

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

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

June 23, 1999



***Financial and Compliance Audit Division***

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

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

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

**Financial Statements and  
Independent Auditor's Reports  
As of and for the Year Ended December 31, 1998  
With Required Supplementary Information**

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

June 23, 1999

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

Financial Statements and  
Independent Auditor's Reports  
As of and for the Year Ended December 31, 1998  
With Required Supplementary Information

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OFFICE OF  
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STATE OF LOUISIANA  
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June 4, 1999

Independent Auditor's Report  
on the Financial Statements

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

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Optional Savings Plan as of December 31, 1998, and the related statement of changes in net assets available for benefits for the year then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Lottery Corporation Optional Savings Plan as of December 31, 1998, and the changes in net assets available for benefits for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 4, 1999, on our consideration of the Louisiana Lottery Corporation Optional Savings Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

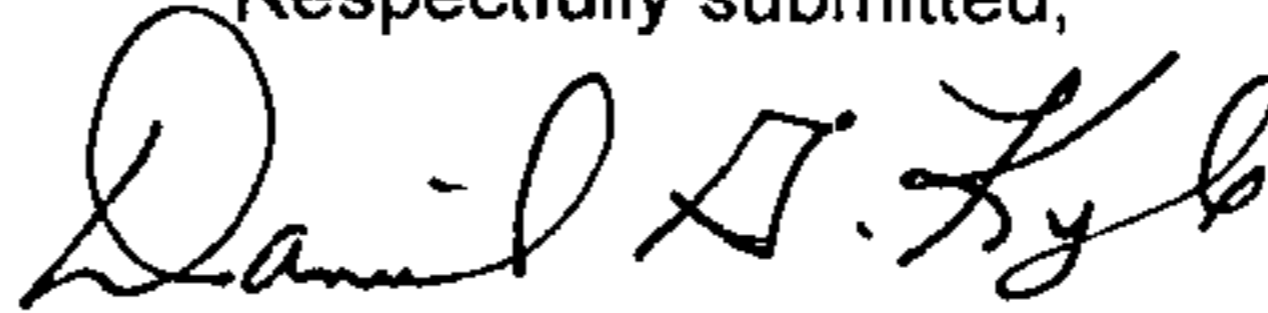
The Year 2000 supplementary information on page 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the

LEGISLATIVE AUDITOR

**BOARD OF DIRECTORS  
LOUISIANA LOTTERY CORPORATION  
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supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurances that the Louisiana Lottery Corporation Optional Savings Plan is or will become Year 2000 compliant, that the Louisiana Lottery Corporation Optional Savings Plan's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Louisiana Lottery Corporation Optional Savings Plan does business are or will become Year 2000 compliant.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE  
Legislative Auditor

MMG:THC:RCL:ss

{LOTOSP}

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

**Statement of Net Assets Available for Benefits  
For the Year Ended December 31, 1998**

	MONEY MARKET FUND	MAS FIXED-INCOME PORTFOLIO	VANGUARD WELLINGTON	DREYFUS INSTITUTIONAL STANDARD & POOR'S 500 STOCK INDEX
<b>ASSETS</b>				
Investments (note 3)	\$50,667	\$69,361	\$336,754	\$956,002
Receivables:				
Employee contributions receivable	138	657	1,404	3,388
Employer contributions receivable	98	210	858	1,837
<b>TOTAL ASSETS</b>	<b>50,903</b>	<b>70,228</b>	<b>339,016</b>	<b>961,227</b>
<b>LIABILITIES</b>	<b>NONE</b>	<b>NONE</b>	<b>NONE</b>	<b>NONE</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$50,903</b>	<b>\$70,228</b>	<b>\$339,016</b>	<b>\$961,227</b>

The accompanying notes are an integral part of this statement.

Statement A

VANGUARD U.S. GROWTH PORTFOLIO	MAS VALUE PORTFOLIO	FRANKLIN SMALL CAP GROWTH FUND	FRANKLIN BALANCED SHEET INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
\$92,283	\$72,184	\$87,960	\$17,102	\$30,445	\$1,712,758
1,699	1,755	1,725	578	665	12,009
1,117	1,089	810	294	327	6,640
95,099	75,028	90,495	17,974	31,437	1,731,407
NONE	NONE	NONE	NONE	NONE	NONE
<u>\$95,099</u>	<u>\$75,028</u>	<u>\$90,495</u>	<u>\$17,974</u>	<u>\$31,437</u>	<u>\$1,731,407</u>



