



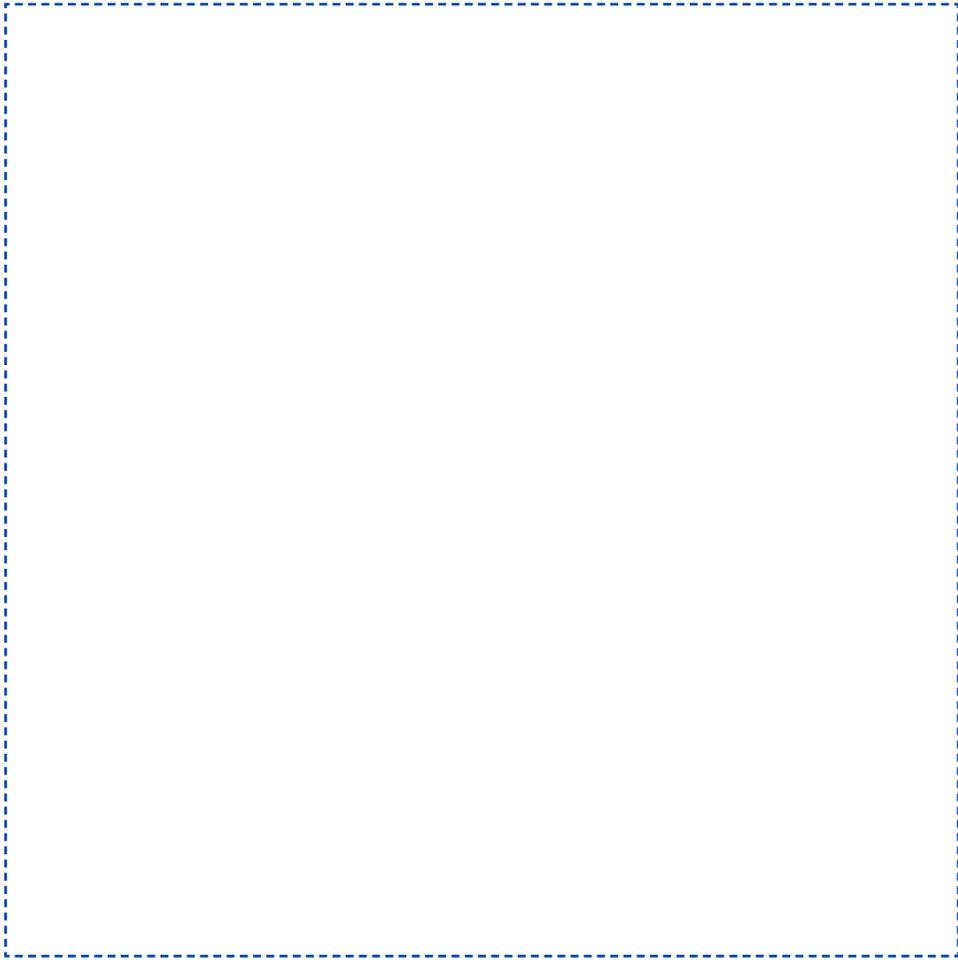
West Virginia Lottery

a component unit of
the State of West Virginia

Comprehensive Annual Financial Report

for the fiscal year
ended June 30, 2012





Message from the Director

We are pleased to present the Comprehensive Annual Financial Report of the West Virginia Lottery (the Lottery) for the fiscal year ending June 30, 2012 to the Honorable Earl Ray Tomblin, Governor; Charles O. Lorensen, Cabinet Secretary, Department of Revenue; and the West Virginia Legislature. The integrity of the Lottery remains at the core of our business and has allowed us to continue many years of solid fiscal performance.

The State Lottery Act §29-22 was initially enacted in April 1985 by the West Virginia Legislature with gaming operations beginning in 1986. The Lottery's mission is to generate revenue to fund programs benefiting education, senior citizens, tourism and other programs that the Governor and the Legislature deem appropriate. This mission is being carried out with the utmost integrity to ensure public confidence.

During the past 26 years the Lottery is proud to have contributed more than \$6.8 billion of gaming revenues to the State helping make the State of West Virginia one of only a few states to finish fiscal year 2012 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 \$775.4 million of Lottery net profits used to sponsor services for our seniors, \$2.5 billion to educate our students, and \$759.8 million to advance tourism and promote the beauty of our State.

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.



John C. Musgrave
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 \$1.4 billion in gross sales and provides a profit to the State of West Virginia of more than \$660 million to be used for senior citizens, education, parks, tourism and capital projects.

A handwritten signature in blue ink that reads "John C. Musgrave". The signature is stylized and written in a cursive-like font.

West Virginia Lottery Commission

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.





Kenneth L. Greear, Chairman
Charleston, WV, Computer Expert



William I. Clayton, Vice Chairman
South Charleston, WV, Public At Large



Michael A. Adams, Esq.
Weirton, WV, Lawyer



Douglas Bicksler, CPA
Lewisburg, WV, Certified Public Accountant



David Lemmon
Nitro, WV, Law Enforcement



David L. McCormick, Jr
Morgantown, WV, Marketing Specialist



Roy E. Shrewsbury, II
Beckley, WV, Public At Large

West Virginia Schools . . .



Education

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, 2012

West Virginia Quality of Life . . .



Seniors

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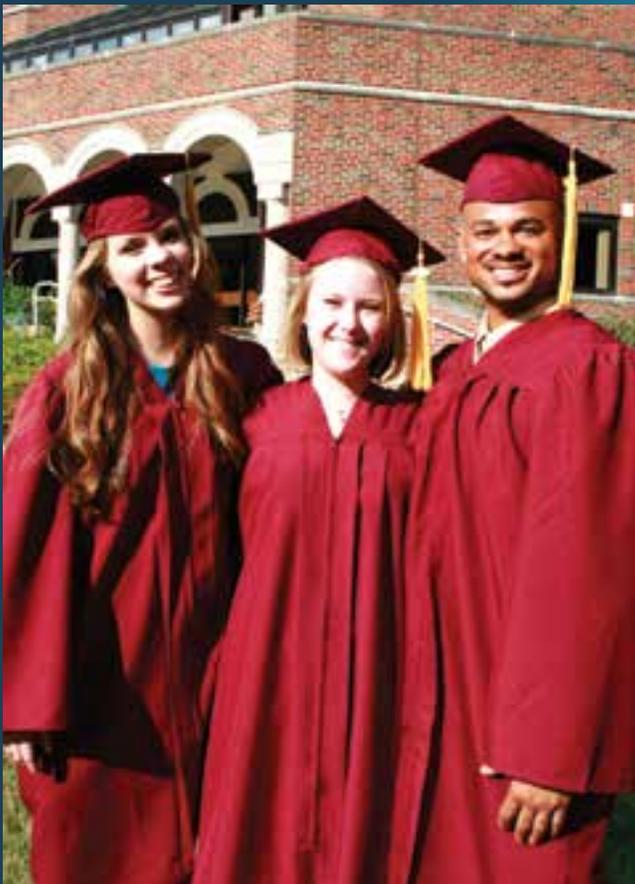
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Education

Since the West Virginia Lottery began in 1986, the largest portion of lottery proceeds have been directed toward West Virginia's most valuable resource, our children. More than \$2.5 billion from the West Virginia Lottery has gone toward improving public education through funding for new and improved schools, computers, and the PROMISE Scholarship Program.

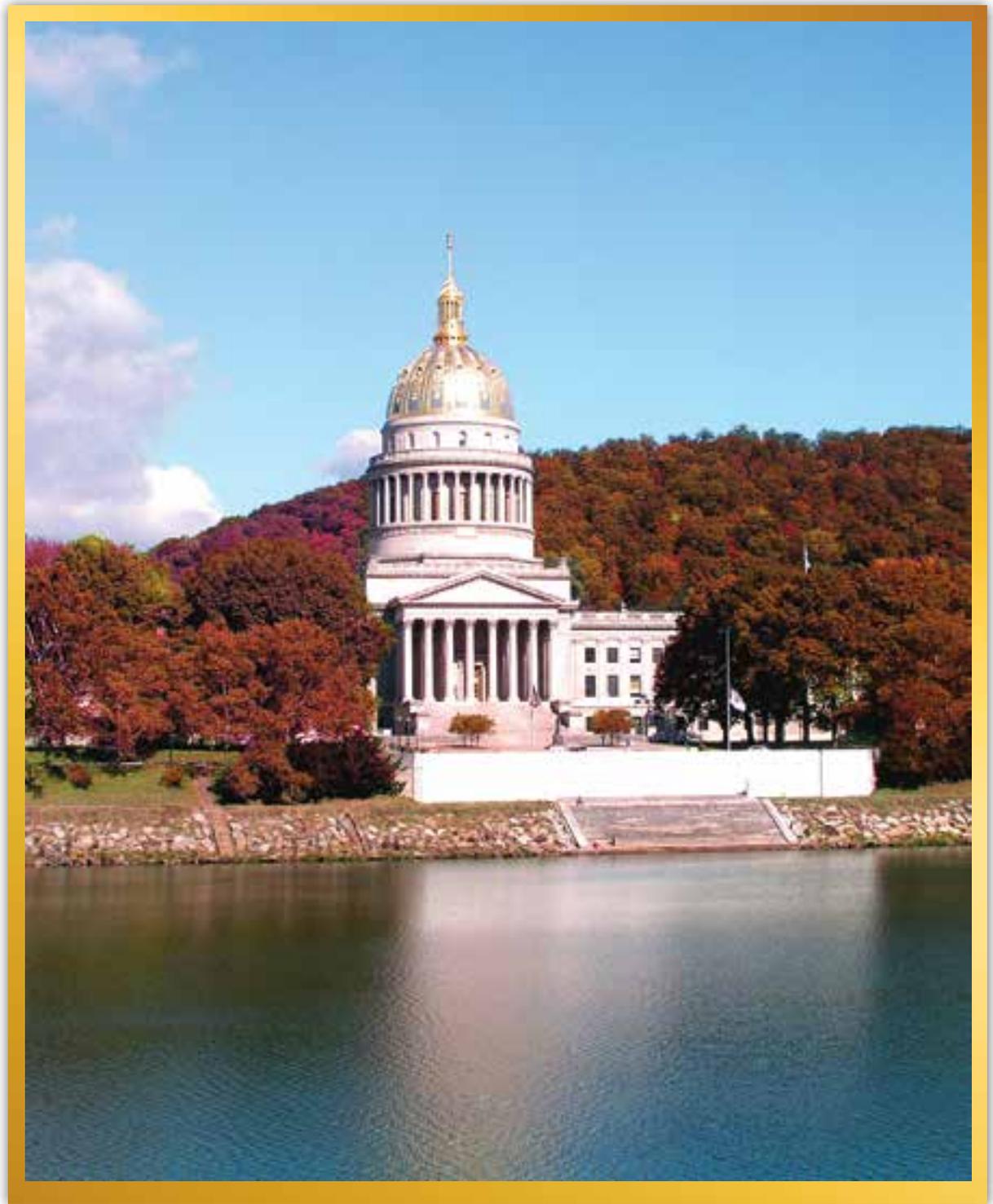
A total of more than \$534 million in Lottery proceeds have been spent on school construction and renovations through the State School Building Authority and through higher education improvement bonds. The West Virginia Department of Education has used lottery proceeds to purchase more than 130,000 computers for schools across the Mountain State. In addition, more than \$254 million has gone toward covering tuition costs for qualifying West Virginia students attending state universities and colleges through the PROMISE Scholarship Program.





Introductory Section

State of West Virginia . . .



Government Services



P.O. BOX 2067
CHARLESTON, WV 25327

PHONE: 304-558-0500
1-800-WVA-CASH

Earl Ray Tomblin
Governor

John C. Musgrave
Director

December 5, 2012

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, 2012. 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.

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

The West Virginia Lottery has been very fortunate to continue as a stable economic catalyst for the State of West Virginia. Lottery proceeds have made a tremendous impact on Seniors, Education and Tourism programs across the Mountain State. Since the Lottery's inception 26 years ago, more than \$6.8 billion has been given to the State in support of good causes.

In FY 2012, the Lottery was able to sustain its revenue and provide an additional \$81 million surplus. Although this performance exceeded estimates, increasing competition from surrounding states may pose fiscal challenges in the future. Lottery sales totaled more than \$1.45 billion for the year ending June 30, 2012 – an increase over the two previous fiscal years. As proof of its performance, Lottery revenue has continued to exceed \$1 billion for 10 consecutive years.

The largest share of Lottery sales is generated by Racetrack Video Lottery, which accounted for \$765 million, while sales from Table Games contributed \$78 million, Traditional Lottery sales produced \$201 million and The Greenbrier Historic Resort provided \$7.1 million in sales. In addition, Limited Video Lottery sales produced net revenues of \$191 million – an increase from the previous fiscal year, despite a reduction in the total number of video lottery machines.

The West Virginia State Budget included \$536.5 million in proceeds from the Lottery, including an additional \$44 million to county and local municipalities across the State. These dollars help to enhance the quality of life for all citizens in West Virginia.

Total Lottery transfers of \$536.5 million to state programs consisted of \$74.8 million for senior citizens, \$177.1 million for education, \$15.7 million for tourism, \$127.9 million to the General Fund for expenses including Education and Health and Human Services, \$61 million for the Infrastructure Council, and \$80 million to other state agencies (including \$29 million to the PROMISE scholarship program).

The Lottery continues to operate with efficiency, holding its overall operating costs under 1.93 percent of gross sales, while generating more than \$1.45 billion in sales in FY 2012. As a result, not only has the Lottery been able to fulfill its fiscal obligations to the State, but it has exceeded expectations. In addition to solid performance, the Lottery also generated a surplus that returned an additional \$81 million to the State for additional legislative appropriations.

The Multi-State Lottery Association (MUSL) added additional value to the traditional lottery mix through a revamp of the Powerball® game in January. The new \$2 price point has created larger jackpot amounts and ultimately increased overall sales of the game. As a result, the odds of winning a prize have been improved, starting jackpots have doubled, and the \$1 million Match 5 prize has now doubled to \$2 million with the Power Play® option. This year, West Virginia joined the winners circle with several big Powerball® winners, including two Vietnam veterans from Weston, WV who shared \$14 million in Powerball® winnings by matching five numbers with the Power Play® option seven times in the same drawing.

From Traditional Lottery games, a total of \$120.6 million was returned to players in the form of cash prizes. In the spirit of winning, five West Virginia residents either won or shared prize winnings greater than \$1 million during the fiscal year from our top-selling Multi-State Lottery games – Powerball® and Mega Millions®.

The Lottery continues to regulate several forms of gaming including Traditional Lottery games (Instant Scratch-off tickets and On-line games including Powerball® and Mega Millions®); Racetrack Video Lottery (slot machines at the racetracks); Limited Video Lottery (slot machines at local bars and taverns); and Table Games which are available at all racetrack casinos across the State as each facility is now licensed to operate this form of gaming. 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, this percentage has averaged approximately 50 percent annually since the Lottery's inception, with traditional games operating costs averaging approximately 12 percent – less than the 15 percent allowed by law. Retailers who sell lottery products receive a 7 percent commission, as well as sales and cashing bonuses based on total sales and prize payouts 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 averages 90% with an established range of 80% to 99% 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% privilege tax that is applied to the adjusted gross receipts (table win) and is distributed by statutory allocation with the largest portion directed to reducing state debt.

Since 1994, \$181 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 (Tourism). The Lottery contributed \$9.8 million to Tourism in FY 2012. In addition, Lottery revenue appropriated from other gaming sources to Tourism by the West Virginia Legislature totaled \$7.4 million. Appropriations for the Division of Natural Resources and the State Park Improvement Fund increase the overall total invested in enhancing the state's tourism industry to \$15.7 million.

Legislation passed in FY 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 FY 2012, a total of \$565.6 thousand was distributed to support veteran's projects in West Virginia.

West Virginia seniors also benefit from the license fees for table games. License fees for table games are deposited to the Bureau of Senior Services. In FY 2012, deposits to in-home health care services for seniors totaled \$10 million from Racetrack Table Games, and \$250 thousand from The Greenbrier Historic Resort. Overall, West Virginia senior citizens benefited from an estimated \$74.8 million in lottery revenue in FY 2012.

West Virginia's college-bound high school graduates also benefit from the Lottery's contributions to the PROMISE Scholarship Fund. Revenue from Limited Video Lottery games provided \$29 million in support of in-state higher education opportunities for West Virginia high school graduates. Since 2002, the West Virginia Lottery has provided \$254.5 million to fund PROMISE Scholarships.



Economic Outlook

The US economic recovery that initially began in mid-2009 continues to have weak momentum in 2012. Exports and business investment have slowed in the face of a global economic downturn, domestic policy uncertainty, and continued weak employment growth. However, despite these trends, vehicle and housing demand are showing signs of recovery at the national level. A combination of aging fleets and improved credit conditions led to increased vehicle demand, which reached a post-recession peak in September 2012. The housing industry has begun to recover, as demand is spreading from rental units to the owner-occupied housing sector. According to IHS Global Insight, the US economy is forecast to grow at a rate of roughly 1.5 percent in the second half of the year, and show a 2.1 percent growth rate for all of 2012. The forecast for 2013 is for a slightly lower growth rate of 1.8 percent.

Due to the impact of the Great Recession, West Virginia's nonfarm payroll employment fell by roughly 22,000 jobs between January 2008 and January 2010. Employment numbers have since rebounded by 3.1 percent as of September 2012 from the seasonally adjusted trough of 724,700 set in January 2010. The goods producing sectors initially led the rebound with net growth of roughly 6,700 jobs. Nearly all the gain in the goods sector employment growth was attributable to gains in construction. Meanwhile, employment losses in manufacturing offset gains in the mining industry. The service sector added roughly 16,200 jobs since January 2010, including 3,500 jobs in the professional and business service sector and 8,700 jobs in the educational and health services sector.

