



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Prepared by Washington's Lottery Finance Division for the
fiscal years ended June 30, 2019 and June 30, 2018.





DOWNLOAD 

A PDF download of this Comprehensive Annual Financial Report is available at walottery.com/About/AnnualReports.aspx.

LETTER FROM THE DIRECTOR



As you will see in the following Comprehensive Annual Financial Report, Washington's Lottery enjoyed a very successful fiscal year 2019. Total sales for the fiscal year contributed \$215.8 million to our beneficiaries. This was a record for Washington's Lottery and was partly due to the increase in sales over last year and the amount of prizes that went unclaimed. The Washington's Opportunity Pathways Account received \$166.7 million to help fund state grants and work study awards for low-income students, as well as academic and vocational scholarships. Our loyal players collected \$490.4 million in prize money, and our dedicated retail partners earned \$40.2 million during the fiscal year. With a \$1.5 billion *Mega Millions* jackpot and an \$11 million

Lotto jackpot, we experienced record sales in our draw games which brought in \$279.4 million. This was an increase of \$53.4 million compared to fiscal year 2018. *Scratch* tickets continued to be extremely popular bringing in \$523.9 million, a \$15.9 million increase over last fiscal year.

Our annual Seahawks *Scratch* partnership experienced an exciting year. Players were given the chance to win away game prize packages to Seahawks games in Arizona, Los Angeles, and San Francisco. We also broke our one-day Seahawks tailgate selling record with a total of \$61,000 in Seahawks *scratch* sales in just a few hours.

For years, the Department of Imagination has been telling our players that the Lottery is always more fun to play when you use your imagination. So, this year, we launched our "Let's Imagine Together" brand campaign. The new campaign focused on taking player's imaginative ideas that they shared on social media and bringing those ideas to life. The response was great, and we received hundreds of ideas from players all over the state telling us the amazing things they would do if they won big. Some of the ideas were shaped into commercials, billboards, and online videos; public reception and engagement surpassed expectations.

Washington's Lottery continues to be a proponent for responsible gaming, contributing \$406.8 thousand to the Problem Gambling Account in fiscal year 2019. This year we also became the 18th state to join the NASPL/NCPG Responsible Gambling Verification Program. We are extremely proud to be accepted into this program which affords us the opportunity to learn from others and further incorporate responsible gambling best practices into our products and services.

As we look forward to fiscal year 2020, Washington's Lottery will continue to find fun and innovative ways to engage our players and increase contributions to our beneficiaries and the citizens of Washington State.

Sincerely,

A handwritten signature in black ink that reads "M. Glasper". The signature is written in a cursive, flowing style.

Marcus J. Glasper
Director of Washington's Lottery

Mission

To offer games of chance with integrity and imagination to maximize beneficiary contributions.



Values



Integrity

Individually and as an organization, we act with honesty and hold ourselves to the highest standards of ethical conduct.



Collaboration

We promote a culture of teamwork and working together across the organization to achieve shared goals.



Respect

We treat people with dignity and courtesy, honor different perspectives, and embrace inclusion.



Responsibility

We are personally accountable for our actions and make organizational decisions in the best interests of our beneficiaries and the state.



Creativity

We believe the power of imagination, innovation, and original thinking is key to our success.



Customer-focus

We deliver quality products and solutions to those we serve.



Vision

To be a lottery industry leader in creating fun gaming experiences that benefit the people of Washington.



DEPT OF
IMAGINATION®





WASHINGTON'S LOTTERY

an agency of the State of Washington

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal years ended June 30, 2019 and June 30, 2018

Prepared by Washington's Lottery's Finance Division

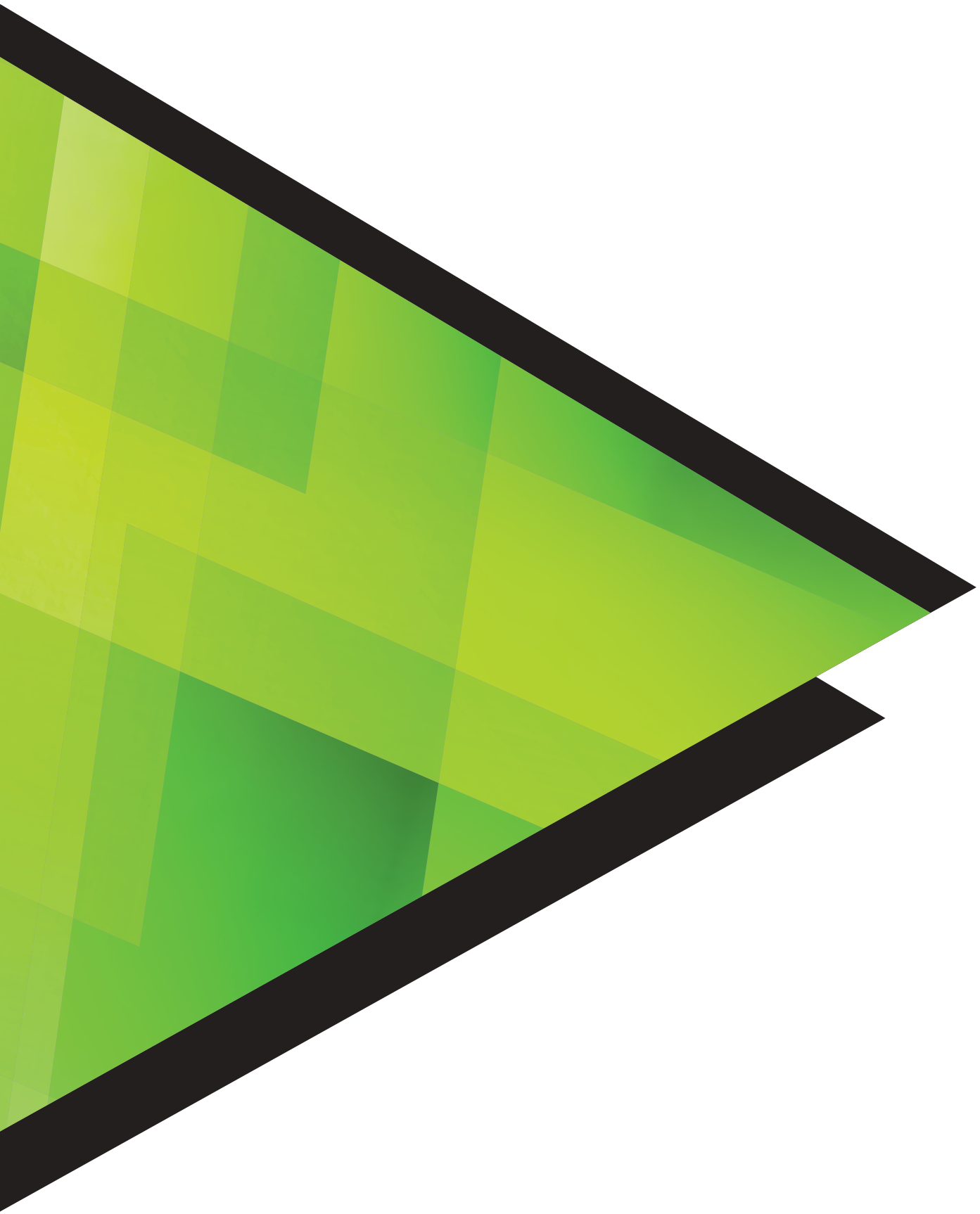


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INTRODUCTORY SECTION

This section includes a transmittal letter describing Washington's Lottery and its business activities, a list of principal officials, the agency organization chart, and the Certificate of Achievement for Excellence in Financial Reporting awarded for the previous year's report.

October 24, 2019

TO THE CITIZENS OF WASHINGTON STATE:

Washington’s Lottery is pleased to provide this comprehensive annual financial report for the fiscal year that ended June 30, 2019. In fiscal year 2019, Lottery sales increased by \$69.3 million or 9.4 percent compared to fiscal year 2018 and contributed a total of \$215.8 million to its beneficiaries for state programs. The Washington Opportunity Pathways Account received \$166.7 million to fund scholarships.

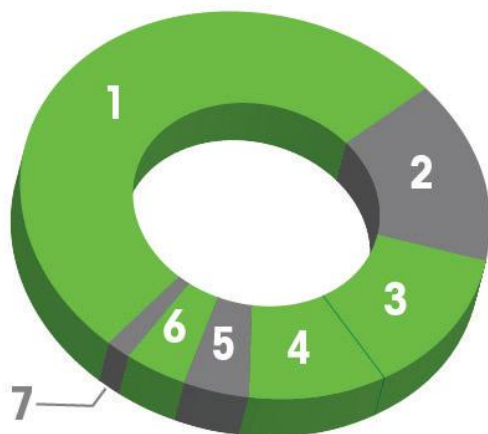
Although state law does not require the Lottery to provide stand-alone audited financial statements, we do so to reflect the highest standards of fiscal transparency and uncompromised accountability to the public, thereby strongly demonstrating our thorough efforts to disclose all relevant information.

To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flow of the agency. All disclosures necessary to gain an understanding of the Lottery’s financial activities have been included. Management is responsible for the accuracy and completeness of the contents, and the Lottery maintains strict adherence to its stringent internal control policies.

THE LOTTERY IS A STATE AGENCY MANDATED TO GENERATE FUNDS FOR THE SUPPORT OF STATE PROGRAMS

Washington’s Lottery sells tickets for games of chance to the general public. The Lottery is a business funded by sales, which in and of itself pays for the costs of running the business, including producing, marketing, and selling the products, while delivering all of the profits to the public good. In order to operate the business successfully, the Lottery provides personnel in the following disciplines: security, legal, administrative, marketing, sales, finance, management, human resources, and information services. The Lottery generated dollars for the Washington Opportunity Pathways Account, Economic Development Account, Problem Gambling Account, General Fund and stadium debt payments for CenturyLink Field. Lottery revenues for fiscal year 2019 totaled \$806 million. These sales allowed contributions of \$166.7 million to the Washington Opportunity Pathways Account (WOPA), \$13.1 million to the Stadium and Exhibition Center Account (CenturyLink Field), \$30.9 million to the General Fund, \$4.6 million to the Economic Development Account and \$406.8 thousand to the Problem Gambling Account.

FY19 TOTAL DISTRIBUTION: \$809 MILLION



COST OF DOING BUSINESS **PROFIT**

The legislature decides the beneficiaries and how much the Lottery can spend on administration.

1	PRIZES: \$490.4M (60.61%)
2	WASHINGTON OPPORTUNITY PATHWAYS: \$166.7M (20.61%)
3	COST OF SALES: \$48.2M (5.95%)
4	RETAILER COMMISSIONS: \$40.2M (4.97%)
5	GENERAL FUND: \$30.9M (3.82%)
6	ADMINISTRATION: \$14.5M (1.79%)
7	STADIUM & EXHIBITION CENTER: \$13.1M (1.63%)
8*	ECONOMIC DEVELOPMENT: \$4.6M (0.56%)
9*	PROBLEM GAMBLING: \$0.4M (0.05%)

*Amounts not displayed in graph

BACKGROUND

Washington's Lottery constantly focuses on maintaining and increasing the ability to generate these funds in support of scholarships by contributing to the Washington Opportunity Pathways Account and other state programs. Development of new products and game enhancements is an ongoing process with a focus on responsible gaming and increasing long-term revenue. This is consistent with acceptable levels of related expenses, which are intended to increase the ability to support these vital programs. A narrative analysis of the Lottery's performance for fiscal year 2019 and further details regarding specific subjects can be found in Management's Discussion and Analysis in the Financial Section of this document.

COMMUNITIES THROUGHOUT THE STATE HAVE BENEFITED FROM THE LOTTERY

Since Washington's Lottery sold its first ticket in 1982, it has paid over \$9.4 billion in prizes and retailers have received over \$933.3 million in sales commissions. Winners tend to spend and invest money in their local communities, and Lottery sales often make a big difference for small merchants. In fiscal year 2019, Washington's Lottery paid out more than 36.7 million winning tickets ranging from \$1 to \$5.6 million. Fourteen people became millionaires through Washington's Lottery in the last fiscal year. Since inception, the Lottery has made more than 725 people millionaires, and that number continues to grow.

The State Legislature decides how the government spends monies contributed by the Lottery. The recipients of Lottery's proceeds include the Washington Opportunity Pathways Account, Economic Development Account, Problem Gambling Account, General Fund Account, and stadium debt payments for CenturyLink Field. Since inception, the Lottery has contributed more than \$4.4 billion to various crucial state programs.

In 1986, the Lottery began collecting outstanding child support and other debts owed to the state. Before winners are paid, these debts are deducted from Lottery prize monies. Over the years, the Lottery has collected \$4.2 million in previously uncollected money. This figure represents \$2.4 million in child support payments and \$1.7 million in recovered taxes, fees, penalties, welfare, and employment security debts.

WASHINGTON STATE'S ECONOMIC AND REVENUE OUTLOOK

Recent economic performance continues to affirm Washington State's economic advantage throughout the nation's period of expansion. The state should outperform the nation in job and income growth over the foreseeable future.

Washington's jobless rate moved above the national rate during the past three years after having mirrored the national figures for much of the economic recovery. Washington's rate has traditionally been higher than the national norm due to the state's outsized share of seasonal industries and its attractiveness to in-migrants searching for opportunity and the Northwest experience. Over the past four years, 74 percent of Washington's population growth has been due to migration. More recent forecasts indicate Washington's jobless rate will remain above the national average, likely the result of strong population growth and the accompanying frictional lag in employment. In fundamental ways, this reflects the confidence workers have in finding gainful employment. By the end of the next biennium (2021-23), Washington's unemployment rate is projected to increase slightly to 5 percent, up from the current 4.6 percent.

Personal income in Washington is expected to make above-average gains over the next biennium. Real personal income should gain 3.3 percent in fiscal year 2020, 2.6 percent in fiscal year 2021, and 2.6 percent in fiscal year 2022, measurably higher than the respective 2.8 percent, 2.1 percent, and 2.1 percent projections for the nation. On a per-capita basis, Washington's real personal income should reach \$59,498 in fiscal year 2022, more than \$6,000 above the U.S. average.

These gains in Washington's personal income will occur notwithstanding the absence of growth in aerospace employment, which is expected to be a constant 89,900 jobs from fiscal year 2020 through fiscal year 2022. However, thanks to gains in software publishing, electronic shopping and mail order, and other technology sectors, Washington is projected to net a 2 percent increase in total payroll jobs in fiscal year 2020, 1.3 percent in fiscal year 2021, and 1 percent in fiscal year 2022.

Construction activity in Washington is expected to trend to a more historically normal level in the next biennium. While multi-family construction growth was prompted by demand for rental units in the aftermath of the Great Recession, income gains have renewed demand for single-family housing. Building permits should total 43,800 in fiscal year 2020, 42,900 in fiscal year 2021, and then 42,600 in fiscal year 2022. As a result, construction employment should move down to 211,000 jobs in fiscal year 2022 from 216,000 jobs in fiscal year 2020. That should ease the share of construction jobs to 5.9 percent of total nonfarm employment, still a bit above historic average of 5.6 percent yet reflective of a stabilizing housing and commercial building market.

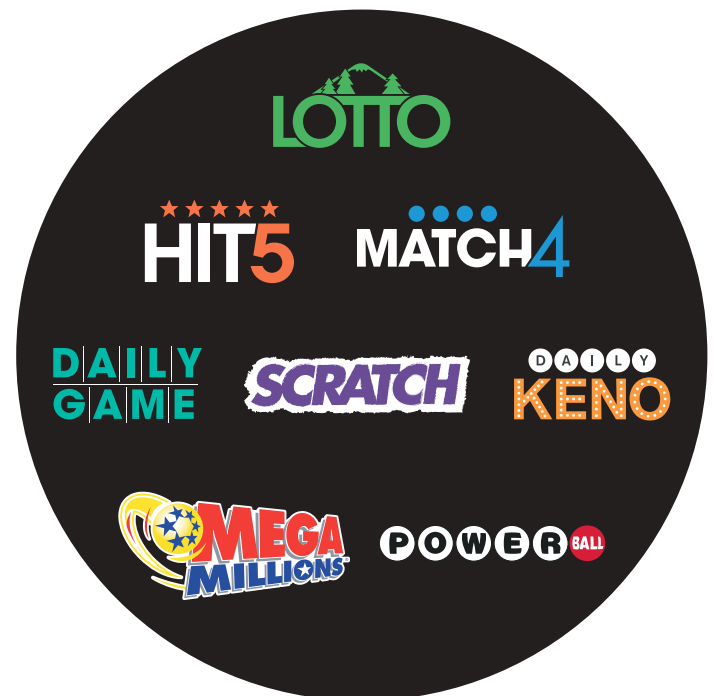
General Fund-State revenues grew 10 percent in fiscal year 2018 and 3.3 percent in fiscal year 2019. General Fund-State revenues are forecasted to increase 9.2 percent in fiscal year 2020, 4.3 percent in fiscal year 2021, and 3.2 percent in fiscal year 2022. The expanding economy, strong gains in hiring and sound housing markets have had a positive effect on revenue growth and should keep revenues growing at a sound pace.

LOTTERY PRODUCTS

OUR GAMES

SCRATCH

In Washington, *Scratch* is the most popular Lottery game. *Scratch* is called an "instant" game because players learn immediately if they have won a prize. Total *Scratch* sales were \$523.9 million in fiscal year 2019, compared to \$507.9 million in 2018. In fiscal year 2019, *Scratch* sales were \$244.4 million more than all other Lottery games combined. *Scratch* games provided 65.2 percent of total net sales for fiscal year 2019, compared to 69.2 percent in 2018. The Lottery launched 48 *Scratch* games in fiscal year 2019, compared to 45 games in fiscal year 2018.



MEGA MILLIONS

Washington joined the nation's biggest lottery game *Mega Millions* in September 2002. Washington was the first state west of the Mississippi to offer the nation's mega-jackpot lottery game. *Mega Millions* is played in forty-four states, District of Columbia and the U.S. Virgin Islands.

Mega Millions ticket sales in Washington were \$91.9 million for fiscal year 2019, representing 11.4 percent of total net Lottery sales. *Mega Millions* sales were \$54.7 million or 7.4 percent of net sales in fiscal year 2018. In fiscal year 2019, jackpots ranged from \$40 million to \$1.6 billion, with 4 winning jackpots over \$100 million. In fiscal year 2019, *Mega Millions*'s highest jackpot was \$1.6 billion as compared to \$521 million in the prior year 2018.

Mega Millions is a jackpot-based game with nine prize levels. Tickets cost \$2 to play for jackpots of up to hundreds of millions of dollars. Players pick six numbers from two different pools of numbers. They choose five balls from a field of 70 and one ball from a field of 25, representing the "Mega Ball", though most players let the computer randomly "Quick Pick" their numbers. Jackpots start at \$40 million and increase by a minimum of \$5 million per draw if there is no jackpot winner. Drawings are held Tuesdays and Fridays. Prizes are also paid for various combinations of matching numbers. Players have a total of 9 different ways to win, including a \$1 million prize if five balls are matched from the pool of 70 balls. Players can buy tickets for up to nine drawings in advance, plus the current drawing.

"Megaplier" is a special feature of *Mega Millions* that when purchased, allows players to multiply a win by 2, 3, 4 or 5 times. A player who purchases the "Megaplier" feature and matches all 5 of the white ball numbers will increase their winnings by the multiplier feature purchased, having the chance of winning up to \$5,000,000 on a second-tiered prize win. This multiplication does not apply to the jackpot prize.

POWERBALL

Washington began selling *Powerball* in January 2010, a multi-state lottery game operated by the Multi-State Lottery Association (MUSL). *Powerball* is sold in forty-seven jurisdictions, including District of Columbia, Puerto Rico and the U.S. Virgin Islands. *Powerball* sales were \$69.4 million for fiscal year 2019, representing 8.6 percent of net sales, compared to \$72.9 million or 9.9 percent in fiscal year 2018. In fiscal year 2019, jackpots ranged from \$40 million to \$750 million, with 5 winning jackpots over \$100 million. In fiscal year 2019, *Powerball*'s highest jackpot was \$750 million as compared to \$700 million in the prior year 2018.

Powerball is a jackpot-driven game. Players pick five numbers out of sixty-nine plus one out of twenty-six numbers which represents the "Powerball". Most players let the computer randomly "Quick Pick" their numbers. Drawings are held every Wednesday and Saturday as part of the *Powerball* drawing event. Players can buy tickets for up to nine drawings in advance, plus the current drawing.

"Power Play" is a special feature of *Powerball* that when purchased, allows players to have the chance to win \$2,000,000 on a second-tiered prize if the "Power Play" option is chosen at the time of ticket purchase.

