



Whose world could you change?

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED JUNE 30, 2009

WASHINGTON'S LOTTERY
an agency of the State of Washington



Whose world could you change?

VISION:

Washington's Lottery: leader in public value,
first in fun.

PRODUCT MISSION:

To offer imaginative games that bring fun
and dreams into people's lives.

ECONOMIC MISSION:

To responsibly maximize our revenues to
the State of Washington.

SOCIAL MISSION:

To enhance the quality of life for the people
of Washington by financially contributing
to education and other community endeavors.



Union Gap Elementary



Lotto winners Bill and Connie Murphy

WASHINGTON'S LOTTERY

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2009

prepared by the Finance, Communications, and Graphics Departments

**WASHINGTON'S LOTTERY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

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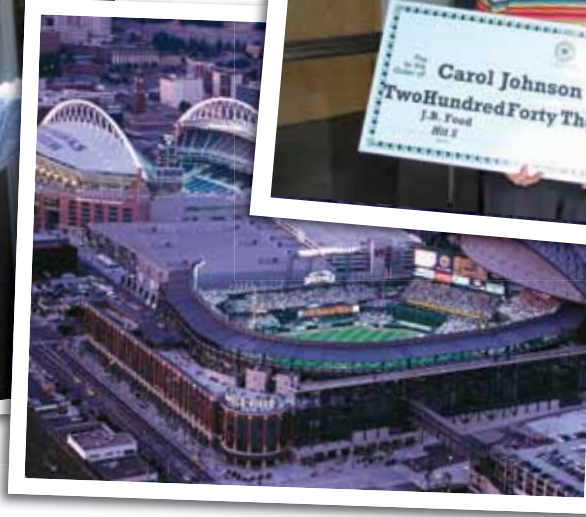
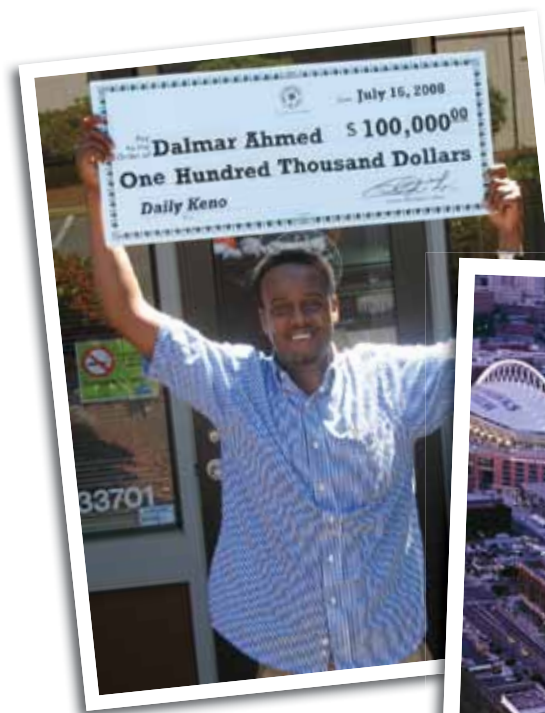
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The stories of Washington Lottery reach from east to west, north to south and all points in between. Carol and Lester Johnson of Spokane are retired teachers and won \$240,000 with *Hit 5*. When they bought the ticket, they helped generate funds for important state programs, such as reducing the public debt on Qwest Field and Event Center and Safeco Field in Seattle. All along the way, dreams are realized everyday, such as the dream of Somali immigrant Dalmar Ahmed who moved to the United States in pursuit of his American dream – to become an electrician. He's using the money to finish school.

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

December 18, 2009

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, 2009. 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 and data.

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, which are documented and reviewed by the State Auditor's Office every year.

The Lottery is an organization 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. The Lottery provides personnel, security, legal, administrative, planning, research, marketing, finance, management, and information services that are necessary to operate the business successfully. The Lottery generates dollars for the Education Construction Fund, Economic Development Account, Problem Gambling Account, major state stadium debt payments for Qwest Field and Safeco Field and the General Fund. Lottery ticket sales for fiscal year 2009 totaled \$487.7 million. These sales allowed contributions of \$102 million to the Education Construction Fund, \$2.0 million to the General Fund, \$4.9 million to King County (Safeco Field), \$8.9 million to the Stadium and Exhibition Center Account (Qwest Field), \$2.4 million to Economic Development Account and \$244 thousand to Problem Gambling Account.

Washington's Lottery constantly focuses on maintaining and increasing its ability to generate these funds in support of education construction and other state programs. Development of new products and game enhancements is an ongoing process with a focus on responsible gaming and increasing the long term revenues, 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 2009 and further details regarding specific subjects can be found in the 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 \$5.6 billion in prizes, and retailers have received \$579.7 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 2009, Washington's Lottery paid out more than 31 million winning tickets ranging from \$1 to \$9.7 million. 14 people became millionaires through Washington's Lottery in the last fiscal year. Since inception, the Lottery has made 599 people millionaires.

The State Legislature decides how the government spends monies contributed by the Lottery. For fiscal years 2002 through 2004, all Lottery revenues previously transferred to the State General Fund went directly to education programs through the Student Achievement Fund and the Education Construction Fund. Starting

in fiscal year 2005, and going forward in the future, revenues are sent to the Education Construction Fund. In fiscal year 2006, two new beneficiaries, the Economic Development Account and the Problem Gambling Account joined the Education Construction Fund, the stadium debt payments and the State General Fund as recipients of Lottery proceeds. Since inception, the Lottery has contributed \$2.8 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 \$2.6 million in previously uncollected money. This figure represents \$1.6 million in child support payments and \$1 million in recovered taxes, fees, penalties, welfare, and employment security debts.

Washington State's Economy and Revenue Outlook

Summary

Since the beginning of the nation's recession that began in December 2007, Washington State has lost almost 151,000 jobs, or about 5.1 percent of nonfarm employment. While the state appeared to lag the nation into this slowdown, local losses accelerated in late 2008 and, for the most part, began to mirror the national trends. By late 2009, national economic indicators were signaling a recovery in economic output, but employment was not expected to begin recovery until mid 2010 or later. Because of Washington's export-dependent economy, and because of indications of economic rebounds in Asia and Europe, this state is expected to lead the nation out of the recession, and employment should begin to recover somewhat earlier.

It is expected that this state's recovery and expansion will build upon the growing diversity within the state's economy, elements of which include a vital export base, the presence of knowledge-based industries such as business, professional, health, and financial services, and a high quality of life. All of these elements should continue to support solid population growth.

Washington State's nonfarm payroll employment fell by 1.8 percent in Fiscal Year 2009, a reversal from the 2.2 percent growth set in Fiscal Year 2008, and the 2.7 percent pace in Fiscal Year 2007.

Washington's unemployment rate increased markedly in Fiscal Year 2009, as the slowing national economy, weakening housing markets, and accelerating energy costs began to take their toll on the labor markets. Even though the annual unemployment rate jumped to 7.3 percent, Washington's jobless rate fell below the national average in 20 of the previous 24 months.

Personal income grew just 0.5 percent in Fiscal Year 2009, as both wage and non-wage income were impacted by layoffs and retreating financial markets. Real personal income – after factoring out inflation – fell by 1.0 percent; well below the 2.9 percent increase in 2008 and 5.8 percent increase in 2007.

Washington's outlook for Fiscal Year 2010 is for slower economic growth as the impacts of the financial crisis and national and international recessions wind their way through the local economy. Nonfarm payroll employment in Washington is forecasted to decrease in Fiscal Year 2010 by 3.0 percent, marking two consecutive years of declining employment. Personal income is predicted to grow by 0.7 percent in current terms, but decline by 0.5 percent in real terms, in Fiscal Year 2010.

General Fund-State revenues are forecasted to decline 3.3 percent rate in the 2009-11 Biennium, compared to the 0.1 percent increase in the 2007-09 Biennium, and the 17.3 percent pace in the 2005-07 Biennium. Due to statutory changes during the last Legislative Session, the General Fund-State now includes several related accounts. The slowing economy and slumping housing markets have had a negative effect on revenue growth. Particularly hard hit have been retail sales and real estate excise taxes.

The Lottery Products - Whose world could you change?

Scratch

In Washington, *Scratch* is the most popular Lottery game. *Scratch* is called an "instant" game, because players

learn immediately if they have won a prize. Total *Scratch* sales were \$307 million in fiscal year 2009, compared to a record high of \$330.5 million in 2008. In fiscal year 2009, *Scratch* sales were \$127 million more than all other Lottery games combined. *Scratch* games provided 62.9 percent of total net sales for fiscal year 2009, compared to 63.4 percent in 2008. The Lottery launched 53 *Scratch* games during fiscal year 2009.

Mega Millions

Washington joined the nation's biggest lottery game—*Mega Millions*—in September 2002. Washington was the first state west of the Mississippi to offer the nation's mega-jackpot lottery game. Other *Mega Millions* lotteries include California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New York, New Jersey, Ohio, Virginia, and Texas. *Mega Millions* ticket sales in Washington were \$59.8 million for fiscal year 2009, representing 12.2 percent of total net Lottery sales for fiscal year 2009. *Mega Millions* sales represented 12.6 percent in fiscal year 2008.

Mega Millions is a jackpot-based game with nine prize levels. Tickets are \$1 to play for jackpots of up to hundreds of millions of dollars. Players pick six numbers from two different fields of numbers. They choose five numbers from a field of 56 and one number from a field of 46, representing the "*Mega Ball*", though most players let the computer randomly "Quick Pick" their numbers. Jackpots start at \$12 million and increase if there is no jackpot winner. Drawings are held Tuesdays and Fridays. Prizes are also paid for various combinations of matching numbers. Players can buy tickets for up to ten drawings in advance.

Lotto

Three times a week, on Mondays, Wednesdays, and Saturdays, Lottery players have a chance to win \$1 million or more by playing *Lotto*, the Lottery's flagship game introduced in 1984. Players select 6 of 49 numbers. Jackpots start at \$1 million, and if no player matches all six numbers, the top prize grows based on ticket sales. Eight *Lotto* jackpots were drawn in fiscal year 2009 ranging from \$1.5 million to \$9.7 million. Prizes are also paid for matching three, four or five numbers. Players can buy tickets for up to ten drawings in advance. *Lotto* sales for fiscal year 2009 were \$58.2 million, representing 11.9 percent of total net sales. *Lotto* sales represented 10.9 percent in fiscal year 2008. In fiscal year 2009, the state's largest jackpot prize was a winning ticket worth \$9.7 million, sold in Seattle.