Subsequent to increased mining sector exports, West Virginia personal income growth exceeded the average growth rate for the overall country in 2011, with a growth rate of 5.1 percent. However, for the second quarter of 2012, West Virginia's 0.9 percent seasonally adjusted personal income growth rate ranked just 41st highest among all states, and was slightly below the national average of 1.0 percent. A significant slowdown in coal mining activities contributed toward the weaker than average income gains for the State in recent months. Domestic steam coal demand weakened significantly over the past year in response to price pressure from natural gas. However, the mining and manufacturing sectors benefited greatly from growth in international exports. West Virginia exports to foreign countries rose 31.1 percent to an annual rate of \$11.7 billion through June 2012. Most of the growth was in exports to Asia and Europe.

Following steady job growth over the last two years, West Virginia payroll employment decreased by a 2.1 percent annual rate in the second quarter of 2012. Manufacturing employment fell due to losses in the wood products, plastics and rubber manufacturing sectors. There were also job losses in the business services sector, but mining accounted for most of the second quarter job losses. The few bright spots were in the financial, educational and health services sectors.

The leisure hospitality sector of amusements and recreation (including gaming), hospitality and food service activities, collectively lost 700 jobs from September 2011 to September 2012. IHS Global

Insight projects sector job growth of 2.8 percent in 2012 and 1.0 percent in 2013 before growth tapers off in 2014. Continued high unemployment, low consumer confidence and increased gaming competition from neighboring states may influence the future performance of this sector.

Although the auto industry appears to be rebounding at the national level, motor vehicle sales have recently slowed in West Virginia. After falling during the Great Recession by more than 17 percent from June 2008 to February 2010, sales rebounded sharply through the beginning of 2012. As a result, motor vehicle sales tax collections rose 33 percent from its trough in mid FY2010 to \$187.5 million in FY2012. Since then, sales trends tapered off with a slight decline in tax revenue over the last couple months.

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, low natural gas prices for an extended period that would lead to a long-term decline in domestic coal demand, the threat of significant federal tax increases and budget reductions beginning in CY2013 and increased environmental regulation of carbon gas emissions. Any of these factors could significantly reduce growth in the West Virginia economy. Gaming industry competition from neighboring states may also increase beyond current projected activities, resulting in reduced growth in the leisure and hospitality sector.¹



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

Lottery Products

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

INSTANT games were the Lottery's first type of game introduced in January 1986. There are different ways to win in an instant or "scratch" game including matching three like dollar amounts, symbols or letters, or adding up numbers to a specified total. If the correct combination appears, the player becomes an "instant winner" without having to wait for the results of a drawing. The instant game offers a wide variety of game themes. During fiscal year 2012, there were 45 new games introduced. Instant games provided approximately 8.1 percent of total fiscal year 2012 sales at 1,592 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, August of 2005, and January 2012. 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 game was expanded to new jurisdictions beginning January 31, 2010, when both Powerball® and Mega Millions® began cross-selling in most jurisdictions. January 12, 2012, the matrix changed to "5 of 59" for the first set and "1 of 35" for the second set. Also, the price point increased to \$2 per play plus \$1 for Power Play® where a multiplier is no longer used and the prizes are now set dollar values. The jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 29 years (30 payments) with a guaranteed minimum jackpot of \$40 million. 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 \$4 to \$1,000,000. Drawings are held twice weekly on Wednesday and Saturday. Powerball® sales are approximately 2.7 percent of total 2012 sales at 1,592 retail locations.



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, 592 retail locations.





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 licenses and was introduced in December 1992. The player selects from 1 to 10 numbers and the Lottery computer randomly picks 20 numbers between 1 and 80. With the Keno Bonus multiplier option, players have a chance to increase their winnings. Drawings are held every five minutes from 5:05 a.m. through 2:45 a.m. The winning numbers are displayed on monitors at 305 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 six state lotteries to regulate video gaming at racetracks. The other five states are Delaware, Rhode Island, New York, Maryland and Ohio. Pennsylvania and Ohio also have video lottery gaming regulated by gaming control boards. 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, 2012, the West Virginia Lottery Commission had an average of 8,215 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 52.5 percent of total 2012 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 Alcohol Beverage Control Administration 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 7,531 terminals were operating at licensed retail locations throughout the state as of June 30, 2012. Limited video lottery sales were 27.9 percent of total 2012 sales at 1,542 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 5.4 percent of total 2012 sales.



HISTORIC RESORT implemented video lottery and table games in fiscal year 2010 when the West Virginia Legislature passed the Casino Act, which also required the passage of local referendum. In October 2009, The Greenbrier began operating both video lottery and table games. Table Games offered are Blackjack, Roulette and Three Card Poker.

Accomplishments

- Despite increased competition from neighboring states, Lottery sales increased by 4.7 percent totaling over \$1.45 billion, which resulted in net revenue of \$663 million to the State of West Virginia, \$8 million to Municipalities and Counties, and \$22.9 million to the four Racetracks and The Greenbrier Historic Resort for capital reinvestment and modernization.
- In FY 2012, Lottery proceeds totaled \$74.8 million for senior citizens, \$177.1 million for education, \$15.7 million for tourism, \$127.9 million to the General Fund for expenses including Education and Health and Human Services, \$61 million for the Infrastructure Council, and \$80 million to other state agencies, including \$29 million to the PROMISE scholarship program.
- In January 2012, the Powerball® game was revamped by the Multi-State Lottery Association creating a new \$2 price point. Enhancements to the game include more winners and better overall odds, an automatic \$2 million to players who win with the Match 5 prize by adding the \$1 Power Play® option, and larger starting jackpots of \$40 million.
- The Lottery generated an additional \$61.7 million of revenue, which was 52.6 percent above projections, as a result of the 10-year Limited Video Lottery Re-bid process.
- The Lottery continues to strive for operational efficiency, with overall operating costs under 1.93 percent of gross sales for the year. In addition, the Lottery generated a surplus in FY 2012, which returned an additional \$81 million to the State of West Virginia for legislative appropriations.
- A total of 48 new instant ticket games were launched in FY 2012 with sales from traditional games (instant and on-line) totaling \$201.3 million. Revenue from the instant ticket product was sustained even with a change in vendors, as a contract was awarded to GTECH Printing Corporation in FY 2012 for the print production of the Lottery's instant games.
- The Lottery successfully completed the move to its new Lottery Headquarters at 900 Pennsylvania Avenue in Charleston, WV. Five additional state agencies also now reside in the new building including the Alcohol Beverage Control Administration, Municipal Bond Commission, Racing Commission, Real Estate Division, and the Division of Financial Institutions.



- In March of 2012, two Vietnam War Veterans from Weston, WV, shared \$14 million in Powerball® winnings by matching five numbers with the Power Play® option. This is the highest non-jackpot win in West Virginia Lottery history.
- Five West Virginia residents became millionaires in FY 2012 with \$1 million or more cash prize wins from the Lottery's top-selling jackpot games – Powerball® and Mega Millions®



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 2012 increased 4.7 percent to \$1.457 billion from \$1.392 billion in fiscal year 2011. Distributions to the State of West Virginia increased 17.3 percent from \$565.3 million in fiscal year 2011 to \$663 million in fiscal year 2012.

ACCOUNTING SYSTEM AND POLICIES

The West Virginia Lottery operates as an enterprise fund that, like a private business, utilizes 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 provide reasonable, but not absolute, assurance that assets are protected from loss, theft, or misuse, transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Internal control is also designed to reduce, to an acceptable level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Management believes that the Lottery's internal control meets the above objectives.

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

GFOA CERTIFICATE OF ACHIEVEMENT

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, 2011. This was the 15th 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

- The Lottery will be developing and executing a new Request for Quote (RFQ) for comprehensive marketing and advertising services. The existing advertising agreement will conclude on December 31, 2012. A new advertising contract will be awarded in FY 2013. In addition, once a successful vendor has been named, the Lottery will begin a redesign to its digital platform including a new and improved website - wvlottery.com – as well as the development of a new mobile application that will provide players Lottery information on the go.
- In fiscal year 2012, the Lottery will host a Request for Information (RFI) session for prospective bidders for both the Lottery's video lottery central computer system, as well as its traditional online gaming system. This process will assist in the development of a new Request for Proposal (RFP) for both lines of gaming as existing contracts for these systems conclude in FY 2016 and FY 2014, respectively.

- The Lottery will be working to transition its financial reporting, human resources, facilities management and governmental accounting requirements into the State's new Enterprise Resource Planning (ERP) system. This project, which is inclusive of all West Virginia State government agencies, is expected to be completed in 2014.
- The Lottery continues to work on the implementation of a document imaging system which will improve departmental efficiencies, transform the organization into a paperless environment and ultimately reduce costs associated with doing business.
- In FY 2013, the Lottery will award a contract for a fingerprint system to replace an outdated system. The new system will be compatible with the West Virginia State Police Department and the Federal Bureau of Investigation. This system will provide new technology and faster results to assist in the licensing process.

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; Dean Patrick, Assistant Deputy Director of Finance and Administration; Nikki Orcutt, Deputy Director of Marketing; Mike Ross, Advertising Manager; and Randy Burnside, Public Relations. 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, 2011

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.



Linda C. Danison

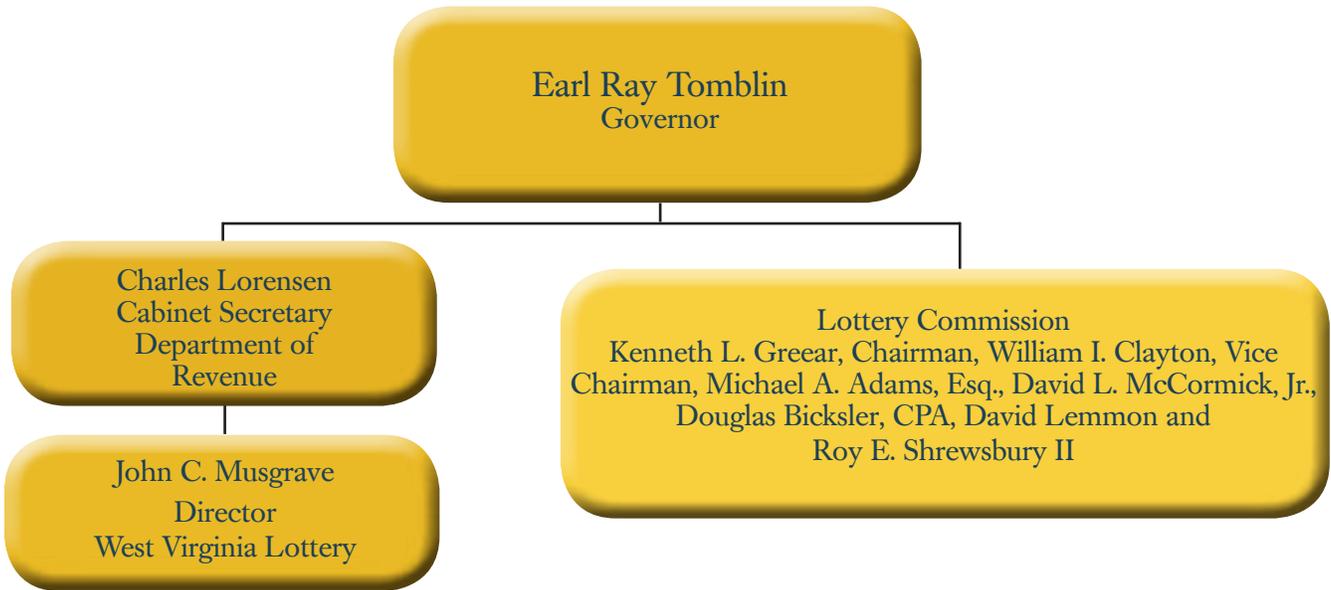
President

Jeffrey R. Emer

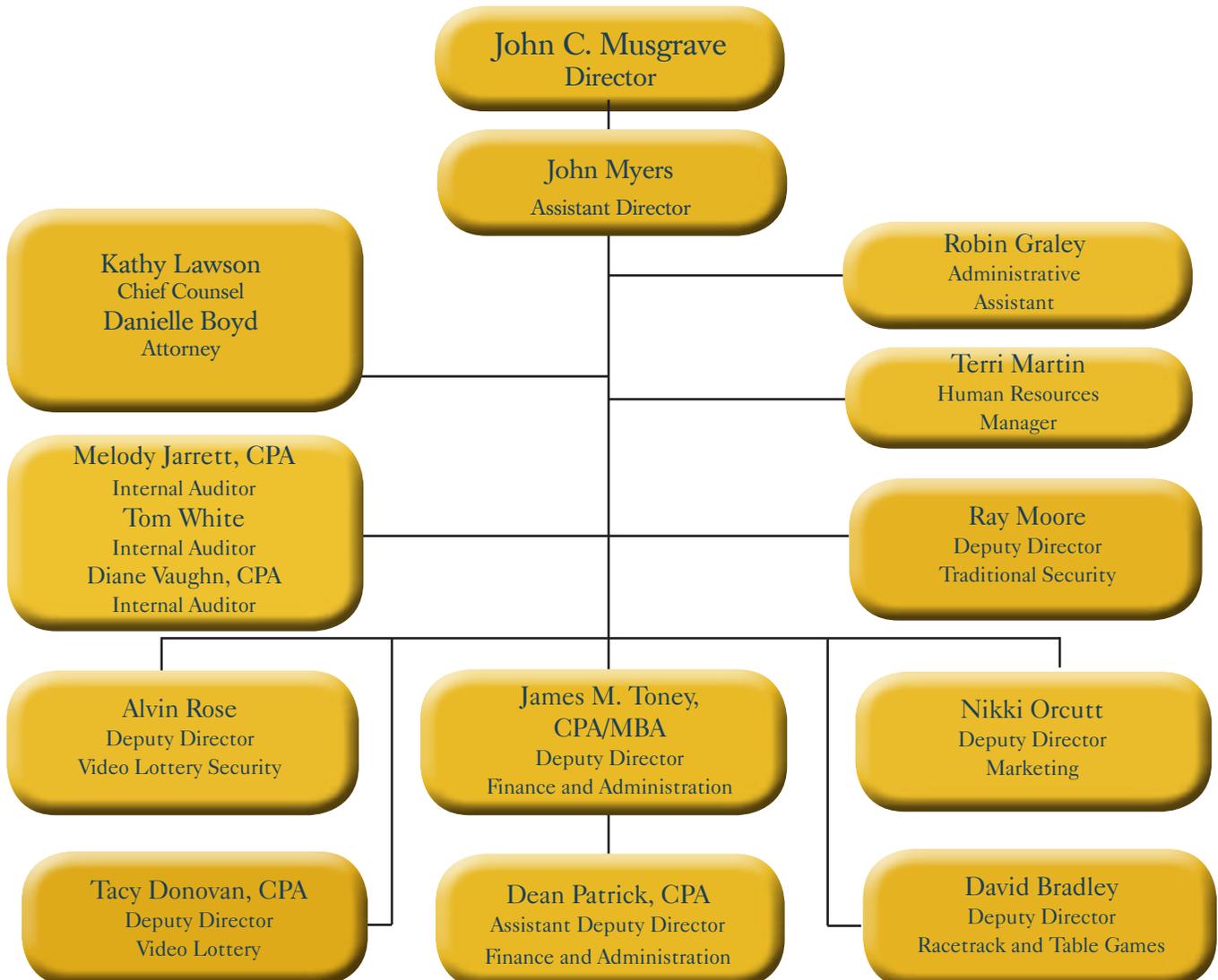
Executive Director

West Virginia Lottery

Principal Officials



Organizational Chart



Senior Citizens

More than \$775.4 million in West Virginia Lottery proceeds have been directed toward caring for and providing much needed services to West Virginia's senior citizens since the West Virginia Lottery began in 1986.

West Virginia Lottery proceeds go toward a wide range of services for seniors. Lottery revenues are used to provide more than two million meals annually to seniors at county nutrition sites, and in their homes, across the state.

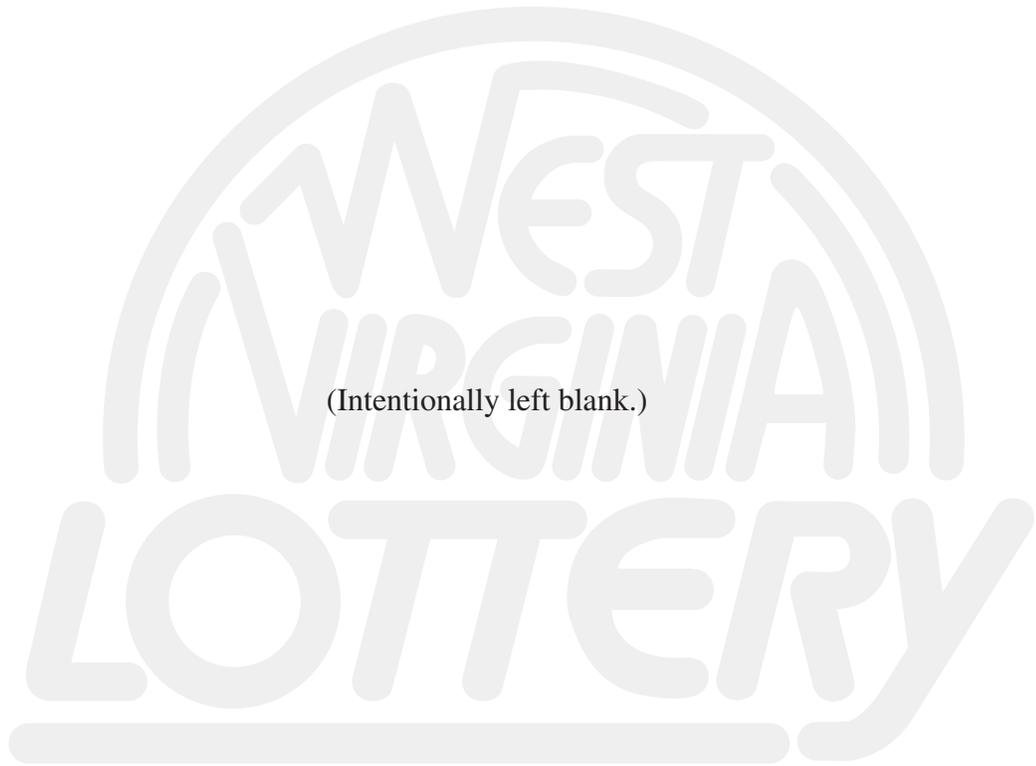
Lottery revenues are also used by the Bureau of Senior Services to provide a wide range of health services for seniors ranging from long term care, funding for the state's ten aging and disability resource centers, funding for county senior centers, and transportation to doctors and hospitals, just to name a few.

