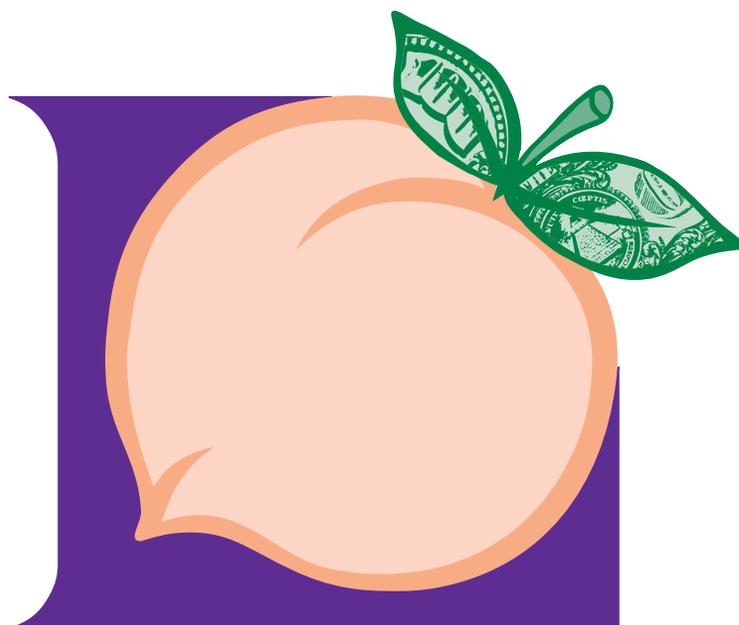


GEORGIA LOTTERY CORPORATION



GEORGIA

L O T T E R Y

ANNUAL REPORT

2000

C O N T E N T S

The Board of Directors

1

The President and CEO

2

Education

4

GLC Games

6

Winners

8

Retailers

10

The GLC

12

Independent Auditors' Report

14

Statements of Revenues, Expenses, and
Changes in Retained Earnings

15

Statements of Cash Flows

17

Notes to the Financial Statements

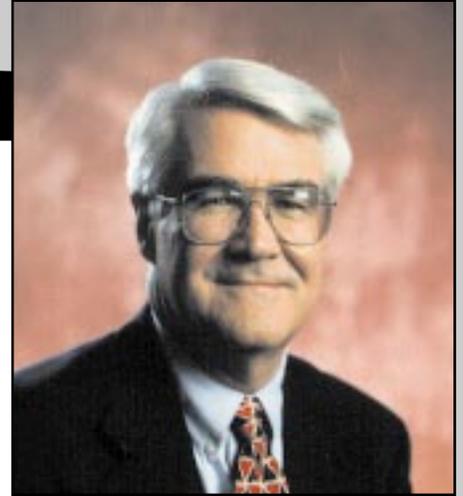
18

MESSAGE FROM WYCK KNOX, JR.

Outgoing Chairman

I am exceptionally proud of my tenure as Chairman of the board of directors and even more proud to have been a part of the \$3.65 billion dollars raised for lottery-funded educational programs. In every aspect, the Georgia Lottery Corporation has outpaced the lottery industry serving as the blue print and role-model for lotteries worldwide. In the competitive entertainment industry, it is impressive that the Georgia Lottery Corporation has managed to maximize revenues consecutively for the first seven years. It is even more impressive to know that Georgia is the only lottery in the nation to demonstrate such a strong financial performance. As a whole, it was our goal since inception to be the best lottery possible. The only accomplishment better than achieving our goal is having exceeded our goal.

Since 1993 the Georgia Lottery Corporation set out to sell integrity along with every lottery ticket purchased. It has long been the position of the lottery that every player has the same opportunity to win in each of our games. Our pattern of consistent sales growth is largely contributed to that strategy. Operating as a corporation is another key factor that has proven to be successful for Georgia's lottery. As Georgia settles into a mature lottery, I am optimistic about the years ahead. Strong leadership, enthusiastic employees, committed partners and unyielding supporters collectively created a solid foundation for the Georgia Lottery Corporation. It is time to build upon that foundation. Ultimately, the Georgia Lottery Corporation's greatest strength lies around the bend in the approaching fiscal year.



MESSAGE FROM VERONICA BIGGINS:

Incoming Chairwoman

The Georgia Lottery Corporation has made enormous strides in the seven years since inception. As the only U.S. lottery to increase sales for seven consecutive years, we strive to ensure the Georgia Lottery Corporation's future success. The GLC is dedicated to continuing its pivotal role in education throughout Georgia.

