Georgia Lottery Corporation

Management's Discussion and Analysis for the Years Ended June 30, 2011 and 2010, Financial Statements as of and for the Years Ended June 30, 2011 and 2010, and Independent Auditor's Report

GEORGIA LOTTERY CORPORATION

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MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT

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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis on pages 2 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
October 22, 2011

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, 2011 and June 30, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 13.

Financial Highlights

The GLC had another successful operating year in fiscal year 2011. Gross ticket sales were $3.598 billion in fiscal year 2011. For the 2010 fiscal year, gross ticket sales were over $3.645 billion. For fiscal year 2011, the net proceeds paid to the Lottery for Education Account were $846.1 million. The net proceeds paid to the Lottery for Education represent a decrease of $37.8 million as compared to the prior year. For fiscal year 2010, net proceeds paid were $883.9 million, which represented an increase of $11.8 million over fiscal year 2009. Other significant financial highlights include the following:

- For fiscal year 2011, gross tickets sales decreased by $47.5 million, a 1.3% decrease as compared to 2010. For fiscal year 2010, gross tickets sales decreased slightly, $17.7 million which was less than .5% below fiscal year 2009.
- Prizes expense decreased $8.3 million during fiscal year 2011 and decreased $19.5 million in fiscal year 2010. This expense usually increases or decreases in direct proportion to ticket sales and represented approximately 59% of gross ticket sales in fiscal years 2011 and 58% in 2010. Prize expense represented approximately 59% of gross ticket sales in 2009.
- Direct gaming expenses, which include retailer commissions and bonuses, contractor fees, advertising, and retailer merchandising and marketing decreased $6.9 million in fiscal year 2011. These expenses also fluctuate in proportion to ticket sales and represented approximately 9.4% of gross ticket sales in 2011 and 9.5% in 2010. For fiscal year 2010, direct gaming expenses decreased $1.4 million below 2009. These expenses represented approximately 9.5% of gross ticket sales in 2009.
- Operating expenses remained at less than 1% of gross ticket sales for fiscal years 2011 and 2010. Fiscal year 2011 operating expenses increased $.7 million over 2010 expenses, resulting primarily from increases of $.7 million in personnel costs, $.2 million in depreciation expense, $.2 million in repairs and maintenance, $.2 million in professional fees, $.1 million in insurance expense, and $.1 million in bad debt expense, partially offset by a $.6 million decrease in sales employee commissions, and $.2 million in rent expense. Fiscal year 2010 operating expenses increased $40,000 over the previous fiscal year. Operating expenses remained at less than 1% of gross ticket sales for fiscal years 2010 and 2009.
- Nonoperating expenses, net of revenues, decreased $20.6 million in 2011 as compared to 2010. This decrease is attributable to the decrease 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 decrease in interest revenue. Nonoperating expenses, net of revenues, increased $8.5 million in 2010 as compared to 2009. 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.

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 13, the statements of revenues, expenses, and changes in net assets on page 14, and the statements of cash flows on pages 15 and 16 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 17 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, 2011 and 2010, and the results of its operations for the years then ended.

Financial Analysis

Assets

At the end of fiscal year 2011, total assets were $647.1 million compared to $613.7 million at the end of fiscal year 2010, representing an increase of $33.4 million. Total assets at the end of fiscal year 2010 were $613.7 million compared to $628.0 million at the end of fiscal year 2009, representing a decrease of $14.3 million.

Current assets increased from $302.0 million in 2010 to $354.8 million in 2011, representing an increase of $52.8 million. This increase is primarily due to a $57.7 million increase in retailer accounts receivable, comprised of an $18.6 million increase in funds due to the timing of the accounting week for billing and collections from our retailers at year-end cutoff and a $39.8 million increase in the receivable due from the Virginia Lottery for a Georgia jackpot winner in the June 29, 2011 Powerball draw, and a $1.3 million increase in prepaids and other assets. These increases were partially offset by a $6.1 million decrease in cash and cash equivalents. Current assets decreased from $314.6 million in 2009 to $302.0 million in 2010, representing a decrease of $12.6 million. This decrease is primarily due to a $12.3 million decrease in cash and cash equivalents.

In fiscal year 2011, noncurrent assets decreased from $311.6 million in 2010 to $292.2 million in 2011, representing a decrease of $19.4 million. This decrease is due to grand prize investments decreasing from $306.6 million in 2010 to $287.9 million in 2011, a decrease of $18.7 million**.** The decrease resulted from net purchases of $10.5 million, payments to grand prize winners totaling $35.3 million, interest earned on current-year maturities of $13.0 million, and a $7.0 million decrease in the fair value of the investments. Capital assets decreased from $5.0 million in 2010 to $4.4 million in 2011. The decrease resulted from capital asset purchases of $1.5 million less depreciation expense of $2.1 million.

Noncurrent assets decreased from $313.4 million in 2009 to $311.6 million in 2010, representing a decrease of $1.8 million. This decrease is primarily due to grand prize investments decreasing from $308.3 million in 2009 to $306.6 million in 2010, a decrease of $1.7 million**.** The decrease resulted from net purchases of $8.9 million, payments to grand prize winners totaling $34.5 million, interest earned on current-year maturities of $13.8 million, and a $10.0 million increase in the fair value of the investments. Capital assets decreased from $5.1 million in 2009 to $5.0 million in 2010. The decrease resulted from capital asset purchases of $1.8 million less depreciation expense of $1.9 million.

Liabilities

Total liabilities at the end of fiscal year 2011 were $629.5 million compared to $589.1 million at the end of fiscal year 2010, representing an increase of $40.4 million. Total liabilities at the end of fiscal year 2010 were $589.1 million compared to $613.4 million at the end of fiscal year 2009, representing a decrease of $24.3 million.

Current liabilities increased from $302.8 million in 2010 to $354.4 million in 2011, an increase of $51.6 million. The increase is due to a $70.5 million increase in prizes payable, a $.8 million increase in the retailer escrow liability, partially offset by a $4.6 million decrease in accounts payable and accrued liabilities and a $15.1 million decrease in the funds due to the Lottery for Education Account. The increase in prizes payable was due to a $40.8 million increase in the prizes payable clearing account primarily resulting from a jackpot winner in Georgia for the June 29, 2011 Powerball draw, a $26.8 million increase in the deferred prize expense liability for several online games (*Cash 3, Cash 4, Decades of Dollars, Keno!, Mega Millions, and Powerball*), a $.9 million increase in prizes payable for prizes won and due to winners not yet claimed over the prior year, a $.9 million increase in the *Win For Life* annuity prize liability clearing account, and an increase in deferred sales of $.5 million as of June 30, 2011. The decrease in funds due to the Lottery for Education Account resulted from lower fourth quarter sales in fiscal year 2011 versus 2010. The decrease in accounts payable and accrued liabilities was primarily due to lower year-end accrued payments of $2.3 million for sales and non-sales employee commissions, $.9 million for advertising, and a $1.5 million decrease in amounts owed to other vendors at June 30, 2011 as compared to June 30, 2010.

