

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

supplemental plan totaled \$173,716. The market value of the total assets of the plan as of June 30, 1996, is \$1,238,964.

For the fiscal year ended June 30, 1995, the total payroll was \$4,545,274, and the Corporation's contributions for the supplemental retirement plan were calculated using the participant's compensation of \$4,275,816. Employer contributions to the supplemental plan totaled \$192,412. The market value of the total assets of the plan as of June 30, 1995, was \$1,070,074.

**C. OPTIONAL SAVINGS PLAN
(DEFERRED COMPENSATION PLAN)**

Certain employees of the Corporation participate in the Louisiana Lottery Corporation Deferred Compensation Plan adopted under the provisions of Internal Revenue Code (IRC) Section 457. The plan is operated on a calendar year basis. Under the terms of the plan, an employee is eligible to participate in the plan as of the entry date that coincides with or immediately follows the date on which the employee completes a 90-day employment period. Employees employed by the Corporation as of December 15, 1991, shall be eligible to participate in the plan as of January 1, 1992. Participants may annually defer a maximum of \$7,500 of compensation. The lottery contributes a matching contribution equal to the amount of compensation deferred by each participant up to 2.5 percent of each participant's compensation as reported on Internal Revenue Service (IRS) Form W-2. Under requirements of IRC Section 457, the assets in the plan remain the property of the Corporation until paid or made available to participants, subject only to the claims of the Corporation's general creditors. The Corporation has elected to designate a third party to administer the plan through an irrevocable trust. Notwithstanding any provision of this plan to the contrary, the payment of benefits under this plan remains the obligation of the Corporation.

A participant's matching contribution account shall be fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement date or upon the completion of three years of service. A year of service is a plan year in which a participant is credited with 1,000 hours of service. Each participant employed by the Corporation before January 1, 1992, shall be credited with a special year of service if the employee completed at least 500 hours of service before such date. Any forfeiture of nonvested amounts shall be reallocated to the matching accounts of all the remaining participants.

For the fiscal year ended June 30, 1996, employer and employee contributions were \$84,543 and \$141,411, respectively. The market value of plan assets at June 30, 1996, is \$1,008,818 as disclosed in the financial statements.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

For the fiscal year ended June 30, 1995, employer and employee contributions were \$90,930 and \$146,488, respectively. The market value of plan assets at June 30, 1995, is \$780,452 as disclosed in the financial statements.

D. BASIC RETIREMENT PLAN

The employees of the Louisiana Lottery Corporation have elected to establish a money purchase plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, which plan is intended to constitute a safe harbor within the meaning of Section 3121 (b)(7) of the code and the regulations promulgated thereunder. The basic retirement plan, a defined contribution plan, began September 1, 1993, with all employees eligible except those who elect coverage under a state retirement plan and those who are either independent contractors or leased employees. The plan operates on a calendar year with the exception of the first year, which began September 1, 1993, and ended December 31, 1993.

Under the terms of the plan, an employee is eligible to participate in the plan as of the entry date that coincides with or immediately follows the date on which the employee completes a 90-day employment period.

As defined in the basic retirement plan, the employer's contribution shall be 5 percent of the participant's compensation for such plan year. The employee's contribution shall equal 6.2 percent of their compensation for such plan year.

A participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the employer. No more than the social security wage base in effect as of the first day of the plan year shall be treated as compensation. As of June 1, 1994, the Corporation elected to treat all contributions to the basic retirement plan as pre-tax.

This plan is accounted for using the accrual method of accounting in accordance with generally accepted accounting principles, and the fair value of the plan assets is based on the current market for those assets as listed below. A majority of the plan assets is invested in the One Group.

For the fiscal year ended June 30, 1996, the total payroll was \$4,224,708, and the contributions for the basic retirement plan were calculated using the participant's compensation of \$4,102,759. The employer and employee contributions were \$205,249 and \$254,372, respectively. The market value of the total assets of the plan as of June 30, 1996, is \$1,258,029.

For the fiscal year ended June 30, 1995, the total payroll was \$4,545,274, and the contributions for the basic retirement plan were calculated using the participant's compensation of \$4,391,494. The employer and employee contributions were \$219,575

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

and \$272,274, respectively. Market value of the total assets of the plan as of June 30, 1995, was \$869,624.

E. OTHER RETIREMENT PLANS

Two employees, employed before June 10, 1993, are members of the Louisiana State Employees Retirement System (LASERS), a multiple-employer, defined benefit pension plan.

The legislature annually sets the required employee contribution rate equal to the actuarially required employer contribution, as set forth in LSA-R.S. 11:102. Benefits granted by the retirement systems are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974.

5. LITIGATION

The Corporation has been named in five lawsuits. For three of the lawsuits, the probability of an unfavorable outcome and the potential liability to the Corporation cannot be reasonably determined by the Corporation's legal counsel. For the remaining lawsuits, the Corporation's legal counsel does not anticipate a potential loss to the Corporation resulting from these lawsuits.