Hit 5

Hit 5 replaced *Quinto* in March 2007. It is as easy to play as *Lotto*. And it's easier to win, too. 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, and if no player matches all five numbers, the top prize grows based on ticket sales. Thirty-seven *Hit 5* cashpots were awarded in fiscal year 2009, ranging from \$100,000 to \$670,000. 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 2009 were \$24.4 million or 5.0 percent of total sales compared to \$29.8 million or 5.7 percent of total sales in fiscal year 2008.

Match 4

Match 4 started in August 2008. Winners pick 4 out of 24 (or let the computer randomly select 4) numbers and have the opportunity of winning \$10,000. Since the start of the game, \$9.9 million have been paid out as prizes. Numbers are drawn seven nights per week. Sales for *Match 4* were \$14.6 million, representing 3.0 percent of total sales. This game has the best odds of any of the Lottery's Draw games.

The Daily Game

Players use strategy to win *The Daily Game*. Loyal fans enjoy variety and calculating odds. 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*, Lottery's first Draw game, was introduced in January 1984, under the name *Triple Choice*. *The Daily Game* sales totaled \$18.3 million in fiscal year 2009, 3.8 percent of total sales. *The Daily Game* percentage of sales was also 3.8 percent the previous year.

Daily Keno

Players pick from one to ten *Keno* game spots, and then they choose a number from 1 through 80 for each spot (or they can let the computer choose their numbers with a Quick Pick). Each night, the Lottery draws 20 numbers. Prizes vary depending on how many spots players choose, and how many of the players' numbers match the Lottery's numbers. The top prize in *Daily Keno* is \$100,000. Players can buy tickets for up to seven advance drawings for this game, which was added to the Lottery's product line in November 1992. *Daily Keno* sales totaled \$5.5 million in fiscal year 2009, 1.1 percent of total sales, compared to 1.2 percent in fiscal year 2008.

FINANCIAL INFORMATION

Internal Controls

Washington's Lottery policies and procedures tightly control assets, inventory, computer systems, the drawing studio, and accounting. 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 system, which includes 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.

Accounting System and Policies

The Lottery uses the accrual basis of accounting and follows generally accepted accounting principles (GAAP). The Legislature and the Office of Financial Management 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.

Employees

At the end of fiscal year 2009, the Lottery employed 139 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. In addition, the Lottery obtained a separate audit of the Lottery's stand-alone financial statements. The fiscal year 2009 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 opinion on the Lottery's financial statements. The Auditor's reports on internal controls and compliance with applicable laws and regulations can be found in a separately issued Single Audit report.

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, 2008. This was the nineteenth 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,

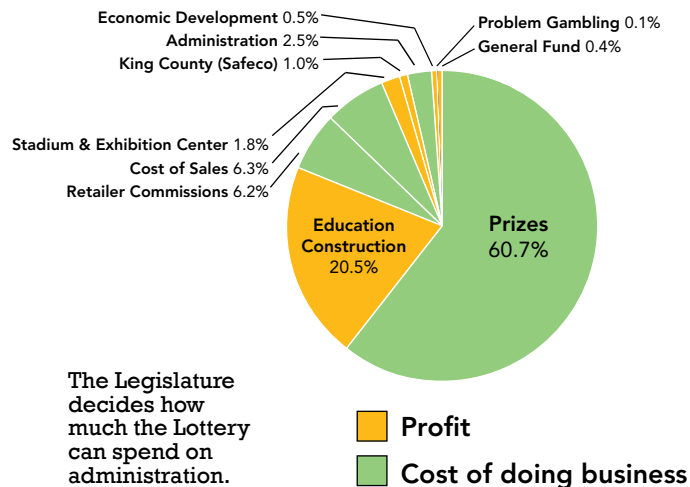


Rebecca Foster
Director of Finance and Administration



Christopher Liu
Director

Lottery Distributions of Fiscal Year 2009



Total Distribution: \$495.9 Million

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, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

PRINCIPAL OFFICIALS OF WASHINGTON'S LOTTERY



Christopher Liu
Director



Melinda Travis
Commission Chair
- Spokane
term ends 8/2009



Brian Comstock
Commissioner
- Seattle
term ends 8/2014



Robert Scarbrough
Commissioner
- Tacoma
term ends 8/2011

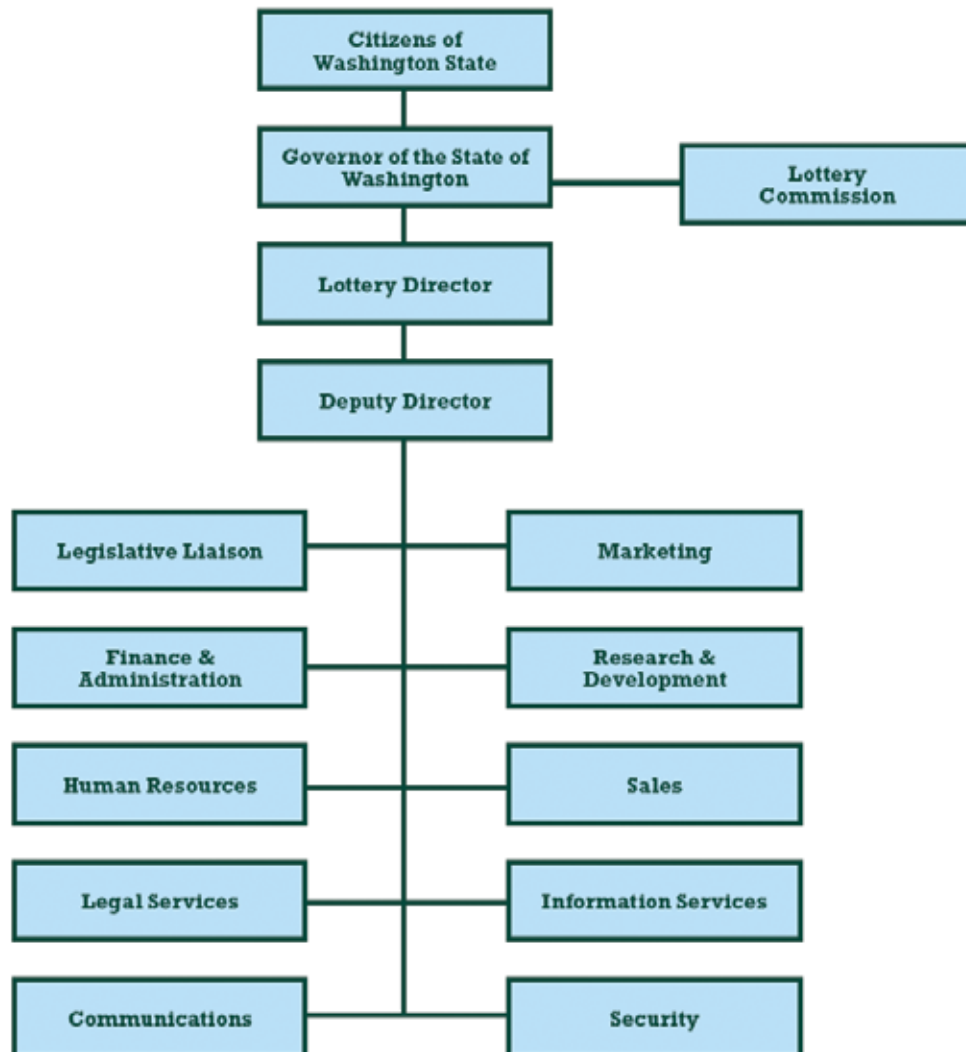


Lyle Jacobsen
Commissioner
- Manson
term ends 8/2012



Bill Hanson
Commissioner
- Olympia
term ends 8/2010

ORGANIZATION CHART



MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis includes an overview of financial activities regarding the financial performance of Washington's Lottery for the fiscal year ended June 30, 2009. 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 \$487.7 million, a 6.4 percent decline from fiscal year 2008, and a 1.0 percent decline from fiscal year 2007.

- *Mega Millions* sales were \$59.6 million and experienced one high jackpot of \$225 million.
- *Scratch* sales declined by \$23.5 million or 7.1 percent compared to fiscal year 2008.
- Total contributions to Lottery beneficiaries decreased \$9.9 million or 7.6 percent from fiscal year 2008.
- Contributions to the Education Construction Fund reached \$102 million.
- Contributions to the General Fund Account totaled \$2.0 million.
- Contributions to the two stadium debt reductions increased by the legislatively mandated 4 percent, bringing the amount contributed to King County (Safeco Field) in fiscal year 2009 to \$4.9 million, and \$8.9 million to the Stadium & Exhibition Center (Qwest Field).
- Contributions to the Economic Development Account totaled \$2.4 million. Amounts contributed to this beneficiary represents one third of prizes that go unclaimed each fiscal year.
- Contributions to the Problem Gambling Account totaled \$244 thousand. This beneficiary receives 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.

Using this Annual Report

By law, the Lottery is required to distribute all of its net income to its beneficiaries. As a result, the net assets 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 assets represents unclaimed prize amounts set aside for future use as prizes, as required by law. 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 market 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 assets are shown in Table 1 and Table 2 below. Net assets decreased in fiscal year 2009 by \$4.8 million, from \$50.4 million in 2008 to \$45.6 million in 2009. The decrease is attributable to a \$7.3 million decrease in the Lottery's unclaimed fund account. These funds were reclassified to the unrestricted account and were used to fund Lottery prizes. Offsetting some of the decrease was an increase of \$2.5 million in market value of investments held by the Lottery to fund future annuitized prize payments. This market value adjustment attributed to the \$17.9 million increase in net assets from fiscal year 2007 to 2008. The 2008 market value adjustment was \$15.5 million.

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 market value does not affect the Lottery's ability to meet future liabilities.