LOTTO

Three times a week, on Mondays, Wednesdays, and Saturdays, Lottery players have a chance to win \$1 million or more by playing *Lotto*, the Lottery's flagship in-state game introduced in 1984. Players select 6 of 49 numbers (or let the computer randomly select 6 numbers). Jackpots start at \$1 million, and if no player matches all six numbers, the top prize grows based on ticket sales. Prizes are also paid for matching three, four or five numbers. Players can purchase up to twenty-five consecutive drawings in advance. *Lotto* sales for fiscal year 2019 were \$56.2 million, representing 7.0 percent of total net sales. *Lotto* sales in fiscal year 2018 totaled \$38.6 million or 5.3 percent of net sales in that year. 3 winning *Lotto* jackpots were drawn in fiscal year 2019 ranging from \$2.0 million to \$5.6 million.

HIT 5

Hit 5 is as easy to play as *Lotto*; and it's easier to win. Players select 5 of 39 numbers (or let the computer randomly select 5 numbers) and match them to the ones drawn by the Lottery. The cashpot is paid in one lump sum and is won by matching all five of the numbers drawn by the Lottery. Cashpots start at \$100,000. If no player matches all five numbers, the top prize grows based on ticket sales. 35 *Hit 5* cashpots were awarded in fiscal year 2019, ranging from \$100,000 to \$580,000. Prizes are also paid for matching two, three, or four of the numbers drawn. Drawings are held on Mondays, Wednesdays, and Saturdays. Sales for fiscal year 2019 were \$21.9 million or 2.7 percent of net sales compared to \$21.6 million or 2.9 percent of net sales in fiscal year 2018. Players can purchase up to twenty-five consecutive drawings in advance.

MATCH 4

Match 4, the first \$2 price point draw game in Washington, started in August 2008. Players pick 4 out of 24 (or let the computer randomly select 4) numbers and have the opportunity of winning a top prize of \$10,000. If more than one player picks the winning four numbers, each winner gets \$10,000. In other words, a \$10,000 prize is not split equally amongst the winners. Prizes are also paid for matching 2 and 3 numbers. Numbers are drawn seven nights per week. Sales for fiscal year 2019 were \$14.7 million, representing 1.8 percent of net sales compared to \$13.7 million or 1.9 percent of net sales in fiscal year 2018. Players can purchase up to twenty-five consecutive drawings in advance. There were 694 prizes in the amount of \$10,000 awarded in fiscal year 2019.

DAILY GAME

Players pick three numbers from 0 through 9 (or choose a computer-generated Quick Pick). They also choose among nine different play options. Numbers are drawn seven nights per week, and players can buy tickets for up to seven drawings in advance. *Daily Game* sales totaled \$19.5 million or 2.4 percent of net sales in fiscal year 2019, similar to the \$18.9 million, with a 2.6 percent experienced in fiscal year 2018.

DAILY KENO

Daily Keno was added to the Lottery's product line in 1992. Players pick from 1 to 10 *Keno* game spots, and then they choose a number from 1 through 80 for each spot (or they can let the computer choose their numbers with a Quick Pick). Each night, the Lottery draws 20 numbers. Prizes vary depending on how many spots players choose and how many of the players' numbers match the Lottery's numbers. The top prize in *Daily Keno* is \$100,000. Players can purchase up to twenty-five consecutive drawings in advance. *Daily Keno* sales totaled \$5.9 million or 0.7 percent of net sales in fiscal year 2019, compared to \$5.7 million or 0.8 percent in fiscal year 2018.

FINANCIAL INFORMATION

INTERNAL CONTROLS

Washington's Lottery's policies and procedures tightly control assets, inventory, computer systems, accounting, and the drawing vault. Staffing includes security and law-enforcement personnel. Access to Lottery offices is limited. Risks of loss, theft, or misconduct are minimized through high-level security; strict employee, contractor, and retailer standards; and retailer licensing. Anyone responsible for Lottery tickets or assets, or who works directly with the Lottery, has passed a background check.

When assets could be at risk, responsibilities have been separated (for example, purchasing and accounts payable). Data input and processing are separate from system programming. Management provides approval and oversight. Segregation of duties separates the responsibilities of the custody, authorization, and recording of assets. Reviews of operations and documented procedures are performed internally by general counsel, the internal auditor and the management team. External auditors also conduct reviews and their reports are presented to the Lottery's Director.

Measures to guarantee players a fair game:

- Game drawings are held in a locked vault located at Lottery headquarters. Drawings follow strict security procedures and are witnessed by an independent Certified Public Accountant (CPA).
- Lottery digital drawing systems, which include random number generators for Draw games and promotions, are stored in locked cases, marked with security seals, and kept in a locked vault.
- Each retail terminal uses independent random-number-generating formulas for Quick Pick numbers.
- Lottery *Scratch* tickets are printed with special inks, dyes, and security codes.

INHERENT LIMITATIONS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

Washington's Lottery's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management does not expect that the internal controls will prevent or detect all errors and all fraud. A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ACCOUNTING SYSTEMS AND POLICIES

The Lottery uses the accrual basis of accounting and follows generally accepted accounting principles (GAAP). The Legislature, the Office of Financial Management and Lottery's Commissioners control Lottery spending through several Lottery fund accounts. Additional information regarding these accounts can be found in Note 1 in the notes to the financial statements.

BUDGETARY SYSTEM AND CONTROLS

The Lottery works with the Office of the Governor to create a biennial budget proposal to support administrative costs. This proposal goes to the Legislature for approval. The Senate, the House of Representatives, and the Office of the Governor negotiate any differences. The Office of Financial Management monitors spending through the Lottery's business and administrative accounts, but the Lottery decides when spending will occur. In addition to the Lottery's fixed administrative budget, there are also business plan estimates for business expenses based on sales forecasts, new products introduced, and industry trends. Estimates and forecasts are compared to actual costs and sales throughout the fiscal year with appropriate changes in action plans made as needed.

The Lottery's revenue forecast for state planning and budgeting is prepared by the Economic and Revenue Forecast Council, an independent State entity. In addition, expense and contribution budgets are approved by the Lottery Commission and submitted to the Office of Financial Management for inclusion in the State budget. The Lottery Commission members are appointed by the Governor.

EMPLOYEES

At the end of fiscal year 2019, the Lottery employed 129 staff. Headquarters and the offsite warehouse had 80 people, with the remaining staff working out of five regional offices in Everett, Federal Way, Spokane, Vancouver, and Yakima.



INDEPENDENT AUDIT

Washington State law requires an audit of the state by the Washington State Auditor's Office, an independently elected public official. As a state agency, Washington's Lottery is included in this audit. The State Auditor's report on internal controls and compliance with applicable laws and regulations can be found in a separately issued Washington State Single Audit report.

In addition, the Lottery obtained a separate audit of the Lottery's stand-alone financial statements. The fiscal year 2019 audit of Lottery financial statements has been completed in conformance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The financial section of this report includes the Independent Auditor's report on the Lottery's financial statements and report on internal controls and compliance with applicable laws and regulations.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Washington's Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the twenty-ninth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

This report reflects the Lottery's commitment to maintaining public trust through high ethics and uncompromising integrity. It also demonstrates the professionalism and team effort of Lottery employees and we appreciate the outstanding contributions they have made to Lottery's success. We also thank the Lottery Commissioners for their dedication and guidance in the operation of Washington's Lottery.

Respectfully submitted,



Maria Douka
Director of Finance



Marcus Glasper
Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Washington's Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

PRINCIPAL OFFICIALS



Marcus Glasper
Lottery Director



Valoria Loveland
*Chair
Pasco
Term ends
8/2021*



Judy Giniger
*Commissioner
Seattle
Term ends
8/2020*



Eileen Sullivan
*Commissioner
Tacoma
Term ends
8/2024*

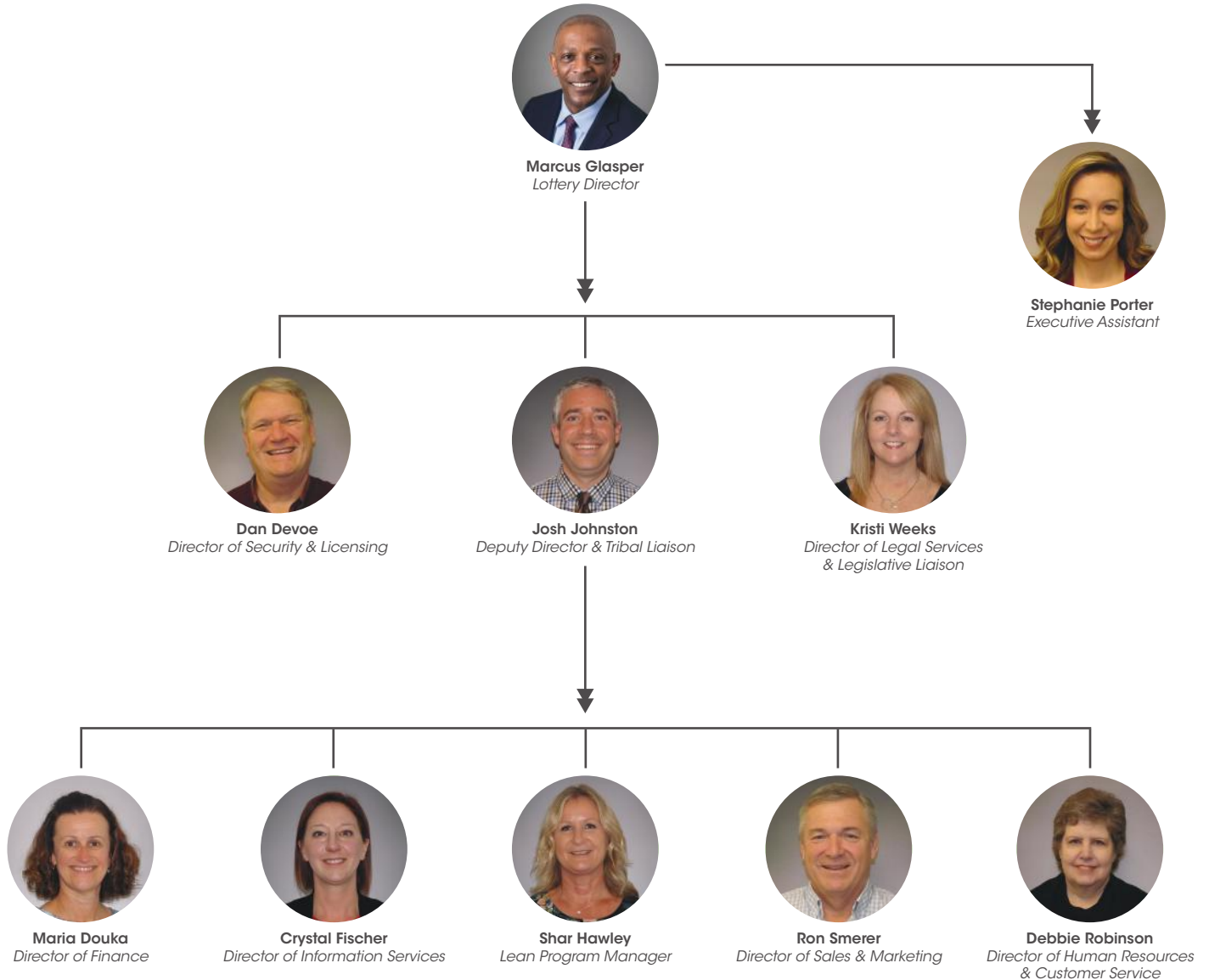


Peter Bogdanoff
*Commissioner
Seattle
Term ends
8/2018*



Frederick Finn
*Commissioner
Olympia
Term ends
8/2022*

ORGANIZATION CHART



FINANCIAL SECTION

This section includes the following:

- Independent Auditor's Report
- Management's discussion and analysis
- Financial statements of Washington's Lottery
- Related notes to the financial statements
- Required supplementary information
- 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*



Independent Auditor's Report

To the Director and Commissioners
Washington's Lottery
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying basic financial statements of Washington's Lottery (the Lottery), an agency of the State of Washington, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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.

What inspires you, inspires us. Let's talk. | eidebailly.com

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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 Lottery as of June 30, 2019 and 2018, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedules of the Lottery's Proportionate Share of the Net Pension Liability and Employer Contributions (PERS 1 and PERS 2/3), and Schedule of Changes in Total OPEB Liability and Related Ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 letter from the director, introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

The letter from the director, introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated October 29, 2019 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 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.



Boise, Idaho

October 29, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis includes an overview of activities regarding the financial performance of Washington's Lottery (the Lottery) for the fiscal years ended June 30, 2019 and June 30, 2018. The Lottery is an agency of the State of Washington and operates for the purpose of generating revenues for public use for the residents of the state. This analysis is to be used in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Sales of all Washington's Lottery products were \$803.3 million, a 9.4 percent increase from fiscal year 2018 and a 19.2 percent increase from fiscal year 2017.

- *Mega Millions* sales were \$91.9 million, with jackpots ranging from \$40 million to \$1.6 billion.
- *Powerball* sales were \$69.4 million, with jackpots ranging from \$40 million to \$750 million.
- *Scratch* sales were \$523.9 million and increased \$15.9 million or 3.1 percent compared to fiscal year 2018. This growth in *Scratch* sales supported increased contributions to beneficiaries.
- Total contributions to Lottery beneficiaries were \$215.8 million and increased \$32.8 million or 17.9 percent compared to fiscal year 2018.
- Contributions to the Washington Opportunity Pathways Account reached \$166.7 million.
- Contributions to the Stadium & Exhibition Center (CenturyLink Field) totaled \$13.1 million in fiscal year 2019, representing a 4 percent year-over-year legislative mandated increase.
- Contributions to the Economic Development Account totaled \$4.6 million in fiscal year 2019. Amounts contributed to this beneficiary represent one-third of prizes that go unclaimed each fiscal year.
- Contributions to the General Fund amounted to \$30.9 in fiscal year 2019. Per RCW 67.70.340(4), if in total, contributions to the Washington Opportunity Pathways Account from the in-state and *Powerball* games are in excess of \$102 million, such excess shall be transferred to the General Fund.
- Contributions to the Problem Gambling Account totaled \$406.8 thousand. This beneficiary receives thirteen one-hundredths of one percent (0.13%) of "net receipts." "Net receipts" are defined as the difference between revenue received from the sale of Lottery products and the sum of payments made to winners.

USING THIS ANNUAL REPORT

By law, the Lottery is required to distribute to its beneficiaries, all of its net income, excluding unrealized gains on investments and two-thirds of its unclaimed prizes. During fiscal year 2016, the legislature mandated that on June 30th of each year, amounts in excess of \$10 million in the unclaimed fund be distributed to the Washington Opportunity Pathways Account.

The net position of the Lottery, as shown in Table 1, consists solely of capital assets, restricted incomes for future prizes, and unrestricted income. The restricted portion of net position represents unclaimed prize amounts set aside for future use as prizes, as required by law (RCW 67.70.190). Unrestricted income is income related to unrealized gain on investments held to fund future payments due on annuitized lottery prizes. Generally accepted accounting principles (GAAP) dictate that the Lottery record in its financial statements the gain or loss related to the change in fair value of these investments. As the Lottery intends to hold the investments to maturity, market gains or losses represent temporary fluctuations and are not recognized in the calculation of the amounts to be distributed.

The Lottery's net position and changes in net position are shown in Table 1 and Table 2. Net position increased in fiscal year 2019 by \$2.8 million, from \$(15.4) million in 2018 to \$(12.6) million in 2019. The Lottery experienced an increase of \$10.1 million in fair value of investments held to fund future annuitized prize payments.

TABLE 1: SUMMARY OF NET POSITION (IN MILLIONS)

	2019	2018	2017
Current assets	\$70.8	\$63.6	\$66.4
Non-current assets - investments	119.3	120.5	122.8
Capital assets - net of depreciation	0.6	0.8	0.9
Total assets	\$190.7	\$184.9	\$190.1
Deferred outflows of resources	\$1.4	\$1.4	\$1.9
Current liabilities	83.8	73.8	79.6
Non-current liabilities	117.3	126.0	116.5
Total liabilities	\$201.1	\$199.8	\$196.1
Deferred inflows of resources	\$3.7	\$1.9	\$0.3
NET POSITION			
Invested in capital assets	0.6	0.8	0.9
Restricted for future prizes	10.2	12.6	10.4
Unrestricted	(23.4)	(28.8)	(15.7)
Total net position	(\$12.6)	(\$15.4)	(\$4.4)

TABLE 2: SUMMARY OF CHANGES IN NET POSITION (IN MILLIONS)

	2019	2018*	2017
Sales	\$803.3	\$733.9	\$673.3
Other operating income	2.7	2.8	2.7
Expenses and non-operating activity	(587.4)	(558.2)	(523.2)
Distributions	(215.8)	(182.9)	(161.9)
Changes in net position	\$2.8	(\$4.4)	(\$9.1)
Total net position at beginning of year	(15.4)	(10.9)	4.7
Total net position at end of year	(\$12.6)	(\$15.4)	(\$4.4)

* Due to implementation of GASB75, the net position beginning balance for 2018 was restated.

The Lottery purchases U.S. Treasury Strips to fund annuitized prize payments. As these securities mature, they provide the cash flow to satisfy future payments to prize winners that elect annuitized prize payments. It is important to note that this adjustment to the fair value does not affect the Lottery's ability to meet future liabilities.

SALES AND PRIZE EXPENSE

Table 3 below compares sales, prize expense, and net receipts (sales less prize expenses) for Lottery *Scratch* and Draw game products for fiscal years 2019, 2018, and 2017.

TABLE 3: SALES AND PRIZE EXPENSE (IN MILLIONS)						
	<i>Scratch Games</i>			<i>Draw Games</i>		
	2019	2018	2017	2019	2018	2017
Sales	\$523.8	\$507.9	\$472.3	\$279.4	\$226.0	\$201.1
Prize expense	355.5	343.3	316.8	134.8	114.6	105.7
Net receipts	\$168.3	\$164.6	\$155.5	\$144.6	\$111.4	\$95.4

Scratch product sales increased \$15.9 million or 3.1 percent compared to 2018, and increased \$51.6 million or 10.9 percent as compared to 2017. The number of tickets sold increased by .68 percent from 113.7 million in fiscal year 2018 to 114.5 million in fiscal year 2019. The average price per ticket increased slightly from \$4.47 in fiscal year 2018 to \$4.58 in fiscal year 2019. *Scratch* prize expense increased in fiscal year 2019 by \$12.2 million, or 3.6 percent compared to fiscal year 2018, and increased \$38.7 million, or 12.2 percent compared to fiscal year 2017. The *Scratch* prize expense ratio increased from 67.6 percent in fiscal year 2018 to 67.9 percent in fiscal year 2019. In fiscal year 2019, \$9.2 million of *Scratch* prizes went unclaimed compared to \$11.1 million in fiscal year 2018.

In fiscal year 2019, Draw game sales increased by \$53.4 million or 23.6 percent over fiscal year 2018 and increased by \$78.3 million or 39 percent compared to fiscal year 2017. In fiscal year 2019, the highest jackpot for *Mega Millions* game was \$1.6 billion, as compared to \$521 million in the prior year 2018. The larger *Mega Millions* jackpot in fiscal year 2019 contributed to the increased sales. During fiscal year 2019, *Hit 5* had 48 winning cashpots, with the highest cashpot valued at \$580 thousand. Like other Draw games, *Hit 5* sales are jackpot-driven, meaning that as the jackpot rises to higher levels, more people are compelled to participate in the dream of winning the jackpot. *Lotto* is another example of a jackpot-driven game on a greater scale. *Mega Millions* and *Powerball*, by virtue of being a multi-state game, enjoy co-mingled sales and rapidly rising jackpots. *Lotto* sales increased by \$17.6 million or 45.6 percent compared to fiscal year 2018 and increased by \$12.7 million or 29.3 percent compared to fiscal year 2017. *Match 4* increased by \$990.2 thousand or 7.2 percent compared to 2018, and increased by \$1.2 million or 9.2 percent compared to fiscal year 2017.

The remaining active Draw games in the product portfolio are *Daily Game* and *Daily Keno*. These games enjoy a loyal player base as exemplified by consistent sales volumes.

Draw games prize expenses increased in fiscal year 2019 by \$20.2 million or 17.7 percent compared to fiscal year 2018 and increased by \$29.1 million or 27.5 percent compared to fiscal year 2017.

OTHER OPERATING EXPENSES

Table 4 compares operating expenses, other than prize expense, for gaming operations and administrative expenses for fiscal years 2019, 2018 and 2017.

