lottery is positive. As people continue to get vaccinated, and the Covid-19 hospitalization rate declines, it is likely that table game and racetrack video lottery participation will increase. Pent-up demand, along with wage growth and increasing consumer confidence, is expected to result in an increasing amount of people participating lottery games.

Safety in the workplace has been further complicated both in West Virginia and nationally by Covid-19 vaccine hesitancy among a portion of the population. Through the end of September 2021, 48.7 percent of West Virginia residents have been fully vaccinated, according to the West Virginia Department of Health and Human Resources. It is likely that once the Delta variant of the Covid-19 pandemic ends, the economy both nationally and in West Virginia will somewhat resemble the pre-pandemic economy.

Written by Korok Biswas, Tax Analyst 2, West Virginia Department of Revenue and Daniel Kanner, Executive Assistant, West Virginia Department of Revenue

LOTTERY PRODUCTS

The West Virginia Lottery has introduced 13 different traditional lottery game products since its inception but currently provides players the opportunity to participate at 1,512 retail locations in a variety of 8 products:



SCRATCH-OFF games were the Lottery's first type of game introduced in January 1986. There are different ways to win in an instant or "scratch-off" game including matching three like dollar amounts, symbols or letters, or adding up numbers to a specified total for example. If the correct combination is revealed, the player becomes an "instant winner" without having to wait for the results of a drawing. Instant games offer a wide variety of game themes. During fiscal year 2021, there were 41 new games introduced. Instant games provided approximately 14.7 percent of total fiscal year 2021 sales.

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

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

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

KENO GO is a draw game introduced in December 1992 and updated and made available at all retail locations in July 2020. Drawings are held every three minutes, seven days a week from 5:01 a.m. through 3:46 a.m. The player marks the "spot", the amount of numbers they want to play per game from 1 to 10 and choose numbers from 1 to 80 depending on the number of "spots". The Lottery's secured random number generator randomly picks 20 numbers between 1 and 80. Keno Go Bonus is a chance to increase your winnings by 3, 4, 5, or 10 times. The winning numbers are displayed at retailer locations and on the Lottery's website and mobile convenience app.

POWERBALL® is a draw game offering jackpots of \$20 million or more paid either in a cash lump sum of the prize value or a 29 year annuity with drawings every Wednesday and Saturday. Prizes are also awarded in eight other win divisions ranging from \$4 to \$1 million. The game is jointly operated by 44 state lotteries, the District of Columbia, Puerto Rico and the U.S. Virgin Islands who are members of either the Multi-State Lottery Association (MUSL) or the Mega Millions® Group. Powerball® was first introduced on April 22, 1992 with 15 participating lotteries. The Power Play® Multiplier feature was added in March 2001. Cross-selling with Mega Millions® Group members began January 31, 2010. On January 18, 2012, the price point for a single play increased to \$2 per and Power Play® no longer used a multiplier, but was now set dollar values. The Power Play® option match 5+0 prize became \$2 million and all lower prizes were multiplied by 2, 3, 4 or 5 and a 10x option was added if the jackpot is \$150 million or less beginning October 4, 2015. Powerball® sales are approximately 2.3 percent of total 2021 sales.

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

MEGA MILLIONS® is a draw game jointly operated by 44 state lotteries, the District of Columbia and the U.S. Virgin Islands, with members belonging to the same groups that operate Powerball®. The game was introduced on August 31, 1996 as The Big Game. The first drawing took place on September 6, 1996, with six states participating. The West Virginia Lottery and 22 other states began selling Mega Millions® January 31, 2010 in a cross-selling agreement. The game is similar to Powerball®, in play and jackpots. A feature called Megaplier® was added where non-jackpot winnings can be multiplied from a random number. Jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 29 years with a guaranteed minimum jackpot of \$20 million. Mega Millions® offers eight secondary prizes of fixed amounts ranging from \$2 to \$1 million. On October 15, 2017, a special offer called Just the Jackpot became available allowing a player to pay \$3 for two plays towards the jackpot only. Drawings are held twice weekly on Tuesday and Friday.

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

RACETRACK VIDEO LOTTERY games were implemented in 1994 when the West Virginia Legislature passed the Racetrack Video Lottery Act, making video lottery terminals available to the four racetracks in the state subject to passage of local referendums. In September 1994, three racetracks (Mountaineer Casino Racetrack & Resort, Wheeling Island Hotel, Casino & Racetrack, and Mardi Gras Casino & Resort) began operating with 1,200 video lottery machines. A fourth racetrack (Hollywood Casino at Charles Town Races) began video gaming in September 1997. Games offered are poker, blackjack, keno, and spinning reel types. Effective June 1999, legislative action allowed mechanical reel coin drop machines. As of June 30, 2021, the West Virginia Lottery Commission had an average of 5,211 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 34.3 percent of total 2021 fiscal sales.

LIMITED VIDEO LOTTERY games were approved by the Legislature in April 2001. The legislation provides up to 9,000 video lottery terminals to be placed in retailer locations with specific types of West Virginia Alcohol Beverage Control Administration licenses. The first terminals were enabled for play on December 17, 2001. A total of 6,487 terminals were operating at licensed retail locations throughout the state as of June 30, 2021. Limited video lottery sales were 40.8 percent of total 2021 fiscal sales at 1,237 operating retailer locations.

TABLE GAMES were implemented in fiscal year 2008 when the West Virginia Legislature passed the Racetrack Table Games Act, making table games available to the four racetracks in the state subject to passage of local referendums. In October 2007, two racetracks (Mountaineer Casino Racetrack & Resort and Wheeling Island Hotel, Casino & Racetrack) began operating with poker tables only and added full table games in December 2007. In August 2008, a third racetrack (Mardi Gras Casino & Resort) began operating with poker tables only and added full table games in October 2008. The fourth racetrack (Hollywood Casino at Charles Town Races) began operating full table games on July 1, 2010. Games offered are Poker, Blackjack, Caribbean Stud, Craps, Roulette, Three and Four Card Poker, and other miscellaneous games. Racetrack Table Games sales were 2.3 percent of total 2021 fiscal sales.

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

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

INTERACTIVE WAGERING was implemented in fiscal year 2020 when the West Virginia Legislature passed House Bill 2934 permitting existing racetrack casinos and the casino in a historic resort hotel to offer wagering on any authorized interactive game. Authorized interactive games are computerized or virtual versions of any game of chance or digital simulation thereof, including, but not limited to, casino themed slot simulations, table games, and other games approved by the commission.

FINANCIAL INFORMATION

ENTERPRISE OPERATIONS

The West Virginia Lottery operating activities include sales of instant and on-line tickets, the regulation of video lottery, table game, sports wagering, and interactive wagering operations to the general public and the related supporting functions: personnel, finance and administration, video, marketing, security, table games, and licensing. No general government functions or operations are managed by the Lottery or included in this report. Sales in fiscal year 2021 increased 23.3 percent to \$1.18 billion from \$955.73 million in fiscal year 2020. Distributions to the State of West Virginia increased 39.0 percent from \$402.0 million in fiscal year 2020 to \$558.96 million in fiscal year 2021.

ACCOUNTING SYSTEMS AND POLICIES

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

BUDGETARY CONTROLS

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

INTERNAL CONTROL ENVIRONMENT

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

To enhance controls over accounting procedures, the Lottery has segregated the following functions: personnel, payroll, purchasing, accounts payable, accounts receivable, and general ledger accounting. Data input and processing are separate from system programming with management providing approval and oversight. In addition, an internal auditor reviews all areas of Lottery operations and reports to the Finance and Audit Committee of the Lottery Commission.

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

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

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

INDEPENDENT AUDIT

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

ACKNOWLEDGEMENTS

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

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

GFOA CERTIFICATE OF ACHIEVEMENT

Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the West Virginia Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2020. This was the 24th consecutive year that the West Virginia Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACCOMPLISHMENTS

For the 24th consecutive year, the West Virginia Lottery was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for the agency's annual comprehensive financial report.

For the first time, the West Virginia Lottery began offering 28-bin vending to its retailers, upgrading 70 locations throughout the state from 24-bin vending to 28.

FY 2021 smashed previous year sales records for traditional scratch-off and game sales, totaling \$249 million. This was up \$31 million, or 14 %, over the previous record, set in fiscal year 2006.

The West Virginia Lottery accomplished multiple expansion projects in Limited Video Lottery, Sports Wagering, and Interactive Wagering markets. During the 10-year LVL competitive rebid process, the issuance of all 9,000 video lottery terminal permits- made possible by House Bill 3308- allowed non-fraternal retailers to increase their video lottery terminal counts from seven to ten per venue. The WV Lottery also approved the launch of five new management service providers (MSPs) and seven remote gaming server providers (RGs) for mobile Interactive Wagering (iGaming) and Sports Wagering markets.

In FY 2021, the WV Limited Video Lottery market achieved records in monthly gross revenue numbers for seven of the 12-month timespan. Monthly LVL gross revenue reached an all-time high of \$51.2 million in March 2021.

FUTURE PROJECTS

Powerball®, a multi-state draw game, announced its transition to three drawings a week. The West Virginia Lottery marketing staff has been vigilant in advertising for the third weekly draw date, including a "Three Days a Week" campaign that spanned across multiple state promotional events and virtual contests. The first Monday draw date in Powerball history occurred on August 23, 2021.

FY 2022 will add a new draw game to the product mix. Ca\$H PoP will offer a new draw every 15 minutes, all seven days of the week. Players can enter by choosing just a single Ca\$H PoP number to match and win. A special "Cover All" element allows players to choose all 15 available numbers, guaranteeing a win. Prizes range up to \$5,000 and are randomly assigned to the player when purchased.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Lottery

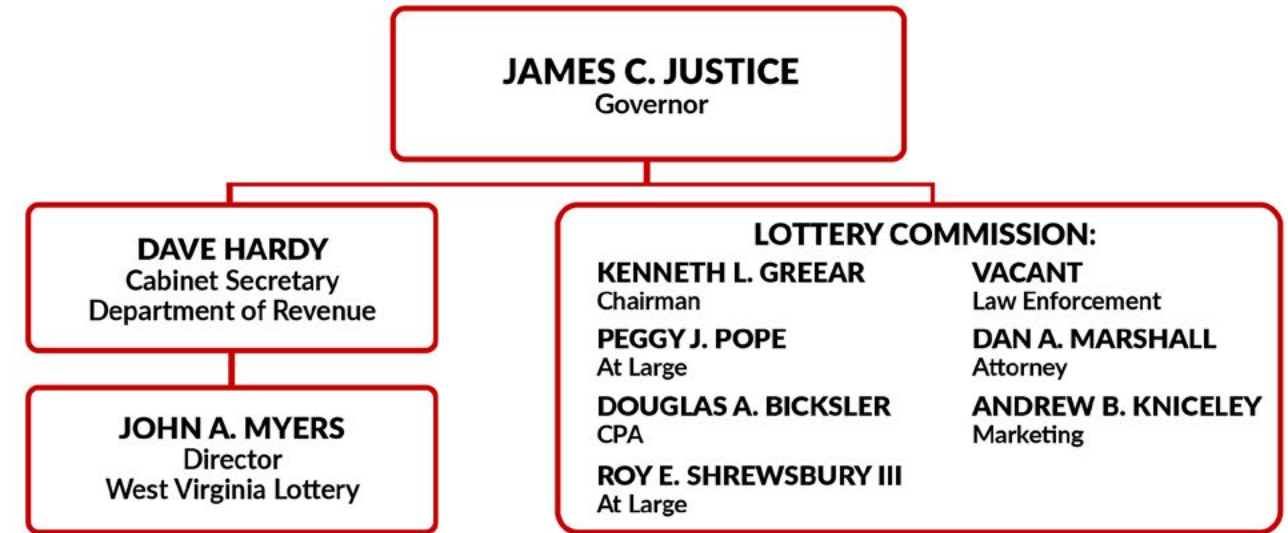
For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

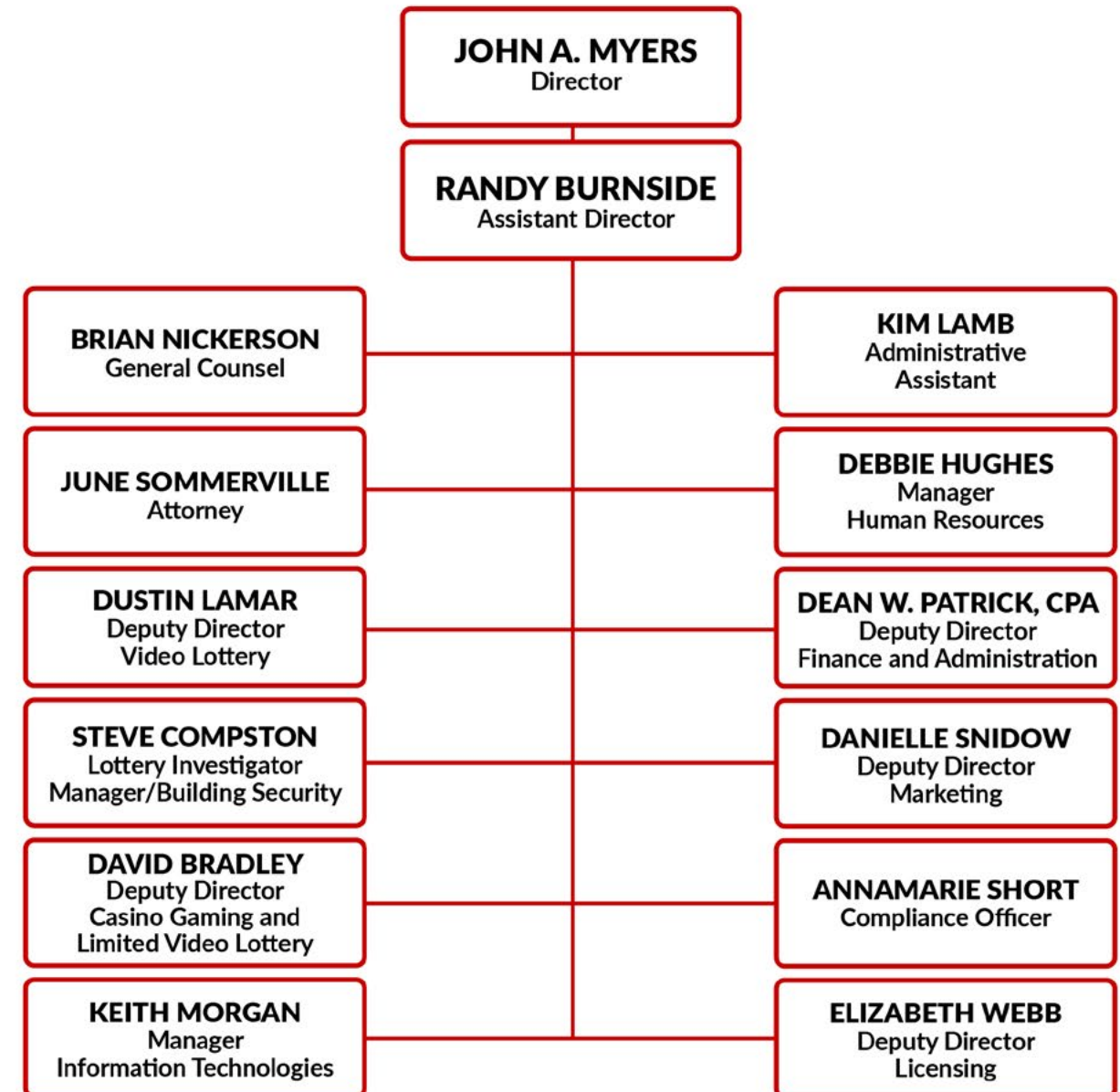
Christopher P. Morill

Executive Director/CEO

PRINCIPAL OFFICIALS AND ORGANIZATIONAL CHART



Executive Organizational Chart



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Lottery (the Lottery), a component unit of the State of West Virginia, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Charleston, West Virginia
September 23, 2021

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, 2021 and 2020. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2021, and the prior year refers to fiscal year ending June 30, 2020. This analysis is to be considered in conjunction with the financial statements, which begin on page 26. Prior year operations were negatively impacted by the COVID-19 pandemic, as government mandates required all casinos and limited video lottery retailers in the State to temporarily close for a portion of the year. Several factors contributed to the rebound of gaming revenues in the current year, including the reopening of all limited video lottery retailers and casinos as of July 1, 2020, no closures being required during the year ended June 30, 2021, and a gradual lifting of capacity and operational restrictions previously in place in response to the COVID-19 pandemic at limited video lottery retailer and casino locations. The extent to which the COVID-19 Pandemic impacts future Lottery operations will depend on continuing developments, which are uncertain and cannot be fully predicted at this time.

Financial Highlights

The Lottery's operating income increased in 2021 due to Limited Video Lottery bid fees for permits issued for the third 10-year period beginning July 1, 2021 and decreased in 2020 due to outcomes related to the COVID-19 Pandemic. In response to the Pandemic, certain programs sponsored by Federal and State governments to assist residents with COVID-19 recovery had the result of increasing discretionary spending. Although the direct impact of these programs on Lottery revenues cannot be measured, it is generally understood that increases to discretionary spending leads to an increase in gaming activity and therefore gaming revenues.

The following summary is provided below:

- Lottery revenues for the current year increased \$222.2 million or 23.3% compared to the prior year, which decreased \$187.4 million or 16.4% from 2019.
- Commissions for the current year increased \$87.6 million or 22.3% compared to the prior year, which decreased \$93.4 million or 19.2% from 2019.
- Gross profit for the current year increased \$105.2 million or 24.8% compared to the prior year, which decreased \$103.1 million or 19.6% from 2019.
- Nonoperating expenses increased \$165.1 million or 40.1% compared to the prior year, which decreased \$100.8 million or 19.7% from 2019. The predominant nonoperating expense is the distributions to the State of West Virginia, which increased \$157.0 million or 39.0% compared to the prior year, which decreased \$93.1 million or 18.8% from 2019.

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.

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statements of Net Position

As shown in Table 1, current assets for the current year decreased \$50.9 million or 17.7% compared to the prior year, which increased \$60.4 million or 26.6% from 2019, due to the timing difference between the winning of a Powerball® jackpot and the payment to the player.

Capital assets of land, building and equipment, net of accumulated depreciation and amortization, decreased in the current year by \$2.3 million or 5.1% due to depreciation compared to the prior year which decreased by \$1.7 million or 3.5% from 2019, due to depreciation. For additional information on capital assets, please refer to Note 4 to the financial statements.

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

| | 2021 | 2020 | 2019 |
|--|-------------------|-------------------|-------------------|
| Assets | | | |
| Current assets | \$ 236,377 | \$ 287,228 | \$ 226,849 |
| Capital assets, net of accumulated depreciation and amortization | 42,420 | 44,708 | 46,373 |
| Total assets | <u>\$ 278,797</u> | <u>\$ 331,936</u> | <u>\$ 273,222</u> |
| Deferred Outflows of Resources | | | |
| Deferred outflows of resources | <u>\$ 2,537</u> | <u>\$ 1,355</u> | <u>\$ 1,306</u> |

As shown in Table 2, the Lottery's current liabilities for the current year decreased \$53.5 million or 19.7% compared to the prior year, which increased \$59.4 million or 27.9% compared to 2019 due to the accumulation of prior year surplus transfers to the State of West Virginia combined with current year accrued transfers, and the timing of a Powerball jackpot payout.

Net position - net investment in capital assets decreased in the current year by \$2.3 million or 5.1% due to depreciation, compared to the prior year which decreased by \$1.7 million or 3.6% compared to 2019, due to depreciation. Refer to Note 4 to the financial statements for additional information on capital assets.

Net position – unrestricted increased \$3.7 million or 34.3% for the year ended June 30, 2021 compared to the prior year which increased \$1.6 million or 17.7% compared to 2019.

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

| | 2021 | 2020 | 2019 |
|--|-------------------|-------------------|-------------------|
| Current liabilities | \$ 218,553 | \$ 272,097 | \$ 212,694 |
| Noncurrent liabilities | 3,394 | 3,698 | 4,547 |
| Total liabilities | <u>\$ 221,947</u> | <u>\$ 275,795</u> | <u>\$ 217,241</u> |
| Deferred inflows of resources | <u>\$ 2,355</u> | <u>\$ 1,907</u> | <u>\$ 1,666</u> |
| Net position - net investment in capital assets | \$ 42,420 | \$ 44,708 | \$ 46,373 |
| Net position - unrestricted | 14,612 | 10,881 | 9,248 |
| Total net position | <u>\$ 57,032</u> | <u>\$ 55,589</u> | <u>\$ 55,621</u> |

(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 5.

