



Department of Administration
Purchasing Division
2019 Washington Street East
Post Office Box 50130
Charleston, WV 25305-0130

State of West Virginia Contract

Order Date: 04-28-2022

CORRECT ORDER NUMBER MUST APPEAR
ON ALL PACKAGES, INVOICES, AND
SHIPPING PAPERS. QUESTIONS
CONCERNING THIS ORDER SHOULD BE
DIRECTED TO THE DEPARTMENT
CONTACT.

| | | | |
|-----------------------|--|--------------------------|------------|
| Order Number: | CCT 0705 0705 LOT2200000002 1 | Procurement Folder: | 1022506 |
| Document Name: | Annual Financial Auditing & Mgt. Advisory Services | Reason for Modification: | |
| Document Description: | Annual Financial Auditing & Mgt. Advisory Services | | |
| Procurement Type: | Central Contract - Fixed Amt | | |
| Buyer Name: | Toby L Welch | | |
| Telephone: | (304) 558-8802 | | |
| Email: | toby.l.welch@wv.gov | | |
| Shipping Method: | Best Way | Effective Start Date: | 2022-07-01 |
| Free on Board: | FOB Dest, Freight Prepaid | Effective End Date: | 2023-06-30 |

| VENDOR | DEPARTMENT CONTACT | | | | | | | | | | | | | | | | | | | | |
|---|--------------------|---------------------|---------------------|---------------|----|----|--------|---|----|-------------|--|--|----|-------------|--|--|----|-------------|--|--|--|
| Vendor Customer Code: 000000197366 BROWN EDWARDS & COMPANY LLP 707 Virginia St E Charleston WV 25301-2710 US Vendor Contact Phone: 304-345-8400 Extension: Discount Details: <table><thead><tr><th></th><th>Discount Allowed</th><th>Discount Percentage</th><th>Discount Days</th></tr></thead><tbody><tr><td>#1</td><td>No</td><td>0.0000</td><td>0</td></tr><tr><td>#2</td><td>Not Entered</td><td></td><td></td></tr><tr><td>#3</td><td>Not Entered</td><td></td><td></td></tr><tr><td>#4</td><td>Not Entered</td><td></td><td></td></tr></tbody></table> | | Discount Allowed | Discount Percentage | Discount Days | #1 | No | 0.0000 | 0 | #2 | Not Entered | | | #3 | Not Entered | | | #4 | Not Entered | | | Requestor Name: Jodi R Hash Requestor Phone: (304) 558-0500 Requestor Email: jhash@wvlottery.com 22 FILE LOCATION _____ |
| | Discount Allowed | Discount Percentage | Discount Days | | | | | | | | | | | | | | | | | | |
| #1 | No | 0.0000 | 0 | | | | | | | | | | | | | | | | | | |
| #2 | Not Entered | | | | | | | | | | | | | | | | | | | | |
| #3 | Not Entered | | | | | | | | | | | | | | | | | | | | |
| #4 | Not Entered | | | | | | | | | | | | | | | | | | | | |

| INVOICE TO | SHIP TO |
|--|--|
| ACCOUNTS PAYABLE LOTTERY PO BOX 2067 CHARLESTON WV 25327-2067 US | PURCHASING LOTTERY 900 PENNSYLVANIA AVE CHARLESTON WV 25302 US |

Purchasing Division's File Copy

Total Order Amount: \$41,900.00

ENTERED

| | | |
|--|--|---|
| PURCHASING DIVISION AUTHORIZATION <i>Linda Harper</i> DATE: 4-29-2022 ELECTRONIC SIGNATURE ON FILE | ATTORNEY GENERAL APPROVAL AS TO FORM <i>John S. Granger</i> DATE: ELECTRONIC SIGNATURE ON FILE | ENCUMBRANCE CERTIFICATION <i>5/4/2022</i> DATE: 5/4/2022 ELECTRONIC SIGNATURE ON FILE |
|--|--|---|

Extended Description:

Central Fixed Contract

Annual Financial Auditing & Mgt. Advisory Services

The vendor, Brown, Edwards and Company LLP. of Charleston, WV, agrees to enter into this fixed contract for audit services with the agency, The West Virginia Lottery Commission, the contract will include audit and management advisory services for the fiscal year ending June 30, 2022. Per the bid requirements, specifications, terms and conditions, Addendum 1 dated 4/6/2022, and the vendor's submitted and accepted bid on 4/11/2022, per the attached documentation and pricing sheet. All incorporated herein by reference and a part hereof.

| Line | Commodity Code | Quantity | Unit | Unit Price | Total Price |
|--------------|----------------|--------------|------|------------|-------------|
| 1 | 84111600 | 0.00000 | | 0.000000 | \$41,900.00 |
| Service From | Service To | Manufacturer | | Model No | |
| 2022-07-01 | 2023-06-30 | | | | |

Commodity Line Description: Audit services**Extended Description:**

CERTIFIED PUBLIC ACCOUNTING FIRM TO PROVIDE ANNUAL AUDIT SERVICES FOR FISCAL YEAR ENDING JUNE 30, 2022 (YEAR 1), FOR THE WV LOTTERY LOCATED AT 900 PENNSYLVANIA AVENUE, CHARLESTON, WV 25302 PER THE ATTACHED PRICING PAGE

| | | | |
|---------------|----------------|---|-----------|
| | Document Phase | Document Description | Page 3 |
| LOT2200000002 | Draft | Annual Financial Auditing & Mgt. Advisory Services | |

ADDITIONAL TERMS AND CONDITIONS

See attached document(s) for additional Terms and Conditions

GENERAL TERMS AND CONDITIONS:

1. CONTRACTUAL AGREEMENT: Issuance of an Award Document signed by the Purchasing Division Director, or his designee, and approved as to form by the Attorney General's office constitutes acceptance by the State of this Contract made by and between the State of West Virginia and the Vendor. Vendor's signature on its bid, or on the Contract if the Contract is not the result of a bid solicitation, signifies Vendor's agreement to be bound by and accept the terms and conditions contained in this Contract.

2. DEFINITIONS: As used in this Solicitation/Contract, the following terms shall have the meanings attributed to them below. Additional definitions may be found in the specifications included with this Solicitation/Contract.

2.1. "Agency" or "Agencies" means the agency, board, commission, or other entity of the State of West Virginia that is identified on the first page of the Solicitation or any other public entity seeking to procure goods or services under this Contract.

2.2. "Bid" or "Proposal" means the vendors submitted response to this solicitation.

2.3. "Contract" means the binding agreement that is entered into between the State and the Vendor to provide the goods or services requested in the Solicitation.

2.4. "Director" means the Director of the West Virginia Department of Administration, Purchasing Division.

2.5. "Purchasing Division" means the West Virginia Department of Administration, Purchasing Division.

2.6. "Award Document" means the document signed by the Agency and the Purchasing Division, and approved as to form by the Attorney General, that identifies the Vendor as the contract holder.

2.7. "Solicitation" means the official notice of an opportunity to supply the State with goods or services that is published by the Purchasing Division.

2.8. "State" means the State of West Virginia and/or any of its agencies, commissions, boards, etc. as context requires.

2.9. "Vendor" or "Vendors" means any entity submitting a bid in response to the Solicitation, the entity that has been selected as the lowest responsible bidder, or the entity that has been awarded the Contract as context requires.

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3. CONTRACT TERM; RENEWAL; EXTENSION: The term of this Contract shall be determined in accordance with the category that has been identified as applicable to this Contract below:

☒ **Term Contract**

Initial Contract Term: The Initial Contract Term will be for a period of ONE YEAR (1). The Initial Contract Term becomes effective on the effective start date listed on the first page of this Contract and the Initial Contract Term ends on the effective end date also shown on the first page of this Contract.

Renewal Term: This Contract may be renewed upon the mutual written consent of the Agency, and the Vendor, with approval of the Purchasing Division and the Attorney General's office (Attorney General approval is as to form only). Any request for renewal should be delivered to the Agency and then submitted to the Purchasing Division thirty (30) days prior to the expiration date of the initial contract term or appropriate renewal term. A Contract renewal shall be in accordance with the terms and conditions of the original contract. Unless otherwise specified below, renewal of this Contract is limited to TWO (2) successive one (1) year periods or multiple renewal periods of less than one year, provided that the multiple renewal periods do not exceed the total number of months available in all renewal years combined. Automatic renewal of this Contract is prohibited. Renewals must be approved by the Vendor, Agency, Purchasing Division and Attorney General's office (Attorney General approval is as to form only)

☐ **Alternate Renewal Term** – This contract may be renewed for _____ successive _____ year periods or shorter periods provided that they do not exceed the total number of months contained in all available renewals. Automatic renewal of this Contract is prohibited. Renewals must be approved by the Vendor, Agency, Purchasing Division and Attorney General's office (Attorney General approval is as to form only)

Delivery Order Limitations: In the event that this contract permits delivery orders, a delivery order may only be issued during the time this Contract is in effect. Any delivery order issued within one year of the expiration of this Contract shall be effective for one year from the date the delivery order is issued. No delivery order may be extended beyond one year after this Contract has expired.

☐ **Fixed Period Contract:** This Contract becomes effective upon Vendor's receipt of the notice to proceed and must be completed within _____ days.

☐ **Fixed Period Contract with Renewals:** This Contract becomes effective upon Vendor's receipt of the notice to proceed and part of the Contract more fully described in the attached specifications must be completed within _____ days. Upon completion of the work covered by the preceding sentence, the vendor agrees that maintenance, monitoring, or warranty services will be provided for _____ year(s) thereafter.

☐ **One-Time Purchase:** The term of this Contract shall run from the issuance of the Award Document until all of the goods contracted for have been delivered, but in no event will this Contract extend for more than one fiscal year.

☐ **Other:** Contract Term specified in _____

4. AUTHORITY TO PROCEED: Vendor is authorized to begin performance of this contract on the date of encumbrance listed on the front page of the Award Document unless either the box for "Fixed Period Contract" or "Fixed Period Contract with Renewals" has been checked in Section 3 above. If either "Fixed Period Contract" or "Fixed Period Contract with Renewals" has been checked, Vendor must not begin work until it receives a separate notice to proceed from the State. The notice to proceed will then be incorporated into the Contract via change order to memorialize the official date that work commenced.

5. QUANTITIES: The quantities required under this Contract shall be determined in accordance with the category that has been identified as applicable to this Contract below.

☐ **Open End Contract:** Quantities listed in this Solicitation/Award Document are approximations only, based on estimates supplied by the Agency. It is understood and agreed that the Contract shall cover the quantities actually ordered for delivery during the term of the Contract, whether more or less than the quantities shown.

☒ **Service:** The scope of the service to be provided will be more clearly defined in the specifications included herewith.

☐ **Combined Service and Goods:** The scope of the service and deliverable goods to be provided will be more clearly defined in the specifications included herewith.

☐ **One Time Purchase:** This Contract is for the purchase of a set quantity of goods that are identified in the specifications included herewith. Once those items have been delivered, no additional goods may be procured under this Contract without an appropriate change order approved by the Vendor, Agency, Purchasing Division, and Attorney General's office.

6. EMERGENCY PURCHASES: The Purchasing Division Director may authorize the Agency to purchase goods or services in the open market that Vendor would otherwise provide under this Contract if those goods or services are for immediate or expedited delivery in an emergency. Emergencies shall include, but are not limited to, delays in transportation or an unanticipated increase in the volume of work. An emergency purchase in the open market, approved by the Purchasing Division Director, shall not constitute a breach of this Contract and shall not entitle the Vendor to any form of compensation or damages. This provision does not excuse the State from fulfilling its obligations under a One Time Purchase contract.

7. REQUIRED DOCUMENTS: All of the items checked in this section must be provided to the Purchasing Division by the Vendor as specified:

☐ **BID BOND (Construction Only):** Pursuant to the requirements contained in W. Va. Code § 5-22-1(c), All Vendors submitting a bid on a construction project shall furnish a valid bid bond in the amount of five percent (5%) of the total amount of the bid protecting the State of West Virginia. The bid bond must be submitted with the bid.

☐ **PERFORMANCE BOND:** The apparent successful Vendor shall provide a performance bond in the amount of 100% of the contract. The performance bond must be received by the Purchasing Division prior to Contract award.

☐ **LABOR/MATERIAL PAYMENT BOND:** The apparent successful Vendor shall provide a labor/material payment bond in the amount of 100% of the Contract value. The labor/material payment bond must be delivered to the Purchasing Division prior to Contract award.

In lieu of the Bid Bond, Performance Bond, and Labor/Material Payment Bond, the Vendor may provide certified checks, cashier's checks, or irrevocable letters of credit. Any certified check, cashier's check, or irrevocable letter of credit provided in lieu of a bond must be of the same amount and delivered on the same schedule as the bond it replaces. A letter of credit submitted in lieu of a performance and labor/material payment bond will only be allowed for projects under \$100,000. Personal or business checks are not acceptable. Notwithstanding the foregoing, West Virginia Code § 5-22-1 (d) mandates that a vendor provide a performance and labor/material payment bond for construction projects. Accordingly, substitutions for the performance and labor/material payment bonds for construction projects is not permitted.