Retailer commissions increased in fiscal year 2019 by \$3.3 million or 8.9 percent compared to fiscal year 2018; Commission costs as a percentage of sales remained static compared to fiscal year 2018 and 2017. Other game-related expenses, including vendor costs, advertising and miscellaneous promotional expenses, increased by \$4.9 million or 11.2 percent compared to fiscal year 2018. As a percent of sales, these expenses were 6 percent for 2019 and 5.9 percent in fiscal year 2018 compared to 6.4 in fiscal year 2017. Vendor expense, which is the largest

component of these costs, is for the most part, paid as a percentage of sales. Advertising expense increased \$1.6 million or 16.9 percent compared to fiscal year 2018 and increased by \$632 thousand or 6.0 percent compared to fiscal year 2017. Promotional and other operational expenses decreased \$481 thousand or 13.1 percent compared to fiscal year 2018 and decreased \$1.1 million or 26.3 percent compared to fiscal year 2017.

In fiscal year 2019, administrative expenses incurred for the general operation of the agency increased by 3.6 percent compared to fiscal year 2018, and increased 0.7 percent compared to fiscal year 2017. Depreciation expense decreased by 0.4 percent compared to fiscal year 2018 and increased by 102.8 percent as compared to fiscal year 2017. As a percentage of sales, overall administrative expenses decreased slightly for 2019 to 1.8 percent compared to 1.9 percent in fiscal year 2018 and 2.1 in fiscal year 2017.

Salaries and benefits expense increased by \$170 thousand or 1.6 percent compared to fiscal year 2018, and increased by \$461 thousand or 4.3 percent compared to fiscal year 2017. Goods and services increased by \$312 thousand or 12.7 percent compared to 2018, and decreased \$485 thousand or 14.9 percent compared to fiscal year 2017. Travel expense increased by \$23 thousand or 5.6 percent compared to fiscal year 2018, and increased by \$33 thousand or 8.2 percent compared to fiscal year 2017.

CAPITAL ASSETS

Washington's Lottery's investment in capital assets as of June 30, 2019 amounts to \$614 thousand (net of accumulated depreciation). This investment in capital assets includes leasehold improvements and equipment. The net decrease in the Lottery's investment in capital assets for fiscal year 2019 was 21 percent. Table 6 in Note 1 "Summary of Significant Accounting Policies," shows the opening and ending balances for assets and accumulated depreciation.

DEBT

At the end of fiscal year 2019, current liabilities consisted, in part, of \$14.0 million in annuity prizes payable. Long-term annuity prize liabilities were \$107.2 million. Note 5 "Prize Liabilities," shows the current and long-term portions of prize payments.

TABLE 4: RETAIL COMMISSIONS AND OTHER OPERATING EXPENSES (IN MILLIONS)

	2019	2018	2017
Retail commissions	\$40.2	\$36.9	\$33.9
Other game-related expenses	48.2	43.3	42.9
ADMINISTRATIVE EXPENSES			
Salaries and benefits	11.1	10.9	10.6
Goods and services	2.8	2.5	3.3
Travel	0.4	0.4	0.4
Depreciation	0.2	0.2	0.1
Total administrative expenses	\$14.5	\$14.0	\$14.4

NON-OPERATING REVENUES AND EXPENSES

Investment revenue before fair value adjustments and amortization expense on the annuity prize liability very nearly equal each other on an ongoing basis. The reason is that we fund future prize liability by purchasing U.S. Treasury Strips at a deep discount. In other words, we are able to purchase certain future payments at a fraction of the future maturity value in exchange for foregoing periodic interest payments. In the meantime, we must recognize changes to the fair value of the investments and the present value of the liabilities.

Table 5 shows interest income and expense on long-term investments and liabilities, and payments made to beneficiaries from Lottery proceeds.

TABLE 5: NON-OPERATING REVENUES (EXPENSES) (IN MILLIONS)			
	2019	2018	2017
Investment gain (losses)	\$10.1	(\$1.2)	(\$3.7)
Amortization of annuity prize liability	(4.4)	(5.1)	(5.8)
Interest and miscellaneous income	0.1	0.1	0.0
Total non-operating revenues (expenses) before payments	\$5.8	(\$6.1)	(\$9.5)
PROCEEDS DISTRIBUTION			
WA Opportunity Pathways	\$155.2	\$129.6	\$117.2
WOPA - Unclaimed Prizes in Excess of \$10M	11.6	4.5	9.6
State General Fund	30.9	31.2	16.8
Stadium and Exhibition Center	13.1	12.6	12.1
Economic Development	4.6	4.6	4.9
Gambling Commission	-	-	1.0
Problem Gambling	0.4	0.3	0.3
Total payments	\$215.8	\$182.9	\$161.9

Annually, the Lottery makes an adjustment to the current fair value of investment securities held in accordance with Government Accounting Standards Board (GASB) Statement No. 31. Since all securities held in the portfolio are U.S. Treasury securities, prepayment risk and market risk are effectively eliminated for the market valuation. Interest rate risk remains as the primary variable in determining the current fair value. Given the long-term nature of the investment, since they are held for winners up to 30 years in the future, changes in interest rates can have a marked effect on current valuations.

For example, a security was purchased to mature in 20 years and pays 8 percent per year. If one year later, a similar security for the same time frame could be purchased that was paying 10 percent per year, the relative value of the 8 percent security would have dropped significantly. The reason is that if an individual can buy a security paying 10 percent interest, why would they pay the same price for a security paying 8 percent? If the holder wanted to sell their 8 percent security, they would have to drop the price to the level where a purchaser would earn 10 percent. The opposite is also true that if current interest rates were to decrease, another investor would be willing to pay more to get the 8 percent interest payments if they were otherwise to get only 6 percent. The longer the period this discrepancy will exist, the greater the effect on the fair value. For instance, if the security were to mature in one year, the difference in interest payment will be limited to one year, as opposed to if the difference were to be realized year after year over 20 years.

Payments to our beneficiaries as a result of Washington's Lottery operations for fiscal year 2019 amounted to \$215.8 million.

Contributions to the Washington Opportunity Pathways Account reached \$166.7 million in fiscal year 2019 compared to \$134.2 million in fiscal year 2018 and \$126.8 million in fiscal year 2017. Per RCW 67.70.340(4), if in total, contributions to the Washington Opportunity Pathways Account from the in-state and *Powerball* games is in excess of \$102 million, such excess shall be transferred to the General Fund.

Contributions to the General Fund amounted to \$30.9 million in fiscal year 2019, \$31.2 million in fiscal year 2018 and \$16.8 million in fiscal year 2017. Contributions to this fund for fiscal years 2019 and 2018 were generated from excess funding between the in-state and *Powerball* games.

Contributions to the Economic Development account amounted to \$4.6 million in fiscal year 2019 compared to \$4.6 million in fiscal year 2018 and \$4.9 million in fiscal year 2017. Amounts to this beneficiary represent one-third of the amount of prizes which go unclaimed. Unclaimed prizes are those expected prizes that do not get presented for claim within 180 days of the particular game closure or drawing date.

Contributions to Problem Gambling were \$407 thousand in fiscal year 2019, compared to \$359 thousand in fiscal year 2018 and \$326 thousand in fiscal year 2017. Contributions to this beneficiary are calculated based on thirteen one-hundredths of one percent of "net receipts." "Net receipts" are defined as the difference between revenue received from the sale of Lottery products and the sum of payments made to winners.

Contributions to the Gambling Commission were not made in fiscal year 2019 or 2018 since the mandate was for 2015-17 Biennium. In fiscal year 2017 \$1 million was contributed as outlined in Senate bill 6052, section 806 mandating the Lottery to transfer \$1 million in 2015-17 Biennium to the Gambling Commission account.

The remaining payments required by statute are made to the Stadium and Exhibition Center (CenturyLink Field), which consists of semi-annual payments whereby the required payment amount is increased by 4.0 percent year-over-year. Total contribution to this beneficiary was \$13.1 million in fiscal year 2019, compared to \$12.6 million in fiscal year 2018 and \$12.2 million in fiscal year 2017.

OTHER POTENTIALLY SIGNIFICANT MATTERS IMPACTING NEXT YEAR

SPORTS BETTING

This past year, the US Supreme Court invalidated the Professional and Amateur Sports Protection Act of 1992. The ruling allows any state to legalize sports betting. While it currently remains illegal in Washington, the Legislature could choose to pass a bill legalizing and regulating a wide range of sports betting activities. The Gambling Commission is the state's primary gaming regulatory body and will be integral to any discussions regarding legalization of sports betting in Washington.

APP AND LOYALTY PROGRAM

In July 2018, Washington's Lottery, in collaboration with our business partners, began developing a state of the art resource to help drive revenue, customer loyalty, and serve as an adaptive piece of technology to keep Washington's Lottery on the leading edge of meeting customer expectations. The App and Loyalty Program will launch in two phases. In November 2019, the ticket checker will be launched, allowing players to check both *Scratch* and Draw tickets from their smartphones to see if they have won a prize. In January 2020, the New Loyalty plan will be launched, allowing players to accrue purchase points and redeem the points for merchandise.

SPOKANE REGIONAL OFFICE RELOCATION

On June 25, 2018, Washington's Lottery launched an initiative for a new business model; relocating the Spokane Regional Office into the NorthTown Mall located in Spokane, Washington.

The initiative's goal is to deliver a proof of concept of a new business model for Washington's Lottery by building out a contemporary office environment in a high traffic area, providing a personalized and engaging experience for our customers.

This new business model will provide a Department of Imagination[®] area, allowing us to sell our products, offer customers the opportunity to play for fun, test new marketing and selling concepts, educate customers on how to play our game, promote responsible gambling and inform the public on the beneficiary work we do. The new Spokane Regional Office is scheduled to open winter 2019.

CONTACTING THE LOTTERY

This financial report is provided for interested parties to evaluate the financial results of Lottery activities for fiscal year 2019. If you have questions about this report or need additional financial information, please contact:

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FY19 FUND DISTRIBUTION



1	PRIZES: \$490.4M (60.61%)
2	WASHINGTON OPPORTUNITY PATHWAYS: \$166.7M (20.61%)
3	COST OF SALES: \$48.2M (5.95%)
4	RETAILER COMMISSIONS: \$40.2M (4.97%)
5	GENERAL FUND: \$30.9M (3.82%)

6	ADMINISTRATION: \$14.5M (1.79%)
7	STADIUM & EXHIBITION CENTER: \$13.1M (1.63%)
8	ECONOMIC DEVELOPMENT: \$4.6M (0.56%)
9	PROBLEM GAMBLING: \$0.4M (0.05%)

TOTAL PAYMENTS: \$809 MILLION

WASHINGTON'S LOTTERY STATEMENTS OF NET POSITION AS OF JUNE 30, 2019 AND JUNE 30, 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$24,141,862	\$21,449,044
Accounts receivable, net of allowances	29,755,143	26,629,392
Investments	15,178,948	15,033,060
Due from the state	1,268,180	34,737
Inventory	479,752	450,321
Prepaid expenses	12,135	32,937
Total current assets	70,836,020	63,629,491
NON-CURRENT ASSETS		
Investments	119,318,925	120,547,555
Capital assets, net of accumulated depreciation	614,410	776,927
Total non-current assets	119,933,335	121,324,482
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Pensions	1,159,052	1,320,511
Deferred Outflow of Resources on OPEB	277,600	95,919
Total deferred outflows of resources	1,436,652	1,416,430
Total assets and deferred outflows of resources	192,206,007	186,370,403
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	4,185,931	4,265,381
Prizes payable	42,647,207	34,967,567
Annuity prizes payable, current portion	14,002,260	14,131,233
Due to the state	21,565,475	19,546,437
Salaries and benefits payable	499,577	394,097
Unearned revenue	794,159	478,657
Other Postemployment Benefits	95,743	95,919
Total current liabilities	83,790,352	73,879,291
NON-CURRENT LIABILITIES		
Annuity prizes payable, net of current portion	107,249,556	113,379,333
Accrued leave payable	915,684	883,560
Net pension liability	4,052,669	5,743,843
Other Postemployment Benefits	5,118,690	5,965,077
Total non-current liabilities	117,336,599	125,971,813
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Pensions	1,484,772	965,400
Deferred Inflow of Resources on OPEB	2,188,229	971,383
Total deferred inflows of resources	3,673,001	1,936,783
Total liabilities and deferred inflows of resources	204,799,952	201,787,887
NET POSITION		
Invested in capital assets	614,410	776,927
Restricted for future prizes	10,222,973	12,652,367
Unrestricted	(23,431,328)	(28,846,778)
Total Net Position	(\$12,593,945)	(\$15,417,484)

The accompanying notes to the financial statements are an integral part of this statement

WASHINGTON'S LOTTERY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR FISCAL YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

	2019	2018
SALES		
Scratch ticket sales	\$523,857,598	\$507,900,498
Draw game sales	279,420,339	226,037,994
Total sales	803,277,937	733,938,492
Other Operating Income	2,702,605	2,769,971
Total Revenue	805,980,542	736,708,463
COST OF SALES		
Prize expense	490,355,040	457,904,034
Retailer commissions	40,221,131	36,927,642
Vendor expense	33,762,918	30,036,116
Advertising expense	11,198,372	9,577,293
Miscellaneous promotional & other operating expenses	3,192,138	3,673,122
Total cost of sales	578,729,599	538,118,207
ADMINISTRATIVE EXPENSES		
Salaries and benefits	11,116,890	10,946,749
Goods and services	2,766,921	2,454,812
Travel	444,974	421,226
Depreciation	162,517	163,249
Total administrative expenses	14,491,302	13,986,036
Operating income	212,759,641	184,604,220
NON-OPERATING REVENUES (EXPENSES)		
Gains (Losses) on Investments	10,110,562	(1,156,453)
Amortization of annuity prize liability	(4,400,523)	(5,083,091)
Interest income	125,192	99,940
Miscellaneous income	0	7,589
Fee income	10,700	10,725
Gain (Loss) on disposal of capital assets	100	155
Total before payments to beneficiaries	5,846,031	(6,121,135)
Payments to Washington Opportunity Pathways Account (WOPA)	(155,184,082)	(129,629,385)
Payments to WOPA - Unclaimed Prizes Excess of \$10M	(11,559,266)	(4,540,670)
Payments to Stadium and Exhibition Center Account	(13,146,739)	(12,641,094)
Payments to Economic Development	(4,564,936)	(4,629,950)
Payments to Problem Gambling	(406,800)	(358,845)
Payments to General Fund	(30,920,310)	(31,170,784)
Total payments to beneficiaries	(215,782,133)	(182,970,728)
Net non-operating expense	(209,936,102)	(189,091,863)
Total net position at beginning of year	(15,417,484)	(4,379,407)
Restatement - Adoption of new accounting standard	-	(6,550,434)
Change in net position	2,823,539	(4,487,643)
Total net position at end of year	(\$12,593,945)	(\$15,417,484)

The accompanying notes to the financial statements are an integral part of this statement

WASHINGTON'S LOTTERY STATEMENTS OF CASH FLOWS FOR FISCAL YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from players and retailers (net of commissions)	\$761,715,719	\$701,445,565
Cash payments for prizes	(493,334,673)	(462,282,763)
Cash payments to suppliers of goods or services	(51,841,340)	(46,929,223)
Cash payments to employees	(10,979,286)	(11,000,731)
Cash payments for other operating costs	(444,974)	(421,226)
Net cash provided by operating activities	205,115,446	180,811,622
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments to Washington Opportunity Pathways Account (WOPA)	(144,112,049)	(124,003,765)
Cash payments to WOPA Unclaimed Prizes in Excess of \$10M	(11,559,266)	(4,540,670)
Cash payments to General Fund	(38,741,348)	(38,528,408)
Cash payments to Stadium and Exhibition Center Account	(13,146,739)	(12,641,094)
Cash payments to Economic Development Account	(5,779,632)	(3,517,948)
Cash payments to Problem Gambling Account	(412,900)	(345,034)
Net cash provided (used) by non-capital financing activities	(213,751,934)	(183,576,919)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of equipment	100	155
Payments for acquisition of equipment	-	(7,746)
Net cash provided (used) by capital and related financing activities	100	(7,591)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of interest	135,892	118,254
Proceeds from maturity of investments	15,190,000	14,948,000
Payments for investments	(3,996,686)	(14,361,205)
Net cash provided by investing activities	11,329,206	705,049
Net increase (decrease) in cash and cash equivalents	2,692,818	(2,067,839)
Cash and cash equivalents at the beginning of year	21,449,044	23,516,883
Cash and cash equivalents at end of year	\$24,141,862	\$21,449,044
RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$212,759,641	\$184,604,220
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	162,517	163,249
Pension and OPEB adjustment	(821,753)	(343,897)
CHANGES IN ASSETS AND LIABILITIES		
Receivables	(4,359,194)	1,186,740
Prepaid expenses	20,802	20,802
Inventory	(29,431)	25,260
Accounts Payable	(90,610)	(890,045)
Prizes payable	7,679,640	(5,430,394)
Lotto and win for life payments	(10,659,273)	1,051,665
Accrued payroll	137,604	(53,982)
Unearned revenue	315,502	478,004
Total adjustments	(7,644,195)	(3,792,598)
Net cash provided by operating activities	\$205,115,446	\$180,811,622
SCHEDULE OF NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	\$10,110,562	(\$1,156,453)
Amortization of long-term annuity prize liability	\$4,400,523	\$5,083,091

The accompanying notes to the financial statements are an integral part of this statement

WASHINGTON'S LOTTERY NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Washington's Lottery (the Lottery), an agency within the state, was established under the provisions of Chapter 67.70, Revised Code of Washington (RCW), in 1982. A five-member Commission consisting of Washington residents is appointed by the Governor to promulgate rules governing the Lottery. The Director, who is also appointed by the Governor, administers the agency.

For financial reporting purposes, Washington's Lottery is a part of the primary government of the state of Washington and is included in the basic financial statements of the state. Disclosures related to Washington's deferred compensation plan, self-insurance funds, unemployment insurance compensation, state pension plans, post-employment benefits, and workers' compensation benefits are included in the state of Washington's Comprehensive Annual Financial Report.

The financial statements presented within this document represent all Lottery activity and do not include any activity related to any other state agency or fund.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounting methods and procedures adopted by Washington's Lottery conform to generally accepted accounting principles (GAAP) for governmental enterprise funds. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges (sales).

The financial transactions of the Lottery are accounted for by using the following three accounts:

- The State Lottery Account is classified as a non-appropriated/allotted enterprise account. It accounts for all revenues from the sale of lottery products or any other source authorized by law, and expenses limited to payment of prizes to lottery winners, cost of sales, and retailer commissions. The account is allotted based on projected revenues.
- The Shared Game Lottery Account is classified as a non-appropriated/allotted enterprise account. It accounts for all revenues from the sale of shared-game lottery tickets or any other source authorized by law. The account is allotted based on projected revenues.
- The Lottery Administrative Account is an appropriated enterprise account. Costs of operation and administration of the Lottery are paid from this account. All revenues received are generated from Lottery product sales, but the amount that can be spent is limited to a legislatively approved appropriation. Spending cannot exceed this biennial appropriation. Spending authority cannot be carried forward into an ensuing biennium. The appropriation approved for the period July 1, 2017, through June 30, 2019, is \$28 million.

The Lottery Fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflow of resources associated with the operations of the Lottery are included on the statement of net position. Operating statements present

FINANCIAL STATEMENT NOTES

increases (e.g., revenues) and decreases (e.g., expenses) in net position. The Lottery distinguishes operating revenue and expenses from non-operating items and presents them as such in the operating statements. Operating revenue is comprised of sales from Draw and *Scratch* games, as well as administration fees charged to retailers. Operating expenses include cost of sales and administrative expenses.

The Lottery uses the accrual basis of accounting. Under this basis, revenues are recognized when earned, and expenses are recognized when the related liability is incurred. Internal receivables and payables have been eliminated.

IMPLEMENTATION OF NEW STANDARDS

As of July 1, 2017, the Lottery adopted GASB Statement No. 75, Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions. The implementation of this standard replaces the requirements of GASB statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the Total OPEB Liability (non-trusted plan), deferred outflows of resources, deferred inflows of resources, and OPEB expense. The effect of the implementation of this standard on beginning net position is disclosed in Note 9 and the additional disclosures required by this standard is included in Note 10.

DEPOSITS AND INVESTMENTS

The balance in the cash accounts is available to meet current operating requirements. For purposes of reporting cash flows, cash and cash equivalents include all cash accounts, deposits with the State Treasurer, and investments with an original maturity of three months or less.

The Office of State Treasurer (OST) manages the Lottery's deposits with the state. RCW 43.84.080 authorizes the OST to buy and sell the following types of investments: U.S. Treasury and Agency securities, bankers' acceptances, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above. RCW 39.59.020 authorizes the Lottery to invest in any investments authorized by law for the OST.

Fixed-income investments (U.S. Treasury Strips) are purchased in the name of the Lottery for annuity prize payments. Investments are stated at fair value based on quoted market prices on a recurring basis.