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

**Statement of Changes in Net Assets Available for Benefits  
For the Year Ended December 31, 1998**

	<u>MONEY MARKET FUND</u>	<u>MAS FIXED-INCOME PORTFOLIO</u>	<u>VANGUARD WELLINGTON</u>	<u>DREYFUS INSTITUTIONAL STANDARD &amp; POOR'S 500 STOCK INDEX</u>
<b>ADDITIONS TO ASSETS</b>				
Investment income	\$2,505	\$3,772	\$35,554	\$208,816
Contributions:				
Participant	2,081	4,929	21,648	48,999
Employer	1,544	2,421	10,900	25,774
Total additions	<u>6,130</u>	<u>11,122</u>	<u>68,102</u>	<u>283,589</u>
<b>DEDUCTIONS FROM ASSETS</b>				
Benefits paid to participants	<u>(468)</u>	<u>(7,407)</u>	<u>(35,246)</u>	<u>(60,020)</u>
Increase in net assets before interfund transfers	5,662	3,715	32,856	223,569
Interfund transfers, net	<u>(408)</u>	<u>14,446</u>	<u>1,354</u>	<u>(16,033)</u>
Increase in assets	5,254	18,161	34,210	207,536
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	<u>45,649</u>	<u>52,067</u>	<u>304,806</u>	<u>753,691</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<u><u>\$50,903</u></u>	<u><u>\$70,228</u></u>	<u><u>\$339,016</u></u>	<u><u>\$961,227</u></u>

The accompanying notes are an integral part of this statement.

Statement B

VANGUARD U.S. GROWTH PORTFOLIO	MAS VALUE PORTFOLIO	FRANKLIN SMALL CAP GROWTH FUND	FRANKLIN BALANCED SHEET INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
\$20,004	(\$2,226)	\$2,690	(\$639)	(\$1,057)	\$269,419
26,732	33,101	22,410	10,329	14,109	184,338
15,631	16,765	10,691	4,737	5,223	93,686
<u>62,367</u>	<u>47,640</u>	<u>35,791</u>	<u>14,427</u>	<u>18,275</u>	<u>547,443</u>
<u>(4,825)</u>	<u>(4,793)</u>	<u>(8,333)</u>	<u>(1,470)</u>	<u>(2,130)</u>	<u>(124,692)</u>
57,542	42,847	27,458	12,957	16,145	422,751
6,874	(6,085)	(620)	(4,755)	5,227	NONE
<u>64,416</u>	<u>36,762</u>	<u>26,838</u>	<u>8,202</u>	<u>21,372</u>	<u>422,751</u>
30,683	38,266	63,657	9,772	10,065	1,308,656
<u>\$95,099</u>	<u>\$75,028</u>	<u>\$90,495</u>	<u>\$17,974</u>	<u>\$31,437</u>	<u>\$1,731,407</u>

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

Notes to the Financial Statements  
As of and for the Year Ended December 31, 1998

**INTRODUCTION**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

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

**B. REPORTING ENTITY**

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

**C. BASIS OF ACCOUNTING**

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements. The financial statements of the Corporation's Optional Savings Plan are accounted for using the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when incurred. The Plan uses the following practices in recognizing revenues and expenses:

**Contributions**

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

## LEGISLATIVE AUDITOR

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

### **Investment Income**

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

### **Plan Expenses**

Fees related to the administration of the Plan are paid by the Louisiana Lottery Corporation. Investment management fees are netted daily from investment income and, therefore, are not a liability of the Plan at December 31, 1998.

## **D. VALUATION OF INVESTMENTS**

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

## **2. DESCRIPTION OF THE PLAN**

The Optional Savings Plan is a voluntary Deferred Compensation Plan adopted under the provisions of Internal Revenue Code (IRC) Section 457. Under the terms of the Plan, an employee is eligible to participate in the Plan as of the entry date that coincides with or immediately follows the date on which the employee completes a 90-day employment period. For the 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 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.

**LEGISLATIVE AUDITOR**

**LOUISIANA LOTTERY CORPORATION  
OPTIONAL SAVINGS PLAN  
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 December 31, 1998, there were 120 participants in the Optional Savings Plan.

**3. INVESTMENTS**

Pan American Life Insurance Company (PALIC) provides administrative and investment services for the Plan. Investments in mutual funds are held in separate accounts established through a group annuity contract with PALIC.

