



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Prepared by Washington's Lottery Finance Division for
the fiscal years ended June 30, 2020 and June 30, 2019.



**MORE THAN
A TICKET.**

WHEN YOU PLAY, ALL
OF WASHINGTON WINS.



DOWNLOAD



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

LETTER FROM THE DIRECTOR



While fiscal year 2020 was far from a normal year, with nationwide economic, health, and social disasters plaguing the efforts of Lotteries, Washington's Lottery managed to have another record breaking year in sales. With a global pandemic that temporarily shut down operations of most businesses, including restaurants, bars, movie theaters, and casinos, consumers seemingly sought any form of attainable entertainment. We believe this may have contributed to our *Scratch* ticket sales skyrocketing in the second half of the fiscal year, bringing in a total of \$619.7 million, a \$95.8 million increase over last fiscal year. Draw games experienced a decrease in sales with a total of \$197.6 million in sales, which is \$81.8 less than fiscal year 2019. Although there was a decrease in draw game sales, total sales for the year increased over fiscal year 2019 by \$14.0 million. These amazing sales totals helped us to give \$147.3 million to the Washington Opportunity Pathways Account to help

fund vocational scholarships and early childhood learning, as well as provide state grants and work study awards for low-income students. Our devoted players collected \$530.2 million in prizes, and our retail partners had a remarkable year, earning \$41.2 million. Two of our retailers surpassed \$2 million in annual sales for the first time ever.

In fiscal year 2020, the Department of Imagination® continued to bring our player ideas to life under our Let's Imagine Together advertising campaign, and after two incredibly successful years of this campaign, we're still getting great ideas from our players that we're bringing to life across a wide range of media types. Our Golden Nugget *Scratch* was an exciting casino themed *Scratch* ticket that gave players a chance to win a trip to Vegas with five of their best friends and included \$3,000 in cash.

This year's popular Seahawks *Scratch* ticket gave players a chance to win Season Tickets and meet Seahawks Legend Cliff Avril. At the end of the campaign we had over 100,000 entries into our second chance prize drawings, and sales exceeded \$7 million. Even better, our annual Seahawks tailgate event once again broke a one-day sales record; selling over \$70,000 dollars in *Scratch* tickets to amp up Seahawks fans in only a few hours.

Washington's Lottery also released an enhanced Mobile App, which introduced a Points for Prizes store. This new feature allows players to scan in their non-winning tickets to earn points towards a variety of prizes. Since its launch, players have used the mobile app to scan in 4.8 million *scratch* tickets and 2.7 million draw tickets. Players accrued more than 37.5 million points, and 12.9 million of them were redeemed for prizes.

And with all of this success, responsible gambling continues to be a primary focus for us, and in fiscal year 2020 Washington's Lottery contributed \$373,180 to the state's Problem Gambling Account. We achieved responsible gambling verification at the planning level by the National Association of State and Provincial Lotteries and the National Council on Problem Gambling. On the local level, we participated in the legislatively created Problem Gambling Task Force, and we continue to implement best practices to minimize the impacts of problem gambling in our society.

Although there were some unprecedented factors that contributed to our success in fiscal year 2020, I am proud of the dedication and commitment of our staff and pleased at the significant contributions Washington's Lottery was able to make to our beneficiaries, and the minor sense of normalcy and joy we could bring to our players during these challenging times.

Sincerely,

A handwritten signature in black ink that reads "M. Glasper". The signature is fluid and cursive.

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, 2020 and June 30, 2019

Prepared by Washington's Lottery's Finance Division

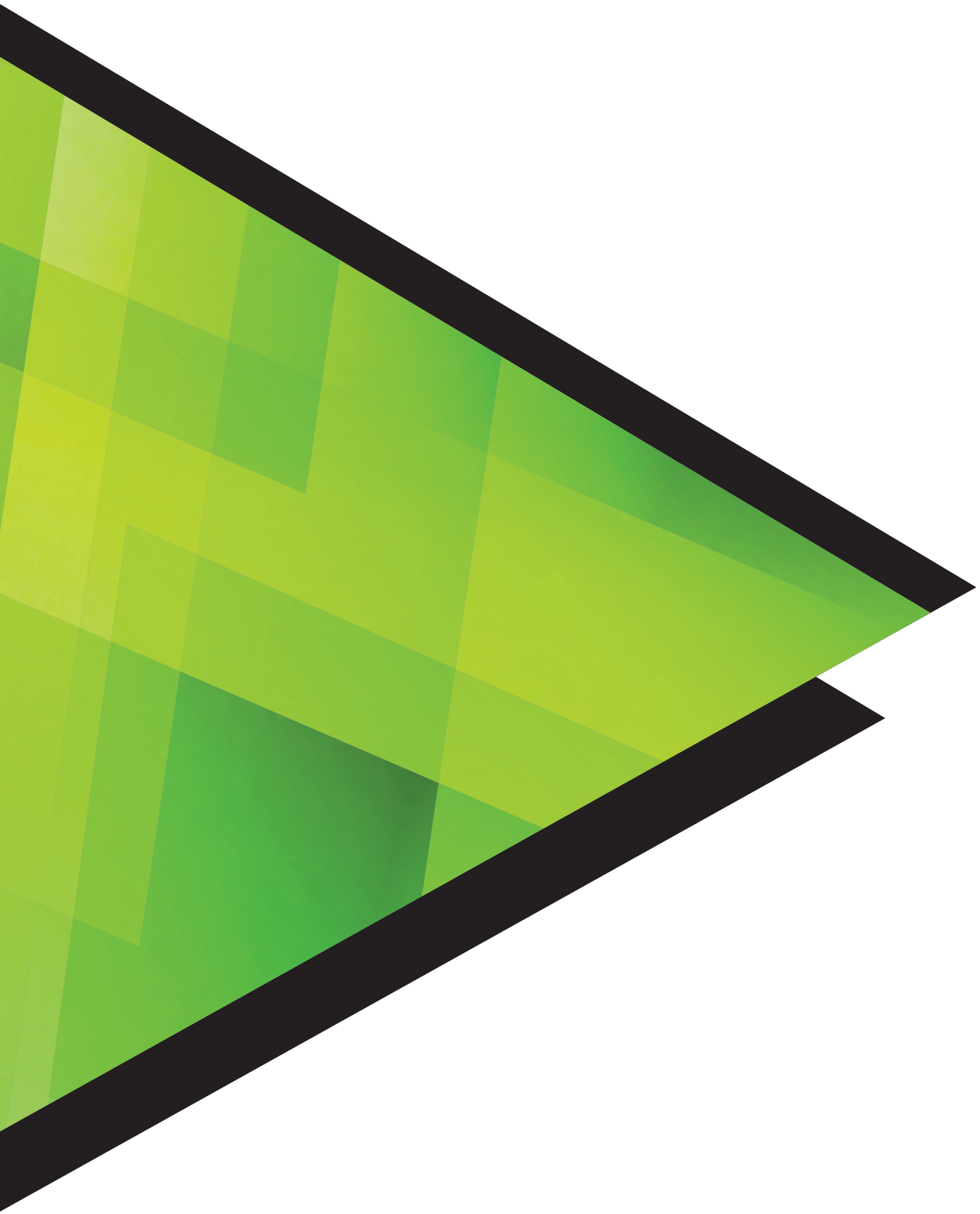


TABLE OF CONTENTS

INTRODUCTORY SECTION	
Letter of Transmittal	09
Certificate of Achievement for Excellence in Financial Reporting	17
Principal Officials	18
Organization Chart	18
FINANCIAL SECTION	
Independent Auditor's Report	20
Management's Discussion and Analysis	22
Basic Financial Statements	
Statements of Net Position	30
Statements of Revenues, Expenses, and Changes in Net Position	31
Statements of Cash Flows	32
Notes to the Financial Statements	33
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability PERS Plan 1	57
Schedule of Proportionate Share of the Net Pension Liability PERS Plan 2/3	57
Schedule of Employer Contributions PERS Plan 1	58
Schedule of Employer Contributions PERS Plan 2/3	58
Schedule of Changes in Total OPEB Liability and Related Ratios	59
OPEB Notes to Required Supplementary Information	59
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Schedule of Findings and Responses	60
STATISTICAL SECTION	
Washington State	
Statistical Section	65
Demographics of Players	67
Top Ten Private Employers	69
Net Position Last-10 Fiscal Years	70
Changes in Net Position-Last 10 Fiscal Years	70
Sales and Other Revenues-Last 10 Fiscal Years	71
Expenses and Contributions-Last 10 Fiscal Years	72
United States	
Comparison of Lottery Revenues and Expenses by State	73
Comparison of Lottery Revenues and Expenses per Capita	74
Winners	75
Luckiest Retailers	77
Lottery Offices	78

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.

December 4, 2020

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, 2020. In fiscal year 2020, Lottery sales increased by \$14.0 million or 1.7 percent compared to fiscal year 2019 and contributed a total of \$180.9 million to its beneficiaries for state programs. The Washington Opportunity Pathways Account received \$147.3 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 2020 totaled \$820.0 million. These sales allowed contributions of \$147.3 million to the Washington Opportunity Pathways Account (WOPA), \$13.7 million to the Stadium and Exhibition Center Account (CenturyLink Field), \$16.2 million to the General Fund, \$3.4 million to the Economic Development Account and \$373.2 thousand to the Problem Gambling Account.

FY20 TOTAL DISTRIBUTION: \$818.8 MILLION



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

* Amounts not displayed in graph

BACKGROUND

Washington Lottery's mission is to offer games of chance with integrity and imagination to maximize beneficiary contributions. Our focus is on maintaining and increasing the ability to maximize these contributions in support of scholarships 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 2020 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 \$9.8 billion in prizes and retailers have received over \$974.5 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 2020, Washington's Lottery paid out more than 38.9 million winning tickets ranging from \$1 to \$12.6 million. Twenty people became millionaires through Washington's Lottery in the last fiscal year. Since inception, the Lottery has made more than 745 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 \$4.5 billion to various 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

Washington's economic performance throughout much of 2020 has been constrained by the state's efforts to contain the COVID-19 virus. Higher risk economic activities that involve close physical proximity between workers, workers and consumers, or where consumers are in close proximity to each other, have been tightly controlled to help limit virus transmission. This has resulted in unprecedented job losses striking the entertainment, hospitality, personal services, and eating and drinking sectors particularly hard. The initial wave of job losses has run its course and over 246,000 workers have resumed work since April. However, as of September, the state still had 247,000 fewer jobs than in March. The state's recovery pattern is without precedent since this recession is primarily a public health crisis with serious economic consequences, compared to the more typical economic crisis with public health consequences. The job impact of the Great Recession lasted 70 months, from initial job losses to full recovery to the prior job peak. We do not expect this recovery to take nearly as long, though the number of permanent job losses and permanent business closures may have longer-term consequences.

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. The state's rate has traditionally been higher than the national norm because of its 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 came from migration. More recent forecasts expect Washington's jobless rate to 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 decline to 4.6 percent from 7.8 percent in September 2020.

Personal income in Washington is expected to moderate over the next two fiscal years after concerted efforts to provide federal pandemic-relief money to individuals and households boosted fiscal year 2020 real personal income by 5.6 percent. Real personal income should gain 0.9 percent in fiscal year 2021, decline by 0.4 percent in fiscal year 2022, and grow by 3.2 percent in fiscal year 2023. That is measurably higher at the end of the forecast period than the respective 0.0 percent, -0.8 percent, and 3.2 percent projections for the nation. On a per-capita basis, Washington’s real personal income should reach \$60,836 in fiscal year 2023, nearly \$8,000 above the U.S. average.

These gains in Washington’s personal income will happen despite the decline in aerospace employment, a traditional driver of Washington’s economy. Aerospace jobs are expected to drop from 87,600 jobs in fiscal year 2020 to 72,700 jobs in fiscal year 2023. Even though Washington’s nonfarm employment is projected to decline 1.1 percent in fiscal year 2021, the state is projected to net a 4.0 percent increase in total payroll jobs in fiscal year 2022, and 2.7 percent in fiscal year 2023 thanks to gains in software publishing, electronic shopping and mail order, and other technology sectors.

Construction activity in Washington is expected to trend to a more historically normal level in the next several fiscal years. While growth in the technology sectors prompted demand for new office space, the commercial sector does tend to overbuild, leading to subsequent periods of higher vacancies and gradual absorption. Building permits should total 43,900 in fiscal year 2021, 43,500 in fiscal year 2022, and 42,100 in fiscal year 2023. As a result, construction employment should move down to 201,000 jobs in fiscal year 2023 from 211,400 jobs in fiscal year 2020. That should lower the share of construction jobs to 5.6 percent of total nonfarm employment, the historic average. At the height of the building boom in fiscal year 2019, construction jobs represented 6.3 percent of total nonfarm employment.

General Fund-State revenues grew 10.0 percent in fiscal year 2018 and 3.3 percent in fiscal year 2019. General Fund-State revenues are forecasted to finish fiscal year 2020 up 6.2 percent, and are expected to grow 2.3 percent in fiscal year 2021, 4.8 percent in fiscal year 2022, and 4.2 percent in fiscal year 2023. The recovering economy, rebounds in hiring, and a steady housing market should keep revenues growing at a moderate 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 \$619.7 million in fiscal year 2020, compared to \$523.9 million in 2019. In fiscal year 2020, *Scratch* sales were \$422.1 million more than all other Lottery games combined. *Scratch* games provided 75.8 percent of total net sales for fiscal year 2020, compared to 65.2 percent in 2019. The Lottery launched 58 *Scratch* games in fiscal year 2020, compared to 48 games in fiscal year 2019.



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.

The slowing of sales during the unprecedented global pandemic required changes to be made to the *Mega Millions* game. Effective April 3, 2020, the Mega Millions Consortium announced the changes which included the game's starting jackpot and will determine the subsequent starting jackpots amounts and jackpot increases on a drawing-by-drawing basis. The subsequent jackpots and the rate at which the jackpot increases are established based on game sales and interest rates, with no fixed minimum amount. Previously, the jackpot started at \$40 million, and the minimum increase was \$5 million for each roll.

