

Florida Lottery™

2008-2009 Annual Report

FLORIDA
POWERBALL®
POWERPLAY®

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A Message from Governor Charlie Crist

“With sales reaching nearly \$4 billion, a record \$1.288 billion was transferred to the Educational Enhancement Trust Fund...”

Dear Friends:

Floridians can once again take pride in the Florida Lottery’s solid performance and accomplishments. Fiscal year 2008-09 proved to be another record-breaking year for the Florida Lottery. With sales reaching nearly \$4 billion, a record \$1.288 billion was transferred to the Educational Enhancement Trust Fund (EETF) – marking the seventh consecutive year of more than \$1 billion in transfers. These transfers bring the Lottery’s total contributions to \$20 billion over the past 21 years for Florida’s students and schools.

The Lottery’s success can be attributed in large part to a customer-focused, product-driven business model, created to meet and exceed the agency’s mission of maximizing revenues for education. The Florida Lottery’s ability to create lasting partnerships with players and retailers alike led to a record 169,366 Florida students receiving Bright Futures scholarships in 2008-09. In addition, Florida’s public school districts were awarded more than \$105 million in discretionary funds for local needs, and Florida’s community colleges and state universities benefited from more than \$344 million.

The Florida Lottery continues to serve Florida’s students, players and lottery retailers through innovative product lines, creative marketing strategies and efficient day-to-day operations. I convey my personal gratitude to every individual and business that has played a role in making this year another great success.

Sincerely,

A handwritten signature in black ink that reads "Charlie Crist".

Charlie Crist
Governor





A Message from Secretary DiBenigno

“The launch of POWERBALL in Florida has made an impact, providing a boost to overall Lottery sales, increasing the number of Lottery winners, and resulting in additional funds for education.”

Dear Friends:

It has now been 23 years since Florida voters approved a constitutional amendment authorizing the Legislature to create a state lottery. With ticket sales beginning two years later, the Florida Lottery has focused on providing a low-cost form of entertainment to Florida’s residents and visitors while contributing to the enhancement of education in the state. Twenty-one years later, the Lottery has cemented its commitment to our state’s public education system with more than \$20 billion in contributions to the Educational Enhancement Trust Fund (EETF) since the sale of the first Lottery ticket in 1988.

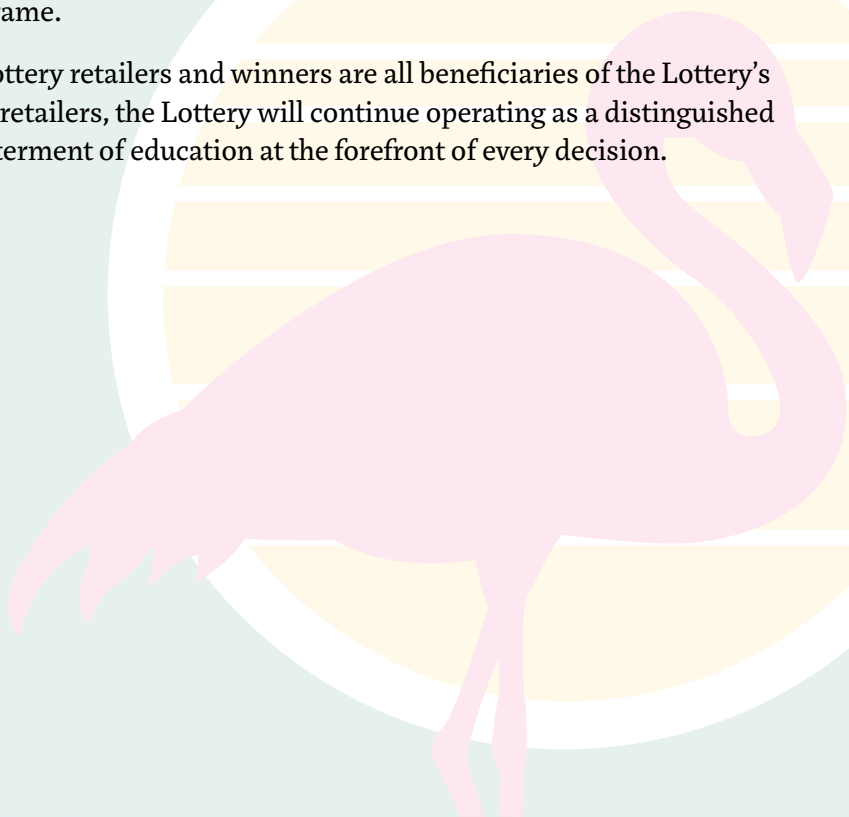
At the Lottery we continue our commitment of offering the best lottery products available to our customers. In July 2008, Florida became the 30th state to join the Multi-State Lottery Association (MUSL), launching POWERBALL® in our state on January 4, 2009. The launch of POWERBALL in Florida has made an impact, providing a boost to overall Lottery sales, increasing the number of Lottery winners, and resulting in additional funds for education.

Net sales for fiscal year 2008-09 totaled \$3.938 billion, with operating expenses of approximately 1.81 percent. In FY 2008-09, the Lottery paid \$2.327 billion in prizes to lottery players and \$221 million in commissions and incentives to approximately 13,000 Lottery retailers. Also, since the Florida launch of POWERBALL in January, the state has had the highest number of overall winners in the game.

The state’s education system, Florida residents, Lottery retailers and winners are all beneficiaries of the Lottery’s success. With the ongoing support of players and retailers, the Lottery will continue operating as a distinguished and outstanding business enterprise, with the betterment of education at the forefront of every decision.

Sincerely,

Leo DiBenigno
Secretary





Educational Support

\$20 Billion to Education since 1988.

For the past 21 years, the Florida Lottery has provided funding to all of Florida's 67 school districts, reaching many milestones along the way. The Lottery realized one of its most important accomplishments to date during this fiscal year, surpassing the \$20 billion mark in contributions to education. The Lottery transferred a record \$1.288 billion to the Educational Enhancement Trust Fund (EETF) during FY 2008-09, beating the prior year's record by more than \$4.44 million.

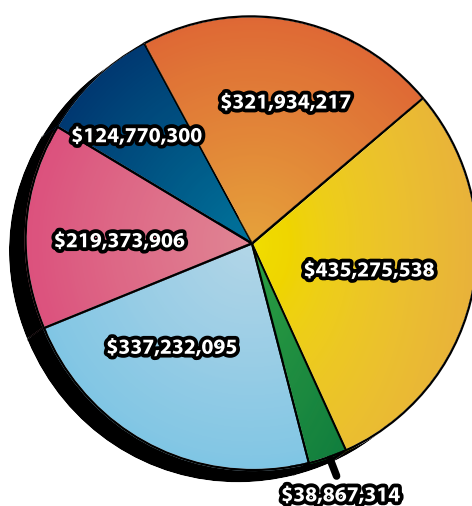
Florida voters, by a two-to-one margin, approved a constitutional amendment in 1986 authorizing the

state to operate a lottery for the purpose of generating significant additional moneys for education. Since then, Floridians continue to show their support by purchasing nearly \$4 billion in Lottery products per year, with profits from every purchase benefiting education in the state in helping to support our schools, teachers and students statewide.

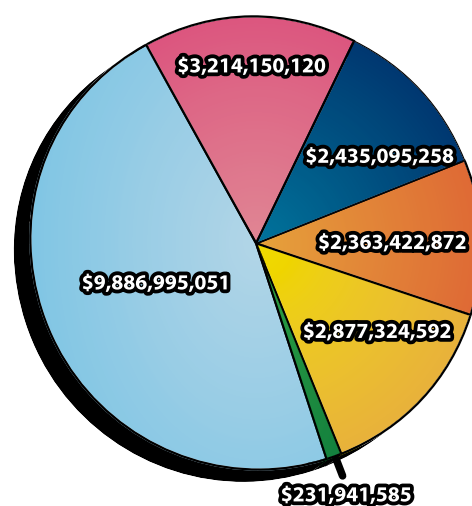
During fiscal year 2008-09, more than \$1.47 billion* in EETF funding was appropriated by the Florida Legislature to public schools, community colleges, state universities, and state student financial aid.

Educational Enhancement Trust Fund Appropriations

2008-09 Appropriations



Since Inception



Public Schools Community Colleges Bright Futures Scholarships
 State Universities School Construction Bonds Other State Student Financial Aid

*The Florida Legislature's appropriations of monies from the EETF are based on the Revenue Estimating Conference's projections for the year. Revenue sources for the EETF include net proceeds from lottery games (approximately 90%) and slot machine revenue tax (approximately 10%). EETF funds are appropriated by the Florida Legislature and administered by the Florida Department of Education.

Educational Support

Since inception more than 450,000 students have received a Bright Futures scholarship, representing more than 1.3 million annual scholarships to Florida's students.

Bright Futures Scholarship Program

The Bright Futures Scholarship Program, funded by the Florida Lottery, was created in 1997 by the Florida Legislature to assist students in pursuing post-secondary educational and career goals. During the 2008-09 school year, more than 169,000 students statewide were awarded a Bright Futures scholarship. Since inception more than 450,000 students have received a Bright Futures scholarship, representing more than 1.3 million annual scholarships to Florida's students.

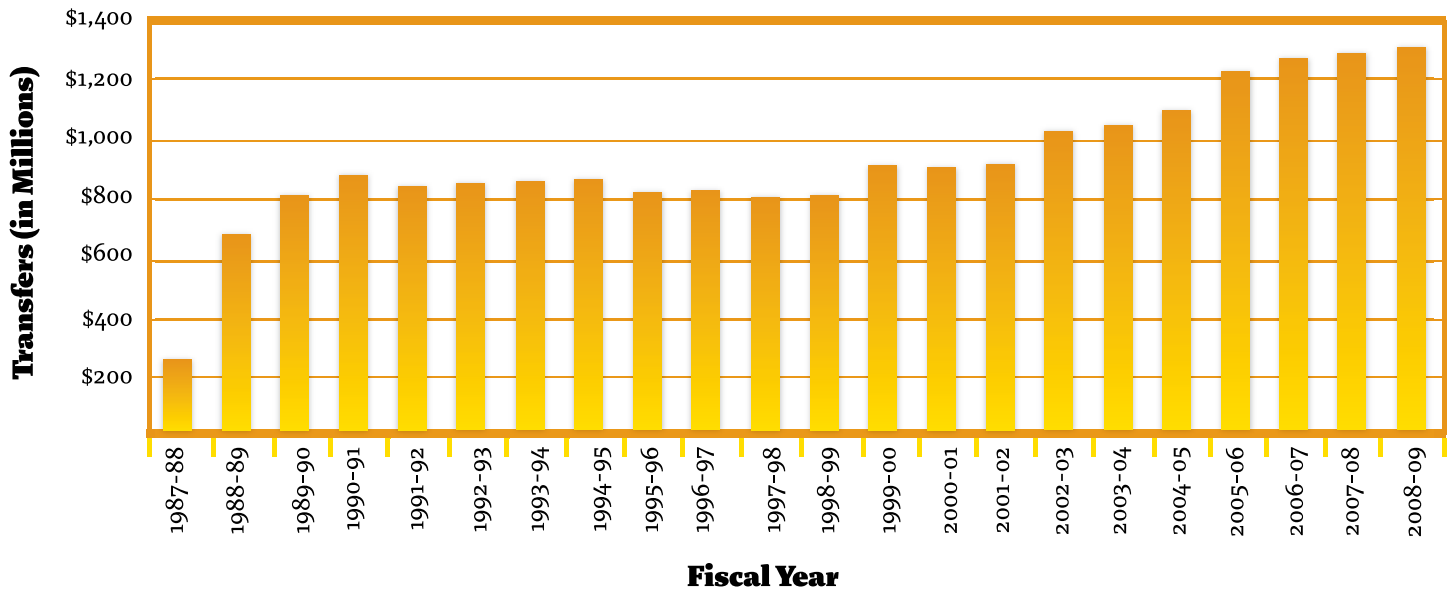
School Construction

The Classrooms First and Classrooms for Kids programs utilize Florida Lottery revenue to fund school district projects for new construction, renovation and maintenance to educational facilities. To date, the Florida Lottery has contributed more than \$3.9 million to help build and renovate close to 800 schools in Florida.



Pictured (left to right): East Elementary, Charlotte County; Anclote High, Pasco County; Koa Elementary, Osceola County; Cordova Park Elementary, Escambia County

Educational Enhancement Trust Fund Lottery Transfers (Since Inception)



Games and Promotions

POWERBALL sales totaled more than \$1.5 million on the first day of sales.



Over the past year, the Florida Lottery continued its successful track record of offering some of the best and most exciting lottery games in the nation. This was accomplished by adding new games to the Lottery's product mix, and by improving existing games to offer players larger prizes, better odds and additional chances to win. As a result, Lottery players are winning more money, more often!

POWERBALL®

The Florida Lottery announced in July of 2008 that America's most popular lottery game, POWERBALL®, would be coming to Florida. After months of anticipation, POWERBALL ticket sales began on January 4, 2009, making the Florida Lottery the 32nd lottery, including the District of Columbia and the U.S. Virgin Islands, to join the multi-state lottery game, which is also offered in the District of Columbia and the U.S. Virgin Islands. POWERBALL ticket sales totaled more than \$1.5 million on the first day of sales.

