

# West Virginia Lottery

a component unit of the State of West Virginia

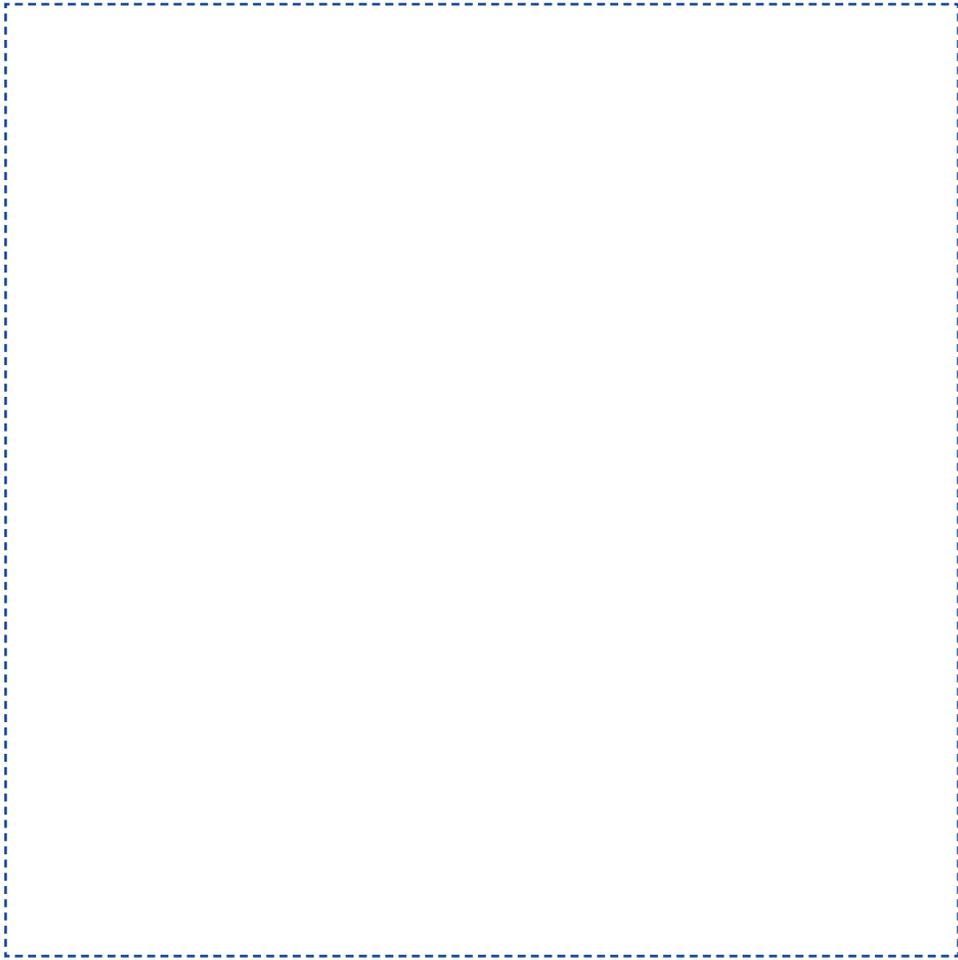


# 25

## YEARS

1986 - 2011

Comprehensive Annual Financial Report  
for the fiscal year ended June 30, 2011





P.O. BOX 2067  
CHARLESTON, WV 25327

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

Earl Ray Tomblin  
Governor

John C. Musgrave  
Director

December 5, 2011

The Honorable Earl Ray Tomblin, Governor  
Charles O. Lorensen, Cabinet Secretary, Department of Revenue

The State Lottery Act §29-22 was initially enacted in April 1985 by the West Virginia Legislature with gaming operations beginning in 1986. 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 25 years the Lottery is proud to have contributed more than \$6.2 billion of gaming revenues to the State helping make the State of West Virginia one of only a few states to finish fiscal year 2011 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 \$700.7 million of Lottery net profits used to sponsor services for our seniors, \$2.1 billion to educate our students, and \$711.5 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, 2011. 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



25

YEARS

1986 - 2011

# 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 more than \$1.3 billion in gross sales and provides a profit to the State of West Virginia of more than \$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

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

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.

# 25 years in the making . . .

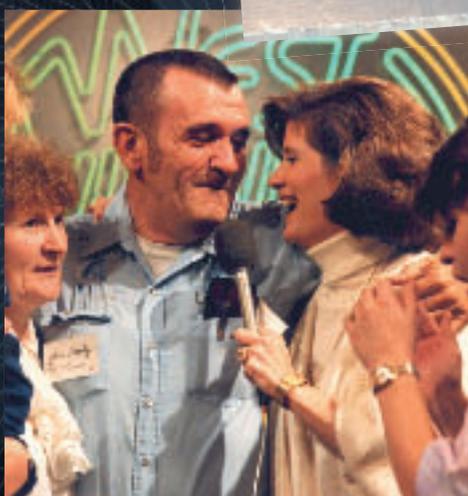


The first delivery of instant tickets to Lottery Headquarters with the late Ralph Peters, first Lottery Director receiving the shipment.

The first instant ticket sold in West Virginia in 1986.



Russ Husk of Parkersburg won \$3,740,000 on the Grand Prize jackpot show in 1986 . . . our first millionaire.



Later in 1986 Glen Stanley of Pt. Pleasant won \$5,600,000 on the Grand Prize show.



Lotto America was introduced in Charleston with a 50-foot high Gorilla on top of a high rise in 1989.



Roger Boone of Lewisburg won \$23,841,255 with Powerball® in 1995.



The late Leslie Neilson starred in a West Virginia Lottery commercial in 1998, shown here hamming it up with Director John Musgrave during a break in shooting.



Kathy Wiseman of Charleston won \$1,000,000 during the Countdown to Cash drawing in 1999.

**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, 2011

# 25 years in the making . . .



Little did we know that when we shot Powerball® game show commercials in 2000 that one of the actors, Bradley Cooper, would go on to hit the big time starring in movies like "The Hangover".



Robert Cogar bought his Powerball® ticket in Morgantown and won \$30,600,000 in June of 2002.



Jack Whittaker of Hurricane won \$314,900,000 with Powerball® on December 26, 2002. The win remains the largest single winning ticket in lottery history.



Bob Eubanks hosted our 2006 20th Anniversary Giveaway which aired statewide. Three million in prizes was given away during the show.



Hobart Parnell bought his ticket in Princeton for a \$62,400,000 Powerball® win.



A group of co-workers from FEMA shared a \$10,000,000 Powerball® prize in July of 2005. The ticket was purchased in Charles Town.



On March 18, 2008 a group of eight county workers from Morgantown won a \$276,000,000 jackpot in Powerball®. It was the second highest Powerball® win in West Virginia Lottery history.



Frank and Patricia Proud of Pocahontas County won \$1,000,000 with Powerball® Power Play on April 8, 2010.



June 30, 2010 the West Virginia Lottery completed the closing on the purchase of City Center West for the new Lottery Headquarters. Ed Maier (L) finalizes the deal with Lottery Director John Musgrave.

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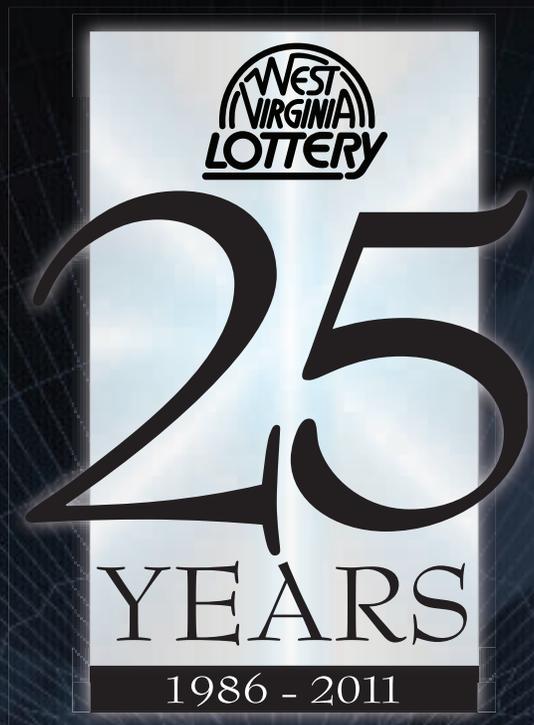
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## Our Players

Our players are vital to the success of the West Virginia Lottery and all of the programs that lottery proceeds support annually.

Throughout the year, the West Virginia Lottery focused its attention on celebrating our 25th Anniversary with our players in mind. From the 25 Days of Fun to a sold-out Sugarland concert at the Charleston Civic Center, the Lottery put the players front and center. The result was a phenomenal year-long celebration that raised awareness about the Lottery and the programs it supports, a 3 percent increase in sales, and more winners.

West Virginia celebrated when Randy Smith brought home a \$79 million Powerball® jackpot and Mark Boggs became our latest millionaire thanks to the 25th Anniversary Second-Chance Drawing.

Good things make a difference and good things happen when you play!

# Celebrating Our Players

## Introductory Section



Upper left then clockwise: VIP winners for the Sugarland concert; Randy Smith, \$79 million Powerball® winner; fun at the state fair; \$25,000 Sugarland “Lucky Seat” winner; the Lottery at the State Fair; Mark Boggs, \$1 million anniversary second-chance winner; and Jennifer Nettles of Sugarland performs at the Charleston Civic Center.

Center: Sugarland poster.





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December 5, 2011

The Honorable Earl Ray Tomblin, Governor  
Charles O. Lorensen, 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, 2011. 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 has operated since 1986 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 auditor's report.

## OVERVIEW

For 25 years, West Virginians have benefited from the West Virginia Lottery. Proceeds from the Lottery have made a positive impact on education, senior programs and tourism throughout the Mountain State. In fact, the Lottery has generated more than \$6.2 billion for the people of West Virginia since beginning its operations in 1986, including commissions from Racetrack and Limited Video Lottery and profits paid to non-state government agencies.

The West Virginia Lottery celebrated its silver anniversary in fiscal year 2011 with a variety of celebratory instant games that culminated with a sold-out performance by



Sugarland at the Charleston Civic Center, and Mark Boggs of Sissonville becoming the latest West Virginia Lottery millionaire thanks to the Lottery's 25<sup>th</sup> Anniversary second-chance drawing. The year also produced, yet another, Powerball® jackpot winner from West Virginia when Martinsburg's Randy Smith claimed more than \$44 million (the cash option) from the August 21<sup>st</sup> \$79 million Powerball® drawing.

Overall, the introduction of a special anniversary \$25 instant ticket helped increase instant ticket sales by more than 19 percent over the previous fiscal year.

The 25<sup>th</sup> Anniversary celebration helped the Lottery increase its overall sales by 3 percent and led to a transfer of an estimated \$558 million to the State.

The Lottery generated fiscal year-end sales totaling nearly \$1.4 billion thanks in part to an increase in instant ticket sales and strong table games revenues that were fueled by the introduction of table games at Hollywood Casino at Charles Town Races.

Included in the \$558 million transfer to state programs for fiscal year 2011 was \$73.3 million for senior citizens, \$225.7 million for education, \$15.6 million for the promotion of tourism, \$127.9 million to the State's General Fund for expenses that include education and health and human services, \$40 million for the Infrastructure Council, and \$75.4 million to other state agencies, including \$29 million for PROMISE scholarships.

Overall, the West Virginia Lottery generated nearly \$1.4 billion in overall sales in fiscal year 2011, while holding its overall operating costs to under 2.17 percent of gross sales.

The Lottery continues its regulatory duties by governing several forms of gaming including traditional lottery games (instant scratch-off tickets and on-line games such as Powerball® and Mega Millions®); Racetrack Video Lottery (slot machines at the state's racetracks); Limited Video Lottery (slot machines at local video lottery parlors); and Table Games at the facilities licensed to operate them. In addition, the Lottery regulates casino video lottery and table games at The Greenbrier Historic Resort.

State law mandates that players receive at least 45 percent of total traditional games sales in the form of cash prizes, however, that percentage has averaged approximately 50 percent annually since the Lottery's inception.



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 locations. Profits from traditional lottery games are directed by statutory allocation to state programs and distributed accordingly.

The payout rate for video lottery machines varies by location and game type and currently approximates 90 percent with an established range of 80 percent to 99 percent set by statute and approved by the Lottery Commission. Profits distributed from 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 percent privilege tax rate that is applied to the table "win" and is distributed by statutory allocation with the largest portion directed to reduction of state debt.

Since 1994, \$171.2 million of revenue generated by Racetrack Video Lottery has been directed to advertising funds for the state tourism industry through a matching grants program established with the West Virginia Division of Tourism. In fiscal year 2011, the Lottery contributed \$9 million to the Division of Tourism. In addition, lottery revenue appropriated by the West Virginia Legislature to the Division of Tourism of \$7.3 million, the Division of Natural Resources of \$3.3 million and the State Park Improvement Fund of \$5 million increases the overall total invested in enhancing the state's tourism industry to \$15.6 million.

Legislation passed in fiscal year 2000 continues to provide lottery revenue from a special instant ticket game to help support funding for West Virginia Veterans. This, first of its kind, initiative has generated up to \$1 million annually to support a new skilled nursing facility and a cemetery for West Virginia's veterans. In fiscal year 2011, nearly \$839 thousand was distributed to support veterans projects in West Virginia.



West Virginia seniors benefit from the 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 2011, deposits to in-home health care services for seniors totaled \$9 million from Racetrack Table Games and \$250 thousand from The Greenbrier Historic Resort. In addition, West Virginia senior citizens benefited from an estimated \$73.3 million in lottery revenue in fiscal year 2011.



West Virginia's college-bound high school graduates also benefit from the West Virginia Lottery's funding of the PROMISE Scholarship Fund. Revenue from Limited Video Lottery games provided \$29 million to provide in-state higher education opportunities for West Virginia high school graduates. Since 2002, the West Virginia Lottery has provided more than \$225 million to fund PROMISE Scholarships.

# ECONOMIC OUTLOOK

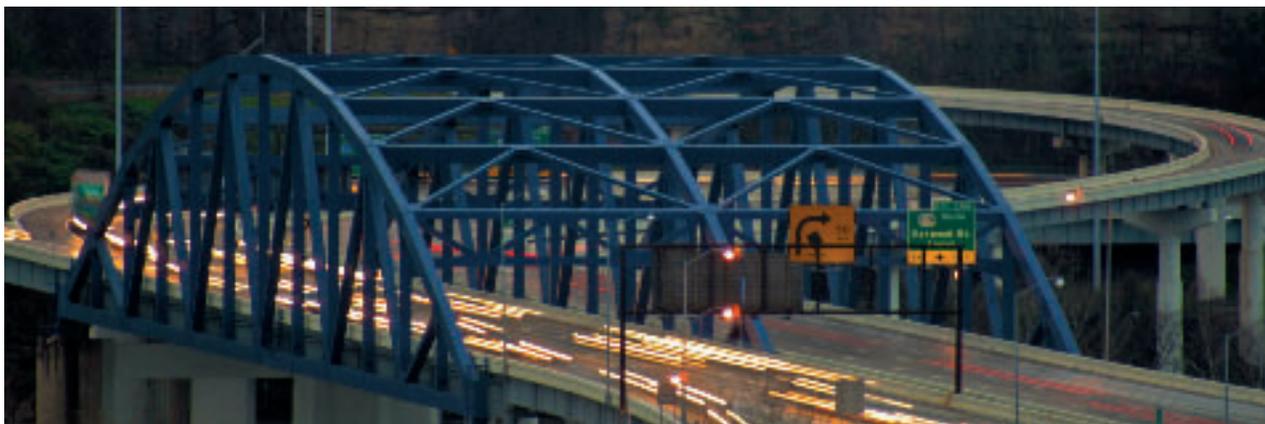


The US economic recovery that initially began in mid-2009 continues at an anemic pace in 2011. The slow rate of growth is partially attributable to a very weak housing sector, below normal consumer confidence associated with persistently high levels of unemployment, slow growth and financial problems for European countries and a trend of slightly lower State and local government employment. 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 continuing positive factors for the economy in 2011 is the cumulative increase in National exports of nearly 37 percent from two years ago. 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 and into 2013. The US economy is forecast to show a very slight acceleration in employment growth from less than 1 percent in 2011 to an annual growth of slightly more than 1 percent in 2012. However, the national unemployment rate is still expected to remain well in excess of 9 percent throughout 2012.

Due to the impact of the Great Recession, West Virginia's payroll employment fell by roughly 30,000 jobs between January 2008 and February 2010. Employment numbers have since rebounded by 1.5 percent as of July 2011 from the seasonally adjusted trough of 739,100 set in February 2010. The goods producing sectors led the rebound with net growth of roughly 4,600 jobs. Export related industries generally outperformed other sectors. Roughly 80 percent of the goods sector employment growth was attributable to gains in mining. Most of the remaining job growth was attributable to a 4.5 percent gain in the durable goods manufacturing sector. The service sector added roughly 6,200 jobs since February 2010, including 3,800 jobs in the professional and business service sector..

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 in 2010, with a growth rate of 3.6 percent. For the first quarter of 2011, West Virginia's 1.7 percent seasonally adjusted personal income growth rate ranked 36th highest among all states, and was slightly below the national average of 1.8 percent. Nearly 55 percent of the total quarterly earnings growth in West Virginia was attributable to the mining sector and another 25 percent was attributable to durable goods manufacturing. Both the mining and manufacturing sectors benefited greatly from growth in international exports. The cumulative value of West Virginia exports was nearly \$5.1 billion as of July 2011, an increase of roughly 39 percent from the prior year. The value of manufacturing goods

# ECONOMIC OUTLOOK



rose by nearly 7 percent and the value of metallurgical coal exports more than doubled from the prior year. In the second quarter of 2011, total West Virginia exports increased 43 percent. The increase was led by gains in minerals and ores, transportation equipment, and machinery exports. The value of total West Virginia exports to foreign countries nearly doubled over the past two years. Since exports represent nearly 10 percent of West Virginia's gross state product, the increase in foreign trade provides an important stimulus for the State economy in rebuilding following the steep recession.

Total West Virginia payroll employment growth of 5,400 jobs between December 2010 and July 2011 was led by the manufacturing, business services, trade, construction and mining sectors. IHS Global Insight projects employment growth to decelerate in the third and fourth quarters of this year before a modest rebound in 2012. Weak employment gains will be a contributing factor to a very sluggish personal income growth averaging 2 percent. West Virginia is not expected to return to its 2008 peak employment levels until 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. This sector subsequently rebounded with job growth of roughly 3,000 since January 2010. IHS Global Insight projects sector job growth of 0.7 percent in 2011 and 1.1 percent in 2012 before growth tapers off in 2013. Continued high unemployment, low consumer confidence and increased gaming competition from neighboring states may influence the future performance of this sector.

There is more downside risk than upside risk to the economic forecast. Major downside risks to the forecast includes 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. The one significant upside risk is associated with the continued development of the Marcellus Shale natural gas play and the possible development of an ethane cracker plant in West Virginia. The potential gains from additional affordable natural gas production and its spin-off activities are promising economic developments for the State's future.<sup>1</sup>

<sup>1</sup> 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 2011, there were 41 new games introduced. Instant games provided approximately 8.3 percent of total fiscal year 2011 sales at 1,561 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 from 1 to 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 jurisdictions 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 2.6 percent of total 2011 sales at 1,561 retail locations in West Virginia.



MEGA MILLIONS® is an on-line game jointly operated by 42 state lotteries, the District of Columbia and the Virgin Islands, 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 1,561 retail locations in West Virginia.



