



Georgia Lottery Corporation Annual Report **2003**

2003



All 260 employees of the Georgia Lottery Corporation are pleased to present you our fiscal year 2003 Annual Report. On this very special anniversary we take this opportunity to thank you, Georgia, for your continued support of our products and the programs we fund.

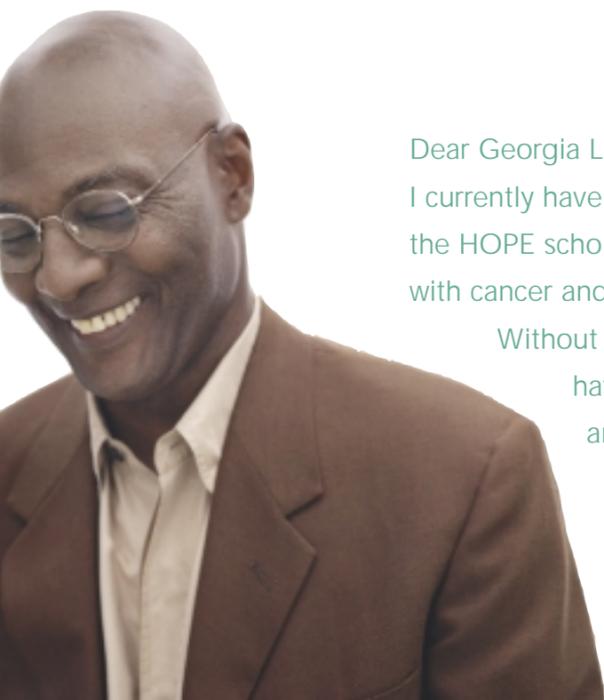
We celebrated our Tenth Anniversary by recording our largest sales year ever achieving total sales of more than \$2.6 billion. More importantly we recorded our largest transfer to education in ten years – more than \$751 million to Georgia students.

Together we have created a **Decade of Dreams** for millions of Georgians by providing high-quality Pre-K programs to more than 500,000 four-year-olds and providing more than 700,000 deserving students an opportunity to enter college or technical college on a HOPE Scholarship or Grant. Having raised more than \$6 billion for these worthy programs, together we have made Georgia a brighter place to live and learn... one student at a time. Additionally, we have enhanced the dreams of our players who have won almost \$10 billion in prizes in ten years and rewarded our retailer partners with \$1 billion in commissions and incentives.

In many ways the Georgia Lottery Corporation (GLC) and the possibilities it held was just a dream more than ten years ago. Today, we celebrate our **Tenth Anniversary** having fulfilled a Decade of Dreams for millions of Georgians. Together, we all win supporting the Georgia Lottery.

Thank you!

The lottery staff thanks Georgia for 10 successful years.



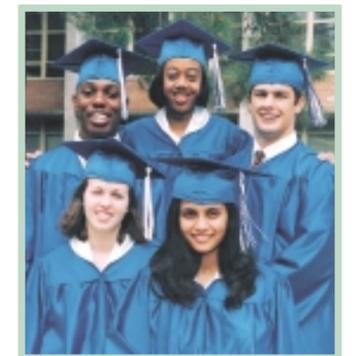
Dear Georgia Lottery,

I currently have 4 children in college, all of whom started on the HOPE scholarship. In December 1998 I was diagnosed with cancer and have had eight surgeries since that time.

Without the HOPE scholarships my children would not have been able to continue their education! I am very grateful for the HOPE scholarship!

HOPE Scholarship Beneficiary

Total 2003 lottery ticket sales surpassed **\$2.6 billion**, representing the highest sales total in the GLC's ten-year history. This is an **increase of \$155.1 million** over last year. It represents average weekly gross ticket sales for fiscal year 2003 of \$50.1 million versus \$47.1 million in 2002. Net proceeds of \$751.6 million also set a GLC record. This transfer represents a growth of \$25.4 million over last year.



Mega Millions sales were strong at \$146.2 million.



Cash 3 continued to be a player favorite, recording sales of \$626.3 million.



Sales for our Quick Cash Keno game increased \$12.7 million from \$44.0 million in 2002 to \$56.7 million in 2003.

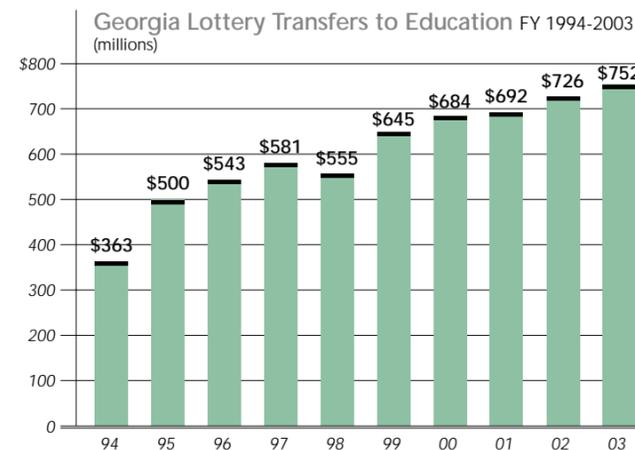
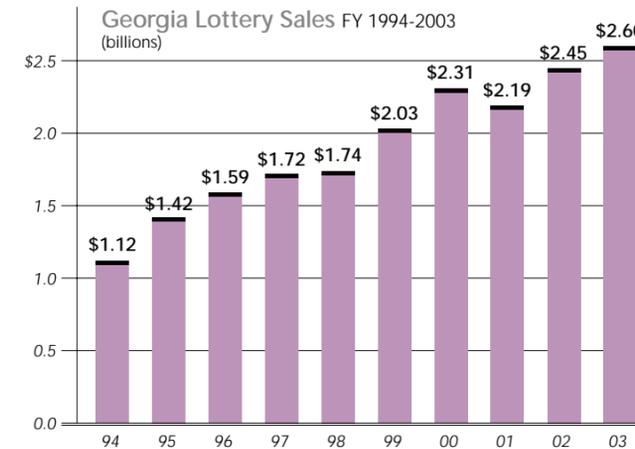


Through the dedication and commitment of Georgia Lottery employees over the last **ten years**, hundreds of thousands of Georgia students have benefited from enhanced education opportunities. In fiscal year 2003, the Georgia Lottery recognized its many employees who attained ten years of service.

10
years



Retailer commissions and bonuses for fiscal year 2003 were **\$172.9 million** compared to \$163.6 million in 2002. This represents a **\$9.3 million** increase from the previous year. The GLC compensates its retailers through three commission/incentive plans including: a set commission percentage for selling tickets, a ticket cashing bonus for validating and paying winning prizes up to \$599, and winning jackpot ticket incentives.



Net proceeds of **\$751.6 million** also set a GLC record. This transfer represents a growth of **\$25.4 million** over last year.

In recognition of the GLC's tenth anniversary and more than **\$6 Billion** transferred to education, Governor Perdue proclaims July 15, 2003 as "The Georgia Lottery's Six Billionth Dollar Day in Georgia."



