



**Georgia Lottery Corporation
2008 Annual Report**

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CONTENTS

The President and CEO	2
The Board of Directors	3
Education	4
Games & Promotions	6
Winners	8
Retailers	10
Georgia Lottery Corporation Senior Staff	11
Where the Money Goes	12
Independent Auditor's Report	13
Management's Discussion and Analysis	14
Financial Statements as of and for the Years Ended June 30, 2008 and 2007:	
Statements of Net Assets	24
Statements of Revenues, Expenses, & Changes in Net Assets	25
Statements of Cash Flows	26
Notes to Financial Statements	28

Message from the President



Fiscal year 2008
was another
unprecedented
year with
gross sales of
\$3.519 billion and profits
exceeding **\$867 million.**

*Margaret R. DeFrancisco
President and CEO*

For fourteen years, the Georgia Lottery Corporation (GLC) has worked hard to fulfill our mission of responsibly maximizing revenues for the Lottery for Education Account. In this relatively short time, we have raised \$10 BILLION for these invaluable educational programs. In fiscal year 2008, students from Georgia's first lottery-funded Pre-K classes entered college and were able to benefit again from a lottery-funded educational opportunity – the HOPE Scholarship Program. We are extremely proud of this milestone and look forward to celebrating more amazing achievements in the future.

None of this success could be possible without all the pieces of the lottery puzzle fitting together. The Georgia Lottery's talented staff works harder every day to achieve our mission, our dedicated retailers sell our products to our loyal players, Georgians, including legislators and business leaders, support our mission and our vendors help execute the vision of the GLC. We are grateful to everyone who contributes to our achievements. All of these pieces work together to provide future opportunities for HOPE and Pre-K students across the state of Georgia.

Fiscal year 2008 was another unprecedented year with gross sales of \$3.519 billion and profits exceeding \$867 million. This represents a \$14 million increase in profits over the previous fiscal year. Exciting games like our Millionaire Mania instant game, enhancements like the addition of the multiplier feature to KENO!, and promotions like Live Free for a Year all contributed to the increase in our bottom line. Looking forward, we will continue to embrace new ways to create and add innovative changes to our products, while operating efficiently and with the utmost integrity.

Margaret

Board of Directors



Georgia Lottery Corporation Board of Directors

(photographed left to right)

John Watson; Ann Crowder, Vice Chair; Tony Campbell, Chair;
Martin Kogon; Rayna Casey; and James Braswell.

Not pictured: Celeste Osborn.

No other traditional lottery in the country has increased profits for more consecutive years than Georgia's lottery. The lottery's phenomenal growth is a result of hard work, forward thinking and sound business practices. These unprecedented returns to education have totaled \$10 BILLION since the Lottery started in 1993 – a truly remarkable achievement that all Georgians can celebrate.

Lottery-funded educational programs give opportunities to Georgia's families in both early and higher education. With the first Georgia Pre-K students now attending college on HOPE, the Lottery for Education programs have come full circle – from ABCs to college degrees.

Education



The Georgia Lottery is dedicated to continually maximizing dollars for educational programs across the state. Fiscal year 2008 provided a strong stream of revenues for the Lottery for Education Account as the Georgia Lottery Corporation transferred over \$867 million for HOPE and Pre-K programs in the state of Georgia.

The Georgia Lottery set a new precedent in raising dollars to help send students seeking a higher education to college. Georgia's college students received \$522.3 million in HOPE funds in 2008 generated by record lottery sales. The program benefits students and their families by reducing their potential school debt, allowing them to focus on their classroom performance. HOPE also benefits Georgia by providing another incentive for students to attend school in-state, channeling more talent into the state's work force.



\$10 Billion to Education



Georgia's Pre-K Program is an investment toward the education of 4-year-olds statewide and is integral as a foundation in helping them achieve academic success. In fiscal year 2008 more than 78,000 4-year-olds participated in the lottery-funded program. The universal, voluntary prekindergarten program encourages students to learn from each other in a classroom setting, helping them to develop important language, cognitive and social skills to prepare them for kindergarten and beyond. The program has served more than 860,000 students since 1993 and is lauded nationally as an exceptional program for preschoolers.

The Georgia Lottery has raised \$10 billion toward Georgia's educational programs - a remarkable milestone achieved in less than 15 years. Providing these funds for Georgia's Pre-K and HOPE Scholarship programs increases academic performance and opens the door for students to have greater access to learning.

Our First Pre-Kindergarten Class is now in College!

Since our inception 14 years ago,
the lottery-funded Georgia Pre-K Program
has helped over 860,000 kids
get their education off to a great start.

Now our first class of pre-kindergarten students
is in college, and the lottery-funded
HOPE Scholarship Program
is there to ensure that their dreams,
which started so small, can continue to grow.



Games & Promotions



In fiscal year 2008, the Georgia Lottery offered players more ways to win! The GLC introduced new instant games and launched several exciting promotions, while maintaining demand for online games, resulting in record sales of \$3.519 billion for the year.

The Fast 5's instant game broke new ground for the Georgia Lottery. In addition to cash prizes, players could win free Fantasy 5 Quik Pik tickets in this game. This marked the first time the GLC used an instant game to cross-promote an online game, creating an innovative marketing tool that players seem to enjoy. In April, the GLC launched another exciting new instant game, Millionaire Mania, with a halftime event during an Atlanta Hawks basketball game. The game offers over \$160 million in total cash prizes, including 10 top prizes of \$1 million, each payable in a lump sum. Holiday games like Jingle Jumbo Bucks and Happy Mother's Day remained popular along with a new Betty Boop™ instant game. In total, the GLC introduced 40 new instant games in FY 2008.



Players enjoyed several second chance promotions throughout the fiscal year. The What's Your Fantasy promotion launched in July and allowed players to enter non-winning Fantasy 5 tickets through a promotional website into a drawing for one of five luxury prizes. Players could win a shopping spree, vacation getaway, home makeover, spa experience, or catering services. A prize patrol traveled around the state awarding the fantasy prizes, valued at \$3,000 each.

In November, the GLC partnered with Kroger to offer the Post-Season Football Jackpot promotion, giving players a chance to win a trip to one of three college bowl games and raising the awareness of lottery sales at Kroger. Players could enter non-winning tickets for any online game purchased at Kroger locations for their chance to win.



Another second chance promotion with Win for Life launched in May, giving players an opportunity to “Live Free for a Year”! Players were excited to enter each week’s drawing for great weekly prizes - free car payments, gas, groceries or utilities for a year. One lucky grand prize winner won a year of free car payments, utilities, gas, house payments, and groceries, valued at over \$47,000!



The Georgia Lottery offered two Millionaire Raffles in fiscal year 2008. The first was conducted on July 7, 2007, billed the luckiest draw date of the year! The Holiday Millionaire Raffle, the second raffle of the year, was conducted on New Year’s Eve. Both offered players incredible odds to win \$1 million.

