



West Virginia Lottery
a component unit of the State of West Virginia

Education

Senior Citizens

Tourism

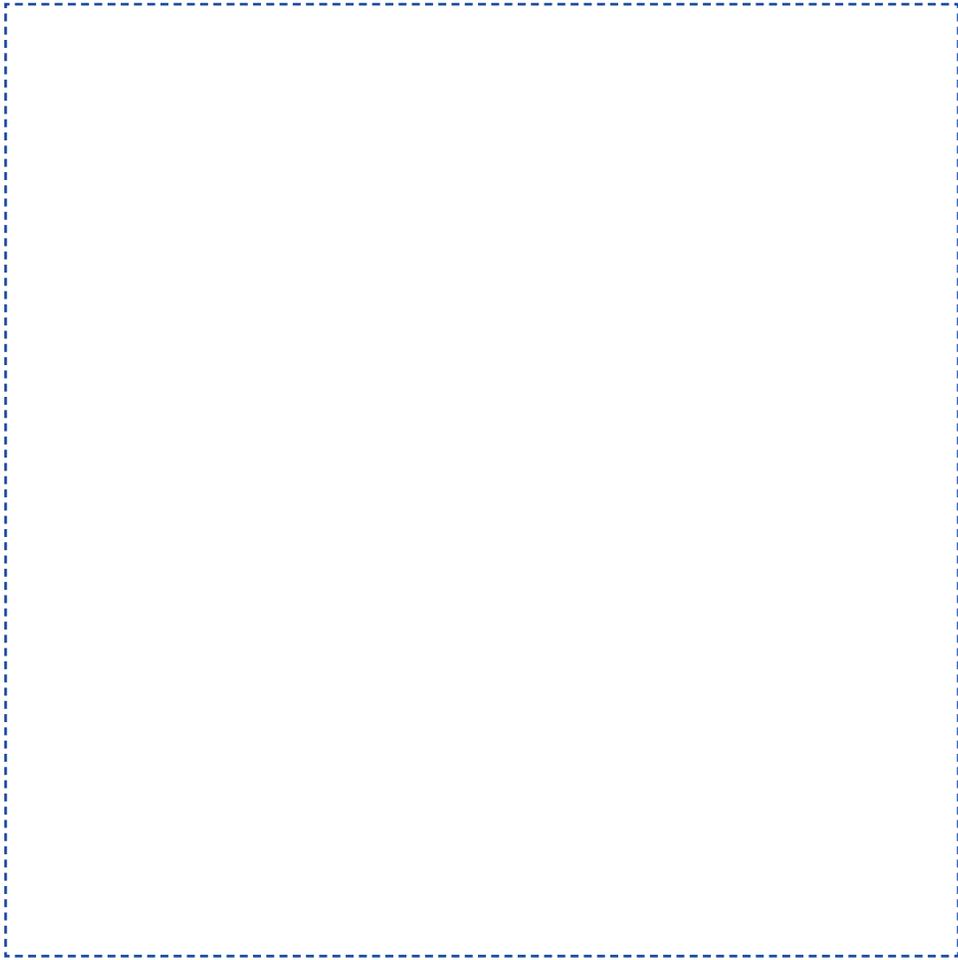
\$5.6 Billion To West Virginia!*

When You Play . . .

West Virginia Wins!

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2010

*Since 1986





P.O. BOX 2067
CHARLESTON, WV 25327

PHONE: 304-558-0500
FAX: 304-558-3321

Earl Ray Tomblin
Governor

John C. Musgrave
Director

December 3, 2010

The Honorable Earl Ray Tomblin, Governor
John C. Musgrave, Acting Cabinet Secretary, Department of Revenue

The State Lottery Act §29-22 was initially enacted in April 1985 by the West Virginia Legislature. The West Virginia Lottery's (Lottery) mission is to generate revenue to fund programs benefiting education, senior citizens, tourism and other programs as the Legislature deems appropriate. This mission is being carried out with the utmost integrity to ensure public confidence.

During the past 24 years the Lottery is proud to have contributed over \$5.6 billion of gaming revenues to the State helping make the State of West Virginia one of only a few states to finish fiscal year 2010 with a budget surplus. These funds have provided support to a multitude of programs deemed important to our citizens and state leadership. Three of the primary benefactors include a total of \$627 million of Lottery net profits used to sponsor services for our seniors, \$1.5 billion to educate our students, and \$665 million to advance tourism and promote the beauty of our State.

We are pleased to transmit to you the Comprehensive Annual Financial Report of the West Virginia Lottery for the fiscal year ended June 30, 2010. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. An independent certified public accounting firm has audited the financial statements contained in this report.

Sincerely,

A handwritten signature in blue ink that reads "John C. Musgrave". The signature is stylized and cursive.

John C. Musgrave
Director



West Virginia Lottery



West Virginia Lottery

Director

John C. Musgrave of Point Pleasant, WV was appointed Director of the West Virginia Lottery in April of 1997 and has had two consecutive appointments since that time. Musgrave brings to the Lottery a strong finance background with more than two decades of public service at the federal, state and local levels.

As Lottery Director, he oversees a special revenue agency that generates over \$1.3 billion in gross sales and provides a profit to the State of West Virginia of over \$560 million to be used for senior citizens, education, parks, tourism and capital projects.

Lottery Commission



Front Row: Kenneth L. Greear, Chairman, Charleston, WV, Computer Expert and William I. Clayton, Vice Chairman, South Charleston, WV, Member At Large
Back Row: Roy E. Shrewsbury, II, Beckley, WV, Member At Large; Douglas Bicksler, CPA, Lewisburg, WV, Certified Public Accountant; David L. McCormick, Jr, Morgantown, WV, Marketing; David Lemmon, Nitro, WV, Law Enforcement and Michael A. Adams, Esq., Weirton, WV, Attorney

The Commission was created in 1985 to assist and advise the Director of the Lottery and to carry on a continuous study of West Virginia Lottery operations throughout the state. Members are appointed by the Governor with the approval of the Senate. In accordance with state law, the Lottery Commission is required to have seven members comprised of a lawyer, a certified public accountant, a computer expert, a marketing specialist, and one member with not less than five years experience in law enforcement. An additional two members represent the "public at large." No more than four members may be from the same political party. Unless filling an unexpired appointment, members serve overlapping terms of five years and are eligible for successive appointments to the Commission.



West Virginia Lottery
a component unit of the State of West Virginia

Prepared by
Finance and Administration Division

James M. Toney, CPA/MBA
Deputy Director of Finance and Administration
and Chief Financial Officer

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2010

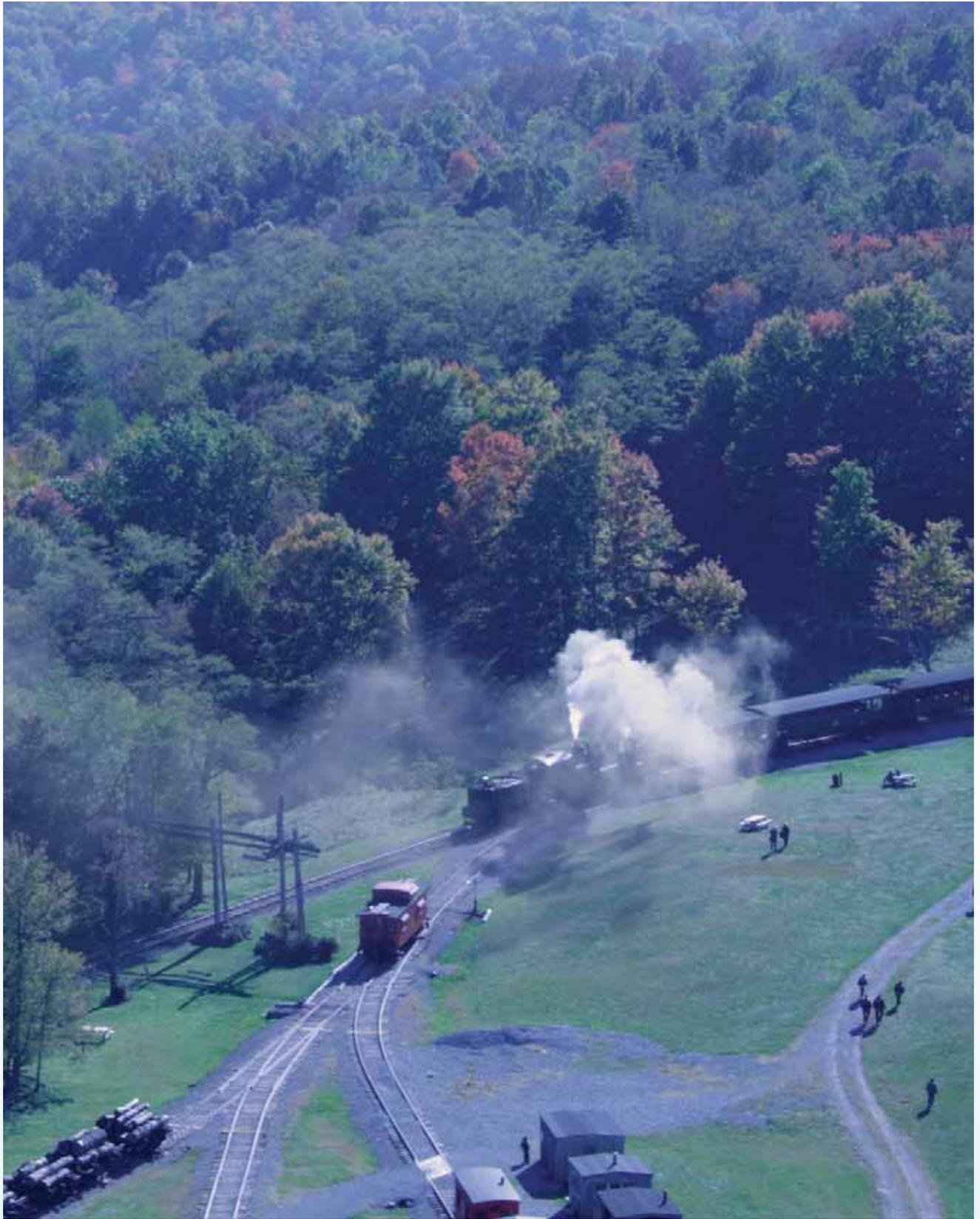


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. . . Hot and Cold Meal Delivery Trucks . . . Senior Centers . . . Home Health Care



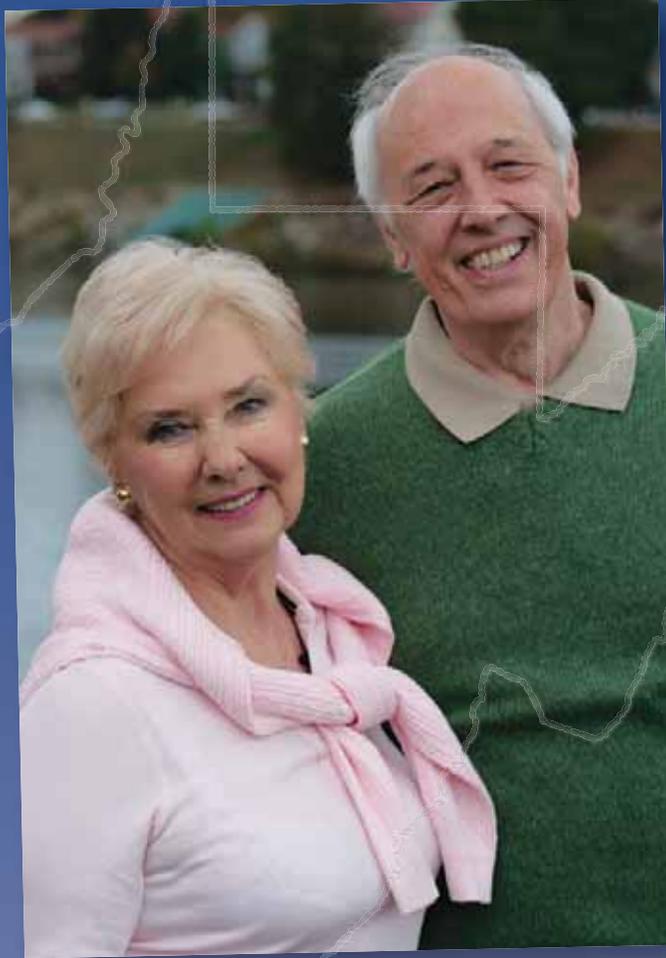
Transportation . . . Senior Programs . . . FAIR Program . . . Events . . .



West Virginia Lottery

a component unit of the State of West Virginia

Introductory Section



SENIORS \$627 Million*

The golden years of our senior citizens are benefited by senior centers, health programs and meal programs. Each of our counties now have a new hot and cold meal delivery truck thanks to the Lottery. Healthy senior lives are enhanced through programs funded by the West Virginia Lottery.

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for the fiscal year ended June 30, 2010

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December 3, 2010

The Honorable Earl Ray Tomblin, Governor
John C. Musgrave, Acting Cabinet Secretary, Department of Revenue
Kenneth L. Greear, Chairman, West Virginia Lottery Commission
Members of the West Virginia Lottery Commission

We are pleased to transmit to you the Comprehensive Annual Financial Report of the West Virginia Lottery (the Lottery) for the fiscal year ended June 30, 2010. This report has been prepared by the Finance and Administration Division of the Lottery. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. To the best of our knowledge and belief, the enclosed data and information are accurate and are reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

Presented in this report is information about the Lottery, an agency under the Department of Revenue of the State of West Virginia. The State Lottery Act §29-22 was passed in April 1985 by the West Virginia Legislature. The Lottery is operated as a business enterprise within the framework of State laws, rules and regulations. Its mission is to generate revenue to fund programs benefiting education, senior citizens, tourism and such other programs as the Legislature may determine. This mission is being performed with the utmost integrity to ensure public confidence.

On June 14, 2006, the West Virginia State Legislature passed House Bill 106 which allows the Lottery to retain an unexpended portion of its administrative fees in an amount not to exceed \$20 million beginning in fiscal year 2006 and each year through fiscal year 2012 for the purpose of constructing a state office building. These amounts are presented and described in the financial statements as Restricted Net Assets and Special Items. Prior to fiscal year 2006, all net assets in excess of \$250 thousand were distributed to the State of West Virginia.

The Lottery is considered a component unit of the State of West Virginia. This report presents Lottery activity in a single enterprise fund; the fund includes all activity for which the West Virginia Lottery Commission exercises oversight responsibility. The Lottery has no component units and this report includes only the activity of the Lottery. This report does not include data and information related to any other state agency or fund.

This letter of transmittal is designed to be read in conjunction with the complementary information offered in the Management's Discussion and Analysis (MD&A) which can be found immediately following the independent auditors' report.

OVERVIEW

The West Virginia Lottery has generated sales of more than \$15 billion in its 24 year span of operations, with more than \$5.2 billion transferred to the State of West Virginia, excluding commissions from Racetrack and Limited Video Lottery and profits paid to non-state government entities. The Lottery continues its regulatory duties by governing several forms of gaming including traditional lottery games (instant ticket scratch-offs and on-line games such as the Powerball® and Mega Millions® jackpot games); Racetrack Video Lottery (slot machines at racetracks); Limited Video Lottery (slot machines at local video lottery parlors); and Table Games (poker, blackjack, roulette, etc.) at the three racetracks licensed to operate such games. In addition, the Lottery regulates casino video lottery and table games at The Greenbrier Historic Resort.

Lottery law mandates that players receive at least 45 percent of total traditional game sales in the form of cash prizes, however, that percentage has averaged approximately 50 percent annually. In addition, the Lottery's traditional games operating costs have averaged approximately 12 percent, notably less than the 15 percent allowed by law. Retailers who sell lottery products receive a 7 percent commission, as well as bonuses based on total sales at their respective locations. A bonus is also earned by retailers for tickets cashed at their location. Profits from traditional lottery games are directed by statutory allocation to state programs and are distributed accordingly.

The rate of payout for video lottery machines varies by location and game type and currently approximates 90% with an established range of 80% to 99% set by statute and approved by the Lottery Commission. Profits distributed under Racetrack Video Lottery, The Greenbrier Historic Resort and Limited Video Lottery, are directed both by statutory allocation and legislative budget appropriations. State revenues from table games are derived from a 35% privilege tax rate applied to the table "win" and is distributed by statutory allocation with the largest portion directed to reduction of the state debt.



The Lottery launched a series of television, radio and POS ads to promote playing both Powerball® and Mega Millions® asking players, "You In?"

OVERVIEW

Since 1994, \$162 million of revenue generated by Racetrack Video Lottery has been directed to advertising funds for the tourism industry through a matching grants program established with the West Virginia Division of Tourism. The agency contributed \$9.6 million to the Division of Tourism in fiscal year 2010 from Racetrack Video Lottery funds. Also in fiscal year 2010, lottery revenue appropriated from other gaming sources to the Division of Tourism by the Legislature totaled \$7.6 million. When added to appropriations for the Division of Natural Resources and the State Park Improvement Fund, \$16.1 million was distributed to enhance the State's tourism efforts. Ongoing financial support of these efforts include advertising, the WV Film Office, operations' budget and the state's national travel and information hotline 1-800-CALL WVA.

Legislation passed in FY 2000 continues to provide lottery revenue from a special instant ticket game to help support funding for West Virginia Veterans. Being the first of its kind, the Lottery's initiative has generated up to \$1 million annually to support a new skilled nursing facility and a cemetery for West Virginia veterans. In fiscal year 2010, \$467 thousand in Lottery revenue was distributed to support projects for West Virginia veterans.

Seniors across the state benefit from Lottery revenue through license fees for table games. Approved venue license fees for table games are directly deposited into the accounts of the Bureau of Senior Services. In fiscal year 2010, deposits to in-home health care services for seniors from annual license fees totaled \$7.5 million from Racetrack Table Games and \$65 thousand from the Greenbrier Historic Resort. West Virginia senior citizens received nearly \$57.2 million in lottery revenue in 2010.

Funding from the West Virginia Lottery's Limited Video Lottery games continues to support the higher education PROMISE Scholarship Fund. In fiscal year 2010, PROMISE received \$29 million to provide higher education opportunities for high school graduates across the State.



In April Frank and Patricia Proud won \$1 million by choosing to play Powerball® with Power Play®.



Rex Williams of Boone County won \$250,000 in the Wheel of Fortune Second Chance.

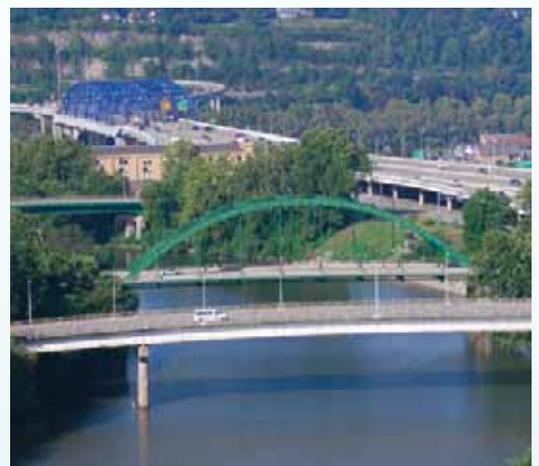
ECONOMIC OUTLOOK



The US economic recovery that initially began in mid-2009 continues at a much slower pace during the second half of 2010. The slower rate of growth is partially attributable to a very weak housing sector, below normal consumer confidence associated with persistently high levels of unemployment, a trend of slightly lower State and local government employment and

the recent expiration of certain federal fiscal stimulus programs such as the temporary home buyer tax credit programs. In response to these weakening trends, the Federal Government continues to develop new targeted fiscal stimulus programs and the Federal Reserve Board continues to provide monetary stimulus to boost the economy. One of the positive factors for the economy in 2010 is the cumulative increase in exports of nearly 20 percent from the prior year. The growth in exports helps to stabilize employment in the manufacturing sector and other export sensitive sectors. The overall pace of growth in the economy is expected to continue at a slower than comfortable pace throughout the coming year. The US economy is forecast to show moderate growth in 2011 with a gradual acceleration in employment growth from little net change in 2010 to an annual growth in excess of 1.5 percent by the second half of next year. However, the national unemployment rate is still expected to remain well in excess of 9 percent throughout 2011.

Due to the impact of the Great Recession, West Virginia's payroll employment fell by roughly 30,000 between January 2008 and January 2010. Employment numbers have since rebounded by 1.5 percent as of August from the seasonally adjusted trough of 731,500 set in January 2010. The goods producing sectors led the rebound with net growth of roughly 4,200 jobs. Export related industries generally outperformed other sectors. Roughly 38 percent of the goods sector employment growth was attributable to gains in mining. Remaining job growth was split between the construction sector and the durable goods manufacturing sector. The private service sector added roughly 5,600 jobs since January, including 3,100 jobs in the leisure and hospitality category. Government added 1,100 jobs as gains of 2,400 at the local level more than offset a loss of 1,300 at the State level.



ECONOMIC OUTLOOK

Recent growth in employment was a contributing factor to personal income growth in 2010. West Virginia personal income growth exceeded the average growth rate for the Nation during the first half of 2010. During the second quarter, West Virginia's 1.1% seasonally adjusted personal income growth rate ranked 15th highest among all states. Quarterly earnings growth of 1.1% also exceeded the national average of just 0.9%. Nearly 32% of the total quarterly earnings growth in West Virginia was attributable to the mining sector. Both the mining and manufacturing sectors benefited greatly from growth in international exports. The cumulative value of West Virginia exports was nearly \$3.7 billion as of July 2010, an increase of roughly 40 percent from the prior year. The value of manufacturing goods rose by nearly 45 percent and the value of metallurgical coal exports more than doubled from the prior year.

While export related industries were growing in 2010, consumption related sectors continued to struggle with factors such as higher than normal unemployment, low consumer sentiment and a weak housing market. These factors contributed little or no net gains in payroll employment during the second half of the year. IHS Global Insight projects little or no additional net employment gains in West Virginia until the second quarter of 2011. Weak employment gains will be a contributing factor to a very sluggish personal income growth averaging less than 2 percent. West Virginia is not expected to return to its 2008 peak employment levels until early 2013.



The leisure hospitality sector, including amusements and recreation (including gaming) and hospitality and food service activities, collectively lost 5,300 jobs between the fourth quarter of 2008 and the first quarter of 2010. These sectors subsequently rebounded with job growth in excess of 4,300 between the first quarter of 2010 and the second quarter of 2010. Unfortunately, IHS Global Insight projects little or no additional job growth for these sectors over the next two years. High unemployment, low consumer confidence and increasing gaming competition from neighboring states will be contributing factors to the anticipated sluggish performance of these sectors.

There are both major upside and major downside risks to the economic forecast. An upside risk would occur if world energy prices rebound and export markets grow in response to higher than anticipated growth in World economies, especially in Asia and South America. In that scenario, the West Virginia mining sector would lead the State in higher than average growth. Major downside risks to the forecast include the possibility of an economic slowdown in Asia and other foreign markets that would lead to reduced export activity, a long-term suspension of surface mining permits by the federal government and increased environmental regulation of carbon gas emissions. Any of these factors could significantly reduce growth in the West Virginia economy. Gaming industry competition from neighboring states may also increase beyond current projected activities, resulting in reduced growth in the leisure and hospitality sector.¹

¹ Written by Mark Muchow, Deputy Cabinet Secretary, Department of Revenue

LOTTERY PRODUCTS

The West Virginia Lottery has introduced 16 different games since its inception but currently provides players the opportunity to participate in a variety of 11 games:

INSTANT games were the Lottery's first type of game introduced in January 1986. There are different ways to win in an instant or "scratch" game including matching three like dollar amounts, symbols or letters, or adding up numbers to a specified total. If the correct combination appears, the player becomes an "instant winner" without having to wait for the results of a drawing. The instant game offers a wide variety of game themes. During fiscal year 2010, there were 42 new games introduced. Instant games provided approximately 7.2 percent of total fiscal year 2010 sales at 1,587 retail locations.