Lotto South sales were \$73.9 million. Mrs. Ileana Rodriguez of Marietta won a \$22 million jackpot and is the second largest Georgia winner in the game's history.



Cash 4 sales increased \$6.8 million from \$132.0 million in 2002 to \$138.8 million in 2003.



Fantasy 5 sales were \$69.6 million. On January 20, 2003, Eric Conley of Jackson, Georgia, won \$1,154,057, the largest payout to a single winner in Fantasy 5 history.



The Change Game contributed \$6.8 million in sales for fiscal year 2003.



The GLC launches its newest on-line game, the Change Game. The GLC becomes the first lottery in the world to launch a product structured like the Change Game. Players purchase a randomly chosen six-character alphanumeric play combination through an on-line quick pick selection at prices from \$.25 to \$.99. Drawings are held daily, and guarantees three winners for each draw.



Pre-K students benefit from millions of dollars generated through the Georgia Lottery. This is one in a series of television commercials highlighting that effort.



Three happy winners share their stories in a recent television commercial.

Gross instant tickets sales increased substantially, up \$260.3 million over one year ago, from \$1.226 billion in 2002 to \$1.487 billion in 2003. In addition, continued player loyalty to our most popular games such as Jumbo Bucks Classic, Win-for-Life, Junior Jumbo Bucks, and Lucky 7's, and a new \$10 game, Jumbo Jumbo Bucks helped contribute to the significant sales growth in instant tickets.



BOARD OF DIRECTORS*

Roscoe Brown

Sylvan M. Byck, Jr.

Barbara M. Dooley

Jim S. Ivey

Matthew Ware

Dorothy Yates Kirkley

J. Veronica Biggins

Cecil M. Phillips

**Served all or part of a term in fiscal year 2003.*

The Georgia Lottery Corporation currently employs approximately 260 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 Sales Division is responsible for coordinating and overseeing all sales and retailer activities.

The Corporate Affairs Division provides internal and external communications including human resources, legislative affairs, public and player information and media relations.

The Finance and Information Systems Division provides services related to financial accounting and reporting, cash management, the budget, collections, procurement, and maintains state-of-the-art computer systems, technology and telecommunications systems.

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

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



SENIOR STAFF

Cathy Walls
Senior Vice President of Corporate Affairs



Joan Schoubert
Senior Vice President of Administration



Jeannie Lin
Vice President of Advertising



Rosemarie Morse
Vice President of Legal Affairs



Sharman Lomax
Vice President of Financial Management



Mar-D Greer
Vice President of Security



Larry Sipes
Vice President of Information Technology



Daniel Johnson
Vice President of Systems Development



Jeff Martin
Vice President of Human Resources



The Beginning



November 1992 Georgia voters approve the constitutional amendment allowing the lottery to operate.

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June 4, 1994 Instant Cash Anniversary, a special commemorative edition of the Georgia Lottery's first instant ticket game, goes on sale and offers a top prize of \$25,000.

June 29, 1994 The Georgia Lottery celebrates its first anniversary at Underground Atlanta. Rebecca Paul releases year-end figures reflecting total sales of \$1.1 Billion. First-year per capita sales of \$164.81 eclipse the previous record of \$128 set by Florida in 1988.

July 15, 1994 A final quarterly payment to the Lottery for Education Account brings the GLC's total proceeds to education for its first year to \$362 million, or \$223 million more than originally projected.



Dear Georgia Lottery,
I was able to enroll my child into the Pre-K program last year. That was an amazing year for my daughter, she began reading in that class and I feel due to her Pre-K teacher, my kindergartner is now reading at a 3rd grade level. I know that without the Pre-K program, my child would not be able to read this well in kindergarten. Thank you!

Pre-K Program
Beneficiary

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June 29, 1993 Sales begin, two days before target date, with more than \$13 million in tickets sold on the first day. A launch celebration is held at Underground Atlanta with George Jones and the Pointer Sisters providing entertainment.



August 10, 1993 CASH 3, the Lottery's first on-line game, is introduced with first-day sales of over \$676,000. Average weekly sales are \$3.5 million for the first month.

October 16, 1993 Two winning tickets match all six numbers drawn in the Lotto Georgia drawing. Georgia's first Lotto millionaires, Johnnie and Rebecca Seiple of Lithonia, and Jerry and Shelby Rigdon of Metter, share a jackpot of \$7.5 million.



Studies have shown that children who participate in a lottery-funded Pre-K program scored higher than the national average on the Iowa Test of Basic Skills (ITBS).

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June 29, 1995 To celebrate its second anniversary, the GLC brings Powerball to Georgia. Georgia is the 19th U.S. lottery to participate in Powerball, a multi-state lotto game that offers players nine ways to win.

The GLC's sales for its second year total a phenomenal \$1.42 billion.

July 17, 1995 The final FY95 transfer payment is made to the Lottery for Education Account, bringing the total amount returned to the state for the Lottery's second year to over \$500 million.

December 15, 1995 The Georgia Lottery launches its newest on-line game, Quick Cash, with daily draws every five minutes. The first draw occurs at 6:05 a.m. and the last draw occurs at 11:45 p.m. Players will find Quick Cash at many of their traditional retailers and at new locations such as restaurants, bars, bowling alleys and other social environments.



Georgia Lottery proceeds have grown over 100% since inception of the Georgia Lottery Corporation.



Dear Georgia Lottery,
I graduated in 1994 from Rockdale County High School with the first graduating class to receive the HOPE scholarship. I attended Valdosta State University where I remained on the HOPE scholarship for my entire undergraduate degree.

I was also awarded the HOPE Teacher Scholarship for my entire graduate degree.

I am now at the end of my third year teaching in Georgia Public Schools.

I also would like to thank the Georgia Lottery Pre-K program for educating my oldest daughter this year. The Georgia Lottery has made a huge difference in my family.

HOPE Scholarship Recipient and Pre-K Program Beneficiary

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January 16, 1996 The GLC's second payment for FY96 brings its total contribution to the Lottery for Education Account to more than \$1 BILLION.

June 30, 1996 The Georgia Lottery closes FY96 with sales of nearly \$1.6 Billion and returns to the state \$543,234,000 for specific education programs.

August 31, 1996 The Georgia Lottery leaves Powerball and joins The Big Game. The Big Game is a new multi-state game with five other states participating. Tickets for The Big Game go on sale.



Since inception in 1993, the GLC has transferred more than \$6 billion to fund educational programs in Georgia.



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April 6, 1997 The Georgia Lottery introduces its newest on-line game, CASH 4. CASH 4 is a four-digit game drawn nightly at 11 p.m. There are 13 ways to win with a top prize of \$5,000.

June 30, 1997 The Georgia Lottery closes FY97 with sales of \$1.72 Billion and returns to the state \$581,439,000 for specific education programs. The Georgia Lottery is one of very few lotteries to increase its sales four consecutive years.

October 15, 1997 The Georgia Lottery makes its first quarter FY98 transfer to the Lottery for Education Account bringing the total contributions to education since the inception of the lottery to more than \$2 Billion.