6. LEASE AND RENTAL COMMITMENTS

The Corporation has noncancelable operating leases with the following annual rental payments for the next five years presented in the following schedule:

	<u>Equipment</u>	<u>Facilities</u>	<u>Total</u>
1996-97	\$21,702	\$545,120	\$566,822
1997-98	21,702	459,036	480,782
1998-99	21,702	450,792	472,494
1999-2000	3,916	141,789	145,705
2000-2001		57,562	57,562

The total operating lease payments for the years ended June 30, 1996 and June 30, 1995, was \$563,672 and \$586,504, respectively.

The Corporation has no capital leases at June 30, 1996.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

7. RETAINED EARNINGS

The Corporation had unreserved retained earnings for the fiscal year June 30, 1996, of \$26,279,682. As presented in the 1996/97 fiscal year budget approved by the Joint Legislative Committee on the Budget on June 26, 1996, management has specified that retained earnings of June 30, 1996, be used for the following purposes:

Cost of fixed assets (net of accumulated depreciation)	\$3,611,999
Fixed asset replacement reserve	9,190,910
Instant ticket inventory	842,000
Litigation and loss reserve	5,000,000
New capital expenditure purchases	802,500
New game development	4,000,000
Retailer signage program	500,000
Deposits	35,584
Instant ticket dispensers	500,000
Pay for performance (retailer incentive plan)	2,000,000
Rounding difference	876
Total budgeted retained earnings	<u>26,483,869</u>
Less - difference in budgeted retained earnings and actual	<u>(204,187)</u>
Total unreserved retained earnings	<u><u>\$26,279,682</u></u>

The reserve for operating leases of \$220,690 represents security pledged against a letter of credit required by the Baton Rouge main office and the Monroe regional office operating leases.

8. TRANSFERS TO THE STATE TREASURY

The Corporation is required to transfer each year not less than 35 percent of gross revenues to the state treasury. LSA-R.S. 47:9029(A)(3) requires monthly transfers to the state treasury. For the fiscal years ended June 30, 1996, and June 30, 1995, the total amount transferred to the state was \$102.5 million and \$111.8 million, respectively.

9. BOARD OF DIRECTORS

The board of directors consists of nine members appointed by the governor and confirmed by the Senate. No member shall serve more than two consecutive four-year terms. The board of directors must meet at least monthly for the first 18 months and bimonthly thereafter and at such other times as the chairman or the president may determine.

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
For the Year Ended June 30, 1996**

SCHEDULE OF PROFESSIONAL SERVICE FEES

Schedule 1 presents professional service fees for the year ended June 30, 1996. This schedule is prepared in compliance with Senate Concurrent Resolution No. 35 of the 1974 Session of the Louisiana Legislature.

SCHEDULE OF COMPENSATION PAID BOARD MEMBERS

Schedule 2 presents the compensation paid board members for the year ended June 30, 1996. Louisiana Revised Statute 47:9004(D) provides that appointed members of the board of directors shall be entitled to \$15,000 per year, except for the chairperson, who shall receive \$25,000 per year. This schedule is prepared in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA**

**Schedule of Professional Service Fees
For the Year Ended June 30, 1996
(With Comparative Totals for June 30, 1995)**

	<u>JUNE 30, 1996</u>	<u>JUNE 30, 1995</u>
Abbott & Hayne, Counselors-at-Law - legal counsel	\$8,089	\$21,222
Affiliated Forensic - compliance testing of Instant games	10,000	
Attorney General's Office, Department of Justice - legal counsel	82,063	88,875
Bauerlein - marketing research	21,768	
Battelle, Incorporated - compliance testing of Instant games	41,420	10,200
Benchmarks, Incorporated - consulting services for evaluation of instant sales	31,500	
Chenevert/Soderberg, Architects - space study and compliance with the American Disabilities Act	1,856	10,490
Department of Agriculture and Forestry - weight testing of Lotto and Easy 5 balls	300	625
Department of Revenue and Taxation - retailer background investigations	8,488	14,884
Evaluation, Inc. - consulting services for RFP evaluations	24,600	
Gulf Computer Systems - consulting services for network	2,750	
KPMG Peat Marwick Thorne - Certified Public Accountants acceptance testing - Automated Drawing Machine	13,900	
Martin E. Segal Company - benefit plan development	2,371	6,308
Office of Legislative Auditor - financial and compliance audit and observations of on-line drawings	115,012	127,150
Office of State Police, Department of Public Safety and Corrections - retailer and employee background investigations		1,850
Phelps Dunbar, Counselors-at-Law - legal counselors	137,279	63,960
Pravel, Hewitt, Kimball & Krieger, Counselors-at-Law - legal counselors	12,049	9,050
SSA Consultants, Incorporated - long range planning	1,500	17,909
T-R Associates - consulting services for evaluation of marketing plan	19,200	
Webcraft Games - design of instant tickets and marketing research		46,600
William M. Mercer, Incorporated - salary administration and compensation program	11,019	26,124
	<u>11,019</u>	<u>26,124</u>
Total	<u>\$545,164</u>	<u>\$445,247</u>

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA

Schedule of Compensation Paid Board Members
For the Year Ended June 30, 1996
(With Comparative Totals for June 30, 1995)