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.

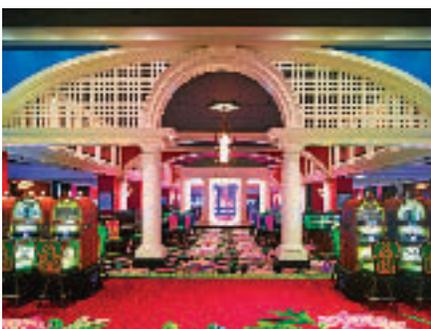
TRAVEL KENO is a game restricted to lottery retailers with specific types of West Virginia Alcohol Beverage Control Administration (ABCA) licenses and was introduced in December 1992. The player selects from 1 to 10 numbers and the Lottery computer randomly picks 20 numbers from 1 to 80. With the Keno 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 285 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 9,732 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 52.2 percent of total 2011 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 7,576 terminals were operating at licensed retail locations throughout the state as of June 30, 2011. Limited Video Lottery sales were 28.6 percent of total 2011 sales at 1,559 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 & Resort) began operating with poker tables only and added full table games in October 2008. The fourth racetrack (Hollywood Casino at Charles Town Races) began operating full table games on July 1, 2010. Games offered are Poker, Blackjack, Caribbean Stud, Craps, Roulette, Three and Four Card Poker, and other miscellaneous games. Racetrack Table Games sales were 4.9 percent of total 2011 sales.

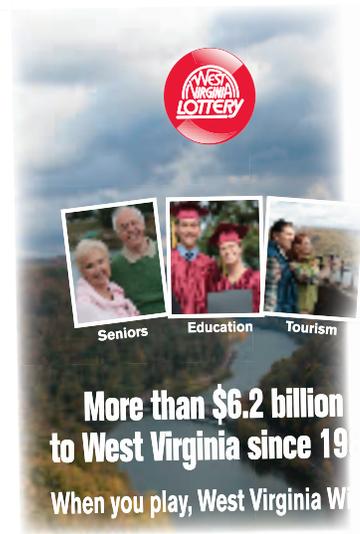


A HISTORIC RESORT in West Virginia implemented video lottery and table games in fiscal year 2010 when the Legislature passed SB 575 which revised the original Authorized Gaming Facility Act. In October 2009, The Greenbrier Historic Resort began operating both video lottery and table games. Table Games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

# ACCOMPLISHMENTS

The Lottery increased its overall sales by 3 percent and transferred an estimated \$558 million to the state despite increased competition from neighboring states and the economic downturn.

- Achieved funding of all forecasted legislative appropriations of Lottery funds.
- Total distributions in fiscal year 2011 were \$594.6 million, which include \$565.3 to the State of West Virginia, \$7.8 million to Municipalities and Counties, and \$21.5 to the four Racetracks for capital reinvestment and modernization.
- In fiscal year 2011 the West Virginia Lottery produced \$73.3 million for senior citizens, \$225.7 million for education, \$15.6 million for the promotion of tourism, \$127.9 million to the State's General Fund for expenses that include education and health and human services, \$40 million for the Infrastructure Council, and \$75.4 million to other state agencies, including \$29 million for PROMISE scholarships.
- The Lottery generated fiscal year-end sales totaling nearly \$1.4 billion thanks in part to an increase in instant sales and strong table games revenues that were fueled by the introduction of table games at Hollywood Casino at Charles Town Races.
- The Lottery held its overall operating costs to under 2.17 percent of gross sales for the year.
- A total of 41 new instant games were launched in fiscal year 2011 with sales from traditional games (instant and on-line) totaling \$193.6 million.
- The addition of table games at Hollywood Casino at Charles Town Races led to a 114.8 percent increase in table games revenue that produced \$68.2 million. Overall, table games resulted in \$29.6 million to the State.
- The West Virginia Lottery celebrated its 25<sup>th</sup> Anniversary with a special \$25 instant ticket that helped increase traditional lottery sales by 19 percent, a series of special events statewide, a concert by Sugarland at the Charleston Civic Center, and a second-chance drawing that produced a million dollar winner.
- Martinsburg's Randy Smith claimed more than \$44 million (the cash option) from the August 21<sup>st</sup> \$79 million Powerball® drawing, becoming West Virginia's eighth Powerball® jackpot winner.
- Awarded all authorized 2011 - 2021 Limited Video Lottery permits through a state-wide rebid process during fiscal year 2011.



- Contract awarded to Paramount Builders for building renovations to the new Lottery Headquarters located at 900 Pennsylvania Avenue in Charleston.
- 4-year contract extension to Scientific Games Inc. for an improved Video Lottery System (Aegis), which operates all video lottery machines across the state.
- Lottery sustained a new \$3 price point instant ticket beginning with the launch of Pink Panther™ in July 2010.
- Lottery launched its first \$25, holographic ticket in conjunction with its 25th Anniversary Celebration.



## FINANCIAL INFORMATION

### ENTERPRISE OPERATIONS

The West Virginia Lottery operating activities include sales of instant and on-line tickets, the regulation of video lottery and table game 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 2011 increased 2.5 percent to \$1.392 billion from \$1.358 billion in fiscal year 2010. Total distributions required by statute increased 1 percent to \$594.6 million in fiscal year 2011 from \$588.7 million in fiscal year 2010. Current year distributions include \$565.3 to the State of West Virginia, \$7.8 million to Municipalities and Counties, and \$21.6 to the four Racetracks for capital reinvestment and modernization.

### SYSTEM OF ACCOUNTING AND POLICIES

The West Virginia Lottery operates as an enterprise fund 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

The Lottery's budgeted funds are the State Lottery Fund and State Excess Lottery Fund. Budgetary control for these 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.

## **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 198 employees; the majority of the staff are 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**

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, 2010. This was the 14<sup>th</sup> 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

- Complete the refurbishments to the West Virginia Lottery headquarters building by the end of the third quarter in fiscal year 2012.
- Additional state agencies (Alcohol Beverage Control Administration, Municipal Bond Commission, Racing Commission, Real Estate Division and the Division of Banking) scheduled to move into Lottery headquarters in fiscal year 2012.
- Addition of approximately 500 digital jackpot signs at retail locations.
- Instant ticket RFQ to be awarded February 2012 for the printing production of Lottery instant tickets.
- Initial stages of a new advertising contract to be awarded in 2013.
- Complete installation of all new limited video lottery machines and software for authorized permit holders by the end of second quarter in fiscal year 2012.
- Implement the agency-based fixed asset system by the end of fiscal year 2012.
- Implement the document imaging system by end of fiscal year 2012.

## 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 Randy Burnside, Public Relations 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.



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, 2010

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.

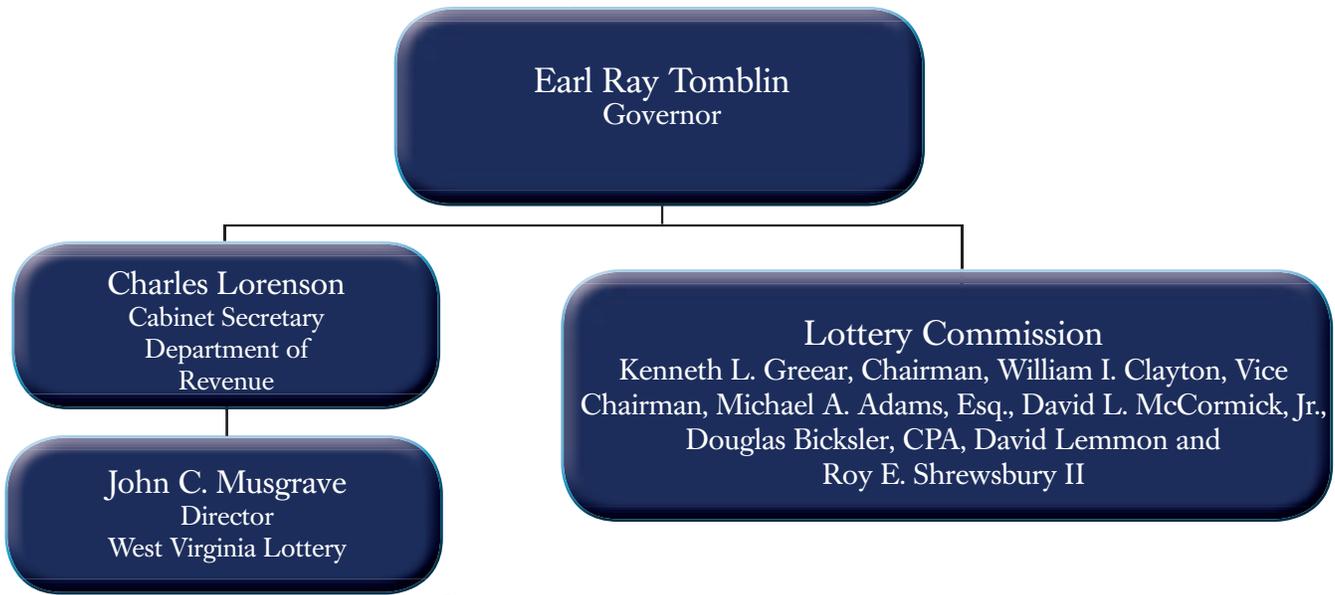


President

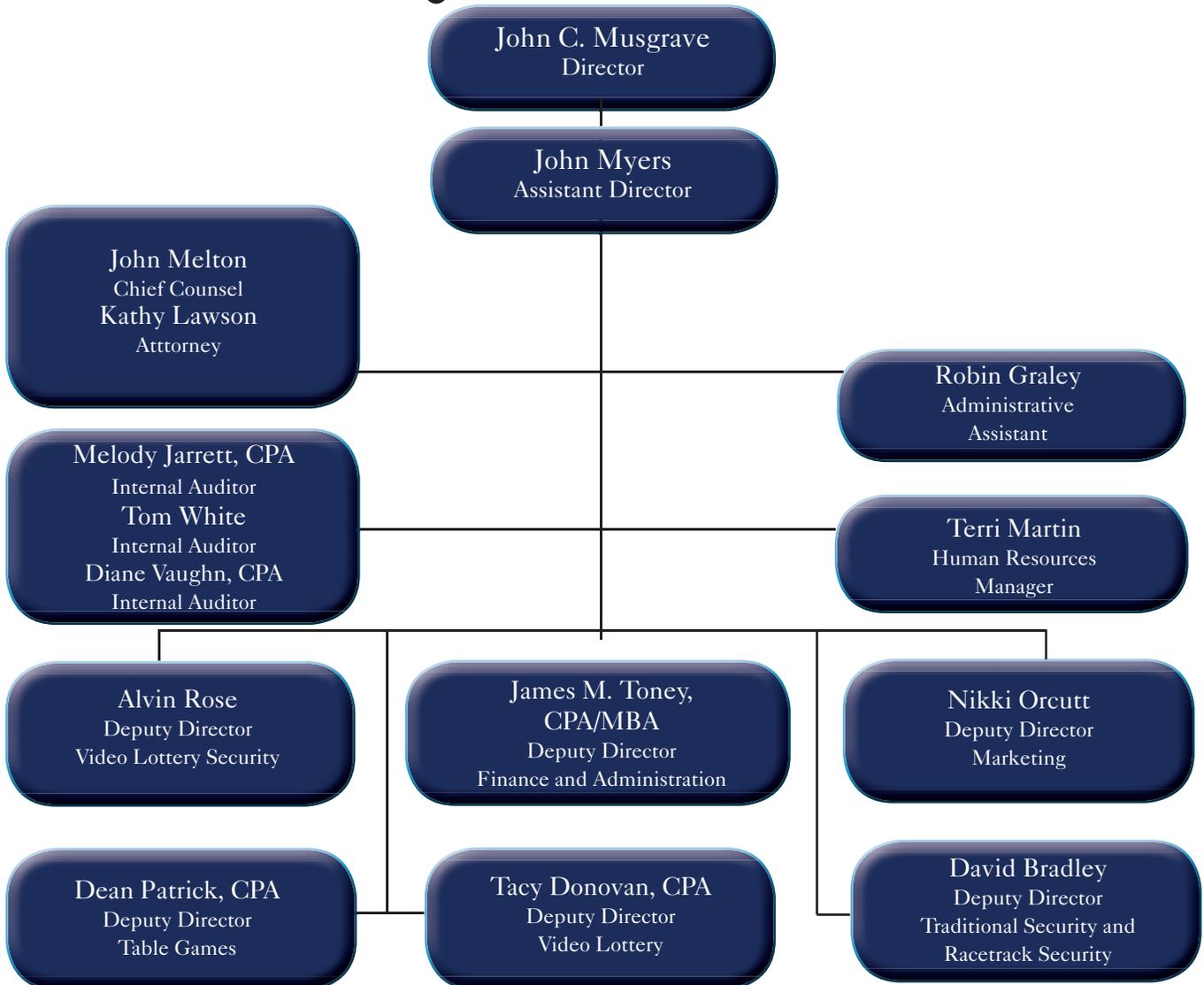
Executive Director

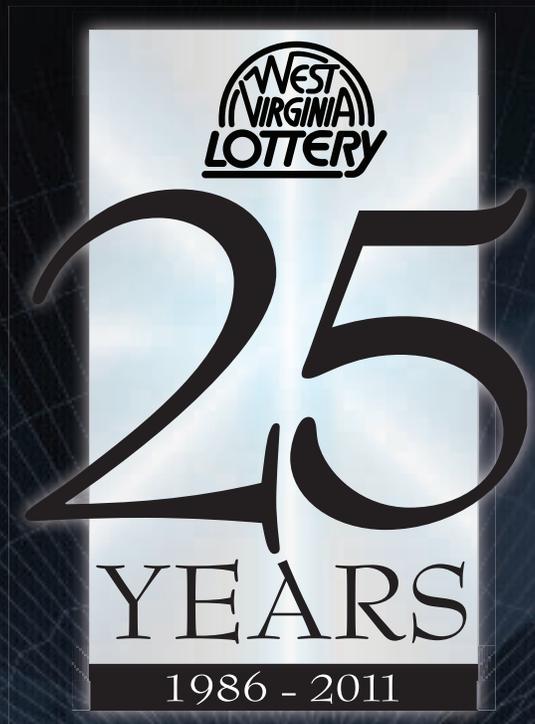
# West Virginia Lottery

## Principal Officials



## Organizational Chart





## Our Retailers

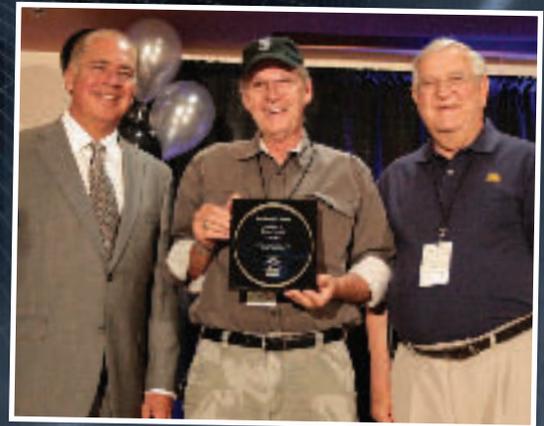
Our retailers are the foundation from which the Lottery's success is built. They are on the front lines daily, interacting with our customers and they truly are the face of the Lottery for thousands of players.

Our retailers are diligent and take pride in their association with the West Virginia Lottery and in selling our products. Because of this, the Lottery continues to thrive and millions of dollars in revenues go to support education, seniors and tourism annually in West Virginia.

None of our success would be possible without the hundreds of individuals across the state that make up our network of retailers and that is why we take the time to recognize them for their contributions. During this year's 25th Anniversary Celebration, we saluted our Top 25 retailers with a VIP reception prior to the Sugarland Concert at the Charleston Civic Center. This was just a small way of saying thanks for making so many good things happen in West Virginia.

# Celebrating Our Retailers

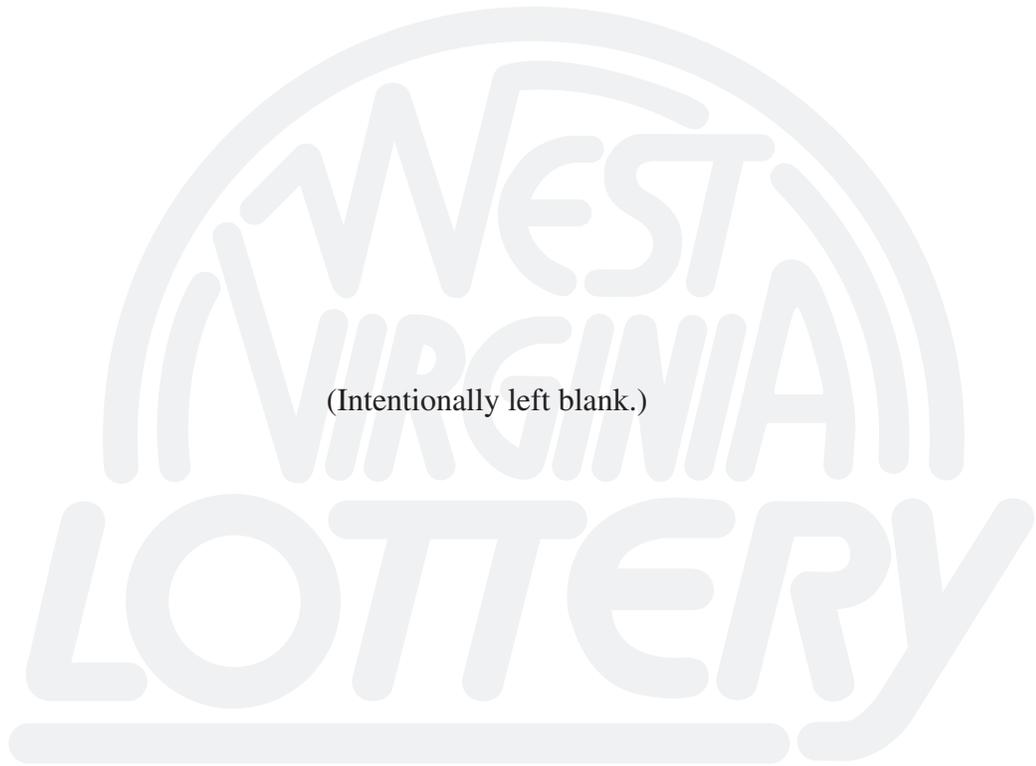
## Financial Section



At a special VIP reception after the Sugarland concert in June our top 25 retailers received special recognition from Governor Tomblin and Director Musgrave.

They included: First Row, Lynn's Self Serve, Elkins and M&B Market, Weirton. Second Row, Wheeling Island Hotel and One Stop 101, South Charleston. Third Row: Go Mart 67, Charleston, L.A. Liquors and Lottery, Logan and Joe's Mart, St. Albans.

Fourth Row: Cargo Oil #1, Logan.



## INDEPENDENT AUDITOR'S REPORT

West Virginia Lottery Commission  
Charleston, West Virginia

We have audited the accompanying balance sheets of the West Virginia Lottery (the Lottery), a component unit of the State of West Virginia, as of and for the years ended June 30, 2011 and 2010, 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 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, 2011 and 2010, and the respective changes in financial position and cash flows thereof 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 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 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 audit 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 as a whole. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

*Jillions ; Kausch, A.C.*

October 11, 2011

## 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, 2011 and 2010. In reading the Management's Discussion and Analysis (MD & A), the current year refers to fiscal year ending June 30, 2011, and the prior year refers to fiscal year ending June 30, 2010. This analysis is to be considered in conjunction with the financial statements, which begin on page 29.