Mega Millions ticket sales in Washington were \$51.0 million for fiscal year 2020, representing 6.2 percent of total net Lottery sales. *Mega Millions* sales were \$91.9 million or 11.4 percent of net sales in fiscal year 2019. In fiscal year 2020, jackpots ranged from \$40 million to \$410 million, with 5 winning jackpots over \$100 million. In fiscal year 2020, *Mega Millions*'s highest jackpot was \$530 million as compared to \$1.6 billion in the prior year 2019.

Mega Millions is a jackpot-based game with nine prize levels. Tickets cost \$2 to play. Players pick six numbers from two different pools of numbers. They choose five white 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. Before the pandemic, jackpots started at \$40 million and increased 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 white 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.

The Covid-19 global pandemic impacted *Powerball* sales and required adjustments to the game in order to sustain the lottery product. On March 25, 2020 the *Powerball* Product Group announced the changes to the *Powerball* game. The *Powerball*'s starting jackpot reset to a guaranteed \$20 million (annuity) with a minimum roll increase of \$2 million between drawings.

Powerball sales were \$42.5 million for fiscal year 2020, representing 5.2 percent of net sales, compared to \$69.4 million or 8.6 percent in fiscal year 2019. In fiscal year 2020, jackpots ranged from \$40 million to \$394 million, with 4 winning jackpots over \$100 million. In fiscal year 2020, *Powerball*'s highest jackpot was \$394 million as compared to \$750 million in the prior year 2019.

Powerball is a jackpot-driven game. Tickets cost \$2 to play. 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 2020 were \$39.8 million, representing 4.9 percent of total net sales. *Lotto* sales in fiscal year 2019 totaled \$56.2 million or 7.0 percent of net sales in that year 3 winning *Lotto* jackpots were drawn in fiscal year 2020 ranging from \$1.1 million to \$12.2 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. 38 *Hit 5* cashpots were awarded in fiscal year 2020, 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 2020 were \$22.1 million or 2.7 percent of net sales compared to \$21.9 million or 2.7 percent of net sales in fiscal year 2019. Players can purchase up to twenty-five consecutive drawings in advance. Effective August 30, *Hit 5* drawings will be daily.

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 2020 were \$15.2 million, representing 1.9 percent of net sales compared to \$14.7 million or 1.8 percent of net sales in fiscal year 2019. Players can purchase up to twenty-five consecutive drawings in advance. There were 714 prizes in the amount of \$10,000 awarded in fiscal year 2020.

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 \$20.8 million or 2.5 percent of net sales in fiscal year 2020, similar to the \$19.5 million, with a 2.4 percent experienced in fiscal year 2019.

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 \$6.2 million or 0.8 percent of net sales in fiscal year 2020, compared to \$5.9 million or 0.7 percent in fiscal year 2019.

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 2020, the Lottery employed 120 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 2020 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, 2019. This was the thirtieth 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
Chief Financial Officer



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, 2019

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

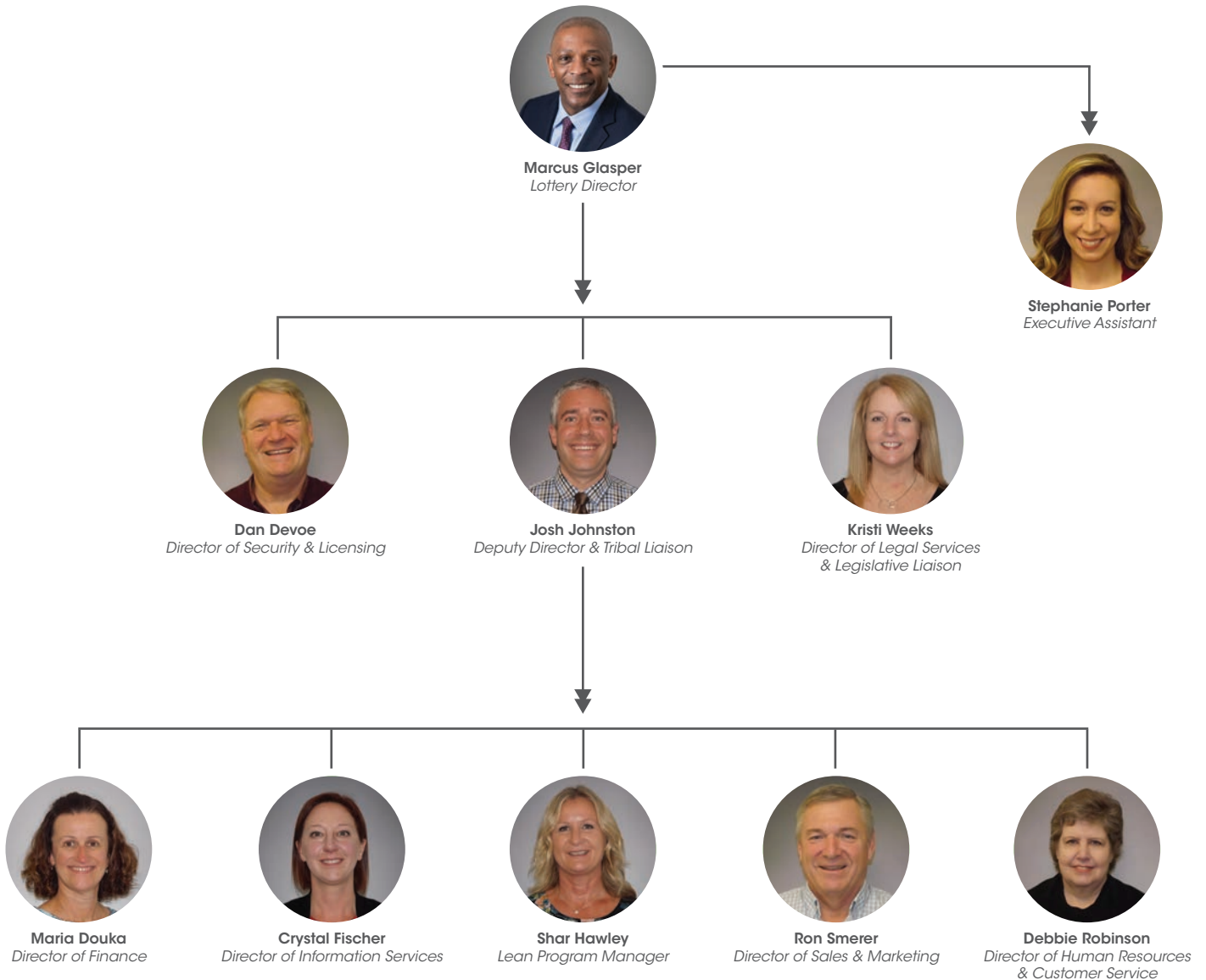


Peter Bogdanoff
Commissioner
Seattle
Term ends
8/2018



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, 2020 and 2019, 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.

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, 2020 and 2019, and the results of its operations and its 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 December 4, 2020 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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
December 4, 2020

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, 2020 and June 30, 2019. 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 \$817.3 million, a 1.7 percent increase from fiscal year 2019 and a 11.4 percent increase from fiscal year 2018.

- *Mega Millions* sales were \$51.0 million, with jackpots ranging from \$40 million to \$410 million.
- *Powerball* sales were \$42.5 million, with jackpots ranging from \$40 million to \$394 million.
- *Scratch* sales were \$619.7 million and increased \$95.8 million or 18.3 percent compared to fiscal year 2019.
- Total contributions to Lottery beneficiaries were \$180.9 million and decreased \$34.8 million or 16.1 percent compared to fiscal year 2019.
- Contributions to the Washington Opportunity Pathways Account reached \$147.3 million.
- Contributions to the Stadium & Exhibition Center (CenturyLink Field) totaled \$13.7 million in fiscal year 2020, representing a 4 percent year-over-year legislative mandated increase.
- Contributions to the Economic Development Account totaled \$3.4 million in fiscal year 2020. Amounts contributed to this beneficiary represent one-third of prizes that go unclaimed each fiscal year.
- Contributions to the General Fund amounted to \$16.2 in fiscal year 2020. 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 \$373.2 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 2020 by \$12.4 million, from \$(12.6) million in 2019 to \$(0.2) thousand in 2020. The Lottery experienced an increase of \$15.9 million in fair value of investments held to fund future annuitized prize payments.

TABLE 1: SUMMARY OF NET POSITION (IN MILLIONS)

	2020	2019	2018
Current assets	\$71.2	\$70.8	\$63.6
Non-current assets - investments	134.4	119.3	120.5
Capital assets - net of depreciation	0.5	0.6	0.8
Total assets	\$206.1	\$190.7	\$184.9
Deferred outflows of resources	\$1.8	\$1.4	\$1.4
Current liabilities	84.2	83.8	73.8
Non-current liabilities	120.3	117.3	126.0
Total liabilities	\$204.5	\$201.1	\$199.8
Deferred inflows of resources	\$3.7	\$3.7	\$1.9
NET POSITION			
Invested in capital assets	0.5	0.6	0.8
Restricted for future prizes	10.7	10.2	12.6
Unrestricted	(11.4)	(23.4)	(28.8)
Total net position	(\$0.2)	(\$12.6)	(\$15.4)

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

	2020	2019	2018*
Sales	\$817.3	\$803.3	\$733.9
Other operating income	2.7	2.7	2.8
Expenses and non-operating activity	(626.7)	(587.4)	(558.2)
Distributions	(180.9)	(215.8)	(182.9)
Changes in net position	\$12.4	\$2.8	(\$4.4)
Total net position at beginning of year	(12.6)	(15.4)	(10.9)
Total net position at end of year	(\$0.2)	(\$12.6)	(\$15.4)

* 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 2020, 2019, and 2018.

TABLE 3: SALES AND PRIZE EXPENSE (IN MILLIONS)						
	Scratch Games			Draw Games		
	2020	2019	2018	2020	2019	2018
Sales	\$619.7	\$523.8	\$507.9	\$197.6	\$279.4	\$226.0
Prize expense	425.3	355.5	343.3	104.9	134.8	114.6
Net receipts	\$194.4	\$168.3	\$164.6	\$92.7	\$144.6	\$111.4

Scratch product sales increased \$95.9 million or 18.3 percent compared to 2019, and increased \$111.8 million or 22.0 percent as compared to 2018. The number of tickets sold increased by 14.9 percent from 114.5 million in fiscal year 2019 to 131.5 million in fiscal year 2020. The average price per ticket increased slightly from \$4.58 in fiscal year 2019 to \$4.71 in fiscal year 2020. *Scratch* prize expense increased in fiscal year 2020 by \$69.8 million, or 19.6 percent compared to fiscal year 2019, and increased \$82.0 million, or 23.9 percent compared to fiscal year 2018. The *Scratch* prize expense ratio increased from 67.9 percent in fiscal year 2019 to 68.6 percent in fiscal year 2020. In fiscal year 2020, \$7.2 million of *Scratch* prizes went unclaimed compared to \$9.2 million in fiscal year 2019.

In fiscal year 2020, Draw game sales decreased by \$81.8 million or 29.3 percent compared to fiscal year 2019 and decreased by \$28.4 million or 12.6 percent compared to fiscal year 2018. In fiscal year 2020, the highest jackpot for *Mega Millions* game was \$410.0 million, as compared to \$1.6 billion in the prior year 2019. 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 decreased by \$16.4 million or 29.1 percent compared to fiscal year 2019 and increased by \$1.2 million or 3.2 percent compared to fiscal year 2018. *Match 4* increased by \$573.0 thousand or 3.9 percent compared to 2019, and increased by \$1.6 million or 11.4 percent compared to fiscal year 2018.

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 decreased in fiscal year 2020 by \$29.9 million or 22.2 percent compared to fiscal year 2019 and decreased by \$9.7 million or 8.4 percent compared to fiscal year 2018.

OTHER OPERATING EXPENSES

Table 4 compares operating expenses, other than prize expense, for gaming operations and administrative expenses for fiscal years 2020, 2019 and 2018.

Retailer commissions increased in fiscal year 2020 by \$981 thousand or 2.4 percent compared to fiscal year 2019; Commission costs as a percentage of sales remained static compared to fiscal year 2019 and 2018. Other game-related expenses, including vendor costs, advertising and miscellaneous promotional expenses, increased by \$3.9 million or 8.2 percent compared to fiscal year 2019. As a percent of sales, these expenses were 6.4 percent for 2020 and 6.0 percent in fiscal year 2019 compared to 5.9 in fiscal year 2018.

Vendor expense, which is the largest component of these costs, is for the most part, paid as a percentage of sales. Advertising expense decreased \$971 thousand or 8.7 percent compared to fiscal year 2019 and increased by \$650 thousand or 6.8 percent compared to fiscal year 2018. Promotional and other operational expenses decreased \$1.1 million or 35.1 percent compared to fiscal year 2019 and decreased \$1.6 million or 43.6 percent compared to fiscal year 2018.

In fiscal year 2020, administrative expenses incurred for the general operation of the agency decreased by 1.4 percent compared to fiscal year 2019, and increased 2.2 percent compared to fiscal year 2018. Depreciation expense decreased by 16.3 percent compared to fiscal year 2019 and decreased by 16.7 percent as compared to fiscal year 2018. As a percentage of sales, overall administrative expenses decreased slightly for 2020 to 1.7 percent compared to 1.8 percent in fiscal year 2019 and 1.9 in fiscal year 2018.

Salaries and benefits expense increased by \$376 thousand or 3.4 percent compared to fiscal year 2019, and increased by \$546 thousand or 5.0 percent compared to fiscal year 2018. Goods and services decreased by \$431 thousand or 15.6 percent compared to 2019, and decreased \$118 thousand or 4.8 percent compared to fiscal year 2018. Travel expense decreased by \$111 thousand or 24.9 percent compared to fiscal year 2019, and decreased by \$87 thousand or 20.6 percent compared to fiscal year 2018.