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

| | 2021 | 2020 | 2019 |
|--|------------------|------------------|------------------|
| Revenues: | | | |
| On-line games | \$ 76,106 | \$ 61,196 | \$ 84,501 |
| Instant games | 173,142 | 145,436 | 115,596 |
| Racetrack video lottery | 404,235 | 384,972 | 506,647 |
| Limited video lottery | 480,612 | 329,844 | 392,330 |
| Table games | 26,806 | 27,144 | 35,530 |
| Historic resort | 7,893 | 5,228 | 7,350 |
| Sports wagering | 4,100 | 1,915 | 1,193 |
| Interactive wagering | 5,077 | - | - |
| | <u>1,177,971</u> | <u>955,735</u> | <u>1,143,147</u> |
| Less commissions: | | | |
| On-line games | 5,321 | 4,288 | 5,910 |
| Instant games | 12,120 | 10,181 | 8,076 |
| Racetrack video lottery | 212,774 | 203,211 | 261,875 |
| Limited video lottery | 235,500 | 161,624 | 192,242 |
| Table games | 11,358 | 11,513 | 15,070 |
| Historic resort | 4,098 | 2,735 | 3,787 |
| | <u>481,171</u> | <u>393,552</u> | <u>486,960</u> |
| Less on-line prize costs | 37,985 | 30,136 | 41,909 |
| Less instant ticket prize costs | 117,318 | 97,717 | 77,337 |
| Less ticket costs | 1,680 | 1,430 | 1,447 |
| Less vendor fees and costs | 10,620 | 8,854 | 8,328 |
| | <u>167,603</u> | <u>138,137</u> | <u>129,021</u> |
| Gross profit | <u>529,197</u> | <u>424,046</u> | <u>527,166</u> |
| Administrative expenses: | | | |
| Advertising and promotions | 4,338 | 3,923 | 4,714 |
| Wages and related benefits | 10,306 | 10,739 | 10,338 |
| Telecommunications | 687 | 477 | 887 |
| Contractual and professional | 5,990 | 5,920 | 6,798 |
| Rental | 204 | 211 | 203 |
| Depreciation and amortization | 1,659 | 1,665 | 1,674 |
| Other administrative expenses | 2,058 | 2,416 | 1,574 |
| | <u>25,242</u> | <u>25,351</u> | <u>26,188</u> |
| Other operating income | <u>74,300</u> | <u>12,964</u> | <u>11,975</u> |
| Operating income | <u>578,255</u> | <u>411,659</u> | <u>512,953</u> |
| Nonoperating income (expense): | | | |
| Investment income | 622 | 3,549 | 3,964 |
| Distributions to municipalities and counties | (9,420) | (6,465) | (7,689) |
| Distributions for capital reinvestment | (9,052) | (6,773) | (13,664) |
| Distributions to the State of West Virginia | (558,962) | (402,002) | (495,142) |
| Change in Net Position | <u>1,443</u> | <u>(32)</u> | <u>422</u> |
| Net position, beginning of year | <u>55,589</u> | <u>55,621</u> | <u>55,199</u> |
| Net position, end of year | <u>\$ 57,032</u> | <u>\$ 55,589</u> | <u>\$ 55,621</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 2021, 2020, and 2019. 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)

| | Instant | | | On-Line* | | | Racetrack Video Lottery | | |
|-------------------------|------------|------------|------------|-----------|-----------|-----------|-------------------------|------------|------------|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Gross sales | \$ 173,142 | \$ 145,436 | \$ 115,596 | \$ 76,106 | \$ 61,196 | \$ 84,501 | \$ 404,235 | \$ 384,972 | \$ 506,647 |
| Less direct costs: | | | | | | | | | |
| Prizes and bonuses | 117,318 | 97,717 | 77,337 | 37,985 | 30,136 | 41,909 | - | - | - |
| Commissions | 12,120 | 10,181 | 8,076 | 5,321 | 4,288 | 5,910 | 212,774 | 203,211 | 261,875 |
| Ticket printing costs | 1,680 | 1,430 | 1,447 | - | - | - | - | - | - |
| Vendor fees and costs | 6,951 | 5,958 | 4,712 | 3,669 | 2,896 | 3,616 | - | - | - |
| Total direct costs | 138,069 | 115,286 | 91,572 | 46,975 | 37,320 | 51,435 | 212,774 | 203,211 | 261,875 |
| Gross Profit | \$ 35,073 | \$ 30,150 | \$ 24,024 | \$ 29,131 | \$ 23,876 | \$ 33,066 | \$ 191,461 | \$ 181,761 | \$ 244,772 |
| Gross profit percentage | 20.3% | 20.7% | 20.8% | 38.3% | 39.0% | 39.1% | 47.4% | 47.2% | 48.3% |

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

| | Limited Video Lottery | | | Table Games | | | Historic Resort | | |
|-------------------------|-----------------------|------------|------------|-------------|-----------|-----------|-----------------|----------|----------|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Gross sales | \$ 480,612 | \$ 329,844 | \$ 392,330 | \$ 26,806 | \$ 27,144 | \$ 35,530 | \$ 7,893 | \$ 5,228 | \$ 7,350 |
| Less direct costs: | | | | | | | | | |
| Prizes and bonuses | - | - | - | - | - | - | - | - | - |
| Commissions | 235,500 | 161,624 | 192,242 | 11,358 | 11,513 | 15,070 | 4,098 | 2,735 | 3,787 |
| Ticket printing costs | - | - | - | - | - | - | - | - | - |
| Vendor fees and costs | - | - | - | - | - | - | - | - | - |
| Total direct costs | 235,500 | 161,624 | 192,242 | 11,358 | 11,513 | 15,070 | 4,098 | 2,735 | 3,787 |
| Gross Profit | \$ 245,112 | \$ 168,220 | \$ 200,088 | \$ 15,448 | \$ 15,631 | \$ 20,460 | \$ 3,795 | \$ 2,493 | \$ 3,563 |
| Gross profit percentage | 51.0% | 51.0% | 51.0% | 57.6% | 57.6% | 57.6% | 48.1% | 47.7% | 48.5% |

| | Sports Wagering | | | Interactive Wagering | | | Total | | |
|-------------------------|-----------------|----------|----------|----------------------|------|------|--------------|------------|--------------|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Gross sales | \$ 4,100 | \$ 1,915 | \$ 1,193 | \$ 5,077 | \$ - | \$ - | \$ 1,177,971 | \$ 955,735 | \$ 1,143,147 |
| Less direct costs: | | | | | | | | | |
| Prizes and bonuses | - | - | - | - | - | - | 155,303 | 127,853 | 119,246 |
| Commissions | - | - | - | - | - | - | 481,171 | 393,552 | 486,960 |
| Ticket printing costs | - | - | - | - | - | - | 1,680 | 1,430 | 1,447 |
| Vendor fees and costs | - | - | - | - | - | - | 10,620 | 8,854 | 8,328 |
| Total direct costs | - | - | - | - | - | - | 648,774 | 531,689 | 615,981 |
| Gross Profit | \$ 4,100 | \$ 1,915 | \$ 1,193 | \$ 5,077 | \$ - | \$ - | \$ 529,197 | \$ 424,046 | \$ 527,166 |
| Gross profit percentage | 100.0% | 100.0% | 100.0% | 100.0% | - | - | 44.9% | 44.4% | 46.1% |

Instant Sales

Instant ticket sales for the current year increased by \$27.7 million or 19.1% compared to the prior year, which increased \$29.8 million or 25.8% from 2019. Forty-one games were introduced in 2021 and approximately thirty-two 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 six ten-dollar, and four twenty-dollar tickets introduced in 2021. There were also fifteen five-dollar tickets and two 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.

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Instant Sales (Continued)

The Lottery began the use of three twenty-dollar and four ten-dollar tickets in the field at all times in the spring of 2021.

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 of prize expense is consistent over time.

Vendor fees and costs are primarily 4.3% of instant and on-line ticket sales for 2021, 2020 and 2019. The Lottery (as is the case with most lotteries located in North America) has elected to enter into a long-term contract with a vendor to provide a central computer system, retailer terminals and related equipment to sell and cash all tickets for instant and on-line games.

Powerball® Sales

Powerball® is a \$2 Multi-State (MUSL) Lottery game designed to grow large jackpot amounts, with occasional jackpots in excess of \$400 million. Sales for the current year increased \$5.4 million or 24.5% compared to the prior year, which decreased \$11.4 million or 34.1% from 2019. Sales are generally driven by the jackpot size.

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

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

Mega Millions® Sales

Mega Millions® sales offers jackpots starting at \$15 million and other prizes ranging from \$1 to \$1,000,000. Sales for the current year increased \$6.0 million or 44.5% compared to the prior year, which decreased \$11.0 million or 45.1% from 2019.

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

All Other On-line Games

All other on-line games consist of Daily 3, Daily 4, Cash 25, Travel Keno and one Multi-State games Lotto America™. Sales for the current year increased \$3.5 million or 13.8% compared to the prior year, which decreased \$906.9 thousand or 3.4% from 2019.

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.

(Continued)

WEST VIRGINIA LOTTERY

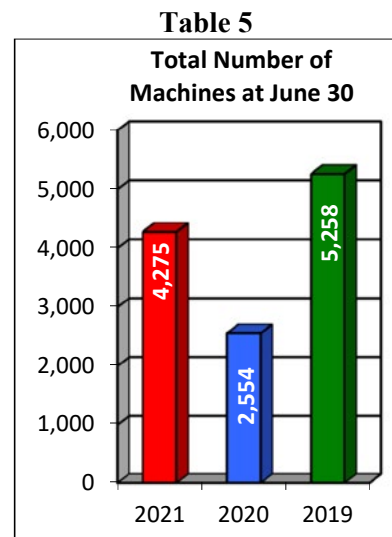
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Racetrack Video Lottery

Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year increased \$19.3 million or 5.0% compared to the prior year, which decreased \$121.7 million or 24.0% from 2019.

A portion of racetrack video lottery sales, as prescribed by statute, are paid to racetracks and other private entities associated with the racing industry and are reported as commissions. See Note 6 to the financial statements for further discussion of racetrack video lottery distributions. Commissions in the current year increased \$9.6 million or 4.7% due to COVID-19 rebounds in revenue generating commissions compared to the prior year which decreased \$58.7 million or 22.4% compared to 2019.

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 last three fiscal years.



Limited Video Lottery

Sales, which were recovering from COVID-19, for the current year increased \$150.8 million or 45.7% compared to the prior year, which decreased \$62.5 million or 15.9% from 2019. Commissions are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales. For the current year, commissions increased \$73.9 million or 45.7% compared to the prior year decrease of \$30.6 million or 15.9% from 2019.

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Limited Video Lottery (Continued)

Table 6 illustrates the number of machines which increased by 27 machines for the current year compared to the prior year decrease of 249 machines from 2019.

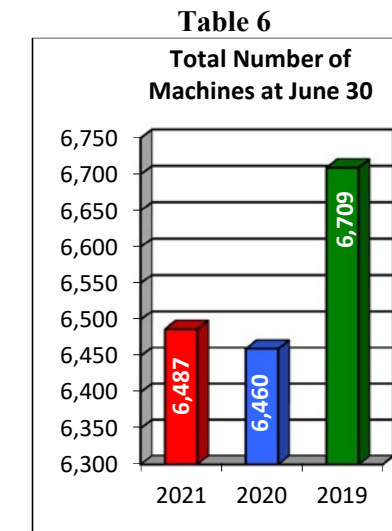


Table Games

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues, which were still impacted by restrictions due to COVID-19, for the current year decreased \$338 thousand or 1.2% compared to the prior year, which decreased \$8.4 million or 23.6% from 2019.

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 \$155 thousand or 1.3% compared to the prior year, which decreased \$3.6 million or 23.6% from 2019.

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 recovering from COVID-19, for the current year increased \$2.7 million or 51.0% compared to the prior year, which decreased \$2.1 million or 2.9% from 2019.

A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions for the current year increased \$1.4 million or 49.8% compared to the prior year, which decreased \$1.1 million or 2.8% from 2019.

(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 recovering from the COVID-19 pandemic, 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. Revenues for the current year increased \$2.2 million or 114.1% compared to the prior year, which increased \$722 thousand or 60.5% from 2019.

Interactive Wagering

On March 9, 2019, the West Virginia Legislature passed House Bill 2934 which allowed for the four racetrack casinos and the casino in the historic resort hotel to conduct interactive wagering. This allows the placing of wagers through a server-based gaming system using a computer network of interoperable packet switched data networks through which the operator may offer authorized interactive games.

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. Limited Video Lottery permits are issued to qualifying recipients for a 10-year period which initially expired on June 30, 2021. During the year ended June 30, 2021, non-refundable bid fees totaling \$67.9 million were paid by bidders for the right to be permitted for the next 10 years beginning July 1, 2021.

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.

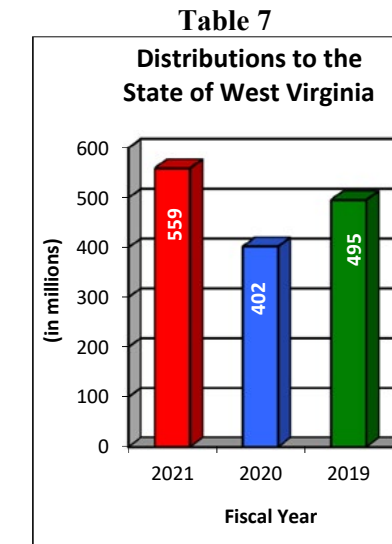
A portion of net revenue from racetrack video lottery is accrued and distributed to each racetrack for capital improvements.

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 increased by \$157.0 million compared to the prior year, which decreased by \$93.1 million from 2019.

(Continued)

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

Nonoperating Income / Expense (Continued)



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, 2021 and 2020

| ASSETS | 2021 | 2020 |
|--|------------------|------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents (Note 3) | \$ 198,583 | \$ 132,073 |
| Accounts receivable | 35,077 | 152,449 |
| Inventory | 911 | 539 |
| Other assets | 1,806 | 2,167 |
| Total current assets | <u>236,377</u> | <u>287,228</u> |
| NONCURRENT ASSETS | | |
| Capital assets (Note 4) | 60,923 | 61,552 |
| Less accumulated depreciation and amortization (Note 4) | (18,503) | (16,844) |
| Total noncurrent assets | <u>42,420</u> | <u>44,708</u> |
| Total assets | <u>278,797</u> | <u>331,936</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources related to pension and OPEB (Notes 13 and 14) | 2,537 | 1,355 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accrued nonoperating distributions to the State of West Virginia (Note 12) | 166,942 | 115,331 |
| Estimated prize claims | 16,445 | 123,916 |
| Accounts payable | 2,265 | 2,382 |
| Other accrued liabilities | 32,901 | 30,468 |
| Total current liabilities | <u>218,553</u> | <u>272,097</u> |
| NONCURRENT LIABILITIES | | |
| Net pension liability (Note 13) | 2,740 | 1,147 |
| Net OPEB liability (Note 14) | 654 | 2,551 |
| Total noncurrent liabilities | <u>3,394</u> | <u>3,698</u> |
| Total liabilities | <u>221,947</u> | <u>275,795</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources related to pension and OPEB (Notes 13 and 14) | 2,355 | 1,907 |
| NET POSITION | | |
| Net investment in capital assets | 42,420 | 44,708 |
| Unrestricted | 14,612 | 10,881 |
| Total net position | <u>\$ 57,032</u> | <u>\$ 55,589</u> |

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

WEST VIRGINIA LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
(In Thousands)
Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|------------------|------------------|
| LOTTERY REVENUES | | |
| On-line games | \$ 76,106 | \$ 61,196 |
| Instant games | 173,142 | 145,436 |
| Racetrack video lottery (Note 6) | 404,235 | 384,972 |
| Limited video lottery (Note 7) | 480,612 | 329,844 |
| Table games (Note 8) | 26,806 | 27,144 |
| Historic resort (Note 9) | 7,893 | 5,228 |
| Sports Wagering (Note 10) | 4,100 | 1,915 |
| Interactive Wagering (Note 11) | 5,077 | - |
| | <u>1,177,971</u> | <u>955,735</u> |
| LESS COMMISSIONS | | |
| On-line games | 5,321 | 4,288 |
| Instant games | 12,120 | 10,181 |
| Racetrack video lottery (Note 6) | 212,774 | 203,211 |
| Limited video lottery (Note 7) | 235,500 | 161,624 |
| Table games (Note 8) | 11,358 | 11,513 |
| Historic resort (Note 9) | 4,098 | 2,735 |
| | <u>481,171</u> | <u>393,552</u> |
| Less on-line prize costs | 37,985 | 30,136 |
| Less instant prize costs | 117,318 | 97,717 |
| Less ticket costs | 1,680 | 1,430 |
| Less vendor fees and costs | 10,620 | 8,854 |
| | <u>167,603</u> | <u>138,137</u> |
| Gross profit | <u>529,197</u> | <u>424,046</u> |
| ADMINISTRATIVE EXPENSES | | |
| Advertising and promotions | 4,338 | 3,923 |
| Wages and related benefits | 10,306 | 10,739 |
| Telecommunications | 687 | 477 |
| Contractual and professional | 5,990 | 5,920 |
| Rental | 204 | 211 |
| Depreciation and amortization | 1,659 | 1,665 |
| Other administrative expenses | 2,058 | 2,416 |
| | <u>25,242</u> | <u>25,351</u> |
| Other operating income | 74,300 | 12,964 |
| Operating income | <u>578,255</u> | <u>411,659</u> |
| NONOPERATING INCOME (EXPENSES) | | |
| Investment income | 622 | 3,549 |
| Distributions to municipalities and counties | (9,420) | (6,465) |
| Distributions for capital reinvestment | (9,052) | (6,773) |
| Distributions to the State of West Virginia (Note 12) | (558,962) | (402,002) |
| | <u>(576,812)</u> | <u>(411,691)</u> |
| Change in net position | 1,443 | (32) |
| NET POSITION, beginning | 55,589 | 55,621 |
| NET POSITION, ending | <u>\$ 57,032</u> | <u>\$ 55,589</u> |

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

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
(In Thousands)
Years Ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers and other sources | \$ 1,369,643 | \$ 849,677 |
| Cash payments for: | | |
| Personnel costs | (11,321) | (11,084) |
| Suppliers | (13,143) | (13,225) |
| Other operating costs | (754,784) | (423,096) |
| Cash provided by operating activities | <u>590,395</u> | <u>402,272</u> |
| Cash flows from noncapital financing activities: | | |
| Nonoperating distributions to the State of West Virginia | (507,351) | (449,389) |
| Distributions to municipalities and counties | (9,427) | (6,292) |
| Distributions to racetracks from racetrack capital reinvestment fund | (8,122) | (8,605) |
| Cash used in noncapital financing activities | <u>(524,900)</u> | <u>(464,286)</u> |
| Cash flows from investing activities: | | |
| Maturities of investments held in trust | - | - |
| Investment earnings | 1,015 | 3,250 |
| Increase (decrease) in cash and cash equivalents | 66,510 | (58,764) |
| CASH AND CASH EQUIVALENTS, beginning | <u>132,073</u> | <u>190,837</u> |
| CASH AND CASH EQUIVALENTS, ending | <u>\$ 198,583</u> | <u>\$ 132,073</u> |

(Continued)

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
(In Thousands)
Years Ended June 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 578,255 | \$ 411,659 |
| Adjustments to reconcile operating income to cash provided by operating activities: | | |
| Loss on disposal of capital assets | 629 | - |
| Depreciation and amortization | 1,659 | 1,665 |
| Pension expense | 675 | 473 |
| OPEB expense | (560) | 121 |
| OPEB Support | (62) | (154) |
| Changes in operating accounts: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 117,372 | (118,868) |
| Inventory | (372) | 102 |
| Other assets | (32) | (78) |
| Deferred outflows of resources | (1,091) | (1,097) |
| Increase (decrease) in: | | |
| Estimated prize claims | (107,471) | 108,998 |
| Accounts payable | (117) | 122 |
| Other accrued liabilities | 1,510 | (671) |
| Cash provided by operating activities | <u>\$ 590,395</u> | <u>\$ 402,272</u> |

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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 six basic types of lottery games: instant, on-line, video type games, table games, and taxes derived from sports and interactive 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, 2021

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; 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, 2021

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 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, 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Lottery game operations (Continued)

Interactive wagering legislation has established specific requirements for interactive wagering and imposed certain restrictions limiting the licensing for operation of interactive 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 interactive 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 an interactive wagering license, there is levied a privilege tax of fifteen percent of each licensee's adjusted gross interactive wagering receipts from the operation of interactive 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 interactive wagering.

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.

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2021 and June 30, 2020 are as follows (in thousands):

| | Year Ending June 30 | |
|--|----------------------------|---------------|
| | 2021 | 2020 |
| Beginning estimated liabilities | \$ 813 | \$ 655 |
| Leave expenses incurred | 836 | 813 |
| Leave expenses paid | <u>(813)</u> | <u>(655)</u> |
| Ending estimated liabilities | <u>\$ 836</u> | <u>\$ 813</u> |
| Liabilities estimated to be paid in one year | <u>\$ 836</u> | <u>\$ 813</u> |

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 13 and 14). 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 13 and 14).

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Summary of Significant Accounting Policies (Continued)

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.

Note 3. Cash and Cash Equivalents

At June 30, 2021 and 2020, the carrying amounts of deposits with financial institutions were \$461 thousand and \$498 thousand, respectively, with bank balances of \$563 and \$589 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, 2021 and 2020, 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):

| | 2021 | 2020 |
|---|-------------------|-------------------|
| Deposits with financial institutions | \$ 461 | \$ 498 |
| Cash on hand at the Treasurer's Office | 26,655 | 20,485 |
| Investments with BTI reported as cash equivalents | <u>171,467</u> | <u>111,090</u> |
| | <u>\$ 198,583</u> | <u>\$ 132,073</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.