Lottery revenues are also used by the State of West Virginia to match Medicaid funding for senior services and also used to fund a refundable senior citizen property tax credit.





Financial Section



INDEPENDENT AUDITOR'S REPORT

West Virginia Lottery Commission
Charleston, West Virginia

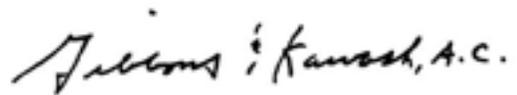
We have audited the accompanying balance sheets of the West Virginia Lottery (the Lottery), a component unit of the State of West Virginia, as of and for the years ended June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years 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, 2012 and 2011, 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 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 Lottery's financial statements as a whole. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have 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.



October 10, 2012



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, 2012 and 2011. In reading the Management's Discussion and Analysis (MD & A), the current year refers to fiscal year ending June 30, 2012, and the prior year refers to fiscal year ending June 30, 2011. 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 2012 and increased in 2011. The 2012 increase was due to Limited Video Lottery bid fees for permits issued for the second 10-year period beginning July 1, 2012. The increase in 2011 was primarily the result of increases in instant game and table game revenue. The following summary is provided below:

- Lottery revenues for the current year increased \$65.1 million or 4.7% compared to the prior year, which increased \$34.4 million or 2.5% over 2010.
- Commissions for the current year increased \$28.7 million or 4.4% compared to the prior year, which increased \$10.1 million or 1.6% over 2010.
- Gross profit for the current year increased \$36.4 million or 5.9% compared to the prior year, which increased \$10.2 million or 1.7% over 2010.
- Nonoperating expenses increased \$99.4 million or 16.7% compared to the prior year, which increased \$6 million or 1% over 2010. The predominant nonoperating expense is the distributions to the State of West Virginia, which increased \$97.7 million or 17.3% compared to the prior year, which decreased \$3.7 million or 0.6% over 2010.

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 decreased \$50.4 million or 15.2% compared to the prior year, which increased \$45.1 million or 15.7% over 2010, due to the timing of distributions to the State of West Virginia at year-end.

Restricted assets continue to decrease as a result of activities related 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 Note 11 to the financial statements for additional information on restricted net assets.

Capital assets, net of accumulated depreciation and amortization, increased in 2012 by \$11.9 million or 39.0% and increased by \$7.1 million or 30.3% in 2011 due to the acquisition of a Lottery headquarters building on June 30, 2010 and improvements to the building in the current fiscal year, which is offset by continuing depreciation of capital assets. For additional information on capital assets, please refer to Note 4 to the financial statements.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Balance Sheets (Continued)

Table 1
Assets
(in \$000's)

	2012	2011	2010
Current assets	\$ 280,994	\$ 331,382	\$ 286,297
Restricted assets	2,373	4,324	8,355
Capital assets, net of accumulated depreciation and amortization	42,285	30,421	23,349
Total assets	\$ 325,652	\$ 366,127	\$ 318,001

As shown in Table 2, the Lottery's current liabilities decreased \$53.4 million or 16.3% compared to the prior year, which increased \$45.4 million or 16.1% when compared to 2010 due to the Limited Video Lottery bid fees that are reflected as deferred revenue until the new permits became effective on July 1, 2011.

Net assets - restricted decreased due to continuing activities related 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 Note 11 to the financial statements for additional information on restricted net assets.

Net assets - invested in capital assets increased in 2012 by \$11.9 million or 39.0% and increased in 2011 by \$7.1 million or 30.3% due to continuing activities related to the acquisition of a Lottery headquarters building on June 30, 2010. Refer to Note 4 to the financial statements for additional information on capital assets.

Net assets – 2 unrestricted changed in fiscal years 2012, 2011, and 2010 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.

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

	2012	2011	2010
Current liabilities	\$ 273,677	\$ 327,055	\$ 281,618
Net assets - restricted	1,690	2,039	8,355
Net assets - invested in capital assets	42,285	30,421	23,349
Net assets - unrestricted	8,000	6,612	4,679
Total net assets	51,975	39,072	36,383
Total liabilities and net assets	\$ 325,652	\$ 366,127	\$ 318,001

Management's Discussion and Analysis

(Continued)

-Unaudited-

Revenues, Expenses and Changes in Fund Net Assets

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)

	2012	2011	2010
Revenues:			
On-line games	\$ 83,613	\$ 77,870	\$ 83,741
Instant games	117,676	115,697	97,483
Racetrack video lottery	764,898	726,952	746,208
Limited video lottery	406,108	397,544	397,287
Table games	78,121	68,154	31,726
Historic resort	7,114	6,232	1,649
	1,457,530	1,392,449	1,358,094
Less commissions:			
On-line games	5,844	5,457	5,849
Instant games	8,239	8,098	6,824
Racetrack video lottery	424,049	404,945	414,988
Limited video lottery	198,993	194,797	194,671
Table games	33,571	29,288	12,473
Historic resort	3,671	3,126	847
	674,367	645,711	635,652
Less on-line prize costs	42,039	40,374	41,818
Less instant ticket prize costs	78,567	80,333	66,165
Less ticket costs	2,188	2,275	1,511
Less vendor fees and costs	8,611	8,372	7,744
	131,405	131,354	117,238
Gross profit	651,758	615,384	605,204
Administrative expenses:			
Advertising and promotions	5,680	9,481	7,349
Wages and related benefits	12,774	11,978	10,921
Telecommunications	761	648	648
Contractual and professional	5,452	4,588	4,741
Rental	423	649	697
Depreciation and amortization	1,164	1,501	1,840
Other administrative expenses	1,936	1,346	1,042
	28,190	30,191	27,238
Other operating income	73,351	11,805	11,059
Operating income	696,919	596,998	589,025
Nonoperating income (expense):			
Investment income	181	297	390
Distributions to municipalities and counties	(7,960)	(7,792)	(7,787)
Distributions for capital reinvestment	(22,900)	(21,558)	(11,968)
Distributions to the State of West Virginia	(662,982)	(565,256)	(568,945)
	(693,661)	(594,309)	(588,310)
Income before contribution	3,258	2,689	715

Management's Discussion and Analysis
(Continued)

-Unaudited-

Revenues, Expenses and Changes in Fund Net Assets (Continued)

Table 3 (Continued)			
Revenues, Expenses and Changes in Fund Net Assets (in \$000's)			
	2012	2011	2010
Capital contribution from the State of WV	9,645	-	-
Income before special item	12,903	2,689	715
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)	12,903	2,689	(46,805)
Net assets, beginning of year	39,072	36,383	83,188
Net assets, end of year	\$ 51,975	\$ 39,072	\$ 36,383

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 2012, 2011, and 2010. Sales and gross profits fluctuated in certain categories; however, gross profit percentages remained consistent from year to year.

Management's Discussion and Analysis (Continued)

-Unaudited-

Instant Sales

Instant ticket sales increased in 2012 by \$2.0 million or 1.7% compared to the 2011 increase of \$18.2 million or 18.7% over 2010. Forty-five new games were introduced in 2012 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. There were two ten-dollar tickets introduced in 2012. Five five-dollar games were introduced in 2012, one more than the previous year.

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

Vendor fees and costs are primarily 4.3% of instant and on-line ticket sales for 2012, 2011, and 2010. The Lottery (as is the case with most lotteries located in North America) has elected to enter into a long-term contract with a vendor 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 increased in 2012 by \$3.0 million or 8.5% and decreased in 2011 by \$12.9 million or 26.6%. Sales are generally driven by the jackpot size.

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

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

Mega Millions® Sales

Mega Millions sales began in January 2010 offering jackpots starting at \$12 million and other prizes ranging from \$2 to \$250,000. Sales increased in 2012 by \$3.8 million or 35.1% and increased in 2011 by \$8.2 million or 307.5%.

Approximately 50% of every dollar wagered goes back to the players in prizes and by statute 7% of sales are paid 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 2012 by \$1.1 million or 3.5% and decreased in 2011 by \$1.2 million or 3.6%.

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

Management's Discussion and Analysis

(Continued)

-Unaudited-

Racetrack Video Lottery

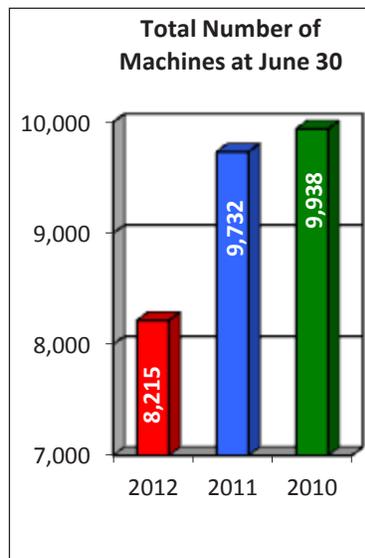
Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues increased \$37.9 million or 5.2% in 2012 and decreased \$19.3 million or 2.6% in 2011.

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 increase in commissions of \$19.1 million or 4.7% in 2012 was due to the economy and the decrease of \$10 million or 2.4% in 2011 was due to competition from neighboring states which legalized video lottery games.

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.

In fiscal year 2012, increased competition from neighboring states has led the racetracks to re-evaluate their gaming environments which has resulted in changes to the gaming floors. Although the overall number of machines has decreased, the replacement of older games with newer games through the use of racetrack modernization funds has led to an increase in per terminal revenue. The changes in active machines are presented in Table 5 below which illustrates the fluctuations during the last three fiscal years.

Table 5



Limited Video Lottery

Sales increased by \$8.6 million or 2.2% in 2012 over 2011, which increased by \$257 thousand or 0.1% over 2010. The increase in commissions of \$4.2 million or 2.2% in 2012 over 2011 and the increase of \$126 thousand or 0.1% over 2010, are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales.

Table 6 illustrates the decrease in machines by 45 in 2012 as compared to the decrease of 364 in 2011.

Management's Discussion and Analysis

(Continued)

-Unaudited-

Limited Video Lottery (Continued)

Table 6

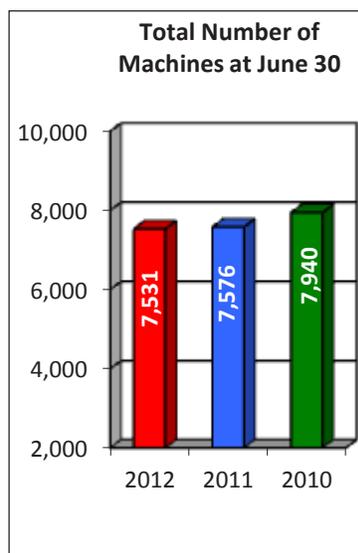


Table Games

West Virginia Lottery table games were in operation at the state's four racetracks during previous fiscal years, with Charles Town (the fourth) implementing table games in fiscal year 2011. Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues increased \$10.0 million or 14.6% in 2012 and increased \$36.4 million or 114.8% in 2011.

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 \$4.3 million or 14.6% in 2012 and increased \$16.8 million or 134.8% in 2011.

Historic Resort

Video lottery and table games were implemented at The Greenbrier Resort (Historic Resort) during fiscal year 2010. Revenues from Historic Resort video lottery are calculated as defined in Note 9 to the financial statements. Revenues from Historic Resort table games are calculated at a 35% privilege tax of adjusted gross receipts.

Combined revenues for video lottery and table games at the Historic Resort increased \$882 thousand or 14.2% in 2012 and increased \$4.6 million or 277.9% in 2011.

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 increased \$545 thousand or 17.4% in 2012 and increased \$2.3 million or 269.1% in 2011.

Management's Discussion and Analysis
(Continued)

-Unaudited-

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.

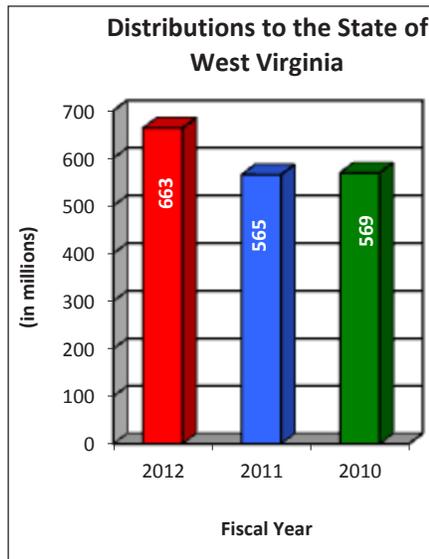
Nonoperating Income (Expense)

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 distributions to the State of West Virginia increased by \$97.7 million for the current fiscal year compared to a decrease of \$4 million in 2011.

Table 8



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 was reported as a special item at June 30, 2010.

Management's Discussion and Analysis

(Continued)

-Unaudited-

Net Income (Loss) and Special Items (Continued)

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 was reported as a special item at June 30, 2010.

In March 2011, the Lottery entered into a construction commitment for the renovation of its newly acquired headquarters. It was determined that the Lottery's resources were insufficient to satisfy the terms of the construction commitment. For the year ended June 30, 2012, the West Virginia Legislature appropriated an additional \$9.6 million to the Lottery from the Revenue Center Construction Fund to satisfy the requirements of the construction commitment. This amount is reflected as a capital contribution on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Requests for Information

This financial report is designed to provide a general overview of the Lottery's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Deputy Director of Finance and Administration, West Virginia Lottery, 900 Pennsylvania Avenue, Charleston WV 25302.

WEST VIRGINIA LOTTERY

BALANCE SHEETS
(In Thousands)

June 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 241,538	\$ 298,968
Accounts receivable	36,671	29,783
Inventory	510	497
Other assets	2,275	2,134
Total current assets	<u>280,994</u>	<u>331,382</u>
Noncurrent assets:		
Restricted cash and cash equivalents	2,373	4,324
Capital assets	46,816	38,965
Less accumulated depreciation and amortization	<u>(4,531)</u>	<u>(8,544)</u>
Total noncurrent assets	<u>44,658</u>	<u>34,745</u>
Total assets	<u>\$ 325,652</u>	<u>\$ 366,127</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 216,819	\$ 210,990
Deferred permit fees	-	58,863
Estimated prize claims	13,372	12,011
Accounts payable	3,238	4,440
Other accrued liabilities	40,248	40,751
Total current liabilities	<u>273,677</u>	<u>327,055</u>
Net assets:		
Restricted by enabling legislation for capital projects	1,690	2,039
Invested in capital assets	42,285	30,421
Unrestricted	<u>8,000</u>	<u>6,612</u>
Total net assets	<u>51,975</u>	<u>39,072</u>
Total liabilities and net assets	<u>\$ 325,652</u>	<u>\$ 366,127</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Lottery revenues:		
On-line games	\$ 83,613	\$ 77,870
Instant games	117,676	115,697
Racetrack video lottery	764,898	726,952
Limited video lottery	406,108	397,544
Table games	78,121	68,154
Historic resort	7,114	6,232
	<u>1,457,530</u>	<u>1,392,449</u>
Less commissions:		
On-line games	5,844	5,457
Instant games	8,239	8,098
Racetrack video lottery	424,049	404,945
Limited video lottery	198,993	194,797
Table games	33,571	29,288
Historic resort	3,671	3,126
	<u>674,367</u>	<u>645,711</u>
Less on-line prize costs	42,039	40,374
Less instant prize costs	78,567	80,333
Less ticket costs	2,188	2,275
Less vendor fees and costs	8,611	8,372
	<u>131,405</u>	<u>131,354</u>
Gross profit	<u>651,758</u>	<u>615,384</u>
Administrative expenses:		
Advertising and promotions	5,680	9,481
Wages and related benefits	12,774	11,978
Telecommunications	761	648
Contractual and professional	5,452	4,588
Rental	423	649
Depreciation and amortization	1,164	1,501
Other administrative expenses	1,936	1,346
	<u>28,190</u>	<u>30,191</u>
Other operating income	<u>73,351</u>	<u>11,805</u>
Operating income	<u>696,919</u>	<u>596,998</u>
Nonoperating income (expense):		
Investment income	181	297
Distributions to municipalities and counties	(7,960)	(7,792)
Distributions for capital reinvestment	(22,900)	(21,558)
Distributions to the State of West Virginia	(662,982)	(565,256)
	<u>(693,661)</u>	<u>(594,309)</u>
Income before capital contribution	<u>3,258</u>	<u>2,689</u>
Capital contribution from the State of WV	<u>9,645</u>	<u>-</u>
Net income	<u>12,903</u>	<u>2,689</u>
Net assets, beginning of year	<u>39,072</u>	<u>36,383</u>
Net assets, end of year	<u>\$ 51,975</u>	<u>\$ 39,072</u>

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

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS
(In Thousands)

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,465,130	\$ 1,460,320
Cash payments for:		
Personnel costs	(11,402)	(10,659)
Suppliers	(16,229)	(16,890)
Other operating costs	<u>(809,710)</u>	<u>(768,100)</u>
Cash provided by operating activities	<u>627,789</u>	<u>664,671</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(647,508)	(595,305)
Distributions to municipalities and counties	(7,927)	(7,813)
Distributions to racetracks from racetrack capital reinvestment fund	<u>(18,888)</u>	<u>(14,695)</u>
Cash used in noncapital financing activities	<u>(674,323)</u>	<u>(617,813)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	<u>(13,028)</u>	<u>(8,573)</u>
Cash flows from investing activities:		
Investment earnings	<u>181</u>	<u>297</u>
Increase (decrease) in cash and cash equivalents	(59,381)	38,582
Cash and cash equivalents (including restricted cash and cash equivalents), beginning of year	<u>303,292</u>	<u>264,710</u>
Cash and cash equivalents (including restricted cash and cash equivalents), end of year	<u>\$ 243,911</u>	<u>\$ 303,292</u>

(Continued)

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS
(In Thousands)
(Continued)

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 696,919	\$ 596,998
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	1,164	1,501
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(6,888)	(2,797)
Inventory	(13)	186
Other assets	(141)	139
Increase (decrease) in:		
Estimated prize claims	1,361	(1,117)
Accounts payable	(1,202)	1,390
Deferred permit fees	(58,863)	58,863
Other accrued liabilities	(4,548)	9,508
	<u> </u>	<u> </u>
Cash provided by operating activities	<u>\$ 627,789</u>	<u>\$ 664,671</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 discretely presented 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

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.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS (Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

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.

