

July 7, 2014

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

Re: May 2014 Lottery Results

Dear Governor McAuliffe:

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

May sales totaled \$155.4 million, \$14.5 million (-8.5%) lower than the same month last year. Lottery sales for the fiscal year through May totaled \$1,661.6 million, up \$110.9 million (+7.2%) compared to last year and \$58.3 million more than forecast (+3.5%). Net income for the first ten months totaled \$499.2 million, an increase of \$41.5 million (+9.1%) compared to last year and \$29.4 million (+5.9%) more than forecast. Scratch, Mega Millions, Pick 3, Pick 4 and Fast Play products continue to experience strong sales this fiscal year.

On June 20, 2014, the final transfer of Lottery profits to the Lottery Proceeds Fund for the fiscal year was completed, bringing the total transfers to the Fund to \$532.7 million for the fiscal year. Final reporting of lottery sales and profits for the 2014 fiscal year will be reported after the Auditor of Public Accounts completes their review and certification on August 15, 2014, as required by the *Code of Virginia*. The residual transfer of profits will occur at that time, and will be reflected in the updated estimate of available revenues to the Lottery Proceeds Fund in the usual manner.

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 and as included in the 2014 Amendments to the 2013 Appropriation Act.

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

Very truly yours,

Paula I. Otto

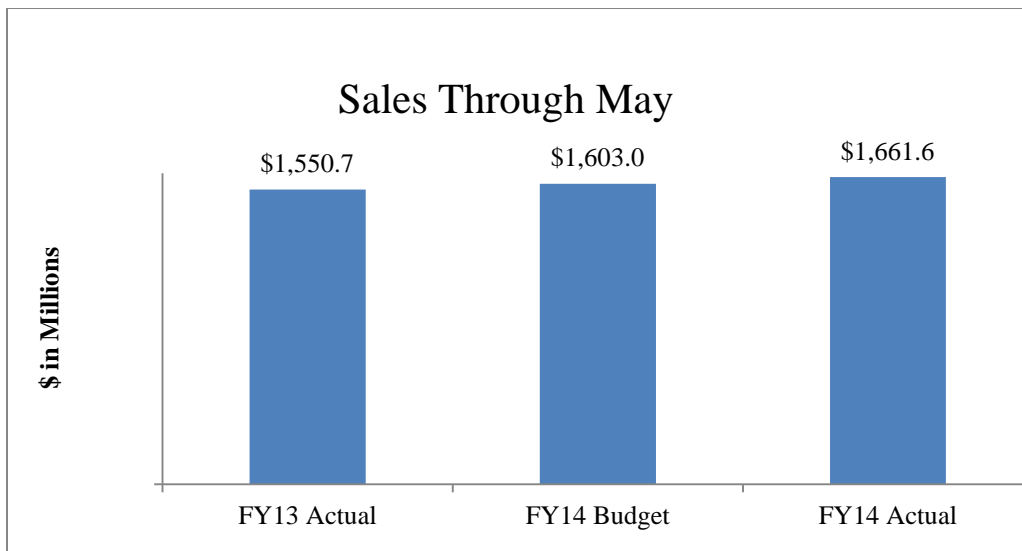
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
The Honorable S. Chris Jones, Chairman, House Appropriations Committee
The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
The Honorable Paul Reagan, Chief of Staff, Office of the Governor
The Honorable Richard D. Brown, 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
July 7, 2014

Sales

Lottery sales for the fiscal year totaled \$1,661.6 million through May. This represents an increase of \$110.9 million (+7.2%) compared to the prior year and \$58.3 more (+3.5%) than forecast.

Scratcher sales of \$902.2 million were \$89.0 million higher (+10.9%) than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were higher, up \$26.0 million (+5.6%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) were \$7.4 million lower (-3.0%) compared to last year. Sales of Fast Play games, a category that represents about 1% of total sales, were \$3.6 million higher (+24.5%) than last year.



Expenses

The overall prize expense rate (prizes as a percent of sales) through May was 59.7%, lower than last year's rate of 60.0% and lower than the forecast rate of 59.8%. The scratcher prize rate of 68.8% was higher than last year's rate of 68.0%; 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 47.9% was lower than last year's rate of 51.1%, and lower than the statistically expected 50% prize rate. The jackpot games prize expense rate was 49.3%,

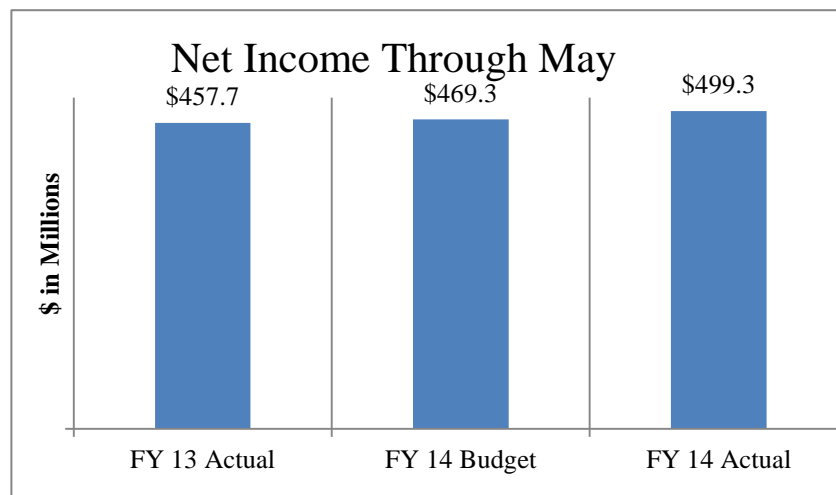
lower than last year's rate of 50.6%. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With higher sales, retailers earned \$5.9 million more than last year, for a total \$93. million in earnings. Overall, retailers earned 6.8% 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 \$3.2 million more than the same period last year. Administrative spending stands at 4.8% of sales for the year so far.

Net Income

Through May 2014, year to date profits totaled \$499.2 million, an increase of \$41.5 million (+9.1%) compared to last year and \$29.4 million (+5.9%) 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 \$1,600,230. Also, unclaimed prizes totaling \$8,435,834 were transferred to the Literary Fund for the first eleven months of fiscal year 2014.

MEETINGS

The next meeting of the State Lottery Board is scheduled for July 16, 2014, in Richmond.