



COMPREHENSIVE ANNUAL FINANCIAL REPORT



PREPARED BY WASHINGTON'S LOTTERY FINANCE DIVISION FOR
THE FISCAL YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016.



DEPT OF IMAGINATION

SHARED VISION:

Washington's Lottery is an engaging and energetic workplace. We cultivate an environment of empowerment, accountability, teamwork, and learning.

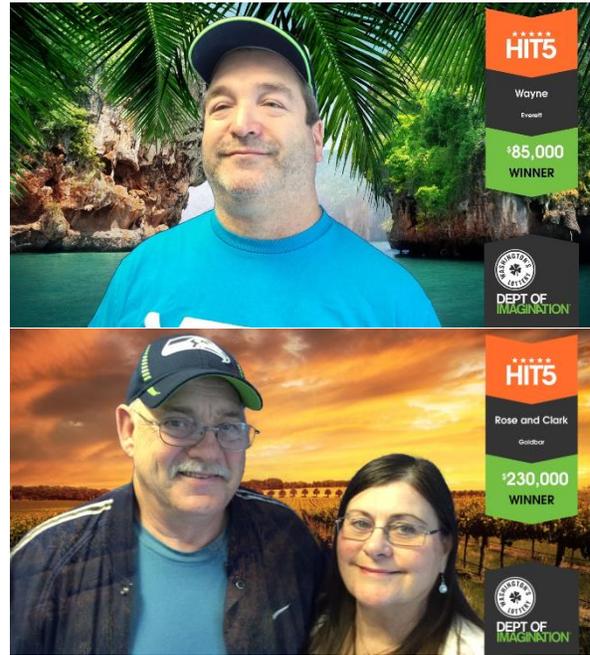
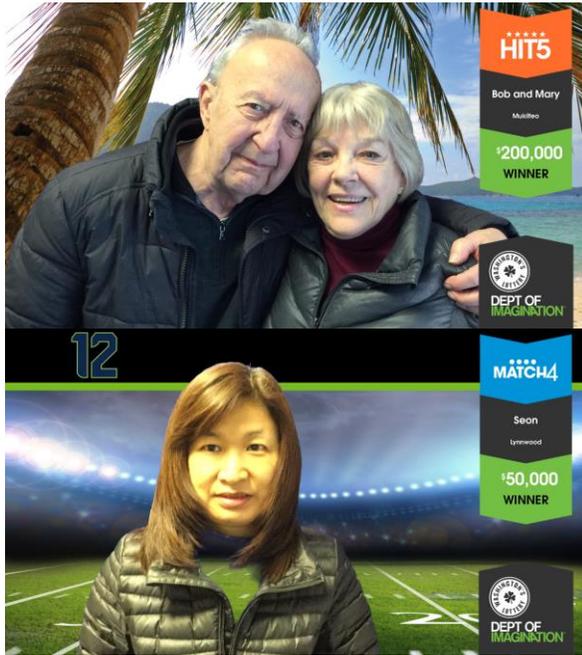
Communication is open and honest.

The Lottery promotes strong relationships with our players, retailers and partners. We progressively implement new and emerging technologies to improve processes and communication. What we do positively influences the citizens of Washington State.

We are proud to be members of Team Lottery.

MISSION:

Washington's Lottery operates with integrity to offer games of chance that generate revenue for the benefit of the people of Washington.



WASHINGTON'S LOTTERY

an agency of the State of Washington

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal years ended June 30, 2017 and June 30, 2016

Prepared by Washington's Lottery's Finance Department

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Washington's Lottery's games give players the chance to imagine winning, and for some, make dreams a reality. These lottery winners have shared their tales of winning and plans for their prizes.



At the center of the Lottery are its players, their families, and retailers, all of whom support a number of beneficiaries. Fiscal year 2017 beneficiaries included Washington Opportunities Pathways Account, CenturyLink Field & Exhibition Center stadium debt reduction, General Fund, Problem Gambling Account, Gambling Commission and the Governor's Economic Development Account.

Scratch winner Josefina of Yakima, WA claimed a \$50,000 prize after buying a "Fruit Explosion" scratch ticket. After paying off some bills, she plans to buy a new van for her husband and put some of the prize money toward a car for her son, who's a senior in high school.

Powerball winner Karen of Seattle, WA claimed a \$50,000 Powerball prize. She had a small celebration with her brother and his wife, who recently returned from deployment. She hadn't decided on how she plans to spend her prize money, but knows she'll be sharing the prize with her family and siblings.

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.



Washington's Lottery

PO Box 43000 • Olympia, WA 98504-3000 • 814 4th Ave East • Olympia, WA 98506-3922 • (360) 664-4800

October 13, 2017

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, 2017. In fiscal year 2017, the Lottery sales decreased by \$21.5 million or 3.1 percent compared to fiscal year 2016 and contributed a total of \$161.9 million to its beneficiaries for state programs. The Washington's Opportunity Pathways Account received \$126.8 million to fund scholarships.

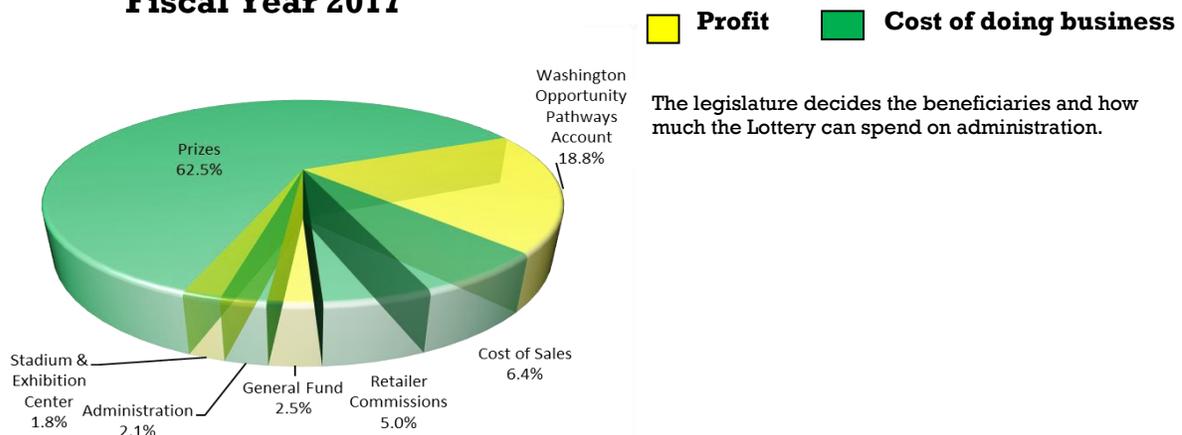
Although state law does not require the Lottery to provide stand-alone audited financial statements, we do so to reflect the highest standards of fiscal transparency and uncompromised accountability to the public, thereby strongly demonstrating our thorough efforts to disclose all relevant information.

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 public good. In order to operate the business successfully, the Lottery provides personnel in the following disciplines: security, legal, administrative, planning and research, marketing, sales, finance, management, and information services. The Lottery generated dollars for the Washington Opportunity Pathways Account, Economic Development Account, Problem Gambling Account, Gambling Commission, General Fund and stadium debt payments for CenturyLink Field. Lottery ticket sales for fiscal year 2017 totaled \$673.3 million. These sales allowed contributions of \$126.8 million to the Washington Opportunity Pathways Account, \$12.2 million to the Stadium and Exhibition Center Account (CenturyLink Field), \$16.8 million to the General Fund, \$4.9 million to the Economic Development Account, \$1 million to the Gambling Commission and \$326 thousand to the Problem Gambling Account.

Total Distribution: \$675.6 Million Fiscal Year 2017



Amounts not displayed in graph:
Problem Gambling 0.1%; Economic Development .7% and
Gambling Commission 0.1%

Washington's Lottery constantly focuses on maintaining and increasing its ability to generate these funds in support of scholarships by contributing to the Washington's Opportunity Pathways Account and other state programs. Development of new products and game enhancements is an ongoing process with a focus on responsible gaming and increasing long-term revenues. 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 2017 and further details regarding specific subjects can be found in Management's Discussion and Analysis in the Financial Section of this document.

Background

Communities throughout the state have benefited from the Lottery.

Since Washington's Lottery sold its first ticket in 1982, it has paid over \$8.4 billion in prizes, and retailers have received over \$856.2 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 2017, Washington's Lottery paid out more than 36 million winning tickets ranging from \$1 to \$25 million. Twenty people became millionaires through Washington's Lottery in the last fiscal year. Since inception, the Lottery has made more than 693 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, Gambling Commission, General Fund Account, and stadium debt payments for CenturyLink Field. Since inception, the Lottery has contributed more than \$4.0 billion to various crucial state programs.

In 1986, the Lottery began collecting outstanding child support and other debts owed to the state. Before winners are paid, these debts are deducted from Lottery prize monies. Over the years, the Lottery has collected \$4.0 million in previously uncollected money. This figure represents \$2.3 million in child support payments and \$1.7 million in recovered taxes, fees, penalties, welfare, and employment security debts.

Washington State's Economy and Revenue Outlook

Washington's economy has continued to outpace the nation during this period of expansion. Recent economic performance has narrowed that gap somewhat, but Washington should outperform the nation in job and income growth during the next several years.

Washington's jobless rate moved above the national rate during the past two years after having mirrored the national figures for much of the economic recovery. Washington's rate has traditionally been higher than the national norm due to the state's outsized share of seasonal industries and its attractiveness to in-migrants searching for opportunity and the Northwest experience. More recent figures show Washington's jobless rate remaining above the national average, likely the result of an increase in workforce participation. In fundamental ways, that reflects an increase in workers' confidence in finding gainful employment. By the end of the next biennium (2019-21), Washington's unemployment rate is projected to fall to 4.3 percent, down from the current 4.6 percent.

Personal income in Washington is expected to make above-average gains over the next biennium. Real personal income should gain 3.5 percent in fiscal year 2019 and 3.7 percent in fiscal year 2020, measurably higher than projections for the nation. On a per-capita basis, Washington's real personal income should reach \$51,551 at the end of fiscal year 2020, more than \$4,600 above the U.S. average.

These gains in Washington's personal income will occur notwithstanding declines in aerospace employment, which is expected to fall by 2.4 percent in fiscal year 2019 and 1.6 percent in fiscal year 2020. Though this places a drag on overall nonfarm employment growth, Washington is still projected to net a 1.9 percent increase in total payroll jobs in fiscal year 2019 and a 1.5 percent increase in fiscal year 2020, again measurably better than projections for the nation.

Construction activity in Washington is expected to increase at a healthy rate in fiscal years 2019-20. While multi-family construction growth was prompted by demand for rental units in the aftermath of

the recession, income gains have renewed demand for single-family housing. Building permits should reach 42,400 in fiscal year 2019 and 41,800 in fiscal year 2020. As a result, construction employment should jump by 1.5 percent and .06 percent, respectively. That should boost construction jobs to 6 percent of total nonfarm employment, a bit above historic averages yet reflective of a strong housing and commercial building market.

General Fund-State revenues are forecasted to grow at a 6.6 percent pace in fiscal year 2019 and 3.9 percent in fiscal year 2020, compared to the 6.2 percent gain in fiscal year 2017 and the 6.0 percent increase in fiscal year 2018. The expanding economy, strong gains in hiring and robust housing markets have had a positive effect on revenue growth. Further economic growth, continued job gains and sustained expansion in the housing and commercial building markets should keep revenues growing at a sound pace.