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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

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 of 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.

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 deposits on hand with the State Treasurer of West Virginia and 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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 over the estimated economic useful lives of the assets, which are as follows:

Buildings	40 years
Leasehold improvements	5 years
Equipment	3-5 years

The Lottery leases, under a cancelable operating lease, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases.

Accrued Employee Benefits

The Lottery incurred annual leave expenses of \$546,984 and \$516,545, and paid \$503,306 and \$493,888, respectively, for the years ending June 30, 2012 and 2011. The Lottery has accrued \$566,986 and \$523,398 of earned but unused annual leave time at June 30, 2012 and 2011, 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 GAAP.

Deferred Revenue

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

Net Assets

Net assets are presented as 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

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses (Continued)

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.

3 - CASH AND CASH EQUIVALENTS

At June 30, 2012 and 2011, the carrying amounts of deposits (overdrafts) with financial institutions were \$477 thousand and (\$56) thousand, respectively, with bank balances of \$524 and \$(1) thousand, respectively. Deposits up to \$250 thousand are insured by the Federal Depository Insurance Corporation. Any balances over the insured amount are collateralized with securities held by the State of West Virginia's agent in the State's name.

At June 30, 2012 and 2011, 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):

	2012	2011
Deposits with financial institutions	\$ 477	\$ (56)
Cash on hand at the Treasurer's Office	42,350	78,319
Investments with BTI reported as cash equivalents	201,084	225,029
	\$ 243,911	\$ 303,292

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 in the BTI's West Virginia 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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

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.

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

Security Type	Credit Rating		Carrying Value	Percent of Assets
	Moody's	S&P		
Commercial paper	P-1	A-1	\$ 853,470	30.62%
Corporate bonds and notes	Aa2	AA-	15,000	0.54
	Aa3	AA-	13,000	0.47
	Aa3	A+	<u>8,000</u>	<u>0.29</u>
Total corporate bonds and notes			<u>36,000</u>	<u>1.30</u>
U.S. agency bonds	Aaa	AA+	189,691	6.80
U.S. Treasury notes*	Aaa	AA+	330,865	11.87
U.S. Treasury bills *	Aaa	AA+	237,978	8.54
Negotiable certificates of deposit	P-1	A-1	110,000	3.95
U.S. agency discount notes	P-1	A-1+	738,706	26.50
Money market funds	Aaa	AAAm	200,054	7.18
Repurchase agreements, (underlying securities):				
U.S. Treasury notes*	Aaa	AAA	<u>90,204</u>	<u>3.24</u>
			<u>\$ 2,786,968</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 overall 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, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the West Virginia Money Market Pool.

Security Type	Carrying Value (In Thousands)	Weighted Average Maturity In Days
Repurchase agreements	\$ 90,204	3
US Treasury notes	330,865	122
US Treasury bills	237,978	37
Commercial paper	853,470	35

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>
Certificates of deposit	110,000	10
U.S. Agency discount notes	738,706	44
Corporate bonds and notes	36,000	48
U.S. agency bonds and notes	189,691	68
Money market funds	<u>200,054</u>	1
 Total assets	 <u>\$ 2,786,968</u>	

The weighted average maturity of the investments of the West Virginia Money Market Pool as of June 30, 2012, 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, 2012, 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, 2012, 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, 2010	Additions	Deletions	Historical cost at June 30, 2011	Additions	Deletions	Historical cost at June 30, 2012
Capital assets, not depreciated							
Construction in progress	\$ -	\$ 8,444	\$ -	\$ 8,444	\$10,075	\$(18,000)	\$ 519
Land	1,434	-	-	1,434	-	-	1,434
Capital assets, being depreciated							
Building	20,174	-	-	20,174	17,910	-	38,084
Improvements	1,170	-	-	1,170	-	(910)	260
Equipment	<u>16,746</u>	<u>129</u>	<u>(9,132)</u>	<u>7,743</u>	<u>3,067</u>	<u>(4,291)</u>	<u>6,519</u>
	<u>\$39,524</u>	<u>\$ 8,573</u>	<u>\$ (9,132)</u>	<u>\$38,965</u>	<u>\$31,052</u>	<u>\$(23,201)</u>	<u>\$46,816</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,
	2010	Additions	Deletions	2011	Additions	Deletions	2012
Building	\$ -	\$ -	\$ -	\$ -	\$ 237	\$ -	237
Improvements	1,131	11	-	1,142	3	(885)	260
Equipment	15,044	1,490	(9,132)	7,402	827	(4,195)	4,034
	<u>\$16,175</u>	<u>\$ 1,501</u>	<u>\$(9,132)</u>	<u>\$ 8,544</u>	<u>\$ 1,067</u>	<u>\$(5,080)</u>	<u>\$ 4,531</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, 4400 N.W. Urbandale Drive, Urbandale, Iowa, 50322.

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 \$38,686,528 and \$35,669,004 for the years ended June 30, 2012 and 2011, respectively, and related prize costs were \$19,344,184 and \$17,836,702, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$4,736,542 and \$5,831,270 for the years ended June 30, 2012 and 2011, respectively, and related prize costs were \$2,368,526 and \$2,916,239, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$14,746,963 and \$10,915,389 for the years ended June 30, 2012 and 2011, respectively, and related prize costs were \$7,594,900 and \$5,720,774, respectively.

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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>2012</u>		<u>2011</u>	
	<u>Total Prize Reserve</u>	<u>Lottery Share</u>	<u>Total Prize Reserve</u>	<u>Lottery Share</u>
POWERBALL ®	\$ 126,481,109	\$ 2,386,175	\$ 122,413,591	\$ 2,386,175
HOT LOTTO™	7,383,082	485,862	7,441,187	489,806
MEGA MILLIONS®	<u>18,827,770</u>	<u>330,810</u>	<u>9,146,437</u>	<u>189,440</u>
	<u>\$ 152,691,961</u>	<u>\$ 3,202,847</u>	<u>\$ 139,001,215</u>	<u>\$ 3,065,421</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 \$17,414,201 and \$14,548,743 at June 30, 2012 and 2011, of which the Lottery's share was \$1,537,522 and \$1,663,862, respectively.

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."

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - RACETRACK VIDEO LOTTERY (Continued)

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 which is a percentage of the amount wagered. This fee was of 0.75% and 4.0% for years ended June 30, 2012 and June 30, 2011 respectively.

A summary of racetrack video lottery revenues for the years ended June 30, 2012 and 2011, follows (in thousands):

	<u>2012</u>	<u>2011</u>
Total credits (bets) played	\$ 8,434,745	\$ 8,023,046
Credits (prizes) won	(7,575,505)	(7,205,678)
Promotional credits played	(93,869)	(87,380)
MWAP contributions	<u>(473)</u>	<u>(3,035)</u>
Gross terminal income	764,898	726,953
Administrative costs	<u>(17,524)</u>	<u>(17,456)</u>
Net terminal income	747,374	709,497
Commissions	<u>(424,049)</u>	<u>(404,945)</u>
Racetrack video lottery revenues available for distribution	<u>\$ 323,325</u>	<u>\$ 304,552</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - RACETRACK VIDEO LOTTERY (Continued)

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

	2012	2011
State Lottery Fund	\$ 130,125	\$ 128,176
State Excess Lottery Revenue Fund	141,408	127,177
Capital Reinvestment Fund	12,623	11,366
Tourism Promotion Fund	9,683	9,224
Development Office Promotion Fund	2,641	2,516
Research Challenge Fund	3,521	3,354
Capitol Renovation and Improvement Fund	4,842	4,612
Parking Garage Fund	940	919
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	5,042	4,708
Workers Compensation Debt Reduction Fund	11,000	11,000
Total nonoperating distributions	\$ 323,325	\$ 304,552

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 years ended June 30, 2012 and 2011, the Lottery transferred \$10 million to the Racetrack Modernization Fund.

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, 2012 and 2011 follows (in thousands):

	2012	2011
Total credits played	\$ 4,781,734	\$ 4,671,596
Credits (prizes) won	(4,375,626)	(4,274,052)
Gross terminal income	406,108	397,544
Administrative costs	(8,122)	(7,950)

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

7 - LIMITED VIDEO LOTTERY (Continued)

	2012	2011
Gross profit	397,986	389,594
Commissions	(198,993)	(194,797)
Distributions to municipalities and counties	(7,960)	(7,792)
Limited video lottery revenues available for distribution	\$ 191,033	\$ 187,005

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. All four counties have authorized table games at their respective race tracks.

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.

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% of the adjusted gross receipts are 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% of the adjusted gross receipts are 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, 2012 and 2011 was \$223,203,230 and \$194,724,548, respectively. A summary of table games revenues for the year ended June 30, 2012 and 2011 follows (in thousands):

	2012	2011
Table games privilege tax	\$ 78,121	\$ 68,154
Interest on table games fund	5	6
Administrative costs	(8,928)	(7,789)
Total available for distribution	69,198	60,371
 <u>Less distributions:</u>		
Racetrack purse funds	5,580	4,868
Thoroughbred & greyhound development funds	4,464	3,894
Racing commission pension plan	1,875	1,636
Municipalities/counties	21,652	18,890
Total distributions	33,571	29,288
Table games distribution to the state debt reduction fund	\$ 35,627	\$ 31,083

9 - HISTORIC RESORT HOTEL

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

Historic Resort Video Lottery

According to Senate Bill 575, thirty six percent (36%) of gross terminal income is allocated to Historic Resort Hotel Fund and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for the licensed historic resort hotel. After deduction of the surcharge, the remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the historic resort hotel. A summary of historic resort hotel video lottery revenues for the years ended June 30, 2012 and 2011 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - HISTORIC RESORT HOTEL (Continued)

Historic Resort Video Lottery (Continued)

	<u>2012</u>	<u>2011</u>
Total credits played	\$ 68,993	\$ 49,464
Credits (prizes) won	(63,583)	(45,097)
Promotional credits played	(458)	(274)
MWAP contribution	<u>(1)</u>	<u>-</u>
Gross terminal income	4,951	4,093
Capital reinvestment	(233)	(192)
Modernization	(45)	-
Administrative costs	(267)	(221)
Hotel commissions	<u>(2,094)</u>	<u>(1,731)</u>
 Net terminal income	 <u>\$ 2,312</u>	 <u>\$ 1,949</u>
 Historic Resort Hotel Fund	 \$ 1,470	 \$ 1,253
Human Resource Benefit Fund	<u>842</u>	<u>696</u>
 Total	 <u>\$ 2,312</u>	 <u>\$ 1,949</u>

Historic Resort Table Games

Each historic resort hotel licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts, of which thirty percent (30%) is deposited directly into the Historic Resort Hotel Fund and five percent (5%) is deposited directly into the Human Resource Benefit Fund. The historic resort hotel table games adjusted gross receipts for the years ended June 30, 2012 and 2011 were \$6,182,748 and \$6,110,847, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Table games privilege tax	\$ 2,164	\$ 2,139
Administrative costs	<u>(278)</u>	<u>(275)</u>
 Total available for distribution	 <u>\$ 1,886</u>	 <u>\$ 1,864</u>
 Historic Resort Hotel Fund	 1,577	 1,558
Human Resource Benefit Fund	<u>309</u>	<u>306</u>
 Total distributions	 <u>\$ 1,886</u>	 <u>\$ 1,864</u>

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

9 - HISTORIC RESORT HOTEL (Continued)

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, 2012 and 2011:

- 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, 2012 and 2011:

	2012	2011
Historic Resort Hotel video lottery	\$ 1,470	\$ 1,253
Historic Resort table games	1,577	1,558
Historic Resort Hotel Fund net income	\$ 3,047	\$ 2,811
Municipalities/ Counties	427	394
State General Revenue Fund	1,950	1,799
State Debt Reduction Fund	579	534
State Tourism Promotion Fund	91	84
Total distributions	\$ 3,047	\$ 2,811

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, 2012 and 2011, the State Legislature budgeted \$166,297,857 and \$164,117,424 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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Revenue Fund have similar requirements; currently debt service payments are \$5,300,000 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, 2012 and 2011, the Lottery made or accrued all budgeted distributions and accrued additional distributions of \$44,704,334 and \$35,123,405, 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, 2012 and 2011, the Lottery accrued additional distributions relating to racetrack video lottery operations in the amounts of \$437,406 and \$775,703, 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, 2012 and 2011, the Lottery accrued additional distributions relating to table games operations in the amounts of \$2,832,824 and \$2,856,174, respectively. Note 9 describes the Historic Resort Hotel statutory distributions to be made from historic resort operations. As of June 30, 2012 and 2011, the Lottery accrued additional distributions relating to Historic Resort operations of \$240,936 and \$91,556, respectively.

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

	<u>2012</u>	<u>2011</u>
<u>Budgetary distributions:</u>		
<u>Revenue Center Construction Fund:</u>		
Division of Highways	\$ 15,000	\$ -
<u>State Lottery Fund:</u>		
Bureau of Senior Services	64,797	63,731
Department of Education	30,573	30,275
Library Commission	11,268	10,726
Higher Education - Central Office	8,208	11,112
Tourism	7,359	7,273
Natural Resources	3,388	3,317
Division of Culture & History	5,873	5,600
Department of Education & Arts	1,839	1,087
Building Commission	9,995	7,998
School Building Authority	18,000	17,998
Community and Technical College	4,997	5,000
Total State Lottery Fund	<u>166,297</u>	<u>164,117</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	46,000	40,000
Higher Education Improvement Fund	15,000	15,000

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

State Park Improvement Fund	5,000	5,000
School Building Authority	19,000	19,000
Economic Development Fund	18,989	19,000
Refundable Credit - General Revenue Fund	10,000	9,553
Department of Education	47,139	94,598
Racing Commission	2,000	2,000
WV Development Office	1,000	-
Excess Lottery Surplus (General Fund)	62,900	62,900
Excess Lottery Surplus (Teachers Retirement Savings Realized)	<u>34,216</u>	<u>32,772</u>
Total State Excess Lottery Revenue Fund	<u>355,244</u>	<u>393,823</u>
Total Required Statutory and Budgetary Distributions	<u>536,541</u>	<u>557,940</u>
Veterans Instant Ticket Fund	<u>566</u>	<u>839</u>
<u>Other racetrack video lottery distributions:</u>		
Tourism Promotion Fund	9,800	9,036
Development Office Promotion Fund	2,673	2,464
Research Challenge Fund	3,563	3,286
Capitol Renovation and Improvement Fund	4,900	4,518
Parking Garage Funds	945	911
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	5,127	4,571
Workers Compensation Debt Reduction Fund	<u>11,000</u>	<u>11,000</u>
	<u>39,508</u>	<u>37,286</u>
<u>Table games distributions:</u>		
State Debt Reduction Fund	<u>35,650</u>	<u>29,613</u>
<u>Historic resort hotel distributions:</u>		
State General Revenue Fund	1,839	1,785
State Debt Reduction Fund	546	530
Tourism Promotion Fund	<u>86</u>	<u>84</u>
	<u>2,471</u>	<u>2,399</u>
Total required statutory and budgeted distributions to the State of West Virginia Distributed July 2011	<u>614,736</u> <u>32,772</u>	<u>628,077</u> <u>(32,772)</u>
Total nonoperating distributions to the State of West Virginia (cash basis)	647,508	595,305
Accrued nonoperating distributions, beginning of year	(210,990)	(241,039)
Accrued nonoperating distributions, end of year	216,819	210,990*
Revenue Center Fund distribution to Lottery	<u>9,645</u>	<u>-</u>
Total nonoperating distributions to the State of West Virginia	<u>\$ 662,982</u>	<u>\$ 565,256</u>

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

In March 2011, the Lottery entered into a construction commitment for the renovation of its newly acquired headquarters. It was determined that the Lottery's resources were insufficient to satisfy the terms of the construction commitment. For the year ended June 30, 2012, the West Virginia Legislature appropriated an additional \$9.6 million to the Lottery from the Revenue Center Construction Fund to satisfy the requirements of the construction commitment. This amount is reflected as a capital contribution on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Restricted net asset activity is as follows for the years ending June 30, 2012 and 2011 (in thousands):

	2012	2011
Begining restricted net assets	\$ 2,039	\$ 8,355
Legislative appropriation	9,645	-
Aquisition of capital assets in accordance with enabling legislation	(9,994)	(6,316)
Ending restricted net assets	\$ 1,690	\$ 2,039

12 - 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 14.5% of covered employees' salaries to the PERS for the year ended June 30, 2012, and 12.5% of covered employees' salaries for the years ended June 30, 2011 and June 30, 2010.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - RETIREMENT BENEFITS (Continued)

The required employee and employer contribution percentages have been established and changed from time to time by action of the State Legislature. The required contributions are not actuarially determined; however, actuarial valuations are performed to assist the Legislature in determining appropriate contributions. The Lottery and employee contributions, which equaled the required contributions for the three years ended June 2012, 2011, and 2010, were as follows (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Lottery contributions	\$ 1,225	\$ 1,017	\$ 832
Employee contributions	<u>357</u>	<u>339</u>	<u>312</u>
Total contributions	<u>\$ 1,582</u>	<u>\$ 1,356</u>	<u>\$ 1,144</u>

13 - 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 57th Street, S.E., Suite 2, Charleston, West Virginia, 25304-2345, or by calling 1-888-680-7342.