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The GLC closed the 1998 fiscal year with sales totaling **\$1.736 billion.**

February 1998 Georgia's HOPE Scholarship Program surpasses the \$500 million mark in scholarships awarded since its creation in September 1993. A total of 300,478 students received \$509.2 million from the program funded by the GLC.

April 7, 1998 One lucky Georgian, Walter Mitchell of Atlanta, splits a \$60 million jackpot in The Big Game with one player from Illinois. Mr. Mitchell's winnings are \$30 million, the largest prize awarded to any Georgia winner of any Georgia Lottery game.

June 29, 1998 The GLC holds its 5th Anniversary Celebration and Winners' Reunion at the Georgia Music Hall of Fame in Macon, Georgia. We're five years old and celebrating raising more than \$2.38 billion for education in Georgia.

May 9, 2000 The Big Game jackpot hits \$363 million (estimated at \$360 million) - the largest lottery jackpot in U.S. history!

June 30, 2000 The GLC closes FY00 with its seventh consecutive year of record-breaking sales (unprecedented in the industry) - totaling more than \$2.3 billion for the fiscal year.



July 14, 2000 The GLC makes its largest transfer to the Lottery for Education Account yet, bringing FY00 lottery funds for the students of Georgia to more than \$683 million. Since inception, the GLC has raised more than \$3.87 billion for specific education programs.

59% of Georgia's four-year-olds are enrolled in a lottery-funded, high quality Pre-K program.



00 01

July 15, 2001 The Georgia Lottery sets a record for the highest fiscal year proceeds transferred in its history – over \$691 million to the students of Georgia in FY01. Since inception, the GLC has raised more than \$4.5 billion for specific lottery-funded educational programs. FY01 sales totaled more than \$2.19 billion.

September 9, 2001 Tickets for Lotto South, the Georgia Lottery's newest on-line multi-state game, go on sale at lottery retailers in Georgia, Kentucky and Virginia. Lotto South drawings are held every Wednesday and Saturday evening. Six numbers from a set of numbers 1-49 will be drawn.



Thanks to the lottery-funded merit-based HOPE Scholarship Program, **Georgia is ranked #1** in the nation for six consecutive years in student aid that is not based on family income.

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Dear Georgia Lottery,

I wanted to be a teacher. I worked in public schools for 27 years as custodian, teacher's aide, lunchroom help. Thirty-four years after high school I graduated from college because of the HOPE Scholarship at the age of 51.

HOPE Scholarship Recipient



April 15, 1999 The Georgia Lottery makes its third quarter FY99 transfer to the Lottery for Education Account bringing the total contributions to education since the inception of the lottery to more than \$3 Billion.

July 15, 1999 The Georgia Lottery makes its fourth quarter transfer to the Lottery for Education fund – making FY99 educational funds the largest in GLC history – over \$646 million.

August 4, 1999 The highest single payout in Georgia Lottery history was awarded to Thomas (Randy) Kerfoot in the \$116 million (estimated at \$110 million) Big Game jackpot drawing on August 3, 1999. Mr. Kerfoot bought the winning ticket in Rossville, GA and pre-selected cash option – leaving GLC headquarters with a lump sum payment of over \$59 million before taxes.

August 30, 1999 GLC surpasses \$10 billion in total sales since inception.

By keeping its games fresh, exciting and innovative, Georgia Lottery has seen its sales more than double since inception — from \$1.1 billion in 1993 to more than **\$2.6 billion** in 2003.

02

April 15, 2002 The Georgia Lottery makes its third quarter FY02 transfer to the Lottery for Education Account, bringing the total amount raised for lottery-funded educational programs in Georgia to more than \$5 BILLION!



April 17, 2002 Erika Greene of Lawrenceville claims her portion of the \$331 million Big Game jackpot (estimated at \$325 million) at GLC headquarters. There were three Big Game jackpot winners from the April 16, 2002 drawing - one in Georgia, one in Illinois and one in New Jersey. Greene pre-selected the cash option amount and received \$58,938,743 before taxes.

July 15, 2002 Record-breaking sales and returns to education in FY02 make it the most successful year yet for the GLC. With sales totaling more than \$2.449 billion, the GLC transfers over \$726 million to the Lottery for Education Account for FY02 – the highest amount in history.

Georgia Lottery Corporation
Management's Discussion and Analysis for the Years Ended June 30, 2003 and 2002, Financial Statements as of and for the Years Ended June 30, 2003 and 2002 (Restated) and Independent Auditors' Report



Deloitte & Touche LLP
Suite 1500
191 Peachtree St, NE
Atlanta, Georgia 30303-1924

Tel: (404) 220-1500
www.deloitte.com



GEORGIA LOTTERY CORPORATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Georgia Lottery Corporation

We have audited the accompanying statements of net assets of the Georgia Lottery Corporation (the "GLC"), a blended component unit of the state of Georgia, as of June 30, 2003 and 2002 and the related statements of revenues, expenses, and changes in net assets 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, 2003 and 2002 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.

As discussed in Note 11, the accompanying 2002 financial statements have been restated.

Management's Discussion and Analysis listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the GLC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Deloitte & Touche LLP

October 13, 2003

**Deloitte
Touche
Tohmatsu**

Management's Discussion and Analysis

As management of the Georgia Lottery Corporation ("GLC"), we offer readers of the GLC's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 20.

Financial Highlights

The GLC had another record-breaking year in fiscal year 2003. Gross ticket sales surpassed \$2.6 billion, representing the highest sales total in the GLC's ten-year history. The net proceeds transferred to the Lottery for Education Account were \$751.6 million, also setting a GLC record. The net proceeds transferred represent a growth of \$25.4 million over last year. Other significant financial highlights include the following:

- Gross tickets sales increased by \$155.1 million.
- Prize expense increased \$81.0 million. This expense increases or decreases in direct proportion to ticket sales and represented approximately 53 percent of gross ticket sales in 2003 and in 2002.
- Direct gaming expenses (not including prize expense) increased \$20.0 million. These expenses increase or decrease in proportion to ticket sales and represented approximately 11% of gross ticket sales in 2003 and 2002.
- Operating expenses increased \$1.7 million.
- Nonoperating revenues, net of expenses, increased \$8.4 million.

Overview of the Financial Statements

The GLC is accounted for as an enterprise fund, reporting transactions using the accrual basis of accounting similar to a business entity. This discussion and analysis are intended to serve as an introduction to the GLC's basic financial statements, along with the notes to the financial statements. The statements of net assets on page 20, the statements of revenues, expenses, and changes in net assets on page 21, and statements of cash flows on pages 22 and 23 report the GLC's net assets and changes therein. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 24 of this report.