Current liabilities decreased from $316.4 million in 2009 to $302.8 million in 2010, a decrease of $13.6 million. The decrease is primarily due to a $24.0 million decrease in prizes payable and a $.3 million decrease in the restricted fidelity fund, which was partially offset by a $8.2 million increase in the funds due to the Lottery for Education Account, a $1.7 million increase in accounts payable and accrued liabilities, and a $.7 million increase in the retailer escrow liability. The decrease in prizes payable was primarily due to a $23.6 million decrease in the deferred prize expense liability for several online games (*Cash 3, Cash 4, Keno!, Mega Millions, and Powerball*), a $.9 million decrease in the annuity liability for the *Win For Life* game, and a decrease of $.4 million in prize breakage, partially offset by a $.8 million increase in prizes payable and a $6 million increase in prizes payable clearing as of June 30, 2010. The increase in funds due to the Lottery for Education Account resulted from higher fourth quarter sales in fiscal year 2010 versus 2009. The increase in accounts payable and accrued liabilities resulted from a year-end accrual of a multi-state payable for the *Mega Millions and Powerball* jackpots.

Noncurrent liabilities decreased $11.2 million from $286.3 million in 2010 to $275.1 million in 2011. 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 2011, grand prizes payable decreased $11.7 million below 2010, from $283.1 million to $271.4 million. The decrease was primarily attributable to two factors. Grand prize payables of $22.2 million (winner payments net of interest earned on current-year maturities) became due and payable in fiscal year 2011 as an annual payment obligation to our grand prize winners, thus reducing the long-term liabilities. The GLC increased its grand prizes payable by $10.5 million as the result of new annual payment obligations for grand prize winners for several instant games: *Extreme Green*, *Maximum Green*, *Big Payout*, *Millionaire Celebration*, and *Win For Life*. The GLC has purchased or will purchase U.S. Treasury securities to fund these future payment obligations.

Noncurrent liabilities decreased $10.7 million from $297.0 million in 2009 to $286.3 million in 2010. 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 2010, grand prizes payable decreased $11.4 million over fiscal year 2009, from $294.5 million to $283.1 million. The decrease was primarily attributable to two factors. Grand prize payables of $20.7 million (winner payments net of interest earned on current-year maturities) became due and payable in fiscal year 2010 as an annual payment obligation to our grand prize winners, thus reducing the long-term liabilities, and this was partially offset by the $8.9 million new annual payment obligations for grand prize winners for both the online and instant *Win For Life* games. The GLC has purchased U.S. Treasury securities to fund these future payment obligations.

Net Assets and Changes in Net Assets

Net assets decreased $7.0 million in 2011 from $24.6 million in fiscal year 2010, to an end of year balance of $17.6 million. This decrease resulted from a $7.0 million unrealized change 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 $10.0 million in fiscal year 2010, from $14.6 million in fiscal year 2009, to $24.6 million. This increase primarily resulted from a $10.0 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 2011 were $3.598 billion, as compared to $3.645 billion in 2010. This represents a decrease of $47.5 million. Average weekly gross ticket sales for fiscal year 2011 were $69.2 million versus $70.1 million in 2010.

Gross instant ticket sales increased $10.3 million during fiscal year 2011, from $2.413 billion in 2010 to $2.424 billion in 2011. 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 .4% increase in ticket sales for 2011 versus 2010. Management will continue its efforts to provide players with new and exciting instant and online games. Gross instant ticket sales decreased during fiscal year 2010, down $97.6 million or 3.9% to $2.413 billion from $2.511 billion in 2009.

Instant tickets at the $1, $2, and $3 price points generated approximately $236 million, $482 million, and $182 million in sales, respectively. Some of our most successful new instant games at the lower price points included, $1 *Lucky 7's*, $1 *5X The Money*, and $1 $*15,000 Footbal1 Fever*, $2 *10X The Money*, $2 *Georgia Lottery Limited*, $2 *Cashword III*, $*2 Lotteria*, $1 *Lucky 7's*, $3 *Instant Keno!,* and $3 2011 *Cash Celebration*.

Ticket sales at the $5 price point totaled over $530 million in fiscal year 2011. New instant games introduced during 2011 at the $5 price point included *Atlanta Falcons $500,000 Score*, *Sapphires & Gold*, *King & Queens*, *Royal Riches*, *Cool Cash*, *Lotta Bucks*, *King's Ransom*, *Power 7's*, and a holiday-themed game, *Holiday Gift*. Collectively, these new $5 instant games produced over $232 million in ticket sales. The two top selling $5 instants games in fiscal year 2011 were *Giant Jumbo Bucks* and *20X The Money*, which contributed $99 million and $77 million in revenue, respectively.

Instant games at the $10 price point provided approximately $630 million in revenue, the largest contribution to overall instant ticket sales. The GLC offered players nine different games at this price point included *$150,000,000 Slots of Luck*, *Jumbo Jumbo Bucks*, *Super Luck 7's*, *Extreme Green*, *Red Hot Millions*, *Georgia Lottery Black*, *Millionaire Celebration*, *$100 Million Cash Blast*, and a holiday-themed game, *Jingle Jumbo Bucks*.

Sales of the $20 price point category continued as part of the overall sales and product mix by contributing $363 million in ticket revenue. During fiscal year 2011, the GLC had several $20 instant games on sale, *Millionaire Jumbo Bucks, World Class Millions, Maximum Green, $3,000,000 Taxes Paid, and Super Millions.*

The GLC's four holiday-themed instant games, offered from late October 2010 through early 2011, demonstrated strong player appeal and contributed approximately $134 million in ticket sales. The games include $1 *Season's Greeting*, $2 *Betty Boop Holiday Surprise*, $5 *Holiday Gifts*, and $10 *Jingle Jumbo Bucks*.

During fiscal year 2010, the GLC continued to periodically support several new instant games through media advertising including $5 *Atlanta Falcons $500,000 Touchdown game*, $10 *Red Hot Millions* and $10 *Big Payout*, $20 *Maximum Green*, and the four holiday-themed instant games, $1 *Holly Day Cash*, $2 *Holiday Surprise*, $5 *Season's Greetings*, and $10 *Jingle Jumbo Bucks*.

