

*Thanks a Million*



**The Georgia Lottery Corporation  
2007 Annual Report**



GEORGIA LOTTERY CORPORATION  
2007 Annual Report

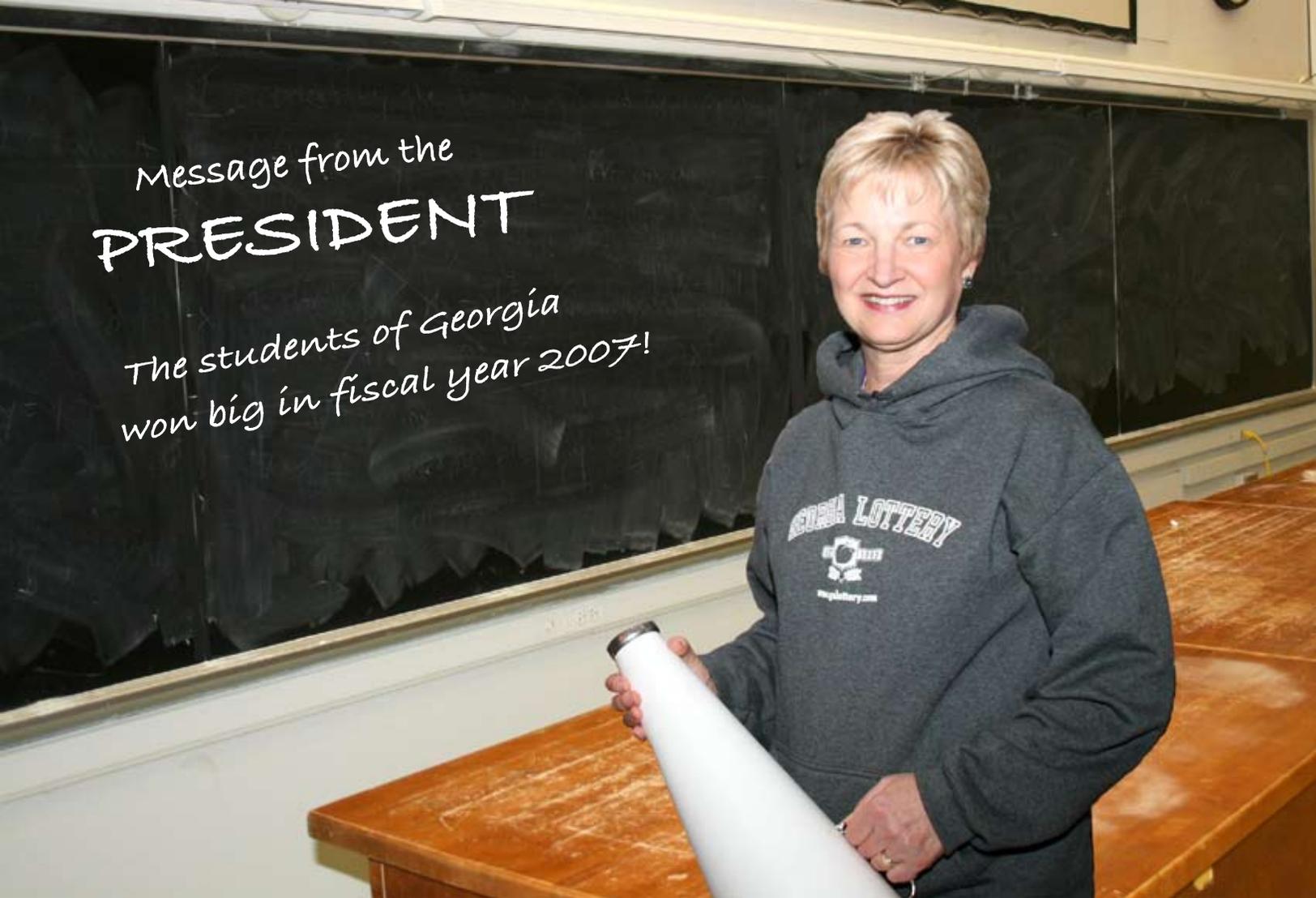
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Message from the  
**PRESIDENT**

The students of Georgia  
won big in fiscal year 2007!



Fiscal Year 2007 was a celebratory year at the Georgia Lottery Corporation. In January, we marked the incredible milestone of one million HOPE recipients since inception. That's one million students who have attained higher education at colleges in Georgia on lottery-funded HOPE scholarships and grants!

In June, we celebrated the close of our fiscal year with record-breaking sales and profits for education. More than \$2 million was raised each day for HOPE and Pre-K, exceeding \$853 million for the year. The Georgia Lottery Corporation stands as a leader in the industry, one of only two traditional lotteries in the country to increase profits for nine consecutive years.

Throughout the year, we traveled around the state celebrating with our winners. With close to \$2 billion in prizes paid during fiscal year 2007, there was a lot to celebrate.

Through hard work and continued support from Georgians, we look forward to furthering our mission of maximizing revenues for educational programs and celebrating two million HOPE recipients in the future!

*Margaret*



# BOARD of DIRECTORS



*The Georgia Lottery has solidified its standing as one of the top performing lotteries in the world.*



Tony Campbell, Chair



James Braswell



Rayna Casey



Ann Crowder



David C. Garrett III



Martin Kogon



Celeste Osborn

With sales exceeding \$3.4 billion in fiscal year 2007, the Georgia Lottery Corporation solidifies its standing as one of the top performing lotteries in the world. Although the worldwide sales rankings are an impressive feat, even more important is what this translates into right here at home.

In fiscal year 2007, we surpassed the \$3 billion sales mark for the second consecutive year while transferring over \$853,500,000 to the state of Georgia for HOPE and Pre-K. Earlier this year we recognized the milestone of one million HOPE recipients, which is phenomenal in a state with a population of nine million.

Our success is a direct result of dedication and hard work from many. To the Georgia Lottery staff, to our retailers and business partners, and to our players, we say, "Thanks a million!"

*The GLC is one of only two lotteries in the country to increase profits for nine consecutive years.*

# EDUCATION

January marked the incredible milestone of one million HOPE recipients! Thanks a Million, Georgia!



Maximizing revenues for the Lottery for Education Account is the Georgia Lottery's mission and fiscal year 2007 was an exceptional time of success. In our 14th year, the Georgia Lottery Corporation raised more than \$853 million for the HOPE Scholarship and Pre-K Programs. We also celebrated two key milestones in funding education: our highest-ever transfer amount to educational programs in Georgia and our one-millionth HOPE recipient.

One million HOPE scholars meant one million reasons to celebrate the program that provides scholarships and grants to Georgia students pursuing higher education. In January 2007, the Georgia Lottery launched its "Thanks a Million" campaign to show appreciation to supporters of the nationally-acclaimed HOPE program. The program consistently earns top rankings for lottery-funded education returns.

Georgia college students received \$453 million in HOPE funds generated by record lottery sales in fiscal year 2007. The merit-based program benefits the students and their families by reducing their potential school debt, allowing them to focus on their classroom performance. HOPE also benefits Georgia by providing another incentive for students to attend school in-state, channeling more talent into the state's workforce.

*Thanks a Million*  
One Million HOPE Recipients

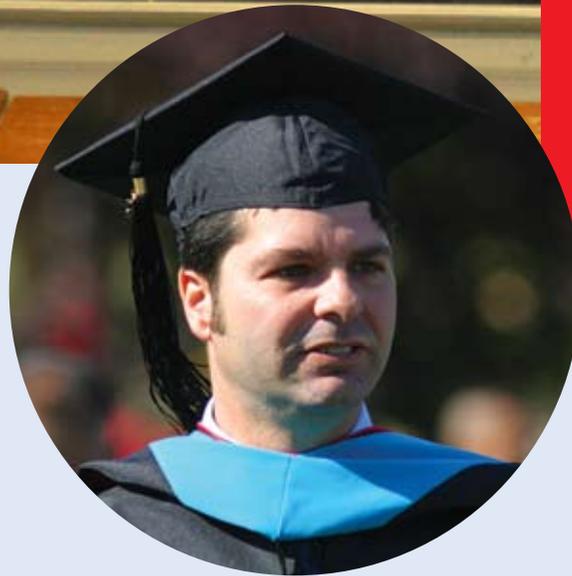


The GLC raised more than \$853 million for the HOPE Scholarship and Pre-K Programs.

# EDUCATION

The Georgia Lottery Corporation raised more than \$2.2 million a day for HOPE and Pre-K this year.

Since inception, the Georgia Lottery's profits to education have exceeded \$9.3 billion.



*Thanks a Million*  
One Million HOPE Recipients

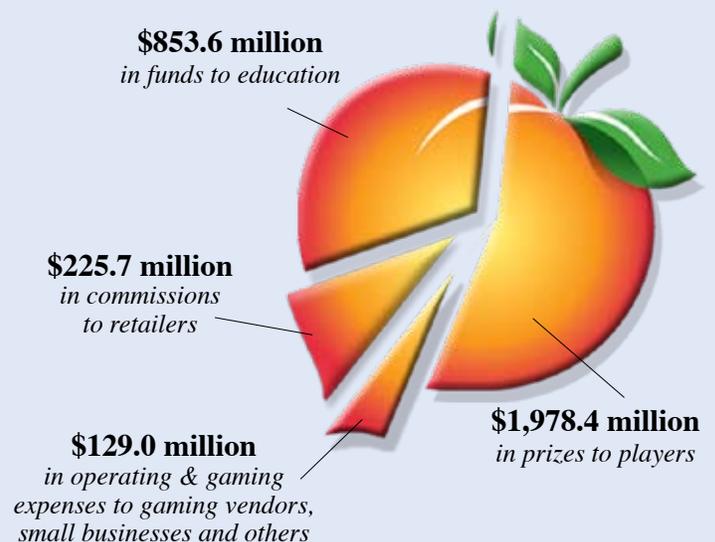


The GLC supports Georgia's universal Pre-K program for students in their pre-academic careers. In fiscal year 2007, over 76,000 four-year-olds participated in this lottery-funded program. The Pre-K program encourages children to learn from each other in a classroom setting, helping them to develop important social skills to ease the transition into kindergarten. Recognized as an exemplary program and model for other states, the program has served over 790,000 children since 1993.

Since the GLC's inception, its proceeds to education have exceeded \$9.3 billion. Generating revenues which fund important educational programs, the Georgia Lottery is dedicated to the students of Georgia - an investment in our state's future.

## Where The Money Goes

Fiscal Year 2007



Georgia's exemplary Pre-K Program has served over 790,000 four-year-olds.



# GAMES & PROMOTIONS

The Georgia Lottery ranked among the highest performing lotteries in the world, crossing the \$3 billion sales mark for the second time.



**KENO!**

The Georgia Lottery has a growing number of instant games to choose from, and every ticket sold means a win for lottery-funded educational programs in Georgia. For fiscal year 2007, 42 instant games were launched, including Georgia's \$500 Million Club, Georgia Lottery's Braves™, and the Lucky Dog and Fat Cat instant ticket. Online games such as Cash 3 continued to thrill players as Front Pair and Back Pair play were introduced and the new Cash 3 logo was unveiled. The Millionaire Raffle online game also made its successful debut.

