

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

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

June 25, 2003



***Financial and Compliance Audit Division***

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### **DIRECTOR OF FINANCIAL AND COMPLIANCE AUDIT**

**Albert J. Robinson, Jr., CPA**

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

Financial Statements and  
Independent Auditor's Reports  
As of and for the Year Ended December 31, 2002

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

June 25, 2003

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

Financial Statements and  
Independent Auditor's Reports  
As of and for the Year Ended December 31, 2002

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June 10, 2003

Independent Auditor's Report  
on the Financial Statements

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

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Optional Savings Plan as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Louisiana Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Lottery Corporation Optional Savings Plan as of December 31, 2002, and the changes in net assets available for benefits for the year 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 June 10, 2003, on our consideration of the Louisiana Lottery Corporation Optional Savings Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. 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

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

Audit Report, December 31, 2002

Management's discussion and analysis on pages 4 through 8 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 primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is written in a cursive style with a large, prominent initial "G".

Grover C. Austin, CPA  
First Assistant Legislative Auditor

AD:WDD:THC:dl

[LLCOSP02]



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

**Management's Discussion and Analysis  
For the Year Ended December 31, 2002**

This discussion of the Louisiana Lottery Corporation Optional Savings Plan financial statements provides an overview and analysis of the plan's financial position and activities for the year ended December 31, 2002. Please read it in conjunction with the plan's financial statements and notes to the financial statements.

Our annual report consists of two types of financial statements and accompanying notes that provide narrative explanations and additional details of the plan's provisions and activities. The statements and 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. Both statements include balances or activities segregated by investment funds available to participants and presented in total.

The statement of net assets available for benefits on pages 9 and 10 includes all assets and liabilities of the plans. The balances reported are as of the year ended December 31, 2002. Assets consist of the fair value of units held for the benefit of participants under each investment fund. Fair value is based on deposit values and quoted market prices of the underlying mutual funds. No liabilities exist because all expenses due from the plans are deducted daily from investment income and all benefits due to participants were distributed as of the end of the year.

A summary of all financial activities that occurred during the twelve-month period ending December 31, 2002, is presented in the statement of changes in net assets available for benefits on pages 11 and 12. The categories of activities included on this statement provide reasons for increases or decreases in plan net assets. Investment income includes all interest, dividends, and market value gains or losses earned by each investment fund during the year. This income is reflected net of the plan's administrative service provider's investment management fees. Participant and employer contributions are the funds deposited into participant accounts for each pay period

during the year in accordance with the terms of the plans. Withdrawals paid to terminated or retired employees are included in the benefits paid to participants category. A description of contribution and distribution requirements can be found in note 2 to the financial statements on page 14. Finally, interfund transfers include participant-directed transfers of funds between investment accounts and the allocation of forfeited balances from nonvested participant accounts to the remaining active and eligible participant accounts.

The notes to the financial statements that begin on page 13 present information on accounting policies, plan provisions, investments, investment management fees, forfeitures, related party transactions, income tax status determinations, termination provisions, and litigation. These notes are an integral part of the financial statements.

A condensed financial data comparison between the current year ended December 31, 2002, and the prior year ended December 31, 2001, is presented below.

	As of and for the year ended December 31, 2002	As of and for the year ended December 31, 2001	Change	Percentage Change
<b>Assets</b>	\$1,802,018	\$2,141,990	(\$339,972)	-15.87%
<b>Liabilities</b>	NONE	NONE	NONE	NONE
<b>Net assets available for benefits</b>	<u>\$1,802,018</u>	<u>\$2,141,990</u>	<u>(\$339,972)</u>	-15.87%
<b>Additions to assets:</b>				
Net investment income	(\$427,806)	(\$272,964)	(\$154,842)	-56.73%
Contributions:				
Participant	224,369	203,833	20,536	10.07%
Employer	<u>100,862</u>	<u>96,415</u>	<u>4,447</u>	4.61%
<b>Total additions</b>	(102,575)	27,284	(129,859)	-475.95%
<b>Deductions from assets:</b>				
Benefits paid to participants	<u>(237,397)</u>	<u>(90,173)</u>	<u>(147,224)</u>	-163.27%
<b>Decrease in net assets</b>	<u>(\$339,972)</u>	<u>(\$62,889)</u>	<u>(\$277,083)</u>	-440.59%

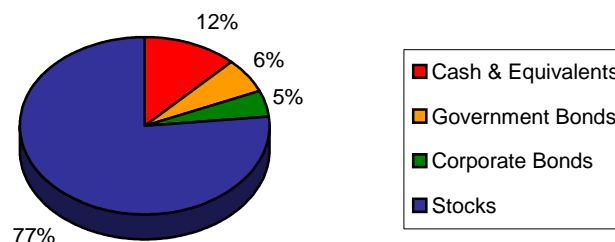
The assets of the plan decreased by \$339,972 because the combination of investment income and benefits paid to participants were greater than contributions to the plan. The reasons for the activity in each component outlined as follows provide the rationale for this overall change.