	<u>EFFECTIVE DATE OF TERM</u>	<u>EXPIRATION DATE OF TERM</u>	<u>JUNE 30, 1996</u>	<u>JUNE 30, 1995</u>
Joseph Bouie, Jr. , Chairperson through January 25, 1996	January 28, 1993		\$20,672	\$25,000
James David Cain, Jr.	January 1, 1995		15,000	7,500
Andrea W. Cavin	July 16, 1992	resigned March 1, 1996	10,000	15,000
Luther F. Cole	January 1, 1995	resigned April 22, 1996	12,167	7,500
Stewart Gentry, Chairperson effective January 26, 1996	June 24, 1994		19,328	15,000
Roland S. Greene	January 15, 1991	December 31, 1994*		7,500
Harold Hebert	January 19, 1993		15,000	15,000
Mary S. Jeansonne	January 15, 1991	December 31, 1994*		7,500
Ramon Lafitte (reappointed January 12, 1994)	September 9, 1992	resigned April 17, 1995		12,581
Jewel J. Newman	April 26, 1995		15,000	2,419
Lamar Poole	January 1, 1995		15,000	7,500
Edison A. Sexton	January 15, 1991	December 31, 1994*		7,500
Nicholas Smith	January 12, 1994		15,000	15,000
Lyn Hayward	March 26, 1996		3,992	
Total			<u>\$141,159</u>	<u>\$145,000</u>

*Terms expired pursuant to Louisiana Revised Statute 47:9004.

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain reports on internal control structure and compliance with laws and regulations required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report on internal control structure is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses. The report on compliance with laws and regulations is, likewise, based solely on the audit of the presented financial statements and presents, where applicable, compliance matters that would be material to the presented financial statements.



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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September 12, 1996

Independent Auditor's Report on Internal Control Structure
Based Solely on an Audit of the General Purpose Financial Statements

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the general purpose financial statements of the Louisiana Lottery Corporation (the Corporation), a component unit of the State of Louisiana, as of and for the year ended June 30, 1996, and have issued our report thereon dated September 12, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Management of the Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of the Corporation for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

EXHIBIT A

LEGISLATIVE AUDITOR

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Internal Control Report
September 12, 1996
Page 2

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information and use of the Corporation and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

KTB:THC:dl

[LOTTERY]



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DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

September 12, 1996

Independent Auditor's Report on Compliance With Laws and
Regulations Material to the General Purpose Financial Statements

**BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the general purpose financial statements of the Louisiana Lottery Corporation (the Corporation), a component unit of the State of Louisiana, as of and for the year ended June 30, 1996, and have issued our report thereon dated September 12, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, and contracts applicable to the Louisiana Lottery Corporation is the responsibility of the Corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information and use of the Corporation and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

KTB:THC:dl

{LOTTERY}

EXHIBIT B

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STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Lottery Corporation
State of Louisiana
Baton Rouge, Louisiana

September 25, 1996



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT

Albert J. Robinson, Jr., CPA

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1996
With Supplemental Information Schedules

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

September 25, 1996

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA**

General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1996
With Supplemental Information Schedules

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DANIEL G. KYLE, PH.D., CPA, CFE
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September 12, 1996

Independent Auditor's Report
on the Financial Statements

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying general purpose financial statements of the Louisiana Lottery Corporation (the Corporation), a component unit of the State of Louisiana, as of and for the year ended June 30, 1996, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Lottery Corporation as of June 30, 1996, and the results of operations and the statement of cash flows for the year then ended, in conformity with generally accepted accounting principles.

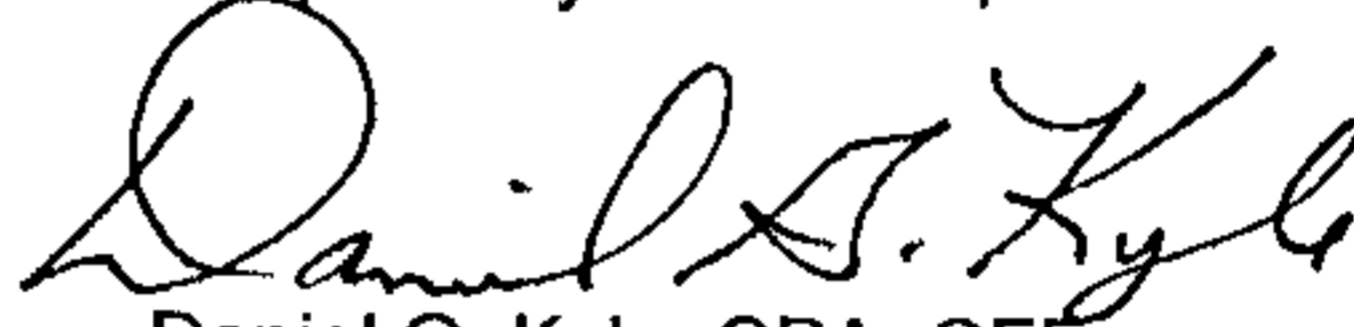
In accordance with *Government Auditing Standards*, we have also issued a report dated September 12, 1996, on our consideration of the Louisiana Lottery Corporation's internal control structure and a report dated September 12, 1996, on its compliance with laws and regulations.