Georgia's \$500 Million Club is more than an instant game. It allows players to join an exclusive club where the highest instant game top prize in Georgia's history is paid. The Georgia Lottery's first \$20 instant ticket that launched January 30 offers more than \$500 million in cash prizes including 10 \$5 million prizes, 40 \$1 million prizes and an extra grand prize of \$10 million. Players can enter weekly Georgia's Millionaire Club drawings to become finalists in the Extra Chance \$10 Million Grand Prize drawing. Welcome to the club!



*Georgia's \$500 Million Club welcomed five \$5 million and 17 \$1 million winners in just five months.*

# GAMES & PROMOTIONS

The Georgia Lottery expanded its sales with two new kiosks at the Hartsfield-Jackson Atlanta International Airport.



The Georgia Lottery has a growing number of instant games to choose from, and every ticket sold means a win for lottery-funded educational programs in Georgia.

*Thanks a Million*



Players were ready to “play ball” and win prizes with the launch of the Georgia Lottery Braves™ instant game. For \$5, players had an opportunity to win 2008 Atlanta Braves™ season tickets, suite nights at Turner Field™ and Major League Baseball merchandise prize packages. Second chance drawings were held for 2008 Braves™ Spring Dream Trips to experience Atlanta Braves™ 2008 Spring Training in Orlando, Fla.

The Georgia Lottery introduced Millionaire Raffle, a limited-time game offering the best odds ever to win \$1 million. The first drawing was conducted on New Year’s Eve awarding four \$1 million, five \$100,000 and 500 \$1,000 prizes.”



*The Lucky Dog and Fat Cat instant games feature Georgia pets nominated and selected by players.*

# WINNERS

Players won close to \$2 billion in prizes last year!



In its 14-year history, the Georgia Lottery has continued the fun and excitement in awarding winners with prizes. The GLC launched more exciting new games and ushered in more winners. With the best odds of winning \$1 million, the limited-time Millionaire Raffle was offered twice in fiscal year 2007, and eight lucky players each won top prizes. Several players joined the club – Georgia’s \$500 Million Club, that is. The instant game’s 51 tiered \$1 million and \$5 million top prizes brought in five \$5 million and 17 \$1 million winners by the end of the year.

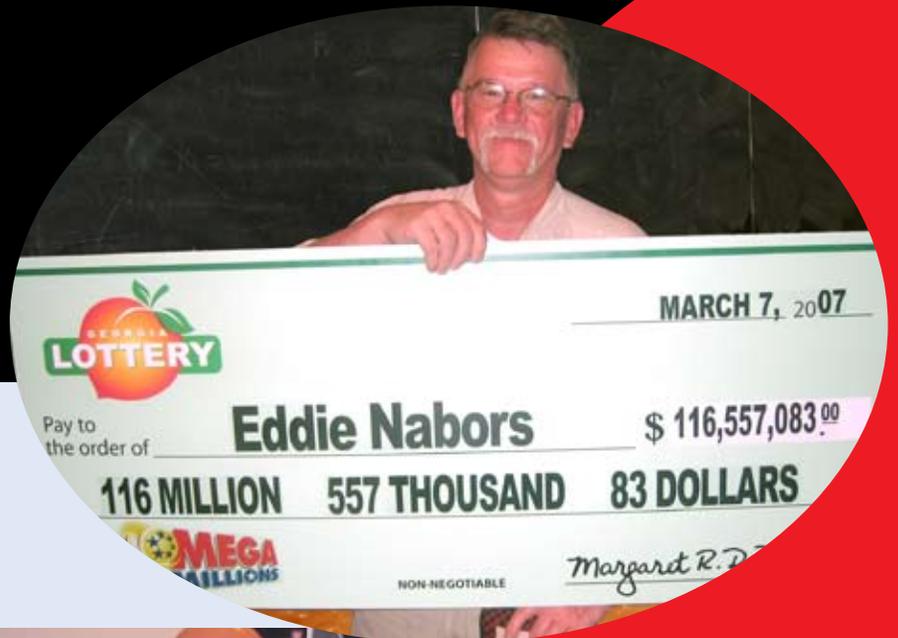
*Thanks a Million*



*Georgia’s \$500 Million Club welcomed five \$5 million and 17 \$1 million winners in just five months.*

# WINNERS

Fiscal year 2007 was an exceptional year for Mega Millions winners in Georgia.



*Thanks a Million*



Rocky Face, Ga. Resident Eddie Nabors was one of two jackpot winners to share the largest lottery prize in U.S. history!

Fiscal year 2007 was an exceptional year for Mega Millions winners. Ben Chason of Bainbridge, Ga. is a significant winner in GLC history. In September, he claimed the \$163 million Mega Millions jackpot and became the largest single winner in Georgia Lottery history at that point. By March, the Mega Millions jackpot soared to a record \$390 million. Rocky Face, Ga. resident Eddie Nabors was one of two jackpot winners to share the largest lottery prize in U.S. history. He netted \$116 million before taxes when he selected the cash option. His story and our lottery were covered across the globe.

*Millionaire Raffle created eight new millionaires last year.*



# Retailers



Retailers often provide our customers with their first impression of the Georgia Lottery.

Our retail partners act as ambassadors of the Georgia Lottery while interacting with our players.

Retailers often provide our customers with their first impression of the Georgia Lottery. With such an important role, over 7,800 retailers throughout the state serve as essential partners with the Georgia Lottery Corporation. In addition to ticket sales and prize disbursements, our retailers help to support promotions, educate players, and gather feedback. In fiscal year 2007, our retailers earned over \$225 million in commissions and bonuses. We look forward to continued success through teamwork to benefit the students of Georgia.



*Thanks a Million*



Over 7,800 retailers throughout the state serve as essential partners with the Georgia Lottery Corporation.

# Senior Staff



(photos left to right):

**Rear row:**

Kurt Freedlund,  
Senior Vice President  
and General Counsel;

James Hutchinson,  
Vice President of Marketing;

Daniel Johnson,  
Chief Technology Officer.

**Middle row:**

Rosemarie Morse,  
Vice President of  
Legal Affairs;

Teri Rosa,  
Vice President of  
Customer Operations;

Margaret DeFrancisco,  
President and CEO;

Doug Parker,  
Vice President of  
Human Resources;

Gerald Mecca,  
Senior Vice President of  
Administration.

**Front row:**

Larry Sipes,  
Vice President of  
Applied Technology;

Jack Dimling,  
Vice President of Sales;

Joan Schoubert,  
Senior Vice President  
of Finance, Planning  
and Development;

J.B. Landroche,  
Vice President of  
Corporate Affairs.

Not photographed:

Sharman Lomax,  
Vice President  
of Financial  
Management

The GLC is headed by President & Chief Executive Officer Margaret DeFrancisco. The President is responsible for developing long-term vision for the corporation and overseeing its day-to-day operations.

The Sales and Marketing Division coordinates and oversees all sales and retailer activities, including corporate account management and retailer sales. The advertising and special events staff conducts promotions throughout the state and executes marketing plans.

The Technology and Operations Division encompasses retailer services, information technology and systems development activities. The information technology department maintains state-of-the-art computer systems, technology and telecommunications systems.

The Corporate Affairs Division is responsible for internal and external communications including winner awareness, publications, website, media relations, public and player information, and legislative affairs.

The Administration Division incorporates human resources, facilities management, prize validation and retailer contract administration.

The Finance, Planning and Development Division provides services related to financial accounting and reporting, cash management, budget, collections and procurement.

The Legal Affairs Division provides legal advice and assistance, drafts policies, directs security and investigations, handles internal auditing, and manages contract compliance.

*The Georgia Lottery Corporation currently employs approximately 270 people statewide and has eight district offices (Atlanta, Augusta, Columbus, Dalton, Duluth, Macon, Savannah and Thomasville) in addition to the GLC headquarters in downtown Atlanta.*

*Thanks a Million*



*The GLC team is comprised of dedicated and professional men and women committed to the organization's mission.*

# INDEPENDENT AUDITORS' REPORT



***To the Board of Directors of the Georgia Lottery Corporation:***

We have audited the accompanying basic financial statements of the Georgia Lottery Corporation, a component unit of the State of Georgia (the "GLC"), as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the GLC'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 audit 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 Georgia Lottery Corporation as of June 30, 2007 and 2006, and the changes in its financial position 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 13 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Atlanta, Georgia  
October 22, 2007

*Mauldin & Jenkins, LLC*

200 GALLERIA PARKWAY S.E., SUITE 1700 • ATLANTA, GA 30339-5946 • 770-995-8600 • 800-277-0080 • FAX 770-980-4489 • [www.mjcpa.com](http://www.mjcpa.com)

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## Management's Discussion and Analysis

As management of the Georgia Lottery Corporation (the "GLC"), we offer readers of the GLC's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2007 and June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 20.

### *Financial Highlights*

The GLC had another record-breaking year in fiscal year 2007. Gross ticket sales surpassed \$3.4 billion, representing the highest sales total in the GLC's fourteen-year history. For fiscal year 2006, gross ticket sales were over \$3.1 billion. For fiscal year 2007, the net proceeds paid to the Lottery for Education Account were \$853.6 million, also setting a GLC record. The net proceeds paid to the Lottery for Education represent an increase of \$31.2 million over last year. For fiscal year 2006, net proceeds paid were \$822.4 million, which represented an increase of \$20.2 million over fiscal year 2005. Other significant financial highlights include the following:

- For fiscal year 2007, gross tickets sales increased by \$244.1 million, more than 7.7% over the previous fiscal year. For fiscal year 2006, gross tickets sales increased by \$255.3 million, more than an 8.7% increase over 2005.
- Prizes expense increased \$162.8 million during fiscal year 2007 and \$182.3 million in fiscal year 2006. This expense increases or decreases in direct proportion to ticket sales and represented approximately 58% of gross ticket sales in fiscal year 2007 and 57% in 2006. Prize expense represented approximately 56% of gross ticket sales in 2005.
- Direct gaming expenses, which include retailer commissions and bonuses, contractor fees, advertising, and retailer merchandising and marketing increased \$23.8 million in fiscal year 2007. These expenses also fluctuate in proportion to ticket sales and represented approximately 9.5% of gross ticket sales in 2007 and in 2006. For fiscal year 2006, direct gaming expenses increased \$21.9 million over 2005. These expenses represented approximately 9.6% of gross ticket sales in 2005.
- Fiscal year 2007 operating expenses, which include salaries and benefits, rent, utilities and maintenance, professional fees, depreciation, and other expenses increased \$1.4 million over the previous fiscal year, resulting primarily from increases of \$1.1 million in personnel costs. Operating expenses remained at less than 1% of gross ticket sales for fiscal years 2007 and 2006. Fiscal year 2006 operating expenses increased \$3.0 million over 2005 expenses, resulting primarily from increases in health insurance premiums and bad debt expenses.
- Nonoperating expenses, net of revenues, increased \$14.7 million in 2007 as compared to 2006. This increase is attributable to the change in the fair value of grand prize investments held by the GLC for funding future grand prize payments and the increase in payments to/due to Lottery for Education Account, partially offset by the increase in interest revenue over the prior fiscal year. Nonoperating expenses, net of revenues, increased \$18.3 million in 2006 as compared to 2005. This increase is attributable to the change in the fair value of grand prize investments held by the GLC for funding future grand prize payments, partially offset by the increase in interest revenue over the prior fiscal year.