Table 1: Net Assets (in millions)

	2009	2008	2007
Current assets	\$117.3	\$130.0	\$119.1
Non-current assets - investments	286.2	316.1	338.6
Capital assets - net of depreciation	0.3	0.3	0.4
Total assets	\$403.8	\$446.4	\$458.1
Current liabilities	102.1	106.6	98.6
Non-current liabilities	256.1	289.4	326.9
Total liabilities	\$358.2	\$396.0	\$425.5
Net Assets			
Invested in capital assets	0.3	0.3	0.4
Restricted for future prizes	7.8	15.1	11.2
Unrestricted	37.5	35.0	20.9
Total net assets	\$45.6	\$50.4	\$32.5

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

	2009	2008	2007
Sales	\$487.7	\$521.1	\$492.6
Expenses and non-operating activity	(372.1)	(372.9)	(378.9)
Distributions	(120.4)	(130.3)	(117.9)
Changes in net assets	(\$4.8)	\$17.9	\$(4.2)

Sales and Prize Expense

Table 3 compares sales, prize expense, and net receipts (sales less prize expenses) for Lottery *Scratch* and Draw game products for fiscal years 2009, 2008 and 2007.

Table 3: Sales and Prize Expense (in millions)

	Scratch Games			Draw Games		
	2009	2008	2007	2009	2008	2007
Sales	\$307.0	\$330.5	\$325.2	\$180.7	\$190.6	\$167.4
Prize expense	207.6	221.9	217.6	93.7	93.0	87.3
Net receipts	\$99.4	\$108.6	\$107.6	\$87.0	\$97.6	\$80.1

Scratch product sales were down from 2008 by \$23.5 million, or 7.1 percent and \$18.2 million or 5.6 percent from 2007. The number of tickets sold declined by 9.4 percent from 99 million in fiscal year 2008 to 89 million in fiscal year 2009. However, although the average price per ticket sold increased to \$3.44 in fiscal year 2009 from \$3.35 in fiscal year 2008, the big decline in number of tickets sold resulted in a decrease in sales compared to fiscal year 2008. *Scratch* prize expense declined in fiscal year 2009 by \$14.3 million, or 6.5 percent compared to fiscal year 2008, and declined \$10.0 million or 4.6 percent compared to fiscal year 2007. The *Scratch* prize expense ratio increased to 67.5 percent from 67.1 percent in fiscal year 2008.

Draw game sales declined by \$9.9 million, or 5.2 percent, from fiscal year 2008, but increased by \$13.3 million or 8.0 percent compared to 2007. During fiscal year 2009, *Hit 5* had 14 high jackpots (exceeding \$250,000), with a record high jackpot of \$670,000. Like other Draw games, *Hit 5* sales are jackpot-driven, meaning that as the jackpot rises to ever higher levels, more people are compelled to participate in the dream of winning the jackpot. This corresponds directly to the amount of sales realized on a jackpot-driven game. *Lotto* is another example of a jackpot-driven game on a greater scale. *Mega Millions*, by virtue of being a multi-state game, enjoys co-mingled sales and rapidly rising jackpots. *Lotto* sales increased by \$1.3 million, an increase of 2.3 percent compared to fiscal year 2008, and \$1.1 million or 2.0 percent compared to 2007. *Match 4*, a new game launched in August 2008, had sales of \$14.6 million. 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 increased \$702 thousand, or 0.8 percent compared to fiscal year 2008, and \$6.4 million or 7.4 percent compared to 2007, on an overall basis. The Draw games prize expense ratio, comparing prize expenses as a percent of sales volume, increased 3.1 percent in fiscal year 2009 compared to fiscal year 2008. The prize expense ratio for Draw games varies over shorter periods of time due to the uncertain nature of when and how many prizes will be won based on the numbers drawn. Over the course of a full year, because of the large volumes involved, these expenses can be predicted with a relatively high degree of probability and tend to be consistent from year to year.

Other Operating Expenses

Table 4 compares operating expenses, other than prize expense, for gaming operations and administrative expenses for fiscal years 2009, 2008 and 2007.

Table 4: Retailer Commissions and Other Operating Expenses (in millions)

	2009	2008	2007
Retail commissions	\$30.8	\$32.4	\$31.2
Other game-related expenses	31.2	31.0	30.5
Administrative expenses			
Salaries and benefits	9.4	9.2	8.9
Goods and services	2.4	2.7	2.4
Travel	0.4	0.5	0.5
Depreciation	0.1	0.1	0.1
Total administrative expenses	\$12.3	\$12.5	\$11.9

Retailer commissions declined in fiscal year 2009 by \$1.6 million, or 5.1 percent compared to fiscal year 2008. Commission costs as a percentage of sales increased to 6.3 percent in fiscal year 2009, an increase of only 0.1 percent compared to fiscal year 2008. Fiscal year 2009 percentage has held constant compared to fiscal year 2007. Other game-related expenses, including vendor costs, advertising, and miscellaneous promotional expenses increased \$205 thousand, or 0.7 percent compared to fiscal year 2008, and \$732 thousand, or 2.4 percent compared to fiscal year 2007. As a percent of sales, these expenses were 6.4 percent in fiscal year 2009, 5.9 percent in fiscal year 2008, and 6.2 percent in fiscal year 2007. Vendor expense, which is the largest component of these costs, is, for the most part, paid as a percentage of sales. Advertising expense increased by \$869 thousand or 7.7 percent compared to fiscal year 2008, and \$2.4 million or 24.5 percent compared to fiscal year 2007. Promotional and other operational expenses had a 1.1 percent decline compared to fiscal year 2008, and a 22.3 percent or \$1.4 million decline compared to fiscal year 2007.

In fiscal year 2009, administrative expenses incurred for the general operation of the agency decreased 1.8 percent compared to fiscal year 2008, but increased 3.0 percent compared to fiscal year 2007. Washington's Lottery has placed considerable emphasis on controlling administrative costs to responsibly maximize the revenue to the state of Washington with favorable results. As a percentage of sales, overall administrative expenses increased slightly by 0.1 percent compared to both fiscal years 2008 and 2007.

Salaries and benefits expense increased \$214 thousand, or 2.3 percent compared to fiscal year 2008, and \$585 thousand or 6.6 percent compared to fiscal year 2007. Goods and services declined 10.6 percent compared to fiscal year 2008, and 4.6 percent compared to fiscal year 2007. Government restrictions in fiscal year 2009, contributed to a travel decline of \$150 thousand or 28.8 percent compared to fiscal year 2008, and \$107 thousand or 22.4 percent compared to fiscal year 2007. Travel spending level for fiscal year 2009 was lower than the legislative approved amount of \$505 thousand.

Capital Assets

Washington's Lottery's investment in capital assets as of June 30, 2009, amounts to \$276,746 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements and equipment. The total decrease in the Lottery's investment in capital assets for fiscal year 2009 was 10.1 percent. No major capital asset events occurred during fiscal year 2009. Table 6 in the notes to the financial statements on page 23 shows the opening and ending balances for asset and accumulated depreciation.

Debt

At the end of fiscal year 2009, current liabilities consisted, in part, of \$54.6 million annuity prize payable, and long-term annuity prize liabilities was \$255.3 million. Note 5 "Prize Liabilities" shows the current and long-term portions of prize payments.

Non-operating Revenues and Expenses

Table 5 shows interest income and expense on long-term

investments and liabilities, and payments made to beneficiaries from Lottery proceeds.

Table 5: Non-Operating Revenues (Expenses) (in millions)

	2009	2008	2007
Investment revenue	\$20.0	\$22.7	\$27.1
Market value adjustment	2.5	15.5	(3.3)
Amortization of annuity prize liability	(20.0)	(22.7)	(27.1)
Interest and miscellaneous income	0.9	2.4	2.8
Total non-operating revenues (expenses) before payments	\$3.4	\$17.9	\$(0.5)
Payments to Education Construction Fund	\$102.0	\$102.0	\$101.9
Payments to State General Fund	2.0	11.1	0.0
Payments to King County	4.9	4.7	4.5
Payments to Stadium and Exhibition Center	8.9	8.5	8.2
Payments to Economic Development	2.4	3.7	3.0
Payment to Problem Gambling	0.2	0.3	0.2
Total payments	\$120.4	\$130.3	\$117.8

Investment revenues and amortization expense of 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 book value of the investments and the present value of the liabilities by reporting revenues and amortization expense. Since both the asset value and the future liability are increasing to the same finite amount, the income and expense recognized are identical. The only modest variation is that there are two securities held by the Lottery for multiple winners from which one winner has been paid. Rather than selling the entire security, the single winner was paid, leaving the Lottery with the investment without a corresponding liability. The Lottery intends to hold those small pieces to maturity.

Annually, the Lottery makes an adjustment to the current market value of investment securities held in accordance with Government Accounting Standards Board 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 market value. Given the long term nature of the investments since they are held for winners up to 25 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 market 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 2009 amounted to \$120.4 million. The Lottery’s primary beneficiary is the Education Construction Fund. Contributions to this beneficiary reached the targeted threshold of \$102 million in fiscal year 2009, and at this point proceeds from the *Mega Millions* game go directly to the State General Fund. The Lottery contributed \$2.0 million in fiscal year 2009 and \$11.1 million in fiscal year 2008 to the state’s General Fund. The Lottery did not meet its \$102 million threshold to its primary beneficiary in 2007, and as such no funds were transferred to the state General Fund. When *Mega Millions* was introduced in fiscal year 2003, its proceeds were intended to be contributed to the State General Fund. There was concern, however, that the sales of this competing “large jackpot” game involving multiple states would hurt the sales of the in-state *Lotto* game. To alleviate this concern, the decision was made that should the in-state products fall short of accomplishing the \$102 million contribution to the Education Construction Fund, then *Mega Millions* proceeds be used to make up the difference. Only the *Mega Millions* proceeds beyond those needed to meet the \$102 million to the Education Construction Fund would be available for the State General Fund. The amount of *Mega Millions* proceeds used for the Education Construction Fund were \$20.7 million in fiscal year 2009, \$14.4 million in fiscal year 2008 and \$20.8 million in fiscal year 2007.

Contributions to the Economic Development account amounted to \$2.4 million in fiscal year 2009, \$3.7 million in fiscal year 2008 and \$3.0 million in fiscal year 2007. 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 \$244 thousand in fiscal year 2009, \$268 thousand in fiscal year 2008 and \$244 thousand in fiscal year 2007. Contributions to this beneficiary is calculated based on thirteen one-hundredths of one percent of “net receipts.” “Net receipts” are defined as the difference between revenue received from the sale of Lottery products and the sum of payments made to winners.