DAILY 3 is an on-line game introduced in February of 1987. Players choose three numbers from 0 to 9 for prizes ranging from \$40 to \$500. Drawings are held six nights a week.

DAILY 4 is an on-line game also introduced in February of 1987. Players choose four numbers from 0 to 9 for prizes ranging from \$100 to \$5,000. Drawings are held six nights a week.



CASH 25 is an on-line game, which was introduced in February 1990. Players pick six numbers between 1 and 25 for a chance to win cash prizes ranging from \$1 to \$25,000. Drawings are held four nights a week every Monday, Tuesday, Thursday and Friday.

POWERBALL® is an on-line game jointly operated by 42 state lotteries, the District of Columbia and the Virgin Islands, who are members of the Multi-State Lottery Association (MUSL) or the Mega Millions® Group. This game was introduced in April 1992, revised in November of 1997, October of 2002, and August of 2005. Beginning March 2001, Powerball® added a feature called Power Play®, where winnings can be multiplied from a random number drawn between 2 and 5. Effective August 28, 2005, the matrix increased to "5 of 55" for the first set, while the second set remained the same and the second and third tier prizes were doubled. The matrix held previously was "5 of 53" for the first set and "1 of 42" for the second set. The jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 30 years with a guaranteed minimum jackpot of \$20 million. Once the jackpot reaches the previous record jackpot of \$365 million, the jackpot increase may be limited to \$25 million per draw. The jackpot money over the amount required to fund the \$25 million increase will continue to accrue until the jackpot is hit. At that time, the residual jackpot money will be divided equally among the current \$200,000 winners. The jackpot increases each drawing if no winning ticket has matched the first set of 5 numbers and matched the "Powerball®" number of the second set. Powerball® offers eight secondary prizes of fixed amounts ranging from \$3 to \$200,000. The game was expanded to new jurisdiction beginning January 31, 2010, when both Powerball® and Mega Millions® began cross-selling in most jurisdictions. Drawings are held twice weekly on Wednesday and Saturday. Powerball® sales are approximately 3.6 percent of total 2010 sales at 1,587 retail locations in West Virginia.



MEGA MILLIONS® is an on-line game jointly operated by 41 state lotteries and the District of Columbia, with members belonging to the same groups that operate Powerball®. The game was introduced on August 31, 1996 as the Big Game. The first drawing took place on September 6, 1996, with six states participating: Georgia, Illinois, Maryland, Massachusetts, Michigan and Virginia. The West Virginia Lottery and 22 other states began selling Mega Millions® January 31, 2010 in a cross-selling agreement. The game is similar to Powerball®, in play and jackpots. The matrix is "5 of 56" for the first set and "1 of 46" for the second set. The jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 26 years with a guaranteed minimum jackpot of \$12 million. Mega Millions® offers eight secondary prizes of fixed amounts ranging from \$2 to \$250,000. Drawings are held twice weekly on Tuesday and Friday. Mega Millions® sells at 1,587 retail locations in West Virginia.



LOTTERY PRODUCTS



HOT LOTTO SIZZLER® is an on-line game jointly operated by 14 states and the District of Columbia who are members of MUSL. This game was introduced in April 2002 with drawings on Wednesday and Saturday. Players choose 5 numbers out of a field of 39 and 1 number out of a field of 19. Jackpots begin at \$1 million, and increase each drawing if no winning ticket has matched the first set of 5 numbers and matched the "Hot Ball" number of the second set. Hot Lotto Sizzler® offers eight secondary prizes of fixed amounts ranging from \$2 to \$10,000.

TRAVEL KENO is a game restricted to lottery retailers with specific types of West Virginia Alcohol Beverage Control Administration (ABCA) licenses and was introduced in December 1992. The player selects from 1 to 10 numbers and the Lottery computer randomly picks 20 numbers between 1 and 80. With the Keno Bonus multiplier option, players have a chance to increase their winnings. Drawings are held every five minutes from 5:05 a.m. through 2:45 a.m. The winning numbers are displayed on monitors at 287 Travel Keno locations.



RACETRACK VIDEO LOTTERY games were implemented in 1994 when the West Virginia Legislature passed the Racetrack Video Lottery Act, making video lottery terminals available to the four racetracks in the state subject to passage of local referendums. In September 1994, three racetracks (Mountaineer Casino Racetrack & Resort, Wheeling Island Hotel, Casino & Racetrack, and Mardi Gras Casino & Resort) began operating with 1,200 video lottery machines. A fourth racetrack (Hollywood Casino at Charles Town Races) began video gaming in September 1997. West Virginia is one of five state lotteries to regulate video gaming at racetracks. The other four states are Delaware, Rhode Island, New York and Pennsylvania. Games offered are poker, blackjack, keno, and spinning reel types. Effective June 1999, legislative action has allowed mechanical reel coin drop machines. As of June 30, 2008, the West Virginia Lottery Commission had an average of 9,938 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 54.9 percent of total 2010 sales.

LIMITED VIDEO LOTTERY games were approved by the Legislature in April 2001. The legislation provides up to 9,000 video lottery terminals to be placed in retailer locations with specific types of West Virginia ABCA licenses. West Virginia is one of three state lotteries to regulate and operate Limited Video Lottery. The other two states are South Dakota and Oregon. The first terminals were enabled for play on December 17, 2001. A total of 7,940 terminals were operating at licensed retail locations throughout the state as of June 30, 2010. Limited Video Lottery sales were 29.3 percent of total 2010 sales at 1,622 operating retailer locations.

TABLE GAMES were implemented in fiscal year 2008 when the West Virginia Legislature passed the Racetrack Table Games Act, making table games available to the four racetracks in the state subject to passage of local referendums. In October 2007, two racetracks (Mountaineer Casino Racetrack & Resort and Wheeling Island Hotel, Casino & Racetrack) began operating with poker tables only and added full table games in December 2007. In August 2008, a third racetrack (Mardi Gras Casino & Hotel) began operating with poker tables only and added full table games in October 2008. Games offered are Poker, Blackjack, Caribbean Stud, Craps, Roulette, Three and Four Card Poker, and other miscellaneous games. Racetrack Table Games sales were 2.3 percent of total 2010 sales.



A HISTORIC RESORT in West Virginia implemented video lottery and table games in fiscal year 2010 when the Legislature passed SB 575 which revised the original Authorized Gaming Facility Act. In October 2009, The Greenbrier Historic Resort began operating both video lottery and table games. Table Games offered are Blackjack, Roulette and Three Card Poker.

ACCOMPLISHMENTS

The West Virginia Lottery has contributed more than \$5.6 billion to the State's general and special funds since its inception in January 1986. During fiscal year 2010, transfers to the State from the Lottery and Excess Lottery funds totaled more than \$577.6 million. State programs for education, senior citizens and tourism have continued to be the primary benefactors of Lottery profits since 1989, as well as economic development programs designed for growth of communities across the Mountain State. Notable accomplishments in fiscal year 2010 include:



The new West Virginia Lottery Headquarters.

- The West Virginia Lottery had a solid year of performance with fiscal year 2010 gross sales of \$1.358 billion despite significant economic and competitive influences.
- Racetrack Video Lottery sales at the four licensed racetracks totaled \$746.2 million, representing 54.9 percent of total lottery sales.
- Completing its eighth full year, Limited Video Lottery had another strong year with sales of \$397.3 million. As of June 30, 2010 a total of 7,940 machines were in operation statewide. The West Virginia Lottery has completed a discussion with all interested stakeholders and communities through a select panel on Limited Video Lottery in order to prepare for the 2011 re-bid of Limited Video Lottery permits.
- The West Virginia Lottery purchased a new headquarters building in Charleston for \$21.6 million in June 2010 with occupancy expected in 2011.
- During fiscal year 2010, table games and video lottery gaming became operational at The Greenbrier Historic Resort, making the casino the fourth to operate table games in West Virginia and the first of its kind to operate as a "casino" only gaming facility.

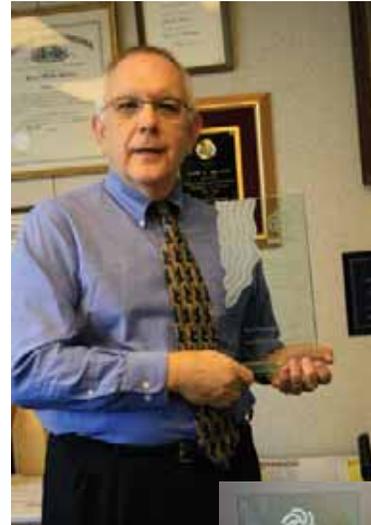


The Greenbrier Historic Resort.

- For fiscal year 2010 the table games privilege tax from the three licensed racetracks represented \$31.7 million.
- As part of a cross-selling initiative between the Multi-State Lottery Association (MUSL) and states who currently sell the Mega Millions® jackpot game, the West Virginia Lottery launched Mega Millions® on Jan. 31, 2010.
- Sales from Traditional (Instant and On-line) Lottery games totaled \$181.2 million. Sales of instant tickets totaled \$97.5 million, while on-line sales generated \$83.7 million. The Lottery launched 42 new instant games, including three licensed properties (i.e. Wheel of Fortune®) designed to meet player demand.

ACCOMPLISHMENTS

- The West Virginia Lottery won three prestigious awards at the North American Association of State & Provincial Lotteries (NASPL) annual convention in Oklahoma. Receiving the coveted Powers award was John Melton, Managing General Counsel. The agency also received two Batchy Awards, one for Corporate Communications via a customer newsletter and another for the use of humor in television advertising.
- With the continued economic decline and increased competition from neighboring states, the Lottery's distributions to the State of West Virginia totaled \$568.9 million. The Lottery paid \$635.6 million in commissions to participating licensees.
- West Virginia Lottery Director John Musgrave completed his term as President of the North American Association of State and Provincial Lotteries (NASPL) in FY 2010. Director Musgrave was responsible for leading the association and its 52-member lotteries in the United States, Canada and the U.S. Virgin Islands through national and local challenges facing the Lottery industry.
- As part of its corporate responsibility activities and in accordance with statute, the West Virginia Lottery provided more than \$1.5 million in funding to The Problem Gamblers Help Network of West Virginia.



Above: John Melton, Managing General Counsel

Right: advertising awards.



FINANCIAL INFORMATION

ENTERPRISE OPERATIONS

The West Virginia Lottery operates enterprise activities, which include sales of instant and on-line tickets, the regulation of video lottery and table games operations to the general public and the related supporting functions: personnel, finance and administration, video, marketing, security, table games and licensing. No general government functions or operations are managed by the Lottery or included in this report. Sales in fiscal year 2010 decreased 9.0 percent to \$1.358 billion from \$1.493 billion in fiscal year 2009. Distributions to the State of West Virginia decreased 7.7 percent from \$616.6 million in fiscal year 2009 to \$568.9 million in fiscal year 2010.

ACCOUNTING SYSTEM AND POLICIES

The West Virginia Lottery operates the State Lottery Fund and State Excess Lottery Fund, enterprise funds that, like a private business, utilize the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

BUDGETARY CONTROLS

Budgetary control for the State Lottery Fund and State Excess Lottery Funds are addressed through their enabling legislations, which provide specific limitations on operating and administrative expenses. For budgetary purposes, the State Lottery and Excess Lottery Funds are classified as non-appropriated special revenue funds and do not have a legally adopted budget. An estimate of expected expenditures is filed annually with the Budget Division of the Department of Revenue and is monitored throughout the year by this Division. In addition, Lottery financial management staff monitors actual expenditures for compliance with operational requirements and compliance with lottery statutes.



FINANCIAL INFORMATION

INTERNAL CONTROL ENVIRONMENT

Management of the Lottery is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft, or misuse and to ensure that the accounting system allows compilation of accurate and timely financial information. The internal controls are designed to provide reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the Lottery has segregated the following functions: personnel, payroll, purchasing, accounts payable, accounts receivable and general ledger accounting. Data input and processing are separate from system programming with management providing approval and oversight. In addition, an internal auditor reviews all areas of Lottery operations and reports to the Finance and Audit Committee of the Lottery Commission.

Since the Lottery manages a valuable ticket inventory and controls the disbursement of prizes, the following steps are taken to ensure the operations remain secure and meet the highest ethical standards:

- Hiring specialized security and law enforcement staff
- Maintaining secure Lottery facilities and limiting access
- Performing background checks on retailers, contractors and Lottery employees
- Printing lottery tickets with special inks, dyes and security codes
- Providing detailed procedures for random on-line drawings
- Hiring an independent CPA firm to witness the drawings
- Providing a variety of access and other controls to all computer systems
- Providing operating policies and procedures

The Lottery currently has 176 employees; the majority of the staff is located at Lottery headquarters. The drawing studio is located at the broadcast facility of the television station in Charleston, West Virginia, which produces the nightly drawings.

GFOA CERTIFICATE OF ACHIEVEMENT

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the West Virginia Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the 13th consecutive year that the West Virginia Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



FUTURE PROJECTS

Following renovations to bring the facility into ADA and state fire code compliance, the West Virginia Lottery plans to move its headquarters to a building purchased in Charleston during FY 2010; the agency is expected to complete its relocation within the next year.

By January 1, 2011, the Lottery will celebrate its 25th Anniversary by introducing three holographic celebratory tickets. A \$1.8 million drawing will be conducted in conjunction with the three tickets. In addition, a Cash25 promotion will be held February through April to support the anniversary celebration; \$25,000 a week for the three-month event will be awarded through second-chance drawings. Promotional plans are being discussed for the Travel Keno game, which would begin in 2011 and conclude by the end of the year. A \$3 million instant ticket-printing contract is expected to be awarded by July 2011.

Following the December 5, 2009 passage of a local referendum in Jefferson County, Hollywood Casino at Charles Town Races is expected to be implementing table games in fiscal year 2011.

During fiscal year 2011, the Lottery will continue to explore the concept of adding 600 Self-Service Ticket Validators at selected retail locations, which would provide extended “self-service” features to players and improve validation security for on-line games.

INDEPENDENT AUDIT

West Virginia statutes require an annual audit by an independent certified public accountant. The independent auditors’ opinion on the Lottery’s financial statements is included in the financial section of this report.

ACKNOWLEDGEMENTS

This report demonstrates the collaborative efforts of the Finance and Administration Division and Marketing Division of the West Virginia Lottery. We appreciate the contributions of this year’s project team comprised of Mara Pauley, Games Accounting Manager/Project Coordinator; Nikki Orcutt, Deputy Director of Marketing; Mike Ross, Advertising Manager; and Michael Thaxton, Product Development Manager. We could not have successfully completed this report without their efficient and dedicated services. The Lottery continues its commitment to providing thorough and relevant financial information to the public.

This comprehensive annual financial report reflects our commitment to maintain the highest standards of accountability while working to maintain public trust through ethics and integrity. The Lottery also extends its sincere gratitude to Commission Chairman Kenneth L. Greear and the members of the West Virginia Lottery Commission for their diligence to the law in operating the Lottery in a professional and forward-thinking manner.

Respectfully submitted,



James M. Toney, CPA/MBA
Deputy Director of Finance and Administration



John C. Musgrave
Director of West Virginia Lottery

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

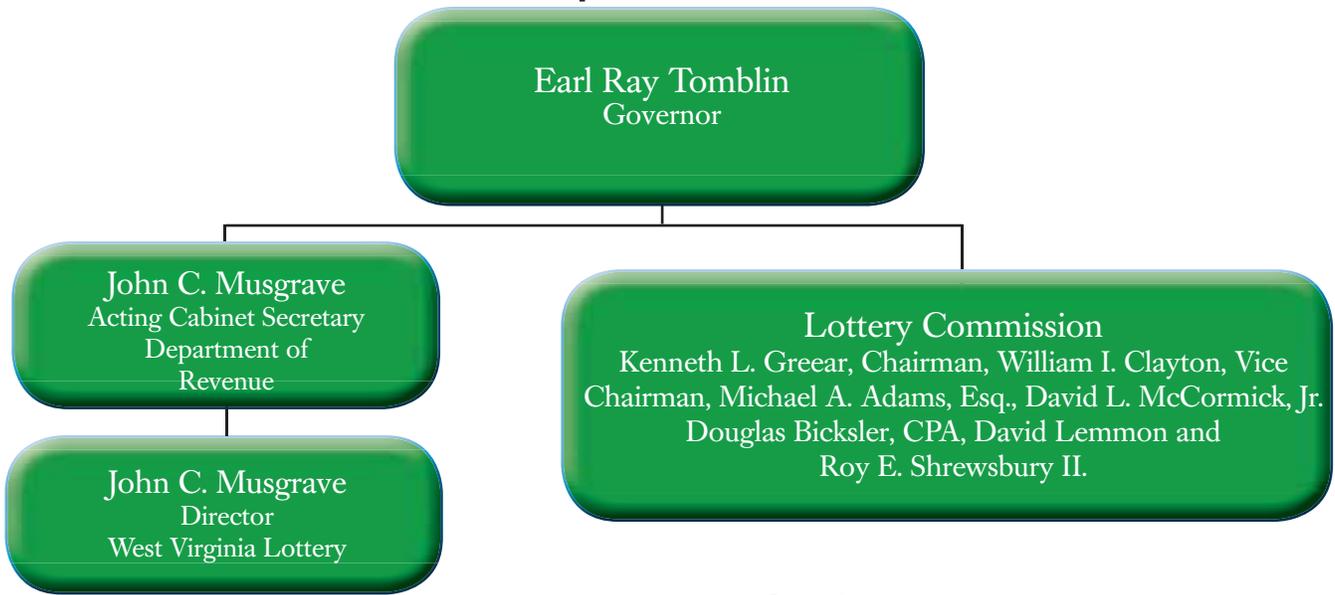


President

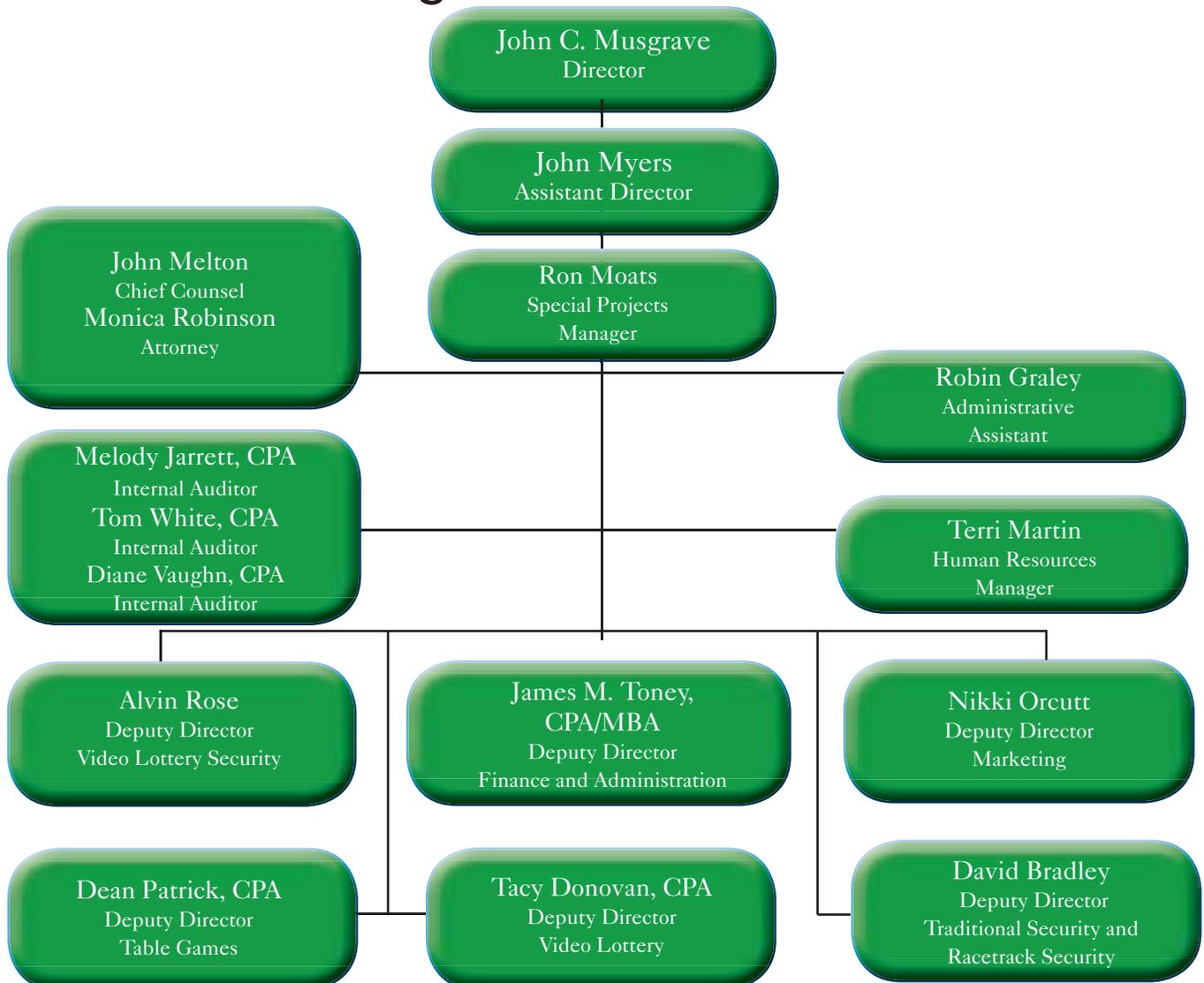
Executive Director

West Virginia Lottery

Principal Officials



Organizational Chart





. . New Schools . . . Higher Education . . . PROMISE Scholarships . . .



Computers for Schools . . . Improvements for Schools . . . Teacher Training . . .



West Virginia Lottery

a component unit of the State of West Virginia

Financial Section

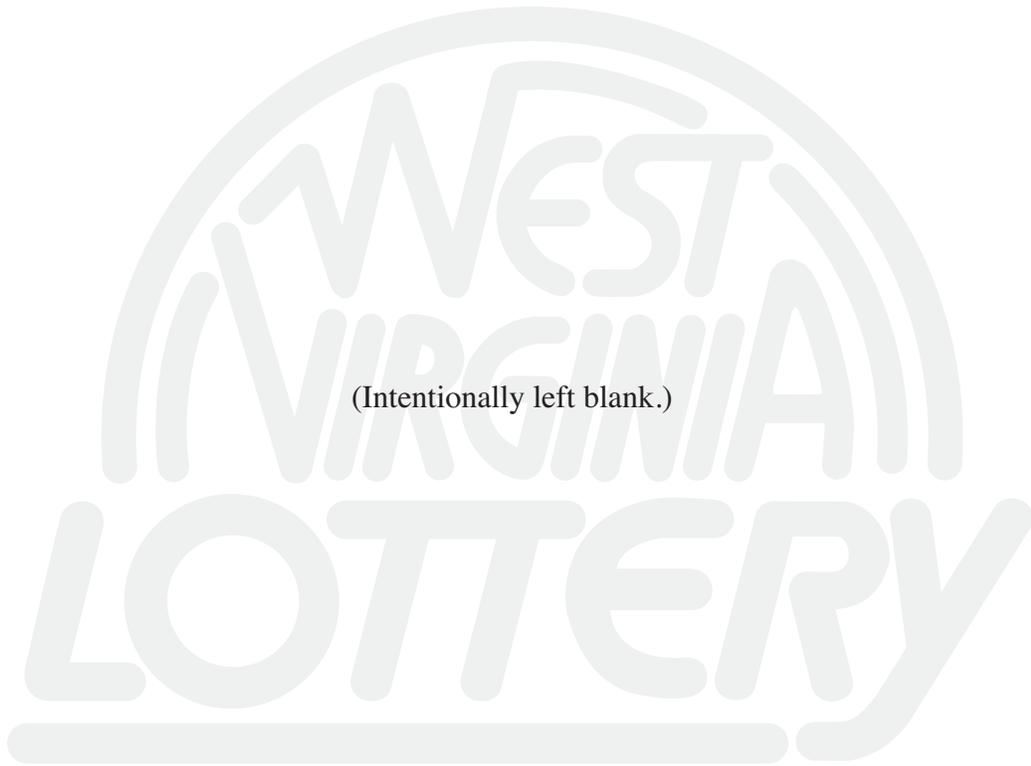


EDUCATION \$1.5 Billion*

Our children are one of our most valuable resources and new and improved schools have been built using Lottery revenue to enhance their education. Proceeds have also helped students graduate from college with PROMISE scholarships.

