

September 22, 2014

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

Re: August 2014 Lottery Results

Dear Governor McAuliffe:

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

August sales totaled \$149.7 million, up \$1.1 million (+0.7%) compared to the same month last year. Net income for the month totaled \$47.1 million, a decrease of \$0.3 million (-0.5%) compared to last year. We continue to experience increased sales in all product categories with the exception of the jackpot games, which are volatile in nature due to the level of the advertised jackpot.

We note that the expected transfers available to the Lottery Proceeds Fund for K-12 education was increased in both the House and Senate versions of the budget introduced and passed this week, which is outside of the normal revenue estimate process. As always, the Lottery will participate in the statewide revenue forecasting process this fall, to determine whether an adjustment to the current official 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

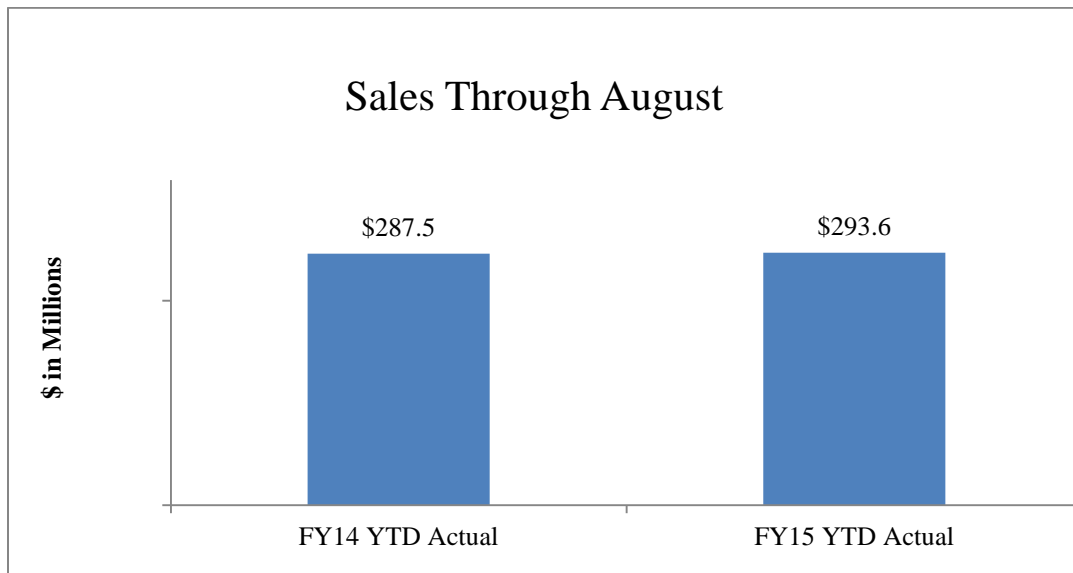
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- The Honorable Paul Reagan, Chief of Staff, Office of the Governor
- The Honorable Richard 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
September 22, 2014

Sales

Lottery sales for the fiscal year totaled \$149.7 million in August. This represents an increase of \$1.1 million (+0.7%) compared to the prior year. While stronger than last year, sales are 3.0% lower than our initial internal forecast, with the bulk of the shortfall in sales of scratcher tickets.

Scratcher sales of \$84.4 million were \$8.2 million (+10.8%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were up \$2.0 million (+4.5%) compared to last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) decreased \$9.4 million (-35.2%) when compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$244,976 (18.8%) higher than last year.



Expenses

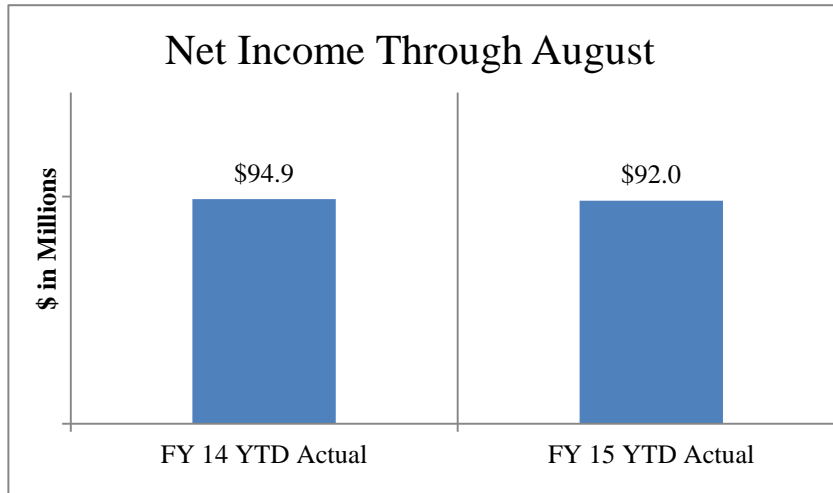
The overall prize expense rate (prizes as a percent of sales) in August was 58.8%, higher than last year's rate of 58.7%. The scratcher prize rate of 69.2% was higher than last year's rate of 68.8%. The daily games prize rate of 42.7% was lower than last year's rate of 44.7%. The jackpot games prize expense rate, 50.3%, was higher than last year's rate of 49.1%. 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.

Retailers earned \$8.2 million, \$0.1 million less than the same period last year; Overall, retailers earned 5.5% of Lottery sales in commissions and incentives in August.

August administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$0.4 million lower than the same period last year and remained low at 4.3% of sales.

Net Income

Profits in August 2014 totaled \$47.1 million, a decrease of \$0.3 million (-0.5%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

During August Lottery made debt setoff collection payments to the Department of Taxation totaling \$103,474 and unclaimed prizes totaling \$677,618 were transferred to the Literary Fund.

MEETINGS

The next meeting of the Board will be October 29, 2014.