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and cash equivalents (Continued)

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The West Virginia Money Market Pool has been rated AAAm by Standard & Poor's. A fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. Neither the BTI itself nor the West Virginia Short Term Bond Pool has been rated for credit risk by any organization.

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

| Security Type | Credit Rating | | Carrying Value (in Thousands) | Percent of Pool Assets |
|--|---------------|------|-------------------------------|------------------------|
| | Moody's | S&P | | |
| U.S. Treasury notes * | Aaa | AA+ | \$ 37,505 | 0.55% |
| U.S. Treasury bills* | P-1 | A-1+ | 354,997 | 5.19 |
| Commercial Paper | P-1 | A-1+ | 1,302,573 | 19.04 |
| | P-1 | A-1 | 2,634,701 | 38.50 |
| Negotiable certificates of deposit | P-1 | A-1+ | 138,500 | 2.02 |
| | P-1 | A-1 | 812,504 | 11.88 |
| Money market funds | Aaa | AAAm | 1,600 | 0.02 |
| | NR | AAAm | 217,022 | 3.17 |
| Repurchase agreements (underlying securities): | | | | |
| U.S. Treasury bonds and notes | Aaa | AA+ | 1,325,680 | 19.37 |
| U.S. Agency bonds and notes | Aaa | AA+ | 17,920 | 0.26 |
| | | | <u>\$ 6,843,002</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):

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and Cash Equivalents (Continued)

Credit risk (continued)

| Security Type | Credit Rating | | Carrying Value (in Thousands) | Percent of Pool Assets |
|--|---------------|--------|-------------------------------|------------------------|
| | Moody's | S&P | | |
| U.S. Treasury notes * | Aaa | AA+ | \$ 123,066 | 15.08% |
| U.S. agency collateralized mortgage obligations | | | | |
| U.S. government guaranteed* | Aaa | AA+ | 16,295 | 2.00 |
| Non-U.S. government guaranteed | Aaa | AA+ | 6,779 | 0.83 |
| Corporate fixed- and floating-rate bonds and notes | Aaa | AAA | 3,627 | 0.44 |
| | Aaa | AA+ | 6,684 | 0.82 |
| | Aa1 | AA | 2,549 | 0.31 |
| | Aa2 | AA+ | 1,354 | 0.17 |
| | Aa2 | AA | 5,665 | 0.69 |
| | Aa2 | AA- | 4,019 | 0.49 |
| | Aa2 | A+ | 4,400 | 0.54 |
| | Aa2 | NR | 5,858 | 0.72 |
| | Aa3 | AA+ | 5,258 | 0.64 |
| | Aa3 | AA- | 21,288 | 2.61 |
| | Aa3 | A+ | 7,793 | 0.96 |
| | Aa3 | A | 4,168 | 0.51 |
| | A1 | AA | 1,623 | 0.20 |
| | A1 | AA- | 8,860 | 1.09 |
| | A1 | A+ | 28,261 | 3.46 |
| | A1 | A | 14,323 | 1.76 |
| | A1 | A- | 10,621 | 1.30 |
| | A1 | BBB+ | 8,103 | 0.99 |
| A2 | A+ | 15,952 | 1.96 | |
| A2 | A | 48,388 | 5.93 | |
| A2 | A- | 28,214 | 3.46 | |
| A2 | BBB+ | 27,127 | 3.32 | |
| A3 | AA- | 2,329 | 0.29 | |
| A3 | A+ | 9,145 | 1.12 | |
| A3 | A | 9,351 | 1.15 | |
| A3 | A- | 21,011 | 2.58 | |
| A3 | BBB+ | 24,656 | 3.02 | |
| Baa1 | A- | 5,451 | 0.67 | |
| Baa1 | BBB+ | 19,851 | 2.43 | |
| Baa1 | BBB | 3,115 | 0.38 | |
| Baa1 | NR | 1,976 | 0.24 | |
| Baa2 | A- | 6,101 | 0.75 | |
| Baa2 | BBB+ | 11,436 | 1.40 | |
| Baa2 | BBB | 27,925 | 3.42 | |

(Continued on next page)

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and Cash Equivalents (Continued)

Credit risk (continued)

| Security Type | Credit Rating | | Carrying Value (in Thousands) | Percent of Pool Assets |
|-------------------------------------|---------------|------|----------------------------------|---------------------------|
| | Moody's | S&P | | |
| | Baa2 | BBB- | 10,177 | 1.25 |
| | Baa3 | BBB | 17,015 | 2.09 |
| | Baa3 | BBB- | 22,599 | 2.77 |
| | Baa3 | NR | 5,846 | 0.72 |
| | Ba1 | BBB- | 6,703 | 0.82 |
| | NR | A+ | 6,290 | 0.77 |
| | NR | A- | 5,935 | 0.73 |
| | NR | BBB+ | 4,507 | 0.55 |
| | NR | BBB | 7,927 | 0.97 |
| | NR | BBB- | 1,588 | 0.19 |
| Collateralized mortgage obligations | NR | AAA | 79 | 0.01 |
| Municipal Securities | Aa1 | AAA | 2,484 | 0.30 |
| | Aa1 | AA+ | 11,211 | 1.37 |
| | Aa1 | AA | 2,789 | 0.34 |
| | Aa2 | AA+ | 6,630 | 0.81 |
| | Aa2 | AA | 15,973 | 1.96 |
| | Aa2 | AA- | 8,230 | 1.01 |
| | Aa2 | NR | 8,556 | 1.05 |
| | Aa3 | AA- | 2,233 | 0.27 |
| | NR | AAA | 2,876 | 0.35 |
| | NR | AA+ | 3,172 | 0.39 |
| Asset-backed securities | Aaa | AAA | 19,696 | 2.41 |
| | Aaa | NR | 27,153 | 3.33 |
| | Aa1 | NR | 8,183 | 1.00 |
| | NR | AAA | 49,648 | 6.09 |
| Money market funds | Aaa | AAAm | 5,756 | 0.72 |
| | | | \$ 815,878 | 100.00% |

NR = Not Rated

Interest rate risk

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and Cash Equivalents (Continued)

Interest rate risk (continued)

| Security Type | Carrying Value (In Thousands) | WAM (Days) |
|------------------------------------|----------------------------------|---------------|
| U.S. Treasury notes | \$ 37,505 | 1 |
| U.S. Treasury bills | 354,997 | 13 |
| Commercial paper | 3,937,274 | 73 |
| Negotiable certificates of deposit | 951,004 | 65 |
| Repurchase agreements | 1,343,600 | 6 |
| Money market funds | 218,622 | 1 |
| | \$ 6,843,002 | 52 |

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 | \$ 123,066 | 638 |
| U.S. agency collateralized mortgage obligations | 23,074 | 213 |
| Corporate fixed-rate bonds and notes | 461,933 | 720 |
| Corporate floating-rate bonds and notes | 33,136 | (6) |
| Collateralized mortgage obligations | 79 | 752 |
| Municipal Securities | 64,154 | 608 |
| Asset-backed securities | 104,680 | 626 |
| Money market funds | 5,756 | - |
| | \$ 815,878 | 638 |

Other risks of investing

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and Cash Equivalents (Continued)

Other risks of investing (continued)

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

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

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

Note 4. Capital Assets

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

| | Historical cost at June 30, 2019 | | | Historical cost at June 30, 2020 | | | Historical cost at June 30, 2021 | | |
|-----------------------------------|---|-----------------|-------------|---|-----------------|-----------------|---|-----------|-----------|
| | 2019 | Additions | Deletions | 2020 | Additions | Deletions | 2021 | Additions | Deletions |
| 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>\$ (629)</u> | <u>\$ 60,923</u> | | |
| | Accumulated depreciation at June 30, 2019 | | | Accumulated depreciation at June 30, 2020 | | | Accumulated depreciation at June 30, 2021 | | |
| | 2019 | Additions | Deletions | 2020 | Additions | Deletions | 2021 | Additions | Deletions |
| Building | \$ 7,699 | \$ 1,233 | \$ - | \$ 8,932 | \$ 1,233 | \$ - | \$ 10,165 | | |
| Equipment | 7,480 | 432 | - | 7,912 | 426 | - | 8,338 | | |
| | <u>\$ 15,179</u> | <u>\$ 1,665</u> | <u>\$ -</u> | <u>\$ 16,844</u> | <u>\$ 1,659</u> | <u>\$ -</u> | <u>\$ 18,503</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.

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 \$27,355,170 and \$21,977,553 for the years ended June 30, 2021 and 2020, respectively, and related prize costs were \$13,687,235 and \$11,035,207, respectively.

Revenues derived from the Lottery's participation in the LOTTO AMERICA game were \$4,733,870 and \$4,593,875 for the years ended June 30, 2021 and 2020, respectively, and related prize costs were \$2,367,225 and \$1,804,924, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$19,434,999 and \$13,446,828 for the years ended June 30, 2021 and 2020, respectively, and related prize costs were \$9,715,483 and \$6,724,330, 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):

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

Required Contribution (% of Sales) Reserve Fund Cap

| | | |
|----------------|----|-----------|
| 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):

| | <u>2021</u> | | <u>2020</u> | |
|-----------------|-------------------|----------------------|-------------------|----------------------|
| | <u>Total</u> | <u>Lottery Share</u> | <u>Total</u> | <u>Lottery Share</u> |
| POWERBALL ® | \$ 109,316 | \$ 1,386 | \$ 121,889 | \$ 1,552 |
| LOTTO AMERICA | 4,610 | 347 | 4,264 | 317 |
| MEGA MILLIONS ® | 93,276 | 934 | 89,580 | 958 |
| | <u>\$ 207,202</u> | <u>\$ 2,667</u> | <u>\$ 215,733</u> | <u>\$ 2,827</u> |

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

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above the expenses are credited to an unreserved fund. The Lottery records this interest when earned. This fund had a balance of \$19,878,441 and \$18,113,814 at June 30, 2021 and 2020, of which the Lottery's share was \$1,441,191 and \$1,414,345, 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 12 titled "Nonoperating Distributions to the State of West Virginia."

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 6. Racetrack Video Lottery (Continued)

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

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

The final benchmark occurs when the current year net terminal revenue meets the fiscal year 2001 net terminal revenue. At this point a 10% surcharge is applied to net terminal revenue, with 62% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 38% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack. After deduction of the surcharge, 49% of the net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (5%); and the local county and incorporated municipality governments (2%). The remaining net terminal revenue (51%) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 12.

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.

A summary of racetrack video lottery revenues for the years ended June 30, 2021 and 2020, follows (in thousands):

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| Total credits (bets) played | \$ 4,546,773 | \$ 4,244,096 |
| Credits (prizes) won | (4,082,345) | (3,801,989) |
| Promotional credits played | <u>(60,193)</u> | <u>(57,135)</u> |
| Gross terminal income | 404,235 | 384,972 |
| Administrative costs | <u>(13,035)</u> | <u>(12,596)</u> |
| Net terminal income | 391,200 | 372,376 |
| Commissions | <u>(212,774)</u> | <u>(203,211)</u> |
| Racetrack video lottery revenues available for distribution | <u>\$ 178,426</u> | <u>\$ 169,165</u> |

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

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|-------------------|-------------------|
| State Lottery Fund | \$ 95,054 | \$ 91,892 |
| State Excess Lottery Revenue Fund | 80,680 | 74,882 |
| Capital Reinvestment Fund | <u>2,692</u> | <u>2,391</u> |
| Total nonoperating distributions | <u>\$ 178,426</u> | <u>\$ 169,165</u> |

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 6. Racetrack Video Lottery (Continued)

On March 12, 2011, the Legislature passed Senate Bill 550 (amended March 24, 2021 by Senate Bill 9 to extend the fund through 2030) 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, 2030, the Lottery may 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, 2021 and 2020, the Lottery transferred approximately \$9 million and \$7.8 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, 2021 and 2020 follows (in thousands):

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|--------------------|
| Total credits played | \$ 6,204,072 | \$ 4,223,766 |
| Credits (prizes) won | <u>(5,723,460)</u> | <u>(3,893,922)</u> |
| Gross terminal income | 480,612 | 329,844 |
| Administrative costs | <u>(9,612)</u> | <u>(6,597)</u> |
| Gross profit | 471,000 | 323,247 |
| Commissions | (235,500) | (161,624) |
| Distributions to municipalities and counties | <u>(9,420)</u> | <u>(6,465)</u> |
| Limited video lottery revenues available for distribution | <u>\$ 226,080</u> | <u>\$ 155,158</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 game fund.

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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, 2021 and 2020 were \$76,587,377 and \$77,554,634, respectively. A summary of table games revenues for the years ended June 30, 2021 and 2020 follows (in thousands):

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 8. Table Games (Continued)

| | <u>2021</u> | <u>2020</u> |
|--|------------------|------------------|
| Table games privilege tax | \$ 26,806 | \$ 27,144 |
| Interest on table games fund | 3 | 46 |
| Administrative costs | <u>(2,298)</u> | <u>(2,327)</u> |
| Total available for distribution | <u>24,511</u> | <u>24,863</u> |
| <u>Less distributions:</u> | | |
| Racetrack purse funds | 1,723 | 1,745 |
| Thoroughbred & greyhound development funds | 1,379 | 1,396 |
| Racing commission pension plan | 674 | 684 |
| Municipalities/counties | <u>7,582</u> | <u>7,688</u> |
| Total distributions | <u>11,358</u> | <u>11,513</u> |
| Table games distribution to the state | | |
| Excess Lottery Fund | <u>\$ 13,153</u> | <u>\$ 13,350</u> |

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, 2021 and 2020 follows (in thousands):

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Historic Resort Hotel (Continued)

Historic resort video lottery (continued)

| | <u>2021</u> | <u>2020</u> |
|------------------------------|-----------------|-----------------|
| Total credits played | \$ 88,205 | \$ 67,204 |
| Credits (prizes) won | (81,424) | (62,110) |
| Promotional credits played | <u>(1,227)</u> | <u>(1,364)</u> |
| Gross terminal income | 5,554 | 3,730 |
| Capital reinvestment | (261) | (175) |
| Excess Lottery/Modernization | (50) | (34) |
| Hotel commissions | <u>(2,349)</u> | <u>(1,578)</u> |
| Net terminal income | <u>\$ 2,894</u> | <u>\$ 1,943</u> |
| Historic Resort Hotel Fund | \$ 1,950 | \$ 1,309 |
| Human Resource Benefit Fund | <u>944</u> | <u>634</u> |
| Total | <u>\$ 2,894</u> | <u>\$ 1,943</u> |

Historic resort table games

Each historic resort hotel licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts, of which thirty percent (30%) is deposited directly into the Historic Resort Hotel Fund and five percent (5%) is deposited directly into the Human Resource Benefit Fund. The historic resort hotel table games adjusted gross receipts for the years ended June 30, 2021 and 2020 were \$6,681,689 and \$4,281,893, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------|-----------------|-----------------|
| Table games privilege tax | <u>\$ 2,339</u> | <u>\$ 1,499</u> |
| Historic Resort Hotel Fund | \$ 2,005 | \$ 1,285 |
| Human Resource Benefit Fund | <u>334</u> | <u>214</u> |
| Total distributions | <u>\$ 2,339</u> | <u>\$ 1,499</u> |

Historic resort hotel fund

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Historic Resort Hotel video lottery | \$ 1,950 | \$ 1,309 |
| Historic Resort table games | 2,005 | 1,285 |
| Interest on Historic Resort Hotel Fund | <u>1</u> | <u>9</u> |
| Historic Resort Hotel Fund deposits | <u>3,956</u> | <u>2,603</u> |
| Administrative costs | <u>(601)</u> | <u>(394)</u> |
| Historic Resort Hotel Fund net income | <u>\$ 3,355</u> | <u>\$ 2,209</u> |
| Municipalities/Counties | \$ 470 | \$ 309 |
| Excess Lottery Revenue Fund | <u>2,885</u> | <u>1,900</u> |
| Total distributions | <u>\$ 3,355</u> | <u>\$ 2,209</u> |

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, 2021

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, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-----------------|-----------------|
| Sports wagering privilege tax | \$ 4,100 | \$ 1,915 |
| Administrative costs | <u>(615)</u> | <u>(287)</u> |
| Total available for distribution | <u>\$ 3,485</u> | <u>\$ 1,628</u> |

Note 11. Interactive Wagering

Interactive Wagering legislation passed in 2019 per House Bill 2934. Each racetrack and historic resort hotel licensee is subject to a privilege tax of fifteen percent (15%) of adjusted gross interactive gaming receipts which will be deposited weekly into the Interactive Wagering Fund.

From the privilege tax deposited into the Interactive Wagering Fund, the Commission, 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.

In each fiscal year, the Lottery Commission shall deposit one-quarter of a percent of the net profit into each of the four special funds established by the Racing Commission, pursuant to §29-22A-10 and §29-22C-27 to be used for payment into the pension plan for the employees of the licensed racing associations in this state.

After the reduction for administrative expenses and the pension plans for the racing associations, the net profit shall be deposited into the State Lottery Fund.

The Interactive Wagering adjusted gross interactive gaming receipts for the year-to-date ended June 30, 2021 were \$33,845,751. The privilege tax and the accrued distributions (in thousands) for the year ended June 30, 2021 are as follows:

| | <u>2021</u> |
|---------------------------------------|---------------------|
| Interactive wagering privilege tax | \$ 5,077 |
| Interest on Interactive wagering fund | 1 |
| Administrative costs | <u>(762)</u> |
| Total available for distribution | <u>4,316</u> |
| Racetrack Pension Funds | \$ 43 |
| State Lottery Fund | <u>4,273</u> |
| Total distributions | <u>\$ 4,316</u> |

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 12. 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, 2021 and 2020, the State Legislature budgeted \$142,964,751 and \$166,844,018, 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 on 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, 2021. The Lottery accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$166,941,982 and \$115,330,915, for the years ended June 30, 2021 and 2020 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):

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|----------------|----------------|
| <u>State Lottery Fund:</u> | | |
| Bureau of Senior Services | \$ 57,955 | \$ 63,606 |
| Department of Education | 18,883 | 18,883 |
| Library Commission | 11,514 | 11,514 |
| Higher Education - Central Office | 7,265 | 7,264 |
| Tourism | 6,732 | 6,732 |
| Natural Resources | 3,443 | 3,443 |
| Division of Culture & History | 4,185 | 4,115 |
| Economic Development Authority | 9,994 | 9,994 |
| School Building Authority | 18,000 | 18,000 |
| General Revenue Fund | - | 18,295 |
| Community and Technical College | <u>4,993</u> | <u>4,998</u> |
| Total State Lottery Fund | <u>142,964</u> | <u>166,844</u> |

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 12. Nonoperating Distributions to the State of West Virginia (Continued)

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| <u>State Excess Lottery Revenue Fund:</u> | | |
| General Purpose Account | 65,000 | 52,323 |
| Education Improvement Fund | 29,000 | 23,344 |
| WV Infrastructure Council Fund | 46,000 | 38,198 |
| Higher Education Improvement Fund | 15,000 | 15,000 |
| State Park Improvement Fund | 1,505 | 1,211 |
| School Building Authority | 18,994 | 18,993 |
| Economic Development Fund | 25,406 | 25,416 |
| Refundable Credit - General Revenue Fund | 10,000 | 9,909 |
| Racing Commission | 2,000 | 1,610 |
| General Revenue Fund | 6,498 | - |
| WV Department of Health and Human Resources | 83,303 | 17,000 |
| Distributions to Statutory Funds and Purposes | | |
| Parking Garage Fund | 716 | 576 |
| Capitol Dome and Improvements Fund | 1,796 | 1,446 |
| Capitol Renovation and Improvements Fund | 2,381 | 1,917 |
| Development Office Promotion Fund | 1,299 | 1,046 |
| Research Challenge Fund | 1,732 | 1,394 |
| Tourism Promotion Fund | 4,808 | 3,870 |
| Cultural Facilities and Capitol Resources Fund | 1,251 | 1,007 |
| State Debt Reduction Fund | 20,000 | 16,099 |
| General Revenue Fund | 1,168 | 30,599 |
| Historic Resort Hotel Fund | 24 | 19 |
| Racing Commission | 3,464 | 2,788 |
| Non-Governmental Budgeted Transfers | <u>22,383</u> | <u>18,018</u> |
| Total State Excess Lottery Revenue Fund | <u>363,728</u> | <u>281,783</u> |
| Total Distributions | 506,692 | 448,627 |
| Veterans Instant Ticket Fund | <u>659</u> | <u>762</u> |
| Total nonoperating distributions to the State of West Virginia (cash basis) | 507,351 | 449,389 |
| Accrued nonoperating distributions, beginning of year | (115,331) | (162,718) |
| Accrued nonoperating distributions, end of year | <u>166,942</u> | <u>115,331</u> |
| Total nonoperating distributions to the State of West Virginia | <u>\$ 558,962</u> | <u>\$ 402,002</u> |

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. 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.

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% of covered employees' annual earnings for fiscal years ending June 30, 2021, 2020, and 2019, 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 \$812,805, \$809,424, and \$788,768 for the years ended June 30, 2021, 2020 and 2019, respectively.