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2010

*Since 1986



INDEPENDENT AUDITORS' REPORT

West Virginia Lottery Commission
Charleston, West Virginia

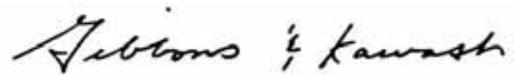
We have audited the accompanying balance sheets of the West Virginia Lottery, a component unit of the State of West Virginia, as of and for the years ended June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the West Virginia Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Lottery as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 28 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the West Virginia Lottery financial statements as a whole. The introductory and statistical sections listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements of the West Virginia Lottery. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink, appearing to read "Gibson & Kawash". The signature is written in a cursive, flowing style.

September 24, 2010

Management's Discussion and Analysis

-Unaudited-

Our discussion of the West Virginia Lottery's (the Lottery) financial performance provides for an overview of the Lottery's financial activities for the fiscal years ended June 30, 2010 and 2009. In reading the Management's Discussion and Analysis (MD & A), the current year refers to fiscal year ending June 30, 2010, and the prior year refers to fiscal year ending June 30, 2009. This analysis is to be considered in conjunction with the financial statements, which begin on page 29.

Financial Highlights

The Lottery's operating income declined in 2010 and 2009. The revenue and related decreases are primarily the result of increased competition in neighboring states and the downturn in the overall economy. The following summary is provided below:

- Lottery revenues for the current year decreased \$134.9 million or 9% compared to the prior year, which decreased \$30.4 million or 2% over 2008.
- Commissions for the current year decreased \$57.4 million or 8.3% compared to the prior year, which decreased \$19.9 million or 2.8% over 2008.
- Gross profit for the current year decreased \$67.8 million or 10.1% compared to the prior year, which decreased \$8.6 million or 1.3% over 2008.
- Nonoperating expenses decreased \$49.7 million or 7.8% compared to the prior year, which decreased \$9.2 million or 1.4% over 2008. The predominant nonoperating expense is the distributions to the State of West Virginia, which decreased \$47.7 million or 7.7% compared to the prior year, which decreased \$14.5 million or 2.3% over 2008.

Using This Annual Report

The Lottery is a component unit of the State of West Virginia, and is accounted for as a proprietary type enterprise fund using the accrual basis of accounting much like a private business entity. As such, this report consists of a series of financial statements, along with explanatory notes to the financial statements. To assess the Lottery's financial position, the reader of these statements should pay particular attention to changes in the components of assets and liabilities as set forth in the Balance Sheets and changes in operating revenues, expenses and nonoperating distributions to the State of West Virginia as set forth in the Statements of Revenues, Expenses and Changes in Fund Net Assets.

Balance Sheets

As shown in Table 1, current assets increased \$24.4 million or 9.3% compared to the prior year, which increased \$41.7 million or 18.9% over 2008, due to the timing of distributions to the State of West Virginia at year-end.

Restricted assets decreased due to the acquisition of a Lottery headquarters building on June 30, 2010 and the accrued distribution of surplus funds from the revenue center construction fund. See Notes 11 and 12 to the financial statements for additional information on restricted assets and these special items.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Balance Sheets (Continued)

Capital assets, net of accumulated depreciation and amortization, increased in 2010 by \$20 million or 606.3% and decreased by \$1.9 million or 37% in 2009 due to the acquisition of a Lottery headquarters building on June 30, 2010, which is offset by continuing depreciation of capital assets. For additional information on capital assets, please refer to Note 4 to the financial statements.

Table 1
Assets
(in \$000's)

	2010	2009	2008
Current assets	\$ 286,297	\$ 261,868	\$ 220,215
Restricted assets	8,355	69,871	58,487
Capital assets, net of accumulated depreciation and amortization	23,349	3,306	5,251
Long-term portion of investments held in trust	-	-	126
Total assets	\$ 318,001	\$ 335,045	\$ 284,079

As shown in Table 2, the Lottery's current liabilities increased \$29.8 million or 11.8% compared to the prior year, which increased \$32.3 million or 14.7% when compared to 2008 due to the timing of distributions that are reflected as accrued liabilities until actually paid.

Net assets – restricted decreased due to the acquisition of a Lottery headquarters building on June 30, 2010 and the accrued distribution of surplus funds from the revenue center construction fund. See Notes 11 and 12 to the financial statements for additional information on restricted net assets and special items.

Net assets - invested in capital assets increased in 2010 by \$20 million or 606.3% due to the acquisition of a Lottery headquarters building on June 30, 2010. Refer to Note 4 to the financial statements for additional information on capital assets.

Net assets – unrestricted changed in fiscal years 2010, 2009 and 2008 as a result of Lottery Commission orders setting aside or distributing funds committed by the Commission for acquisition of capital assets. In 2010, with the purchase of a building and land to serve as Lottery headquarters, the unrestricted net assets set aside for this purpose by Lottery Commission orders were no longer needed and were accrued for distribution to the State of West Virginia.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Balance Sheets (Continued)

Table 2
Liabilities and Net Assets
(in \$000's)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current liabilities	\$ 281,618	\$ 251,857	\$ 219,594
Net assets - restricted	8,355	69,871	58,487
Net assets - invested in capital assets	23,349	3,306	5,251
Net assets - unrestricted	<u>4,679</u>	<u>10,011</u>	<u>747</u>
Total net assets	<u>36,383</u>	<u>83,188</u>	<u>64,485</u>
Total liabilities and net assets	<u>\$ 318,001</u>	<u>\$ 335,045</u>	<u>\$ 284,079</u>

The content of Table 3 is a summary of activities and is related to the discussion of Table 4.

Table 3
Revenues, Expenses and Changes in Fund Net Assets
(in \$000's)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues:			
On-line games	\$ 83,741	\$ 84,241	\$ 87,177
Instant games	97,483	113,854	110,862
Racetrack video lottery	746,208	848,233	897,953
Limited video lottery	397,287	412,489	411,587
Table games	31,726	34,219	15,877
Historic resort	<u>1,649</u>	<u>-</u>	<u>-</u>
	1,358,094	1,493,036	1,523,456
Less:			
Commissions:			
On-line games	5,849	5,901	6,114
Instant games	6,824	7,970	7,763
Racetrack video lottery	414,988	463,649	487,276
Limited video lottery	194,671	202,120	205,637
Table games	12,473	13,458	6,249
Historic resort	<u>847</u>	<u>-</u>	<u>-</u>
	635,652	693,098	713,039

(Continued)

Management's Discussion and Analysis
(Continued)

-Unaudited-

Table 3 (Continued)
Revenues, Expenses and Changes in Fund Net Assets
(in \$000's)

	2010	2009	2008
Prizes, ticket and vendor costs:			
On-line prize costs	41,818	42,451	44,544
Instant ticket prize costs	66,165	76,998	76,625
Ticket costs	1,511	1,528	1,676
Vendor fees and costs	7,744	5,935	5,928
	117,238	126,912	128,773
Gross profit	605,204	673,026	681,644
Administrative expenses:			
Advertising and promotions	7,349	7,160	8,658
Wages and related benefits	10,921	9,645	7,885
Telecommunications	648	2,208	2,275
Contractual and professional	4,741	5,030	4,099
Rental	697	727	685
Depreciation and amortization	1,840	1,988	732
Other administrative expenses	1,042	994	1,540
	27,238	27,752	25,874
Other operating income:	11,059	11,401	11,937
Operating income	589,025	656,675	667,707
Nonoperating income (expense):			
Investment income	390	2,720	9,572
Nonoperating income-OPEB	-	-	472
Interest expense	-	(1)	(13)
Distributions to municipalities and counties	(7,787)	(8,085)	(8,067)
Distributions to racetracks-capital reinvestment	(11,968)	(15,983)	(17,988)
Distributions to the State of West Virginia	(568,945)	(616,623)	(631,155)
	(588,310)	(637,972)	(647,179)
Net income before special item	715	18,703	20,528
Special item - restricted net assets accrued for distribution to the State of West Virginia	(40,000)	-	-
Special item - unrestricted net assets accrued for distribution to the State of West Virginia	(7,520)	-	-
Net income (loss)	(46,805)	18,703	20,528
Net assets, beginning of year, as restated*	83,188	64,485	43,957
Net assets, end of year	\$ 36,383	\$ 83,188	\$ 64,485

* \$468 adjustment to OPEB liability at beginning of year in 2008.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees

Table 4 compares sales (referred to as lottery revenues in financial statements), prizes, commissions, ticket printing costs, vendor fees and costs and gross profit for each lottery game category for fiscal years 2010, 2009 and 2008. Sales and gross profits fluctuated in certain categories, however, gross profit percentages remained consistent from year to year.

Table 4
Lottery Sales
(in \$000's)

	Instant			On-Line*																							
	2010	2009	2008	2010	2009	2008																					
Gross sales	\$ 97,483	\$ 113,854	\$ 110,862	\$ 83,741	\$ 84,241	\$ 87,177																					
Less direct costs:																											
Prizes and bonuses	66,165	76,998	76,625	41,818	42,451	44,544																					
Commissions	6,824	7,970	7,763	5,849	5,901	6,114																					
Ticket printing costs	1,511	1,528	1,676	-	-	-																					
Vendor fees and costs	4,203	4,311	3,320	3,541	2,524	2,608																					
Total direct costs	78,703	89,907	89,384	51,208	50,876	53,266																					
Gross Profit	\$ 18,780	\$ 23,947	\$ 21,478	\$ 32,533	\$ 33,365	\$ 33,911																					
Gross profit percentage	19.30%	21.00%	19.40%	38.80%	39.60%	38.90%																					
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="border-bottom: 1px solid black;">Racetrack Video Lottery</th> <th colspan="3" style="border-bottom: 1px solid black;">Limited Video Lottery</th> <th colspan="3"></th> </tr> <tr> <th style="border-bottom: 1px solid black;">2010</th> <th style="border-bottom: 1px solid black;">2009</th> <th style="border-bottom: 1px solid black;">2008</th> <th style="border-bottom: 1px solid black;">2010</th> <th style="border-bottom: 1px solid black;">2009</th> <th style="border-bottom: 1px solid black;">2008</th> <th colspan="3"></th> </tr> </thead> </table>										Racetrack Video Lottery			Limited Video Lottery						2010	2009	2008	2010	2009	2008			
Racetrack Video Lottery			Limited Video Lottery																								
2010	2009	2008	2010	2009	2008																						
Gross sales	\$ 746,208	\$ 848,233	\$ 897,953	\$ 397,287	\$ 412,489	\$ 411,587																					
Less direct costs:																											
Prizes and bonuses	-	-	-	-	-	-																					
Commissions	414,988	463,649	487,276	194,671	202,120	205,637																					
Ticket printing costs	-	-	-	-	-	-																					
Vendor fees and costs	-	-	-	-	-	-																					
Total direct costs	414,988	463,649	487,276	194,671	202,120	205,637																					
Gross Profit	\$ 331,220	\$ 384,584	\$ 410,677	\$ 202,616	\$ 210,369	\$ 205,950																					
Gross profit percentage	44.40%	45.30%	45.70%	51.00%	51.00%	50.00%																					
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="border-bottom: 1px solid black;">Table Games</th> <th colspan="3" style="border-bottom: 1px solid black;">Historic Resort</th> <th colspan="3" style="border-bottom: 1px solid black;">Total</th> </tr> <tr> <th style="border-bottom: 1px solid black;">2010</th> <th style="border-bottom: 1px solid black;">2009</th> <th style="border-bottom: 1px solid black;">2008</th> <th style="border-bottom: 1px solid black;">2010</th> <th style="border-bottom: 1px solid black;">2009</th> <th style="border-bottom: 1px solid black;">2008</th> <th style="border-bottom: 1px solid black;">2010</th> <th style="border-bottom: 1px solid black;">2009</th> <th style="border-bottom: 1px solid black;">2008</th> </tr> </thead> </table>										Table Games			Historic Resort			Total			2010	2009	2008	2010	2009	2008	2010	2009	2008
Table Games			Historic Resort			Total																					
2010	2009	2008	2010	2009	2008	2010	2009	2008																			
Gross sales	\$ 31,726	\$ 34,219	\$ 15,877	\$ 1,649	\$ -	\$ -	\$ 1,358,094	\$ 1,493,036	\$ 1,523,456																		
Less direct costs:																											
Prizes and bonuses	-	-	-	-	-	-	107,983	119,449	121,169																		
Commissions	12,473	13,458	6,249	847	-	-	635,652	693,098	713,039																		
Ticket printing costs	-	-	-	-	-	-	1,511	1,528	1,676																		
Vendor fees and costs	-	-	-	-	-	-	7,744	5,935	5,928																		
Total direct costs	12,473	13,458	6,249	847	-	-	752,890	820,010	841,812																		
Gross Profit	\$ 19,253	\$ 20,761	\$ 9,628	\$ 802	\$ -	\$ -	\$ 605,204	\$ 673,026	\$ 681,644																		
Gross profit percentage	60.7%	60.7%	60.6%	48.6%	0.0%	0.0%	44.6%	45.1%	44.7%																		

* On-line games include the results of Powerball® which is a significant component of the results described above.

Management's Discussion and Analysis (Continued)

-Unaudited-

Instant Sales

Instant ticket sales decreased in 2010 by \$16.4 million or 14.4% compared to the 2009 increase of \$3.0 million or 2.7% over 2008. Forty-two games were introduced in 2010 and approximately twenty-six game options were available for play in both years. The Lottery continues to implement the results of research and design efforts, including increased ticket font size for easier reading by players, simplified play styles for faster play and continued monitoring of the mix of play styles and colors more closely to create a better variety of game presentation available at one time. One ten-dollar and four five-dollar games were introduced in 2010, down from the previous year based on less demand from the public. There was an increase in the one-dollar and two-dollar game introductions, to meet player demand.

Instant prizes and commissions have a direct correlation to sales, therefore, as sales increase, so do the related prizes and commissions paid by the Lottery. Prize expenses for instant games are controllable by designing and printing a predetermined number and value of winning tickets. While each game has a designed prize payout structure, the overall amount paid as prize expense is consistent.

Vendor fees and costs are primarily 4.3% of instant and on-line ticket sales for 2010 and 3% for 2009 and 2008. The Lottery (as is the case with most lotteries located in North America) has elected to enter into a long-term contract to provide a central computer system, retailer terminals and related equipment to sell and cash all tickets for instant and on-line games.

Powerball® Sales

Powerball® is a multi-state lotto game offering larger jackpots with occasional jackpots in excess of \$100 million. Sales decreased in 2010 by \$2.4 million or 4.8% and decreased in 2009 by \$3.0 million or 5.6%. Sales are generally driven by the jackpot size.

Prize costs are 50% of sales and over time such prize payouts generally reflect the design of the game and the related mathematical odds of winning.

Traditional retailers are those retailers licensed by the Lottery to sell instant and/or all or certain on-line games (which includes Powerball®) and by statute were paid 7% of such sales.

Mega Millions® Sales

Mega Millions sales began in January 2010 offering jackpots starting at \$12 million and other prizes ranging from \$2 to \$250,000. Sales were \$2.7 million in 2010.

Approximately 50% of every dollar wagered goes back to the players in prizes and approximately 7% goes to retailer commissions.

All Other On-line Games

All other on-line games consist of Daily 3, Daily 4, Cash 25, Travel Keno and the multi-state game Hot Lotto™. Sales decreased in 2010 by \$755.9 thousand or 2.3% and increased slightly in 2009 by \$100 thousand or 0.3%.

Management's Discussion and Analysis
(Continued)

-Unaudited-

All Other On-line Games (Continued)

In general, prize costs by game will increase or decrease from year-to-year in proportion to the sales for a particular game. Prizes and commissions have remained consistent as presented in Table 4.

Racetrack Video Lottery

Racetrack video lottery revenues are reported net of total wagers. Revenues decreased \$102 million or 12% in 2010 and decreased \$49.7 million or 5.5% in 2009.

A portion of racetrack video lottery sales, as prescribed by statute, are paid to racetracks and other private entities associated with the racing industry and are reported as commissions. See Note 6 to the financial statements for further discussion of racetrack video lottery distributions. The decreases in commissions of \$48.7 million or 10.5% in 2010 and \$23.6 million or 4.8% in 2009 was due to the economy as well as competition from neighboring states which recently legalized video lottery games. This competition has decreased the revenue at two of the state's four race tracks licensed to operate video lottery games and which border that state.

As noted in the accompanying tables, and in following with industry trends, "coin drop" machines are being phased out in favor of ticket in ticket out (TITO) machines. This increase in TITO machines has helped to lessen the decline in racetrack video lottery revenues from competition.

The changes in active machines are presented in Tables 5 through 8 below which illustrate the fluctuations during the last three fiscal years.

Table 5

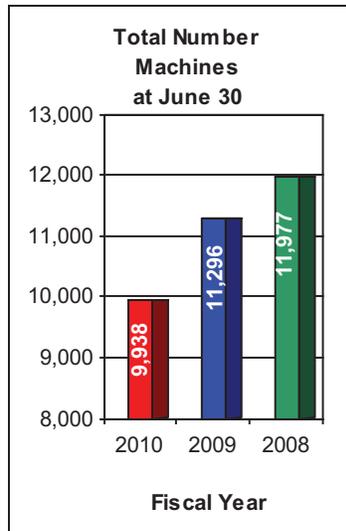
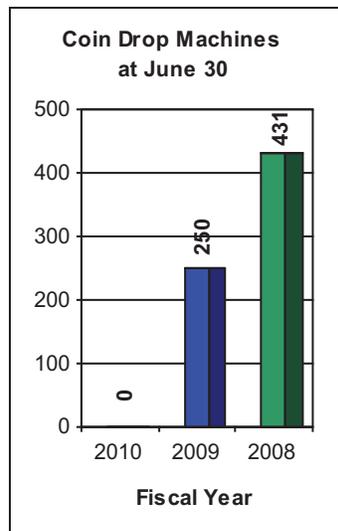


Table 6



Management's Discussion and Analysis
(Continued)

-Unaudited-

Racetrack Video Lottery (Continued)

Table 7

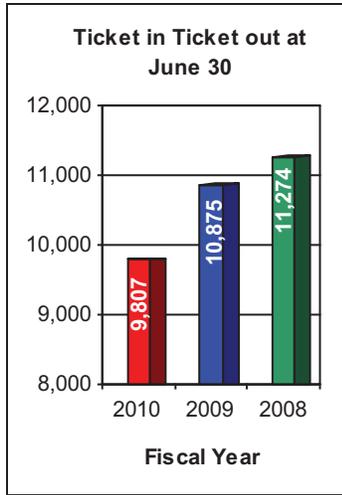
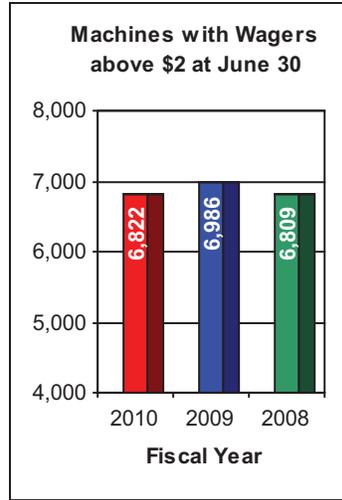


Table 8

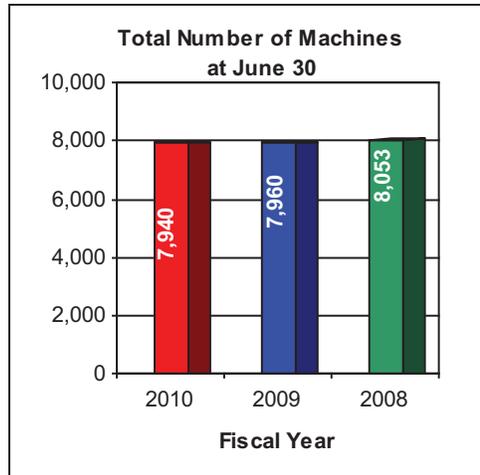


Limited Video Lottery

Sales decreased by \$15.2 million or 3.7% in 2010 over 2009, which increased slightly by \$902 thousand or 0.2% over 2008. The decrease in commissions of \$7.4 million or 3.7% in 2010 over 2009 and the decrease of \$3.5 million or 1.7% over 2008, are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales.

- Table 9 illustrates the decrease in machines by 20 in 2010 as compared to the decrease of 93 in 2009

Table 9



Management's Discussion and Analysis (Continued)

-Unaudited-

Table Games

West Virginia Lottery table games were implemented at three of the state's four racetracks during fiscal year 2010 and 2009. Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues for 2010 were \$31.7 million and were \$34.2 million in 2009.

All table games revenues are distributed according to statute. A portion of table games revenues are paid to entities associated with the racetracks and are reported as commissions. See Note 8 to the financial statements. Commissions were \$12.5 million in 2010 and \$13.5 million in 2009.

Historic Resort

On November 4, 2008 Greenbrier County voters passed a local referendum to allow The Greenbrier Resort (Historic Resort) to implement gaming at their facility. Video lottery and table games were implemented at The Greenbrier Resort during fiscal year 2010 at a temporary site. Revenues from video lottery are calculated as defined in Note 9 to the financial statements. Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Combined revenues for video lottery and table games in 2010 at the Greenbrier Resort were \$1.6 million.

All revenues are distributed according to statute. A portion of revenues are paid to entities associated with the Historic Resort and are reported as commissions. Commissions were \$847 thousand in 2010.

Other Operating Income

Refer to Table 3. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers. These permit fees comprise the most significant concentration of revenue in this financial statement category.

Nonoperating Income (Expense)

Refer to Table 3. Nonoperating expenses reflect a 2% distribution to counties and incorporated municipalities of net terminal income from limited video lottery operations. This distribution will fluctuate with any changes in limited video lottery revenues.

A portion of net revenue from racetrack video lottery is accrued and distributed to each racetrack for capital improvements.

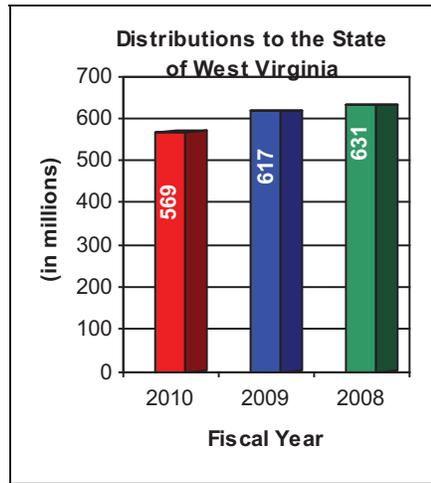
Refer to Table 10. The Lottery's payments to the State Lottery Fund and State Excess Lottery Revenue Fund decreased by \$48 million for the current fiscal year compared to a decrease of \$14 million in 2009.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Nonoperating Income (Expense) (Continued)

Table 10



Net Income (Loss) and Special Items

Effective June 30, 2006, the West Virginia Legislature directed the Lottery to set aside certain unexpended administrative funds of up to \$20 million per year for six years into the Revenue Center Construction Fund. In fiscal year 2010 the Lottery purchased a building and land to serve as the Lottery headquarters and it was determined that unexpended excess funds set aside in restricted net assets for the purchase of capital assets were surplus funds and would be returned by distribution to the State of West Virginia. This distribution is reported as a special item.