As the Georgia Lottery enters its eighth year, many thanks to our supporters and friends. Our success depends upon our dedicated retailers and talented employees. Special thanks are extended to Rebecca Paul for her endless support and hard work. I also want to add a note of gratitude to the board of directors who work side by side in the spirit of improving education in Georgia. We stand ready to build on our successes of the past seven years and look forward to working together to ensure a triumphant future for the Georgia Lottery Corporation.

“We
reached our
objective
as one of the
world's
best.”



The Georgia Lottery Corporation (GLC) experienced a myriad of triumphs in fiscal year 2000. It was an amazing year, watching our games grow along with our dollar return to education. We began the year commemorating the 400,000th Georgia HOPE scholar, and closed fiscal year 2000 celebrating more than 372,000 students who have participated in the lottery-funded Georgia Prekindergarten program for four-year-olds. One month into our fiscal year, we produced our highest jackpot winner to date. By the year's close, we had participated in the largest jackpot in our nation's history. With unparalleled excitement this fiscal year, it was evident that the Georgia Lottery was firmly positioned to remain ahead of the curve.

Undeniably, the pinnacle of our achievements this year was increasing sales for the seventh consecutive year. It was our goal to build upon our remarkable achievement of being the most successful start-up lottery in United States history. Once again, we reached our objective and established our lottery as one of the world's best. Above and beyond everything else, we are pleased to have shared an accomplishment which benefits everyone in Georgia. The Georgia Lottery Corporation was created to fund three specific areas of education. Since 1993, more than \$3.65 billion has gone to the state of Georgia for the educational programs we fund. With every dollar raised, these programs continue to grow with our success.



There is no question that our accomplishments would not have been possible without friends and supporters of the Georgia Lottery Corporation. We have been fortunate over the years to have seven astute members on the board of directors sharing their keen wisdom and knowledge. I would like to thank each member on the board of directors, with a special thanks to those undertaking the responsibility of leadership. The impact of their contribution is immeasurable. With loyal players, enthusiastic retailers, and fervent employees, we were certainly poised for success in every direction this year. If results are the true measurement of a company's success, the Georgia Lottery Corporation firmly stands as the nation's most successful lottery. With an exciting seven years behind us, we eagerly embrace what lies ahead.

Rebecca

“Each lottery game in Georgia generates a winner in education!”

