

**LOUISIANA  
LOTTERY  
CORPORATION**

**LOUISIANA LOTTERY CORPORATION  
A COMPONENT UNIT OF THE STATE OF LOUISIANA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**LOUISIANA LOTTERY CORPORATION**  
**A COMPONENT UNIT OF THE STATE OF LOUISIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**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. Seventy copies of this public document were produced at an approximate cost of \$600.

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August 28, 2003

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

## **INTRODUCTION**

The Louisiana Lottery Corporation is pleased to submit its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. 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 twelve 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.

## **MAJOR ACCOMPLISHMENTS**

Financial accomplishments are included in *Management's Discussion and Analysis* beginning on page 11. Other significant accomplishments in fiscal year 2003 included the following:

- Implemented enhancements to the Powerball and Cash Quest on-line games.
- Launched a new Powerball instant ticket game show.
- Introduced new extended play instant ticket games.

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

The Government Finance Officers Association of the United States and Canada (GFOA) 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, 2002. This was the fifth 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.

## **FINANCIAL INFORMATION**

### **Enterprise Operations:**

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

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

### **Internal Control Framework:**

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

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

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

- Human resources and payroll processing
- Daily cash management and bank account reconciliations
- Cash disbursement authorization and bank account reconciliations
- Purchasing and accounts payable
- Cash disbursement authorization and accounts payable
- Retailer licensing and retailer accounts receivable
- General ledger accounts receivable and retailer accounts receivable
- Data center processing and programming
- Drawing department and information systems department

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

### **Budgetary Controls:**

The Corporation is required to submit its annual fiscal year budget to the Board of Directors and the Joint Legislative Committee on the Budget for review and approval. All levels of management are involved in the budgeting process. Available resources are determined based on projected revenue and are allocated to specific areas based on the goals and objectives contained in the Lottery's annual business plan. Operational efficiency is emphasized 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 United States economy suffered an economic downturn beginning in the year 2000 and continuing into the year 2003. Unemployment rates increased, corporate profits shrunk, and stock prices generally declined. The impact of the September 11, 2001, terrorist attacks and the global war on terrorism continues to place a heavy burden on the financial health of the economy. In addition, the war with Iraq negatively affected investor confidence during the latter part of the year 2002 and into the year 2003.

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 an effort to stimulate the economy, the Federal Reserve continued to lower short-term interest rates during the past year. Also, long-term interest rates, including mortgage rates, have continued to decline. In addition, Congress and the President passed the *Jobs and Growth Tax Relief Reconciliation Act of 2003* that will provide federal tax reductions for most taxpayers. The economic effect of these events may be positive in future years.

## **MAJOR INITIATIVES**

Management prepared a business plan for the 2004 fiscal year during the annual budgeting process. This plan contains the Corporation's objectives and goals for the new year. Several of the major initiatives contained in the plan include the following:

- Maximize instant product sales by improving instant game strategies related to game design, inventory management, distribution and coordination of sales and marketing efforts.
- Upgrade the Corporation's web site to enhance communications with players and retailers.
- Develop promotions for on-line and instant games using the gaming system promotions module.

## **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, 2003, and June 30, 2002, 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,

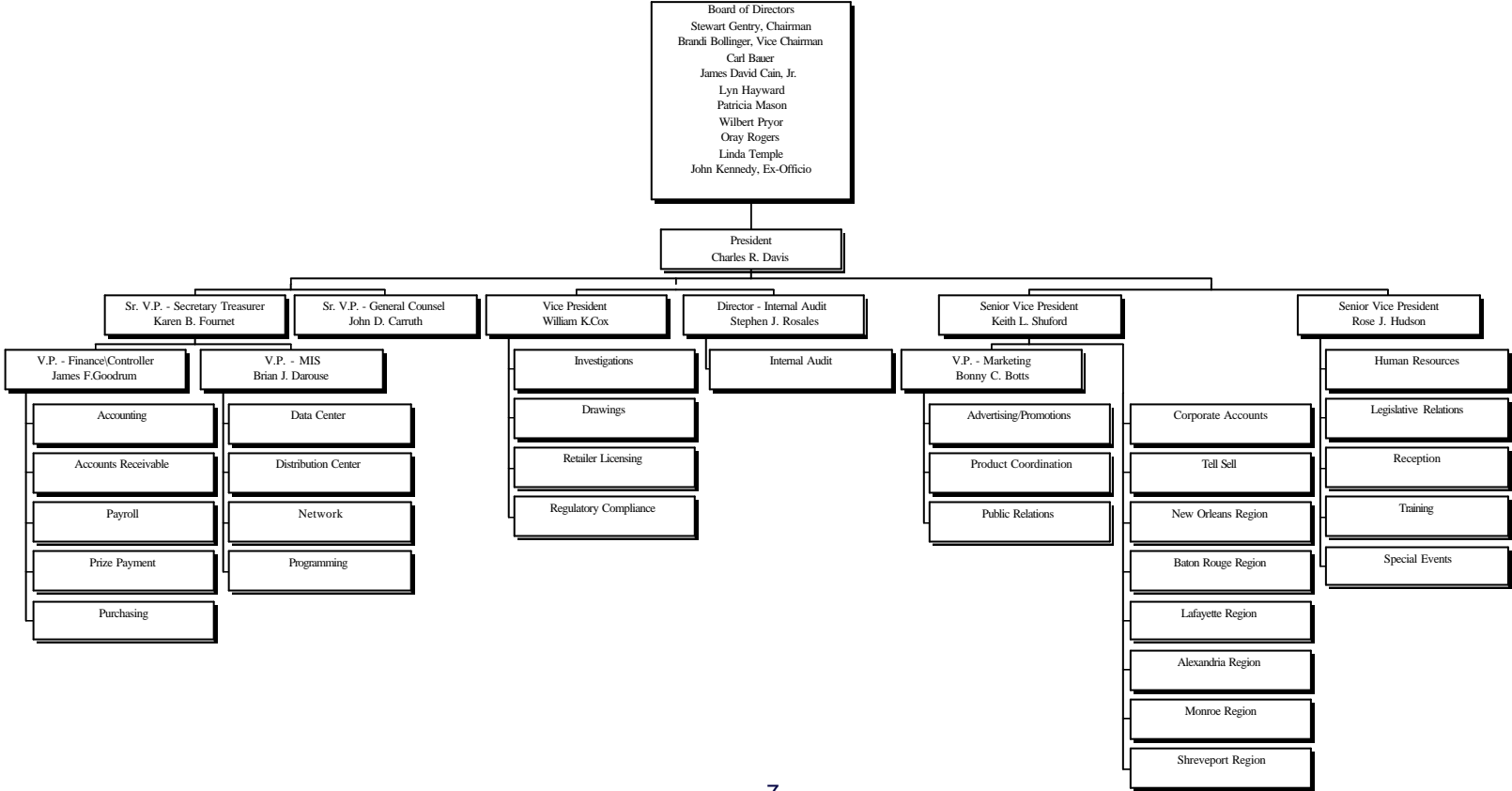
LOUISIANA LOTTERY CORPORATION

A handwritten signature in cursive script that reads "Karen Fournet". The signature is written in black ink and is positioned above the printed name and title.

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, 2002

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.



President

Executive Director

## **FINANCIAL SECTION**



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
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August 15, 2003

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, 2003, and June 30, 2002, 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, 2003, and June 30, 2002, 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, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDITOR

**BOARD OF DIRECTORS  
LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA**

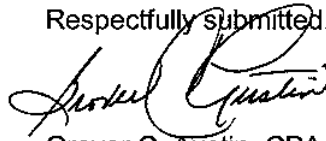
Audit Report, June 30, 2003

Page 2

Management's discussion and analysis on pages 11 through 18 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,



Grover C. Austin, CPA  
First Assistant Legislative Auditor

JPB:WDD:THC:dI

[LLC03]

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

**Management's Discussion and Analysis  
For the Years Ended June 30, 2003 and June 30, 2002**

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, 2003 and June 30, 2002. 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, 2003, with comparative totals for June 30, 2002. 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 19 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 20 and 21. 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 17 to the financial statements on page 38.

The statement of cash flows on pages 22 and 23 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 24 present information on accounting policies, cash, investments, accounts receivable, prepaid expenses, restricted assets, capital assets, deposits, prizes payable, vacation and sick leave, 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, 2003, and the prior years ended June 30, 2002 and June 30, 2001, is presented below followed by further analysis of changes in key performance indicators.

	<b>As of and for the Year Ended June 30, 2003</b>	<b>As of and for the Year Ended June 30, 2002</b>	<b>As of and for the Year Ended June 30, 2001</b>
<b>Operating revenues</b>			
Instant ticket sales	\$102,548,975	\$111,272,825	\$111,610,821
On-line sales	208,907,156	200,349,020	172,858,071
Allowance for uncollectible accounts	(39,659)	(25,000)	(5,000)
Other operating revenues	<u>108,569</u>	<u>16,882</u>	<u>35,964</u>
<b>Total operating revenues</b>	<u>311,525,041</u>	<u>311,613,727</u>	<u>284,499,856</u>
<b>Operating expenses</b>			
Direct costs:			
Prize expense	155,908,816	155,559,230	142,025,272
Retailer commission and incentives	17,072,192	17,284,582	15,923,481
Other direct costs	<u>11,992,751</u>	<u>11,839,126</u>	<u>10,294,618</u>
Total direct costs	184,973,759	184,682,938	168,243,371
Administrative expenses	<u>17,769,718</u>	<u>17,506,929</u>	<u>17,998,449</u>
<b>Total operating expenses</b>	<u>202,743,477</u>	<u>202,189,867</u>	<u>186,241,820</u>
<b>Operating income</b>	<u>108,781,564</u>	<u>109,423,860</u>	<u>98,258,036</u>
<b>Nonoperating revenues</b>	<u>2,263,456</u>	<u>2,725,645</u>	<u>4,085,850</u>
<b>Payments to state treasury</b>	<u>(110,840,420)</u>	<u>(111,029,075)</u>	<u>(104,008,334)</u>
<b>Changes in net assets</b>	<u>\$204,600</u>	<u>\$1,120,430</u>	<u>(\$1,664,448)</u>

The Corporation's financial performance for the fiscal year ended June 30, 2003 was consistent with the results experienced in the fiscal year ended June 30, 2002. Total treasury payments were approximately \$111 million in both fiscal years 2003 and 2002. This represented an approximate \$7 million increase from fiscal year 2001 results. Net assets increased for both fiscal years presented in the financial statements. The reasons for the activity in each component outlined below provide the rationale for these positive results of operations.

### **Operating revenues**

#### *For the year ended June 30, 2003*

Total operating revenues of over \$311.5 million were consistent with prior year amounts. On-line sales increased by \$8.6 million while instant ticket sales were \$8.7 million lower than the previous fiscal year. Powerball on-line sales of \$105.3 million were at the highest level since the introduction of this multi-state game in Louisiana. Several large jackpots during fiscal year 2003 contributed to the record sales for this game. In May 2003, the Cash Quest game was modified to increase the number of drawings per week from two to five. This game's sales increased by 17% in fiscal year 2003. Pick 3 sales slightly increased while sales for the Pick 4 and Lotto games increased by 18% and 10%, respectively. The decline in instant sales may have been caused by a shift of players' preferences from instant games to on-line games.

#### *For the year ended June 30, 2002*

Operating revenues improved by \$27.1 million because of increases in on-line sales during the fiscal year. Powerball on-line game sales exceeded \$100 million for the first time since the Corporation joined this multi-state lottery game in the fiscal year ended June 30, 1995. This increase was mainly attributed to a surge in sales in August 2001 when the Powerball jackpot prize reached a record \$295 million. Sales of the Lotto, Pick 3, and Pick 4 on-line games also increased during the year. Instant ticket sales were consistent with prior year levels. Total sales of \$311.6 million exceeded all previous fiscal years' sales since fiscal year ending June 30, 1994.