In June 2010, the Lottery Commission approved the distribution of funds previously set aside as unrestricted net assets for future capital asset purchases to be returned by distribution to the State of West Virginia. This distribution is also reported as a special item. Refer to Notes 11 and 12 to the financial statements for additional information.

Other Currently Known Facts

On December 5, 2009 Jefferson County, West Virginia voters passed a local referendum which allows Charles Town Races and Slots to implement table games at their facility. Charles Town Races and Slots began table games operations in July 2010.

WEST VIRGINIA LOTTERY

BALANCE SHEETS

(In Thousands)

June 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 256,355	\$ 225,354
Accounts receivable	26,986	33,311
Inventory	683	648
Other assets	<u>2,273</u>	<u>2,555</u>
Total current assets	<u>286,297</u>	<u>261,868</u>
Noncurrent assets:		
Restricted cash and cash equivalents	8,355	69,871
Capital assets	39,524	17,641
Less accumulated depreciation and amortization	<u>(16,175)</u>	<u>(14,335)</u>
	<u>23,349</u>	<u>3,306</u>
Total noncurrent assets	<u>31,704</u>	<u>73,177</u>
Total assets	<u>\$ 318,001</u>	<u>\$ 335,045</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 241,039	\$ 202,184
Estimated prize claims	13,128	12,938
Accounts payable	3,050	1,716
Other accrued liabilities	<u>24,401</u>	<u>35,019</u>
Total liabilities	<u>281,618</u>	<u>251,857</u>
Net assets:		
Restricted by enabling legislation	8,355	69,871
Invested in capital assets	23,349	3,306
Unrestricted	<u>4,679</u>	<u>10,011</u>
Total net assets	<u>36,383</u>	<u>83,188</u>
Total liabilities and net assets	<u>\$ 318,001</u>	<u>\$ 335,045</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
(In Thousands)

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Lottery revenues:		
On-line games	\$ 83,741	\$ 84,241
Instant games	97,483	113,854
Racetrack video lottery	746,208	848,233
Limited video lottery	397,287	412,489
Table games	31,726	34,219
Historic resort	1,649	-
	<u>1,358,094</u>	<u>1,493,036</u>
Less commissions:		
On-line games	5,849	5,901
Instant games	6,824	7,970
Racetrack video lottery	414,988	463,649
Limited video lottery	194,671	202,120
Table games	12,473	13,458
Historic resort	847	-
	<u>635,652</u>	<u>693,098</u>
Less on-line prize costs	41,818	42,451
Less instant prize costs	66,165	76,998
Less ticket costs	1,511	1,528
Less vendor fees and costs	7,744	5,935
	<u>117,238</u>	<u>126,912</u>
Gross profit	<u>605,204</u>	<u>673,026</u>
Administrative expenses:		
Advertising and promotions	7,349	7,160
Wages and related benefits	10,921	9,645
Telecommunications	648	2,208
Contractual and professional	4,741	5,030
Rental	697	727
Depreciation and amortization	1,840	1,988
Other administrative expenses	1,042	994
	<u>27,238</u>	<u>27,752</u>
Other operating income	11,059	11,401
Operating income	<u>589,025</u>	<u>656,675</u>
Nonoperating income (expense):		
Investment income	390	2,720
Interest expense	-	(1)
Distributions to municipalities and counties	(7,787)	(8,085)
Distributions for capital reinvestment	(11,968)	(15,983)
Distributions to the State of West Virginia	(568,945)	(616,623)
	<u>(588,310)</u>	<u>(637,972)</u>
Income before special item	<u>715</u>	<u>18,703</u>
Special item - restricted net assets accrued for distribution to the State of West Virginia	(40,000)	-
Special item - unrestricted net assets accrued for distribution to the State of West Virginia	<u>(7,520)</u>	<u>-</u>
Net income (loss)	<u>(46,805)</u>	<u>18,703</u>
Net assets, beginning of year	<u>83,188</u>	<u>64,485</u>
Net assets, end of year	<u>\$ 36,383</u>	<u>\$ 83,188</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS
(In Thousands)

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,375,478	\$ 1,507,972
Cash payments for:		
Personnel costs	(9,636)	(9,121)
Suppliers	(13,567)	(20,508)
Other operating costs	<u>(760,068)</u>	<u>(819,997)</u>
Cash provided by operating activities	<u>592,207</u>	<u>658,346</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(577,610)	(581,406)
Distributions to municipalities and counties	(7,797)	(8,108)
Distributions to racetracks from racetrack capital reinvestment fund	(15,822)	(15,369)
Interest paid on deferred jackpot prize obligations	<u>-</u>	<u>(1)</u>
Cash used in noncapital financing activities	<u>(601,229)</u>	<u>(604,884)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	<u>(21,883)</u>	<u>(43)</u>
Cash flows from investing activities:		
Maturities of investments held in trust	-	136
Investment earnings	<u>390</u>	<u>2,720</u>
Cash provided by investing activities	<u>390</u>	<u>2,856</u>
Increase (decrease) in cash and cash equivalents	(30,515)	56,275
Cash and cash equivalents (including restricted cash and cash equivalents), beginning of year	<u>295,225</u>	<u>238,950</u>
Cash and cash equivalents (including restricted cash and cash equivalents), end of year	<u>\$ 264,710</u>	<u>\$ 295,225</u>

(Continued)

WEST VIRGINIA LOTTERY
 STATEMENTS OF CASH FLOWS
 (In Thousands)
 (Continued)

Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 589,025	\$ 656,675
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,840	1,988
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	6,325	3,535
Inventory	(35)	(347)
Other assets	282	40
Increase (decrease) in:		
Estimated prize claims	190	(29)
Accounts payable	1,334	(977)
Other accrued liabilities	(6,754)	(2,410)
Deferred jackpot prize obligations	-	(129)
Cash provided by operating activities	\$ 592,207	\$ 658,346

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

1 - LEGISLATIVE ENACTMENT

The West Virginia Lottery (the Lottery) was established by the State Lottery Act (the Act) passed April 13, 1985, which created a fund in the State Treasury designated as the "State Lottery Fund." The purpose of the Act was to establish and implement a state-operated lottery under the supervision of a state lottery commission (the Commission) and a director. The Commission, consisting of seven members, and the Director are appointed by the Governor. Under the Act, the Commission has certain powers and the duty to establish rules for conducting games, to select the type and number of gaming systems or games, to enter into contracts and agreements, and to do all acts necessary or incidental to the performance of its duties and exercise of its power and duty to operate the Lottery in a highly efficient manner. The Act provides that a minimum annual average of 45% of the gross amount received from each lottery shall be allocated for prizes and also provides for certain limitations on expenses necessary for operation and administration of the Lottery. To the extent available, remaining net profits are to be distributed to the State of West Virginia (the State) and local governments as required by law. As the State is able to impose its will over the Lottery, the Lottery is considered a component unit of the State and its financial statements are presented in the comprehensive annual financial report of the State as a blended proprietary fund component unit.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The West Virginia Lottery is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with accounting principles generally accepted in the United States of America for governmental entities, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Lottery has elected not to adopt Financial Accounting Standards Board (FASB) statements, interpretations and Auditing Standards Updates issued after November 30, 1989, unless the GASB specifically adopts such FASB statements, interpretations or Auditing Standards Updates.

The Lottery is included in the State's basic financial statements as a proprietary fund and business type activity using the accrual basis of accounting. Because of the Lottery's presentation in these financial statements as a special purpose government engaged in business type activities, there may be differences in presentation of amounts reported in these financial statements and the basic financial statements of the State as a result of classification of balances and major fund determination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and develop assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from management's estimates.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS (Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations

The West Virginia Lottery derives its revenues from four basic types of lottery games: instant, on-line, video type games, and table games. The Lottery develops multiple game themes and prize structures to comply with its enabling legislation, including aggregate annual minimum prize provisions. All bonded retailers and agents comprised principally of grocery and convenience stores serve as the primary distribution channel for instant and on-line lottery sales to the general public.

The Lottery has contracted with a private vendor to manufacture, distribute, and provide data processing support for instant and on-line lottery games. Under the terms of the agreements, the Lottery pays a percentage of gross revenues for the processing and manufacturing of the games.

Revenue from instant games is recognized when game tickets are sold to the retailers, and the related prize expense is recorded based on the specific game prize structure. Instant ticket sales and related prizes do not include the value of free plays issued for the purpose of increasing the odds of winning a prize.

Sales of on-line lottery tickets are made by licensed agents to the public with the use of computerized terminals. On-line games include POWERBALL®, a multi-state “jackpot” game; HOT LOTTO™, a multi-state “lotto” game; MEGA MILLIONS®, a multi-state lotto game; Cash25 “lotto” game; Daily 3 and 4 “numbers” games; and Travel, an online “keno” game. Revenue is recognized when the agent sells the tickets to the public. Prize expense is recognized on the basis of actual drawing results.

Commissions are paid to instant game retailers and on-line agents at the rate of seven percent of gross sales. A portion of the commission not to exceed one and one quarter percent of gross sales may be paid from unclaimed prize moneys. The amount paid from unclaimed prize moneys is credited against prize costs. In addition, retailers and agents are paid limited bonus incentives that include prize shares on winning tickets they sold and a ticket cashing bonus on winning tickets they cash. On a weekly basis, retailers and agents must remit amounts due to the Lottery. Retailers may not be able to order additional instant tickets if payment has not been made for the previous billing period, while an agent's on-line terminal may be rendered inactive if payment is not received. No one retailer or agent accounts for a significant amount of the Lottery's sales or accounts receivable. Historically credit losses have been nominal and no allowance for doubtful accounts receivable is considered necessary.

Racetrack video lottery is a self-activated video version of lottery games. The board-operated games allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The games allow a player to use coins, currency, tokens, or tickets, to place bets for the chance to receive coin, token, or ticket awards which may be redeemed for cash or used for replay in the games. The racetrack video lottery games' prize structures are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as racetrack video lottery revenue “gross terminal income” equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to private and local government entities are reported as commissions.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

Racetrack video lottery legislation has established specific requirements for racetrack video lottery and imposed certain restrictions limiting the licensing for the operation of racetrack video lottery games to horse and dog racetracks in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from racetrack video lottery games, and requires any licensed racetrack to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Limited video lottery is also a self-activated video version of lottery games located in limited licensed retailer areas restricted for adult amusement. The games allow a player to use currency to place bets for the chance to receive free games or vouchers which may be redeemed for cash. The limited video lottery games' prize structures are designed to award prizes, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as limited video lottery revenue "gross terminal income" equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to private entities are reported as commissions. Limited video lottery permit holders are statutorily responsible for acquiring equipment and bearing the risk associated with the costs of operating the games.

Table games legislation has established specific requirements for table games and imposed certain restrictions limiting the licensing for operation of table games to horse and dog racetracks and a historic resort in West Virginia, subject to local county elections permitting the same. Each location licensed as an agent of the Commission to operate West Virginia table games shall have written rules of play for each table game it operates which must be approved by the Commission. All wagers and pay-offs of winning wagers shall be made according to those rules of play. For the privilege of holding a table games license, there is levied a privilege tax or thirty-five percent of each licensee's adjusted gross receipts from the operation of Lottery table games which the Lottery records as revenue. Amounts required by statute to be paid to private and local government entities are reported as commissions. The legislation further stipulates the distribution of revenues from West Virginia table games, and requires any licensed location to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Historic resort lottery games are a combination of self-activated video lottery games as well as table games which are located at a licensed historic resort hotel as defined by the WV Code. Video lotteries at the historic resort are board-operated games that allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The coin operated games allow a player to use coins, currency, or tokens to place bets for the chance to receive coin or token awards which may be redeemed for cash or used for replay in the coin operated games.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

The historic resort video lottery games' prize structures are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes video lottery revenue consisting of "gross terminal income" equivalent to all wagers, net of related prizes; and historic resort table games revenue consisting of a privilege tax of thirty-five percent of adjusted gross receipts for the operation of table game as historic resort lottery revenues.

Amounts required by statute to be paid to the private and local government entities are reported as commissions. The Lottery Act as amended has established specific requirements for historic resort video and table games lotteries and imposed certain restrictions limiting the licensing for operation of historic resort lottery games in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from historic resort lottery games, and requires the licensed historic resort to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of interest-earning deposits in a State internal investment pool maintained by the West Virginia Board of Treasury Investments (BTI). The BTI pool is a 2a-7-like pool carried at amortized cost which approximates the fair value of the underlying securities.

Inventory

Inventory consists of instant game tickets available for sale to approved Lottery retailers and are carried at cost as determined by the specific identification method.

Other Assets

Other assets consist of deposits restricted for payment of certain Multi-State Lottery Association activities and prepaid expenses.

Capital Assets

The Lottery has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000 and a useful life greater than one year. These assets include leasehold improvements and purchased equipment comprised principally of technology property, office furnishings and equipment necessary to administer lottery games, and are carried at cost. Depreciation is computed by the straight-line method using useful lives of three to ten years.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

The Lottery leases, under a cancelable operating lease, its office and warehouse facilities. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the years ended June 30, 2010 and 2009, was \$697,279 and \$727,138, respectively.

Accrued Employee Benefits

The Lottery has accrued \$500,740 and \$467,815 of vacation at June 30, 2010 and 2009, respectively, for estimated obligations that may arise in connection with compensated absences at the current rate of employee pay. Employees fully vest in all earned but unused vacation. In accordance with State personnel policies, employees hired prior to July 1, 2001, vest in unused sick leave only upon retirement, at which time such unused leave can be converted into post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits. To the extent that eligible conversion benefits are determined, a liability has been accrued as a result of the Lottery's participation in the State's post-employment benefits plan, in accordance with GASB Statement No. 45 (See Note 14).

Net Assets

Net assets are presented as either unrestricted, restricted by enabling legislation, as amended, or invested in capital assets which represents the net book value of all property and equipment of the Lottery. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds such as the Lottery are revenues and expenses that result from providing services and producing and delivering goods and/or services. Operating revenues for the Lottery are derived from providing various types of lottery games. Operating expenses include commissions, prize costs, other direct costs of providing lottery games, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Advertising and Promotions

The Lottery expenses the costs of advertising and promotions as they are incurred.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS

At June 30, 2010 and 2009, the carrying amounts of deposits (overdrafts) with financial institutions were (\$60) thousand and (\$23) thousand, respectively, with bank balances of \$6 and \$29 thousand, respectively, which is covered by federal depository insurance. It is the Lottery's policy to require any balances over the insured amount be collateralized with securities held by the State of West Virginia's agent in the State's name.

At June 30, 2010 and 2009, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Deposits with financial institutions	\$ (60)	\$ (23)
Cash on hand at the Treasurer's Office	40,006	22,110
Investments with BTI reported as cash equivalents	<u>224,764</u>	<u>273,138</u>
	<u>\$ 264,710</u>	<u>\$ 295,225</u>

The State Treasurer has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions and transfers funds to the BTI for investment in accordance with West Virginia statutes, policies set by the BTI and by provisions of bond indentures and trust agreements when applicable. The Lottery's cash balances are invested by the BTI in the BTI's West Virginia Money Market Pool.

The deposits with the BTI are part of the State of West Virginia's consolidated money market pool. Investment income is pro-rated to the Lottery at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Such funds are available to the Lottery with overnight notice.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The West Virginia Money Market Pool has been rated AAAM by Standard & Poor's. A fund rated "AAAM" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAM" is the highest principal stability fund rating assigned by Standard & Poor's. The BTI itself has not been rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the West Virginia Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

The following table provides information on the credit ratings of the West Virginia Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Assets
	Moody's	S&P		
Commercial paper	P1	A-1	\$ 855,844	29.75%
Corporate bonds and notes	Aa1-Aa2	AA	20,000	.70
U.S. agency bonds	Aaa	AAA	246,990	8.59
U.S. Treasury notes*	Aaa	AAA	65,153	2.26
U.S. Treasury bills *	Aaa	AAA	476,670	16.57
Negotiable certificates of deposit	P1	A-1	281,000	9.77
U.S. agency discount notes	P1	A-1	606,048	21.07
Money market funds	Aaa	AAA	150,026	5.21
Repurchase agreements, with Underlying U.S. agency and Treasury notes	Aaa	AAA	<u>174,980</u>	<u>6.08</u>
			<u>\$ 2,876,711</u>	<u>100.00%</u>

* U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The weighted average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides the weighted average maturities for the various asset types in the West Virginia Money Market Pool.

Security Type	Carrying Value (In Thousands)	Weighted Average Maturity In Days
Commercial paper	\$ 855,844	18
US Treasury bills	476,670	35
US Treasury notes	65,153	140
Repurchase agreements	174,980	1
U.S. Agency bonds	246,990	55
Corporate bonds and notes	20,000	19

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

Interest rate risk (Continued)

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>Weighted Average Maturity In Days</u>
U.S. Agency discount notes	606,048	52
Certificates of deposit	281,000	45
Money market funds	<u>150,026</u>	1
Total assets	<u>\$ 2,876,711</u>	

The combined weighted average maturity of the investments of the West Virginia Money Market Pool as of June 30, 2010, is 33 days.

Concentration of credit risk - West Virginia statutes prohibit the West Virginia Money Market Pool from investing more than 5% of its assets in securities issued by one corporate name or corporate issue. At June 30, 2010, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk - At June 30, 2010, the West Virginia Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102%, and the collateral is held in the name of the BTI. Securities lending collateral that is reported in the BTI's audited Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Foreign currency risk - The West Virginia Money Market Pool has no securities that are subject to foreign currency risk.

4 - CAPITAL ASSETS

A summary of capital asset activity is as follows (in thousands):

	<u>Historical cost at June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Historical cost at June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Historical cost at June 30, 2010</u>
Building	\$ -	\$ -	\$ -	\$ -	\$ 20,174	\$ -	\$ 20,174
Construction in progress	285	-	(285)	-	-	-	-
Land	-	-	-	-	1,434	-	1,434
Improvements	1,120	50	-	1,170	-	-	1,170
Equipment	<u>16,193</u>	<u>278</u>	<u>-</u>	<u>16,471</u>	<u>275</u>	<u>-</u>	<u>16,746</u>
	<u>\$ 17,598</u>	<u>\$ 328</u>	<u>\$ (285)</u>	<u>\$ 17,641</u>	<u>\$ 21,883</u>	<u>\$ -</u>	<u>\$ 39,524</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CAPITAL ASSETS (Continued)

	<u>2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>2010</u>
Building	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Improvements	1,002	78	-	1,080	51	-	1,131
Equipment	<u>11,345</u>	<u>1,910</u>	<u>-</u>	<u>13,255</u>	<u>1,789</u>	<u>-</u>	<u>15,044</u>
	<u>\$ 12,347</u>	<u>\$ 1,988</u>	<u>\$ -</u>	<u>\$ 14,335</u>	<u>\$ 1,840</u>	<u>\$ -</u>	<u>\$ 16,175</u>

5 - PARTICIPATION IN THE MULTI-STATE LOTTERY

The Lottery is a member of the Multi-State Lottery (MUSL), which operates the semi-weekly POWERBALL® jackpot lotto game, the HOT LOTTO™ game, and MEGA MILLIONS® jackpot game on behalf of other participating lotteries. MUSL is currently comprised of 33 member state lotteries, including the District of Columbia and the United States Virgin Islands. MUSL is managed by a Board of Directors, which is comprised of the lottery directors or their designee from each of the party states. The Board of Directors' responsibilities to administer the Multi-State Lottery POWERBALL®, HOT LOTTO™, and MEGA MILLIONS® games are performed by advisory committees or panels staffed by officers and independent contractors appointed by the board. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties and qualifications. The Executive Committee carries out the budgeting and financing of MUSL, while the board contracts the annual independent audit. A copy of the audit may be obtained by writing to the Multi-State Lottery Association, 1701-48th Street, Suite 210, West Des Moines, Iowa 50266-6723.

Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the total prize pool less the amount of prizes won in each state. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL®, HOT LOTTO™, and MEGA MILLIONS® is 50% of each drawing period's sales, with minimum jackpot levels.

Revenues derived from the Lottery's participation in the MUSL POWERBALL® jackpot game were \$48,593,678 and \$51,016,100 for the years ended June 30, 2010 and 2009, respectively, and related prize costs were \$24,299,364 and \$25,510,333, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$6,447,315 and \$4,881,127 for the years ended June 30, 2010 and 2009, respectively, and related prize costs were \$3,224,120 and \$2,440,802, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$2,678,674 for the year ended June 30, 2010, and related prize costs were \$1,384,136.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - PARTICIPATION IN THE MULTI-STATE LOTTERY (Continued)

MUSL places a percentage of game sales from each game in separate prize reserve funds that serve as a contingency reserve to protect the respective MUSL Product Groups from unforeseen prize liabilities. These funds can only be used at the discretion of the respective MUSL Product Group. Once the prize reserve funds exceed the designated limit, the excess becomes part of that particular prize pool. Prize reserve fund monies are refundable to MUSL Product Group members if the MUSL disbands or, after one year, if a member leaves the MUSL. The applicable sales percentage contribution as well as the reserve fund limit for the MUSL games is as follows:

	<u>POWERBALL®</u>	<u>HOT LOTTO™</u>	<u>MEGA MILLIONS®</u>
Required Contribution (% of sales)	2%	3%	1%
Reserve Fund Cap	\$125,000,000	\$9,000,000	-

The Lottery's share of the prize reserve fund balances with MUSL as of June 30, were as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Total Prize Reserve</u>	<u>Lottery Share</u>	<u>Total Prize Reserve</u>	<u>Lottery Share</u>
POWERBALL®	\$ 113,399,532	\$ 2,385,173	\$ 112,776,975	\$ 2,380,055
HOT LOTTO™	6,491,541	392,458	5,443,110	324,177
MEGA MILLIONS®	(629,706)	(11,044)	-	-
	<u>\$ 119,261,367</u>	<u>\$ 2,766,587</u>	<u>\$ 118,220,085</u>	<u>\$ 2,704,232</u>

Lottery prize reserves held by the MUSL are invested according to a Trust agreement the Lottery has with MUSL outlining investment policies. The policies restrict investments to direct obligations of the United States Government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States Government, and mutual funds of approved investments. The average portfolio maturity is never more than one year, except that up to one third of the portfolio may have an average maturity of up to two years. The maximum maturity for any one security does not exceed five years.

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above that are credited to an unreserved fund. The Lottery records this as interest when earned. This fund had a balance of \$15,991,948 and \$19,968,618 at June 30, 2010 and 2009, of which the Lottery's share was \$1,752,719 and \$1,775,925, respectively.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6 - RACETRACK VIDEO LOTTERY

The racetrack video lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Sixty-six percent (66%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (47%); other private entities associated with the racing industry (17%); and the local county and municipal governments (2%). The remaining thirty-four percent (34%) of net terminal revenue is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 10 titled “Nonoperating Distributions to the State of West Virginia.”

The first benchmark occurs when the current year net terminal revenue meets the fiscal year 1999 net terminal revenue. The counties and incorporated municipalities split 50/50 the two percent (2%) net terminal revenue.