The Lottery's Products



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 \$472.3 million in fiscal year 2017, compared to \$453.9 million in 2016. In fiscal year 2017, *Scratch* sales were \$271 million more than all other Lottery games combined. *Scratch* games provided 70.1 percent of total net sales for fiscal year 2017, compared to 65.3 percent in 2016. The Lottery launched 47 *Scratch* games in fiscal year 2017, compared to 50 games in fiscal year 2016.



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. As of 2016, *Mega Millions* is played in forty-four states, District of Columbia and the U.S. Virgin Islands.

Mega Millions ticket sales in Washington were \$39.3 million for fiscal year 2017, representing 5.8 percent of total net Lottery sales. *Mega Millions* sales were \$41.3 million or 5.9 percent of net sales in fiscal year 2016. In fiscal year 2017, jackpots ranged from \$15 million to \$540 million, with 4 winning jackpots over \$100 million. In fiscal year 2017, *Mega Millions* highest jackpot was \$540 million as compared to \$390 million in the prior year 2016.

Mega Millions is a jackpot-based game with nine prize levels. Tickets cost \$1 to play for jackpots of up to hundreds of millions of dollars. Players pick six numbers from two different pools of numbers. They choose five white balls from a field of 75 and one red ball from a field of 15, representing the “*Mega Ball*”, though most players let the computer randomly “Quick Pick” their numbers. Jackpots start at \$15 million and increase by a minimum of \$5 million per draw if there is no jackpot winner. Drawings are held Tuesdays and Fridays. Prizes are also paid for various combinations of matching numbers. Players have a total of 9 different ways to win, including a \$1.0 million prize if five balls are matched from the pool of 75 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 include the jackpot prize.



Washington began selling *Powerball* in January 2010, a multi-state lottery game operated by the Multi-State Lottery Association (MUSL). *Powerball* is sold in forty-seven jurisdictions, including District of Columbia, Puerto Rico and the U.S. Virgin Islands. *Powerball* sales were \$60.0 million for fiscal year 2017, representing 8.9 percent of net sales, compared to \$95.7 million or 13.8 percent in fiscal year 2016. In fiscal year 2017, jackpots ranged from \$40 million to \$478 million, with 7 winning jackpots over \$100 million. In fiscal year 2017, *Powerball* highest jackpot was \$478 million as compared to \$1.5 billion in the prior year 2016.

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

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



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 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 2017 were \$43.4 million, representing 6.4 percent of total net sales. *Lotto* sales in fiscal year 2016 totaled \$46.6 million or 6.7 percent of net sales in that year. Seven winning *Lotto* jackpots were drawn in fiscal year 2017 ranging from \$1.0 million to \$6.1 million.



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. Thirty-four *Hit 5* cashpots were awarded in fiscal year 2017, ranging from \$100,000 to \$550,000. 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 2017 were \$21.3 million or 3.2 percent of net sales compared to \$21.7 million or 3.1 percent of net sales in fiscal year 2016. Players can purchase up to twenty-five consecutive drawings in advance.



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 2017 were \$13.4 million, representing 2.0 percent of net sales compared to \$13 million or 1.9 percent of net sales in fiscal year 2016. Players can purchase up to twenty-five consecutive drawings in advance. There were 622 prizes in the amount of \$10,000 awarded in fiscal year 2017.



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. *The Daily Game* sales totaled \$17.8 million or 2.6 percent of net sales in fiscal year 2017, similar to the \$16.7 million, with a 2.4 percent experienced in fiscal year 2016.



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. In fiscal year 2017, players could buy tickets for up to seven advance drawings for this game, which was added to the Lottery's product line in November 1992. Players can purchase up to twenty-five consecutive drawings in advance. *Daily Keno* sales totaled \$5.8 million or 0.9 percent of net sales in fiscal year 2017, compared to \$5.9 million or .8 percent in fiscal year 2016.

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 Revenue Forecast Council, an external 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 2017, the Lottery employed 130 staff. Headquarters and offsite warehouse had 79 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 2017 audit of Lottery financial statements has been completed in conformance with generally accepted auditing standards. The financial section of this report includes the Independent Auditor's report on the Lottery's financial statements.

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, 2016. This was the twenty-seventh 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. We appreciate our employees' fine work. We also thank the Lottery Commissioners for their dedication and guidance in operating Washington's Lottery.

Respectfully submitted,



M Douka
Interim Director of Finance



H W Hanson
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, 2016

Executive Director/CEO

PRINCIPAL OFFICIALS OF WASHINGTON'S LOTTERY



H.W. Hanson
Lottery Director



Valoria Loveland
Chair
Pasco
Term ends
8/2021



Laura Cantrell
Commissioner
Seattle
Term ends
8/2020



Judy Guenther
Commissioner
Chehalis
Term ends
8/2017

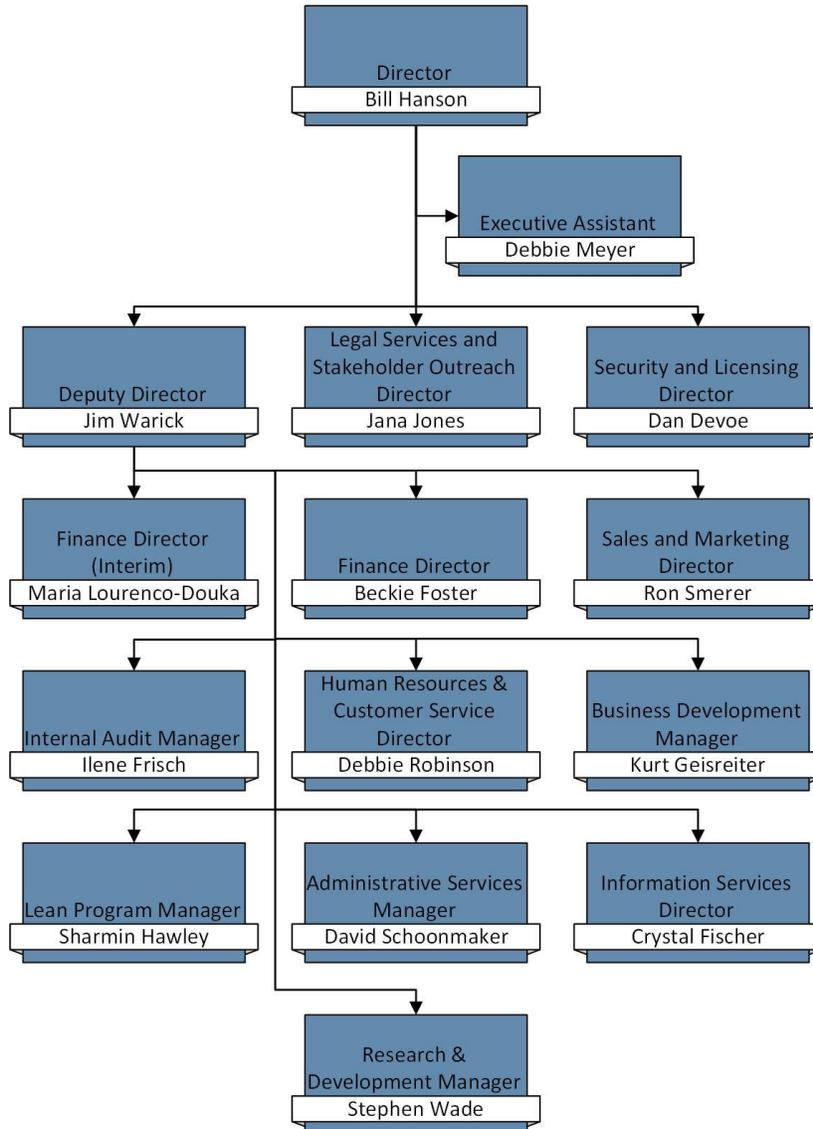


Peter Bogdanoff
Commissioner
Seattle
Term ends
8/2018



Frederick Finn
Commissioner
Olympia
Term ends
8/2022

ORGANIZATION CHART



Scratch winner from Gold Bar, WA claimed a \$75,000 prize in December of 2016 after buying a \$5 “\$75,000 Festival Celebration (SMB)” ticket. Scott Kuver reported to the Valley Chronicle that he’s made his passion into a career and thanks to his recent \$75,000 Lottery win, he’s planning on helping students in the community explore their passions, too. A technician at Kirshner Trailer & Repair, Kuver spends his days working on RVs and trailers, and when he gets home he builds and sells custom choppers and cars.

“It’s my whole life,” Kuver said. “It’s what I love to do.” The lottery win will help him get more tools and start more projects, but Kuver told Lottery officials he’s most excited about helping out the local 4-H chapter. “I want to find horse trailers to refurbish and then donate them to Monroe’s 4-H program,” Kuver said. “The kid’s faces light up when they talk about their horses, the same way mine does when I talk about my cars and my work. It’s a great thing to see and be a part of.”

Kuver said he’s personally more interested in horsepower as opposed to horses, but he loves helping the community and often does work for different community groups and members. Kuver’s big win came from a “Festival Celebration” Scratch ticket that he purchased from the Stat Up Grocery and Deli located at 36310 State Route 2 in Sultan on December 21, 2016.

Proceeds from Washington’s Lottery benefit the Washington Opportunity Pathways Account, providing grants to college students statewide.



FINANCIAL SECTION

This section begins with the Independent Auditor's Report, followed by management's discussion and analysis, the financial statements of the Washington's Lottery and the related notes to the financial statements.



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Washington's Lottery (the Lottery), an agency of the State of Washington, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington's Lottery, as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedules of the Lottery's Proportionate Share of the Net Pension Liability and Employer Contributions (PERS 1 and PERS 2/3) 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Lottery's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

Boise, Idaho
October 13, 2017

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 year ended June 30, 2017 and June 30, 2016. 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 \$673.3 million, a 3.1 percent decrease from fiscal year 2016 and a 12.2 percent increase from fiscal year 2015.

- *Mega Millions* sales were \$39.3 million, with jackpots ranging from \$15 million to \$540 million.
- *Powerball* sales were \$60.0 million, with a high jackpot of \$478 million.
- *Scratch* sales increased by \$18.3 million or 4.0 percent compared to fiscal year 2016. This increase in Scratch helped contributions to beneficiaries.
- Total contributions to Lottery beneficiaries decreased by \$13.6 million or 7.8 percent compared to fiscal year 2016.
- Contributions to the Washington Opportunity Pathways Account reached \$126.8 million.
- Contributions to the Stadium & Exhibition Center (CenturyLink Field) totaled \$12.2 million in fiscal year 2017, representing a 4 percent year-over-year legislative mandated increase.
- Contributions to the Economic Development Account totaled \$4.9 million in fiscal year 2017. Amounts contributed to this beneficiary represent one-third of prizes that go unclaimed each fiscal year.
- Contributions to the General Fund amounted to \$16.8 in fiscal year 2017. Per RCW 67.70.340(4), if in total, contributions to the Washington Opportunity pathways Account from the in-state and Powerball games are in excess of \$102 million, such excess shall be transferred to the General Fund.

- Contributions to the Problem Gambling Account totaled \$326 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, consist solely of capital assets, restricted income 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 below and Table 2 on page 18. Net position decreased in fiscal year 2017 by \$9.1 million, from \$4.7 million in 2016 to \$(4.4) million in 2017. The Lottery experienced a decrease of \$3.8 million in fair value of investments held to fund future annuitized prize payments.