The remaining payments required by statute are to stadium accounts. These consist of semi-annual payment schedules whereby the required payment amounts increase by 4 percent per year. The Stadium and Exhibition Center, Qwest Field, payments for fiscal year 2009 totaled \$8.9 million. These payments are scheduled to continue through fiscal year 2021. Payments to King County, for Safeco Field, totaled \$4.9 million in fiscal year 2009. These payments are scheduled to continue into fiscal year 2016, unless the debts are paid off earlier.

OTHER POTENTIALLY SIGNIFICANT MATTERS IMPACTING NEXT YEAR

New Game in Fiscal Year 2010

In the second quarter of fiscal year 2010, the Multi-State Lottery Association (MUSL), a non-profit association operated by its member lotteries, and the *Mega Millions* states reached an agreement in principal to cross-sell each other's game. It is the Lottery's goal to be able to offer the additional game to their citizens in early 2010.

Deposits change

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). As of July 1, 2009, all public deposits must be 100% collateralized by Washington State financial institutions.

New Unclaimed Funds Legislative Change

For the biennium beginning July 1, 2009, fiscal year 2010, the Lottery is mandated to transfer all unclaimed prize dollars in excess of \$3 million, excluding amounts distributed to the Economic Development Strategic Reserve Account, to the State General Fund. Three payments will be made, the first on July 1, 2009, the second June 30, 2010 with the final payment on June 30, 2011.

CONTACTING THE LOTTERY

This financial report is provided for interested parties to evaluate the financial results of Lottery activities for fiscal year 2009. If you have questions about this report or need additional financial information, please contact Washington's Lottery, PO Box 43000, Olympia, Washington 98504-3000.

Public Records Officer
Jana Jones,
Director of Legal Services
(360) 664-4833
Jjones@walottery.com

FISCAL YEAR 2009 FUND DISTRIBUTION



- 1 Prizes: \$301.3M (60.7%)**
- 2 Education Construction: \$102.0M (20.5%)**
- 3 Retailer Commissions: \$30.8M (6.2%)**
- 4 Cost of Sales: \$31.2M (6.3%)**
- 5 Administration: \$12.3M (2.5%)**
- 6 Stadium & Exhibition Center: \$8.9M (1.8%)**
- 7 King County (Safeco): \$4.9M (1.0%)**
- 8 Economic Development: \$2.4M (0.5%)**
- 9 General Fund: \$2.0M (0.4%)**
- 10 Problem Gambling: \$0.2M (0.1%)**

Total Payments: \$495.9 Million*

*In fiscal year 2009, monies were released from restricted net assets resulting in additional contributions to beneficiaries.

Washington's Lottery

COMPARATIVE STATEMENT OF NET ASSETS FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2009

Assets	2009	2008
Current assets		
Cash and cash equivalents	\$45,930,575	\$50,690,330
Accounts receivable, net of allowances	15,722,004	19,847,116
Investments, current portion	55,222,192	59,166,323
Due from the state	27,000	9,000
Inventory	333,237	270,220
Prepaid expenses	43,422	0
Total current assets	117,278,431	129,982,989
Non-current assets		
Investments less current portion	286,239,141	316,122,532
Leasehold improvements and equipment net of accumulated depreciation	276,746	307,841
Total non-current assets	286,515,887	316,430,373
Total assets	403,794,318	446,413,362
Liabilities and Net Assets		
Current liabilities		
Accounts payable	4,523,285	7,650,576
Prizes payable	32,683,156	28,954,186
Annuity prizes payable, current portion	54,643,564	57,923,299
Due to the state	9,892,021	11,693,962
Salaries and benefits payable	352,873	342,829
Total current liabilities	102,094,899	106,564,852
Non-current liabilities		
Annuity prizes payable, net of current portion	255,320,804	288,672,064
Accrued leave payable	765,658	736,442
Total non-current liabilities	256,086,462	289,408,506
Total liabilities	358,181,361	395,973,358
Net assets		
Invested in capital assets	276,746	307,841
Restricted for future prizes	7,824,817	15,107,376
Unrestricted	37,511,394	35,024,787
Total net assets	\$45,612,957	\$50,440,004

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

Washington's Lottery

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2009

	2009	2008
Sales		
Scratch ticket sales	\$307,004,644	\$330,520,307
Draw game sales	180,714,035	190,582,290
Total sales	487,718,679	521,102,597
Cost of sales		
Prize expense	301,279,527	314,923,284
Retailer commissions	30,751,766	32,391,044
Vendor expense	14,026,413	14,637,059
Advertising and research expense	12,161,926	11,292,640
Miscellaneous promotional expense	5,008,198	5,057,841
Total cost of sales	363,227,830	378,301,868
Administrative expenses		
Salaries and benefits	9,446,681	9,232,680
Goods and services	2,375,804	2,658,744
Travel	369,462	519,150
Depreciation	110,969	117,647
Total administrative expenses	12,302,916	12,528,221
Operating income	112,187,933	130,272,508
Non-operating revenues (expenses)		
Unrealized gain (loss)	2,479,944	15,446,799
Interest income	841,625	2,421,131
Miscellaneous income (expense)	37,412	10,636
Fee income	18,125	27,175
Loss on disposal of capital assets	0	0
Total non-operating revenues (expenses)	3,377,106	17,905,741
Payments to Education Funds	(102,000,000)	(102,000,000)
Payments to King County	(4,899,160)	(4,710,730)
Payments to Stadium and Exhibition Center Account	(8,881,466)	(8,539,871)
Payments to Economic Development	(2,377,226)	(3,677,118)
Payments to Problem Gambling	(243,995)	(268,038)
Payments to General Fund	(1,990,239)	(11,091,970)
Total payments	(120,392,086)	(130,287,727)
Net non-operating expense	(117,014,980)	(112,381,986)
Change in net assets	(4,827,047)	17,890,522
Total net assets at beginning of year	50,440,004	32,549,482
Total net assets at end of year	\$45,612,957	\$50,440,004

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

Washington's Lottery

COMPARATIVE STATEMENT OF CASH FLOWS FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2009

	2009	2008
Cash flows from operating activities		
Cash received from players and retailers (net of commissions)	\$461,074,025	\$486,625,844
Cash payments for prizes	(334,181,552)	(353,220,471)
Cash payments to suppliers of goods or services	(36,806,071)	(29,918,131)
Cash payments to employees	(9,407,421)	(9,385,666)
Cash payments for other operating costs	(369,462)	(519,150)
Net cash provided by operating activities	80,309,519	93,582,426
Cash flows from non-capital financing activities		
Cash payments to Education Funds	(94,406,272)	(106,932,376)
Cash payments to King County	(4,899,160)	(4,710,730)
Cash payments to Stadium and Exhibition Center Account	(8,881,466)	(8,539,871)
Cash payments to Economic Development Account	(2,714,967)	(3,711,976)
Cash payments to Problem Gambling Account	(247,462)	(250,118)
Cash payment to other state funds	(11,044,702)	36,000.00
Net cash used in non-capital financing activities	(122,194,029)	(124,109,071)
Cash flows from capital financing activities		
Payments for acquisition of equipment	(79,874)	(37,552)
Net cash used in capital financing activities	(79,874)	(37,552)
Cash flows from investing activities		
Receipts of interest	897,082	2,371,318
Proceeds from maturity of investments	40,755,153	46,164,480
Payments for investments	(4,447,606)	(4,550,105)
Net cash provided by investing activities	37,204,629	43,985,693
Net (decrease) increase in cash and cash equivalents	(4,759,755)	13,421,496
Cash and cash equivalents at the beginning of year	50,690,330	37,268,834
Cash and cash equivalents at end of year	\$45,930,575	\$50,690,330
Reconciliation of operating income to cash provided by operating activities		
Operating income	\$112,187,933	\$130,272,508
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	110,969	117,647
Decrease (increase) in:		
Accounts receivable	4,107,112	(2,085,709)
Prepaid expenses	(43,422)	848,115
Inventory	(63,017)	68,451
Increase (decreases) in:		
Accounts payable	(3,127,291)	2,811,587
Prizes payable	3,728,970	3,816,027
Lotto and win for life payments	(36,630,995)	(42,113,214)
Accrued payroll	39,260	(152,986)
Total adjustments	(31,878,414)	(36,690,082)
Net cash provided by operating activities	\$80,309,519	\$93,582,426
Schedule of non-cash investing, capital, and financing activities		
Increase in fair value of investments	\$2,479,944	\$15,488,550

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Washington's 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.

These financial statements include 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 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 appropriation. Spending authority cannot be carried forward into an ensuing biennium. The appropriation approved for the period July 1, 2007, through June 30, 2009, was \$26.1 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 assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. 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 games and instant games. 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. The Lottery applies applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the Governmental Accounting Standards Board (GASB).

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 market value based on quoted market prices.

Receivables

Receivables are reported at gross value, reduced by the estimated portion that is expected to be uncollectible. Total uncollectible represents less than 1 percent of the Lottery's receivable. Revenue and accounts receivable from Draw games are recognized when tickets are sold to the public. 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.

Capital Assets

The state of Washington’s level for capitalization of capital assets is \$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	4
Furniture and Equipment	10

Table 6: Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Capital assets, being depreciated:	Beginning Balance	Increases	Decreases	Ending Balance
Leasehold Improvements	534,909	17,033	-	551,942
Equipment	554,823	62,841	-	617,664
Total capital assets, being depreciated	1,089,732	79,874	-	1,169,606
Less accumulated depreciation for:				
Leasehold improvements	(344,395)	(58,510)	-	(402,905)
Equipment	(437,496)	(52,459)	-	(489,955)
Total accumulated depreciation	(781,891)	(110,969)	-	(892,860)
Total capital assets, being depreciated, net	307,841	(31,095)	-	276,746

Capital asset activity for the year ended June 30, 2008 was as follows:

Capital assets, being depreciated:	Beginning Balance	Increases	Decreases	Ending Balance
Leasehold Improvements	534,909	-	-	534,909
Equipment	517,271	37,553	-	554,824
Total capital assets, being depreciated	1,052,180	37,553	-	1,089,733
Less accumulated depreciation for:				
Leasehold improvements	(291,963)	(52,432)	-	(344,395)
Equipment	(372,282)	(65,215)	-	(437,497)
Total accumulated depreciation	(664,245)	(117,647)	-	(781,892)
Total capital assets, being depreciated, net	387,935	(80,094)	-	307,841

Prizes Payable

The prizes payable account represents the difference between the prize liability and the actual prizes redeemed. RCW 67.70.190 states that the Lottery is to maintain a liability for all anticipated prizes for 180 days after the drawing in which the prize is won for Draw game prizes or the official end of game for instant prizes. After 180 days, the liability no longer exists and the unclaimed prize becomes restricted for future prizes,

except that one third of all unclaimed prize money shall be deposited in the Economic Development Strategic Reserve Account.