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

At June 30, 2021 and 2020, respectively, the Lottery reported a liability of \$2,739,610 and \$1,146,897 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2021 was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019, rolled forward to the measurement

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. Pension Benefits (Continued)

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

date of June 30, 2020. 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, 2020. At June 30, 2020, the Lottery's proportion was 0.52 percent, which is a decrease of less than .01 from its proportion as of June 30, 2019.

For the years ended June 30, 2021 and 2020, respectively, the Lottery recognized pension expense of \$674,353 and \$472,335. At June 30, 2021 and 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

| | June 30, 2021 | |
|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Net difference between projected and actual earnings on pension plan investments | \$ 868 | \$ - |
| Differences between expected and actual experience | 403 | 56 |
| Changes in assumptions | - | 121 |
| Changes in proportion and differences between Lottery contributions and proportionate share of contributions | 12 | 37 |
| Lottery contributions made subsequent to the measurement date of June 30, 2020 | <u>813</u> | <u>-</u> |
| Total | <u>\$ 2,096</u> | <u>\$ 214</u> |

| | 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 | <u>810</u> | <u>-</u> |
| Total | <u>\$ 880</u> | <u>\$ 730</u> |

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. Pension Benefits (Continued)

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

The \$812,805 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | |
|----------------------------|----------|
| 2022 | \$ (122) |
| 2023 | 388 |
| 2024 | 491 |
| 2025 | 312 |

Actuarial assumptions

The total pension liability in the June 30, 2020 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 generationally with scale MP-2018 for active employees, 108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected generationally with scale MP-2018 for retired healthy males, 122% of Pub-2010 General Retiree Female table, below-median, headcount weighted, projected generationally with scale MP-2018 for retired healthy females, 118% of Pub-2010 General / Teachers Disabled Male table, headcount weighted, projected generationally with scale MP-2018 for disabled males, and 117% of Pub-2010 General / Teachers Disabled Female table, headcount weighted, projected generationally with scale MP-2018 for disabled females.

An experience study, which was based on the years 2013 through 2018, was used for the 2020 actuarial valuation

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| 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 |

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. Pension Benefits (Continued)

Actuarial assumptions (continued)

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 117% of Pub-2010 General / Teachers Disabled Female table, below-median, headcount weighted, projected with scale MP-2018 for disabled females.

An experience study, which was based on the years 2013 through 2018, was used for the 2019 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% | 5.5% | 1.51% |
| International equity | 27.5% | 7.0% | 1.93% |
| Fixed income | 15.0% | 2.2% | 0.33% |
| Real estate | 10.0% | 6.6% | 0.66% |
| Private equity | 10.0% | 8.5% | 0.85% |
| Hedge funds | 10.0% | 4.0% | 0.40% |
| Total | 100.00% | | 5.68% |
| Inflation (CPI) | | | 1.90% |
| | | | <u>7.58%</u> |

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. Pension Benefits (Continued)

Actuarial assumptions (continued)

Discount rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate 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 rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability of the plan. Although discount rates are subject to change between measurement dates, there were no changes in the current period.

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

| | Net Pension Liability (Asset) | |
|------------------------------|--------------------------------------|-------|
| 1% decrease (6.5%) | \$ | 6,980 |
| Current discount rate (7.5%) | \$ | 2,740 |
| 1% increase (8.5%) | \$ | (846) |

Note 14. 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 West Virginia Consolidated Retirement Board (CPRB) sponsored retirement plans. RHBT provides medical and prescription drug insurance and life insurance benefits to those qualified participants. Life insurance is provided through a vendor and is fully funded by member contributions. The medical and prescription drug insurance is provided through two options; Self-Insured Preferred Provider Benefit Plan - primarily for non-Medicare-eligible retirees and spouses or External Managed Care Organizations - primarily for Medicare-eligible retirees and spouses.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. 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, 2021, 2020, and 2019, respectively, were:

| | 2021 | 2020 | 2019 |
|---------------|-------------|-------------|-------------|
| Paygo Premium | \$160 | \$ 168 | \$ 183 |

Contributions to the OPEB plan from the Lottery were \$278,563, \$287,367 and \$316,653 for the years ended June 30, 2021, 2020, and 2019, 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, 2021

Note 14. 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, which is the measurement date of the liability reported as of June 30, 2021. 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, 2021 and 2020, the Lottery reported a liability for its proportionate share of the RHBT net OPEB liability that reflected a reduction for State OPEB support provided to the Lottery. The amount recognized by the Lottery as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Lottery was as follows (in thousands):

| | <u>2021</u> | <u>2020</u> |
|---|---------------|-----------------|
| Lottery's proportionate share of net OPEB liability | \$654 | \$ 2,551 |
| State's special funding proportionate share of the net OPEB liability associated with the Lottery | 145 | 522 |
| Total portion of net OPEB liability associated with the Lottery | <u>\$ 799</u> | <u>\$ 3,073</u> |

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. 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, 2021 was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. 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, 2020, the Lottery's proportion was .15 percent, which is unchanged from its proportion measured as of June 30, 2019.

For the years ended June 30, 2021 and 2020, respectively, the Lottery recognized OPEB expense of \$(559,657) and \$121,648 and for support provided by the State under special funding situations revenue of \$62,147 and \$154,674. At June 30, 2021 and 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

| | <u>June 30, 2021</u> | |
|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ - | \$ 425 |
| Net difference between projected and actual earnings on OPEB plan investments | 49 | - |
| Changes in assumptions | - | 1,477 |
| Changes in proportion and differences between Lottery contributions and proportionate share of contributions | 113 | 198 |
| Reallocation of opt out employer change in proportionate share | - | 41 |
| Lottery contributions subsequent to the measurement date of June 30, 2020 | 279 | - |
| Total | <u>\$ 441</u> | <u>\$ 2,141</u> |

| | <u>June 30, 2020</u> | |
|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| 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 | <u>\$ 475</u> | <u>\$ 1,177</u> |

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. 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 \$278,563 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, 2022. 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: | |
|---------------------|----------|
| 2022 | \$ (811) |
| 2023 | (655) |
| 2024 | (503) |
| 2025 | (10) |

Actuarial assumptions

The total OPEB liability, reported as of June 30, 2021, was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-------------------------------|--|
| Inflation | 2.25% |
| Salary increases | Specific to the OPEB covered group. Ranging from 2.75% to 5.18%, including inflation |
| Investment rate of return | 6.65%, net of OPEB plan investment expense, including inflation |
| Healthcare cost trend rates | Trend rate for pre-Medicare per capita costs of 7.0% for plan year end 2022, 6.50% for plan year end 2023, decreasing by 0.25% each year thereafter, until ultimate trend rate of 4.25% is reached in plan year 2032. Trend rate for Medicare per capita costs of (31.11%) for plan year end 2022. 9.15% for plan year end 2023, 8.40% for plan year end 2024, decreasing gradually each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2036. |
| 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 retirement rates were based on Pub-2010 General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 100% for males and 108% for females for Teachers' Retirement System (TRS), Pub-2010 Below-Median Income General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 106% for males and 113% for females for PERS, and Pub-2010 Public Safety Healthy Retiree Mortality Tables projected with scale MP-2019

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (continued)

and scaling factors of 100% for males and females for West Virginia Death, Disability, and Retirement Fund (Trooper A) and West Virginia State Police Retirement System (Trooper B). Pre-retirement mortality rates were based on Pub-2010 General Employee Mortality Tables projected with MP-2019 for TRS, Pub-2010 Below-Median Income General Employee Mortality Tables projected with MP-2019 for PERS, and Pub-2010 Public Safety Employee Mortality Tables projected with scale MP-2019 for Troopers A and B.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2015- June 30, 2020.

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, 2021

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

The actuarial assumptions used in the June 30, 2018 valuation 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 actuarial valuation as of June 30, 2018 and a measurement date of June 30, 2020. The net effect of the assumption changes on the plan, in total, was approximately \$1,147 million.

- General/price inflation – decrease price inflation rate from 2.75% to 2.25%
- Discount rate – decrease discount rate from 7.15% to 6.65%
- Wage inflation – decrease wage inflation rate from 4.00% to 2.75% for PERS and TRS, and 3.25% for Troopers A and B
- OPEB retirement – develop explicit retirement rates for members who are eligible to retire with healthcare benefits and elect healthcare coverage
- Waived annuitant termination – develop explicit waived termination rates for members who are eligible to retire with healthcare benefits but waive healthcare coverage
- SAL conversion – develop explicit SAL conversion rates for members who are eligible to convert sick and annual leave (SAL) balances at retirement and convert SAL balances into OPEB benefits
- Lapse/re-entry – develop net lapse/re-entry rates for members who either lapse coverage after electing healthcare coverage or elect healthcare coverage after waiving coverage.
- Other demographic assumptions – develop termination, disability, and mortality rates based on experience specific to OPEB covered group
- Salary increase – develop salary increase assumptions based on experience specific to the OPEB covered group

The long-term expected rate of return of 6.65% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.0% for long-term assets invested with the West Virginia Investment Management Board (WVIMB) and an expected short-term rate of return of 2.5% 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 rates of return on OPEB plan investments are determined using a building block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Target asset allocations, capital market assumptions, and forecast returns were provided by the plan's investment advisors, including the WVIMB. The projected return for the Money Market Pool held with the WVBTI 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:

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------------|--------------------------|---|
| Global Equity | 52.25% | 6.8% |
| Core Plus Fixed Income | 14.25% | 4.1% |
| Hedge Fund | 9.5% | 4.4% |
| Private Equity | 9.5% | 8.8% |
| Core Real Estate | 9.5% | 6.1% |
| Cash and cash equivalents | 5.0% | 0.25% |

Discount rate

A single discount rate of 6.65% was used to measure the total OPEB liability. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made in accordance with the 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, 2025, 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.

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, 2020, the RHBT was still experiencing the effects of the global pandemic that was declared by the World Health Organization due to an outbreak and spread of the COVID-19 virus. The OPEB valuation with a measurement date of June 30, 2020, 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.

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):

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

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

| | <u>1% Decrease</u> <u>(5.65%)</u> | <u>Current</u> <u>Discount Rate</u> <u>(6.65%)</u> | <u>1% Increase</u> <u>(7.65%)</u> |
|---|--------------------------------------|--|--------------------------------------|
| Lottery's proportionate share of the net OPEB liability | \$ 933 | \$ 654 | \$ 421 |

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

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

| | <u>1% Decrease</u> | <u>Current</u> <u>Healthcare</u> <u>Cost Trend</u> <u>Rates</u> | <u>1% Increase</u> |
|---|--------------------|--|--------------------|
| Lottery's proportionate share of the net OPEB liability | \$ 394 | \$ 654 | \$ 969 |

Note 15. 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, 2021 and 2020 approximated \$203,728 and \$211,270, 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, 2021 and 2020 were \$1,085,053 and \$1,069,385, respectively.

Note 16. Commitments

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2021 and 2020, \$7,536,034 and \$8,073,287, respectively, are included in unrestricted net position for this purpose.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 17. Risk Management

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

Public Employees' Insurance Agency (PEIA)

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

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

Board of Risk and Insurance Management (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a risk pool currently operating as a risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims. During the year ended June 30, 2021, no changes in coverage were made and paid claims did not exceed coverage.

Workers compensation insurance

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 18. Contingencies and Uncertainties

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.

The extent to which the COVID-19 pandemic impacts Lottery operations will continue to depend on future developments, including the duration, severity and scope of the pandemic, and the actions taken to contain or treat the coronavirus pandemic. 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. 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. 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. 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, 2021

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.

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

Public Employees Retirement System Plan

| | Years Ended June 30 | | | | | | |
|---|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Lottery's proportion (percentage) of the net pension liability | 0.52% | 0.53% | 0.53% | 0.53% | 0.52% | 0.55% | 0.55% |
| Lottery's proportionate share of the net pension liability | \$ 2,740 | \$ 1,147 | \$ 1,360 | \$ 2,274 | \$ 4,800 | \$ 3,044 | \$ 2,035 |
| Lottery's covered payroll | \$ 8,100 | \$ 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 | 33.83% | 14.54% | 18.52% | 31.62% | 66.12% | 41.02% | 27.44% |
| Plan fiduciary net position as a percentage of the total pension liability | 92.89% | 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.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

| | Years Ended June 30 | | | | | | | | |
|--|---------------------|---------|----------|----------|----------|----------|----------|----------|----------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Statutorily required contribution | \$ 813 | \$ 810 | \$ 789 | \$ 808 | \$ 863 | \$ 980 | \$ 1,039 | \$ 1,075 | \$ 1,072 |
| Contributions in relation to the statutorily required contribution | 813 | 810 | 789 | 808 | 863 | 980 | 1,039 | 1,075 | 1,072 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Lottery's covered payroll | \$8,130 | \$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% | 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 | | | |
|---|---------------------|----------|----------|----------|
| | 2021 | 2020 | 2019 | 2018 |
| West Virginia Lottery's proportion (percentage) of the net OPEB liability | 0.15% | 0.15% | 0.15% | 0.14% |
| West Virginia Lottery's proportionate share of the net OPEB liability | \$ 654 | \$ 2,551 | \$ 3,187 | \$ 3,501 |
| State's proportionate share of the net OPEB liability associated with the Lottery | \$ 145 | \$ 522 | \$ 659 | \$ 719 |
| Total | \$ 799 | \$ 3,073 | \$ 3,846 | \$ 4,220 |
| West Virginia Lottery's covered-employee payroll | \$ 4,942 | \$ 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 | 13.23% | 51.97% | 63.75% | 66.51% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 73.49% | 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.

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

WEST VIRGINIA LOTTERY

SCHEDULES OF CONTRIBUTIONS TO THE RHBT
(In Thousands)

| | Years Ended June 30 | | | | |
|--|---------------------|----------|----------|----------|----------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Statutorily required contribution | \$ 279 | \$ 287 | \$ 317 | \$ 303 | \$ 292 |
| Contributions in relation to the statutorily required contribution | 279 | 287 | 317 | 303 | 292 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| West Virginia Lottery's covered-employee payroll | \$ 4,810 | \$ 4,942 | \$ 4,909 | \$ 4,999 | \$ 5,264 |
| Contributions as a percentage of covered-employee payroll | 5.80% | 5.81% | 6.46% | 6.06% | 5.55% |

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

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

The information in the schedules of the proportionate share of the net pension liability was based on actuarial valuations rolled forward to measurement dates of June 30 of each year presented below using the following actuarial assumptions:

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

Note 3. Pension Assumptions (Continued)

| <u>PERS</u> | <u>2019-2020</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 generationally with scale MP-2018 Retired healthy males-108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected generationally with scale MP-2018 Retired healthy females-122% of Pub-2010 General Retiree Female table, below-median, headcount weighted, projected generationally with scale MP-2018 Disabled males-118% of Pub-2010 General / Teachers Disabled Male table, headcount weighted, projected generationally with scale MP-2018 Disabled females-118% of Pub-2010 General / Teachers Disabled Female table, headcount weighted, projected generationally 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 | 2.50-35.88% | 2 - 35.8 | 2 – 31.2% |
| Disability rates | 0.005-0.540% | 0. - 67.5% | 0 – 8% |
| Experience study | 2013 - 2018 | 2009 - 2014 | 2004 - 2009 |

Note 4. OPEB Assumptions

Below are changes in assumptions between the 2020 and 2018 valuations:

The assumption changes that most significantly impacted the total OPEB liability were an approximate \$831 million decrease due to updated capped subsidy rates, per capita costs, and trend rates, as well as an approximate \$279 million decrease due to changes in assumptions as a result of an experience study as follows:

- General/price inflation – decrease price inflation rate from 2.75% to 2.25%
- Discount rate – decrease discount rate from 7.15% to 6.65%
- Wage inflation – decrease wage inflation rate from 4.00% to 2.75% for PERS and TRS, and 3.25% for Troopers A and B
- OPEB retirement – develop explicit retirement rates for members who are eligible to retire with healthcare benefits and elect healthcare coverage
- Waived annuitant termination – develop explicit waived termination rates for members who are eligible to retire with healthcare benefits but waive healthcare coverage
- SAL conversion – develop explicit SAL conversion rates for members who are eligible to convert sick and annual leave (SAL) balances at retirement and convert SAL balances into OPEB benefits
- Lapse/re-entry – develop net lapse/re-entry rates for members who either lapse coverage after electing healthcare coverage or elect healthcare coverage after waiving coverage.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

Note 4. OPEB Assumptions (Continued)

- Other demographic assumptions – develop termination, disability, and mortality rates based on experience specific to OPEB covered group
- Salary increase – develop salary increase assumptions based on experience specific to the OPEB covered group

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.

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

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

STATISTICAL SECTION

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

FINANCIAL TRENDS/REVENUE CAPACITY

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

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

OPERATING INFORMATION

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

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

SALES BY PRODUCT AND OTHER REVENUES - LAST TEN YEARS*

| | 2012 | 2013 | 2014 | 2015 |
|------------------------------|------------------------|------------------------|------------------------|------------------------|
| INSTANT | \$117,676,396 | \$108,634,752 | \$105,561,992 | \$103,276,392 |
| POWERBALL® | \$38,686,528 | \$48,688,807 | \$39,490,788 | \$34,099,437 |
| HOT LOTTO SIZZLER® | \$4,736,542 | \$5,063,704 | \$5,310,353 | \$5,745,617 |
| DAILY 3 | \$8,698,349 | \$8,301,649 | \$8,269,965 | \$8,109,719 |
| DAILY 4 | \$5,028,983 | \$4,748,002 | \$4,905,892 | \$4,849,937 |
| CASH 25 | \$5,465,460 | \$5,237,499 | \$5,191,451 | \$5,191,526 |
| TRAVEL KENO | \$6,249,636 | \$5,671,808 | \$5,049,843 | \$5,103,370 |
| MEGA MILLIONS® | \$14,746,963 | \$9,274,409 | \$14,850,257 | \$13,623,552 |
| LOTTO AMERICA® | - | - | - | - |
| TOTAL ON-LINE | \$83,612,461 | \$86,985,878 | \$83,068,549 | \$76,723,158 |
| <i>VIDEO (net of prizes)</i> | | | | |
| RACETRACK LIMITED | \$764,898,326 | \$655,676,762 | \$590,918,374 | \$557,802,811 |
| TABLE GAMES (privilege tax) | \$406,108,085 | \$399,223,893 | \$377,222,264 | \$373,220,741 |
| VIDEO (net of prizes) | \$78,121,131 | \$70,258,634 | \$50,464,934 | \$46,928,173 |
| TABLE GAMES (privilege tax) | \$4,950,083 | \$4,737,669 | \$4,440,596 | \$4,070,270 |
| TOTAL HISTORIC RESORT | \$2,163,962 | \$2,858,962 | \$2,607,435 | \$1,982,451 |
| SPORTS WAGERING | \$7,114,045 | \$7,596,631 | \$7,048,031 | \$6,052,721 |
| INTERACTIVE WAGERING | - | - | - | - |
| TOTAL SALES | \$1,457,530,444 | \$1,328,376,550 | \$1,214,284,144 | \$1,164,003,996 |
| LICENSE FEES | \$71,847,082 | \$9,871,021 | \$9,776,116 | \$10,024,323 |
| MISCELLANEOUS | \$1,504,260 | \$1,989,230 | \$1,943,345 | \$1,288,429 |
| OTHER OPERATING INCOME | \$73,351,342 | \$11,860,251 | \$11,719,461 | \$11,312,752 |
| NONOPERATING INCOME | \$9,826,225 | \$252,688 | \$462,053 | \$406,819 |
| TOTAL REVENUES | \$1,540,708,011 | \$1,340,489,489 | \$1,226,465,658 | \$1,175,723,567 |