The GLC added a new Multiplier feature to the KENO! game in April. Multiplier allows players to wager more for a chance to win up to 10 times more on a winning KENO! play.



The Georgia Lottery looks forward to even more exciting games and promotions for our players!



Winners



Robert Harris of Portal, Ga. was awarded the highest single payout in GLC history.

As more fun and exciting games were introduced in fiscal year 2008, the Georgia Lottery awarded millions in prizes daily to players throughout Georgia. Big winners such as Robert and Tonya Harris of Portal, Ga., who won a spectacular \$275 million Mega Millions jackpot in February, have shared exciting stories in discovering their lucky combinations. In fact, 50 winners in fiscal year 2008 claimed prizes of \$1 million or more from the Georgia Lottery's on-line and instant games. Player participation has helped the Georgia Lottery surpass its goal of transferring over \$10 billion toward Georgia's educational programs since inception.



A variety of fun and innovative games provided entertainment and a load of prizes for Georgia Lottery players. Four \$1 million winners were introduced on the luckiest day of the year – 07-07-07 – playing the Georgia Lottery's Millionaire Raffle drawing. Georgia's \$500 Million Club continued to make waves with winners as more \$5 million and \$1 million prizes were awarded. The \$10 million extra chance grand prize was awarded at the end of the game during the televised game show "Georgia's \$500 Million Club Finale." The Georgia Lottery's Fantasy 5 Prize Patrol was created this year to greet four winners across Georgia with special prizes in their hometowns during the "What's Your Fantasy" promotion. Since KENO! with Multiplier was introduced in April, two winners have emerged with record-breaking \$100,000+ wins. The new KENO! feature allows players a chance to increase their winnings up to 10 times.

Winning was huge fun for Lawrenceville Mayor Rex Millsaps, who won a second-tier \$250,000 Mega Millions prize garnering national news, a win for the Georgia Lottery.



A variety of fun and innovative games provided entertainment and a load of prizes for Georgia Lottery players.



Georgia Lottery players won more than \$2 billion in total prizes in fiscal year 2008.



Senior Staff



Left to right, standing: Gerald Mecca, Senior Vice President of Administration; Rosemarie Morse, Vice President of Legal Affairs; Daniel Johnson, Chief Technology Officer; J.B. Landroche, Vice President of Corporate Affairs; Joan Schoubert, Senior Vice President of Finance, Planning and Development; Kurt Freedlund, Senior Vice President and General Counsel; and Sharman Lomax, Vice President of Financial Management.

Left to right, seated: Teri Rosa, Vice President of Customer Operations; James Hutchinson, Vice President of Marketing; Margaret DeFrancisco, President and CEO; Jack Dimling, Vice President of Sales; and Douglas Parker, Vice President of Human Resources.

The Georgia Lottery Corporation currently employs approximately 270 people statewide and has eight district offices (Atlanta, Augusta, Columbus, Dalton, Duluth, Macon, Savannah and Tifton) in addition to the GLC headquarters in downtown Atlanta. In May 2008, the Georgia Lottery relocated its Thomasville district office to Tifton in order to better service South Georgia residents.

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

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

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

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

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

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

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

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

Where The Money Goes

Fiscal Year 2008

\$867.7 million
in funds to education

\$230.7 million
*in commissions
to retailers*

\$137.3 million
*in operating & gaming expenses
to gaming vendors, small
businesses & others*

\$2,049.5 million
in prizes to players



The Georgia Lottery Corporation
is committed to providing opportunities to all Georgians.

Every dollar spent on Georgia Lottery tickets is reinvested into Georgia's economy. Lottery funds go towards educating Georgia's students and future workforce. Businesses across the state have benefitted from a successful partnership with the GLC and players won over to \$2 billion in prizes last year alone.



**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, 2008 and 2007, 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14 through 23 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC". The signature is written in black ink on a light-colored background.

Atlanta, Georgia
October 20, 2008

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Management's Discussion and Analysis

As management of the Georgia Lottery Corporation (the "GLC"), we offer readers of the GLC's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2008 and June 30, 2007. We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 12.

Financial Highlights

The GLC had another record-breaking year in fiscal year 2008. Gross ticket sales surpassed \$3.5 billion, representing the highest sales total in the GLC's fifteen-year history. For fiscal year 2007, gross ticket sales were over \$3.4 billion. For fiscal year 2008, the net proceeds paid to the Lottery for Education Account were \$867.7 million, also setting a GLC record. The net proceeds paid to the Lottery for Education represent an increase of \$14.1 million over last year. For fiscal year 2007, net proceeds paid were \$853.6 million, which represented an increase of \$31.2 million over fiscal year 2006. Other significant financial highlights include the following:

- For fiscal year 2008, gross tickets sales increased by \$97.6 million, more than 2.8% over the previous fiscal year. For fiscal year 2007, gross tickets sales increased by \$244.1 million, more than a 7.7% increase over 2006.
- Prizes expense increased \$71.2 million during fiscal year 2008 and \$162.8 million in fiscal year 2007. This expense increases or decreases in direct proportion to ticket sales and represented approximately 58% of gross ticket sales in fiscal year 2008 and 58% in 2007. Prize expense represented approximately 57% of gross ticket sales in 2006.
- Direct gaming expenses, which include retailer commissions and bonuses, contractor fees, advertising, and retailer merchandising and marketing increased \$10.8 million in fiscal year 2008. These expenses also fluctuate in proportion to ticket sales and represented approximately 9.6% of gross ticket sales in 2008 and in 9.5% in 2007. For fiscal year 2007, direct gaming expenses increased \$23.8 million over 2006. These expenses represented approximately 9.5% of gross ticket sales in 2006.
- Fiscal year 2008 operating expenses, which include salaries and benefits, rent, utilities and maintenance, professional fees, depreciation, and other expenses increased \$2.6 million over the previous fiscal year, primarily resulting from increases of \$1.0 million in personnel costs, \$.4 million in depreciation expense, \$.5 million in rent and utilities, and \$.3 million in professional fees. Operating expenses remained at less than 1% of gross ticket sales for fiscal years 2008 and 2007. Fiscal year 2007 operating expenses increased \$1.4 million over 2006 expenses, resulting primarily from increases in personnel costs.
- Nonoperating expenses, net of revenues, increased \$1.5 million in 2008 as compared to 2007. This increase is attributable to the increase in payments to/due to Lottery for Education Account over the prior fiscal year, partially offset by the change in the fair value of grand prize investments held by the GLC for funding future grand prize payments, and a slight increase in interest revenue. Nonoperating expenses, net of revenues, increased \$14.7 million in 2007 as compared to 2006. This increase is attributable to the change in the fair value of grand prize investments held by the GLC for funding future grand prize payments and the increase in payments to/due to Lottery for Education Account, partially offset by the increase in interest revenue over the prior fiscal year.

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 12, the statements of revenues, expenses, and changes in net assets on page 13, and the statements of cash flows on pages 14 and 15 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 16 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, 2008 and 2007, and the results of its operations for the years then ended.