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

### **Nonoperating revenues**

Earnings on investments decreased \$475,000 in fiscal year 2003 and almost \$1.4 million in fiscal year 2002. 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 eleven times during the 2001 calendar year and several more times in the years 2002 and 2003. These decreases 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 years ended June 30, 2003 and June 30, 2002, was 1.21% and 2.19%,

respectively, as compared to a rate of 5.39% in the fiscal year ended June 30, 2001. The Corporation's long-term portfolio of U.S. government and agency securities earned an average rate of return of 8.38% during fiscal year 2003 and 8.72% during fiscal year 2002. This income offset some of the decreases realized in short-term investments.

Total revenues earned during the 2003 and 2002 fiscal years were \$313.8 million and \$314.3 million, respectively. The allocation of these funds for expenses, transfers, and changes in net assets is presented below:

**For the year ended June 30, 2003**

**For the year ended June 30, 2002**



**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.

**Payments to state treasury**

Note 17 to the financial statements on page 38 includes a discussion of the statutory requirements for payments to the state treasury. Payments remained at approximately \$111 million in fiscal year 2003 because of stable operating revenues as compared to fiscal year 2002. The substantial increase in revenues in fiscal year 2002 resulted in a \$7 million increase in these remittances over the prior fiscal year. The Payments for both fiscal years 2003 and 2002 also included \$1 million above and beyond the 35% of gross revenues required by statute. As of June 30, 2003, this brings the total amount of state payments over the 35% requirement since the inception of the Corporation to \$34.9 million.

The positive financial performance of the Corporation resulted in an overall improvement in financial position at June 30, 2003 and at June 30, 2002. 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 and for the Year Ended June 30, 2003</u>	<u>As of and for the Year Ended June 30, 2002</u>	<u>As of and for the Year Ended June 30, 2001</u>
<b>Assets</b>			
Current assets	\$51,207,025	\$48,630,827	\$50,458,489
Noncurrent assets:			
Capital assets	6,454,388	6,933,380	3,256,590
Other noncurrent assets	152,147,497	149,851,363	152,452,488
Total noncurrent assets	<u>158,601,885</u>	<u>156,784,743</u>	<u>155,709,078</u>
<b>Total assets</b>	<u>209,808,910</u>	<u>205,415,570</u>	<u>206,167,567</u>
<b>Liabilities</b>			
Current liabilities	47,872,045	44,425,044	41,712,929
Noncurrent liabilities	<u>137,024,899</u>	<u>136,283,160</u>	<u>140,867,702</u>
<b>Total liabilities</b>	<u>184,896,944</u>	<u>180,708,204</u>	<u>182,580,631</u>
<b>Net assets</b>			
Invested in capital assets	6,454,388	6,933,380	3,256,590
Unrestricted	18,457,578	17,593,296	20,149,656
Restricted	<u>                    </u>	<u>180,690</u>	<u>180,690</u>
<b>Total net assets</b>	<u>\$24,911,966</u>	<u>\$24,707,366</u>	<u>\$23,586,936</u>

## **Current assets**

### *For the year ended June 30, 2003*

Current assets increased because the year-end balance of retailer accounts receivable was significantly higher than the balance at June 30, 2002. This change was caused by an increase in sales volume due to a large Powerball jackpot that existed at the end of the fiscal year. The balances due from the retailers were collected after June 30, 2003.

### *For the year ended June 30, 2002*

Current assets declined because the uses of current assets to fund projects and other disbursements exceeded the deposit of new funds generated from operations. Funds were liquidated from current investments for payments for the permanent facilities project and other capital asset purchases, an additional transfer to the state treasury of \$3 million in July 2001 for surplus generated in the fiscal year ended June 30, 2001, and a net use of the unclaimed prize pool to fund instant game prize structures. Investment deposits were generated during the year from the increase in net assets due to the positive financial performance

discussed previously, a large Lotto jackpot prize pool that was claimed and paid after the fiscal year-end, and net increases in on-line game prize reserves.

### **Capital assets**

Capital assets slightly decreased in fiscal year 2003 because depreciation expense was greater than capital asset acquisitions. The completion of the Corporation's new headquarters facility and the related purchases of furniture, fixtures, and equipment caused a substantial increase in capital assets during fiscal year 2002. Details of capital asset additions, deletions, and depreciation are included in note 8 to the financial statements on page 29.

### **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 some 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 dependant 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 a net increase of \$735,000 in fiscal year 2003 and a net decrease of \$3.4 million in fiscal year 2002. Additional information on investments in prize annuities is included in note 5 to the financial statements on page 27 and the related prizes payable information is contained in note 10 on page 31.

In addition, a remaining prepaid expense of \$1.8 million for the use of a new instant ticket accounting and administrative computer system increased noncurrent assets at June 30, 2003. Note 6 to the financial statements includes a description of this asset.

### **Current liabilities**

Current liabilities increased by \$3.4 million in fiscal year 2003 because of the factors presented below:

- Accounts payable decreased by \$940,000 because of payments in 2003 for prior year accrued expenses and fewer accrued expenses at June 30, 2003 than at June 30, 2002.
- The accrued payment to the state treasury includes the required remittances (see note 17) incurred in June to be paid in the following July and any accrued surplus transfers. The accrued required payment at June 30, 2003, was approximately \$1.6 million greater than the required payment at June 30, 2002 because of increased revenue in June 2003

due to a large Powerball jackpot. The surplus payment portion of the accrual was equal to the \$1 million payment for the previous fiscal year.

- Prizes and withholdings payable increased by \$2.7 million because of increases in the amount due to the Multi-State Lottery Association for the Powerball prize pool from the large jackpot, the projected net use of unclaimed prizes to fund instant game prize structures within the next fiscal year, and instant and online prizes payable. The components of this liability category are presented in note 10 to the financial statements on page 31.

Current liabilities increased by \$2.7 million in fiscal year 2002 because of the factors presented below:

- Accounts payable increased by \$1.4 million because of increases in accruals of capital asset costs, advertising expenses, and other expenses that were incurred during the fiscal year but paid to the vendors after June 30, 2002.
- The accrued required payment at June 30, 2002, was approximately \$500,000 greater than the required payment at June 30, 2001, while the surplus payment portion of the accrual was lower by \$2 million. The total accrued payment to the state treasury decreased by \$1.5 million.
- Prizes and withholdings payable increased by \$2.8 million. The majority of this change was attributed to increases in the on-line prizes payable accounts due to the large Lotto jackpot prize and increases in reserves discussed in the current assets section previously.

### **Noncurrent liabilities**

The changes in noncurrent investments in prize annuities discussed above caused equal changes in the corresponding noncurrent liabilities to prize winners. In addition, an estimated net use of unclaimed prizes of \$1.2 million in the fiscal year ending June 30, 2003, caused a reclassification of noncurrent unclaimed prizes payable to current unclaimed prizes payable in the fiscal year ended June 30, 2002. Further disclosures on noncurrent prizes payable are included in note 10 to the financial statements on page 31.


### **Net assets**

Finally, net assets increased by \$200,000 in fiscal year 2003 and \$1.1 million in fiscal year 2002 because of the income generated during these years. In addition, the \$3.7 million increase in net assets invested in capital assets caused a corresponding reduction in unrestricted net assets for the fiscal year ended June 30, 2002. This net asset category transfer represents a shift of a portion of the Corporation's investments from short-term invested funds to long-term capital assets. The specified uses of unrestricted net assets are presented in note 16 to the financial statements on page 37.

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, 2003 and June 30, 2002. 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

Statement of Net Assets, June 30, 2003  
(With Comparative Totals for June 30, 2002)

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash (note 2)	\$24,727	\$24,532
Investments (note 3)	21,831,381	22,772,175
Accounts receivable, net (note 4)	12,319,311	8,782,720
Investments in government securities (note 3)	205,000	
Investments in prize annuities (note 5)	15,548,434	15,499,216
Prepaid expenses (note 6)	1,263,104	1,336,272
Restricted assets - investments (note 7)		180,690
Other current assets	15,068	35,222
<b>Total current assets</b>	<u>51,207,025</u>	<u>48,630,827</u>
<b>Noncurrent assets:</b>		
Capital assets		
Land (note 8)	1,542,415	1,542,415
Depreciable capital assets, net (note 8)	4,911,973	5,390,965
Investments in government securities (note 3)	19,713,443	19,959,737
Investments in prize annuities (note 5)	123,235,158	122,499,189
Deposits with Multi-State Lottery Association (note 9)	7,417,646	7,392,437
Prepaid expenses (note 6)	1,781,250	
<b>Total noncurrent assets</b>	<u>158,601,885</u>	<u>156,784,743</u>
<b>TOTAL ASSETS</b>	<u>209,808,910</u>	<u>205,415,570</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	2,863,430	3,805,042
Wages, benefits, and withholdings payable	10,246	9,031
Accrued payment to state treasury	10,785,365	9,160,590
Prizes and withholdings payable (note 10)	33,918,980	31,181,405
Compensated absences payable (note 11)	294,024	268,976
<b>Total current liabilities</b>	<u>47,872,045</u>	<u>44,425,044</u>
<b>Noncurrent liabilities:</b>		
Noncurrent prizes payable (note 10)	136,884,889	136,147,680
Retailer security deposits	140,010	135,480
<b>Total noncurrent liabilities</b>	<u>137,024,899</u>	<u>136,283,160</u>
<b>TOTAL LIABILITIES</b>	<u>184,896,944</u>	<u>180,708,204</u>
<b>NET ASSETS</b>		
Invested in capital assets	6,454,388	6,933,380
Unrestricted (note 16)	18,457,578	17,593,296
Restricted for operating leases		180,690
<b>TOTAL NET ASSETS</b>	<u>\$24,911,966</u>	<u>\$24,707,366</u>

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and  
Changes in Fund Net Assets  
For the Year Ended June 30, 2003  
(With Comparative Totals for June 30, 2002)

	<u>2003</u>	<u>2002</u>
<b>OPERATING REVENUES</b>		
Instant ticket sales	\$102,548,975	\$111,272,825
On-line sales	208,907,156	200,349,020
Allowance for uncollectible accounts	(39,659)	(25,000)
Retailer license fees	12,350	12,500
Miscellaneous revenue	96,219	4,382
<b>Total operating revenues</b>	<u>311,525,041</u>	<u>311,613,727</u>
<b>OPERATING EXPENSES</b>		
<b>Direct costs:</b>		
Instant ticket prize expense	51,764,873	56,930,430
On-line prize expense	104,143,943	98,628,800
Retailer commission	15,880,681	15,883,916
Retailer incentives	1,191,511	1,400,666
Lottery system vendor fees	9,474,763	9,682,415
Communications	62,498	(31,461)
Cost of instant tickets	2,078,108	1,777,360
Courier service	377,382	410,812
<b>Total direct costs</b>	<u>184,973,759</u>	<u>184,682,938</u>
<b>Administrative expenses:</b>		
Advertising	7,764,974	7,498,443
Contract labor	218,803	184,214
Depreciation	750,588	609,042
Equipment lease (note 15)	36,932	50,780
Insurance	433,047	327,328
Postage	79,165	79,140
Professional fees	297,823	282,356
Rent (note 15)	215,783	595,465
Repairs and maintenance	372,014	522,352
Salaries, benefits, and taxes	6,278,216	6,068,376
Supplies	313,437	303,466
Telephone	327,968	321,931
Travel	108,181	116,862
Utilities	147,463	112,962
Other general and administrative	425,324	434,212
<b>Total administrative expenses</b>	<u>17,769,718</u>	<u>17,506,929</u>
<b>Total operating expenses</b>	<u>202,743,477</u>	<u>202,189,867</u>

