



**2009**

**Georgia Lottery Corporation**  
**ANNUAL REPORT**

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Message from the

# PRESIDENT



**We managed to sustain growth despite the challenges of the current economic climate.**

*Margaret R. DeFrancisco  
President and CEO*

Fiscal Year 2009 was an exceptional year for the Georgia Lottery! We celebrated our 15th anniversary with a year-long celebration that culminated with another record year for sales and profits to education.

We kicked off our anniversary celebration by introducing two new commemorative instant games that were very well received by our players. Throughout the year, we offered new games, exciting promotions, and special events to new and current players across Georgia. Lottery winners collected \$2.15 billion in prizes this year!

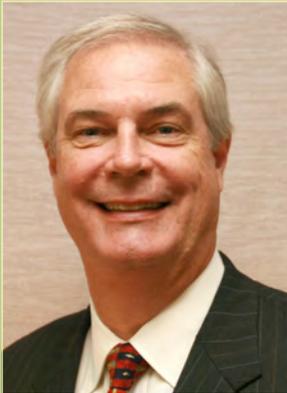
We managed to sustain growth despite the challenges of the current economic climate, posting record sales of more than \$3.6 billion and marking our eleventh consecutive year of growth in profits to education. Since inception in 1993, the Georgia Lottery has worked to responsibly maximize funds for the students of Georgia. We proudly continued that mission in Fiscal Year 2009, generating more than \$872 million for the Lottery for Education Account and bring the total amount raised for education since inception to more than \$11 billion!

Our success would not be possible without our board of directors, dedicated employees, retail partners, and valued players. Thank you for all you do. It is your continued support that enables us to have continued success.

*Margaret R. DeFrancisco*

Board of

# DIRECTORS



The impact on Georgia families is truly tremendous.



Tony Campbell, Chair  
James Braswell  
Rayna Casey  
Ann Crowder  
Martin Kogon  
Celeste Osborn  
John Watson  
*(photos left to right)*



The Georgia Lottery continues to reach remarkable milestones as it celebrates its 15th anniversary. Through the years, the Georgia Lottery has worked to responsibly maximize dollars for Georgia's students, returning over \$11 billion to education since inception. The GLC continues to move forward as one of the most successful lotteries in the nation – ranking second in the United States for total per capita lottery sales. Gross sales for fiscal year 2009 exceeded \$3.6 billion, with more than \$872 million being transferred to the Lottery for Education Account. No other traditional lottery in the United States has increased profits for more consecutive years than Georgia's (eleven).

The Georgia Lottery's success story is not just in the numbers, but the statewide impact of its proceeds. Since inception, more than 1 million students have enrolled in college on HOPE and close to a million four-year-olds have received an early start to their education by attending Georgia Pre-K. The impact on those Georgia families is truly tremendous.

# Education



The Georgia Lottery Corporation's mission is to maximize revenues for the Lottery for Education Account, and fiscal year 2009 marked our 15th year of dedication to educational programs in Georgia, raising a record \$872 million for education.

Last year, Georgia Lottery proceeds funded 82,000 slots in Georgia's Pre-K program, which provides four-year-olds with a solid foundation for their education. The award-winning program prepares children for kindergarten, helping them learn classroom fundamentals and develop essential social skills. Since inception, more than 940,000 children have participated in this high-quality preschool program.

Record lottery sales also generated more funds for Georgia's HOPE Scholarship Program in fiscal year 2009. More than 216,000 college students received \$522 million in lottery-funded HOPE scholarships and grants in the 2008-2009 academic year.

Georgia's HOPE Scholarship Program provides merit-based aid to Georgia students and the HOPE Grant Program provides financial aid to students seeking degrees at Georgia's technical colleges, offsetting educational costs for students and their families. The program encourages talented scholars to attend Georgia colleges, universities, and technical colleges, providing a boost to Georgia's workforce when they graduate.

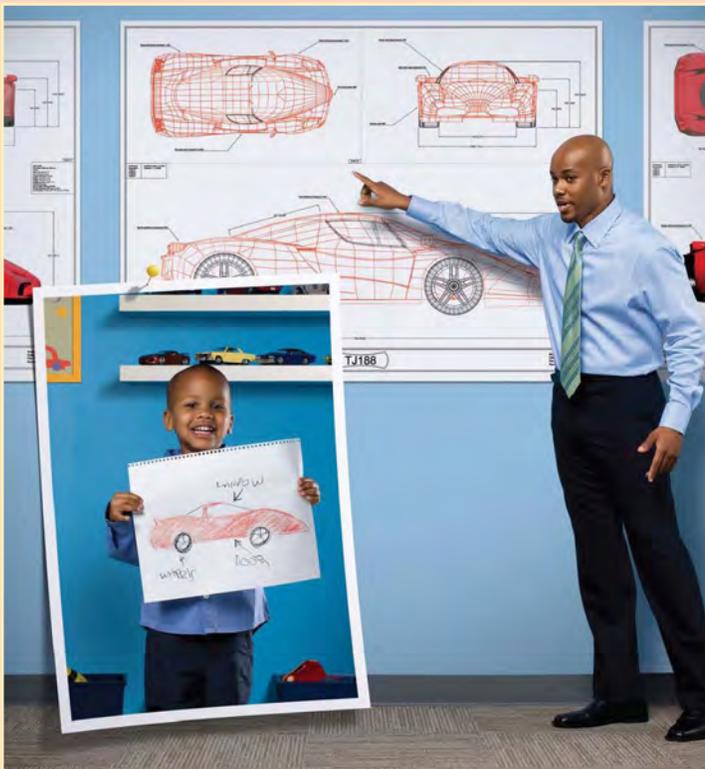


# Education

Last year alone, more than \$522 million in HOPE scholarships and grants sent 216,000 Georgians to college.

In July 2008, the Georgia Lottery launched an online Virtual Yearbook and invited past HOPE and Pre-K students to submit their stories and photos for inclusion. HOPE and Pre-K recipients were also profiled in spots televised statewide commemorating the Georgia Lottery's 15th anniversary. Their stories provided snapshots of the impact that the HOPE and Pre-K programs have had on the lives of Georgians.

Since inception in 1993, the Georgia Lottery has raised more than \$11 billion for the students of Georgia. The GLC remains committed to our mission and looks forward to continued success.



Helping little dreamers become great thinkers.

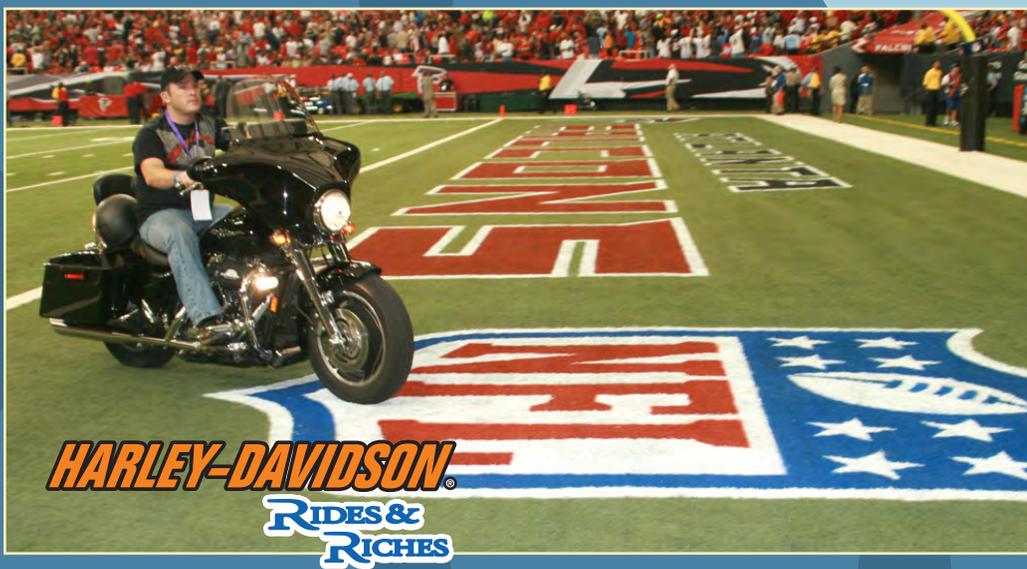


## TOP 15 SCHOOLS FOR HOPE RECIPIENTS

● UNIVERSITY OF GEORGIA	90,824
● GEORGIA STATE UNIVERSITY	48,016
● GEORGIA SOUTHERN UNIVERSITY	44,399
● CENTRAL GEORGIA TECHNICAL COLLEGE	40,202
● CHATTAHOOCHEE TECHNICAL COLLEGE	39,842
● KENNESAW STATE UNIVERSITY	37,683
● GEORGIA PERIMETER COLLEGE	37,086
● ATLANTA TECHNICAL COLLEGE	34,828
● DEKALB TECHNICAL COLLEGE	32,460
● GRIFFIN TECHNICAL COLLEGE	30,865
● GEORGIA INSTITUTE OF TECHNOLOGY	30,259
● GEORGIA NORTHWESTERN TECHNICAL COLLEGE -COOSA VALLEY	30,232
● ALBANY TECHNICAL COLLEGE	29,355
● AUGUSTA TECHNICAL COLLEGE	29,258
● SAVANNAH TECHNICAL COLLEGE	29,172

