

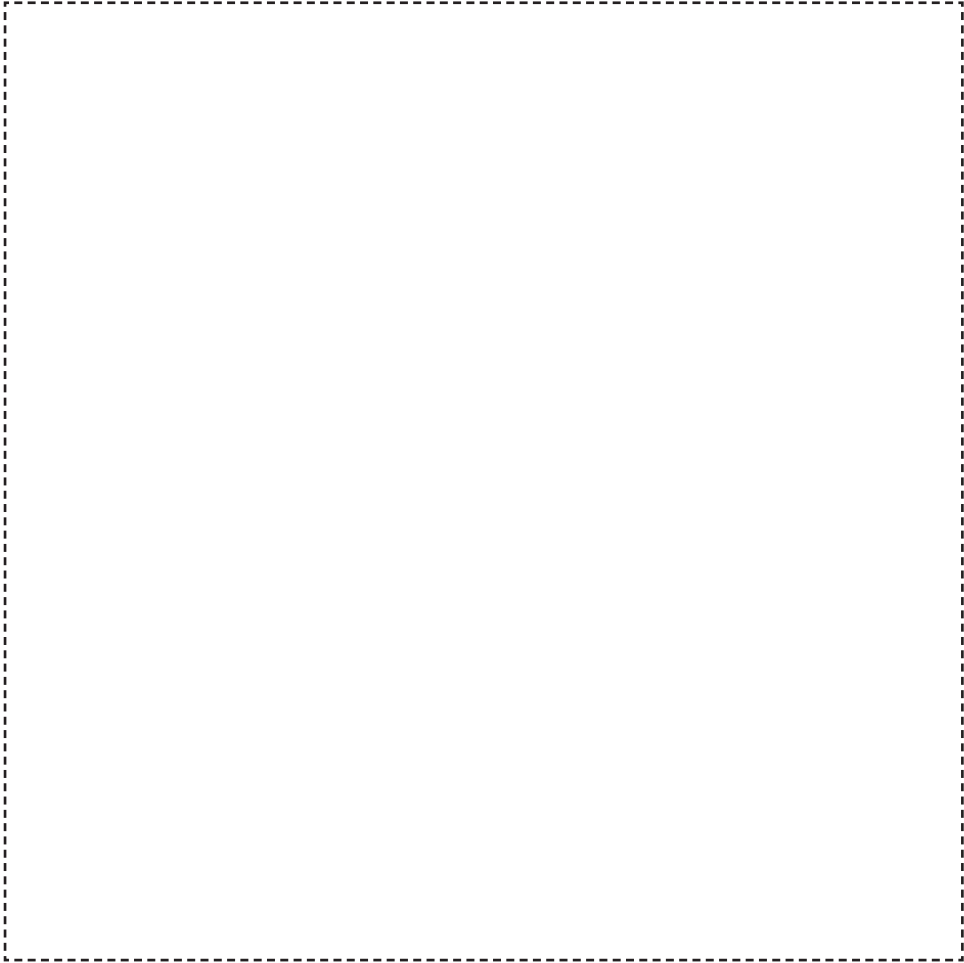


West Virginia Lottery

a component unit of the State of West Virginia



Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2008



West Virginia Lottery

Director



John C. Musgrave
Director
West Virginia Lottery

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

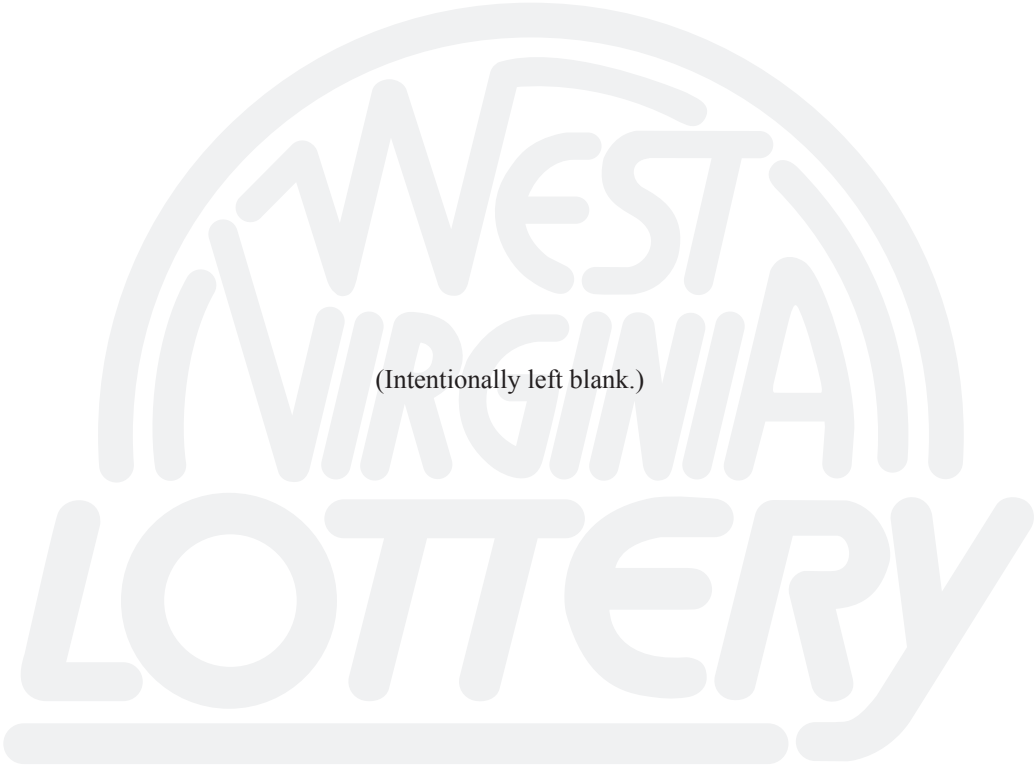
As Lottery Director, he oversees a special revenue agency that generates over \$1.5 billion in gross sales and provides a profit to the State of West Virginia of over \$590 million to be used for senior citizens, education, parks and tourism and capital projects.

Lottery Commission

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



(Front) Kenneth L. Greear, Chairman, Charleston, WV, Computer Expert;
(Back left to right) William I. Clayton, Vice Chairman, South Charleston, WV, Member at Large; David McCormick, Jr., Morgantown, WV, Marketing; Michael A. Adams, Esq., Weirton, WV, Attorney; and Don Lucci, CPA, Charleston, WV, Certified Public Accountant



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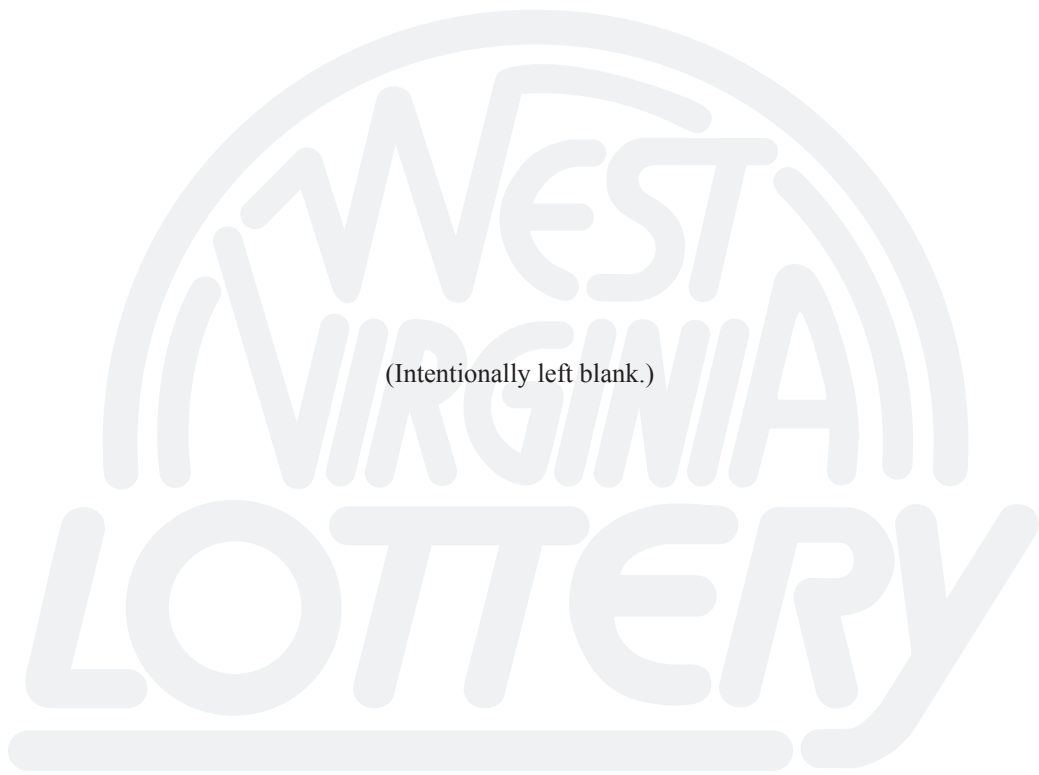


West Virginia Lottery
a component unit of the State of West Virginia

Prepared by
Finance and Administration Division

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

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2008



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Introductory Section

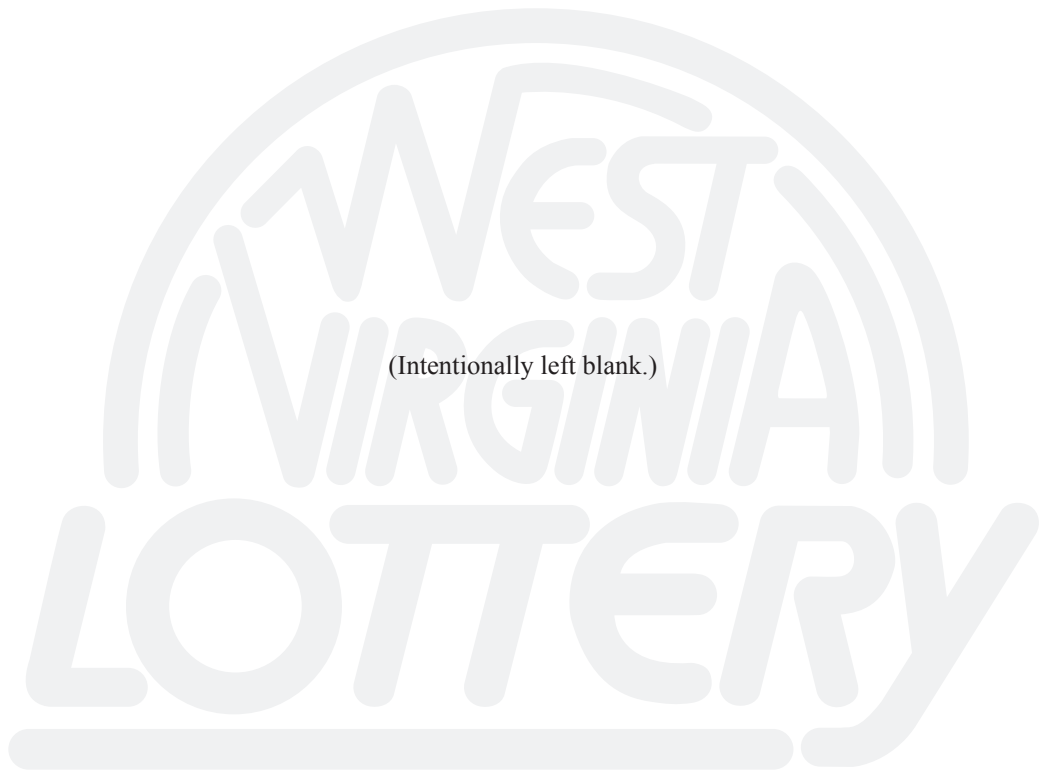
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Traditional Lottery Retailers have served as the foundation of the Lottery since it began in 1986. Sales from these retailers provide nearly \$200 million in Lottery revenue each year.



West Virginia Lottery
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Joe Manchin, III
Governor

John C. Musgrave
Director

December 5, 2008

The Honorable Joe Manchin III, Governor
Virgil T. Helton, 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, 2008. This report has been prepared by the Finance and Administration Division of the Lottery. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. To the best of our knowledge and belief, the enclosed data and information are accurate and are reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

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

The West Virginia State Legislature passed a bill allowing the Lottery to retain an unexpended portion of its administrative fees for capital improvements. These amounts are presented in the financial statements as Restricted Net Assets. Prior to fiscal year 2006, all net assets in excess of \$250 thousand were distributed to the State of West Virginia.

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

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

Overview

In 22 years of operation, the West Virginia Lottery has generated sales of more than \$12.4 billion, with the State receiving more than \$4 billion, excluding commissions from Racetrack and Limited Video Lottery, and profits paid to non-state government entities.

Lottery law mandates that players receive at least 45 percent of total traditional (instant and on-line) game sales in the form of cash prizes, however, that percentage has averaged approximately 50 percent annually. In addition, the Lottery's traditional games operating costs have averaged approximately 12 percent, notably less than the 15 percent allowed by law. Retailers who sell lottery products receive a 7 percent commission, as well as ticket cashing and selling bonuses based on total sales at their respective locations.

Profits distributed under Racetrack Video Lottery and Limited Video Lottery are directed by statute and legislative appropriations, just as profits associated with traditional lottery games are directed by law.

Wheeling Island Hotel, Casino & Racetrack and Mountaineer Casino Racetrack & Resort offered poker card games to the public beginning October 19, 2007, with table games later being added to poker operations on December 20, 2007.

Since 1994, \$139 million of revenue generated by Racetrack Video Lottery has been directed to advertising funds for the tourism industry through a matching gifts program established with the West Virginia Division of Tourism.

On average, the Lottery has distributed \$7 - \$8 million annually to the Division of Tourism. Lottery revenue appropriated to the Division of Tourism by the Legislature totaled \$7.9 million in fiscal year 2008. When added to appropriations for the Division of Natural Resources and the State Park Improvement Fund, the total amount benefiting tourism was \$28.4 million in 2008.



*(Top) Eight co-workers in the Monongalia County Tax Office claimed a \$276 million Powerball® jackpot on March 18, 2008.
(Bottom) Paula's of Westover was the retailer that sold the winning ticket. They received a \$100,000 bonus.*



*(Top) Eight co-workers in the Monongalia County Tax Office claimed a \$276 million Powerball® jackpot on March 18, 2008.
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Chuck Richardson, a UPS driver from Logan, won \$1 million in the West Virginia Lottery's Deal Or No Deal second chance drawing held December 6, 2007.

Examples of the Lottery's ongoing financial support of the State's tourism office include advertising, the State's film office, operations' budget and the 1-800-CALL WVA national travel and information hotline. This funding provides the budget for the West Virginia Division of Tourism, whose resources enhance the travel industry in every region throughout the state.

Under an amendment passed by the Legislature in 2000, the Lottery continues to provide revenue from an instant game to help support funding for a skilled nursing facility and cemetery for West Virginia Veterans. Being first of its kind, the Lottery's initiative has generated up to \$1 million annually to support construction of the new facility. After the first patients were admitted in fiscal year 2007, funding continued for operating costs of the facility. In fiscal year 2008, the Veteran's project received \$699,000 from Lottery revenue.

All license fees for table games are directly deposited into the accounts of the Bureau of Senior Services. Wheeling Island Hotel, Casino & Racetrack and Mountaineer Casino Racetrack & Resort each paid a first-year fee of \$1.5 million to operate table games in July 2007. In July 2008, each racetrack paid its annual fee of \$2.5 million, increasing the annual infusion dedicated to in-home health care services for seniors to \$5 million. Kanawha County voters approved table games for Tri-State Racetrack & Gaming Center on August 11, 2007. After Tri-State Racetrack & Gaming Center paid its initial \$1.5 million fee in July 2008, dedicated funds used for in-home health care by the West Virginia Bureau of Senior Services increased to \$6.5 million for fiscal year 2009.

West Virginia senior citizens received nearly \$60 million in Lottery revenue in 2008. In addition, license fees paid by the racetracks have helped to extend in-home health care to those who are not typically eligible.

The funding from West Virginia Lottery's Limited Video Lottery games continues to support the State's higher education PROMISE Scholarship Fund. In fiscal year 2008, the PROMISE scholarship program received \$27 million to provide higher education opportunities for high school graduates across the State.



Lottery Director John Musgrave presented representatives of Wheeling Island Hotel, Casino & Racetrack and Mountaineer Casino Racetrack & Resort with licenses to operate table games on July 3, 2007.



The Lottery's main advertising campaign was "The Games People Play" which focused on the idea of having fun. The Lottery continues to use West Virginia production companies, talent and locations. One of the spots featuring skiing was filmed at Snowshoe Mountain Resort.



Economic Outlook

Confidence in the future performance of the global economy fell sharply during the second half of 2008 in response to an escalating global financial crisis associated with the lingering problems of falling housing prices, a rising mortgage default rate, the collapse of some major investment banks, the government takeover of mortgage finance firms Fannie Mae and Freddie Mac, and an oversupply of devalued illiquid financial assets. This lack of confidence led to a sharp reduction in funds flowing through the financial system and a general credit freeze. In the broader economy, businesses, consumers and government units had a difficult time obtaining credit and were forced to reduce spending and investment. In response to the credit freeze, the Federal Reserve Bank and other central banks acted to ease monetary policy and pump liquidity into the markets. Congress enacted economic stimulus legislation and a troubled asset repurchase plan (TARP) to help deal with the financial crisis. The economy fell into a recession that is expected to last at least through the first half of 2009.

After a period of moderate growth between 2003 and 2006, West Virginia's economy grew at a slower pace in 2007 and 2008 which was attributable to symptoms related to the current global financial crisis. However, the State's economy fared better than the national average due to a more stable housing market and both a lower than average reliance upon the finance sector and a much greater than average reliance upon the energy sector for economic growth. Housing prices fell by 1.7 percent nationally but appreciated by 3.4 percent in West Virginia between the second quarter of 2007 and the second quarter of 2008 according to the Office of Federal Housing Enterprise Oversight (OFHEO) Index. In 2007, only 4.0 percent of West Virginia's gross domestic product was directly attributable to the finance, insurance and real estate sectors as compared with a national average of 8.1 percent. The energy sector generally outperformed other sectors of the economy in 2008 due to a sharp increase in energy prices. The spot price of Appalachian coal rose from roughly \$50 per ton in July 2007 to more than \$140 per ton by July 2008.

The West Virginia economy added roughly 32,600 jobs from the second quarter of 2003 to the second quarter of 2008, with roughly 29,500 of those jobs created in the private sector. The rate of employment growth greatly slowed from nearly 1.3 percent in both 2005 and 2006 to a rate of just 0.1 percent in 2007 and 0.3 percent in the first half of 2008. Despite the slowdown in employment growth, the state's economy continued to benefit from

income growth in the mining industry associated with higher energy prices. In addition, employment and income growth in the areas of business and professional services, health care services and leisure and hospitality services contributed to above average per capita income growth over the past four years. The outlook for the state calls for slow growth over the next five years. The state has a moderate level of exposure to the downside risks associated with the current credit crisis, the sub-prime mortgage lending crisis and the corresponding market correction in the housing industry. However, the mining sector should continue to profit from firm energy prices. In addition, growth in transfer income payments from Social Security, Medicare and Medicaid should help counter some of the downside income risks associated with a period of economic recession and below normal economic growth.

The natural resource and mining sector played a major role in total job growth and compensation growth over the past four years. Mining, including coal and natural gas extraction, added roughly 7,300 new jobs since 2003, as strong energy demand and higher prices contributed to additional production. More than 16 percent of total growth in non-farm compensation over the past four years was attributable to the natural resource and mining sector even though this sector accounts for less than 8 percent of total compensation. Compensation for this sector grew by an annual rate of nearly 12.7 percent between 2003 and 2007.

A trend of slower growth is anticipated over the next five years for the natural resource and mining sector. Positive factors such as firm energy prices and strong demand relative to supply may be offset by negative factors such as an anticipated global economic slowdown, capacity limitations due to unresolved environmental issues, and the prospect of an environmental carbon tax for the U.S., Canada and other key market countries. The price of Central Appalachian Coal futures sold on the New York Mercantile Exchange reached an all time record of \$143.25 per ton on July 1, 2008. As with most other futures markets, there was significant price volatility during the year. Global economic and environmental concerns contributed to a decline in the coal futures price to second half low of \$78.75 per ton on October 16, 2008.

