

**LOUISIANA
LOTTERY**
CORPORATION

**LOUISIANA LOTTERY CORPORATION
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

LOUISIANA LOTTERY CORPORATION
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

PREPARED BY ACCOUNTING DEPARTMENT

KAREN B. FOURNET

SENIOR VICE PRESIDENT

SECRETARY TREASURER

This document was produced by the Louisiana Lottery Corporation, 11200 Industriplex Boulevard, Suite 190, Baton Rouge, Louisiana 70809-4112. Fifty copies of this public document were produced at an approximate of \$562.45.

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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September 22, 1999

Board of Directors, Louisiana Lottery Corporation
Charles R. Davis, President, Louisiana Lottery Corporation

INTRODUCTION

The Louisiana Lottery Corporation is pleased to submit its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999. Lottery management is responsible for the accuracy and completeness of all data and disclosures in this report. To the best of our knowledge, the information presented is accurate and complete in all material respects and fairly depicts the financial activities and position of the Lottery.

This report is organized into three sections. The introductory part includes this letter of transmittal and an organizational chart. The financial section includes the independent auditor's report and the audited financial statements with accompanying notes. Historical, demographic, and industry comparative data is presented in the statistical section of this report.

The Louisiana Lottery Corporation was created in October, 1990, and began operating on January 15, 1991. Ticket sales began on September 6, 1991. The Lottery is considered a component unit of the State of Louisiana and is reported as an enterprise fund within the State's Comprehensive Annual Financial Report. The fund is operated in a manner similar to a private business enterprise.

During its eight years of operation, the Lottery has offered a variety of instant and on-line products. The instant games consist of preprinted "scratch-off" tickets, which contain various symbols and captions covered by latex material. Players instantly determine the winning or non-winning status of their tickets by removing the latex. On-line game tickets are produced through terminals at lottery retailer locations based on player instructions for number selection. Drawings are conducted to determine winning combinations. Historical data for all lottery products is presented in the financial and statistical sections of this report.

MAJOR ACCOMPLISHMENTS

Total fiscal year 1999 sales surpassed prior year sales by 1.14% and budgeted sales by 4.86%. The \$296.2 million total marks the highest sales generated since fiscal year 1995, and the second consecutive year that sales have exceeded a full prior year. On-line sales continue to be strengthened by Powerball game modifications implemented in November, 1997. Louisiana Powerball sales reached a record fiscal year high of \$96.8 million. The successful introduction of the Cash Quest and Pick 4 on-line games also contributed to the overall increase in sales.

General operating expenses were at an all-time low in fiscal year 1999 at \$16.6 million. Streamlined operations have resulted in decreases in personnel costs from the elimination of positions through normal attrition. Innovative instant ticket distribution changes have lowered expenses for ticket packaging contract labor. Telephone costs for player winning number services and daily business communications were significantly lowered through the most recent competitive bidding process. The Lottery's share of Multi-state Lottery Association operating costs decreased because of the elimination of the Daily Millions on-line game.

Distributions to the state treasury totaled \$105.7 million in fiscal year 1999. These transfers represent an increase of \$5.7 million over budgeted transfers. In addition, these distributions included \$1 million above and beyond the 35% of gross revenues required by statute. This brings the total amount of state transfers over the 35% requirement since inception to \$28.9 million.

Other significant accomplishments in fiscal year 1999 included the following:

- The Corporation completed its year 2000 remediation and testing plan for all critical gaming and administrative systems.
- The transition to in-house advertising production services was completed by fiscal year-end.
- A Louisiana Lottery Website (www.louisianalottery.com) was implemented on the internet.
- Employee computer workstation operating systems were upgraded to Windows NT.
- Specific recommended improvements to rules and regulations were identified and an action plan for promulgation of the changes was established through a board committee.

FINANCIAL INFORMATION

Enterprise Operations:

The corporate structure of the Lottery enables it to be managed in an entrepreneurial and business-like manner. The Louisiana Lottery's basic business purpose is to provide enjoyable and secure lottery games to the people of the state of Louisiana while maximizing transfers to the state's Lottery Proceeds Fund. The operations involve the sale of lottery tickets, the determination of winning tickets, the payment of prizes, compensation to lottery retailers, and all necessary administrative functions. As intended by the enabling statutes, the Corporation is accountable to the governor, the legislature, and the people of the state through a system of audits, reports, legislative oversight and thorough financial disclosure.

Operational results are included in the financial and statistical sections of this report.

Internal Control Framework:

Management is responsible for the design and operation of the control environment and corporate policies and procedures. This internal control structure should provide reasonable assurance that corporate objectives will be achieved in the following categories:

- Reliability of financial reporting
- Safeguarding of corporate assets
- Compliance with applicable laws and regulations

Management has assigned responsibilities and designed processes in an attempt to prevent potential conflicts of interest or unilateral control of critical functions. The Lottery has segregated duties in several key areas including:

- human resources and payroll processing
- daily cash management and bank account reconciliations
- cash disbursement authorization and bank account reconciliations
- purchasing and accounts payable
- cash disbursement authorization and accounts payable
- retailer licensing and retailer accounts receivable
- general ledger accounts receivable and retailer accounts receivable
- data center processing and programming
- drawing department and information systems department

Operational policies and procedures have been established to communicate management guidelines and requirements for daily operations. Employee compliance with these standards is constantly monitored and evaluated.

Budgetary Controls:

The Corporation is required to submit its annual fiscal year budget to the Board of Directors and the Joint Legislative Committee on the Budget for review and approval. All levels of management are involved in the budgeting process. Available resources are determined based on projected revenue and are allocated to specific areas based on the goals and objectives contained in the Lottery's annual business plan. Operational efficiency is emphasized in order to direct resources to areas that are expected to maximize revenues, profitability, and the return to the State of Louisiana.

Actual performance is compared to the approved budget on a monthly basis by department managers and senior management. Variances are monitored and future plans are reviewed for potential adjustments.

Debt Administration:

Lotto and Powerball game grand prize winner installment obligations are funded by investments in U.S. Treasury zero coupon bonds as required by statute. These liabilities are paid as the bonds mature at or near the winning draw date anniversaries.

Cash Management:

Cash due from retailers for lottery transactions is collected on a weekly basis through an electronic funds transfer system and deposited into an operating account. Operating cash balances are used to fund daily lottery operations such as prize and vendor payments. Minimal operating account balances are maintained and are invested overnight in U.S. government securities repurchase agreements. Excess operating funds are invested daily in short term U.S. government securities money market mutual funds. Funds not needed for liquidity purposes are invested in a portfolio of long-term U.S. government and agency securities. All investment purchases are restricted by guidelines contained in a board-adopted Investment Policy Statement and all associated state statutes.

Risk Management:

The Lottery has purchased various commercial insurance policies for protection from significant economic loss. These policies include coverage for standard automobile liability, general liability, worker's compensation claims, property, electronic data processing equipment, employee crimes against the corporation, and directors and officers liability. In addition, contracts for major purchases of goods or services contain requirements for vendor indemnification of the Lottery and vendor insurance and

performance bond coverages. Management has also segregated a portion of retained earnings for a litigation and prize reserve to cover unanticipated losses.

ECONOMIC CONDITION AND OUTLOOK

The local, regional, state and national economies have been in a sustained growth pattern. Unemployment has been down, and the inflation rate has gradually accelerated but has remained low. The recent increase of oil prices may create positive economic changes in Louisiana.

Competitor trends and events may also affect the performance of the Louisiana Lottery. The video poker industry, riverboat casinos, and Indian casinos continue to perform well and are strong competition for gaming dollars. A large land-based casino is scheduled to open in New Orleans in October, 1999. Video poker was eliminated in thirty five parishes on July 1, 1999, because of a referendum that was adopted by voters in these parishes in November, 1997. At this time, the effect of this event on Lottery sales cannot be determined.

MAJOR INITIATIVES

Management prepared a business plan for the 2000 fiscal year in February, 1999 during the annual budgeting process. This plan contains the Corporation's objectives and goals for the new year. Several of the major initiatives contained in the plan include the following:

- Increase instant ticket game sales through enhanced prize structures, innovative marketing and promotion campaigns, game distribution and inventory management changes, and redirected sales and customer support efforts.
- Develop programming for implementation of cross promotions and increased prize payouts of selected on-line games.
- Complete contingency plans by the beginning of the second quarter for potential year 2000 issues for all vital functions.
- Promote understanding of the Corporation's purpose and its games through the second phase of the corporate identity advertising campaign.
- Complete the on-line retailer terminal system upgrades and conversion projects contained in the second phase of the new on-line services agreement.
- Obtain approval from the Joint Legislative Committee on the Budget to proceed with plans to acquire a permanent headquarters facility that meets the Corporation's long-term business needs.

- Continue to promulgate changes to rules, regulations, and corporate bylaws to improve efficiency of operations, enhance business relationships, and eliminate ambiguous or impractical requirements.
- Complete the procurement process for the selection of an instant scratch game ticket printer.

INDEPENDENT AUDIT

The Louisiana Legislative Auditor performs an annual audit of the Lottery's financial statements as required by Louisiana statutes. The audits are conducted in accordance with generally accepted auditing standards and generally accepted government auditing standards. The independent auditor's opinion on the Lottery's financial statements for the years ended June 30, 1999 and June 30, 1998 is included in the financial section of this report.

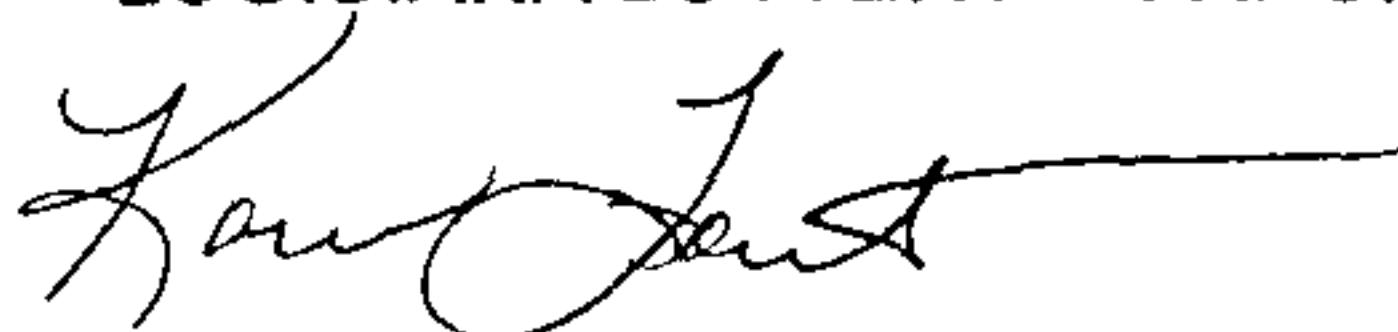
ACKNOWLEDGMENTS

The Accounting Department staff prepared each section of the Comprehensive Annual Financial Report. Their efforts have greatly contributed to the success of this informative document. In addition, we appreciate the efforts of the Legislative Auditor's Office in providing assistance with technical requirements.

We are committed to providing thorough and relevant financial information to the users of our financial statements. Our preparation of this Comprehensive Annual Financial Report reflects this commitment. The additional presentations and disclosures required will assist readers in obtaining an understanding of the Lottery's historical and current financial results.

Respectfully submitted,

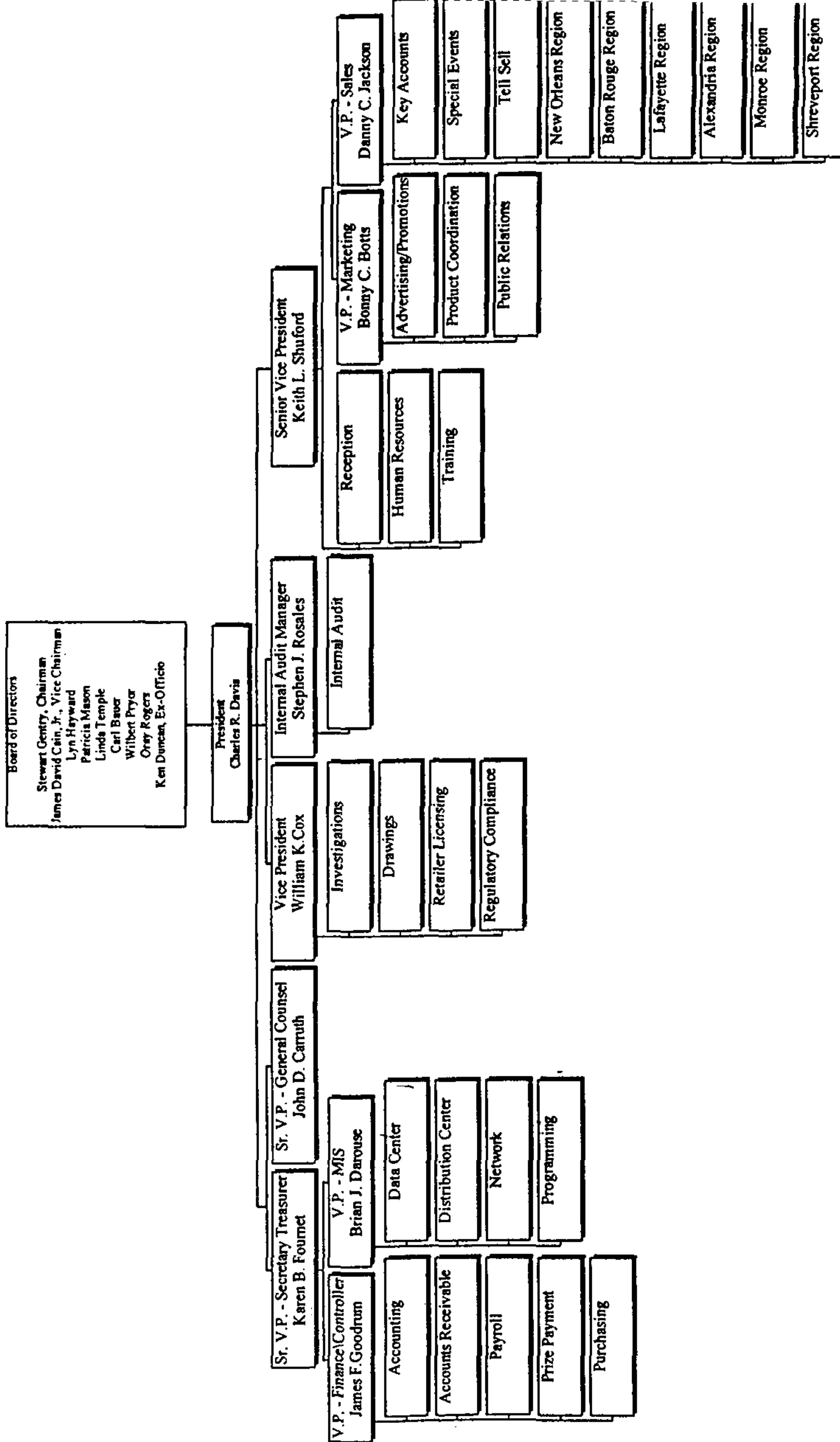
LOUISIANA LOTTERY CORPORATION



Karen B. Fournet
Senior Vice President and Secretary Treasurer

LOUISIANA LOTTERY CORPORATION

Organizational Chart with Principal Officials



FINANCIAL SECTION



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

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

September 9, 1999

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 years ended June 30, 1999, and June 30, 1998, 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 audits 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 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 audits provide 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, 1999, and June 30, 1998, and the results of operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 1999, on our consideration of the Louisiana Lottery Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

LEGISLATIVE AUDITOR

BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
Audit Report, June 30, 1999

Our audits were 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 audits 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.

The Year 2000 supplementary information on pages 30 through 32 is not a required part of the basic financial statement but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Louisiana Lottery Corporation is or will become Year 2000 compliant, that the Corporation's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Corporation does business are or will become Year 2000 compliant.

The introductory section and the statistical section listed in the table of contents were not audited by us, and, accordingly, we do not express an opinion on them.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

MMG:THC:RCL:dl

[LOTLTRS]

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Balance Sheet, June 30, 1999
(With Comparative Totals for June 30, 1998)**

	<u>1999</u>	<u>1998</u>
ASSETS		
Current assets:		
Cash (note 2)	\$36,936	\$95,781
Investments (note 3)	31,137,730	37,408,829
Accounts receivable, net (note 4)	15,892,727	9,107,631
Investments in government securities (note 3)	3,062,505	3,004,681
Investments in prize annuities (note 5)	21,216,998	21,186,801
Prepaid expenses (note 6)	902,249	825,256
Other current assets	46,092	69,434
Total current assets	<u>72,295,237</u>	<u>71,698,413</u>
Restricted assets - investments (note 7)	<u>180,690</u>	<u>180,690</u>
Noncurrent assets:		
Fixed assets, net (note 8)	1,073,209	1,241,856
Investments in government securities (note 3)	16,268,701	10,662,194
Investments in prize annuities (note 5)	187,248,875	202,454,448
Deposits with Multi-State Lottery Association (note 9)	6,673,144	6,972,775
Total noncurrent assets	<u>211,263,929</u>	<u>221,331,273</u>
 TOTAL ASSETS	 <u>\$283,739,856</u>	 <u>\$293,210,376</u>
 LIABILITIES AND RETAINED EARNINGS		
Current liabilities:		
Accounts payable	\$2,529,393	\$2,600,628
Wages, benefits, and withholdings payable	148,649	358,845
Accrued transfer to state treasury	11,308,906	12,079,589
Prizes and withholdings payable (note 10)	51,844,519	45,546,520
Compensated absences payable (note 11)	226,846	228,779
Total current liabilities	<u>66,058,313</u>	<u>60,814,361</u>
Noncurrent liabilities:		
Noncurrent prizes payable (note 10)	192,985,863	209,012,517
Retailer security deposits	415,955	401,725
Total noncurrent liabilities	<u>193,401,818</u>	<u>209,414,242</u>
Total Liabilities	<u>259,460,131</u>	<u>270,228,603</u>
Retained earnings:		
Unreserved (note 16)	24,099,035	22,801,083
Reserved for operating leases (note 16)	180,690	180,690
Total retained earnings	<u>24,279,725</u>	<u>22,981,773</u>
 TOTAL LIABILITIES AND RETAINED EARNINGS	 <u>\$283,739,856</u>	 <u>\$293,210,376</u>

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, 1999
(With Comparative Totals for June 30, 1998)

	<u>1999</u>	<u>1998</u>
OPERATING REVENUES		
Instant ticket sales	\$109,663,765	\$123,273,680
On-line sales	186,566,845	169,621,911
Retailer license fees	29,600	34,075
Miscellaneous revenue	63,780	16,372
Total operating revenues	<u>296,323,990</u>	<u>292,946,038</u>
OPERATING EXPENSES		
Direct costs:		
Instant ticket prize expense	57,348,894	63,823,911
On-line prize expense	91,591,762	83,247,901
Retailer commission	15,035,568	14,901,052
Retailer incentives	1,336,221	1,369,624
On-line vendor commission	8,069,574	6,315,760
Communications	105,609	136,414
Cost of instant tickets	1,679,904	1,729,331
Courier service	334,852	387,994
Total direct costs	<u>175,502,384</u>	<u>171,911,987</u>
Administrative expenses:		
Advertising	7,333,366	7,159,722
Bad debt expense	43,710	48,841
Contract labor	226,642	303,248
Depreciation	702,757	1,040,192
Equipment lease (note 15)	32,222	31,995
Insurance	232,452	254,089
Postage	60,887	49,754
Professional fees	514,308	485,779
Rent (note 15)	617,858	618,215
Repairs and maintenance	461,580	435,524
Salaries, benefits, and taxes	5,071,865	5,179,360
Supplies	535,099	471,622
Telephone	241,987	386,736
Travel	81,622	69,918
Utilities	106,763	118,099
Other general and administrative	289,672	474,707
Total administrative expenses	<u>16,552,790</u>	<u>17,127,801</u>
Total operating expenses	<u>192,055,174</u>	<u>189,039,788</u>

(Continued)

The accompanying notes are an integral part of this statement.