The second benchmark occurs when the current year gross terminal revenue meets the fiscal year 2001 gross terminal revenue. The four percent (4%) is no longer allocated for lottery administrative costs; instead the State receives this for distribution as specified by legislation or the State budget.

The final benchmark occurs when the current year net terminal revenue meets the fiscal year 2001 net terminal revenue. At this point a 10% surcharge is applied to net terminal revenue, with 58% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 42% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack. After deduction of the surcharge, 55% of the net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (11%); and the local county and incorporated municipality governments (2%). The remaining net terminal revenue (45%) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 10.

Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. The Lottery, along with the Rhode Island and Delaware state lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee of 4% of the amount wagered.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - RACETRACK VIDEO LOTTERY (Continued)

A summary of racetrack video lottery revenues for the years ended June 30, 2010 and 2009, follows (in thousands):

	<u>2010</u>	<u>2009</u>
Total credits (bets) played	\$ 8,188,573	\$ 8,690,994
Credits (prizes) won	(7,372,586)	(7,838,424)
Promotional credits played	(66,022)	-
MWAP Contributions	<u>(3,757)</u>	<u>(4,337)</u>
Gross terminal income	746,208	848,233
Administrative costs	<u>(17,524)</u>	<u>(17,524)</u>
Net terminal income	728,684	830,709
Commissions	<u>(414,988)</u>	<u>(463,649)</u>
Racetrack video lottery revenues available for distribution	<u>\$ 313,696</u>	<u>\$ 367,060</u>

A summary of racetrack video lottery revenues paid or accrued for certain State funds to conform with the legislation follows (in thousands):

	<u>2010</u>	<u>2009</u>
State Lottery Fund	\$ 129,799	\$ 130,125
State Excess Lottery Revenue Fund	133,462	178,902
Capital Reinvestment Fund	11,915	15,983
Tourism Promotion Fund	9,460	10,673
Development Office Promotion Fund	2,580	2,911
Research Challenge Fund	3,440	3,881
Capitol Renovation and Improvement Fund	4,730	5,337
Parking Garage Fund	930	985
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	4,880	5,763
Workers Compensation Debt Reduction Fund	<u>11,000</u>	<u>11,000</u>
Total nonoperating distributions	<u>\$ 313,696</u>	<u>\$ 367,060</u>

7 - LIMITED VIDEO LOTTERY

The limited video lottery legislation established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from limited gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - LIMITED VIDEO LOTTERY (Continued)

share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act and is recorded as limited video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the years ended June 30, 2010 and 2009 follows (in thousands):

	<u>2010</u>	<u>2009</u>
Total credits played	\$ 4,659,212	\$ 4,925,431
Credits (prizes) won	<u>(4,261,925)</u>	<u>(4,512,942)</u>
Gross terminal income	397,287	412,489
Administrative costs	<u>(7,946)</u>	<u>(8,249)</u>
Gross profit	389,341	404,240
Commissions	(194,671)	(202,120)
Distributions to municipalities and counties	<u>(7,787)</u>	<u>(8,085)</u>
Limited video lottery revenues available for distribution	<u>\$ 186,883</u>	<u>\$ 194,035</u>

8 - TABLE GAMES

The passage of table games legislation allowed local referendums in each of the four counties in which a race track is located to approve table games. Three of the four race tracks were authorized to operate table games and the fourth will begin operating table games in fiscal year 2011.

Table games include blackjack, roulette, craps, and various types of poker. The Lottery receives a privilege tax of 35% of adjusted gross receipts, from each licensed racetrack, which is deposited weekly into the Lottery's racetrack table games fund.

From the gross amounts deposited into the table games fund, the Lottery, on a monthly basis retains 3% of the adjusted gross receipts for administrative expenses of which at least \$100,000 and not more than \$500,000 annually will be transferred to the Lottery's compulsive gambling treatment fund.

The Lottery then transfers 2.5% of adjusted gross receipts from all thoroughbred and greyhound racetracks participating in licensed table games to the special funds established by each racetrack table games licensee for the payment of regular racetrack purses to be divided equally among each licensee. A transfer of 2% of the adjusted gross receipts is made from all licensed racetracks to the thoroughbred development fund and the greyhound breeding development fund to be divided pro rata among the development funds.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - TABLE GAMES (Continued)

A transfer of 1% of the adjusted gross receipts is made from each licensed racetrack to the county commissions of the counties where racetracks participating in licensed table games are located to be divided pro rata among the counties. A transfer of 2% of the adjusted gross receipts is made from each licensed racetrack to the governing bodies of municipalities within counties where racetracks participating in licensed table games are located as prescribed by statute. Finally, a transfer of .5% of the adjusted gross receipts to the governing bodies of municipalities in which a racetrack table games licensee is located is to be divided equally among the municipalities. The Lottery, in accordance with the enabling legislation, will distribute the remaining amounts hereinafter referred to as the net amounts in the racetrack table games funds as follows:

- A transfer of 4%, into a special fund to be established by the West Virginia Racing Commission to be used for payment into the pension plan for all employees of each licensed racing association.
- A transfer of 10%, to be divided and paid in equal shares, to each county commission in the state where table games are not located.
- A transfer of 10%, to be divided and paid in equal shares, to the governing bodies of each municipality in the state where table games are not located.
- A transfer of 76%, to the state debt reduction fund.

The transfer to the state debt reduction fund is included in Note 10 - Nonoperating Distributions to the State of West Virginia. The table games adjusted gross receipts for the year ended June 30, 2010 and 2009 was \$90,644,701 and \$97,768,861, respectively. A summary of table games revenues for the year ended June 30, 2010 and 2009 follows (in thousands):

	<u>2010</u>	<u>2009</u>
Table games privilege tax	\$ 31,726	\$ 34,219
Interest on table games fund	3	22
Administrative costs	<u>(2,720)</u>	<u>(2,933)</u>
Total available for distribution	29,009	31,308
 <u>Less distributions:</u>		
Racetrack purse funds	2,266	2,444
Thoroughbred & greyhound development funds	1,813	1,955
Racing commission pension plan	870	939
Municipalities/counties	<u>7,524</u>	<u>8,120</u>
Total distributions	12,473	13,458
Table games distribution to the state debt reduction fund	<u>\$ 16,536</u>	<u>\$ 17,850</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 – HISTORIC RESORT HOTEL

In 2009, the Legislature passed Senate Bill 575 which permits video lottery and table games at a licensed historic resort hotel which is defined as “a resort hotel registered with the United States Department of the Interior as a national historic landmark in its National Registry of Historic Places having not fewer than five hundred guest rooms under common ownership and having substantial recreational guest amenities in addition to the gaming facility.”

Historic Resort Video Lottery

According to Senate Bill 575, thirty six percent (36%) of gross terminal income is allocated to Historic Resort Hotel Fund and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for the licensed historic resort hotel. After deduction of the surcharge, the remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the historic resort hotel. A summary of historic resort hotel video lottery revenues for year ended June 30, 2010 follows (in thousands):

	<u>2010</u>
Total credits played	\$ 11,333
Credits (prizes) won	(10,175)
Promotional credits played	<u>(25)</u>
Gross terminal income	1,133
Capital reinvestment	(53)
Administrative costs	(61)
Hotel commissions	<u>(479)</u>
Net terminal income	<u>\$ 540</u>
Historic Resort Hotel Fund	\$ 347
Human Resource Benefit Fund	<u>193</u>
Total	<u>\$ 540</u>

Historic Resort Table Games

Each historic resort hotel licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts, of which thirty percent (30%) is deposited directly into the Historic Resort Hotel Fund and five percent (5%) is deposited directly into the Human Resource Benefit Fund. The historic resort hotel table games adjusted gross receipts for the year ended June 30, 2010 was \$1,475,617.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 – HISTORIC RESORT HOTEL (continued)

The following table shows the month and year -to- date totals of the privilege tax and the accrued distributions (in thousands) to be transferred in the subsequent month:

	2010
Table games privilege tax	\$ 516
Administrative costs	(66)
Total available for distribution	<u>\$ 450</u>
Historic Resort Hotel Fund	376
Human Resource Benefit Fund	74
Total distributions	<u>\$ 450</u>

Historic Resort Hotel Fund

Historic Resort Hotel Fund deposits are allocated after a fifteen percent (15%) lottery administrative cost. The remaining Historic Resort Hotel Fund net income (gross deposits less 15%) are distributed as follows:

- 64% is paid to the State of West Virginia General Revenue Fund;
- 19% is paid to the State Debt Reduction Fund;
- 3% is paid to the State of West Virginia Tourism Promotion Fund;
- 4% is paid to the county where the gaming facility is located;
- 2.5% is paid to the municipality where the gaming facility is located as prescribed by statute;
- 2.5% is divided and paid in equal shares to the remaining municipalities in the county where the gaming facility is located;
- 2.5% is divided and paid in equal shares, to each county commission in the state where the gaming facility is not located;
- 2.5% is divided and paid in equal shares, to each municipality in the State not already receiving a distribution.

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands):

	2010
Historic Resort Hotel video lottery	\$ 347
Historic Resort table games	376
Historic Resort Hotel Fund net income	<u>\$ 723</u>
Municipalities/ Counties	101
State General Revenue Fund	463
State Debt Reduction Fund	137
State Tourism Promotion Fund	22
Total distributions	<u>\$ 723</u>

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

10 - NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

The Lottery periodically distributes surplus funds, exclusive of amounts derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the current governing legislation. For the years ended June 30, 2010 and 2009, the State Legislature budgeted \$164,503,245, and \$168,151,542 respectively of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000 and \$1,000,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently debt service payments are \$3,920,843 per month for the first ten months of each fiscal year. In addition, Legislation provides that, if in any month, there is a shortage of funds in the State Excess Lottery Revenue Fund to make debt service payments, the necessary amount shall be transferred from the State Lottery Fund to cover such shortfall, after the State Lottery Fund debt service payments have been made. Repayments to the State Lottery Fund are required to be made in subsequent months as funds become available. During the years ended June 30, 2010 and 2009, the Lottery made or accrued all budgeted distributions and accrued additional distributions of \$43,420,445 and \$29,970,243, respectively. The Lottery does not have a legally adopted annual budget.

Since the enactment of the Racetrack Video Lottery Act, the Lottery is also statutorily required to distribute income from racetrack video lottery operations as described in Note 6. As of June 30, 2010 and 2009, the Lottery accrued additional distributions relating to racetrack video lottery operations in the amounts of \$228,319 and \$766,085, respectively.

Note 7 describes the Limited Video Lottery Act and the statutory distributions required to be made from limited video lottery operations. Note 8 describes the Table Games Act and the statutory distributions required to be made from table games operations. As of June 30, 2010 and 2009, the Lottery accrued additional distributions relating to table games operations in the amounts of \$1,387,400 and \$1,521,375, respectively. Note 9 describes the Historic Resort Hotel statutory distributions to be made from historic resort operations. As of June 30, 2010 the Lottery accrued additional distributions relating to Historic Resort operations of \$73,228.

A summary of the cash distributions made to certain state agencies to conform with the various legislation follows (in thousands):

	2010	2009
<u>Budgetary distributions:</u>		
<u>State Lottery Fund:</u>		
Bureau of Senior Services	\$ 57,187	\$ 58,815
Department of Education	34,343	36,636
Library Commission	11,195	11,554
Higher Education - Central Office	13,916	13,449
Tourism	7,606	7,961
Natural Resources	3,450	3,492
Division of Culture & History	5,881	5,880
Department of Education & Arts	1,192	1,213
Building Commission	8,240	9,997

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA (Continued)

	<u>2010</u>	<u>2009</u>
School Building Authority	17,997	18,000
Community and Technical College	<u>3,497</u>	<u>5,000</u>
Total State Lottery Fund	<u>164,504</u>	<u>171,997</u>
<u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	65,000	65,000
Education Improvement Fund	29,000	27,000
WV Infrastructure Council Fund	40,000	40,000
Higher Education Improvement Fund	10,000	10,000
State Park Improvement Fund	5,000	5,000
School Building Authority	19,000	19,000
Economic Development Fund	19,000	19,000
Refundable Credit - General Revenue Fund	8,371	7,372
Department of Education	45,530	-
Division of Finance (ERP)	25,000	-
Department of Environmental Protection	2,000	-
Division of Corrections	5,375	-
Racing Commission	2,500	-
Excess Lottery Surplus (General Fund)	69,588	62,900
Excess Lottery Surplus (Capitol Complex)	-	18,200
Excess Lottery Surplus (OPEB)	-	46,600
Excess Lottery Surplus (School Safety)	-	8,000
Public Defender Services	<u>11,000</u>	<u>21,000</u>
Total State Excess Lottery Revenue Fund	<u>356,364</u>	<u>349,072</u>
Total Budgetary Distributions	<u>520,868</u>	<u>521,069</u>
Veterans Instant Ticket Fund	<u>467</u>	<u>862</u>
<u>Other racetrack video lottery distributions:</u>		
Tourism Promotion Fund	9,645	10,668
Development Office Promotion Fund	2,630	2,910
Research Challenge Fund	3,507	3,879
Capitol Renovation and Improvement Fund	4,822	5,334
Parking Garage Funds	939	985
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	5,014	5,759
Workers Compensation Debt Reduction Fund	<u>11,000</u>	<u>11,000</u>
	<u>39,057</u>	<u>42,035</u>
Table games state reduction fund	<u>16,670</u>	<u>17,440</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA (Continued)

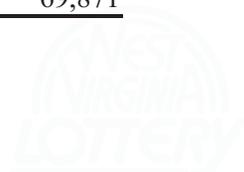
	<u>2010</u>	<u>2009</u>
<u>Historic resort hotel distributions:</u>		
State General Revenue Fund	408	-
State Debt Reduction Fund	121	-
Tourism Promotion Fund	<u>19</u>	<u>-</u>
Total	<u>548</u>	<u>-</u>
Total nonoperating distributions to the State of West Virginia (cash basis)	577,610	581,406
Accrued nonoperating distributions, beginning of year	(202,184)	(166,967)
Accrued nonoperating distributions, end of year	241,039	202,184
Special item – restricted net assets accrued for distribution to State of West Virginia	(40,000)	-
Special item – unrestricted net assets accrued for distribution to State of West Virginia	<u>(7,520)</u>	<u>-</u>
Total nonoperating distributions to the State of West Virginia	<u>\$ 568,945</u>	<u>\$ 616,623</u>

11 - RESTRICTED NET ASSETS

On June 14, 2006, House Bill 106 was enacted by the West Virginia State Legislature to set aside unexpended administrative expenses of the Lottery up to the limits for such expenses established by the enabling legislation of traditional, racetrack video lottery, and limited video lottery games in an amount not to exceed \$20,000,000 beginning in fiscal year 2006 and each year through fiscal year 2012. These assets are to be set aside in the revenue center construction fund for the design and construction of a building in the West Virginia Capitol Complex for the use of the Lottery and certain other State of West Virginia governmental entities. The Lottery set aside interest income of \$91,452 for the year ended June 30, 2010 and \$10,817,391 with related interest income of \$566,293 for the year ended June 30, 2009.

Restricted net asset activity is as follows for the years ending June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Begininng restricted net assets	\$ 69,871	\$ 58,487
Enabling legislation additions to net assets	-	10,817
Interest earned on restricted net assets	92	567
Aquisition of capital assets in accordance with enabling legislation	(21,608)	-
Accrued distributions of surplus restricted net assets to the State of West Virginia	<u>(40,000)</u>	<u>-</u>
Ending restricted net assets	<u>\$ 8,355</u>	<u>\$ 69,871</u>



WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

12 – SPECIAL ITEMS

On June 30, 2010, the Lottery purchased a building to serve as its new headquarters. Coinciding with the building purchase, the Lottery determined that certain restricted net assets and other unrestricted net asset funds previously set aside for the construction or purchase of capital assets (described in Note 11) were surplus funds and accordingly, were to be distributed to the State of West Virginia. The return of these surplus funds is recorded as a special item accrued for distribution to the State of West Virginia and represents an expense of the Lottery for the year ending June 30, 2010.

13 - RETIREMENT BENEFITS

All full-time Lottery employees are eligible and required to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit public employee retirement system. The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement Board (CPRB) under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and nine members appointed by the Governor. CPRB prepares separately issued financial statements for each retirement system it administers, which can be obtained from Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304-1636 or by calling 1-800-654-4406.

Employees who retire at or after age sixty with five or more years of contributory service or who retire at or after age fifty-five and have completed twenty-five years of credited service with age and credited service equal to eighty or greater are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement.

Covered employees are required to contribute 4.5% of their salary to the PERS. The Lottery is required to contribute 11% of covered employees' salaries to the PERS. The required employee and employer contribution percentages have been established and changed from time to time by action of the State Legislature. The required contributions are not actuarially determined; however, actuarial valuations are performed to assist the Legislature in determining appropriate contributions. The Lottery and employee contributions, which equaled the required contributions for the three years ended June 2010, 2009, and 2008, were as follows (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Lottery contributions	\$ 832	\$ 666	\$ 556
Employee contributions	<u>312</u>	<u>290</u>	<u>237</u>
Total contributions	<u>\$ 1,144</u>	<u>\$ 956</u>	<u>\$ 793</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS (Continued)

14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The GASB has issued Statement No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, and Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*” (OPEB). The GASB statements are based on the premise that the “costs” of employee services should be reported during the periods when the services are rendered. The State implemented accounting and financial reporting requirements as an employer under GASB Statement No. 45. The financial statements report OPEB funded status and funding progress and any “premium subsidy” resulting from the pooling of retiree participants with active employees in the health benefit plans. For “employer” OPEB reporting the State will report “expense” on an accrual basis in the amount of the “annual required contribution” and a “liability” for the amount of the “annual required contribution” that was not actually paid.

In response to the GASB statements, the Legislature made statutory changes to create the West Virginia Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust fund, in which employer contributions for future retiree health costs may be accumulated and invested, and which facilitates the separate financial reporting of OPEB. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB Statement No. 43, the Annual Required Contribution (the ARC) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC shall be allocated to respective employers including the Lottery who are required by law to remit at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residual funds held in trust for future OPEB costs.

Plan Description

The Lottery participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funding Policy (Continued)

The ARC rate is \$901 and \$388 per employee per month for the years ending June 30, 2010 and 2009, respectively. The Lottery's ARC was \$1,458,892, \$620,360, and \$608,599 and the Lottery has paid premiums of \$226,212, \$185,563, and \$98,625, which represent 15.5%, 29.9%, and 16.2% of the ARC, respectively, for the years ending June 30, 2010, 2009, and 2008. The State of West Virginia, on the Lottery's behalf, contributed \$472,247 of the 2008 ARC. As of June 30, 2010 and 2009 the Lottery has recorded a liability of \$1,484,546 and \$251,867, respectively, for OPEB.

15 - RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery participates in several risk management programs administered by the State of West Virginia and other providers. Each of these risk pools have issued separate audited financial reports on their operations. Those reports include the required supplementary information regarding the reconciliation of claims liabilities by type of contract and ten-year claim development information. Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

Public Employees' Insurance Agency (PEIA)

The Lottery participates in the Public Employees Insurance Agency (PEIA) which provides an employee benefit insurance program to employees. PEIA was established by the State of West Virginia for State agencies, institutions of higher education, Boards of Education and component units of the State. In addition, local governmental entities and certain charitable and public service organizations may request to be covered by PEIA. PEIA provides a base employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Underwriting and rate setting policies are established by PEIA. The cost of all coverage, as determined by PEIA shall be paid by the participants. Premiums are established by PEIA and are paid monthly, and are dependent upon, among other things, coverage required, number of dependents, state vs. non state employees and active employees vs. retired employees and level of compensation. Coverage under these programs is limited to \$1 million for lifetime for health and \$10,000 of life insurance coverage.

The PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has fully transferred the risks of coverage of the Managed Care Organization (MCO) Plan to the plan provider, and has transferred the risks of the life insurance coverage to a third party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 205,000 individuals, including participants and dependents.

15 - RISK MANAGEMENT (Continued)

Board of Risk and Insurance Management (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a common risk pool currently operating as a common risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

Workers Compensation Insurance

The Lottery carries workers compensation insurance coverage through a commercial insurance carrier. The commercial insurance carrier is paid a monthly rated premium to provide compensation for injuries sustained in the course of employment.

16 - COMMITMENTS

The Lottery Commission has designated unexpended administrative funds for the acquisition of capital assets. As of June 30, 2010 and 2009, \$5,921,057 and \$12,817,601, respectively, are included in unrestricted net assets and invested in capital assets for this purpose.



. . . Tourism Advertising . . . Brochures . . . State Park Improvements and Upgrades.



Grants for Destinations . . . Fairs and Festivals . . . New Attractions . . .



West Virginia Lottery
a component unit of the State of West Virginia

Statistical Section



TOURISM \$665 Million*

The economic benefit of tourism has been aided by Lottery dollars. Promoting our beautiful state to others has greatly helped us increase the number of visitors and helped build new attractions and improve our state parks.

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2010

*Since 1986



STATISTICAL SECTION OVERVIEW

This section of the West Virginia Lottery's comprehensive annual financial report depicts charts and graphs to aid in understanding the information presented in the financial statements and note disclosures about the Lottery's overall financial health.

Financial Trends/Revenue Capacity

The accompanying schedules depicting financial and revenue trends contain information to help the reader understand how the financial performance and well-being have changed over time and how the Lottery assesses its most significant revenue sources; traditional instant and on-line games, the video lottery segment and table games. The continued expansion of venues that offer a variety of gaming options has sustained revenues for the Lottery.

Demographic and Economic Information

The accompanying schedules depicting demographic and other economic relationships offer indicators to help the reader understand the environment within which the Lottery's financial activities take place. Indexes such as player income distribution, per capita income and competitive revenues generated by other lottery systems are relevant in assessing the Lottery's performance.

Operating Information

There are many factors that impact the level of demand for Lottery products. For our on-line games, the sizes of the publicized jackpots drive the sales level. As an example, a Powerball® jackpot of \$100 million will generate more sales than a jackpot of \$15 million. For our instant ticket games, the level of demand is impacted by many factors such as game themes, play-styles, price points and prize payouts. Racetrack Video Lottery and Table Games sales are largely driven by tourism. Weekends and holidays generate higher sales than weekdays. Limited Video Lottery sales are seasonally affected. Cold months tend to generate higher sales than warmer months. In an effort to minimize the effect of these nuances, the accompanying schedules contain information by year and game type to help the reader understand how the Lottery's financial performance and overall growth have trended.

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive financial reports or the audited financial statements for the relevant year.