### *Overview of the Financial Statements*

The GLC is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to a business entity. This discussion and analysis is intended to serve as an introduction to the GLC's basic financial statements, along with the notes to the financial statements. The statements of net assets on page 20, the statements of revenues, expenses, and changes in net assets on page 21, and the statements of cash flows on pages 22 and 28 report the GLC's net assets and changes therein. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 24 of this report.

The GLC pays its net proceeds each fiscal year to the General Fund of the state treasury for credit to the Lottery for Education Account. As a result, the GLC's net assets consist of funds invested in capital assets and unrestricted net assets. Unrestricted net assets normally result from the inclusion of capital costs in the determination of net proceeds (as required by the Georgia Lottery for Education Act) and the cumulative effect of periodic adjustments to recognize the fair value of grand prize investments which are held to fund grand prizes payable. The GLC expects to hold these investments to maturity to meet our future grand prize winner obligations and, therefore, will not realize any gains or losses related to the current value of these investments for distribution as net proceeds. The reader of these financial statements should review the assets and liabilities in the statements of net assets and the operating revenues and expenses and the payment to and due to Lottery for Education Account in the statements of revenues, expenses, and changes in net assets to assess the GLC's financial position as of June 30, 2007 and 2006, and the results of its operations for the years then ended.

## Financial Analysis

### Assets

Total assets at the end of fiscal year 2007 were \$578.0 million compared to \$487.8 million at the end of fiscal year 2006, representing an increase of \$90.2 million. At the end of fiscal year 2006, total assets were \$487.8 million compared to \$481.3 million at the end of fiscal year 2005, representing an increase of \$6.5 million.

Current assets increased from \$287.5 million in 2006 to \$339.9 million in 2007, representing an increase of \$52.4 million. This increase is primarily due to a \$22.4 million increase in cash and cash equivalents, a \$25.0 million increase in retailer accounts receivable due to the timing of the accounting week for billing and collections from our retailers at year-end cutoff, a \$3.4 million increase in retailer escrow accounts resulting from increased retailer participation in the program, and a \$2.0 million increase in prepaids and other expenses. Current assets increased from \$260.7 million in 2005 to \$287.5 million in 2006, representing an increase of \$26.8 million. This increase resulted primarily from a \$24.4 million increase in cash and cash equivalents and a \$2.2 million increase in retailer accounts receivable due to the timing of collections from our retailers.

Noncurrent assets increased from \$200.3 million in 2006 to \$238.1 million in 2007, representing an increase of \$37.8 million. This increase is primarily due to grand prize investments increasing from \$197.0 million in 2006 to \$233.2 million in 2007, an increase of \$36.2 million. The increase resulted from net purchases of \$51.0 million, payments to grand prize winners totaling \$26.1 million, interest earned on current-year maturities of \$11.6 million, and a \$3 million decrease in the fair value of the investments. Capital assets increased from \$3.4 million in 2006 to \$4.9 million in 2007, an increase of \$1.5 million.

The increase resulted from capital asset purchases of \$2.8 million less depreciation expense of \$1.2 million.

In fiscal year 2006, noncurrent assets decreased to \$200.3 million from \$220.6 million in 2005, representing a decrease of \$20.3 million. This decrease was primarily due to grand prize investments decreasing from \$218.4 million in 2005 to \$197.0 million in 2006, a decrease of \$21.4 million. The decrease resulted from net purchases of \$6.4 million, payments to grand prize winners totaling \$23.5 million, interest earned on current-year maturities of \$11.1 million, and a \$15.4 million decrease in the fair value of the investments. Capital assets increased from \$2.2 million in 2005 to \$3.4 million in 2006, an increase of \$1.2 million. The increase resulted from capital asset purchases of \$2.1 million less depreciation expense of \$0.9 million.

### Liabilities

Total liabilities at the end of fiscal year 2007 were \$577.8 million compared to \$490.2 million at the end of fiscal year 2006, representing an increase of \$87.6 million. Total liabilities at the end of fiscal year 2005 were \$465.7 million compared to \$490.2 million at the end of fiscal year 2006, representing an increase of \$24.5 million.

Current liabilities increased from \$288.6 million in 2006 to \$338.7 million in 2007, an increase of \$50.1 million. The increase is due to a \$30.2 million increase in prizes payable, a \$10.0 million increase in the funds due to the Lottery for Education Account, a \$6.9 million increase in accounts payable and accrued liabilities, a \$3.4 million increase in the retailer escrow fund liability, and a \$4 million decrease in the fidelity fund liability. The increase in prizes payable was primarily due to a \$19 million increase in the prize liability reserve for several online games (Cash 3, Cash 4, Keno!, and Mega Millions), a \$3.8 million increase in the annuity liability for the Win For Life game, and deferred sales of \$5.9 million for the GLC's second Millionaire Raffle game as of June 30, 2007. The increase in funds due to the Lottery for Education Account resulted from higher fourth quarter sales in fiscal year 2007 versus 2006. The increase in accounts payable and accrued liabilities was primarily due to a higher year-end accrued payments for advertising. The increase in the retailer escrow fund was due to increased retailer participation in the escrow program.

For fiscal year 2006, current liabilities increased to \$288.6 million from \$258.3 million in 2005, an increase of \$30.3 million. The increase was due to a \$33.8 million increase in prizes payable, a \$0.5 million increase in the retailer escrow fund liability, a \$2.6 million decrease in the funds due to the Lottery for Education Account, and a \$1.5 million decrease in accounts payable and accrued liabilities. The increase in prizes payable was primarily due to a higher liability resulting from proportionately higher game sales for the instant games at the end of fiscal year 2006 versus 2005. The decrease in funds due to the Lottery for Education Account resulted from lower fourth quarter sales in fiscal year 2006 as compared to 2005. The decrease in accounts payable and accrued liabilities was primarily due to lower year-end accrued payments for vendors, which provide gaming products, systems, and advertising in 2006.

Noncurrent liabilities increased \$37.5 million from \$201.6 million in 2006 to \$239.1 million in 2007. Noncurrent liabilities principally consist of grand prizes payable, which represent the amount to be paid to grand prize winners over future years. In fiscal year 2007, grand prizes payable increased \$37.1 million over fiscal year 2006, from \$199.3 million to \$236.4 million. The increase was primarily attributable to two factors. Grand prize payables of \$14.5 million (winner payments net of interest earned on current-year maturities) became due and payable in fiscal year 2007 as an annual payment obligation to our grand prize winners, thus reducing the long-term liabilities. The GLC increased its grand prizes payable by \$51.0 million as the result of new annual payment obligations for grand prize winners for several instant games: *Georgia's \$500 Million Club*, *\$300 Million Gold Rush*, and *\$200 Million Cash Spectacular*, and one online game, *Win for Life*. The GLC has purchased or will purchase U.S. Treasury securities to fund these future payment obligations. During fiscal year 2007 all eligible grand prize winners in our online games elected to receive their prizes in a single cash payment.

Grand prizes payable experienced a net decrease of \$6.0 million in 2006. The net decrease is primarily attributable to two factors. Grand prize payables of \$12.4 million (winner payments net of interest earned on current-year maturities) became due and payable in fiscal year 2006 as an annual payment obligation to our grand prize winners, thus reducing the long-term liabilities. The GLC increased its grand prizes payable by \$6.4 million as the result of new annual payment obligations for grand prize winners for two games: *Win For Life* and *\$100 Million Cash Spectacular*. During fiscal year 2006, all eligible grand prize winners in our online games elected to receive their prizes in a single cash payment.

### Net Assets and Changes in Net Assets

Net assets increased \$2.5 million in fiscal year 2007 from (\$2.3) million in fiscal year 2006 to an end of year balance of \$.2 million. This increase primarily resulted from a \$2.6 million increase in funds invested in capital assets, \$.2 million for operating expenses withheld from the determination of net proceeds in accordance with the Georgia Lottery for Education Act, and a (\$.3) million unrealized loss in the fair value of grand prize investments held by the GLC for funding of future grand prize payments. Accounting principles generally accepted in the United States of America require the GLC to record its grand prize investments at fair value, and the change in the fair value is recorded as nonoperating revenue (expense) annually. The GLC classifies the decreases and increases in fair value as unrealized, due to the investments generally being held to maturity to fund future prize obligations. Inclusion of capital costs in the determination of net proceeds is required by the Georgia Lottery for Education Act

Net assets decreased \$17.9 million in 2006 from \$15.6 million in fiscal year 2005, to an end of year balance of (\$2.3) million. This decrease primarily resulted from a \$15.4 million unrealized loss in the fair value of grand prize investments held by the GLC for funding of future grand prize payments and the \$2.2 million increase in funds invested in capital assets resulting from inclusion of these capital costs in the determination of net proceeds as required by the Georgia Lottery for Education Act.

### Sales

Total lottery ticket sales for fiscal year 2007 were \$3.422 billion, as compared to \$3.178 billion in 2006. This represents an increase of over \$244.1 million. Average weekly gross ticket sales for fiscal year 2007 were \$65.8 million versus \$61.1 million in 2006. During fiscal year 2007, the GLC expanded its retail sales capability by opening kiosks in the North and South terminals at the Atlanta Hartsfield-Jackson International Airport. The GLC also recorded its highest week of sales in its history – more than \$96 million – for the sales week ended March 3, 2007. Lottery ticket sales for fiscal year 2006 increased by \$255.3 million over fiscal year 2005 sales of \$2.922 billion. Average weekly gross ticket sales for fiscal year 2006 were \$61.1 million versus \$56.2 million in 2005.

Gross instant ticket sales increased significantly during fiscal year 2007, up \$266.4 million over one year ago, from \$2.055 billion in 2006 to \$2.321 billion in 2007. The 13% increase is attributable to several factors, including the GLC's administration of a sound marketing strategy, ongoing development and introduction of new instant ticket games, and effective management of the instant product mix offering players the opportunity to choose among a variety of games at different price points: \$1, \$2, \$3, \$5, \$10, and \$20.

In January 2007, the GLC introduced its first \$20 instant game, *Georgia's \$500 Million Club*, which contributed approximately \$330 million in sales as of June 30, 2007. The game offers a top prize of \$5 million and includes weekly extra chance drawings, with winners being included in a final drawing for a prize award of \$10 million. Sale of core instant games remained steady, including the Jumbo Bucks product line, *Junior Jumbo Bucks*, *Jumbo Bucks Classic*, *Giant Jumbo Bucks*, and *Jumbo Jumbo Bucks*; and the Mega Bucks product line, *Mini Mega Bucks*, *Mega Bucks*, and *Mighty Mega Bucks*. The GLC's four holiday instant games continued strong sales growth increasing over 59% from approximately \$74 million in fiscal year 2006 to \$118 million in fiscal year 2007. New instant games included a \$3 *\$100,000 Monopoly®* game; several casino-style games, \$1 *Joker's Wild*, \$2 *Club Casino*, \$5 *\$500,000 World Poker Tour™ Hold'em Poker*, \$5 *Blackjack Showdown*, and \$10 *\$150,000,000 Slots of Luck*; two Bingo games: \$3 *2007 Bingo Party* and \$5 *\$200,000 Bonus Bingo*; and two popular \$2 games for animal lovers, *Fat Cat* and *Lucky Dog*. The GLC rounded out the 2007 fiscal year with introductions of a \$5 *Braves™* game, offering cash and merchandise prizes featuring the *Atlanta Braves®*; and a new \$2 *Cashword* extended-play game.