With the launch of the game in the sunshine state, POWERBALL drawings were moved to Florida, broadcasting from Sound Stage 19 at Universal Orlando Resort. Ticket sales for the first drawing, which took



Secretary DiBenigno poses with other lottery directors on the new POWERBALL set at Universal Orlando Resort.

place on January 7, totaled more than \$7.7 million and generated more than \$3 million for the EETF – making Florida's POWERBALL launch



Florida's first POWERBALL jackpot winner, Dr. William Steele, and his wife Frankie receive a \$189 million check from Florida Lottery Secretary Leo DiBenigno.

the most successful in the game's history. By the end of the fiscal year, POWERBALL sales in Florida totaled more than \$233 million in less than six months of ticket sales, generating \$93 million in transfers to the EETF

and producing more overall winners than any other POWERBALL state.

BILLION DOLLAR BLOCKBUSTER

Florida players were not only winning big with POWERBALL, but also with Scratch-Off games. When BILLION DOLLAR BLOCKBUSTER made its debut in February, it boasted the highest cash payout of any game in the Lottery's 21-year history. The \$20 game offered an

unprecedented \$1 billion in prizes including 10 instant-win top prizes of \$10 million.



BILLION DOLLAR BLOCKBUSTER launched in February 2009, and awarded more than \$24 million in prizes during the last five months of fiscal 2008-09.



Games and Promotions



\$250,000 MUSTANG MONEY

The Lottery introduced the \$5 Scratch-Off game, \$250,000 MUSTANG MONEY, in May. The game offered cash prizes of up to \$250,000, 10 2010 Ford Mustang™ V-6 convertibles and additional chances to win with two second chance promotions for non-winning tickets.

More than 570,000 non-winning \$250,000 MUSTANG MONEY Scratch-Off tickets were entered in the two second chance drawings, both offered

on the Lottery's Web site. The first promotion, \$250,000 Mustang Money Second Chance Drawing, celebrated the 45th anniversary of the Ford Mustang by giving away 3,600 Mustang merchandise prize packs. The second promotion the Mustang Money Home Run Second Chance Drawing, awarded 10 grand-prize winners an Ultimate Florida Baseball Weekend trip for two to the Citrus Series Match-Up in St. Petersburg, Fla. One winner was selected to drive away in a 2010 Ford Mustang™ V-6 convertible. Additionally, 40 second-prize winners received \$100 Florida Lottery gas cards.

FANTASY 5®

In September 2008, changes were made to FANTASY 5®'s rolldown prize structure. Previously, if a drawing produced

no top-prize winner, the top-prize rolled down to the 4-of-5 prize level only. Now, if a drawing produces no top-prize winner, players who match 4-of-5 winning numbers win up to \$555; and any excess funds from the 4-of-5 prize level rolls down to the 3-of-5 prizes, resulting in an estimated payout of twice the previous amount!

EZmatch™

Fall 2008 also brought the EZmatch™ Cash Harvest promotion, which had FANTASY 5 with EZmatch players winning higher prize payouts ranging from an increased \$5 minimum prize to a top prize of \$1,000 – double the regular top prize of \$500! During the six-week promotion, 478,456 players won \$3,230,805 in prizes.



MILLIONAIRE RAFFLE™

This holiday season, players got in the spirit with the Florida Lottery's *Holiday* MILLIONAIRE RAFFLE™ - which offered the best odds ever to win \$1 million. All one million of the \$20 tickets sold out before the New Year's Eve drawing that resulted in nine \$1 million prizes and more than 1,000 other prizes ranging from \$500 to \$50,000 being awarded. This game generated \$7.9 million in transfers to the Educational Enhancement Trust Fund.



Charles Wilkerson claims his \$1 million *Holiday* MILLIONAIRE RAFFLE prize.

Business Partnerships

Marketing and merchandising programs earned retailers more than \$218 million in commissions and \$2.02 million in bonus incentives.



The success of the Florida Lottery is based on the many relationships that have been forged between our retailers and business partners throughout the years. These relationships help provide our players with the high quality of service and entertainment they have come to expect. In fiscal year 2008-09, the Lottery focused on strengthening relationships with existing business partners and expanding the Florida Lottery's retailer network.

The Lottery continued to offer creative ways to help our retail partners achieve profitability by providing marketing and merchandising programs, which earned

them more than \$218 million in commissions and \$2.02 million in bonus incentives. The Lottery's Business Development Office also hosted four retailer recruitment seminars from Pensacola to Miami to educate potential Lottery retailers about the benefits of becoming a part of the Florida Lottery family. In addition, the Lottery completed the installation of terminals in 84 Florida Kmart stores, making Kmart

the first Florida Lottery retailer of its trade style. This was a new opportunity to increase the Lottery's player base and provide additional locations for players' to purchase tickets.

Along with expanding our retailer network, the Lottery also focused on strengthening its business partnerships. In the summer of 2008, the Florida Lottery went through a competitive procurement process and negotiated a new contract for its Scratch-Off ticket vendor. In June 2008, Scientific Games International (SGI) was selected as the Lottery's primary Scratch-Off ticket vendor with the responsibility of printing, warehousing and delivering tickets, as well as collaborating with the Lottery in marketing and promotional efforts geared toward players and retailers. GTECH Printing Corporation and Pollard Banknote were awarded secondary printing contracts.

On May 27, 2009, the Florida Lottery received legislative approval to lease 1,000 Instant Ticket Vending Machines (ITVMs), to be placed in retailer locations throughout the state. The machines will be provided by GTECH Corporation, the Lottery's On-line game vendor. The ITVMs are expected to generate an additional \$3.4 million annually in net profits after expenses, according to projections from the Revenue Estimating Conference. This will further enable the Lottery to achieve its mission of generating additional funds for education to benefit Florida's students and schools.



1,000 Instant Vending Ticket Machines were placed in retailer locations throughout the state.

Organizational Structure

As required by subsection 24.105(4), Florida Statutes, the following information reflects the organizational structure of the Florida Lottery on June 30, 2009.

The Office of the Secretary directs the operations of the Florida Lottery, and is responsible for the effective management of the Agency in accordance with directives identified in statute and corresponding rules, regulations, policies and procedures.

The Office of the Chief of Staff assists the Secretary in providing overall organization, direction and coordination, both in day-to-day activities and in long-range planning.

- **Legislative Affairs** is responsible for promoting and securing the passage of the Secretary's and the Governor's legislative objectives by the Legislature.
- **Security** provides security services for the Lottery, including protection of employees and facilities, investigative activities, draw management, and background investigations. The Division of Security also manages the department's Safety Awareness program and the Lottery's Continuity of Operations Plan (COOP).
 - **Investigations and Operations** monitors the physical security of all Lottery facilities and investigates security breaches. This unit also investigates problem claims and other allegations of potential illegal activity, and is responsible for managing the draw process.

- **Intelligence and Administrative Support** conducts background investigations on potential vendors, contractors, retailers and employees, and provides analytical support for criminal investigations. This unit provides maintenance and hardware support for the Integrated Security System, conducts ticket testing on Scratch-Off games, forensic examinations of questioned documents, and manages the Agency's loss prevention program, which aids retailers in reducing ticket theft. The unit also helps inform the general public of Lottery-related scams and other fraudulent activity.
- **Information Security Management** develops and coordinates the information security infrastructure and program to provide protection and ensure integrity for the department's computers, data and networks.

The Office of the Deputy Secretary assists the Secretary in the development and implementation of business strategies and provides direction, oversight and evaluation of daily business functions related to research, product development and business development – with the primary focus of managing programs aimed at increasing Lottery sales and transfers to the Educational Enhancement Trust Fund.

Organizational Structure

- **Research** initiates and oversees consumer market studies primarily contracted through the Lottery's research vendor of record. This unit's projects center on consumer, retailer, retail environment and advertising campaign analysis. The Research unit also provides valuable data used to determine products to be developed, revenue forecasting and overall program effectiveness.
- **Product Development** provides direction and oversight in the creation, design, development and management of both On-line and Scratch-Off Lottery products.
- **Business Development** works to expand the channels or venues through which Lottery products are sold, and seeks new ways to generate sales and income from Lottery products and programs. This unit also oversees the retailer contracting and renewal process.
 - **Retailer Contracting** evaluates and approves retailer applications and enters into contracts with retailers that will best serve the public interest and provide adequate and convenient availability of Lottery products. The unit directly supports the Lottery's efforts in the recruitment and retention of retailers. Through its application and contract renewal process, this unit ensures the integrity, reputation and financial responsibility of all Lottery retailers.
 - **ADA Office** ensures that all policies and

directives relating to the Americans with Disabilities Act (ADA), as they pertain to Lottery retailers, are implemented and upheld. Through geographically-located coordinators, this unit ensures compliance with the ADA for all Lottery retail locations.

The Office of the Inspector General assists the Secretary with internal control systems necessary to ensure the fiscal accountability and integrity of the Lottery. The office is responsible for performing financial, compliance and performance audits of the Lottery, and preparing audit reports of said findings. The Office of the Inspector General also conducts investigations designed to detect, deter, prevent, and eradicate fraud, waste, mismanagement, and misconduct.

The Office of the General Counsel provides consultation, direction and representation in all legal matters affecting the Lottery.

The Administrative Office provides strategic leadership assistance to the Secretary relative to employee relations and development, procurement of commodities and services as well as management of fleet, facilities, and inventory operations. The division oversees labor relations matters including collective bargaining agreements.

- **Employee Relations & Development** administers comprehensive services in the following program areas: employee recruitment and selection, position classification, organizational analysis, professional

Organizational Structure

development, performance appraisal, payroll and benefits, attendance and leave, employee records, workers' compensation, unemployment compensation, service awards, and dual/secondary employment.

- **General Services** oversees the purchasing and contract administration process and provides direction to enhance minority business participation in the Lottery's procurement and contracting processes.
 - **Purchasing Office** provides strategic resources in the acquisition of commodities and contractual services necessary in the operation of the Florida Lottery. Additional responsibilities include administering activities that result in the issuance of purchase orders and execution of contracts.
 - **Support Services** provides day-to-day operational services, including facilities management, fleet management, property/inventory control, warehousing operations, records management and mail operations. Additionally, the unit oversees janitorial and other contracted services.

The Office of Finance and Budget assists the Secretary in providing effective leadership for the Lottery to grow responsibly in a profitable and sustainable manner. The division is responsible for the development and monitoring of the Agency's budget, all financial reporting, disbursements and monitoring of cash flows.

- **Budget** prepares the annual legislative budget request and any necessary budget amendments for the Lottery, monitors expenditures to ensure budgetary compliance, and coordinates the development of the Lottery's long-range program plan.
- **Claims Processing** processes the prize payments of tickets submitted to Lottery headquarters and assists the district offices with the payment of tickets presented at those offices.
- **Vendor Disbursements** is responsible for making payments to vendors supplying goods and services to the Lottery.
- **General Accounting** administers and oversees the accounting data systems, and coordinates duties of the Financial Reporting and Accounts Receivable and Cash Management units.
 - **Financial Reporting** prepares financial statements and reports the results of Lottery operations. This unit also oversees the reconciliation of all accounting data systems.
 - **Accounts Receivable and Cash Management** is responsible for coordinating all cash activities, including collecting funds from retailers, tracking delinquencies, coordinating financial reviews, covering required disbursements, coordinating all banking activities and managing all investments.

Organizational Structure

The Office of Operations provides strategic and automated solutions to fulfill the Lottery's business needs through the efficient and effective development and deployment of information technology resources in order to optimize the sale of Lottery tickets and ultimately enhance contributions to education.

- **Software and Data Services** automates and improves the Lottery's business processes by building information applications that enable and optimize the development of new Lottery products, payments to winners, electronic payment by retailers, retailer incentive programs and other mission-critical initiatives.
- **Software Quality Assurance** is responsible for researching gaming system functional requirements and performing formal user acceptance testing on all gaming systems and Lottery back-office software prior to implementation.
- **Systems and Operations Services** maintains a secure, power redundant data center environment, provides telecommunications systems and services, and oversees desktop computing and technology infrastructure services for the Lottery. This unit also maintains the Lottery's Information Technology Disaster Recovery plan.
- **Games Administration** manages all retailer accounting issues and systems related to game transactions, including inventory. This unit coordinates all On-line gaming functions for

FLORIDA LOTTO, MEGA MONEY, FANTASY 5, CASH 3, PLAY 4 and POWERBALL, including closing games for draws, entering the winning numbers into the online gaming system and setting the games to pay winners. This unit also helps coordinate our Scratch-Off games by placing books in promotional status, processing end of game reconciliation, as well as changing book status for retailers, sales representatives and our Scratch-Off vendor. Lastly, Games Administration serves as the system coordinator and liaison to all Lottery retailers.

The Office of Public Affairs assists the Secretary in the development and implementation of public relations strategies and provides direction, oversight and evaluation of daily business functions related to the Communications and Customer Service units. Public Affairs manages public awareness and player relations by providing current and historical information to players, retailers, news media and the general public.

- **Communications** coordinates all Lottery activities with the news media, including interviews, public records requests, news conferences, and the development and dissemination of press materials. Additionally, the unit oversees the Lottery's Web site, in both English and Spanish, and produces official Lottery publications. Communications also promotes awareness of the state's use of Lottery monies to provide enhancements to public education in Florida.