The Georgia Lottery's four holiday-themed instant games, offered from late October 2009 through early 2010, continue to provide extremely strong sales, totaling approximately more than $138 million in fiscal year 2010. The holiday-themed instant games continued sales growth increasing over 6% from approximately $129 million in fiscal year 2009 to $138 million in fiscal year 2010. Sale 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*; and the Mega Bucks product line, *Mini Mega Bucks*, *Mega Bucks*, and *Mighty Mega Bucks*.

Instant games at the $5 price point added significantly to ticket sales. New $5 instant games introduced in fiscal year 2010 included *$400,000 Fast Play*, *Atlanta Falcons $500,000 Touchdown*, *$300,000 Taxes Paid*, *EZ Grand*, and *20X The Money*, each contributed over $30 million in ticket sales. Two other $5 instant games, *$500,000 Monopoly* and *Red, White & Blue 7's* introduced during the previous fiscal year added approximately $74 million in ticket sales during fiscal year 2010.

The strength of the GLC's $10 instant games continued during fiscal year 2010. Several games introduced in previous fiscal years, demonstrated strong sales in 2010 including *Extreme Green*, *Super Lucky 7's* and *Georgia's Millionaire Mania*, which collectively contributed approximately $227 million in ticket sales. Two new $10 instant games introduced in 2010, *Red Hot Millions* and *Big Payout* added more than $142 million and $74 million, respectively.

Sales of the $20 price point category continued in fiscal year for 2010, but showed some weakening from the prior year. The GLC had four $20 instant games on sale during 2010, *Georgia Lottery's 15th Anniversary Millionaire Extravaganza*, *Millionaire Jumbo Bucks*, *World Class Millions*, and *Maximum Green*. These games contributed approximately $393 million to ticket sales in fiscal year 2010.

For fiscal year 2011, online game sales were $1.174 billion, a decrease of $57.7 million, approximately 4.7% below the 2010 online sales of $1.232 billion. For fiscal year 2010, online game sales increased $80.0 million from $1.152 billion in fiscal year 2009 to $1.232 billion, an increase of approximately 7%.

Cash 3 sales decreased $20.7 million to $467.6 million in 2011 compared to $488.3 million in 2010. *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 46% for fiscal year 2011 and 50% for fiscal year 2010. 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.

Cash 3 sales decreased $15.9 million to $488.3 million in fiscal year 2010 from $504.1 million in 2009. The actual prize payout experienced was approximately 50% for fiscal year 2010 and 53% for fiscal year 2009. The decrease in prize payouts in 2010 as compared to 2009 resulted in a decline in *Cash 3* sales. During fiscal year 2010, the GLC provided prize winners increased payouts of 20% more than the regular prize amounts during the *Cash 3* sales promotions held January 4 through January 17, 2010.

In fiscal year 2011, *Mega Millions* sales decreased $55.1 million or approximately 27% to $147.9 million compared to $203.0 million in 2010**.** *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. Through an agreement with the Mega Millions consortium and the Multi-State Lottery Association (MUSL), MUSL members are allowed to cross-sell tickets for the *Mega Millions* game. Drawings are held twice weekly on Tuesday and Friday. *Mega Millions* produced four jackpots over $100 million in 2011. There were jackpots of $380 million in January 2011, $319 million in March 2011, $141 million in October 2010, and a jackpot of $135 million in August 2010. *Mega Millions* sales are jackpot driven and, as a whole, jackpot rollovers did not reach the higher levels in 2011 which were achieved in 2010. In November 2010, the GLC added the *Megaplier* feature to Mega Millions. *Megaplier* is an add-on feature that increases players' non-jackpot prizes for an additional $1 per play. Depending on the *Megaplier* number selected during the draw, players have the opportunity to multiply their winnings by two, three, or four times. Winning *Mega Millions* with *Megaplier* tickets matching 5 of 5 numbers automatically win $1 million, regardless of which *Megaplier* is drawn.

During fiscal year 2010, *Mega Millions* generated three large jackpots, a $336 million winning jackpot in August 2009, a $266 million jackpot in May 2010, and a $200 million jackpot in October 2009. There were also four other *Mega Millions* jackpots *over* $100 million during fiscal year 2010. *Mega Millions* sales decreased $2.8 million in 2010 to $203.0 million compared to $205.8 million in 2009. There were four other *Mega Millions* jackpots over $100 million during fiscal year 2010, including jackpots of $133 million in July 2009, $165 million in December 2009, $144 million in January 2010, and $134 million in March 2010. During fiscal year 2010, the GLC, along with the other participating *Mega Millions* states, entered into an agreement that allowed the Multi-State Lottery Association (MUSL) to cross-sell tickets for the *Mega Millions* game. Ticket sales under the cross-sell agreement began on January 31, 2010, and the first drawing including MUSL was held on February 1, 2010. In comparison, *Mega Millions* produced three jackpots over $200 million in 2009, including jackpots of $209 million in December 2008, $216 million in February 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.

Powerball sales increased $35.4 million to $77.9 million in 2011 compared to $42.5 million in 2010. The increase is attributable to *Powerball* sales being offered for the entire fiscal year in 2011 versus approximately five months during fiscal year 2010. *Powerball* is a multi-state lottery online game operated by the Multi-State Lottery Association (MUSL). Through a cross-sell agreement between MUSL and participating *Mega Millions* states, the GLC began selling tickets for the *Powerball* online game during fiscal year 2010, on January 30, 2010. Drawings are held twice weekly on Wednesday and Saturday. Five winning numbers are drawn from a set of 59 white balls and one number is drawn from a second set of 39 red balls. Additionally, players can choose the *PowerPlay* option to increase their non-jackpot prizes for an additional $1 per play, per draw. Non-jackpot prizes are multiplied two to five times, depending on the *PowerPlay* multiplier for that drawing. Players can win $1 million dollars automatically with *PowerPlay* when they match all 5 white balls regardless of the multiplier number.

Powerball contributed $42.5 million in revenue during five months of ticket sales in fiscal year 2010. While the sales for *Mega Millions* decreased during fiscal year 2010, due to the addition of this second rolling jackpot game, overall *combined* sales for the two games were $245.5 million, or $39.7 million (19.3%) greater than the single *Mega Millions* game sales in 2009.

In fiscal year 2011, *Cash 4* sales decreased $28.4 million, from $219.9 million in 2010 to $191.5 million in 2011. *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 2011 and 2010 were approximately 44% and 52%, respectively. 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. Consequently, lower than expected actual prize payouts in fiscal year 2011 resulted in a decline in *Cash 4* sales.