## Investment income

The average investment return on the plan's portfolio, calculated as investment income divided by the average asset balance for the year, was -21.69% in 2002 and -12.56% in 2001. The reasons for this investment performance include the asset allocation of the plan's investment portfolio, economic conditions, and the gains and losses of the individual investment funds offered through the plan.

The underlying portfolios of the mutual fund investments in the plan contain a mix of stocks, government bonds, corporate bonds, and cash. Each of these types of investments has different risk and return characteristics. Typically, a riskier investment has greater upside and greater downside performance potential. Stocks tend to be more volatile and risky investments that perform according to economic and corporate growth and profitability cycles. Bonds are usually more conservative investments that provide a fixed stream of income and fluctuations in values dependent upon changes in market interest rates. Cash investments include short-term government and corporate securities that offer a stable and very liquid principal value with an interest component.

An estimated asset allocation of the plan's portfolio at December 31, 2002, is presented below:



This chart illustrates that the plan's investment performance is heavily dependent upon changes in the stock market. This financial market tends to fluctuate with economic trends and conditions.

The United States economy suffered an economic downturn beginning in 2000 and continuing through 2002. Unemployment rates increased, corporate profits shrunk, and stock prices generally declined. The impact of the September 11, 2001, terrorist attacks continues to place a heavy burden on the financial health of the economy. In addition, the impending war with Iraq negatively affected investor confidence during the latter part of the year.

According to the *New York Stock Exchange* and the *Nasdaq Stock Market, Inc.*, the three major stock market performance indicators declined for the years ending December 31, 2002, and December 31, 2001, as follows:

	<u>2002</u>	<u>2001</u>
Dow Jones Industrial Average (DJIA)	-16.76%	-7.10%
Nasdaq Composite Index (NASDAQ)	-31.53%	-21.05%
Standard and Poor's 500 Index (S&P500)	-23.37%	-13.04%

In an effort to stimulate the economy, the Federal Reserve continued to lower short-term interest rates during the past year. In addition, long-term interest rates, including mortgage rates, fell in 2002.

These economic factors had an impact on the performance of mutual fund investments in 2002. The value of most stock mutual funds, especially in the growth category, declined during the year. Short-term money market mutual fund returns decreased because of the lower short-term interest rates. Fixed-income funds containing mostly intermediate to long-term bonds performed relatively well in 2002 because this type of investment usually increases in value as long-term interest rates decline.

As expected, the investment performance of the individual funds offered through the plan, as presented below, was consistent with the financial market environment. The combination of the individual funds' gains and losses resulted in the overall plan's investment income of -\$427,806.

<u>Fund</u>	<u>Investment Style</u>	<u>Balance as of December 31, 2002</u>	<u>% of Total Investments</u>	<u>2002* Investment Performance %</u>
Money Market Fund	Money Market	\$171,348	9.51%	1.45%
Morgan Stanley Institutional Fixed-Income Portfolio	Long-Term Bonds	59,166	3.28%	6.38%
Vanguard Balanced Index Fund	Balanced - Stock/Bonds	339,553	18.84%	-9.52%
Dreyfus Institutional Standard & Poor's 500 Stock Index Fund	Large Blend Stock	564,818	31.35%	-22.29%
Vanguard Growth Index Fund	Large Growth Stock	126,936	7.04%	-23.65%
Vanguard U.S. Growth Portfolio	Large Growth Stock	NONE	NONE	-35.80%
Victory Diversified Stock Fund	Large Blend Stock	159,056	8.83%	-22.78%
Vanguard Value Index Fund	Large Value Stock	2,449	0.14%	-20.91%
Franklin Small-Mid Capital Growth Fund	Mid Growth Stock	251,706	13.97%	-29.58%
Franklin Balance Sheet Investment	Small Value Stock	75,899	4.21%	-5.96%
Templeton Foreign Fund	International Stock	51,087	2.83%	-8.64%
		<u>\$1,802,018</u>	<u>100.00%</u>	

\* Based on investment returns information published by Standard & Poor's.  
The fund performance represents what \$1 invested for the entire period would have earned.