Financial Analysis

Assets

Total assets at the end of fiscal year 2008 were \$632.5 million compared to \$578.0 million at the end of fiscal year 2007, representing an increase of \$54.5 million. At the end of fiscal year 2007, total assets were \$578.0 million compared to \$487.8 million at the end of fiscal year 2006, representing an increase of \$90.2 million.

Current assets increased from \$339.9 million in 2007 to \$366.8 million in 2008, representing an increase of \$26.9 million. This increase is primarily due to a \$12.6 million increase in cash and cash equivalents, a \$13.8 million increase in retailer accounts receivable due to the timing of the accounting week for billing and collections from our retailers at year-end cutoff. Current assets increased from \$287.5 million in 2006 to \$339.9 million in 2007, representing an increase of \$52.4 million. This increase resulted primarily from a \$22.4 million increase in cash and cash equivalents, a \$25.0 million increase in retailer accounts receivable due to the timing of collections from our retailers, and a \$3.4 million increase in retailer escrow accounts resulting from increased retailer participation in the program

Noncurrent assets increased from \$238.1 million in 2007 to \$265.7 million in 2008, representing an increase of \$27.6 million. This increase is due to grand prize investments increasing from \$233.2 million in 2007 to \$260.9 million in 2008, an increase of \$27.6 million. The increase resulted from net purchases of \$188.2 million, payments to grand prize winners totaling \$28.2 million, net investment sales of \$157.1 million, interest earned on current-year maturities of \$12.6 million, and a \$12.1 million increase in the fair value of the investments. Capital assets were \$4.9 million in 2008 and 2007.

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

value of the investments. Capital assets increased from \$3.4 million in 2006 to \$4.9 million in 2007, an increase of \$1.5 million. The increase resulted from capital asset purchases of \$2.8 million less depreciation expense of \$1.2 million.

Liabilities

Total liabilities at the end of fiscal year 2008 were \$623.0 million compared to \$577.8 million at the end of fiscal year 2007, representing an increase of \$45.2 million. Total liabilities at the end of fiscal year 2006 were \$490.2 million compared to \$577.8 million at the end of fiscal year 2007, representing an increase of \$87.2 million.

For fiscal year 2008, current liabilities increased to \$368.0 million from \$338.7 million in 2007, an increase of \$29.3 million. The increase was primarily due to a \$16.5 million increase in prizes payable, and a \$12.5 million increase in the funds due to the Lottery for Education Account. The increase in prizes payable was primarily due to a \$6.1 million increase in prize liability resulting from proportionately higher game sales for the instant games, a \$18.9 million increase in the prize liability reserve for several online games (*Cash 3*, *Cash 4*, *Keno!*, and *Mega Millions*), and a \$2.2 million increase in unclaimed prizes as of June 30, 2008 compared to 2007. These increases were partially offset by a \$4.8 million decrease in the annuity liability for the *Win For Life* game, a \$5.3 decrease in deferred sales, and a \$.8 million decrease in prize breakage as of June 30, 2008 versus 2007.

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

Noncurrent liabilities increased \$15.8 million from \$239.1 million in 2007 to \$254.9 million in 2008. Noncurrent liabilities principally consist of grand prizes payable, which represent the amount to be paid to grand prize winners over future years. Grand prizes payable experienced a net increase of \$15.7 million in 2008 resulting from payments net of interest earned on current-year maturities that became due and payable as annual payment obligations to our grand prize winners, thus increasing the long-term liabilities. The GLC increased its grand prizes payable by \$28.2 million due to new annual payment obligations for grand prize winners for several instant games: *Georgia's \$500 Million Club*, *Cash Explosion*, and *\$300 Million Gold Rush*, and one online game, *Win for Life*. During fiscal year 2008, all eligible grand prize winners in our other online games elected to receive their prizes in a single cash payment. The increase in grand prizes payables was partially offset by the \$12.6 million in interest earned on current-year maturities which became due and payable in 2008.

Noncurrent liabilities increased \$37.5 million from \$201.6 million in 2006 to \$239.1 million in 2007. Noncurrent liabilities principally consist of grand prizes payable, which represent the amount to be paid to grand prize winners over future years. In fiscal year 2007, grand prizes payable increased \$37.1 million over fiscal year 2006, from \$199.3 million to \$236.4 million. The increase was primarily attributable to two factors. Grand prize payables of \$14.5 million (winner payments net of interest earned on current-year maturities) became due and payable in fiscal year 2007 as an annual payment obligation to our grand prize winners, thus reducing the long-term liabilities. The GLC increased its grand prizes payable by \$51.0 million as the result of new annual payment obligations for grand prize winners for several instant

games: *Georgia's \$500 Million Club*, *\$300 Million Gold Rush*, and *\$200 Million Cash Spectacular*, and one online game, *Win for Life*. The GLC has purchased or will purchase U.S. Treasury securities to fund these future payment obligations. During fiscal year 2007 all eligible grand prize winners in our other online games elected to receive their prizes in a single cash payment.

Net Assets and Changes in Net Assets

Net assets increased \$9.3 million in fiscal year 2008 from \$.2 million in fiscal year 2007 to \$9.5 million. This increase primarily resulted from a \$12.4 million increase in the unrealized gain in the fair value of grand prize investments held by the GLC for funding of future grand prize payments. 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 \$2.5 million in 2007 from (\$2.3) million in fiscal year 2006, to an end of year balance of \$.2 million. This increase primarily resulted from a \$2.6 million increase in funds invested in capital assets, \$.2 million for operating expenses withheld from the determination of net proceeds in accordance with Georgia Lottery for Education Act, and a (\$.3) million unrealized loss 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. Inclusion of capital costs in the determination of net proceeds is required by the Georgia Lottery for Education Act.

Sales

Total lottery ticket sales for fiscal year 2008 were \$3.519 billion, as compared to \$3.422 billion in 2007. This represents an increase of over \$97.6 million. Average weekly gross ticket sales for fiscal year 2008 were \$67.7 million versus \$65.8 million in 2007.

Gross instant ticket sales increased during fiscal year 2008, up \$83.8 million over one year ago, from \$2.321 billion in 2007 to \$2.405 billion in 2008. The 3.6% increase is attributable to several factors, including the GLC's administration of sound marketing and promotional strategies, ongoing product research, development and introduction of new instant ticket games, coupled with effective management of the instant product mix which offers players an opportunity to choose among a variety of games at different price points: \$1, \$2, \$3, \$5, \$10, and \$20.

Sales growth of the \$20 price point category spanned the entire fiscal year for 2008, as compared to only six months for 2007, and became a much larger part of the overall sales and product mix. Since its introduction in January 2007, the GLC's first \$20 instant game, *Georgia's \$500 Million Club* continued its popularity with players. The game contributed over \$354 million to ticket sales in fiscal year 2008 compared to \$330 million in 2007. The game offers a top prize of \$5 million and includes weekly extra chance drawings, with winners being included in a final drawing for a prize award of \$10 million.