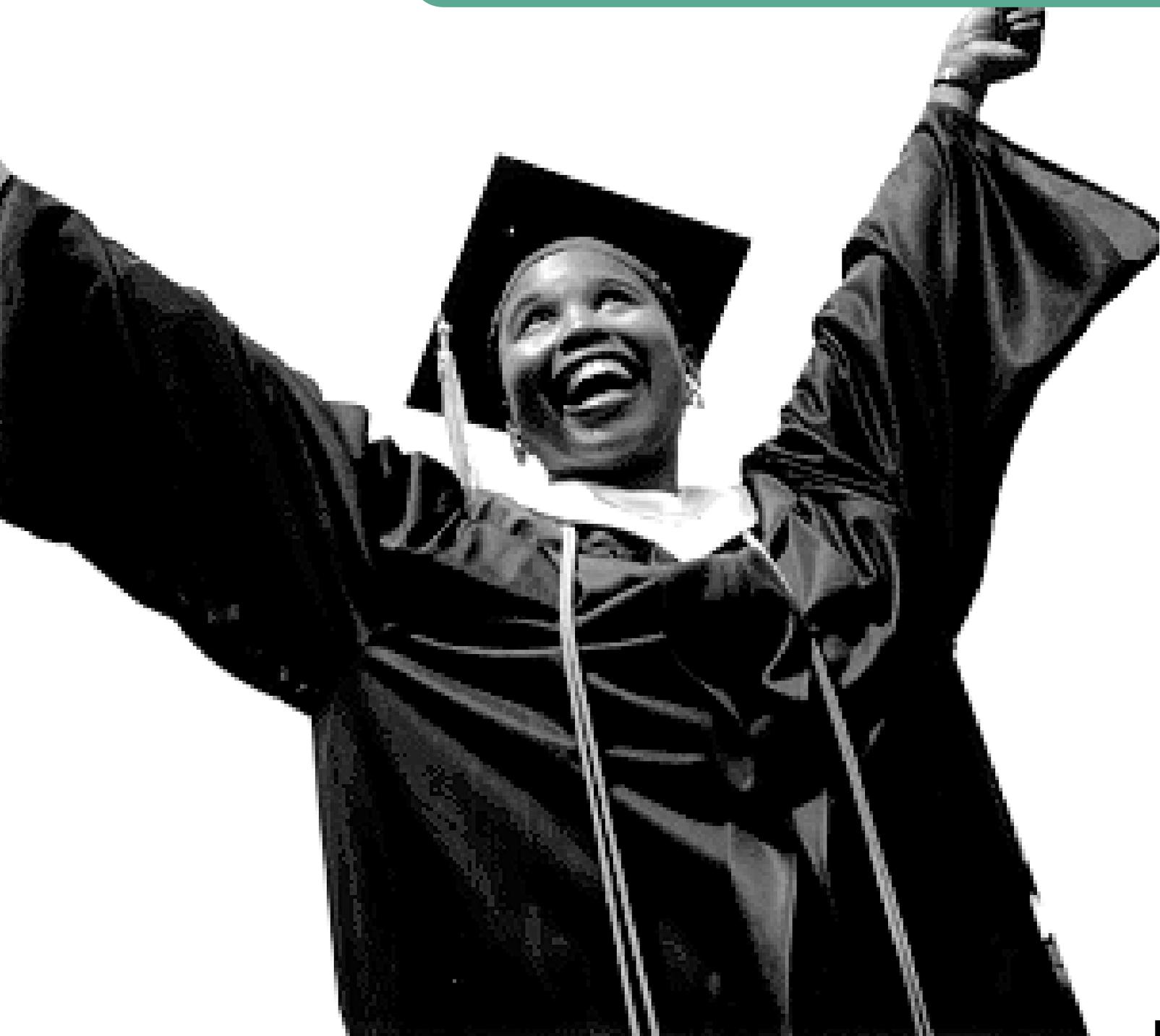
Bright smiles can be found throughout the state of Georgia on the faces of those touched by the educational programs funded by the Georgia Lottery Corporation. Working energetically to stay ahead of the curve, the Georgia Lottery's success has made it possible for the expansion of lottery-funded educational programs statewide. Because of the remarkable sales of the Georgia Lottery each year since 1993, the Georgia HOPE Scholarship Program has evolved from a two year program with a \$66,000 annual income cap to a four-year program without an annual income cap. The Prekindergarten Program for four-year-olds began as a Pre-k program for at-risk four-year-olds only. Today, the program is open to every four-year-old in the state of Georgia as a result of the Georgia Lottery.

This unique success story over the past seven years is unmatched by any lottery nationwide, and the Georgia Lottery Corporation is proud to contribute another successful chapter in its seven-year existence.

This fiscal year, lottery-funded educational programs received the highest transfer in Georgia Lottery history – more than \$683 million. Since inception, more than \$3.65 billion has been given to the state of Georgia specifically for the Georgia HOPE Scholarship Program, the Georgia Prekindergarten Program for four-year-olds, and capital outlay and technology initiatives statewide. With all profits going to lottery-funded educational programs, *everyone* is a winner in Georgia! Every lottery dollar places a Georgia student one step ahead of the learning curve. Placing our best foot forward, the Georgia Lottery Corporation is moving in the right direction.



*Every lottery dollar
places a Georgia
student one step ahead
of the learning curve.*



“Instant Games are still a favorite” among players.”



Georgia Lottery games have provided fun and entertainment for seven magnificent years. With fiscal year 2000 boasting record ticket sales of \$2.3 billion, our online and instant games were a winning combination.

Contributing more than \$960 million to sales for fiscal year 2000, instant games are still a favorite among players. Sales for instant games reached over \$21 million for the week ending February 19, 2000, making it the second highest sales week in GLC instant game history.

Online games continued their success in fiscal year 2000 with \$1.35 billion in sales. The figures were solid for Cash 3, Cash 4, Fantasy 5, Lotto Georgia, The Big Game and Quick Cash Keno. Cash 3 continued to grow with sales totaling more than \$802 million, the highest in the history of the game. Sales for CASH 4 exceeded \$106 million, surpassing the previous fiscal year. Players still respond well to Fantasy 5, which maintained steady sales and produced over \$79 million. By the end of the fiscal year, The Big Game added an all-time high in excess of \$215 million to GLC sales. Lotto Georgia is still a popular choice among players, generating over \$93 million in sales. Quick Cash Keno sales remained consistent and equaled over \$54 million in GLC sales for the fiscal year.