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 2009, the breakdown is as follows:

Due to State and Other Agencies		
	2009	2008
Due to Education Construction	\$7,593,728	\$ -
Due to Economic Development	48,614	386,355
Due to Problem Gambling	17,766	21,233
Due to General Fund	1,990,239	11,091,970
Due to Other Agencies	241,674	194,404
Total Due to State and Other Agencies	\$9,892,021	\$11,693,962

Prize Expense

RCW 67.70.040 states that a minimum of 45 percent of gross annual revenue must be paid as prizes. For the fiscal years ended June 30, 2009 and 2008, the prize expense as a percentage of sales were 61.8 percent and 60.4 percent respectively.

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.

Retailer Commissions

Commissions are computed as 6 percent of net ticket sales. In addition, the Lottery pays an extra 1 percent commission on *Lotto* and *Mega Millions* ticket sales when the declared jackpot is \$6 million or more. The Lottery pays retailers a selling bonus of 1 percent of the jackpot amount if they sell a jackpot-winning ticket for *Lotto* or *Hit 5*. Each retailer who sells a jackpot-winning *Mega Millions* ticket receives a \$50,000 bonus; retailers selling a second-tier prize-winning ticket worth \$250,000 receive a \$2,500 bonus, which brings the effective commission to 6.2 percent.

Payments to Education Construction

Payments to the Education Construction Fund consist of the balance of revenues less expenses from in-state Lottery products, less legislatively mandated payments to King County, the Stadium and Exhibition Center and Economic Development. In the event that these payments to the Education Construction Fund from in-state Lottery products do not reach \$102 million, any revenues less expenses from *Mega Millions* after legislatively mandated

payments to Economic Development and Problem Gambling are used to reach this targeted threshold. Payments to the Education Construction Fund could exceed \$102 million in a year if the in-state Lottery products generated net revenues in excess of the threshold after all other legislatively mandated payments.

Payments to King County

The Lottery is legislatively mandated to make payments to King County for the purpose of paying principal and interest payments on bonds issued by King County to construct Safeco Field, a baseball stadium. Scheduled payments began in 1996 and increase annually by 4 percent. These semi-annual payments are scheduled to be made into fiscal year 2016, however indications have been given that the bonds may be retired ahead of schedule, at which point the need for our contributions would cease and those funds would go to the Education Construction Account or the General Fund. Payments to King County totaled \$4.9 million in fiscal year 2009 and \$4.7 million in fiscal year 2008.

Payments to the Stadium and Exhibition Center

The Lottery was 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 Qwest Field and Exhibition Center, a multi-purpose stadium and exhibition center. Scheduled payments began in 1998 and increase annually by 4 percent. These semi-annual payments are scheduled to be made into fiscal year 2021. Payments to the Stadium and Exhibition Center totaled \$8.9 million in fiscal year 2009 and \$8.5 million in fiscal year 2008.

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, including preventing 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 \$2.4 million in fiscal year 2009 and \$3.7 million in fiscal year 2008.

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 for fiscal year 2006 are defined to be one-tenth 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. This amount

increased to thirteen one-hundredths of one percent of "net receipts" in fiscal year 2007. Payments to Problem Gambling totaled \$244 thousand in fiscal year 2009 and \$268 thousand in fiscal year 2008.

Net Assets

Restricted net assets represent amounts set aside for unclaimed prizes retained for future use as prizes as required by RCW 67.70.190. During fiscal year 2009, \$7.1 million of prizes went unclaimed. During this same period, \$14.4 million of the unclaimed prize balance was used for prizes and for contribution to the Economic Development Strategic Reserve Account. This net reduction to these restricted assets left a balance of \$7.8 million at the end of fiscal year 2009.

Unrestricted net assets represent the net assets 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. Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

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, 2009 and June 30, 2008, the amount of cash on deposit was \$45,930,575 and \$51,392,537, respectively.

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Lottery will not be able to recover deposits.

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 is not subject to 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, do not have any 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 market 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 at June 30, 2009 are as follows:

Maturity	Amount
Less than 1	\$55,222,192
1-4	161,082,282
5-10	75,599,537
11-15	36,285,396
16-20	10,565,588
21-28	2,706,338
Fair Market value	\$341,461,333

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, 2014. The Seattle lease expired September 2009 but the office was moved to Federal Way in FY08. Total costs for such leases were \$867,448 and \$824,496 for the fiscal years ended June 30, 2009 and 2008, respectively. Most leases, which are for periods of one to six 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, 2009:

Fiscal Year	Operating Leases
2010	\$797,446
2011	773,772
2012	773,774
2013	773,776
2014	773,776
Total	\$3,892,544

Note 5. PRIZE LIABILITIES

Presented below is a summary of the annuity prize payment requirements as of June 30, 2009:

Fiscal Year	Principal	Interest	Total
2010	\$54,643,564	\$1,587,103	\$56,230,667
2011	46,857,351	9,497,649	56,355,000
2012	39,512,331	11,697,669	51,210,000
2013	32,437,645	13,706,355	46,144,000
2014	24,584,353	13,349,647	37,934,000
2015-2019	67,314,502	52,593,498	119,908,000
2020-2024	31,774,758	34,827,242	66,602,000
2025-2029	10,298,011	19,588,989	29,887,000
2030-2034	2,541,853	5,948,147	8,490,000
Total	\$309,964,368	\$162,796,299	\$472,760,667

This debt represents annual payments owed to *Lotto* jackpot winners and lifetime winners. Annuity 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, 2009 was as follows:

Fiscal Year	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2009	\$346,595,363	\$24,448,349	(61,079,344)	\$309,964,368	\$54,643,564
2008	\$388,708,577	\$27,251,550	(69,364,764)	\$346,595,363	\$57,923,299

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 \$498,984 and \$486,703 on June 30, 2009 and 2008, respectively.

With no limit on accumulation, sick leave is earned at 12 days per year. Sick leave is not vested; i.e., employees are not paid for unused sick leave upon termination except upon employee death or retirement, at which time the Lottery is liable for 25 percent of the employee's accumulated sick leave. Each January, employees who have accumulated sick leave in excess of 60 days have the option to redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave. Accumulated sick leave balances, including the employer share of payroll taxes as of June 30, 2009 and 2008, represent possible future payments of \$1,234,602 and \$1,153,528 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 \$266,674 and \$249,739 on June 30, 2009 and 2008, 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 of its 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, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Annual Leave	\$486,703	\$509,016	(\$496,735)	\$498,984
Sick Leave	\$249,739	\$75,160	(\$58,225)	\$266,674

Long-term liability activity of leave benefits for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Annual Leave	\$567,229	\$486,893	\$(567,419)	\$486,703
Sick Leave	\$265,003	\$75,423	\$(90,687)	\$249,739

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 the 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

All Washington's Lottery full-time and qualifying part-time employees participate in one of the statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

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 defined benefit plan with a defined contribution component.

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government 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. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement

benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of 2 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. PERS Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the

Employee Retirement Benefits Board.

Funding Policy

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. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%	5.31%	5.31%**
Employee	6.00%	3.90%	***

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

The Lottery's and employees' contributions to PERS for the years ending June 30, 2009, 2008 and 2007 are displayed below. Both Washington's Lottery and its employees made the required contributions. The required contributions for the years ending December 31 were as follows:

	2009	2008	2007
Washington's Lottery	\$604,385	\$425,386	\$307,240
Lottery employees	\$418,122	\$316,963	\$290,512

Note 8. SUBSEQUENT EVENTS

For the biennium beginning July 1, 2009, fiscal year 2010, the Lottery is mandated to transfer all unclaimed prize dollars in excess of \$3 million, excluding amounts distributed to the Economic Development Strategic Reserve Account, to the State General Fund. Three payments will be made, the first on July 1, 2009 in the amount of \$4.7 million, the second June 30, 2010, with the final payment on June 30, 2011. An estimated \$5.4 million and \$5.2 million will be transferred June 2010 and 2011 respectively, which will reduce the Lottery's restricted net assets for each year.



Retailers all across Washington are the fabric of the Lottery; selling tickets and paying winners and exchanging smiles all the way along. Few retailers smile more than the staff of Rainier Place in Union Gap. And they should smile; the store was honored for an unprecedented second year in a row as Lottery Retailer of the Year. It's not surprising, really. The folks at Rainier Place are focused on customers and giving excellent service which pays off time and again.

STATISTICAL SECTION

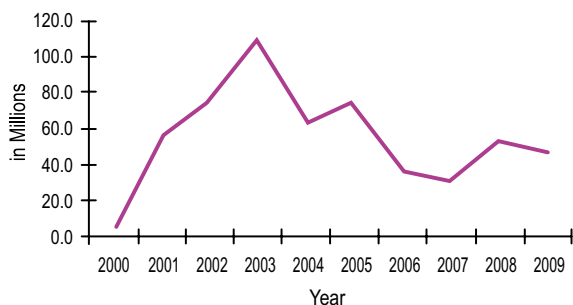
This section offers relevant financial, economic, and demographic statistical information, including national lottery industry trend data.