Due to a downturn in the housing industry, the construction sector lost 700 jobs in 2007 and is on pace to lose another 1,000 or more jobs in 2008. Prior to the downturn in housing, the construction sector added 6,700 new jobs

between 2003 and 2007 due to a growing housing industry. After growing by an annual average of more than 12.8 percent between 2003 and 2006, average annual compensation for this sector grew by just 1.0 percent in 2007.

Following significant increases in 2004 and 2005, housing permits began a trend of decline during the second half of 2006. West Virginia single family housing permits fell by 11 percent in 2006 and by an additional 22.2 percent in 2007. Permits through the first half of 2008 fell by another 29 percent. The annualized change in the Office of Federal Housing Enterprise Oversight's home price index for West Virginia decelerated from 10.0 percent in 2005 to just 3.4 percent during the second quarter of this year. However, the 3.4 percent gain still ranked West Virginia 7th highest in the country in home price appreciation. U.S. home prices are anticipated to stabilize as early as the second half of 2009.

Construction employment will likely drift lower in 2009 and possibly even 2010 in response to the current slump in the housing industry. The anticipated slowdown in construction activity will also have a negative impact upon retail sales of durable goods, real estate services and state sales tax collections. Relative to other states, the negative impact of the current housing slump should be relatively mild to moderate in West Virginia.

The professional and business service sector added roughly 5,300 new jobs to the state's economy between 2003 and mid-2008. This sector includes businesses engaged in specialized skill activities, such as legal, accounting, engineering, and computer services. Average annual compensation for this sector grew by roughly 6.6 percent between 2003 and 2007, as compared with an average annual growth rate of 5.2 percent for all non-farm compensation. The sector accounts for 5.4 percent of total non-farm compensation. This sector is anticipated to add additional jobs at a slower pace over the next five years.

The health care and social assistance sector added roughly 5,300 new jobs between 2003 and mid-2008. Growth in this sector is largely tied to the changing needs of an aging state population. According to U.S. Census Bureau projections, the percentage of West Virginia population over age 65 continues to grow from 15.3 percent in 2000 to 16.0 percent by 2010. By 2030, nearly one-fourth of the state's population is anticipated to be age 65 or older. This sector is anticipated to add additional jobs at nearly the same pace over the next five years.

The leisure hospitality sector, including amusements and recreation (including gaming) and hospitality and food service activities, has added nearly 6,300 new jobs between 2003 and mid-2008. In recent years, annual employment growth for this sector has averaged more than 2.0 percent per year, one of the top employment growth sectors for the state. This level

of growth is anticipated to slow in 2009 due to the impact of the current national recession. Recent voter approval of table games at three of the state's racetrack gaming establishments is resulting in significant capital improvements to those facilities along with additional employment gains for the state in spite of increased competition from neighboring states.

A few industry sectors, including the information services sector and the manufacturing sector, have not fully participated in the state's overall trend of solid employment growth and earnings growth since 2003. Industry consolidation and technological changes contributed to an 11.8 percent decline in compensation for the telecommunications industry between 2003 and 2007. Compensation in the manufacturing sector grew by just 3.9 percent between 2003 and 2007 due to a net employment decrease of 7,000 jobs between 2003 and mid-2008. The manufacturing sector has been gradually losing out to various global competitors.

The forecast for the state calls for slower growth over the next five years, at rates near the national average. Growth at the national level is expected to be at or near recessionary levels for the remainder of 2008 and 2009 before a gradual recovery to trend growth of roughly 3 percent per year by no later than 2011. Most employment increases are expected from the service producing sector with gains concentrated in health care, professional and business services and leisure and hospitality. Tourism-related industries should experience additional growth, but at a much slower pace due to weakened consumer confidence in the general economy. Additional growth in retail trade and government employment is anticipated to be sluggish and largely tied to regional growth in resident population. Average annual employment growth is anticipated to slow from more than 1.0 percent in recent years to roughly 0.5 percent per year. Average annual real personal income growth will slow accordingly to roughly 2.0 percent.

There are a number of risks to the forecast. The current credit crunch may result in a deeper than anticipated recession with some significant loss of employment and significantly lower energy prices. Decreases in short term interest rates and growing fiscal stimulus spending may over stimulate the national economy in the short-run at the expense of higher long-term inflation and lower long-term growth. In West Virginia, current uncertainties over environmentally safe mining practices and the prospect of a national carbon tax could eventually lead to lower energy production and employment loss. Finally, gaming industry competition from neighboring states may increase beyond the current competition provided by Pennsylvania to other states, particularly Ohio and Maryland. Tourism-related activities would suffer along with the possibility of some net employment losses in the leisure and hospitality sector.¹

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

Lottery



The West Virginia Lottery has introduced 15 different games since its inception but currently provides players the opportunity to participate in a variety of 10 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 2008, there were 38 new games introduced. Instant games provided approximately 7.3 percent of total fiscal year 2008 sales at 1,648 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 29 state lotteries, the District of Columbia and the Virgin Islands who are members of the Multi-State Lottery Association (MUSL). This game was introduced in April 1992, revised in November of 1997, October of 2002, and August of 2005. Beginning March 2001, Powerball® added a feature called Power Play®, where winnings can be multiplied from a random number drawn between 2 and 5. Effective August 28, 2005, the matrix increased to "5 of 55" for the first set, while the second set remained the same and the second and third tier prizes were doubled. The matrix held previously was "5 of 53" for the first set and "1 of 42" for the second set. The jackpots are paid either in a cash lump sum equal to the present value of the annuitized amount or over 30 years with a guaranteed minimum jackpot of \$15 million. Once the jackpot reaches the previous record jackpot of \$365 million, the jackpot increase may be limited to \$25 million per draw. The jackpot money over the amount required to fund the \$25 million increase will continue to accrue until the jackpot is hit. At that time, the residual jackpot money will be divided equally among the current \$200,000 winners. The jackpot increases each drawing if no winning ticket has matched the first set of 5 numbers and matched the "Powerball®" number of the second set. Powerball® offers eight secondary prizes of fixed amounts ranging from \$3 to \$200,000. Drawings are held twice weekly on Wednesday and Saturday. Powerball® sales are approximately 3.5 percent of total 2008 sales at 1,568 retail locations.

HOT LOTTO SIZZLER® is an on-line game jointly operated by 10 states and the District of Columbia that are members of MUSL. This game was introduced in April 2002 with drawings on Wednesday and

Products

Saturday. Players choose 5 numbers out of a field of 39 and 1 number out of a field of 19. Jackpots begin at \$1 million, and increase each drawing if no winning ticket has matched the first set of 5 numbers and matched the “Hot Ball” number of the second set. HOT LOTTO SIZZLER® offers eight secondary prizes of fixed amounts ranging from \$2 to \$10,000.

TRAVEL KENO is a game restricted to lottery retailers with specific types of West Virginia Alcohol Beverage Control Administration licenses and was introduced in December 1992. The player selects from 1 to 10 numbers and the Lottery computer randomly picks 20 numbers between 1 and 80. With the Keno Bonus multiplier option, players have a chance to increase their winnings. Drawings are held every five minutes from 6:05 a.m. through 1:45 a.m. The winning numbers are displayed on monitors at 326 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 Tri-State Racetrack & Gaming Center) began operating with 1,200 video lottery machines. A fourth racetrack (Charles Town Races & Slots) began video gaming in September 1997. West Virginia is one of five state lotteries to regulate video gaming at racetracks. The other four states are Delaware, Rhode Island, New York and Pennsylvania. Games offered are poker, blackjack, keno, and spinning reel types. Effective June 1999, legislative action has allowed mechanical reel coin drop machines. As of June 30, 2008, the West Virginia Lottery Commission had an average of 11,977 terminals available for play at the four racetracks in the state. Racetrack Video Lottery sales were 59 percent of total 2008 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 8,053 terminals were operating at licensed retail locations throughout the state as of June 30, 2008. Limited video lottery sales were 27 percent of total 2008 sales at 1,653 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. Games offered are Poker, Blackjack, Caribbean Stud, Craps, Roulette, Three and Four Card Poker, and other miscellaneous games. Racetrack Table Games sales were 1 percent of total 2008 sales.



ACCOMPLISHMENTS

The West Virginia Lottery has contributed more than \$4 billion to the State's general and special funds since its inception in January 1986. During fiscal year 2008, transfers to the State totaled more than \$409.8 million, up 5.2 percent from last fiscal year. State programs for education, senior citizens and tourism have continued to be the primary benefactors of Lottery profits since 1989, as well as economic development programs designed for growth of communities across the mountain state.

Significant accomplishments in fiscal year 2008 include:

- The West Virginia Lottery had a solid year of performance with fiscal year 2008 gross sales of \$1.523 billion, which translated into record prize payments to players of more than \$121 million (excluding Video Lottery), up 4.6 percent over fiscal year 2007.
- Mountaineer Casino Racetrack & Resort and Wheeling Island Hotel, Casino & Racetrack held soft openings on October 19, 2007, to introduce poker card games as the first phase of additional gaming options prior to the operation of table games that had passed by referendum vote at both locations in June 2007. The table games referendum also passed at Tri-State Racetrack & Gaming Center, with the launch of extended poker operations at this location to begin much later in 2008. Fiscal Year 2008 sales for Table Games represented \$15.8 million of total sales.
- Overall, Racetrack Video Lottery sales totaled \$898 million, contributing 58.9 percent of total lottery sales. All video lottery terminals at the four licensed racetracks now operate on the new Scientific Games central computer system.
- Completing its sixth full year, Limited Video Lottery set a record this year with sales of \$411.6 million, up 3.7 percent over last fiscal year. As of June 30, 2008 a total of 8,053 machines were in operation statewide.
- Sales from Traditional (Instant and On-line) Lottery games totaled \$198 million, with Instant sales of \$110.9 million being the largest contributor. This year, the Lottery launched 38 new instant games and added two \$5 tickets to the schedule to meet player demand.
- HOT LOTTO SIZZLER® , which was introduced in January 2008 as an add-on multiplier for the HOT LOTTO® game has fared well and represents approximately 12 percent of total HOT LOTTO® sales. SIZZLER® is similar to the Power Play® add-on option of the Powerball® game, which represents approximately 7 percent of total sales for Powerball®.
- In June 2008, GTECH Corporation was officially awarded the contract to provide the Lottery's instant and on-line gaming services. GTECH's new central computer system will enhance terminal operations at retail locations across the state, improve licensing capabilities, reporting and overall speed of doing business.
- Even with a declining economy and competition from neighboring states, the Lottery's net profit from sales was comparable to previous fiscal periods totaling \$631.1 million, with total commissions paid to agents of \$713 million.
- As part of its corporate responsibility activities and in accordance with statute, the West Virginia Lottery provided more than \$1.3 million in funding to The Problem Gamblers Help Network of West Virginia.

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, 2007. This was the 11th 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.

FINANCIAL INFORMATION

ENTERPRISE OPERATIONS

The West Virginia Lottery operates enterprise activities, namely 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 2008 decreased 2.5 percent to \$1.523 billion from \$1.562 billion in fiscal year 2007. Income before nonoperating distributions decreased 1.3 percent from \$639.1 million in fiscal year 2007 to \$631 million in fiscal year 2008.

ACCOUNTING SYSTEM AND POLICIES

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

BUDGETARY CONTROLS

Budgetary control for the State Lottery Fund and State Excess Lottery Fund are addressed through their enabling legislations, which provide specific limitations on operating and administrative expenses. For budgetary purposes, the State Lottery and Excess Lottery Funds are classified as unappropriated 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.

DEBT ADMINISTRATION

The Lottery's long-term liabilities include payments owed to lotto jackpot winners. The payments due winners are principally funded by amounts invested in United States government zero-coupon bonds. Such investments are maintained in a separate trust fund administered by the West Virginia Board of Treasury Investments on behalf of the Lottery and the jackpot winners. The Lottery will have paid all of its long-term jackpot liabilities effective August 2008.

CASH MANAGEMENT

The Lottery's operating cash balances are invested by the West Virginia Board of Treasury Investments. The deposits are part of the State of West Virginia's consolidated investment pool and are not separately identifiable as to specific types of securities. Such funds are available to the Lottery with overnight notice.

RISK MANAGEMENT

The State's risk management and insurance program is controlled by the Department of Administration, Board of Risk and Insurance Management (BRIM). BRIM is charged with providing loss control and risk management services to all entities throughout state government. The Lottery is assessed an annual premium by BRIM to fund such coverage.

INTERNAL CONTROL ENVIRONMENT

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

To enhance controls over accounting procedures, the Lottery has segregated the following functions: personnel, payroll, purchasing and accounts payable, and general ledger and accounts receivable 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 160 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.

FUTURE PROJECTS

The Lottery will continue to set aside unexpended administrative expenses for the design and construction of a new West Virginia Lottery Headquarters. Under House Bill 106, the Lottery is permitted to set aside up to \$20 million annually beginning with fiscal year 2006, through fiscal year 2012, for completion of this project.

On January 3, 2009, the Powerball® game will be welcoming the state of Florida. Additional improvements to the game will include larger starting jackpots, larger and faster growing average jackpots, adding a new Match 5 prize with the Power Play® option that pays a lump sum \$1 million cash prize, as well as increasing the overall odds of winning the game.

During fiscal year 2009, instant scratch-offs will be improving with the addition of keyless validation capabilities. The new barcode will allow for faster transaction times for both players and retailers, and expand the play area on tickets under the scratch covering.

During fiscal year 2009, table games will be operational at Tri-State Racetrack & Gaming Center, following the passage of the local table games referendum on August 11, 2007.

During fiscal year 2009, the Lottery will begin the bidding process and award a Request for Proposal (RFP) for its marketing and advertising services. This contract will further extend the Lottery's marketing capabilities in the areas of creative advertising, public relations, promotions, research, website functionality and other marketing-related needs.

Beginning fiscal year 2010, the Lottery will implement its new instant and on-line gaming system from GTECH Corporation. The new system will improve licensing system capabilities, communications to the central system, and availability of accounting reports, as well as provide retailers with new terminals and equipment at more than 1,600 locations across the state

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 professionalism and dedicated team effort of the Finance and Administration Division and Marketing Division of the West Virginia Lottery. We appreciate the contributions of the project team comprised of Becky Carnefix, CPA and Mara Pauley, project coordinators, Nikki Orcutt, Deputy Director of Marketing, Mike Ross, Mike Thaxton and Nancy Bulla to the success of this report. We could not have accomplished this report without their efficient and dedicated services. The Lottery is committed to providing thorough and relevant financial information to the public.

The comprehensive annual financial report reflects our commitment to maintain the highest standards of accountability and to maintain public trust through the highest ethics and integrity. Due credit should also be given to Commission Chairman Kenneth L. Greear and the members of the Lottery Commission for their responsiveness and guidance in operating the Lottery in a professional and progressive manner.