Statement B**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND****Statement of Revenues, Expenses, and
Changes in Retained Earnings, 1999
(With Comparative Totals for June 30, 1998)**

	<u>1999</u>	<u>1998</u>
OPERATING INCOME	<u>\$104,268,816</u>	<u>\$103,906,250</u>
NONOPERATING REVENUES		
Interest earned on investments	3,113,666	3,210,947
Net (decrease) increase in the fair value of investments	(449,863)	174,129
Gain (loss) on disposal of assets	20,432	(68,711)
Total nonoperating revenues	<u>2,684,235</u>	<u>3,316,365</u>
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING ESTIMATES		
Bad debt recoveries	<u>66</u>	<u>3,502</u>
NET INCOME	106,953,117	107,226,117
TRANSFERS OF LOTTERY PROCEEDS TO THE STATE TREASURY (note 17)	(105,655,165)	(108,038,552)
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>22,981,773</u>	<u>23,794,208</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$24,279,725</u>	<u>\$22,981,773</u>

(Concluded)

The accompanying notes are an integral part of this statement.

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Statement C

**Statement of Cash Flows
For the Year Ended June 30, 1999
(With Comparative Totals for June 30, 1998)**

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities - operating income	\$104,268,816	\$103,906,250
Net (decrease) increase in the fair value of investments	(449,863)	174,129
Cumulative effect of changes in accounting estimates	66	3,502
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	702,757	1,040,192
Provision for uncollectible accounts	43,710	48,841
Changes in assets and liabilities:		
(Increase) in accounts receivable	(6,828,806)	(918,397)
(Increase) in prepaid expenses	(76,993)	(176,626)
Decrease (increase) in other current assets	23,342	(17,132)
Decrease (increase) in investments in prize annuities	15,175,376	(21,476,222)
Decrease (increase) in deposits with Multi-State Lottery Association	299,631	(471,379)
Decrease in investments securing leases		40,000
(Decrease) in accounts payable	(71,235)	(400,649)
(Decrease) increase in wages, benefits, and withholdings payable	(210,196)	204,078
(Decrease) increase in compensated absences payable	(1,933)	9,021
Increase in prizes and withholdings payable	6,297,999	3,894,147
(Decrease) in accrued transfer to state treasury	(770,683)	(1,279,929)
(Decrease) increase in noncurrent prizes payable	(16,026,654)	20,344,246
Increase in retailer security deposits	14,230	11,775
Net cash provided by operating activities	<u>102,389,564</u>	<u>104,935,847</u>
Cash flows from noncapital financing activities - payments to state treasury	<u>(105,655,165)</u>	<u>(108,038,552)</u>
Cash flows from capital and related financing activities:		
Purchases of fixed assets	(540,629)	(388,193)
Proceeds from sale of fixed assets	26,953	27,770
Net cash provided by capital financing activities	<u>(513,676)</u>	<u>(360,423)</u>
Cash flows from investing activities:		
Net withdrawals (purchases) of short-term investments	6,271,099	(264,666)
Purchase of investments in government securities	(9,208,499)	(3,226,393)
Maturity of investments in government securities	3,544,166	3,000,000
Interest and dividends on investments	3,113,666	3,210,947
Net cash provided by investing activities	<u>3,720,432</u>	<u>2,719,888</u>
Net increase in cash	(58,845)	(743,240)
Cash at July 1	<u>95,781</u>	<u>839,021</u>
Cash at June 30	<u>\$36,936</u>	<u>\$95,781</u>
Noncash Investing, Capital and Financing Activities		
Fixed asset disposals	\$17	\$96,481

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, 1999

INTRODUCTION

The Louisiana Lottery Corporation (the Corporation) is created in accordance with Louisiana Revised Statutes (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, a 5 digit lotto game, and Powerball, an on-line game offered by the Multi-State Lottery Association (MUSL), an association comprised of 20 states and the District of Columbia. Easy 5 was discontinued on October 10, 1998. Daily Millions, an on-line game offered by MUSL, was introduced in Louisiana on March 16, 1997, and was discontinued on March 29, 1998. On October 12, 1998, the Corporation began a new on-line game, Cash Quest. The on-line daily Pick 4 game started on March 1, 1999. For the fiscal years ended June 30, 1999, and June 30, 1998, the Corporation employed 136 employees and 140 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 has financial 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 financial benefits to the state in the form of transfer of funds to the state treasury. 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

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

maintenance, management control, accountability, or other purposes. Activities accounted for in the proprietary fund follow all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989.

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. A portion of the instant ticket prize structures is funded with unclaimed prize money pursuant to R.S. 47:9025(D).

D. LEGISLATIVE BUDGET OVERSIGHT

R.S. 47:9010(A)(7) requires the Corporation beginning on March 1, 1991, and not later than 30 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, 1999, on March 27, 1998, and the budget was approved by the Joint Legislative Committee on the Budget on August 13, 1998. 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, 1999, is not presented.

2. 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.

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

As reflected on Statement A, the Corporation has cash totaling \$36,936 at June 30, 1999, and \$95,781 at June 30, 1998. 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 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 \$34,212 at June 30, 1999, and \$106,225 at June 30, 1998, secured from risk by \$100,000 of federal deposit insurance (GASB Risk Category 1), and \$6,225 of pledged securities (GASB Risk Category 1) for the fiscal year ended June 30, 1998.

**3. INVESTMENTS AND INVESTMENTS
IN GOVERNMENT SECURITIES**

Under state law, the Corporation may invest in U.S. Treasury obligations and U.S. government agency obligations or in eligible mutual funds that invest in these securities, direct security repurchase agreements, and time certificates of deposit.

Investments intended to finance the operations of the Corporation are held in two portfolios. As of June 30, 1999, and June 30, 1998, investments in the first portfolio consist of short-term government securities of \$31,137,730 and \$37,408,829, respectively. These securities are in the form of mutual fund investments consisting of U.S. Treasury obligations and/or U.S. government agency obligations and are recorded at fair value. The investments are not classified as to category of credit risk because this is not required by GASB Codification Section 150.125.

Funds not needed for liquidity purposes are invested in a portfolio of U.S. government and agency securities. For the fiscal years ending June 30, 1999, and June 30, 1998, these investments totaled \$19,331,206 (\$3,062,505, current; \$16,268,701, noncurrent) and \$13,666,875 (\$3,004,681, current; \$10,662,194, noncurrent), respectively, with a range of maturity from 107 days to approximately 8 years. These securities are recorded at fair value. The investments held by the custodial bank meet the criteria for GASB Risk Category B of Statement 3.

4. ACCOUNTS RECEIVABLE

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

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

	<u>As of June 30, 1999</u>	<u>As of June 30, 1998</u>
Accounts receivable	\$15,578,408	\$8,851,086
Interest receivable	331,870	295,459
Allowance for doubtful accounts	<u>(17,551)</u>	<u>(38,914)</u>
Total	<u>\$15,892,727</u>	<u>\$9,107,631</u>

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

5. INVESTMENTS IN PRIZE ANNUITIES

Investments in prize annuities totaling \$153,166,430 at June 30, 1999, and \$164,585,472 at June 30, 1998, 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 two instant ticket games that are payable over a 20-year period. 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 B of Statement 3.

Investments in prize annuities totaling \$55,299,443 and \$59,055,777 at June 30, 1999, and June 30, 1998, respectively, 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. As the bonds mature, the funds are transferred to the Corporation for the annual prize payments to the winners. These investments, held in the name of the MUSL, and placed in trust with the Corporation as the beneficiary, are classified as GASB Risk Category C of Statement 3.

The bonds are reported at fair value as required by GASB Statement 31. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in note 10.

6. PREPAID EXPENSES

Prepaid expenses represent unsold instant ticket inventory held by the Louisiana Lottery Corporation and its licensed retailers, insurance paid for coverage after the fiscal year-end, and prepayments for postage, advertising, maintenance agreements, and other expenses. Ticket inventories are valued at cost and are expensed over the life of each game as they are sold to the public. Unused and returned tickets are written off at the end of each game. The balances of prepaid expenses are as follows:

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

	<u>1999</u>	<u>1998</u>
Ticket inventory	\$632,584	\$665,084
Insurance	195,616	85,470
Miscellaneous	<u>74,049</u>	<u>74,702</u>
Total	<u>\$902,249</u>	<u>\$825,256</u>

7. RESTRICTED ASSETS - INVESTMENTS

The Corporation has \$180,690 in a certificate of deposit. This investment is required as security for the letter of credit required by an office operating lease. 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 this certificate of deposit 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 \$180,690 was classified as GASB Risk Category A.

8. FIXED ASSETS

Fixed assets of the Corporation are included on the balance sheet at historical cost and are shown net of accumulated depreciation. Depreciation of all fixed assets is charged as an operating expense. 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>June 30, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 1999</u>
Automobiles	\$877,369	\$234,168	(\$107,817)	\$1,003,720
Data processing software and equipment	7,391,128	163,940	(2,885,629)	4,669,439
Equipment	1,319,252	101,780	(410,238)	1,010,794
Furniture and fixtures	400,892	4,940		405,832
Leasehold improvements	820,375	7,694		828,069
Communications	317,799	28,107		345,906
Total	<u>11,126,815</u>	<u>540,629</u>	<u>(3,403,684)</u>	<u>8,263,760</u>
Less - accumulated depreciation	<u>(9,884,959)</u>	<u>(702,757)</u>	<u>3,397,165</u>	<u>(7,190,551)</u>
Net Fixed Assets	<u>\$1,241,856</u>	<u>(\$162,128)</u>	<u>(\$6,519)</u>	<u>\$1,073,209</u>

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

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

Automobiles	36 months
Data processing equipment	60 months
Data processing equipment	36 months from January 1, 1998
Data processing software	36 months
Equipment	60 months
Furniture and fixtures	60 months
Leasehold improvements	36 months
Communications	36 months

9. 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 20 state lottery entities and the District of Columbia that participate in a 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 contributed all required reserve funds. As of June 30, 1999, and June 30, 1998, the Corporation had deposits with MUSL of \$6,673,144 and \$6,972,775, respectively, representing the Corporation's deposits of reserve funds and the deposit for the Corporation's share of related interest earnings on these funds.

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 50266-1907.

10. 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 R.S. 47:9025(D).

Lotto grand prizes of \$1 million or more and grand prizes of two instant ticket games are payable in 20 annual installments. The first installment is paid on the day the prize is claimed. The 19

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

subsequent equal annual payments are funded with U.S. Treasury zero coupon bonds purchased by the Louisiana Lottery Corporation.

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.

The Corporation has four Powerball grand prize winner installment obligations. 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.

The liabilities for the grand prize installments are recorded at the fair value of the investments purchased to fund these obligations. All income generated from these bonds, including changes in fair value, accrues as a liability to the prize winners.

	As of June 30, 1999	As of June 30, 1998
Current Prizes and Withholdings Payable:		
Annual grand prize payments (face value)	\$21,706,000	\$21,706,000
Less imputed interest	(517,382)	(520,929)
Net present value of annual grand prize payments	21,188,618	21,185,071
Adjustment to current fair value	28,380	1,730
Fair value of prize annuities	<u>21,216,998</u>	<u>21,186,801</u>
Instant prizes payable	5,657,006	6,144,582
On-line prizes payable	7,620,695	7,991,391
Unclaimed prizes payable	14,198,064	9,311,964
Due to MUSL prize pool	3,095,909	885,867
Tax withholdings payable	<u>55,847</u>	<u>25,915</u>
Total Current Prizes and Withholdings Payable	<u>\$51,844,519</u>	<u>\$45,546,520</u>
Noncurrent Prizes Payable:		
Annual grand prize payments (face value)	\$288,341,000	\$310,047,000
Less imputed interest	(97,312,055)	(112,197,780)
Net present value of long-term annual grand prize payments	191,028,945	197,849,220
Adjustment to current fair value	(3,780,070)	4,605,228
Fair value of prize annuities	<u>187,248,875</u>	<u>202,454,448</u>
MUSL prize reserve payable	<u>5,736,988</u>	<u>6,558,069</u>
Total Noncurrent Prizes Payable	<u>\$192,985,863</u>	<u>\$209,012,517</u>

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

11. 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 or receive termination payment for unused 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. Upon termination, employees will be paid in full for unused eligible and current year's accrued vacation leave. Employees earn sick leave at the rate of 8 days per year after the completion of 6 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, 1999, and June 30, 1998, the total value of compensated absences payable are \$226,846 and \$228,779, respectively.

12. RETIREMENT BENEFITS

A. AUTHORIZATION AND BASIS OF ACCOUNTING

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. Administrative and investment services are provided by Pan American Life Insurance Company. A financial and compliance audit has been performed on all the Corporation's retirement plans described below for the plans' year ending December 31, 1998. A copy of the audit reports may be obtained by submitting a written request to the Louisiana Lottery Corporation, 11200 Industriplex Boulevard, Suite 190, Baton Rouge, LA 70809-4110.

The financial statements of the Corporation's plans are accounted for using the accrual basis of accounting. Investments in money market and mutual funds are reported at fair value, which is based on deposit values and quoted market prices.

B. BASIC AND SUPPLEMENTAL RETIREMENT PLANS

1. Basic Retirement Plan

The Corporation has a money purchase plan under Section 401(a) of the Internal Revenue Code (IRC) of 1986, as amended, which 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, which is 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.

Under the terms of the plan, an employee is eligible to participate in the plan immediately upon employment.

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

As defined in the basic retirement plan, the employer's contribution shall be 5% of the participant's compensation for such plan year. The participant's contribution shall equal 6.2% of his or her 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 Corporation. 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.

The distribution of a participant's benefits shall commence as of the date designated by the participant (annuity starting date) after termination of employment with the Corporation, but shall not be later than April 1 of the year following the calendar year in which the participant attains age 70½. The participant shall make a qualified election to receive the distribution in the form of a single-sum payment or to purchase a qualified joint and survivor annuity or single life annuity contract. This qualified election may be revoked, modified, or amended at any time, or multiple times before the participant's annuity starting date; however, the qualified election is irrevocable as of the participant's annuity starting date.

2. Supplemental Retirement Plan

The Corporation has a defined contribution retirement plan that covers substantially all full-time employees. The Corporation contributes 4.5% of each participant's compensation for the year, as defined. Participants are not permitted to contribute to the plan. 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% 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 (65 years of age) 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. 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 Corporation.

The distribution of a participant's vested and nonforfeitable portion of his or her account shall be made in the form of a single-sum payment after the participant

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

terminates employment with the Corporation, attains the normal retirement age, or dies. A participant may elect to postpone the distribution, in writing on forms provided by the Employee Benefits Committee, provided, however, in no event shall distribution be postponed later than April 1 following the close of the calendar year in which the participant attains age 70½.

As of June 30, 1999, there were 143 participants in the Basic Plan and 133 participants in the Supplemental Plan.

For the fiscal year ended June 30, 1999, employer and employee contributions to the Basic and Supplemental Plans were \$388,248 and \$259,507, respectively. The fair value of the total assets of the plans as of June 30, 1999, is \$4,748,086. Individual investments that represent 5% or more of plan net assets include the Vanguard Wellington Mutual Fund with a fair value of \$3,003,685 and the Dreyfus Institutional S&P 500 Stock Index Mutual Fund with a fair value of \$1,297,166.

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

The Optional Savings Plan is a voluntary Deferred Compensation Plan adopted under the provisions of 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 \$8,000. 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 Internal Revenue Service (IRS) Form W-2, increased by the amount of any deferral under this Plan.

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 1,000 hours of service. Any forfeiture of nonvested amounts is reallocated to the matching accounts of all the remaining participants.

Before August 20, 1996, 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, 1996, 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.

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

Benefits are payable to former employees at the time and in the manner designated by the participants on a distribution election form. 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. The distribution of benefits shall be made either in the form of a single-sum payment or in the form of substantially equal annual installment payments not to exceed 15 years.

As of June 30, 1999, there were 131 participants in the Optional Savings Plan.

For the fiscal year ended June 30, 1999, employer and employee contributions were \$92,107 and \$185,431, respectively. The fair value of plan assets at June 30, 1999, is \$2,040,483. Individual investments that represent 5% or more of plan net assets include the Vanguard Wellington Mutual Fund with a fair value of \$377,937, the Dreyfus Institutional S&P 500 Stock Index Mutual Fund with a fair value of \$1,127,961, the Vanguard U.S. Growth Portfolio Fund with a fair value of \$150,789 and the Franklin Small Cap Growth Fund with a fair value of \$114,348.

13. LITIGATION

The Corporation has been named in eight lawsuits and two administrative charges. For four of the lawsuits and the two administrative charges, 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 four lawsuits, the Corporation's legal counsel does not anticipate a potential loss to the Corporation resulting from these lawsuits.

14. RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation has purchased commercial insurance to cover these risks. In addition, management has established a litigation and prize reserve of \$5,000,000 within the Corporation's retained earnings to cover unanticipated losses (see note 16.) The amount of commercial coverage has not decreased nor has the amount of settlements exceeded coverage in any of the past three fiscal years.

15. LEASE AND RENTAL COMMITMENTS

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

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

	<u>Equipment</u>	<u>Facilities</u>	<u>Total</u>
1999-2000	\$21,324	\$657,290	\$678,614
2000-2001	21,324	154,560	175,884
2001-2002	20,274	59,500	79,774
2002-2003	8,724	49,877	58,601
2003-2004	3,635	16,626	20,261

The total operating lease payments for the years ended June 30, 1999, and June 30, 1998, were \$650,080 and \$650,210, respectively.

The Corporation has no capital leases at June 30, 1999.

16. RETAINED EARNINGS

The Corporation has unreserved retained earnings at June 30, 1999, of \$24,099,035. As presented in the 1999-2000 fiscal year budget approved by the Joint Legislative Committee on the Budget on June 18, 1999, management has specified that retained earnings of June 30, 1999, be used for the following purposes:

Cost of fixed assets (net of accumulated depreciation)	\$1,080,000
Fixed asset replacement reserve	6,960,000
Instant ticket inventory	800,000
Litigation and prize reserve	5,000,000
New capital expenditure purchases	664,422
Permanent facilities	6,750,000
Deposits	38,282
Funding for future needs, such as capital expenditures, equipment purchases, one-time retailer incentives, new game development, etc.	1,295,000
On-line system upgrade - contract rate increase	914,000
Total budgeted retained earnings	<u>23,501,704</u>
Plus - difference in budgeted retained earnings and actual	<u>597,331</u>
Total unreserved retained earnings	<u><u>\$24,099,035</u></u>

The reserve for operating leases of \$180,690 represents security pledged against a letter of credit required by the Baton Rouge main office operating lease.