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

During fiscal year 2008, the GLC introduced several instant games at lower price points offering a variety of respective prize opportunities which appeal to different players. New instant games included a \$2 *Betty Boop* game; \$3 *Lucky 7's Bingo*, and a \$2 *Fast 5's*, which gave players an opportunity to win a free ticket for the Fantasy 5 online game. The Georgia Lottery's four holiday-themed instant games, offered from late October 2007 through early 2008, continue to provide extremely strong sales, totaling more than \$118 million in fiscal year 2008. In addition, GLC players continued demonstrating loyalty to our most popular core games such as *Jumbo Bucks* and *Mega Bucks* family of games. The GLC closed out fiscal year 2008 with the introduction of two new instant games to commemorate fifteen years in operation, \$1 *Georgia Lottery's 15th Anniversary*, offers eleven \$15,000 top prizes – the highest top prize ever offered on a \$1 GLC instant game, and \$20 *15th Anniversary Millionaire Extravaganza*, which includes 15 prizes from \$1 million to \$5 million and gives players the opportunity to enter the *Extra Chance Monthly Millionaire Drawings* for a chance to win \$ 1 million.

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

Gross instant ticket sales increased significantly during fiscal year 2007, up \$266.4 million over one year ago, from \$2.055 billion in 2006 to \$2.321 billion in 2007. The 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 13% increase in ticket sales for 2007 versus 2006.

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

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

In 2007, *Cash 3* sales increased \$1.1 million (approximately 1%) to \$545.4 million from \$544.3 million in 2006. The actual prize payout experienced was approximately 47% for fiscal year 2007 and 50% for fiscal year 2006. During fiscal year 2007, the GLC introduced *Cash 3* promotions, including *Cash 3 Double Drop*. The GLC also freshened the game's logo, renewed marketing efforts, and increased

winning opportunities for *Cash 3* players with the introduction of Front Pair and Back Pair. If a player selects the first two winning numbers (Front Pair) or the last two winning numbers (Back Pair) in the exact order of the draw numbers selected, he or she wins.

Mega Millions sales increased \$34.7 million (approximately 19%) in 2008 to \$217.5 million compared to \$182.8 million in 2007. *Mega Millions* is a multi-state lottery game operated with eleven other states—California, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. Drawings are held twice weekly on Tuesday and Friday. During fiscal year 2008, *Mega Millions* had a \$330 million winning jackpot in September 2007 and two other large jackpots of \$274 million, which had a Georgia grand prize winner in February 2008, and \$196 million in May 2008. There were three other *Mega Millions* jackpots over \$100 million during fiscal year 2008, including jackpots of \$128 million in July 2007, \$163 million in December 2007, and \$136 million in April 2008. In comparison, *Mega Millions* experienced a U.S. record-setting \$390 million winning jackpot in March 2007, and had four other jackpots over \$100 million in 2007, including jackpots of \$163 million in September 2006, \$125 million in January 2007, \$105 million in April 2007, and \$113 million in May 2007.

In fiscal year 2007, *Mega Millions* sales decreased \$24.7 million (approximately 12%) to \$182.8 million compared to \$207.5 million in 2006. *Mega Millions* produced a U.S. record-setting \$390 million winning jackpot in March 2007. There were four other *Mega Millions* jackpots over \$100 million in 2007, including jackpots of \$163 million in September 2006, \$125 million in January 2007, \$105 million in April 2007, and \$113 million in May 2007. In comparison, the second largest *Mega Millions* jackpot since the game inception, \$315 million was generated in November 2005, and there were also four other *Mega Millions* jackpots over \$250 million during fiscal year 2006. *Mega Millions* sales are jackpot driven and, as a whole, jackpot rollovers did not reach the higher levels in 2007 which were achieved in 2006.

In fiscal year 2008, *Cash 4* sales increased \$.6 million, from \$176.3 million in 2007 to \$176.9 million in 2008. *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 2008 and 2007 were approximately 47% and 53%, respectively. Although the prize payout for fiscal year 2008 was below the industry average of 50%, *Cash 4* sales had a slight increase over 2007. Management has developed and plans to implement *Cash 4* promotions during fiscal year 2009 to increase player interest and loyalty to *Cash 4*, in order to maximize a slight increase in the game's sales trends.

Cash 4 sales decreased \$1.3 million, from \$177.6 million in 2006 to \$176.3 million in 2007. Actual prize payouts in fiscal years 2007 and 2006 were 53% and 45%, respectively. Although the prize payout for 2007 was above the industry average, *Cash 4* sales growth leveled off from 2006.

Win For Life sales were \$26.1 million in 2008, a decrease of \$10.2 million compared to 2007 sales of \$36.3 million. *Win For Life* is a multi-state fixed prize online game operated in conjunction with lotteries in Kentucky and Virginia. Drawings are held twice weekly on Wednesday and Saturday. Six winning numbers followed by one “free ball” number are drawn from a single set of 42 balls. By matching the six winning numbers, players win the top prize of \$1,000 a week for life payable in quarterly payments of \$13,000. Players matching five of the six winning numbers plus the “free ball” number win the second tier prize of \$1,000 a week for one year. Matching the “free ball” number also increases other lower level prize amounts.

For fiscal year 2007, *Win For Life* sales increased \$14.8 million to \$36.3 million compared to \$21.5 million in 2006. The increase was attributable to *Win For Life* being offered for the entire fiscal year in 2007 versus approximately four months during fiscal year 2006. The game was launched during fiscal year 2006, on February 26, 2006.

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

For fiscal year 2008, *Fantasy 5* sales were \$82.8 million compared to \$83.0 million in 2007, a slight decline of \$.2 million. In August 2006, the prize distribution was changed for three prize levels, matching 3 of 5 numbers, matching 4 of 5 numbers, and the top prize level, matching 5 of 5 numbers. Prize distribution was reallocated to the top prize level (matching 5 of 5 numbers) from two other prize levels (matching 3 of 5 numbers and matching 4 of 5 numbers.) This change was a direct result of player's input and feedback. Increased player interest in *Fantasy 5*, as a result of this change coupled with other GLC promotional and marketing activities have led to relatively stable *Fantasy 5* sales in 2008 compared to 2007.

Fantasy 5 sales increased \$3.6 million (approximately 4.5%) in 2007 to \$83.0 million from \$79.4 million in 2006.

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

Sales for *Keno!* were \$66.9 million and \$49.7 million in fiscal year 2007 and 2006, respectively. This represents a \$17.2 million increase in sales during 2007 versus 2006.