In fiscal year 2010, *Cash 4* sales increased $10.6 million, from $209.3 million in 2009, to $219.9 million in 2010. Actual prize payment payouts in fiscal years 2010 and 2009 were approximately 50% and 45%, respectively. The higher actual prize payouts in fiscal year 2010 resulted in an increase in *Cash 4* sales over fiscal year 2009. Also during fiscal year 2010, the GLC again held the *$15 Days* sales promotion for the *Cash 4* game September 20 through October 4, 2009. The promotion provided *Cash 4* players a random opportunity to win $15 instantly by purchasing a *Cash 4* ticket. This promotion was very effective in raising player awareness for the *Cash 4* game, and an incremental sales boost continued after the promotion ended.

Win For Life sales were $11.4 million in 2011, a decrease of $6.0 million compared to 2010 sales of $17.4 million. *Win For Life* is a multi-state fixed prize online game operated in conjunction with lotteries in Kentucky and Virginia. Kentucky discontinued its participation in the *Win For Life* game as of January 29, 2011. 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.

For fiscal year 2010, *Win For Life* sales decreased $6.1 million to $17.4 million compared to $23.5 million in 2009.

The GLC's newest online game, *Decades of Dollars* was launched on January 30, 2011. *Decades of Dollars* sales were $10.3 million in fiscal year 2011. *Decades of Dollars* is a multi-state fixed prize online game operated in conjunction with lotteries in Arkansas, Kentucky, and Virginia. Drawings are held twice weekly on Monday and Thursday. Six winning numbers are drawn from a single set of 47 balls. By matching the six winning numbers, players win the top prize and may select at the time of prize claim to receive the prize as $250,000 each year for 30 years, payable annually or the one-time **c**ash option amount of $4,000,000**.** Players matching five of the six winning numbers win the second tier prize of $10,000 payable in one payment. By matching 2, 3, or 4 winning numbers, players can win lower tier prizes, ranging from $2 to $100.

Fantasy 5 sales decreased $15.2 million in 2011 to $97.3 million from $112.6 million in 2010. In fiscal year 2011, players had the opportunity to participate in the *Fantasy 5* Fridays promotion, held March 4 through June 24. On Fridays during the promotional period, players received one free one-play quik pik ticket for each *Fantasy 5* ticket purchased. Another *Fantasy 5* promotion was conducted for the entire month of May 2011. For this promotion, the *Fantasy 5* minimum daily jackpot started at $100,000. During fiscal year 2010, a new feature, *eZmatch* was added to the *Fantasy 5* game. Players can choose the *eZmatch* option, for an additional $1 per play, for a chance to win an instant cash prize. By matching their *Fantasy 5* numbers to any of the *eZmatch* numbers, players can win up to 5 times on each ticket with instant cash prizes from $4 to $500. *eZmatch* ticket sales were $8.0 million in fiscal year 2011 and $19.1 million in fiscal year 2010, a decrease of $11.1 million.

For fiscal year 2010, *Fantasy 5* sales were $112.6 million compared to $91.4 million in 2009, an increase of $21.1 million or approximately 23%. *eZmatch* ticket sales generated $19.1 million in revenue for the *Fantasy 5* game in fiscal year 2010.

Georgia FIVE was launched in August 2010. For fiscal year 2011, *Georgia FIVE* sales totaled $18.0 million. Players pick their own five numbers, in a single PLAY area - one from each vertical column of 0 to 9 or have their numbers randomly selected through the terminal by requesting a Quik Pik lottery ticket. Players win by matching their numbers to the winning number(s) drawn in the exact order and position in a single play. By matching all five of your numbers in exact order to the winning numbers, players win the top prize of $10,000. Other opportunities to win prizes are available by matching one or more numbers in a specific order and position sequence/order, with prizes ranging from $1 to $225.

Sales for *Keno!* were $144.3 million and $127.4 million in fiscal years 2011 and 2010, respectively. This represents a $16.9 million increase in sales during 2011 versus 2010. Higher *Keno!* sales were attributable to the execution of the GLC's marketing plan and promotional activities conducted to support the game, including Keno! Bonus Hours, and providing *Keno! To Go,* which allows players to purchase a ticket and then watch the drawings on their computer or smartphone. During fiscal year 2011, the number of retailers offering Keno! Increased. The Keno! product was made available for purchase from any retailer selling other GLC online games.

In fiscal year 2010, *Keno!* sales increased $11.1 million, over 9% from $116.3 million in 2009 to $127.4 million. During fiscal year 2010, management continued its sound marketing initiatives to increase sales by continuing to expand the number and type of retailer locations offering the *Keno!* product in social business environments, and offering increased game prize payouts through Keno! seasonal campaigns.

Ticket sales for the *Sit & Win* monitor games ended on June 30, 2010. A suite of three "Sit & Win" monitor games was launched as a trial, pilot program for other monitor games on August 9, 2009. A suite of three "Sit & Win" monitor games, contributed $1.8 million in sales for fiscal year 2010. The *Sit & Win* games offered players three different monitor games, *Deal or No Deal™: Beat the Banker*, *Lucky® Dough*, and *Rolling Jackpot*. For the *Deal or No Deal™: Beat the Banker* game, players selected six briefcases out of 39 briefcases. A random-number generator selected the banker's briefcases. Players won by matching two or more briefcases to the chosen briefcase numbers and having more matching briefcase numbers than the banker. Winning prizes ranged from $1 up to $50,000. *Lucky® Dough* was a tic-tac-toe style game where players matched their numbers to the drawn numbers for each square displayed on the monitor. Players won prizes from $2 up to $60,000. Players could play *Rolling Jackpot* only by playing *Deal or No Deal™: Beat the Banker* or *Lucky® Dough*, and choosing to enter the *Rolling Jackpot* game for an additional wager of $1 per game played. The *Rolling Jackpot* game was an add-on progressive jackpot based on player participation. Players received a random 5-digit *Rolling Jackpot* number, and won by matching all five numbers in exact order. The jackpot for the *Rolling Jackpot* game started at $1,000 and rolled approximately every seven minutes until it was won. Ticket sales for the *Sit & Win* monitor games ended on June 30, 2010.

The GLC did not have a *Weekly Winfall* game during fiscal years 2011 or 2010. 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.

Other Operating Revenue

Other operating revenue includes online fees and other miscellaneous revenue. Other operating revenue was $4.6 million in fiscal year 2011 versus $5.0 million in 2010, a decrease of $.4 million. The decrease was primarily due to receipt of a $.6 million one-time operating revenue recognized in fiscal year 2010, partially offset by a $.2 million increase in service fees received from retailers. Other operating revenue was $5.0 million in fiscal year 2010 versus $4.3 million in 2009.