17. TRANSFERS TO THE STATE TREASURY

The Corporation is required to transfer each year not less than 35% of gross revenues to the state treasury. R.S. 47:9029(A)(3) requires monthly transfers to the state treasury. For the fiscal years ended June 30, 1999, and June 30, 1998, the total amount transferred to the state was \$105.7 million and \$108 million, respectively.

18. 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 bi-monthly and at such other times as the chairperson or the president may determine.

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULES
For the Year Ended June 30, 1999**

SCHEDULE OF PROFESSIONAL SERVICE FEES

Schedule 1 presents professional service fees for the years ended June 30, 1999 and June 30, 1998. 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 years ended June 30, 1999, and June 30, 1998. 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, 1999
(With Comparative Totals for June 30, 1998)**

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
1-2-1 Micro	\$1,848	
Abbott & Hayne, Counselors-at-Law - legal counsel	3,528	\$1,397
Affiliated Forensic - compliance testing of Instant games	1,000	6,000
Attorney General's Office, Department of Justice - legal counsel	88,875	88,875
BABN - marketing research	95,000	21,240
Buck Consulting - review of health insurance and compensation programs	26,385	960
Chenevert/Soderberg, Architects - facilities planning	26,524	25,500
Department of Revenue and Taxation - retailer background investigations	10,263	6,883
Dittler Brothers, Incorporated - marketing research		155,584
Gus Weill	38,250	
KPMG Peat Marwick Thorne - Certified Public Accountants acceptance testing - Automated Drawing Machine	27,833	15,738
Martin E. Segal Company - benefit plan development		11,789
Miscellaneous	385	447
Oberthur Marketing Research	21,961	
Office of Legislative Auditor - financial and compliance audit and observations of on-line drawings	99,000	97,096
Phelps Dunbar, Counselors-at-Law - legal counselors	75,673	47,586
Pravel, Hewitt, Kimball & Krieger, Counselors-at-Law - legal counselors - adjustment of prior expenses	(2,967)	
SSA Consultants, Incorporated - long range planning	750	6,684
	<u> </u>	<u> </u>
Total	<u>\$514,308</u>	<u>\$485,779</u>

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA**

**Schedule of Compensation Paid Board Members
For the Year Ended June 30, 1999
(With Comparative Totals for June 30, 1998)**

	<u>EFFECTIVE DATE OF TERM</u>	<u>EXPIRATION DATE OF TERM</u>	<u>JUNE 30, 1999</u>	<u>JUNE 30, 1998</u>
James David Cain, Jr. Stewart Gentry, Chairperson effective June 26, 1998	January 1, 1995 June 24, 1994		\$15,000 25,000	\$15,000 15,139
Harold Hebert, Chairperson effective January 26, 1997, through December 14, 1997	January 19, 1993	December 31, 1998*	7,500	19,570
Jewel J. Newman	April 26, 1995	March 1, 1998*		10,041
Lamar Poole	January 1, 1995	December 31, 1998*	7,500	15,000
Nicholas Smith	January 12, 1994	December 31, 1997*		7,500
Lyn Hayward	March 26, 1996		15,000	15,000
Oray P. Rogers	January 1, 1998		15,000	7,500
Peggy Persac, Chairperson effective December 15, 1997, through June 25, 1998	July 17, 1996	December 31, 1998*	7,500	20,291
Patricia C. Mason	February 27, 1997		15,000	15,000
S.P. Davis	March 25, 1998	Resigned June 1, 1998		2,829
Carl W. Bauer	January 4, 1999		7,379	
Colleen Fletcher	January 13, 1999	Resigned February 23, 1999	1,793	
Wilbert D. Pryor	November 20, 1998		9,208	
Linda Temple	January 8, 1999		7,218	
Total			<u>\$133,098</u>	<u>\$142,870</u>

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

**SUPPLEMENTARY INFORMATION REQUIRED BY THE
GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

The following two pages contain supplementary information as required by *Technical Bulletin 98-1*, issued by the Governmental Accounting Standards Board (GASB) in October 1998. The provisions of the GASB technical bulletin, effective for financial statements dated after October 31, 1998, require disclosures in the notes to the financial statements about the governmental entity's readiness in addressing Year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued *Technical Bulletin 99-1*, which allowed the disclosure of Year 2000 issues in required supplementary information.

**LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 1999**

YEAR 2000 ISSUES

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the operations of the Louisiana Lottery Corporation as early as 1999.

The Corporation has completed an inventory of critical computer systems and other equipment necessary to operate. The systems maintained by the Lottery were assessed, remediated, and tested internally by Lottery staff. This process was performed by external vendors for systems maintained by other parties. The Lottery obtained year 2000 compliance certifications from these organizations and, when possible, performed independent verification tests. The Lottery did not incur additional direct costs associated with year 2000 remediation efforts. The following major systems were included in the year 2000 remediation project:

Lottery Management System (LMS)

This system includes all hardware and software necessary to process instant ticket transactions, process payments for instant and on-line ticket claims presented at Lottery offices, accumulate and track retailer information and activity for licensing and billing purposes, produce an electronic banking file to collect funds due from retailer bank accounts, and maintain and produce information for reporting purposes. The hardware and operating systems were updated for year 2000 readiness by the vendor as part of its maintenance agreement with the Lottery. Application software modifications were initiated and implemented by Lottery staff. The entire system was tested for compliance internally. This validation stage was completed by June 30, 1999.

On-line Gaming System (GTECH)

GTECH Corporation is contractually required to provide and maintain all hardware and software necessary to initiate on-line and instant ticket transactions at retailer locations, process on-line ticket transactions, process on-line drawing results and identify winning tickets, and produce information for reporting purposes. The Lottery's contract with GTECH contains requirements for year 2000 readiness. The vendor has indicated that the system has been successfully updated and tested. In June 1999, Lottery staff completed an independent year 2000 compliance test of this system.

Drawing System

The Lottery uses an automated drawing machine (ADM) to conduct drawings for on-line games. The vendor has certified that the ADM is year 2000 compliant. In addition, Lottery staff conducted tests of ADM processing using critical year 2000 dates.

Instant Ticket Printing (Oberthur)

The Lottery's current instant scratch game printing vendor has indicated that its systems are year 2000 compliant. A new instant game printing contract is scheduled to be awarded in October, 1999. This contract will contain requirements for year 2000 compliance.

Banking and Investment System (Bank One)

Lottery operating accounts and investments are maintained by Bank One. In addition, cash management software is used for weekly funds collection from retailer bank accounts, payments to other parties, and reporting purposes. Bank One has certified that its systems are year 2000 compliant.

Accounting System (Platinum and FRX)

The Lottery's vendors have certified that the systems used for purchasing, accounts payable, and financial reporting are year 2000 compliant. These applications were tested for compliance by Lottery staff.

Payroll System [Automatic Data Processing, Inc. (ADP)]

This company provides the computer systems and support personnel necessary to process the Corporation's semimonthly payroll and calculate related employee and employer retirement plan contributions. ADP has indicated that the inventory, assessment, remediation, and testing stages for the relevant mainframe and desktop applications have been successfully completed. This service provider has certified that their data center and the version of the interface and reporting software used by the Corporation are currently Year 2000 compliant.

Retirement Plan System [Pan American Life Insurance Company (PALIC)]

PALIC provides retirement plan administrative and investment services. PALIC representatives contend that the inventory, assessment, remediation, and validation stages for system hardware and software have been completed. The company expects that all systems are fully Year 2000 compliant.

Contingency Plans

Management is currently developing contingency plans for all vital functions that could be affected by internal and/or external year 2000 problems. These action plans are scheduled for completion by early in the second quarter of this fiscal year.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determined until the year 2000 and thereafter. Management cannot assure that the systems used for plan operations are or will be ready, that the Corporation's remediation efforts will be successful in whole or in part, or that parties with whom the Corporation does business will be Year 2000 compliant.

**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 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
BATON ROUGE, LOUISIANA 70804-9397

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

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

September 9, 1999

Report on Compliance and on Internal Control Over
Financial Reporting Based 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, a component unit of the State of Louisiana, as of and for the year ended June 30, 1999, and have issued our report thereon dated September 9, 1999. 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 Louisiana Lottery Corporation's general purpose financial statements 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 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

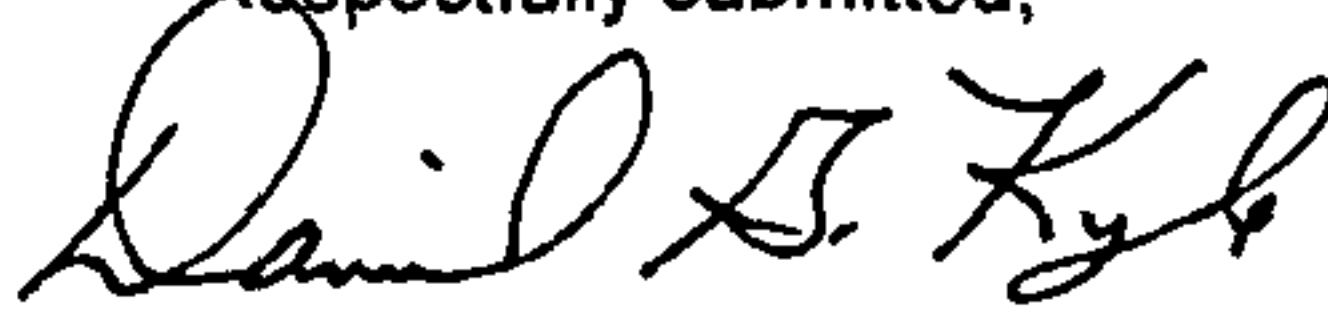
LEGISLATIVE AUDITOR

**BOARD OF DIRECTORS
LOUISIANA LOTTERY CORPORATION
STATE OF LOUISIANA**
Compliance and Internal Control Report
September 9, 1999
Page 2

assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Corporation and its management and is not intended to be and should not be used by anyone other than these specified parties. 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:RCL:dl

{LOTLTRS}

STATISTICAL SECTION

(UNAUDITED)

LOUISIANA LOTTERY STATISTICS (UNAUDITED)

The Louisiana Lottery Corporation began operating in January 1991 and commenced ticket sales in September 1991. The Lottery earned revenue of \$129,371 and incurred general operating expenses of \$1,096,699 during its first fiscal year ended June 30, 1991. Data from ticket sales inception through June 30, 1999 is presented in the following charts.

The information presented in the charts is as follows:

Sales

Instant Tickets - represents the face value of tickets activated by retailers.

On-line Tickets - represents the face value of tickets sold to the public.

Revenue

Includes sales, interest income, increases in the fair value of investments, retailer license fees, miscellaneous revenue, and gains on disposal of assets.

Prizes

Represents the accrued expenses for instant tickets and on-line game winners based on established prize structures.

Retailer Compensation

Represents 5% base sales commission and incentive payments.

Direct Operating Expenses

Expenses which fluctuate with sales volume including commission paid to the on-line vendor, the cost of purchasing instant tickets, the cost of delivery to retailers, and on-line network communication costs.

General Operating Expenses

Includes all other costs of operating the Lottery.

Transfers

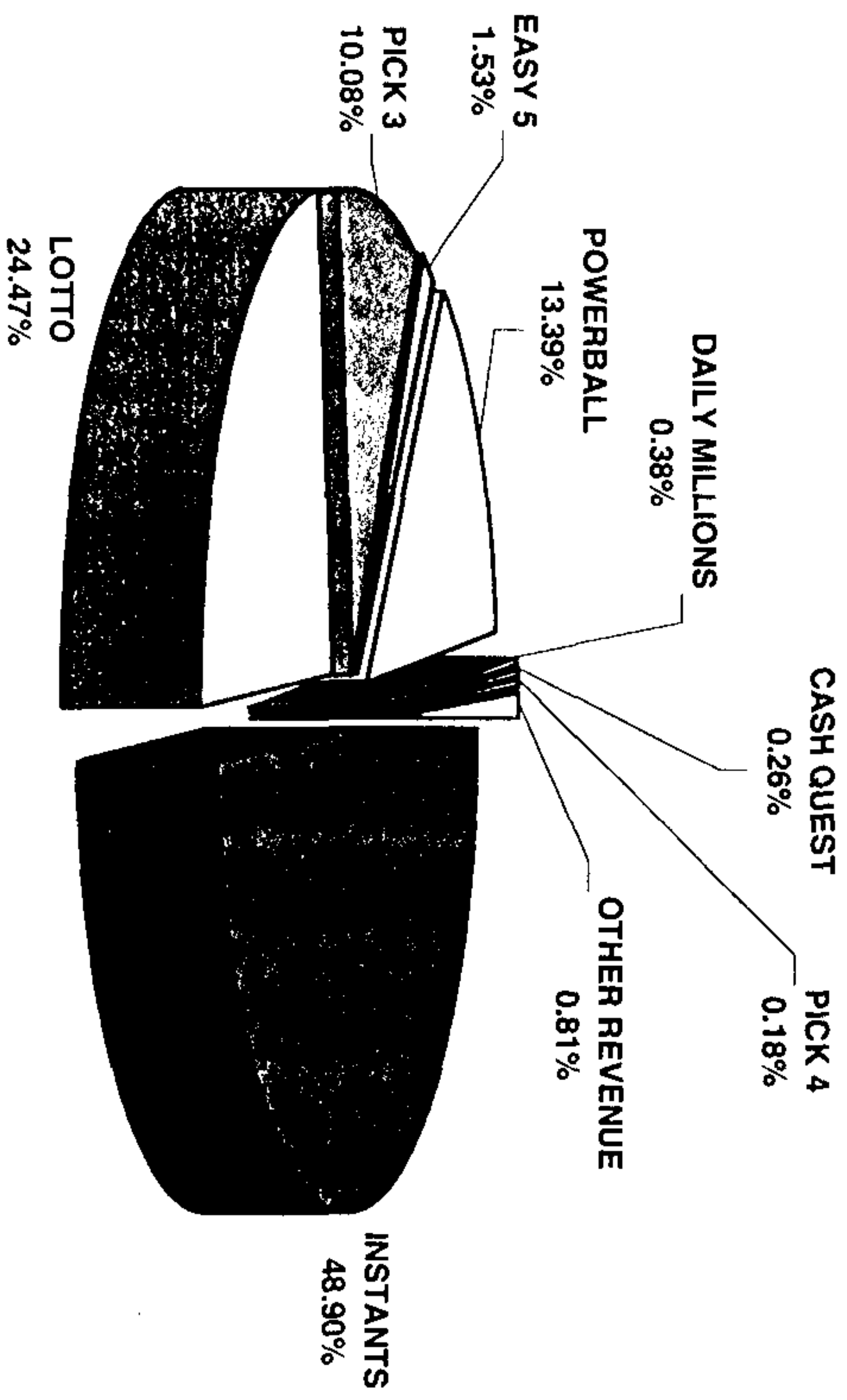
Represents the transfer of net revenues to the State Treasury Lottery Proceeds Fund as required by Louisiana Lottery Law.

Unless otherwise noted, the source for the data contained in the following charts is the Accounting Department of the Louisiana Lottery Corporation.

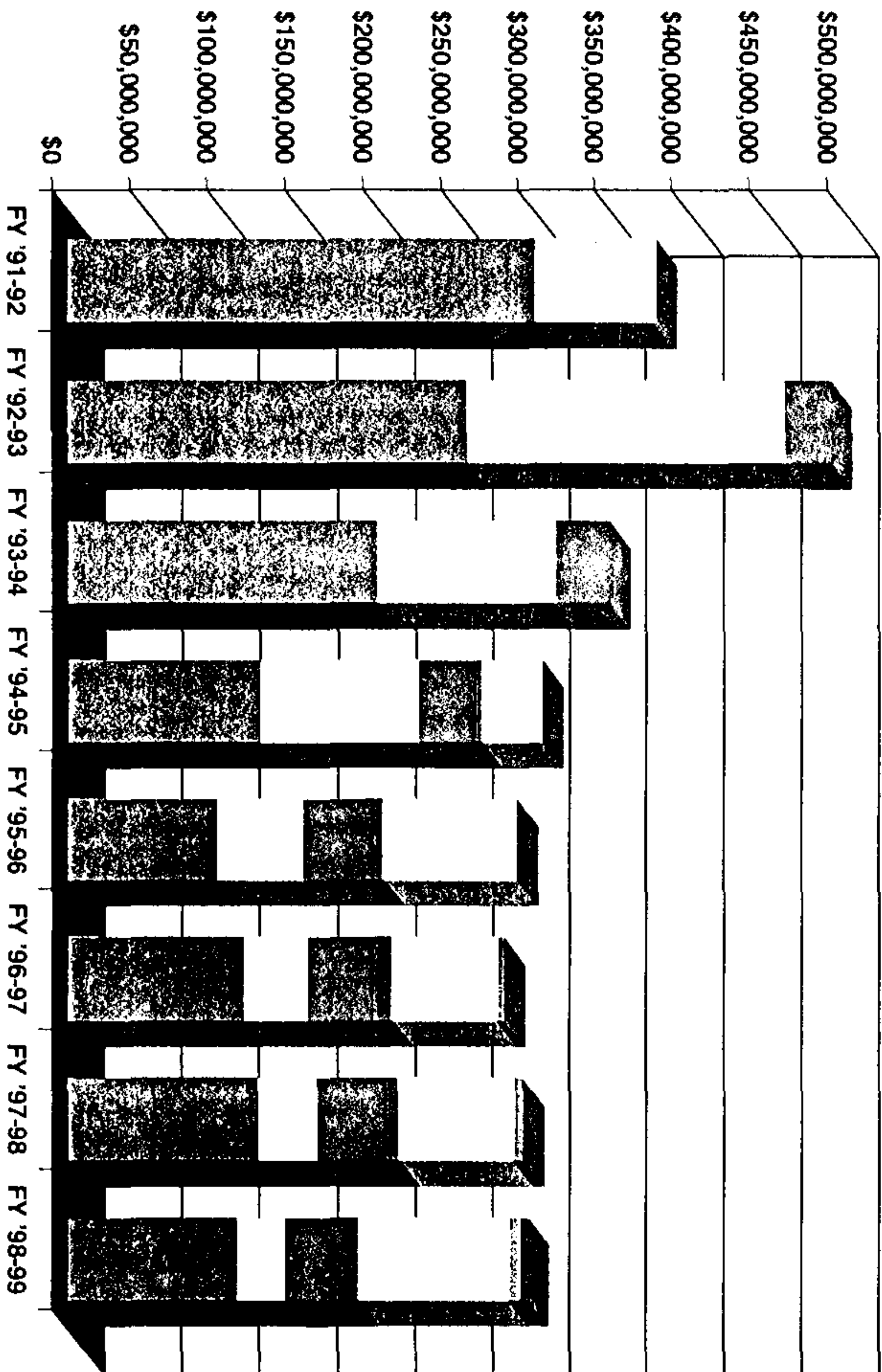
LOUISIANA LOTTERY CORPORATION
REVENUE
(UNAUDITED)
FISCAL YEARS 1992 THROUGH 1999

