

**LOUISIANA  
LOTTERY  
CORPORATION**

**LOUISIANA LOTTERY CORPORATION  
A COMPONENT UNIT OF THE STATE OF LOUISIANA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

**LOUISIANA LOTTERY CORPORATION**  
**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

**PREPARED BY ACCOUNTING DEPARTMENT**

**KAREN B. FOURNET**

**SENIOR VICE PRESIDENT**

**SECRETARY TREASURER**

This document was produced by the Louisiana Lottery Corporation, 555 Laurel Street, Baton Rouge, Louisiana 70801. Twenty-five copies of this public document were produced at an approximate cost of \$60.

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COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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August 30, 2005

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 years ended June 30, 2005 and 2004. 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 section includes this letter of transmittal and an organizational chart. The financial section includes the independent auditor's report, management's discussion and analysis, and the audited financial statements with accompanying notes. Historical, demographic, and industry comparative data are presented in the statistical section of this report. A report on compliance and internal control is included in the last section.

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 14 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 are presented in the financial and statistical sections of this report.

## **FINANCIAL CONDITION AND ACCOMPLISHMENTS**

The Corporation's financial condition continues to be strong and stable. At June 30, 2005 net assets were \$23.8 million. The current ratio, a cash flow measure of an entity's ability to satisfy current liabilities, stands at a solid 1.06 at the end of the fiscal year. Financial results exceeded budgeted levels for revenue, net income, and transfers to the state treasury. The transfer to the state included a \$2.4 million surplus remittance and was 4.6% higher than budget. An analysis of comparative financial information is included in *Management's Discussion and Analysis* beginning on page 11. Other accomplishments in fiscal year 2005 included the following:

- Successfully transitioned to a new instant game ticket printing vendor
- Substantially completed the redesign of the Corporation's Web site that will enhance communications with players and retailers

## **GOVERNMENT FINANCE OFFICERS ASSOCIATION CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting (see page 8) to the Louisiana Lottery Corporation for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the seventh consecutive year that the Lottery has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **ORGANIZATIONAL 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 the following:

- 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 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, directors' and officers' liability, and retirement plan fiduciary 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 net assets for a litigation and prize reserve to cover unanticipated losses.

## **ECONOMIC CONDITION AND OUTLOOK**

The growth of the United States and global economies slowed but continued on the recovery trend that began in 2003. The pace of corporate profit gains decreased but remained fairly stable because of sustained consumer confidence, consumer and business spending, and productivity gains. This growth has occurred despite of the large increases in fuel costs for businesses and consumers. Interest rates and consumer-price inflation remained low.

In an effort to contain inflation during the economic expansion, the Federal Reserve raised the target short-term interest rate nine times in fiscal year 2005. However, this rate was at historically low levels during the entire year. In addition, intermediate and long-term interest rates remained low.

The changes in the economy could cause changes in personal disposable incomes and spending patterns. These conditions could impact Lottery sales.

Competitor trends 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. In addition, the recent increases in oil and gasoline prices may create some positive economic changes for those industries in Louisiana but has probably negatively impacted lottery ticket sales, and may continue to pressure sales because higher fuel prices reduce consumers' discretionary funds at the point of sale for lottery products.

## **MAJOR INITIATIVES**

Management has developed the Corporation's objectives and goals for the 2006 fiscal year. Several of the major initiatives are as follows:

- Exceed budgeted levels for revenue, net income, and transfers to the state treasury.
- Implement enhancements to the Powerball on-line game as approved by the Multi-State Lottery Association.
- Develop and implement new instant ticket strategies, market research plans, and an enhanced inventory management and distribution system with our instant ticket printing vendor.

## **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, 2005, and June 30, 2004, is included in the financial section of this report.

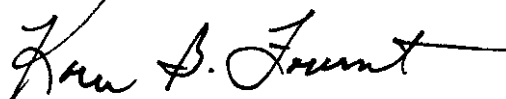
## **ACKNOWLEDGMENTS**

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,

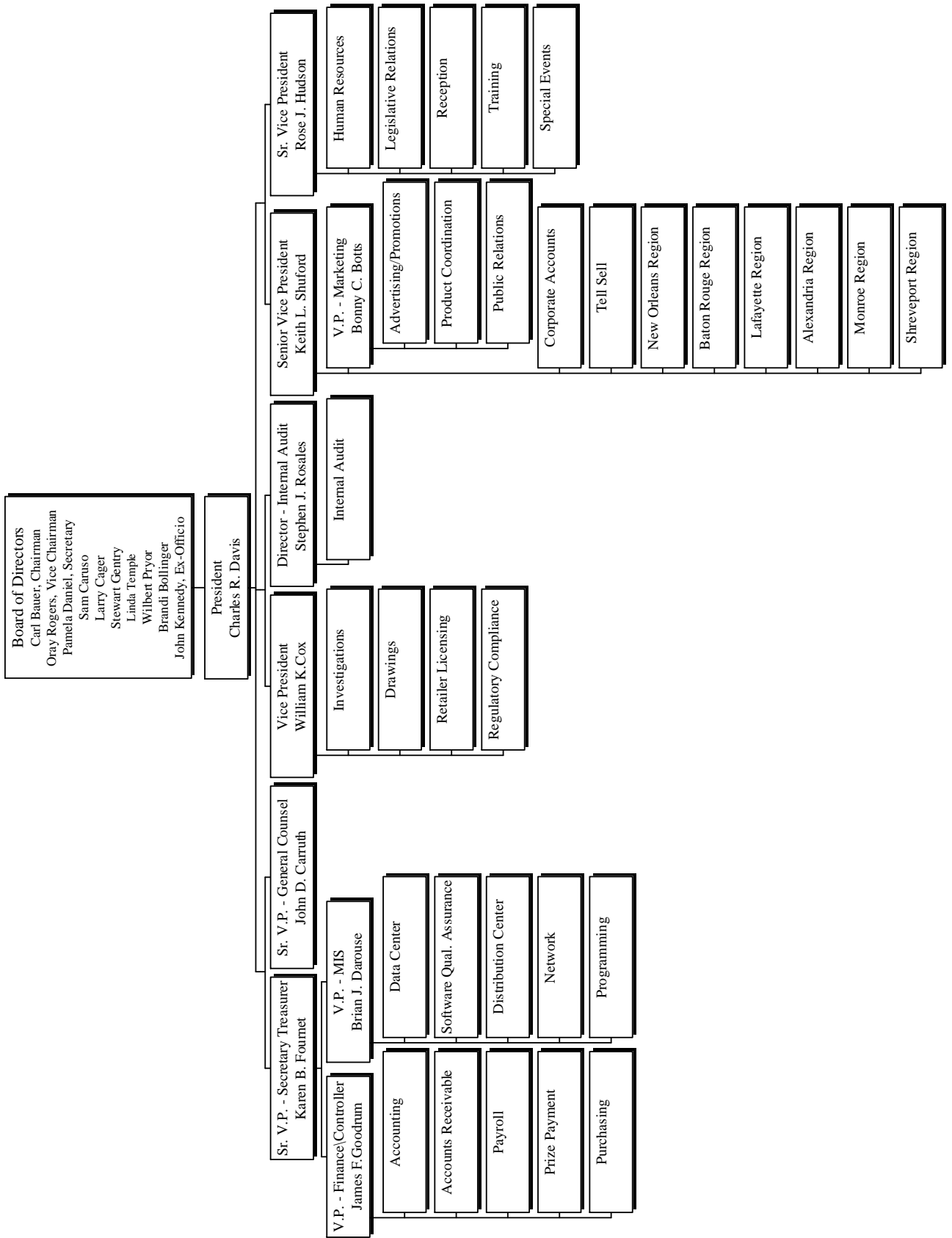
LOUISIANA LOTTERY CORPORATION

A handwritten signature in black ink, reading "Karen B. Fournet". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Karen B. Fournet  
Senior Vice President and Secretary Treasurer

# LOUISIANA LOTTERY CORPORATION

## Organizational Chart with Principal Officials



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Louisiana Lottery Corporation

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Zielle*

President

*Jeffrey R. Emon*

Executive Director

## **FINANCIAL SECTION**



STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

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

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August 15, 2005

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 basic financial statements of the Louisiana Lottery Corporation, a component unit of the State of Louisiana, as of and for the years ended June 30, 2005, and June 30, 2004, as listed in the 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Lottery Corporation as of June 30, 2005, and June 30, 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005, on our consideration of the Louisiana Lottery Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 11 through 19 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisiana Lottery Corporation's basic financial statements. The accompanying supplemental information schedules, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplemental information schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

RR:WDD:THC:dl

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

**Management's Discussion and Analysis  
For the Years Ended June 30, 2005 and June 30, 2004**

This discussion of the Louisiana Lottery Corporation's financial statements provides an overview and analysis of the Corporation's financial results and position for the fiscal years ended June 30, 2005, and June 30, 2004. Please read it in conjunction with the financial statements and notes to the financial statements.

Our annual report consists of three types of financial statements and accompanying notes that provide narrative explanations and additional details of accounting policies, account balances and activities. Account balances and activities are shown as of and for the fiscal year ended June 30, 2005, with comparative totals for June 30, 2004. The statement of net assets; the statement of revenues, expenses, and changes in fund net assets; and the notes are presented using the accrual method of accounting. Under this method, financial transactions are recorded when earned or incurred regardless of when cash is received or disbursed. The statement of cash flows reflects cash receipts and disbursements during the fiscal year.

The statement of net assets on page 20 includes all assets, liabilities, and net assets of the Corporation. Assets consist of money held in investments and bank accounts, amounts owed to the Corporation from licensed lottery retailers and other outside parties, inventory, property, and other financial resources. Liabilities represent amounts owed to vendors, employees for wages and benefits, prize winners and the state treasury. Assets and liabilities are classified as either current or noncurrent. A current classification indicates that an asset or liability is expected to be received or paid, respectively, within the subsequent one-year period while a noncurrent classification indicates a period of greater than one year. Net assets represent the portion of assets that are not encumbered by liabilities. It serves as an indicator of the net worth of the Corporation.

A summary of the financial results of operations for the reported twelve-month period is presented in the statement of revenues, expenses, and changes in fund net assets on pages 21 and 22. The categories of activities included on this statement provide reasons for increases or decreases in net assets. Operating revenues include sales of lottery tickets and other fees associated with the Corporation's network of retailers and operations. Direct costs and administrative expenses comprise the operating expenses section of this report. Direct costs are variable expenses that fluctuate with the level of sales. Marketing and overhead costs are included in the administrative expenses category. Nonoperating revenues and expenses consist of interest and market value gains or losses from investments, any recognized gain or loss from the disposal of capital assets, and the accrued required and surplus remittances to the state as explained in note 16 to the financial statements on page 40.

The statement of cash flows on pages 23 and 24 includes cash receipts and disbursements from operating, noncapital financing, capital financing, and investing activities. This statement also consists of a reconciliation of operating income presented on the accrual basis of accounting to net cash provided by operating activities.

The notes to the financial statements that begin on page 25 present information on accounting policies, cash, investments, accounts receivable, prepaid expenses, capital assets, deposits, prizes payable, vacation and sick leave, changes in noncurrent liabilities, retirement benefits, litigation, risk management, lease and rental commitments, net assets, payments to the state treasury, and the board of directors. These notes are an integral part of the financial statements.

These statements and notes provide information that is necessary to evaluate the Corporation's financial performance and condition. Each fiscal year's performance affects the end of year financial position. To assist readers with this evaluation, a condensed comparison of financial results between the current year ended June 30, 2005, and the prior years ended June 30, 2004, and June 30, 2003, is presented below followed by further analysis of changes in key performance indicators.

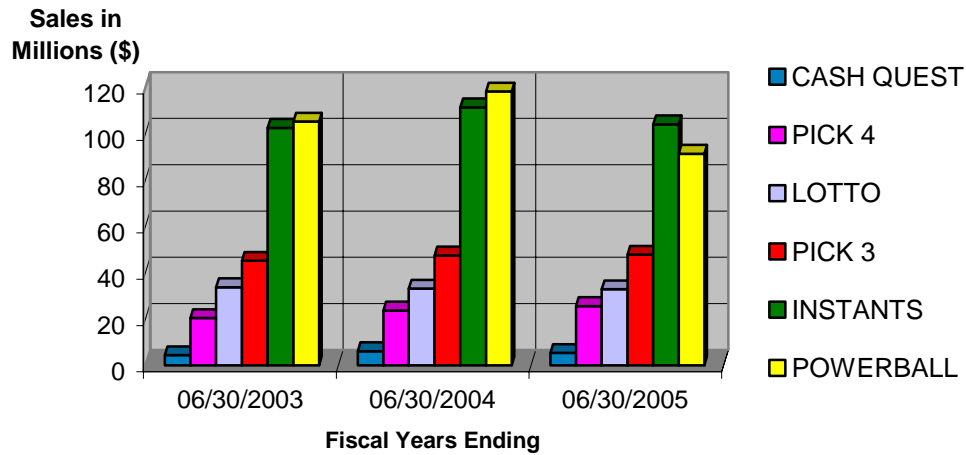
	As of and for the Year Ended June 30, 2005	As of and for the Year Ended June 30, 2004	As of and for the Year Ended June 30, 2003
<b>Operating revenues</b>			
Instant ticket sales	\$104,102,165	\$111,430,717	\$102,548,975
On-line sales	202,904,426	228,661,508	208,907,156
Allowance for uncollectible accounts	(60,832)	(74,046)	(39,659)
Other operating revenues	<u>16,269</u>	<u>100,259</u>	<u>108,569</u>
<b>Total operating revenues</b>	<u>306,962,028</u>	<u>340,118,438</u>	<u>311,525,041</u>
<b>Nonoperating revenues</b>	<u>1,514,634</u>	<u>370,105</u>	<u>2,263,456</u>
<b>Total revenues</b>	<u>308,476,662</u>	<u>340,488,543</u>	<u>313,788,497</u>
<b>Operating expenses</b>			
Direct costs:			
Prize expense	153,257,203	169,776,455	155,908,816
Retailer commission and incentives	16,859,899	18,664,893	17,072,192
Other direct costs	<u>11,775,524</u>	<u>12,842,890</u>	<u>11,992,751</u>
Total direct costs	181,892,626	201,284,238	184,973,759
Administrative expenses	<u>17,662,611</u>	<u>17,609,168</u>	<u>17,769,718</u>
<b>Total operating expenses</b>	<u>199,555,237</u>	<u>218,893,406</u>	<u>202,743,477</u>
<b>Payments to state treasury</b>	<u>110,391,785</u>	<u>121,196,935</u>	<u>110,840,420</u>
<b>Total expenses</b>	<u>309,947,022</u>	<u>340,090,341</u>	<u>313,583,897</u>
<b>Changes in net assets</b>	<u>(\$1,470,360)</u>	<u>\$398,202</u>	<u>\$204,600</u>

Operating revenues decreased but the Corporation transferred over \$110 million to the state treasury for the fourth consecutive year. Operating and nonoperating results were positive. Net income before surplus transfers exceeded \$900,000. Net assets decreased because of a \$2.4 million surplus payment to the state. For

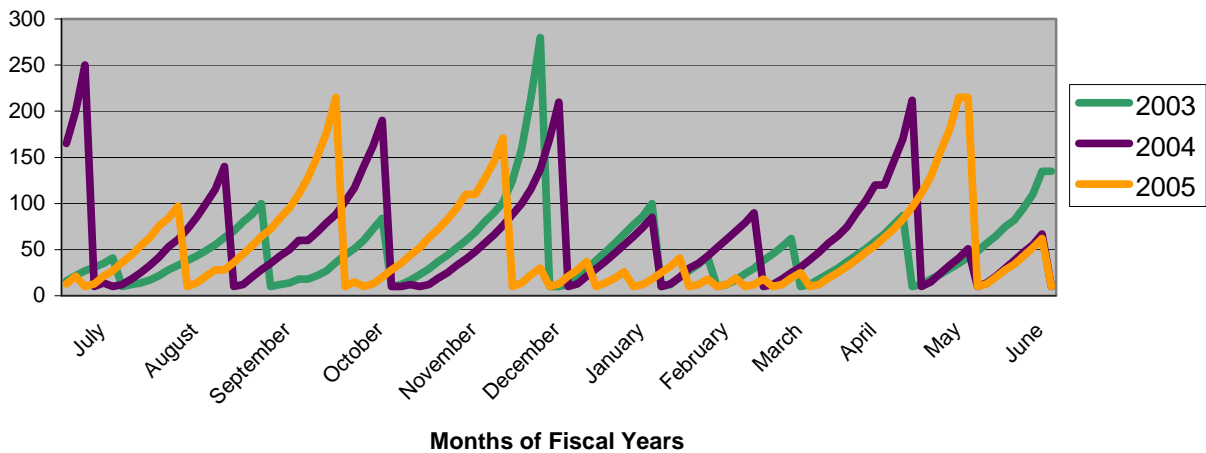
the second straight year, the Corporation has remitted at least \$2 million in surplus funds. The reasons for the activity in each component outlined below provide the rationale for these results of operations.