“Lucky 7’s continues going strong as the longest running instant game.”

Old favorites and new introductions have been the key to success with all of our games. After seven years, our instant game *Lucky 7’s* continues going strong as the longest running instant game in GLC history. The excitement escalated when *Happy Holidays* and *7th Anniversary Game* were introduced with \$500,000 top prizes.

The Big Game made a big impact around the world when the jackpot soared to a record-breaking \$363 million for the May 8, 2000 draw. When billboards could no longer contain the climbing jackpot amount, President and CEO Rebecca Paul climbed all the way to the top of a sign in downtown Atlanta, unveiling the huge amount to eager media and fans. The official Web site, www.theofficialbiggame.com, was launched during this amazing period.

As we look to keep our games fresh and thrilling for players, some exciting changes were made throughout the year. With the addition of Saturday drawings on October 16, 1999, Fantasy 5 is now a seven night a week favorite.

The GLC continues to stay ahead of the curve by providing enjoyable games, and our players have responded enthusiastically. Spurred on by an amazing Big Game jackpot and strong instant games, 2000 was a banner year.



“Everyone is a Winner.”

Everyone is a winner with the Georgia Lottery Corporation! With all profits allocated for specific educational programs, Georgia Lottery players are almost as excited about contributing to education, as they are about winning the lottery. Since inception, more than \$3.65 billion have been raised for lottery-funded educational programs with over \$6 billion paid to players in the form of prizes. Statewide, players enjoyed the fun and entertainment of Georgia Lottery games while benefiting education.

On August 4, 1999, Thomas Randy Kerfoot purchased a Big Game ticket in Rossville and won the single largest prize payout in GLC history - over \$59 million. Exactly one month later, James Seigler bought a ticket in Bowman to become the highest Lotto Georgia winner this fiscal year receiving more than \$12 million. On New Year's Eve, Katheryn Lowry of Norcross became the second single largest GLC winner this fiscal year receiving more than \$22.4 million. Two days later, on January 2, 2000, the GLC paid more than \$27.4 million to lucky Cash 3 players – the highest in the game's history.



GEORGIA
LOTTERY
Pay to the order of JAMES SEIGLER \$12,011,281
12 MILLION 11 THOUSAND 281 DOLLARS
LOTTO
SEPT. 4, 99
Thomas Randy Kerfoot

Players enjoyed the fun and entertainment of Georgia Lottery games while benefiting education.

Instant ticket winners celebrated too! In November 1999, Ed Smith of Lawrenceville became the first of several GLC top prize winners of \$500,000 with instant game Happy Holidays – the largest non-annuity top prize instant game offered by the GLC. Playing the Georgia Lottery was all about fun this year with lucky winners receiving more than \$1.36 billion in prizes.



“Retailers have exhibited commitment, hard work and expertise to stay a step ahead.”

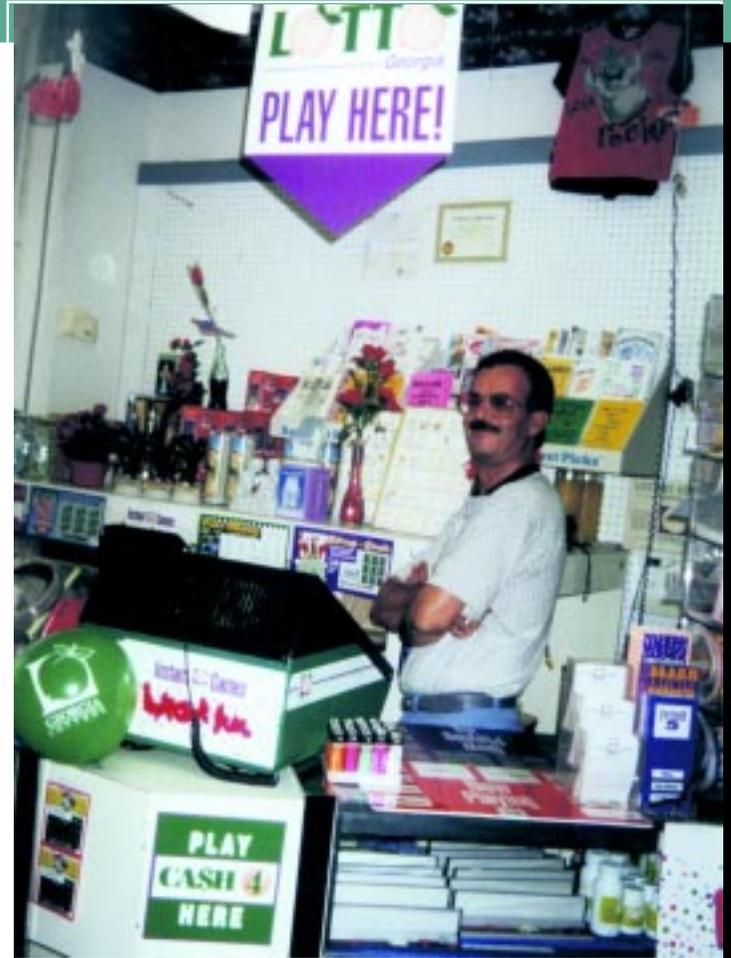
Retailers have been a driving force on the Georgia Lottery Corporation's road to success during the past seven years, serving as the link between the lottery and its players. The GLC's retailers have exhibited the commitment, hard work and expertise required to stay a step ahead, continually going above and beyond.