Organizational Structure

- **Customer Service** serves as the Lottery's direct liaison to players, responding to inquiries regarding games and various other facets of operations. It also manages customer correspondence and e-mail, and serves as a clearinghouse for Lottery records.

The Office of Marketing assists the Secretary with all areas relating to the promotion and sale of Lottery products, including strategic alliance marketing, special events and promotions, graphics, advertising, Lottery nightly drawings, and carrier station management. The division works directly with the advertising vendors to develop informative advertising campaigns that introduce customers (consumers, retailers and the general public) to Lottery programs, products and messages.

- **Strategic Alliance Marketing** drives the growth of the Lottery beyond its core business, and initiates and manages key promotional business and marketing initiatives. Responsibilities also include identifying, evaluating, negotiating and implementing new strategic alliances and corporate sponsorships.
- **Special Events and Promotions** works to increase awareness of Lottery products and contributions to education through special promotions, promotional merchandise, and participation in special events held in communities throughout Florida. Responsibilities also include On-line game live drawings held at public venues throughout the state, retailer

promotions and Lottery Showvan scheduling.

- **Graphics** provides overall art design and direction for the Lottery, including quality control of Scratch-Off ticket design, publications, promotional items and graphic presentations.

The Office of Statewide and Corporate Sales assists the Secretary by increasing Lottery sales statewide through the implementation of a strong sales and marketing plan. The division plans effective sales strategies and training in advance of all new product launches, in addition to overseeing the activities and disseminating policies and procedures to the nine statewide district offices.

- **Corporate Sales** is responsible for the growth and development of the Lottery's corporate business. The unit serves as a liaison between the Lottery and main corporate offices of retailers statewide.
- **The Nine District Offices** manage the sale, promotion and redemption of Lottery products through a statewide network of more than 13,000 Lottery retailers. In addition to the office management staff, each district office employs a staff of sales representatives who assist in the promotion and sale of Lottery products at the retail level.

Financial Statements

June 30, 2009 and 2008



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Department of the Lottery (the Lottery), an enterprise fund of the State of Florida, as of and for the fiscal years ended June 30, 2009, and 2008. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Lottery and do not purport to, and do not, present fairly the operations of the State of Florida as of June 30, 2009, and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2009, and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements in *Government Auditing Standards*, we have also issued a report on our examination of the Lottery's internal control over financial reporting, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and on our tests of the Lottery's compliance with certain provisions of laws, rules, regulations, contracts, and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT**

OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS. One purpose of that report is to describe the scope of our testing of internal control over financial reporting and to provide an opinion thereon. With respect to compliance, the purpose of that report is not to provide an opinion on compliance, but rather to describe the scope of our testing of compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 17 through 25) 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.

Respectfully submitted,

A handwritten signature in black ink that reads "David W. Martin". The signature is written in a cursive style with a large, stylized initial "D".

David W. Martin, CPA

January 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

As management of the Florida Lottery, we offer readers of the Florida Lottery's financial statements this overview and analysis of the Lottery's financial results and position for the fiscal years ended June 30, 2009, and 2008. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements, which begin on page 26.

FINANCIAL HIGHLIGHTS

The Florida Lottery has as its mission the maximization of revenues for the benefit of education in a manner consistent with the dignity of the State of Florida and the welfare of its citizens. The Florida Lottery is considered a mature lottery with a full complement of both Scratch-Off and On-line products. The Department has maintained ticket sales in excess of \$2 billion for the twentieth consecutive fiscal year and has transferred a minimum of \$800 million annually to the Educational Enhancement Trust Fund (EETF) during this same period, with the fiscal year 2009 transfer exceeding \$1 billion for the seventh consecutive year.

For the fiscal year ended June 30, 2009:

- Transfers to the EETF increased slightly at approximately \$1.29 billion compared to the prior fiscal year.
- Florida Lottery's ticket sales decreased 5.7% over the prior fiscal year from approximately \$4.17 billion to \$3.94 billion.
- Prize expense decreased \$135.7 million (5.5%) during fiscal year 2009. The Lottery has the authority to vary the prize expense in order to maximize transfers. This expense typically increases or decreases in direct proportion to ticket sales and represented approximately 59.5% of net ticket sales.
- The gaming vendors' fees and retailer commissions are based on sales and therefore fluctuate in direct correlation with sales revenue. Fiscal year 2009 expenses for these items decreased over the prior year expenses by 11.5%. The additional decrease is due to a new contract effective October 1, 2008, for Scratch-Off ticket expense, which applies variable percentages to sales of tickets with different price points. Under the new contract, Scratch-Off ticket expense during fiscal year 2009 averaged 1.29% of sales plus any required royalty fees.
- Administrative operating expenses, which includes advertising, salaries and benefits, rent, utilities and maintenance, professional fees, depreciation, and other administrative expenses, decreased slightly by 1.9%. Administrative operating expenses for fiscal years 2009 and 2008 were \$71.2 million and \$72.6 million, respectively.
- Nonoperating income decreased \$36.1 million over the prior fiscal year. Net interest earned decreased approximately \$5.5 million due to lower interest rates in fiscal year 2009 compared to fiscal year 2008. Unrealized appreciation on investments decreased \$30.7 million due to lower market values of investments of similar securities and a reduction in holdings in fiscal year 2009 compared to fiscal year 2008.
- EETF transfers of unclaimed prize money decreased \$20 million over the prior fiscal year due primarily to the reduction of unclaimed prize money generated by Scratch-Off games. On-line games generated \$3.3 million more of unclaimed prize money over fiscal year 2008.
- On January 4, 2009, the Lottery joined the Multi-State Lottery Association (MUSL) in order to sell the multi-state On-line

game POWERBALL® with Power Play®. MUSL is a nonprofit government benefit association owned and operated by its member lotteries. During the 2008-09 fiscal year, MUSL included 30 state lottery entities, the District of Columbia, and the Virgin Islands. The chief executive officer of each member lottery serves on the MUSL board of directors.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Lottery 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 Lottery's basic financial statements, along with the notes to the financial statements. The Statement of Net Assets on page 26, the Statement of Revenues, Expenses, and Changes in Net Assets on page 27, and the Statement of Cash Flows on page 28 report the Lottery's net assets and changes therein. The notes to the financial statements provide additional information that is essential to a reader's understanding of the data provided in the financial statements.

The Lottery transfers its net profits each fiscal year to the EETF. As a result, the Lottery's net assets consist of funds invested in fixed capital assets and restricted assets. The restricted assets consist of the 20 percent for unclaimed prizes designated for future prizes, the MUSL deposit amount, a reserve fund established to pay set prize amounts, and investments being held by the Lottery to fund deferred prize payouts. The investments do include the cumulative effect of periodic adjustments to recognize the fair value of the grand prize investments despite the fact that the Lottery purchased the investments with the intention of holding the investments until maturity in order to meet the future obligations and, therefore, would not realize any gains or losses related to these investments for distribution as net proceeds.

SUMMARY OF NET ASSETS

Table 1 presents the Lottery's condensed Statement of Net Assets as of the current fiscal year ended June 30, 2009, and the prior fiscal years ended June 30, 2008, and 2007, as derived from the Statement of Net Assets.

Table 1
Condensed Statement of Net Assets
As of June 30, 2009, 2008, and 2007
(In Thousands)

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|------------------|
| Assets | | | |
| Current Assets | \$ 173,395 | \$ 188,200 | \$ 223,108 |
| Restricted Assets | 1,926,734 | 2,306,205 | 2,553,972 |
| Capital Assets, Net of Depreciation | <u>1,235</u> | <u>1,279</u> | <u>1,908</u> |
| Total Assets | <u>2,101,364</u> | <u>2,495,684</u> | <u>2,778,988</u> |
| Liabilities | | | |
| Current Liabilities | 173,542 | 187,526 | 218,842 |
| Current Liabilities Payable from Restricted Assets | 1,083,453 | 1,310,654 | 1,488,254 |
| Noncurrent Liabilities | <u>722,190</u> | <u>837,694</u> | <u>979,115</u> |
| Total Liabilities | <u>1,979,185</u> | <u>2,335,874</u> | <u>2,686,211</u> |
| Net Assets | | | |
| Net Investment in Capital Assets | 1,235 | 1,279 | 1,908 |
| Restricted Net Assets | <u>120,944</u> | <u>158,531</u> | <u>90,869</u> |
| Total Net Assets | <u>\$ 122,179</u> | <u>\$ 159,810</u> | <u>\$ 92,777</u> |

Assets

Total assets at the end of fiscal year 2009 decreased by \$394 million from \$2.5 billion at June 30, 2008, to \$2.1 billion at June 30, 2009. At the end of fiscal year 2008, total assets were \$283 million less than the \$2.8 billion at the end of fiscal year 2007.

- Current assets decreased from \$188.2 million in 2008 to \$173.4 million in 2009, representing a decrease of \$14.8 million. This net decrease was primarily due to a decrease of \$17 million in cash and cash equivalents and an increase of \$3.1 million in accounts receivable. Accounts receivable for fiscal year 2009 included an additional day in the weekly billing cycle to retailers over fiscal year 2008.
- Restricted assets decreased \$379.5 million from \$2.3 billion in 2008 to \$1.9 billion in 2009. This decrease was mostly attributable to the continuing decrease in the size of the deferred payment investment portfolio. The net appreciation in fair value of the grand prize investments decreased \$131.4 million. However, the size of the total portfolio continues to decrease due to a consistent pattern of jackpot prizewinners selecting the cash option when they have the option of selecting either an annuity or cash. This pattern resulted in a payout of annuities for the current fiscal year of \$220.0 million and purchases of \$22.1 million in new investments. In fiscal year 2008, payouts of annuities were \$246.3 million, and purchases of new investments consisted of \$3.4 million. As a result of the diminishing size of the investment portfolio, the value of the collateral from the lending of those securities was also less than the prior years. At June 30, 2009, the Lottery held \$842.7 million in collateral versus \$1.1 billion at June 30, 2008, and \$1.2 billion at June 30, 2007.

Liabilities

Total liabilities at June 30, 2009, were \$2.0 billion, which was \$357 million lower than the total liabilities of \$2.3 billion at June 30, 2008. The total liabilities at June 30, 2008, were \$350 million lower than the June 30, 2007, amount of \$2.7 billion.

- Current liabilities decreased from \$187.5 million on June 30, 2008, to \$173.5 million on June 30, 2009. The decrease of \$14 million was due to a combination of factors. Decreases in current liabilities were caused by a decrease of \$29.1 million in the amount due to EETF at year-end and decreases in accounts payable and security deposits payable of \$4.2 million combined. However, these decreases were offset by an increase in prizes payable of \$19.3 million. The RAFFLE game had a prizes payable on June 30, 2009, of \$7.4 million and only \$60 thousand on June 30, 2008, and the new On-line game (POWERBALL with Power Play) had a prizes payable at June 30, 2009 of \$12.4 million.
- Current liabilities from restricted assets decreased \$227.2 million from \$1.31 billion at June 30, 2008, to \$1.08 billion at June 30, 2009. This decrease can be primarily attributed to a net decrease in obligations under security lending of \$207.6 million. The June 30, 2008, balance of \$1.31 billion was \$177.6 million less than the June 30, 2007, balance of \$1.49 billion. Again, this decrease can be primarily attributed to a net decrease in obligations under security lending of \$152.6 million. Noncurrent liabilities principally consist of grand prizes payable, which represents the amount to be paid to grand prizewinners over future years. Grand prizes payable, as expected, experienced a decrease of \$115.8 million from year-end 2008 to 2009 and a decrease of \$142 million from year-end 2007 to 2008.

Net Assets and Changes in Net Assets

Net assets decreased by \$37.6 million from June 30, 2008, to June 30, 2009. Net assets at June 30, 2009, 2008, and 2007 were \$122.2 million, \$159.8 million, and \$92.8 million, respectively. The fiscal year 2009 decrease was primarily due to decreases in restricted net assets for future prizes and promotions of \$10.7 million, in the restricted net assets for restricted prize pool relative to the LOTTO PLUS game of \$12.0 million, and in restricted net assets for undistributed appreciation on restricted investments of \$17.9 million. The Lottery expects the restricted net assets for undistributed appreciation on restricted investments to continue to decline over the foreseeable future due to the fact that grand prizewinners consistently choose the cash option when they claim their prizes. The majority of grand prizewinners that are receiving annual payments will be paid off within the next five years. Please see Note 2 – Cash and Investments in the Notes to the Financial Statements for more details.

The Lottery began selling the POWERBALL with Power Play On-line game on January 4, 2009. In accordance with MUSL's game rules for POWERBALL with Power Play, the Lottery must contribute to various prize reserves funds maintained by MUSL for unforeseen prize payouts. As of June 30, 2009, the Lottery had deposits with MUSL of \$3.1 million, representing the Lottery's deposits of reserve funds.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The most important element demonstrated with the Lottery's financial statements is the transfer of net income to the EETF. Accordingly, the primary focus of these financial statements is determining net income available for transfer, rather than the change in net assets of the Lottery, which primarily reflects the changes in fair value of restricted investments.