WEST VIRGINIA LOTTERY

Sales By Product and Other Revenues Last Ten Fiscal Years

	2001	2002	2003	2004
Instant	\$74,400,373	\$94,322,791	\$105,395,146	\$109,843,864
Powerball®	48,359,522	75,911,123	51,067,026	63,373,462
Other MUSL games	1,415,871	1,525,689	2,805,269	2,579,140
Daily 3	10,167,011	10,076,565	9,927,812	9,386,172
Daily 4	4,735,252	4,695,641	4,724,179	4,540,767
Cash 25	6,522,114	6,614,501	6,242,641	6,190,917
Travel Keno	13,201,103	13,757,028	11,924,361	10,953,721
Mega Millions®				
Total On-line	\$84,400,873	\$112,580,547	\$86,691,288	\$97,024,179
Video (net of prizes)				
Racetrack	\$438,090,521	\$595,946,640	\$717,079,486	\$854,858,062
Limited	-	\$45,760,647	\$172,743,695	\$241,710,952
Table Games (privilege tax)				
Video (net of prizes)				
Table Games (privilege tax)				
Total Historic Resort	-	-	-	-
Total Sales	\$596,891,767	\$848,610,625	\$1,081,909,615	\$1,303,437,057
License Fees	220,200	14,574,772	11,485,136	13,610,521
Miscellaneous	986,612	942,569	605,467	503,013
Other Operating Income	\$1,206,812	\$15,517,341	\$12,090,603	\$14,113,534
Nonoperating Income	\$2,979,816	\$7,190,034	\$813,454	\$474,138
Total Revenues	\$601,078,395	\$871,318,000	\$1,094,813,672	\$1,318,024,729

Expenses, Distributions and Net Income Last Ten Fiscal Years

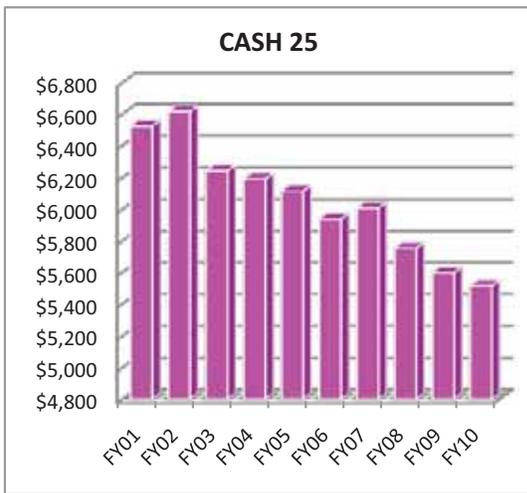
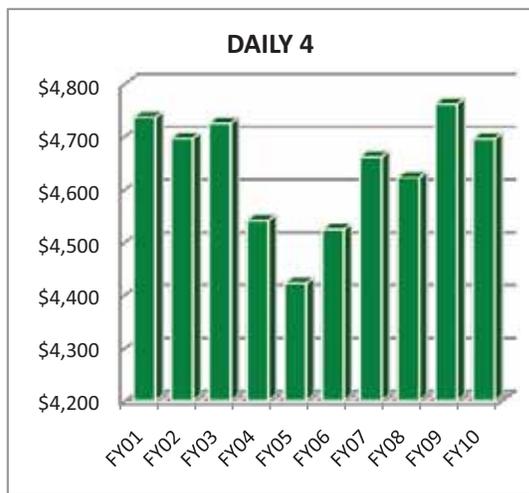
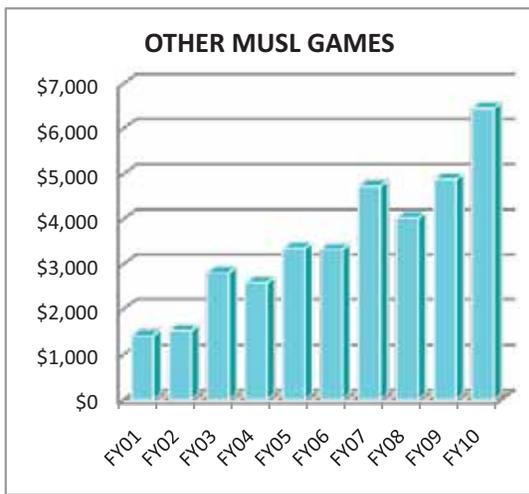
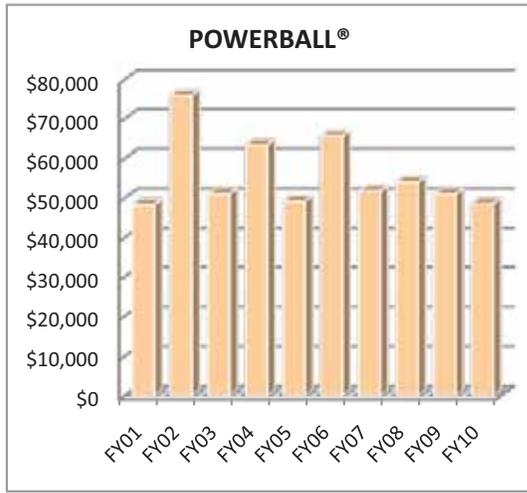
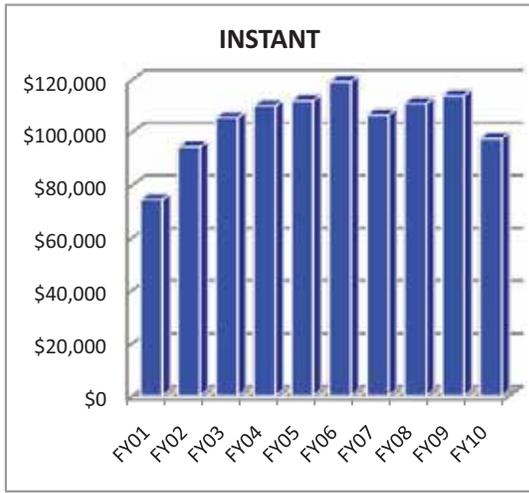
	2001	2002	2003	2004
Prizes (traditional)	\$93,128,321	\$120,180,048	\$114,651,424	\$123,263,630
Commissions				
Instant	4,650,043	5,896,537	7,377,661	7,689,770
On-line	5,267,767	7,041,257	6,086,088	6,772,587
Racetrack	286,275,466	354,762,709	412,325,047	477,797,417
Limited	-	31,391,705	99,799,713	137,388,489
Table Games	-	-	-	-
Historic Resort	-	-	-	-
Total Commissions	\$296,193,276	\$399,092,208	\$525,588,509	\$629,648,263
Administration (includes ticket costs)	\$22,520,013	\$30,360,103	\$29,452,769	\$31,980,883
Total Operating Expenses	\$411,841,610	\$549,632,359	\$669,692,702	\$784,892,776
Nonoperating Distributions				
Municipalities and Counties	-	-	3,384,191	4,776,034
Capital Reinvestment Fund	-	5,811,039	10,695,115	16,250,347
State of West Virginia	189,236,785	315,874,602	411,041,664	512,105,572
Total Distributions	\$189,236,785	\$321,685,641	\$425,120,970	\$533,131,953
Net Income	\$0	\$0	\$0	\$0

2005	2006	2007	2008	2009	2010
\$111,863,092	\$119,123,846	\$106,493,081	\$110,862,020	\$113,853,880	\$97,482,584
49,214,536	65,530,836	51,729,318	54,052,429	51,016,100	48,593,678
3,342,726	3,324,293	4,726,225	4,021,347	4,881,127	6,447,315
9,293,550	9,394,009	9,265,281	9,124,536	8,916,094	8,401,794
4,421,188	4,523,509	4,660,620	4,622,396	4,760,533	4,694,743
6,112,910	5,936,395	6,006,570	5,752,037	5,596,814	5,512,376
9,966,638	10,249,487	9,769,174	9,603,308	9,070,501	7,412,987
					2,678,674
\$82,351,548	\$98,958,529	\$86,157,188	\$87,176,053	\$84,241,169	\$83,741,567
\$894,530,565	\$942,250,631	\$972,591,775	\$897,952,931	\$848,232,669	\$746,208,159
\$310,328,583	\$362,181,294	\$397,016,887	\$411,587,201	\$412,488,946	\$397,287,133
			\$15,877,334	\$34,219,101	\$31,725,645
					1,132,902
					516,466
-	-	-	-	-	\$1,649,368
\$1,399,073,788	\$1,522,514,300	\$1,562,258,931	\$1,523,455,539	\$1,493,035,765	\$1,358,094,456
15,789,742	10,445,040	9,864,349	11,225,977	10,573,157	10,317,529
578,477	748,276	532,596	710,975	827,731	741,824
\$16,368,219	\$11,193,316	\$10,396,945	\$11,936,952	\$11,400,888	\$11,059,353
\$1,923,223	\$5,152,532	\$7,556,505	\$10,031,139	\$2,719,936	\$390,334
\$1,417,365,230	\$1,538,860,148	\$1,580,212,381	\$1,545,423,630	\$1,507,156,589	\$1,369,544,143

2005	2006	2007	2008	2009	2010
\$117,125,999	\$131,903,210	\$115,792,130	\$121,169,284	\$119,449,497	\$107,983,663
7,831,524	8,338,753	7,454,496	7,762,564	7,969,759	6,823,692
5,767,083	6,936,315	6,019,193	6,113,745	5,900,642	5,849,450
496,649,792	508,326,365	522,744,477	487,276,099	463,649,031	414,987,691
173,115,051	195,112,272	206,127,102	205,636,799	202,119,568	194,670,681
-	-	-	6,249,023	13,458,369	12,473,391
-	-	-	-	-	846,922
\$683,363,450	\$718,713,705	\$742,345,268	\$713,038,230	\$693,097,369	\$635,651,827
\$29,622,628	\$31,329,670	\$30,905,929	\$33,478,401	\$35,215,252	\$36,493,179
\$830,112,077	\$881,946,585	\$889,043,327	\$867,685,915	\$847,762,118	\$780,128,669
6,083,020	7,098,999	7,781,531	8,067,110	8,084,783	7,786,828
17,849,943	19,774,016	20,997,371	17,987,933	15,983,212	11,968,468
563,320,190	610,040,548	639,150,849	631,155,117	616,622,965	616,465,269
\$587,253,153	\$636,913,563	\$667,929,751	\$657,210,160	\$640,690,960	\$636,220,565
\$0	\$20,000,000	\$23,239,303	\$20,527,555	\$18,703,511	(\$46,805,091)

WEST VIRGINIA LOTTERY

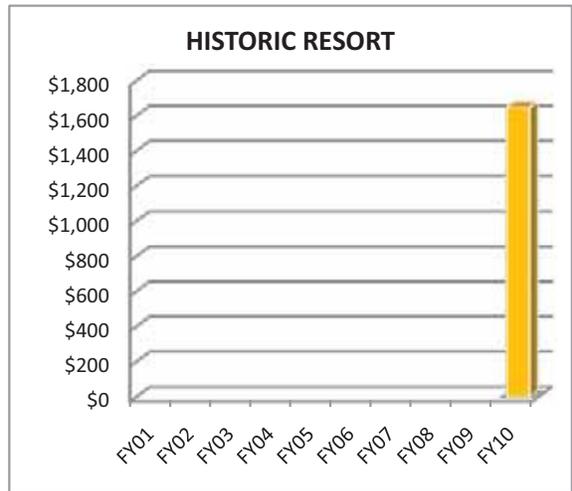
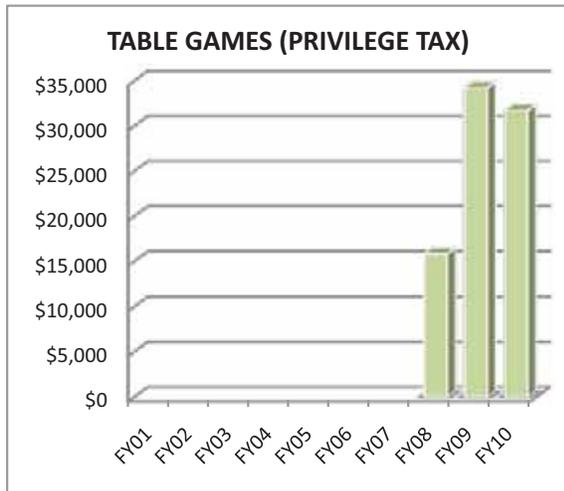
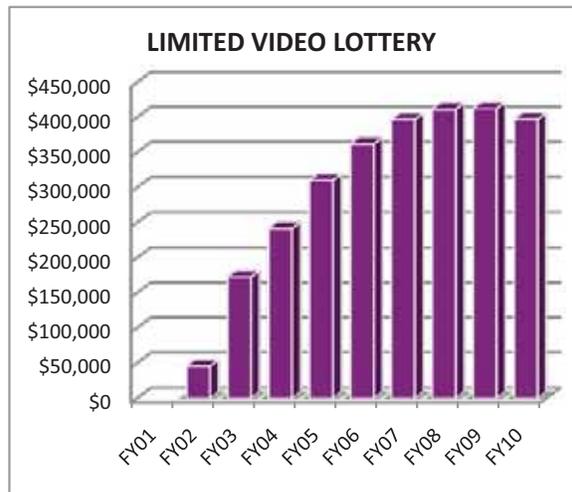
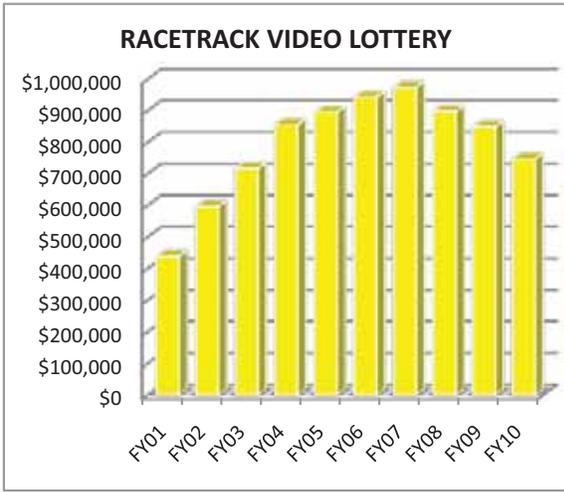
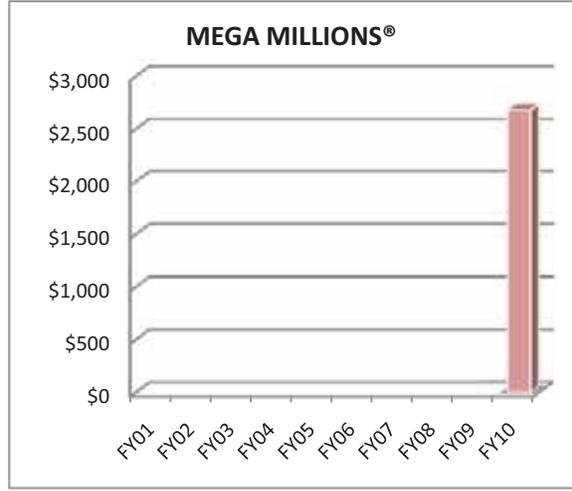
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

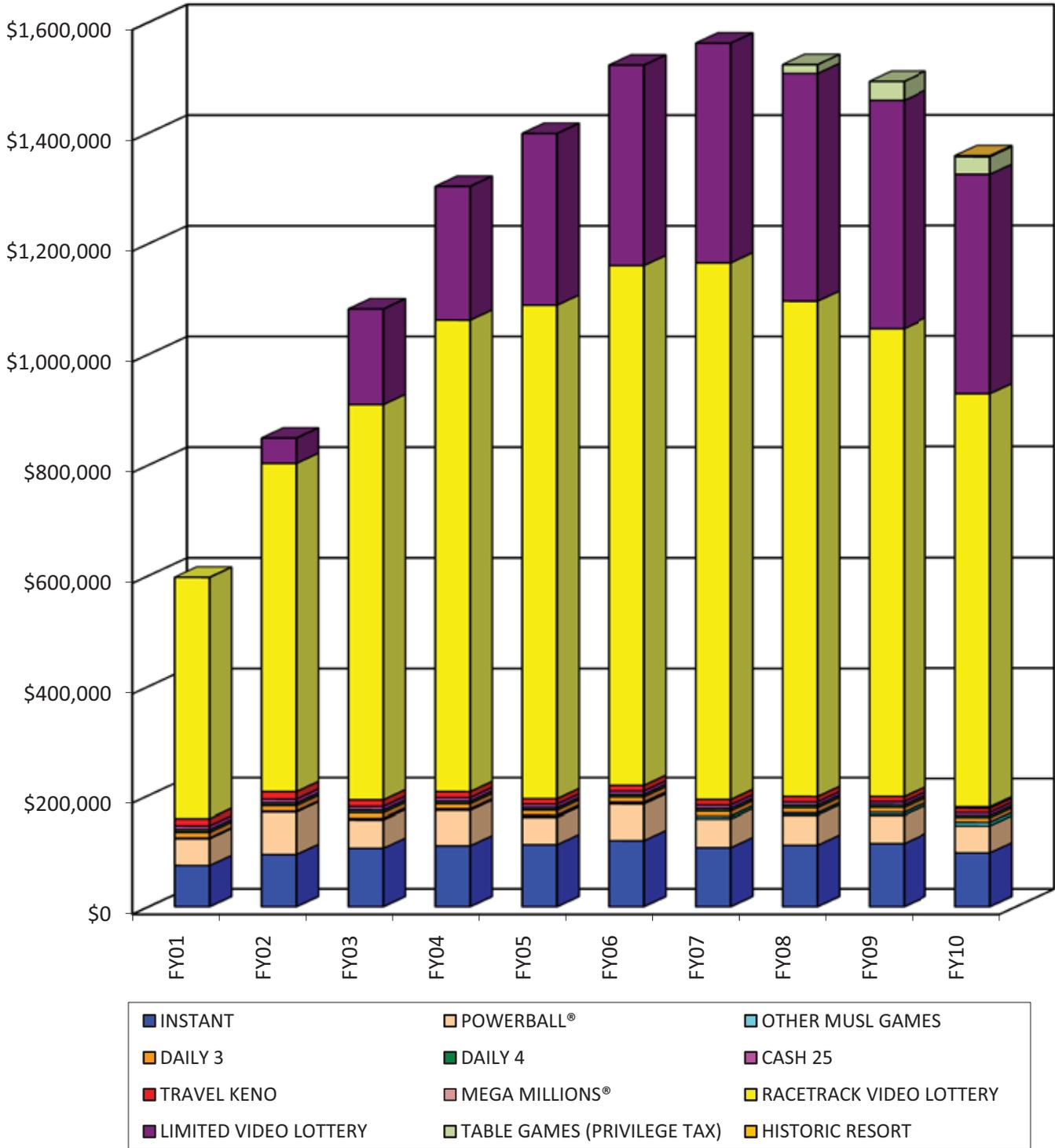
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

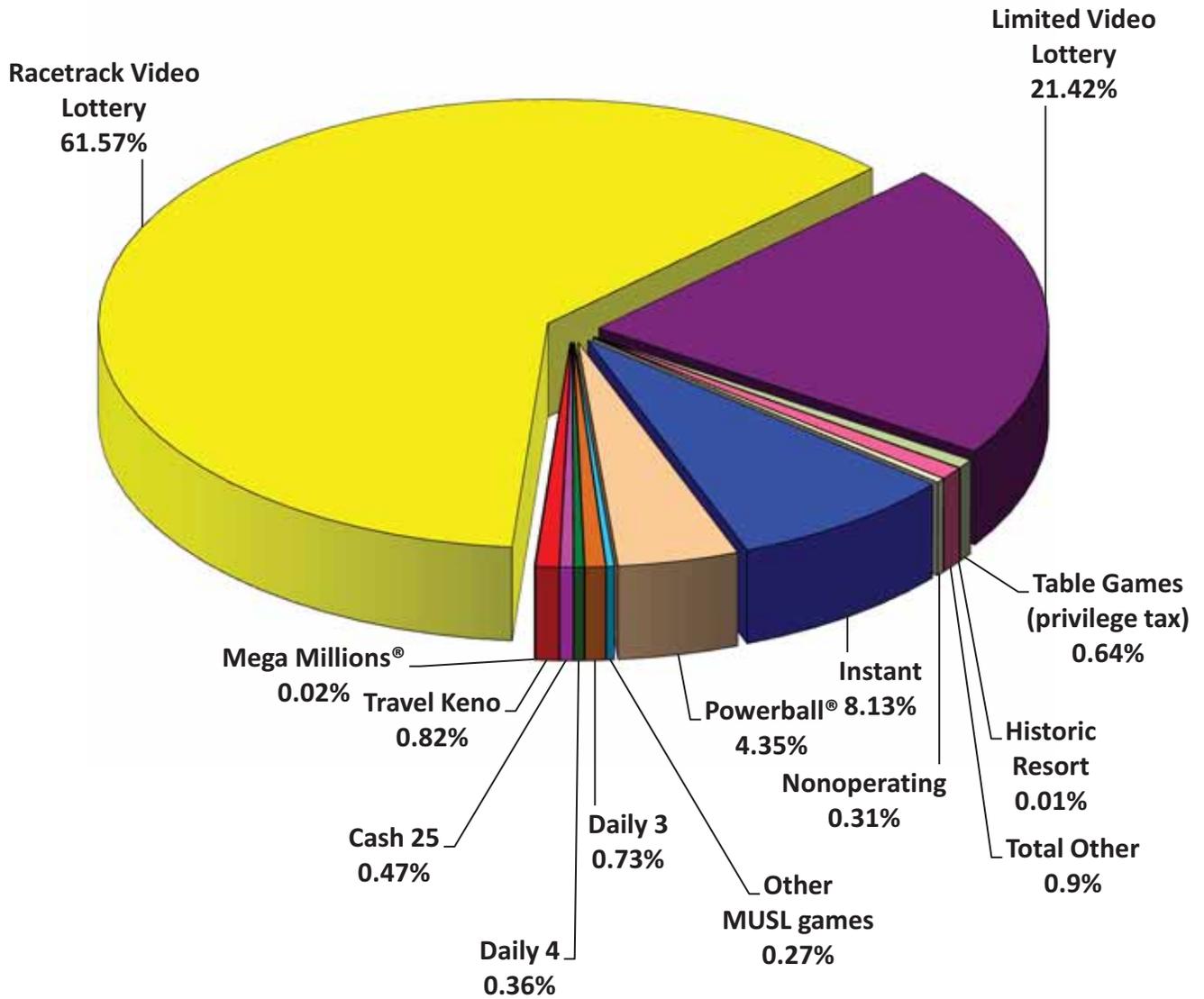
Sales By Product Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