*Based on total number of HOPE students by college since 1993*

# Games & Promotions



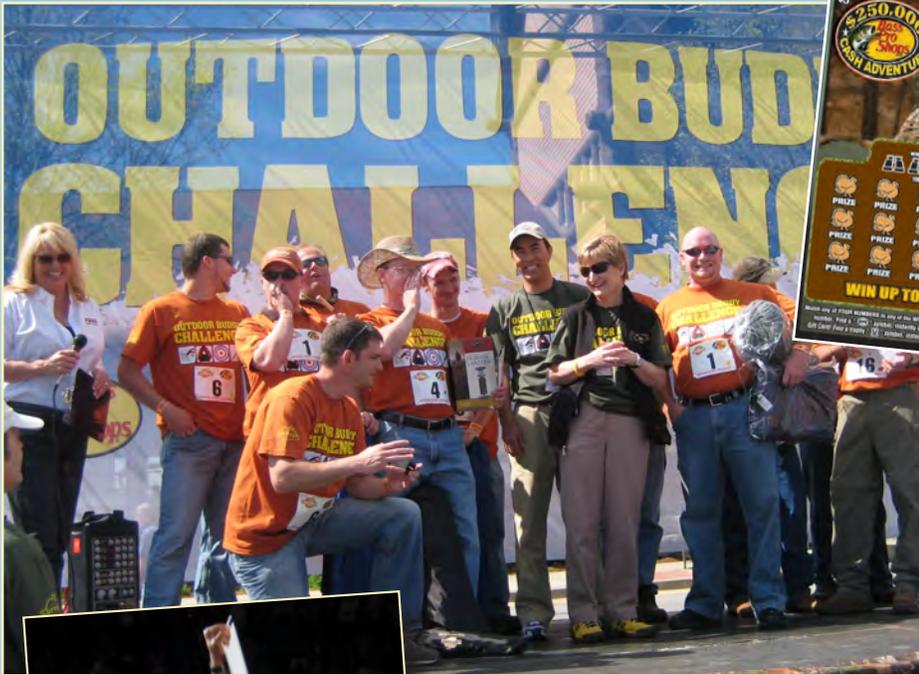
With ticket sales climbing to a record **\$3.6 billion,**

Georgia Lottery instant and online games added up to a winning combination in fiscal year 2009.

The Georgia Lottery is regularly evaluating our products to keep them fresh and exciting to our many players. In fiscal year 2009, instant game sales soared with the introduction of Extreme Green, Millionaire Jumbo Bucks, World Class Millions and other popular games. Meanwhile, niche games like Bass Pro Shops \$250,000 Cash Adventure and Harley-Davidson Rides & Riches attracted new players. Several instant games offered second chance opportunities to win more prizes.



# Games & Promotions



# 15

## TOP 15 INSTANT GAMES

- JUMBO BUCKS
- GIANT JUMBO BUCKS
- LUCKY 7's
- GEORGIA'S \$500 MILLION CLUB
- JUMBO JUMBO BUCKS
- JUNIOR JUMBO BUCKS
- \$300 MILLION GOLD RUSH
- \$100 MILLION CASH SPECTACULAR
- \$200 MILLION CASH SPECTACULAR
- 15TH ANNIVERSARY MILLIONAIRE EXTRAVAGANZA
- MEGA BUCKS
- JINGLE JUMBO BUCKS
- EXTREME GREEN
- MILLIONAIRE JUMBO BUCKS
- MILLIONAIRE MANIA

*Based on instant game sales since inception*



Sales were strong for long-time favorites CA\$H 3, CA\$H 4, Fantasy 5, Mega Millions, and KENO!, which continued providing a source of entertainment to Georgia Lottery players. The *What's Your Fantasy* promotion was very well-received and awarded one \$1,000 winner each day for 50 days and then 5 grand prizes of \$50,000 to five lucky winners to promote the new minimum, guaranteed starting jackpot for Fantasy 5. Adding to the excitement of its online games, the Georgia Lottery unveiled a new draw set during fiscal year 2009.

# Winners

Prize payouts reached an all-time high of \$2.1 billion, surpassing the previous year's record by more than \$99 million.



From instant and online games to exciting promotions and second-chance drawings, fiscal year 2009 was an exciting year for Georgia Lottery winners.

In fiscal year 2009, prize payouts reached an all-time high of \$2.1 billion, surpassing the previous year's record by more than \$99 million.

Thirteen of the 15 top prize winners of \$5 million or \$1 million in the 15th Anniversary Millionaire Extravaganza game claimed their prizes in fiscal year 2009.

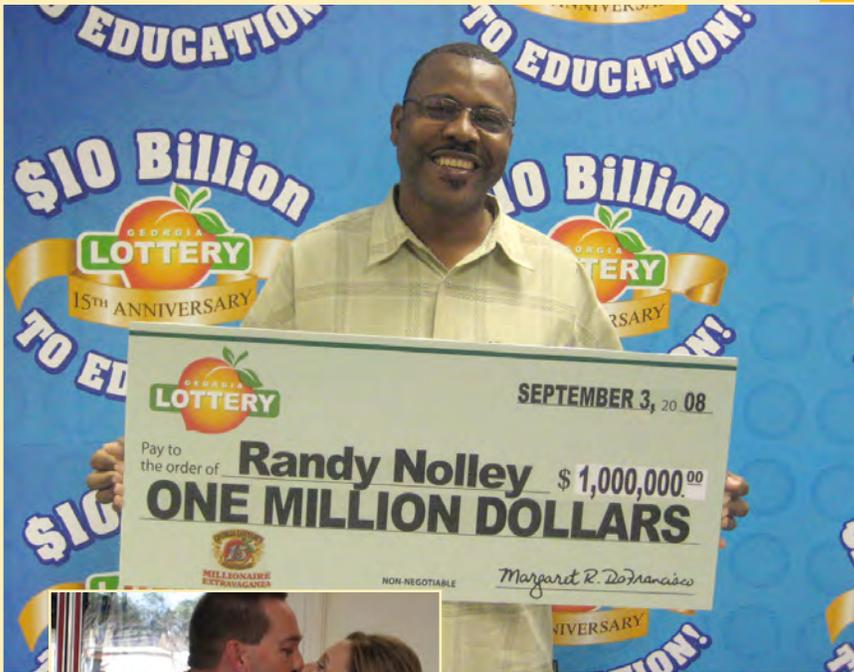


# Winners



## TOP 15 WINNERS

● ROBERT HARRIS	\$171.3M
● EDDIE NABORS	\$116.6M
● BEN CHASON	\$95.4M
● STEPHEN MOORE	\$86.5M
● CARROLLTON SHM LLC	\$82.2M
● MARGARET JONES	\$77.7M
● THOMAS "RANDY" KERFOOT	\$59.1M
● ERIKA GREENE	\$58.9M
● SANKOFA, LLC	\$49.4M
● MARK STAFFA	\$42M
● JIM SHEETS	\$33.3M
● WALTER MITCHELL	\$30M
● RICHARD MIKA	\$28.9M
● STEPHEN COOKE	\$26.6M
● WARREN FAMILY PARTNERSHIP	\$26.6M
● BRADLEY PETERSON	\$23.6M



The year was mega memorable for two lucky Mega Millions jackpot winners in Georgia. A Carrollton family won a \$133 million jackpot in August 2008. They claimed their prize as Carrollton SMH LLC and took home \$82.2 million with the cash option.

Less than two months later, Mark Staffa of Rockmart won a \$42 million jackpot.



# Retailers



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

Throughout the state of Georgia, lottery tickets can be purchased at gas stations, grocery stores, convenience stores, restaurants, local shops and more. The Georgia Lottery retailer network is more than 8,000 strong and extends into virtually every community of the state.

Our retailer partners are a key component in achieving our mission of maximizing revenues for HOPE and Pre-K Programs in Georgia. Our success would not be possible without these ambassadors, many of whom have been promoting lottery products since 1993.

In fiscal year 2009, Georgia Lottery retailers earned more than \$240 million in commissions, bonuses and incentives for their efforts.



