



**GEORGIA LOTTERY
CORPORATION**

**ANNUAL REPORT
2001**



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**ANNUAL REPORT
2001**

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Message from the Georgia Lottery



Board of Directors

Our purpose with the Georgia Lottery has been clear since 1993

– raise as many dollars as responsibly as possible for the educational programs we fund. I am exceptionally pleased that the Georgia Lottery established a new record this fiscal year for profits, contributing more than \$691 million to lottery-funded programs. With a nearly \$8 million increase over last year, profits for the Georgia Lottery Corporation have continued to flourish and benefit the students of Georgia.

Every year, all of the members on the board of directors make a solid commitment to the funding of educational programs in the state of Georgia. Plain and simple, this is why the Georgia Lottery was established. As any organization matures, it is the responsibility of that company to review each area for growth. I am pleased with the direction of the corporation and look forward to sustaining

our progress. I would like to thank my associates for their hard work and dedication. We have and will continue to look at our marketplace for ways to improve the quality of our games.

In our eighth fiscal year, we were preparing for our future. Demonstrating a strong performance financially is not enough for the Georgia Lottery Corporation; it is essential that we work harder everyday so that our efforts continue to make a difference throughout the state. As Georgia becomes more competitive with new lotteries around its borders, we will embrace new ways to create and add innovative changes to our games. At the end of the day, the Georgia Lottery will continue to serve as a beacon for successful lotteries everywhere.

Veronica

Pictured from left to right are:

*Richard Robert Ensley
Roscoe Brown
Sylvan M. Byck Jr.
Matthew Ware
Barbara M. Dooley
Roy Richards Jr.
J. Veronica Biggins, Chairwoman*

Fiscal year 2001 was an incredible period for the GLC.

As the Georgia Lottery Corporation marks the end of eight fiscal years, we continue to exceed expectations. In fulfilling our purpose to responsibly raise dollars for education, we experienced another record-breaking year.

President's Letter

The Georgia Lottery transferred an unsurpassed \$691 million to education, increasing profits from the previous year in excess of \$8 million and bringing our total transfer since inception to over \$4.56 billion. More than 590,000 HOPE scholarships have been awarded, and more than 370,000 students have attended lottery-funded prekindergarten. As we continue to support the state's future by funding these critical programs, along with capital outlay and technological upgrades, dollars raised by the Georgia Lottery are building a better Georgia.

We are pleased with our progress over the past year and grateful to everyone who contributed to our achievements. The relationships we maintain with our players and network of retailers remain a vital element of our core. A special thanks is extended to each and every Georgia Lottery employee for a dedication and commitment to excellence beyond compare. Under the leadership of a newly appointed chairwoman and with three new members, the Georgia Lottery Corporation's board of directors continues to serve diligently and incisively.

The fiscal year ended on a successful note with a future bright and full of promise. As we work consistent with our purpose, operating in the spirit of integrity, everyone in Georgia can take pride in the Georgia Lottery Corporation's groundbreaking contributions and extraordinary success.



Education in Georgia was the ultimate winner this year.

The Georgia Lottery Corporation raised its highest amount for education, transferring \$691 million to the state to fund Georgia's HOPE Scholarship Program, Georgia's Prekindergarten Program, and capital outlay and technology initiatives. Since the Georgia Lottery began in 1993, more than \$4.56 billion have been generated for these essential programs.

MORE THAN
\$4.56 BILLION
TO
EDUCATION!



Thanks to the Georgia Lottery Corporation, every child in Georgia has the opportunity to get a jumpstart in school, learn in a progressive, technologically advanced environment, and pursue goals of higher education. Since inception, 592,400 students have received HOPE scholarships, 372,600 children have enrolled in lottery-funded prekindergarten, and over \$1.78 billion have gone to capital outlay and technology initiatives. As the Georgia Lottery Corporation fulfills its legislative mandate to responsibly raise dollars for education, the students of Georgia remain the supreme winners.

What does it mean to be a Georgia Lottery retailer?