As record-breaking sales indicate, lottery retailers remained busy throughout the year. Fiscal year 2000 was phenomenal across the board for the GLC, proving to be a landmark year for retailers. Lottery retailers were rewarded for their efforts with more than \$157 million in commissions.

When The Big Game jackpot rolled to \$363 million in May 2000, the GLC's 7,000 retailers positioned themselves on the frontlines and met the challenge with professionalism beyond compare. The first-rate customer service displayed during this period and over the past seven years has been a contributing factor to the Georgia Lottery's accomplishments.

GLC retailers have played a major role in connecting the corporation to its customers over the last seven years. The strong partnership between the lottery and its retailers reaffirms the principle that teamwork produces winners.





Lottery retailers were rewarded for their efforts with more than \$157 million in commissions.



**Fiscal Year 2000
Top Five Retailer
Incentive Payments**

**CAREYS CONVENIENT STORE
\$170,000**

■
**FLASH FOODS #0025
\$55,000**

■
**WOODALL'S #3
\$55,000**

■
**CIRCLE M FOOD SHOP #0009
\$50,000**

■
**CIRCLE M FOOD SHOP #0006
\$30,000**

THE GLC

The GLC team is comprised of dedicated and professional men and women



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.

Front row left to right: Cathy Walls, Senior Vice President of Corporate Affairs; Margaret Bode, Vice President of Human Resources; Rebecca Paul, President and CEO. Second row (left to right): Joan Schoubert, Vice President of Financial Management; Jeannie Lin, Vice President of Advertising; Andy Davis, Senior Vice President of Finance and Information Systems; Wanda Young Wilson, Senior Vice President and General Counsel. Third row (left to right): Mar-D Rogore, Vice President of Security; Daniel Johnson, Vice President of Systems Development; Rosemary Morse, Vice President of Legal Affairs. Fourth row (left to right): Larry Sipes, Vice President of Information Technology; Marty Goldman, Senior Vice President of Sales and Marketing; Sidney Chambers, Vice President of Sales and Distribution.

“ We are committed to maximizing revenues for specific education programs in Georgia.”

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.

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, 2000 and 1999 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 GLC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the GLC as of June 30, 2000 and 1999, 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.

Deloitte & Touche LLP

August 25, 2000
Atlanta, GA.

GEORGIA LOTTERY CORPORATION
BALANCE SHEETS
JUNE 30, 2000 AND 1999

ASSETS	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 212,595,000	\$ 150,757,000
Restricted fidelity fund cash	500,000	469,000
Retailer accounts receivable, net	61,847,000	49,116,000
Prepaid expenses and other assets	<u>2,630,000</u>	<u>2,567,000</u>
Total current assets	277,572,000	202,909,000
GRAND PRIZE INVESTMENTS (Note 3)	222,250,000	300,272,000
PROPERTY AND EQUIPMENT - net (Note 4)	<u>3,161,000</u>	<u>2,686,000</u>
TOTAL ASSETS	<u><u>\$ 502,983,000</u></u>	<u><u>\$ 505,867,000</u></u>
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES:		
Due to Lottery for Education Account (Note 7)	\$ 222,995,000	\$ 162,491,000
Prizes payable	45,977,000	28,077,000
Accounts payable and accrued liabilities	11,102,000	12,897,000
Restricted fidelity fund	500,000	469,000
Other liabilities	<u>8,000</u>	<u>-</u>
Total current liabilities	280,582,000	203,934,000
GRAND PRIZES PAYABLE (Note 5)	226,457,000	303,017,000
OTHER LONG-TERM LIABILITIES	<u>281,000</u>	<u>357,000</u>
Total liabilities	507,320,000	507,308,000
RETAINED EARNINGS:		
Unrestricted retained earnings	-	1,389,000
Restricted, due to unrealized gain/(loss) on grand prize investments	<u>(4,337,000)</u>	<u>(2,830,000)</u>
TOTAL RETAINED EARNINGS (Note 2)	<u>(4,337,000)</u>	<u>(1,441,000)</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u><u>\$ 502,983,000</u></u>	<u><u>\$ 505,867,000</u></u>