TABLE 4: RETAIL COMMISSIONS AND OTHER OPERATING EXPENSES (IN MILLIONS)			
	2020	2019	2018
Retail commissions	\$41.2	\$40.2	\$36.9
Other game-related expenses	52.1	48.2	43.3
ADMINISTRATIVE EXPENSES			
Salaries and benefits	11.5	11.1	10.9
Goods and services	2.3	2.8	2.5
Travel	0.3	0.4	0.4
Depreciation	0.1	0.2	0.1
Total administrative expenses	\$14.2	\$14.5	\$14.0

CAPITAL ASSETS

Washington's Lottery's investment in capital assets as of June 30, 2020 amounts to \$506 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 18 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 2020, current liabilities consisted, in part, of \$15.1 million in annuity prizes payable. Long-term annuity prize liabilities were \$110.7 million. Note 5 "Prize Liabilities," shows the current and long-term portions of prize payments.

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)			
	2020	2019	2018
Investment gain (losses)	\$15.9	\$10.1	(\$1.2)
Amortization of annuity prize liability	(5.0)	(4.4)	(5.1)
Interest and miscellaneous income	0.3	0.1	0.1
Total non-operating revenues (expenses) before payments	\$11.2	\$5.8	(\$6.1)
PROCEEDS DISTRIBUTION:			
WA Opportunity Pathways	\$141.0	\$155.2	\$129.6
WOPA - Unclaimed Prizes in Excess of \$10M	6.3	11.6	4.5
State General Fund	16.2	30.9	31.2
Stadium and Exhibition Center	13.7	13.1	12.6
Economic Development	3.4	4.6	4.6
Problem Gambling	0.4	0.4	0.3
Total payments	\$181.0	\$215.8	\$182.9

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 2020 amounted to \$181.0 million.

Contributions to the Washington Opportunity Pathways Account reached \$147.3 million in fiscal year 2020 compared to \$166.7 million in fiscal year 2019 and \$134.2 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 is in excess of \$102 million, such excess shall be transferred to the General Fund.

Contributions to the General Fund amounted to \$16.2 million in fiscal year 2020, \$30.9 million in fiscal year 2019 and \$31.2 million in fiscal year 2018. Contributions to this fund for fiscal years 2020 and 2019 were generated from excess funding between the in-state and *Powerball* games.

Contributions to the Economic Development account amounted to \$3.4 million in fiscal year 2020 compared to \$4.6 million in fiscal year 2019 and \$4.6 million in fiscal year 2018. 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 \$373.2 thousand in fiscal year 2020, compared to \$406.8 thousand in fiscal year 2019 and \$358.8 thousand in fiscal year 2018. 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.

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 \$13.7 million in fiscal year 2020, compared to \$13.1 million in fiscal year 2019 and \$12.6 million in fiscal year 2018.

OTHER POTENTIALLY SIGNIFICANT MATTERS IMPACTING NEXT YEAR

SPORTS BETTING

In 2018, the U.S. Supreme Court invalidated the Professional and Amateur Sports Protection Act of 1992. The ruling allows any state to legalize sports betting. During the 2020 session, the Washington Legislature passed a bill allowing Native American tribes to offer sports betting activities at their tribal casinos. While the bill does not directly affect the Lottery, there is a reasonable expectation that these new gambling activities could draw customers away from lottery play and impact sales.

SPOKANE REGIONAL OFFICE RELOCATION

In 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 expected to open winter 2020.

IMPACT OF COVID-19

Washington's Lottery experienced a significant spike in sales in the early months of the COVID-19 pandemic when Washington's Governor issued the Stay Home, Stay Healthy executive order as consumers were limited in options available for entertainment spending. While sales of lottery products have stabilized back to previous levels as the economy slowly recovers, the outlook is still unknown given many environmental factors such as recent trends in COVID-19 infection rates and the probability of an effective vaccine. Washington's Lottery remains cautiously optimistic that its sales will continue to meet forecasted targets, but the impacts of the pandemic will continue to affect lottery operations, staffing, and customer service for the foreseeable future.

CONTACTING THE LOTTERY

This financial report is provided for interested parties to evaluate the financial results of Lottery activities for fiscal year 2020. If you have questions about this report or need additional financial information, please contact:

Kristi Weeks

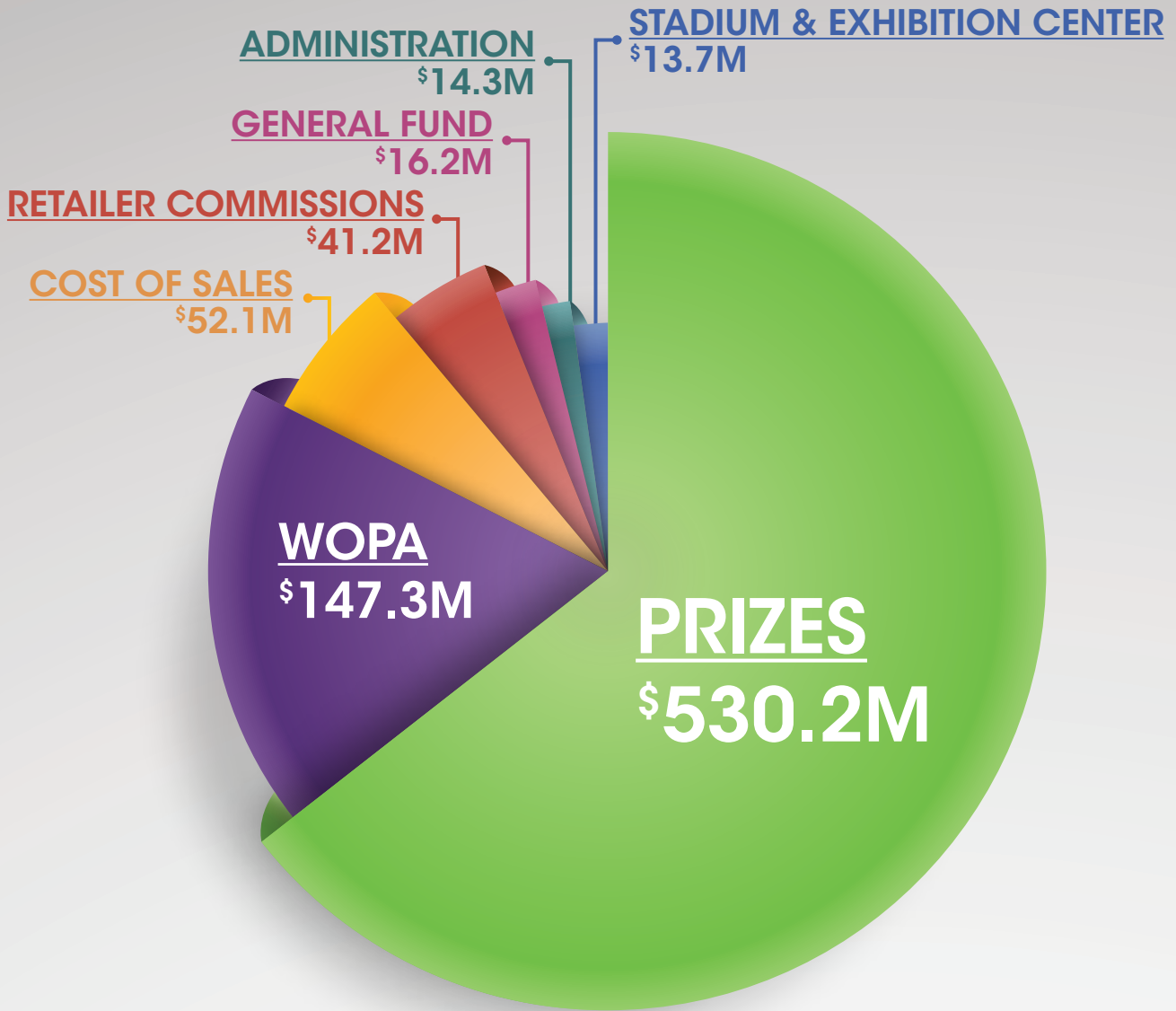
Public Records Officer
Director of Legal Services
(360) 810-2881
kweeks@walottery.com

Audrey Price

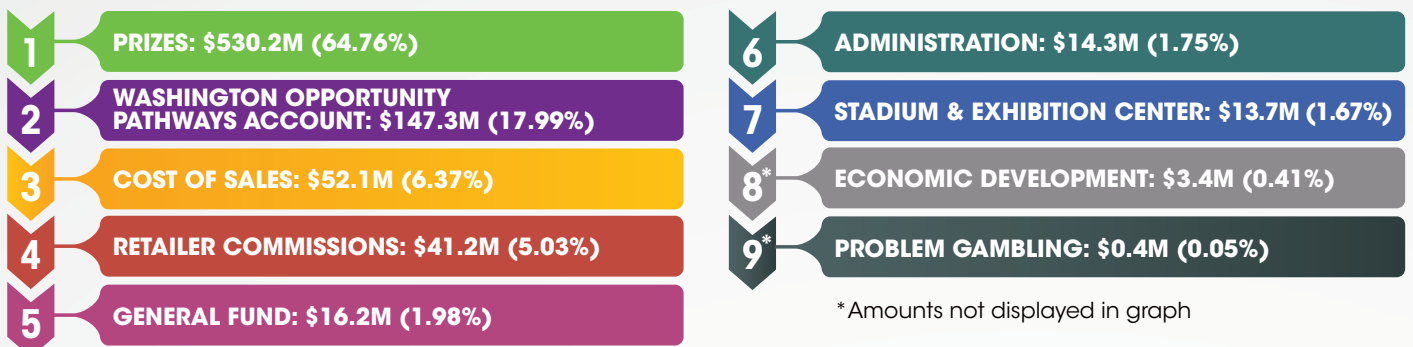
Public Records Coordinator
Legal Assistant
(360) 701-6672
aprice@walottery.com



FY20 FUND DISTRIBUTION



TOTAL PAYMENTS: \$818.8 MILLION



WASHINGTON'S LOTTERY STATEMENTS OF NET POSITION AS OF JUNE 30, 2020 AND JUNE 30, 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$24,535,603	\$24,141,862
Accounts receivable, net of allowances	27,234,768	29,755,143
Investments	16,068,946	15,178,948
Due from the state	2,749,435	1,268,180
Inventory	640,642	479,752
Prepaid expenses	-	12,135
Total current assets	71,229,394	70,836,020
NON-CURRENT ASSETS		
Investments	134,428,580	119,318,925
Capital assets, net of accumulated depreciation	506,285	614,410
Total non-current assets	134,934,865	119,933,335
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Pensions	1,223,197	1,159,052
Deferred Outflow of Resources on OPEB	587,850	277,600
Total deferred outflows of resources	1,811,047	1,436,652
Total assets and deferred outflows of resources	207,975,306	192,206,007
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	2,463,643	4,185,931
Prizes payable	49,160,215	42,647,207
Annuity prizes payable, current portion	15,138,050	14,002,260
Due to the state	16,269,800	21,565,475
Salaries and benefits payable	481,947	499,577
Unearned revenue	634,497	794,159
Other Postemployment Benefits	99,291	95,743
Total current liabilities	84,247,443	83,790,352
NON-CURRENT LIABILITIES		
Annuity prizes payable, net of current portion	110,674,262	107,249,556
Accrued leave payable	972,548	915,684
Net pension liability	2,948,597	4,052,669
Other Postemployment Benefits	5,659,011	5,118,690
Total non-current liabilities	120,254,418	117,336,599
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Pensions	1,641,298	1,484,772
Deferred Inflow of Resources on OPEB	2,048,892	2,188,229
Total deferred inflows of resources	3,690,190	3,673,001
Total liabilities and deferred inflows of resources	208,192,051	204,799,952
NET POSITION		
Invested in capital assets	506,285	614,410
Restricted for future prizes	10,689,615	10,222,973
Unrestricted	(11,412,645)	(23,431,328)
Total Net Position	(\$216,745)	(\$12,593,945)

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, 2020 AND JUNE 30, 2019

	2020	2019
SALES		
Scratch ticket sales	\$619,682,535	\$523,857,598
Draw game sales	197,616,562	279,420,339
Total sales	817,299,097	803,277,937
Other Operating Income	2,691,470	2,702,605
Total Revenue	819,990,567	805,980,542
COST OF SALES		
Prize expense	530,237,664	490,355,040
Retailer commissions	41,202,583	40,221,131
Vendor expense	39,823,710	33,762,918
Advertising expense	10,227,617	11,198,372
Miscellaneous promotional & other operating expenses	2,074,262	3,192,138
Total cost of sales	623,565,836	578,729,599
ADMINISTRATIVE EXPENSES		
Salaries and benefits	11,493,019	11,116,890
Goods and services	2,336,302	2,766,921
Travel	333,129	444,974
Depreciation	136,028	162,517
Total administrative expenses	14,298,478	14,491,302
Operating income	182,126,253	212,759,641
NON-OPERATING REVENUES (EXPENSES)		
Gains (Losses) on Investments	15,944,818	10,110,562
Amortization of annuity prize liability	(5,019,561)	(4,400,523)
Interest income	263,249	125,192
Fee income	10,875	10,700
Gain (Loss) on disposal of capital assets	420	100
Total before payments to beneficiaries	11,199,801	5,846,031
Payments to Washington Opportunity Pathways Account (WOPA)	(141,077,804)	(155,184,082)
Payments to WOPA - Unclaimed Prizes Excess of \$10M	(6,257,391)	(11,559,266)
Payments to Stadium and Exhibition Center Account	(13,672,608)	(13,146,739)
Payments to Economic Development	(3,362,016)	(4,564,936)
Payments to Problem Gambling	(373,180)	(406,800)
Payments to General Fund	(16,205,856)	(30,920,310)
Total payments to beneficiaries	(180,948,855)	(215,782,133)
Net non-operating expense	(169,749,054)	(209,936,102)
Total net position at beginning of year	(12,593,945)	(15,417,484)
Change in net position	12,377,200	2,823,539
Total net position at end of year	(\$216,745)	(\$12,593,945)