Table 2 presents a condensed Summary of Revenues, Expenses, and Changes in Net Assets for the current fiscal year ended June 30, 2009, and the prior fiscal years ended June 30, 2008, and June 30, 2007, as derived from the Lottery's Statement of Revenues, Expenses, and Changes in Net Assets.

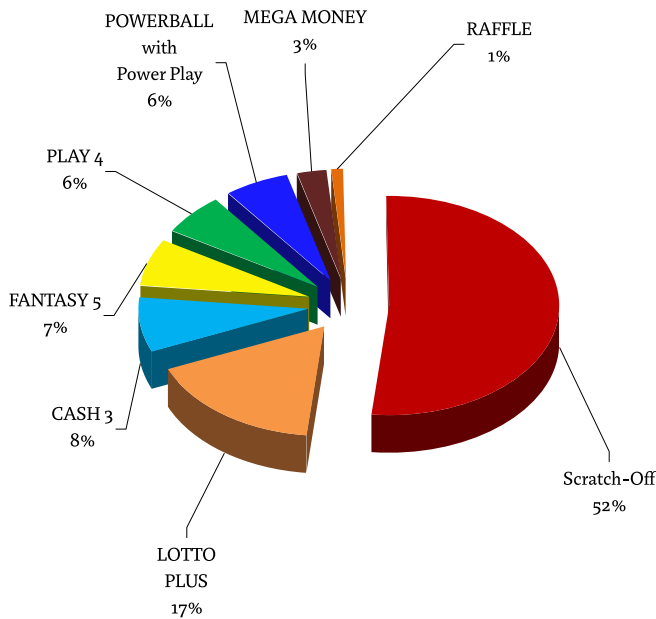
| | 2009 | 2008 | 2007 |
|---|--------------------|--------------------|--------------------|
| Operating Revenues | | | |
| Ticket Sales | \$ 3,938,037 | \$ 4,174,776 | \$ 4,122,116 |
| Bad Debt Expense | (1,256) | (674) | (1,085) |
| On-line & Retailer Fees and Miscellaneous | 7,408 | 7,724 | 7,438 |
| Total Operating Revenues | <u>3,944,189</u> | <u>4,181,826</u> | <u>4,128,469</u> |
| Operating Expenses | | | |
| Prizes | 2,340,372 | 2,476,032 | 2,484,519 |
| Retailer Commissions | 220,548 | 235,651 | 234,291 |
| Vendor Commissions | 59,875 | 81,300 | 78,090 |
| Other Expenses | 71,223 | 72,587 | 72,134 |
| Total Operating Expenses | <u>2,692,018</u> | <u>2,865,570</u> | <u>2,869,034</u> |
| Income from Operations | <u>1,252,171</u> | <u>1,316,256</u> | <u>1,259,435</u> |
| Nonoperating Revenue, Net of Expenses | <u>(1,947)</u> | <u>34,191</u> | <u>(3,102)</u> |
| Income Before Operating Transfers | <u>1,250,224</u> | <u>1,350,447</u> | <u>1,256,333</u> |
| Transfers to EETF from Revenue | (1,241,015) | (1,216,839) | (1,224,524) |
| Transfers to EETF from Unclaimed Prizes | (46,840) | (66,575) | (38,748) |
| Total Transfers to EETF | <u>(1,287,855)</u> | <u>(1,283,414)</u> | <u>(1,263,272)</u> |
| Change in Net Assets | <u>(37,631)</u> | <u>67,033</u> | <u>(6,939)</u> |
| Net Assets, Beginning of Year | <u>159,810</u> | <u>92,777</u> | <u>99,716</u> |
| Net Assets, End of Year | <u>\$ 122,179</u> | <u>\$ 159,810</u> | <u>\$ 92,777</u> |

Sales

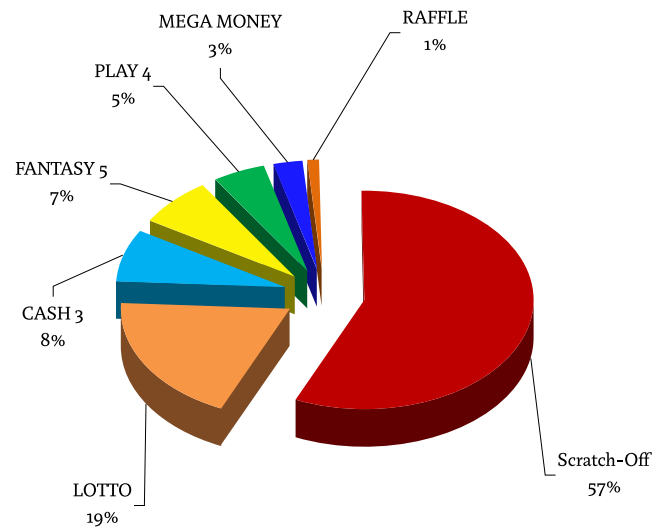
For the fiscal year ended June 30, 2009, overall ticket sales decreased \$236.7 million mirroring the downturn in the economy. Sales for On-line products increased with the new POWERBALL with Power Play game, accounting for \$233.4 million of ticket sales and compensating for the decreases in all games except for PLAY 4 and MILLIONAIRE RAFFLE, which increased \$11.0 million and \$10.5 million, respectively. Sales of Scratch-Off tickets decreased \$304.6 million from \$2.4 billion for the fiscal year ending June 30, 2008, to \$2.1 billion at June 30, 2009, and were 56.7% and 52.4% of combined sales in each of the two years, respectively. The \$5, \$10, and \$20 price point tickets accounted for approximately \$291 million of this decrease. Bad debt expense was reclassified from an operating expense to a reduction in gross revenue. The amount of bad debt expense for the fiscal years ended June 30, 2009, and June 30, 2008, was \$1,256,000 and \$674,000, respectively.

The following charts show sales by product for the various Lottery games during the June 30, 2009, and 2008, fiscal years:

Sales by Product for 2008-09

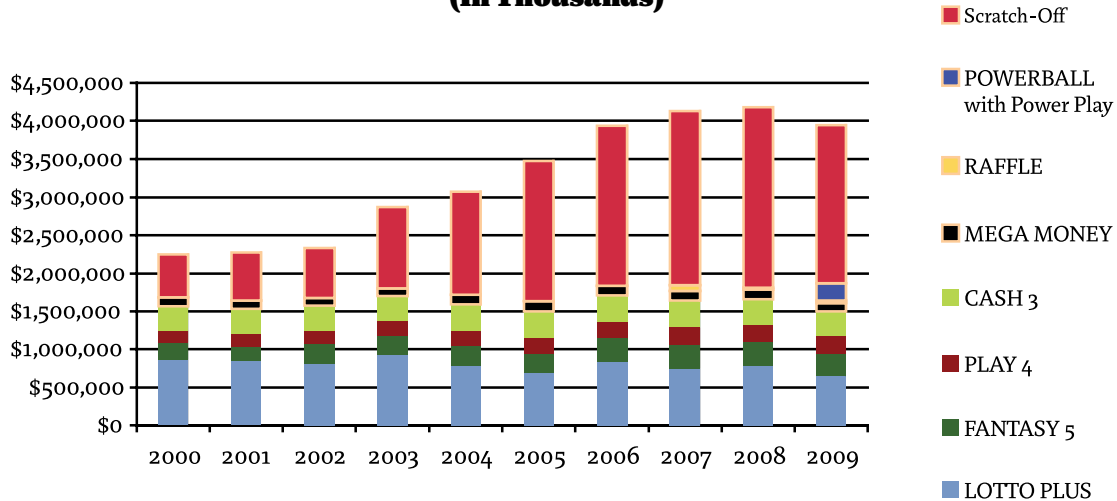


Sales by Product for 2007-08



The following chart and table show sales by game for the last ten fiscal years:

**Department of the Lottery
Historical Lottery Sales by Game
(In Thousands)**



**Department of the Lottery
Historical Lottery Sales by Game
Last Ten Fiscal Years
(In Thousands)**

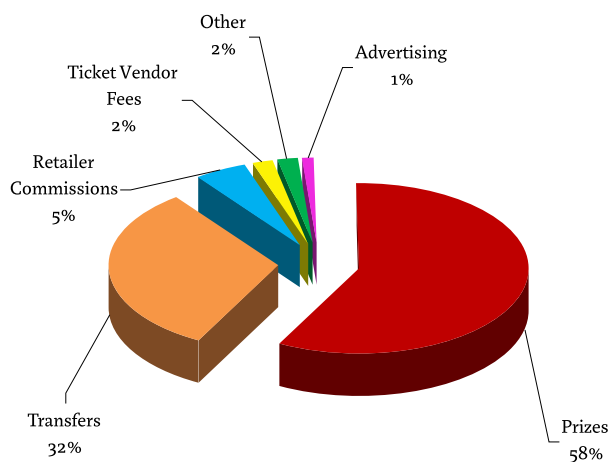
| Fiscal Year Ended June 30 | LOTTO PLUS™ | FANTASY 5™ | PLAY 4™ | CASH 3™ | MEGA MONEY™ | MILLIONAIRE RAFFLE™ | POWERBALL® with Power Play® | Scratch-Off | Combined Sales |
|---------------------------|-------------|------------|------------|------------|-------------|---------------------|-----------------------------|-------------|----------------|
| 2000 | \$ 864,983 | \$ 216,303 | \$ 158,620 | \$ 318,972 | \$ 121,266 | | | \$ 568,352 | \$ 2,248,496 |
| 2001 | 845,433 | 191,614 | 163,157 | 326,471 | 108,842 | | | 639,209 | 2,274,726 |
| 2002 | 806,023 | 262,923 | 170,708 | 329,830 | 98,315 | | | 662,566 | 2,330,365 |
| 2003 | 925,474 | 259,999 | 182,716 | 330,001 | 95,930 | | | 1,073,861 | 2,867,981 |
| 2004 | 785,415 | 259,728 | 192,580 | 349,227 | 125,944 | | | 1,358,068 | 3,070,962 |
| 2005 | 689,820 | 252,467 | 206,982 | 345,598 | 131,248 | | | 1,844,619 | 3,470,734 |
| 2006 | 835,028 | 306,679 | 215,529 | 343,174 | 128,502 | | | 2,100,118 | 3,929,030 |
| 2007 | 735,585 | 326,241 | 225,285 | 348,694 | 130,142 | \$ 72,549 | | 2,283,620 | 4,122,116 |
| 2008 | 778,954 | 309,445 | 227,940 | 336,096 | 122,742 | 30,818 | | 2,368,781 | 4,174,776 |
| 2009 | 650,603 | 287,285 | 238,957 | 320,157 | 102,190 | 41,314 | \$ 233,396 | 2,064,135 | 3,938,037 |

Expenses

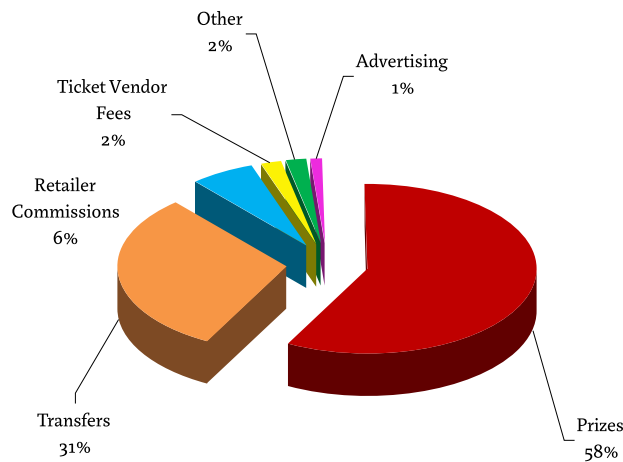
Section 24.121, Florida Statutes, stipulates that funds remaining in the Operating Trust Fund after the transfer to EETF shall be used for the payment of administrative expenses of the Lottery. These expenses include On-line game expenses, Scratch-Off ticket expenses, advertising, and other expenses required for the day-to-day operations of the Lottery.