LEGISLATIVE AUDITOR

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Audit Report, June 30, 1996

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental information schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Louisiana Lottery Corporation. Such information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

KTB:THC:dl

{LOTTERY}

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Balance Sheet, June 30, 1996
(With Comparative Totals for June 30, 1995)

	1996	1995
ASSETS		
Current assets:		
Cash (note 1-E)	\$704,872	\$644,524
Investments (note 1-G)	45,476,826	73,131,338
Accounts receivable, net (note 2)	7,051,021	6,601,226
Investments in prize annuities (note 1-G)	18,679,212	16,002,788
Prepaid expenses (note 1-I)	742,700	1,248,959
Other current assets	190,291	76,737
Total current assets	<u>72,844,922</u>	<u>97,705,572</u>
Restricted assets - investments (note 1-F)	<u>220,690</u>	<u>220,690</u>
Noncurrent assets:		
Fixed assets, net (note 1-J)	3,045,900	4,837,746
Investments in government securities (note 1-G)	5,987,344	
Investments in prize annuities (note 1-G)	181,596,014	155,814,349
Deposits with Multi-State Lottery Association (note 1-K)	3,974,346	960,704
Investment in deferred compensation plan (note 4-C)	1,008,818	780,452
Total noncurrent assets	<u>195,612,422</u>	<u>162,393,251</u>
TOTAL ASSETS	<u><u>\$268,678,034</u></u>	<u><u>\$260,319,513</u></u>
LIABILITIES AND RETAINED EARNINGS		
Current liabilities:		
Accounts payable	\$3,031,421	\$3,568,484
Payroll taxes payable	24,523	109,750
Accrued transfer to state treasury	7,971,536	34,735,000
Prizes payable (note 3)	43,136,959	36,119,460
Compensated absences payable (note 1-L)	229,497	203,139
Total current liabilities	<u>54,393,936</u>	<u>74,735,833</u>
Noncurrent liabilities:		
Noncurrent prizes payable (note 3)	186,394,008	160,091,223
Retailer security deposits	380,900	369,725
Deferred compensation plan (note 4-C)	1,008,818	780,452
Total noncurrent liabilities	<u>187,783,726</u>	<u>161,241,400</u>
Total Liabilities	<u>242,177,662</u>	<u>235,977,233</u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND
 Balance Sheet, June 30, 1996
 (With Comparative Totals for June 30, 1995)

	<u>1996</u>	<u>1995</u>
LIABILITIES AND RETAINED EARNINGS (CONT.)		
Retained earnings:		
Unreserved (note 7)	\$26,279,682	\$24,121,590
Reserved for operating leases (note 7)	220,690	220,690
Total retained earnings	<u>26,500,372</u>	<u>24,342,280</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u><u>\$268,678,034</u></u>	<u><u>\$260,319,513</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and
Changes in Retained Earnings
For the Year Ended June 30, 1996
(With Comparative Totals for June 30, 1995)

	1996	1995
OPERATING REVENUES		
Instant ticket sales	\$97,132,942	\$124,092,199
On-line sales	192,090,080	181,161,612
Retailer license fees	34,475	41,925
Miscellaneous revenue	23,490	17,495
Total operating revenues	<u>289,280,987</u>	<u>305,313,231</u>
OPERATING EXPENSES		
Direct costs:		
Instant ticket prize expense	48,650,150	62,440,813
On-line prize expense	95,939,690	89,584,703
Retailer commission	14,466,685	15,456,641
Retailer incentives	637,640	1,030,004
On-line vendor commission	8,266,184	9,293,912
Communications	430,154	400,144
Cost of instant tickets	1,851,850	1,954,539
Courier service	513,461	544,220
Total direct costs	<u>170,755,814</u>	<u>180,704,976</u>
Administrative expenses:		
Advertising	5,882,541	6,480,902
Bad debt expense	42,719	36,817
Contract labor	272,601	264,005
Depreciation	2,118,875	2,542,719
Equipment lease	42,985	70,508
Insurance	273,056	336,190
Postage	55,496	67,159
Professional fees	545,164	445,247
Rent	520,688	515,996
Repairs and maintenance	425,669	429,194
Salaries, compensation, and benefits	5,424,579	5,789,645
Supplies	507,022	650,420
Telephone	319,810	296,437
Travel	108,451	132,099

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND
Statement of Revenues, Expenses, and
Changes in Retained Earnings, 1996

