

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Lottery Corporation
Optional Savings Plan
State of Louisiana
Baton Rouge, Louisiana

June 24, 1999



Financial and Compliance Audit Division

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

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LEGISLATIVE AUDITOR

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**LOUISIANA LOTTERY CORPORATION
OPTIONAL SAVINGS PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended December 31, 1997**

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.

June 24, 1998

LOUISIANA LOTTERY CORPORATION
OPTIONAL SAVINGS PLAN
STATE OF LOUISIANA

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended December 31, 1997

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June 4, 1998

Independent Auditor's Report
on the Financial Statements

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
OPTIONAL SAVINGS PLAN
STATE OF LOUISIANA
 Baton Rouge, Louisiana

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Optional Savings Plan as of December 31, 1997, and the related statement of changes in net assets available for benefits for the year then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Lottery Corporation Optional Savings Plan as of December 31, 1997, and the changes in net assets available for benefits 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 June 4, 1998, on our consideration of the Louisiana Lottery Corporation Optional Savings Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Respectfully submitted,

Daniel G. Kye, III, CPA, CFE
 Legislative Auditor

BMO:THC:dl
 (10/98)

LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 FIDUCIARY FUND - OPTIONAL SAVINGS PLAN

Statement of Net Assets Available for Benefits
 For the Year Ending December 31, 1997

	MONEY MARKET FUND	IRAS FUND/ANNUAL PORTFOLIO	VARIOUS COLLECTIONS	SPECTRUM INSTITUTIONAL STANDARD & FUND 100 STOCK INDEX
ASSETS				
Investments (note 2)	\$46,800	\$81,600	\$401,683	\$770,987
Receivables				
Employee contributions receivable	41	91	888	1,718
Employer contributions receivable	78	71	287	688
TOTAL ASSETS	<u>\$46,919</u>	<u>\$81,762</u>	<u>\$402,858</u>	<u>\$773,081</u>
LIABILITIES	<u>\$109</u>	<u>\$109</u>	<u>\$0</u>	<u>\$0</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$46,810</u>	<u>\$81,653</u>	<u>\$402,858</u>	<u>\$773,081</u>

The accompanying notes are an integral part of this statement.

SAVILLARD U.S. GROWTH PORTFOLIO	IRAS VALUE PORTFOLIO	FRANKLIN SMALL CAP GROWTH FUND	FRANKLIN BALANCED GROWTH INVESTMENT	TEMPLETON PORTFOLIO FUND	TOTAL
\$20,174	\$95,289	\$21,111	\$4,110	\$9,249	\$1,208,603
878	1,008	741	448	888	4,588
581	690	483	212	214	1,492
19,880	95,289	\$21,627	\$4,772	10,000	1,208,603
10,000	10,000	10,000	10,000	10,000	10,000
\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000

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LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
FIDUCIARY FUND - OPTIMAL SAVINGS PLAN

Statement of Changes in Net Assets Available for Benefits
For the Year Ending December 31, 1997

	CITY NATIONAL BANK			REVERSE FUND
	TREASURY ACCOUNT	FIXED INCOME	CAPITAL APPRECIATION	
ADDITIONS TO ASSETS				
Investment income	894	1,698	818,400	\$27,494
Contributions:				
Participant	9,720	3,475	39,390	19,661
Employer	1,940	3,880	19,830	9,721
Rollovers	(697)	9,928	(6,912)	1,717
DEDUCTIONS FROM ASSETS				
Benefits paid to participants	(734)	(8,870)	(84,444)	(1,908)
Income (losses) in reverse-fund market variables and derivatives	4,433	(204)	114,624	94,121
Market transfers, net	9,841	(2,855)	(1,721)	(300)
Re-administration expenses	(86,287)	(84,833)	(734,858)	(604,898)
Income (losses) transfer	(37,028)	(54,728)	(818,881)	(274,888)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	37,609	54,728	818,881	274,888
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$208	\$208	\$208	\$208

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION
 STATE OF LOUISIANA
 FIDUCIARY FUND - OPTIONAL SAVINGS PLAN
 Statement of Changes Net Assets Available for Benefits, 1997

	PER ANNUAL PERCENTAGE CHANGES			
	MONETARY MARKET FUNDS	MAS FIDUCIARY FUND PORTFOLIO	MONSIEUR INVESTMENT FUNDS	INSTITUTIONAL OFFERS AND FIDUCIARY INVESTMENT FUNDS
ADDITIONS TO ASSETS				
Investment income	\$1,210	\$2,458	\$29,266	\$69,463
Contributions:				
Participant	1,340	1,210	8,000	33,940
Employer	804	644	2,730	11,130
Total additions	2,144	1,854	10,730	45,070
DEDUCTIONS FROM ASSETS				
Benefits paid to participants	(1,140)	(3,212)	(15,500)	(27,000)
Increase in net assets (after interest transfers and commissions)	2,214	(1,964)	13,937	42,543
Interfund transfers, net	(5,000)	(4,000)	(22,400)	(40,000)
Plan administration conversion	49,200	34,837	705,000	770,000
Increase (decrease) in assets	46,414	28,873	702,537	732,543
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1000	9746	1000	1000
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	146,414	38,820	712,537	835,043

(Continued)

The accompanying notes are an integral part of this statement.

