

September 9, 2010

The Honorable Robert F. McDonnell
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, Virginia 23219

Re: July 2010 Lottery Results

Dear Governor McDonnell:

I am pleased to provide our report of monthly activities and financial update for the month of July 2010, as required in §58.1-4006 of the *Code of Virginia*.

Sales for the month of July totaled \$117.8 million, up \$4.0 million (+3.5 %) compared to the same month last year. Strong scratcher sales and daily game sales contributed to the sales increase this month compared to last year. Net income for the fiscal year through July totaled \$37.0 million, an increase of \$374,000 (+1.0%) from last year.

It is important to note that significant fluctuations in sales and prize expense rates occur during the short term. Comparing one month of sales and profits to the same period in the prior year does not provide an accurate reflection of expected results.

I am also pleased to report that the Auditor of Public Accounts certified the fiscal year 2010 profits of \$430,251,063. The total transfers to the Lottery Proceeds Fund were in line with expectations in the Appropriations Act. As always, the Lottery will participate in the statewide revenue forecasting process this fall, to determine whether an adjustment to the current \$435.2 million revenue estimate is warranted.

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 Martin Kent, 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

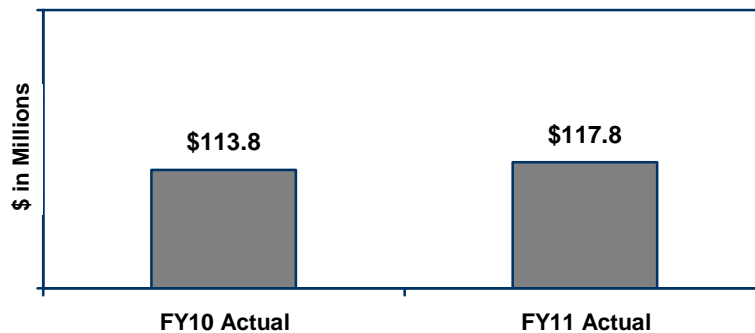
VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
September 9, 2010

Sales

Lottery sales for the fiscal year totaled \$117.8 million through July, which was \$4.0 million (+3.5%) more than the prior year.

Scratcher sales of \$60.2 million were \$3.8 million (+6.7 %) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$834,000 (+2.1%) from last year. Sales of the jackpot games (Mega Millions, Powerball, and Win for Life) decreased \$344,000 (-2.0%) from last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$205,800 (-27.9%) lower than last year.

Sales Through July



Expenses

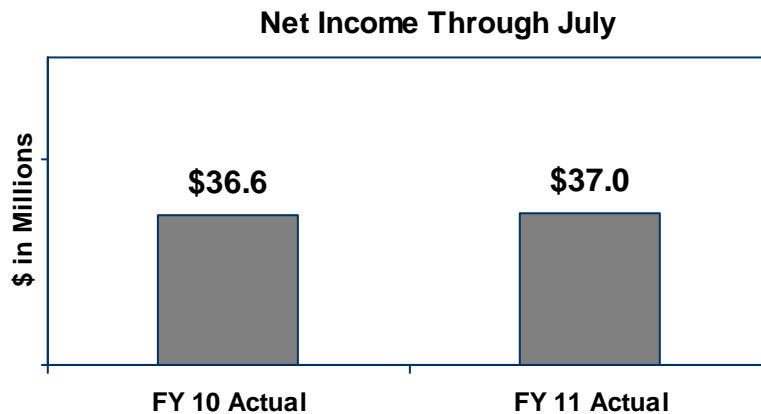
The overall prize expense rate (prizes as a percent of sales) through July was 58.2%, up 0.2% from last year's rate of 58.0%. The scratcher prize rate of 68.9% was up compared to last year's rate of 64.7%, an abnormally low rate due to some accounting adjustments in July 2009. The daily games prize rate of 45.5% was down significantly from last year's 51.0% rate. Jackpot prize expense was 50.8%, down from last year's rate of 52.4%. It is important to note that significant fluctuations in prize expense rates occur during the short term; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With higher sales, nearly 5,000 retailer locations throughout the Commonwealth earned \$218,000 more than last year, for a total \$6.4 million in earnings. Overall, retailers earned 5.5% of Lottery sales in commissions and incentives so far this fiscal year.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$753,000 more than during the same period last year. As total sales increase, certain variable administrative costs also increase, including contractual arrangements with private third-party partners that provide ticket printing and gaming network services. Administrative spending stands at 5.0% of sales for the year so far, slightly less than last year's overall rate of 5.1%.

Net Income

Through July 2010, year to date profits totaled \$37.0 million, an increase of \$374,000 (+1.0 %) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2011 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$80,573. Also, unclaimed prizes totaling \$821,981 were transferred to the Literary Fund for the first month of fiscal year 2011.

MEETINGS

The State Lottery Board held a regularly scheduled meeting on August 25, 2010, in Roanoke. The next meeting of the Board will be October 27, 2010, in Richmond.