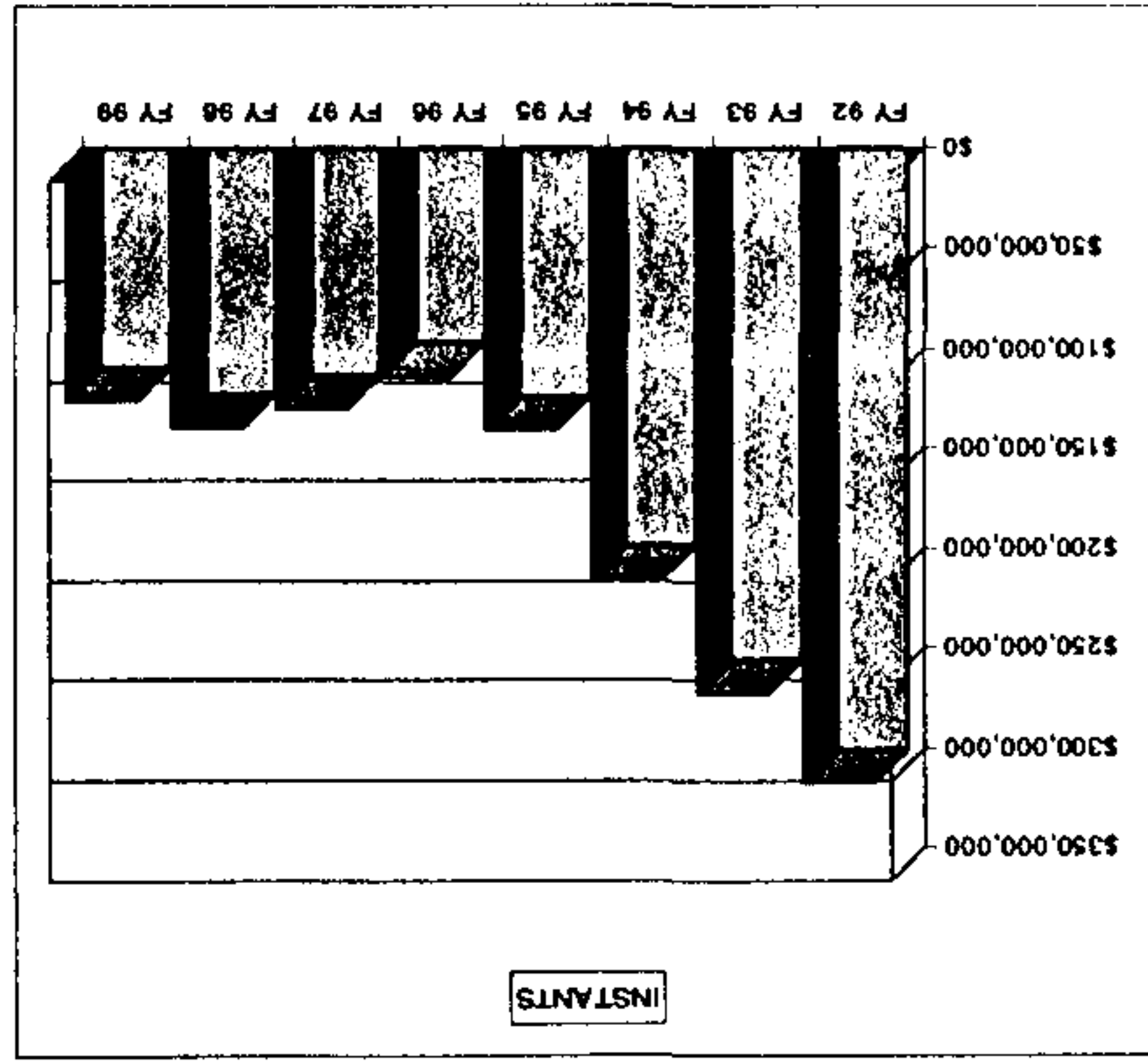
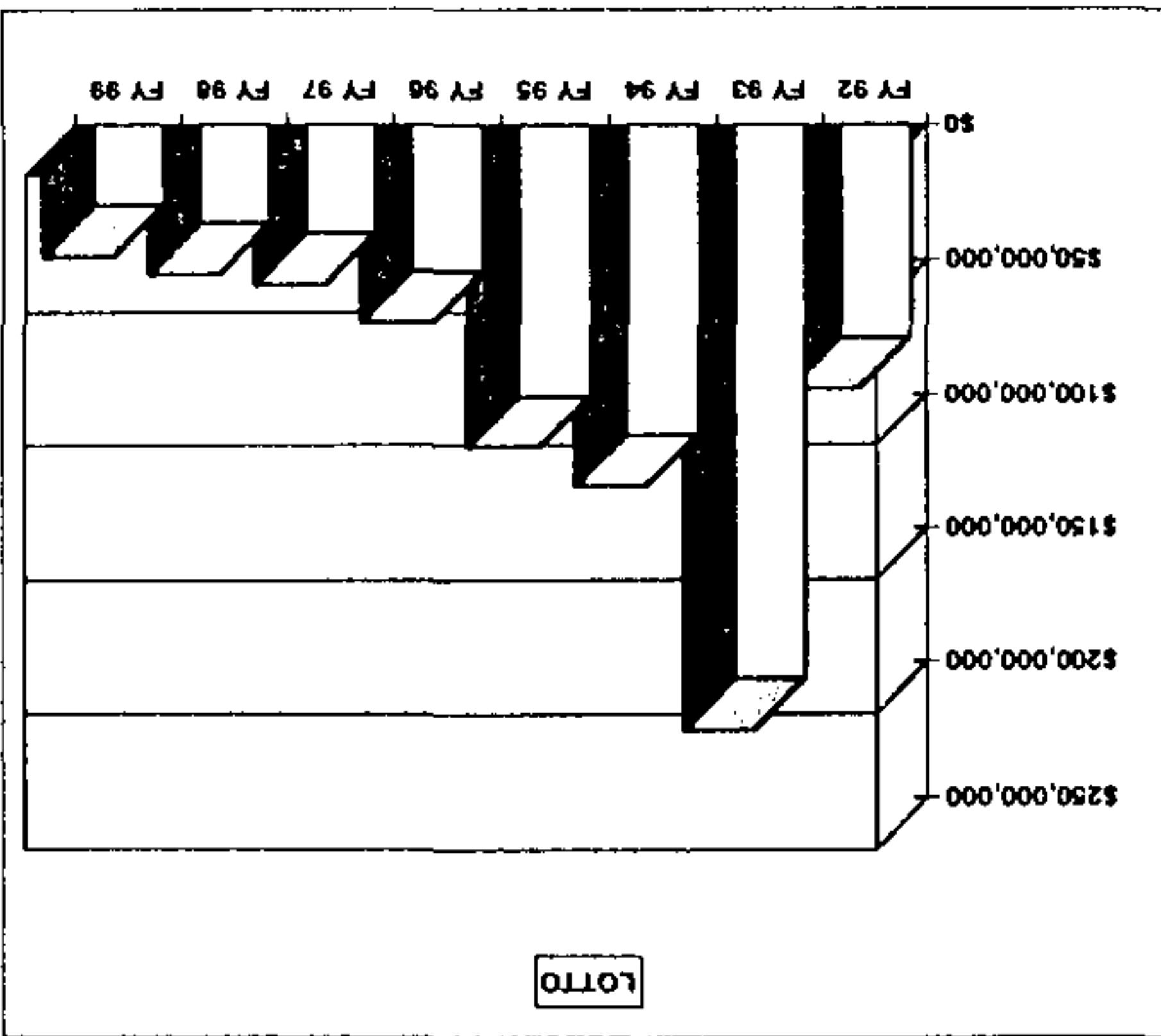
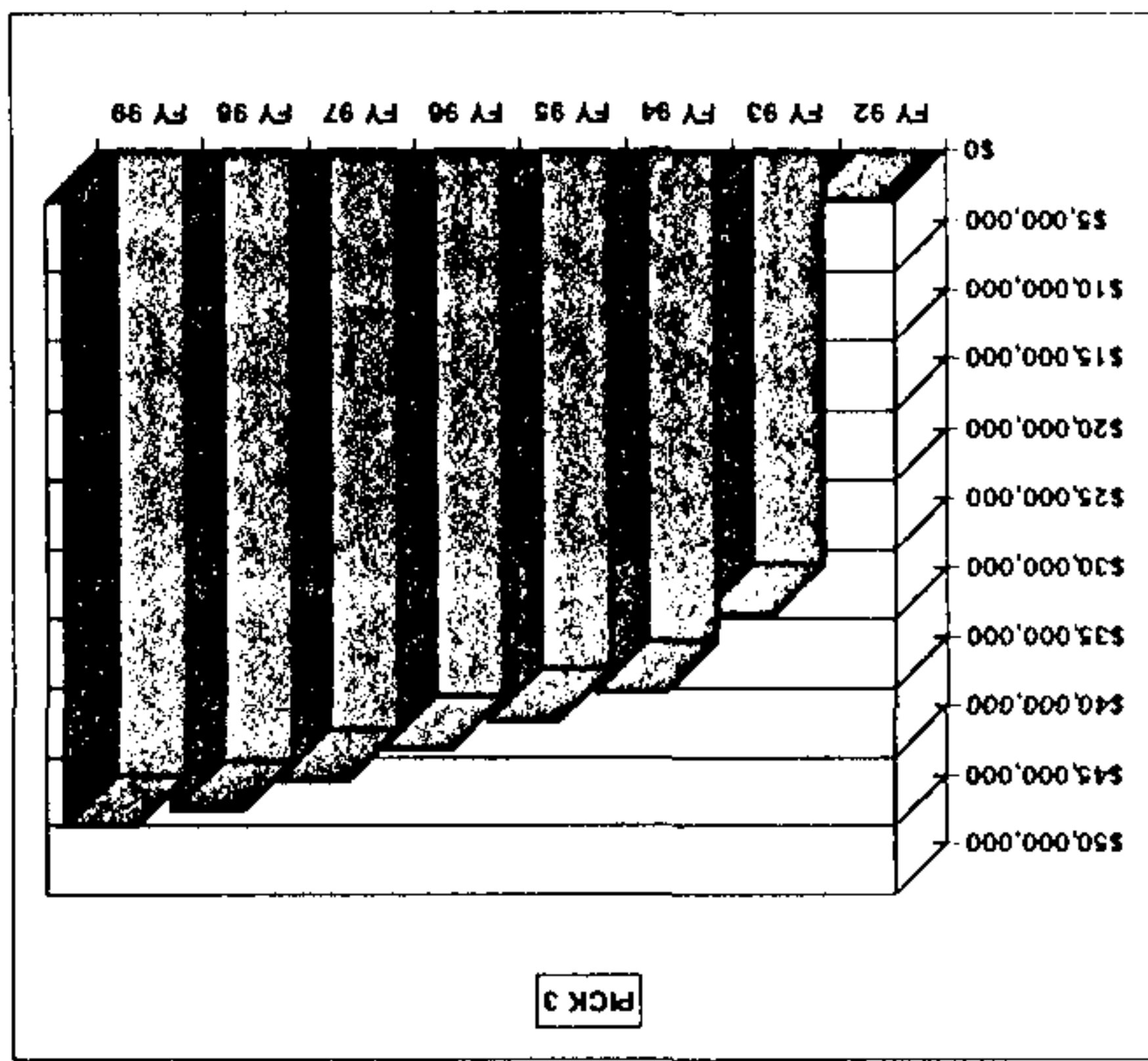
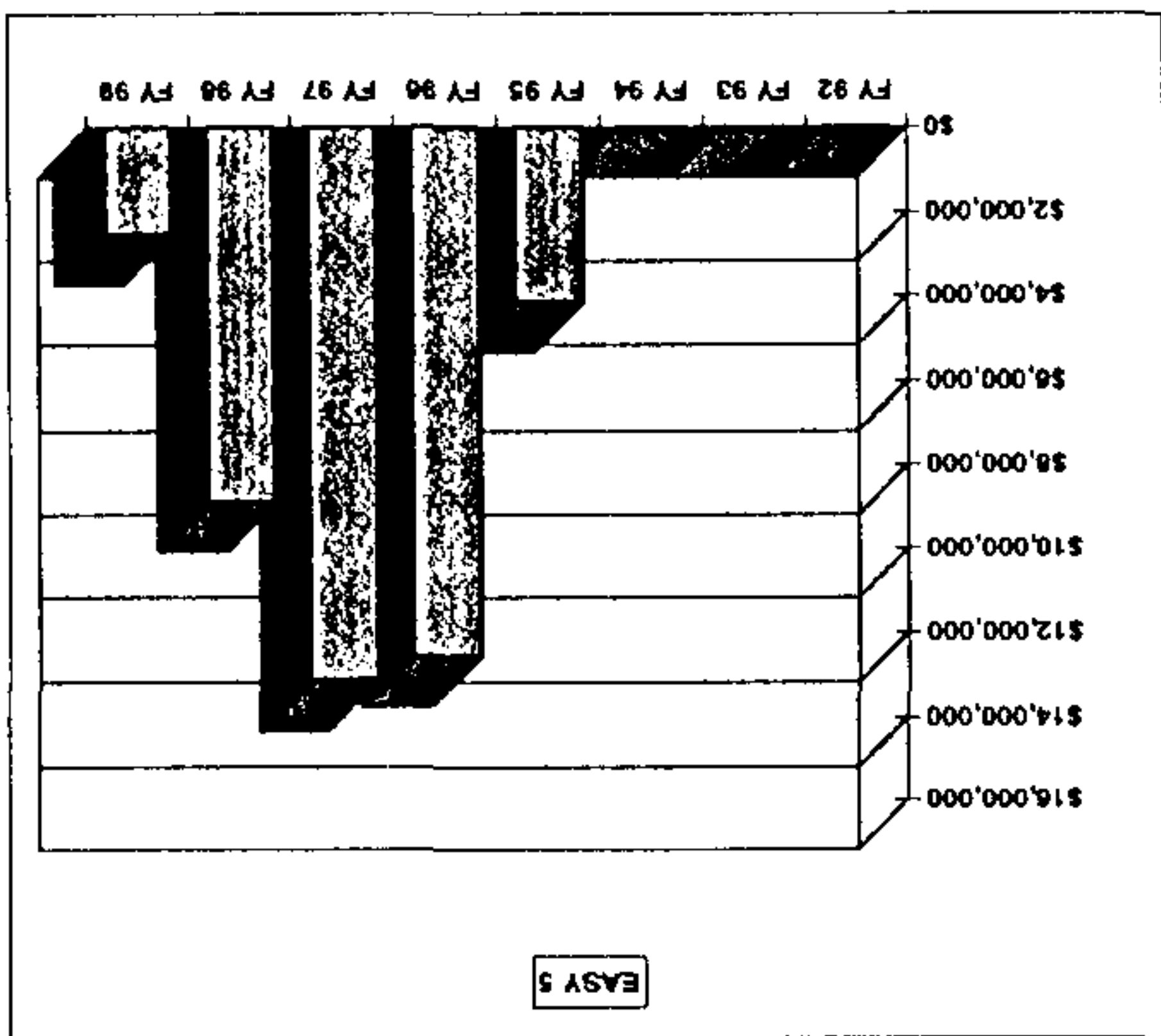
	EY 1991-92	EY 1992-93	EY 1993-94	EY 1994-95	EY 1995-96	EY 1996-97	EY 1997-98	EY 1998-99	INCEPTION TO DATE
SALES									
INSTANT TICKETS	\$301,100,047	\$256,854,757	\$198,950,600	\$124,092,199	\$97,132,942	\$113,828,949	\$123,273,680	\$109,863,765	\$1,324,894,639
ON-LINE:									
LOTTO	79,073,230	205,981,280	115,561,236	100,742,068	54,150,821	40,416,940	36,876,516	30,126,516	\$662,930,569
PICK 3	0	29,836,936	35,449,725	37,449,548	39,440,324	41,743,023	43,977,773	45,073,532	\$272,971,461
EASY 5	0	0	0	4,178,518	12,572,638	13,139,044	8,896,149	2,551,846	\$41,338,195
POWERBALL	0	0	0	36,791,478	65,928,297	67,288,303	73,907,516	98,785,043	\$362,698,637
DAILY MILLIONS	0	0	0	0	0	4,439,290	5,963,955	0	\$10,403,245
CASH QUEST	0	0	0	0	0	0	0	7,041,397	\$7,041,397
PICK 4	0	0	0	0	0	0	0	4,986,511	\$4,986,511
TOTAL ON-LINE	79,073,230	235,818,196	151,010,961	181,161,612	192,090,060	167,027,200	169,821,911	186,566,845	1,382,370,035
TOTAL SALES	380,173,277	492,672,953	349,961,561	305,253,811	289,223,022	280,853,849	292,865,591	296,230,610	2,687,064,674
OTHER REVENUE									
INTEREST EARNED ON INVESTMENTS	1,227,652	2,016,629	1,823,741	3,145,779	3,468,537	3,114,069	3,210,947	3,113,666	21,121,020
NET INCREASE/(DECREASE) IN THE FAIR VALUE OF INVESTMENTS	0	0	0	0	0	27,217	174,129	(449,603)	(248,517)
RETAILER LICENSE FEES	326,425	41,650	48,075	41,825	34,475	33,125	34,075	29,600	589,350
MISCELLANEOUS REVENUE	241,481	15,556	2,434	17,495	23,490	12,430	16,372	63,790	393,038
GAIN ON DISPOSAL OF ASSETS	0	0	23,332	23,697	65,983	34,832	27,770	20,449	216,243
TOTAL OTHER REVENUE	1,795,558	2,073,835	1,897,582	3,228,096	3,612,465	3,221,673	3,463,263	2,777,632	22,071,134
TOTAL REVENUE	\$381,968,835	\$494,746,788	\$351,859,143	\$308,482,907	\$292,835,487	\$283,875,522	\$296,358,884	\$289,006,242	\$2,709,135,808