The Lottery categorizes the fair value measurements of its investments based on the hierarchy established by GASB. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. Level 1 inputs are unadjusted quoted prices for identical assets in active markets that the Lottery has the ability to access. Level 2 inputs are quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, inputs other than quoted prices that are observable for the assets, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are unobservable and significant to the fair value measurement.

RECEIVABLES

Receivables are reported at gross value, reduced by the estimated portion that is expected to be uncollectible. Total uncollectible amounts represent less than 1 percent of Lottery receivables. Revenue and accounts receivable from Draw games are recognized when each draw takes place. Sales for Draw tickets sold before year end that represent purchases for future draws in the following fiscal year are classified as unearned revenue on the Statement of Net Position. For *Scratch* tickets, revenue and accounts receivable are recognized when retailers activate tickets for sale.

INVENTORY AND PREPAID EXPENSES

Operating materials and supplies inventories are valued at cost, using the first-in, first-out method. The cost of these materials and supplies are expensed as they are used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

PENSIONS

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Washington State Department of Retirement Systems (PERS 1 and PERS 2/3, collectively the Plans) and additions to/deductions from Plan's fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. 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 all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the Plans.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Lottery's pension obligation and other postemployment benefits qualifies for reporting in this category. The pension obligation results from changes in assumptions or other inputs in the actuarial calculation of the Lottery's net pension liability and contributions to the plan after the measurement date. The OPEB obligation includes the difference when expected experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; and changes in the State's proportionate share of total OPEB liability is greater than actual experience. These are amortized over the average expected remaining service lives of all employees, active and inactive, that are provided with OPEB through the OPEB plan. The Lottery's contributions to the OPEB plan, made subsequent to the measurement date, are also deferred and reduce total OPEB liability in the subsequent year.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Lottery's employer pension assumptions and other postemployment benefits qualifies for reporting in this category. The employer pension assumption results from the differences between the expected and actual experience and the net difference between projected and actual earnings on pension plan investments derived from the actuarial calculation of the Lottery's net pension liability. The employer OPEB assumption results include the difference when expected experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; and changes in the state's proportionate share of total OPEB liability is less than actual experience. These are amortized over the average expected remaining service lives of all employees active and inactive that are provided with OPEB through the OPEB plan.

CAPITAL ASSETS ≡

The state of Washington’s level for capitalization of Leasehold Improvements is \$100,000 and other capital assets are \$5,000. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

ASSETS	YEARS
Leasehold Improvements	5
Computer Equipment	5
Furniture and Equipment	10

TABLE 6: CAPITAL ASSETS

CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED JUNE 30, 2019 WAS AS FOLLOWS

CAPITAL ASSETS BEING DEPRECIATED	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Leasehold Improvements	\$889,425	-	-	\$889,425
Equipment	1,484,267	-	-	1,484,267
Total capital assets being depreciated	2,373,692	-	-	2,373,692
LESS ACCUMULATED DEPRECIATION FOR				
Leasehold improvements	(710,956)	(44,616)	-	(755,572)
Equipment	(885,809)	(117,901)	-	(1,003,710)
Total accumulated depreciation	(1,596,765)	(162,517)	-	(1,759,282)
Total capital assets being depreciated, net	\$776,927	(\$162,517)	-	\$614,410

CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED JUNE 30, 2018 WAS AS FOLLOWS

CAPITAL ASSETS BEING DEPRECIATED:	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Leasehold Improvements	\$889,425	-	-	\$889,425
Equipment	1,475,566	8,701	-	1,484,267
Total capital assets being depreciated	2,364,991	8,701	-	2,373,692
LESS ACCUMULATED DEPRECIATION FOR				
Leasehold improvements	(666,339)	(44,617)	-	(710,956)
Equipment	(766,222)	(119,587)	-	(885,809)
Total accumulated depreciation	(1,432,561)	(164,204)	-	(1,596,765)
Total capital assets being depreciated, net	\$932,430	(\$155,503)	-	\$776,927

PRIZES PAYABLE ≡

The prizes payable account represents the difference between the prize liability and the actual prizes redeemed. Per RCW 67.70.190 “unclaimed prizes shall be retained in the state lottery account for the person entitled thereto for one hundred eighty days after the drawing in which the prize is won, or after the official end of the game for instant prizes. If no claim is made for the prize within this time, all rights to the prize shall be extinguished, and the prize shall be retained in the state lottery fund for further use as prizes, except that one-third of all unclaimed prize money shall be deposited in the economic development strategic reserve account created in RCW 43.330.250. On June 30th of each fiscal year, any balance of unclaimed prizes in excess of ten million dollars must be transferred to the Washington Opportunity Pathways Account created in RCW 28B.76.526.”

DUE TO THE STATE AND OTHER AGENCIES

Interagency receivables and payables arise from transactions with other state agencies and are recorded by all agencies affected in the period in which transactions occur. At fiscal year-end 2019 and 2018 the breakdown was as follows:

DUE TO STATE AND OTHER AGENCIES		
	2019	2018
WA Opportunity Pathways	\$19,629,856	\$8,557,823
Economic Development	111,487	1,326,183
General Fund	1,572,660	9,395,781
Problem Gambling	33,206	39,306
Other Agencies	218,266	227,344
Total Due to State and Other Agencies	\$21,565,475	\$19,546,437

PRIZE EXPENSE

RCW 67.70.040(1)(k)(i) states that a minimum of 45 percent of gross annual revenue must be paid as prizes. For the fiscal years ended June 30, 2019 and 2018, the prize expense as a percentage of sales decreased slightly to 61.0 from 62.4 during the prior year. The Lottery reports the amortization of its prize liability as a non-operating activity excluding it from prize expense. Prize expense represents the amount of winnings to be paid out for a particular game or drawing. In the case of *Scratch* games, the overall prize expense ratio for a given game is recorded in relationship to the amount of sales of the game. Draw game prize expense is recorded from the number of winning tickets sold at a given prize level. These expected prize payments are then adjusted 180 days following closure of a *Scratch* game or drawing, as appropriate. This adjustment reduces prize expense to the extent that the anticipated winning tickets do not get presented for payment within the specified time period. These dollars become unclaimed prizes and become restricted net position.

RETAILER COMMISSIONS

In fiscal year 2019 and 2018, the commission rate for all *scratch* tickets and draw games sold were paid at 5% of sales.

The retailer selling bonuses were reinstated in fiscal year 2017. The Lottery paid retailers a selling bonus of 1 percent of the jackpot amount for selling a jackpot-winning ticket for *Lotto* or *Hit 5*. Each retailer who sold a jackpot-winning *Mega Millions* or *Powerball* ticket received a \$50,000 bonus.

Retailers that sell a *Mega Millions* second-tier prize winning ticket worth \$1 million will receive a \$10,000 bonus. The Megaplier feature will not change the selling bonus amount.

Retailers that sell a *Powerball* second-tier prize winning ticket worth \$1 million will receive a \$10,000 bonus. The PowerPlay feature will not change the selling bonus amount.

PAYMENTS TO WASHINGTON OPPORTUNITY PATHWAYS ACCOUNT 

Payments to the Washington Opportunity Pathways Account consist of the balance of revenues less expenses from all Lottery products, less legislatively mandated payments to the Stadium and Exhibition Center (CenturyLink Field), Problem Gambling, Economic Development, Gambling Commission and the General Fund. Contributions to the Washington Opportunity Pathways Account derived from these revenues totaled \$155.2 million in fiscal year 2019 and \$129.6 million in fiscal year 2018.

Effective in fiscal year 2016, the legislature mandated in RCW 28B.76.526 that additional funds be transferred to Washington Opportunity Pathways Account. It was required amounts in excess of \$10 million in unclaimed prizes at the end of each fiscal year be distributed for education. Contributions arising from this mandate in fiscal year 2019 were \$11.6 million, compared to \$4.5 in fiscal year 2018.

These mandates resulted in a total of \$166.7 and \$134.1 being distributed to the Washington Opportunity Pathways Account in fiscal years 2019 and 2018, respectively.

PAYMENTS TO THE STADIUM AND EXHIBITION CENTER 

The Lottery is legislatively mandated to make payments to the Stadium and Exhibition Center for the purpose of paying principal and interest payments on bonds issued to construct CenturyLink Field and Exhibition Center, a multi-purpose stadium and exhibition center. Scheduled payments began in 1998 and increase annually by 4.0 percent. These semi-annual payments are scheduled to be made through fiscal year 2021. Payments to the Stadium and Exhibition Center totaled \$13.1 million in fiscal year 2019 and \$12.6 million in fiscal year 2018.

PAYMENTS TO ECONOMIC DEVELOPMENT 

The Lottery is legislatively mandated to make payments to the Economic Development Strategic Reserve Account. The Economic Development Strategic Reserve Account was created in 2006 for the Governor, with the recommendation of the Director of the former Department of Community, Trade and Economic Development (now Department of Commerce) and Economic Development Commission, to make expenditures for the economic good of the state. This includes preventing the closure of a business or facility, preventing relocation of a business or facility outside the state or to recruit a business or facility to the state. Payments to this account are defined to be one-third of the Lottery's unclaimed prize money. Payments to Economic Development totaled \$4.6 million in fiscal year 2019 and \$4.6 million in fiscal year 2018.

PAYMENTS TO THE GENERAL FUND 

Contributions to the General Fund in fiscal year 2019 amounted to \$30.9 million, compared to \$31.1 million in fiscal year 2018. Per RCW 67.70.340(4), if in total, contributions to the Washington Opportunity Pathways Account from the in-state and *Powerball* games are in excess of \$102 million, such excess shall be transferred to the General Fund.

PAYMENTS TO PROBLEM GAMBLING 

The Lottery is legislatively mandated to make payments to the Problem Gambling Account. This account was created for the prevention and treatment of problem and pathological gambling and the training of professionals in the identification and treatment of problem and pathological gambling. Lottery payments to this account is defined as thirteen one-hundredths of one percent of "net receipts", defined as the difference between revenue received from the sale of lottery tickets and the sum of payments made to winners. Payments to Problem Gambling totaled \$407 thousand in fiscal year 2019 and \$359 thousand in fiscal year 2018.

NET POSITION

Restricted net position represents amounts set aside from unclaimed prizes in a non-cash balance sheet account retained for future uses as prizes, as required by RCW 67.70.190. During fiscal year 2019, \$13.7 million of prizes went unclaimed, of which \$16.1 million was paid out. The following transfers were made out of the unclaimed prize fund for fiscal year 2019:

1. \$4.6 million was used for contributions to the Economic Development Strategic Reserve Account.

2. \$11.6 million was distributed to the Washington Opportunity Pathways Account as mandated by the legislature for all amounts in excess of \$10 million in the unclaimed fund be distributed to WOPA.

As of June 30, 2019, the unclaimed reserve contained a balance of \$10.2 million compared to \$12.6 as of June 30, 2018.

Unrestricted net position represents the net position available for future operations and unrealized gains or losses on investments. GASB Statement No. 31 requires that certain investments be reported at fair value with gains and losses reflected in the statement of operations. The Lottery uses investments only to fund its annuity prize obligations and intends to hold the investments to maturity. Market gains or losses represent temporary fluctuations and are not recognized in the calculation of the amounts due to beneficiaries.

NOTE 2 – GENERAL BUDGETARY POLICIES AND PROCEDURES

As an agency of Washington State, the Lottery is required to submit a budget through the Governor to the State Legislature no later than December 20th of the year preceding odd-year sessions of the Legislature. The budget is a proposal for expenses in the ensuing biennial period based upon anticipated revenues from the sources existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenses in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approval by the Governor. Operating appropriations are made at the fund/account and agency level. Capital appropriations are generally made at the fund/account, agency, and project level. The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances.

The Lottery's appropriated and non-appropriated/allotted accounts are monitored by the executive branch through the allotment process. This process allocates the expense plan into monthly allotments by program, source of funds, and object of expense. According to RCW 43.88.110, the original biennial allotments are approved by the Governor and may be revised at the request of the Office of Financial Management (OFM), or upon the Lottery's initiative, on a quarterly basis. The revisions must be accompanied by an explanation of the reasons for significant changes. Also, OFM is authorized to make allotments based on the availability of unanticipated receipts. Appropriations are strict legal limits on expenses and over expenditures are prohibited. Appropriations lapse at the end of the biennium.

As an enterprise fund, the Lottery Fund is budgeted using a combination of fixed and flexible budgets. Fixed budgets are employed using the appropriation and allotment process. Fixed budgets are included with flexible estimates in business plans prepared by the Lottery for operations under its control. These business plans constitute a full-accrual GAAP budget. The Lottery does not employ encumbrance accounting.

NOTE 3 – DETAILED NOTES ON ACCOUNT BALANCES

DEPOSITS AND INVESTMENTS

As of June 30, 2019 and June 30, 2018, the amount of cash on deposit was \$24,141,862 and \$21,449,044, respectively. All Lottery deposits in a financial institution are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple-financial-institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC is a statutory authority established under RCW 39.58. There are provisions for PDPC to make additional pro-rata assessments of need to cover a loss. Accordingly, the deposits covered by the PDPC are considered to be insured.

The Lottery’s investment policy is to purchase U.S. Treasury Stripped Coupons (TINTS), or U.S. Treasury (non-callable) Principal Strips to fund annuity prize payments and to hold these investments to maturity. The investment maturities approximate the annuity prize payment dates.

For an investment, custodial risk is the risk that in the event of the failure of the counterparty, the Lottery will not be able to recover the value of its investments that are in the possession of an outside party. The Lottery has limited custodial risk because the U.S. Treasury Strips are held in the Lottery’s name by its custodian.

U.S. Treasury Strips are explicitly guaranteed by the U.S. government and, therefore, have limited credit risk.

Interest rate risk is the risk that an investment’s fair value decreases as market interest rates increase. Typically, this risk is higher in debt securities with longer maturities. It’s the Lottery’s policy that interest rate risk is insignificant because, while the fair value is reported, it is the Lottery’s policy to hold the investments to maturity. In the event of a winner’s death, the estate has the option of continuing the annuity payments or settling the Lottery’s obligation, which would be accomplished by paying the proceeds received from the sale of the investments.

U.S. Treasury Strips investments held on June 30, 2019 were as follows:

TABLE 7: MATURITIES IN YEARS	
Less than 1	\$15,178,948
1-5	63,711,231
6-10	27,552,916
11-15	13,740,323
16-20	9,926,837
21-25	2,716,723
26-30	1,670,895
Fair Value	\$134,497,873

Fair value measurements of the Lottery’s investments in U.S. Treasury Strips, valued at \$134,497,873 and \$135,580,615 on June 30, 2019 and 2018, respectively, are based on quoted market prices using matrix pricing technique by the pricing source that values securities based on their relationship to benchmark quoted prices (Level 2 inputs). The Lottery does not have any investments that are measured using Level 1 or 3 inputs.

NOTE 4 – OPERATING LEASES

The Lottery leases office and warehouse facilities in Everett, Lacey, Olympia, Federal Way, Spokane, Vancouver, and Yakima under long-term operating leases, which expire at various dates through September 30, 2027. Total costs for such leases were \$755,509 and \$760,366 for the fiscal years ended June 30, 2019 and June 30, 2018, respectively. All leases are for periods of one to five years, include a special termination provision allowing the Lottery to terminate the lease.

The aggregate lease commitment for the Lottery, provided cancellation options are not used, is as follows as of June 30, 2019:

TABLE 8: LEASE COMMITMENT	
FISCAL YEAR	OPERATING LEASES
2020	\$688,473
2021	632,275
2022	547,130
2023	461,872
2024	460,026
2025 - 2028	1,366,690
Total	\$4,156,466

NOTE 5 – PRIZE LIABILITIES

Presented below is a summary of the annuity prize payment requirements as of June 30, 2019:

FISCAL YEAR	PRESENT VALUE	UNAMORTIZED DISCOUNT	ANNUAL PAYMENTS
2020	\$14,002,260	\$1,509,740	\$15,512,000
2021	13,794,719	1,717,281	15,512,000
2022	13,157,205	2,354,795	15,512,000
2023	12,593,561	2,718,439	15,312,000
2024	9,192,107	2,299,893	11,492,000
2025-2029	26,913,079	9,642,921	36,556,000
2030-2034	13,665,362	7,848,638	21,514,000
2035-2039	9,584,261	7,081,739	16,666,000
2040-2044	4,215,023	2,920,977	7,136,000
2045-2073	4,134,239	4,433,761	8,568,000
	\$121,251,816	\$42,528,184	\$163,780,000

This debt represents annual payments owed to Lotto jackpot winners and lifetime winners. Annuity *Lotto* jackpot prizes are paid in 25 installments, with the first installment on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury Strips purchased by the Lottery. Lifetime prizes are paid semi-annually or annually for the life of the winner, and are funded with U.S. Treasury Strips.

Activity of annuity prize payments for the years ended June 30, 2019 and 2018 was as follows:

FISCAL YEAR	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
2019	\$127,510,566	8,840,895	(15,099,645)	\$121,251,816	\$14,002,260
2018	\$121,375,810	21,509,322	(15,374,566)	\$127,510,566	\$14,131,233

NOTE 6 - COMPENSATED ABSENCES

Lottery employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date. The expense and accrued liability is recognized when the annual leave is earned. The Lottery's liability for accumulated annual leave, including the employer share of pension benefits and payroll taxes, was \$629,548 and \$608,461 on June 30, 2019 and June 30, 2018, respectively.

With no limit on accumulation, sick leave is earned at 12 days per year. Sick leave is not vested; i.e., employees are not paid for unused sick leave upon termination except upon employee death or retirement, at which time the Lottery is liable for 25 percent of the employee's accumulated sick leave. Each January, employees who have accumulated sick leave in excess of 60 days have the option to redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave. Accumulated sick leave balances, including the employer share of payroll taxes as of June 30, 2019 and 2018, represent possible future payments of \$1,300,616 and \$1,250,450, respectively depending on employee options, not probable payments. As a result, only the estimated dollar value of sick leave that will be paid to employees is recognized as an expense and accrued liability. The estimates of \$286,136 and \$275,099 on June 30, 2019 and 2018, respectively, are based on the actuarially-determined factor of the probability that current employees will receive payments for sick leave buyouts.

Long-term liability activity of leave benefits for the year ended June 30, 2019 was as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Annual Leave	\$608,461	\$666,654	(\$645,567)	\$629,548
Sick Leave	\$275,099	\$88,538	(\$77,501)	\$286,136

Long-term liability activity of leave benefits for the year ended June 30, 2018 was as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Annual Leave	\$592,754	\$614,235	(\$598,527)	\$608,461
Sick Leave	\$294,232	\$87,171	(\$106,304)	\$275,099

NOTE 7 – RISK MANAGEMENT

The Lottery faces various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters, for which the Lottery participates in Washington State's risk management and insurance program. In order to participate, an annual premium in proportion to the anticipated exposure to liability losses is assessed.

NOTE 8 – PENSION PLANS

The state Legislature establishes and amends laws pertaining to the creation and administration of all state public retirement systems.

Department of Retirement Systems. As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments. The Governor appoints the director of the DRS.

The DRS administered systems are comprised of 12 defined benefit pension plans and three defined benefit/defined contribution plans, of which the Lottery participates in the following plans:

Public Employees' Retirement System (PERS)

Plan 1 - defined benefit

Plan 2 - defined benefit

Plan 3 - defined benefit/defined contribution

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS and other systems and plans was funded by an employer rate as a percentage of employee salaries. Administration of the JRS and Judges plans is funded by means of legislative appropriations.

Pursuant to RCW 41.50.770, the state offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation program in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the DRS.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at:

<http://www.drs.wa.gov/administration/annual-report/>

Plan Description. The Legislature established the Public Employees’ Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit / defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3.

PERS participants joining the system on or after March 1, 2002, for state employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Benefits Provided. PERS plans provide retirement, disability, and death benefits to eligible members, with the following provisions:

	PERS PLAN 1	PERS PLAN 2	PERS PLAN 3
VESTING YEARS OF SERVICE	5 Years	5 Years	10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Immediately vested in the defined contribution portion.
ELIGIBILITY FOR RETIREMENT	30 Years	30 Years	30 Years
RETIREMENT AGE	60 with 5 years of service, 55 with 25 years of service.	65 with 5 years of service.	65 with 10 years of service.
MONTHLY BENEFIT	2% of average final compensation (AFC) per year of service capped at 60%.	2% of AFC per year of service.	Defined benefit portion, 1% of the AFC per year of service.
REDUCTIONS	Inactive status prior to 65 could reduce benefits.	Optional early retirement but reduction in benefits.	
COST OF LIVING ALLOWANCE	Optional by member election, automatic to CPI, capped at 3%, but reduces benefits.	CPI, capped at 3%.	
DISABILITY	Duty disability prior to age 60, \$350 per month in a temporary life annuity, or 2/3 of monthly AFC, whichever is less. Converted to service retirement at age 60. Non-duty disability must have 5 years of covered employment. Before age 55, 2% of the AFC for each year of service, reduced by 2% for each year the member’s age is less than 55. 60% of AFC limit.	2 percent of the AFC per year of service. No cap on years of service credit.	1% of the AFC per year of service. No cap on years of service credit.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose out of the member’s covered employment, if found eligible by the director of the Department of Labor and Industries.