The strength of the \$10 price point category spanned the entire fiscal year for 2006, as compared to only six months for 2005, and became a much larger part of the overall sales and product mix. In addition, the GLC introduced several instant games at lower price points during fiscal year 2006 offering a variety of respective prize opportunities which appeal to different players. New instant games included a \$5 *King Kong* game; two \$3 vehicle prize themed games, *Mustang Money* and *Corvette Cash*; a \$2 *Bingo* game; and a \$1 *Fill'er Up* game. GLC players continued demonstrating loyalty to our most popular core games such as *Jumbo Bucks Classic*, *Mini Mega Bucks*, *Mega Bucks*, *Junior Jumbo Bucks*, *Mighty Mega Bucks*, *Giant Jumbo Bucks*, and *Jumbo Jumbo Bucks*. Ticket sales for the four holiday season instant games increased by more than 21% from approximately \$61 million in fiscal year 2005 to \$74 million in fiscal year 2006, as a result of a strong integrated marketing plan for these games.

In 2007, *Cash 3* sales increased \$1.1 million (approximately 1%) to \$545.4 million from \$544.3 million in 2006. *Cash 3* is a twice-daily drawing game whereby the player chooses a three-digit number and wins a specified fixed amount if his or her numbers are selected in the draw. The aggregate prize amount per draw varies based on the number of winners. The actual prize payout experienced was approximately 47% for fiscal year 2007 and 50% for fiscal year 2006.

During fiscal year 2007, the GLC introduced *Cash 3* promotions, including *Cash 3 Double Drop*. *Cash 3* players had an opportunity to participate in a second chance to win from a single ticket purchase. The GLC also freshened the game's logo, renewed marketing efforts, and increased winning opportunities for *Cash 3* players with the introduction of Front Pair and Back Pair. If a player selects the first two winning numbers (Front Pair) or the last two winning numbers (Back Pair) in the exact order of the draw numbers selected, he or she wins.

In 2006, *Cash 3* sales decreased \$7.2 million to \$544.3 million compared to \$551.5 million in 2005. The actual prize payout experienced for both fiscal years 2006 and 2005 was approximately 50%, respectively.

*Mega Millions* sales decreased \$24.7 million (approximately 11.9 %) in 2007 to \$182.8 million compared to \$207.5 million in 2006. *Mega Millions* is a multi-state lottery game operated with eleven other states—California, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. Drawings are held twice weekly on Tuesday and Friday. *Mega Millions* produced a U.S. record-setting \$390 million winning jackpot in March 2007. There were four other *Mega Millions* jackpots over \$100 million in 2007, including jackpots of \$163 million in September 2006, \$125 million in January 2007, \$105 million in April 2007, and \$113 million in May 2007. In comparison, the second largest *Mega Millions* jackpot since the game inception, \$315 million was generated in November 2005, and there were also four other *Mega Millions* jackpots over \$250 million during fiscal year 2006. *Mega Millions* sales are jackpot driven and, as a whole, jackpot rollovers did not reach the higher levels in 2007 which were achieved in 2006.

*Mega Millions* sales increased \$37.1 million (approximately 21.8%) in 2006 to \$207.5 million compared to \$170.4 million in 2005. During fiscal year 2006, *Mega Millions* had a \$315 million winning jackpot in November 2005 and three other jackpots over \$250 million, including jackpots of \$258 million in September 2005, \$270 million in March 2006, and \$265 million in April 2006. In comparison, this game had only two jackpots over \$200 million during 2005: \$294 million in July 2004 and \$208 million in April 2005.

*Cash 4* sales decreased \$1.3 million, from \$177.6 million in 2006 to \$176.3 million in 2007. *Cash 4* is a twice-daily drawing game whereby the player chooses a four-digit number and wins a specified fixed amount if his or her numbers are selected in the draw. The aggregate prize amount per draw varies based on the number of winners. Actual prize payouts in fiscal years 2007 and 2006 were 53% and 45%, respectively. Although the prize payout for 2007 was above the industry average, *Cash 4* sales growth leveled off from 2006.

In fiscal year 2006, *Cash 4* sales increased \$3.4 million, from \$174.2 million in 2005 to \$177.6 million in 2006. Actual prize payouts in fiscal years 2006 and 2005 were 45% and 51%, respectively. Although the prize payout for fiscal year 2006 was well below the industry average of 50%, *Cash 4* sales increased over 2005. Management believes growing player loyalty to this online game, stemming from the immense popularity in the *Cash 3* game, contributed to the sales increase.

Due to the decline in *Lotto South* sales, the GLC ended this multi-state pari-mutuel lottery game on February 25, 2006. *Lotto South* was a multi-state pari-mutuel lottery game operated with two other states—Kentucky and Virginia. Drawings were held weekly on Wednesdays and Saturdays. *Lotto South* sales were \$43.0 million and \$67.4 million in fiscal years 2006 and 2005, respectively.

*Win For Life* was launched on February 26, 2006 as a replacement for *Lotto South*. *Win For Life* sales increased \$14.8 million in 2007 to \$36.3 million compared to \$21.5 million in 2006. The increase is attributable to *Win For Life* sales being offered for the entire fiscal year in 2007 versus approximately four months during fiscal year 2006. The game was launched during fiscal year 2006, on February 26, 2006. *Win For Life* is a multi-state fixed prize online game operated in conjunction with lotteries in Kentucky and Virginia. Drawings are held twice weekly on Wednesday and Saturday. Six winning numbers followed by one “free ball” number are drawn from a single set of 42 balls. By matching the six winning numbers, players win the top prize of \$1,000 a week for life payable in quarterly payments of \$13,000. Players matching five of the six winning numbers plus the “free ball” number win the second tier prize of \$1,000 a week for one year. Matching the “free ball” number also increases other lower level prize amounts.

*Fantasy 5* sales increased \$3.6 million (approximately 4.5%) in 2007 to \$83.0 million from \$79.4 million in 2006. In August 2006, the prize distribution was changed for three prize levels, matching 3 of 5 numbers, matching 4 of 5 numbers, and the top prize level, matching 5 of 5 numbers. Prize distribution was reallocated to the top prize level (matching 5 of 5 numbers) from two other prize levels (matching 3 of 5 numbers and matching 4 of 5 numbers.) This change was a direct result of player's input and feedback. As management had anticipated, increased player interest in *Fantasy 5*, as a result of this change coupled with other GLC promotional and marketing activities, lead to higher sales.

For fiscal year 2006, *Fantasy 5* sales increased \$3.5 million to \$79.4 million compared to \$75.9 million in 2005. During August 2005, GLC management revised the prize payout distribution for all prize levels. A greater payout percentage was reallocated to two prize levels, matching 3 of 5 numbers and 4 of 5 numbers, and the payout percentage for the top prize level, matching 5 of 5 numbers was reduced. This prize distribution change, coupled with a full fiscal year of sales including an additional prize level (matching 2 of 5 numbers winning a free “Quik Pik” ticket), contributed to increased *Fantasy 5* sales in 2006. The additional prize level, matching 2 of 5 numbers, was implemented during the previous fiscal year in April 2005.

Sales for *Keno!* were \$66.9 million and \$49.7 million in fiscal year 2007 and 2006, respectively. The \$17.2 million increase in sales during 2007 is attributable to the execution of the GLC’s marketing and promotion plan to support the game, and the increase in the number of GLC retailers selling the *Keno!* product in social business environments where the game has its highest appeal.

*Quick Cash Keno* was relaunched in October 2005 as *Keno!*. In fiscal year 2006, *Keno!* sales increased \$7.9 million from \$41.8 million in 2005 to \$49.7 million. During fiscal year 2006, management implemented initiatives to increase sales by expanding the number and type of retailer locations offering *Keno!*, increasing game prize payouts, assigning dedicated *Keno!* sales staff, and increasing player game awareness through on-site events and cross-promotions with other lottery products.

In November 2006, the GLC launched a new online game, *Millionaire Raffle*, which contributed \$10 million in sales for fiscal year 2007. *Millionaire Raffle* is a limited-time game with the best odds ever of winning \$1 million - 1 in 125,000. Each *Millionaire Raffle* ticket costs \$20 and only 500,000 raffle tickets are sold per drawing. A computerized drawing randomly selected four winners of \$1 million (cash prize), five winners of \$100,000, and 500 winners of \$1,000. Tickets are sold in numeric order through the lottery terminal. Each Georgia *Millionaire Raffle* ticket has a unique number – there are not any repeat or duplicate ticket numbers. The GLC’s first raffle was a success, selling out of available tickets in time for a New Year’s Eve drawing.

The GLC launched its second *Millionaire Raffle* game in April 2007. However, since ticket sales continued and the prize drawing was held on July 7, 2007, subsequent to fiscal year 2007 year end, approximately \$5.9 million sales have been deferred into fiscal year 2008.

## **Other Operating Revenue**

Other operating revenue includes online fees and other miscellaneous revenue. Other operating revenue increased \$.1 million to \$5.0 million in fiscal year 2007, from \$ 4.9 million in fiscal year 2006. For fiscal years 2006 and 2005, other operating revenue was \$4.9 million and \$4.7 million, respectively.

## **Prize Expense**

Gross prize expense for instant games increased to \$1,454 million in fiscal year 2007 from \$1,277 million in 2006, an increase of \$177.0 million (approximately 13.9%). Gross prize expense for instant games was \$1,277 million in fiscal year 2006 versus \$1,124 million in 2005, an increase of \$152.5 million (approximately 13.6%). Instant games prize expense is managed through the number of tickets printed for each game and value of prizes as determined prior to ticket production. Prize expense is recognized based on an established prize structure and related percentage of sales for each game introduced and is recognized when products are made available for sale to the public. The increase in instant game prize

expense, in excess of that attributable to proportional growth in game sales (approximately .04% of net sales), is a result of the increase in sales of the higher price point games as a percentage of total instant sales. The increase in the prize expense for higher price point games, which offer a larger prize payout than lower price point games is negligible as a component of gross instant ticket sales.

Instant game prize expense is reduced by applying unclaimed prizes recognized during the fiscal year. For fiscal year 2007, prize expense, net of unclaimed prizes for instant games, totaled \$1,419.6 million as compared to \$1,249.2 million in 2006, and \$1,087.2 million in 2005. Gross instant prize expense was reduced by \$34.1 million, \$27.4 million, and \$36.9 million, by using unclaimed prizes in 2007, 2006, and 2005, respectively.

