

April 28, 2014

The Honorable Terence R. McAuliffe
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, Virginia 23219

Re: March 2014 Lottery Results

Dear Governor McAuliffe:

I am pleased to provide our report of monthly activities and financial update for the month of March 2014, as required in §58.1-4006 of the *Code of Virginia*.

March sales totaled \$165.4 million, up \$7.4 million (+4.7%) compared to the same month last year. Lottery sales for the fiscal year through March totaled \$1,350.7 million, up \$112.5 million (+9.1%) compared to last year and \$43.7 million more than forecast (+3.3%). Net income for the first nine months totaled \$408.9 million, an increase of \$42.9 million (+11.7%) compared to last year and \$25.4 million (+6.6%) more than forecast. Sales in Scratch, Mega Millions, Pick 3, Pick 4 and Fast Play continue to experience strong sales this fiscal year.

We would like to remind readers that lottery sales and profits have seasonal fluctuations, variances from jackpot size, and swings resulting from player luck of the draw. To the extent possible, our forecasts account for these factors. Comparisons to forecast included in this letter refer to the increased (\$532.7 million) estimate for total transfers for the 2014 fiscal year as recommended by the State Lottery Board.

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

Very truly yours,

Paula I. Otto

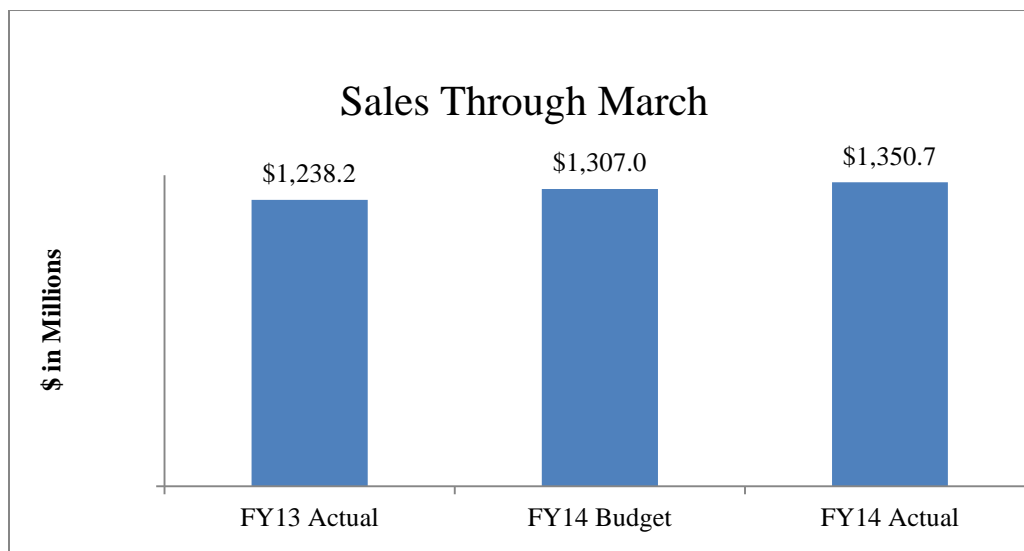
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
The Honorable S. Chris Jones, Chairman, House Appropriations Committee
The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
The Honorable Paul Reagan, Chief of Staff, Office of the Governor
The Honorable Richard D. Brown, 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
Cynthia D. Lawrence, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
April 28, 2014

Sales

Lottery sales for the fiscal year totaled \$1,350.7 million through March. This represents an increase of \$112.5 million (+9.1%) compared to the prior year and \$43.7 more (+3.3%) than forecast.

Scratcher sales of \$724.7 million were \$71.7 million higher (+11.0%) than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were higher, up \$20.8 million (+5.5%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) were \$16.7 million higher (+8.8%) compared to last year. Sales of Fast Play games, a category that represents about 1% of total sales, were \$3.6 million higher (+32.7%) than last year.



Expenses

The overall prize expense rate (prizes as a percent of sales) through March was 59.5%, lower than last year's rate of 59.9% and lower than the forecast rate of 59.8%. The scratcher prize rate of 68.9% was higher than last year's rate of 67.9%; this increase is due to the popularity of higher priced scratch tickets that are designed with an overall higher prize payout. The daily games prize rate of 47.6% was lower than last year's rate of 50.6%, and lower than the statistically expected 50% prize rate. The jackpot games prize expense rate was 49.4%,

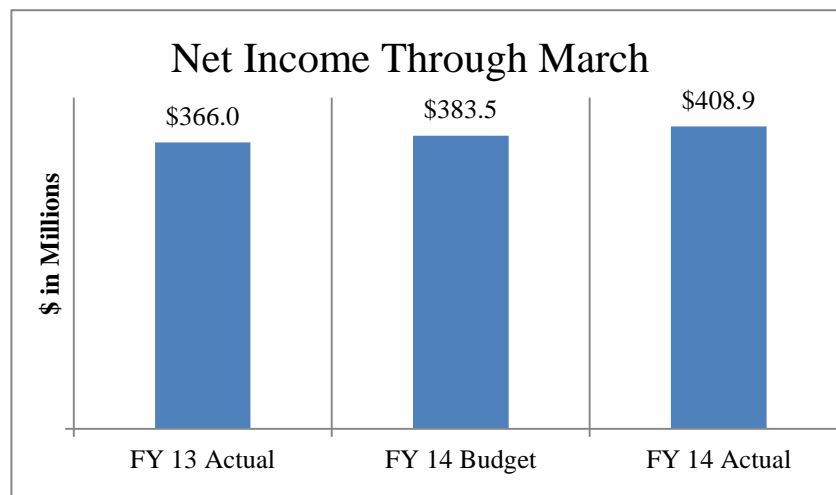
lower than last year's rate of 50.6%. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With higher sales, retailers earned \$4.9 million more than last year, for a total \$75.0 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives so far this fiscal year.

Administrative operating costs, including online gaming system, ticket printing and distribution expenses, were \$3.5 million more than the same period last year. Administrative spending stands at 4.8% of sales for the year so far.

Net Income

Through March 2014, year to date profits totaled \$408.9 million, an increase of \$42.9 million (+11.7%) compared to last year and \$25.4 million (+6.6%) more than forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2014 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,161,217. Also, unclaimed prizes totaling \$7,326,204 were transferred to the Literary Fund for the first nine months of fiscal year 2014.

MEETINGS

The Lottery Board met in Richmond on April 23, 2014, and welcomed Mr. Robert Howard's continued service on the Board after his recent re-appointment.