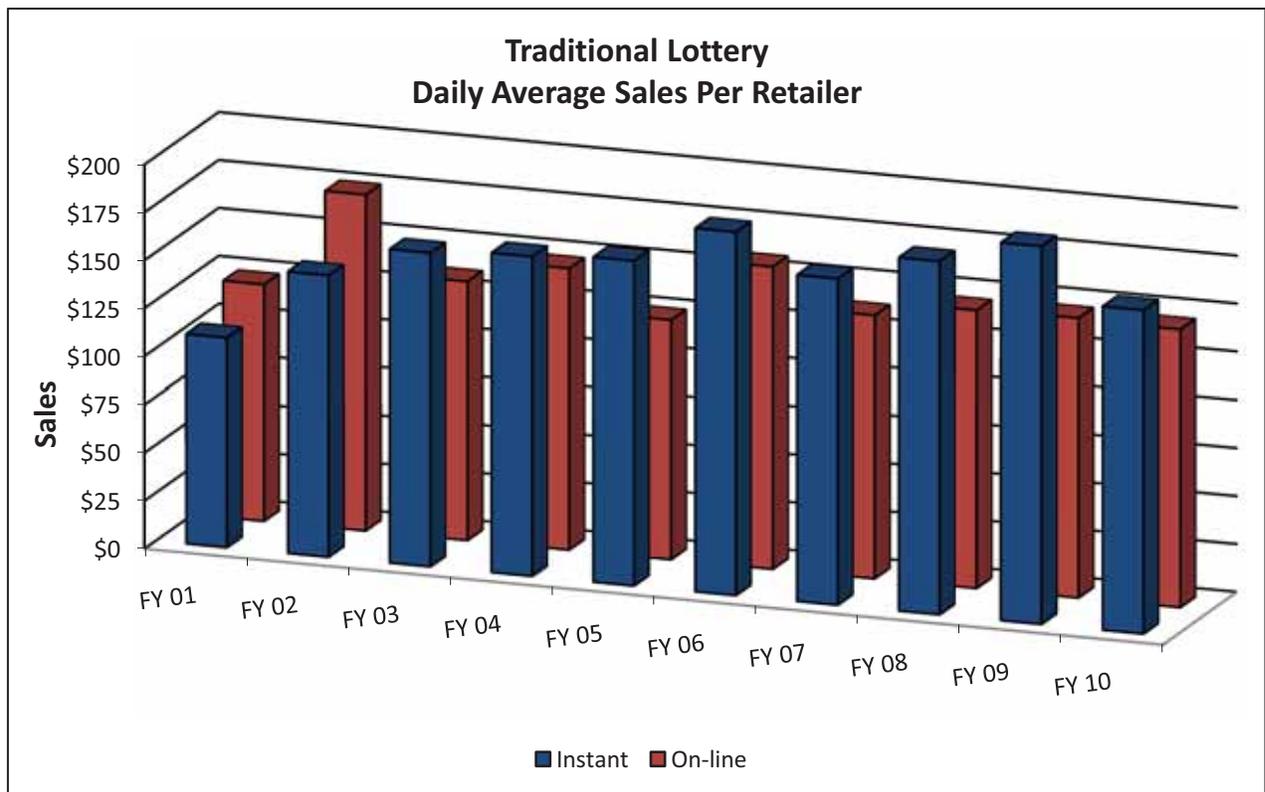
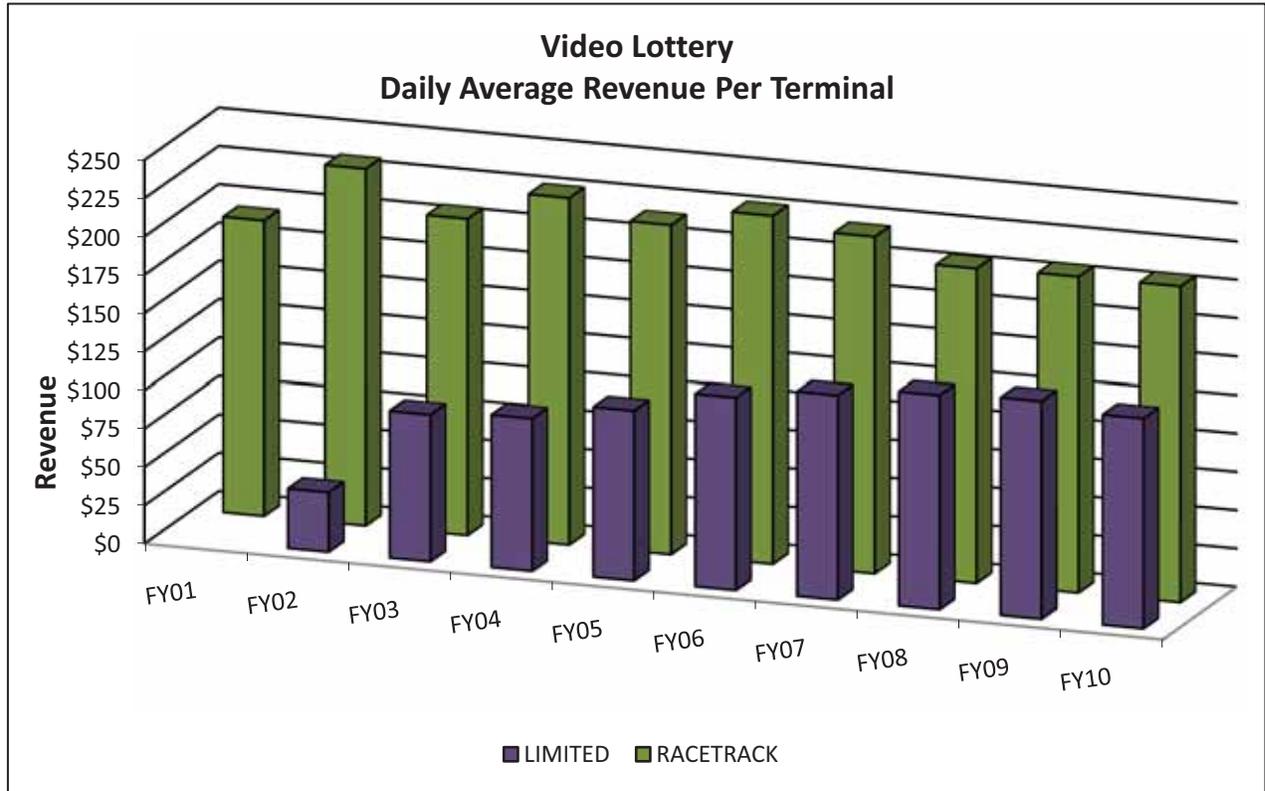
Total Revenues \$12,843,796,917
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

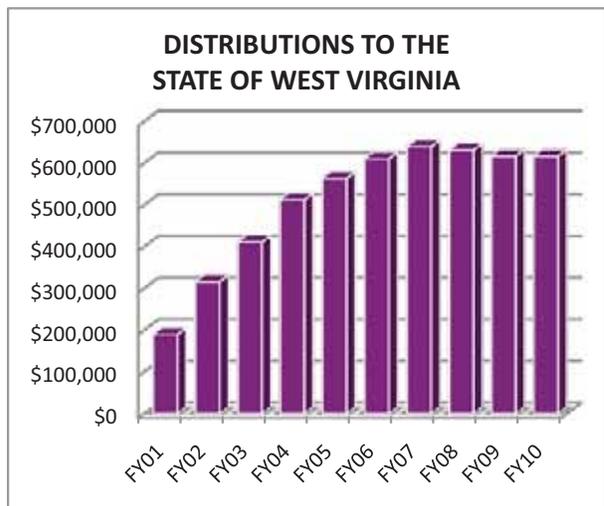
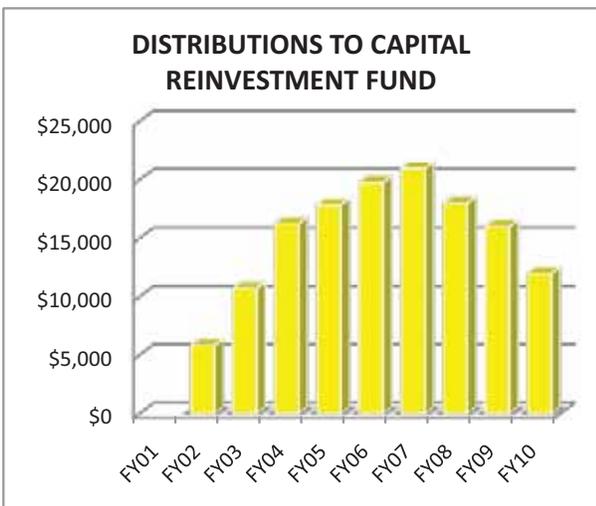
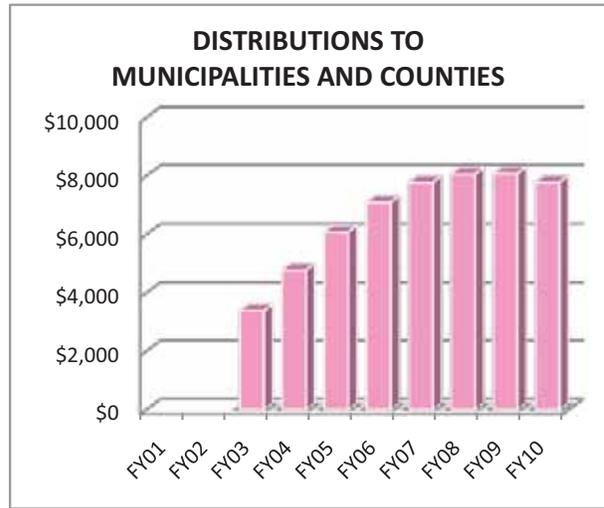
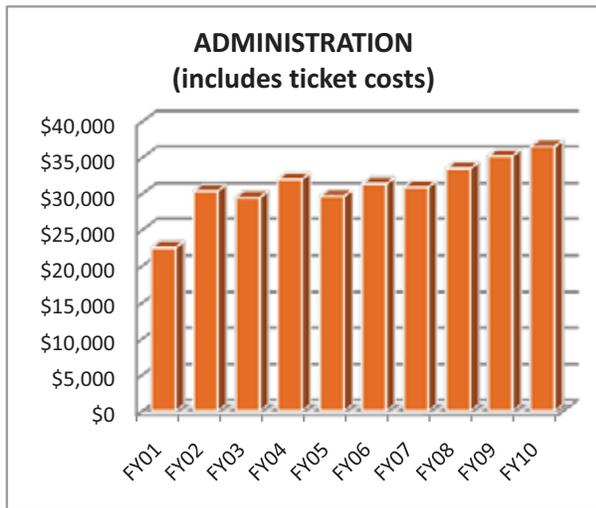
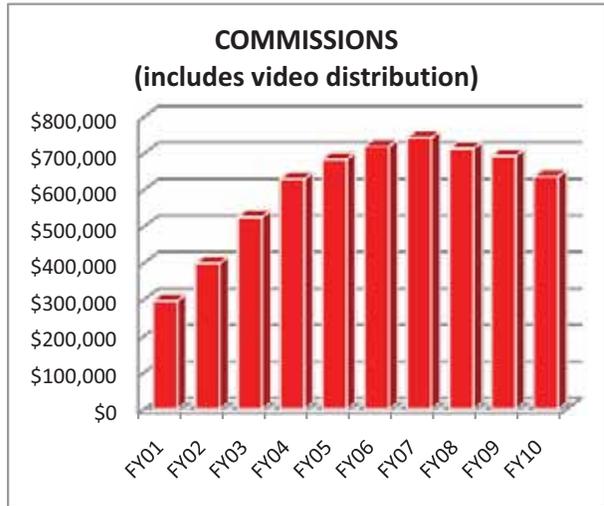
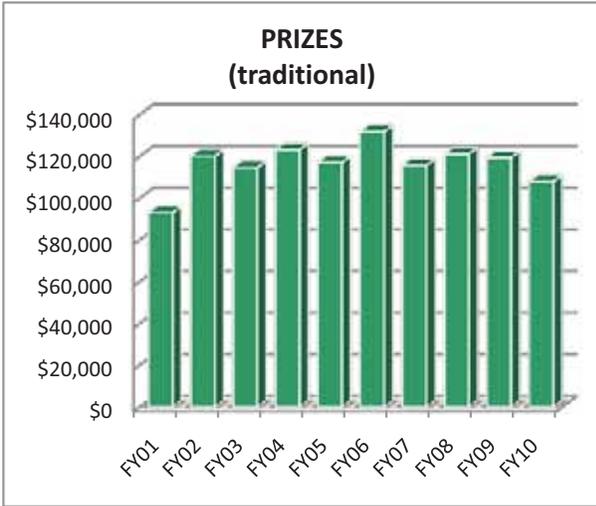
Daily Averages Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

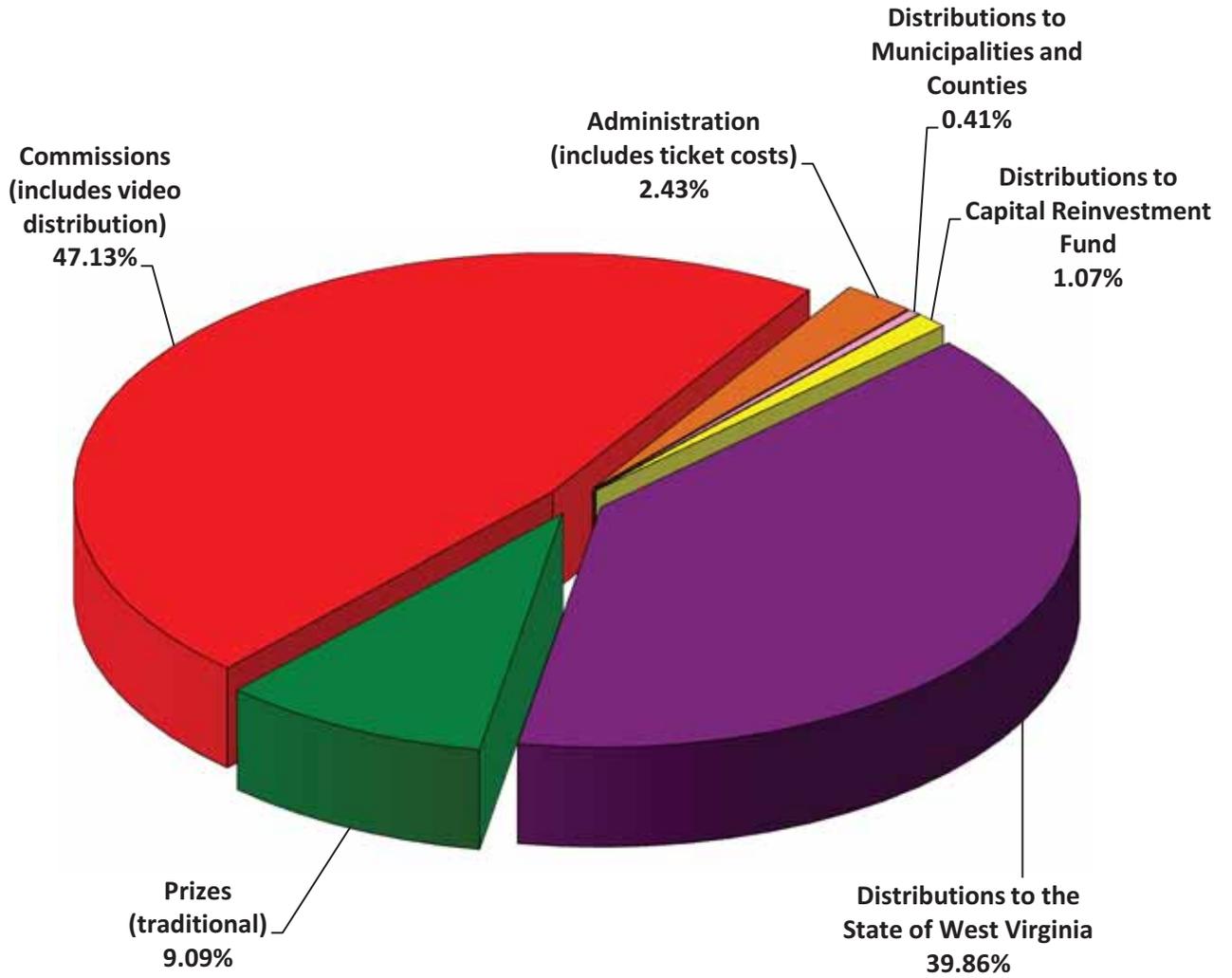
Expenses and Nonoperating Distributions Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

Total Expenses and Nonoperating Distributions \$12,808,131,639
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

Total Net Assets (000's)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Net Assets									
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 20,000	\$ 30,367	\$ 58,487	\$ 69,871	\$ 8,355
Invested in capital assets	6,195	4,754	3,184	2,024	1,149	1,451	5,251	3,306	23,349
Unrestricted (deficit)	(5,945)	(4,504)	(2,934)	(1,774)	(899)	11,671	747	10,011	4,679
Total net assets	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 20,250</u>	<u>\$ 43,489</u>	<u>\$ 64,485</u>	<u>\$ 83,188</u>	<u>\$ 36,383</u>

Note: Net Assets presented since adoption of Governmental Accounting Standards Board Statement No. 34

Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2010 Excludes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Prizes	Net Income	Population	Sales/Capita
Arizona	\$551.5	\$334.5	\$141.9	6.6	\$83.56
Arkansas	\$383.7	\$251.0	\$82.6	2.9	\$132.31
California	\$3,041.0	\$1,611.4	\$1,077.0	37.0	\$82.19
Colorado	\$501.2	\$310.4	\$112.9	5.0	\$100.24
Connecticut	\$996.8	\$608.8	\$285.5	3.5	\$284.80
Delaware	\$123.2			0.9	\$136.89
D.C. (end 6/30)	\$233.9	\$118.5	\$69.6	0.6	\$389.83
Florida	\$3,900.5			18.5	\$210.84
Georgia	\$3,645.4	\$2,129.1	\$883.9	9.8	\$371.98
Idaho	\$146.9			1.5	\$97.93
Illinois	\$2,216.2	\$1,210.7	\$657.9	12.9	\$171.80
Indiana	\$739.1			6.4	\$115.48
Iowa	\$256.3	\$150.5	\$57.9	3.0	\$85.43
Kansas	\$243.7			2.8	\$87.04
Kentucky	\$772.5	\$484.6	\$214.2	4.3	\$179.65
Louisiana	\$372.4	\$189.7	\$133.7	4.5	\$82.76
Maine	\$217.3		\$52.2	1.3	\$167.15
Maryland	\$1,706.6	\$1,030.9	\$510.6	5.7	\$299.40
Massachusetts	\$4,412.1	\$3,174.9	\$903.5	6.6	\$668.50
Michigan ^{1,6}	\$2,348.0	\$1,392.5	\$704.2	10.0	\$234.80
Minnesota	\$499.0	\$305.2	\$122.6	5.3	\$94.15
Missouri	\$971.6	\$868.1	\$255.0	6.0	\$161.93
Montana	\$47.0	\$25.9	\$10.6	1.0	\$47.00
Nebraska	\$130.6			1.8	\$72.56
New Hampshire	\$233.2	\$121.8	\$66.0	1.3	\$179.38
New Jersey	\$2,605.2	\$1,501.7	\$893.6	8.7	\$299.45
New Mexico	\$143.6	\$78.6	\$43.6	2.0	\$71.80
New York ^{2,4}	\$6,781.1	\$3,952.0	\$2,666.4	19.5	\$347.75
North Carolina	\$1,421.3	\$835.3	\$430.8	9.4	\$151.20
North Dakota	\$24.3	\$12.7	\$5.8	0.6	\$40.50
Ohio	\$2,487.1	\$1,525.2	\$728.6	11.5	\$216.27
Oklahoma	\$199.7			3.7	\$53.97
Oregon ^{2,3}	\$320.7	\$206.0	\$526.1	3.8	\$84.39
Pennsylvania	\$3,065.7	\$1,867.1	\$915.7	12.6	\$243.31
Rhode Island ^{2,3}	\$234.7	\$144.3	\$344.6	1.1	\$213.36
South Carolina	\$1,007.5			4.6	\$219.02
South Dakota ^{2,3}	\$45.7	\$25.5	\$116.9	0.8	\$57.13
Tennessee	\$1,138.4	\$664.0	\$288.9	6.3	\$180.70
Texas ⁵	\$3,738.4	\$2,299.6	\$1,007.8	24.8	\$150.74
Vermont	\$97.5	\$61.1	\$21.6	0.6	\$162.50
Virginia	\$1,435.1	\$852.7	\$430.2	7.9	\$181.66
Washington	\$491.0			6.7	\$73.28
West Virginia ^{2,3,7}	\$181.2	\$107.1	\$560.8	1.8	\$100.67
Wisconsin	\$480.8			5.7	\$84.35
Total	\$54,588.7	\$28,451.4	\$15,323.2	291.3	\$7,469.67

2010 data source: La Fleur's Magazine/Vol. 18, No. 1 Sept/Oct 2010

¹Estimated Sales

⁵Fiscal Year ends 8/31

²Doesn't include VLT prizes

⁶Fiscal Year ends 9/30

³Includes traditional and VLT profit

⁷Gross sales were \$1,358.1, including VLT sales of \$1,144.6 and Table Games sales of \$33.2

⁴Fiscal Year ends 3/31

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2009 Excludes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Prizes	Net Income	Population	Sales/Capita
Arizona	\$484.5	\$282.5	\$129.1	6.5	\$74.54
California	\$2,954.8	\$1,556.1	\$1,020.7	36.8	\$80.29
Colorado	\$493.4	\$301.7	\$119.6	4.9	\$100.69
Connecticut	\$991.3	\$604.7	\$283.0	3.5	\$283.23
Delaware	\$123.2			0.9	\$136.89
D.C. (end 6/30)	\$246.2			0.6	\$410.33
Florida	\$3,938.1	\$2,412.1	\$1,284.8	18.3	\$215.20
Georgia	\$3,663.1	\$2,148.7	\$872.1	9.7	\$377.64
Idaho	\$139.8	\$85.0	\$35.0	1.5	\$93.20
Illinois	\$2,095.5	\$1,199.1	\$625.0	12.9	\$162.44
Indiana	\$732.7	\$453.2	\$178.9	6.4	\$114.48
Iowa	\$243.4	\$137.9	\$60.6	3.0	\$81.13
Kansas	\$241.8			2.8	\$86.36
Kentucky	\$810.5	\$515.9	\$204.4	4.3	\$188.49
Louisiana	\$378.5	\$193.3	\$135.9	4.4	\$86.02
Maine	\$210.9	\$125.7	\$49.8	1.3	\$162.23
Maryland	\$1,698.1	\$1,023.9	\$493.2	5.6	\$303.23
Massachusetts	\$4,425.5	\$3,218.2	\$858.4	6.5	\$680.85
Michigan ^{1,6}	\$2,379.0	\$1,437.4	\$727.5	10.0	\$237.90
Minnesota	\$481.3	\$295.0	\$119.6	5.2	\$92.56
Missouri	\$967.2		\$259.0	5.9	\$163.93
Montana	\$44.0	\$23.1	\$10.1	1.0	\$44.00
Nebraska	\$123.1	\$71.9	\$30.2	1.8	\$68.39
New Hampshire	\$239.0	\$142.1	\$68.0	1.3	\$183.85
New Jersey	\$2,503.3	\$1,450.7	\$849.5	8.7	\$287.74
New Mexico	\$142.3	\$78.3	\$40.8	2.0	\$71.15
New York ^{2,4}	\$6,695.1	\$4,003.8	\$2,544.0	19.5	\$343.34
North Carolina	\$1,293.1	\$811.9	\$414.1	9.2	\$140.55
North Dakota	\$21.8	\$11.3	\$6.4	0.6	\$36.33
Ohio	\$2,416.3	\$1,459.0	\$702.3	11.5	\$210.11
Oklahoma	\$193.2	\$95.9	\$69.2	3.6	\$53.67
Oregon ^{2,3}	\$313.8	\$205.3	\$635.0	3.8	\$82.58
Pennsylvania	\$3,088.2	\$1,852.5	\$910.5	12.4	\$249.05
Rhode Island ^{2,3}	\$238.6	\$144.9	\$344.3	1.1	\$216.91
South Carolina	\$1,003.9	\$633.2	\$261.2	4.5	\$223.09
South Dakota ^{2,3}	\$41.3	\$23.3	\$118.2	0.8	\$51.63
Texas ⁵	\$3,720.1	\$2,353.5	\$1,046.7	24.3	\$153.09
Vermont	\$96.0	\$60.7	\$20.9	0.6	\$160.00
Virginia	\$1,365.6	\$781.0	\$439.1	7.8	\$175.08
Washington	\$487.7			6.5	\$75.03
West Virginia ^{2,3,7}	\$198.1	\$119.4	\$556.7	1.8	\$110.06
Wisconsin	\$473.3			5.6	\$84.52
Total	\$52,396.6	\$30,312.2	\$16,523.8	279.4	\$7,151.79