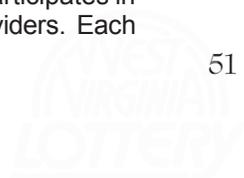
Funding Policy

The Code requires the OPEB Plan bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GAAP. 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 \$961 and \$903 per employee per month for the years ending June 30, 2012 and 2011, respectively. The Lottery's ARC was \$1,643,408, \$1,560,274, and \$1,458,892 and the Lottery has paid premiums of \$317,694, \$294,952, and \$226,212, which represent 19.3%, 18.9%, and 15.5% of the ARC, respectively, for the years ending June 30, 2012, 2011, and 2010. As of June 30, 2012 and 2011 the Lottery has recorded a liability of \$4,075,581 and \$2,749,868, respectively, for OPEB.

14 - 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



WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - RISK MANAGEMENT (Continued)

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, 2012, no changes in coverage were made and paid claims did not exceed coverage.

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.

15 - LEASING ACTIVITY

The Lottery leases, under a cancelable operating lease, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

15 - LEASING ACTIVITY (Continued)

operating leases. Rental expense for the fiscal years ended June 30, 2012 and 2011 approximated \$422,571 and \$648,731 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 years ended June 30, 2012 and 2011 were \$984,034 and \$1,037,291, respectively. 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
2013	900
2014	923
2015	232
Total	\$ 2,055

16 - COMMITMENTS

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2012 and 2011, \$3,193,044 and \$4,480,629, respectively, are included in unrestricted net assets for this purpose.

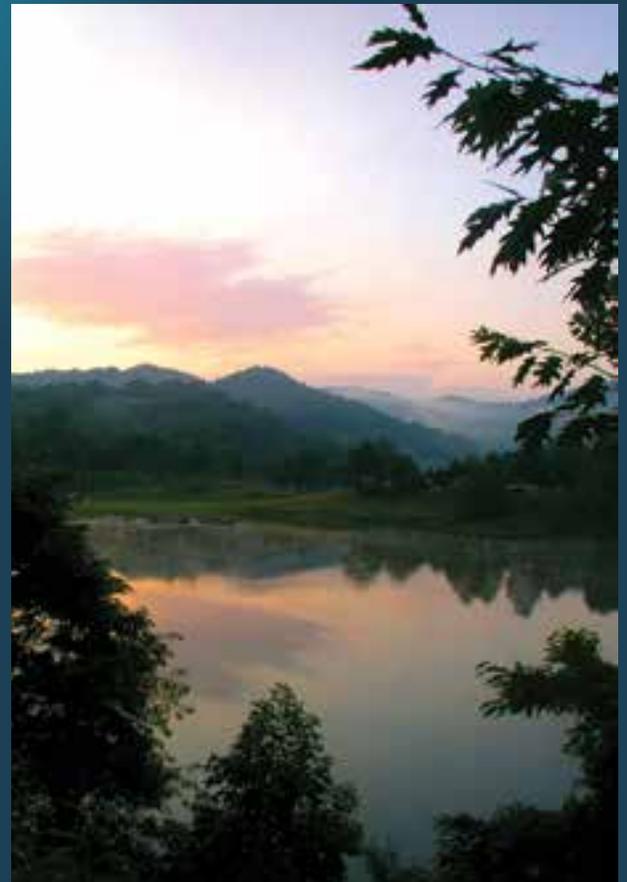
17 - EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the Lottery's June 30, 2013 financial statements. GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the Lottery's June 30, 2014 financial statements. GASB has also issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will be effective for the Lottery's June 30, 2015 financial statements. Statement 68 will require the Lottery to recognize a liability equal to its proportionate share of the net pension liability of the Public Employees Retirement System. The Lottery has not yet determined the effect these statements will have on their financial statements.

Tourism

Since 1986, a total of more than \$759.8 million in West Virginia Lottery proceeds have been used to bolster tourism in West Virginia. Lottery proceeds are used in a matching grants program established with the West Virginia Division of Tourism and also directed to such areas as the West Virginia State Park Improvement Fund and the Division of Natural Resources.

According to data provided by the West Virginia Division of Tourism, lottery proceeds help attract more than 13.5 million overnight visitors and more than 45 million day visitors to West Virginia each year, resulting in an economic impact of more than \$4.2 billion and a tourism industry that employs more than 44,000 West Virginians.





Statistical Section



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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 \$200 million will generate more sales than a jackpot of \$40 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

	2003	2004	2005	2006
Instant	\$105,395,146	\$109,843,864	\$111,863,092	\$119,123,846
Powerball®	51,067,026	63,373,462	49,214,536	65,530,836
Hot Lotto Sizzler®	2,805,269	2,579,140	3,342,726	3,324,293
Daily 3	9,927,812	9,386,172	9,293,550	9,394,009
Daily 4	4,724,179	4,540,767	4,421,188	4,523,509
Cash 25	6,242,641	6,190,917	6,112,910	5,936,395
Travel Keno	11,924,361	10,953,721	9,966,638	10,249,487
Mega Millions®				
Total On-line	\$86,691,288	\$97,024,179	\$82,351,548	\$98,958,529
Video (net of prizes)				
Racetrack	\$717,079,486	\$854,858,062	\$894,530,565	\$942,250,631
Limited	\$172,743,695	\$241,710,952	\$310,328,583	\$362,181,294
Table Games (privilege tax)	-	-	-	-
Video (net of prizes)				
Table Games (privilege tax)				
Total Historic Resort	-	-	-	-
Total Sales	\$1,081,909,615	\$1,303,437,057	\$1,399,073,788	\$1,522,514,300
License Fees	11,485,136	13,610,521	15,789,742	10,445,040
Miscellaneous	605,467	503,013	578,477	748,276
Other Operating Income	\$12,090,603	\$14,113,534	\$16,368,219	\$11,193,316
Nonoperating Income	\$813,454	\$474,138	\$1,923,223	\$5,152,532
Total Revenues	\$1,094,813,672	\$1,318,024,729	\$1,417,365,230	\$1,538,860,148

Expenses, Distributions and Net Income Last Ten Fiscal Years

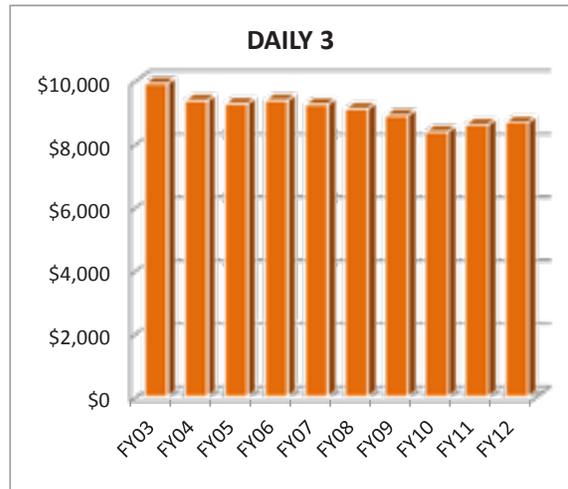
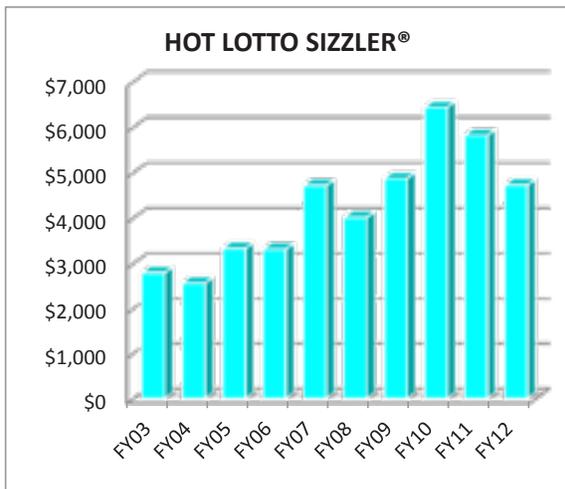
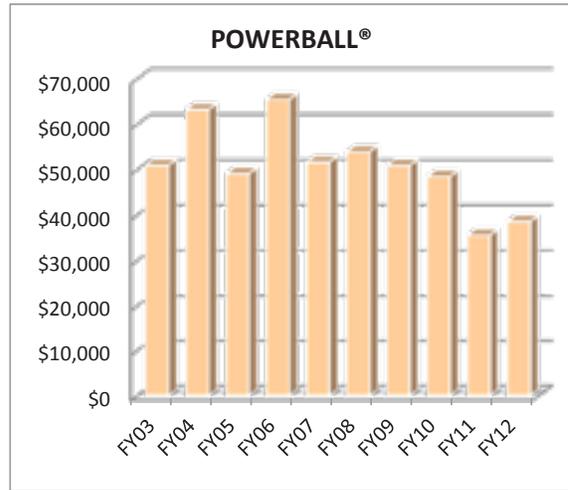
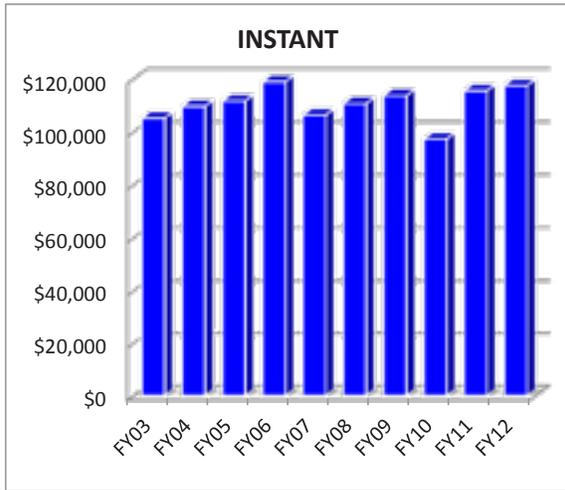
	2003	2004	2005	2006
Prizes (traditional)	\$114,651,424	\$123,263,630	\$117,125,999	\$131,903,210
Commissions				
Instant	7,377,661	7,689,770	7,831,524	8,338,753
On-line	6,086,088	6,772,587	5,767,083	6,936,315
Racetrack	412,325,047	477,797,417	496,649,792	508,326,365
Limited	99,799,713	137,388,489	173,115,051	195,112,272
Table Games	-	-	-	-
Historic Resort	-	-	-	-
Total Commissions	\$525,588,509	\$629,648,263	\$683,363,450	\$718,713,705
Administration (includes ticket costs)	\$29,452,769	\$31,980,883	\$29,622,628	\$31,329,670
Total Operating Expenses	\$669,692,702	\$784,892,776	\$830,112,077	\$881,946,585
Nonoperating Distributions				
Municipalities and Counties	3,384,191	4,776,034	6,083,020	7,098,999
Capital Reinvestment Fund	10,695,115	16,250,347	17,849,943	19,774,016
State of West Virginia	411,041,664	512,105,572	563,320,190	610,040,548
Total Distributions	\$425,120,970	\$533,131,953	\$587,253,153	\$636,913,563
Net Income	\$0	\$0	\$0	\$20,000,000

2007	2008	2009	2010	2011	2012
\$106,493,081	\$110,862,020	\$113,853,880	\$97,482,584	\$115,697,423	\$117,676,396
51,729,318	54,052,429	51,016,100	48,593,678	35,669,004	38,686,528
4,726,225	4,021,347	4,881,127	6,447,315	5,831,270	4,736,542
9,265,281	9,124,536	8,916,094	8,401,794	8,621,978	8,698,349
4,660,620	4,622,396	4,760,533	4,694,743	4,967,805	5,028,983
6,006,570	5,752,037	5,596,814	5,512,376	5,440,930	5,465,460
9,769,174	9,603,308	9,070,501	7,412,987	6,423,516	6,249,636
			2,678,674	10,915,389	14,746,963
\$86,157,188	\$87,176,053	\$84,241,169	\$83,741,567	\$77,869,892	\$83,612,461
\$972,591,775	\$897,952,931	\$848,232,669	\$746,208,159	\$726,952,241	\$764,898,326
\$397,016,887	\$411,587,201	\$412,488,946	\$397,287,133	\$397,544,342	\$406,108,085
-	\$15,877,334	\$34,219,101	\$31,725,645	\$68,153,589	\$78,121,131
			1,132,902	4,092,891	4,950,083
			516,466	2,138,796	2,163,962
-	-	-	\$1,649,368	\$6,231,687	\$7,114,045
\$1,562,258,931	\$1,523,455,539	\$1,493,035,765	\$1,358,094,456	\$1,392,449,174	\$1,457,530,444
9,864,349	11,225,977	10,573,157	10,317,529	10,157,522	71,847,082
532,596	710,975	827,731	741,824	1,648,012	1,504,260
\$10,396,945	\$11,936,952	\$11,400,888	\$11,059,353	\$11,805,534	\$73,351,342
\$7,556,505	\$10,031,139	\$2,719,936	\$390,334	\$297,669	\$9,826,225
\$1,580,212,381	\$1,545,423,630	\$1,507,156,589	\$1,369,544,143	\$1,404,552,377	\$1,540,708,011

2007	2008	2009	2010	2011	2012
\$115,792,130	\$121,169,284	\$119,449,497	\$107,983,663	\$120,706,835	\$120,605,843
7,454,496	7,762,564	7,969,759	6,823,692	8,098,815	8,238,580
6,019,193	6,113,745	5,900,642	5,849,450	5,456,854	5,844,402
522,744,477	487,276,099	463,649,031	414,987,691	404,944,515	424,048,550
206,127,102	205,636,799	202,119,568	194,670,681	194,796,720	198,992,951
-	6,249,023	13,458,369	12,473,391	29,288,210	33,570,927
-	-	-	846,922	3,126,210	3,671,152
\$742,345,268	\$713,038,230	\$693,097,369	\$635,651,827	\$645,711,324	\$674,366,562
\$30,905,929	\$33,478,401	\$35,215,252	\$36,493,179	\$40,838,831	\$38,989,047
\$889,043,327	\$867,685,915	\$847,762,118	\$780,128,669	\$807,256,990	\$833,961,452
7,781,531	8,067,110	8,084,783	7,786,828	7,791,869	7,959,718
20,997,371	17,987,933	15,983,212	11,968,468	21,558,438	22,900,376
639,150,849	631,155,117	616,622,965	616,465,269	565,256,651	662,982,476
\$667,929,751	\$657,210,160	\$640,690,960	\$636,220,565	\$594,606,958	\$693,842,570
\$23,239,303	\$20,527,555	\$18,703,511	(\$46,805,091)	\$2,688,429	\$12,903,989

WEST VIRGINIA LOTTERY

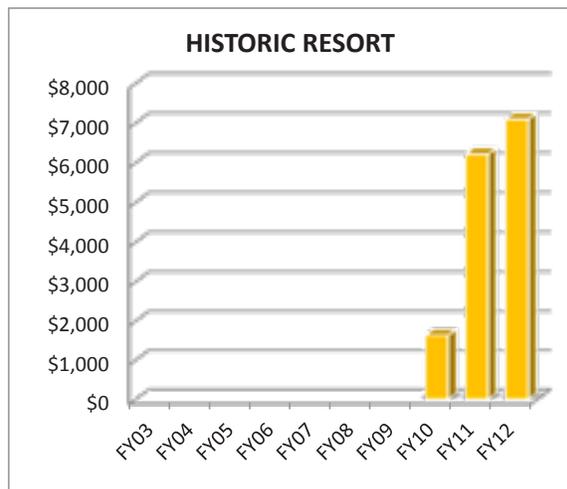
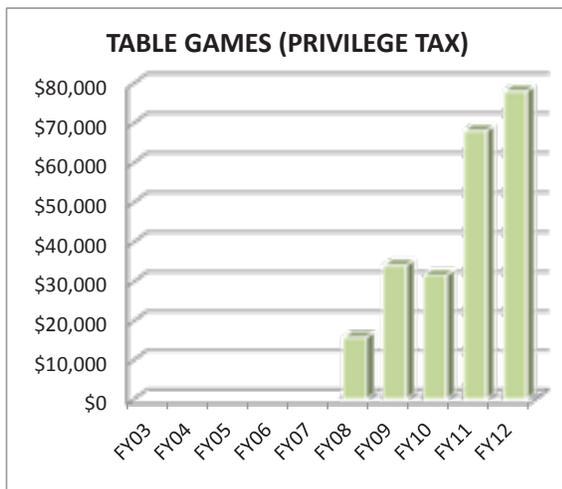
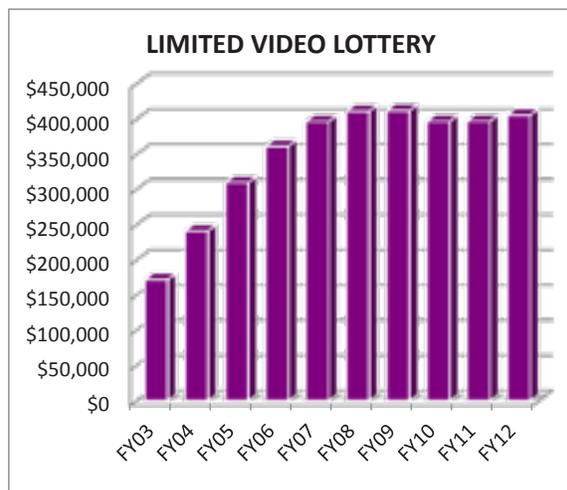
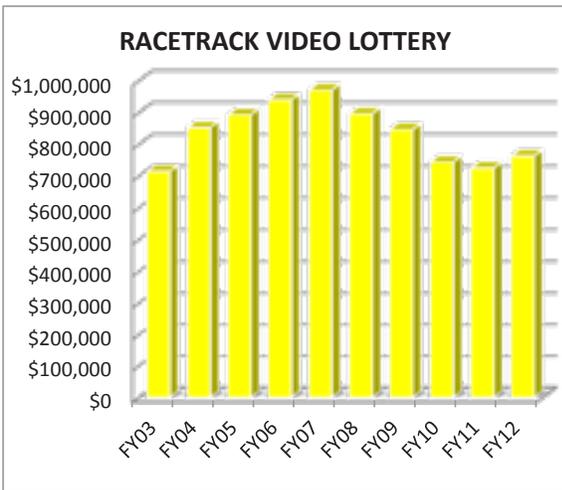
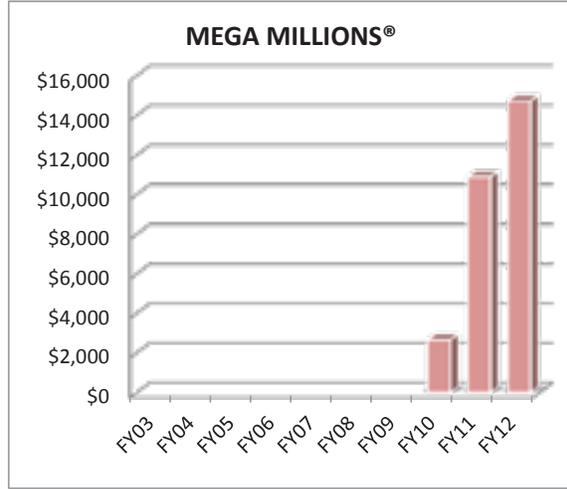
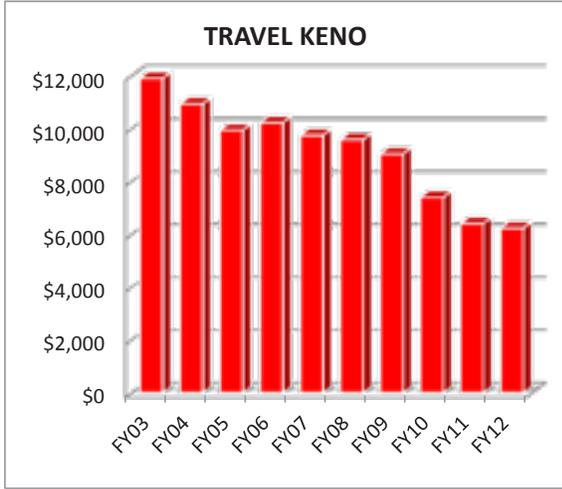
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