INSURANCE COMPANY

FRANKLIN U.S. GROWTH PORTFOLIO	WAS VALUE PORTFOLIO	FRANKLIN SMALL CAP GROWTH FUND	FRANKLIN BALANCED GROWTH INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
1711	882	(81,604)	822	(3482)	109,629
13,203	17,882	8,724	5,604	7,788	141,180
7,888	8,788	2,184	1,724	3,027	35,171
<u>18,991</u>	<u>26,670</u>	<u>11,908</u>	<u>7,326</u>	<u>10,815</u>	<u>44,627</u>
<u>(224)</u>	<u>(178)</u>	<u>(88)</u>	<u>(41)</u>	<u>(73)</u>	<u>(134,349)</u>
28,478	25,227	12,788	8,477	10,524	104,588
19,275	13,024	18,488	1,288	(248)	60,848
<u>18,042</u>	<u>18,042</u>	<u>18,042</u>	<u>18,042</u>	<u>18,042</u>	<u>18,042</u>
50,688	18,188	60,687	8,772	10,688	124,688
<u>18,042</u>	<u>18,042</u>	<u>18,042</u>	<u>18,042</u>	<u>18,042</u>	<u>18,042</u>
<u>181,882</u>	<u>128,288</u>	<u>181,882</u>	<u>84,772</u>	<u>128,888</u>	<u>2,128,888</u>

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**LOUISIANA LOTTERY CORPORATION
OPTIONAL SAVINGS PLAN
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended December 31, 1997

INTRODUCTION

The Louisiana Lottery Corporation (Corporation) is authorized under Louisiana Revised Statute (R.S.) 47:9015(A) to provide or arrange for a retirement plan. The Corporation's Optional Savings Plan (Plan) has been established pursuant to this statute.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Plan reports on its financial position and results of operations. The financial statements account for contributions from participants and the employer, investment income, and benefits distributed to participants.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered to be a component unit of the State of Louisiana because the state has financial accountability for the Corporation. Because of the fiduciary responsibility of the Corporation as the employer, the Plan is a component unit of the Corporation. The accompanying financial statements present information only as to the transactions of the Corporation's Optional Savings Plan. The Corporation's financial statements and note disclosure relating to the Plan are reported within the State of Louisiana's Comprehensive Annual Financial Report, which is audited by the Louisiana Legislative Auditor.

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 of the Corporation's Optional Savings Plan are accounted for using the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when incurred. The Plan uses the following practices in recognizing revenues and expenses:

LOUISIANA LOTTERY CORPORATION
OPTIONAL SAVINGS PLAN
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

Contributions

Employer and employee contributions are recognized in the period when the compensation used to calculate the contributions is reported on Internal Revenue Service (IRS) Form W-2.

Investment Income

Investment income is accrued as earned, net of applicable investment management fees.

Plan Expenses

Fees related to the administration of the Plan are paid by the Louisiana Lottery Corporation. Investment management fees are netted daily from investment income and, therefore, are not a liability of the Plan at December 31, 1997.

D. VALUATION OF INVESTMENTS

Investments in money market and mutual funds are reported at fair value and is based on deposit values and quoted market prices.

2. DESCRIPTION OF THE PLAN

The Optional Savings Plan is a voluntary Deferred Compensation Plan adopted under the provisions of Internal Revenue Code (IRC) Section 457. 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. For any plan year, the sum of compensation deferred by a participant and the Corporation's matching contributions made on behalf of such participant shall not exceed the lesser of 33 1/3% of such participant's compensation or \$7,500. The Corporation contributes a matching contribution equal to the amount of compensation deferred by each participant up to 2.5% of each participant's compensation as reported on IRS Form W-2, increased by the amount of any deferral under this Plan. The Corporation has elected to designate a third party to administer the Plan through an irrevocable trust.

A participant's matching contribution account is 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 1,600 hours of service. Each participant employed by the Corporation before January 1, 1992, is 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 is reallocated to the matching accounts of all the remaining participants.

**LOUISIANA LOTTERY CORPORATION
OPTIONAL SAVINGS PLAN
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Before August 20, 1995, under requirements of IRC Section 457, the assets in the plan remained the property of the employer until paid or made available to participants, subject only to the claims of the employer's general creditors. On August 20, 1995, IRC Section 457 was amended by the Small Business Job Protection Act to require that all assets and income of the plan be held in trust for the exclusive benefit of the participants and their beneficiaries. The Corporation amended the Optional Savings Plan on January 1, 1997, to reflect this change in the IRC.

The distribution of a participant's benefits shall be made either in the form of a single-sum payment or in the form of substantially equal quarterly or annual installment payments not to exceed 15 years. The participant's benefits will commence 90 days after termination of employment with the Corporation unless the participant elects in writing on forms acceptable to the Employee Benefits Committee to defer the payment of these benefits. This election must be made within 30 days after separation from service and may be modified or changed one time if the modification is made before commencement of distributions. In no event may a participant defer payment of benefits later than April 1 of the calendar year immediately following the year in which the participant attains age 70½.

