

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Lottery Corporation
Basic and Supplemental Retirement Plans
State of Louisiana
Baton Rouge, Louisiana

June 25, 2003



Financial and Compliance Audit Division

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Albert J. Robinson, Jr., CPA

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LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
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
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
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
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying statement of net assets available for benefits of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans 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 Basic and Supplemental Retirement Plans 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 Basic and Supplemental Plans' 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
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
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

[LLCBSRP02]



**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA**

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

This discussion of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans' financial statements provides an overview and analysis of the plans' financial position and activities for the year ended December 31, 2002. Please read it in conjunction with the plans' 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 plans' 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 plans' 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 Supplemental Plan 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 and merger 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
Assets	\$4,528,417	\$4,840,969	(\$312,552)	-6.46%
Liabilities	NONE	NONE	NONE	NONE
Net assets available for benefits	<u>\$4,528,417</u>	<u>\$4,840,969</u>	<u>(\$312,552)</u>	-6.46%
Additions to assets:				
Net investment income	(\$691,103)	(\$334,493)	(\$356,610)	-106.61%
Contributions:				
Participant	295,051	285,856	9,195	3.22%
Employer	438,205	421,448	16,757	3.98%
Total additions	42,153	372,811	(330,658)	-88.69%
Deductions from assets:				
Benefits paid to participants	(354,705)	(178,984)	(175,721)	-98.18%
(Decrease) increase in net assets	<u>(\$312,552)</u>	<u>\$193,827</u>	<u>(\$506,379)</u>	-261.25%

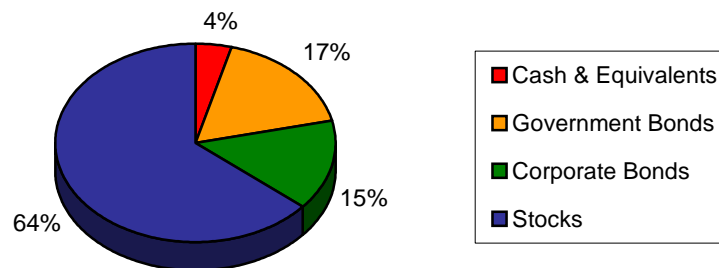
The assets of the plans decreased by \$312,552 because the combination of investment income and benefits paid to participants were greater than contributions to the plans. The reasons for the activity in each component outlined as follows provide the rationale for this overall change.

Investment income

The average investment return on the plans' portfolio, calculated as investment income divided by the average asset balance for the year, was -14.75% in 2002 and -7.05% in 2001. The reasons for this investment performance include the asset allocation of the plans' investment portfolio, economic conditions, and the gains and losses of the individual investment funds offered through the plans.

The underlying portfolios of the mutual fund investments in the plans 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 plans' portfolio at December 31, 2002, is presented below:



This chart illustrates that the plans' investment performance is dependent upon changes in the stock and bond markets. These financial markets tend 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 plans, as presented below, was consistent with the financial market environment.

<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	\$131,226	2.90%	1.45%
Morgan Stanley Institutional Fixed-Income Portfolio	Long-Term Bonds	84,608	1.87%	6.38%
Vanguard Balanced Index Fund	Balanced- Stock/Bonds	3,271,306	72.23%	-9.52%
Dreyfus Institutional Standard & Poor's 500 Stock Index Fund	Large Blend Stock	523,562	11.56%	-22.29%
Vanguard Growth Index Fund	Large Growth Stock	116,046	2.56%	-23.65%
Vanguard U.S. Growth Portfolio	Large Growth Stock	NONE	NONE	-35.80%
Victory Diversified Stock Fund	Large Blend Stock	125,681	2.78%	-22.78%
Vanguard Value Index Fund	Large Value Stock	7,076	0.16%	-20.91%
Franklin Small-Mid Capital Growth Fund	Mid Growth Stock	182,978	4.04%	-29.58%
Franklin Balance Sheet Investment	Small Value Stock	57,045	1.26%	-5.96%
Templeton Foreign Fund	International Stock	28,889	0.64%	-8.64%
		<u>\$4,528,417</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.

The investment style diversification of the portfolio and the stock-to-bond balance, attributed to the large investment balance in the Vanguard Balanced Index Fund, softened the impact of higher losses in the aggressive growth stock categories. The combination of the individual funds' gains and losses resulted in the overall plans' investment income of -\$691,103.

Contributions

Participant and employer contributions to the plans increased in 2002 because of an increase in the Lottery's payroll costs. 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 both plans are outlined in note 2 to the financial statements beginning on page 14.

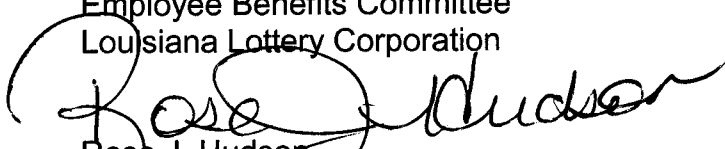
Benefits paid to participants

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 both plans are included in note 2 to the financial statements beginning on page 14.