**Operating revenues**

The charts presented below reflect sales levels for each of the six lottery games offered during the three fiscal years and Powerball jackpot levels experienced during those time periods. The purpose of these presentations is to emphasize the correlation between Powerball jackpots and the level of sales for that on-line game and the other lottery games. Discussions of changes in operating revenues follow these charts.



**Powerball Jackpots in Millions (\$)**



**For the year ended June 30, 2005**

Operating revenues of over \$306.9 million were \$33.16 million lower than prior year amounts but remained over \$300 million for the fourth straight year. Instant ticket sales were \$7.3 million lower than 2004 levels and \$1.6 million higher than 2003 sales. The decrease in 2005 may have been related to higher gasoline

prices, which reduces consumers' discretionary funds at the point of sale, and a reduction in store traffic at lottery retailer locations because of a decrease in Powerball on-line sales. Powerball sales decreased by \$27 million because of lower jackpot levels over the course of the fiscal year as compared to previous years. As presented in the previous chart, the Powerball jackpot exceeded \$100 million once and \$200 million twice during the 2005 fiscal year while it surpassed \$100 million two times and \$200 million three times in the 2004 fiscal year. In addition, from the period of December 2004 through March 2005, jackpot prizes were won more frequently than normal, which kept the announced jackpots below \$50 million. The level of play for this game is greatly affected by the amount of the jackpot prize. The other on-line games do not appear to be significantly affected by Powerball jackpots. Pick 3 and Pick 4 sales were at their highest levels since the games were introduced in fiscal years 1993 and 1999, respectively. Sales for the Lotto game remained fairly stable. Cash Quest sales decreased but were at their second-highest level in five years.

#### For the year ended June 30, 2004

Operating revenues of over \$340.1 million were \$28.6 million higher than prior year amounts and represented the highest revenue generated since fiscal year 1994. On-line and instant ticket sales increased by \$19.8 and \$8.9 million, respectively. Powerball on-line sales of \$118.3 million were at the highest level since the introduction of this multi-state game in Louisiana. Several large jackpots during fiscal year 2004 contributed to the record sales for this game. Pick 3, Pick 4, and Cash Quest all increased while sales for the Lotto game decreased slightly. The increase in instant sales was caused by improvements in inventory management and prize structure distribution and increased store traffic at lottery retailer locations because of the increase in Powerball sales.

Historical sales data for all games are presented in the statistical section of this report.

#### **Nonoperating revenues**

Earnings on investments increased by \$1.15 million in fiscal year 2005 and decreased by \$1.9 million in fiscal year 2004. As stated in note 3 to the financial statements, a major portion of the Corporation's investment portfolio consists of short-term government securities. In an effort to stimulate the economy, the Federal Reserve lowered short-term interest rates 13 times starting in 2001. These rates declined to a 45-year low during fiscal year 2003 and remained there during fiscal year 2004. Concerned about inflationary pressures in the economy, the Federal Reserve increased short-term interest rates nine times during fiscal year 2005. These fluctuations had a direct effect on the amount of short-term investment income earned by the Corporation. The average rate of return earned on short-term investments in the fiscal year ended June 30, 2005 was 1.86%, as compared to rates of 0.96% and 1.21% in the fiscal years ended June 30, 2004 and 2003, respectively.

The Corporation's investment return from its portfolio of U.S. government and agency securities consists of interest earned on investments and changes in the fair value of investments as follows:

	<u>For the Year Ended June 30, 2005</u>	<u>For the Year Ended June 30, 2004</u>	<u>For the Year Ended June 30, 2003</u>
Interest	\$1,112,080	\$1,146,349	\$1,172,949
Change in Fair Value	<u>(247,917)</u>	<u>(1,171,452)</u>	<u>498,679</u>
<b>Total</b>	<u><u>\$864,163</u></u>	<u><u>(\$25,103)</u></u>	<u><u>\$1,671,628</u></u>

The decrease in fair value was caused by the inverse relationship of the market value of debt securities to market interest rates and the length of time to maturity of the securities in the portfolio. The majority of the maturities of the securities in the portfolio are within an intermediate range of one to ten years. The intermediate-term five-year treasury bond market yield was almost unchanged in fiscal year 2005 and increased by 1.39% in fiscal year 2004. The decline in the change in fair value in 2005 was caused by a portion of the securities approaching face value because of the passage of time and by increased market yields for securities with maturities of less than five years. The larger decrease in fair value in 2004 was caused by the steep 1.39% increase in the market yield.

Most increases or decreases in fair value are not realized by the Corporation. Investment disposals occur at maturity and when overall investment return performance, including interest earned and market value, can be enhanced by the sale of portfolio holdings and replacement with other quality securities. Net realized losses from disposals of investments were \$100,000 and \$32,000 in fiscal years 2005 and 2004, respectively. Further disclosures on investments and interest rate risk are included in note 3 to the financial statements beginning on page 27.

Total revenues earned during the 2005 and 2004 fiscal years were \$308.5 million and \$340.5 million, respectively. Revenues that are generated each fiscal year are used to fund lottery operations including payment of prizes, retailer compensation, other direct operating costs, administrative expenses, and the required payments to the state treasury. Revenue not needed to fund current operations increases net assets or if determined to be surplus to the Corporation's future needs, is remitted as an additional transfer to the state treasury. A historical allocation of expenses as a percentage of total revenue is presented in the statistical section of this report on page 51.

### **Direct costs**

Direct costs are expenses that fluctuate directly with the level of sales. The changes in sales for the fiscal years presented resulted in corresponding changes in direct costs.

### **Administrative expenses**

These marketing and overhead costs remained fairly constant over the three fiscal years presented in this discussion. Even with fluctuations in annual sales, caused mainly by variances in Powerball jackpot levels, the Corporation has

maintained high profitability levels for the benefit of the State of Louisiana by controlling its administrative costs each year. These efficiencies have enabled the Corporation to transfer additional surplus funds to the state on an annual basis.

### **Payments to state treasury**

Note 16 to the financial statements on page 40 includes a discussion of the statutory requirements for payments to the state treasury. Payments decreased by \$10.8 million to approximately \$110.4 million in fiscal year 2005 because of lower operating revenues as compared to fiscal year 2004. Remittances in fiscal year 2004 were \$10.4 million higher than in 2003. The payments for fiscal year 2005 included a \$2.4 million additional transfer for surplus at June 30, 2005. This surplus was generated during the last several months of fiscal year 2004 and throughout fiscal year 2005. The surplus transfers for fiscal years 2004 and 2003 were \$2 million and \$1 million, respectively. Total payments to the state treasury since the Lottery's inception have exceeded \$1.6 billion.

The financial performance reflected above affected the overall financial position of the Corporation at June 30, 2005, and at June 30, 2004. A summarized version of the statement of net assets presented below reflects the Corporation's overall change in financial resources and claims on those resources.

	<u>As Of June 30, 2005</u>	<u>As Of June 30, 2004</u>	<u>As Of June 30, 2003</u>
<b>Assets</b>			
Current assets	\$48,183,441	\$50,418,090	\$51,207,025
Noncurrent assets:			
Capital assets	6,063,654	6,140,678	6,454,388
Other noncurrent assets	122,710,364	134,385,446	152,147,497
Total noncurrent assets	<u>128,774,018</u>	<u>140,526,124</u>	<u>158,601,885</u>
<b>Total assets</b>	<u>176,957,459</u>	<u>190,944,214</u>	<u>209,808,910</u>
<b>Liabilities</b>			
Current liabilities	45,384,492	47,156,928	47,872,045
Noncurrent liabilities	<u>107,733,159</u>	<u>118,477,118</u>	<u>137,024,899</u>
<b>Total liabilities</b>	<u>153,117,651</u>	<u>165,634,046</u>	<u>184,896,944</u>
<b>Net assets</b>			
Invested in capital assets	6,063,654	6,140,678	6,454,388
Unrestricted	<u>17,776,154</u>	<u>19,169,490</u>	<u>18,457,578</u>
<b>Total net assets</b>	<u><u>\$23,839,808</u></u>	<u><u>\$25,310,168</u></u>	<u><u>\$24,911,966</u></u>

## **Current assets**

The fluctuation of current assets for the three years presented was mainly caused by changes in accounts receivable balances. Retailer accounts receivable balances changed because of sales volume differences at the end of the fiscal years and the timing of the collection of these receivables. These receivables decreased at June 30, 2005, because retailer balances due to the Corporation for the last billing week of the year were collected on the last day of the fiscal year. For the other years presented, the receivables due near the end of the fiscal years were collected shortly after June 30.

Several other factors affected current assets at June 30, 2005:

- The deposit of retailer receivables on June 30, 2005 caused a corresponding increase in current investments. These investments also increased because of positive operating results. The additions to investments were partially offset by a transfer to the state treasury of \$2 million in July 2004 for surplus at June 30, 2004, and a net use of the unclaimed prize pool to fund instant game prize structures.
- Several securities in the Corporation's investments in government securities were reclassified from noncurrent assets to current assets during the 2005 fiscal year because the maturity dates are within one year from June 30, 2005. Further information about investments and investments in government securities is included in note 3 to the financial statements beginning on page 27.
- Prepaid expenses decreased in fiscal year 2005 because instant ticket inventory is no longer reported as an asset on the statement of net assets. A description of this change is presented in note 5 to the financial statements on page 30.

## **Capital assets**

Capital assets slightly decreased in fiscal years 2005 and 2004 because depreciation expense was greater than capital asset acquisitions. Details of capital asset additions, deletions, and depreciation are included in note 6 to the financial statements on page 31.

## **Other noncurrent assets**

The difference between the reclassification of annual grand prize payments, with a face value of \$15,627,000, from noncurrent assets to current assets and the change in the market value of noncurrent investments in prize annuities accounts for most of the change in this asset category for both fiscal years. This annual transfer between asset categories is a result of the maturities of investments in prize annuities for the payment of current year obligations and the classification of all investments scheduled to mature within the next fiscal year as current investments in prize annuities. The market value adjustment is necessary to reflect the investment balances at fair value as required by governmental

accounting standards. This adjustment is dependent upon the investments' face values, purchase prices, stated interest rates, maturity dates, and market interest rates at the end of the fiscal year. These recurring annual changes in these investment accounts resulted in net decreases in noncurrent assets of \$9.3 million and \$17.7 million in fiscal years 2005 and 2004, respectively. Additional information on investments in prize annuities is included in note 3 to the financial statements beginning on page 27 and the related prizes payable information is contained in note 8 on page 33.

Noncurrent investments in government securities decreased because of the reclassification of several securities to current investments in government securities as discussed in the current assets section.

Deposits with the Multi-State Lottery Association (MUSL) were lower at June 30, 2005, than at the end of the other fiscal years presented because the Corporation's required share of prize reserve accounts maintained by MUSL was reduced during the year. Excess reserves of \$667,000 were returned to the Corporation. Note 7 to the financial statements that begins on page 32 contains further information about MUSL and the prize reserve accounts.

Finally, as discussed in note 5 to the financial statements on page 30, prepaid expenses declined by approximately \$300,000 each year from the amortization of a one-time lump sum payment for the use of an instant ticket accounting and administrative computer system.

### **Current liabilities**

Current liabilities decreased by \$1.8 million in fiscal year 2005 mainly because of decreases in prizes and withholdings payable. All of the components of this liability category are presented in note 8 to the financial statements on page 33. Instant prizes payable decreased because of lower instant ticket sales and a larger percentage of prizes awarded as free tickets instead of cash prizes. The amount due to the MUSL prize pool decreased because of a total of \$1.2 million of Louisiana Powerball match 5 \$100,000 prizes won in June 2005. This reduced the amount payable to the shared prize pool from sales. A total of \$300,000 of these match 5 prizes was not claimed as of June 30, 2005. This resulted in an increase in on-line prizes payable.

The remaining differences are the result of an increase of \$400,000 in the accrued surplus payment to the state treasury and other minor changes in accruals and payable balances.

Current liabilities decreased by \$715,000 in fiscal year 2004 because of a \$390,000 decrease in accrued accounts payable, an accrued payment to the state treasury that was \$450,000 less than the prior year, and a net \$125,000 increase in other payable balances.

## **Noncurrent liabilities**

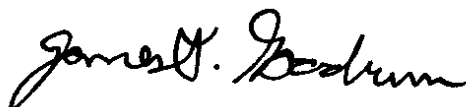
The changes in noncurrent investments in prize annuities discussed previously caused equal changes in the corresponding noncurrent liabilities to prize winners. Unclaimed prizes payable decreased in fiscal year 2005 because of increased funding of instant ticket prize structures caused by a shift in instant ticket sales toward higher price point games, which have a higher percentage prize payout. In addition, the return of excess prize reserves from MUSL discussed in noncurrent assets decreased the balance in the MUSL prize reserve payable at June 30, 2005. Further disclosures on noncurrent prizes payable are included in notes 8 and 10 to the financial statements on pages 33 and 35, respectively.

## **Net assets**

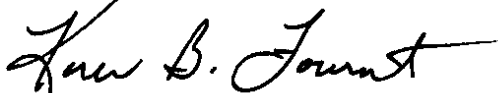
Finally, net assets decreased by \$1.5 million in fiscal year 2005 and increased by \$400,000 in fiscal year 2004 because of the income generated during these years and the amount of surplus remittances to the state treasury. The specified uses of unrestricted net assets are presented in note 15 to the financial statements on page 39.

This financial overview of the Louisiana Lottery Corporation is provided as a supplemental analysis of the financial position and activities of the Corporation as of and for the years ended June 30, 2005, and June 30, 2004. It is based on currently known facts and decisions and includes information about transactions, events, and conditions that are reflected in the financial statements and accompanying notes. The additional presentations and disclosures are included to assist the users of this report in understanding the financial results of the Corporation.

