

West Virginia Lottery

a component unit of the State of West Virginia



Comprehensive Annual Financial Report

for the fiscal years ended June 30, 2013 and 2012



Message from the Director

We are pleased to present the West Virginia Lottery Comprehensive Annual Financial Report for the fiscal year ending June 30, 2013 to the Honorable Earl Ray Tomblin, Governor; Robert Kiss, Cabinet Secretary, Department of Revenue; and the West Virginia Legislature. Our mission to operate responsibly with the highest standards of integrity and security has served as the foundation of our business, and has helped to provide a continued revenue stream for programs that benefit the citizens of West Virginia for more than 27 years.

The Lottery was created in April 1985 pursuant to authority granted by the West Virginia Legislature with gaming operations beginning in 1986. Since inception, the Lottery has generated more than \$7.4 billion of gaming revenue to the State of West Virginia with the majority of proceeds directed to seniors, education and tourism. Senior programs and services have received a total of \$828.3 million of Lottery net profits, \$2.7 billion has been directed to education, and \$805.7 million has been used to fund tourism efforts across the State.

The financial, economic, demographic and statistical data contained in this report illustrates the importance of the Lottery's financial performance to our State, and represents only the activity for which the West Virginia Lottery exercises regulatory oversight. Responsibility for both the accuracy of the 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 and accompanying notes 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 four 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 approximately \$1.4 billion in gross sales annually and provides a profit to the State of West Virginia of more than \$545 million to fund programs for senior citizens, education, parks, tourism and capital projects.

On February 1, 2013, Musgrave was appointed Deputy Secretary of Revenue. In this capacity, he now oversees the Lottery, Racing Commission, Alcohol Beverage Control Administration and Athletic 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.

West Virginia Lottery 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 L. McCormick, Jr
Morgantown, WV, Marketing Specialist



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



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

Prepared by
Finance and Administration Division

Dean W. Patrick, CPA/MBA
Deputy Director of Finance and Administration
and Chief Financial Officer

Comprehensive Annual Financial Report
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EDUCATION





More than \$2.7 billion in West Virginia Lottery proceeds have been used to strengthen public education in West Virginia since the Lottery began operations in 1986. These proceeds have improved public education at every level by providing new and improved schools through the West Virginia School Building Authority, placing computers in the classrooms through efforts of the West Virginia Department of Education, and providing higher education opportunities for students through funding for the PROMISE Scholarship program.

In FY 2013, the State of West Virginia received a total of \$126.6 million of Lottery proceeds for Education and an additional \$29 million for the PROMISE scholarship program.



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Earl Ray Tomblin
Governor

John C. Musgrave
Director

December 6, 2013

The Honorable Earl Ray Tomblin, Governor
Robert Kiss, 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, 2013. This report has been prepared by the West Virginia Lottery and 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.

A handwritten signature in blue ink that reads "John C. Musgrave".

John C. Musgrave
Director of West Virginia Lottery

A handwritten signature in blue ink that reads "Dean W. Patrick".

Dean W. Patrick, CPA/MBA
Deputy Director of Finance and Administration

Overview

Over the past 27 years, the West Virginia Lottery has generated more than \$7.4 billion in proceeds to the State of West Virginia. These funds have served as the foundation for various programs and services for Education, Seniors and Tourism across the State.

In fiscal year 2013, Lottery sales remained relatively stable as the Lottery exceeded the \$1 billion mark for the 11th consecutive year. Despite growing competition and an expected decline in revenue, Lottery sales totaled more than \$1.3 billion for the year ending June 30, 2013, 16.7 percent above estimates.

The largest source of revenue for the Lottery continues to be Video Lottery, with sales of \$655.7 million, while sales from Table Games generated \$70.3 million and Traditional Lottery sales consisted of \$195.6 million. In addition, Limited Video Lottery sales produced net revenues of \$399.2 million.

The West Virginia State Budget included \$523 million in transfers from the Lottery, with an additional \$40.4 million paid to county and local municipalities across the State. Total Lottery transfers of \$523 million included \$52.8 million for senior citizens, \$126.6 million for education, \$45.9 million for tourism, \$109.5 million to the State's General Fund for expenses including Education and Health and Human Services, \$56.6 million to the Infrastructure Council, and \$102.6 million to other state agencies (including \$29 million to the PROMISE scholarship program).

Overall sales in FY 2013 were \$1.3 billion, with total operating costs under 2.9 percent. Continued fiscal responsibility resulted in the Lottery meeting its obligations to the State, and generated a surplus that returned an additional \$77.8 million to the State, in excess of budgeted amounts. These amounts are available for additional legislative appropriations.

Lottery players received a total of \$116.2 million in cash prizes in FY 2013, with three West Virginia families

winning \$1 million each from the popular Multi-State Lottery (MUSL) Powerball® game. The Multi-State Lottery Association made aggressive enhancements to the Hot Lotto® game in FY 2013, with a redesign of the game in May. Improvements to the game included taxes-paid prizes (federal and state income tax withholdings), which returned a larger amount of prize winnings to the player, an overall increase in prize amounts in the game matrix and a lump sum only jackpot. These changes were made while maintaining the game's \$1 price point per play.

The Lottery continued its regulatory duties of governing several forms of gaming including Traditional Lottery games (Instant Scratch-Off tickets and On-line numbers games such as Powerball® and Mega Millions®; Racetrack Video Lottery (slot machines at the state's racetrack casinos); Limited Video Lottery (slot machines at local bars and taverns); and Table Games which are fully operational at all racetrack casinos across the State. In addition, the Lottery continues to regulate casino video lottery and table games at The Greenbrier Historic Resort, which serves as the State's only limited gaming facility.

West Virginia State law mandates that players receive at least 45 percent of total traditional game sales in the form of cash prizes; however, this percentage has averaged approximately 50 percent annually since the Lottery's inception in 1986. Traditional Lottery operating costs have averaged approximately 12 percent, notably less than the 15 percent allowed by law. Licensed Lottery retailers receive a seven percent sales commission on traditional lottery products, as well as bonuses based on total sales and prizes paid at their respective 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. In FY 2013, the payout rate averaged 90 percent, with an established payout



range of 80 percent to 99 percent, which is set by statute and approved by the Lottery Commission. Profits distributed from Racetrack Video Lottery, The Greenbrier Historic Resort and Limited Video Lottery are directed both by statutory allocation and legislative budget appropriations.

State revenues from Table Games are derived from a 35 percent privilege tax rate that is applied to the table “win” and is distributed by statutory allocation with the largest portion directed to reduction of state debt.

Since 1994, \$189.3 million of revenue generated by Racetrack Video Lottery has been directed to advertising funds for the state tourism industry through a matching grants program established with the West Virginia Division of Tourism. In FY 2013, the Lottery contributed \$8.3 million to the Division of Tourism. In addition, Lottery revenue appropriated from other gaming sources to the Division of Tourism by the West Virginia Legislature totaled \$7.4 million. Through appropriations for the Division of Natural Resources and the State Park Improvement Fund, the overall total invested in enhancing the state’s tourism industry increased to \$15.8 million.

In FY 2000, legislation was passed 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 each year to support a skilled nursing facility and a cemetery for West Virginia’s veterans. In FY 2013, a total of \$422.3 thousand was distributed to support Veteran’s projects in West Virginia.

In addition to Traditional Lottery dollars, West Virginia seniors also benefit from the license fees for Table Games, as these fees are directly deposited to the Bureau of Senior Services. In FY 2013, deposits to in-home health care services for seniors totaled \$10 million from Racetrack Table Games and \$500 thousand from The Greenbrier Historic Resort. Overall, West Virginia senior citizens benefited from an estimated \$52.8 million in Lottery revenue in FY 2013.

West Virginia high school seniors entering colleges and universities across the State also benefit from Lottery dollars through funding of the PROMISE Scholarship Fund. Revenue from Limited Video Lottery provided \$29 million to in-state higher education for high school graduates in West Virginia. Since 2002, the West Virginia Lottery has provided more than \$283.5 million to the PROMISE Scholarship Program.

Economic Outlook

The US economic recovery that initially began in mid-2009 continues to have weak momentum in 2013, and recent data suggest some loss of momentum going into the third quarter. Real consumer spending stalled in July, and capital goods orders and shipments declined. However, private residential and nonresidential construction still posted solid gains. According to IHS Global Insight, the US economy is forecast to grow at a rate of roughly 1.8 percent in the third quarter of the year. The forecast for 2013 is for a growth rate of 1.5 percent. The current threats to US economic growth are the resurgence of violence in the Middle East, political discords in Washington, higher interest rates and weak job growth.

Due to the impact of the Great Recession, West Virginia's nonfarm payroll employment fell by roughly 22,100 jobs between January 2008 and January 2010. Between January 2010 and January 2013, nonfarm payroll employment rose by 41,200. Employment growth has slowed in 2013 with only 6,300 jobs being added between January and August. The goods producing sectors had growth of roughly 3,800 jobs through August due to gains in mining and logging and manufacturing. The service-providing sectors added roughly 2,500 jobs since January 2013, including 700 jobs in the professional and business service sector and 600 jobs in the educational and health services sector. IHS Global Insight forecasts growth in employment of 3.1 percent between 2012 and 2015 with most of the growth occurring in professional and business services (5,400), natural resources and mining (4,600), construction (3,700), health care (3,600), leisure and hospitality (3,000), and manufacturing (2,800). The growth in manufacturing is projected to be predominately in wood products manufacturing due to the upturn in the construction industry, and the job gains in mining are projected to be in natural gas production.

West Virginia's personal income growth in 2012 was 3.2 percent in comparison with a national growth rate of 3.5 percent. For the first quarter of 2013, personal income in West Virginia declined at a seasonally adjusted rate of 0.9 percent, and West Virginia ranked just 37th highest among all states in income growth. A significant slowdown in coal mining activities contributed toward

the weaker than average income gains for the State in recent months.

The leisure and hospitality sector, including amusements and recreation (including gaming) and hospitality and food service activities, collectively gained 900 jobs from August 2012 to August 2013. In 2012, the leisure and hospitality sector was the fourth largest source of employment in West Virginia. IHS Global Insight projects sector job growth of 3.2 percent in 2013 before growth tapers off beginning in 2014. A recovering national economy has improved national-level tourism and travel spending activity. Businesses operating in the leisure and hospitality sector in southern West Virginia have also benefitted from the Summit Bechtel Family National Scout Reserve located in Fayette and Raleigh counties. While this sector has expanded, the gaming industry detracted from overall growth due to venues facing increasing competition from new gaming resorts in neighboring states.

The recent performance of the auto industry suggests a trend of overall economic improvement for West Virginia in the near future. After falling during the Great Recession by more than 17 percent from June 2008 to February 2010, sales have rebounded sharply. Motor vehicle sales tax collections rose from \$148.3 million in Fiscal Year 2010 to \$187.4 million in Fiscal Year 2013. Motor vehicle sales tax collections continued rising at a healthy pace of roughly 9 percent above the prior year through the first four months of Fiscal Year 2014.

Following a decline of 10.6 percent in CY2012, coal production through September 2013 was just 3.6 percent below production in the same period of 2012. The decrease in coal production was largely due to a decline in demand for domestic steam coal in response to both the pending retirements of a number of regional older coal-fired power plants and lower prices for substitute natural gas. The sharp decline in domestic demand was only partially offset by rising exports. Between 2011 and 2012, the value of coal exports from West Virginia rose 40 percent and has more than tripled since 2009. The value of coal exports is expected to fall somewhat over the next two years as export coal prices for metallurgical coal have fallen from a high of

roughly \$186 in 2011 to \$119 in the first quarter of 2013. In response to lower coal production and coal sales, coal mining employment fell by 10.4 percent between 2011 and the first quarter of 2013.

Natural gas production has increased since 2010 due to the introduction of hydraulic fracturing techniques which has resulted in production from shale gas reserves in West Virginia. Natural gas production rose 37 percent in 2012, and production is expected to continue to rapidly increase in 2013.

With the major exception of the natural gas sector, economic growth in West Virginia generally stalled in 2013 with little or no growth in wage income and consumption. The lack of growth was partially attributable to continuing decline in the coal industry and various headwinds associated with policies of the federal government. In particular, the increase in the federal payroll tax at the beginning of the year greatly slowed consumption spending and associated employment growth. Economic conditions are poised for improvement in 2014 and 2015 with the expectation of employment gains in areas of business services, natural gas mining, manufacturing and leisure and hospitality. In addition to continuing growth in the natural gas sector, improvement in the national housing market should lead to greater employment and output from the State's wood products sector. Wage growth is anticipated to gradually accelerate from little or no growth in 2013 to more than 3 percent by the latter half of 2014. Gradual improvement in the world economy should aid renewed West Virginia export growth as early as 2014. State tax revenues are likely to resume a pattern of growth in line with overall improvement in the State economy beginning in the second half of Fiscal Year 2014. There remains some continuing risk that the lack of long-term federal fiscal planning could still result in a more prolonged period of sluggish economic growth for the State and Nation. Future economic gains associated with increased federal subsidies for health care tied to the Affordable Care Act are likely to be offset by additional federal budget reductions in other areas necessary to limit growth in future budget deficits.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 2013, there were 46 new games introduced. Instant games provided approximately 8.2 percent of total fiscal year 2013 sales at 1,565 retail locations.



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

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



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

POWERBALL® is an on-line game jointly operated by 42 state lotteries, the District of Columbia and the Virgin Islands, who are members of the Multi-State Lottery Association (MUSL) or the Mega Millions® Group. This game was introduced in April 1992, revised in November 1997, October 2002, August 2005, and January 2013. 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 jurisdiction beginning January 31, 2010, when both Powerball® and Mega Millions® began cross-selling in most jurisdictions. January 12, 2013, 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 30 years 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 3.7 percent of total 2013 sales at 1,565 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 1,565 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 and revised May 2013. Drawings are held twice weekly on Wednesday and Saturday. Players choose five numbers from 1 of 47 in the “Pick 5” area and one of 19 numbers in the “Hot Ball” area. Jackpots start at a guaranteed \$1 million in cash and will increase by a minimum of \$50,000 cash each time the jackpot is not won. Plus, jackpot winners will collectively receive no less than the advertised jackpot amount as federal and state income withholding taxes are paid by the Lottery on the grand prize. HOT LOTTO SIZZLER® offers eight secondary prizes of fixed amounts ranging from \$2 to \$30,000.

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 294 Travel Keno locations.



RACETRACK VIDEO LOTTERY games were implemented in 1994 when the West Virginia Legislature passed the Racetrack Video Lottery Act, making video lottery terminals available to the four racetracks in the state subject to passage of local referendums. In September 1994, three racetracks (Mountaineer Casino Racetrack & Resort, Wheeling Island Hotel, Casino & Racetrack, and Mardi Gras Casino & Resort) began operating with 1,200 video lottery machines. A fourth racetrack (Hollywood Casino at Charles Town Races) began video gaming in September 1997. West Virginia is one of five state lotteries to regulate video gaming at racetracks. The other four states are Delaware, Rhode Island, New York and Pennsylvania. Games offered are poker, blackjack, keno, and spinning reel types. Effective June 1999, legislative action has allowed mechanical reel coin drop machines. As of June 30, 2013, the West Virginia Lottery Commission had an average of 7,796 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 49.4 percent of total 2013 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 7,465 terminals were operating at licensed retail locations throughout the state as of June 30, 2013. Limited video lottery sales were 30.1 percent of total 2013 sales at 1,526 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 5.3 percent of total 2013 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

- The Lottery was able to maintain solid sales performance in FY 2013, with sales totaling \$1.33 billion, which resulted in net revenue of \$545.2 million to the State of West Virginia, \$40.4 million to Municipalities and Counties, and \$18.8 million to the four Racetracks and The Greenbrier Historic Resort for capital reinvestment and modernization.
- In FY 2013, the Lottery generated \$52.8 million in proceeds for senior programs and services, \$126.6 million for education, \$45.9 million for tourism, \$109.5 million to the General Fund for expenses including Education and Health and Human Services, \$56.6 million for the Infrastructure Council, and \$102.6 million to other state agencies, including \$29 million to the PROMISE scholarship program.
- In May 2013, the Hot Lotto® game was redesigned to increase cash prize winnings returned to players. The most notable enhancement to the game included a taxes-paid jackpot prize, as well as fixed prize amounts up to \$30,000 on prize wins with Hot Lotto Sizzler®.
- The Lottery continues to strive for operational efficiency, with overall operating costs under 2.9 percent of gross sales for the year. In addition, the Lottery generated a surplus in FY 2013, which returned an additional \$77.8 million to the State of West Virginia for legislative appropriations.
- A total of 47 new instant ticket games were launched in FY 2013 with sales from traditional games (instant and on-line) totaling \$195.6 million. The Lottery was also successful in bringing consistency in the Legislative Rule to allow an increase in the price point cap of Instant Scratch-off tickets. The change provides the Lottery with the ability to have a standing price point up to \$20 on any Instant ticket game.
- The Lottery's most popular jackpot game – Powerball® – continued to create millionaires in FY 2013 with three new West Virginia residents winning \$1 million or more cash prizes.



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 2013 decreased 8.7 percent to \$1.328 billion from \$1.457 billion in fiscal year 2012. Distributions to the State of West Virginia decreased 17.8 percent from \$663 million in fiscal year 2012 to \$565.2 million in fiscal year 2013.

