

WEST VIRGINIA LOTTERY

FINANCIAL REPORT

June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the West Virginia Lottery Commission
Charleston, West Virginia

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022 and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery, as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lottery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of the proportionate share of the net pension liability (asset), the schedules of contributions to the PERS, the schedules of the proportionate share of the net OPEB liability (asset), the schedules of contributions to the RHBT, and the notes to required supplementary information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lottery's basic financial statements. The other financial information described in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 28, 2023

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion of the West Virginia Lottery's (the Lottery) financial performance provides for an overview of the Lottery's financial activities for the fiscal years ended June 30, 2023 and 2022. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2023, and the prior year refers to fiscal year ending June 30, 2022. This analysis is to be considered in conjunction with the financial statements, which begin on page 13.

Financial Highlights

The Lottery's operating income increased in 2023 \$17.3 million or 3% compared to the prior year. The following summary is provided below:

- Lottery revenues for the current year increased \$54.5 million or 4.3% compared to the prior year, which increased \$92.1 million or 7.8% from 2021.
- Commissions for the current year increased \$12.3 million or 2.4% compared to the prior year, which increased \$40.9 million or 8.5% from 2021.
- Gross profit for the current year increased \$28.6 million or 4.9% compared to the prior year, which increased \$54 million or 10.2% from 2021.
- Nonoperating expenses increased \$20.6 million or 3.6% compared to the prior year, which decreased \$9.0 million or 1.6% from 2021. The predominant nonoperating expense is the distributions to the State of West Virginia, which increased \$30.7 million or 5.6% compared to the prior year, which decreased \$13.2 million or 2.4% from 2021.

Using This Annual Report

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

Statements of Net Position

As shown in Table 1, current assets for the current year increased \$9.9 million or 3.1% compared to the prior year, which increased \$80.3 million or 34.0% from 2021, due to the timing of distributions to the State of West Virginia at year-end.

Capital assets of land, building and equipment, net of accumulated depreciation and amortization, decreased in the current year by \$917 thousand or 2.2% due to depreciation compared to the prior year which decreased by \$94 thousand or 0.2% from 2021, due to depreciation. For additional information on capital assets, please refer to Note 4 to the financial statements.

(Continued)

WEST VIRGINIA LOTTERY

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

Statements of Net Position (Continued)

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

	2023	2022	2021
<u>Assets</u>			
Current assets	\$ 326,570	\$ 316,653	\$ 236,377
Noncurrent assets,			
Capital assets net of accumulated depreciation and amortization	41,409	42,326	42,420
Restricted net pension & OPEB assets	-	4,513	-
Total assets	\$ 367,979	\$ 363,492	\$ 278,797
<u>Deferred Outflows of Resources</u>			
Deferred outflows of resources	\$ 2,340	\$ 2,436	\$ 2,537

As shown in Table 2, the Lottery's current liabilities for the current year increased \$9.7 million or 3.3% compared to the prior year, which increased \$79.0 million or 36.1% compared to 2021 due to the accumulation of prior year surplus transfers to the State of West Virginia combined with current year accrued transfers.

Net position - net investment in capital assets decreased in the current year by \$917 thousand or 2.2% due to depreciation, compared to the prior year which increased by \$94 thousand or 0.2% compared to 2021, due to depreciation. Refer to Note 4 to the financial statements for additional information on capital assets.

Net position – restricted net pension and OPEB assets decreased in the current year by \$4.5 million or 100% compared to the prior year.

Net position – unrestricted increased \$6 million or 42.4% for the year ended June 30, 2023 compared to the prior year which decreased \$555 thousand or 3.8% compared to 2021.

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

	2023	2022	2021
Current liabilities	\$ 307,241	\$ 297,541	\$ 218,553
Noncurrent liabilities	883	-	3,394
Total liabilities	\$ 308,124	\$ 297,541	\$ 221,947
Deferred inflows of resources	\$ 766	\$ 7,491	\$ 2,355
Net position			
Net investment in capital assets	\$ 41,409	\$ 42,326	\$ 42,420
Restricted for pension and OPEB	-	4,513	-
Unrestricted	20,020	14,057	14,612
Total net position	\$ 61,429	\$ 60,896	\$ 57,032

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Capital Assets

Capital assets as of June 30, 2023 amounted to \$63.3 million (at cost). This investment in capital assets includes, land, building, construction in progress, and equipment. Total capital assets for the current year increased \$769 thousand or 1.2% from the prior fiscal year.

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

	2023	2022	2021
Construction in progress	\$ 2,153	\$ 1,565	\$ -
Land	1,681	1,681	\$ 1,681
Building	48,243	48,243	48,243
Equipment	11,180	10,999	10,999
Total assets	\$ 63,257	\$ 62,488	\$ 60,923

Capital asset activities included \$588 thousand of construction in progress for the acquisition of a new IT infrastructure storage system and \$181 thousand in a new mobile marketing van called the "Win Wagon" during the year ending June 30, 2023. Additional information on capital assets can be found in Note 4 of the financial statements.

Revenues, Expenses and Changes in Fund Net Position

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

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

	2023	2022	2021
Revenues:			
On-line games	\$ 93,339	\$ 73,956	\$ 76,106
Instant games	171,856	168,838	173,142
Racetrack video lottery	498,269	474,765	404,235
Limited video lottery	493,640	490,922	480,612
Table games	34,922	36,195	26,806
Historic resort	6,404	7,963	7,893
Sports wagering	5,262	4,485	4,100
Interactive wagering	20,845	12,926	5,077
	1,324,537	1,270,050	1,177,971
Less commissions:			
On-line games	6,538	5,185	5,321
Instant games	12,029	11,818	12,120
Racetrack video lottery	255,882	245,183	212,774
Limited video lottery	241,884	240,552	235,500
Table games	14,846	15,339	11,358
Historic resort	3,176	3,981	4,098
	534,355	522,058	481,171

(Continued)

WEST VIRGINIA LOTTERY

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

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Less on-line prize costs	47,401	37,390	37,895
Less instant ticket prize costs	117,251	115,062	117,318
Less ticket costs	2,233	1,998	1,680
Less vendor fees and costs	<u>11,525</u>	<u>10,377</u>	<u>10,620</u>
	<u>178,410</u>	<u>164,827</u>	<u>167,603</u>
Gross profit	<u>611,772</u>	<u>583,165</u>	<u>529,197</u>
Administrative expenses:			
Advertising and promotions	5,626	5,790	4,338
Wages and related benefits	10,891	8,307	10,306
Telecommunications	762	686	687
Contractual and professional	11,315	6,594	5,990
Lease	282	276	204
Depreciation and amortization	1,686	1,659	1,659
Other administrative expenses	<u>2,605</u>	<u>2,157</u>	<u>2,058</u>
	<u>33,167</u>	<u>25,469</u>	<u>25,242</u>
Other operating income	<u>10,373</u>	<u>13,987</u>	<u>74,300</u>
Operating income	<u>588,978</u>	<u>571,683</u>	<u>578,255</u>
Nonoperating income (expense):			
Investment income	9,297	111	622
Distributions to municipalities and counties	(9,675)	(9,622)	(9,420)
Distributions for capital reinvestment	(11,606)	(12,560)	(9,052)
Distributions to the State of West Virginia	<u>(576,461)</u>	<u>(545,748)</u>	<u>(558,962)</u>
Net Income	<u>533</u>	<u>3,864</u>	<u>1,443</u>
Net position, beginning of year	<u>60,896</u>	<u>57,032</u>	<u>55,589</u>
Net position, end of year	<u>\$ 61,429</u>	<u>\$ 60,896</u>	<u>\$ 57,032</u>

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees

Table 5 compares sales (referred to as lottery revenues in financial statements), prizes, commissions, ticket printing costs, vendor fees and costs and gross profit for each lottery game category for fiscal years 2023, 2022, and 2021. Sales and gross profits fluctuated in certain categories; however, gross profit percentages remained consistent from year to year.