**LOUISIANA LOTTERY CORPORATION
INCEPTION-TO-DATE REVENUE DISTRIBUTION
(UNAUDITED)**

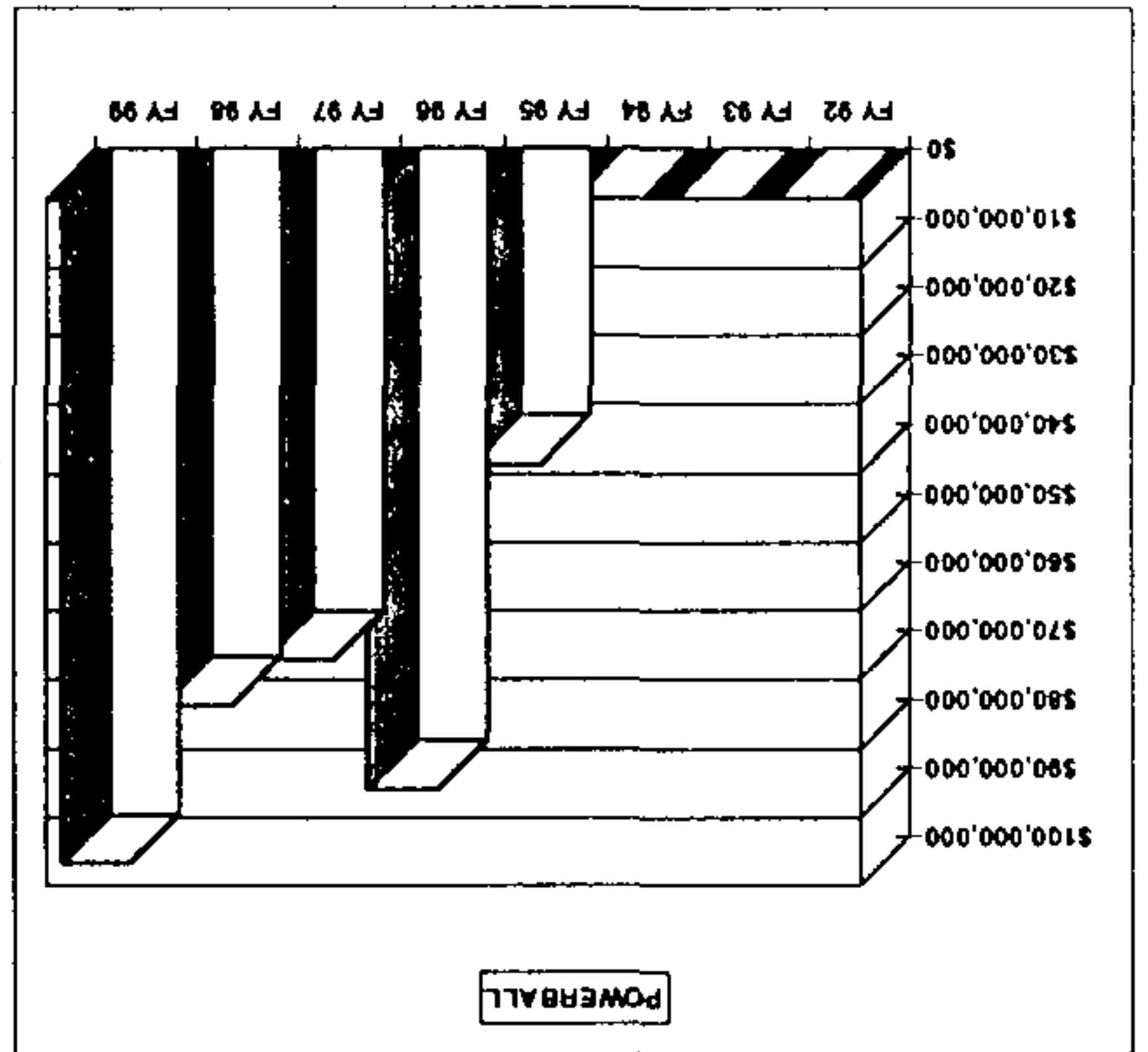
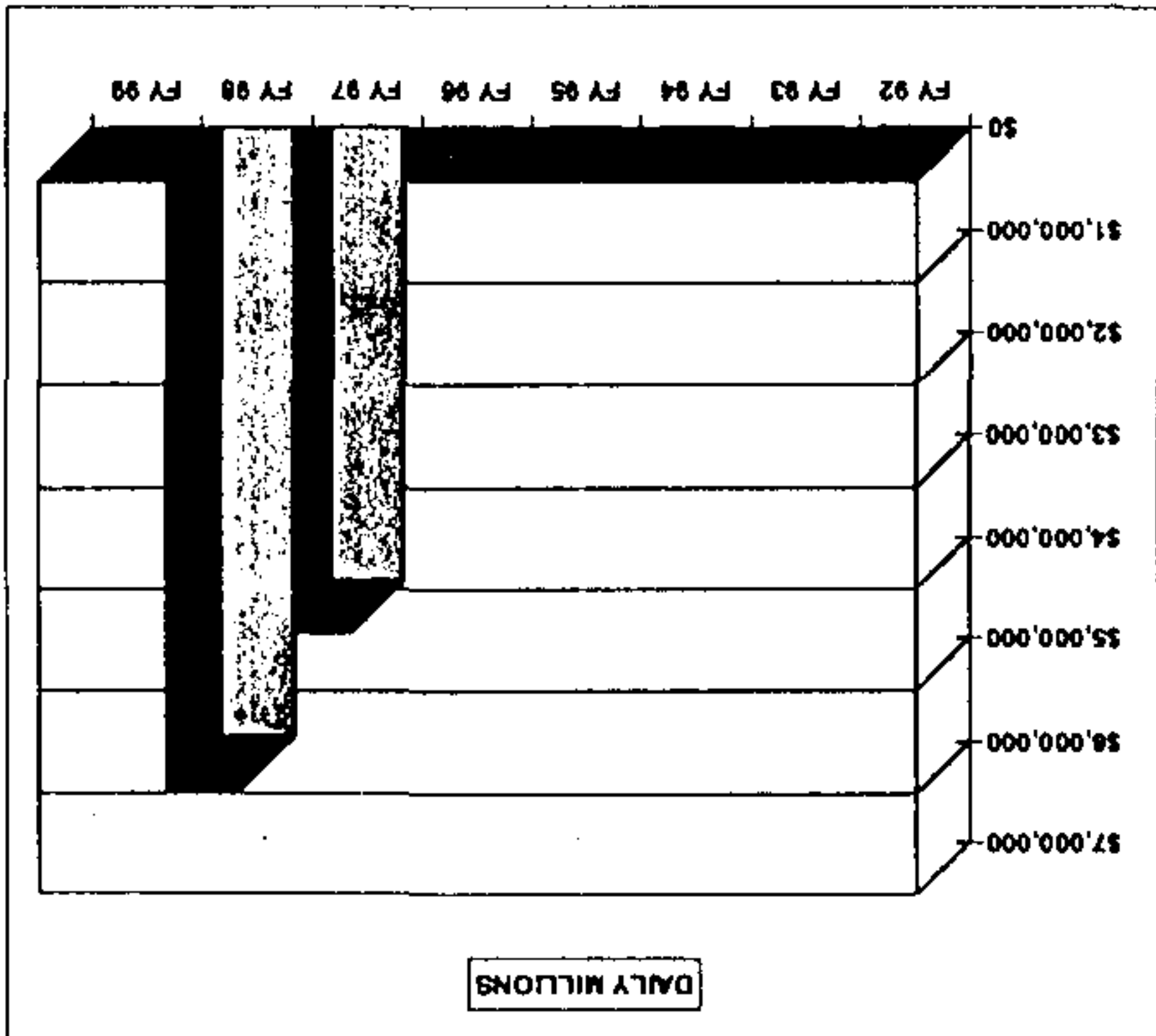
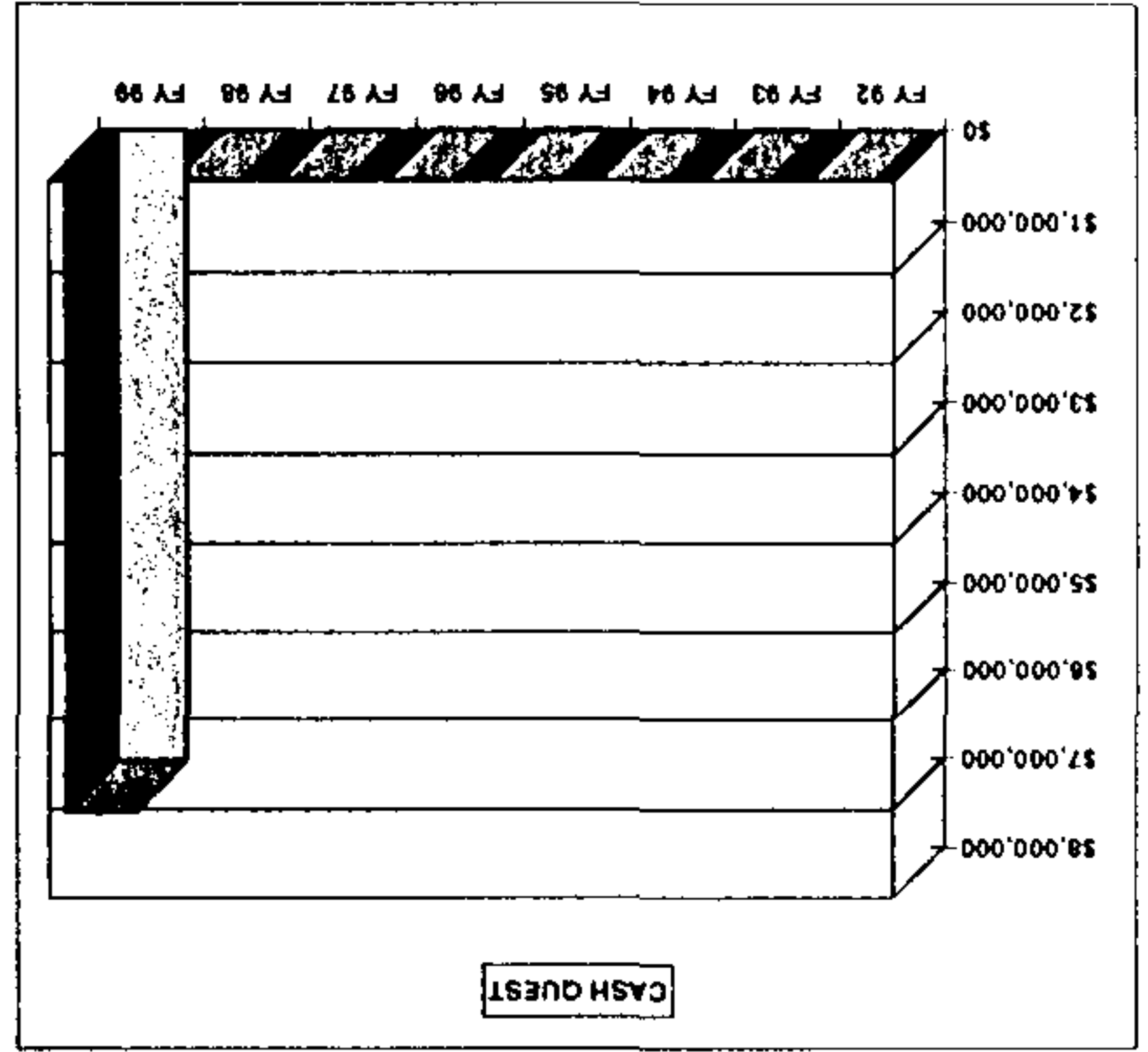
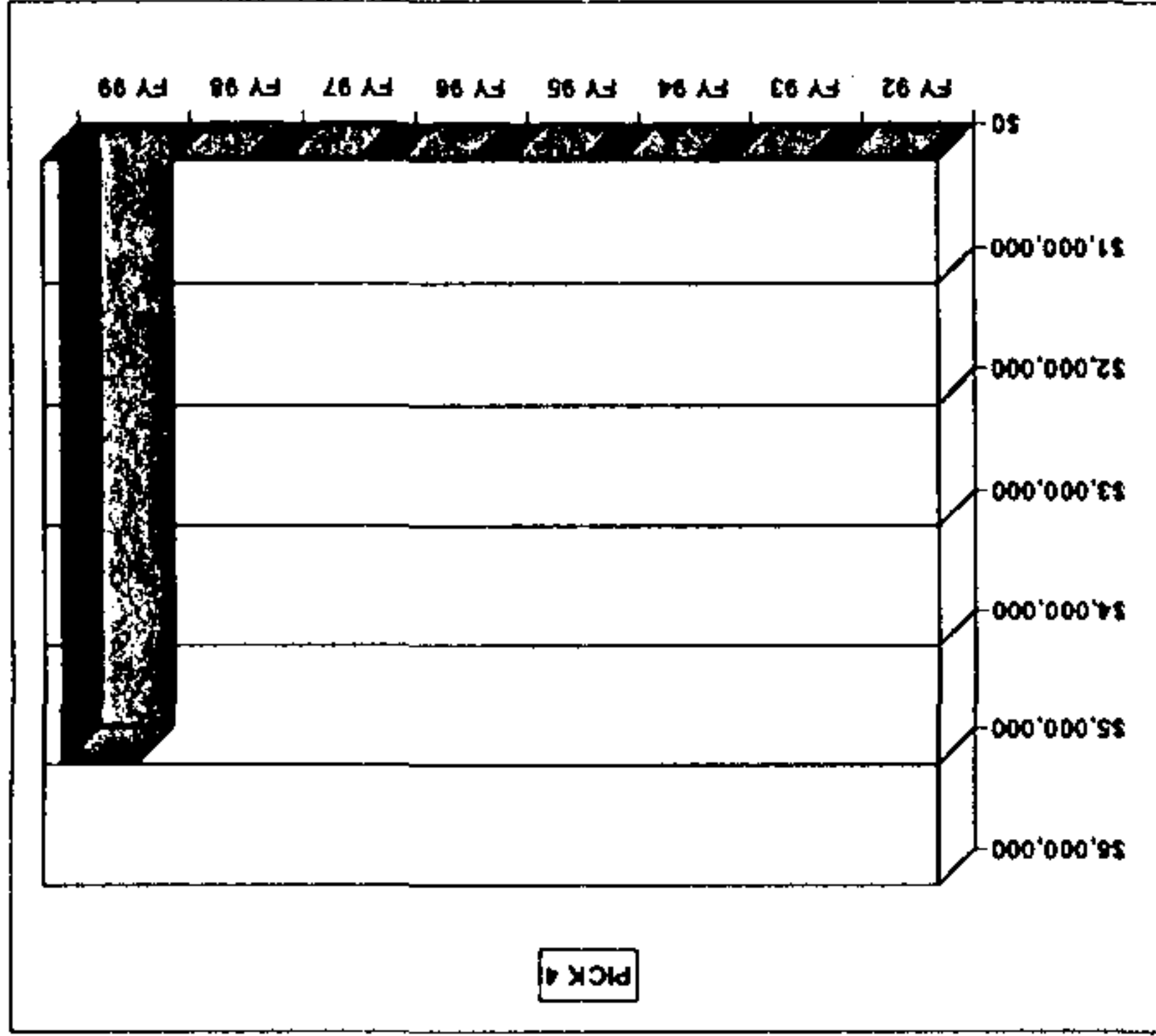