Respectfully submitted,



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



John C. Musgrave
Director of West Virginia Lottery

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



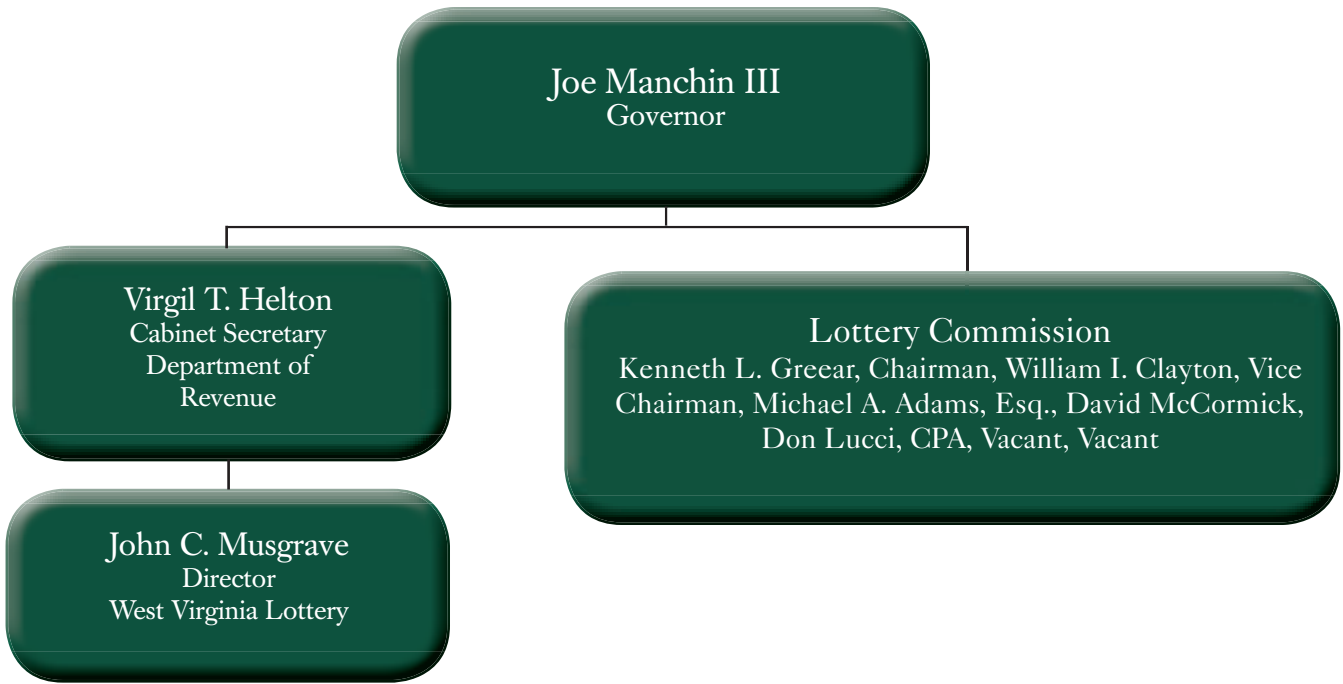
Oliver S. Cox

President

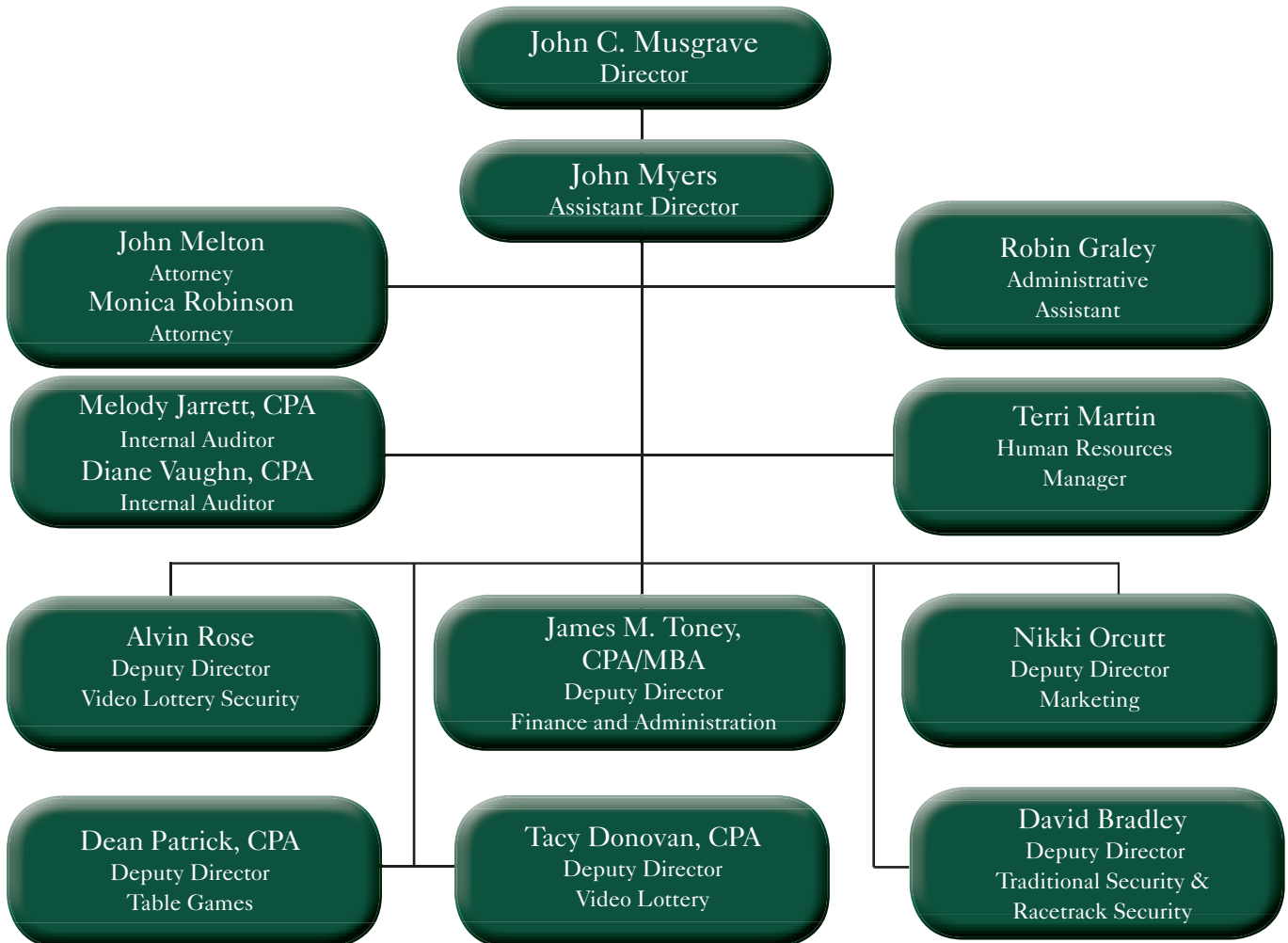
Jeffrey R. Emery

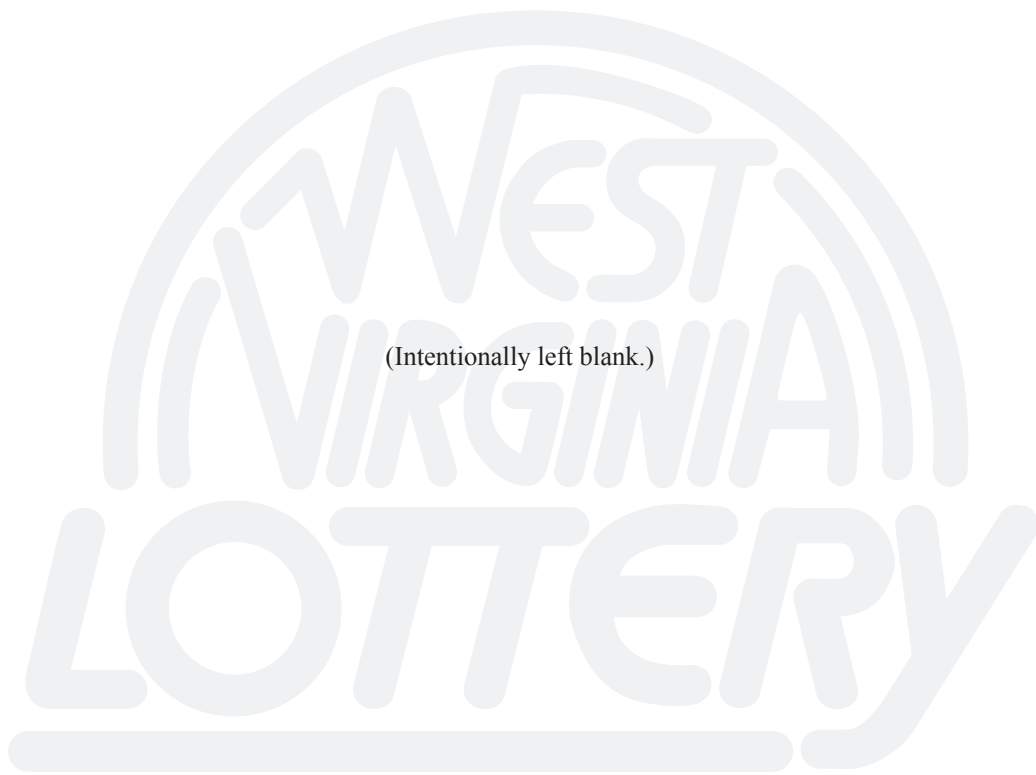
Executive Director

West Virginia Lottery Principal Officials



Organizational Chart





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Financial Section

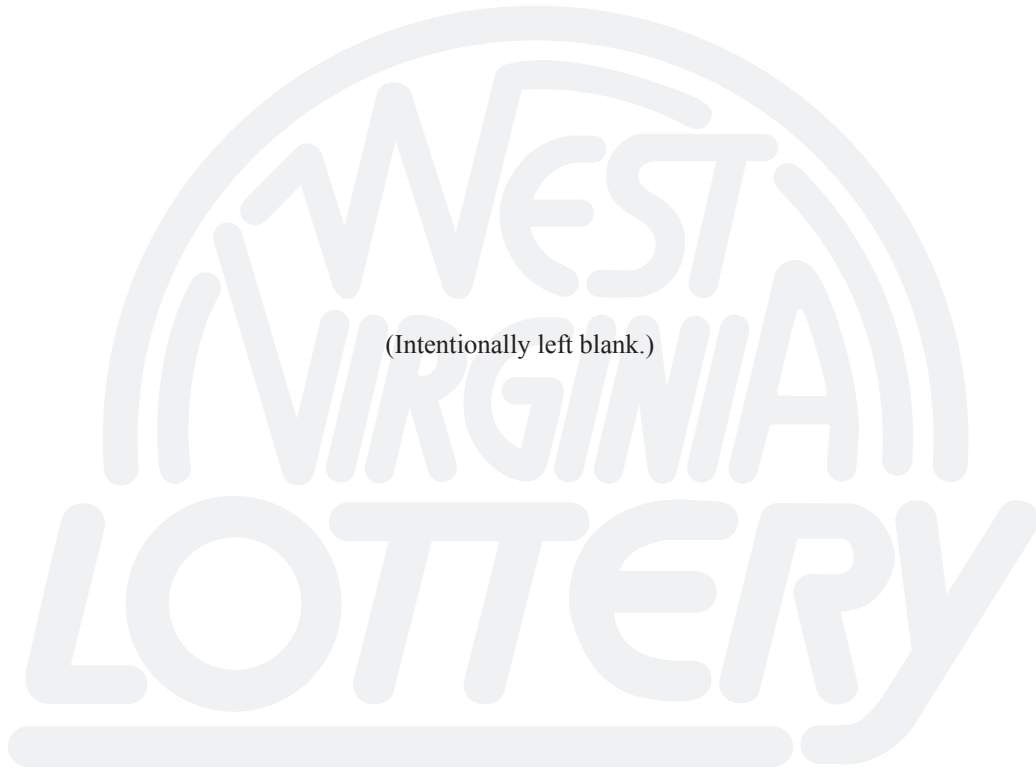
Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2008



Racetrack Video Lottery has evolved since its inception in fiscal year 1994. Since then the four licensed racetracks offer a variety of entertainment including gaming.



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



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INDEPENDENT AUDITORS' REPORT

West Virginia Lottery Commission
Charleston, West Virginia

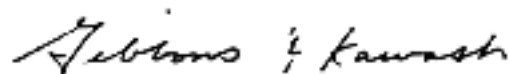
We have audited the accompanying balance sheets of the West Virginia Lottery, a component unit of the State of West Virginia, as of and for the years ended June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the West Virginia Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Lottery as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 18 to 26 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The introductory and statistical sections listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements of the West Virginia Lottery. Such additional information has not been subjected to the auditing procedures applied in our audit of the financial statements and accordingly, we express no opinion on it.



October 3, 2008

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, 2008 and 2007. In reading the Management's Discussion and Analysis (MD & A), the current year refers to fiscal year ending June 30, 2008, and the prior year refers to fiscal year ending June 30, 2007. This analysis is to be considered in conjunction with the financial statements, which begin on page 27.

Financial Highlights

The Lottery's operating income declined slightly in 2008 after improving in 2007. The revenue and related decreases are primarily the result of increased competition in neighboring states and the downturn in the overall economy. The following summary is provided below:

- Lottery revenues for the current year decreased \$38.8 million or 2.5% compared to the prior year, which increased \$39.7 million or 2.6% over 2006.
- Commissions for the current year decreased \$29.3 million or 3.9% compared to the prior year, which increased \$23.6 million or 3.3% over 2006.
- Gross profit for the current year decreased \$15.0 million or 2.1% compared to the prior year, which increased \$33.4 million or 5.0% over 2006.
- Nonoperating expenses decreased \$13.2 million or 2.0% compared to the prior year, which increased by \$28.6 million or 4.5% over 2006. The predominant nonoperating expense is the distributions to the State of West Virginia, which decreased \$8.0 million or 1.3% compared to the prior year, which increased \$29.1 million or 4.8% over 2006.
- Overall financial position improved in 2008 as it did in 2007 due to continued funding of the revenue center construction fund.

Using This Annual Report

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

Balance Sheets

As shown in Table 1, current assets decreased \$18.6 million or 7.8% compared to the prior year, which increased by \$34.7 million or 17.0% over 2006, due to the timing of distributions to the State of West Virginia at year-end.

Restricted assets continue to increase due to continued funding of the revenue center construction fund. See Note 11 of the financial statements for additional information on restricted assets.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Balance Sheets (Continued)

Capital assets, net of accumulated depreciation or amortization, increased in 2008 by \$3.8 million or 261.9% due to upgrading the computer equipment for video lottery operations, which is partially offset by continuing depreciation of capital assets. For additional information on capital assets, please refer to Note 5 of the financial statements.

The long-term portion of investments held in trust continually decreases as expiring outstanding prize liabilities are paid. The Lottery no longer participates in financing prizes in long-term trust investments.

Table 1
Assets
(in \$000's)

	2008	2007	2006
Current assets	\$ 220,215	\$ 238,836	\$ 204,133
Restricted assets	58,487	30,367	20,000
Capital assets, net of accumulated depreciation and amortization	5,251	1,451	1,149
Long-term portion of investments held in trust	126	281	612
Total assets	\$ 284,079	\$ 270,935	\$ 225,894

As shown in Table 2, the Lottery's current liabilities decreased \$7.7 million or 3.4% compared to the prior year, which increased \$22.0 million or 10.7% when compared to 2006 due to the timing of distributions that are reflected as accrued liabilities until actually paid.

Net assets - restricted continues to increase due to continued funding of the revenue center construction fund. In 2008, the Lottery Commission transferred certain funds set aside for previously committed future asset purchases, amounting to \$10.5 million, to the revenue center construction fund. See Note 11 of the financial statements for additional information on restricted net assets.

Net assets - invested in capital assets increased in 2008 by \$3.8 million or 261.9% due to upgrading the computer equipment for video lottery operations. Refer to Note 5 of the financial statements for additional information on capital assets.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Balance Sheets (Continued)

Net assets - unrestricted in fiscal years 2008 and 2007 is a result of the Lottery Commission orders setting aside funds for previously committed future asset purchases. In 2008, the Lottery Commission transferred \$10.5 million of unrestricted net assets set aside for previously committed future asset purchases to the revenue center construction fund as restricted net assets. See Notes 11 and 16 of the financial statements for additional information on restricted net assets. Net assets - unrestricted (deficit) for fiscal year 2006 is a result of a statutory requirement distributing all income to the State of West Virginia.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current liabilities	\$ 219,594	\$ 227,307	\$ 205,328
Deferred jackpot liabilities (long-term)	-	139	316
Total liabilities	<u>219,594</u>	<u>227,446</u>	<u>205,644</u>
Net assets - restricted	58,487	30,367	20,000
Net assets - invested in capital assets	5,251	1,451	1,149
Net assets - unrestricted (deficit)	747	11,671	(899)
Total net assets	<u>64,485</u>	<u>43,489</u>	<u>20,250</u>
Total liabilities and net assets	<u>\$ 284,079</u>	<u>\$ 270,935</u>	<u>\$ 225,894</u>

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

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
On-line games	\$ 87,177	\$ 86,157	\$ 98,959
Instant games	110,862	106,493	119,124
Racetrack video lottery	897,953	972,592	942,250
Limited video lottery	411,587	397,017	362,181
Table games	15,877	-	-
	<u>1,523,456</u>	<u>1,562,259</u>	<u>1,522,514</u>
Less:			
Commissions:			
On-line games	6,114	6,019	6,937
Instant games	7,763	7,455	8,339
Racetrack video lottery	487,276	522,745	508,326
Limited video lottery	205,637	206,127	195,112
Table games	6,249	-	-
	<u>713,039</u>	<u>742,346</u>	<u>718,714</u>

Management's Discussion and Analysis
(Continued)

-Unaudited-

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

	2008	2007	2006
Prizes, ticket and vendor costs:			
On-line prize costs	44,544	43,380	50,459
Instant ticket prize costs	76,625	72,412	81,444
Ticket costs	1,676	1,724	2,092
Vendor fees and costs	5,928	5,777	6,547
	128,773	123,293	140,542
Gross profit	681,644	696,620	663,258
Administrative expenses:			
Advertising and promotions	8,658	9,035	7,794
Wages and related benefits	7,885	5,939	5,742
Telecommunications	2,275	2,298	2,366
Contractual and professional	4,099	3,507	3,632
Rental	685	662	592
Depreciation and amortization	732	569	1,351
Other administrative expenses	1,540	1,395	1,213
	25,874	23,405	22,690
Other operating income:	11,937	10,397	11,193
Operating income	667,707	683,612	651,761
Nonoperating income (expense):			
Investment income	9,572	7,591	5,240
On-behalf payments - OPEB	472	-	-
Interest expense	(13)	(35)	(87)
Distributions to municipalities and counties	(8,067)	(7,782)	(7,099)
Distributions to racetracks-capital reinvestment	(17,988)	(20,997)	(19,774)
Distributions to the State of West Virginia	(631,155)	(639,150)	(610,041)
	(647,179)	(660,373)	(631,761)
Net income	20,528	23,239	20,000
Net assets, beginning of year, as restated*	43,957	20,250	250
Net assets, end of year	\$ 64,485	\$ 43,489	\$ 20,250

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

Management's Discussion and Analysis
(Continued)

-Unaudited-

Sales and Prizes, Commissions, Ticket Costs and Vendor Fees

Table 4 compares sales (referred to as lottery revenues in financial statements), prizes, commissions, ticket printing costs, vendor fees and costs and gross profit for each lottery game category for fiscal years 2008, 2007 and 2006. Sales and gross profits fluctuated in certain categories, however, gross profit percentages remained consistent from year to year.

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

	Instant			On-Line*			Racetrack Video Lottery		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Gross sales	\$ 110,862	\$ 106,493	\$ 119,124	\$ 87,177	\$ 86,157	\$ 98,959	\$ 897,953	\$ 972,592	\$ 942,250
Less direct costs:									
Prizes and bonuses	76,625	72,412	81,444	44,544	43,380	50,459	-	-	-
Commissions	7,763	7,455	8,339	6,114	6,019	6,937	487,276	522,745	508,326
Ticket printing costs	1,676	1,724	2,092	-	-	-	-	-	-
Vendor fees and costs	3,320	3,194	3,576	2,608	2,583	2,971	-	-	-
Total direct costs	89,384	84,785	95,451	53,266	51,982	60,367	487,276	522,745	508,326
Gross profit	\$ 21,478	\$ 21,708	\$ 23,673	\$ 33,911	\$ 34,175	\$ 38,592	\$ 410,677	\$ 449,847	\$ 433,924
Gross profit percentage	19.4%	20.4%	19.9%	38.9%	39.7%	39.0%	45.7%	46.3%	46.1%
	Limited Video Lottery			Table Games			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Gross sales	\$ 411,587	\$ 397,017	\$ 362,181	\$ 15,877	\$ -	\$ -	\$ 1,523,456	\$ 1,562,259	\$ 1,522,514
Less direct costs:									
Prizes and bonuses	-	-	-	-	-	-	121,169	115,792	131,903
Commissions	205,637	206,127	195,112	6,249	-	-	713,039	742,346	718,714
Ticket printing costs	-	-	-	-	-	-	1,676	1,724	2,092
Vendor fees and costs	-	-	-	-	-	-	5,928	5,777	6,547
Total direct costs	205,637	206,127	195,112	6,249	-	-	841,812	865,639	859,256
Gross profit	\$ 205,950	\$ 190,890	\$ 167,069	\$ 9,628	\$ -	\$ -	\$ 681,644	\$ 696,620	\$ 663,258
Gross profit percentage	50.0%	48.1%	46.1%	60.6%	0.0%	0.0%	44.7%	44.6%	43.6%

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

Instant Sales

Instant ticket sales increased in 2008 by \$4.4 million or 4.1% compared to the 2007 decrease of \$12.6 million or 10.6% over 2006. Thirty-eight games were introduced in 2008 and approximately twenty-eight game options were available for play in both years. The Lottery continues to implement the results of research and design efforts, including increased ticket font size for easier reading by players, simplified play styles for faster play and continued monitoring of the mix of play styles and colors more closely to create a better variety of game presentation available at one time. Seven five-dollar games were introduced in 2008, following national trends with the increase of the ticket price point.

Management's Discussion and Analysis (Continued)

-Unaudited-

Instant Sales (Continued)

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 approximately 3% of instant and on-line ticket sales for 2008, 2007 and 2006. The Lottery (as is the case with most lotteries located in North America) has elected to enter into a long-term contract to provide a central computer system, retailer terminals and related equipment to sell and cash all tickets for instant and on-line games.

Powerball® Sales

Powerball® is a multi-state lotto game offering larger jackpots with occasional jackpots in excess of \$100 million. Sales increased in 2008 by \$2.3 million or 4.5% and decreased in 2007 by \$13.8 million or 21.1%. Sales are generally driven by the jackpot size.

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

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

All Other On-line Games

All other on-line games consist of Daily 3, Daily 4, Cash 25, Travel Keno and the multi-state game Hot Lotto™. Sales decreased slightly in 2008 by \$1.3 million or 3.8% and increased by \$1 million or 3.0% in 2007.

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

Racetrack Video Lottery

Racetrack video lottery revenues are reported net of total wagers. Revenues decreased \$74.6 million or 7.7% in 2008 after increasing \$30.3 million or 3.2% in 2007.

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 7 to the financial statements. The decrease in commissions of \$35.5 million or 6.8% in 2008 compared to an increase of \$14.4 million or 2.8% in 2007 was due to the increase in competition from a neighboring state which recently legalized video lottery games. This competition has decreased the revenue at two of the state's four race tracks licensed to operate video lottery games and which border that state.

Management's Discussion and Analysis
(Continued)

-Unaudited-

Racetrack Video Lottery (Continued)

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

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

Table 5

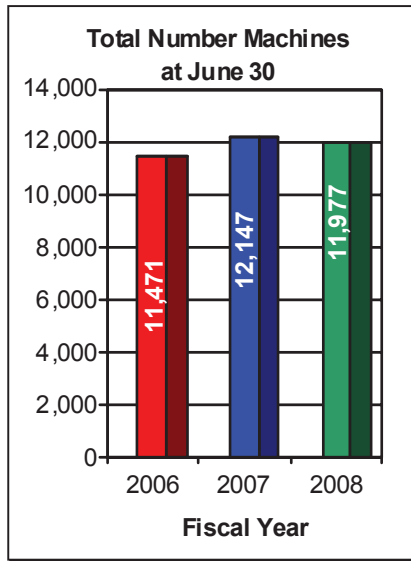


Table 6

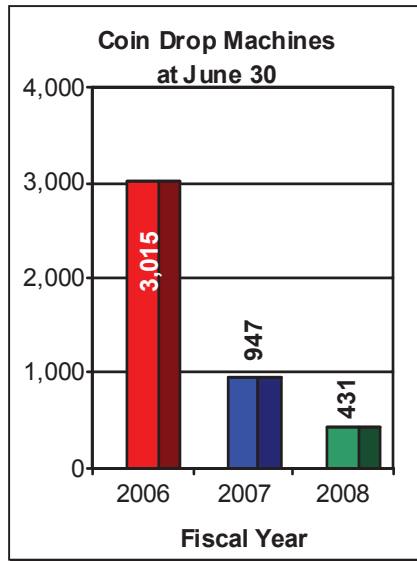


Table 7

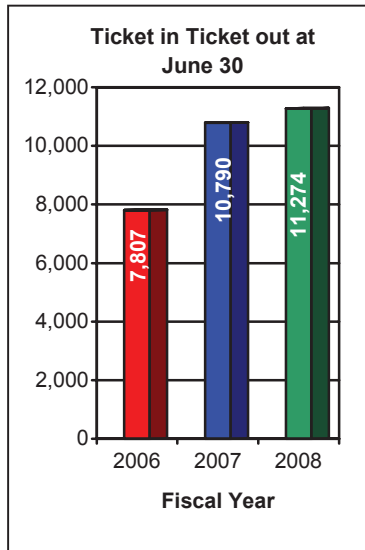
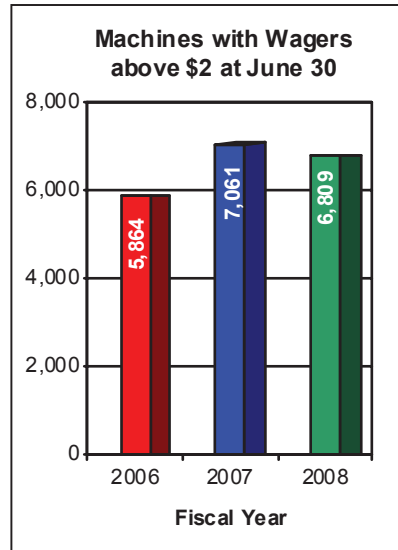


Table 8



Management's Discussion and Analysis
(Continued)

-Unaudited-

Limited Video Lottery

Sales increased by \$14.6 million or 3.7% in 2008 over 2007, which increased by \$34.8 million or 9.6% over 2006. The decrease in commissions of \$490 thousand or .24% in 2008 and the increase of \$11.0 million or 5.6% over 2006, are paid to operators and retailers as provided for by statute and have a direct correlation to changes in sales.