☐ **MAINTENANCE BOND:** The apparent successful Vendor shall provide a two (2) year maintenance bond covering the roofing system. The maintenance bond must be issued and delivered to the Purchasing Division prior to Contract award.

☒ **LICENSE(S) / CERTIFICATIONS / PERMITS:** In addition to anything required under the Section of the General Terms and Conditions entitled Licensing, the apparent successful Vendor shall furnish proof of the following licenses, certifications, and/or permits upon request and in a form acceptable to the State. The request may be prior to or after contract award at the State's sole discretion.

☒ **CERTIFIED PUBLIC ACCOUNTANT**

☐

☐

☐

The apparent successful Vendor shall also furnish proof of any additional licenses or certifications contained in the specifications regardless of whether or not that requirement is listed above.

8. INSURANCE: The apparent successful Vendor shall furnish proof of the insurance identified by a checkmark below and must include the State as an additional insured on each policy prior to Contract award. The insurance coverages identified below must be maintained throughout the life of this contract. Thirty (30) days prior to the expiration of the insurance policies, Vendor shall provide the Agency with proof that the insurance mandated herein has been continued. Vendor must also provide Agency with immediate notice of any changes in its insurance policies, including but not limited to, policy cancellation, policy reduction, or change in insurers. The apparent successful Vendor shall also furnish proof of any additional insurance requirements contained in the specifications prior to Contract award regardless of whether that insurance requirement is listed in this section.

Vendor must maintain:

- ☒ **Commercial General Liability Insurance** in at least an amount of: 1,000,000.00 per occurrence.
- ☐ **Automobile Liability Insurance** in at least an amount of: _____ per occurrence.
- ☐ **Professional/Malpractice/Errors and Omission Insurance** in at least an amount of: _____ per occurrence. Notwithstanding the forgoing, Vendor's are not required to list the State as an additional insured for this type of policy.
- ☐ **Commercial Crime and Third Party Fidelity Insurance** in an amount of: _____ per occurrence.
- ☐ **Cyber Liability Insurance** in an amount of: _____ per occurrence.
- ☐ **Builders Risk Insurance** in an amount equal to 100% of the amount of the Contract.
- ☐ **Pollution Insurance** in an amount of: _____ per occurrence.
- ☐ **Aircraft Liability** in an amount of: _____ per occurrence.
- ☐
- ☐
- ☐
- ☐

Notwithstanding anything contained in this section to the contrary, the Director of the Purchasing Division reserves the right to waive the requirement that the State be named as an additional insured on one or more of the Vendor's insurance policies if the Director finds that doing so is in the State's best interest.

9. WORKERS' COMPENSATION INSURANCE: Vendor shall comply with laws relating to workers compensation, shall maintain workers' compensation insurance when required, and shall furnish proof of workers' compensation insurance upon request.

10. [Reserved]

11. LIQUIDATED DAMAGES: This clause shall in no way be considered exclusive and shall not limit the State or Agency's right to pursue any other available remedy. Vendor shall pay liquidated damages in the amount specified below or as described in the specifications:

☐ _____ for _____.

☐ Liquidated Damages Contained in the Specifications.

☒ Liquidated Damages Are Not Included in this Contract.

12. ACCEPTANCE: Vendor's signature on its bid, or on the certification and signature page, constitutes an offer to the State that cannot be unilaterally withdrawn, signifies that the product or service proposed by vendor meets the mandatory requirements contained in the Solicitation for that product or service, unless otherwise indicated, and signifies acceptance of the terms and conditions contained in the Solicitation unless otherwise indicated.

13. PRICING: The pricing set forth herein is firm for the life of the Contract, unless specified elsewhere within this Solicitation/Contract by the State. A Vendor's inclusion of price adjustment provisions in its bid, without an express authorization from the State in the Solicitation to do so, may result in bid disqualification. Notwithstanding the foregoing, Vendor must extend any publicly advertised sale price to the State and invoice at the lower of the contract price or the publicly advertised sale price.

14. PAYMENT IN ARREARS: Payments for goods/services will be made in arrears only upon receipt of a proper invoice, detailing the goods/services provided or receipt of the goods/services, whichever is later. Notwithstanding the foregoing, payments for software maintenance, licenses, or subscriptions may be paid annually in advance.

15. PAYMENT METHODS: Vendor must accept payment by electronic funds transfer and P-Card. (The State of West Virginia's Purchasing Card program, administered under contract by a banking institution, processes payment for goods and services through state designated credit cards.)

16. TAXES: The Vendor shall pay any applicable sales, use, personal property or any other taxes arising out of this Contract and the transactions contemplated thereby. The State of West Virginia is exempt from federal and state taxes and will not pay or reimburse such taxes.

17. ADDITIONAL FEES: Vendor is not permitted to charge additional fees or assess additional charges that were not either expressly provided for in the solicitation published by the State of West Virginia, included in the Contract, or included in the unit price or lump sum bid amount that Vendor is required by the solicitation to provide. Including such fees or charges as notes to the solicitation may result in rejection of vendor's bid. Requesting such fees or charges be paid after the contract has been awarded may result in cancellation of the contract.

18. FUNDING: This Contract shall continue for the term stated herein, contingent upon funds being appropriated by the Legislature or otherwise being made available. In the event funds are not appropriated or otherwise made available, this Contract becomes void and of no effect beginning on July 1 of the fiscal year for which funding has not been appropriated or otherwise made available. If that occurs, the State may notify the Vendor that an alternative source of funding has been obtained and thereby avoid the automatic termination. Non-appropriation or non-funding shall not be considered an event of default.

19. CANCELLATION: The Purchasing Division Director reserves the right to cancel this Contract immediately upon written notice to the vendor if the materials or workmanship supplied do not conform to the specifications contained in the Contract. The Purchasing Division Director may also cancel any purchase or Contract upon 30 days written notice to the Vendor in accordance with West Virginia Code of State Rules § 148-1-5.2.b.

20. TIME: Time is of the essence regarding all matters of time and performance in this Contract.

21. APPLICABLE LAW: This Contract is governed by and interpreted under West Virginia law without giving effect to its choice of law principles. Any information provided in specification manuals, or any other source, verbal or written, which contradicts or violates the West Virginia Constitution, West Virginia Code, or West Virginia Code of State Rules is void and of no effect.

22. COMPLIANCE WITH LAWS: Vendor shall comply with all applicable federal, state, and local laws, regulations and ordinances. By submitting a bid, Vendor acknowledges that it has reviewed, understands, and will comply with all applicable laws, regulations, and ordinances.

SUBCONTRACTOR COMPLIANCE: Vendor shall notify all subcontractors providing commodities or services related to this Contract that as subcontractors, they too are required to comply with all applicable laws, regulations, and ordinances. Notification under this provision must occur prior to the performance of any work under the contract by the subcontractor.

23. ARBITRATION: Any references made to arbitration contained in this Contract, Vendor's bid, or in any American Institute of Architects documents pertaining to this Contract are hereby deleted, void, and of no effect.

24. MODIFICATIONS: This writing is the parties' final expression of intent. Notwithstanding anything contained in this Contract to the contrary no modification of this Contract shall be binding without mutual written consent of the Agency, and the Vendor, with approval of the Purchasing Division and the Attorney General's office (Attorney General approval is as to form only). Any change to existing contracts that adds work or changes contract cost, and were not included in the original contract, must be approved by the Purchasing Division and the Attorney General's Office (as to form) prior to the implementation of the change or commencement of work affected by the change.

25. WAIVER: The failure of either party to insist upon a strict performance of any of the terms or provision of this Contract, or to exercise any option, right, or remedy herein contained, shall not be construed as a waiver or a relinquishment for the future of such term, provision, option, right, or remedy, but the same shall continue in full force and effect. Any waiver must be expressly stated in writing and signed by the waiving party.

26. SUBSEQUENT FORMS: The terms and conditions contained in this Contract shall supersede any and all subsequent terms and conditions which may appear on any form documents submitted by Vendor to the Agency or Purchasing Division such as price lists, order forms, invoices, sales agreements, or maintenance agreements, and includes internet websites or other electronic documents. Acceptance or use of Vendor's forms does not constitute acceptance of the terms and conditions contained thereon.

27. ASSIGNMENT: Neither this Contract nor any monies due, or to become due hereunder, may be assigned by the Vendor without the express written consent of the Agency, the Purchasing Division, the Attorney General's office (as to form only), and any other government agency or office that may be required to approve such assignments.

28. WARRANTY: The Vendor expressly warrants that the goods and/or services covered by this Contract will: (a) conform to the specifications, drawings, samples, or other description furnished or specified by the Agency; (b) be merchantable and fit for the purpose intended; and (c) be free from defect in material and workmanship.

29. STATE EMPLOYEES: State employees are not permitted to utilize this Contract for personal use and the Vendor is prohibited from permitting or facilitating the same.

30. PRIVACY, SECURITY, AND CONFIDENTIALITY: The Vendor agrees that it will not disclose to anyone, directly or indirectly, any such personally identifiable information or other confidential information gained from the Agency, unless the individual who is the subject of the information consents to the disclosure in writing or the disclosure is made pursuant to the Agency's policies, procedures, and rules. Vendor further agrees to comply with the Confidentiality Policies and Information Security Accountability Requirements, set forth in <http://www.state.wv.us/admin/purchase/privacy/default.html>.

31. YOUR SUBMISSION IS A PUBLIC DOCUMENT: Vendor's entire response to the Solicitation and the resulting Contract are public documents. As public documents, they will be disclosed to the public following the bid/proposal opening or award of the contract, as required by the competitive bidding laws of West Virginia Code §§ 5A-3-1 et seq., 5-22-1 et seq., and 5G-1-1 et seq. and the Freedom of Information Act West Virginia Code §§ 29B-1-1 et seq.

DO NOT SUBMIT MATERIAL YOU CONSIDER TO BE CONFIDENTIAL, A TRADE SECRET, OR OTHERWISE NOT SUBJECT TO PUBLIC DISCLOSURE.

Submission of any bid, proposal, or other document to the Purchasing Division constitutes your explicit consent to the subsequent public disclosure of the bid, proposal, or document. The Purchasing Division will disclose any document labeled "confidential," "proprietary," "trade secret," "private," or labeled with any other claim against public disclosure of the documents, to include any "trade secrets" as defined by West Virginia Code § 47-22-1 et seq. All submissions are subject to public disclosure without notice.

32. LICENSING: In accordance with West Virginia Code of State Rules § 148-1-6.1.e, Vendor must be licensed and in good standing in accordance with any and all state and local laws and requirements by any state or local agency of West Virginia, including, but not limited to, the West Virginia Secretary of State's Office, the West Virginia Tax Department, West Virginia Insurance Commission, or any other state agency or political subdivision. Obligations related to political subdivisions may include, but are not limited to, business licensing, business and occupation taxes, inspection compliance, permitting, etc. Upon request, the Vendor must provide all necessary releases to obtain information to enable the Purchasing Division Director or the Agency to verify that the Vendor is licensed and in good standing with the above entities.

SUBCONTRACTOR COMPLIANCE: Vendor shall notify all subcontractors providing commodities or services related to this Contract that as subcontractors, they too are required to be licensed, in good standing, and up-to-date on all state and local obligations as described in this section. Obligations related to political subdivisions may include, but are not limited to, business licensing, business and occupation taxes, inspection compliance, permitting, etc. Notification under this provision must occur prior to the performance of any work under the contract by the subcontractor.

33. ANTITRUST: In submitting a bid to, signing a contract with, or accepting a Award Document from any agency of the State of West Virginia, the Vendor agrees to convey, sell, assign, or transfer to the State of West Virginia all rights, title, and interest in and to all causes of action it may now or hereafter acquire under the antitrust laws of the United States and the State of West Virginia for price fixing and/or unreasonable restraints of trade relating to the particular commodities or services purchased or acquired by the State of West Virginia. Such assignment shall be made and become effective at the time the purchasing agency tenders the initial payment to Vendor.

34. VENDOR CERTIFICATIONS: By signing its bid or entering into this Contract, Vendor certifies (1) that its bid or offer was made without prior understanding, agreement, or connection with any corporation, firm, limited liability company, partnership, person or entity submitting a bid or offer for the same material, supplies, equipment or services; (2) that its bid or offer is in all respects fair and without collusion or fraud; (3) that this Contract is accepted or entered into without any prior understanding, agreement, or connection to any other entity that could be considered a violation of law; and (4) that it has reviewed this Solicitation in its entirety; understands the requirements, terms and conditions, and other information contained herein.

Vendor's signature on its bid or offer also affirms that neither it nor its representatives have any interest, nor shall acquire any interest, direct or indirect, which would compromise the performance of its services hereunder. Any such interests shall be promptly presented in detail to the Agency. The individual signing this bid or offer on behalf of Vendor certifies that he or she is authorized by the Vendor to execute this bid or offer or any documents related thereto on Vendor's behalf; that he or she is authorized to bind the Vendor in a contractual relationship; and that, to the best of his or her knowledge, the Vendor has properly registered with any State agency that may require registration.