Prize Expense

Gross prize expense for instant games increased to $1.552 billion in fiscal year 2011 from $1.538 billion in 2010, an increase of $13.2 million (approximately .9%). Gross prize expense for instant games was $1.538 billion in fiscal year 2010 versus $1.591 billion in 2009, a decrease of $52.9 million (approximately 3.3%). Instant games prize expense is managed through the number of tickets printed for each game and value of prizes at each price point, 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 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. In addition, the increase in instant game prize expense for fiscal year 2011 was impacted by $6.4 million reduction in unclaimed prizes available to apply towards the overall instant game prize.

Instant game prize expense is reduced by applying unclaimed prizes recognized during the fiscal year. For fiscal year 2011, prize expense, net of unclaimed prizes for instant games, totaled $1.518 billion as compared to $1.498 billion in 2010, and $1.562 billion in 2009. Gross instant prize expense was reduced by $33.8 million, $40.2 million, and $29.4 million, by using unclaimed prizes in 2011, 2010, and 2009, 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, *Powerball* jackpot prize, the *Sit and Win Rolling Jackpot game,* and *Fantasy 5*), actual prize expense is recognized as a percentage of ticket sales. For nonpari-mutuel games with fixed prize payouts (*Cash 3, Cash 4, Decades of Dollars, Georgia FIVE, Mega Millions* secondary tier prizes, *Powerball* secondary tier prizes, e*Zmatch,* the *Sit and Win* games, *Win For Life,* and *Keno!*), actual prize expense is impacted by the number and prize value of winning tickets. To recognize prize expense on a consistent basis for these games, the GLC recognizes prize expense based on the greater of actual prizes paid or the estimated payout experience over the life of the game or based on industry averages. The GLC has established prize liability limits, per draw, for nonpari-mutuel games.

Total online prize expense decreased $27.9 million in 2011 to $603.0 million compared to $630.9 million in 2010, in direct proportion to game sales. For fiscal year 2010, total online prize expense increased $44.2 million to $630.9 million compared to $586.7 million in 2009. The net increase/decrease is comprised of the following increases and decreases by game as follows:

- Prize expense for *Cash 3* decreased $11.6 million in fiscal year 2011 as compared to 2010. Prize expense for *Cash 3* decreased $8.0 million in fiscal year 2010 as compared to 2009.
- Prize expense for *Mega Millions* decreased $27.5 million in 2011 versus 2010. Prize expense for *Mega Millions* decreased $1.4 million in 2010 versus 2009.
- Prize expense for *Powerball* increased $17.7 million in fiscal year 2011 as compared to 2010. Prize expense for *Powerball* increased $21.3 million in 2010 over 2009. The *Powerball* game was not conducted in fiscal year 2009.
- Prize expense for *Cash 4* decreased $14.6 million over 2010. Prize expense for *Cash* 4 increased $5.3 million in 2010 over 2009.
- Prize expense for *Fantasy 5* decreased $8.3 million in 2011 versus 2010. Prize expense for *Fantasy 5* increased $11.0 million in 2010 versus 2009. e*Zmatch* prize expense decreased $7.2 million in fiscal year 2011 as compared to 2010. Prize expense for e*Zmatch* increased $12.4 million in 2010 over 2009. The e*Zmatch* option was not available in fiscal year 2009.
- Prize expense for *Georgia FIVE* was $9.7 million in fiscal year 2011. *Georgia FIVE* was not conducted in fiscal years 2010 or 2009.
- Prize expense for *Keno!* increased $10.9 million in 2011 as compared to 2010. Prize expense for *Keno!* increased $7.2 million in 2010 versus 2009.
- Prize expense for *Win For Life* decreased $2.0 million in fiscal year 2011 as compared to 2010. Prize expense for *Win For Life* decreased $4.1 million in 2010 below 2009.

- Prize expense for *Decades of Dollars* was $6.2 million in fiscal year 2011. *Decades of Dollars* was not conducted in fiscal years 2010 or 2009.
- There was no prize expense for the *Sit and Win Games* in fiscal year 2011, since the games ended on June 30, 2010. Prize expense for the *Sit and Win Games* was $1.2 million in fiscal year 2010. The *Sit and Win Games* were not conducted in fiscal year 2009.
- The *Weekly Winfall* game was not conducted in fiscal years 2011 or 2010. *Weekly Winfall* prize expense was $.7 million in fiscal year 2009.

Direct Gaming and Operating Expenses

Direct gaming expenses usually change in proportion with changes in ticket sales. For fiscal year 2011, the decrease in direct gaming expense primarily resulted from a significant change in how the GLC compensates its retailers as compared to 2010.

Retailer commissions and bonuses for fiscal year 2011 were $230.9 million compared to $239.3 million in 2010, and $240.9 million in 2009. This represents an $8.4 million decrease in fiscal year 2011 versus 2010, and a $1.6 million decrease in 2010 as compared to 2009. Through March 14, 2011, the GLC compensated its retailers through three commission/incentive plans. These were:

- 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.

Effective March 15, 2011, due to legislative changes with the passing of House Bill 326, the GLC began compensating its retailers at a set commission percentage of 6% for selling tickets. Cashing bonuses for validating and paying winning prizes up to $600 and winning ticket jackpot incentives on certain online games were discontinued.

Contractor (vendor), fees represent payments made to our two major suppliers of the gaming products, systems, and services, and two other suppliers of instant ticket printing and property licensing. The payments made to our two major suppliers are determined based on a percentage of sales formula. 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. Payments made to the other suppliers are based on contract terms. In fiscal year 2011, contractor (vendor) fees were $68.2 million as compared to $67.7 million in 2010, representing a slight increase of $.5 million. The increase was primarily attributable to the inclusion of expenses for web site development and enhancements being included in vendor fees. For fiscal year 2010, contractor (vendor) fees decreased $4.7 million from $72.4 million in 2009 to $67.7 million in 2010. The decrease was primarily attributable to the savings generated from the favorable contract terms for the two major vendors for services provided for the entire fiscal year of 2010 versus for only the last six months of fiscal year 2009.

Advertising expense decreased $4.1 million to $21.1 million in 2011 from $25.2 million in 2010. The decrease was partially due to the reallocation of $4.1 million in funds to retailer merchandising and marketing from advertising. In addition, the fiscal year 2010 advertising budget increased over the 2009 fiscal year's budget. The GLC's advertising agency, BBDO, provided point-of-sale items, and media production for various lottery games and marketing initiatives during fiscal year 2010. Advertising services provided were media production for the Atlanta Falcons Halftime Events, *Powerball* launch, *KENO!* March Madness, *Cash 3* promotions, various media advertising for instant games, and development of related point-of-sale merchandise. For fiscal year 2010, advertising expense increased $9.2 million to $25.2 million from $16.0 million in 2009.