2009 data source: La Fleur's Magazine/Vol. 17, No. 1 Sept/Oct 2009

¹Estimated Sales

⁵Fiscal Year ends 8/31

²Doesn't include VLT prizes

⁶Fiscal Year ends 9/30

³Includes traditional and VLT profit

⁷Gross sales were \$1,493.0, including VLT sales of \$1,260.7

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2010 Includes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Profit	Population	Sales/Capita
Arizona	\$551.50	\$141.90	6.6	\$83.56
Arkansas (9/28/09-6/30/10)	\$383.70	\$82.70	2.9	\$132.31
California	\$3,086.16	\$1,055.18	37.0	\$83.41
Colorado	\$501.20	\$112.90	5.0	\$100.24
Connecticut	\$996.85	\$285.50	3.5	\$284.81
Delaware ¹	\$684.50	\$275.50	0.9	\$760.56
District of Columbia (9/30)	\$232.00	\$66.00	0.6	\$386.67
Florida	\$3,900.50	\$1,247.00	18.5	\$210.84
Georgia	\$3,645.00	\$883.90	9.8	\$371.94
Idaho	\$147.00	\$36.50	1.5	\$98.00
Illinois	\$2,209.30	\$657.88	12.9	\$171.26
Indiana	\$739.10	\$188.80	6.4	\$115.48
Iowa	\$256.26	\$57.91	3.0	\$85.42
Kansas	\$243.66	\$69.03	2.8	\$87.02
Kentucky	\$772.50	\$214.30	4.3	\$179.65
Louisiana	\$372.39	\$134.08	4.5	\$82.75
Maine	\$216.73	\$52.20	1.3	\$166.72
Maryland	\$1,712.04	\$510.61	5.7	\$300.36
Massachusetts	\$4,423.00	\$903.50	6.6	\$670.15
Michigan (9/30)	\$2,347.90	\$704.20	10.0	\$234.79
Minnesota	\$498.97	\$122.25	5.3	\$94.15
Missouri	\$971.05	\$256.04	6.0	\$161.84
Montana	\$47.03	\$10.61	1.0	\$47.03
Nebraska	\$130.58	\$32.35	1.8	\$72.54
New Hampshire	\$233.89	\$66.08	1.3	\$179.92
New Jersey	\$2,605.16	\$924.16	8.7	\$299.44
New Mexico	\$143.60	\$43.60	2.0	\$71.80
New York (3/31) ¹	\$7,818.32	\$2,666.38	19.5	\$400.94
North Carolina	\$1,421.33	\$430.79	9.4	\$151.21
North Dakota	\$24.42	\$6.33	0.6	\$40.70
Ohio	\$2,486.00	\$728.60	11.5	\$216.17
Oklahoma	\$199.93	\$69.97	3.7	\$54.04
Oregon ¹	\$1,027.68	\$516.70	3.8	\$270.44
Pennsylvania	\$3,065.72	\$915.74	12.6	\$243.31
Puerto Rico	not reported	not reported	0.0	\$0.00
Rhode Island ²	\$702.40	\$344.65	1.1	\$638.55
South Carolina	\$1,007.16	\$272.43	4.6	\$218.95
South Dakota ²	\$260.99	\$116.91	0.8	\$326.24
Tennessee	\$1,138.00	\$288.90	6.3	\$180.63
Texas (8/31)	\$3,750.00	\$1,100.00	24.8	\$151.21
Vermont	\$97.48	\$21.64	0.6	\$162.47
Virginia	\$1,435.00	\$430.00	7.9	\$181.65
Washington	\$491.02	\$121.35	6.7	\$73.29
West Virginia ¹	\$1,358.00	\$568.90	1.8	\$754.44
Wisconsin ³	\$481.58	\$143.10	5.7	\$84.49
Total	\$58,816.60	\$17,877.07	291.3	\$9,681.38

2010 data source: NASPL website: www.NASPL.org

²Includes gross VLT sales (Cash in)

¹Includes net VLT sales (Cash in less cash out)

³Net Proceeds

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2009 Includes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Profit	Population	Sales/Capita
Arizona	\$484.50	\$129.10	6.5	\$74.54
California	\$2,970.97	\$1,048.69	36.8	\$80.73
Colorado	\$493.40	\$119.60	4.9	\$100.69
Connecticut	\$991.30	\$991.30	3.5	\$283.23
Delaware ¹	\$702.20	\$248.00	0.9	\$780.22
District of Columbia (9/30)	\$244.98	\$68.78	0.6	\$408.30
Florida	\$3,936.80	\$1,287.90	18.3	\$215.13
Georgia	\$3,663.00	\$872.10	9.7	\$377.63
Idaho	\$140.00	\$35.00	1.5	\$93.33
Illinois	\$2,095.51	\$625.00	12.9	\$162.44
Indiana	\$732.70	\$178.90	6.4	\$114.48
Iowa	\$243.34	\$60.55	3.0	\$81.11
Kansas	\$241.80	\$68.19	2.8	\$86.36
Kentucky	\$810.50	\$204.40	4.3	\$188.49
Louisiana	\$378.52	\$135.43	4.4	\$86.03
Maine	\$210.37	\$49.83	1.3	\$161.82
Maryland	\$1,706.96	\$493.21	5.6	\$304.81
Massachusetts	\$4,442.00	\$859.40	6.5	\$683.38
Michigan (9/30)	\$2,377.40	\$724.50	10.0	\$237.74
Minnesota	\$481.25	\$118.25	5.2	\$92.55
Missouri	\$968.45	\$256.29	5.9	\$164.14
Montana	\$43.85	\$10.13	1.0	\$43.85
Nebraska	\$123.25	\$29.29	1.8	\$68.47
New Hampshire	\$239.93	\$68.15	1.3	\$184.56
New Jersey	\$2,503.27	\$887.21	8.7	\$287.73
New Mexico	\$142.60	\$40.80	2.0	\$71.30
New York (3/31) ¹	\$7,660.15	\$2,543.95	19.5	\$392.83
North Carolina	\$1,293.11	\$413.93	9.2	\$140.56
North Dakota	\$21.72	\$5.73	0.6	\$36.20
Ohio	\$2,417.00	\$702.30	11.5	\$210.17
Oklahoma	\$193.33	\$69.23	3.6	\$53.70
Oregon ¹	\$1,100.52	\$568.20	3.8	\$289.61
Pennsylvania	\$3,088.03	\$910.48	12.4	\$249.03
Puerto Rico	\$421.18	\$146.91	3.9	\$107.99
Rhode Island ²	\$699.37	\$344.29	1.1	\$635.79
South Carolina	\$1,005.11	\$260.44	4.5	\$223.36
South Dakota ²	\$261.17	\$119.88	0.8	\$326.46
Tennessee	\$1,087.00	\$280.20	6.3	\$172.54
Texas (8/31)	\$3,720.11	\$1,043.49	24.3	\$153.09
Vermont	\$95.98	\$20.95	0.6	\$159.97
Virginia	\$1,365.00	\$439.00	7.8	\$175.00
Washington	\$487.72	\$112.19	6.5	\$75.03
West Virginia ¹	\$1,493.00	\$616.60	1.8	\$829.44
Wisconsin ³	\$475.23	\$130.14	5.6	\$84.86
Total	\$58,253.58	\$18,337.91	289.6	\$9,748.74

2010 data source: NASPL website: www.NASPL.org

²Includes gross VLT sales (Cash in)

¹Includes net VLT sales (Cash in less cash out)

³Net Proceeds

WEST VIRGINIA LOTTERY

State Demographic and Economic Information

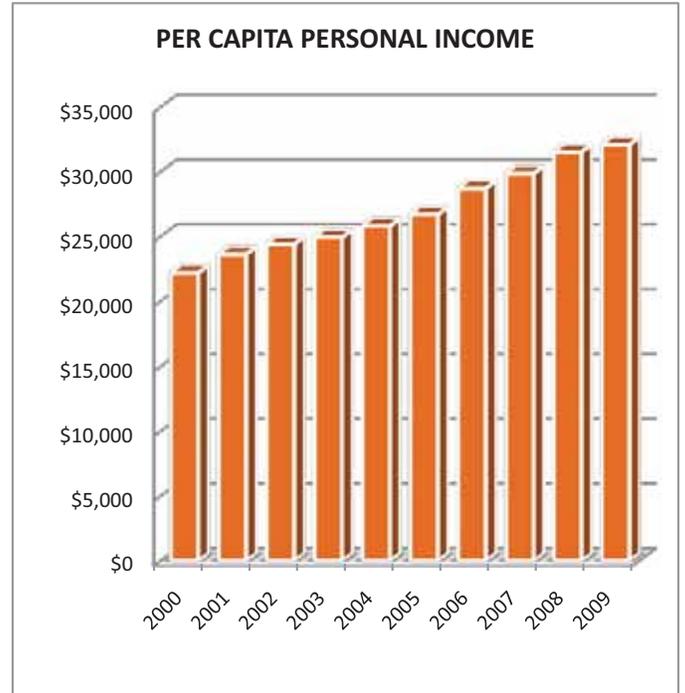
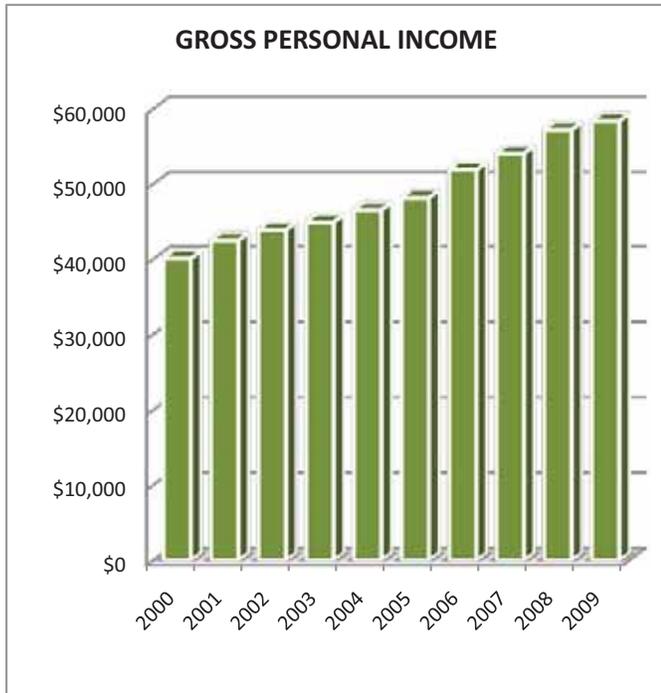
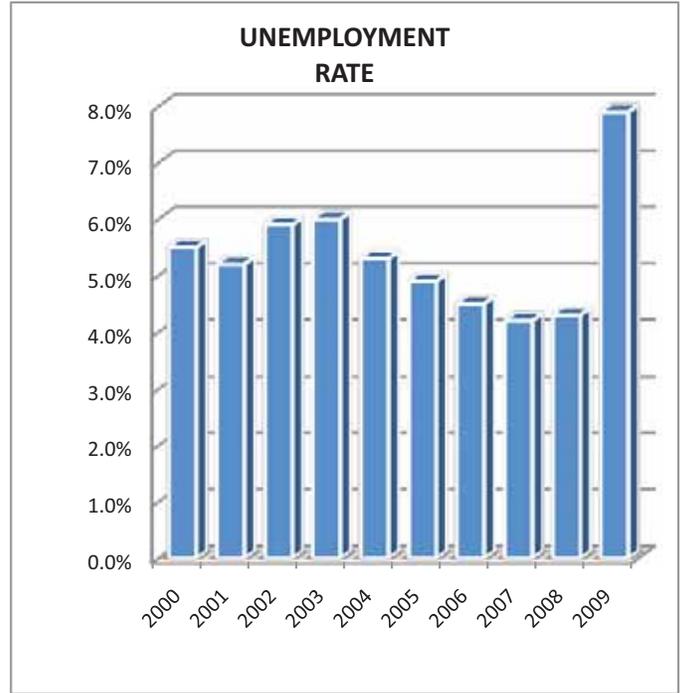
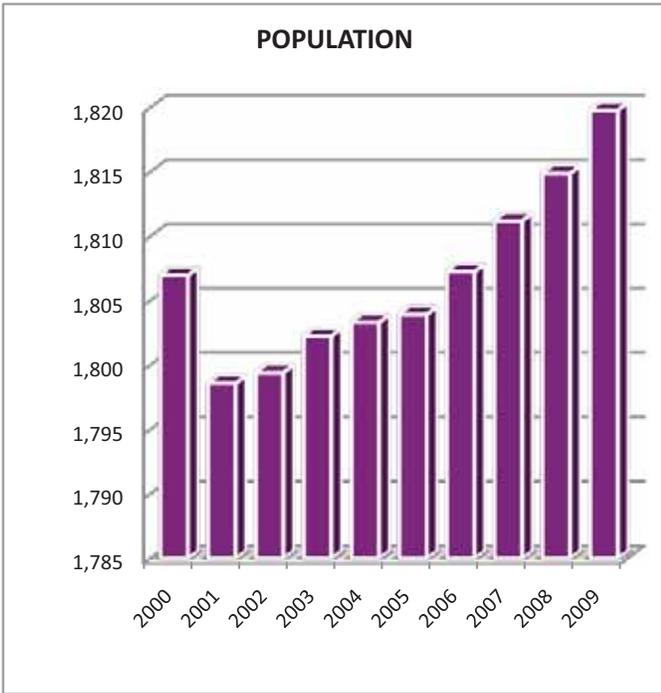
YEAR	POPULATION	PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2009	1,819,777	\$58,355	\$32,067	7.9%
2008	1,814,873	\$57,193	\$31,513	4.3%
2007	1,811,198	\$54,045	\$29,839	4.2%
2006	1,807,237	\$51,862	\$28,697	4.5%
2005	1,803,920	\$48,139	\$26,685	4.9%
2004	1,803,302	\$46,500	\$25,786	5.3%
2003	1,802,238	\$44,897	\$24,912	6.0%
2002	1,799,411	\$43,876	\$24,384	5.9%
2001	1,798,582	\$42,466	\$23,611	5.2%
2000	1,806,962	\$40,067	\$22,174	5.5%

Source: WV Bureau of Employment Programs and U.S. Bureau of Economic Analysis, based on calendar year.

Note: 2010 information is not available and therefore not presented.

WEST VIRGINIA LOTTERY

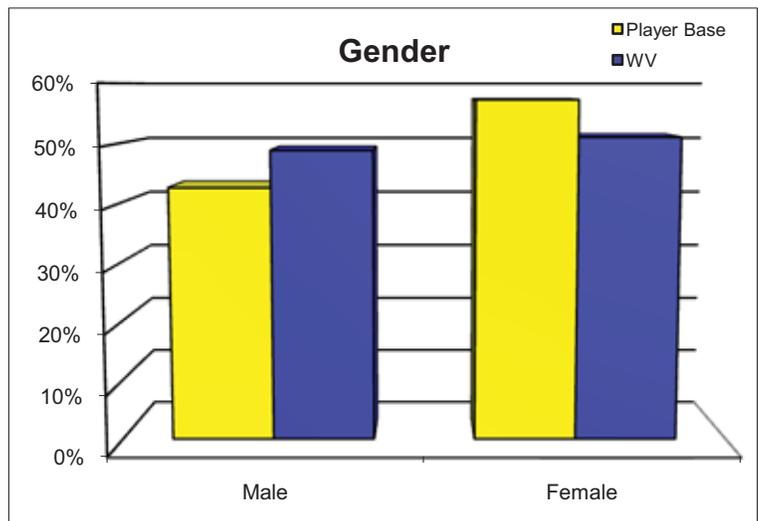
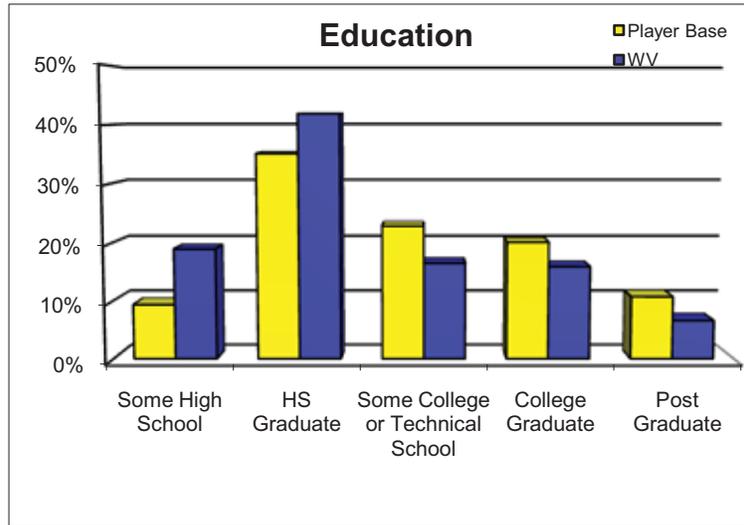
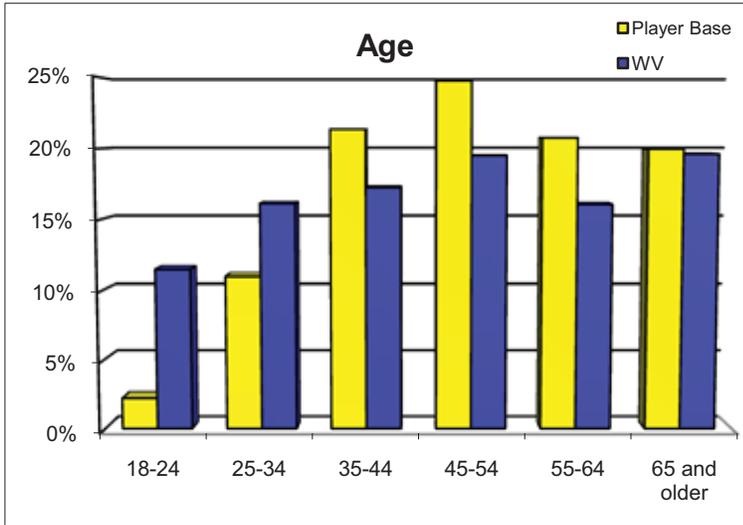
State Demographics



Source: WV Bureau of Employment Programs, U.S. Bureau of Economic Analysis and Bureau of the Census, based on calendar year.

WEST VIRGINIA LOTTERY

Player and Population Demographics

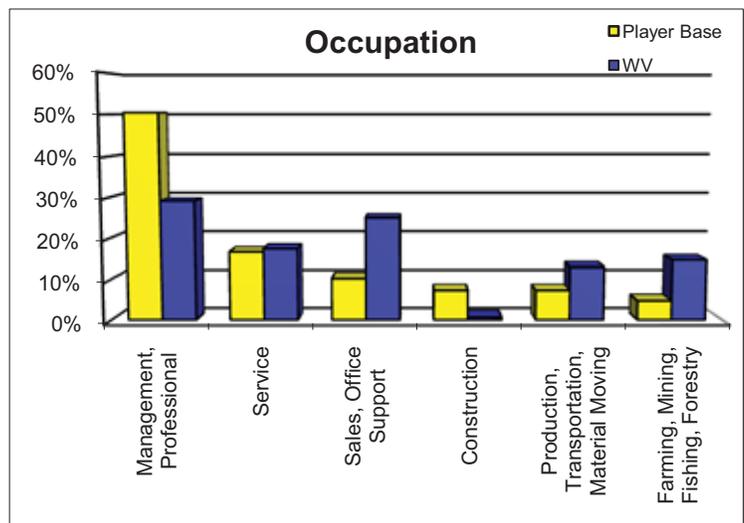
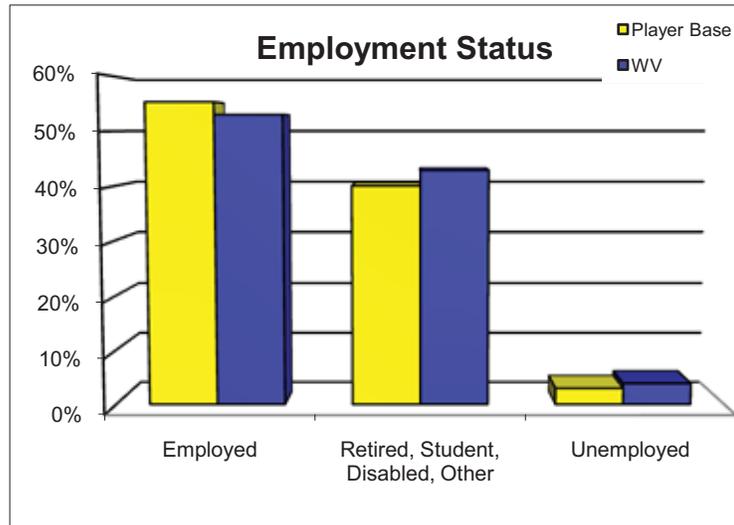
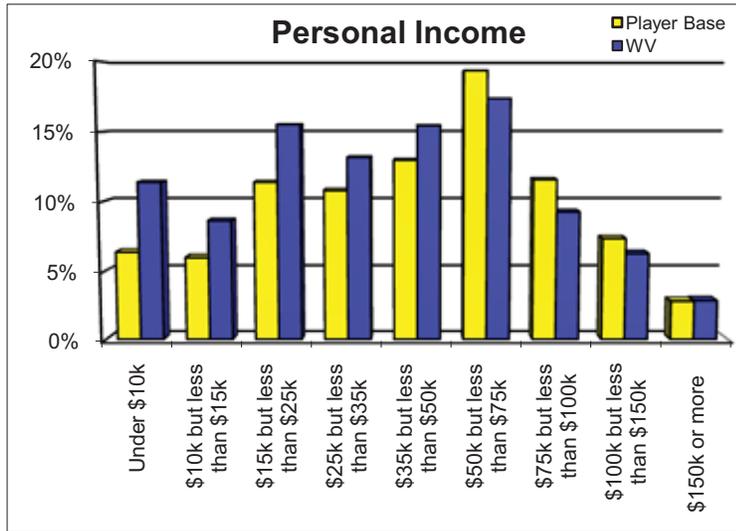


Source: West Virginia Lottery
Tracking Study, March 2009
RL Repass & Partners, Inc.

**ACS Demographic and Housing Estimates:
2005-2007**

WEST VIRGINIA LOTTERY

Player and Population Demographics



Source: West Virginia Lottery
Tracking Study, March 2009
RL Repass & Partners, Inc.

ACS Demographic and Housing Estimates:

WEST VIRGINIA LOTTERY

Number of Employees

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Executive	15	14	15	14	18	20	20
Finance & Administration	22	21	30	23	23	24	23
Marketing	8	7	7	7	7	7	7
Video	27	26	26	28	27	27	29
Security (traditional & video)	29	31	32	37	46	47	46
Table Games	-	-	-	-	39	47	51
Total	101	99	110	109	160	172	176

Source: West Virginia Lottery

Note: Only seven years of data was available.

State of West Virginia

Annual Ranking Top Ten Employers

Business Name	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Allegheny Energy Service Corporation	9	10	9	10						
American Electric Power		9		7	6	6	5	6	5	5
Charleston Area Medical Center	3	3	3	2	2	3	3	3	3	3
Consolidation Coal Company					8	8		10	9	6
CSX / CSX Hotels Inc.	4	6	6	5	5	5	8	5	8	
E I DuPont De Nemours & Company	7	7	7	8	7					
Eldercare Resources Corporation							6	7	6	
ISG Weirton Inc					10					
Kroger	6	5	4	4	4	4	4	4	4	4
Lowe's Home Centers, Inc.						7	7	8	10	7
Mylan Pharmaceuticals, Inc.										10
Pilgrim's Pride Corporation of West Virginia							9			
Res-Care Inc.										9
St. Mary's Hospital			10			10	10	9	7	8
Union Carbide Corporation	10									
Verizon	8	8	8	9	9	9				
Wal-Mart Associates, Inc.	1	1	1	1	1	1	1	1	1	1
Weirton Steel Corporation	5	4	5	6						
West Virginia University Hospitals/United Hospitals	2	2	2	3	3	2	2			
WV United Health System								2	2	2

Source: Work Force West Virginia website: www.wvbep.org

Note: Number represents the ranking of the employer for the year.



West Virginia Lottery 2010 CAFR Project
An in-house production of the West Virginia Lottery

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