Lottery retailers earned more than \$148,598,000 in bonuses, commissions, and incentives.

Retailers



Through our partnership with retailers, players are continuously excited about Georgia Lottery games.

From county to county, retailers are sharing an infectious enthusiasm with Georgia Lottery players statewide. Every smile, greeting and hand shake, is another valuable link between the Georgia Lottery Corporation (GLC) and our consumers. *What does it mean to be a Georgia Lottery retailer?* Providing excellent customer service is what it means. We are especially pleased that there is a proud peach displayed at every Georgia Lottery outlet throughout our great state. We are even more delighted that in fiscal year 2001, Georgia Lottery retailers earned more than \$148,598,000 in bonuses, commissions, and incentives. Fiscal year 2001 was a terrific year!



Georgia Lottery Winners

Georgia is winning everyday with the Georgia Lottery Corporation. While dollars raised help students win, players are also winning with the exciting games offered. From instant games to online favorites, over \$1.14 billion was awarded to players in the form of prizes during fiscal year 2001.

Two players split Fantasy 5's record-breaking top prize of over \$1.2 million, and the game produced its largest single winner, who won a top prize of \$891,959. The year's largest Big Game winner was Sankofa LLC, comprised of airport cabdrivers. They claimed their \$49.4 million cash option prize at Georgia Lottery headquarters just as songwriter Willie Denson was claiming his \$1.29 million cash option Lotto Georgia prize. A joint press conference was held as Georgia Lottery President and CEO Rebecca Paul presented the big checks and sang "Mama Said There'll Be Days Like This," a hit song penned by Mr. Denson. Everyday is a day like this for the many GLC winners. Georgia Lottery players are thrilled to win and just as excited that lottery profits are promoting education across the state.



2001 was a fun filled period with the Georgia Lottery's exciting online and instant games.



Players were entertained by old favorites and new launches. The introduction of a state-of-the-art draw set and vivid rubber balls brightened the scene for Cash 3, Cash 4, Fantasy 5, Lotto Georgia and The Big Game. Cash 3 sales were paramount at \$729,589,000. The addition of a Monday through Saturday midday drawing helped Cash 4 sales increase to \$111,152,000.



GLC Instant Ticket Games



Fantasy 5 enjoyed record top prizes with a matrix expansion and a boost in sales to \$84,851,000. Lotto Georgia sales reached \$80,556,000 while The Big Game topped \$140,516,000. Quick Cash Keno sales peaked at \$49,218,000. Meanwhile, instant games continued to dominate. Led by the premiere of Jumbo Bucks Classic, instant games scored their highest marks in Georgia Lottery history with sales of \$997,925,000.

The Georgia Lottery Corporation

currently employs approximately 250 people statewide and has nine district offices (Atlanta East, Atlanta West, Augusta, Columbus, Dalton, Gainesville, Macon, Savannah and Thomasville) in addition to the GLC headquarters in downtown Atlanta.

The GLC team is comprised of dedicated and professional men and women who are committed to maximizing revenues for specific education programs in Georgia by providing entertaining lottery products and quality customer service to our retailers and players, while maintaining the integrity of the GLC and its games.

The GLC is headed by President and Chief Executive Officer Rebecca Paul. The President is responsible for developing long-term marketing strategies and overseeing the day-to-day operations of the corporation.

Front Row (left to right):
 Andy Davis, Senior Vice President of Finance and Information Systems;
 Rebecca Paul, President and CEO;
 Sidney Chambers, Vice President of Sales and Distribution.
Second Row (left to right):
 Jeannie Lin, Vice President of Advertising;
 Cathy Walls, Senior Vice President of Corporate Affairs;
 Wanda Wilson, Senior Vice President and General Counsel;
 Rosemarie Morse, Vice President of Legal Affairs.
Third Row (left to right):
 Joan Schoubert, Vice President of Financial Management;
 Marty Goldman, Senior Vice President of Sales and Marketing;
 Larry Sipes, Vice President of Information Technology;
 Daniel Johnson, Vice President of Systems Development.
 (Not pictured: Mar-D Greer, Vice President of Security).