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, 2020 AND JUNE 30, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from players and retailers (net of commissions)	\$779,667,443	\$761,715,719
Cash payments for prizes	(524,183,721)	(493,334,673)
Cash payments to suppliers of goods or services	(57,087,226)	(51,841,340)
Cash payments to employees	(11,453,785)	(10,979,286)
Cash payments for other operating costs	(333,129)	(444,974)
Net cash provided by operating activities	186,609,582	205,115,446
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash payments to Washington Opportunity Pathways Account (WOPA)	(146,246,496)	(144,112,049)
Cash payments to WOPA Unclaimed Prizes in Excess of \$10M	(6,257,391)	(11,559,266)
Cash payments to General Fund	(16,733,620)	(38,741,348)
Cash payments to Stadium and Exhibition Center Account	(13,672,608)	(13,146,739)
Cash payments to Economic Development Account	(3,128,695)	(5,779,632)
Cash payments to Problem Gambling Account	(368,837)	(412,900)
Net cash provided (used) by non-capital financing activities	(186,407,647)	(213,751,934)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of equipment	420	100
Payments for acquisition of equipment	(27,905)	-
Net cash provided (used) by capital and related financing activities	(27,485)	100
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of interest	274,124	135,892
Proceeds from maturity of investments	15,862,000	15,190,000
Payments for investments	(15,916,834)	(3,996,686)
Net cash provided by investing activities	219,290	11,329,206
Net increase (decrease) in cash and cash equivalents	393,741	2,692,818
Cash and cash equivalents at the beginning of year	24,141,862	21,449,044
Cash and cash equivalents at end of year	\$24,535,603	\$24,141,862
RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$182,126,253	\$212,759,641
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	136,028	162,517
Pension and OPEB adjustment	(917,409)	(821,752)
CHANGES IN ASSETS AND LIABILITIES		
Receivables	1,039,120	(4,359,194)
Prepaid expenses	12,135	20,802
Inventory	(160,890)	(29,431)
Accounts Payable	(1,559,171)	(90,610)
Prizes payable	6,513,008	7,679,640
<i>Lotto</i> and win for life payments	(459,065)	(10,659,273)
Accrued payroll	39,235	137,604
Unearned revenue	(159,662)	315,502
Total adjustments	4,483,329	(7,644,195)
Net cash provided by operating activities	\$186,609,582	\$205,115,446
SCHEDULE OF NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	15,944,818	\$10,110,562
Amortization of long-term annuity prize liability	5,019,561	\$4,400,523

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

WASHINGTON'S LOTTERY NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020 and June 30, 2019

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, 2019, through June 30, 2021, is \$29.9 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.

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, 2020 WAS AS FOLLOWS

CAPITAL ASSETS BEING DEPRECIATED	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Leasehold Improvements	\$889,425	-	-	\$889,425
Equipment	1,484,267	27,905	-	1,512,172
Total capital assets being depreciated	2,373,692	27,905	-	2,401,597
LESS ACCUMULATED DEPRECIATION FOR				
Leasehold improvements	(755,572)	(44,619)	-	(800,191)
Equipment	(1,003,710)	(91,411)	-	(1,095,121)
Total accumulated depreciation	(1,759,282)	(136,028)	-	(1,895,312)
Total capital assets being depreciated, net	\$614,410	(\$108,125)	-	\$506,285

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

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 2020 and 2019 the breakdown was as follows:

DUE TO STATE AND OTHER AGENCIES		
	2020	2019
WA Opportunity Pathways	\$14,461,165	\$19,629,856
Economic Development	344,808	111,487
General Fund	1,044,896	1,572,660
Problem Gambling	37,548	33,206
Other Agencies	381,383	218,266
Total Due to State and Other Agencies	\$16,269,800	\$21,565,475

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, 2020 and 2019, the prize expense as a percentage of sales increased slightly to 64.9 from 61.0 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 2020 and 2019, the commission rate for all *scratch* tickets and draw games sold were paid at 5 percent of sales.

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 \$141.0 million in fiscal year 2020 and \$155.2 million in fiscal year 2019.

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 2020 were \$6.3 million, compared to \$11.6 million in fiscal year 2019.

These mandates resulted in a total of \$147.3 million and \$166.7 million being distributed to the Washington Opportunity Pathways Account in fiscal years 2020 and 2019, 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 \$13.7 million in fiscal year 2020 and \$13.1 million in fiscal year 2019.

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 \$3.4 million in fiscal year 2020 and \$4.6 million in fiscal year 2019.

PAYMENTS TO THE GENERAL FUND 

Contributions to the General Fund in fiscal year 2020 amounted to \$16.2 million, compared to \$30.9 million 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.

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 \$373.2 thousand in fiscal year 2020 and \$406.8 thousand in fiscal year 2019.

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 2020, \$10.1 million of prizes went unclaimed, of which \$9.7 million was paid out. The following transfers were made out of the unclaimed prize fund for fiscal year 2020:

1. \$3.4 million was used for contributions to the Economic Development Strategic Reserve Account.
2. \$6.3 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, 2020, the unclaimed reserve contained a balance of \$10.7 million compared to \$10.2 million as of June 30, 2019.

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, 2020 and June 30, 2019, the amount of cash on deposit was \$24,535,603 and \$24,141,862, 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, 2020 were as follows:

TABLE 7: MATURITIES IN YEARS	
Less than 1	\$16,068,946
1-5	63,440,545
6-10	30,842,869
11-15	18,861,517
16-20	14,174,556
21-25	3,860,726
26-30	3,248,367
Fair Market value	\$150,497,526

Fair value measurements of the Lottery’s investments in U.S. Treasury Strips, valued at \$150,497,526 and \$134,497,873 on June 30, 2020 and 2019, 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, 2028. Total costs for such leases were \$753,688 and \$755,509 for the fiscal years ended June 30, 2020 and June 30, 2019, 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, 2020:

TABLE 8: LEASE COMMITMENT	
FISCAL YEAR	OPERATING LEASES
2021	\$773,248
2022	634,867
2023	515,454
2024	513,606
2025	492,931
2026 - 2028	927,334
Total	\$3,857,440

NOTE 5 – PRIZE LIABILITIES

Presented below is a summary of the annuity prize payment requirements as of June 30, 2020:

FISCAL YEAR	PRESENT VALUE	UNAMORTIZED DISCOUNT	ANNUAL PAYMENTS
2021	\$15,138,050	\$1,061,950	\$16,200,000
2022	14,539,185	1,740,815	16,280,000
2023	13,724,063	2,355,937	16,080,000
2024	10,204,992	2,255,008	12,460,000
2025	9,222,030	2,433,970	11,656,000
2026-2030	26,419,862	9,288,138	35,708,000
2031-2035	15,703,981	8,046,019	23,750,000
2036-2040	11,677,090	7,852,910	19,530,000
2041-2045	5,304,372	3,553,628	8,858,000
2046-2074	3,878,687	4,137,313	8,016,000
	\$125,812,312	\$42,725,688	\$168,538,000

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, 2020 and 2019 was as follows:

FISCAL YEAR	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
2020	\$121,251,816	20,464,495	(15,903,999)	\$125,812,312	\$15,138,050
2019	\$127,510,566	8,840,895	(15,099,645)	\$121,251,816	\$14,002,260

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 \$688,705 and \$629,548 on June 30, 2020 and June 30, 2019, 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, 2020 and 2019, represent possible future payments of \$1,305,026 and \$1,300,616, 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 \$283,843 and \$286,136 on June 30, 2020 and 2019, 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, 2020 was as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Annual Leave	\$629,548	\$675,834	(\$616,677)	\$688,705
Sick Leave	\$286,136	\$91,213	(\$93,506)	\$283,843

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

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.	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%.	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 2020, were as follows:

	EMPLOYER			EMPLOYEE		
	PERS 1	PERS 2	PERS 3	PERS 1	PERS 2	PERS 3
CONTRIBUTION PERCENTAGE	7.92%	7.92%	7.92%	6.00%	7.90%	Variable
ADMINISTRATIVE FEE	0.18%	0.18%	0.18%	N/A	N/A	N/A
PLAN 1 UAAL	4.76%	4.76%	4.76%	N/A	N/A	N/A
Total	12.86%	12.86%	12.86%	6.00%	7.90%	Variable

OSA - Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2018 with the results rolled forward to June 30, 2019, 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, 2018, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2018 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, 2019, are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
FIXED INCOME	20%	2.2%
TANGIBLE ASSETS	7%	5.1%
REAL ESTATE	18%	5.8%
GLOBAL EQUITY	32%	6.3%
PRIVATE EQUITY	23%	9.3%
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 2019 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	\$2,794	\$2,235	\$1,742
PERS 2/3	\$5,451	\$714	\$(3,179)
Total	\$8,245	\$2,949	\$(1,437)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the years ended June 30, 2020 and June 30, 2019, PERS 1 recognized pension expense of \$0 thousand and \$247 thousand, respectively. PERS 2/3 recognized pension expense of \$152 thousand for the year ended June 30 2020 and (\$27) thousand for the year ended June 30, 2019. At June 30, 2020 and 2019, 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, 2020 (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		\$149
Lottery contribution subsequent to measurement date*	\$423	-
PERS 2/3		
Difference between expected and actual experience	\$204	\$153
Changes of assumptions	18	300
Net difference between projected and actual earnings on pension plan investments		1039
Change in proportion	(103)	-
Lottery contributions subsequent to measurement date*	681	-
TOTAL	\$1,223	\$1,641

*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, 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	
Net difference between projected and actual earnings on pension plan investments		359
Change in proportion	(48)	775
Lottery contributions subsequent to measurement date*	586	18
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.

The \$1.2 million and \$1.2 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, 2020 INCREASE / (REDUCTION IN PENSION EXPENSE)" (AMOUNTS IN THOUSANDS)			
	PERS 1	PERS 2	Total
2021	\$(33)	\$(357)	\$(390)
2022	(78)	(561)	(639)
2023	(28)	(266)	(294)
2024	(10)	(156)	(166)
2025	-	(73)	(73)
Thereafter	-	1	1
Total	\$(149)	\$(1,412)	\$(1,561)

Collective Net Pension Liability/(Asset).

At June 30, 2020, the Lottery reported a liability of \$2.2, million for its proportionate share of the collective net pension liability for PERS 1 and \$714 thousand for PERS 2/3. For 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. The Lottery's proportion for PERS 1 was .058012 percent, and .062475 percent for the year ending June 30, 2020 and 2019, respectively. The Lottery's portion of the PERS 2/3 was .073167 percent and .073760 percent for the years ended June 30, 2020 and 2019, 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, 2018 with the results rolled forward to June 30, 2019, 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 – 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. The PEBB OPEB plan has no assets and 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 30, 2018, membership in the PEBB plan consisted of the following:

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

*Reflects active employees eligible for PEBB program participants as of June 2018.

**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. In order to do so, they must show proof of continuous medical coverage since their separation of employment with the State of Washington that meets the requirements set forth in Washington Administrative Code 182-12-205.

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 2018 and 2019, the average weighted implicit subsidy was valued at \$347 and \$367 per adult unit per month, respectively. In calendar year 2020, the average weighted implicit subsidy is projected to be \$373 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 2018 and 2019, the explicit subsidy was up to \$168 per member per month, increasing to up to \$183 per member per month in calendar year 2020. It is projected to remain at \$183 per member per month in calendar year 2021.

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.

The estimated monthly cost for PEBB benefits for the reporting period for each active employee (average across all plans and tiers) is as follows (expressed in dollars):

REQUIRED PREMIUM*	
Medical	\$1,100
Dental	81
Life	4
Long-term disability	2
Total	1,187
Employer contribution	1,024
Employee contribution	162
	\$1,186

**Per 2020 PEBB Financial Projection Model 3.3. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on calendar year 2020, 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 \$5.8 million for June 30, 2020 and \$5.2 million for June 30, 2019. This liability was determined based on a measurement date of June 30, 2019 and June 30, 2018, respectively.