For fiscal year 2011, retailer merchandising and marketing expenses increased $5.1 million from $13.8 million in 2010 to $18.9 million in 2011. This increase primarily resulted from the reallocation of funds from advertising to 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. Retailer merchandising and marketing expenses decreased $4.4 million to $13.8 million in 2010 from $18.2 million in 2009. This decrease was primarily due to the reallocation of funds to advertising expense for the merchandising and marketing initiatives being coordinated through the GLC's advertising agency, BBDO.

Operating expenses increased $.7 million to $34.3 million in 2011 from $33.7 million in 2010. The $.7 million increase in operating expenses resulted from increases of $.7 million in personnel costs, $.2 million in depreciation expense, $.2 million in repairs and maintenance, and $.2 million in professional fees, partially offset by decreases of $.6 million in sales employee commissions, and $.2 million in rent expense. Operating expenses increased $.1 million to $33.7 million from $33.6 million in 2010 as compared to 2009.

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. The increases or decreases in the fair value of grand prize investments are the result of current period market fluctuations. For fiscal year 2011, nonoperating expenses, net of revenues, decreased $20.6 million from $873.5 million in 2010 to $852.9 million in 2011. The decrease in nonoperating expenses, net of revenues is attributable to a $37.8 million decrease in payments to/due to Lottery for Education Account, partially offset by a $17.0 million change in the fair value of grand prize investments held by the GLC for funding of future grand prize payments, and a $.1 million decrease in interest revenue.

For fiscal year 2010, nonoperating expenses, net of revenues, increased $8.5 million from $865.0 million in 2009 to $873.5 million in 2010. This increase was attributable to the $11.8 million increase in the payments to/due to the Lottery for Education Account in 2010 versus 2009, offset by the $4.9 million change in the fair value of grand prize investments held by the GLC for funding of future grand prize payments as of June 30, 2010 compared to June 30, 2009. Interest income decreased $1.7 million from $2.0 million in 2009 to $.3 million in 2010.

Significant Factors Impacting Next Year

The current economic trends on the buying public's disposable income and high unemployment rate may impact lottery ticket sales, especially considering our impulse driven business.

During fiscal year 2012, the GLC will continue to monitor the marketplace, as well as industry trends on an ongoing basis in order to identify opportunities and risks for our business. Management is developing and plans to implement some longer term initiatives in an effort to remain current and relevant by offering players new products.

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

GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 164,132,000	$ 171,081,000
Restricted fidelity fund cash	15,000	11,000
Restricted retailers' escrow fund cash	6,205,000	5,401,000
Retailer accounts receivable—net	179,835,000	122,165,000
Prepaid expenses and other assets	4,655,000	3,385,000
Total current assets	354,842,000	302,043,000
NONCURRENT ASSETS:		
Grand prize investments	287,888,000	306,635,000
Capital assets - net	4,359,000	4,994,000
Total noncurrent assets	292,247,000	311,629,000
TOTAL ASSETS	$ 647,089,000	$ 613,672,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Due to Lottery for Education Account	$ 211,347,000	$ 226,443,000
Prizes payable	126,643,000	56,164,000
Accounts payable and accrued liabilities	10,215,000	14,768,000
Restricted fidelity fund	15,000	11,000
Restricted retailers' escrow fund	6,205,000	5,401,000
Total current liabilities	354,425,000	302,787,000
NONCURRENT LIABILITIES:		
Grand prizes payable	271,366,000	283,080,000
Noncurrent portion of other long-term liabilities	3,694,000	3,193,000
Total noncurrent liabilities	275,060,000	286,273,000
Total liabilities	629,485,000	589,060,000
NET ASSETS (DEFICIT):		
Invested in capital assets	4,359,000	4,994,000
Unrestricted	13,245,000	19,618,000
Total net assets (deficit)	17,604,000	24,612,000
TOTAL LIABILITIES AND NET ASSETS	$ 647,089,000	$ 613,672,000

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, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Ticket sales	$ 3,597,922,000	$ 3,645,397,000
Less tickets provided as prizes	(262,316,000)	(257,972,000)
Net ticket sales	3,335,606,000	3,387,425,000
Online fees	4,529,000	4,373,000
Other	89,000	644,000
Net operating revenues	3,340,224,000	3,392,442,000
OPERATING EXPENSES:		
Prizes	2,120,835,000	2,129,144,000
Retailer commissions and bonuses	230,929,000	239,297,000
Contractor fees	68,202,000	67,721,000
Advertising	21,130,000	25,233,000
Salaries and benefits	23,670,000	23,548,000
Retailer merchandising and marketing	18,874,000	13,825,000
Rent, utilities, and maintenance	5,073,000	5,041,000
Depreciation	2,141,000	1,943,000
Professional fees	1,427,000	1,262,000
Other	2,012,000	1,863,000
Total operating expenses	2,494,293,000	2,508,877,000
Operating income	845,931,000	883,565,000
NONOPERATING REVENUES (EXPENSES):		
Payments to and due to Lottery for Education Account	(846,106,000)	(883,878,000)
Interest revenue	176,000	313,000
Net increase (decrease) in fair value of grand prize investments	(7,009,000)	10,024,000
Total nonoperating revenues (expenses)	(852,939,000)	(873,541,000)
Change in net assets	(7,008,000)	10,024,000
NET ASSETS (DEFECIT)—Beginning of year	24,612,000	14,588,000
NET ASSETS (DEFICIT)—End of year	$ 17,604,000	$ 24,612,000

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, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES:		
Cash received from customers	$ 3,277,936,000	$ 3,388,041,000
Other operational cash received	4,617,000	5,017,000
Cash paid to prize winners	(2,074,995,000)	(2,178,150,000)
Cash paid to retailers	(230,929,000)	(239,297,000)
Cash paid to contractors and employees	(126,956,000)	(124,936,000)
Other operating payments	(17,923,000)	(11,110,000)
Net cash provided by operating activities	831,750,000	839,565,000
NONCAPITAL FINANCING ACTIVITIES:		
Payments to Lottery for Education Account	(861,202,000)	(875,699,000)
Payments to Department of Human Resources	(200,000)	(200,000)
Net cash used in noncapital financing activities	(861,402,000)	(875,899,000)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property and equipment	(1,510,000)	(1,848,000)
Proceeds from disposals of property and equipment	84,000	61,000
Net cash used in capital and related financing activities	(1,426,000)	(1,787,000)
INVESTING ACTIVITIES:		
Interest received	176,000	313,000
Purchases of grand prize investments	(10,492,000)	(8,945,000)
Maturities of grand prize investments	35,253,000	34,483,000
Net cash provided by (used in) investing activities	24,937,000	25,851,000
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(6,141,000)	(12,270,000)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	176,493,000	188,763,000
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	$ 170,352,000	$ 176,493,000