# 15

## TOP 15 RETAILERS

- VILLA NOVA BEVERAGES COLUMBUS
- GEORGIA FOOD MART ATLANTA
- MONEY BACK #0044 WEST POINT
- STAPLETON'S ONE STOP CLYO
- COUSINS TEXACO ATLANTA
- MEGA STAR FOOD MART #0002 RINGGOLD
- ATLANTA FOOD MART ATLANTA
- FARRINGTON STOP & SHOP LITHONIA
- MLK CITGO FOOD MART ATLANTA
- FLAT SHOALS FOODMART DECATUR
- AMOCO FOOD SHOP MORROW
- CITGO FOOD STORE #0201 COLUMBUS
- ALPHA CONVENIENCE STORE ALPHARETTA
- PLAZA VIDEO ROSSVILLE
- STATION HOUSE AUGUSTA

*Based on total sales by retailer since inception*



# Senior Staff



*(photos left to right)*

Jack Dimling,  
*Vice President of Sales;*

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

Gerald Mecca,  
*Senior Vice President of  
Administration;*

Teri Rosa,  
*Vice President of  
Customer Operations;*

Kurt Freedlund,  
*Senior Vice President  
and General Counsel;*

Doug Parker,  
*Vice President of  
Human Resources;*

James Hutchinson,  
*Vice President of Marketing;*

Daniel Johnson,  
*Chief Technology Officer;*

Margaret DeFrancisco,  
*President and CEO;*

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

Rosemarie Morse,  
*Vice President of  
Legal Affairs;*

Sharman Lawrence,  
*Vice President of  
Financial Management*

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

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 GLC team is comprised of dedicated and professional men and women committed to the organization's mission to maximize revenues for education.**

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.

# Where The Money Goes

**Fiscal Year 2009**

**\$872.1 million**  
*in funds to education*

**\$240.9 million**  
*in commissions to retailers*

**\$140.2 million**  
*in operating & gaming expenses to gaming vendors, small businesses & others*

**\$2,148.7 million**  
*in prizes to players*

The Georgia Lottery Corporation is committed to providing opportunities to all Georgians. Every dollar spent on Georgia Lottery tickets is reinvested into Georgia's economy. Lottery funds go towards educating Georgia's students and future workforce. Businesses across the state have benefitted from a successful partnership with the GLC and players won over to \$2.1 billion in prizes last year alone.

# Independent Auditors' Report



## INDEPENDENT AUDITOR'S REPORT

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**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, 2009 and 2008, 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, 2009 and 2008, 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 14 through 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, 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.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
October 29, 2009

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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, 2009 and June 30, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 24.

### *Financial Highlights*

The GLC had another record-breaking year in fiscal year 2009. Gross ticket sales surpassed \$3.6 billion, representing the highest sales total in the GLC's sixteen-year history. For fiscal year 2008, gross ticket sales were over \$3.5 billion. On July 15, 2008, the GLC surpassed \$10 billion in transfers for education to the State of Georgia, since the lottery's inception in 1993. For fiscal year 2009, the net proceeds paid to the Lottery for Education Account were \$872.1 million, also setting a GLC record. The net proceeds paid to the Lottery for Education represent an increase of \$4.4 million over last year. For fiscal year 2008, net proceeds paid were \$867.7 million, which represented an increase of \$14.1 million over fiscal year 2007. Other significant financial highlights include the following:

- \* For fiscal year 2009, gross tickets sales increased by \$143.7 million, more than 4.1% over the previous fiscal year. For fiscal year 2008, gross tickets sales increased by \$97.6 million, more than a 2.8% increase over 2007.
- \* Prizes expense increased \$99.0 million during fiscal year 2009 and \$71.2 million in fiscal year 2008. This expense increases or decreases in direct proportion to ticket sales and represented approximately 59% of gross ticket sales in fiscal year 2009 and 58% in 2008. Prize expense represented approximately 58% of gross ticket sales in 2007.
- \* Direct gaming expenses, which include retailer commissions and bonuses, contractor fees, advertising, and retailer merchandising and marketing increased \$11.1 million in fiscal year 2009. These expenses also fluctuate in proportion to ticket sales and represented approximately 9.5% of gross ticket sales in 2009 and in 9.6% in 2008. For fiscal year 2008, direct gaming expenses increased \$10.8 million over 2007. These expenses represented approximately 9.5% of gross ticket sales in 2007.
- \* Fiscal year 2009 operating expenses, which include salaries and benefits, rent, utilities and maintenance, professional fees, depreciation, and other expenses increased \$2.0 million over the previous fiscal year. Higher operating expenses primarily resulted from increases of \$1.5 million in personnel costs, \$.4 million in depreciation expense, and \$.6 million in bad debt expense, partially offset by a \$.4 million decrease in rent and utilities. Operating expenses remained at less than 1% of gross ticket sales for fiscal years 2009 and 2008. Fiscal year 2008 operating expenses increased \$2.6 million over 2007 expenses, resulting primarily from increases of \$1.0 million in personnel costs, \$.4 million in depreciation expense, \$.5 million in rent and utilities, and \$.3 million in professional fees.
- \* Nonoperating expenses, net of revenues, increased \$15.6 million in 2009 as compared to 2008. 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, the decrease in interest revenue over the prior fiscal year, partially offset by the increase in payments to/due to Lottery for Education Account. Nonoperating expenses, net of revenues, increased \$1.5 million in 2008 as compared to 2007. This increase is attributable to the increase in payments to/due to Lottery for Education Account over the prior fiscal year, partially offset by the change in the fair value of grand prize investments held by the GLC for funding future grand prize payments, and a slight increase in interest revenue.

## ***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 24, the statements of revenues, expenses, and changes in net assets on page 25, and the statements of cash flows on pages 26 and 27 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 28 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, 2009 and 2008, and the results of its operations for the years then ended.

## ***Financial Analysis***

### **Assets**

Total assets at the end of fiscal year 2009 were \$628.0 million compared to \$632.5 million at the end of fiscal year 2008, representing a decrease of \$4.5 million. At the end of fiscal year 2008, total assets were \$632.5 million compared to \$578.0 million at the end of fiscal year 2007, representing an increase of \$54.5 million.

Current assets decreased from \$366.8 million in 2008 to \$314.6 million in 2009, representing a decrease of \$52.2 million. This decrease is primarily due to a \$32.9 million decrease in cash and cash equivalents and a \$19.2 million decrease in retailer accounts receivable due to the timing of the accounting week for billing and collections from our retailers at year-end cutoff. Current assets increased from \$339.9 million in 2007 to \$366.8 million in 2008, representing an increase of \$26.9 million. This increase resulted primarily from a \$12.6 million increase in cash and cash equivalents and a \$13.8 million increase in retailer accounts receivable due to the timing of collections from our retailers.

Noncurrent assets increased from \$265.7 million in 2008 to \$313.4 million in 2009, representing an increase of \$47.7 million. This increase is due to grand prize investments increasing from \$260.9 million in 2008 to \$308.3 million in 2009, an increase of \$47.4 million. The increase resulted from net purchases of \$59.1 million, payments to grand prize winners totaling \$30.2 million, interest earned on current-year maturities of \$13.4 million, and a \$5.1 million increase in the fair value of the investments. Capital assets increased from \$4.9 million in 2008 to \$5.1 million in 2009. The increase resulted from capital asset purchases of \$2.2 million less depreciation expense of \$1.9 million.

In fiscal year 2008, noncurrent assets increased to \$265.7 million from \$238.1 million in 2007, representing an increase of \$27.6 million. This increase was primarily due to grand prize investments increasing from \$233.2 million in 2007 to \$260.9 million in 2008, an increase of \$27.7 million. The increase resulted from net purchases of \$188.2 million, payments to grand prize winners totaling \$28.2 million, net investment sales of \$157.1 million, interest earned on current-year maturities of \$12.6

million, and a \$12.1 million increase in the fair value of the investments. Capital assets were \$4.9 million in 2008 and 2007.

## Liabilities

Total liabilities at the end of fiscal year 2009 were \$613.4 million compared to \$623.0 million at the end of fiscal year 2008, representing a decrease of \$9.6 million. Total liabilities at the end of fiscal year 2007 were \$577.8 million compared to \$623.0 million at the end of fiscal year 2008, representing an increase of \$45.2 million.

Current liabilities decreased from \$368.0 million in 2008 to \$316.4 million in 2009, a decrease of \$51.6 million. The decrease is due to a \$43.3 million decrease in prizes payable, a \$4.7 million decrease in accounts payable and accrued liabilities, and a \$4.3 million decrease in the funds due to the Lottery for Education Account. The decrease in prizes payable was primarily due to a \$20 million decrease in the prize liability reserve for several online games (*Cash 3*, *Cash 4*, *Keno!*, and *Mega Millions*), a \$1.0 million decrease in the annuity liability for the *Win For Life* game, and a decrease in deferred sales of \$0.4 million as of June 30, 2009. The decrease in funds due to the Lottery for Education Account resulted from lower fourth quarter sales in fiscal year 2009 versus 2008. The decrease in accounts payable and accrued liabilities was primarily due to lower year-end accrued payments for advertising.