Prize expense for online games generally increases or decreases each year in direct proportion to ticket sales of the related game. For pari-mutuel online games (Mega Millions jackpot prize, Lotto South and Fantasy 5), actual prize expense is recognized as a percentage of ticket sales, 50%, and 50%, respectively. For nonpari-mutuel games with fixed prize payouts (Cash 3, Cash 4, Mega Millions secondary tier prizes, Win For Life, Millionaire Raffle, and Keno!), actual prize expense is impacted by the number and prize value of winning tickets. To recognize prize expense on a consistent basis for these games, the GLC recognizes prize expense based on the greater of actual prizes paid or the estimated payout experience over the life of the game or based on industry averages. The GLC has established prize liability limits, per draw, for nonpari-mutuel games.

Total online prize expense decreased \$7.6 million in 2007 to \$558.8 million compared to \$566.4 million in 2006, in direct proportion to game sales. For fiscal year 2006, total online prize expense increased \$20.4 million to \$566.4 million compared to \$546.0 million in 2005. The net increase/decrease is comprised of the following increases and decreases by game as follows:

- Prize expense for *Cash 3* increased \$.6 million in fiscal year 2007 as compared to 2006. Prize expense for *Cash 3* decreased \$3.6 million in fiscal year 2006 as compared to 2005.
- Prize expense for *Mega Millions* decreased \$12.3 million in 2007 versus 2006. Prize expense for *Mega Millions* increased \$18.5 million in 2006 versus 2005.
- Prize expense for *Cash 4* increased \$.2 million over 2006. Prize expense for *Cash 4* increased \$.9 million in 2006 over 2005.
- There was no prize expense for *Lotto South* in 2007 since the game ended on February 25, 2006. As compared to 2006, prize expense decreased \$21.5 million versus 2007. Prize expense for *Lotto South* decreased \$12.2 million in 2006 as compared to 2005.
- Prize expense for *Fantasy 5* increased \$1.3 million in 2007 versus 2006. Prize expense for *Fantasy 5* decreased \$1.2 million in 2006 versus 2005.
- Prize expense for *Keno!* increased \$11.8 million in 2007 as compared to 2006. Prize expense for *Keno!* increased \$7.3 million in 2006 as compared to 2005.
- Prize expense for *Win For Life* increased \$7.4 million in fiscal year 2007 as compared to 2006. Prize expense for *Win For Life* was 10.8 million in fiscal year 2006.
- Prize expense for the *Millionaire Raffle* game was \$5.0 million in 2007. No raffle game was offered in 2006.

### **Direct Gaming and Operating Expenses**

Direct gaming expenses usually change in proportion with changes in ticket sales. For fiscal year 2007, increased ticket sales resulted in a corresponding increase in the largest component of direct gaming

expenses, retailer commissions and bonuses. Contractor (vendor) fees increased and advertising expenses increased slightly in fiscal year 2007 versus 2006. For fiscal year 2006, contractor fees increased and advertising expenses decreased slightly versus 2005.

Retailer commissions and bonuses for fiscal year 2007 were \$225.7 million compared to \$208.3 million in 2006, and \$192.5 million in 2005. This represents a \$17.4 million increase in fiscal year 2007, and a \$15.8 million increase in 2006 over 2005. The GLC compensates its retailers through three commission/incentive plans. These are:

- A set commission percentage for selling tickets.
- A ticket cashing bonus for validating and paying winning prizes up to \$600.
- Winning jackpot ticket incentives.

Contractor (vendor) fees represent payments made to our two major suppliers of the gaming products, systems, and services, and two other suppliers of instant ticket printing and property licensing. The payments made to our two major suppliers are determined based on a percentage of sales formula. On September 7, 2003, the GLC began operating under its new seven-year major vendor contracts for Online Gaming Systems and Services and Instant Ticket Printing and Associated Services. Payments made to the other suppliers are based on contract terms. In fiscal year 2007, contractor (vendor) fees were \$70.2 million as compared to \$64.7 million in 2006, representing an increase of \$5.5 million, directly attributable to the increase in ticket sales. For fiscal year 2006, contractor (vendor) fees decreased \$6.1 million from \$58.6 million in 2005 to \$64.7 million in 2006. The increase in 2006 was attributable to increased lottery tickets sales.

Advertising expense increased \$0.4 million to \$19.8 million in 2007 from \$19.4 million in 2006. For fiscal year 2006, advertising expense decreased \$0.2 million to \$19.4 million from \$19.5 million in 2005.

Retailer merchandising and marketing expenses increased \$.6 million to \$10.0 million in 2007 from \$9.4 million in 2006. This increase was primarily the result of new game development expenses associated with marketing new instant and online games, several promotional initiatives to increase player awareness about our lottery games, and purchase of retailer instant ticket dispensers. For fiscal year 2006, retailer merchandising and marketing expenses increased \$.2 million over fiscal year 2005.

Operating expenses increased \$1.4 million to \$29.0 million in 2007 from \$27.6 million in 2006. The increase is primarily attributable to higher expenses for personnel, depreciation, and rent. Operating expenses increased to \$27.6 million in 2006 from \$24.6 million in 2005. The \$3.0 million increase resulted from the higher employer health insurance premiums, which increased personnel service expenses in 2006. Additionally, bad debt expense was \$.4 million in 2006 versus \$.4 million *net revenue* in the previous fiscal year due to a \$1.1 million retailer accounts receivable recovery being applied to a prior bad debt write-off during fiscal year 2005.

Nonoperating revenues, net of expenses, consist primarily of payments to/due to Lottery for Education Account, interest revenue, and the change in the fair value of grand prize investments held by the GLC for funding of future grand prize payments. For fiscal year 2007, nonoperating expenses, net of revenues, increased \$14.7 million from \$833.2 million in 2006 to \$847.9 million in 2007. This increase was primarily attributable to the \$31.2 million increase in the payments to/due to the Lottery for Education Account in 2007 versus 2006, and the \$15.1 million decrease in the change in the fair value of grand prize investments held by the GLC for funding of future grand prize payments. As of June 30, 2007, the fair market value of grand prize investments decreased \$.3 million. As of June 30, 2006, the fair market value of grand prize investments decreased \$15.4 million. The increases or decreases in the fair value of grand prize investments are the result of current period market fluctuations. The increase in nonoperating expenses, net of revenues was partially offset by the \$1.3 million increase in interest income from \$4.6 million to \$5.9 million in 2006 and 2007, respectively.

Nonoperating expenses, net of revenues, increased \$38.4 million from \$794.8 million in 2005 to \$833.2 million in 2006. The increase is attributable to a \$20.2 million increase in payments to/due to Lottery for Education Account and a \$20.5 million decrease in the fair value of grand prize investments held by the GLC for funding of future grand prize payments. The \$20.5 million change resulted from a \$15.4 million decrease in the fair value of grand prize investments as of June 30, 2006, compared to a \$5.1 million increase in fair value of grand prize investments as of June 30, 2005.

Interest income increased \$2.4 million from \$2.2 million in 2005 to \$4.6 million in 2006 due to higher earnings realized from funds held in a pooled short term investment fund managed by the State of Georgia Office of Treasury and Fiscal Services. This fund is a combined state General Fund and local government investment pool and is used by the GLC for funds not needed in the short-term for operating purposes. These funds generally represent net proceeds held, pending quarterly transfer to the education account.

### **Significant Factors Impacting Next Year**

The economic impact of rising energy costs and the recent fluctuations in the residential real estate market may adversely affect the disposable income available for lottery purchases by our players.

### **Contacting the GLC's Financial Management**

This financial report is designed to provide the state of Georgia, the public, and other interested parties with an overview of the financial results of the GLC's activities and to show the GLC's accountability for conducting business in a fiscally responsible manner. If you have questions about this report or require additional financial information, contact the GLC's Corporate Affairs Division at the Georgia Lottery Corporation, 250 Williams Street, INFORUM, Suite 3000, Atlanta, Georgia 30303.

<b>GEORGIA LOTTERY CORPORATION</b>		
<b>(A Component Unit of the State of Georgia)</b>		
<b>STATEMENTS OF NET ASSETS</b>		
<b>AS OF JUNE 30, 2007 AND 2006</b>		
	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 204,811,000	\$ 182,443,000
Restricted fidelity fund cash	71,000	494,000
Restricted retailers' escrow fund cash	3,936,000	526,000
Retailer accounts receivable—net	128,182,000	103,194,000
Prepaid expenses and other assets	<u>2,871,000</u>	<u>838,000</u>
Total current assets	<u>339,871,000</u>	<u>287,495,000</u>
NONCURRENT ASSETS:		
Grand prize investments	233,231,000	196,990,000
Capital assets - net	<u>4,903,000</u>	<u>3,355,000</u>
Total noncurrent assets	<u>238,134,000</u>	<u>200,345,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 578,005,000</u>	<u>\$ 487,840,000</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Due to Lottery for Education Account	\$ 210,113,000	\$ 200,094,000
Prizes payable	106,958,000	76,747,000
Accounts payable and accrued liabilities	17,663,000	10,691,000
Restricted fidelity fund	71,000	494,000
Restricted retailers' escrow fund	<u>3,936,000</u>	<u>526,000</u>
Total current liabilities	<u>338,741,000</u>	<u>288,552,000</u>
NONCURRENT LIABILITIES:		
Grand prizes payable	236,390,000	199,285,000
Noncurrent portion of other long-term liabilities	<u>2,687,000</u>	<u>2,342,000</u>
Total noncurrent liabilities	<u>239,077,000</u>	<u>201,627,000</u>
Total liabilities	<u>577,818,000</u>	<u>490,179,000</u>
NET ASSETS (DEFICIT):		
Invested in capital assets	4,903,000	3,355,000
Unrestricted	<u>(4,716,000)</u>	<u>(5,694,000)</u>
Total net assets (deficit)	<u>187,000</u>	<u>(2,339,000)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 578,005,000</u>	<u>\$ 487,840,000</u>
See Notes to financial statements.		

<b>GEORGIA LOTTERY CORPORATION</b>		
<b>(A Component Unit of the State of Georgia)</b>		
<b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>		
<b>FOR THE YEARS ENDED JUNE 30, 2007 AND 2006</b>		
	<b>2007</b>	<b>2006</b>
OPERATING REVENUES:		
Ticket sales	\$ 3,421,699,000	\$ 3,177,596,000
Less tickets provided as prizes	<u>(243,296,000)</u>	<u>(222,219,000)</u>
Net ticket sales	3,178,403,000	2,955,377,000
Online fees	4,115,000	4,181,000
Other	<u>935,000</u>	<u>688,000</u>
Net operating revenues	<u>3,183,453,000</u>	<u>2,960,246,000</u>
OPERATING EXPENSES:		
Prizes	1,978,384,000	1,815,567,000
Retailer commissions and bonuses	225,657,000	208,328,000
Contractor fees	70,199,000	64,685,000
Advertising	19,768,000	19,386,000
Salaries and benefits	21,580,000	20,461,000
Retailer merchandising and marketing	9,973,000	9,370,000
Rent, utilities, and maintenance	3,903,000	3,456,000
Depreciation	1,218,000	863,000
Professional fees	1,149,000	1,293,000
Other	<u>1,176,000</u>	<u>1,530,000</u>
Total operating expenses	<u>2,333,007,000</u>	<u>2,144,939,000</u>
Operating income	<u>850,446,000</u>	<u>815,307,000</u>
NONOPERATING REVENUES (EXPENSES):		
Payments to and due to Lottery for Education Account	(853,550,000)	(822,399,000)
Interest revenue	5,937,000	4,558,000
Net increase (decrease) in fair value of grand prize investments	<u>(307,000)</u>	<u>(15,405,000)</u>
Total nonoperating revenues (expenses)	<u>(847,920,000)</u>	<u>(833,246,000)</u>
Change in net assets	2,526,000	(17,939,000)
NET ASSETS (DEFECIT)—Beginning of year	<u>(2,339,000)</u>	<u>15,600,000</u>
NET ASSETS (DEFICIT)—End of year	<u>\$ 187,000</u>	<u>\$ (2,339,000)</u>
See Notes to financial statements.		