35. VENDOR RELATIONSHIP: The relationship of the Vendor to the State shall be that of an independent contractor and no principal-agent relationship or employer-employee relationship is contemplated or created by this Contract. The Vendor as an independent contractor is solely liable for the acts and omissions of its employees and agents. Vendor shall be responsible for selecting, supervising, and compensating any and all individuals employed pursuant to the terms of this Solicitation and resulting contract. Neither the Vendor, nor any employees or subcontractors of the Vendor, shall be deemed to be employees of the State for any purpose whatsoever. Vendor shall be exclusively responsible for payment of employees and contractors for all wages and salaries, taxes, withholding payments, penalties, fees, fringe benefits, professional liability insurance premiums, contributions to insurance and pension, or other deferred compensation plans, including but not limited to, Workers' Compensation and Social Security obligations, licensing fees, etc. and the filing of all necessary documents, forms, and returns pertinent to all of the foregoing.

Vendor shall hold harmless the State, and shall provide the State and Agency with a defense against any and all claims including, but not limited to, the foregoing payments, withholdings, contributions, taxes, Social Security taxes, and employer income tax returns.

36. INDEMNIFICATION: The Vendor agrees to indemnify, defend, and hold harmless the State and the Agency, their officers, and employees from and against: (1) Any claims or losses for services rendered by any subcontractor, person, or firm performing or supplying services, materials, or supplies in connection with the performance of the Contract; (2) Any claims or losses resulting to any person or entity injured or damaged by the Vendor, its officers, employees, or subcontractors by the publication, translation, reproduction, delivery, performance, use, or disposition of any data used under the Contract in a manner not authorized by the Contract, or by Federal or State statutes or regulations; and (3) Any failure of the Vendor, its officers, employees, or subcontractors to observe State and Federal laws including, but not limited to, labor and wage and hour laws.

37. PURCHASING AFFIDAVIT: In accordance with West Virginia Code §§ 5A-3-10a and 5-22-1(i), the State is prohibited from awarding a contract to any bidder that owes a debt to the State or a political subdivision of the State, Vendors are required to sign, notarize, and submit the Purchasing Affidavit to the Purchasing Division affirming under oath that it is not in default on any monetary obligation owed to the state or a political subdivision of the state.

38. CONFLICT OF INTEREST: Vendor, its officers or members or employees, shall not presently have or acquire an interest, direct or indirect, which would conflict with or compromise the performance of its obligations hereunder. Vendor shall periodically inquire of its officers, members and employees to ensure that a conflict of interest does not arise. Any conflict of interest discovered shall be promptly presented in detail to the Agency.

39. REPORTS: Vendor shall provide the Agency and/or the Purchasing Division with the following reports identified by a checked box below:

☒ Such reports as the Agency and/or the Purchasing Division may request. Requested reports may include, but are not limited to, quantities purchased, agencies utilizing the contract, total contract expenditures by agency, etc.

☐ Quarterly reports detailing the total quantity of purchases in units and dollars, along with a listing of purchases by agency. Quarterly reports should be delivered to the Purchasing Division via email at purchasing.division@wv.gov.

40. BACKGROUND CHECK: In accordance with W. Va. Code § 15-2D-3, the State reserves the right to prohibit a service provider's employees from accessing sensitive or critical information or to be present at the Capitol complex based upon results addressed from a criminal background check. Service providers should contact the West Virginia Division of Protective Services by phone at (304) 558-9911 for more information.

41. PREFERENCE FOR USE OF DOMESTIC STEEL PRODUCTS: Except when authorized by the Director of the Purchasing Division pursuant to W. Va. Code § 5A-3-56, no contractor may use or supply steel products for a State Contract Project other than those steel products made in the United States. A contractor who uses steel products in violation of this section may be subject to civil penalties pursuant to W. Va. Code § 5A-3-56. As used in this section:

- a. "State Contract Project" means any erection or construction of, or any addition to, alteration of or other improvement to any building or structure, including, but not limited to, roads or highways, or the installation of any heating or cooling or ventilating plants or other equipment, or the supply of and materials for such projects, pursuant to a contract with the State of West Virginia for which bids were solicited on or after June 6, 2001.
- b. "Steel Products" means products rolled, formed, shaped, drawn, extruded, forged, cast, fabricated or otherwise similarly processed, or processed by a combination of two or more or such operations, from steel made by the open heath, basic oxygen, electric furnace, Bessemer or other steel making process.
- c. The Purchasing Division Director may, in writing, authorize the use of foreign steel products if:

1. The cost for each contract item used does not exceed one tenth of one percent (.1%) of the total contract cost or two thousand five hundred dollars (\$2,500.00), whichever is greater. For the purposes of this section, the cost is the value of the steel product as delivered to the project; or
2. The Director of the Purchasing Division determines that specified steel materials are not produced in the United States in sufficient quantity or otherwise are not reasonably available to meet contract requirements.

42. PREFERENCE FOR USE OF DOMESTIC ALUMINUM, GLASS, AND STEEL: In Accordance with W. Va. Code § 5-19-1 et seq., and W. Va. CSR § 148-10-1 et seq., for every contract or subcontract, subject to the limitations contained herein, for the construction, reconstruction, alteration, repair, improvement or maintenance of public works or for the purchase of any item of machinery or equipment to be used at sites of public works, only domestic aluminum, glass or steel products shall be supplied unless the spending officer determines, in writing, after the receipt of offers or bids, (1) that the cost of domestic aluminum, glass or steel products is unreasonable or inconsistent with the public interest of the State of West Virginia, (2) that domestic aluminum, glass or steel products are not produced in sufficient quantities to meet the contract requirements, or (3) the available domestic aluminum, glass, or steel do not meet the contract specifications. This provision only applies to public works contracts awarded in an amount more than fifty thousand dollars (\$50,000) or public works contracts that require more than ten thousand pounds of steel products.

The cost of domestic aluminum, glass, or steel products may be unreasonable if the cost is more than twenty percent (20%) of the bid or offered price for foreign made aluminum, glass, or steel products. If the domestic aluminum, glass or steel products to be supplied or produced in a "substantial labor surplus area", as defined by the United States Department of Labor, the cost of domestic aluminum, glass, or steel products may be unreasonable if the cost is more than thirty percent (30%) of the bid or offered price for foreign made aluminum, glass, or steel products. This preference shall be applied to an item of machinery or equipment, as indicated above, when the item is a single unit of equipment or machinery manufactured primarily of aluminum, glass or steel, is part of a public works contract and has the sole purpose or of being a permanent part of a single public works project. This provision does not apply to equipment or machinery purchased by a spending unit for use by that spending unit and not as part of a single public works project.

All bids and offers including domestic aluminum, glass or steel products that exceed bid or offer prices including foreign aluminum, glass or steel products after application of the preferences provided in this provision may be reduced to a price equal to or lower than the lowest bid or offer price for foreign aluminum, glass or steel products plus the applicable preference. If the reduced bid or offer prices are made in writing and supersede the prior bid or offer prices, all bids or offers, including the reduced bid or offer prices, will be reevaluated in accordance with this rule.

43. INTERESTED PARTY SUPPLEMENTAL DISCLOSURE: W. Va. Code § 6D-1-2 requires that for contracts with an actual or estimated value of at least \$1 million, the vendor must submit to the Agency a supplemental disclosure of interested parties reflecting any new or differing interested parties to the contract, which were not included in the original pre-award interested party disclosure, within 30 days following the completion or termination of the contract. A copy of that form is included with this solicitation or can be obtained from the WV Ethics Commission. This requirement does not apply to publicly traded companies listed on a national or international stock exchange. A more detailed definition of interested parties can be obtained from the form referenced above.

44. PROHIBITION AGAINST USED OR REFURBISHED: Unless expressly permitted in the solicitation published by the State, Vendor must provide new, unused commodities, and is prohibited from supplying used or refurbished commodities, in fulfilling its responsibilities under this Contract.

45. VOID CONTRACT CLAUSES – This Contract is subject to the provisions of West Virginia Code § 5A-3-62, which automatically voids certain contract clauses that violate State law.



DESIGNATED CONTACT: Vendor appoints the individual identified in this Section as the Contract Administrator and the initial point of contact for matters relating to this Contract.

Robert E. Adams Partner
(Name, Title)
Rob Adams, CPA, Partner
(Printed Name and Title)
707 Virginia Street, East, Charleston, WV 25304
(Address)
(304) 343-4188 / (304) 344-5035
(Phone Number) / (Fax Number)
ReAdams@BEcpas.com
(email address)

CERTIFICATION AND SIGNATURE: By signing below, or submitting documentation through wvOASIS, I certify that: I have reviewed this Solicitation in its entirety; that I understand the requirements, terms and conditions, and other information contained herein; that this bid, offer or proposal constitutes an offer to the State that cannot be unilaterally withdrawn; that the product or service proposed meets the mandatory requirements contained in the Solicitation for that product or service, unless otherwise stated herein; that the Vendor accepts the terms and conditions contained in the Solicitation, unless otherwise stated herein; that I am submitting this bid, offer or proposal for review and consideration; that I am authorized by the vendor to execute and submit this bid, offer, or proposal, or any documents related thereto on vendor's behalf; that I am authorized to bind the vendor in a contractual relationship; and that to the best of my knowledge, the vendor has properly registered with any State agency that may require registration.

By signing below, I further certify that I understand this Contract is subject to the provisions of West Virginia Code § 5A-3-62, which automatically voids certain contract clauses that violate State law.

Brown Edwards and Company, LLP
(Company)
Robert E. Adams Partner
(Authorized Signature) (Representative Name, Title)
Rob Adams, CPA, Partner
(Printed Name and Title of Authorized Representative)
April 12, 2022
(Date)
(304) 343-4188 / (304) 344-5035
(Phone Number) (Fax Number)



ADDENDUM ACKNOWLEDGEMENT FORM
SOLICITATION NO.: CRFQ LOT22*11

Instructions: Please acknowledge receipt of all addenda issued with this solicitation by completing this addendum acknowledgment form. Check the box next to each addendum received and sign below. Failure to acknowledge addenda may result in bid disqualification.

Acknowledgment: I hereby acknowledge receipt of the following addenda and have made the necessary revisions to my proposal, plans and/or specification, etc.

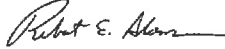
Addendum Numbers Received:
(Check the box next to each addendum received)

- | | |
|--|--|
| <input checked="" type="checkbox"/> Addendum No. 1 | <input type="checkbox"/> Addendum No. 6 |
| <input type="checkbox"/> Addendum No. 2 | <input type="checkbox"/> Addendum No. 7 |
| <input type="checkbox"/> Addendum No. 3 | <input type="checkbox"/> Addendum No. 8 |
| <input type="checkbox"/> Addendum No. 4 | <input type="checkbox"/> Addendum No. 9 |
| <input type="checkbox"/> Addendum No. 5 | <input type="checkbox"/> Addendum No. 10 |

I understand that failure to confirm the receipt of addenda may be cause for rejection of this bid. I further understand that any verbal representation made or assumed to be made during any oral discussion held between Vendor's representatives and any state personnel is not binding. Only the information issued in writing and added to the specifications by an official addendum is binding.

Brown Edwards and Company, LLP

Company



Authorized Signature

April 12, 2022

Date

NOTE: This addendum acknowledgment should be submitted with the bid to expedite document processing.

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

SPECIFICATIONS

- 1. PURPOSE AND SCOPE:** The West Virginia Purchasing Division is soliciting bids on behalf of the West Virginia Lottery to establish a fixed term contract to provide the Lottery with Audit and Management Advisory Services for the fiscal year ending June 30, 2022. It is anticipated that a contract awarded from this solicitation will be effective: July 01, 2022.

1.1 Location: The West Virginia Lottery Headquarters is located at 900 Pennsylvania Ave., Charleston, WV. A regional office is located at 100 Municipal Plaza, Suite 500, Weirton, WV. A back-up data computer facility is located at 64 Sterling Dr., Bridgeport, WV.

1.2 Background: A copy of the Lottery's most recent unaudited monthly financial statements are enclosed for extensive background information about the Lottery (see **Exhibit "B"**). The "Lottery Games Operations" portion of Note 2 to these financial statements provides an overview of the organization. Also, to view the CAFR (as defined below) for June 30, 2018, please visit <http://www.wvlottery.com/aboutus/annualreports.aspx> It is mandatory that the successful vendor will be intricately involving in providing assistance to the Lottery in preparation of the CAFR and will be present on site at the Lottery to make reviews, calculations, and graphic presentations in the body of the CAFR and provide personal guidance and assistance to Lottery staff.

1.2.1 FINANCE DIVISION: The Finance Division is managed by a deputy director, a chief accountant, and two (2) accounting managers and consists of ten (10) other active employees.