Respectfully submitted,



James F. Goodrum  
Vice President of Finance and Controller



Karen B. Fournet  
Senior Vice President and Secretary Treasurer

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND

Statements of Net Assets, June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash (note 2)	\$53,054	\$67,134
Investments (note 3)	24,217,742	22,061,077
Accounts receivable, net (note 4)	6,700,989	10,904,490
Investments in government securities (note 3)	1,283,352	251,563
Investments in prize annuities (note 3)	15,374,578	15,498,183
Prepaid expenses (note 5)	540,035	1,621,946
Other current assets	13,691	13,697
<b>Total current assets</b>	<u>48,183,441</u>	<u>50,418,090</u>
<b>Noncurrent assets:</b>		
Capital assets:		
Land (note 6)	1,542,415	1,542,415
Depreciable capital assets, net (note 6)	4,521,239	4,598,263
Investments in government securities (note 3)	18,510,555	19,997,347
Investments in prize annuities (note 3)	96,276,499	105,555,102
Deposits with Multi-State Lottery Association (note 7)	6,709,410	7,322,222
Prepaid expenses (note 5)	1,213,900	1,510,775
<b>Total noncurrent assets</b>	<u>128,774,018</u>	<u>140,526,124</u>
<b>TOTAL ASSETS</b>	<u>176,957,459</u>	<u>190,944,214</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	2,420,647	2,473,398
Wages, benefits, and withholdings payable	109,417	188,100
Accrued payment to state treasury	10,678,740	10,336,200
Prizes and withholdings payable (note 8)	31,849,727	33,849,040
Compensated absences payable (note 9)	325,961	310,190
<b>Total current liabilities</b>	<u>45,384,492</u>	<u>47,156,928</u>
<b>Noncurrent liabilities (note 10):</b>		
Noncurrent prizes payable (note 8)	107,584,489	118,332,548
Retailer security deposits	148,670	144,570
<b>Total noncurrent liabilities</b>	<u>107,733,159</u>	<u>118,477,118</u>
<b>TOTAL LIABILITIES</b>	<u>153,117,651</u>	<u>165,634,046</u>
<b>NET ASSETS</b>		
Invested in capital assets	6,063,654	6,140,678
Unrestricted (note 15)	17,776,154	19,169,490
<b>TOTAL NET ASSETS</b>	<u>\$23,839,808</u>	<u>\$25,310,168</u>

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND

Statements of Revenues, Expenses, and  
Changes in Fund Net Assets  
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUES</b>		
Instant ticket sales	\$104,102,165	\$111,430,717
On-line sales	202,904,426	228,661,508
Allowance for uncollectible accounts	(60,832)	(74,046)
Retailer license fees	10,525	12,900
Miscellaneous revenue	5,744	87,359
<b>Total operating revenues</b>	<u>306,962,028</u>	<u>340,118,438</u>
<b>OPERATING EXPENSES</b>		
<b>Direct costs:</b>		
Instant ticket prize expense	52,928,497	56,667,693
On-line prize expense	100,328,706	113,108,762
Retailer commission	15,463,627	17,239,905
Retailer incentives	1,396,272	1,424,988
Lottery system vendor fees	9,211,182	10,342,602
Communications	(3,519)	(82,654)
Cost of instant tickets	2,101,682	2,109,397
Courier service	466,179	473,545
<b>Total direct costs</b>	<u>181,892,626</u>	<u>201,284,238</u>
<b>Administrative expenses:</b>		
Advertising	7,686,106	7,544,935
Contract labor	197,775	209,562
Depreciation	596,513	638,114
Equipment lease (note 14)	35,366	37,609
Insurance	442,964	489,540
Postage	74,207	94,504
Professional fees	219,395	152,289
Rent (note 14)	211,277	211,718
Repairs and maintenance	310,779	332,878
Salaries, benefits, and taxes	6,799,804	6,690,479
Supplies	327,562	297,926
Telephone	191,398	217,914
Travel	122,606	105,570
Utilities	144,788	135,586
Other general and administrative	302,071	450,544
<b>Total administrative expenses</b>	<u>17,662,611</u>	<u>17,609,168</u>
<b>Total operating expenses</b>	<u>199,555,237</u>	<u>218,893,406</u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND

Statements of Revenues, Expenses, and  
Changes in Fund Net Assets  
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>OPERATING INCOME</b>	<u>\$107,406,791</u>	<u>\$121,225,032</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest earned on investments	1,751,259	1,524,103
Net (decrease) in the fair value of investments	(247,917)	(1,171,452)
Net gain on disposal of assets	11,292	17,454
Payments to state treasury-required (note 16)	(107,991,785)	(119,196,935)
Payments to state treasury-surplus (note 16)	<u>(2,400,000)</u>	<u>(2,000,000)</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(108,877,151)</u>	<u>(120,826,830)</u>
<b>CHANGES IN NET ASSETS</b>	(1,470,360)	398,202
<b>TOTAL NET ASSETS AT BEGINNING OF YEAR</b>	<u>25,310,168</u>	<u>24,911,966</u>
<b>TOTAL NET ASSETS AT END OF YEAR</b>	<u><u>\$23,839,808</u></u>	<u><u>\$25,310,168</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND

Statement C

Statements of Cash Flows  
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities</b>		
Cash received from retailers - net of commission and incentives	\$296,888,005	\$325,776,092
Cash from other sources	23,057,794	101,634
Cash payments for prizes and related taxes	(194,603,775)	(186,263,825)
Cash payments to suppliers of goods or services	(23,937,475)	(27,201,129)
Cash payments to employees for services	<u>(6,052,341)</u>	<u>(5,710,787)</u>
<b>Net cash provided by operating activities</b>	<u>95,352,208</u>	<u>106,701,985</u>
<b>Cash flows from noncapital financing activities</b>		
Cash payments to the Lottery Proceeds Fund	<u>(110,049,245)</u>	<u>(121,646,100)</u>
<b>Cash flows from capital financing activities</b>		
Proceeds from disposal of capital assets	36,244	17,453
Payments for acquisition of capital assets	<u>(524,951)</u>	<u>(261,795)</u>
<b>Net cash used in capital financing activities</b>	<u>(488,707)</u>	<u>(244,342)</u>
<b>Cash flows from investing activities</b>		
Receipts of interest	1,494,246	1,335,478
Net (deposits) of short-term investments	(2,156,665)	(229,696)
Proceeds from investments in government securities	3,386,809	4,122,289
Payments for investments in government securities	(3,179,726)	(5,624,207)
Maturity of investments in prize annuities (note 3)	<u>15,627,000</u>	<u>15,627,000</u>
<b>Net cash provided from investing activities</b>	<u>15,171,664</u>	<u>15,230,864</u>
<b>Net (decrease) increase in cash</b>	(14,080)	42,407
<b>Cash at July 1</b>	<u>67,134</u>	<u>24,727</u>
<b>Cash at June 30</b>	<u><u>\$53,054</u></u>	<u><u>\$67,134</u></u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND

Statement C

Statements of Cash Flows  
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$107,406,791	\$121,225,032
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	596,513	638,114
Accrued capital financing activities	(19,488)	(62,609)
Multi-State Lottery Association operating costs	152,959	230,361
Uncollectible accounts	68,850	79,440
Changes in assets and liabilities:		
Decrease in accounts receivable	4,184,400	1,357,457
Decrease (increase) in prepaid expenses	1,378,793	(88,362)
(Increase) decrease in other current assets	(5)	1,375
Decrease in deposits with Multi-State Lottery Association	667,117	31,612
(Decrease) in accounts payable	(52,751)	(390,033)
(Decrease) increase in wages, benefits, and withholdings payable	(78,683)	177,854
Increase in compensated absences payable	15,771	16,166
(Decrease) in prizes and withholdings payable	(3,345,159)	(891,982)
(Decrease) in annual grand prizes payable	(15,627,000)	(15,627,000)
Increase in retailer security deposits	4,100	4,560
Total Adjustments	<u>(12,054,583)</u>	<u>(14,523,047)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$95,352,208</u>	<u>\$106,701,985</u>
<b>Non Cash Investing, Capital, and Financing Activities</b>		
Net (decrease) in the fair value of investments	(\$247,917)	(\$1,171,452)
Interest accrued on deposits with Multi-State Lottery Association	\$207,264	\$166,548

(Concluded)

The accompanying notes are an integral part of this statement.

**LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA**

Notes to the Financial Statements  
For the Years Ended June 30, 2005 and 2004

**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. The Corporation is domiciled in East Baton Rouge Parish and operates five regional offices. For the fiscal years ended June 30, 2005, and June 30, 2004, the Corporation employed 147 employees and 156 employees, respectively.

**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 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 Corporation, a component unit of the State of Louisiana. The Corporation is reported as an enterprise fund within the State of Louisiana's Comprehensive Annual Financial Report.

**B. BASIS OF PRESENTATION**

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

**C. BASIS OF ACCOUNTING AND MEASUREMENT FOCUS**

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements, and the measurement focus refers to what transactions and events should be recorded. The financial statements are reported using the economic resources measurement focus and 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 a liability is incurred, regardless of the timing of related cash flows.

**Revenue**

Operating revenue includes sales of lottery tickets and other fees related to operations. Nonoperating revenue includes investment earnings and gains from the disposal of assets. Sales are 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. CAPITAL ASSET POLICY**

The Corporation has established a \$1,000 threshold for capitalization of purchases of assets that have an estimated useful life of at least three years. In addition, substantial purchases may be capitalized even though the per unit cost may be less than \$1,000. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are derived from realistic expectations of the longevity of the assets based on past experience, published guidelines, and industry experience. The useful lives used in determining depreciation for the various types of assets are found in note 6 on page 31.

**E. LEGISLATIVE BUDGET OVERSIGHT**

R.S. 47:9010(A)(7) requires the Corporation, not later than 30 days before the beginning of each 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, 2005, on February 27, 2004. The budget was approved by the Joint Legislative Committee on the Budget on April 16, 2004. 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, 2005, is not presented.

**F. ADOPTION OF NEW ACCOUNTING PRINCIPLE**

For the year ended June 30, 2004, the Corporation implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3.

**G. NONOPERATING EXPENSES**

Nonoperating expenses only include payments to the state treasury.

**2. CASH**

Cash includes petty cash on hand of \$2,000 and demand deposits of \$51,054 at June 30, 2005, and \$65,134 at June 30, 2004. 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.

Under state law, demand 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 Federal Reserve Bank of New York. The Corporation has deposit balances (collected bank balances) of \$51,720 at June 30, 2005, and \$67,409 at June 30, 2004, secured from risk by \$100,000 of federal deposit insurance.

**3. INVESTMENTS, INVESTMENTS IN GOVERNMENT SECURITIES, AND INVESTMENTS IN PRIZE ANNUITIES**

In accordance with state law and the Corporation's formal investment policy, funds may be invested 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. The amount invested in U.S. agency securities cannot exceed sixty percent of all investments with maturities of 30 days or longer. In addition, for the purpose of payment of deferred prizes to winners, the Corporation may only invest in securities that are direct obligations of the U.S. Treasury. No specific credit ratings are required by the policy, but credit quality is inherently high because of limitations imposed by the policy.

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

Investments at June 30, 2005 consist of the following:

Investment Type	Fair Value	* Credit Quality Rating	% of Investments	Investment Maturities (In Years)				
				Less Than 1	1-5	6-10	11-20	21-30
<b>Investments:</b>								
JPMorgan 100% US Treasury Securities Money Market Fund Capital Class	\$24,217,742	Aaa	15.56%	\$24,217,742				
<b>Investments in government securities:</b>								
United States Treasury Notes	10,504,371	1	6.75%	257,167	\$6,211,935	\$4,035,269		
Federal Farm Credit Banks (FFCB) Bonds and Notes	1,163,333	Aaa	0.75%		733,824	429,509		
Federal Home Loan Banks (FHLB) Bonds	1,126,020	Aaa	0.72%		833,988	292,032		
Federal Home Loan Mortgage Corporation (FHLMC) Notes	966,476	Aaa	0.62%	101,531	609,867	255,078		
Federal National Mortgage Association (FNMA) Notes	1,169,559	Aaa	0.75%	924,654	131,976	112,929		
FHLMC Mortgage-Backed Securities	1,554,376	unrated 2	1.00%			572,666	\$908,958	\$72,752
FNMA Mortgage-Backed Securities	2,821,430	unrated 2	1.81%		335,766	1,582,057	627,624	275,983
Government National Mortgage Association (GNMA) Mortgage-Backed Securities	<u>488,342</u>	1	0.31%			211,341	87,660	189,341
	19,793,907		12.71%	1,283,352	8,857,356	7,490,881	1,624,242	538,076
<b>Investments in prize annuities:</b>								
United States Treasury Zero Coupon Bonds	<u>111,651,077</u>	1	71.73%	15,374,578	56,136,188	38,403,376	1,736,935	
<b>Total Investments</b>	<u>\$155,662,726</u>		100.00%	\$40,875,672	\$64,993,544	\$45,894,257	\$3,361,177	\$538,076

\* Credit quality ratings obtained from Moody's Investors Service.

1 Credit quality ratings not required for U.S. government and agency securities that are explicitly guaranteed by the U.S. government.

2 FHLMC and FNMA mortgage-backed securities are implicitly guaranteed by the U.S. government, but are not rated by Moody's Investors Service.

Investments represent the fair value of U.S. Treasury money-market mutual fund shares held by the Corporation to finance daily operations. Investments in government securities are funds not needed for liquidity purposes that are invested in a portfolio of direct longer-term investments in U.S. government and agency securities. These securities are also recorded at fair value.

Investments in prize annuities totaling \$76,568,302 at June 30, 2005, and \$84,275,863 at June 30, 2004, are in the form of U.S. Treasury zero coupon bonds. These investments were 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.

Investments in prize annuities totaling \$35,082,775 and \$36,777,422 at June 30, 2005, and June 30, 2004, respectively, were 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.

The zero coupon 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 8. Cash receipts from the maturity of investments in prize annuities totaled \$15,627,000 in fiscal year ending June 30, 2005, and in fiscal year ending June 30, 2004.

**LOUISIANA LOTTERY CORPORATION**  
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Notes to the Financial Statements (Continued)

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments that are in the possession of an outside party. Louisiana state law requires that securities purchased as investments by the Corporation are issued in the name of the Corporation and safekept at a custodian financial institution or Federal Reserve Bank domiciled in the state of Louisiana. Investments, investments in government securities, and the investments in prize annuities purchased by the Corporation are held by the custodial bank's trust department in the Corporation's name. The investments in prize annuities purchased by MUSL are held by MUSL's custodial bank's trust department in the name of MUSL with the Corporation as the beneficiary.

Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Typically, this risk is higher in debt securities with longer maturities. The Corporation's investment policy states that investment maturities must be scheduled to coincide with cash requirements. Interest rate risk is managed according to the purpose of the investments and the projected time frame for the use of these assets.

As stated previously, the investments in the money market fund are used to fund daily operations. These investments are not subject to interest rate risk because the underlying investments in treasury bills and notes have very short-term maturities, funds can be deposited and withdrawn daily, and the fund's share price remains stable.

Investments in government securities consist of funds that are not expected to be needed in the near future. Investment maturities for this portfolio are scheduled for an average intermediate time horizon. The portfolio is managed to provide investment allocations, characteristics, and yields consistent with its benchmark, the Lehman Brothers Intermediate Government Bond Index. Interest rate risk is managed by structuring the average maturity and duration of the investments to the benchmark.

The investments in mortgage-backed securities are based on flows from payments on the underlying mortgages that contain prepayment options which cause them to be highly sensitive to changes in interest rates. Generally, when interest rates fall, obligees tend to prepay the assets, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. This reduced cash flow diminishes the fair value of the asset-backed investment.

The risk that the Corporation will actually realize material losses from its investments in government securities resulting from changes in market interest rates is mitigated by the low probability that these securities will have to be sold before maturity.

The investments in prize annuities are also subject to fluctuations in fair value due to interest rate risk, but these bonds are held to maturity to satisfy the annual installment obligations to the prize winners. The fair value at maturity is the face value of the bonds, regardless of the fluctuations in value during the time period that the investments are outstanding.