See notes to financial statements.

GEORGIA LOTTERY CORPORATION

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
YEARS ENDED JUNE 30, 2000 AND 1999**

	2000	1999
REVENUES:		
Ticket sales	\$ 2,313,552,000	\$ 2,034,308,000
Less instant tickets provided as prizes	<u>(100,725,000)</u>	<u>(85,452,000)</u>
Net ticket sales	2,212,827,000	1,948,856,000
On-line fees	4,041,000	4,054,000
Retailer fees	<u>137,000</u>	<u>134,000</u>
Net revenues	2,217,005,000	1,953,044,000
GAMING EXPENSES:		
Prizes	1,260,497,000	1,059,585,000
Retailer commissions and bonuses	157,478,000	137,022,000
Contractor fees	75,158,000	65,542,000
Advertising	18,650,000	18,650,000
Retailer merchandising and marketing	5,275,000	5,622,000
Other	<u>272,000</u>	<u>239,000</u>
Total gaming expenses	1,517,330,000	1,286,660,000
OPERATING EXPENSES:		
Salaries and benefits	15,696,000	15,361,000
Rent, utilities, and maintenance	4,983,000	4,409,000
Professional fees	552,000	904,000
Depreciation	1,132,000	1,338,000
Other	<u>1,012,000</u>	<u>1,204,000</u>
Total operating expenses	<u>23,375,000</u>	<u>23,216,000</u>
Total expenses	<u>1,540,705,000</u>	<u>1,309,876,000</u>
INCOME FROM OPERATIONS	676,300,000	643,168,000
INTEREST INCOME - Net	<u>6,066,000</u>	<u>4,924,000</u>
INCOME BEFORE TRANSFERS TO AND DUE TO LOTTERY FOR EDUCATION ACCOUNT	682,366,000	648,092,000
FIDELITY FUNDS AVAILABLE FOR TRANSFER (Note 2)	72,000	-
LESS: TRANSFERS TO AND DUE TO LOTTERY FOR EDUCATION ACCOUNT	(683,827,000)	(646,703,000)
Net decrease in fair value of grand prize investments (Note 3)	(1,507,000)	(15,014,000)
TOTAL RETAINED EARNINGS, BEGINNING OF YEAR	<u>(1,441,000)</u>	<u>12,184,000</u>
TOTAL RETAINED EARNINGS, END OF YEAR (Note 2)	<u>\$ (4,337,000)</u>	<u>\$ (1,441,000)</u>

See notes to financial statements.

GEORGIA LOTTERY CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2000 AND 1999

	2000	1999
OPERATING ACTIVITIES:		
Income before transfers to and due to the Lottery for Education Account	\$ 682,366,000	\$ 648,092,000
Adjustments to reconcile income before transfers to and due to Lottery for Education Account to net cash provided by operating activities:		
Depreciation	1,132,000	1,338,000
Provision for doubtful accounts	190,000	223,000
Gain on disposals of property and equipment	(131,000)	(55,000)
Changes in assets and liabilities:		
Retailer accounts receivable	(12,921,000)	(10,240,000)
Prepaid expenses and other assets	(63,000)	(681,000)
Accounts payable and accrued liabilities	(1,795,000)	4,581,000
Prizes payable	18,100,000	(288,000)
Grand prizes payable	(94,575,000)	(16,068,000)
Restricted fidelity fund	103,000	122,000
Other liabilities	(68,000)	(92,000)
	<u>592,338,000</u>	<u>626,932,000</u>
Net cash provided by operating activities		
NONCAPITAL FINANCING ACTIVITIES:		
Payments to Lottery for Education Account	(623,323,000)	(641,384,000)
Payments to Department of Human Resources	(200,000)	(200,000)
	<u>(623,523,000)</u>	<u>(641,584,000)</u>
Net cash used in noncapital financing activities		
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(1,609,000)	(1,067,000)
Proceeds from disposals of property and equipment	133,000	93,000
	<u>(1,476,000)</u>	<u>(974,000)</u>
Net cash used in capital and related financing activities		
INVESTING ACTIVITIES:		
Purchase of grand prize investments	(6,090,000)	(12,469,000)
Investments sold	75,879,000	769,000
Maturities of grand prize investments	24,741,000	27,683,000
	<u>94,530,000</u>	<u>15,983,000</u>
Net cash resulting from investing activities		
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED FIDELITY FUND CASH		
	61,869,000	357,000
CASH, CASH EQUIVALENTS, AND RESTRICTED FIDELITY FUND CASH:		
Beginning of year	<u>151,226,000</u>	<u>150,869,000</u>
End of year	<u>\$ 213,095,000</u>	<u>\$ 151,226,000</u>