	1996	1995
OPERATING EXPENSES (CONT.)		
Administrative expenses: (Cont.)		
Utilities	\$122,775	\$112,299
Other general and administrative	525,661	503,316
Total administrative expenses	<u>17,188,092</u>	<u>18,672,953</u>
Total operating expenses	<u>187,943,906</u>	<u>199,377,929</u>
OPERATING INCOME	<u>101,337,081</u>	<u>105,935,302</u>
NONOPERATING REVENUES		
Interest earned on investments	3,468,537	3,145,779
Gain (loss) on disposal of assets	(170,129)	19,613
Total nonoperating revenues (expenses)	<u>3,298,408</u>	<u>3,165,392</u>
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING ESTIMATES		
Fixed asset recoveries (note 1-J)	15,023	4,527
Total cumulative effect of changes in accounting estimates	<u>15,023</u>	<u>4,527</u>
NET INCOME	104,650,512	109,105,221
TRANSFERS OF LOTTERY PROCEEDS TO THE STATE TREASURY (note 8)	(102,492,420)	(111,770,000)
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>24,342,280</u>	<u>27,007,059</u>
RETAINED EARNINGS AT END OF YEAR	<u><u>\$26,500,372</u></u>	<u><u>\$24,342,280</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Cash Flows
For the Year Ended June 30, 1996
(With Comparative Totals for June 30, 1995)

	1996	1995
Cash flows from operating activities:		
Operating income	\$101,337,081	\$105,935,302
Cumulative effect of changes in accounting estimates	15,023	4,527
Gain (loss) on disposal of assets	(170,129)	19,613
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,118,875	2,542,719
Provision for uncollectible accounts	42,719	36,817
Changes in assets and liabilities:		
(Increase) decrease in investments	27,654,512	(9,073,893)
(Increase) decrease in accounts receivable	(492,514)	1,075,800
(Increase) in investments in prize annuities	(2,676,424)	(3,380,106)
(Increase) in investments in government securities	(5,987,344)	
Decrease in prepaid expenses	506,259	257,319
(Increase) in deposits with Multi-State Lottery Association	(3,013,642)	(960,704)
(Increase) in other current assets	(113,554)	(6,522)
Increase (decrease) in accounts payable	(537,063)	271,654
Increase (decrease) in payroll taxes payable	(85,227)	91,479
Increase (decrease) in accrued transfer to state treasury	(26,763,464)	6,740,000
Increase in prizes payable	7,017,499	2,214,682
Increase in compensated absences payable	26,358	1,382
Increase in retailer security deposits	11,175	20,825
Net cash provided by operating activities	<u>98,890,140</u>	<u>105,790,894</u>
Cash flows from noncapital financing activities - payments to state treasury	<u>(102,492,420)</u>	<u>(111,770,000)</u>
Cash flows from capital and related financing activities - investments in fixed assets:		
Additions	(632,289)	(1,596,124)
Deletions	305,260	246,849
Net cash provided by capital financing activities	<u>(327,029)</u>	<u>(1,349,275)</u>
Cash flows from investing activities:		
Purchase of investments	(25,781,665)	(30,742,145)
Long-term investments for prizes payable	26,302,785	35,019,019

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND
 Statement of Cash Flows
 For the Year Ended June 30, 1996
 (With Comparative Totals for June 30, 1995)

	<u>1996</u>	<u>1995</u>
Cash flows from investing activities: (Cont.)		
Interest and dividends on investments	\$3,468,537	\$3,145,779
Net cash provided by investing activities	<u>3,989,657</u>	<u>7,422,653</u>
Net increase in cash	60,348	94,272
Cash at July 1	<u>644,524</u>	<u>550,252</u>
Cash at June 30	<u><u>\$704,872</u></u>	<u><u>\$644,524</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA**

Notes to the Financial Statements
For the Year Ended June 30, 1996

INTRODUCTION

The Louisiana Lottery Corporation (the Corporation) is created in accordance with Louisiana Revised Statutes (LSA-R.S.) 47:9000-9081 and 14:90(C) and began operating January 15, 1991. The Corporation is organized to provide for lottery games, operations, activities, and the payment of prizes. The affairs of the Corporation are administered by a board of directors appointed by the governor, subject to confirmation by the Senate. Instant ticket games were first introduced on September 6, 1991; the on-line Lotto game began on January 22, 1992; and the on-line Daily Pick 3 game started on August 31, 1992. On March 5, 1995, the Corporation began two new on-line games. Easy 5 is a five digit Lotto game with weekly draws. Powerball is an on-line game offered by the Multi-State Lottery Association, an association comprised of 21 states and the District of Columbia. For the fiscal years ended June 30, 1996, and June 30, 1995, the Corporation employed 143 employees and 160 employees, respectively. The Corporation is domiciled in East Baton Rouge Parish and operates six regional offices.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Louisiana Lottery Corporation is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the board of directors is appointed by the governor; (2) upon dissolution of the Corporation, title to all property owned by the Corporation shall vest in the State of Louisiana; and (3) the Corporation provides services wholly within the state's boundaries. The accompanying financial statements present information only as to the transactions of the programs of the Louisiana Lottery Corporation, a component unit of the State of Louisiana. The Corporation is reported as an enterprise fund within the State of Louisiana's Comprehensive Annual Financial Report.