**4. ACCOUNTS RECEIVABLE**

As reflected on the statement of net assets, the receivables of the Corporation are as follows:

	<u>As of June 30, 2005</u>	<u>As of June 30, 2004</u>
Retailer accounts receivable	\$6,403,079	\$10,477,472
Interest receivable	321,872	272,123
Miscellaneous receivable		191,209
Allowance for uncollectible accounts	<u>(23,962)</u>	<u>(36,314)</u>
Total	<u>\$6,700,989</u>	<u>\$10,904,490</u>

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

**5. PREPAID EXPENSES**

Prepaid expenses represent unsold instant ticket inventory held by the Corporation and its licensed retailers, insurance paid for coverage after the fiscal year-end, and prepayments for postage, advertising, maintenance agreements, and other expenses. During the fiscal year ending June 30, 2005, the Corporation entered into a new contract for instant ticket printing and related services. Under the previous contract, ticket inventories were valued at cost and were expensed over the life of each game as they were sold to the public. Unused and returned tickets were written off at the end of each game. Under the terms of the new agreement, the vendor is compensated at a rate of 1.589% of instant tickets sold. Ticket inventory will no longer be included on the statement of net assets. The remaining balance at June 30, 2005 of \$73,334 represents unsold inventory remaining from the previous contract.

In addition, the unamortized portion of a one-time lump sum payment for the use of an instant ticket accounting and administrative computer system for eight years beginning July 1, 2002, is included in prepaid expenses. The total fee of \$2,375,000 was paid to the system vendor in July 2002 upon the successful implementation of all required hardware and software. An annual amortization of \$296,875 is included as a direct cost in lottery system vendor fees on Statement B.

The balances of prepaid expenses are as follows:

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Notes to the Financial Statements (Continued)

	<u>As of</u> <u>June 30, 2005</u>	<u>As of</u> <u>June 30, 2004</u>
Current prepaid expenses:		
Ticket inventory	\$73,334	\$935,165
Insurance	86,688	154,648
Lottery system vendor fees	296,875	296,875
Miscellaneous	<u>83,138</u>	<u>235,258</u>
Total	<u>\$540,035</u>	<u>\$1,621,946</u>
Noncurrent prepaid expenses:		
Lottery system vendor fees	\$1,187,500	\$1,484,375
Miscellaneous	<u>26,400</u>	<u>26,400</u>
Total	<u>\$1,213,900</u>	<u>\$1,510,775</u>

**6. CAPITAL ASSETS**

Capital assets of the Corporation are included on the statement of net assets at historical cost. Depreciable capital assets are shown net of accumulated depreciation. Depreciation of capital 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 capital assets follows:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
<b>Land</b>	<u>\$1,542,415</u>	<u>NONE</u>	<u>NONE</u>	<u>\$1,542,415</u>
<b>Depreciable Capital Assets:</b>				
Land improvements	\$2,490			\$2,490
Buildings	3,849,715			3,849,715
Building improvements	9,667			9,667
Leasehold improvements	159,681	\$7,327		167,008
Furniture and fixtures	556,792	1,994		558,786
Equipment	1,200,130	79,127	(\$431,375)	847,882
Data processing software and equipment	1,586,431	225,929	(82,454)	1,729,906
Communications	350,459			350,459
Automobiles	<u>1,023,712</u>	<u>230,062</u>	<u>(50,284)</u>	<u>1,203,490</u>
Total	<u>8,739,077</u>	<u>544,439</u>	<u>(564,113)</u>	<u>8,719,403</u>
Less - accumulated depreciation:				
Land improvements	(436)	(249)		(685)
Buildings	(236,678)	(99,739)		(336,417)
Building improvements	(1,197)	(644)		(1,841)
Leasehold improvements	(135,151)	(21,248)		(156,399)
Furniture and fixtures	(262,323)	(101,480)		(363,803)
Equipment	(987,135)	(53,802)	420,997	(619,940)
Data processing software and equipment	(1,411,494)	(134,436)	82,454	(1,463,476)
Communications	(341,788)	(8,503)		(350,291)
Automobiles	<u>(764,612)</u>	<u>(176,412)</u>	<u>35,712</u>	<u>(905,312)</u>
Total accumulated depreciation	<u>(4,140,814)</u>	<u>(596,513)</u>	<u>539,163</u>	<u>(4,198,164)</u>
<b>Net Depreciable Capital Assets</b>	<u>\$4,598,263</u>	<u>(\$52,074)</u>	<u>(\$24,950)</u>	<u>\$4,521,239</u>

**LOUISIANA LOTTERY CORPORATION**  
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Notes to the Financial Statements (Continued)

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
<b>Land</b>	<u>\$1,542,415</u>	<u>NONE</u>	<u>NONE</u>	<u>\$1,542,415</u>
<b>Depreciable Capital Assets:</b>				
Land improvements	\$2,490			\$2,490
Buildings	3,849,715			3,849,715
Building improvements	9,667			9,667
Leasehold improvements	151,713	\$7,968		159,681
Furniture and fixtures	561,684		(\$4,892)	556,792
Equipment	1,227,390	26,156	(53,416)	1,200,130
Data processing software and equipment	4,366,888	130,447	(2,910,904)	1,586,431
Communications	404,303		(53,844)	350,459
Automobiles	1,033,154	159,834	(169,276)	1,023,712
Total	<u>11,607,004</u>	<u>324,405</u>	<u>(3,192,332)</u>	<u>8,739,077</u>
Less - accumulated depreciation:				
Land improvements	(187)	(249)		(436)
Buildings	(136,939)	(99,739)		(236,678)
Building improvements	(553)	(644)		(1,197)
Leasehold improvements	(114,260)	(20,891)		(135,151)
Furniture and fixtures	(165,700)	(101,515)	4,892	(262,323)
Equipment	(962,092)	(78,459)	53,416	(987,135)
Data processing software and equipment	(4,197,491)	(124,907)	2,910,904	(1,411,494)
Communications	(386,840)	(8,792)	53,844	(341,788)
Automobiles	(730,969)	(202,919)	169,276	(764,612)
Total accumulated depreciation	<u>(6,695,031)</u>	<u>(638,115)</u>	<u>3,192,332</u>	<u>(4,140,814)</u>
<b>Net Depreciable Capital Assets</b>	<u>\$4,911,973</u>	<u>(\$313,710)</u>	<u>NONE</u>	<u>\$4,598,263</u>

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

Land improvements	10 years
Buildings	30 to 40 years
Building improvements	15 years
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 to 120 months
Furniture and fixtures	60 months
Leasehold improvements	36 months
Communications	36 months

## 7. MULTI-STATE LOTTERY ASSOCIATION

MUSL is an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently includes 27 state lottery entities, the District of Columbia, and the Virgin Islands. This association offers the Powerball on-line game and several other on-line games in participating states.

**LOUISIANA LOTTERY CORPORATION**  
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Notes to the Financial Statements (Continued)

A game show funded from sales of Powerball instant tickets was discontinued during the year. The chief executive officer of each member lottery serves on the MUSL board of directors.

During the fiscal year, the Corporation participated in the MUSL Powerball on-line game and the Powerball instant ticket game show. 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. MUSL reallocates the prize reserve funds twice a year between the states based on relative Powerball sales levels. All remaining 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, 2005, and June 30, 2004, the Corporation had deposits with MUSL of \$6,709,410 and 7,322,222, 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, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

**8. 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 subsequent equal annual payments are funded with U.S. Treasury zero coupon bonds purchased by the 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 also has 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.

**LOUISIANA LOTTERY CORPORATION**  
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Notes to the Financial Statements (Continued)

	<u>As of</u> <u>June 30, 2005</u>	<u>As of</u> <u>June 30, 2004</u>
Current Prizes and Withholdings Payable:		
Annual grand prize payments (face value)	\$15,627,000	\$15,627,000
Less imputed interest	<u>(365,681)</u>	<u>(373,987)</u>
Net present value of annual grand prize payments	15,261,319	15,253,013
Adjustment to current fair value	<u>113,259</u>	<u>245,170</u>
Fair value of prize annuities	15,374,578	15,498,183
Instant prizes payable	4,806,475	6,190,616
On-line prizes payable	9,900,518	9,542,903
Unclaimed prizes payable	1,471,298	1,324,949
Due to MUSL prize pool	215,645	1,219,733
Tax withholdings payable	<u>81,213</u>	<u>72,656</u>
<b>Total Current Prizes and Withholdings Payable</b>	<b><u>\$31,849,727</u></b>	<b><u>\$33,849,040</u></b>
Noncurrent Prizes Payable:		
Annual grand prize payments (face value)	\$115,111,000	\$130,738,000
Less imputed interest	<u>(23,169,918)</u>	<u>(29,176,488)</u>
Net present value of long-term annual grand prize payments	91,941,082	101,561,512
Adjustment to current fair value	<u>4,335,417</u>	<u>3,993,590</u>
Fair value of prize annuities	96,276,499	105,555,102
MUSL prize reserve payable	5,071,000	5,738,116
Unclaimed prizes payable	<u>6,236,990</u>	<u>7,039,330</u>
<b>Total Noncurrent Prizes Payable</b>	<b><u>\$107,584,489</u></b>	<b><u>\$118,332,548</u></b>

**9. VACATION AND SICK LEAVE**

Corporation employees earn vacation leave at various rates depending on the employees' position and the number of years of service. All employees must complete six months 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 eight days per year after the completion of six months of continuous employment. Sick leave may be carried forward to the next year and accumulated to a maximum of 20 days. Employees are not paid for accrued sick leave upon termination. At June 30, 2005, and June 30, 2004, the total value of compensated absences payable are \$325,961 and \$310,190, respectively.

**LOUISIANA LOTTERY CORPORATION**  
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Notes to the Financial Statements (Continued)

**10. CHANGES IN NONCURRENT LIABILITIES**

Noncurrent liability activity for the years ended June 30, 2005 and 2004, was as follows:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>	<u>Due Within One Year</u>
Prizes Payable:					
Fair value of prize annuities	\$121,053,285	\$6,224,792	(\$15,627,000)	\$111,651,077	\$15,374,578
MUSL prize reserve payable	5,738,116		(667,116)	5,071,000	NONE
Unclaimed prizes payable	<u>8,364,279</u>	<u>9,464,169</u>	<u>(10,120,160)</u>	<u>7,708,288</u>	<u>1,471,298</u>
Total Prizes Payable	135,155,680	15,688,961	(26,414,276)	124,430,365	16,845,876
Retailer Security Deposits	<u>144,570</u>	<u>4,280</u>	<u>(180)</u>	<u>148,670</u>	<u>NONE</u>
Total	<u>\$135,300,250</u>	<u>\$15,693,241</u>	<u>(\$26,414,456)</u>	<u>\$124,579,035</u>	<u>\$16,845,876</u>

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Due Within One Year</u>
Prizes Payable:					
Fair value of prize annuities	\$138,783,592		(\$17,730,307)	\$121,053,285	\$15,498,183
MUSL prize reserve payable	5,769,728	\$251,245	(282,857)	5,738,116	NONE
Unclaimed prizes payable	<u>9,746,789</u>	<u>8,776,006</u>	<u>(10,158,516)</u>	<u>8,364,279</u>	<u>1,324,949</u>
Total Prizes Payable	154,300,109	9,027,251	(28,171,680)	135,155,680	16,823,132
Retailer Security Deposits	<u>140,010</u>	<u>5,200</u>	<u>(640)</u>	<u>144,570</u>	<u>NONE</u>
Total	<u>\$154,440,119</u>	<u>\$9,032,451</u>	<u>(\$28,172,320)</u>	<u>\$135,300,250</u>	<u>\$16,823,132</u>

**11. 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 have been established pursuant to this statute. The plans' provisions and contribution requirements are established and amended by the Board of Directors of the Corporation. A financial and compliance audit has been performed on all the Corporation's retirement plans for the plans' year ending December 31, 2004. A copy of the audit reports may be obtained by submitting a written request to the Louisiana Lottery Corporation, 555 Laurel Street, Baton Rouge, Louisiana 70801.

Administrative and investment services were provided by Principal Life Insurance Company.

The financial statements of the Corporation's plans are accounted for using the accrual basis of accounting. Investments 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.

As defined in the Basic Retirement Plan, the Corporation'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. Generally, participants are

not permitted to contribute to the plan; however, participants may contribute proceeds from a qualified rollover distribution as allowed by IRC Section 402. 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 age (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/her account shall be made in the form of a single-sum payment after the participant 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, 2005, there were 156 participants in the Basic Plan and 129 participants in the Supplemental Plan.

For the fiscal year ended June 30, 2005, employer and employee contributions to the Basic Plan were \$254,219 and \$316,250, respectively. The employer contributions for the Supplemental Plan were \$313,799.

**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 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 such participant's compensation or \$13,000. 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

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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 age (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 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.

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, 2005, there were 125 participants in the Optional Savings Plan.

For the fiscal year ended June 30, 2005, employer and employee contributions were \$112,565 and \$273,376, respectively.

## **12. LITIGATION**

The Corporation has been named in four lawsuits. The Corporation's legal counsel does not anticipate a potential loss to the Corporation resulting from these lawsuits.

## **13. 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 \$6,200,000 within the Corporation's net assets to cover unanticipated losses (see note 15). The amount of commercial coverage has not decreased nor has the amount of settlements exceeded coverage in any of the past three fiscal years.

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Notes to the Financial Statements (Continued)

**14. LEASE AND RENTAL COMMITMENTS**

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

	<u>Equipment</u>	<u>Facilities</u>	<u>Total</u>
2005-2006	\$119,244	\$207,096	\$326,340
2006-2007	119,244	152,305	271,549
2007-2008	110,917	111,145	222,062
2008-2009	110,160	35,475	145,635
2009-2010	16,320	35,475	51,795
2010-2013	<u>          </u>	<u>73,906</u>	<u>73,906</u>
Total	<u>\$475,885</u>	<u>\$615,402</u>	<u>\$1,091,287</u>

The total operating lease payments for the years ended June 30, 2005, and June 30, 2004, were \$340,483 and \$249,327, respectively.

The Corporation has no capital leases at June 30, 2005.

**15. NET ASSETS**

The Corporation has unrestricted net assets at June 30, 2005, of \$17,776,154. As presented in the 2005-2006 fiscal year budget approved by the Joint Legislative Committee on the Budget on April 25, 2005, management has specified that net assets of June 30, 2005, be used for the following purposes:

<b>Specified Uses of Net Assets</b>	
Capital asset replacement reserve	\$6,500,000
Instant ticket accounting and administrative computer system	1,484,375
New capital expenditure purchases	558,325
Instant ticket inventory	40,000
Litigation and prize reserve	6,200,000
Deposits	13,710
New game development, retailer incentives, and future expenditures	<u>2,500,000</u>
Total budgeted net assets	17,296,410
Plus - difference in budgeted net assets and actual	<u>479,744</u>
<b>Total unrestricted net assets</b>	<u><u>\$17,776,154</u></u>

**16. PAYMENTS TO THE STATE TREASURY**

The Corporation is required to transfer each year not less than 35% of gross revenues to the state treasury. In addition, the amount of gross revenues less costs that is determined to be surplus to the needs of the Corporation must be remitted to the state treasury.

**17. 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 bimonthly and at such other times as the chairperson or the president may determine.

**LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
SUPPLEMENTAL INFORMATION SCHEDULES  
For the Years Ended June 30, 2005 and 2004**

**SCHEDULE OF PROFESSIONAL SERVICE FEES**

Schedule 1 presents professional service fees for the years ended June 30, 2005, and June 30, 2004. 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, 2005, and June 30, 2004. 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 Years Ended June 30, 2005 and 2004**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Attorney General's Office, Department of Justice - legal counsel	\$88,875	\$88,875
Department of Revenue - retailer background investigations		1,379
Garvey, Smith, Nehrbass & Doody - trademark research	433	
Gaming Laboratories - automated drawing machine certification	(136)	3,540
Oberthur - marketing research		(25,000)
Office of Legislative Auditor - financial and compliance audit and observations of on-line drawings	117,524	116,761
Phelps Dunbar, Counselors-at-Law - legal counselors (1)	<u>12,699</u>	<u>(33,266)</u>
 Total	 <u>\$219,395</u>	 <u>\$152,289</u>

(1) June 30, 2004, amount includes \$16,734 of expenses reduced by \$50,000 of insurance reimbursements for 2004 and previous years' expenses.

**LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA**

**Schedule of Compensation Paid Board Members  
For the Years Ended June 30, 2005 and 2004**

	<u>EFFECTIVE DATE OF TERM</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Carl W. Bauer, Chairman effective June 25, 2005	January 4, 1999	\$15,167	\$15,000
Brandi Bollinger	July 28, 2000	15,000	15,000
Larry C. Cager	March 18, 2005	4,314	
James David Cain Jr.	January 1, 1995		10,000
Salvatore A. Caruso, Sr.	April 1, 2004	15,000	3,750
Pamela Daniel	April 26, 2004	15,000	2,708
Stewart Gentry, Chairman through June 24, 2005	June 24, 1994	24,833	25,000
Lyn Hayward	March 26, 1996		10,000
Patricia C. Mason	February 27, 1997	10,040	15,000
Wilbert D. Pryor	November 20, 1998	15,000	15,000
Oray P. Rogers	January 1, 1998	15,000	15,000
Linda Temple	January 8, 1999	15,000	15,000
		<u>\$144,354</u>	<u>\$141,458</u>
Total			

**STATISTICAL SECTION**

**(UNAUDITED)**

## LOUISIANA LOTTERY STATISTICS

The Louisiana Lottery Corporation began operating in January 1991 and commenced ticket sales in September 1991. Data from the last ten fiscal years of lottery operations are presented in the following charts. The pie charts that illustrate the allocation of revenues include data from the inception of the Corporation through June 30, 2005.

The information presented in the charts is as follows:

### **Sales**

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

On-line - 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**

Represent 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**

Include all other costs of operating the Lottery.

### **Payments**

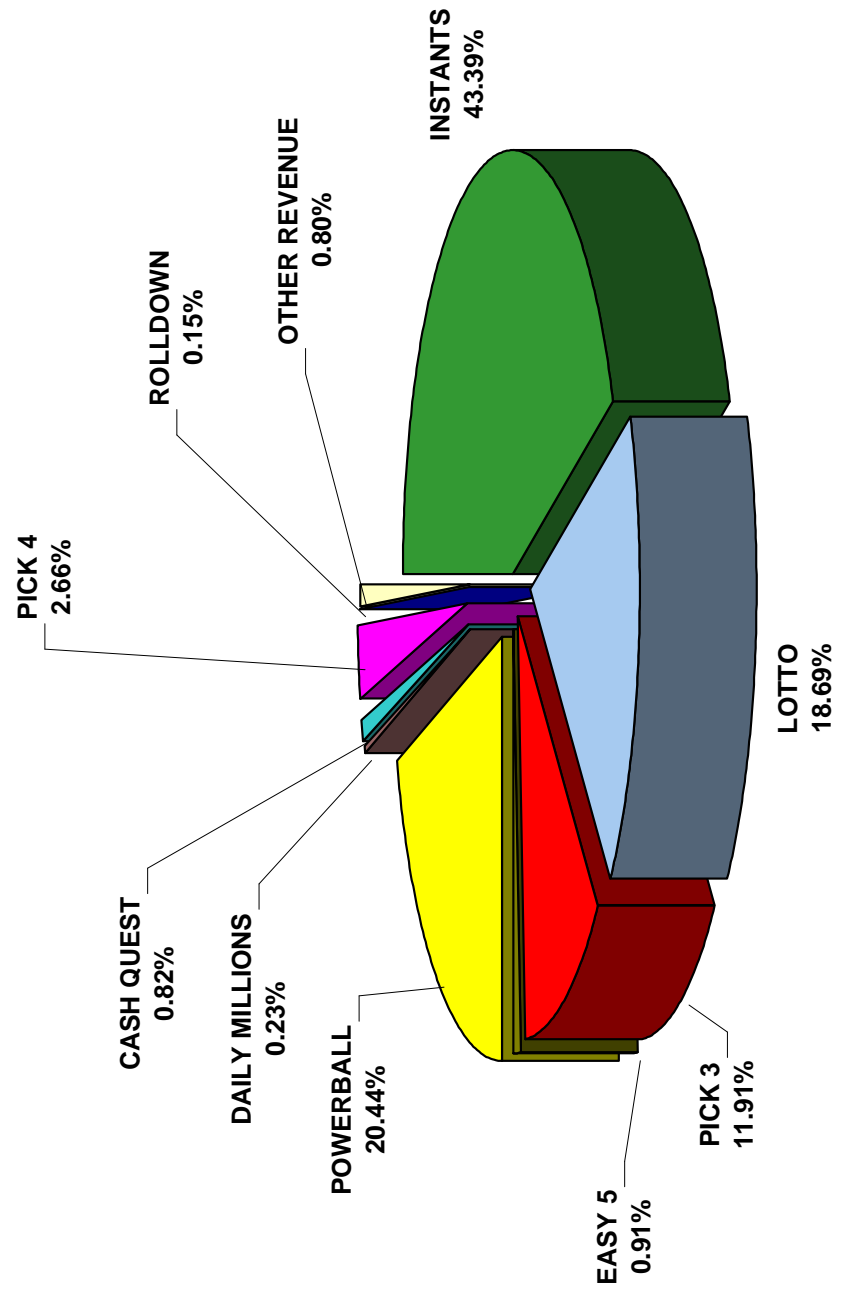
Represent the payment of net revenues to the State Treasury Lottery Proceeds Fund as required by Louisiana Lottery Law.

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

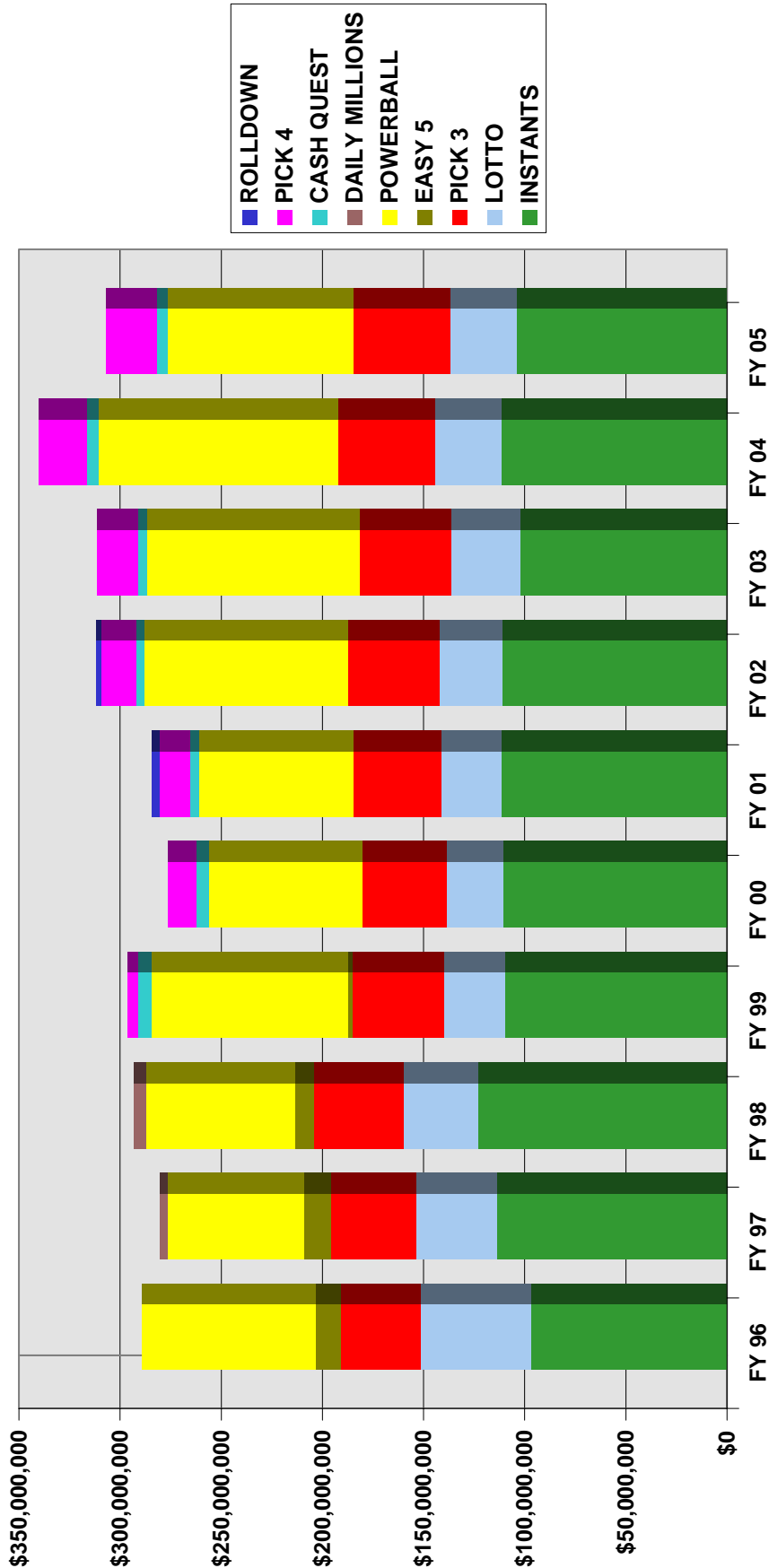
**LOUISIANA LOTTERY CORPORATION**  
**REVENUE**  
**(UNAUDITED)**  
**FISCAL YEARS 1996 THROUGH 2005**

	<b>FY 1995-96</b>	<b>FY 1996-97</b>	<b>FY 1997-98</b>	<b>FY 1998-99</b>	<b>FY 1999-00</b>	<b>FY 2000-01</b>	<b>FY 2001-02</b>	<b>FY 2002-03</b>	<b>FY 2003-04</b>	<b>FY 2004-05</b>
<b>SALES</b>										
INSTANT TICKETS	\$97,132,942	\$113,626,649	\$123,273,680	\$109,663,765	\$110,565,624	\$111,610,821	\$111,272,825	\$102,548,975	\$111,430,717	\$104,102,165
ON-LINE:										
LOTTO	54,150,821	40,416,940	36,876,518	30,128,516	28,162,106	29,676,878	30,827,589	33,741,468	33,117,070	32,830,084
PICK 3	39,440,324	41,743,623	43,977,773	45,073,532	41,230,679	43,069,697	44,902,518	45,119,544	47,445,594	47,788,205
EASY 5	12,572,638	13,139,044	8,896,149	2,551,846	0	0	0	0	0	0
POWERBALL	85,926,297	67,288,303	73,907,516	96,785,043	75,913,752	76,391,929	101,111,768	105,256,703	118,284,225	91,357,450
DAILY MILLIONS	0	4,439,290	5,963,955	0	0	0	0	0	0	0
CASH QUEST	0	0	0	7,041,397	6,339,545	4,676,082	3,727,622	4,358,907	6,128,809	5,356,444
PICK 4	0	0	0	4,986,511	14,171,768	14,894,112	17,329,613	20,430,534	23,685,810	25,572,243
ROLLOVER	0	0	0	0	0	4,149,373	2,449,910	0	0	0
<b>TOTAL ON-LINE</b>	<b>192,090,080</b>	<b>167,027,200</b>	<b>169,621,911</b>	<b>186,566,845</b>	<b>165,817,850</b>	<b>172,858,071</b>	<b>200,349,020</b>	<b>208,907,156</b>	<b>228,661,508</b>	<b>202,904,426</b>
<b>TOTAL SALES</b>	<b>289,223,022</b>	<b>280,653,849</b>	<b>292,895,591</b>	<b>296,230,610</b>	<b>276,383,474</b>	<b>284,468,892</b>	<b>311,621,845</b>	<b>311,456,131</b>	<b>340,092,225</b>	<b>307,006,591</b>
<b>OTHER REVENUE</b>										
INTEREST EARNED ON INVESTMENTS	3,468,537	3,114,069	3,210,947	3,113,666	3,425,513	3,408,868	2,261,711	1,706,209	1,524,103	1,751,259
NET INCREASE/(DECREASE) IN THE										
FAIR VALUE OF INVESTMENTS	0	27,217	174,129	(449,863)	(276,126)	654,715	418,422	498,679	(1,171,452)	(247,917)
RETAILER LICENSE FEES	34,475	33,125	34,075	29,600	12,495	12,025	12,500	12,350	12,900	10,525
MISCELLANEOUS REVENUE	23,490	12,430	16,372	63,780	68,894	23,939	4,382	96,219	87,359	5,744
GAIN ON DISPOSAL OF ASSETS	85,963	34,832	27,770	20,449	35,847	25,885	45,711	59,515	17,454	11,292
<b>TOTAL OTHER REVENUE</b>	<b>3,612,465</b>	<b>3,221,673</b>	<b>3,463,293</b>	<b>2,777,632</b>	<b>3,266,623</b>	<b>4,125,432</b>	<b>2,742,726</b>	<b>2,372,972</b>	<b>470,364</b>	<b>1,530,903</b>
<b>TOTAL REVENUE</b>	<b>\$292,835,487</b>	<b>\$283,875,522</b>	<b>\$296,358,884</b>	<b>\$299,008,242</b>	<b>\$279,650,097</b>	<b>\$288,594,324</b>	<b>\$314,364,571</b>	<b>\$313,829,103</b>	<b>\$340,562,589</b>	<b>\$308,537,494</b>