	2017	2016	2015
Current assets	\$66.4	\$66.1	\$62.0
Non-current assets - investments	122.8	135.0	130.0
Capital assets - net of depreciation	0.9	0.4	0.5
Total assets	\$190.1	\$201.5	\$192.5
Deferred outflows of resources	\$1.9	\$1.1	\$0.6
Current liabilities	79.6	79.1	70.3
Non-current liabilities	116.5	117.7	114.4
Total liabilities	\$196.1	\$196.8	\$184.7
Deferred inflows of resources	\$0.3	\$1.1	\$2.1
Net Position			
Invested in capital assets	0.9	0.4	0.5
Restricted for future prizes	10.4	10.3	15.8
Unrestricted	(15.7)	(6.0)	(10.0)
Total net position	(\$4.4)	\$4.7	\$6.3

Table 2: Summary of Changes in Net Position (in millions)

	2017	2016	2015
Sales	\$673.3	\$694.9	\$600.3
Other operating income	2.7	2.8	2.9
Expenses and non-operating activity	(523.2)	(523.8)	(460.6)
Distributions	(161.9)	(175.5)	(141.3)
Changes in net position	(\$9.1)	(\$1.6)	\$1.3
Total net position at beginning of year	4.7	6.3	5.0
Total net position at end of year	(\$4.4)	\$4.7	\$6.3

Due to the implementation of GASB 68, the net position beginning balance for 2015 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 2017, 2016, and 2015.

Table 3: Sales and Prize Expense (in millions)

	Scratch Games			Draw Games		
	2017	2016	2015	2017	2016	2015
Sales	\$472.3	\$453.9	\$404.1	\$201.1	\$240.9	\$196.3
Prize expense	316.8	310.6	267.4	105.7	122.3	98.5
Net receipts	\$155.5	\$143.3	\$136.7	\$95.4	\$118.6	\$97.8

Scratch product sales increased \$18.3 million or 4.0 percent compared to 2016, and increased \$68.2 million or 16.9 percent as compared to 2015. The number of tickets sold increased by 0.75 percent from 110.2 million in fiscal year 2016 to 111.0 million in fiscal year 2017. The average price per ticket increased slightly from \$4.12 in fiscal year 2016 to \$4.25 in fiscal year 2017. *Scratch* prize expense increased in fiscal year 2017 by \$6.2 million, or 2.0 percent compared to fiscal year 2016, and \$49.4 million or 18.5 percent compared to fiscal year 2015. The *Scratch* prize expense ratio increased from 68.4 percent in fiscal year 2016 to 67.1 percent in fiscal year 2017. In fiscal year 2017, \$10.9 million of *Scratch* prizes went unclaimed compared to \$6.5 million in fiscal year 2016. Two \$1 million prizes went unclaimed which contributed to the increase over prior year.

In fiscal year 2017, *Draw* game sales decreased by \$39.8 million or 16.5 percent over fiscal year 2016 and increased by \$4.8 million or 2.5 percent over fiscal year 2015. In fiscal year 2017, the highest jackpot for *Powerball* game was \$478 million, as compared to \$1.5 billion in the prior year 2016. The smaller *Powerball* jackpot in fiscal year 2017 contributed to the decreased sales. During fiscal year 2017, *Hit 5* had thirty-one winning cashpots, with the highest cashpot

valued at \$550 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 \$3.2 million or 6.9 percent compared to fiscal year 2016 and increased by \$1.4 million or 3.2 percent compared to fiscal year 2015. *Match 4* increased by \$413 thousand or 3.2 percent compared to 2016, and increased by \$488 thousand or 3.8 percent compared to fiscal year 2015.

The remaining active *Draw* games in the product portfolio are *The 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 2017 by \$16.6 million or 13.6 percent compared to fiscal year 2016 and increased by \$7.1 million or 7.3 percent compared to fiscal year 2015.

Other Operating Expenses

Table 4 compares operating expenses, other than prize expense, for gaming operations and administrative expenses for fiscal years 2017, 2016 and 2015.

Table 4: Retail Commissions and Other

Operating Expenses (in Millions)			
	2017	2016	2015
Retail commissions	\$33.9	\$36.0	\$37.3
Other game-related expenses	42.9	44.4	41.9
Administrative expenses			
Salaries and benefits	10.6	10.8	9.4
Goods and services	3.3	3.1	2.8
Travel	0.4	0.4	0.5
Depreciation	0.1	0.1	0.1
Total administrative expenses	\$14.4	\$14.4	\$12.8

Retailer commissions decreased in fiscal year 2017 by \$2.1 million or 5.9 percent compared to fiscal year 2016; Commission costs as a percentage of sales decreased by 0.2 percent compared to fiscal year 2016 and 1.2 percent compared to 2015. Other game-related expenses, including vendor costs, advertising and miscellaneous promotional expenses, decreased by \$1.5 million or 3.4 percent compared to fiscal year 2016. As a percent of sales, these expenses were 6.4 percent in fiscal years 2017, 2016 and 7.0 percent in fiscal year 2015. Vendor expense, which is the largest component of these costs, is for the most part, paid as a percentage of sales. Advertising expense increased \$84 thousand or 0.8 percent compared to fiscal year 2016 and increased by \$97 thousand or 0.9 percent compared to fiscal year 2015. Promotional and other operational expenses increased \$277 thousand or

6.8 percent compared to fiscal year 2016 and decreased \$296 thousand or 6.4 percent compared to fiscal year 2015.

In fiscal year 2017, administrative expenses incurred for the general operation of the agency decreased by 0.6 percent compared to fiscal year 2016, and increased 12.3 percent compared to fiscal year 2015. Depreciation expense decreased by 40.3 percent compared to fiscal year 2016 and decreased by 41.1 percent as compared to fiscal year 2015. As a percentage of sales, overall administrative expenses were constant at 2.1 percent in fiscal year 2017, 2016 and 2015.

Salaries and benefits expense decreased by \$172 thousand or 1.6 percent compared to fiscal year 2016, and increased by \$1.2 million or 13.3 percent compared to fiscal year 2015. Goods and services increased by \$162 thousand or 5.2 percent compared to 2016, and increased \$422 thousand or 14.9 percent compared to fiscal year 2015. Travel expense decreased by \$27.9 thousand or 6.4 percent compared to fiscal year 2016, and decreased by \$41 thousand or 9.1 percent compared to fiscal year 2015.

Capital Assets

Washington's Lottery's investment in capital assets as of June 30, 2017 amounts to \$932 thousand (net of accumulated depreciation). This investment in capital assets includes leasehold improvements and equipment. The net increase in the Lottery's investment in capital assets for fiscal year 2017 was 123 percent. Table 6 in note 1 to the financial statements shows the opening and ending balances for assets and accumulated depreciation.

Debt

At the end of fiscal year 2017, current liabilities consisted, in part, of \$13.5 million in annuity prizes payable. Long-term annuity prize liabilities were \$107.9 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.

	2017	2016	2015
Investment revenue	(\$3.7)	\$10.2	\$5.0
Amortization of annuity prize liability	(5.8)	(6.3)	(7.6)
Interest and miscellaneous income	0.0	0.1	0.1
Total non-operating revenues (expenses) before payments	(\$9.5)	\$4.0	(\$2.5)
Proceeds Distribution:			
WA Opportunity Pathways	\$117.2	\$118.6	\$119.0
WOPA - Unclaimed Prizes in Excess of \$10M	9.6	10.1	-
Education Legacy Trust	-	-	6.1
State General Fund	16.8	32.0	-
Stadium and Exhibition Center	12.1	11.7	11.2
Economic Development	4.9	2.8	4.7
Gambling Commission	1.0	-	-
Problem Gambling	0.3	0.3	0.3
Total payments	\$161.9	\$175.5	\$141.3

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 2017 amounted to \$161.9 million.

Contributions to the Washington Opportunity Pathways Account reached \$126.8 million in fiscal year 2017 compared to \$128.7 million in fiscal year 2016 and \$119.0 million in fiscal year 2015. 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 \$16.8 million in fiscal year 2017, \$31.9 million in 2016 and no contributions in fiscal year 2015. Contributions to this fund for fiscal years 2017 and 2016 were generated from excess funding between the in-state and *Powerball* games.

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Contributions to the Economic Development account amounted to \$4.9 million in fiscal year 2017 compared to \$2.8 million in fiscal year 2016 and \$4.7 million in fiscal year 2015. 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 \$326 thousand in fiscal year 2017, compared to \$340.6 thousand in fiscal year 2016 and \$304.7 thousand in fiscal year 2015. Contributions to this beneficiary are calculated based on thirteen one-hundredths of one percent of "net receipts." "Net receipts" are defined as the difference between revenue received from the sale of Lottery products and the sum of payments made to winners.

Contributions to the Gambling Commission were \$1 million in fiscal year 2017, compared to zero in prior fiscal year. Senate bill 6052, section 806 mandates the Lottery to transfer \$1 million in Biennium 17 to the Gambling Commission account.

The remaining payments required by statute are made to the Stadium and Exhibition Center (CenturyLink Field), which consists of semi-annual payments whereby the required payment amount is increased by 4.0 percent year-over-year. Total contribution to this beneficiary was \$12.2 million in fiscal year 2017, compared to \$11.7 million in fiscal year 2016 and \$11.2 million in fiscal year 2015.

OTHER POTENTIALLY SIGNIFICANT MATTERS IMPACTING NEXT YEAR

Mega Millions Game

A series of Mega Millions game changes will be made in October 2017, in a bid to create larger jackpots for players. The first drawing under the new rules will take place on October 31st. The changes will also give players the chance to win bigger and better prizes, as well as help raise funds for Washington Lottery's beneficiaries.

Gaming Vendor System

The Lottery maintains a gaming network of approximately 3,615 retailer locations where all traditional lottery games are sold. Instant Game tickets are also sold through self-service terminals. IGT Corporation (formally GTECH) is responsible for operating all traditional Lottery games, including maintenance of terminals and related communication services. Under a contract expiring June 30, 2026, the Lottery shall have the option to extend up to ten (10) years. On June 26, 2016 the gaming system was upgraded to better serve the Lottery's needs in the processing of prize and annuity payments.

Advertising Contract

A new 3 year Advertising contract began November 8, 2014. The initial term expires November 2017; however, the contract has 3 one year extension options. The value of this contract is \$12M per year.

Retailer Commissions

The legislature mandated the Lottery to reduce its compensation to retailers by \$12M for the 2017 Biennium (July 1, 2015 to June 30, 2017). In order for the Lottery to comply with this requirement, the following reductions were implemented:

1) The commission for each ticket sold was reduced from 6% to 5% for most games and 7% for Powerball and Mega Millions.

2) In fiscal year 2016, the retailer selling bonuses were eliminated on jackpot games, including; Lotto, Hit 5, Mega Millions and Powerball. In fiscal year 2017, the retailer selling bonuses were reinstated.

3) The additional percent commission when Lotto jackpots reach over six million dollars was eliminated. By making these changes, the legislature was able to add \$12 million additional revenue for the Lottery beneficiaries.

Unclaimed Prizes Legislative Change

Effective July 1, 2015, the Legislature passed a bill requiring: "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". As a result of this mandate, the Lottery transferred \$9.6 million in fiscal year 2017 and \$10.1 million in fiscal year 2016 to the Washington Opportunity Pathways Account.

Gaming System-Replay

As of June 26, 2016, players can replay their winning Scratch and Draw tickets at the Washington's Lottery Gemini Touch vending machines. Players can still claim winning tickets at the Washington's Lottery Offices and retailer locations.