The following charts show the major components of Lottery operating expenses and transfers as a percentage of ticket sales for the June 30, 2009, and 2008, fiscal years:

Operating Expenses, Transfers and Reserves 2008-09



Operating Expenses, Transfers and Reserves 2007-08

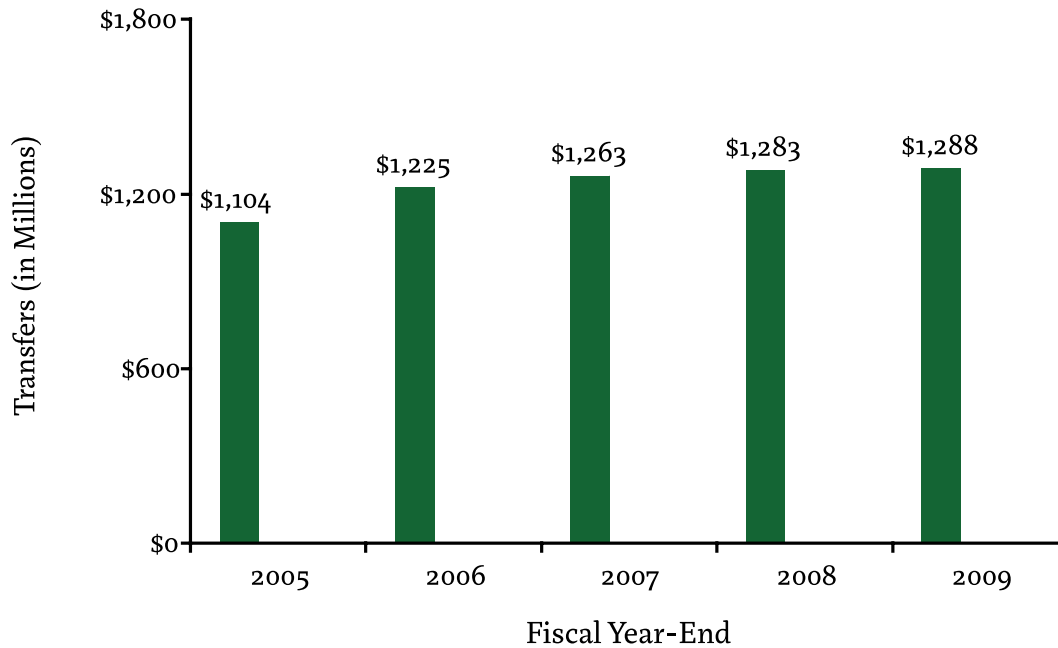


Prizes, commissions and vendor fees directly relate to sales and fluctuate accordingly. In fiscal year 2009, these expenses changed proportionally, yet as a percentage of total expenses they remained constant. The other expenses, which consist of advertising, salary and benefits, professional fees, rent, maintenance, and depreciation, have remained relatively stable. Fiscal year 2009 and 2008 administrative expenses were \$71.2 million and \$72.6 million, respectively.

Transfers

The Lottery’s contribution to the EETF for the fiscal year ended June 30, 2009, \$1.29 billion, was the highest since the Florida Lottery began making transfers in 1988. Fiscal year 2009 was the seventh straight year in which the Lottery’s contribution to EETF was over \$1 billion. Total transfers to the EETF increased by \$4.4 million from the prior fiscal year despite a \$236.7 million decrease in ticket sales. This increase was possible due to the fact that the Lottery was able to liquidate some required reserves during the fiscal year and overall prize expense was less than previous years. When adjusted for inflation, the Lottery’s transfer amount for fiscal year 2009 was lower than the prior year adjusted-for-inflation transfer amount. However, overall the Lottery’s transfer rates have increased slightly over the rate of inflation during the 22-year period.

The following chart shows the total transfers to the EETF for the past five fiscal years:



ECONOMIC FACTORS AND FUTURE IMPACTS

The main economic factors affecting lottery sales are population growth, personal income growth, tourism, and competition for discretionary consumer spending. The Lottery must continue to find ways to maintain the annual transfer to EETF of over \$1 billion. The Lottery's strategies revolve around enhancing On-line and Scratch-Off product sales and increasing retailer penetration in the state. The following are some of the functional strategies currently being explored by management:

- **Increase the focus of research and product development for the On-line and Scratch-Off product segments.** This functional strategy will be accomplished through product extensions, redesign of existing On-line games, On-line promotions, Scratch-Off games, etc.

Chapter 24.121, Florida Statutes, authorizes the Lottery to utilize variable prize payout for both On-line games and Scratch-Off games. The Lottery began utilizing higher prize payouts for On-line games in fiscal year 2005 and did not expect the same rate of return for the On-line games; however, the Department has experienced a positive return from applying the variable prize payout strategy. During fiscal year 2008-09, the Lottery utilized the higher payout authority for LOTTO PLUS and three raffle games. Individually these efforts helped to offset the negative effects of a downturn in the economy.

- **Improve market penetration through expansion of Lottery retailer network.** The Lottery has set internal goals for continuing to grow the number of retailers so that Florida's per capita level of retailers is comparable to other successful states. The Department conducted four retailer recruitment seminars across the state as well as continuing efforts with individual communications. As of the end of fiscal year 2009, the retailer base is holding steady at just over 13,250 retailers.

FINANCIAL CONTACT

The Florida Lottery's Financial Statements and this Management's Discussion and Analysis are designed to give a general overview to all interested parties. If you have any questions regarding this report or require additional information, please contact the State of Florida, Department of the Lottery, Chief Financial Officer, 250 Marriott Drive, Capitol Complex, Tallahassee, Florida 32399.

BASIC FINANCIAL STATEMENTS**DEPARTMENT OF THE LOTTERY
STATEMENT OF NET ASSETS****As of June 30, 2009, and June 30, 2008
(In Thousands)**

| Assets | <u>June 30, 2009</u> | <u>June 30, 2008</u> |
|--|----------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$126,062 | \$143,031 |
| Interest receivable | 549 | 728 |
| Accounts receivable, net | 43,185 | 40,072 |
| Prepaid expenses | 27 | 0 |
| Inventories | 843 | 844 |
| Security deposits | 2,729 | 3,525 |
| Total Current Assets | <u>173,395</u> | <u>188,200</u> |
| Noncurrent Assets: | | |
| Restricted Assets | | |
| Cash and cash equivalents | 50,590 | 74,348 |
| Securities lending income receivable | 631 | 2,338 |
| Deposit with MUSL | 3,073 | 0 |
| Investments, grand prize | 1,029,759 | 1,161,202 |
| Investments, other | 842,681 | 1,068,317 |
| Total Restricted Assets | <u>1,926,734</u> | <u>2,306,205</u> |
| Capital assets, net | 1,235 | 1,279 |
| Total Noncurrent Assets | <u>1,927,969</u> | <u>2,307,484</u> |
| Total Assets | <u>2,101,364</u> | <u>2,495,684</u> |
| Liabilities | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | 8,407 | 11,792 |
| Prizes payable | 77,745 | 58,478 |
| Due to Educational Enhancement Trust Fund | 83,765 | 112,879 |
| Deposits payable | 2,736 | 3,525 |
| Compensated absences payable | 889 | 852 |
| Total Current Liabilities | <u>173,542</u> | <u>187,526</u> |
| Current Liabilities Payable from Restricted Assets: | | |
| Pending purchases payable | 0 | 1,022 |
| Securities lending fees payable | 749 | 2,005 |
| Obligations under securities lending | 887,749 | 1,095,328 |
| Grand prizes payable | 194,955 | 212,299 |
| Total Current Liabilities Payable from Restricted Assets | <u>1,083,453</u> | <u>1,310,654</u> |
| Noncurrent Liabilities: | | |
| Grand prizes payable from restricted assets | 718,790 | 834,545 |
| Compensated absences payable | 2,942 | 2,897 |
| Postemployment healthcare benefits payable | 458 | 252 |
| Total Noncurrent Liabilities | <u>722,190</u> | <u>837,694</u> |
| Total Liabilities | <u>1,979,185</u> | <u>2,335,874</u> |
| Net Assets | | |
| Invested in capital assets | 1,235 | 1,279 |
| Restricted net assets for undistributed appreciation on restricted investments | 67,281 | 85,206 |
| Restricted net assets for Restricted Prize Pool | 32,661 | 44,662 |
| Restricted net assets for MUSL | 3,073 | 0 |
| Restricted net assets for future prizes or special prize promotions | 17,929 | 28,663 |
| Total Net Assets | <u>\$122,179</u> | <u>\$159,810</u> |

See accompanying notes to the financial statements.

DEPARTMENT OF THE LOTTERY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended June 30, 2009, and June 30, 2008
(In Thousands)

| | <u>June 30, 2009</u> | <u>June 30, 2008</u> |
|--|----------------------|----------------------|
| Operating Revenues: | | |
| Ticket sales | \$3,938,037 | \$4,174,776 |
| Bad debt expense | (1,256) | (674) |
| On-line fees and miscellaneous | 7,198 | 7,482 |
| Retailer fees | 210 | 242 |
| Total Operating Revenues | <u>3,944,189</u> | <u>4,181,826</u> |
| Operating Expenses: | | |
| Prizes | 2,340,372 | 2,476,032 |
| Retailer commissions | 220,548 | 235,651 |
| Scratch-Off tickets | 31,893 | 55,135 |
| On-line games | 27,982 | 26,165 |
| Advertising | 34,353 | 34,706 |
| Personal services | 26,857 | 27,240 |
| Other contractual services | 7,082 | 8,546 |
| Materials and supplies | 2,247 | 1,400 |
| Depreciation | 684 | 695 |
| Total Operating Expenses | <u>2,692,018</u> | <u>2,865,570</u> |
| Operating Income | <u>1,252,171</u> | <u>1,316,256</u> |
| Nonoperating Revenues (Expenses): | | |
| Interest | 7,133 | 13,465 |
| Securities lending income | 18,183 | 53,189 |
| Securities lending fees | (8,980) | (44,888) |
| Investment management fees | (327) | (290) |
| Net appreciation (depreciation) in fair value of investments | 46,832 | 89,149 |
| Property disposition (loss) | (31) | (51) |
| Amortization of grand prizes payable | (64,757) | (76,383) |
| Total Nonoperating Revenues (Expenses), Net | <u>(1,947)</u> | <u>34,191</u> |
| Income Before Operating Transfers | <u>1,250,224</u> | <u>1,350,447</u> |
| Transfers to Educational Enhancement Trust Fund: | | |
| Transfers from revenue | (1,241,015) | (1,216,839) |
| Transfers from unclaimed prizes | (46,840) | (66,575) |
| Total Transfers to Educational Enhancement Trust Fund | <u>(1,287,855)</u> | <u>(1,283,414)</u> |
| Change in Net Assets | <u>(37,631)</u> | <u>67,033</u> |
| Net Assets, Beginning of Year | <u>159,810</u> | <u>92,777</u> |
| Net Assets, End of Year | <u>\$122,179</u> | <u>\$159,810</u> |

See accompanying notes to the financial statements.

**DEPARTMENT OF THE LOTTERY
STATEMENT OF CASH FLOWS**

**Years ended June 30, 2009, and June 30, 2008
(In Thousands)**

| | <u>June 30, 2009</u> | <u>June 30, 2008</u> |
|---|----------------------|----------------------|
| Operating Activities: | | |
| Ticket sales | \$ 3,933,668 | \$ 4,168,731 |
| Prizes paid to winners | (2,326,709) | (2,503,131) |
| Commissions paid and payments to retailers | (220,548) | (235,651) |
| Paid to vendors for goods and services | (107,442) | (125,904) |
| Paid to employees | (26,090) | (27,130) |
| Other operating revenue | 7,408 | 7,723 |
| Net Cash Provided by Operating Activities | <u>1,260,287</u> | <u>1,284,638</u> |
| Noncapital Financing Activities: | | |
| Payments to Educational Enhancement Trust Fund | (1,316,969) | (1,287,968) |
| Net Cash Used in Noncapital Financing Activities | <u>(1,316,969)</u> | <u>(1,287,968)</u> |
| Capital and Related Financing Activities: | | |
| Purchase of capital assets | (671) | (116) |
| Net Cash Used in Capital and Related Financing Activities | <u>(671)</u> | <u>(116)</u> |
| Investing Activities: | | |
| Cash received from maturity of grand prize investments | 219,980 | 246,337 |
| Cash paid to grand prizewinners upon maturity of grand prize investments | (219,980) | (246,337) |
| Investment income, net of fees | 16,626 | 19,365 |
| Net Cash Provided by Investing Activities | <u>16,626</u> | <u>19,365</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(40,727)</u> | <u>15,919</u> |
| Cash and Cash Equivalents, Beginning of Year | 217,379 | 201,460 |
| Cash and Cash Equivalents, End of Year | <u>\$ 176,652</u> | <u>\$ 217,379</u> |
| Reconciliation of Income from Operations to Net Cash Provided by Operating Activities: | | |
| Income from operations | \$ 1,252,171 | \$ 1,316,256 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: | | |
| Depreciation | 684 | 695 |
| Changes in assets and liabilities | | |
| (Increase) decrease in: | | |
| Accounts receivable | (5,180) | (5,054) |
| Inventories | 1 | 123 |
| Pre-paid expenses | (27) | 0 |
| Increase (decrease) in: | | |
| Allowance for uncollectible accounts | (1,006) | (317) |
| Accounts payable and accrued liabilities | (3,379) | (76) |
| Prizes payable | 16,735 | (27,098) |
| Compensated absences payable | 82 | (143) |
| Postemployment healthcare benefits payable | 206 | 252 |
| Net Cash Provided by Operating Activities | <u>\$ 1,260,287</u> | <u>\$ 1,284,638</u> |
| Noncash Investing, Capital and Financing Activities: | | |
| Increase/(decrease) in fair value of investments | \$ (91,099) | \$ (64,268) |

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DEPARTMENT OF THE LOTTERY
Years ended June 30, 2009, and June 30, 2008**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****a. Reporting Entity***

The State of Florida, Department of the Lottery (the Lottery) was established as a State agency with the enactment of the Florida Public Education Lottery Act (the Act) in 1987. The purpose of the Act is “to implement Section 15, Article X of the State Constitution in a manner that enables the people of the State to benefit from significant additional moneys for education and also enables the people of the State to play the best lottery games available.”