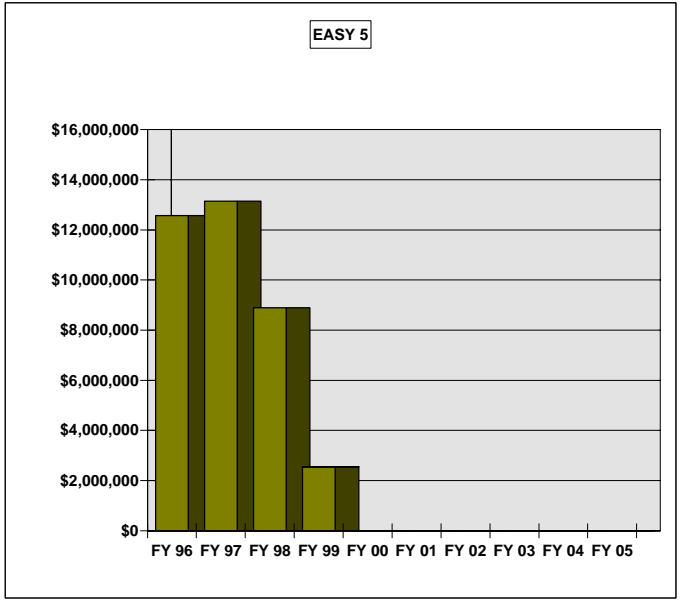
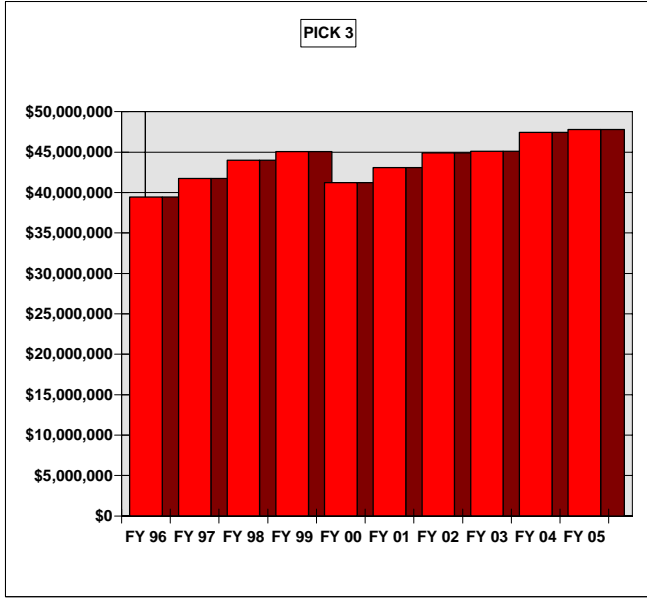
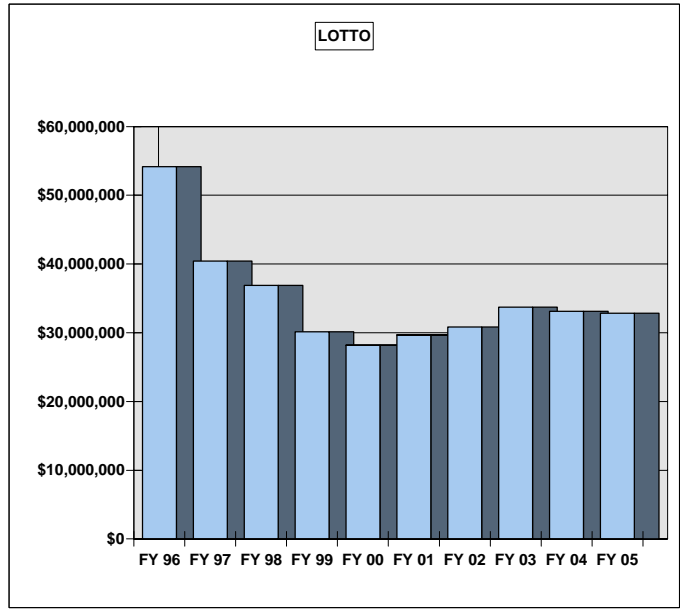
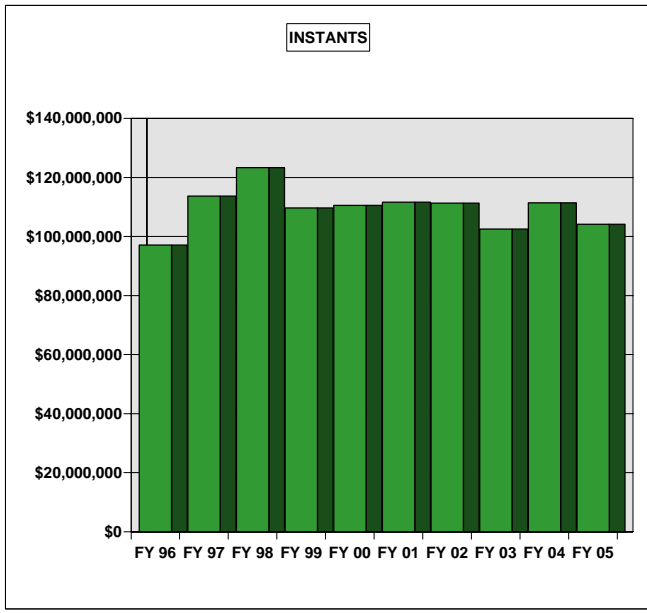
**LOUISIANA LOTTERY CORPORATION  
INCEPTION-TO-DATE REVENUE DISTRIBUTION  
(UNAUDITED)**



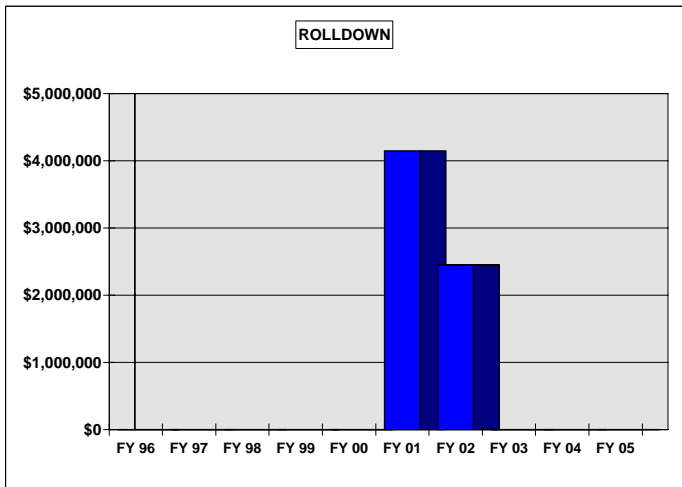
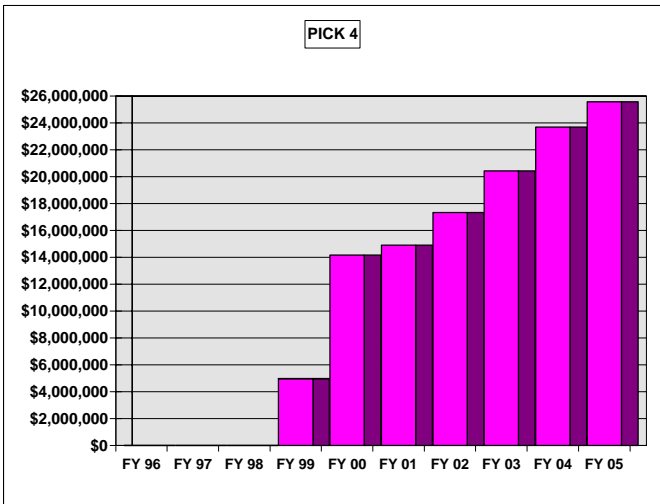
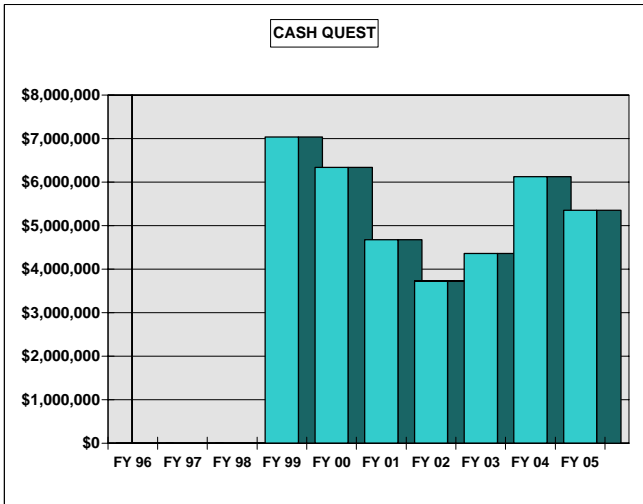
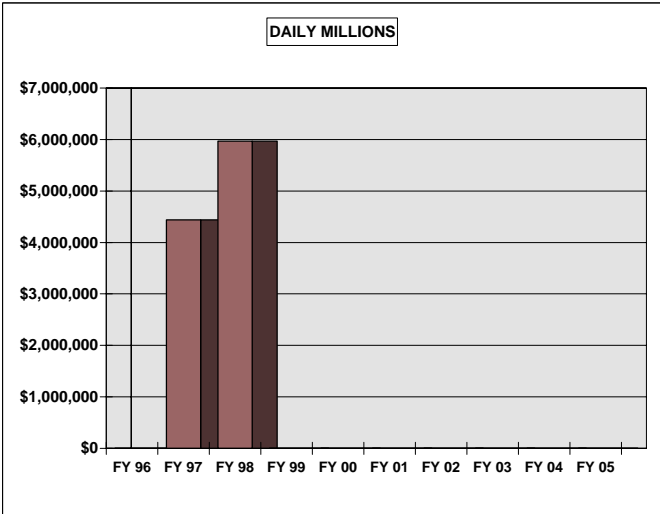
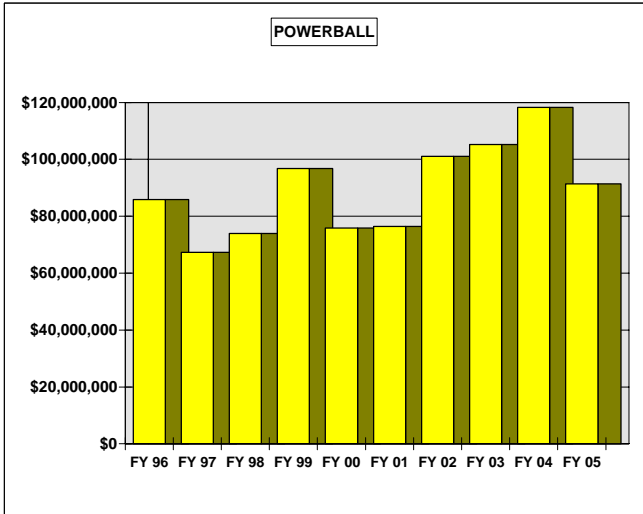
LOUISIANA LOTTERY CORPORATION  
 SALES BY PRODUCT  
 (UNAUDITED)  
 FISCAL YEARS 1996 THROUGH 2005



**LOUISIANA LOTTERY CORPORATION  
SALES BY FISCAL YEAR BY PRODUCT LINE  
(UNAUDITED)  
FISCAL YEARS 1996 THROUGH 2005**



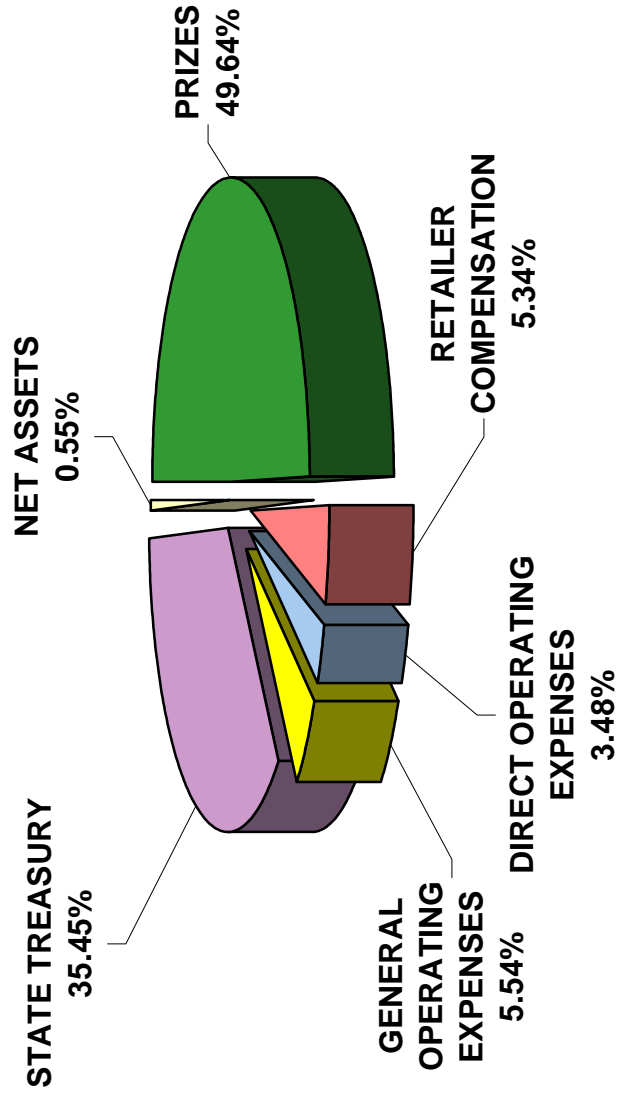
**LOUISIANA LOTTERY CORPORATION  
SALES BY FISCAL YEAR BY PRODUCT LINE  
(UNAUDITED)  
FISCAL YEARS 1996 THROUGH 2005**



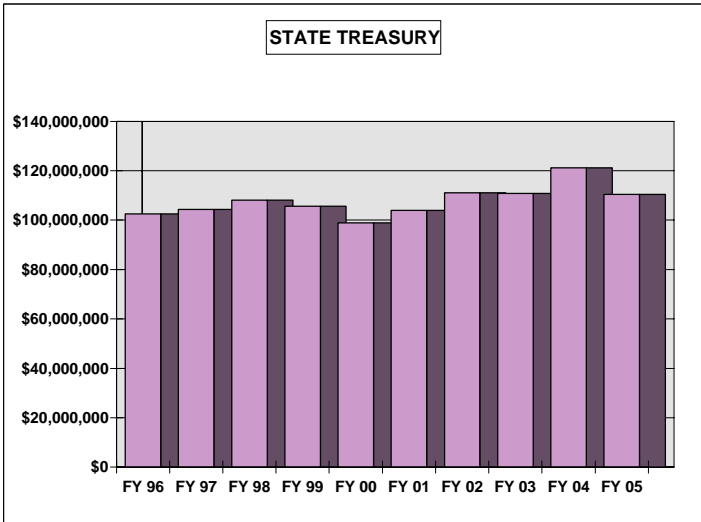
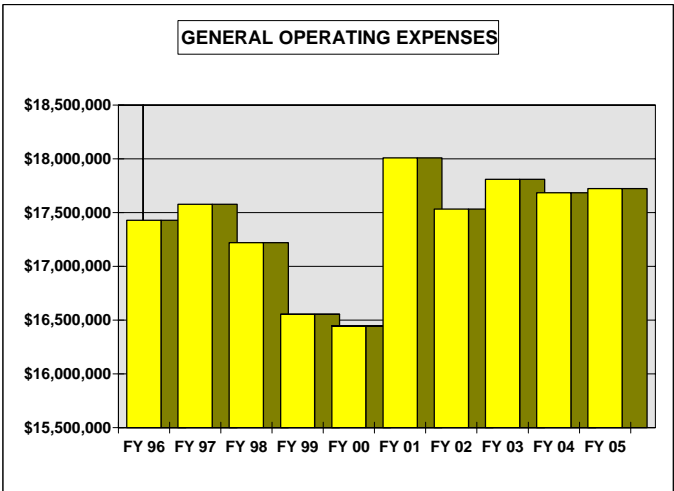
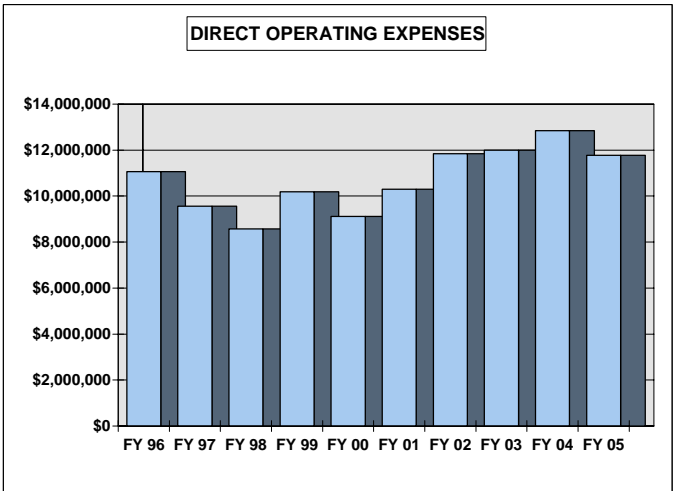
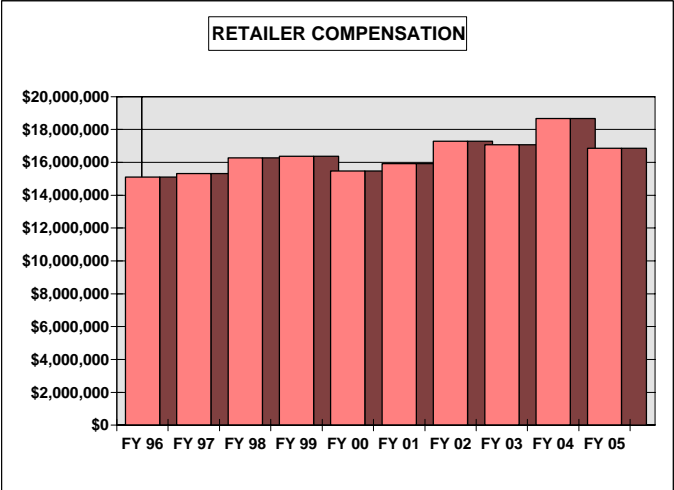
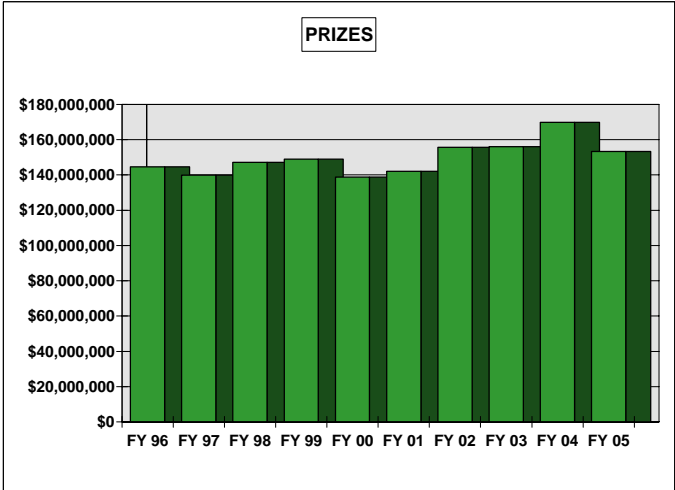
LOUISIANA LOTTERY CORPORATION  
EXPENSES AND PAYMENTS  
(UNAUDITED)  
FISCAL YEARS 1996 THROUGH 2005