<b>STATEMENTS OF CASH FLOWS</b>		
<b>FOR THE YEARS ENDED JUNE 30, 2007 AND 2006</b>		
	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 3,154,257,000	\$ 2,953,208,000
Other operational cash received	5,050,000	4,870,000
Cash paid to prize winners	(1,923,425,000)	(1,798,641,000)
Cash paid to retailers	(117,600,000)	(110,069,000)
Cash paid to contractors and employees	(225,657,000)	(208,328,000)
Other operating payments	<u>(1,922,000)</u>	<u>(10,513,000)</u>
Net cash provided by operating activities	<u>890,703,000</u>	<u>830,527,000</u>
<b>NONCAPITAL FINANCING ACTIVITIES:</b>		
Payments to Lottery for Education Account	(843,531,000)	(825,031,000)
Payments to Department of Human Resources	<u>(200,000)</u>	<u>(200,000)</u>
Net cash used in noncapital financing activities	<u>(843,731,000)</u>	<u>(825,231,000)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases of property and equipment	(2,669,000)	(2,022,000)
Proceeds from disposals of property and equipment	<u>70,000</u>	<u>2,000</u>
Net cash used in capital and related financing activities	<u>(2,599,000)</u>	<u>(2,020,000)</u>
<b>INVESTING ACTIVITIES:</b>		
Interest received	5,937,000	4,558,000
Purchases of grand prize investments	(51,030,000)	(8,485,000)
Investments sold	-	2,125,000
Maturities of grand prize investments	<u>26,075,000</u>	<u>23,512,000</u>
Net cash provided by (used in) investing activities	<u>(19,018,000)</u>	<u>21,710,000</u>
<b>NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>25,355,000</b>	<b>24,986,000</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year</b>	<b><u>183,463,000</u></b>	<b><u>158,477,000</u></b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year</b>	<b><u>\$ 208,818,000</u></b>	<b><u>\$ 183,463,000</u></b>
Continued		
See Notes to financial statements.		

<b>GEORGIA LOTTERY CORPORATION</b>		
<b>(A Component Unit of the State of Georgia)</b>		
<b>STATEMENTS OF CASH FLOWS</b>		
<b>FOR THE YEARS ENDED JUNE 30, 2007 AND 2006</b>		
	<b>2007</b>	<b>2006</b>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 850,446,000	\$ 815,307,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,218,000	863,000
Provision for doubtful retailer accounts	127,000	364,000
Gains (Losses) on disposals of property and equipment	(70,000)	2,000
Changes in assets and liabilities:		
Retailer accounts receivable	(24,283,000)	(2,500,000)
Prepaid expenses and other assets	(2,033,000)	314,000
Accounts payable and accrued liabilities	6,972,000	(1,544,000)
Prizes payable	30,411,000	34,002,000
Grand prizes payable	24,547,000	(17,100,000)
Restricted fidelity fund	(423,000)	54,000
Restricted Retailer Escrow	3,410,000	526,000
Other liabilities	381,000	239,000
Net cash provided by operating activities	<u>\$ 890,703,000</u>	<u>\$ 830,527,000</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:		
Increase (decrease) in fair value of investments	\$ (307,000)	\$ (15,405,000)
Accretion of grand prizes payable	<u>11,593,000</u>	<u>11,123,000</u>
Total noncash investing, capital, and related financing activities	<u>\$ 11,286,000</u>	<u>\$ (4,282,000)</u>
See Notes to financial statements.		

# GEORGIA LOTTERY CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

### AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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#### 1. REPORTING ENTITY

The Georgia Lottery Corporation (the “GLC”) was established as an instrumentality of the state with the enactment of the Georgia Lottery for Education Act (the “Act”) on November 2, 1992. The GLC is responsible for the provision of lotteries on behalf of the State of Georgia in accordance with the Act and is a component unit of the State of Georgia.

The GLC’s ticket sales include instant ticket sales and online ticket sales for *Cash 3*, *Cash 4*, *Lotto South*, *Fantasy 5*, *Keno!*, *Mega Millions*, *Win for Life*, and *Millionaire Raffle*. On February 25, 2006, the GLC ended sales of *Lotto South* and began the *Win For Life* online game, with sales beginning February 26, 2006 for the initial draw on March 1, 2006. On November 19, 2006, the GLC began sales of the *Millionaire Raffle* online game for the initial draw on December 31, 2006.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The GLC is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises: (1) where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges or (2) where the periodic determination of net income is considered appropriate.

**Basis of Accounting**—The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”). Under this method, revenues are recognized when earned and expenses are recognized and recorded when a liability is incurred, regardless of the timing of cash flows. In accordance with Statement of Governmental Accounting Standards (“SGAS”) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the GLC is required to follow all applicable Governmental Accounting Standards Board (“GASB”) pronouncements, and has elected not to follow any pronouncements of the Financial Accounting Standards Board subsequent to November 30, 1989.

**Use of Estimates**—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**—Lottery games are sold to the public by contracted retailers. Revenue is recognized for online games when tickets are sold to players and the related draw has occurred. Revenue is recognized for instant games when the product is made available for sale to the public, which is based on ticket activations by the retailers. Certain games include free tickets, which entitle the holder to exchange one ticket for another of equal value. The selling price of free tickets reduces ticket revenue when the prize is claimed by a player.

**Revenue and Expenses**—Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Georgia Lottery Corporation’s enterprise fund are primarily revenues from ticket sales and online fees. “Operating expenses” are defined under the Act as “all costs of doing business, including, but not limited to, prizes, commissions, and other compensation paid to retailers, advertising and marketing costs, personnel costs, capital costs, depreciation of property and equipment, funds for compulsive gambling education and treatment, amounts held in or paid from a fidelity fund, and other operating costs.” All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues and expenses of the Georgia Lottery Corporation’s enterprise fund are primarily interest income revenue, payments to and due to the Lottery for Education Account (an expense), and the net increase (revenue) or decrease (expense) in the fair value of grand prize investments.

**Commissions and Bonuses**—Retailers receive a commission of 5% on ticket sales, except for *Cash 3* sales, on which retailers receive a commission of 7%, and a 2% cashing bonus on all ticket validations at their location. In addition, retailers receive bonuses for selling winning jackpot tickets for *Lotto South*, *Win For Life*, *Fantasy 5*, and *Mega Millions*. Four instant ticket games were introduced during 2007 and 2006 with a retailer sales commission of 10%.

**Contractor Fees**—The GLC has contracted with three vendors for the majority of the gaming systems and supplies.

The GLC entered into a seven-year vendor contract effective September 7, 2003, with GTECH Corporation (“GTECH”) for the operation of the gaming network that consists of over 8,500 instant and online retailer ticket terminals and associated software. Under the contract, GTECH receives a fee of 1.28% of net ticket revenue.

The GLC entered into a seven-year vendor contract effective September 7, 2003, with Scientific Games, Inc. for the printing and distribution of instant game tickets. Scientific Games, Inc. receives a fee of 1.2875% of net instant game tickets distributed to retailers.

The GLC entered into a vendor contract effective January 27, 2006, with Pollard Banknote Limited Partnership (“Pollard”) for the printing of various instant game tickets for which the vendor has exclusive rights. Pollard receives a fee based on the quantity of instant tickets printed. The contract continues until June 30, 2011, unless terminated upon a sixty-day written notice by either the GLC or Pollard. During fiscal year 2007, Pollard printed two \$2 games, *Bingo* and *Cashword*, a \$3 game, *2007 Bingo Party* and a \$5 game, *\$200,000 Bonus Bingo*. During fiscal year 2006, Pollard printed a \$2 *Bingo* instant game for the GLC.

**Prizes**—In accordance with the Act, as nearly as practical, at least 45% of ticket sales must be returned to the public in the form of prizes. Prize expense for instant games is recognized based on the predetermined prize structure for each game. Generally, prize expense for *Cash 3*, *Cash 4*, *Mega Millions*, *Keno!*, and the *Win For Life* online game is recognized based on the estimated payout experience over the life of the games or the industry averages. Prize expense for *Lotto South*, *Fantasy 5*, and *Millionaire Raffle* is recorded on a pari-mutuel basis according to the game structure based on a percentage of revenue recognized.

*Mega Millions*, *Lotto South*, and the *Win For Life* online game are multi-state lottery games operated by member lotteries. The *Mega Millions*, *Lotto South*, and *Win For Life* prizes are shared based on contributions to the prize pools by the member lotteries. Grand prize investments for jackpot winners who purchased tickets in Georgia are held by the GLC.

The *Powerball* grand prize is a shared prize from contributions to the prize pool by all member lotteries of the Multi-State Lottery Association (“MUSL”). All *Powerball* grand prizes won by players who purchased tickets in Georgia are funded by investments purchased by MUSL. The investments are held by MUSL in trust for the GLC and are paid in 20 annual installments. Investments of \$8,052,000 and \$8,785,000 included in the GLC’s grand prize investments in the statements of net assets at June 30, 2007 and 2006, respectively, were held by MUSL in trust. The GLC withdrew from MUSL on August 31, 1996.

**Unclaimed Prizes**—Prizes must be claimed no later than 90 days after game-end for instant games and within 180 days after the draw date for online games. An estimate of the unclaimed prizes is based upon the historical experience rate as a percentage of ticket sales. In accordance with the Act, \$200,000 of unclaimed prizes must be transferred to the Department of Human Resources for the treatment of compulsive gambling and related educational programs. Transfers for this purpose for each fiscal year have been \$200,000. The remainder of unclaimed prizes is used to fund future prizes or special prize promotions, as defined by the statute.

**Net Assets**—Net assets represent cumulative revenues less expenses in excess of net proceeds transferred to the Lottery for Education Account, as defined under the Act (see Note 7). Net assets include funds invested in capital assets and unrestricted net assets. Unrestricted net assets normally result from the inclusion of capital costs in the determination of net proceeds as required by the Act and the cumulative effect of periodic adjustments to recognize the fair value of grand prize investments held to fund grand prizes payable. Grand prize investments are purchased to finance future payments to *Lotto South*, *Win For Life*, *Mega Millions*, and certain instant game grand prize winners. Any increases or decreases in the fair value of these investments are determined to be unrealized and will not affect (i) the future ability to hold these investments or (ii) the amount of funds available for distribution to the Lottery for Education Account. Unrealized gains and losses on grand prize investments at June 30, 2007 and 2006, were (\$2,646,000) and (\$2,339,000), respectively, resulting in a net change of (\$307,000) in the fair value of grand prize investments.