### **Financial Highlights**

The Lottery's operating income increased in 2011 and decreased in 2010. The 2011 increase was due to increases in instant game and table game revenue. The decrease in 2010 was 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 increased \$34.4 million or 2.5% compared to the prior year, which decreased \$134.9 million or 9% over 2009.
- Commissions for the current year increased \$10.1 million or 1.6% compared to the prior year, which decreased \$57.4 million or 8.3% over 2009.
- Gross profit for the current year increased \$10.2 million or 1.7% compared to the prior year, which decreased \$67.8 million or 10.1% over 2009.
- Nonoperating expenses increased \$6 million or 1% compared to the prior year, which decreased \$49.7 million or 7.8% over 2009. The predominant nonoperating expense is the distributions to the State of West Virginia, which decreased \$3.7 million or 0.6% compared to the prior year, which decreased \$47.7 million or 7.7% over 2009.

### **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 \$45.1 million or 15.7% compared to the prior year, which increased \$24.4 million or 9.3% over 2009, due to the timing of distributions to the State of West Virginia at year-end.

Restricted assets decreased in 2011 due to continuing renovation of the Lottery's future headquarters building and decreased in 2010 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 2011 by \$7.1 million or 30.3% and increased by \$20 million or 606.3% in 2010 due to the continuing renovation of a Lottery headquarters building acquired on June 30, 2010. For additional information on capital assets, please refer to Note 4 to the financial statements.

**Table 1**  
Assets  
(in \$000's)

	2011	2010	2009
Current assets	\$ 331,382	\$ 286,297	\$ 261,868
Restricted assets	4,324	8,355	69,871
Capital assets, net of accumulated depreciation and amortization	30,421	23,349	3,306
Total assets	\$ 366,127	\$ 318,001	\$ 335,045

As shown in Table 2, the Lottery's current liabilities increased \$45.4 million or 16.1% compared to the prior year, which increased \$29.8 million or 11.8% when compared to 2009 due to the Limited Video Lottery bid fees that are reflected as deferred revenue until the new permits become effective on July 1, 2011.

Net assets – restricted decreased in 2011 due to the continuing renovation of the Lottery's future headquarters which was acquired on June 30, 2010. The acquisition of a Lottery headquarters building on June 30, 2010 and the accrued distribution of surplus funds from the revenue center construction fund accounted for the decrease in restricted net assets in 2010. See Note 12 to the financial statements for additional information on restricted net assets and special items.

Net assets – invested in capital assets increased in 2011 by \$7 million or 30.3% due to the continuing renovation of the Lottery's future headquarters. Refer to Note 4 to the financial statements for additional information on capital assets.

Net assets – unrestricted changed in fiscal years 2011, 2010 and 2009 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)

	2011	2010	2009
Current liabilities	\$ 327,055	\$ 281,618	\$ 251,857
Net assets - restricted	2,039	8,355	69,871
Net assets - invested in capital assets	30,421	23,349	3,306
Net assets - unrestricted	6,612	4,679	10,011
Total net assets	39,072	36,383	83,188
 Total liabilities and net assets	 \$ 366,127	 \$ 318,001	 \$ 335,045

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)

	2011	2010	2009
Revenues:			
On-line games	\$ 77,870	\$ 83,741	\$ 84,241
Instant games	115,697	97,483	113,854
Racetrack video lottery	726,952	746,208	848,233
Limited video lottery	397,544	397,287	412,489
Table games	68,154	31,726	34,219
Historic resort	6,232	1,649	-
	1,392,449	1,358,094	1,493,036
Less:			
Commissions:			
On-line games	5,457	5,849	5,901
Instant games	8,098	6,824	7,970
Racetrack video lottery	404,945	414,988	463,649
Limited video lottery	194,797	194,671	202,120
Table games	29,288	12,473	13,458
Historic resort	3,126	847	-
	645,711	635,652	693,098

(Continued)

**Management's Discussion and Analysis**  
(Continued)

-Unaudited-

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Prizes, ticket and vendor costs:			
On-line prize costs	40,374	41,818	42,451
Instant ticket prize costs	80,333	66,165	76,998
Ticket costs	2,275	1,511	1,528
Vendor fees and costs	<u>8,372</u>	<u>7,744</u>	<u>5,935</u>
	<u>131,354</u>	<u>117,238</u>	<u>126,912</u>
Gross profit	615,384	605,204	673,026
Administrative expenses:			
Advertising and promotions	9,481	7,349	7,160
Wages and related benefits	11,978	10,921	9,645
Telecommunications	648	648	2,208
Contractual and professional	4,588	4,741	5,030
Rental	649	697	727
Depreciation and amortization	1,501	1,840	1,988
Other administrative expenses	<u>1,346</u>	<u>1,042</u>	<u>994</u>
	<u>30,191</u>	<u>27,238</u>	<u>27,752</u>
Other operating income:	<u>11,805</u>	<u>11,059</u>	<u>11,401</u>
Operating income	596,998	589,025	656,675
Nonoperating income (expense):			
Investment income	297	390	2,720
Interest expense	-	-	(1)
Distributions to municipalities and counties	(7,792)	(7,787)	(8,085)
Distributions to racetracks-capital reinvestment	(21,558)	(11,968)	(15,983)
Distributions to the State of West Virginia	<u>(565,256)</u>	<u>(568,945)</u>	<u>(616,623)</u>
	<u>(594,309)</u>	<u>(588,310)</u>	<u>(637,972)</u>
Net income before special item	2,689	715	18,703
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>-</u>	<u>(7,520)</u>	<u>-</u>
Net income (loss)	2,689	(46,805)	18,703
Net assets, beginning of year	<u>36,383</u>	<u>83,188</u>	<u>64,485</u>
Net assets, end of year	<u>\$ 39,072</u>	<u>\$ 36,383</u>	<u>\$ 83,188</u>

**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 2011, 2010 and 2009. 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*					
	2011	2010	2009	2011	2010	2009			
Gross sales	\$ 115,697	\$ 97,483	\$ 113,854	\$ 77,870	\$ 83,741	\$ 84,241			
Less direct costs:									
Prizes and bonuses	80,333	66,165	76,998	40,374	41,818	42,451			
Commissions	8,098	6,824	7,970	5,457	5,849	5,901			
Ticket printing costs	2,275	1,511	1,528	-	-	-			
Vendor fees and costs	4,987	4,203	3,411	3,385	3,541	2,524			
Total direct costs	95,693	78,703	89,907	49,216	51,208	50,876			
Gross Profit	\$ 20,004	\$ 18,780	\$ 23,947	\$ 28,654	\$ 32,533	\$ 33,365			
Gross profit percentage	17.3%	19.3%	21.0%	36.8%	38.8%	39.6%			
	Racetrack Video Lottery			Limited Video Lottery					
	2011	2010	2009	2011	2010	2009			
Gross sales	\$ 726,952	\$ 746,208	\$ 848,233	\$ 397,544	\$ 397,287	\$ 412,489			
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-			
Commissions	404,945	414,988	463,649	194,797	194,671	202,120			
Ticket printing costs	-	-	-	-	-	-			
Vendor fees and costs	-	-	-	-	-	-			
Total direct costs	404,945	414,988	463,649	194,797	194,671	202,120			
Gross Profit	\$ 322,007	\$ 331,220	\$ 384,584	\$ 202,747	\$ 202,616	\$ 210,369			
Gross profit percentage	44.3%	44.4%	45.3%	51.0%	51.0%	51.0%			
	Table Games			Historic Resort			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Gross sales	\$ 68,154	\$ 31,726	\$ 34,219	\$ 6,232	\$ 1,649	\$ -	\$ 1,392,449	\$ 1,358,094	\$ 1,493,036
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-	120,707	107,983	119,449
Commissions	29,288	12,473	13,458	3,126	847	-	645,711	635,652	693,098
Ticket printing costs	-	-	-	-	-	-	2,275	1,511	1,528
Vendor fees and costs	-	-	-	-	-	-	8,372	7,744	5,935
Total direct costs	29,288	12,473	13,458	3,126	847	-	777,065	752,890	820,010
Gross Profit	\$ 38,866	\$ 19,253	\$ 20,761	\$ 3,106	\$ 802	\$ -	\$ 615,384	\$ 605,204	\$ 673,026
Gross profit percentage	57.0%	60.7%	60.7%	49.8%	48.6%	0.0%	44.2%	44.6%	45.1%

## Management's Discussion and Analysis

(Continued)

-Unaudited-

### **Instant Sales**

Instant ticket sales increased in 2011 by \$18.2 million or 18.7% compared to the 2010 decrease of \$16.4 million or 14.4% over 2009. Forty-one new games were introduced in 2011 and approximately twenty-six game options were available for play in the field in both years. The Lottery continues to implement the results of research and design efforts, including licensed or trademarked games, new play styles 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. The first twenty-five dollar ticket was introduced to celebrate the Lottery's 25<sup>th</sup> Anniversary during the year ended June 30, 2011. Four five-dollar games were introduced in 2011. There was an increase in the one-dollar game introductions, to meet player demand.

Instant prizes and commissions have a direct correlation to sales, therefore, as sales increase or decrease, 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 2011 and 2010 and 3.0% for 2009. 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 2011 by \$12.9 million or 26.6% and decreased in 2010 by \$2.4 million or 4.8%. 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 for the year ended June 30, 2011 and 2010 were \$10.9 million and \$2.7 million, respectively.

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 2011 by \$1.2 million or 3.6% and decreased in 2010 by \$755.9 thousand or 2.3%. In general, prize costs by game will increase or decrease from year-to-year in proportion to the sales for a particular game.

**Management’s Discussion and Analysis**  
(Continued)

-Unaudited-

**Racetrack Video Lottery**

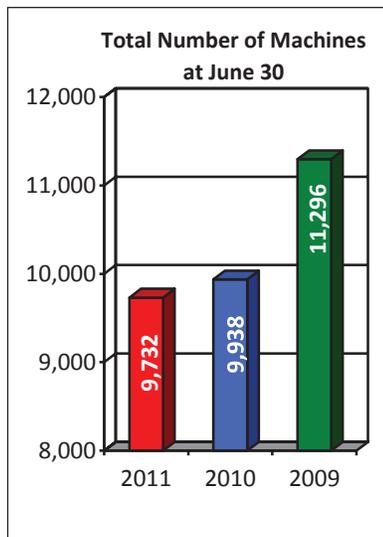
Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues decreased \$19.3 million or 2.6% in 2011 and decreased \$102 million or 12% in 2010.

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 \$10 million or 2.4% in 2011 and \$48.7 million or 10.5% in 2010 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.

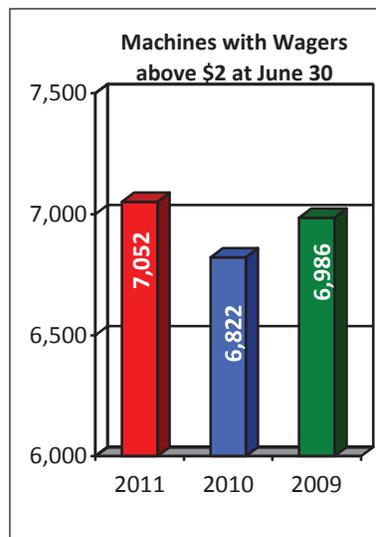
In following with industry trends, “coin drop” machines have been phased out in favor of ticket in ticket out (TITO) machines. The TITO machines have helped to lessen the decline in racetrack video lottery revenues from competition.

The changes in active machines are presented in Tables 5 and 6 below which illustrate the fluctuations during the last three fiscal years.

**Table 5**



**Table 6**



## Management's Discussion and Analysis (Continued)

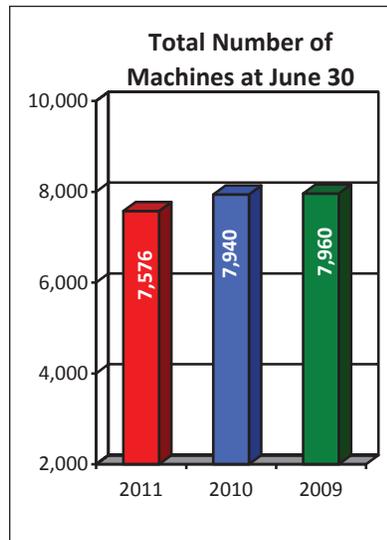
-Unaudited-

### Limited Video Lottery

Sales increased by \$257 thousand or 0.1% in 2011 over 2010, which decreased by \$15.2 million or 3.7% over 2009. The increase in commissions of \$126 thousand or 0.1% in 2011 over 2010 and the decrease of \$7.4 million or 3.7% over 2009, are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales.

- Table 7 illustrates the decrease in machines by 364 in 2011 as compared to the decrease of 20 in 2010.

**Table 7**



### Table Games

West Virginia Lottery table games were in operation at three of the state's four racetracks during fiscal year 2010, with Charles Town implementing table games in fiscal year 2011. Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues increased \$36.4 million or 114.8% in 2011 and decreased \$2.5 million or 7.3% in 2010.

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 increased \$16.8 million or 134.8% in 2011 and decreased \$985 thousand or 7.3% in 2010.

### Historic Resort

On November 4, 2008 Greenbrier County, West Virginia 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 Historic Resort during the year ended June 30, 2010 at a temporary site. On July 1, 2010 The Historic Resort opened its newly constructed 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.

## Management's Discussion and Analysis (Continued)

-Unaudited-

### Historic Resort (Continued)

Combined revenues for video lottery and table games at the Greenbrier Resort were \$6.2 million in 2011 and \$1.6 million in 2010.

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 \$3.1 million in 2011 and \$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.

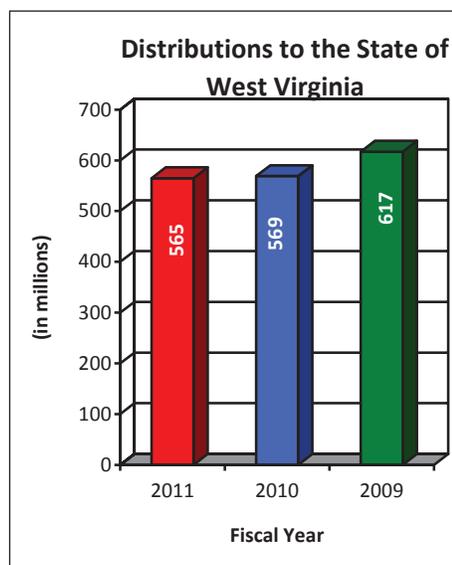
### Nonoperating Income (Expense)

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 8. The Lottery's payments to the State Lottery Fund and State Excess Lottery Revenue Fund decreased by \$4 million for the current fiscal year compared to a decrease of \$48 million in 2010.

**Table 8**



## **Management's Discussion and Analysis** (Continued)

-Unaudited-

### **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**

Limited Video Lottery permits are issued to qualifying recipients for a 10-year period which initially expired on June 30, 2011. During the year ended June 30, 2011, bid fees were paid by successful bidders for the right to be permitted for 10-years beginning July 1, 2011. These bids fees are recorded as deferred revenue for the year ended June 30, 2011 on the Balance Sheet.

On March 12, 2011, the Legislature passed Senate Bill 550 which provides for the creation of the Racetrack Modernization Fund. The Modernization Fund is available to reimburse the licensed tracks \$1 for every \$2 spent on the costs of facility modernization. For the years ended June 30, 2011 through June 30, 2020, the Lottery is to transfer up to \$10 million from racetrack administrative surplus funds to the Modernization Fund which is allocated to each track on a pro rata basis according to their administrative contribution for the fiscal year.

WEST VIRGINIA LOTTERY

BALANCE SHEETS  
(In Thousands)

June 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 298,968	\$ 256,355
Accounts receivable	29,783	26,986
Inventory	497	683
Other assets	<u>2,134</u>	<u>2,273</u>
Total current assets	<u>331,382</u>	<u>286,297</u>
Noncurrent assets:		
Restricted cash and cash equivalents	4,324	8,355
Capital assets	38,965	39,524
Less accumulated depreciation and amortization	<u>(8,544)</u>	<u>(16,175)</u>
Total noncurrent assets	<u>30,421</u>	<u>23,349</u>
Total noncurrent assets	<u>34,745</u>	<u>31,704</u>
Total assets	<u>\$ 366,127</u>	<u>\$ 318,001</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 210,990	\$ 241,039
Deferred permit fees	58,863	-
Estimated prize claims	12,011	13,128
Accounts payable	4,440	3,050
Other accrued liabilities	<u>40,751</u>	<u>24,401</u>
Total current liabilities	<u>327,055</u>	<u>281,618</u>
Net assets:		
Restricted by enabling legislation for capital projects	2,039	8,355
Invested in capital assets	30,421	23,349
Unrestricted	<u>6,612</u>	<u>4,679</u>
Total net assets	<u>39,072</u>	<u>36,383</u>
Total liabilities and net assets	<u>\$ 366,127</u>	<u>\$ 318,001</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Lottery revenues:		
On-line games	\$ 77,870	\$ 83,741
Instant games	115,697	97,483
Racetrack video lottery	726,952	746,208
Limited video lottery	397,544	397,287
Table games	68,154	31,726
Historic resort	6,232	1,649
	<u>1,392,449</u>	<u>1,358,094</u>
Less commissions:		
On-line games	5,457	5,849
Instant games	8,098	6,824
Racetrack video lottery	404,945	414,988
Limited video lottery	194,797	194,671
Table games	29,288	12,473
Historic resort	3,126	847
	<u>645,711</u>	<u>635,652</u>
Less on-line prize costs	40,374	41,818
Less instant prize costs	80,333	66,165
Less ticket costs	2,275	1,511
Less vendor fees and costs	8,372	7,744
	<u>131,354</u>	<u>117,238</u>
Gross profit	<u>615,384</u>	<u>605,204</u>
Administrative expenses:		
Advertising and promotions	9,481	7,349
Wages and related benefits	11,978	10,921
Telecommunications	648	648
Contractual and professional	4,588	4,741
Rental	649	697
Depreciation and amortization	1,501	1,840
Other administrative expenses	1,346	1,042
	<u>30,191</u>	<u>27,238</u>
Other operating income	<u>11,805</u>	<u>11,059</u>
Operating income	<u>596,998</u>	<u>589,025</u>
Nonoperating income (expense):		
Investment income	297	390
Distributions to municipalities and counties	(7,792)	(7,787)
Distributions for capital reinvestment	(21,558)	(11,968)
Distributions to the State of West Virginia	(565,256)	(568,945)
	<u>(594,309)</u>	<u>(588,310)</u>
Income before special item	<u>2,689</u>	<u>715</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	-	(7,520)
Net income (loss)	<u>2,689</u>	<u>(46,805)</u>
Net assets, beginning of year	<u>36,383</u>	<u>83,188</u>
Net assets, end of year	<u>\$ 39,072</u>	<u>\$ 36,383</u>

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS  
(In Thousands)

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,460,320	\$ 1,375,478
Cash payments for:		
Personnel costs	(10,659)	(9,636)
Suppliers	(16,890)	(13,567)
Other operating costs	<u>(768,100)</u>	<u>(760,068)</u>
Cash provided by operating activities	<u>664,671</u>	<u>592,207</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(595,305)	(577,610)
Distributions to municipalities and counties	(7,813)	(7,797)
Distributions to racetracks from racetrack capital reinvestment fund	<u>(14,695)</u>	<u>(15,822)</u>
Cash used in noncapital financing activities	<u>(617,813)</u>	<u>(601,229)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	<u>(8,573)</u>	<u>(21,883)</u>
Cash flows from investing activities:		
Investment earnings	<u>297</u>	<u>390</u>
Increase (decrease) in cash and cash equivalents	38,582	(30,515)
Cash and cash equivalents (including restricted cash and cash equivalents), beginning of year	<u>264,710</u>	<u>295,225</u>
Cash and cash equivalents (including restricted cash and cash equivalents), end of year	<u>\$ 303,292</u>	<u>\$ 264,710</u>

(Continued)

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS

(In Thousands)

(Continued)

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 596,998	\$ 589,025
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,501	1,840
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,797)	6,325
Inventory	186	(35)
Other assets	139	282
Increase (decrease) in:		
Estimated prize claims	(1,117)	190
Accounts payable	1,390	1,334
Deferred permit fees	58,863	-
Other accrued liabilities	9,508	(6,754)
Cash provided by operating activities	<u>\$ 664,671</u>	<u>\$ 592,207</u>

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 video lottery 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.