- Table 9 illustrates the decrease in machines by 106 in 2008 as compared to the increase of 92 in 2007

Table 9

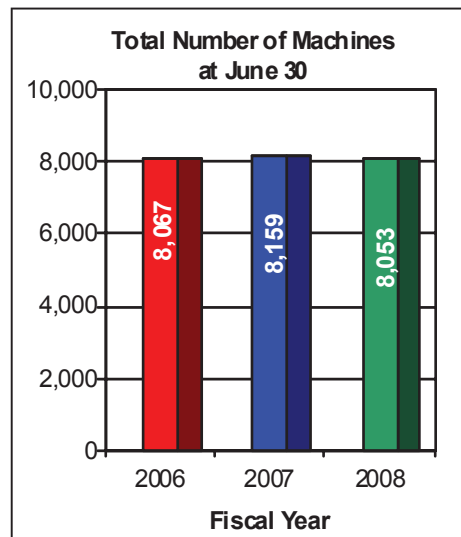


Table Games

In accordance with legislation passed by the West Virginia Legislature, the Lottery licensed table games and play began at two of the state's four racetracks during fiscal year 2008. Revenues from table games are derived from a 35% privilege tax of adjusted gross receipts from table games. For fiscal year 2008, revenues were \$15.8 million.

All table games revenues are distributed according to statute. A portion of table games revenues are paid to entities associated with the racetracks and local governments and are reported as commissions. See Note 9 to the financial statements. Total commissions for fiscal year 2008 were \$6.25 million.

Other operating income

Refer to Tables 3 and 9. Changes in other operating income are primarily related to fees collected for the permitting and licensure of tracks, manufacturers, operators, retailers, service technicians, and table games personnel. Every May 1, a \$1,000 permit fee is assessed on each limited video lottery permit held by operators and retailers. These permit fees comprise the most significant concentration of revenue in this financial statement category.

Management's Discussion and Analysis
(Continued)

-Unaudited-

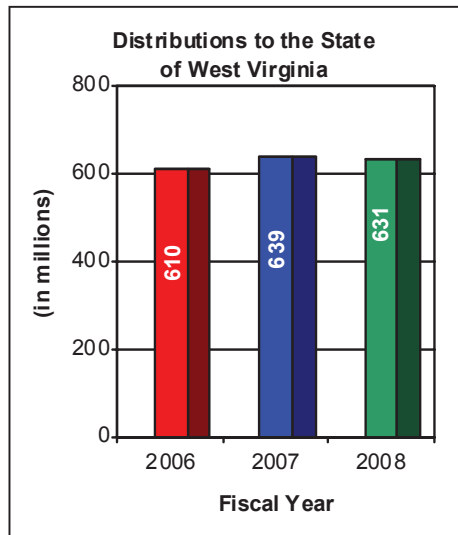
Nonoperating income (expense)

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 continue to increase as the limited video lottery revenues increase.

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

Refer to Table 10. The Lottery's payments to the State Lottery Fund and State Excess Lottery Revenue Fund decreased by \$8.0 million for the current fiscal year compared to an increase of \$29.1 million in 2007.

Table 10



Net Income

Effective June 30, 2006, the West Virginia Legislature has directed the Lottery to set aside certain unexpended administrative funds of up to \$20 million per year for six years to construct a building in the West Virginia Capitol Complex. The unexpended administrative funds set aside for this purpose in 2008 included \$16.3 million for the construction of a building in the Capitol Complex and \$5.5 million for the acquisition of future capital assets. Net income also included \$1.35 million of interest earned on funds set aside for construction of the Capitol Complex building.

WEST VIRGINIA LOTTERY

BALANCE SHEETS
(In Thousands)

June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 180,463	\$ 204,122
Accounts receivable	36,846	33,095
Inventory	301	433
Current portion of investments held in trust	10	23
Other assets	<u>2,595</u>	<u>1,163</u>
Total current assets	<u>220,215</u>	<u>238,836</u>
Noncurrent assets:		
Restricted cash and cash equivalents	58,487	30,367
Investments held in trust, less current portion	126	281
Capital assets	17,598	13,066
Less accumulated depreciation and amortization	<u>(12,347)</u>	<u>(11,615)</u>
Total noncurrent assets	<u>63,864</u>	<u>32,099</u>
Total assets	<u>\$ 284,079</u>	<u>\$ 270,935</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 166,967	\$ 180,178
Estimated prize claims	12,967	13,592
Accounts payable	2,693	1,452
Other accrued liabilities	36,838	31,926
Current portion of deferred jackpot prize obligations	<u>129</u>	<u>159</u>
Total current liabilities	219,594	227,307
Deferred jackpot prize obligations, less current portion	<u>-</u>	<u>139</u>
Total liabilities	<u>219,594</u>	<u>227,446</u>
Net assets:		
Restricted by enabling legislation	58,487	30,367
Invested in capital assets	5,251	1,451
Unrestricted	<u>747</u>	<u>11,671</u>
Total net assets	<u>64,485</u>	<u>43,489</u>
Total liabilities and net assets	<u>\$ 284,079</u>	<u>\$ 270,935</u>

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

WEST VIRGINIA LOTTERY

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

Years Ended June 30, 2008 and 2007

	2008	2007
Lottery revenues:		
On-line games	\$ 87,177	\$ 86,157
Instant games	110,862	106,493
Racetrack video lottery	897,953	972,592
Limited video lottery	411,587	397,017
Table games	15,877	-
	1,523,456	1,562,259
Less commissions:		
On-line games	6,114	6,019
Instant games	7,763	7,455
Racetrack video lottery	487,276	522,745
Limited video lottery	205,637	206,127
Table games	6,249	-
	713,039	742,346
Less on-line prize costs	44,544	43,380
Less instant prize costs	76,625	72,412
Less ticket costs	1,676	1,724
Less vendor fees and costs	5,928	5,777
	128,773	123,293
Gross profit	681,644	696,620
Administrative expenses:		
Advertising and promotions	8,658	9,035
Wages and related benefits	7,885	5,939
Telecommunications	2,275	2,298
Contractual and professional	4,099	3,507
Rental	685	662
Depreciation and amortization	732	569
Other administrative expenses	1,540	1,395
	25,874	23,405
Other operating income	11,937	10,397
Operating income	667,707	683,612
Nonoperating income (expense):		
Investment income	9,572	7,591
On-behalf payments - other post-employment benefits	472	-
Interest expense	(13)	(35)
Distributions to municipalities and counties	(8,067)	(7,782)
Distributions to racetracks-capital reinvestment	(17,988)	(20,997)
Distributions to the State of West Virginia	(631,155)	(639,150)
	(647,179)	(660,373)
Net income	20,528	23,239
Net assets, beginning of year, as restated	43,957	20,250
Net assets, end of year	\$ 64,485	\$ 43,489

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS

(In Thousands)

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash receipts from customers and other sources	\$ 1,531,642	\$ 1,564,351
Cash payments for:		
Personnel costs	(7,331)	(5,922)
Suppliers	(11,447)	(18,392)
Other operating costs	<u>(840,186)</u>	<u>(866,189)</u>
Cash provided by operating activities	<u>672,678</u>	<u>673,848</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(644,366)	(606,649)
Distributions to municipalities and counties	(8,049)	(7,755)
Distributions to racetracks from racetrack capital reinvestment fund	(20,997)	(29,724)
Interest paid on deferred jackpot prize obligations	<u>(13)</u>	<u>(35)</u>
Cash used in noncapital financing activities	<u>(673,425)</u>	<u>(644,163)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	<u>(4,532)</u>	<u>(871)</u>
Cash flows from investing activities:		
Maturities of investments held in trust	181	387
Investment earnings	<u>9,559</u>	<u>7,569</u>
Cash provided by investing activities	<u>9,740</u>	<u>7,956</u>
Increase in cash and cash equivalents	4,461	36,770
Cash and cash equivalents (including restricted cash and cash equivalents), beginning of year	<u>234,489</u>	<u>197,719</u>
Cash and cash equivalents (including restricted cash and cash equivalents), end of year	<u>\$ 238,950</u>	<u>\$ 234,489</u>

(Continued)

WEST VIRGINIA LOTTERY

STATEMENTS OF CASH FLOWS

(In Thousands)

(Continued)

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 667,707	\$ 683,612
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	732	569
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(3,751)	(8,305)
Inventory	132	155
Other assets	(1,432)	(184)
Increase (decrease) in:		
Estimated prize claims	(625)	(2,399)
Accounts payable	1,241	(1,293)
Other accrued liabilities	8,843	2,047
Deferred jackpot prize obligations	(169)	(354)
Cash provided by operating activities	<u>\$ 672,678</u>	<u>\$ 673,848</u>

SUPPLEMENTAL CASH FLOW INFORMATION:

On-behalf payments from State of West Virginia for OPEB obligation	<u>\$ 472</u>	<u>\$ -</u>
Cumulative effect of implementation of Governmental Accounting Standards Board Statement No. 45	<u>\$ 468</u>	<u>\$ -</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 and local governments as required by law. As the State is able to impose its will over the Lottery, the Lottery is considered a component unit of the State and its financial statements are presented in the comprehensive annual financial report of the State as a blended proprietary fund component unit.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lottery is presented below.

Basis of Presentation

The West Virginia Lottery is a component unit of the State of West Virginia, and is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, and with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Lottery has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and develop assumptions

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates (Continued)

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.

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; Cash25 “lotto” game; Daily 3 and 4 “numbers” games; and Travel, a daily “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 each week. No one retailer or agent accounts for a significant amount of the Lottery's sales or accounts receivable. Historically credit losses have been nominal and no allowance for doubtful accounts receivable is considered necessary.

Racetrack video lottery is a self-activated video version of lottery games. The board-operated games allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The games allow a player to use coins, currency, tokens, or tickets, to place bets for the chance to receive coin, token, or ticket awards which may be redeemed for cash or used

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lottery Game Operations (Continued)

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.

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

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of interest-earning deposits with the West Virginia Board of Treasury Investments (BTI) and are recorded at fair value.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of instant game tickets available for sale to approved Lottery retailers and are carried at cost.

Other Assets

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

Capital Assets

The Lottery leases, under a cancelable operating lease, its office and warehouse facilities. Portions of these facilities were subleased to the Lottery's game vendor through January 31, 2007. Sublease rental income for the year ended June 30, 2007, was \$60,508.

The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the years ended June 30, 2008 and 2007, was \$685,269 and \$662,349, respectively.

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

Compensated Absences

The Lottery has accrued \$371,165 and \$298,548 of vacation at June 30, 2008 and 2007, respectively, for estimated obligations that may arise in connection with compensated absences at the current rate of employee pay. Employees fully vest in all earned but unused vacation. In accordance with State personnel policies, employees hired prior to July 1, 2001, vest in unused sick leave only upon retirement, at which time such unused leave can be converted into employer paid premiums for post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits. For employees hired prior to July 1, 1988, the Lottery pays 100% of the post-retirement health care premium. The Lottery pays 50% of the premium for employees hired after June 30, 1988 through June 30, 2001. Employees hired after June 30, 2001, do not vest in unused sick leave upon retirement. To the extent that accumulated sick leave is expected to be converted to benefits on termination or retirement, a liability has been accrued as a result of the Lottery's participation in the State's post-employment benefits plan, in accordance with GASB Statement No. 45 for the year ended June 30, 2008, and GASB Statement No. 16 for the year ended June 30, 2007 of \$10,073 and \$467,954, respectively. See footnotes 3 and 14 for further information regarding the change in accounting principle affecting this estimate.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets are presented as either unrestricted, restricted by enabling legislation, as amended, or invested in capital assets which represents the net book value of all property and equipment of the Lottery.

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.

3 - CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET ASSETS

Beginning July 1, 2007, the West Virginia Lottery adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which provides guidance on all aspects of other postemployment benefit reporting by employers. As a result of adopting the new standard, the Lottery has restated net assets as of July 1, 2007, to account for the cumulative effect of the change in accounting principle related to accounting for other postemployment benefits. The effect of the restatement (expressed in thousands) was an increase to beginning unrestricted net assets of \$468.

4 - CASH AND CASH EQUIVALENTS

At June 30, 2008 and 2007, the carrying amounts of deposits (overdrafts) with financial institutions were (\$52) thousand and (\$8) thousand, respectively, with bank balances of \$14 thousand for each year. Of this balance \$100 thousand was covered by federal depository insurance. It is the Lottery's policy to require any balances over the insured amount be collateralized with securities held by the State of West Virginia's agent in the State's name.

At June 30, 2008 and 2007, the carrying amounts of deposits with financial institutions, the State Treasurer, and the West Virginia Board of Treasury Investments (BTI) were as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Deposits with financial institutions	\$ (52)	\$ (8)
Cash on hand at the Treasurer's Office	22,950	19,562
Investments with BTI reported as cash equivalents	<u>216,052</u>	<u>214,935</u>
	<u>\$ 238,950</u>	<u>\$ 234,489</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CASH AND CASH EQUIVALENTS (Continued)

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

The deposits with the BTI are part of the State of West Virginia's consolidated money market pool and are not separately identifiable as to specific types of securities. 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.

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

Security Type	Credit Rating		Carrying Value	Percent of Assets
	Moody's	S&P		
Commercial paper	P1	A-1	\$ 658,880	27.94%
Corporate bonds and notes	Aaa-Aa3	AAA-A	158,000	6.70
U.S. agency bonds	Aaa	AAA	254,019	10.77
U.S. Treasury bills *	Aaa	AAA	406,425	17.23
Negotiable certificates of deposit	P1	A-1	147,001	6.23
U.S. agency discount notes	P1	A-1	212,924	9.03
Money market funds	Aaa	AAA	150,058	6.36
Repurchase agreements, with Underlying U.S. agency and Treasury notes	Aaa	AAA	<u>371,163</u>	<u>15.74</u>
			<u>\$ 2,358,470</u>	<u>100.00%</u>

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

4 - CASH AND CASH EQUIVALENTS (Continued)

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

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>Weighted Average Maturity In Days</u>
Commercial paper	\$ 658,880	29
US Treasury bills	406,425	31
Repurchase agreements	371,163	1
U.S. Agency bonds/notes	254,019	111
Corporate notes	158,000	21
U.S. Agency discount notes	212,924	84
Certificates of deposit	147,001	95
Money market funds	<u>150,058</u>	1
Total assets	<u>\$ 2,358,470</u>	

The combined weighted average maturity of the investments of the West Virginia Money Market Pool as of June 30, 2008, is 40 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, 2008, 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, 2008, 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.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - CAPITAL ASSETS

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

Capital Assets

	Historical Cost at June 30, 2006	Additions	Deletions	Historical Cost at June 30, 2007	Additions	Deletions	Historical Cost at June 30, 2008
Construction in progress	\$ 476	\$ 443	\$ (476)	\$ 443	\$ 285	\$ (443)	\$ 285
Improvements	1,120	-	-	1,120	-	-	1,120
Equipment	<u>10,599</u>	<u>904</u>	<u>-</u>	<u>11,503</u>	<u>4,690</u>	<u>-</u>	<u>16,193</u>
	<u>\$ 12,195</u>	<u>\$ 1,347</u>	<u>\$ (476)</u>	<u>\$ 13,066</u>	<u>\$ 4,975</u>	<u>\$ (443)</u>	<u>\$ 17,598</u>

Accumulated depreciation

	Accumulated Depreciation at June 30, 2006	Additions	Deletions	Accumulated Depreciation at June 30, 2007	Additions	Deletions	Accumulated Depreciation at June 30, 2008
Improvements	\$ 848	\$ 77	\$ -	\$ 925	\$ 77	\$ -	\$ 1,002
Equipment	<u>10,198</u>	<u>492</u>	<u>-</u>	<u>10,690</u>	<u>655</u>	<u>-</u>	<u>11,345</u>
	<u>\$ 11,046</u>	<u>\$ 569</u>	<u>\$ -</u>	<u>\$ 11,615</u>	<u>\$ 732</u>	<u>\$ -</u>	<u>\$ 12,347</u>

6 - 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 and the HOT LOTTO™ game, on behalf of other participating lotteries. 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® and HOT LOTTO™ 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 \$54,052,429 and \$51,729,318 for the years ended June 30, 2008 and 2007, respectively, and related prize costs were \$27,028,773 and \$25,867,651, respectively.

Revenues derived from the Lottery's participation in the HOT LOTTO™ game were \$4,021,347 and \$4,726,225 for the years ended June 30, 2008 and 2007, respectively, and related prize costs were \$2,010,785 and \$2,488,245, respectively.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

MUSL places 2% of each POWERBALL® drawing period's sales in separate prize reserve funds that serve as contingency reserves to protect the respective MUSL Product Groups from unforeseen prize liabilities. Currently, the MUSL Board of Directors has placed a \$75,000,000 limit on the POWERBALL® Prize Reserve Fund and a \$25,000,000 limit on the Set Prize Reserve Fund. 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. At June 30, 2008 and 2007, the POWERBALL® prize reserve funds had a balance of \$98,237,975 and \$94,481,002, respectively, of which the Lottery's share was \$2,302,900 and \$2,279,750, respectively. The Lottery has charged amounts placed into the prize reserve funds to prize costs as the related sales have occurred.

7 - RACETRACK VIDEO LOTTERY

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

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

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

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - RACETRACK VIDEO LOTTERY (Continued)

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

A summary of racetrack video lottery revenues for the years ended June 30, 2008 and 2007, follows (in thousands):

	<u>2008</u>	<u>2007</u>
Total credits (bets) played	\$ 9,309,132	\$ 10,259,512
Credits (prizes) won	(8,407,279)	(9,282,449)
MWAP Contributions	<u>(3,900)</u>	<u>(4,471)</u>
Gross terminal income	897,953	972,592
Administrative costs	<u>(17,524)</u>	<u>(17,524)</u>
Net terminal income	880,429	955,068
Commissions	<u>(487,276)</u>	<u>(522,745)</u>
Racetrack video lottery revenues available for distribution	<u>\$ 393,153</u>	<u>\$ 432,323</u>

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

	<u>2008</u>	<u>2007</u>
State Lottery Fund	\$ 130,125	\$ 130,125
State Excess Lottery Revenue Fund	201,272	234,853
Capital Reinvestment Fund	17,988	20,997
Tourism Promotion Fund	11,264	12,151
Development Office Promotion Fund	3,072	3,314
Research Challenge Fund	4,096	4,418
Capitol Renovation and Improvement Fund	5,632	6,075
Parking Garage Fund	1,012	1,053
Cultural Facilities and Capitol Resources Fund	1,500	1,500
Capitol Dome and Capitol Improvements Fund	6,192	6,837
Workers Compensation Debt Reduction Fund	<u>11,000</u>	<u>11,000</u>
Total nonoperating distributions	<u>\$ 393,153</u>	<u>\$ 432,323</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

8 - 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 video lottery games, and requires any licensees to comply with all related rules and regulations of the Lottery in order to continue its licensed status. The limited video lottery legislation stipulates that 2% of 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, 2008 and 2007 follows (in thousands):

	2008	2007
Total credits played	\$ 5,003,696	\$ 4,832,651
Credits (prizes) won	(4,592,109)	(4,435,634)
Gross terminal income	411,587	397,017
Administrative costs	(8,231)	(7,942)
Gross profit	403,356	389,075
Commissions	(205,637)	(206,127)
Distributions to municipalities and counties	(8,067)	(7,782)
Limited video lottery revenues available for distribution	\$ 189,652	\$ 175,166

9 - TABLE GAMES

The successful passage of table games legislation in 2007 under House Bill 2718 allowed local referendums in each of the four counties in which a race track is located to approve table games. During 2008, two of the four race tracks were authorized to operate table games and a third will begin operating table games in fiscal year 2009.