In evaluating the Lottery as a reporting entity, management has addressed all potential component units for which the Lottery may be financially accountable and, as such, be includable in the Lottery’s financial statements. The Lottery is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Lottery. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Management’s analysis has disclosed no component units that should be included in the Lottery’s financial statements.

b. Basis of Presentation

The Lottery is accounted for as a proprietary type 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. The Lottery is reported as an enterprise fund within the State of Florida’s Comprehensive Annual Financial Report.

c. Basis of Accounting

Basis of accounting refers to the timing of recognition of revenue and expenses in the accounts and reporting in the financial statements. The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

The measurement focus of proprietary fund types is on a flow of economic resources method, which emphasizes the determination of net income, financial position, and cash flows. All fund assets and liabilities, current and noncurrent, are accounted for on the Statement of Net Assets. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, proprietary funds have the option to elect to apply all pronouncements

of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. The Lottery has elected not to apply FASB pronouncements issued after November 30, 1989. As also provided by GASB, the Lottery has elected not to adopt any FASB statements issued after November 30, 1989, unless so directed by GASB.

The Lottery's operating revenues and expenses generally result from the sale and marketing of Lottery tickets and the payment of related prizes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d. Cash and Cash Equivalents

The Lottery considers all highly liquid investments with an original maturity of three months or less when purchased, to be cash equivalents. This includes cash in banks, repurchase agreements with financial institutions, petty cash, balances held by the State Board of Administration (SBA), and pooled investments in the State Treasury.

e. Investments

Florida Statutes authorize the Lottery to invest in certain instruments. The Lottery reports investments at fair value. Investments that are not publicly quoted are priced by a third party through a discounted cash flow method. Details of investments are included in Note 2.

f. Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on an analysis of collectibility of accounts receivable, which considers the age of the accounts.

g. Inventories

Supply inventory and promotional items are valued at cost, using the first-in, first-out method. Supply inventory is comprised of game merchandise and prepaid postage.

h. Prepaid expenses

Prepaid expenses represent warranty agreements paid for during the current year but which will not be consumed or used up until a future period.

i. Capital Assets

Capital assets are stated at cost less accumulated depreciation. As required by Chapter 273, Florida Statutes, a capitalization threshold of \$1,000 and useful life extending beyond one year is employed. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

| | |
|-------------------------------|---------------|
| Data processing equipment | 3 to 5 years |
| Office furniture and fixtures | 3 to 15 years |
| Vehicles and other equipment | 3 to 20 years |

When capital 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 Statement of Revenues, Expenses, and Changes in Net Assets, in the period of disposal. See Note 5 for more detailed information on Capital Assets.

j. Net Assets

Net Assets includes categories for net investments in capital assets, restricted net assets for undistributed appreciation on restricted investments, restricted net assets for future prizes or special prize promotions, restricted net assets for the Restricted Prize Pool, and restricted net assets for Multi-State Lottery Association (MUSL). See Note 6 for more information on MUSL.

The net investments in capital assets category represents the investment in capital assets, recorded at cost less accumulated depreciation.

The restricted net assets for undistributed appreciation on restricted investments category represents the undistributed appreciation for all restricted asset accounts.

The restricted net assets for future prizes or special prize promotions category represents the portion of unclaimed prize obligations legally reverted back to the Lottery for the payment of future prize pools or special prize promotions in accordance with Section 24.115(2), Florida Statutes.

The restricted net assets for Restricted Prize Pool category represents the prize expense reserved to support payments to winners of the Florida Lotto \$2 and \$3 jackpots in accordance with Rule 53ER08-12, Florida Administrative Code, which was replaced by Rule 53ER08-88, Florida Administrative Code.

The restricted net assets for MUSL category represents the amount placed into reserve for the Florida Lottery by the MUSL Powerball Product Group in accordance with Rule 53ER08-84, Florida Administrative Code.

k. Revenue Recognition

Lottery games are sold to the public by contracted retailers. Revenue is recognized when On-line tickets are sold to players and when books of Scratch-Off tickets are settled. Certain games include tickets that entitle the holder to exchange one ticket for another (free tickets). Such tickets are deemed to be replacements and, therefore, are not included in ticket sales.

l. Commissions

Retailers receive a commission of five percent on ticket sales. The commission on ticket sales for Scratch-Off games is based upon total tickets distributed to the players (including free tickets) which, when compared to revenue, causes the percentage to be slightly higher than five percent. Additionally, retailers are paid commissions through a one percent cashing bonus on redemption of tickets (including free tickets).

m. Prizes

In accordance with the Act, variable percentages of the gross revenue from the sale of On-line and Scratch-Off lottery tickets shall be returned to the public in the form of prizes paid by the Lottery or retailers as authorized. Prior to July 1, 2006, the Act authorized, as nearly as practicable, at least fifty percent of ticket sales must be returned to the public in the form of prizes.

Prize expense for On-line games is recorded based on prizes won by the players, as revenue is recognized. Any prize that remains unclaimed at the end of a 180-day period following a draw is considered unclaimed.

Prize expense for Scratch-Off games is recorded based on the predetermined prize structure for each game, as revenue is recognized. Any prize that remains unclaimed 60 days after a Scratch-Off game is closed is considered unclaimed.

As of July 1, 2005, 80 percent of all unclaimed prize money is deposited in the Educational Enhancement Trust Fund (EETF). The remaining 20 percent of unclaimed prize money is added to the pool from which future prizes are to be awarded or used for special prize promotions and is reported as restricted net assets for future prizes or special prize promotions. As any unclaimed prize money is remitted to EETF, it reduces overall prize expense. The Lottery also maintains reserves for Lotto Plus and POWERBALL with Power Play. If any of these reserves are transferred to EETF, it reduces prize expense.

All prizes are recorded at the actual amount except for the annuity-funded prizes, which are paid out on a deferred basis. The actual prize expense for these types of prizes is based on the present value of an annuity using the interest yield on the investments, which were acquired to fund the annuity.

n. Compensated Absences

Employees earn the right to be compensated during absences for vacation, illness, and unused special compensatory leave earned for hours worked on legal holidays. Compensated absences for annual leave are recorded as a liability when the benefits are earned. Compensated absences for sick leave are calculated based on the vesting method. Within the limits established by law or rule, unused leave benefits are paid to employees upon separation from State service. The cost of vacation and calculated sick leave benefits is accrued in the period in which earned. The compensated absences amounts are based on current year-end salary rates and include employer social security and pension contributions at current rates.

o. Self-Insurance

The Lottery participates in the various self-insurance programs established by the State of Florida for property and casualty losses and employee health insurance. Coverages include property, general liability, automobile liability, workers' compensation, court-awarded attorney fees, and Federal civil rights actions. Property is self-insured for actual cash value to an aggregate of \$2 million per loss event for all perils except named windstorm and flood. Property losses in excess of \$2 million are commercially insured up to \$200 million per loss event excluding named windstorm or flooding events. Named windstorm and flood losses have a \$2 million deductible per occurrence, with a \$40 million annual aggregate deductible with commercial insurance coverage up to \$50 million per occurrence. Workers' compensation is provided to comply with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents.

p. 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, liabilities, restricted net assets, revenues, and expenses, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

q. Bad Debt Expense

Bad debt expense was reclassified from an operating expense to a reduction in gross revenue for the fiscal years ended June 30, 2009, and June 30, 2008. Bad debt expense is recognized when a Lottery retailer's uncollected revenue is past due. The amount of expense is based on an accounts receivable age analysis. The bad debt expense for the fiscal years ended June 30, 2009, and June 30, 2008, was \$1,256,000 and \$674,000, respectively.

2. CASH AND INVESTMENTS

a. Cash and Cash Equivalents

Cash is held in demand deposits at various financial institutions. These deposits, with a book value of approximately \$893,000 at June 30, 2009, and \$1,168,000 at June 30, 2008, were insured by either the State's collateral for public deposits in accordance with Section 280.04, Florida Statutes, or Federal depository insurance.

Chapter 280, Florida Statutes, generally requires public funds to be deposited in a Qualified Public Depository, which is a bank or savings association that is designated by the State of Florida Chief Financial Officer (State CFO) as authorized to receive deposits in the State and that meets the collateral requirements. The State CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository following guidelines outlined in Section 280.04, Florida Statutes, and Chapter 69C-2, Florida Administrative Code. Collateral pledging levels include 25, 50, 125, and 200 percent of a Qualified Public Depository's average daily deposit balance or, if needed, an amount as prescribed by the State CFO. Collateral may be held by another custodian with approval of the State CFO if conditions are met that protect the State's interest. Eligible collateral includes federal, federally-guaranteed, state and local government obligations, corporate bonds, and other securities designated allowable under conditions set by the State CFO.

Statutes provide that if a loss to public depositors is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other Qualified Public Depositories of the same type as the depository in default.

Due to the investing policy of the Lottery, book overdrafts were approximately \$2,117,000 at June 30, 2009, and \$2,769,000 at June 30, 2008, representing outstanding prize payment checks and retailer payment checks. These outstanding checks are included as a component of prizes payable and accounts payable. The Lottery has an agreement with a financial institution to honor prize payments and retailer payments, as they are presented to the bank, up to \$75 million.

Surplus cash is maintained in the State Treasury's general pool of investments. The State CFO pools funds from all departments. Included in the pool are primarily time deposits, U.S. Government securities, federal agency

securities, bankers' acceptances, commercial paper, corporate bonds and notes, repurchase agreements and reverse repurchase agreements. The Lottery's share of this investment pool was approximately \$175,759,000 and \$216,211,000 at June 30, 2009, and 2008, respectively. No allocation will be made as to the Lottery's share of the types of investments or their risk categories. The Lottery's share of the assets and liabilities arising from the securities lending agreements administered by the State Treasury will likewise not be carried on the Statement of Net Assets since the State Treasury operates on a pooled basis and to do so may give the misleading impression that the Lottery itself has entered into such agreements. For further information, refer to the State of Florida's Comprehensive Annual Financial Report or publications of the State of Florida Department of Financial Services, Office of the Chief Financial Officer.

b. Investments, Grand Prize

The grand prize investments primarily consist of U.S. Government obligations held on the Lottery's behalf by the SBA. Grand prize investments and related grand prizes payable are not presented in current assets or liabilities. They are not part of current operations but instead are restricted assets and liabilities that are held by the Lottery for grand prize winnings to be paid on a deferred basis if the cash payment option is not selected.

Grand prize investments are shown at fair value, and the related grand prizes payable are adjusted to the net present value using the yield on the investments. The difference between the fair value of the investments and the net present value of the grand prizes payable is reflected as a restriction for undistributed appreciation on investments in net assets. This represents the unrealized gains on the investments. Because these investments are held restrictively for grand prizewinners, this balance is not available for transfer to the EETF.

Interest accreted on grand prize investments during the year is reflected as an increase in the carrying value of grand prizes payable on the Statement of Net Assets, and as a nonoperating expense on the Statement of Revenues, Expenses, and Changes in Net Assets. Net appreciation in fair value of investments is reflected as a nonoperating revenue on the Statement of Revenues, Expenses, and Changes in Net Assets, and takes into account all changes in fair value that occurred during the year, including purchases, maturities, and sales.

c. Investments, Other

These investments consist of the fair value of investments made with cash collateral held by the SBA on the Lottery's behalf as part of a securities lending program.

The SBA, authorized by Section 215.47, Florida Statutes, participates in a securities lending program involving grand prize investments. The Lottery, through the SBA, loans various securities to borrowers for collateral with a simultaneous agreement to return collateral for the same securities in the future. Collateral received from borrowers may be cash or U.S. Government securities. The SBA is contractually limited from pledging or selling collateral except in the event of borrower default. The contract with the lending agent requires it to indemnify the SBA if the borrowers fail to return the underlying securities or fail to pay income distributions on them. No significant violations of legal or contractual provisions occurred, and no losses resulted from borrower or lending agent defaults.

Mellon Bank is the agent for lending U.S. Treasury securities to various authorized brokers for cash or U.S. Government securities. Initially, collateral received shall be in the form of cash at 100 percent, or other securities valued at 102 percent, of the fair value of the securities loaned as required by the lending agreement. Borrowers

must be approved for lending by Mellon Bank's credit department. Mellon Bank monitors the fair value of collateral provided and the securities on loan on a daily basis. Additional collateral is required if the fair value of the collateral for any loan is less than 100 percent of the fair value of the securities provided for such loan. The SBA had no credit risk exposure to borrowers at year-end.

The SBA received \$887,749,000 of cash collateral for the lending program as of June 30, 2009, and \$1,095,328,000 as of June 30, 2008. At June 30, 2009, the collateral that was held for the securities lending transactions exceeded the fair value of the securities underlying the agreements (including accrued interest). The cash was invested in securities authorized by the lending agreement. Authorized securities include primarily certificates of deposit, corporate and medium term notes, asset-backed securities, and repurchase agreements. The invested cash collateral generally has a shorter maturity than the securities on loan.

A risk factor associated with this lending agreement is the potential for shortfalls in the value of the invested cash collateral. If the invested cash collateral is required to be liquidated, any shortfall between the value of the invested cash collateral and the securities lending obligation becomes the responsibility of the Lottery. As of June 30, 2009, and June 30, 2008, the potential unrealized shortfall was \$45 million and \$27 million, respectively. Other risk factors include counterparty default and failure of the custodial bank to indemnify the Lottery.