## **Contributions**

Participant and employer contributions increased in 2002 because of increases in the Lottery's payroll costs and participant elective deferrals. Total 2002 wages were \$4,851,000 compared to 2001 wages of \$4,706,000. Contributions are calculated as a

percentage of wages. The contribution provisions for the plan are outlined in note 2 to the financial statements beginning on page 14.

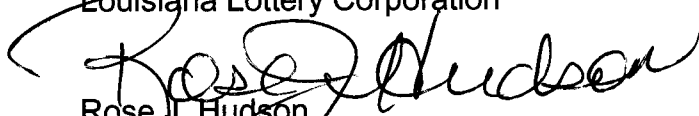
**Benefits paid to participants**

The amount of benefits paid out in any given year is dependent upon the volume of employee terminations or retirements, the length of service of these employees, the balances maintained in their accounts, and the distribution elections that determine the timing of payments. Differences in these factors can cause substantial variances in a year-to-year comparison of plan distributions. The distribution provisions for the plan are included in note 2 to the financial statements beginning on page 14.

This financial overview of the Optional Savings Plan is provided as a supplemental analysis of the financial position and activities of the plan as of and for the year ended December 31, 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 this retirement plan.

Respectfully submitted,

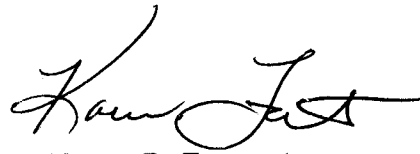
Employee Benefits Committee  
Louisiana Lottery Corporation



Rose J. Hudson  
Senior Vice President of Human Resource



James F. Goodrum  
Vice President of Finance and Controller



Karen B. Fournet  
Senior Vice President and  
Secretary Treasurer

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

**Statement of Net Assets Available for Benefits  
 For the Year Ended December 31, 2002**

	MONEY MARKET FUND	MORGAN STANLEY INSTITUTIONAL FIXED-INCOME PORTFOLIO	VANGUARD BALANCED INDEX	DREYFUS INSTITUTIONAL STANDARD & POOR'S 500 STOCK INDEX	VANGUARD GROWTH INDEX
<b>ASSETS</b>					
Investments (note 3)	\$169,890	\$58,963	\$336,207	\$562,576	\$125,287
Receivables:					
Employee contributions receivable	1,219	126	2,263	1,430	1,002
Employer contributions receivable	239	77	1,083	812	647
<b>Total assets</b>	<u>171,348</u>	<u>59,166</u>	<u>339,553</u>	<u>564,818</u>	<u>126,936</u>
<b>LIABILITIES</b>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<u><u>\$171,348</u></u>	<u><u>\$59,166</u></u>	<u><u>\$339,553</u></u>	<u><u>\$564,818</u></u>	<u><u>\$126,936</u></u>

The accompanying notes are an integral part of this statement.

Statement A

VICTORY DIVERSIFIED STOCK	VANGUARD VALUE INDEX	FRANKLIN SMALL-MID CAPITAL GROWTH FUND	FRANKLIN BALANCED SHEET INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
\$157,453	\$2,449	\$249,895	\$75,388	\$50,647	\$1,788,755
1,171		1,224	328	313	9,076
432		587	183	127	4,187
159,056	2,449	251,706	75,899	51,087	1,802,018
NONE	NONE	NONE	NONE	NONE	NONE
<u>\$159,056</u>	<u>\$2,449</u>	<u>\$251,706</u>	<u>\$75,899</u>	<u>\$51,087</u>	<u>\$1,802,018</u>