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, 2011 AND 2010

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 845,931,000	$ 883,565,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,141,000	1,943,000
Provision for doubtful retailer accounts	732,000	595,000
Gains (Losses) on disposals of property and equipment	(85,000)	(61,000)
Changes in assets and liabilities:		
Retailer accounts receivable	(58,402,000)	22,000
Prepaid expenses and other assets	(1,270,000)	(329,000)
Accounts payable and accrued liabilities	(4,429,000)	2,005,000
Prizes payable	70,679,000	(23,753,000)
Grand prizes payable	(24,731,000)	(25,252,000)
Restricted fidelity fund	3,000	(279,000)
Restricted Retailer Escrow	804,000	715,000
Other liabilities	377,000	394,000
Net cash provided by operating activities	$ 831,750,000	$ 839,565,000
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:		
Increase (decrease) in fair value of investments	$ (7,009,000)	$ 10,024,000
Accretion of grand prizes payable	13,023,000	13,807,000
Total noncash investing, capital, and related financing activities	$ 6,014,000	$ 23,831,000

See Notes to financial statements.

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, Georgia 5, Fantasy 5, eZmatch, Keno!, Mega Millions, Powerball, Win for Life,* and *Decades of Dollars*.

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—For fiscal year 2010 and most of fiscal year 2011, retailers received a commission of 5% on ticket sales, except for *Cash 3* sales, on which retailers received a commission of 7%. Retailers also received a 2% cashing bonus on all ticket validations at their location. In addition, retailers received bonuses for selling winning jackpot tickets for *Win For Life, Fantasy 5, Mega Millions*, and *Powerball*. Four instant ticket games were introduced during 2011 and 2010 with a retailer sales commission of 10%. On March 15, 2011, Georgia House Bill 326 was enacted into law, which effectively eliminated all cashing bonuses and retailer incentive payments, and provided for sales commissions at a rate of 6% for all games.

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 9,200 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. received a fee of 1.2875% of net instant game tickets distributed to retailers through December 31, 2008. After that date, the fee lowered to 1.1781% through December 31, 2009. From January 1, 2010 through June 30, 2010, the rate was 1.15%, and the rate for fiscal year 2011 was 1.10%. This rate will continue through fiscal year 2012, and beginning July 1, 2012 the rate will change to 1.09% until the end of the 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 original contract ended June 30, 2011, but was extended three additional years until June 30, 2014, unless terminated upon a sixty-day written notice by either the Pollard or the GLC. Pollard printed four instant ticket games during fiscal year 2011, which were $2 *All Access,* $2 *Cashword III, $3 Cherry, Orange, Lemon Doubler Cashword,* and $3 *Bingo Bingo*. During fiscal year 2010, Pollard printed three instant ticket games, $2 *Cashword II*, $3 *$75,000 Cashword*, and $3 *Bingo 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, Georgia FIVE, Mega Millions, Powerball, eZmatch, Keno!*, *Decades of Dollars*, 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") and certain Mega Millions states including Georgia which sell *Powerball* tickets without being a member of 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 $4,697,000 and $5,789,000 included in the GLC's grand prize investments in the statements of net assets at June 30, 2011 and 2010, respectively, were held by MUSL in trust. The GLC withdrew from MUSL on August 31, 1996. During fiscal year 2010, the GLC along with the other participating Mega Millions states entered into an agreement with the Multi-State Lottery Association (MUSL) to authorizing the cross-sell tickets for the *Powerball* game. Ticket sales under the cross-sell agreement began on January 31, 2010, and the first *Powerball* drawing including participating Mega Millions states was held on February 1, 2010.

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, Powerball, Decades of Dollars,* 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, 2011 and 2010, were $17,603,000 and $24,612,000, respectively, resulting in a net change of ($7,009,000) 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, 2011 and 2010, the allowance for uncollectible retailer receivables was $2,980,000 and $3,224,000, 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, 2011 and 2010. 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 2011 and 2010.

3. CASH, CASH EQUIVALENTS, AND GRAND PRIZE INVESTMENTS

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

Cash—Cash is held in demand deposits at various financial institutions. The majority of the GLC's daily operating cash is held in a master operating account with Bank of America. Other miscellaneous cash accounts for accounts payable, prizes payable, retailer return items, district offices, promotions, payroll, and petty cash are held in accounts with Bank of America, except for the Columbus district office account which is held with SunTrust Bank. At June 30, 2011, the GLC's Master Operating Account had a book balance of $6,423,000 and a bank balance of $6,411,000. At June 30, 2011, the other miscellaneous accounts had a bank balance of $411,000 and net book balance of ($1,882,000) 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, 2010, the GLC's Master Operating Account had a book balance of $9,142,000 and a bank balance of $9,110,000. At June 30, 2010, the other miscellaneous accounts had a bank balance of $268,000 and net book balance of ($2,225,000) 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, 2011 were $4,541,000 and $6,822,000 respectively. The net carrying value and bank balance of all GLC cash accounts as of June 30, 2010 were $6,917,000 and $9,377,000 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 fifty-nine (59) 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 $159,589,000 and $164,162,000 at June 30, 2011 and 2010, respectively. Interest earned on the GLC's investments was approximately $176,000 and $313,000 for the years ended June 30, 2011 and 2010, respectively.

Other Deposits—Cash maintained in the Retailer Escrow Fund bank account had a bank and book balance of $6,352,000 and $6,205,000, respectively, as of June 30, 2011. Cash maintained in the Fidelity Fund bank account has a bank and book balance of $24,000 and $15,000, respectively, as of June 30, 2011. Cash maintained in the Retailer Escrow Fund bank account had a bank and book balance of $5,482,000 and $5,401,000, respectively, as of June 30, 2010. Cash maintained in the Fidelity Fund bank account had a bank and book balance of $29,000 and $11,000, respectively, as of June 30, 2010. 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, 2011 and 2010, consist of the following:

	Fair Value	
	2011	**2010**
U.S. Treasury securities	$ 283,191,000	$ 300,846,000
Government agencies	4,697,000	5,789,000
	$ 287,888,000	$ 306,635,000

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, 2011 and 2010, consisted of the following:

Fair value—June 30, 2009	308,342,000
Purchases	8,945,000
Payments to grand prize winners	(34,483,000)
Investments sold	-
Interest earned on current-year maturities	13,807,000
Change in fair value	10,024,000
Fair value—June 30, 2010	$ 306,635,000
Purchases	10,492,000
Payments to grand prize winners	(35,253,000)
Investments sold	-
Interest earned on current-year maturities	13,023,000
Change in fair value	(7,009,000)
Fair value—June 30, 2011	$ 287,888,000

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 statues 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, 2011, 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, 2011, the GLC's investment balances consisted of:

Investment Type	Fair Value	Maturity
U.S Treasury Strips	$283,191,000	Weighted average maturity of 6.4 years
U.S Government Agencies	4,697,000	Weighted average maturity of 1.7 years
Total	$287,888,000	

U.S Treasury Strips held by the GLC are AAA-rated and current holdings mature quarterly beginning August 2011 through August 2039. 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 $35,424,000 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, 2011 and 2010 consisted of the following:

	June 30, 2010	Increases	Decreases	June 30, 2011
Capital assets:				
Furniture and fixtures	$ 2,703,000	$ 48,000	$ -	$ 2,751,000
Computer and communications equipment	10,714,000	683,000	(27,000)	11,370,000
Vehicles	2,597,000	566,000	(423,000)	2,740,000
Leasehold improvements	3,291,000	65,000	-	3,356,000
Software	3,068,000	79,000	-	3,147,000
Other assets	1,503,000	-	-	1,503,000
Gaming Equipment	-	69,000	-	69,000
Total capital assets at historical cost	23,876,000	1,510,000	(450,000)	24,936,000
Less accumulated depreciation	(18,882,000)	(2,141,000)	446,000	(20,577,000)
Capital assets—net	$ 4,994,000	$ (631,000)	$ (4,000)	$ 4,359,000

	Balance at June 30, 2009	Increases	Decreases	Balance at June 30, 2010
Capital assets:				
Furniture and fixtures	$ 2,665,000	$ 38,000	$ -	$ 2,703,000
Computer and communications equipment	10,165,000	559,000	(10,000)	10,714,000
Vehicles	2,684,000	301,000	(388,000)	2,597,000
Leasehold improvements	3,078,000	213,000	-	3,291,000
Software	2,331,000	737,000	-	3,068,000
Other assets	1,503,000	-	-	1,503,000
Total capital assets at historical cost	22,426,000	1,848,000	(398,000)	23,876,000
Less accumulated depreciation	(17,337,000)	(1,943,000)	398,000	(18,882,000)
Capital assets—net	$ 5,089,000	$ (95,000)	$ -	$ 4,994,000

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 $13,023,000 and $13,807,000 for the years ended June 30, 2011 and 2010, 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, 2011, are scheduled as follows:

2012	$ 35,754,000
2013	40,742,000
2014	29,594,000
2015	26,559,000
2016	22,561,000
2017-2021	79,040,000
2022-2026	71,460,000
2027-2031	32,136,000
2032-2036	19,995,000
2037-2041	10,423,000
	368,264,000
Less imputed interest	(96,898,000)
Net present value of grand prizes payable	$ 271,366,000

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, 2011, 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 noncancellable leases with original terms of one year or more are scheduled as follows:

Year Ending June 30,	Operating Leases
2012	$ 2,158,000
2013	2,158,000
2014	2,236,000
2015	2,236,000
2016	2,026,000
2017–2023	14,831,000
	25,645,000
Less sublease revenues	(384,000)
Total	$ 25,261,000

Rental expense under all operating leases totaled approximately $2,707,000 and $2,944,000 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, are summarized as follows:

	2011	2010
Operating revenues:		
Ticket sales	$ 3,597,922,000	$ 3,645,397,000
Less tickets provided as prizes	(262,316,000)	(257,972,000)
Net ticket sales	3,335,606,000	3,387,425,000
Online fees and other revenues	4,617,000	5,017,000
Interest revenue and other	176,000	313,000
GLC proceeds	3,340,399,000	3,392,755,000
Operating expenses—as defined:		
Gaming	2,459,968,000	2,475,220,000
Operating	34,325,000	33,657,000
Other	1,710,000	2,048,000
Total operating expenses—as defined	2,496,003,000	2,510,925,000
Net proceeds before distribution of unrestricted net assets	844,396,000	881,830,000
Other:		
Funds resulting from current year capital purchases	1,510,000	1,848,000
Funds resulting from previous years' capital purchases	-	-
Funds for current year compulsive gambling education and treatment	200,000	200,000
Funds for previous years' compulsive gambling education and treatment	-	-
Total other	1,710,000	2,048,000
Net proceeds subject to transfer	$ 846,106,000	$ 883,878,000
Amount due to Lottery for Education Account for year	$ 846,106,000	$ 883,878,000
Amount paid during year	(634,759,000)	(657,435,000)
Amount due to Lottery for Education Account—End of year	$ 211,347,000	$ 226,443,000

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 280 GLC employees participating in the 401(k) plan at June 30, 2011. For the years ended June 30, 2011 and 2010, GLC contributed $1,107,000 and $980,000, respectively, to the plan. Contributions by plan participants during fiscal years ended June 30, 2011 and 2010 were $617,000 and $609,000, respectively.

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, 2011 and 2010, the fair value of the plan's assets was $2,347,000 and $1,796,000, respectively. Contributions by participants during the years ended June 30, 2011 and 2010, were $178,000 and $183,000, respectively.

Compensated Absences—At June 30, 2011 and 2010, the balance for compensated absences was $2,830,000 and $2,715,000, 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. In fiscal year 2011, increases to the compensated absences balance also included approximately $201,000 in additional amounts for salary-related payments associated with the payment of compensated absences (the GLC's employer share of social security and Medicare taxes). In fiscal year 2011, the GLC offered its employees a one-time opportunity to sell back accrued vacation time. Of the 225 eligible employees, 130 participated in the program resulting in the buyback of 10,012 vacation hours, totaling approximately $298,000. This cost was included in the decreases to the compensated absences balance for fiscal year 2011. During the year ended June 30, 2011, employees earned and used leave totaling $1,396,000 and $1,281,000 respectively. During the year ended June 30, 2010, employees earned and used leave totaling $1,176,000 and $916,000, respectively. The current portion of the compensated absence liability, expected to be due within one year of the statement date, June 30, 2011, is estimated using historical trends. At June 30, 2011 and 2010, the estimated current portion of the compensated absences liability was $154,000 and $165,000, 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, 2011 and 2010.

Annually, the GLC negotiates and currently contracts with CIGNA for its employee health insurance coverage and Guardian Life for dental and vision coverage. Unum 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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