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - TABLE GAMES (Continued)

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

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

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

The transfer to the state debt reduction fund is included in Note 10 - Nonoperating Distributions to the State of West Virginia. The table games adjusted gross receipts for the year ended June 30, 2008 was \$45,363,812. A summary of table games revenues for the year ended June 30, 2008 follows (in thousands):

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - TABLE GAMES (Continued)

	2008
Table games privilege tax	\$ 15,877
Interest on table games fund	29
Administrative costs	(1,361)
Total available for distribution	14,545
<u>Less distributions:</u>	
Racetrack purse funds	1,134
Thoroughbred & greyhound development funds	907
Racing commission pension plan	437
Municipalities/counties	3,771
Total distributions	6,249
Table games distribution to the state debt reduction fund	\$ 8,296

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, 2008 and 2007, the State Legislature budgeted \$169,940,108, and \$170,100,000, respectively of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000 and \$1,000,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently debt service payments are \$2,900,000 per month for the first ten months of each fiscal year. In addition, Legislation provides that, if in any month, there is a shortage of funds in the State Excess Lottery Revenue Fund to make debt service payments, the necessary amount shall be transferred from the State Lottery Fund to cover such shortfall, after the State Lottery Fund debt service payments have been made. Repayments to the State Lottery Fund are required to be made in subsequent months as funds become available. During the years ended June 30, 2008 and 2007, the Lottery made or accrued all budgeted distributions and accrued additional distributions of \$31,671,035 and \$32,219,961, respectively. The Lottery does not have a legally adopted annual budget.

Since the enactment of the Racetrack Video Lottery Act, the Lottery is also statutorily required to distribute income from racetrack video lottery operations as described in Note 7. As of June 30, 2008 and 2007, the Lottery accrued additional distributions relating to racetrack video lottery operations in the amounts of \$750,964 and \$645,530, respectively.

Note 8 describes the Limited Video Lottery Act and the statutory distributions required to be made from limited video lottery operations. Note 9 describes the Table Games Act and the statutory distributions required to be made from table games operations.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

	<u>2008</u>	<u>2007</u>
<u>Budgetary distributions:</u>		
<u>State Lottery Fund:</u>		
Bureau of Senior Services	\$ 59,826	\$ 42,136
Department of Education	34,908	32,704
Library Commission	10,538	10,522
Higher Education - Central Office	19,351	38,834
Tourism	7,943	7,868
Natural Resources	15,436	3,428
Division of Culture & History	5,526	5,222
Department of Education & Arts	1,427	1,385
Building Commission	9,997	9,998
School Building Authority	17,995	18,000
Total State Lottery Fund	<u>182,947</u>	<u>170,097</u>
<u>State Excess Lottery Revenue Fund:</u>		
General Purpose Account	65,000	65,000
Education Improvement Fund	27,000	27,000
WV Infrastructure Council Fund	40,000	40,000
Higher Education Improvement Fund	10,000	10,000
State Park Improvement Fund	5,000	5,000
School Building Authority	19,000	19,000
Economic Development Fund	19,000	19,000
Refundable Credit - General Revenue Fund	7,325	3,991
Excess Lottery Surplus	68,400	96,200
Retirement Board - Teachers	-	69,016
Natural Resources	-	13,330
Joint Expenses	-	20,000
Office of Technology	2,000	1,857
Development Office	29,000	50
Division of Finance	5,000	-
Division of Health	3,492	-
Department of Military Affairs and Public Safety	10,000	-
Division of Corrections	3,500	-
Higher Education Policy Commission	96,155	-
Total State Excess Lottery Revenue Fund	<u>409,872</u>	<u>389,444</u>
Total Budgetary Distributions	<u>592,819</u>	<u>559,541</u>
Veterans Instant Ticket Fund	<u>699</u>	<u>909</u>

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

<u>Other racetrack video lottery distributions:</u>		
Tourism Promotion Fund	11,228	12,099
Miscellaneous programs	<u>32,435</u>	<u>34,100</u>
	<u>43,663</u>	<u>46,199</u>
Table games state reduction fund	<u>7,185</u>	<u>-</u>
Total nonoperating distributions to the State of West Virginia (cash basis)	644,366	606,649
Accrued nonoperating distributions, beginning of year	(180,178)	(147,677)
Accrued nonoperating distributions, end of year	<u>166,967</u>	<u>180,178</u>
Total nonoperating distributions to the State of West Virginia	<u>\$ 631,155</u>	<u>\$ 639,150</u>

11 - RESTRICTED NET ASSETS

On June 14, 2006, House Bill 106 was enacted by the West Virginia State Legislature to set aside unexpended administrative expenses of the Lottery up to the limits for such expenses established by the enabling legislation of traditional, racetrack video lottery, and limited video lottery games in an amount not to exceed \$20,000,000 beginning in fiscal year 2006 and each year through fiscal year 2012. These assets are to be set aside in the revenue center construction fund for the design and construction of a building in the West Virginia Capitol Complex for the use of the Lottery and certain other State of West Virginia governmental entities. The Lottery contributed \$16,305,938 and related interest of \$1,354,095 for the year ended June 30, 2008 and \$9,539,860 and related interest of \$827,008 for the year ended June 30, 2007.

During the year ended June 30, 2008, a commitment in the amount of \$10,460,140 of unrestricted net assets set aside by the Lottery Commission at June 30, 2007, for a future asset purchase was cancelled. This amount was then determined to be unexpended administrative expenses and transferred to the revenue center construction fund.

12 - DEFERRED JACKPOT OBLIGATIONS AND INVESTMENTS HELD IN TRUST

Prior to becoming a member of the Multi-State Lottery (MUSL) in 1988, the prize structure of certain games operated solely by the Lottery included jackpot prizes. The Lottery, at its discretion, could choose to award such prizes in the form of either a lump sum payment or in equal installments over a period of 10 or 20 years. Through June 30, 2008, the Lottery has awarded twenty-one deferred jackpot prizes totaling approximately \$28,868,786. Deferred prize awards were recognized as prize liabilities equivalent to the present value of future prize payments discounted at interest rates for government securities in effect on the date prizes were won. The imputed portion of the deferred prize awards

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS
(Continued)

**12 - DEFERRED JACKPOT OBLIGATIONS AND INVESTMENTS HELD IN TRUST
(Continued)**

is calculated using the effective interest method at rates ranging from 7.11% to 9.13%. Total jackpot prize obligations paid during the years ended June 30, 2008 and 2007, were \$182,500 and \$388,750, respectively, with \$23,490 and \$52,700 of such payments, respectively, being equivalent to interest. A summary of the present value of the remaining obligations for deferred jackpot prize awards follows (in thousands):

	<u>2008</u>	<u>2007</u>
Present value of deferred prize award obligations:		
Discounted obligations outstanding	\$ 120	\$ 279
Imputed interest accrued	<u>9</u>	<u>19</u>
	129	298
Less current portion of discounted obligations and accrued interest	<u>(129)</u>	<u>(159)</u>
Long-term portion of deferred prize award obligations	<u>\$ -</u>	<u>\$ 139</u>

Future cash payments on deferred prize obligations for the year ended June 30, 2008, include original discounted obligations outstanding (in thousands) of \$120 and imputed interest of \$9.

The Lottery has purchased long-term investments consisting principally of zero coupon government securities to fund deferred jackpot prize award obligations. Such investments are maintained in a separate trust fund administered by the West Virginia Board of Treasury Investments on behalf of the Lottery and the jackpot prize winners, with investment maturities approximating deferred prize obligation installment due dates. Investments are carried at fair value determined by quoted market prices for the specific obligations or for similar obligations. Changes in fair value are included as part of investment income. These securities are not exposed to credit risk, custodial credit risk, concentration of credit risk, or foreign currency risk. Due to the nature of these investments, maturity restrictions are not addressed as a means of managing exposure to fair value losses due to increasing interest rates. The weighted average maturity is 44 days.

13 - RETIREMENT BENEFITS

All full-time Lottery employees are eligible and required to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit public employee retirement system. The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement Board (CPRB) under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and nine members appointed by the Governor. CPRB prepares separately issued financial statements for each retirement system it administers, which can be obtained from Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, West Virginia 25305-0720.

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

13 - RETIREMENT BENEFITS (Continued)

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 10.5% of covered employees' salaries to the PERS. The required employee and employer contribution percentages have been established and changed from time to time by action of the 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 2008, 2007, and 2006, were as follows (in thousands)

	2008	2007	2006
Lottery contributions	\$ 556	\$ 452	\$ 436
Employee contributions	237	192	187
Total contributions	\$ 793	\$ 644	\$ 623

14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The GASB has issued Statement No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, and Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”* (OPEB). The GASB statements are based on the premise that the “costs” of employee services should be reported during the periods when the services are rendered. Beginning with fiscal year ending June 30, 2008, the State will implement accounting and financial reporting requirements as an employer under GASB Statement No. 45. The financial statements will report OPEB funded status and funding progress and any “premium subsidy” resulting from the pooling of retiree participants with active employees in the health benefit plans. For “employer” OPEB reporting the State will report “expense” on an accrual basis in the amount of the “annual required contribution” and a “liability” for the amount of the “annual required contribution” that was not actually paid.

Funds have not been set aside to pay future costs of retirees, but the Legislature in response to the GASB statements, has made statutory changes to create the West Virginia Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust fund, in which employer contributions for future retiree health costs may be accumulated and invested, and which is expected to facilitate the separate financial reporting of OPEB. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB Statement No. 43, the Annual Required Contribution (the ARC) which shall be sufficient to

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS (Continued)

14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

maintain the RHBT in an actuarially sound manner. The ARC shall be allocated to respective employers including the Lottery who are required by law to remit at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residual funds held in trust for future OPEB costs.

Plan Description

The Lottery participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia, 25305-0710, or by calling 1-888-680-7342.

Funding Policy

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

The ARC rate is \$461 per employee per month. Through June 30, 2008, the Lottery has paid premiums of \$98,625 and the State of West Virginia, on the Lottery's behalf, has paid \$472,247 towards the Annual Required Contribution. As of June 30, 2008 the Lottery has recorded a liability of \$10,073 on its balance sheet for OPEB.

15 - RISK MANAGEMENT

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

WEST VIRGINIA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

15 - RISK MANAGEMENT (Continued)

Public Employees' Insurance Agency (PEIA)

The Lottery participates in the Public Employees Insurance Agency (PEIA) which provides an employee benefit insurance program to employees. PEIA was established by the State of West Virginia for State agencies, institutions of higher education, Boards of Education and component units of the State.

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

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

Board of Risk and Insurance Management (BRIM)

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

Workers Compensation Insurance

The Lottery carries workers compensation insurance coverage through a privatized business entity, BrickStreet Mutual Insurance Company (BrickStreet), established January 1, 2006, and named the administrator of former state workers' compensation fund activities. BrickStreet is paid a monthly administrative fee and rated premium to provide compensation for injuries sustained in the course of employment. The monthly administrative fee for the Lottery has been set at levels consistent with prior year payments and any rate or premium increases will be established on an experience rated basis.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
(Continued)

15 - RISK MANAGEMENT (Continued)

Workers Compensation Insurance (Continued)

The Lottery participates in the BrickStreet experience rated pool, which is rate adjusted on a quarterly basis. The BrickStreet risk pool retains all risk related to the compensation of injured employees under the program in exchange for the premiums paid.

16 - COMMITMENTS

The Lottery Commission has designated unexpended administrative funds for the acquisition of future capital assets. As of June 30, 2008, \$5,497,770 is included in unrestricted net assets for this purpose.

Statistical Section

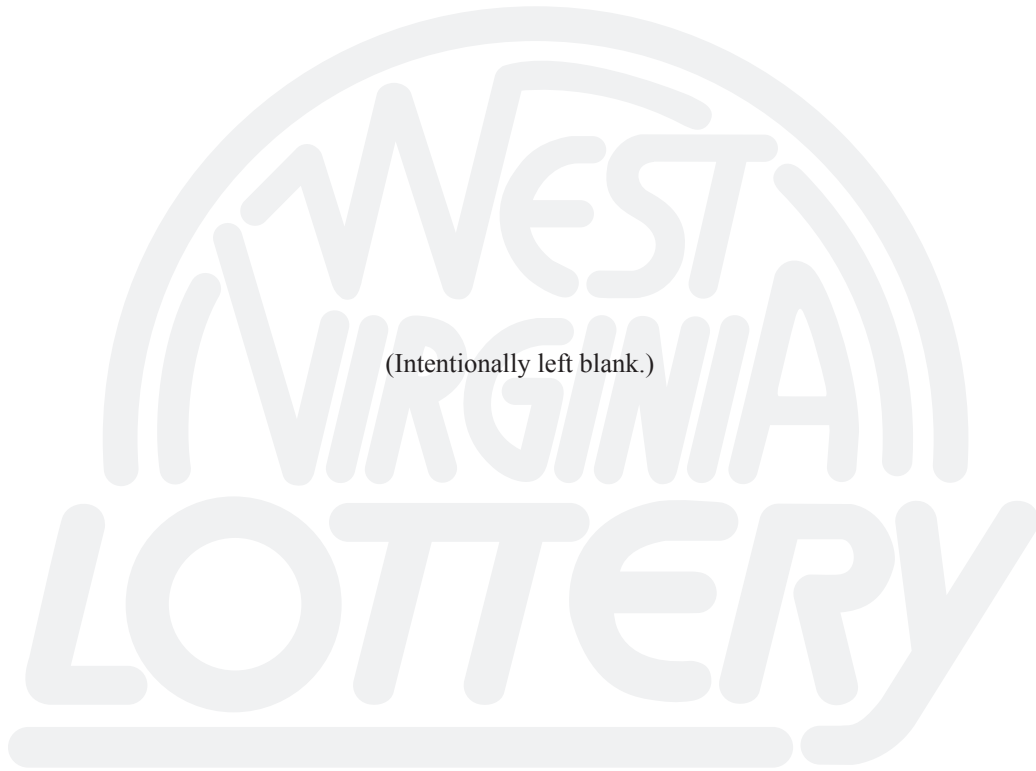
Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2008



There are more than 1,600 Limited Video Lottery retailers in West Virginia. These retailers have helped provide the revenue for thousands of West Virginia students to further their education through the PROMISE scholarship program.



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



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STATISTICAL SECTION OVERVIEW

This section of the West Virginia Lottery's comprehensive annual financial report depicts charts and graphs to assist 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, video lottery and table games segments. The continued expansion of gaming options and the Lottery's commitment to quality in all phases of its operations has successfully yielded comparable revenues in an ever changing, highly competitive market place.

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 personal income distribution, per capita income and competitive revenues generated by other lottery systems are relevant in assessing the Lottery's performance.

Operating Information

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

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

	1999	2000	2001	2002
Instant	\$79,221,206	\$75,307,218	\$74,400,373	\$94,322,791
Powerball®	81,787,022	49,369,362	48,359,522	75,911,123
Other MUSL games	1,880,150	1,116,973	1,415,871	1,525,689
Daily 3	11,161,443	10,995,841	10,167,011	10,076,565
Daily 4	5,128,167	4,991,057	4,735,252	4,695,641
Cash 25	6,553,107	8,110,925	6,522,114	6,614,501
Travel Keno	16,324,949	14,889,413	13,201,103	13,757,028
Total On-line	\$122,834,838	\$89,473,571	\$84,400,873	\$112,580,547
Video (net of prizes)				
Racetrack	\$190,559,920	\$283,185,694	\$438,090,521	\$595,946,640
Limited	-	-	-	\$45,760,647
Table Games	-	-	-	-
Total Sales	\$392,615,964	\$447,966,483	\$596,891,767	\$848,610,625
License Fees	186,737	168,873	220,200	14,574,772
Miscellaneous	435,610	447,700	986,612	942,569
Other Operating Income	\$622,347	\$616,573	\$1,206,812	\$15,517,341
Nonoperating Income	\$1,487,954	\$2,728,569	\$2,979,816	\$7,190,034
Total Revenues	\$394,726,265	\$451,311,625	\$601,078,395	\$871,318,000

Expenses, Distributions and Net Income Last Ten Fiscal Years

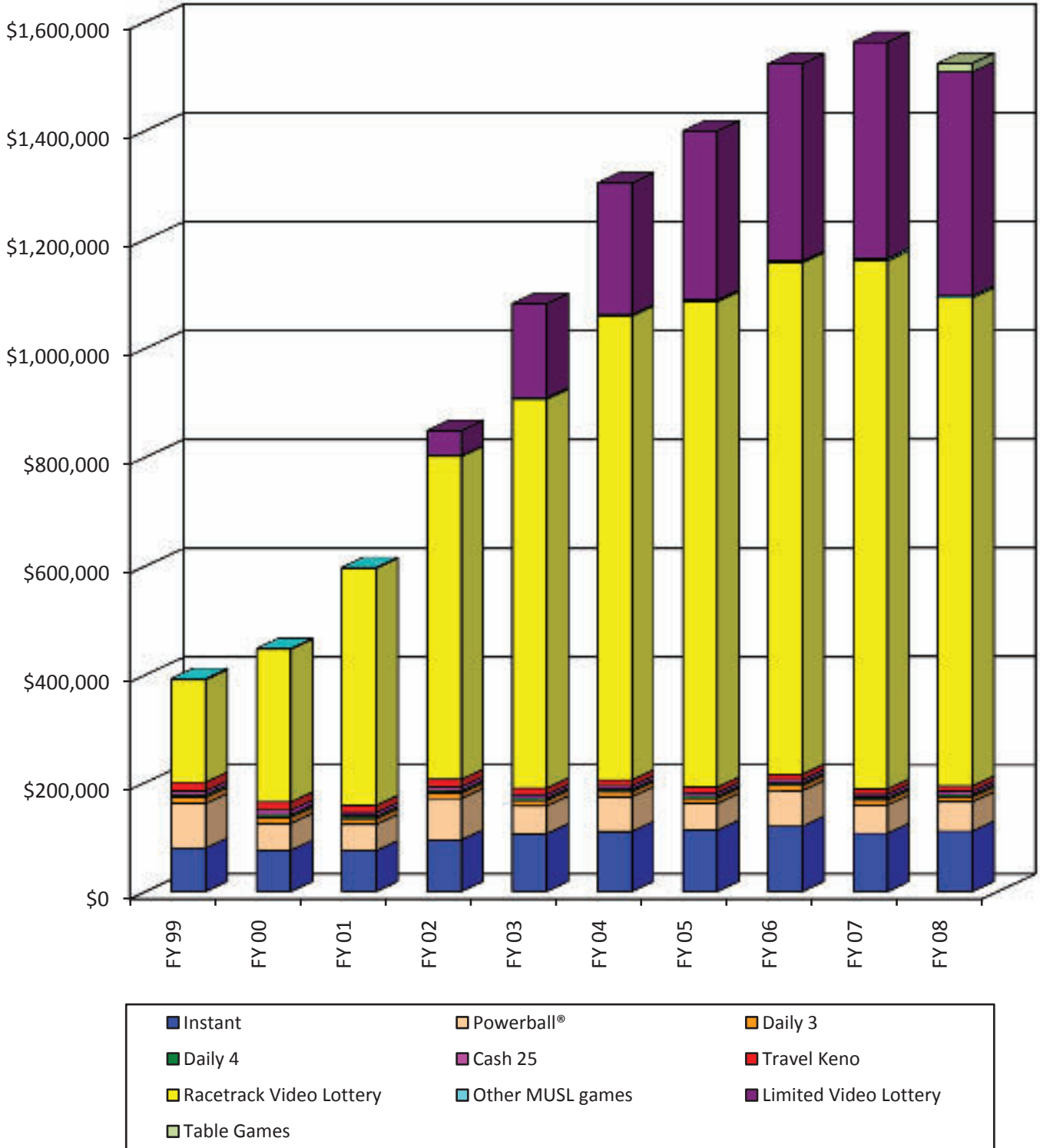
	1999	2000	2001	2002
Prizes (traditional)	\$113,294,606	\$94,935,060	\$93,128,321	\$120,180,048
Commissions				
Instant	4,951,360	4,706,719	4,650,043	5,896,537
On-line	7,674,920	5,588,736	5,267,767	7,041,257
Racetrack	124,227,319	184,687,177	286,275,466	354,762,709
Limited	-	-	-	31,391,705
Table Games	-	-	-	-
Total Commissions	\$136,853,599	\$194,982,632	\$296,193,276	\$399,092,208
Administration (includes ticket costs)	\$25,325,112	\$21,752,086	\$22,520,013	\$30,360,103
Total Operating Expenses	\$275,473,317	\$311,669,778	\$411,841,610	\$549,632,359
Nonoperating Distributions				
Municipalities and Counties	-	-	-	-
Capital Reinvestment Fund	-	-	-	5,811,039
State of West Virginia	119,252,948	139,641,847	189,236,785	315,874,602
Total Distributions	\$119,252,948	\$139,641,847	\$189,236,785	\$321,685,641
Net Income	\$0	\$0	\$0	\$0