The GLC transfers its net proceeds each fiscal year to the general fund of the state treasury, for credit to the Lottery for Education Account. As a result, the GLC's net assets consist of funds invested in capital assets and unrestricted net assets. Unrestricted net assets normally result from the inclusion of capital costs in the determination of net proceeds as required by the Georgia Lottery for Education Act, and the cumulative effect of periodic adjustments to recognize the fair value of grand prize investments held to fund grand prizes payable. The GLC expects to hold these investments to maturity to meet our future grand prize winner obligations and, therefore, would not realize any gains or losses related to these investments for distribution as net proceeds. The reader of these financial statements should review the assets and liabilities in the statements of net assets and the operating revenues and expenses, and the transfer to education in the statements of revenues, expenses, and changes in net assets to assess the GLC's financial position as of June 30, 2003 and 2002, and the results of its operations for the years then ended.

Financial Analysis

Assets

Total assets in 2003 were \$484.8 million as compared to \$489.0 million in 2002, a decrease of \$4.2 million over the previous fiscal year. Total assets consist of current assets, grand prize investments, and capital assets. Current assets decreased from \$275.6 million in 2002 to \$262.0 million in 2003, a decrease of \$13.6 million. This decrease is primarily due to a \$31.8 million decrease in cash and a \$17.8 million increase in retailer accounts receivable due to the timing of collections from our customers. Grand prize investments increased to \$220.6 million in 2003 from \$210.8 million in 2002, an increase of \$9.8 million. The increase resulted from net purchases of \$3.3 million, payments to grand prize winners totaling \$21.5 million, interest earned on current year maturities of \$12.4 million, and a \$15.6 million increase in the fair value of the investments. Capital assets decreased from \$2.6 million in 2002 to \$2.1 million in 2003, a decrease of \$0.5 million. The decrease resulted from capital asset purchases of \$0.8 million and depreciation expense of \$1.3 million.

Liabilities

Total liabilities in 2003 were \$460.0 million as compared to \$479.9 million in 2002, a decrease of \$19.9 million over the previous fiscal year.

Current liabilities decreased from \$277.1 million in 2002 to \$262.7 million in 2003, a decrease of \$14.4 million. The decrease is primarily due to a \$29.9 million decrease in prizes payable and a \$15.6 million increase in the funds due to the Lottery for Education Account for fiscal year 2003 over fiscal year 2002. The increase in funds due to the Lottery for Education Account resulted from higher fourth quarter sales in fiscal year 2003 versus 2002 and lower direct gaming expenses, primarily in prizes. The reduction in prizes payable was primarily due to a reduction to the estimated prize expense for Cash 3, Cash 4, Quick Cash Keno, and Mega Millions recorded in June 2003.

Long-term liabilities principally consist of grand prizes payable, which represent the amount to be paid to grand prize winners over future years. Grand prizes payable decreased \$5.8 million in 2003. The decrease is attributable to two factors. Grand prize payables of \$9.1 million became due and payable in fiscal year 2003 as an annual payment obligation to our grand prize winners, thus reducing the long-term liabilities. The GLC increased its grand prizes payable by \$3.3 million resulting from new annual payment obligations for grand prize winners for an instant game, Win-for-Life. The GLC purchased U.S. treasury securities to fund these future payment obligations. During fiscal year 2003, all eligible grand prize winners in our online games elected to receive their prizes in a single cash payment.

Net Assets and Changes in Net Assets

Net assets increased to \$24.8 million in fiscal year 2003 from \$9.1 million in fiscal year 2002, resulting in a \$15.6 million increase. This increase resulted from a \$15.6 million unrealized gain in the fair value of grand prize investments held by the GLC for funding of future grand prize payments. Accounting principles generally accepted in the United States of America require the GLC to record its grand prize investments at fair value and the change in the fair value is recorded as nonoperating revenue (expense) annually. The GLC classifies the decreases and increases in fair value as unrealized, due to the investments generally being held to maturity to fund future prize obligations.

Sales

Total lottery ticket sales for fiscal year 2003 were \$2.604 billion, as compared to \$2.449 billion in 2002. This represents an increase of over \$155.0 million. This represents average weekly gross ticket sales for fiscal year 2003 of \$50.1 million versus \$47.1 million in 2002.

Gross instant tickets sales increased substantially, up \$260.3 million over one year ago, from \$1.226 billion in 2002 to \$1.487 billion in 2003. The increase is attributable to several factors, including the administration of a sound marketing strategy, continuous development and introduction of new instant ticket games, and effective management of the instant product mix by providing players the option to choose among a variety of games at different price points: \$1, \$2, \$3, \$5, and \$10. In addition, continued player loyalty to their favorite instant games, including our most popular games such as Jumbo Bucks Classic, Win-for-Life, Junior Jumbo Bucks, and Lucky 7's, and a new \$10 game, Jumbo Jumbo Bucks helped contribute to the significant sales growth in instant tickets.

Cash 3 sales decreased \$61.9 million in 2003 to \$626.3 million compared to \$688.2 million in 2002. Cash 3 is a twice-daily game whereby the player chooses a 3-digit number and wins a specified amount if his or her numbers are selected in the draw. The aggregate prize amount per draw varies based on the number of winners and the prize amount. Historically, as the prize amount won for this game increases above or decreases below the industry average of 50 percent of sales, a corresponding increase or decrease in sales the next quarter will occur, resulting in a trailing effect. In fiscal year 2003, actual prizes won for this game continued to decrease quarter over quarter, with the exception of the fourth quarter ended June 30, 2003. These decreases resulted in a 47 percent actual payout experience in fiscal year 2003 versus 50 percent in fiscal year 2002. Consequently, fiscal year 2002 sales were higher than 2003 due to the higher actual prize payouts.

Mega Millions sales decreased \$41.5 million in 2003 to \$146.2 million compared to Mega Millions/The Big Game sales of \$187.7 million in 2002. Mega Millions is a multi-state lottery game operated with nine other states; Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia, and Washington. Drawings are held twice weekly on Tuesdays and Fridays. The GLC had its second largest jackpot, \$331 million in fiscal year 2002 since the game's introduction. Draw sales for this jackpot contributed over \$76.0 million of the total sales for fiscal year 2002. In comparison, the largest jackpot in fiscal year 2003 was \$183 million, which contributed sales of \$30.9 million.

Cash 4 sales increased \$6.8 million from \$132.0 million in 2002 to \$138.8 million in 2003. During fiscal year 2003, three of the four quarters of sales were preceded by quarters with prize percentages averaging 56 percent. In fiscal year 2002, two of the four quarters of sales were preceded with prize percentages averaging 51 percent. Consequently, fiscal year 2003 sales were higher than 2002 due to the higher frequency of above-normal prize payouts.

Lotto South sales decreased \$10.9 million in 2003 to \$73.9 million compared to the combined sales of \$84.8 million for Lotto Georgia and Lotto South in 2002. Lotto South is a multi-state pari-mutuel lottery game operated with two other states; Kentucky and Virginia. Drawings are held twice weekly on Wednesdays and Saturdays. During fiscal year 2003, there was only one Lotto South jackpot in excess of \$20 million as compared to three Lotto South jackpots of \$20 million or more generated in fiscal year 2002. Management anticipates increased player interest and higher sales when the GLC begins conducting the Saturday night drawings in Atlanta, currently held in Virginia.