Securities lending income and expenses for the years ended June 30, 2009, and 2008, consisted of (in thousands):

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-----------------|-----------------|
| Securities lending income | \$ 18,183 | \$ 53,189 |
| Less broker rebates | (7,835) | (43,106) |
| Less bank fees | (1,145) | (1,782) |
| Net securities lending revenue | <u>\$ 9,203</u> | <u>\$ 8,301</u> |

d. Investment Credit Risk

Lottery grand prizewinner investments have been limited to U.S. Government guaranteed securities.

The State Treasury Investment Pool's current rating by Standard and Poor's is A+f.

Listed below are the Standard and Poor's credit ratings for the lending program's invested cash collateral (in thousands):

| As of June 30, 2009 | | | | | | | | |
|---|-----------------------------------|-----------------|-------------------|------------------|-----------------|-----------------|-------------------|-------------------|
| Investment Type | Standard and Poor's Credit Rating | | | | | | | Totals |
| | AAA | AA | A | BBB | BB | CCC | NR | |
| Certificates of Deposit | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Domestic Corporate Bonds & Notes | - | 9,953 | 195,387 | 12,416 | - | - | 4,921 | 222,677 |
| Domestic Non-government | | | | | | | | |
| Asset-backed Securities | 317,625 | - | - | 4,196 | 1,494 | 2,114 | 14,357 | 339,786 |
| Domestic Non-government Backed CMO's | 3,913 | - | - | - | - | - | - | 3,913 |
| International Corporate Bonds & Notes | 19,942 | - | - | - | - | - | - | 19,942 |
| International Non-government | | | | | | | | |
| Asset-backed Securities | 12,150 | - | - | - | - | - | - | 12,150 |
| International Non-government Backed CMO's | 72,225 | - | - | - | - | - | - | 72,225 |
| Repurchase Agreements | - | - | - | - | - | - | 171,988 | 171,988 |
| Grand Total | \$ 425,855 | \$ 9,953 | \$ 195,387 | \$ 16,612 | \$ 1,494 | \$ 2,114 | \$ 191,266 | \$ 842,681 |

| As of June 30, 2008 | | | | | | | | |
|---|---------------------------------|-------------------|-------------------|-----------------|------------------|---------------------|---------------------|--|
| Investment Type | Standard & Poor's Credit Rating | | | | | Totals | | |
| | AAA | AA | A | BB | NR | | | |
| Certificates of Deposit | \$ - | \$ - | \$ - | \$ - | \$ 7,966 | \$ 7,966 | \$ 7,966 | |
| Domestic Corporate Bonds & Notes | 9,956 | 199,833 | 290,646 | - | - | 500,435 | 500,435 | |
| Domestic Non-government | | | | | | | | |
| Asset-backed Securities | 373,148 | - | - | 5,527 | 14,833 | 393,508 | 393,508 | |
| International Corporate Bonds & Notes | 19,947 | - | - | - | - | 19,947 | 19,947 | |
| International Non-government | | | | | | | | |
| Asset-backed Securities | 30,285 | - | - | - | - | 30,285 | 30,285 | |
| International Non-government Backed CMO's | 108,462 | - | - | - | - | 108,462 | 108,462 | |
| Repurchase Agreements | - | - | - | - | 7,714 | 7,714 | 7,714 | |
| Grand Total | \$ 541,798 | \$ 199,833 | \$ 290,646 | \$ 5,527 | \$ 30,513 | \$ 1,068,317 | \$ 1,068,317 | |

e. Investment Interest Rate Risk

The investment policy objective is to match maturities of investments with the maturities of the lottery winner annuities. Therefore, investments are held to maturity after they are purchased thereby eliminating interest rate risk. Listed below are the Lottery's investments in U.S. Treasury Strips (in thousands):

| As of June 30, 2009 | | As of June 30, 2008 | |
|------------------------|---------------------|------------------------|---------------------|
| Time to Maturity | Fair Value | Time to Maturity | Fair Value |
| < 1 year | \$ 201,477 | < 1 year | \$ 217,587 |
| > 1 year to 3 years | 325,664 | > 1 year to 3 years | 358,555 |
| > 3 years to 5 years | 221,593 | > 3 years to 5 years | 251,279 |
| > 5 years to 10 years | 178,920 | > 5 years to 10 years | 239,954 |
| > 10 years to 15 years | 47,805 | > 10 years to 15 years | 40,310 |
| > 15 years to 20 years | 37,026 | > 15 years to 20 years | 34,796 |
| > 20 years to 25 years | 15,410 | > 20 years to 25 years | 17,771 |
| > 25 years | 1,864 | > 25 years | 950 |
| Total | \$ 1,029,759 | Total | \$ 1,161,202 |

The Lottery contracts with the SBA to execute the securities lending program. The securities lending authorization agreement between Mellon Bank and the SBA requires that the maximum weighted average portfolio maturity not exceed 90 days. The lending program invests a significant amount of its assets in floating rate securities and limits the maximum reset period for interest rate changes to six months. Next reset dates are used in the calculation of weighted average maturity. Listed below are the weighted average maturities for the lending program's invested cash collateral (in thousands):

| Investment Type | June 30, 2009 | |
|--|---------------------------|---|
| | Fair Value (Thousands) | Weighted Average Maturity (Days) |
| Domestic Corporate Bonds & Notes | \$ 222,677 | 42 |
| Domestic Non-government Asset-backed Securities | 339,786 | 19 |
| Domestic Non-government Backed CMO's | 3,913 | 7 |
| International Corporate Bonds & Notes | 19,942 | 15 |
| International Non-government Asset-backed Securities | 12,150 | 77 |
| International Non-government Backed CMO's | 72,225 | 32 |
| Repurchase Agreements | 171,988 | 1 |
| Total Fair Value | \$ 842,681 | |
| Portfolio weighted average maturity | | 23 |

The effective duration of the State Treasury Investment Pool at June 30, 2009, and June 30, 2008, was approximately 1.84 years and 3.31 years, respectively.

f. Investment Concentration of Credit Risk

Since all long-term investments (other than in the securities lending program) are in U.S. Government-guaranteed securities, the Lottery has not adopted a policy regarding concentration of credit risk. The securities lending program has established investment concentration of credit risk policies that limit the aggregate exposure to any one issuer or guarantor that is not the U.S. Government or guaranteed by the U.S. Government to 10 percent of the book value of the lending program's invested cash collateral. No invested cash collateral exceeded the 10 percent limitation.

g. Investment Custodial Credit Risk

Custodial credit risk is defined as the risk that an entity may not recover securities held by another party. The Lottery does not have a formal policy regarding custodial credit risk. The custodian for the SBA-administered lending program is also the counterparty to the investment transactions. Therefore, the amount of investments subject to investment custodial credit risk at June 30, 2009, and June 30, 2008, was \$842,681,000 and \$1,068,317,000, respectively.

At June 30, 2009, and June 30, 2008, all non-lending investments held were either insured or registered and held by the Lottery or its agents in the Lottery's name and thus were not subject to custodial credit risk.

h. Foreign Currency Risk

The Lottery had no exposure to foreign currency risk as of June 30, 2009, and June 30, 2008.

i. Investment Summary

The following schedule summarizes all investments and investments loaned under securities lending agreements at June 30 (in thousands):

| Investment Type | June 30, 2009 Carrying Value | June 30, 2008 Carrying Value |
|---|---|---|
| Certificates of Deposit | \$ - | \$ 7,966 |
| Repurchase Agreements | 171,988 | 7,714 |
| U.S. Government Obligations & Federally Guaranteed Obligations | 152,569 | 79,413 |
| Domestic Corporate Bonds & Notes | 222,677 | 500,435 |
| Domestic Non-government Asset-backed Securities | 339,786 | 393,508 |
| International Corporate Bonds & Notes | 19,942 | 19,947 |
| International Non-government Asset-backed Securities | 12,150 | 30,285 |
| Domestic Non-government Backed CMO's | 3,913 | - |
| International Non-government Backed CMO's | 72,225 | 108,462 |
| Investments Held by Others Under Securities Lending Agreements - U.S. Obligations | 877,190 | 1,081,789 |
| Pooled Investments with State Treasury | 175,759 | 216,211 |
| Total Investments | \$ 2,048,199 | \$ 2,445,730 |

The following schedules reconcile cash and investments to the Statement of Net Assets at June 30 (in thousands):

| | June 30, 2009 | | | |
|--------------------------------------|----------------------|------------------|----------------------|---------------------|
| | Investments | Cash at | Cash at State | Total |
| | | Financial | Treasury | |
| | Institutions | | | |
| Cash and cash equivalents | \$ 125,169 | \$ 807 | \$ 86 | \$ 126,062 |
| Restricted cash and cash equivalents | 50,590 | - | - | 50,590 |
| Investments, grand prize | 1,029,759 | - | - | 1,029,759 |
| Investments, other | 842,681 | - | - | 842,681 |
| Total | \$ 2,048,199 | \$ 807 | \$ 86 | \$ 2,049,092 |

| | June 30, 2008 | | | |
|--------------------------------------|----------------------|------------------|----------------------|---------------------|
| | Investments | Cash at | Cash at State | Total |
| | | Financial | Treasury | |
| | | | | |
| Cash and cash equivalents | \$ 141,863 | \$ 687 | \$ 481 | \$ 143,031 |
| Restricted cash and cash equivalents | 74,348 | - | - | 74,348 |
| Investments, grand prize | 1,161,202 | - | - | 1,161,202 |
| Investments, other | 1,068,317 | - | - | 1,068,317 |
| Total | \$ 2,445,730 | \$ 687 | \$ 481 | \$ 2,446,898 |

3. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30 consisted of (in thousands):

| | 2009 | 2008 |
|--------------------------------------|------------------|------------------|
| Ticket sales receivable | \$ 44,533 | \$ 42,477 |
| Other receivables | 118 | 67 |
| Total receivables | 44,651 | 42,544 |
| Less allowance for doubtful accounts | (1,466) | (2,472) |
| Accounts receivable, net | \$ 43,185 | \$ 40,072 |

4. SECURITY DEPOSITS AND DEPOSITS PAYABLE

The Lottery receives certificates of deposit and cashier's checks from certain vendors and retailers in order to secure contract performance. Certificates of deposit are held in trust by the State with any interest earnings being credited to the vendor or retailer. Cashier's checks are held as cash by the Lottery. These deposits are established to reduce the potential financial risk to the Lottery in the event of a breach of contract. The certificates appear on the Statement of Net Assets, in assets as security deposits, and in liabilities, as deposits payable. The checks appear on the Statement of Net Assets, in assets as cash, and in liabilities, as deposits payable.

5. CAPITAL ASSETS

Capital assets at June 30 consisted of (in thousands):

| | Balance 30-Jun-07 | 2007-08 | | Balance 30-Jun-08 | 2008-09 | | Balance 30-Jun-09 |
|----------------------------------|----------------------|-----------------|----------------|----------------------|-------------|----------------|----------------------|
| | | Increase | Decrease | | Increase | Decrease | |
| Data processing equipment | \$ 9,394 | \$ - | \$ (158) | \$ 9,236 | \$ 317 | \$ (4,162) | \$ 5,391 |
| Office equipment and fixtures | 5,960 | 8 | - | 5,968 | - | - | 5,968 |
| Vehicles and other equipment | 3,172 | 110 | (226) | 3,056 | 367 | (308) | 3,115 |
| | 18,526 | 118 | (384) | 18,260 | 684 | (4,470) | 14,474 |
| Less accumulated depreciation | 16,618 | 695 | (332) | 16,981 | 684 | (4,426) | 13,239 |
| Total capital assets, net | <u>\$ 1,908</u> | <u>\$ (577)</u> | <u>\$ (52)</u> | <u>\$ 1,279</u> | <u>\$ -</u> | <u>\$ (44)</u> | <u>\$ 1,235</u> |

6. MULTI-STATE LOTTERY ASSOCIATION

MUSL is an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL included 30 state lottery entities, the District of Columbia, and the Virgin Islands during fiscal year 2008-09. This association offers the POWERBALL with Power Play On-line game and several other On-line games in participating states. The chief executive officer of each member lottery serves on the MUSL board of directors.

During the fiscal year, the Lottery joined the MUSL POWERBALL with Power Play On-line game on January 4, 2009. As a member of MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize payments. MUSL periodically reallocates the prize reserve funds among the states based on relative POWERBALL with Power Play sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), will be returned to the Lottery upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the fund.