	<u>FY 1995-96</u>	<u>FY 1996-97</u>	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>
<b>EXPENSES</b>										
PRIZES	\$144,589,840	\$139,773,269	\$147,071,812	\$148,940,656	\$138,747,688	\$142,025,272	\$155,559,230	\$155,908,816	\$169,776,455	\$153,257,203
RETAILER COMPENSATION	15,104,325	15,325,737	16,270,676	16,371,789	15,482,787	15,923,481	17,284,582	17,072,192	18,664,893	16,859,899
DIRECT OPERATING EXPENSES	11,061,649	9,560,285	8,569,499	10,189,939	9,120,072	10,294,618	11,839,126	11,992,751	12,842,890	11,775,524
GENERAL OPERATING EXPENSES	17,429,161	17,575,489	17,220,780	16,552,741	16,450,183	18,007,067	17,532,128	17,810,324	17,683,214	17,723,443
<b>TOTAL EXPENSES</b>	<u>\$188,184,975</u>	<u>\$182,234,780</u>	<u>\$189,132,767</u>	<u>\$192,055,125</u>	<u>\$179,800,730</u>	<u>\$186,250,438</u>	<u>\$202,215,066</u>	<u>\$202,784,083</u>	<u>\$218,967,452</u>	<u>\$199,616,069</u>
<b>PAYMENTS</b>										
STATE TREASURY	<u>\$102,492,420</u>	<u>\$104,346,906</u>	<u>\$108,038,552</u>	<u>\$105,655,165</u>	<u>\$98,877,708</u>	<u>\$104,008,334</u>	<u>\$111,029,075</u>	<u>\$110,840,420</u>	<u>\$121,196,335</u>	<u>\$110,391,785</u>

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



**LOUISIANA LOTTERY CORPORATION  
EXPENSES AND PAYMENTS  
(UNAUDITED)  
FISCAL YEARS 1996 THROUGH 2005**



**LOUISIANA LOTTERY CORPORATION  
PAYMENTS 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	
SEPTEMBER 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	
SEPTEMBER 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	
SEPTEMBER 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	

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

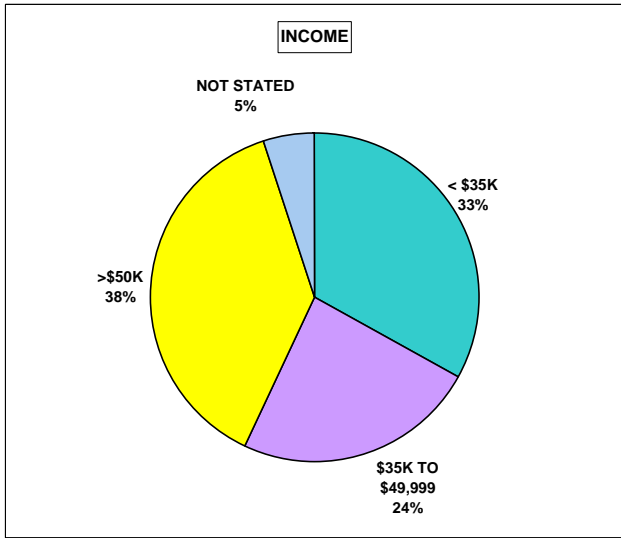
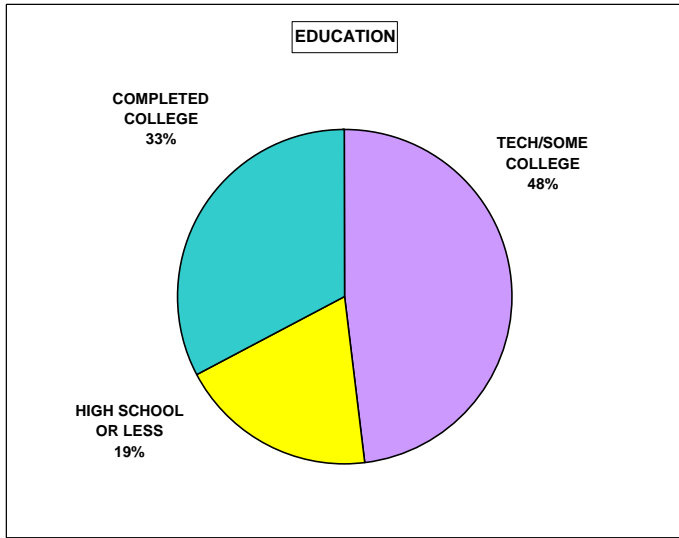
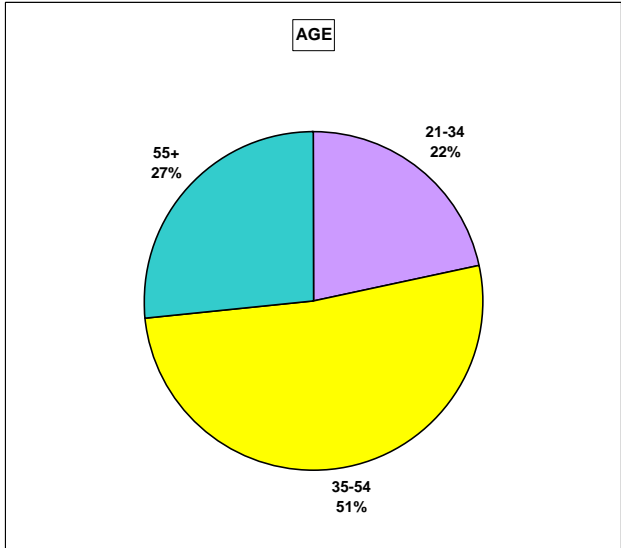
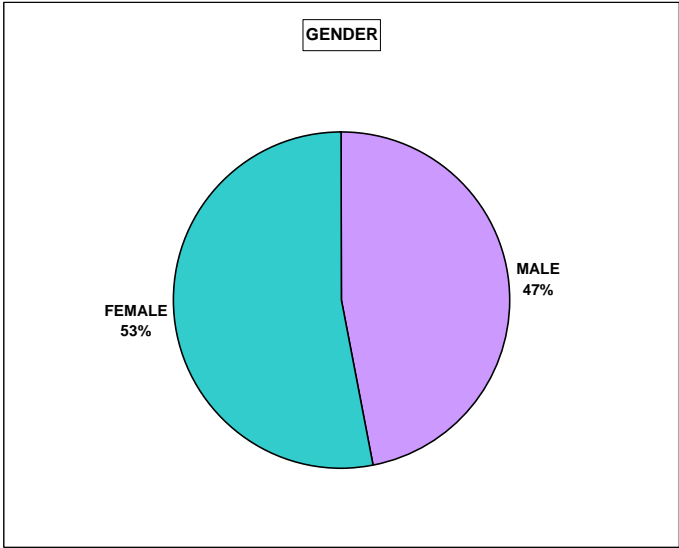
<u>DATE</u>	<u>AMOUNT</u>	<u>LOTTERY FISCAL YEAR TOTAL</u>	<u>CALENDAR YEAR TOTAL</u>
JULY 1998	\$15,552,958		
AUGUST 1998	8,358,134		
SEPTEMBER 1998	7,821,200		
OCTOBER 1998	8,067,540		
NOVEMBER 1998	7,277,057		
DECEMBER 1998	7,625,952		\$113,595,493
JANUARY 1999	8,214,518		
FEBRUARY 1999	7,334,683		
MARCH 1999	9,054,748		
APRIL 1999	7,636,327		
MAY 1999	7,403,142		
JUNE 1999	11,308,906	\$105,655,165	
JULY 1999	7,691,675		
AUGUST 1999	7,146,000		
SEPTEMBER 1999	7,500,825		
OCTOBER 1999	8,024,420		
NOVEMBER 1999	7,206,148		
DECEMBER 1999	7,706,120		96,227,512
JANUARY 2000	7,415,230		
FEBRUARY 2000	9,698,050		
MARCH 2000	10,341,900		
APRIL 2000	8,822,190		
MAY 2000	8,592,760		
JUNE 2000	8,732,390	98,877,708	
JULY 2000	8,159,960		
AUGUST 2000	7,738,605		
SEPTEMBER 2000	7,309,665		
OCTOBER 2000	7,432,725		
NOVEMBER 2000	10,276,870		
DECEMBER 2000	8,063,285		102,583,630
JANUARY 2001	7,942,029		
FEBRUARY 2001	9,919,540		
MARCH 2001	9,421,635		
APRIL 2001	8,636,860		
MAY 2001	8,414,910		
JUNE 2001	10,692,250	104,008,334	
JULY 2001	7,988,275		
AUGUST 2001	18,098,020		
SEPTEMBER 2001	8,149,090		
OCTOBER 2001	8,053,040		
NOVEMBER 2001	7,906,850		
DECEMBER 2001	7,756,615		112,979,114
JANUARY 2002	9,397,380		
FEBRUARY 2002	8,219,050		
MARCH 2002	8,556,150		
APRIL 2002	8,394,675		
MAY 2002	9,349,340		
JUNE 2002	9,160,590	111,029,075	
JULY 2002	7,969,575		
AUGUST 2002	8,296,930		
SEPTEMBER 2002	8,978,520		
OCTOBER 2002	8,373,320		
NOVEMBER 2002	7,781,000		
DECEMBER 2002	14,881,880		109,358,410
JANUARY 2003	9,367,485		
FEBRUARY 2003	8,683,630		
MARCH 2003	8,938,100		
APRIL 2003	8,184,390		
MAY 2003	8,600,225		
JUNE 2003	10,785,365	110,840,420	

(continued on next page)

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

<u>DATE</u>	<u>AMOUNT</u>	<u>LOTTERY FISCAL YEAR TOTAL</u>	<u>CALENDAR YEAR TOTAL</u>
JULY 2003	\$11,785,350		
AUGUST 2003	10,099,360		
SEPTEMBER 2003	8,310,460		
OCTOBER 2003	10,643,240		
NOVEMBER 2003	8,592,455		
DECEMBER 2003	12,917,620		\$116,907,680
JANUARY 2004	9,796,600		
FEBRUARY 2004	9,610,030		
MARCH 2004	10,100,770		
APRIL 2004	9,231,775		
MAY 2004	9,773,075		
JUNE 2004	10,336,200	\$121,196,935	
JULY 2004	8,488,925		
AUGUST 2004	8,584,735		
SEPTEMBER 2004	8,909,205		
OCTOBER 2004	9,832,180		
NOVEMBER 2004	9,095,720		
DECEMBER 2004	10,279,105		114,038,320
JANUARY 2005	8,349,700		
FEBRUARY 2005	8,080,810		
MARCH 2005	8,508,585		
APRIL 2005	8,315,245		
MAY 2005	11,268,835		
JUNE 2005	10,678,740	110,391,785	55,201,915
<b>TOTAL INCEPTION-TO-DATE</b>	<b>\$1,614,838,300</b>	<b>\$1,614,838,300</b>	<b>\$1,614,838,300</b>

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



Source: On-line Mini-Labs Report  
Angus Reid Group, May 2000

## **U.S. LOTTERY STATISTICS (UNAUDITED)**

The following tables:

- U.S. Lotteries' Fiscal 2004 Sales By Game
- Fiscal 2004 U.S. Lottery Sales, Profit & Expense Analysis

(Source: **La Fleur's 2005 World Lottery Almanac**)

Copyright 2005,  
TLF Publications, Inc.  
14424 Chrisman Hill Drive  
Boyd's, MD 20841  
U.S.A.