Financial Trends

With a downturn in the economy, the Lottery broke a four-year increased sales run, showing sales of \$487.7 million in fiscal year 2009. The total number of *Scratch* tickets sold was less in fiscal year 2009 than 2008, but the average price per ticket increased to \$3.44. However, the decline in number of tickets sold was far greater than the increase in price per ticket. This resulted in a decline in *Scratch* sales compared to fiscal years 2008 and 2007. Operating expenses are dominated by prizes, retailer commissions, gaming vendor commissions, marketing and advertising. Prize expenses declined in fiscal year 2009 by \$13.6 million, or 4.3 percent compared to fiscal year 2008, and \$3.6 million or 1.2 percent compared to fiscal year 2007. Net operating profit declined by \$18.1 million or 13.9 percent compared to fiscal year 2008, and \$2.0 million or 1.7 percent compared to fiscal year 2007. This decline is due mainly to a downward turn in the economy during the fiscal year.

Net assets are affected by fluctuation of securities value. However, interest rates were fairly stable in fiscal year 2009, resulting in a small change to the market value of the securities. These are impacted by changes in interest rate from year to year. But since 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 Assets



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 six different Draw games in which winning numbers are drawn either two, three or seven times a week, depending upon the game. Other state lottery's have additional combinations of Draw games which the Washington's Lottery may add at some time in the future. The Lottery introduced its new game, *Match 4*, in August 2008. The Lottery introduced 53 *Scratch* games during fiscal year 2009.

The number and type of retail locations which sell Lottery products in Washington also impact the revenue capacity. During fiscal year 2009, the Lottery added 30 retailers bringing the total number at the end of fiscal year 2009 to 4032, compared to 4002 for the prior year.

Debt Capacity

The Lottery offers winners of certain games, i.e. *Lotto*, *Mega Millions*, and some *Scratch* games, an option to take their winnings over approximately 25 years. 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 maturity value in exchange for foregoing periodic interest payments. These Treasury Strip purchases are funded by the revenues of the particular games that created the prize winners.

Demographic And Economic Information

The Lottery operates in a state of close to 6.6 million people. As of 2008, 5,009,939 were over 18 years of age and eligible to purchase Lottery products. The demographic charts on page 32 display the population separated by age, education, marital status, ethnic background, employment status, and annual income. These categories are further broken out into players versus non-players. The largest segments of income are the \$15,000 to \$100,000. Median household income in Washington in 2008 was \$55,771 and per capita personal income was \$34,343. Washington's unemployment rate in 2008 was 5.3 percent. The top ten private employers in the state are displayed below for fiscal years 2009, 2008 and 2007.

#	Employer	City	Number of Employees		
			2009	2008	2007
1	Microsoft Corp	Redmond	35,000	20,000	20,000
2	Seattle Tacoma Intl Arprt-Sea	Seatac	21,000	21,000	21,000
3	Boeing Co	Kent	10,000	10,000	10,000
4	Tacoma General Hospital	Tacoma	8,500	N/A	N/A
5	Multicare Hospice & Palliative	Tacoma	8,000	N/A	8,000
6	University of WA OB/GYN	Seattle	6,000	6,000	6,000
7	Barrett Business Service Inv	Moses Lake	5,000	N/A	N/A
8	Seattle Main Clinic	Seattle	5,000	N/A	N/A
9	Stewart Title	Seatac	4,500	N/A	N/A
10	Sacred Heart Children's Hospital	Spokane	3,900	N/A	N/A

Operating Information

Operationally the Lottery is comprised of seven divisions. These include the Executive, Finance & Administration, Information Services, Security, Human Resources, Marketing, and Sales Divisions. The Executive Division includes 12 employees. These are the Director, Deputy Director, Legal Counsel, Legislative Liaison, Communications, and Research and Development. The Sales Division is by far the largest with 73 employees working in headquarters and the five regions throughout the state. Supporting the Sales staffs are the Finance and Administration Division with 20 employees, Marketing Division with 11 employees, Information Services Division with 13 employees, Security Division with 5 employees, and Human Resources Division with 5 employees.

The table below shows a three-year trend of Lottery employees, and is comprised of 100 percent government employees. 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	2009	2008	2007
Executive	12	12	12
Finance & Administration	20	22	21
Information Services	13	13	13
Security	5	5	5
Human Resources	5	5	4
Marketing	11	10	10
Sales	73	73	74
Total	139	140	139

WHO PLAYS WASHINGTON'S LOTTERY GAMES

Demographics of Lottery Players and Non-Players

The following charts reflect the results of the Fiscal Year 2009 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.

Ten Years of Net Assets

Net Assets	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Invested in capital assets	\$1,018,178	\$905,243	\$809,064	\$617,723	\$447,116	\$455,784	\$259,804	\$387,936	\$307,841	\$276,746
Restricted for future prizes	9,986,213	9,893,452	11,431,401	10,878,666	13,661,545	13,883,107	12,234,490	11,216,128	15,107,376	7,824,817
Unrestricted	(6,771,233)	44,587,442	63,506,725	95,821,928	48,196,243	58,972,564	22,699,110	20,945,418	35,024,787	37,511,394
Total net assets	4,233,158	55,386,137	75,747,190	107,318,317	62,304,904	73,311,455	35,193,404	32,549,482	50,440,004	45,612,957

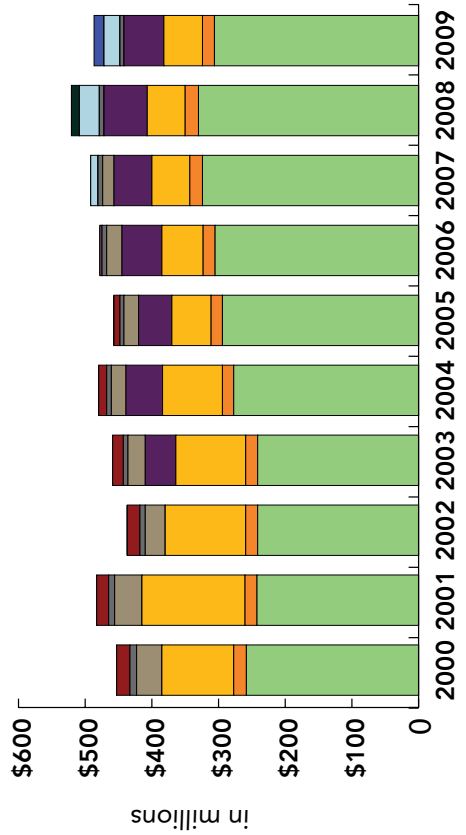
Ten Years of Changes in Net Assets

Sales	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Scratch ticket sales	\$259,128,474	\$242,955,288	\$242,418,092	\$241,891,045	\$277,991,863	\$294,674,176	\$305,512,725	\$325,197,396	\$330,520,307	\$307,004,644
Draw game sales	193,681,019	240,948,259	196,181,831	218,464,391	203,447,449	163,457,377	172,372,789	167,393,768	190,582,290	180,714,035
Total Sales	452,809,493	483,903,547	438,599,923	460,355,436	481,439,312	458,131,553	477,885,514	492,591,164	521,102,597	487,718,679
Cost of Sales	289,607,513	288,508,745	282,246,049	297,975,327	295,488,431	280,862,647	291,773,401	304,834,285	314,923,284	301,279,527
Prize expense	27,747,577	30,197,387	27,126,720	28,907,128	30,336,856	28,747,652	30,345,420	31,190,099	32,391,044	30,751,766
Retailer commissions	15,546,199	14,742,086	13,159,079	13,619,773	14,648,388	13,800,972	14,655,710	14,250,830	14,637,059	14,026,413
Vendor expense	7,388,434	7,295,392	7,877,678	9,001,036	7,604,276	6,467,379	6,844,990	9,767,655	11,292,640	12,161,926
Advertising expense	2,024,535	1,858,646	2,313,672	2,588,746	2,385,192	2,200,067	1,903,783	6,442,018	5,057,841	5,008,198
Misc. promotional & other operating expenses	342,314,258	342,602,256	332,723,198	352,092,010	350,463,143	332,078,717	345,523,304	366,484,887	378,301,868	363,227,830
Total Cost of Sales	7,402,010	7,549,367	7,926,791	8,201,981	8,260,003	8,419,855	8,511,768	8,861,222	9,232,680	9,446,681
Administrative expenses	2,285,870	2,576,334	2,206,886	2,548,949	2,430,825	2,518,265	2,268,688	2,490,003	2,658,744	2,375,804
Salaries and benefits	467,215	505,391	520,815	441,204	470,702	325,339	408,116	476,157	519,150	369,462
Goods and services	248,613	235,087	228,255	236,408	227,581	160,863	94,896	114,165	117,647	110,969
Travel	10,403,708	10,866,179	10,882,747	11,428,542	11,389,111	11,424,322	11,283,468	11,941,547	12,528,221	12,302,916
Depreciation	100,091,527	130,435,112	94,993,978	96,834,884	119,587,058	114,628,514	121,078,742	114,164,730	130,272,508	112,187,933
Total Administrative Expenses	(41,064,047)	50,137,893	18,551,416	32,568,436	(47,771,628)	10,854,530	(36,338,693)	(3,228,285)	15,446,799	2,479,944
Operating Income	682,226	925,719	732,114	673,843	479,537	1,145,184	2,329,880	2,757,471	2,421,131	841,625
Non-Operating Revenues (expenses)	20,362	(3,349)	7,600	(10,338)	252,986	497	5,534	24,086	10,636	37,412
Unrealized gain (loss) on strips	18,600	15,340	17,725	20,200	20,995	19,425	18,000	19,825	27,175	18,125
Interest income	0	0	(35,481)	0	(4,946)	(9,885)	(122,338)	(10,932)	0	0
Misc. income (expense)	0	0	0	0	0	0	0	0	0	0
Fee income	(40,342,860)	51,075,603	19,273,374	33,252,141	(47,023,056)	12,009,751	(34,107,617)	(437,835)	17,905,741	3,377,106
Loss on disposal of capital assets	0	0	(83,434,156)	(86,789,871)	(102,000,000)	(102,000,000)	(102,000,000)	(101,932,376)	(102,000,000)	(102,000,000)
Total non-operating revenues (expenses)	0	0	0	(835,000)	0	0	0	0	0	0
Payments to Education Funds	0	0	(3,722,959)	(3,871,876)	(4,026,752)	(4,187,821)	(4,355,334)	(4,529,547)	(4,710,730)	(4,899,160)
Payments to other state funds	(3,442,084)	(3,579,768)	(6,749,184)	(7,019,151)	(7,299,917)	(7,591,914)	(7,895,591)	(8,211,414)	(8,539,871)	(8,881,466)
Payments to King County	(4,440,000)	(6,489,600)	(6,749,184)	(7,019,151)	(7,299,917)	(7,591,914)	(7,895,591)	(8,211,414)	(8,539,871)	(8,881,466)
Payments to Stadium and Exhibition Center Account	0	0	0	0	0	0	(3,034,511)	(2,975,639)	(3,677,118)	(2,377,226)
Payments to Economic Development	0	0	0	0	0	0	(186,129)	(244,084)	(268,038)	(243,995)
Payments to Problem Gambling	(91,094,578)	(170,288,368)	0	0	(4,250,746)	(1,851,979)	(7,617,611)	0	(11,091,970)	(1,990,239)
Payments to General Fund	(98,976,662)	(130,357,736)	(93,906,299)	(98,515,898)	(117,577,415)	(115,631,714)	(125,089,176)	(117,893,060)	(130,287,727)	(120,392,086)
Total payments	(139,319,522)	(79,282,133)	(74,632,925)	(65,263,757)	(164,600,471)	(103,621,963)	(159,196,793)	(118,330,895)	(112,381,986)	(117,014,980)
Net non-operating expense	(39,227,995)	51,152,979	20,361,053	31,571,127	(45,013,413)	11,006,551	(38,118,051)	(4,166,165)	17,890,522	(4,827,047)
Change in net assets	0	0	0	0	0	0	0	1,522,243	0	0
Prior period adjustment to net assets	43,461,153	4,233,158	55,386,137	75,747,190	107,318,317	62,304,904	73,311,455	35,193,404	32,549,482	50,440,004
Total net assets at beginning of year	\$4,233,158	\$55,386,137	\$75,747,190	\$107,318,317	\$62,304,904	\$73,311,455	\$35,193,404	\$32,549,482	\$50,440,004	\$45,612,957
Total net assets at end of year	0	0	0	0	0	0	0	0	0	0