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

	Instant			On-Line*			Racetrack Video Lottery		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
Gross sales	\$ 171,856	\$ 168,838	\$ 173,142	\$ 93,339	\$ 73,956	\$ 76,106	\$ 498,269	\$ 474,765	\$ 404,235
Less direct costs:									
Prizes and bonuses	117,251	115,062	117,318	47,401	37,390	37,985	-	-	-
Commissions	12,029	11,818	12,120	6,538	5,185	5,321	255,882	245,183	212,774
Ticket printing costs	2,233	1,998	1,680	-	-	-	-	-	-
Vendor fees and costs	7,430	7,222	6,951	4,095	3,155	3,669	-	-	-
Total direct costs	<u>138,943</u>	<u>136,100</u>	<u>138,069</u>	<u>58,034</u>	<u>45,730</u>	<u>46,975</u>	<u>255,882</u>	<u>245,183</u>	<u>212,774</u>
Gross Profit	<u>\$ 32,913</u>	<u>\$ 32,738</u>	<u>\$ 35,073</u>	<u>\$ 35,305</u>	<u>\$ 28,226</u>	<u>\$ 29,131</u>	<u>\$ 242,387</u>	<u>\$ 229,582</u>	<u>\$ 191,461</u>
Gross profit percentage	<u>19.2%</u>	<u>19.4%</u>	<u>20.3%</u>	<u>37.8%</u>	<u>38.2%</u>	<u>38.3%</u>	<u>48.6%</u>	<u>48.4%</u>	<u>47.4%</u>
* 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		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
Gross sales	\$ 493,640	\$ 490,922	\$ 480,612	\$ 34,922	\$ 36,195	\$ 26,806	\$ 6,404	\$ 7,963	\$ 7,893
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-	-	-	-
Commissions	241,884	240,552	235,500	14,846	15,339	11,358	3,176	3,981	4,098
Ticket printing costs	-	-	-	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-	-	-	-
Total direct costs	<u>241,884</u>	<u>240,552</u>	<u>235,500</u>	<u>14,846</u>	<u>15,339</u>	<u>11,358</u>	<u>3,176</u>	<u>3,981</u>	<u>4,098</u>
Gross Profit	<u>\$ 251,756</u>	<u>\$ 250,370</u>	<u>\$ 245,112</u>	<u>\$ 20,076</u>	<u>\$ 20,856</u>	<u>\$ 15,448</u>	<u>\$ 3,228</u>	<u>\$ 3,982</u>	<u>\$ 3,795</u>
Gross profit percentage	<u>51.0%</u>	<u>51.0%</u>	<u>51.0%</u>	<u>57.5%</u>	<u>57.6%</u>	<u>57.6%</u>	<u>50.4%</u>	<u>50.0%</u>	<u>48.1%</u>
	Sports Wagering			Interactive Wagering			Total		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
Gross sales	\$ 5,262	\$ 4,485	\$ 4,100	\$ 20,845	\$ 12,926	\$ 5,077	\$ 1,324,537	\$ 1,270,050	\$ 1,177,971
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-	164,652	152,452	155,303
Commissions	-	-	-	-	-	-	534,355	522,058	481,171
Ticket printing costs	-	-	-	-	-	-	2,233	1,998	1,680
Vendor fees and costs	-	-	-	-	-	-	11,525	10,377	10,620
Total direct costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>712,765</u>	<u>686,885</u>	<u>648,774</u>
Gross Profit	<u>\$ 5,262</u>	<u>\$ 4,485</u>	<u>\$ 4,100</u>	<u>\$ 20,845</u>	<u>\$ 12,926</u>	<u>\$ 5,077</u>	<u>\$ 611,772</u>	<u>\$ 583,165</u>	<u>\$ 529,197</u>
Gross profit percentage	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>-</u>	<u>46.2%</u>	<u>45.9%</u>	<u>44.9%</u>

Instant Sales

Instant ticket sales for the current year increased by \$3 million or 1.8% compared to the prior year, which had decreased \$4.3 million or 2.5% from 2021. Thirty-six games were introduced in 2023 and approximately forty 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 eight ten-dollar, three twenty-dollar, and one thirty-dollar tickets introduced in 2023. There were also eleven five-dollar tickets and three three-dollar tickets introduced. The Lottery continues to work to review and adjust games and order quantities to maximize revenue for the State. The Lottery introduced the first permanent thirty-dollar ticket to the product mix and decrease to three twenty-dollar tickets in the field at all times in 2023.

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

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Instant Sales (Continued)

Vendor fees and costs are 4.3% of instant and on-line ticket sales for 2023, 2022 and 2021. 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 \$5.8 million or 18.6% compared to the prior year, which increased \$4.1 million or 15.0% from 2021. 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 \$11.9 million or 92.0% compared to the prior year, which decreased \$6.5 million or 33.5% from 2021.

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 \$1.6 million or 5.5% compared to the prior year, which increased \$244.3 thousand or 0.8% from 2021.

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

Racetrack Video Lottery

Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year increased \$23.5 million or 5% compared to the prior year, which increased \$70.5 million or 17.5% from 2021.

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 \$10.7 million or 4.4% compared to the prior year, which increased \$32.4 million or 15.2% compared to 2021.

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 Number of Machine at June 30 in Table 6 has been restated to more accurately depict the total number of actual machines in operation.

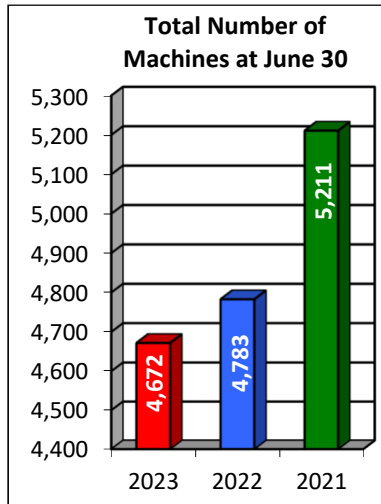
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WEST VIRGINIA LOTTERY

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

Racetrack Video Lottery (Continued)

Table 6

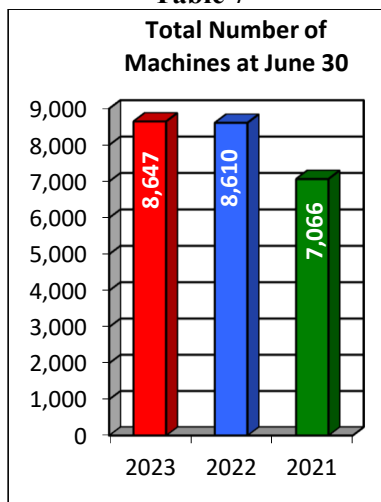


Limited Video Lottery

Sales for the current year increased \$2.7 million or 0.6% compared to the prior year, which increased \$10.3 million or 2.2% from 2021. 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 \$1.3 million or 0.6% compared to the prior year increased \$5.1 million or 2.2% from 2021.

Table 7 illustrates the number of machines which increased by 37 machines for the current year compared to the prior year increase of 1,544 machines from 2021. The Number of Machine at June 30 in Table 7 has been restated to more accurately depict the total number of actual machines in operation.