1.2.2 Computer Systems – Traditional Lottery Operations: A daily reconciliation of online operations is performed on the Lottery's computer by means of a set of software procedures called the Internal Control Systems (ICS). IGT Global Solutions Corporation (IGT), the current online and instant games vendor, provides Lottery with log files of all online transactions recorded during the day's activities. Lottery processes these file on its ICS computer and processes them through the ICS. While doing this, ICS:

- A) Verifies that the correct date is being processed
- B) Processes the transactions and the drawings occurring on that day
- C) Produces prize reports similar to those provided by IGT after each drawing is held, which are reconciled to IGT prize reports
- D) Produces control total reports. Lottery balances to these reports by comparison to similar reports printed by IGT during their end of day

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

processing. If the transactions processed by ICS do not balance with those processed by IGT, ICS will generate a report of all retailers who are not in balance and the amount (either plus or minus) by which they differ.

Accounting reports are generated on a daily and weekly basis and provide financial data for sales, cancels (discontinued tickets), accounts receivable, prizes paid and remaining liabilities. Drawing reports which give handle (total) amounts and prizes won are produced daily for Daily 3, Daily 4, Travel Keno, and Cash Pop, semi-weekly for Powerball®, Mega Millions®, and Lotto America® and four days a week for Cash 25.

Electronic fund transfer files are produced on a weekly basis of all outstanding instant and/or online retailer balances. These files are processed by the State Treasurer's Office to transfer funds from the retailer bank accounts to the Lottery bank account.

Personal computers are used throughout the Lottery's finance division to summarize daily and weekly reports of sales, prize liability, and payout activities provided by IGT and the Connexus video systems. Personal computers are also used to accumulate, classify and summarize personnel services and other administrative expenses accrued by Lottery for use in producing the monthly journal entries for the financial statements and other related reports. Microsoft Great Plains Dynamics General Ledger software is used to produce the monthly financial statements.

The Lottery also regulates racetrack video lottery, limited video lottery, table games, and sports wagering across the state. Each of the state's four racetracks, located in Jefferson county, Hancock county, Ohio county, and Kanawha county, operate racetrack video lottery terminals, table games, and sports wagering. The Lottery also regulates a limited gaming facility located in Greenbrier County. The limited gaming facility currently operates video lottery terminals, table games and sports wagering.

Racetrack Video Lottery (RVL), as of February 28, 2022 4,886 machines available for play at the four racetracks in West Virginia. The daily reports are reviewed for accuracy before total gross terminal income from each track is swept to the Lottery through electronic transfer of funds. Settlements are distributed weekly to recipients as allowed by the Racetrack Video Lottery Act, W.Va. Code §29-22A-1 *et seq.*

Limited Video Lottery (LVL), as of February 28, 2022, has approximately 8,557 machines available for play throughout the state in retail locations restricted for adult amusement. LVL permit holder funds are electronically swept on a monthly basis.

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WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

Table games, as of February 28, 2022, has approximately 190 tables available for play at the state's 4 racetracks. Racetracks submit a weekly ACH tax remittance and tax return for the thirty-five percent privilege tax on adjusted gross receipts generated through table games.

The Limited Gaming facility, as of February 28, 2022, has approximately 31 tables and 167 video machines. A weekly tax return and tax remittance is submitted for the thirty-five percent privilege tax on adjusted gross receipts through table games. The Lottery sweeps fifty-three percent of total gross terminal income from video lottery on a weekly basis.

Sports Wagering is located at the state's 4 racetracks and the Limited Gaming facility. They submit a weekly ACH tax remittance and tax return for the ten percent sports wagering tax on gaming revenue.

Interactive Wagering is located at the state's 4 racetracks and the Limited Gaming facility. They submit a weekly ACH tax remittance and tax return for the fifteen percent interactive wagering tax on gaming revenue.

The following is a listing of computer hardware and software used by the Lottery and its vendors. The online/instant system is subject to a SOC 1, Type 2. The Connexus system used for video lottery is an agency-owned-and-operated system for which the Vendor will need to perform such tests as necessary to achieve their reasonable comfort level:

| | | | |
|--------------------|---------------------------------|----------------------------------|---|
| Online/Instant | IGT Aurora | IBM 3500 Cisco IBM P52 | Windows Servers, Switches, Routers, Firewalls and Linux Linux |
| Video | Scientific Games Connexus | Connexus HP ProLiant Cisco | Windows Server 2012, SQL 2016 Switches, Routers, and Firewalls |
| Lottery ICS | IGT/Elsym Adtran | IBM 3500 | Windows Server 2003/RHAS |
| Lottery/Accounting | N/A | Personal Computers | Windows/Excel, Access, Word Microsoft Dynamics GP |

1.2.3 Internal Audit Function: The Lottery has maintained an internal audit function for more than 20 years. The Compliance Officer is responsible for the internal audit function. Presently, the Lottery's internal audit staff comprises three individuals, who will be available as needed during the audit.

2. DEFINITIONS: The terms listed below shall have the meanings assigned to them below. Additional definitions can be found in section 2 of the General Terms and Conditions.

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

- 2.1 “Connexus”** means the central management system used to record and monitor all data related to the Lottery’s video lottery operations. The system is maintained by Scientific Games.
- 2.2 “AICPA”** means American Institute of Certified Public Accountants.
- 2.3 “CAFR”** means Comprehensive Annual Financial Report.
- 2.4 “Contract Services”** means technical accounting services, accounting reporting assistance and financial auditing services in accordance with generally accepted accounting practices (GAAP), generally accepted auditing standards (GAAS), Statement of Auditing Standards No. 99 (SAS 99) and any other that may apply, as well as the requirements of the State Lottery Act (W.Va Code § 29-22-1 *et seq.*), Racetrack Video Lottery Act (§ 29-22A-1 *et seq.*), Limited Video Lottery Act (§29-22B-101 *et seq.*), Table Games Act (§29-22C-1 *et seq.*), Limited Gaming Facility Act (§29-25-1 *et seq.*), Sports Wagering Act (§29-22D-1 *et seq.*), and Interactive Wagering Act (§29-22E-1 *et seq.*).
- 2.5 “FARS”** means the Financial Accounting and Reporting Section of the West Virginia Department of Administration.
- 2.6 “GAAS”** means Generally Accepted Auditing Standards, which are sets of standards against which the quality of audits are performed and may be judged.
- 2.7 “GASB”** means Governmental Accounting Standards Board.
- 2.8 “GFOA”** means Government Finance Officers Association.
- 2.9 “Pricing Page”** means the pages upon which Vendor should list its proposed price for the contract services. The Pricing Page is attached hereto as Exhibit “A”.
- 2.10 “Solicitation”** means the official notice of an opportunity to supply the state with goods or services that is published by the Purchasing Division.
- 2.11 “SOC 1 TYPE 2”** means Statement on Standards for Attestation Engagements No. 16, a regulation created by the Auditing Standards Board of the American Institute of Certified Public Accountants for redefining and updating how service companies report on compliance controls.
- 3. QUALIFICATIONS:** Vendor shall have the following minimum qualifications:

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

- 3.1 The Vendor must have a minimum of six (6) CPA's in the firm. The Vendor shall certify that it has read and understand the statutory provisions governing the operation of gaming in WV and shall be conversant concerning those statutes while engaged in the audit. IF the successful Vendor substitutes staff for the account, at any time during the term of the contract or potential renewal or extension years, the experience and qualifications levels must be of a similar quality to the level of those initially proposed. The Lottery reserves the right to request staff changes throughout the term of the contract.
- 3.2 Compliance with experience requirements will be determined prior to contract award by the State through references provided by the Vendor with its bid or upon request. Vendor should provide a current resume which includes information regarding the number of years of qualification, experience and training, and relevant professional education for each individual that will be assigned to this project. Vendor must provide any documentation requested by the State to assist in confirmation of compliance with this provision. References, documentation, or other information to confirm compliance with the experience requirement are preferred with bid submission but may be requested after bid opening and prior to contract award.
- 3.3 The Lottery has the right to refuse the services of any on-site employee of the successful Vendor based on the employee's competence or criminal background. All management, supervisory, and key personnel who will be active in the audit shall be subject to initial and periodic background checks using the Lottery's electronic fingerprint capture system. An individual shall be removed from supporting the contract as an outcome of adverse results from the background checks. The Lottery will only refuse the services of an individual if that individual has a conviction for any violation of W. Va. Code §29-22-1 *et seq.*, §29-22A-1 *et seq.*, §29-22B-1 *et seq.*, §29-22C-1 *et seq.*, or §29-25-1 *et seq.*, §29-22D-1 *et seq.*, §29-22E-1 *et seq.* (Code sections available at <http://www.wvlottery.com/about-us/rules-regulations>), or for any felony, or any crime involving moral turpitude, or any other crime that may have bearing upon the individual's fitness to support the contract.
- 3.4 The successful Vendor shall have access to Agencies private and confidential data maintained by Lottery to the extent required to carry out the duties and responsibilities defined in this RFQ. The successful Vendor agrees to maintain confidentiality and security of the data made available.

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

3.5 An affirmative statement must be submitted indicating that the firm and all assigned key professional staff are properly licensed to practice in West Virginia. It is preferred that this is provided with the bid, however, will be requested prior to award.

4. MANDATORY REQUIREMENTS:

4.1 Mandatory Contract Services Requirements and Deliverables: Contract Services must meet or exceed the mandatory requirements listed below.

4.1.1 The Lottery seeks a qualified certified public accounting firm to audit its financial statements for the fiscal year ending June 30, 2022, with the option to audit for each of the next two subsequent fiscal years. Additionally, the successful Vendor is to provide services that will ensure the successful filing of the Lottery annual CAFR. The Lottery will seek advice from the successful Vendor on accounting matter of Lottery operations and changes in accounting standards. The Lottery expects the successful Vendor to be proactive in advising the Lottery on these issues.

IGT is the online and instant ticket vendor the fiscal year ending June 30, 2022. The Lottery had a SOC 1, Type 2 audit. The Lottery also contracts with IGT for printing instant tickets. No other outside audits or reviews of the Lottery computer systems is scheduled. The successful Vendor must assure its own comfort with other Lottery based gaming systems and internal systems.

4.1.2 SCOPE of WORK: The Lottery requires the successful Vendor to express an opinion on the fair presentation of financial statements in conformity with U.S. GAAP and standards established by the GASB of the AICPA. Additionally, the successful Vendor will be required to prepare all supporting schedules relating to the Lottery that are required for the preparation of the state's CAFR. These schedules are specified on an annual basis by the Financial Accounting and Reporting Section (FARS) of the West Virginia Department of Administration and must be filed with FARS by October 15, 2019 and each potential renewal or extension year.

The successful Vendor shall also be responsible for assisting in the implementation of required supplementary information required by GASB as mandated by the AICPA and utilize GAAS. This assistance requires personal inter relationship of the online vendor and Lottery staff.

4.1.3 The Lottery Commission requires an independent and objective auditing firm. The firm must provide an affirmative statement that it is independent of the Lottery as defined by GAAS and the U.S. General Accounting Office's

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

Government Auditing Standards (1988). The firm must also provide an affirmative statement that it is independent of the State of West Virginia and any other component units of that entity, as defined by those same standards.

- 4.1.4 REPORTS:** Following the completion of the audit of the fiscal year's financial statements, the Vendor shall issue a report on the fair presentation of the financial statements in conformity with U.S. GAAP and in format to comply with GASB standards established by the AICPA.

In addition, the Vendor is to provide an "in-relation-to" report on the supporting schedules based on the auditing procedures applied during the audit of the general purpose financial statements.

The Vendor shall communicate in a letter to the Lottery's authorized representative any reportable conditions found during the audit. A "reportable condition" shall be defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

- 4.1.5 IRREGULARITIES and ILLEGAL ACTS:** The Vendor shall be required to make an immediate, written report of all irregularities and illegal acts of which they become aware to the following parties:

- a) Lottery director;
- b) Lottery General Counsel;
- c) Lottery compliance officer; and
- d) Finance/Audit Committee of the Lottery

- 4.1.6 REPORTING TO LOTTERY FINANCE / AUDIT COMMITTEE:** The Vendor shall report to the Lottery's Financial/Audit committee each of the following within sixty (60) days of the issuance of the audit:

- a) The Vendor responsibility under GAAS
- b) Significant Accounting policies
- c) Management judgements and accounting estimates
- d) Significant audit adjustments
- e) Other information in documents containing audited financial statements
- f) Disagreements with management

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

- g) Major issues discussed with management prior to retention
- h) Difficulties encountered in performing the audit

4.1.7 SPECIAL CONSIDERATIONS: The Lottery will send its CAFR to the GFOA of the United States and Canada for review in its Certificate of Achievement for Excellence in Financial Reporting Program. The successful audit firm shall assign auditors with at least three (3) years of experience in filing successful CAFR reports to work on the Lottery's CAFR. The Vendor will be required to provide special assistance to the Lottery to meet the requirements of that program which include:

- a) Advising the agency on the technical standards necessary to file a CAFR for an enterprise fund
- b) Reviewing the agency's CAFR documents and assist in the development of meaningful statistical charts and data by providing direct on-site assistance to the Lottery staff
- c) Formulating the Vendor report to be included in the CAFR
- d) Proofreading the CAFR prior to filing to assure financial data and context of discussions are appropriate and in compliance with GFOA standards
- e) Preparing schedules, charts and graphs to be strategically placed in the CAFR

The financial statements of the Lottery are to be included as a component unit of the financial statements of the State of West Virginia. The Vendor will be required to provide special assistance to the State of West Virginia's auditors and the Department of Administration's Financial Accounting Reporting Section.