Contributions. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine contribution requirements are established under state statute.

Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

Required contribution rates (expressed as a percentage of current year covered payroll) for all retirement plans administered by DRS at the close of the fiscal year 2018, were as follows:

	EMPLOYER			EMPLOYEE		
	PERS 1	PERS 2	PERS 3	PERS 1	PERS 2	PERS 3
CONTRIBUTION PERCENTAGE	7.49%	7.49%	7.49%	6.00%	7.38%	Variable
ADMINISTRATIVE FEE	0.18%	0.18%	0.18%	N/A	N/A	N/A
PLAN 1 UAAL	5.03%	5.03%	5.03%	N/A	N/A	N/A
Total	12.70%	12.70%	12.70%	6.00%	7.38%	Variable

OSA - Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2017 with the results rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

INFLATION	2.75%
SALARY INCREASES	3.50%
INVESTMENT RATE OF RETURN	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The Office of the State Actuary (OSA) selected a 7.4 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
FIXED INCOME	20%	1.70%
TANGIBLE ASSETS	7%	4.90%
REAL ESTATE	18%	5.80%
GLOBAL EQUITY	32%	6.30%
PRIVATE EQUITY	23%	9.30%
TOTAL	100%	

The inflation component used to create the above table is 2.2 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

There were no material changes in assumptions, benefit terms or method changes for the reporting period.

Discount Rate. The discount rate used to measure the total pension liability was 7.4 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan 2/3). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the fiscal year 2018 employer net pension liability calculated using the discount rate of 7.4 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate.

EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) (IN THOUSANDS)			
	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$3,429	\$2,790	\$2,237
PERS 2/3	\$5,776	\$1,263	(\$2,438)
Total	\$9,205	\$4,053	(\$201)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2019 and June 30, 2018, PERS 1 recognized pension expense of \$247 thousand and \$195 thousand, respectively. PERS 2/3 recognized pension expense of (\$27) thousand for the year ended June 30, 2019 and \$364 thousand for the year ended June 30, 2018. At June 30, 2019 and 2018, PERS 1 and PERS 2/3 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following source (expressed in thousands), irrespective of contributions subsequent to the measurement date:

WASHINGTON'S LOTTERY DEFERRED OUTFLOWS/INFLOWS AS OF JUNE 30, 2019 (DOLLAR AMOUNTS IN THOUSANDS)		
	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
PERS 1		
Net difference between projected and actual earnings on pension plan investments		\$111
Lottery contribution subsequent to measurement date*	\$452	
PERS 2/3		
Difference between expected and actual experience	\$154	\$221
Changes of assumptions	15	359
Net difference between projected and actual earnings on pension plan investments		775
Change in proportion	(48)	18
Lottery contributions subsequent to measurement date*	586	
TOTAL	\$1,159	\$1,484

*PERS 1 employer contributions includes Plan 1 Unfunded Actuarially Accrued Liability (UAAL) contributions. Plan 1 UAAL also consists of PERS Plan 1 employer contribution portion of PERS Plan 2/3 contributions, which RCW 41.45.060 requires fund the unfunded actuarially accrued liability.

WASHINGTON'S LOTTERY DEFERRED OUTFLOWS/INFLOWS AS OF JUNE 30, 2018 (DOLLAR AMOUNTS IN THOUSANDS)		
	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
PERS 1		
Net difference between projected and actual earnings on pension plan investments		\$117
Lottery contribution subsequent to measurement date*	\$445	
PERS 2/3		
Difference between expected and actual experience	\$265	\$86
Changes of assumptions	28	
Net difference between projected and actual earnings on pension plan investments		698
Change in proportion	(6)	64
Lottery contributions subsequent to measurement date*	589	
TOTAL	\$1,321	\$965

The \$1.03 million and \$1.03 million reported as deferred outflows of resources related to pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the subsequent years. The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (not applicable for PERS 3):

"YEARS ENDED JUNE 30, 2019 INCREASE / (REDUCTION IN PENSION EXPENSE)" (AMOUNTS IN THOUSANDS)			
	PERS 1	PERS 2	Total
2020	\$5	\$(179)	\$(174)
2021	(24)	(293)	(317)
2022	(73)	(499)	(572)
2023	(19)	(201)	(220)
2024	-	(80)	(80)
Thereafter	-	-	-
Total	\$(111)	\$(1,252)	\$(1,363)

Collective Net Pension Liability/Asset.

At June 30, 2019, the Lottery reported a liability of \$2.8 million for its proportionate share of the collective net pension liability for PERS 1 and \$1.3 million for PERS 2/3. For June 30, 2018, the Lottery reported a liability of \$3.1 million for its proportionate share of the collective net pension liability for PERS 1 and \$2.6 million for PERS 2/3. The Lottery's proportion for PERS 1 was .062475 percent, and .065273 percent for the years ending June 30, 2019 and 2018, respectively. The Lottery's portion of the PERS 2/3 was .073760 percent and .074469 percent for the years ended June 30, 2019 and 2018, respectively.

The proportions are based on the Lottery's contributions to the pension plan relative to the contributions of all participating employers. The collective net pension liability was measured as of June 30, 2017 with the results rolled forward to June 30, 2018, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date.

DEFINED CONTRIBUTION PLAN - Public Employees' Retirement System Plan 3. Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS).

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent on employee contributions and investment earnings on those contributions. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions, adjusted by earnings and losses from investments of those contributions, upon separation from PERS-covered employment.

NOTE 9 – ADOPTION OF NEW STANDARD

As of July 1, 2017 Washington's Lottery adopted GASB Statement No. 75, Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions. The implementation of this standard replaces the requirement of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability and deferred outflows of resources related to contributions made after the measurement date as follows:

NET POSITION AT JUNE 30, 2017, AS PREVIOUSLY STATED	\$(4,379,407)
ADD TOTAL OPEB LIABILITY UNDER GASB STATEMENT NO. 75 AT JUNE 30, 2017	\$(6,650,881)
DEFERRED OUTFLOWS OF RESOURCES RELATED TO CONTRIBUTIONS MADE DURING THE YEAR ENDED JUNE 30, 2017	\$100,447
Net position at July 1, 2017, as restated	\$(10,929,841)

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

GENERAL INFORMATION

The state implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting. In addition to pension benefits as described in Note 8, the state, through the Health Care Authority (HCA), administers a single employer defined benefit other postemployment benefit (OPEB) plan. The Lottery, as an agency of the state, participates in the plan and records its portion of the OPEB liability and related activity.

Plan Description. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. It has no assets. The PEBB OPEB plan does not issue a publicly available financial report.

Employees Covered by Benefit Terms. Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 76 of the state's K-12 schools and educational service districts (ESDs), and 249 political subdivisions and tribal governments not included in the state's financial reporting that participate in the PEBB plan. The Plan is also available to the retirees of the remaining 227 K-12 schools, charter schools, and ESDs. As of June 2018, membership in the PEBB plan consisted of the following:

FINANCIAL STATEMENT NOTES

ACTIVE EMPLOYEES	123,160
RETIREES RECEIVING BENEFITS*	33,735
RETIREES NOT RECEIVING BENEFITS**	6,000
TOTAL PARTICIPANTS	162,895

*Headcounts exclude spouses of retirees that are participating in a PEBB program as a dependent.

**This is an estimate of the number of retirees that may be eligible to join a post-retirement PEBB program in the future. No benefits are allowed to them unless they choose to join.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, Higher Education, Judicial, and LEOFF 2. However, not all employers who participate in these plans offer PEBB to retirees.

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2017, the average weighted implicit subsidy was valued at \$327 per adult unit per month, and in calendar year 2018, the average weighted implicit subsidy was valued at \$347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be \$368 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2017, the explicit subsidy was up to \$150 per member per month, and it remained up to \$150 per member per month in calendar year 2018. This was increased in calendar year 2019 up to \$168 per member per month. It is projected to increase to \$183 per member per month in calendar year 2020.

Contribution Information. Administrative costs as well as implicit and explicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

For calendar year 2018, the estimated monthly cost for PEBB benefits for each active employee (average across all plans and tiers) is as follows (expressed in dollars):

REQUIRED PREMIUM*	
Medical	\$1,092
Dental	79
Life	4
Long-term disability	2
Total	1,177
Employer contribution	1,017
Employee contribution	160
	\$1,177

*Per 2019 PEBB Financial Projection Model 7.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY2019 which includes projected claims cost at the time of this reporting.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:

<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>.

TOTAL OPEB LIABILITY 

The Lottery reported a total OPEB Liability of \$5.2 million for June 30, 2019 and \$6.1 million for June 30, 2018. This liability was determined based on a measurement date of June 30, 2018 and June 30, 2017, respectively.

Actuarial Methodology. The total OPEB liability was determined using the following methodologies:

Actuarial valuation date	6/30/2018
Actuarial measurement date	6/30/2018
Actuarial cost method	Entry Age
Amortization method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset valuation method	N/A - No Assets

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Actuarial Assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	2.75%
Projected salary changes	3.50% Plus Service-based Salary Increases
Health care trend rates*	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 8%, reaching an ultimate rate of approximately 4.5% in 2080.
Post-retirement participation percentage	65%
Percentage with spouse coverage	45%

FINANCIAL STATEMENT NOTES

In projecting the growth of the explicit subsidy, after 2020 when the cap is \$183, it is assumed to grow at the health care trend rates. The Legislature determines the value of cap and no future increases are guaranteed, however based on historical growth patterns, future increases to the cap are assumed.

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2017 Economic Experience Study.

Discount Rate. Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent for the June 30, 2018 measurement date.

Changes in assumptions resulted from an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate and updated health care economic assumptions, which includes health care trends and costs. Both of these changes led to a decrease in the total OPEB liability. The primary reason for lower health care trends was due to a drop on the long-term general inflation assumption from 3.00 percent to 2.75 percent. Other impacts to the total OPEB liability include reflecting dental benefits which had previously been excluded from the measurement.

Additional detail on assumptions and methods can be found on OSA's website: <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>.

Changes in Total OPEB Liability. As of June 30, 2019 and 2018, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for Washington's Lottery are represented in the following table:

WASHINGTON STATE LOTTERY		
	2019	2018
PROPORTIONATE SHARE (%)	0.10267393281%	0.10403678379%
Service Cost	\$326,014	\$409,921
Interest Cost	224,133	192,467
Difference Between Expected and Actual Experience	204,590	-
Changes in Assumptions	(1,427,243)	(938,860)
Benefit Payments	(94,663)	(98,085)
Changes in Proportionate Share	(79,394)	(155,328)
Net Change in Total OPEB Liability	\$(846,563)	\$(589,885)
Total OPEB Liability - Beginning	\$6,060,996	\$6,650,881
Total OPEB Liability - Ending	\$5,214,433	\$6,060,996

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

As of June 30, 2019 and 2018, the components that make up OPEB expense for State Lottery Commission are as follows:

WASHINGTON STATE LOTTERY		
	2019	2018
PROPORTIONATE SHARE (%)	0.10267393281%	0.10403678379%
Service Cost	\$326,014	\$409,921
Interest Cost	224,133	192,467
Amortization of Difference Between Expected and Actual Experience	22,732	-
Amortization of Changes in Assumptions	(261,533)	(104,318)
Amortization of Changes in Proportion	(27,002)	(17,047)
Transactions Subsequent to Measurement Date	(95,743)	-
Total OPEB Expense	\$188,601	\$481,023

On June 30, 2019 and 2018, the deferred inflows and deferred outflows of resources for Washington's Lottery are as follows:

WASHINGTON STATE LOTTERY				
PROPORTIONATE SHARE (%)	2019		2018	
	0.10267393281%		0.10403678379%	
DEFERRED INFLOWS/OUTFLOWS OF RESOURCES	DEFERRED OUTFLOWS	DEFERRED INFLOWS	DEFERRED OUTFLOWS	DEFERRED INFLOWS
Difference between expected and actual experience	\$181,857	\$-	\$-	\$-
Changes in Assumptions	-	1,989,319	-	834,484
Transactions subsequent to the measurement date	95,743	-	95,919	-
Changes in Proportion	-	198,910	-	136,899
Total Deferred (Inflows)/Outflows	\$277,600	\$2,188,229	\$95,919	\$971,383

FINANCIAL STATEMENT NOTES

Amounts currently reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized in fiscal year 2019 as a direct reduction to the total OPEB liability.

Amounts currently reported as a net deferred inflows of resources related OPEB will be recognized as OPEB expense in subsequent years for Washington's Lottery for the year ended June 30, 2019 and 2018 as follows:

WASHINGTON STATE LOTTERY		
	2019	2018
PROPORTIONATE SHARE (%)	0.10267393281%	0.10403678379%
2020	\$(265,804)	\$(121,423)
2021	\$(265,804)	\$(121,423)
2022	\$(265,804)	\$(121,423)
2023	\$(265,804)	\$(121,423)
2024	\$(265,804)	\$(121,423)
Thereafter	\$(677,352)	\$(364,268)

The change in Washington's Lottery proportionate share of OPEB liability and deferred inflows and deferred outflows of resources based on measurement date are represented in the following tables for the year ended June 30, 2019 and 2018:

WASHINGTON STATE LOTTERY FOR THE YEAR ENDED JUNE 30, 2019	
PROPORTIONATE SHARE (%) 2017	0.10403675379%
PROPORTIONATE SHARE (%) 2018	0.10267393281%
Total OPEB Liability - Ending 2017	\$6,060,996
Total OPEB Liability - Beg 2018 (change in prop)	\$5,981,602
Total OPEB Liability Change in Proportion	\$(79,394)
Total Deferred Inflows/Outflows 2017 (change in prop)	\$(738,623)
Total Deferred Inflows/Outflows 2018 (change in prop)	\$(728,947)
Total Deferred Inflows/Outflows Change in Proportion	\$9,676
Total Change in Proportion	\$(89,070)

WASHINGTON STATE LOTTERY FOR THE YEAR ENDED JUNE 30, 2018	
PROPORTIONATE SHARE (%) 2016	0.10654063574%
PROPORTIONATE SHARE (%) 2017	0.10403678379%
Total OPEB Liability - Ending 2016	\$6,650,881
Total OPEB Liability - Beg 2017 (change in prop)	\$6,494,575
Total OPEB Liability Change in Proportion	\$(156,306)
Total Deferred Inflows/Outflows 2016	\$100,445
Total Deferred Inflows/Outflows 2017 (change in prop)	\$98,085
Total Deferred Inflows/Outflows Change in Proportion	\$(2,360)
Total Change in Proportion	\$(153,946)

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of Washington's Lottery for the year ended June 30, 2019, calculated using the health care trend rate of 8.00 percent as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

DISCOUNT RATE SENSITIVITY		
1% DECREASE	CURRENT DISCOUNT RATE	1% INCREASE
\$6,287,380	\$5,214,433	\$4,377,302

Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of Washington's Lottery for the year ended June 30, 2019 calculated using the discount rate of 3.87 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

HEALTH CARE COST TREND RATE SENSITIVITY		
1% DECREASE	CURRENT DISCOUNT RATE	1% INCREASE
\$4,280,544	\$5,214,433	\$6,456,328

NOTE 11 – COMMITMENTS AND CONTINGENCIES

GAMING SYSTEM VENDOR CONTRACTUAL AGREEMENTS

The Lottery maintains a gaming network of approximately 3,598 retailer locations where all traditional lottery games are sold. Instant Game tickets are also sold through self-service terminals. IGT (formerly GTECH) is responsible for operating all traditional Lottery games, including maintenance of terminals and related communication services, under a contract expiring June 30, 2026. On May 15, 2015, a new contract was signed for ten years, commencing July 1, 2016. The contract may be extended up to ten (10) additional years, in any number of extensions.

Instant Game sales are also supported by services provided under additional contracts initiated March 17, 2015:

- 1) Under a contract that expires on March 17, 2020, Scientific Games International is the primary supplier of Instant Game tickets.
- 2) Under a contract that expires on March 17, 2020, Pollard Banknote Limited is an alternate supplier of Instant Game tickets.
- 3) Under a contract that expires on March 17, 2020, IGT Printing is an alternate supplier of Instant Game tickets.

**REQUIRED SUPPLEMENTARY
INFORMATION**

PENSION PLAN INFORMATION
Cost Sharing Employer Plans

Schedules of the Lottery's Proportionate Share of the Net Pension Liability

SCHEDULE OF THE LOTTERY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLAN 1 MEASUREMENT DATE OF JUNE 30 (DOLLAR AMOUNTS IN THOUSANDS)					
	2018	2017	2016	2015	2014
Lottery's PERS 1 employer's proportion of the net pension liability	0.0624750%	0.0652730%	0.070679%	0.067046%	0.072025%
Lottery's PERS 1 employer's proportionate share of the net pension liability	\$2,790	\$3,125	\$3,800	\$3,510	\$3,610
Lottery's PERS 1 employer's covered payroll	\$255	\$404	\$483	\$521	\$515
Lottery's PERS 1 employer's proportional share of the net pension liability as a percentage of its covered payroll	1094%	774%	787%	674%	701%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%	61.19%

*GASB Statement No. 68, requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the Lottery will present information for those years for which information is available.

SCHEDULE OF THE LOTTERY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 2/3 MEASUREMENT DATE OF JUNE 30 (DOLLAR AMOUNTS IN THOUSANDS)					
	2018	2017	2016	2015	2014
Lottery's PERS 2/3 employer's proportion of the net pension liability	0.073760%	0.074469%	0.078492%	0.073460%	0.079354%
Lottery's PERS 2/3 employer's proportionate share of the net pension liability	\$1,263	\$2,619	\$3,968	\$2,626	\$1,596
Lottery's PERS 2/3 Employer's covered payroll	\$7,622	\$7,320	\$7,335	\$6,584	\$6,789
Lottery's PERS 2/3 Employer's proportional share of the net pension liability as a percentage of its covered payroll	16.57%	35.77%	54.10%	39.88%	23.51%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%	93.29%

*GASB Statement No. 68, requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the Lottery will present information for those years for which information is available.

**PENSION PLAN INFORMATION
Cost Sharing Employer Plans**

Schedules of Employer Contributions

SCHEDULE OF EMPLOYER CONTRIBUTIONS PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLAN 1 MEASUREMENT DATE OF JUNE 30 (DOLLAR AMOUNTS IN THOUSANDS)					
	2019	2018	2017	2016	2015
Lottery's PERS 1 statutorily required contributions	\$9	\$32	\$45	\$54	\$48
Lottery's PERS 1 contributions in relation to the statutorily required contributions	\$9	\$32	\$45	\$54	\$48
Lottery's PERS 1 contributions (deficiency) excess	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's PERS 1 employer's covered payroll	\$71	\$255	\$404	\$483	\$521
Lottery's PERS 1 contributions as a percentage of covered payroll	12.83%	12.73%	11.19%	11.18%	9.21%

*GASB Statement No. 68, requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the Lottery will present information for those years for which information is available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLAN 2/3 MEASUREMENT DATE OF JUNE 30 (DOLLAR AMOUNTS IN THOUSANDS)					
	2019	2018	2017	2016	2015
Lottery's PERS 2/3 statutorily required contributions	\$1,029	\$968	\$818	\$820	\$606
Lottery's PERS 2/3 contributions in relation to the statutorily required contributions	\$1,029	\$968	\$818	\$820	\$606
Lottery's PERS 2/3 contributions (deficiency) excess	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's PERS 2/3 employer's covered payroll	\$8,030	\$7,622	\$7,320	\$7,335	\$6,584
Lottery's PERS 2/3 contributions as a percentage of covered payroll	12.83%	12.70%	11.17%	11.18%	9.20%

*GASB Statement No. 68, requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the Lottery will present information for those years for which information is available.

**PENSION PLAN INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Methods and assumptions used in calculations of Actuarial Determined Contributions (ADC) for PERS, TRS, LEOFF, and WSPRS – The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the Fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019.

OTHER POSTEMPLOYMENT BENEFITS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FISCAL YEAR ENDED JUNE 30
(DOLLAR AMOUNTS IN THOUSANDS)

	2019	2018
TOTAL OPEB LIABILITY		
Service Cost	\$326,014	\$409,921
Interest Cost	224,133	192,467
Difference between expected and actual experience	204,590	-
Changes in benefit terms	-	-
Changes in assumptions	(1,427,243)	(938,860)
Benefit Payments	(94,663)	(98,085)
Changes in proportionate share	(79,394)	(155,328)
NET CHANGES IN TOTAL OPEB LIABILITY	\$(846,563)	\$(589,885)
TOTAL OPEB LIABILITY – BEGINNING	\$6,060,996	\$6,650,881
TOTAL OPEB LIABILITY – ENDING	\$5,214,433	\$6,060,996
COVERED PAYROLL	\$8,101,432	\$7,877,200
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	64.4%	76.9%

*This table is to be built prospectively until it contains ten years of data.
Source: Washington State Office of the State Actuary

OTHER POSTEMPLOYMENT BENEFITS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The Public Employee’s Benefits Board (PEBB) OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.