Millionaire Raffle sales were \$14.8 million in 2008 compared to \$10.0 million in 2007. During fiscal year 2008, players had two opportunities to play *Millionaire Raffle*. The first drawing was held on July 7, 2007, and a second drawing, *Holiday Millionaire Raffle* was held on December 31, 2007. *Millionaire Raffle* is a limited-time game with the best odds ever of winning \$1 million - 1 in 125,000. Each *Millionaire Raffle* ticket costs \$20 and only 500,000 raffle tickets are sold per drawing. For the July drawing, a computerized drawing randomly selected four winners of \$1 million (cash prize), five winners of \$100,000, and 500 winners of \$1,000. For the *Holiday Millionaire Raffle*, players had the opportunity to win one of four \$1 million prizes, one of four \$100,000 prizes, one of 20 \$10,000 prizes, or one of the 1,000 \$5000 prizes. Tickets are sold in numeric order through the lottery terminal. Each Georgia *Millionaire Raffle* ticket has a unique number – there are not any repeat or duplicate ticket numbers.

In November 2006, the GLC launched its first *Millionaire Raffle*. The game contributed \$10 million in sales for fiscal year 2007.

Other Operating Revenue

Other operating revenue includes online fees and other miscellaneous revenue. Other operating revenue decreased \$.8 million to \$4.3 million in fiscal year 2008, from \$ 5.0 million in fiscal year 2007. The decrease was primarily due to one-time operating revenues of \$.9 million recognized in fiscal year 2007. For fiscal years 2007 and 2006, other operating revenue was \$5.0 million and \$4.9 million, respectively.

Prize Expense

Gross prize expense for instant games increased to \$1.521 billion in fiscal year 2008 from \$1.445 billion in 2007, an increase of \$76 million (approximately 5.2%). Gross prize expense for instant games was \$1.445 billion in fiscal year 2007 versus \$1.277 billion in 2006, an increase of \$177.0 million (approximately 13.9%). Instant games prize expense is managed through the number of tickets printed for each game and value of prizes as determined prior to ticket production. Prize expense is recognized based on an established prize structure and related percentage of sales for each game introduced and is recognized when products are made available for sale to the public. The increase in instant game prize expense, in excess of that attributable to proportional growth in game sales is a result of the increase in sales of the higher price point games as a percentage of total instant sales. The increase in the prize expense for higher price point games, which offer a larger prize payout than lower price point games, is negligible as a component of gross instant ticket sales.

Instant game prize expense is reduced by applying unclaimed prizes recognized during the fiscal year. For fiscal year 2008, prize expense, net of unclaimed prizes for instant games, totaled \$1,483.3 million as compared to \$1,419.6 million in 2007, and \$1,249.2 million in 2006. Gross instant prize expense was reduced by \$37.5 million, \$34.1 million, and \$27.4 million, by using unclaimed prizes in 2008, 2007, and 2006, respectively.

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

Total online prize expense increased \$7.5 million in 2008 to \$566.3 million compared to \$558.8 million in 2007, in direct proportion to game sales. For fiscal year 2007, total online prize expense decreased \$7.6 million to \$558.8 million compared to \$566.4 million in 2006. The net increase/decrease is comprised of the following increases and decreases by game as follows:

- Prize expense for *Cash 3* decreased \$21.3 million in fiscal year 2008 as compared to 2007. Prize expense for *Cash 3* increased \$.6 million in fiscal year 2007 as compared to 2006.
- Prize expense for *Mega Millions* increased \$17.3 million in 2008 versus 2007. Prize expense for *Mega Millions* decreased \$12.3 million in 2007 versus 2006.
- Prize expense for *Cash 4* decreased \$.6 million over 2007. Prize expense for *Cash 4* increased \$.2 million in 2007 over 2006.
- There was no prize expense for *Lotto South* in fiscal years 2008 or 2007. *Lotto South* prize expense decreased \$21.5 million in 2007 versus 2006, since the game ended on February 25, 2006.
- Prize expense for *Fantasy 5* decreased \$.6 million in 2008 versus 2007. Prize expense for *Fantasy 5* increased \$1.3 million in 2007 versus 2006.
- Prize expense for *Keno!* increased \$15.2 million in 2008 as compared to 2007. Prize expense for *Keno!* increased \$11.8 million in 2007 as compared to 2006.
- Prize expense for *Win For Life* decreased \$5.1 million in fiscal year 2008 as compared to 2007. Prize expense for *Win For Life* increased \$7.4 million in 2007 over 2006.

- Prize expense for the *Millionaire Raffle* game increased \$2.5 million in 2008 versus 2007. No raffle game was offered in 2006.

Direct Gaming and Operating Expenses

Direct gaming expenses usually change in proportion with changes in ticket sales. For fiscal year 2008, increased ticket sales resulted in a corresponding increase in the largest component of direct gaming expenses, retailer commissions and bonuses. Contractor (vendor) fees, retailer merchandising and marketing, and advertising expenses increased in fiscal year 2008 compared to 2007. For fiscal year 2007, direct gaming expenses increased over 2006.

Retailer commissions and bonuses for fiscal year 2008 were \$230.7 million compared to \$225.7 million in 2007, and \$208.3 million in 2006. This represents a \$5.0 million increase in fiscal year 2008, and a \$17.4 million increase in 2007 over 2006. The GLC compensates its retailers through three commission/incentive plans. These are:

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

Contractor (vendor) fees represent payments made to our two major suppliers of the gaming products, systems, and services, and two other suppliers of instant ticket printing and property licensing. The payments made to our two major suppliers are determined based on a percentage of sales formula. On September 7, 2003, the GLC began operating under its new seven-year major vendor contracts for Online Gaming Systems and Services and Instant Ticket Printing and Associated Services. Payments made to the other suppliers are based on contract terms. In fiscal year 2008, contractor (vendor) fees were \$73.2 million as compared to \$70.2 million in 2007, representing an increase of \$3.0 million, directly attributable to the increase in ticket sales. For fiscal year 2007, contractor (vendor) fees increased \$5.5 million from \$64.7 million in 2006 to \$70.2 million in 2007. The increase in 2007 was attributable to increased lottery tickets sales.

Advertising expense increased \$0.5 million to \$20.3 million in 2008 from \$19.8 million in 2007. For fiscal year 2007, advertising expense increased \$0.4 million to \$19.8 million from \$19.4 million in 2006.

Retailer merchandising and marketing expenses increased \$2.2 million to \$12.2 million in 2008 from \$10.0 million in 2007. This increase was primarily the result of new game development expenses associated with television campaigns promoting new instant and online games and features, and the Georgia Lottery's "American-Idol"-style talent search auditions, several promotional initiatives to increase player awareness about our lottery games, and purchase of *Keno!* game monitors. For fiscal year 2007, retailer merchandising and marketing expenses increased \$.6 million over fiscal year 2006.

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

Nonoperating Revenues (Net of Expenses)

Nonoperating revenues, net of expenses, consist primarily of payments to/due to Lottery for Education Account, interest revenue, and the change in the fair value of grand prize investments held by the GLC for funding of future grand prize payments. For fiscal year 2008, nonoperating expenses, net of revenues, increased \$1.5 million from \$847.9 million in 2007 to \$849.4 million in 2008. The increase in

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

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

Significant Factors Impacting Next Year

The future economic outlook, particularly, rising fuel costs, recent stock market fluctuations, and the down-turn in the residential housing market in conjunction with the volatility of lending markets may adversely affect the disposable income available for lottery purchases by our players.