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------------------|------------------------|------------------------|------------------------|------------------------|----------------------|------------------------|
| INSTANT | \$102,541,884 | \$94,368,751 | \$99,194,790 | \$115,596,133 | \$145,435,600 | \$173,142,225 |
| POWERBALL® | \$46,553,463 | \$34,514,013 | \$36,483,389 | \$33,340,489 | \$21,977,553 | \$27,355,170 |
| HOT LOTTO SIZZLER® | \$4,790,589 | \$4,848,437 | \$2,219,730 | - | - | - |
| DAILY 3 | \$8,176,541 | \$8,144,181 | \$7,940,388 | \$7,936,802 | \$8,178,479 | \$8,722,635 |
| DAILY 4 | \$4,904,381 | \$4,796,895 | \$4,746,084 | \$4,639,723 | \$4,734,016 | \$5,002,445 |
| CASH 25 | \$5,062,256 | \$4,938,032 | \$4,833,798 | \$4,831,831 | \$4,894,279 | \$5,044,417 |
| TRAVEL KENO | \$4,136,493 | \$3,811,709 | \$3,639,022 | \$3,917,999 | \$3,370,533 | \$5,812,452 |
| MEGA MILLIONS® | \$12,035,877 | \$11,057,403 | \$14,850,547 | \$24,482,131 | \$13,446,828 | \$19,434,999 |
| LOTTO AMERICA® | - | - | \$3,126,972 | \$5,351,712 | \$4,593,875 | \$4,733,870 |
| TOTAL ON-LINE | \$85,659,600 | \$72,110,670 | \$77,839,930 | \$84,500,687 | \$61,195,563 | \$76,105,988 |
| <i>VIDEO (net of prizes)</i> | | | | | | |
| RACETRACK LIMITED | \$537,729,110 | \$521,317,604 | \$504,294,811 | \$506,646,755 | \$384,972,224 | \$404,234,626 |
| TABLE GAMES (privilege tax) | \$360,814,338 | \$347,555,459 | \$368,067,327 | \$392,329,925 | \$329,844,305 | \$480,612,089 |
| VIDEO (net of prizes) | \$43,545,330 | \$38,957,889 | \$35,152,441 | \$35,530,186 | \$27,144,122 | \$26,805,582 |
| TABLE GAMES (privilege tax) | \$4,486,215 | \$3,739,067 | \$4,845,200 | \$5,094,820 | \$3,729,723 | \$5,554,723 |
| TOTAL HISTORIC RESORT | \$1,859,221 | \$1,467,848 | \$1,778,614 | \$2,255,342 | \$1,498,662 | \$2,338,591 |
| SPORTS WAGERING | \$6,345,436 | \$5,206,915 | \$6,623,814 | \$7,350,162 | \$5,228,385 | \$7,893,314 |
| INTERACTIVE WAGERING | - | - | - | \$1,193,403 | \$1,914,670 | \$4,099,848 |
| TOTAL SALES | \$1,136,635,698 | \$1,079,517,288 | \$1,091,173,113 | \$1,143,147,251 | \$955,734,869 | \$1,177,970,535 |
| LICENSE FEES | \$9,396,576 | \$9,245,717 | \$10,806,586 | \$10,152,290 | \$9,993,823 | \$72,630,164 |
| MISCELLANEOUS | \$1,131,369 | \$1,431,996 | \$1,926,990 | \$1,822,894 | \$2,971,027 | \$1,670,372 |
| OTHER OPERATING INCOME | \$10,527,945 | \$10,677,713 | \$12,733,576 | \$11,975,184 | \$12,964,850 | \$74,300,536 |
| NONOPERATING INCOME | \$788,063 | \$934,085 | \$1,573,220 | \$3,964,409 | \$3,549,343 | \$622,730 |
| TOTAL REVENUES | \$1,147,951,706 | \$1,091,129,086 | \$1,105,479,909 | \$1,159,086,844 | \$972,249,062 | \$1,252,893,801 |

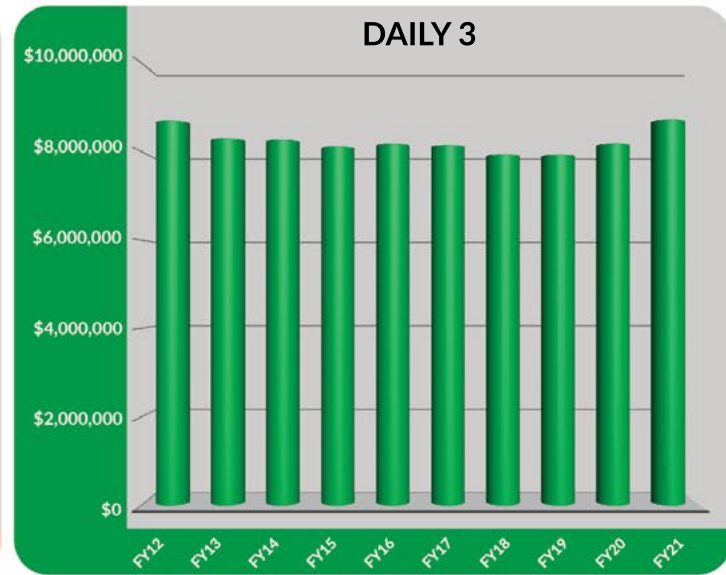
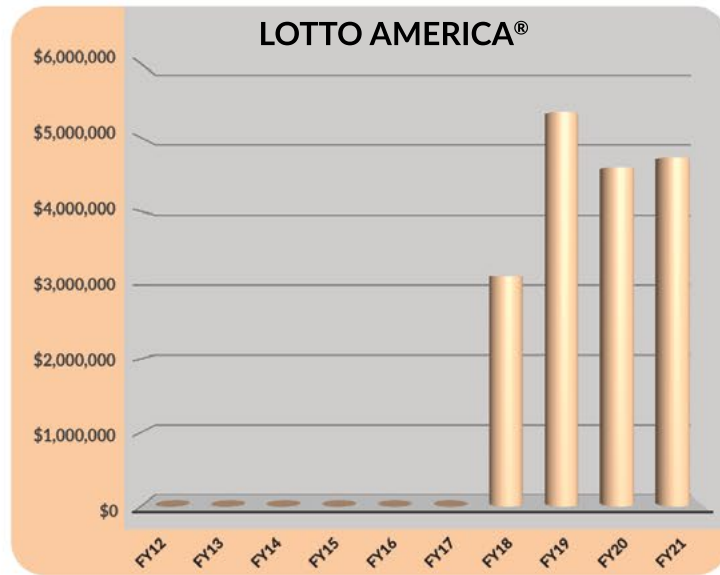
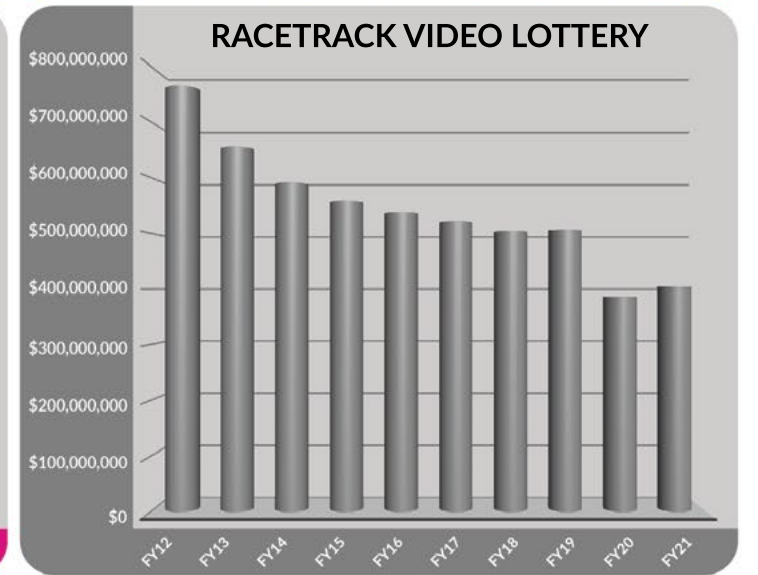
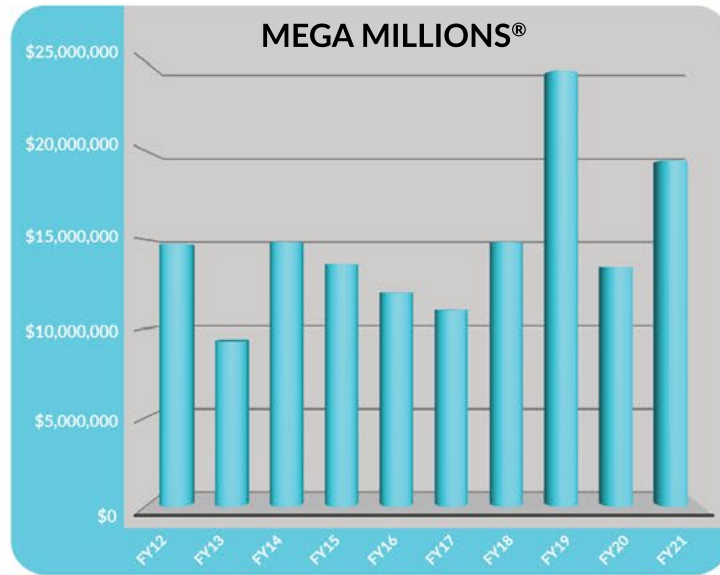
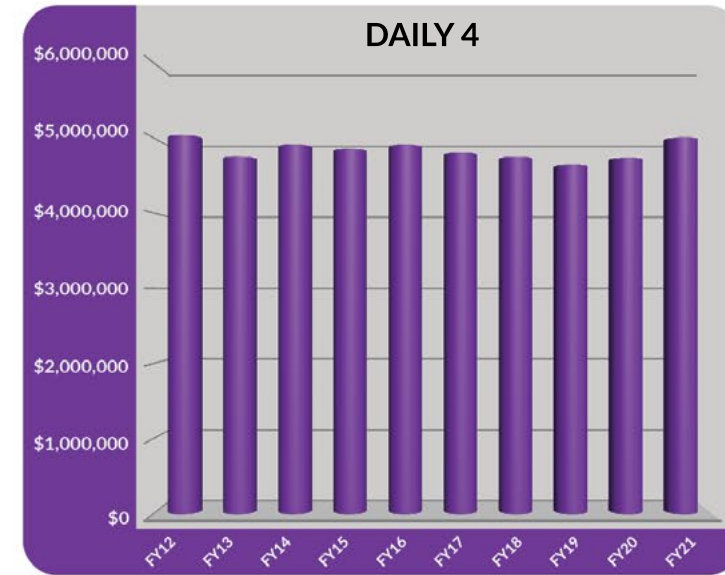
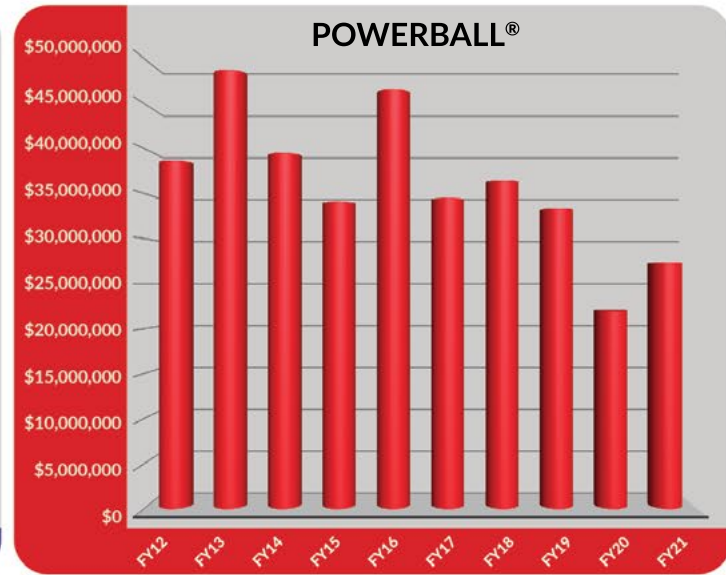
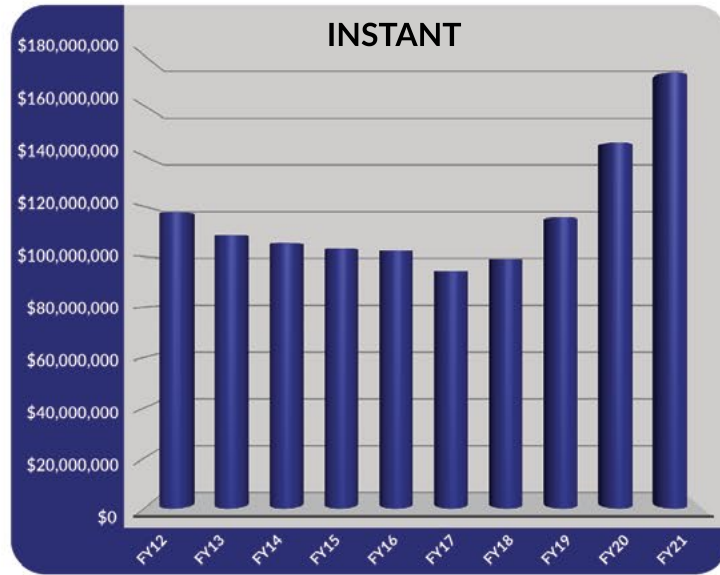
EXPENSES, DISTRIBUTIONS AND CHANGES IN NET POSITION - LAST TEN YEARS*

| | 2012 | 2013 | 2014 | 2015 |
|--|----------------------|----------------------|----------------------|----------------------|
| PRIZES (traditional) | \$120,605,843 | \$116,230,326 | \$111,761,267 | \$106,475,947 |
| COMMISSIONS | | | | |
| INSTANT | \$8,238,580 | \$7,604,433 | \$7,389,339 | \$7,229,348 |
| ON-LINE | \$5,844,402 | \$6,094,540 | \$5,819,974 | \$5,371,955 |
| RACETRACK LIMITED | \$424,048,550 | \$370,827,992 | \$336,205,404 | \$286,777,829 |
| TABLE GAMES | \$198,992,951 | \$195,619,694 | \$184,838,897 | \$182,878,150 |
| HISTORIC RESORT | \$33,570,927 | \$30,674,243 | \$22,032,440 | \$19,885,019 |
| TOTAL COMMISSIONS | \$3,671,152 | \$3,706,532 | \$3,456,421 | \$3,068,391 |
| TOTAL COMMISSIONS | \$674,366,562 | \$614,527,434 | \$559,742,475 | \$505,210,692 |
| ADMINISTRATION (includes ticket costs) | \$38,989,047 | \$34,991,775 | \$35,652,922 | \$33,663,094 |
| TOTAL OPERATING EXPENSES | \$833,961,452 | \$765,749,535 | \$707,156,664 | \$645,349,733 |
| NONOPERATING DISTRIBUTIONS | | | | |
| MUNICIPALITIES AND COUNTIES | \$7,959,718 | \$7,824,788 | \$7,393,556 | 7,315,126 |
| CAPITAL REINVESTMENT FUND | \$22,900,376 | \$18,820,278 | \$13,397,148 | 11,716,851 |
| STATE OF WEST VIRGINIA | \$662,982,476 | \$545,203,685 | \$498,364,762 | 508,328,566 |
| TOTAL DISTRIBUTIONS | \$693,842,570 | \$571,848,751 | \$519,155,466 | \$527,360,543 |
| NET POSITION | \$12,903,989 | \$2,891,203 | \$153,528 | \$3,013,291 |

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| PRIZES (traditional) | \$110,827,487 | \$98,186,374 | \$105,195,719 | \$119,246,794 | \$127,852,731 | \$155,303,951 |
| COMMISSIONS | | | | | | |
| INSTANT | \$7,177,932 | \$6,605,813 | \$6,938,222 | \$8,075,627 | \$10,181,238 | \$12,119,956 |
| ON-LINE | \$6,001,020 | \$5,043,296 | \$5,436,726 | \$5,910,620 | \$4,288,240 | \$5,320,934 |
| RACETRACK LIMITED | \$275,496,153 | \$268,177,388 | \$260,243,206 | \$261,874,733 | \$203,211,199 | \$212,773,694 |
| TABLE GAMES | \$176,799,014 | \$170,302,163 | \$180,352,974 | \$192,241,651 | \$161,623,696 | \$235,499,912 |
| HISTORIC RESORT | \$18,453,051 | \$16,512,256 | \$14,905,401 | \$15,070,193 | \$11,512,511 | \$11,358,709 |
| TOTAL COMMISSIONS | \$3,302,272 | \$2,732,495 | \$3,511,074 | \$3,786,770 | \$2,735,050 | \$4,097,735 |
| TOTAL COMMISSIONS | \$487,229,442 | \$469,373,411 | \$471,387,603 | \$486,959,594 | \$393,551,934 | \$481,170,940 |
| ADMINISTRATION (includes ticket costs) | \$32,858,938 | \$31,589,554 | \$33,372,668 | \$35,963,214 | \$35,634,843 | \$37,540,586 |
| TOTAL OPERATING EXPENSES | \$630,915,867 | \$599,149,339 | \$609,955,990 | \$642,169,602 | \$557,039,508 | \$674,015,477 |
| NONOPERATING DISTRIBUTIONS | | | | | | |
| MUNICIPALITIES AND COUNTIES | \$7,071,961 | \$6,812,087 | \$7,214,120 | \$7,689,667 | \$6,464,948 | \$9,419,997 |
| CAPITAL REINVESTMENT FUND | \$10,445,577 | \$7,467,510 | \$13,455,200 | \$13,663,976 | \$6,772,776 | \$9,052,604 |
| STATE OF WEST VIRGINIA | \$501,301,537 | \$477,053,471 | \$473,947,597 | \$495,141,920 | \$402,002,458 | \$558,962,484 |
| TOTAL DISTRIBUTIONS | \$518,819,075 | \$491,333,068 | \$494,616,917 | \$516,495,563 | \$415,240,182 | \$577,435,085 |
| NET POSITION | (\$1,783,236) | \$646,679 | \$907,002 | \$421,679 | (\$30,628) | \$1,443,239 |

*Fluctuations in general revenues are the result of the general changes in demand, competitive changes in demand, and other factors affecting the volume of play from year to year. Expense fluctuations are directly correlated to the corresponding changes in revenue.