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and  
Changes in Fund Net Assets  
For the Year Ended June 30, 2003  
(With Comparative Totals for June 30, 2002)

	<u>2003</u>	<u>2002</u>
<b>OPERATING INCOME</b>	\$108,781,564	\$109,423,860
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest earned on investments	1,706,209	2,261,711
Net increase in the fair value of investments	498,679	418,422
Gain on disposal of assets	58,568	45,512
Payments to state treasury-required (note 17)	(109,840,420)	(110,029,075)
Payments to state treasury-surplus (note 17)	(1,000,000)	(1,000,000)
<b>Total nonoperating revenues (expenses)</b>	<u>(108,576,964)</u>	<u>(108,303,430)</u>
<b>CHANGES IN NET ASSETS</b>	204,600	1,120,430
<b>TOTAL NET ASSETS AT BEGINNING OF YEAR</b>	<u>24,707,366</u>	<u>23,586,936</u>
<b>TOTAL NET ASSETS AT END OF YEAR</b>	<u>\$24,911,966</u>	<u>\$24,707,366</u>

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA  
PROPRIETARY FUND - ENTERPRISE FUND

Statement C

Statement of Cash Flows  
For the Year Ended June 30, 2003  
(With Comparative Totals for June 30, 2002)

	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities</b>		
Cash received from retailers - net of commission and incentives	\$293,737,324	\$296,962,511
Cash from other sources	12,439,485	26,089,891
Cash payments for prizes and related taxes	(181,148,189)	(195,717,720)
Cash payments to suppliers of goods or services	(28,129,076)	(25,589,294)
Cash payments to employees for services	<u>(5,516,749)</u>	<u>(5,387,693)</u>
<b>Net cash provided by operating activities</b>	<u>91,382,795</u>	<u>96,357,695</u>
<b>Cash flows from noncapital financing activities</b>		
Cash payments to the Lottery Proceeds Fund	<u>(109,215,645)</u>	<u>(112,560,735)</u>
<b>Cash flows from capital financing activities</b>		
Proceeds from disposal of capital assets	61,051	51,694
Payments for acquisition of capital assets	<u>(974,660)</u>	<u>(3,576,683)</u>
<b>Net cash used in capital financing activities</b>	<u>(913,609)</u>	<u>(3,524,989)</u>
<b>Cash flows from investing activities</b>		
Receipts of interest	1,458,197	1,910,943
Net withdrawals of short-term investments	940,794	1,590,181
Proceeds from restricted assets - investments	180,690	
Proceeds from investments in government securities	6,739,439	7,744,424
Payments for investments in government securities	(6,199,466)	(7,161,863)
Maturity of investments in prize annuities (note 5)	<u>15,627,000</u>	<u>15,627,000</u>
<b>Net cash provided from investing activities</b>	<u>18,746,654</u>	<u>19,710,685</u>
<b>Net increase (decrease) in cash</b>	195	(17,344)
<b>Cash at July 1</b>	<u>24,532</u>	<u>41,876</u>
<b>Cash at June 30</b>	<u><u>\$24,727</u></u>	<u><u>\$24,532</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

Statement of Cash Flows  
For the Year Ended June 30, 2003  
(With Comparative Totals for June 30, 2002)

	<u>2003</u>	<u>2002</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$108,781,564	\$109,423,860
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	750,588	609,042
Accrued capital financing activities	700,587	(715,345)
Multi-State Lottery Association operating costs	227,685	384,844
Uncollectible accounts	42,889	28,534
Changes in assets and liabilities:		
(Increase) in accounts receivable	(3,593,183)	(298,290)
(Increase) in prepaid expenses	(1,708,081)	(360,768)
Decrease in other current assets	20,155	239
Decrease (increase) in deposits with Multi-State Lottery Association	8,821	(8,778)
(Decrease) increase in accounts payable	(941,612)	1,405,001
Increase in wages, benefits, and withholdings payable	1,216	537
Increase in compensated absences payable	25,048	14,868
Increase in prizes and withholdings payable	2,689,588	1,491,177
(Decrease) in annual grand prizes payable	(15,627,000)	(15,627,000)
Increase in retailer security deposits	4,530	9,774
Total Adjustments	<u>(17,398,769)</u>	<u>(13,066,165)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$91,382,795</u>	<u>\$96,357,695</u>
<b>Non Cash Investing, Capital, and Financing Activities</b>		
Net increase in the fair value of investments	\$498,679	\$418,422
Interest accrued on deposits with Multi-State Lottery Association	\$261,715	\$409,739

(Concluded)

The accompanying notes are an integral part of this statement.

**LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA**

Notes to the Financial Statements  
For the Year Ended June 30, 2003

**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, 2003, and June 30, 2002, the Corporation employed 165 employees and 160 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 Louisiana Lottery Corporation is considered a component unit of the State of Louisiana because the state has financial accountability for fiscal matters as follows: (1) the board of directors is appointed by the governor; (2) upon dissolution of the Corporation, title to all property owned by the Corporation shall vest in the State of Louisiana; and (3) the Corporation provides financial benefits to the state in the form of transfer of funds to the state treasury. The accompanying financial statements present information only as to the transactions of the programs of the Louisiana Lottery Corporation, a component unit of the State of Louisiana. The Corporation is reported as an enterprise fund within the State of Louisiana's Comprehensive Annual Financial Report.

**B. BASIS OF PRESENTATION**

The Corporation uses a proprietary fund (enterprise fund) to report on its financial position and results of operations. The enterprise fund accounts for the activities relative to conducting a lottery, including, but not limited to, incurring and paying administrative costs and payment of prizes. The fund is operated in a manner similar to a private business enterprise where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, management control, accountability, or other purposes. Activities accounted for in the proprietary fund follow all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989.

**C. BASIS OF ACCOUNTING 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 8 on page 29.

**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, 2003, on March 27, 2002. The budget was approved by the Joint Legislative Committee on the Budget on June 6, 2002. A formal

**LOUISIANA LOTTERY CORPORATION**  
**STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

budgetary comparison is not required by GASB reporting standards for proprietary funds and, therefore, a budgetary comparison for the fiscal year ended June 30, 2003, is not presented.

**2. CASH**

Cash includes petty cash on hand of \$2,000 and demand deposits of \$22,727 at June 30, 2003 and \$22,532 at June 30, 2002. 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 Chicago. The Corporation has deposit balances (collected bank balances) of \$26,629 at June 30, 2003, and \$32,328 at June 30, 2002, secured from risk by \$100,000 of federal deposit insurance (GASB Risk Category 1).

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

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

Investments intended to finance the operations of the Corporation are held in two portfolios. As of June 30, 2003, and June 30, 2002, investments in the first portfolio consist of short-term government securities of \$21,831,381 and \$22,772,175, respectively. These securities are in the form of mutual fund investments consisting of U.S. Treasury obligations and/or U.S. government agency obligations and are recorded at fair value. The investments are not classified as to category of credit risk because this is not required by GASB Codification Section 150.125 - .126.

Funds not needed for liquidity purposes are invested in a portfolio of U.S. government and agency securities. For the fiscal years ending June 30, 2003, and June 30, 2002, these investments totaled \$19,918,443 (\$205,000, current; \$19,713,443, noncurrent) and \$19,959,737, respectively, with a range of maturity from 8 months to approximately 29 years. These securities are recorded at fair value. The investments held by the custodial bank's trust department in the Corporation's name meet the criteria for GASB Risk Category B of Statement 3.

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

**4. ACCOUNTS RECEIVABLE**

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

	As of <u>June 30, 2003</u>	As of <u>June 30, 2002</u>
Retailer accounts receivable	\$11,970,141	\$8,533,332
Interest receivable	250,047	263,749
Miscellaneous receivable	113,356	18,680
Allowance for uncollectible accounts	<u>(14,233)</u>	<u>(33,041)</u>
Total	<u>\$12,319,311</u>	<u>\$8,782,720</u>

Retailer accounts receivable includes an uncollected balance of \$358,705 due from a former major lottery retailer with multiple locations that filed for bankruptcy protection in October 2002. The Corporation has filed a lawsuit in a U.S. bankruptcy court in an attempt to recover these funds. These proceedings should conclude with a court decision during the upcoming fiscal year ending June 30, 2004. The probable outcome of this case and the ultimate collectibility of this account cannot be reasonably determined at this time.

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. INVESTMENTS IN PRIZE ANNUITIES**

Investments in prize annuities totaling \$97,205,557 at June 30, 2003, and \$97,659,686 at June 30, 2002, are in the form of U.S. Treasury zero coupon bonds. These investments have been purchased to finance the grand prizes of the Lotto game and the selected top prizes of two instant ticket games that are payable over a 20-year period. The investments are held by a custodial bank, with the Corporation maintaining exclusive control over the investments in the accounts. The investments held by the custodial bank's trust department in the Corporation's name meet the criteria for GASB Risk Category B of Statement 3.

Investments in prize annuities totaling \$41,578,035 and \$40,338,719 at June 30, 2003, and June 30, 2002, respectively, have been purchased to finance the Louisiana grand prize winners of the Multi-State Lottery Association (MUSL) Powerball game. The MUSL purchased U.S. Treasury zero coupon bonds to fund the grand prizes that are payable over 20 years. As the bonds mature, the funds are transferred to the Corporation for the annual prize payments to the winners. These investments, held by the MUSL's custodial bank's trust department in the

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

name of the MUSL, with the Corporation as the beneficiary, are classified as GASB Risk Category C of Statement 3.

The bonds are reported at fair value as required by GASB Statement 31. The corresponding liability to the prize winners is recorded in prizes payable and is disclosed in note 10. Cash receipts from the maturity of investments in prize annuities totaled \$15,627,000 in fiscal year ending June 30, 2003 and in fiscal year ending June 30, 2002.

**6. PREPAID EXPENSES**

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

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:

	<u>2003</u>	<u>2002</u>
Current prepaid expenses:		
Ticket inventory	\$548,822	\$907,020
Insurance	91,302	82,634
Lottery system vendor fees	296,875	
Miscellaneous	<u>326,105</u>	<u>346,618</u>
 Total	 <u>\$1,263,104</u>	 <u>\$1,336,272</u>
 Noncurrent prepaid expenses:		
Lottery system vendor fees	<u>\$1,781,250</u>	<u>NONE</u>

**7. RESTRICTED ASSETS - INVESTMENTS**

The Corporation had \$180,690 in a certificate of deposit that matured October 11, 2002. This investment was required as security for the letter of credit required by an office operating lease that expired on July 31, 2002. This asset was classified as an investment because its original maturity exceeded 90 days. The securities pledged as collateral for this certificate of deposit were held in a joint safekeeping account in the name of the Corporation and the fiscal agent

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

bank in the form of book entry deposits in the Federal Reserve Bank of Chicago. For reporting purposes, the certificate of deposit was considered an investment. For purposes of credit risk classification, the certificate of deposit was considered a deposit and was classified as GASB Risk Category 1.