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 a building, 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 forty 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 current office and warehouse facilities. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases.

##### Accrued Employee Benefits

The Lottery has accrued \$523,398 and \$500,740 of earned but unused annual leave time at June 30, 2011 and 2010, 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 annual leave. 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.

##### Deferred Revenue

Deferred revenue consists of limited video lottery permit fees collected in the current year and paid by licensees for the right to be permitted for the 10 year period beginning July 1, 2011. These permit fees will be recognized as revenue in the year ended June 30, 2012.

##### Net Assets

Net assets are presented as either unrestricted, restricted by enabling legislation for capital project, 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, 2011 and 2010, the carrying amounts of deposits (overdrafts) with financial institutions were (\$56) thousand and (\$60) thousand, respectively, with bank balances of \$(1) and \$6 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, 2011 and 2010, 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>2011</u>	<u>2010</u>
Deposits with financial institutions	\$ (56)	\$ (60)
Cash on hand at the Treasurer's Office	78,319	40,006
Investments with BTI reported as cash equivalents	<u>225,029</u>	<u>224,764</u>
	<u>\$ 303,292</u>	<u>\$ 264,710</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):

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value</u>	<u>Percent of Assets</u>
	<u>Moody's</u>	<u>S&amp;P</u>		
Commercial paper	P-1	A-1	\$ 1,069,576	35.43%
Corporate bonds and notes	Aa1-Aa3	AA-A	127,000	4.21
U.S. agency bonds	Aaa	AAA	170,788	5.66
U.S. Treasury notes*	Aaa	AAA	298,345	9.88
U.S. Treasury bills *	Aaa	AAA	231,051	7.65
Negotiable certificates of deposit	P-1	A-1	140,000	4.64
U.S. agency discount notes	P-1	A-1	697,164	23.10
Money market funds	Aaa	AAAm	200,279	6.64
Repurchase agreements, with underlying U.S. agency and Treasury notes	Aaa	AAA	<u>84,357</u>	<u>2.79</u>
			<u>\$ 3,018,560</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.

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>Weighted Average Maturity In Days</u>
Repurchase agreements	\$ 84,357	1
US Treasury notes	298,345	137
US Treasury bills	231,051	34
Commercial paper	1,069,576	35
Certificates of deposit	140,000	58
U.S. Agency discount notes	697,164	45

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>
Corporate bonds and notes	127,000	20
U.S. agency bonds and notes	170,788	66
Money market funds	<u>200,279</u>	1
 Total assets	 <u>\$ 3,018,560</u>	

The weighted average maturity of the investments of the West Virginia Money Market Pool as of June 30, 2011, is 46 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, 2011, 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, 2011, 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):

	Historical cost at June 30, 2009	Additions	Deletions	Historical cost at June 30, 2010	Additions	Deletions	Historical cost at June 30, 2011
Capital assets, not depreciated							
Building	\$ -	\$ 20,174	\$ -	\$ 20,174	\$ -	\$ -	\$ 20,174
Construction in progress	-	-	-	-	8,444	-	8,444
Land	-	1,434	-	1,434	-	-	1,434
Capital assets, being depreciated							
Improvements	1,170	-	-	1,170	-	-	1,170
Equipment	<u>16,471</u>	<u>275</u>	<u>-</u>	<u>16,746</u>	<u>129</u>	<u>(9,132)</u>	<u>7,743</u>
	<u>\$ 17,641</u>	<u>\$ 21,883</u>	<u>\$ -</u>	<u>\$ 39,524</u>	<u>\$ 8,573</u>	<u>\$ (9,132)</u>	<u>\$ 38,965</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

**4 - CAPITAL ASSETS (Continued)**

	Accumulated depreciation at June 30,			Accumulated depreciation at June 30,			Accumulated depreciation at June 30,
	<u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>2011</u>
Improvements	\$ 1,080	\$ 51	\$ -	\$ 1,131	\$ 11	\$ -	\$ 1,142
Equipment	<u>13,255</u>	<u>1,789</u>	<u>-</u>	<u>15,044</u>	<u>1,490</u>	<u>(9,132)</u>	<u>7,402</u>
	<u>\$ 14,335</u>	<u>\$ 1,840</u>	<u>\$ -</u>	<u>\$ 16,175</u>	<u>\$ 1,501</u>	<u>\$ (9,132)</u>	<u>\$ 8,544</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 \$35,669,004 and \$48,593,678 for the years ended June 30, 2011 and 2010, respectively, and related prize costs were \$17,836,702 and \$24,299,364, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$5,831,270 and \$6,447,315 for the years ended June 30, 2011 and 2010, respectively, and related prize costs were \$2,916,239 and \$3,224,120, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$10,915,389 and \$2,678,674 for the years ended June 30, 2011 and 2010, respectively, and related prize costs were \$5,720,774 and \$1,384,136, respectively.

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>2011</u>		<u>2010</u>	
	Total		Total	
	<u>Prize Reserve</u>	<u>Lottery Share</u>	<u>Prize Reserve</u>	<u>Lottery Share</u>
POWERBALL ®	\$ 122,413,591	\$ 2,386,175	\$ 113,399,532	\$ 2,385,173
HOT LOTTO ™	7,441,187	489,806	6,491,541	392,458
MEGA MILLIONS ®	9,146,437	189,440	(629,706)	(11,044)
	<u>\$ 139,001,215</u>	<u>\$ 3,065,421</u>	<u>\$ 119,261,367</u>	<u>\$ 2,766,587</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 \$14,548,743 and \$15,991,948 at June 30, 2011 and 2010, of which the Lottery's share was \$1,663,862 and \$1,752,719, 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, 2011 and 2010, follows (in thousands):

	2011	2010
Total credits (bets) played	\$ 8,023,046	\$ 8,188,573
Credits (prizes) won	(7,205,678)	(7,372,586)
Promotional credits played	(87,380)	(66,022)
MWAP Contributions	(3,035)	(3,757)
Gross terminal income	726,953	746,208
Administrative costs	(17,456)	(17,524)
Net terminal income	709,497	728,684
Commissions	(404,945)	(414,988)
Racetrack video lottery revenues available for distribution	\$ 304,552	\$ 313,696

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

	2011	2010
State Lottery Fund	\$ 128,176	\$ 129,799
State Excess Lottery Revenue Fund	127,177	133,462
Capital Reinvestment Fund	11,366	11,915
Tourism Promotion Fund	9,224	9,460
Development Office Promotion Fund	2,516	2,580
Research Challenge Fund	3,354	3,440
Capitol Renovation and Improvement Fund	4,612	4,730
Parking Garage Fund	919	930
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	4,708	4,880
Workers Compensation Debt Reduction Fund	11,000	11,000
Total nonoperating distributions	\$ 304,552	\$ 313,696

On March 12, 2011, the Legislature passed Senate Bill 550 which provides for the creation of the Racetrack Modernization Fund. The Modernization Fund is available to reimburse the licensed tracks \$1 for every \$2 spent on the costs of facility modernization. For each year ended June 30, 2011 through June 30, 2020, the Lottery is to transfer up to \$10 million from racetrack administrative surplus funds to the Modernization Fund which is allocated to each track on a pro rata basis according to their administrative contribution for the fiscal year. For the year ended June 30, 2011, the Lottery transferred \$10 million to the Racetrack Modernization Fund.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

**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 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, 2011 and 2010 follows (in thousands):

	2011	2010
Total credits played	\$ 4,671,596	\$ 4,659,212
Credits (prizes) won	(4,274,052)	(4,261,925)
Gross terminal income	397,544	397,287
Administrative costs	(7,950)	(7,946)
Gross profit	389,594	389,341
Commissions	(194,797)	(194,671)
Distributions to municipalities and counties	(7,792)	(7,787)
Limited video lottery revenues available for distribution	\$ 187,005	\$ 186,883

**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 previously authorized to operate table games and the fourth began operating table games during the year ended June 30, 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 4% 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.

## WEST VIRGINIA LOTTERY

### NOTES TO FINANCIAL STATEMENTS

(Continued)

#### 8 - TABLE GAMES (Continued)

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.

Transfers of 2% for the year ended June 30, 2011 and 1% for the year ended June 30, 2010 of the adjusted gross receipts were 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. Transfers of 3% for the year ended June 30, 2011 and 2% for the year ended June 30, 2010 of the adjusted gross receipts were 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.

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8 - TABLE GAMES (Continued)**

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, 2011 and 2010 was \$194,724,548 and \$90,644,701, respectively. A summary of table games revenues for the year ended June 30, 2011 and 2010 follows (in thousands):

	2011	2010
Table games privilege tax	\$ 68,154	\$ 31,726
Interest on table games fund	6	3
Administrative costs	(7,789)	(2,720)
Total available for distribution	60,371	29,009
 <u>Less distributions:</u>		
Racetrack purse funds	4,868	2,266
Thoroughbred & greyhound development funds	3,894	1,813
Racing commission pension plan	1,636	870
Municipalities/counties	18,890	7,524
Total distributions	29,288	12,473
Table games distribution to the state debt reduction fund	\$ 31,083	\$ 16,536

**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.”

WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**9 – HISTORIC RESORT HOTEL (Continued)**

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 the years ended June 30, 2011 and 2010 follows (in thousands):

	2011	2010
Total credits played	\$ 49,464	\$ 11,333
Credits (prizes) won	(45,097)	(10,175)
Promotional credits played	(274)	(25)
Gross terminal income	4,093	1,133
Capital reinvestment	(192)	(53)
Administrative costs	(221)	(61)
Hotel commissions	(1,731)	(479)
Net terminal income	\$ 1,949	\$ 540
Historic Resort Hotel Fund	\$ 1,253	\$ 347
Human Resource Benefit Fund	696	193
Total	\$ 1,949	\$ 540

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 years ended June 30, 2011 and 2010 were \$6,110,847 and \$1,475,617, respectively.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

**9 – HISTORIC RESORT HOTEL (continued)**

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2011 and 2010:

	2011	2010
Table games privilege tax	\$ 2,139	\$ 516
Administrative costs	(275)	(66)
Total available for distribution	<u>\$ 1,864</u>	<u>\$ 450</u>
Historic Resort Hotel Fund	1,558	376
Human Resource Benefit Fund	306	74
Total distributions	<u>\$ 1,864</u>	<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 for the years ended June 30, 2011 and 2010:

- 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) for the years ended June 30, 2011 and 2010:

	2011	2010
Historic Resort Hotel video lottery	\$ 1,253	\$ 347
Historic Resort table games	1,558	376
Historic Resort Hotel Fund net income	<u>\$ 2,811</u>	<u>\$ 723</u>
Municipalities/ Counties	394	101
State General Revenue Fund	1,799	463
State Debt Reduction Fund	534	137
State Tourism Promotion Fund	84	22
Total distributions	<u>\$ 2,811</u>	<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, 2011 and 2010, the State Legislature budgeted \$164,117,424, and \$164,503,245 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, \$1,000,000, and \$500,000 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 \$4,800,000 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, 2011 and 2010, the Lottery made or accrued all budgeted distributions and accrued additional distributions of \$35,123,405 and \$43,420,445, 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, 2011 and 2010, the Lottery accrued additional distributions relating to racetrack video lottery operations in the amounts of \$775,703 and \$228,319, 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, 2011 and 2010, the Lottery accrued additional distributions relating to table games operations in the amounts of \$2,856,174 and \$1,387,400, respectively. Note 9 describes the Historic Resort Hotel statutory distributions to be made from historic resort operations. As of June 30, 2011 and 2010, the Lottery accrued additional distributions relating to Historic Resort operations of \$91,556 and \$73,228, respectively.

A summary of the required statutory and budgeted distributions to certain state agencies to conform with the various legislation follows (in thousands):

	2011	2010
<u>Budgetary distributions:</u>		
<u>State Lottery Fund:</u>		
Bureau of Senior Services	\$ 63,731	\$ 57,187
Department of Education	30,275	34,343
Library Commission	10,726	11,195
Higher Education - Central Office	11,112	13,916
Tourism	7,273	7,606
Natural Resources	3,317	3,450
Division of Culture & History	5,600	5,881
Department of Education & Arts	1,087	1,192
Building Commission	7,998	8,240

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

	<u>2011</u>	<u>2010</u>
School Building Authority	17,998	17,997
Community and Technical College	5,000	3,497
Total State Lottery Fund	<u>164,117</u>	<u>164,504</u>
<u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	65,000	65,000
Education Improvement Fund	29,000	29,000
WV Infrastructure Council Fund	40,000	40,000
Higher Education Improvement Fund	15,000	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	9,553	8,371
Department of Education	94,598	45,530
Division of Finance (ERP)	-	25,000
Department of Environmental Protection	-	2,000
Division of Corrections	-	5,375
Racing Commission	2,000	2,500
Excess Lottery Surplus (General Fund)	62,900	69,588
Excess Lottery Surplus (Teachers Retirement Savings Realized)	32,772	-
Public Defender Services	-	11,000
Total State Excess Lottery Revenue Fund	<u>393,823</u>	<u>356,364</u>
Total Required Statutory and Budgetary Distributions	<u>557,940</u>	<u>520,868</u>
Veterans Instant Ticket Fund	<u>839</u>	<u>467</u>
<u>Other racetrack video lottery distributions:</u>		
Tourism Promotion Fund	9,036	9,645
Development Office Promotion Fund	2,464	2,630
Research Challenge Fund	3,286	3,507
Capitol Renovation and Improvement Fund	4,518	4,822
Parking Garage Funds	911	939
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	4,571	5,014
Workers Compensation Debt Reduction Fund	11,000	11,000
	<u>37,286</u>	<u>39,057</u>
Table games state reduction fund	<u>29,613</u>	<u>16,670</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

	<u>2011</u>	<u>2010</u>
<u>Historic resort hotel distributions:</u>		
State General Revenue Fund	1,785	408
State Debt Reduction Fund	530	121
Tourism Promotion Fund	<u>84</u>	<u>19</u>
Total	<u>2,399</u>	<u>548</u>
Total required statutory and budgeted distributions to the State of West Virginia	628,077	577,610
Less: distributed July 2011	<u>(32,772)</u>	-
Total nonoperating distributions to the State of West Virginia (cash basis)	595,305	577,610
Accrued nonoperating distributions, beginning of year	(241,039)	(202,184)
Accrued nonoperating distributions, end of year	210,990*	241,039
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>-</u>	<u>(7,520)</u>
Total nonoperating distributions to the State of West Virginia	<u>\$ 565,256</u>	<u>\$ 568,945</u>

\*Includes nonoperating distribution to West Virginia Teachers Retirement System of \$32,772 paid on July 5, 2011.

**11 - RESTRICTED NET ASSETS**

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 the year ended June 30, 2006 and each year through the year ended June 30, 2012. These assets were 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. In the year ended June 30, 2010, the Legislature approved the purchase and improvement of an existing building not located in the West Virginia Capitol Complex. The Lottery set aside interest income earned on the amounts deposited in the revenue center construction fund of \$0 and \$91,452, respectively, for the years ended June 30, 2011 and 2010.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

**11 - RESTRICTED NET ASSETS (Continued)**

Restricted net asset activity is as follows for the years ending June 30, 2011 and 2010 (in thousands):

	2011	2010
Begininng restricted net assets	\$ 8,355	\$ 69,871
Interest earned on restricted net assets	-	92
Aquisition of capital assets in accordance with enabling legislation	(6,316)	(21,608)
Accrued distributions of surplus restricted net assets to the State of West Virginia	-	(40,000)
Ending restricted net assets	\$ 2,039	\$ 8,355

**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 12.5% 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

WEST VIRGINIA LOTTERY  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

**13 - RETIREMENT BENEFITS (Continued)**

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 2011, 2010, and 2009, were as follows (in thousands)

	2011	2010	2009
Lottery contributions	\$ 1,017	\$ 832	\$ 666
Employee contributions	339	312	290
Total contributions	\$ 1,356	\$ 1,144	\$ 956

**14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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 57<sup>th</sup> 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.

The ARC rate is \$903 and \$901 per employee per month for the years ending June 30, 2011 and 2010, respectively. The Lottery's ARC was \$1,560,274, \$1,458,892, and \$620,360 and the Lottery has paid premiums of \$294,952, \$226,212, and \$185,563, which represent 18.9%, 15.5%, and 29.9% of the ARC, respectively, for the years ending June 30, 2011, 2010, and 2009. As of June 30, 2011 and 2010 the Lottery has recorded a liability of \$2,749,868 and \$1,484,546, respectively, for OPEB.

## WEST VIRGINIA LOTTERY

### NOTES TO FINANCIAL STATEMENTS

(Continued)

#### **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 the state administered 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 risk pools 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.

##### Board of Risk and Insurance Management (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a risk pool currently operating as a 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. During the year ended June 30, 2011, no changes in coverage were made and paid claims did not exceed coverage.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**15 - RISK MANAGEMENT (Continued)**

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 – LEASING ACTIVITY**

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 fiscal years ended June 30, 2011 and 2010 approximated \$648,731 and \$697,279 respectively.

The Lottery is a lessor of certain office space under the terms of non-cancellable operating leases to various tenants. Rental revenues for the year ended June 30, 2011 were \$1,037,291. Expected future rental income (in thousands) under the leases with terms in excess of one year are as follows:

Year Ended June 30	Rental Income
2012	\$ 939
2013	962
2014	986
2015	248
Total	<u>\$ 3,135</u>

**17 - COMMITMENTS**

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2011 and 2010, \$4,480,629 and \$5,921,057, respectively, are included in unrestricted net assets for this purpose.

At June 30, 2011, the Lottery has outstanding construction commitments of \$10,231,527. The Lottery has received an appropriation for the year ended June 30, 2012 from the State of West Virginia to satisfy these commitments.

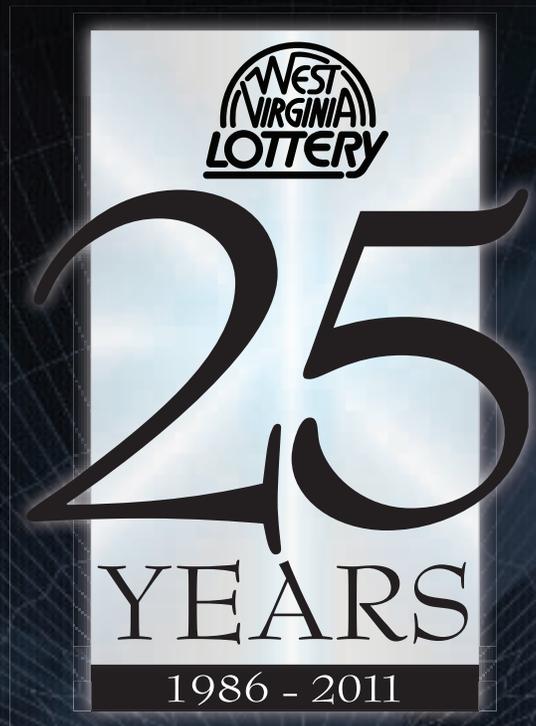
WEST VIRGINIA LOTTERY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

**18 - EFFECT OF NEW ACCOUNTING PRONOUNCEMENT**

The GASB has issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Since Lottery management has elected not to apply post-November 30, 1989 FASB Statements and Interpretations, the implementation of this Statement will not have a significant impact on its financial statements.