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 is 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 184 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, 2012. This was the 16th 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 adding digital components for extended play to traditional lottery games by launching new mobile applications that will provide players with opportunities to participate in second chance promotions. Enhancements to the digital platform will help reduce costs associated with postage, provide faster draw times for second chance promotions and increase opportunities for players to access and interact with Lottery products.
- In FY 2014, the Lottery will begin development of technical specifications for the traditional online gaming system. A new RFP is scheduled to be sent to the West Virginia State Purchasing Division by 2014 fiscal year end.

- In FY 2014, the Lottery will also be developing technical specifications for the video lottery central system, which operates and controls both limited video lottery and video lottery at the state's casinos.
- The Lottery continues to transition its financial reporting, human resources, facilities management and governmental accounting requirements into the State's new ERP system. The first phase of this project, which is inclusive of all West Virginia State government agencies, is scheduled for completion in FY 2014.
- In FY 2014, the Lottery will complete implementation of a new fingerprinting system. The system will upgrade current technology and enhance Security protocol, and will ultimately improve efficiencies and speed of 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; 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.



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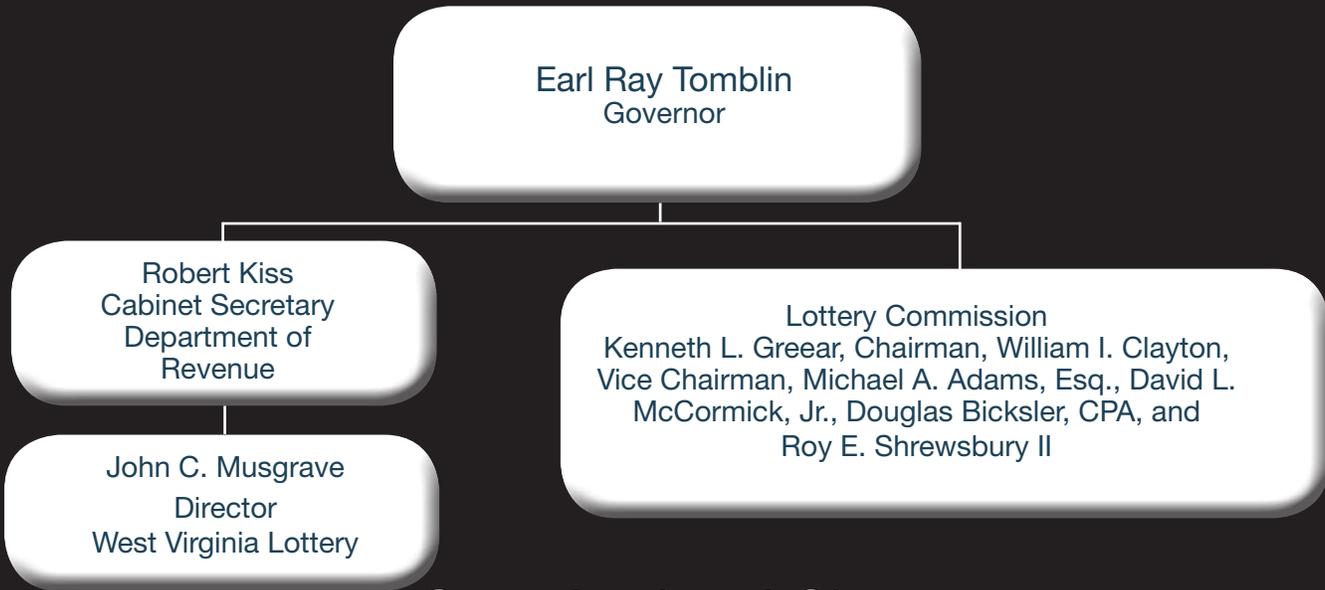
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

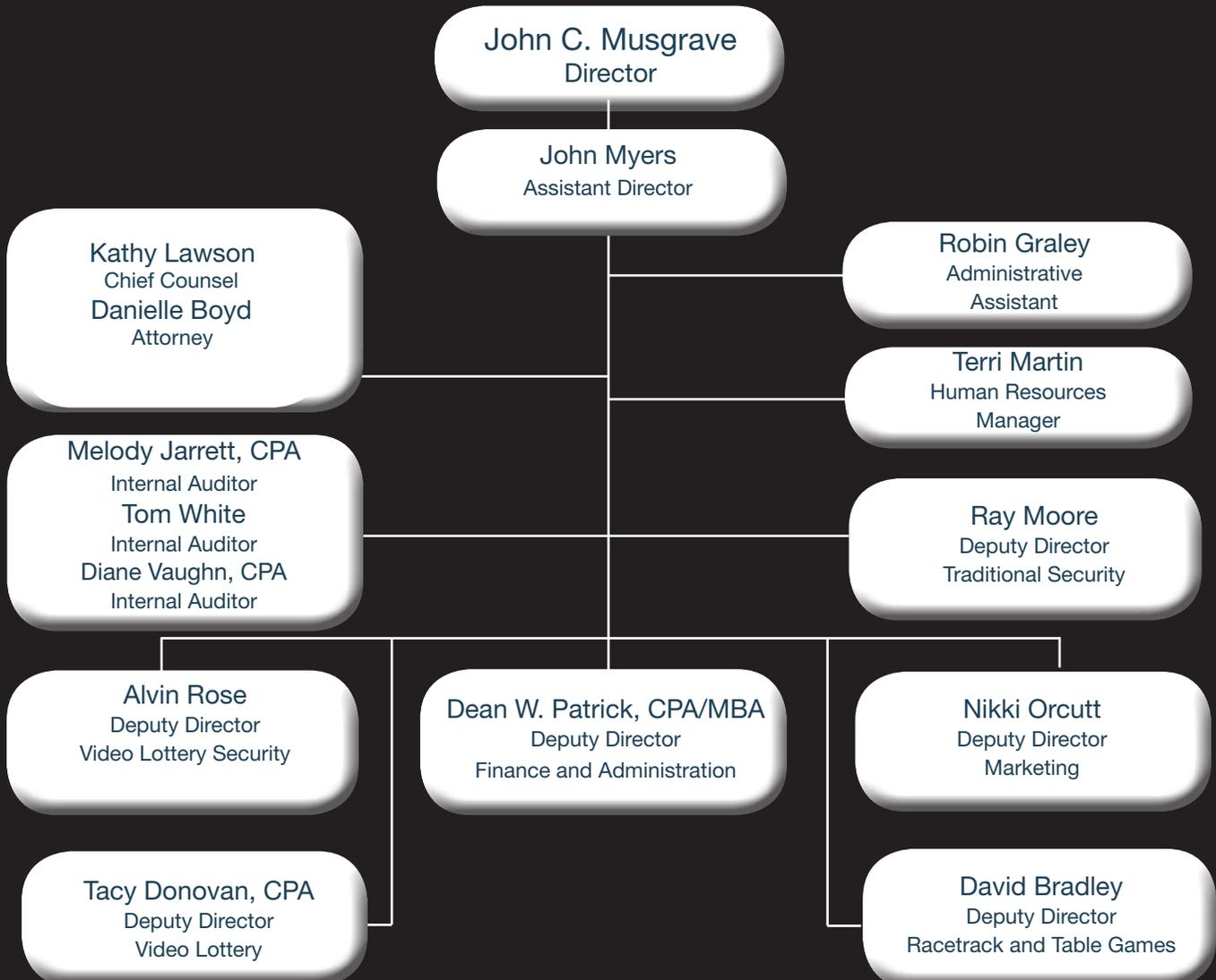
Executive Director/CEO

West Virginia Lottery

Principal Officials



Organizational Chart



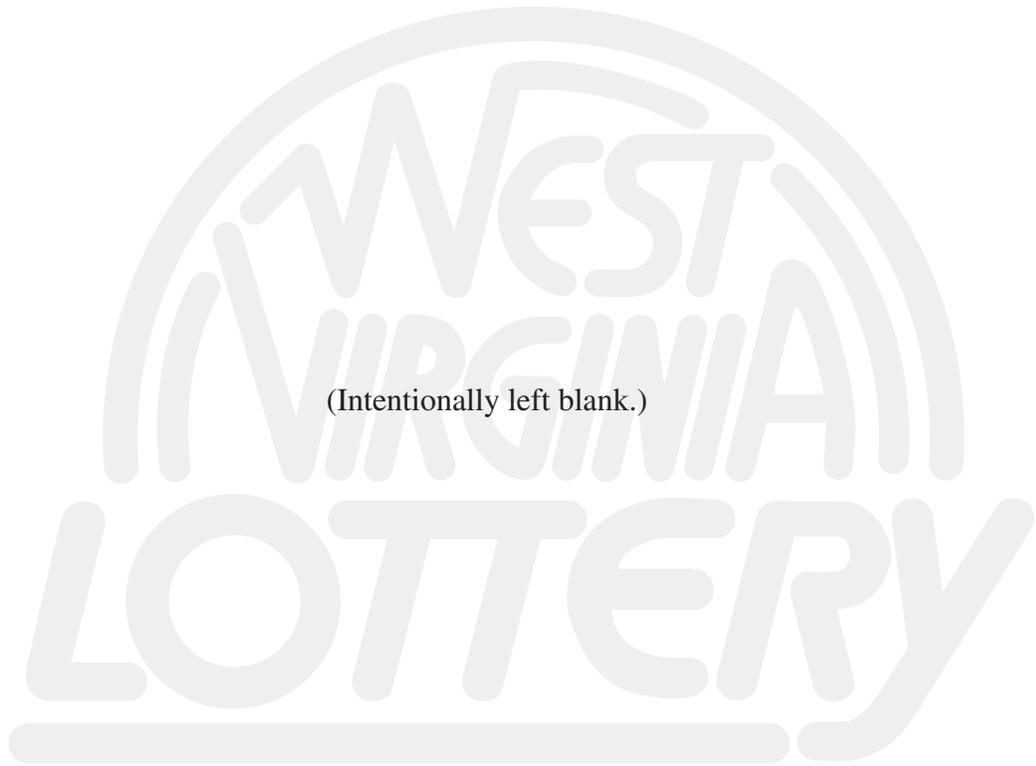
SENIORS





The West Virginia Lottery has generated more than \$828.3 million for West Virginia Seniors. These proceeds have provided a wide range of care and services, which have helped the West Virginia Bureau of Senior Services provide more than two million meals annually to seniors at county nutrition sites and homes across the State. This funding has also assisted with long-term care needs, senior centers, transportation needs, aided in matching Medicaid funding for senior services, and has helped senior citizens with the expense of property taxes using a property tax credit for West Virginia seniors.

A total of \$52.8 million in Lottery proceeds was directed to support West Virginia Seniors in FY 2013.



INDEPENDENT AUDITOR'S REPORT

West Virginia Lottery Commission
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements 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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



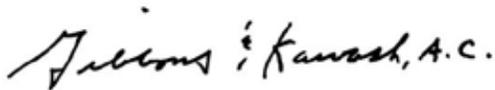
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

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



Charleston, West Virginia
September 19, 2013

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, 2013 and 2012. In reading the Management's Discussion and Analysis (MD & A), the current year refers to fiscal year ending June 30, 2013, and the prior year refers to fiscal year ending June 30, 2012. This analysis is to be considered in conjunction with the financial statements, which begin on page 27.

Financial Highlights

The Lottery's operating income decreased in 2013 and increased in 2012. The 2013 decrease was due to competition from expanded gaming activities in neighboring states. The increase in 2012 was due to Limited Video Lottery bid fees for permits issued for the second 10-year period beginning July 1, 2013. The following summary is provided below:

- Lottery revenues for the current year decreased \$129.2 million or 8.9% compared to the prior year, which increased \$65.1 million or 4.7% from 2011.
- Commissions for the current year decreased \$59.8 million or 8.9% compared to the prior year, which increased \$28.7 million or 4.4% from 2011.
- Gross profit for the current year decreased \$64.3 million or 9.9% compared to the prior year, which increased \$36.4 million or 5.9% from 2011.
- Nonoperating expenses decreased \$122.1 million or 17.6% compared to the prior year, which increased \$99.4 million or 16.7% from 2011. The predominant nonoperating expense is the distributions to the State of West Virginia, which decreased \$117.8 million or 17.8% compared to the prior year, which increased \$97.7 million or 17.3% from 2011.

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 Statements of Net Position 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 Position.

Statements of Net Position

As shown in Table 1, current assets for the current year increased \$31.0 million or 11.1% compared to the prior year, which decreased \$50.4 million or 15.2% from 2011, due to the timing of distributions to the State of West Virginia at year-end.

Restricted net position continued to decrease as a result of activities related to capital spending for the Lottery headquarters building 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 position.

Capital assets, net of accumulated depreciation and amortization, decreased in the current year by \$2.1 million or 4.9% compared to the prior year due to depreciation of the Lottery headquarters building which increased by \$11.9 million or 39.0% from the prior year compared to 2011 due to the improvements made to the Lottery headquarters building. For additional information on capital assets, please refer to Note 4 to the financial statements.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Statements of Net Position (Continued)

Table 1
Assets
(in \$000's)

	2013	2012	2011
Current assets	\$ 312,032	\$ 280,994	\$ 331,382
Restricted assets	1,640	2,373	4,324
Capital assets, net of accumulated depreciation and amortization	40,220	42,285	30,421
Total assets	\$ 353,892	\$ 325,652	\$ 366,127

As shown in Table 2, the Lottery's current liabilities for the current year increased \$25.3 million or 9.3% compared to the prior year, which decreased \$53.4 million or 16.3% compared to 2011 due to the Limited Video Lottery bid fees that were reflected as deferred revenue until the new permits became effective on July 1, 2011. The increase in current year liabilities was due to the accumulation of prior year surplus transfers to the State of West Virginia combined with current year accrued transfers.

Net position - restricted by enabling legislation decreased due to the refurbishing of the Lottery headquarters building. See Note 11 to the financial statements for additional information on restricted net position.

Net position - net investment in capital assets decreased in the current year by \$2.1 million or 4.9% compared to the prior year as a result of depreciation which increased by \$11.9 million or 39.0% in the prior year compared to 2011 due to refurbishing the Lottery headquarters building. Refer to Note 4 to the financial statements for additional information on capital assets.

Net position - unrestricted changed in fiscal years 2013, 2012, and 2011 as a result of rental income from tenants located at the Lottery headquarters building and the Lottery's administrative allowance from table games exceeding the actual operating expenses.

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

	2013	2012	2011
Current liabilities	\$ 299,026	\$ 273,677	\$ 327,055
Net position - restricted by enabling legislation	1,640	1,690	2,039
Net position - net investment in capital assets	40,220	42,285	30,421
Net position - unrestricted	13,006	8,000	6,612
Total net position	54,866	51,975	39,072
Total liabilities and net position	\$ 353,892	\$ 325,652	\$ 366,127

Management's Discussion and Analysis
(Continued)

-Unaudited-

Revenues, Expenses and Changes in Fund Net Position

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 Position
(in \$000's)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
On-line games	\$ 86,986	\$ 83,613	\$ 77,870
Instant games	108,635	117,676	115,697
Racetrack video lottery	655,676	764,898	726,952
Limited video lottery	399,224	406,108	397,544
Table games	70,259	78,121	68,154
Historic resort	<u>7,597</u>	<u>7,114</u>	<u>6,232</u>
	1,328,377	1,457,530	1,392,449
Less commissions:			
On-line games	6,095	5,844	5,457
Instant games	7,604	8,239	8,098
Racetrack video lottery	370,828	424,049	404,945
Limited video lottery	195,620	198,993	194,797
Table games	30,675	33,571	29,288
Historic resort	<u>3,705</u>	<u>3,671</u>	<u>3,126</u>
	614,527	674,367	645,711
Less on-line prize costs	44,109	42,039	40,374
Less instant ticket prize costs	72,121	78,567	80,333
Less ticket costs	1,804	2,188	2,275
Less vendor fees and costs	<u>8,325</u>	<u>8,611</u>	<u>8,372</u>
	126,359	131,405	131,354
Gross profit	587,491	651,758	615,384
Administrative expenses:			
Advertising and promotions	4,622	5,680	9,481
Wages and related benefits	11,049	12,774	11,978
Telecommunications	983	761	648
Contractual and professional	4,421	5,452	4,588
Rental	239	423	649
Depreciation and amortization	2,095	1,164	1,501
Other administrative expenses	<u>1,454</u>	<u>1,936</u>	<u>1,346</u>
	24,863	28,190	30,191
Other operating income	<u>11,860</u>	<u>73,351</u>	<u>11,805</u>
Operating income	574,488	696,919	596,998
Nonoperating income (expense):			
Investment income	253	181	297
Distributions to municipalities and counties	(7,825)	(7,960)	(7,792)
Distributions for capital reinvestment	(18,821)	(22,900)	(21,558)
Distributions to the State of West Virginia	<u>(545,204)</u>	<u>(662,982)</u>	<u>(565,256)</u>
	(571,597)	(693,661)	(594,309)
Income before capital contribution	2,891	3,258	2,689

Management's Discussion and Analysis
(Continued)

-Unaudited-

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

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital contribution from the State of WV	-	9,645	-
Net income	2,891	12,903	2,689
Net position, beginning of year	<u>51,975</u>	<u>39,072</u>	<u>36,383</u>
Net position, end of year	<u>\$ 54,866</u>	<u>\$ 51,975</u>	<u>\$ 39,072</u>

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 2013, 2012, and 2011. Sales and gross profits fluctuated in certain categories; however, gross profit percentages remained consistent from year to year.

