

August 23, 2012

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

Re: June 2012 Lottery Results

Dear Governor McDonnell:

I am pleased to provide our report of monthly activities and financial update for the month of June 2012, as required in §58.1-4006 of the *Code of Virginia*.

On June 20, 2012, the Lottery made the final transfer to the Lottery Proceeds Fund for the fiscal year. In total, transfers to the Lottery Proceeds Fund equaled \$473.1 million, as anticipated in the final Appropriations Act for 2010-2012. These total transfers represent a preliminary estimate of profits earned during Fiscal Year 2012 of \$464.1 million, plus \$9.0 million in residual Fiscal Year 2011 profits that were transferred in August 2011.

On August 15, 2012, the Auditor of Public Accounts certified the Lottery's actual profits from Fiscal Year 2012 totaled \$487.1 million, nearly \$23 million more than the total estimated transfers of 2012 profits. This additional \$23 million was transferred to the Lottery Proceeds Fund on August 15, 2012, and will be available for appropriation and distribution by the Department of Education during Fiscal Year 2013. This additional amount will also be included when the Lottery revises its forecast of revenues and transfers for Fiscal Year 2013 as part of the overall state revenue forecasting process.

Fiscal Year 2012 ended with record Lottery sales and profits. For the year, sales totaled \$1,616 million, an increase of \$133.3 million (+9.0%) compared to last year and \$90.3 million (+5.9 %) ahead of the revised forecast. Total net income for the fiscal year reached \$487.1 million, an increase of \$42.8 million (+9.6%) over the prior year. The Lottery awarded \$962.3 million in prizes to players this year, a new Lottery record and a positive contributor to our strong sales.

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

Very truly yours,

Paula I. Otto

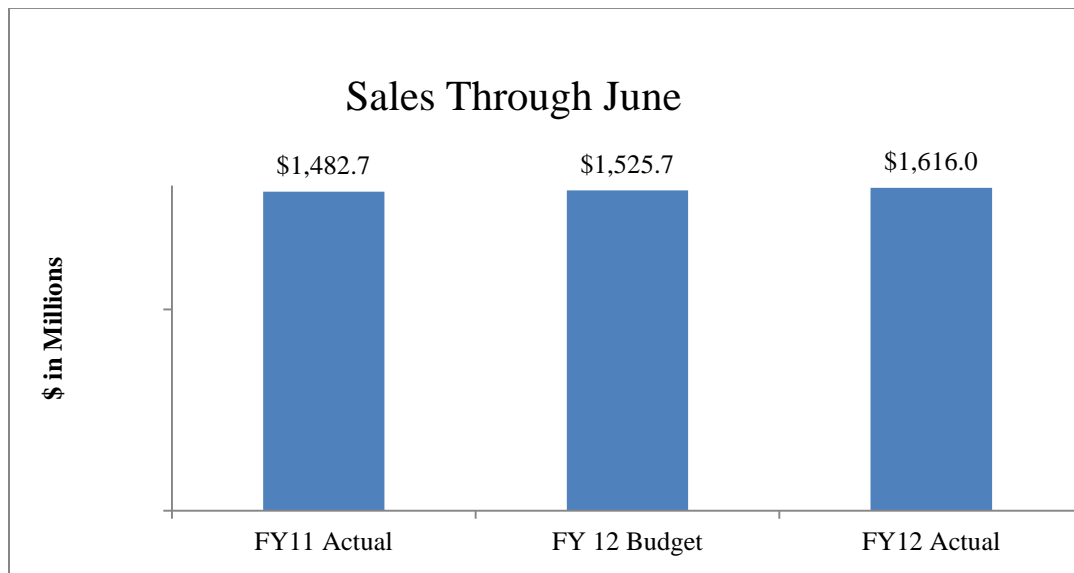
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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
- Albert H. Poole, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
August 23, 2012

Sales

Lottery sales for the fiscal year totaled \$1,616.0 million through June. This represents an increase of \$133.3 million (+9.0%) compared to the prior year, and \$90.3 million (+5.9%) more than forecast.

Scratcher sales of \$842.1 million were \$85.3 million (+11.3%) higher than last year, accounting for most of the overall sales increase. Sales of daily games (Pick 3, Pick 4, and Cash 5) also increased, up \$16.9 million (+3.6%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) increased \$27.9 million (+11.9%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$3.2 million (+35.7%) higher than last year because of the timing of product availability in this category, as well as changes implemented to better meet player preferences.



Expenses

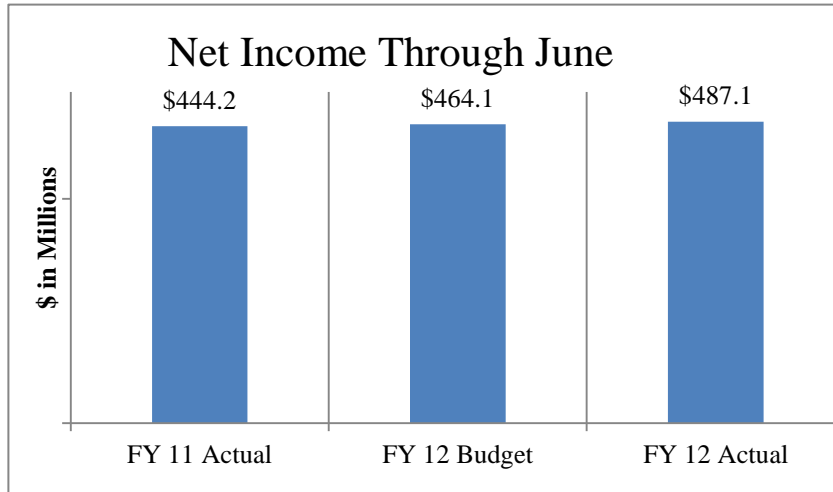
The overall prize expense rate (prizes as a percent of sales) through June was 59.5%, slightly higher than last year's rate of 59.4%. The scratcher prize rate of 68.2% was lower than last year's rate of 68.3%. The daily games prize rate of 49.6% was less than last year's rate of 49.9%. The jackpot games prize expense rate was 50.5%, slightly higher than last year's rate of 50.4%.

With higher sales, retailers earned \$6.9 million more than last year and also established a new Lottery record, for a total \$90.7 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$3.0 million more than the same period last year. Administrative spending was 4.8% of sales for the year, the lowest spending rate in Lottery history.

Net Income

For Fiscal Year 2012, profits totaled \$487.1 million, an increase of \$42.9 million (+9.7%) compared to last year and \$23.0 million (+5.0%) more than forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2012 fiscal year, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,525,507. Also, unclaimed prizes totaling \$11,297,790 were transferred to the Literary Fund for fiscal year 2012.

MEETINGS

The Lottery Board held a regular business meeting on August 8, 2012, in Richmond. The next meeting of the Board will be on October 31, 2012.