4.1.8 WORKING PAPERS RETENTION and ACCESS to WORKING PAPERS:

All working papers and reports must be retained, at the Vendor's expense, for a minimum of three (3) years, unless the firm is notified in writing by the Lottery of the need to extend the retention period. The Vendor will be required to make working papers available, upon request, to the Lottery.

In addition, the successful Vendor shall respond to the reasonable inquiries by the Lottery or its successor auditors and allow its successor auditors to review working papers relating to the matters of continuing account significance.

- 4.1.9** The Vendor's principal contact will be the Compliance Officer, who will coordinate the assistance to be provided by the Lottery to the successful Vendor.

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

4.1.10 DATE AUDIT MAY COMMENCE: The Lottery will have records ready for audit and management personnel available to meet with the firm's personnel after its June 30, 2022 year end.

The successful vendor shall have drafts of the audit report(s) and recommendations to management available for review by Deputy Director of Finance and internal auditors by August 31st immediately following the fiscal year-end being audited.

The Deputy Director of Finance will complete a review of the draft report as expeditiously as possible. During that period, the successful Vendor must be available for any meetings that may be necessary to discuss the audit reports.

The successful Vendor shall prepare the final financial statements, notes, management letter and all required supplementary schedules and statistical data by the second Friday of September immediately following the fiscal year-end being audited.

The following reports must be delivered to the Deputy Director of Finance:

- a) Financial Statements with Additional Information – statewide CAFR, ten (10) copies
- b) Audit results – Management Letter, twenty (20) copies
- c) Financial Statements, fifty (50) copies

The successful Vendor must be present at such times as necessary to provide assistance to Lottery staff in filing the Lottery CAFR. CAFR work will be supported from September 10, 2019 to December 31, 2019 of each year to be audited.

4.1.11 ASSISTANCE to be PROVIDED to the VENDOR and REPORT PREPARATION: The finance department and management staff will be available during the audit to assist the successful Vendor by providing information, documentation, and explanations. The preparation of confirmations will be the responsibility of the successful Vendor.

4.1.11.1 The Compliance Officer and two (2) individuals on the internal audit staff will be available as needed.

4.1.11.2 The Lottery will provide the Vendor with reasonable workspace, desks, and chairs. The Vendor will also be provided with access to telephone lines, photocopying, and fax machines as appropriate.

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

4.1.11.3 Report preparation, editing, and printing shall be the responsibility of the Vendor.

5. CONTRACT AWARD:

5.1 Contract Award: The Contract is intended to provide Agencies with a purchase price for the Contract Items. The Contract shall be awarded to the Vendor that provides the Contract Items meeting the required specifications for the lowest Total Bid Amount as shown on the Pricing Pages.

5.2 Pricing Page: Vendor should complete the Pricing Page by providing a total, all-inclusive price incorporating professional fees and expenses for all services described in this solicitation, including but not limited to the annual financial audit, preparation of the Lottery CAFR, and preparation of schedules to comply with the Lottery filings required to support the State audit of the Lottery's financials and State-level CAFR. Vendor should provide a separate price to provide these services for each of FY 2022, FY2023, and FY 2024, as well as a Total Bid Amount that is the sum of all three pieces. Vendor should complete the Pricing Page in full as failure to complete the Pricing Page in its entirety may result in Vendor's bid being disqualified.

Vendor should type or clearly print the information into the Pricing Page to prevent errors in the evaluation. If Vendor is submitting bid online Vendor must submit Pricing Page as attachment. TOTAL BID AMOUNT is the amount Vendor is to enter into wvOASIS commodity line when submitting. Notwithstanding the foregoing, the Purchasing Division may correct errors at its discretion.

Vendor should type or electronically enter the information into the Pricing Page to prevent errors in the evaluation.

6. PAYMENT: Agency shall pay Lump Sum, as shown on the Pricing Pages, for all Contract Services performed and accepted under this Contract. Vendor shall accept payment in accordance with the payment procedures of the State of West Virginia.

7. VENDOR DEFAULT:

7.1 The following shall be considered a vendor default under this Contract.

7.1.1 Failure to provide Contract Items in accordance with the requirements contained herein.

7.1.2 Failure to comply with other specifications and requirements contained herein.

7.1.3 Failure to comply with any laws, rules, and ordinances applicable to the Contract Services provided under this Contract.

REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES

- 7.1.4 Failure to remedy deficient performance upon request.
 - 7.2 The following remedies shall be available to Agency upon default.
 - 7.2.1 Immediate cancellation of the Contract.
 - 7.2.2 Immediate cancellation of one or more release orders issued under this Contract.
 - 7.2.3 Any other remedies available in law or equity.
- 8. **TRAVEL:** Vendor shall be responsible for all mileage and travel costs, including travel time, associated with performance of this Contract. Any anticipated mileage or travel costs may be included in the flat fee or hourly rate listed on Vendor's bid, but such costs will not be paid by the Agency separately.
- 9. **FACILITIES ACCESS:** Performance of Contract Services may require access cards and/or keys to gain entrance to Agency's facilities. In the event that access cards and/or keys are required:
 - 9.1 Vendor must identify principal service personnel which will be issued access cards and/or keys to perform service.
 - 9.2 Vendor will be responsible for controlling cards and keys and will pay replacement fee, if the cards or keys become lost or stolen.
 - 9.3 Vendor shall notify Agency immediately of any lost, stolen, or missing card or key.
 - 9.4 Anyone performing under this Contract will be subject to Agency's security protocol and procedures.
 - 9.5 Vendor shall inform all staff of Agency's security protocol and procedures.



10.1 Contract Manager: During its performance of this Contract, Vendor must designate and maintain a primary contract manager responsible for overseeing Vendor's responsibilities under this Contract. The Contract manager must be available during normal business hours to address any customer service or other issues related to this Contract. Vendor should list its Contract manager and his or her contact information below.

Contract Manager: Robert E. Adams

Telephone Number: (304) 343-4188

Fax Number: (304) 344-5035

Email Address: readams@BEcpas.com

**REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES**

11. BY SUBMISSION OF THIS COST BID THE VENDOR CERTIFIES AND AGREES TO THE FOLLOWING:

- 11.1** That the Vendor understands the Lottery's need to obtain highly skilled audit and accomplished accounting services and advice needed to ensure accomplishment of the reliance placed on these by bond rating agencies, State of West Virginia Legislature & Governor's Office, the public, and the many users of the national gaming industry.
- 11.2** That the Vendor will prepare all work necessary and work with the Lottery staff to ensure the Lottery's annual CAFR is filed by the due date of December 31st of each year that the contract is in effect, and that the information contained within the submissions complies with all applicable accounting standards and the filing requirements of the GFOA of the United States and Canada.
- 11.3** That the Vendor has certified public accountants assigned to the Lottery work who understand traditional, instant and online gaming (to include the automated computer systems used to account for these operations), RVL, (to include the automated central computer system), LVL (with related central computer system applications), racetrack table games operations, and limited gaming facility operations of table games and video lottery (central computer system). The Vendor is responsible for understanding the West Virginia statutes, legislative rules, and internal policies which control and define the accounting for each of the above game types. The Lottery requires that all partners, audit managers, and senior accountants assigned to the Lottery work be certified public accountants with a license to practice in West Virginia, and who have a minimum of five (5) years of auditing experience of gaming lotteries, and five (5) years governmental auditing of state level agencies.
- 11.4** That the Vendor will make itself available to the Lottery on short notice to give advice to the Lottery on changes in accounting practices, changes in the law, and engage in general accounting discussions on the appropriate treatment of transactions which may present themselves and which may affect their presentation in the Lottery's financial statements or in the course of internal auditing functions.
- 11.5** That the Vendor certifies its compliance with all other required certifications or requirements listed as listed in the body of this RFQ.

**REQUEST FOR QUOTATION
WEST VIRGINIA LOTTERY ANNUAL AUDITING SERVICES**

EXHIBIT B
JUNE 30, 2021 FINANCIAL STATEMENTS
SEE ATTACHED

WEST VIRGINIA LOTTERY

FINANCIAL REPORT

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the West Virginia Lottery Commission
Charleston, West Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Lottery, as of June 30, 2021 and 2020, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The 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.

The other financial 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information 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 23, 2021 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 23, 2021

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, 2021 and 2020. In reading the Management's Discussion and Analysis (MD&A), the current year refers to fiscal year ending June 30, 2021, and the prior year refers to fiscal year ending June 30, 2020. This analysis is to be considered in conjunction with the financial statements, which begin on page 13. Prior year operations were negatively impacted by the COVID-19 pandemic, as government mandates required all casinos and limited video lottery retailers in the State to temporarily close for a portion of the year. Several factors contributed to the rebound of gaming revenues in the current year, including the reopening of all limited video lottery retailers and casinos as of July 1, 2020, no closures being required during the year ended June 30, 2021, and a gradual lifting of capacity and operational restrictions previously in place in response to the COVID-19 pandemic at limited video lottery retailer and casino locations. The extent to which the COVID-19 Pandemic impacts future Lottery operations will depend on continuing developments, which are uncertain and cannot be fully predicted at this time.

Financial Highlights

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

The following summary is provided below:

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

Using This Annual Report

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

(Continued)

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

Statements of Net Position

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

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

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

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

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

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

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

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

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

(Continued)

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

Revenues, Expenses and Changes in Fund Net Position

The content of Table 3 is a summary of activities and is related to the discussion of Table 5.

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

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

(Continued)

WEST VIRGINIA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees

Table 4 compares sales (referred to as lottery revenues in financial statements), prizes, commissions, ticket printing costs, vendor fees and costs and gross profit for each lottery game category for fiscal years 2021, 2020, and 2019. Sales and gross profits fluctuated in certain categories; however, gross profit percentages remained consistent from year to year.

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

| | Instant | | | On-Line* | | | Racetrack Video Lottery | | |
|-------------------------|------------|------------|------------|-----------|-----------|-----------|-------------------------|------------|------------|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Gross sales | \$ 173,142 | \$ 145,436 | \$ 115,596 | \$ 76,106 | \$ 61,186 | \$ 84,501 | \$ 404,235 | \$ 384,972 | \$ 506,647 |
| Less direct costs: | | | | | | | | | |
| Prizes and bonuses | 117,318 | 97,717 | 77,337 | 37,985 | 30,136 | 41,809 | - | - | - |
| Commissions | 12,120 | 10,181 | 8,078 | 5,321 | 4,288 | 5,910 | 212,774 | 203,211 | 261,875 |
| Ticket printing costs | 1,680 | 1,430 | 1,447 | - | - | - | - | - | - |
| Vendor fees and costs | 6,951 | 5,958 | 4,712 | 3,669 | 2,896 | 3,616 | - | - | - |
| Total direct costs | 138,069 | 115,286 | 91,572 | 46,975 | 37,320 | 51,435 | 212,774 | 203,211 | 261,875 |
| Gross Profit | \$ 35,073 | \$ 30,150 | \$ 24,024 | \$ 29,131 | \$ 23,876 | \$ 33,066 | \$ 191,461 | \$ 181,761 | \$ 244,772 |
| Gross profit percentage | 20.3% | 20.7% | 20.8% | 38.3% | 39.0% | 39.1% | 47.4% | 47.2% | 48.3% |

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

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

| | Sports Wagering | | | Interactive Wagering | | | Total | | |
|-------------------------|-----------------|----------|----------|----------------------|------|------|--------------|------------|--------------|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| Gross sales | \$ 4,100 | \$ 1,915 | \$ 1,193 | \$ 5,077 | \$ - | \$ - | \$ 1,177,971 | \$ 955,735 | \$ 1,143,147 |
| Less direct costs: | | | | | | | | | |
| Prizes and bonuses | - | - | - | - | - | - | 155,303 | 127,853 | 119,246 |
| Commissions | - | - | - | - | - | - | 481,171 | 393,552 | 486,960 |
| Ticket printing costs | - | - | - | - | - | - | 1,580 | 1,430 | 1,447 |
| Vendor fees and costs | - | - | - | - | - | - | 10,620 | 8,854 | 8,328 |
| Total direct costs | - | - | - | - | - | - | 648,774 | 531,689 | 615,981 |
| Gross Profit | \$ 4,100 | \$ 1,915 | \$ 1,193 | \$ 5,077 | \$ - | \$ - | \$ 529,197 | \$ 424,046 | \$ 527,166 |
| Gross profit percentage | 100.0% | 100.0% | 100.0% | 100.0% | - | - | 44.9% | 44.4% | 48.1% |

Instant Sales

Instant ticket sales for the current year increased by \$27.7 million or 19.1% compared to the prior year, which increased \$29.8 million or 25.8% from 2019. Forty-one games were introduced in 2021 and approximately thirty-two game options were available for play. The Lottery continues to implement the results of research and design efforts, including families of games, varied play styles and continued monitoring of price points mix, prize structures, play styles, and colors to create the best variety of games available. There were six ten-dollar, and four twenty-dollar tickets introduced in 2021. There were also fifteen five-dollar tickets and two three-dollar tickets introduced. The Lottery continues to work toward delivering games three months in advance to provide immediate stock should field inventory become low.