Fantasy 5 sales decreased \$17.2 million in 2003 to \$69.6 million compared to \$86.8 million in 2002. Historically, as the jackpot prize amount for this game exceeds \$500,000, a significant increase in sales has occurred. Jackpot prizes exceeding \$500,000 occurred more frequently in fiscal year 2002 than in fiscal year 2003. Consequently, these jackpot prizes contributed over \$45 million in sales for fiscal year 2002, as compared to \$26 million in fiscal year 2003.

Sales for our Quick Cash Keno game increased \$12.7 million from \$44.0 million in 2002 to \$56.7 million in 2003. The increase is primarily attributable to Quick Cash Keno attracting new players from other entertainment markets. Management continues to look for new products with similar concepts in its effort to provide players with exciting games.

In July 2002, the GLC launched a new online game, The Change Game, which contributed \$6.8 million in sales for fiscal year 2003. Players purchase a randomly chosen six-character alphanumeric play combination through an online quick pick selection at prices from \$.25 to \$.99. Drawings are held daily, and guarantees three winners for each draw.

Prize Expense

Gross prize expense for instant games increased to \$892.4 million in fiscal year 2003 from \$727.5 million in 2002, an increase of \$164.9 million. Instant games prize expense is managed through the number of tickets printed for each game and value of prizes as determined prior to ticket production. Prize expense is recognized based on an established prize structure and related percentage of sales for each game introduced, and is recognized when products are made available for sale to the public.

Instant game prize expense is reduced through the use of unclaimed prizes recognized during the fiscal year. For fiscal year 2003, prize expense net of unclaimed prizes for instant games totaled \$856.4 million as compared to \$694.6 million in 2002. Gross instant prize expense was reduced by \$36.0 million and \$32.9 million using unclaimed prizes in 2003 and 2002, respectively.

Prize expense for online games generally increases or decreases each year in direct proportion to ticket sales of the related game. For pari-mutuel online games (Lotto South, Fantasy 5, and The Change Game), actual prize expense is recognized as a percentage of ticket sales; 50 percent, 50 percent, and 45 percent, respectively. For nonpari-mutuel games (Cash 3, Cash 4, Mega Millions, and Quick Cash Keno), actual prize expense is impacted by the number of and the prize value of winning tickets. To recognize prize expense on a consistent basis for these games, the GLC recognizes prize expense based on the estimated payout experience over the life of the game or based on industry averages. The GLC has established prize liability limits, per draw, for nonpari-mutuel games.

Total online prize expense decreased \$80.8 million in 2003 to \$532.8 compared to \$613.6 in 2002. The net decrease is comprised of the following increases and decreases by game as follows:

- Prize expense for Cash 3 decreased \$49.5 million in fiscal year 2003 as compared to 2002
- Prize expense for Mega Millions/The Big Game decreased \$29.9 million in 2003 as compared to 2002
- Prize expense for Cash 4 increased \$2.9 million over 2002
- Prize expense for Lotto South decreased \$5.5 million in 2003 as compared to 2002
- Prize expense for Fantasy 5 decreased \$8.6 million in 2003 versus 2002
- Prize expense for Quick Cash Keno increased \$6.8 million in 2003 above 2002
- Prize expense for The Change Game was \$3.0 million in 2003.

Direct Gaming and Operating Expenses

Direct gaming expenses change in proportion with changes in ticket sales. The increase in ticket sales for fiscal year 2003 were accompanied by corresponding increases in direct gaming expenses as compared to fiscal year 2002. Retailer commissions and bonuses for fiscal year 2003 were \$172.9 million compared to \$163.6 million in 2002. This represents a \$9.3 million increase from the previous year. The GLC compensates its retailers through three commission/incentive plans. These are:

- a set commission percentage for selling tickets
- a ticket cashing bonus for validating and paying winning prizes up to \$599
- winning jackpot ticket incentives.

In 2003, vendor (contractor) fees were \$93.8 million as compared to \$84.7 million in 2002. This represents an increase of \$9.1 million. Vendor fees represent payments made to our two major suppliers of the gaming products, systems, and services. The payments are determined based on a percentage of sales formula.

Advertising expense increased \$1.4 million to \$19.9 million in 2003 from \$18.5 million in 2002. Historically, the advertising expense has increased as sales increase. The increase in 2003 is mostly attributable to the implementation of The Change Game and the GLC's tenth anniversary media blitz.

Retailer merchandising and marketing expenses increased slightly to \$6.4 million in 2003 from \$6.1 million in 2002. This increase is attributable to the marketing of new instant games and the launch of a new online game, The Change Game.

Operating expenses increased \$1.8 million to \$24.5 million in 2003 from \$22.7 million in 2002. This increase resulted primarily from personnel services costs associated with increased employee retention rates and retailer bad debt expenses.

Other Revenue

Other revenue decreased \$.4 million, from \$7.2 million in 2002 to \$6.8 million in 2003. Interest income decreased \$1.1 million due to lower earnings realized from funds held in a pooled short-term investment fund managed by the State of Georgia Office of Treasury and Fiscal Services. This fund is a combined state general fund and local government investment pool and is used by the GLC for funds not needed in the short-term for operating purposes. These funds generally represent net proceeds held, pending quarterly transfer to the education account. The reduction in interest income was partially offset by one-time operating revenues of \$.7 million recognized in fiscal year 2003.

Significant Factors Impacting Next Year

On September 7, 2003, the GLC began operating under its new seven-year vendor contracts for Online Gaming Systems and Services and Instant Ticket Printing and Associated Services. The new gaming system employs the use of satellite communication technology and state-of-the-art retailer terminals, and the new instant ticket cooperative services agreement will provide state of the art instant ticket vending machines. These contracts are expected to generate savings of approximately 45 percent and 47 percent, respectively, compared to the previous years' contract terms.

The multi-state Mega Millions consortium is scheduled to expand to eleven states with the addition of the Texas Lottery in October 2003. This will result in a broader player base for the game resulting in larger jackpots more quickly, and will expose the game to an even larger audience. A reliable estimate of the impact of an additional state joining the game cannot be made at this time.

The state of Tennessee is scheduled to begin ticket sales during fiscal year 2004. The GLC could see some effect on sales as that lottery matures and adds new games.