LOUISIANA LOTTERY CORPORATION
 SALES BY PRODUCT
 (UNAUDITED)
 FISCAL YEARS 1992 THROUGH 1999





LOUISIANA LOTTERY CORPORATION
 SALES BY FISCAL YEAR BY PRODUCT LINE
 (UNAUDITED)
 FISCAL YEARS 1992 THROUGH 1999

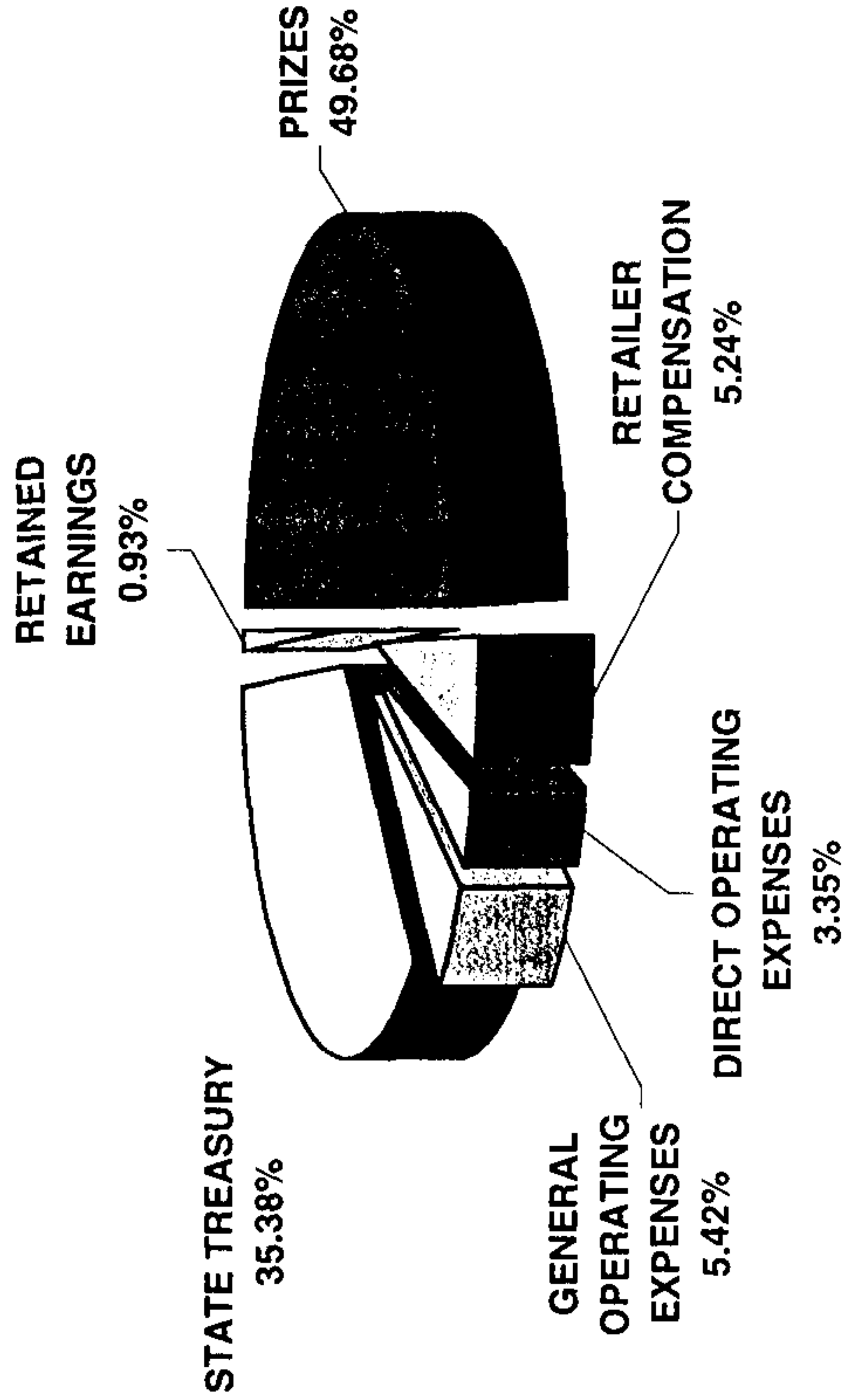


LOUISIANA LOTTERY CORPORATION
 SALES BY FISCAL YEAR BY PRODUCT LINE
 (UNAUDITED)
 FISCAL YEARS 1992 THROUGH 1999

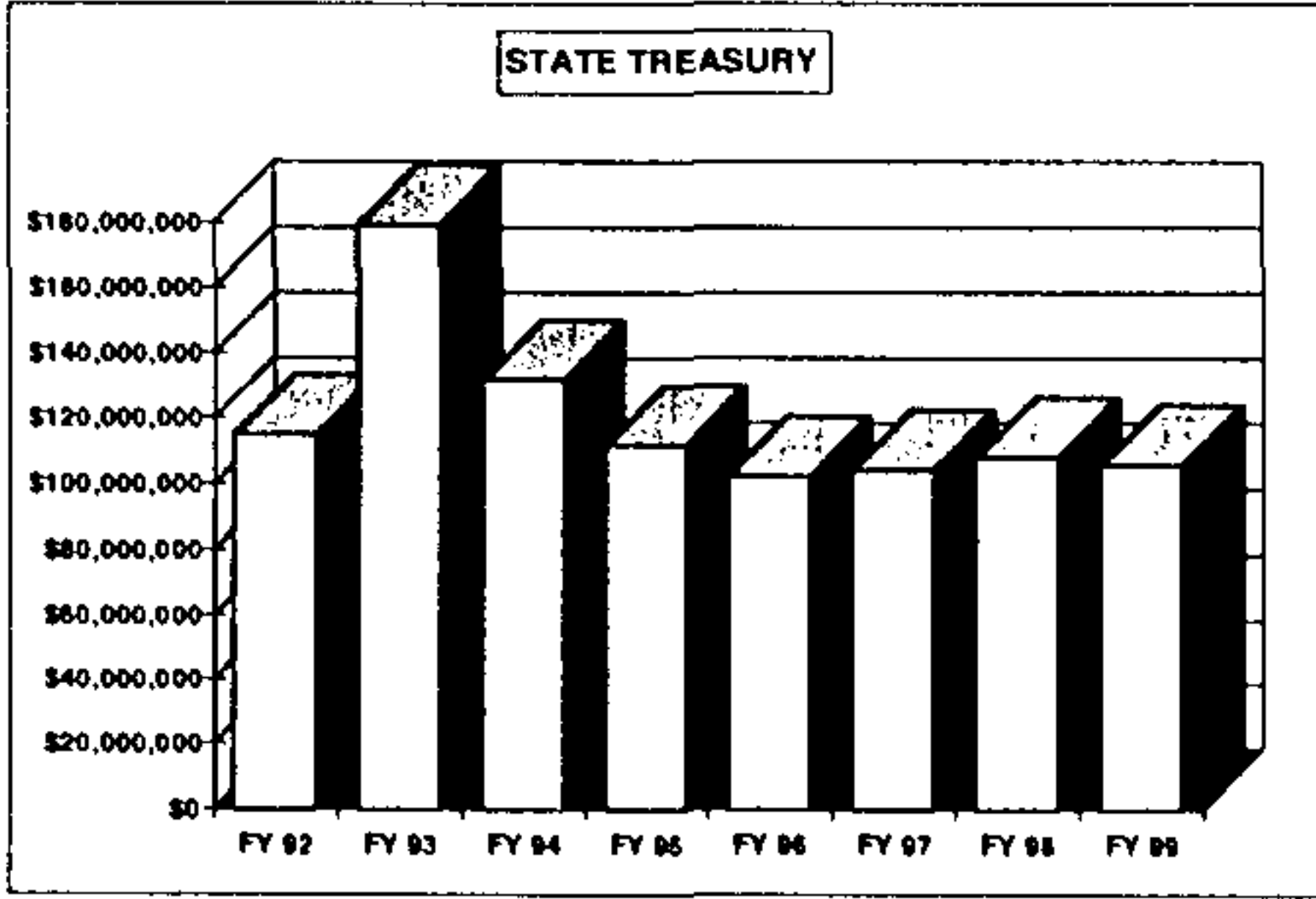
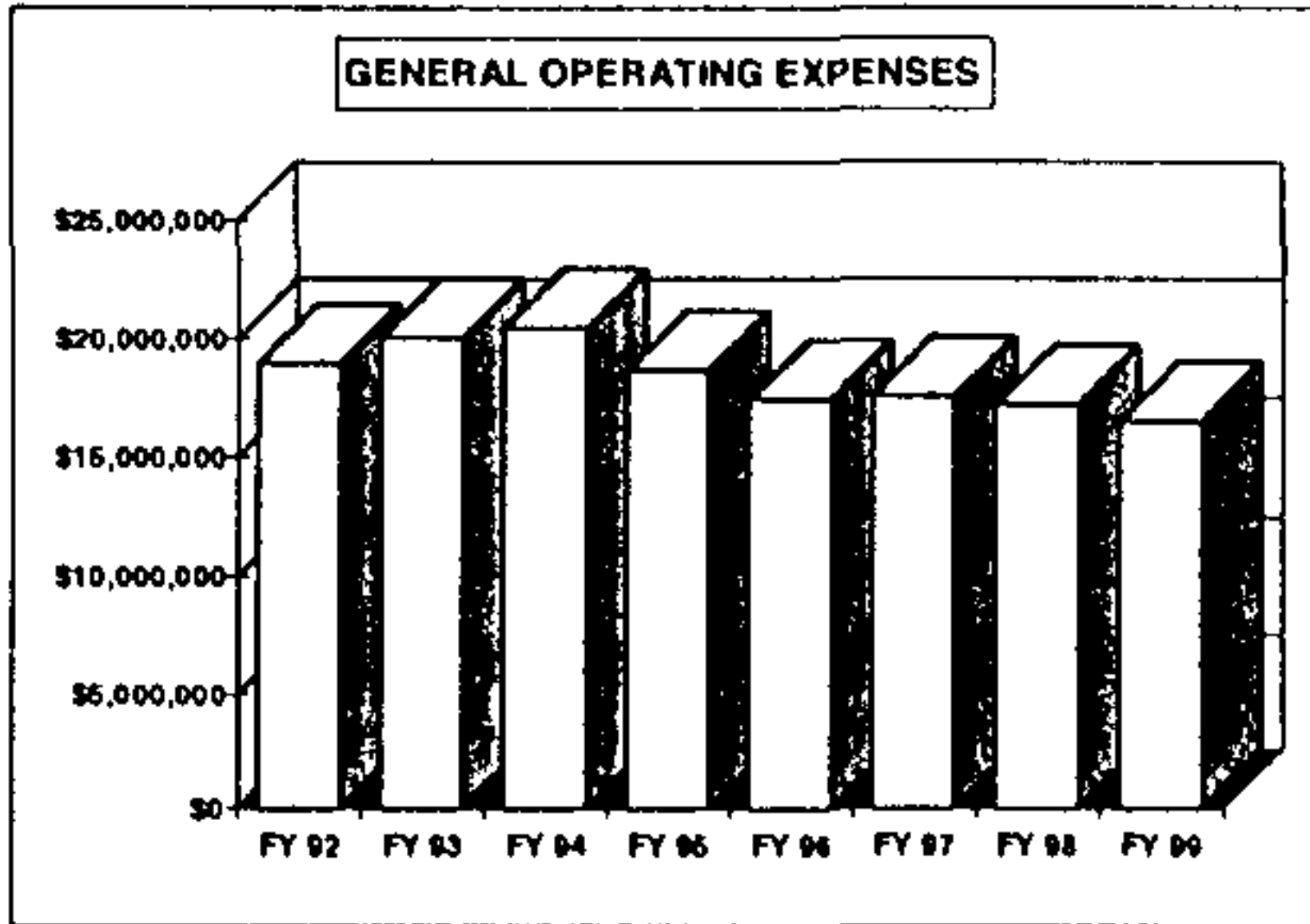
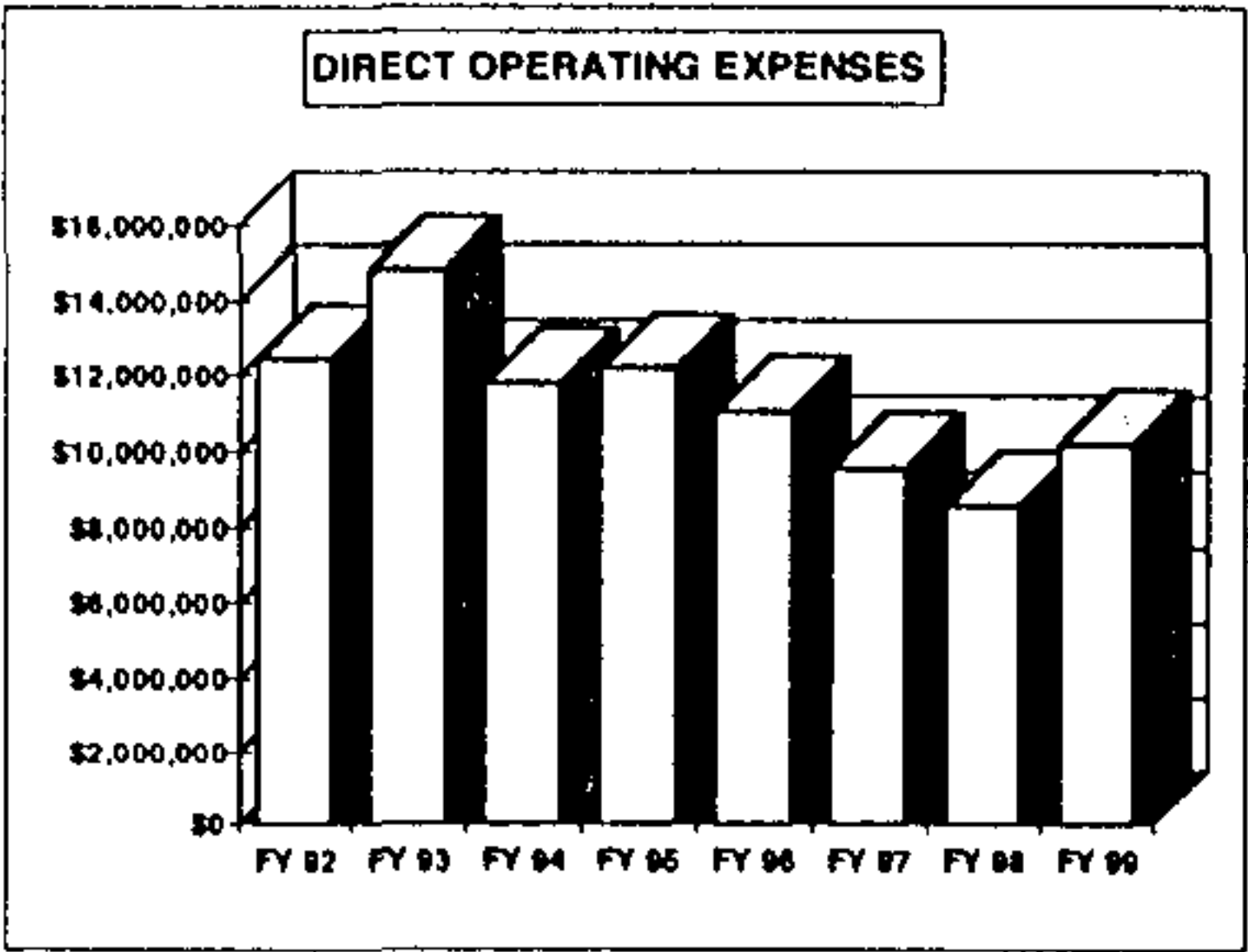
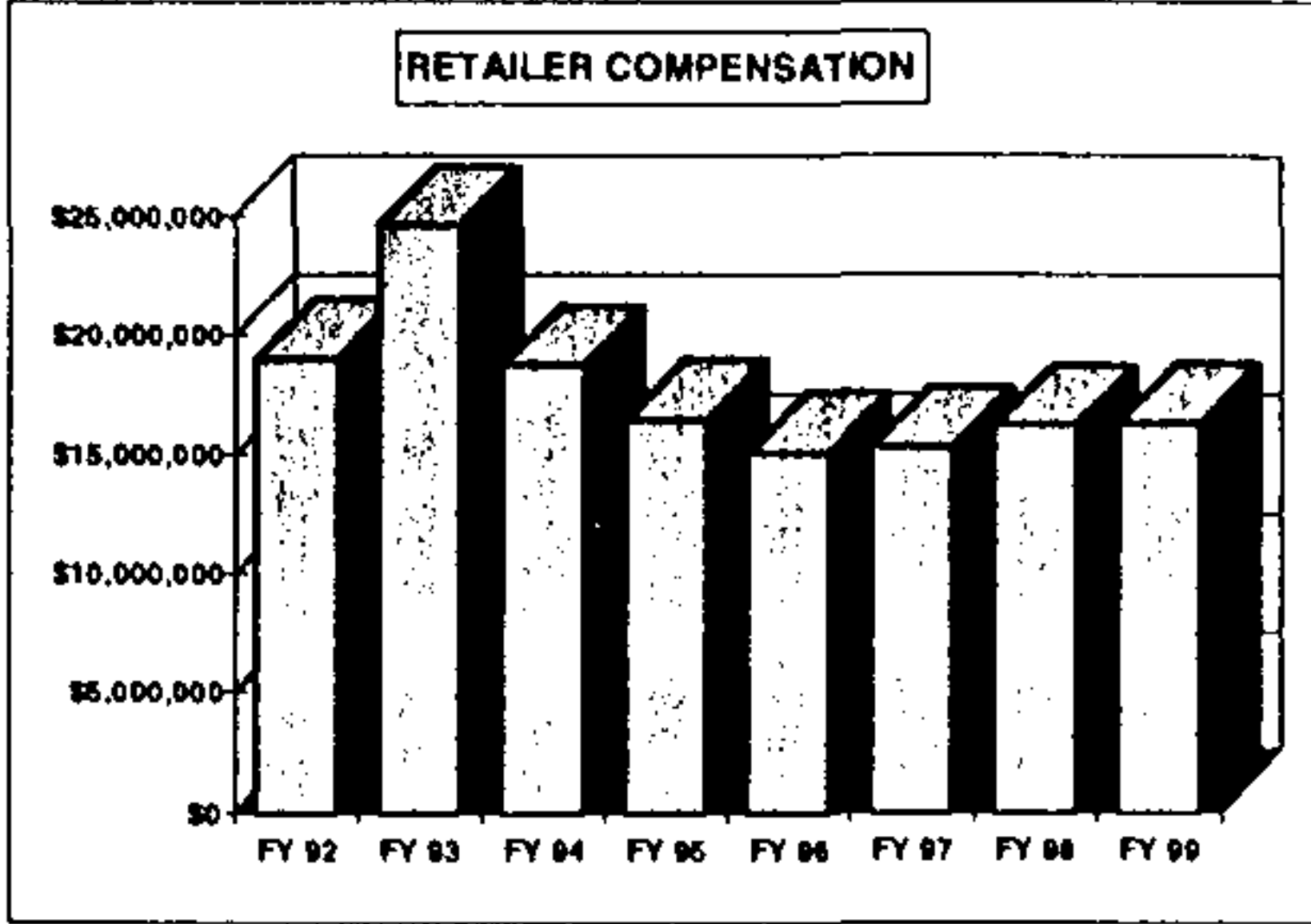
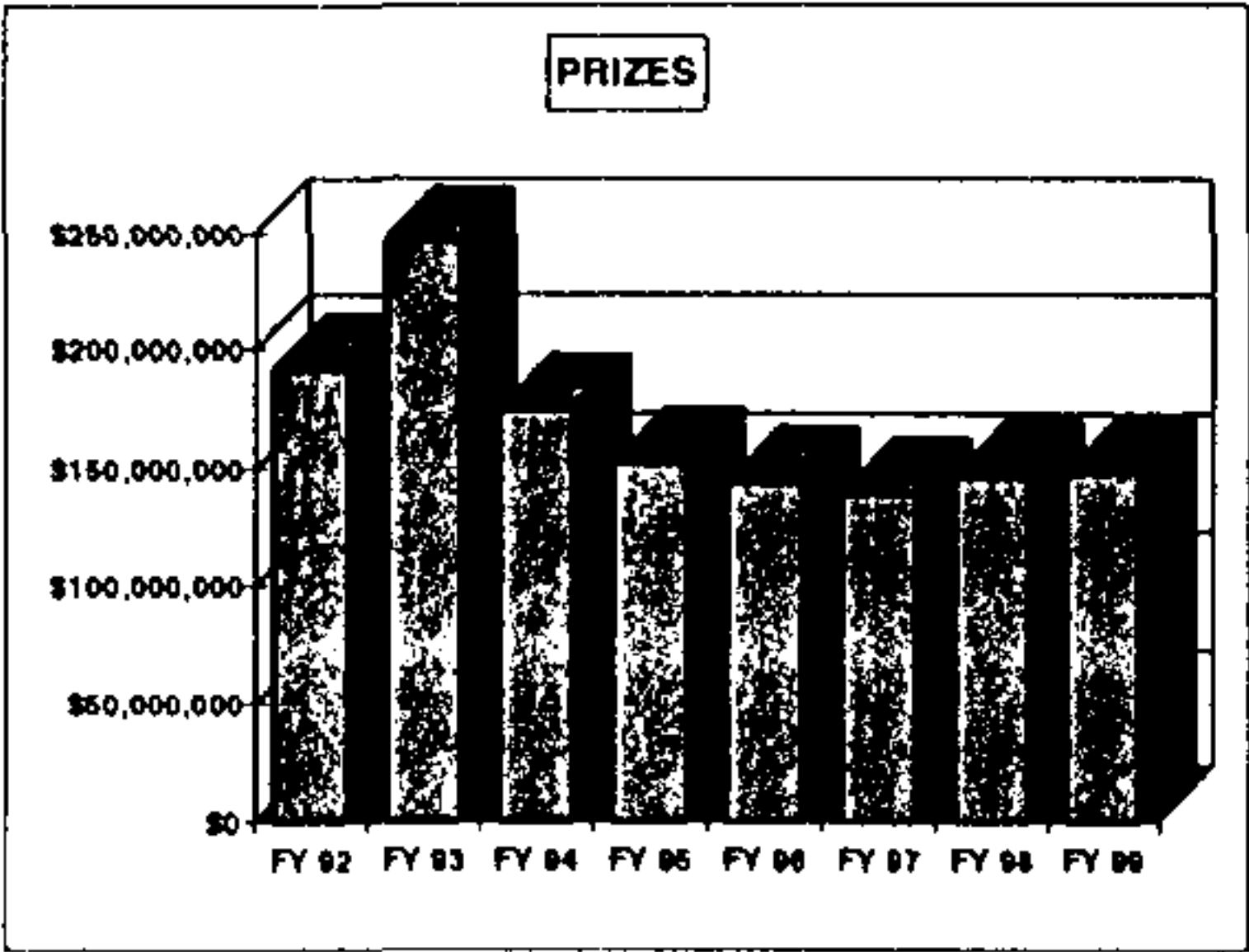
LOUISIANA LOTTERY CORPORATION
EXPENSES AND TRANSFERS
(UNAUDITED)
FISCAL YEARS 1992 THROUGH 1999

	<u>FY 1991-92</u>	<u>FY 1992-93</u>	<u>FY 1993-94</u>	<u>FY 1994-95</u>	<u>FY 1995-96</u>	<u>FY 1996-97</u>	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>INCEPTION TO DATE</u>
EXPENSES									
PRIZES	\$191,988,549	\$246,753,033	\$174,740,175	\$152,025,516	\$144,589,840	\$139,773,269	\$147,071,812	\$148,940,656	\$1,345,882,850
RETAILER COMPENSATION	19,021,961	24,638,019	18,756,749	16,486,645	15,104,325	15,325,737	16,270,676	16,371,789	141,975,901
DIRECT OPERATING EXPENSES	12,447,630	14,802,430	11,806,135	12,192,815	11,061,649	9,560,285	8,569,499	10,189,939	90,630,382
GENERAL OPERATING EXPENSES	18,948,771	20,035,899	20,470,028	18,672,710	17,429,161	17,575,489	17,220,780	16,552,741	146,905,579
TOTAL EXPENSES	<u>\$242,406,911</u>	<u>\$306,229,381</u>	<u>\$225,773,087</u>	<u>\$199,377,686</u>	<u>\$188,184,975</u>	<u>\$182,234,780</u>	<u>\$189,132,767</u>	<u>\$192,055,125</u>	<u>\$1,725,394,712</u>
TRANSFERS									
STATE TREASURY	<u>\$115,000,000</u>	<u>\$179,165,000</u>	<u>\$132,026,000</u>	<u>\$111,770,000</u>	<u>\$102,492,420</u>	<u>\$104,346,906</u>	<u>\$108,038,552</u>	<u>\$105,655,165</u>	<u>\$958,494,043</u>