As of December 31, 1997, there were 115 participants in the Optional Savings Plan.

3. INVESTMENTS

The Corporation is authorized under R.S. 47:9915(A) to provide for a retirement plan for its employees and is responsible for making all decisions to establish and maintain a sound plan. Before July 1, 1997, the Plan's investments were held by City National Bank's trust department, and the mutual fund investments were purchased through Bank One. Effective July 1, 1997, administrative and investment services are provided by Pan American Life Insurance Company. All mutual funds previously held by City National Bank's trust department were transferred to similar mutual funds that are held in separate accounts established through a group annuity contract with Pan American.

Since all investments of the Plan are open end mutual funds, generally accepted accounting principles do not require that these investments be classified into credit risk categories.

At December 31, 1997, investments are composed of the following:

LEGISLATIVE AUDITOR

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

	Number of Units	Fair Value
Money Market Fund	17,075	\$45,509
MAS Fixed-Income Portfolio	4,047	\$1,903
Vanguard Wellington	9,523	303,863 (1)
Dreyfus Institutional S&P 500 Stock Index	35,998	790,957 (1)
Vanguard U.S. Growth Portfolio	979	29,174
MAS Value Portfolio	1,014	38,281
Franklin Small Capital Growth Fund	2,607	62,511
Franklin Balance Sheet Investment	283	9,111
Templeton Foreign Fund	637	9,248
		<u>\$1,289,607</u>

(1) Individual investments that represent 5% or more of the Plan's net assets available for benefits.

4. INVESTMENT MANAGEMENT FEES

Under the agreement with Pan American Life Insurance Company, the Plan is charged an investment management fee (calculated and deducted from investment income daily) based on the Plan's daily net assets as follows:

Fund	Fee
Money Market Fund	NONE
MAS Fixed-Income Portfolio	0.25%
Vanguard Wellington	0.50%
Dreyfus Institutional S&P 500 Stock Index	0.50%
Vanguard U.S. Growth Portfolio	0.50%
MAS Value Portfolio	0.25%
Franklin Small Capital Growth Fund	0.10%
Franklin Balance Sheet Investment	NONE
Templeton Foreign Fund	0.10%

During the year ended December 31, 1997, investment management fees of \$2,470 were incurred.

LEGISLATIVE ASSISTANT

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

8. INCOME TAX STATUS

The Optional Savings Plan is a nonqualified employee benefit plan that is established and maintained under Section 457 of IRC. The Optional Savings Plan has not requested a private letter ruling, which is, in effect, a determination as to the legal status of the Plan. However, the Plan's tax counsel believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

9. ALLOCATION OF CONTRIBUTIONS

A. City National Bank/Bank One
(January 1, 1997, through June 30, 1997)

During the period January 1, 1997, through June 30, 1997, participants in the Savings Plan could direct the investment of employee and employer contributions to four investment models in increments of (a) 0%, (b) 25%, (c) 50%, (d) 75%, or (e) 100%. The four investment models and the mutual fund allocations are as follows:

Money Market Model	
One Group U.S. Treasury Securities	100%
Income Model	
One Group Limited Volatility Bond	20%
One Group Government Bond	80%
Balanced Model	
One Group Limited Volatility Bond	15%
One Group Government Bond	45%
One Group Income Equity	10%
One Group Value Growth	25%
One Group Gulf South	5%
Capital Appreciation Model	
One Group Limited Volatility Bond	10%
One Group Income Equity	20%
One Group Value Growth	50%
One Group Gulf South	20%

LOUISIANA LOTTERY CORPORATION
OPTIONAL SAVINGS PLAN
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

**D. Pan-American
(July 1, 1987 through December 31, 1987)**

After June 30, 1987, participants in the Plan can allocate the investment of employer and employee contributions in whole percentages to any combination of funds reflected in note 3 and on Statement A. The investment allocations can be changed on a daily basis.

F. TERMINATION

Although it has not expressed any intent to do so, the Board of Directors of the Corporation has the right, at any time, to terminate the Plan, in whole or in part, by delivering written notice to the administrative services provider and to each participant of such termination. Upon termination, all amounts allocated to the accounts of affected participants shall become fully vested and nonforfeitable and the Employee Benefits Committee shall direct the administrative services provider to distribute the assets of the Plan to the participants.

G. LITIGATION

There is no pending litigation against the Plan at December 31, 1987.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
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June 4, 1998

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of the Financial Statements
Performed in Accordance With Government Auditing Standards

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

We have audited the financial statements of the Louisiana Lottery Corporation Optional Savings Plan as of and for the year ended December 31, 1997, and have issued our report thereon dated June 4, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Louisiana Lottery Corporation Optional Savings Plan are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Lottery Corporation Optional Savings Plan's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 over financial reporting and its operation that we consider to be material weaknesses.

EXHIBIT A

LEGISLATIVE AUDITOR

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
OPTIONAL SAVINGS PLAN
STATE OF LOUISIANA
Compliance and Internal Control Report
June 4, 1998
Page 2

This report is intended for the information and use of the Louisiana Lottery 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

MMG:THC:dj

(printed)