**8. CAPITAL ASSETS**

Capital assets of the Corporation are included on the balance sheet 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, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2003</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	\$3,829,447	20,268		3,849,715
Buildings improvements		9,667		9,667
Leasehold improvements	767,861	2,468	(\$618,616)	151,713
Furniture and fixtures	857,258	53,167	(348,741)	561,684
Equipment	1,193,499	38,529	(4,638)	1,227,390
Data processing software and equipment	4,360,405	57,370	(50,887)	4,366,888
Communications	398,303	6,000		404,303
Automobiles	<u>1,145,626</u>	<u>84,114</u>	<u>(196,586)</u>	<u>1,033,154</u>
Total	12,552,399	274,073	(1,219,468)	11,607,004
Less - accumulated depreciation:				
Land improvements		(187)		(187)
Buildings	(37,378)	(99,561)		(136,939)
Buildings improvements		(553)		(553)
Leasehold improvements	(704,104)	(27,834)	617,678	(114,260)
Furniture and fixtures	(415,153)	(98,704)	348,157	(165,700)
Equipment	(886,192)	(80,538)	4,638	(962,092)
Data processing software and equipment	(4,085,341)	(163,037)	50,887	(4,197,491)
Communications	(360,369)	(26,471)		(386,840)
Automobiles	<u>(672,897)</u>	<u>(253,703)</u>	<u>195,631</u>	<u>(730,969)</u>
Total accumulated depreciation	(7,161,434)	(750,588)	1,216,991	(6,695,031)
<b>Net Depreciable Capital Assets</b>	<u>\$5,390,965</u>	<u>(\$476,515)</u>	<u>(\$2,477)</u>	<u>\$4,911,973</u>

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

	<u>June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2002</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>				
Buildings	\$731,337	\$3,098,110		\$3,829,447
Leasehold improvements	716,906	50,955		767,861
Furniture and fixtures	445,776	411,482		857,258
Equipment	1,046,138	226,694	(\$79,333)	1,193,499
Data processing software and equipment	4,516,968	179,564	(336,127)	4,360,405
Communications	400,827	19,510	(22,034)	398,303
Automobiles	<u>1,011,940</u>	<u>306,177</u>	<u>(172,491)</u>	<u>1,145,626</u>
Total	8,869,892	4,292,492	(609,985)	12,552,399
Less - accumulated depreciation:				
Buildings	(16,284)	(21,094)		(37,378)
Leasehold improvements	(690,153)	(13,951)		(704,104)
Furniture and fixtures	(395,421)	(19,732)		(415,153)
Equipment	(918,655)	(46,870)	79,333	(886,192)
Data processing software and equipment	(4,201,792)	(219,116)	335,567	(4,085,341)
Communications	(355,957)	(26,446)	22,034	(360,369)
Automobiles	<u>(577,455)</u>	<u>(261,833)</u>	<u>166,391</u>	<u>(672,897)</u>
Total accumulated depreciation	(7,155,717)	(609,042)	603,325	(7,161,434)
<b>Net Depreciable Capital Assets</b>	<u>\$1,714,175</u>	<u>\$3,683,450</u>	<u>(\$6,660)</u>	<u>\$5,390,965</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

In the fiscal year ended June 30, 2000, the Lottery obtained approval from the Joint Legislative Committee on the Budget to proceed with plans to acquire permanent facilities for a total project cost of \$6,000,000. Land for a headquarters site and distribution center land

and building were purchased before June 30, 2000. Construction of the headquarters building commenced in May 2001 and was substantially completed in June 2002.

## **9. MULTI-STATE LOTTERY ASSOCIATION**

The Multi-State Lottery Association (MUSL) is an unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently includes 24 state lottery entities, the District of Columbia, and the Virgin Islands. This association offers the Powerball on-line game, several other on-line games, and a game show funded from sales of Powerball instant tickets in participating states. The chief executive officer of each member lottery serves on the MUSL board of directors.

During the fiscal year, the Louisiana Lottery 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. All funds remitted, and the related interest earnings, will be returned to the Corporation upon leaving MUSL, less any portion of unanticipated prize claims, which may have been paid from the fund.

The Corporation has contributed all required reserve funds. As of June 30, 2003, and June 30, 2002, the Corporation had deposits with MUSL of \$7,417,646 and \$7,392,437, 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, 1701 48<sup>th</sup> Street, Suite 210, West Des Moines, Iowa 50266-6723.

## **10. PRIZES PAYABLE**

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

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

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

**LOUISIANA LOTTERY CORPORATION**  
**STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

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.

	<u>As of</u> <u>June 30, 2003</u>	<u>As of</u> <u>June 30, 2002</u>
Current Prizes and Withholdings Payable:		
Annual grand prize payments (face value)	\$15,627,000	\$15,627,000
Less imputed interest	<u>(382,037)</u>	<u>(388,964)</u>
Net present value of annual grand prize payments	15,244,963	15,238,036
Adjustment to current fair value	<u>303,471</u>	<u>261,180</u>
Fair value of prize annuities	15,548,434	15,499,216
Instant prizes payable	5,434,298	4,959,748
On-line prizes payable	8,846,531	8,766,118
Unclaimed prizes payable	1,866,786	1,180,699
Due to MUSL prize pool	2,085,876	727,480
Tax withholdings payable	<u>137,055</u>	<u>48,144</u>
Total Current Prizes and Withholdings Payable	<u>\$33,918,980</u>	<u>\$31,181,405</u>
Noncurrent Prizes Payable:		
Annual grand prize payments (face value)	\$146,365,000	\$161,992,000
Less imputed interest	<u>(35,961,194)</u>	<u>(43,503,260)</u>
Net present value of long-term annual grand prize payments	110,403,806	118,488,740
Adjustment to current fair value	<u>12,831,352</u>	<u>4,010,449</u>
Fair value of prize annuities	123,235,158	122,499,189
MUSL prize reserve payable	5,769,728	5,778,549
Unclaimed prizes payable	<u>7,880,003</u>	<u>7,869,942</u>
Total Noncurrent Prizes Payable	<u>\$136,884,889</u>	<u>\$136,147,680</u>

**11. VACATION AND SICK LEAVE**

Corporation employees earn vacation leave at various rates depending on the employee's position and the number of years of service. All employees must complete 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, 2003, and June 30, 2002, the total value of compensated absences payable are \$294,024 and \$268,976 respectively.

## **12. RETIREMENT BENEFITS**

### **A. AUTHORIZATION AND BASIS OF ACCOUNTING**

R.S. 47:9015(A) states that the Corporation shall provide or arrange for a retirement plan. The retirement plans described below have been established pursuant to this statute. 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 described below for the plans' year ending December 31, 2002. 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 are provided by Pan American Life Insurance Company. In August 2003 Pan American sold its retirement division to Securian Retirement Services, a business unit of Minnesota Life Insurance Company. The terms of the sale provide that the administrative and investment services transfer to Securian in November 2003.

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

### **B. BASIC AND SUPPLEMENTAL RETIREMENT PLANS**

#### **1. Basic Retirement Plan**

The Corporation has a money purchase plan under Section 401(a) of the Internal Revenue Code (IRC) of 1986, as amended, which is intended to constitute a safe harbor within the meaning of Section 3121 (b)(7) of the code and the regulations promulgated thereunder. The Basic Retirement Plan, which is a defined contribution plan, began September 1, 1993, with all employees eligible except those who elect coverage under a state retirement plan and those who are either independent contractors or leased employees.

**LOUISIANA LOTTERY CORPORATION**  
**STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

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, 2003, there were 175 participants in the Basic Plan and 139 participants in the Supplemental Plan.

For the fiscal year ended June 30, 2003, employer and employee contributions to the Basic Plan were \$240,138 and \$297,770, respectively. The employer contributions for the Supplemental Plan were \$202,179. The fair value of the total assets of the plans as of June 30, 2003, is \$5,219,840. Individual investments that represent 5% or more of plan net assets include the Vanguard Balanced Index Fund with a fair value of \$3,798,300 and the Dreyfus Institutional S&P 500 Stock Index Fund with a fair value of \$600,357.

**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 33 1/3% of such participant's compensation or \$12,000. The Corporation contributes a matching contribution equal to the amount of compensation deferred by each participant up to 2.5% of each participant's compensation as reported on Internal Revenue Service (IRS) Form W-2, increased by the amount of any deferral under this Plan.

A participant's matching contribution account is fully vested and nonforfeitable upon such participant's death, disability, or attainment of the normal retirement 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.

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

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, 2003, there were 132 participants in the Optional Savings Plan.

For the fiscal year ended June 30, 2003, employer and employee contributions were \$101,061 and \$212,141, respectively. The fair value of plan assets at June 30, 2003, is \$2,111,586. Individual investments that represent 5% or more of plan net assets include the Money Market Fund with a fair value of \$122,474; Vanguard Balanced Index Fund with a fair value of \$411,497; the Dreyfus Institutional S&P 500 Stock Index Fund with a fair value of \$654,699; the Vanguard Growth Index Fund with a fair value of \$159,393 the Victory Diversified Stock Fund with a fair value of \$186,851, and the Franklin Small-Mid Cap Growth Fund with a fair value of \$329,415.

### **13. LITIGATION**

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

### **14. RISK MANAGEMENT**

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation has purchased commercial insurance to cover these risks. In addition, management has established a litigation and prize reserve of \$6,000,000 within the Corporation's net assets to cover unanticipated losses (see note 16). The amount of commercial coverage has not decreased nor has the amount of settlements exceeded coverage in any of the past three fiscal years.

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

**15. LEASE AND RENTAL COMMITMENTS**

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

	<u>Equipment</u>	<u>Facilities</u>	<u>Total</u>
2003-2004	\$9,084	\$133,151	\$142,235
2004-2005	9,084	92,792	101,876
2005-2006	9,084	65,625	74,709
2006-2007	9,084	5,469	14,553
2007-2008	<u>757</u>	<u>          </u>	<u>757</u>
Total	<u>\$37,093</u>	<u>\$297,037</u>	<u>\$334,130</u>

The total operating lease payments for the years ended June 30, 2003, and June 30, 2002, were \$252,715 and \$646,245, respectively.

The Corporation has no capital leases at June 30, 2003.

**16. NET ASSETS**

The Corporation has unrestricted net assets at June 30, 2003, of \$18,457,578. As presented in the 2003-2004 fiscal year budget approved by the Joint Legislative Committee on the Budget on March 21 2003, management has specified that net assets of June 30, 2003, be used for the following purposes:

**Specified Uses of Net Assets**

Capital asset replacement reserve	\$5,500,000
Instant ticket accounting and administrative computer system	2,078,125
New capital expenditure purchases - other	357,300
Instant ticket inventory	1,200,000
Litigation and prize reserve	6,000,000
Deposits	15,283
New game development, retailer incentives, and future expenditures	<u>2,500,000</u>
Total budgeted net assets	17,650,708
Plus - difference in budgeted net assets and actual	<u>806,870</u>
<b>Total unrestricted net assets</b>	<u><u>\$18,457,578</u></u>

**17. 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.

**18. BOARD OF DIRECTORS**

The board of directors consists of nine members appointed by the governor and confirmed by the Senate. No member shall serve more than two consecutive four-year terms. The board of directors must meet at least 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 Year Ended June 30, 2003**

**SCHEDULE OF PROFESSIONAL SERVICE FEES**

Schedule 1 presents professional service fees for the years ended June 30, 2003, and June 30, 2002. 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, 2003, and June 30, 2002. Louisiana Revised Statute 47:9004(D) provides that appointed members of the board of directors shall be entitled to \$15,000 per year, except for the chairperson, who shall receive \$25,000 per year. This schedule is prepared in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

**LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA**

**Schedule of Professional Service Fees  
For the Year Ended June 30, 2003  
(With Comparative Totals for June 30, 2002)**

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Abbott & Hayne, Counselors-at-Law - legal counsel	\$1,721	\$1,605
Attorney General's Office, Department of Justice - legal counsel	88,875	88,875
Department of Revenue - retailer background investigations	10,213	12,991
Eighty-Twenty - payroll software consulting		665
Gaming Laboratories - automated drawing machine certification	6,596	
Garvey, Smith, Nehrba		3,047
Louisiana State University - statistical analysis		3,000
Marsh - review of disaster recovery plan		1,500
Miscellaneous	1,028	
Oberthur - marketing research	25,000	3,891
Office of Legislative Auditor - financial and compliance audit and observations of on-line drawings	108,261	108,891
Phelps Dunbar, Counselors-at-Law - legal counselors	26,629	57,891
Progressive Security - internet audit	29,500	
	<u>          </u>	<u>          </u>
Total	<u>\$297,823</u>	<u>\$282,356</u>

**LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA**

**Schedule of Compensation Paid Board Members  
For the Year Ended June 30, 2003  
(With Comparative Totals for June 30, 2002)**

	<u>EFFECTIVE DATE OF TERM</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
James David Cain, Jr.	January 1, 1995	\$15,000	\$15,000
Stewart Gentry, Chairman	June 24, 1994	25,000	25,000
Lyn Hayward	March 26, 1996	15,000	15,000
Oray P. Rogers	January 1, 1998	15,000	15,000
Patricia C. Mason	February 27, 1997	15,000	15,000
Carl W. Bauer	January 4, 1999	15,000	15,000
Wilbert D. Pryor	November 20, 1998	15,000	15,000
Linda Temple	January 8, 1999	15,000	15,000
Brandi Bollinger	July 28, 2000	15,000	15,000
		<u>145,000</u>	<u>145,000</u>
Total		<u>\$145,000</u>	<u>\$145,000</u>

**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, 2002.

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**

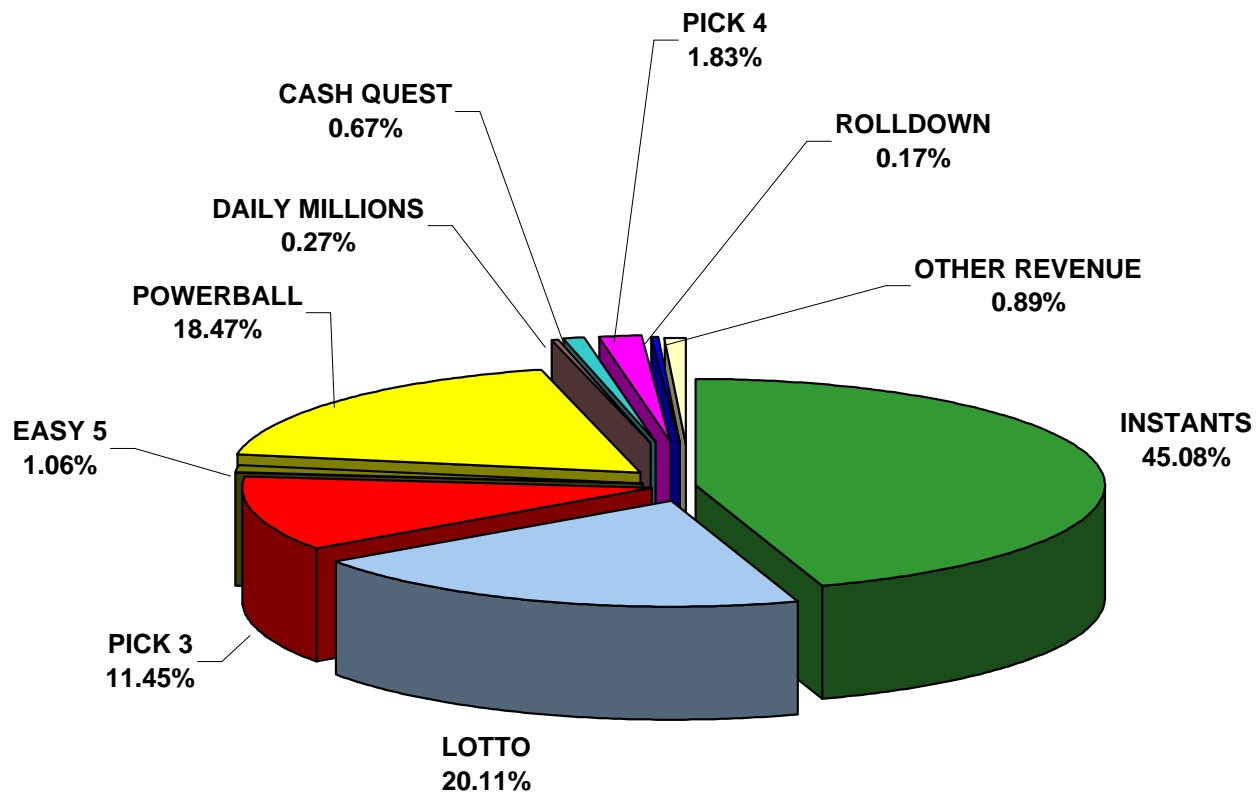
Represent the payment of net revenues to the State Treasury Lottery Proceeds Fund as required by Louisiana Lottery Law.

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

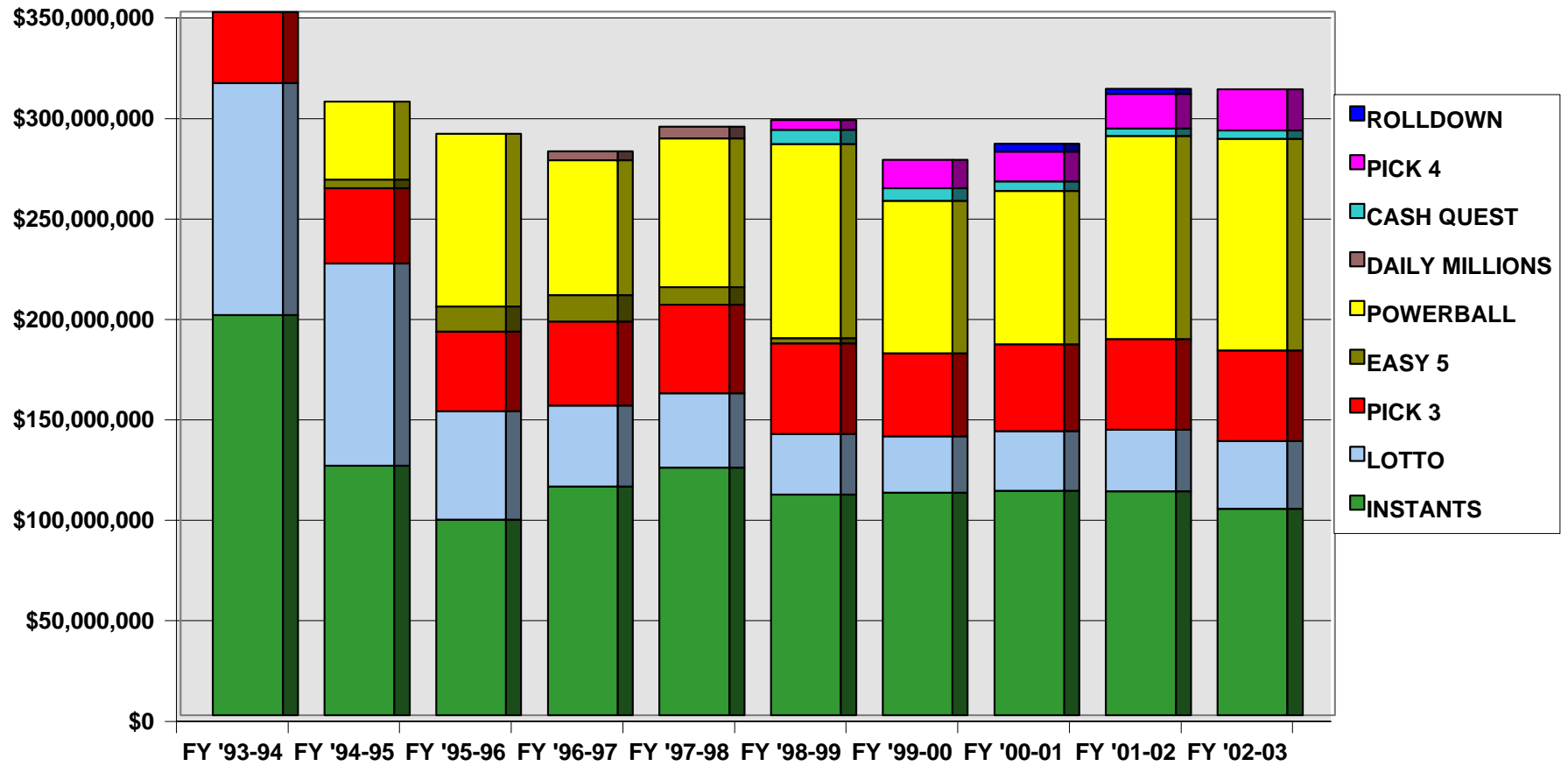
**LOUISIANA LOTTERY CORPORATION**  
**REVENUE**  
**(UNAUDITED)**  
**FISCAL YEARS 1994 THROUGH 2003**

	<u>FY 1993-94</u>	<u>FY 1994-95</u>	<u>FY 1995-96</u>	<u>FY 1996-97</u>	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
<b>SALES</b>										
INSTANT TICKETS	\$198,950,600	\$124,092,199	\$97,132,942	\$113,626,649	\$123,273,680	\$109,663,765	\$110,565,624	\$111,610,821	\$111,272,825	\$102,548,975
<b>ON-LINE:</b>										
LOTTO	115,561,236	100,742,068	54,150,821	40,416,940	36,876,518	30,128,516	28,162,106	29,676,878	30,827,589	33,741,468
PICK 3	35,449,725	37,449,548	39,440,324	41,743,623	43,977,773	45,073,532	41,230,679	43,069,697	44,902,518	45,119,544
EASY 5	0	4,178,518	12,572,638	13,139,044	8,896,149	2,551,846	0	0	0	0
POWERBALL	0	38,791,478	85,926,297	67,288,303	73,907,516	96,785,043	75,913,752	76,391,929	101,111,768	105,256,703
DAILY MILLIONS	0	0	0	4,439,290	5,963,955	0	0	0	0	0
CASH QUEST	0	0	0	0	0	7,041,397	6,339,545	4,676,082	3,727,622	4,358,907
PICK 4	0	0	0	0	0	4,986,511	14,171,768	14,894,112	17,329,613	20,430,534
ROLLEDOWN	0	0	0	0	0	0	0	4,149,373	2,449,910	0
<b>TOTAL ON-LINE</b>	<u>151,010,961</u>	<u>181,161,612</u>	<u>192,090,080</u>	<u>167,027,200</u>	<u>169,621,911</u>	<u>186,566,845</u>	<u>165,817,850</u>	<u>172,858,071</u>	<u>200,349,020</u>	<u>208,907,156</u>
<b>TOTAL SALES</b>	349,961,561	305,253,811	289,223,022	280,653,849	292,895,591	296,230,610	276,383,474	284,468,892	311,621,845	311,456,131
<b>OTHER REVENUE</b>										
INTEREST EARNED ON INVESTMENTS	1,823,741	3,145,779	3,468,537	3,114,069	3,210,947	3,113,666	3,425,513	3,408,868	2,261,711	1,706,209
NET INCREASE/(DECREASE) IN THE FAIR VALUE OF INVESTMENTS	0	0	0	27,217	174,129	(449,863)	(276,126)	654,715	418,422	498,679
RETAILER LICENSE FEES	48,075	41,925	34,475	33,125	34,075	29,600	12,495	12,025	12,500	12,350
MISCELLANEOUS REVENUE	2,434	17,495	23,490	12,430	16,372	63,780	68,894	23,939	4,382	96,219
GAIN ON DISPOSAL OF ASSETS	23,332	23,897	85,963	34,832	27,770	20,449	35,847	25,885	45,711	59,515
<b>TOTAL OTHER REVENUE</b>	<u>1,897,582</u>	<u>3,229,096</u>	<u>3,612,465</u>	<u>3,221,673</u>	<u>3,463,293</u>	<u>2,777,632</u>	<u>3,266,623</u>	<u>4,125,432</u>	<u>2,742,726</u>	<u>2,372,972</u>
<b>TOTAL REVENUE</b>	<u>\$351,859,143</u>	<u>\$308,482,907</u>	<u>\$292,835,487</u>	<u>\$283,875,522</u>	<u>\$296,358,884</u>	<u>\$299,008,242</u>	<u>\$279,650,097</u>	<u>\$288,594,324</u>	<u>\$314,364,571</u>	<u>\$313,829,103</u>