(Continued)

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

Instant Sales (Continued)

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

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

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

Powerball® Sales

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

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

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

Mega Millions® Sales

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

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

All Other On-line Games

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

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

(Continued)

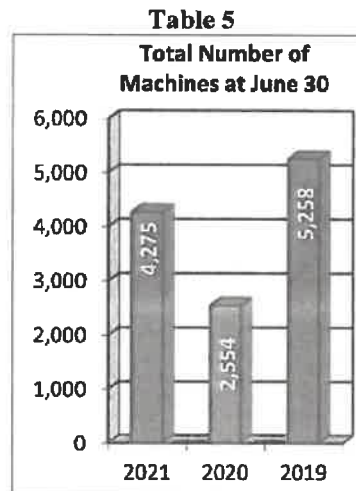
WEST VIRGINIA LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Racetrack Video Lottery

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

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

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



Limited Video Lottery

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

(Continued)

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

Limited Video Lottery (Continued)

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

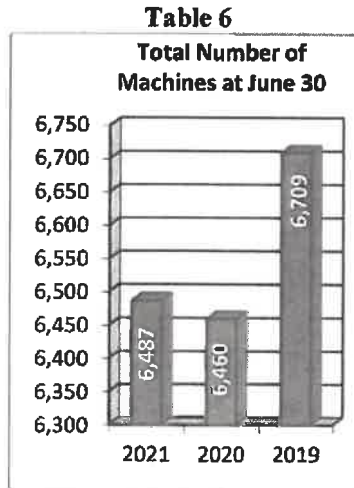


Table Games

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

A portion of table games revenues are paid to entities associated with the racetracks and are reported as commissions. See Note 8 to the financial statements. Commissions for the current year decreased \$155 thousand or 1.3% compared to the prior year, which decreased \$3.6 million or 23.6% from 2019.

Historic Resort

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

Combined revenues of video lottery and table games at the Historic Resort, which were recovering from COVID-19, for the current year increased \$2.7 million or 51.0% compared to the prior year, which decreased \$2.1 million or 2.9% from 2019.

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

(Continued)

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

Sports Wagering

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

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

Sports wagering revenues, which were recovering from the COVID-19 pandemic, are calculated as defined in Note 10 to the financial statements and are derived from privilege taxes (of 10%) on the licensed racetracks and Historic Resort for sports wagering activities. Revenues for the current year increased \$2.2 million or 114.1% compared to the prior year, which increased \$722 thousand or 60.5% from 2019.

Interactive Wagering

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

Other Operating Income

Refer to Table 3. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Limited Video Lottery permits are issued to qualifying recipients for a 10-year period which initially expired on June 30, 2021. During the year ended June 30, 2021, non-refundable bid fees totaling \$67.9 million were paid by bidders for the right to be permitted for the next 10 years beginning July 1, 2021.

Nonoperating Income / Expense

Refer to Table 3. Nonoperating expenses reflect a 2% distribution to counties and incorporated municipalities of net terminal income from limited video lottery operations. This distribution will fluctuate with any changes in limited video lottery revenues.

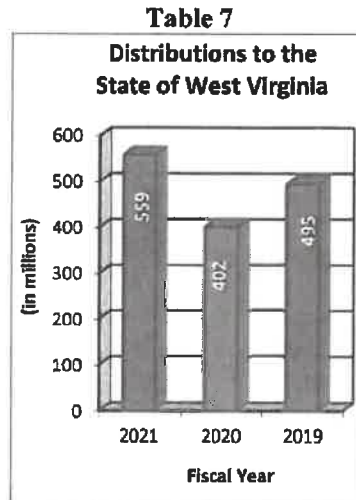
A portion of net revenue from racetrack video lottery is accrued and distributed to each racetrack for capital improvements.

Refer to Table 7. The Lottery's distributions to the State of West Virginia, which were impacted by COVID-19, for the current fiscal year increased by \$157.0 million compared to the prior year, which decreased by \$93.1 million from 2019.

(Continued)

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

Nonoperating Income / Expense (Continued)



Requests for Information

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

WEST VIRGINIA LOTTERY
STATEMENTS OF NET POSITION
(In Thousands)
June 30, 2021 and 2020

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

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

WEST VIRGINIA LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (In Thousands)

Years Ended June 30, 2021 and 2020

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

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

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

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

(Continued)

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

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

The accompanying notes are an integral part of these financial statements

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 1. Legislative Enactment

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

Note 2. Summary of Significant Accounting Policies

Basis of presentation

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

Use of estimates

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

Lottery game operations

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Lottery game operations (Continued)

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

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Lottery game operations (Continued)

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

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Lottery game operations (Continued)

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

Cash and cash equivalents

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

Inventory

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

Other assets

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

Capital assets

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Accrued employee benefits

The Lottery accrues a liability for estimated liabilities that may arise in connection with compensated absences at the current rate of employee pay. The Lottery's annual leave transactions for the years ended June 30, 2021 and June 30, 2020 are as follows (in thousands):

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

Pensions

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

Postemployment benefits other than pensions (OPEB).

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

Deferred outflows of resources/deferred inflows of resources

Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Currently the Lottery has recognized deferred outflows of resources related to pensions and OPEB (See Notes 13 and 14). Deferred inflows of resources represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Currently the Lottery has recognized deferred inflows of resources related to pensions and OPEB (See Notes 13 and 14).

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Summary of Significant Accounting Policies (Continued)

Net position

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

Operating revenues and expenses

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

Advertising and promotions

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

Note 3. Cash and Cash Equivalents

At June 30, 2021 and 2020, the carrying amounts of deposits with financial institutions were \$461 thousand and \$498 thousand, respectively, with bank balances of \$563 and \$589 thousand, respectively. Deposits up to \$250 thousand are insured by the Federal Depository Insurance Corporation. Any balances over the insured amount are collateralized with securities held by the State of West Virginia's agent in the State's name.

At June 30, 2021 and 2020, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and cash equivalents (Continued)

Credit risk

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

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

| Security Type | Credit Rating | | Carrying Value (in Thousands) | Percent of Pool Assets |
|--|---------------|------|-------------------------------|------------------------|
| | Moody's | S&P | | |
| U.S. Treasury notes * | Aaa | AA+ | \$ 37,505 | 0.55% |
| U.S. Treasury bills* | P-1 | A-1+ | 354,997 | 5.19 |
| Commercial Paper | P-1 | A-1+ | 1,302,573 | 19.04 |
| | P-1 | A-1 | 2,634,701 | 38.50 |
| Negotiable certificates of deposit | P-1 | A-1+ | 138,500 | 2.02 |
| | P-1 | A-1 | 812,504 | 11.88 |
| Money market funds | Aaa | AAAm | 1,600 | 0.02 |
| | NR | AAAm | 217,022 | 3.17 |
| Repurchase agreements (underlying securities): | | | | |
| U.S. Treasury bonds and notes | Aaa | AA+ | 1,325,680 | 19.37 |
| U.S. Agency bonds and notes | Aaa | AA+ | 17,920 | 0.26 |
| | | | <u>\$ 6,843,002</u> | <u>100.00%</u> |

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and Cash Equivalents (Continued)

Credit risk (continued)

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

(Continued on
next page)

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and Cash Equivalents (Continued)

Credit risk (continued)

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

NR = Not Rated

Interest rate risk

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 3. Cash and Cash Equivalents (Continued)

Interest rate risk (continued)

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

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

| Security Type | Carrying Value (In Thousands) | Effective Duration (Days) |
|---|----------------------------------|---------------------------------|
| U.S. Treasury notes and bonds | \$ 123,066 | 638 |
| U.S. agency collateralized mortgage obligations | 23,074 | 213 |
| Corporate fixed-rate bonds and notes | 461,933 | 720 |
| Corporate floating-rate bonds and notes | 33,136 | (6) |
| Collateralized mortgage obligations | 79 | 752 |
| Municipal Securities | 64,154 | 608 |
| Asset-backed securities | 104,680 | 626 |
| Money market funds | 5,756 | - |
| | <u>\$ 815,878</u> | <u>638</u> |

Other risks of investing

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Cash and Cash Equivalents (Continued)

Other risks of investing (continued)

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

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

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

Note 4. Capital Assets

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

| | Historical cost at June 30, 2019 | Additions | Deletions | Historical cost at June 30, 2020 | Additions | Deletions | Historical cost at June 30, 2021 |
|--------------------------------------|--|-----------------|-------------|--|-----------------|-----------------|--|
| Capital assets, not depreciated | | | | | | | |
| Construction in progress | \$ 629 | \$ - | \$ - | \$ 629 | \$ - | \$ (629) | \$ - |
| Land | 1,681 | - | - | 1,681 | - | - | 1,681 |
| Capital assets, being depreciated | | | | | | | |
| Building | 48,243 | - | - | 48,243 | - | - | 48,243 |
| Equipment | 10,999 | - | - | 10,999 | - | - | 10,999 |
| | <u>\$ 61,552</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 61,552</u> | <u>\$ -</u> | <u>\$ (629)</u> | <u>\$ 60,923</u> |
| | Accumulated depreciation at June 30, 2019 | Additions | Deletions | Accumulated depreciation at June 30, 2020 | Additions | Deletions | Accumulated depreciation at June 30, 2021 |
| Building | \$ 7,699 | \$ 1,233 | \$ - | \$ 8,932 | \$ 1,233 | \$ - | \$ 10,165 |
| Equipment | 7,480 | 432 | - | 7,912 | 426 | - | 8,338 |
| | <u>\$ 15,179</u> | <u>\$ 1,665</u> | <u>\$ -</u> | <u>\$ 16,844</u> | <u>\$ 1,659</u> | <u>\$ -</u> | <u>\$ 18,503</u> |

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 5. Participation in the Multi-State Lottery

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

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

Revenues derived from the Lottery's participation in the POWERBALL® jackpot game were \$27,355,170 and \$21,977,553 for the years ended June 30, 2021 and 2020, respectively, and related prize costs were \$13,687,235 and \$11,035,207, respectively.

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

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

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

Note 6. Racetrack Video Lottery

The racetrack video lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Fifty-seven percent (57%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (46.5%); other private entities associated with the racing industry (8.7%); and the local county and municipal governments (2%). The remaining forty-three percent (43%) of net terminal revenue is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 12 titled "Nonoperating Distributions to the State of West Virginia."

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 6. Racetrack Video Lottery (Continued)

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

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

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

Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund.

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 6. Racetrack Video Lottery (Continued)

On March 12, 2011, the Legislature passed Senate Bill 550 (amended March 24, 2021 by Senate Bill 9 to extend the fund through 2030) which provides for the creation of the Racetrack Modernization Fund. The Modernization Fund is available to reimburse the licensed tracks \$1 for every \$2 spent on the costs of facility modernization. For the years ended June 30, 2015 through June 30, 2030, the Lottery may transfer up to \$9 million from racetrack administrative surplus funds to the Modernization Fund, which is allocated to each track on a pro rata basis according to their administrative contribution for the fiscal year. For the years ended June 30, 2021 and 2020, the Lottery transferred approximately \$9 million and \$7.8 million to the Racetrack Modernization Fund, respectively.

Note 7. Limited Video Lottery

The limited video lottery legislation established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from limited gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act and is recorded as limited video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the years ended June 30, 2021 and 2020 follows (in thousands):

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

Note 8. Table Games

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 8. Table Games (Continued)

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

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 8. Table Games (Continued)

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

Note 9. Historic Resort Hotel

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

Historic resort video lottery

Historic Resort Hotel legislation, as amended, dictates the distribution of video lottery revenues. Thirty three and a half percent (33.5%) of gross terminal income is allocated to Historic Resort Hotel Fund, two and a half percent (2.5%) is allocated to the State Excess Lottery Revenue Fund, and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for the licensed historic resort hotel. After deduction of the surcharge, the remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the historic resort hotel. A summary of historic resort hotel video lottery revenues for the years ended June 30, 2021 and 2020 follows (in thousands):

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Historic Resort Hotel (Continued)

Historic resort video lottery (continued)

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

Historic resort table games

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

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

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

Historic resort hotel fund

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS June 30, 2021

Note 9. Historic Resort Hotel (Continued)

Historic resort hotel fund (Continued)

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

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands) for the years ended June 30, 2021 and 2020:

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

Note 10. Sports Wagering

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 10. Sports Wagering (Continued)

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

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

Note 11. Interactive Wagering

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

From the privilege tax deposited into the Interactive Wagering Fund, the Commission, on a monthly basis shall:

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

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 12. Nonoperating Distributions to the State of West Virginia

The Lottery periodically distributes surplus funds, exclusive of amounts derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the current governing legislation. For the years ended June 30, 2021 and 2020, the State Legislature budgeted \$142,964,751 and \$166,844,018, respectively, of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000, \$1,000,000, and \$500,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently debt service payments are \$6,600,000 per month for the first ten months of each fiscal year. In addition, Legislation provides that, if in any month, there is a shortage of funds in the State Excess Lottery Revenue Fund to make debt service payments, the necessary amount shall be transferred from the State Lottery Fund to cover such shortfall, after the State Lottery Fund debt service payments have been made. Repayments to the State Lottery Fund are required to be made in subsequent months as funds become available.