Table 7



(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Table Games

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues for the current year decreased \$1.3 million or 3.5% compared to the prior year, which increased \$9.4 million or 35.0% from 2021.

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 \$493 thousand or 3.2% compared to the prior year, which increased \$4.0 million or 35.1% from 2021.

Historic Resort

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

Combined revenues of video lottery and table games at the Historic Resort, for the current year decreased \$1.6 million or 19.6% compared to the prior year, which increased \$70.0 thousand or 0.9% from 2021.

A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions for the current year decreased \$805 thousand or 20.2% compared to the prior year, which year decreased \$117.0 thousand or 2.9% from 2021.

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.

Sports wagering revenues are calculated as defined in Note 10 to the financial statements and are derived from privilege taxes (of 10%) on the licensed racetracks and Historic Resort for sports wagering activities. Revenues for the current year increased \$777 thousand or 17.3% compared to the prior year, which increased \$385.0 thousand or 9.4% from 2021.

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 a historic resort hotel in West Virginia 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. Revenues for the current year increased \$7.9 million or 61.3% compared to the prior year, which increased \$7.8 million or 154.6% from 2021.

Other Operating Income

Refer to Table 4. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. 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, bid fees totaling \$67.9 million were paid by successful bidders for the right to be permitted for 10-years beginning July 1, 2021.

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

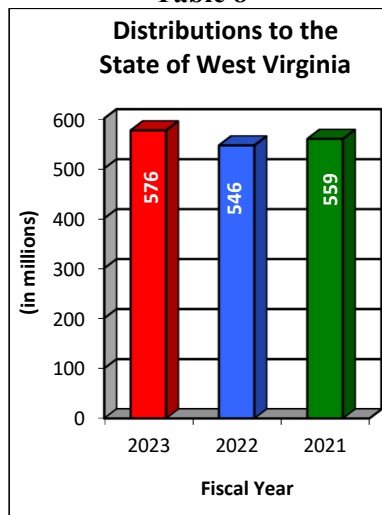
Nonoperating Income / Expense

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

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

Refer to Table 8. The Lottery's distributions to the State of West Virginia, for the current fiscal year increased by \$30.7 million compared to the prior year, which decreased by \$13.2 million from 2021.

Table 8



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

(Continued)

WEST VIRGINIA LOTTERY

STATEMENTS OF NET POSITION

(In Thousands)

June 30, 2023 and 2022

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 288,680	\$ 281,708
Accounts receivable	35,255	32,032
Inventory	1,228	1,436
Other assets	1,407	1,477
Total current assets	326,570	316,653
NONCURRENT ASSETS		
Capital assets (Note 4)	63,257	62,488
Less accumulated depreciation and amortization (Note 4)	(21,848)	(20,162)
	41,409	42,326
Restricted net pension and net OPEB assets (Note 13 and 14)	-	4,513
Total noncurrent assets	41,409	46,839
Total assets	367,979	363,492
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows of resources related to pension and OPEB (Notes 13 and 14)	2,340	2,436
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accrued nonoperating distributions to the State of West Virginia (Note 12)	252,394	240,181
Estimated prize claims	18,081	16,152
Accounts payable	3,673	4,211
Other accrued liabilities	33,093	36,997
Total current liabilities	307,241	297,541
NONCURRENT LIABILITIES		
Net pension liability (Note 13)	735	-
Net OPEB liability (Note 14)	148	-
Total noncurrent liabilities	883	-
Total liabilities	308,124	297,541
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows of resources related to pension and OPEB (Notes 13 and 14)	766	7,491
<u>NET POSITION</u>		
Net investment in capital assets	41,409	42,326
Restricted for pension and OPEB	-	4,513
Unrestricted	20,020	14,057
Total net position	\$ 61,429	\$ 60,896

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, 2023 and 2022

	2023	2022
LOTTERY REVENUES		
On-line games	\$ 93,339	\$ 73,956
Instant games	171,856	168,838
Racetrack video lottery (Note 6)	498,269	474,765
Limited video lottery (Note 7)	493,640	490,922
Table games (Note 8)	34,922	36,195
Historic resort (Note 9)	6,404	7,963
Sports Wagering (Note 10)	5,262	4,485
Interactive Wagering (Note 11)	20,845	12,926
	1,324,537	1,270,050
LESS COMMISSIONS		
On-line games	6,538	5,185
Instant games	12,029	11,818
Racetrack video lottery (Note 6)	255,882	245,183
Limited video lottery (Note 7)	241,884	240,552
Table games (Note 8)	14,846	15,339
Historic resort (Note 9)	3,176	3,981
	534,355	522,058
Less on-line prize costs	47,401	37,390
Less instant prize costs	117,251	115,062
Less ticket costs	2,233	1,998
Less vendor fees and costs	11,525	10,377
	178,410	164,827
Gross profit	611,772	583,165
ADMINISTRATIVE EXPENSES		
Advertising and promotions	5,626	5,790
Wages and related benefits	10,891	8,307
Telecommunications	762	686
Contractual and professional	11,315	6,594
Lease	282	276
Depreciation and amortization	1,686	1,659
Other administrative expenses	2,605	2,157
	33,167	25,469
Other operating income	10,373	13,987
Operating income	588,978	571,683
NONOPERATING INCOME (EXPENSES)		
Investment income	9,297	111
Distributions to municipalities and counties	(9,675)	(9,622)
Distributions for capital reinvestment	(11,606)	(12,560)
Distributions to the State of West Virginia (Note 12)	(576,461)	(545,748)
	(588,445)	(567,819)
Change in net position	533	3,864
NET POSITION, beginning	60,896	57,032
NET POSITION, ending	\$ 61,429	\$ 60,896

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

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
(In Thousands)
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,331,687	\$ 1,287,082
Cash payments for:		
Personnel costs	(21,052)	(2,032)
Suppliers	(12,454)	(22,897)
Other operating costs	(714,021)	(687,828)
Cash provided by operating activities	584,160	574,325
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(564,248)	(472,509)
Distributions to municipalities and counties	(9,645)	(9,655)
Distributions to racetracks from racetrack capital reinvestment fund	(11,823)	(7,946)
Cash used in noncapital financing activities	(585,716)	(490,110)
Cash flows from capital financing activities:		
Purchase of capital assets	(769)	(1,565)
Cash flows from investing activities:		
Investment earnings	9,297	475
Increase in cash and cash equivalents	6,972	83,125
CASH AND CASH EQUIVALENTS, beginning	281,708	198,583
CASH AND CASH EQUIVALENTS, ending	<u>\$ 288,680</u>	<u>\$ 281,708</u>

(Continued)

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
(In Thousands)
Years Ended June 30, 2023 and 2022

	2023	2022
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 588,978	\$ 571,683
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,686	1,659
Pension expense	362	(872)
OPEB expense	(772)	(880)
OPEB support	143	38
Changes in operating accounts:		
(Increase) decrease in:		
Accounts receivable	(3,223)	3,045
Inventory	208	(525)
Other assets	70	(35)
Deferred outflows of resources	(966)	(956)
Increase (decrease) in:		
Estimated prize claims	1,929	(293)
Accounts payable	(538)	1,946
Other accrued liabilities	(3,717)	(485)
Cash provided by operating activities	\$ 584,160	\$ 574,325

The accompanying notes are an integral part of these financial statements

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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, 2023

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; Cash Pop and Cash25 “lotto” games; 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, 2023

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, 2023

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.