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

**Statement of Changes in Net Assets Available for Benefits  
For the Year Ended December 31, 2002**

	MONEY MARKET FUND	MORGAN STANLEY INSTITUTIONAL FIXED-INCOME PORTFOLIO	VANGUARD BALANCED INDEX	DREYFUS INSTITUTIONAL STANDARD & POOR'S 500 STOCK INDEX	VANGUARD GROWTH INDEX
<b>ADDITIONS</b>					
Investment income	\$1,981	\$3,617	(\$31,854)	(\$176,078)	(\$7,693)
Less investment management fees (note 4)		(134)	(1,619)	(2,739)	(241)
Net investment income	1,981	3,483	(33,473)	(178,817)	(7,934)
Contributions:					
Participant	21,512	3,669	53,048	41,329	15,004
Employer	4,389	1,758	26,562	20,929	8,850
Total additions	27,882	8,910	46,137	(116,559)	15,920
<b>DEDUCTIONS</b>					
Benefits paid to participants	(42,758)	(24,317)	(13,294)	(42,805)	(4,175)
Increase (decrease) before interfund transfers	(14,876)	(15,407)	32,843	(159,364)	11,745
Interfund transfers, net	55,465	9,849	8,650	(82,272)	114,103
Net increase (decrease)	40,589	(5,558)	41,493	(241,636)	125,848
<b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>	130,759	64,724	298,060	806,454	1,088
<b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>	<u>\$171,348</u>	<u>\$59,166</u>	<u>\$339,553</u>	<u>\$564,818</u>	<u>\$126,936</u>

The accompanying notes are an integral part of this statement.

Statement B

VANGUARD U.S. GROWTH PORTFOLIO	VICTORY DIVERSIFIED STOCK	VANGUARD VALUE INDEX	FRANKLIN SMALL-MID CAPITAL GROWTH FUND	FRANKLIN BALANCED SHEET INVESTMENT	TEMPLETON FOREIGN FUND	TOTAL
(\$53,539)	(\$43,898)	(\$556)	(\$101,541)	(\$8,412)	(\$4,332)	(\$422,305)
(439)		(13)	(267)		(49)	(5,501)
<u>(53,978)</u>	<u>(43,898)</u>	<u>(569)</u>	<u>(101,808)</u>	<u>(8,412)</u>	<u>(4,381)</u>	<u>(427,806)</u>
11,765	28,168	143	30,334	11,543	7,854	224,369
6,115	10,134	16	14,122	4,903	3,084	100,862
<u>(36,098)</u>	<u>(5,596)</u>	<u>(410)</u>	<u>(57,352)</u>	<u>8,034</u>	<u>6,557</u>	<u>(102,575)</u>
<u>(11,847)</u>	<u>(10,516)</u>	NONE	<u>(39,811)</u>	<u>(41,925)</u>	<u>(5,949)</u>	<u>(237,397)</u>
(47,945)	(16,112)	(410)	(97,163)	(33,891)	608	(339,972)
<u>(126,202)</u>	<u>(3,395)</u>	<u>1,791</u>	<u>(3,859)</u>	<u>29,490</u>	<u>(3,620)</u>	<u>NONE</u>
(174,147)	(19,507)	1,381	(101,022)	(4,401)	(3,012)	(339,972)
<u>174,147</u>	<u>178,563</u>	<u>1,068</u>	<u>352,728</u>	<u>80,300</u>	<u>54,099</u>	<u>2,141,990</u>
<u>NONE</u>	<u>\$159,056</u>	<u>\$2,449</u>	<u>\$251,706</u>	<u>\$75,899</u>	<u>\$51,087</u>	<u>\$1,802,018</u>

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

Notes to the Financial Statements  
As of and for the Year Ended December 31, 2002

**INTRODUCTION**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

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

**B. REPORTING ENTITY**

Using the criteria in GASB Codification Section 2100, the Optional Savings Plan has been defined as a related organization of the Louisiana Lottery Corporation. Although the Corporation appoints the Plan's governing board, the Corporation is not financially accountable for the Plan since, under Section 457 of the Internal Revenue Code (IRC), all assets and income of the Plan are held in trust for the exclusive benefit of participants. In addition, administrative and investment services for the Plan are provided by an insurance company.

The accompanying financial statements present information only as to the transactions of the Corporation's Optional Savings Plan. The Louisiana Lottery Corporation is a part of the reporting entity of the State of Louisiana and as such is reported in the Enterprise Fund of the state's basic financial statements. Therefore, the state's basic financial statements disclose the plan as a related organization of the state. The basic financial statements are audited by the Louisiana Legislative Auditor.

**C. BASIS OF ACCOUNTING**

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

**LEGISLATIVE AUDITOR**

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

**Contributions**

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

**Investment Income**

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

**Plan Expenses**

Fees related to the administration of the Plan are paid by the Louisiana Lottery Corporation. Investment management fees are netted daily from investment income and, therefore, are not a liability of the Plan at December 31, 2002.

**Benefits Paid to Participants**

Benefits are recorded when paid.