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

	<u>Instant</u>			<u>On-Line*</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross sales	\$ 108,635	\$ 117,676	\$ 115,697	\$ 86,986	\$ 83,613	\$ 77,870
Less direct costs:						
Prizes and bonuses	72,121	78,567	80,333	44,109	42,039	40,374
Commissions	7,604	8,239	8,098	6,095	5,844	5,457
Ticket printing costs	1,804	2,188	2,275	-	-	-
Vendor fees and costs	4,537	5,038	4,987	3,788	3,573	3,385
Total direct costs	<u>86,066</u>	<u>94,032</u>	<u>95,693</u>	<u>53,992</u>	<u>51,456</u>	<u>49,216</u>
Gross profit	<u>\$ 22,569</u>	<u>\$ 23,644</u>	<u>\$ 20,004</u>	<u>\$ 32,994</u>	<u>\$ 32,157</u>	<u>\$ 28,654</u>
Gross profit percentage	<u>20.8%</u>	<u>20.1%</u>	<u>17.3%</u>	<u>37.9%</u>	<u>38.5%</u>	<u>36.8%</u>

* On-line games include the results of Powerball® and Mega Millions which are significant components of the results described above.

	<u>Racetrack Video Lottery</u>			<u>Limited Video Lottery</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross sales	\$ 655,676	\$ 764,898	\$ 726,952	\$ 399,224	\$ 406,108	\$ 397,544
Less direct costs:						
Prizes and bonuses	-	-	-	-	-	-
Commissions	370,828	424,049	404,945	195,620	198,993	194,797
Ticket printing costs	-	-	-	-	-	-
Vendor fees and costs	-	-	-	-	-	-
Total direct costs	<u>370,828</u>	<u>424,049</u>	<u>404,945</u>	<u>195,620</u>	<u>198,993</u>	<u>194,797</u>
Gross profit	<u>\$ 284,848</u>	<u>\$ 340,849</u>	<u>\$ 322,007</u>	<u>\$ 203,604</u>	<u>\$ 207,115</u>	<u>\$ 202,747</u>
Gross profit percentage	<u>43.4%</u>	<u>44.6%</u>	<u>44.3%</u>	<u>51.0%</u>	<u>51.0%</u>	<u>51.0%</u>

Management's Discussion and Analysis
(Continued)

-Unaudited-

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees (Continued)

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

	Table Games			Historic Resort			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Gross sales	\$70,259	\$78,121	\$68,154	\$7,597	\$7,114	\$6,232	\$ 1,328,377	\$ 1,457,530	\$ 1,392,449
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-	116,230	120,606	120,707
Commissions	30,675	33,571	29,288	3,705	3,671	3,126	614,527	674,367	645,711
Ticket printing costs	-	-	-	-	-	-	1,804	2,188	2,275
Vendor fees and costs	-	-	-	-	-	-	8,325	8,611	8,372
Total direct costs	30,675	33,571	29,288	3,705	3,671	3,126	740,886	805,772	777,065
Gross profit	<u>\$ 39,584</u>	<u>\$ 44,550</u>	<u>\$ 38,866</u>	<u>\$ 3,892</u>	<u>\$ 3,443</u>	<u>\$ 3,106</u>	<u>\$ 587,491</u>	<u>\$ 651,758</u>	<u>\$ 615,384</u>
Gross profit percentage	<u>56.3%</u>	<u>57.0%</u>	<u>57.0%</u>	<u>51.2%</u>	<u>48.4%</u>	<u>49.8%</u>	<u>44.2%</u>	<u>44.7%</u>	<u>44.2%</u>

Instant Sales

Instant ticket sales for the current year decreased by \$9.0 million or 7.7% compared to the prior year, which increased \$2.0 million or 1.7% from 2011. Forty-six new games were introduced in 2013 and approximately twenty-four 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 closely to create the best variety of game presentation available at one time. There was one ten-dollar ticket introduced in 2013. Four five-dollar games were introduced in 2013.

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 2013, 2012, and 2011. 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 \$2 Multi-State (MUSL) Lottery game designed to grow large jackpot amounts, with occasional jackpots in excess of \$400 million. Sales for the current year increased \$10.0 million or 25.9% compared to the prior year, which increased \$3.0 million or 8.5% from 2011. 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 on-line games (which includes Powerball®) and by statute were paid 7% of such sales.

Management's Discussion and Analysis (Continued)

-Unaudited-

Mega Millions® Sales

Mega Millions sales offers jackpots starting at \$12 million and other prizes ranging from \$2 to \$250,000. Sales for the current year decreased \$5.5 million or 37.1% compared to the prior year, which increased \$3.8 million or 35.1% from 2011.

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 for the current year decreased \$1.2 million or 3.8% compared to the prior year, which decreased \$1.1 million or 3.5% from 2011.

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

Racetrack Video Lottery

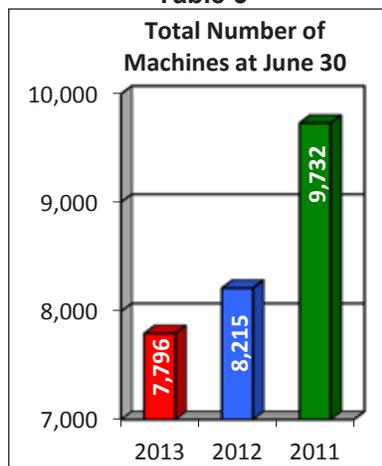
Racetrack video lottery revenues are reported as total wagers net of prizes and credits. Revenues for the current year decreased \$109.2 million or 14.3% compared to the prior year, which increased \$37.9 million or 5.2% from 2011.

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. Commissions in the current year decreased \$53.2 million or 12.6% compared to the prior year due to competition from neighboring states which increased \$19.1 million or 4.7% compared to 2011 due to mild weather conditions and an improved economy.

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 2013, increased competition from gaming operations in neighboring states has led the racetracks to re-evaluate their gaming environments which have resulted in changes to the gaming floors. The changes in active machines are presented in Table 5 below which illustrates the last three fiscal years.

Table 5



Management's Discussion and Analysis (Continued)

-Unaudited-

Limited Video Lottery

Sales for the current year decreased \$6.9 million or 1.7% compared to the prior year, which increased \$8.6 million or 2.2% from 2011. Commissions are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales. For the current year, commissions decreased \$3.4 million or 1.7% compared to the prior year increase of \$4.2 million or 2.2% from 2011.

Table 6 illustrates the number of machines which decreased by 66 machines for the current year compared to the prior year decrease of 45 machines from 2011.

Table 6

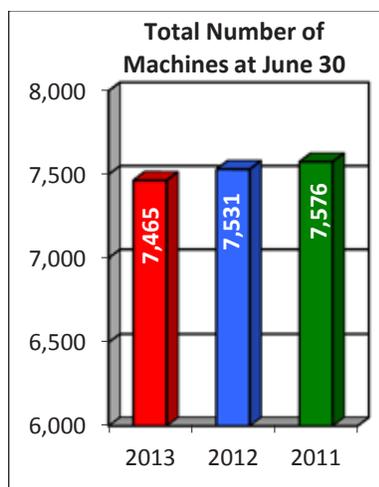


Table Games

Revenues from table games are calculated at a 35% privilege tax of adjusted gross receipts. Revenues for the current year decreased \$7.9 million or 10.1% compared to the prior year, which increased \$10.0 million or 14.6% from 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 for the current year decreased \$2.9 million or 8.6% compared to the prior year, which increased \$4.3 million or 14.6% from 2011.

Historic Resort

Video Lottery revenues from Historic Resort 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 of video lottery and table games at the Historic Resort for the current year increased \$483 thousand or 6.8% compared to the prior year, which increased \$882 thousand or 14.2% from 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 for the current year increased \$34 thousand or 0.9% compared to the prior year, which increased \$545 thousand or 17.4% from 2011.

Management's Discussion and Analysis (Continued)

-Unaudited-

Other Operating Income

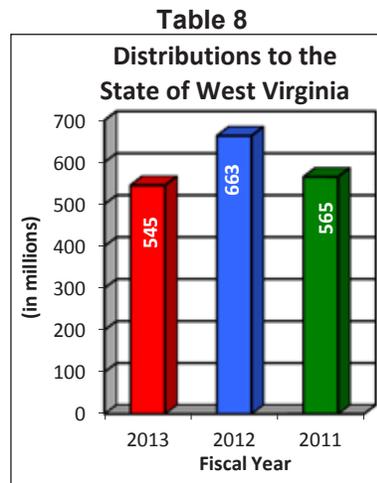
Refer to Table 3. Changes in other operating income are primarily related to fees collected for the permitting and licensure of manufacturers, operators, retailers and service technicians. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers.

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 for the current fiscal year decreased by \$117.8 million compared to the prior year, which increased by \$97.7 million from 2011.



Net Income

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 Statements of Revenues, Expenses, and Changes in Fund Net Position.

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
 STATEMENTS OF NET POSITION
 (In Thousands)

June 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 273,418	\$ 241,538
Accounts receivable	35,999	36,671
Inventory	492	510
Other assets	<u>2,123</u>	<u>2,275</u>
Total current assets	<u>312,032</u>	<u>280,994</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,640	2,373
Capital assets	46,846	46,816
Less accumulated depreciation and amortization	<u>(6,626)</u>	<u>(4,531)</u>
Total noncurrent assets	<u>40,220</u>	<u>42,285</u>
	<u>41,860</u>	<u>44,658</u>
Total assets	<u>\$ 353,892</u>	<u>\$ 325,652</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 239,035	\$ 216,819
Estimated prize claims	14,144	13,372
Accounts payable	1,828	3,238
Other accrued liabilities	<u>44,019</u>	<u>40,248</u>
Total current liabilities	<u>\$ 299,026</u>	<u>\$ 273,677</u>
 <u>NET POSITION</u>		
Net position:		
Restricted by enabling legislation	\$ 1,640	\$ 1,690
Net investment in capital assets	40,220	42,285
Unrestricted	<u>13,006</u>	<u>8,000</u>
Total net position	<u>\$ 54,866</u>	<u>\$ 51,975</u>

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

WEST VIRGINIA LOTTERY

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

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Lottery revenues:		
On-line games	\$ 86,986	\$ 83,613
Instant games	108,635	117,676
Racetrack video lottery	655,676	764,898
Limited video lottery	399,224	406,108
Table games	70,259	78,121
Historic resort	7,597	7,114
	<u>1,328,377</u>	<u>1,457,530</u>
Less commissions:		
On-line games	6,095	5,844
Instant games	7,604	8,239
Racetrack video lottery	370,828	424,049
Limited video lottery	195,620	198,993
Table games	30,675	33,571
Historic resort	3,705	3,671
	<u>614,527</u>	<u>674,367</u>
Less on-line prize costs	44,109	42,039
Less instant prize costs	72,121	78,567
Less ticket costs	1,804	2,188
Less vendor fees and costs	8,325	8,611
	<u>126,359</u>	<u>131,405</u>
Gross profit	<u>587,491</u>	<u>651,758</u>
Administrative expenses:		
Advertising and promotions	4,622	5,680
Wages and related benefits	11,049	12,774
Telecommunications	983	761
Contractual and professional	4,421	5,452
Rental	239	423
Depreciation and amortization	2,095	1,164
Other administrative expenses	1,454	1,936
	<u>24,863</u>	<u>28,190</u>
Other operating income	11,860	73,351
Operating income	<u>574,488</u>	<u>696,919</u>
Nonoperating income (expense):		
Investment income	253	181
Distributions to municipalities and counties	(7,825)	(7,960)
Distributions for capital reinvestment	(18,821)	(22,900)
Distributions to the State of West Virginia	(545,204)	(662,982)
	<u>(571,597)</u>	<u>(693,661)</u>
Income before capital contribution	<u>2,891</u>	<u>3,258</u>
Capital contribution from the State of WV	-	9,645
Net income	<u>2,891</u>	<u>12,903</u>
Net position, beginning of year	<u>51,975</u>	<u>39,072</u>
Net position, end of year	<u>\$ 54,866</u>	<u>\$ 51,975</u>

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS
(In Thousands)

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,340,909	\$ 1,465,130
Cash payments for:		
Personnel costs	(10,960)	(11,402)
Suppliers	(12,852)	(16,229)
Other operating costs	<u>(738,824)</u>	<u>(809,710)</u>
Cash provided by operating activities	<u>578,273</u>	<u>627,789</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(522,988)	(647,508)
Distributions to municipalities and counties	(7,855)	(7,927)
Distributions to racetracks from racetrack capital reinvestment fund	<u>(16,506)</u>	<u>(18,888)</u>
Cash used in noncapital financing activities	<u>(547,349)</u>	<u>(674,323)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	<u>(30)</u>	<u>(13,028)</u>
Cash flows from investing activities:		
Investment earnings	<u>253</u>	<u>181</u>
Increase (decrease) in cash and cash equivalents	31,147	(59,381)
Cash and cash equivalents (including restricted cash and cash equivalents), beginning of year	<u>243,911</u>	<u>303,292</u>
Cash and cash equivalents (including restricted cash and cash equivalents), end of year	<u>\$ 275,058</u>	<u>\$ 243,911</u>

(Continued)

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS

(In Thousands)

(Continued)

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 574,488	\$ 696,919
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	2,095	1,164
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	672	(6,888)
Inventory	18	(13)
Other assets	152	(141)
Increase (decrease) in:		
Estimated prize claims	772	1,361
Accounts payable	(1,410)	(1,202)
Deferred permit fees	-	(58,863)
Other accrued liabilities	<u>1,486</u>	<u>(4,548)</u>
Cash provided by operating activities	<u>\$ 578,273</u>	<u>\$ 627,789</u>
Schedule of non-cash investing and financing activities:		
Capital contributions from the State of West Virginia	<u>\$ -</u>	<u>\$ 9,645</u>

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 coins, tokens, 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 coins, tokens, 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:

Building	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 \$542,505 and \$546,984, and paid \$554,166 and \$503,306, respectively, for the years ending June 30, 2013 and 2012. The Lottery has accrued \$555,325, \$566,986, and \$523,308 of earned but unused annual leave time at June 30, 2013, 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.

Net Position

Net position is presented as either unrestricted, restricted by enabling legislation for capital project, or as net investment 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 position is available, restricted resources are applied first.

Operating Revenues and Expenses

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising and Promotions

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

3 - CASH AND CASH EQUIVALENTS

At June 30, 2013 and 2012, the carrying amounts of deposits with financial institutions were \$1,411 thousand and \$477 thousand, respectively, with bank balances of \$2,282 and \$524 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, 2013 and 2012, 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):

	2013	2012
Deposits with financial institutions	\$ 1,411	\$ 477
Cash on hand at the Treasurer's Office	53,718	42,350
Investments with BTI reported as cash equivalents	219,929	201,084
	\$ 275,058	\$ 243,911

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

The Lottery's cash balances are invested by the BTI in the BTI's West Virginia Money Market Pool. Investment income is pro-rated to the Lottery at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Such funds are available to the Lottery with overnight notice.

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

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

Security Type	Credit Rating		Carrying Value	Percent of Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 243,538	9.76%
	P-1	A-1	726,857	29.12
Corporate bonds and notes	Aa3	AA-	10,000	0.40
U.S. agency bonds	Aaa	AA+	66,603	2.67
U.S. Treasury notes*	Aaa	AA+	279,755	11.21
U.S. Treasury bills *	P-1	A-1+	34,993	1.40
Negotiable certificates of deposit	Aa1	AA-	10,000	0.40
	Aa2	A+	9,000	0.36
	Aa3	AA-	15,000	0.60
	P-1	A-1+	50,000	2.00
	P-1	A-1	160,000	6.41
	P-2	A-1	15,000	0.60
U.S. agency discount notes	P-1	A-1+	445,784	17.86
Money market funds	Aaa	AAAm	200,012	8.02
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AA+	188,826	7.57
U.S. agency notes	Aaa	AA+	<u>40,500</u>	<u>1.62</u>
			<u>\$ 2,495,868</u>	<u>100.00%</u>

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

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The weighted average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides the weighted average maturities for the various asset types in the West Virginia Money Market Pool.