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 Board of Commissioners
Washington's Lottery
Olympia, Washington

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 Washington's Lottery (the Lottery) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated October 29, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-1 that we consider to be a significant deficiency.

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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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Lottery's Response to Findings

The Lottery's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. The Lottery's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Lottery'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 Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the printed name and date.

Boise, Idaho
October 29, 2019

Washington's Lottery
Schedule of Findings and Responses
Year Ended June 30, 2019

Significant Deficiency: 2019-1

Criteria:

The Lottery should have a system of internal control in place to prevent or detect and correct misstatements in the financial statements. A key component of an adequate system of internal control is well trained staff who are aware of their responsibilities and the subject matter as it pertains to internal controls under their purview.

Condition:

Prize expense and prizes payable as of June 30, 2019 were overstated due to a year-end closing process control that was not adequately executed. Due to overstatement of prize expense, payments to Washington Opportunity Pathways Account and Problem Gaming and the related liability due to state were understated as of June 30, 2019. These misstatements were detected as a result of audit procedures and were corrected by management.

Effect:

Prize expense and prizes payable were overstated by approximately \$1,494,000. Due to overstatement of prize expense, payments to Washington Opportunity Pathways Account and Problem Gaming were understated by approximately \$1,492,000 and \$2,000, respectively. The associated due to state liability was understated by approximately \$1,494,000.

Cause:

The Lottery had turnover in certain key accounting positions towards the end of the prior fiscal year. Due to turnover in several key positions, a certain level of institutional knowledge was not transferred over to new personnel.

Recommendation:

We recommend that the Lottery incorporate trainings as part of their system of internal control to ensure that personnel in key positions have up-to-date knowledge of Lottery operations to ensure they have the proper skills and knowledge to execute their internal control functions.

Views of Responsible Officials:

We agree with the finding and will review the system of internal controls concerning these processes to prevent errors in the year-end closing process. We will increase the written instructions for staff to follow in processing journal entries and require additional supporting documentation to substantiate the entry. In addition to additional instructions and documentation, the reviewer/approver will analyze each entry closer to ensure the procedures are followed.

STATISTICAL SECTION

This section offers relevant financial, economic and demographic statistical information, including National lottery industry trend data.

FINANCIAL TRENDS

Lottery’s sales increased by \$69.3 million or 9.4 percent in fiscal year 2019 over fiscal year 2018 due to several factors, including:

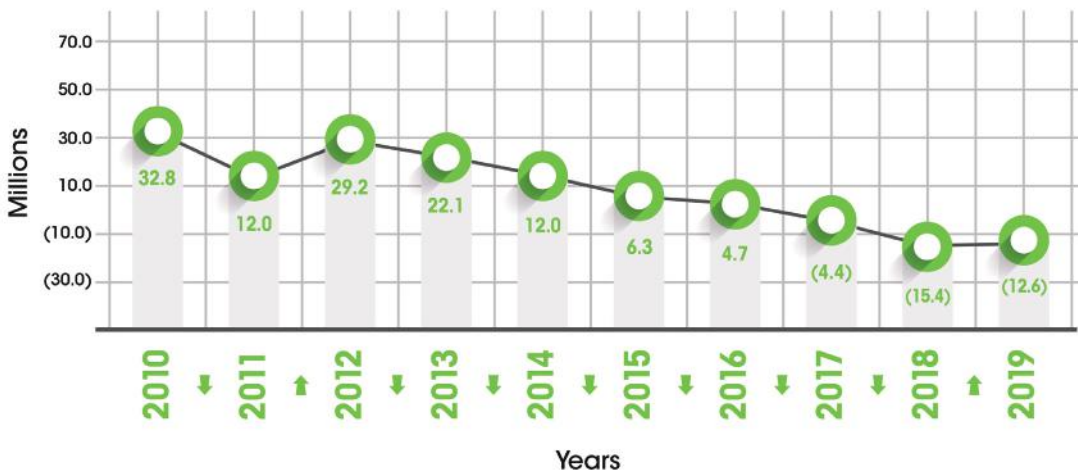
- Strong sales in *Scratch* games with 3.1 percent growth in *scratch* in fiscal year 2019 over 2018;
- Overall sales for *Mega Millions* and *Hit 5* were up from prior year;
- Sales for *Daily Game* increased by \$577 thousand;
- Total number of *Scratch* tickets sold increased by .68 percent in fiscal year 2019, compared to 2018, with average price per ticket increasing from \$4.47 to \$4.58 year over year.

Powerball was the only game where sales experienced a slight dip due to jackpots not reaching up toward \$1 billion during fiscal year 2019.

Operating expenses are dominated by prizes, retailer commissions, gaming vendor commissions, marketing and advertising. Prize expenses increased in fiscal year 2019 by \$32.4 million, or 7.1 percent compared to fiscal year 2018 and increased by \$67.9 million or 16.1 percent as compared to fiscal year 2017. Net operating profit increased by \$28.2 million or 15.3 percent compared to fiscal year 2018 and increased \$50.4 million or 31percent compared to fiscal year 2017.

Net position is affected by the fluctuation in the value of securities, and the Lottery saw an increase by \$10.1 million in the value of its securities. These are impacted by changes in interest rates from year to year. Because nearly all securities are held to maturity, fluctuations in fair value have no impact on value to be received upon maturity. The Lottery is organized as one enterprise fund.

CHANGES IN NET POSITION



REVENUE CAPACITY

The Lottery’s sole focus is the sale of tickets for games of chance. These products are divided into two main types: *Scratch*, or “instant” game tickets, and “draw” game tickets. The Lottery offers seven different Draw games in which winning numbers are drawn either two, three or seven times a week, depending upon the game. The Lottery launched 48 *Scratch* games during fiscal year 2019.

The number and type of retail locations that sell Lottery products in Washington also impact the revenue capacity. During fiscal year 2019, the Lottery decreased a net of 8 retailers bringing the total number at the end of fiscal year 2019 to 3,598 compared to 3,606 for the prior year.

DEBT CAPACITY ≡

The Lottery offers *Lotto* winners the option to receive their prize over a 25-year period. *Mega Millions* and *Powerball* winners have the option of taking their winnings over a 30-year period. Some *Scratch* games have annuities for top prizes as well as "For Life" winnings. This long-term liability is backed by the Lottery purchasing Treasury Strips, or annuities, at a deep discount. In other words, the Lottery is able to purchase certain future payments at a fraction of the future payments.

OPERATING INFORMATION ≡

The Lottery consists of seven divisions; Executive, Finance & Administration, Information Services, Security, Human Resources/Customer Service and Marketing/Sales. The Executive Division includes 8 employees. These employees include the Director, Deputy Director, Legal Counsel/ Legislative Liaison, Research and Development, Internal auditor, Business Development and Lean Program Manager. The Sales/Marketing Division is the largest with 69 employees working in headquarters and the five regions throughout the state. Supporting the Sales/Marketing staff are the Finance division with 9, Administration Division with 9 employees, Information Services Division with 16 employees, Security Division with 5 employees, and Human Resources/Customer Service Division with 13 employees.

The table below shows a ten-year trend of Lottery employees, and is comprised of 100 percent government employees (headcount) as of June 30th each year. The Lottery is overseen by a five-member Commission appointed by the Governor with the consent of the Senate. The Commission is the ruling authority and advises and makes recommendations to the Director, who is also appointed by the Governor, for the operation and administration of the Lottery.

LOTTERY EMPLOYEES										
Department	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Executive	8	8	10	9	7	7	8	8	10	11
Finance & Administration	18	20	19	21	22	22	22	20	19	21
Information Services	16	16	16	17	17	15	16	13	15	14
Security	5	5	5	4	4	4	5	5	5	5
Human Resources/Customer Service	13	10	11	10	11	10	11	12	5	5
Sales/Marketing	69	69	69	69	70	72	71	11	12	9
Sales	0	0	0	0	0	0	0	63	72	72
Total	129	128	130	130	131	130	133	132	138	137

DEMOGRAPHIC AND ECONOMIC INFORMATION

Washington State’s population is approximately 7.6 million people. Median household income in Washington in 2019 was \$73,294 and per capita personal income was \$60,781. Washington’s unemployment rate in 2019 was 4.5 percent. Presented below, is a 10-year history for each of the categories above.

Year of CAFR	Population (Millions)	Median Household Income	Per Capita Personal Income	WA's Unemployment Rate
2019	7.6	73,294	60,781	4.5%
2018	7.4	68,550	56,283	4.8%
2017	7.3	65,500	53,493	5.4%
2016	7.2	62,108	51,146	5.7%
2015	7.1	58,686	49,583	6.3%
2014	6.9	58,577	47,031	7.0%
2013	6.9	56,444	45,693	8.2%
2012	6.7	55,550	43,878	9.2%
2011	6.7	54,888	42,570	9.6%
2010	6.7	56,317	42,933	8.9%

The demographic charts in the following section display the population separated by age, education, ethnic background, employment status, and annual income. These categories are further broken out into players versus non-players.

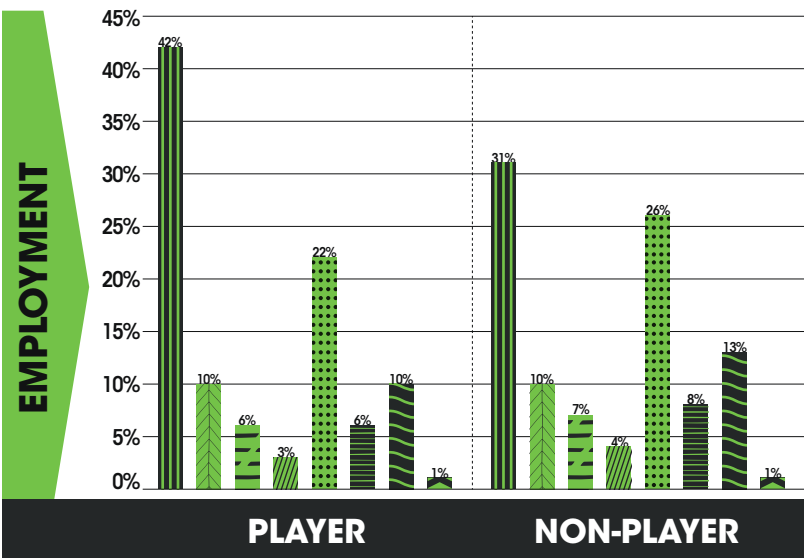
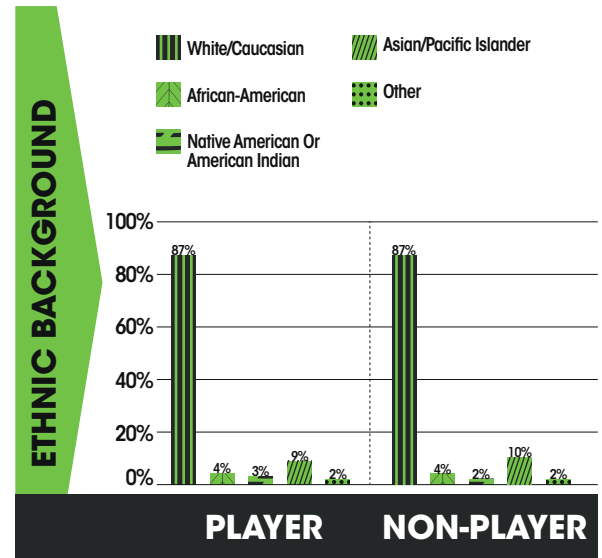
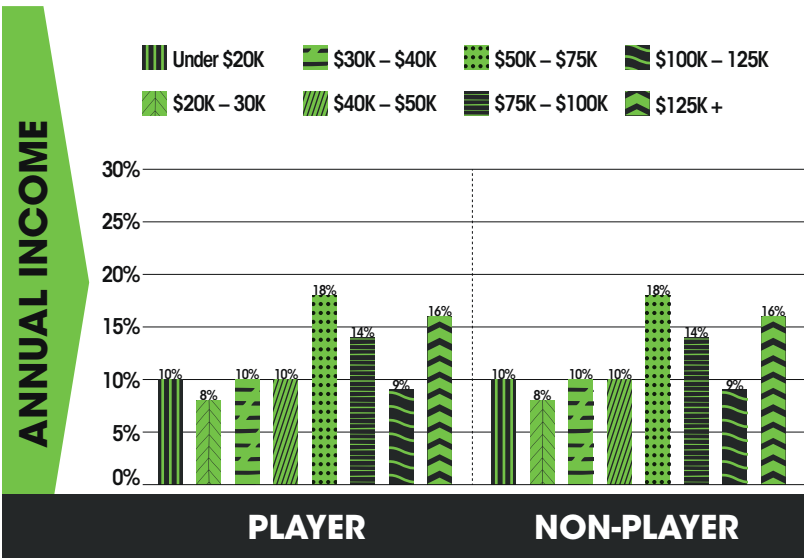
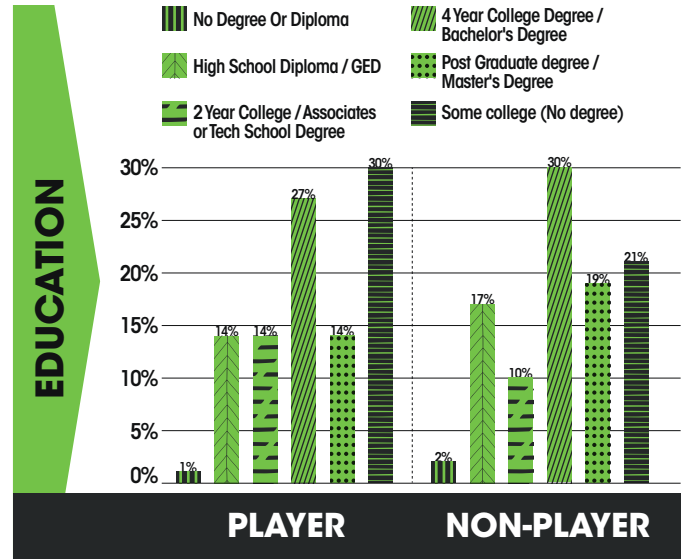
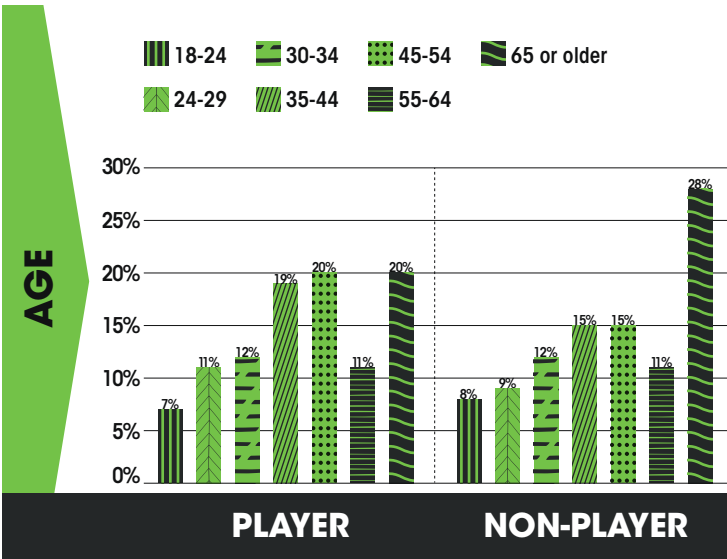
Age: Lottery play is less prevalent in the youngest (under 24) and the next age class (25-29). Lottery players between 45 – 54 and over 65 represent 40 percent of the player demographic.

Income: The median household income category is \$50 to \$75 thousand per year for both players and non-players. Although the distribution of household income is very similar between players and non-players, players are less likely to report household income less than \$20,000 per year, and more likely to report income in the range of \$50 to \$75 thousand per year, than non-players.

Education: The majority of both players and non-players had some education beyond high school; players did not differ significantly from non-players.

Employment Status: Players were less likely to be retired, and more likely to be employed full-time, than non-players.

Ethnic Background: More than 80% of the player population report White/Caucasian or Hispanic/Latino Islander ethnicity. In FY2019, there were no significant ethnic differences in lottery participation



Data Source: Washington's Lottery Usage and Attitude Tracking Study conducted by IPSOS-Reid.

STATISTICAL SECTION

The top ten private employers in Washington for fiscal years 2009-2018 are displayed below. The Lottery will continue to gather information in order to report the required 10 years of information

2018				
#	Employer	City	Employees Count	Percentage
2018 Data Not Available				

2017				
#	Employer	City	Employees Count	Percentage
1	The Boeing Co.	Seattle	65,829	16%
2	Joint Base Lewis-McChord	Lewis-McChord	54,000	13%
3	Amazon.com Inc.	Seattle	50,000	12%
4	Microsoft Corp.	Redmond	46,293	11%
5	Navy Region Northwest	Silverdale	45,945	11%
6	University of Washington	Seattle	44,955	11%
7	Providence St. Joseph Health	Renton	43,067	11%
8	Safeway Inc. & Albertsons LLC	Bellevue	21,541	5%
9	Walmart Inc.	Bentonville, AR	19,957	5%
10	Costco Wholesale Corp.	Issaquah	17,601	4%
Total			409,188	100%

2016				
#	Employer	City	Employees Count	Percentage
2016 Data Not Available				

2015				
#	Employer	City	Employees Count	Percentage
1	The Boeing Company	Seattle	78,225	23%
2	Joint Base Lewis-McChord	Lewis-McChord	58,074	17%
3	Navy Regional Northwest	Silverdale	46,693	14%
4	Microsoft Corp	Redmond	43,618	13%
5	Amazon.com, Inc	Seattle	24,000	7%
6	University of Washington	Seattle	23,639	7%
7	Wal-Mart Stores, Inc	Bentonville, AR	19,484	6%
8	Providence Health & Services	Renton	17,669	5%
9	Fred Meyer Stores	Portland, OR	15,500	4%
10	King County Government	Seattle	13,800	4%
Total			340,702	100%

2014				
#	Employer	City	Employees Count	Percentage
1	The Boeing Company	Seattle	80,066	24%
2	Joint Base Lewis-McChord	Lewis-McChord	60,000	17%
3	Microsoft Corp	Redmond	41,728	12%
4	Navy Regional Northwest	Silverdale	37,682	11%
5	University of Washington	Seattle	34,700	10%
6	Amazon.com, Inc	Seattle	24,000	7%
7	Wal-Mart Stores, Inc	Bentonville, AR	18,147	5%
8	Providence Health & Services	Renton	17,553	5%
9	Fred Meyer Stores	Portland, OR	15,915	5%
10	Costco Wholesale Corp	Issaquah	14,921	4%
Total			344,712	100%

2013				
#	Employer	City	Employees Count	Percentage
1	The Boeing Co.	Seattle	85,000	25%
2	Joint Base Lewis-McChord	McChord	56,000	17%
3	Navy Region Northwest	Silverdale	43,000	13%
4	Microsoft Corp	Redmond	41,664	13%
5	University of Washington	Seattle	29,800	9%
6	Providence Health and Services	Renton	20,240	6%
7	Wal-Mart Stores, Inc	Bentonville, AR	18,000	5%
8	Fred Meyer Stores	Portland, OR	14,590	4%
9	King County Government	Seattle	12,993	4%
10	United States Postal Service	Federal Way	11,914	4%
Total			333,201	100%

2012				
#	Employer	City	Employees Count	Percentage
1	Microsoft Corp	Redmond	35,000	31%
2	Seattle Tacoma Intl Arprt-Sea	Seatac	21,000	19%
3	Providence Health & Services	Renton	19,000	17%
4	NVAL Air Station Whidbey Island	Oak Harbor	10,000	9%
5	South Seattle Community College	Seattle	5,000	4%
6	Barrett Business Service Inc	Moses Lake	5,000	4%
7	Pacific Northwest National Lab	Richland	4,700	4%
8	Stewart Title	Seatac	4,500	4%
9	Fairchild Air Force Base	Fairchild AFB	4,500	4%
10	St Joseph Medical Center	Tacoma	4,400	4%
Total			113,100	100%

2011				
#	Employer	City	Employees Count	Percentage
1	Microsoft Corp	Redmond	35,000	31%
2	Seattle Tacoma Intl Arprt-Sea	Seatac	21,000	19%
3	Providence Health & Services	Renton	19,000	17%
4	NVAL Air Station Whidbey Island	Oak Harbor	10,000	9%
5	Pacific Northwest National Lab	Richland	4,700	4%
6	Fairchild Air Force Base	Fairchild AFB	4,500	4%
7	Stewart Title Co	Seatac	4,500	4%
8	St Joseph Medical Ctr	Tacoma	4,000	4%
9	Providence Sacred Heart Med	Spokane	4,000	4%
10	Sacred Heart Children's Hosp	Spokane	3,900	4%
Total			110,600	100%

2010				
#	Employer	City	Employees Count	Percentage
1	Microsoft Corp	Redmond	35,000	36%
2	Seattle Tacoma Intl Arprt-Sea	Seatac	21,000	21%
3	Tacoma General Hospital	Tacoma	8,500	8%
4	Multicare Hospice & Palliative	Tacoma	8,000	8%
5	University of WA OB/GYN	Seattle	6,000	6%
6	Barrett Business Service Inv	Moses Lake	5,000	5%
7	Seattle Main Clinic	Seattle	5,000	5%
8	Stewart Title	Seatac	4,500	4%
9	Sacred Heart Children's Hospital	Spokane	3,900	4%
10	Harborview Medical Center	Seattle	3,400	3%
Total			100,300	100%

2009				
#	Employer	City	Employees Count	Percentage
1	Microsoft Corp	Redmond	35,000	32%
2	Seattle Tacoma Intl Arprt-Sea	Seatac	21,000	20%
3	Boeing Co	Kent	10,000	9%
4	Tacoma General Hospital	Tacoma	8,500	8%
5	Multicare Hospice & Palliative	Tacoma	8,000	7%
6	University of WA OB/GYN	Seattle	6,000	6%
7	Barrett Business Service Inv	Moses Lake	5,000	5%
8	Seattle Main Clinic	Seattle	5,000	5%
9	Stewart Title	Seatac	4,500	4%
10	Sacred Heart Children's Hospital	Spokane	3,900	4%
Total			106,900	100%

Note: In fiscal year 2013, Washington's Lottery changed the source for gathering the top 10 employers, which caused a shift in how employers are reported. In addition, data is only presented for years for which information was available from the source.