As of June 30, 2009, the Lottery had deposits with MUSL of \$3,073,441, representing the Lottery's deposits of reserve funds.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

7. LONG-TERM LIABILITIES

a. Grand Prizes Payable

Grand prizes payable at June 30 consisted of (in thousands):

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|---------------------|
| LOTTO grand prizes (face value) | \$ 1,159,485 | \$ 1,351,603 |
| Mega Money grand prizes (face value) | 8,081 | 7,660 |
| Win for Life grand prizes (face value) | 13,022 | 13,386 |
| Flamingo Fortune Game Show grand prizes (face value) | 900 | 1,000 |
| Monthly Grand game prizes (face value) | 12 | 36 |
| Win a Million grand prizes (face value) | 450 | 500 |
| Yearly Bonus grand prizes (face value) | 200 | 250 |
| Lucky for Life grand prizes (face value) | 11,900 | 12,300 |
| Set for Life grand prize (face value) | 2,640 | 2,820 |
| Cash Spectacular grand prize (face value) | 700 | 750 |
| Cash for Life | 240 | 250 |
| Loaded for Life | 3,150 | 3,250 |
| Billion Dollar Blockbuster | 9,500 | - |
| Gas for Life | 204 | - |
| Less imputed interest | (296,739) | (346,961) |
| Net present value of grand prizes payable | <u>\$ 913,745</u> | <u>\$ 1,046,844</u> |
| Current prizes payable from restricted assets | \$ 194,955 | \$ 212,299 |
| Noncurrent prizes payable from restricted assets | 718,790 | 834,545 |
| Total grand prizes payable | <u>\$ 913,745</u> | <u>\$ 1,046,844</u> |

The following depicts by fiscal year the value (in thousands) of the grand prize annuities to pay prizewinners:

| <u>Year Ended June 30</u> | <u>Amount</u> |
|--|-------------------|
| 2010 | \$ 201,688 |
| 2011 | 178,428 |
| 2012 | 154,477 |
| 2013 | 132,613 |
| 2014 | 109,804 |
| 2015-2019 | 223,032 |
| 2020-2024 | 83,000 |
| 2025-2029 | 81,725 |
| 2030-2034 | 39,557 |
| 2035-2039 | 6,160 |
| Grand prizes (face value) | 1,210,484 |
| Less imputed interest | (296,739) |
| Net present value of grand prizes payable | <u>\$ 913,745</u> |

b. Compensated Absences Payable

Compensated absences payable at June 30 consisted of (in thousands):

| | <u>2009</u> | <u>2008</u> |
|---------------------------------|-----------------|-----------------|
| Current compensated absences | \$ 889 | \$ 852 |
| Noncurrent compensated absences | 2,942 | 2,897 |
| Total | <u>\$ 3,831</u> | <u>\$ 3,749</u> |

c. Changes in Long-Term Liabilities

Changes in long-term liabilities are summarized as follows (in thousands):

| | 2008-2009 | | | | |
|--|--------------------|-----------------|--------------------|------------------|---------------------|
| | Balance | Additions | Reductions | Balance | Amount |
| | July 1, 2008 | | | June 30, 2009 | Due Within One Year |
| Grand prizes payable | \$1,046,844 | \$86,881 | (\$219,980) | \$913,745 | \$194,955 |
| Compensated absences payable | 3,749 | 1,775 | (1,693) | 3,831 | 889 |
| Postemployment healthcare benefits payable | 252 | 206 | - | 458 | - |
| Total long-term liabilities | \$1,050,845 | \$88,862 | (\$221,673) | \$918,034 | \$195,844 |

| | 2007-2008 | | | | |
|--|--------------------|-----------------|--------------------|--------------------|---------------------|
| | Balance | Additions | Reductions | Balance | Amount |
| | July 1, 2007 | | | June 30, 2009 | Due Within One Year |
| Grand prizes payable | \$1,213,419 | \$79,762 | (\$246,337) | \$1,046,844 | \$212,299 |
| Compensated absences payable | 3,892 | 1,805 | (1,948) | 3,749 | 852 |
| Postemployment healthcare benefits payable | - | 252 | - | 252 | - |
| Total long-term liabilities | \$1,217,311 | \$81,819 | (\$248,285) | \$1,050,845 | \$213,151 |

See Note 9 for additional information regarding the postemployment healthcare benefits payable.

8. DUE TO EDUCATIONAL ENHANCEMENT TRUST FUND

In accordance with the Act, effective July 1, 2005, variable percentages of the gross revenue from the sale of On-line and Scratch-Off lottery tickets as determined by the Lottery, and other earned revenue, excluding application processing fees, shall be deposited in the Educational Enhancement Trust Fund (EETF) as provided in Section 24.121, Florida Statutes, as amended. Previously, the Act required at least 39 percent of On-line and miscellaneous revenue, net of retailer fees, be transferred to the EETF for the benefit of public education. Effective July 1, 2002, the Department was authorized, pursuant to Section 24.121(1), Florida Statutes, to increase the percentage of Scratch-Off game revenues returned as prizes and transfer a variable percentage to the EETF. The Lottery implemented this strategy in September 2002. The amount transferred for the fiscal year ended June 30, 2009, was \$1,287,855,000 (32.6 percent of revenues), and for the fiscal year ended June 30, 2008, the transferred amount was \$1,283,414,000 (30.7 percent of revenues).

Because the net appreciation in fair value of investments and amortization of grand prizes payable, included in nonoperating revenue and expenses, relate to valuations of the restricted grand prize investments and grand prizes payable, they are excluded from the determination of transfers to the EETF.

Effective July 1, 2005, provisions of the Act relating to the allocation of revenues for public education were revised. The changes in the provisions were designed to maximize the transfers of moneys to the EETF. These revisions resulted in changes in the methodology used to calculate the transfer based on a business model of revenue minus expenses rather than a percent of revenue.

The amount due to EETF at June 30, 2009, and June 30, 2008, was as follows (in thousands):

| | <u>June 30, 2009</u> | <u>June 30, 2008</u> |
|--|-------------------------|--------------------------|
| On-line ticket sales | \$ 1,873,902 | \$ 1,805,996 |
| Average percent transferred | 41% | 37% |
| Transfer of On-line ticket sales | <u>767,245</u> | <u>675,547</u> |
| Unclaimed On-line ticket prizes | 36,816 | 33,514 |
| Percent transferred | 80% | 80% |
| Transfer of unclaimed On-line ticket prizes | <u>29,453</u> | <u>26,811</u> |
| Scratch-Off ticket sales | 2,064,135 | 2,368,781 |
| Average percent transferred | 22% | 22% |
| Transfer of Scratch-Off ticket sales | <u>450,384</u> | <u>512,143</u> |
| Unclaimed Scratch-Off ticket prizes | 21,734 | 49,705 |
| Percent transferred | 80% | 80% |
| Transfer of unclaimed Scratch-Off ticket prizes | <u>17,387</u> | <u>39,764</u> |
| Nonoperating revenues (expenses), net | (1,947) | 34,191 |
| Add: | | |
| Net (appreciation) depreciation in fair value of investments | (46,832) | (89,149) |
| Amortization of grand prizes payable | <u>64,757</u> | <u>76,383</u> |
| Total Nonoperating revenues, net | <u>15,978</u> | <u>21,425</u> |
| On-line fees and miscellaneous revenue | <u>7,408</u> | <u>7,724</u> |
| Due for the year | <u>\$ 1,287,855</u> | <u>\$ 1,283,414</u> |
| Balance due, beginning of year | 112,879 | 117,433 |
| Paid during the year | <u>(1,316,969)</u> | <u>(1,287,968)</u> |
| Due to Educational Enhancement Trust Fund, June 30 | <u><u>\$ 83,765</u></u> | <u><u>\$ 112,879</u></u> |

9. PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

a. Retirement Programs

Florida Retirement System. The Florida Retirement System (FRS) is primarily a State administered cost sharing multiple employer defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at six years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost of living adjustments.

A Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly

benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates as a percentage of gross salary were as follows:

| Class or Plan | Fiscal Year Ended June 30, 2009 | Fiscal Year Ended June 30, 2008 |
|---|--|--|
| Senior Management | 13.12 percent | 13.12 percent |
| Regular Employees | 9.85 percent | 9.85 percent |
| Special Risk | 20.92 percent | 20.92 percent |
| DROP - Applicable to members from all of the above classes | 10.91 percent | 10.91 percent |

Employer rates include 1.11 percent for the postemployment insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

The Lottery's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the Lottery. The Lottery's contributions for the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007, totaled \$1,505,000, \$1,575,000, and \$1,605,000, respectively, which were equal to 100 percent of the required contributions for each fiscal year. These contributions represented 8.4 percent, 8.7 percent, and 9.0 percent of covered payroll, for the fiscal years ended June 30, 2009, June 30, 2008, and June 30, 2007, respectively.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. Lottery employees already participating in DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Required employer contributions made to PEORP for the fiscal years ended June 30, 2009, 2008, and 2007, totaled \$320,295, \$281,510, and \$218,759, respectively.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

Senior Management Service Optional Annuity Program. Some Lottery employees also participate in the Senior Management Service Optional Annuity Program (SMSOAP). The SMSOAP is a defined contribution plan that provides retirement and death benefits to the participant pursuant to Section 121.055, Florida Statutes. Participants have full and immediate vesting of all contributions paid on their behalf to the participating provider companies to invest as directed by the participants. Employees in eligible State positions may make an irrevocable election to participate in the SMSOAP in lieu of the Senior Management Service Class. Employers

contributed 12.49 percent of covered payroll for July 2008 through June 2009. This contribution rate includes a contribution that would otherwise be paid to the Retiree Health Insurance Subsidy (HIS) Program described below so the SMSOAP retiree is not eligible to receive monthly HIS benefits. A participant may contribute by salary reduction an amount not to exceed the percentage contributed by the employer.

Retiree Health Insurance Subsidy (HIS). The Retiree Health Insurance Subsidy (HIS) was created by the Florida Legislature in 1987 to assist FRS retirees in paying health insurance costs. The HIS is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. For the fiscal years ended June 30, 2009, and 2008, eligible retirees or beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments to individual retirees or beneficiaries were at least \$30 but not more than \$150 per month. To be eligible to receive the HIS, an FRS retiree must apply for the benefit, provide proof of health insurance coverage, which can include Medicare or TRICARE, and be approved.

The HIS is funded by required contributions from FRS participating employers. For the years ended June 30, 2009, 2008, and 2007, the Lottery contributed 1.11 percent of payroll for all active employees covered by the FRS, pursuant to Section 112.363, Florida Statutes. For the years ending June 30, 2009, 2008, and 2007, the Lottery contributed \$184,076, \$185,528, and \$180,607, respectively, in employer contributions to the HIS Program. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. If these contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

Further disclosures and other supplementary information for the HIS are included in the Comprehensive Annual Financial Report of the State of Florida, which may be obtained from the Florida Department of Financial Services.

Deferred Compensation Plan. The Lottery, through the State of Florida, offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan (refer to Section 112.215, Florida Statutes), available to all regular payroll State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries as mandated by 26 U.S.C.s.457(g)(1).

The Lottery does not contribute to the plan. Participation under the plan is solely at the discretion of the employee.

The State has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary and prudent investor. Pursuant to Section 112.215, Florida Statutes, the Deferred Compensation Trust Fund is created in the State Treasury.

b. Postemployment Healthcare Benefits

The Lottery participates in the State Employees' Health Insurance Program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance, to provide group health benefits. Section 110.123,

Florida Statutes, provides that retirees may participate in the State's group health insurance programs and assigns the authority to establish and amend benefit provisions to the Department of Management Services. Although premiums are paid by the retiree, the premium cost to the retiree is implicitly subsidized by the commingling of claims experience in a single risk pool with a single premium determination. An actuarial valuation has been performed for the plan and the Lottery's employees were included in the actuarial analysis. For more information on the plan regarding the funding policy and actuarial methods and assumptions, see the State's Comprehensive Annual Financial Report, which is available from the Department of Financial Services.

In accordance with GASB Statement 45, the Lottery is required to record its portion of the implicit postemployment health benefit liability beginning in the fiscal year ended June 30, 2008. Postemployment health benefits payable at June 30, 2009, and June 30, 2008, was \$458,000 and \$252,000, respectively.

10. OPERATING LEASES

The Lottery has entered into operating leases for the rental of office and warehouse space for the headquarters and district offices as well as the rental of computer equipment. Certain leases are renewable at the option of the Lottery.

Future minimum rental payments as of June 30, 2009, are scheduled as follows (in thousands):

| Year Ending June 30 | Headquarters | Districts | Total |
|------------------------|------------------|-----------------|------------------|
| 2010 | \$ 2,587 | \$ 949 | \$ 3,536 |
| 2011 | 2,612 | 885 | 3,497 |
| 2012 | 2,639 | 889 | 3,528 |
| 2013 | 2,666 | 630 | 3,296 |
| 2014 | 2,693 | 274 | 2,967 |
| Total | \$ 13,197 | \$ 3,627 | \$ 16,824 |

Rental expense under all operating leases totaled approximately \$2,959,000 and \$3,412,000 for the fiscal years ended June 30, 2009, and 2008, respectively.

11. OTHER COMMITMENTS

The Lottery has entered into contractual agreements under which On-line and Scratch-Off lottery game vendors provide gaming systems, tickets, and related services. The Lottery's On-line gaming system contractor is compensated at a rate of 1.1499 percent of sales. The contractor's compensation for On-line games for the fiscal years ended June 30, 2009, and 2008, was \$27,982,000, and \$26,165,000, respectively.

The Lottery entered into a new contract for Scratch-Off game tickets and related services on October 1, 2008. The rates under the new contract range from 0.9744 percent to 2.24 percent based on ticket price points and total annual sales. The rate in effect for July 1, 2008, through September 30, 2008, was 2.25 percent based on net sales. Compensation under these agreements amounted to \$31,893,000 for the fiscal year ended June 30, 2009, and \$55,135,000 for the fiscal year ended June 30, 2008.

12. LITIGATION

The Lottery is involved in litigation and other claims incidental to the ordinary course of its operations. In the opinion of Lottery management, based on the advice of legal counsel, the ultimate disposition of these lawsuits and claims will not have a material adverse effect on the financial position of the Lottery.



Florida Lottery

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