Security Type	Carrying Value (In Thousands)	Weighted Average Maturity In Days
Repurchase agreements	\$ 229,326	3
US Treasury notes	279,755	132
US Treasury bills	34,993	77
Commercial paper	970,395	43
Certificates of deposit	259,000	66
U.S. Agency discount notes	445,784	47

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND CASH EQUIVALENTS (Continued)

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>Weighted Average Maturity In Days</u>
Corporate bonds and notes	10,000	60
U.S. agency bonds and notes	66,603	139
Money market funds	<u>200,012</u>	1
Total assets	<u>\$ 2,495,868</u>	

The weighted average maturity of the investments of the West Virginia Money Market Pool as of June 30, 2013, is 52 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, 2013, 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, 2013, 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, 2011	Additions	Deletions	Historical cost at June 30, 2012	Additions	Deletions	Historical cost at June 30, 2013
Capital assets, not depreciated							
Construction in progress	\$ 8,444	\$ 10,075	\$ (18,000)	\$ 519	\$ 30	\$ -	\$ 549
Land	1,434	-	-	1,434	-	-	1,434
Capital assets, being depreciated							
Building	20,174	17,910	-	38,084	-	-	38,084
Improvements	1,170	-	(910)	260	-	-	260
Equipment	<u>7,743</u>	<u>3,067</u>	<u>(4,291)</u>	<u>6,519</u>	<u>-</u>	<u>-</u>	<u>6,519</u>
	<u>\$ 38,965</u>	<u>\$ 31,052</u>	<u>\$ (23,201)</u>	<u>\$ 46,816</u>	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 46,846</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,
	2011	Additions	Deletions	2012	Additions	Deletions	2013
Building	\$ -	\$ 237	\$ -	\$ 237	\$ 952	\$ -	\$ 1,189
Improvements	1,142	3	(885)	260	-	-	260
Equipment	<u>7,402</u>	<u>827</u>	<u>(4,195)</u>	<u>4,034</u>	<u>1,143</u>	<u>-</u>	<u>5,177</u>
	<u>\$ 8,544</u>	<u>\$ 1,067</u>	<u>\$ (5,080)</u>	<u>\$ 4,531</u>	<u>\$ 2,095</u>	<u>\$ -</u>	<u>\$ 6,626</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 \$48,688,807 and \$38,686,528 for the years ended June 30, 2013 and 2012, respectively, and related prize costs were \$24,344,477 and \$19,344,184, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$5,063,704 and \$4,736,542 for the years ended June 30, 2013 and 2012, respectively, and related prize costs were \$2,531,917 and \$2,368,526, respectively.

Revenues derived from the Lottery's participation in the MEGA MILLIONS® game were \$9,274,409 and \$14,746,963 for the years ended June 30, 2013 and 2012, respectively, and related prize costs were \$4,760,567 and \$7,594,900, 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 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 (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	<u>POWERBALL®</u>	<u>HOT LOTTO™</u>	<u>MEGA MILLIONS®</u>
Required Contribution (% of sales)	2%	3%	1%
Reserve Fund Cap	\$125,000	\$9,000	45,000

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

	2013		2012	
	Total		Total	
	<u>Prize Reserve</u>	<u>Lottery Share</u>	<u>Prize Reserve</u>	<u>Lottery Share</u>
POWERBALL ®	\$ 113,874	\$ 1,997	\$ 126,481	\$ 2,386
HOT LOTTO ™	7,921	533	7,383	486
MEGA MILLIONS ®	27,968	469	18,828	331
	\$ 149,763	\$ 2,999	\$ 152,692	\$ 3,203

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 the expenses are credited to an unreserved fund. The Lottery records this interest when earned. This fund had a balance of \$16,342,326 and \$17,414,201 at June 30, 2013 and 2012, of which the Lottery's share was \$1,674,811 and \$1,537,522, 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."

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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - RACETRACK VIDEO LOTTERY (Continued)

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% for years ended June 30, 2013 and June 30, 2012 respectively.

A summary of racetrack video lottery revenues for the years ended June 30, 2013 and 2012, follows (in thousands):

	<u>2013</u>	<u>2012</u>
Total credits (bets) played	\$ 7,293,271	\$ 8,434,745
Credits (prizes) won	(6,546,860)	(7,575,505)
Promotional credits played	(90,346)	(93,869)
MWAP Contributions	<u>(389)</u>	<u>(473)</u>
Gross terminal income	655,676	764,898
Administrative costs	<u>(17,475)</u>	<u>(17,524)</u>
Net terminal income	638,201	747,374
Commissions	<u>(370,828)</u>	<u>(424,049)</u>
Racetrack video lottery revenues available for distribution	<u>\$ 267,373</u>	<u>\$ 323,325</u>

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

	<u>2013</u>	<u>2012</u>
State Lottery Fund	\$ 127,728	\$ 130,125
State Excess Lottery Revenue Fund	95,727	141,408
Capital Reinvestment Fund	8,555	12,623
Tourism Promotion Fund	8,375	9,683
Development Office Promotion Fund	2,284	2,641
Research Challenge Fund	3,045	3,521
Capitol Renovation and Improvement Fund	4,187	4,842
Parking Garage Fund	881	940

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - RACETRACK VIDEO LOTTERY (Continued)

	2013	2012
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	4,091	5,042
Workers Compensation Debt Reduction Fund	11,000	11,000
Total nonoperating distributions	\$ 267,373	\$ 323,325

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, 2013 and 2012, 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, 2013 and 2012 follows (in thousands):

	2013	2012
Total credits played	\$ 4,728,660	\$ 4,781,734
Credits (prizes) won	(4,329,436)	(4,375,626)
Gross terminal income	399,224	406,108
Administrative costs	(7,984)	(8,122)
Gross profit	391,240	397,986
Commissions	(195,620)	(198,993)
Distributions to municipalities and counties	(7,825)	(7,960)
Limited video lottery revenues available for distribution	\$ 187,795	\$ 191,033

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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 a percentage of the adjusted gross receipts for administrative expenses. This percentage was 3% for the year ended June 30, 2013 and 4% for the year ended June 30, 2012. From the administrative allowance, 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.

The transfer to the state debt reduction fund is included in Note 10. The table games adjusted gross receipts for the year ended June 30, 2013 and 2012 was \$200,738,953 and \$223,203,230, respectively. A summary of table games revenues for the years ended June 30, 2013 and 2012 follows (in thousands):

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - TABLE GAMES (Continued)

	<u>2013</u>	<u>2012</u>
Table games privilege tax	\$ 70,259	\$ 78,121
Interest on table games fund	6	5
Administrative costs	<u>(6,022)</u>	<u>(8,928)</u>
Total available for distribution	64,243	69,198
<u>Less distributions:</u>		
Racetrack purse funds	5,018	5,580
Thoroughbred & greyhound development funds	4,015	4,464
Racing commission pension plan	1,767	1,875
Municipalities/counties	<u>19,875</u>	<u>21,652</u>
Total distributions	30,675	33,571
Table games distribution to the state debt reduction fund	<u>\$ 33,568</u>	<u>\$ 35,627</u>

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, 2013 and 2012 follows (in thousands):

	<u>2013</u>	<u>2012</u>
Total credits played	\$ 63,594	\$ 68,993
Credits (prizes) won	(58,154)	(63,583)
Promotional credits played	(693)	(458)
MWAP contribution	<u>(9)</u>	<u>(1)</u>
Gross terminal income	4,738	4,951
Capital reinvestment	(223)	(233)
Modernization	(43)	(45)
Administrative costs	(256)	(267)
Hotel commissions	<u>(2,004)</u>	<u>(2,094)</u>
Net terminal income	<u>\$ 2,212</u>	<u>\$ 2,312</u>
Historic Resort Hotel Fund	\$ 1,407	\$ 1,470
Human Resource Benefit Fund	<u>805</u>	<u>842</u>
Total	<u>\$ 2,212</u>	<u>\$ 2,312</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - HISTORIC RESORT HOTEL (Continued)

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, 2013 and 2012 were \$8,168,463 and \$6,182,748, respectively.

The following table shows the privilege tax and the accrued distributions (in thousands) for the years ended June 30, 2013 and 2012:

	2013	2012
Table games privilege tax	\$ 2,859	\$ 2,164
Administrative costs	(368)	(278)
Total available for distribution	\$ 2,491	\$ 1,886
Historic Resort Hotel Fund	2,083	1,577
Human Resource Benefit Fund	408	309
Total distributions	\$ 2,491	\$ 1,886

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, 2013 and 2012:

- 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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - HISTORIC RESORT HOTEL (Continued)

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands) for the years ended June 30, 2013 and 2012:

	2013	2012
Historic Resort Hotel video lottery	\$ 1,407	\$ 1,470
Historic Resort table games	2,083	1,577
Historic Resort Hotel Fund net income	\$ 3,490	\$ 3,047
Municipalities/ Counties	\$ 488	\$ 427
State General Revenue Fund	2,234	1,950
State Debt Reduction Fund	663	579
State Tourism Promotion Fund	105	91
Total distributions	\$ 3,490	\$ 3,047

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, 2013 and 2012, the State Legislature budgeted \$145,017,313 and \$166,297,857 respectively of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000, \$1,000,000, and \$500,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently debt service payments are \$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. For the years ended June 30, 2013 and 2012, the Lottery made or accrued all budgeted distributions and accrued additional distributions from the State Lottery Fund and State Excess Lottery Revenue Fund of \$235,130,619 and \$197,864,036, respectively. The Lottery does not have a legally adopted annual budget.

Additional distributions to the State of West Virginia of \$724,201 and \$15,442,553 have been accrued from the Revenue Center Construction Fund at June 30, 2013 and 2012, respectively. These amounts reflect monies remaining in the Revenue Center Construction Fund available for appropriation at the end of each year.

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, 2013 and 2012, the Lottery accrued additional distributions relating to racetrack video lottery operations in the amounts of \$523,517 and \$437,406, respectively.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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, 2013 and 2012, the Lottery accrued additional distributions relating to table games operations in the amounts of \$2,356,869 and \$2,832,824, respectively. Note 9 describes the Historic Resort Hotel statutory distributions to be made from historic resort operations. As of June 30, 2013 and 2012, the Lottery accrued additional distributions relating to Historic Resort operations of \$299,233 and \$240,936, respectively.

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

	<u>2013</u>	<u>2012</u>
<u>Budgetary distributions:</u>		
<u>Revenue Center Construction Fund:</u>		
Division of Highways	\$ -	\$ 15,000
General Purpose Account	<u>14,736</u>	<u>-</u>
	<u>14,736</u>	<u>15,000</u>
 <u>State Lottery Fund:</u>		
Bureau of Senior Services	42,834	64,797
Department of Education	30,612	30,573
Library Commission	12,186	11,268
Higher Education - Central Office	7,889	8,208
Tourism	7,364	7,359
Natural Resources	3,398	3,388
Division of Culture & History	5,903	5,873
Department of Education & Arts	1,840	1,839
Economic Development Authority	10,000	9,995
School Building Authority	17,997	18,000
Community and Technical College	4,995	4,997
Total State Lottery Fund	<u>145,018</u>	<u>166,297</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	46,000
Higher Education Improvement Fund	15,000	15,000
State Park Improvement Fund	5,000	5,000
School Building Authority	18,993	19,000
Economic Development Fund	18,989	18,989
Refundable Credit - General Revenue Fund	10,000	10,000
Department of Education	-	47,139
Racing Commission	2,000	2,000
WV Department of Health and Human Resources	24,504	-
WV Development Office	400	1,000
Excess Lottery Surplus (General Fund)	27,600	62,900
Excess Lottery Surplus (Teachers Retirement Savings Realized)	<u>28,061</u>	<u>34,216</u>
Total State Excess Lottery Revenue Fund	<u>290,547</u>	<u>355,244</u>
Total Required Statutory and Budgetary Distributions	<u>450,301</u>	<u>536,541</u>
 Veterans Instant Ticket Fund	<u>422</u>	<u>566</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	<u>2013</u>	<u>2012</u>
<u>Other racetrack video lottery distributions:</u>		
Tourism Promotion Fund	8,345	9,800
Development Office Promotion Fund	2,276	2,673
Research Challenge Fund	3,035	3,563
Capitol Renovation and Improvement Fund	4,173	4,900
Parking Garage Funds	879	945
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	4,069	5,127
Workers Compensation Debt Reduction Fund	11,000	11,000
	<u>35,277</u>	<u>39,508</u>
 <u>Table games distributions:</u>		
State Debt Reduction Fund	<u>34,044</u>	<u>35,650</u>
 <u>Historic resort hotel distributions:</u>		
State General Revenue Fund	2,191	1,839
State Debt Reduction Fund	650	546
Tourism Promotion Fund	103	86
Total	<u>2,944</u>	<u>2,471</u>
 Total required statutory and budgeted distributions to the State of West Virginia		
	522,988	614,736
Distributed July 2011	<u>-</u>	<u>32,772</u>
Total nonoperating distributions to the State of West Virginia (cash basis)	522,988	647,508
 Accrued nonoperating distributions, beginning of year		
	(216,819)	(210,990)
 Accrued nonoperating distributions, end of year		
	239,035	216,819
Capital contribution from State of West Virginia	<u>-</u>	<u>9,645</u>
Total nonoperating distributions to the State of West Virginia	<u>\$ 545,204</u>	<u>\$ 662,982</u>

11 - RESTRICTED NET POSITION

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 for each year thereafter through June 30, 2012. These assets were set aside in the revenue center construction fund for the design and construction of a building in the West Virginia Capitol Complex to be used by the Lottery and certain other State of West Virginia governmental entities. In the year ended June 30, 2010, the Legislature approved the purchase of and improvements to an existing building not located in the West Virginia Capitol Complex.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - RESTRICTED NET POSITION (Continued)

The Lottery then entered into a construction commitment for the renovation of its new 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 was reflected as a capital contribution on the Statements of Revenues, Expenses, and Changes in Fund Net Position.

Restricted net position activity is as follows for the years ending June 30, 2013 and 2012 (in thousands):

	2013	2012
Beginning restricted net position	\$ 1,690	\$ 2,039
Legislative appropriation	-	9,645
Acquisition of assets in accordance with enabling legislation	(50)	(9,994)
Ending restricted net position	\$ 1,640	\$ 1,690

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%, 14.5%, and 12.5% of covered employees' salaries to the PERS for the years ended June 30, 2013, 2012, and 2011, respectively. 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 2013, 2012, and 2011, were as follows (in thousands):

	2013	2012	2011
Lottery contributions	\$ 1,146	\$ 1,225	\$ 1,017
Employee contributions	341	357	339
Total contributions	\$ 1,487	\$ 1,582	\$ 1,356

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$257 and \$961 per employee per month for the years ending June 30, 2013 and 2012, respectively. The Lottery's ARC was \$445,479, \$1,643,408, and \$1,560,274 and the Lottery has paid premiums of \$332,615, \$317,694, and \$294,952, which represent 74.7%, 19.3%, and 18.9% of the ARC, respectively, for the years ending June 30, 2013, 2012, and 2011. As of June 30, 2013, 2012, and 2011, the Lottery has recorded a liability of \$4,188,445, \$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 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

WEST VIRGINIA LOTTERY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

14 - RISK MANAGEMENT (Continued)

Public Employees' Insurance Agency (PEIA) (Continued)

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, 2013, 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 cancelable operating leases, various office spaces for field operations. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the fiscal years ended June 30, 2013 and 2012 approximated \$238,674 and \$422,571, 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, 2013 and 2012 were \$1,377,991 and \$984,034, 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
2014	\$ 932
2015	232
Total	1,155

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

16 - COMMITMENTS

The Lottery Commission has designated unexpended administrative funds from various fiscal years for the acquisition of capital assets. As of June 30, 2013 and 2012, \$2,003,028 and \$3,193,044, respectively, are included in unrestricted net position for this purpose.

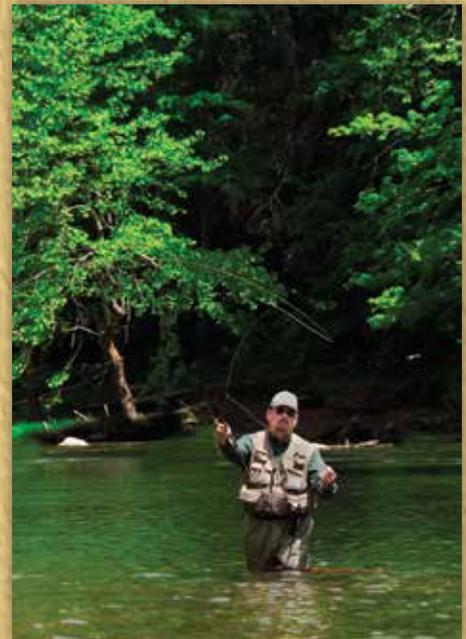
17 - NEW ACCOUNTING PRONOUNCEMENTS

Management has adopted Governmental Accounting Standards Board (GASB) Statement No. 63 *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all elements presented on the statements of net position. GASB 63 also amends net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Management has also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The Lottery does not report any deferred outflows of resources or deferred inflows of resources and no balances or activity have been reclassified as a result of this change in accounting standard.

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 this statement will have on its financial statements.

TOURISM





West Virginia's growing tourism industry has benefited from more than \$805.7 million in Lottery proceeds since 1986. Lottery dollars are used in a matching grants program established with the West Virginia Division of Tourism, and directed to areas including the West Virginia State Park Improvement Fund and the Division of Natural Resources.

In FY 2013, a total of \$45.9 million in Lottery proceeds were used for the promotion of Tourism across the State.



