

October 31, 2014

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

Re: September 2014 Lottery Results

Dear Governor McAuliffe:

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

September sales totaled \$145.0 million, up \$1 million (+0.7%) compared to the same month last year. Net income for the month totaled \$37.8 million, a decrease of \$6.4 million (-14.5%) compared to last year. For the first quarter, sales were 2% stronger than last year, but profits were nearly 7% lower because of higher prize expenses, the result of the “luck of the draw.” Prize expenses were more in line with expected results this year; last year, prize expenses were unusually low.

The Lottery continues to participate in the statewide revenue forecasting process, and the Lottery Board met to review the updated forecast of sales and profits on October 29.

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

Very truly yours,

Paula I. Otto

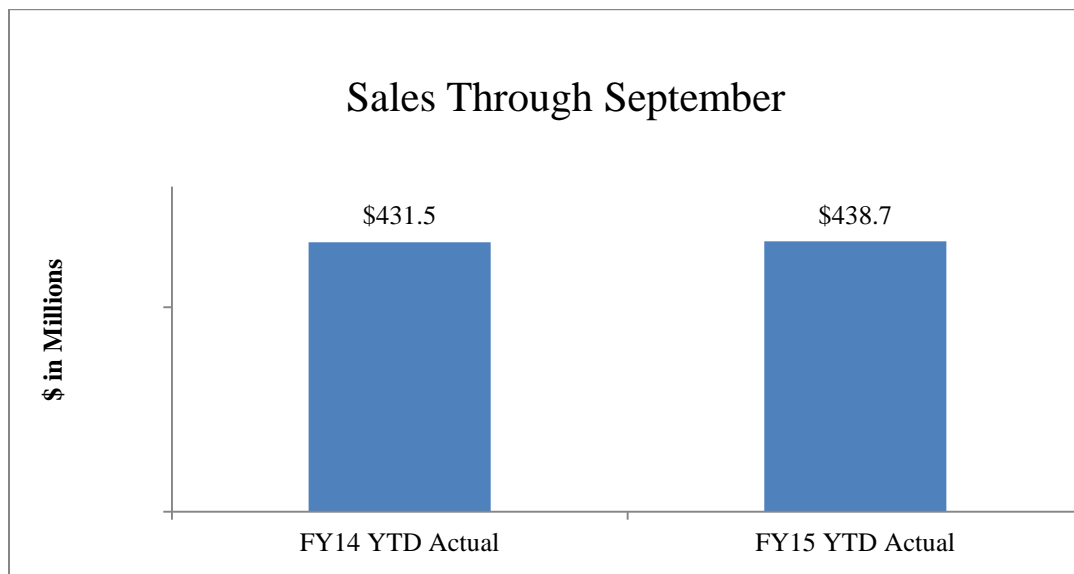
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
The Honorable S. Chris Jones, Chairman, House Appropriations Committee
The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
The Honorable Paul Reagan, Chief of Staff, Office of the Governor
The Honorable Richard D. Brown, 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
October 31, 2014

Sales

Lottery sales totaled \$145.0 million in September, and \$438.7 million for the first quarter. This represents an increase of \$7.2 million (+2%) compared to the first quarter last year.

Scratcher sales of \$245.8 million were \$21.5 million (+10%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were up \$4.9 million (+4%) compared to last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, \$1,000,000 Moneyball, and Decades of Dollars) decreased nearly \$20 million (-28%) when compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$0.8 million (+16%) higher than last year.



Expenses

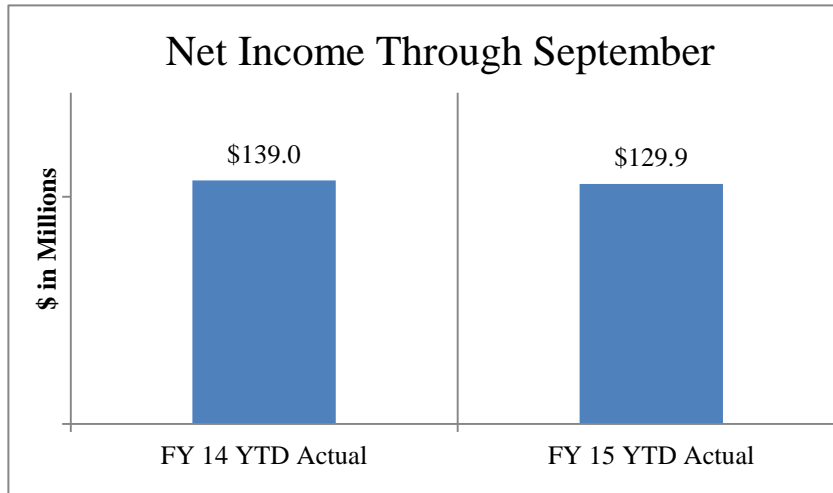
The overall prize expense rate (prizes as a percent of sales) for September was 63.1%, and 60.2% for the first quarter. That is higher than the first quarter last year, when the prize expense rate was 57.7% of sales. This increase was mainly in the daily games category. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, overall the long-term, prize rates reflect outcomes more in line with statistical expectations.

Retailers earned \$24.4 million in the first quarter, or 5.6% of sales so far this year.

Operating costs for the first quarter, including online gaming, ticket printing and distribution expenses, were \$0.4 million higher than the same period last year, stable at 4.7% of sales.

Net Income

Profits in September 2014 totaled \$37.8 million, and \$129.9 million for the first quarter. Profits declined from last year because of the higher prize expense rate.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

During September, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$230,000, and unclaimed prizes totaling \$959,711 were transferred to the Literary Fund. For the first quarter, debt setoff collections totaled \$0.5 million and Literary Fund transfers totaled \$3.4 million.

MEETINGS

The Board held a regular business meeting on October 29, 2014. The next meeting of the Board will be January 14, 2015.