For the year ended June 30, 2020, due to the impacts of COVID-19 on Lottery's operations, the Lottery was unable to satisfy funding certain budgetary appropriations of the State Legislature and by applicable State Code of \$55,114 (in thousands). All budgetary appropriations were satisfied for the year ending June 30, 2021. The Lottery accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$166,941,982 and \$115,330,915, for the years ended June 30, 2021 and 2020 respectively. The Lottery does not have a legally adopted annual budget.

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. Pension Benefits

Plan description

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

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

Benefits provided

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

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

Contributions

Per Chapter 5, Article 10, members hired prior to July 1, 2015 contribute 4.5% of annual earnings. All members hired July 1, 2015 and later, will contribute 6% of annual earnings. State and non-state governmental employers' contribution rates were 10% of covered employees' annual earnings for fiscal years ending June 30, 2021, 2020, and 2019, respectively. Contribution rates for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contribution rates for employers are established by the CPRB. Contributions to the pension plan from the Lottery were \$812,805, \$809,424, and \$788,768 for the years ended June 30, 2021, 2020 and 2019, respectively.

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. Pension Benefits (Continued)

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

date of June 30, 2020. The Lottery's proportion of the net pension liability was based on the Lottery's share of contributions to the pension plan relative to the contributions of all participating plan employers for the year ended June 30, 2020. At June 30, 2020, the Lottery's proportion was 0.52 percent, which is a decrease of less than .01 from its proportion as of June 30, 2019.

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. Pension Benefits (Continued)

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

The \$812,805 reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

Actuarial assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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

Mortality rates were based on 100% of Pub-2010 General Employees table, below-median, headcount weighted, projected generationally with scale MP-2018 for active employees, 108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected generationally with scale MP-2018 for retired healthy males, 122% of Pub-2010 General Retiree Female table, below-median, headcount weighted, projected generationally with scale MP-2018 for retired healthy females, 118% of Pub-2010 General / Teachers Disabled Male table, headcount weighted, projected generationally with scale MP-2018 for disabled males, and 117% of Pub - 2010 General / Teachers Disabled Female table, headcount weighted, projected generationally with scale MP-2018 for disabled females.

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 13. Pension Benefits (Continued)

Actuarial assumptions (continued)

Mortality rates were based on 100% of Pub-2010 General Employees table, below-median, headcount weighted, projected with scale MP-2018 for active employees, 108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected with scale MP-2018 for retired healthy males, 122% of Pub-2010 Annuitant, Scale AA fully generational General Retiree Female table, below-median, headcount weighted, projected with scale MP-2018 for retired healthy females, 118% of Pub-2010 General / Teachers Disabled Male table, below-median, headcount weighted, projected with scale MP-2018 for disabled males, and 117% of Pub-2010 General / Teachers Disabled Female table, below-median, headcount weighted, projected with scale MP-2018 for disabled females.

An experience study, which was based on the years 2013 through 2018, was used for the 2019 actuarial valuation.

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

| Asset Class | Target Allocation | Long-term Expected Rate of Return | Weighted Average Expected Real Rate of Return |
|----------------------|--------------------------|--|--|
| Domestic equity | 27.5% | 5.5% | 1.51% |
| International equity | 27.5% | 7.0% | 1.93% |
| Fixed income | 15.0% | 2.2% | 0.33% |
| Real estate | 10.0% | 6.6% | 0.66% |
| Private equity | 10.0% | 8.5% | 0.85% |
| Hedge funds | 10.0% | 4.0% | 0.40% |
| Total | 100.00% | | 5.68% |
| Inflation (CPI) | | | 1.90% |
| | | | <u>7.58%</u> |

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 13. Pension Benefits (Continued)

Actuarial assumptions (continued)

Discount rate

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

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

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

Note 14. Other Postemployment Benefits

Plan description

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

Benefits provided

The Lottery employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the PERS or meet certain other eligibility requirements of other West Virginia Consolidated 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.

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Benefits provided (continued)

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

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

Contributions

West Virginia Code section 5-16D-6 assigns to the PEIA Finance Board the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. Employer contributions represent what the employer was billed during the respective year for their portion of the pay as you go premiums, commonly referred to as paygo, retiree leave conversion billings, and other matters, including billing adjustments. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2021, 2020, and 2019, respectively, were:

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---------------|-------------|-------------|-------------|
| Paygo Premium | \$160 | \$ 168 | \$ 183 |

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

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Contributions by nonemployer contributing entities in special funding situations

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

The State is a nonemployer contributing entity that provides funding through West Virginia State Code §11B-2-32. The Financial Stability Fund is a plan to transfer an annual amount of \$5 million to the RHBT from special revenue funds to be used to lower retiree premiums, to help reduce benefit cuts, to help reduce premium increases or any combination thereof. The \$5 million transferred pursuant to this Code shall be transferred annually into the RHBT through June 30, 2020, which is the measurement date of the liability reported as of June 30, 2021. This funding is to the advantage of all RHBT contributing employers.

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

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

The net OPEB liability reported at June 30, 2021 was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. The Lottery's proportion of the net OPEB liability was based on its proportionate share of employer and non-employer contributions to the OPEB Plan for the fiscal year ended on the measurement date. At June 30, 2020, the Lottery's proportion was .15 percent, which is unchanged from its proportion measured as of June 30, 2019.

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

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

The amount of \$278,563 reported as deferred outflows of resources related to OPEB resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ended June 30:

| | |
|------|----------|
| 2022 | \$ (811) |
| 2023 | (655) |
| 2024 | (503) |
| 2025 | (10) |

Actuarial assumptions

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

| | |
|-------------------------------|--|
| Inflation | 2.25% |
| Salary increases | Specific to the OPEB covered group. Ranging from 2.75% to 5.18%, including inflation |
| Investment rate of return | 6.65%, net of OPEB plan investment expense, including inflation |
| Healthcare cost trend rates | Trend rate for pre-Medicare per capita costs of 7.0% for plan year end 2022, 6.50% for plan year end 2023, decreasing by 0.25% each year thereafter, until ultimate trend rate of 4.25% is reached in plan year 2032. Trend rate for Medicare per capita costs of (31.11%) for plan year end 2022. 9.15% for plan year end 2023, 8.40% for plan year end 2024, decreasing gradually each year thereafter, until ultimate trend rate of 4.25% is reached in plan year end 2036. |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percentage of payroll over a 20 year closed period |
| Remaining amortization period | 20 years closed as of June 30, 2017 |

Post-retirement mortality retirement rates were based on Pub-2010 General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 100% for males and 108% for females for Teachers' Retirement System (TRS), Pub-2010 Below-Median Income General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 106% for males and 113% for females for PERS, and Pub-2010 Public Safety Healthy Retiree Mortality Tables projected with scale MP-2019

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (continued)

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

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

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

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

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

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

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

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

The long-term expected rate of return of 6.65% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.0% for long-term assets invested with the West Virginia Investment Management Board (WVIMB) and an expected short-term rate of return of 2.5% for assets invested with the WVBTI. Long-term pre-funding assets are invested with the WVIMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the WVBTI.

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

(Continued)

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

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

Discount rate

A single discount rate of 6.65% was used to measure the total OPEB liability. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made in accordance with the prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2025, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

Other key assumptions

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

OPEB subsequent event

Subsequent to the OPEB valuation with a measurement date of June 30, 2020, the RHBT was still experiencing the effects of the global pandemic that was declared by the World Health Organization due to an outbreak and spread of the COVID-19 virus. The OPEB valuation with a measurement date of June 30, 2020, does not reflect the recent and still developing impact of COVID-19, which is likely to influence healthcare claims experience, demographic experience and economic expectations.

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 14. Other Postemployment Benefits (Continued)

Actuarial assumptions (Continued)

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

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

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

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

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

Note 15. Leasing Activity

The Lottery leases, under cancelable operating leases, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the fiscal years ended June 30, 2021 and 2020 approximated \$203,728 and \$211,270, respectively.

The Lottery is a lessor of certain office space under the terms of cancellable operating leases to various tenants. Rental revenues for the years ended June 30, 2021 and 2020 were \$1,085,053 and \$1,069,385, respectively.

Note 16. Commitments

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 17. Risk Management

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

Public Employees' Insurance Agency (PEIA)

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

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

Board of Risk and Insurance Management (BRIM)

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

Workers compensation insurance

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 18. Contingencies and Uncertainties

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

The extent to which the COVID-19 pandemic impacts Lottery operations will continue to depend on future developments, including the duration, severity and scope of the pandemic, and the actions taken to contain or treat the coronavirus pandemic. Additionally, COVID-19 may change the behavior of gaming patrons, who may reduce future visitation and play as a precaution. At this time, the Lottery is unable to determine the impact of this continuing COVID-19 uncertainty on the financial statements.

Note 19. Effect of New Accounting Pronouncements

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

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 19. Effect of New Accounting Pronouncements (Continued)

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

Public Employees Retirement System Plan

| | Years Ended June 30 | | | | | | |
|---|---------------------|----------|----------|----------|----------|----------|----------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Lottery's proportion (percentage) of the net pension liability | 0.52% | 0.53% | 0.53% | 0.53% | 0.52% | 0.55% | 0.55% |
| Lottery's proportionate share of the net pension liability | \$ 2,740 | \$ 1,147 | \$ 1,360 | \$ 2,274 | \$ 4,800 | \$ 3,044 | \$ 2,035 |
| Lottery's covered payroll | \$ 8,100 | \$ 7,890 | \$ 7,345 | \$ 7,192 | \$ 7,259 | \$ 7,421 | \$ 7,415 |
| Lottery's proportionate share of the net pension liability as a percentage of its covered payroll | 33.83% | 14.54% | 18.52% | 31.62% | 66.12% | 41.02% | 27.44% |
| Plan fiduciary net position as a percentage of the total pension liability | 92.89% | 96.99% | 96.33% | 93.67% | 86.11% | 91.29% | 93.98% |

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

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

| | Years Ended June 30 | | | | | | | | |
|--|---------------------|---------|---------|---------|---------|---------|----------|----------|----------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Statutorily required contribution | \$ 813 | \$ 810 | \$ 789 | \$ 808 | \$ 863 | \$ 980 | \$ 1,039 | \$ 1,075 | \$ 1,072 |
| Contributions in relation to the statutorily required contribution | 813 | 810 | 789 | 808 | 863 | 980 | 1,039 | 1,075 | 1,072 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Lottery's covered payroll | \$8,130 | \$8,100 | \$7,890 | \$7,345 | \$7,192 | \$7,259 | \$7,421 | \$7,415 | \$7,658 |
| Contributions as a percentage of covered-employee payroll | 10.00% | 10.00% | 10.00% | 11.00% | 12.00% | 13.50% | 14.00% | 14.50% | 14.00% |

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

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

Retirement Health Benefit Trust Plan

| | Years Ended June 30 | | | |
|---|---------------------|----------|----------|----------|
| | 2021 | 2020 | 2019 | 2018 |
| West Virginia Lottery's proportion (percentage) of the net OPEB liability | 0.15% | 0.15% | 0.15% | 0.14% |
| West Virginia Lottery's proportionate share of the net OPEB liability | \$ 654 | \$ 2,551 | \$ 3,187 | \$ 3,501 |
| State's proportionate share of the net OPEB liability associated with the Lottery | \$ 145 | \$ 522 | \$ 659 | \$ 719 |
| Total | \$ 799 | \$ 3,073 | \$ 3,846 | \$ 4,220 |
| West Virginia Lottery's covered-employee payroll | \$ 4,942 | \$ 4,909 | \$ 4,999 | \$ 5,264 |
| West Virginia Lottery's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 13.23% | 51.97% | 63.75% | 66.51% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 73.49% | 39.69% | 30.98% | 25.10% |

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

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

WEST VIRGINIA LOTTERY

SCHEDULES OF CONTRIBUTIONS TO THE RHBT

(In Thousands)