STATISTICAL SECTION

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

Financial Trends/Revenue Capacity

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

Demographic and Economic Information

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

Operating Information

There are many factors that impact the level of demand for Lottery products. For our on-line games, the sizes of the publicized jackpots drive the sales level. As an example, a Powerball® jackpot of \$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

	2004	2005	2006	2007
Instant	\$109,843,864	\$111,863,092	\$119,123,846	\$106,493,081
Powerball®	63,373,462	49,214,536	65,530,836	51,729,318
Hot Lotto Sizzler®	2,579,140	3,342,726	3,324,293	4,726,225
Daily 3	9,386,172	9,293,550	9,394,009	9,265,281
Daily 4	4,540,767	4,421,188	4,523,509	4,660,620
Cash 25	6,190,917	6,112,910	5,936,395	6,006,570
Travel Keno	10,953,721	9,966,638	10,249,487	9,769,174
Mega Millions®				
Total On-line	\$97,024,179	\$82,351,548	\$98,958,529	\$86,157,188
Video (net of prizes)				
Racetrack	\$854,858,062	\$894,530,565	\$942,250,631	\$972,591,775
Limited	\$241,710,952	\$310,328,583	\$362,181,294	\$397,016,887
Table Games (privilege tax)	-	-	-	-
Video (net of prizes)				
Table Games (privilege tax)				
Total Historic Resort	-	-	-	-
Total Sales	\$1,303,437,057	\$1,399,073,788	\$1,522,514,300	\$1,562,258,931
License Fees	13,610,521	15,789,742	10,445,040	9,864,349
Miscellaneous	503,013	578,477	748,276	532,596
Other Operating Income	\$14,113,534	\$16,368,219	\$11,193,316	\$10,396,945
Nonoperating Income	\$474,138	\$1,923,223	\$5,152,532	\$7,556,505
Total Revenues	\$1,318,024,729	\$1,417,365,230	\$1,538,860,148	\$1,580,212,381

Expenses, Distributions and Net Income Last Ten Fiscal Years

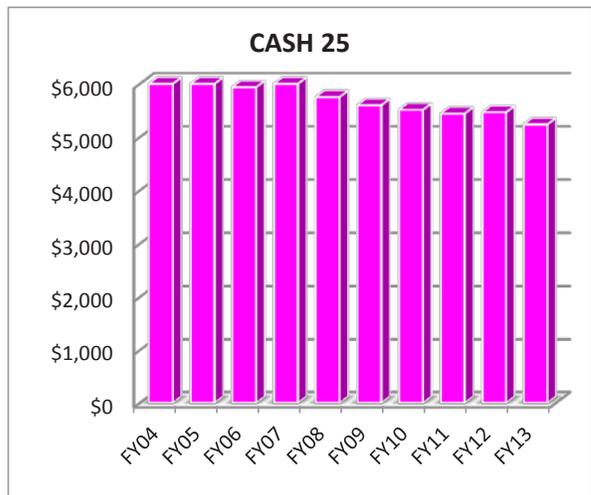
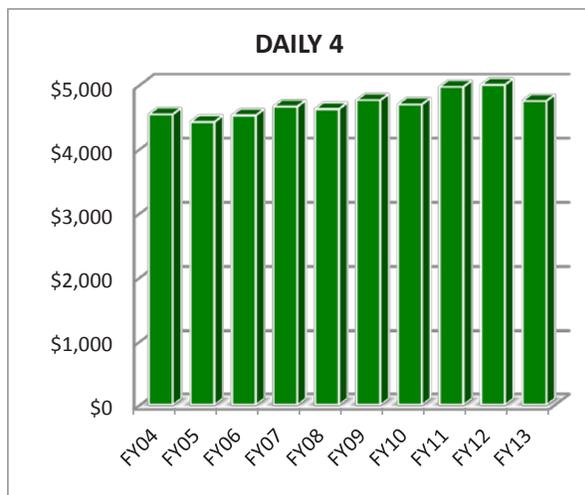
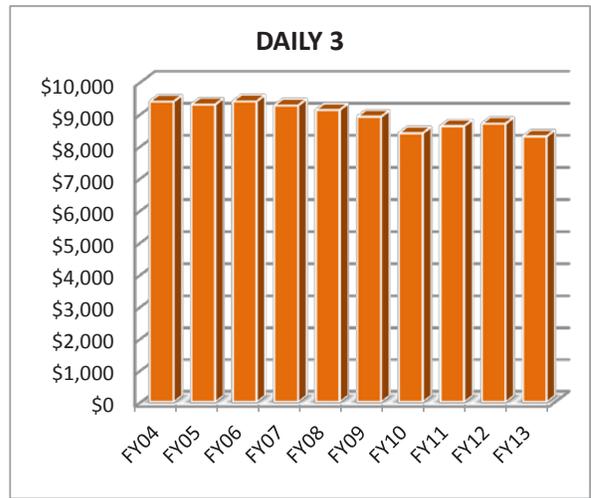
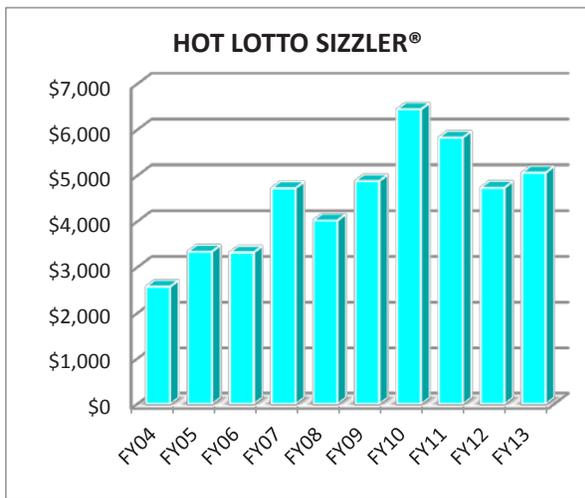
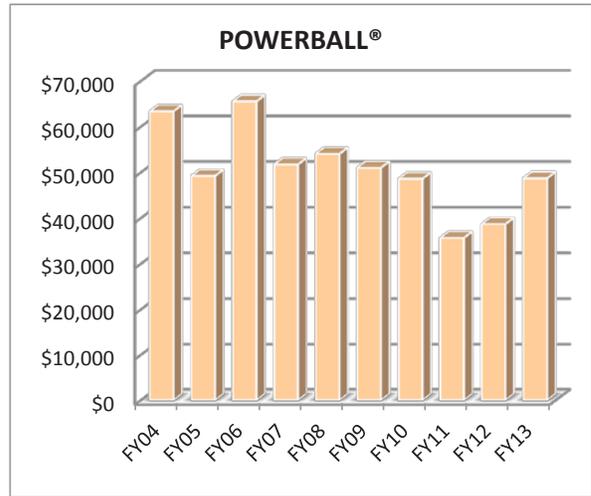
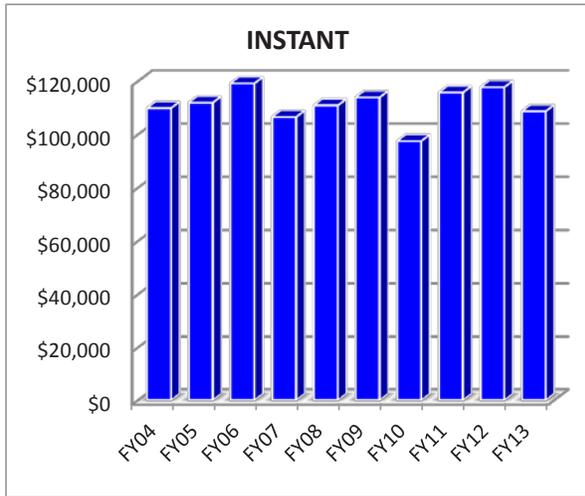
	2004	2005	2006	2007
Prizes (traditional)	\$123,263,630	\$117,125,999	\$131,903,210	\$115,792,130
Commissions				
Instant	7,689,770	7,831,524	8,338,753	7,454,496
On-line	6,772,587	5,767,083	6,936,315	6,019,193
Racetrack	477,797,417	496,649,792	508,326,365	522,744,477
Limited	137,388,489	173,115,051	195,112,272	206,127,102
Table Games	-	-	-	-
Historic Resort	-	-	-	-
Total Commissions	\$629,648,263	\$683,363,450	\$718,713,705	\$742,345,268
Administration (includes ticket costs)	\$31,980,883	\$29,622,628	\$31,329,670	\$30,905,929
Total Operating Expenses	\$784,892,776	\$830,112,077	\$881,946,585	\$889,043,327
Nonoperating Distributions				
Municipalities and Counties	4,776,034	6,083,020	7,098,999	7,781,531
Capital Reinvestment Fund	16,250,347	17,849,943	19,774,016	20,997,371
State of West Virginia	512,105,572	563,320,190	610,040,548	639,150,849
Total Distributions	\$533,131,953	\$587,253,153	\$636,913,563	\$667,929,751
Net Income	\$0	\$0	\$20,000,000	\$23,239,303

2008	2009	2010	2011	2012	2013
\$110,862,020	\$113,853,880	\$97,482,584	\$115,697,423	\$117,676,396	\$108,634,752
54,052,429	51,016,100	48,593,678	35,669,004	38,686,528	48,688,807
4,021,347	4,881,127	6,447,315	5,831,270	4,736,542	5,063,704
9,124,536	8,916,094	8,401,794	8,621,978	8,698,349	8,301,649
4,622,396	4,760,533	4,694,743	4,967,805	5,028,983	4,748,002
5,752,037	5,596,814	5,512,376	5,440,930	5,465,460	5,237,499
9,603,308	9,070,501	7,412,987	6,423,516	6,249,636	5,671,808
		2,678,674	10,915,389	14,746,963	9,274,409
\$87,176,053	\$84,241,169	\$83,741,567	\$77,869,892	\$83,612,461	\$86,985,878
\$897,952,931	\$848,232,669	\$746,208,159	\$726,952,241	\$764,898,326	\$655,676,762
\$411,587,201	\$412,488,946	\$397,287,133	\$397,544,342	\$406,108,085	\$399,223,893
\$15,877,334	\$34,219,101	\$31,725,645	\$68,153,589	\$78,121,131	\$70,258,634
		1,132,902	4,092,891	4,950,083	4,737,669
		516,466	2,138,796	2,163,962	2,858,962
-	-	\$1,649,368	\$6,231,687	\$7,114,045	\$7,596,631
\$1,523,455,539	\$1,493,035,765	\$1,358,094,456	\$1,392,449,174	\$1,457,530,444	\$1,328,376,550
11,225,977	10,573,157	10,317,529	10,157,522	71,847,082	9,871,021
710,975	827,731	741,824	1,648,012	1,504,260	1,989,230
\$11,936,952	\$11,400,888	\$11,059,353	\$11,805,534	\$73,351,342	\$11,860,251
\$10,031,139	\$2,719,936	\$390,334	\$297,669	\$9,826,225	\$252,688
\$1,545,423,630	\$1,507,156,589	\$1,369,544,143	\$1,404,552,377	\$1,540,708,011	\$1,340,489,489

2008	2009	2010	2011	2012	2013
\$121,169,284	\$119,449,497	\$107,983,663	\$120,706,835	\$120,605,843	\$116,230,326
7,762,564	7,969,759	6,823,692	8,098,815	8,238,580	7,604,433
6,113,745	5,900,642	5,849,450	5,456,854	5,844,402	6,094,540
487,276,099	463,649,031	414,987,691	404,944,515	424,048,550	370,827,992
205,636,799	202,119,568	194,670,681	194,796,720	198,992,951	195,619,694
6,249,023	13,458,369	12,473,391	29,288,210	33,570,927	30,674,243
-	-	846,922	3,126,210	3,671,152	3,706,532
\$713,038,230	\$693,097,369	\$635,651,827	\$645,711,324	\$674,366,562	\$614,527,434
\$33,478,401	\$35,215,252	\$36,493,179	\$40,838,831	\$38,989,047	\$34,991,775
\$867,685,915	\$847,762,118	\$780,128,669	\$807,256,990	\$833,961,452	\$765,749,535
8,067,110	8,084,783	7,786,828	7,791,869	7,959,718	7,824,788
17,987,933	15,983,212	11,968,468	21,558,438	22,900,376	18,820,278
631,155,117	616,622,965	616,465,269	565,256,651	662,982,476	545,203,685
\$657,210,160	\$640,690,960	\$636,220,565	\$594,606,958	\$693,842,570	\$571,848,751
\$20,527,555	\$18,703,511	(\$46,805,091)	\$2,688,429	\$12,903,989	\$2,891,203

WEST VIRGINIA LOTTERY

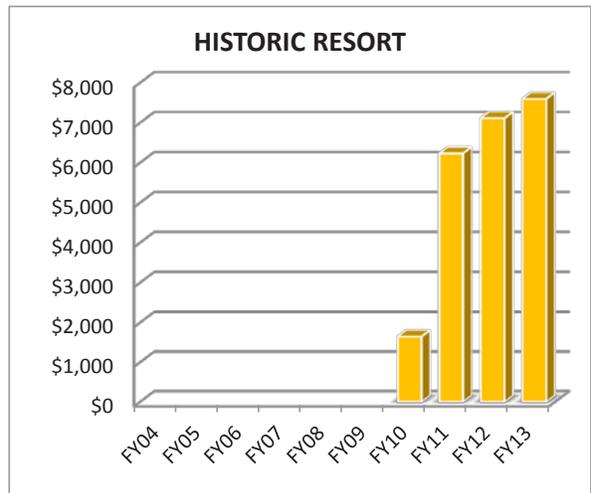
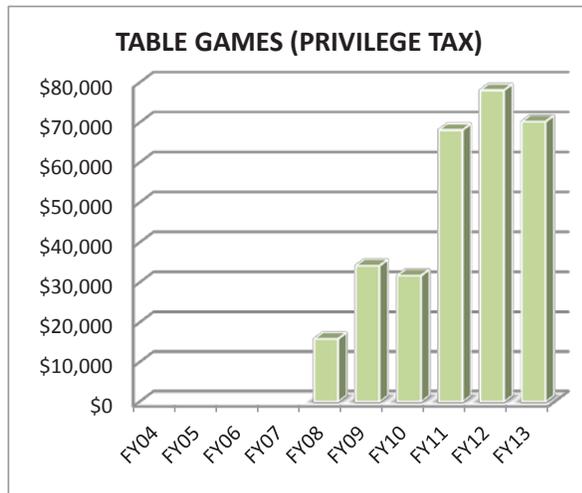
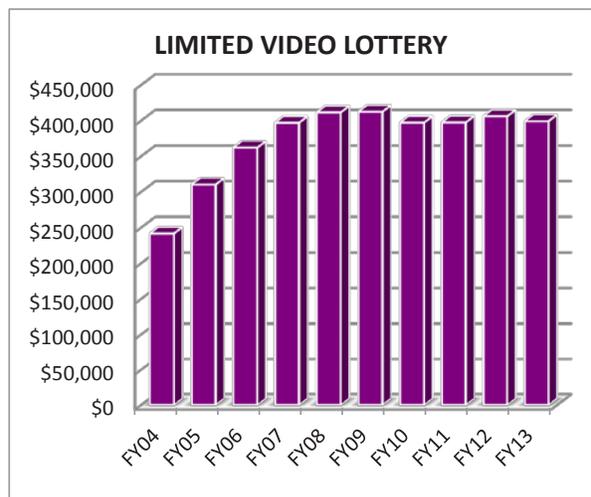
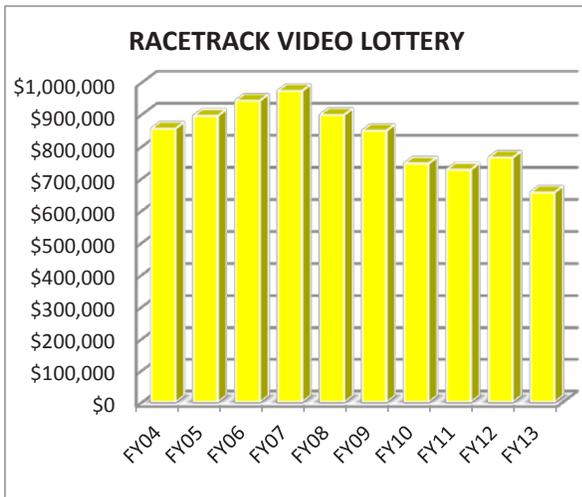
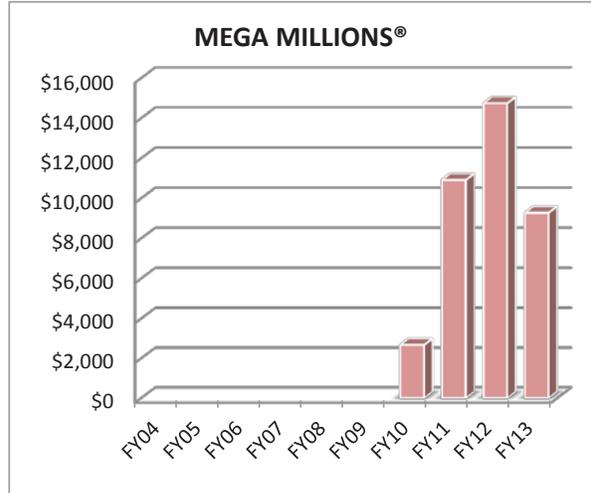
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