The Sales and Marketing Division

is responsible for coordinating and overseeing all sales and marketing activities (including promotions and research) and retailer administration.

Corporate Affairs

incorporates Human Resources and training, advertising and facilities management; and handles external communications including board liaison, legislative affairs, public and player information and media relations.

Finance and Information Systems

provides services related to financial accounting and reporting, cash management, the budget, collections, prize validation and procurement; and maintains state-of-the-art computer systems, technology and telecommunications systems.

Legal Affairs

provides legal advice and assistance, drafts policies and directs security and investigations; and handles internal auditing.

Independent Auditors' Report

Board of Directors of the Georgia Lottery Corporation:

We have audited the accompanying balance sheets of the Georgia Lottery Corporation (the "GLC") as of June 30, 2001 and 2000, and the related statements of revenues, expenses, and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the management of the GLC. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the GLC as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 24, 2001

Deloitte & Touche LLP

GEORGIA LOTTERY CORPORATION

BALANCE SHEETS JUNE 30, 2001 AND 2000

ASSETS	2001	2000
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 183,548,000	\$ 212,595,000
Restricted fidelity fund cash	500,000	500,000
Retailer accounts receivable, net	72,752,000	61,847,000
Prepaid expenses and other assets	<u>3,560,000</u>	<u>2,630,000</u>
Total current assets	260,360,000	277,572,000
GRAND PRIZE INVESTMENTS (Note 3)	209,177,000	222,250,000
PROPERTY AND EQUIPMENT - net (Note 4)	<u>2,898,000</u>	<u>3,161,000</u>
TOTAL ASSETS	<u>\$ 472,435,000</u>	<u>\$ 502,983,000</u>
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES:		
Due to Lottery for Education Account (Note 7)	\$ 192,333,000	\$ 222,995,000
Prizes payable	55,535,000	45,977,000
Accounts payable and accrued liabilities	13,892,000	11,102,000
Restricted fidelity fund	500,000	500,000
Other liabilities	<u>8,000</u>	<u>8,000</u>
Total current liabilities	262,268,000	280,582,000
GRAND PRIZES PAYABLE (Note 5)	205,674,000	226,457,000
OTHER LONG-TERM LIABILITIES	<u>154,000</u>	<u>281,000</u>
Total liabilities	468,096,000	507,320,000
RETAINED EARNINGS:		
Unrestricted retained earnings	1,255,000	-
Restricted, due to unrealized gain/(loss) on grand prize investments	<u>3,084,000</u>	<u>(4,337,000)</u>
TOTAL RETAINED EARNINGS (Note 2)	<u>4,339,000</u>	<u>(4,337,000)</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 472,435,000</u>	<u>\$ 502,983,000</u>

See notes to financial statements.

GEORGIA LOTTERY CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS YEARS ENDED JUNE 30, 2001 AND 2000