**LOUISIANA LOTTERY CORPORATION
INCEPTION-TO-DATE
EXPENSES AND TRANSFERS
AS A PERCENTAGE OF TOTAL REVENUE
(UNAUDITED)**



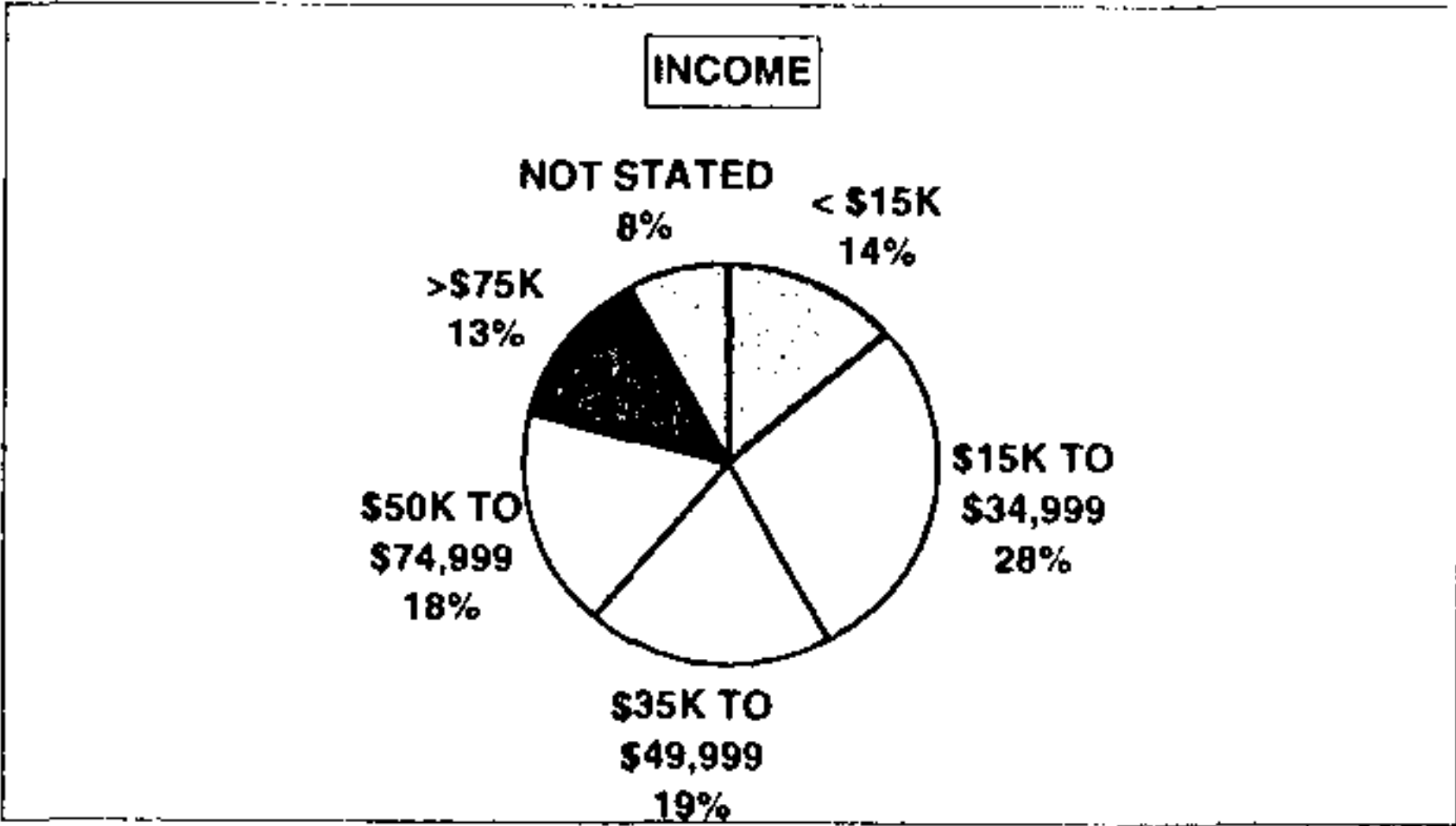
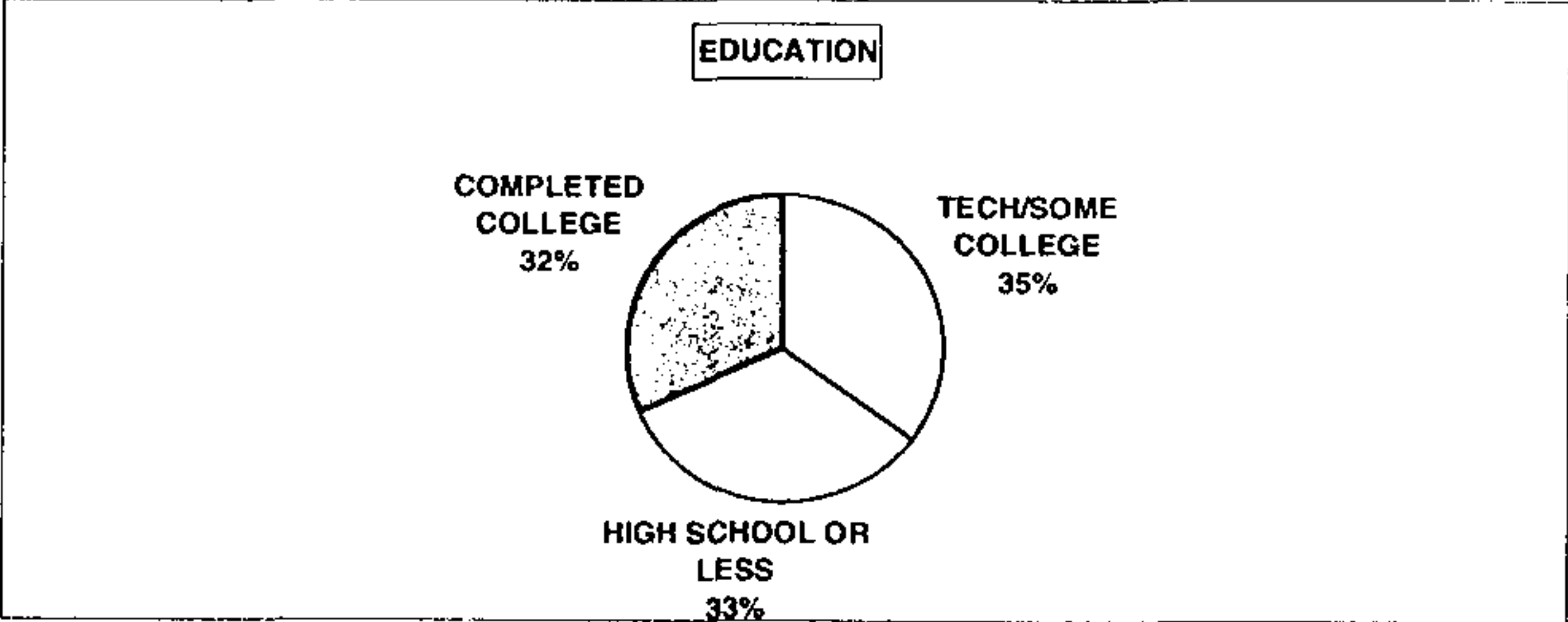
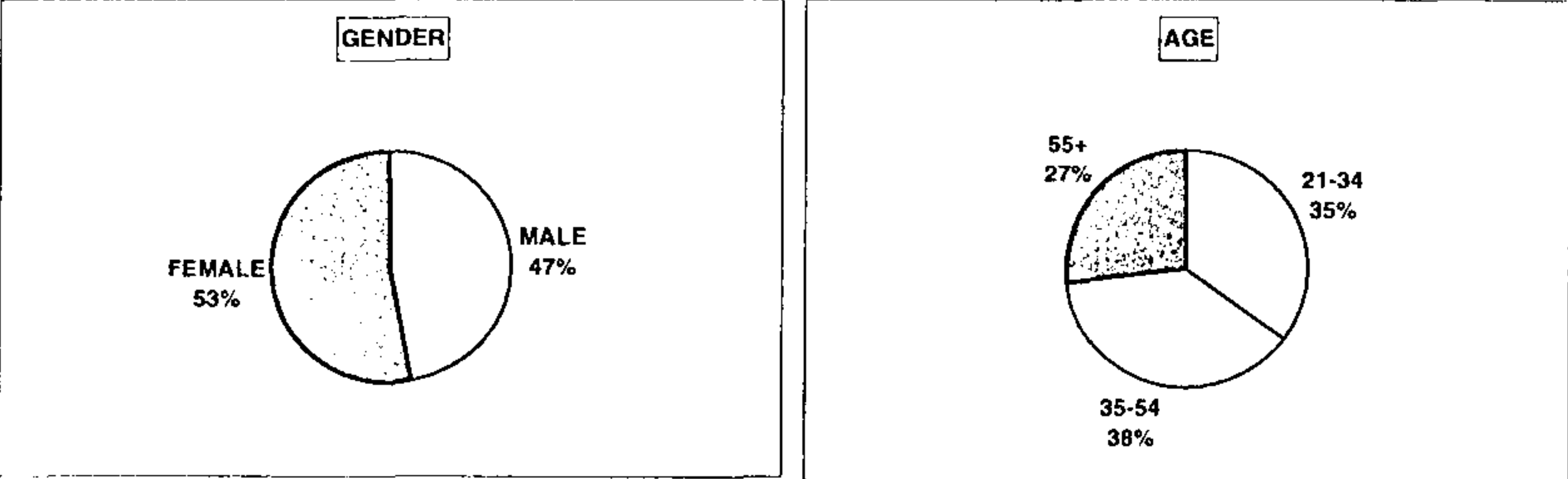
**LOUISIANA LOTTERY CORPORATION
EXPENSES AND TRANSFERS
(UNAUDITED)
FISCAL YEARS 1992 THROUGH 1999**



LOUISIANA LOTTERY CORPORATION
 TRANSFERS TO STATE TREASURY
 (UNAUDITED)
 INCEPTION-TO-DATE

<u>DATE</u>	<u>AMOUNT</u>	<u>LOTTERY FISCAL YEAR TOTAL</u>	<u>CALENDAR YEAR TOTAL</u>
DECEMBER 1991	\$50,000,000		\$50,000,000
MARCH 1992	40,000,000		
JUNE 1992	25,000,000	\$115,000,000	
SEPTMBER 1992	57,200,000		
DECEMBER 1992	44,300,000		166,500,000
MARCH 1993	45,900,000		
JUNE 1993	31,765,000	179,165,000	
SEPTMBER 1993	32,266,000		
DECEMBER 1993	40,400,000		150,331,000
MARCH 1994	31,365,000		
JUNE 1994	27,995,000	132,026,000	
SEPTMBER 1994	26,725,000		
DECEMBER 1994	24,500,000		110,585,000
MARCH 1995	25,810,000		
JUNE 1995	34,735,000	111,770,000	
JULY 1995	9,066,822		
AUGUST 1995	8,194,932		
SEPTEMBER 1995	8,507,793		
OCTOBER 1995	7,873,606		
NOVEMBER 1995	8,327,516		
DECEMBER 1995	8,500,000		111,015,669
JANUARY 1996	9,820,865		
FEBRUARY 1996	8,202,764		
MARCH 1996	9,315,166		
APRIL 1996	8,282,972		
MAY 1996	8,428,448		
JUNE 1996	7,971,536	102,492,420	
JULY 1996	8,176,487		
AUGUST 1996	7,890,198		
SEPTEMBER 1996	7,643,764		
OCTOBER 1996	8,385,386		
NOVEMBER 1996	7,773,727		
DECEMBER 1996	8,243,281		100,134,594
JANUARY 1997	8,181,070		
FEBRUARY 1997	8,026,686		
MARCH 1997	9,397,036		
APRIL 1997	8,594,425		
MAY 1997	8,675,328		
JUNE 1997	13,359,518	104,346,906	
JULY 1997	8,399,129		
AUGUST 1997	8,490,015		
SEPTEMBER 1997	7,522,120		
OCTOBER 1997	7,955,211		
NOVEMBER 1997	7,567,906		
DECEMBER 1997	9,211,519		105,379,963
JANUARY 1998	8,211,078		
FEBRUARY 1998	8,691,278		
MARCH 1998	8,834,355		
APRIL 1998	8,391,642		
MAY 1998	12,684,716		
JUNE 1998	12,079,583	108,038,552	
JULY 1998	15,552,958		
AUGUST 1998	8,358,134		
SEPTEMBER 1998	7,821,200		
OCTOBER 1998	8,067,540		
NOVEMBER 1998	7,277,057		
DECEMBER 1998	7,625,952		113,595,493
JANUARY 1999	8,214,518		
FEBRUARY 1999	7,334,683		
MARCH 1999	9,054,748		
APRIL 1999	7,636,327		
MAY 1999	7,403,142		
JUNE 1999	11,308,906	105,655,165	50,952,324
TOTAL INCEPTION-TO-DATE	\$958,494,043	\$958,494,043	\$958,494,043

**LOUISIANA LOTTERY CORPORATION
PARTICIPATION OF ALL PLAYERS BY DEMOGRAPHIC GROUPS
(UNAUDITED)**



Source: Annual Market Segmentation Presentation
Angus Reid Group, December 1998

U.S. Lotteries' Fiscal 1998 Sales by Game

(in \$millions)

Lottery	Pop. (M)	Online Games											Total Sales	PC Sales	Prizes*	Net Income	
		Instant	Pulltab	3-digit	4-digit	Lotto	Power ball	Cash Lotto	Cash 4 Life	Keno	VLT	Other					
Arizona	4.7	108.44		1.28		51.69	74.86	11.41					3.03	250.71	\$54	133.69	76.47
California	32.7	677.10		80.19		1,090.36		161.80		277.78			7.19	2,294.42	\$70	1,150.81	834.75
Colorado	4.0	225.24				127.44		16.11		3.98			1.52	374.28	\$94	220.42	97.71
Connecticut	3.3	429.27		116.28	59.00	81.29	61.28	58.49						805.61	\$246	474.37	258.11
Delaware (1)	0.7	18.20		32.68	15.85		40.85	10.48				326.72	2.42	447.20	\$601	62.41	164.51
D.C.	0.5	22.38		76.09	59.26		58.38	6.14	2.11				2.08	226.43	\$433	110.51	81.40
Florida	14.9	583.44		313.93	159.65	711.33		281.69						2,050.04	\$137	1,022.06	918.06
Georgia	7.6	546.60		627.37	120.23	216.65		98.06		63.96				1,672.87	\$219	902.47	555.07
Idaho	1.2	58.78	1.64			4.52	21.86	2.84						89.63	\$73	52.38	20.61
Illinois	12.0	618.29		344.70	145.34	357.56		111.07						1,576.96	\$131	902.69	536.39
Indiana	5.9	351.54	1.09	54.34		88.59	128.00	11.36	4.28				8.97	648.16	\$110	367.60	195.48
Iowa	2.9	90.62	26.97			7.83	37.36	5.00	2.18				3.91	173.87	\$61	96.37	42.69
Kansas	2.6	82.76	1.14	5.35			42.64	23.04	2.60	34.50				192.02	\$73	101.69	59.81
Kentucky	3.9	262.18	32.20	104.29	21.40	52.88	92.89	19.14						584.99	\$149	350.08	180.61
Louisiana	4.4	123.27		43.98		36.88	73.91	8.90					5.96	292.90	\$67	147.07	107.23
Maine	1.2	105.46		4.48	3.12	31.66		4.17						148.89	\$120	85.02	41.84
Maryland	5.1	160.36		333.85	179.71	109.44		33.15		256.13				1,072.63	\$209	571.14	399.85
Massachusetts	6.1	2,085.33	3.34	385.02		195.68		59.76		470.21			7.90	3,207.24	\$522	2,205.07	774.88
Michigan	9.8	605.90		410.10	280.52	296.34		32.11		12.61				1,637.59	\$167	892.67	709.23
Minnesota	4.7	259.78		12.95			71.27	19.59	4.20				5.07	372.87	\$79	224.96	87.33
Missouri	5.4	257.64	29.14	49.71		27.88	101.08	23.67					5.18	494.30	\$91	273.17	149.53
Montana	0.9	7.75				3.66	12.13	4.76	0.45				1.03	29.78	\$34	15.24	6.69
Nebraska	1.7	39.84				0.77	24.84	5.35	1.21				1.81	73.82	\$44	39.38	19.81
N. Hampshire	1.2	116.07		7.92		16.82	34.34	5.03	1.26				2.32	183.77	\$155	105.99	57.51
New Jersey	8.1	518.57		451.54	253.17	290.64		116.42						1,630.34	\$201	868.41	643.90
New Mexico	1.7	48.57					31.02	2.93					2.36	84.88	\$49	42.79	20.11
New York	18.2	991.69		698.53	434.97	870.49		384.78		554.32			8.33	3,943.10	\$217	1,993.97	1,528.85
Ohio	11.2	1,131.77		421.08	124.01	384.92		73.50					60.52	2,195.80	\$196	1,244.72	783.07
Oregon (1)	3.3	121.90	6.41		0.85	37.40	37.80			96.75	407.48	9.31		717.90	\$219	195.08	297.71
Pennsylvania	12.0	458.13		555.68	247.00	237.16		170.45						1,668.41	\$139	822.68	714.63
R Island (2)	1.0	40.32		29.26			43.35	3.30		51.62	464.07	2.16		634.07	\$641	95.55	115.00
S. Dakota (2)	0.7	14.40				1.47	8.00	1.99	0.36		528.37	0.68		555.27	\$752	15.58	97.55
Texas	19.8	1,801.89		180.26		801.24		306.64						3,090.03	\$156	1,648.11	1,212.52
Vermont	0.6	59.34		1.15	0.90	10.91		1.77						74.07	\$125	43.77	22.19
Virginia	6.8	302.30		244.20	113.70	211.70		30.80					11.60	914.30	\$135	503.81	318.90
Washington	5.7	230.31		18.26		140.09		53.91		12.14				454.70	\$80	279.73	144.65
W. Virginia (1)	1.8	80.19	0.07	11.03	5.01		51.25	6.68	1.23	16.39	131.35	1.89		305.10	\$168	98.02	91.34
Wisconsin	5.2	246.52	6.27	27.92	8.43	20.31	65.33	33.27	3.69				6.82	418.56	\$80	238.39	171.46
Total	233.7	13,882.13	108.27	5,643.41	2,232.12	6,515.58	1,112.45	2,199.54	23.58	1,850.38	1,857.99	162.06		35,587.5	\$152	18,597.9	12,537.5
% of total		39.0%	0.3%	15.9%	6.3%	18.3%	3.1%	6.2%	0.1%	5.2%	5.2%	0.5%		100.0%			

* Prizes do not include VLT prize paid; 1) Denotes VLT net machine income; 2) Denotes VLT gross handle

Fiscal year ends June 30 for all U.S. states, except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30)