CONTACTING THE LOTTERY

This financial report is provided for interested parties to evaluate the financial results of Lottery activities for fiscal year 2017. If you have questions about this report or need additional financial information, please contact:

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FY17 FUND DISTRIBUTION



1	PRIZES: \$422.5M (62.5%)	6	ADMINISTRATION: \$14.4M (2.1%)
2	WASHINGTON OPPORTUNITIES PATHWAYS: \$126.8M (18.8%)	7	STADIUM & EXHIBITION CENTER: \$12.2M (1.8%)
3	COST OF SALES: \$42.9M (6.4%)	8	ECONOMIC DEVELOPMENT: \$4.9M (0.7%)
4	RETAILER COMMISSIONS: \$33.9M (5.0%)	9	GAMBLING COMMISSION: \$1.0M (0.1%)
5	GENERAL FUND: \$16.8M (2.5%)	10	PROBLEM GAMBLING: \$0.3M (0.1%)

TOTAL PAYMENTS: \$675.7 MILLION

Washington's Lottery
STATEMENTS OF NET POSITION AS OF JUNE 30, 2017 AND JUNE 30, 2016

Assets	2017	2016
Current assets		
Cash and cash equivalents	\$23,516,883	\$24,432,960
Accounts receivable, net of allowances	24,437,391	22,466,301
Investments, current portion	14,492,364	18,214,110
Due from the state	3,413,478	9,348
Inventory	475,581	886,136
Prepaid expenses	53,739	75,402
Total current assets	66,389,436	66,084,257
Non-current assets		
Investments less current portion	122,831,498	135,024,500
Capital assets, net of accumulated depreciation	932,430	418,217
Total non-current assets	123,763,928	135,442,717
Deferred Outflows of Resources		
Deferred Outflows Pensions	1,891,736	1,080,606
Total deferred outflows of resources	1,891,736	1,080,606
Total assets and deferred outflows of resources	192,045,100	202,607,580
Liabilities and Net Position		
Current liabilities		
Accounts payable	4,856,146	5,663,519
Prizes payable	40,397,961	38,790,159
Annuity prizes payable, current portion	13,498,517	15,409,949
Due to the state	20,451,908	17,677,738
Salaries and benefits payable	444,653	421,106
Unearned revenue	653	1,149,473
Total current liabilities	79,649,838	79,111,944
Non-current liabilities		
Annuity prizes payable, net of current portion	107,877,293	110,672,257
Accrued leave payable	886,986	887,263
Net pension liability	7,768,629	6,136,103
Total non-current liabilities	116,532,908	117,695,623
Deferred Inflows of Resources		
Deferred Inflows Pensions	241,761	1,090,006
Total deferred inflows of resources	241,761	1,090,006
Total liabilities and deferred inflows of resources	196,424,507	197,897,573
Net Position		
Invested in capital assets	932,430	418,217
Restricted for future prizes	10,428,362	10,273,709
Unrestricted	(15,740,199)	(5,981,919)
Total Net Position	(\$4,379,407)	\$4,710,007

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, 2017 AND JUNE 30, 2016

	2017	2016
Sales		
<i>Scratch</i> ticket sales	\$ 472,252,828	\$ 453,948,422
<i>Draw</i> game sales	201,077,571	240,926,646
Total sales	673,330,399	694,875,068
Other Operating Income	2,688,541	2,790,632
Total Revenue	676,018,940	697,665,700
Cost of sales		
Prize expense	422,536,021	432,900,790
Retailer commissions	33,893,194	36,021,210
Vendor expense	27,979,137	29,856,808
Advertising expense	10,565,659	10,481,991
Miscellaneous promotional & other operating expenses	4,328,458	4,051,361
Total cost of sales	499,302,469	513,312,160
Administrative expenses		
Salaries and benefits	10,655,860	10,828,120
Goods and services	3,252,080	3,090,238
Travel	411,287	439,193
Depreciation	80,130	134,252
Total administrative expenses	14,399,357	14,491,803
Operating income	162,317,114	169,861,737
Non-operating revenues (expenses)		
Gains (Losses) on Investments	(3,785,665)	10,226,195
Amortization of annuity prize liability	(5,757,685)	(6,283,851)
Interest income	21,397	23,098
Miscellaneous income	-	59,059
Fee income	10,100	10,325
Gain (Loss) on disposal of capital assets	5,180	(2,434)
Total before payments to beneficiaries	(9,506,673)	4,032,392
Payments to Washington Opportunity Pathways Account (WOPA)	(117,213,116)	(118,583,583)
Payments to WOPA - Unclaimed Prizes Excess of \$10M	(9,584,773)	(10,148,043)
Payments to Stadium and Exhibition Center Account	(12,154,899)	(11,687,403)
Payments to Economic Development	(4,869,712)	(2,844,549)
Payments to Problem Gambling	(326,033)	(340,567)
Payments to Gambling Commission	(1,000,000)	-
Payments to General Fund	(16,751,322)	(31,918,951)
Total payments to beneficiaries	(161,899,855)	(175,523,096)
Net non-operating expense	(171,406,528)	(171,490,704)
Change in net position	(9,089,414)	(1,628,967)
Total net position at beginning of year	\$4,710,007	\$6,338,974
Total net position at end of year	(\$4,379,407)	\$4,710,007

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, 2017 AND JUNE 30, 2016

	2017	2016
Cash flows from operating activities		
Cash received from players and retailers (net of commissions)	\$ 635,601,706	\$ 658,803,846
Cash payments for prizes	(431,392,300)	(432,376,471)
Cash payments to suppliers of goods or services	(46,000,714)	(49,143,744)
Cash payments to employees	(10,632,590)	(10,790,317)
Cash payments for other operating costs	(411,287)	(439,193)
Net cash provided by operating activities	147,164,815	166,054,121
Cash flows from non-capital financing activities		
Cash payments to Washington Opportunity Pathways Account (WOPA)	(117,024,684)	(128,991,825)
Cash payments to WOPA Unclaimed Prizes in Excess of \$10M	(9,584,773)	(10,148,043)
Cash payments to General Fund	(14,768,983)	(17,147,885)
Cash payments to Stadium and Exhibition Center Account	(12,154,899)	(11,687,403)
Cash payments to Economic Development Account	(4,792,386)	(3,256,904)
Cash payments to Problem Gambling Account	(326,584)	(337,758)
Cash payments to Gambling Commission	(1,000,000)	-
Net cash used by non-capital financing activities	(159,652,309)	(171,569,818)
Cash flows from capital and related financing activities		
Proceeds from sales of equipment	5,180	-
Payments for acquisition of equipment	(594,343)	(9,942)
Net cash used by capital and related financing activities	(589,163)	(9,942)
Cash flows from investing activities		
Receipts of interest	31,497	92,486
Proceeds from maturity of investments	18,248,000	23,590,000
Payments for investments	(6,118,917)	(13,212,089)
Net cash provided by investing activities	12,160,580	10,470,397
Net increase (decrease) in cash and cash equivalents	(916,077)	4,944,758
Cash and cash equivalents at the beginning of year	24,432,960	19,488,202
Cash and cash equivalents at end of year	\$ 23,516,883	\$ 24,432,960
Reconciliation of operating income to cash provided by operating activities		
Operating income	\$ 162,317,114	\$ 169,861,737
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	80,130	134,252
Pension adjustment (GASB 68)	(26,849)	(563,502)
Changes in assets and liabilities		
Receivables	(5,375,220)	(3,985,751)
Prepaid expenses	21,663	79,593
Inventory	410,555	(457,151)
Accounts Payable	(280,749)	(722,286)
Prizes payable	1,607,802	10,631,802
Lotto and win for life payments	(10,464,081)	(10,107,483)
Accrued payroll	23,270	37,803
Unearned revenue	(1,148,820)	1,145,107
Total adjustments	(15,152,299)	(3,807,616)
Net cash provided by operating activities	\$ 147,164,815	\$ 166,054,121
Schedule of non-cash investing, capital, and financing activities		
Increase (decrease) in fair value of investments	(\$3,785,665)	\$10,226,195
Amortization of long-term annuity prize liability	\$5,757,685	\$6,283,851

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

WASHINGTON'S LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017 and June 30, 2016

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, 2015, through June 30, 2017, is \$28.8 million.

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

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.

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 72. 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 the Lottery's receivable. 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

Inventories are valued at the lower of cost or market using the first-in, first-out method. The cost of consumable supplies is expensed as they are used.

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

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 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.

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 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.

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, 2017 was as follows:				
Capital assets being depreciated:	Beginning Balance	Increases	Decreases	Ending Balance
Leasehold Improvements	\$666,340	\$223,085	\$0	\$889,425
Equipment	1,140,412	371,258	(36,104)	1,475,566
Total capital assets being depreciated	1,806,752	594,343	(36,104)	2,364,991
Less accumulated depreciation for:				
Leasehold improvements	(666,339)	-	-	(666,339)
Equipment	(722,196)	(80,130)	36,104	(766,222)
Total accumulated depreciation	(1,388,535)	(80,130)	36,104	(1,432,561)
Total capital assets being depreciated, net	\$418,217	\$514,213	\$0	\$932,430
Capital asset activity for the year ended June 30, 2016 was as follows:				
Capital assets being depreciated:	Beginning Balance	Increases	Decreases	Ending Balance
Leasehold Improvements	\$666,340	\$0	\$0	\$666,340
Equipment	1,245,471	9,942	(115,001)	1,140,412
Total capital assets being depreciated	1,911,811	9,942	(115,001)	1,806,752
Less accumulated depreciation for:				
Leasehold improvements	(666,323)	(1,016)	-	(666,339)
Equipment	(701,528)	(133,235)	112,567	(722,196)
Total accumulated depreciation	(1,368,851)	(134,251)	112,567	(1,388,535)
Total capital assets being depreciated, net	\$544,960	(\$124,309)	(\$2,434)	\$418,217

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 2017 and 2016 the breakdown was as follows:

Due to State and Other Agencies		
	2017	2016
WA Opportunity Pathways	\$ 2,932,203	\$ 2,743,771
Economic Development	214,181	136,855
General Fund	16,753,405	14,771,066
Problem Gambling	25,495	26,046
Other Agencies	526,624	-
Total Due to State and Other Agencies	\$ 20,451,908	\$ 17,677,738

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, 2017 and 2016, the prize expense as a percentage of sales were 62.8 percent and 62.3 percent, respectively. 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 2017, the commission rate for all scratch tickets and draw games sold were paid at 5% of sales.

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

Retailers that sell a *Mega Millions* second-tier prize winning ticket worth 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 totaled \$117.2 million in fiscal year 2017 and \$118.6 million in fiscal year 2016.

Effective in fiscal year 2016, the legislature mandated

additional funds be transferred to Washington Opportunity Pathways Account. Amounts in excess of \$10 million in the unclaimed fund at the end of each fiscal year are to be distributed for education. Contributions resulted by this mandate in fiscal year 2017 resulted in \$9.6 million, compared to \$10.1 in fiscal year 2016. A total of \$126.8 was distributed to the Washington Opportunity Pathways Account in the fiscal year 2017 as compared to \$128.7 in fiscal year 2016.

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 \$12.2 in fiscal year 2017 and \$11.7 million in fiscal year 2016.