For fiscal year 2008, current liabilities increased to \$368.1 million from \$338.7 million in 2007, an increase of \$29.4 million. The increase was primarily due to a \$16.5 million increase in prizes payable, and a \$12.5 million increase in the funds due to the Lottery for Education Account. The increase in prizes payable was primarily due to a \$6.1 million increase in prize liability resulting from proportionately higher game sales for the instant games, a \$18.9 million increase in the prize liability reserve for several online games (*Cash 3*, *Cash 4*, *Keno!*, and *Mega Millions*), and a \$2.2 million increase in unclaimed prizes as of June 30, 2008 compared to 2007. These increases were partially offset by a \$4.8 million decrease in the annuity liability for the *Win For Life* game, a \$5.3 decrease in deferred sales, and a \$0.8 million decrease in prize breakage as of June 30, 2008 versus 2007.

Noncurrent liabilities increased \$42.1 million from \$254.9 million in 2008 to \$297.0 million in 2009. 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 2009, grand prizes payable increased \$42.4 million over fiscal year 2008, from \$252.1 million to \$294.5 million. The increase was primarily attributable to two factors. Grand prize payables of \$16.8 million (winner payments net of interest earned on current-year maturities) became due and payable in fiscal year 2009 as an annual payment obligation to our grand prize winners, thus reducing the long-term liabilities. The GLC increased its grand prizes payable by \$30.2 million as the result of new annual payment obligations for grand prize winners for several instant games: *Georgia's \$500 Million Club*, *15th Anniversary Millionaire Extravaganza*, and the *Georgia Lottery's Cash Explosion*, and two online games, *Mega Millions* and *Win For Life*. The GLC has purchased or will purchase U.S. Treasury securities to fund these future payment obligations. During fiscal year 2009, securities were purchased for grand prize winners in our other online games that elected to receive annual annuity payments.

Noncurrent liabilities increased \$15.8 million from \$239.1 million in 2007 to \$254.9 million in 2008. Noncurrent liabilities principally consist of grand prizes payable, which represent the amount to be paid to grand prize winners over future years. Grand prizes payable experienced a net increase of \$15.7 million in 2008 resulting from payments net of interest earned on current-year maturities that became due and payable as annual payment obligations to our grand prize winners, thus increasing the long-term liabilities. The GLC increased its grand prizes payable by \$28.2 million due to new annual payment obligations for grand prize winners for several instant games: *Georgia's \$500 Million Club*, *Georgia Lottery's Cash Explosion*, and *\$300 Million Gold Rush*, and one online game, *Win for Life*. During fiscal year 2008, all eligible grand prize winners in our other online games elected to receive their prizes in a

single cash payment. The increase in grand prizes payables was partially offset by the \$12.6 million in interest earned on current-year maturities which became due and payable in 2008.

### **Net Assets and Changes in Net Assets**

Net assets increased \$5.1 million in 2009 from \$9.5 million in fiscal year 2008, to an end of year balance of \$14.6 million. This increase resulted from a \$5.1 million unrealized gain in the fair market value of grand prize investments held by the GLC for the 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.

Net assets increased \$9.3 million in fiscal year 2008 from \$.2 million in fiscal year 2007 to \$9.5 million. This increase primarily resulted from a \$12.4 million increase in the unrealized gain in the fair value of grand prize investments held by the GLC for funding of future grand prize payments.

### **Sales**

Total lottery ticket sales for fiscal year 2009 were \$3.663 billion, as compared to \$3.519 billion in 2008. This represents an increase of over \$143.7 million. Average weekly gross ticket sales for fiscal year 2009 were \$70.4 million versus \$67.7 million in 2008.

Gross instant ticket sales increased during fiscal year 2009, up \$106.2 million over one year ago, from \$2.405 billion in 2008 to \$2.511 billion in 2009. The 4.4% increase is attributable to several factors, including the GLC's administration of sound marketing and promotional strategies, ongoing product research, development and introduction of new instant ticket games, coupled with effective management of the instant product mix which offers players an opportunity to choose among a variety of games at different price points: \$1, \$2, \$3, \$5, \$10, and \$20.

In commemoration of our 15th Anniversary, the GLC launched two instant games, \$1 *Georgia Lottery's 15th Anniversary* and \$20 *Georgia Lottery's 15 Anniversary Millionaire Extravaganza*. The \$1 game provided players an opportunity to win one of 11 top prizes-the highest top prize ever offered on a \$1 Georgia Lottery instant game. The \$20 anniversary game was loaded with over \$200 million in total prizes, including 15 prizes from \$1 million to \$5 million. Players could also enter the *Extra Chance Monthly Millionaire Drawings* for a chance to win \$1 million. Each monthly drawing winner received a \$1 million annuitized prize. The \$20 *Georgia Lottery's 15 Anniversary Millionaire Extravaganza* instant game contributed over \$237 million in sales as of June 30, 2009.

Sales growth of the \$20 price point category continued as a larger part of the overall sales and product mix. During fiscal year 2009, the GLC's three \$20 instant games, *Georgia Lottery's 15 Anniversary Millionaire Extravaganza*, *Millionaire Jumbo Bucks*, and *World Class Millions* contributed approximately \$489 million in ticket sales. In September 2008, the GLC televised its game show "*Georgia's \$500 Million Club Finale*" to award the first \$10 million grand prize. The game show was the culminating event for the GLC's first \$20 instant game, *Georgia's \$500 Million Club*. Players could enter the \$10 million drawing by mailing in non-winning instant tickets. A total of 77 extra chance drawing weekly winners won \$5,000 and became game show finalists.

Sale of \$10 instant games remained steady in fiscal year 2009. The GLC offered players seven different games at this price point included *\$150,000,000 Slots of Luck*, *Jumbo Jumbo Bucks*, *Georgia Lottery's Cash Explosion*, and *Georgia's Millionaire Mania*, which were introduced in prior fiscal years, and three new games launched in fiscal year 2009, *Jingle Jumbo Bucks*, *Extreme Green*, and *Super Lucky 7's*. Ticket sales from these \$10 instant games contributed approximately \$559 million.

New instant games introduced during 2009 at the \$5 price point included *Diamonds & Gold; Red, White & Blue's 7's; Bass Pro Shops® \$250,000 Cash Adventure; \$500,000 Player's Club* and our highest selling \$5 game, *Harley-Davidson® Rides & Riches* generated over \$45 million. The \$5 *Harley-Davidson® Rides & Riches* game offered \$250,000 top prizes and 10 Ultimate Ride instant prizes. The Ultimate Ride prizes include a 2008 Harley-Davidson® Fat Boy 105th® Anniversary Edition motorcycle and a 2008 105 Anniversary Ford Harley-Davidson™ F-150 truck. The game was supported by the Georgia Lottery's Harley-Davidson® Ultimate Ride Bonus Chance promotion. In March 2009, the GLC teamed up with Bass Pro Shops® to launch the *Bass Pro Shops® \$250,000 Cash Adventure* instant game and the Outdoor Buddy Challenge. The Outdoor Buddy Challenge offered event participants in teams of four the opportunity to compete in four adventure contests: air raffle, archery, bait casting, and tent pitching. The winning team won a grand prize of \$10,000 in Bass Pro Shops® gift cards.

Sales of core instant games remained steady, including the Jumbo Bucks product line, *Junior Jumbo Bucks, Jumbo Bucks Classic, Giant Jumbo Bucks, Jumbo Jumbo Bucks, and Millionaire Jumbo Bucks*, a \$20 game launched in January 2009; and the Mega Bucks product line, *Mini Mega Bucks, Mega Bucks, and Mighty Mega Bucks*. The GLC's four holiday-themed instant games, offered from late October through early 2009, demonstrated continued sales growth increasing over 9% from approximately \$118 million in fiscal year 2008 to \$129 million in fiscal year 2009. Some of our most successful new instant games at the lower price points included, \$1 5X The Money, \$1 Crazy 7's, and \$1 Super Black Jack; \$2 Loteria, \$2 Win It All, and \$2 Fantastic 5's; \$3 Lotto South Cash and \$3 Strike It Rich 2009.

Gross instant ticket sales increased \$83.8 million during fiscal year 2008, from \$2.321 billion in 2007 to \$2.405 billion in 2008. The GLC's administration of a sound marketing strategy, continuous development and introduction of new instant ticket games, and effective management of the instant product mix led to the 3.6% increase in ticket sales for 2008 versus 2007.