## Our Employees

Our employees take great pride in their work and know that their contributions are key in creating a better tomorrow for West Virginia.

Thanks to their hard work and dedication the West Virginia Lottery is able to meet its obligations to the people of West Virginia on an annual basis, and often times exceed those expectations as it did this past fiscal year.

The West Virginia Lottery generated nearly \$1.4 billion in sales during fiscal year 2011, while keeping operating costs under 2.17 percent. That is a credit to every employee within the organization.

The Lottery employs nearly 200 West Virginians in a wide array of jobs ranging from auditors and lottery investigators to IT specialists and Program Analysts. This diverse and talented group makes a difference every day.

# Celebrating Our Employees

## Statistical Section



Executive



Licensing



Finance and Administration



Maintenance



Marketing



Security

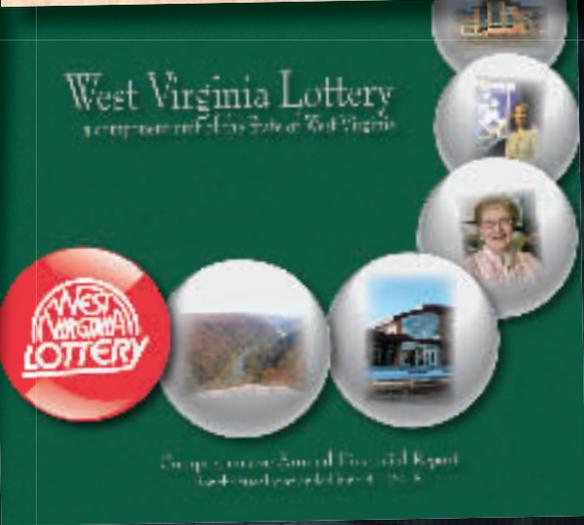
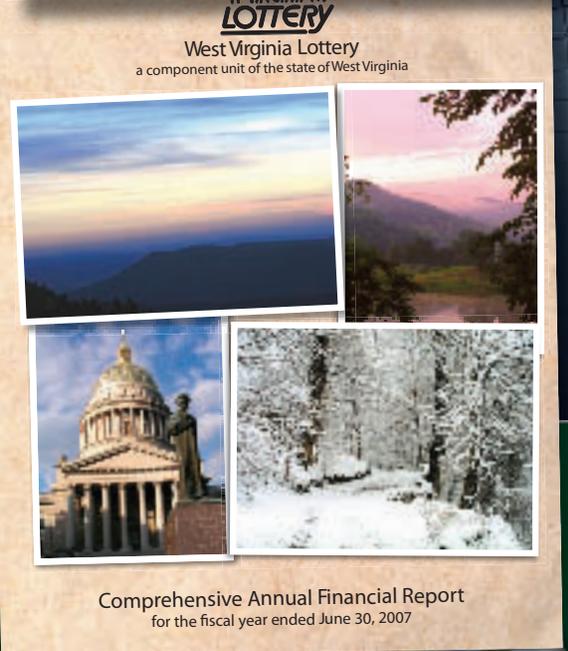
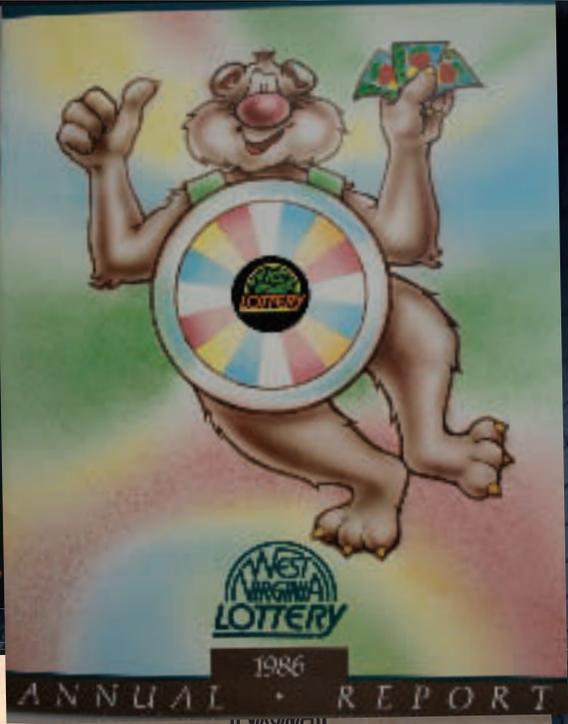
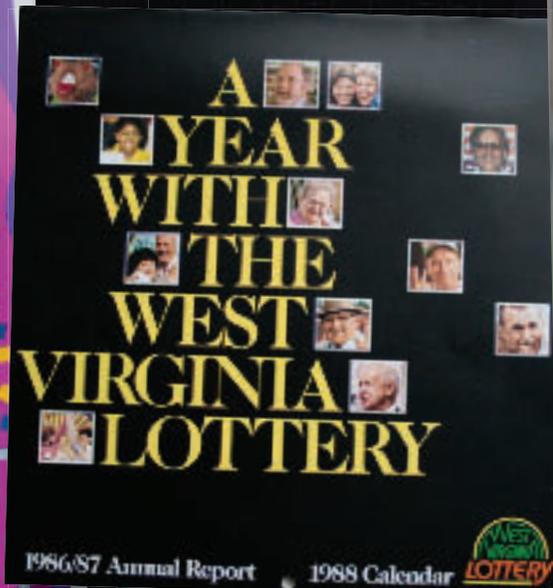


Video Lottery Security



Video Lottery

The West Virginia Lottery is made up of approximately 200 employees who are located at the headquarters in Charleston, as well as field employees located across the State who serve four Racetracks, a Historic Resort, and more than 1,500 Limited Video Lottery retail locations.



During our 25 years the Lottery has produced many award winning Comprehensive Annual Financial Reports.

## STATISTICAL SECTION

This section of the West Virginia Lottery's comprehensive annual financial report depicts charts and graphs to aide 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

	2002	2003	2004	2005
Instant	\$94,322,791	\$105,395,146	\$109,843,864	\$111,863,092
Powerball®	75,911,123	51,067,026	63,373,462	49,214,536
Other MUSL games	1,525,689	2,805,269	2,579,140	3,342,726
Daily 3	10,076,565	9,927,812	9,386,172	9,293,550
Daily 4	4,695,641	4,724,179	4,540,767	4,421,188
Cash 25	6,614,501	6,242,641	6,190,917	6,112,910
Travel Keno	13,757,028	11,924,361	10,953,721	9,966,638
Mega Millions®				
<b>Total On-line</b>	<b>\$112,580,547</b>	<b>\$86,691,288</b>	<b>\$97,024,179</b>	<b>\$82,351,548</b>
Video (net of prizes)				
Racetrack	\$595,946,640	\$717,079,486	\$854,858,062	\$894,530,565
Limited	\$45,760,647	\$172,743,695	\$241,710,952	\$310,328,583
Table Games (privilege tax)				
Video (net of prizes)				
Table Games (privilege tax)				
<b>Total Historic Resort</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Sales</b>	<b>\$848,610,625</b>	<b>\$1,081,909,615</b>	<b>\$1,303,437,057</b>	<b>\$1,399,073,788</b>
License Fees	14,574,772	11,485,136	13,610,521	15,789,742
Miscellaneous	942,569	605,467	503,013	578,477
<b>Other Operating Income</b>	<b>\$15,517,341</b>	<b>\$12,090,603</b>	<b>\$14,113,534</b>	<b>\$16,368,219</b>
Nonoperating Income	\$7,190,034	\$813,454	\$474,138	\$1,923,223
<b>Total Revenues</b>	<b>\$871,318,000</b>	<b>\$1,094,813,672</b>	<b>\$1,318,024,729</b>	<b>\$1,417,365,230</b>

### Expenses, Distributions and Net Income Last Ten Fiscal Years

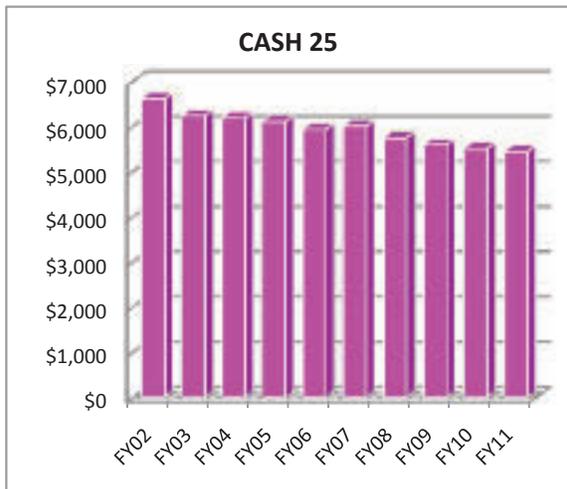
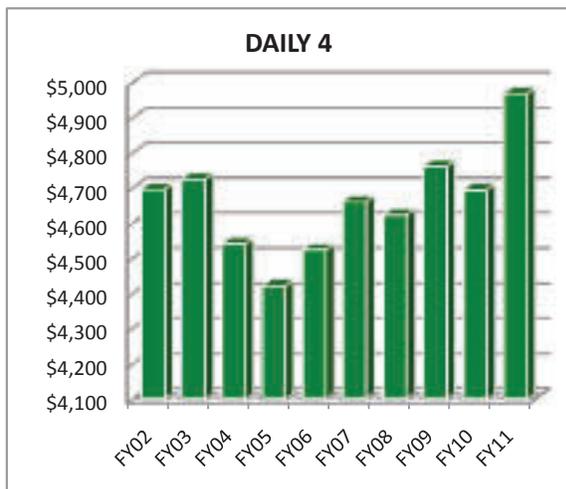
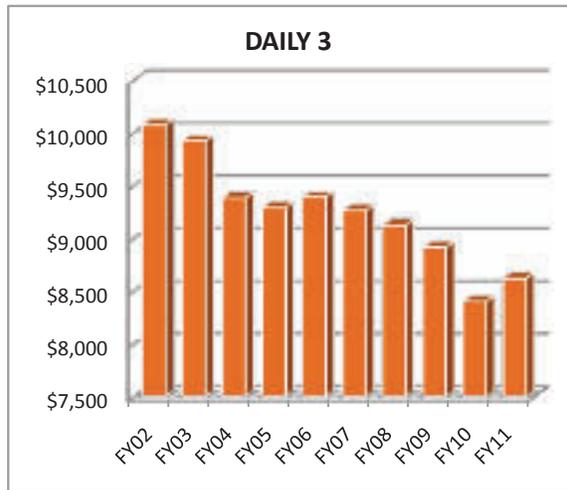
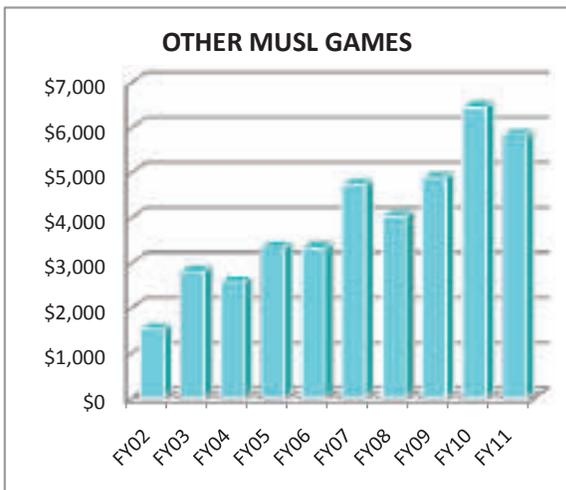
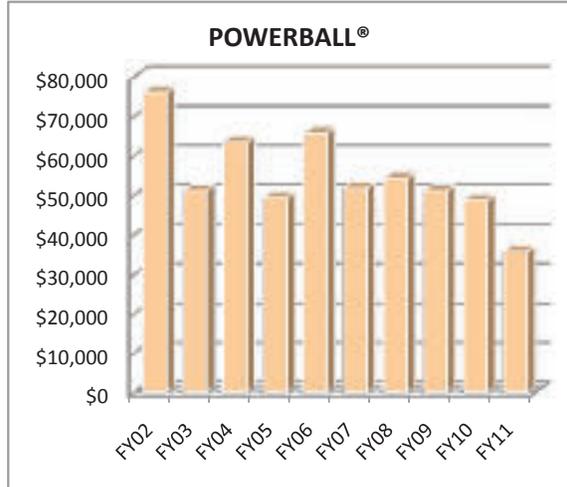
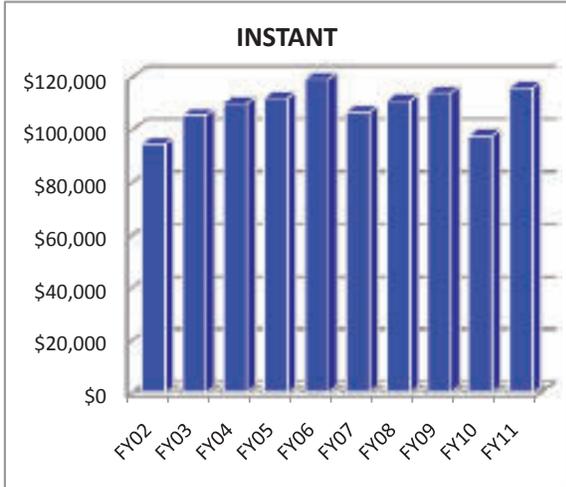
	2002	2003	2004	2005
Prizes (traditional)	\$120,180,048	\$114,651,424	\$123,263,630	\$117,125,999
Commissions				
Instant	5,896,537	7,377,661	7,689,770	7,831,524
On-line	7,041,257	6,086,088	6,772,587	5,767,083
Racetrack	354,762,709	412,325,047	477,797,417	496,649,792
Limited	31,391,705	99,799,713	137,388,489	173,115,051
Table Games	-	-	-	-
Historic Resort	-	-	-	-
<b>Total Commissions</b>	<b>\$399,092,208</b>	<b>\$525,588,509</b>	<b>\$629,648,263</b>	<b>\$683,363,450</b>
Administration (includes ticket costs)	\$30,360,103	\$29,452,769	\$31,980,883	\$29,622,628
<b>Total Operating Expenses</b>	<b>\$549,632,359</b>	<b>\$669,692,702</b>	<b>\$784,892,776</b>	<b>\$830,112,077</b>
<b>Nonoperating Distributions</b>				
Municipalities and Counties	-	3,384,191	4,776,034	6,083,020
Capital Reinvestment Fund	5,811,039	10,695,115	16,250,347	17,849,943
State of West Virginia	315,874,602	411,041,664	512,105,572	563,320,190
<b>Total Distributions</b>	<b>\$321,685,641</b>	<b>\$425,120,970</b>	<b>\$533,131,953</b>	<b>\$587,253,153</b>
<b>Net Income</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

2006	2007	2008	2009	2010	2011
\$119,123,846	\$106,493,081	\$110,862,020	\$113,853,880	\$97,482,584	\$115,697,423
65,530,836	51,729,318	54,052,429	51,016,100	48,593,678	35,669,004
3,324,293	4,726,225	4,021,347	4,881,127	6,447,315	5,831,270
9,394,009	9,265,281	9,124,536	8,916,094	8,401,794	8,621,978
4,523,509	4,660,620	4,622,396	4,760,533	4,694,743	4,967,805
5,936,395	6,006,570	5,752,037	5,596,814	5,512,376	5,440,930
10,249,487	9,769,174	9,603,308	9,070,501	7,412,987	6,423,516
				2,678,674	10,915,389
\$98,958,529	\$86,157,188	\$87,176,053	\$84,241,169	\$83,741,567	\$77,869,892
\$942,250,631	\$972,591,775	\$897,952,931	\$848,232,669	\$746,208,159	\$726,952,241
\$362,181,294	\$397,016,887	\$411,587,201	\$412,488,946	\$397,287,133	\$397,544,342
		\$15,877,334	\$34,219,101	\$31,725,645	\$68,153,589
				1,132,902	4,092,891
				516,466	2,138,796
-	-	-	-	\$1,649,368	\$6,231,687
\$1,522,514,300	\$1,562,258,931	\$1,523,455,539	\$1,493,035,765	\$1,358,094,456	\$1,392,449,174
10,445,040	9,864,349	11,225,977	10,573,157	10,317,529	10,157,522
748,276	532,596	710,975	827,731	741,824	1,648,012
\$11,193,316	\$10,396,945	\$11,936,952	\$11,400,888	\$11,059,353	\$11,805,534
\$5,152,532	\$7,556,505	\$10,031,139	\$2,719,936	\$390,334	\$297,669
<b>\$1,538,860,148</b>	<b>\$1,580,212,381</b>	<b>\$1,545,423,630</b>	<b>\$1,507,156,589</b>	<b>\$1,369,544,143</b>	<b>\$1,404,552,377</b>

2006	2007	2008	2009	2010	2011
\$131,903,210	\$115,792,130	\$121,169,284	\$119,449,497	\$107,983,663	\$120,706,835
8,338,753	7,454,496	7,762,564	7,969,759	6,823,692	8,098,815
6,936,315	6,019,193	6,113,745	5,900,642	5,849,450	5,456,854
508,326,365	522,744,477	487,276,099	463,649,031	414,987,691	404,944,515
195,112,272	206,127,102	205,636,799	202,119,568	194,670,681	194,796,720
-	-	6,249,023	13,458,369	12,473,391	29,288,210
-	-	-	-	846,922	3,126,210
\$718,713,705	\$742,345,268	\$713,038,230	\$693,097,369	\$635,651,827	\$645,711,324
\$31,329,670	\$30,905,929	\$33,478,401	\$35,215,252	\$36,493,179	\$40,838,831
<b>\$881,946,585</b>	<b>\$889,043,327</b>	<b>\$867,685,915</b>	<b>\$847,762,118</b>	<b>\$780,128,669</b>	<b>\$807,256,990</b>
7,098,999	7,781,531	8,067,110	8,084,783	7,786,828	7,791,869
19,774,016	20,997,371	17,987,933	15,983,212	11,968,468	21,558,438
610,040,548	639,150,849	631,155,117	616,622,965	616,465,269	565,256,651
<b>\$636,913,563</b>	<b>\$667,929,751</b>	<b>\$657,210,160</b>	<b>\$640,690,960</b>	<b>\$636,220,565</b>	<b>\$594,606,958</b>
<b>\$20,000,000</b>	<b>\$23,239,303</b>	<b>\$20,527,555</b>	<b>\$18,703,511</b>	<b>(\$46,805,091)</b>	<b>\$2,688,429</b>