B. BASIS OF PRESENTATION

The Corporation uses a proprietary fund (enterprise fund) to report on its financial position and results of operations. The enterprise fund accounts for the activities relative to conducting a lottery, including, but not limited to, incurring and paying administrative costs and payment of prizes. The fund is operated in a manner similar to a private business enterprise where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, management control, accountability, or other purposes.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

C. BASIS OF ACCOUNTING

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

Revenue Recognition

Revenue is recognized when instant ticket packs are activated for sale and on-line game tickets are sold to the public by contracted retailers.

Prizes

Prize expense is recognized based on a predetermined prize structure for each instant ticket and on-line game as revenue is recognized.

D. LEGISLATIVE BUDGET OVERSIGHT

LSA-R.S. 47:9010(A)(7) requires the Corporation beginning on March 1, 1991, and not later than thirty days before the beginning of each subsequent regular session of the legislature to submit a proposed annual budget of the Corporation and projected net proceeds to the Joint Legislative Committee on the Budget for review and approval. The Corporation submitted its budget for fiscal year ended June 30, 1996, on February 24, 1995, and the revised budget was approved by the Joint Legislative Committee on the Budget on March 6, 1995. A formal budgetary comparison is not required by GASB reporting standards for proprietary funds and, therefore, a budgetary comparison for the fiscal year ended June 30, 1996, is not presented.

E. CASH

Cash includes petty cash and demand deposits. Under state law, the Corporation may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, national banks having their principal offices in the State of Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state chartered credit unions.

As reflected on Statement A, the Corporation has cash totaling \$704,872 at June 30, 1996, and \$644,524 at June 30, 1995. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

times equal the amount on deposit with the fiscal agent. These pledged securities are held in a joint custody safekeeping account in the name of the Corporation and the fiscal agent bank in the form of book entry deposits in the New Orleans Branch of the Federal Reserve Bank of Atlanta. The Corporation has deposit balances (collected bank balances) of \$717,706 at June 30, 1996, and \$657,035 at June 30, 1995, secured from risk by \$100,000 of federal deposit insurance (GASB Risk Category 1) and \$617,706 of pledged securities (GASB Risk Category 1) for fiscal year ended June 30, 1996, and \$557,035 of pledged securities (GASB Risk Category 1) for the fiscal year ended June 30, 1995.

F. RESTRICTED ASSETS - INVESTMENTS

At June 30, 1996, and June 30, 1995, the Corporation had \$220,690 in certificates of deposit, which are required as security for the letters of credit required by the Baton Rouge main office and the Monroe regional office operating leases. This asset is classified as an investment because its original maturity exceeds 90 days. The Corporation's investment is reflected at cost and is categorized to indicate the level of risk assumed by the Corporation at year-end. The securities pledged as collateral for these certificates of deposits are held in a joint safekeeping account in the name of the Corporation and the fiscal agent bank in the form of book entry deposits in the New Orleans Branch of the Federal Reserve Bank of Atlanta. Therefore, the investment balance of \$220,690 as of June 30, 1996, and June 30, 1995, was classified as GASB Risk Category 1.

**G. INVESTMENTS IN PRIZE ANNUITIES
AND INVESTMENTS**

Investments in prize annuities totaling \$168,796,609 for the fiscal year ended June 30, 1996, and \$171,817,137 for the fiscal year ended June 30, 1995, are in the form of U.S. Treasury zero coupon bonds. These investments have been purchased to finance the grand prizes of the Lotto game and the selected top prizes of an instant ticket game that are payable over a 20-year period. The Corporation intends to hold these investments until maturity to fund the annual prize payments to the prize winners. Investments in prize annuities are recorded at the value of the annual prize payments net of imputed interest. The market value of these investments at June 30, 1996, is \$163,717,208. The investments are held by a custodial bank with the Corporation maintaining exclusive control over the investment in the accounts. The investments held by the custodial bank meet the criteria for GASB Risk Category 1 of Statement 3.

Investments in prize annuities totaling \$31,478,617 for the fiscal year ended June 30, 1996, have been purchased to finance the Louisiana grand prize winners of the Multi-State Lottery Association (MUSL) Powerball game. The MUSL purchased U.S. Treasury zero coupon bonds to fund the grand prizes that are payable over 20 years.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

As the bonds mature, the funds are transferred to the Corporation for the annual prize payments to the winners. Investments in these prize annuities are recorded at the value of the annual prize payments net of imputed interest. The market value of these investments at June 30, 1996, is \$29,621,250. These investments, held in the name of MUSL, and placed in trust with the Corporation as the beneficiary, are classified as GASB Risk Category 3 of Statement 3.

Investments intended to finance the operations of the Corporation are held in two portfolios. As of June 30, 1996, and June 30, 1995, investments in the first portfolio consist of short-term government securities of \$44,033,164 and \$73,131,338, respectively. These securities are in the form of mutual fund investments consisting of U.S. Treasury obligations and/or U.S. government agency obligations. The investments are not classified as to category of credit risk because this is not required by GASB Codification Section 150.165.