Contacting the GLC's Financial Management

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

**STATEMENTS OF NET ASSETS
JUNE 30, 2003 AND 2002**

	2003	2002 (As Restated, See Note 11)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 157,693,000	\$ 189,015,000
Restricted fidelity fund cash	16,000	500,000
Retailer accounts receivable, net	99,845,000	82,065,000
Prepaid expenses and other assets	<u>4,446,000</u>	<u>3,981,000</u>
Total current assets	262,000,000	275,561,000
GRAND PRIZE INVESTMENTS	220,617,000	210,774,000
CAPITAL ASSETS, net	<u>2,136,000</u>	<u>2,656,000</u>
TOTAL ASSETS	<u>\$ 484,753,000</u>	<u>\$ 488,991,000</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Due to Lottery for Education Account	\$ 215,904,000	\$ 200,343,000
Prizes payable	33,597,000	63,540,000
Accounts payable and accrued liabilities	13,163,000	12,681,000
Restricted fidelity fund	16,000	500,000
Other liabilities	<u>-</u>	<u>8,000</u>
Total current liabilities	262,680,000	277,072,000
LONG-TERM LIABILITIES:		
Grand Prizes Payable	195,432,000	201,216,000
Noncurrent portion of other long-term liabilities	<u>1,876,000</u>	<u>1,564,000</u>
Total liabilities	459,988,000	479,852,000
NET ASSETS:		
Invested in capital assets	2,136,000	2,656,000
Unrestricted	<u>22,629,000</u>	<u>6,483,000</u>
Total net assets	24,765,000	9,139,000
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 484,753,000</u>	<u>\$ 488,991,000</u>

See notes to financial statements.

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002
OPERATING REVENUES:		
Ticket sales	\$2,604,423,000	\$2,449,363,000
Less instant tickets provided as prizes	<u>(152,613,000)</u>	<u>(127,413,000)</u>
Net ticket sales	2,451,810,000	2,321,950,000
Online fees	4,312,000	4,387,000
Other	<u>837,000</u>	<u>106,000</u>
Net operating revenues	2,456,959,000	2,326,443,000
OPERATING EXPENSES:		
Prizes	1,389,222,000	1,308,235,000
Retailer commissions and bonuses	172,856,000	163,626,000
Contractor fees	93,789,000	84,694,000
Advertising	19,930,000	18,528,000
Salaries and benefits	18,025,000	16,692,000
Retailer merchandising and marketing	6,398,000	6,122,000
Rent, utilities, and maintenance	2,755,000	2,889,000
Depreciation	1,326,000	1,248,000
Professional fees	651,000	643,000
Other	<u>2,080,000</u>	<u>1,579,000</u>
Total operating expenses	<u>1,707,032,000</u>	<u>1,604,256,000</u>
Operating income	749,927,000	722,187,000
NONOPERATING REVENUES (EXPENSES):		
Interest revenue	1,630,000	2,702,000
Net increase in fair value of grand prize investments	15,626,000	6,055,000
Fidelity funds subject to transfer	<u>-</u>	<u>58,000</u>
Total nonoperating revenues (expenses)	<u>17,256,000</u>	<u>8,815,000</u>
Income before transfers	<u>767,183,000</u>	<u>731,002,000</u>
TRANSFERS:		
Transfers to and due to Lottery for Education Account	<u>(751,557,000)</u>	<u>(726,202,000)</u>
Total transfers out	<u>(751,557,000)</u>	<u>(726,202,000)</u>
Change in net assets	15,626,000	4,800,000
NET ASSETS, beginning of year	<u>9,139,000</u>	<u>4,339,000</u>
NET ASSETS, end of year	<u>\$ 24,765,000</u>	<u>\$ 9,139,000</u>

See notes to financial statements.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002 (As Restated, See Note 11)
OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,434,030,000	\$ 2,312,637,000
Other operational cash received	5,149,000	4,550,000
Cash paid to prize winners	(1,437,183,000)	(1,317,503,000)
Cash paid to retailers	(172,856,000)	(163,626,000)
Cash paid to contractors and employees	(136,131,000)	(123,546,000)
Other operating payments	(7,740,000)	(7,808,000)
Net cash provided by operating activities	<u>685,269,000</u>	<u>704,704,000</u>
NONCAPITAL FINANCING ACTIVITIES:		
Payments to Lottery for Education Account	(735,996,000)	(718,192,000)
Payments to Department of Human Resources	(200,000)	(200,000)
Net cash used in noncapital financing activities	<u>(736,196,000)</u>	<u>(718,392,000)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(820,000)	(1,042,000)
Proceeds from disposals of property and equipment	93,000	23,000
Net cash used in capital and related financing activities	<u>(727,000)</u>	<u>(1,019,000)</u>
INVESTING ACTIVITIES:		
Interest received	1,630,000	2,702,000
Purchase of grand prize investments	(9,853,000)	(30,142,000)
Investments sold	6,602,000	26,177,000
Maturities of grand prize investments	21,469,000	21,437,000
Net cash provided by investing activities	<u>19,848,000</u>	<u>20,174,000</u>
NET CASH, CASH EQUIVALENTS, AND RESTRICTED CASH PROVIDED BY (USED IN)	<u>(31,806,000)</u>	<u>5,467,000</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, Beginning of year	<u>189,515,000</u>	<u>184,048,000</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, End of year	<u>\$ 157,709,000</u>	<u>\$ 189,515,000</u>

(Continued)

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

	2003	2002 (As Restated, See Note 11)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 749,927,000	\$ 722,187,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,326,000	1,248,000
Provision for doubtful retailer accounts	935,000	328,000
Gain (loss) on disposals of property and equipment	(79,000)	13,000
Changes in assets and liabilities:		
Retailer accounts receivable	(18,715,000)	(9,641,000)
Prepaid expenses and other assets	(465,000)	(421,000)
Accounts payable and accrued liabilities	482,000	74,000
Prizes payable	(29,743,000)	8,204,000
Grand prizes payable	(18,219,000)	(17,472,000)
Restricted fidelity fund	(484,000)	58,000
Other liabilities	304,000	126,000
Net cash provided by operating activities	<u>\$ 685,269,000</u>	<u>\$ 704,704,000</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES:		
Increase in fair value of investments	\$ 15,626,000	\$ 9,139,000
Gain (loss) on disposal of capital assets	79,000	(13,000)
Total noncash investing, capital, and financing activities	<u>\$ 15,705,000</u>	<u>\$ 9,126,000</u>

(Concluded)

See notes to financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

1. REPORTING ENTITY

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

The GLC's ticket sales include instant ticket sales and online ticket sales for Cash 3, Cash 4, Lotto South, Fantasy Five, Quick Cash Keno, and Mega Millions. In July 2002, the GLC began ticket sales for a new game, The Change 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.

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 earned and expenses are recognized when incurred. In accordance with Statement of Governmental Accounting Standards ("SGAS") No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the GLC is required to follow all applicable Governmental Accounting Standards Board ("GASB") pronouncements.

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

Revenue Recognition — Lottery games are sold to the public by contracted retailers. Revenue is recognized for online games when tickets are sold to players and the related draw has occurred. Revenue is recognized for instant games when the product is made available for sale to the public, which is based on ticket activations by the retailers. Certain 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 percent on ticket sales, except for Cash 3 and The Change Game sales, on which retailers receive a commission of 7 percent and 10 percent, respectively, and a 2 percent cashing bonus on all ticket validations at their location. In addition, retailers receive bonuses for selling winning jackpot tickets for Lotto South, Fantasy Five, Mega Millions, and certain instant ticket games. During 2003 and 2002, at least four instant ticket games were introduced with a retailer sales commission of 10 percent.