# WEST VIRGINIA LOTTERY

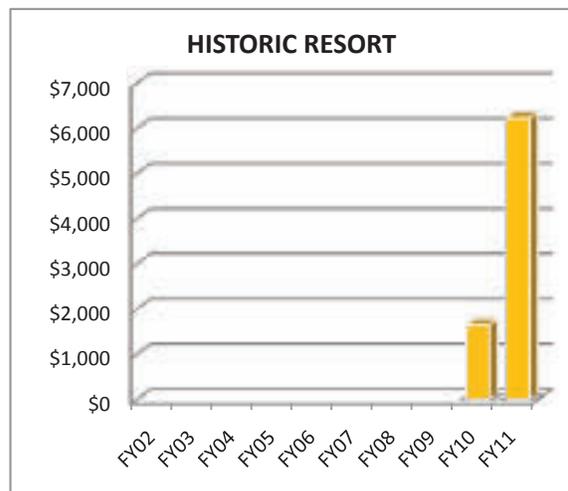
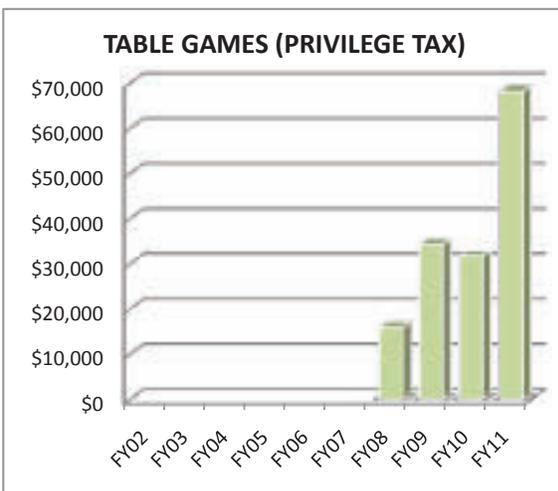
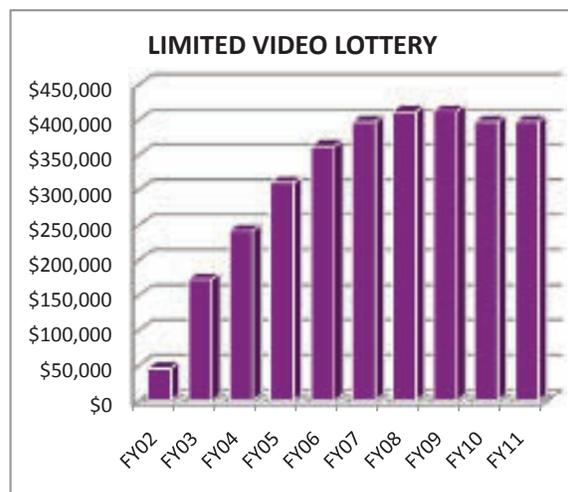
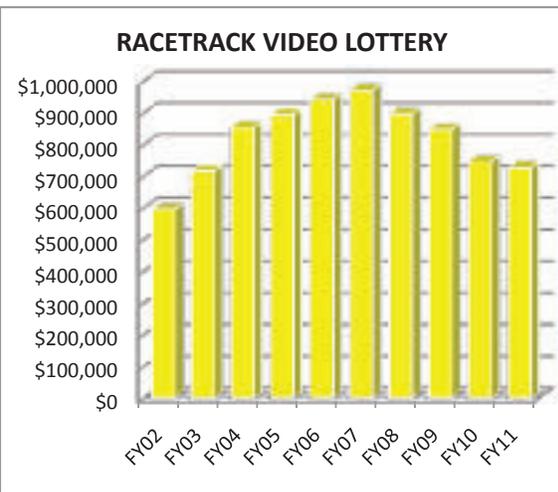
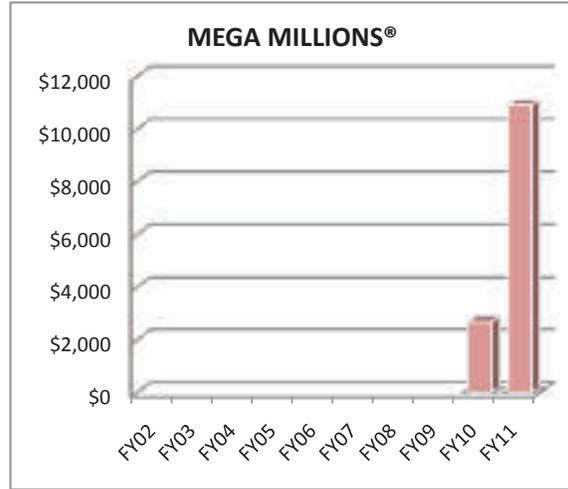
## Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

# WEST VIRGINIA LOTTERY

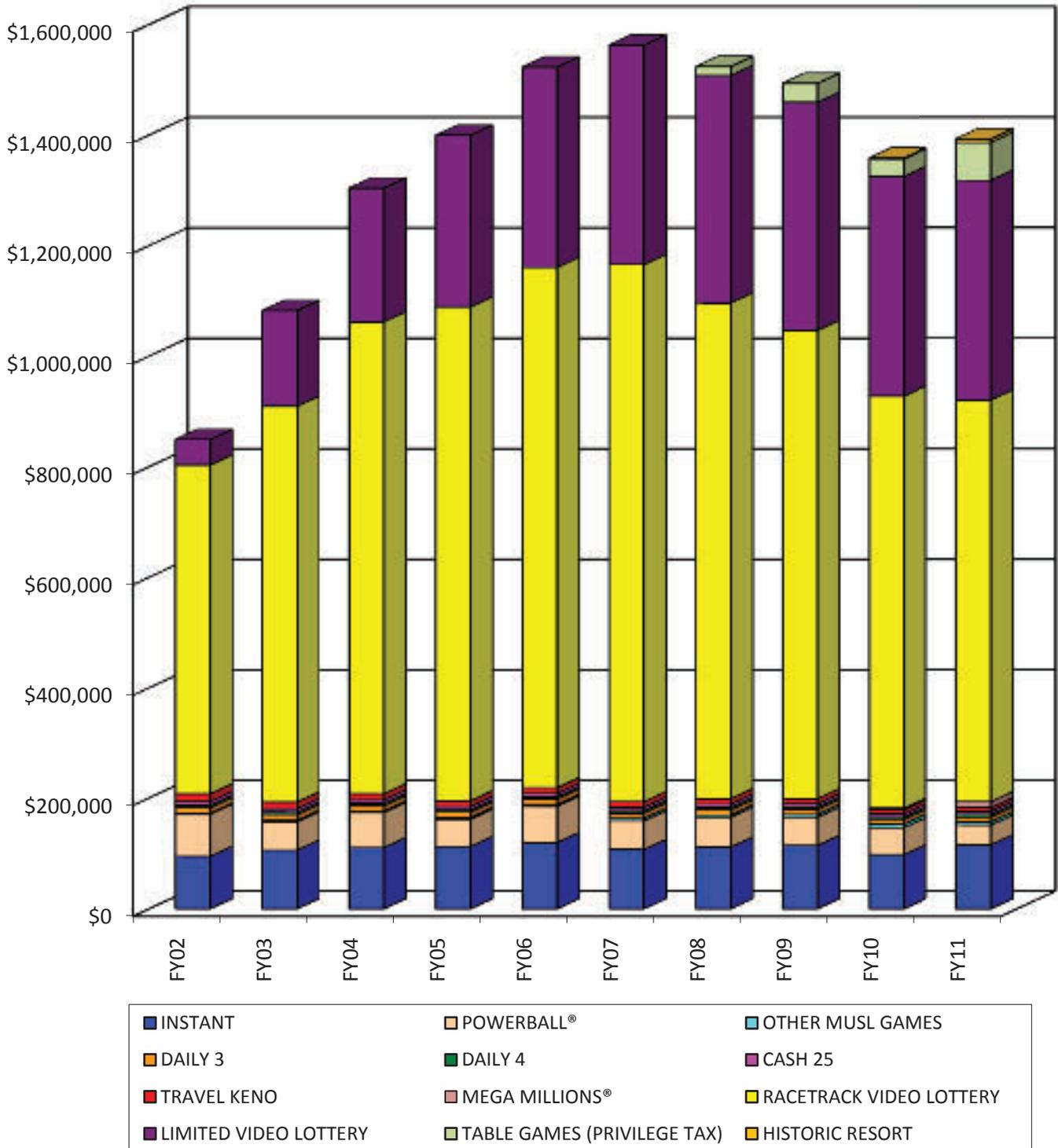
## Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

# WEST VIRGINIA LOTTERY

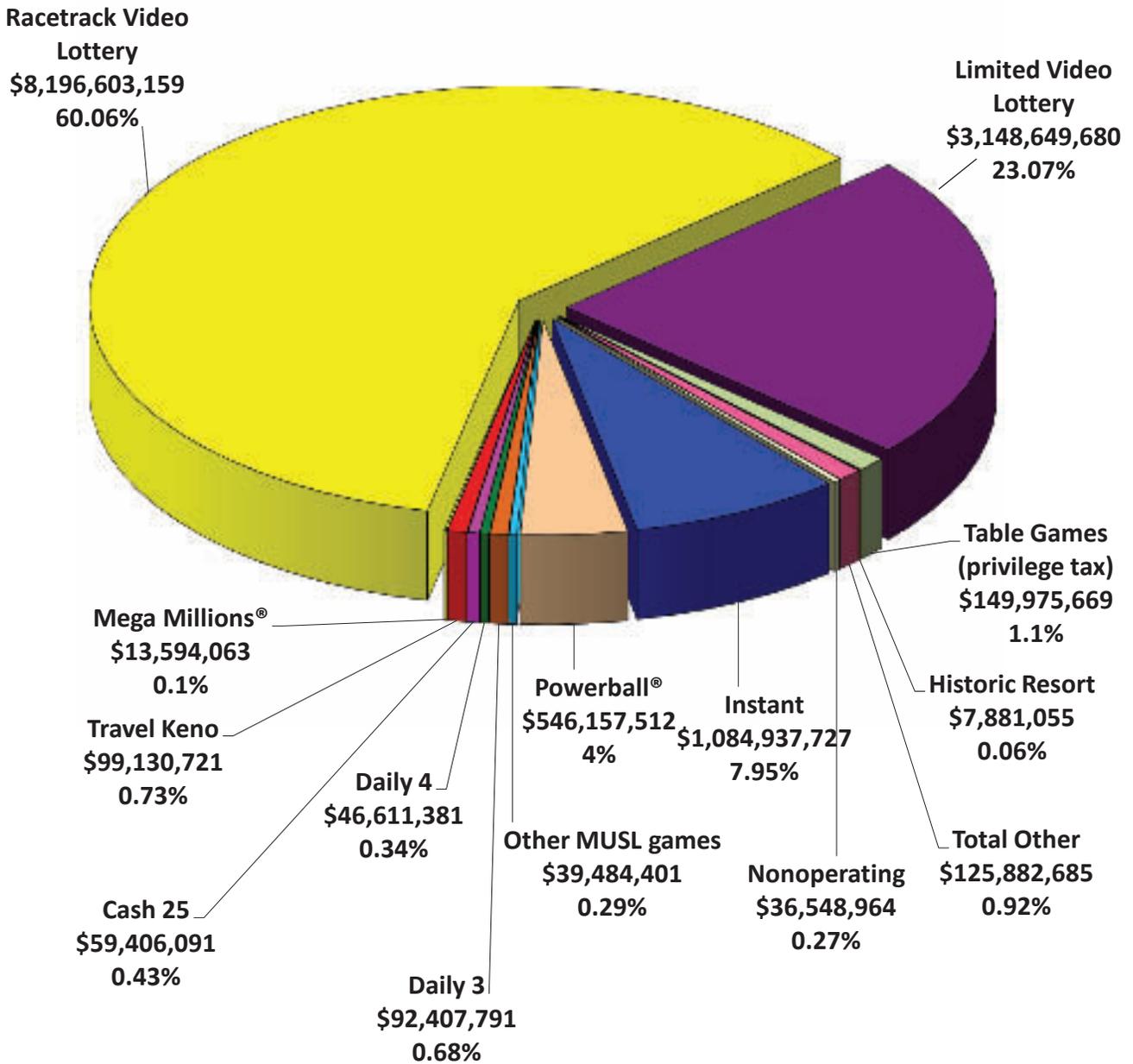
## Sales By Product Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

# WEST VIRGINIA LOTTERY

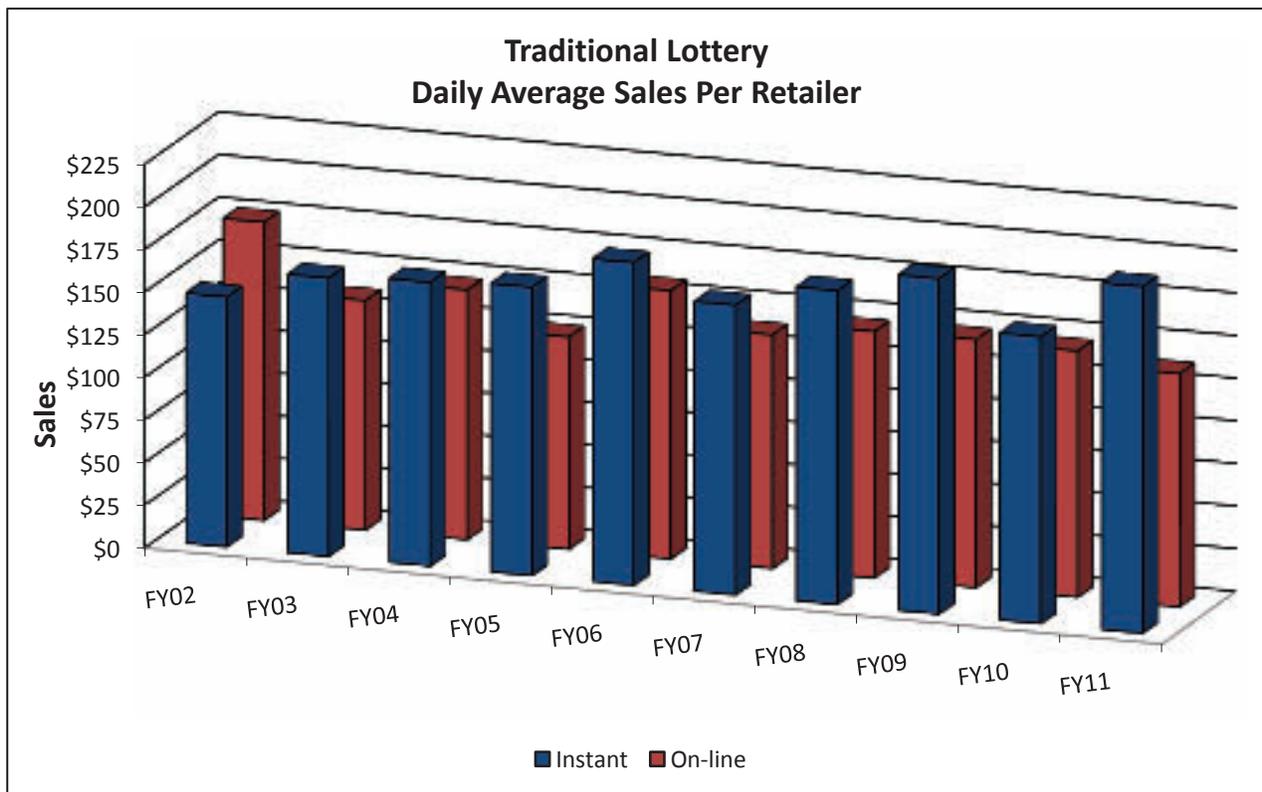
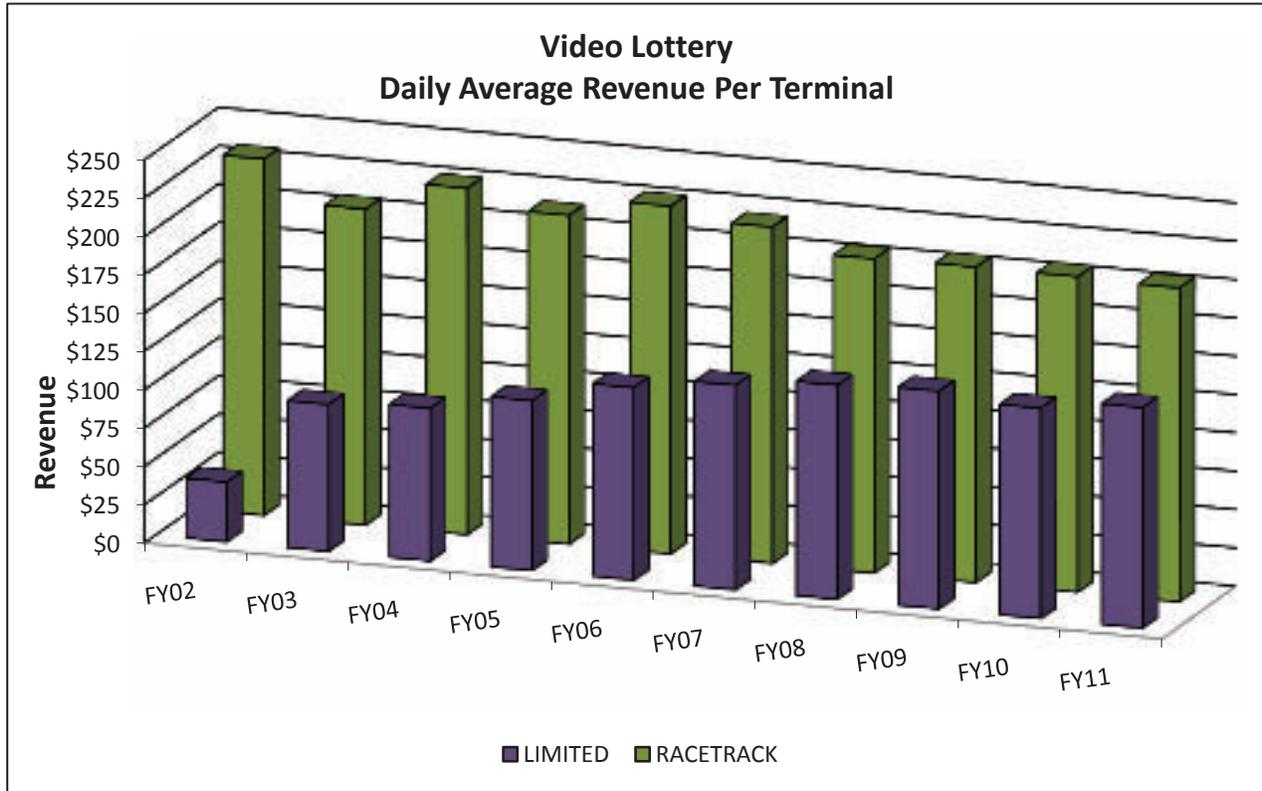
Total Revenues \$13,647,270,899  
Last Ten Fiscal Years