In the fiscal year ended June 30, 1996, the Corporation began a second portfolio consisting of direct investments in U.S. Treasury obligations totaling \$7,431,006 (\$1,443,662, current; \$5,987,344, noncurrent), with a range in maturity from 270 days to three years. The Corporation intends to hold these securities until maturity and records these securities at amortized cost. The market value of these investments at June 30, 1996, is \$7,428,280. The investments held by the custodial bank meet the criteria for GASB Risk Category 1 of Statement 3.

H. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts (note 2) is based on an analysis of accounts receivable that considers the age of the accounts and the expected collectibility of each account.

I. PREPAID EXPENSES

Prepaid expenses represent insurance paid for coverage after the fiscal year-end, miscellaneous prepaid supplies, and unsold instant ticket inventory held by the Louisiana Lottery Corporation and its licensed retailers as follows. Inventories are valued at cost and are expensed over the life of each game as it is sold to the public. Unused and returned tickets are written off at the end of each game.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

	<u>1996</u>	<u>1995</u>
Ticket inventory	\$685,628	\$1,210,748
Insurance	52,418	31,631
Miscellaneous	<u>4,654</u>	<u>6,580</u>
Total	<u>\$742,700</u>	<u>\$1,248,959</u>

J. FIXED ASSETS

Fixed assets of the Corporation are included on the balance sheet at historical cost. Depreciation of all fixed assets is charged as an operating expense. Accumulated depreciation is reported on the balance sheet. Depreciation for financial reporting purposes is computed by the straight-line method over the estimated useful lives of the assets. As assets are retired or sold, the cost and related accumulated depreciation are removed from the appropriate property and equipment accounts. The resulting gain or loss on disposal is reflected in nonoperating revenues and expenses. A summary of changes in fixed assets follows:

	<u>Balance June 30, 1995</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1996</u>
Automobiles	\$996,807	\$299,690	(\$282,170)	\$1,014,327
Data processing software and equipment	9,958,852	104,390	(1,526,012)	8,537,230
Equipment	1,337,279	103,373	(133,298)	1,307,354
Furniture and fixtures	389,512	1,059	(8,400)	382,171
Leasehold improvements	731,316	27,250	(1,070)	757,496
Communications	147,516	96,527		244,043
Total	<u>13,561,282</u>	<u>632,289</u>	<u>(1,950,950)</u>	<u>12,242,621</u>
Less - accumulated depreciation	<u>(8,723,536)</u>	<u>(2,118,875)</u>	<u>1,645,690</u>	<u>(9,196,721)</u>
Net Fixed Assets	<u>\$4,837,746</u>	<u>(\$1,486,586)</u>	<u>(\$305,260)</u>	<u>\$3,045,900</u>

The estimated useful lives used in determining depreciation for the various types of assets are as follows:

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Automobiles	36 months
Data processing equipment	60 months
Data processing software	36 months
Equipment	60 months
Furniture and fixtures	60 months
Leasehold improvements	36 months
Communications	60 months

For the fiscal years ended June 30, 1996, and June 30, 1995, respectively, the Corporation recovered \$15,023 and \$4,527 of instant ticket validation units and printers that had been written off in previous years. These amounts are listed as fixed asset recoveries within the Statement of Revenues, Expenses, and Changes in Retained Earnings.

K. MULTI-STATE LOTTERY ASSOCIATION

The Multi-State Lottery Association (MUSL) is an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently includes 21 state lottery entities and the District of Columbia and sells one game known as Powerball. The chief executive officer of each member lottery serves on the MUSL board of directors.

As a member of MUSL, the Corporation is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities. All funds remitted, and the related interest earnings, will be returned to the Corporation upon leaving MUSL, less any portion of unanticipated prize claims, which may have been paid from the fund.

The Corporation has agreed to contribute to the reserve funds quarterly over a two-year period. As of June 30, 1996, and June 30, 1995, the balance of the prize reserve payable is \$4,797,994 and \$4,276,875, respectively, as shown in long-term prizes payable in note 3.

As of June 30, 1996, and June 30, 1995, the Corporation had deposits of \$3,974,346 and \$960,704, respectively, with MUSL, representing the Corporation's quarterly deposits of reserve funds and the deposit for the Corporation's share of MUSL's fixed assets.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, 1200 35th Street, Suite 701, West Des Moines, Iowa 50266-1908.

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

L. VACATION AND SICK LEAVE

Corporation employees earn vacation leave at various rates depending on the employee's position and the number of years of service. All employees must complete one year of service, measured from the date of hire, before they are eligible to use accrued vacation. Vacation leave may neither be carried forward into the next year nor shall the employee receive additional pay for unused vacation at year-end, unless permitted by a department director because of extraordinary circumstances. Upon termination, employees will be paid in full for the current year's unused accrued vacation leave. Employees earn sick leave at the rate of eight days per year after the completion of six months of continuous employment. Sick leave may be carried forward to the next year and accumulated to a maximum of 20 days. Employees are not paid for accrued sick leave upon termination. At June 30, 1996, and June 30, 1995, the total value of compensated absences payable were \$229,497 and \$203,139, respectively.