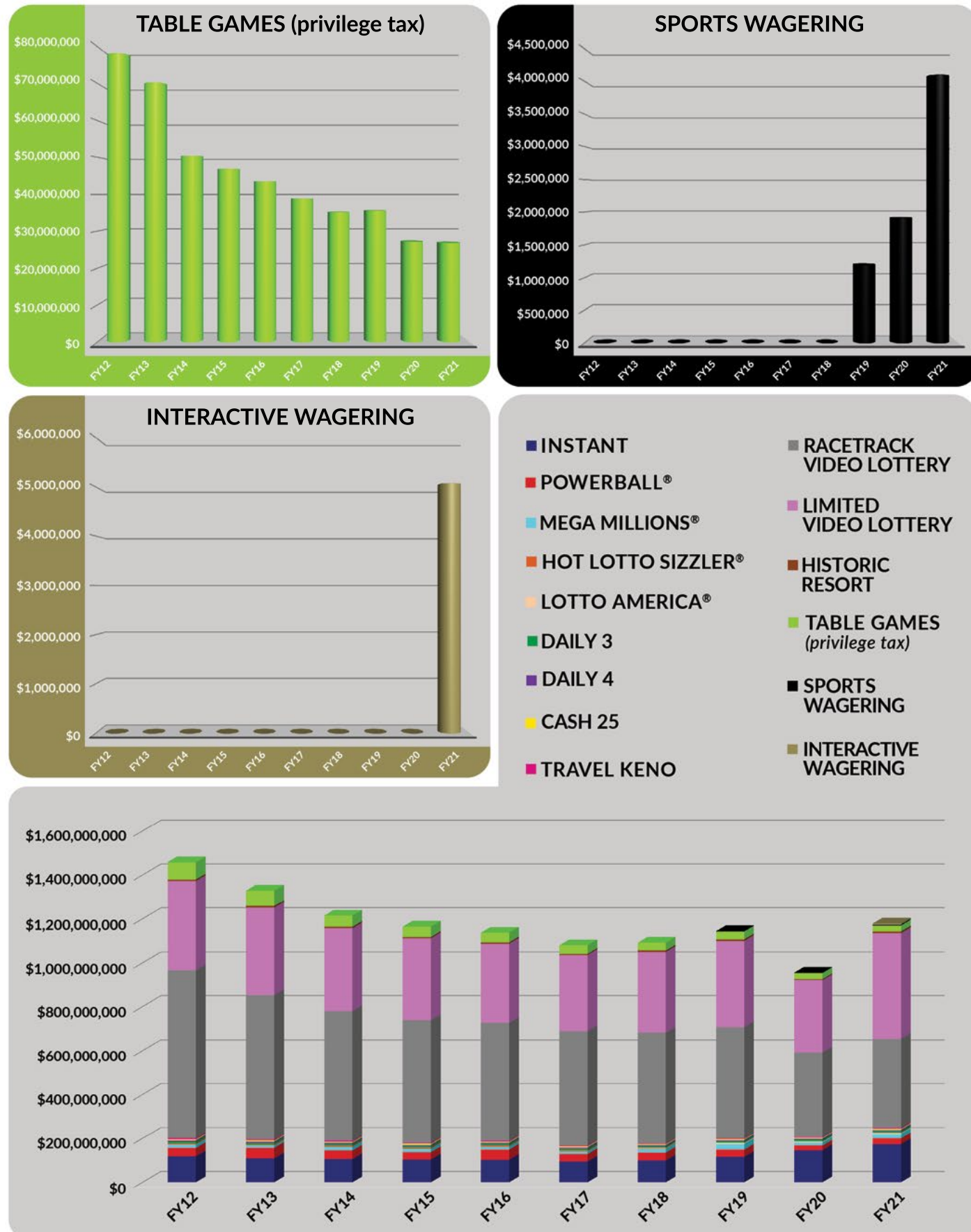
SALES BY PRODUCT LINE - LAST TEN YEARS



Source: West Virginia Lottery

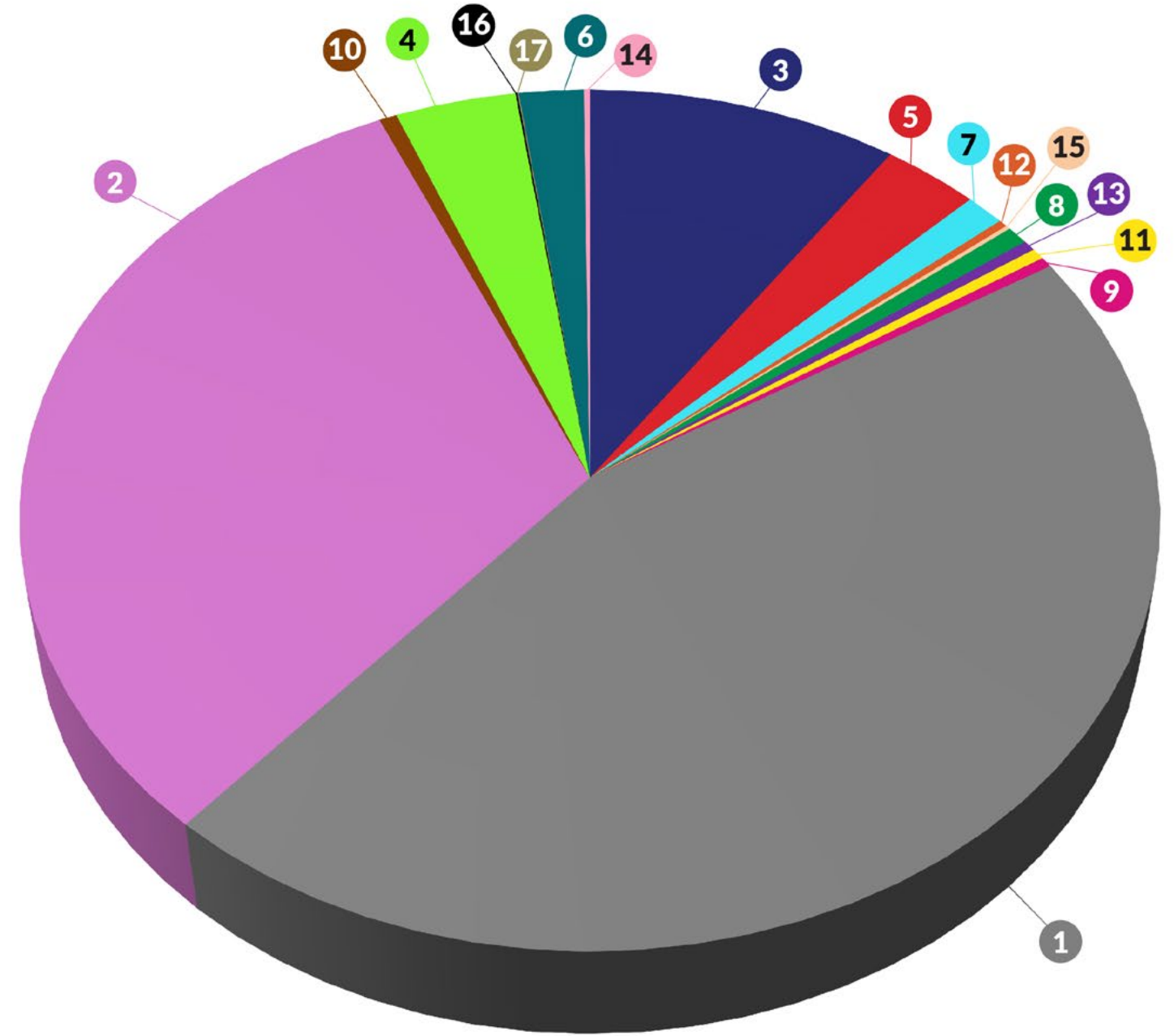
Source: West Virginia Lottery

SALES BY PRODUCT LINE - LAST TEN YEARS



Source: West Virginia Lottery

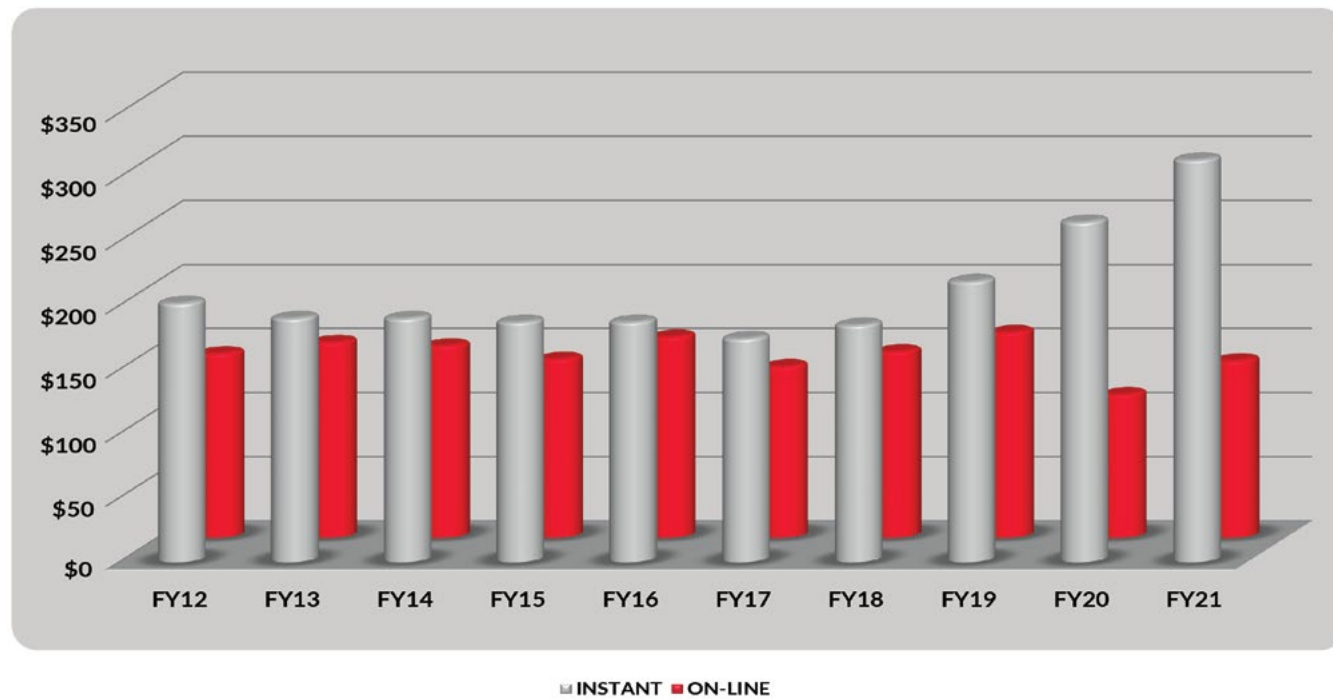
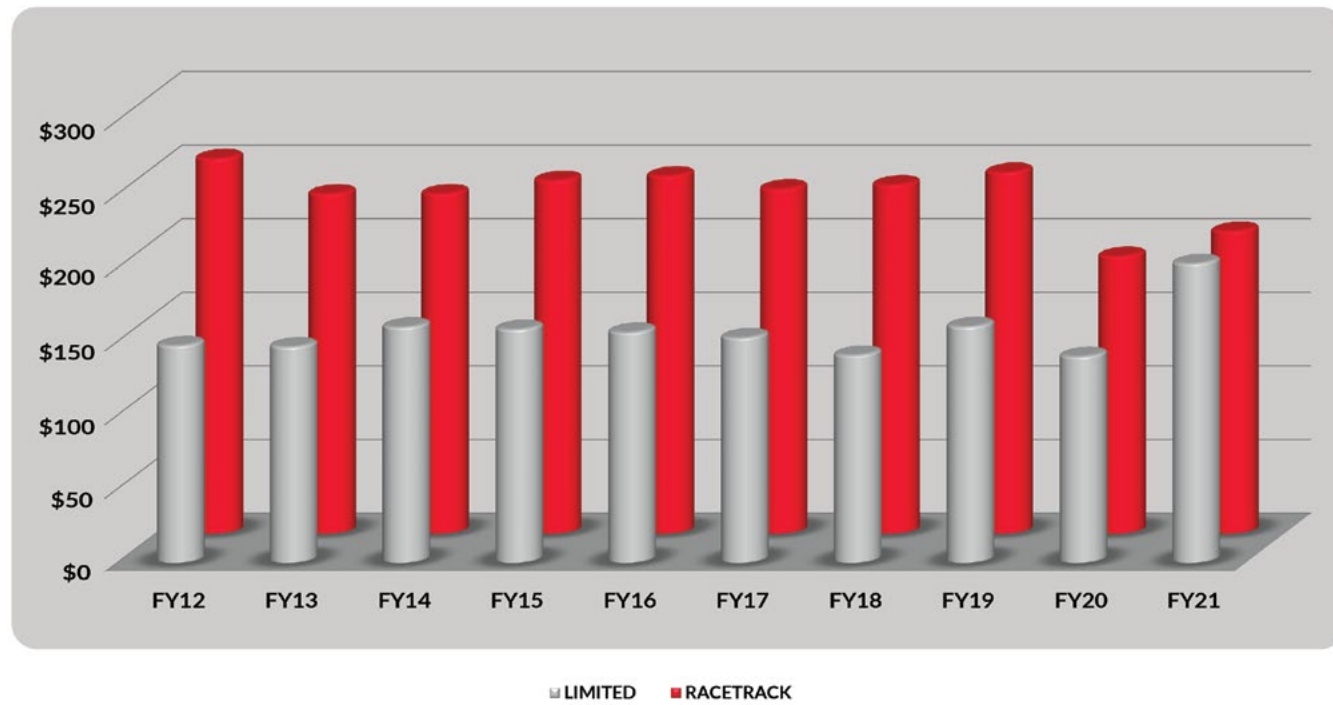
TOTAL REVENUE: \$12,012,177,133 - LAST TEN YEARS



- 1 RACETRACK VIDEO LOTTERY: \$5,428,491,403 • 45.19%
- 2 LIMITED VIDEO LOTTERY: \$3,834,998,426 • 31.93%
- 3 INSTANT: \$1,165,428,915 • 9.70%
- 4 TABLE GAMES (privilege tax): \$452,908,422 • 3.77%
- 5 POWERBALL®: \$361,189,637 • 3.01%
- 6 TOTAL OTHER: \$241,423,610 • 2.01%
- 7 MEGA MILLIONS®: \$147,802,966 • 1.23%
- 8 DAILY 3: \$82,478,708 • 0.69%
- 9 HISTORIC RESORT: \$66,459,454 • 0.55%
- 10 CASH 25: \$50,690,549 • 0.42%
- 11 DAILY 4: \$48,356,358 • 0.40%
- 12 TRAVEL KENO: \$46,762,865 • 0.39%
- 13 HOT LOTTO SIZZLER®: \$32,714,972 • 0.27%
- 14 NONOPERATING: \$22,379,635 • 0.19%
- 15 LOTTO AMERICA®: \$17,806,429 • 0.15%
- 16 SPORTS WAGERING: \$7,207,921 • 0.06%
- 17 INTERACTIVE WAGERING: \$5,076,863 • 0.04%

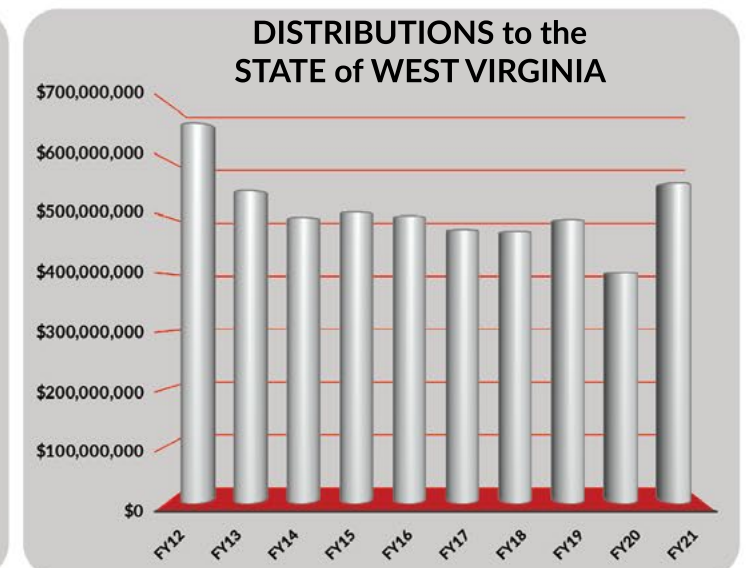
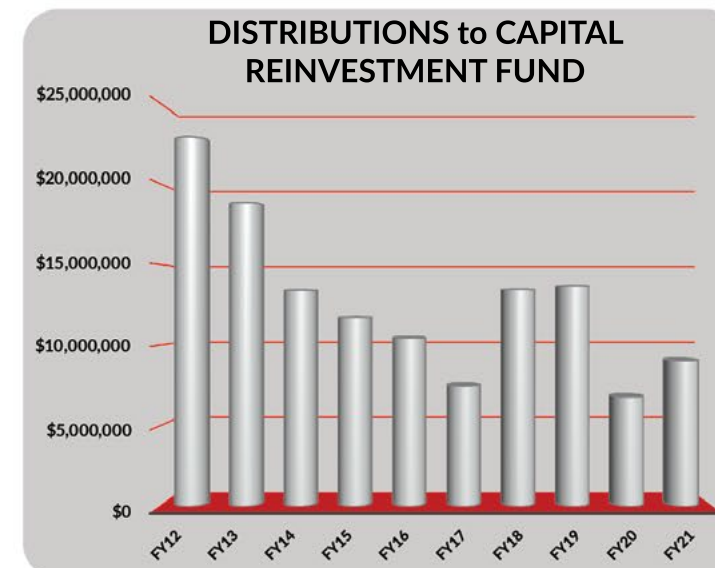
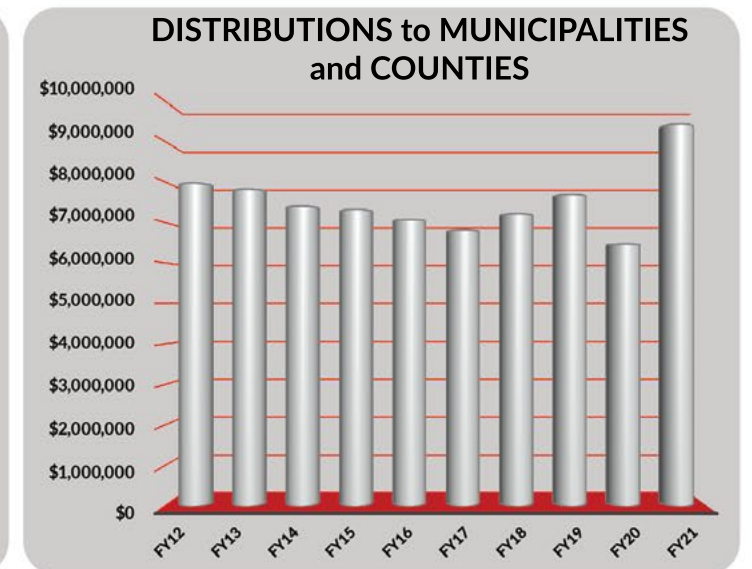
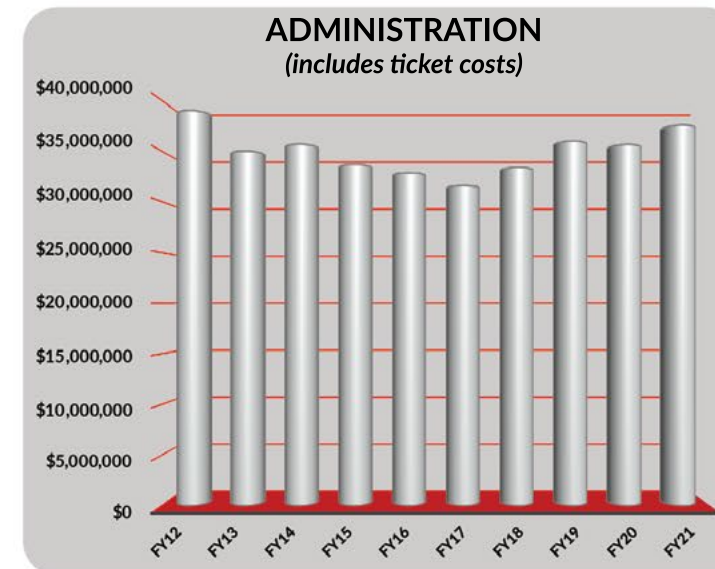
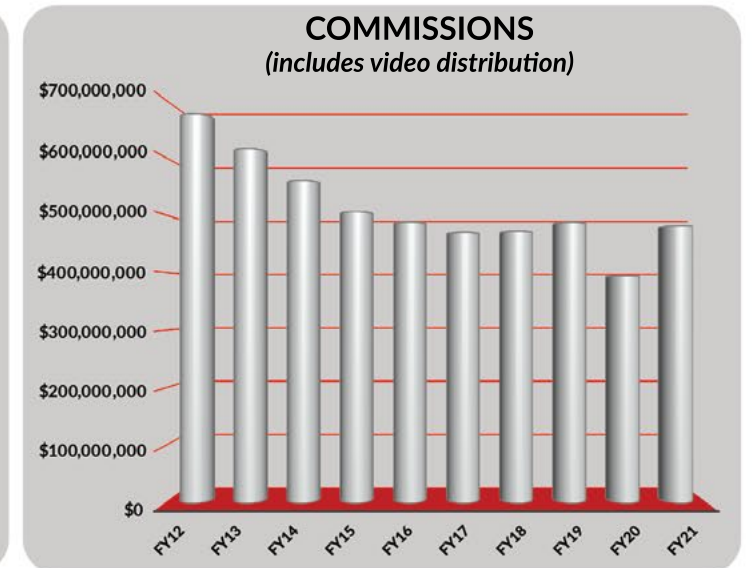
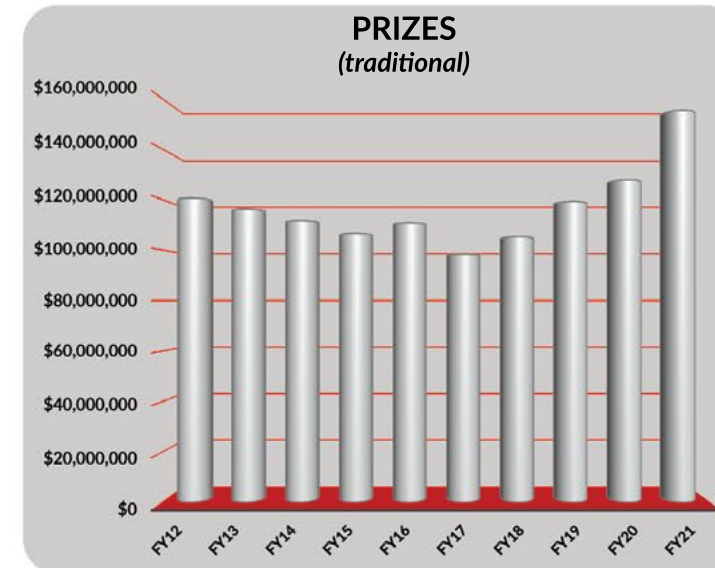
Source: West Virginia Lottery

DAILY AVERAGES - LAST TEN YEARS



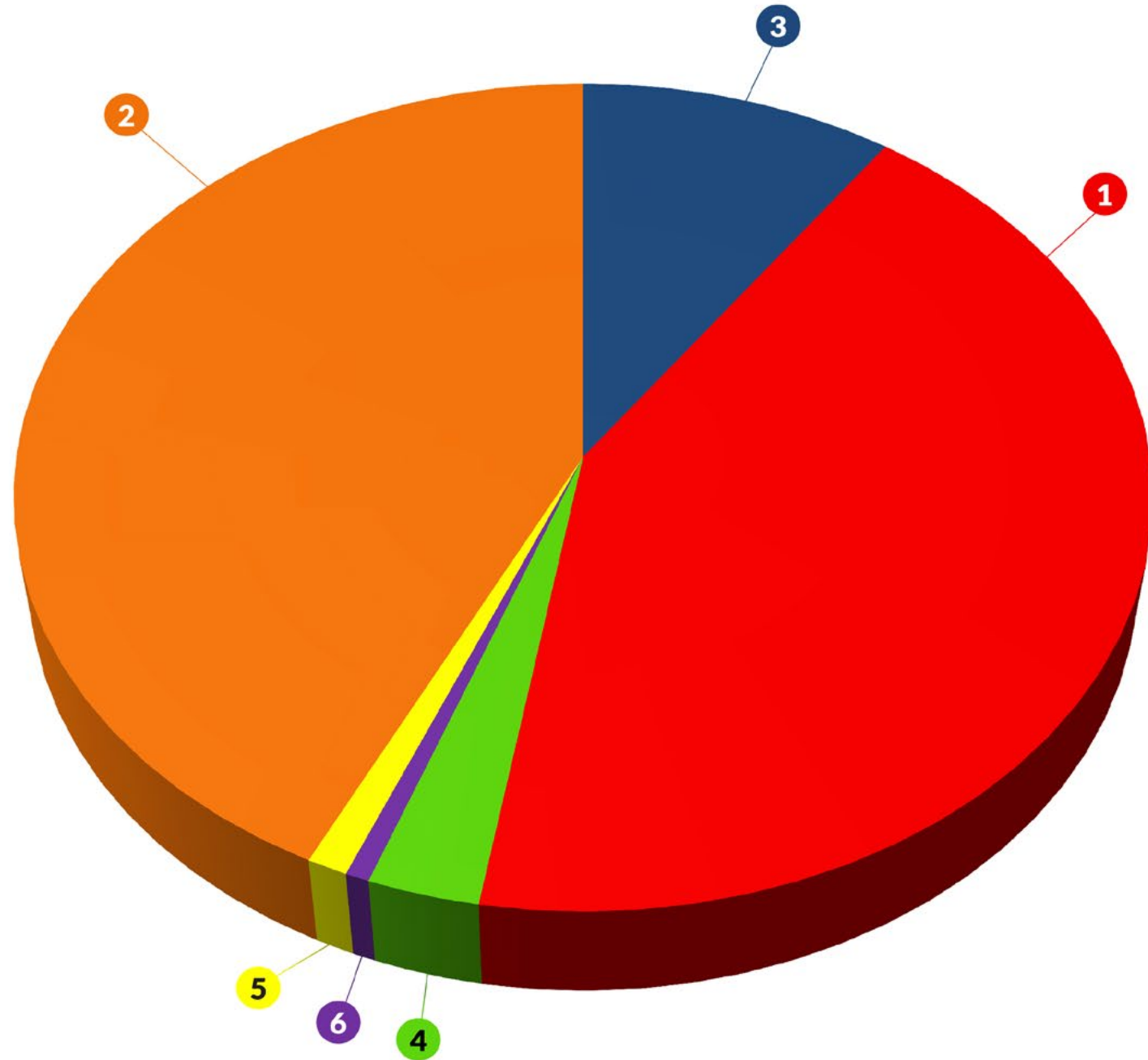
Source: West Virginia Lottery

EXPENSES AND NONOPERATING DISTRIBUTIONS - LAST TEN YEARS



Source: West Virginia Lottery

**TOTAL EXPENSES AND NONOPERATING DISTRIBUTIONS: \$11,991,610,387
LAST TEN YEARS**



- 1 COMMISSIONS** (includes video distribution): \$5,143,520,087 • 42.89%
- 2 DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA:** \$5,123,288,956 • 42.72%
- 3 PRIZES** (traditional): \$1,171,686,439 • 9.77%
- 4 ADMINISTRATION** (includes ticket costs): \$350,256,641 • 2.92%
- 5 DISTRIBUTIONS TO CAPITAL REINVESTMENT FUND:** \$127,692,296 • 1.06%
- 6 DISTRIBUTIONS TO MUNICIPALITIES AND COUNTIES:** \$75,165,968 • 0.63%