Source: West Virginia Lottery

# WEST VIRGINIA LOTTERY

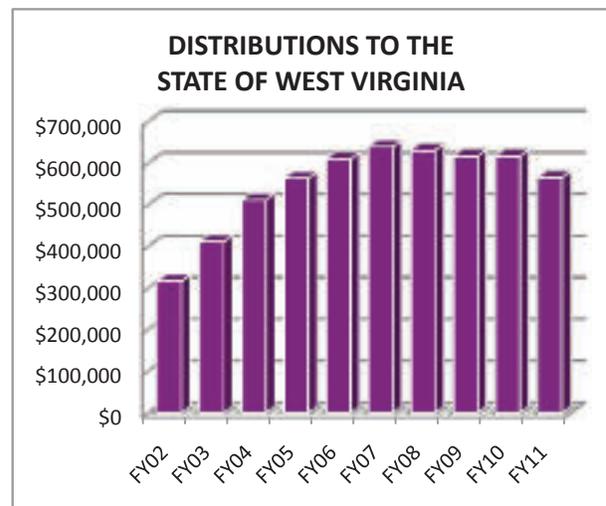
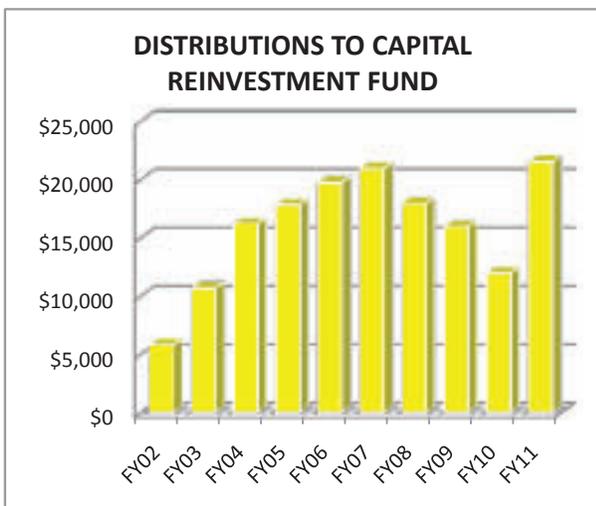
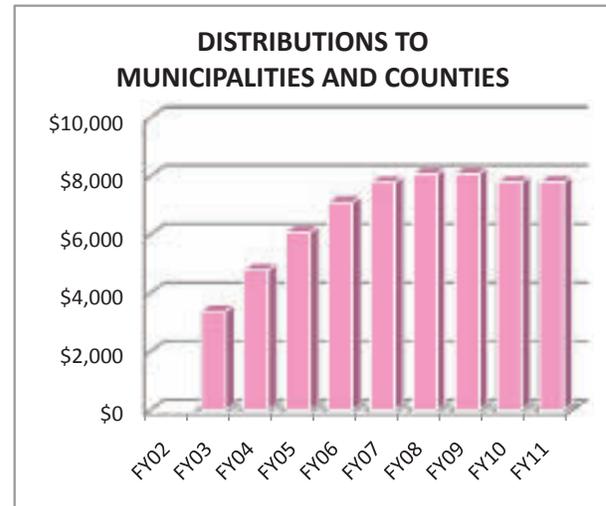
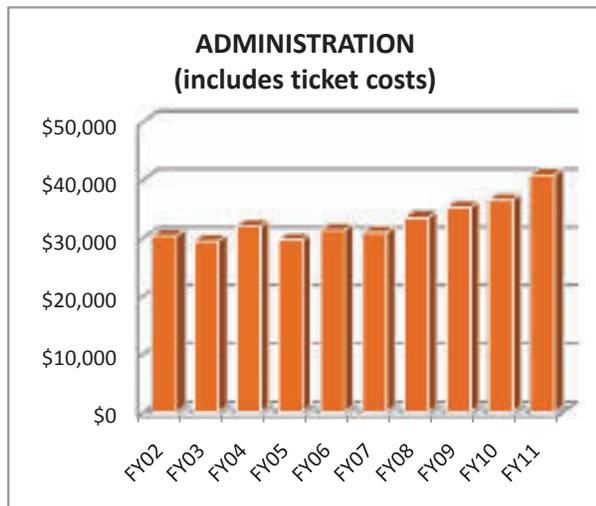
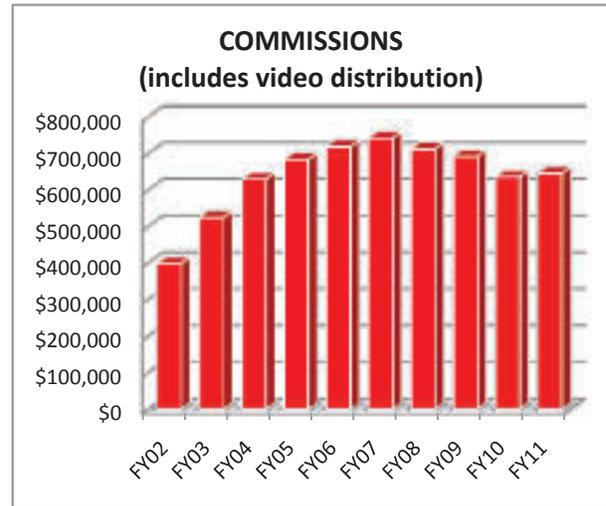
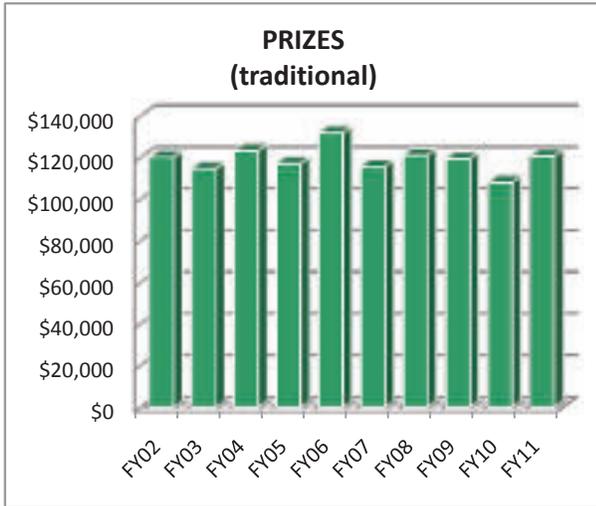
## Daily Averages Last Ten Fiscal Years



Source: West Virginia Lottery

# WEST VIRGINIA LOTTERY

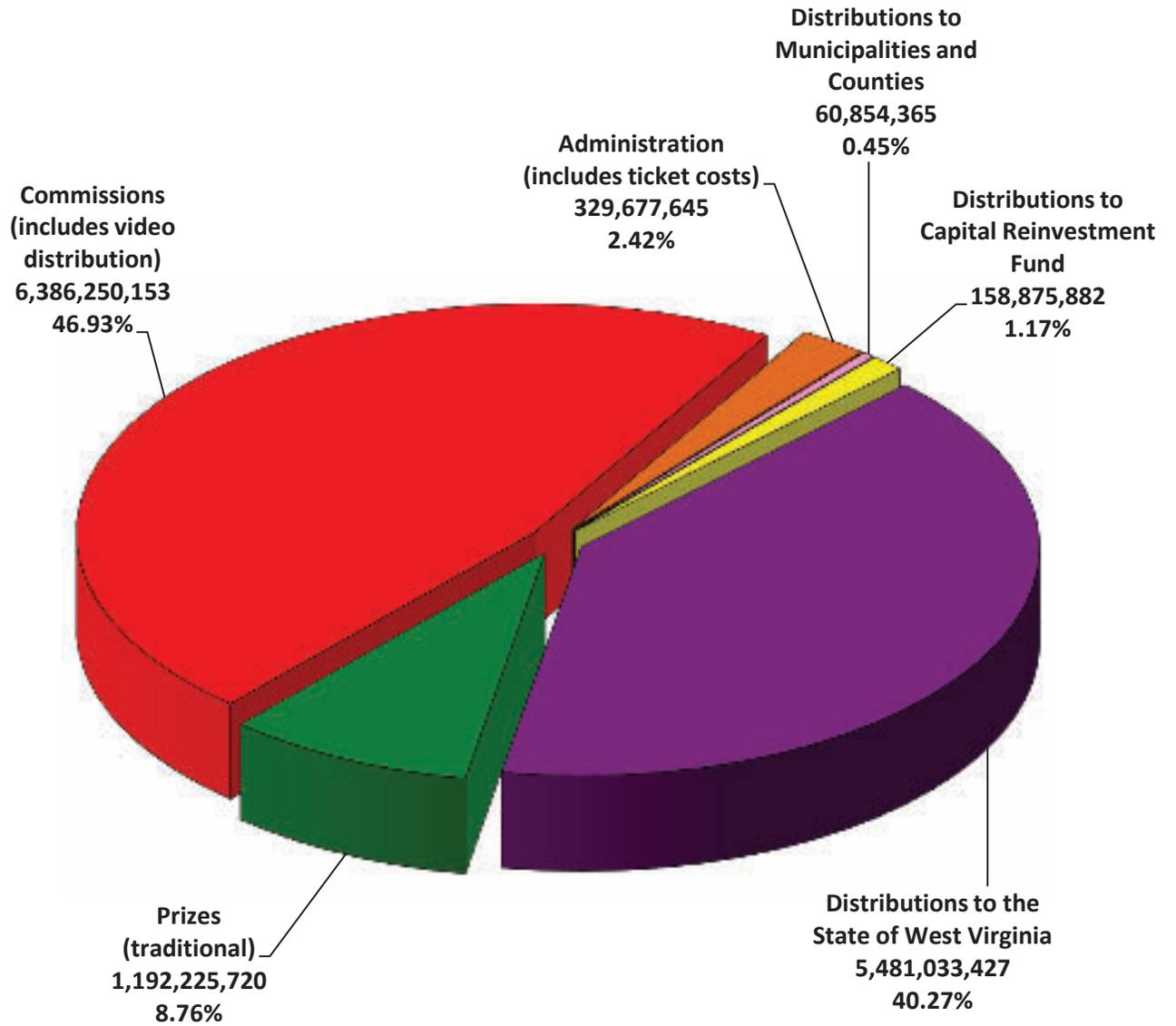
## Expenses and Nonoperating Distributions Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

# WEST VIRGINIA LOTTERY

Total Expenses and Nonoperating Distributions \$13,608,917,192  
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>
Net Assets					
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 20,000
Invested in capital assets	6,195	4,754	3,184	2,024	1,149
Unrestricted (deficit)	(5,945)	(4,504)	(2,934)	(1,774)	(899)
Total net assets	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 20,250</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Assets					
Restricted	\$ 30,367	\$ 58,487	\$ 69,871	\$ 8,355	\$ 2,039
Invested in capital assets	1,451	5,251	3,306	23,349	30,421
Unrestricted (deficit)	11,671	747	10,011	4,679	6,612
Total net assets	<u>\$ 43,489</u>	<u>\$ 64,485</u>	<u>\$ 83,188</u>	<u>\$ 36,383</u>	<u>\$ 39,072</u>

Source: West Virginia Lottery

## WEST VIRGINIA LOTTERY

### U.S. Lotteries Unaudited Sales For Fiscal Year 2011 Excludes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Prizes	Net Income	Population	Sales/Capita
Arizona	\$583.5	\$362.9	\$146.3	6.7	\$87.09
Arkansas	\$464.0	\$307.5	\$156.6	2.9	\$160.00
California	\$3,438.6	\$1,904.8	\$1,128.6	37.3	\$92.19
Colorado	\$518.9	\$323.9	\$113.4	5.1	\$101.75
Connecticut	\$1,016.6	\$620.1	\$289.3	3.5	\$290.46
Delaware	\$124.0			0.9	\$137.78
D.C. (end 6/30)	\$231.3	\$123.3	\$64.3	0.6	\$385.50
Florida	\$4,008.7			18.7	\$214.37
Georgia	\$3,597.9	\$2,120.8	\$846.1	9.9	\$363.42
Idaho	\$147.2	\$90.2	\$37.5	1.6	\$92.00
Illinois	\$2,278.8	\$1,414.6	\$690.0	12.9	\$176.65
Indiana	\$791.4	\$494.5	\$188.6	6.4	\$123.66
Iowa	\$271.4	\$158.9	\$112.5	3.0	\$90.47
Kansas	\$243.8	\$142.4	\$70.0	2.8	\$87.07
Kentucky	\$772.3	\$482.9	\$212.3	4.3	\$179.60
Louisiana	\$383.6	\$168.5	\$136.4	4.5	\$85.24
Maine	\$216.4	\$134.2	\$50.2	1.3	\$166.46
Maryland <sup>2,3</sup>	\$1,714.4	\$1,028.0	\$519.4	5.7	\$300.77
Massachusetts	\$4,403.3			6.6	\$667.17
Michigan <sup>1,6</sup>	\$2,364.1	\$1,383.4	\$731.9	9.9	\$238.80
Minnesota	\$504.4	\$311.0	\$121.9	5.3	\$95.17
Missouri	\$1,001.3	\$621.6	\$259.4	6.0	\$166.88
Montana	\$46.0	\$24.8	\$10.6	1.0	\$46.00
Nebraska	\$131.9	\$76.9	\$32.1	1.8	\$73.28
New Hampshire	\$228.4	\$139.3	\$62.3	1.3	\$175.69
New Jersey	\$2,636.4	\$1,542.2	\$890.9	8.7	\$303.03
New Mexico	\$135.5	\$73.6	\$41.3	2.0	\$67.75
New York <sup>2,3,4</sup>	\$6,758.7	\$3,968.1	\$3,049.2	19.6	\$344.83
North Carolina	\$1,461.1	\$861.6	\$437.4	9.5	\$153.80
North Dakota	\$23.0	\$46.1	\$92.2	0.7	\$32.86
Ohio	\$2,596.1	\$1,550.0	\$738.8	11.5	\$225.75
Oklahoma	\$198.2	\$106.6	\$69.4	3.7	\$53.57
Oregon <sup>2,3</sup>	\$317.5	\$206.4	\$560.0	3.9	\$81.41
Pennsylvania	\$3,207.9	\$2,179.4	\$960.0	12.6	\$254.60
Rhode Island <sup>2,3</sup>	\$230.7	\$142.3	\$354.9	1.1	\$209.73
South Carolina	\$1,047.1		\$271.0	4.6	\$227.63
South Dakota <sup>2,3</sup>	\$46.6	\$27.4	\$105.2	0.8	\$58.25
Tennessee	\$1,186.6	\$695.1	\$293.5	6.3	\$188.35
Texas <sup>1,5</sup>	\$3,783.2	\$2,425.2	\$960.6	25.2	\$150.13
Vermont	\$95.6	\$60.6	\$21.4	0.6	\$159.33
Virginia	\$1,482.7	\$881.0	\$435.2	8.0	\$185.34
Washington	\$510.5			6.7	\$76.19
West Virginia <sup>2,3,7</sup>	\$193.6	\$119.5		1.8	\$107.56
Wisconsin	\$502.5			5.7	\$88.16
<b>Total</b>	<b>\$55,895.7</b>	<b>\$27,319.6</b>	<b>\$15,260.7</b>	<b>293.0</b>	<b>\$7,565.72</b>

2011 data source: La Fleur's Magazine/Vol. 19, No. 1 Sept/Oct 2011

<sup>1</sup>Estimated Sales

<sup>5</sup>Fiscal Year ends 8/31

<sup>2</sup>Doesn't include VLT prizes

<sup>6</sup>Fiscal Year ends 9/30

<sup>3</sup>Includes traditional and VLT profit

<sup>7</sup>Gross sales were \$1,392.5, including VLT sales of \$1,128.6 and Table Games sales of \$70.3

<sup>4</sup>Fiscal Year ends 3/31

## 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 <sup>1,6</sup>	\$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 <sup>2,4</sup>	\$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 <sup>2,3</sup>	\$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 <sup>2,3</sup>	\$234.7	\$144.3	\$344.6	1.1	\$213.36
South Carolina	\$1,007.5			4.6	\$219.02
South Dakota <sup>2,3</sup>	\$45.7	\$25.5	\$116.9	0.8	\$57.13
Tennessee	\$1,138.4	\$664.0	\$288.9	6.3	\$180.70
Texas <sup>5</sup>	\$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 <sup>2,3,7</sup>	\$181.2	\$107.1	\$560.8	1.8	\$100.67
Wisconsin	\$480.8			5.7	\$84.35
<b>Total</b>	<b>\$54,588.7</b>	<b>\$28,451.4</b>	<b>\$15,323.2</b>	<b>291.3</b>	<b>\$7,469.67</b>

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

<sup>1</sup>Estimated Sales

<sup>5</sup>Fiscal Year ends 8/31

<sup>2</sup>Doesn't include VLT prizes

<sup>6</sup>Fiscal Year ends 9/30

<sup>3</sup>Includes traditional and VLT profit

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

<sup>4</sup>Fiscal Year ends 3/31

## WEST VIRGINIA LOTTERY

### U.S. Lotteries Unaudited Sales For Fiscal Year 2011 Includes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Profit	Population	Sales/Capita
Arizona	\$583.54	\$146.33	6.7	\$87.10
Arkansas (9/28/09-6/30/10)	\$464.02	\$94.23	2.9	\$160.01
California	\$3,438.58	\$1,125.82	37.3	\$92.19
Colorado	\$518.92	\$113.40	5.1	\$101.75
Connecticut	\$1,016.61	\$289.30	3.5	\$290.46
Delaware <sup>1</sup>	\$636.39	\$287.00	0.9	\$707.10
District of Columbia (9/30) <sup>3</sup>	\$245.00	\$63.00	0.6	\$408.33
Florida	\$4,008.72	\$1,191.82	18.7	\$214.37
Georgia	\$3,597.92	\$846.11	9.9	\$363.43
Idaho	\$147.15	\$37.00	1.6	\$91.97
Illinois	\$2,278.70	\$689.97	12.9	\$176.64
Indiana	\$791.45	\$188.23	6.4	\$123.66
Iowa	\$271.39	\$68.06	3.0	\$90.46
Kansas	\$232.37	\$70.00	2.8	\$82.99
Kentucky	\$772.35	\$212.25	4.3	\$179.62
Louisiana	\$383.59	\$136.36	4.5	\$85.24
Maine	\$216.43	\$49.55	1.3	\$166.48
Maryland <sup>1</sup>	\$1,817.38	\$576.57	5.7	\$318.84
Massachusetts	\$4,416.29	\$887.91	6.6	\$669.13
Michigan (9/30) <sup>3</sup>	\$2,346.11	\$726.97	9.9	\$236.98
Minnesota	\$504.44	\$121.89	5.3	\$95.18
Missouri	\$1,000.68	\$259.42	6.0	\$166.78
Montana	\$46.02	\$10.61	1.0	\$46.02
Nebraska	\$131.92	\$32.55	1.8	\$73.29
New Hampshire	\$228.40	\$62.20	1.3	\$175.69
New Jersey	\$2,636.49	\$930.00	8.7	\$303.04
New Mexico	\$135.54	\$41.30	2.0	\$67.77
New York (3/31) <sup>1</sup>	\$7,868.21	\$3,049.15	19.6	\$401.44
North Carolina	\$1,461.11	\$436.24	9.5	\$153.80
North Dakota	\$23.00	\$5.92	0.7	\$32.86
Ohio	\$2,601.00	\$738.81	11.5	\$226.17
Oklahoma	\$198.15	\$69.40	3.7	\$53.55
Oregon <sup>2</sup>	\$2,763.98	\$559.90	3.9	\$708.71
Pennsylvania	\$3,207.91	\$960.61	12.6	\$254.60
Rhode Island <sup>2</sup>	\$3,125.60	\$354.86	1.1	\$2,841.45
South Carolina	\$1,047.12	\$271.13	4.6	\$227.63
South Dakota <sup>2</sup>	\$630.53	\$105.20	0.8	\$788.16
Tennessee	\$1,186.56	\$293.49	6.3	\$188.34
Texas (8/31)	\$3,811.27	\$982.03	25.2	\$151.24
Vermont	\$95.55	\$21.40	0.6	\$159.25
Virginia	\$1,482.69	\$444.21	8.0	\$185.34
Washington	\$510.46	\$150.13	6.7	\$76.19
West Virginia <sup>1</sup>	\$1,322.16	\$558.12	1.8	\$734.53
Wisconsin	\$502.65	\$143.69	5.7	\$88.18
<b>Total</b>	<b>\$64,704.35</b>	<b>\$18,402.14</b>	<b>293.0</b>	<b>\$12,845.99</b>