Contacting the GLC's Financial Management

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

GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 217,362,000	\$ 204,811,000
Restricted fidelity fund cash	177,000	71,000
Restricted retailers' escrow fund cash	4,108,000	3,936,000
Retailer accounts receivable—net	142,007,000	128,182,000
Prepaid expenses and other assets	<u>3,059,000</u>	<u>2,871,000</u>
Total current assets	<u>366,713,000</u>	<u>339,871,000</u>
NONCURRENT ASSETS:		
Grand prize investments	260,855,000	233,231,000
Capital assets - net	<u>4,874,000</u>	<u>4,903,000</u>
Total noncurrent assets	<u>265,729,000</u>	<u>238,134,000</u>
TOTAL ASSETS	<u>\$ 632,442,000</u>	<u>\$ 578,005,000</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Due to Lottery for Education Account	\$ 222,578,000	\$ 210,113,000
Prizes payable	123,395,000	106,958,000
Accounts payable and accrued liabilities	17,777,000	17,663,000
Restricted fidelity fund	177,000	71,000
Restricted retailers' escrow fund	<u>4,108,000</u>	<u>3,936,000</u>
Total current liabilities	<u>368,035,000</u>	<u>338,741,000</u>
NONCURRENT LIABILITIES:		
Grand prizes payable	252,084,000	236,390,000
Noncurrent portion of other long-term liabilities	<u>2,831,000</u>	<u>2,687,000</u>
Total noncurrent liabilities	<u>254,915,000</u>	<u>239,077,000</u>
Total liabilities	<u>622,950,000</u>	<u>577,818,000</u>
NET ASSETS (DEFICIT):		
Invested in capital assets	4,874,000	4,903,000
Unrestricted	<u>4,618,000</u>	<u>(4,716,000)</u>
Total net assets (deficit)	<u>9,492,000</u>	<u>187,000</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 632,442,000</u>	<u>\$ 578,005,000</u>

See Notes to financial statements.

GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES:		
Ticket sales	\$ 3,519,341,000	\$ 3,421,699,000
Less tickets provided as prizes	<u>(247,295,000)</u>	<u>(243,296,000)</u>
Net ticket sales	3,272,046,000	3,178,403,000
Online fees	4,210,000	4,115,000
Other	<u>89,000</u>	<u>935,000</u>
Net operating revenues	<u>3,276,345,000</u>	<u>3,183,453,000</u>
OPERATING EXPENSES:		
Prizes	2,049,541,000	1,978,384,000
Retailer commissions and bonuses	230,729,000	225,657,000
Contractor fees	73,189,000	70,199,000
Advertising	20,278,000	19,768,000
Salaries and benefits	22,627,000	21,580,000
Retailer merchandising and marketing	12,220,000	9,973,000
Rent, utilities, and maintenance	4,468,000	3,903,000
Depreciation	1,576,000	1,218,000
Professional fees	1,412,000	1,149,000
Other	<u>1,556,000</u>	<u>1,176,000</u>
Total operating expenses	<u>2,417,596,000</u>	<u>2,333,007,000</u>
Operating income	<u>858,749,000</u>	<u>850,446,000</u>
NONOPERATING REVENUES (EXPENSES):		
Payments to and due to Lottery for Education Account	(867,686,000)	(853,550,000)
Interest revenue	6,104,000	5,937,000
Net increase (decrease) in fair value of grand prize investments	<u>12,138,000</u>	<u>(307,000)</u>
Total nonoperating revenues (expenses)	<u>(849,444,000)</u>	<u>(847,920,000)</u>
Change in net assets	9,305,000	2,526,000
NET ASSETS (DEFECIT)—Beginning of year	<u>187,000</u>	<u>(2,339,000)</u>
NET ASSETS (DEFICIT)—End of year	<u>\$ 9,492,000</u>	<u>\$ 187,000</u>

See Notes to financial statements.

GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,248,954,000	\$ 3,154,257,000
Other operational cash received	4,298,000	5,050,000
Cash paid to prize winners	(2,020,345,000)	(1,923,425,000)
Cash paid to retailers	(230,729,000)	(117,600,000)
Cash paid to contractors and employees	(123,313,000)	(225,657,000)
Other operating payments	(12,282,000)	(1,922,000)
	<u>866,583,000</u>	<u>890,703,000</u>
NONCAPITAL FINANCING ACTIVITIES:		
Payments to Lottery for Education Account	(855,221,000)	(843,531,000)
Payments to Department of Human Resources	(200,000)	(200,000)
	<u>(855,421,000)</u>	<u>(843,731,000)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property and equipment	(1,579,000)	(2,669,000)
Proceeds from disposals of property and equipment	58,000	70,000
	<u>(1,521,000)</u>	<u>(2,599,000)</u>
INVESTING ACTIVITIES:		
Interest received	6,104,000	5,937,000
Purchases of grand prize investments	(188,189,000)	(51,030,000)
Investments sold	157,094,000	-
Maturities of grand prize investments	28,179,000	26,075,000
	<u>3,188,000</u>	<u>(19,018,000)</u>
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	12,829,000	25,355,000
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	<u>208,818,000</u>	<u>183,463,000</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	<u>\$ 221,647,000</u>	<u>\$ 208,818,000</u>

Continued



GEORGIA LOTTERY CORPORATION

(A Component Unit of the State of Georgia)

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 858,749,000	\$ 850,446,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,576,000	1,218,000
Provision for doubtful retailer accounts	389,000	127,000
Gains (Losses) on disposals of property and equipment	(58,000)	(70,000)
Changes in assets and liabilities:		
Retailer accounts receivable	(14,149,000)	(24,283,000)
Prepaid expenses and other assets	(324,000)	(2,033,000)
Accounts payable and accrued liabilities	286,000	6,972,000
Prizes payable	16,710,000	30,411,000
Grand prizes payable	3,155,000	24,547,000
Restricted fidelity fund	106,000	(423,000)
Restricted Retailer Escrow	172,000	3,410,000
Other liabilities	(29,000)	381,000
Net cash provided by operating activities	<u>\$ 866,583,000</u>	<u>\$ 890,703,000</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:		
Increase (decrease) in fair value of investments	\$ 12,138,000	\$ (307,000)
Accretion of grand prizes payable	<u>12,570,000</u>	<u>11,593,000</u>
Total noncash investing, capital, and related financing activities	<u>\$ 24,708,000</u>	<u>\$ 11,286,000</u>

See Notes to financial statements.

GEORGIA LOTTERY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

1. REPORTING ENTITY

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

The GLC’s ticket sales include instant ticket sales and online ticket sales for *Cash 3*, *Cash 4*, *Fantasy 5*, *Keno!*, *Mega Millions*, *Win for Life*, and *Millionaire Raffle*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Commissions and Bonuses—Retailers receive a commission of 5% on ticket sales, except for *Cash 3* sales, on which retailers receive a commission of 7%, and a 2% cashing bonus on all ticket validations at their location. In addition, retailers receive bonuses for selling winning jackpot tickets for *Lotto South*, *Win For Life*, *Fantasy 5*, and *Mega Millions*. Four instant ticket games were introduced during 2008 and 2007 with a retailer sales commission of 10%.