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 7,900 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, Inc. 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 September 10, 2003.

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

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

The Powerball grand prize is a shared prize from contributions to the prize pool by all member lotteries of the Multi-State Lottery Association ("MUSL"). All Powerball grand prizes won by players who purchased tickets in Georgia are funded by investments purchased by MUSL. The investments are held by MUSL in trust for the GLC and are paid in 20 annual installments. Investments of \$11,900,000 and \$11,594,000 included in the GLC's grand prize investments in the statements of net assets at June 30, 2003 and 2002, respectively, were held by MUSL in trust. The GLC withdrew from MUSL on August 31, 1996.

Unclaimed Prizes — Prizes must be claimed no later than 90 days after game-end for instant games and within 180 days after the draw date for online games. An estimate of the unclaimed prizes is 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 and related educational programs. Transfers for this purpose for each fiscal year have been \$200,000. The remainder of unclaimed prizes is used to fund future prizes or special prize promotions, as defined by the statute.

Net Assets — Net assets represent cumulative revenues less expenses in excess of net proceeds transferred to the Lottery for Education Account, as defined under the Act (see Note 7). Net assets include funds invested in capital assets and unrestricted net assets. Unrestricted net assets normally result from the inclusion of capital costs in the determination of net proceeds as required by the Act and the cumulative effect of periodic adjustments to recognize the fair value of grand prize investments held to fund grand prizes payable. Grand prize investments are purchased to finance future payments to Lotto South, Mega Millions, and certain instant game grand prize winners. Any increases or decreases in the fair value of these investments are determined to be unrealized and will not affect (i) the future ability to hold these investments or (ii) the amount of funds available for distribution to the Lottery for Education Account. Unrealized gains on grand prize investments at June 30, 2003 and 2002 were \$24,765,000 and \$9,139,000, respectively.

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, 2003 and 2002, the allowance for uncollectible retailer receivables was \$1,987,000 and \$1,735,000, respectively.

Capital Assets — Capital assets are stated at cost less accumulated depreciation. Depreciation on capital assets is computed using the straight-line method over the estimated useful lives of three to 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 as a result of the misfeasance or malfeasance of GLC retailers. At the end of each year, any amount in the fund in excess of \$500,000 is treated as net proceeds from the GLC subject to transfer to the Lottery for Education Account. There were no fidelity funds available for transfer as net proceeds for the year ended June 30, 2003. Fidelity funds available for transfer were \$58,000 for the year ended June 30, 2002. 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.

Bank balances of approximately \$16,000 and \$500,000 at June 30, 2003 and 2002, respectively, were either insured by federal depository insurance or collateralized by the GLC's custodial bank in the GLC's name.

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.

Reclassifications — Certain reclassifications have been made in the 2002 financial statements to conform with the 2003 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 \$2,134,000 and \$3,028,000 at June 30, 2003 and 2002, respectively, were 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 State of Georgia's 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, 2003, Georgia Fund 1 net assets totaled \$5,806,393,000 and were invested in the following:

Repurchase agreements	32%
Federal agencies/instrumentality securities	66%
Banker's acceptances	2%

The GLC's investment in Georgia Fund 1 was approximately \$156,441,000 and \$188,511,000 at June 30, 2003 and 2002, respectively. 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 \$1,630,000 and \$2,702,000 for the years ended June 30, 2003 and 2002, respectively.

The GLC's share of the assets and liabilities arising from the above investments will not be carried on the statements of net assets 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, 2003 and 2002.

Grand prize investments at June 30, 2003 and 2002 consist of the following:

	Fair Value	
	2003	2002
U.S. Treasury securities	\$ 210,392,000	\$ 201,736,000
Government agencies	<u>10,225,000</u>	<u>9,038,000</u>
	<u>\$ 220,617,000</u>	<u>\$ 210,774,000</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, 2003 and 2002 consisted of:

Fair value, June 30, 2001	\$ 209,177,000
Purchases	30,142,000
Payments to grand prize winners	(21,437,000)
Investments sold	(26,177,000)
Interest earned on current year maturities	13,014,000
Change in fair value	<u>6,055,000</u>
Fair value, June 30, 2002	210,774,000
Purchases	9,853,000
Payments to grand prize winners	(21,469,000)
Investments sold	(6,602,000)
Interest earned on current year maturities	12,435,000
Change in fair value	<u>15,626,000</u>
Fair value, June 30, 2003	<u>\$ 220,617,000</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, 2003, grand prize investments of \$168,990,000 and \$51,627,000 were classified as Category 1 and Category 3, respectively. At June 30, 2002, grand prize investments of \$155,764,000 and \$55,010,000 were classified as Category 1 and Category 3, respectively.

4. CAPITAL ASSETS

Capital assets at June 30 consisted of:

	Balance at June 30, 2002	Increases	Decreases	Balance at June 30, 2003
Capital assets:				
Furniture and fixtures	\$ 2,486,000			\$ 2,486,000
Computer and communications equipment	7,893,000	\$ 163,000	\$ (186,000)	7,870,000
Vehicles	2,384,000	396,000	(569,000)	2,211,000
Leasehold improvements	2,130,000	5,000		2,135,000
Software	188,000	241,000		429,000
Other assets	1,347,000	15,000		1,362,000
Total capital assets at historical cost	<u>16,428,000</u>	<u>820,000</u>	<u>(755,000)</u>	<u>16,493,000</u>
Less accumulated depreciation	<u>(13,772,000)</u>	<u>(1,326,000)</u>	<u>741,000</u>	<u>(14,357,000)</u>
Capital assets, net	<u>\$ 2,656,000</u>	<u>\$ (506,000)</u>	<u>\$ (14,000)</u>	<u>\$ 2,136,000</u>

	Balance at June 30, 2001	Increases	Decreases	Balance at June 30, 2002
Capital assets:				
Furniture and fixtures	\$ 2,389,000	\$ 106,000	\$ (9,000)	\$ 2,486,000
Computer and communications equipment	7,402,000	606,000	(115,000)	7,893,000
Vehicles	2,153,000	231,000		2,384,000
Leasehold improvements	2,095,000	35,000		2,130,000
Software	162,000	26,000		188,000
Other assets	1,348,000	38,000	(39,000)	1,347,000
Total capital assets at historical cost	<u>15,549,000</u>	<u>1,042,000</u>	<u>(163,000)</u>	<u>16,428,000</u>
Less accumulated depreciation	<u>(12,651,000)</u>	<u>(1,248,000)</u>	<u>127,000</u>	<u>(13,772,000)</u>
Capital assets, net	<u>\$ 2,898,000</u>	<u>\$ (206,000)</u>	<u>\$ (36,000)</u>	<u>\$ 2,656,000</u>

5. GRAND PRIZES PAYABLE

Grand prizes payable is recorded at the net present value of the U.S. Treasury securities purchased for each jackpot winner. Grand prizes payable was accreted by approximately \$12,435,000 and \$13,014,000 for the years ended June 30, 2003 and 2002, 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, 2003 are scheduled as follows:

2004	\$ 21,510,000
2005	21,463,000
2006	21,463,000
2007	21,442,000
2008	21,393,000
2009-2013	107,192,000
2014-2018	46,499,000
2019-2023	4,640,000
2024-2028	4,581,000
2029-2033	3,862,000
2034-2038	1,494,000
	<u>275,539,000</u>
Less imputed interest	<u>(80,107,000)</u>
Net present value of grand prizes payable	<u>\$ 195,432,000</u>

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

Claimants of qualified prizes, as defined in the GLC Rules and Regulations, on or after the date of enactment of the Omnibus Act, can make an irrevocable election to receive a lump-sum cash payment equivalent of the annuitized prize within 60 days of the claim date. Grand prizes payable at June 30, 2003 consist of no qualified prizes under this provision of the Special Rule.