U.S. LOTTERY STATISTICS (UNAUDITED)

The following four tables:

- U.S. Lotteries' Fiscal 1998 Sales By Game
- Fiscal 1998 U.S. Lottery Sales, Profit & Prize Expense

(Source: **The '99 World Lottery Almanac**)

- U.S. Lotteries' Fiscal 1999 Unaudited Sales By Game
- U.S. Lotteries' Unaudited FY99 Sales, Prizes & Profits

(Source: **La Fleur's Lottery World 1999 Fast Facts**)

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Fiscal 1998 U.S. Lottery Sales, Profit & Expense Analysis

Lottery	Pop. (Mil)	Col. '98 Personal Income*	(In \$millions)							PC Sales	PC Net Income	Total Revenue as % of Personal Income	Net Income as % of Personal Income	Prizes as % of Total Rev.	Exp. as % of Total Rev.	Net Income as % of Total Rev.
			Ticket Sales	Other Income	Total Revenue	Prizes	Agent Comm.	Expense	Net Income							
Arizona	4.7	108,167.0	250.71	0.82	251.53	133.69	16.23	25.15	76.47	\$54	\$16	0.233%	0.071%	53.2%	10.0%	30.4%
California	32.7	896,215.0	2,294.42	17.71	2,312.13	1,150.81	151.22	175.35	834.75	\$70	\$26	0.258%	0.093%	49.8%	7.6%	36.1%
Colorado	4.0	114,285.0	374.28	1.88	376.16	220.42	25.39	32.65	97.71	\$94	\$25	0.329%	0.085%	58.6%	8.7%	26.0%
Connecticut	3.3	119,092.0	805.61	1.68	807.29	474.37	43.24	31.57	258.11	\$246	\$79	0.678%	0.217%	58.8%	3.9%	32.0%
Delaware	0.7	22,123.0	447.20	0.19	447.39	62.41	170.29	50.19	164.51	\$601	\$221	2.022%	0.744%	13.9%	11.2%	36.8%
D.C.	0.5	19,442.0	226.43	3.78	230.21	110.51	12.15	26.15	81.40	\$433	\$156	1.184%	0.419%	48.0%	11.4%	35.4%
Florida	14.9	385,969.0	2,050.04	133.81	2,183.85	1,022.06	116.18	127.55	918.06	\$137	\$62	0.566%	0.238%	46.8%	5.8%	42.0%
Georgia	7.6	190,061.0	1,672.87	9.05	1,681.92	902.47	118.72	105.66	555.07	\$219	\$73	0.885%	0.292%	53.7%	6.3%	33.0%
Idaho	1.2	25,982.0	89.63	0.54	90.18	52.38	5.39	11.80	20.61	\$73	\$17	0.347%	0.079%	58.1%	13.1%	22.9%
Illinois	12.0	349,873.0	1,576.96	26.48	1,603.43	902.69	78.67	85.67	536.39	\$131	\$45	0.458%	0.153%	56.3%	5.3%	33.5%
Indiana	5.9	141,744.0	648.16	9.14	657.30	367.60	45.27	48.95	195.48	\$110	\$33	0.464%	0.138%	55.9%	7.4%	29.7%
Iowa	2.9	68,277.0	173.87	1.14	175.02	96.37	11.14	24.81	42.69	\$61	\$15	0.256%	0.063%	55.1%	14.2%	24.4%
Kansas	2.6	65,993.0	192.02	0.95	192.97	101.69	10.94	20.53	59.81	\$73	\$23	0.292%	0.091%	52.7%	10.6%	31.0%
Kentucky	3.9	84,241.0	584.99	25.13	610.12	350.08	35.04	44.40	180.61	\$149	\$46	0.724%	0.214%	57.4%	7.3%	29.6%
Louisiana	4.4	94,153.0	292.90	3.46	296.36	147.07	16.27	25.79	107.23	\$67	\$25	0.315%	0.114%	49.6%	8.7%	36.2%
Maine	1.2	28,654.0	148.89	4.03	152.92	85.02	10.24	15.81	41.84	\$120	\$34	0.534%	0.146%	55.6%	10.3%	27.4%
Maryland	5.1	154,358.0	1,072.63		1,072.63	571.14	60.20	41.44	399.85	\$209	\$78	0.695%	0.259%	53.2%	3.9%	37.3%
Massachusetts	6.1	202,095.0	3,207.24	18.08	3,225.32	2,205.07	181.66	63.72	774.88	\$522	\$126	1.596%	0.383%	68.4%	2.0%	24.0%
Michigan	9.8	256,462.0	1,637.59	150.87	1,788.46	892.67	114.58	71.98	709.23	\$167	\$72	0.697%	0.277%	49.9%	4.0%	39.7%
Minnesota	4.7	130,956.0	372.87	2.09	374.96	224.96	21.53	41.14	87.33	\$79	\$18	0.286%	0.067%	60.0%	11.0%	23.3%
Missouri	5.4	134,052.0	494.30	1.13	495.43	273.17	31.11	41.63	149.53	\$91	\$27	0.370%	0.112%	55.1%	8.4%	30.2%
Montana	0.9	17,985.0	29.78	0.34	30.11	15.24	1.73	6.45	6.69	\$34	\$8	0.167%	0.037%	50.6%	21.4%	22.2%
Nebraska	1.7	40,959.0	73.82	0.93	74.75	39.38	3.73	11.83	19.81	\$44	\$12	0.182%	0.048%	52.7%	15.8%	26.5%
N. Hampshire	1.2	34,238.0	183.77	3.04	186.80	105.99	9.88	13.43	57.51	\$155	\$49	0.546%	0.168%	56.7%	7.2%	30.8%
New Jersey	8.1	272,697.0	1,630.34	19.03	1,649.37	868.41	89.32	47.74	643.90	\$201	\$79	0.605%	0.236%	52.7%	2.9%	39.0%
New Mexico	1.7	34,732.0	84.88	0.52	85.39	42.79	5.86	16.63	20.11	\$49	\$12	0.246%	0.058%	50.1%	19.5%	23.6%
New York	18.2	580,113.0	3,943.10	10.92	3,954.01	1,993.97	236.85	194.33	1,528.85	\$217	\$84	0.682%	0.264%	50.4%	4.9%	38.7%
Ohio	11.2	283,012.0	2,195.80	56.17	2,251.97	1,244.72	137.85	86.34	783.07	\$196	\$70	0.796%	0.277%	55.3%	3.8%	34.8%
Oregon (2)	3.3	81,775.0	310.42	0.98	311.40	195.08	18.84	31.73	65.75	\$95	\$20	0.381%	0.080%	62.6%	10.2%	21.1%
Pennsylvania	12.0	323,155.0	1,668.41	16.50	1,684.91	822.68	83.82	63.77	714.63	\$139	\$60	0.521%	0.221%	48.8%	3.8%	42.4%
R. Island (2)	1.0	26,475.0	170.01	0.95	170.95	95.55	18.44	6.3	50.67	\$172	\$51	0.646%	0.191%	55.9%	3.7%	29.6%
S. Dakota (2)	0.7	16,170.0	26.90	0.56	27.46	15.58	1.50	5.62	4.76	\$36	\$6	0.170%	0.029%	56.7%	20.5%	17.3%
Texas	19.8	493,573.0	3,090.03	132.05	3,222.08	1,648.11	154.58	206.87	1,212.52	\$156	\$61	0.653%	0.246%	51.2%	6.4%	37.6%
Vermont	0.6	14,294.0	74.07	0.12	74.19	43.77	3.74	4.49	22.19	\$125	\$38	0.519%	0.155%	59.0%	6.1%	29.9%
Virginia	6.8	186,539.0	914.20	27.81	942.01	503.81	49.46	69.84	318.90	\$135	\$47	0.505%	0.171%	53.5%	7.4%	33.9%
Washington	5.7	159,375.0	454.70	29.70	484.40	279.73	28.03	31.99	144.65	\$80	\$25	0.304%	0.091%	57.7%	6.6%	29.9%
W. Virginia (2)	1.8	35,112.0	173.75	2.05	175.80	98.02	10.87	21.57	45.34	\$96	\$25	0.501%	0.129%	55.8%	12.3%	25.8%
Wisconsin	5.2	130,887.0	418.56	46.53	465.09	238.39	24.64	30.59	171.46	\$80	\$33	0.355%	0.131%	51.3%	6.6%	36.9%
Total	233.7	5,718,693	34,056.1	760.16	34,816.3	18,597.9	2,154.6	1,961.4	12,102.3	\$146	\$52	0.609%	0.212%	53.4%	5.6%	34.8%
VLTs (only)																
Oregon (3)	3.3	81,775.0	4,245.24	3.45	4,248.70	3,837.77	135.61	43.36	231.96	\$1,294	\$71	5.196%	0.284%	90.3%	1.0%	5.5%
R. Island (3)	1.0	26,475.0	464.07		464.07	331.88	67.86	00.00	64.33	\$469	\$65	1.753%	0.243%	71.5%	0.0%	13.9%
S. Dakota (3)	0.7	16,170.0	528.37	1.14	529.51	343.08	92.64	0.99	92.81	\$716	\$126	3.275%	0.574%	64.8%	0.2%	17.5%
W. Virginia (3)	1.8	35,112.0	1,577.37	0.00	1,577.37	1,446.01	85.35	0.00	46.00	\$871	\$25	4.492%	0.131%	91.7%	0.0%	2.9%
Total	6.8	159,532.0	6,815.05	4.59	6,819.64	5,958.74	381.46	44.34	435.10	\$999	\$64	4.275%	0.273%	87.4%	0.7%	6.4%
Total	233.7	5,718,693.0	40,871.19	764.75	41,635.91	24,556.61	2,536.06	2,005.79	12,537.45	\$175	\$54	0.728%	0.219%	59.0%	4.8%	30.1%

1) Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30).

2) Data represents only revenue from traditional lottery games and not video lottery terminal (VLT) operations

3) Data represents only revenue from video lottery terminal (VLT) operations

* Source: U.S. Department of Commerce, Bureau of Economic Analysis, January 1999

U.S. LOTTERIES' FISCAL 1999 UNAUDITED SALES BY GAME

(in \$millions)

	Pop.	Instant	Pull Tab	3-D	4-D	Lotto	Cash Lotto	Cash 4Life	Power Ball	Keno	VLT	Other	Total Sales	PC Sales
Arizona	4.7	109.4		7.5		48.7	9.0		95.7				268.3	\$57
California	32.7	982.2		79.7		1036.6	160.6			256.0		9.9	2,525.1	\$77
Colorado	4.0	233.9				119.7	12.1					2.7	368.4	\$93
Connecticut	3.3	474.0		113.5	59.3	51.3	48.4		124.6				871.0	\$266
Delaware (2)	0.7	20.1		30.4	14.7		10.6				377.7	0.8	527.4	\$709
D.C. (1)	0.5	29.0		73.0	60.0	5.0	2.0	1.0	35.0				205.0	\$392
Florida	14.9	675.3		339.3	169.4	737.9	241.8					14.9	2,178.6	\$146
Georgia	7.6	796.2		671.5	106.2	316.2	84.7			59.4			2,034.3	\$266
Idaho	1.2	56.4	1.5			3.2	2.1		27.3				90.5	\$74
Illinois	12.0	568.6		335.3	144.5	362.2	113.8						1,524.4	\$127
Indiana	5.9	347.8	0.6	29.5	27.7	103.8	9.8	5.7	156.5				681.4	\$116
Iowa	2.9	91.0	28.6	3.8			4.8	4.2	51.8				184.1	\$64
Kansas	2.6	88.8	1.3	4.9			18.7	4.6	50.5	34.0			202.8	\$77
Kentucky	3.9	242.4	32.9	108.3	23.1	33.6	23.8		111.7				575.7	\$146
Louisiana	4.4	109.7		45.1	5.0	30.1	9.6		96.8				296.2	\$68
Maine	1.2	106.5		5.0	3.6	24.7	4.7						144.5	\$116
Maryland	5.1	177.3		316.5	179.7	100.6	29.7		280.4				1,084.1	\$211
Massachusetts	6.1	2,161.2	3.9		376.7	224.2	53.7			538.3		23.6	3,381.6	\$550
Michigan (1)	9.8	642.7		431.8	299.1	360.3	29.0			11.7			1,774.5	\$181
Minnesota	4.7	265.5		13.0			19.3	6.4	85.8				390.0	\$83
Missouri	5.4	248.5	29.2	45.6	8.8	25.0	23.5		132.7				513.3	\$94
Montana	0.9	7.3				2.7	4.4	1.0	14.6				30.0	\$34
Nebraska	1.7	35.1				0.3	4.8	2.2	30.0				72.4	\$44
N. Hampshire	1.2	119.9		9.3		14.1	4.5	2.3	48.8				199.0	\$168
New Jersey	8.1	528.3		445.8	243.5	294.4	101.9					44.2	1,658.2	\$204
New Mexico	1.7	46.5				1.9	5.0		35.8				89.2	\$51
New York	18.2	911.5		701.1	441.7	749.2	360.9		533.2				3,697.6	\$203
Ohio	11.2	1,128.9		399.4	125.1	364.4	69.9					57.2	2,144.9	\$191
Oregon (2)	3.3	132.7	4.5			41.7	1.8		43.3	92.2	402.6	9.7	728.5	\$222
Pennsylvania	12.0	448.5		525.1	241.9	243.6	209.6						1,668.7	\$139
R. Island (3)	1.0	51.4	0.2		28.2		5.9		52.6	57.6	545.5		741.4	\$750
S. Dakota (3)	0.7	13.2				1.0	1.9	0.7	9.1		528.8		554.6	\$751
Texas (1)	19.8	1,400.0		185.0		720.0	193.0					82.0	2,580.0	\$131
Vermont	0.6	57.1		1.3	1.0	8.8	2.2						70.4	\$119
Virginia	6.8	337.7		239.7	115.8	200.9	32.1					8.3	934.5	\$138
Washington	5.7	236.6		18.0		140.0	44.1	24.2		10.5			473.4	\$83
W. Virginia (2)	1.8	79.2		11.2	5.1		6.6	1.9	81.8	16.3	190.6		392.6	\$217
Wisconsin	5.2	224.9	5.9	27.3	8.5	21.3	31.7	7.0	101.6				428.2	\$82
FY99 Total	233.7	14,185.4	108.7	5,216.8	2,688.5	6,387.5	1,991.5	61.2	1,457.0	1,889.8	2,045.1	253.4	36,285.0	\$155
FY98 Total	231.5	14,056.4	108.2	5,203.4	2,665.9	6,531.0	2,116.8	23.6	1,112.5	1,854.2	1,857.6	263.9	35,793.7	\$154
% Increase		1%	0%	0%	1%	-2%	-6%	159%	31%	2%	10%	-4%		1%

1) Estimated FY99 sales; 2) Represents VLT net machine income; 3) Represents VLT cash in

Note: All lotteries' sales end June 30 except New York (March 31), Texas (August 31), D. C. and Michigan (September 30)

U.S. LOTTERIES' UNAUDITED FY99 SALES, PRIZES & PROFITS

Lottery	Pop. (M)	FY Ends	Total Sales (\$M)	PC Sales	Total Prizes (\$M)	Gov't Profits (\$M)	PC Gov't	Prize Payout	Gov't Return
Arizona	4.6	6/30	268.27	\$59	144.01	70.77	\$16	54%	26%
California	32.3	6/30	2,525.06	\$78	1,311.60	900.83	\$28	52%	36%
Colorado	3.9	6/30	368.40	\$95	224.94	84.68	\$22	61%	23%
Connecticut	3.3	6/30	871.00	\$266	517.67	271.31	\$83	59%	31%
Delaware (2)	0.7	6/30	527.44	\$721	168.00	78.49	\$107	32%	15%
D.C. (1)	0.5	9/30	205.00	\$388	100.00	65.00	\$123	49%	32%
Florida	14.7	6/30	2,178.59	\$149	1,089.30	827.86	\$56	50%	38%
Georgia	7.5	6/30	2,034.31	\$272	1,059.59	646.71	\$86	52%	32%
Idaho	1.2	6/30	90.45	\$75	52.32	20.60	\$17	58%	23%
Illinois	11.9	6/30	1,524.44	\$128	807.71	540.01	\$45	53%	35%
Indiana	5.9	6/30	681.43	\$116	383.58	204.65	\$35	56%	30%
Iowa	2.9	6/30	184.07	\$65	101.98	45.83	\$16	55%	25%
Kansas	2.6	6/30	202.79	\$78	107.06	60.97	\$23	53%	30%
Kentucky	3.9	6/30	575.70	\$147	340.67	159.59	\$41	59%	28%
Louisiana	4.4	6/30	296.23	\$68	148.94	105.66	\$24	50%	36%
Maine	1.2	6/30	144.54	\$116	80.62	41.37	\$33	56%	29%
Maryland	5.1	6/30	1,084.06	\$213	581.65	401.72	\$79	54%	37%
Massachusetts	6.1	6/30	3,381.62	\$553	2,315.95	809.14	\$132	68%	24%
Michigan (1)	9.8	9/30	1,774.53	\$182	973.47	623.38	\$64	55%	35%
Minnesota	4.7	6/30	390.01	\$83	234.83	85.39	\$18	60%	22%
Missouri	5.4	6/30	513.33	\$95	282.33	159.13	\$29	55%	31%
Montana	0.9	6/30	29.99	\$34	15.05	6.78	\$8	50%	23%
Nebraska	1.7	6/30	72.36	\$44	55.40	17.50	\$11	77%	24%
N. Hampshire	1.2	6/30	199.03	\$170	113.10	64.15	\$55	57%	32%
New Jersey	8.1	6/30	1,658.20	\$206	949.14	643.41	\$80	57%	39%
New Mexico	1.7	6/30	89.23	\$52	42.79	19.62	\$11	48%	22%
New York	18.1	3/31	3,697.63	\$204	1,871.97	1,413.33	\$78	51%	38%
Ohio	11.2	6/30	2,144.93	\$192	1,250.00	696.30	\$62	58%	32%
Oregon (3)	3.2	6/30	1,277.90	\$394	756.00	310.76	\$96	60%	24%
Pennsylvania	12.0	6/30	1,649.28	\$137	851.04	648.98	\$54	52%	39%
R. Island (3)	1.0	6/30	741.38	\$751	503.51	133.50	\$135	68%	18%
S. Dakota (3)	0.7	6/30	554.64	\$752	359.76	96.85	\$131	65%	17%
Texas (1)	19.4	8/31	2,580.00	\$133	1,332.00	903.00	\$46	52%	35%
Vermont	0.6	6/30	70.39	\$120	43.50	19.05	\$32	62%	27%
Virginia	6.7	6/30	934.52	\$139	506.90	321.87	\$48	54%	34%
Washington	5.6	6/30	473.40	\$84	295.36	120.53	\$21	62%	25%
W. Virginia (2)	1.8	6/30	943.64	\$520	664.32	119.25	\$66	70%	13%
Wisconsin	5.2	6/30	428.20	\$83	237.20	190.99	\$37	55%	45%
Total	231.5		37,365.99	\$161	20,873.29	11,928.95	\$52	56%	32%

1) Estimated fiscal 1999 sales; 2) Does not include VLT prizes;

3) Includes cash in VLT sales and cash out (prizes)