During fiscal year 2008, the GLC introduced several instant games at lower price points offering a variety of respective prize opportunities which appeal to different players. New instant games included a \$2 *Betty Boop* game; \$3 *Lucky 7's Bingo*, and a \$2 *Fast 5's*, which gave players an opportunity to win a free ticket for the Fantasy 5 online game. The Georgia Lottery's four holiday-themed instant games, offered from late October 2007 through early 2008, continue to provide extremely strong sales, totaling more than \$118 million in fiscal year 2008. In addition, GLC players continued demonstrating loyalty to our most popular core games such as *Jumbo Bucks* and *Mega Bucks* family of games.

The strength the GLC's \$10 instant games continued during fiscal year 2008. New \$10 instant games introduced in 2008 included *Millionaire Super 7's, Georgia Lottery's Cash Explosion, and Georgia's Millionaire Mania*. Ticket sales from these games coupled with sales from *\$150,000,000 Slots of Luck* introduced in fiscal year 2007, contributed over \$308 million.

Sales growth of the \$20 price point category spanned the entire fiscal year for 2008, as compared to only six months for 2007, and became a much larger part of the overall sales and product mix. Since its introduction in January 2007, the GLC's first \$20 instant game, *Georgia's \$500 Million Club* continued its popularity with players. The game contributed over \$354 million to ticket sales in fiscal year 2008 compared to \$330 million in 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.

The GLC closed out fiscal year 2008 with the introduction of two new instant games to commemorate fifteen years in operation, \$1 *Georgia Lottery's 15th Anniversary*, offered eleven \$15,000 top prizes – the highest top prize ever offered on a \$1 GLC instant game, and *\$20 15th Anniversary Millionaire Extravaganza*, which included 15 prizes from \$1 million to \$5 million and gave players the opportunity to enter the *Extra Chance Monthly Millionaire Drawings* for a chance to win \$1 million.

*Cash 3* sales decreased \$1.6 million in fiscal year 2009 from \$505.7 million to \$504.1 million. *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 53% for fiscal year 2009 and 46% for fiscal year 2008. During fiscal year 2009, the GLC held the *Cash 3 Double Drop* promotion in November. The GLC added Sunday midday *Cash 3* drawings on April 19, 2009.

*Cash 3* sales decreased \$39.7 million to \$505.7 million in 2008 compared to \$545.4 million in 2007. During fiscal year 2008, the GLC provided players with *Cash 3* promotions, *Cash 3 20% Bonus Payout* to prize winners, held in January and March 2008. The promotion provided *Cash 3* players an opportunity to participate in a second chance to win from a single ticket purchase. Historically, as the prize amount won for this game increases above or decreases below the industry average of 50% of sales, a corresponding increase or decrease in sales will occur. The actual prize payout experienced for fiscal years 2008 and 2007 was approximately 46% and 47%, respectively. Consequently, lower than expected actual prize payouts in fiscal year 2008 resulted in a decline in *Cash 3* sales.

In fiscal year 2009, *Mega Millions* sales decreased \$11.7 million (approximately 5%) to \$205.8 million compared to \$217.5 million in 2008. *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 three jackpots over \$200 million in 2009, including jackpots of \$209 million in December 2008, \$216 million in March 2009, and \$227 million in May 2009. There were two *Mega Millions* jackpots over \$100 million during fiscal year 2009, including jackpots of \$126 million in July 2008 and \$133 million, which had a Georgia grand prize winner in August 2008. In comparison, *Mega Millions* generated several large jackpots, a \$330 million winning jackpot in September 2007, and there were also four other *Mega Millions* jackpots over \$100 million during fiscal year 2008. *Mega Millions* sales are jackpot driven and, as a whole, jackpot rollovers did not reach the higher levels in 2009 which were achieved in 2008.

*Mega Millions* sales increased \$34.7 million (approximately 19%) in 2008 to \$217.5 million compared to \$182.8 million in 2007. During fiscal year 2008, *Mega Millions* had a \$330 million winning jackpot in September 2007 and two other large jackpots of \$274 million, which had a Georgia grand prize winner in February 2008, and \$196 million in May 2008. There were three other *Mega Millions* jackpots over \$100 million during fiscal year 2008, including jackpots of \$128 million in July 2007, \$163 million in December 2007, and \$136 million in April 2008. In comparison, *Mega Millions* experienced a U.S. record-setting \$390 million winning jackpot in March 2007, and had four other 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 fiscal year 2009, *Cash 4* sales increased \$32.4 million, from \$176.9 million in 2008 to \$209.3 million in 2009. *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 2009 and 2008 were approximately 45% and 47%, respectively. Although the prize payout for fiscal year 2009 was below the industry average of 50%, *Cash 4* sales had a significant increase over 2008. During fiscal year 2009, as a part of GLC's 15th anniversary celebration, the GLC provided players with the \$15 Dollar Days promotion, held for 15 days in September 2008. The promotion provided *Cash 4* players an opportunity to win \$15 instantly by purchasing a *Cash 4* ticket. As a result of this promotion, *Cash 4* sales increased approximately \$29.9 million during the designated 15-day promotion and continued to carry a sales lift following the promotional period. In addition to the \$15 Dollar Days promotion, the GLC added Sunday midday *Cash 4* drawings on April 19, 2009.

*Cash 4* sales increased \$.6 million, from \$176.3 million in 2007 to \$176.9 million in 2008. Actual prize payouts in fiscal years 2008 and 2007 were 47% and 53%, respectively.

For fiscal year 2009, *Win For Life* sales decreased \$3.2 million to \$23.5 million compared to \$26.7 million in 2008. *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. Management continues to research potential game enhancements in an effort to expand the player base and increase sales for *Win For Life*.

*Win For Life* sales were \$26.1 million in 2008, a decrease of \$10.2 million compared to 2007 sales of \$36.3 million.

*Fantasy 5* sales increased \$8.6 million (approximately 10.46%) in 2009 to \$91.4 million from \$82.8 million in 2008. During fiscal year 2009, increased player interest in *Fantasy 5* resulted from a change in *Fantasy 5* jackpot advertising, setting a minimum starting jackpot of \$50,000, and two game promotions, *Fantasy Fridays* and *What’s Your Fantasy?* In February 2009, the GLC ended advertising the *Fantasy 5* jackpot rollover amount as of the current draw, and began advertising the estimated jackpot for the next draw. The advertised estimated jackpot is based on actual draw sales, with the exception of the \$50,000 starting minimum jackpot. During the *Fantasy Fridays* promotion, players received a free play with their *Fantasy 5* ticket purchase on Fridays during the months of October, November, and December 2008. The *What’s Your Fantasy?* promotion ran for fifty days, from February 24 through April 14, 2009. Players entered non-winning *Fantasy 5* tickets on the promotion’s website for a chance to win one of five \$50,000 cash grand prizes or one of fifty \$1,000 cash prizes. The GLC held daily drawings during the promotional period giving players a chance to win the \$1,000 daily cash prize. One grand prize drawing was held to select five grand prize winners of \$50,000 each. Establishing a *Fantasy 5* minimum jackpot and advertising the estimated jackpot amount, coupled with the *Fantasy Fridays* and *What’s Your Fantasy?* promotion led to higher game sales.

For fiscal year 2008, *Fantasy 5* sales were \$82.8 million compared to \$83.0 million in 2007, a slight decline of \$.2 million. During fiscal year 2007, 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. Increased player interest in *Fantasy 5*, as a result of this change coupled with other GLC promotional and marketing activities led to relatively stable *Fantasy 5* sales in 2008 compared to 2007.

Sales for *Keno!* were \$116.3 million and \$90.6 million in fiscal year 2009 and 2008, respectively. This represents a \$25.7 million (approximately 28.4%) increase in sales during 2009 versus 2008. Higher *Keno!* sales were attributable to the execution of the GLC’s marketing and promotion activities supporting the game, including district blitzes, Coaches Night on-premise promotions, new *Keno!* drawing show on new monitors, offering a variety of point-of-sale and premium items, engaging commercials, and persistent retailer recruitment efforts by GLC sales and marketing teams.

In fiscal year 2008, *Keno!* sales increased \$23.7 million, or 35% from \$66.9 million in 2007 to \$90.6 million. During fiscal year 2008, as management had anticipated, the initiatives implemented to increase sales by continuing to expand the number and type of retailer locations offering the *Keno!* product in social business environments, offering increased game prize payouts through *Keno!* bonus hour promotions, and the GLC’s administration of a sound marketing strategy have resulted in a significant growth in game sales. Additionally, a *Multiplier* feature was added to the game in April 2008, which resulted in a weekly 10-week sales average increase of approximately 38%. For an additional \$1 per play,

players have the opportunity to multiply their prize winnings by up to 10 times, depending upon the outcome of the multiplier wheel spin, during each drawing.