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 for the Governor, with the recommendation of the Director of the Department of Community, Trade and Economic Development and Economic Development Commission, to make expenditures for the economic good of the state. This includes preventing the closure of a business or facility, preventing relocation of a business or facility outside the state or to recruit a business or facility to the state. Payments to this account are defined to be one-third of the Lottery's unclaimed prize money. Payments to Economic Development totaled \$4.9 million in fiscal year 2017 and \$2.8 million in fiscal year 2016. In fiscal year 2017 there were more prizes that went unclaimed as compared to fiscal year 2016. In fiscal year 2017, two top tier \$1.0 million dollar Scratch prizes went unclaimed and added to the increased contribution compared to 2016.

Payments to the General Fund

Contributions to the General Fund in fiscal year 2017 amounted to \$16.8 million, compared to \$32 million in fiscal year 2016. *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 \$326.0 thousand in fiscal year 2017 and \$340.6 thousand in fiscal year 2016.

Net Position

Restricted net position represent amounts set aside for unclaimed prizes retained for future use as prizes, as required by RCW 67.70.190. During fiscal year 2017, \$14.6 million of prizes went unclaimed. The following transfers were made out of the unclaimed prize fund for fiscal year 2017:

1. \$4.9 million was used for contributions to the Economic Development Strategic Reserve Account.
2. \$9.6 million was distributed to the Washington Opportunity Pathways Account as mandated by the legislature for all amounts in excess of \$10 million in the unclaimed fund be distributed to WOPA.

As of June 30, 2017, the unclaimed reserve contained a balance of \$10.4 million compared to \$10.3 as of June 30, 2016.

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, 2017 and June 30, 2016, the amount of cash on deposit was \$23,516,883 and \$24,432,960, 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, 2017 were as follows:

Table 7: Maturities in Years	
Less than 1	\$14,492,364
1-5	67,916,854
6-10	31,462,006
11-15	13,892,391
16-20	6,334,563
21-25	2,677,294
26-30	548,390
Fair Value	\$137,323,862

Fair value measurements of the Lottery's investments in U.S. Treasury Strips, valued at \$137,323,862 and \$153,238,610 on June 30, 2017 and 2016 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 March 31, 2022. Total costs for such leases were \$783,957 and \$782,232 for the fiscal years ended June 30, 2017 and June 30, 2016, 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, 2017:

Table 8: Lease Commitment	
Fiscal Year	Operating Leases
2018	\$433,340
2019	305,193
2020	215,490
2021	127,557
2022	42,413
Total	\$1,123,993

NOTE 5 – Prize Liabilities

Presented below is a summary of the annuity prize payment requirements as of June 30, 2017:

Fiscal Year	Principal	Interest	Total
2018	\$13,498,517	\$1,003,483	\$14,502,000
2019	12,849,705	1,652,295	14,502,000
2020	12,268,171	2,233,829	14,502,000
2021	11,687,946	2,814,054	14,502,000
2022	11,126,624	3,375,376	14,502,000
2023-2027	34,195,433	13,322,567	47,518,000
2028-2032	12,047,084	7,672,916	19,720,000
2033-2037	7,143,269	5,540,731	12,684,000
2038-2042	3,739,350	3,280,650	7,020,000
2043-2073	2,819,711	3,472,289	6,292,000
Total	\$121,375,810	\$44,368,190	\$165,744,000

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, 2017 and 2016 was as follows:

Fiscal Year	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
2017	\$126,082,206	11,942,353	(16,648,749)	\$121,375,810	\$13,498,517
2016	\$129,905,838	19,822,506	(23,646,138)	\$126,082,206	\$15,409,949

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 \$592,754 and \$594,826 on June 30, 2017 and June 30, 2016, respectively. The Lottery estimates that approximately \$500,000 of its annual leave total liability will be paid within one year, and as such is considered short-term.

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, 2017 and 2016, represent possible future payments of \$1,337,419 and \$1,321,749, 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 \$294,232 and \$292,437 on June 30, 2017 and 2016, respectively, are based on the actuarially-determined factor of the probability that current employees will receive payments for sick leave buyouts. The Lottery estimates that approximately 8-10 percent, or \$133,742 of its sick leave total liability will be paid within one year, and as such is considered short-term.

Long-term liability activity of leave benefits for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Annual Leave	\$594,826	\$555,564	(\$557,636)	\$592,754
Sick Leave	\$292,437	\$81,860	(\$80,065)	\$294,232

Long-term liability activity of leave benefits for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Annual Leave	\$542,380	\$560,702	(\$508,256)	\$594,826
Sick Leave	\$286,976	\$84,386	(\$78,925)	\$292,437

NOTE 6 – 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 7 – 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 of 0.18 percent 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:

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	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. No service cap.
Reductions	Inactive status prior to 65 could reduce benefits.	Optional early retirement but reduction in benefits.	
Cost of living allowance	Optional by member election, automatic to CPI, capped at 3%, but reduces benefits.	CPI, capped at 3%.	
Disability	Duty disability prior to age 60, \$350 per month in a temporary life annuity, or 2/3 of monthly AFC, whichever is less. Converted to service retirement at age 60. Non-duty disability must have 5 years of covered employment. Before age 55, 2% of the AFC for each year of service, reduced by 2% for each year the member's age is less than 55. 60% of AFC limit.	2 percent of the AFC per year of service. No cap on years of service credit.	1 percent 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 2017, were as follows:

	Employer			Employee		
	PERS 1	PERS 2	PERS 3	PERS 1	PERS 2	PERS 3
Contribution percentage	6.2%	6.2%	6.2%	6.0%	6.1%	Variable
Admin Fee	0.2%	0.2%	0.2%	N/A	N/A	N/A
Plan 1 UAAL	4.8%	4.8%	4.8%	N/A	N/A	N/A
Total	11.2%	11.2%	11.2%	6.0%	6.1%	Variable

OSA - Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2015 with the results rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%

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, 2015, valuation were based on the results of the 2007-2012 Experience Studies. Additional assumptions for subsequent events and law changes are current as of the 2015 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 7.5 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 2015 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, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
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 7.5 percent, the same as the prior measurement date. 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 7.7 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 7.5 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 7.5 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 2017 net pension liability of the employers calculated using the discount rate of 7.5 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 (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

Employer's Proportionate Share of Net Pension Liability (Asset) (in thousands)			
	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 4,583	\$ 3,800	\$ 3,127
PERS 2/3	7,306	3,968	(2,066)
Total	\$11,889	\$ 7,768	\$1,061

The following presents the fiscal year 2016 net pension liability of the employers calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

Employer's Proportionate Share of Net Pension Liability (Asset) (in thousands)			
	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 4,273	\$ 3,510	\$ 2,853
PERS 2/3	7,679	2,626	(1,243)
Total	\$11,952	\$6,136	\$1,611

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2017, PERS 1 recognized reduction of pension expense of \$222 thousand, and PERS 2/3 recognized pension expense of \$539 thousand. At June 30, 2016, 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 state contributions subsequent to the measurement date:

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Deferred Outflows/Inflows as of June 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
	(Amounts in thousands)	
PERS 1		
Net difference between projected and actual earnings on pension plan investments	\$ 96	
Lottery contribution subsequent to measurement date	45	
PERS 2/3		
Difference between expected and actual experience	\$ 211	\$ 131
Changes of assumptions	41	
Net difference between projected and actual earnings on pension plan investments	486	
Change in proportion	195	111
Lottery contributions subsequent to measurement date	818	
Total	\$1,892	\$242

Deferred Outflows/Inflows as of June 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
	(Amounts in thousands)	
PERS 1		
Net difference between projected and actual earnings on pension plan investments		\$ 192
Lottery contribution subsequent to measurement date	\$ 54	
PERS 2/3		
Difference between expected and actual experience	\$ 203	
Changes of assumptions	4	
Difference between projected and actual earnings on pension plan investments		701
Change in proportion		197
Lottery contributions subsequent to measurement date	820	
Total	\$1,081	\$1,090

The \$1.9 million and \$1.1 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, Increase / (Reduction in Pension Expense) (Amounts in thousands)		
	PERS 1	PERS 2	Total
2018	\$ (24)	\$ (60)	\$ (84)
2019	(24)	15	(9)
2020	88	380	468
2021	56	356	412
Total	\$96	\$691	\$787

Collective Net Pension Liability/Asset.

At June 30, 2017, the Lottery reported a liability of \$3.8 million for its proportionate share of the collective net pension liability for PERS 1 and \$4.0 million for PERS 2/3. At June 30, 2016, the Lottery reported a liability of \$3.5 million for its proportionate share of the collective net pension liability for PERS 1 and \$2.6 million for PERS 2/3. The Lottery's proportion for PERS 1 was .070679 percent, and .067046 percent for the years ending June 30, 2016 and 2015, respectively and the Lottery's portion of the PERS 2/3 was .078492 percent and .073460 percent for the years ended June 30, 2016 and 2015, 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, 2015 with the results rolled forward to June 30, 2016, 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 8 – Commitments and Contingencies

Gaming Vendor System Contractual Arrangements

The Lottery maintains a gaming network of approximately 3,636 retailer locations where all traditional lottery games are sold. Instant Game tickets are also sold through self-service terminals. IGT (formerly GTECH) is responsible for operating all traditional Lottery games, including maintenance of terminals and related communication services, under a contract expiring June 30, 2026. On May 15, 2015, a new contract was signed for ten years, commencing July 1, 2016. The contract may be extended up to ten (10) additional years, in any number of extensions.

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

RSI
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 Employee' Retirement System (PERS) Plan 1 Measurement Date of June 30 (dollars in thousands)			
	2016	2015	2014
Lottery's PERS 1 employer's proportion of the net pension liability	0.070679%	0.067046%	0.072025%
Lottery's PERS 1 employer's proportionate share of the net pension liability	\$ 3,800	\$ 3,510	\$ 3,610
Lottery's PERS 1 employer's covered-employee payroll	\$ 483	\$ 521	\$ 515
Lottery's PERS 1 employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	787%	674%	701%
Plan fiduciary net position as a percentage of the total pension liability	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 Employee' Retirement System (PERS) Plans 2/3 Measurement Date of June 30 (dollars in thousands)			
	2016	2015	2014
Lottery's PERS 2/3 employer's proportion of the net pension liability	0.078492%	0.073460%	0.079354%
Lottery's PERS 2/3 employer's proportionate share of the net pension liability	\$ 3,968	\$ 2,626	\$ 1,596
Lottery's PERS 2/3 Employer's covered-employee payroll	\$ 7,335	\$ 6,584	\$ 6,789
Lottery's PERS 2/3 Employer's proportional share of the net pension liability as a percentage of its covered-employee payroll	54.10%	39.88%	23.51%
Plan fiduciary net position as a percentage of the total pension liability	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.