Participants in the Plan can allocate the investment of employer and employee contributions in whole percentages to any combination of funds reflected below and on Statement A. The investment allocations for current balances and future contributions can be changed on a daily basis.

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

At December 31, 1998, investments are composed of the following:

	<u>Number of Units</u>	<u>Fair Value</u>
Money Market Fund	18,684	\$50,667
MAS Fixed-Income Portfolio	5,082	69,361
Vanguard Wellington	9,467	336,754 (1)
Dreyfus Institutional Standard & Poor's 500 Stock Index	35,741	956,002 (1)
Vanguard U.S. Growth Portfolio	2,216	92,283 (1)
MAS Value Portfolio	3,733	72,184
Franklin Small Capital Growth Fund	3,672	87,960 (1)
Franklin Balanced Sheet Investment	481	17,102
Templeton Foreign Fund	2,902	30,445
Total		<u>\$1,712,758</u>

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

LEGISLATIVE AUDITOR

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

**4. INVESTMENT MANAGEMENT FEES**

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

<u>Fund</u>	<u>Fee</u>
Money Market Fund	None
MAS Fixed-Income Portfolio	0.25%
Vanguard Wellington	0.50%
Dreyfus Institutional Standard & Poor's 500 Stock Index	0.50%
Vanguard U.S. Growth Portfolio	0.50%
MAS Value Portfolio	0.25%
Franklin Small Capital Growth Fund	0.10%
Franklin Balanced Sheet Investment	None
Templeton Foreign Fund	0.10%

During the year ended December 31, 1998, investment management fees of \$6,390 were incurred.

**5. INCOME TAX STATUS**

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

**6. TERMINATION**

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

**7. LITIGATION**

There is no pending litigation against the Plan at December 31, 1998.

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

The following page contains 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  
OPTIONAL SAVINGS PLAN  
STATE OF LOUISIANA  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended December 31, 1998**

**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 Optional Savings Plan (Plan) as early as 1999.

External organizations are used for payroll and Plan services as follows:

**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 validation 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.

**Pan American Life Insurance Company (PALIC)**

PALIC provides retirement plan administrative and investment services for the Plan. PALIC representatives contend that the inventory, assessment, and remediation stages for system hardware and software have been completed. System validation and testing is currently in progress and is expected to be completed in June 1999. At that time, PALIC expects that all systems will be fully Year 2000 compliant.

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. Louisiana Lottery Corporation 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 report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



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

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

June 4, 1999

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

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

We have audited the financial statements of the Louisiana Lottery Corporation Optional Savings Plan as of and for the year ended December 31, 1998, and have issued our report thereon dated June 4, 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 financial statements of the Louisiana Lottery Corporation Optional Savings Plan are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Louisiana Lottery Corporation Optional Savings Plan's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

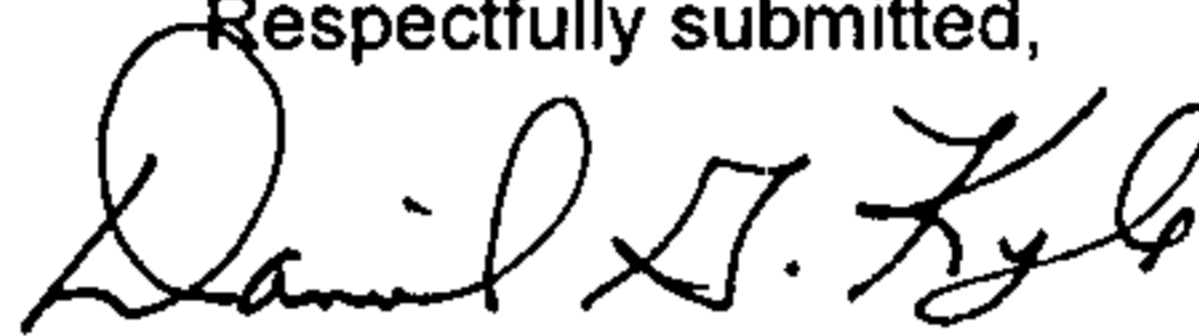
**EXHIBIT A**

LEGISLATIVE AUDITOR

BOARD OF DIRECTORS  
LOUISIANA LOTTERY CORPORATION  
OPTIONAL SAVINGS PLAN  
STATE OF LOUISIANA  
Compliance and Internal Control Report  
June 4, 1999  
Page 2

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

MMG:THC:RCL:ss

[LOTOSP]

EXHIBIT A