	2001	2000
REVENUES:		
Ticket sales	\$ 2,193,807,000	\$ 2,313,552,000
Less instant tickets provided as prizes	<u>(106,038,000)</u>	<u>(100,725,000)</u>
Net ticket sales	2,087,769,000	2,212,827,000
On-line fees	4,313,000	4,041,000
Other	<u>1,822,000</u>	<u>137,000</u>
Net revenues	2,093,904,000	2,217,005,000
GAMING EXPENSES:		
Prizes	1,141,483,000	1,260,497,000
Retailer commissions and bonuses	148,598,000	157,478,000
Contractor fees	72,663,000	75,158,000
Advertising	17,700,000	18,650,000
Retailer merchandising and marketing	4,756,000	5,275,000
Other	<u>298,000</u>	<u>272,000</u>
Total gaming expenses	1,385,498,000	1,517,330,000
OPERATING EXPENSES:		
Salaries and benefits	15,116,000	15,674,000
Rent, utilities, and maintenance	4,980,000	4,963,000
Professional fees	490,000	512,000
Depreciation	1,317,000	1,132,000
Other	<u>1,158,000</u>	<u>1,094,000</u>
Total operating expenses	23,061,000	23,375,000
Total expenses	<u>1,408,559,000</u>	<u>1,540,705,000</u>
INCOME FROM OPERATIONS	685,345,000	676,300,000
INTEREST INCOME - Net	<u>7,495,000</u>	<u>6,066,000</u>
INCOME BEFORE TRANSFERS TO AND DUE TO LOTTERY FOR EDUCATION ACCOUNT	692,840,000	682,366,000
FIDELITY FUNDS SUBJECT TO TRANSFER (Note 2)	87,000	72,000
LESS: TRANSFERS TO AND DUE TO LOTTERY FOR EDUCATION ACCOUNT	<u>(691,672,000)</u>	<u>(683,827,000)</u>
Net increase/(decrease) in fair value of grand prize investments (Note 3)	7,421,000	(1,507,000)
TOTAL RETAINED EARNINGS, BEGINNING OF YEAR	<u>(4,337,000)</u>	<u>(1,441,000)</u>
TOTAL RETAINED EARNINGS, END OF YEAR (Note 2)	<u>\$ 4,339,000</u>	<u>\$ (4,337,000)</u>

See notes to financial statements.

GEORGIA LOTTERY CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2001 AND 2000

	2001	2000
OPERATING ACTIVITIES:		
Income before transfers to and due to the Lottery for Education Account	\$ 692,840,000	\$ 682,366,000
Adjustments to reconcile income before transfers to and due to Lottery for Education Account to net cash provided by operating activities:		
Depreciation	1,317,000	1,132,000
Provision for doubtful accounts	240,000	190,000
Gain on disposals of property and equipment	(93,000)	(131,000)
Changes in assets and liabilities:		
Retailer accounts receivable	(11,145,000)	(12,921,000)
Prepaid expenses and other assets	(930,000)	(63,000)
Accounts payable and accrued liabilities	2,790,000	(1,795,000)
Prizes payable	9,758,000	18,100,000
Grand prizes payable	(35,180,000)	(94,575,000)
Restricted fidelity fund	87,000	103,000
Other liabilities	<u>(127,000)</u>	<u>(68,000)</u>
Net cash provided by operating activities	659,557,000	592,338,000
NONCAPITAL FINANCING ACTIVITIES:		
Payments to Lottery for Education Account	(722,334,000)	(623,323,000)
Payments to Department of Human Resources	<u>(200,000)</u>	<u>(200,000)</u>
Net cash used in noncapital financing activities	(722,534,000)	(623,523,000)
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(1,055,000)	(1,609,000)
Proceeds from disposals of property and equipment	<u>93,000</u>	<u>133,000</u>
Net cash used in capital and related financing activities	(962,000)	(1,476,000)
INVESTING ACTIVITIES:		
Purchase of grand prize investments	(9,631,000)	(6,090,000)
Investments sold	23,007,000	75,879,000
Maturities of grand prize investments	<u>21,516,000</u>	<u>24,741,000</u>
Net cash resulting from investing activities	<u>34,892,000</u>	<u>94,530,000</u>
NET INCREASE/(DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED FIDELITY FUND CASH	(29,047,000)	61,869,000
CASH, CASH EQUIVALENTS, AND RESTRICTED FIDELITY FUND CASH:		
Beginning of year	<u>213,095,000</u>	<u>151,226,000</u>
End of year	<u>\$ 184,048,000</u>	<u>\$ 213,095,000</u>

See notes to financial statements.

GEORGIA LOTTERY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

1. REPORTING ENTITY

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

The GLC's ticket sales include instant ticket sales and on-line ticket sales for Cash 3, Cash 4, Lotto Georgia, Fantasy Five, Quick Cash Keno, and The Big Game.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The GLC is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises: (1) where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges, or (2) where the periodic determination of net income is considered appropriate. The GLC is reported as an enterprise fund within the State of Georgia's Comprehensive Annual Financial Report ("CAFR").