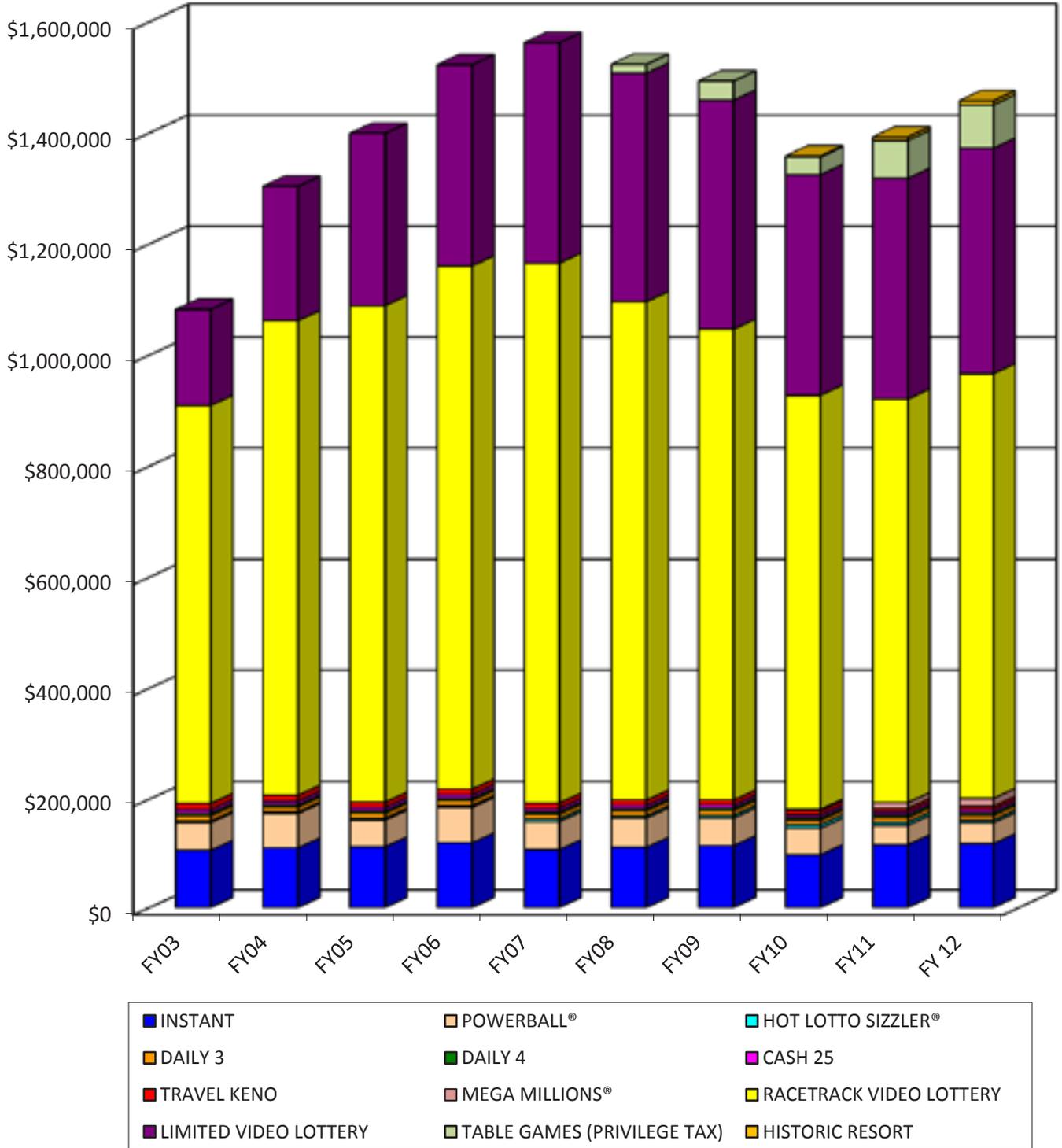
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

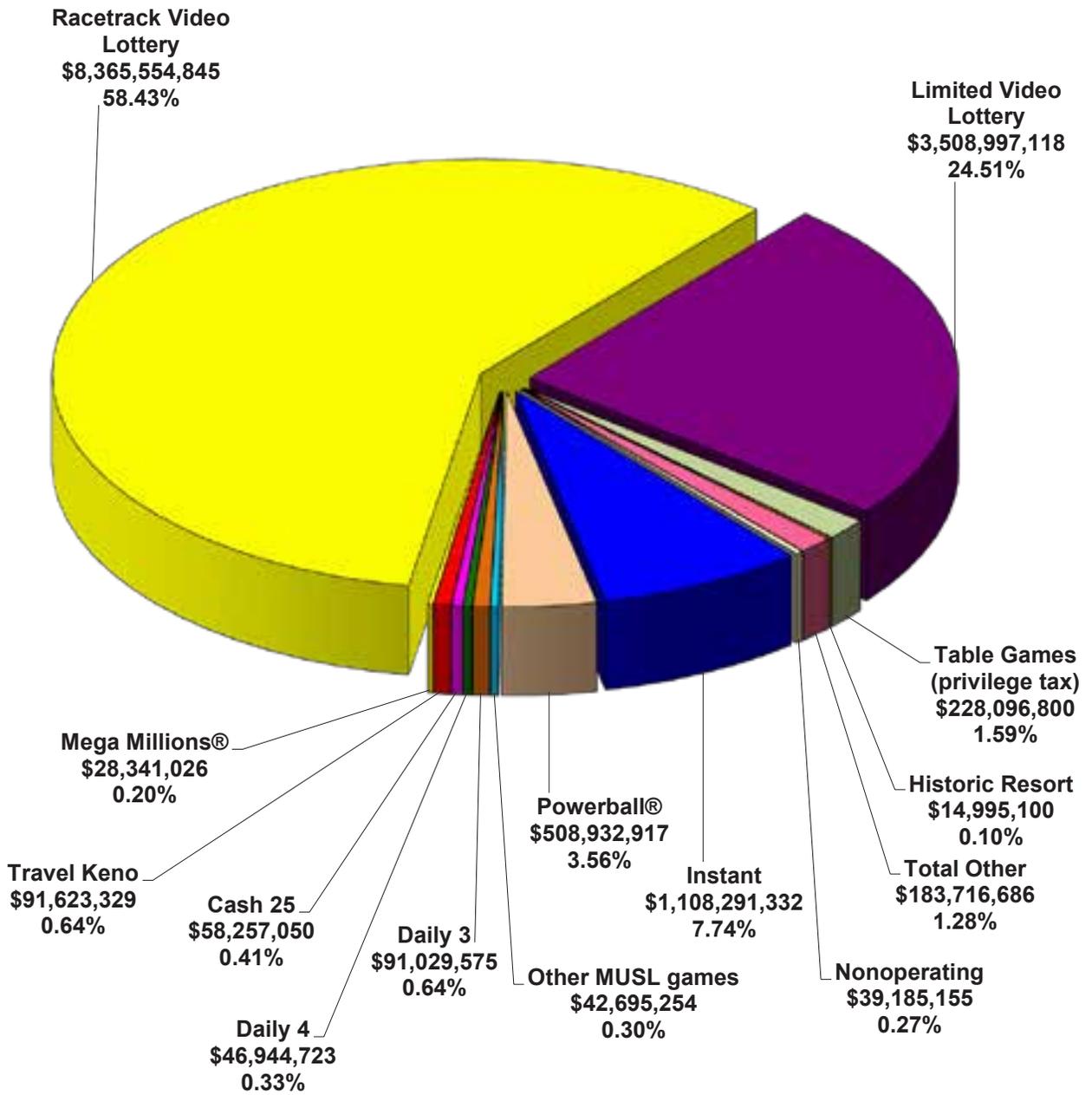
Sales By Product Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

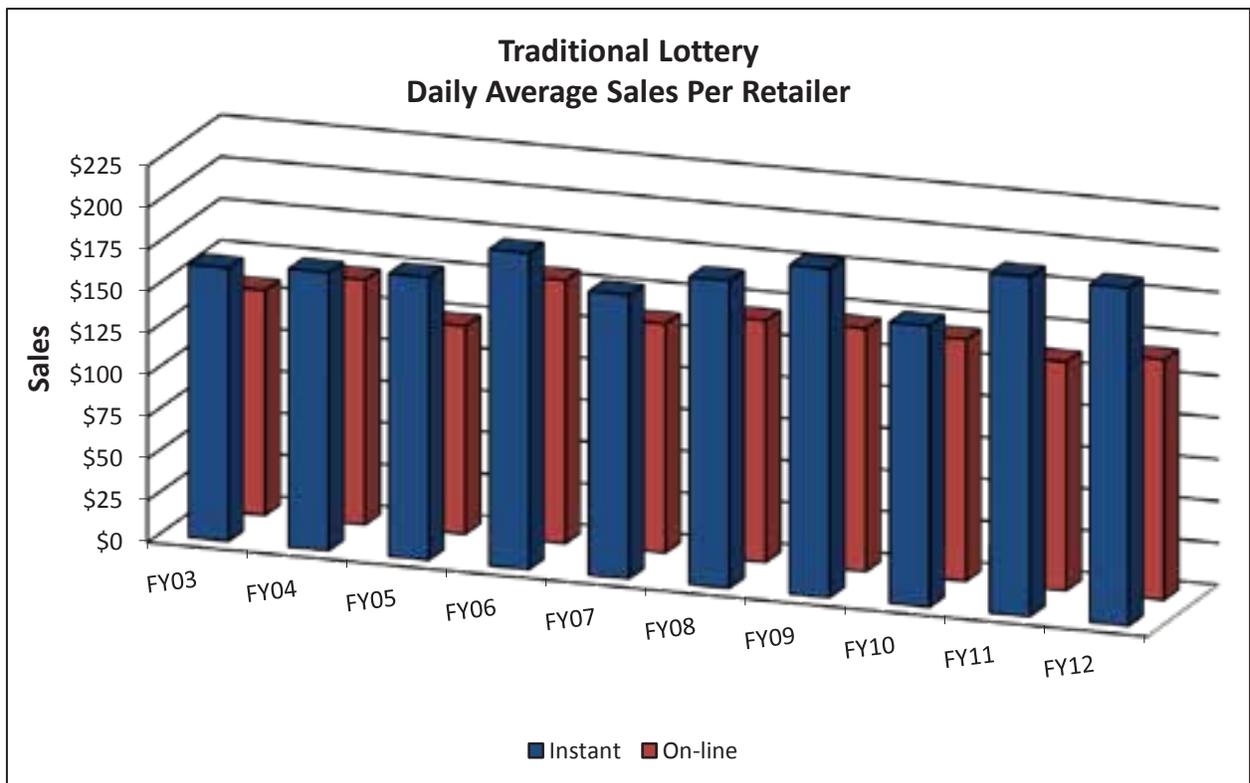
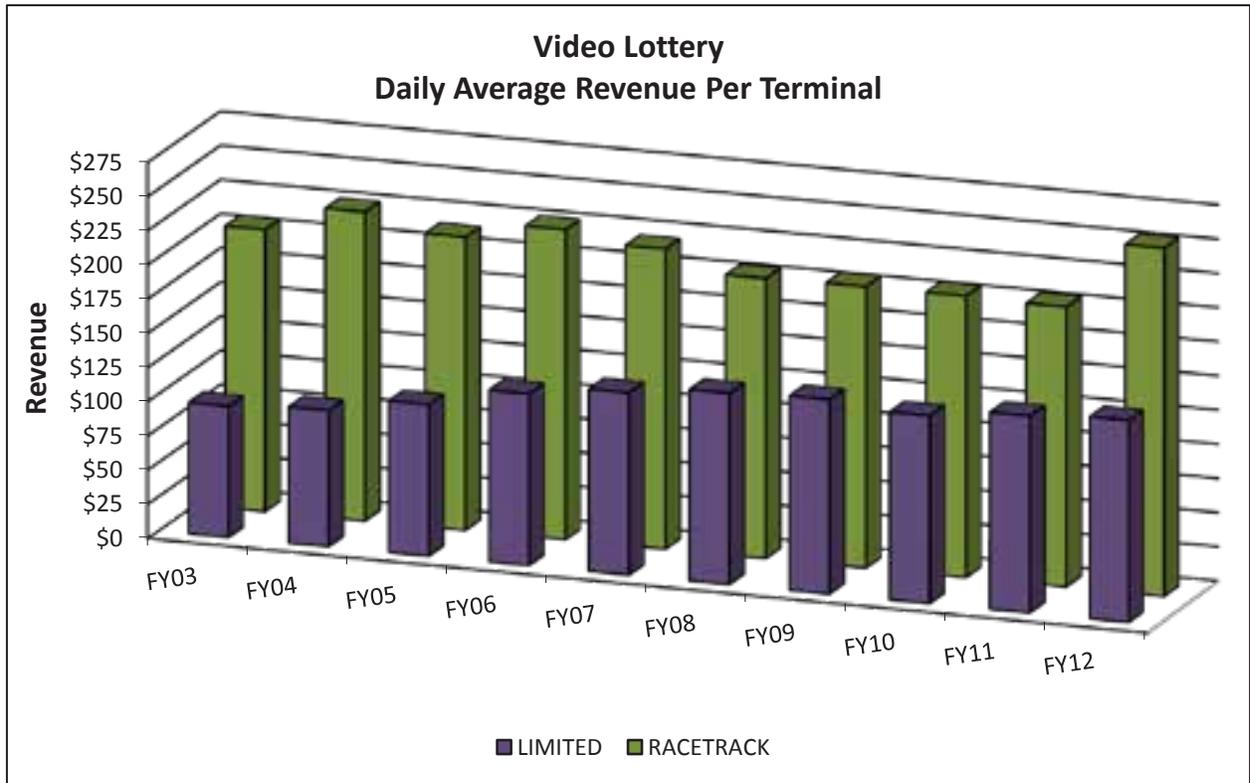
Total Revenues \$14,316,660,910
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