Schedules of Employer Contributions

Schedule of Employer Contributions Public Employee' Retirement System (PERS) Plan 1 Measurement Date of June 30 (dollars in thousands)			
	2017	2016	2015
Lottery's PERS 1 statutorily required contributions	\$ 45	\$ 54	\$ 48
Lottery's PERS 1 contributions in relation to the statutorily required contributions	\$ 45	\$ 54	\$ 48
Lottery's PERS 1 contributions (deficiency) excess	\$ -	\$ -	\$ -
Lottery's PERS 1 employer's covered employee payroll	\$ 404	\$ 483	\$ 521
Lottery's PERS 1 contributions as a percentage of covered employee payroll	11.1%	11.2%	9.2%

*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 Employee' Retirement System (PERS) Plan 2/3 Measurement Date of June 30 (dollars in thousands)			
	2017	2016	2015
Lottery's PERS 2/3 statutorily required contributions	\$ 818	\$ 820	\$ 606
Lottery's PERS 2/3 contributions in relation to the statutorily required contributions	\$ 818	\$ 820	\$ 606
Lottery's PERS 2/3 contributions (deficiency) excess	\$ -	\$ -	\$ -
Lottery's PERS 2/3 employer's covered employee payroll	\$ 7,320	\$ 7,335	\$ 6,584
Lottery's PERS 2/3 contributions as a percentage of covered employee payroll	11.2%	11.2%	9.2%

*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, 2013, valuation date, completed in the Fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

STATISTICAL SECTION

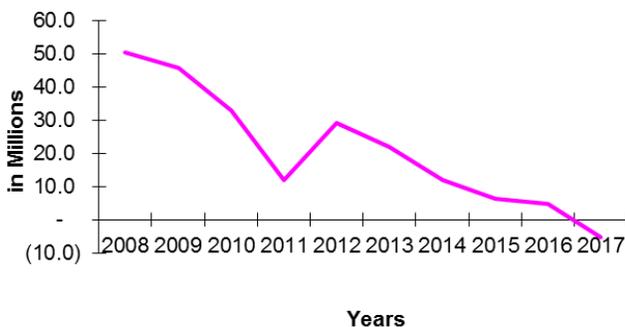
**This section offers relevant financial, economic and demographic statistical information, including
National lottery industry trend data**

Financial Trends

Lottery's sales decreased by \$21.5 million or 3.1 percent over fiscal year 2016. Strong sales in Scratch games in fiscal year 2017, contributed to the growth this fiscal year. Although we experienced a 4% growth in scratch in fiscal year 2017, total sales decreased primarily as a result of the largest Powerball jackpot in the history of the game in fiscal year 2016. Overall sales for Powerball, Mega Millions and Hit5 were down from prior year. Sales for the Daily Game increased by \$1.1 million. The total number of *Scratch* tickets sold increased by .75 percent in fiscal year 2017, compared to 2016, and the average price per ticket increased from \$4.12 in fiscal year 2016 to \$4.25 in fiscal year 2017. Operating expenses are dominated by prizes, retailer commissions, gaming vendor commissions, marketing and advertising. Prize expenses decreased in fiscal year 2017 by \$10.4 million, or 2.4 percent compared to fiscal year 2016 and increased by \$56 million or 15.5 percent as compared to fiscal year 2015. Net operating profit decreased by \$7.5 million or 4.4 percent compared to fiscal year 2016 and increased \$17.1 million or 11.8 percent compared to fiscal year 2015.

Net position is affected by the fluctuation in the value of securities, and the Lottery saw a decrease by \$3.7 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, there is no real change in their value. All net assets for the Lottery are incorporated into 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 47 *Scratch* games during fiscal year 2017.

The number and type of retail locations that sell Lottery products in Washington also impact the revenue capacity. During fiscal year 2017, the Lottery increased a net of 21 retailers bringing the total number at the end of fiscal year 2017 to 3,636 compared to 3,615 for the prior year.

Debt Capacity

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

Operating Information

The Lottery consists of seven divisions; Executive, Finance, Administration, Information Services, Security, Human Resources/Customer Service and Marketing/Sales. The Executive Division includes 10 employees. These employees include the Director, Deputy Director, Legal Counsel/Legislative Liaison, Research and Development, Internal auditor, business development and lean program manager. The Sales/Marketing Division is the largest with 69 employees working in headquarters and the five regions throughout the state. Supporting the Sales/Marketing staff are the Finance division with 8, Administration Division with 11 employees, Information Services Division with 16 employees, Security Division with 5 employees, and Human Resources/Customer Service Division with 11 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 advises and makes recommendations to the Director for the operation and administration of the Lottery.

Department	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Executive	10	9	7	7	8	8	10	11	12	12
Finance & Administration	19	21	22	22	22	20	19	21	20	22
Information Services	16	17	17	15	16	13	15	14	13	13
Security	5	4	4	4	5	5	5	5	5	5
Human Resources/Customer Service	11	10	11	10	11	12	5	5	5	5
Sales/Marketing	69	69	70	72	71	11	12	9	11	10
Sales	0	0	0	0	0	63	72	72	73	73
Total	130	130	131	130	133	132	138	137	139	140

Demographic and Economic Information

Washington State's population is approximately 7.3 million people. As of November 2016 forecast, 5,557,921 were over 18 years of age and eligible to purchase Lottery products. Median household income in Washington in 2016 was \$65,500 and per capita personal income was \$53,493. Washington's unemployment rate in 2016 was 5.4 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
2008	6.5	59,119	34,592	4.5%
2009	6.6	55,771	34,343	5.3%
2010	6.7	56,317	42,933	8.9%
2011	6.7	54,888	42,570	9.6%
2012	6.7	55,550	43,878	9.2%
2013	6.9	56,444	45,693	8.2%
2014	6.9	58,577	47,031	7.0%
2015	7.1	58,686	49,583	6.3%
2016	7.2	62,108	51,146	5.7%
2017	7.3	65,500	53,493	5.4%

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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 oldest (over 65) age classes. More than two-thirds of Lottery players are between 30 and 65 years old.

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 \$75 to \$100 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 90% of the population reports White/Caucasian or Asian/Pacific Islander ethnicity. In FY2017, there were no significant ethnic differences in lottery participation.

The top ten private employers in Washington for fiscal years 2007-2016 are displayed below. The Lottery will continue to gather information in order to report the required 10 years of information.

2016				
#	Employer	City	Employees Count	Percentage
2016 Data not available				
Total			110,600	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	Richalnd	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%

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%

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%

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%

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

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%

2008				
#	Employer	City	Employees Count	Percentage
1	University of Washington	Seattle	27,000	24%
2	Seattle Tacoma Intl Arprt-Sea	Seatac	21,000	19%
3	Microsoft Corp	Redmond	20,000	18%
4	Boeing Co	Kent	10,000	9%
5	University of WA OB/GYN	Seattle	6,000	5%
6	Washington State University	Pullman	5,770	5%
7	South Seattle Community College	Seattle	5,000	5%
8	Virginia Mason Medical Ctr	Seattle	5,000	5%
9	Multi Care Health System	Tacoma	5,000	5%
10	BBSI	Moses Lake	5,000	5%
Total			109,770	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%

2007				
#	Employer	City	Employees Count	Percentage
1	University of Washington	Seattle	27,000	23%
2	Seattle Tacoma Intl Arprt-Sea	Seatac	21,000	18%
3	Microsoft Corp	Redmond	20,000	17%
4	Boeing Co	Kent	10,000	8%
5	MulticareHospice & Palliative	Tacoma	8,000	7%
6	Multicare Health System	Tacoma	8,000	7%
7	University of WA OB/GYM	Seattle	8,000	7%
8	Washington State University	Pullman	5,770	5%
9	BBSI	Moses Lake	5,000	4%
10	Multicare Health System	Tacoma	5,000	4%
Total			117,770	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.

WHO PLAYS WASHINGTON'S LOTTERY GAMES?

Demographics of Lottery Players and Non-Players

The following charts reflect the results of the Fiscal Year 2017 demographic survey. The respondents were categorized as Lottery players and non-players. These charts reflect the percentage of respondents in these two categories by selected demographics.



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

Washington's Lottery Ten Years of Net Position

	2006	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Position											
Invested in capital assets	259,804	307,841	276,746	355,401	275,584	358,544	403,881	266,529	544,959	418,217	932,430
Restricted for future prizes	12,234,490	15,107,376	7,824,817	3,659,665	3,600,628	9,535,984	16,777,500	12,555,919	15,829,819	10,273,709	10,428,362
Unrestricted	22,699,110	35,024,787	37,511,394	28,756,516	8,139,532	19,350,886	4,893,069	(832,889)	(10,035,804)	(5,981,919)	(15,740,199)
Total net position	35,193,404	50,440,004	45,612,957	32,771,582	12,015,744	29,245,414	22,074,450	11,989,559	6,338,974	4,710,007	(4,379,407)

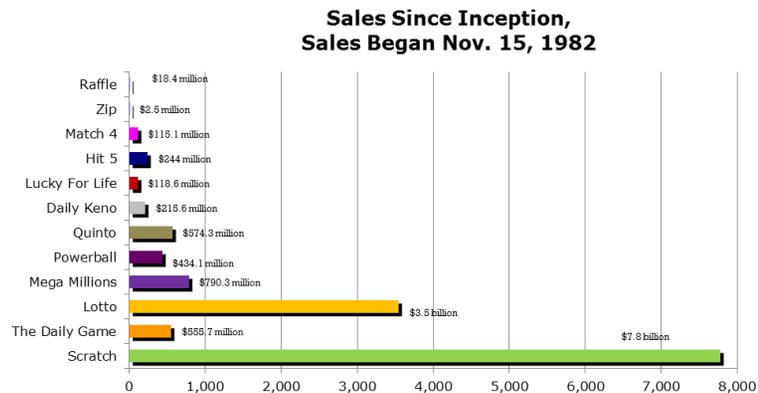
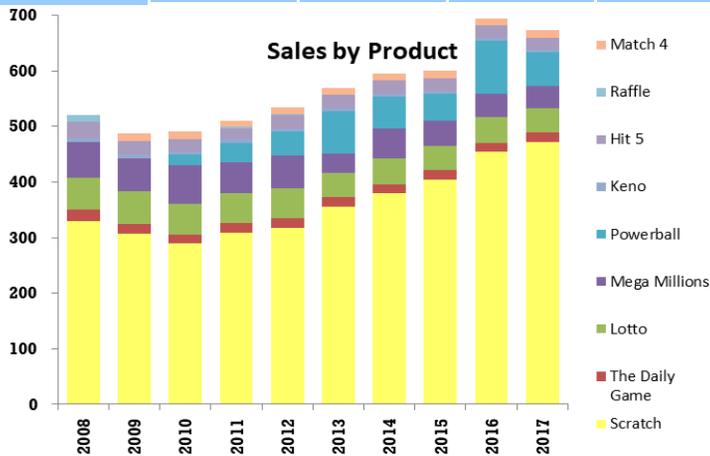
Ten Years of Changes in Net Position