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

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

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

Commissions and Bonuses - Retailers receive a commission of 5% on ticket sales, except for Cash 3 sales, on which retailers receive a commission of 7%, and a 2% cashing bonus on all ticket validations. In addition, retailers receive bonuses for selling winning jackpot tickets for Lotto Georgia, Fantasy Five, and The Big Game. During each quarter of 2001 and 2000, one instant ticket game was introduced with a retailer sales commission of 10%.

Gaming Contractor Fees - The GLC has contracted with two vendors for the majority of the gaming systems and supplies.

The GLC contracts with GTECH Corporation ("GTECH") for the operation of the gaming network that consists of over 7,600 instant and online retailer ticket terminals and associated software. GTECH receives a fee of 2.315% of net ticket revenue. The portion of the fee associated with instant game tickets confirmed as received by retailers but not yet activated is accounted for by the GLC as a prepaid expense. The current contract extension period expires on September 10, 2003.

The GLC contracts with Scientific Games, Inc. for the printing and distribution of instant game tickets. Scientific Games receives a fee of 2.4375% of net instant game tickets distributed to retailers. The portion of the fee associated with instant game tickets distributed to retailers but not yet activated is accounted for by the GLC as a prepaid expense. The current contract extension period expires on June 30, 2003.

Prizes - In accordance with the Act, as nearly as practical, at least 45% of ticket sales must be returned to the public in the form of prizes. Prize expense for instant games is recognized based on the predetermined prize structure for each game. Generally, prize expense for Cash 3, Cash 4, The Big Game, and Quick Cash Keno is recognized based on the estimated payout experience over the life of the games or the industry averages. Prize expense for Lotto Georgia and Fantasy Five is recorded on a pari-mutuel basis according to the game structure based on a percentage of revenue recognized.

The Big Game is a multi-state lottery game operated by member lotteries. The Big Game grand prize is a shared prize from contributions to the prize pool by the member lotteries. Grand prize investments for jackpot winners who purchased tickets in Georgia are held by the GLC.

The Powerball grand prize is a shared prize from contributions to the prize pool by all member lotteries of the Multi-state Lottery Association ("MUSL"). All Powerball grand prizes won by players who purchased tickets in Georgia are funded by investments purchased by MUSL. The investments are held by MUSL in trust for the GLC and are paid in 20 annual installments. The annual installments due from MUSL and payable to the winner are recorded based on the present value of the investments. The GLC withdrew from MUSL on August 31, 1996.

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

Retained Earnings - Retained earnings represent cumulative revenues less expenses in excess of net proceeds transferred to the Lottery for Education Account, as defined under the Act (see Note 7). Unrestricted retained earnings normally result from the inclusion of capital costs in the determination of net proceeds as required by the Act.

Restricted retained earnings result from the cumulative effect of periodic adjustments to recognize the fair value of grand prize investments held to fund grand prize payables. Grand prize investments are purchased to finance future payments to Lotto Georgia, The Big Game, and certain instant game grand prize winners. Any increases or decreases in the fair value of these investments are determined to be unrealized and will not affect (i) the future ability to hold these investments, or (ii) the amount of funds available for distribution to the Lottery for Education Account.

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

Retailer Accounts Receivable - Retailer accounts receivable represents lottery proceeds due from retailers for net ticket sales less commissions, cashing bonuses, and prizes paid by the retailers. Lottery proceeds are collected weekly from retailer bank accounts held in trust for the GLC. At June 30, 2001 and 2000, the allowance for uncollectible retailer receivables was \$1,561,000 and \$1,485,000, respectively.

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

Fidelity Fund - In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a GLC retailer. The GLC is reimbursed from the fund for any losses incurred by it as a result of the misfeasance or malfeasance of GLC retailers. At the end of each year, any amount in the fund in excess of \$500,000 is treated as net proceeds from the GLC subject to transfer to the Lottery for Education Account. At June 30, 2001, \$87,000 was available for transfer as net proceeds. The fidelity fund proceeds are held in a separate

account and appear on the balance sheet as restricted fidelity fund cash and in liabilities as restricted fidelity funds.