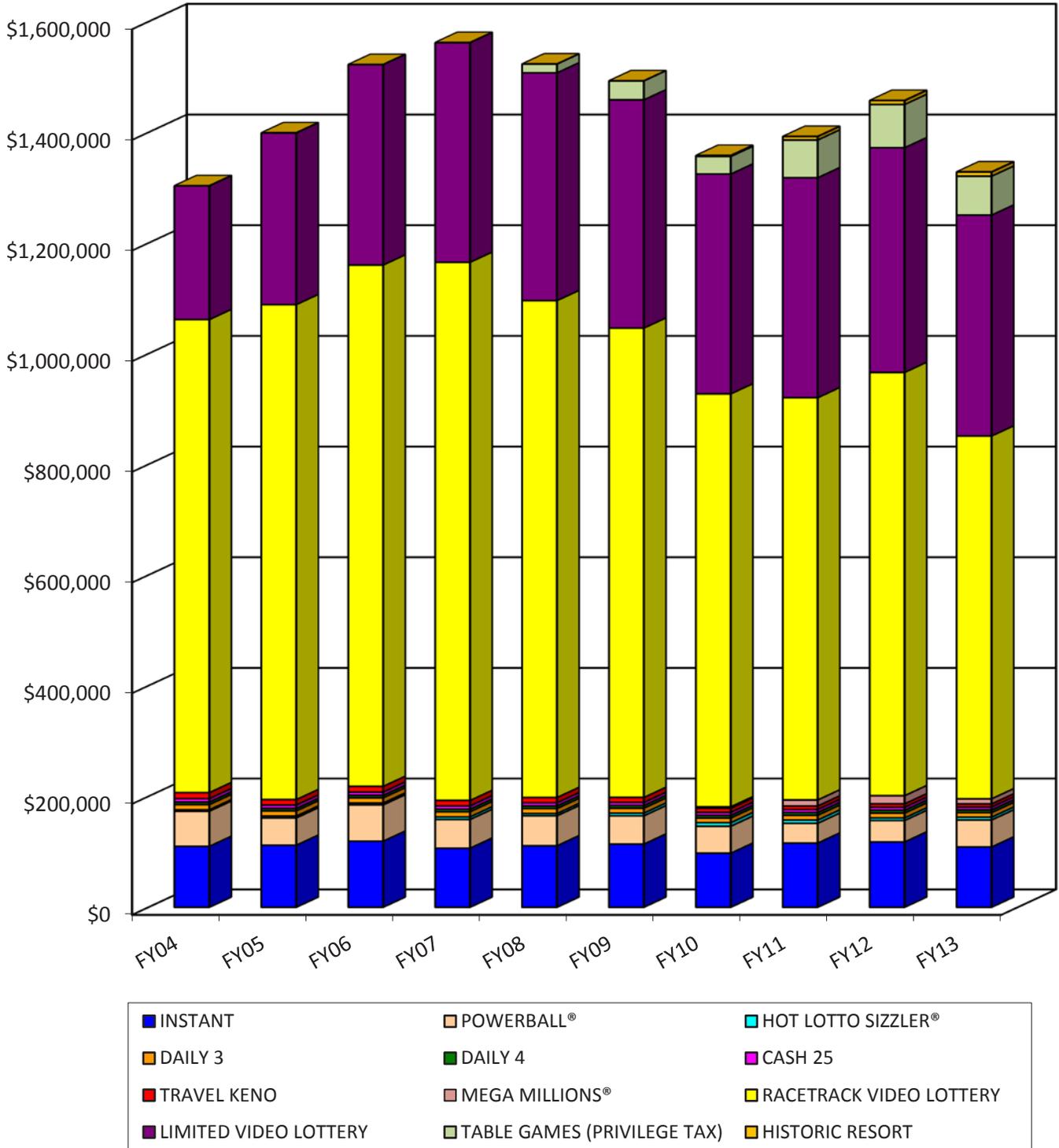
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

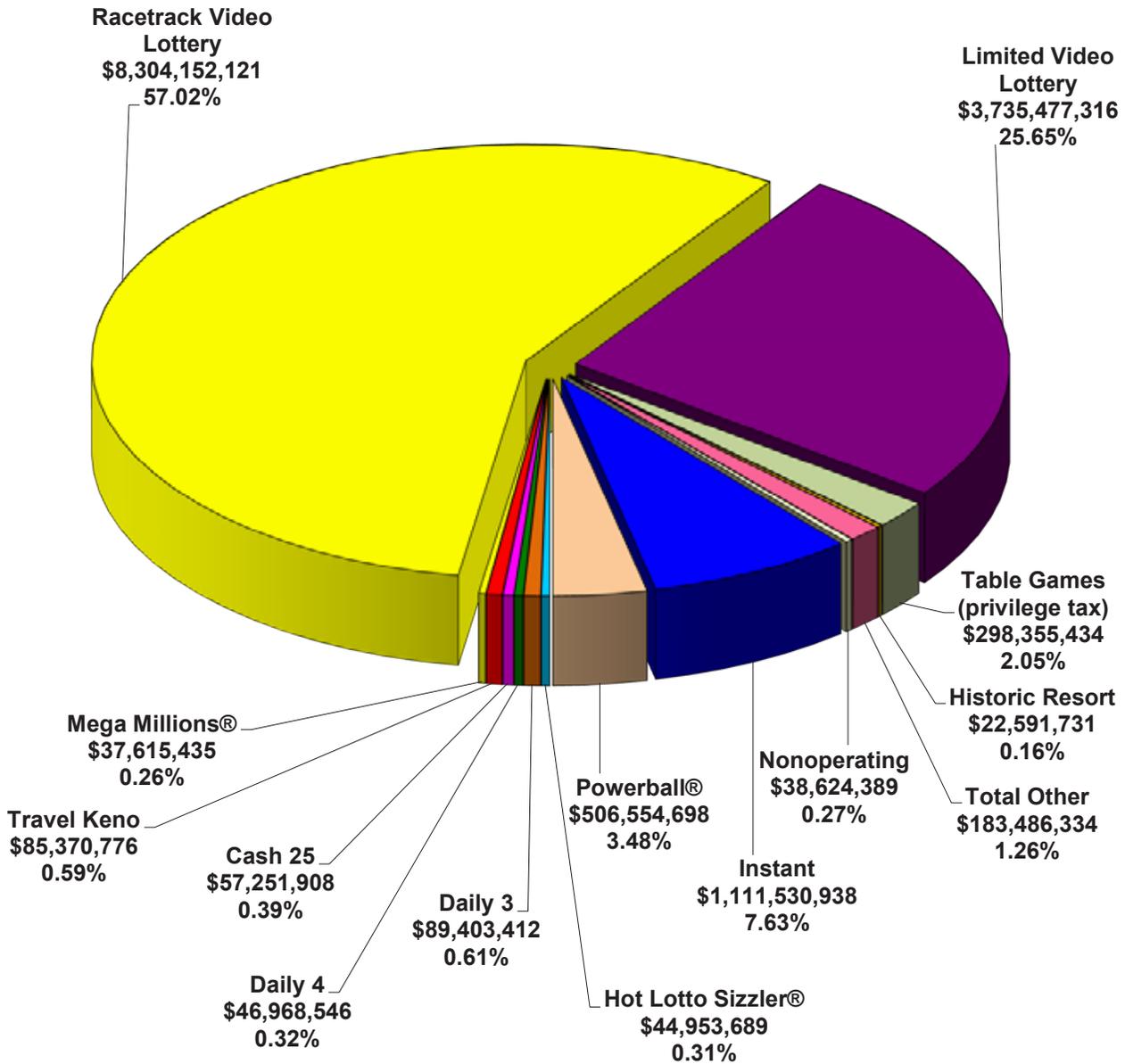
Sales By Product Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

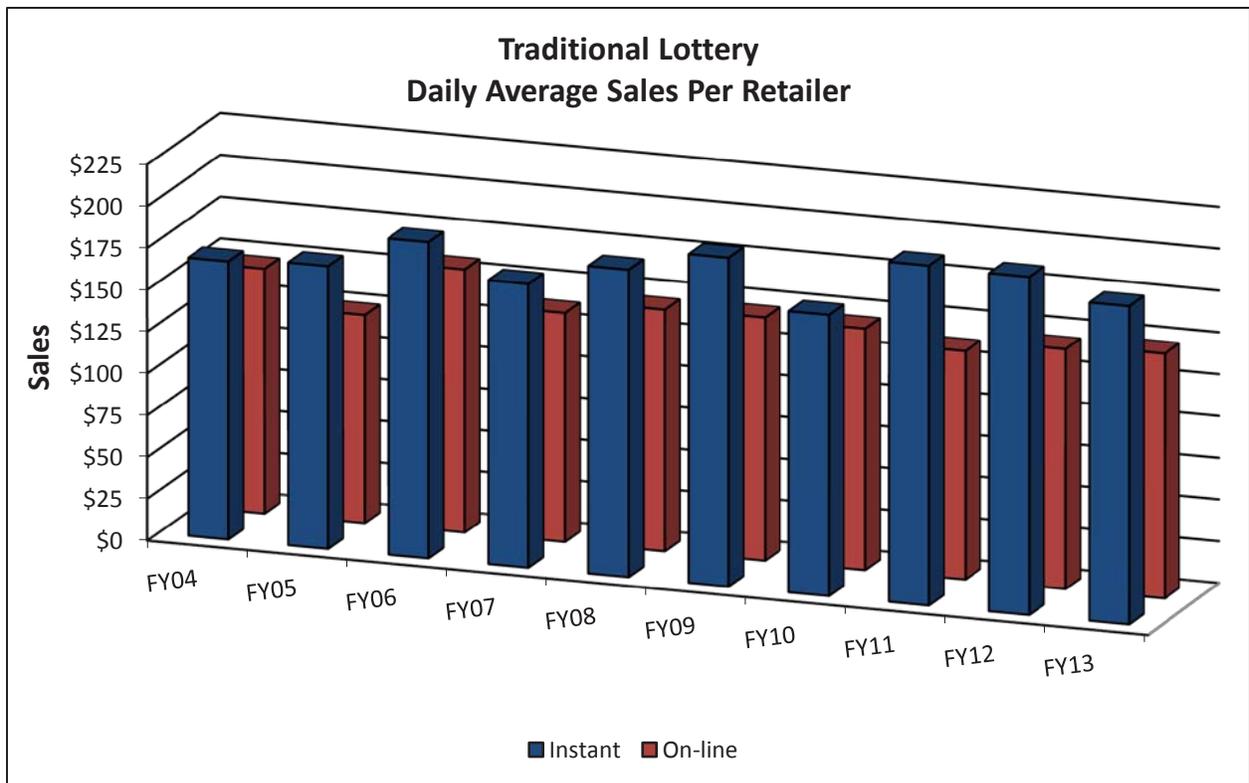
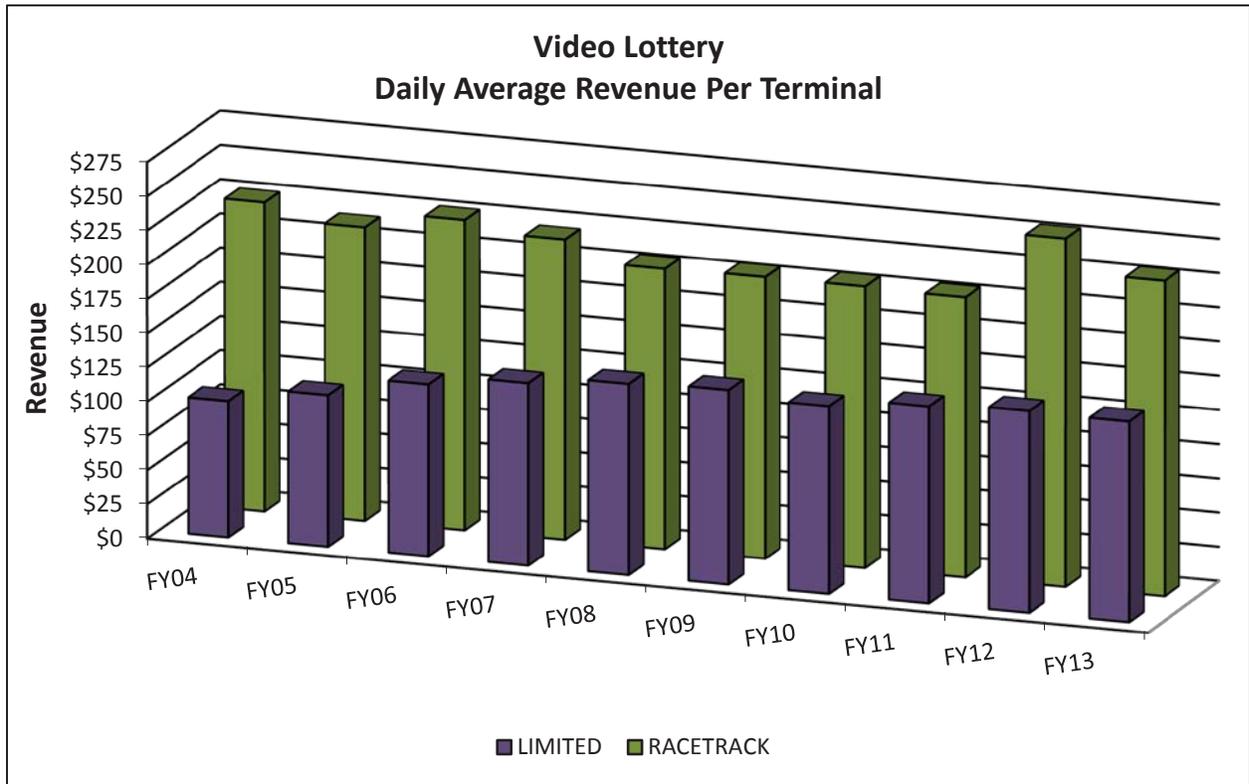
Total Revenues \$14,562,336,727
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

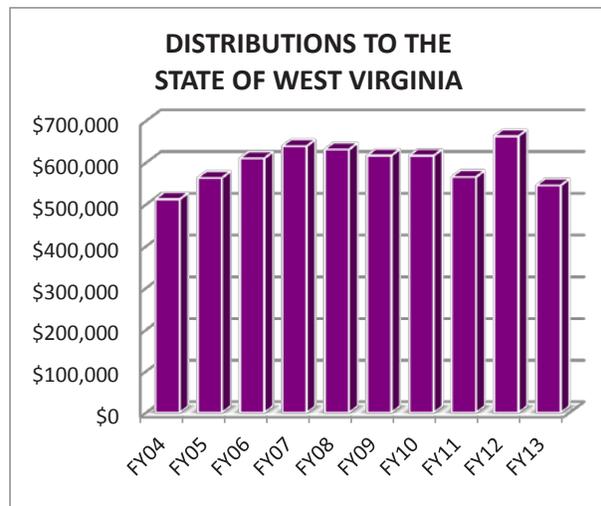
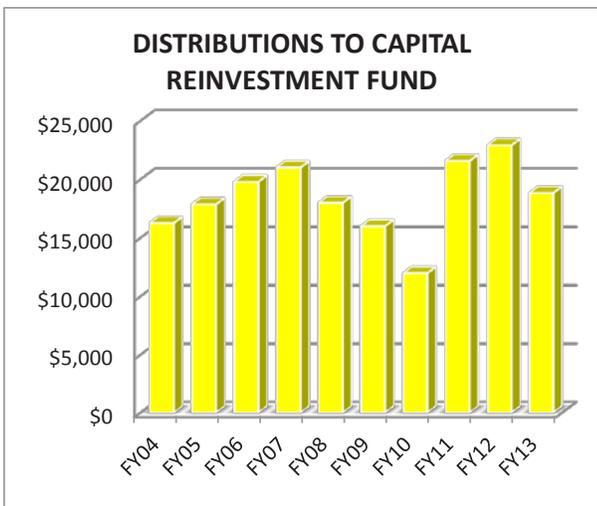
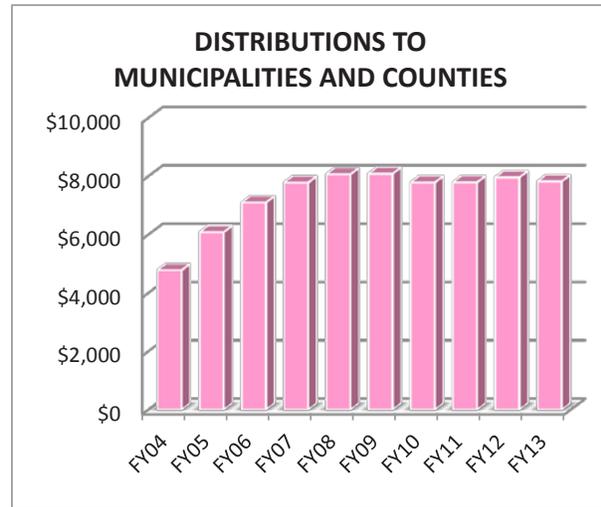
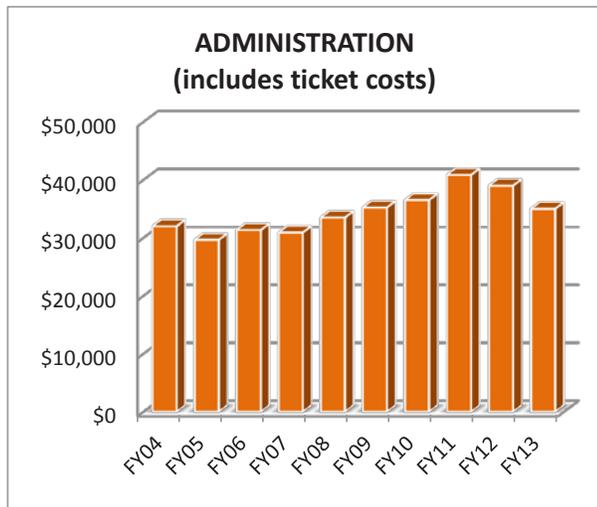
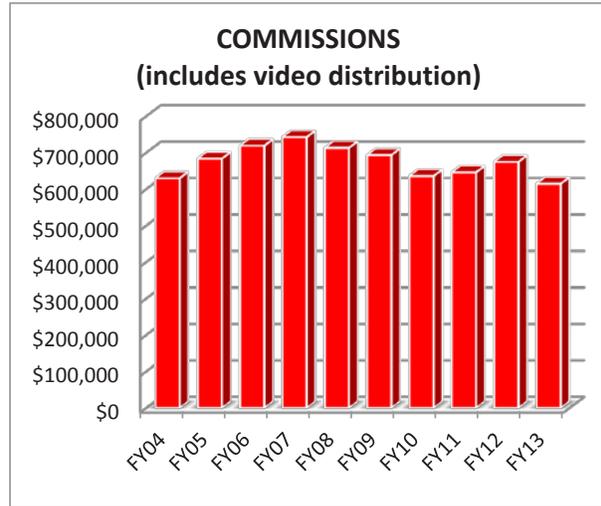
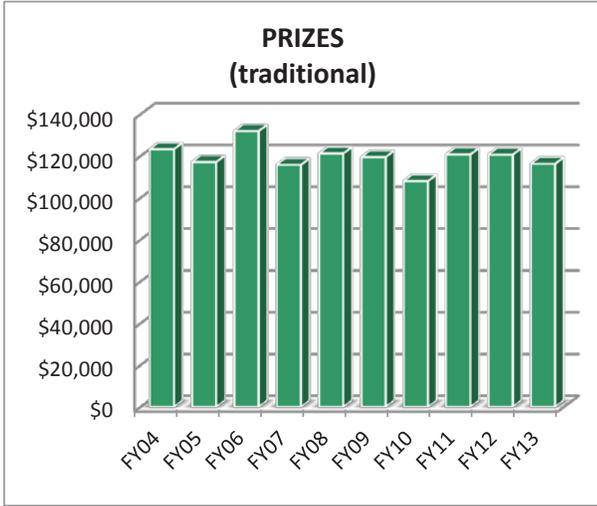
Daily Averages Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