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

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

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

The GLC entered into a vendor contract effective January 27, 2006, with Pollard Banknote Limited Partnership (“Pollard”) for the printing of various instant game tickets for which the vendor has exclusive rights. Pollard receives a fee based on the quantity of instant tickets printed. The contract continues until June 30, 2011, unless terminated upon a sixty-day written notice by either the GLC or Pollard. During fiscal year 2008, Pollard printed \$3 \$75,000 *Cashword* and \$3 *Lucky 7’s Bingo*.

During fiscal year 2007, Pollard printed two \$2 games, *Bingo* and *Cashword*, a \$3 game, *2007 Bingo Party* and a \$5 game, *\$200,000 Bonus Bingo*. During fiscal year 2006, Pollard printed a \$2 *Bingo* instant game for the GLC.

Prizes—In accordance with the Act, as nearly as practical, at least 45% of ticket sales must be returned to the public in the form of prizes. Prize expense for instant games is recognized based on the predetermined prize structure for each game. Generally, prize expense for *Cash 3*, *Cash 4*, *Mega Millions*, *Kenol!*, 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*, and *Millionaire Raffle* is recorded on a pari-mutuel basis according to the game structure based on a percentage of revenue recognized.

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

The *Powerball* grand prize is a shared prize from contributions to the prize pool by all member lotteries of the Multi-State Lottery Association (“MUSL”). All *Powerball* grand prizes won by players who purchased tickets in Georgia are funded by investments purchased by MUSL. The investments are held by MUSL in trust for the GLC and are paid in 20 annual installments. Investments of \$7,562,000 and \$8,052,000 included in the GLC’s grand prize investments in the statements of net assets at June 30, 2008 and 2007, respectively, were held by MUSL in trust. The GLC withdrew from MUSL on August 31, 1996.

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

Net Assets—Net assets represent cumulative revenues less expenses in excess of net proceeds transferred to the Lottery for Education Account, as defined under the Act (see Note 7). Net assets include funds invested in capital assets and unrestricted net assets. Unrestricted net assets normally result from the inclusion of capital costs in the determination of net proceeds as required by the Act and the cumulative effect of periodic adjustments to recognize the fair value of grand prize investments held to fund grand prizes payable. Grand prize investments are purchased to finance future payments to *Win For Life*, *Mega Millions*, and certain instant game grand prize winners. Any increases or decreases in the fair value of these investments are determined to be unrealized and will not affect (i) the future ability to hold these investments or (ii) the amount of funds available for distribution to the Lottery for Education Account. Unrealized gains and losses on grand prize investments at June 30, 2008 and 2007, were \$9,492,000 and (\$2,646,000), respectively, resulting in a net change of \$12,138,000 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, 2008 and 2007, the allowance for uncollectible retailer receivables was \$2,604,000 and \$2,239,000, 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, 2008 and 2007. 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 2008 and 2007.

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, 2008, the GLC's Master Operating Account had a book balance of \$3,282,000 and a bank balance of \$3,297,000. At June 30, 2008, the other miscellaneous accounts had a bank balance of \$100,000 and net book balance of (\$2,505,000) which was primarily due to outstanding checks for the accounts payable and prize check zero balance cash accounts. At June 30, 2007, the GLC's Master Operating Account had a book balance of \$8,790,000 and a bank balance of \$8,290,000. At June 30, 2007, the other miscellaneous accounts had a bank balance of \$170,000 and net book balance of (\$1,986,000) which was primarily due to outstanding checks for the accounts payable and prize check zero balance cash accounts. These accounts are funded through automatic transfers from the master operating cash account as checks are presented for payment by the payee. The net carrying value and bank balance of all GLC cash accounts as of June 30, 2008 were \$777,000 and \$3,397,000, respectively. The net carrying value and bank balance of all GLC cash accounts as of June 30, 2007 were \$6,804,000 and \$8,460,000, respectively. These deposits were entirely insured by FDIC insurance or collateralized by investment securities held by the GLC's agent in the GLC's name.

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

The Georgia Fund 1 is an external investment pool that is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The OTFS manages Georgia Fund 1 in accordance with policies and procedures established by state law and the State Depository Board, the oversight Board for OTFS. This investment is valued at the pool's share price, \$1.00 per share. The Georgia Fund 1 is an AAAM rated investment pool by Standard & Poor's, and the portfolio's weighted average maturity is forty (40) 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 \$216,584,000 and \$198,007,000 at June 30, 2008 and 2007, respectively. Interest earned on the GLC's investments was approximately \$6,104,000 and \$5,937,000 for the years ended June 30, 2008 and 2007, respectively.

Other Deposits—Cash maintained in the Retailer Escrow Fund bank account had a bank and book balance of \$4,384,000 and \$4,108,000, respectively, as of June 30, 2008. Cash maintained in the Fidelity Fund bank account has a bank and book balance of \$186,000 and \$177,000, respectively, as of June 30, 2008. Cash maintained in the Retailer Escrow Fund bank account had a bank and book balance of \$4,021,000 and \$3,936,000, respectively, as of June 30, 2007. Cash maintained in the Fidelity Fund bank account had a bank and book balance of \$534,000 and \$71,000, respectively, as of June 30, 2007. The Retailer Escrow Fund and Fidelity Fund accounts were maintained with Bank of America, and Carver State Bank, respectively, and both accounts were entirely insured by FDIC insurance or collateralized by investment securities held by the GLC’s agent in the GLC’s name.

Grand Prize Investments—All grand prize investments represent funds held to pay grand prize winners who are entitled to multiyear payments. Grand prize investments are recorded at their fair values, 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, 2008 and 2007, consist of the following:

	Fair Value	
	2008	2007
U.S. Treasury securities	\$ 253,293,000	\$ 225,179,000
Government agencies	<u>7,562,000</u>	<u>8,052,000</u>
	<u>\$ 260,855,000</u>	<u>\$ 233,231,000</u>

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

Changes in grand prize investments for the years ended June 30, 2008 and 2007, consisted of the following:

Fair value—June 30, 2006	\$ 196,990,000
Purchases	51,030,000
Payments to grand prize winners	(26,075,000)
Investments sold	-
Interest earned on current-year maturities	11,593,000
Change in fair value	<u>(307,000)</u>
Fair value—June 30, 2007	233,231,000
Purchases	188,189,000
Payments to grand prize winners	(28,179,000)
Investments sold	(157,094,000)
Interest earned on current-year maturities	12,570,000
Change in fair value	<u>12,138,000</u>
Fair value—June 30, 2008	<u>\$ 260,855,000</u>

Custodial credit risk for Deposits—Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2008, 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, 2008, the GLC’s investment balances consisted of:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S Treasury Strips	\$253,293,000	Weighted average maturity of 6.2 years
U.S Government Agencies	<u>\$7,562,000</u>	Weighted average maturity of 2.9 years
Total	<u>\$260,855,000</u>	

U.S Treasury Strips held by the GLC are AAA-rated and current holdings mature quarterly beginning August 2008 through August 2037. U.S. government agency securities held for the GLC by MUSL are AAA-rated with maturities each year in September and May through the year 2015.