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

Actuarial valuation date	6/30/2018
Actuarial measurement date	6/30/2019
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%

In projecting the growth of the explicit subsidy, after 2022 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 and 3.5 percent for the June 30, 2019, 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, 2020 and 2019, 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		
	2020	2019
PROPORTIONATE SHARE (%)	0.09921504260%	0.10267393281%
Service Cost	\$233,157	\$326,014
Interest Cost	202,250	224,133
Difference Between Expected and Actual Experience	-	204,590
Changes in Assumptions	376,644	(1,427,243)
Benefit Payments	(92,517)	(94,663)
Changes in Proportionate Share	(175,665)	(79,394)
Net Change in Total OPEB Liability	\$543,869	\$(846,563)
Total OPEB Liability - Beginning	\$5,214,433	\$6,060,996
Total OPEB Liability - Ending	\$5,758,302	\$5,214,433

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

As of June 30, 2020 and 2019, the components that make up OPEB expense for State Lottery Commission are as follows:

WASHINGTON STATE LOTTERY		
	2020	2019
PROPORTIONATE SHARE (%)	0.09921504260%	0.10267393281%
Service Cost	\$233,157	\$326,014
Interest Cost	202,250	224,133
Amortization of Difference Between Expected and Actual Experience	21,966	22,732
Amortization of Changes in Assumptions	(210,873)	(261,533)
Amortization of Changes in Proportion	(52,927)	(27,002)
Transactions Subsequent to Measurement Date	(99,291)	(95,743)
Total OPEB Expense	\$94,282	\$188,601

On June 30, 2020 and 2019, the deferred inflows and deferred outflows of resources for Washington's Lottery are as follows:

WASHINGTON STATE LOTTERY				
	2020		2019	
PROPORTIONATE SHARE (%)	0.09921504260%		0.10267393281%	
DEFERRED INFLOWS/OUTFLOWS OF RESOURCES	DEFERRED OUTFLOWS	DEFERRED INFLOWS	DEFERRED OUTFLOWS	DEFERRED INFLOWS
Difference between expected and actual experience	\$153,765	\$-	\$181,857	\$-
Changes in Assumptions	334,794	1,669,580	-	1,989,319
Transactions subsequent to the measurement date	99,291	-	95,743	-
Changes in Proportion	-	379,312	-	198,910
Total Deferred (Inflows)/Outflows	\$587,850	\$2,048,892	\$277,600	\$2,188,229

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 years ended June 30, 2020 and 2019 as follows:

WASHINGTON STATE LOTTERY		
	2020	2019
PROPORTIONATE SHARE (%)	0.09921504260%	0.10267393281%
2021	\$(241,835)	\$(265,804)
2022	\$(241,835)	\$(265,804)
2023	\$(241,835)	\$(265,804)
2024	\$(241,835)	\$(265,804)
2025	\$(241,835)	\$(265,804)
Thereafter	\$(351,158)	\$(677,352)

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, 2020, 2019 and 2018:

WASHINGTON STATE LOTTERY FOR THE YEAR ENDED JUNE 30, 2020	
PROPORTIONATE SHARE (%) 2018	0.10267393281%
PROPORTIONATE SHARE (%) 2019	0.09921504260%
Total OPEB Liability - Ending 2018	\$5,214,433
Total OPEB Liability - Beg 2019 (chng in prop)	\$5,038,768
Total OPEB Liability Change in Proportion	\$(175,665)
Total Deferred Inflows/Outflows 2017 (chng in prop)	\$(1,711,719)
Total Deferred Inflows/Outflows 2018 (chng in prop)	\$(1,654,054)
Total Deferred Inflows/Outflows Change in Proportion	\$57,664
Total Change in Proportion	\$(233,329)

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)

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, 2020 calculated using the discount rate of 3.5 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 (2.5 percent) or 1 percentage point higher (4.5 percent) than the current rate:

DISCOUNT RATE SENSITIVITY		
1% DECREASE	CURRENT DISCOUNT RATE	1% INCREASE
\$6,973,110	\$5,758,302	\$4,814,755

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, 2020, calculated using the health care trend rate of 8.00 percent decreasing to 4.50 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 decreasing to 3.50 percent) or 1 percentage point higher (9.00 percent decreasing to 5.50 percent) than the current rate:

HEALTH CARE COST TREND RATE SENSITIVITY		
1% DECREASE	CURRENT TREND RATE	1% INCREASE
\$4,660,471	\$5,758,302	\$7,235,815

NOTE 10 – 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 2020:

- 1) Under a contract that expires on March 18, 2024, Scientific Games International is the primary supplier of Instant Game tickets.
- 2) Under a contract that expires on March 17, 2024, Pollard Banknote Limited is an alternate supplier of Instant Game tickets.
- 3) Under a contract that expires on March 28, 2024, IGT Printing is an alternate supplier of Instant Game tickets.

COVID-19 PANDEMIC

During 2020, the world-wide coronavirus pandemic continues to impact national and global economies. The Lottery is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance these financial statements, the current and future full impact to the Lottery is not known.

**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)						
	2019	2018	2017	2016	2015	2014
Lottery's PERS 1 statutorily required contributions	0.0580120%	0.0624750%	0.0652730%	0.070679%	0.067046%	0.072025%
Lottery's PERS 1 contributions in relation to the statutorily required contributions	\$2,235	\$2,790	\$3,125	\$3,800	\$3,510	\$3,610
Lottery's PERS 1 contributions (deficiency) excess	\$71	\$255	\$404	\$483	\$521	\$515
Lottery's PERS 1 employer's covered payroll	3148%	1094%	774%	787%	674%	701%
Lottery's PERS 1 contributions as a percentage of covered payroll	67.12%	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) PLAN 2/3						
MEASUREMENT DATE OF JUNE 30 (DOLLAR AMOUNTS IN THOUSANDS)						
	2019	2018	2017	2016	2015	2014
Lottery's PERS 2/3 statutorily required contributions	0.073167%	0.073760%	0.074469%	0.078492%	0.073460%	0.079354%
Lottery's PERS 2/3 contributions in relation to the statutorily required contributions	\$714	\$1,263	\$2,619	\$3,968	\$2,626	\$1,596
Lottery's PERS 2/3 contributions (deficiency) excess	\$8,030	\$7,622	\$7,320	\$7,335	\$6,584	\$6,789
Lottery's PERS 2/3 employer's covered payroll	8.89%	16.57%	35.77%	54.10%	39.88%	23.51%
Lottery's PERS 2/3 contributions as a percentage of covered payroll	97.77%	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)						
	2020	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	12.86%	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)						
	2020	2019	2018	2017	2016	2015
Lottery's PERS 2/3 statutorily required contributions	\$1,061	\$1,029	\$968	\$818	\$820	\$606
Lottery's PERS 2/3 contributions in relation to the statutorily required contributions	\$1,061	\$1,029	\$968	\$818	\$820	\$606
Lottery's PERS 2/3 contributions (deficiency) excess	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's PERS 2/3 employer's covered payroll	\$8,248	\$8,030	\$7,622	\$7,320	\$7,335	\$6,584
Lottery's PERS 2/3 contributions as a percentage of covered payroll	12.86%	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, 2017, valuation date, completed in the Fall of 2018, plus any supplemental contribution rates from the preceding legislative session, determine the ADC for the period beginning July 1, 2019, and ending June 30, 2021.

OTHER POSTEMPLOYMENT BENEFITS

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

	2020	2019	2018
TOTAL OPEB LIABILITY			
Service Cost	\$ 233,157	\$326,014	\$409,921
Interest Cost	202,250	224,133	192,647
Difference between expected and actual experience	-	204,590	-
Changes in benefit terms	-	-	-
Changes in assumptions	376,644	(1,427,243)	(938,860)
Benefit Payments	(92,517)	(94,663)	(98,085)
Changes in proportionate share	(175,665)	(79,394)	(155,328)
NET CHANGES IN TOTAL OPEB LIABILITY	\$ 543,869	\$(846,563)	\$(589,885)
TOTAL OPEB LIABILITY – BEGINNING	\$5,214,433	\$6,060,996	\$6,650,881
TOTAL OPEB LIABILITY – ENDING	\$5,758,302	\$5,214,433	\$6,060,996
COVERED PAYROLL	\$8,248,476	\$8,101,432	\$7,877,200
TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	69.8%	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 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 then ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements and have issued our report thereon dated December 4, 2020.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-1 that we consider to be a material weakness.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
December 4, 2020

Washington's Lottery
Schedule of Findings and Responses
Year Ended June 30, 2020

Material Weakness: 2020-1

Criteria:

The Lottery should have a system of internal control in place to prevent or detect and correct misstatements in the financial statements related to the valuation of investments. A key component of an adequate system of internal control is processes and procedures in place at the Lottery that allows management to assess the reasonableness of fair values provided by third parties when marking the investments to fair value at each measurement date for financial reporting purposes.

Condition:

Accounting principles generally accepted in the United States of America require the Lottery to present investments at fair value in its financial statements. The Lottery has historically relied on the custodian of investment securities to provide the appropriate fair values. During fiscal year 2020, the Lottery had a change in investment custodian. During the 2020 fiscal year-end financial close process, the Lottery relied on a positions report provided by the new custodian to mark the investments to fair value. The positions report supplied by the new custodian reported amounts indicative of fair value by investment security as denoted by a column captioned "Market Value".

During the audit, through performance of audit procedures, it was noted that the "Market Value" provided by the custodian was incorrect for the entire portfolio of investment securities. Management investigated the matter further in coordination with the custodian and determined that the custodian was unable to provide market values for the investment portfolio. To satisfy the requirements of accounting principles generally accepted in the United States of America, management engaged a third party vendor specializing in valuation services to price the investment portfolio to fair value as of June 30, 2020.

Due to the condition outlined above, investments and the related gains on investments were understated by a material amount. The misstatement related to investments was detected as a result of audit procedures and was corrected by management.

Effect:

Investments and the related gains on investments were understated by \$63,522,802 as of, and for the year ended June 30, 2020. In addition, due to the custodian unable to provide market values, the Lottery engaged a third party vendor specializing in valuation services for which the Lottery incurred additional costs.

Cause:

The misstatement was caused due to the inability of the custodian to provide market values. In addition, the Lottery relied on incorrect information supplied by the custodian and did not have an internal control process or compensating controls in place to validate the information supplied by the custodian.

Recommendation:

The Lottery should have processes and procedures in place to ensure the reasonableness of market values provided by third parties, especially in a period of transition. Historically, the Lottery has relied on the custodian to provide market values however the Lottery is ultimately responsible to ensure reasonableness of information provided by third parties including specialists. In order to mitigate this issue in the future, the Lottery has retained the services of a third party vendor specializing in valuation services.

Views of Responsible Officials:

The Lottery acknowledges the investment market valuation supplied by its financial institution to be incorrect. The Lottery has relied on its financial institution, who is the investment custodian of its financial instruments, to supply the annual market valuation. In FY2020, the Lottery's investment custodian contract was moved to another institution. The Lottery relied on the information without further confirmation, as its former investment custodian supplied the required data without confirmation being necessary.

The Lottery has retained an independent organization that specializes in market valuations in order to substantiate its investment market valuation for the financial reporting at year-end. We believe this additional verification will provide the additional control necessary for year-end reporting purposes.

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 \$14.0 million or 1.7 percent in fiscal year 2020 over fiscal year 2019 due to several factors, including:

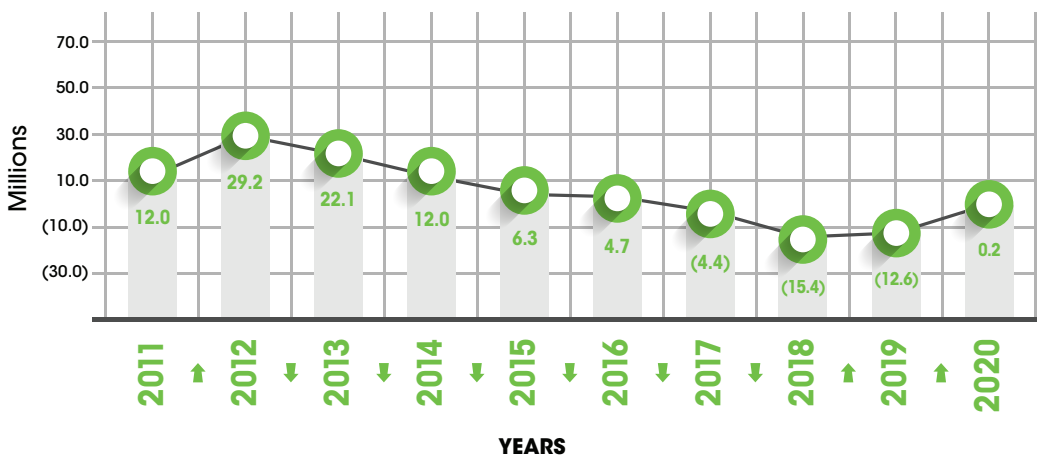
- Strong sales in *Scratch* games with 18.3 percent growth in *scratch* in fiscal year 2020 over 2019;
- Overall sales for *Match 4*, *Hit 5*, and *Daily Keno* were up from prior year;
- Sales for *Daily Game* increased by \$1.3 million;
- Total number of *Scratch* tickets sold increased by 14.9 percent in fiscal year 2020, compared to 2019, with average price per ticket increasing from \$4.58 to \$4.71 year over year.

Mega Millions, *Powerball*, and *Lotto* all experienced significant decreases in sales due to jackpots not reaching up toward desirable jackpots during fiscal year 2020.

Operating expenses are dominated by prizes, retailer commissions, gaming vendor commissions, marketing and advertising. Prize expenses increased in fiscal year 2020 by \$39.9 million, or 8.1 percent compared to fiscal year 2019 and increased by \$72.3 million or 15.8 percent as compared to fiscal year 2018. Net operating profit decreased by \$30.6 million or 14.4 percent compared to fiscal year 2019 and decreased \$2.5 million or 1.3 percent compared to fiscal year 2018.

Net position is affected by the fluctuation in the value of securities, and the Lottery saw an decrease by \$16.0 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 58 *Scratch* games during fiscal year 2020.

The number and type of retail locations that sell Lottery products in Washington also impact the revenue capacity. During fiscal year 2020, the Lottery decreased a net of 6 retailers bringing the total number at the end of fiscal year 2020 to 3,592 compared to 3,598 for the prior year.

STATISTICAL SECTION

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 64 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 10 employees, Information Services Division with 15 employees, Security Division with 5 employees, and Human Resources/Customer Service Division with 9 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	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Executive	8	8	8	10	9	7	7	8	8	10
Finance & Administration	19	18	20	19	21	22	22	22	20	19
Information Services	15	16	16	16	17	17	15	16	13	15
Security	5	5	5	5	4	4	4	5	5	5
Human Resources/Customer Service	9	13	10	11	10	11	10	11	12	5
Sales/Marketing	64	69	69	69	69	70	72	71	11	12
Sales	0	0	0	0	0	0	0	0	63	72
Total	120	129	128	130	130	131	130	133	132	138

DEMOGRAPHIC AND ECONOMIC INFORMATION 

Washington State’s population is approximately 7.6 million people. Median household income in Washington in 2020 was \$73,294 and per capita personal income was \$64,898. Washington’s unemployment rate in 2020 was 9.2 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
2020	7.6	74,992	64,898	9.2%
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%

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 ages 35 - 44 through ages 45 - 54 and over 65 represent 68 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.