2003	2004	2005	2006	2007	2008
\$105,395,146	\$109,843,864	\$111,863,092	\$119,123,846	\$106,493,081	\$110,862,020
51,067,026	63,373,462	49,214,536	65,530,836	51,729,318	54,052,429
2,805,269	2,579,140	3,342,726	3,324,293	4,726,225	4,021,347
9,927,812	9,386,172	9,293,550	9,394,009	9,265,281	9,124,536
4,724,179	4,540,767	4,421,188	4,523,509	4,660,620	4,622,396
6,242,641	6,190,917	6,112,910	5,936,395	6,006,570	5,752,037
11,924,361	10,953,721	9,966,638	10,249,487	9,769,174	9,603,308
\$86,691,288	\$97,024,179	\$82,351,548	\$98,958,529	\$86,157,188	\$87,176,053
\$717,079,486	\$854,858,062	\$894,530,565	\$942,250,631	\$972,591,775	\$897,952,931
\$172,743,695	\$241,710,952	\$310,328,583	\$362,181,294	\$397,016,887	\$411,587,201
-	-	-	-	-	\$15,877,334
\$1,081,909,615	\$1,303,437,057	\$1,399,073,788	\$1,522,514,300	\$1,562,258,931	\$1,523,455,539
11,485,136	13,610,521	15,789,742	10,445,040	9,864,349	11,225,977
605,467	503,013	578,477	748,276	532,596	710,975
\$12,090,603	\$14,113,534	\$16,368,219	\$11,193,316	\$10,396,945	\$11,936,952
\$813,454	\$474,138	\$1,923,223	\$5,152,532	\$7,556,505	\$10,031,139
\$1,094,813,672	\$1,318,024,729	\$1,417,365,230	\$1,538,860,148	\$1,580,212,381	\$1,545,423,630

2003	2004	2005	2006	2007	2008
\$114,651,424	\$123,263,630	\$117,125,999	\$131,903,210	\$115,792,130	\$121,169,284
7,377,661	7,689,770	7,831,524	8,338,753	7,454,496	7,762,564
6,086,088	6,772,587	5,767,083	6,936,315	6,019,193	6,113,745
412,325,047	477,797,417	496,649,792	508,326,365	522,744,477	487,276,099
99,799,713	137,388,489	173,115,051	195,112,272	206,127,102	205,636,799
-	-	-	-	-	6,249,023
\$525,588,509	\$629,648,263	\$683,363,450	\$718,713,705	\$742,345,268	\$713,038,230
\$29,452,769	\$31,980,883	\$29,622,628	\$31,329,670	\$30,905,929	\$33,478,401
\$669,692,702	\$784,892,776	\$830,112,077	\$881,946,585	\$889,043,327	\$867,685,915
3,385,776	4,737,535	6,083,020	7,098,999	7,781,531	8,067,110
10,695,115	16,250,347	17,849,943	19,774,016	20,997,371	17,987,933
411,040,079	512,144,071	563,320,190	610,040,548	639,150,849	631,155,117
\$425,120,970	\$533,131,953	\$587,253,153	\$636,913,563	\$667,929,751	\$657,210,160
\$0	\$0	\$0	\$20,000,000	\$23,239,303	\$20,527,555

WEST VIRGINIA LOTTERY

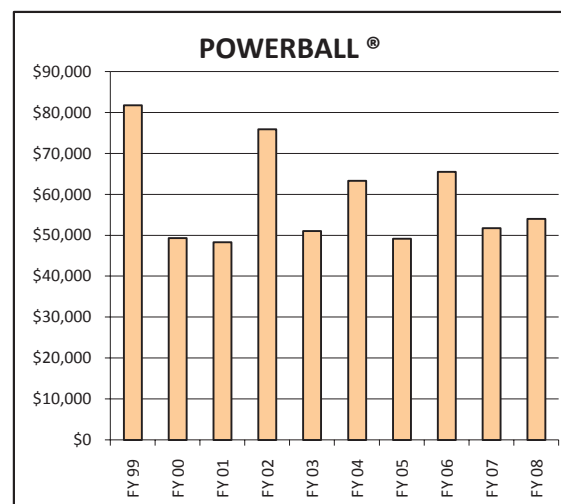
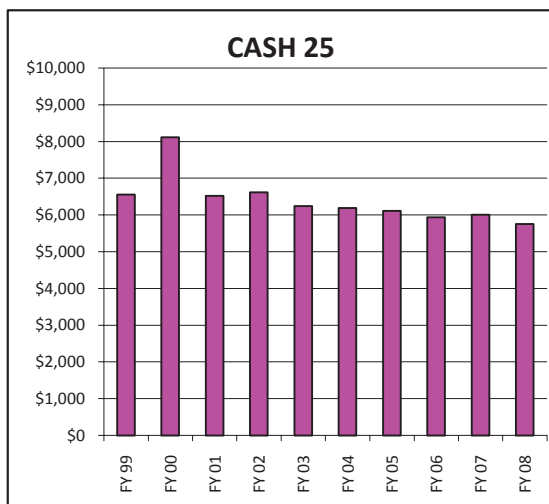
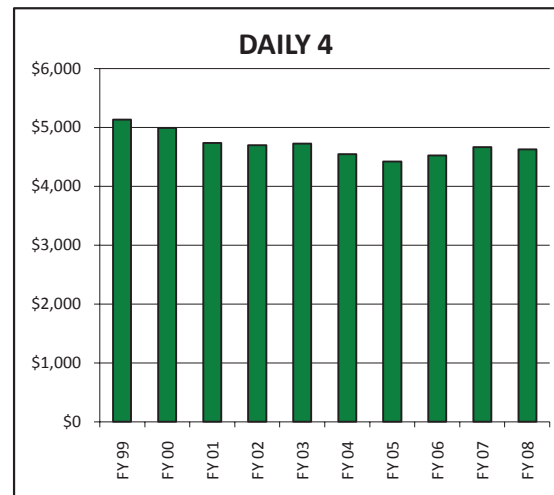
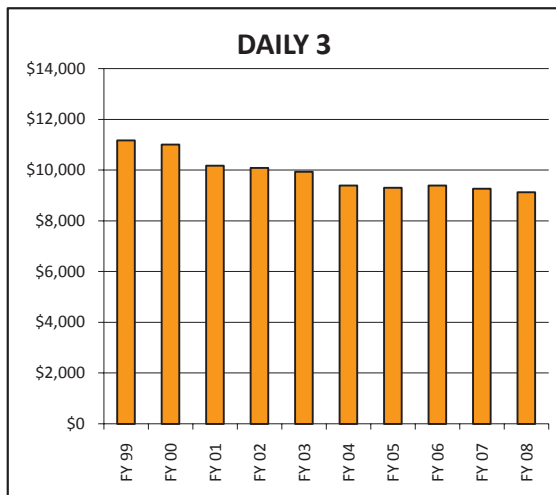
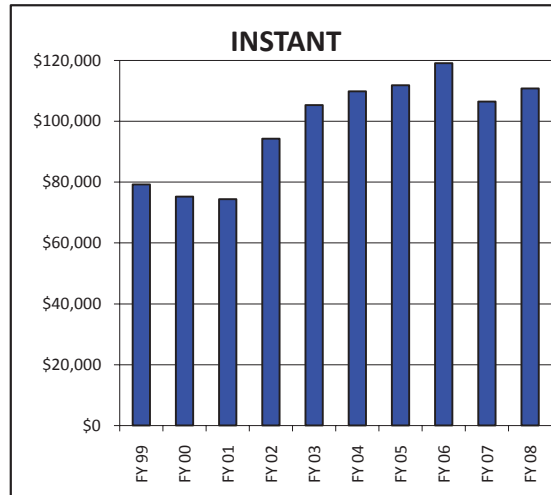
Sales By Product Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

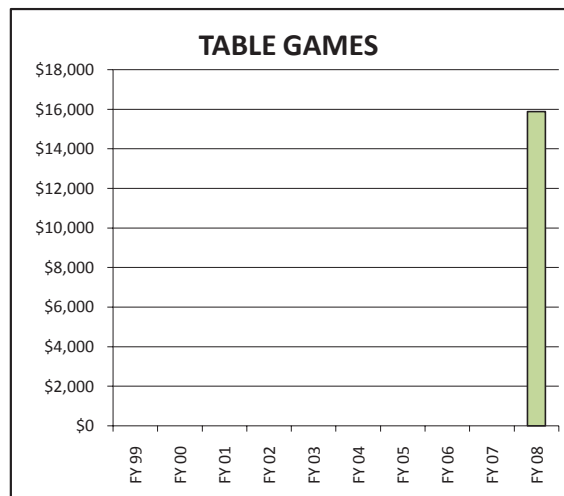
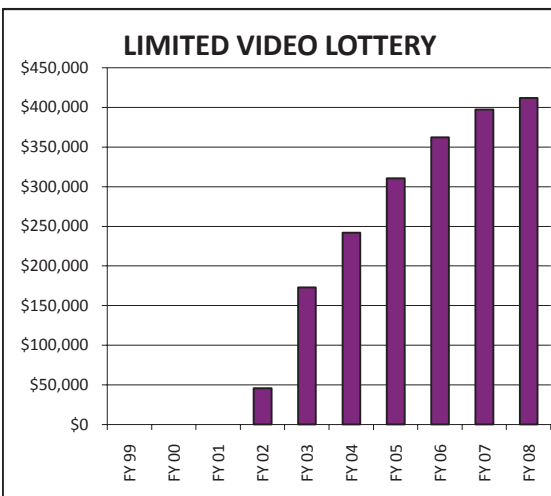
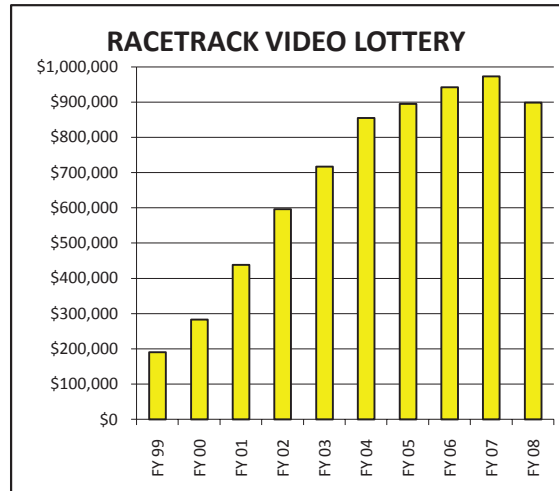
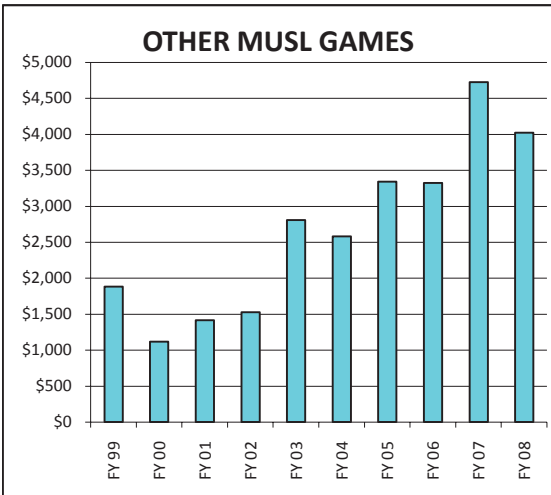
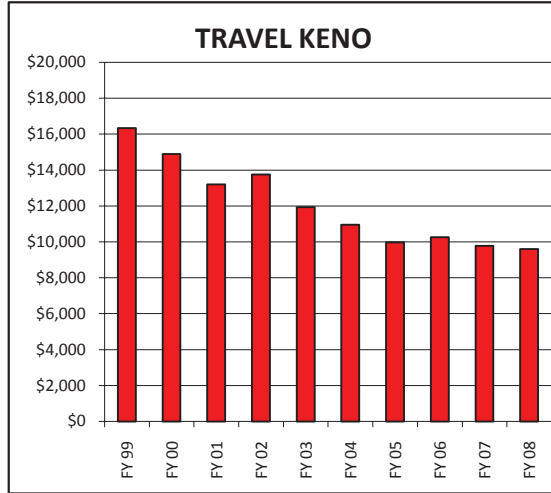
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

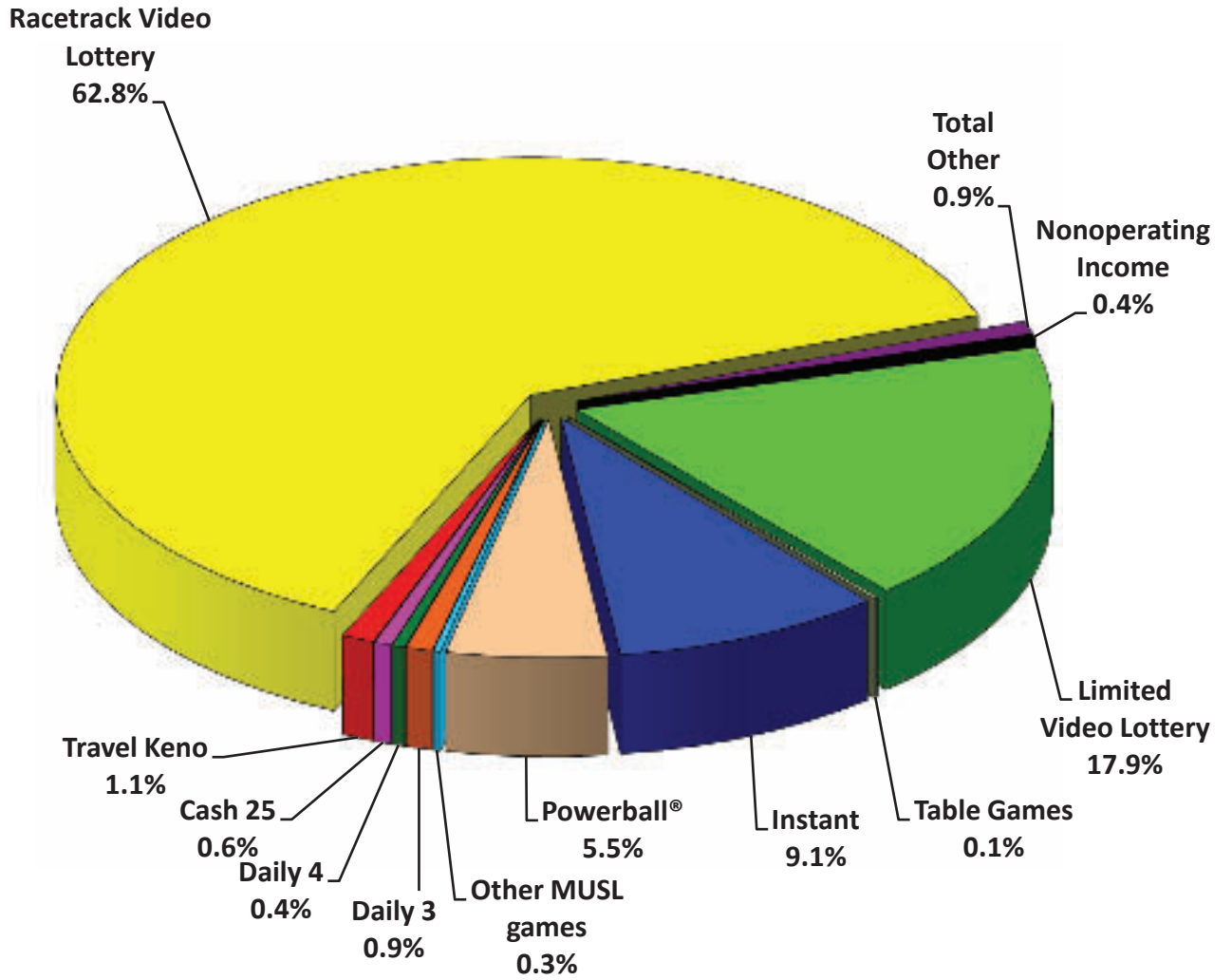
Sales By Product Line Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

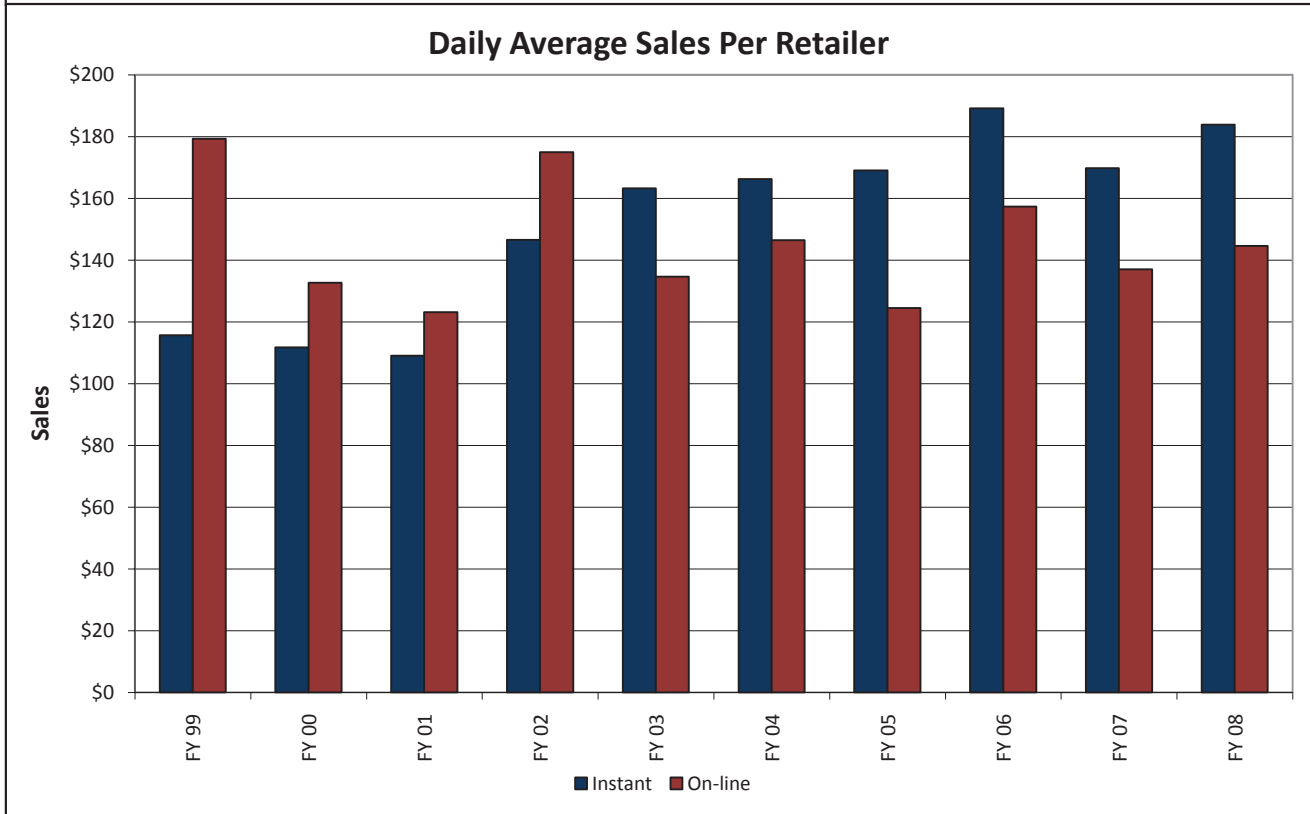
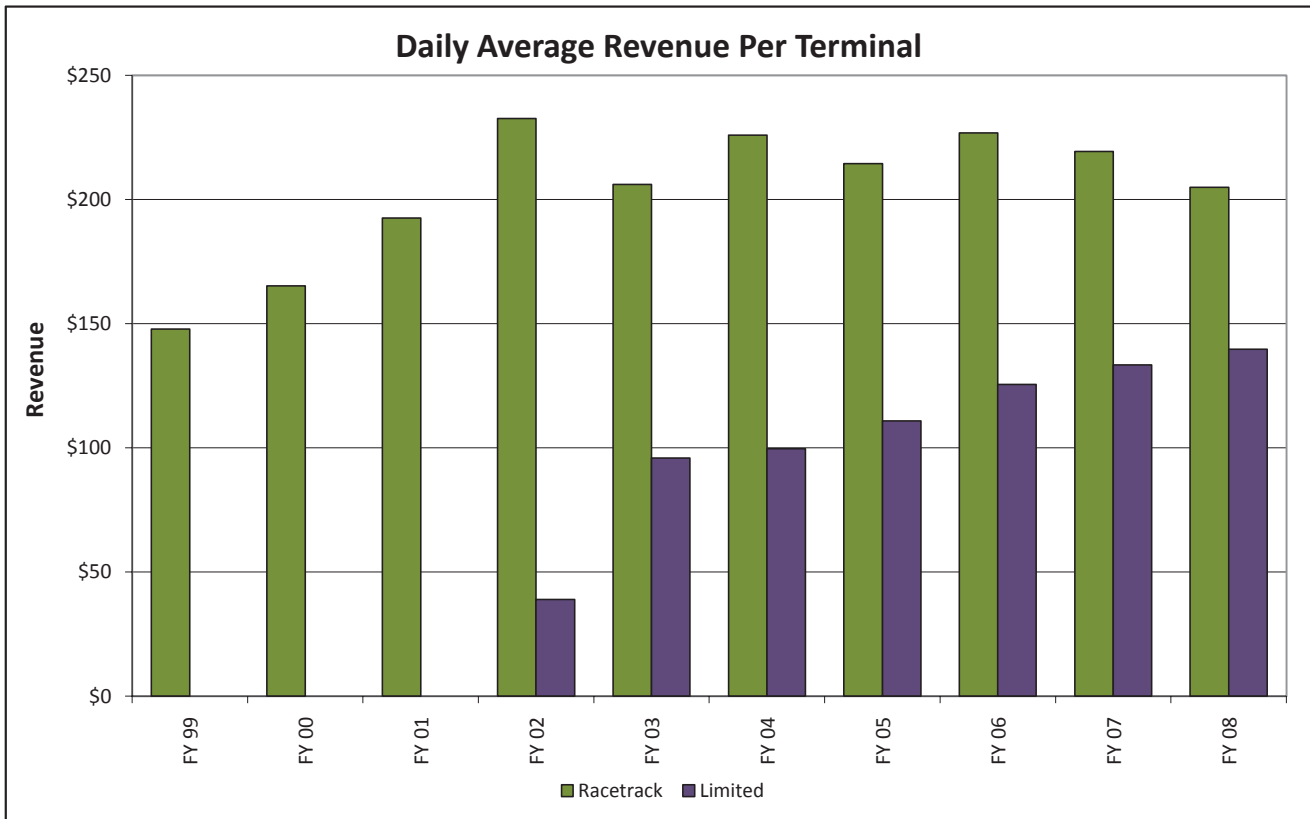
Total Revenues \$10,813,134,075
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