See notes to financial statements.

GEORGIA LOTTERY CORPORATION**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2000 AND 1999**

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, 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 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 accounting principles generally accepted in the United States of America 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.

GEORGIA LOTTERY CORPORATION

Commissions and Bonuses - Retailers receive a commission of 5% on ticket sales, except for Cash 3 sales, 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 2000 and 1999, 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 6,800 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 total 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 is recognized based on the estimated payout experience over the life of the games. During fiscal year 2000, Cash 3 prize expense exceeded historical payout percentages and therefore was recognized as actual expense. 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 prizes won by players 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.

GEORGIA LOTTERY CORPORATION

Unclaimed Prizes - Prizes must be claimed within 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, up to \$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.

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, 2000, \$72,000 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, 2000 and \$469,000 at June 30, 1999 was either insured by federal depository insurance or collateralized by the GLC's custodial bank in the GLC's name.

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, 2000 and 1999, the allowance for uncollectible retailer receivables was \$1,485,000 and \$1,691,000, 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.

GEORGIA LOTTERY CORPORATION

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 \$4 million per loss event; liability coverage is provided up to \$1 million per person and \$3 million per occurrence; 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.

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. The GLC included in the Due to the Lottery for Education Account retained earnings in the amount of \$3,198,000 for 2000.

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.

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 Pronouncement - The GASB has issued its Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which is effective for periods beginning after June 15, 2001. This Statement establishes new financial reporting requirements for state and local governments throughout the United States. Management is currently analyzing the effects that the adoption of this standard will have on the GLC's financial statements.

GEORGIA LOTTERY CORPORATION

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 \$1,473,000 at June 30, 2000 and \$4,292,000 at June 30, 1999, 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, 2000, Georgia Fund 1 net assets totaled \$6,919,289,000 and were invested in the following:

Repurchase Agreements	32%
Federal Agencies/Instrumentality Securities	61%
Banker's Acceptances	7%

The GLC's investment in Georgia Fund 1 was approximately \$212,169,000 at June 30, 2000 and \$148,403,000 at June 30, 1999. 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 \$6,066,000 and \$4,924,000 for the years ended June 30, 2000 and 1999, 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.

GEORGIA LOTTERY CORPORATION

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, 2000 and 1999.

Grand prize investments at June 30, 2000 and 1999 consist of the following:

	<u>Fair Value</u>	
	<u>2000</u>	<u>1999</u>
U.S. Treasury Securities	\$ 214,629,000	\$ 292,786,000
Government Agencies	<u>7,621,000</u>	<u>7,486,000</u>
	<u>\$ 222,250,000</u>	<u>\$ 300,272,000</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, 2000 and 1999 consisted of:

Fair Value, July 1, 1998	\$ 309,033,000
Purchases	12,469,000
Payments to grand prize winners	(28,451,000)
Interest earned on current year liabilities	22,235,000
Change in fair value	<u>(15,014,000)</u>
Fair Value, June 30, 1999	<u>300,272,000</u>
Purchases	6,090,000
Payments to grand prize winners	(24,741,000)
Investments sold	(75,879,000)
Interest earned on current year maturities	18,015,000
Change in fair value	<u>(1,507,000)</u>
Fair Value, June 30, 2000	<u>\$ 222,250,000</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, 2000, grand prize investments of \$160,967,000 and \$61,283,000 were classified as Category 1 and Category 3, respectively.