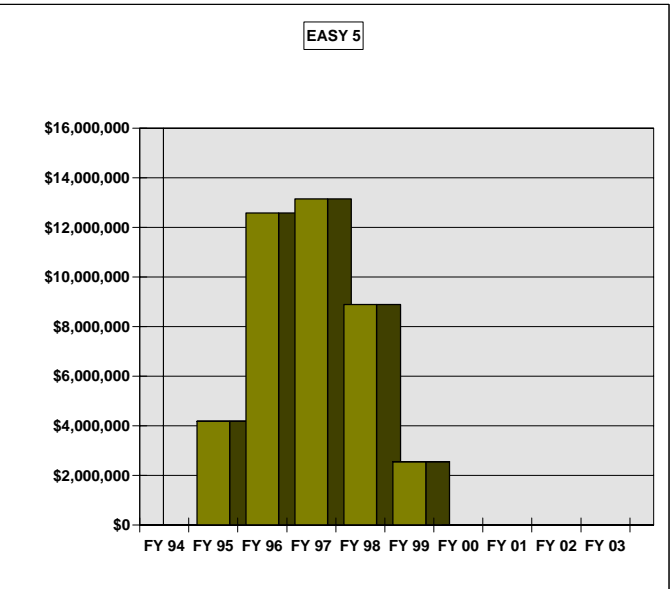
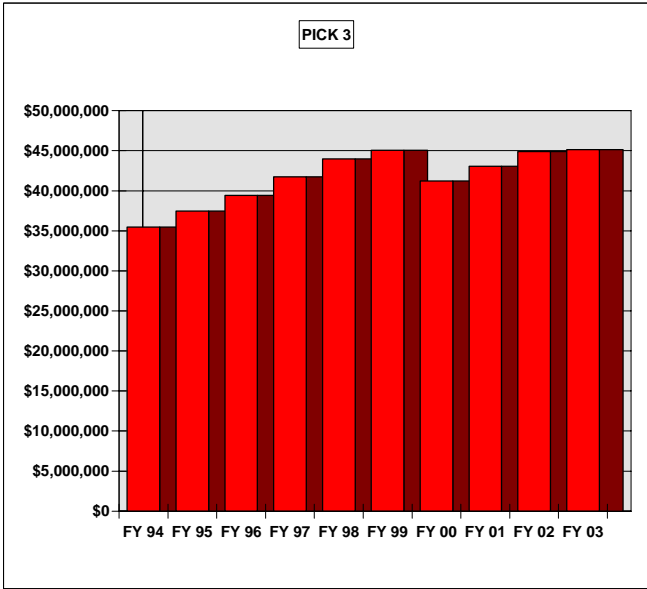
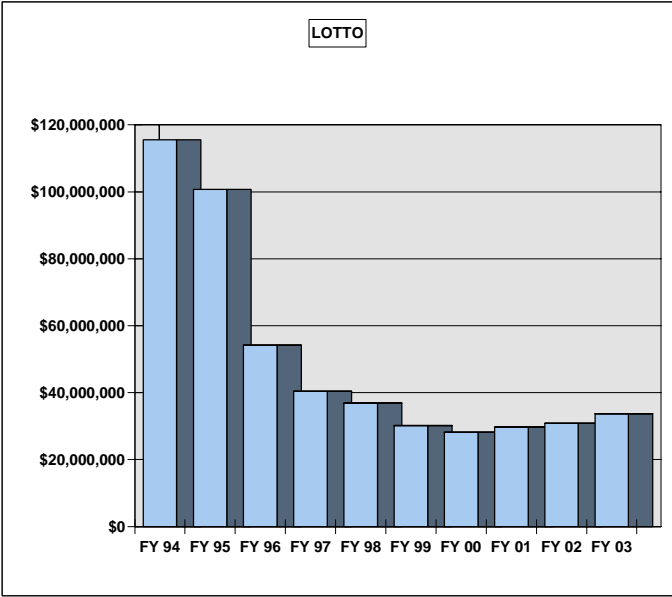
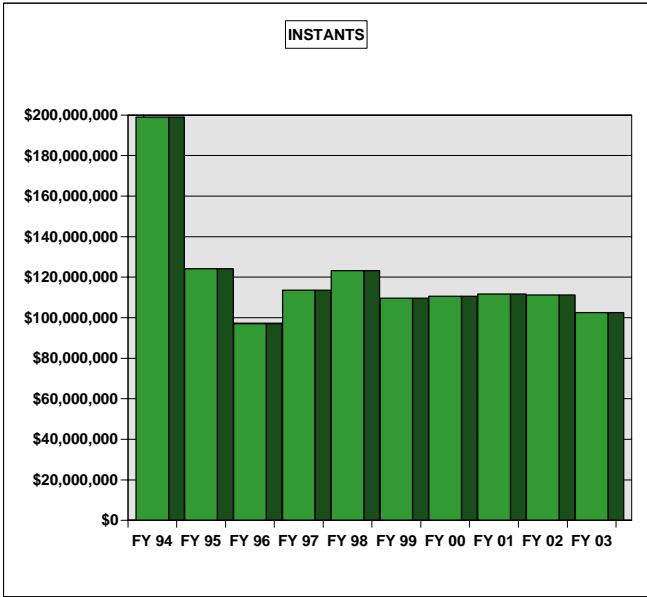
**LOUISIANA LOTTERY CORPORATION  
INCEPTION-TO-DATE REVENUE DISTRIBUTION  
(UNAUDITED)**



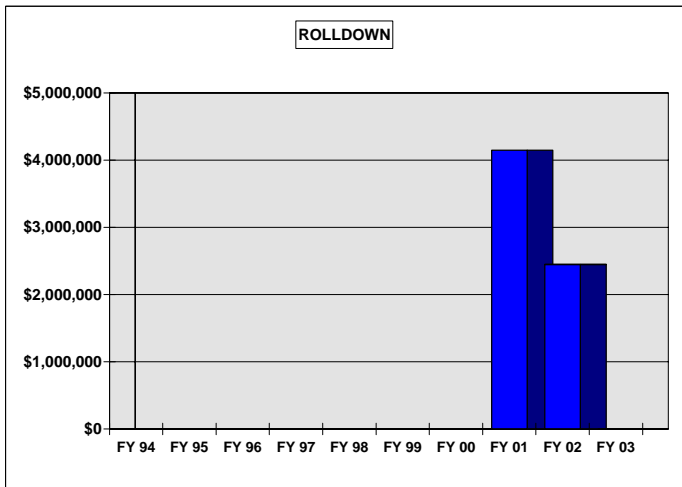
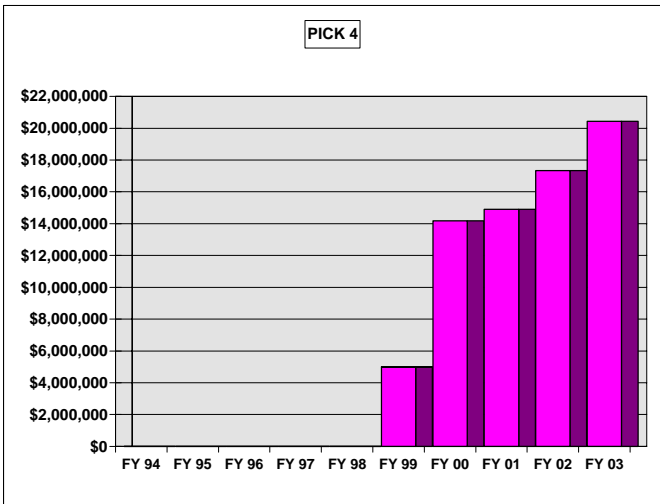
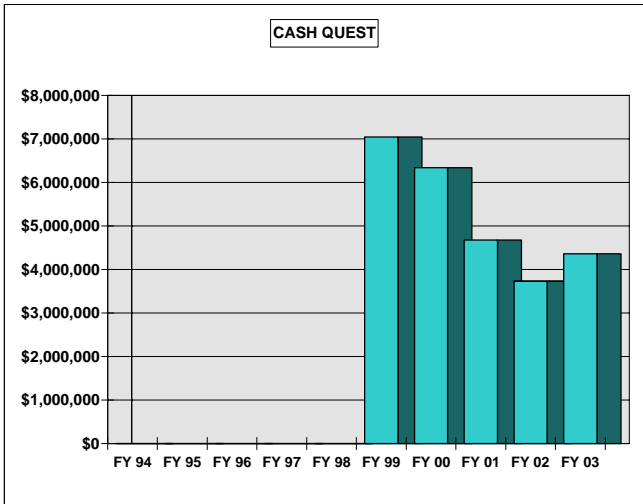
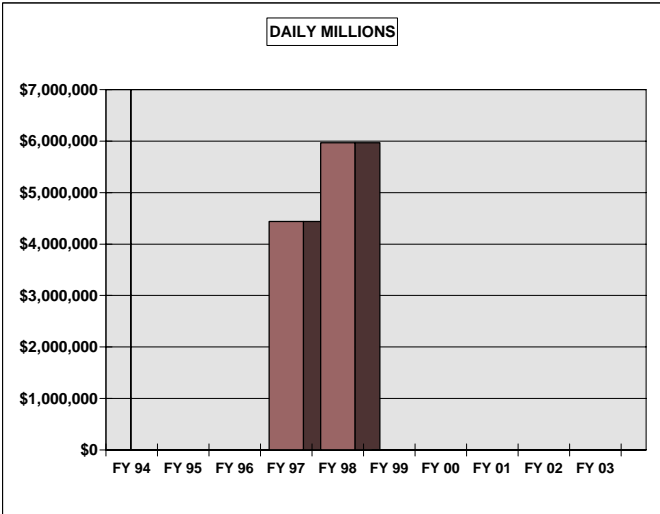
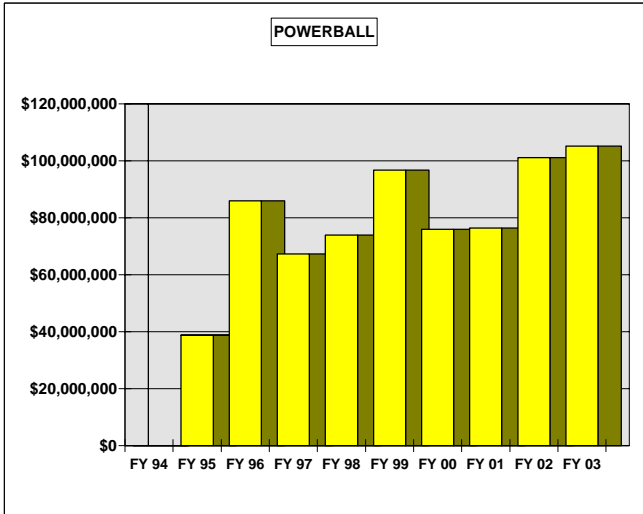
**LOUISIANA LOTTERY CORPORATION  
SALES BY PRODUCT  
(UNAUDITED)  
FISCAL YEARS 1994 THROUGH 2003**