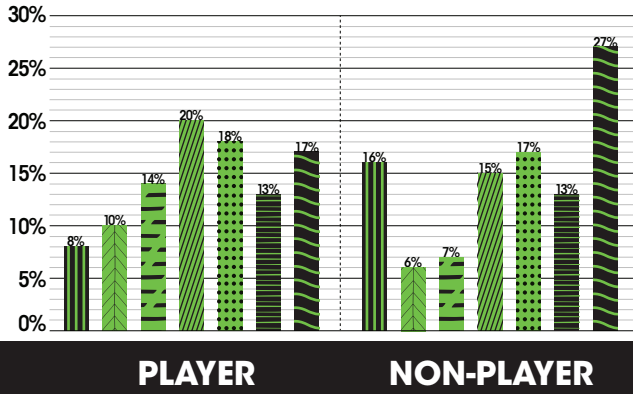
Employment Status: Players were less likely to be retired, and more likely to be employed full-time, than non-players.

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

STATISTICAL SECTION

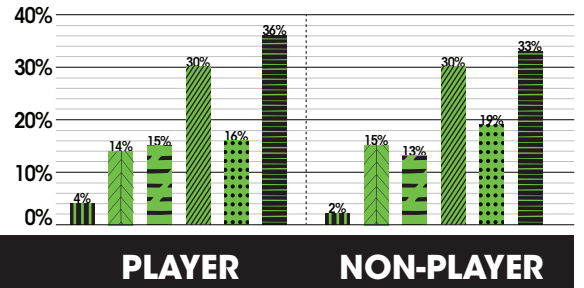
AGE

- 18-24
- 25-29
- 30-34
- 35-44
- 45-54
- 55-64
- 65 or older



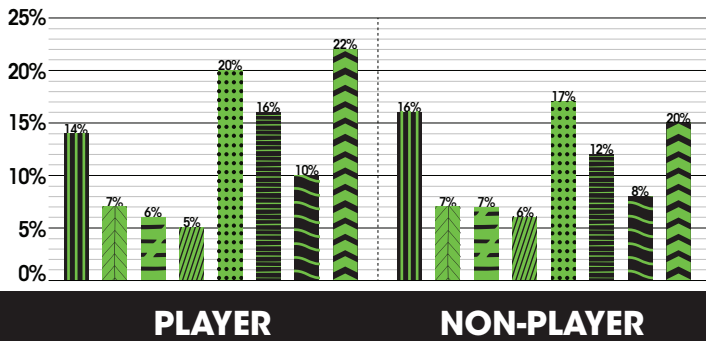
EDUCATION

- No Degree Or Diploma
- High School Diploma / GED
- 2 Year College / Associates or Tech School Degree
- 4 Year College Degree / Bachelor's Degree
- Post Graduate degree / Master's Degree
- Some college (No degree)



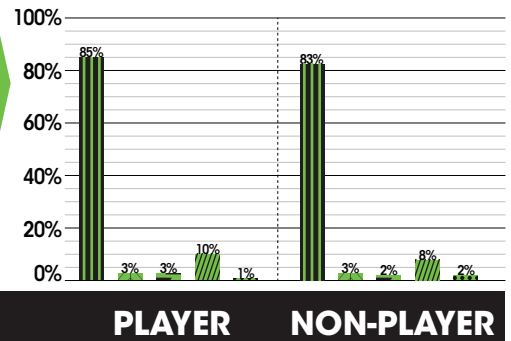
ANNUAL INCOME

- Under \$20K
- \$20K - 30K
- \$30K - \$40K
- \$40K - \$50K
- \$50K - \$75K
- \$75K - \$100K
- \$100K - 125K
- \$125K +



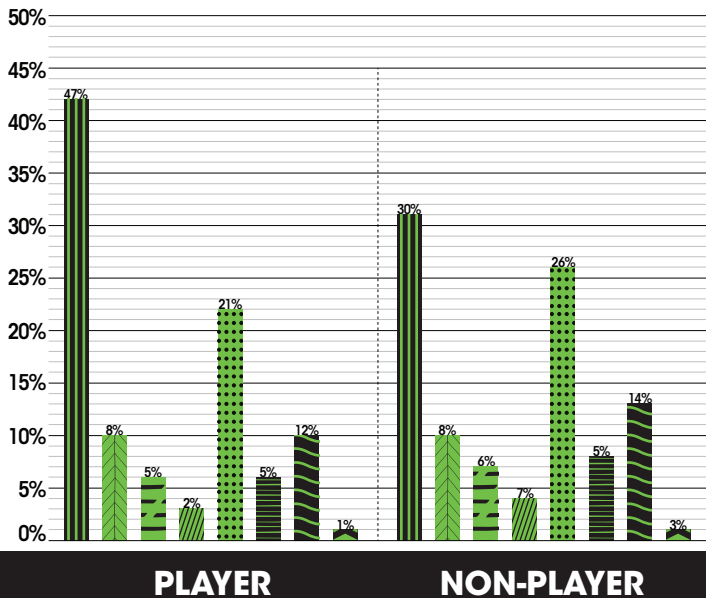
ETHNIC BACKGROUND

- White/Caucasian
- African-American
- Asian/Pacific Islander
- Other
- Native American Or American Indian



EMPLOYMENT

- Full-Time
- Part-Time
- Self-Employed
- Student
- Retired
- Homemaker
- Unemployed
- Don't know



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

The top ten private employers in Washington for fiscal years 2010-2019 are displayed below. The Lottery will continue to gather information in order to report the required 10 years of information

2019				
#	Employer	City	Employees Count	Percentage
1	The Boeing Co.	Seattle	69,830	17%
2	Joint Base Lewis-McChord	Lewis-McChord	54,000	13%
3	Amazon.com Inc.	Seattle	52,000	12%
4	Microsoft Corp.	Redmond	51,362	12%
5	University of Washington	Seattle	46,824	11%
6	Navy Region Northwest	Silverdale	46,015	11%
7	Providence St. Joseph Health	Renton	43,000	10%
8	Safeway Inc. & Albertsons LLC	Bellevue	21,320	5%
9	Walmart Inc.	Bentonville, AR	19,412	5%
10	Costco Wholesale Corp.	Issaquah	18,010	4%
Total			421,773	100%

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%

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	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Invested in capital assets	506,285	614,410	776,927	932,430	418,217	544,959	266,529	403,881	358,544	275,584
Restricted for future prizes	10,689,615	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
Unrestricted	(11,412,645)	(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
Total net position	(216,745)	(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

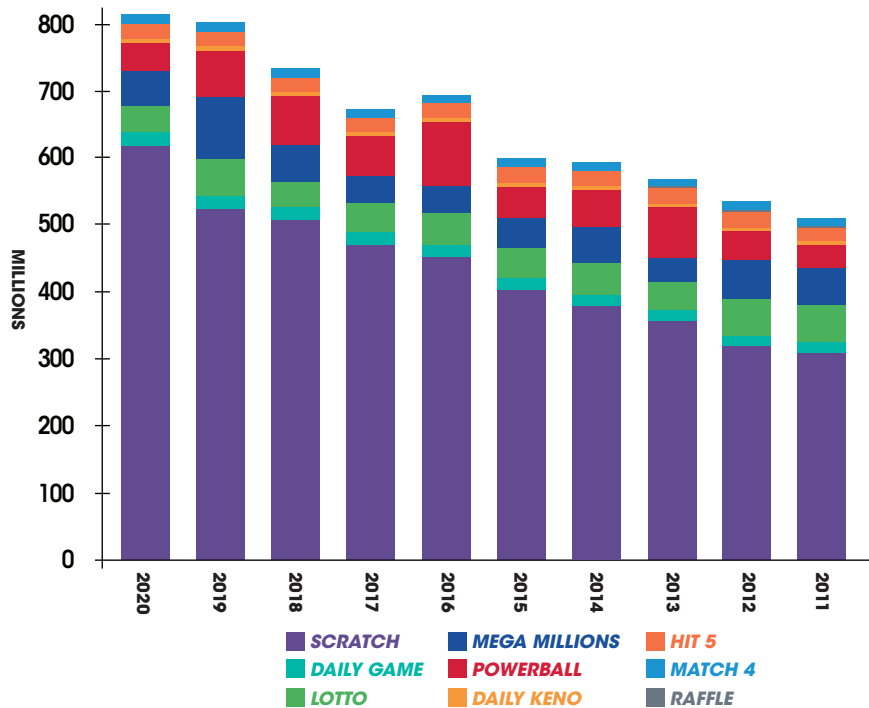
WASHINGTON'S LOTTERY TEN YEARS OF CHANGES IN NET POSITION

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Sales										
Scratch ticket sales	619,682,535	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
Draw game sales	197,616,562	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
Total Sales	817,299,097	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
Other operating income	2,691,470	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	530,237,664	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
Retailer commissions	41,202,583	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
Vendor expense	39,823,710	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
Advertising expense	10,227,617	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
Misc. promotional & other operating expenses	2,074,262	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
Total Cost of Sales	623,565,836	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
Administrative expenses										
Salaries and benefits	11,493,019	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
Goods and services	2,336,302	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
Travel	333,129	444,974	421,226	411,287	439,193	452,426	460,997	452,446	434,622	381,979
Depreciation	136,028	162,517	163,249	80,130	134,252	136,005	124,135	131,664	132,145	120,772
Total Administrative Expenses	14,298,478	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
Operating Income	182,126,253	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
Non-Operating Revenues (expenses)										
Investment revenue (loss)	15,944,818	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
Amortization of annuity prize liability	(5,019,561)	(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)
Interest income	263,249	125,192	99,940	21,397	23,098	40,067	49,403	51,111	58,387	87,571
Misc. income (expense)	-	-	7,589	-	59,059	-	(60,573)	(10,260)	13,201	160,896
Fee income	10,875	10,700	10,725	10,100	10,325	10,235	11,050	14,497	14,968	12,764
Loss on disposal of capital assets	420	100	155	5,180	(2,434)	-	121	3,881	(5,340)	-
Total non-operating revenues (expenses)	11,199,801	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)
Payments to:										
Washington Opportunity Pathways Account	(147,335,195)	(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)
King County Stadium and Exhibition Center Account	-	-	-	-	-	-	-	-	(2,701,415)	(5,298,930)
Economic Development	(13,672,608)	(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)
Problem Gambling	(3,362,016)	(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)
Veterans' Innovation Program	(373,180)	(406,800)	(358,845)	(326,033)	(340,567)	(304,744)	(301,414)	(299,288)	(290,747)	(279,892)
General Fund	-	-	-	-	-	-	-	-	(247,571)	-
Gambling Commission	(16,205,856)	(30,920,310)	(31,170,784)	(16,751,322)	(31,918,951)	-	(595,852)	(9,338,395)	-	(7,037,975)
Total payments	(180,948,855)	(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)
Net non-operating expense	(169,749,054)	(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)
Change in net position	12,377,200	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)
Prior period adjustment to net position	-	-	(6,550,434)	-	-	-	(7,039,517)	-	-	-
Total net position at beginning 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
Total net position at end of year	(216,745)	(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

WASHINGTON'S LOTTERY TEN YEARS OF SALES AND OTHER REVENUES

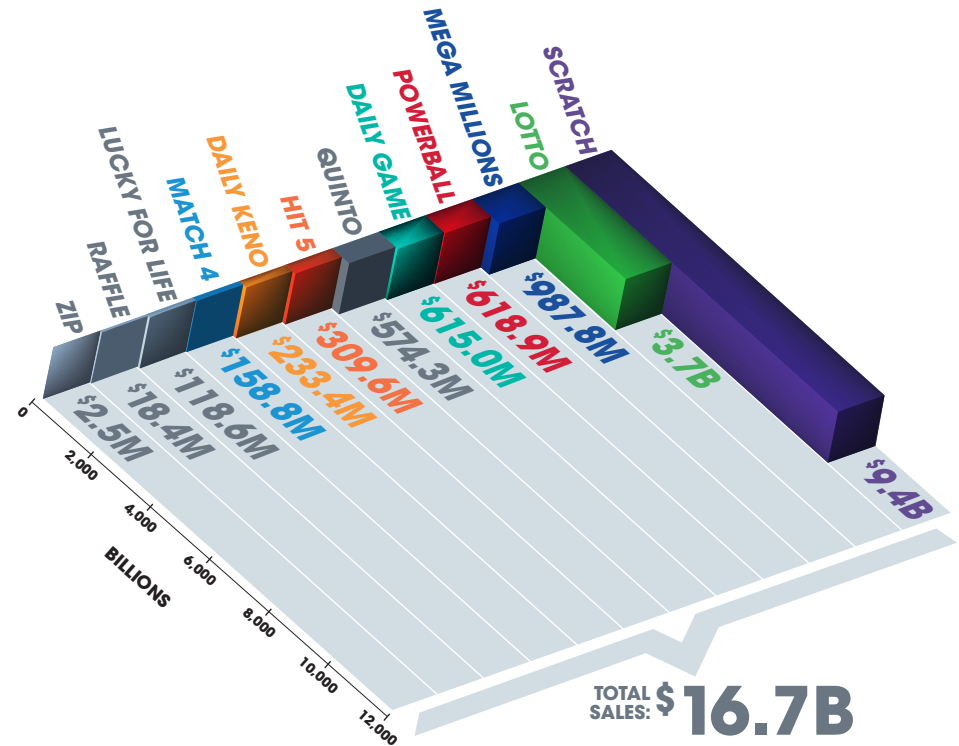
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Scratch	619,682,535	523,857,598	507,900,498	472,252,828	453,948,422	404,097,793	379,352,242	356,021,877	318,149,502	309,045,103
Draw:										
<i>The Daily Game</i>	20,830,078	19,502,841	18,925,205	17,748,008	16,653,422	16,856,367	16,660,795	16,747,637	16,597,018	16,736,124
<i>Lotto</i>	39,794,648	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
<i>Mega Millions</i>	50,959,868	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
<i>Powerball</i>	42,498,411	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
<i>Daily Keno</i>	6,211,706	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
<i>Hit 5</i>	22,081,569	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
<i>Raffle</i>	-	-	-	-	-	-	-	1,279,240	2,925,910	2,117,470
<i>Match 4</i>	15,240,282	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
Total Draw	197,616,562	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
Total Sales	817,299,097	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
Other operating income	2,691,470	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	263,249	125,192	99,940	21,397	23,098	40,067	49,403	51,112	58,387	87,571
License Fees	10,875	10,700	10,725	10,100	10,325	10,235	11,050	14,497	14,968	12,764
Miscellaneous	420	100	155	5,180	56,625	-	(60,452)	(6,379)	(53,832)	160,896
Total Other Revenues	274,544	135,992	110,820	36,677	90,048	50,302	1	59,230	19,523	261,231
Total Sales and Other Revenues	820,265,111	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