**D. VALUATION OF INVESTMENTS**

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

**2. DESCRIPTION OF THE PLAN**

The Optional Savings Plan is a voluntary Deferred Compensation Plan adopted under the provisions of 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 \$11,000. The Corporation contributes a matching contribution equal to the amount of compensation deferred by each participant up to 2.5% of each participant's compensation as reported on IRS Form W-2, increased by the amount of any deferral under this Plan.

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

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**LOUISIANA LOTTERY CORPORATION  
OPTIONAL SAVINGS PLAN  
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 December 31, 2002, there were 128 participants in the Optional Savings Plan.

**3. INVESTMENTS**

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

The Corporation's Retirement Plans Investment Committee is responsible for designating the funds available for investment by Plan participants. Participants in the Plan can allocate the investment of employer and employee contributions in whole percentages to any combination of funds reflected on the following page and on Statement A. The investment allocations for current balances and future contributions can be changed on a daily basis. Effective June 11, 2002, the Vanguard U.S. Growth Portfolio Fund was discontinued as an investment option for the Savings Plan.

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

**LEGISLATIVE AUDITOR**

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

At December 31, 2002, investments are composed of the following:

	<u>Number of Units</u>	<u>Fair Value</u>
Money Market Fund	52,133	\$169,890 (1)
Morgan Stanley Institutional Fixed-Income Portfolio	3,399	58,963
Vanguard Balanced Index	18,065	336,207 (1)
Dreyfus Institutional Standard & Poor's 500 Stock Index	28,557	562,576 (1)
Vanguard Growth Index	5,935	125,287 (1)
Victory Diversified Stock	7,158	157,453 (1)
Vanguard Value Index	128	2,449
Franklin Small-Mid Capital Growth Fund	10,521	249,895 (1)
Franklin Balanced Sheet Investment	1,611	75,388
Templeton Foreign Fund	4,283	<u>50,647</u>
Total		<u><u>\$1,788,755</u></u>

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

**4. INVESTMENT MANAGEMENT FEES**

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

<u>Fund</u>	<u>Fee</u>
Money Market Fund	None
Morgan Stanley Institutional Fixed-Income Portfolio	0.25%
Vanguard Balanced Index	0.50%
Dreyfus Institutional Standard & Poor's 500 Stock Index	0.45%
Vanguard Growth Index	0.50%
Vanguard U.S. Growth Portfolio	0.50%
Victory Diversified Stock	None
Vanguard Value Index	0.50%
Franklin Small-Mid Capital Growth Fund	0.10%
Franklin Balanced Sheet Investment	None
Templeton Foreign Fund	0.10%

**LEGISLATIVE AUDITOR**

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

Notes to the Financial Statements (Concluded)

During the year ended December 31, 2002, investment management fees of \$5,501 were incurred.

**5. FORFEITURES**

A participant's nonvested matching contribution account is forfeited at the close of the plan year in which the participant's employment with the Corporation is terminated. These forfeitures are reallocated to the matching contribution accounts of all remaining participants based on the ratio that each matching account bears to the total of all matching accounts. During the year ended December 31, 2002, \$2,358 in forfeited nonvested accounts from the previous plan year was reallocated to the accounts of the remaining participants. In addition, a balance of \$1,064 remains in the forfeitures account at December 31, 2002. These funds represent forfeited nonvested accounts for the 2002 plan year that will be reallocated to the remaining participants during the 2003 plan year.

**6. RELATED PARTY TRANSACTIONS**

In addition to providing administrative and investment services for the Plan, PALIC offers a money market mutual fund product to plan participants. At December 31, 2002, investments in this product represent 9.5% of total plan assets. Of this figure, 100% represents monies held in separate asset accounts, which are not subject to the general creditors of PALIC.

**7. INCOME TAX STATUS**

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

**8. TERMINATION**

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

**9. LITIGATION**

There is no pending litigation against the Plan at December 31, 2002.

**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**  
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June 10, 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  
OPTIONAL SAVINGS PLAN  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

We have audited the financial statements of the Louisiana Lottery Corporation Optional Savings Plan as of and for the year ended December 31, 2002, and have issued our report thereon dated June 10, 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 Optional Savings Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Louisiana Lottery Corporation Optional Savings Plan's internal control over financial reporting 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  
OPTIONAL SAVINGS PLAN  
STATE OF LOUISIANA**

Compliance and Internal Control Report

June 10, 2003

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large initial "G" and "A".

Grover C. Austin, CPA  
First Assistant Legislative Auditor

AD:WDD:THC:dl

[LLCOSP02]