WASHINGTON'S LOTTERY TEN YEARS OF NET POSITION

Net Position	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Invested in capital assets	614,410	776,927	932,430	418,217	544,959	266,529	403,881	358,544	275,584	355,401
Restricted for future prizes	10,222,973	12,652,367	10,428,362	10,273,709	15,829,819	12,555,919	16,777,500	9,535,984	3,600,628	3,659,665
Unrestricted	(23,431,328)	(28,846,778)	(15,740,199)	(5,981,919)	(10,035,804)	(832,889)	4,893,069	19,350,886	8,139,532	28,756,516
Total net position	(12,593,945)	(15,417,484)	(4,379,407)	4,710,007	6,338,974	11,989,559	22,074,450	29,245,414	12,015,744	32,771,582

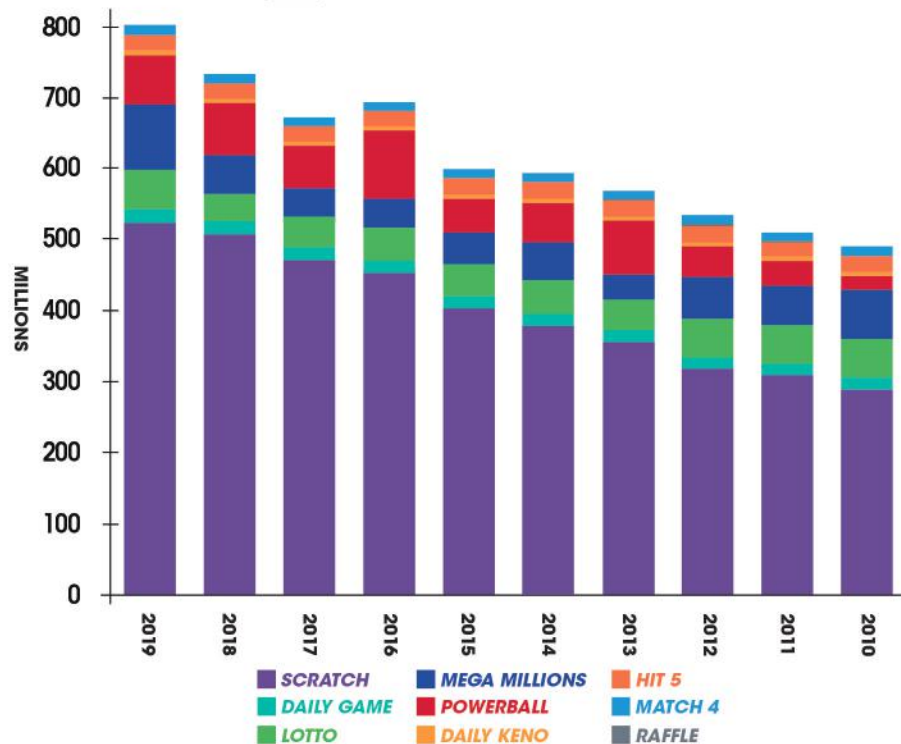
WASHINGTON'S LOTTERY TEN YEARS OF CHANGES IN NET POSITION

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Sales										
Scratch ticket sales	523,857,598	507,900,498	472,252,828	453,948,422	404,097,793	379,352,242	356,021,877	318,149,502	309,045,103	289,324,733
Draw game sales	279,420,339	226,037,994	201,077,571	240,926,646	196,250,355	215,171,218	213,565,366	217,047,664	201,412,321	201,696,753
Total Sales	803,277,937	733,938,492	673,330,399	694,875,068	600,348,148	594,523,460	569,587,243	535,197,166	510,457,424	491,021,486
Other operating income	2,702,605	2,769,971	2,688,541	2,790,632	2,850,714	2,865,770	2,875,510	2,985,900	2,966,318	
Cost of Sales										
Prize expense	490,355,040	457,904,034	422,536,021	432,900,790	365,929,999	362,666,491	339,365,820	311,545,285	295,155,493	291,827,949
Retailer commissions	40,221,131	36,927,642	33,893,194	36,021,210	37,307,646	37,368,870	35,545,701	33,383,737	31,941,021	31,005,437
Vendor expense	33,762,918	30,036,116	27,979,137	29,856,808	26,852,529	25,542,925	23,978,757	21,823,707	19,948,887	14,283,685
Advertising expense	11,198,372	9,577,293	10,565,659	10,481,991	10,468,738	10,122,178	10,194,020	10,882,354	11,813,258	12,315,924
Misc. promotional & other operating expenses	3,192,138	3,673,122	4,328,458	4,051,361	4,624,697	5,704,670	4,215,283	4,106,779	4,208,989	4,055,394
Total Cost of Sales	578,729,599	538,118,207	499,302,469	513,312,160	445,183,609	441,405,134	413,299,581	381,741,862	363,067,648	353,488,389
Administrative expenses										
Salaries and benefits	11,116,890	10,946,749	10,655,860	10,828,120	9,404,819	9,619,930	9,585,980	9,567,271	9,853,525	9,687,211
Goods and services	2,766,921	2,454,812	3,252,080	3,090,238	2,830,400	2,368,232	2,640,333	2,279,971	2,173,778	2,294,355
Travel	444,974	421,226	411,287	439,193	452,426	460,997	452,446	434,622	381,979	409,270
Depreciation	162,517	163,249	80,130	134,252	136,005	124,135	131,664	132,145	120,772	121,305
Total Administrative Expenses	14,491,302	13,986,036	14,399,357	14,491,803	12,823,650	12,573,294	12,810,423	12,414,009	12,530,054	12,512,141
Operating Income	212,759,641	184,604,220	162,317,114	169,861,737	145,191,603	143,410,802	146,352,749	144,027,195	137,826,040	125,020,956
Non-Operating Revenues (expenses)										
Investment revenue (loss)	10,110,562	(1,156,453)	(3,785,665)	10,226,195	5,007,809	3,045,060	(3,612,981)	23,979,561	6,266,376	21,777,420
Amortization of annuity prize liability	(4,400,523)	(5,083,091)	(5,757,685)	(6,283,851)	(7,605,541)	(8,866,388)	(10,743,345)	(12,819,949)	(14,981,731)	(17,351,689)
Interest income	125,192	99,940	21,397	23,098	40,067	49,403	51,111	58,387	87,571	150,319
Misc. income (expense)	-	7,589	-	59,059	-	(60,573)	(10,260)	13,201	160,896	36,415
Fee income	10,700	10,725	10,100	10,325	10,235	11,050	14,497	14,968	12,764	17,894
Loss on disposal of capital assets	100	155	5,180	(2,434)	-	121	3,881	(5,340)	-	-
Total non-operating revenues (expenses)	5,846,031	(6,121,135)	(9,506,673)	4,032,392	(2,547,430)	(5,821,327)	(14,297,097)	11,240,828	(8,454,124)	4,630,359
Payments to:										
Education Funds	-	-	-	-	-	-	-	-	-	(97,368,911)
Washington Opportunity Pathways Account	(166,743,348)	(134,170,055)	(126,797,889)	(128,731,626)	(119,000,660)	(121,905,022)	(115,578,117)	(121,840,501)	(112,262,295)	-
Education Legacy Trust Account	-	-	-	-	(6,050,000)	(10,050,000)	-	-	(11,900,000)	(13,100,000)
King County	-	-	-	-	-	-	-	(2,701,415)	(5,298,930)	(5,095,125)
Stadium and Exhibition Center Account	(13,146,739)	(12,641,094)	(12,154,899)	(11,687,403)	(11,237,887)	(10,805,661)	(10,390,059)	(9,990,441)	(9,609,193)	(9,236,724)
Economic Development	(4,564,936)	(4,629,950)	(4,869,712)	(2,844,549)	(4,661,950)	(4,016,417)	(3,620,758)	(2,967,678)	(3,739,469)	(4,573,866)
Problem Gambling	(406,800)	(358,845)	(326,033)	(340,567)	(304,744)	(301,414)	(299,288)	(290,747)	(279,892)	(258,950)
Veterans' Innovation Program	-	-	-	-	-	-	-	(247,571)	-	-
General Fund	(30,920,310)	(31,170,784)	(16,751,322)	(31,918,951)	-	(595,852)	(9,338,395)	-	(7,037,975)	(12,859,114)
Gambling Commission	-	-	(1,000,000)	-	-	-	-	-	-	-
Total payments	(215,782,133)	(182,970,728)	(161,899,855)	(175,523,096)	(141,255,241)	(147,674,366)	(139,226,617)	(138,038,353)	(150,127,754)	(142,492,690)
Net non-operating expense	(209,936,102)	(189,091,863)	(171,406,528)	(171,490,704)	(143,802,671)	(153,495,693)	(153,523,714)	(126,797,525)	(158,581,878)	(137,862,331)
Change in net position	2,823,539	(4,487,643)	(9,089,414)	(1,628,967)	1,388,932	(10,084,891)	(7,170,965)	17,229,670	(20,755,838)	(12,841,375)
Prior period adjustment to net position	-	(6,550,434)	-	-	-	(7,039,517)	-	-	-	-
Total net position at beginning of year	(15,417,484)	(4,379,407)	4,710,007	6,338,974	4,950,042	22,074,450	29,245,415	12,015,744	32,771,582	45,612,957
Total net position at end of year	(12,593,945)	(15,417,484)	(4,379,407)	4,710,007	6,338,974	4,950,042	22,074,450	29,245,415	12,015,744	32,771,582

WASHINGTON'S LOTTERY TEN YEARS OF SALES AND OTHER REVENUES

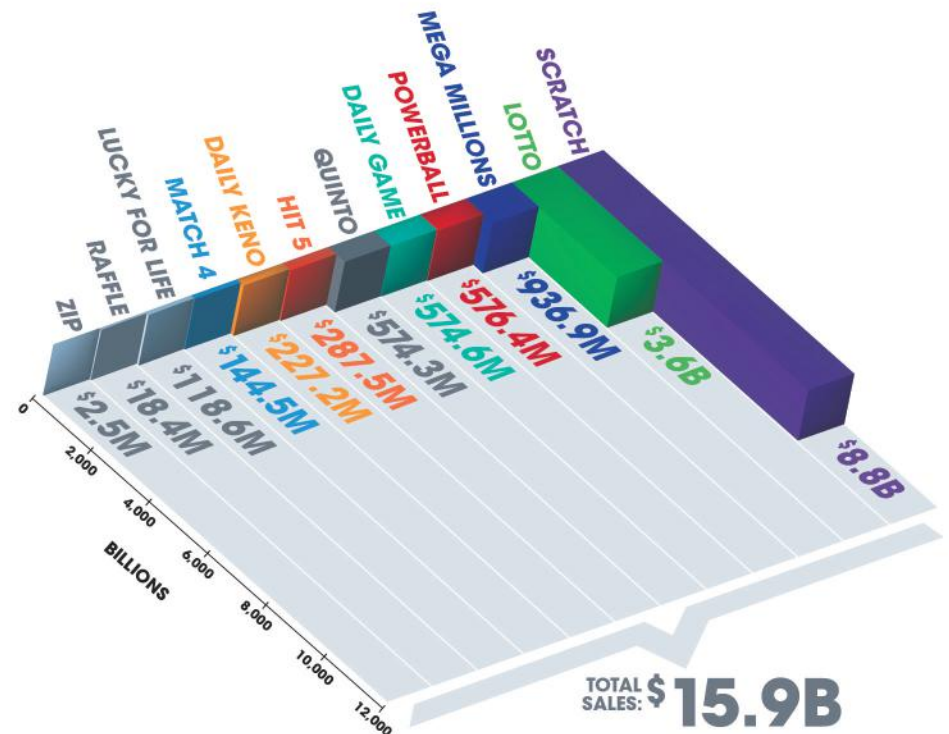
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Scratch	523,857,598	507,900,498	472,252,828	453,948,422	404,097,793	379,352,242	356,021,877	318,149,502	309,045,103	289,324,733
Draw:										
Daily Game	19,502,841	18,925,205	17,748,008	16,653,422	16,856,367	16,660,795	16,747,637	16,597,018	16,736,124	16,993,685
Lotto	56,150,948	38,553,405	43,427,058	46,632,119	44,844,196	47,372,657	43,785,467	54,468,198	54,559,716	54,805,991
Mega Millions	91,876,435	54,651,304	39,312,625	41,278,942	44,811,063	52,992,207	35,485,582	59,196,654	55,036,067	68,642,733
Powerball	69,415,253	72,892,676	60,008,237	95,744,270	47,573,226	56,433,962	75,935,191	42,858,045	35,588,849	19,995,130
Daily Keno	5,878,371	5,705,640	5,816,005	5,890,354	5,816,200	5,752,923	5,651,905	5,633,672	5,550,604	5,271,489
Hit 5	21,929,244	21,632,740	21,330,902	21,706,191	23,403,505	23,913,846	22,764,290	22,961,307	20,649,685	22,340,255
Raffle	-	-	-	-	-	-	1,279,240	2,925,910	2,117,470	-
Match 4	14,667,248	13,677,024	13,434,736	13,021,348	12,945,798	12,044,828	11,916,054	12,406,860	11,173,806	13,647,470
Total Draw	279,420,339	226,037,994	201,077,571	240,926,646	196,250,355	215,171,218	213,565,366	217,047,664	201,412,321	201,696,753
Total Sales	803,277,937	733,938,492	673,330,399	694,875,068	600,348,148	594,523,460	569,587,243	535,197,166	510,457,424	491,021,486
Other operating income	2,702,605	2,769,971	2,688,541	2,790,632	2,850,714	2,865,770	2,875,510	2,985,900	2,966,318	-
Interest	125,192	99,940	21,397	23,098	40,067	49,403	51,112	58,387	87,571	150,319
License Fees	10,700	10,725	10,100	10,325	10,235	11,050	14,497	14,968	12,764	17,894
Miscellaneous	100	155	5,180	56,625	-	(60,452)	(6,379)	(53,832)	160,896	36,415
Total Other Revenues	135,992	110,820	36,677	90,048	50,302	1	59,230	19,523	261,231	204,628
Total Sales and Other Revenues	806,116,534	736,819,283	676,055,617	697,755,748	603,249,164	597,389,231	572,521,983	538,202,589	513,684,973	491,226,114

SALES BY PRODUCT



SALES SINCE INCEPTION

SALES BEGAN NOV. 15, 1982



WASHINGTON'S LOTTERY TEN YEARS OF EXPENSES

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Prizes	490,355,040	457,904,034	422,536,021	432,900,790	365,929,999	362,666,491	339,365,820	311,545,285	295,155,493	291,827,949
Retailer Commissions	40,221,131	36,927,642	33,893,194	36,021,210	37,307,646	37,368,870	35,545,701	33,383,737	31,941,021	31,005,437
Cost of Sales	48,153,428	43,286,531	42,873,254	44,390,160	41,945,964	41,369,773	38,388,061	36,812,840	35,971,134	30,655,003
Administration	14,491,302	13,986,036	14,399,357	14,491,803	12,823,650	12,573,294	12,810,423	12,414,009	12,530,054	12,512,141
Total Expenses	593,220,901	552,104,243	513,701,826	527,803,963	458,007,259	453,978,428	426,110,005	394,155,871	375,597,702	366,000,530

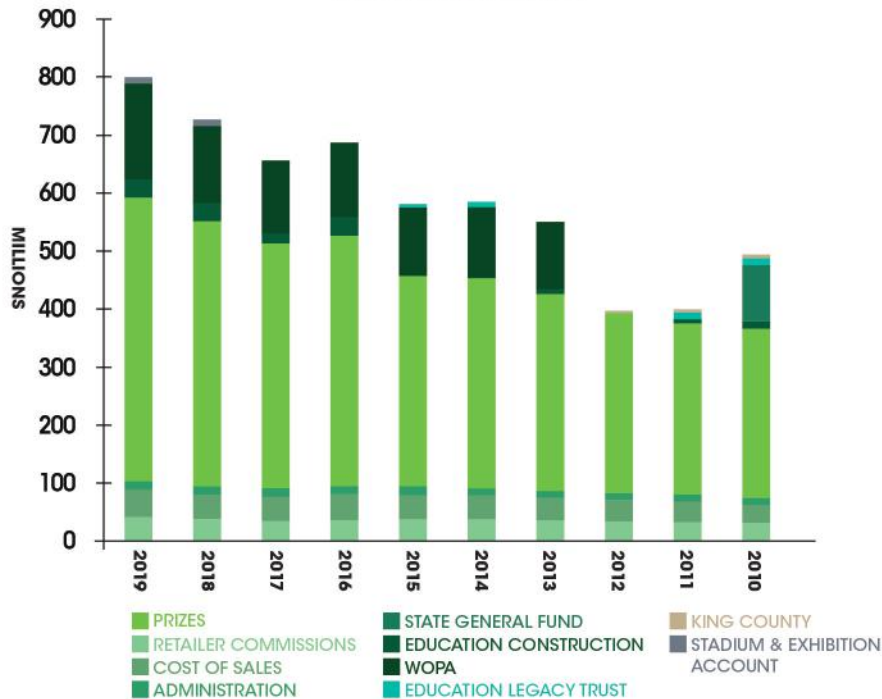
Note: Non-operating expenses are not included.