Source: West Virginia Lottery

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

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------------|-----------------|
| NET POSITION | | | | | |
| RESTRICTED BY ENABLING LEGISLATION | \$1,690 | \$1,640 | \$1,397 | \$1,130 | \$- |
| NET INVESTMENT IN CAPITAL ASSETS | \$42,285 | \$40,220 | \$38,745 | \$37,763 | \$44,874 |
| UNRESTRICTED | \$8,000 | \$13,006 | \$14,878 | \$15,263 ¹ | \$7,498 |
| TOTAL NET POSITION | \$51,975 | \$54,866 | \$55,020 | \$54,156 | \$52,372 |

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------------------------|-----------------|----------------------|-----------------|-----------------|-----------------|
| NET POSITION | | | | | |
| RESTRICTED BY ENABLING LEGISLATION | \$- | \$- | \$- | \$- | \$- |
| NET INVESTMENT IN CAPITAL ASSETS | \$43,779 | \$48,047 | \$46,373 | \$44,708 | \$42,420 |
| UNRESTRICTED | \$9,240 | \$7,152 ² | \$9,248 | \$10,881 | \$14,612 |
| TOTAL NET POSITION | \$53,019 | \$55,199 | \$55,621 | \$55,589 | \$57,032 |

Source: West Virginia Lottery

¹ Beginning net position was restated by GASB 68 implementation

² Beginning net position was restated by GASB 75 implementation

U.S LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2020
INCLUDES VIDEO LOTTERY, TABLE GAMES & SPORTS WAGERING SALES
(\$ MILLIONS)

| | SALES | PROFIT | POPULATION | SALES/CAPITA |
|--------------------------------|--------------------|--------------------|--------------|--------------------|
| MASSACHUSETTS | \$5,244.58 | \$986.85 | 6.9 | \$760.08 |
| RHODE ISLAND ^{1,2,3} | \$700.33 | \$283.87 | 1.1 | \$636.67 |
| MARYLAND ^{1,2} | \$3,469.86 | \$1,056.84 | 6.0 | \$578.31 |
| WEST VIRGINIA ^{1,2,3} | \$1,026.16 | \$402.00 | 1.8 | \$570.09 |
| DELAWARE ^{1,2,3} | \$562.24 | \$177.27 | 1.0 | \$562.24 |
| NEW YORK (3/31) ¹ | \$9,740.53 | \$3,376.81 | 19.5 | \$499.51 |
| GEORGIA | \$4,916.17 | \$1,237.75 | 10.6 | \$463.79 |
| MICHIGAN (9/30) | \$4,247.42 | \$1,180.87 | 10.0 | \$424.74 |
| SOUTH CAROLINA | \$2,106.37 | \$477.91 | 5.1 | \$413.01 |
| OHIO ¹ | \$4,292.46 | \$1,129.86 | 11.7 | \$366.88 |
| CONNECTICUT | \$1,305.28 | \$350.00 | 3.6 | \$362.58 |
| NEW JERSEY | \$3,215.39 | \$1,015.00 | 8.9 | \$361.28 |
| PENNSYLVANIA | \$4,556.62 | \$1,141.80 | 12.8 | \$355.99 |
| FLORIDA | \$7,505.11 | \$1,913.80 | 21.5 | \$349.07 |
| SOUTH DAKOTA ¹ | \$292.88 | \$128.43 | 0.9 | \$325.42 |
| DISTRICT OF COLUMBIA (9/30) | \$208.84 | \$38.06 | 0.7 | \$298.34 |
| NORTH CAROLINA | \$3,016.21 | \$730.40 | 10.5 | \$287.26 |
| NEW HAMPSHIRE | \$390.88 | \$99.79 | 1.4 | \$279.20 |
| OREGON ^{1,3} | \$1,143.26 | \$585.74 | 4.2 | \$272.20 |
| TENNESSEE | \$1,840.80 | \$438.23 | 6.9 | \$266.78 |
| KENTUCKY | \$1,177.50 | \$272.22 | 4.5 | \$261.67 |
| VIRGINIA | \$2,148.61 | \$595.36 | 8.5 | \$252.78 |
| MISSOURI | \$1,512.74 | \$321.90 | 6.1 | \$247.99 |
| MAINE | \$314.11 | \$65.24 | 1.3 | \$241.62 |
| TEXAS (8/31) | \$6,704.03 | \$1,683.73 | 29.0 | \$231.17 |
| VERMONT | \$137.39 | \$27.52 | 0.6 | \$228.98 |
| ILLINOIS | \$2,844.54 | \$696.01 | 12.7 | \$223.98 |
| INDIANA | \$1,384.07 | \$304.59 | 6.7 | \$206.58 |
| ARKANSAS | \$531.44 | \$89.27 | 3.0 | \$177.15 |
| CALIFORNIA | \$6,622.00 | \$1,512.58 | 39.5 | \$167.65 |
| IDAHO | \$277.60 | \$55.50 | 1.8 | \$154.22 |
| ARIZONA | \$1,097.96 | \$226.14 | 7.3 | \$150.41 |
| WISCONSIN | \$725.44 | \$270.80 | 5.8 | \$125.08 |
| MINNESOTA | \$668.57 | \$155.98 | 5.6 | \$119.39 |
| IOWA | \$371.95 | \$81.53 | 3.2 | \$116.24 |
| COLORADO | \$658.84 | \$142.43 | 5.8 | \$113.59 |
| MISSISSIPPI | \$339.78 | \$70.78 | 3.0 | \$113.26 |
| LOUISIANA | \$509.11 | \$179.16 | 4.6 | \$110.68 |
| WASHINGTON | \$817.30 | \$180.95 | 7.6 | \$107.54 |
| NEBRASKA | \$183.08 | \$42.41 | 1.9 | \$96.36 |
| KANSAS | \$274.99 | \$65.03 | 2.9 | \$94.82 |
| OKLAHOMA | \$267.76 | \$65.15 | 4.0 | \$66.94 |
| NEW MEXICO | \$127.05 | \$38.15 | 2.1 | \$60.50 |
| MONTANA | \$59.73 | \$8.57 | 1.1 | \$54.30 |
| WYOMING | \$24.07 | \$3.33 | 0.6 | \$40.11 |
| NORTH DAKOTA | \$24.39 | \$5.22 | 0.8 | \$30.49 |
| TOTAL | \$89,585.44 | \$23,910.82 | 315.1 | \$12,226.93 |

2020 data source: NASPL website: www.NASPL.org
Note: All figures are preliminary

¹ Includes net VLT sales (Cash in less cash out)
² Includes Table Games
³ Includes Sports Wagering

U.S LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2021
INCLUDES VIDEO LOTTERY, TABLE GAMES & SPORTS WAGERING SALES
(\$ MILLIONS)

| | SALES | PROFIT | POPULATION | SALES/CAPITA |
|--------------------------------|---------------------|--------------------|--------------|--------------------|
| DELAWARE ^{1,2,3} | \$682.57 | \$218.07 | 0.7 | \$975.10 |
| MASSACHUSETTS | \$5,820.65 | \$1,112.58 | 6.9 | \$843.57 |
| MARYLAND ^{1,2} | \$4,356.87 | \$1,312.14 | 6.1 | \$714.24 |
| WEST VIRGINIA ^{1,2,3} | \$1,268.99 | \$561.55 | 1.8 | \$705.00 |
| RHODE ISLAND ^{1,2,3} | \$751.91 | \$301.80 | 1.1 | \$683.55 |
| GEORGIA | \$5,877.22 | \$1,545.35 | 10.7 | \$549.27 |
| MICHIGAN (9/30) | \$5,046.09 | \$1,400.99 | 10.0 | \$504.61 |
| OHIO ¹ | \$5,516.44 | \$1,362.32 | 11.7 | \$471.49 |
| SOUTH CAROLINA | \$2,415.77 | \$609.04 | 5.2 | \$464.57 |
| NEW YORK (3/31) ¹ | \$8,594.88 | \$3,590.65 | 19.3 | \$445.33 |
| PENNSYLVANIA | \$5,425.57 | \$1,302.62 | 12.8 | \$423.87 |
| FLORIDA | \$9,076.22 | \$2,226.00 | 21.7 | \$418.26 |
| SOUTH DAKOTA ¹ | \$373.85 | \$161.88 | 0.9 | \$415.39 |
| NEW JERSEY | \$3,683.61 | \$1,105.10 | 8.9 | \$413.89 |
| CONNECTICUT | \$1,444.00 | \$418.00 | 3.6 | \$401.11 |
| NEW HAMPSHIRE | \$534.20 | \$144.39 | 1.4 | \$381.57 |
| NORTH CAROLINA | \$3,805.35 | \$937.82 | 10.6 | \$359.00 |
| KENTUCKY | \$1,486.43 | \$354.76 | 4.5 | \$330.32 |
| TENNESSEE | \$2,211.42 | \$524.39 | 7.0 | \$315.92 |
| OREGON ^{1,3} | \$1,298.45 | \$654.44 | 4.2 | \$309.15 |
| VIRGINIA | \$2,641.43 | \$774.56 | 8.6 | \$307.14 |
| MISSOURI | \$1,811.49 | \$345.03 | 6.2 | \$292.18 |
| MAINE | \$390.74 | \$71.12 | 1.4 | \$279.10 |
| TEXAS (8/31) | \$8,107.20 | \$1,998.31 | 29.4 | \$275.76 |
| ILLINOIS | \$3,449.97 | \$776.32 | 12.6 | \$273.81 |
| VERMONT | \$161.53 | \$31.89 | 0.6 | \$269.21 |
| INDIANA | \$1,737.73 | \$375.55 | 6.8 | \$255.55 |
| DISTRICT OF COLUMBIA (9/30) | \$222.65 | \$40.35 | 1.0 | \$222.65 |
| CALIFORNIA | \$8,417.94 | \$1,868.27 | 39.4 | \$213.65 |
| ARKANSAS | \$631.93 | \$106.42 | 3.0 | \$210.64 |
| IDAHO | \$372.02 | \$72.50 | 1.8 | \$206.68 |
| ARIZONA | \$1,439.37 | \$287.83 | 7.4 | \$194.51 |
| MISSISSIPPI | \$510.57 | \$138.96 | 3.0 | \$170.19 |
| WISCONSIN | \$894.54 | \$236.70 | 5.8 | \$154.23 |
| IOWA | \$452.59 | \$101.73 | 3.2 | \$141.44 |
| MINNESOTA | \$803.64 | \$188.83 | 5.7 | \$140.99 |
| COLORADO | \$794.93 | \$169.35 | 5.8 | \$137.06 |
| LOUISIANA | \$624.95 | \$207.50 | 4.6 | \$135.86 |
| WASHINGTON | \$950.73 | \$229.05 | 7.7 | \$123.47 |
| KANSAS | \$326.01 | \$73.17 | 2.9 | \$112.42 |
| NEBRASKA | \$205.28 | \$48.18 | 1.9 | \$108.04 |
| OKLAHOMAW | \$346.75 | \$80.99 | 4.0 | \$86.69 |
| NEW MEXICO | \$154.89 | \$46.48 | 2.1 | \$73.75 |
| MONTANA | \$77.65 | \$12.98 | 1.1 | \$70.59 |
| WYOMING | \$31.69 | \$4.33 | 0.6 | \$52.81 |
| NORTH DAKOTA | \$30.38 | \$7.42 | 0.8 | \$37.98 |
| TOTAL | \$105,259.09 | \$28,137.71 | 316.5 | \$14,671.60 |

2021 data source: NASPL website: www.NASPL.org
Note: All figures are preliminary

¹ Includes net VLT sales (Cash in less cash out)
² Includes Table Games
³ Includes Sports Wagering

U.S. LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2020
EXCLUDES VIDEO LOTTERY TERMINAL (VLT) SALES AND TABLE GAMES
(\$ MILLIONS)

| | TOTAL SALES | INSTANT SALES | DRAW SALES | POPULATION | SALES PER CAPITA |
|----------------|-------------------|-------------------|-------------------|--------------|------------------|
| ARIZONA | \$1,098.0 | \$848.4 | \$249.6 | 7.3 | \$150.41 |
| ARKANSAS | \$531.4 | \$452.3 | \$79.1 | 3.0 | \$177.13 |
| CALIFORNIA | \$6,630.0 | \$5,037.7 | \$1,592.3 | 39.5 | \$167.85 |
| COLORADO | \$658.8 | \$490.7 | \$168.1 | 5.8 | \$113.59 |
| CONNECTICUT | \$1,305.3 | \$757.0 | \$548.3 | 3.6 | \$362.58 |
| D.C. | \$205.0 | \$48.6 | \$156.4 | 0.7 | \$292.86 |
| DELAWARE | \$220.5 | \$92.9 | \$127.6 | 1.0 | \$220.50 |
| FLORIDA | \$7,505.1 | \$5,665.3 | \$1,839.8 | 21.5 | \$349.07 |
| GEORGIA | \$4,974.8 | \$3,427.6 | \$1,547.2 | 10.6 | \$469.32 |
| IDAHO | \$277.6 | \$173.1 | \$104.5 | 1.8 | \$154.22 |
| ILLINOIS | \$2,844.5 | \$1,887.8 | \$956.7 | 12.7 | \$223.98 |
| INDIANA | \$1,384.1 | \$1,093.0 | \$291.1 | 6.7 | \$206.58 |
| IOWA | \$372.0 | \$262.4 | \$109.6 | 3.2 | \$116.25 |
| KANSAS | \$287.0 | \$198.3 | \$88.7 | 2.9 | \$98.97 |
| KENTUCKY | \$1,203.4 | \$741.1 | \$462.3 | 4.5 | \$267.42 |
| LOUISIANA | \$509.1 | \$264.6 | \$244.5 | 4.6 | \$110.67 |
| MAINE | \$314.1 | \$251.9 | \$62.2 | 1.3 | \$241.62 |
| MARYLAND | \$2,181.9 | \$852.7 | \$1,329.2 | 6.0 | \$363.65 |
| MASSACHUSETTS | \$5,212.0 | \$3,621.4 | \$1,590.6 | 6.9 | \$755.36 |
| MICHIGAN | \$3,967.0 | \$1,712.4 | \$2,254.6 | 10.0 | \$396.70 |
| MINNESOTA | \$668.6 | \$519.3 | \$149.3 | 5.6 | \$119.39 |
| MISSISSIPPI | \$340.5 | \$318.1 | \$22.4 | 3.0 | \$113.50 |
| MISSOURI | \$1,404.1 | \$1,035.6 | \$368.5 | 6.1 | \$230.18 |
| MONTANA | \$61.4 | \$25.6 | \$35.8 | 1.1 | \$55.82 |
| NEBRASKA | \$182.9 | \$111.8 | \$71.1 | 1.9 | \$96.26 |
| NEW HAMPSHIRE | \$384.6 | \$272.4 | \$112.2 | 1.4 | \$274.71 |
| NEW JERSEY | \$3,215.6 | \$1,880.0 | \$1,335.6 | 8.9 | \$361.30 |
| NEW MEXICO | \$127.1 | \$79.3 | \$47.8 | 2.1 | \$60.52 |
| NEW YORK | \$7,726.7 | \$4,114.4 | \$3,612.3 | 19.5 | \$396.24 |
| NORTH CAROLINA | \$3,016.2 | \$2,089.2 | \$927.0 | 10.5 | \$287.26 |
| NORTH DAKOTA | \$24.4 | | \$24.4 | 0.8 | \$30.50 |
| OHIO | \$3,471.5 | \$1,873.8 | \$1,597.7 | 11.7 | \$296.71 |
| OKLAHOMA | \$267.8 | \$198.3 | \$69.5 | 4.0 | \$66.95 |
| OREGON | \$337.9 | \$149.8 | \$188.1 | 4.2 | \$80.45 |
| PENNSYLVANIA | \$4,595.7 | \$3,203.2 | \$1,392.5 | 12.8 | \$359.04 |
| RHODE ISLAND | \$246.4 | \$112.6 | \$133.8 | 1.1 | \$224.00 |
| SOUTH CAROLINA | \$2,106.4 | \$1,582.2 | \$524.2 | 5.1 | \$413.02 |
| SOUTH DAKOTA | \$58.2 | \$37.1 | \$21.1 | 0.9 | \$64.67 |
| TEXAS | \$6,704.0 | \$5,555.8 | \$1,148.2 | 29.0 | \$231.17 |
| VERMONT | \$137.4 | \$111.1 | \$26.3 | 0.6 | \$229.00 |
| VIRGINIA | \$2,148.6 | \$1,166.8 | \$981.8 | 8.5 | \$252.78 |
| WASHINGTON | \$817.3 | \$619.7 | \$197.6 | 7.6 | \$107.54 |
| WEST VIRGINIA | \$208.5 | \$145.5 | \$63.1 | 1.8 | \$115.83 |
| WISCONSIN | \$725.4 | \$513.0 | \$212.4 | 5.8 | \$125.07 |
| WYOMING | \$23.5 | | \$23.5 | 0.6 | \$39.17 |
| TOTAL | \$80,682.3 | \$53,593.7 | \$27,088.6 | 308.2 | \$261.79 |