GEORGIA LOTTERY CORPORATION

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2000 and 1999 consisted of:

	2000	1999
Furniture and fixtures	\$ 2,304,000	\$ 2,303,000
Computer and communications equipment	7,282,000	6,472,000
Vehicles	2,084,000	2,103,000
Leasehold improvements	2,042,000	1,965,000
Software	156,000	146,000
Other assets	<u>1,231,000</u>	<u>1,069,000</u>
	15,099,000	14,058,000
Less accumulated depreciation	<u>(11,938,000)</u>	<u>(11,372,000)</u>
Total property and equipment, net	<u>\$ 3,161,000</u>	<u>\$ 2,686,000</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 \$18,015,000 and \$22,235,000 for the years ended June 30, 2000 and 1999, 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, 2000 are scheduled as follows:

2001	\$ 22,851,000
2002	22,562,000
2003	22,542,000
2004	22,542,000
2005	22,488,000
Thereafter	<u>232,732,000</u>
	345,717,000
Less imputed interest	<u>(119,260,000)</u>
Net present value of grand prizes payable	<u>\$ 226,457,000</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

GEORGIA LOTTERY CORPORATION

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 winning draw date or instant game claim date. Grand prizes payable at June 30, 2000 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. Grand prizes payable at June 30, 2000 consist of approximately \$118,950,000 of 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
2001	\$ 1,963,000
2002	1,963,000
2003	1,963,000
2004	14,000
Thereafter	-
	<hr/>
	5,903,000
Less sublease revenues	(1,148,000)
Total	<u><u>\$ 4,755,000</u></u>

Rental expense under all operating leases totaled approximately \$1,650,000 and \$1,579,000 for the years ended June 30, 2000 and 1999, respectively.

GEORGIA LOTTERY CORPORATION

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, 2000 and 1999 are summarized as follows:

	2000	1999
Ticket sales	\$ 2,313,552,000	\$ 2,034,308,000
Less instant tickets provided as prizes	<u>(100,725,000)</u>	<u>(85,452,000)</u>
Net ticket sales	2,212,827,000	1,948,856,000
On-line and retailer fees	4,178,000	4,188,000
Interest income	<u>6,066,000</u>	<u>4,924,000</u>
GLC proceeds	<u>2,223,071,000</u>	<u>1,957,968,000</u>
Operating expenses, as defined:		
Gaming	1,517,330,000	1,286,660,000
Operating	23,375,000	23,216,000
Other	<u>1,809,000</u>	<u>1,389,000</u>
Total operating expenses, as defined	<u>1,542,514,000</u>	<u>1,311,265,000</u>
Net proceeds before distribution of unrestricted retained earnings	<u>680,557,000</u>	<u>646,703,000</u>
Other:		
Unrestricted retained earnings, beginning of year	1,389,000	-
Additions to unrestricted retained earnings	1,809,000	-
Unrestricted fidelity funds (Note 2)	<u>72,000</u>	<u>-</u>
Total other	<u>3,270,000</u>	<u>-</u>
Net proceeds subject to transfer	<u>\$ 683,827,000</u>	<u>\$ 646,703,000</u>
Amount due to Lottery for Education Account for year	\$ 683,827,000	\$ 646,703,000
Amount paid during year	<u>(460,832,000)</u>	<u>(484,214,000)</u>
Amount due to Lottery for Education Account, end of year	<u>\$ 222,995,000</u>	<u>\$ 162,489,000</u>

On July 14, 2000, all amounts due at June 30, 2000 were transferred to the Lottery for Education Account.

GEORGIA LOTTERY CORPORATION

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.

GLC employees hired prior to September 15, 1998 were provided the option to participate in the 401(k) plan or remain in the Employees' Retirement System of the State of Georgia ("ERS"). All employees hired after September 14, 1998 participate in the 401(k) plan.

There were 237 GLC employees participating in the 401(k) plan at June 30, 2000. For fiscal years ended June 30, 2000 and 1999, GLC contributed \$683,000 and \$850,000, respectively, to the plan, and paid \$6,000 and \$4,000, respectively, of plan administrative fees, on behalf of GLC employees. Contributions by plan participants during fiscal years ended June 30, 2000 and 1999 were \$344,000 and \$194,000, 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, 2000 and 1999, the fair value of the plan's assets was \$1,206,000 and \$1,014,000, respectively. Contributions by participants during the years ended June 30, 2000 and 1999 were \$114,000 and \$159,000, 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.