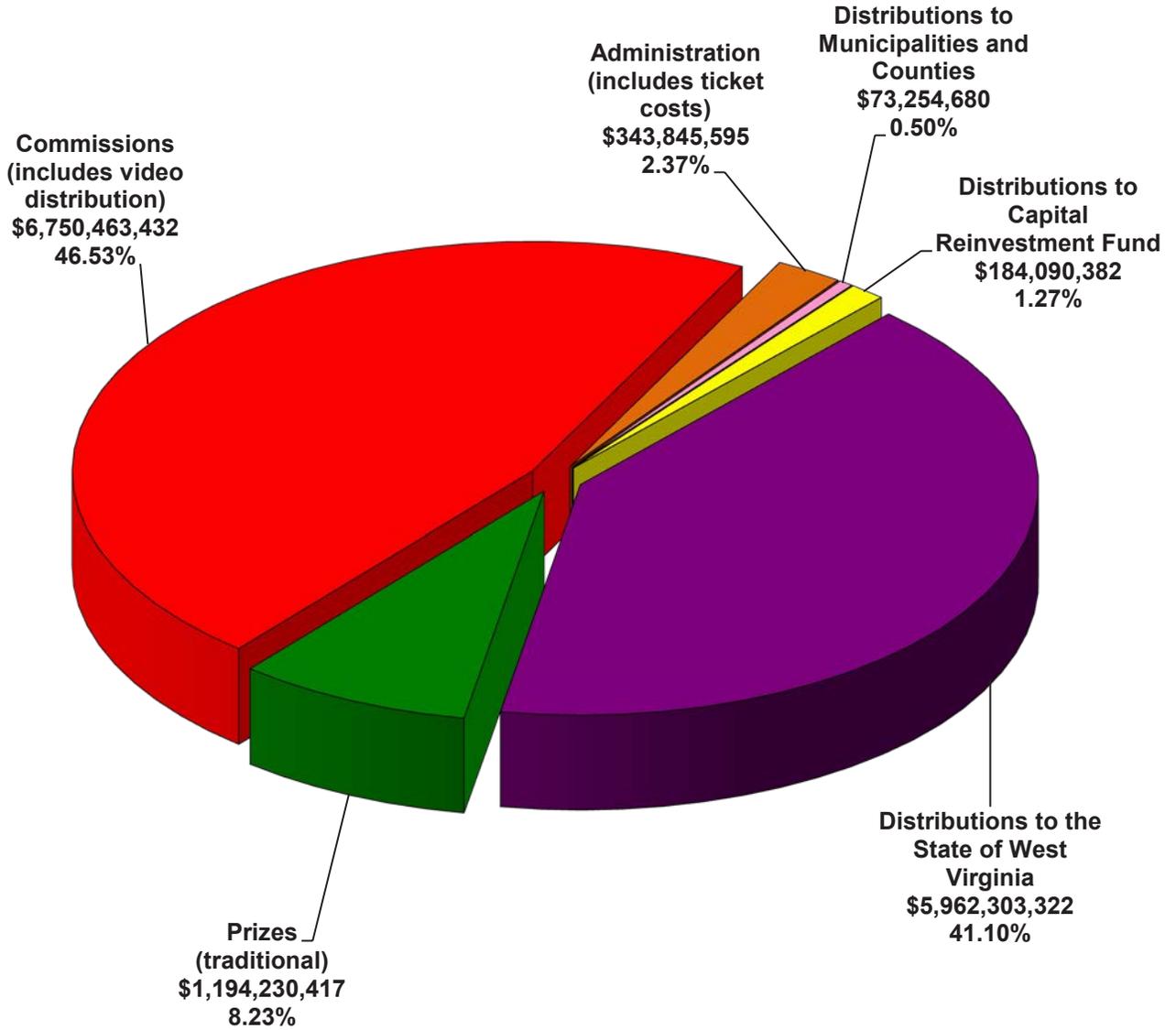
Expenses and Nonoperating Distributions Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

Total Expenses and Nonoperating Distributions \$14,508,187,828
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net Assets					
Restricted	\$ -	\$ -	\$ 20,000	\$ 30,367	\$ 58,487
Invested in capital assets	3,184	2,024	1,149	1,451	5,251
Unrestricted (deficit)	(2,934)	(1,774)	(899)	11,671	747
Total net assets	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 20,250</u>	<u>\$ 43,489</u>	<u>\$ 64,485</u>
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net Assets					
Restricted	\$ 69,871	\$ 8,355	\$ 2,039	\$ 1,690	\$ 2,039
Invested in capital assets	3,306	23,349	30,421	42,285	30,421
Unrestricted (deficit)	10,011	4,679	6,612	8,000	6,612
Total net assets	<u>\$ 83,188</u>	<u>\$ 36,383</u>	<u>\$ 39,072</u>	<u>\$ 51,975</u>	<u>\$ 39,072</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	\$97.71	2.9	\$163.13
California	\$4,371.49	\$1,320.73	37.3	\$117.20
Colorado	\$545.30	\$123.25	5.1	\$106.92
Connecticut	\$1,081.74	\$311.90	3.5	\$309.07
Delaware ^{1,3}	\$703.23	\$271.33	0.9	\$781.37
District of Columbia (9/30)	\$249.63	\$66.40	0.6	\$416.05
Florida	\$4,449.90	\$1,321.60	18.7	\$237.96
Georgia	\$3,834.68	\$901.33	9.9	\$387.34
Idaho	\$175.83	\$41.60	1.6	\$109.89
Illinois	\$2,680.14	\$758.24	12.9	\$207.76
Indiana	\$855.58	\$205.25	6.4	\$133.68
Iowa	\$310.85	\$78.73	3.0	\$103.62
Kansas	\$246.14	\$72.00	2.8	\$87.91
Kentucky	\$823.55	\$216.43	4.3	\$191.52
Louisiana	\$429.62	\$156.91	4.5	\$95.47
Maine	\$228.35	\$54.33	1.3	\$175.65
Maryland ¹	\$1,989.62	\$685.15	5.7	\$349.06
Massachusetts	\$4,729.60	\$983.79	6.6	\$716.61
Michigan (9/30)	\$2,413.46	\$779.42	9.9	\$243.78
Minnesota	\$520.03	\$123.65	5.3	\$98.12
Missouri	\$1,097.43	\$273.60	6.0	\$182.91
Montana	\$52.76	\$13.06	1.0	\$52.76
Nebraska	\$150.61	\$36.07	1.8	\$83.67
New Hampshire	\$254.66	\$66.77	1.3	\$195.89
New Jersey	\$2,759.37	\$950.08	8.7	\$317.17
New Mexico	\$133.79	\$41.33	2.0	\$66.90
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	\$1,135.53	\$300.07	4.6	\$246.85
South Dakota ²	\$603.19	\$103.70	0.8	\$753.99
Tennessee	\$1,311.20	\$323.44	6.3	\$208.13
Texas (8/31)	\$4,190.82	\$1,155.52	25.2	\$166.30
Vermont	\$100.93	\$22.33	0.6	\$168.22
Virginia	\$1,616.00	\$487.06	8.0	\$202.00
Washington	\$535.20	\$138.04	6.7	\$79.88
West Virginia ^{1,3}	\$1,457.53	\$662.98	1.8	\$809.74
Wisconsin	\$547.64	\$150.35	5.7	\$96.08
Total	\$70,604.22	\$19,644.12	293.0	\$13,912.35

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

²Includes gross VLT sales (Cash in)

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

³Includes Table Games

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2013 Excludes Video Lottery Terminal (VLT) Sales (\$ millions)

	Sales	Profit	Population	Sales/Capita
Arizona	\$692.94	\$176.52	6.7	\$103.42
Arkansas	\$439.55	\$90.26	2.9	\$151.57
California	\$4,445.87	\$1,284.37	37.3	\$119.19
Colorado	\$566.29	\$135.63	5.1	\$111.04
Connecticut	\$1,122.69	\$314.00	3.5	\$320.77
Delaware ^{1,3}	\$631.90	\$237.23	0.9	\$702.11
District of Columbia (9/30)	\$242.71	\$70.00	0.6	\$404.52
Florida	\$5,013.00	\$1,424.31	18.7	\$268.07
Georgia	\$3,912.15	\$927.48	9.9	\$395.17
Idaho	\$197.45	\$48.28	1.6	\$123.41
Illinois	\$2,832.57	\$793.52	12.9	\$219.58
Indiana	\$934.03	\$224.66	6.4	\$145.94
Iowa	\$339.25	\$84.89	3.0	\$113.08
Kansas	\$244.81	\$74.52	2.8	\$87.43
Kentucky	\$846.67	\$223.81	4.3	\$196.90
Louisiana	\$447.42	\$160.22	4.5	\$99.43
Maine	\$227.72	\$53.52	1.3	\$175.17
Maryland ^{1,3}	\$2,364.47	\$868.72	5.7	\$414.82
Massachusetts	\$4,839.27	\$955.80	6.6	\$733.22
Michigan (9/30)	\$2,476.39	\$735.62	9.9	\$250.14
Minnesota	\$560.40	\$135.24	5.3	\$105.74
Missouri	\$1,140.83	\$280.01	6.0	\$190.14
Montana	\$56.98	\$13.08	1.0	\$56.98
Nebraska	\$160.75	\$40.01	1.8	\$89.31
New Hampshire	\$279.34	\$74.34	1.3	\$214.88
New Jersey	\$2,821.40	\$965.01	8.7	\$324.30
New Mexico	\$141.76	\$43.68	2.0	\$70.88
New York (3/31) ¹	\$8,934.29	\$3,045.77	19.6	\$455.83
North Carolina	\$1,689.80	\$479.51	9.5	\$177.87
North Dakota	\$27.84	\$7.92	0.7	\$39.77
Ohio ¹	\$2,863.44	\$803.13	11.5	\$248.99
Oklahoma	\$200.21	\$70.61	3.7	\$54.11
Oregon ²	\$2,951.88	\$530.59	3.9	\$756.89
Pennsylvania	\$3,699.66	\$1,067.38	12.6	\$293.62
Rhode Island ^{2,3}	\$3,700.56	\$379.23	1.1	\$3,364.15
South Carolina	\$1,199.21	\$305.21	4.6	\$260.70
South Dakota ²	\$637.44	\$107.70	0.8	\$796.80
Tennessee	\$1,367.54	\$339.71	6.3	\$217.07
Texas (8/31)	\$4,376.29	\$1,214.10	25.2	\$173.66
Vermont	\$102.09	\$22.93	0.6	\$170.15
Virginia	\$1,689.24	\$486.53	8.0	\$211.16
Washington	\$569.59	\$139.23	6.7	\$85.01
West Virginia ^{1,3}	\$1,328.38	\$522.99	1.8	\$737.99
Wisconsin	\$566.10	\$156.30	5.7	\$99.32
Total	\$73,882.17	\$20,113.57	293.0	\$14,330.29

2013 data source: NASPL website: www.NASPL.org

²Includes gross VLT sales (Cash in)

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

³Includes Table Games

WEST VIRGINIA LOTTERY

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

			Gov't		Sales
	Sales	Prizes	Transfers	Population	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 2013 Includes Video Lottery Terminal (VLT) Sales (\$ millions)

			Gov't		Sales
	Sales	Prizes	Transfers	Population	Per Capita
Arizona	\$692.9		\$176.5	6.6	\$104.98
Arkansas	\$439.5	\$292.2	\$147.3	2.9	\$151.55
California	\$4,445.9			38.0	\$117.00
Colorado	\$566.3	\$348.2	\$135.6	5.2	\$108.90
Connecticut	\$1,122.7	\$699.1	\$312.1	3.6	\$311.86
D.C.	\$243.8			0.6	\$406.33
Delaware ^{2,3}	\$146.3	\$99.3	\$235.3	0.9	\$162.56
Florida	\$5,013.0	\$3,223.1	\$1,417.0	19.3	\$259.74
Georgia	\$3,912.2	\$2,332.5	\$927.5	9.9	\$395.17
Idaho	\$197.6	\$122.7	\$48.2	1.6	\$123.50
Illinois	\$2,841.3			12.9	\$220.26
Indiana	\$934.0			6.5	\$143.69
Iowa	\$339.3	\$198.7	\$84.9	3.1	\$109.45
Kansas	\$255.8	\$138.6	\$74.5	2.9	\$88.21
Kentucky	\$846.7	\$539.9	\$223.8	4.4	\$192.43
Louisiana	\$447.4	\$236.2	\$160.2	4.6	\$97.26
Maine	\$227.8		\$52.9	1.3	\$175.23
Maryland ^{2,3}	\$1,756.1	\$1,036.3	\$1,154.0	5.9	\$297.64
Massachusetts	\$4,807.5	\$3,500.0	\$952.0	6.6	\$728.41
Michigan ^{1,6}	\$2,471.0	\$1,467.2	\$748.5	9.9	\$249.60
Minnesota	\$560.4	\$347.1	\$135.2	5.4	\$103.78
Missouri	\$1,141.2	\$750.2	\$288.8	6.0	\$190.20
Montana	\$57.0	\$32.2	\$13.1	1.0	\$57.00
Nebraska	\$160.9	\$93.1	\$40.0	1.9	\$84.68
New Hampshire	\$278.7	\$173.4	\$74.3	1.3	\$214.38
New Jersey	\$2,821.4	\$1,665.1	\$925.0	8.9	\$317.01
New Mexico	\$141.8	\$77.1	\$43.7	2.1	\$67.52
New York ^{2,3,4}	\$7,108.9	\$4,219.0	\$3,045.8	19.6	\$362.70
North Carolina	\$1,689.8	\$970.9	\$479.5	9.8	\$172.43
North Dakota	\$27.8	\$14.2	\$13.7	0.7	\$39.71
Ohio ^{2,3}	\$2,694.9	\$1,634.3	\$803.0	11.5	\$234.34
Oklahoma	\$200.2	\$104.5	\$70.1	3.8	\$52.68
Oregon ^{2,3}	\$330.5	\$211.4	\$530.6	3.9	\$84.74
Pennsylvania	\$3,699.4	\$2,299.0	\$1,067.4	12.8	\$289.02
Rhode Island ^{2,3}	\$253.4	\$153.2	\$379.2	1.1	\$230.36
South Carolina	\$1,199.2	\$775.5	\$306.0	4.7	\$255.15
South Dakota ^{2,3}	\$57.2	\$32.2	\$104.5	0.8	\$71.50
Tennessee	\$1,360.0		\$339.7	6.5	\$209.23
Texas ^{1,5}	\$4,356.0	\$2,815.6	\$1,186.8	26.1	\$166.90
Vermont	\$102.1	\$64.6	\$22.9	0.6	\$170.17
Virginia	\$1,689.2	\$1,025.2	\$486.5	8.2	\$206.00
Washington	\$569.6	\$343.8	\$135.0	6.9	\$82.55
West Virginia ^{2,3,7}	\$195.6	\$112.3	\$1,213.1	1.9	\$102.95
Wisconsin	\$565.8			5.7	\$99.26
Total	\$62,968.1	\$32,147.9	\$18,554.2	297.9	\$8,308.05