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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, 2023 and June 30, 2022 are as follows (in thousands):

	Year Ending June 30	
	2023	2022
Beginning estimated liabilities	\$ 755	\$ 836
Leave expenses incurred	807	755
Leave expenses paid	(755)	(836)
Ending estimated liabilities	<u>\$ 807</u>	<u>\$ 755</u>
Liabilities estimated to be paid in one year	<u>\$ 807</u>	<u>\$ 755</u>

Pensions

For purposes of measuring the net pension asset or 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 asset or 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 assets 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 assets 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, 2023

Note 2. Summary of Significant Accounting Policies (Continued)

Net position

Net position is presented as either unrestricted, restricted for pension and OPEB, 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, 2023 and 2022, the carrying amounts of deposits with financial institutions were \$458 thousand and \$459 thousand, respectively, with bank balances of \$621 and \$1,489 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, 2023 and 2022, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Deposits with financial institutions	\$ 458	\$ 459
Cash on hand at the Treasurer's Office	14,734	24,721
Investments with BTI reported as cash equivalents	<u>273,488</u>	<u>256,528</u>
	<u>\$ 288,680</u>	<u>\$ 281,708</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. 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.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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 WV 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.

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

Security Type	Rating	Carrying Value (in Thousands)	Percent of Pool Assets
Corporate Bonds and Notes	A-1	\$ 50,000	0.50%
Commercial Paper	A-1+	2,281,084	23.14
	A-1	4,522,938	45.88
Negotiable certificates of deposit	A-1+	553,000	5.61
	A-1	1,397,000	14.17
Money market funds	AAAM	220,607	2.24
Repurchase agreements (underlying securities):			
U.S. Treasury bonds and notes*	AA+	512,000	5.19
U.S. Agency bonds and notes	AA+	322,500	3.27
		\$ 9,859,129	100.00%

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The overall weighted average maturity of the investments of the WV 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 WV Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Corporate bonds and notes	\$ 50,000	15
Commercial paper	6,804,022	25
Negotiable certificates of deposit	1,950,000	56
Repurchase agreements	834,500	3
Money market funds	220,607	3
	\$ 9,859,129	29

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 3. Cash and cash equivalents (Continued)

Other Risks of Investing

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

Concentration of credit risk is the risk of loss attributed to the magnitude of a pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities 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 BTI 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 holds no interests in foreign currency or interests valued in foreign currency.

Note 4. Capital Assets

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

	Historical cost at June 30, 2021			Historical cost at June 30, 2022			Historical cost at June 30, 2023
	2021	Additions	Deletions	2022	Additions	Deletions	2023
Capital assets, not depreciated							
Construction in progress	\$ -	\$ 1,565	\$ -	\$ 1,565	\$ 588	\$ -	\$ 2,153
Land	1,681	-	-	1,681	-	-	1,681
Capital assets, being depreciated							
Building	48,243	-	-	48,243	-	-	48,243
Equipment	10,999	-	-	10,999	181	-	11,180
	<u>\$ 60,923</u>	<u>\$ 1,565</u>	<u>\$ -</u>	<u>\$ 62,488</u>	<u>\$ 769</u>	<u>\$ -</u>	<u>\$ 63,257</u>
	Accumulated depreciation at June 30, 2021			Accumulated depreciation at June 30, 2022			Accumulated depreciation at June 30, 2023
	2021	Additions	Deletions	2022	Additions	Deletions	2023
Building	\$ 10,165	\$ 1,233	\$ -	\$ 11,398	\$ 1,233	\$ -	\$ 12,631
Equipment	8,338	426	-	8,764	453	-	9,217
	<u>\$ 18,503</u>	<u>\$ 1,659</u>	<u>\$ -</u>	<u>\$ 20,162</u>	<u>\$ 1,686</u>	<u>\$ -</u>	<u>\$ 21,848</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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 \$37,312,896 and \$31,466,165 for the years ended June 30, 2023 and 2022, respectively, and related prize costs were \$18,615,775 and \$15,572,056, respectively.

Revenues derived from the Lottery's participation in the LOTTO AMERICA game were \$7,298,802 and \$4,896,281 for the years ended June 30, 2023 and 2022, respectively, and related prize costs were \$3,642,068 and \$2,455,608, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$24,831,166 and \$12,930,196 for the years ended June 30, 2023 and 2022, respectively, and related prize costs were \$12,380,934 and \$6,465,208, 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, 2023

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

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

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

	<u>2023</u>		<u>2022</u>	
	<u>Total</u>		<u>Total</u>	
	<u>Prize Reserve</u>	<u>Lottery Share</u>	<u>Prize Reserve</u>	<u>Lottery Share</u>
POWERBALL ®	\$ 125,362	\$ 1,224	\$ 121,461	\$ 1,340
LOTTO AMERICA	8,472	650	5,975	455
MEGA MILLIONS ®	97,062	790	88,624	845
	<u>\$ 230,896</u>	<u>\$ 2,664</u>	<u>\$ 216,060</u>	<u>\$ 2,640</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 \$19,061,568 and \$20,493,598 at June 30, 2023 and 2022, of which the Lottery's share was \$1,406,891 and \$1,447,141, 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, 2023

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, 2023 and 2022, follows (in thousands):

	2023	2022
Total credits (bets) played	\$ 5,787,707	\$ 5,435,672
Credits (prizes) won	(5,202,984)	(4,883,779)
Promotional credits played	(86,454)	(77,128)
Gross terminal income	498,269	474,765
Administrative costs	(13,945)	(13,729)
Net terminal income	484,324	461,036
Commissions	(255,882)	(245,183)
Racetrack video lottery revenues available for distribution	\$ 228,442	\$ 215,853

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

	2023	2022
State Lottery Fund	\$ 102,010	\$ 100,453
State Excess Lottery Revenue Fund	121,204	110,829
Capital Reinvestment Fund	5,228	4,571
Total nonoperating distributions	\$ 228,442	\$ 215,853

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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, 2023 and 2022, the Lottery transferred approximately \$9 million to the Racetrack Modernization Fund each year.

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 is 50 percent of gross profit is to be transferred to the State Excess Lottery Revenue Fund. 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, 2023 and 2022 follows (in thousands):

	2023	2022
Total credits played	\$ 6,538,829	\$ 6,407,567
Credits (prizes) won	<u>(6,045,189)</u>	<u>(5,916,645)</u>
Gross terminal income	493,640	490,922
Administrative costs	<u>(9,873)</u>	<u>(9,818)</u>
Gross profit	483,767	481,104
Commissions	(241,884)	(240,552)
Distributions to municipalities and counties	<u>(9,675)</u>	<u>(9,622)</u>
Limited video lottery revenues available for distribution	<u>\$ 232,208</u>	<u>\$ 230,930</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, 2023

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, 2023 and 2022 were \$99,776,738 and \$103,414,024, respectively. A summary of table games revenues for the years ended June 30, 2023 and 2022 follows (in thousands):

	<u>2023</u>	<u>2022</u>
Table games privilege tax	\$ 34,922	\$ 36,195
Interest on table games fund	203	11
Administrative costs	<u>(2,993)</u>	<u>(3,102)</u>
Total available for distribution	<u>32,132</u>	<u>33,104</u>

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 8. Table Games (Continued)

	2023	2022
<u>Less distributions:</u>		
Racetrack purse funds	2,245	2,327
Thoroughbred & greyhound development funds	1,796	1,861
Racing commission pension plan	886	910
Municipalities/counties	9,919	10,241
Total distributions	14,846	15,339
Table games distribution to the state		
Excess Lottery Fund	\$ 17,286	\$ 17,765

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, 2023 and 2022 follows (in thousands):