WASHINGTON'S LOTTERY TEN YEARS OF CONTRIBUTIONS

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
State General Fund	30,920,310	31,170,784	16,751,322	31,918,951	-	595,852	9,338,396	-	7,037,975	12,859,114
Washington Opportunity Pathways Account	166,743,348	134,170,055	126,797,889	128,731,626	119,000,660	121,905,022	115,578,116	121,840,501	112,262,295	-
Education Funds	-	-	-	-	-	-	-	-	-	97,368,911
Education Legacy Trust Fund	-	-	-	-	6,050,000	10,050,000	-	-	11,900,000	13,100,000
Economic Development	4,564,936	4,629,950	4,869,712	2,844,549	4,661,950	4,016,417	3,620,758	2,967,678	3,739,469	4,573,866
Problem Gambling	406,800	358,845	326,033	340,567	304,744	301,414	299,288	290,747	279,892	258,950
Veterans' Innovation Program	-	-	-	-	-	-	-	247,571	-	-
King County	-	-	-	-	-	-	-	2,701,415	5,298,930	5,095,125
Stadium & Exhibition Account	13,146,739	12,641,094	12,154,899	11,687,403	11,237,887	10,805,661	10,390,059	9,990,441	9,609,193	9,236,724
Gambling Commission	-	-	1,000,000	-	-	-	-	-	-	-
Total Contributions	215,782,133	182,970,728	161,899,855	175,523,096	141,255,241	147,674,366	139,226,617	138,038,353	150,127,754	142,492,690

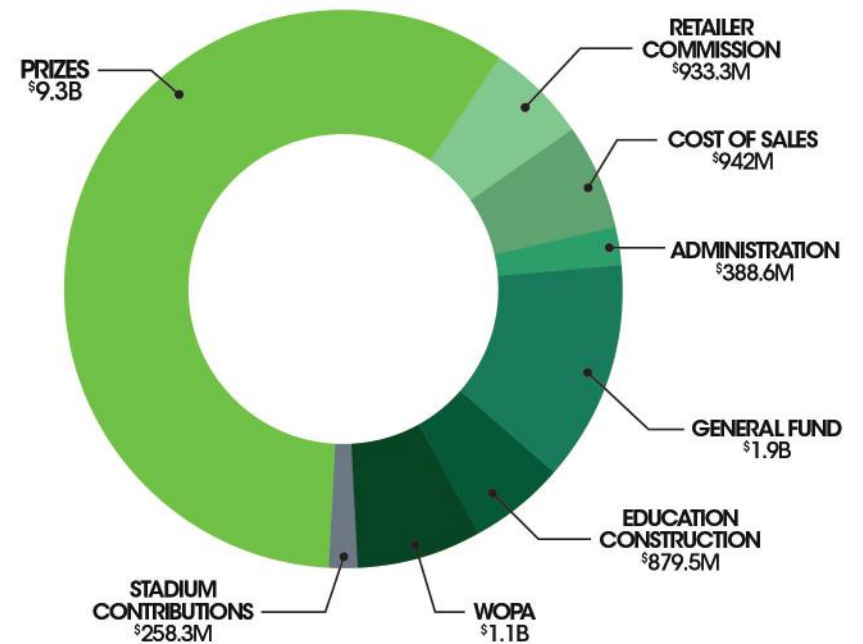
EXPENSES AND CONTRIBUTIONS

(AMOUNTS IN MILLIONS)



DISTRIBUTIONS SINCE INCEPTION

JULY 19, 1982 – JUNE 30, 2019



STATISTICAL SECTION

COMPARATIVE STATEMENT OF LOTTERY REVENUES AND EXPENSES BY LOTTERY FOR FISCAL YEAR 2018

Lottery	Millions of Dollars					As Percentage of Sales			
	Sales	Prizes	Commissions	Expenses	Net Income	Prizes	Commissions	Expenses	Net Income
New York	9,973.52	4,816.33	1,388.32	400.56	3,356.09	48.29%	13.92%	4.02%	33.65%
California	6,965.79	4,476.58	480.55	352.61	1,633.46	64.27%	6.90%	5.06%	23.45%
Florida	6,707.87	4,394.40	373.82	176.72	1,752.78	65.51%	5.57%	2.63%	26.13%
Texas	5,628.49	3,666.10	281.50	236.95	1,415.87	65.13%	5.00%	4.21%	25.16%
Massachusetts	5,292.61	3,891.94	303.00	100.34	997.33	73.54%	5.72%	1.90%	18.84%
Georgia	4,361.40	2,768.52	271.58	178.88	1,135.33	63.48%	6.23%	4.10%	26.03%
Pennsylvania	4,220.70	2,733.77	224.18	171.82	1,093.64	64.77%	5.31%	4.07%	25.91%
Michigan	3,591.93	2,215.04	266.59	169.32	930.84	61.67%	7.42%	4.71%	25.91%
New Jersey	3,353.40	1,991.57	188.37	114.74	1,061.98	59.39%	5.62%	3.42%	31.67%
Ohio ⁽¹⁾⁽²⁾⁽³⁾	3,165.96	1,997.89	206.10	108.19	853.78	63.11%	6.51%	3.42%	26.97%
Illinois	2,932.89	1,910.90	165.05	198.25	649.27	65.15%	5.63%	6.76%	22.14%
North Carolina	2,605.42	1,647.83	181.57	108.42	673.36	63.25%	6.97%	4.16%	25.84%
Virginia	2,139.82	1,307.70	121.30	105.55	606.22	61.11%	5.67%	4.93%	28.33%
Maryland ⁽¹⁾⁽²⁾⁽³⁾	2,042.79	681.95	153.73	49.98	1,157.13	33.38%	7.53%	2.45%	56.64%
South Carolina	1,753.88	1,149.79	123.46	42.71	437.94	65.56%	7.04%	2.44%	24.97%
Tennessee	1,620.45	1,023.88	113.23	63.01	421.63	63.18%	6.99%	3.89%	26.02%
Missouri	1,400.36	939.48	82.61	64.74	330.39	67.09%	5.90%	4.62%	23.59%
Indiana	1,270.06	797.27	86.65	73.96	301.14	62.77%	6.82%	5.82%	23.71%
Connecticut	1,267.63	792.59	70.82	60.87	924.28	62.53%	5.59%	4.80%	72.91%
Kentucky	1,035.20	657.36	61.14	50.76	265.70	63.50%	5.91%	4.90%	25.67%
Arizona	981.62	647.65	66.83	52.21	215.36	65.98%	6.81%	5.32%	21.94%
Washington	736.71	457.90	36.93	57.27	178.48	62.15%	5.01%	7.77%	24.23%
Wisconsin	667.61	404.45	46.49	36.28	180.25	60.58%	6.96%	5.43%	27.00%
Colorado	611.99	383.49	46.13	42.57	472.18	62.66%	7.54%	6.96%	77.15%
Minnesota	596.50	370.63	35.99	48.81	141.50	62.13%	6.03%	8.18%	23.72%
Arkansas	500.49	341.90	28.20	39.19	92.48	68.31%	5.63%	7.83%	18.48%
Louisiana	490.96	263.61	27.50	28.10	172.08	53.69%	5.60%	5.72%	35.05%
Iowa	370.97	227.49	24.21	33.54	85.90	61.32%	6.53%	9.04%	23.16%
Oregon ⁽¹⁾⁽²⁾⁽³⁾	368.88	38.58	69.49	38.58	222.23	10.46%	18.84%	10.46%	60.24%
New Hampshire	332.75	211.53	19.91	19.07	87.39	63.57%	5.98%	5.73%	26.26%
Maine	298.20	192.54	19.25	23.39	63.03	64.57%	6.46%	7.84%	21.14%
Kansas ⁽¹⁾⁽²⁾⁽³⁾	269.90	157.89	15.88	10.80	85.33	58.50%	5.88%	4.00%	31.62%
Idaho	265.81	176.19	15.61	20.11	54.48	66.28%	5.87%	7.57%	20.50%
Rhode Island ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾	258.37	45.06	6.05	7.87	199.39	17.44%	2.34%	3.05%	77.17%
Delaware ⁽¹⁾⁽²⁾⁽³⁾	231.54	35.49	10.76	13.90	171.39	15.33%	4.65%	6.00%	74.02%
Oklahoma	221.23	129.61	14.04	16.99	61.01	58.59%	6.35%	7.68%	27.58%
District of Columbia	210.26	117.37	13.77	30.27	49.56	55.82%	6.55%	14.40%	23.57%
Nebraska	183.37	106.63	11.84	20.01	45.25	58.15%	6.46%	10.91%	24.68%
W. Virginia ⁽¹⁾⁽²⁾⁽³⁾	177.03	17.06	12.37	10.93	136.67	9.64%	6.99%	6.17%	77.20%
New Mexico	134.02	73.14	8.69	11.71	40.49	54.57%	6.48%	8.74%	30.21%
Vermont	132.42	87.44	8.12	9.97	26.89	66.03%	6.13%	7.53%	20.31%
South Dakota ⁽¹⁾⁽²⁾⁽³⁾	59.72	33.68	3.11	1.80	21.13	56.40%	5.21%	3.01%	35.38%
Montana	56.40	32.55	3.27	10.09	10.56	57.71%	5.80%	17.89%	18.72%
North Dakota	31.52	16.14	1.55	5.52	8.31	51.21%	4.92%	17.51%	26.36%
Wyoming	28.75	14.97	1.76	6.83	4.90	52.07%	6.12%	23.76%	17.04%

(1) Only Traditional Lottery revenues reported for those Lotteries where both Traditional Lottery & Consolidated Lottery revenues exist

(2) Traditional Lottery admin and operating expenses reported as a percentage of total revenues [(Consolidated Revenues/(Traditional Lottery Revenues) * Admin & Op Expenses)]

(3) Traditional Lottery net income before transfers calculated as sales less prizes, commissions, and expenses

(4) Traditional Lottery Commissions for Oregon reported as a percentage of total revenues (nothing was reported for commissions or admin & op expense)

(5) Traditional Lottery Prizes for Rhode Island reported as a percentage of total revenues (same total reported for Traditional & Consolidated)

COMPARISON OF LOTTERY REVENUES AND EXPENSES PER CAPITA BY LOTTERY FOR FISCAL YEAR 2018

Lottery	Figures Per Capita					
	Population (M)	Sales	Prizes	Commissions	Expenses	Net Income
California	39.50	176.35	113.33	12.17	08.93	41.35
Texas	28.70	196.11	127.74	09.81	08.26	49.33
Florida	21.30	314.92	206.31	17.55	08.30	82.29
New York	19.50	511.46	246.99	71.20	20.54	172.11
Pennsylvania	12.80	329.74	213.58	17.51	13.42	85.44
Illinois	12.70	230.94	150.46	13.00	15.61	51.12
Ohio	11.66	271.57	171.44	17.68	09.25	73.20
Georgia	10.50	415.37	263.67	25.86	17.04	108.13
North Carolina	10.40	250.52	158.45	17.46	10.43	64.75
Michigan	9.96	360.56	222.35	26.76	17.00	93.44
New Jersey	8.90	376.79	223.77	21.17	12.89	119.32
Virginia	8.50	251.74	153.85	14.27	12.42	71.32
Washington **	7.50	98.23	61.05	04.92	07.64	23.80
Arizona	7.20	136.34	89.95	09.28	07.25	29.91
Massachusetts	6.86	771.63	567.42	44.18	14.63	145.40
Tennessee	6.80	238.30	150.57	16.65	09.27	62.00
Indiana	6.67	190.53	119.60	13.00	11.10	45.18
Missouri	6.11	229.08	153.69	13.51	10.59	54.05
Maryland	6.00	340.47	208.12	25.62	08.39	98.33
Wisconsin	5.80	115.20	69.79	08.02	06.26	31.10
Colorado	5.70	107.37	67.28	08.09	07.47	82.84
Minnesota	5.58	106.98	66.47	06.45	08.75	25.38
South Carolina	5.10	343.90	225.45	24.21	08.37	85.87
Louisiana	4.68	104.82	56.28	05.87	06.00	36.74
Kentucky	4.45	232.42	147.59	13.73	11.40	59.65
Oregon	4.20	87.83	15.44	16.38	09.09	46.91
Oklahoma	3.93	56.29	32.98	03.57	04.32	15.52
Connecticut	3.58	354.44	221.61	19.80	17.02	258.43
Iowa	3.20	115.93	71.09	7.57	10.48	26.84
Arkansas	3.00	166.61	113.81	09.39	13.05	30.79
Kansas	2.91	92.84	54.31	05.46	03.71	29.35
New Mexico	2.09	64.19	35.03	04.16	05.61	19.39
Nebraska	1.92	95.51	55.54	06.17	10.42	23.57
West Virginia	1.82	97.54	57.96	06.82	06.02	26.74
Idaho	1.70	156.36	103.64	09.18	11.83	32.05
New Hampshire	1.40	237.68	151.09	14.22	13.62	62.42
Maine	1.34	223.37	144.22	14.42	17.52	47.21
Montana	1.10	51.27	29.59	02.97	09.17	09.60
Rhode Island	1.06	243.98	42.30	19.58	07.39	174.71
Delaware ¹	0.97	216.76	121.00	14.20	31.21	51.09
South Dakota	0.87	68.72	38.76	03.58	02.04	24.34
North Dakota	0.76	41.75	21.38	02.05	07.31	11.01
D.C.	0.69	334.11	51.22	15.53	20.06	247.31
Vermont	0.62	212.55	140.35	13.03	16.00	43.16
Wyoming	0.58	49.65	25.85	03.04	11.80	08.46

Note to Table: fiscal year 2017 is the latest data available. Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30). 1 Source: U.S. Census Bureau; 2 Source: U.S. Bureau of Economic Analysis; 3 This data represents only revenue from traditional lottery games; 4 Prizes do not include VLT prizes paid; 5 Traditional lottery commissions only; 6 Traditional lottery expenses only; 7 Includes transfers for VLT operations; Note: If a lottery's operating statement did not include actual profits raised for government, the "government transfers" may represent the net income. ** Reflects operating income only. Source: "La Fleur's 2017 World Lottery Almanac," TLF Publications, Inc.



OUR WINNING STORY SPOTLIGHTS

Washington's Lottery and the Department of Imagination® give players across the state a chance to imagine the possibilities of what they would do if they won the Lottery.

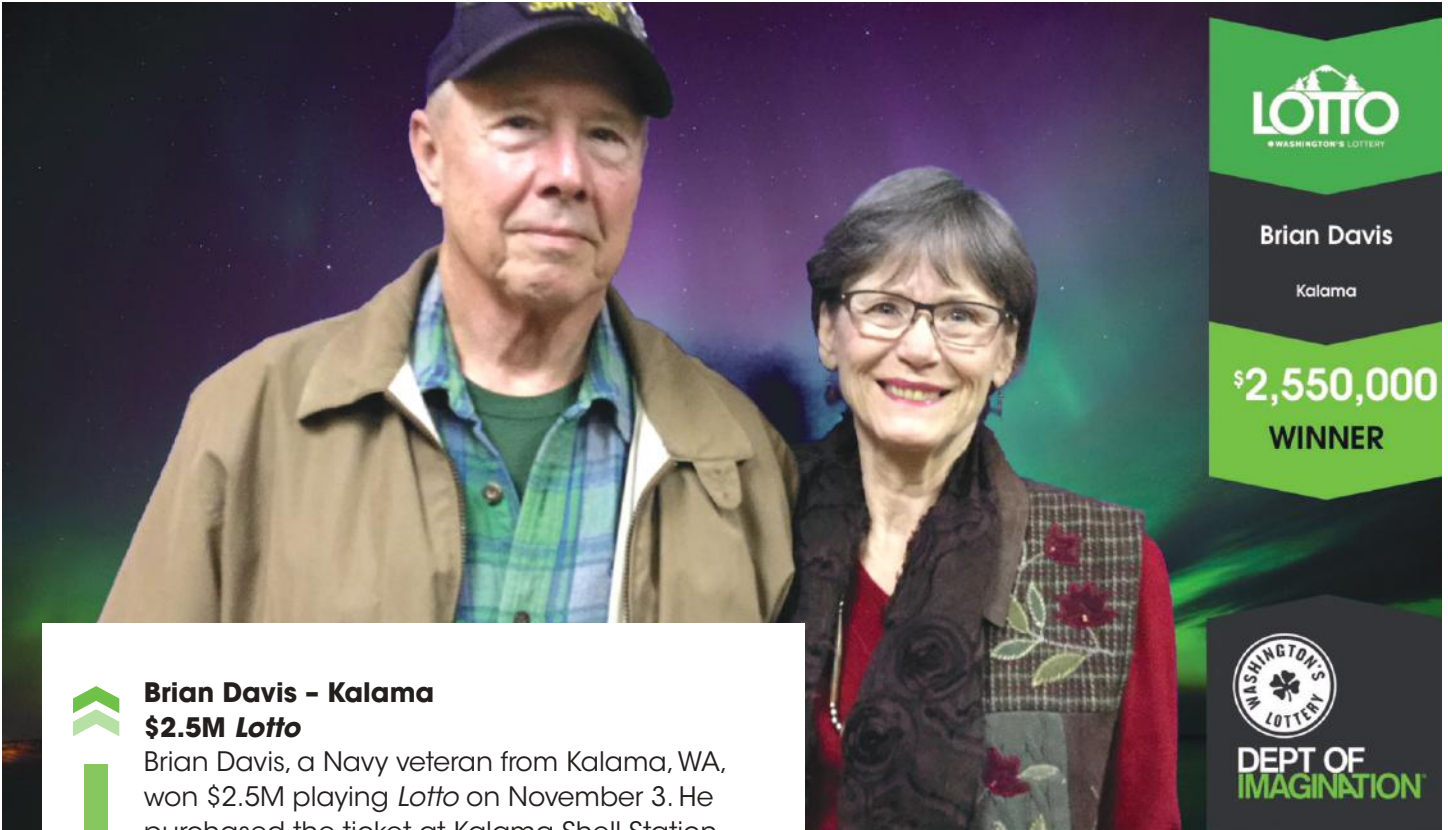
These Lottery winners have shared their tales of winning, along with their imaginative plans for what they're going to do with their win.

At the center of the Lottery are its players, their families, and retailers, all of whom support a number of beneficiaries. Fiscal year 2019 beneficiaries included Washington Opportunities Pathways Account, CenturyLink Field & Exhibition Center stadium debt reduction, General Fund, Problem Gambling Account and the Governor's Economic Development Account.



Brian Kutz - Coupeville **\$200,000 "The Game of Life" Scratch**

"I stopped on my way home from the ferry to get a ticket. When I got home my wife went to bed, so I told her I would stay up for a while and scratch my tickets. Then I scratched the ticket and realized I had won. I woke her and our kids up to celebrate, we all had a pretty restless night after that. I always tell my wife 'it only takes one ticket' and she always laughs at me, but I think she knows I am [laughing] right now."



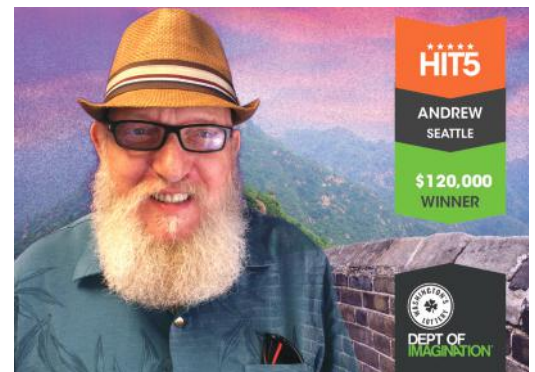
Brian Davis - Kalama
\$2.5M Lotto

Brian Davis, a Navy veteran from Kalama, WA, won \$2.5M playing *Lotto* on November 3. He purchased the ticket at Kalama Shell Station (7349 Old Pacific Hwy S). He claimed his winnings at the Vancouver Regional Office.

He told lottery officials that he checked the winning numbers on his computer, but had trouble believing his good fortune. "I just didn't think the ticket was a winner. I couldn't sleep all night because numbers kept jumping around in my head."

When asked if he had any big plans for his winnings, the man said he knew for certain that it wouldn't involve travel. "I spent eight years in the Navy in the 1960s, with a lot of different assignments off the coast of Vietnam. I'm not much of a trip-taker anymore."

Instead, he and his wife celebrated the occasion with a nice steak dinner. Down the road the man said he may invest in a few hobbies, including a new boat.



Andrew Greenwald - Queen Anne
\$120,000 Hit 5

"My last win was nine years ago, and before that it had been about nine years. I hope it's not nine years until my next win! Back in England I was in a rock and roll band. I'm going to take a trip to Holland to visit a bandmate."



FISCAL YEAR 2019 RETAILERS OF THE YEAR

The annual Retailers of the Year award gives Washington's Lottery an opportunity to recognize premier retailers from every region of the state. The employees at these stores strive to provide the best service possible to all of their customers. Additionally, the retailers recognize Washington's Lottery as an organization that adds value by adding an element of fun and an opportunity to dream for their customers.

Washington's Lottery awarded five retailers across the state with the title of Retailer of the Year. These great retailers include:

FEDERAL WAY REGION



15321 8th Ave SW
Burien, WA 98166



Federal Way Region



Federal Way Region

SPOKANE REGION



15609 E Sprague Ave
Spokane Valley, WA 99037



Spokane Region

YAKIMA REGION

Congratulations
Plaza Super Jet
2019
REGIONAL RETAILER
OF THE YEAR



106 Okanogan Ave
Wenatchee, WA 98801



Yakima Region



Yakima Region

EVERETT REGION

Congratulations
Fred Meyer #458
2019
REGIONAL RETAILER
OF THE YEAR



12906 Bothell Everett Hwy
Everett, WA 98208



Everett Region



Everett Region

VANCOUVER REGION

Congratulations
Safeway #543
2019
REGIONAL RETAILER
OF THE YEAR



4700 Yelm Hwy SE
Lacey, WA 98503



Vancouver Region



Vancouver Region



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<p>Vancouver Regional Office</p> <p>1503 NE 78th St Suite #4 Vancouver, WA 98665-9668</p>	<p>Yakima Regional Office</p> <p>9 S 5th Ave Yakima, WA 98902-3432</p>	<p>Spokane Regional Office</p> <p>10517 E Sprague Ave #19 Spokane Valley, WA 99206-3631</p>

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