6. OPERATING LEASES

The GLC has entered into operating leases for the rental of office space for its headquarters and district offices. Certain operating leases contain provisions for scheduled rental increases and are renewable at the option of the GLC. During the year ended June 30, 2003, all of the district office leases were re-negotiated with varying lease terms.

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
2004	\$ 1,946,000
2005	1,946,000
2006	1,948,000
2007	1,948,000
2008	2,231,000
2009-2013	<u>10,910,000</u>
	<u>20,929,000</u>
Less sublease revenues	<u>(2,463,000)</u>
Total	<u>\$ 18,466,000</u>

Rental expense under all operating leases totaled approximately \$1,601,000 and \$1,705,000 for the years ended June 30, 2003 and 2002, 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, 2003 and 2002 are summarized as follows:

	2003	2002
Operating revenues:		
Ticket sales	\$ 2,604,423,000	\$ 2,449,363,000
Less instant tickets provided as prizes	<u>(152,613,000)</u>	<u>(127,413,000)</u>
Net ticket sales	2,451,810,000	2,321,950,000
Online fees and other revenues	5,149,000	4,493,000
Interest income	<u>1,630,000</u>	<u>2,702,000</u>
GLC proceeds	<u>2,458,589,000</u>	<u>2,329,145,000</u>
Operating expenses, as defined:		
Gaming	1,682,555,000	1,581,527,000
Operating	24,477,000	22,729,000
Other	<u>1,020,000</u>	<u>1,242,000</u>
Total operating expenses, as defined	<u>1,708,052,000</u>	<u>1,605,498,000</u>
Net proceeds before distribution of unrestricted net assets	<u>750,537,000</u>	<u>723,647,000</u>
Other:		
Funds resulting from prior year capital purchases		1,255,000
Funds resulting from current year capital purchases	820,000	1,042,000
Funds for compulsive gambling education and treatment	200,000	200,000
Fidelity funds subject to transfer		<u>58,000</u>
Total other	<u>1,020,000</u>	<u>2,555,000</u>
Net proceeds subject to transfer	<u>\$ 751,557,000</u>	<u>\$ 726,202,000</u>
Amount due to Lottery for Education Account for year	\$ 751,557,000	\$ 726,202,000
Amount paid during year	<u>(535,653,000)</u>	<u>(525,859,000)</u>
Amount due to Lottery for Education Account, end of year	<u>\$ 215,904,000</u>	<u>\$ 200,343,000</u>

Subsequent to June 30, 2003, all amounts due at the end of fiscal year 2003 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 257 GLC employees participating in the 401(k) plan at June 30, 2003. For the years ended June 30, 2003 and 2002, GLC contributed \$627,000 and \$485,000, respectively, to the plan, and for the years ended June 30, 2003 and 2002 paid \$3,000 of plan administrative fees, on behalf of GLC employees. Contributions by plan participants during fiscal years ended June 30, 2003 and 2002 were \$507,000 and \$505,000, respectively.

457 Deferred Compensation Plan — Beginning in December 1994, the GLC offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. Section 1448 of the Small Business Job Protection Act of 1996 added Subsection (g) to Section 457 of the Internal Revenue Service Code to provide that all assets and income under a Section 457(b) plan that are maintained by a state or local government employer must be held in trust for the exclusive benefit of plan participants and their beneficiaries. Nationwide Retirement Solutions is the custodian of the plan's assets. As of June 30, 2003 and 2002, the fair value of the plan's assets was \$987,000 and \$891,000, respectively. Contributions by participants during the years ended June 30, 2003 and 2002 were \$166,000 and \$112,000, respectively.

Compensated Absences — Employees are compensated for earned vacation and sick leave hours upon separation from service. As of July 1, 2002, the beginning balance for compensated absence liability was \$1,580,000. At June 30, 2003, the year-end compensated absence liability balance was \$1,910,000. Increases to the compensated absences balance represent vacation and sick leave hours earned by employees and decreases represent their usage of leave. During the year ended June 30, 2003, employees earned and used leave totaling \$1,061,000 and \$731,000, respectively. The current portion of the compensated absence liability, expected to be due within one year of the statement date, June 30, 2003, is estimated using historical trends. At June 30, 2003 and 2002, the estimated current portion of the compensated absences liability was \$34,000 and \$95,000, 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

During fiscal year 2003, the GLC competitively bid its services for Online Gaming Systems and Services ("Online") and Instant Ticket Printing and Associated Services ("Instant"). The Online contract was awarded to GTECH Corporation, for a seven-year term, with an effective start date of September 7, 2003. Under the new contract GTECH receives a fee of 1.28% of net ticket revenue. The Instant contract was awarded to Scientific Games, Inc., for a seven-year term, also with an effective start date of September 7, 2003. Under the new contract Scientific Games, Inc. receives a fee of 1.2875% of the retail value of instant game tickets activated by retailers.

11. RESTATEMENT

Subsequent to the issuance of the GLC's 2002 financial statements, the GLC's management determined that an electronic deposit of funds executed after June 30, 2002 was treated as a deposit in transit and included in cash and cash equivalents rather than retailer accounts receivable at June 30, 2002. As a result, the GLC's financial statements as of and for the year ended June 30, 2002 have been restated from the amounts previously reported. The following is a summary of the significant effects of the restatement:

	2002	
	As Previously Reported	As Restated
Cash and cash equivalents	\$ 210,451,000	\$ 189,015,000
Retailer accounts receivable, net	\$ 60,629,000	\$ 82,065,000

Dear Georgia Lottery,
 I'll never forget that day ten years ago.
 One of my school's guidance
 counselors explained the amazing news.
 A new program had been
 established which would allow high
 school students with a B average to
 attend a Georgia public university
 tuition free.

Thanks to the HOPE Scholarship
 Program, I was able to attend UGA
 and graduated with a Bachelor's Degree
 in Political Science in 1997. It also
 eased the financial strain when I
 decided to attend Law School at UGA
 after graduation.

Happy Anniversary HOPE!

HOPE Scholarship Recipient





Georgia Lottery Corporation
250 Williams Street
Suite 3000
Atlanta, Georgia 30303-1042
404.215.5000
www.galottery.com