	2006	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales											
Scratch ticket sales	305,512,725	330,520,307	307,004,644	289,324,733	309,045,103	318,149,502	356,021,877	379,352,242	404,097,793	453,948,422	472,252,828
Draw game sales	172,372,789	190,582,290	180,714,035	201,696,753	201,412,321	217,047,664	213,565,366	215,171,218	196,250,355	240,926,646	201,077,571
Total Sales	477,885,514	521,102,597	487,718,679	491,021,486	510,457,424	535,197,166	569,587,243	594,523,460	600,348,148	694,875,068	673,330,399
Other operating income					2,966,318	2,985,900	2,875,510	2,865,770	2,850,714	2,790,632	2,688,541
Cost of Sales											
Prize expense	291,773,401	314,923,284	301,279,527	291,827,949	295,155,493	311,545,285	339,365,820	362,666,491	365,929,999	432,900,790	422,536,021
Retailer commissions	30,345,420	32,391,044	30,751,766	31,005,437	31,941,021	33,383,737	35,545,701	37,368,870	37,307,646	36,021,210	33,893,194
Vendor expense	14,655,710	14,637,059	14,026,413	14,283,685	19,948,887	21,823,707	23,978,757	25,542,925	26,852,529	29,856,808	27,979,137
Advertising expense	6,844,990	11,292,640	12,161,926	12,315,924	11,813,258	10,882,354	10,194,020	10,122,178	10,468,738	10,481,991	10,565,659
Misc. promotional & other operating expenses	1,903,783	5,057,841	5,008,198	4,055,394	4,208,989	4,106,779	4,215,283	5,704,670	4,624,697	4,051,361	4,328,458
Total Cost of Sales	345,523,304	378,301,868	363,227,830	353,488,389	363,067,648	381,741,862	413,299,581	441,405,134	445,183,609	513,312,160	499,302,469
Administrative expenses											
Salaries and benefits	8,511,768	9,232,680	9,446,681	9,687,211	9,853,525	9,567,271	9,585,980	9,619,930	9,404,819	10,828,120	10,655,860
Goods and services	2,268,688	2,658,744	2,375,804	2,294,355	2,173,778	2,279,971	2,640,333	2,368,232	2,830,400	3,090,238	3,252,080
Travel	408,116	519,150	369,462	409,270	381,979	434,622	452,446	460,997	452,426	439,193	411,287
Depreciation	94,896	117,647	110,969	121,305	120,772	132,145	131,664	124,135	136,005	134,252	80,130
Total Administrative Expenses	11,283,468	12,528,221	12,302,916	12,512,141	12,530,054	12,414,009	12,810,423	12,573,294	12,823,650	14,491,803	14,399,357
Operating Income	121,078,742	130,272,508	112,187,933	125,020,956	137,826,040	144,027,195	146,352,749	143,410,802	145,191,603	169,861,737	162,317,114
Non-Operating Revenues (expenses)											
Investment revenue (loss)	(7,993,787)	38,105,795	22,480,606	21,777,420	6,266,376	23,979,561	(3,612,981)	3,045,060	5,007,809	10,226,195	(3,785,665)
Amortization of annuity prize liability	(28,344,906)	(22,658,996)	(20,000,662)	(17,351,689)	(14,981,731)	(12,819,949)	(10,743,345)	(8,866,388)	(7,605,541)	(6,283,851)	(5,757,685)
Interest income	2,329,880	2,421,131	841,625	150,319	87,571	58,387	51,111	49,403	40,067	23,098	21,397
Misc. income (expense)	5,534	27,175	37,412	36,415	160,896	13,201	(10,260)	(60,573)	-	59,059	-
Fee income	18,000	10,636	18,125	17,894	12,764	14,968	14,497	11,050	10,235	10,325	10,100
Loss on disposal of capital assets	(122,338)	-	-	-	-	(5,340)	3,881	121	-	(2,434)	5,180
Total non-operating revenues (expenses)	(34,107,617)	17,905,741	3,377,106	4,630,359	(8,454,124)	11,240,828	(14,297,097)	(5,821,327)	(2,547,430)	4,032,392	(9,506,673)
Payments to:											
Education Funds	(102,000,000)	(102,000,000)	(102,000,000)	(97,368,911)	-	-	-	-	-	-	-
Washington Opportunity Pathways Account	-	-	-	-	(112,262,295)	(121,840,501)	(115,578,117)	(121,905,022)	(119,000,660)	(128,731,626)	(126,797,889)
Education Legacy Trust Account	-	-	-	(13,100,000)	(11,900,000)	-	-	(10,050,000)	(6,050,000)	-	-
King County	(4,355,334)	(4,710,730)	(4,899,160)	(5,095,125)	(5,298,930)	(2,701,415)	-	-	-	-	-
Stadium and Exhibition Center Account	(7,895,591)	(8,539,871)	(8,881,466)	(9,236,724)	(9,609,193)	(9,990,441)	(10,390,059)	(10,805,661)	(11,237,887)	(11,687,403)	(12,154,899)
Economic Development	(3,034,511)	(3,677,118)	(2,377,226)	(4,573,866)	(3,739,469)	(2,967,678)	(3,620,758)	(4,016,417)	(4,661,950)	(2,844,549)	(4,869,712)
Problem Gambling	(186,129)	(268,038)	(243,995)	(258,950)	(279,892)	(290,747)	(299,288)	(301,414)	(304,744)	(340,567)	(326,033)
Veterans' Innovation Program	-	-	-	-	-	(247,571)	-	-	-	-	-
General Fund	(7,617,611)	(11,091,970)	(1,990,239)	(12,859,114)	(7,037,975)	-	(9,338,395)	(595,852)	-	(31,918,951)	(16,751,322)
Gambling Commission	-	-	-	-	-	-	-	-	-	-	(1,000,000)
Total payments	(125,089,176)	(130,287,727)	(120,392,086)	(142,492,690)	(150,127,754)	(138,038,353)	(139,226,617)	(147,674,366)	(141,255,241)	(175,523,096)	(161,899,855)
Net non-operating expense	(159,196,793)	(112,381,986)	(117,014,980)	(137,862,331)	(158,581,878)	(126,797,525)	(153,523,714)	(153,495,693)	(143,802,671)	(171,490,704)	(171,406,528)
Change in net position	(38,118,051)	17,890,522	(4,827,047)	(12,841,375)	(20,755,838)	17,229,670	(7,170,965)	(10,084,891)	1,388,932	(1,628,967)	(9,089,414)
Prior period adjustment to net position	-	-	-	-	-	-	-	(7,039,517.00)	-	-	-
Total net position at beginning of year	73,311,455	32,549,482	50,440,004	45,612,957	32,771,582	12,015,744	29,245,415	22,074,450	4,950,042	6,338,974	4,710,007
Total net position at end of year	35,193,404	50,440,004	45,612,957	32,771,582	12,015,744	29,245,415	22,074,450	4,950,042	6,338,974	4,710,007	(4,379,407)

Washington's Lottery

Ten Years of Sales and Other Revenues

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Scratch	330,520,307	307,004,644	289,324,733	309,045,103	318,149,502	356,021,877	379,352,242	404,097,793	453,948,422	472,252,828
Draw:										
<i>The Daily Game</i>	19,799,094	18,341,004	16,993,685	16,736,124	16,597,018	16,747,637	16,660,795	16,856,367	16,653,422	17,748,008
<i>Lotto</i>	56,918,875	58,245,291	54,805,991	54,559,716	54,468,198	43,785,467	47,372,657	44,844,196	46,632,119	43,427,058
<i>Mega Millions</i>	65,445,763	59,577,333	68,642,733	55,036,067	59,196,654	35,485,582	52,992,207	44,811,063	41,278,942	39,312,625
<i>Powerball</i>	-	-	19,995,130	35,588,849	42,858,045	75,935,191	56,433,962	47,573,226	95,744,270	60,008,237
<i>Keno</i>	6,507,227	5,523,027	5,271,489	5,550,604	5,633,672	5,651,905	5,752,923	5,816,200	5,890,354	5,816,005
<i>Hit 5</i>	29,799,251	24,433,740	22,340,255	20,649,685	22,961,307	22,764,290	23,913,846	23,403,505	21,706,191	21,330,902
<i>Raffle</i>	12,112,080	-	-	2,117,470	2,925,910	1,279,240	-	-	-	-
<i>Match 4</i>	-	14,593,640	13,647,470	11,173,806	12,406,860	11,916,054	12,044,828	12,945,798	13,021,348	13,434,736
Total Draw	190,582,290	180,714,035	201,696,753	201,412,321	217,047,664	213,565,366	215,171,218	196,250,355	240,926,646	201,077,571
Total Sales	521,102,597	487,718,679	491,021,486	510,457,424	535,197,166	569,587,243	594,523,460	600,348,148	694,875,068	673,330,399
Other operating income	-	-	-	2,966,318	2,985,900	2,875,510	2,865,770	2,850,714	2,790,632	2,688,541
Interest	2,421,131	841,625	150,319	87,571	58,387	51,112	49,403	40,067	23,098	21,397
License Fees	27,175	18,125	17,894	12,764	14,968	14,497	11,050	10,235	10,325	10,100
Miscellaneous	1,482,154	37,411	36,415	160,896	(53,832)	(6,379)	(60,452)	-	56,625	5,180
Total Other Revenues	3,930,460	897,161	204,628	261,231	19,523	59,230	1	50,302	90,048	36,677
Total Sales and Other Revenues	525,033,057	488,615,840	491,226,114	513,684,973	538,202,589	572,521,983	597,389,231	603,249,164	697,755,748	676,055,617



Washington's Lottery Ten Years of Expenses

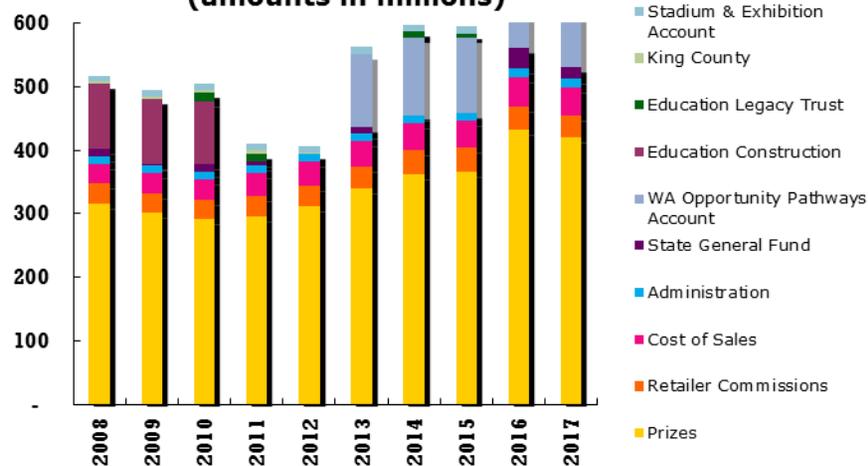
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prizes	314,923,284	301,279,527	291,827,949	295,155,493	311,545,285	339,365,820	362,666,491	365,929,999	432,900,790	422,536,021
Retailer Commissions	32,391,044	30,751,766	31,005,437	31,941,021	33,383,737	35,545,701	37,368,870	37,307,646	36,021,210	33,893,194
Cost of Sales	30,987,540	31,192,738	30,655,003	35,971,134	36,812,840	38,388,061	41,369,773	41,945,964	44,390,160	42,873,254
Administration	12,528,221	12,302,916	12,512,141	12,530,054	12,414,009	12,810,423	12,573,294	12,823,650	14,491,803	14,399,357
Total Expenses	390,830,089	375,526,947	366,000,530	375,597,702	394,155,871	426,110,005	453,978,428	458,007,259	527,803,963	513,701,826

Note: Non-operating expenses are not included.