SALES BY PRODUCT



SALES SINCE INCEPTION

SALES BEGAN NOV. 15, 1982



WASHINGTON'S LOTTERY TEN YEARS OF EXPENSES

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Prizes	530,237,664	490,355,040	490,355,040	422,536,021	432,900,790	365,929,999	362,666,491	339,365,820	311,545,285	295,155,493
Retailer Commissions	41,202,583	40,221,131	40,221,131	33,893,194	36,021,210	37,307,646	37,368,870	35,545,701	33,383,737	31,941,021
Cost of Sales	52,124,425	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
Administration	14,298,478	14,491,302	14,491,302	14,399,357	14,491,803	12,823,650	12,573,294	12,810,423	12,414,009	12,530,054
Total Expenses	637,863,150	593,220,901	588,354,004	513,701,826	527,803,963	458,007,259	453,978,428	426,110,005	394,155,871	375,597,702

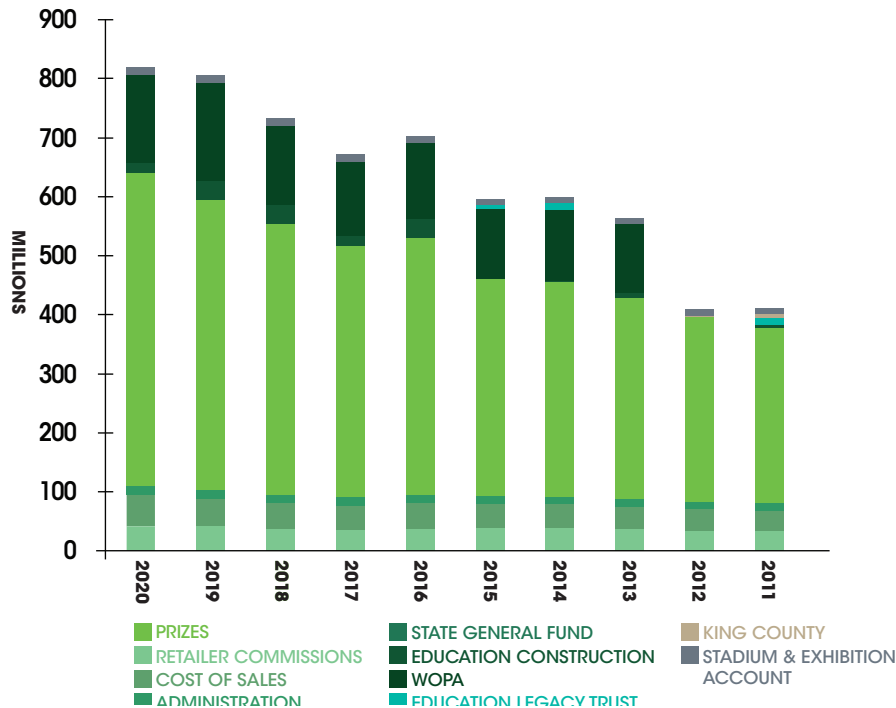
Note: Non-operating expenses are not included.

WASHINGTON'S LOTTERY TEN YEARS OF CONTRIBUTIONS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
State General Fund	16,205,856	30,920,310	31,170,784	16,751,322	31,918,951	-	595,852	9,338,396	-	7,037,975
Washington Opportunity Pathways Account	147,335,195	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 Legacy Trust Fund	-	-	-	-	-	6,050,000	10,050,000	-	-	11,900,000
Economic Development	3,362,016	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
Problem Gambling	373,180	406,800	358,845	326,033	340,567	304,744	301,414	299,288	290,747	279,892
Veterans' Innovation Program	-	-	-	-	-	-	-	-	247,571	-
King County	-	-	-	-	-	-	-	-	2,701,415	5,298,930
Stadium & Exhibition Account	13,672,608	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
Gambling Commission	-	-	-	1,000,000	-	-	-	-	-	-
Total Contributions	180,948,855	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

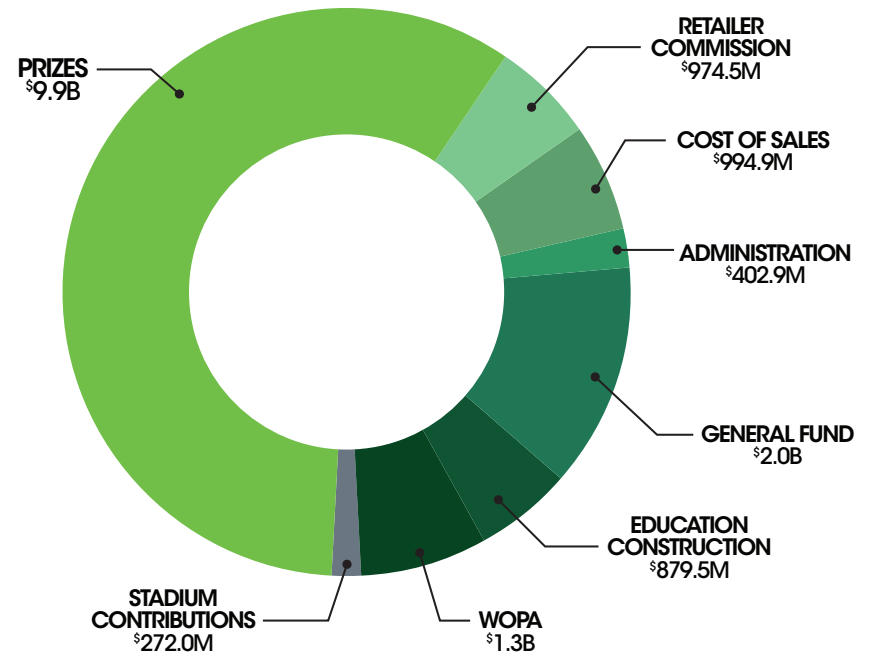
EXPENSES AND CONTRIBUTIONS

(AMOUNTS IN MILLIONS)



DISTRIBUTIONS SINCE INCEPTION

JULY 19, 1982 – JUNE 30, 2020



COMPARATIVE STATEMENT OF LOTTERY REVENUES AND EXPENSES BY LOTTERY FOR FISCAL YEAR 2019

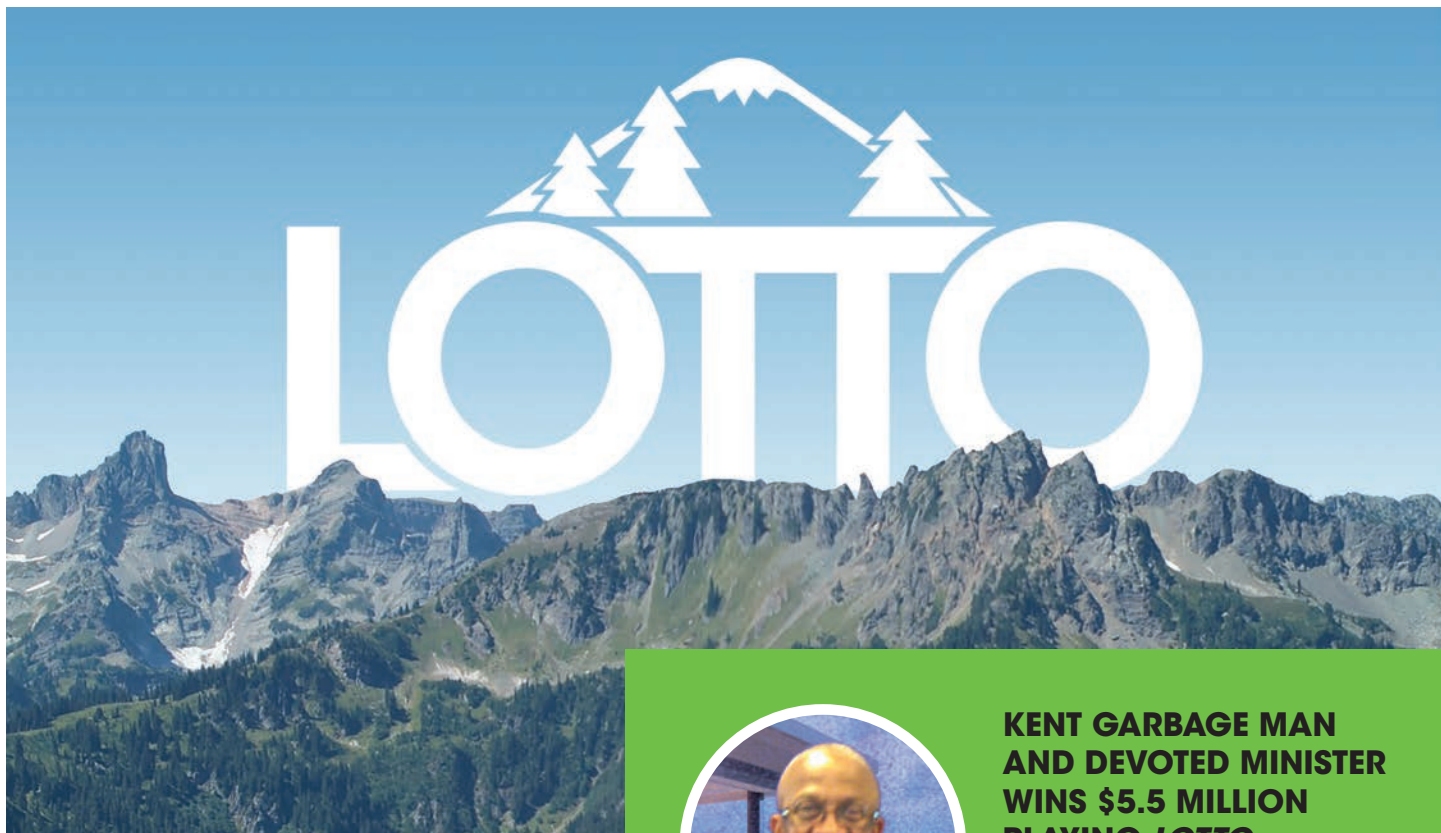
Lottery	Millions of Dollars					As Percentage of Sales			
	Sales	Prizes	Commissions	Expenses	Net Income	Prizes	Commissions	Expenses	Net Income
New York(1)(2)(3)	8,208.11	4,920.62	491.63	410.03	2,323.12	59.95%	5.99%	5.00%	28.30%
California	7,388.05	4,715.59	505.90	356.83	1,863.12	63.83%	6.85%	4.83%	25.22%
Florida	7,157.88	4,638.49	398.16	185.41	1,963.38	64.80%	5.56%	2.59%	27.43%
Texas	6,252.84	4,056.49	335.83	235.06	1,652.21	64.87%	5.37%	3.76%	26.42%
Massachusetts	5,508.42	3,986.84	314.46	102.63	1,104.49	72.38%	5.71%	1.86%	20.05%
Georgia	4,542.27	2,876.42	280.53	181.44	1,214.98	63.33%	6.18%	3.99%	26.75%
Pennsylvania	4,503.33	2,927.07	245.00	201.86	1,132.92	65.00%	5.44%	4.48%	25.16%
Michigan	3,897.41	2,364.66	287.60	178.31	1,081.03	60.67%	7.38%	4.58%	27.74%
New Jersey	3,527.73	2,086.63	198.54	144.09	1,104.38	59.15%	5.63%	4.08%	31.31%
Ohio(1)(2)(3)	3,364.85	2,139.84	223.36	38.11	963.54	63.59%	6.64%	1.13%	28.64%
Illinois	2,981.12	1,907.15	165.33	154.37	765.37	63.97%	5.55%	5.18%	25.67%
North Carolina	2,864.95	1,845.29	198.92	109.69	712.30	64.41%	6.94%	3.83%	24.86%
Virginia	2,293.56	1,401.70	128.74	115.67	649.70	61.11%	5.61%	5.04%	28.33%
Maryland(1)(2)(3)	2,196.91	1,357.48	165.51	44.51	629.41	61.79%	7.53%	2.03%	28.65%
South Carolina	1,753.88	1,149.79	123.46	42.71	437.94	65.56%	7.04%	2.44%	24.97%
Tennessee	1,693.35	1,065.35	118.18	64.82	447.18	62.91%	6.98%	3.83%	26.41%
Missouri	1,466.20	1,015.09	85.65	67.37	318.62	69.23%	5.84%	4.59%	21.73%
Indiana	1,347.76	860.00	91.62	75.20	316.73	63.81%	6.80%	5.58%	23.50%
Connecticut	1,333.97	822.86	74.30	58.25	379.06	61.69%	5.57%	4.37%	28.42%
Kentucky	1,129.54	724.81	67.00	54.67	283.75	64.17%	5.93%	4.84%	25.12%
Arizona	1,076.62	706.49	73.15	57.86	239.87	65.62%	6.79%	5.37%	22.28%
Washington	805.98	490.36	40.22	62.64	218.61	60.84%	4.99%	7.77%	27.12%
Wisconsin	714.39	431.95	49.70	39.17	195.96	60.46%	6.96%	5.48%	27.43%
Colorado	679.78	416.94	51.57	42.96	170.99	61.33%	7.59%	6.32%	25.15%
Minnesota	636.83	395.59	41.85	40.53	159.56	62.12%	6.57%	6.36%	25.06%
Louisiana	523.92	285.33	29.15	27.87	184.21	54.46%	5.56%	5.32%	35.16%
Arkansas	516.24	349.88	29.06	42.08	97.79	67.77%	5.63%	8.15%	18.94%
Iowa	390.96	241.94	25.45	31.36	92.72	61.88%	6.51%	8.02%	23.72%
New Hampshire	390.39	240.81	23.47	20.17	106.53	61.68%	6.01%	5.17%	27.29%
Oregon(1)(2)(3)(4)	381.26	234.97	71.93	42.50	31.86	61.63%	18.87%	11.15%	8.36%
Maine	304.97	196.80	19.57	25.40	63.20	64.53%	6.42%	8.33%	20.72%
Kansas(1)(2)(3)	296.19	172.68	17.33	0.00	106.18	58.30%	5.85%	0.00%	35.85%
Idaho	288.59	190.05	16.64	21.66	61.03	65.85%	5.77%	7.51%	21.15%
Rhode Island(1)(2)(3)(5)	263.28	162.22	18.67	5.44	76.95	61.62%	7.09%	2.07%	29.23%
Oklahoma	241.99	141.32	15.27	17.30	68.70	58.40%	6.31%	7.15%	28.39%
District of Columbia	213.07	123.38	13.86	31.22	45.09	57.91%	6.50%	14.65%	21.16%
W. Virginia(1)(2)(3)	201.29	119.25	13.99	6.33	61.72	59.24%	6.95%	3.14%	30.66%
Delaware(1)(2)(3)	196.32	111.89	12.18	19.45	52.80	56.99%	6.20%	9.91%	26.89%
Nebraska	192.18	112.46	12.41	21.17	46.51	58.52%	6.46%	11.02%	24.20%
New Mexico	143.65	77.04	9.29	12.56	44.79	53.63%	6.47%	8.74%	31.18%
Vermont	139.27	90.89	8.53	10.81	29.17	65.26%	6.12%	7.76%	20.94%
South Dakota(1)(2)(3)	64.56	37.70	3.26	2.20	21.40	58.40%	5.05%	3.41%	33.15%
Montana	60.27	34.49	3.60	9.97	12.25	57.23%	5.97%	16.54%	20.33%
Wyoming	36.93	19.81	2.30	7.55	7.16	53.64%	6.23%	20.44%	19.39%
North Dakota	35.51	18.24	1.75	6.18	9.35	51.37%	4.93%	17.40%	26.33%