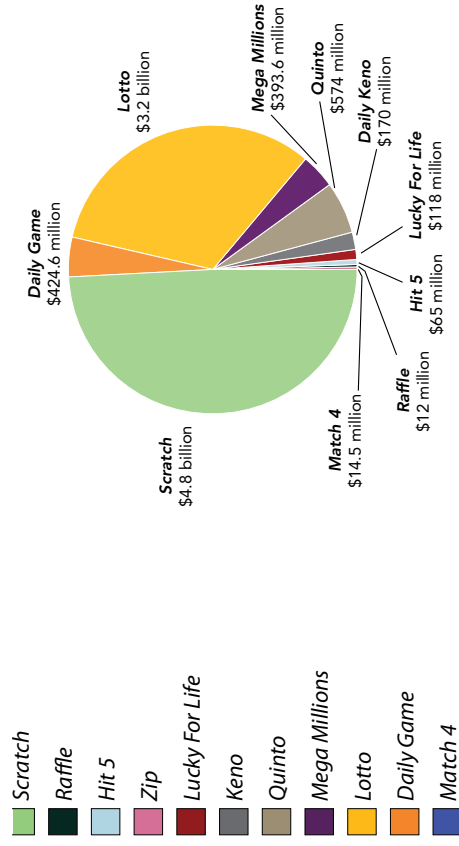
Ten Years of Sales and Other Revenues

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Scratch	\$259,128,474	\$242,955,288	\$242,418,092	\$241,891,045	\$277,991,863	\$294,674,176	\$305,512,725	\$325,197,396	\$330,520,307	\$307,004,644
Draw:										
The Daily Game	\$18,542,934	\$18,198,421	\$18,084,018	\$18,187,625	\$17,307,691	\$17,237,543	\$18,167,348	\$18,977,376	\$19,799,094	\$18,341,004
Lotto	107,737,411	155,191,561	120,821,011	104,968,610	90,261,504	58,610,401	61,886,078	57,108,545	56,918,875	58,245,291
Mega Millions				45,875,414	55,188,340	50,238,381	60,055,375	57,197,968	65,445,763	59,577,333
Quinto	37,926,858	40,867,534	29,975,240	26,331,899	21,638,161	21,625,534	23,068,753	16,694,094	0	0
Daily Keno	9,590,090	8,936,389	8,074,658	7,276,751	6,697,829	6,443,230	6,687,377	6,739,225	6,507,227	5,523,027
Lucky for Life	19,883,726	17,754,354	19,226,904	15,824,092	12,353,924	9,302,288	0	0	0	0
Zip							2,507,858			
Hit 5							10,676,560		29,799,251	24,433,740
Raffle									12,112,080	
Match 4										14,593,640
Total Draw	\$193,681,019	\$240,948,259	\$196,181,831	\$218,464,391	\$203,447,449	\$163,457,377	\$172,372,789	\$167,393,768	\$190,582,290	\$180,714,035
Total Sales	\$452,809,493	\$483,903,547	\$438,599,923	\$460,355,436	\$481,439,312	\$458,131,553	\$477,885,514	\$492,591,164	\$521,102,597	\$487,718,679
Interest	\$682,225	\$925,719	\$732,114	\$673,843	\$479,537	\$1,145,184	\$2,329,880	\$2,757,471	\$2,421,131	\$841,625
License Fees	18,600	15,340	17,725	20,200	20,995	19,425	18,000	19,825	27,175	18,125
Miscellaneous	20,362	(3,349)	(27,881)	(10,338)	248,040	(8,616)	(116,804)	24,086	1,482,154	37,411
Total Other Revenues	\$721,187	\$937,710	\$721,958	\$683,705	\$748,572	\$1,155,993	\$2,231,076	\$2,801,382	\$3,930,460	\$897,161
Total Sales and Other Revenues	\$453,530,680	\$484,841,257	\$439,321,881	\$461,039,141	\$482,187,884	\$459,287,546	\$480,116,590	\$495,392,546	\$525,033,057	\$488,615,840

Sales by Product



Sales Since Inception Sales Began Nov. 15, 1982



Total Sales: \$9.7 Billion

Ten Years of Expenses

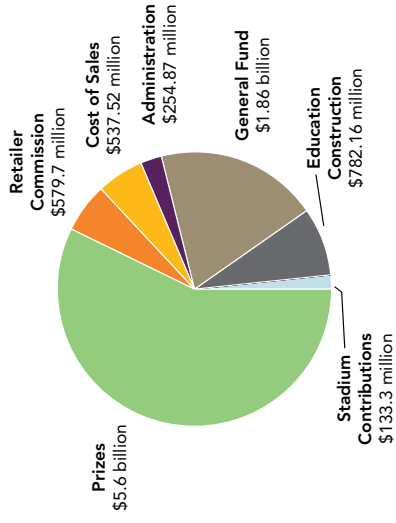
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Prizes	\$289,607,513	\$288,508,745	\$282,246,049	\$297,975,327	\$295,488,431	\$280,862,647	\$291,773,401	\$304,834,285	\$314,923,284	\$301,279,527
Retailer Commissions	27,747,577	30,197,387	27,126,720	28,907,128	30,336,856	28,747,652	30,345,420	31,190,099	32,391,044	30,751,766
Cost of Sales	24,959,168	23,896,125	23,350,429	25,209,555	24,637,855	22,468,418	23,404,483	30,460,503	30,987,540	31,192,738
Administration	10,403,708	10,866,178	10,882,747	11,428,542	11,389,111	11,424,322	11,283,468	11,941,547	12,528,221	12,302,916
Total Expenses	\$352,717,966	\$353,468,435	\$343,605,945	\$363,520,552	\$361,852,253	\$343,503,039	\$356,806,772	\$378,426,434	\$390,830,089	\$375,526,947

Note: Non-operating expenses are not included.

Ten Years of Contributions

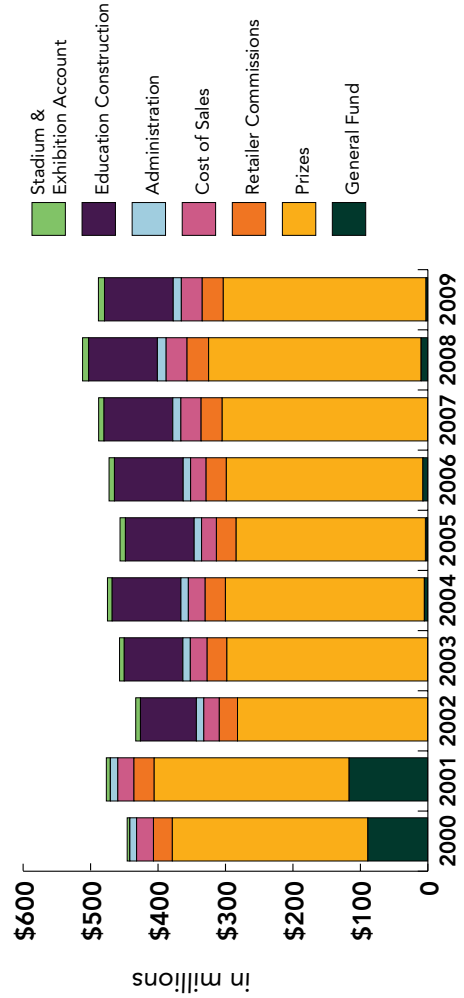
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
State General Fund	\$91,094,578	\$120,288,368	\$0	\$835,000	\$4,250,746	\$1,851,979	\$7,617,611	\$0	\$11,091,971	\$1,990,239
Education Funds	-	-	83,434,156	86,789,871	102,000,000	102,000,000	102,000,000	101,932,376	102,000,000	102,000,000
Economic Development	-	-	-	-	-	-	3,034,511	2,975,639	3,677,118	2,377,226
Problem Gambling	-	-	-	-	-	-	186,129	244,084	268,038	243,995
King County	3,442,084	3,579,768	3,722,959	3,871,876	4,026,752	4,187,821	4,355,334	4,529,547	4,710,730	4,899,160
Stadium & Exhibition Account	4,440,000	6,489,600	6,749,184	7,019,151	7,299,917	7,591,914	7,895,591	8,211,414	8,539,871	8,881,466
Total Contributions	\$98,976,662	\$130,357,736	\$93,906,299	\$98,515,898	\$117,577,415	\$115,631,714	\$125,089,176	\$117,893,060	\$130,287,728	\$120,392,086

Distributions Since Inception July 19, 1982 - June 30, 2009



Economic Contribution \$12,064,494, amount too small to show on graph.
Problem Gambling \$942,246, amount too small to show on graph.