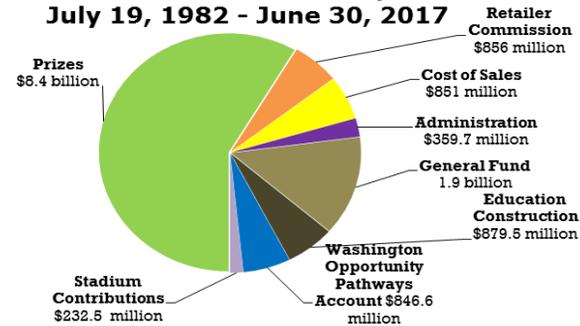
Ten Years of Contributions

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
State General Fund	11,091,971	1,990,239	12,859,114	7,037,975	-	9,338,396	595,852	-	31,918,951	16,751,322
Washington Opportunity Pathways Account	-	-	-	112,262,295	121,840,501	115,578,116	121,905,022	119,000,660	128,731,626	126,797,889
Education Funds	102,000,000	102,000,000	97,368,911	-	-	-	-	-	-	-
Education Legacy Trust Fund	-	-	13,100,000	11,900,000	-	-	10,050,000	6,050,000	-	-
Economic Development	3,677,118	2,377,226	4,573,866	3,739,469	2,967,678	3,620,758	4,016,417	4,661,950	2,844,549	4,869,712
Problem Gambling	268,038	243,995	258,950	279,892	290,747	299,288	301,414	304,744	340,567	326,033
Veterans' Innovation Program	-	-	-	-	247,571	-	-	-	-	-
King County	4,710,730	4,899,160	5,095,125	5,298,930	2,701,415	-	-	-	-	-
Stadium & Exhibition Account	8,539,871	8,881,466	9,236,724	9,609,193	9,990,441	10,390,059	10,805,661	11,237,887	11,687,403	12,154,899
Gambling Commission	-	-	-	-	-	-	-	-	-	1,000,000
Total Contributions	130,287,728	120,392,086	142,492,690	150,127,754	138,038,353	139,226,617	147,674,366	141,255,241	175,523,096	161,899,855

Expenses and Contributions (amounts in millions)



Distributions Since Inception July 19, 1982 - June 30, 2017



Amounts not displayed on graph:
 Economic Development Contributions \$43.4 million
 Education Legacy Trust Account \$41.1 million
 Veterans Innovations Program \$248 thousands
 Problem Gambling \$3.3 million
 Gambling Commission \$1 million

Washington's Lottery

COMPARATIVE STATEMENT OF LOTTERY REVENUES AND EXPENSES BY LOTTERY FOR FISCAL YEAR 2016

Lottery	Millions of Dollars					As Percentage of Sales			
	Sales	Prizes	Commissions	Expenses	Net Income	Prizes	Commissions	Expenses	Net Income
New York	7,703.14	4,629.66	463.89	98.67	2,512.51	60.10%	6.02%	1.28%	32.62%
California	6,275.60	3,955.79	432.99	327.15	1,615.09	63.03%	6.90%	5.21%	25.74%
Florida	6,062.35	3,868.97	337.01	168.36	1,718.44	63.82%	5.56%	2.78%	28.35%
Massachusetts	5,223.48	3,841.43	299.49	102.72	989.49	73.54%	5.73%	1.97%	18.94%
Texas	5,067.52	3,186.43	273.31	205.64	1,415.22	62.88%	5.39%	4.06%	27.93%
Georgia	4,247.93	2,745.57	270.67	185.46	1,107.05	64.63%	6.37%	4.37%	26.06%
Pennsylvania	4,135.17	2,639.84	218.30	156.64	1,121.32	63.84%	5.28%	3.79%	27.12%
New Jersey	3,321.65	2,001.69	185.98	113.97	1,027.27	60.26%	5.60%	3.43%	30.93%
Michigan	3,104.58	1,856.34	231.70	146.59	889.82	59.79%	7.46%	4.72%	28.66%
Ohio	3,059.60	1,932.59	188.59	89.50	858.53	63.16%	6.16%	2.93%	28.06%
Illinois	2,855.54	1,837.40	160.94	139.77	739.89	64.35%	5.64%	4.89%	25.91%
North Carolina	2,383.59	1,491.03	166.44	95.33	637.37	62.55%	6.98%	4.00%	26.74%
Virginia	2,006.90	1,208.35	112.67	98.67	588.38	60.21%	5.61%	4.92%	29.32%
Maryland	1,905.54	1,133.30	141.16	58.61	572.48	59.47%	7.41%	3.08%	30.04%
South Carolina	1,600.39	1,047.21	112.94	39.50	404.42	65.43%	7.06%	2.47%	25.27%
Tennessee	1,511.69	954.40	106.15	60.79	394.04	63.13%	7.02%	4.02%	26.07%
Missouri	1,315.62	888.86	78.00	58.16	304.47	67.56%	5.93%	4.42%	23.14%
Connecticut	1,230.77	760.27	68.69	50.34	351.58	61.77%	5.58%	4.09%	28.57%
Indiana	1,207.61	771.97	81.93	74.09	289.98	63.93%	6.78%	6.14%	24.01%
Kentucky	983.84	620.57	62.57	47.76	253.02	63.08%	6.36%	4.85%	25.72%
Arizona	870.94	557.44	59.18	43.76	210.79	64.00%	6.80%	5.02%	24.20%
Washington **	694.87	432.90	36.02	58.88	173.89	62.30%	5.18%	8.47%	25.03%
Wisconsin	627.16	372.56	43.53	35.86	175.10	59.40%	6.94%	5.72%	27.92%
Colorado	594.41	370.51	43.92	37.94	142.95	62.33%	7.39%	6.38%	24.05%
Minnesota	592.85	365.90	35.64	45.32	146.26	61.72%	6.01%	7.64%	24.67%
Louisiana	507.04	272.93	28.19	28.31	178.95	53.83%	5.56%	5.58%	35.29%
Arkansas	455.60	308.95	25.70	33.43	88.47	67.81%	5.64%	7.34%	19.42%
Iowa	366.91	221.77	24.56	32.06	88.78	60.44%	6.69%	8.74%	24.20%
Oregon	353.02	239.32	30.70	28.03	55.67	67.79%	8.70%	7.94%	15.77%
New Hampshire	303.34	192.96	18.06	18.47	79.12	63.61%	5.95%	6.09%	26.08%
Maine	272.34	176.79	17.91	23.44	57.58	64.91%	6.58%	8.61%	21.14%
Kansas	272.02	157.30	16.02	98.70	78.02	57.83%	5.89%	36.28%	28.68%
Rhode Island	260.83	159.63	18.63	14.67	67.91	61.20%	7.14%	5.62%	26.04%
Idaho	236.09	153.65	13.84	17.62	51.85	65.08%	5.86%	7.46%	21.96%
District of Columbia	228.18	132.05	14.96	27.88	53.36	57.87%	6.56%	12.22%	23.39%
Oklahoma	189.62	95.52	12.42	12.45	69.68	50.37%	6.55%	6.57%	36.75%
W. Virginia	188.20	110.83	13.18	7.00	68.51	58.89%	7.00%	3.72%	36.40%
Nebraska	179.47	104.65	11.40	19.77	43.98	58.31%	6.35%	11.02%	24.51%
Delaware	175.04	126.50	11.40	1.60	35.54	72.27%	6.51%	0.91%	20.30%
New Mexico	154.34	84.76	10.04	12.01	47.56	54.91%	6.50%	7.78%	30.82%
Vermont	124.26	80.14	7.75	9.82	26.61	64.49%	6.23%	7.90%	21.42%
Montana	59.70	33.68	3.50	9.79	12.58	56.41%	5.86%	16.40%	21.07%
South Dakota	55.29	31.72	2.99	6.35	14.71	57.36%	5.42%	11.48%	26.61%
North Dakota	35.63	18.32	1.82	5.90	9.70	51.43%	5.11%	16.55%	27.23%
Wyoming	33.35	18.37	2.04	8.22	4.71	55.07%	6.12%	24.65%	14.13%

Note to Table: fiscal year 2016 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 2016 World Lottery Almanac," TLF Publications, Inc.

Washington's Lottery

COMPARISON OF LOTTERY REVENUES AND EXPENSES PER CAPITA BY LOTTERY FOR FISCAL YEAR 2016

Figures Per Capita						
Lottery	Population (M)	Sales	Prizes	Commissions	Expenses	Net Income
California	39.25	159.89	100.78	11.03	08.34	41.15
Texas	27.86	181.88	114.36	09.81	07.38	50.79
Florida	20.61	294.11	187.70	16.35	08.17	83.37
New York	19.75	390.13	234.47	23.49	05.00	127.25
Illinois	12.80	223.06	143.53	12.57	10.92	57.80
Pennsylvania	12.78	323.46	206.49	17.08	12.25	87.71
Ohio	11.61	263.43	166.40	16.24	07.71	73.92
Georgia	10.31	412.01	266.29	26.25	17.99	107.37
North Carolina	10.15	234.91	146.95	16.40	09.40	62.81
Michigan	9.93	312.70	186.97	23.34	14.76	89.62
New Jersey	8.94	371.36	223.79	20.79	12.74	114.85
Virginia	8.41	238.58	143.65	13.39	11.73	69.95
Washington **	7.29	95.34	59.40	4.94	8.08	23.86
Arizona	6.93	125.66	80.43	08.54	06.31	30.41
Massachusetts	6.81	766.83	563.94	43.97	15.08	145.26
Tennessee	6.65	227.28	143.49	15.96	09.14	59.24
Indiana	6.63	182.06	116.38	12.35	11.17	43.72
Missouri	6.09	215.92	145.88	12.80	09.54	49.97
Maryland	6.02	316.72	188.37	23.46	09.74	95.15
Wisconsin	5.78	108.53	64.47	07.53	06.21	30.30
Colorado	5.54	107.28	66.87	07.93	06.85	25.80
Minnesota	5.52	107.40	66.29	06.46	08.21	26.50
South Carolina	4.96	322.59	211.08	22.77	07.96	81.52
Louisiana	4.68	108.30	58.30	06.02	06.05	38.22
Kentucky	4.44	221.74	139.86	14.10	10.76	57.02
Oregon	4.09	86.24	58.46	07.50	06.85	13.60
Oklahoma	3.92	48.33	24.34	03.17	03.17	17.76
Connecticut	3.58	344.13	212.58	19.21	14.07	98.30
Iowa	3.13	117.05	70.75	07.84	10.23	28.32
Arkansas	2.99	152.46	103.39	08.60	11.19	29.61
Kansas	2.91	93.56	54.11	05.51	33.95	26.84
New Mexico	2.08	74.17	40.73	04.82	05.77	22.86
Nebraska	1.91	94.11	54.87	05.98	10.37	23.06
West Virginia	1.83	102.78	60.52	07.20	03.82	37.41
Idaho	1.68	140.27	91.29	08.22	10.47	30.81
New Hampshire	1.33	227.26	144.56	13.53	13.84	59.27
Maine	1.33	204.54	132.78	13.45	17.60	43.24
Rhode Island ¹	1.06	246.90	151.10	17.63	13.88	64.28
Montana	1.04	57.27	32.30	03.36	09.39	12.06
Delaware ¹	0.95	239.67	138.69	15.71	29.28	56.05
South Dakota	0.87	63.89	36.65	03.46	07.34	17.00
North Dakota	0.76	47.00	24.17	02.40	07.78	12.80
D.C.	0.68	256.97	185.72	16.73	02.35	52.17
Vermont	0.62	198.95	128.31	12.40	15.72	42.61
Wyoming	0.59	56.96	31.37	03.49	14.04	08.05

Note to Table: fiscal year 2016 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 2016 World Lottery Almanac," TLF Publications, Inc.

Retailers of the year

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

Yakima Region:

Gas Max
608 W Wine Country Road #20
Grandview, WA 98930-1034

Spokane Region:

Chevron at Legacy Landing
220 S Hayford Road
Airway Heights, WA 99001-9402

Federal Way Region:

Promenade Red Apple
2301 S Jackson Street Ste. 200
Seattle, WA 98144-2357

Vancouver Region:

Beverage Tobacco Zone
11320 NE 49th Street Ste. 201
Vancouver, WA 98682-6548

Everett Region:

4th Street Market & Deli
1212 4th Street
Marysville, WA 98270-4917

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

WASHINGTON'S LOTTERY REGION MAP



<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>

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