In April 2009, the GLC launched a new, limited-time online game, *Weekly Winfall*. The game contributed \$1.5 million in sales for fiscal year 2009. The *Weekly Winfall* tickets were \$10 each and offered players two chances to win. Ten weekly drawings were held on Saturdays, April 25 through June 25. Each week, 10 tickets purchased that week were drawn to win \$5,000 each. Every ticket purchased during the 10-week game period was automatically entered in the final bonus drawing, a *\$1 Million Bonus Drawing* held on June 30, 2009, where 1,500 players won \$500 each, and one lucky player won \$1 million. *Weekly Winfall* tickets were sold in numeric order through the lottery terminal. Each *Weekly Winfall* ticket had a unique 9-digit number- there were not any repeat or duplicate ticket numbers. The winning numbers were selected by a computerized random number generator software certified by an outside gaming device and systems testing laboratory.

The GLC did not have a *Millionaire Raffle* game during fiscal year 2009.

*Millionaire Raffle* sales were \$14.8 million in 2008 compared to \$10.0 million in 2007. During fiscal year 2008, players had two opportunities to play *Millionaire Raffle*. The first drawing was held on July 7, 2007, and a second drawing, *Holiday Millionaire Raffle* was held on December 31, 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. For the July drawing, a computerized drawing randomly selected four winners of \$1 million (cash prize), five winners of \$100,000, and 500 winners of \$1,000. For the *Holiday Millionaire Raffle*, players had the opportunity to win one of four \$1 million prizes, one of four \$100,000 prizes, one of 20 \$10,000 prizes, or one of the 1,000 \$5000 prizes. 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.

### **Other Operating Revenue**

Other operating revenue includes online fees and other miscellaneous revenue. Other operating revenue was \$4.3 million in fiscal years 2009 and 2008. Other operating revenue decreased \$ .8 million to 4.3 million in fiscal year 2008, from \$5.0 million in fiscal year 2007. The decrease was primarily due to one-time operating revenues of \$ .9 million recognized in fiscal year 2007.

### **Prize Expense**

Gross prize expense for instant games increased to \$1.591 billion in fiscal year 2009 from \$1.521 billion in 2008, an increase of \$70.6 million (approximately 4.6%). Gross prize expense for instant games was \$1.521 billion in fiscal year 2008 versus \$1.445 billion in 2007, an increase of \$76.0 million (approximately 5.2%). 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 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 2009, prize expense, net of unclaimed prizes for instant games, totaled \$1,562.0 million as compared to \$1,483.3 million in 2008, and \$1,419.6 million in 2007. Gross instant prize expense was reduced by \$29.4 million, \$37.5 million, and \$34.1 million, by using unclaimed prizes in 2009, 2008, and 2007, 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 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*, *Weekly Winfall*, 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 increased \$20.4 million in 2009 to \$586.7 million compared to \$566.3 million in 2008, in direct proportion to game sales. For fiscal year 2008, total online prize expense increased \$7.5 million to \$566.3 million compared to \$588.8 million in 2007. The net increase/decrease is comprised of the following increases and decreases by game as follows:

- \* Prize expense for *Cash 3* decreased \$.8 million in fiscal year 2009 as compared to 2008. Prize expense for *Cash 3* decreased \$21.3 million in fiscal year 2008 as compared to 2007.
- \* Prize expense for *Mega Millions* decreased \$5.8 million in 2009 versus 2008. Prize expense for *Mega Millions* increased \$17.3 million in 2008 versus 2007.
- \* Prize expense for *Cash 4* increased \$15.7 million over 2009. Prize expense for *Cash 4* decreased \$.6 million in 2008 over 2007.
- \* Prize expense for *Fantasy 5* increased \$2.3 million in 2009 versus 2008. Prize expense for *Fantasy 5* decreased \$.6 million in 2008 versus 2007.
- \* Prize expense for *Keno!* increased \$17.3 million in 2009 as compared to 2008. Prize expense for *Keno!* increased \$15.2 million in 2008 as compared to 2007.
- \* Prize expense for *Win For Life* decreased \$1.3 million in fiscal year 2009 as compared to 2008. Prize expense for *Win For Life* increased \$5.1 million in 2008 over 2007.
- \* *Weekly Winfall* prize expense was \$.7 million in fiscal year 2009. The *Weekly Winfall* game was not conducted in fiscal year 2008 or 2007.
- \* Prize expense for the *Millionaire Raffle* game decreased \$7.5 million in 2009 versus 2008. A *Millionaire Raffle* game was not held in fiscal year 2009. *Millionaire Raffle* prize expense increased \$2.5 million in 2008 versus 2007.

## **Direct Gaming and Operating Expenses**

Direct gaming expenses usually change in proportion with changes in ticket sales. For fiscal year 2009, increased ticket sales resulted in a corresponding increase in retailer merchandising and marketing, and retailer commissions and bonuses in 2009 compared to 2008. Contractor (vendor) fees, retailer merchandising and marketing, and advertising expenses increased in fiscal year 2008 compared to 2007.

Retailer commissions and bonuses for fiscal year 2009 were \$240.9 million compared to \$230.7 million in 2008, and \$225.7 million in 2007. This represents a \$10.2 million increase in fiscal year 2009, and a \$5.0 million increase in 2008 over 2007. 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 on certain online games.

Contractor (vendor) fees represent payments made to our two major suppliers of the gaming products, systems, and services, and the other supplier of instant ticket printing and property licensing. The payments made to our two major suppliers are determined based on a percentage of sales formula. During fiscal year 2009, GLC extended its major vendor contracts for Online Gaming Systems and Services and Instant Ticket Printing and Associated Services until September 2013. The contract extension will provide lower vendor fees resulting from the reduction in the charges for services provided to the GLC. In fiscal year 2009, contractor (vendor) fees were \$72.4 million as compared to \$73.2 million in 2008, representing a decrease of \$.8 million. The decrease was primarily attributable to the savings generated from the favorable contract terms for the two major vendors for services provided the last six months of fiscal year 2009, which was partially offset by the increase in vendor fees due to higher ticket sales in 2009 versus 2008. For fiscal year 2008, contractor (vendor) fees increased \$3.0 million from \$70.2 million in 2007 to \$73.2 million in 2008. The increase in 2008 was attributable to increased lottery tickets sales.

Advertising expense decreased \$4.3 million to \$16.0 million in 2009 from \$20.3 million in 2008. For fiscal year 2008, advertising expense increased \$0.5 million to \$20.3 million from \$19.8 million in 2007.

Retailer merchandising and marketing expenses increased \$6.0 million to \$18.2 million in 2009 from \$12.2 million in 2008. This increase was primarily the result of new game development expenses associated with marketing campaigns supporting new lottery games and features, special promotions for retailer partnerships, various, second chance drawings, and media production expenses to increase player awareness. For fiscal year 2008, retailer merchandising and marketing expenses increased \$2.2 million from \$12.2 million to \$10.0 million in 2007.

Operating expenses increased \$2.6 million to \$31.6 million in 2008 from \$29.0 million in 2007. The increase is primarily attributable to higher expenses for personnel services, depreciation, professional fees, rent, professional fees, and bad debt expense. Operating expenses increased \$1.4 million to \$29.0 million in 2007 from \$27.6 million in 2006. The increase primarily resulted from the higher expenses for personnel services.

### **Nonoperating Revenues (Net of Expenses)**

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 2009, nonoperating expenses, net of revenues, increased \$15.6 million from \$849.4 million in 2008 to \$865.0 million in 2009. This increase was attributable to the \$4.4 million increase in the payments to/due to the Lottery for Education Account in 2009 versus 2008, offset by the \$7.0 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, 2009 compared to June 30, 2008. Interest income decreased \$4.1 million from \$6.1 million in 2008 to \$2.0 million in 2009.

For fiscal year 2008, nonoperating expenses, net of revenues, increased \$1.5 million from \$847.9 million in 2007 to \$849.4 million in 2008. The increase in nonoperating expenses, net of revenues is attributable to a \$14.1 million increase in payments to/due to Lottery for Education Account, partially offset by a \$12.4 million change in the fair value of grand prize investments held by the GLC for funding of future grand prize payments, and a \$.2 million increase in interest revenue. As of June 30, 2008, the fair market value of grand prize investments increased \$12.4 million. As of June 30, 2007, the fair market value of grand prize investments decreased \$.3 million. The increases or decreases in the fair value of grand prize investments are the result of current period market fluctuations.

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

The current economic environment, including the challenges faced by the automobile, banking, and housing industries, coupled with business closings and rising unemployment may affect the discretionary income available to lottery players and may adversely impact future lottery sales.

During the upcoming fiscal year, the GLC plans to expand its online products by offering players new online monitor games and a new multi-state game. Management is also working on other new online game initiatives which may be launched through fiscal year 2011.