**Cash and Cash Equivalents**—The GLC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. This includes cash in banks, petty cash, and balances on account in Georgia Fund 1.

**Retailer Accounts Receivable**—Retailer accounts receivable represents lottery proceeds due from retailers for net ticket sales less commissions, cashing bonuses, and prizes paid by the retailers. Lottery proceeds are collected weekly from retailer bank accounts held in trust for the GLC. An allowance for doubtful accounts is established based on management’s estimate of retailer receivables that will not be collected. At June 30, 2007 and 2006, the allowance for uncollectible retailer receivables was \$2,239,000 and \$2,195,000, respectively.

**Capital Assets**—Capital assets are stated at cost less accumulated depreciation. Depreciation on capital assets is computed using the straight-line method over the estimated useful lives of three to ten years. Leasehold improvements are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal.

**Fidelity Fund**—In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a GLC retailer. The GLC is reimbursed from available funds for any losses incurred as a result of the misfeasance or malfeasance of GLC retailers. At the end of each year, any amount in the fund in excess of \$500,000 is treated as net proceeds from the GLC subject to transfer to the Lottery for Education Account. There were no fidelity funds available for transfer as net proceeds for the years ended June 30, 2007 and 2006. The fidelity fund proceeds are held in a separate account and are presented in the statements of net assets as restricted fidelity fund cash and in liabilities as restricted fidelity funds.

**Retailer Escrow Fund**—Retailers pledge cash deposits to an escrow funds management service offered by a commercial bank selected by the GLC. This is one of the acceptable forms of Financial Security Deposits from Retailers pursuant to Section 19 of the Georgia Lottery for Education Act, Chapter 2 of the GLC Policies entitled ‘Retailer Rules and Regulations,’ and Chapter 8.2 of the GLC Policies entitled ‘Retailer Credit and Financial Security Policy,’ and appropriate Executive Orders. The GLC is reimbursed from available funds for any losses incurred as a result of the misfeasance or malfeasance of GLC retailers. The retailers’ escrow funds are not subject to transfer to the Lottery for Education Account. The retailer escrow fund proceeds are held in a separate account and are presented in the statements of net assets as restricted retailer escrow fund cash and in liabilities as restricted retailer escrow funds.

**Compensated Absences**—Employees earn the right to be compensated during absences for vacation and illness. Unused leave benefits are paid to employees upon separation from service. The cost of vacation and vested sick leave benefits is accrued in the period in which it was earned. In March 2005, the GLC adopted a new policy concerning payments of accrued sick leave upon termination. Sick leave accrued by employees prior to March 1, 2005, and not used prior to termination is paid at a 50% rate upon termination. No payments will be made for sick leave accrued after March 1, 2005, and not used by the employee before termination.

**Budget**—Georgia Statute requires the GLC to submit to the Office of Planning and Budget (“OPB”) and the State Auditor, annually by June 30, a proposed operating budget for the next fiscal year. Additionally, the GLC is required to submit to the OPB annually, on September 1, a proposed operating budget for the GLC and an estimate of net proceeds for the succeeding fiscal year. The GLC complied with these requirements in 2007 and 2006.

**Future Accounting Pronouncements**—In August 2004, the Governmental Accounting Standards Board (“GASB”) issued Statement of Governmental Accounting Standard (“SGAS”) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and establishes accounting and financial reporting standards for employer costs and obligations related to postemployment health care and other nonpension benefits (“OPEB”). This statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of SGAS No. 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The earliest that SGAS No. 45 provisions will be effective is for financial statement periods beginning after December 15, 2006. GLC management has not yet determined the impact that implementation of SGAS No. 45 will have on the GLC’s financial statements.

### 3. CASH, CASH EQUIVALENTS, AND GRAND PRIZE INVESTMENTS

During the year ended June 30, 2005, the GLC adopted the provisions of SGAS No. 40, *Deposit and Investment Risk Disclosures*, which amends SGAS No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, which recognizes that deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the GLC's note disclosures on cash, cash equivalents, and investments are in conformity with the provisions of SGAS No. 40. Following "exception-based reporting," the GLC is not required to disclose risks that do not apply to it.

**Cash**—Cash is held in demand deposits at various financial institutions. The majority of the GLC's daily operating cash is held in a master operating account with Bank of America. Other miscellaneous cash accounts for accounts payable, prizes payable, retailer return items, district offices, promotions, payroll, and petty cash are held in accounts with Bank of America, except for the Columbus district office account which is held with SunTrust Bank. At June 30, 2007, the GLC's Master Operating Account had a book balance of \$8,790,000 and a bank balance of \$8,290,000. At June 30, 2007, the other miscellaneous accounts had a bank balance of \$170,000 and net book balance of (\$1,986,000) which was primarily due to outstanding checks for the accounts payable and prize check zero balance cash accounts. These accounts are funded through automatic transfers from the master operating cash account as checks are presented for payment by the payee. The net carrying value and bank balance of all GLC cash accounts were \$6,804,000 and \$8,460,000. These deposits were entirely insured by FDIC insurance or collateralized by investment securities held by the GLC's agent in the GLC's name.

**Cash Equivalents**—Cash equivalents represent surplus cash invested in Georgia Fund 1 administered by the State of Georgia's Office of Treasury and Fiscal Services (OTFS). The voluntary fund is a short-term investment vehicle that is available for use by state entities and local governments. Georgia Fund 1 invests its assets in U.S. Treasury bills, U.S. Treasury notes, securities issued by federal agencies and instrumentalities, banker's acceptances, and repurchase agreements.

The Georgia Fund 1 is an external investment pool that is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The OTFS manages Georgia Fund 1 in accordance with policies and procedures established by state law and the State Depository Board, the oversight Board for OTFS. This investment is valued at the pool's share price, \$1.00 per share. The Georgia Fund 1 is an AAAM rated investment pool by Standard & Poor's, and the portfolio's weighted average maturity is fifteen days. Under SGAS No. 40, since these funds represent an externally managed pool it is not exposed to custodial credit risk, and therefore, no custodial credit risk disclosures are required. The GLC's investment in Georgia Fund 1 was approximately \$198,007,000 and \$181,015,000 at June 30, 2007 and 2006, respectively. Interest earned on the GLC's investments was approximately \$5,937,000 and \$4,558,000 for the years ended June 30, 2007 and 2006, respectively.

**Other Deposits**—Cash maintained in the Retailer Escrow Fund bank account had a bank and book balance of \$4,021,000 and \$3,936,000, respectively, as of June 30, 2007. Cash maintained in the Fidelity Fund bank account has a bank and book balance of \$534,000 and \$71,000, respectively, as of June 30, 2007. The Retailer Escrow Fund and Fidelity Fund accounts were maintained with Bank of America, and Carver State Bank, respectively, and both accounts were entirely insured by FDIC insurance or collateralized by investment securities held by the GLC's agent in the GLC's name.

**Grand Prize Investments**—All grand prize investments represent funds held to pay grand prize winners who are entitled to multiyear payments. Grand prize investments are recorded at their fair values. Increases or decreases in the fair value of these investments are recorded as nonoperating revenue (expense).

Grand prize investments at June 30, 2007 and 2006, consist of the following:

	Fair Value	
	2007	2006
U.S. Treasury securities	\$ 225,179,000	\$ 188,205,000
Government agencies	8,052,000	8,785,000
	<u>\$ 233,231,000</u>	<u>\$ 196,990,000</u>

Grand prize investments are not presented as current assets, as they are not part of the GLC's current operations.

Changes in grand prize investments for the years ended June 30, 2007 and 2006, consisted of the following:

Fair value—June 30, 2005	\$ 218,424,000
Purchases	8,485,000
Payments to grand prize winners	(23,512,000)
Investments sold	(2,125,000)
Interest earned on current-year maturities	11,123,000
Change in fair value	<u>(15,405,000)</u>
Fair value—June 30, 2006	196,990,000
Purchases	51,030,000
Payments to grand prize winners	(26,075,000)
Investments sold	-
Interest earned on current-year maturities	11,593,000
Change in fair value	<u>(307,000)</u>
Fair value—June 30, 2007	<u>\$ 233,231,000</u>

**Custodial credit risk for Deposits**—Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2007, all deposits are considered insured.

**Investments**—The GLC's investments consist of U.S. Treasury Strips (principal and interest) that are held to maturity to fund grand prize winners for several online games, including *Lotto Georgia*, *The Big Game*, *Lotto South*, and *Win For Life*, and various Instant Games with annuity prizes such as *Georgia's \$500 Million Club*. In addition, MUSL (Multistate Lottery Association) holds U.S. government agency securities on behalf of the GLC that are held to maturity to fund Georgia's two Powerball grand prize winners. At June 30, 2007, the GLC's investment balances consisted of:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S Treasury Strips	\$225,179,000	Weighted average maturity of 6.0 years
U.S Government Agencies	<u>8,052,000</u>	Weighted average maturity of 4.3 years
Total	<u>\$233,231,000</u>	

U.S Treasury Strips held by the GLC are AAA-rated and current holdings mature quarterly beginning August 2006 through August 2029. U.S. government agency securities held for the GLC by MUSL are AAA-rated with maturities each year in September and May through the year 2015.

**Interest Rate Risk**—The GLC’s deposits in the master operating account with Bank of America are subject to fluctuations in short-term interest rates. The GLC purchases investments to fund future prize payments at fixed amounts for grand prize winner obligations, as detailed in Note 5, Grand Prizes Payable. Periodic market fluctuations affect the fair value of grand prize investments. The GLC expects to hold grand prize investments to maturity to meet future grand prize payments and, therefore, will not realize any gains or losses related to the changes in the market. The only exposure that the GLC has in regards to interest rate sensitivity is for the GLC’s master operating account, since there is no investment related impact on the GLC resulting from the effect of interest rate changes on grand prize investments.

**Credit Risk**—State laws limit the investment sources available to the GLC to United States Treasury securities, federal agency securities, state of Georgia securities, repurchase or reverse repurchase agreements, bank certificates of deposits, Georgia Fund 1, life insurance annuity contracts, and investments that would be permissible for the legal reserves of domestic life insurance companies under the laws of the state of Georgia.

**Custodial Credit Risk**—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the GLC will not be able to recover the value of its investments in the possession of an outside party. The GLC’s investments in U.S. Treasury Strips include strips with a fair value of \$71,168,000 that were purchased from Bank of America and are also held by Bank of America in a safekeeping account on the behalf of the GLC.