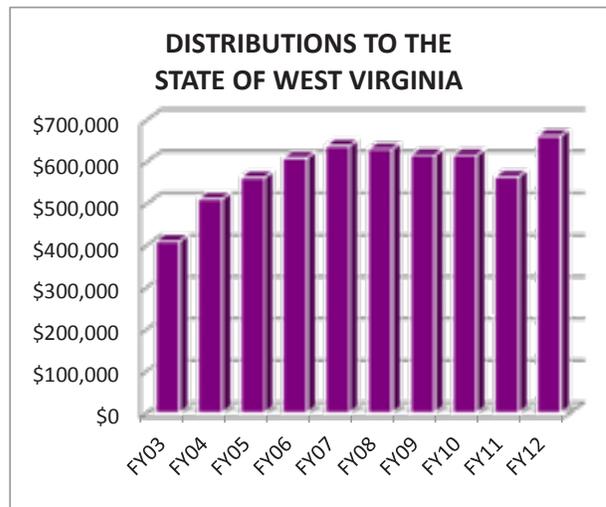
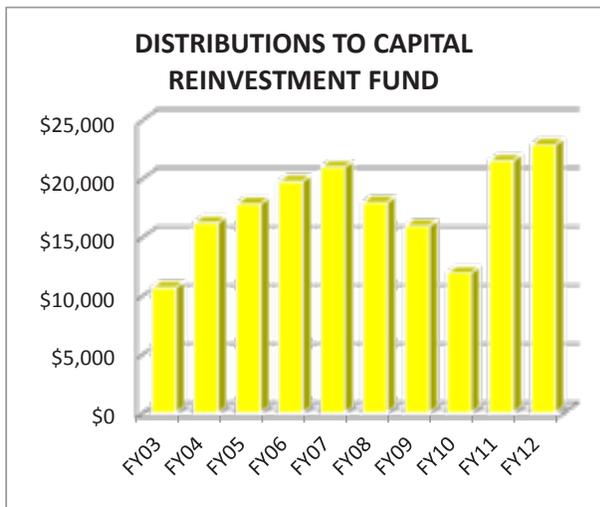
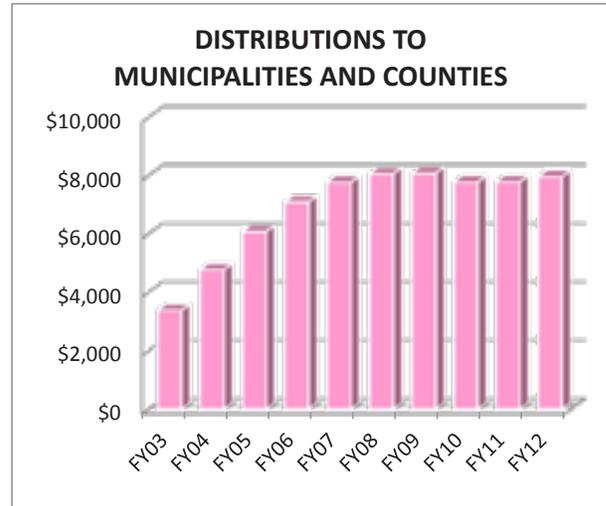
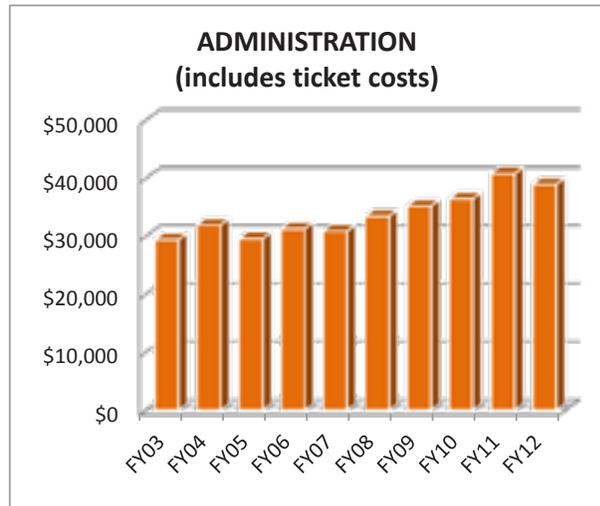
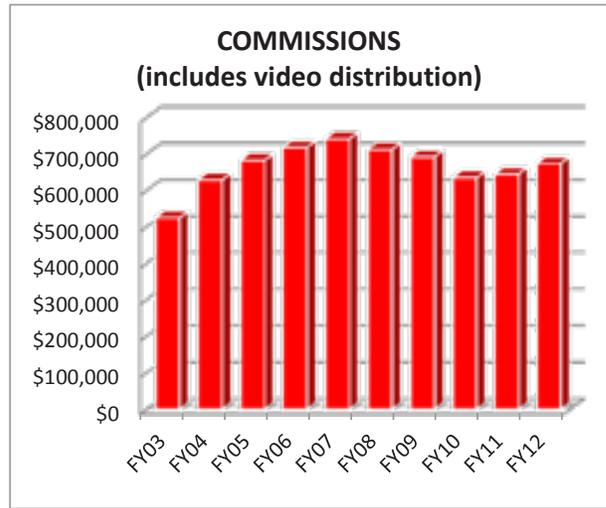
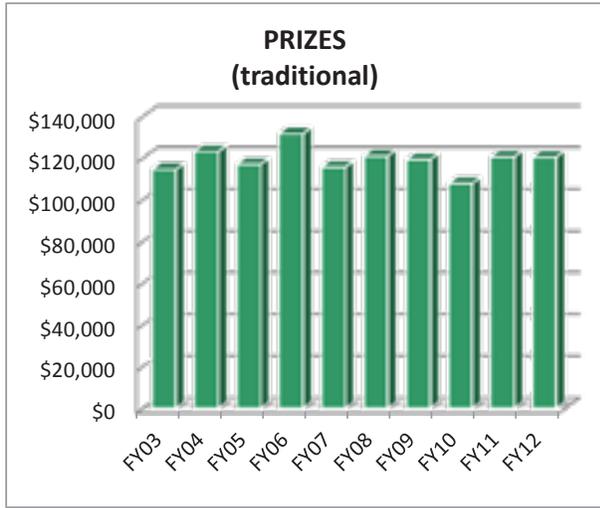
Daily Averages Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

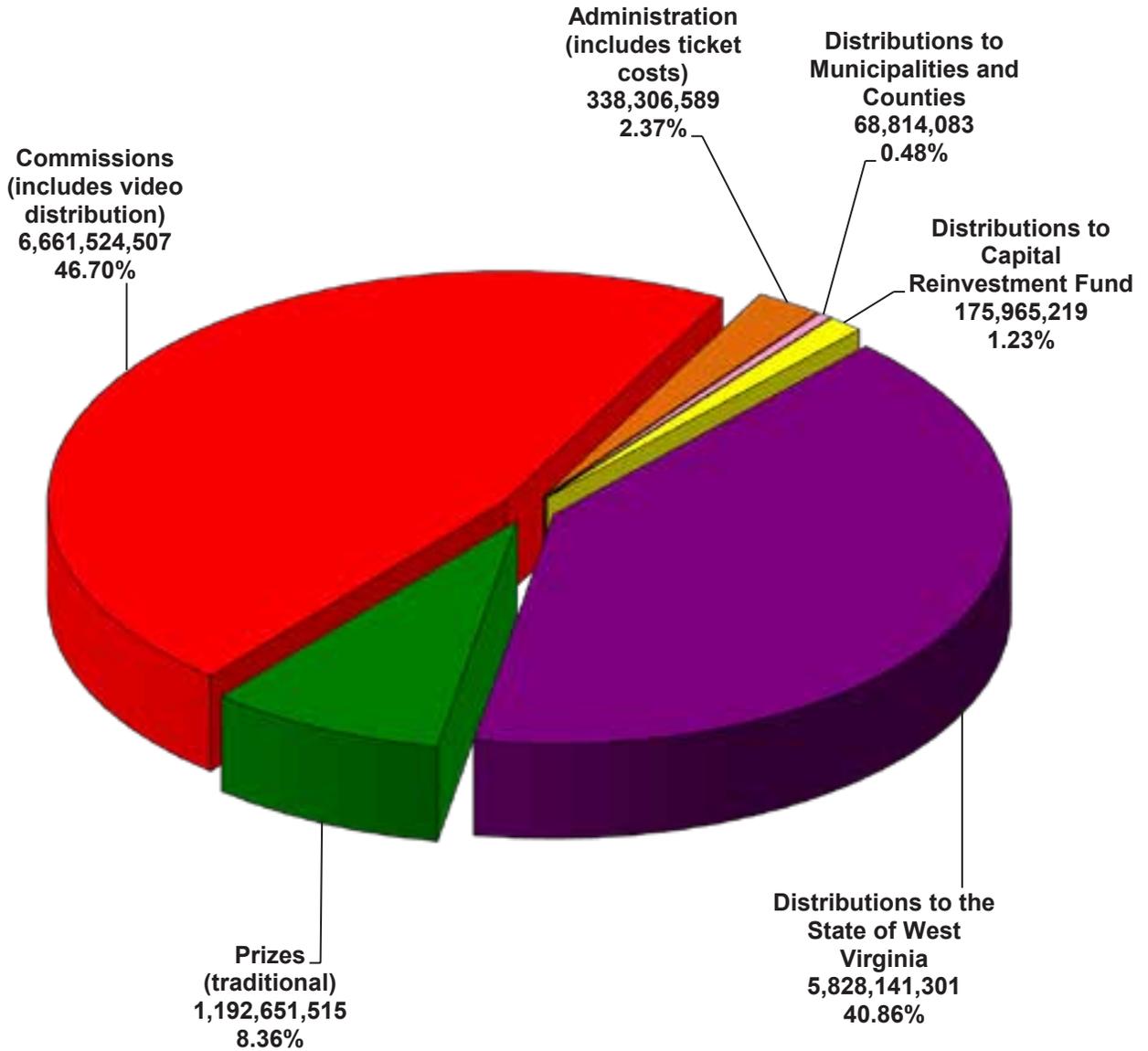
Expenses and Nonoperating Distributions Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

Total Expenses and Nonoperating Distributions \$14,265,403,214
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

**Total Net Assets
(000's)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net Assets					
Restricted	\$ -	\$ -	\$ -	\$ 20,000	\$ 30,367
Invested in capital assets	4,754	3,184	2,024	1,149	1,451
Unrestricted (deficit)	(4,504)	(2,934)	(1,774)	(899)	11,671
Total net assets	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 20,250</u>	<u>\$ 43,489</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net Assets					
Restricted	\$ 58,487	\$ 69,871	\$ 8,355	\$ 2,039	\$ 1,690
Invested in capital assets	5,251	3,306	23,349	30,421	42,285
Unrestricted (deficit)	747	10,011	4,679	6,612	8,000
Total net assets	<u>\$ 64,485</u>	<u>\$ 83,188</u>	<u>\$ 36,383</u>	<u>\$ 39,072</u>	<u>\$ 51,975</u>

Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2012 Excludes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Profit	Population	Sales/Capita
Arizona	\$646.68	\$164.72	6.7	\$96.52
Arkansas	\$473.09	\$97.78	2.9	\$163.13
California	\$4,371.49	\$1,320.73	37.3	\$117.20
Colorado	\$545.30	\$123.20	5.1	\$106.92
Connecticut	\$1,081.74	\$311.90	3.5	\$309.07
Delaware ¹	\$703.23	\$271.33	0.9	\$781.36
District of Columbia (9/30)	\$249.53	\$65.50	0.6	\$415.89
Florida	\$4,449.90	\$1,321.66	18.7	\$237.96
Georgia	\$3,834.68	\$901.33	9.9	\$387.34
Idaho	\$175.83	\$41.50	1.6	\$109.89
Illinois	\$2,680.14	\$708.50	12.9	\$207.76
Indiana	\$855.58	\$207.59	6.4	\$133.69
Iowa	\$310.85	\$78.73	3.0	\$103.62
Kansas	\$246.14	\$72.00	2.8	\$87.91
Kentucky	\$823.55	\$216.44	4.3	\$191.52
Louisiana	\$429.62	\$156.91	4.5	\$95.47
Maine	\$228.35	\$54.33	1.3	\$175.66
Maryland ¹	\$1,989.62	\$556.26	5.7	\$349.06
Massachusetts	\$4,729.60	\$983.79	6.6	\$716.61
Michigan (9/30)	\$2,413.46	\$770.99	9.9	\$243.78
Minnesota	\$520.03	\$123.81	5.3	\$98.12
Missouri	\$1,097.43	\$273.60	6.0	\$182.90
Montana	\$52.76	\$13.06	1.0	\$52.76
Nebraska	\$150.61	\$36.08	1.8	\$83.67
New Hampshire	\$257.90	\$66.77	1.3	\$198.39
New Jersey	\$2,759.41	\$950.00	8.7	\$317.17
New Mexico	\$133.79	\$41.33	2.0	\$66.89
New York (3/31) ¹	\$8,439.47	\$2,887.99	19.6	\$430.59
North Carolina	\$1,596.69	\$460.47	9.5	\$168.07
North Dakota	\$26.04	\$7.62	0.7	\$37.20
Ohio ¹	\$2,750.05	\$771.03	11.5	\$239.13
Oklahoma	\$199.85	\$70.49	3.7	\$54.01
Oregon ²	\$2,873.87	\$549.05	3.9	\$736.89
Pennsylvania	\$3,480.90	\$1,060.89	12.6	\$276.26
Rhode Island ²	\$3,532.18	\$377.71	1.1	\$3,211.07
South Carolina	\$1,135.65	\$297.74	4.6	\$246.88
South Dakota ²	\$603.19	\$100.40	0.8	\$753.99
Tennessee	\$1,311.20	\$323.44	6.3	\$208.13
Texas (8/31)	\$4,190.82	\$1,153.56	25.2	\$166.30
Vermont	\$100.93	\$22.33	0.6	\$168.21
Virginia	\$1,616.00	\$487.06	8.0	\$202.00
Washington	\$535.20	\$138.04	6.7	\$79.88
West Virginia ¹	\$1,457.53	\$662.98	1.8	\$809.74
Wisconsin	\$547.64	\$150.35	5.7	\$96.08
Total	\$70,607.49	\$19,450.94	293.0	\$13,914.70

2012 data source: NASPL website: www.NASPL.org

²Includes gross VLT sales (Cash in)

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

WEST VIRGINIA LOTTERY

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

	Sales	Profit	Population	Sales/Capita
Arizona	\$583.54	\$146.33	6.7	\$87.10
Arkansas	\$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 ¹	\$636.39	\$287.00	0.9	\$707.10
District of Columbia (9/30) ³	\$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 ¹	\$1,817.38	\$576.57	5.7	\$318.84
Massachusetts	\$4,416.29	\$887.91	6.6	\$669.13
Michigan (9/30) ³	\$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) ¹	\$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 ²	\$2,763.98	\$559.90	3.9	\$708.71
Pennsylvania	\$3,207.91	\$960.61	12.6	\$254.60
Rhode Island ²	\$3,125.60	\$354.86	1.1	\$2,841.45
South Carolina	\$1,047.12	\$271.13	4.6	\$227.63
South Dakota ²	\$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 ¹	\$1,322.16	\$558.12	1.8	\$734.53
Wisconsin	\$502.65	\$143.69	5.7	\$88.18
Total	\$64,704.35	\$18,402.14	293.0	\$12,845.99

2011 data source: NASPL website: www.NASPL.org

²Includes gross VLT sales (Cash in)

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

³Lottery Estimates

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2012 Includes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Prizes	Gov't Transfers	Population	Sales Per Capita
Arizona	\$646.7	\$399.7	\$164.7	6.5	\$99.49
Arkansas	\$473.1	\$315.3	\$97.2	2.9	\$163.14
California	\$4,371.5	\$2,560.3	\$1,280.0	37.7	\$115.95
Colorado	\$545.3	\$349.8	\$123.2	5.1	\$106.92
Connecticut	\$1,081.7	\$659.9	\$310.0	3.6	\$300.47
D.C.	\$245.0			0.6	\$408.33
Delaware ^{2,3}	\$136.0		\$269.0	0.9	\$151.11
Florida	\$4,449.9	\$2,792.5	\$1,317.0	19.1	\$232.98
Georgia	\$3,834.7	\$2,289.8	\$901.3	9.8	\$391.30
Idaho	\$175.8	\$108.6	\$41.5	1.6	\$109.88
Illinois	\$2,670.4	\$1,675.0	\$705.1	12.9	\$207.01
Indiana	\$855.8	\$535.1	\$227.2	6.5	\$131.66
Iowa	\$310.9	\$180.4	\$78.7	3.1	\$100.29
Kansas	\$253.3	\$139.3	\$72.0	2.9	\$87.34
Kentucky	\$818.8	\$523.2	\$216.4	4.4	\$186.09
Louisiana	\$429.6	\$180.3	\$156.9	4.6	\$93.39
Maine	\$227.7		\$53.8	1.3	\$175.15
Maryland ^{2,3}	\$1,794.9	\$1,066.6	\$751.2	5.8	\$309.47
Massachusetts	\$4,774.1	\$3,396.6	\$981.0	6.6	\$723.35
Michigan ^{1,6}	\$2,413.3	\$1,399.1	\$743.8	9.9	\$243.77
Minnesota	\$520.0	\$320.6	\$123.7	5.3	\$98.11
Missouri	\$1,099.7	\$689.8	\$280.0	6.0	\$183.28
Montana	\$52.7	\$28.6	\$13.1	1.0	\$52.70
Nebraska	\$150.1	\$87.4	\$36.1	1.8	\$83.39
New Hampshire	\$257.9	\$158.9	\$66.9	1.3	\$198.38
New Jersey	\$2,754.9	\$1,616.2	\$950.0	8.8	\$313.06
New Mexico	\$133.7	\$72.0	\$41.3	2.1	\$63.67
New York ^{2,3,4}	\$7,012.7	\$4,130.8	\$2,888.0	19.5	\$359.63
North Carolina	\$1,596.7	\$961.5	\$459.2	9.7	\$164.61
North Dakota	\$26.0	\$14.0	\$7.6	0.7	\$37.14
Ohio ^{2,3}	\$2,733.3	\$1,680.9	\$771.0	11.5	\$237.68
Oklahoma	\$199.9	\$103.1	\$70.0	3.8	\$52.61
Oregon ^{2,3}	\$323.2	\$221.8	\$549.1	3.9	\$82.87
Pennsylvania	\$3,480.9	\$2,120.5	\$1,060.0	12.7	\$274.09
Rhode Island ^{2,3}	\$249.5	\$155.1	\$377.6	1.1	\$226.82
South Carolina	\$1,135.6	\$721.4	\$300.0	4.7	\$241.62
South Dakota ^{2,3}	\$52.9	\$29.2	\$100.4	0.8	\$66.13
Tennessee	\$1,311.2	\$770.6	\$323.4	6.4	\$204.88
Texas ^{1,5}	\$4,171.5	\$2,667.0	\$1,105.1	25.7	\$162.32
Vermont	\$101.0	\$64.4	\$22.3	0.6	\$168.33
Virginia	\$1,616.0	\$962.3	\$487.1	8.1	\$199.51
Washington	\$535.2	\$312.4	\$137.2	6.8	\$78.71
West Virginia ^{2,3,7}	\$201.3	\$119.5	\$693.8	1.9	\$105.95
Wisconsin	\$547.4		\$150.0	5.7	\$96.04
Total	\$60,771.8	\$36,579.5	\$19,502.9	295.7	\$8,088.59

2012 data source: La Fleur's Magazine/Vol. 20, No. 1 Sept/Oct 2012

¹Estimated Sales

⁵Fiscal Year ends 8/31

²Doesn't include VLT prizes

⁶Fiscal Year ends 9/30

³Includes transfers for VLT operations

⁷Gross sales were \$1,457.5, including VLT sales of \$1,176 and Table Games sales of \$80.3