2011 data source: NASPL website: [www.NASPL.org](http://www.NASPL.org)

<sup>2</sup>Includes gross VLT sales (Cash in)

<sup>1</sup>Includes net VLT sales (Cash in less cash out)

<sup>2</sup>Lottery Estimates

## 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 <sup>1</sup>	\$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) <sup>1</sup>	\$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 <sup>1</sup>	\$1,027.68	\$516.70	3.8	\$270.44
Pennsylvania	\$3,065.72	\$915.74	12.6	\$243.31
Rhode Island <sup>2</sup>	\$702.40	\$344.65	1.1	\$638.55
South Carolina	\$1,007.16	\$272.43	4.6	\$218.95
South Dakota <sup>2</sup>	\$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 <sup>1</sup>	\$1,358.00	\$568.90	1.8	\$754.44
Wisconsin <sup>3</sup>	\$481.58	\$143.10	5.7	\$84.49
<b>Total</b>	<b>\$58,816.60</b>	<b>\$17,877.07</b>	<b>291.3</b>	<b>\$9,681.38</b>

2010 data source: NASPL website: [www.NASPL.org](http://www.NASPL.org)

<sup>2</sup>Includes gross VLT sales (Cash in)

<sup>1</sup>Includes net VLT sales (Cash in less cash out)

<sup>3</sup>Net Proceeds

# WEST VIRGINIA LOTTERY

## State Demographic and Economic Information

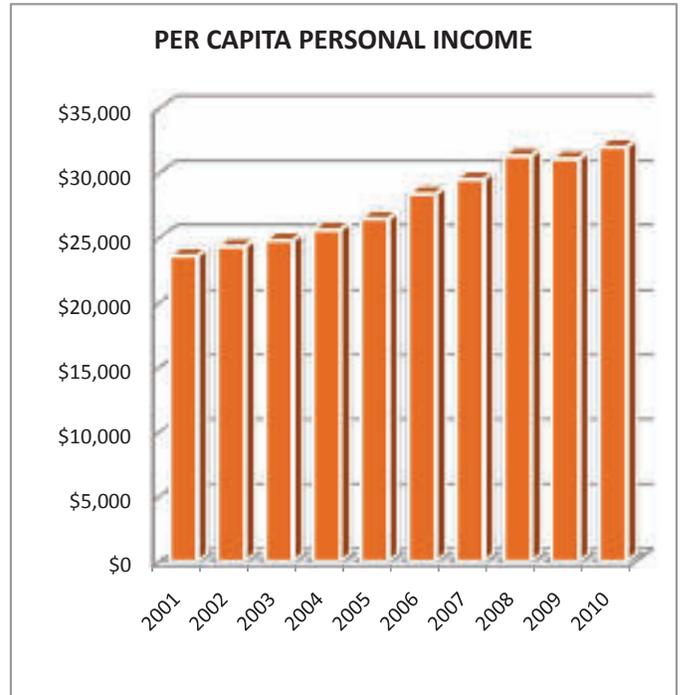
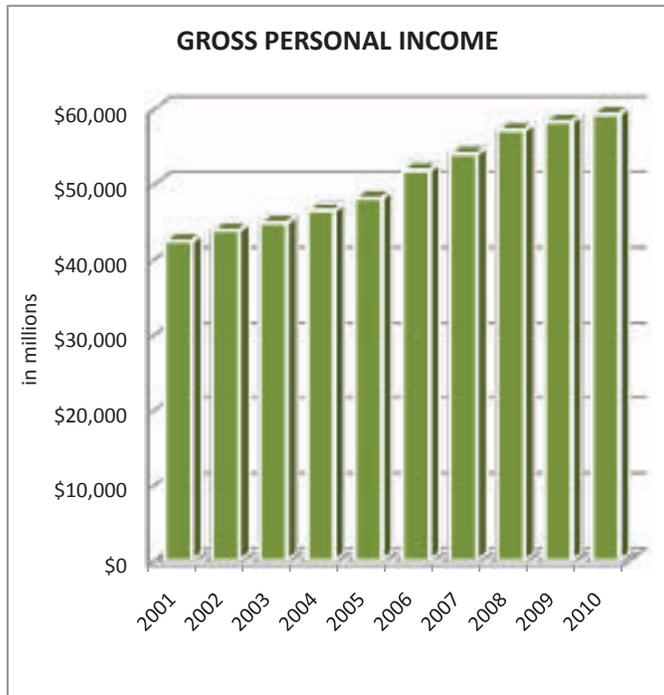
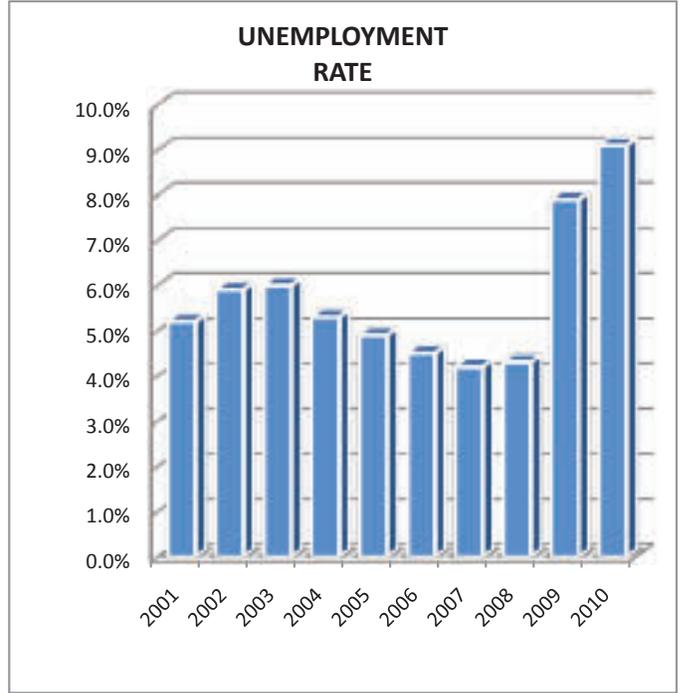
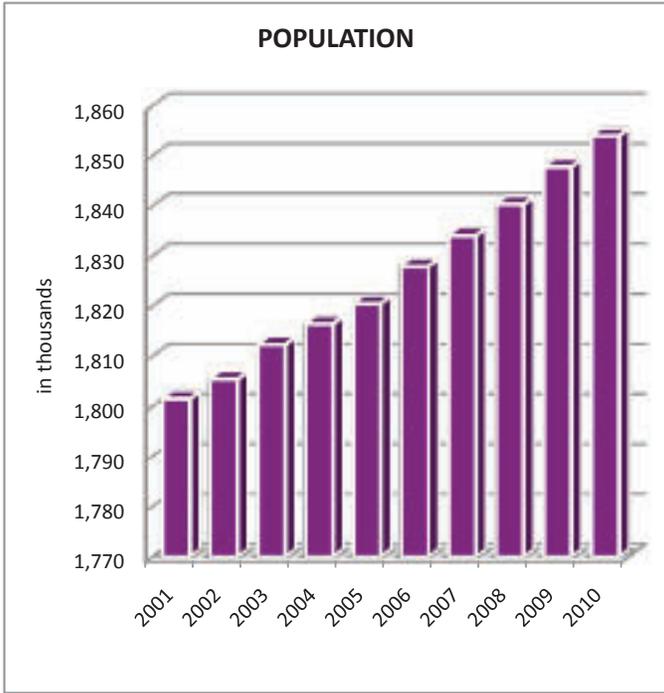
YEAR	POPULATION	PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2010	1,853,973	\$59,325	\$31,999	9.1%
2009	1,847,775	\$57,419	\$31,075	7.9%
2008	1,840,310	\$57,620	\$31,310	4.3%
2007	1,834,052	\$54,100	\$29,497	4.2%
2006	1,827,912	\$51,862	\$28,372	4.5%
2005	1,820,492	\$48,139	\$26,443	4.9%
2004	1,816,438	\$46,500	\$25,599	5.3%
2003	1,812,295	\$44,897	\$24,773	6.0%
2002	1,805,414	\$43,876	\$24,302	5.9%
2001	1,801,481	\$42,466	\$23,573	5.2%

Source: Work Force West Virginia and U.S. Bureau of Economic Analysis based on calendar year.

Note: 2011 information is not available and therefore not presented.

# WEST VIRGINIA LOTTERY

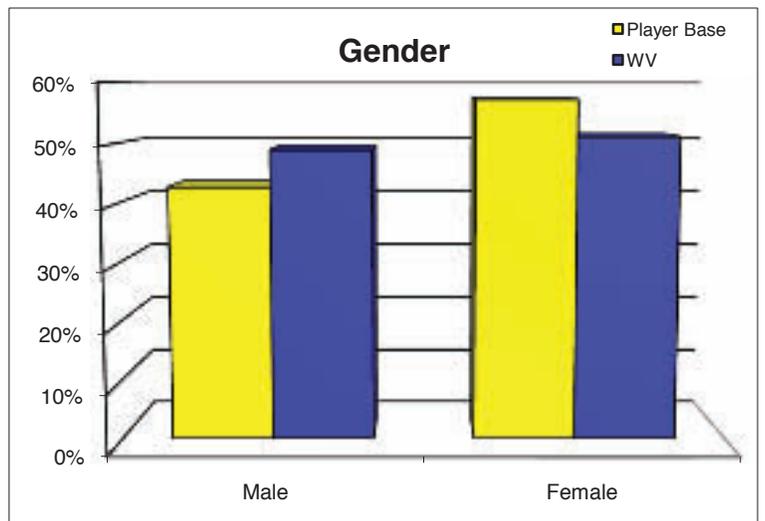
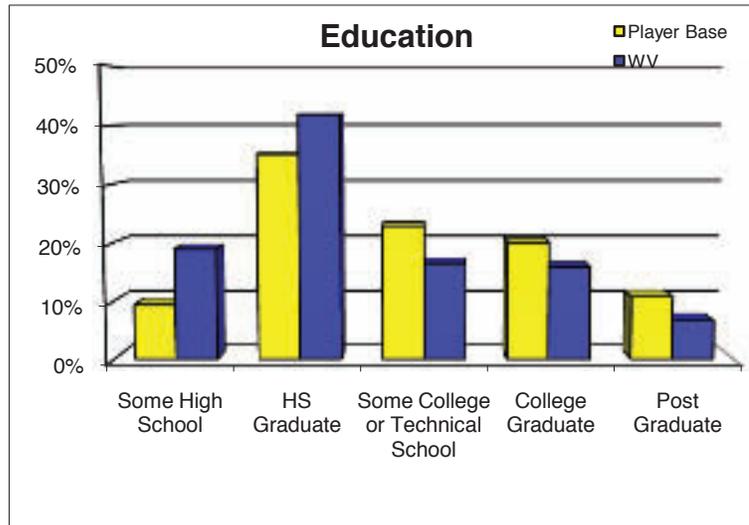
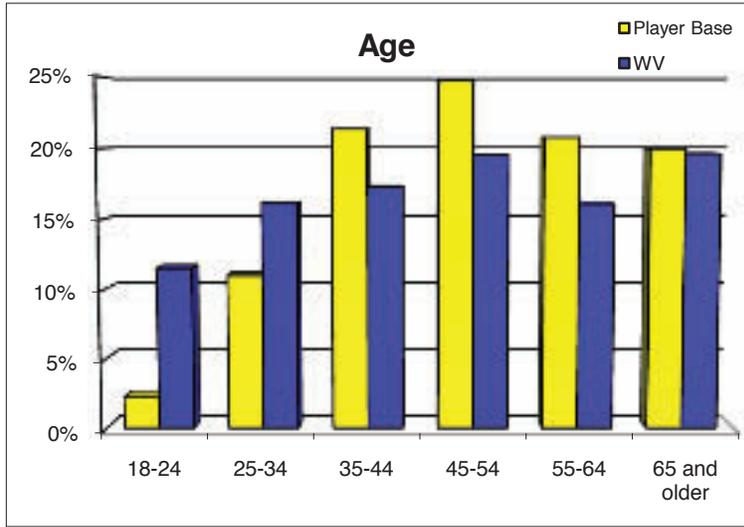
## State Demographics



Source: Work Force West Virginia and U.S. Bureau of Economic Analysis based on calendar year.

# WEST VIRGINIA LOTTERY

## Player and Population Demographics

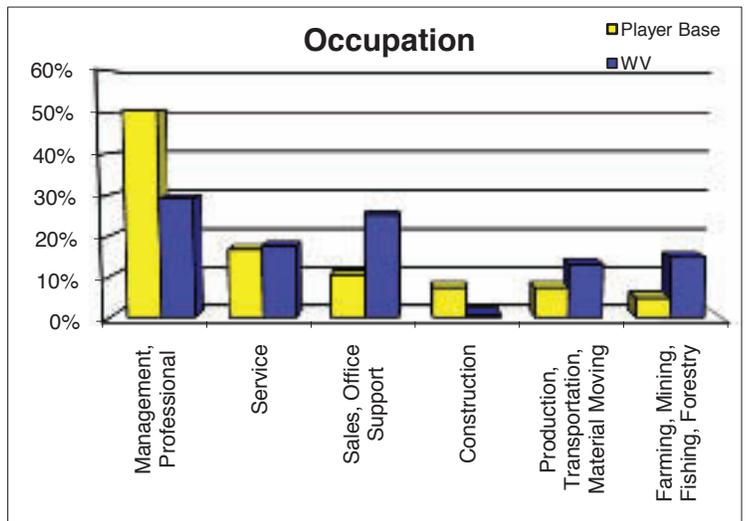
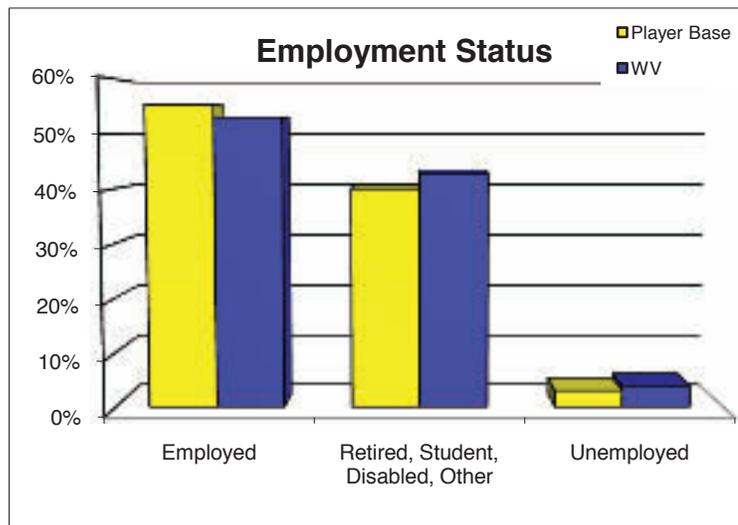
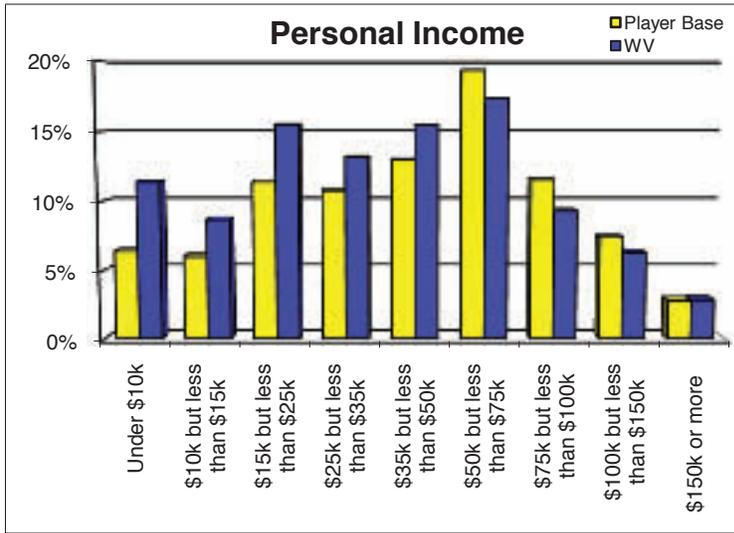


Source: West Virginia Lottery  
Tracking Study, March 2009  
RL Repass & Partners, Inc.

**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:  
 2005-2007

## WEST VIRGINIA LOTTERY

### Number of Employees

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Executive	15	14	15	14	18	20	20	18
Finance & Administration	22	21	30	23	23	24	23	27
Marketing	8	7	7	7	7	7	7	7
Video	27	26	26	28	27	27	29	30
Security (traditional & video)	29	31	32	37	46	47	46	47
Table Games	-	-	-	-	39	47	51	69
<b>Total</b>	<b>101</b>	<b>99</b>	<b>110</b>	<b>109</b>	<b>160</b>	<b>172</b>	<b>176</b>	<b>198</b>

Source: West Virginia Lottery

Note: Only eight years of data was available.

## STATE OF WEST VIRGINIA

### ANNUAL RANKING TOP TEN EMPLOYERS

Business Name	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Allegheny Energy Service Corporation	10	9	10							
American Electric Power	9		7	6	6	5	6	5	5	9
Charleston Area Medical Center	3	3	2	2	3	3	3	3	3	3
Consolidation Coal Company				8	8		10	9	6	5
CSX / CSX Hotels Inc.	6	6	5	5	5	8	5	8		
E I DuPont De Nemours & Company	7	7	8	7						
Eldercare Resources Corporation						6	7	6		
ISG Weirton Inc				10						
Kroger	5	4	4	4	4	4	4	4	4	4
Lowe's Home Centers, Inc.					7	7	8	10	7	7
Mentor Management, Inc. (Mentor Network, The)										10
Mylan Pharmaceuticals, Inc.									10	6
Pilgrim's Pride Corporation of West Virginia						9				
Res-Care Inc.									9	
St. Mary's Hospital		10			10	10	9	7	8	8
Verizon	8	8	9	9	9					
Wal-Mart Associates, Inc.	1	1	1	1	1	1	1	1	1	1
Weirton Steel Corporation	4	5	6							
West Virginia University Hospitals/United Hospitals	2	2	3	3	2	2				
WV United Health System							2	2	2	2

Source: Work Force West Virginia website: [www.wvbep.org](http://www.wvbep.org)

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



2011 West Virginia Lottery headquarters staff



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YEARS

1986 - 2011

West Virginia Lottery 2011 CAFR Project  
An in-house production of the West Virginia Lottery

Lottery Director  
John C. Musgrave

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

Project Coordinator  
Mara Pauley

Design and Photography  
Mike Ross

Charts and Graphs  
Mara Pauley

Contributors  
Nikki Orcutt, Mark Muchow, Deputy Cabinet Secretary, Department of Revenue  
and Randy Burnside

Additional Photographs:  
Lottery Commission by John Sibold  
Greenbrier Resort photo Courtesy of The Greenbrier  
Full Lottery headquarters staff photo by Ray Moore  
Jennifer Nettles photo by Jeff Hewitt, GTECH  
Some historic photos from Lottery archives



West Virginia Lottery  
900 Pennsylvania Avenue  
Charleston, WV 25302

P.O. Box 2067  
Charleston, WV 25327

Phone: 304.558.0500  
[wvlottery.com](http://wvlottery.com)