Expenses and Contributions



Washington's Lottery

COMPARATIVE STATEMENT OF LOTTERY REVENUES AND EXPENSES BY LOTTERY FOR FISCAL YEAR 2008

Lottery	Millions of Dollars					As Percentage of Sales			
	Sales	Prizes	Commissions	Expenses	Net Income	Prizes	Commissions	Expenses	Net Income
New York	6,673.18	3,952.76	400.79	253.03	2,126.56	59.23%	6.01%	3.79%	31.87%
Massachusetts	4,689.50	3,419.71	275.21	101.38	913.05	72.92%	5.87%	2.16%	19.47%
Florida	4,174.78	2,476.03	235.65	154.56	1,350.45	59.31%	5.64%	3.70%	32.35%
Texas	3,671.48	2,281.13	185.72	167.50	1,118.70	62.13%	5.06%	4.56%	30.47%
Georgia	3,242.05	2,049.54	230.73	137.33	876.99	63.22%	7.12%	4.24%	27.05%
Pennsylvania	3,089.19	1,845.40	170.05	159.96	928.05	59.74%	5.50%	5.18%	30.04%
California	3,049.62	1,619.47	213.02	167.22	1,139.10	53.10%	6.99%	5.48%	37.35%
New Jersey	2,539.06	1,471.12	141.39	78.05	893.99	57.94%	5.57%	3.07%	35.21%
Michigan	2,330.20	1,323.34	172.16	110.40	757.26	56.79%	7.39%	4.74%	32.50%
Ohio	2,325.14	1,397.02	143.93	110.28	715.69	60.08%	6.19%	4.74%	30.78%
Illinois	2,057.27	1,226.07	103.93	108.99	650.50	59.60%	5.05%	5.30%	31.62%
Maryland	1,673.04	956.89	117.82	58.85	544.16	57.19%	7.04%	3.52%	32.53%
Virginia	1,386.41	792.34	77.75	73.68	455.26	57.15%	5.61%	5.31%	32.84%
N. Carolina	1,048.45	588.49	75.37	45.79	349.41	56.13%	7.19%	4.37%	33.33%
Connecticut	998.15	608.22	55.95	50.63	283.56	5.61%	5.61%	5.07%	28.41%
Missouri	995.49	641.12	61.51	41.87	269.33	64.40%	6.18%	4.21%	27.06%
S. Carolina	992.49	620.47	70.43	42.22	263.90	62.52%	7.10%	4.25%	26.59%
Tennessee	990.38	588.56	69.57	52.10	286.11	59.43%	7.02%	5.26%	28.89%
Indiana	822.85	503.30	59.50	50.07	217.07	61.17%	7.23%	6.08%	26.38%
Kentucky	778.21	493.06	50.14	46.50	196.20	63.36%	6.44%	5.98%	25.21%
Washington**	521.10	314.92	32.39	43.52	148.18	60.43%	6.22%	8.35%	28.44%
Colorado	505.81	314.93	38.39	33.02	122.27	62.26%	7.59%	6.53%	24.17%
Wisconsin	494.73	286.70	34.28	32.81	147.35	57.95%	6.93%	6.63%	29.78%
Arizona	472.94	262.49	31.71	35.78	144.61	55.50%	6.70%	7.57%	30.58%
Minnesota	461.52	279.64	27.66	39.49	116.26	60.59%	5.99%	8.56%	25.19%
Louisiana	373.69	192.80	20.91	31.21	131.81	51.59%	5.60%	8.35%	35.27%
Oregon ^{3,4}	338.68	219.96	29.40	27.53	62.87	64.95%	8.68%	8.13%	18.56%
N. Hampshire	260.69	154.69	14.28	17.33	75.65	59.34%	5.48%	6.65%	29.02%
D.C.	252.72	135.06	15.78	32.14	70.37	53.44%	6.24%	12.72%	27.85%
Iowa	249.22	144.67	15.65	31.68	57.86	58.05%	6.28%	12.71%	23.22%
R. Island ^{3,4}	241.24	144.51	29.39	9.71	60.14	59.90%	12.18%	4.03%	24.93%
Kansas	236.67	132.97	13.77	24.48	67.15	56.18%	5.82%	10.34%	28.37%
Maine	228.52	142.44	16.26	19.32	53.42	62.33%	7.12%	8.45%	23.38%
Oklahoma	214.28	112.84	13.43	15.85	73.43	52.66%	6.27%	7.40%	34.27%
W. Virginia ^{3,4}	198.01	121.17	13.88	7.72	77.24	61.19%	7.01%	3.90%	39.01%
New Mexico	147.20	80.09	09.68	17.23	40.81	54.41%	6.58%	11.71%	27.72%
Idaho	136.85	81.46	08.19	12.41	36.19	59.53%	5.98%	9.07%	26.45%
Delaware ^{3,4}	125.35	65.90	07.72	13.84	37.46	52.57%	6.16%	11.04%	29.88%
Nebraska	121.92	69.24	07.41	15.00	31.03	56.79%	6.08%	12.30%	25.45%
Vermont	101.99	64.76	05.97	8.87	22.73	63.50%	5.85%	8.70%	22.29%
Montana	43.82	22.84	02.56	7.47	11.03	52.12%	5.84%	17.05%	25.17%
S. Dakota ^{3,4}	42.43	23.94	02.36	5.58	11.37	56.42%	5.56%	13.15%	26.80%
N. Dakota	22.12	11.36	01.14	3.70	6.08	51.36%	5.15%	16.73%	27.49%
Total	53,318.44	32,233.42	3,302.83	2,496.10	15,940.65	60.45%	6.19%	4.68%	29.90%

Notes to Table: fiscal year 2008 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.

**Reflects operating income only.

Source: "La Fleur's 2008 World Lottery Almanac," TLF Publications, Inc.

Washington's Lottery

COMPARISON OF LOTTERY REVENUES AND EXPENSES PER CAPITA BY LOTTERY FOR FISCAL YEAR 2008

Figures are Per Capita						
Lottery	Population (M)	Sales	Prizes	Commissions	Expenses	Net Income
California	36.6	83.43	44.30	5.83	4.57	31.16
Texas	23.9	153.59	95.43	7.77	7.01	46.80
New York	19.3	345.80	204.83	20.77	13.11	110.20
Florida	18.3	228.74	135.67	12.91	8.47	73.99
Illinois	12.9	160.07	95.40	8.09	8.48	50.61
Pennsylvania	12.4	248.47	148.43	13.68	12.87	74.64
Ohio	11.5	202.77	121.83	12.55	9.62	62.41
Michigan	10.1	231.35	131.39	17.09	10.96	75.18
Georgia	9.5	339.66	214.72	24.17	14.39	91.88
North Carolina	9.1	115.71	64.95	8.32	5.05	38.56
New Jersey	8.7	292.32	169.37	16.28	8.99	102.92
Virginia	7.7	179.77	102.74	10.08	9.55	59.03
Washington **	6.5	80.17	48.69	5.01	6.73	22.91
Massachusetts	6.4	727.08	530.20	42.67	15.72	141.56
Indiana	6.3	129.68	79.32	9.38	7.89	34.21
Arizona	6.3	74.61	41.41	5.00	5.64	22.81
Tennessee	6.2	160.85	95.59	11.30	8.46	46.47
Missouri	5.9	169.36	109.07	10.46	7.12	45.82
Maryland	5.6	297.80	170.33	20.97	10.48	96.86
Wisconsin	5.6	88.31	51.18	6.12	5.86	26.30
Minnesota	5.2	88.79	53.80	5.32	7.60	22.37
Colorado	4.9	104.05	64.79	7.90	6.79	25.15
S. Dakota ²	4.4	225.16	140.76	15.98	9.58	59.87
Louisiana	4.3	87.05	44.91	4.87	7.27	30.70
Kentucky	4.2	183.50	116.26	11.82	10.96	46.26
Oregon ¹	3.7	90.39	58.70	7.85	7.35	16.78
Oklahoma	3.6	59.24	31.20	3.71	4.38	20.30
Connecticut	3.5	285.02	173.68	15.98	14.46	80.97
Iowa	3.0	83.41	48.42	5.24	10.60	19.36
Kansas	2.8	85.26	47.90	4.96	8.82	24.19
New Mexico	2.0	74.72	40.65	4.91	8.75	20.72
West Virginia ¹	1.8	109.28	66.87	7.66	4.26	42.63
Nebraska	1.8	68.69	39.01	4.17	8.45	17.48
Idaho	1.5	91.29	54.34	5.46	8.28	24.14
Maine	1.3	173.52	108.15	12.35	14.67	40.56
New Hampshire	1.3	198.09	117.55	10.85	13.17	57.48
Rhode Island ¹	1.1	228.02	136.59	27.78	9.18	56.84
Montana	1.0	45.74	23.84	2.67	7.80	11.51
D.C.	0.9	144.91	76.18	8.92	16.00	43.31
South Carolina	0.8	53.30	30.08	2.96	7.01	14.28
North Dakota	0.6	34.78	17.86	1.79	5.82	9.56
Vermont	0.6	164.24	104.28	9.61	14.28	36.60
Delaware ¹	0.6	429.80	229.69	26.84	54.66	119.68
Total	283.5	188.05	113.68	11.65	8.80	56.22

Note to Table: fiscal year 2008 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 2008 World Lottery Almanac," TLF Publications, Inc.

Washington's Lottery

814 4th Ave East
Olympia, Washington 98506-3922
Phone (360) 664-4800

walottery.com

Mailing Address:
PO Box 43000
Olympia, WA 98504-3000

Regional Offices and Prize Claim Centers

Everett Regional Office

11419 19th Ave SE, Suite A106
Everett, WA 98208-5120

Federal Way Regional Office

33701 9th Ave S
Federal Way, WA 98003-6762

Spokane Regional Office

10517 East Sprague Ave
Spokane Valley, WA 99206-3631

Vancouver Regional Office

1503 Northeast 78th St, Suite #4
Vancouver, WA 98665-9668

Yakima Regional Office

9 South 5th Ave
Yakima, WA 98902-3432



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