# U.S. lotteries' fiscal 2004 sales by game\*

(in \$millions)			Online Games									Total Sales	PC Sales	VLT (net)	Prizes <sup>1</sup>	Gov't Transfer
Lottery	Pop. (M)	Instant Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Bloc Lotto	Hot Lotto	Keno	Other						
Arizona	5.7	183.25	6.85		34.03	9.67	132.78				366.58	\$64		202.20	105.86	
California	35.9	1,338.98		124.92	1,116.95	166.50			167.99	8.64	2,923.97	\$81		1,566.03	1,044.06	
Colorado	4.6	260.90			40.81	14.51	85.03				401.25	\$88		236.60	104.07	
Connecticut	3.5	558.01		105.29	73.02	34.20	41.28	95.86			907.66	\$259		538.33	280.76	
Delaware <sup>1,2</sup>	0.8	25.01		27.97	16.71	8.89		30.03			108.61	\$131	532.31	53.19	283.92	
D.C.	0.6	38.94		69.51	71.59		8.51	40.87	1.36	9.71	241.13	\$435		122.32	73.50	
Florida	17.4	1,358.07		349.23	192.58	785.42	259.73			125.94	3,070.96	\$177		1,724.49	1,051.66	
Georgia	8.8	1,556.71		596.92	171.85	76.11	74.70	186.03		47.18	2,710.46	\$307		1,480.30	782.72	
Idaho	1.4	68.62	1.17	1.15		2.79		35.60			109.32	\$78		64.73	25.00	
Illinois	12.7	759.60		308.86	166.75	117.23	99.64	226.50			1,687.58	\$133		973.83	576.06	
Indiana	6.2	422.10	18.97	31.11	30.47	69.58	8.50	154.14			734.87	\$118		436.53	195.76	
Iowa	3.0	95.26	25.53	6.33	1.66		4.43	65.97	7.72		208.53	\$71		114.46	55.79	
Kansas	2.7	87.48	4.25	5.30		2.11	28.58	56.80		39.74	224.46	\$82		120.78	70.22	
Kentucky	4.1	357.02	28.70	126.01	33.73	23.89	19.86	133.89			725.25	\$175		439.19	193.48	
Louisiana	4.5	111.43		47.45	23.69	33.12	6.13	118.28			340.09	\$75		169.78	121.20	
Maine	1.3	150.55		6.20	4.77		3.44	20.92			185.87	\$141		114.89	42.53	
Maryland	5.6	355.02		290.75	209.21	36.18	21.24	90.31		389.80	1,395.41	\$251		795.17	458.37	
Massachusetts	6.4	2,977.73	2.25		362.52	108.17	46.20	96.00		775.52	4,368.39	\$681		3,148.46	912.01	
Michigan	10.1	690.16	25.08	423.26	310.18	66.57	32.57	206.62		219.37	1,973.90	\$195		1,099.67	644.88	
Minnesota	5.1	215.70		13.30			24.60	117.50	10.40		386.90	\$76		225.53	100.71	
Missouri	5.8	434.79	21.85	53.95	18.44	35.02	24.34	147.23		51.53	791.15	\$137		484.83	229.43	
Montana	0.9	10.38				2.33	4.19	16.97	2.43		36.74	\$40		18.68	8.12	
Nebraska	1.7	46.28				2.13	9.53	34.67			92.61	\$53		52.61	20.59	
N. Hampshire	1.3	157.02		11.34		10.41	3.33	52.65	2.26		237.01	\$182		137.15	73.74	
New Jersey	8.7	973.63		452.46	261.85	130.78	115.43	251.30			2,188.40	\$252		1,239.74	794.97	
New Mexico	1.9	87.02		2.09			8.07	51.47			148.65	\$78		78.88	35.94	
New York	19.3	2,733.94		757.53	592.76	356.43	363.11	474.43		534.31	5,825.71	\$302	22.00	3,306.34	1,907.40	
N. Dakota <sup>3</sup>	0.6							5.66	0.11		5.77	\$9		2.79	1.57	
Ohio	11.5	1,166.02		396.75	165.23	143.83	66.58	191.78		24.53	2,154.72	\$188		1,275.99	655.61	
Oregon <sup>1,2</sup>	3.6	132.73	2.63		1.38	46.47		45.98		116.48	362.30	\$101	530.97	232.12	380.58	
Pennsylvania	12.4	989.20		438.35	265.23	126.27	225.11	307.91			2,352.07	\$190		1,305.86	817.25	
R. Island <sup>1,2</sup>	1.1	76.52		29.68			3.76	50.87		88.33	249.40	\$231	358.87	148.40	281.14	
S. Carolina	4.2	537.34		109.10	48.59		22.79	232.19			950.01	\$226		552.29	286.75	
S. Dakota <sup>1,2</sup>	0.8	15.26				1.67	1.54	14.50	1.16		34.14	\$44	216.76	19.13	115.77	
Tennessee <sup>4</sup>	5.9	361.86		26.04				39.79			427.69	\$72		216.97	123.27	
Texas	22.5	2,323.88		277.25		477.82	122.38	235.43			3,485.92	\$155		2,068.64	1,051.04	
Vermont	0.6	68.80		1.62	1.29		1.37	19.30			92.38	\$149		57.59	19.62	
Virginia	7.5	630.93		241.43	156.93	73.00	28.04	132.03			1,262.36	\$169		720.21	407.70	
Washington	6.2	277.99		17.31		90.26	21.64	55.19		6.70	481.44	\$78		295.49	117.58	
W. Virginia <sup>1,2</sup>	1.8	109.84		9.39	4.54		6.19	63.37	2.58	10.95	206.86	\$114	1,096.57	123.26	512.14	
Wisconsin	5.5	266.63	3.66	23.92	10.11	20.22	50.45	107.96			482.94	\$88		275.18	131.60	
<b>Total</b>	<b>264.3</b>	<b>23,010.59</b>	<b>134.08</b>	<b>5,388.62</b>	<b>3,195.06</b>	<b>4,072.68</b>	<b>1,947.92</b>	<b>4,423.80</b>	<b>28.01</b>	<b>2,457.61</b>	<b>281.09</b>	<b>44,939.5</b>	<b>\$170</b>	<b>2,757.47</b>	<b>26,238.6</b>	<b>15,094.4</b>
<b>% of total</b>		<b>51.2%</b>	<b>0.3%</b>	<b>12.0%</b>	<b>7.1%</b>	<b>9.1%</b>	<b>4.3%</b>	<b>9.8%</b>	<b>0.1%</b>	<b>5.5%</b>	<b>0.6%</b>	<b>100.0%</b>				

<sup>1</sup> Prizes do not include VLT prizes paid; <sup>2</sup> Denotes VLT net machine income; <sup>3</sup> Total sales period (3/20-6/30/04); <sup>4</sup> Total sales period (1/20-6/30/04)

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

### Fiscal 2004 U.S. Lottery Sales, Profit & Expense Analysis\*

Lottery	Pop. <sup>1</sup> (Mil)	Census 2004 Statewide Personal Income <sup>2</sup>	(Millions of dollars)							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	5.6	161,709	366.58	0.47	367.05	202.20	24.50	33.94	106.42	\$66	\$19	0.227%	0.066%	55.1%	9.2%	29.0%
California	35.5	1,259,549	2,973.97	-197.30	2,776.67	1,566.03	205.75	165.08	839.83	\$84	\$24	0.220%	0.067%	56.4%	5.9%	30.2%
Colorado	4.6	166,093	401.25	0.16	401.41	236.60	30.26	31.73	102.82	\$88	\$23	0.242%	0.062%	58.9%	7.9%	25.6%
Connecticut	3.5	159,030	907.66	0.56	908.22	538.33	50.50	38.48	280.91	\$261	\$81	0.571%	0.177%	59.3%	4.2%	30.9%
Delaware <sup>3</sup>	0.8	29,114	108.61		108.61	53.19	6.60	12.28	36.54	\$133	\$45	0.373%	0.126%	49.0%	11.3%	33.6%
D.C.	0.6	28,252	241.13	0.32	241.45	122.32	15.01	30.61	73.51	\$428	\$130	0.855%	0.260%	50.7%	12.7%	30.4%
Florida	17.0	541,273	3,070.96	-133.71	2,937.25	1,724.49	174.39	136.09	902.28	\$180	\$53	0.543%	0.167%	58.7%	4.6%	30.7%
Georgia	8.7	269,662	2,549.54	-10.78	2,538.76	1,480.30	177.99	113.53	766.93	\$294	\$88	0.941%	0.284%	58.3%	4.5%	30.2%
Idaho	1.4	37,385	109.32	0.12	109.44	64.73	6.31	14.01	24.39	\$80	\$18	0.293%	0.065%	59.1%	12.8%	22.3%
Illinois	12.7	441,255	1,687.58	25.51	1,713.09	973.83	85.39	85.72	568.15	\$133	\$45	0.388%	0.129%	56.8%	5.0%	33.2%
Indiana	6.2	189,487	734.87	1.04	735.91	436.53	50.33	49.73	199.32	\$119	\$32	0.388%	0.105%	59.3%	6.8%	27.1%
Iowa	2.9	89,970	208.53	1.94	210.47	114.46	13.30	27.30	55.41	\$71	\$19	0.234%	0.062%	54.4%	13.0%	26.3%
Kansas	2.7	84,716	224.46	1.00	225.45	120.78	12.93	21.08	70.68	\$82	\$26	0.266%	0.083%	53.6%	9.3%	31.3%
Kentucky	4.1	114,601	725.25	-17.65	707.61	439.19	45.13	48.02	175.28	\$176	\$43	0.617%	0.153%	62.1%	6.8%	24.8%
Louisiana	4.5	123,556	340.09	0.40	340.49	169.78	18.66	30.45	121.59	\$76	\$27	0.276%	0.098%	49.9%	8.9%	35.7%
Maine	1.3	39,947	185.87	2.44	188.32	114.89	13.61	17.29	42.53	\$142	\$33	0.471%	0.106%	61.0%	9.2%	22.6%
Maryland	5.5	218,614	1,395.41		1,395.41	795.17	91.30	50.56	458.37	\$253	\$83	0.638%	0.210%	57.0%	3.6%	32.8%
Massachusetts	6.4	268,122	4,368.39	13.39	4,381.78	3,148.46	248.08	73.23	912.01	\$679	\$142	1.634%	0.340%	71.9%	1.7%	20.8%
Michigan	10.1	326,168	1,973.90	-3.47	1,970.43	1,099.67	145.37	95.40	630.00	\$196	\$62	0.604%	0.193%	55.8%	4.8%	32.0%
Minnesota	5.1	181,793	386.92	0.46	387.38	225.53	22.81	38.33	100.71	\$76	\$20	0.213%	0.055%	58.2%	9.9%	26.0%
Missouri	5.7	174,256	791.15	6.58	797.73	484.83	49.32	40.96	222.63	\$139	\$39	0.458%	0.128%	60.8%	5.1%	27.9%
Montana	0.9	25,215	36.74	0.02	36.75	18.68	2.09	7.87	8.12	\$40	\$9	0.146%	0.032%	50.8%	21.4%	22.1%
Nebraska	1.7	55,418	92.61	0.45	93.06	52.61	5.63	15.02	19.80	\$53	\$11	0.168%	0.036%	56.5%	16.1%	21.3%
N. Hampshire	1.3	47,640	237.01	2.62	239.63	137.15	12.81	15.58	74.09	\$184	\$58	0.503%	0.156%	57.2%	6.5%	30.9%
New Jersey	8.6	362,430	2,188.40	43.77	2,232.16	1,239.74	121.00	73.06	798.36	\$253	\$92	0.616%	0.220%	55.5%	3.3%	35.8%
New Mexico	1.9	50,702	148.65	-6.05	142.60	78.88	10.13	17.65	35.94	\$79	\$19	0.281%	0.071%	55.3%	12.4%	25.2%
New York	19.2	732,681	5,847.50	-15.83	5,831.67	3,306.34	355.66	230.85	1,938.83	\$305	\$101	0.796%	0.265%	56.7%	4.0%	33.2%
N. Dakota	0.6	19,650	05.77	0.27	6.04	2.79	0.29	1.29	1.67	\$9	\$3	0.031%	0.008%	46.2%	21.4%	27.6%
Ohio	11.4	359,839	2,154.72	-69.97	2,084.75	1,275.99	132.77	97.67	578.32	\$188	\$51	0.579%	0.161%	61.2%	4.7%	27.7%
Oregon <sup>3</sup>	3.6	108,350	362.30	-0.59	361.71	232.12	31.88	27.62	70.08	\$102	\$20	0.334%	0.065%	64.2%	7.6%	19.4%
Pennsylvania	12.4	411,274	2,352.07	18.25	2,370.33	1,305.86	121.89	125.32	817.25	\$190	\$66	0.576%	0.199%	55.1%	5.3%	34.5%
R. Island <sup>3</sup>	1.1	36,147	249.40	1.31	250.71	148.40	30.54	7.56	64.21	\$232	\$60	0.694%	0.178%	59.2%	3.0%	25.6%
S. Carolina	4.1	114,270	950.01	2.78	952.79	552.29	66.95	43.42	290.13	\$229	\$70	0.834%	0.254%	58.0%	4.6%	30.5%
S. Dakota <sup>3</sup>	0.8	23,175	34.14	0.42	34.56	19.13	1.86	5.42	8.14	\$45	\$11	0.149%	0.035%	55.4%	15.7%	23.6%
Texas	22.1	680,409	3,487.92	1.02	3,488.94	2,068.64	176.56	180.82	1,062.92	\$158	\$48	0.513%	0.156%	59.3%	5.2%	30.5%
Vermont	0.6	20,106	92.38	-0.14	92.24	57.59	5.39	9.34	19.92	\$149	\$32	0.459%	0.099%	62.4%	10.1%	21.6%
Virginia	7.4	264,707	1,262.36	4.65	1,267.01	720.21	70.65	68.08	408.05	\$171	\$55	0.479%	0.154%	56.8%	5.4%	32.2%
Washington	6.1	215,260	481.44	-47.02	434.42	295.49	30.34	36.03	72.56	\$79	\$12	0.202%	0.034%	68.0%	8.3%	16.7%
W. Virginia <sup>3</sup>	1.8	47,339	206.87	-6.40	200.47	123.26	14.46	21.16	41.58	\$114	\$23	0.423%	0.088%	61.5%	10.6%	20.7%
Wisconsin	5.5	176,898	482.94	-9.85	473.09	275.18	33.88	33.35	130.68	\$88	\$24	0.267%	0.074%	58.2%	7.0%	27.6%
<b>Total</b>	<b>255.9</b>	<b>8,656,062</b>	<b>44,424.7</b>	<b>-388.83</b>	<b>44,035.8</b>	<b>26,021.6</b>	<b>2,712.3</b>	<b>2,170.9</b>	<b>13,130.9</b>	<b>\$174</b>	<b>\$51</b>	<b>0.509%</b>	<b>0.152%</b>	<b>59.1%</b>	<b>4.9%</b>	<b>29.8%</b>
<b>VLTs (only)</b>																
Delaware <sup>4</sup>	0.8	29,114	532.31		532.31		254.94	30.00	247.38	\$651	\$303	1.828%	0.850%		5.6%	46.5%
Oregon <sup>4</sup>	3.6	108,350	8,587.58		8,587.58	8,056.62	169.09	40.31	321.57	\$2,413	\$90	7.926%	0.297%	93.8%	0.5%	3.7%
R. Island <sup>4</sup>	1.1	36,147	1,231.23		1,231.23	872.28	141.39		217.56	\$1,144	\$202	3.406%	0.602%	70.8%		17.7%
S. Dakota <sup>4</sup>	0.8	23,175	630.33	1.19	631.51	413.57	108.38	1.55	108.01	\$825	\$141	2.725%	0.466%	65.5%	0.2%	17.1%
W. Virginia <sup>4</sup>	1.8	47,339	12,471.45		12,471.45	11,374.88	615.19	10.82	470.57	\$6,889	\$260	26.345%	0.994%	91.2%	0.1%	3.8%
<b>Total</b>	<b>7.2</b>	<b>244,125</b>	<b>23,452.90</b>	<b>1.19</b>	<b>23,454.08</b>	<b>20,717.35</b>	<b>1,288.97</b>	<b>82.67</b>	<b>1,365.09</b>	<b>\$3,253</b>	<b>\$189</b>	<b>9.607%</b>	<b>0.559%</b>	<b>88.3%</b>	<b>0.4%</b>	<b>5.8%</b>
<b>Total</b>	<b>255.94</b>	<b>8,656,062</b>	<b>67,877.56</b>	<b>-387.64</b>	<b>67,489.92</b>	<b>46,738.99</b>	<b>4,001.29</b>	<b>2,253.61</b>	<b>14,496.03</b>	<b>\$265</b>	<b>\$57</b>	<b>0.780%</b>	<b>0.167%</b>	<b>69.3%</b>	<b>3.3%</b>	<b>21.5%</b>

\* Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30).<sup>1</sup> Source: U.S. Census Bureau; 2 Source: U.S. Department of Commerce

<sup>3</sup> This data represents only revenue from traditional lottery games. <sup>4</sup> This data represents revenue from VLT operations.

**OTHER REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

The following pages contain a report on internal control and on compliance with laws and regulations and other matters 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 and other matters that would be material to the presented financial statements.



STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
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August 15, 2005

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

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

We have audited the basic financial statements of the Louisiana Lottery Corporation, a component unit of the State of Louisiana, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**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 financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

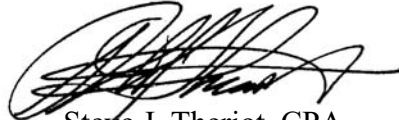
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Louisiana Lottery Corporation's 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Louisiana Lottery Corporation and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

RR:WDD:THC:dl

LLC05