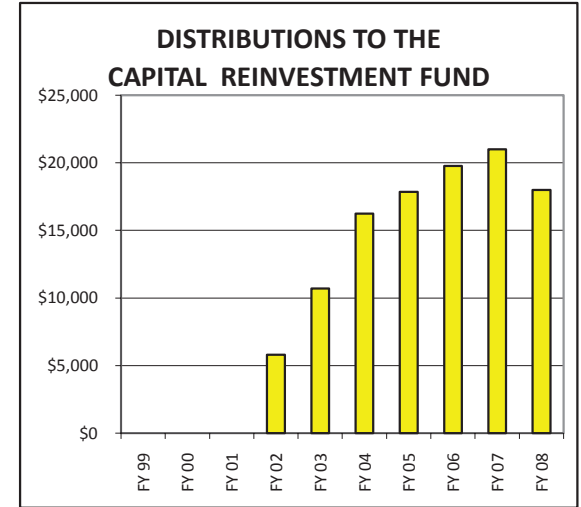
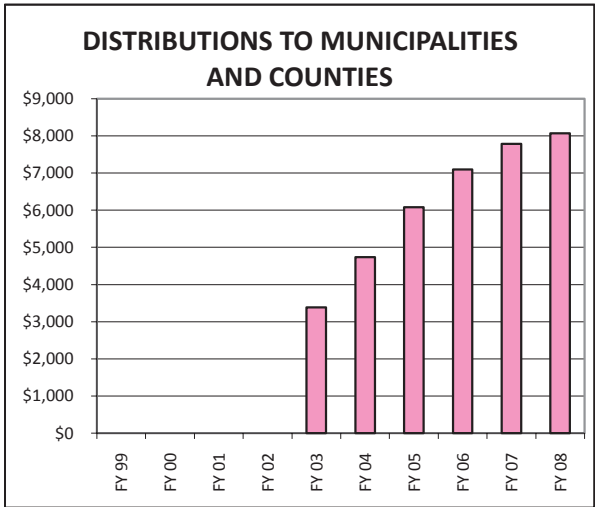
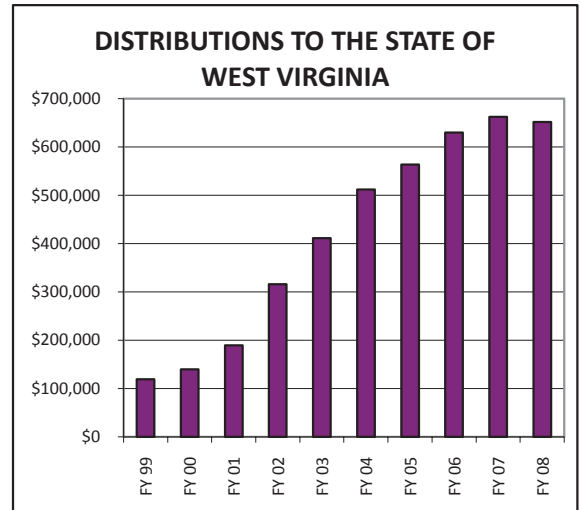
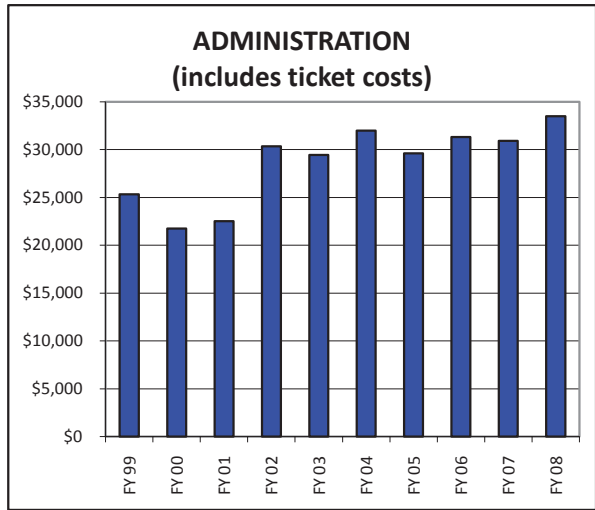
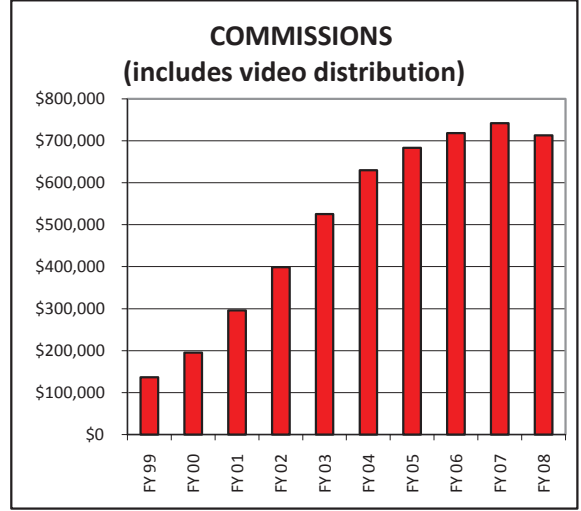
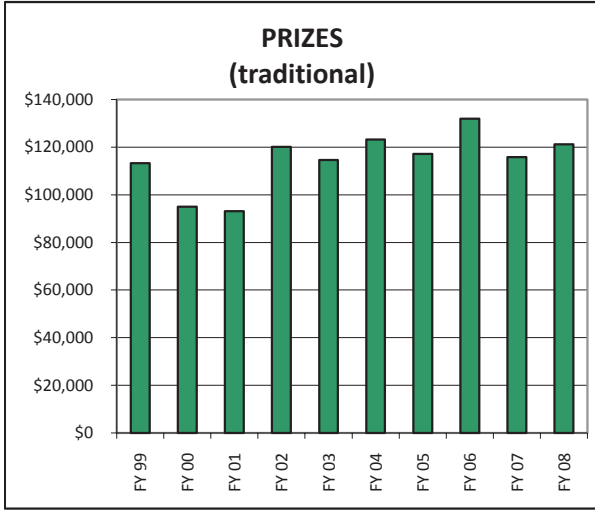
Daily Averages Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

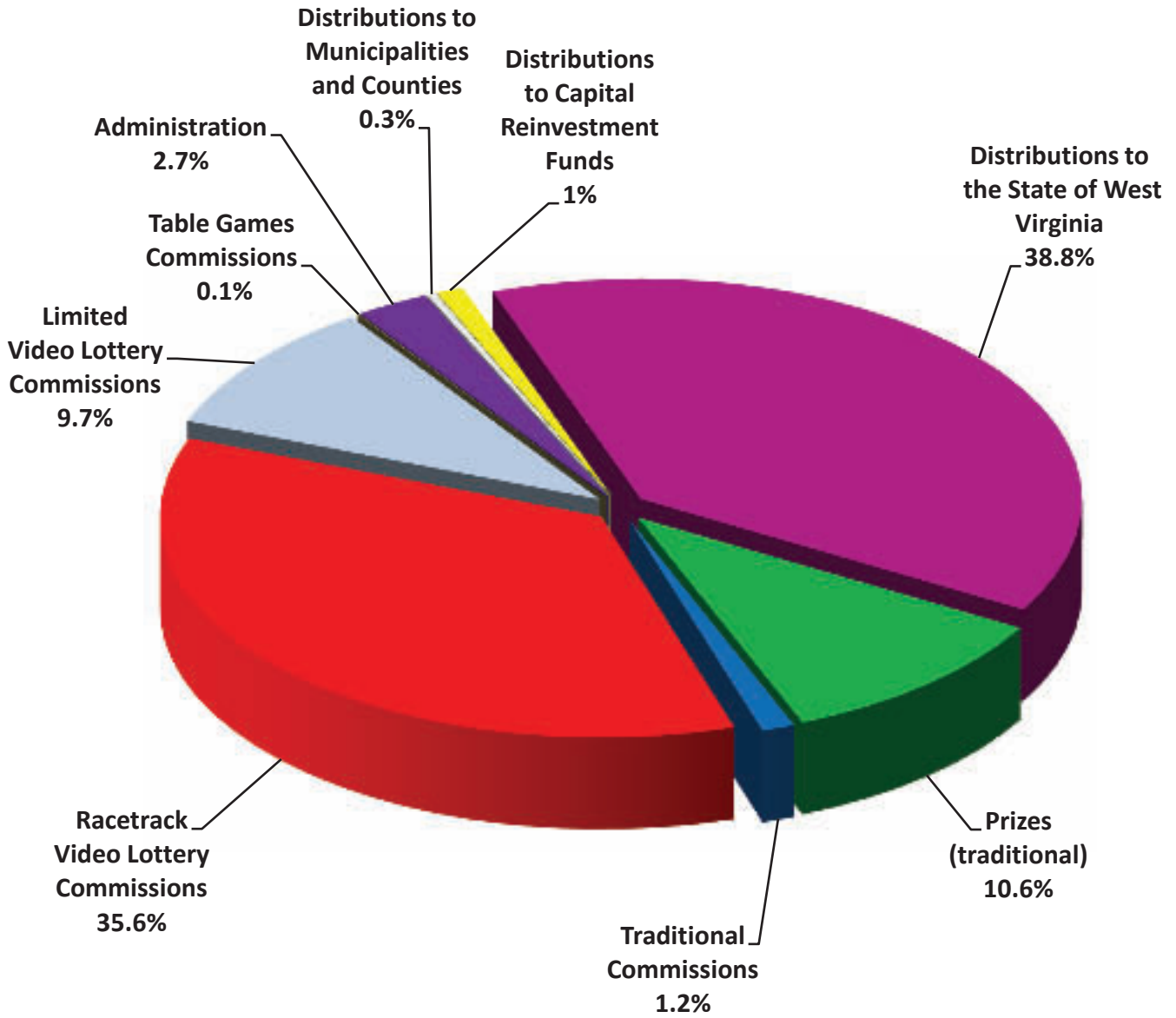
Expenses and Nonoperating Distributions Last Ten Fiscal Years (000's)



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

Total Expenses and Nonoperating Distributions \$10,813,134,075
Last Ten Fiscal Years



Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

Total Net Assets (000's)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net Assets							
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 20,000	\$ 30,367	\$ 58,487
Invested in capital assets	6,195	4,754	3,184	2,024	1,149	1,451	5,251
Unrestricted (deficit)	(5,945)	(4,504)	(2,934)	(1,774)	(899)	11,671	747
Total net assets	\$ 250	\$ 250	\$ 250	\$ 250	\$ 20,250	\$ 43,489	\$ 64,485 ⁽¹⁾

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

⁽¹⁾Beginning July 1, 2007, the West Virginia Lottery adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which provides guidance on all aspects of other postemployment benefit reporting by employers. As a result of adopting the new standard, the Lottery has restated net assets as of July 1, 2007, to account for the cumulative effect of the change in accounting principle related to accounting for other postemployment benefits. The effect of the restatement (expressed in thousands) was an increase to beginning unrestricted net assets of \$468.

Source: West Virginia Lottery

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2007 (\$ millions)

	Sales	Profit	Population	Sales/Capita
Arizona	\$462.20	\$139.92	6.3	\$73.37
California	\$3,318.00	\$1,176.93	36.6	\$90.66
Colorado	\$455.93	\$118.99	4.9	\$93.05
Connecticut	\$957.03	\$279.00	3.5	\$273.44
Delaware ¹	\$753.94	\$256.70	0.9	\$837.71
District of Columbia ⁵	\$257.80	\$65.38	0.6	\$429.67
Florida	\$4,122.17	\$1,263.27	18.3	\$225.26
Georgia	\$3,421.70	\$853.55	9.5	\$360.18
Idaho	\$130.53	\$34.00	1.5	\$87.02
Illinois	\$2,021.33	\$626.68	12.9	\$156.69
Indiana	\$789.05	\$215.98	6.3	\$125.25
Iowa	\$235.10	\$58.10	3.0	\$78.37
Kansas	\$240.00	\$71.02	2.8	\$85.71
Kentucky	\$744.22	\$196.29	4.2	\$177.20
Louisiana	\$354.19	\$128.35	4.3	\$82.37
Maine		\$50.62	1.3	
Maryland	\$1,577.31	\$494.12	5.6	\$281.66
Massachusetts	\$4,460.91	\$892.20	6.4	\$697.02
Michigan ⁵	\$2,342.60	\$748.90	10.1	\$231.94
Minnesota	\$422.61	\$112.36	5.2	\$81.27
Missouri	\$935.10	\$257.80	5.9	\$158.49
Montana	\$41.56	\$11.42	1.0	\$41.56
Nebraska	\$114.49	\$29.19	1.8	\$63.61
New Hampshire	\$263.94	\$78.91	1.3	\$203.03
New Jersey	\$2,350.89	\$826.32	8.7	\$270.22
New Mexico	\$148.03	\$34.83	2.0	\$74.02
New York ^{1,3}	\$7,175.10	\$2,358.00	19.3	\$371.77
North Carolina	\$889.32	\$314.35	9.1	\$97.73
North Dakota	not reported	not reported	0.6	
Ohio	\$2,259.40	\$669.30	11.5	\$196.47
Oklahoma	\$215.10	\$69.38	3.6	\$59.75
Oregon ¹	\$1,221.94	\$656.46	3.7	\$330.25
Pennsylvania	\$3,076.34	\$950.10	12.4	\$248.09
Rhode Island ²	\$1,806.22	\$321.00	1.1	\$1,642.02
South Carolina	\$988.16	\$277.11	4.4	\$224.58
South Dakota ²	\$692.50	\$121.07	0.8	\$865.63
Tennessee	\$1,058.36	\$284.20	6.0	\$175.23
Texas ⁴	\$3,774.18	\$1,034.10	23.9	\$157.92
Vermont	\$104.52	\$23.42	0.6	\$174.20
Virginia	\$1,362.34	\$437.10	7.7	\$176.93
Washington	\$492.59	\$117.89	6.5	\$75.78
West Virginia ¹	\$1,562.26	\$639.00	1.8	\$867.92
Wisconsin	\$492.57	n/a	5.6	\$87.96
Total	\$58,091.53	\$17,293.31	283.5	\$11,030.95

2008 data source: NASPL website: www.NASPL.org

³Fiscal Year ends 3/31

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

⁴Fiscal Year ends 8/31

²Includes gross VLT sales (Cash in)

⁵Fiscal Year ends 9/30

WEST VIRGINIA LOTTERY

U.S. Lotteries Unaudited Sales For Fiscal Year 2008 (\$ millions) Excludes VLT Sales

	Sales	Prizes	Net Income	Population	Sales/Capita
Arizona	\$472.9	\$262.5	\$144.5	6.3	\$75.06
California	\$3,049.6	\$1,619.5	\$1,069.4	36.6	\$83.32
Colorado	\$505.8	\$314.9	\$122.3	4.9	\$103.22
Connecticut	\$998.1	\$608.2	\$283.0	3.5	\$285.17
Delaware ^{2,3}	\$124.9	\$65.9	\$252.5	0.9	\$138.78
D.C. (end 6/30)	\$254.3			0.6	\$423.83
Florida	\$4,174.8	\$2,504.0	\$1,288.0	18.3	\$228.13
Georgia	\$3,519.3	\$2,049.5	\$858.4	9.5	\$370.45
Idaho	\$137.1	\$81.6	\$34.8	1.5	\$91.40
Illinois	\$2,078.2	\$1,166.0	\$657.0	12.9	\$161.10
Indiana	\$822.8			6.3	\$130.60
Iowa	\$250.3			3.0	\$83.43
Kansas	\$247.9			2.8	\$88.54
Kentucky	\$778.2	\$493.1	\$192.1	4.2	\$185.29
Louisiana	\$373.7	\$74.3	\$131.9	4.3	\$86.91
Maine	\$227.5		\$50.3	1.3	\$175.00
Maryland	\$1,673.0	\$967.0	\$529.0	5.6	\$298.75
Massachusetts	\$4,689.4	\$3,419.7	\$910.0	6.4	\$732.72
Michigan ^{1,6}	\$2,336.1	\$1,354.9	\$742.2	10.1	\$231.30
Minnesota	\$461.5	\$279.6	\$116.3	5.2	\$88.75
Missouri	\$995.5		\$265.1	5.9	\$168.73
Montana	\$43.9	\$22.8	\$11.0	1.0	\$43.90
Nebraska	\$122.0	\$69.2	\$31.0	1.8	\$67.78
New Hampshire	\$259.8	\$154.6	\$75.6	1.3	\$199.85
New Jersey	\$2,539.1	\$1,469.4	\$863.1	8.7	\$291.85
New Mexico	\$147.1	\$80.1	\$40.8	2.0	\$73.55
New York ^{2,3,4}	\$6,673.2	\$3,952.9	\$2,579.5	19.3	\$345.76
North Carolina	\$1,078.2	\$577.3	\$332.8	9.1	\$118.48
North Dakota	\$22.2			0.6	\$37.00
Ohio	\$2,326.9			11.5	\$202.34
Oklahoma	\$214.3	\$112.8	\$71.6	3.6	\$59.53
Oregon ^{2,3}	\$338.7	\$220.0	\$699.9	3.7	\$91.54
Pennsylvania	\$3,089.2	\$1,845.4	\$928.0	12.4	\$249.13
Rhode Island ^{2,3}	\$241.3	\$147.6	\$355.5	1.1	\$219.36
South Carolina	\$992.5		\$266.0	4.4	\$225.57
South Dakota ^{2,3}	\$42.7	\$23.9	\$122.1	0.8	\$53.38
Texas ⁵	\$3,671.5	\$2,278.0	\$1,030.0	23.9	\$153.62
Vermont	\$102.0	\$64.8	\$22.6	0.6	\$170.00
Virginia	\$1,386.4	\$792.3	\$455.3	7.7	\$180.05
Washington	\$521.1			6.5	\$80.17
West Virginia ^{2,3,7}	\$198.0			1.8	\$110.00
Wisconsin	\$494.6			5.6	\$88.32
Total	\$52,675.6	\$27,071.8	\$15,531.6	277.5	\$7,291.66