Interest Rate Risk—The GLC’s deposits in the master operating account with Bank of America are subject to fluctuations in short-term interest rates. The GLC purchases investments to fund future prize payments at fixed amounts for grand prize winner obligations, as detailed in Note 5, Grand Prizes Payable. Periodic market fluctuations affect the fair value of grand prize investments. The GLC expects to hold grand prize investments to maturity to meet future grand prize payments and, therefore, will not realize any gains or losses related to the changes in the market. The only exposure that the GLC has in

regards to interest rate sensitivity is for the GLC's master operating account, since there is no investment related impact on the GLC resulting from the effect of interest rate changes on grand prize investments.

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

Custodial Credit Risk—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the GLC will not be able to recover the value of its investments in the possession of an outside party. The GLC's investments in U.S. Treasury Strips include strips with a fair value of \$74,121,000 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, 2008 and 2007, consisted of the following:

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

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

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 \$12,570,000 and \$11,593,000 for the years ended June 30, 2008 and 2007, 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, 2008, are scheduled as follows:

2009	\$ 30,194,000
2010	30,195,000
2011	30,194,000
2012	30,195,000
2013	35,182,000
2014–2018	85,751,000
2019–2023	48,650,000
2024–2028	32,841,000
2029–2033	17,702,000
2034–2038	<u>7,832,000</u>
	348,736,000
Less imputed interest	<u>(96,652,000)</u>
Net present value of grand prizes payable	<u>\$ 252,084,000</u>

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

Claimants of qualified prizes, as defined in the GLC Rules and Regulations, on or after the date of enactment of the Omnibus Act, can make an irrevocable election to receive a lump-sum cash payment equivalent of the annuitized prize within 60 days of the claim date. Grand prizes payable at June 30, 2008, consist of no qualified prizes under this provision of the Special Rule.

6. OPERATING LEASES

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

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

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2009	\$ 2,345,000
2010	2,345,000
2011	2,345,000
2012	2,612,000
2013	2,612,000
2014–2015	<u>5,709,000</u>
	17,968,000
Less sublease revenues	<u>(1,151,000)</u>
Total	<u>\$16,817,000</u>

Rental expense under all operating leases totaled approximately \$2,531,000 and \$2,252,000 for the years ended June 30, 2008 and 2007, 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, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Ticket sales	\$ 3,519,341,000	\$ 3,421,699,000
Less tickets provided as prizes	<u>(247,295,000)</u>	<u>(243,296,000)</u>
Net ticket sales	3,272,046,000	3,178,403,000
Online fees and other revenues	4,299,000	5,050,000
Interest revenue and other	<u>6,104,000</u>	<u>5,937,000</u>
GLC proceeds	<u>3,282,449,000</u>	<u>3,189,390,000</u>
Operating expenses—as defined:		
Gaming	2,385,957,000	2,303,981,000
Operating	31,639,000	29,026,000
Other	<u>1,779,000</u>	<u>2,833,000</u>
Total operating expenses—as defined	<u>2,419,375,000</u>	<u>2,335,840,000</u>
Net proceeds before distribution of unrestricted net assets	<u>863,074,000</u>	<u>853,550,000</u>
Other:		
Funds resulting from current year capital purchases	1,579,000	-
Funds resulting from previous years' capital purchases	2,633,000	-
Funds for current year compulsive gambling education and treatment	200,000	-
Funds for previous years' compulsive gambling education and treatment	<u>200,000</u>	<u>-</u>
Total other	<u>4,612,000</u>	<u>-</u>
Net proceeds subject to transfer	<u>\$ 867,686,000</u>	<u>\$ 853,550,000</u>
Amount due to Lottery for Education Account for year	\$ 867,686,000	\$ 853,550,000
Amount paid during year	<u>(645,108,000)</u>	<u>(643,437,000)</u>
Amount due to Lottery for Education Account—		
End of year	<u>\$ 222,578,000</u>	<u>\$ 210,113,000</u>

8. EMPLOYEE BENEFITS

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

There were 269 GLC employees participating in the 401(k) plan at June 30, 2008. For the years ended June 30, 2008 and 2007, GLC contributed \$1,044,000 and \$944,000, respectively, to the plan. Contributions by plan participants during fiscal years ended June 30, 2008 and 2007, were \$657,000 and

\$692,000, respectively. For the years ended June 30, 2008 and 2007, the GLC paid \$13,000 and \$8,000 of plan administrative fees, respectively, on behalf of GLC employees.

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

Section 1448 of the Small Business Job Protection Act of 1996 added Subsection (g) to Section 457 of the Internal Revenue Service Code to provide that all assets and income under a Section 457(b) plan that are maintained by a state or local government employer must be held in trust for the exclusive benefit of plan participants and their beneficiaries. Nationwide Retirement Solutions is the custodian of the plan's assets. As of June 30, 2008 and 2007, the fair value of the plan's assets was \$1,775,000 and \$1,922,000, respectively. Contributions by participants during the years ended June 30, 2008 and 2007, were \$200,000 and \$211,000, respectively.

Compensated Absences—At June 30, 2008 and 2007, the balance for compensated absences was \$2,264,000 and \$2,099,000, respectively. The year-end balances are comprised of earned and unused vacation and sick leave hours. At separation, employees are compensated for all earned vacation and any remaining sick leave hours accrued prior to March 1, 2005. Increases to the compensated absences balance represent vacation and sick leave hours earned by employees and decreases represent their usage of leave. During the year ended June 30, 2008, employees earned and used leave totaling \$1,032,000 and \$866,000, respectively. During the year ended June 30, 2007, employees earned and used leave totaling \$986,000 and \$850,000, respectively. The current portion of the compensated absence liability, expected to be due within one year of the statement date, June 30, 2008, is estimated using historical trends. At June 30, 2008 and 2007, the estimated current portion of the compensated absences liability was \$201,000 and \$208,000, respectively.

9. CONTINGENCIES

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

10. RISK MANAGEMENT

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

Georgia. These self-insurance funds are accounted for as internal service funds of the State of Georgia where assets are set aside for claim settlements. The majority of the risk management programs are funded by assessments charged to participating organizations. A limited amount of commercial insurance is purchased by the self-insurance funds applicable to property, employee and automobile liability, fidelity, and certain other risks to limit the exposure to catastrophic losses. Otherwise, the risk management programs service all claims against the state for injuries and property damage.

Financial information relative to self-insurance funds is presented in the financial reports of the Department of Administrative Services and the Employees' Retirement System for the years ended June 30, 2008 and 2007.

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



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