### **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, Suite 3000, Atlanta, Georgia 30303.

# GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

## STATEMENTS OF NET ASSETS AS OF JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 183,786,000	\$ 217,362,000
Restricted fidelity fund cash	291,000	177,000
Restricted retailers' escrow fund cash	4,686,000	4,108,000
Retailer accounts receivable—net	122,782,000	142,007,000
Prepaid expenses and other assets	3,056,000	3,059,000
Total current assets	<u>314,601,000</u>	<u>366,713,000</u>
NONCURRENT ASSETS:		
Grand prize investments	308,342,000	260,855,000
Capital assets - net	5,089,000	4,874,000
Total noncurrent assets	<u>313,431,000</u>	<u>265,729,000</u>
TOTAL ASSETS	<u>\$ 628,032,000</u>	<u>\$ 632,442,000</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Due to Lottery for Education Account	\$ 218,265,000	\$ 222,578,000
Prizes payable	80,117,000	123,395,000
Accounts payable and accrued liabilities	13,042,000	17,777,000
Restricted fidelity fund	291,000	177,000
Restricted retailers' escrow fund	4,686,000	4,108,000
Total current liabilities	<u>316,401,000</u>	<u>368,035,000</u>
NONCURRENT LIABILITIES:		
Grand prizes payable	294,524,000	252,084,000
Noncurrent portion of other long-term liabilities	2,519,000	2,831,000
Total noncurrent liabilities	<u>297,043,000</u>	<u>254,915,000</u>
Total liabilities	<u>613,444,000</u>	<u>622,950,000</u>
NET ASSETS:		
Invested in capital assets	5,089,000	4,874,000
Unrestricted	9,499,000	4,618,000
Total net assets	<u>14,588,000</u>	<u>9,492,000</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 628,032,000</u>	<u>\$ 632,442,000</u>

See Notes to financial statements.

# GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES:		
Ticket sales	\$ 3,663,061,000	\$ 3,519,341,000
Less tickets provided as prizes	<u>(267,418,000)</u>	<u>(247,295,000)</u>
Net ticket sales	3,395,643,000	3,272,046,000
Online fees	4,159,000	4,210,000
Other	<u>91,000</u>	<u>89,000</u>
Net operating revenues	<u>3,399,893,000</u>	<u>3,276,345,000</u>
OPERATING EXPENSES:		
Prizes	2,148,681,000	2,049,541,000
Retailer commissions and bonuses	240,912,000	230,729,000
Contractor fees	72,381,000	73,189,000
Advertising	15,976,000	20,278,000
Salaries and benefits	24,135,000	22,627,000
Retailer merchandising and marketing	18,210,000	12,220,000
Rent, utilities, and maintenance	4,038,000	4,468,000
Depreciation	1,941,000	1,576,000
Professional fees	1,456,000	1,412,000
Other	<u>2,048,000</u>	<u>1,556,000</u>
Total operating expenses	<u>2,529,778,000</u>	<u>2,417,596,000</u>
Operating income	<u>870,115,000</u>	<u>858,749,000</u>
NONOPERATING REVENUES (EXPENSES):		
Payments to and due to Lottery for Education Account	(872,082,000)	(867,686,000)
Interest revenue	1,966,000	6,104,000
Net increase (decrease) in fair value of grand prize investments	<u>5,097,000</u>	<u>12,138,000</u>
Total nonoperating revenues (expenses)	<u>(865,019,000)</u>	<u>(849,444,000)</u>
Change in net assets	5,096,000	9,305,000
NET ASSETS—Beginning of year	<u>9,492,000</u>	<u>187,000</u>
NET ASSETS—End of year	<u>\$ 14,588,000</u>	<u>\$ 9,492,000</u>

See Notes to financial statements.

# GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,414,869,000	\$ 3,248,954,000
Other operational cash received	4,250,000	4,298,000
Cash paid to prize winners	(2,162,867,000)	(2,020,345,000)
Cash paid to retailers	(240,912,000)	(230,729,000)
Cash paid to contractors and employees	(126,375,000)	(123,313,000)
Other operating payments	<u>(16,163,000)</u>	<u>(12,282,000)</u>
Net cash provided by operating activities	<u>872,802,000</u>	<u>866,583,000</u>
NONCAPITAL FINANCING ACTIVITIES:		
Payments to Lottery for Education Account	(876,396,000)	(855,221,000)
Payments to Department of Human Resources	<u>(200,000)</u>	<u>(200,000)</u>
Net cash used in noncapital financing activities	<u>(876,596,000)</u>	<u>(855,421,000)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property and equipment	(2,151,000)	(1,579,000)
Proceeds from disposals of property and equipment	<u>43,000</u>	<u>58,000</u>
Net cash used in capital and related financing activities	<u>(2,108,000)</u>	<u>(1,521,000)</u>
INVESTING ACTIVITIES:		
Interest received	1,966,000	6,104,000
Purchases of grand prize investments	(59,141,000)	(188,189,000)
Investments sold	-	157,094,000
Maturities of grand prize investments	<u>30,193,000</u>	<u>28,179,000</u>
Net cash provided by (used in) investing activities	<u>(26,982,000)</u>	<u>3,188,000</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(32,884,000)	12,829,000
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	<u>221,647,000</u>	<u>208,818,000</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	<u>\$ 188,763,000</u>	<u>\$ 221,647,000</u>

Continued

See Notes to financial statements.

# GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 870,115,000	\$ 858,749,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,941,000	1,576,000
Provision for doubtful retailer accounts	967,000	389,000
Gains on disposals of property and equipment	(43,000)	(58,000)
Changes in assets and liabilities:		
Retailer accounts receivable	18,258,000	(14,149,000)
Prepaid expenses and other assets	3,000	(324,000)
Accounts payable and accrued liabilities	(2,462,000)	286,000
Prizes payable	(43,078,000)	16,710,000
Grand prizes payable	28,892,000	3,155,000
Restricted fidelity fund	114,000	106,000
Restricted retailer escrow	579,000	172,000
Other liabilities	(2,484,000)	(29,000)
Net cash provided by operating activities	<u>\$ 872,802,000</u>	<u>\$ 866,583,000</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:		
Increase (decrease) in fair value of investments	\$ 5,097,000	\$ 12,138,000
Accretion of grand prizes payable	<u>13,442,000</u>	<u>12,570,000</u>
Total noncash investing, capital, and related financing activities	<u>\$ 18,539,000</u>	<u>\$ 24,708,000</u>

See Notes to financial statements.

# GEORGIA LOTTERY CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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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*, *Fantasy 5*, *Keno!*, *Mega Millions*, *Win for Life*, and *Weekly Winfall*.

### 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 *Weekly Winfall Raffle* sales, on which retailers receive a commission of 10%. Retailers also receive a 2% cashing bonus on all ticket validations at their location. In addition, retailers receive bonuses for selling winning jackpot tickets for *Win For Life*, *Fantasy 5*, and *Mega Millions*. Four instant ticket games were introduced during both 2009 and 2008 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 9,600 retailer ticket terminals and associated software. On November 12, 2008, the GLC amended and extended this contract until September 11, 2013. Under the amended contract, GTECH receives a fee of 1.15% 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. On November 12, 2008, the GLC amended and extended this contract until September 10, 2013. Under the amended contract, Scientific Games, Inc. receives a fee of 1.2875% of net instant game tickets distributed to retailers through December 31, 2008. After that date, the fee lowers to 1.1781% through December 31, 2009. Future fiscal years will have declining fee rates as specified in the amended contract.

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 2009, Pollard printed \$2 *Cashword II*.

During fiscal year 2008, Pollard printed \$3 *\$75,000 Cashword* and \$3 *Lucky 7's Bingo*. 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*.

**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!*, *Weekly Winfall*, 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 *Fantasy 5* is recorded on a pari-mutuel basis according to the game structure based on a percentage of revenue recognized.

*Mega Millions* and the *Win For Life* online game are multi-state lottery games operated by member lotteries. The *Mega Millions* 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 \$6,702,000 and \$7,562,000 included in the GLC’s grand prize investments in the statements of net assets at June 30, 2009 and 2008, 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 *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, 2009 and 2008, were \$14,589,000 and \$9,492,000, respectively, resulting in a net change of \$5,097,000 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, 2009 and 2008, the allowance for uncollectible retailer receivables was \$3,279,000 and \$2,604,000, 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, 2009 and 2008. 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 2009 and 2008.

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

The GLC follows 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, 2009, the GLC’s Master Operating Account had a book balance of \$11,189,000 and a bank balance of \$11,230,000. At June 30, 2009, the other miscellaneous accounts had a bank balance of \$138,000 and net book balance of (\$1,997,000) 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. At June 30, 2008, the GLC’s Master Operating Account had a book balance of \$3,282,000 and a bank balance of \$3,297,000. At June 30, 2008, the other miscellaneous accounts had a bank balance of \$100,000 and net book balance of (\$2,505,000) which was primarily due to outstanding checks for the accounts payable and prize check zero balance cash accounts. The net carrying value and bank balance of all GLC cash accounts as of June 30, 2009 were \$9,192,000, and \$11,368,000 respectively. The net carrying value and bank balance of all GLC cash accounts as of June 30, 2008 were \$777,000 and \$3,397,000, respectively. 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 forty-one (41) 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 \$174,592,000 and \$216,584,000 at June 30, 2009 and 2008, respectively. Interest earned on the GLC's investments was approximately \$1,966,000 and \$6,104,000 for the years ended June 30, 2009 and 2008, respectively.