2020 data source: La Fleur's Magazine/Vol. 27, No. 1 September/ October 2020

U.S. LOTTERIES UNAUDITED SALES FOR FISCAL YEAR 2021
EXCLUDES VIDEO LOTTERY TERMINAL (VLT) SALES AND TABLE GAMES
(\$ MILLIONS)

| | TOTAL SALES | INSTANT SALES | DRAW SALES | POPULATION | SALES PER CAPITA |
|----------------|-------------------|-------------------|-------------------|--------------|------------------|
| ARIZONA | \$1,439.4 | \$1,109.8 | \$329.6 | 7.4 | \$194.51 |
| ARKANSAS | \$631.9 | \$529.4 | \$102.5 | 3.0 | \$210.63 |
| CALIFORNIA | \$8,405.2 | \$6,396.7 | \$2,008.5 | 39.4 | \$213.33 |
| COLORADO | \$794.9 | \$573.0 | \$221.9 | 5.8 | \$137.05 |
| CONNECTICUT | \$1,497.8 | \$837.7 | \$660.1 | 3.6 | \$416.06 |
| D.C. | \$235.0 | \$49.5 | \$185.5 | 0.7 | \$335.71 |
| DELAWARE | \$233.8 | \$111.5 | \$122.3 | 1.0 | \$233.80 |
| FLORIDA | \$9,076.2 | \$6,827.9 | \$2,248.3 | 21.7 | \$418.26 |
| GEORGIA | \$6,034.4 | \$4,005.8 | \$2,028.6 | 10.7 | \$563.96 |
| IDAHO | \$371.9 | \$227.2 | \$144.7 | 1.8 | \$206.61 |
| ILLINOIS | \$3,450.0 | \$2,214.4 | \$1,235.6 | 12.6 | \$273.81 |
| INDIANA | \$1,737.7 | \$1,384.5 | \$353.2 | 6.8 | \$255.54 |
| IOWA | \$452.6 | \$316.9 | \$135.7 | 3.2 | \$141.44 |
| KANSAS | \$339.6 | \$232.2 | \$107.4 | 2.9 | \$117.10 |
| KENTUCKY | \$1,486.4 | \$961.7 | \$524.7 | 4.5 | \$330.31 |
| LOUISIANA | \$624.9 | \$333.4 | \$291.5 | 4.6 | \$135.85 |
| MAINE | \$390.7 | \$314.6 | \$76.1 | 1.4 | \$279.07 |
| MARYLAND | \$2,600.6 | \$993.4 | \$1,607.2 | 6.1 | \$426.33 |
| MASSACHUSETTS | \$5,797.7 | \$4,019.5 | \$1,778.2 | 6.9 | \$840.25 |
| MICHIGAN | \$3,925.1 | \$1,868.9 | \$2,056.2 | 10.0 | \$392.51 |
| MINNESOTA | \$803.6 | \$615.6 | \$188.0 | 5.7 | \$140.98 |
| MISSISSIPPI | \$514.5 | \$431.3 | \$83.2 | 3.0 | \$171.50 |
| MISSOURI | \$1,659.1 | \$1,216.5 | \$442.6 | 6.2 | \$267.60 |
| MONTANA | \$72.1 | \$29.9 | \$42.2 | 1.1 | \$65.55 |
| NEBRASKA | \$204.9 | \$123.0 | \$81.9 | 1.9 | \$107.84 |
| NEW HAMPSHIRE | \$484.6 | \$320.4 | \$164.2 | 1.4 | \$346.14 |
| NEW JERSEY | \$3,683.9 | \$2,072.7 | \$1,611.2 | 8.9 | \$413.92 |
| NEW MEXICO | \$154.9 | \$95.5 | \$59.4 | 2.1 | \$73.76 |
| NEW YORK | \$7,666.1 | \$4,231.7 | \$3,434.4 | 19.3 | \$397.21 |
| NORTH CAROLINA | \$3,805.4 | \$2,560.8 | \$1,244.6 | 10.6 | \$359.00 |
| NORTH DAKOTA | \$30.3 | | \$30.3 | 0.8 | \$37.88 |
| OHIO | \$4,330.1 | \$2,315.8 | \$2,014.3 | 11.7 | \$370.09 |
| OKLAHOMA | \$346.8 | \$256.0 | \$90.8 | 4.0 | \$86.70 |
| OREGON | \$409.5 | \$196.0 | \$213.5 | 4.2 | \$97.50 |
| PENNSYLVANIA | \$5,436.9 | \$3,757.9 | \$1,679.0 | 12.8 | \$424.76 |
| RHODE ISLAND | \$296.0 | \$134.6 | \$161.4 | 1.1 | \$269.09 |
| SOUTH CAROLINA | \$2,415.8 | \$1,763.0 | \$652.8 | 5.2 | \$464.58 |
| SOUTH DAKOTA | \$73.7 | \$47.5 | \$26.2 | 0.9 | \$81.89 |
| TEXAS | \$8,115.6 | \$6,633.3 | \$1,482.3 | 29.4 | \$276.04 |
| VERMONT | \$161.5 | \$131.7 | \$29.8 | 0.6 | \$269.17 |
| VIRGINIA | \$2,592.1 | \$1,302.1 | \$1,290.0 | 8.6 | \$301.41 |
| WASHINGTON | \$950.7 | \$701.2 | \$249.5 | 7.7 | \$123.47 |
| WEST VIRGINIA | \$249.2 | \$173.1 | \$76.1 | 1.8 | \$138.44 |
| WISCONSIN | \$894.5 | \$634.7 | \$259.8 | 5.8 | \$154.22 |
| WYOMING | \$30.7 | | \$30.7 | 0.6 | \$51.17 |
| TOTAL | \$94,908.3 | \$63,052.3 | \$31,856.0 | 309.5 | \$306.65 |

2021 data source: La Fleur's Magazine/Vol. 29, No. 1 September/ October 2021

NUMBER OF EMPLOYEES

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|--------------------------------|------------|------------|------------|------------|------------|
| EXECUTIVE | 19 | 19 | 20 | 20 | 19 |
| FINANCE & ADMINISTRATION | 26 | 25 | 25 | 22 | 23 |
| MARKETING | 8 | 8 | 8 | 8 | 8 |
| VIDEO | 31 | 31 | 29 | 30 | 31 |
| SECURITY (traditional & video) | 42 | 40 | 41 | 38 | 38 |
| TABLE GAMES | 69 | 61 | 60 | 57 | 52 |
| TOTAL | 195 | 184 | 183 | 175 | 171 |
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| EXECUTIVE | 20 | 20 | 18 | 16 | 17 |
| FINANCE & ADMINISTRATION | 22 | 24 | 26 | 25 | 26 |
| MARKETING | 8 | 9 | 9 | 9 | 10 |
| VIDEO | 29 | 30 | 31 | 30 | 30 |
| SECURITY (traditional & video) | 39 | 38 | 38 | 40 | 39 |
| TABLE GAMES | 53 | 54 | 49 | 50 | 53 |
| TOTAL | 171 | 175 | 171 | 170 | 175 |

Source: West Virginia Lottery

PRINCIPAL EMPLOYERS - CURRENT YEAR AND NINE YEARS AGO

| WEST VIRGINIA'S LARGEST EMPLOYERS FOR FIRST QUARTER 2021 | | |
|--|---------------------|------------------------------|
| BUSINESS NAME | NUMBER OF EMPLOYEES | PERCENTAGE OF TOTAL EMPLOYED |
| LOCAL GOVERNMENT | 69,171 | 10.56% |
| STATE GOVERNMENT | 41,597 | 6.35% |
| FEDERAL GOVERNMENT | 24,999 | 3.82% |
| 1 WVU MEDICINE | 14,000-19,999 | 2.59% |
| 2 WAL-MART ASSOCIATES, INC. | 11,000-13,999 | 1.91% |
| 3 CHARLESTON AREA MEDICAL CENTER HEALTH SYSTEMS | 7,000-10,999 | 1.37% |
| 4 MOUNTAIN HEALTH NETWORK | 6,000-6,999 | 0.99% |
| 5 KROGER | 4,000-5,999 | 0.76% |
| 6 LOWE'S HOME CENTERS, INC. | 2,000-3,999 | 0.46% |
| 7 MONONGALIA HEALTH | 2,000-2,999 | 0.38% |
| 8 VIATRIS (MYLAN PHARMACEUTICALS, INC.) | 2,000-2,999 | 0.38% |
| 9 CONTURA ENERGY | 2,000-2,999 | 0.38% |
| 10 MACY'S CORPORATE SERVICES, INC. | 2,000-2,999 | 0.38% |

| WEST VIRGINIA'S LARGEST EMPLOYERS FOR FIRST QUARTER 2012 | | |
|--|---------------------|------------------------------|
| BUSINESS NAME | NUMBER OF EMPLOYEES | PERCENTAGE OF TOTAL EMPLOYED |
| LOCAL GOVERNMENT | 77,360 | 10.86% |
| STATE GOVERNMENT | 43,395 | 6.09% |
| FEDERAL GOVERNMENT | 23,104 | 3.24% |
| 1 WAL-MART ASSOCIATES, INC. | 13,000-14,999 | 1.97% |
| 2 WEST VIRGINIA UNITED HEALTH SYSTEMS | 7,000-9,999 | 1.19% |
| 3 CHARLESTON AREA MEDICAL CENTER, INC. | 6,000-6,999 | 0.91% |
| 4 KROGER | 4,000-5,999 | 0.70% |
| 5 CONSOLIDATION COAL COMPANY | 1,000-2,999 | 0.28% |
| 6 LOWE'S HOME CENTERS, INC. | 1,000-2,999 | 0.28% |
| 7 MYLAN PHARMACEUTICALS, INC. | 1,000-2,999 | 0.28% |
| 8 MENTOR MANAGEMENT, INC. (MENTOR NETWORK, THE) | 1,000-2,999 | 0.28% |
| 9 ST. MARY'S MEDICAL CENTER, INC. | 1,000-2,999 | 0.28% |
| 10 AMERICAN ELECTRIC POWER | 1,000-2,999 | 0.28% |

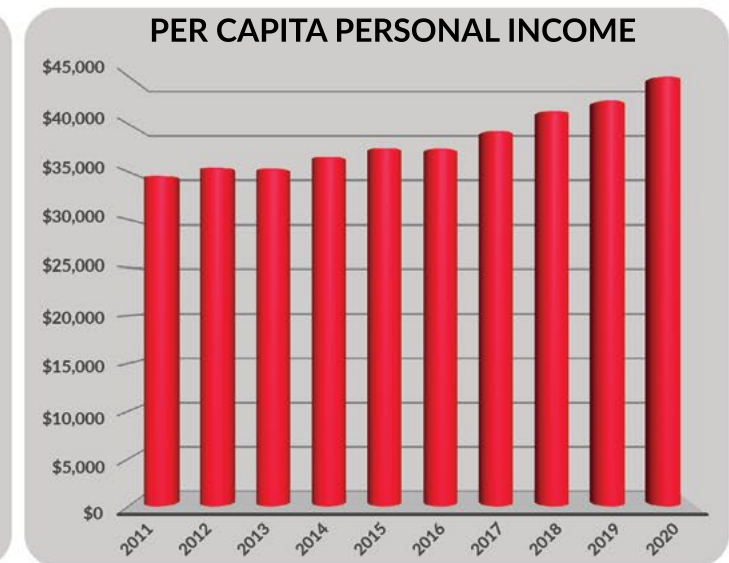
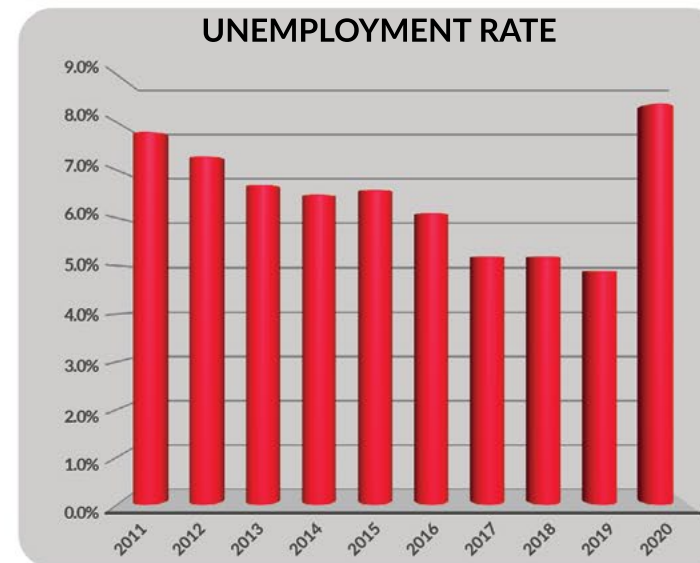
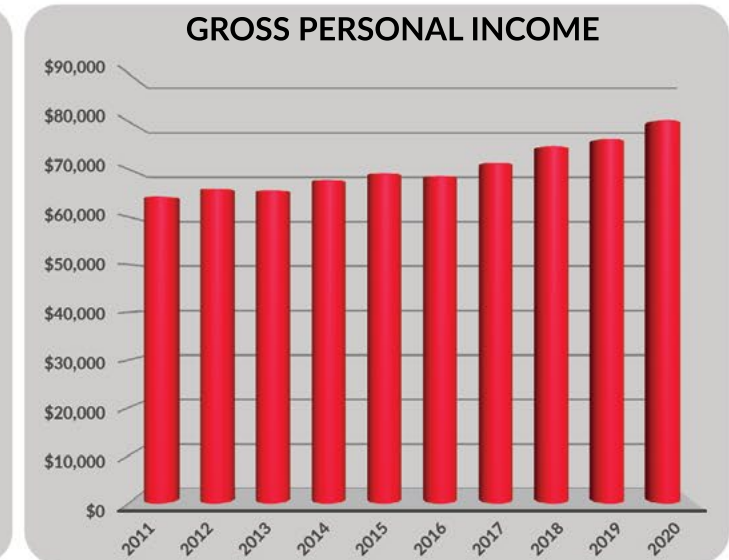
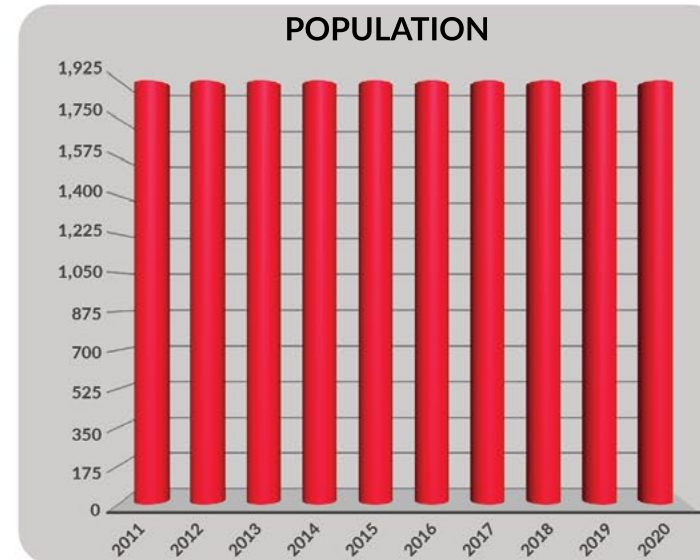
Source: WORKFORCE West Virginia, Research, Information and Analysis

STATE DEMOGRAPHIC AND ECONOMIC INFORMATION

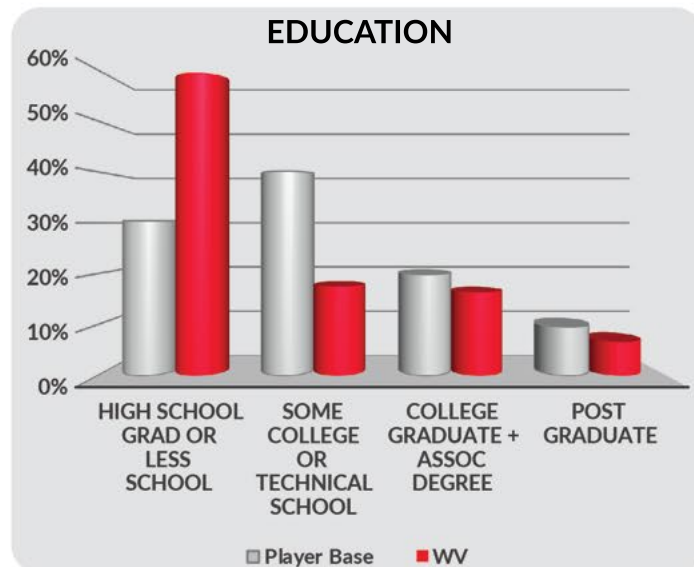
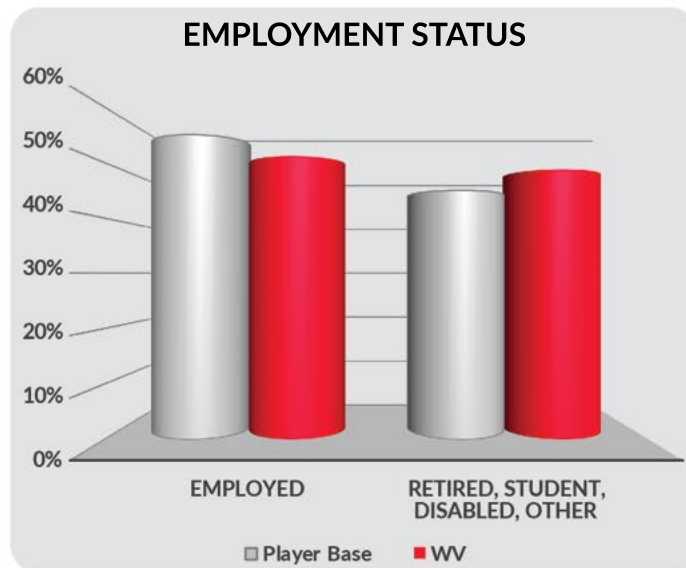
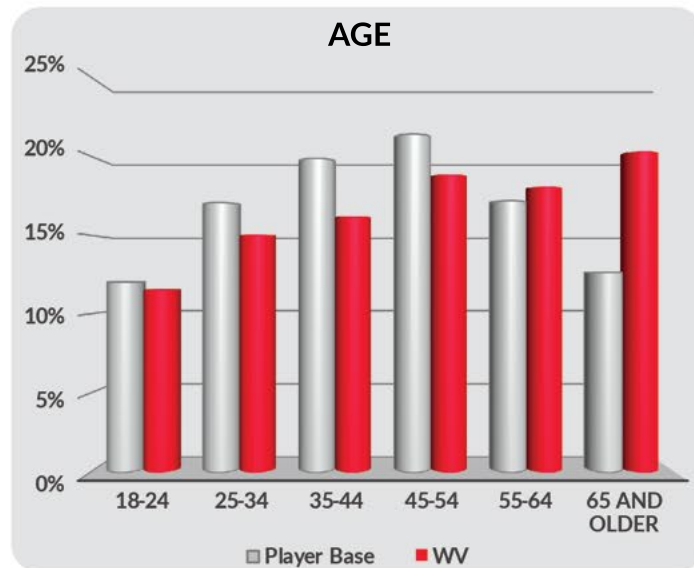
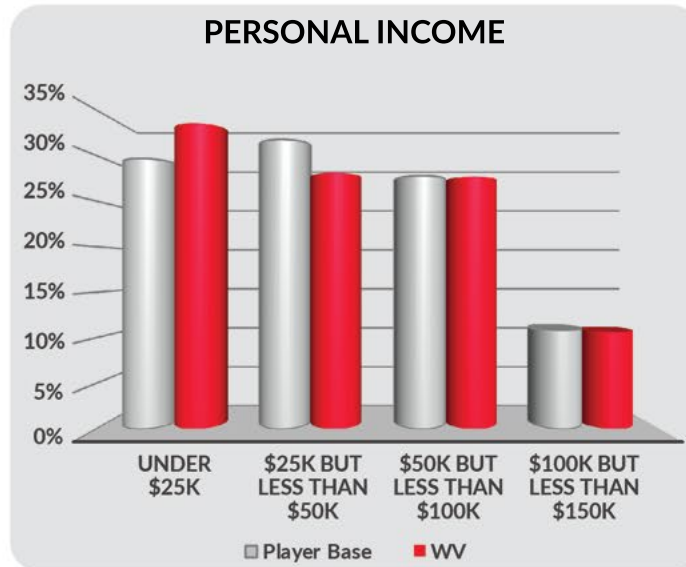
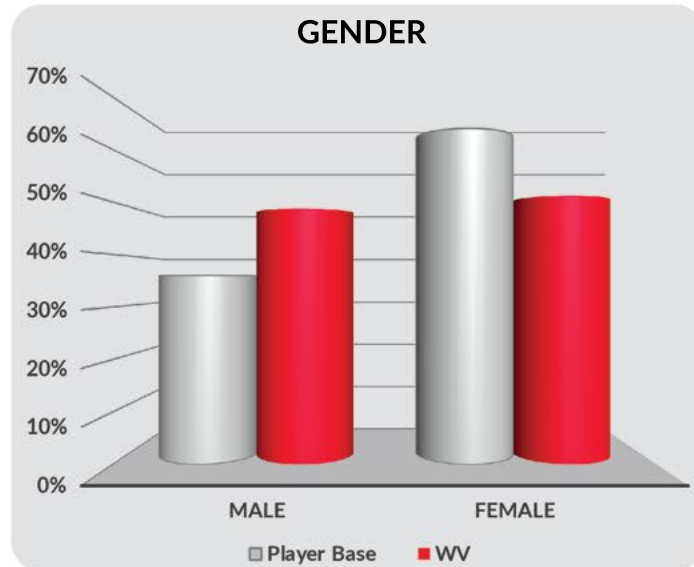
| YEAR | POPULATION | PERSONAL INCOME (in millions) | PER CAPITA PERSONAL INCOME | UNEMPLOYMENT RATE |
|------|------------|-------------------------------|----------------------------|-------------------|
| 2011 | 1,856,606 | \$64,227.3 | \$34,594 | 7.8% |
| 2012 | 1,857,446 | \$65,898.5 | \$35,478 | 7.3% |
| 2013 | 1,854,768 | \$65,572.8 | \$35,354 | 6.7% |
| 2014 | 1,850,569 | \$67,764.4 | \$36,618 | 6.5% |
| 2015 | 1,843,332 | \$69,178.6 | \$37,529 | 6.6% |
| 2016 | 1,832,435 | \$68,630.1 | \$37,453 | 6.1% |
| 2017 | 1,818,683 | \$71,397.6 | \$39,258 | 5.2% |
| 2018 | 1,805,953 | \$74,777.9 | \$41,406 | 5.2% |
| 2019 | 1,795,263 | \$76,299.5 | \$42,500 | 4.9% |
| 2020 | 1,784,787 | \$80,304.1 | \$44,994 | 8.4% |

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

Note: 2021 information is not available and therefore not presented.



PLAYER AND POPULATION DEMOGRAPHICS



Source: West Virginia Lottery Baseline Survey, June 2019 Research America

ACS Demographic and Housing, 2010 Census



2021 ACFR PROJECT

An in-house production of the
West Virginia Lottery

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