2. RECEIVABLES

As reflected on the balance sheet, the receivables of the Louisiana Lottery Corporation are as follows:

	As of June 30, 1996	As of June 30, 1995
	<u> </u>	<u> </u>
Accounts receivable	\$6,808,476	\$6,222,415
Other receivable	1,762	53,683
Interest receivable	300,202	341,828
Allowance for doubtful accounts	<u>(59,419)</u>	<u>(16,700)</u>
Total	<u><u>\$7,051,021</u></u>	<u><u>\$6,601,226</u></u>

3. PRIZES PAYABLE

Prizes for the on-line games are redeemable for 180 days after a drawing. Prizes for instant games are redeemable for 90 days after the announced end of the game. All prizes not claimed by the applicable deadline are classified as unclaimed and added to the pool from which future prizes are to be awarded or used for special prize promotions pursuant to LSA-R.S. 47:9025(D).

Lotto grand prizes of \$1 million or more are payable in 20 annual installments. The first installment is paid on the day the prize is claimed. The 19 subsequent equal annual payments are funded with U.S. Treasury zero coupon bonds purchased by the Louisiana Lottery

LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Corporation. The Lotto grand prize payable is recorded at the value of the annual prize payments net of imputed interest.

On March 23, 1995, the Lotto Game Play Directive was amended to state that Lotto grand prizes shall be paid in a single lump-sum payment. The first Lotto drawing with a grand prize winner under this new directive was on July 29, 1995.

For the fiscal year ended June 30, 1996, the Corporation had two Powerball grand prize winners. The MUSL purchased U.S. Treasury zero coupon bonds to fund the grand prizes that are payable over 20 years. As the bonds mature, the funds are transferred to the Corporation for the annual prize payments to the winners. Investments in these prize annuities are recorded at the value of the annual prize payments net of imputed interest.

An instant ticket game "Streetcar named Retire" was introduced on February 7, 1994. The top prize of this game was \$1,000 per week for 20 years payable annually. The first installment was paid on the day the prize was claimed. The 19 subsequent equal annual payments are funded with U.S. Treasury zero coupon bonds purchased by the Louisiana Lottery Corporation. The prize payable is recorded at the value of the annual prize payments net of imputed interest.

	As of June 30, 1996	As of June 30, 1995
Current prizes payable:		
Annual prize payments (face value)	\$19,186,000	\$16,423,000
Less imputed interest	(506,788)	(420,212)
Net present value of annual prize payments	<u>18,679,212</u>	<u>16,002,788</u>
Instant prizes payable	10,332,118	10,932,414
On-line prizes payable	12,538,668	7,870,006
MUSL prize payable	<u>1,586,961</u>	<u>1,314,252</u>
Total current prizes payable	<u>\$43,136,959</u>	<u>\$36,119,460</u>
Long-term prizes payable:		
Annual prize payments (face value)	\$304,234,000	\$270,923,000
Less imputed interest	(122,637,986)	(115,108,652)
Net present value of long-term annual prize payments	<u>181,596,014</u>	<u>155,814,348</u>
MUSL prize reserve payable	<u>4,797,994</u>	<u>4,276,875</u>
Net present value of long-term annual prize payments	<u>\$186,394,008</u>	<u>\$160,091,223</u>

4. RETIREMENT BENEFITS

A. AUTHORIZATION

LSA-R.S. 47:9015(A) states that the Corporation shall provide or arrange for a retirement plan. The retirement plans described below have been established pursuant to this statute.

B. SUPPLEMENTAL RETIREMENT

The Corporation has a defined contribution retirement plan that covers substantially all full-time employees. The plan is operated on a fiscal year basis. Under the terms of the plan, for the plan year commencing July 1, 1991, and thereafter, the Corporation contributes 4.5 percent of each participant's compensation for the year, as defined. Employees are not permitted to contribute to the plan. For the plan year beginning July 1, 1991, all eligible employees employed by the Corporation on or before such date shall participate in the plan as of such date. Effective for the January 1, 1992, entry date, all eligible employees employed before such date shall automatically participate in the plan as of that date. Thereafter, an eligible employee shall participate in the plan as of the entry date that coincides with or immediately follows the date on which the eligible employee completes 90 consecutive calendar days of employment with the Corporation.

In addition, each plan year, the board of directors of the Corporation may determine the amount of a discretionary contribution not to exceed 2 percent of each participant's compensation for any plan year.

A participant's amount shall be fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement date or upon the completion of three years of service. A year of service is a plan year in which a participant is credited with 1,000 hours of service. Each participant employed by the lottery before January 1, 1992, shall be credited with a special year of service if the employee completed at least 500 hours of service before such date. Any forfeiture of nonvested amounts shall be reallocated to the accounts of all the remaining participants. In no event shall the assets of this plan revert for the benefit of the employer.

This plan is accounted for using the accrual method of accounting in accordance with generally accepted accounting principles, and the fair value of the plan assets is based on the current market for those assets as listed below. A majority of the plan assets is invested in the One Group family of mutual funds.

For the fiscal year ended June 30, 1996, total payroll was \$4,224,708, and the Corporation's contributions for the supplemental retirement plan were calculated using the participants' compensation of \$3,860,355. Employer contributions to the