The bank balance of approximately \$500,000 at June 30, 2001 and 2000 was either insured by federal depository insurance or collateralized by the GLC's custodial bank in the GLC's name.

Insurance - The GLC participates in the various insurance programs established and administered by the State of Georgia for property, general liability, automobile liability, workers' compensation, and federal civil rights actions. Property is insured for actual cash value to an aggregate of \$7 million per loss event; liability coverage is provided up to \$1 million per person and \$1 million per occurrence; and workers' compensation is provided to comply with the applicable law.

Compensated Absences - Employees earn the right to be compensated during absences for vacation and illness. Unused leave benefits are paid to employees upon separation from service. The cost of vacation and vested sick leave benefits is accrued in the period in which it was earned.

Budget - Georgia Statute requires the GLC to submit to the Office of Planning and Budget ("OPB") and the State Auditor, annually by June 30, a proposed operating budget for the next fiscal year. Additionally, the GLC is required to submit to the OPB annually, on September 1, a proposed operating budget for the GLC and an estimate of net proceeds for the succeeding fiscal year.

New Accounting Pronouncements - The Governmental Accounting Standards Board ("GASB") issued Statement of Governmental Accounting Standards ("SGAS") No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by SGAS No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues - an amendment of GASB Statement No. 33*. SGAS No. 33, as amended, was adopted effective July 1, 2000, and did not have a material impact on the financial statements of the GLC.

The GASB issued SGAS No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by SGAS No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34*, and SGAS No. 38, *Certain Financial Statement Note Disclosures*. These statements establish new financial reporting requirements for state and local governments throughout the United States. Management is currently analyzing the effects that the adoption of these standards will have on the GLC's financial statements. The GLC will adopt these standards in the fiscal year 2002.

Reclassifications - Certain operating expenses in the prior period financial statements have been reclassified to conform with the current presentation.

3. CASH, CASH EQUIVALENTS, AND GRAND PRIZE INVESTMENTS

Cash - Cash is held in demand deposits at various financial institutions. The bank balance of these deposits of approximately \$2,845,000 at June 30, 2001 and \$1,473,000 at June 30, 2000, was insured by either the state's collateral for public deposits in accordance with Georgia Statutes, Chapter 280.04, or federal depository insurance. These deposits are collateralized with U.S. Government securities held in a custody account at the Federal Reserve Bank for the benefit of the GLC. The fair value of the underlying securities must be at least equal to the amount of funds held by the financial institution on behalf of the GLC.

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

As of June 30, 2001, Georgia Fund 1 net assets totaled \$8,686,197,000 and were invested in the following:

Repurchase Agreements	23%
Federal Agencies/Instrumentality Securities	70%
Banker's Acceptances	7%

The GLC's investment in Georgia Fund 1 was approximately \$181,934,000 at June 30, 2001 and \$212,169,000 at June 30, 2000. No allocation will be made as to the GLC's share of the types of investments or Georgia Fund 1's risk categories. Interest earned on the GLC's investments was approximately \$7,495,000 and \$6,066,000 for the years ended June 30, 2001 and 2000, respectively.

The GLC's share of the assets and liabilities arising from the above investments will not be carried on the balance sheet since the Georgia Fund 1 is operated on a pooled basis. To do so may give the misleading impression that the GLC has some controlling authority over the investment vehicles.

Grand Prize Investments - All grand prize investments represent funds held to pay grand prize winners who have selected multi-year payments. Grand prize investments are recorded at their fair values. Increases or decreases in the fair value of these investments are determined to be unrealized as of June 30, 2001 and 2000.