This financial overview of the Basic and Supplemental Retirement Plans is provided as a supplemental analysis of the financial position and activities of the plans 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 these retirement plans.

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
 BASIC AND SUPPLEMENTAL RETIREMENT PLANS
 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
ASSETS					
Investments (note 3)	\$130,942	\$84,419	\$3,247,789	\$522,006	\$114,895
Receivables:					
Employee contributions receivable			11,576		
Employer contributions receivable	284	189	11,941	1,556	1,151
Total assets	<u>131,226</u>	<u>84,608</u>	<u>3,271,306</u>	<u>523,562</u>	<u>116,046</u>
LIABILITIES	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$131,226</u>	<u>\$84,608</u>	<u>\$3,271,306</u>	<u>\$523,562</u>	<u>\$116,046</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
\$124,643	\$7,063	\$181,926	\$56,688	\$28,659	\$4,499,030
1,038	13	1,052	357	230	11,576
125,681	7,076	182,978	57,045	28,889	17,811
NONE	NONE	NONE	NONE	NONE	4,528,417
NONE	NONE	NONE	NONE	NONE	NONE
<u>\$125,681</u>	<u>\$7,076</u>	<u>\$182,978</u>	<u>\$57,045</u>	<u>\$28,889</u>	<u>\$4,528,417</u>

**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
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
ADDITIONS					
Investment income	\$1,633	\$4,234	(\$336,035)	(\$161,156)	(\$6,834)
Less investment management fees (note 4)		(169)	(16,002)	(2,542)	(208)
Net investment income	1,633	4,065	(352,037)	(163,698)	(7,042)
Contributions:					
Participant			295,051		
Employer	5,682	4,282	296,816	40,298	16,240
Total additions	7,315	8,347	239,830	(123,400)	9,198
DEDUCTIONS					
Benefits paid to participants	(18,315)	(10,113)	(262,226)	(16,396)	(3,588)
Increase (decrease) before interfund transfers	(11,000)	(1,766)	(22,396)	(139,796)	5,610
Interfund transfers, net	36,959	32,558	(1,186)	(68,245)	109,222
Net increase (decrease)	25,959	30,792	(23,582)	(208,041)	114,832
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR					
	105,267	53,816	3,294,888	731,603	1,214
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR					
	\$131,226	\$84,608	\$3,271,306	\$523,562	\$116,046

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
(\$51,851)	(\$35,254)	(\$608)	(\$77,349)	(\$5,232)	(\$3,039)	(\$671,491)
(436)		(27)	(199)		(29)	(19,612)
<u>(52,287)</u>	<u>(35,254)</u>	<u>(635)</u>	<u>(77,548)</u>	<u>(5,232)</u>	<u>(3,068)</u>	<u>(691,103)</u>
						295,051
11,959	23,814	224	24,694	8,824	5,372	438,205
<u>(40,328)</u>	<u>(11,440)</u>	<u>(411)</u>	<u>(52,854)</u>	<u>3,592</u>	<u>2,304</u>	<u>42,153</u>
<u>(3,203)</u>	<u>(4,706)</u>	<u>NONE</u>	<u>(14,430)</u>	<u>(19,963)</u>	<u>(1,765)</u>	<u>(354,705)</u>
(43,531)	(16,146)	(411)	(67,284)	(16,371)	539	(312,552)
<u>(121,261)</u>	<u>3,638</u>	<u>6,295</u>	<u>(7,333)</u>	<u>11,439</u>	<u>(2,086)</u>	<u>NONE</u>
(164,792)	(12,508)	5,884	(74,617)	(4,932)	(1,547)	(312,552)
<u>164,792</u>	<u>138,189</u>	<u>1,192</u>	<u>257,595</u>	<u>61,977</u>	<u>30,436</u>	<u>4,840,969</u>
<u>NONE</u>	<u>\$125,681</u>	<u>\$7,076</u>	<u>\$182,978</u>	<u>\$57,045</u>	<u>\$28,889</u>	<u>\$4,528,417</u>

**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
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 Basic and Supplemental Retirement Plans (Plans) have been established pursuant to this statute.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Corporation's Plans report on their 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 Division of Administration, Office of Statewide Reporting and Accounting Policy, has defined the governmental reporting entity to be the State of Louisiana. The Corporation is considered to be a component unit of the State of Louisiana because the state has financial accountability for the Corporation. Because of the responsibility of the Corporation as employer, the Plans are a component unit of the Corporation.

The accompanying financial statements present information only as to the transactions of the Corporation's Basic and Supplemental Retirement Plans. The Corporation's financial statements and note disclosure relating to the Plans are reported within the State of Louisiana's *Comprehensive Annual Financial Report*, which is audited by the Louisiana Legislative Auditor.