2008 data source: La Fleur's Magazine/Vol. 16, No. 1 Sept/Oct 2008

¹Estimated Sales

⁵Fiscal Year ends 8/31

²Doesn't include VLT prizes

⁶Fiscal Year ends 9/30

³Includes traditional and VLT profit

⁷Gross sales were \$1,523.5, including VLT sales of \$1,309.5

WEST VIRGINIA LOTTERY

State Demographic and Economic Information

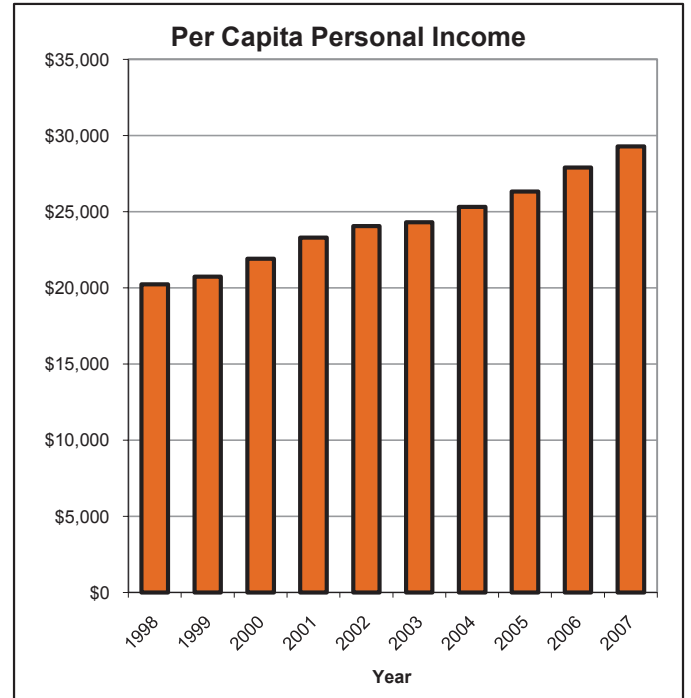
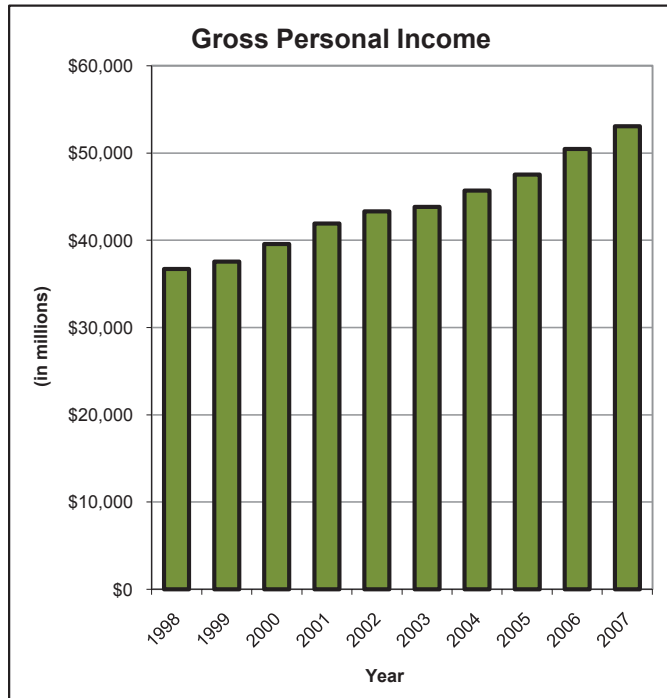
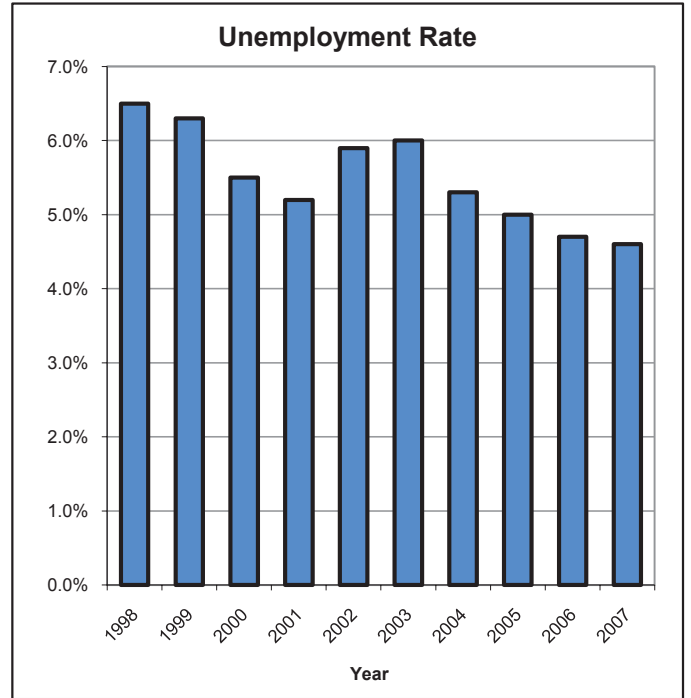
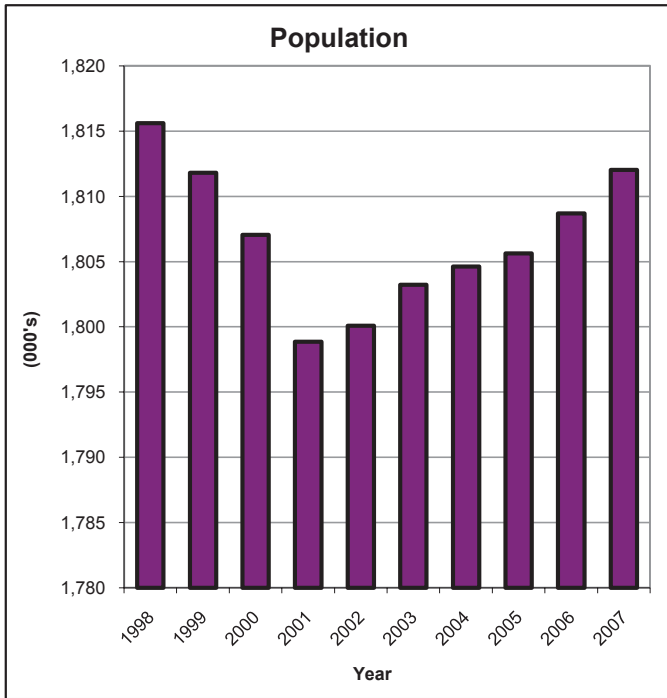
YEAR	POPULATION	PERSONAL INCOME (in millions)	PER CAPITA PERSONAL INCOME	UNEMPLOYMENT RATE
2007	1,812,035	\$53,080	\$29,293	4.6%
2006	1,808,699	\$50,453	\$27,895	4.7%
2005	1,805,626	\$47,542	\$26,330	5.0%
2004	1,804,618	\$45,686	\$25,316	5.3%
2003	1,803,223	\$43,841	\$24,313	6.0%
2002	1,800,090	\$43,312	\$24,061	5.9%
2001	1,798,860	\$41,902	\$23,294	5.2%
2000	1,807,050	\$39,582	\$21,904	5.5%
1999	1,811,799	\$37,557	\$20,729	6.3%
1998	1,815,609	\$36,722	\$20,226	6.5%

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

Note: 2008 information is not available and therefore not presented.

WEST VIRGINIA LOTTERY

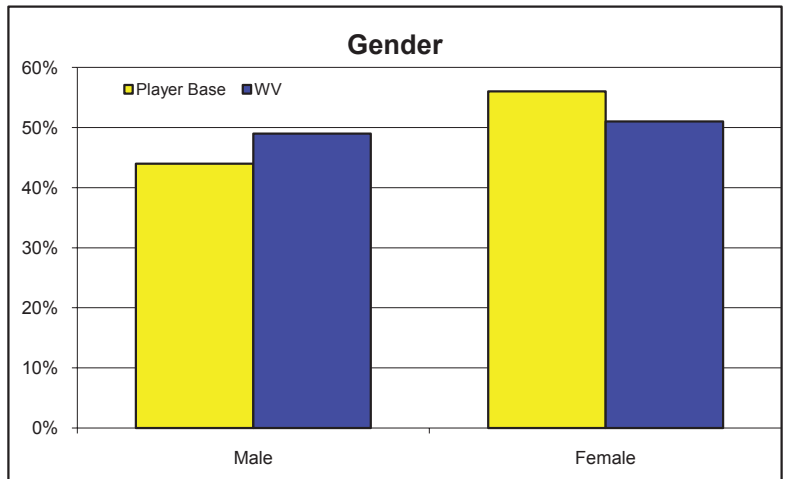
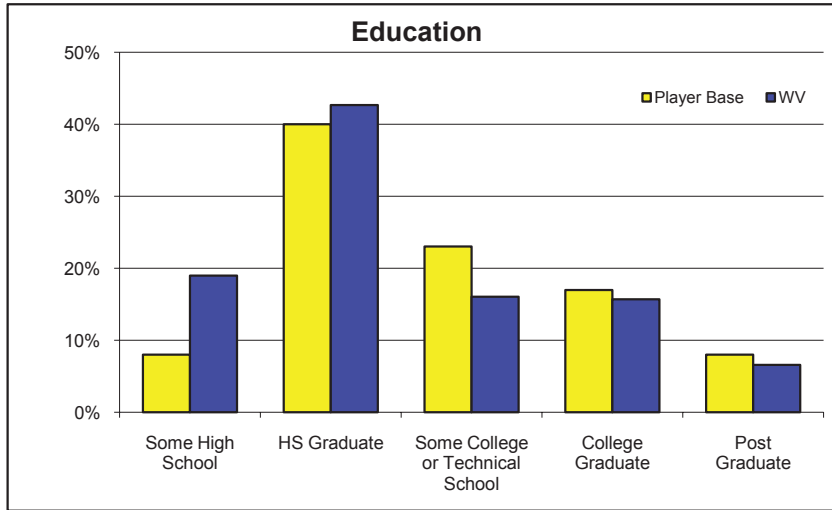
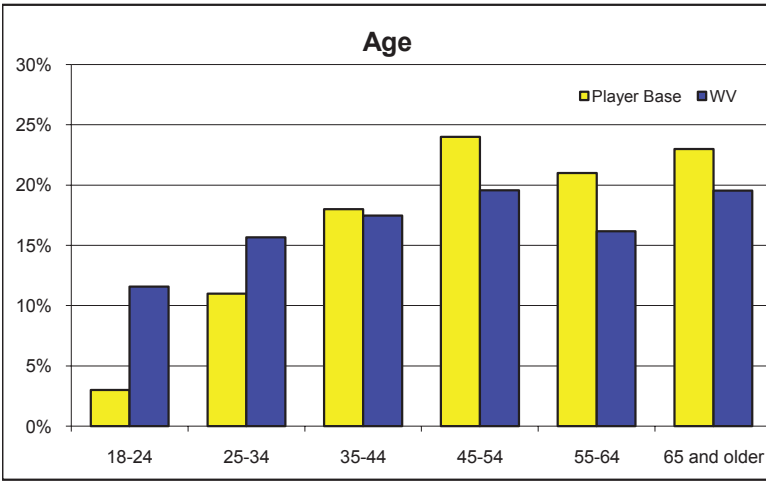
State Demographics



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

WEST VIRGINIA LOTTERY

Player and Population Demographics

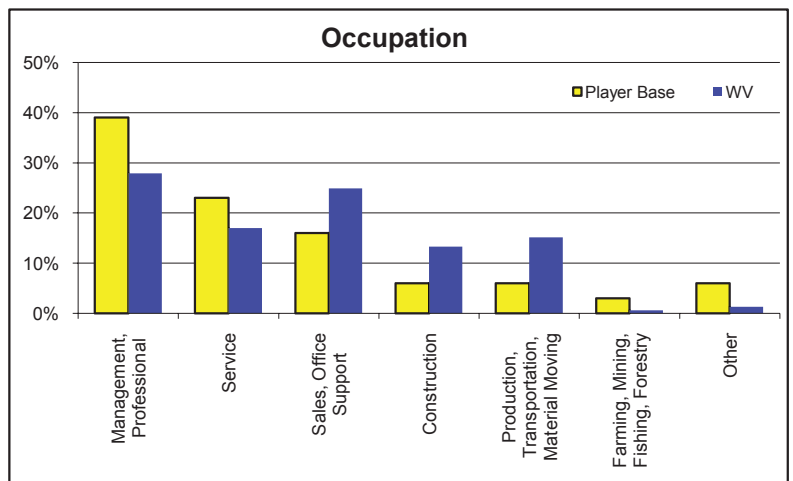
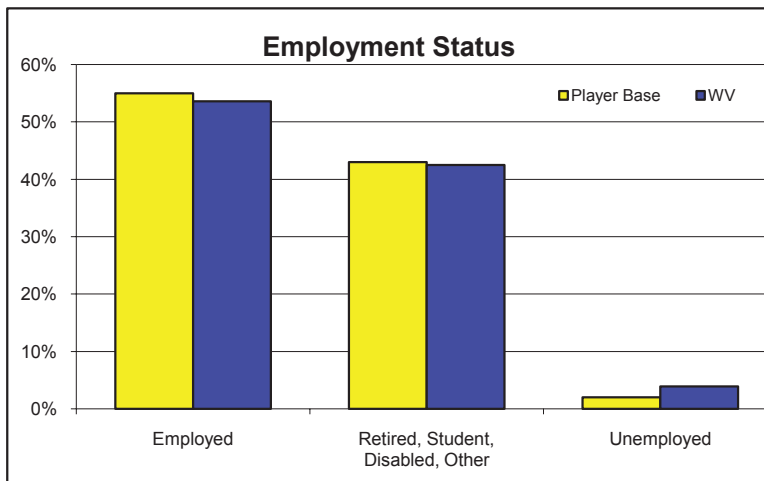
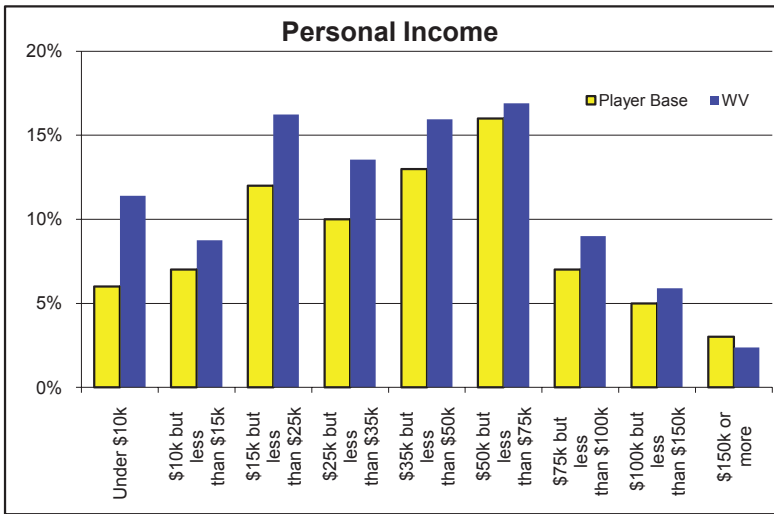


Source: West Virginia Lottery
Tracking Study, March 2008
RL Repass & Partners, Inc.

2006 Census Bureau Estimates

WEST VIRGINIA LOTTERY

Player and Population Demographics



Source: West Virginia Lottery Tracking Study, March 2008
 RL Repass & Partners, Inc.

2006 Census Bureau Estimates

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

Source: State of West Virginia Budget Office

Note: Only five years of data was available.

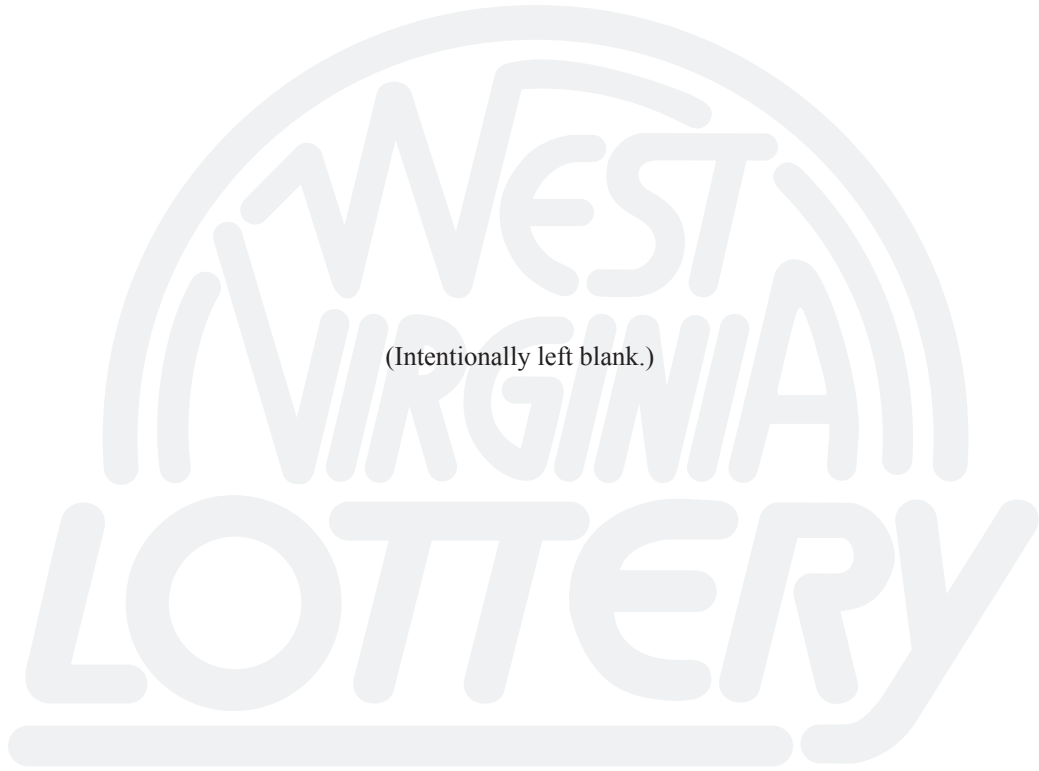
WEST VIRGINIA LOTTERY

State of West Virginia Annual Ranking Top Ten Employers

Business Name	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Allegheny Energy Service Corporation			9	10	9	10				
American Electric Power				9		7	6	6	5	6
Appalachian Power Company		10								
Bell Atlantic	8	8								
Charleston Area Medical Center	2	3	3	3	3	2	2	3	3	3
Columbia/HCA	5									
Consolidation Coal Company							8	8		10
CSX Corporation	7	6	4	6	6	5	5	5	8	5
E I DuPont De Nemours & Company	6	5	7	7	7	8	7			
Eldercare Resources Corporation									6	7
Hospital Corporation of America, Inc.		7								
ISG Weirton Inc							10			
Kroger	3	4	6	5	4	4	4	4	4	4
Lowe's Home Centers, Inc.								7	7	8
Pilgrim's Pride Corporation of West Virginia									9	
St. Mary's Hospital					10			10	10	9
Union Carbide Corporation	9	9	10							
Verizon			8	8	8	9	9	9		
Wal-Mart Associates, Inc.	1	1	1	1	1	1	1	1	1	1
Weirton Steel Corporation	4	2	5	4	5	6				
West Virginia University Hospitals	10									
West Virginia University Hospitals/United Hospitals			2	2	2	3	3	2	2	
WV United Health Care										2

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

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



West Virginia Lottery 2008 CAFR Project
An in-house production of the West Virginia Lottery

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All photographs are of locations in West Virginia



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