**LOUISIANA LOTTERY CORPORATION  
SALES BY FISCAL YEAR BY PRODUCT LINE  
(UNAUDITED)  
FISCAL YEARS 1994 THROUGH 2003**



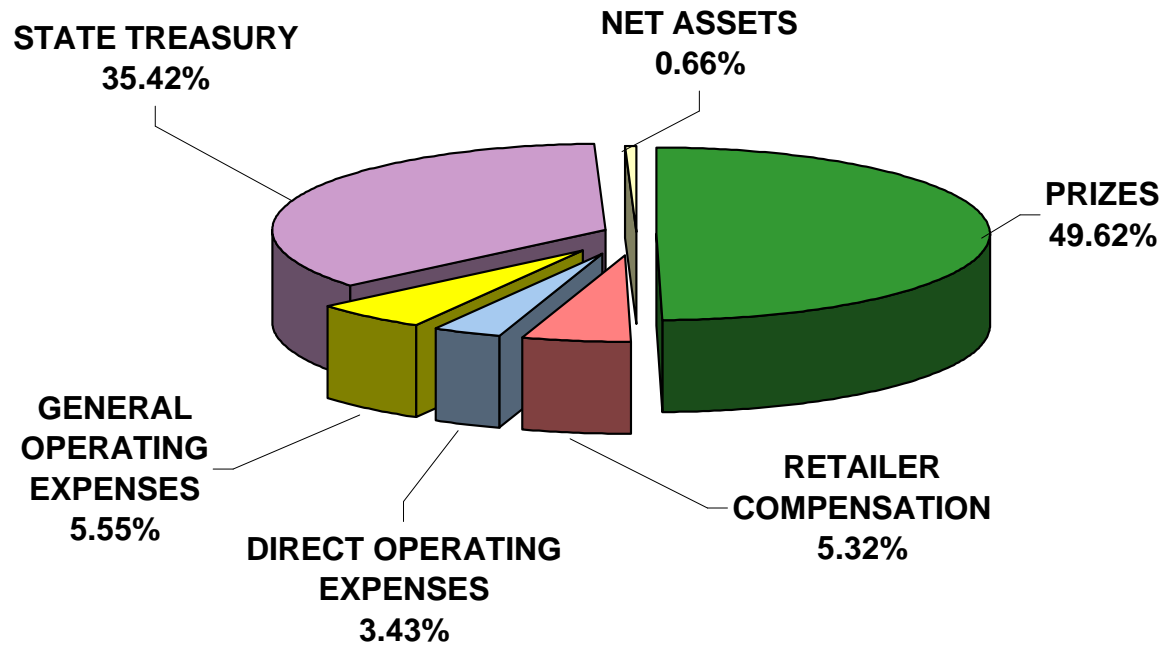
**LOUISIANA LOTTERY CORPORATION  
SALES BY FISCAL YEAR BY PRODUCT LINE  
(UNAUDITED)  
FISCAL YEARS 1994 THROUGH 2003**



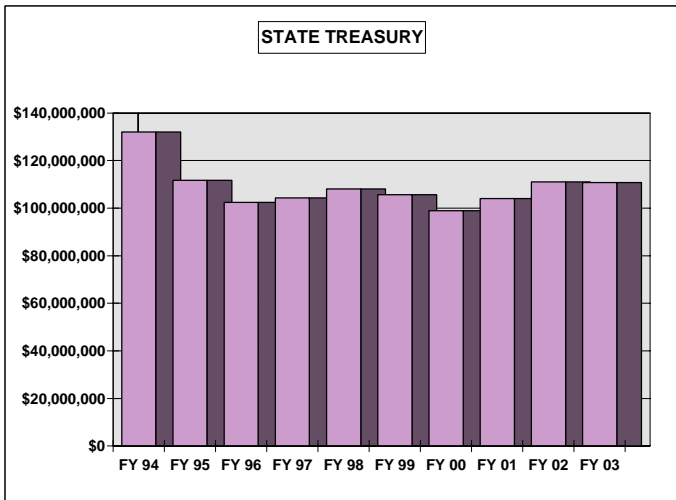
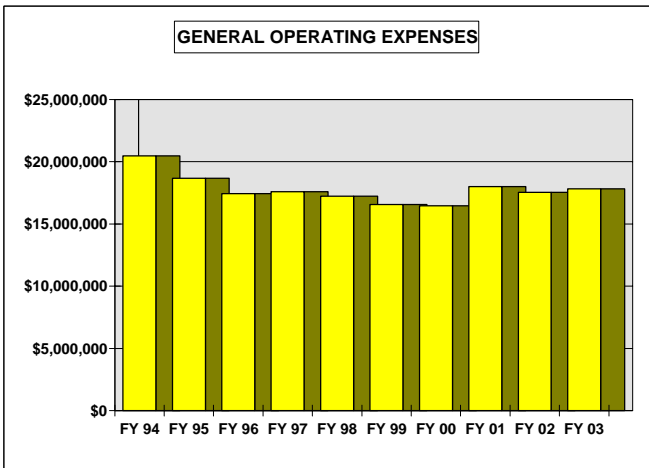
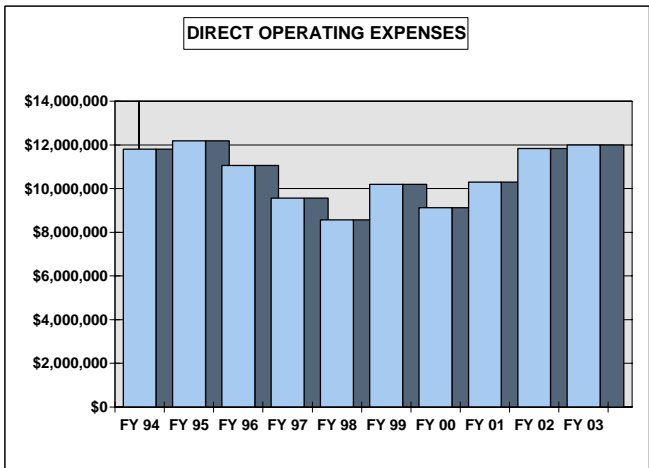
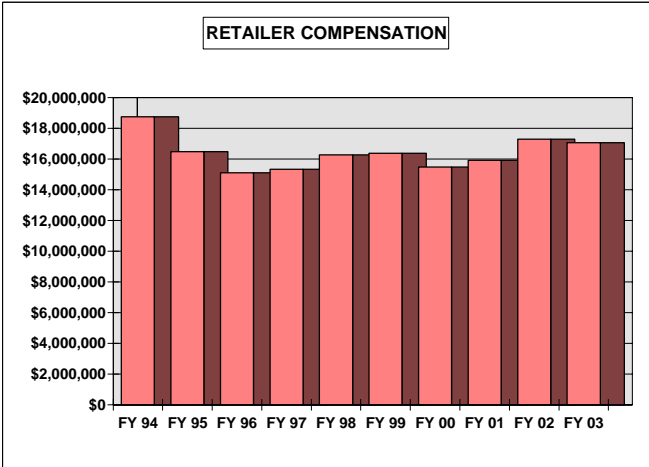
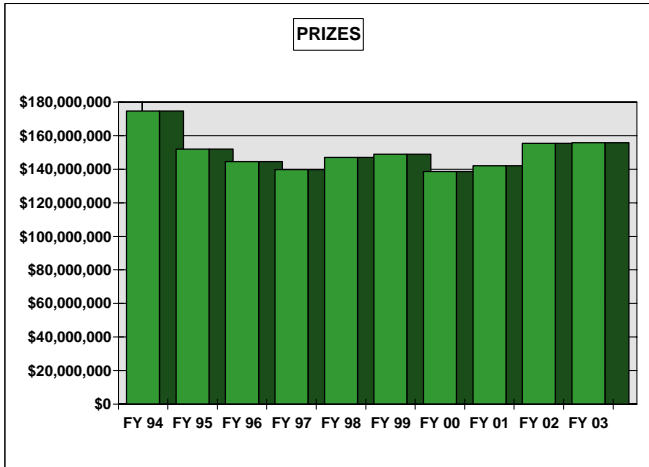
**LOUISIANA LOTTERY CORPORATION  
EXPENSES AND PAYMENTS  
(UNAUDITED)  
FISCAL YEARS 1994 THROUGH 2003**

	<u>FY 1993-94</u>	<u>FY 1994-95</u>	<u>FY 1995-96</u>	<u>FY 1996-97</u>	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
<b>EXPENSES</b>										
PRIZES	\$174,740,175	\$152,025,516	\$144,589,840	\$139,773,269	\$147,071,812	\$148,940,656	\$138,747,688	\$142,025,272	\$155,559,230	\$155,908,816
RETAILER COMPENSATION	18,756,749	16,486,645	15,104,325	15,325,737	16,270,676	16,371,789	15,482,787	15,923,481	17,284,582	17,072,192
DIRECT OPERATING EXPENSES	11,806,135	12,192,815	11,061,649	9,560,285	8,569,499	10,189,939	9,120,072	10,294,618	11,839,126	11,992,751
GENERAL OPERATING EXPENSES	20,470,028	18,672,710	17,429,161	17,575,489	17,220,780	16,552,741	16,450,183	18,007,067	17,532,128	17,810,324
<b>TOTAL EXPENSES</b>	<u>\$225,773,087</u>	<u>\$199,377,686</u>	<u>\$188,184,975</u>	<u>\$182,234,780</u>	<u>\$189,132,767</u>	<u>\$192,055,125</u>	<u>\$179,800,730</u>	<u>\$186,250,438</u>	<u>\$202,215,066</u>	<u>\$202,784,083</u>
 <b>PAYMENTS</b>										
STATE TREASURY	<u>\$132,026,000</u>	<u>\$111,770,000</u>	<u>\$102,492,420</u>	<u>\$104,346,906</u>	<u>\$108,038,552</u>	<u>\$105,655,165</u>	<u>\$98,877,708</u>	<u>\$104,008,334</u>	<u>\$111,029,075</u>	<u>\$110,840,420</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 1994 THROUGH 2003**