C. BASIS OF ACCOUNTING

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

Contributions

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

**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Investment Income

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

Plan Expenses

Fees related to the administration of the Plans are paid by the Louisiana Lottery Corporation. Investment management fees are netted daily from investment income and, therefore, are not a liability of the Plans 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 PLANS

As of December 31, 2002, there were 172 participants in the Basic Plan and 141 participants in the Supplemental Plan.

A. Basic Retirement Plan

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

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

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

A participant is fully vested immediately. In no event shall the assets of this plan revert for the benefit of the Corporation. No more than the social security wage base in effect

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BASIC AND SUPPLEMENTAL RETIREMENT PLANS
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Notes to the Financial Statements (Continued)

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.

B. 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. 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.

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

3. INVESTMENTS

Pan American Life Insurance Company (PALIC) provides administrative and investment services for the Plans. The Plans' 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. All Basic Retirement Plan employer and employee contributions (nonparticipant-directed) are invested in the Vanguard Balanced Index Fund. Participants in the Supplemental Plan can allocate the investment of employer contributions in whole percentages to any combination of funds reflected below and on Statement A. The investment allocations for current balances and future contributions can be changed on a daily basis. Effective June 11, 2002, the Vanguard U.S. Growth Portfolio Fund was discontinued as an investment option for the Supplemental Plan.

Since all investments of the Plans 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.

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

	<u>Number of Units</u>	<u>Fair Value</u>
Money Market Fund	40,181	\$130,942
Morgan Stanley Institutional Fixed-Income Portfolio	4,866	84,419
Vanguard Balanced Index (Participant-Directed)	19,971	371,666 (1)
Vanguard Balanced Index (Nonparticipant-Directed)	154,797	2,876,123 (1)
Dreyfus Institutional Standard & Poor's 500 Stock Index	26,497	522,006 (1)
Vanguard Growth Index	5,443	114,895
Victory Diversified Stock	5,666	124,643
Vanguard Value Index	371	7,063
Franklin Small-Mid Capital Growth Fund	7,659	181,926
Franklin Balanced Sheet Investment	1,211	56,688
Templeton Foreign Fund	2,423	<u>28,659</u>
Total		<u><u>\$4,499,030</u></u>

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

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**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

During 2002, changes in net assets relating to the nonparticipant-directed investments are as follows:

	<u>Vanguard Balanced Index</u>
Net assets available for benefits, beginning of year	\$2,913,884
Additions:	
Net investment income	(312,502)
Contributions	532,997
Deductions:	
Benefits paid to participants	<u>(237,345)</u>
Net assets available for benefits, end of year	<u><u>\$2,897,034</u></u>

4. INVESTMENT MANAGEMENT FEES

Under the agreement with PALIC, the Plans are charged an investment management fee (calculated and deducted from investment income daily) based on the Plans' 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%

During the year ended December 31, 2002, investment management fees of \$19,612 were incurred.

**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

5. FORFEITURES

A participant's Supplemental Plan nonvested employer 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 employer contribution accounts of all remaining participants based on the proportion that each participant's compensation bears to total compensation of all participants. During the year ended December 31, 2002, \$5,364 in forfeited nonvested accounts from the previous plan year was reallocated to the accounts of the remaining participants. In addition, a balance of \$2,358 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 Plans, PALIC offers a money market mutual fund product to plan participants. At December 31, 2002, investments in this product represent 2.9% 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 Basic and Supplemental Retirement Plans obtained favorable determination letters from the IRS on July 3, 2002. The IRS stated that the Plans, as then designed, were in compliance with the applicable requirements of the Internal Revenue Code. The Plans have been amended since receiving the determination letters. However, the Plans' tax counsel believes that the Plans are currently designed and are being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Plans were qualified and were tax-exempt as of the financial statement date.

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 Plans, in whole or in part, by delivering written notice to the administrative services provider and to each participant of such termination. A complete discontinuance of the Corporation's contributions to the Plans shall be deemed to constitute a termination. Upon such termination, the Employee Benefits Committee shall direct the administrative services provider to distribute the assets of the Plans to the participants. Upon termination (whether full or partial) or a complete discontinuance of contributions, all amounts allocated to the accounts of affected participants shall become fully vested and nonforfeitable.

**LOUISIANA LOTTERY CORPORATION
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA**

Notes to the Financial Statements (Concluded)

9. MERGERS

The Plans may be merged or consolidated with, or its assets and liabilities may be transferred to another plan only if the benefits which would be received by a participant in the event of a termination of the Plans immediately after such transfer, merger or consolidation are at least equal to the benefit such participant would have received if the Plans had terminated immediately before the transfer, merger or consolidation.

10. LITIGATION

There is no pending litigation against the Plans 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.



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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
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the financial statements of the Louisiana Lottery Corporation Basic and Supplemental Retirement Plans 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 Basic and Supplemental Retirement Plans' 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 Basic and Supplemental Retirement Plans' 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
BASIC AND SUPPLEMENTAL RETIREMENT PLANS
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

[LLCBSRP02]