⁴Fiscal Year ends 3/31

WEST VIRGINIA LOTTERY

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

			Net Gov't		Sales
	Sales	Prizes	Income	Population	Per 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 ^{2,3}	\$1,714.4	\$1,028.0	\$519.4	5.7	\$300.77
Massachusetts	\$4,403.3			6.6	\$667.17
Michigan ^{1,6}	\$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 ^{2,3,4}	\$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 ^{2,3}	\$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 ^{2,3}	\$230.7	\$142.3	\$354.9	1.1	\$209.73
South Carolina	\$1,047.1		\$271.0	4.6	\$227.63
South Dakota ^{2,3}	\$46.6	\$27.4	\$105.2	0.8	\$58.25
Tennessee	\$1,186.6	\$695.1	\$293.5	6.3	\$188.35
Texas ^{1,5}	\$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 ^{2,3,7}	\$193.6	\$119.5		1.8	\$107.56
Wisconsin	\$502.5			5.7	\$88.16
Total	\$55,895.7	\$27,319.6	\$15,260.7	293.0	\$7,565.72

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

¹Estimated Sales

⁵Fiscal Year ends 8/31

²Doesn't include VLT prizes

⁶Fiscal Year ends 9/30

³Includes traditional and VLT profit

⁷Gross sales were \$1,392.5, including VLT sales of \$1,128.6

WEST VIRGINIA LOTTERY

State Demographic and Economic Information

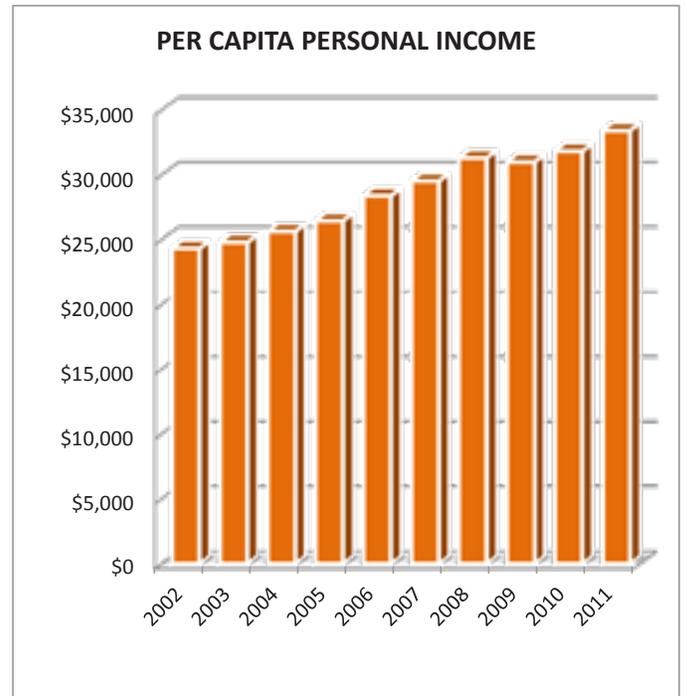
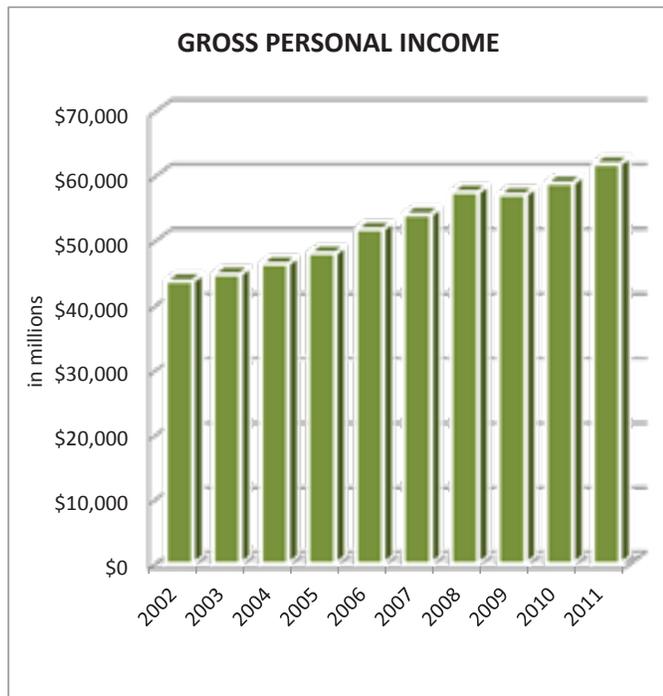
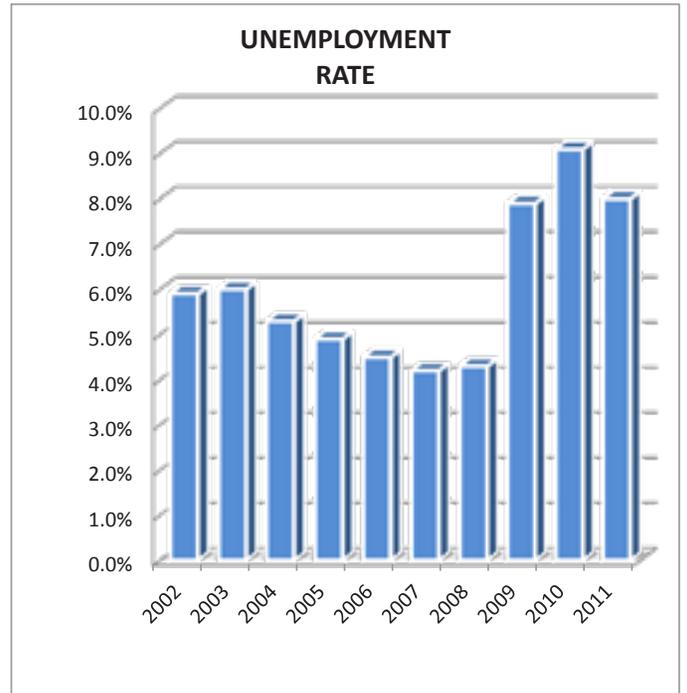
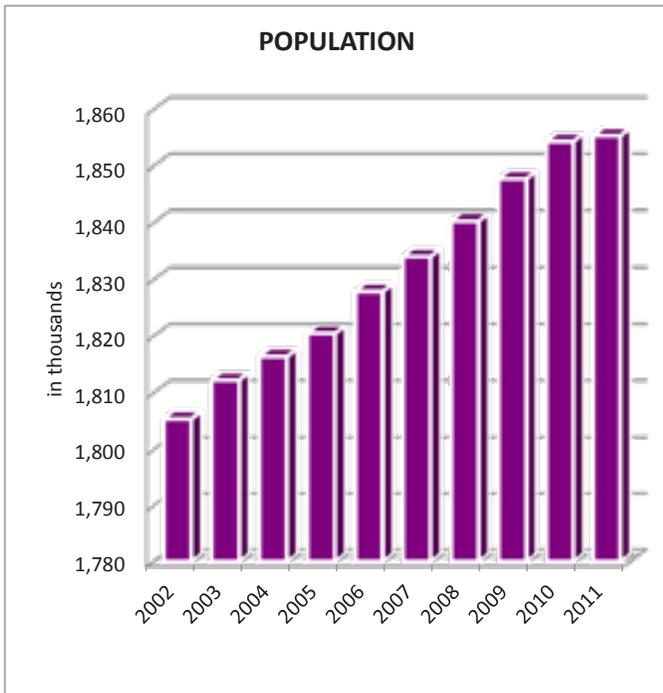
YEAR	POPULATION	PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2011	1,855,364	\$61,976	\$33,403	8.0%
2010	1,854,368	\$58,980	\$31,806	9.1%
2009	1,847,775	\$57,222	\$30,968	7.9%
2008	1,840,310	\$57,576	\$31,286	4.3%
2007	1,834,052	\$54,100	\$29,497	4.2%
2006	1,827,912	\$51,862	\$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%

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

Note: 2012 information is not available and therefore not presented.

WEST VIRGINIA LOTTERY

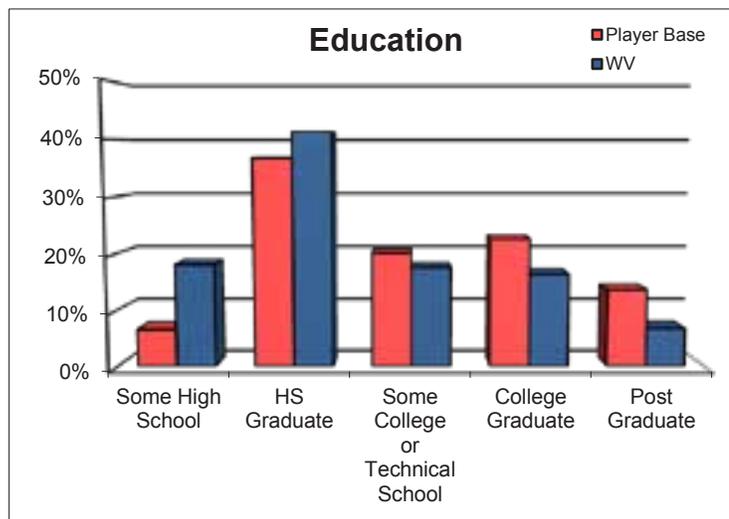
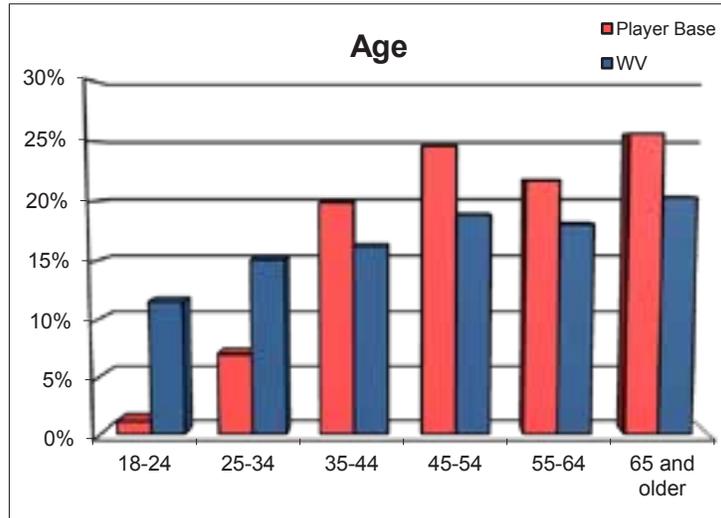
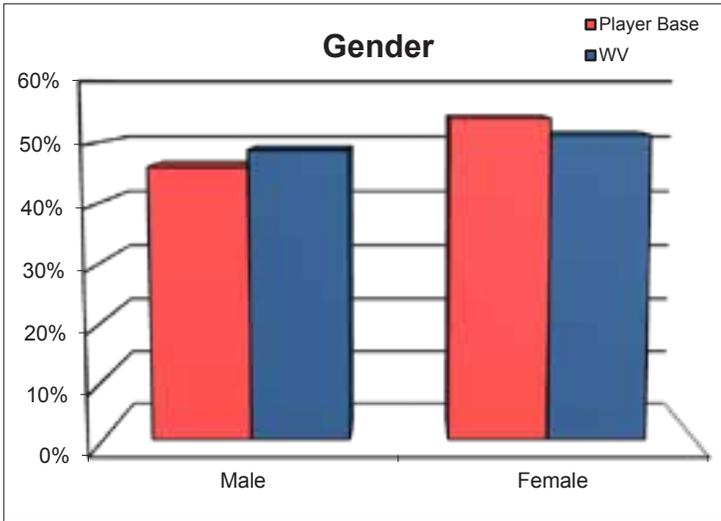
State Demographics



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

WEST VIRGINIA LOTTERY

Player and Population Demographics

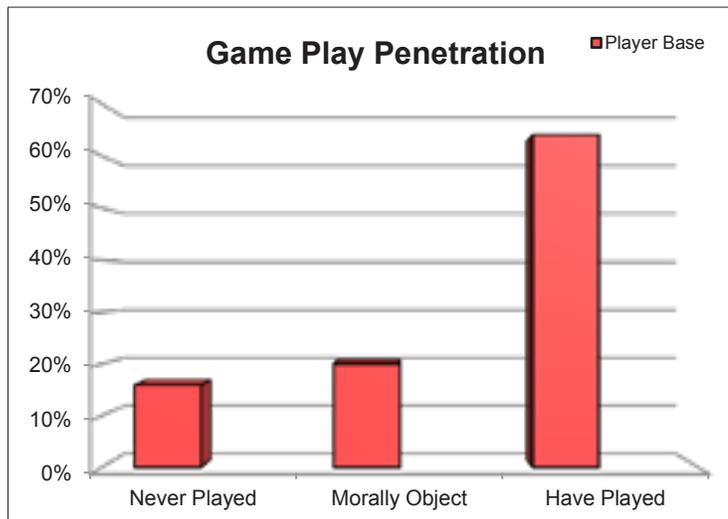
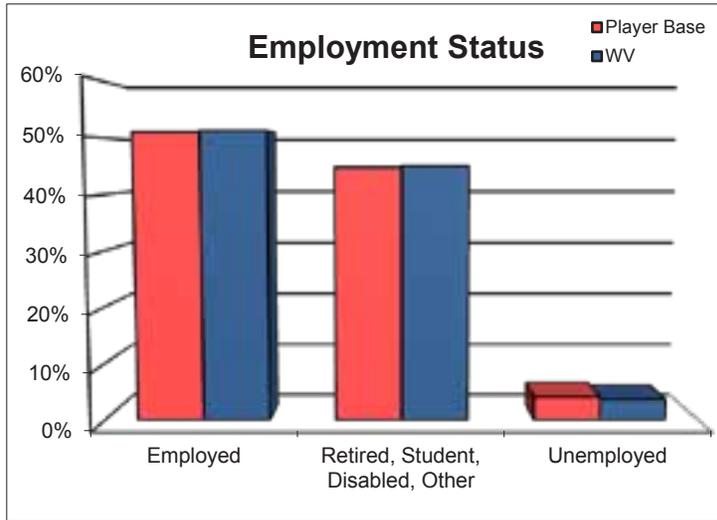
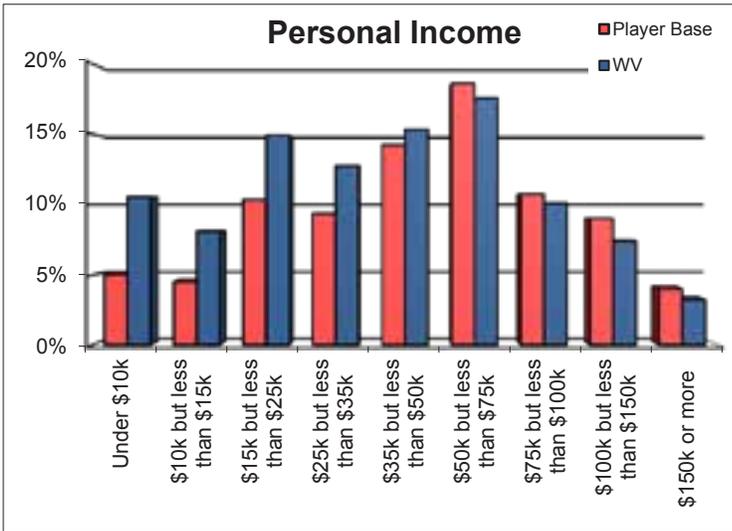


Source: West Virginia Lottery
Segmentation Study, August 2011
RL Repass & Partners, Inc.

ACS Demographic and Housing
2010 Census

WEST VIRGINIA LOTTERY

Player and Population Demographics



Source: West Virginia Lottery
Segmentation Study, August 2011
RL Repass & Partners, Inc.

ACS Demographic and Housing
2010 Census

WEST VIRGINIA LOTTERY

Number of Employees

	FY 2004	FY 2005	FY 2006	FY 2007
Executive	15	14	15	14
Finance & Administration	22	21	30	23
Marketing	8	7	7	7
Video	27	26	26	28
Security (traditional & video)	29	31	32	37
Table Games	-	-	-	-
Total	101	99	110	109

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Executive	18	20	20	18	19
Finance & Administration	23	24	23	27	26
Marketing	7	7	7	7	8
Video	27	27	29	30	31
Security (traditional & video)	46	47	46	47	42
Table Games	39	47	51	69	69
Total	160	172	176	198	195

Source: West Virginia Lottery

Note: Only nine years of data was available.

STATE OF WEST VIRGINIA

ANNUAL RANKING TOP TEN EMPLOYERS

Business Name	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Allegheny Energy Service Corporation	9	10								
American Electric Power		7	6	6	5	6	5	5	9	10
Charleston Area Medical Center	3	2	2	3	3	3	3	3	3	3
Consolidation Coal Company			8	8		10	9	6	5	5
CSX / CSX Hotels Inc.	6	5	5	5	8	5	8			
E I DuPont De Nemours & Company	7	8	7							
Eldercare Resources Corporation					6	7	6			
ISG Weirton Inc			10							
Kroger	4	4	4	4	4	4	4	4	4	4
Lowe's Home Centers, Inc.				7	7	8	10	7	7	6
Mentor Management, Inc. (Mentor Network, The)									10	8
Mylan Pharmaceuticals, Inc.								10	6	7
Pilgrim's Pride Corporation of West Virginia					9					
Res-Care Inc.								9		
St. Mary's Hospital	10			10	10	9	7	8	8	9
Verizon	8	9	9	9						
Wal-Mart Associates, Inc.	1	1	1	1	1	1	1	1	1	1
Weirton Steel Corporation	5	6								
West Virginia University Hospitals/United Hospitals	2	3	3	2	2					
WV United Health System						2	2	2	2	2

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

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

Scenic West Virginia . . .



Tourism

West Virginia Lottery 2012 CAFR Project
An in-house production of the West Virginia Lottery

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