Grand prize investments at June 30, 2001 and 2000 consist of the following:

	Fair Value	
	2001	2000
U.S. Treasury Securities	\$ 200,818,000	\$ 214,629,000
Government Agencies	8,359,000	7,621,000
	<u>\$ 209,177,000</u>	<u>\$ 222,250,000</u>

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

Changes in grand prize investments for the years ended June 30, 2001 and 2000 consisted of:

Fair Value, July 1, 1999	\$ 300,272,000
Purchases	6,090,000
Payments to grand prize winners	(24,741,000)
Investments sold	(75,879,000)
Interest earned on current year liabilities	18,015,000
Change in fair value	<u>(1,507,000)</u>
Fair Value, June 30, 2000	<u>\$ 222,250,000</u>
Purchases	9,631,000
Payments to grand prize winners	(21,516,000)
Investments sold	(23,007,000)
Interest earned on current year maturities	14,398,000
Change in fair value	<u>7,421,000</u>
Fair Value, June 30, 2001	<u>\$ 209,177,000</u>

GASB Statement No. 3 provides for the classification of investments to give an indication of the level of credit risk assumed by the GLC. Category 1 includes investments for which the securities are held by the GLC or its agent in the GLC's name. Category 2 includes investments for which the securities are held by the counterparty's trust department or agent in the GLC's name. Category 3 includes investments for which the securities are held by the counterparty's safekeeping department in the GLC's name. At June 30, 2001, grand prize investments of \$157,110,000 and \$52,067,000 were classified as Category 1 and Category 3, respectively.

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2001 and 2000 consisted of:

	2001	2000
Furniture and fixtures	\$ 2,389,000	\$ 2,304,000
Computer and communications equipment	7,402,000	7,282,000
Vehicles	2,152,000	2,084,000
Leasehold improvements	2,095,000	2,042,000
Software	162,000	156,000
Other assets	1,348,000	1,231,000
	<u>15,548,000</u>	<u>15,099,000</u>
Less accumulated depreciation	<u>(12,650,000)</u>	<u>(11,938,000)</u>
Total property and equipment, net	<u>\$ 2,898,000</u>	<u>\$ 3,161,000</u>

5. GRAND PRIZES PAYABLE

Grand prizes payable is recorded at its net present value using the available interest yield for U.S. Treasury securities. Interest expense related to grand prizes payable was approximately \$14,398,000 and \$18,015,000 for the years ended June 30, 2001 and 2000, respectively. Grand prizes payable are not presented as current liabilities, as they are not part of the GLC's current operations.

Future payments of grand prizes payable at June 30, 2001 are scheduled as follows:

2002	\$ 21,231,000
2003	21,210,000
2004	21,211,000
2005	21,156,000
2006	21,200,000
Thereafter	<u>198,004,000</u>
	304,012,000
Less imputed interest	<u>(98,338,000)</u>
Net present value of grand prizes payable	<u>\$ 205,674,000</u>

The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (the "Act") was enacted into federal law on October 21, 1998. Included in this Act is a "Special Rule for Cash Options for Receipt of Qualified Prizes." Pursuant to the Special Rule, the Georgia Lottery Corporation ("GLC") may extend to recipients of "qualified prizes" the opportunity, within a certain period after the drawing, to select a lump-sum payment equivalent to the cash value of an annuitized prize. Qualified prizes, as defined in the Act, include multiple-year payments of a minimum of 10 years. The Special Rule also provides for a "special claim period" for recipients of qualified prizes prior to the October 21, 1998 enactment date. The GLC amended the Online and Instant Game Rules and Regulations on January 26, 1999 to incorporate the provisions of the Special Rule and to further define a qualified prize.

Claimants of qualified prizes, as defined in the GLC Rules and Regulations, on or after the date of enactment of the Act, can make an irrevocable election to receive a lump-sum cash payment equivalent of the annuitized prize within sixty (60) days of the claim date. Grand prizes payable at June 30, 2001 consist of no qualified prizes under this provision of the Special Rule.

Claimants of qualified prizes who won prior to the date of enactment of the Act and meet the requirements defined in applicable GLC Rules and Regulations are permitted the option to select a lump-sum payment equivalent to the cash value of the remaining annuitized prize payments. Under the provision of the Act, this option was not exercisable prior to July 1, 1999 and expired on December 31, 2000. Therefore, grand prizes payable at June 30, 2001 consist of no prizes that qualify under this provision of the Special Rule.