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

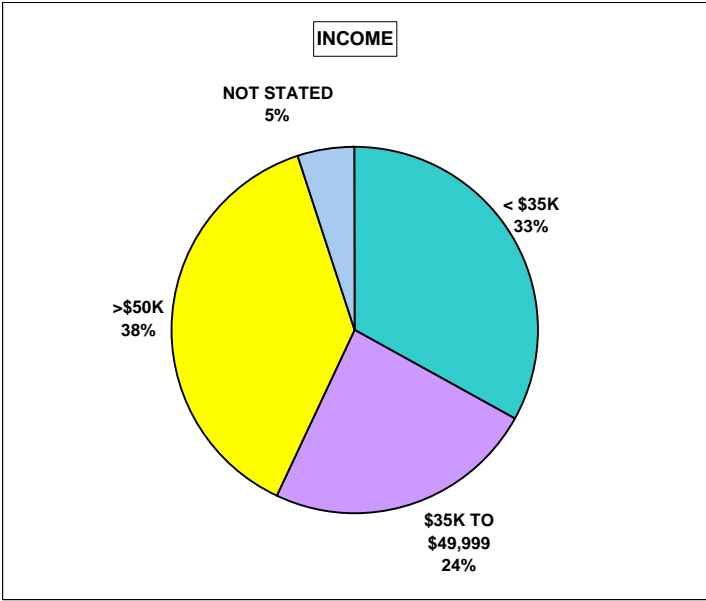
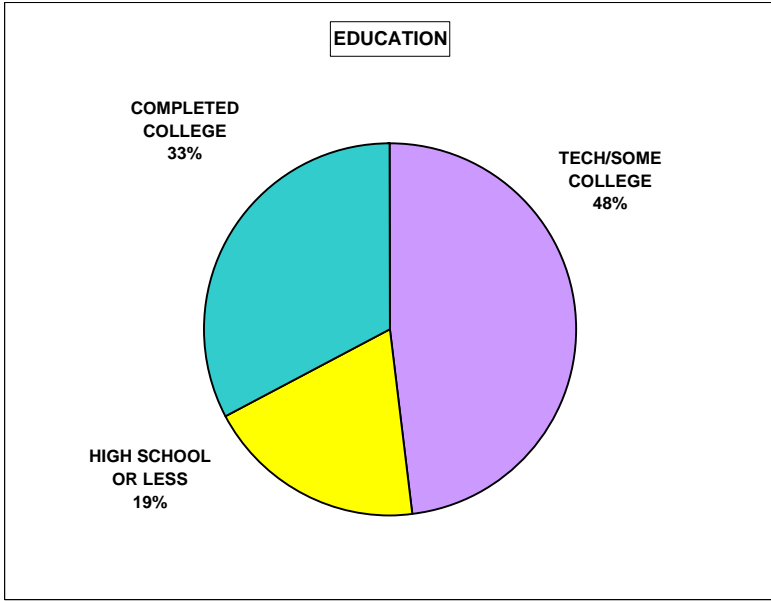
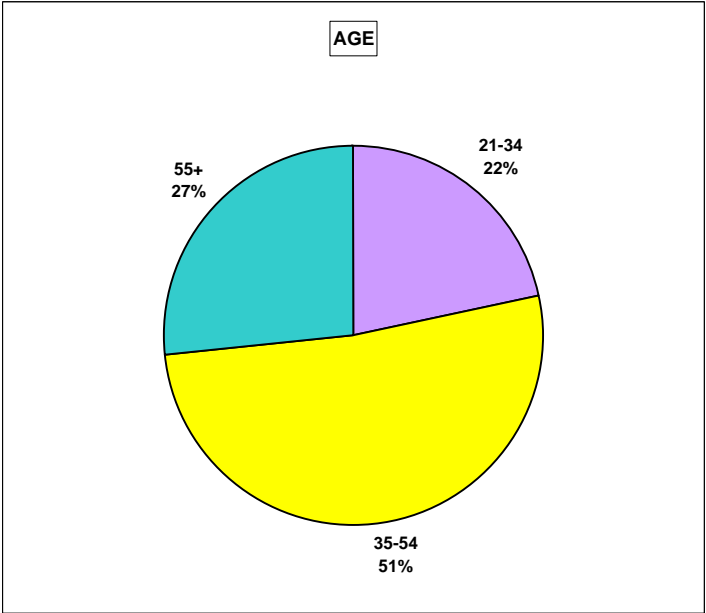
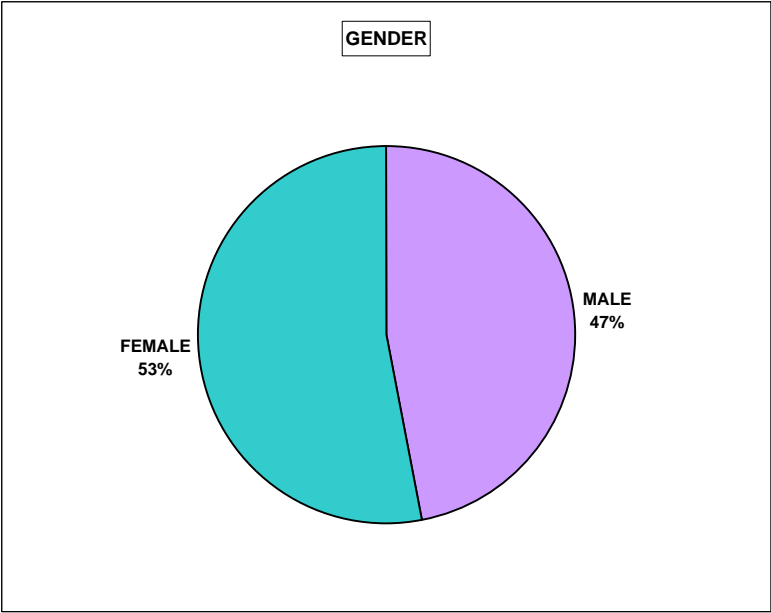
<u>DATE</u>	<u>AMOUNT</u>	<u>LOTTERY FISCAL YEAR TOTAL</u>	<u>CALENDAR YEAR TOTAL</u>
DECEMBER 1991	\$50,000,000		\$50,000,000
MARCH 1992	40,000,000		
JUNE 1992	25,000,000	\$115,000,000	
SEPTEMBER 1992	57,200,000		
DECEMBER 1992	44,300,000		166,500,000
MARCH 1993	45,900,000		
JUNE 1993	31,765,000	179,165,000	
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	

(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 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	54,559,195
<b>TOTAL INCEPTION-TO-DATE</b>	<b>\$1,383,249,580</b>	<b>\$1,383,249,580</b>	<b>\$1,383,249,580</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 2002 Sales By Game  
(Source: **The '03 World Lottery Almanac**)

TLF Publications  
14424 Chrisman Hill Drive  
Boys, MD 20841  
U.S.A.

# U.S. lotteries' fiscal 2002 sales by game\*

(in \$millions)		Online Games											Total Sales	PC Sales	Prizes <sup>1</sup>	Gov't Transfer
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Bloc Lotto	Roll-down	Keno	VLT	Other				
Arizona	5.5	143.42		6.19		39.27	9.77	96.17					294.82	\$54	162.12	84.90
California	35.1	1,184.12		93.87		1,275.71	148.05			184.43		10.19	2,896.37	\$82	1,502.97	1,027.19
Colorado	4.5	257.21				57.65	13.22	79.89					407.97	\$91	240.32	110.05
Connecticut	3.5	543.24		111.00	68.60	54.08	42.05	88.93					907.90	\$262	546.10	271.51
Delaware <sup>1, 2</sup>	0.8	21.04		28.50	15.27		8.29	43.11	1.00			556.80	674.02	\$835	59.18	292.41
D.C.	0.6	32.92		72.19	68.45		9.27	27.72				0.56	211.12	\$370	110.74	63.00
Florida	16.7	662.57		329.83	170.71	806.02	262.92					98.31	2,330.37	\$139	1,165.84	926.49
Georgia	8.6	1,098.45		688.18	131.96	84.82	86.83	187.69		44.01			2,321.95	\$271	1,308.24	726.20
Idaho	1.3	56.27	1.07	1.21		2.35		31.23	0.54				92.67	\$69	53.10	15.00
Illinois	12.6	621.49		327.46	157.78	134.65	81.53	221.09				22.66	1,566.67	\$124	866.66	552.27
Indiana	6.2	352.56	0.74	32.50	31.70	64.16	9.10	132.03				3.51	626.31	\$102	371.21	169.35
Iowa	2.9	80.59	27.64	4.95			4.71	60.87	1.20			1.34	181.31	\$62	100.00	48.17
Kansas	2.7	70.38	4.37	5.54			14.36	53.70	1.80	39.93			190.08	\$70	98.96	55.20
Kentucky	4.1	297.81	32.08	122.74	29.71	27.19	17.14	112.07					638.73	\$156	384.23	172.69
Louisiana	4.5	111.27		44.90	17.33	30.83		101.11	2.45			3.73	311.62	\$70	155.56	111.03
Maine	1.3	117.20		5.59	4.29		5.01	25.81					157.91	\$122	91.17	40.49
Maryland	5.5	299.20		306.87	201.43	37.66	26.42	77.91		355.71		1.32	1,306.54	\$239	733.20	443.50
Massachusetts	6.4	2,924.77	2.79		374.72	90.45	47.04	114.01		640.05			4,193.83	\$652	3,000.90	899.21
Michigan	10.1	655.42		411.20	283.55	71.67		205.98	37.25	10.32		12.66	1,688.06	\$168	894.95	645.89
Minnesota	5.0	241.05		13.89			22.44	94.22	2.56			2.96	377.13	\$75	223.03	81.68
Missouri	5.7	316.40	27.37	51.79	15.29	27.03	22.71	121.47		3.12			585.19	\$103	353.08	160.04
Montana	0.9	9.77				2.60	4.42	15.72	1.13				33.63	\$37	17.10	7.47
Nebraska	1.7	36.82					6.12	29.80	1.21				73.96	\$43	39.45	18.49
N. Hampshire	1.3	140.32		10.90			3.68	56.20	1.73				212.83	\$167	123.28	66.13
New Jersey	8.6	773.66		456.30	256.01	189.87	75.08	293.87				23.72	2,068.51	\$241	1,144.74	754.55
New Mexico	1.9	81.17		1.49			8.15	43.16					133.97	\$72	72.89	29.60
New York	19.2	1,966.52		736.53	523.79	565.29	434.86			526.63			4,753.62	\$248	2,664.14	1,579.58
Ohio	11.4	997.53		409.22	154.58	297.89	62.35	16.49				45.05	1,983.10	\$174	1,148.13	635.15
Oregon <sup>1, 2</sup>	3.5	130.73	3.76		2.25	33.19		44.31		106.67	480.20	15.95	817.06	\$232	223.50	340.60
Pennsylvania	12.3	721.08		491.87	252.33	224.74	244.14						1,934.16	\$157	1,002.46	749.18
R. Island <sup>3</sup>	1.1	78.03		28.99			3.49	46.30		78.84	935.21		1,170.86	\$1095	793.53	214.14
S. Carolina	4.1	306.32		27.80			1.37						335.49	\$82	200.31	81.15
S. Dakota <sup>3</sup>	0.8	12.34				1.17	1.39	10.85	0.27		603.60	0.26	629.88	\$828	410.02	109.27
Texas	21.8	1,931.20		236.42		593.99	121.67					82.98	2,966.26	\$136	1,715.36	928.88
Vermont	0.6	68.59		1.49	1.18		2.46	8.26					81.98	\$133	52.32	16.68
Virginia	7.3	492.46		243.12	141.17	86.77	27.28	117.26					1,108.07	\$152	613.73	367.69
Washington	6.1	242.42		18.08		120.82	29.98			8.07		19.23	438.60	\$72	282.25	93.91
W. Virginia <sup>1</sup>	1.8	94.32		10.08	4.70		6.61	75.91	0.63	13.76	641.71	0.89	848.61	\$471	120.18	315.88
Wisconsin	5.4	233.57	4.64	25.49	9.58	31.23	29.53	86.54	4.73			2.24	427.55	\$79	242.06	118.99
<b>Total</b>	<b>253.2</b>	<b>18,404.27</b>	<b>104.46</b>	<b>5,356.22</b>	<b>2,916.38</b>	<b>4,951.10</b>	<b>1,893.45</b>	<b>2,719.68</b>	<b>56.51</b>	<b>2,011.55</b>	<b>3,217.52</b>	<b>347.57</b>	<b>41,978.7</b>	<b>\$166</b>	<b>23,287.0</b>	<b>13,323.6</b>
<b>% of total</b>		<b>43.8%</b>	<b>0.2%</b>	<b>12.8%</b>	<b>6.9%</b>	<b>11.8%</b>	<b>4.5%</b>	<b>6.5%</b>	<b>0.1%</b>	<b>4.8%</b>	<b>7.7%</b>	<b>0.8%</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> Denotes VLT gross handle & VLT prizes

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

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

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



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

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

August 15, 2003

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

**BOARD OF DIRECTORS  
LOUISIANA LOTTERY CORPORATION  
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, 2003, and have issued our report thereon dated August 15, 2003. 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.

**Compliance**

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, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

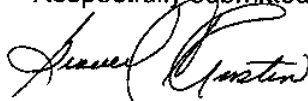
LEGISLATIVE AUDITOR

**BOARD OF DIRECTORS  
LOUISIANA LOTTERY CORPORATION  
STATE OF LOUISIANA**

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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,



Grover C. Austin, CPA  
First Assistant Legislative Auditor

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