	2023	2022
Total credits played	\$ 64,153	\$ 73,505
Credits (prizes) won	(59,039)	(67,479)
Promotional credits played	(1,008)	(815)
Gross terminal income	4,106	5,211
Capital reinvestment	(193)	(245)
Excess Lottery	(37)	(47)
Hotel commissions	(1,737)	(2,204)
Net terminal income	\$ 2,139	\$ 2,715
Historic Resort Hotel Fund	\$ 1,441	\$ 1,829
Human Resource Benefit Fund	698	886
Total	\$ 2,139	\$ 2,715

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 9. Historic Resort Hotel (Continued)

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, 2023 and 2022 were \$6,565,362 and \$7,862,551, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2023 and 2022:

	2023	2022
Table games privilege tax	\$ 2,298	\$ 2,752
Historic Resort Hotel Fund	\$ 1,970	\$ 2,359
Human Resource Benefit Fund	328	393
Total distributions	\$ 2,298	\$ 2,752

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:

- 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, 2023 and 2022:

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 9. Historic Resort Hotel (Continued)

Historic resort hotel fund (Continued)

	2023	2022
Historic Resort Hotel video lottery	\$ 1,441	\$ 1,829
Historic Resort table games	1,970	2,359
Interest on Historic Resort Hotel Fund	50	3
Historic Resort Hotel Fund deposits	3,461	4,191
Administrative costs	(517)	(635)
 Historic Resort Hotel Fund net income	 \$ 2,944	 \$ 3,556
 Municipalities/Counties	 \$ 413	 \$ 498
Excess Lottery Revenue Fund	2,531	3,058
 Total distributions	 \$ 2,944	 \$ 3,556

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.

The Sports Wagering adjusted gross wagering receipts for the year-to-date ended June 30, 2023 and 2022 were \$52,615,122 and \$44,845,602 respectively. The following table shows the privilege tax and the accrued distributions is as follows (in thousands), for the years ended June 30, 2023 and 2022:

	2023	2022
Sports wagering privilege tax	\$ 5,262	\$ 4,485
Interest on sports wagering fund	36	2
Administrative costs	(789)	(673)
Total available for distribution	\$ 4,509	\$ 3,814

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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, 2023 and 2022 were \$138,969,023 and \$86,172,746 respectively. The privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Interactive wagering privilege tax	\$ 20,845	\$ 12,926
Interest on Interactive wagering fund	221	11
Administrative costs	<u>(3,127)</u>	<u>(1,939)</u>
Total available for distribution	<u>17,939</u>	<u>10,998</u>
Racetrack Pension Funds	\$ 179	\$ 110
State Lottery Fund	<u>17,760</u>	<u>10,888</u>
Total distributions	<u>\$ 17,939</u>	<u>\$ 10,998</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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, 2023 and 2022, the State Legislature budgeted \$175,532,030 and \$142,297,650, 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.

All budgetary appropriations were satisfied for the years ending June 30, 2023 and 2022. The Lottery accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$252,393,693 and \$240,180,876, for the years ended June 30, 2023 and 2022 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):

	2023	2022
<u>State Lottery Fund:</u>		
Bureau of Senior Services	\$ 69,950	\$ 61,607
Department of Education	14,372	14,357
Library Commission	11,514	11,514
Higher Education - Central Office	7,351	7,262
Tourism	6,844	6,732
Natural Resources	3,591	3,444
Division of Culture & History	7,374	4,264
Economic Development Authority	9,995	9,998
School Building Authority	18,000	18,000
General Revenue Fund	21,550	125
Community and Technical College	4,991	4,993
Total State Lottery Fund	175,532	142,296

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

	2023	2022
<u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	65,000	65,000
Education Improvement Fund	29,000	29,000
WV Infrastructure Council Fund	46,000	46,000
Higher Education Improvement Fund	15,000	15,000
State Park Improvement Fund	1,505	1,505
School Building Authority	43,966	18,987
Economic Development Fund	25,403	25,409
Refundable Credit - General Revenue Fund	10,000	9,009
Racing Commission	2,800	2,800
General Revenue Fund	30,500	22,500
WV Department of Health and Human Resources	42,898	33,303
Department of Education	15,000	-
<u>Distributions to Statutory Funds and Purposes</u>		
Parking Garage Fund	716	716
Capitol Dome and Improvements Fund	1,796	1,796
Capitol Renovation and Improvements Fund	2,381	2,381
Development Office Promotion Fund	1,299	1,299
Research Challenge Fund	1,732	1,732
Tourism Promotion Fund	4,808	4,808
Cultural Facilities and Capitol Resources Fund	1,251	1,251
State Debt Reduction Fund	20,000	20,000
General Revenue Fund	1,168	1,168
Historic Resort Hotel Fund	24	24
Racing Commission	3,464	3,464
Non-Governmental Budgeted Transfers	22,383	22,383
Total State Excess Lottery Revenue Fund	388,094	329,535
 Total Distributions	 563,626	 471,831
 Veterans Instant Ticket Fund	 622	 678
 Total nonoperating distributions to the State of West Virginia (cash basis)	 564,248	 472,509
 Accrued nonoperating distributions, beginning of year	 (240,181)	 (166,942)
Accrued nonoperating distributions, end of year	252,394	240,181
Total nonoperating distributions to the State of West Virginia	\$ 576,461	\$ 545,748

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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 9.0%, 10%, and 10.0% of covered employees' annual earnings for fiscal years ending June 30, 2023, 2022, and 2021, 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 \$841,400, \$804,035, and \$812,805 for the years ended June 30, 2023, 2022 and 2021, respectively.

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

At June 30, 2023 and 2022, respectively, the Lottery reported a liability (asset) of \$734,858 and (\$4,466,851) for its proportionate share of the net pension liability (asset). The net pension liability (asset) reported at June 30, 2023 was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2021,

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 13. Pension Benefits (Continued)

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

rolled forward to the measurement date of June 30, 2022. The Lottery's proportion of the net pension liability (asset) 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, 2022. At June 30, 2022, the Lottery's proportion was 0.49 percent, which is a decrease of .02 from its proportion as of June 30, 2021.

For the years ended June 30, 2023 and 2022, respectively, the Lottery recognized pension expense of \$361,288 and \$(870,873). At June 30, 2023 and 2022, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 443	\$ -
Differences between expected and actual experience	282	-
Changes in assumptions	483	-
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	1	18
Lottery contributions made subsequent to the measurement date of June 30, 2022	841	-
Total	\$ 2,050	\$ 18

	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 5,721
Differences between expected and actual experience	510	17
Changes in assumptions	850	36
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	3	43
Lottery contributions made subsequent to the measurement date of June 30, 2021	804	-
Total	\$ 2,167	\$ 5,817

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 13. Pension Benefits (Continued)

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

The \$841,400 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, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2024	\$	462
2025		34
2026		(465)
2027		1,160

Actuarial assumptions

The total pension liability in the June 30, 2021 actuarial valuation, which was used for measurement dates June 30, 2021 and 2022, was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.75 percent
Salary increases	2.75-6.75 percent, average, including inflation
Investment rate of return	7.25 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.

Experience studies, which were based on the years 2015 through 2020 for economic assumptions and 2013 through 2018 for all other assumptions, were used for the 2021 actuarial valuation.