#### 4. CAPITAL ASSETS

Capital assets at June 30, 2007 and 2006, consisted of the following:

	Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007
Capital assets:				
Furniture and fixtures	\$ 2,531,000	\$ 47,000	\$ (28,000)	\$ 2,550,000
Computer and communications equipment	8,455,000	1,281,000	(69,000)	9,667,000
Vehicles	2,599,000	411,000	(279,000)	2,731,000
Leasehold improvements	2,606,000	432,000	(781,000)	2,257,000
Software	1,131,000	423,000	-	1,554,000
Other assets	<u>1,398,000</u>	<u>75,000</u>	<u>-</u>	<u>1,473,000</u>
Total capital assets at historical cost	18,720,000	2,669,000	(1,157,000)	20,232,000
Less accumulated depreciation	<u>(15,365,000)</u>	<u>(1,218,000)</u>	<u>1,254,000</u>	<u>(15,329,000)</u>
Capital assets—net	<u>\$ 3,355,000</u>	<u>\$ 1,451,000</u>	<u>\$ 97,000</u>	<u>\$ 4,903,000</u>

	Balance at June 30, 2005	Increases	Decreases	Balance at June 30, 2006
Capital assets:				
Furniture and fixtures	\$ 2,511,000	\$ 20,000	\$ -	\$ 2,531,000
Computer and communications equipment	7,865,000	708,000	(118,000)	8,455,000
Vehicles	2,247,000	388,000	(36,000)	2,599,000
Leasehold improvements	2,396,000	210,000	-	2,606,000
Software	437,000	694,000	-	1,131,000
Other assets	<u>1,396,000</u>	<u>2,000</u>	<u>-</u>	<u>1,398,000</u>
Total capital assets at historical cost	16,852,000	2,022,000	(154,000)	18,720,000
Less accumulated depreciation	<u>(14,647,000)</u>	<u>(863,000)</u>	<u>145,000</u>	<u>(15,365,000)</u>
Capital assets—net	<u>\$ 2,205,000</u>	<u>\$ 1,159,000</u>	<u>\$ (9,000)</u>	<u>\$ 3,355,000</u>

## 5. GRAND PRIZES PAYABLE

Grand prizes payable is recorded at the net present value of the U.S. Treasury securities purchased for each jackpot winner. Grand prizes payable was accreted by approximately \$11,593,000 and \$11,123,000 for the years ended June 30, 2007 and 2006, respectively. Grand prizes payable are not presented as current liabilities, as they are not part of the GLC's current operations.

Future payments of grand prizes payable at June 30, 2007, are scheduled as follows:

2008	\$ 27,901,000
2009	27,952,000
2010	27,952,000
2011	27,951,000
2012	27,951,000
2013–2017	99,501,000
2018–2022	37,923,000
2023–2027	29,153,000
2028–2032	16,052,000
2033–2037	3,270,000
2038–2042	119,000
	<u>325,725,000</u>
Less imputed interest	<u>(89,335,000)</u>
Net present value of grand prizes payable	<u>\$ 236,390,000</u>

The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (the "Omnibus Act") was enacted into federal law on October 21, 1998. Included in this Omnibus Act is a Special Rule for Cash Options for Receipt of Qualified Prizes ("Special Rule"). Pursuant to the Special Rule, the GLC may extend to recipients of "qualified prizes" the opportunity, within a certain period after the drawing, to select a lump-sum payment equivalent to the cash value of an annuitized prize. Qualified prizes, as defined in the Omnibus Act, include multiple-year payments of a minimum of ten years.

Claimants of qualified prizes, as defined in the GLC Rules and Regulations, on or after the date of enactment of the Omnibus Act, can make an irrevocable election to receive a lump-sum cash payment equivalent of the annuitized prize within 60 days of the claim date. Grand prizes payable at June 30, 2007, consist of no qualified prizes under this provision of the Special Rule.

## 6. OPERATING LEASES

The GLC has entered into operating leases for the rental of office space for its headquarters and district offices. Certain operating leases contain provisions for scheduled rental increases and are renewable at the option of the GLC.

Future minimum rental payments on noncancelable leases with original terms of one year or more are scheduled as follows:

<b>Year Ending June 30,</b>	<b>Operating Leases</b>
2008	\$ 2,288,000
2009	2,049,000
2010	2,049,000
2011	2,014,000
2012	1,997,000
2013–2014	<u>3,993,000</u>
	14,390,000
Less sublease revenues	<u>(1,535,000)</u>
Total	<u>\$12,855,000</u>

Rental expense under all operating leases totaled approximately \$2,252,000 and \$1,924,000 for the years ended June 30, 2007 and 2006, respectively.

**7. DUE TO LOTTERY FOR EDUCATION ACCOUNT**

In accordance with the Act, all net proceeds of the GLC are due to the Lottery for Education Account within the state of Georgia Treasury. Net proceeds is defined under the Act as “all revenue derived from the sale of lottery tickets or shares and all other monies derived from the GLC less operating expenses.” Any unrealized gain or loss resulting from changes in fair value of grand prize investments does not represent funds received from GLC operations and is excluded from determination of “net proceeds.”

“Operating expenses” are defined under the Act as “all costs of doing business, including, but not limited to, prizes, commissions, and other compensation paid to retailers, advertising and marketing costs, personnel costs, capital costs, depreciation of property and equipment, funds for compulsive gambling education and treatment, amounts held in or paid from a fidelity fund, and other operating costs.”

Net proceeds and operating expenses for the years ended June 30, 2007 and 2006, are summarized as follows:

	<b>2007</b>	<b>2006</b>
Operating revenues:		
Ticket sales	\$ 3,421,699,000	\$ 3,177,596,000
Less tickets provided as prizes	(243,296,000)	(222,251,000)
Less sales return allowance	<u>-</u>	<u>32,000</u>
Net ticket sales	3,178,403,000	2,955,377,000
Online fees and other revenues	5,050,000	4,869,000
Interest revenue and other	<u>5,937,000</u>	<u>4,558,000</u>
GLC proceeds	<u>3,189,390,000</u>	<u>2,964,804,000</u>
Operating expenses—as defined:		
Gaming	2,303,981,000	2,117,336,000
Operating	29,026,000	27,602,000
Other	<u>2,833,000</u>	<u>2,222,000</u>
Total operating expenses—as defined	<u>2,335,840,000</u>	<u>2,147,160,000</u>
Net proceeds before distribution of unrestricted net assets	<u>853,550,000</u>	<u>817,644,000</u>
Other:		
Funds resulting from current year capital purchases	-	2,022,000
Funds resulting from previous years' capital purchases	-	2,133,000
Funds for current year compulsive gambling education and treatment	-	200,000
Funds for previous years' compulsive gambling education and treatment	<u>-</u>	<u>400,000</u>
Total other	<u>-</u>	<u>4,755,000</u>
Net proceeds subject to transfer	<u>\$ 853,550,000</u>	<u>\$ 822,399,000</u>
Amount due to Lottery for Education Account for year	\$ 853,550,000	\$ 822,399,000
Amount paid during year	<u>(643,437,000)</u>	<u>(622,305,000)</u>
Amount due to Lottery for Education Account—		
End of year	<u>\$ 210,113,000</u>	<u>\$ 200,094,000</u>

## 8. EMPLOYEE BENEFITS

**401(k) Defined Contribution Plan**—Effective July 1, 1998, House Bill 441 was enacted into law, allowing the Georgia Lottery Corporation to participate in the Deferred Compensation Plan offered by the state of Georgia for public employees pursuant to Section 401(k) of the Internal Revenue Code.

There were 255 GLC employees participating in the 401(k) plan at June 30, 2007. For the years ended June 30, 2007 and 2006, GLC contributed \$944,000 and \$852,000, respectively, to the plan. During the year ended June 30, 2005, the GLC did not have to pay any employer contributions from December 2004 to June 2005 due to an employer contribution holiday being granted by the State of Georgia as the payments for those months were funded from plan forfeitures. Total employer contributions funded from plan forfeitures for the year ended June 30, 2005 was \$485,000. Contributions by plan participants during fiscal years ended June 30, 2007 and 2006, were \$692,000 and \$588,000, respectively. For the years ended June 30, 2007 and 2006, the GLC paid \$8,000 and \$3,000 of plan administrative fees, respectively, on behalf of GLC employees.

**457 Deferred Compensation Plan**—Beginning in December 1994, the GLC offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

Section 1448 of the Small Business Job Protection Act of 1996 added Subsection (g) to Section 457 of the Internal Revenue Service Code to provide that all assets and income under a Section 457(b) plan that are maintained by a state or local government employer must be held in trust for the exclusive benefit of plan participants and their beneficiaries. Nationwide Retirement Solutions is the custodian of the plan's assets. As of June 30, 2007 and 2006, the fair value of the plan's assets was \$1,922,000 and \$1,577,000, respectively. Contributions by participants during the years ended June 30, 2007 and 2006, were \$211,000 and \$142,000, respectively.

**Compensated Absences**—At June 30, 2007 and 2006, the balance for compensated absences was \$2,099,000 and \$1,963,000, respectively. The year-end balances are comprised of earned and unused vacation and sick leave hours. At separation, employees are compensated for all earned vacation and any remaining sick leave hours accrued prior to March 1, 2005. Increases to the compensated absences balance represent vacation and sick leave hours earned by employees and decreases represent their usage of leave. During the year ended June 30, 2007, employees earned and used leave totaling \$986,000 and \$850,000, respectively. The current portion of the compensated absence liability, expected to be due within one year of the statement date, June 30, 2007, is estimated using historical trends. At June 30, 2007 and 2006, the estimated current portion of the compensated absences liability was \$208,000 and \$218,000, respectively.

## 9. CONTINGENCIES

The GLC is subject to litigation in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the GLC.

## 10. RISK MANAGEMENT

The GLC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and injuries to employees. The GLC obtains umbrella insurance coverage for property, liability, vehicle fleet, workers' compensation, and unemployment compensation through the State of Georgia's Department of Administrative Services ("DOAS"). The GLC purchases commercial insurance coverage for property and liability for the Augusta, Dalton, and Savannah District Offices, and the Thomasville Claim Office. Property and liability insurance for the Columbus, Duluth, and Macon District Offices, and GLC Headquarters are included in the related lease agreements. The GLC purchased additional commercial insurance for certain company-owned vehicles. DOAS, as a component of the State of Georgia, utilizes self-insurance programs established by individual agreement, statute or administrative action to provide property insurance covering fire and extended coverage and automobile insurance and to pay losses that might occur from such causes; liability insurance for employees against personal liability for damages arising out of performance of their duties; survivors' benefits for eligible members of the Employees' Retirement System; consolidating processing of unemployment compensation claims against state agencies and the payment of sums due to the Department of Labor; and workers' compensation statutes of the State of Georgia. These self-insurance funds are accounted for as internal service funds of the State of Georgia where assets are set aside for claim settlements. The majority of the risk management programs are funded by assessments charged to participating organizations. A limited amount of commercial insurance is purchased by the self-insurance funds applicable to property, employee and automobile liability, fidelity, and certain other risks to limit the exposure to catastrophic losses. Otherwise, the risk management programs service all claims against the state for injuries and property damage.

Financial information relative to self-insurance funds is presented in the financial reports of the Department of Administrative Services and the Employees' Retirement System for the years ended June 30, 2007 and 2005.

Annually, the GLC negotiates and currently contracts with Blue Cross Blue Shield of Georgia for its employee health insurance coverage and Genworth Financial for dental, short-term disability, long-term disability, and term life insurance coverage. The GLC's health and dental insurance plans are funded by contributions from plan participants and by GLC employer contributions.