**Other Deposits**—Cash maintained in the Retailer Escrow Fund bank account had a bank and book balance of \$4,753,000 and \$4,686,000, respectively, as of June 30, 2009. Cash maintained in the Fidelity Fund bank account has a bank and book balance of \$258,000 and \$291,000, respectively, as of June 30, 2009. Cash maintained in the Retailer Escrow Fund bank account had a bank and book balance of \$4,384,000 and \$4,108,000, respectively, as of June 30, 2008. Cash maintained in the Fidelity Fund bank account had a bank and book balance of \$186,000 and \$177,000, respectively, as of June 30, 2008. 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, based on quoted market prices. Increases or decreases in the fair value of these investments are recorded as nonoperating revenue (expense).

Grand prize investments at June 30, 2009 and 2008, consist of the following:

	<b>Fair Value</b>	
	<b>2009</b>	<b>2008</b>
U.S. Treasury securities	\$ 301,640,000	\$ 253,293,000
Government agencies	<u>6,702,000</u>	<u>7,562,000</u>
	<u>\$ 308,342,000</u>	<u>\$ 260,855,000</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, 2009 and 2008, consisted of the following:

Fair value—June 30, 2007	\$ 233,231,000
Purchases	188,189,000
Payments to grand prize winners	(28,179,000)
Investments sold	(157,094,000)
Interest earned on current-year maturities	12,570,000
Change in fair value	<u>12,138,000</u>
Fair value—June 30, 2008	260,855,000
Purchases	59,141,000
Payments to grand prize winners	(30,193,000)
Investments sold	-
Interest earned on current-year maturities	13,442,000
Change in fair value	<u>5,097,000</u>
Fair value—June 30, 2009	<u>\$ 308,342,000</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, 2009, 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*, *Mega Millions*, *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, 2009, the GLC’s investment balances consisted of:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S Treasury Strips	\$301,640,000	Weighted average maturity of 6.6 years
U.S Government Agencies	<u>\$6,702,000</u>	Weighted average maturity of 2.5 years
Total	<u>\$308,342,000</u>	

U.S Treasury Strips held by the GLC are AAA-rated and current holdings mature quarterly beginning August 2009 through August 2037. 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 \$70,027,000 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, 2009 and 2008 consisted of the following:

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
Capital assets:				
Furniture and fixtures	\$ 2,634,000	\$ 31,000	\$ -	\$ 2,665,000
Computer and communications equipment	9,758,000	728,000	(320,000)	10,166,000
Vehicles	2,637,000	355,000	(308,000)	2,684,000
Leasehold improvements	2,513,000	565,000	-	3,078,000
Software	1,867,000	464,000	-	2,331,000
Other assets	<u>1,494,000</u>	<u>9,000</u>	<u>-</u>	<u>1,503,000</u>
Total capital assets at historical cost	20,903,000	2,152,000	(628,000)	22,427,000
Less accumulated depreciation	<u>(16,029,000)</u>	<u>(1,941,000)</u>	<u>632,000</u>	<u>(17,338,000)</u>
Capital assets—net	<u>\$ 4,874,000</u>	<u>\$ 211,000</u>	<u>\$ 4,000</u>	<u>\$ 5,089,000</u>

	Balance at June 30, 2007	Increases	Decreases	Balance at June 30, 2008
Capital assets:				
Furniture and fixtures	\$ 2,550,000	\$ 93,000	\$ (9,000)	\$ 2,634,000
Computer and communications equipment	9,667,000	581,000	(490,000)	9,758,000
Vehicles	2,731,000	314,000	(408,000)	2,637,000
Leasehold improvements	2,257,000	256,000	-	2,513,000
Software	1,554,000	314,000	(1,000)	1,867,000
Other assets	<u>1,473,000</u>	<u>21,000</u>	<u>-</u>	<u>1,494,000</u>
Total capital assets at historical cost	20,232,000	1,579,000	(908,000)	20,903,000
Less accumulated depreciation	<u>(15,329,000)</u>	<u>(1,576,000)</u>	<u>876,000</u>	<u>(16,029,000)</u>
Capital assets—net	<u>\$ 4,903,000</u>	<u>\$ 3,000</u>	<u>\$ (32,000)</u>	<u>\$ 4,874,000</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 \$13,442,000 and \$12,570,000 for the years ended June 30, 2009 and 2008, 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, 2009, are scheduled as follows:

2010	\$ 34,485,000
2011	34,484,000
2012	34,484,000
2013	39,473,000
2014	28,323,000
2015-2019	91,283,000
2020-2024	68,885,000
2025-2029	41,696,000
2030-2034	21,892,000
2035-2039	<u>13,512,000</u>
	408,517,000
Less imputed interest	<u>(113,993,000)</u>
Net present value of grand prizes payable	<u>\$ 294,524,000</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, 2009, 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:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2010	\$ 1,860,000
2011	1,860,000
2012	2,091,000
2013	2,091,000
2014	2,284,000
2015–2019	10,177,000
2020–2023	<u>8,664,000</u>
	29,027,000
Less sublease revenues	<u>(768,000)</u>
Total	<u>\$28,259,000</u>

Rental expense under all operating leases totaled approximately \$1,836,000 and \$2,531,000 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Ticket sales	\$ 3,663,061,000	\$ 3,519,341,000
Less tickets provided as prizes	<u>(267,418,000)</u>	<u>(247,295,000)</u>
Net ticket sales	3,395,643,000	3,272,046,000
Online fees and other revenues	4,250,000	4,299,000
Interest revenue and other	<u>1,966,000</u>	<u>6,104,000</u>
GLC proceeds	<u>3,401,859,000</u>	<u>3,282,449,000</u>
Operating expenses—as defined:		
Gaming	2,496,160,000	2,385,957,000
Operating	33,618,000	31,639,000
Other	<u>2,351,000</u>	<u>1,779,000</u>
Total operating expenses—as defined	<u>2,532,129,000</u>	<u>2,419,375,000</u>
Net proceeds before distribution of unrestricted net assets	<u>869,730,000</u>	<u>863,074,000</u>
Other:		
Funds resulting from current year capital purchases	2,152,000	1,579,000
Funds resulting from previous years' capital purchases	-	2,633,000
Funds for current year compulsive gambling education and treatment	200,000	200,000
Funds for previous years' compulsive gambling education and treatment	<u>-</u>	<u>200,000</u>
Total other	<u>2,352,000</u>	<u>4,612,000</u>
Net proceeds subject to transfer	<u>\$ 872,082,000</u>	<u>\$ 867,686,000</u>
Amount due to Lottery for Education Account for year	\$ 872,082,000	\$ 867,686,000
Amount paid during year	<u>(653,817,000)</u>	<u>(645,108,000)</u>
Amount due to Lottery for Education Account— End of year	<u>\$ 218,265,000</u>	<u>\$ 222,578,000</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 277 GLC employees participating in the 401(k) plan at June 30, 2009. For the years ended June 30, 2009 and 2008, GLC contributed \$928,000 and \$1,044,000, respectively, to the

plan. Contributions by plan participants during fiscal years ended June 30, 2009 and 2008, were \$631,000 and \$657,000, respectively. For the years ended June 30, 2009 and 2008, the GLC paid \$7,000 and \$13,000 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, 2009 and 2008, the fair value of the plan's assets was \$1,605,000 and \$1,775,000, respectively. Contributions by participants during the years ended June 30, 2009 and 2008, were \$176,000 and \$200,000, respectively.

**Compensated Absences**—At June 30, 2009 and 2008, the balance for compensated absences was \$2,455,000 and \$2,264,000, 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, 2009, employees earned and used leave totaling \$1,056,000 and \$865,000 respectively. During the year ended June 30, 2008, employees earned and used leave totaling \$1,032,000 and \$866,000, respectively. The current portion of the compensated absence liability, expected to be due within one year of the statement date, June 30, 2009, is estimated using historical trends. At June 30, 2009 and 2008, the estimated current portion of the compensated absences liability was \$183,000 and \$201,000, 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 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, 2009 and 2008.

Annually, the GLC negotiates and currently contracts with CIGNA for its employee health insurance coverage and Guardian Life for dental and vision coverage. Sun-Life Financial is the provider for short-term disability, long-term disability, and term life insurance coverage. The GLC's health, dental, and vision insurance plans are funded by contributions from plan participants and by GLC employer contributions.

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