Certain assumptions have changed since the prior actuarial valuation as of June 30, 2020. The discount rate and salary scales were changed to reflect the recent experience study covering the economic assumptions for July 1, 2015 through June 30, 2020.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 13. Pension Benefits (Continued)

Actuarial assumptions (continued)

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:

Asset Class	Target Allocation	Long-term Expected Rate of Return	Weighted Average Expected Real Rate of Return
Domestic equity	27.5%	5.3%	1.46%
International equity	27.5%	6.1%	1.68%
Fixed income	15.0%	2.2%	0.33%
Real estate	10.0%	6.5%	0.65%
Private equity	10.0%	9.5%	0.95%
Hedge funds	10.0%	3.8%	0.38%
Total	100.00%		5.45%
Inflation (CPI)			1.80%
			7.25%

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent. 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 these assumptions, the pension 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to change in the discount rate

Regarding the sensitivity of the net pension liability (asset) to changes in the discount rate, the following table presents the Lottery's proportionate share of the net pension liability (asset) calculated using the current discount rate of 7.25% as well as what the Lottery's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (in thousands):

<u>Net Pension Liability (Asset)</u>	
1% decrease (6.25%)	\$ 5,193
Current discount rate (7.25%)	\$ 735
1% increase (8.25%)	\$ (3,082)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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 Public 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.

The RHBT Medicare-eligible retired employees and their Medicare-eligible dependents receive medical and drug coverage from a Medicare Advantage Prescription Drug Plan (MAPD) 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, 2023, 2022, and 2021, respectively, were:

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 14. Other Postemployment Benefits (Continued)

	2023	2022	2022	2021
		2/1/22 – 6/30/22	7/1/21 – 1/31/22	
Paygo Premium	\$ 70	\$ 48	\$ 116	\$ 160

Contributions to the OPEB plan from the Lottery were \$124,581, \$151,957 and \$278,563 for the years ended June 30, 2023, 2022, and 2021, respectively.

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

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

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

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

Contributions by nonemployer contributing entities in special funding situations

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

The State is a nonemployer contributing entity that provides funding through 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.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 14. Other Postemployment Benefits (Continued)

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

At June 30, 2023 and 2022, 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):

	2023	2022
Lottery's proportionate share of net OPEB liability (asset)	\$ 148	\$ (46)
State's special funding proportionate share of the net OPEB liability (asset) associated with the Lottery	51	(9)
Total portion of net OPEB liability (asset) associated with the Lottery	\$ 199	\$ (55)

The net OPEB liability reported at June 30, 2023 was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021, and rolled forward to a measurement date of June 30, 2022. 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, 2022, the Lottery's proportion was .13 percent, which is decrease of .02% from its proportion measured as of June 30, 2021.

For the years ended June 30, 2023 and 2022, respectively, the Lottery recognized OPEB expense (revenue) of \$(772,726) and \$(880,464) and for support provided by the State under special funding situations revenue (expense) of \$(143,236) and \$(38,190). At June 30, 2023 and 2022, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 189
Net difference between projected and actual earnings on OPEB plan investments	23	-
Changes in assumptions	95	375
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	48	183
Reallocation of opt out employer change in proportionate share	-	1
Lottery contributions subsequent to the measurement date of June 30, 2022	124	-
Total	\$ 290	\$ 748

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 14. Other Postemployment Benefits (Continued)

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

	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 314
Net difference between projected and actual earnings on OPEB plan investments	-	315
Changes in assumptions	-	965
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	117	63
Reallocation of opt out employer change in proportionate share	-	17
Lottery contributions subsequent to the measurement date of June 30, 2021	152	-
Total	\$ 269	\$ 1,674

The amount of \$124,581 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, 2024. 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:	
2024	\$ (517)
2025	(72)
2026	(50)
2027	57

Actuarial assumptions

The total OPEB liability, reported as of June 30, 2023 and 2022, was determined by actuarial valuations as of June 30, 2021 and 2020, with measurement dates of June 30, 2022 and 2021, respectively, using the following actuarial assumptions, applied to all periods included in the measurements, unless otherwise specified:

Inflation	2.25%
Salary increases	Rates based on 2015 – 2020 OPEB experience study and dependent on pension plan participation and attained age, and range from 2.75% to 5.18%, including inflation
Investment rate of return	6.65%, net of OPEB plan investment expense, including inflation

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 14. Other Postemployment Benefits (Continued)

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

Actuarial assumptions

Healthcare cost trend rates

(measurement date June 30, 2022) Trend rate for pre-Medicare per capita costs of 7.0% for plan year end 2023, decreasing by 0.50% for two years, then 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 8.83% for plan year end 2023, decreasing ratably each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2032.

Healthcare cost trend rates

(measurement date June 30, 2021) Trend rate for pre-Medicare per capita costs of 7.0% for plan year end 2020, decreasing by 0.50% one year, then 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 ratably 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

Remaining amortization period

20 years closed period beginning June 30, 2017

Mortality rates (measurement date June 30, 2022)

Post-retirement mortality retirement rates were based on Pub-2010 General Healthy Retiree Mortality Tables projected with MP-2021 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-2021 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-2021 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-2021 for TRS, Pub-2010 Below-Median Income General Employee Mortality Tables projected with MP-2021 for PERS, and Pub-2010 Public Safety Employee Mortality Tables projected with scale MP-2021 for Troopers A and B.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS June 30, 2023

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (continued)

Mortality rates (measurement date June 30, 2021)

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 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 and scaling factors of 100% for males and females for Trooper A and 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, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2020.

The actuarial valuation as of June 30, 2021, reflects updates to the following assumptions which are reviewed at each measurement date:

- Updates to mortality projection scale (MP-2021);
- Projected capped subsidies;
- Per capita claim costs;
- Healthcare trend rates;
- Coverage and continuance;
- Percentage eligible for tobacco-free premium discount; and
- Retired employee assistance program participation

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 7.00% 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 rate 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 rates of return by the target asset allocation percentage. The plan's investment advisors, including the WVIMB, provided target asset allocations, capital market assumptions, and forecast returns. The projected return for the Money Market Pool held with the WVBTI was estimated based on the WVIMB assumed inflation 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, 2023

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	55.0%	4.8%
Core Plus Fixed Income	15.0%	2.1%
Hedge Fund	10.0%	2.4%
Private Equity	10.0%	6.8%
Core Real Estate	10.0%	4.1%

Discount rate

A single discount of 6.65% was used to measure the total OPEB liability. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.65%. 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. Based on these assumptions, 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.

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

RHBT had significant savings with the Humana contract renewal beginning fiscal years 2022 through 2025. In addition to the Humana contract savings, RHBT experienced favorable investment returns in fiscal year 2021, resulting in an excess in the premium stabilization reserve. RHBT is passing on these savings to PEIA active employers. There will be no PAYGO billed in fiscal year 2024. The 5-year financial plan, which was passed by the PEIA Finance Board in December 2021, originally had PAYGO to be billed at \$20M for fiscal year 2024.

For fiscal year ending June 30, 2025 financial reporting, many OPEB eligible employers will see \$0 OPEB contributions and a \$0 OPEB liability on the GASB 75 Schedules of Employer OPEB Allocations and OPEB Amounts by Employer.

The OPEB liability is allocated to all OPEB eligible employers based on OPEB contributions. These contributions include PAYGO, retiree leave conversion (health & life) and non-participating billings for a given fiscal year. For fiscal year 2024, there will be \$0 billed in PAYGO leaving only the remaining contribution types to be allocated. Many OPEB eligible employers are billed PAYGO only. These employers will have \$0 OPEB contributions resulting in a \$0 OPEB liability (asset) on the schedules for fiscal year 2025 (based on FY 2024 contributions), resulting in the remaining employers that do have other types of OPEB contributions absorbing the entire OPEB liability (asset). Based off the current year schedules, approximately 413 out of the 700+ employers have only PAYGO billings as contributions.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 14. Other Postemployment Benefits (Continued)

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

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

	1% Decrease (5.65%)	Current Discount Rate (6.65%)	1% Increase (7.65%)
Lottery's proportionate share of the net OPEB liability (asset)	\$ 379	\$ 148	\$ (51)

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):

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Lottery's proportionate share of the net OPEB liability (asset)	\$ (84)	\$ 148	\$ 452

Note 15. Commitments

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2023 and 2022, \$5,783,407 and \$7,075,367, respectively, are included in unrestricted net position for this purpose.