6. OPERATING LEASES

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

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

Year Ending June 30,	Operating Leases
2002	\$ 1,963,000
2003	1,963,000
2004	<u>14,000</u>
	3,940,000
Less sublease revenues	<u>(820,000)</u>
Total	<u>\$ 3,120,000</u>

Rental expense under all operating leases totaled approximately \$1,661,000 and \$1,650,000 for the years ended June 30, 2001 and 2000, respectively.

7. DUE TO LOTTERY FOR EDUCATION ACCOUNT

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

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

Net proceeds and operating expenses for the years ended June 30, 2001 and 2000 are summarized as follows:

	2001	2000
Ticket sales	\$ 2,193,807,000	\$ 2,313,552,000
Less instant tickets provided as prizes	<u>(106,038,000)</u>	<u>(100,725,000)</u>
Net ticket sales	2,087,769,000	2,212,827,000
On-line fees and other revenues	6,135,000	4,178,000
Interest income	<u>7,495,000</u>	<u>6,066,000</u>
GLC proceeds	<u>2,101,399,000</u>	<u>2,223,071,000</u>
Operating expenses, as defined:		
Gaming	1,385,498,000	1,517,330,000
Operating	23,061,000	23,375,000
Other	<u>1,255,000</u>	<u>1,809,000</u>
Total operating expenses, as defined	<u>1,409,814,000</u>	<u>1,542,514,000</u>
Net proceeds before distribution of unrestricted retained earnings	<u>691,585,000</u>	<u>680,557,000</u>
Other:		
Unrestricted retained earnings, beginning of year	-	1,389,000
Additions to unrestricted retained earnings	-	1,809,000
Fidelity funds subject to transfer (Note 2)	<u>87,000</u>	<u>72,000</u>
Total other	<u>87,000</u>	<u>3,270,000</u>
Net proceeds subject to transfer	<u>\$ 691,672,000</u>	<u>\$ 683,827,000</u>
Amount due to Lottery for Education Account for year	\$ 691,672,000	\$ 683,827,000
Amount paid during year	<u>(499,339,000)</u>	<u>(460,832,000)</u>
Amount due to Lottery for Education Account, end of year	<u>\$ 192,333,000</u>	<u>\$ 222,995,000</u>

On July 13, 2001, all amounts due at June 30, 2001 were transferred to the Lottery for Education Account.

8. EMPLOYEE BENEFITS

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

There were 247 GLC employees participating in the 401(k) plan at June 30, 2001. For fiscal years ended June 30, 2001 and 2000, GLC contributed \$705,000 and \$683,000, respectively, to the plan, and paid \$4,000 and \$6,000, respectively, of plan administrative fees, on behalf of GLC employees. Contributions by plan participants during fiscal years ended June 30, 2001 and 2000 were \$408,000 and \$344,000, respectively.

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

Section 1448 of the Small Business Job Protection Act of 1996 added Subsection (g) to Section 457 of the IRS Code to provide that all assets and income under a Section 457(b) plan that is maintained by a state or local government employer must be held in trust for the exclusive benefit of plan participants and their beneficiaries. Bank One Trust Company, N.A., is the custodian of the plan's assets. As of June 30, 2001 and 2000, the fair value of the plan's assets was \$1,002,000 and \$1,206,000, respectively. Contributions by participants during the years ended June 30, 2001 and 2000 were \$92,000 and \$114,000, respectively.

9. CONTINGENCIES

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

10. SUBSEQUENT EVENTS

On September 8, 2001, the GLC ended ticket sales of Lotto Georgia. Unawarded jackpot prize funds of \$389,000 remaining from the draw of September 8, 2001 will be returned to players in the form of prizes or promotions in our other games.

On September 9, 2001, the GLC began ticket sales for Lotto South. Lotto South is a multi-state lottery game operated by three states. Lotto South prizes are shared among all participating states from contributions to the prize pool.