2013 data source: La Fleur's Magazine/Vol. 21, No. 1 Sept/Oct 2013

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 \$1,328.4, including VLT sales of \$1,059.6 and Table Games sales of \$73.1

⁴Fiscal Year ends 3/31

WEST VIRGINIA LOTTERY

Number of Employees

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

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Executive	20	20	18	19	19
Finance & Administration	24	23	27	26	25
Marketing	7	7	7	8	8
Video	27	29	30	31	31
Security (traditional & video)	47	46	47	42	40
Table Games	47	51	69	69	61
Total	172	176	198	195	184

Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

State Demographic and Economic Information

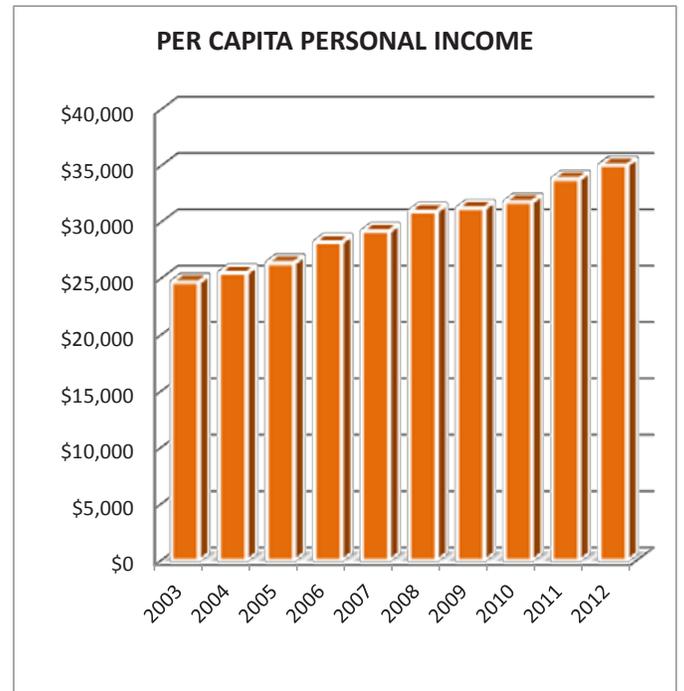
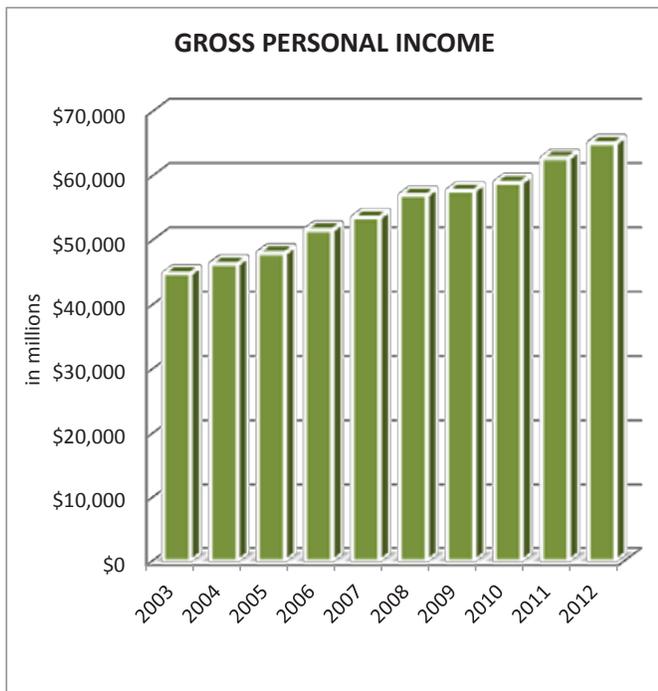
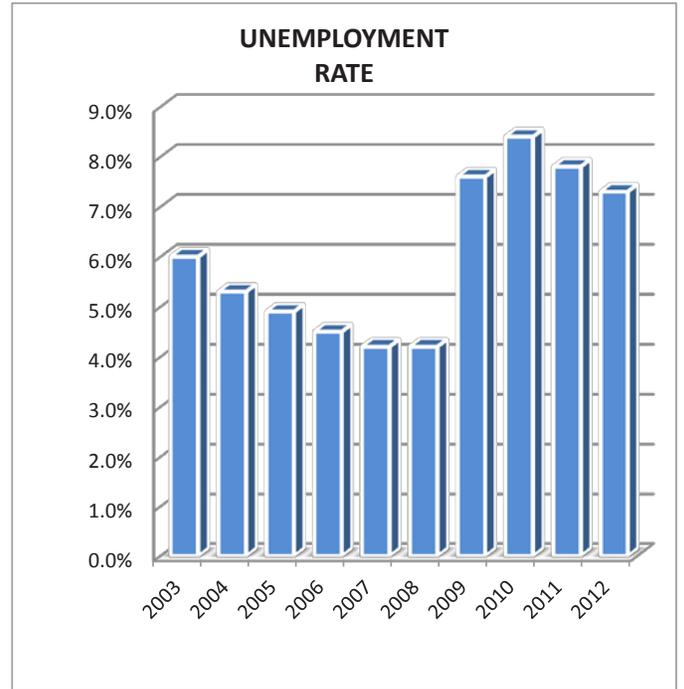
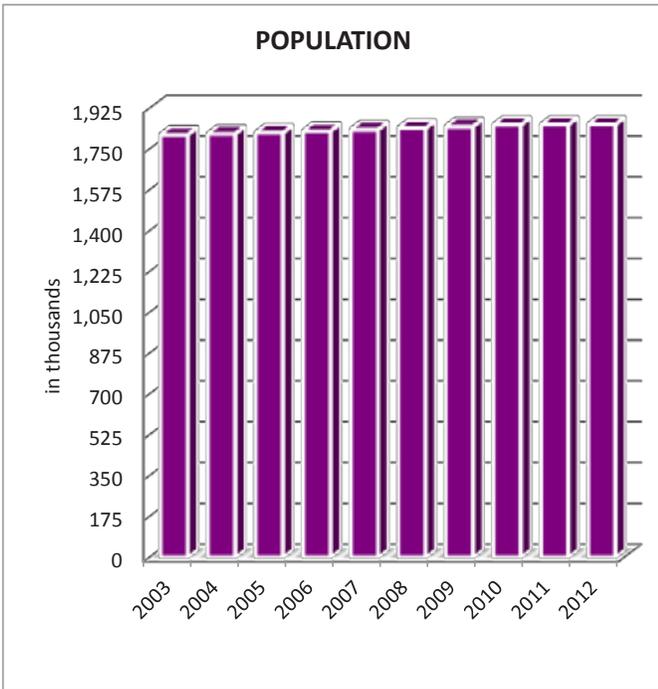
YEAR	POPULATION	PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2003	1,812,295	\$44,771	\$24,704	6.0%
2004	1,816,438	\$46,343	\$25,513	5.3%
2005	1,820,492	\$48,041	\$26,389	4.9%
2006	1,827,912	\$51,604	\$28,231	4.5%
2007	1,834,052	\$53,552	\$29,199	4.2%
2008	1,840,310	\$56,994	\$30,970	4.2%
2009	1,847,775	\$57,698	\$31,226	7.6%
2010	1,854,019	\$58,950	\$31,796	8.4%
2011	1,854,908	\$62,737	\$33,822	7.8%
2012	1,855,413	\$65,091	\$35,082	7.3%

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

Note: 2013 information is not available and therefore not presented.

WEST VIRGINIA LOTTERY

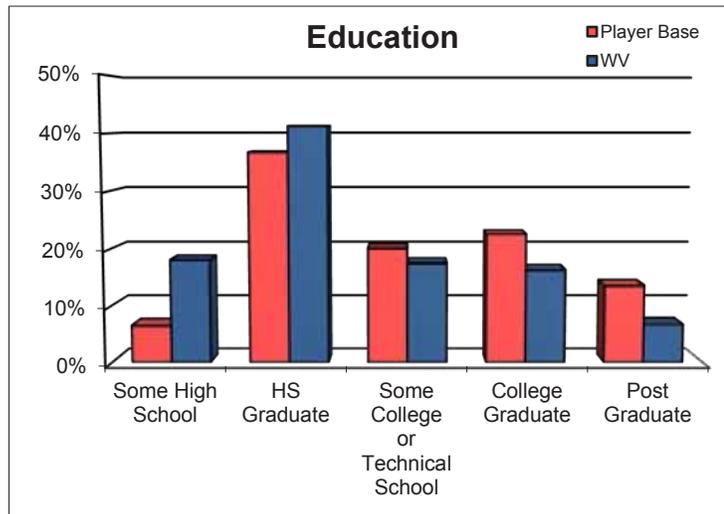
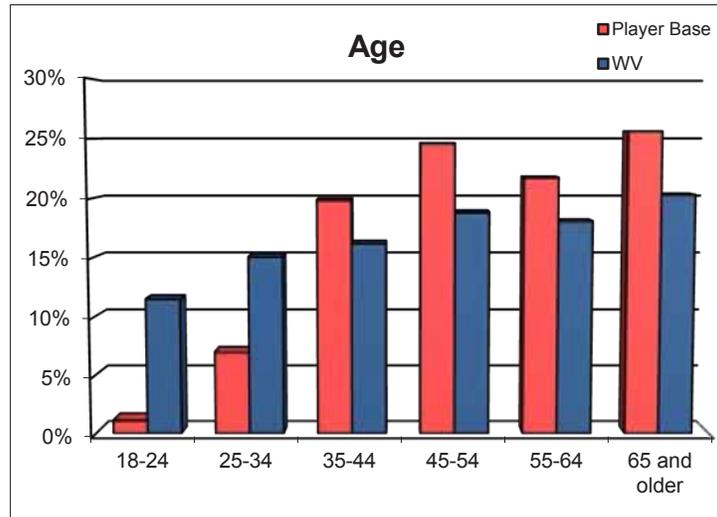
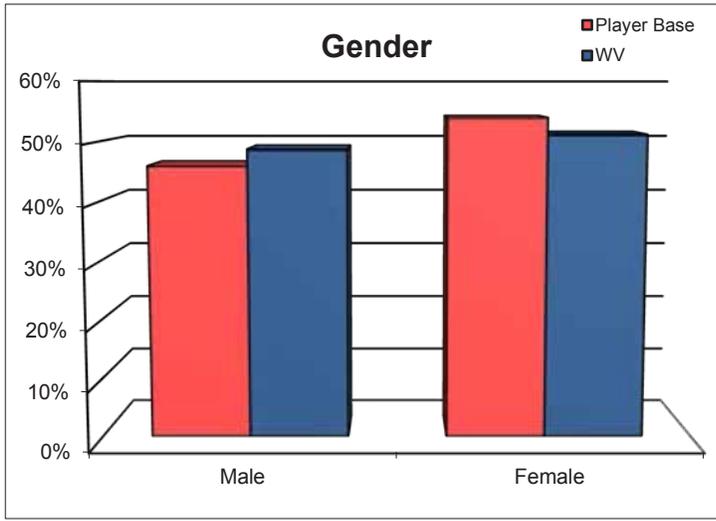
State Demographics



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

WEST VIRGINIA LOTTERY

Player and Population Demographics

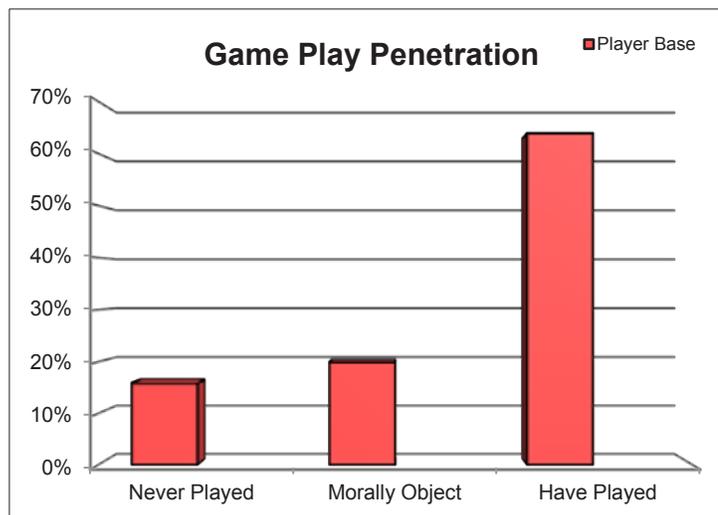
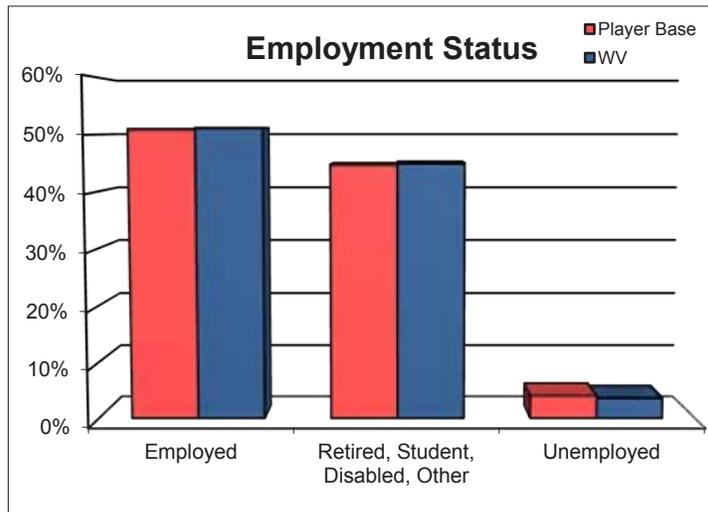
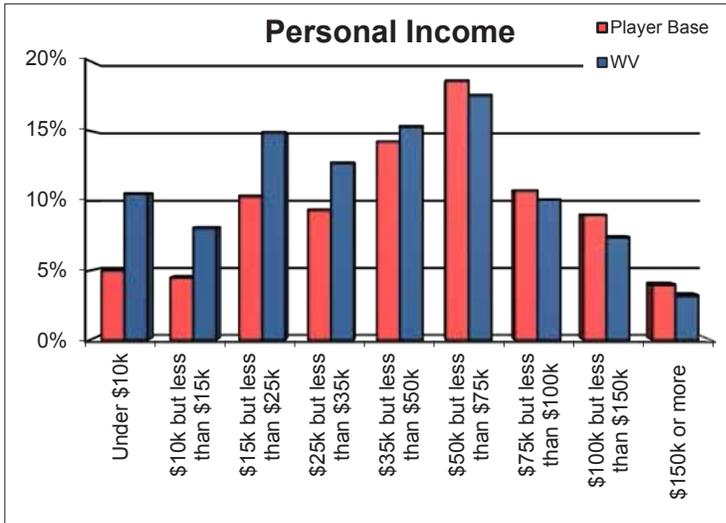


Source: West Virginia Lottery Segmentation Study, August 2011
 RL Repass & Partners, Inc.

**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**

STATE OF WEST VIRGINIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

First Quarter 2013		
Business Name	Number of Employees	Percentage of Total Employed
Local Government	76,629	11.00%
State Government	42,627	6.12%
Federal Government	23,270	3.34%
1 Wal-Mart Associates, Inc.	10,000-13,000	1.60%
2 West Virginia United Health System	7,000-9,999	1.22%
3 Charleston Area Medical Center, Inc.	5,000-6,999	0.86%
4 Kroger	3,000-4,999	0.57%
5 Consolidation Coal Company	3,000-4,999	0.57%
6 Mylan Pharmaceuticals, Inc.	1,000-2,999	0.29%
7 Lowe's Home Centers, Inc.	1,000-2,999	0.29%
8 St. Mary's Medical Center, Inc.	1,000-2,999	0.29%
9 Mentor Management, Inc. (Mentor Network, The)	1,000-2,999	0.29%
10 Res-Care Inc.	1,000-2,999	0.29%

First Quarter 2004 *		
Business Name	Number of Employees	Percentage of Total Employed
Local Government	72,205	9.80%
State Government	42,363	5.76%
Federal Government	21,811	2.96%
1 Wal-Mart Associates, Inc.	10,000-13,000	1.56%
2 Charleston Area Medical Center, Inc.	3,000-5,999	0.61%
3 West Virginia United Health System (United Hospital Center and WV University Hospitals)	3,000-5,999	0.61%
4 Kroger	3,000-5,999	0.61%
5 CSX	3,000-5,999	0.61%
6 Weirton Steel Corporation	1,000-2,999	0.27%
7 American Electric Power	1,000-2,999	0.27%
8 E I DuPont De Nemours & Company	1,000-2,999	0.27%
9 Verizon	1,000-2,999	0.27%
10 Allegheny Energy Service Corporation	1,000-2,999	0.27%

* Government employment numbers in 2004 are an annual average, not quarterly.

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



West Virginia Lottery 2013 CAFR Project
An in-house production of the West Virginia Lottery

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