Note 16. Risk Management

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 16. Risk Management (Continued)

Public Employees' Insurance Agency (PEIA)

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

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

Board of Risk and Insurance Management (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a risk pool currently operating as a risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims. During the year ended June 30, 2023, no changes in coverage were made and paid claims did not exceed coverage.

Workers compensation insurance

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

Note 17. Contingencies 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.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 18. New Accounting Standards

In June 2022, the GASB issued **Statement No. 100**, *Accounting Changes and Error Corrections*. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

In June 2022, the GASB issued **Statement No. 101**, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

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

REQUIRED SUPPLEMENTARY INFORMATION

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

Public Employees Retirement System Plan

	Years Ended June 30								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Lottery's proportion (percentage) of the net pension liability (asset)	0.49%	0.51%	0.52%	0.53%	0.53%	0.53%	0.52%	0.55%	0.55%
Lottery's proportionate share of the net pension liability (asset)	\$ 735	\$ (4,467)	\$ 2,740	\$ 1,147	\$ 1,360	\$ 2,274	\$ 4,800	\$ 3,044	\$ 2,035
Lottery's covered payroll	\$ 8,040	\$ 8,130	\$ 8,100	\$ 7,890	\$ 7,345	\$ 7,192	\$ 7,259	\$ 7,421	\$ 7,415
Lottery's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	9.14%	(54.94%)	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	98.17%	111.07%	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.

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

	Years Ended June 30									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 841	\$ 804	\$ 813	\$ 810	\$ 789	\$ 808	\$ 863	\$ 980	\$ 1,039	\$ 1,075
Contributions in relation to the statutorily required contribution	<u>841</u>	<u>804</u>	<u>813</u>	<u>810</u>	<u>789</u>	<u>808</u>	<u>863</u>	<u>980</u>	<u>1,039</u>	<u>1,075</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Lottery's covered payroll	\$9,344	\$8,040	\$8,130	\$8,100	\$7,890	\$7,345	\$7,192	\$7,259	\$7,421	\$7,415
Contributions as a percentage of covered-employee payroll	9.00%	10.00%	10.00%	10.00%	10.00%	11.00%	12.00%	13.50%	14.00%	14.50%

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 (ASSET)
(In Thousands)

Retirement Health Benefit Trust Plan

	Years Ended June 30					
	2023	2022	2021	2020	2019	2018
West Virginia Lottery's proportion (percentage) of the net OPEB liability (asset)	0.13%	0.15%	0.15%	0.15%	0.15%	0.14%
West Virginia Lottery's proportionate share of the net OPEB liability (aset)	\$ 148	\$ (46)	\$ 654	\$ 2,551	\$ 3,187	\$ 3,501
State's proportionate share of the net OPEB liability (asset) associated with the Lottery	\$ 51	\$ (9)	\$ 145	\$ 522	\$ 659	\$ 719
Total	\$ 199	\$ (55)	\$ 799	\$ 3,073	\$ 3,846	\$ 4,220
West Virginia Lottery's covered-employee payroll	\$ 4,645	\$ 4,810	\$ 4,942	\$ 4,909	\$ 4,999	\$ 5,264
West Virginia Lottery's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	3.19%	(0.96%)	13.23%	51.97%	63.75%	66.51%
Plan fiduciary net position as a percentage of the total OPEB liability	93.59%	101.81%	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.

WEST VIRGINIA LOTTERY

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

	Years Ended June 30						
	2023	2022	2021	2020	2019	2018	2017
Statutorily required contribution	\$ 124	\$ 152	\$ 279	\$ 287	\$ 317	\$ 303	\$ 292
Contributions in relation to the statutorily required contribution	124	152	279	287	317	303	292
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
West Virginia Lottery's covered-employee payroll	\$ 4,723	\$ 4,645	\$ 4,810	\$ 4,942	\$ 4,909	\$ 4,999	\$ 5,264
Contributions as a percentage of covered-employee payroll	2.63%	3.27%	5.80%	5.81%	6.46%	6.06%	5.55%

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

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2023

Note 1. Trend Information Presented

The accompanying schedules of the Lottery's proportionate share of the net pension liability (asset) and contributions to PERS and the Lottery's proportional share of the Net OPEB liability (asset) 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 (asset) was based on actuarial valuations rolled forward to measurement dates of June 30 of each year presented below using the following actuarial assumptions:

(Continued)

WEST VIRGINIA LOTTERY

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023**

Note 3. Pension Assumptions (Continued)

<u>PERS</u>	<u>2019-2022</u>	<u>2015-2018</u>	<u>2014</u>
Projected salary increase			
State	3.1 - 5.3% (2019-2020); 2.75% - 5.55% (2021-2022)	3.0 - 4.6%	4.25 - 6.0%
Nonstate	3.35 - 6.5% (2019-2020); 3.60%-6.75% (2021-2022)	3.35 - 6.0%	4.25 - 6.0%
Inflation rate	3.0% (2019-2020); 2.75% (2021-2022)	3.0% (2016-2018); 1.9% (2015)	2.2%
Discount rate	7.50% (2019-2020); 7.25% (2021-2022)	7.50%	7.50%
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 (2019-2020); 2015 – 2020 – economic assumptions and 2013 – 2018 all other assumptions (2021)	2009 - 2014	2004 - 2009

Note 4. OPEB Assumptions

Below are changes in assumptions between the 2021 and 2020 valuations:

- Updates to mortality projection scale (MP-2021);
- Projected capped subsidies;
- Per capita claim costs;
- Healthcare trend rates;
- Coverage and continuance;
- Percentage eligible for tobacco-free premium discount; and
- Retired employee assistance program participation

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2023

Note 4. OPEB Assumptions (Continued)

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.
- 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 capital 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.

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2023

Note 4. OPEB Assumptions (Continued)

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.



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

To the West Virginia Lottery Commission
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Lottery (the Lottery), as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated September 28, 2023.

Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

Charleston, West Virginia
September 28, 2023

OTHER FINANCIAL INFORMATION

Audited Agency West Virginia Lottery - June 30, 2023

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

See Note (3)

Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	FDIC Insured Amount	Collateralized Amount	2 Amount Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name	3A Amount Uninsured and Uncollateralized	3B Collateralized with securities held by the pledging financial institution but not in the name of the depositor	3C Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor	Foreign Currency Risk		
										Currency Type	Maturity	Fair Value
Balances as of June 30, 2023												
Cash with Treasurer												
Per wvOASIS Opening Balance Repor	14,734	14,734										
Cash with Municipal Bond Commission		0										
Cash on Hand		0										
Cash in Transit to wvOASIS		0										
Cash with Board of Trustees		0										
Cash in Outside Bank Accounts	458	458	621	250	371	371						
Cash in Escrow		0										
Certificates of Deposits (Non-Negotiable)		0										
Other:		0										
Total	15,192	0	621	250	371	371	0	0	0			0

PLEASE SEND COMPLETED FORMS TO:

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

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

See Independent Auditor's Report

Audited Agency

West Virginia Lottery - June 30, 2023

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

See Note (3)