(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 2019

Lottery	Figures Per Capita					
	Population (M)	Sales	Prizes	Commissions	Expenses	Net Income
California	39.50	187.04	119.38	12.81	09.03	47.17
Texas	29.00	215.62	139.88	11.58	08.11	56.97
Florida	21.40	334.48	216.75	18.61	08.66	91.75
New York	19.50	420.93	252.34	25.21	21.03	119.13
Pennsylvania	12.80	351.82	228.68	19.14	15.77	88.51
Illinois	12.70	234.73	150.17	13.02	12.16	60.27
Ohio	11.66	288.63	183.55	19.16	03.27	82.65
Georgia	10.60	428.52	271.36	26.47	17.12	114.62
North Carolina	10.50	272.85	175.74	18.94	10.45	67.84
Michigan	9.96	391.23	237.37	28.87	17.90	108.52
New Jersey	8.90	396.37	234.45	22.31	16.19	124.09
Virginia	8.50	269.83	164.91	15.15	13.61	76.44
Washington **	7.60	106.05	64.52	05.29	08.24	28.76
Arizona	7.20	149.53	98.12	10.16	08.04	33.32
Massachusetts	6.86	803.09	581.26	45.85	14.96	161.03
Tennessee	6.80	249.02	156.67	17.38	09.53	65.76
Indiana	6.67	202.18	129.01	13.74	11.28	47.51
Missouri	6.11	239.85	166.05	14.01	11.02	52.12
Maryland	6.00	366.15	226.25	27.59	07.42	104.90
Wisconsin	5.80	123.28	74.54	08.58	06.76	33.82
Colorado	5.70	119.26	73.15	09.05	07.54	30.00
Minnesota	5.58	114.21	70.95	07.51	07.27	28.62
South Carolina	5.10	343.90	225.45	24.21	08.37	85.87
Louisiana	4.60	113.90	62.03	06.34	06.06	40.05
Kentucky	4.50	251.01	161.07	14.89	12.15	63.06
Oregon	4.20	90.78	55.95	17.13	10.12	07.59
Oklahoma	3.93	61.58	35.96	03.89	04.40	17.48
Connecticut	3.58	372.99	230.08	20.77	16.29	105.99
Iowa	3.20	122.18	75.61	07.95	09.80	28.98
Arkansas	3.00	171.85	116.47	09.67	14.01	32.55
Kansas	2.91	101.88	59.40	05.96	00.00	36.52
New Mexico	2.09	68.80	36.90	04.45	06.02	21.45
Nebraska	1.92	100.09	58.57	06.46	11.03	24.22
West Virginia	1.82	110.90	65.70	07.71	03.49	34.01
Idaho	1.80	160.33	105.58	09.24	12.03	33.91
New Hampshire	1.40	278.85	172.01	16.76	14.41	76.09
Maine	1.34	228.44	147.42	14.66	19.03	47.34
Montana	1.10	54.79	31.35	03.27	09.06	11.14
Rhode Island ¹	1.06	248.61	153.18	17.63	05.14	72.66
Delaware ¹	0.97	219.66	127.20	14.29	32.19	46.48
South Dakota	0.87	74.29	43.38	03.75	02.53	24.63
North Dakota	0.76	47.03	24.16	02.32	08.19	12.38
D.C.	0.69	283.29	161.46	17.58	28.07	76.19
Vermont	0.62	223.55	145.89	13.69	17.35	46.82
Wyoming	0.58	63.78	34.21	03.97	13.04	12.37

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 2020 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.



KENT GARBAGE MAN AND DEVOTED MINISTER WINS \$5.5 MILLION PLAYING LOTTO

Winner felt dizzy after coworker said sign on door at Seaport Food Mart says "Check your tickets! *Lotto* winner came from here!"

Kent resident Anthony, who spends his days driving garbage trucks and working in ministry, is still in shock after his \$5.5 million win playing *Lotto* from Washington's Lottery.

Anthony was first alerted to the possibility of a win when his colleague said the winning *Lotto* ticket was sold at Seaport Food Mart. "Right at that moment I felt a dizziness come over me because I knew I had three tickets from there in my wallet," said Anthony. "I started dreaming, 'what if it's me?'"

Anthony had always wondered what a Lottery machine does when someone wins big, and now he knows. "I scanned the barcode and it said 'Winning ticket. Please contact Lottery.' I froze, walked quickly to my car, and I must admit I cried."

"The highlight of my life has been working in ministry for over 30 years," said Anthony. "I love making a difference in people's lives."

As for what he'll do with his winnings, Anthony said, "I'm still trying to take it all in. Maybe I'll go on a cruise to rest my mind."

LINE UP THE WINNINGS!



PUYALLUP BARISTA'S HOLIDAYS JUST GOT BRIGHTER WITH \$50,000 LOTTERY WIN

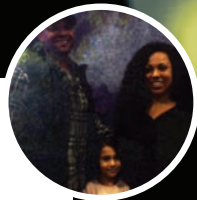
Quick trip to the grocery store turns into "Line 'Em Up!" Scratch top prize win

Puyallup resident and coffee barista Goldie Collins and her husband, a member of the United States Army, are going to have a jollier holiday thanks to a last-minute pop-in to their local Safeway, where they bought one of the four \$50,000 top prize-winning tickets for the "Line 'Em Up!" Scratch game from Washington's Lottery.

"Everyone in the family is getting good gifts this year!," said Collins when asked what she plans to do with her winnings. "To be honest, we're still in shock that this is real."

After popping-in to the Safeway in Puyallup for a couple of items, Collins took a moment to look through the tickets available at the store's Lottery Vending Machine and said the "Line 'Em Up!" game just stood out to her, so she chose that ticket.

After getting home and putting away the groceries, Collins scratched the ticket, realized that she'd won, and had her husband double-check the results. They then opened up the Washington's Lottery app on their smartphone to scan the ticket and were greeted with a "WINNER! Claim at Lottery Office" message.



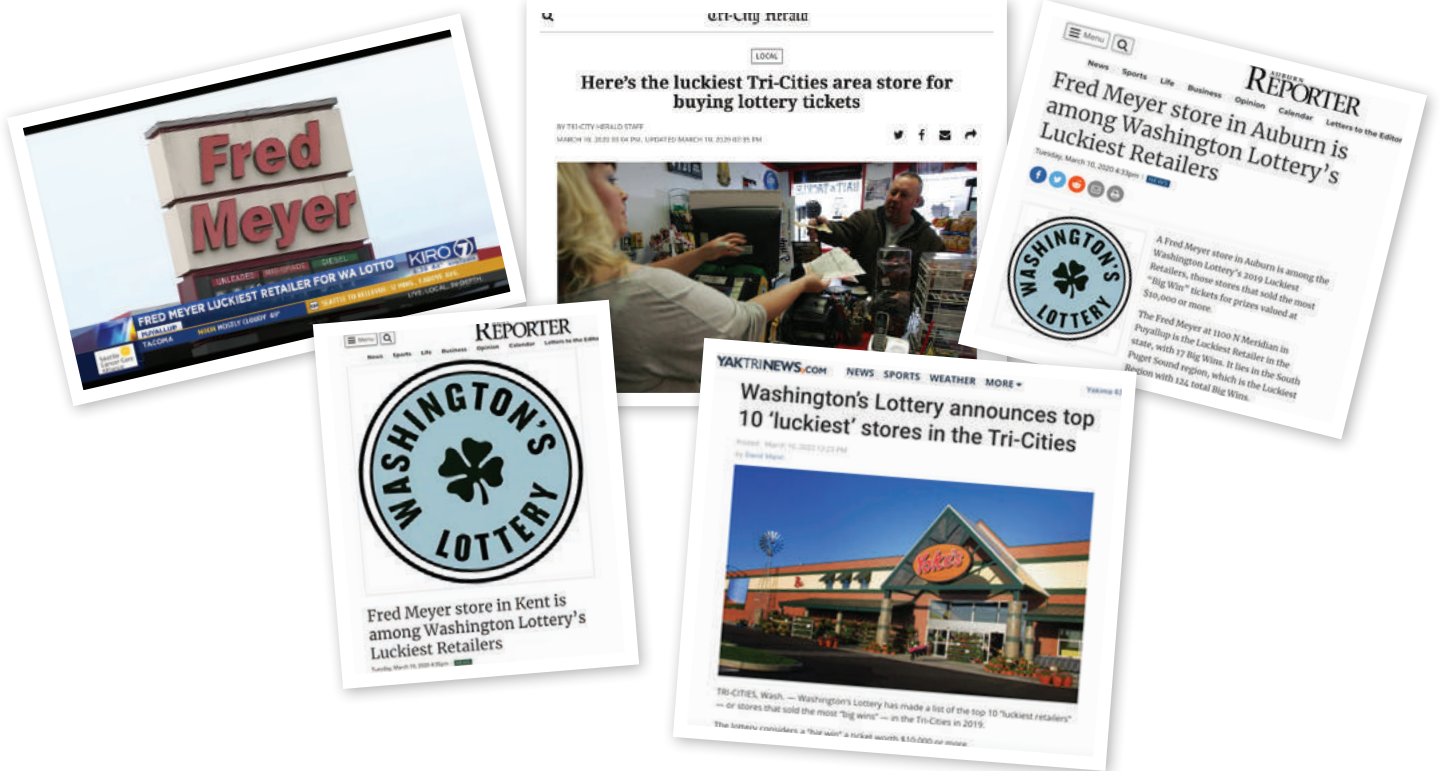
COVINGTON RESIDENT WINS \$75,000 ON THE WAY TO WORK PLAYING NEW GAME FROM WASHINGTON'S LOTTERY

Martin Coon decided to try his luck and play "777", ended up winning big

Covington resident and U.S. Postal Service worker Martin Coon is happy he gave a new lottery game a shot after winning \$75,000 playing "777" Scratch from Washington's Lottery.

"I stopped off for a few things on my way to work and bought a ticket while I was there," Coon said. "I had never played this game and thought 'well, why not give it a shot?' I held onto the ticket until I had some free time at work that day."

"When I scratched off the winning ticket, I was alone and couldn't contain my excitement. I called both my wife and my supervisor, neither of them believed me! It wasn't until my wife met me at the lottery office that she finally believed me."



LUCKIEST RETAILERS

Each year, Washington's Lottery announces its "Luckiest Retailers" to recognize retail locations that sold tickets for the most "Big Wins" – prizes valued at more than \$10,000.

Washington's Lottery recognizes its Luckiest Retailers to help players get excited and to acknowledge the important role retailers have in promoting the lottery. Here are the luckiest retailers from each of the seven regions of the state:

NORTH PUGET SOUND

11 Big Wins: Safeway at 19651 State Route 2 in Monroe

OLYMPIC PENINSULA

10 Big Wins: Safeway at 2890 NW Bucklin Hill Road in Silverdale

SOUTH PUGET SOUND

17 Big Wins: Fred Meyer at 1100 N Meridian in Puyallup

SOUTHWEST WASHINGTON

6 Big Wins: Safeway at 6701 E Mill Plain Blvd in Vancouver

CENTRAL WASHINGTON

10 Big Wins: Safeway at 2204 W Nob Hill Blvd in Yakima

TRI-CITIES

9 Big Wins: Yoke's Fresh Market at 1401 Bombing Range Road in West Richland

EASTERN WASHINGTON

9 Big Wins: Rosauers Supermarket at 10618 E Sprague Ave in Spokane Valley



<p>Washington's Lottery Headquarters</p> <p>814 4th Ave E Olympia, WA 98506 PO BOX 43000 Olympia, WA 98504-3000</p>	<p>Everett Regional Office</p> <p>11419 19th Ave SE Suite A106 Everett, WA 98208-5120</p>	<p>Federal Way Regional Office</p> <p>33701 9th Ave S Federal Way, WA 98003-6762</p>
<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>

THIS PAGE IS INTENTIONALLY LEFT BLANK



PO Box 43000 Olympia, WA 98504-3000
814 E 4th Ave Olympia, WA 98506-3922
360.810.2888 • walottery.com