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

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

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

Note 1. Trend Information Presented

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

Note 2. Pension Plan Amendment

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

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

Note 3. Pension Assumptions

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2021

Note 3. Pension Assumptions (Continued)

| <u>PERS</u> | <u>2019-2020</u> | <u>2015-2018</u> | <u>2014</u> |
|---------------------------|--|--|---|
| Projected salary increase | | | |
| State | 3.1 - 5.3% | 3.0 - 4.6% | 4.25 - 6.0% |
| Nonstate | 3.35 - 6.5% | 3.35 - 6.0% | 4.25 - 6.0% |
| Inflation rate | 3.0% | 3.0% (2016-2018); 1.9% (2015) | 2.2% |
| Mortality rates | Active-100% of Pub-2010 General Employees table, below median, headcount weighted, projected generationally with scale MP-2018 Retired healthy males-108% of Pub-2010 General Retiree Male table, below-median, headcount weighted, projected generationally with scale MP-2018 Retired healthy females-122% of Pub-2010 General Retiree Female table, below-median, headcount weighted, projected generationally with scale MP-2018 Disabled males-118% of Pub-2010 General / Teachers Disabled Male table, headcount weighted, projected generationally with scale MP-2018 Disabled females-118% of Pub-2010 General / Teachers Disabled Female table, headcount weighted, projected generationally with scale MP-2018 | Active-RP-2000 Non-Annuitant tables, Scale AA fully generational Retired healthy males – 110% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy females – 101% of RP-2000 Non-Annuitants, Scale AA fully generational Disabled males – 96% of RP-2000 Disabled Annuitant, Scale AA fully generational Disabled females – 107% of RP-2000 Disabled Annuitant, Scale AA fully generational | Healthy males – 1983 GAM Healthy females – 1971 GAM Disabled males-1971 GAM Disabled females-Revenue ruling 96-7 |
| Withdrawal rates | | | |
| State | 2.28-45.63% | 1.75 - 35.1% | 1 – 26% |
| Nonstate | 2.50-35.88% | 2 - 35.8 | 2 – 31.2% |
| Disability rates | 0.005-0.540% | 0. - 67.5% | 0 – 8% |
| Experience study | 2013 - 2018 | 2009 - 2014 | 2004 - 2009 |

Note 4. OPEB Assumptions

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

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

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

(Continued)

WEST VIRGINIA LOTTERY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2021

Note 4. OPEB Assumptions (Continued)

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

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

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

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

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

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

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

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

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



**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, 2021 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 23, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Charleston, West Virginia
September 23, 2021

OTHER FINANCIAL INFORMATION

Audited Agency: West Virginia Lottery - June 30, 2021

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)

| Foreign Currency Risk | | | | | | | | | | | | |
|---|-----------------|----------------------------|-----------------------|--------------|---------------------|-----------------------|---|---|--|---|---------------|------------|
| | | | | | | 2 | 3A | 3B | 3C | | | |
| | Carrying Amount | Restricted Carrying Amount | Total Carrying Amount | Bank Balance | FDIC Insured Amount | Collateralized Amount | Amount Collateralized with securities held by the pledging financial institution's trust department or agent in the government's name | Amount Uncollateralized and Unsecuritized | Collateralized with securities held by the pledging financial institution but not in the name of the depositor | Collateralized with securities held by the pledging financial institution trust department or agency but not in the name of the depositor | Currency Type | Monthly |
| | | | | | | | | | | | | Fair Value |
| Balance as of June 30, 2021 | | | | | | | | | | | | |
| Cash with Treasurer | | | | | | | | | | | | |
| Per wvOASIS Opening Balance Rep | 28,632 | | 28,632 | | | | | | | | | |
| 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 | 461 | | 461 | 461 | 289 | 211 | 211 | | | | | |
| Cash in Excess | | | 0 | | | | | | | | | |
| Certificates of Deposits (Non-Negotiable) | | | 0 | | | | | | | | | |
| Other: | | | | | | | | | | | | |
| Total | 29,113 | 0 | 29,113 | 461 | 289 | 211 | 211 | 0 | 0 | 0 | | |

PLEASE SEND COMPLETED FORMS TO:

State of West Virginia
Financial Accounting and Reporting Section
2101 Washington Street East
Charleston, WV 25305

Telephone Number: (304) 556-4383
Fax Number: (304) 556-4384

Purpose / Instructions

To prepare the deposits and investments disclosures required for the State's Comprehensive Annual Financial Report, specific information must be provided with separately audited financial statements. Each type of deposit and investment must be clearly designated as to whether the asset is held by the State's Investment Management Board in pooled accounts and/or participant directed accounts. Please indicate both types of accounts separately.

To facilitate tracing cash, cash equivalents, and investments from the balance sheet to the note, reconciliation must also be provided. It is essential that restricted cash and investments be included in this reconciliation. Reconciling items include repurchase agreements which are reported as cash and cash equivalents, but disclosed as investments.

Carrying amounts are to be reported as of June 30th. Total Carrying amounts with Treasurer, IIMB, and BTI are to equal totals listed on the wvOASIS opening balance report as of June 30, 2021.

See Independent Auditor's Report.

Audited Agency:

West Virginia Lottery - June 30, 2021

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 | Reported | Fair Value Measurement's Hierarchy | | | | | Total Realized | Credit Rating | | | Interest Rate Risk - Regulated Time Distribution | | | | Currency Type | | | Risk |
|---|----------------------|--------------------|------------------------------------|---------|---------|---------------|---------------|----------------|----------------------|----------|-------|--|-----|------|-----------------|---------------|----------|------------|------|
| | Amount Unrealized | Amount Realized | Level 1 | Level 2 | Level 3 | Fair Value | Cost Value | | Standard & Poor's | Moodys's | Fitch | Less than 1 | 1-5 | 6-10 | More than 10 | Contract Type | Industry | Fair Value | |
| Investments with Investment Agent (BAG) | | | | | | | | | | | | | | | | | | | |
| Per GASB 40 Reporting Balance Sheet | | | | | | | | | | | | | | | | | | | |
| Investment Holdings not Pooled to re-GASB | | | | | | | | | | | | | | | | | | | |
| As of 6/30/21 | | | | | | | | | | | | | | | | | | | |
| Investments with Board of Finance Investments (BFI) | | | | | | | | | | | | | | | | | | | |
| Per Operating Balance Sheet | 127,801 | | 32,426 | | | 32,426 | 85,425 | 127,801 | | | | | | | | | | | |
| Investment Holdings not Pooled to re-GASB | | | | | | | | | | | | | | | | | | | |
| As of 6/30/21 | 51 | | | | | 0 | 81 | 81 | | | | | | | | | | | |
| Investments Outside BAG: | | | | | | | | | | | | | | | | | | | |
| U.S. Treasury Obligations | | | | | | | | | | | | | | | | | | | |
| U.S. Government Agencies | | | | | | | | | | | | | | | | | | | |
| Other Government Securities | | | | | | | | | | | | | | | | | | | |
| 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 Govt 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 opportunity 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 | |
| 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |

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

| Collateral Description On The Repurchase Agreements | Fair Market Value of Collateral | Credit Rating | |
|---|---------------------------------------|---------------|-----|
| | | Moodys | S&P |
| | | | |
| | | | |
| | | | |

PLEASE SEND COMPLETED FORMS TO:

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

STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION - FINANCE DIVISION
FINANCIAL ACCOUNTING AND REPORTING SECTION

FORM 8A

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency WV Lottery - June 30, 2021

Reconciliation of cash, cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits:

| | |
|---|------------|
| Cash and cash equivalents as reported on balance sheet | \$ 198,583 |
| Less: cash equivalents disclosed as investments | (127,962) |
| Add: restricted cash and cash equivalents disclosed as deposits | - |
| Other (describe) Sweep Recognition Difference with Treasurer | (3,712) |
| Unrealized Gain on investments reported as cash | 458 |
| Difference between Cash per Treasurer and Cash per Auditor | (40,254) |

Carrying amount of deposits as disclosed on Form 7 \$ 27,113

Investments:

| | |
|--|---------|
| Investments as reported on balance sheet | \$ - |
| Add: restricted investments disclosed as investments | |
| Add: cash equivalents disclosed as investments | 127,962 |
| Other (describe) | |
| | |
| | |

Reported amount of investments as disclosed on Form 8 \$ 127,962

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.

WEST VIRGINIA LOTTERY
DUE TO OTHER FUNDS - PRIMARY GOVERNMENT
FOR FISCAL YEAR ENDED JUNE 30, 2021
(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 | \$ 17,810 | 5405 |
| Department of Education-Public Ed | 5,701 | 3951 |
| Library Commission | 4,572 | 3559 |
| Division of Tourism | 2,673 | 3067 |
| Natural Resources | 1,367 | 3267 |
| Culture and History | 1,694 | 3534 |
| Building Commission | 1,000 | 2252 |
| School Building Authority | 1,800 | 3963 |
| School Building Authority | 1,899 | 3514 |
| Veterans Instant Ticket Fund | 48 | 1338 |
| Community and Technical College | 499 | 4908 |
| West Virginia Infrastructure Council | 600 | 3390 |
| Surplus | 120,353 | |
| Total amounts payable to primary government | \$ <u>160,016</u> | Unappropriated |
| Total amounts payable to primary government per above | \$ 160,016 | |
| Total amounts payable to component units per Form 11 | 6,926 | |
| Accrued nonoperating distributions to State of West Virginia | \$ <u>166,942 (1)</u> | |

(1) Agrees to audited balance sheet

See Independent Auditor's Report.

WEST VIRGINIA LOTTERY - DUE FROM/TO OTHER FUNDS - COMPONENT UNITS
FOR FISCAL YEAR ENDED JUNE 30, 2021
(Expressed in Thousands)
FORM 11

| Payable to | Amount | | Fund | Amount |
|------------|----------|---|------|--------|
| 5 | \$ 2,541 | | 9065 | 1,899 |
| 12 | 4,385 | > | 9067 | 203 |
| | | | 9068 | 439 |
| | | | 4925 | 1,199 |
| | | | 4297 | 1,500 |
| Total | \$ 6,926 | | 4185 | 1,448 |
| | | | 4896 | 238 |

| | |
|---|----------------|
| Total amounts payable to component units per above | \$ 6,926 |
| Total amounts payable to primary government per Form 10 | 160,016 |
| (1) Agrees to audited balance sheet | \$ 166,942 (1) |

Note: There were no amounts due from component units as of June 30, 2021

| 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 | |

See Independent Auditor's Report.

WEST VIRGINIA LOTTERY
TRANSFERS IN/OUT
FOR FISCAL YEAR ENDED JUNE 30, 2021
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 | \$ 8,994 |
| | | Division of Tourism | 3067 | 6,732 |
| | | Division of Natural Resources | 3267 | 3,443 |
| | | Division of Culture & History | 3534 | 4,185 |
| | | Library Commission | 3559 | 11,514 |
| | | Dept. of Educ. - Public Education | 3951 | 18,863 |
| | | School Bldg Authority | 3963 | 18,000 |
| | | Community and Technical College-Capital Imp | 4908 | 4,993 |
| | | Higher Education- Policy Commission | 4925 | 3,019 |
| 7202 Traditional Lottery | \$ 48,905 | Higher Education- Policy Commission | 4185 | 3,647 |
| 7203 Racetrack Video Lottery | 88,098 | Higher Education- Policy Commission | 4896 | 599 |
| 7214 Sports Wagering | 3,013 | Bureau of Senior Services | 5405 | 57,955 |
| 7215 Interactive Wagering | 3,607 | Veterans Instant Ticket Fund | 1338 | 659 |
| | <u>\$ 143,623</u> | | | <u>\$ 143,623</u> |
| | | <u>Excess Lottery Fund</u> | | |
| | | WV Racing Commission | 7308 | \$ 2,000 |
| | | State Park Improvement Fund | 3277 | 1,505 |
| | | Refundable Credit | 7207 | 10,000 |
| | | Higher Education Improvement Fund | 4297 | 15,000 |
| | | Economic Development Fund | 9065 | 18,986 |
| | | Economic Development Fund | 9067 | 2,029 |
| | | Economic Development Fund | 9068 | 4,391 |
| | | School Bldg Authority | 3514 | 18,994 |
| | | Education Improvement | 4295 | 29,000 |
| | | West Virginia Infrastructure Council | 3390 | 46,000 |
| 7203 Racetrack Video Lottery | \$ 78,374 | General Purpose | 7206 | 65,000 |
| 7205 Limited Video Lottery | 270,218 | WV Lottery Statutory Transfers | * | 61,022 |
| 7210 Table Games | 12,221 | Division of Human Services | 5365 | 83,303 |
| 7212 Historic Resort Hotel | 2,915 | General Revenue Fund | 0116 | 6,498 |
| | <u>\$ 363,728</u> | | | <u>\$ 363,728</u> |
| Grand Total | | | | 507,351 |

| *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.



QUOTATION AND LOT2200000011 PRICING PAGE

| DESCRIPTION | YEAR | COST |
|--|-------------------------|--------|
| Total, all-inclusive price for audit services (including preparation of financial statements and footnote disclosures), preparation of ACFR, and all other services as described in this solicitation. | FY 2022 | 41,900 |
| Total, all-inclusive price for audit services (including preparation of financial statements and footnote disclosures), preparation of ACFR, and all other services as described in this solicitation. | | |
| Total, all-inclusive price for audit services (including preparation of financial statements and footnote disclosures), preparation of ACFR, and all other services as described in this solicitation. | | |
| | TOTAL BID AMOUNT | |

Vendor: Brown Edwards and Company, LLP

Signature: 

Date: April 12, 2022