	Reported Amount Unrestricted	Reported Amount Restricted	Fair Value Measurement's Using					Total Reported Value	Credit Ratings			Interest Rate Risk - Segmented Time Distribution Investment Maturities (in years)				Foreign Currency Risk		
			Level 1	Level 2	Level 3	Fair Value	Cost Value		Standard & Poor's	Moody's	Fitch	Less than 1	1 - 5	6 - 10	More than 10	Currency Type	Maturity	Fair Value
Investments with Investment Mgmt Board (IMB)																		
Per wvOASIS Opening Balance Report																		
Investment Earnings not Posted to wvOASIS																		
As of 6/30/23																		
Investments with Board of Treasury Investments (BTI)																		
Per Opening Balance Report	272,370					272,370		272,370										
Investment Earnings not Posted to wvOASIS																		
As of 6/30/23	1,118					1,118		1,118										
Investments Outside IMB:																		
U.S. Treasury Obligations																		
U.S. Government Agencies																		
Other Government Bonds																		
Corporate Bonds																		
Corporate Stocks																		
Mutual Bond Funds																		
Mutual Stock Funds																		
Mutual Money Market Funds																		
Commercial Paper																		
Bank Investment Contract																		
Guaranteed Investment Contract																		
Repurchase Agreements ****																		
State/Local Gov't Securities																		
Certificates of Deposit (Negotiable)																		
Other Investments (describe):																		
Total Outside Investments	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0
Investments by Fair Value Level																		
Debt Securities																		
U.S. Treasury securities																		
Commercial mortgage-backed securities																		
Collateralized debt obligations																		
Residential mortgage-backed securities																		
Corporate Bonds																		
Total Debt Securities	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0
Equity Securities																		
Other																		
Total Equity Securities	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0
Venture Capital Investments																		
Direct venture capital -																		
Direct venture capital - ****																		
Total Venture Capital Investments	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0
Private Equity Funds - International																		
Total Venture Capital Investments	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0
Investments Measured at the Net Asset Value (NAV)																		
Equity long/short hedge funds																		
Event-driven hedge funds																		
Global opportunities hedge funds																		
Multi-strategy hedge funds																		
Real estate funds																		
Total Investments Measured at the NAV	0	0			0	0	0	0				0	0	0	0	0	0	0
Total Investments Measured at Fair Value	0	0	0	0	0	0	0	0				0	0	0	0	0	0	0
Investments Derivative Instruments																		
Interest Rate Swaps																		
Foreign exchange contracts (liabilities)																		
Total Investment Derivative Instruments	273,488	0	0	0	0	273,488	0	273,488				0	0	0	0	0	0	0

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

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

PLEASE SEND COMPLETED FORMS TO:

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

WEST VIRGINIA LOTTERY
DUE TO OTHER FUNDS - PRIMARY GOVERNMENT
FOR FISCAL YEAR ENDED JUNE 30, 2023
(Expressed in Thousands)
FORM 10A

<u>Payable to</u>	<u>Amount</u>	<u>Fund</u>
Amounts reported as accrued nonoperating distributions to the State of West Virginia:		
Bureau of Senior Services	\$ 20,726	5405
Department of Education-Public Ed	4,753	3951
Library Commission	3,804	3559
Division of Tourism	2,298	3067
Natural Resources	1,249	3267
Culture and History	1,415	3534
Building Commission	999	2252
School Building Authority	1,800	3963
School Building Authority	1,896	3514
Veterans Instant Ticket Fund	44	1338
Community and Technical College	500	4908
West Virginia Infrastructure Council	600	3390
Surplus	205,814	Unappropriated
Total amounts payable to primary government	<u>\$ 245,898</u>	
Total amounts payable to primary government per above	\$ 245,898	
Total amounts payable to component units per Form 11	6,496	
Accrued nonoperating distributions to State of West Virginia	<u>\$ 252,394</u> (1)	

(1) Agrees to audited balance sheet

WEST VIRGINIA LOTTERY - DUE FROM/TO OTHER FUNDS - COMPONET UNITS
 FOR FISCAL YEAR ENDED JUNE 30, 2023
 (Expressed in Thousands)
 FORM 11

<u>Payable to</u>	<u>Amount</u>		<u>Fund</u>	<u>Amount</u>
5	\$ 2,541		9065	1,899
12	<u>3,955</u>	>	9067	203
			9068	439
			4925	1,000
			4297	1,500
Total	<u>\$ 6,496</u>		4185	1,250
			4896	205

Total amounts payable to component units per above \$ 6,496
 Total amounts payable to primary government per Form 10 245,898

(1) Agrees to audited balance sheet \$ 252,394 (1)

Note: There were no amounts due from component units as of June 30, 2023

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

WEST VIRGINIA LOTTERY
TRANSFERS IN/OUT
FOR FISCAL YEAR ENDED JUNE 30, 2023
FORM 15
(Expressed in Thousands)

WV OASIS FUND FROM Agency Transferring From	Amount	Agency Transferring To	WV OASIS FUND TO	Amount
		<u>Lottery Fund</u>		
		WV Development Office	2252	\$ 9,995
		Division of Tourism	3067	6,844
		Division of Natural Resources	3267	3,591
		Division of Culture & History	3534	7,374
		Library Commission	3559	11,514
		Dept. of Educ. - Public Education	3951	14,372
		General Revenue Fund	0116	21,550
		School Bldg Authority	3963	18,000
		Community and Technical College-Capital Imp	4908	4,991
		Higher Education- Policy Commission	4925	3,023
7202 Traditional Lottery	\$ 52,958	Higher Education- Policy Commission	4185	3,719
7203 Racetrack Video Lottery	100,091	Higher Education- Policy Commission	4896	609
7214 Sports Wagering	4,608	Bureau of Senior Services	5405	69,950
7215 Interactive Wagering	18,497	Veterans Instant Ticket Fund	1338	622
	\$ 176,154			\$ 176,154
		<u>Excess Lottery Fund</u>		
		WV Racing Commission	7308	\$ 2,800
		State Park Improvement Fund	3277	1,505
		Refundable Credit	7207	10,000
		Higher Education Improvement Fund	4297	15,000
		Dept. of Educ. - Public Education	3517	15,000
		Economic Development Fund	9065	18,985
		Economic Development Fund	9067	2,028
		Economic Development Fund	9068	4,390
		School Bldg Authority	3514	43,966
		Education Improvement	4295	29,000
		West Virginia Infrastructure Council	3390	46,000
7203 Racetrack Video Lottery	\$ 115,631	General Purpose	7206	65,000
7205 Limited Video Lottery	252,973	WV Lottery Statutory Transfers	*	61,022
7210 Table Games	16,934	Division of Human Services	5365	42,898
7212 Historic Resort Hotel	2,556	General Revenue Fund	0116	30,500
	\$ 388,094			\$ 388,094
		Grand Total		564,248

*7213 Pass Through Account	Fund	Amount
General Revenue Fund	0614	1,168
Tourism Promotion Fund	3072	4,808
Historic Resort Hotel	7212	24
Development Office Promotion Fund	3171	1,299
Research Challenge Fund	4931	1,732
Capitol Renovation & Improvement Fund	2462	2,381
Parking Garage Fund	2461	216
Parking Garage Fund	2255	500
Cultural Facilities & Capitol Resources Fund	3537	1,251
Capitol Dome & Capitol Improvements Fund	2257	1,796
State Debt Reduction Fund	7007	20,000
Non-State Agencies	N/A	25,847
Total Statutory Pass Through Account		61,022

See Independent Auditor's Report