

September 25, 2009

The Honorable Timothy M. Kaine
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, VA 23219

RE: Fiscal Year 2009 Lottery Results

Dear Governor Kaine:

I am pleased to provide our summary report of activities and financial update for the 2009 fiscal year, as required in §58.1-4006 of the *Code of Virginia*. These results have been certified by the Auditor of Public Accounts, and all transfers of profits to the Lottery Proceeds Fund have been completed.

Sales for the year totaled \$1.366 billion, down \$20.8 million (-1.5%) compared to fiscal year 2008, and \$25.7 million (-1.9%) less than forecast for fiscal year 2009. Net income totaled \$439.1 million, a decline of \$16.1 million (-3.6%) compared to last year, but \$9.0 million (+2.1%) more than forecast. The prize expense rate (prizes as a percentage of sales) was 57.2% for the year, the same as last year but 0.9% less than the forecast prize rate of 58.1%.

For the 2009 fiscal year, both sales and profits were down when compared to the prior record year, as forecast. The residual \$8.9 million in profits was transferred to the Lottery Proceeds Fund after the August 13, 2009, certification by the Auditor of Public Accounts.

Please let me know if you have any questions or if you would like more information.

Very truly yours,

Paula I. Otto

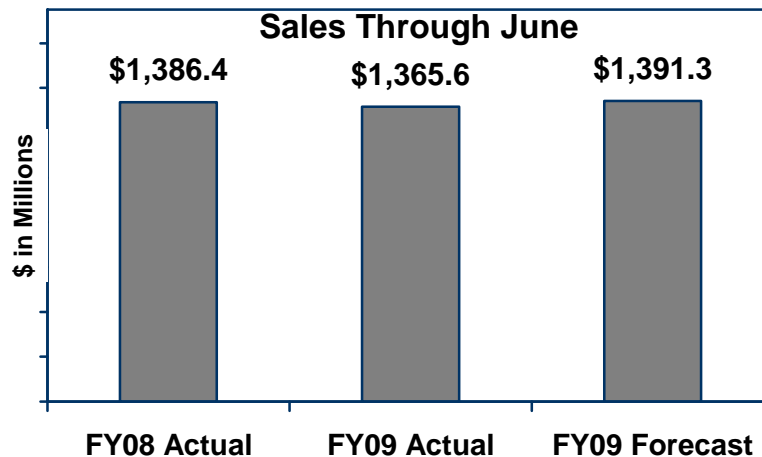
- c: The Honorable Charles J. Colgan, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Wayne M. Turnage, Chief of Staff, Office of the Governor
- The Honorable Richard D. Brown, Secretary of Finance
- Daniel S. Timberlake, Director, Department of Planning & Budget
- David A. Von Moll, State Comptroller
- Elizabeth B. Daley, Staff Director, Senate Finance Committee
- Robert P. Vaughn, Staff Director, House Appropriations Committee

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
September 25, 2009

Sales

Lottery sales for the fiscal year totaled \$1,365.6 million, which was \$20.8 million (-1.5%) less than the prior year and \$25.7 million (-1.9%) less than forecast.

Scratcher sales of \$690.4 million were \$4.5 million (-0.7%) lower than last year and \$9.4 million (-1.4 %) less than forecast. Sales of daily games (Pick 3, Pick 4, and Cash 5) declined \$4.3 (-0.9%) from last year and were \$32.3 million (-6.5 %) less than forecast. Sales of the jackpot games, Mega Millions and Win for Life, declined \$9.6 million (-4.7%) from last year, but were \$21.8 million (+12.7%) more than forecast. Sales of Fast Play and Raffle games were \$2.4 million (-13.0%) lower than last year and \$5.8 million (-27.1%) less than forecast.



Expenses

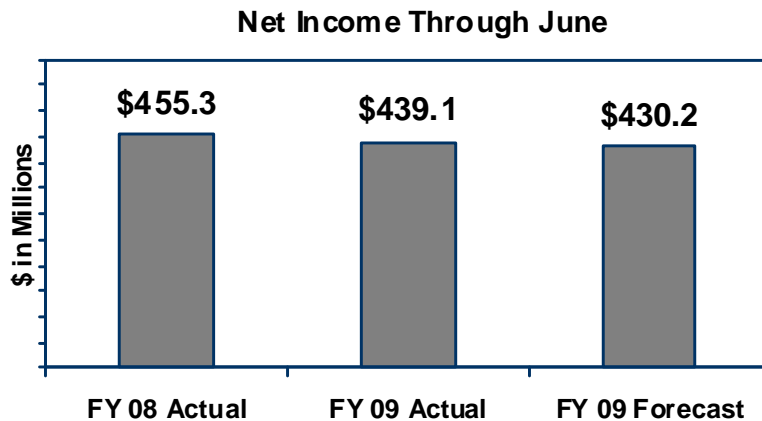
The overall prize expense rate (prizes as a percent of sales) for the year was 57.2%, the same as last year but 0.9% lower than forecast for the year. The scratcher prize rate was slightly higher than the prior year, ending the year at 67.3% compared to the expected rate of 67.2%. The daily games prize rate of 46.1% was down 0.2% from last year, and 2.5% lower than the 48.5% forecast for the year. Low daily games prize payouts for two consecutive years have negatively affected sales of these products, a category that represents one third of total lottery sales. Jackpot prize expense was 48.0%, lower than last year's 50.1% and less than the forecast rate of 49.4%.

With lower sales, retailers earned \$0.9 million less than the prior year, for a total \$76.9 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives during the fiscal year, the same as the previous year's retailer compensation rate and equal to the forecast retailer compensation rate for the fiscal year.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were equal to the previous year, but \$6.3 million less than forecast. Administrative operating costs represented 5.4% of sales, well less than the statutory allowance of 10% and less than the 5.7% rate included in the forecast.

Net Income

For fiscal year 2009, profits totaled \$439.1 million, a decline of \$16.1 million (-3.5%) compared to the fiscal year 2008 record results. Declining profits were forecast for the current fiscal year, but profits were slightly ahead (+2.1%) of the \$430.2 million forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2009 fiscal year, the Lottery made debt setoff payments to the Department of Taxation totaling \$1,092,980. Also, unclaimed prizes totaling \$13,300,051 were transferred to the Literary Fund for the fiscal year.